Financial market fall accelerates on global growth fears

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US stock markets fell sharply yesterday, with the Dow down by 500 points, bringing its combined losses for the last two trading days to more than 1,000 points. The broader-based S&P 500 index was down by more than 2 percent, with the sell-off taking place across all sectors.

With all indexes now in "correction" territory, having fallen more than 10 percent since their highs, Wall Street is on track for its biggest annual decline since 2008. The Dow and the S&P 500 are set to record their worst drop for December since 1931, at the height of the Great Depression, having lost 7 percent so far for the month.

The tech-heavy Nasdaq index dropped 2.3 percent, recording a loss of 2.2 percent for the year. Market analysts described the market as "treacherous," saying the "buy the dip" tactic, which meant that previous downturns were relatively short-lived, was not in evidence this time.

There is a confluence of factors impacting the stock market, including: fears of a global slowdown and possible recession; the ongoing impact of the US trade war against China; concerns over the future course of interest rates and what the Federal Reserve will say following its meeting on Wednesday; the impact of political turmoil in the US; the fallout of the Brexit crisis in the UK; and the developing upsurge of the working class, as reflected in the "yellow vest" movement in France.

The signs of a slowdown in global growth are most clearly expressed in China and Europe. Last week, Chinese government data showed the biggest fall in the growth rate of retail sales for 15 years and a decline in the industrial production growth rate to the lowest point in three years. There are warnings that the overall Chinese growth rate, at its lowest point since 2008-2009, could decline further next year, as US trade war measures begin to take effect.

In comments to Reuters, Changyong Rhee, a senior International Monetary Fund official for the Asia Pacific region, said the trade conflict between the US and China was already affecting business confidence in Asia.

"Investment is much weaker than expected," he said. "My interpretation is that the confidence channel is already affecting the global economy, particularly the Asian economies." He warned that Japan and South Korea could be among the countries hardest hit because of their dependence on exports to China.

In Europe, major economic indicators are pointing to a significant slowdown, if not a recession. According to a report in the *Financial Times* on Friday: "Germany is 'stuck in a low growth phase,' France's private sector has fallen into contraction for the first time since 2016, and euro zone business growth has closed out 2018 at its lowest level in four years."

The report said the business information service IHS Markit had concluded that Germany was in a period of "tepid growth," with the "exuberant boom of 2017 now a distant memory."

Chris Williamson, the organisation's chief business economist, said the contraction in France was not due entirely to the series of "yellow vests" protests. Some of the slowdown reflected disruption caused by the protests, but "the weaker picture also reflects growing evidence that the underlying rate of economic growth has slowed across the euro area as whole. Companies are worried about the global economic and political climate, with trade wars and Brexit adding to increased political tensions within the euro area."

In the United States, there are concerns that the economy will enter a period of much slower growth and lower earnings in 2019 after the effects of the "sugar hit" of the Trump administration's corporate tax cuts wear off.

This week, all eyes will be on the statement to emerge from the meeting of the Fed on Wednesday. While a further rise in the base rate of 0.25 percent is expected—some commentators suggesting that failure to go ahead could provoke increased turbulence because it would indicate the Fed expects a worsening outlook for the economy—the key issue will be what it plans to do next year.

Fed Chairman Jerome Powell offered some reassurances to the markets in November when he said the central bank's base rate was close to neutral, indicating that it might not go ahead with the series of rises previously indicated for 2019.

President Donald Trump has continued his campaign against Fed rate rises. In a tweet issued yesterday, underscoring the delusional character of his "America First" agenda, in which turmoil in the rest of the world supposedly benefits the US economy, he wrote: "It is incredible that with a very strong dollar and virtually no inflation, the outside world is blowing up around us, Paris is burning and China way down, the Fed is even considering yet another interest rate hike. Take the Victory!"

The Fed decision will be crucial for financial markets, where there are increasing signs of a tightening of credit and concerns over stability. US credit markets are reported to be "grinding to a halt," according to a *Financial Times* report, with "fund managers refusing to bankroll buyouts and investors shunning high-yield bond sales, as rising interest rates and market volatility weigh on sentiment."

Not a single company has borrowed money through the $1.2 trillion high-yield, or so-called "junk bond," market so far this month, and if that trend continues it will be the first such occurrence since November 2008, in the midst of the financial crisis.

The former chair of the Federal Reserve, Janet Yellen, issued a warning about the state of financial markets last October, saying there had been a "huge deterioration" in the standards of corporate lending.

That deterioration, however, is a direct product of the policies pursued by the Fed in the aftermath of the 2008 meltdown, as, together with other central banks, it pumped trillions of dollars into the financial system, enabling the speculation which produced the crash to continue and reach new heights.

In a comment published at the weekend, financial analyst Satyajit Das, named by Bloomberg in 2014 as one of the world's 50 most influential financial figures, warned that what he called the "everything bubble" was deflating and a new crisis was in the making. He wrote that since 2008, governments and central banks had stabilised the situation, but the fundamental problems of high debt levels, weak banking systems and excessive financialization had not been addressed.

While not directly referring to the beginnings of an upsurge of the working class, calling it a "democracy deficit" in the advanced countries and "rising political tensions," he pointed to the "loss of faith in supposed technocratic abilities of policymakers," which would compound economic and financial problems.

"The political economy," he wrote, "could then accelerate toward the critical point identified by John Maynard Keynes in 1933, where 'we must expect the progressive breakdown of the existing structure of contract and instruments of indebtedness, accompanied by the utter discredit of orthodox leaders in finance and government, with what ultimate outcome we cannot predict.'"

Keynes did not make a prediction, but history recorded what the outcome was: worsening economic conditions, the rise of fascist and authoritarian forms of rule, trade war and economic nationalist conflicts, leading ultimately to world war. Those conditions are now rapidly returning.

Whatever the immediate outcome of the present gyrations on financial markets, they indubitably establish that none of the irresolvable contradictions of the global capitalist system has been resolved. Rather, they have intensified, and faced with an intractable economic and financial crisis, the ruling classes will lash out with even more vicious attacks on the working class, deepening the assaults of the past decade.

Eighty years ago, the international working class was unable to prevent the descent into barbarism because, while undertaking powerful struggles in the United States, Europe and Asia, it lacked a revolutionary leadership. As it once again begins to enter enormous battles against the ruling elites, it must draw the lessons of history and arm itself with a global socialist strategy to confront the great political tasks now posed by the deepening breakdown of the global capitalist order.