

US Federal Reserve backstops rising corporate debt mountain

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As the WSWS noted, there was one notable feature of the passage of the \$900 billion relief bill through the US Congress earlier this week that demonstrated the absolute loyalty of the Democrats to the Wall Street financial oligarchy.

After abandoning aid for cash-strapped cities and states to provide services and agreeing to a grossly inadequate one-time payment of \$600 to most working people, they rose up in arms against an attempt to restrict operations by the Fed to bolster major companies.

Republican Senator Pat Toomey moved to prevent the Fed reviving an operation in which it receives money from the US Treasury, which it then leverages to make ultra-cheap loans to businesses and to buy corporate debt.

The Fed had raised objections when Treasury Secretary Steven Mnuchin called for the winding down of the program in November warning that it could impede its operations to sustain Wall Street and other financial markets.

The importance of that support, which was lifted to new heights following the market freeze in mid-March, has been underscored by data on the level of corporate borrowing this year compiled by the Bank of America and reported in the *Financial Times* earlier in the week.

US companies have borrowed a record \$2.5 trillion in the bond market this year. This has meant that leverage—the ratio between debt and earnings—for investment grade companies has gone to new heights after reaching record levels in 2019.

The actions taken by the Fed in response to the March crisis have provided crucial support for these operations. The Fed took the unprecedented decision to buy investment-grade corporate bonds as well as buying exchange traded funds, including those that

tracked riskier assets.

Unlike the purchases of Treasury bonds and mortgage-backed securities, which form the backbone of the Fed's market intervention—currently running at \$120 billion a month more than \$1.4 trillion a year—the move into corporate bond purchases involved backing from the US Treasury, which the Toomey measure sought to restrict in the future.

The Fed's corporate bond intervention after March had an immediate impact. As the *Financial Times* noted: "Without even purchasing a single bond, prices began to recover, bolstered by the Fed's support. Investor confidence in corporate America returned and the floodgates opened to fresh corporate debt raising."

Initially debt was raised to cover the loss of income due to the pandemic. But what the *Financial Times* called "the largest corporate borrowing spree on record" has developed as companies have used the ultra-low interest rates facilitated by the Fed to build up their cash holdings in order to take advantage of any favourable buying operations.

The significance of the Fed's intervention into the corporate debt market, which the Democrats were so desperate to ensure continued unimpeded, was underscored by Jonny Fine, the USA head of debt syndicate at Goldman Sachs. He described it as "the most important piece of central bank policymaking I have seen in my career."

Despite leverage ratios reaching record highs, indicating an escalation of risks, and the number of zombie companies—those where interest payments are higher than profits—climbing close to historic highs, the debt bubble has continued to inflate.

Rating agencies have downgraded ratings and a record number of firms have this year been rated at triple C, one of the lowest levels, and almost double the

number last year.

They key factor at work in this extraordinary situation is the role of the Fed.

As Alex Veroude, chief investment officer at Insight Investment, commented to the *Financial Times*: “The Fed has created an expectation of a bailout.”

He said it almost did not matter “what other indicators or debt or leverage show” and that ‘if you think about it, it is insane. It’s exactly what critics would say capitalism has created. But it’s the reality.”

Increased Fed intervention has also aided the private equity market where vast profits are accumulated through takeover deals and buyouts. The value of private equity deals this year has risen to the highest levels since 2007. Buyouts were worth \$559 billion this year, an increase of 20 percent over last year, according to figures compiled by Refinitiv.

When the pandemic struck at the beginning of the year it appeared that the mergers and acquisitions market was going to take a major hit. But the intervention of the Fed provided a boost to this form of financial parasitism, as it did to many others.

Commenting on a rise of private equity deals, Bryce Klemper at the consultant firm McKinsey noted: “Ultimately the lifeblood of private equity is cheap debt. When you have the Fed saying debt will stay cheap for years... the numbers look buoyant.”

There are a number of conclusions to be drawn from these developments.

On the economic front, the growth of debt parasitism makes clear what lies behind the bipartisan refusal in the US to implement the necessary measures to deal with the pandemic because of the impact they would have on the stock market and the financial system more broadly.

Politically, the events of this year have delivered the death blow to whatever remained of the doctrine of the “free market” which has functioned as one of the essential ideological pillars of the capitalist order.

The financial oligarchy has continued to prosper to the tune of hundreds of billions of dollars, benefiting from death and destruction, through the direct intervention of the machinery of the capitalist state, of which the Fed is a crucial arm. And as events of the past week have revealed there is no greater supporter of the institutionalised mechanisms for siphoning wealth into the coffers of the financial oligarchy than the

Democratic Party.



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