Markets continue to rise as Omicron spreads

Nick Beams
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Since the COVID-19 pandemic struck, the *World Socialist Web Site* has explained that Wall Street and the financial markets have literally fed on death.

This analysis was confirmed further by events yesterday. On the last trading day before the Christmas break, Wall Street's S&P 500 index closed at a new record high. That took the number of record highs this year to almost 70.

The S&P was up by 0.6 percent, following a rise on Wednesday. The Dow was up by 0.5 percent and the NASDAQ by 0.2 percent.

On the first two days of the week, the market experienced a fall as the Omicron variant spread. There was some nervousness over what might be the response of the Biden administration. Would any, even limited, mitigation measures be introduced that could impact on the flow of profits?

Any concerns on that score were quickly dispelled by Biden's December 21 speech on the spread of Omicron, which now accounts for 73 percent of all COVID infections in the US. Biden did not advance a single concrete proposal that would meaningfully reduce the spread of the virus. He made it clear that the policy of "vaccines only"—effectively "let it rip"—would continue.

The rise on Wall Street came despite evidence that the Omicron variant is starting to have an economic impact.

The *Wall Street Journal* reported yesterday on mounting signs that the US economy was "losing some steam" as Omicron "spreads rapidly through parts of the country."

In the highly-sensitive retail sector, the number of diners seated at restaurants was down 15 percent in the week to December 22, compared to 2019, a steeper decline than in November.

"Rising case numbers are leading many businesses to close for a short period, entertainment venues to cancel shows, universities to shift classes online and offices to delay or reverse reopening plans," the newspaper said. It pointed to what one economist called "fading momentum" in consumption spending.

Longer-term projections for economic growth are being revised down. The forecasting firm Oxford Economics expects US gross domestic product will grow at just 2.5 percent in the first quarter of next year, compared to a previous estimate of 3.4 percent.

The markets appear, at least at this stage, to have shrugged off concerns that the move toward a tightening monetary policy by the US Federal Reserve will have a significant impact on the speculative debt-fuelled binge that has been financed by the provision of trillions of dollars of virtually free money.

At its meeting earlier this month, the Fed increased its taper of assets purchases from $15 billion to $30 billion a month. That means the asset-purchasing program will finish in mid-March. The Fed's "dot plot"—in which policymakers indicate where they believe interest will go—pointed to three rises, each of 0.25 percent, in 2022, starting when the asset-purchasing program ends.

There is a belief in the markets that the Fed will not clamp down as hard as might have been expected, given that inflation in the US—now at more than 6 percent—and around world is at levels not seen in more than three decades.

The *Financial Times* reported yesterday that "US financial conditions are near the most accommodative on record," citing a report from Goldman Sachs that conditions had only marginally tightened since the Fed's meeting last week.

The article noted that companies have little trouble listing shares or obtaining new lines of credit. That "underscores the extraordinary levels of cash sloshing through the global financial system."

The prospect that the spread of the Omicron variant will slow economic growth may also prove beneficial for the markets. That was suggested by Brian Nick, investment strategist at Nuveen, and a former staffer at the New York Fed.

Nick told the *Financial Times* that one reason financial conditions remained loose was that investors were betting the Fed could not increase rates as fast as it might like because economic growth may be slower than anticipated.

The growth outlook for the first quarter was "somewhat weaker for the first quarter because of Omicron" and the Fed "may not be pulled into tightening as much as it thinks." The central bank would have "a lot of reasons to stay patient" if it wanted to.

The Omicron issue also featured in investor speculation over last week's deliberations by the Bank of England (BoE) over its monetary policy. There was a widespread belief that, having taken a surprise decision at its November meeting not to lift rates, the BoE would maintain that stance because of Omicron's rapid spread in the UK.

In other words, the financial speculators were literally betting that death would ensure there would be no tightening of monetary policy.

Another decisive factor intervened, however—the rise of UK inflation to more than 5 percent and the fear of the central bank that prices would lead to a wages push by the working class. So the BoE decided to lift its base rate by 0.25 percentage points.

The close attention that central banks are paying to this issue was underscored by the data and comments on which the BoE based its decision. The bank's Monetary Policy Committee noted that "the labour market is tight and has continued to tighten."

The BoE conducted extensive discussions with employers in the leadup to the decision. A survey of company executives indicated that almost 60 percent of firms were finding it "much harder than normal" to recruit workers, with the greatest pressures in hospitality, transport and logistics.

Omicron's spread intensifies all the contradictions in the financial system. On the one hand, investors hope that the disaster will stay the hand of central banks on interest rates.

On the other, the even-more transmissible Omicron variant will create further supply chain problems, drive up the rate of inflation and intensify the push by workers for higher wages.

A key objective of the Fed and other major central banks is to use higher interest rates to suppress this movement. At the same time, however, significant action on this front threatens major turbulence and even a crisis on the financial markets, which have become totally addicted to the supply of ultra-cheap money.