

The foundations for the next financial crisis already e...

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The FT [published this at 2.40pm today:](#)

Financial crises occur when debt levels are excessive and asset prices fall. The severity of the recession that ensues can then be mitigated by large increases in government deficits and large cuts in interest rates.

Today the conditions for the next financial crisis are already in place. Debt remains at pre-crisis levels and US equities and UK property are seriously overpriced. But the ability to mollify the next recession with large increases in government deficits and sharp falls in interest rates has vanished.

As regular readers here will know, I have long argued that the stock market is heavily overvalued. In my estimation of valuation in the range of 3,000 to 4,000 (and may be lower and, right now) seems of asking more realistic than the current high valuation which is inflated solely by pension funds having no imagination at all about where to place their cash, to the detriment of their members. And, as we all know, private debt remains excessive in the death of some governments, like the UK, remains entirely manageable.

So I agree with the FT. August continues to look as if it will be a financial, and now potentially in the UK at least, a political bloodbath.

I hope Ed Miliband has an economic agenda ready and waiting for a manifesto for this autumn, because I think he might need one. This government has no chance whatsoever of getting us out of this mess.