

Stock market fall continues at record speed

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The global stock market plunge continued yesterday, bringing to a close the worst week since the financial crisis of 2008.

On Wall Street, the Dow fell more than 600 points on opening and continued to decline by more than 1,000 points. After a day of swings, it finished the day down by 357 points, or 1.38 percent, after a surge in the last 20 minutes of trading.

A measure of the speed of the fall can be seen from the fact that when Wall Street indexes reached an all-time record high on Wednesday of last week, the Dow was within touching distance of 30,000. Yesterday it dropped to below 25,000 at times.

As one somewhat stunned investment funds manager cited by the *Wall Street Journal* commented: “This has been really quick, really deep, and in some respects unbelievable.”

Leuthold Group chief investment strategist Jim Paulsen told the business channel CNBC there was a “full panic,” reminding him of the dramatic fall in October 1987.

The VIX index, which measures volatility and is regarded as Wall Street’s “fear gauge,” reached over 47 yesterday, one of its highest levels since the global financial crisis.

Another indication of the mounting crisis and its effects on the real economy is the continued fall in the yield on the 10-year US Treasury bond. Yesterday it hit a new all-time record low of 1.157 percent, as investors sought a safe haven.

Yesterday’s fall was eased for a short time following a statement by Federal Reserve Chairman Jerome Powell indicating that he stands ready to intervene with a further cut in interest rates. But this was short-lived and the slide resumed.

The Fed statement said that while the fundamentals of the US economy “remain strong,” the coronavirus posed “evolving risks” and the Fed was “closely

monitoring” developments and would “use our tools and act as appropriate to support the economy.”

The central bank is almost certain to cut interest rates, perhaps even before its scheduled March meeting, by at least 0.25 and possibly 0.50 percentage points. But apart from providing a potential short-term boost to the stock market, any rate cut will have little or no effect.

This is because the dangers posed by the coronavirus to the economy are linked not to a lack of demand, but to a halt in production.

Former International Monetary Fund chief economist Olivier Blanchard said a Fed cut of 25 basis points would not make much of a difference because the spread of the coronavirus represented a “supply shock,” taking workers out of production.

“Cuts in rates would be symbolic but not useful,” he said.

The deputy governor of the Bank of England, Sir Jon Cunliffe, told economists at a forum in London that if the coronavirus proved to be “a pure supply shock, there is not much that we can do about it.”

Yesterday’s further fall on Wall Street followed a sell-off in Asian and European markets, which are all down by at least 10 percent over the past week. The Stoxx Europe 600 index was down 3.5 cent yesterday, while the Japanese, South Korean and Australian markets all closed more than 3 percent lower.

Every financial storm has its own peculiarities, but this one is displaying features indicating that long-term mechanisms that have sustained the stock market may be starting to break down. For the past three decades and more, stretching back to the stock market crash of 1987, the US Federal Reserve has acted as backstop for the market in any significant downturn.

It has fuelled a vast inflation of asset values, enabling the stock market to serve as the chief mechanism for the funnelling of wealth from the working class to the financial elite.

Given this record, and the belief that the Fed would once again ride to the rescue, coupled with the view that the coronavirus crisis and its economic effects could be confined largely to China and would be relatively short-lived, global stock markets powered ahead from the start of the year.

Ten days ago, even as it was becoming clear that both the virus and its economic effects were spreading, Wall Street reached a record high.

Since then, the S&P 500 index has fallen by 12 percent, its fastest decline from a record high into so-called “correction” territory in history, with some \$3.4 trillion wiped off share values.

The markets will no doubt welcome an interest rate cut and the injection of further cash via quantitative easing if the Fed decides to go down that road. But the effects will be limited because monetary measures can do nothing to secure the resumption of production and the restoration of global supply chains disrupted by the spread of the coronavirus.

Furthermore, the very measures undertaken by the Fed and other central banks since the crisis of 2008, while securing the rise of financial markets, have created the conditions for another disaster, rooted in the rise of debt, and particularly corporate debt.

The provision of ultra-cheap money to financial markets, both through interest rate cuts and quantitative easing, has resulted in the overwhelming majority of corporate bonds being either below investment grade status, so-called junk bonds, or rated BBB, just one notch above junk status.

This means that a recession, or even a significant downturn, could set off a financial crisis more serious than that of a decade ago. There are already warnings that US profit growth will be zero this year and global growth will fall to levels not experienced since 2009.

While it is not possible to predict the exact outcome of this so-called “black swan” event—a completely unanticipated economic shock—one thing is certain. If the economic and financial effects of the coronavirus outbreak continue to deepen, the reaction of the state and financial authorities, which function in the US and around the world as executive committees for the protection of the financial oligarchy, will be the same.

They will intensify the attacks on the social conditions of the working class through the further destruction of jobs, the lowering of wages and the

continued gutting of social services. This is not a mere prediction. It emerges from the historical record, especially since the financial crisis of 2008, one of the consequences of which is the incapacity of health services in every country to deal with a coronavirus pandemic because of endless cuts.



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