

Is AI mania going to mean history repeating itself?

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This video asks a simple question. Is the AI-fuelled stock-market mania echoing the dot.com crash?

I compare FTSE 100 and S&P 500 crashes, highlight that the S&P is now trading at price-to-book levels above 2000, and show how mega-cap tech stocks now represent nearly a third of the index.

Recovery after 2000 took years, cushioned by government intervention—especially in the UK. But will that happen again, or will neoliberal ideology prevail, letting zombie firms and market excess implode?

If we care about economic justice, public accountability and avoiding speculative disaster, this is urgent. A crisis could be coming.

https://www.youtube.com/watch?v=LRR0ItPYDaA&si=5B5E4lZv2AHQm_CR

This is the audio version:

https://www.podbean.com/player-v2/?i=4hntx-193cc4d-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

We are living in an AI stock bubble.

I've been saying this for a while.

I admit I've made videos on the subject before; again, I confess to that, but now I'm not alone in saying this.

The New York Times is running articles saying that they fear we are living in an era before a crash, and so is the Financial Times.

The world is aligning with me. I'm no longer trying to make it do so. It has happened.

And my fear is that we are in effect going to face the dot.com crash that hit the world in the beginning of 2000 all over again.

And I lived through that and knew what it was all about, partly because I was involved in dot.com companies in the 1990s, and this, therefore, as far as I'm concerned, is something that is about lived experience.

The S&P 500 crashed then, and so did the FTSE 100. And now things are much worse in underlying terms than they were in 2000 because the tech giants are now much more dominant in terms of stock market valuation, particularly in the USA, than they were back then, so the risk is that we could have another crash on the scale of 2000, or worse.

In December 1999, just before the millennium, there was a stock market peak in the UK when the FTSE 100 hit 6,930 points, an unprecedented level before then, after which it plunged by nearly 50% by 2003. It took five years after that to recover, before 2008 dragged it down again.

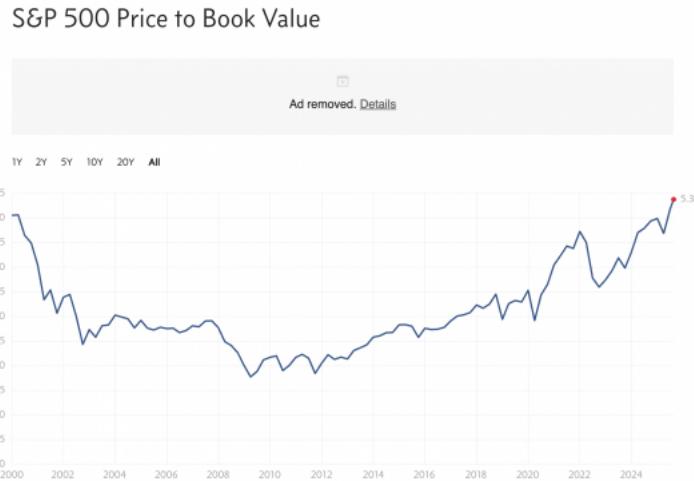
If we look at the States, the S&P 500 peaked at 1,553 points in March 2000, and by October 2002 had lost, near enough, 50% of its value. Again, the recovery took years, until 2008, when, of course, in effect, it all happened once more.

The lesson is this: markets can be irrational, and the fact is that right now markets are deeply irrational.

After 2000, following the dot.com crash, investor and pension plan pain was severe and prolonged, and it's a fact that crashes hurt whole economies and not just speculators.

Now, I want to stress that the links aren't absolute, and in some ways, they are less defined than they were earlier this century because there are so many fewer links between companies and their pension fund these days. But the truth is that unless governments act, the crisis of confidence that a stock market crash represents does drag down the economy as a whole, and so what I'm talking about is significant because if markets fall, we're going to be in deep trouble.

Just [look at this chart](#). What it shows is the price-to-book ratio of the value of the S&P 500 as a whole at present, and compares that with the entire trajectory of this century.



Right now, the price-to-book ratio, which is an indication of the difference between the price that people are willing to pay for shares and the underlying asset values associated with those shares, is 5.3. In other words, people are paying 5.3 times the underlying asset value of the shares that they are buying. And the last time we saw a ratio like that was in 2000, when it was 5.1. And look at what has happened in between. It fell heavily.

The indication, as a consequence, that we are seeing a bubble is incredibly strong.

AI is in effect the new dot.com in earnings terms. People are claiming that AI is going to deliver massive profits, and those are being valued so that stock market valuations compared to underlying asset values are enormous.

The fact is, investor psychology is driving valuations, and fundamentals are not. That is the classic driving force of a bubble.

And this time it's even worse than it was in 2000 because back then the companies that were overvalued were diversified in their nature, and now they're very concentrated. Now we are looking at about seven companies dominating the US stock markets in particular and dragging the rest of the world behind them in terms of market valuations.

Microsoft, Apple, Nvidia, Amazon, Alphabet, which owns Google, Meta, which owns Facebook, and Tesla are around one third of the value of the S&P 500 between them.

The top 10 companies in the USA represent 38% of the value of the S&P 500, and Nvidia by itself represents 8.1%, although it has seen a fall in its value in the few days before we recorded this video.

A stumble in any one of these can move the entire index. If they all move together - and that is what I'm suggesting might happen - and we're heading for a crash scenario.

And in 2000, people said that it couldn't happen because the internet was going to deliver untold riches. Today, we are told the market can't crash because AI is going to deliver untold and almost immediate riches as a consequence of the hundreds of billions that these companies are throwing at it.

And the fact is that the internet really did transform business completely and utterly. We all know that. Our lives are totally different from what they were 25 years ago as a consequence of that invention. But it didn't happen overnight. Nor did it entirely eliminate old-style business either, and that's going to be true of AI as well, I suspect.

Of course, it is going to change things. Let's not pretend otherwise. That would be absurd. It obviously is new technology, which is going to change the way that we work. But to presume that massive flows of profit will arise as a consequence for the companies that are investing now is quite absurd.

Let's put that in context. If that confidence, which is underpinning current stock market valuations, disappears, because it becomes apparent that there isn't going to be the stream of profits that people are currently expecting, indices could fall. They fell by 40% to 50% in the era from 2000 to 2002. In other words, values just about halved in many cases. It was that dramatic. The FTSE fell to a little over 3,000 from a peak of nearly 7,000.

Pension funds, savers, and jobs were all exposed as a consequence, and people lost jobs as a result. Let's be clear about it. And this time, the global fallout as a consequence of the concentrated tech valuations could be even worse, and the result could be something much more significant.

In 2000-2003, the UK government and others spent a lot to prevent market meltdowns. Gordon Brown, to his credit, rose to the challenge, and most people in the UK would not have realised we suffered the consequences of a stock market meltdown in this country in the period in question, 2000-2003, because he compensated for what was going on by increasing government spending to make sure we did not suffer.

But suppose that in this new world we now live in, where we have politicians like Rachel Reeves saying, "We must balance the books and nothing else matters", this crash could have a massive social impact.

If the government decides not to help this time, and the neoliberal dogma, which is that zombies must fail, and not just companies, but also governments potentially, then we are going to see a disaster as a consequence of the crash that I believe is coming our way as stock markets begin to fail.

AI's optimism is simply unjustified. I've been here before.

In 1999, I warned my co-directors in a company that if we did not sell out within months, we would not see the same valuation ever offered for the company ever again. It turned out I was right. When the company was eventually sold, long after I left, the figure that we got for it was about 20% of what we were offered in 1999, which my colleagues turned down. It's that sort of feeling that I get now.

We are facing that sort of potential reevaluation of AI.

Without action by governments now to actually put in place the steps that are necessary to ensure we have a soft landing when the AI bubble bursts, as burst it will, we are going to be in real trouble.

Governments have to have a contingency plan for this, and that contingency plan is about government spending to keep economies going when those who have brought it to its knees by overvaluing stock markets will have long taken their losses and fled the scene, leaving governments to pick up the pieces.

So, what do you think is going to happen?

Do you think that AI is overvalued?

Do you think that we could face a stock market crisis?

Do you think that the government is ready for it?

Do you think that we might all suffer as a consequence?

These are the sort of questions to which we want answers.

There's a poll down below. Let us know what you think, and thank you for telling us.

Poll

[poll id="185"]

Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, [here](#).

**One word of warning, though: please ensure you have the correct MP.
ChatGPT can get it wrong.**

Comments

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