

The AI bubble is ending, which is good news for interes...

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The FT includes [this headline](#) this morning:



There are a number of things to note.

Firstly, there is growing evidence that the retreat from AI stocks has begun. Many stock markets fell overnight. The FT also has an article today saying that CalPERS, which is the Californian public employees' pension fund, and one of the largest in the world, has begun its retreat from AI stocks. That bubble is going to burst sometime soon.

Secondly, the direction of travel of the funds that have left the market is very interesting. The sell-off in the Japanese stock market has resulted in purchases of Japanese government bonds, reducing interest rates there as a consequence.

I was told recently that there was no crossover between these markets. I had suggested that interest rates on government bonds around the world have risen because of sales of those bonds to release funds to buy AI shares. It was said that this does not happen.

The evidence from this activity is very clear: it does, it has, and the implication is obvious. The increase in the cost of government borrowing has had nothing to do with increased risk perception, inflation fears or liquidity concerns. It has, instead, had everything to do with the irrationality of financial markets seeking to make a quick buck from AI share speculation.

Among the many threats AI has created so far, we can add the threat to stable government financing, and the consequent risk of economic austerity by governments that do not understand what is happening in the marketplace.

Let me be clear, then, about the third conclusion to draw, which is that as the value of AI shares tumbles, which it will, the value of government bonds will increase significantly.

The result will be that interest rates on these bonds will fall, because there is an inverse relationship between the value of government bonds and the effective interest rate that the government has to pay on them, and the consequence is that many of the imagined pressures that John Healey will say exist in his budget next week will disappear.

If he has not got the imagination to understand this possibility, then yet again, he will prove himself to be unfit to hold the post that he has. If he constrains the role of government in this country, at cost to millions of people within it, and lets the Bank of England continue to raise interest rates wholly inappropriately, punishing householders and renters alike, and all as an indirect consequence of AI share speculation, he will not have understood that it is the job of government to protect people against the consequences of market failure, which is what this AI speculation represents, and not compound its consequences.

I am expecting a massive reset in financial markets soon. The impact will be very significant, but as far as governments are concerned, the cost of their borrowing will fall significantly. If those who are forecasting in the Treasury and the Office for Budget Responsibility do not understand the likelihood of this, they, like too many in the market, are the victims of groupthink, and we will all pay a significant price for that, and that is my very real concern.