

Significant fall on Wall Street amid rising COVID-19 infections

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The sell-off on Wall Street that began on Monday extended to a third day yesterday as major indexes fell by more than 3 percent. This puts the market on course for its worst downturn since the plunge in mid-March that was only halted after a massive intervention by the Fed when all financial markets had frozen.

The Dow fell by 942 points, or 3.4 percent, after dropping by more than 600 points over the two previous days. The S&P 500 dropped by 3.5 percent and is now down by more than 7 percent since its record high in early September. The largest fall was in the tech-heavy NASDAQ index which lost 3.7 percent, after rising on Tuesday as other indexes fell.

The market sell-off has not been confined to Wall Street. Europe's Stoxx 600 index closed down 3 percent. It has lost 6 percent since the end of last week and is now at its lowest level since May. German and Italian markets each fell by more than 4 percent and London's FTSE index dropped by 2.8 percent.

The main factor driving the sell-off has been the resurgence of COVID-19 infections across Europe and the US. The US reported 73,200 new cases on Tuesday, the second daily increase in a row, with the total death toll now heading towards the quarter of a million mark.

The UK reported more than 300 deaths for the second day in a row this week, while both Italy and Portugal have reported a record number of new cases. Germany and France have announced new restrictions because of the rise in infections.

In the US, the market sell-off has been further fuelled by the lack of a new stimulus package and potential election turmoil as President Trump advances his plan to dispute any Biden victory through the courts and the mobilisation of fascist militias on the ground. This is a vastly expanded replay of what took place in the 2000 election when the Supreme Court halted vote counting

and handed the presidency to George Bush.

The key question arising from the share fall so far this week is whether it will go further and extend into other areas of the financial system as took place in mid-March when all markets in the US and around the world essentially froze. There are signs at least of further falls as the sell-off continued into the close of trading.

Last March the multi-trillion dollar intervention by the Fed made it the effective backstop for all markets. It stepped up its purchases of Treasury bonds, initiated the buying of corporate debt, directly and indirectly, as well as intervening in the markets for commercial paper, student loan debt and local government debt.

This led to a rapid rise in the stock market, at one stage returning to the record levels it has reached before the pandemic struck. As a result, financial oligarchs, such as the Amazon chief Jeff Bezos, were enriched to the tune of hundreds of billions of dollars, while broad sections of the working class confronted the worst conditions seen in the post-war period.

There are indications that this week's market fall could be the start of more widespread financial turbulence.

As a report on Bloomberg noted: "For credit markets, the sudden sell-off might not be the worst of it. Moody's Investor Services released a report on Wednesday that revealed the amount of debt from US companies considered potential 'fallen angels' jumped to an all-time high of \$254 billion in the third quarter, from \$217 billion at the end of June."

A company becomes a "fallen angel" when its bonds move from being rated as "investment grade" to "junk" status.

Bonds at risk are those with a Baa3 rating, one level above junk, and which either are considered to have a

negative outlook or are under review. Potential “fallen angels,” the article said, include such well-known corporations as Delta Airlines, Hyatt Hotels, Marriott International, and Nordstrom.

So far Moody’s and other rating agencies, it said, had been “patient” before making across-the-board downgrades, but should current trends persist “they might not to be able to hold off much longer.”

Other areas of concern include the stability of commercial mortgage-backed securities. An analysis by the Wells Fargo bank last month showed that the value of properties that have experienced trouble because of the contraction of the economy due to the COVID-19 pandemic have fallen by 27 percent.

One example of the extent of the write-downs is the case of the Crowne Plaza hotel in Houston. It was valued at \$25.9 million in September, down 46 percent from when it was included in a CMBS [commercial mortgage-backed security] deal in 2014. The hotel has not made payments on its mortgage since March.

If the commercial property sector plunges, then the \$1.4 trillion CMBS market will be severely hit and will impact on the major banks.

As a *Financial Times* report in September noted: “US banks are increasingly worried about being repaid on loans secured against commercial property, as offices, malls and hotels continue to stand empty.” An FT analysis found that “criticised real estate loans” had risen by 144 percent to \$26 billion in the second quarter.

The commercial property sector, and the financial system rising above it, is not only being impacted by the immediate effects of the pandemic but by its longer-term consequences. Under conditions where large sections of staff employed in office blocks are now working from home, many corporations are drawing the conclusion that they no longer need the office space they previously required.

In every area of social and economic life, the pandemic has acted as a trigger event and so it is the case in the stock market. Over the past four decades, it has become increasingly divorced from the underlying real economy with parasitism and speculation becoming the dominant form of profit accumulation.

One measure of this process was provided in a recent report by the *Financial Times*. It found that so-called value investing, in which a company’s share price is

measured against the underlying value of its assets—a measure in some way relating the stock price to the real economy—had experienced “its worst run in the last two centuries.”

The ongoing turbulence in the financial markets, including the freeze in March and now the threat of another such event sparked by the ongoing spread of the coronavirus, is rooted in the speculation and parasitism that has created a mountain of fictitious capital.



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