Funding the Future

CRASH

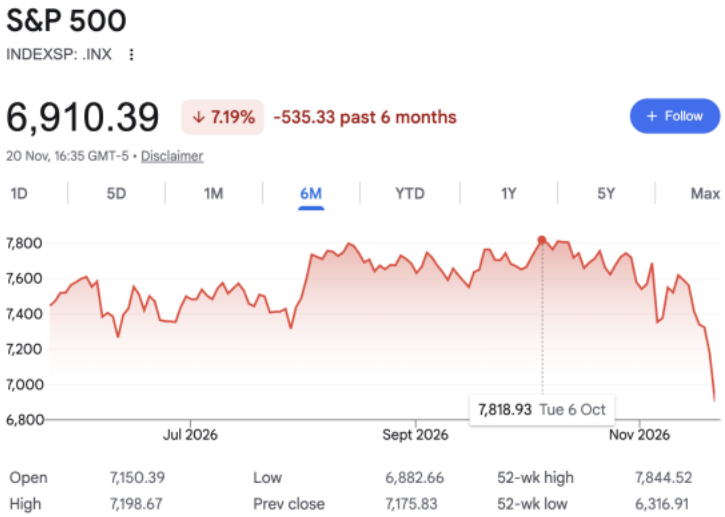
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As the FT has noted overnight:

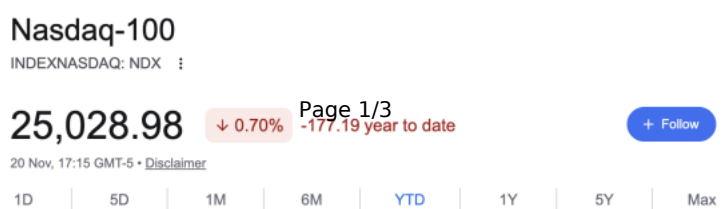
US tech stocks plunged into a bear market in their worst week since the Covid-19 outbreak shook the global economy as fears of a slowdown in the AI investment boom triggered a wave of selling on Wall Street.

The tech-heavy Nasdaq 100 tumbled 5.6 per cent on Friday, taking its loss for the week to 10.4 per cent, its worst run in more than six years. The index has dropped 20 per cent from its intraday high on October 6, the threshold typically associated with bear market territory.

To provide some indication of the trend, this is the chart of the leading S&P 500 index in the USA, which is more broadly based than the Nasdaq index:



Thje Nasdaq chart makes clear how big the decline has been there, and how marked the current stage in the sell-off is.



I stress, this may not be a crash as yet. It may just be a bear market, an almighty correction, and an appreciation of just how over-inflated prices have been, leading to a necessary adjustment, but it does not feel that way.

It seems as if the sheer madness of more than $80 billion being invested in Anthropic shares as a result of its IPO, or share offering, this week has made markets aware of a deeper issue, which is that no one on earth has the slightest clue as to why the implicit valuation of its future income streams can be justified.

That's because of its voracious demand for money to spend, the incredibly short likely lifecycle of its investment expenditure given the rate of technological advance, and the fact that there is no sign that anyone anywhere, except institutional investors who are revealing an absolute absence of any sense of fiduciary duty to those on whose behalf they are meant to act, has any clue as to who wants to buy anything these companies have to sell at the scale required for them to even break even, and the rsusltiung fact that there is no viable business model on dipslay in AI as it is at present.

That said, I stress there could be a viable business model for AI. Specialist niches within the sector will be, can be, and are going to be of continuing use. Of that, I have no doubt. Something will emerge from what is happening at this moment that could be genuinely useful and viable. That, however, does not mean that the madness of this year, where money has been thrown at this sector in truly reckless fashion, has made any sense. It has not. And I suspect the moment of realisation has arrived.

The crowd has recognised the folly of its own ways. It has appreciated that it has participated in an act of collective delusion. Now it wishes to depart the scene, and as it does, mayhem might happen.

Trillions were lost yesterday.

Trillions more might well be lost.

More worryingly, much of what might be lost was financed with borrowed money, meaning the loans in question might not be repayable.

That's how this contagion reaches hedge funds, private equity, secondary banking, and so on into mainstream banking.

I have been saying this will happen for a long time. And if we are lucky, I might still be proved to be wrong. There could just be an adjustment. But that seems unlikely. This feels like crash territory.

Batten down the hatches.

This might be very uncomfortable.

And we have no sign of having competent people in charge. That is the most worrying thing of all. When we need them, will we have people who can think guiding our economies? Their absence is my biggest worry.