

Fall in hi-tech shares wipes out Wall Street's 2018 gains

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Wall Street experienced a sharp sell-off yesterday, wiping out all the gains it has made this year, with the tech-heavy NASDAQ index undergoing its biggest fall in seven years.

The fall in the markets came late in the day with the Dow Jones dropping by 334 points in the last hour of trading. It finished down more than 600 points for the day, a decline of 2.4 percent, continuing the trend of the past two weeks. The VIX volatility index ended around 22 percent up, its highest level since the market turbulence of last February.

The benchmark S&P 500 index was down by 3.1 percent, bringing its fall over the past month to 9.4 percent.

The biggest fall was in the NASDAQ index, which dropped by 4.4 percent. This was its biggest drop since August 2011, taking its decline to more than 12 percent since its peak in August this year. Over the past period, tech stocks have sustained the rise in the market but have now become the leaders of the downturn.

One of the areas showing the sharpest falls has been the shares of chipmakers because they are sensitive to trade flows between the US and China and are being hit by concerns over the impact of the trade war launched by the Trump administration.

Shares in Texas Instruments fell by more than 8 percent after its profit and revenue forecasts fell below market expectations. After the market had closed, the shares of another hi-tech company, AMD, dropped by a further 22 percent, on top of the 9 percent decline during regular trading hours.

In comments to the *Financial Times*, Max Gorkman, head of asset allocation for Pacific Life Fund Advisors, cited the trade tensions that are threatening to disrupt global supply chains as a key reason for the sell-off. "Semiconductors are so tied to Asia," he said. "Most

supply chains—once you disrupt them it's hard to find alternatives."

On top of the disruption caused by the US trade war with China, there is a growing recognition that sooner, rather than later, the effects of the "sugar hit" delivered by the Trump administration's massive corporate tax cuts will wear off. The tax cuts have boosted markets in two ways: by raising corporate profits and share earnings and by providing companies with additional cash to finance the share buybacks that have been a significant component of the rise of the market.

Signs of a weakening US economy came on Tuesday with significant falls in industrial shares, led down by two major corporations, Caterpillar and 3M. Caterpillar shares fell by 7.6 percent, after being down by 10 percent in the course of the day. Shares in the industrial conglomerate 3M dropped by 4.4 percent after being down by as much as 8 percent.

Both companies cited concerns over tariffs, trade war with China and rising costs in the US as impacting on their bottom line. Caterpillar said tariffs imposed by the Trump administration earlier this year on steel and aluminium had made the parts it produces for machinery more expensive.

Reporting on slower sales growth across all its lines in the third quarter, 3M chief executive Michael Roman said: "We see signs of slowing in China; the automotive build rates are down significantly and that has a knock-on effect."

Commenting on Tuesday's industrial sell-off, the *Wall Street Journal* said it was "the clearest signal yet that fortunes could be turning for manufacturers after a year of strong production and sales driven in part by tax cuts and high consumer confidence."

The latest fall on Wall Street has taken place amid what the *Financial Times* described as a "frightful

October” with the FTSE All World Index so far this month taking a fall of 7 percent—its worst performance since the peak of the euro zone crisis in 2012.

The FT reported that of the 3,211 members of the global equity index almost a third had lost 20 percent of their value so far this year in US dollar terms, well over half were down at least 10 percent and only 851 companies were still positive for 2018.

The newspaper cited one analyst who said the global market fall was driven by a “cocktail of negative drivers from Saudi Arabia’s diplomatic isolation and what that means for Silicon Valley to fresh worries about slowing global economic growth and fading corporate earnings.”

Another factor in the market downturn is the apparent determination of the US Federal Reserve to push ahead with interest rate rises. Three rises, each of 0.25 percentage points, have been carried out so far this year with the expectation that there will be another rise in December. The Fed is motivated by two concerns: to ensure that there is a downward push on wages amid low official unemployment rates and that it has some room to manoeuvre if there is a downturn in the US economy.

The Fed’s actions have brought a string of criticisms from US President Trump. After earlier denouncing the Fed as “crazy” and “loco,” he again took aim at the central bank in an interview with the *Wall Street Journal* earlier this week.

While adhering to the independence of the Fed in setting interest rates, he made it clear to chairman Jerome Powell that he wants to see them lowered.

“Every time we do something great, he raises the interest rates,” he said, adding that Powell “almost looks happy he’s raising interest rates.” Asked if he regretted placing Powell in the post, Trump said it was “too early to say, but maybe.”

“He was supposed to be a low-interest-rate guy. It’s turned out that he’s not,” Trump said. The president said was “very unhappy” with the Fed because “Obama had zero interest rates.”

However, during the 2016 election campaign Trump denounced the then Fed chairwoman Janet Yellen for keeping interest rates low, which, he said, was aiding the Democrats and creating a potential bubble in the stock markets.

Now he has changed tack out of fear that the bubble,

which his policies have helped to inflate still further, could be on the way to collapsing.



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