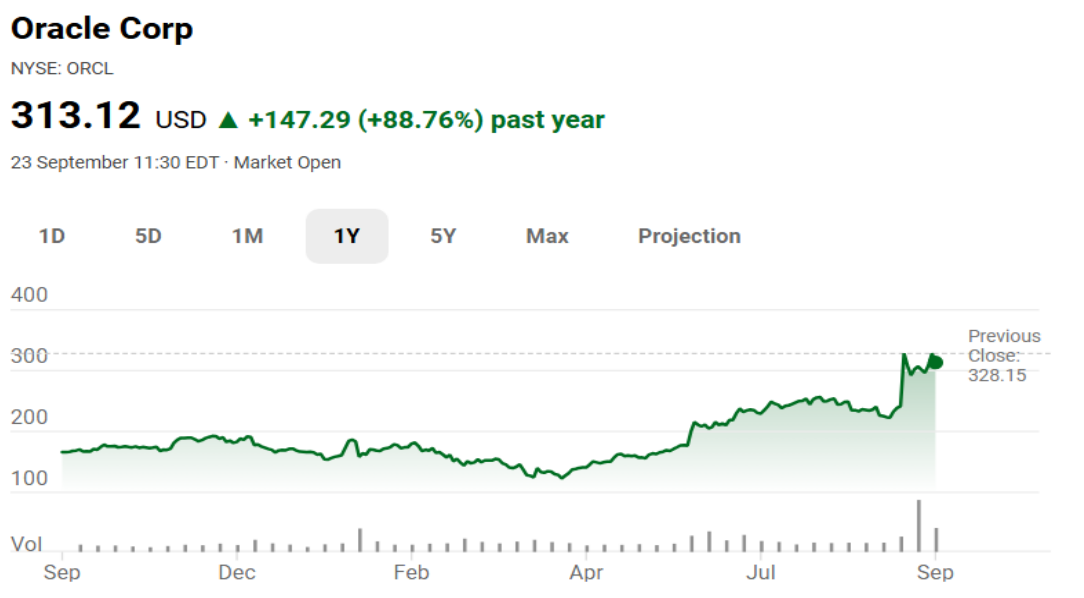


# IS THE AI BUBBLE ABOUT TO POP?

*There has been a slew of recent deals where it appears that Nvidia is paying or should we say investing in customers particularly OPENAI to secure sales of its chips. This also includes Oracle and Intel. This looks suspiciously like end of cycle behaviour brought forward by the loss of the Chinese market.*

Nvidia announced an initial [\\$100 billion](#) investment in OPEN AI. This followed an investment by [Oracle of up to \\$400 billion in OPEN AI](#) to fund the purchase primarily of Nvidia chips. This caused Oracle shares to spike making its main shareholder Lawrence Ellison temporarily the richest man in the world.

Graph 1. (Oracle share price)



In addition, Nvidia has announced plans to invest in the United Kingdom. The effect of all this AI investment not only by Nvidia but Meta, Amazon, Google and SoftBank is to continue to inflate the AI bubble. Hence the investment updraft lifting the NASDAQ index.

Graph 2. (NASDAQ Index)



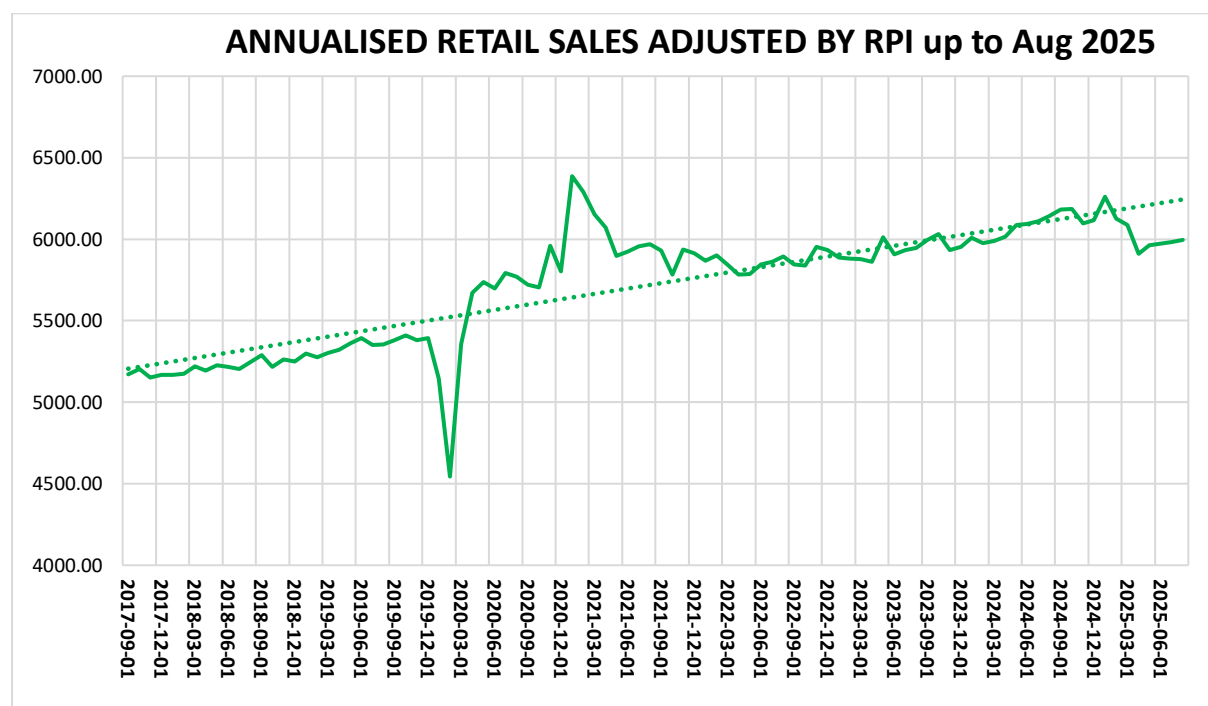
**LATEST ON NASDAQ COMPOSITE**

A recent [Financial Times](#) article has thrown cold water on the AI hype. In an article titled ***America's biggest corporations keep talking about AI but struggle to explain the upsides.*** “But other than the “fear of missing out”, few appear to be able to describe how the technology is changing their businesses for the better.” This is the conclusion the F.T. has drawn after analysing hundreds of S&P corporations. Corporations continued to express concerns about expressing concern about “cyber security, legal risks and the potential for it to fail.” And “As the number of companies discussing AI has grown, fewer businesses are expressing positive views about the technology than they did in 2022.” That is not the direction of travel for a successful technology. In the interest of balance, the F.T. article does cite a few success stories.

Naturally the booming stock markets have increased the personal consumption by the top 10% who own the bulk of the listed shares. “[Wealthiest Americans Power Consumer Spending](#): The top 10% of earners, making \$250,000+ annually, now contribute **49.7% of all consumer expenditures**, up from 36% three decades ago.” Yoy their share increased 1.2% which means it has been the rich who have driven overall increases in consumer spending. “The WSJ report notes that [richer Americans](#) have increased their consumer spending well above inflation, while the rest of the country has not. The bottom 80% of earners spent 25% more than they did four years earlier, while prices increased 21% during that period. The wealthiest 10%, meanwhile, spent 58% more, the report said.”

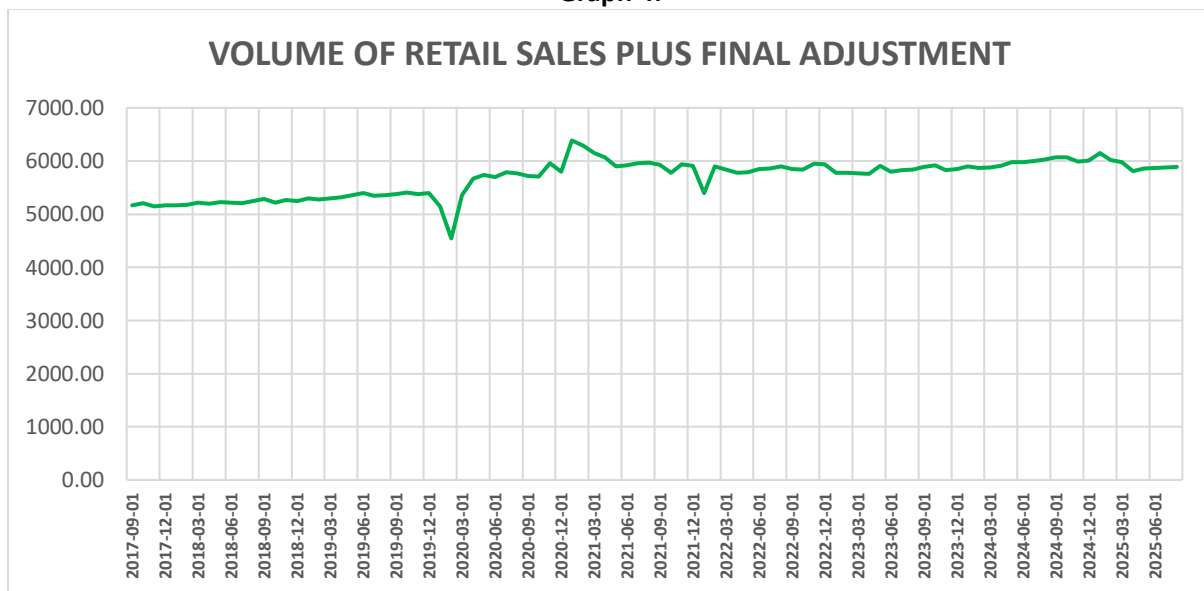
But as we are about to see, despite this uplift , the significant fall in consumption by the poorer sections of society has resulted in stagnant retail sales, a key barometer of consumer spending. In the graph below, adjusted for price movements, retail sales are no higher than they were two years ago and taking August into account, they are down on the previous August despite the nominal increase in sales of 1.2% over the last two months. In fact, these flat to falling sales are in line with my own empirical research using quarterly corporate earnings reports which show volume falls of between 0.5% and 1.0% for most large consumer facing corporations.

Graph 3.



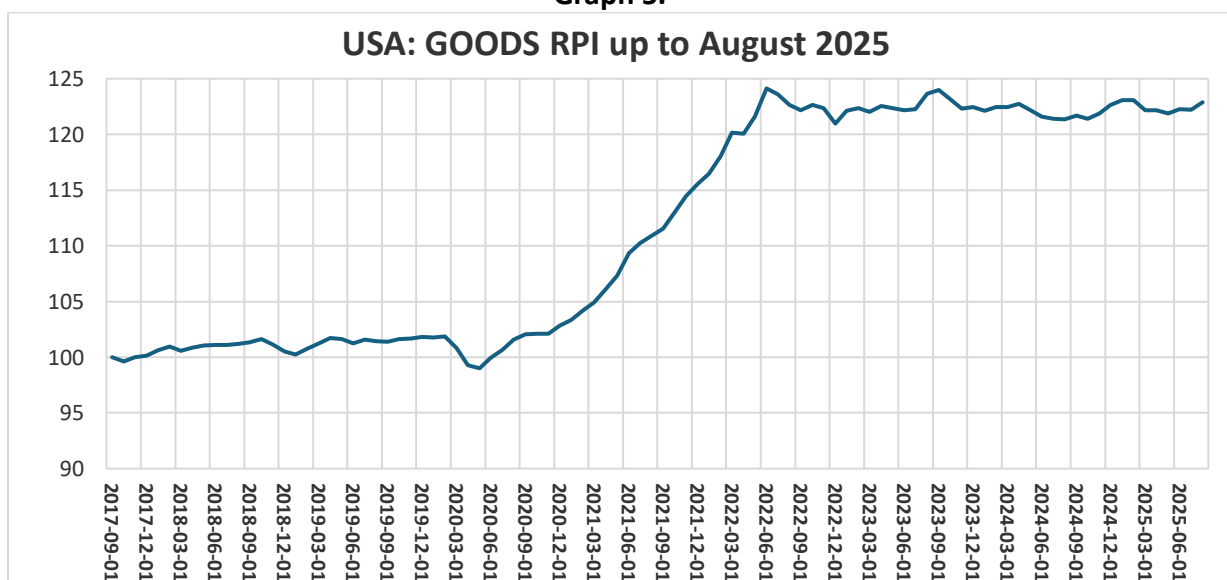
The picture is even more stark when we introduce the downward 1.8% revision to retail sales the Census Bureau introduced during its last annual revision to its data. If we continue to use this revision, then sales look as follows (Graph 4). In this case sales have been flat for four years. Without the 58% rise in nominal purchases by the top 10% sales would have fallen in real terms. Inequality is the reason why the top 10% spend proportionately more than the rest of society, creating a dependency on the rich who in turn are dependent on what happens to the stock market. Should the stock market fail, and the one thing which can trigger such a fall, A.I., it would be catastrophic. Even FED Chairman Powell, who tends to be continuously blindsided by inflated official data, expressed caution about the overextended stock market. *[“Federal Reserve Chair Jerome Powell on Tuesday noted that asset prices, a category that typically includes stocks and other risk instruments, are at elevated levels.”](#)*

**Graph 4.**



Finally, the graph below is the RPI deflator which converts the value of retail sales into the volume of retail sales. It is similar to the BEA's PCE goods deflator. It shows the recent uptick in nominal retail sales was eroded by a sharper rise in prices some emanating from recently introduced Trump tariffs.

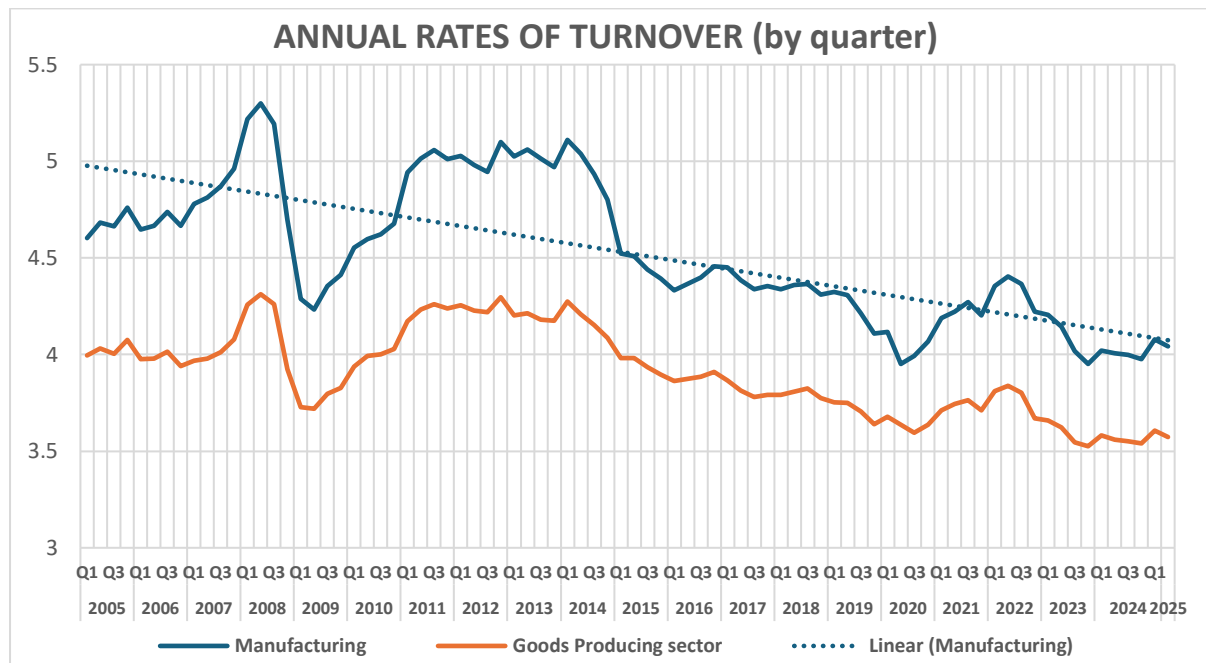
**Graph 5.**



## Rate of turnover

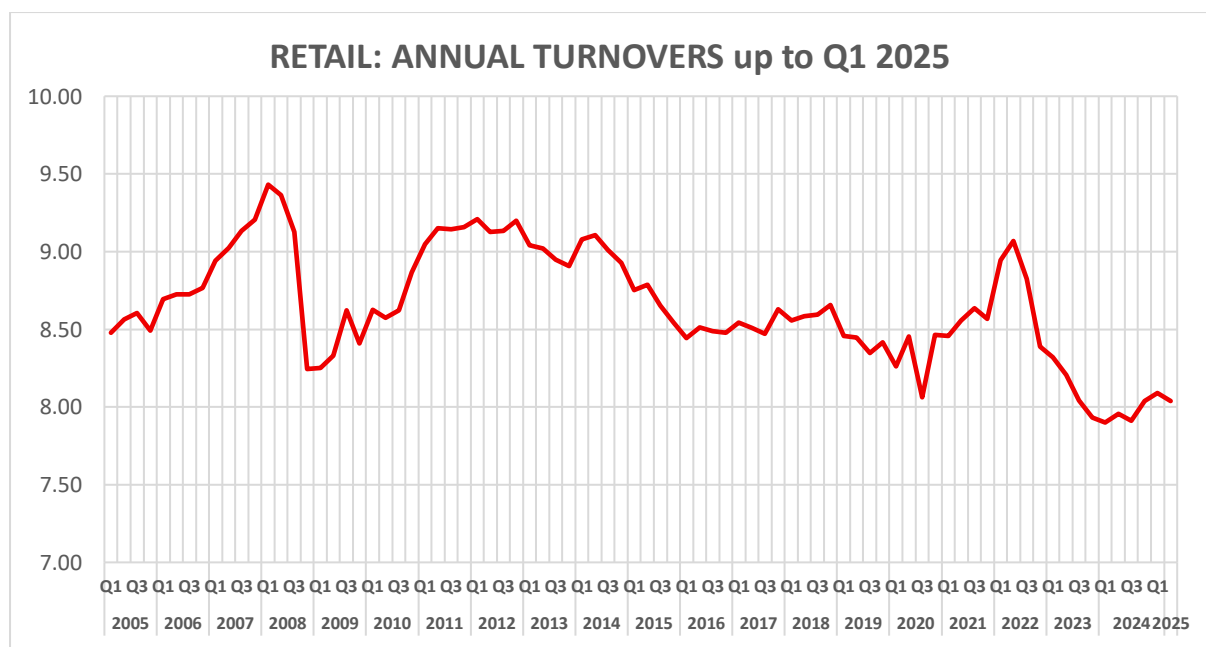
On Thursday the BEA released the [Industry Gross Value Added](#) and Gross Output Tables FOR Q2. In addition, the final report on Q2 corporate profits showed one of the sharpest downward revisions to Corporate Profits in memory, we shall see the effect of this on the rate of profit later. Turnover deaccelerated in the quarter giving up much of the acceleration found in Q1. This reflects a weakening in market conditions.

Graph 6.



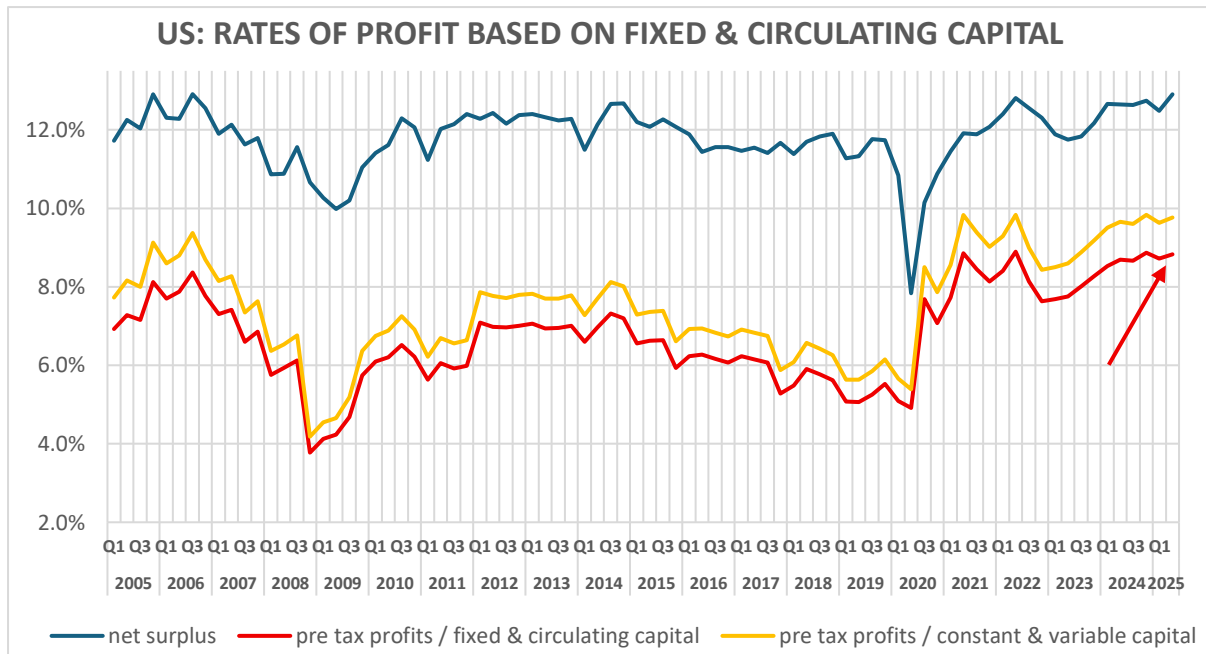
The same is true for Retail. The acceleration in turnover driven by pre-tariff sales appears to be over in Q2. Far from robust consumption, the turnover data presents a much weaker picture.

Graph 7.

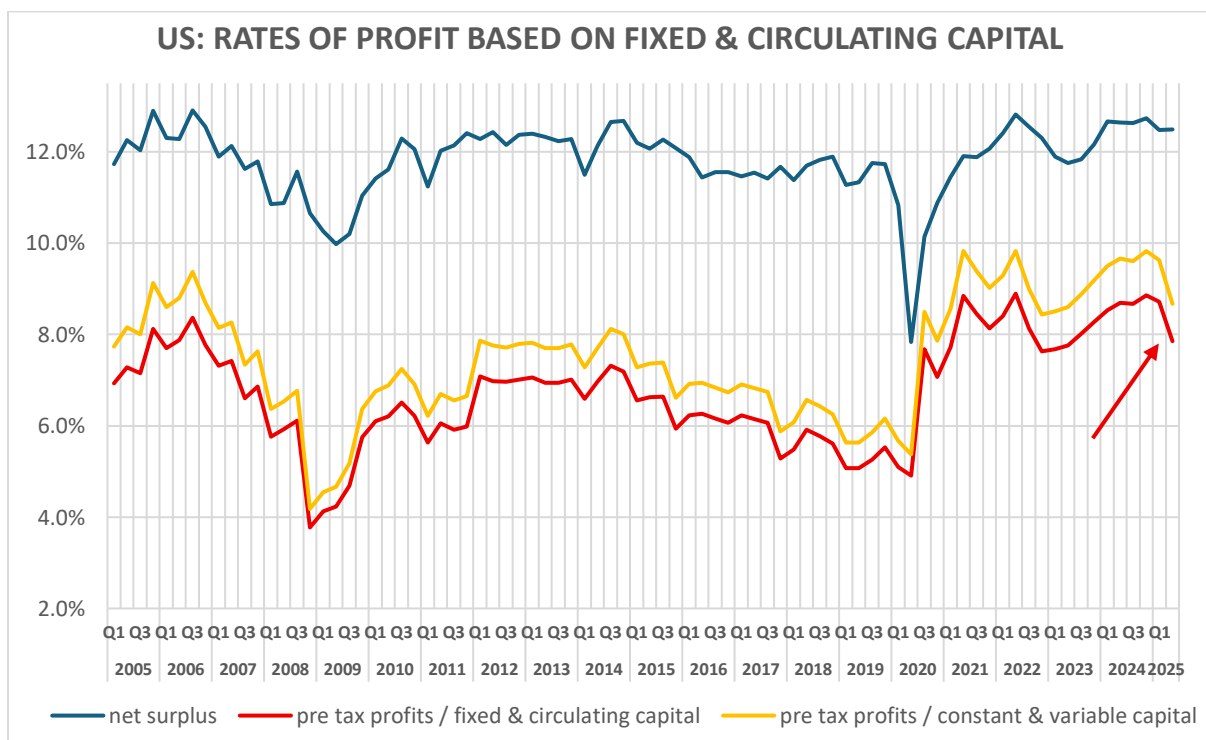


Now the interesting revision to the rate of profit. Such was the significance of the revision, that a slight uptick in the rate of profit based on the previous release of NIPA Table 1.14 which included the first estimate of profits, converted a rising rate of profit into a significantly falling one, despite the rise of monopoly profits generated by the BIG 6 Tech companies. For this reason, I need to change the Title of my recent article from [US CORPORATE PROFITS 2025-Q2: PLATEAUING BUT YET TO COLLAPSE](#) to **US CORPORATE PROFITS 2025-2 BEGINNING TO COLLAPSE**. (Note 1.)

**GRAPH 8. (Original)**



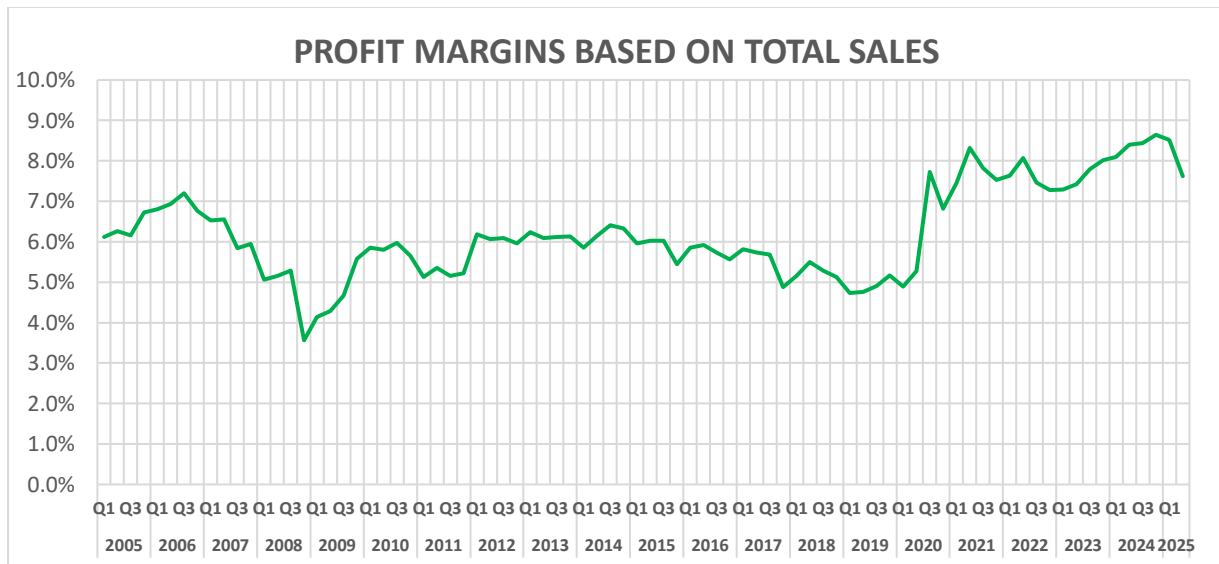
**Graph 9 (Latest)**



I had predicted that quarter 2 would see the rate of profit fall and was disappointed when the first profit release proved otherwise. The latest profit release vindicates my prediction. The difference was a full 1% fall in the rate of profit from 8.8% to 7.8% (the red graph). This does not happen often.

It's worth adding in the profit margin which like the rate of profit has drooped. I use total sales as the denominator not the usual final sales because this is more accurate as it incorporates turnover.

**Graph 10.**



### Credit risks.

Currently credit conditions look relaxed. The gap between investment grade and high yield bonds are at an historical low as shown in the graph below. In addition, the yield curve between short term and long-term Treasury bonds is at the lower end of normal.

**Graph 11.**



However, below the surface in the shadow banking sector, liquidity issues are bubbling up. While *S&P Global* is relaxed about the prospects and the liquidity of Private Equity, the same does not apply to the rest of the [Shadow Banking System](#). The shadow banking system represents 14% of global assets.

*“Assets in shadow banking have increased to \$68trn from about \$30trn in the immediate aftermath of the financial crisis,” The Financial Times article reports that: “non-banks have funded their activities by raising money from insurers, pension funds and wealthy investors hungry for returns that beat stocks and bonds.” “Asset managers have issued \$380bn of “collateralised loan obligations” (CLOs) this year, according to JPMorgan, almost a fifth more than the same period last year.”*

[This podcast](#) analyses two medium sized corporations which have gone bankrupt and who were dependent on asset-based finance. So does this more [analytical one](#). Tricolor Holdings, one of the companies which failed, was rated AAA just weeks before the collapse. First Brand Groups is the other group and as of Friday it appears that Carvana is following suit. Given the fall in the rate of profit seen in Graph 9, the clock is ticking. That fall in profitability is likely to be more pronounced in the industries outside Tech and Pharma. In the end it is profitability which is decisive because an adequate rate of profit can support higher interest rates through coverage, whereas a depressed rate of profit cannot support even lower interest rates.

But it is not only in the car industry where pain is being felt. It is being felt in the housing market as well. [Redfin reports](#) house prices over the last 18 months as stable to falling. [Zillow reports](#) a weak housing market where sellers far outnumber buyers by about half a million. The falls have been most pronounced in those areas where prices previously climbed the highest. As a result, [delinquency rates](#) in the residential mortgage sector are beginning to spiral.

## **Conclusion.**

The combination of falling profitability together with the AI super-cycle peaking, is ominous for the US economy. Though the BEA uprated Q2 GDP this was mainly due to imports falling rather than output increasing. The overvalued stock market too is a double-edged sword. On the one hand it bolsters consumption by the wealthy, on the other the dependency of the economy on capital gains, amplifies any sharp sell off of the stock market. The weekly fall in the S&P 500 and Nasdaq indexes this week although minor I believe to be a turning point, the cooling off before the icing over.

The profitability figures and the employment figures all point to an economy slipping sideways now tipping over. I do not believe stagflation is on the cards, the odds are stacked for a full-blown recession. Investors trying to hold back the tide in order to protect their investments are claiming the AI super-cycle and with it the *AI Bubble* still [has another decade to run](#).

Quite the opposite, time is running out for the economy and with it the Presidency. As Marx commented, fraud always precedes a financial crisis. It seems we have a fraudulent President now presiding over an increasing number of fraudulent companies desperate to survive, their behaviour obscured by the shimmer of the AI bubble.

Note 1. I estimate fixed capital using the capital consumption ratios which yields a result proximate to the BEA's figure which is usually nine months delayed. The turnover ratio is that for the goods producing sector as the bulk of the revenue generated by corporations belongs to the [goods sector](#).)

Brian Green 26<sup>th</sup> September 2025.