

Real economy plunges but financial profits surge

Nick Beams
16 July 2020

Reports issued by four major US banks this week have highlighted the widening dichotomy between the real economy and the financial system.

The US is set to record the worst recession since the Great Depression, threatening elevated levels of unemployment well into the future and a wave of bankruptcies. Yet the banks are raking in billions of dollars through speculative operations financed by the massive intervention of the Fed into all corners of the financial markets.

On Tuesday, JPMorgan Chase, Wells Fargo and Citigroup set aside a combined total of \$28 billion for current and expected losses on their loans. The second quarter provisions bring the total for the three banks for 2020 to \$47 billion, more than they set aside in the last three years combined.

At the same time, two of them, JPMorgan and Citigroup, reported major increases in revenues derived from financial market trading.

Yesterday, Goldman Sachs reported a profit of \$2.4 billion in the second quarter, unchanged from a year earlier, resulting from what the *Financial Times* described as a “bonanza in bond trading” that offset provisions for losses on loans.

Citing the elevated provisions for loan losses, bank executives have pointed to the worsening state of the real economy. There is a significant element of truth in their claims, but their remarks are also directed to ensuring that the Fed maintains its unprecedented support for financial markets from which they have so richly benefited.

After JPMorgan reported a record \$10.5 billion provision for losses on loans, its chief executive, Jamie Dimon, said the charges could rise if the economy worsened. “We don’t know what the future is going to hold,” he said. “This is not a normal recession. The

recessionary part of this you are going to see down the road.” He added that the bank was “preparing for the worst case scenario.”

The outlook of the major banks, all of which downwardly revised their projections for the economy and made higher-than-expected provisions for bad loans, stands in marked contrast to the statements coming from the White House. Speaking to Fox News on Monday, economic adviser Larry Kudlow said, “I don’t see an interruption to the V-shaped recovery.” With “fingers crossed and some prayers” the US was “on track for a very strong second half of the year,” he added.

The picture painted by the banks is very different. JPMorgan’s chief financial officer, Jennifer Piepszak, said additional amounts had been set aside to cover bad loans because of the expectation that unemployment would remain above 10 percent well into next year, representing a downward revision of the bank’s outlook issued in the first quarter.

“May and June will prove to be the easy months in terms of this recovery,” she said. “Now we’re really hitting the moment of truth in the months ahead.”

The bank’s loss provisions went across the board. The largest portion of \$5.83 billion came from the consumer bank, while \$2 billion came from the corporate and investment bank, with another \$2.43 billion from the commercial bank.

Speaking on a conference call with financial analysts, Michael Corbat, the CEO of Citigroup, which set aside \$7.9 billion in provisions for bad loans, also poured cold water on the idea that the US economy is going to enjoy some kind of rapid snapback.

“I don’t think anybody should leave any bank earnings call simply feeling like the worst is absolutely behind us and it’s a rosy path ahead,” he said. “We

don't want people leaving this call simply thinking the world is a great place and it's a V-shaped recovery."

The situation in the real economy, where workers confront mass unemployment and small and medium-sized business are threatened with a wave of bankruptcies, stands in marked contrast to the financial world.

JP Morgan took in \$33.8 billion in revenue in the second quarter, recording a profit of \$4.69 billion, largely because of its operations in financial markets boosted by the actions of the Fed.

As the business channel CNBC noted on its website, it was able to "capture opportunities created by the response to the pandemic." It continued: "Surging volatility and unprecedented steps taken by the Federal Reserve to support credit markets have created the best environment for trading and advising on debt and equity issuance in years."

JPMorgan's corporate and investment bank more than doubled its profits, to a record high of \$5.5 billion for the second quarter.

Bond traders brought in revenues of \$7.3 billion, an increase of 120 percent on the year before, easily exceeding the projection of \$5.84 billion. The revenue from equity trades was \$2.4 billion, compared to an estimate of \$2.07 billion. And investment bank revenue rose by 91 percent to \$3.4 billion on the back of advisory fees from corporate clients seeking to stock up on cash to counter the effects of the pandemic.

Goldman reported its best quarter for trading in fixed income assets for nine years, raking in revenues of \$4.24 billion compared to \$1.7 billion the year before.

Citigroup was also able to counter a 10 percent fall in revenues from its consumer banking division with a 68 percent rise in fixed income trading revenue resulting from operations in bond markets that have been supported by the Fed. This accounted for most of the rise in its market and services revenues, which climbed by 48 percent to \$6.9 billion.

CEO Corbat said that while credit costs weighed down net income, overall business performance was "strong," and the bank was able to "navigate the COVID-19 pandemic reasonably well."

Skilful navigation had little or nothing to do with it. The main factor has been the intervention of the Fed, which has pumped more than \$3 trillion into financial markets since they effectively froze in mid-March,

when the entire system was facing a meltdown beyond that of 2008.

Given the worsening situation in the real economy, the banks and Wall Street as a whole will be pressing for still further interventions by the Fed so that the orgy of financial parasitism, so vital for the bottom line, can continue.

And the next move is being prepared. The Fed is now discussing so-called yield curve targeting, in which the central bank intervenes in financial markets to keep the yields on specified government bonds at a fixed rate.

The move is under consideration because the increase in US government debt resulting from the corporate bailouts under the CARES Act will increase the supply of Treasury bonds, tending to lower their price and push yields (interest rates) higher.

Further Fed intervention would raise their price and lower the yield, thereby enhancing the ultra-low interest rate regime that has been central to a recouping of financial profits by the banks and Wall Street traders.

In a speech to a webinar hosted by the National Association for Business Economics, Lal Brainard, a member of the Fed's governing board, warned of the possibility of a "wave of insolvencies," and said that looking ahead it would be important for monetary policy to "pivot from stabilization to accommodation"—that is, the provision of still more money.

With downside risks to the outlook, she said, there may come a time when it would be helpful to "reinforce the credibility of forward guidance... with the addition of targets in the short-to-medium end of the yield curve." She stuck to the official position that it would come into focus only after additional analysis and discussion, but clearly Fed intervention to provide still more assistance to Wall Street is under active consideration.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact