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By Nick Beams
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Biggest fall on Wall Street since March meltdown

Wall Street has been hit by its biggest plunge since mid-March when financial markets froze and the Federal Reserve stepped in with a major intervention to backstop them.

The S&P 500 dropped by 5.9 percent, its worst day since March 16, after it had risen by 45 percent and returned to its highs at the start of the year as a result of the three-month boom in stocks that followed the Fed’s intervention.

The Dow dropped by more than 1,800 points, a decline of 7 percent, and the tech-heavy Nasdaq index, which had reached a record high earlier in the week, fell by 5.3 percent.

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

The Cboe Volatility Index, often referred to as Wall Street's "fear gauge," rose 48 percent to reach 41, its biggest one-day jump since the market turmoil in March.

Yesterday's sharp falls on Wall Street followed significant declines in Europe. The regional Stoxx 600 index dropped by 4.1 percent and the UK's FTSE 100 index closed down by 4 percent.

The main reason for the sharp fall was the gloomy outlook for the US economy contained in the report on economic prospects set out by the Fed on Wednesday. It said the US economy would contract by 6.5 percent over the year and end 2020 with an unemployment rate of 9.3 percent.

Fed chairman Jerome Powell warned it would take years for the economy to recover and there was a group of people who would not be able to get back to work quickly that could total millions.

Powell offered guarantees to the markets that the flood of additional cheap money—totalling more than $3 trillion over the past three months—would continue and interest rates would remain at virtually zero for an indefinite period.

But it appears from the market reaction yesterday that even these guarantees are not enough in the face of a worsening economic outlook for the US and global economy and Wall Street is demanding more.

Like a modern-day King Canute, US President Trump intervened on Twitter as the market was falling to denounce the economic outlook advanced by the Fed.

"The Federal Reserve is wrong so often," he wrote. "I see the numbers also, and do MUCH better than they do. We will have a very good Third Quarter, a great Fourth Quarter, and one of our best ever year in 2021."

The market fall came in the wake of a report that a further 1.54 million initial claims for unemployment relief had been filed in the week ending June 6, bringing the total of first-time claims to 44.2 million since the start of the pandemic.

The number of COVID-19 cases in the US has topped the 2 million mark with the death toll now at more than 112, 000 and climbing by 1000 per day, amid a surge in states in the southwest that eased lockdowns weeks ago.

But the Trump administration has made it clear the homicidal return to work drive, directed to boosting the profits of Wall Street, will continue no matter what the consequences.

“We can’t shut down the economy again,” Treasury secretary Steven Mnuchin told the business channel CNBC. “I think we’ve learned that if you shut down the economy, you’re going to create more damage.”

Mnuchin followed Trump in dismissing warnings that unemployment would be close to 10 percent at the end of the year. He claimed the economy would rebound in the second half and said traditional economic models were poorly equipped to predict the effects of a pandemic. These remarks recall those of Trump at the end of February when he said of the coronavirus that “one day, it’s like a miracle, it will disappear.”

In addition to the clear warnings by the Fed and other forecasters that there is not going to be V-shaped economic recovery in the US, the rapid downturn in the global economy is also a major factor in Wall Street volatility.

Boosted by the Fed’s support for all areas of financial markets the S&P 500 roared ahead even though, according to some estimates, more than one in three companies comprising the index have not provided earnings guidance.

But with 40 percent of the revenue of S&P 500 companies coming from overseas sales, US financial markets are not immune from developments in the world economy. Here all indicators are pointing to a deepening slump.

Yesterday the United Nations Conference on Trade and Development (UNCTAD) said global trade was expected to plunge by 27 percent in the second quarter compared with the same period last year. In April alone, UNCTAD said, preliminary data showed trade in energy products had dropped by 40 percent with automotive products plunging by 50 percent.

For the whole year it predicted that global trade would fall by 20 percent compared with 2019.

One of the direst warnings of the global effects of the pandemic was issued earlier this week by the Organisation for Economic Cooperation and Development (OECD).

OECD chief economist Laurence Boone said the impact of the coronavirus on unemployment, corporate bankruptcies and the effects of social distancing would be large and would prevent a normal recovery from a recession.

“Most people see as V-shaped recovery, but we think it’s going to stop half way,” she said.

According to the OECD forecast: “By the end of 2021, the loss of income exceeds that of any previous recession outside wartime, with dire and long-lasting consequences for people firms and governments.”

If a second wave were avoided, the global economy would contract by 12 percent in the first half of 2020 and by the end of 2021 it would still be below the level reached at the start of this year. But if a second wave of the virus struck in the northern winter global output would be reduced by a further 10 percent next year.

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