

## A financial crash is coming

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The FTSE 100 and S&P 500 are near record highs. The real economy is deteriorating. And the Bank of England's Deputy Governor for Financial Stability, Sarah Breeden, has now said publicly what most politicians will not: a stock market crash is coming, and the financial system is not ready for it.

This crash could be worse than 2008 because of overvalued stock markets, the AI bubble, an overexpanded and at-risk shadow banking system and the Iran energy shock, which the International Energy Agency is calling the biggest energy shock in history.

If any of these risks crystallise simultaneously, and Sarah Breeden thinks they might, then the result will not be a market correction. It will be a financial crisis that will result in falling confidence, rising interest rates, frozen lending, job losses, and a domino effect through the real economy.

Governments must act now to plan for this eventuality and not after any crash happens. Contingency plans must exist, and nothing appears to be being done as yet.

If ever there was a moment to worry, even the Bank of England is saying this is it.

[https://www.youtube.com/watch?v=dlosvT5fcfc?si=JsjqRE5k2\\_r-YZNS](https://www.youtube.com/watch?v=dlosvT5fcfc?si=JsjqRE5k2_r-YZNS)

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This is the transcript:

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I've been warning about a stock market crash for some time now. The reason should have been obvious.

Stock markets have, over the last year, been at all-time highs and steadily rising while the real economy has deteriorated, and now we are in a wartime situation.

The risks have been clear and obvious for all to see, but they have been ignored.

In that context, the fact that the Bank of England has now recognised that the risk of a stock market crash is real and potentially imminent is something that is really important. The significance of this is that what I'm saying is no longer a fringe view. It is now the official position of the UK's central bank.

The Bank of England's Deputy Governor, Sarah Breeden, has told the BBC that stock markets look to be overvalued at present. The significance of this is that not only is she the deputy governor of the Bank of England, she is also head of financial stability there, and it's highly unusual for a person like her to talk about markets in this way.

She's pointed to multiple risks that markets appear to be complacent about at present, and that makes this a significant moment. Central banks do not make interventions like this lightly, and to quote her precisely, what she said is "There's a lot of risk out there. And yet, asset prices are at all-time highs."

And she's right. Look at the chart on the screen right now. The UK FTSE 100 is near a record high at the moment, and reached it only a few weeks ago, and the same is true in the USA, where the S&P 500 is trading at around a record level. You would think that we are living in a world where milk and honey is flowing, and risks are minimal when the truth is the exact opposite is the case.

Sarah Breeden continued. She said, "We expect there will be an adjustment at some point. The thing that really keeps me awake at night", she said, "is the likelihood of a number of risks crystallising at the same time." And she went on to say that what she is worried about is "A major macroeconomic shock, confidence in private credit going, AI and other risky values adjusting." "What happens in that environment, and are we prepared for it?" was the question that she asked, and I exactly share her view. That is the right question to ask.

She is saying asset prices do not reflect the risks that the real economy is actually facing right now. And as a result, she expects a correction. I would call that a crash. She did not say when or how large that correction might be, but I believe that because of the multiple risks that are being identified, that risk could be very real indeed, and in

this context, she even seemed to underplay the risk that the war in Iran could create. But she's looking at that, plus a credit collapse, plus an AI bust. That is what she is fearing, and in plain language, she thinks a crash is coming, and when she's saying that, she's not just looking at the UK.

US markets have repeated all-time highs despite mounting economic warnings, and the International Energy Agency has called the Iran crisis the biggest energy shock in history. Markets are behaving as if none of that risk exists. Prices and reality have become dangerously disconnected.

At the same time, technology companies have had hundreds of billions of dollars poured into them to build AI infrastructure, which may not work if this war continues, because the raw material supplies to build the chips that all this infrastructure works upon may not be available.

Bill Gates has called this investment process a 'frenzy' resembling the dot-com bubble of the late 1990s, which I remember all too well, and in that bubble, investors threw money at unproven companies, and many of them lost everything. Valuations of this sort are one of the specific risks that Sarah Breedon named as likely to readjust in the future, and when that readjustment comes, it will not be gentle.

That's the key point, and alongside this, there is the risk from shadow banking: the hidden risk within our economy. The shadow banking system is linked to what is now called the private credit market, and over the last 20 years, these structures have grown enormously. There is now more than \$2 trillion invested through these organisations that mimic banks, they're private equity companies, they're major investment funds, and they lend privately to businesses in the way that banks might have done in the past, but which they do directly now instead.

Some of these funds are already sustaining losses and are restricting investor withdrawals because they are at risk of losing their credibility and financial liquidity as a consequence of the demands being made upon them, and the shadow banking system has never been stress-tested at this scale before now.

Breedon's warning is explicit. This is what concerns her most. A war in Iran and the collapse of AI would be bad enough, but the risk from the private credit system connected to shadow banking is her greatest fear of all. As she put it, "Private credit has gone from nothing to two-and-a-half trillion dollars in the last 15 to 20 years", and that is the problem. The risk is that we might have a credit crunch rather than a banking-driven credit crunch, and that's what she's worried about. This sector is where we are seeing deeply interconnected risk that is, however, largely hidden from view in the way that the mortgage crisis was largely hidden from view before the 2008 global financial crisis, and the scale of the risk is at least as big, if not bigger.

The point is that all of these issues could arise virtually simultaneously, and there might

be a domino effect. The consequence would be a sharp fall in stock market prices, and that will make households feel poorer, and they will then cut spending.

That fall could in turn upset interest rates. They might rise. This might make it harder for businesses to raise funds as a result, and that will lead to falling business confidence, which in turn will lead to falling rates of employment and investment.

And if the private credit market freezes at the same time, lending across the economy might seize up. This then would not be a market correction. This would be a financial crisis.

The fact is, we are not safe from this. The problems that Sarah Breeden is talking about are global. Her control reaches the English Channel. The extent of the risk goes way beyond that. What she's talking about is something that may be beyond anyone's control, but which nonetheless the UK has to react to.

The question is: how might prices fall? Will there be a sharp adjustment downwards? She's not saying it's going to happen today. She's not saying it's going to happen tomorrow. She does not know. No one knows, including me, but what she is saying is that the system must be ready because it could happen at any time. That is not reassurance. That is a warning dressed in the sort of careful language that central bankers like to use. Read between the lines. We are heading for trouble.

This risk of a global crash sits on top of the global trade wars driven by Trump's tariffs. It sits on top of the energy crisis created by the war in Iran. It sits on top of an already fragile UK economy. It sits on top of the AI risk, and these are the multiple shocks that we might get simultaneously. Those conditions are already forming.

So the Bank of England now agrees with the warnings that I've been giving for some time. Markets are overvalued, and a correction is coming. The effects will be severe and widespread, and this is not about being alarmist. This is a description of where we are. When the Bank of England's head of financial stability says she's losing sleep over this, so should we.

I've been making this case for a long time, and now the Bank of England is as well. The question is not then whether a correction is coming. It is when it is coming and how bad it will be. But my point now is something else. The government needs to be prepared for this. Regulators also need to bring shadow banking and private credit inside proper oversight now, and not after the crisis, and everyone in government and in the Bank of England needs contingency plans to help and not hinder the real economy when the City fails again, as it is going to do.

The time to act is before this crash and not when the bubble has burst. That bubble is going to burst in my opinion, but what do you think? There's a poll down below. Let us have your comments. We do appreciate them. Share this video if you like it. Let other

people know about the risks that we're facing. Subscribe to this channel, and if you want to make a donation to keep this work flowing, I'd be very grateful.

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Poll