Fears of US recession and financial turbulence grow

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All the eyes of the financial world will be on Wall Street today to see if the sell-off which took place on Friday, after a lower-than-expected jobs report indicated the economy could be moving into recession, will continue.

Just two days after deciding to keep interest rates at their present elevated level, the Federal Reserve has come under fire for leaving its expected cuts too little and too late. The initial reaction was a lift in the markets when Fed chair Jerome Powell indicated a rate cut was very much on the table at its next meeting in September.

Market sentiment quickly turned negative after Friday's jobs report showed only 114,000 jobs had been added in July compared to expectations of 175,000. The number of jobs added in June was revised down by 29,000. Job openings have also fallen significantly. The ratio of job openings has fallen to 1.2 to one, compared to a peak of two to one in March 2022.

Fears of a downturn and major falls in the stock market have been heightened by the continued fall in high-tech stocks which has seen the tech-based NASDAQ index move into what is called "correction" territory, down 10 percent from its high on July 11.

The biggest was fall by the chipmaker Intel. Its share price plunged 26 percent following its announcement that it planned to cut 15,000 jobs. As much as $3 trillion has been wiped off the market value of the major tech companies last month after they had surged in June.

The downward movement went across the sector as it has become clear that the speculative frenzy around artificial intelligence (AI), which sent the share price of chipmaker Nvidia soaring, is starting to fade.

As a Bloomberg report noted, the heightened risk of a downturn as the Fed continues its restrictive monetary policy comes "just as the great AI boom of 2024 shudders after high-profile earnings disappointments and fresh fears that the investment splurge has yet to pay off for much of Corporate America."

The rise in the unemployment rate by 0.2 percent to 4.3 percent, triggered the so-called Sahm Rule, which supposedly indicates a recession when the three-month moving average of the jobless rate moves at least half a percentage point above its low over the previous 12 months.

The other big mover in financial markets was the yield in Treasury bonds. The yield on the 10-year fell by 0.38 percentage in a week to hit 3.8 percent as investors sought the relative safety of government debt and sent the price of bonds higher. [Yields and bond prices have an inverse relationship.]

In a market where significant moves may be only a few fractions of a percentage point, last week's fall was a big shift. It was the largest since the start of the pandemic in February-March 2020.

Another indication of financial turbulence was the rise in the Vix volatility index which is known as Wall Street's "fear gauge." It rose to as high as 29 on Friday—it has been well below 20 in recent months—to reach its highest level since the March 2023 banking crisis when three significant regional banks went under.

In his remarks at the conclusion of the Fed's meeting on Wednesday, indicating that a September rate cut was highly likely, Powell declined to say this would be the start of a rate-cutting cycle and indicated that nothing more than a 0.25-point cut would take place. A larger move was "not something we're thinking about right now," he said.

Less than 48 hours on, a clamour erupted from the representatives of finance capital for major cuts in rates along with denunciations of the Fed for "falling behind the curve."

Mark Zandi, chief economist at Moody's, told the *Financial Times*: "They made a mistake. They should have been cutting rates months ago. It feels like a quarter-point cut in September isn't going to be enough. It's got to be a half-point with a clear signal that they are going to be much more aggressive in normalising rates than they have been indicating."

Futures markets are now pricing in a 70 percent chance of a 0.5 percent point cut in September compared to a 28 percent chance before the jobs report.

Analysts at JP Morgan and Citi have raised their expectations for rate cuts this year to total 1.25 percentage points. This would mean two half-point cuts and one quarter-point cut over the next three Fed meetings.

The portfolio manager at JPMorgan Asset Management, Priya Misra, told Bloomberg: "Markets are forward looking and are acknowledging the very real danger that the economy may be slipping into below-trend growth."

As with all such statements from the representatives of finance capital, it is necessary to expose the real class interests at work. The hue and cry for rate cuts is being couched in terms of the damage the Fed's restrictive policy is doing to the economy.

As they know very well, however, interest cuts are going to do little or nothing to stop what is becoming a jobs massacre.

It is being driven by a slowing global economy and the efforts of major corporations to improve their competitive position in the struggle for markets. To do so, they seek to batter down workers' wage demands in conditions where, despite the assertions that inflation is easing, living standards are continuing to decline.

The demands of the financial markets are not motivated by concerns over higher unemployment but by the demand for a return to cheaper money in order that their parasitism and speculation can continue, and deals financed when interest rates were near zero—essentially grounded on free money—do not unravel under the present restrictive regime.

The prospects of recession coupled with a financial crisis are growing. The working class cannot labour under the delusion that intervention by the Fed, which functions to defend finance capital, will somehow alleviate the situation. They need to establish independent rank-and-file committees to fight for their own interests against the industrial police force of the corporations and the Biden-Harris administration, the trade union bureaucracy.

As Socialist Equality party vice-presidential candidate Jerry White remarked following the Intel announcement and the jobs report: "Workers must respond by mapping out an independent course of action based on their own class interests. Against the ruling class program of war, austerity and dictatorship, the working class must advance a strategy of global unity against the capitalist profit system aimed at placing the banks, transport and industry under the democratic ownership and control of the working class."