Despite Devastating Crashes, Boeing Stocks Fly High

Even after admitting they cut corners on the 737 Max, Boeing gets a bailout from Wall Street and the U.S. defense industry.

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In a turbulent world, some things remain stable, even to an irrational degree. One example is the price of Boeing stock, which, at $329 a share as of midday August 16, has barely moved—down just 1.6 percent—from a year ago.

As all the world knows, in the intervening 12 months, two Boeing 737 Max jets have crashed, killing a total of 346 people. We also know that the crashes were entirely thanks to corporate management rushing through a Rube Goldberg adaptation of a half century-old design, suborning the FAA to approve untested and incompetently programmed software control features along with other irresponsible shortcuts (such as cutting the company's own test pilots out of MAX development planning and avoiding mention of the new control features in the airline pilots' manuals).

Nevertheless, neither the slaughter of passengers nor the subsequent deluge of shocking revelations have had any long-term impact on the stock price. There have indeed been short-term fluctuations in the interim, notably a sharp climb in the months following the first MAX disaster in Indonesia last October, when management's disgraceful PR spin ascribing blame to incompetent foreign pilots achieved some traction in the press.

The second crash, in March this year, and consequent worldwide grounding of the plane, led to a sharp downward move, which nonetheless leveled off at around current prices even as bad news of corporate culpability continued to seep out of the ongoing investigations. On the other hand, for anyone who cares to look, the bad news is clearly reflected in the balance sheet. The hallowed planemaker recently announced the largest quarterly loss in its history—$2.9 billion—thanks to a $5 billion charge relating to lost revenue on MAX sales. Overall, Boeing now owns a total equity of negative $5 billion, meaning that its liabilities exceed assets by that amount. That $5 billion charge was most certainly a drop in the bucket compared to the lawsuit settlements yet to come.

Even so, Wall Street appears unworried. Analysts still rate the stock a "strong buy" by a wide margin, with a consensus estimate that it will climb some 90 points from its currently stable position in the high $320s over the next 12 months. The $2.3 billion Boeing spent buying its own stock in the first three months of this year no doubt encouraged such bullish sentiment, part of the $43 billion splurged on price-propping buybacks since 2013.

In addition, other powerful forces are hard at work to save the corporate behemoth from going into a terminal stall. Boeing, for example, is a component of the Dow Jones Industrial

Average, the 30-stock index generally if misleadingly cited as a bellwether of the market as a whole, and even the entire U.S. economy. Because the Dow is weighted by price, an upward or downward move in Boeing has a significant effect on the index, which makes it a particular object of interest for the trading desks at major Wall Street players. Hence the stock is traded very actively in the "dark pools," otherwise known as "alternative trading systems," with opaque names such as JP Morgan's JPMX, operated by the big banks and major institutions as unregulated stock exchanges, courtesy of a toothless SEC.

These are ideal instruments for manipulating the market, since they don't have to show their bids and offers to the general market place as is required on regulated exchanges. As analogy, think of carpet dealers in a bazaar negotiating prices privately among themselves behind the backs of ordinary customers.

The tender regard being exhibited by big players on Wall Street is not, of course, solely for the sake of propping up the Dow. There is a lot of money directly at stake, not least in the 67 percent of the Boeing stock owned by just five giant funds,including Vanguard ($5.3 trillion in total assets) and Blackstone ($6.8 trillion). It's a sign that Boeing must keep borrowing money to stay afloat. Fortunately, thanks to low interest rates and the river of cash generated by the Federal Reserve since 2008, supplies are ready to hand. Thus on July 31, for example, Boeing borrowed a total of $5.5 billion via notes of varying maturities and interest rates taken up by major banks, including JP Morgan, Morgan Stanley, Wells Fargo, and Goldman Sachs—and that was on top of $3.5 billion borrowed in late April.

Given that it may be quite a while before money starts to flow again from airlines shopping for 737s, there is undoubtedly a lot of Wall Street interest in the alternative source for emergency Boeing cash flow: a giant taxpayer bailout in the form of a Pentagon contract of suitable proportions. Fortunately, there is a vehicle for delivering the cash: the Ground Based Strategic Deterrent, the Minuteman-replacement ICBM authorized by President Obama as part of his $1 trillion nuclear modernization program. It carries a price tag, gratifying to investors, of up to $100 billion—a sum that will quite certainly be exceeded down the road.

Until very recently, the competition for this lucrative (and totally unneeded) contract was between Boeing and Northrop Grumman. Given that Northrop is already enjoying a pot of modernization gold in the shape of the B-21 bomber contract, Boeing seemed a sure bet to land the deal, especially as the Air Force's detailed requirements appeared tailored to favor Boeing rather than Northrop.

But in late July, Boeing abruptly announced that it was walking away from the bidding. This was not due to a sudden reluctance to service the nuclear arms race, but rather a high-stakes effort to prod the Air Force into rewriting the cost of the competition rules, officially termed "request for proposal," so as to obviate the cost advantage enjoyed by Northrop thanks to its artful purchase last year of Orbital ATK, the only viable supplier of the solid fuel rocket engines required by the new missile. We cannot doubt that the Air Force will see the light before too long, the stakes for the system being what they are.

"Too big to fail" is a term customarily applied to the colossi of Wall Street, who thus escaped the consequences of their greed and incompetence following their shredding of the global economy in the 2008 crash. As the Boeing saga outlined above illustrates, the TBTFers stick together, secure in the knowledge that the taxpayers will always be there to pick up the tab.

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