After the worst monthly selloff since 1933

US stocks hit lowest level in 12 years

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The Dow Jones Industrial Average closed down 4.24 percent and the S&P 500 fell by 4.66 percent Monday, following stock market plunges in Europe and Asia. The selloff continues a major fall in equity prices as the world enters a period of depression.

Monday's fall followed reports by American International Group (AIG) that it had lost $61.7 billion in the last quarter of 2008. The Obama administration stepped in Monday morning to announce another massive bailout for the ailing insurance giant to forestall an even greater financial panic. (See "Obama administration announces billions more in bailouts to AIG".)

The drop in the first trading day of March followed a disastrous total drop for February, when the Dow Jones average fell by 11.7 percent, its worst performance since 1933, at the height of the Great Depression. The Dow ended at 6,763, closing below 7,000 points for the first time since 1997, around the beginning of the stock market bubble.

Financial stocks led the selloff which spread into all components of the major stock indexes. Bank of America share values fell more than 16 percent, and Citigroup and J.P. Morgan each fell by 6 percent. Within the "real economy," General Electric saw the worst drop, with its shares now trading at $8 a share, down 11 percent for the day.

The continued selloff of financial stocks has been driven by worsening financial earnings prospects, as estimates for economic growth in 2009 continue to plummet. Each week brings bleaker prospects for immediate earnings, and pushes a possible recovery deeper into the future. The US economy shrank at a 6.2 percent annual rate in the last quarter of 2008, and there is every indication that this contraction is accelerating into 2009.

"It's pretty despondent everywhere," Dwyfor Evans, a strategist at State Street Global Markets in Hong Kong, told the *New York Times*. "OK, there are signs that some of the leading indicators have stabilized to some extent, but it's at a very, very low level, and we're not seeing corporate investment picking up, or consumers starting to spend again—in other words, the traditional mechanisms by which economies come out of a recession are absent at this time." Other commentators spoke of an "unending nightmare."

The selloff comes despite the Obama administration's continued bank bailouts, which have put all the resources of the state at the disposal of the banks and major financial institutions, including AIG.

The fall in American stocks was preceded by dramatic selloffs in Europe and Asia. The London FTSE 100 fell by 5.33 percent, the Spanish IBEX fell 4.6 percent, and the German DAX fell another 3.48 percent. The FTSE Eurofirst 300 shed 5.16 percent.

Asia saw similar losses, with the Japanese Nikkei index shedding 3.81 percent and Hong Kong's Hang Seng losing 3.86 percent.

Losses in Europe were also led by financial companies, after the UK's HSBC bank announced that it would discontinue lending to US consumers and that it would try to raise about £12.5bn by selling shares at a highly discounted rate.

The stock markets in Europe and Asia were also hit by more economic reports pointing to a deepening depression. The Markit Eurozone purchasing managers' index, which measures manufacturing activity, fell to a record low of 33.5 last month, down from 34.4 in January. Javier Pérez de Azpillaga, European economist at Goldman Sachs, told the *Financial Times* that the figure "confirms deep and accelerating

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industrial contraction."

Yesterday the Japan Auto Dealers Association said that sales of Japanese cars plummeted by 32.4 percent in the seventh monthly decline in a row. Japan's exports have been halved in the course of the past six months. South Korea meanwhile released figures indicating that the country's exports fell by 17 percent in the past month.

The recent fall in US asset values has erased much of the rise in stock prices that began in the mid-90s, when the Internet bubble first emerged. At that time Federal Reserve chairman Alan Greenspan sheepishly warned about the dangers of "irrational exuberance," all the while pursuing a policy that artificially inflated stock values by guaranteeing that the Federal Reserve would reflate them during any crisis.

Since the 1987 stock market crash, the US ruling class—and its steersmen in the Federal Reserve—has responded to every deterioration in the US economy by lowering interest rates, providing cheap credit to fuel the speculative boom. That money found its way into assets, including stocks and mortgage-backed securities.

The price of a security must, however, ultimately refer back to the production of real value, and the markets are now crashing from their stratospheric heights. The government has responded by slashing interest rates to near-zero and funneling massive amounts of money into the banks and financial institutions. But nothing has proven effective in shoring up asset prices or bank balance sheets.

It is not only the magnitude of the crisis that makes it distinctive, but also the fact that all the US government's methods of dealing with previous downturns have been rendered completely ineffective. It is this that makes the crisis not merely an episodic downturn, but a historic turning point.

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