What Sparked Wall Street's Massive Turnaround Late Thursday?

Most Wall Street observers were caught by surprise at the massive upward spike in stock prices that turned a 600-point down day on the Dow into a gain of 230 points. It began less than 90 minutes before the close, and by the time the market closed stocks had gained nearly four percent from the low of the day.

Michael Wursthorn, writing in the *Wall Street Journal*, called it a "big comeback" from "an unexplained jolt of adrenaline … that morphed into a broad rally." All 11 sectors of the S&P 500 Index were up for the day, as were 28 of the Dow 30 stocks. Without explaining why, Wursthorn said the sudden move up was "symptomatic of the volatility that has rocked the markets this month."

John Carey, a portfolio manager at Amundi Pioneer, reflected on what happened: "Just when everyone had counted the market down [for the day], the market bounded back," adding that while the bounce was "very positive" it was also "quite surprising."

Mark Skousen, a veteran investment advisor and economist, said, "In my entire 40-year career on Wall Street I've never seen anything like it." He added, "I surveyed several veteran investors … and they all said the same thing: 'This is one crazy market.'"

Skousen posited that it was the Fed (as *The New American* has said): "The Fed announced last week that it was raising short-term rates to 2.5%…. The central bankers' attitude is, 'damn the torpedoes, full speed ahead', even if it means … a potential recession."

Skousen suggested the sudden surprising spike was not due to investor "nervousness" but to computer trading systems: "There's no question that investors are nervous. Even the computer trading systems, which make up an estimated 80% of all trades, are fickle, and can turn on a dime."

That, according to Art Cashin, director of floor operations at UBS, is exactly what happened. He told CNBC that "close-of-market orders" went from $200 million to "sell" to more than $2 billion to "buy" with 90 minutes still to go.

Others suggested that fund managers, with almost five percent of their portfolios in cash — way above average — were dipping a toe into the market, hoping to catch the bottom. Still others said the spike was "typical" of market action at the end of a month and a year, adding that sellers were "exhausted" and "bottom fishers" were beginning to enter the market.

But none could explain the cause of the sudden dramatic shift in market action less than two hours before the market closed on Thursday.

Perhaps it was the under-reported announcement of China’s third round of tariff reductions on some 700 products, with some tariffs on foodstuffs such as sunflower and canola meal dropping to zero. Perhaps it was rumors that some White House officials had been angling to arrange a meeting between President Trump and Fed Chair Jerome Powell to discuss their differences.

The likely spark, however, was a brief comment by Trump’s chief economic advisor Kevin Hassett about that meeting: “The president loves to listen to reason, to arguments, to analysis, and Jay [Jerome] does too. So I think they would have a very productive dinner were they to meet.”

That comment crossed Fox Business Network just before the sudden rally in stocks began. If that was the primary cause, it reflects just how important the Fed’s machinations have become in steering the direction of the markets. Here was a rumor of a possible meeting between the president and the head of the Fed, confirmed as likely (not certain) by the president’s chief economic advisor, and the market takes off like a scalded rabbit.

By the close on Thursday, stocks had erased a sizeable loss and ended up instead with a gain, delighting investors who saw their portfolios jump nearly four percent in less than two hours but with few of them knowing why.

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