Funding the Future

Is another October crash coming?

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October has an extraordinary history of sudden financial crashes.

Six of the eight largest falls in Dow Jones history happened in October, including 1929, 1987, 1997 and 2008.

Couple that fact with Bank of England Governor Andrew Bailey warning this week that markets face a high risk of a disorderly correction.

His concern is not abstract. Valuations are stretched, meaning markets are priced far above what fundamentals justify, and that correction is overdue.

The danger is amplified by debt. Bailey thinks too much borrowed money is being used to buy shares through Exchange Traded Funds and hedge funds, and so when sentiment turns, losses might intensify.

Concentration makes this risk worse. Seven giant tech companies, above all those tied to frontier AI, now dominate valuations while cross-investment between AI models and data centres ties their fates together.

Bond markets are already in panic and stock markets are swinging sharply, and the upside for staying exposed is shrinking.

Bailey's message, echoed here, is to head for safety while you can. Choosing the safest option for your finances is not pessimism but prudence when stretched valuations, debt and concentration collide in the most dangerous month.

History shows October does not forgive stretched markets when debt and concentration have already made them fragile.

https://www.youtube.com/watch?v=gaxYFWUZGDg?si=pN0TMVF2jZeACOTd

This is the audio version:

https://www.podbean.com/player-v2/?i=6gu6s-1b4fda9-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

Could stock markets crash this October? October has an extraordinary history of sudden financial crashes. The crashes of 1929 and 1987 reached their decisive moments in October of those years, and some of the most violent falls of the 2008 crisis also happened in October. Now this does not mean that October must mean we'll have a financial crash, but the historical pattern is striking enough to take seriously.

October has earned its reputation as the month of market crashes. Wall Street crashed decisively on the 28th and 29th of October 1929.

Black Monday happened on 19th of October 1987. I remember it well.

The Asian financial crisis produced a major sell-off on 27th October, 1997.

And the 1937 crash in the USA, which we tend to ignore now, also produced one of its sharpest falls in October.

Whilst in 2008 there were exceptionally large falls in stock market valuation during the course of October, although the crisis did, in fairness, start in September.

The numbers behind the October pattern are also remarkable. Six of the eight exceptionally large Dow Jones Index falls in the period we are looking at happened in October. The Dow fell 22.61% on 19th October, 1987. It fell 12.82% on 28th October 1929. It fell another 11.73% the following day.

October has repeatedly produced sudden and exceptionally violent market moves, and we are living at a moment when such moves are expected again, not least by people like the governor of the Bank of England.

But let's be clear, major market crashes do not always happen in October. The COVID crash reached its most violent point in March 2020. The Dot-com collapse in the UK happened in January, and reached its peak in March, and the 2025 tariff selloff came in April. So there is no rule that financial collapses must happen in October, but there is something else to note as well.

Sudden crashes are different from prolonged bear markets. Bear markets can develop gradually over months or years. The 1973 to 74 collapse ran from January 1973 to December 1974. October had nothing to do with that, but this was not a one-off moment of crisis. It was a bear market, which means that markets are in a continual sale mode and decline steadily. The Dot-com collapse unfolded over roughly three years. October looks exceptional, mainly when we consider sudden market collapses.

And overall, the worst month for stock markets is, in fact, September. September has historically been worse on average for markets, but October has sometimes been catastrophic, and let's note in that context that September 2026 has started badly. Bond markets are in a state of panic, and the stock market is fluctuating. We do look as though we are in a period of market uncertainty. October could be catastrophic as a result, and there are those who are warning that this could be the case.

Andrew Bailey at the Bank of England has said in recent days that the risk of a disorderly correction within financial markets is high. He told the G20 that vulnerabilities in the financial system remain 'elevated', to use his precise words. And he has suggested that asset valuations remain high despite increasing financing costs. The result is markets are vulnerable to a potentially disorderly correction spreading right across international borders.

He highlighted the risk in government bond markets.

He also stressed that there are risks in the shadow banking system.

And he has suggested that there are stretched asset valuations, as he put it. And all of these things create fragility.

And let's be clear what he means by stretched asset valuations. He means that things look overpriced, to be blunt: that stock markets are too high and that a correction is inevitable. And in this context, Bailey specifically highlighted stretched valuations in AI-related investments and the risk within that technology itself.

He stressed that he sees a risk from what he called frontier AI: the risk that AI could go rogue, in other words. Those are my words and not his, but his conclusion was very straightforward: we therefore cannot be complacent.

And I think he was sending a signal to the world. He thinks the world is being complacent. And for once I find myself in complete agreement with Andrew Bailey, which is a position I find uncomfortable because he's right.

He's right to warn that markets are overvalued. He's also right to warn about another issue. He is warning that too much money is being borrowed to buy shares. This is happening in ETF funds, as they're called. It's also happening in other types of savings vehicles. And hedge funds are also borrowing money to buy shares. And this creates significant connections between risk in equity markets and banks.

The fear is that this approach can reinforce market profits at this moment where markets might still be rising. But where money is borrowed to buy shares, the risk is that losses are intensified when sentiment turns because everyone panics to offload their shares at that moment because they have to repay their debt, which they won't be able to do if they don't get out at the peak of the market, and so the risk of a major downturn is exacerbated as a consequence. And this is the risk that Andrew Bailey is talking about.

The concern now is that high valuations, high levels of debt and high levels of market concentration in the shares of a few companies are now interacting with each other, and add into that the confusing cross-investment between AI companies and data centre providers, and there is a risk that these too could amplify a market correction.

In other words, if one of the big seven tech companies does have a genuine fall in value for a particular reason, other companies who have invested in it, but who themselves are otherwise still trading profitably, could see their share prices marked down heavily. We could therefore get this disastrous consequence of a collapsing market.

So let's be clear, October does have an extraordinary history of sudden financial crashes, and Andrew Bailey is right to identify that conditions exist that could make another correction possible right now. Asset valuations, artificial intelligence and debt funding of share-based investment could all magnify any initial fall in the value of shares and turn it into a run. The result could be a large shock, or several shocks added together, and this could trigger multiple vulnerabilities simultaneously, knocking over into the banking system requiring government bailouts.

October does not predict a crash, but this October will arrive with some deeply worrying conditions already in place, if we haven't seen the crisis in September. It might be time to find your financial tin helmet in that case, or in other words, head for safety. That's what I think Andrew Bailey was saying to people, and for once I agree with him. At this moment, if you've got a choice with regard to your finances, go for the safest option you can find. Andrew Bailey is saying the upside risk is no longer worth taking. The downside risk is real. We have to take that seriously. October may be interesting.

That's what I think. What do you think? You might not agree. You might still believe that markets will weather this thing out. If that's the case, let us have your opinion. Please do let us know your opinion in the poll. Please do like and share this video. Please do subscribe to the channel and ring that bell so you get told when we make new videos. And if you'd like to buy Tom and me a coffee, thank you very much. That would be much appreciated, and there is a link to enable you to do that just down below.

Poll

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