Funding the Future

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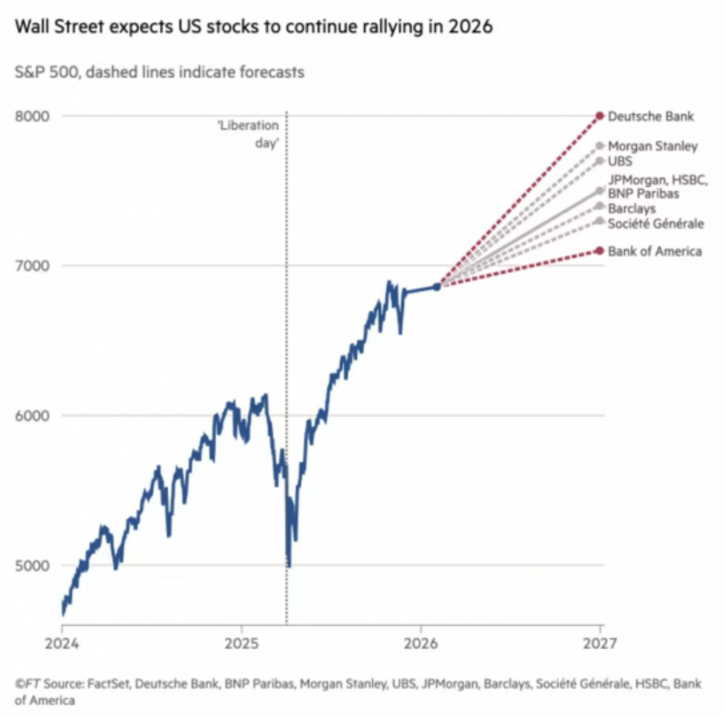
According to the FT this morning:

The blue-chip S&P 500 index will rise to more than 7,500 points by the end of 2026, a roughly 10 per cent increase from its current level, according to the average forecast of nine major investment banks surveyed by the Financial Times.

They back this up with a chart:



They add:

The predictions indicate a belief on Wall Street that markets have put last month's pullback — sparked by concerns over high AI valuations — behind them, helped by US President Donald Trump's tax cuts and the prospect of interest rate cuts.

So, let me offer my interpretation, with which I think the Bank of England would agree in its latest Financial Stability Report (on which there will be a video tomorrow). This is that:

* These people have massive stocks of useless products to sell.
* They know they are overpriced.
* They know they will be rumbled soon.
* They are talking up the price for as long as they can.
* They want to flog this stuff whilst it is still possible.
* That will not prevent a crash.
* The technical description of these forecasts is that they are either:
* Snake oil, or
* Bullshit
* Markets will crash because:
* US valuations match 2000.
* UK valuations match 2008.
* AI is horribly overhyped.
* There is massive debt leverage to buy AI stock.
* There will, then, be contagion into banking when values fall, as they will in my opinion.
* Banks might look stable, but they are only half the story now: private equity and hedge funds are the rest. They are overleveraged and could easily create massive market contagion.
* Private equity and hedge funds have never been tested on the scale they might be by a crash: they may fail very badly, bringing the whole edifice down with them.
* Sovereign debt markets are stressed right now (albeit unnecessarily) and as a result are subject to highly speculative betting and so could also be at risk.
* Massive opacity in lending and poor credit ratings are making matters very much worse, as they did pre-2008.

To put it another way, there is no evidence at all to support these bank forecasts for growth in share valuations.

And remember, they said the same thing in early 2008.

This is economic commentary, not financial advice. But markets look very vulnerable right now.

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