

# Trump's election sparks speculative frenzy on Wall Street

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One of the effects of Trump's winning of the US presidency has been a surge of speculation on Wall Street, with stock market indexes reaching record highs in the days following November 5.

The Dow reached 44,000 for the first time and the more broad-based S&P 500 rose to 6000. While the initial frenzy has subsided somewhat as investors take into account higher inflation numbers than expected and consider that interest rate cuts by the Federal Reserve may not come as quickly as they have anticipated, the trend is still upwards.

As the headline on a recent *Wall Street Journal* article put it: "Investors are betting on a market melt-up." It said they had "stampeded into funds tracking US stocks" with such funds drawing in nearly \$56 billion in the week to November 13, the second-largest weekly inflow according to records going back to 2008.

Wall Street has been salivating over the prospect that Trump will bring in further tax cuts, but such direct assistance from the government is not the only factor. Another major impetus is the belief that regulations on the operations of finance capital—banks and hedge funds—will be further relaxed so as to become almost non-existent.

A graphic example of financial power occurred in September when the banks secured a total capitulation by the Federal Reserve on its plans to introduce tighter regulations in the wake of the collapse of three significant banks in March 2023.

The regulations had been drawn up by a committee of the Bank for International Settlements in Basle, Switzerland and were known as the Basle III Endgame. They were aimed at locking in around \$80 billion as reserves to cover possible losses.

The banks were having none of it and organised a massive lobbying campaign hiring a total of 486 federal lobbyists. They forced a total backdown with the Fed official in charge, Michael Barr, declaring he had learned "the lesson of humility."

Now the Wall Street financial oligarchy considers that such operations will not be necessary because it has in

power a government which will directly carry out its dictates. One of its leading representatives, Elon Musk, the world's richest man, will play a key role in determining policy.

Amid this speculative frenzy, which has also seen the crypto currency Bitcoin, a financial asset with no inherent value, reach record highs, there are signs that the financial house of cards is heading for another disaster.

The *Financial Times* reported earlier this week that the trading accounts of US banks—the money they use to bet on the markets—had grown to more than \$1 trillion in the third quarter of this year. This is the highest level since 2008, just before the global financial crisis which was sparked by their speculative operations.

The FT noted that the growth of trading funds had left the banks, "particularly the largest ones, more exposed to market moves than at any time since the financial crisis as they hold ever-greater inventories of price-sensitive securities."

According to Bill Moreland, the head of BankRegData, who compiled the data on the banks' trading: "It's a bet on financial assets, rather than say lending or the economy, because that's where they see the returns."

In other words, the increase in trading is entirely speculative, betting that financial assets will rise even further.

The *WSJ* article also reported on the rise of speculation. It pointed out that one of the largest exchange-traded funds tied to the Russell 2000 index, which had risen 2 percent since the election, had attracted \$3.9 billion in a single trading session earlier this month, the most since June 2007.

"Some of the riskiest corners of financial markets are thriving too," it continued. "Three of the top five days for trading in call options, trades that give the right to buy shares, have occurred this month, according to options records going back to 1973."

In a recent column, *FT* associate editor Rana Foroohar warned that despite the short-term sugar high of tax cuts and deregulation a "downturn must come at some point during

the Trump presidency.” Judging by history, the “US is well overdue for both a recession and a big market correction.”

She went on to cite a recent note to clients by the financial firm TS Lombard. It said that “this business cycle has always seemed ‘artificial,’ as it has been powered by a series of temporary or one-off forces,” including the pandemic reopening and fiscal stimulus.

Foroohar commented that this observation could be extended.

“Indeed, one could argue that the market environment of the past 40 years, with its trend of falling interest rates and massive bouts of monetary stimulus and quantitative easing after the great financial crisis, is artificial. We have a generation of traders who have no idea of what a truly high interest rate environment looks like.”

As she observed, when interest rates did rise a little, it led to the collapse and bailout of the Silicon Valley Bank in March 2023. It also produced the surge in bond yields which brought about the demise of the short-lived Liz Truss government in the UK in September-October 2022.

In comments cited by Foroohar, Dennis Kelleher, the president of Better Markets, an organisation which lobbies for a more secure financial system, said: “I think we’ll get a two-year sugar high under Trump but down the road, we’re looking at a potentially catastrophic correction—something much worse than [the global financial crisis of] 2008. That’s because we have a financial system that is essentially extractive.”

By extractive what is meant is that the vast profits accumulated via the financial system do not signify an addition of real value.

Finance capital has played a role in the expansion of the productive forces, providing the money, either by the raising of funds on the stock market or through debt, for new investments in the real economy.

It has become ever-more parasitic with an increasing proportion of the deals in the market involving financial operations, currency speculation, trading in shares and their derivatives, takeover operations, share buybacks and debt refinancing.

That is, rather than being involved in the development of the productive forces, leading to the creation of additional value, finance capital is more and more a giant vampire sucking in value produced elsewhere. Thus, the economy comes to increasingly resemble an inverted pyramid—a vast accumulation of wealth at the top resting on an increasingly relatively narrow base at the bottom.

In the case of the US, this pyramid has been blown up to a size of historic proportions.

This process has comprised two components: the injections of money by the Fed, trillions of dollars used to

prop up the financial system since 2008, including some \$4 trillion outlaid in a matter of weeks following the March 2020 crisis when the US Treasury market froze; and the rise of US government debt, much of it spent on war together with bailouts and assistance to corporations, to a record high of almost \$36 trillion.

The rate of increase in US debt has been characterised as “unsustainable,” including by the chairman of the Fed Jerome Powell. As the aphorism coined by the economist Herb Stein put it: “If something cannot go on forever, it will stop.”

There is already nervousness about how long financial markets can continue to absorb the increase in US debt, which is predicted to rise under Trump. This is reflected in the rise of the yields, interest rates, on longer-term Treasury bonds.

Well-known economist Ed Yardeni, who coined the term bond vigilantes in the 1980s, told the *New York Times* they could take action.

“If the Trump administration runs excessively stimulative fiscal policy, with lots of spending and tax cuts, leading to even wider deficits, I think then that may cause the bond vigilantes to reach levels that create problems for the economy.”

No one can predict when the process of ever-increasing speculation and parasitism will end and exactly how, but all financial history indicates that when it does it will take the form of a shock, most likely emanating from an unexpected source. As history also makes clear, it will result in deep attacks on the working class, to make it pay for the crisis.

One side of the Trump administration has already been revealed in the speculative surge in the financial markets. When that surge leads to a crisis—the indications of which are already apparent—the regime’s essential characteristic as the dictatorship of financial capital, relying on the brute force of the state against its class enemy, the working class, will emerge ever more clearly into the open.



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