AT LAST WALL STREET IS GETTING A REALITY CHECK.

A few weeks ago, I predicted the Trump Presidency would enter a critical period both internally and geopolitically. Now that holes in the AI bubble are appearing that prediction seems to have teeth as Wall Street suffered its biggest weekly loss since April after Trump announced his tariffs.

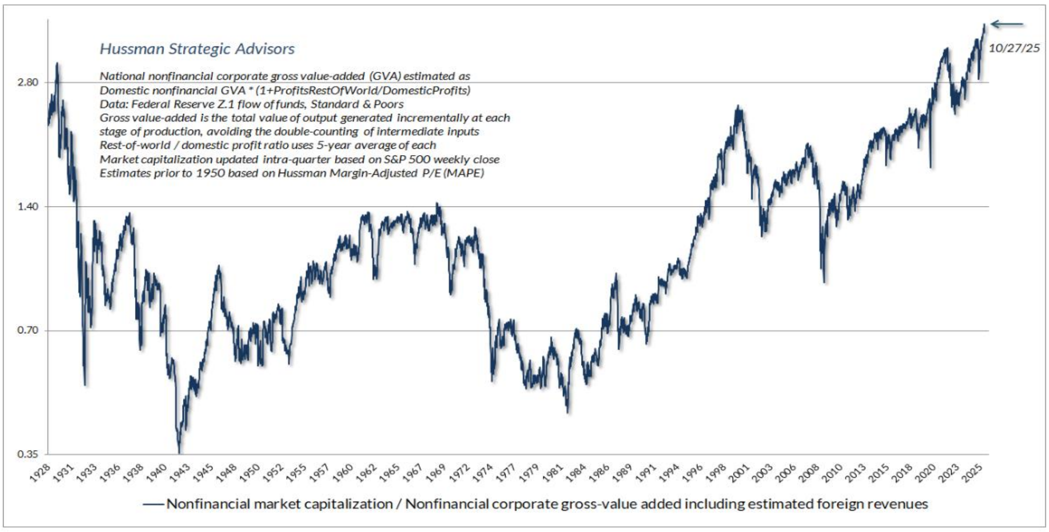
Tech stocks suffer $1.2tn AI sell-off was the headline in the Financial Times at the end of a sober week for the markets, which posted a weekly loss of 4.6%. It's not only the percentage loss that hurts investors but the absolute loss in billions because the market is so elevated and leveraged. Here are some choice quotes from the article. *"US tech groups closely tied to the artificial intelligence boom have lost more than $1tn in market value since last Friday, putting Wall Street on course for its worst week since Donald Trump's "liberation day" tariffs in April."* "*The market value of eight of the most valuable AI-related stocks — including Nvidia, Meta, Palantir and Oracle — has fallen $1.2tn since the end of last week."*

It's a sad day when tunnel visioned Wall Street analysts start fretting about the economy but not the President himself. *"Perhaps the risk of a recession is creeping up under our noses," said Mike Zigmont at Visdom Investment Group." Trump retorted in Florida: "We have the greatest economy right now. A lot of people don't see that,"* No, Mr Trump, a lot of people not only see the economy but feel the economy, that's why Republican candidates were keel hauled in the recent elections.

Given the ongoing cost of living crisis, consumer confidence at its lowest point since 2022, a labour market that has moved from no hiring to actual firing, it is no wonder that Trump's approval rating is disintegrating. "*[Donald Trump's](#) approval rating has been in a free fall since late October. His net approval rating in the Silver Bulletin average on October 19th was -7.5. But today, it's down to -13.0. That's the lowest it's been during his second term."* The -13 figure is the average. Some recent individual polls have put the disapproval rating at -18. Not so much Donald Trump as Donald Duck a lame duck president in the making. He will soon learn that authoritarianism is no substitute for popularity, that authoritarianism in the face of unpopularity is political theatre, no more.

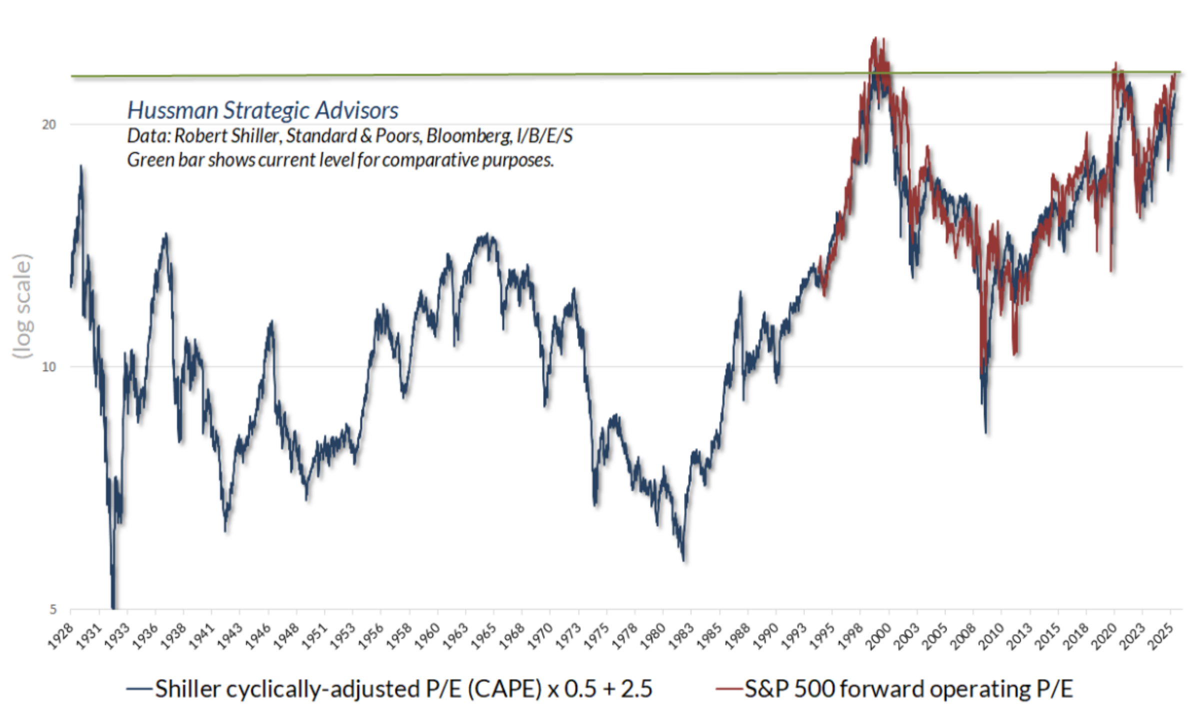
Then of course the final domino is in play, the over-extended stock markets. One of the few investor blogs I follow is [Hussman Funds](#) who produced the graph below.

Graph 1.



According to Hussman the market is more overvalued than at any time since 1929. Hussman is correct to measure share prices against the stream of value produced by non-financial corporations because they provide the bulk of the value generated by corporations in the USA. GVA or the value stream provides the absolute limits to the production of profits. Of course, this value stream is divided into is paid and unpaid streams with the latter emerging as profit. As the profit margin has been elevated recently, it may be the case that the current peak is somewhat diminished when measured against gross profits rather than gross value added. Nevertheless, it is at or near a historical high as can be seen in graph 2 below which uses profits as the denominator.

Graph 2.



This elevation is held aloft by handfuls of corporations mainly in the field of AI. But the lofty valuations are becoming increasingly suspect. The main culprit being *round tripping* where Nvidia buys its own sales through customers in which it invests so they can buy its chips. Many of these corporations, particularly OpenAI are underwater in debt and haemorrhaging money, according to this informative podcast as well as this podcast. In the third quarter OpenAI lost over $15 billion, it is slated to lose a further $30 billion in 2026 and $35 billion in 2027, ensuring that losses are running at four times revenue. Little wonder their Chief Finance Officer dropped a clanger at a Bloomberg event when she admitted the company may need a government bailout or 'backstop' as it is called these days.

And yet this corporation poses as a trillion-dollar valued enterprise. This extravagant hubris bordering on megalomaniacism by Altman and which is equalled by the trillion-dollar incentive bonus granted to Musk head of the failing Tesla car company, is only found at the peak-precipice of a bubble era. They represent bookmarks which will be referred to in the years to come as emblematic of the madness which overwhelms capitalism when it is in that stage of roaring, or better still, over-revving, before the smell of melting metal is detected.

Of course, this does not only apply to OpenAI, but to a lesser degree, it applies throughout the sector including companies like Oracle. But here we need to be careful and draw a distinction. We need to continue to divide the sector into upstream and downstream corporations. The upstream corporations are the ones developing the LLMs such as OpenAI, Meta, Microsoft, Alphabet, etc. They are the ones bearing the cost of developing the software as well as the infrastructure such as data centres needed to power next generation computing. This is the projected expenditure by Big Tech over the next five years: "*The artificial intelligence revolution has triggered unprecedented capital spending, with Big Tech firms planning to invest $5.2 trillion over five years.*" They have already spent over $400 billion this year. The *Morningstar* article from which these figures are derived goes onto say: "*This scale of investment requires generating $2 trillion in annual revenue by 2030 to justify costs, yet current AI revenues stand at only $20 billion—requiring a 100-fold increase.*" The article also focuses on the specific risks faced by the MAG 7 corporations where capital expenditure has risen from 4% of revenues in 2012 to 15%, now climbing and approaching half their operating margins. (Incidentally it challenges the assumptions that immaterial production is cost free when it is not. Adding in R&D and amortisation shows that far from free, these products have a notable price tag in terms of cost.)

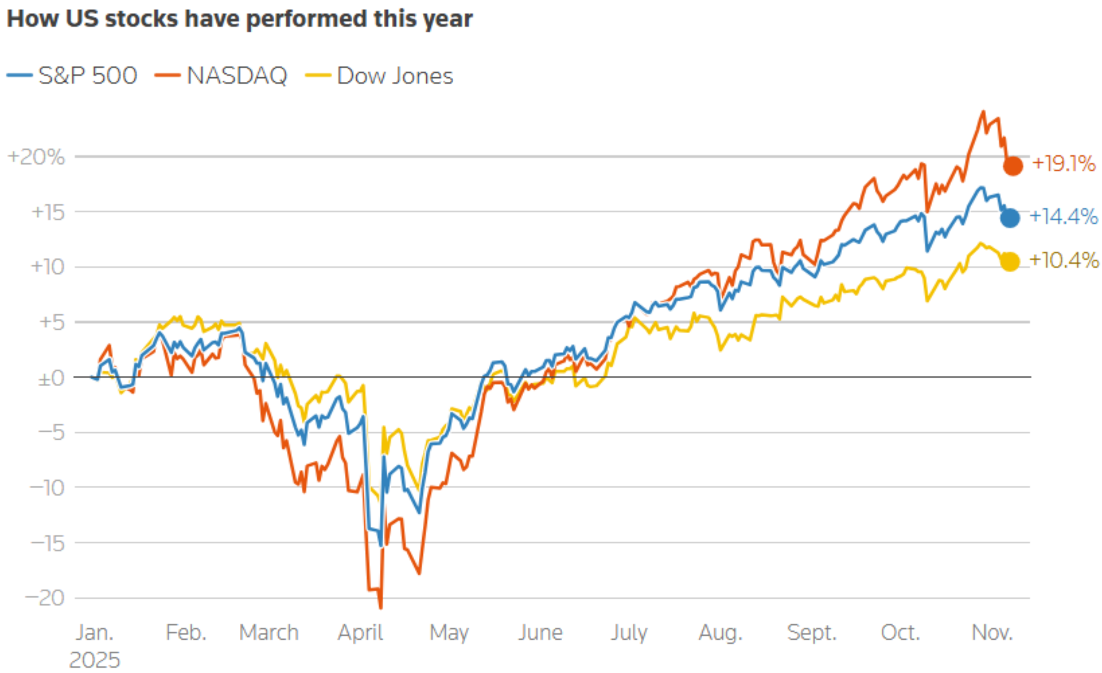
While its is true the MAG 7 will profit from job cutting, licensing fees, cloud storage and user fees, it is the downstream corporations who will benefit most from this new software technology. Although a relatively high proportion of the initial job cutting is taking place in the tech world, ultimately it will be the downstream corporations, who by applying these labour-saving computational models, particularly in the larger corporations, will drive the most severe cost-price reductions.

It is only now that we are witnessing the real culling of jobs, particularly white-collar office jobs, the holy grail of cost cutting.. According to this article, cumulative annual global job losses amount to 14 million with 1.1 million in the USA. October was a particularly savage month aggravated by the economic downturn. "*Private and public employers cut 153,074 jobs in October, according to a report from career services firm Challenger, Gray & Christmas, a 183% increase from the month before and a 175% spike over the same month last year.*" That was the highest October figure since 2003 though admittedly today's workforce if much bigger than twenty years ago. AI driven job losses was a large component.

Cost price reductions is the gravy welcomed by Wall Street who see job culling through the prism of profit not human tragedy. The AI revolution will further deepen inequality making the US economy even more unhealthy and dependent on the spending habits of the top 10% of income earners who are responsible for as much spending as the bottom 90%, but whose spending is predicated on capital gains particularly from the stock markets. To be clear it means that for every Dollar not spent by each individual in the top 10%, nine Dollars needs to be spent by each individual in the bottom 90% to compensate. That's why spending has held up until recently.

But of course, the opposite is the case as well. Should capital losses replace capital gains in the markets the economy's dependency on the top 10% will become crystal clear. Spending will collapse as the top 10% feel less rich and therefore become more conservative with their spending habits. Another weekly Tech stock fall of 4.6% next week will bring losses close to 10% where it will begin to hurt. But the real effect will take place when prices fall 20% from their peaks wiping out year to date gains. The reason for this 20% trigger can be gauged from the graph below provided by Reuters which shows the stock gains to date by the three major stock indexes. The S&P 500, Nasdaq and the Dow Jones are the indexes most used by the various ETFs where retail investors are most concentrated, and where risk is much more acute.

Graph 3.

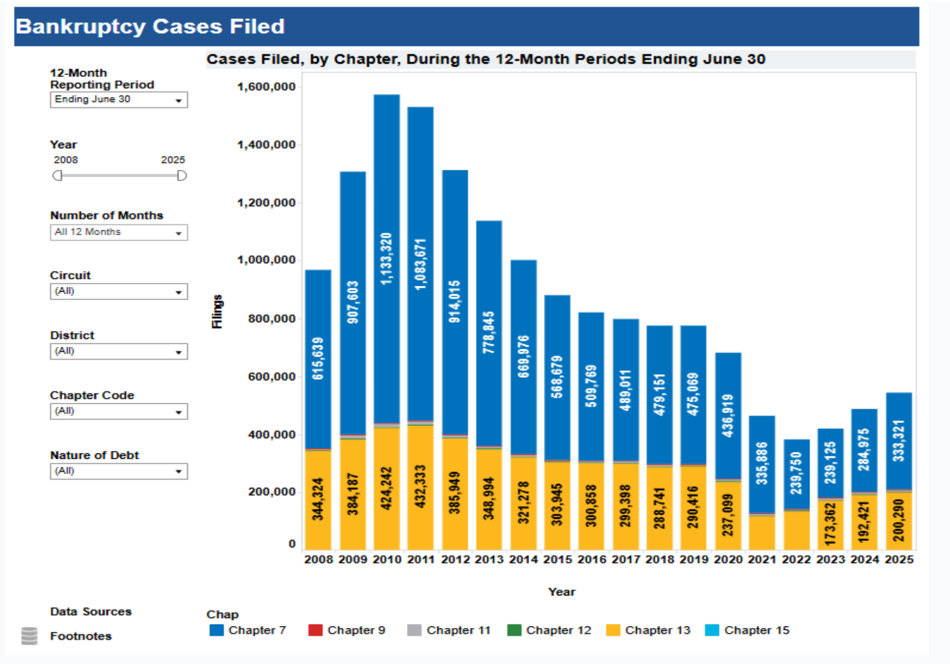


The latest Federal Reserve Financial Stability Report painted a mixed report on the growing financial stresses in the economy. While the FED was satisfied with the health of the regulated banking sector, it was concerned by the elevated leverage found in the unregulated or shadow banking sector. It's difficult to square the FED's observation regarding the regulated banking sector with that of the unregulated sector, given how intertwined their finances are. *"Bank credit commitments to other financial entities grew appreciably in the first half of 2025 to $2.5 trillion, reflecting the growth in market-based finance and other forms of private nonbank lending"* Box 4.1 provides details of unsecured short-term financing or as it is called colloquially – runnables. *"The total outstanding volume of runnables is now equivalent in size to 85 percent of GDP, which exceeds the pre-pandemic level of this ratio and is approaching levels reached just before the 2007–09 financial crisis."* Of course, the FED has said that the high-risk element is lower, but then it is always lower until it isn't.

The financial cracks are found everywhere. Commercial Real Estate defaults began to surge in September as this podcast reveals. And this article explains how *extend and pretend* banking practises in the real estate market have mushroomed. That is the banking practise where banks extend (roll over) loans to insolvent borrowers to avoid writing down their loans. Despite this many of these extended loans have still resulted in failure, with defaults at a ten year high.

Auto loans are the biggest consumer debt market after residential mortgages. Delinquencies are up 40% since 2022 reaching 2007 levels, hence the corporate failures seen in this sector. More than a quarter of credit card users are facing difficulties meeting minimum payments each month while 70% of consumers are living paycheck to paycheck each month.

Turning to actual bankruptcies. The graph below is taken from the United States Courts official website. Unfortunately due to the government shutdown no data is available for Q3 2025 but these October [figures](#) suggest an acceleration with October filings increasing by 8% compared to September. particularly for small business Chapter V filings up 35%, and similarly, personal fillings.



More details of household financial stress can be found in the recently released [New York FED Household Debt & Credit](#) This report does cover Q3 2025. "*Aggregate delinquency rates remained elevated in the third quarter of 2025. The share of outstanding debt balances in some stage of delinquency was largely flat in 2025Q3; 4.5% of outstanding debt was in some stage of delinquency, 0.1 percentage points higher than the previous quarter.*" Given the data on bankruptcy filings particularly personal ones in October, that figure of 4.5% is history.

And given the results of the [Michigan Consumer Sentiment Survey](#) where consumers remain morbid over their financial prospects, the outlook for output and consumption looks grim.

Table 1.

THE INDEX OF CONSUMER SENTIMENT

DATE OF SURVEY		INDEX OF CONSUMER SENTIMENT
November	2024	71.8
December	2024	74.0
January	2025	71.7
February	2025	64.7
March	2025	57.0
April	2025	52.2
May	2025	52.2
June	2025	60.7
July	2025	61.7
August	2025	58.2
September	2025	55.1
October	2025	53.6
November (P)	2025	50.3

Perhaps the biggest move highlighting the growing liquidity and insolvency crunch, exacerbated by the longest government shutdown in history, was the FED's U-turn over its policy of Quantitative Tightening, that is withdrawing cash reserves from the economy by selling its stock of bonds. "*The Federal Reserve's October 2025 decision to cease Quantitative Tightening (QT) and reduce interest rates was a direct response to what it identified as "recent market strains and tightening money market liquidity." This intervention follows a period of increasing concern within financial circles, where various indicators, including elevated repo rates and increased reliance on emergency funding tools by some bank lenders, signalled a brewing liquidity crunch."* This week will be interesting, even if it appears the government shutdown deadlock will be resolved shortly.

This FreightWaves analysis of forward-looking metrics found in Truckers' Q3 earning reports concludes: "*Demand remains soft, especially volume. The problem isn't just rates—it's tons."* Similarly, the packaging index has fallen to its lowest levels in years. Given that upwards of 75% of non-durable goods are sent in boxes, it makes this index a powerful forward looking indicator. "*If businesses are ordering fewer boxes, it suggests fewer goods are being produced, transported and bought. Historically, declines in cardboard demand have preceded wider economic slowdowns."* The 5% fall in the sale cardboard boxes this year coincides with UPS latest release of the fall in its North American segment parcel deliveries.

And it is likely to get worse. Seasonal retail hiring intentions by retailers is the lowest for 16 years as demand for discretionary items for Xmas evaporates. The majority of consumers, except the highest paid, will according to Gallup, spend between 6 and 13% less on gifts this year even before taking inflation into account. It's important to note that although the bottom 90% of consumers are only responsible for half of personal consumption by value, this consumption is concentrated in the mass markets, in volume production. The rich with their luxury consumption and spending on more personal services, are less connected to mass production and the infrastructure which supports this voluminous form of consumption.

The geopolitical situation.

The city of Pokrovsk has fallen to the Russians. It is not only a military disaster for Ukraine, but a political disaster, because Zelensky staked his reputation on holding it. Until the very last moment, Zelensky and Colonel General Oleksandr Syrsky claimed it was the Russians who were on the backfoot. Now they must face their demoralised western Ukraine supporters and their western fools and admit they were lying. It is likely to strip away Zelensky's remaining credibility and authority in Kyiv.

The city of Kupiansk, large but not as strategic, is also about to fall, and like in Pokrovsk, there are many thousands of scarce Ukrainian troops surrounded. And with Liman and Seversk enveloped, only Kramatorsk and Sloviansk is left standing before the complete capture of Donetsk. With every Russian advance, the political pressure on Zelensky and his government is growing, with Zelensky caught between the rock of Western resolve to continue the war and the hard reality of the battlefield.

To force capitulation Russia has levelled the Ukrainian electricity grid and much of its rail network. This is not supportable despite its military advantages because it represents collective punishment, with Ukrainian civilians now vulnerable to the harsh winter weather. Trump and Zelensky may still dream of a frozen war, like Korea, but the reality is that the Ukrainian army has been defeated, and the war is not at a standstill.

Venezuela remains on a knife edge. While the USN and USAF has massed significant military assets and personnel in the Caribbean, the USS Gerald R Ford carrier group seems to be holding off Morrocco in open waters, four days sailing from the Caribbean at 30 knots. The Whitehouse has blown hot and cold over invading Venezuela, but as subterfuge is Trump's main gambit, it is difficult to understand what the US strategy is. One thing remains, Trump needs a military win, and Venezuela unlike Iran or the Ukraine, is an easier target for the Pentagon, despite the increased military support provided to that country by Russia and China. Indeed, with Russia having signed a military agreement (counter-espionage agreement as it was styled) with Venezuela, any failure to attack Venezuela will be interpreted as a sign of weakness on the part of the US in the face of Russian resolve.

In Isreal as in Lebanon, the abusive ceasefire holds. Abusive because Israel continues to assert dominance by attacking targets and civilians in both the Lebanon and Gaza. Iran continues to strengthen its defences with Russian and Chinese help, continuing to tip the balance of power in its favour and away from Israel. The division of labour between China and Russia is in place with China flexing its economic muscles and Russia its military muscles.

On the other hand, the Chinese and US, appear to be honouring the agreement struck recently between their respective Presidents at the meeting in South Korea. An additional sign of Chinese economic muscle in action is Nexperia where the Dutch government over the weekend signalled a willingness to back away from controlling this Chinese company. This was followed by China agreeing to resume chip shipments to a European car industry on the verge of being paralysed. It seems that the Russo Sino alliance is scoring notable military and economic victories against the Western Empire. Trump with his repeated threats and chest beating seem to be more muted recently. The geopolitical shift away from the USA, if anything, is accelerating.

Conclusion.

The government shutdown is in the process of being sorted this week after a compromise deal was approved in the Senate by the narrowest of margins. This article explains its bare bones. However, this only kicks the can down the beltway once more as this agreement expires by the end of January. Despite its shortcomings, the markets saw the deal as positive for the economy and on Monday it reversed some of the falls experienced last week. However, the economy has not escaped unscathed, the 10-year yield seem to have settled at around 4.1% a level that is still problematic for a financially stretched economy and housing market. Other rates remain elevated with the Prime Banking rate at 7% and with the Secured Overnight Lending rate still well above the FED Funds rate.

The same economic forces which dragged down the markets last week remain in place, which is why today's Congress uplift is likely to be temporary. AI valuations continued to be challenged while the economic weaknesses are palpable with or without official data, and indeed, when the official data comes out, while dated, could add further pressure on the markets. The economy remains a one card stud poker game, and that card is the AI bubble. Should it collapse then all bets are off regarding the US economy, its prospects and its political clout beyond its borders.

Brian Green, 10th November 2025.