

# Deepening uncertainty and fear in ruling financial circles

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There is a swirl of uncertainty surrounding financial markets and the entire global financial system amid fears that one or other or a combination of ongoing inflation, rising interest rates, growing government debt, decoupling from China, a significant loss by firms involved in the so-called shadow banking system, and the escalation of war could set off a major crisis.

And on top of this there is concern in ruling financial and economic circles, ever-present but seldom discussed publicly, of an eruption of struggles by the working class which break out of the efforts of the trade union apparatuses to contain them.

Earlier this week, *Bloomberg* reported on a conference of global bankers in Hong Kong. It was convened to deal with how they were handling the “complexities” of the financial world but “ended up dwelling on the potential for financial blowups instead.”

This was evident from a number of comments from major participants.

Deutsche Bank chief executive officer Christian Sewing told the meeting: “My biggest fear is there’s one more geopolitical escalation and there’s a market event.”

The *Bloomberg* report stated that the meeting, one of the largest gatherings of banking heads since the outbreak of the Israeli war on Gaza, was “dour as banking chiefs traded observations and fears.”

Bridgewater co-chief investment officer Bob Prince said markets were “under-discounting” how long the tightening of interest rates in the US and Europe would last—a reaction to what is still a significant view that central banks will have to ease up next year.

Citadel founder Ken Griffin said that “deglobalisation”—sharply expressed in the moves out of China—was a “giant wild card.”

“We don’t know what a world looks like that involves deglobalisation,” he said, and that included how much it “increased inflation systemically.”

Colm Kelleher, the chairman of the Swiss bank UBS, which is still embroiled in the fallout from its takeover of

Credit Suisse after it collapsed earlier this year, directed attention to the “shadow banking” sector which involves lending by hedge fund and private equity groups.

Shadow banking, which is largely outside the financial regulatory system, has had an explosive growth since the crisis of 2008 with roughly half of global financial assets now in the “shadow sector.”

“It’s a real cause of concern,” Kelleher said. “The next crisis, when it happens, will be in that sector. It’ll be a fiduciary crisis.”

A fiduciary crisis is one in which the various organisations trading in the market have no trust in each other. Kelleher did not elaborate but such a crisis of confidence can rapidly extend from the shadows and into the broader financial system.

Goldman Sachs CEO David Solomon raised concerns about the growth of US government debt and its refinancing in a much less liquid environment, that is, a situation where there is a contraction in the capacity of financial markets to buy Treasury bonds.

The head of Morgan Stanley, James Gorman, summed up the general air of perplexity and uncertainty saying that big disruptions were often caused by unforeseen forces.

This week the *Financial Times* (FT) has devoted a major series of articles on new conditions in the global financial system, examining key areas including corporate debt, deal making by private equity groups and the funding of ever-growing government debt.

It noted that takeover deals, forged when interest rates were at historic lows, were starting to come apart. Some participants see so-called “financial engineering” as a way round the problems.

But as the FT report commented, “others view the financial engineering as a symptom of a deepening crisis,” and that a “modus operandi that thrived in an environment of low interest rates will look very different if rates stay high for some time.”

One article in the series posed the question: “Can corporate America cope with its vast debt pile?” It noted that

default rates were starting to trend above their historical average.

Another dealt with the financial reckoning for governments being delivered by bond markets as interest rates rise, pointing out that according to the S&P rating agency, whereas the interest bill for G7 countries was \$905 billion a year in 2018, it would rise to \$1.5 trillion by 2026.

And there will be a rapid escalation in future years with the rating agency Moody's estimating that the US government's interest bill as a proportion of its revenues will jump from under 10 percent in 2022 to 27 percent by 2033.

There is no prospect for the US economy to grow its way out of the mounting debt problem because, as the article commented, "economic growth forecasts for next year are anemic at just 1.5 percent."

The FT did not point to the consequences, but they are already under discussion with a developing clamour in financial circles for an attack on government spending starting with social facilities, in particular Social Security payments in the US.

On Wednesday the *Wall Street Journal* published an interview with Mohamed El-Erian, the chief economic advisor to the global insurance and financial services giant Allianz and a well-known financial commentator and analyst.

The main feature of his comment was not his warning of a recession in the US next year but the state of disarray in policy making circles, particularly at the US Federal Reserve.

He criticised the Fed for at least six policy and forecasting errors starting from its claim that inflation, which started to take off in 2021 due to the impact of the pandemic on supply chains, was "transitory."

After noting that the CEO of the failed Silicon Valley Bank told Congress the reason the bank collapsed in March was because he believed the Fed when it said inflation was "transitory," El-Erian turned to the serious nature of the banking crisis.

Had it not been for the decision by authorities to essentially guarantee all bank deposits, there would have been a banking crisis, a financial accident.

He described the state of the \$25 trillion US bond market—the basis of the global financial system—as "confused." Last year was about the bond market realising the central banks were behind and they would be raising rates aggressively. This year the market's understanding was that interest rates would remain high for longer.

"And then we pivoted to people worrying about the deficit, and worrying about the amount of issuance we are going to and who was going to buy that," El-Erian said.

He then went on to raise what he considered a more fundamental question—the formulation of policy.

Noting that the US was the largest economy in the world with the most mature institutions, he continued: "What consensus has been expecting, has gone from a soft landing to a hard landing, to no landing, to crash landing, back to hard landing, back to soft landing. That's an incredible sequence and it tells you we've lost our anchors. We've lost our economic anchors, we've lost our policy anchors, and we've lost our technical anchors."

Many analysts ignore the social effects of economic policy and its impact on the class struggle. El-Erian is not one of those and drew attention to the broader social and political issues contained in the deepening crisis of the capitalist economy and its policy-making bodies.

He warned that there was a climate change crisis and an inequality crisis.

Inequality was not just an economic problem it was also a social and political problem.

"And you start getting bad outcomes because a bigger part of the population feels alienated, feels marginalised. And then the next thing you know, your economic issues including the reality of people of the most vulnerable segments being very, very exposed to any shock becomes also social and political."

And then perhaps in an endeavour to reassure himself as well as others, he added: "And I think that there's a greater awareness today that we should continue to pursue capitalism, but keep on the radar screen, equity and sustainability."

Of course, the ruling circles are determined to "pursue capitalism" whatever brutal methods they consider necessary. But it is precisely those methods and the growing understanding that they are endemic to the profit system itself which is leading to a growing anti-capitalist and socialist sentiment.

El-Erian might keep inequality "on the radar screen," but he could offer no answers to deal with it and in conclusion emphasised the necessity for "hope." But as the economic and geopolitical crisis deepens, working people are not going to seek to get by on a "wing and a prayer" but will increasingly turn to action.



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