

Rise in interest rates sparks panic on Wall Street

Trévon Austin
25 April 2018

US stocks tumbled Tuesday after a warning from executives of the industrial giant Caterpillar scared investors and the 10-year Treasury yield climbed to 3 percent for the first time since 2014. The Dow Jones Industrial Average fell more than 600 points at one point, extending the index's losing streak to five sessions.

The S&P 500 dropped 35.73 points, or 1.3 percent, to 2634.56. The Nasdaq Composite fell 121.25 points, or 1.7 percent, to 7007.35.

Markets opened higher, but fell significantly after Caterpillar released its profit margins for the first quarter. It reported earnings and revenue that beat expectations, sending the stock higher initially. Investors cheered the latest corporate earnings, sending the Dow up by 131 points at its session high. Major corporations such as United Technologies, Verizon and Coca-Cola reported better-than-expected earnings as well.

But the industrial giant's shares sunk later in the day, sparking a mass sell-off throughout the stock market, after Caterpillar Chief Financial Officer Brad Halverson said the company's first-quarter profit "will be the high-water mark for the year" because of expected increases in investment later in 2018.

Caterpillar is seen as a barometer for the state of the economy and stock market. According to Kensho, an analytics company, Caterpillar's stock has had a 0.81 correlation with the Dow over the last six months.

Caterpillar shares fell by 6.2 percent after Halverson's comment, with other corporations following suit. 3M, the maker of scotch tape and Post-it notes, saw its shares fall by 6.8 percent. Alphabet, Google's parent company, saw its shares decline by 4.8 percent. Facebook, Amazon and Netflix shares all fell over 3 percent.

Meanwhile, Wall Street was also spooked by the changes in the 10-year Treasury yield. The 10-year Treasury is seen as a proxy for interest rates and a predictor of the long-term outlook for the US economy. The yield on the 10-year is one of the most closely followed financial measures in the world, as mortgages and corporate loans are closely tied to the government bonds.

The stock market's fall reflects investors' fear of rising interest rates and a national struggle for higher wages. Workers winning wage increases would be considered a disaster for Wall Street. The parasitic growth of the stock market has been fueled by the suppression of the class struggle. A rise in working-class militancy would send the inflated share values into a precipitous decline.

The American ruling class is well aware of the threat and is ruthlessly attempting to prevent a nationwide movement. Earlier this month, JPMorgan CEO Jamie Dimon suggested a sharp rise in interest rates to halt economic growth and increase unemployment. The aim of such a policy would be to demoralize workers, allowing more pressing austerity measure and wage cuts.

The national wave of teacher strikes in West Virginia, Oklahoma, Kentucky, Arizona and other states is particularly alarming to the American ruling class. Wage increases have been a central demand in each movement. The ruling class is frightened that the teachers' demands may trigger a nationwide struggle for higher wages.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact

--