Bitcoin over $50,000 as Wall Street surges

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Almost every day there are figures revealing the extent of the speculation on Wall Street fuelled by the trillions of dollars funnelled into financial markets by the Fed.

On Tuesday, the cryptocurrency bitcoin passed $50,000 for the first time, after doubling in value over the past two months and rising by 74 percent so far this year. The surge continued yesterday when bitcoin reached close to $52,000.

Since the beginning of the year Wall Street has been regularly closing at record highs with the Dow Jones hitting another record yesterday—the third in five days. This is despite increased warnings, some from within financial firms, that the market has become a dangerous bubble.

The latest bitcoin surge was sparked by the announcement by Tesla chief Elon Musk earlier this month that the company was investing $1.5 billion in the cryptocurrency and would accept it as payment on some transactions.

But Musk is not the only one to join in the frenzy. This month the Bank of New York Mellon announced it will start treating bitcoin like any other financial asset and MasterCard has said it will integrate bitcoin into its payments system this year. Billionaire investors Paul Tudor Jones and Stanley Druckenmiller have also started speculating in bitcoin.

These moves come in the face of the widespread view that there is no intrinsic value in bitcoin, which is not a physical asset but which is created electronically, and that there is no prospect of it becoming an integral component of the international monetary system as touted by its promoters.

But while its price continues to rise, even amidst the occurrence of violent downswings, there are large profits to be made and this is what is drawing in some of the major financial institution and hedge fund operators.

The bitcoin speculation mania is only the most egregious example of what is taking place throughout the financial system.

Due to the flow of money from the Fed, accelerated after the freeze in financial markets last March and which is continuing at the rate of $1.4 trillion per year amid a commitment to maintain its base interest rate at virtually zero for the foreseeable future, finance is readily available for below investment-grade junk bonds.

Last year a record number of companies were rated at triple C, one of the lowest on the scale, and almost double the number in 2019.

But they have not been denied funds. Money has been pouring in. According to a report in the *Financial Times* (FT) last week more than 15 cents of every dollar in the high-yield or junk bond market has gone to companies with ratings of triple C or below since the start of the year.

"That marks the highest share of deals in any year since the eve of the financial crisis, when loose lending standards set off a race by weaker companies to borrow cash. The fundraising binge by companies that carry some of the highest risk of default highlights the hot conditions in global capital markets," the FT noted.

Bank of America analyst Oleg Melentyev told the newspaper: "Last year it was the strongest companies that reacted to unprecedented events by shoring up their balance sheets in case cash was needed. Now we are at the bottom of the barrel in terms of the weakest and most fragile issuers finally being able to fund themselves in this market."

This process is a direct result of the Fed interventions. Its stimulus measures have pushed down the interest rates on investment-grade government and corporate bonds meaning that investors are pushed into riskier areas of the market where returns are higher.

Companies whose bonds are rated at less than investment grade have been able to raise money at less than three percent, including the health insurance company Centene, the house builder MDC, T-Mobile and this week, Ford.

The extent of the shift to junk bonds is indicated by the fact that at the start of 2019 the rate on US treasury bonds, considered one of the safest investments in the world, was 3 percent.

The co-founder of Concise Capital Management Tom Krasner commented: “In our mind a 3 per cent yield is just ludicrous. We never would have imagined buying things at a 3 percent yield in our entire career.”

Fed chairman Jerome Powell has said the surge on Wall Street and the rampant speculation is not due to the policies of the Fed and that other factors are at work.

This fiction has been refuted by those directly involved in the financial markets.

Marty Fridson, the chief investment officer at Lehmann Livian Fridson Advisors said it all came back to the intervention by the Fed. “It gives investors the sense that they can buy with impunity. The Fed is effectively putting a floor under the prices of anything they buy right now.”

And there is no sign the Fed will change course from its massive market interventions, notwithstanding the warnings it is creating a dangerous financial bubble.

Minutes from its January meeting released yesterday reveal that its governing body considered that the risks posed by subdued inflation were greater than the danger of rising prices.

According to the official record “participants emphasised that it was important to abstract from temporary factors affecting inflation… in judging whether inflation was on track to moderately exceed 2 percent for some time.”

This is an assurance to Wall Street and the financial markets that even if inflation does spike, possibly as a result of the $1.9 trillion stimulus package proposed by the Biden administration, the Fed will not respond by tightening monetary policy.

The view within sections of the Democratic party-aligned political, media and financial establishment is that the stimulus package poses no dangers as far as inflation is concerned. Summing up these views *New York Times* editorial board member Binyamin Applebaum wrote this week: “The boldness of the Biden administration, and of the Fed, shows that many in government understand the need to stop fighting the last war. It’s not the 1970s anymore.”

But the entire package depends on the continuation of historically unprecedented policies. The stimulus measures are not being financed through inroads into the profits of the corporations or taxes on the ultra-wealthy but almost exclusively through the issuing of more debt.

However, the increase in the supply of government bonds tends to lower their price and increase their yield or interest rate (the two have an inverse relationship)—a tendency which has already started to emerge with the incremental rise in the 10-year Treasury bond rate to around 1.3 percent from its lows of less than 1 percent last year. It has been noted that only a relatively small rise in rates could trigger a collapse in the financial house of cards.

Upward pressure on interest rates as a result of increased government debt means that the Fed must intervene in the market to buy up more bonds and keep interest rates down, thereby further fuelling the Wall Street speculation.