Jittery markets await central bank decisions

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The next two days will see significant decisions on monetary policy by three of the world's major central banks amid growing uncertainty over how long the stock market bubble can continue as inflation rises.

Today, the US Federal Reserve is expected to announce an accelerated taper of its asset purchasing program in order to clear the way for a rise in its base interest rate early next year as it seeks to counter rising inflation now running at 6.8 percent—the highest level in almost 40 years.

Further rises in the headline rate are in the pipeline. The producer price index released yesterday showed a jump of 0.8 percent for November, an annual increase of 9.6 percent—the fastest year-on-year rate since data were first collected in 2010. In its press release the Bureau of Labor Statistics said the rise in producer prices was "broad-based."

The policy-making bodies of the Bank of England and the European Central Bank will meet on Thursday.

The BoE had been expected to lift its rate, with inflation running at over 4 percent and set to go to at least 5.5 percent next year. But a move in that direction has been called into question with the spread of COVID-19 infections in the UK, above all the Omicron variant.

However, in its latest update on the UK economy, the International Monetary Fund said the central bank should "withdraw the exceptional support provided during 2020."

Underscoring a major concern of all the financial institutions of global capitalism, that inflation will lead to rising struggles for wage increases, the IMF said it was important to "avoid inaction bias" in view of the costs associated with containing "second-round" impacts of inflation.

Inflation is also on the rise in the eurozone, running at 4.9 percent. But the ECB is expected to maintain its asset purchasing and to again insist, in line with statements by its president Christine Lagarde, that an increase in interest rates is not on the immediate horizon. This is in large measure due to fears of the consequences for indebted economies in the eurozone.

As Commerzbank chief economist Joerg Kraemer told the *Wall Street Journal*: "In contrast to the ECB, the Fed is really getting out of the bond-buying business. The Fed simply doesn't have Italy to support."

When inflation was at low levels, the world's central banks felt they could continue to pump money into the financial system to the tune of trillions of dollars, sending stock prices to new records and expanding the wealth of the financial oligarchy and the pandemic billionaires who have gorged on illness and death.

But with prices on the rise globally and the claim that inflation was a "transitory" phenomenon having been blown out of the water, the situation has become much more complex.

Under what were once considered "normal" circumstances, a rise in inflation would have brought a rise in interest rates, not least to put a clamp on wage demands by workers. But the fear is that monetary tightening could precipitate a sharp fall on debt-fueled stock markets, bringing major problems for the financial system as whole under conditions where the experience of the meltdown of March 2020 is ever present.

The market volatility has already been seen on Wall Street so far this week. On Monday, the S&P 500 index dropped by 0.9 percent after closing last week at a record high, its 67th for the year so far. The Dow dropped by 0.9 percent and the tech-heavy NASDAQ was down by 1.4 percent.

The falls continued yesterday, as the S&P 500 dropped 0.7 percent and NASDAQ fell 1.1 percent.

The gyrations of Ark Invest, the fund run by Cathie Wood, who has been dubbed the "Queen of the bull market," are emblematic, as an article in the *Financial Times* noted over the weekend. Her fund, which focuses on tech stocks, gained almost 150 percent last year but is down by 21 percent this year.

"However," the article continued, "Ark is merely the tip of a vast iceberg of speculation that has grown to monstrous proportions over the past year."

It cited remarks by Doug Ramsey, chief investment officer as The Leuthold Group, who said: "We think 2021 has earned its place in the book as the wildest and most speculative year in US stock market history, eclipsing even 1929 and 1999."

He added that this did not mean 2022 would bring a "panic or a crash, maybe just a degree of sobriety."

That may be the earnest hope of the investment houses and the financial oligarchy, fearful of a collapse, but the reality is, as Ramsey and others have noted, that the speculation, fueled by the central banks, is historically unprecedented.

And it may continue as the Fed begins to gradually tighten its monetary policy.

Gregory Perdon, co-chief investment officer at Arbuthnot Latham, told the *Wall Street Journal* he thought stocks could keep rising even in the event of tightening monetary conditions.

"The classic textbook would be rates up, stock down. The reality is there's so much liquidity out there, there's so much demand to get a return on assets that ultimately we're going to have to have a much ... more aggressive tightening to knock stocks."

The same point has been made in a different way by Jason Furman, who chaired Obama's Council of Economic Advisers. He commented that with inflation rising the real interest rate had fallen and so the Fed's monetary policy had actually loosened.

"It indicates policy is overshooting the mark by more than the Fed intended, and that maybe more of a correction is needed," he said.

Share buybacks are a major factor in driving up the S&P 500 index by 25 percent this year until its recent falls. According to data released last week, companies in the index bought back $234.5 billion worth of shares in the third quarter of this year, exceeding the previous record of $223 billion in the fourth quarter of 2018. The level of buybacks is expected to rise even further in the last quarter of this year.

The effect of share buybacks can be seen in the case of Apple, one of the most aggressive practitioners of this form of financial manipulation. It was illegal until 1982, when laws preventing it were rolled back under the Reagan administration as the US economy became increasingly based on financial parasitism.

One of the main talking points in financial news commentary this week is how long it will take Apple to reach a market capitalisation of $3 trillion following the rise in its share price by 30 percent so far this year, recording an increase of 11 percent last week.

The increase from $1 trillion to $2 trillion took two years but now Apple is within touching distance of $3 trillion in just 16 months.

Another marker of speculation is the flow of money into exchange-traded funds (ETFs), which follow share market indexes. Shares in ETFs can be bought and sold on the markets like the stock in an individual company.

Data released last week showed that inflows into ETFs world-wide in the year to November went above $1 trillion, beating the total of $735.7 billion for the whole of last year.

ETFs bring a new level of instability. This is because these are based on similar models that track market indexes. When the market is rising, they can bring big returns, as the case of Ark reveals, but equally they can all suffer major losses when the market begins to fall, exacerbating the downward movement.

It is impossible to predict exactly what the reaction will be to the Fed's announcement today and those of the central banks to follow.

But one thing can be said with certainty: the historically unprecedented stock market bubble, which the ruling elite's policies have fostered, means that the entire financial system rests on increasingly shaky foundations.