Markets focus on Fed chair's Jackson Hole speech

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The eyes of financial markets around the world will be focused today on the keynote address to be delivered by US Federal Reserve Chairman Jerome Powell to the annual Jackson Hole conclave of central bankers.

Powell's speech, to be given in a completely virtual format because of the COVID-19 pandemic, will focus on the two-year review by the Fed of its monetary policy. The key question concerning financial elites around the world is how the Fed and other central banks intend to continue the stimulus to markets that has sent Wall Street to new record highs after it plunged in mid-March.

The massive $3 trillion injection by the Fed since the plunge, backing every sector of the financial markets, has poured hundreds of billions of dollars into the coffers of the financial elites, above all those holding technology-based stocks.

Last May, *Forbes* ' global rich list reported that the world's 25 richest individuals had increased their total wealth by $255 billion in the space of just two months. With the continued rise of Wall Street since then, that figure will have further increased.

Powell has previously stated there are no limits to the Fed's action so far as injecting money is concerned, and if there is another crisis it will act. But there are questions about what form such action will take under conditions where the world economy is experiencing its worst downturn since the Great Depression.

Mark Sobel, a former US Treasury official and now the chairman of a central bank think tank, told the *Financial Times*: "The Fed and the European Central Bank have used up a lot of ammo. Even when advanced economies are significantly recovering, there will still be a legacy of sky-high unemployment, large output gaps and enormous dislocations to deal with."

As far as the real economy is concerned, further monetary stimulus will do nothing to lift output or ease unemployment. The central bank is "pushing on a string," according to Adam Posen, the president of the Washington-based Peterson Institute for International Economics.

"You can alleviate liquidity problems, you can put a floor under some asset prices, you can stabilise credit markets, all of which is constructive, but none of which is sufficient to create recovery," he said.

Investors in the financial markets, however, are eagerly anticipating that the Fed will signal action to further expand monetary intervention to keep the Wall Street surge going.

However, there are concerns in some quarters about where the unprecedented intervention is going to end. According to Robin Brooks, chief economist at the Institute of International Finance, "There's a legitimate worry at this point that we are doing a bit of levitation. The massive increase in leverage and the low rates forever… all of these things are worrying from a financial stability point of view."

In the past five months, corporations have taken on massive amounts of new debt in order to stave off bankruptcy. According to the rating agency S&P, corporations globally have raised $2 trillion in bonds alone so far this year, an increase of $600 billion over the same period last year.

In the US, companies have issued a record $1.25 trillion in debt, of which almost $1 trillion was raised following the March 23 decision by the Fed that it would intervene to buy corporate bonds as a backstop to the market.

The largest share of borrowing has been by investment-grade companies. But money has also been raised by junk-rated companies, which have issued $220 billion worth of bonds so far this year.

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The debt issuance has been predicated on the assumption that the economy will "bounce back" and the debt will be able to be paid back. But these expectations will be thrown awry if there is a second wave of infections and consumer demand does not recover. There is no prospect for an increase in investment—the key driver of the economy—as it was already in decline before the pandemic struck.

Even under relatively favourable conditions, S&P estimates that the default rate for US junk-rated companies will rise to 15.5 percent by next March, higher than the peak experienced in 2009 in the wake of the global financial crisis. And if there is a deepening downturn in the global economy, investment-grade companies will also be hit.

There is another significant development in the stock market that underscores the unprecedented character of the present economic and financial crisis. While Wall Street indexes continue to surge, the so-called "recovery" has been far from broad-based. It is concentrated in the high-tech stocks such as Apple, Google, Microsoft and Amazon, which make up a large proportion of the S&P 500 index.

This has given rise to what is being referred to as a K-shaped development—a situation in which the share prices of market leaders diverge from others. In analysis of the market, Vincent Deluard, the director of global macro strategy at the brokerage firm Stone Group, told Bloomberg: "I would summarize 2020 as the bear market for humans. Like many things, COVID is just accelerating social transformation, concentration of wealth in a few hands, massive inequalities, competition issues and all that."

He pointed out that firms that have relatively few employees have beaten the more labour-intensive ones by 37 percentage points in 2020.

One aspect of the divergence is the fact that high-tech companies employ relatively few workers and have been able to benefit from the pandemic, as reflected in the 33 percent rise in the tech-heavy NASDAQ index so far this year. The one exception is Amazon, which has been able to increase its sales because of the increased turn to online purchases.

Bloomberg cited one extreme example of this process. MarketAxess Holdings, an automated bond trading firm, has seen its shares rise by 29 percent this year, five times the gain in the S&P 500, and now has a market capitalisation of $19 billion, while employing just 530 people.

According to Deluard's calculations, the cluster of companies with the smallest number of employees relative to market value has risen by 18 percent this year, while the group with the highest labour intensity has recorded a 19 percent loss.

This situation has far-reaching implications the workers employed in these industries. Under conditions where all companies operate under the dictates of market value and returns to shareholders—the vast bulk of which are hedge funds and investment banks—these companies will be under increasing pressure to boost their share price through job cuts and ever-intensifying exploitation.

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