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The Fix is in: Fed Stops Stock Slide with Talk of Quantitative Easing (QE) Extension

By Mike Whitney
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Unbelievable.

On Wednesday, stocks were hammered after economic data showed that the US and global economies were headed for a major slowdown. By mid-day, the Dow was down 460 points before clawing its way back to minus 173 points. It looked like the market was set for another triple-digit flogging on Thursday when the Fed stepped in and started talking-up an extension to QE3. That's all it took to ease investors jitters, stop the meltdown and send equities rocketing back into space. By the end of Friday's session, all the markets were back in the green with the Dow logging an impressive 263 points on the day. Here's more background from Wolf Street:

> "But just when some profusely sweating souls on Wall Street thought that the bottom was falling out, a savior appears. St. Louis Fed President James Bullard got on Bloomberg TV and pressed the red panic button (and) handed them what they wanted….That was enough.
>
> Using declining inflation expectations as a pretext, he proposed to delay the end of QE. The Fed should continue buying $15 billion in securities a month…. it instantly turned around the markets. The spoiled brats on Wall Street were ecstatic to imagine that the Fed might continue to deliver the goodies they've become addicted to, and without which life seems unbearable." (This Market is Driven by Psychology and Momentum,' which 'Works Really Painfully on the Way Down, Wolf Street)

For those readers who still think that the Fed doesn't meddle in the markets: Think again. Friday's stock surge had nothing to do with productivity, price, earnings, growth or any of the other so called fundamentals. It was all about manipulation; telling people what they want to hear, so they do exactly what you want them to do. The pundits calls this jawboning, and the Fed has turned it into an art-form. All Bullard did was assure investors that the Fed "has their back", and , sure enough, another wild spending spree ensued. One can only imagine the backslapping and high-fives that broke out at the Central Bank following this latest flimflam.

As most people now realize, stocks haven't tripled in the last 5 years because the economy is expanding. Heck, no. The economy is still on all-fours and everyone knows it. The reason stocks have been flying-high is because the Fed added a hefty $4 trillion in red ink to its balance sheet. Naturally, when someone buys $4 trillion in financial assets, the price of financial assets go up.

Who would've known?

And here's something else to chew on: On Thursday I wrote an article titled "Stocks Plunge 460 Points on QE Exit". Among the 2 or 3 thousand other articles on the topic in the mainstream, not one mentioned the fact that QE was set to end at the end of October. Instead, they pointed to sluggishness in Europe and China, and weaker-than-expected economic data in the US as the proximate causes of the downturn.

So let me ask you this, dear reader, if the end of QE was not the real trigger for the Dow's 460 point bungee jump, then why did the markets do a quick 180 right after Bullard made his statement on Thursday? In fact, the media even admits that point now. Check out this article on Marketwatch on Friday titled "Bullard's surprise suggestion of continuing QE lifts markets":

> "A comment from a hawkish Federal Reserve official on Thursday that central-bank bond buying should continue beyond its scheduled end lifted stock markets and surprised many observers.
>
> The Federal Reserve should consider extending its bond-buying program beyond October due to the market selloff to see how the U.S. economic outlook evolves, said James Bullard, the president of the St. Louis Fed, on Thursday. …
>
> If the economy is still as robust as I am describing it, then I think we could just end the program in December. But if the market is right, and this is portending something more serious for the U.S. economy, than the committee would have an option of ramping up QE at that point," he said.
>
> The S&P 500 SPX, +1.65% jumped from its session low of a 0.9% drop after Bullard's remarks came out." (Bullard's surprise suggestion of continuing QE lifts markets, Marketwatch)

How do you like that? Just one word from the Fed and the markets do an immediate about-face. Now that's power.

It's too bad the Fed can't put in a good word for the real economy while they're at it. But, oh, I forgot that the real economy is stuffed with working stiffs who don't warrant the same kind of treatment as the esteemed supermen who trade stocks for a living. Besides, the Fed doesn't give a rip about the real economy. If it did, it would have loaded up on infrastructure bonds instead of funky mortgage backed securities (MBS). The difference between the two is pretty stark: Infrastructure bonds put people to work, circulate money, boost economic activity, and strengthen growth. In contrast, MBS purchases help to fatten the bank accounts of the fraudsters who created the financial crisis while doing bupkis for the economy. Guess who the Fed chose to help out?

Do you really want to know why the Fed isn't going to end QE? Here's how Nomura's chief economist Bob Janjuah summed it up:

> "I want to remind readers of a message that may be buried in the past: When QE1 ended, the S&P 500 fell just under 20% in a roughly three-month period before the QE2 recovery.
>
> When the QE2 ended, the S&P 500 fell about 20% in a three-month period before the next Fed-inspired bounce (aided by the ECB). QE3 is ending this

> month…"

Is that why the Fed started jawboning QE4, to avoid the inevitable 20 percent correction?

You bet it is. But what's odd is that stocks hadn't even dropped 10 percent before the Fed hit the panic button. Why is that?

Could it be that they have no confidence in the market? Could it be that they know that their loosy-goosey monetary policies have inflated the biggest bubble of all time which has created a fragile, crisis prone system that can't even withstand a measly 10 percent drop before bank balance sheets start going up in flames and the whole wobbly financial house of cards comes crashing to earth in a thud?

Of course, it is. They're scared sh**less, which is why they dispatched bigmouth Bullard to promise investors the moon as long as they keep loading up on equities. Yellen an Co. are going to do everything in their power to keep this runaway train from going off the cliff, even if they kill us all in the process.

Now check out this blurb from Allianz 's chief economic adviser, Mohamed A. El-Erian, one of the few analysts who got it right:

> "Due to excessive confidence in central banks, investors eagerly decoupled high market valuations from what was warranted by the sluggish fundamentals."… That disconnect has been undermined over the last few weeks by signs that the global economy's fundamentals are weaker than they seemed and concern that the European Central Bank will not adequately fight that continent's economic drift…" (New York Times)

What El Erian is saying, is that, stocks are vastly overpriced given "sluggish fundamentals". The only reason investors have been buying is because the Fed has been shoving money into the market hand-over-fist. That's what's kept equities airborne. But on Wednesday, investors woke up and said to themselves, "Hey, the economy's circling the plughole, the Fed is bailing out, and I'm left with a boatload of dodgy stocks that might be worth $.30 on the dollar. Maybe I'll get out now while I still can." That's why the market tanked.

So, what's the lesson here?

The lesson is that the Fed is driving the markets. The whole "free market" trope is baloney. No one is loading up on stocks because they're a good deal or because they think the economy is going gangbusters. Investors are buying stocks because they still believe in the power of money. They still think the Fed can pump a few more wisps of helium into the equities balloon and keep the rally going for a bit longer. And that's why stocks surged on Friday, because, at least for now, greed still trumps fear.

But what's the overall effect of this loony policy on the economy, or is that a fair question to ask after 6 years of falling incomes, flatlining wages, widening inequality and widespread economic stagnation?

The truth is, we already know what the impact is: The rich have gotten richer while the poor have been shunted off to tent cities, food pantries and under freeway off-ramps. Isn't that what's happened? Get a load of this brief summary in Friday's World Socialist Web Site:

"The richest one percent of the world's population now controls 48.2 percent of global wealth, up from 46 percent last year, according to the most recent global wealth report issued by Credit Suisse, the Swiss-based financial services company.

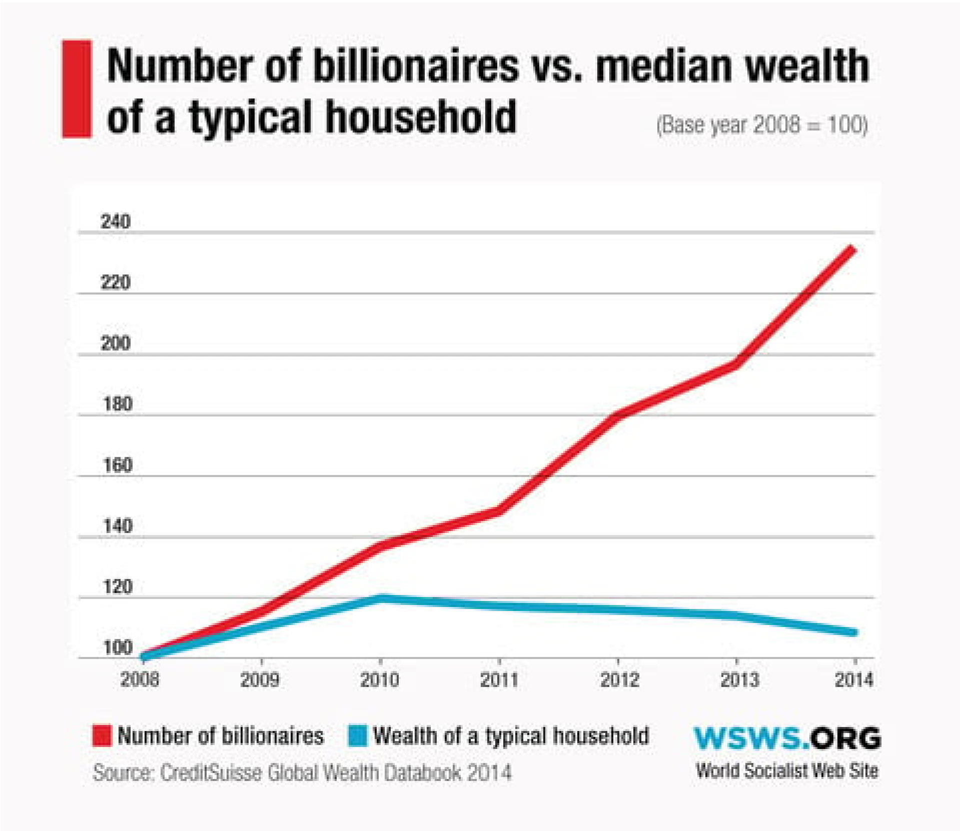
Hypothetically, if the growth of inequality were to proceed at last year's rate, the richest one percent for all intents and purposes would control all the wealth on the planet within 23 years.

The report found that the growth of global inequality has accelerated sharply since the 2008 financial crisis, as the values of financial assets have soared while wages have stagnated and declined…

The study revealed that the richest 8.6 percent of the world's population—those with a net worth of more than $100,000—control 85 percent of the world's wealth. Meanwhile, the bottom 70 percent of the world's population—those with less than $10,000 in net worth—hold a mere 2.9 percent of global wealth.

The growth in inequality is bound up with a worldwide surge in paper wealth, fueled by the trillions of dollars pumped into the financial system by central banks via zero interest rate and "quantitative easing" policies…

As the report noted, "The overall global economy may remain sluggish, but this has not prevented personal wealth from surging ahead during the past year. Driven by … robust equity prices, total wealth grew by 8.3% worldwide … the first time household wealth has passed the $250 trillion threshold." (Richest one percent controls nearly half of global wealth, Andre Damon, World Socialist Web)



That says it all, doesn't it? The widening chasm between rich and poor is traceable to the policies that were adopted in 2008. That's why things are so fu**ed up, it's because the "surge in paper wealth, fueled by the trillions of dollars pumped into the financial system by central banks via zero interest rate and "quantitative easing" policies."

In other words, it's all deliberate. Robbing the poor and giving to the rich is all part of the plan.

That strikes me as an important point, and one that's worth mulling over for awhile; that crushing the middle class isn't an accident. It's what they want. It's the policy.

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