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The gyrations of Wall Street

The sharp swings on Wall Street in recent weeks, with markets down significantly one day only to bounce back the next, reflect great uncertainty over how long the record highs, financed by trillions of dollars from the Fed, can continue, and whether there is a major crisis waiting in the wings.

Trader on the floor of the New York Stock Exchange (AP Photo/Richard Drew)

A series of issues are fuelling the gyrations, including:

> Whether the Fed will tighten its monetary policy in response to increased inflation, and the effect of such a move on the debt mountain in financial markets;

> The effect of the spread of the Delta variant on the economy, irrespective of the drive by the government to keep the US economy open;

Whether the present growth of the US economy will be sustained in the long run, coupled with fear it may possibly turn into stagflation—low growth combined with rising inflation.

Just below the surface, though rarely mentioned, is the fear in ruling circles that the push for higher wages and the development of increasingly militant struggles, such as that seen at Volvo, will spread.

This week began with what the *Wall Street Journal* described as a "dramatic selloff." The Dow fell by 725 points, or 2.1 percent, while the benchmark S&P 500 index dropped 1.6 percent. Significantly, the yield on the 10-year Treasury bond, which is an indicator of investors' belief in the future prospects for the economy, fell to around 1.2 percent, while oil prices dropped 7.5 percent, in their biggest one-day fall since last September.

An indicator of the jitters over growth prospects is where the falls took place. The Dow's Transportation Average, which reflects views about the strength of the underlying economy, entered a technical correction—a fall of more than 10 percent. The airlines fared even worse, entering a bear market, defined as a fall of more than 20 percent from their previous highs.

Energy stocks declined by 4 percent, the sixth consecutive day of losses; companies in the materials sector were down by more than 11 percent from their recent highs; and shares in the major chemicals manufacturer Dow were down by 19 percent.

Reporting on the declines, the *Financial Times* noted that the Russell 2000 index, which covers small and mid-sized companies that are sensitive to changes in the economic outlook, had been falling consistently, and that its 1.5 percent decline on Monday brought its losses from its peak in March to just below 10 percent.

Since mid-May, the report continued, "more than half the companies in the S&P 500 have fallen in value and 16 percent are down more than 10 percent," and in the Russell 3000, comprising the 1,000 largest companies plus the Russell 2000, "at least 24 percent of its constituents were in correction territory on Monday."

Amid the stock market fall there was a rush to safety, with the increased demand for 10-year Treasury bonds pushing up their price, so that the yield fell below 1.2 percent. Bond prices and yields move in opposite directions. When the effect of inflation is stripped out, the real yield on 10-year Treasuries is now down to minus 1.12 percent, its lowest level since January.

The major impulse for the Wall Street selloff, which was reflected globally, with Europe's Stoxx 600 index having its worst session for the year, is the impact of the Delta variant of the coronavirus.

"This virus [variant] is spreading rapidly. There has been a collective eye opening that this could delay things," Alex Verode, a financial analyst at Insight Investment, told the *Financial Times*. "A lot of people had hopes we would be back to normal in September. It is not going to be normal."

But then, as has happened after previous sharp selloffs, Wall Street bounced back on Tuesday. The S&P 500 rose by 1.5 percent, its biggest one-day rise since March, almost wiping out the losses of the previous day. The Dow also climbed, along with the tech-heavy NASDAQ index, with the result that all three indexes were within 2 percent of their July 12 record highs.

The rise in the market continued on Wednesday, albeit not at the same rate, leaving the S&P just 0.6 percent shy of its record. There was a marginal rise in all three indexes on Thursday.

But the rise in the market did not indicate a surge in the strength of the US economy over the course of a couple of days. Rather, the swings are the outcome of the tidal wave-like movements of money in financial markets. Since March last year, the Fed has pumped in more than $4 trillion and continues to supply money through its asset purchases at the rate of $120 billion a month.

This ocean of money moves out of stocks and into bonds, and then out of bonds back into stocks in the increasingly desperate search for an adequate return.

In its report on the extension of the rebound on Wednesday, the *Wall Street Journal* noted: "Many money managers say they see few other places than stocks to deploy cash, with yields on government and corporate bonds trading at depressed levels. Some remain concerned that the Delta variant will take some steam out of the global economic rebound, and they expect a jittery stretch of trading heading into the peak summer vacation period."

There may be more than jitters ahead. The gyrations in the financial markets are the surest sign that none of the issues that led to the market meltdown of March 2020 have been resolved. In fact, the reasons for the crash are still not even fully understood.

Earlier this week, US President Biden declared: "It turns out that capitalism is alive and well. We're making serious progress to ensure that it works the way it's supposed to work: for the good of the American people."

These words—uttered under conditions where the pandemic continues to wreak havoc socially and economically because of the refusal of capitalist governments everywhere to take meaningful measures to bring it under control, where the financial markets operate under the daily fear of a major meltdown, and where the former US president continues to build a fascist movement—have a historical resonance.

They bring to mind, at least for this writer, the remarks of President Herbert Hoover in October 1929, when he declared that the "fundamental business of the country, that is, the production and distribution of commodities, is on a sound and prosperous basis."

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