Coronavirus spread sparks “bloodbath” on Wall Street

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Global share markets again dropped sharply yesterday as coronavirus outbreaks spread around the world. Wall Street’s S&P 500 index has had its worst week since the depths of the financial crisis in October 2008.

Selling on Wall Street was across the board, hitting China-exposed and non-exposed companies alike. The Dow Jones index finished almost 1,200 points down, its second 1,000-point fall for the week, and has now lost more than 3,200 points in the past four days.

The fall in the Dow of 4.4 percent was matched by other indexes, with the S&P 500 down 4.4 percent and Nasdaq off by 4.5 percent as high-tech stocks, including Apple, took a large hit.

Wall Street is down more than 10 percent from the record highs of last week and is now officially in what is known as “correction” territory. The S&P has experienced its sharpest ever fall from an all-time record. The technology sector, which was leading the surge on the S&P 500, is down 12 percent so far this week.

All 11 sectors of the index are in negative territory for the year. The rush out of the equities market is indicated by the fall in the yield on 10-year Treasury bonds, which yesterday slumped to a record low of 1.29 percent.

Another factor in the market fall was the warning issued by Goldman Sachs that “US companies would generate no earnings growth in 2020” and that it had upgraded its forecasts to “incorporate the likelihood that the virus becomes widespread.”

An indicator of the intensity of the market storm is the rise in the Cboe Volatility Index, known as VIX, and sometimes called the “fear” index. It jumped to 33.27, its highest level since the market sell-off in December 2018. A rise in the VIX can have a cascading effect because it leads to investors selling out of riskier stocks and moving to safer havens—a process that can accelerate a market plunge.

Significantly, the last hour of trading was marked by a wave of selling, indicating that the fall could have further to go.

In a comment to the *Financial Times*, Jim Paulsen, chief investment strategist of the Leuthold Group, said: “We’re in panic mode. This isn’t just a temporary pullback where people are wondering whether to buy the dip, this is people not wanting to touch this.”

“Obviously it’s a bloodbath,” David Bahnsen, the chief investment officer of a wealth management firm told the *Wall Street Journal*.

The Wall Street plunge was preceded by further falls in Asian markets and a sharp drop in Europe.

The Stoxx 600 index of European shares fell by 3.8 percent with markets set for their worst week since the eurozone sovereign debt crisis in 2011 that was only halted when European Central Bank president Mario Draghi committed to do “whatever it takes” to meet it.

The market sell-off has been sparked by the rapid spread of the virus. More cases are being reported in South Korea, one of the world’s leading manufacturing centres.

At least 10 towns in northern Italy, the centre of the country’s manufacturing economy, are in lockdown, with supplies to auto companies already being affected. Electronics manufacturer MTA said this week that if its 600 employees in the town of Codogno did not return to work within days, production lines at Fiat Chrysler would be halted.

In Japan, Prime Minister Shinzo Abe has issued a directive for all schools in the country to close down until the end of their spring holidays, effectively a month-long shutdown. Abe has also called for all major sporting and cultural events to be cancelled, postponed or scaled down over the next two weeks,

Following a contraction of 6.1 percent in the country’s economy in the last quarter of 2019, largely as the result of a consumption tax increase, Japan could move into recession for the first quarter of this year.

In France, following the death of a 60-year-old man from the virus, President Marcon said: “We have a crisis before us. An epidemic is on its way.”

In Iran, where there has been a significant outbreak under conditions in which its health services have been severely undermined by US-imposed sanctions, the country’s vice-president for women’s affairs has tested positive for the virus, together with another member of parliament.

The Center for Disease Control and Prevention (CDC) has issued a statement that it is a question of when, not if, there will be community spread of the virus in the US.

In California, health authorities have said 33 people have tested positive for the coronavirus and they have a further 8,400 under observation. The state recorded the first case of possible community virus spread when a woman, without a relevant travel history and without contact with someone with the virus, tested positive.

One of the problems facing health authorities is the lack of testing kits. California Governor Gavin Newsom said authorities had only a few hundred and it was “simply inadequate to do justice to the kind of testing that is required to address this issue head on.”

When the coronavirus outbreak in China began, global stock markets continued to climb, with Wall Street reaching a series of all-time highs, the latest recorded on Wednesday of last week.

This was based on expectations that there would be a V-shaped recovery in China in the second quarter, as production made up for losses in the first, and that the Federal Reserve and other central banks would continue to pump money into the financial system, ensuring the continued rise in share markets.

Both assumptions have been shattered. Paul O’Connor, an executive at Janus Henderson Investors told the *Wall Street Journal*: “The globalization of the virus extinguishes confidence in the V-shaped recovery that was the view last week.”

Forecasts of global growth are now being revised sharply down. The Bank of America has predicted that growth in the world economy will slow to 2.8 percent in 2020, the first sub-3 percent level since the Great Recession produced by the financial crisis ended in 2009.

In a comment published in the *Financial Times* earlier this week, before the latest plunge, Nouriel Roubini, professor of economics at the Stern School of Business at New York University and one of the few to warn of a crisis in 2008, said the idea of a V-shaped recovery was “nonsensical.”

An annual growth rate of 2.5 to 4 percent in China, which now comprises about 20 percent of global GDP, he noted, would be a “major shock” to the world economy, “let alone the impact of the pandemic spreading to other big economies.”

Financial analyst Mohamed El-Erian, who has warned that markets were underestimating the effects on the real economy, wrote in a *Bloomberg* comment this week that it could not be predicted how and when demand would recover and supply chains were restored.

El-Erian also pointed to another factor. “I am also concerned about the financial outlook of highly-leveraged companies and countries, as well as the big overhang of triple-B rated companies over the high-yield market,” he wrote.

Bonds rated BBB are only one notch above junk bond status. If their ratings are reduced, then investors that are mandated to hold only investment-grade stock will be forced to sell, potentially setting off a plunge in this area of the financial markets.

The notion that the Fed and other central banks will be able to ride to the rescue with the injection of still more cash is becoming ever more threadbare.

In the first place, however much money is injected into the markets it cannot bring about the resumption of transport or restart production lines. Moreover, having reduced interest rates to historic lows in the decade since the 2008 crisis—in some cases to negative levels—the central banks have little capacity to provide still more stimulus.

The coronavirus is a natural disaster. But like all such events it has exposed the advanced level of decay in the social and economic relations of the global capitalist system.

Firstly, it is revealing the inadequacies of health care systems around the world, which have been eviscerated by years of austerity cuts. Secondly, the virus outbreak is again demonstrating the inherent fragility of a financial and economic system geared entirely to the amassing of wealth for the upper echelons of society.