Wall Street plunges on fears of global recession

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US stock markets experienced their biggest fall for the year yesterday amid clear signs of a growing financial crisis and a marked global economic slowdown, with increased prospects of a recession.

Market indexes on Wall Street opened significantly down and continued to fall throughout the day. The Dow ended down by 800 points, or 3 percent, the S&P 500 fell 2.9 percent and the tech-heavy Nasdaq index dropped by more than 3 percent.

A confluence of factors contributed to the market fall: clear signs of a global contraction; the continuing fall in bond yields; a growing recognition that monetary stimulus by the world's central banks is not going to bring an upturn in the global economy; a financial crisis in Argentina; the ongoing US-China trade war; political instability in Europe as exemplified in the Brexit crisis and the break-up of the Italian government; and the growth of social opposition in the working class, exemplified by the 10 weeks of protests and demonstrations in Hong Kong.

The trading day opened to the news that the Germany economy had contracted by 0.1 percent in the second quarter, following a similar slowdown in Britain, putting both economies in line for a recession, marked by two consecutive quarters of negative growth. The decline in Germany was a sharp reversal from the first quarter when its economy expanded by 0.4 percent.

The main reason for the decline was the contraction in exports, reflecting the uncertainties resulting from the US-China trade war and the intensifying struggle for markets in the auto industry on which the German economy is heavily dependent. There is no sign of an upturn and a survey of financial analysts released on Tuesday showed that economic sentiment had dropped to its lowest level since the euro zone financial crisis in 2011.

The jobs market is down. Only 1,000 new jobs were created in June compared to an average of 44,000 over the past five years as a series of major companies have started to introduce short-time working.

The impact of trade conflicts on production was also reflected in data from China which showed that value-added industrial production grew by 4.8 percent in July, compared to an increase of 6.3 percent in June and below market expectations of 5.9 percent growth.

One of the most significant developments in yesterday's turmoil was the emergence of an inverted yield curve in bond markets. This refers to a situation in which the return on long term government debt falls below that on shorter term bonds. This phenomenon is regarded as one of the most accurate indicators of recession as investors seek a "safe haven" in longer term bonds, pushing up their price and lowering their yield.

Yesterday the gap between the yield on two-year and ten-year government debt in both the US and the UK entered negative territory. This is the first time this has happened in the US since 2007 in the lead up to the global financial crisis and recession.

Central banks around the world are either increasing their monetary stimulus or are getting ready to do so. The US Federal Reserve cut its rate by 0.25 percentage points last month and is set to do so again in September, amid growing expectations in financial markets that it may reduce rates by 0.5 percent. The European Central Bank has also indicated that it is set to introduce more monetary stimulus next month, either by further cutting rates or expanding its program of asset purchases.

But there is a clear recognition that the various forms of monetary stimulus practised by the world's central banks since the financial crisis of 2008, introduced with the claim that they would eventually boost economic growth, have little or no effect on the real economy and that central banks are "pushing on a string"—a term first developed in the Great Depression of the 1930s pointing to the failure of monetary policy.

"The Fed doesn't have the cure for an economic slowdown or recession," Kristina Hopper, chief market strategist at Invesco, a major global investment company, told the *Wall Street Journal*. "But I do think the Fed has the antidote for the stock-market sell-off," she continued, expressing the demand of the financial elites for still more money to be pumped into the financial system, whatever the consequences.

While this may provide a short-term boost for the financial oligarchy, it increases the instability in the global financial system, reflected in the fact that one quarter of all bonds worldwide, some $15 trillion worth, are now trading at negative yields meaning that if an investor held them to maturity they would make a loss.

The consequences of such instability and the impact of political factors was demonstrated in Argentina on Monday when there was massive market sell-off after Argentine President Mauricio Macri, regarded as "market friendly," was heavily defeated in primary elections held over the weekend. The main stock market index fell by 37 percent in peso terms and by 48 percent in US dollar terms because of the fall in the value of the currency, making it the second-largest one-day fall in any of the 94 markets tracked by Bloomberg since 1950.

The *Financial Times* reported that, according to its calculations, bond funds run by Michael Hasenstab at the US firm Franklin Templeton, which heavily invested in Argentine debt, had lost nearly $1.8 billion in a single day.

Earlier this week, the Trump administration tried to halt the slide in the markets by announcing an easing of introduction of new tariffs on an additional $300 billion worth of Chinese goods.

US Trade Representative Robert Lighthizer, who has been widely reported as being opposed to the imposition of the new levies, announced that the tariffs, due to come into effect on September 1, would be delayed on some items such as cell phones, laptop computers and video games until December 15. Other items would be removed entirely from the list on "health safety, national security and other factors." Overall, the extension will apply to around $156 billion worth of goods.

The delay in the tariff measures, which came after what US President Trump called a "productive" telephone conversation between US and Chinese trade representatives, provided a boost to the markets with the Dow rising by 1.44 percent on Tuesday.

But it lasted barely 24 hours as the markets plunged yesterday on the back of the worsening outlook for the global economy and the recognition that the delay did nothing to overcome the major obstacles to any trade agreement between Washington and Beijing. Further face-to-face negotiations have, at least tentatively, been scheduled for next month but it is by no means certain they will go ahead.

In addition to the growing recognition that the financial measures adopted over the decade since the eruption of the global financial crisis have exhausted themselves and are in fact creating the conditions for a new meltdown on an even wider scale, there is a deep fear in ruling circles of developing opposition in the working class.

The unexpected rejection of the Argentine President Macri sent a shiver through the markets because it was based on massive opposition to the austerity program being dictated by global finance capital.

Likewise, the continuing demonstrations in Hong Kong, and the growing involvement of the working class, fuelled by deepening opposition to social inequality, are being regarded with increasing trepidation. Together with the mass demonstrations in Puerto Rico and North Africa, coupled with deepening social anger in the US, Europe and elsewhere, the Hong Kong protests point to the emergence of a movement of the working class against the entire framework of capitalist rule.