

Wall Street selloff exposes financial parasitism

Nick Beams
5 August 2024

The gyrations on Wall Street and global markets underscore the extreme fragility of the world financial system due to speculation and financial parasitism, which have been sustained by the pumping of cheap money from the US Federal Reserve and other central banks.

Monday began with a further selloff in Japan, where the Tokyo market had been trading at record highs. The Nikkei 225 index, which on Friday had its worst day since the October 1987 crash, fell a further 5.9 percent. It is now down more than 20 percent since its all-time high last month. Friday's drop of more than 4,451 points was the largest in point terms in its history.

The plunge came in response to the decision by the Bank of Japan last week to lift interest rates into positive territory, ending a zero-rate regime that has prevailed for more than a decade and a half.

Wall Street experienced a significant selloff on Friday, followed by a nosedive when trading opened Monday morning, most sharply expressed in the high-tech sector, which had led the market to record highs in July. Stocks recovered somewhat in the afternoon but were down across the board. The Dow dropped more than 1,000 points to end the day 2.6 percent down. The NASDAQ fell 3.43 percent, and the S&P 500 dropped 3 percent. For the Dow and the S&P 500, it was their biggest decline since September 2022.

The falls were concentrated in the high-tech stocks that have been the object of speculation. From the beginning of the year to July, the handful of companies known as the Magnificent Seven—Apple, Amazon, Microsoft, Alphabet (the parent of Google), Tesla, Meta (the parent of Facebook) and Nvidia—accounted for 52 percent of the increase in the rise in the S&P 500 index.

Besides Intel, which saw its shares fall 26 percent on

Friday on the back of its decision to cut 15,000 jobs, Nvidia, which makes chips used extensively in the development of artificial intelligence (AI), was hit hard. Its shares fell by 15 percent when trading began, before recovering somewhat later in the day to finish down by 6 percent. Shares in the company are down by around 30 percent since reaching a high in June.

Apple also took a hit following the announcement by Warren Buffett, the head of the Berkshire Hathaway fund, that he had sold half his shares in the company in the second quarter, amounting to \$76 billion, and moved the money into government debt.

Expectations of continuing turbulence are reflected in the Vix volatility index, known as Wall Street's "fear gauge," which rose to as high as 65 in the morning compared to single-digit levels in recent weeks.

A number of factors have come together to produce the selloff. These include the puncturing of the AI bubble, a significant blow to the so-called "carry trade" based on the Japanese yen and the fear that the US economy could be moving into a recession.

The development of AI represents a significant advance in technology and the development of the productive forces. But like all such advances—one can recall the internet bubble of the early 2000s, which culminated in the so-called "tech wreck"—it has been accompanied by rampant speculation based on exaggerated claims of the significance of AI in promoting economic growth and a flood of money into the acquisition of shares in the high-tech sector based on fear of missing out on speculative gains.

In a demonstration of the globally interconnected nature of the financial system, the decision of the Bank of Japan to lift interest rates to try to halt the slide of the yen on currency markets fed directly into Wall Street. The resultant increase in the value of the yen

against the dollar of more than 11 percent over recent days—it has risen from 161.96 to the dollar at the beginning of July to 143.46 yesterday—dealt a blow to the carry trade, in which investors borrow money in Japan to invest in US markets, where they can enjoy a higher rate of return.

According to an analysis published by Reuters, while exact numbers are not available, it is believed that much of the investment in high-tech stocks that sent them to record highs had been financed by carry trades. The Bank for International Settlements has estimated that cross-border yen borrowing has increased by \$742 billion since the end of 2021.

A note issued by Kit Juckes, chief foreign exchange strategist at Société Générale, pointed to this process. “You can’t unwind the biggest carry trade the world has ever seen without breaking a few heads,” he wrote.

Another factor is increasing fear of a recession in the US, heightened by the US jobs report issued Friday. It showed that the number of new jobs last month was 114,000, well below the expectation of 175,000. This was coupled with a rise in the unemployment rate to 4.3 percent. That increase brought the rise in the rate to 0.6 percent from its previous low, directing attention to the so-called Sahm Rule, which indicates a recession when the three-month moving average moves at least half a percentage point above its low in the previous 12 months.

The selloff in the market amounts to a clamor by finance capital that the Federal Reserve start cutting interest rates so as to make money cheaper and intense dissatisfaction with its decision last Wednesday to keep interest rates on hold. The clear indication by the Fed that it would reduce rates in September, initially welcomed by the markets, has now been declared to be insufficient.

The universal call is: Give us more money.

In addition to the immediate issues that sparked the fall, there are other powerful forces at work. With the assassinations carried out by Israel of leaders of Hamas and Hezbollah last week, the prospect of an all-out war in the Middle East has significantly increased.

And overhanging the financial markets is the escalation of US public debt, which now stands at around \$35 trillion and is increasing at a rate that both the US Treasury and the Fed maintain is “unsustainable.”

It is not possible to predict the exact course of events, but the trends are clearly evident. The US and global financial system have become a house of cards that can be destabilized and pushed into a crisis by even seemingly minor developments.

There is no question as to what the response of the ruling class will be to a crisis. As the bitter experiences in 2008 and 2020 show, it will be to intensify attacks on the working class.

In 2008, millions of workers lost their jobs, wages were cut, and homes were repossessed, while the corporations and banks, whose actions sparked the crisis, were rewarded to the tune of billions of dollars in handouts from the government and cheap money supplied by the Fed. And in 2020, when COVID-19 struck, government assistance was directed to corporations as the Fed again supplied ultra-cheap money, which provided the fuel for further speculation amid the refusal to take meaningful public health measures to eliminate the virus.

However it may develop, the latest turmoil is another expression of the systemic crisis of the capitalist system. It daily hangs like a sword of Damocles over the working class, threatening it with social devastation and underscoring the objective necessity of a political struggle for socialism.



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact