Market slide resumes in worst week for Wall Street since 2008

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Wall Street ended its worst week since the financial crisis of 2008 as stocks again fell yesterday after a brief upturn. The Dow Jones index finished lower by 916 points, or 4.6 percent, leaving it 35 percent below its record high in the middle of February.

The S&P 500 index dropped 4.4 percent, taking its loss for the week to 18 percent, with no sign the sell-off will abate as the effects of the coronavirus sweep through the real economy.

Goldman Sachs issued a warning that US gross domestic product will plunge by 24 percent in the second quarter, with estimates that new jobless claims will hit 2 million when the figures are released next week.

Beyond the precipitous fall in the stock market, the most significant economic development of the week has been the transmission of the crisis into all corners of the financial system, leaving no asset class exempt.

A major turning point was reached on Wednesday when, contrary to what takes place under "normal" conditions, US Treasuries, considered a safe haven in market turmoil, were sold off, sending their yield higher.

The fall in the stock markets has had a cascading effect. As lenders issue margin calls on loans they have issued to finance stock market speculation, the debtors are then forced to sell off their shares, as well as other assets, in order to obtain cash.

Such moves to sell everything in order to obtain liquidity have, in turn, led to constrictions in the credit markets, threatening a total freeze of the kind that developed in 2008.

Intervention by the US Federal Reserve, which announced the resumption of asset purchases to the tune of $700 billion, together with an intervention in the commercial paper market, brought the yield on Treasuries down. But the credit tightening continued in other financial markets.

Yesterday the Fed announced it was taking action to try to stabilise the $3.9 trillion US municipal bond market, which has been hit by volatility as investors dump local government debt. In the week to last Wednesday, some $12.2 billion was withdrawn from mutual municipal funds.

The Fed said it was expanding its "program of support for the flow of credit to the economy by taking steps to enhance the liquidity and functioning of crucial state and municipal money markets."

According to a report in the *Wall Street Journal*: "In the municipal-bond market, where debt often goes for months without a trade, conditions are more difficult than investors can recall."

It noted that last Wednesday rates jumped to 5.2 percent, from 1.3 percent the previous week, on variable bonds that reset their rates every week.

As an example of the effect of that hike, the newspaper reported that the state of Wisconsin would pay about $64,700 in interest over the next week, compared to about $15,000 previously, on its holdings of around $58 million of variable rate bonds.

In other Fed action, its New York branch, which conducts the central bank's market operations, announced the purchase of $15 billion worth of mortgage-backed securities yesterday, to be followed by another $100 billion over the course of next week.

The New York Fed said it stood ready to "conduct more purchase operations in the coming days should this be appropriate to smooth market functioning."

As the financial meltdown continues, new minefields are being exposed.

One of these is the market for collateralised loan obligations (CLOs), in which potentially risky loans are bundled into securities that are then sold off to investors.

By bundling them together, these risky loans can be transformed into higher-rated investments, bringing a greater rate of return than could be achieved elsewhere.

The underlying assumption of this financial alchemy is that the diversification of the loans pooled in the package means that problems in one area will be compensated by growth in another, and the value of the security will be maintained.

This is the same methodology that formed the basis of the sub-prime mortgage boom. In that case it was assumed that house prices would not fall simultaneously in every area. When that fall took place, the bubble burst and set in motion the financial crisis of 2008.

The CLO market has been based on the assumption that there will be no across-the-board collapse in the economy—the very event now rapidly unfolding.

As financial markets break down, this week's actions by the Fed, like those of the European Central Bank and other central banks around the world, to carry out massive financial asset purchases are being undertaken with the claim they are emergency measures, to be withdrawn when "normal" conditions return.

But what the crisis has revealed is that the entire system of market mechanisms has completely broken down and there is no turning back.

For instance, what is "normal" in the stock market when share values, vastly inflated after years of the provision of ultra-cheap money, have become totally divorced from the underlying real economy?

And what constitutes normalcy in any part of the financial system when, because of the development of arcane mechanisms for the accumulation of profit via speculation, no one has the slightest idea of the real value of any asset?

The emergency moves by central banks are not temporary, any more than the continued provision of ultra-cheap money after the financial crash of 2008 was temporary.

Rather, they signify the development of a new stage in the breakdown of the capitalist system, in which the powers of the state are mobilised entirely to support the financial oligarchy.

The logic of this process is emerging. One arm of the state, the government, goes deeper into debt to finance corporate bailouts, while another arm, the central bank, buys the debt.

All the free market dogmas are simply thrown aside and state power is used to mobilise all the resources of society to ensure that the wealth of the financial elites is maintained, always at the expense of the mass of the population.