

Financial markets are having “flashbacks” to 2008 crisis

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All eyes are on Wall Street today to see if the selloff that took place last week in response to Trump’s tariff war against the world continues amid concerns among investors and traders that the situation is increasingly resembling the crash of 2008.

Asian markets opened significantly down. Two major indexes of Japan dropped by more than 7 percent in early trade, with the Australian and South Korean markets falling more than 5 percent.

According to the *Wall Street Journal*, some \$6.6 trillion was wiped off US market capitalisation in what was the fourth largest market downturn in the post-war period, after the October 1987 crash, the collapse of 2008 and the crisis of March 2020 at the start of the pandemic.

In the real economy, there are warnings that the US will move into recession because of the impact of Trump’s tariff measures. They are set to boost inflation, reduce consumer confidence and have already thrown all business planning into disarray as firms halt investment and hiring plans and, in some cases, have started laying off workers.

A recession in US would rapidly hit the rest of the world, already experiencing low growth, now being battered by the tariff hikes.

In a note entitled “There Will Be Blood,” the head of economic research at JP Morgan, Bruce Kasman, said it had lifted its probability of a global recession to 60 percent from 40 percent. It expects that by the end of the year the US economy will have contracted by 0.3 percent, compared to its previous forecast of 1.3 percent growth.

The unemployment rate would rise from the present level of 4.2 percent to 5.3 percent, that is, an increase of more than 1.8 million workers without a job.

“The size and disruptive impact of US trade policies,

if sustained, would be sufficient to tip a still healthy US and global expansion into recession,” Kasman said in his note. “The tariff shock will likely be magnified by its effect on sentiment and through potential disruptions to global supply chains.”

Yesterday, contrary to some beliefs in financial circles, Trump officials fanned out over the media to make clear that the tariffs were not a “transactional” tactic that would be lifted as part of a deal. They declared the tariffs were here to stay and were aimed at nothing less than a fundamental restructuring of the global trading system—the obliteration of the arrangements of the post-war period.

Trump set the tone in a social media post last week in which he said his tariff policies would “never change.”

Leading the foray into the media, Treasury Secretary Scott Bessent shrugged off the Wall Street plunge. “The market consistently underestimates Donald Trump,” he told NBC’s “Meet the Press.”

He dismissed forecasts of a major downturn in the US economy, saying he saw “no reason that we have to price in a recession.”

Bessent said more than 50 countries had called the White House seeking concessions, but he ruled out any immediate shift.

“They’ve been bad actors for a long time. And it’s not the kind of thing you can negotiate away in days or weeks. We are going to have to see the path forward. Because, you know, after 20, 30, 40, 50 years of bad behaviour, you just can’t wipe the slate clean.”

His remarks underscored an essential issue raised in the executive order announcing the “national emergency” under which Trump has launched economic war.

It stated the “post-war international economic order,” based on reducing tariff and non-tariff barriers, had

been based on “incorrect” assumptions. It had created “the large and persistent annual US goods trade deficits as a feature of the global trading system.”

The emphasis on the goods deficits is significant because the US enjoys a surplus with the rest of the world in services.

Physical goods, however, are vital to the concentration of the productive forces of the nation in preparation for war. As the executive order put it, the goods deficit had “hollowed out” US manufacturing capacity and “rendered our defence-industrial base dependent on foreign adversaries.”

Speaking to the CBS program “Face the Nation,” Commerce Secretary Howard Lutnick made it clear that whatever the markets might do, Trump’s so-called “reciprocal tariffs”—46 percent for Vietnam and more than 30 percent for others, and which will impact China with a tariff of more than 70 percent when previous tariffs are added in—will go ahead on April 9.

“He announced it, and he wasn’t kidding. The tariffs are coming, of course they are,” Lutnick said.

There would be “no postponing” the hikes. “The president needs to reset global trade.”

While the administration may be ignoring the financial markets, at least for now, the markets, after initially underestimating the significance of the tariff war, are not ignoring it.

Goldman Sachs said that a survey of investors on March 20 showed they expected average US tariffs to rise 8.6 percentage points over the course of 2025. The estimate is that, as from April 2 and Trump’s “liberation day” announcement, they will rise by nearly 20 percentage points.

An article in the *New York Times* said that in conversations with bankers, executives and traders over the weekend they had been having “flashbacks to the 2007-8 global financial crisis.”

Leaving out the market panic that ensued at the start of the pandemic, “the velocity of last week’s market decline—stocks fell 10 percent over just two days—was topped only by the waves of selling that came as Lehman Brothers collapsed in 2008.”

“It definitely feels similar to 2008,” Ran Zhou, a New York hedge fund manager told the *Times*.

There are other indications of a gathering crisis. Margin calls, in which banks demand that the traders they are funding increase the funds they have to post if

they want to continue to be financed, are on the rise.

The *Times* also reported the case of one venture capitalist, who wished to remain anonymous because he had not formally notified investors, that his portfolio had lost \$1.5 billion “that is, if his thinly traded investments could be sold at all.”

This is a situation which is likely to be replicated in many areas of the financial markets. Whatever the reaction today when Wall Street opens, it is not one which is going to disappear.



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