Wall Street slide continues in lead-up to crucial Fed decision

Nick Beams
14 June 2022

The slide on Wall Street continued yesterday ahead of the Federal Reserve Board's decision on interest rates tomorrow, after the stock market entered bear market territory on Monday closing at a level more than 20 percent below its record high in January.

The S&P 500 Index dropped a further 0.4 percent after tumbling by 3.9 percent the previous day. So far this month it has fallen by 9.6 percent and is now 22 percent down from its previous high. The fall in the tech-heavy and highly interest rate-sensitive NASDAQ index is now down 33 percent from its previous high.

The immediate trigger for Monday's sharp fall, which took place mainly in the last hour of trading, was a report in the *Wall Street Journal* that the Fed was actively considering lifting its base interest rate by 0.75 percentage points (75 basis points) rather than the 50-point increase that had been foreshadowed.

Irrespective of the *Journal* report, the 75-basis point rise was put on the table by the announcement on Friday that the Consumer Price Index for May was 8.6 percent. This dashed claims that the slight fall in the inflation rate for April meant that the price surge had peaked.

The demands of the ruling financial elites were set out in an editorial published in the *Washington Post* yesterday.

It said that "ideally" Federal Board Chair Jerome Powell and the central bank's policy-making body should announce an increase in the benchmark rate by 1 percent.

"For the past month, top Fed officials have been signalling they will do a 50-basis-point increase, but that was before the disastrous May inflation report … that showed large price shocks in gas, groceries, rent, airfare, cars and various services. Inflation is broad-based. It won't be easily cured."

It said the "biggest risk" for the Fed was not doing enough to fight inflation. It had made this mistake earlier in the year and should not stumble again and "at a minimum" should enact a 50-basis-point rise and "heavily signal the possibility of a larger hike in July."

The notion advanced by the Fed, propagated throughout the media, that it is somehow fighting inflation is an example of how all the agencies of the capitalist state seek to cover over the essential class content of their policies by insisting they are acting in the interests of the economy and the population.

Interest rate increases will do nothing to halt price rises. They will not untangle the global supply chains, thrown into chaos by the refusal of capitalist governments to take action to eliminate the COVID-19 pandemic, nor will they halt the price rises set off by the US-NATO proxy war against Russia in the Ukraine.

They have one central purpose—to clamp down on the rising wages struggles of the working class in the face of intolerable price increases now cutting living standards every time workers fill up the tanks of their cars and make purchases at a grocery store.

At the same time the interest rate hikes will see an escalation in mortgage repayments on inflated housing prices in the US and around the world, imposing a real cut in the disposable income of working class families struggling to put a roof over their heads.

For the past several months, since the Fed abandoned the fiction that inflation was "transitory," Powell has referred to the "tight" labour market in all his public statements, insisting it is incompatible with the central bank's stated aim of bringing down inflation to its stated target of 2 percent.

There have been continued references in the media to the experience of the 1970s and early 1980s when the struggles of workers, driven by major price hikes, shook governments around the world. In that period inflation was only brought under control by a deadly combination aimed at crushing that struggle.

The Fed, under the chairmanship of Paul Volcker, lifted interest rates to record highs—20 percent at one stage—inducing what was, to that point, the deepest recession since the 1930s while the trade union bureaucracy, starting with the betrayal of the air traffic controllers in 1981, worked to defeat every struggle of the working class.

Fearing above all else the development of the class struggle induced by the price hikes, the ruling classes are turning again to these methods. Powell has expressed his admiration for Volcker on numerous occasions as the "pro-union" President Biden relies on the union bureaucracies to suppress the rising tide of wages struggles.

As the Fed moves to lift interest rates, there are growing signs of a recession, with the rapid movements in the bond market providing an indication of what is to come. There has been a major selloff in Treasury bonds with the yield on the two-year Treasury note rising to a 15-year high of 3.45 percent yesterday. [The yield on bonds rises as their price falls.]

With the yield on the 10-year bond at 3.5 percent, the yield curve has come close to an inversion, where the yield on short-term debt is higher than that that on longer term bonds—often taken as an indication that the economy is about to enter a recession.

On Monday, the *Financial Times* reported that nearly 70 percent of leading academic economists that it had polled predicted the US economy would move into a recession by next year.

According to the FT, the survey results, collected earlier this month, "run counter to the Fed's stance that it can damp demand without causing substantial economic hardship and pain."

There are also indications that a major financial crisis is brewing. The pumping of trillions of dollars into the financial system by the Fed and other central banks over the past 15 years has created a massive speculative bubble which now threatens to burst.

The plunge in the price of bitcoin and other cryptocurrencies is an indication of this. Since reaching a record high of more than $3 trillion last November the market value of cryptocurrencies has fallen to less than $1 trillion – decline of more than 66 percent.

A month after the collapse of the crypto Terra stablecoin, Celsius Network, a major lender in crypto, which attracted investors with claims it could bring returns of 17 percent, announced on Sunday evening that it was halting withdrawals and transfers "due to extreme market conditions." This was followed by the decision of Binance, a major crypto exchange, that it was halting bitcoin withdrawals.

The turbulence is not confined to cryptocurrencies. Reporting on Monday's Wall Street selloff, Bloomberg cited a portfolio manager at an investment firm who said the situation recalled the conditions of the 2008 financial crisis. "Liquidity in the market is worse than it was leading up to Lehman," he said, referring to the collapse of the investment bank Lehman Brothers which triggered the crash.