

## Is 2026 going to be brutal for financial markets?

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Andrew Bailey has warned MPs that substantial risks are building in global markets — and for once, I agree with him.

Trump's attacks on the Fed, the escalating threats around Greenland, and the weaponisation of tariffs are turning political instability into financial instability. That's already showing up in equity sell-offs — and it won't stop there.

In this video, I explain:

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Why political risk is now systemic financial risk

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Why equities fall first, and bond markets follow

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How Keynes's “animal spirits” and the paradox of thrift can trigger recession

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Why AI is not protected from a downturn; it's exposed

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Why the UK is not insulated from risk

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Why austerity would be catastrophic now, and why we need a politics of care instead

Poll below: Are we heading for a market crash?

[https://www.youtube.com/watch?v=o1txFAMM4FY?si=AsS6BVae4n59\\_Bpz](https://www.youtube.com/watch?v=o1txFAMM4FY?si=AsS6BVae4n59_Bpz)

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This is the transcript:

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Is 2026 going to be brutal for financial markets?

Andrew Bailey, the boss at the Bank of England, has been speaking this week in the House of Commons, explaining to MPs that he thinks that there are substantial risks in markets right now, and for once, I'm in agreement with Andrew Bailey; note it in your diary. It doesn't happen very often.

What he was saying is that the UK is exposed to risk. Trump is attacking the Fed's independence. He's threatening to annex Greenland. We don't know where his territorial limits end, and Bailey suggested that this is creating substantial risks spilling over into UK markets, and this is not theatre on his part; it is a genuine warning of coming financial destabilisation. This has to be taken seriously.

Andrew Bailey spoke to MPs on Tuesday. It's a routine visit on his part, but the timing was useful, and he said that the Bank is worrying considerably about financial market reaction to world events. The risk, as he put it, is that there will be significant spillovers into the UK financial system, and he's not just talking about politics here, although that is obvious. There is systemic financial risk, in his opinion, in what is going on. And I share that view. The point is, UK markets cannot pretend that they are insulated from world events because, very clearly, they are not.

We are seeing the first tremors within the world's financial markets as a consequence of Trump's threats to Greenland. On Tuesday, the S&P 500 fell by 2% in the USA, that's the US equivalent of the FTSE 100 in the UK. There is a clear indication in that move of market concern about what is happening on the global stage. Trump will hate that fall in share values, by the way. He worships the stock market index. He thinks it is what matters in the mind of the average American, who will therefore vote for him if that

index goes up, and the fact it's falling will therefore be something he notes, when he notes very little in the world beyond the White House. But that fall of 2% on one day may just be the beginning because US financial risk is now following US political risk.

There is a danger that is escalating fast, and this is not about normal volatility. The US is behaving like an unstable state. Its institutions are being attacked from within, and I'm talking about all institutions here, including financial ones, and the Fed is being treated as a political tool, and however you look at it, that is not the way to run economic policy.

Meanwhile, the threats to Greenland are imperial in their nature, and the threatened use of tariffs as a part of a trade war is fundamentally unsettling for world trade. And there is one thing that markets hate above all else, and that is unpredictability, and that is precisely what Donald Trump is turning into his political weapon of choice.

This risk is growing; let's be clear about that. The risk is within US markets, and it is within worldwide markets, but the motivation is the same in both cases. People are worried about holding US financial assets because the risk implicit within them is rising. That is why shares were sold. A 2% fall in shares in one day is an indication of dumping, and shares can be sold quickly; let's be clear about that, and with minimal friction, so it's unsurprising we're seeing the trend there first of all. Bond markets may follow, but by and large, bond market exits require more strategic planning.

But the point is, if investors get nervous, equities move first, and then bonds begin to wobble, and that combination can then become a crisis. And anti-US sentiment might become an investment strategy in that case. And this is not about emotion; it is about allocation of risk because US-based portfolios will now simply be seen as being more risky, and therefore those who are risk-averse, and a large number of people in the world are, will be moving against holding US portfolios.

And this is something that is not just going to be seen in the Danish Treasury, although rumour has it that they are looking to exit US Treasury bonds. The whole world feels uncertain about the annexation of Greenland. They don't like threats. They don't like the politicisation of what is going on in trade, and they're frightened of what might happen in the USA.

There is no good news in this for US markets either. Let's be clear about that. This is a particularly important point to make. There will be no new weapon sales in the USA if Trump proceeds with his plans for annexation. After all, his whole goal is to win territory without firing a gun, and so, therefore, there's no upside from this war-style economy for the US markets; there won't be a defence industry boom. And that not only removes one classic stimulus route for an economy which is otherwise in trouble, because that is what a defence boom would deliver for the US economy, but there will be no boom for the US stock market either. There will just be disruption, fear, and financial repricing.

And these consequences move on. The rest of the world will also be taking note of what is happening, and they will actually be planning to redesign their defence portfolios. In other words, they won't be buying US defence materials anymore.

F-35s? No, thank you very much.

US light armaments? Again, no thank you very much.

US submarines or technology or whatever else? No, I think we'll go elsewhere.

And that's the point. US allies now question whether they are allies at all of a state in such a situation. And that's because they doubt US reliability; therefore, their procurement decisions are going to shift because when they don't know that they can depend on a partner, then they aren't going to buy from them.

As a consequence, the US defence industry is really in for a tough time, and that will weigh heavily on US defence stocks, and they aren't unimportant in the US stock market.

All of this will reinforce negative market sentiment, and there will, as a result, be a rational retreat from US assets, compounded by the fact that the US is actually at war with itself right now. There are what look like US troops on the streets of US cities, attacking US citizens, arresting them without cause, and that, again, is creating investor reaction.

Investors like rationality, and they're not seeing it. This war from the White House on the USA is something that will encourage them to diversify away from US stocks, and why not? Nobody likes to see a state that is heading towards a civil war situation, and yet that is precisely where Trump seems to be taking the USA.

The result will be, there will be lower capital inflows into US markets, which again will mean weaker prices for US shares, and in due course, I have little doubt, US bonds, because of higher risk premiums, and that will mean share portfolios will fall and US interest rates will rise; again, something that Donald Trump really doesn't want.

But let's put this in an economic context because at this point, we need to think about what John Maynard Keynes, Lord Keynes, had to say about such matters. Trump is not taking the US public with him. Fear is changing behaviour. Consumers are stopping spending. Keynes would've said that the 'animal spirits are low'. That is the phrase he used to describe sentiment. And when the 'animal spirits are low', then the whole economy slows down. That is what he made clear.

And this is when the paradox of thrift kicks into action. Keynes described the paradox of thrift. He said it happens when households save more because they are anxious, and let's be honest, if you're in the US right now and you're not anxious, are you really alive or have you cut off all your social media and newsfeeds, because you should be

anxious because of what is going on in the country, and that is going to tip over into people's behaviour.

When it does, and everyone starts saving, demand collapses.

When demand collapses, we begin to see the onset of a recession.

And recessions then give rise to earnings downgrades.

And earnings downgrades then become reflected in falling share prices.

And everything that Trump wants in the world is going to fall apart. He might have got Greenland, but the price will be a collapse in his domestic support and a collapse in US financial markets. That's a price, I don't think he's factored into his equation, and it's going to be a very big one indeed.

And in all of this, AI is not immune. It is fundamentally exposed to the risk that the rest of the US economy is facing. AI investment depends on confidence and cheap capital. A downturn pulls liquidity out of speculative assets, and there is no more speculative asset than AI. Projects get cancelled, hype gets reassessed, and the share price bubble that we are seeing might well burst.

Now, I know I've been talking about the risk of a downturn for some time, I accept that, but the point is that at some time the crash will develop because of the generation of a tipping point. That tipping point hasn't arrived as yet, but I think it is now.

The political shock that has now taken place is leading to investor anxiety.

It is going to lead to equity sell-offs.

It is going to lead to bond sell-offs, rational or irrational as they might be.

And there is going to be a tightening financial situation in the USA, and that is going to lead to a recession.

And a recession plus a bubble bursting will result in an accelerated crash.

This will follow like night does day if Trump continues on the path that he has chosen, and that is critical.

The tipping point does now exist, and Trump's irrational behaviour may in fact accelerate it. If we just look at events over the last week, we have moved into a totally different world. There's nothing like last week in this week. Last week, we thought there was some certainty; frankly, now that is gone, and everybody says it.

That is why Andrew Bailey was also right to say that there really is an increased risk for

the UK.

The Bank of England is right to signal exposure on this occasion.

The UK is deeply integrated into US markets.

UK pension funds hold US assets.

UK banks face liquidity and collateral contagion from US banks with whom they trade all the time.

Sterling can move sharply as a consequence of risky events, and it could be up or down in this case, but either way, there is risk, and the UK is financially open and therefore vulnerable.

What this means politically is that we are coming to the end of an era when all the assumptions of neoliberalism held true. It did for better or worse, and by and large, worse, in my opinion, deliver stable global rules. But Trump is now smashing those rules, and that means we're going to get trade instability. That is what he's promising us, and that means financial instability, and as a consequence, a new political economy is required.

What happens if this continues? The US recession becomes ever more likely or becomes ever stronger. Global investment will slow. UK market volatility will increase. Wealth inequality will worsen because the wealthy will protect themselves first, and public services will come under pressure unless the government acts, and acts appropriately in this circumstance.

So, what must not happen in the UK? This is a vital thing to point out. We must not respond with austerity. Crises always trigger calls for cuts, but they would be catastrophic. At this moment, the UK needs resilience, and not retrenchment, and care must be protected, whilst investment must be stabilised, if necessary with government expenditure, and the means to do that are available if we just reorganise our savings markets and the tax incentives attached to them, as I have explained many times.

What should happen is that we generate a politics of care in response to this crisis. We must protect households from instability. We must stabilise investment through public purpose. We must refuse austerity narratives, and we must invest in resilience, whether that be in energy, housing, health, or education.

And those with wealth must bear the cost. That's also absolutely fundamental.

This is 2026. It's going to be a brutal year unless we choose otherwise. Bailey is right, substantial risks exist, and they're being created deliberately. Let's be clear about that. All of this could end if Trump would just back down, but the signs are that he won't. Markets may crash because trust is collapsing, and it's collapsing by deliberate choice

of the USA.

The UK must plan for instability now. We do need economic justice and state responsibility at this moment because this is the precise time when they're essential and not an option.

We need a politics of care, but what we also need to do is take heed of the warnings. We are going to face turmoil. We are going to be in for a tough time, and in videos to come, I'm going to be talking about how an economy manages such situations, but for this moment, take note. That crisis that I've been talking about for a while is now very much closer than it has ever been. We are sitting on the brink of a financial crash.

What do you think? There's a poll down below.

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## Poll

[poll id="299"]

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**Tickets are now on sale for the Funding the Future live event in Cambridge on 28 February. [Tickets and details are available here.](#)**