Growing warnings of a Wall Street bubble

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25 January 2021

As Wall Street climbs to new record highs on the belief that massive support from the Fed will continue virtually indefinitely, there are warnings from some within the financial oligarchy that the bubble is heading for a collapse.

The year began with a note from long-time financial investor Jeremy Grantham that Wall Street was heading into the final stages of a bubble as exemplified by the "market craziness" that has seen Tesla shares rocket by more than 700 percent since last March.

This warning has been joined by others. The head of the hedge fund Baupost Group, Seth Klarman, sent a letter to clients earlier this month, cited by the *Financial Times*(FT), in which he noted that, under the policies of governments and central banks to provide continuous stimulus to the markets, risk had "simply vanished."

Klarman engages in what is known as value investing where some assessment is attempted to be made of a company's underlying financial structure, the nature of its assets and its profitability as the basis for making decisions. Like other asset management firms who pursue this strategy, Baupost underperformed the rest of the market in 2020 in conditions where shares are being purchased simply because they are rising.

As an example, he cited, as others have, the rise of Tesla. The shares in the "barely profitable" electric carmaker had risen "seemingly beyond all reason" making its founder Elon Musk the richest man in the world.

The flooding of the market with cash from the Fed had made it impossible to judge the underlying state of the real economy.

"With so much stimulus being deployed, trying to figure out if the economy is in recession is like trying to assess if you have a fever after you just took a large dose of aspirin. But as with frogs in water that is slowly being heated to a boil, investors are being conditioned not to recognise the danger," he wrote.

The biggest problem with "unprecedented and sustained government interventions is that risks to capital become masked even as they mount."

He noted that, in their search for yield, investors were moving into ever riskier sections of the market, including below investment-grade junk bonds.

While the Fed's measures had helped sustain the economy, they had resulted in two dangerous ideas: "that fiscal deficits don't matter, and no matter how much debt is outstanding, we can effortlessly, safely, and reliably pile on more."

Approaching the issue from a longer-term view, Morgan Stanley Investment Management's chief global strategist Ruchir Sharma wrote an open letter to incoming President Biden, published in the FT, warning that fiscal deficits "still matter."

He said the prevailing view was that, with inflation now dead and interest rates at historic lows, it would be "unwise, even irresponsible, not to borrow to boost the economy" and the inflow of "billions, trillions" hardly mattered, especially for the US which still had the world's most coveted currency.

This year it has been calculated that the US and other major countries had a committed a median sum equal to 33 percent of their gross domestic product to stimulus measures compared to 10 percent in the crisis of 2008.

Pointing to longer-term trends, Sharma noted that public debt in the US and developed countries averaged about 110 percent of GDP, up from 20 percent in 1970.

"Since the 1970s, the size of financial markets has exploded from about the same size as the global economy to four times the size. Most of those gains go to the wealthy, who are the main owners of financial assets," he wrote.

As a result of constant financial stimulus, average wealth in the past three decades had risen by 300 percent for the top 1 percent and 200 percent for the next 9 percent, and zero for the bottom 50 percent, with one in 10 in that percentile owing more than they owned.

There was a connection between stimulus measures and rising wealth inequality, he wrote, which was ignored by its advocates such as Bernie Sanders. But Wall Street traders recognised it, seeing vows for stimulus and continued monetary support "as more money in their pockets."

Like others, Sharma drew attention to the political consequences for the stability of the system over which the financial oligarchs preside. "Decades of constant stimulus have left capitalism weaker, less dynamic and less fair, fuelling angry populism."

The use of the term "populism" in these circles is something of a code word for the underlying fear in ruling circles of a movement of the working class against the capitalist system. They fear an explosion of pent-up anger, accelerated in course of the pandemic, which has seen death and economic devastation for broad sections of the population while the wealth of the upper echelons of society has risen to stratospheric heights.

A recent article in *Bloomberg*, entitled "The Rich are Minting Money in the Pandemic Like Never Before," noted comments by economist Peter Atwater who noted that "there has probably not been a better time to be wealthy in America than today."

The article cited some of the more damning statistics on the conditions of life for tens of millions of people. Employment in the bottom quartile of income earners, making less than $27,000 a year, remains 20 percent below the levels of January 2020. Last month, according to the US Census Bureau, nearly 30 million adults lived in households where there was not enough to eat, an increase of 28 percent since the pandemic began. In Louisiana one in every five people faces food scarcity.

Pointing to the so-called "K-shaped recovery," Atwater concluded: "You cannot have a sustainable economy and political system where you have a small population who believe they are invincible and a growing population who feel defeated. It's in capitalism's best interest to close this gap."

Such measures, however, are impossible because any real diversion of wealth from Wall Street and the financial oligarchy it serves would bring an immediate collapse of the financial bubble. The policies of the Biden administration do not represent a step in closing the gap but will widen it—a fact that has already been recognised by Wall Street in its continued rise since the stimulus measures were announced.

The overriding fear of the financial oligarchy, which the Biden administration serves no less than Trump, is that the working class begins to take matters in its own hands and fight for its basic class interests.

This is why entire "left" political milieu, from Alexandria Ocasio-Cortez to the *Jacobin* magazine, sprang into action to back the Teamsters Union betrayal of the Hunts Point food workers strike in New York lest it become the spark for a broader eruption of the class struggle.