

# Markets nervous on the eve of central bankers' meeting

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As far as psychology is concerned, the stock markets are driven by two states of mind—fear and greed.

In the first part of the year, fear predominated as it became apparent that inflation was not “transitory” as claimed by US Fed chair Jerome Powell and other officials of the central bank and that it would have to set in motion large interest rate hikes.

This had a significant impact on Wall Street. The major index, the S&P 500, fell by more than 20 percent, taking it into so-called bear market territory, while the interest-rate sensitive, tech-based NASDAQ index dropped even more. There was also a sharp fall in the speculative crypto currency market where some significant losses were recorded.

But from around mid-June a new sentiment emerged. The calculation was that the Fed, while lifting interest rates, would soon start to ease up on monetary tightening, especially if recessionary trends began to emerge.

A lessening of the pace of interest rate rises and the possibility of cuts by next year would mean that parasitic profit-making, which makes no contribution to economic expansion in the real economy, based on the provision of ultra-cheap money by the Fed, would soon return and “greed is good” would be back front and centre.

Accordingly, the stock markets rebounded. The S&P 500 rose by more than 15 percent from its lowest point in June and the NASDAQ increased by more than 19 percent. So-called meme stocks such as Bed Bath and Beyond and the cinema chain AMC, which had fallen sharply after their speculator-driven rises in 2020-21, came back into vogue.

The upward shift was at least partially fuelled by statements from the Fed. Following its July meeting, Powell said the base rate was now near neutral, that is

neither providing a boost nor leading to a contraction—an indication that the Fed was nearing the end of the present rate-tightening cycle.

The minutes of the July meeting contained a passage which went in the same direction.

“Many participants,” they recorded, “remarked that, in view of the constantly changing nature of the economic environment and the existence of long and variable lags in monetary policy’s effects on the economy, there was also the risk that the committee could tighten the stance of policy by more than necessary to restore price stability.”

In other words, there could be an easing down the track, if not at the next meeting in September, then at least shortly thereafter.

But in the last few days, in the lead up to the Fed’s annual conclave of central bankers at Jackson Hole this weekend, the fear factor appears to have returned.

The week opened with US stocks experiencing their largest fall in two months. The S&P 500 dropped by 2.1 percent with declines across all areas, as the NASDAQ fell 2.5 percent. The Dow fell by more than 600 points. This was followed by small falls yesterday after an initial rise.

Following Monday’s fall, the *Wall Street Journal* cited comments by one portfolio manager who said Jackson Hole was “something the market is starting to get nervous about” and that after the last Fed meeting some investors expected the Fed to ease up on rate increases.

“There is chatter that perhaps Powell will try to reverse that perception,” he said.

The conclave will comprise a series of presentations and academic papers, but the focus will be on Powell’s keynote speech on Friday to open the gathering at which he is expected to outline the direction of Fed

policy.

Powell, of course, will try to present an air of confidence and convey a sense that the Fed knows what it is doing and has the situation under control.

But unkind critics will no doubt have in mind his remarks at the meeting a year ago. Then he maintained that the low inflationary environment prior to the onset of the COVID-19 pandemic would return.

“While the underlying disinflationary factors are likely to evolve, there is little reason to believe they have suddenly reversed or abated. It seems more likely they will continue to weigh on inflation as the pandemic passes into history,” he said.

A year on, the pandemic is far from over. New and more virulent strains are developing as a result of the “let it rip” policies of all major governments, except that of China, and monkeypox has emerged as a new health danger. Supply chains continue to be disrupted, the US labour force continues to contract and inflation has taken off, fuelled to a considerable extent by the six-month US-led escalating NATO proxy war against Russia in Ukraine.

The sharpest expression of the inflationary crisis is in the UK. The Bank of England has said the inflation rate will rise to 13 percent. But this is at the lower end of the forecasts. According to the financial conglomerate, Citigroup, inflation is on a path to reach 18 percent next year. Bank of America has predicted it will reach 14 percent and Goldman Sachs has said it will climb to 15 percent.

The key determinant of Powell’s speech and the Fed policy more broadly will not be inflation per se, although it will be couched in those terms.

Powell and central bankers around the world know that interest rate hikes will do nothing to unravel supply chains or bring down the price of natural gas and other sources of energy. Both Powell and his counterpart in Britain, BoE governor Andrew Bailey, have publicly acknowledged that.

The eyes of Powell and the other central bankers gathered at Jackson Hole will be firmly fixed on the class struggle amid a rising movement of the working class in the US, Britain and globally for wage demands in the face of ongoing and daily cuts in real wages and living standards.

Their decisions on interest rates and other monetary policies to be discussed at the conclave will be directed

by the need to batter down this movement if necessary by imposing a deep recession as inflation races out of control.



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