

February 2026

From last weekend's WSJ:

AI Worries Rattled Investors in February

S&P 500, Nasdaq suffered worst month since tariff turmoil cropped up

BY HANNAH ERIN LANG

Investors have been betting for years that artificial intelligence would change everything. They got some proof of it in February— and then they started selling.

The S&P 500 and the Nasdaq fell in February, each suffering its worst month since tariff turmoil started to crop up in markets last spring. Among the hardest-hit: software businesses, tech companies and the financial firms invested in, or threatened by, the rapid evolution of AI technology.

Those losses intensified Friday, as sliding bank and tech shares weighed on the Dow industrials and the S&P 500. Bank stocks suffered their worst day since April, plagued by worries about AI and problems in the private-credit market. A hotter-than-expected wholesale inflation reading also dimmed hopes of another rate cut from the Federal Reserve. ...

The underlying concern: AI could soon upend the business models for companies from wealth management to trucking. Not even another strong earnings report from industry bellwether Nvidia was enough to quell the market jitters. ...

The large-cap tech trade has been losing steam since late last year, when investors first started to look beyond megacap market leaders such as Meta, Microsoft and Amazon in favor of a broader swath of blue-chip, small-cap and even international stocks. That kind of market broadening is often viewed as a bullish signal—but the rotation turned violent in February, with muted moves in broader indexes sometimes masking sharper moves beneath the surface. ...

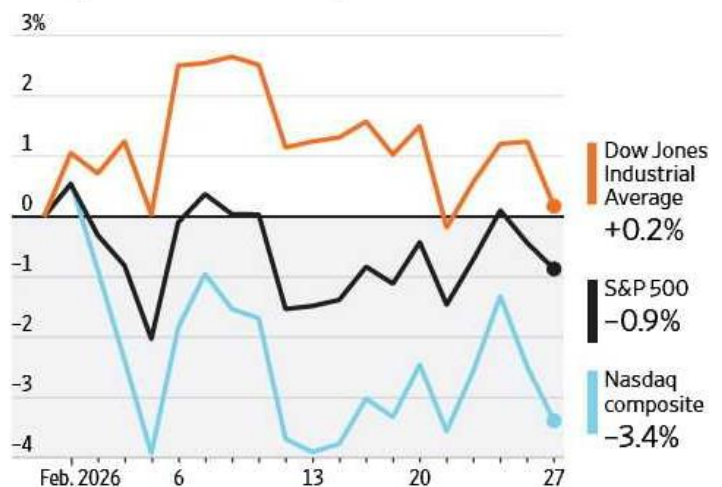
But traders are still flocking to some classic defensive plays. Gold futures rose roughly 11% in February, the biggest monthly increase for the precious metal since January 2012. Benchmark Treasury yields dropped to 3.961% on Friday, their largest one-month decline in a year.

As tech fears rattle U.S. markets, foreign markets have left domestic benchmarks in the dust. Japan's Nikkei 225 climbed 10% in February, while Korea's Kospi surged roughly 20%. ...

The lead from the front page of this weekend's WSJ:

Trump's Iran Endgame Shifts

Index performance in February



Source: FactSet

BY ALEX LEARY AND VERA BERGENGRUEN

WASHINGTON—President Trump demanded Iran’s “unconditional surrender” and the selection of leadership he finds “acceptable,” signaling on Friday a larger role in the country’s future less than a week after urging Iranians to “take over your government.”

The rapid shifts continue to muddle the administration’s endgame in Iran and raise the stakes for Trump—who built his “America First” movement on the promise of avoiding foreign entanglements—if he now seeks to dictate the political outcome of a country of 92 million in the world’s most combustible region.

The changing rationales have exposed the stark contrast between the monthslong planning that went into the initial military assault and what one senior administration official characterized as minimal conversation about who would take over the country. ...

The White House has cast the joint operation with Israel, which has killed dozens of regime members, including Supreme Leader Ayatollah Ali Khamenei, as an overwhelming military success. The operation struck more than 3,000 targets and damaged or destroyed 43 Iranian ships in a matter of days, with Defense Secretary Pete Hegseth declaring the firepower is set to “surge dramatically.” The Israeli military, for its part, launched on Friday a wave of attacks on regime infrastructure in Tehran and pounded Beirut’s southern suburbs with airstrikes that it said were targeting Hezbollah infrastructure.

Yet there have been cascading consequences, from the disruption of shipping through the Strait of Hormuz to the scramble to evacuate U.S. citizens from the region as Iran launched retaliatory strikes. Days into the conflict, the White House was weighing whether to arm Kurdish militias, work through regime insiders, or anoint a preferred successor. Even as Trump called outside advisers and journalists to bounce off ideas, aides were settling on a rationale.

“There was no process here, no ground game, which takes months and months of preparation,” said Aaron David Miller, a Middle East expert who has advised several presidents. “There was no sense of once you drop the stone in the pond what the ripples could be.” ...

Even as the war has metastasized into a regional crisis that has drawn in more than a dozen countries, Trump still appears to be refining the reasons for the war and its endgame on the fly, according to current and former U.S. officials and allied diplomats.

Trump’s announcement on Friday that there will be no deal with Iran “except UNCONDITIONAL SURRENDER!”—and that he wants a role in selecting a leader who is “acceptable” to the U.S.—drew the latest red line, narrowing potential diplomatic off-ramps and potentially sinking the U.S. into the kind of nationbuilding role Trump had vowed to avoid.

The uncertainty over the U.S. goals in Iran carries significant risks, analysts and former officials said. The unclear timetable could mean more U.S. casualties as well as a growing bill for taxpayers, global economic shocks, and a deeper strain on U.S. munitions stockpiles that the defense industry might struggle to replenish quickly. ...

Six days after the U.S.-Israeli strikes killed Khamenei and dozens of other senior Iranian officials, U.S. officials haven’t identified a viable successor and remain unsure who will emerge in charge. For now, Iran is being led by an interim three man council comprising two hard-line clerics and the country’s president until the Assembly of Experts selects a successor.

“The president would like to see a more cooperative government,” said Gregory Brew, a senior Iran analyst at Eurasia Group, “but nobody has thought through how that happens and nobody’s really grappled with the reality that even weakened, the Islamic Republic is likely to survive. Trump is brushing that off but it’s going to have significant ramifications for the region and the U.S.”

Trump has reveled in the images and videos of celebrating Iranians around the world after Khamenei’s death. But as the war enters its second week, and U.S. officials expect it to last several more, the White House’s messaging might begin to ring hollow, former officials said.

“You have this euphoria, but it will wear off quickly,” said David Schenker, who served as the State Department’s top Middle East official in Trump’s first term, likening it to the 2003 images of jubilant Iraqis tearing down statues of Saddam Hussein and noting that it took years of U.S. planning and an invasion to get there. “There’s always some irrational exuberance that has to be tempered with the bleak reality.”

What the Markets Are Telling Us About the War in the Gulf

The investment question now is whether signs of worry are a reason to buy the dip or a reason to get out

By James Mackintosh
March 7, 2026

Investors started the past week confident that the Israeli-U.S. attack on Iran would be another short war they could all but ignore. The S&P 500 even rose slightly on Monday.

They ended the week worried that a global shock to oil prices from what’s become a [widespread Middle East conflagration](#) is in some ways a repeat of 2022’s Russia invasion of Ukraine and threatens stagflation.

The investment question now is whether signs of worry are a reason to buy the dip, or a reason to get out before things get even worse.

Start with the comparison to Russia’s disastrous [attack on Ukraine](#). Oil prices spiked to \$120 a barrel from \$90 before the assault as investors priced in disruption to supply. They are still only at \$91 today. But in percentage terms, the rise is the same as in 2022, just from a lower level. The [oil market is seriously spooked](#).

Stocks outside the U.S. are also reacting as they did when Russian tanks started rolling. MSCI’s index of global ex-U.S. stocks is down 6.6% from its high before the Iran bombing started, about in line with the 2022 move.

After that, the parallel breaks down. There has been [no flight to the safety](#) of bonds, gold or currencies such as the Swiss franc that usually act as havens in a crisis. ...

Explaining the moves of the week—and so preparing for what comes next—involves more than just investors’ interpretation of how [Iranian drones](#) or [White House rhetoric](#) will feed through into oil prices.

There were two big effects. Economically, sudden higher oil prices create [a shift in the winners and losers](#). Energy exporters outside the Middle East benefit and importers suffer. Financially, the sudden volatility made investors hunker down and reduce their debts.

Blood and Oil

WTI oil futures change since start of year



Source: I SFG

More expensive oil is bad for Europe, Japan and Korea, all big importers. It is actually a net benefit to the U.S., as an exporter and the world's biggest producer. The attack on Iran and its retaliation against the oil infrastructure and shipping route of neighbors hurts the biggest global competitors to U.S. oil producers, at least temporarily.

This is the simplest way to understand why the dollar rose while the euro and yen tumbled, and why U.S. stocks were hurt less than those overseas.

Financially, assets that had gone up a lot this year fell the most, and some of those that had been big losers actually went up, despite markets overall struggling.

This was true at the country level, where the biggest winners—led by Korean stocks, up 50% before the war started thanks to massive buying on margin—fell the most. This was followed by the next biggest, Japan, then the U.K. and Europe. U.S. stocks were barely up before the war began, and barely fell as it progressed.

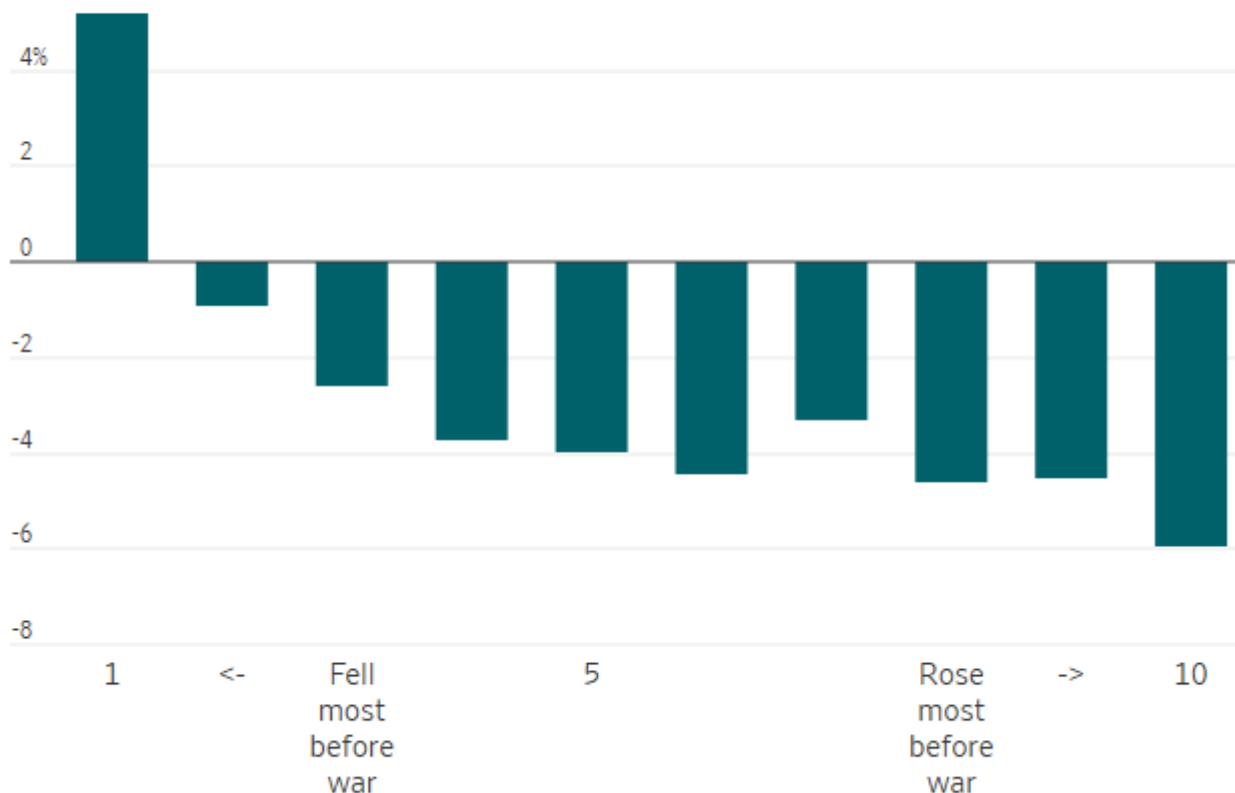
It was also true within the market. Software stocks fell hard this year on fears of competition from artificial intelligence, while chip makers soared. In the past week, software stocks actually rose, while semiconductor stocks fell sharply.

Almost half the Nasdaq-100 index rose, and all but nine of those had been down for the year before the war. Knowing how much Nasdaq stocks moved this year up to the war explains 60% of moves in the past week based on a regression analysis. Unlike with the countries, it is hard to discern an economic logic that could trigger such a winners-become-losers dynamic.

Further evidence comes from [Goldman Sachs's](#) index of stocks popular with hedge funds, which fell much more than the market, down 4.7% over the week. Its index of hedge funds' biggest shorts dropped just 1.1%, half as much as the S&P. This is what we should expect as hedge funds close out positions to cut back their borrowing, but the moves aren't big enough to suggest panicked deleveraging.

And the Last Shall Be First

S&P 500 stock moves since war started, by decile of moves in 2026 before the war



Source: LSEG

This sets up a template for what could happen if the war drags on and oil prices rise much more. Deleveraging would keep dragging down the hottest areas for a while. Eventually, proper panic would set in, at which point demand for safety would almost certainly overwhelm concern about inflation and push down Treasury yields.

At some point between now and then, history suggests investors should buy the dip. Legendary banker Nathan Mayer Rothschild probably never said to “buy when there’s blood in the streets,” but it neatly captures the idea that investors often panic [when there’s a war on](#).

The trouble is to know when, which means watching for the initial signs of market chaos getting even worse—and knowing yourself. If you buy too early, will you sell again as losses build, and so miss the eventual bounce? When the market is truly swimming in red, will you actually have the guts to buy? Get ready.

The link (<https://www.wsj.com/world/middle-east/iran-defense-strategy-khamenei-fe9aeaf9?mod=djemwhatsnews>) to an interesting long read from the WSJ on March 6th titled: **Iran’s High-Risk Strategy for a No-Limits Middle East War** Tehran’s leaders crafted a plan ahead of the current conflict that

would escalate the fight across the region, and let the military keep battling even if its top commanders fell. Their goal of creating as much global economic harm as possible is unfolding.

Stock Futures Open Lower As Oil Hits \$100 a Barrel

By [David Uberti](#)

Stock futures slid Sunday night after continued fighting across the Middle East helped push oil prices past \$100 a barrel for the first time in years ([since 2022](#)).

Contracts tied to the S&P 500, Nasdaq-100 and Dow Jones Industrial Average all fell by more than 1%. ...

Follow-ups

From NYT:

Crypto Is Pointless. Not Even the White House Can Fix That.

Feb. 26, 2026

By Ryan Cummings and Jared Bernstein

Mr. Cummings was a staff economist for President Joe Biden's Council of Economic Advisers, on which Mr. Bernstein served as chair.

Since its peak last fall, Bitcoin, the world's largest cryptocurrency, has lost almost half its value. Nearly \$2 trillion of wealth has [evaporated](#) from the global crypto market since October.

We have one question. What took so long? Outside of crimes and scams, the technology is useless, and its economics are even worse.

The answer is that crypto was held aloft for months by a period of euphoria that followed the extraordinary support the industry gained in the Trump administration. The crypto bros who spent millions of dollars getting Donald Trump elected seemed to get virtually everything they might want: a longtime industry investor elevated to White House adviser, one type of crypto given the imprimatur of the federal government, the near annihilation of effective regulatory scrutiny, invitations to White House dinners hosted by Mr. Trump.

But instead of cementing crypto's legitimacy, the administration has only pulled back the curtain on the fundamental worthlessness of its assets. At a time when investors have grown skittish about riskier assets, the value of Bitcoin has fallen nearly 50 percent since October, dropping to below \$70,000, proving it was only a matter of time before crypto faced the critical scrutiny it always needed but never truly received.

When we entered the White House in 2021, crypto was lobbying up faster than any other industry we'd ever seen. Eager to shape its regulatory future and enter the world of mainstream finance, the industry hired an army of lobbyists to draft laws and regulations giving its notoriously volatile currencies the backing and legitimacy of our government. By doing so, its major investors believed, they could elevate the systemic importance of crypto

so that they could be made whole from any future crash via a potentially taxpayer-funded bailout. One of the industry's main facilitators, Senator Cynthia Lummis, a Wyoming Republican nicknamed the Crypto Queen, [received](#) over \$50,000 in campaign contributions from the crypto industry and investors just weeks before sponsoring a pro-crypto bill.

In our role as government economists, we initially kept an open mind about crypto's potential merits. From 2021 to 2022 we sat in dozens of meetings in which crypto firms and their backers assured us that the blockchain, the technology underlying crypto, would do everything from increase access to the financial system to replace the internet as we knew it.

Yet when we asked independent experts about these claims, we encountered sharp pushback. If this technology was that revolutionary, why weren't any of the giant tech firms using it? Were they too shortsighted to see the technological revolution unfolding before them? Or was the technology — which we learned was essentially a painfully slow and expensive database — just not that special?

As economists of the Council of Economic Advisers, we aired our concerns in the 2023 [Economic Report of the President](#). Crypto is, at best, a form of private money, which has a long history of ending up in financial ruin. At worst, it is a speculative and highly volatile asset with almost no practical use, whose backers were (and still are) constantly trying to embed it into the financial system, both to increase its adoption and, should the market nosedive, stick taxpayers with the bill.

Given our research and the collapse of the major crypto firm FTX because of the fraudulent activity of its founder, Sam Bankman-Fried, the Biden administration adopted a cautious approach that included increasingly aggressive regulatory efforts to curb scams and fraud. Many other prominent crypto firms also collapsed in that period, leading to a huge sell-off of Bitcoin and similar currencies.

This period — referred to as crypto winter — could have led to a deeper evaluation of whether crypto was delivering its promised benefits. Instead, the industry concluded that it had to control more of the rules that govern crypto's standing in financial markets. That, in turn, meant they needed to buy a lot more political power. So in 2024 they lavished over \$100 million on pro-crypto [candidates](#), including Mr. Trump.

He swiftly made good on his vow to be a friend of the industry. He helped push through legislation that brought stablecoins firmly inside the regulatory perimeter of the U.S. banking system. And with the longtime crypto investor David Sacks working as Mr. Trump's A.I. and crypto czar, he endorsed a range of other actions to bolster the industry and foster crypto's broad adoption. Now Ms. Lummis and her Republican colleague Bernie Moreno of Ohio, who was elected with the help of the industry, are pushing to set up a government-funded reserve whose sole purpose appears to be to juice the value of Bitcoin.

The administration is also working to pass [a bill known as the Clarity Act](#). Not only would it give the government's regulatory blessing to an additional set of cryptocurrencies; it would allow small cryptocurrencies to pitch themselves to ordinary investors without any of the consumer protections that commonly accompany such securities — a recipe for disaster.

Naturally, the administration's moves initially sent crypto values soaring, with the price of Bitcoin rising almost 20 percent in the 10 months after Mr. Trump's 2025 inauguration.

Yet all of that financial and government support, accompanied by a period of soaring crypto values, still failed to win over consumers. The share of Americans holding crypto has been stuck at around 30 percent [for the past](#)

[four years](#). Demand is so slack that the owners of the heavy-duty hardware that mines new crypto are increasingly [turning it into](#) A.I. data centers. At the same time, investors worried about an A.I. bubble are increasingly ditching riskier, more speculative assets — the more speculative the asset, the earlier it was punished. That explains why Bitcoin started plummeting three weeks before tech stocks began to wobble. Clearly, despite its many wins in Washington, crypto has made little progress on its attempts to be integrated into the real economy.

Of course, the industry might simply have erred in tying its fortunes to Mr. Trump. He and his family have already [harvested](#) an estimated \$1.4 billion from various cryptocurrencies. As Paul Krugman has [argued](#), these crypto geniuses might have bought themselves the wrong president.

There will be freshmen entering college this year who were born after Bitcoin's debut. Yet in all this time, with the exception of individuals using it to wire money to recipients in other countries, crypto seems to have mainly proved itself adept at [facilitating criminal activity](#). Just this week, the crypto firm Binance, whose founder was pardoned by Mr. Trump in October for violating money-laundering laws, fired or suspended several employees who found that [\\$1.7 billion in cryptocurrencies](#) “had flowed from two Binance accounts to Iranian entities with links to terrorist groups,” The Times reported.

No one can say with certainty what crypto will be worth in the future. But with what we view as the most crypto-friendly administration and friendly members of Congress, its boosters have run out of excuses. They may now also be running out of time.

Bitcoin's 50% Collapse Exposes Two Industry Myths

Larry Swedroe
Feb 6

Bitcoin has plummeted from its October 2025 peak of over \$126,000 to as low as \$60,000 early in the morning of February 6, 2026. After hitting that low, it rebounded to about \$70,000 that afternoon. The peak-to-bottom drop represented a more than 50% collapse in just four months. February 5, 2026 alone saw Bitcoin drop more than 10%, its steepest single-day decline since the FTX collapse in November 2022.

In my November 12, 2025, [article](#) for Morningstar, I reviewed Campbell Harvey's analysis comparing gold and Bitcoin as safe-haven assets. While Harvey found both could play roles in diversified portfolios, he concluded that “labeling bitcoin ‘digital gold’ is an oversimplification” and noted that Bitcoin “is hardly a safe-haven asset.” The market has now delivered a brutal verdict confirming Harvey's skepticism—and exposing two fundamental narratives the cryptocurrency industry has promoted as nothing more than myths manufactured to create demand.

Myth #1: Bitcoin Is an Inflation Hedge

For years, Bitcoin advocates have marketed the cryptocurrency as protection against inflation. The pitch sounds logical: Bitcoin has a fixed supply cap of 21 million coins, so unlike government-issued currencies, it cannot be debased through money printing. When central banks inflate the money supply, Bitcoin's scarcity should preserve purchasing power. It's the perfect hedge against rising prices—or so the story goes.

The current market situation exposes this narrative as fiction.

Inflation remains well above the Federal Reserve's 2% target. Despite some cooling from peak levels, inflation pressures persist throughout the economy. If Bitcoin truly functioned as an inflation hedge, this would be precisely the environment where it should shine—protecting investors' wealth as the purchasing power of dollars erodes. Instead, Bitcoin has collapsed by 50%.

This isn't a minor correction or temporary volatility. It's a complete failure of the inflation hedge thesis at the exact moment when that hedge should matter most. An asset that loses half its value while inflation runs above target isn't hedging anything—it's amplifying losses.

Research confirms what this crash demonstrates empirically. A [study](#) from NYDIG (a Bitcoin-focused financial services and technology company) found no reliable correlation between Bitcoin's price and inflation measures. The relationship is neither consistent nor strong enough to support treating Bitcoin as inflation protection. As NYDIG's Global Head of Research concluded, investors should stop thinking of Bitcoin as an inflation hedge and instead recognize it as a measure of global liquidity—rising when capital flows freely and collapsing when conditions tighten.

The contrast with actual inflation hedges couldn't be sharper. Treasury Inflation-Protected Securities (TIPS) mechanically adjust with inflation, providing guaranteed real returns. Commodities like oil and agricultural products tend to rise with inflation because they are the inputs to inflation. Even real estate, while imperfect, tends to appreciate as construction costs and replacement values increase with inflation.

Bitcoin does none of this. It has no mechanism linking its price to inflation. It generates no cash flows adjusted for price levels. Its value depends entirely on speculation about future demand from other investors. When that speculation falters—as it has over the past four months—the inflation hedge evaporates, revealing it was never there in the first place.

The cryptocurrency industry promoted Bitcoin as an inflation hedge because it was an effective marketing message during an era of unprecedented monetary expansion. The reality is that Bitcoin behaves like a high-beta speculative asset, not a defensive hedge. It amplifies market moves rather than offsetting them. Calling it an inflation hedge was industry propaganda, and this collapse provides the proof.

Myth #2: Bitcoin Is “Digital Gold”

The “digital gold” narrative might be the cryptocurrency industry's most persistent and successful marketing campaign. Bitcoin advocates argue that just as gold has served as a store of value for thousands of years, Bitcoin represents a technological evolution of the same principle—scarce, durable, portable, and immune to government control. Some enthusiasts even claim Bitcoin is superior to gold: easier to transport, more divisible, and verifiably scarce through blockchain technology.

The past four months obliterate this comparison.

While Bitcoin collapsed 50%, gold soared. Gold gained 64% in 2025 and despite a recent fall off, it was still up about 10% in 2026. This divergence isn't random. It reflects the fundamental difference between real gold and “digital gold.”

Gold has intrinsic properties that make it valuable across cultures and throughout history: it's physically scarce, chemically stable, aesthetically appealing, and useful in jewelry, electronics, and industry. When financial markets panic, investors tend to flee to gold because it has maintained value for millennia through wars,

currency collapses, and economic crises. Gold's track record as a store of value isn't a marketing claim—it's verified by thousands of years of human civilization.

Bitcoin has none of these characteristics. It has no intrinsic value, no physical presence, no industrial use, and no multi-thousand-year track record. Its entire value proposition rests on collective belief that other people will want to buy it in the future. When that belief falters, there's nothing underneath to provide support.

The "digital gold" label was always aspirational branding rather than descriptive reality. Gold doesn't need the internet to exist. Gold doesn't require a functioning power grid. Gold can't be hacked, doesn't depend on ongoing network security, and isn't vulnerable to technological obsolescence. Bitcoin has all of these dependencies and vulnerabilities.

Most fundamentally, gold and Bitcoin behave completely differently during market stress. Gold appreciates when investors seek safety. Bitcoin has tended to collapse when risk appetite disappears. These aren't two versions of the same asset class—they're opposites. One is a defensive safe haven proven over millennia. The other is a speculative technology bet that amplifies market volatility.

The current divergence makes this crystal clear. If Bitcoin were truly digital gold, it should move with gold—providing the same safe-haven benefits in digital form. Instead, as gold rises and Bitcoin craters, the market is sending an unambiguous message: digital gold is not gold. It's not even a reasonable substitute.

The cryptocurrency industry's financial incentives explain why these myths were created and promoted. But the myths weren't unopposed. Even before Bitcoin's recent collapse made the deception undeniable, careful analysis was exposing the flaws in these narratives.

The Industry's Incentive to Deceive

Why have these myths persisted for so long despite mounting evidence against them?

The cryptocurrency industry has powerful financial incentives to maintain these narratives. Bitcoin exchanges earn transaction fees on every trade. Mining operations need high Bitcoin prices to remain profitable. Institutional holders and early adopters who accumulated Bitcoin at lower prices benefit from anything that drives new demand. ETF issuers collect management fees on Bitcoin funds that are based on the value of assets under management.

All of these entities profit from convincing investors that Bitcoin is an inflation hedge and digital gold. These narratives transform Bitcoin from a speculative gamble into a supposedly prudent portfolio allocation. They create FOMO among retail investors who fear missing out on the "future of money." They provide cover for institutions to allocate client funds to cryptocurrency.

The incentive structure encourages exaggeration and myth-making. When Bitcoin rises, advocates point to it as confirmation of the digital gold and inflation hedge theses. When Bitcoin falls, they dismiss it as temporary volatility or buying opportunity—urging investors to "zoom out" and look at long-term charts. The narrative always supports the conclusion that you should buy Bitcoin.

Real inflation hedges and safe havens don't require this constant marketing and narrative management. Gold doesn't need a promotional machine to explain why it maintains value during crises. TIPS don't require evangelists to convince investors they protect against inflation—the government guarantee speaks for itself.

Bitcoin requires constant narrative support because its fundamental value proposition is weak. Strip away the marketing, the aspirational labeling, and the industry hype, and what remains is a highly volatile digital asset whose price depends entirely on waves of speculative demand.

What Harvey Got Right—and What the Market Has Now Confirmed

In September 2025, Campbell Harvey examined the relationship between gold and Bitcoin, concluding that while both assets share some characteristics—scarcity, energy-intensive production, no intrinsic cash flow generation—the comparison breaks down when tested against real-world stress.

Harvey documented that gold and Bitcoin moved in tight correlation from 2022 to 2024, but that relationship broke down early in 2025. He found that “gold continues to outperform Bitcoin in periods of geopolitical or market stress, reaffirming its reputation as a risk-off asset. Bitcoin, meanwhile, tends to move with broader risk assets, sometimes amplifying portfolio volatility rather than protecting against it.”

The past four months have vindicated Harvey’s analysis in the starkest possible terms. Gold gained 64% in 2025 and continues performing its traditional safe-haven role. Bitcoin collapsed by more than half before recovering to about \$70,000. The correlation Harvey identified as breaking down has now completely shattered, with the two assets moving in opposite directions during precisely the conditions when a true safe haven should provide protection.

Harvey noted that Bitcoin faces existential threats that gold does not—quantum computing risks, 51% attacks on the blockchain, regulatory threats—and is “at least four times as volatile as gold, with several drawdowns of more than 70% in its short history.” He was right to conclude that Bitcoin “is hardly a safe-haven asset.”

But here’s what even Harvey’s cautious analysis didn’t fully capture: the systematic deception embedded in the cryptocurrency industry’s marketing. Harvey suggested both assets “can play important roles in diversified portfolios” and warned that “betting exclusively on one or the other is unwise.” That’s academically sound advice. But it misses the point that investors weren’t making informed choices about Bitcoin’s role in their portfolios—they were buying based on false promises that Bitcoin would protect them from inflation and serve as digital gold.

The industry didn’t market Bitcoin as “a highly volatile speculative asset that might offer diversification benefits but amplifies risk during market stress.” They marketed it as inflation protection and digital gold. Those specific claims—not Bitcoin’s general utility in portfolios—are what the current collapse has exposed as myths.

Having explained why the industry promoted these false narratives, it’s worth understanding one additional dynamic that may affect Bitcoin’s near-term price trajectory—though it doesn’t change the fundamental failure of the inflation hedge and digital gold theses.

Understanding Mining Dynamics When Bitcoin Trades Below Breakeven

When the Bitcoin price trades below miners’ average breakeven (all-in production cost), it compresses or eliminates mining margins, forces a shake-out among weaker miners, and tends to raise medium-term upside pressure on the price even as it can add short-term downside volatility.

What “Below Breakeven” Means

Breakeven is the all-in cost per BTC: energy, hardware depreciation, operations, financing, etc., often proxied using network difficulty and energy assumptions. Recent estimates put average all-in production cost at around \$87,000. BTC has been trading materially below that, implying miners are losing money on each coin produced on average.

Direct Impact on Miners—Margin Compression and Losses

When the price of BTC falls below the cost of creating it, miners' gross margins turn negative. Even efficient operators see sharply reduced profitability, while high-cost miners become outright unviable.

Capex and Financing Stress

With lower cash flow, miners cut or delay hardware upgrades, struggle to service debt, and some face Chapter 11/insolvency risk, especially those with high energy costs or leveraged expansion.

Operational Responses By Miners—Shutting Down High-cost Hash

Less efficient rigs and operations with expensive power are switched off, leading to a drop in the network hashrate (the measure of a computer's processing power, specifically how many calculations, or hashes, it can perform per second). Recent episodes show double-digit hashrate declines when price moves below estimated cost.

Treasury and Hedging Tactics

Miners may liquidate BTC treasuries, hedge with derivatives, relocate to cheaper energy, or pivot capacity to other compute uses (e.g., AI), all to survive until economics improve.

Network-level Effects—Hashrate and Security

Falling hashrate reduces the total computing power securing the network. However, the difficulty in creating new BTC adjusts downward to keep blocks arriving roughly every 10 minutes, allowing only the most efficient miners to remain.

Academic and industry work finds that BTC price strongly drives hashrate (via miner profitability), while hashrate only weakly feeds back into price; price shocks lead, and miner activity follows.

How This Impacts Bitcoin's Price

Short-term: potential extra selling and volatility. Distressed miners may sell more BTC (both new production and part of treasury) to cover operating and debt costs, adding to near-term sell pressure.

Market participants often interpret price being below cost as a bear-market or "capitulation zone" signal, which can coincide with further drawdowns and sharp intraday volatility.

Medium-term: reduced structural sell pressure and "cleansing."

As high-cost miners shut down and weaker balance sheets are flushed out, aggregate forced selling from miners tends to fall, since fewer coins are being mined and distressed operations have already liquidated.

Historically, at least, major miner-capitulation episodes (marked by falling hashrate and miners selling aggressively) have often coincided with or slightly preceded cycle lows, after which BTC staged strong recoveries as sell pressure abated.

Conceptual Takeaway for Price Dynamics

In standard commodity terms, think of miners as high-beta, levered producers: when spot trades below marginal cost, producers shut in supply, balance sheets are cleansed, and the surviving low-cost producers gain share as the market re-equilibrates.

For Bitcoin, price is still primarily set by broader demand and macro/crypto risk appetite, but extended periods below breakeven tend to:

- Increase near-term downside and volatility via miner distress and treasury sales
- Decrease medium-term structural sell pressure and leave a more efficient mining base, which historically has been associated with subsequent upside in the BTC price once demand stabilizes.

Conclusion

Bitcoin's 50% collapse while inflation runs above the Fed's target and gold soars exposed two core industry myths as deliberate fabrications designed to create demand.

Bitcoin is not an inflation hedge. An asset that loses half its value while inflation persists above target is the opposite of a hedge—it's a catastrophic failure to protect purchasing power when protection matters most.

Bitcoin is not digital gold. An asset that craters 50% while actual gold appreciates is not a technological evolution of gold's safe-haven properties—it's a fundamentally different asset that behaves in fundamentally opposite ways.

The cryptocurrency industry created these myths because they needed them. Selling Bitcoin as "a volatile speculative asset with no intrinsic value whose price depends entirely on greater fool theory" is a much harder pitch than selling it as "digital gold and inflation protection." So, they chose the myths, promoted them relentlessly, and profited as retail investors believed them.

The current market is forcing a reckoning with reality. Investors who bought Bitcoin for inflation protection watched their holdings collapse while inflation persisted. Investors who bought Bitcoin as digital gold watched it crater while actual gold thrived. The divergence is too large, too obvious, and too painful to ignore.

It's important to understand that the destruction of the myths doesn't mean that Bitcoin will necessarily go to zero (although it could), or that cryptocurrency has no future. It means the fundamental investment thesis promoted by the industry was false. Bitcoin is not what they told you it was. It's a high-risk speculative bet that should be treated as such—not a defensive hedge, not a store of value, not digital gold.

Bitcoin's collapse has been painful for those who bought Bitcoin as an investment. But perhaps it will finally shatter the myths and force honest conversation about what Bitcoin actually is: a digital asset whose entire value rests on speculation about future demand, whose price can swing wildly in either direction, and which provides none of the inflation protection or safe-haven benefits the industry has spent years promising.

Hopefully, the myths are dead—although like many discredited market adages, the media may keep them alive because they make compelling headlines and generate clicks. The question now is whether investors will finally recognize the myths for what they are, or whether the industry will simply rebrand the same false promises under new narratives and continue the cycle.

Larry Swedroe is the author or co-author of 18 books on investing, including his latest [Enrich Your Future](#).

From WSJ on Feb. 4th:

Are We in an AI Bubble?

By [Spencer Jakab](#)

Toil and Trouble

Enquiring minds want to know: Is there an “AI bubble?”

Most people tend to ask questions like that after markets have shaken their confidence, not before. Google searches for the phrase peaked in November following a tech stock tumble.

But it was just one of many hiccups in what’s been a massive boom. When, if ever, will it unwind? Some of the sharpest minds in finance warn that we’re in a bubble for the ages. Others see it lacking ingredients.

Fund manager Jeremy Grantham and financial historian Edward Chancellor released an essay last week [that didn’t mince words](#). Yes, we’re in one of the great bubbles, and they even quantified it based on a study of more than 300 past episodes. The good news is that “signs of a major bubble top” aren’t here quite yet.

To get a sense of their priors, Grantham also [just came out with a memoir](#), “The Making of a Permabear.” And Chancellor is working on an update to [his fascinating history](#) of financial manias, “Devil Take the Hindmost.”

Less concerned is another bubble scholar and fund manager, Owen Lamont. Late last year, he cited “[a trillion reasons](#)” why we weren’t in one. If we were then the logical thing to do would be for insiders to bring hundreds of companies public to sell to naive investors infatuated with AI.

Yet another take came during [an interview last month](#) with professor and corporate valuation authority Aswath Damodaran. He said that the returns on huge investments being made in AI infrastructure are likely to be negative, but that it’s OK.

“If we lived in a world run by actuaries, we’d still be in caves.”

Bubbles are useful and create some great companies, Damodaran said. Unfortunately, investors overestimate their chances of picking those winners. They might even be in some industry that just benefits from AI.

Finally, Peter Oppenheimer, chief global equity strategist at Goldman Sachs, argued recently that [we aren’t in a bubble](#) “yet” because companies investing in AI are profitable and cash rich. That’s in contrast to many during the tech and telecom boom.

At the risk of contradicting smart people, a few quibbles: Grantham sees a bubble and has been right before, but painfully early (hence the self-mocking permabear label).

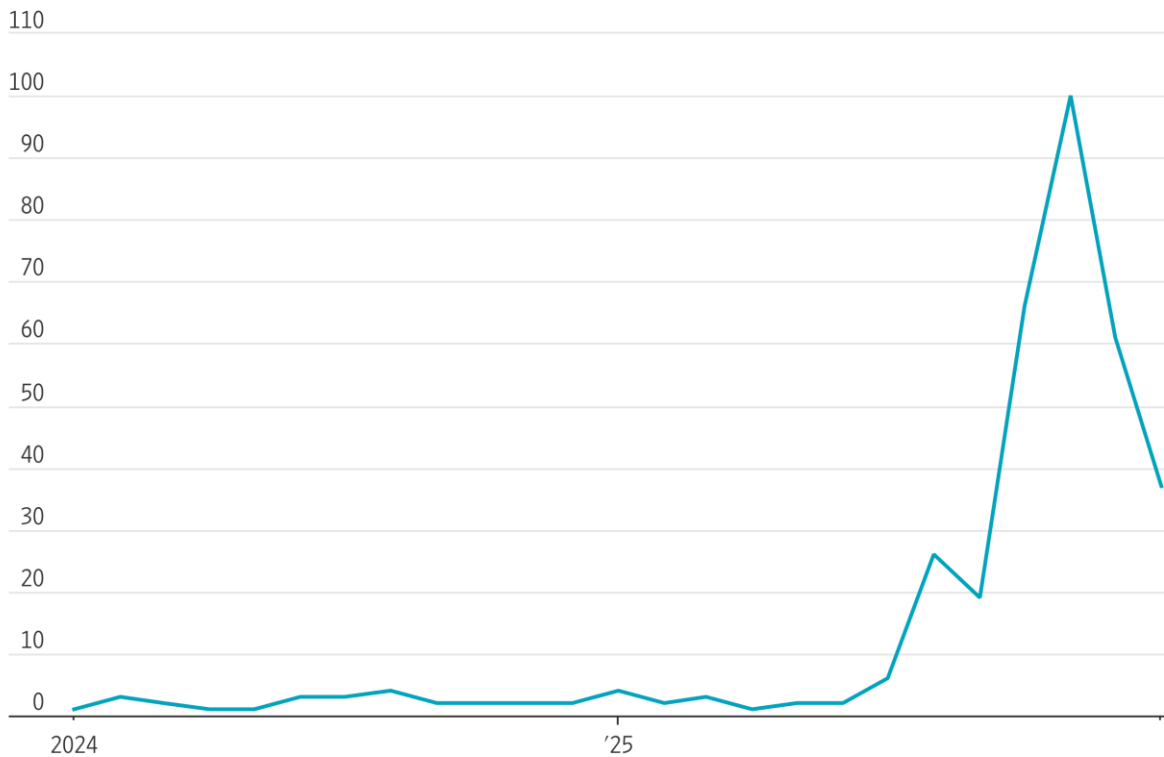
If Oppenheimer is right then solid gains remain, but his reasoning—that companies aren't getting overextended yet to build AI infrastructure—isn't totally reassuring. Some already might be, like [Oracle](#). And even shareholders of cash-rich companies won't be pleased if management wastes it.

Lamont's missing IPOs observation rang more true when private money wasn't available in such huge quantities. Elon Musk [just created](#) what on paper is a trillion dollar company. We've graduated from unicorns, privately held billion dollar companies, to the first kilocorn.

And maybe not for long: Along with OpenAI and Anthropic, [it's now rushing to go public](#).

Wall of Worry

Google searches for "AI bubble"



Note: 100 = maximum search interest

Source: Google Trends