A financial "blockbuster" year fuelled by death and disease

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The figures are coming in for 2021 indicating it will surely go down as one of the greatest ever years of financial mania, promoted not by a surge in the economy, but one feeding on death and cheap money.

Earlier this month, the Bank of America reported that, according to its calculations, central banks had injected $32 trillion into financial markets since the start of the COVID-19 pandemic, lifting global stock market capitalisation by $60 trillion.

Other data tell the same story.

The *Financial Times* (FT) has reported this week on what one financial analyst called a "blockbuster" year as companies worldwide raised $12.1 trillion by selling stock and taking out loans as a result of a "torrent of central bank stimulus."

This was up almost 17 percent on 2020, which itself was a record year, and almost a quarter above the level of 2019 before the pandemic struck. More than $5 trillion was raised in the US where the S&P 500 index hit a new record on yesterday—its 70th for the year. The Dow also reached a new record, its sixth consecutive daily rise and the longest rising streak since March. The latest rise has been described as a "Santa Claus Rally."

But the reality is that Christmas has come every day of the year for the financial oligarchy in the form of Father Fed, while millions have lost loved ones or been stricken by disease.

The debt-fuelled binge, fuelled by central bank largesse, is also exemplified in data on high-risk loans. According to Leveraged Commentary and Data (LCD) issued by S&P Global Market Intelligence, reported by the FT, about one-third of leveraged loans were sold to investors under conditions considered risky by financial authorities.

At the end of November, 33 percent of the 954 leveraged loans issued to that point for the year had a debt to earnings ratio exceeding six, according to LCD figures. Leveraged loans are those made to companies that have large debts and are considered to have a poor credit history.

The ratio of six was established by US regulatory authorities in 2013 as a guide for leveraged lending, not a formal rule. The guideline stated that "generally" debt in excess of six times more than earnings before interest, taxes, depreciation and amortization "raises concerns for most industries."

But these "guidelines" are being cast aside as financial investors take on ever more risky bets in order to secure a return in an ultra-low interest rate environment.

According to Dennis Kelleher, president of Better Markets, cited in the FT report: "There is an insane amount of leverage in the system. It has created a ticking time bomb."

As the article noted: "The fear is that if US economic growth weakens, or borrowing rates rip higher, large debt loads could become unmanageable, accelerating the decline of heavily indebted companies and potentially rippling through the economy."

The head of leveraged finance at S&P, Ramki Muthukrishnan, has dismissed fears in the short term because of continued economic growth and the support provided by central banks but raised longer-term concerns.

"Clearly the fact that these companies are highly leveraged means that business conditions need to be extremely favourable for them to pay down debt or refinance in the future," he said.

The surge in the S&P 500 index is masking to some extent underlying economic problems. Goldman Sachs has calculated that since April just five high-tech stocks—Apple, Microsoft, Nvidia, Tesla and the Google parent Alphabet—have accounted for more than half of its rise, while 210 stocks are 10 percent below their 52-week highs. On the tech-heavy NASDAQ index more than 1300 stocks out of 3000 are down more than 50 percent from the highest levels over the past 12 months.

These figures point to inherent instability. Earlier this month, the Swiss central bank pointed to "signs of overvaluation on the stock and real estate markets in various countries. At the same time, global public and corporate debt is high. These vulnerabilities make financial markets more susceptible to shocks, particularly large interest rate rises."

And with an inflationary surge now taking place worldwide, particularly in the US where it has hit 6.8 percent, the Fed and other central banks are moving to tighten monetary policy. Their chief fear is that it will lead to a push for higher wages by workers—the initial expressions of which have been seen in the US where there is concern in business circles about the inclusion of cost-of-living adjustments in recent wage contracts.

The Fed and other central banks are treading a fine line. On the one hand they want to push down on wages—Fed chair Powell has insisted that if inflation becomes entrenched then the central bank will use all the tools available to it—while on the other they are fearful that a rapid rise in rates could set off turbulence in the highly indebted financial markets.

The rapid spread of the Omicron variant of the coronavirus is adding to the growing uncertainty. It threatens to exacerbate supply chain problems, leading to further inflation, and deliver a hit to economic growth and company profits.

Bloomberg has reported that according to its estimates the global economy will expand by only 0.7 percent in the final three months of this year, half the pace of the previous three months.

The chief economist at Bloomberg Economics, Tom Orlik warned: "As 2021 draws to a close, the global economic recovery risks being thrown off track by the Omicron variant of the coronavirus. Particularly Europe looks vulnerable: recoveries for Germany, France and Italy are increasingly under strain from the surge in cases."

The *Wall Street Journal* has also pointed to slowing growth. In an article on Monday, it noted that the Omicron surge was "prompting economists to downgrade US and global growth expectations in the early part of 2022 and businesses struggle with absenteeism and consumers stay away to avoid getting sick."

It cited estimates by Mark Zandi, chief economist at Moody's Analytics, who cut his forecast for first quarter annual US gross domestic product growth to 2.2 percent from 5.2 percent because he could "see the economic damage mounting going into the first quarter."

At present, the claim is that loss of growth in the first quarter will be compensated for by increased growth in the latter portion of the year.

However, such claims rest on extremely shaky foundations and are based on the belief that COVID-19 will simply recede.

But with virtually all public health and safety measures having been scrapped, the level of infections is surging. Moreover, there is the ever-present danger that a new variant will emerge as a result of the refusal of governments around the world to pursue the necessary elimination strategy fearing its impact on the unstable financial system.

And in an expression of the perversity of the system of global finance capital, there is the hope in some quarters that slowing economic growth, as a result of the spread of the Omicron variant and a rising disease and death toll, may stay the hand of the Fed and other central banks in lifting interest rates, thereby ensuring that the speculative mania, which has siphoned hundreds of billions of dollars into the coffers of the financial oligarchs, can continue.