

August 2026

From the front page of today's WSJ:

Wall Street's Hottest Trade Unravels

Bets on rising winners suddenly turned into a losing game for investors

BY GREGORY ZUCKERMAN AND GUNJAN BANERJI

Wall Street's hottest trade has gone ice cold.

For years, it paid off to buy stocks that were rising in price—and bet against struggling shares. The momentum trade was especially profitable this year, as investors piled into hot stocks including Micron Technology, Nvidia, Advanced Micro Devices and other artificial-intelligence darlings while wagering against those likely to be hurt by the embrace of AI.

The S&P 500 Momentum Index soared 44% in the second quarter, its best quarterly performance on record, and it surged 133% over the past five years, nearly double the broad market's performance.

Mega funds and rookie investors alike piled into the trade, some using leverage and options contracts in an effort to amplify their returns, propelling the underlying shares higher.

“It is a self-fulfilling prophecy,” said Matthew Tym, managing director at Cantor Fitzgerald, of the trade.

Suddenly, the trade is a loser. The momentum index has tumbled more than 9% since July 1, lagging behind the S&P 500's 2.8% gain.

The index—which tracks stocks in the S&P 500 based on a “momentum score”—is on track for the biggest quarterly underperformance in 25 years. July was the second worst month for the momentum trade in around 40 years, according to Bank of America estimates; the only month worse was April 2009, in the teeth of the global financial crisis.

Hedge funds that bought momentum shares while shorting low-momentum stocks suffered even more. At the same time, a basket of the most popular stocks held by hedge funds tracked by Goldman Sachs recorded its biggest one-month underperformance in July relative to the S&P 500 in more than 20 years, according to the bank's analysts.

Momentum trading is based on a rather simple observation: Investments that go up tend to keep outperforming; those that underperform often remain laggards. This kind of trading might seem too simple a stock-picking strategy to work. Yet it often has. ...

Fans of the strategy point to the human tendency to extrapolate from past results—and chase investment returns—noting that momentum patterns have been evident in markets for decades, even centuries. They also said that some of the worst months for momentum strategies are during longer periods of outperformance.

Some have been doing the trade by buying the strongest investments in a sector while shorting the weakest; others lean in to rising markets or asset classes. Still others use a quantitative approach or turn to banks or others who sell ways to make distinct wagers on momentum as a “tradable factor” or a “thematic basket.”

The fans remain believers. “Any strategy has disappointing periods,” said Antti Ilmanen, global co-head of the portfolio solutions group at AQR Capital Management.

The surge in Moderna and other biotech stocks helped crush the momentum trade. These shares were among the most heavily shorted in recent years, but positive news on a cancer vaccine from Moderna and Merck sent those stocks flying, crushing some quant and other hedge funds. Moderna was up more than 150% in August.

These traders had an especially rough day on Aug. 19, which Goldman Sachs told its clients was the worst day for “systematic long-short managers” in more than two years. About half of the losses were because of momentum trades, the bank said.

Some traders have begun to short, or bet against, the very stocks that propelled the momentum trade earlier this year. Net short positions in futures tied to the Nasdaq-100 index among speculators recently climbed to some of the highest levels of the past two decades, according to data from the Commodity Futures Trading Commission.

The about-face is a sign of how markets have become more treacherous for investors, even as indexes keep climbing. Part of the issue: the recent meltdown of Situational Awareness, a hedge fund that had piled into some of the most popular momentum shares, including chip stocks. After a period of market tumult, Nvidia shares rocketed almost 9% after its earnings, showing how quickly sentiment can shift.

Some investors (**including HCM**) said the run-up in share prices driving tech stocks higher reminds them at times of the dot-com frenzy decades ago.

Mike Ogborne, the founder of San Francisco-based Ogborne Capital Management, said he has grown more cautious on technology stocks and is keeping more of his portfolio in cash than he typically does.

And he is nervous about the surge in spending by technology giants and quarterly capital expenditures that keep rising.

“It is a little bit like Cinderella and the clock striking midnight. You don’t know when midnight is going to come around,” Ogborne said. “They don’t send a memo around telling you when the capex cycle is over.”

From Monday’s GZERO Daily:

The Strait Escape

– *By Natalie Johnson and Tim Rickard*

Six months into the Iran war, one issue continues to throttle negotiations: the Strait of Hormuz. Since the war began, Tehran has maintained a tight grip on the critical shipping route, wielding access to it as leverage, while Washington wants Hormuz reopened as disruptions rattle energy markets and raise prices for American consumers.

As recently as Sunday, US forces [attacked](#) two rocket launchers on Iran’s Larak Island that Washington said were attempting to lay sea mines in the strait. Iran retaliated by targeting US military bases in Jordan and the United Arab Emirates.



Given this deadlock, which could last indefinitely, regional energy exporters are increasingly adapting to a world in which they can't rely on Hormuz. They are pouring billions into building new pipelines, reviving old routes, and taking longer, costlier journeys to reduce their dependence on a strait that once handled about a fifth of the world's oil exports. In a [new special interactive graphic](#), we decided to look at some of those alternative pipelines.

Take Iraq, for example. Before the war, it sent most of its oil exports through Hormuz and relied on oil revenue for [roughly 90%](#) of its budget. With exports sharply down due to the Hormuz blockage, Baghdad is now [working](#) to send more crude through Turkey's Ceyhan port and has [revived plans](#) with Jordan for a new pipeline to the Red Sea. Iraq is also working with Syria to [restore](#) a pipeline that was badly damaged by wars in both countries and hasn't been in regular use since the 1980s.

Saudi Arabia and the UAE are also eyeing alternatives. The UAE is [building](#) a second pipeline alongside its existing route, which allows it to ship directly to the Gulf of Oman, while Saudi Arabia is [considering expanding](#) its East-West pipeline, which can carry 7 million barrels of crude per day to the Red Sea.

"What we are going to see over the next two years – the strait's going to become irrelevant," US Treasury Secretary **Scott Bessent** [predicted](#) recently. "It is going to become just another body of water."

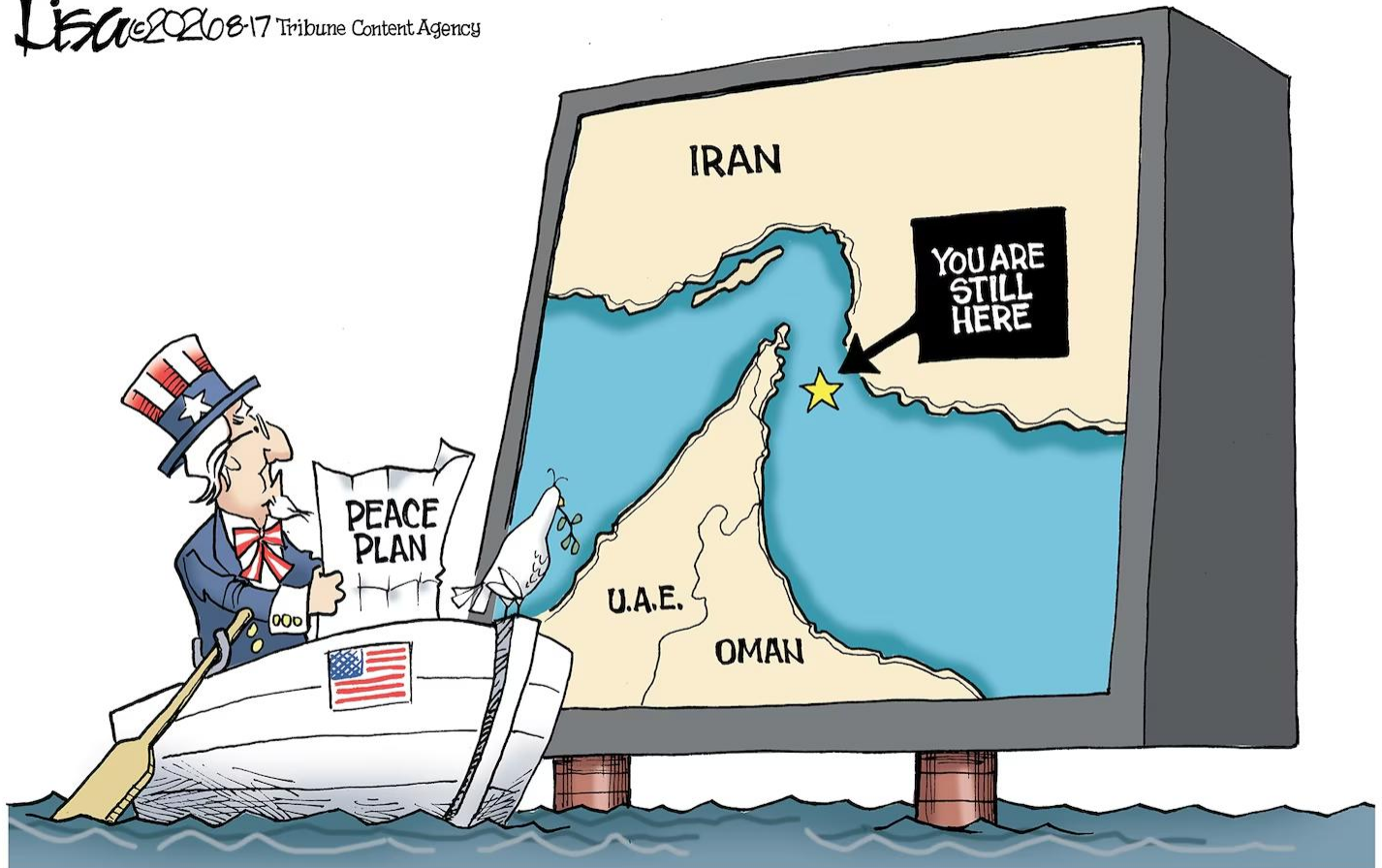
These new efforts are hardly assured of success. For one thing, there are security risks. Iran has already [struck](#) Saudi Arabia's East-West pipeline, while Houthi-aligned militants have [attacked](#) ships transiting the Bab el-Mandeb Strait. That has increasingly forced Saudi fuel to take a technically challenging journey through Egypt's narrow Suez Canal, and for ships trying to reach Asia, all the way around southern Africa.

New or revived pipelines take years to build and require delicate diplomacy. Syria and Iraq's revamped crude pipeline is reportedly [four years away](#) from being operational, and Iraq's agreement with Turkey only lasts a year, leaving the two countries to negotiate a broader agreement covering cooperation in oil, electricity, and water resources sectors.

Meanwhile, exporters of liquefied natural gas (LNG), like Qatar, which relies on the fuel for most of its revenues, have few near-term options – LNG is far harder to reroute than crude oil, because it requires expensive and complex liquefaction plants.

Still, the Iran war has exposed a new, systemic risk to Gulf states that rely on the Strait of Hormuz, fomenting a region-wide shift that could dramatically and permanently reshape the energy infrastructure of the Gulf region

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From BCA Research's Peter Berezin on Aug. 19:

Chief Economist's View: Give Me Chastity But Not Yet

Everyone Expects To Get Out In Time

The title of today's missive comes from the Confessions of Saint Augustine. It reminds me of the attitude that many investors have towards the stock market these days. While there is a widespread view that the AI boom will eventually end in tears, most investors feel confident that they will get out before the party ends.

That view reminds me of another quotation, this one from Mike Tyson: "Everyone has a plan until they get punched in the face."

For every seller there has to be a buyer. Thus, collectively, investors will not be able to get out of the market when it starts to fall. Somebody will feel the pain.

\$10 Trillion In Annual AI Revenue May Be Necessary To Monetize All This Capex

Thanks to soaring tech earnings, profit margins in the US are at record-high levels (**Chart 1**). Wall Street analysts expect these margins to increase further: Projected earnings growth over the next three to five years is the highest on record. To validate these projections, tech companies will need to bring in unprecedented amounts of new revenue. That may be a tall order.

To see why, consider the following: Hyperscaler capex is expected to reach \$1 trillion in 2027, most of which will be AI-related. Let us assume that a capex bust is avoided and capital spending remains at \$1 trillion. Let us also assume a blended depreciation rate of 13%, which is roughly what the hyperscalers are currently assuming.

In steady state, the gross value of hyperscaler assets will then converge to $1/0.13 = \$7.7$ trillion, with \$1 trillion in annual depreciation expense. Using a straight-line depreciation approach, the net stock of hyperscaler assets will settle at about $0.5 * 7.7 = \$3.8$ trillion.

The hyperscalers currently enjoy a pre-tax return on invested capital of 30%-50%. Just to steelman the argument, let us use the lower end of that range. In that case, they would need to generate $0.3 * 3.8 = \$1.2$ trillion in annual EBIT, implying $1 + 1.2 = \$2.2$ trillion in EBITDA.

Analysts expect the EBITDA margins for the hyperscalers to rise to around 50% by the end of the decade (**Chart 3**). If they were to achieve this, they would need to generate $2.2/0.5 = \$4.3$ trillion in annual revenue. That is \$526 for every man, woman, and child on Earth. However, if EBITDA margins were to fall back to 30%, which is what they were in recent years, the required revenue would rise to $2.2/0.3 = \$7.2$ trillion.

Keep in mind that the foregoing calculation does not even include revenue from SpaceX, the neoclouds, or Chinese AI companies. If one were to include those companies and others, we are potentially talking about AI needing to generate \$10 trillion in annual sales to justify all the capex being thrown at it.

For reference, global spending on food (including restaurants) is around \$10 trillion. Health care is about the same amount. The entire global software market is only \$1.4 trillion.

Most Indicators For An AI Bust Are Not Flashing Red Yet

Figuring out when the supply of data center capacity starts to catch up with demand is obviously critical. Accordingly, we have been tracking a variety of AI-specific indicators.

CHART 1
Profit Margins Are Expected To Rise From Record-High Levels

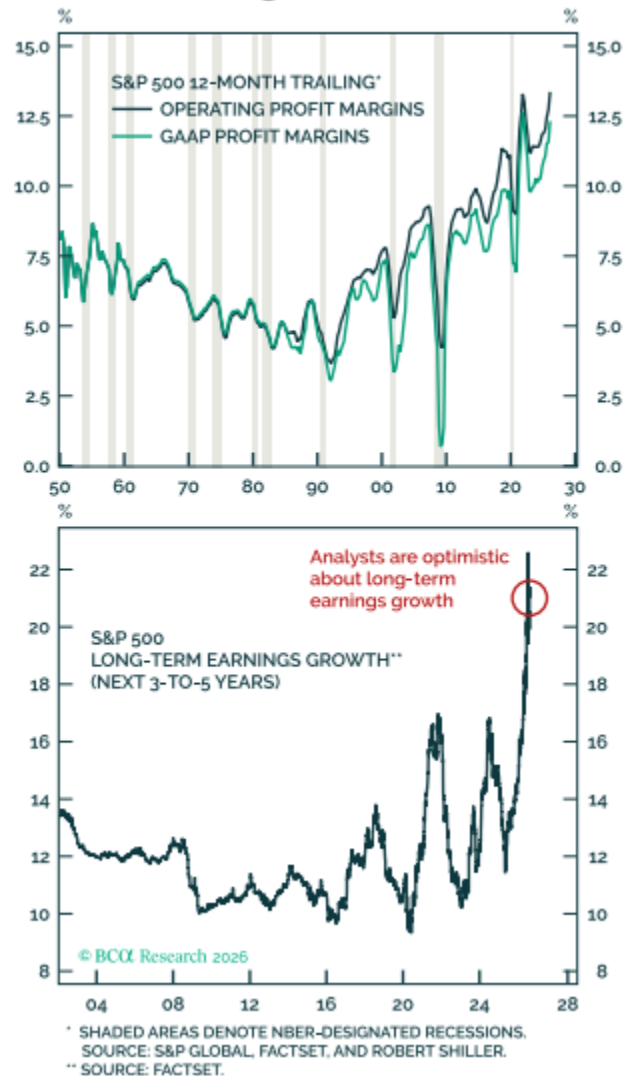


CHART 3
Will Hyperscaler EBITDA Margins Continue To Rise?

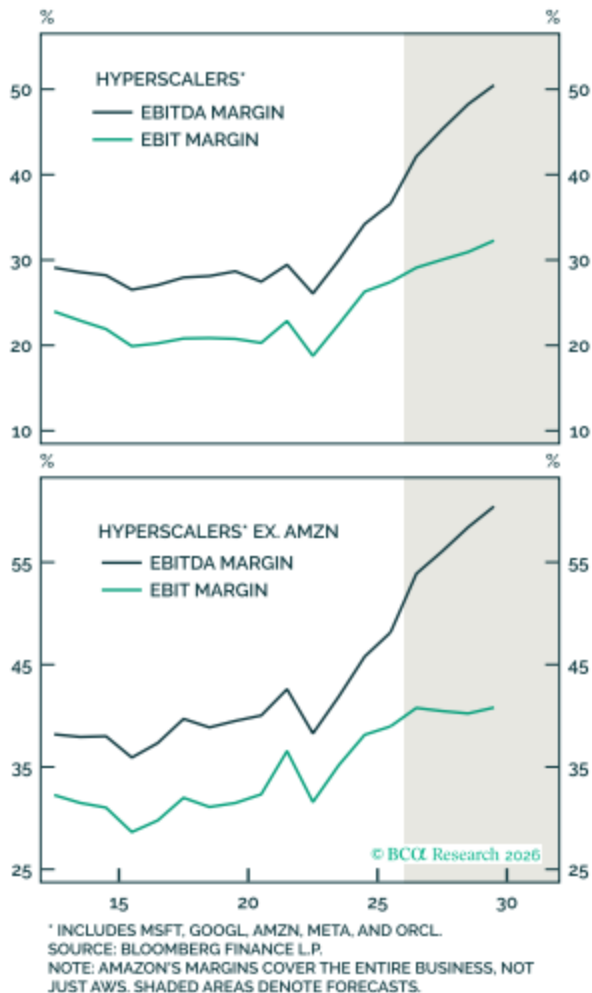
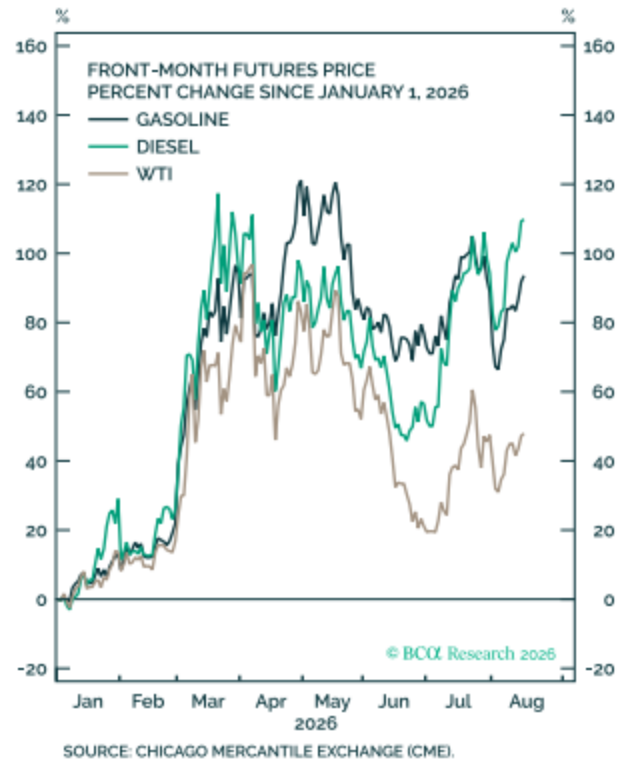


CHART 7
Higher Crack Spreads Have Raised The Prices Of Refined Products



Most of them still look reassuring: GPU rental rates have generally increased this year, suggesting that the scarcity of compute has gotten worse, not better. Despite recent wobbles in memory stocks, both spot and contract prices of memory are rising. AI adoption rates continue to increase while AI spending remains in an uptrend, albeit one where power users have been hogging most of the resources.

A few indicators look worrisome, however: Token prices are falling as companies push their employees to use cheaper open-source models. Hyperscalers' free cash flow has turned negative. Perhaps most concerning, the increasing reliance on external finance has caused IG credit spreads for tech stocks to exceed the average of other sectors.

Neutral On Stocks For Now, But Looking To Get More Defensive

The discussion above suggests that we are in the latter stages of the AI boom, but probably not at the end of it. As such, I am currently recommending a neutral stance on stocks over a 3-month horizon and a slight underweight on a 12-month horizon.

... I expect to turn more bearish later this year or in 2027

Rising Crack Spreads Have Undercut Demand For Crude Oil

What could prompt me to turn more bearish earlier or conversely, to become more bullish? On the bearish front, one thing I am concerned about is energy prices. Although crude oil prices have dipped since late March, the prices of gasoline, and especially diesel, remain elevated (**Chart 7**). This is because crack spreads have risen

meaningfully on the back of Ukrainian attacks on Russian refineries and reduced Chinese exports of refined products.

I see little reason why Iran would want to make a durable deal with the US and give Trump an opportunity to declare victory in the lead-up to the midterm election in November. If anything, Iran appears emboldened by widespread reports that the US is running out of interceptors against Iranian missiles and drones.

Election Risks In The US And France

Speaking of the midterm elections, my colleague Matt Gertken recently published a report arguing that left-wing populism will likely prevail within the Democratic Party. If the Democrats take control of both the House and the Senate in November and win the White House in 2028, this could open the door to large tax hikes in 2029.

Notably, betting markets (which historically have been more accurate than polls) now see a slightly higher chance of firebrand Congresswoman Alexandria Ocasio-Cortez winning the Democratic nomination than California governor Gavin Newsom (**Chart 8**).

The first round of the next French presidential election will be held on April 18, 2027. According to betting markets, Marine Le Pen is the front-runner, with a 33% probability of becoming the next French President. The centrist Édouard Philippe has a 26% chance of prevailing, while far-left populist Jean-Luc Mélenchon has a 14% chance (**Chart 9**). Based on recent polling, Le Pen is neck and neck with Philippe in a hypothetical runoff election but would easily beat Mélenchon if he advanced to the second round. BCA's Chief Europe Strategist, Jeremie Peloso, has argued that Le Pen would govern more pragmatically than investors expect, but that the knee-jerk reaction would still be for French bonds and the euro to sell off.

CHART 8
Betting Markets Think AOC Now Has A Better Chance Of Winning The Democratic Nomination Than Gavin Newsom

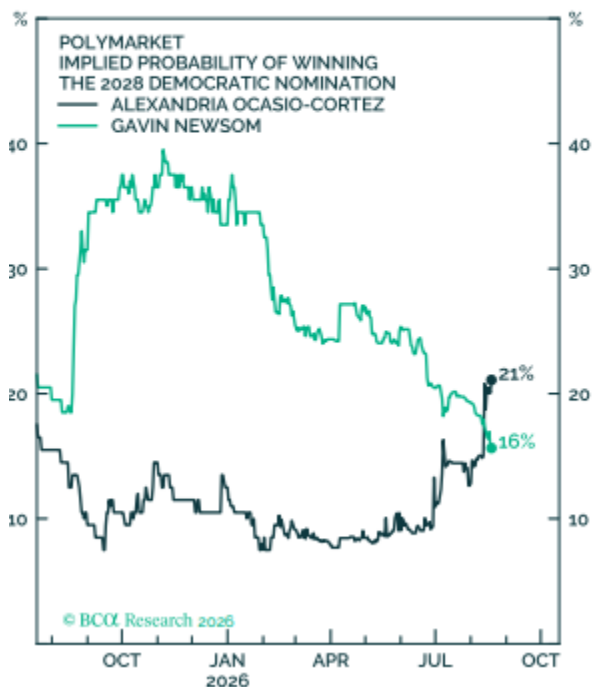
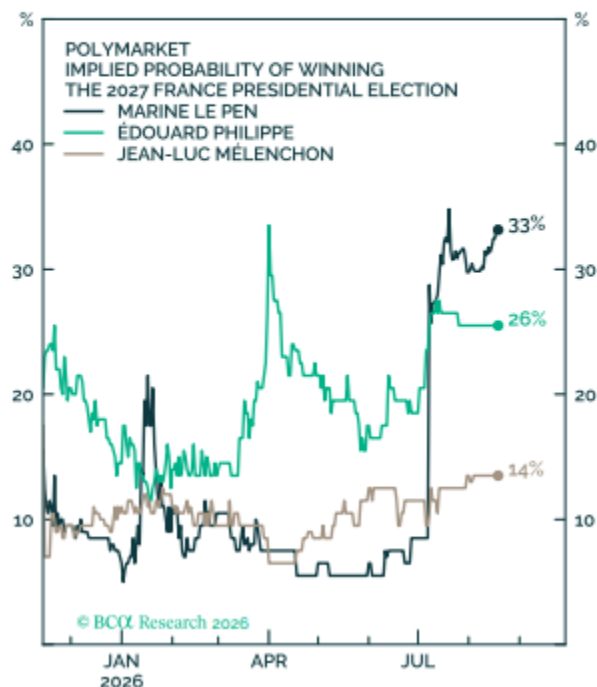


CHART 9
Marine Le Pen Is The Front Runner For The French Presidency



Warsh: If You Can't Convince Them, Confuse Them?

I am also worried about the Fed. Kevin Warsh has not done himself any favors over the past few months. The issue is not that the Fed has abandoned forward guidance. Forward guidance is arguably only useful when rates are at the zero bound. That is not the case today. Nor is the issue with the size of the Fed's balance sheet. Commercial bank reserves held at the Fed have declined by more than \$1 trillion from their peak. If bank liquidity were to fall much further, it would cause problems in funding markets.

Rather, the issue is around the Fed's so-called reaction function: How the Fed should adjust rates in various economic scenarios. By refusing to provide much clarity on this topic, Warsh has increased risk premia, leading to higher long-term bond yields.

My strong suspicion is that Warsh will become a more conventional Fed chair in very short order. If he does not, market participants will simply focus on the commentary of other FOMC members such as Christopher Waller and John Williams.

Three members of the FOMC voted for hikes at the July meeting. The last thing Warsh wants is to be outvoted by the rest of the FOMC. This means that if most other FOMC members feel a hike is appropriate, Warsh will vote with the majority.

Ultimately, Fed Policy Will Be Dictated By The Path Of Growth And Inflation

Last week's retail sales report surprised on the downside. Nevertheless, the Atlanta Fed's GDPNow model is still tracking real final private domestic demand growth of 2.7%. Capital spending remains a key driver of growth. Our capex intentions indicator has moved off its lows.

On the inflation front, core CPI rose by a modest 22 bps in July, following a flat reading in June. This brought core inflation down to 2.5% yoy and 1.6% on a 3-month annualized basis. Core goods prices increased by 0.2% mom in July, reversing declines of 0.1% in both May and June. Core goods inflation remained at 0.8% yoy (**Chart 12**).

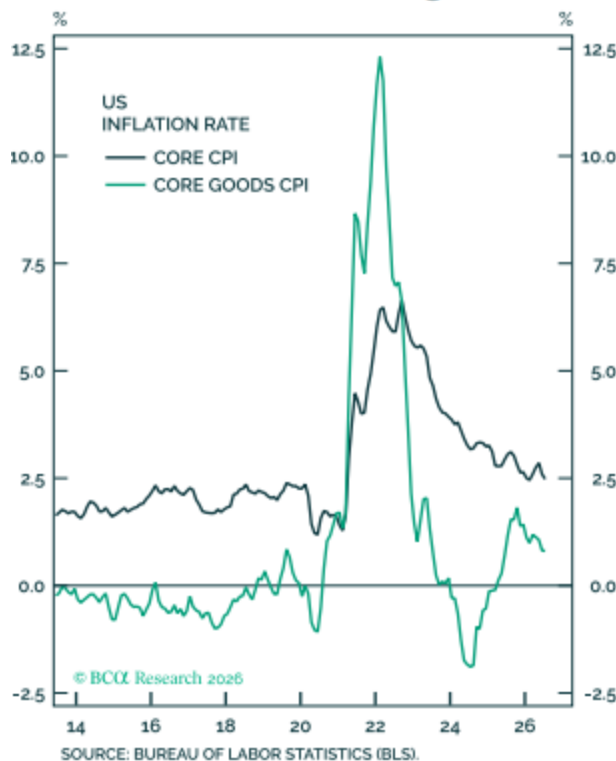
At least so far, the pipeline pricing pressures flagged by the PMIs have not materialized. ...

Tentative Evidence Of US Labor Market Tightening

The question of whether the US labor market is tightening or not remains critical to the rates outlook. Payrolls declined by 23K in July, with 103K in negative revisions for May and June. The 3-month average of payroll gains dropped to 20K. The deceleration is also visible in the ADP's weekly series (**Chart 13**).

Despite the slowing in job growth, the unemployment rate ticked down to an 18-month low of 4.1% in July. Both initial and continuing unemployment claims remain below last

CHART 12
US Core Inflation Has Come Down But Remains Above The Fed's Target



year's levels. Job openings have stabilized. The employment components of the PMIs have risen while temp employment has picked up. ...

Overall wage growth has not reaccelerated yet. However, there has been some firming in wages for job-switchers, which tends to be a leading indicator for broader measures of wage growth.

US Treasury Yields Will Remain Sticky In The Near Term

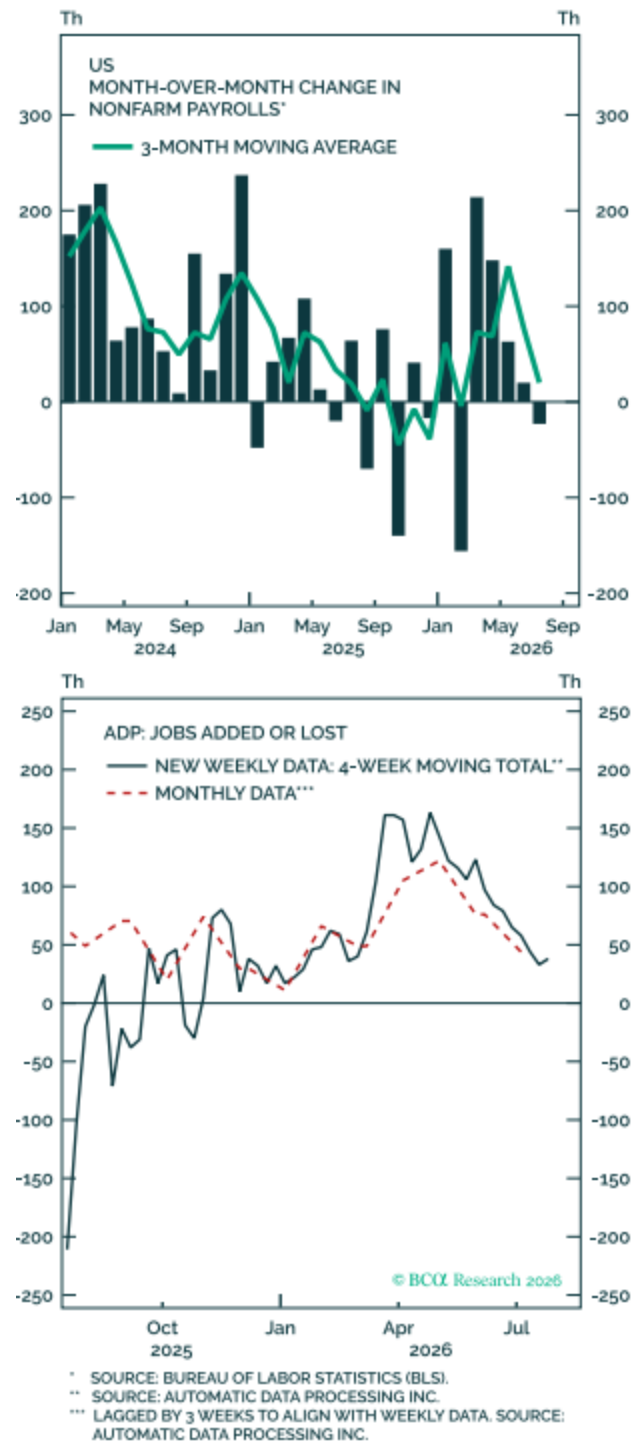
My overall conclusion is that the slowdown in US employment growth is largely a supply-side phenomenon, mainly driven by lower immigration. This should not be especially comforting for investors, as it limits the ability of the Fed to stand pat.

Ryan Swift, BCA's Chief US Fixed Income Strategist, no longer expects the Fed to hike rates in September. (While we doubt the Fed will hike before the midterms, this from Bloomberg's Morning Briefing today: **Bond prices slumped** around the world, with inflation fears driving yields on a Bloomberg global gauge to the highest since mid-2008. Traders boosted the odds of a September US rate hike to about 70%, extending a repricing that began last week when Federal Reserve Chairman Kevin Warsh doubled down on a pledge to tame inflation. Japan's 10-year government bond yield touched 3% for the first time this century.) However, he thinks that the bar for a hike by the end of the year is still low. He also thinks that today's Treasury announcement of scaled-up buyback operations is unlikely to have a lasting impact on yields. Ryan notes that the spread between the 3-month T-bill rate and 3-month OIS rate has already widened meaningfully, which will limit the Treasury's ability to shift the financing of the budget deficit to the front end of the curve. ...

The ECB Will Look Through Stagflationary Pressures

The ECB continues to grapple with an uncomfortable mix of above-target inflation and tepid growth. Core HICP inflation rose to 2.5% yoy in July, up from 2.4% in June. Services inflation remained elevated at 3.3% yoy in July. That said, wage growth is still tepid, with the ECB's wage tracker excluding one-off payments up only 2.6% yoy.

CHART 13
US Payroll Growth Has Slowed Anew



Euro area GDP growth in Q2 rebounded to 0.4% qoq unannualized. However, excluding Ireland – whose GDP numbers can be distorted by large swings in multinational profits – GDP was a more modest 0.3% qoq.

The market is pricing in 61 bps of rate tightening over the next 12 months, with a 95% chance of a 25 bps hike this September (**Chart 22**). I agree with my colleagues Robert Timper and Jeremie Peloso that the ECB is likely to deliver less tightening than is priced in. Most pertinently, the drag on European growth from higher energy prices will limit the extent to which the ECB can raise rates, even in the presence of above target inflation.

China's Savings Glut

I published a report on August 6 entitled “What Really Ails China.” I will not get into the details of this report here, but suffice it to say that I think China's historic dependence on exports and investment is a symptom of a deeper problem: excessive savings.

I do not buy the argument that China's high national savings rate is the result of the government's efforts to suppress wages. Labor's share of income is similar to most other major economies. It is China's high household saving rate that stands out.

If households insist on saving a large portion of their income, governments can prop up domestic demand by running larger budget deficits – effectively soaking up private sector savings with the government's own dissaving. But China is not doing that. The combined fiscal/credit impulse has dropped sharply this year. To the extent that the impulse leads growth by about nine months, this bodes poorly for China's economy over the coming year or so.

Thoughts On The Yen

Thirteen years after the launch of Abenomics, long-term Japanese inflation expectations have finally reached the BoJ's target of 2%.

Rising inflation expectations have depressed Japanese real rates, which has put downward pressure on the yen. In late 2021, Japanese 2-year real yields were around 250 bps higher than in the US or the euro area. Today, real rates are lower in Japan across all maturities.

In addition to interest rate differentials, many commentators blame Japan's fiscal dynamics for the persistently weak yen. My colleague, Mathieu Savary, has downplayed that argument, and I tend to agree with him.

The “fiscal stress” argument does not square well with the fact that Japan's government debt-to-GDP ratio has fallen around 25 percentage points from its peak. It also does not square well with the fact that Japan's external assets exceed its liabilities by a whopping 79% of GDP. I would add that the fiscal dynamics in countries such as France, or the US for that matter, are not markedly better than in Japan.

CHART 22

Investors Expect Most Central Banks To Raise Rates Over The Next 12 Months



SOURCE: BLOOMBERG FINANCE L.P.

NOTE: EXPECTED 12-MONTH CHANGE IN THE POLICY RATE AS PRICED IN THE OVERNIGHT INDEX SWAP CURVE (OIS).

This brings me to the recent intervention to support the yen. As inflation has risen in Japan, higher prices have gone from being a reflationary goal to a political liability. With access to \$1.1 trillion in foreign exchange reserves, the government decided to act.

This posed a problem for the US because most of Japan's reserves are held in US Treasuries. The last thing the Trump administration wanted was for Japanese foreign exchange sales to put even further upward pressure on US bond yields. As a result, Scott Bessent cooked up a scheme whereby the US sold euros in exchange for yen, even as Japan carried out a much larger operation of buying back yen with dollars.

The Yen: A Loaded Spring

History has repeatedly shown that foreign exchange interventions usually fail unless they are accompanied by complementary changes in monetary policy. The fact that the yen has now given up some of its post-intervention gains supports this conclusion.

That said, I do not think there is much downside left for the currency. The yen has weakened much more over the past few years than one would have predicted based on changes in interest rate differentials. Indeed, real rate differentials have moved slightly in the yen's favor since late 2023.

The currency is now 46% undervalued against the US dollar and 43% undervalued against the euro on a purchasing power basis.

Yen volatility has also picked up. Carry trades become less attractive in high volatility regimes where even modest movements in the currency can quickly wipe out any interest rate advantage.

I see the yen as a loaded spring. If investors were to price out rate hikes in the rest of the world, either because of lower oil prices or slower growth, the yen could strengthen substantially.

What Would Make Me More Bullish On Stocks?

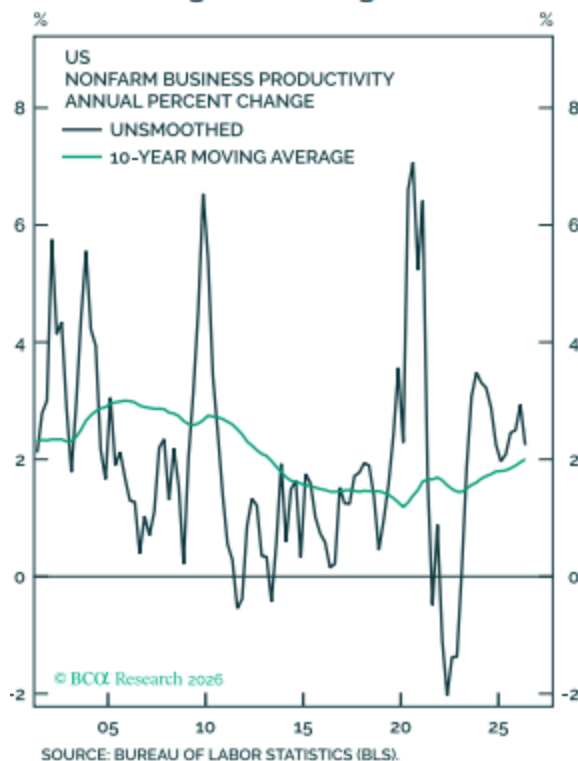
Answer: Faster Productivity Growth

Earlier on, I asked what would make me turn bullish. Let me end this note by answering this question. My main concern with the AI trade is that there will not be enough demand for compute to justify all the capex that is going into data centers. But how much demand there will be greatly depends on how useful AI turns out to be.

My impression is that AI is great at synthesizing knowledge but not so great at creating new knowledge. When I ask an AI to tell me about some market themes that no one else is talking about, it invariably spits out a bunch of themes that everyone is talking about. A recent paper from Google DeepMind entitled "LLMs Can't Jump" makes this point explicitly

Granted, this may not be a fatal flaw. After all, a lot of new knowledge is derived from existing knowledge. So, even if LLMs can't jump, they might still be able to crawl very quickly. But at some point, we are going to need to see faster productivity

CHART 29
Annual US Productivity Growth Is Still Near Its Long-Term Average



growth. US productivity rose 2.2% yoy in Q2, which is close to the 10-year average of 2.0% (**Chart 29**). If productivity growth were to rise, I would turn more bullish.

From WSJ's Markets A.M. on Aug. 27:

Sea of red

For roughly a decade, markets shrugged off deficits. No more.

Resurgent debt worries were the backdrop to Treasury Secretary Scott Bessent's unusual bond market intervention last week. But his firepower to buy back long-term bonds is inherently limited by the huge federal deficit. This has made Bessent the subject of some well-deserved criticism, including from his former mentor and hedge-fund legend Stanley Druckenmiller.

Kevin Warsh, another Druckenmiller protégé and Bessent ally, is about to step into this storm. The Federal Reserve Chairman's address this Friday at the Jackson Hole summit could bring yields back down, or send them higher (**higher it was, which has continued**).

To appreciate why, it helps to understand how markets looked past the huge deficits that followed the 2008 financial crisis. These reached nearly 10% of gross domestic product in the government's 2009 fiscal year, and stayed above 4% of GDP—relatively high by historical standards—through 2013.

During this time, the Fed kept short-term rates at zero, bought bonds to bring down long-term rates and signaled clearly to markets that these arrangements were for an extended period. All this helped to bring the yield on 10-year Treasuries down and stay remarkably low—below 2% for much of this period.

Even when the Fed began raising rates in late 2015, it used forward guidance to signal a cautious tightening path, keeping bond markets calm.

How are things different now? For one, the fiscal picture is objectively worse. The size of deficits relative to the economy was even bigger during the Covid crisis than in the Great Recession, and they have stayed bigger since. Five years after the deficit peaked in 2009, it came in at just 2.8% of GDP in fiscal 2014. At a similar point today, it stands at nearly 6%.

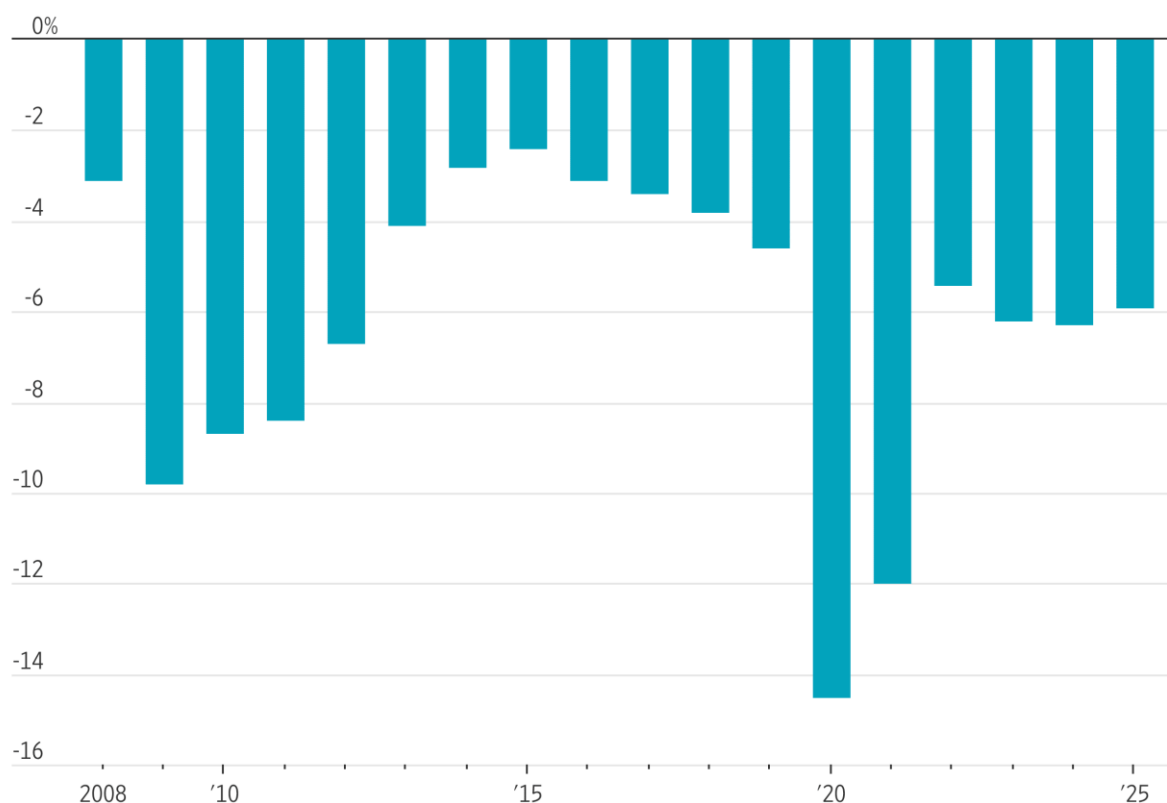
Second, the Fed has been much less reassuring. Late in former Chair Jerome Powell's term, the outlook for rates became unclear. This is even more the case under Warsh, who has eschewed forward guidance. Worse, there was a disconnect at Warsh's last press conference between his strident rhetoric on achieving price stability and the lack of explanation for why he wasn't already raising rates.

This put a fear into markets that the Fed might at first hesitate and then find itself behind the curve on inflation. The result: The yield on 30-year Treasury bonds rose from 5.09% before the July Fed meeting to 5.31% just before Bessent's intervention.

Don't look for Warsh to back down on his campaign against forward guidance this Friday. But the market is all but demanding that he give a fuller explanation of where he thinks the economy stands, and provide some assurance that the Fed will raise rates if it must.

Deficits matter again, and the Fed still has a role to play. ...

Federal budget balance as percentage of GDP:



Note: The Federal fiscal year ends in September.

Source: Federal Reserve Bank of St. Louis

Two from The Intelligent Investor by WSJ's Jason Zweig. On Aug. 28:

What a 125-Year-Old Bull Market Says About Today's Trading Craze

Trading apps have replaced bucket shops, but Wall Street abounds with eerie parallels to 1901

Is this seemingly unstoppable stock market starting to feel like 1999, when technology stocks went vertical on a wave of speculation? To me, it feels more like 1901.

No, I wasn't around back then. But a look 125 years back in time shows that it was a remarkably similar period, with lessons for today. Gambling fever can burn longer and hotter than most people think—and then end faster than anyone can imagine. Those who refuse to play pay a high price in short-term opportunity cost, but win in the long run.

Some of the similarities are uncanny.

In 2026, fast trading is almost the norm, with more than 3 million daily trades in S&P 500 index option contracts that [expire the same day](#). In 1901, the turnover rate on the New York Stock Exchange hit 319%, with

the entire market capitalization effectively changing hands every 16 weeks—a velocity of trading that wouldn’t be exceeded [for more than a century](#).

In 2026, prediction markets are all the rage, with traders betting on the short-term outcome of [just about anything imaginable](#). In 1901, bucket shops were the hottest outlet for speculation, with people betting on whether the next tick in U.S. Leather or American Cotton Oil stock would be up or down.

In 2026, [leveraged exchange-traded funds are booming](#), enabling traders to double or triple the daily returns on stocks or indexes. In 1901, speculators trading on margin, or borrowed money, eagerly leveraged their bets 10-fold or more. (Today, with [perpetual futures](#), some people might even be able to leverage up to 100 to 1.)

The first lesson of 1901 is that speculative fever is hard to compartmentalize. Gambling in one area of your financial life tends to infect the rest.

The journalist and author Edwin Lefèvre—who later became famous for the book “[Reminiscences of a Stock Operator](#)”—published a collection of short fiction in 1901 called “Wall Street Stories.”

Intoxicated by “the wine of gambling,” one of Lefèvre’s characters no longer sees any difference between trading “50,000 shares of a stock” or betting “\$50,000 on the turn of a card.” He even offers “to wager a fortune that he could guess which of two flies that had [landed] on a table would be the first to fly away.”

Have we progressed in 125 years? Nowadays, prediction markets let you bet on what bitcoin’s price will be 15 minutes from now or whether a football broadcaster will say the words “tush push” during the Super Bowl.

Then, as now, companies that inflamed the public’s urge to gamble cloaked themselves in the righteous robes of “democratization.”

One of the nation’s biggest bucket shops, the aptly named Haight & Freese, claimed that its annual “Guide to Investors” was “for the benefit of the million[sic] of busy people” who were seeking “a fair chance of securing a portion of the immense profits [from] the rapidly accumulating number and value of exchange securities.”

Yet bucket shops had nothing to do with investing, even though they shrewdly called their customers “investors.” All you could do was bet on a binary outcome: whether the next trade in a given stock would be up or down.

That made people feel they were participating in the capital markets—especially because they could trade with as little as \$10 and leverage it, sometimes 30-fold or more. Brokerage firms at the New York Stock Exchange rarely accepted orders for less than 100 shares (which could run into the thousands of dollars) and generally had much tighter limits on margin.

Today’s prediction markets and trading apps pack a similar package into your phone.

The danger then, as now: Once speculation feels fun, it [becomes potentially addictive](#). And that almost always ends in [heartburn or heartache](#).

At the turn of the 20th century, a waiter made \$100,000 (millions of dollars in today’s money) trading Brooklyn Rapid Transit Co. stock, noted a history of the NYSE in 1905—a profit, the writer wryly added, “which Wall Street took back at a later date.”

But the longer the good times roll, the more remote the day of reckoning feels. In 1901, the economy was booming. Financiers, led by [J.P. Morgan](#), rolled up entire industries into “combinations” meant to limit competition, minimize price-cutting and maximize appeal to investors. Investors went ga-ga over industrial agglomerations for tin, oil, electric utilities, flour, furniture, copper, pottery, leather, borax, oatmeal, even coffins.

In 1901, U.S. Steel became the first billion-dollar company. It created the same sort of excitement among investors as [SpaceX](#) did in 2026 when it became the first [initial public offering](#) with a valuation of more than \$1 trillion.

After rising 19% in 1900, the stock market rose another 20% in 1901 and 5% in 1902. Following a stumble in 1903, stocks soared again, returning 69% in the next three years.

Then, finally, came the devastating Panic of 1907, when the market crashed 30%, losing 10% in October alone.

Trust companies, the original “shadow banks,” had loaned buckets of money to risky businesses, real-estate speculators and stock traders. Bank runs ensued as depositors feared that dodgy trusts would go bust. It was one of the worst financial disasters in American history, leading to the creation of the Federal Reserve.

I’m not saying you should sell everything and sit out this bull market. But remember this: The few people who had remained calm and remote from the frenzy of the early 1900s emerged stronger.

Hetty Green, perhaps the first and among the greatest of all long-term investors, had lived stubbornly by her motto: “Never speculate in Wall Street.” In 1908 she recalled: “When the crash came I had money, and I was one of the very few who really had it. The others had their ‘securities’ and their ‘values.’ I had the cash, and they had to come to me.”

On Aug. 11:

Why Investors Fall for Shooting Stars

My colleague [Spencer Jakab wrote last week](#) about why investors seem to forgive fallen investing stars. A question that intrigues me is why investors fall for these shooting stars in the first place.

Leopold Aschenbrenner’s hedge fund Situational Awareness was [up 270% this year](#) through May and had amassed \$45 billion at its peak.

Cathie Wood’s ARK Innovation ETF skyrocketed 153% in 2020, [helping to attract \\$20 billion in new money](#) to her firm by year end.

At the end of 1999, then 29-year-old Ryan Jacob [launched the Jacob Internet Fund](#). Lured by the 216% annual return at his previous fund, investors showered nearly \$300 million at him in the opening weeks of 2000.

Big numbers! But, as Benjamin Graham warned in his classic book *The Intelligent Investor*:

Bright, energetic people—usually quite young—have promised to perform miracles with “other people’s money” since time immemorial. They have usually been able to do it for a while—or at least to appear to have done it—and they have inevitably brought losses to their public in the end.

And so it goes. Aschenbrenner's fund lost 67% in July. ARK Innovation has trailed the S&P 500 by an average of nearly 23 percentage points annually since the end of 2020. Jacob Internet lost 70% in 2000 and 56% in 2001—and, since its launch, has lagged behind the S&P 500 by nearly 14 percentage points annualized.

Why do investors never seem to learn?

Like all humans, investors indulge in magical thinking. As [the psychologist Daniel Kahneman](#) told me years ago, “Luck and randomness are the likeliest—but least satisfying—explanations for extreme outcomes. Ordinary causes feel insufficient to explain extraordinary results.”

And the more surprising a result is, the more it cries out for an emotionally convincing explanation. As Kahneman loved to say, “Stories trump statistics.” If something seems miraculous—like doubling or tripling other people's money in a few months—our intuition tells us the person who did it must be a miracle worker.

Will that ever change? ...

Among investors, one of those perennial stories is the young swashbuckling genius who comes out of nowhere, racks up gigantic gains on risky bets, attracts massive amounts of money, then crashes and burns.

That story goes on repeating itself as fiercely as if it had never happened before, and I suspect it always will.

Two from NYT:

This Is How the A.I. Debt Binge Sinks the Economy

Aug. 26, 2026

By Robin Wigglesworth

Mr. Wigglesworth is an editor at the Financial Times. His forthcoming book is “[A Fabulous Debt](#): The Epic Story of How Bonds Built the Modern World.”

Despite all the hoopla about Nvidia becoming the [first company](#) valued at over \$5 trillion, the listing of Elon Musk's SpaceX and the looming [initial public offerings](#) of Anthropic and OpenAI, artificial intelligence is no longer primarily a stock market story. It is a story of debt, and that should worry us. Unfortunately, manias fueled mainly by credit almost inevitably end badly.

For now, set aside prognostications of either an A.I.-powered economic miracle or an A.I.-generated “[jobsmageddon](#).” No one really knows just how impactful the age of thinking machines will prove — the technology is simply too different from anything that has come before. It famously took a long time for the computer age to appear in economic data, too.

But we do have a lot of experience with debt-fueled investment sprees, such as the railway euphoria of the 19th century, the telecommunications revolution of the 20th century and more recently the 21st-century housing boom. They all resulted in nasty economic downturns, even if the underlying technology proved transformative.

Why has debt become so central to A.I.? Previously, most investments in data centers and related infrastructure were paid for by the abundant cash flows generated by the likes of Facebook or Google Search. But large-scale A.I. models depend on immense computing power. And the resulting scope of the investments required to build that power is increasingly forcing the “hyperscalers” — the small club of companies that are aggressively

ramping up their A.I. data center investments — to turn to loans, bonds and sundry other forms of financial obligations to pay for the party.

The debt binge is astounding even industry insiders.

Last year, analysts at Barclays, the British bank, collected a string of [unsourced quotes](#) from an A.I. data center conference they attended, which ranged from “enjoy the ride on a rocket without seatbelts” to the “best way to describe the market is bonkers.”

Since then, things have become even more bonkers. American A.I. companies had already tapped debt markets for \$217 billion last year, according to Morgan Stanley. By mid-August, they had already smashed past this total, with \$445 billion of debt issued, and the investment bank expects the overall debt splurge to hit nearly \$600 billion for 2026. That is more than the combined 2026 budgets for the Departments of Justice, Transportation and Education.

And that is just the start, judging by what the hyperscalers have told investors. Their future capital expenditure plans amount to roughly 3 percent of U.S. G.D.P. a year, in 2027 to 2029, according to [calculations](#) by Torsten Slok, the chief economist of Apollo, an investment firm. Back-of-the-envelope calculations suggest that’s almost \$1 trillion a year. It also would, in relative terms, represent a larger and faster relative ramp-up than even that of U.S. residential housing in the years preceding the 2008 crash.

In other words, if 2025’s A.I. frenzy was merely bonkers, we are now entering the territory of bonkers squared — or perhaps even bonkers cubed.

For the most part, investors do not seem worried yet. The dot-com bubble and bust is often seen as the best parallel to the current A.I. boom, feeding hopes that the economic fallout from a bust will prove manageable. The U.S. stock market lost almost half its value between the 2000 peak and the 2003 trough, but the U.S. economy suffered only a mild, brief setback. And, ultimately, computers did revolutionize the world.

It’s tempting to expect the A.I. boom to play out in a similar way, unleashing immense prosperity. After all, the hyperscalers enjoy vastly profitable core businesses, so perhaps they will be able to easily handle their debts.

But there are reasons to worry. Technology companies that were lean, mean money-generation machines have abruptly become voracious devourers of capital. To take just one example of the dramatic swing in fortunes, Google’s free cash flows went [negative](#) for the first time ever in the second quarter of 2026, after cumulatively generating almost \$600 billion since the listing in 2004.

Then there is the issue of more obscure liabilities. Bond sales are easily tracked and the debt transparently reported on a company’s balance sheet for everyone to see. But the hyperscalers are becoming more financially creative and are increasingly keeping the debt off their books by structuring their data center investments as lease commitments.

Take Meta’s titanic Hyperion data center project in Louisiana, for example. Instead of issuing bonds, the company secured most of the financing money by promising to rent the data center itself for 20 years. As a result, the \$27.3 billion loan appears nowhere on Meta’s balance sheet — even though it is in practice on the hook for making these future lease payments.

Goldman Sachs analysts recently [tallied](#) \$1.5 trillion in aggregate lease commitments by the A.I. hyperscalers. Of this, about \$1 trillion is associated with leases that haven’t even started yet, which means that even the

individual lease payments barely appear in public disclosures even if the debt they are associated with will result in often unavoidable costs in the future. As Goldman blandly noted: “This treatment can understate leverage and future liquidity needs as these obligations are eventually recognized and contractual payments come due.” Then there is another estimated \$1.5 trillion of “[purchase commitments](#)” — promises to buy chips and electricity. Those promises don’t appear on balance sheets either.

Adding to the dangers, the A.I. ecosystem has become remarkably [incestuous](#), with a wildly complicated tangle of business, investment and lending relationships tying most of the companies together. Even idiosyncratic problems in one corner could easily ripple across the whole industry.

Already there are a few hints that bond market investors — who are far more adept at sniffing out potential trouble than the more blithe equity investors — are getting antsy. Investors are starting to buy insurance to protect them if the hyperscalers go bankrupt. Based on the current cost of this insurance, investors still think these A.I. companies are good for the money, but the mere existence of such insurance for the likes of Alphabet or Microsoft would have been virtually unthinkable just two years ago.

At the peak of the 1870s railway mania, one American financier is said to have quipped that “no railroad has ever been placed on a paying basis until it has been through a receivership.” Perhaps the same will be said for the A.I. data centers now being constructed around the world.

That might leave us with cheap and abundant computing power — even many bankrupt railways proved a long-term boon — but in the short term, Americans would be left dealing with a painful economic setback. The crash that followed an epic railway bond bust of 1873 was long known as the Great Depression — until that label was usurped in the 1930s. Today, it is commonly called the “Long Depression,” and is a testament to the dangers of even well-founded technology booms that come to rely too much on debt. And railroad tracks last much longer than chips.

America Is About to Get More Expensive

Aug. 20, 2026

By Mohamed A. El-Erian

Mr. El-Erian is a professor of practice at the Wharton School, the chair of Gramercy Funds and the chief economic adviser at Allianz.

The interest rates the United States has to pay for the bonds it sells to fund the government have been surging. This was once a niche obsession of financial markets, but it is swiftly evolving into a much broader issue, with implications that extend far beyond the immediate pain of steeper borrowing costs for households. Already, it has prompted the Treasury Department to intervene more forcefully in this key global market.

This is no ordinary bond-market sell-off. It’s being driven by forces unlike those of the recent past. And if it persists, it could mark the beginning of a structural economic shift more enduring and more globally consequential than most previous episodes of market volatility.

The leap in the cost of borrowing has been breathtaking. Rates on newly issued 30-year U.S. bonds, considered one of the world’s safest bets, recently hit 5.3 percent, up from 1.7 percent in 2021. The American government

hasn't had to pay such high rates since 2007, on the eve of the global financial crisis. That means more federal revenue goes to service the debt — nearly 20 percent — leaving less available for, say, defense or health care.

The pain is spreading, especially as corporate borrowers also face a widening credit spread — that is, the extra risk premium they must pay relative to comparatively risk-free government debt. On Main Street, people are struggling to buy homes or refinance because mortgage rates are so high. It's the same story for auto loans and credit-card balances.

Ask 100 market players why rates are rising, and they would undoubtedly point to the usual suspects: stubborn inflation, ballooning government debt and fiscal deficits and the sting of higher gas and diesel prices tied to the war with Iran.

While these explanations make historical sense, they risk misleading policymakers and investors alike on both the “why” and the “so what” of the current situation.

There are four new and significant issues at play.

The most dramatic is a staggering surge in actual and prospective borrowing by technology companies pursuing the transformative promise of artificial intelligence. Simply put, a rising number of tech companies want to borrow huge amounts of money to deliver breathtaking innovations that can benefit billions. They've already sold almost [\\$500 billion in bonds](#) this year and will likely borrow a minimum of another \$300 billion by year's end.

We should certainly welcome the unique capacity of American capital markets to fund productivity-enhancing investments, from mainframe computers to dot-coms to data centers, that promise higher future growth and prosperity. Yet any profound transition needs to be managed carefully, especially this one, as the colossal corporate demand for capital competes directly with even larger government debt issuance.

While this corporate appetite is growing, traditional foreign buyers of American Treasuries have retreated. This is not merely a consequence of China's geopolitical hesitancy or the need for Persian Gulf states to redirect some of their wealth toward domestic economic diversification and repair damage from the Iran conflict. It also involves steadfast buyers who could become sellers because of their own domestic exigencies. Japan, for one, faces mounting pressure to liquidate foreign assets, including U.S. government and corporate bonds, to defend its battered yen — something that the U.S. has already supported in a rare [joint intervention](#).

The diminished appetite of these traditional buyers directs more of the outstanding bonds into flightier private hands, fueling volatility around a rising path of yields.

In the past, higher bond yields were typically a product of runaway inflation, but a range of market indicators suggests that's not the issue at the moment. Neither is concern with the Fed's credibility. (Despite the many past policy missteps of the Federal Reserve, markets still broadly trust the central bank's commitment to returning inflation to its 2 percent target in the future.) What has surged is the real yield, or the extra, inflation-adjusted compensation that investors demand to bear the risk of buying debt in a more volatile world. It's unsettling out there right now.

The U.S. is exporting these problems to some of our closest allies. Higher American yields have undeniably driven up borrowing costs worldwide, pushing yields on even the ultrasafe German government bonds to levels unseen since at least 2011. At least three other countries in the powerful Group of 7 are even more worried

because of their own financial frailties: Japan, France and Britain. Pressures in these sovereign debt markets risk blowback for U.S. markets.

Take all this into account and we get a yield surge like no other. It's a new order, driven by the combination of enormous tech and government borrowing needs opposed by a decline in willing bond buyers. Then throw in the energy shock and, finally, widespread inflation and Fed-related issues.

This reordering is especially consequential as it suggests that elevated borrowing costs will be far less responsive to the traditional macroeconomic dynamics that have stabilized markets in the past in a timely fashion. Historically, two distinct forces have been able to break the fever of soaring borrowing costs: the Fed taking away the proverbial liquidity punch bowl by hiking interest rates, and the punishing cost of funding that organically convinced borrowers to step back.

Neither will function efficiently today. Fed rate increases will do nothing to discipline bloated government deficit spending. Indeed, they would merely increase the government's debt-servicing burden. Nor will higher rates deter technology firms that possess an unshakable faith in the exponential future returns on their investments in artificial intelligence — and whose FOMO is palpable. Consequently, other, more vulnerable segments of the economy will have to adjust.

Sectors that are traditionally sensitive to interest rates, notably housing and autos, are in the cross hairs, as is the high leverage in some parts of the financial markets and in revolving credit-card balances. The resulting squeeze will fall hardest on low-income households. It will sideline even more prospective first-time home buyers and inflate the everyday cost of transportation. Both dynamics feed directly into an affordability crisis that already sits atop voter anxieties ahead of the upcoming midterm elections.

The economic and political risks could tempt the Trump administration into a new phase of market interventions to tame the so-called bond vigilantes. The government has [announced](#) it will increase the buying back of longer-term bonds as a way of lowering those yields. While this buys time for that segment of the market, it requires the government to issue more shorter-term bonds, risking unintended consequences for the functioning of liquidity markets. Ironically, Fed watchers might wryly note that this could take place just as a chastened central bank attempts to unwind the collateral damage and unintended consequences of its own protracted market overreach initiated during the global financial crisis.

Hopefully, the investment in artificial intelligence will deliver higher productivity that generates significant income growth; and at some point, the administration and Congress may agree to reform a budgetary process that results in too high a deficit and too much debt, which on Wednesday crossed the \$40 trillion milestone. Until then, the bond markets will offer both enormous upside and considerable risks to our well-being.

Follow-ups

From NYT:

‘A Blatant and Gargantuan Conflict of Interest’

Aug. 18, 2026

By **Thomas B. Edsall**

Mr. Edsall contributes weekly essays from Washington on politics and demographics.

The Trump family's crypto business exemplifies all of the sleaziest aspects of the president's code of conduct, if we can call it that.

It is almost certainly [unconstitutional](#) and may well be illegal. Estimates vary, but according to a cryptocurrency analytics firm reported on in The Times, the Trumps made at least \$1.4 billion, and their investors lost [nearly \\$4 billion](#) from purchases of Trump-linked crypto. These purchases [have — let's say — coincided with](#) pardons, dropped investigations and favorable regulatory decisions.

This crypto scheme is central to President Trump's personal agenda: to use his office to vastly increase his and his family's fortune.

The icing on the cake: A growing number of economists and financial analysts argue that crypto is itself a fiction, lacking a backup system of gold, silver or perhaps most important a national government, ordinarily considered essential ingredients of a currency.

As far back as October 2018, Nouriel Roubini, an economist at N.Y.U., [testified](#) before the Senate Committee on Banking, Housing and Urban Affairs: "It is clear by now that Bitcoin and other cryptocurrencies represent the mother of all bubbles."

In September of 2022, Jamie Dimon, chief executive of JPMorgan Chase, [declared](#): "I'm a major skeptic on crypto tokens." Dimon went on to suggest that they are "decentralized Ponzi schemes."

In 2023, Steve Hanke, a professor of applied economics at Johns Hopkins, [dismissed crypto](#): "Bitcoin is a bubble. It has no inherent value and is terribly overpriced." He added that "buying Bitcoin is a fool's game." It's a critique he has repeated often since then.

I asked a wide range of crypto experts about the Trump family's involvement in the industry, and more than half pointed me to an independent analyst, Molly White, who regularly produces detailed reports for her newsletter, [Citation Needed](#).

White, whose work has been [praised](#) in The Washington Post, The Los Angeles Times and The Guardian, emailed her reply to my queries: "I wouldn't say that running a crypto business inherently would lead to corrupt transactions, except that crypto is extremely poorly regulated."

However, White continued,

shady actors are extremely normalized in the crypto world so the usual reputational screening that might keep someone like that from investing in a business doesn't seem to apply.

I do think Trump's dealings are both illegal and unconstitutional. While it's challenging to definitively prove a quid pro quo, the sheer number of times an individual or company has supported Trump's campaign or invested in his crypto businesses and then quickly enjoyed favorable policy treatment or regulatory relief is [so long it's hard to believe it's all coincidence](#).

The deals with the U.A.E. and the business with Justin Sun are particularly fishy. There should be serious investigations into all of this, whether under the foreign emoluments clause or 18 USC §201, and Trump should face both impeachment and criminal consequences.

Speaking of the last national election, White wrote, “the crypto industry was quite successful in politics in 2024, installing at least six new pro-crypto senators and more than a dozen representatives.”

With Trump in the White House and Republicans in control of Congress, White said, the key regulatory agencies are controlled by “loyalist, pro-crypto commissioners.”

Candidates supportive of the crypto industry, which has spent millions already and is expected to spend hundreds of millions on politics over the next few years, have a mixed record, White wrote:

Christian Menefee defeated vocal crypto opponent Al Green in TX-18. But they’ve also had some big losses: Juliana Stratton won her Democratic Senate primary in Illinois despite nearly \$8M in crypto opposition spending, La Shawn Ford won his Democratic primary in IL-7 despite \$2.5M in opposition, and incumbent Democratic crypto ally Shri Thanedar just lost his primary in MI-13.

Some of the economists who study crypto are equally critical of the industry.

Eswar Prasad, a professor of international trade policy at Cornell University and a senior fellow at the Brookings Institution, wrote in an email, “Trump’s explicit boosterism of the crypto industry, which has given the industry greater legitimacy along with lax regulation, has gone hand in hand with the Trump family’s extensive financial entanglements with the cryptocurrency ecosystem.”

Those policies, Prasad contended, constitute “a blatant and gargantuan conflict of interest.”

Prasad’s critique doesn’t stop there:

Trump and his family have hardly been shy about cozying up to crypto tycoons and have been quite brazen in their pay-for-play approach to this sector.

Crypto executives willing to provide financial support to the Trump family’s crypto-related ventures have received access to the president and top officials, favorable regulatory rulings and even pardons when convicted of crimes.

Trump’s crypto policies, in Prasad’s view, “portend enormous risks ahead for financial stability and particularly for retail investors who venture into this space. This also opens the door to crypto serving as a conduit for illicit finance and for lubricating a wide range of illegal activities.”

Prasad described as particularly egregious the attempt by World Liberty Financial, one of the Trump family’s crypto businesses, to prevent Justin Sun from selling any part of his \$75 million investment in digital coins — a dispute described by my news-side colleague David Yaffe-Bellany on April 22 in “[Crypto Entrepreneur Files Fraud Suit Against Trump Family Firm](#).”

“It is surreal,” Prasad wrote,

to have the Trump family not only profiting off a financial venture that features glaring conflicts of interest but doing so in a way that blocks other investors from sharing in the gains.

The extensive conflicts of interest and the asymmetric treatment of other investors make this a staggering violation of basic norms that ought to govern the actions of holders of any public office, let alone the presidency of the United States.

In one brief paragraph, Nicholas Weaver, a senior research scientist at Berkeley's International Computer Science Institute, captured the appeal of crypto to Trump and the dangers the industry poses for potential investors: "Everything in cryptocurrency is zero-sum at best and negative-sum in most of the cases, so every \$ 'made' by someone comes at someone else's expense."

A June 9 investigation by a Reuters reporter, Tom Bergin, "[Parsing the Trumps' Crypto Profits, Investors' Losses](#)," affirms the validity of Weaver's comment.

Bergin's conclusion?

"The Trump family has made \$2.3 billion from crypto with little to no downside risk, while other investors have lost \$2.3 billion, including paper losses, as of the end of April."

Not only did Trump and his family rake in millions and millions by any accounting, they risked little if anything in creating their crypto businesses, Bergin wrote: "Startup costs for the Trumps' largest crypto venture, World Liberty Financial, and the \$TRUMP meme coin project probably came in at less than \$1 million — and possibly much less."

In the case of two Nasdaq-listed crypto companies that earned the Trumps millions, ALT5 Sigma, now named AI Financial Corporation, and American Bitcoin, Bergin "found that where Trump share ownership was reported, the interests involved had been acquired at no monetary cost. There was no evidence that the Trumps injected cash into the companies."

It's clear that the underlying logic — or lack thereof — is a subject of fascination for some economists.

Lee Reiners, a lecturing fellow at the Duke Financial Economics Center, was especially helpful in his response to my questions. I asked Reiners, "Does the business model invite corruption, and is any of it illegal?"

He replied by email:

Separate three questions: whether the structure invites corruption, whether it violates the Constitution and whether it is a crime. The answers are yes, probably, and not on the current public record.

A token is a bearer instrument. Anyone anywhere can buy it, with no contribution limit, no disclosure requirement and no need to identify themselves. Someone who wants to move money to the president's family can now do it from a phone. His crypto assets are tailor-made for anyone who wants to buy influence with the president.

Reiners cited two examples to buttress his case:

MGX, an Abu Dhabi state-backed fund, used USD1 to settle a \$2 billion investment in Binance, handing World Liberty the interest on a \$2 billion float. Binance was lobbying for a pardon for its founder, Changpeng Zhao, at the time. Trump pardoned Zhao in October 2025.

Separately, the S.E.C.'s fraud case against Justin Sun was paused in February 2025, after Sun had put at least \$75 million into World Liberty tokens, and the case was later settled on favorable terms for Sun. Senate Banking Democrats laid out the Binance timeline in a [letter](#) worth reading in full.

Reiners acknowledged: “None of this is definitive proof of a crime, but any prosecutor worth his salt would initiate an investigation. Federal bribery law requires an agreed exchange of an official act for a thing of value, and nothing in the public record establishes one, yet.”

The Constitution is a different matter, Reiners wrote:

The foreign emoluments clause is the stronger constitutional argument, because foreign state money is reaching entities he profits from.

Two obstacles. The emoluments suits from the first term were dismissed as moot in January 2021 without any ruling on the merits, so there is no controlling precedent on what an emolument is. And nobody has obvious standing to sue. As a country, we’ve just never been in this situation before.

The crypto industry’s rapidly growing involvement in elections through contributions and campaign commercials has turned it into one of the most influential commercial interests in the nation’s capital, Reiners noted:

In 2024 the industry spent about \$40 million to beat Senate Banking Chairman Sherrod Brown and around \$10 million against Katie Porter in the California Senate primary.

This cycle is larger. [Public Citizen reported on June 30](#) that crypto companies have put \$189 million into the 2026 midterms, more than the industry spent in all of 2024, and 37 percent of the \$517 million in reported corporate election spending.

The spending, Reiners argued, “works as deterrence. Every member of Congress watched what happened to Sherrod Brown, and the industry made sure of it.”

With two exceptions, the Trump family’s sale of crypto tokens has even insulated them from the current industry downturn.

Bitcoin is trading near \$64,000 today, Reiners wrote,

down about 27 percent this year and roughly 50 percent below its October 2025 record of \$126,198. The Trump-branded assets have done far worse. WLF1 trades around 5 cents. The \$TRUMP memecoin is down about 97 percent from its January 2025 peak of \$75.35.

Despite this, he continued,

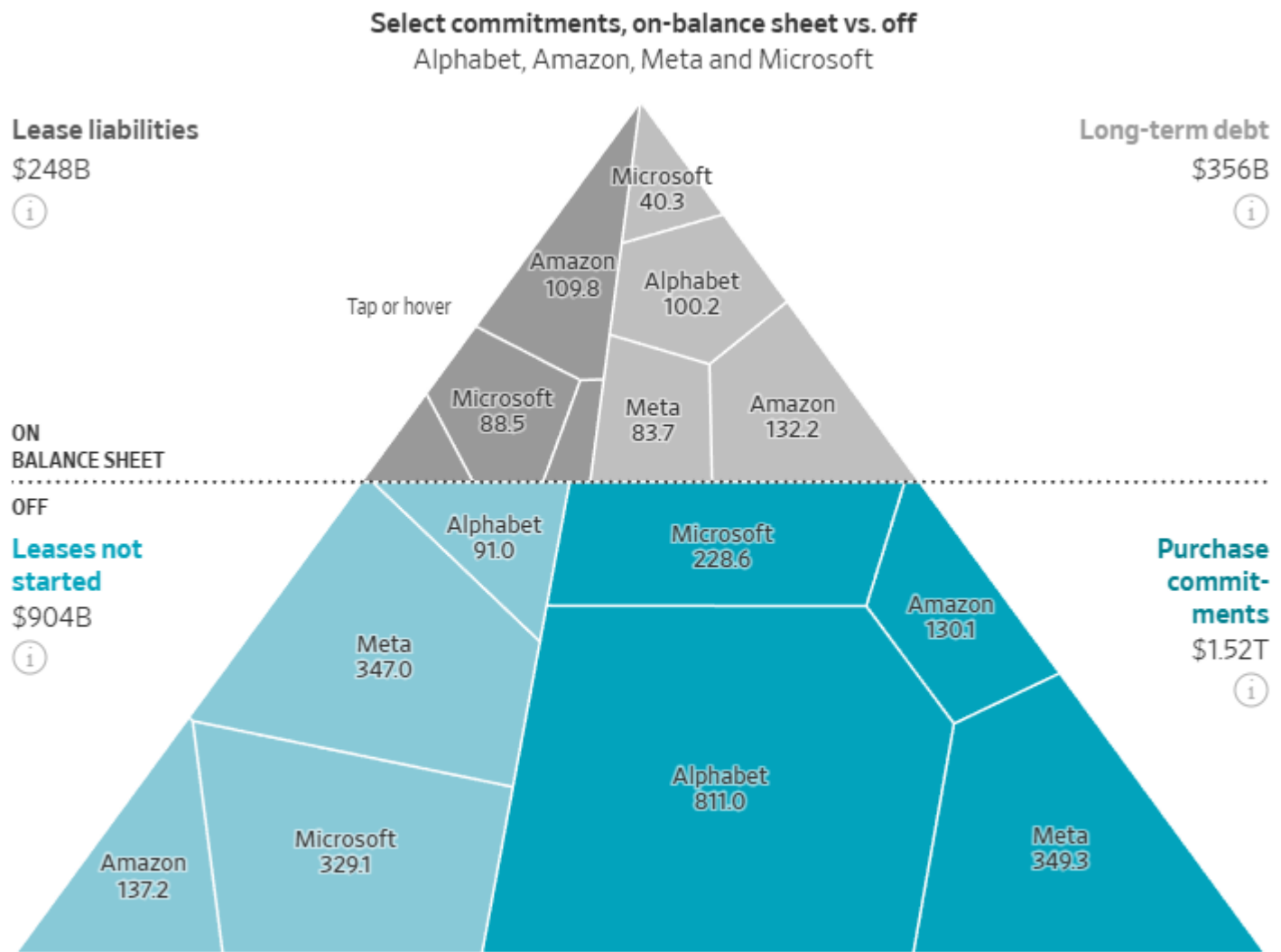
the family is still up, because the model separates their income from the asset’s price. They collected fees and revenue shares at the moment of sale. Buyers hold the thing that fell. A price collapse transfers pain entirely to the people on the other side of the trade.

In other words, crypto provides Trump with the ideal marketing tool. He and his family win; his investors lose.

From WSJ:

Why Big Tech’s AI Spending Is \$3 Trillion Higher Than It Seems

Massive spending commitments for data-center leases and chips aren't shown on companies' balance sheets



By [Peter Rudegear](#) and [Peter Santilli](#)
Aug. 16, 2026

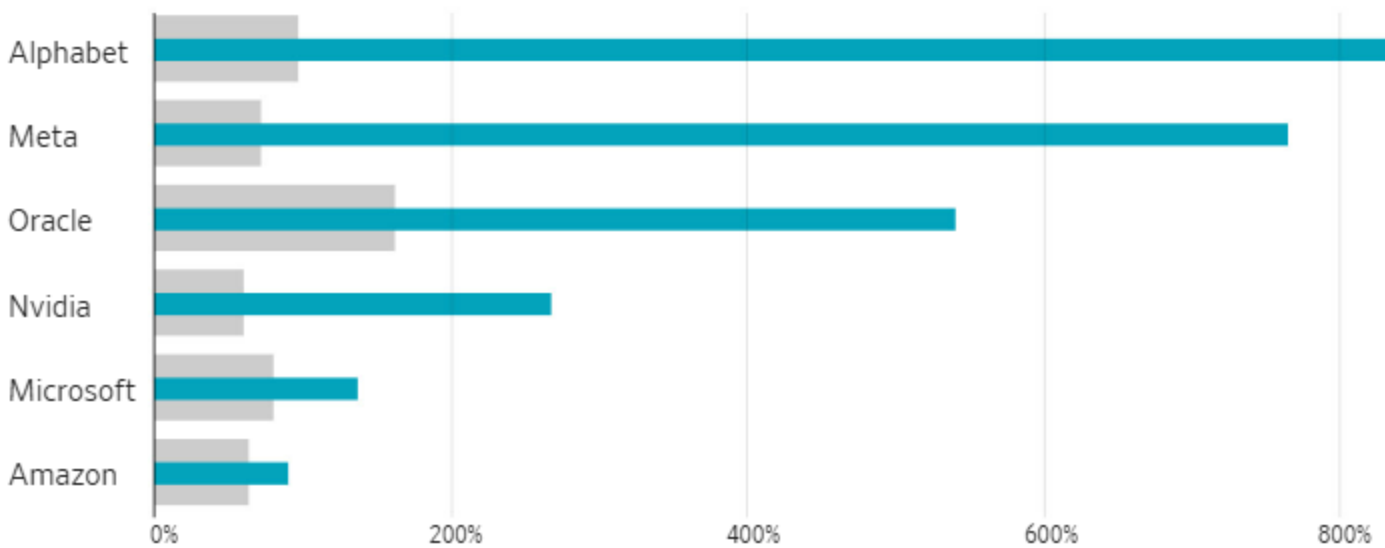
Each quarter, big tech companies disclose their massive capital expenditures on artificial-intelligence infrastructure, from [data centers](#) to chips.

But those figures don't come close to expressing the [full extent of future spending](#) to which Google parent [Alphabet](#), [Meta Platforms](#), [Oracle](#) and many others have committed. That is because a huge swath of their [coming financial obligations](#) aren't reflected on their balance sheets.

Nine top tech companies had some \$3 trillion of off-balance-sheet commitments mostly related to AI, according to a Wall Street Journal analysis of footnotes in their most recent securities filings. Those obligations are growing faster than traditional "capex," which totaled about \$600 billion over the past year they reported, and were about triple what the companies owe under their outstanding leases and long-term borrowings.

Percentage change from a year earlier

■ Off-balance-sheet obligations ■ Capital expenditures

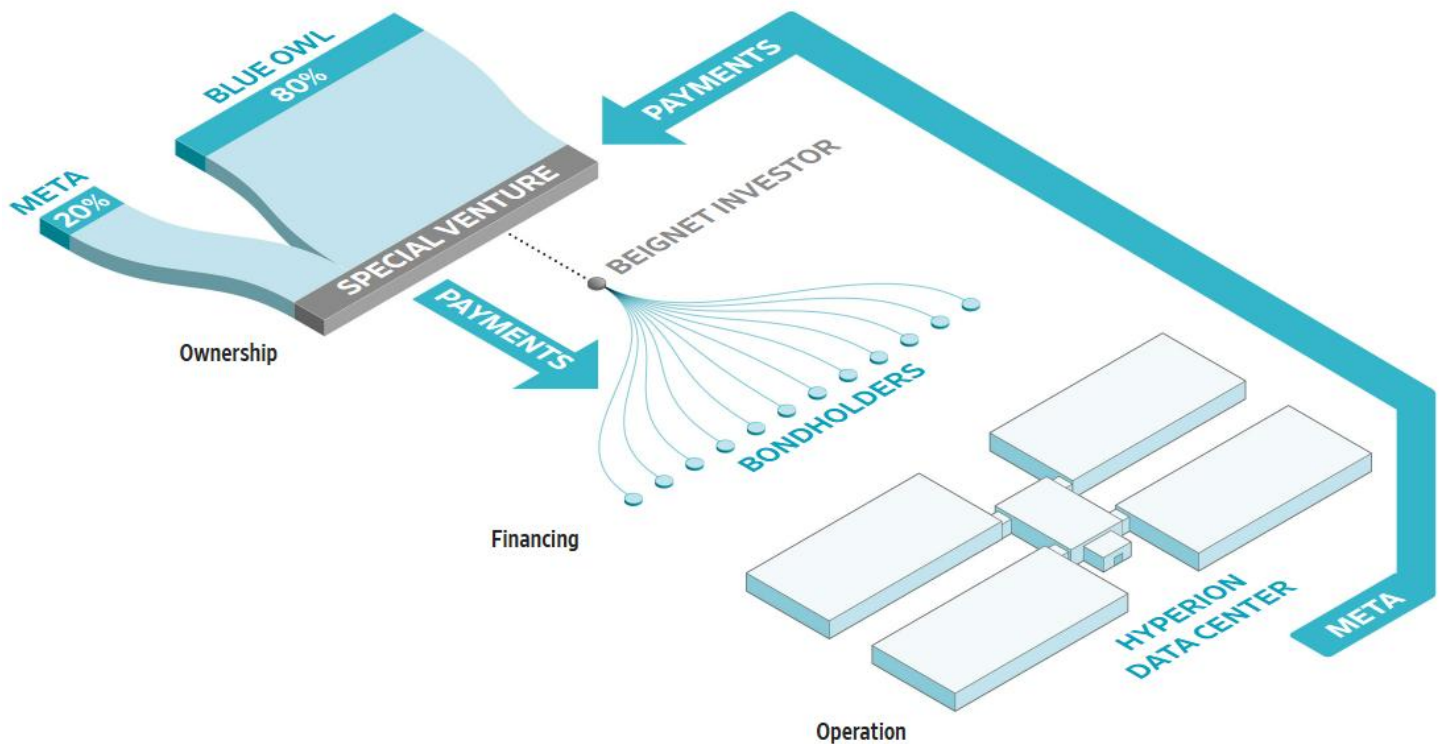


Note: Changes in off-balance-sheet obligations are based on the combined totals of leases not started and purchase commitments. Capex growth is based on trailing 12-month expenditures. All data are as of June except Nvidia, which are as of April, and Meta, which are as of July.

Source: WSJ analysis of company filings

America's blue-chip tech companies are placing these huge bets based on assumptions about what the demand for AI computing—and availability of AI hardware—will be in several years. Their hope is that they will easily meet all their obligations with future revenue as consumers and businesses adopt AI in every facet of American life.

If those assumptions about technology and demand prove wrong, these deals to clinch future capacity could become a monstrous burden for the tech companies and their investors.



Meta’s gigantic “Hyperion” data-center project in Louisiana, which is the size of about 1,700 football fields, helps explain how big obligations wind up [off tech companies’ balance sheets](#).

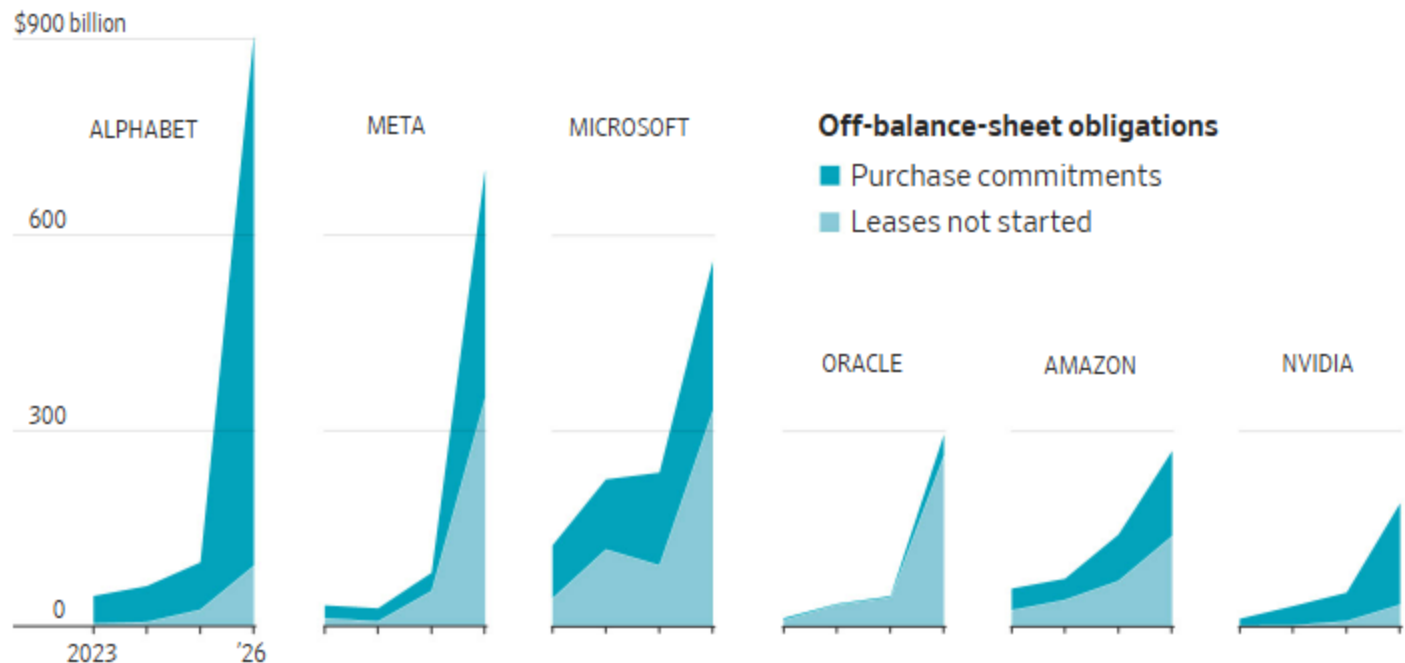
Meta initially agreed to lease Hyperion for a four-year term starting in 2029, with options to renew for up to 20 years. It guaranteed that it would make bondholders whole if it doesn’t stay the entire two decades. The company doesn’t think payments under that guarantee are probable, so it hasn’t recorded any liability on its balance sheet.

In accordance with accounting rules, Meta’s Hyperion lease obligations will remain off balance sheet until it starts paying rent. It said its aggregate initial lease commitment is about \$12.3 billion. Meta disclosed \$347 billion in total obligations for leases that haven’t kicked in yet, including for Hyperion, as of June.

Across the companies the Journal analyzed, promises of payments under these uncommenced leases totaled \$1.2 trillion in off-balance-sheet obligations, or about four times more than what was disclosed a year earlier. In addition to Meta, the Journal reviewed commitments for Alphabet, Amazon.com, Microsoft, Oracle, Nvidia, Broadcom, SpaceX and Advanced Micro Devices.

Data centers get stuffed with [a lot of hardware](#), including the Nvidia chips that are used to train and run models and memory chips that store information. To buy all that, companies sign long-term contractual agreements well in advance to lock in production from their suppliers.

Those and other purchase obligations at the companies the Journal examined stand at a whopping \$1.9 trillion. Under accounting rules, purchase commitments typically remain off balance sheet until a product or service is delivered.



Note: Data are as of June, except Meta, which are as of July, and Nvidia, which are as of April.

Source: WSJ analysis of company filings

Alphabet’s purchase commitments and contractual obligations have exploded and stood at \$811 billion as of June 30. As with other companies, it is hard to tell from its disclosures what precisely it intends to buy. The company said the commitments primarily relate to “technical infrastructure and inventory” and “agreements to secure energy for data center usage.”

Alphabet also didn't detail why those obligations increased so much from the \$332 billion it reported three months earlier. The commitments span several years, with obligations under its energy agreements lasting as far out as 2054.

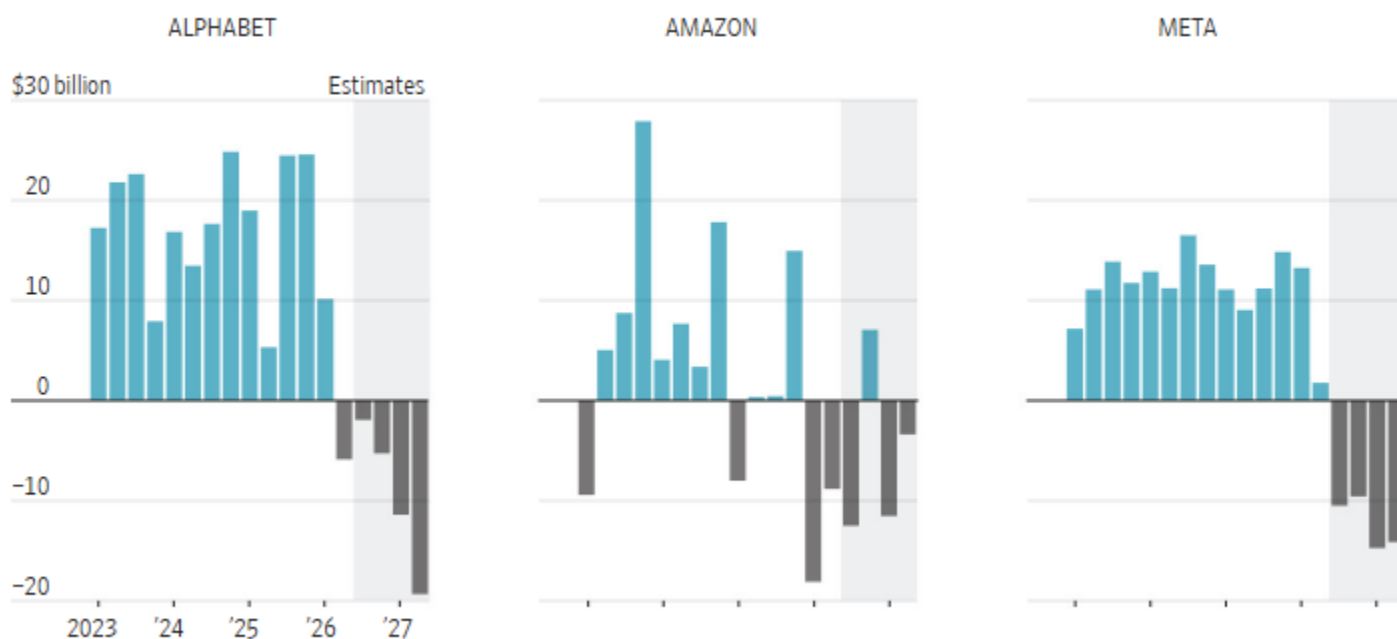
Off-balance-sheet exposures at some companies include agreements to buy other companies' stock in the future or backstop leases for other tenants. Nvidia committed to make \$27 billion in equity investments between April 26 and the end of its fiscal year in January 2027.

There are reasons to believe tech companies will make good on all their obligations. Optimists see the skyrocketing demand for AI tools—which has lifted the stock market and led to shortages of key hardware—as a proof point that demand is going to be strong for years, and the money to pay off all these bills will be rolling in.

For the more anxious set on Wall Street, it is a worrying sign that some tech companies that once seemed to have fortress balance sheets have needed to tap the capital markets frequently.

Alphabet and Amazon recently posted results showing [negative free cash flow](#), meaning their capital spending exceeded the cash they brought in from operating their businesses.

Free cash flow for three big players in the AI race



Source: FactSet

And that is before considering the implications of trillions in off-balance-sheet commitments. Whether or not the revenues ever arrive, purchase commitments and signed leases can't be canceled, for the most part.

If things go wrong, tech companies will be paying an expensive tab for infrastructure that they can't profitably use. These obligations could also lead increasingly indebted companies to have to borrow even more.

“As these off-balance sheet commitments become more frequent, larger, and more complex, it is becoming increasingly difficult for investors to assess companies' total potential leverage,” Morgan Stanley accounting analysts wrote in April.