Fed chair Powell's remarks spark Wall Street sell-off

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Wall Street was hit by a significant downturn yesterday because remarks delivered at an online forum by Federal Reserve chairman Jerome Powell did not indicate the central bank was planning to take immediate action to halt the rise in yields on US Treasury bonds.

The S&P 500 fell by 51.25 points, or 1.3 percent, to record its third consecutive session of declines. The Nasdaq dropped by 2.1 percent and is now within a hair's breadth of a 10 percent decline from its record high earlier this year. The Dow shed 346 points, or 1.1 percent, after dropping by 722 points during the day.

The yield on the 10-year Treasury bonds, which rises when its price falls, ended the day at 1.547 percent, up from 1.479 percent when Powell began his remarks at a Jobs Summit forum organised by the *Wall Street Journal*.

In his comments, Powell again issued a reassurance to the markets that the Fed was planning to maintain its ultra-loose monetary policies into the indefinite future. "We are still a long way from our goals of maximum employment and inflation averaging 2 percent over time," he said.

The Fed would continue its asset purchases of $120 billion a month until "substantial further progress" had been made and that it would be "some time" before conditions emerged where it would even contemplate a rise in its base interest rate. But Wall Street considered that this was not enough.

Its chief concern is that the rise in Treasury yields (that is, interest rates), now at their highest level since the pandemic, will impact on the market, particularly for those stocks that have been most dependent for their increase on the flood of cheap money into the financial system.

Powell remarked that the rise in bond yields was "something that was notable and caught my attention." He was echoing comments by Lael Brainard, a member of the Fed's governing body, who said earlier this week that she was paying "close attention" to market developments and would be "concerned if I saw disorderly conditions or persistent tightening and financial conditions that could slow progress towards our goal."

This was viewed as an indication, at least in some quarters, that the Fed would take action to buy more bonds and halt the upward movement in yields. As Jon Vogel, an interest rate strategist at a financial firm, told the *Wall Street Journal*: "The market had clearly set itself up for more guidance than the Fed's prepared to give right now."

There was also a belief that the Fed would relaunch Operation Twist, introduced under the chairmanship of Ben Bernanke, under which it focused purchases on long-term bonds in order to keep rates down. But instead, while Powell recommitted the Fed to existing policies, he adopted, at least for now, a wait and see approach to further interventions.

The present round of market turbulence is another expression of the complete divorce between the stock market and the underlying real economy.

In what were once regarded as "normal" times, a rise in bond yields, resulting from the prospect of an uptick in economic growth and inflation, would be regarded as a positive sign. In fact, Powell made that point in comments last week where he welcomed the rise in bond yields as an indication of a return to economic growth.

But the metrics of the past no longer apply. The rise of the market over the past year, in the midst of the worst economic contraction since the Great Depression, is entirely the result of the availability of money at ultra-

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low rates and the trillions of dollars provided by the Fed to the financial system.

To the extent that increased economic growth threatens to disrupt this process, even to a limited degree, it brings about financial turbulence, reflected above all in the fall in high-tech stocks whose escalation is the most dependent on the cheap-money regime.

The immediate origins of the present sell-off are to be found in events which took place on Thursday of last week, when an auction of US five- and seven-year Treasury bonds was significantly undersubscribed.

In the absence of buyers, primary dealers, major banks that underwrite US bond sales, had to step in to purchase 40 percent of the government debt on offer, the highest share in seven years. With the US government set to issue trillions of dollars of debt in order to finance the Biden administration's $1.9 trillion stimulus package, the fact the market could not absorb even a relatively small debt offering set in motion a US and global bond sell-off.

The bond yield shot up on February 25 to 1.6 percent, having started the month at 1.1 percent, amid comments from financial analysts that it was a "flash crash." The incident recalled developments in the middle of March 2020, at the start of the pandemic, when the market for Treasury bonds froze, along with all other financial markets.

This event, which had the potential to set off a crisis even more severe than that of 2008, resulted in a massive intervention by the Fed, which stepped forward as the guarantor for all areas of the financial system, setting in motion the share market boom of the past year.

Commenting on the events of Thursday last week, the *Financial Times* noted that the "severity" of the sell-off had "rekindled concerns about the health of the world's largest and most important debt market, adding urgency to regulators' efforts to address cracks that have emerged during periods of stress."

The $21 trillion US government debt market is the bedrock of the entire global financial system. It is supposedly the most liquid market in the world—the safe haven for financial investors. But that is now being called into question.

As one financial analyst cited by the *Financial Times* noted: "You never like to seek liquidity dry up like it did. It is always concerning to see that in what is supposed to be the largest and most liquid market."

The longer-term origins of what is clearly a developing financial crisis go back to the turn by the Fed in 1987, when, in response to the stock market crash of October, it initiated its program of support for Wall Street.

The flood of money into the financial system in the 1990s and early 2000s fuelled a series of financial bubbles, each one more serious than the last, leading to the crash of 2008.

The response of the Fed was not to deal with the rampant speculation and often criminal activity that had caused the meltdown, but to provide still more money to speculative finance capital via quantitative easing. And when the onset of the pandemic threatened to trigger another financial meltdown, it again doubled down.

It is not possible to predict exactly what the course of the present crisis will be or what will be the reaction of the Fed at the next meeting of its governing body scheduled for March 16-17.

But the class dynamics are already clear. The Fed will pull out all stops in support of Wall Street and attempt to prevent a collapse of the mountain of fictitious capital which its own actions have helped create.

At the same time, because sky-high stock market valuations ultimately depend on the extraction of surplus value and profit from the working class, the latest crisis will see an intensification of the attacks on wages, jobs and working conditions, whatever the empty promises of the Biden administration that it will promote economic recovery.

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