US stocks surge as Fed signals rate cut

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US stock prices shot up Tuesday, reversing weeks of declines, after Federal Reserve Chairman Jerome Powell signaled that he was prepared to slash interest rates to keep the longest bull market in American history from coming to an end.

Amid mounting concerns in corporate circles of a looming recession and new financial crisis triggered by the Trump administration's trade war measures against China, Mexico and other countries, Powell began his remarks at a monetary policy conference in Chicago with an assurance that all of the resources of the state would be made available to protect the fortunes of the financial oligarchy.

Speaking of "recent developments involving trade negotiations and other matters," he told the assembled economists and bankers: "We do not know how or when these issues will be resolved. We are closely monitoring the implications of these developments for the US economic outlook and, as always, we will act as appropriate to sustain the expansion, with a strong labor market and inflation near our symmetric 2 percent objective."

US stock prices were already rising when Powell made his remarks, having been boosted by a speech the previous day by St. Louis Federal Reserve President James Bullard, who told the conference that an interest rate cut "would be warranted soon." But Powell's intervention turned the upward trend into a euphoric celebration of buying, adding 512 points to the Dow at the close, a spurt of more than 2 percent. The S&P 500 index added 58 points, or 2.14 percent, and the Nasdaq shot up 194 points, or 2.65 percent.

European markets also rose sharply on the news of Powell's remarks.

Powell's statement was a response to increasing pressure from Wall Street for a new round of rate cuts, including directives by Donald Trump, the representative of the financial aristocracy in the White House. Trump recently called on Powell to slash rates, arguing that it would strengthen the hand of the US in the intensifying trade war with China.

Trump's extension of 25 percent tariffs to a much wider range of Chinese exports early last month has begun to take its toll on both the US and Chinese economies, fueling a substantial slowdown in manufacturing growth in the US and stagnation in China, at the same time that factory output is falling in Germany and other European countries.

The response of the corporate ruling elites all over the world has been to launch a new round of mass layoffs and restructuring in basic industries such as auto, placing the burden of the rise of economic nationalism and tariff wars squarely on the working class. Neither the Fed nor any section of the US political establishment, Democrats as well as Republicans, has lifted a finger to protect the jobs and livelihoods of workers, but when it comes to protecting the wealth of the richest 10 percent, 1 percent and 0.1 percent, there is no limit to the billions pumped into the stock market.

The administration's ban on US relations with the Chinese telecom giant Huawei followed by last week's surprise announcement of tariffs on Mexican goods as a weapon in Trump's war on immigrants increased the anxiety in ruling class circles, leading to warnings from both Morgan Stanley and JPMorgan Chase of a recession within the coming year.

These fears are above all driven by the growth of the class struggle and the turn by ever wider layers of workers and youth to socialism as an alternative to capitalist war and inequality.

The major stock indexes in the US fell 6 percent in May, and the broadest index of large American companies, the S&P 500, fell nearly 7 percent from its record high on April 30. The fears on Wall Street were also reflected in the downward trend of the yield on 10-year Treasury bonds, which fell to just above 2 percent. This was the result of a flight to safety away from stocks into what is deemed the most secure investment. This in turn led to the anomaly of interest rates on longer-term US government bonds being lower than those on short-term bonds—a phenomenon known as an interest rate inversion, seen as a sign of impending recession.

At the last meeting of the Fed's policy-making body, the Federal Open Market Committee, held April 30–May 1, the US central bank held its benchmark federal funds rate steady at 2.25–2.50 percent. Minutes of the meeting released later in May revealed a consensus among Fed officials to exercise "patience" in raising or lowering rates "for some time."

Nevertheless, the markets were predicting at least two cuts in rates before the end of the year. The demands of Wall Street were stated unequivocally in an op-ed piece posted Monday night by the *Wall Street Journal*, which began, "It's time for the Federal Reserve to cut interest rates."

The markets surged Tuesday despite Trump's declaration during his press conference with British Prime Minister Theresa May in London that he fully intended to impose tariffs on Mexico this coming Monday. This underscores the fact that it was Powell's guarantee of central bank action to prop up the markets that triggered the rally.

The Fed chair's about-face reprises his performance last January, when he caved in to demands from Trump and Wall Street for an end to his policy of incremental rate increases and a return to monetary policy "normalcy," declaring that he was "listening" to the financial markets and indicating that he would hold off on scheduled rate increases. This came after US markets suffered their worst December since the Great Depression, amid signs of a manufacturing slowdown in both the US and China and mounting fears of a recession.

As the *World Socialist Web Site* explained at the time, Powell's remarks exposed the reality behind the Fed's pose of political and class neutrality and single-minded focus on the interests of the "American people." Just as previous Fed chairs for the past 40 years have openly acted as agents of the corporate-financial elite in boosting the stock market as the instrument for redistributing wealth from the bottom to the top of society—from the "Greenspan put" of the late 1980s and 1990s to the Bernanke "put" following the 2008 financial meltdown—the current chairman is executing the "Powell put" to underwrite the staggering rise in asset values.

The inevitable result, however, is a crisis even greater than the collapse of the dot.com bubble in 1999–2000 and the implosion of the sub-prime mortgage Ponzi scheme eight years later, as the ruling class compounds the underlying crisis and contradictions of its system by seeking to paper them over with unprecedented levels of debt.