Sharp Wall Street fall resumes as more central banks lift interest rates

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Wall Street fell sharply again yesterday, resuming the decline which has sent it into bear market territory (a decline of 20 percent from its previous high) after a brief one-day "rally" on Wednesday.

The fall was precipitated by the recognition that interest rate rises, rather than being "frontloaded" following the Fed decision on Wednesday to lift its base rate by 0.75 percentage points, are going to continue in the US and globally.

The Dow fell by 741 points, taking its decline for the year to 18 percent, and finished below 30,000 for the first time since January 2021.

The broad-based S&P 500 index, after rising by 1.5 percent the previous day fell 3.3 percent. The price of almost every stock in the index was down with the losses sending the shares of hundreds of companies to 52-week lows.

The fall has been even larger in the tech-heavy NASDAQ index, which dropped by 4.1 percent, taking it down to the level it reached in September 2020.

Since the start of the year, the NASDAQ has fallen by around 33 percent. But this is an average figure and the losses in key areas of the market, particularly in those stocks which benefited most during the pandemic as the Fed poured money into financial markets, have been much greater.

For example, shares in Netflix which traded at $700 in November were down to $173 yesterday and similar results have been recorded elsewhere.

Under conditions where the mountain of fictitious capital embodied in the stock market is imploding, finance capital has launched a drive to intensify the extraction of profit from the only source of real value, the labour of the working class.

This takes the form of an international drive by the major central banks, the smaller ones following suit, to lift interest rates to slow the economy and induce a recession, if that proves necessary, to suppress the growing wages movement of the working class in response to surging price hikes. That is, to cut real wages and boost corporate profits, starting with those sections of capital, in energy, food and other key areas, that are benefitting from price increases.

This drive is being conducted under the banner of the need to "fight inflation" but the real target is the working class because the interest rate hikes will do nothing to bring down prices.

As part of the international offensive, the Bank of England (BoE) yesterday lifted its base rate by 0.25 percentage points amid predictions that the inflation rate in the UK is going to shortly hit 11 percent. There was some criticism that the rise was not enough—the BoE should have "gone big" or done nothing at all, it was said—with three members of its nine-member governing body voting for an increase of 0.5 percentage points.

The BoE's Monetary Policy Committee painted what the *Financial Times* called a "dismal picture of the outlook for both growth and inflation."

It said excess inflation was not only due to global events and there was a risk that "self-sustaining inflation" would persist even as the economy weakened.

While it rejected the call for a bigger interest rate rise, the BoE said it would be "particularly alert" to indications of more persistent inflationary pressures and would "act forcefully" should that be necessary.

One of the most significant decisions yesterday, and no doubt a contributing factor to the fall on Wall Street, was the move by the Swiss National Bank to raise its interest rate by 0.5 percentage points.

Its importance lies in the fact that it was the first increase in rates in 15 years during which time the SNB has been an advocate of keeping interest rates at ultra-low and even negative levels. But it decided to move even before the expected increase in interest rates by the European Central Bank scheduled for July, sending a message to the global market that the previous policy is longer sustainable.

In the US, Fed chair Jerome Powell has said that the Fed is not trying to induce a "recession now. Let's be clear about that."

The claim of the Fed is that it is trying to engineer what it calls a "soft landing." But this outcome is akin to the search for an economic unicorn. Moreover, like the earlier Fed claim that inflation was "transitory," this mythical scenario is being rapidly superseded by economic events.

In an article yesterday with the headline "US economic growth shows signs of slowing" the *Wall Street Journal* provided some initial data. It said the US economy was "starting to slow under the combined weight of soaring inflation and climbing interest rates—including the highest mortgage rates since 2008."

Home construction across the US "fell sharply in May," it noted, as the Bank of Philadelphia reported that factories in the mid-Atlantic region had reduced their activity for the first time in two years this month.

Economists, it said, had slashed their projections for second quarter growth in recent days.

"One closely watched forecast—the Federal Reserve Bank of Atlanta's GDPNow tracker—estimates that gross domestic product is on track to remain unchanged at an annual rate over the three months through June 30. Output fell at a 1.5 percent annual rates in the first quarter," the article said.

This is a significant finding because the unexpected contraction in the first quarter was widely dismissed as a statistical aberration which would be corrected in the second. But in fact, it appears to be the start of a trend.

At his press conference on Wednesday, Powell maintained that consumption spending was still strong. But this week the Commerce Department reported that consumers had cut their retail spending for the first time this year in May.

Working-class families are being hit by the rapid rise in gas prices and basic necessities, to the tune of hundreds of dollars a month, slashing their disposal income. On top of the price hikes, interest rate rises are lifting mortgage repayments. The average rate on a 30-year mortgage rose to 5.78 percent this week, it highest level in more than 30 years.

In order to develop their response to the global onslaught against them, workers need to take stock of the far-reaching implications of the developing economic crisis. This is not a cyclical downturn to be followed by a upturn at some point in the future.

The global financial crisis of 2008 represented not a mere turn in the economic cycle but a breakdown in the very functioning of the capitalist profit and financial system and was followed by the equally significant market meltdown of March 2020 at the start of the pandemic.

The full implications of these crises were covered over to some extent by the actions of the Fed and other central banks in pumping trillions of dollars into the financial system in order to sustain it.

But that road is no longer open as indicated by the rise in interest rates. The Fed, for instance, is confronting a situation never before experienced in economic history.

It is compelled to lift interest rates to try to clamp down on wage demands under conditions where it has almost $9 trillion worth of financial assets on its books, with central banks around the world, in particular, the European Central Bank, in the same position.

This means that the developing class struggle is going to assume intense forms and raise decisive political issues before the working class, posing the necessity for the development of the fight for a socialist program aimed at ending the profit system and reconstructing the economy on new foundations.