Wall Street and global stocks boosted by news of COVID-19 vaccine

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The announcement by Pfizer early on Monday morning that its COVID-19 vaccine had proved 90 percent effective in trials produced a surge on Wall Street when trading began for the day and boosted markets around the world.

The S&P 500 index immediately jumped by around 4 percent to record an intraday record high before finishing the day up by 1.2 percent. The Dow jumped by more than 1000 points at one stage, putting it in sight of breaching the 30,000 mark, before falling back at the close of the day.

There was, however, a significant divergence in the market as the tech-heavy NASDAQ index fell by 2.2 percent This was due to a shift away from stocks that have benefited as a result of the pandemic and working from home. So-called hot "momentum" stocks, such as Zoom, Video Communications, PayPal and Netflix were among the biggest losers.

The divergence continued yesterday as the Dow rose by a further 263 points, or 0.9 percent, the S&P dropped by 0.1 percent and the NASDAQ was down by 1.4 percent. But even after these falls, the NASDAQ remains 28 percent higher than at the start of the year.

The bifurcation in the market reflects a turn by Wall Street investors to so-called value stocks—those companies that have been hammered as a result of the pandemic—and are looking to a return to more normal conditions in the event that a vaccine can be successfully developed and rolled out.

But the change in the market does not indicate any underlying strength in the economy. Rather it is an expression of the highly speculative character of shifts by Wall Street investors based on the assumption that growth will start to return.

As the *New York Times* commented in an article on Monday's surge: "With little changed on the ground, the market's exuberance can be confounding. After all, the United States is still setting records for new coronavirus cases, the economy is still in the grip of a recession, and it could be months before a vaccine is widely available. But investing by its nature looks to the future, and on Monday investors were basing their buying and selling on their expectations of what the world could look like in a few months, rather than what it looks like today."

In other words, the market surge is a major gamble amid signs that it could rapidly run out of steam. And market turbulence could result from another significant development—the rise in the yield on the US 10-year Treasury bond which has recorded a sharp increase in the last few days after plunging to record lows.

The yield on the bond, which forms a base rate for rates across the economy, has risen to as high as 0.97 percent, a level last reached in March. Bob Michele, the chief investment officer at JP Morgan Asset Management, told the *Financial Times* that it could go as high as 1.25 percent.

An increase in interest rates would raise borrowing costs for corporations which have raised large amounts of debt to take advantage of ultra-low credit orchestrated by the Fed, which has poured trillions of dollars into financial markets.

Michele argued that the Fed was unlikely to let Treasury yields to spike significantly, given the potential financial damage.

"This can only go as far as the Fed is willing to let it go," he said. "They are not going to let it go crazy because that could derail the recovery."

It is a measure of how dependent financial markets have become on the actions of the central bank and how far their operations have moved from the past that the prospect of an economic "recovery" and a return of

interest rates on Treasury bonds to something resembling more “normal” conditions could be the source of market turbulence.

The Fed has indicated it intends to keep interest rates at their present ultra-low levels until the end of 2023 and is intervening in bond markets to the tune of $80 billion per month—a rate of almost $1 trillion per year—to hold them down. It may have to increase its level in the coming period because of the increase in government debt.

As the *Financial Times* noted in an article earlier this month, in order to “insure against a destabilising rise in borrowing costs that could upend the economic recovery, some market participants believe the Fed must soon focus the bulk of its bond-buying on longer term debt, or increase the aggregate size of its purchases.”

The rise on Wall Street has been broadly replicated on global financial markets. Japan’s Nikkei index rose by more than 2 percent on Monday after passing through the 25,000 level on Friday for the first time in more than three decades.

Europe’s Stoxx 600 index was up by 4 percent on Monday, its biggest increase since May, and the MSCI All Country World index of global stocks hit a record after rising by 1.3 percent on the day.

But with the surge in the pandemic in Europe and the prospect of a further contraction likely to shatter earlier forecasts for a revival in the further quarter, jobless levels are set to rise again.

According to research issued by the European Central Bank, one in seven Spanish workers are employed in businesses, excluding financial firms, which are at risk of a collapse. The figures for Germany and France are 8 percent, and 10 percent in Italy. Companies at risk of collapse are defined as those having negative working capital and high debt levels despite receiving subsidies.