

Funding the Future

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The surreal sense that we are living through a moment that will, in retrospect, be seen to be the lull before an enormous economic storm keeps hitting me.

As the [FT has reported](#) this morning, stock markets were jittery about share evaluations yesterday:

Tech shares led a slide in US stocks as rising concerns about highly valued companies collided with growing doubts about whether the Federal Reserve will cut interest rates next month.

The tech-heavy Nasdaq Composite closed 2.3 per cent lower and the S&P 500 lost 1.7 per cent. Asian markets followed the US lower in early trading, with Japan's Nikkei 225 index sliding 1.7 per cent and South Korea's Kospi falling 2.2 per cent.

As I have said for some time, they are entirely right to be so. And, I now note from [another FT article](#) that even the more serious market players share this view. This comment was reported by that paper yesterday afternoon:

Michael Burry, the investor made famous for his bet against the US housing market ahead of the 2008 financial crisis, is closing his hedge fund as he warned that market valuations had become unhinged from fundamentals.

Unhinged is a strong word, but in this case, it appears to be entirely appropriate.

If, as has been the case, some markets have seen increases in value of 50% over the six months since April, it is only possible to reach one conclusion, which is that markets have lost complete touch with reality. There is no prospect whatsoever of returns being earned that could possibly justify the current prices being paid for shares.

What is more, the correction, when it comes, will not be subtle; it will be violent.

The scale of regret will be enormous.

The losses, particularly to those punters who have taken part in this process for fear of missing out, might be considerable, and the anger of many will be heard, even if it has

been obvious throughout this period that almost anyone hanging onto their shares has been doing so without justification.

The problem is that there will, of course, be what might be politely called collateral damage, which might also be called real-world harm. If markets collapse, and they will, without serious government action there will be significant consequences in the real economy because:

- * state revenues will fall,
- * bank stability might be under threat,
- * credit will be rationed,
- * demand will fall,
- * employment rates will decline,
- * unemployment will grow,
- * bailouts will be required.

As worryingly, the small-minded politicians that we now have will believe that austerity is the only thing they can deliver in such situations, with consequences that could be absolutely dire.

It does not help that the UK now has a collapsing government, in which even its own cabinet has no confidence.

Meanwhile, neo-fascists are waiting to exploit every opportunity with which they are presented to undermine and destroy democracy, and will not hesitate to take them even though they have not a clue what to do in the situation that is going to develop, except to do anything they can to benefit the wealthy.

I feel like I did in late 1999, when I was quite sure a stock market collapse was coming, and as I did from late 2007 onward, most definitely early 2008 onwards, when it was apparent the economy was going to fall apart very badly. It is going to do so, again. There is virtually nothing we can do to prevent it. All we can do is argue that this time, the restoration of the status quo is the last thing that we need.