Extraordinary Disconnect Between Stock Prices and Economic Collapse

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US equity prices are near or at all-time highs at a time of unprecedented economic collapse, a festering main street Depression, unemployment way higher than in the 1930s, with no prospect for a V-shaped recovery, only its illusion.

The Wall Street owned and controlled Fed is responsible for the extraordinary melt-up in stock valuations, money printing madness to blame — saving the stock market at the expense of the economy and welfare of ordinary Americans.

For the first time in US history, the Fed's balance sheet exceeds $7 trillion.

It's up from around $250 billion in the late 1980s and $750 billion in late December 2007, the onset of the 2008-09 financial crisis — a colossal example of mismanagement, an eventual price to pay for what's going on.

Wall Street on Parade (WSOP) noted a disconnect between the Fed's balance sheet and economic collapse.

At yearend 2019, WSOP explained that the Fed "was already deep into a debt crisis," reflected by its minutes.

From mid-September 2019 to late January, the Fed already "had made $6.6 trillion cumulatively in emergency revolving repo loans to Wall Street" — even though the first US COVID-19 death didn't occur until February 28.

Flooding the market with liquidity at near-zero percent interest is a virtual open sesame to unrestrained speculation for easy profits — no matter the extraordinary divergence between equity valuations and intrinsic value.

While highly indebted US households pay double-digit interest on outstanding credit card balances, banks and investors have access to near-free money, because of unprecedented Fed policy, changing the rules on how it operates.

As the saying goes, there's something rotten in Denmark — courtesy of the US ruling class in Washington, at the Fed, and in corporate suites.

From 2008 to now with no end of it in prospect, the White House and Congress let the Fed (aka Wall Street) artificially manipulate markets and interest rates for maximum speculative profit-making.

It's operating like never before as "both the lender and buyer of last resort," WSOP explained, breaching its Federal Reserve Act (1913) statutory obligations.

The greater the Fed-produced equity and bond bubble, the louder the bang when it bursts beyond repai.

At the same time, protracted main street Depression conditions have festered for over a decade, conditions today worse than at any previous time in US history.

On June 3, economist John Williams warned that the entire economic expansion since 2009 "is at risk of collapse," adding:

"Exploding federal deficit and debt shows (a) historic low ability of the US economy to cover (its) government obligations."

The state of the US economy is the most dismal in its history by virtually all key metrics — notably GDP, retail sales, industrial production, durable goods orders, and unemployment at around 40%, not the phony low-ball Labor Department number.

Annualized Q II contraction is estimated to be about 50%, far exceeding all previous downturns.

And yet the Trump regime and Congress are doing little to nothing to create jobs and stimulate economic recovery — their focus almost entirely on serving corporate America and high-net-worth households.

US policy comes at the expense of ordinary Americans — hung out to dry by ruling class indifference to their health, welfare, and other fundamental rights.

Over a decade ago, noted investor Scott Minerd said "(t)he Fed will never be able to end quantitative easing. It's here forever" — artificially manipulating markets, adding:

> "This policy blunder will have long-term implications for our society."
>
> "The Fed and Treasury have essentially created a new moral hazard by socializing credit risk."
>
> "The United States will never be able to return to free market capitalism as we knew it before these policies were put in place."

Minerd and others believe it'll take years for the US economy to recover to its 2019 level.

Countless millions of ordinary Americans and others abroad may never recover, including hundreds of thousands of small, medium-sized, and some large enterprises gone forever — millions of lost jobs with them.

Boston-based philosopher king of Wall Street Jeremy Grantham warned of an unsustainable divergence between "depressionary" economic conditions and melt up in equity valuations.

"(B)oth can't be right," he stressed. Dismal economic data are worse than during the 1930s Great Depression.

Unprecedented US unemployment makes near-term economic recovery virtually impossible.

In his quarterly letter to investors, Grantham said the following:

“The current P/E on the US market is in the top 10% of its history.”

“The US economy in contrast is in its worst 10%, perhaps even the worst 1%.”

“In addition, everything is uncertain, perhaps to a unique degree.”

Economic and market data reflect “one of the most (extreme) mismatches in history.”

What’s new in the current environment “is the meaningful possibility of a disastrous economic outcome combined with a substantially overvalued stock market.”

What’s going on today in the US economy and markets is unprecedented.

“(T)his event is unlike all” earlier disturbing times.

“It is totally new, and there can be no near certainties, merely strong possibilities” — why he’s “nervous” as “should be” all investors.

US and global economic weakness preceded current conditions.

Supply and demand shocks alone are “generating a much faster economic contraction than that (during) the Great Depression.”

“The (US) drop in GDP and rise in unemployment in four weeks have equaled what took one to four years to reach in the Great Depression and were never reached in the other events.”

Grantham believes it’ll take “at least 5 years to regain 2019 levels of activity…Nearly certain is that a V-shaped recovery looks like a lost hope.”

He added that the notion of a magical vaccine in the coming months to make coronavirus outbreaks go away would be the equivalent in poker of “drawing successfully to several inside straights in a row.”

Statistically the odds against drawing it once are over ten to one.

“(W)e have never lived in a period where the future was so uncertain…perhaps to a unique degree,” Grantham stressed.

Current economic conditions and equity valuations are entirely disconnected from each other.

Markets eventually return to their mean valuations, no exceptions in modern financial history.

Is this time different? Will the sun one day rise in the West and set in the East?

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