

Is the Fed Juicing the Stock Market?

By [Mike Whitney](#)

Global Research, June 29, 2009

29 June 2009

Region: [USA](#)

Theme: [Global Economy](#)

Why has the stock market been on a 3-month tear when the economy is undergoing the worst economic contraction since the Great Depression? The S&P 500 has shot up 40% from its low on March 9 and the Dow Jones Industrials have followed close behind. Is this a typical bear market rally or is the invisible hand of the Fed goosing the markets?

Everyone seems to agree that the Fed's multi-trillion dollar quantitative easing (QE) is the jet-fuel that's put stocks into orbit. But how is the money filtering into the market?

The first place to look is the Fed's lending facilities which have provided trillions of dollars in loans and US Treasuries for dodgy mortgage-backed collateral. These loans are not collecting dust in company vaults, but are being used for speculation in the stock market. Unfortunately, Bernanke refuses to say which financial institutions have gotten the loans, or how much they have borrowed, or even what type of toxic garbage that's been taken in exchange. It's all very hush-hush. Bernanke's even shrugged off the threats of legal action from Bloomberg News, which is demanding greater transparency in the Fed's programs. What a joke. The Fed doesn't have to comply with the law; it IS the law. Meanwhile Bernanke's stealth monetizing operations have continued without pause, boosting market activity, driving up the price of commodities and inflating another equities bubble. It's all just business as usual at the Fed.

If Bernanke is dabbling in the stock market; it's certainly understandable. After all, his back is against the wall. He needs to keep the banking system from crashing, but he can't go back to congress for more money because his political support has eroded and the country's mood has soured on bail outs. That's why Treasury Secretary Timothy Geithner concocted the Public-Private Investment Partnership (PPIP) which was supposed to remove the banks bad assets by providing financial institutions with 94% government funding in the form of non-recourse loans to purchase (mostly) mortgage-backed securities (MBS). But less than two hours after Geithner announced the details of the program, bloggers figured out that the plan was nothing more than a swindle which would allow the banks to set up off-balance sheet operations (special purpose entities) that would buy back their own garbage debt with generous subsidies from taxpayers. As soon as FDIC chief Sheila Bair got wind of what the banks were up to, she put the kibosh on Geithner's scam-saying that the banks would NOT be allowed to bid on their own assets. That was the last that anyone ever heard of the PPIP.

But the problems at the banks still remain, so Bernanke has moved on to Plan B; trading loans for sketchy mortgage paper that eventually makes its way into the stock market. Former Fed chief Alan Greenspan let the cat out of the bag in a recent editorial in the Financial Times:

“The rise in global stock prices from early March to mid-June is arguably the primary cause of the surprising positive turn in the economic environment. The \$12,000bn of newly created corporate equity value has added significantly to the capital buffer that supports the debt issued by financial and non-financial companies. Corporate debt, as a consequence, has been upgraded and yields have fallen. Previously capital-strapped companies have been able to raise considerable debt and equity in recent months. Market fears of bank insolvency, particularly, have been assuaged.

Global stock markets have rallied so far and so fast this year that it is difficult to imagine they can proceed further at anywhere near their recent pace. But what if, after a correction, they proceeded inexorably higher? That would bolster global balance sheets with large amounts of new equity value and supply banks with the new capital that would allow them to step up lending. Higher share prices would also lead to increased household wealth and spending, and the rising market value of existing corporate assets (proxied by stock prices) relative to their replacement cost would spur new capital investment. Leverage would be materially reduced. A prolonged recovery in global equity prices would thus assist in the lifting of the deflationary forces that still hover over the global economy.

I recognize that I accord a much larger economic role to equity prices than is the conventional wisdom. From my perspective, they are not merely an important leading indicator of global business activity, but a major contributor to that activity, operating primarily through balance sheets. ...” (Alan Greenspan, “Inflation, The real threat to a sustained recovery”, Financial Times)

How convenient, eh? Stocks zoom higher and the banks are saved. Yippee! Perhaps this explains why the market has skyrocketed in the last 30 minutes of so many days when all the news is bad.

Consider this: What if Bernanke made the same calculation as Greenspan? What if he realized that the PPIP was DOA and that going to congress to get more money was a losing proposition? Then, he would be forced to take radical action to assure that the banks had a sufficient “capital buffer” to withstand losses on failing assets. He would devise a plan wherein the banks were able to secure (as Greenspan says) “large amounts of new equity” to keep them buoyed above the ocean of red ink. That would be his only choice, right? That is, unless he decided to call it quits and let the banks take their medicine, which would mean that the Fed and the big banks would lose their stranglehold on the country’s money supply and the political process. How likely is that?

The original source of this article is Global Research
Copyright © [Mike Whitney](#), Global Research, 2009

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Mike Whitney](#)

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca

www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca