

Funding the Future

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Financial markets are at record highs. Politicians, economists, and financiers tell us everything is fine. But it isn't. In this video, I explain eight major risks to markets that are being ignored:

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Banking collapse

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Deregulation

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Authoritarianism

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Artificial intelligence

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Climate change

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Demographic change

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Geopolitical fragmentation

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Rising inequality

These threats are obvious, exist in plain sight, and yet are wilfully ignored. If we don't act, collapse is inevitable.

<https://www.youtube.com/watch?v=lp0YIAowKNw?si=RJjnBNiH-f12cP7E>

This is the audio version:

https://www.podbean.com/player-v2/?i=dxique-1974a54-pb&from=pb6admin&share=1&download=1&rtl=0&font=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

I talk about the risks to financial markets quite a lot on this channel for one very good reason. I think there are staggeringly high risks to the stability of financial markets at present. Let's not beat around the bush. They're everywhere.

I did a video recently talking about the risk of banking collapse because of a lack of insurable assets on which they can base their loan books but there are also other risks as well. Very big risks, and we need to talk about them too.

The risk of regulatory failure.

The risk from authoritarianism.

The risks that are created by AI.

The risks created by climate change.

The risk from changing demographics.

The risk of failing global geopolitics.

And the risks from rising inequality.

All of these are threatening the stability of financial markets, and yet these risks, which are obvious and in plain sight, are being ignored by politicians, by economists, and by financiers themselves.

What is going on?

What's going on is that people are deluding themselves into thinking that, at a point where markets are at record highs in the USA and the UK, everything is going well. But the fact is, it isn't. That's not the case at all.

1 Banking collapse

Banks are literally a few years away from having no really good quality loan books. That puts them at jeopardy. But all the other risks that I've just mentioned exist as well, and we need to talk about them.

2 Regulation

So, regulation. It's a threat to financial markets for one very simple and straightforward reason, and that is not that there isn't enough regulation, but that regulation is being gutted.

And we know what happens when regulation is gutted. It's in the living memory of many people of my age and somewhat younger because, of course, in the run-up to the 2008 global financial crisis, there was light-touch regulation, in the US, in the UK, and in some other countries, and the consequences became horribly apparent.

Regulators were captured by the financial markets. Auditors became box tickers and did not provide accounts that were true and fair. And governments were complicit in this by trying to cut regulation to, as they put it, improve growth.

Now we're seeing this again. Rachel Reeves in the UK is describing the City of London as the "jewel in the crown" of the British economy and the source of our future growth. And she is deregulating as fast as she can to supposedly facilitate that growth, but she's deliberately reintroducing risk as a result.

This is what Einstein would've defined as madness. She's doing exactly what Gordon Brown did in the first few years of this century, and the outcome will be the same: a major risk to financial markets.

3 Authoritarianism

Authoritarianism poses another risk to financial markets. Fascism and effective markets do not coexist, and the risk of fascism is no longer fringe. It's real, and it's shaping governments.

But fascism undermines trust in courts, in legal systems, in contracts, in regulators, and it certainly undermines transparency. And economic theory says that transparency is important for markets to work. And as a matter of fact, in the financial markets, that is most definitely true.

Markets can't function without trust, and fascism destroys trust. That's already happening in the USA. The UK is following. We ignore this risk at our peril because it isn't just a risk to, well, everything else in life. It's also a risk to financial markets.

4 Artificial intelligence

AI is a major risk to financial markets because we quite simply don't know what is going

to happen with it. We're seeing some companies, most particularly in the USA, that are boosting their profit expectations enormously on the basis of AI. The US stock markets are dominated by the companies that are in this sector, as is the increase in their value.

But we don't know whether there really is a productivity miracle hidden within AI as yet.

We don't know whether it will simply deliver more monopoly power, and maybe vast numbers of lost jobs, but it will actually hollow out demand as well, because those without jobs will have no money to spend.

There is also a massive risk of market manipulation from AI. We're getting used to cyber attacks. At the time that this video is being recorded, JLR, the car manufacturer based in the UK, but Indian owned, is suffering a major cyber attack, which might put it out of action for months. Suppose the same was done with regard to our financial markets. Think what happens then. AI could facilitate that. Confidence could collapse overnight.

To pretend that AI is not a threat to markets is absurd. It might be the biggest threat they have. And not just from the consequences within the market of AI and the destruction it could give to purchasing power, but also, as I note, to the very operation of markets themselves through cyber attack.

5 Climate change

Climate instability is another major threat to financial stability.

It obviously is threatening the well-being of banks. We have a separate video on this, and that's because those assets - those properties in particular - which are threatened by climate change, which are most especially in flood zones, are not suitable for the purposes of backing loans in the future. And there are vast numbers of homes and business properties that are in this situation. The dam is quite literally bursting in their case. But climate change and the instability it will create are much more potent as a threat to financial markets than that.

Food, energy, supply chains - they're all already stressed. And we know that. We see the impact everywhere, and prices are changing as a consequence. The fact that food price inflation is higher than general price inflation is a reflection of this fact.

Financial systems assume stability, but the fact is, what we now know is that our planet is inherently unstable because of the change in temperature that our behaviour has built into it. And action to correct this is still almost entirely absent. There might be fine agreements, but the truth is, no company is trying to do anything in reality, very much, to tackle climate change. And the likes of Donald Trump, and the likes of Nigel Farage, and those wimps who follow them, like our Labour government, are all basically backing down on their climate commitments. But despite this, climate change could sink

financial markets long before it sinks our coasts and cities.

6 Demographic change

And demographic change is another threat to financial markets. Let's be clear about it. We are short of working-age people in the UK, the USA and much of continental Europe. This is another issue we've looked at before in videos on the channel, but it's got to be said again.

Ageing populations who are dependent upon financial savings for their security in old age are extremely vulnerable, because unless there's a buyer for the assets that they've created during their lifetime, then there is no pension that can be paid to them. And this will have massive consequences. It will mean that there's a risk of pension failure, but there's more than that.

There could also be a reduction in the demand for housing as populations get older, and therefore, housing demand may reverse. And in fact, house prices, which have become the hopes of so many to pass on value to the next generation, will disappear as well.

None of this is arithmetic alone. A lot of this is about speculation. Speculation has created bubbles, but the way in which it is unwound is dependent upon our choices about population. We can keep people out of our countries. That is what many politicians now want, but the consequence of doing so is severe. It is one of the risks that financial markets face, because without sufficient people in countries like the UK to fuel demand, there is no future viable financial market in this country.

7 Fragmented geopolitics

And then we have to deal with the fact that the world is becoming fragmented. Our geopolitics is crashing all around us. The world has changed for good. Globalisation, which was the mantra for decades, right throughout my life until very recently, is now over.

Trade blocs are being created quite deliberately by the likes of Trump, and he's using tariffs, but sanctions are also re-emerging as well because of things like the actions of Israel in Gaza. These actions, and those of Russia, are creating stresses inside the world, which means that our geopolitical unity, on which we have built so much of current prosperity, is all falling apart.

At the same time, the dollar's dominance as a reserve currency is weakening. And there is no alternative reserve currency emerging. That instability is now built into our systems. And because of it, those financial markets that depend upon the existence of globalised trade, and on the existence of reserve currencies, and on the existence of stable payment systems, are all at threat.

8 Inequality

Inequality is another threat to the world's financial markets. You might think not. You might think that the world's financial markets are doing very well out of the wealthiest hoarding their wealth within those markets and not investing, but using their funds for speculation instead, because that's what they're doing.

But the truth is that the massive distortion in wealth ownership that we are now seeing around the world, and which can only get worse as a consequence of things like AI, is actually a major threat to our financial markets. Because the very fact that so much money is being located in these markets, which is then distorting other choices, and which is actually, as a consequence of the desire to speculate, removing funds from genuine investment markets, is threatening the collapse of the underlying economy, which financial markets are meant to represent. Inequality is, in fact, choking markets and not liberating them.

Unlearned lessons

There's a common thread here. We've identified eight risks. None of them is obscure. All those risks are visible, but they're all being ignored.

The silence doesn't reflect ignorance. It reflects complicity. It's about the privileged demanding that their rights and their right to wealth be protected and that they be presumed to have the power to survive in perpetuity, even though the threats to their well-being and that of everybody else are all too apparent.

We should have learned the lesson from 2008. We saw then that collapse and patchwork fixes and the pretence of normality were no solution to anything after the collapse had taken place. Normal never returned, and this time the risks are bigger. That's because there is now no normal to return to. It no longer exists, whatever it was.

Required actions

So what must be done?

We must reform banks so that they are resilient in the face of climate change.

We must rebuild, and not relax, regulation.

We must confront authoritarianism and ensure that the rule of law is maintained, at the very least.

We must tame AI for human need.

We must invest to manage the risks from climate shocks.

We must accept that there are real demographic limits within our societies, and that migration is an essential response to them.

We must cooperate globally.

And we must redistribute wealth and ensure that what wealth there is is invested for the common good.

To conclude

Those things are all possible. They are all what a politics of care would demand.

To deny these risks is not just cowardice. It is collusion in collapse, and that is what I fear is going on right now.

We need courage, reform, and care, but what we are getting is a shrug and denial.

Only when we take on the challenges that I've explained in this video, will we really face the future and look down on financial markets and say these can be made to survive, but only if we take the right actions.

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.

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