

Study of the U.S. Stock Market Affect its Economy

Eric Zhao

Shanghai highschool international division, Shanghai 201103, China

Abstract. In recent ten years, the investment industry is booming, among which the stock market investment is the highest proportion. The stock market is the place where issued shares are transferred, bought, sold and circulated, including the exchange market and the over-the-counter market. Because it is based on the issuance market, it is also called the secondary market. The structure and trading activities of the stock market are more complex than those of the issuance market, and its role and influence are also greater.

Keywords: U.S. Stock Market; American Economy; Secondary Market.

1. Introduction

The stock market is an excellent economic indicator for the U.S. economy. It reflects how well all listed companies are doing. If investors are confident, they will buy stocks, stock mutual funds, or stock options. Some experts believe markets predict what the savviest investors think the economy will be doing in about six months.

This paper will mainly analyze how the stock market of the United States affects its domestic economic situation, which include, the background of the US stock market, and the analysis of the effect made by stock market.

2. Background

2.1 The American Stock Market

The American stock market has a long history, which originated during the Revolutionary War. The first and second industrial revolution have rapid development joint-stock companies with the aid of the securities market to raise large amounts of money, big economic crisis in 1929 the us government to strengthen the legislation of securities market regulation and control, the whole market into the standard stage of development, and so the securities market in the United States quickly develop to become the world's biggest stock market. In 2002, the securities trading volume of the New York Stock Exchange alone was \$10.3 trillion, accounting for 77% of the global securities trading volume, ranking first in the world. The securities market of the United States has become a barometer of the international economy. Therefore, the securities market of the United States is an important reference for the securities market of developing countries.

Some characteristics of the U.S. stock market itself can greatly affect the U.S. economy. First of all, its large scale, mature market, standard operation, stable stock price. After hundreds of years of standardized market operation, it shows the characteristics of a mature market. Mainly in the level of stock prices and stock price fluctuations. From 1982 to 1986, the P/E ratio of the New York Stock Exchange was 14.71, 13.04, 10.38, 13.70 and 14.10, respectively. In 1989 and 1990, the P/E ratio was 14.1 and 13.6, respectively, and rose to 19 on August 30, 1991. The average dividend yields of the NYSE from 1982 to 1986 were 5.17%, 4.36%, 4.49%, 3.80% and 3.60%, respectively. On September 19, 1991, the combined market value of all publicly traded common stocks and common stocks traded in the United States was \$3,503.6 billion, and the price-to-book ratio was 2.1 times.

Second, its management is strict and standardized. The securities market in the United States is regulated by registration system. The securities industry is strictly regulated by laws and regulations. The federal and state legislatures have issued various laws and regulations to regulate economic activities in this field. The most important is the Securities Act of 1933, the Securities Exchange Act of 1934. Both acts brought strict regulation to the American stock market.

Third, it allows foreign companies to issue and trade shares on the American stock market. Under the SEC, there is the International Corporate Finance Section, which is responsible for securities issued by foreign issuers. Generally speaking, shares of a foreign corporation may be held and traded in the United States in one of three ways: first, shares issued by a foreign corporation in its home country; Second, special issuance of shares by foreign companies to the American market; Third, American Depositary shares (ADR).

3. Reasons and Effects

3.1 Attractive

As is known to all, as the largest stock market in the world, the United States stock market has a perfect trading and regulatory system with various levels and varieties, which is sought after by investors all over the world. Take Chinese investors, for example. Due to limited domestic market capacity, there are many institutional and legal barriers to trading on capital markets in different countries. Enterprises can break this barrier through cross-border listing, improve financing efficiency and reduce financing costs. There are dozens of companies lining up to go public in China every day, but China's economy is in transition and the domestic stock market is really struggling. Therefore, choosing the American securities market can avoid the huge pressure of domestic listing competition, save the time of queuing for listing, and speed up the pace of financing.

Overseas investors are more interested in investing in domestic companies. Since different investors have different information, cross-border listing of enterprises can be recognized by more foreign investors, thereby reducing the "shadow cost" and improving the visibility of enterprises. Some companies' business models are not well regarded in China, which is the first obstacle for them to go public in China, because even if they go public successfully, they cannot guarantee long-term financing in the domestic market. So choosing overseas markets is the safest way.

The unique listing standard of the U.S. stock market is "wide in and strict out". The more perfect the capital market system is, the more complete the information disclosure is, the better the interests of investors can be protected, and the enterprises can restrain themselves with higher and higher requirements, which is the fundamental of the long-term development of the company. Different from the domestic listing standards, the American capital market mainly focuses on formal audit, which mainly focuses on whether enterprises publish corporate information completely, transparently, truthfully and accurately. There is no uniform regulation on the profitability of enterprise stores, but pay more attention to the future development potential of enterprises. This provides a good platform for many enterprises with weak initial development ability but huge growth space.

3.2 Three Ways That Stock Markets Affect the Economy

Stock markets affect the economy in three critical ways. First of all, the stock market provides a favorable investment and financing environment. The rising stock market of the United States is closely related to the economic environment, social system, laws, policies, capital and other factors of the United States. First, since Donald Trump took office, despite the widespread public opinion at home and abroad that he is "irresponsible and lacking in support", strong arbitrariness and lack of governing experience, the US economy has maintained its momentum of recovery in the first three quarters of this year, reflected in the three major stock market indexes, and all stocks rose. Second, Trump is willing to take the risk of a budget freeze to push for tax reform, and once the tax reform with tax cuts as the core of the implementation, will broadly benefit the profit margin of all kinds of enterprises to rise. Since October, the blowout market of the three major stock indexes is exactly the "speculation expectation" of the US stock market on the landing of tax reform. In September, the Fed clearly signaled that it would raise interest rates once more in 2017 and up to three times in 2018.

The second is to use financial strategies to drive capital back to the United States. Throughout history, when the international economy has recovered and prospered together, or when other economies have performed better than the United States, non-American currencies have tended to

strengthen while the dollar has weakened. Whenever the international economy is weak, or the US economy is doing better than other economies, non-US currencies tend to weaken and the dollar strengthen. This change in the pattern of the strength and weakness of the international economy leads to the flow of financial capital between the United States and other countries, which in turn affects the exchange rates of major currencies.

According to this rule, the Fed runs the printing press during weak cycles, creating a flood of dollars to release at home and abroad. Gradually turn off the printing presses when the economy recovers and booms, allowing the dollar supply to "ebb". Further timely interest rate increase will push the dollar index into a strong cycle, thereby driving international capital back to the US to pursue its financial assets, which will have a "blood draining effect" on the global economy. For example, in April 1982, Argentina started the Falklands War with the United Kingdom with the acquiescence of President Reagan, which made international financial capital flee from the turmoil in Latin America. Immediately after the Federal Reserve announced the interest rate hike, it successfully attracted a large amount of funds to return, which made the US stock market soar and the Latin American financial crisis broke out, and then used the high dividend of the stock market to buy the high quality assets in Latin America at a low price.

Third, the mature and flexible stock market supervision mechanism is conducive to the survival of the fittest of listed enterprises. At the beginning of the establishment of the American stock market, special attention was paid to the establishment of rules and regulations, and after the establishment of these rules and regulations, these policies have been strictly observed. In addition, the U.S. stock market has been in a virtuous cycle, under the background of stable market economic environment, adhering to the principle of survival of the fittest. In the American stock market, every year, some enterprises with poor performance exit the market, only those with excellent performance will stay in the stock market, and the improvement of these enterprises' performance and the growth of the company will promote the rise of the American stock market.

In addition, the healthy development of the US stock market is also largely driven by the positive macroeconomic and corporate earnings, as well as the existence of accommodative policy environment, which is the cornerstone of the US stock market rally.

3.3 How a Stock Market Crash Affects the Economy

More than 80% of U.S. households have most of their assets invested in U.S. stocks through mutual funds and 401K plans. The rise and fall of the US stock market is closely related to the US residents. The rise of the US stock market has improved the US residents' balance sheet, stimulated consumption, and become an important factor for the sustained growth of the US economy. If the stock market continues to plunge, Americans' wealth will plunge and their balance sheets deteriorate. In turn, Americans will have far less money to spend, and consumption will fall, dragging down services. It has a clear negative impact on growth in the US, which has been stimulating the economy by issuing debt and boosting consumption. Shrinking consumption reduces the boost from debt, and weak growth in the US will add to its debt burden.

In addition, a large number of publicly traded companies in the United States have issued large amounts of debt, which has been repackaged and sold in layers, and many companies have boosted their share prices through buybacks and mortgages or refinancing with market-capitalization shares. If the stock market continues to plunge, the value of many companies will shrink and the financing function will be lost. This would lead to poor liquidity of capital, debt defaults and the risk of nested derivatives. If a series of problems can not be timely and effective solution, it is possible to induce financial risks.

Therefore, if the US stock market continues to fall and the decline from the peak reaches 20%, the US Federal Reserve Board is likely to introduce easing monetary policies such as interest rate cuts to stabilize the stock market and reduce the impact of the continuous stock market slump on the US real economy and financial system.

4. Conclusion

In conclusion, the U.S. stock market has a great influence on the U.S. economy. Just look at the unique nature of the American stock market, which is large, tightly controlled and able to trade with foreign shares. From its characteristics can be derived how it affects. First of all, its large scale, mature market, standard operation and stable stock price can provide a favorable investment and financing environment for the stock market. Second, the conditions under which it can trade foreign shares allow it to use financial strategies to bring capital into the United States. Third, its regulatory mechanism is mature, flexible and strict, which is very conducive to the survival of the fittest of listed enterprises.

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