Are we there yet?

“It is impossible to ignore reality, however sad.” - Benito Mussolini

From WSJ:

The Wild Week That Brought AI Investors to the Brink

Democrats’ victories supercharged anxieties that had been building for weeks. Systematic trades amplified losses.

By Hannah Erin Lang, Sam Goldfarb and Gunjan Banerji
Nov. 6, 2026

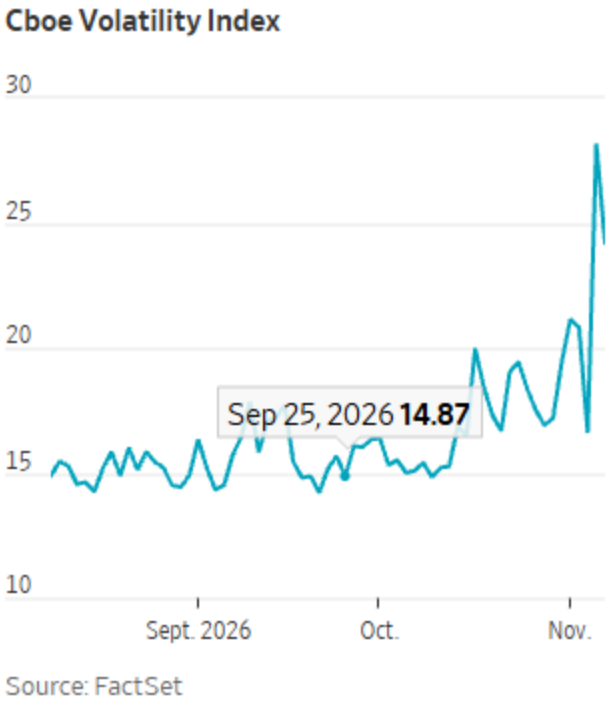
… Markets often react, and sometimes overreact, to surprises. But Tuesday’s election sent Wall Street into a tizzy of historic proportions; stocks rocked violently in the three days that followed, as the Democrats’ victories supercharged anxieties over an artificial-intelligence trade that had been building for weeks.

The reckoning came on Thursday, when AI darlings Nvidia and Micron Technology helped lead the Nasdaq composite into correction territory. Hedge funds dumped positions. The Cboe Volatility Index or VIX, known as Wall Street’s “fear gauge,” jumped to its highest level since March.

For weeks, investors had fretted over the piles of debt on data-center operators’ balance sheets, the shrinking cash reserves at tech giants such as Alphabet, and the sneaking suspicion that the AI ecosystem’s peak profits were already in the past. Few, though, expected Democrats to win gubernatorial races in states like Texas, Ohio and Georgia that have emerged as key battlegrounds over future data-center projects.

The week was marked by haywire trading: Markets reacted positively to the election news at first, sending blue-chip stocks to their best day in months.





The relief was short-lived. Wednesday's rally gave way to a punishing Thursday selloff that erased $2.5 trillion in market value from the Nasdaq composite and dragged major indexes to their biggest one-day drop since the "Liberation Day" drop in April 2025.

Now investors are left to grapple with the question of whether this is another stretch of choppy trading or the early unwinding of the stock market's all-consuming, massive bet on the technological revolution. …

Heading into Tuesday night, most Americans had far-bigger concerns than the fate of a data-center development in rural Texas.

As the evening's first results trickled in, stock-index futures initially slipped. They reversed after the decisiveness of the victories became clear and President Trump gave interviews saying he accepted the election results. …

Wall Street's good mood extended through Wednesday. Shares of "real-economy" companies like home builders and major retailers surged. The Dow industrials logged their best day since April — and for a moment, it looked like traders were mostly relieved that the election was over.

Wednesday's rally proved something of a headfake. …

There was no midday relief. The waves of selling in the U.S. stock market accelerated as the day wore on. Traders were getting jumpy; Wall Street's "fear gauge" VIX spiked.

Systematic trades helped amplify the losses. That jump in the VIX potentially triggered a group of funds known as volatility-control funds, which tend to make buying and selling decisions based on the level of turbulence in markets, to start dumping stocks. They added to an avalanche of selling, joining hedge-fund firms, rookie investors and other money managers.

Barclays estimates that volatility-control funds slashed their exposure to the stock market by 30 percentage points, the biggest one-day decline since February 2020, when the Covid-19 pandemic jolted markets.

By 3 p.m., with the tech-heavy Nasdaq down around 4.5%, some traders were peering at their screens and wondering if things would turn around, as they sometimes have in the final hour before the closing bell. Instead, the selloff worsened.

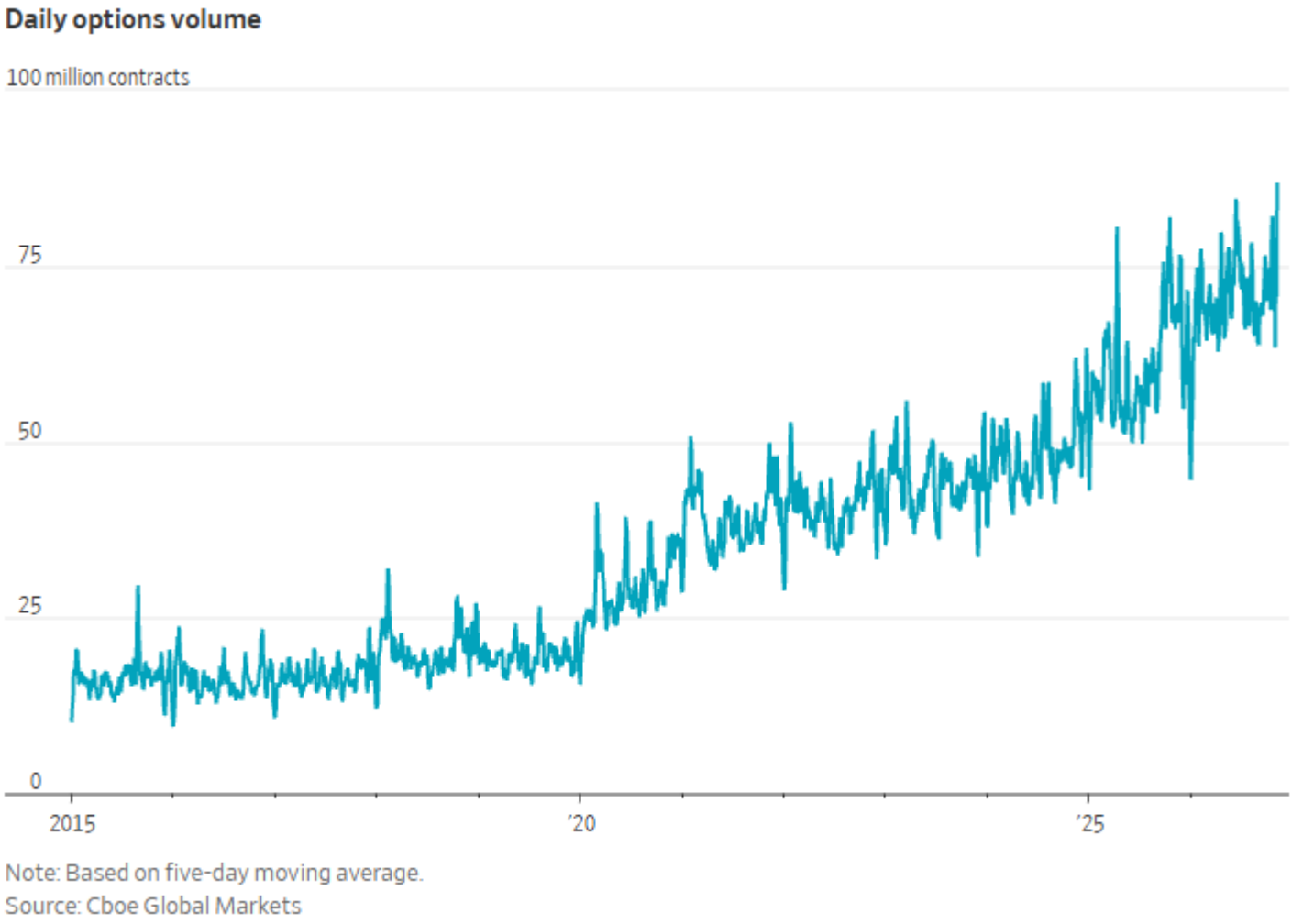
Some newfangled trades may have exacerbated the moves. Traders pointed to the billions of dollars sitting in leveraged exchange-traded products, which turbocharge exposure to the stock market. Assets in these funds have been at highs this year, and their rebalancing activity around the market close can fuel more volatility.

Several traders said Thursday's selloff was a classic example of a crowded trade unraveling, and the moves were driven by positioning across markets. …

Instead of the YOLO (you only live once) bets that would pay out if AI and chip stocks kept surging, traders piled into bets that would profit from a market crash. Total options volumes hit the highest level on record in data going back to the 1970s. …

Tech stocks staged a partial recovery on Friday, though all major U.S. indexes still ended the week in the red.

One key question is whether the momentum behind the AI trade will shift into a lower gear moving forward. The buy-it-all investing boom that characterized the early years of the bull market for tech stocks is petering out, analysts said. And a new phase is under way. …



Note: Based on five-day moving average.
Source: Cboe Global Markets

From WSJ's The 10-Point on Saturday:

President Trump has responded to a stunning midterm defeat by elevating one of his most combative advisers.

Stephen Miller, the architect of Trump's aggressive immigration policies, is replacing Susie Wiles as White House chief of staff. Wiles was seen as a moderating force on the president. Miller, by contrast, has long advocated a no-holds-barred approach to governing.

With Democrats taking control of Congress, Miller is expected to push for greater use of executive power and a confrontational response to congressional investigations. Our reporters explain why his appointment signals that Trump has little intention of changing course after the election. …

From WSJ's Markets A.M. on Friday:

Profits Are About as Good as They'll Get

Plus, tech investors are in shock

You can't spell pain without AI, but it's way too soon to say that Thursday's record tech stock carnage is some sort of cyclical turning point. This bull market's obituary has been written prematurely more than once in the past few years. ...

Less pie for investors?

Tuesday's election should serve as a reality check about American companies' amazing profitability.

Never have consumers and workers been so miserable, shareholders so delighted and the government forced to borrow so much money all at the same time. But they're feasting on the same pie—the economy. The corporate slice has grown steadily at the expense of wages, tax revenue and competitive pricing.

Even without a populist upsurge, that trend has its limits. For half a century leading up to the 1990s, corporate profits were around 6% of gross domestic product. They recently hit twice that level. The trend is just as pronounced for the S&P 500, the companies most people invest in. Profit margins hit their highest level on record in the second quarter, according to FactSet.

One driver has been worker compensation. Strip away increasingly costly employee benefits like health insurance, and wages have been falling as a share of the economy for a quarter-century, writes David Kelly, chief global strategist at J.P. Morgan Asset Management.

The government's take has been dropping too, amid corporate tax cuts. Kelly notes that the effective tax rate on corporate profits averaged 28.1% between 1985 and 1994, and was recently 10 percentage points lower. He says adjusted net profits would have grown by just 5.9% a year instead of 6.3% in the past 30 years if not for that change.

Corporate interest expense also has fallen. But as Uncle Sam pays more to borrow, that's affecting private balance sheets. Cheaper debt racked up during a period of low rates is gradually being replaced with more expensive loans and bonds.

Another trend enhancing corporate profits has been lax antitrust enforcement. Mergers don't just make companies more efficient. From airlines to retail to your private equity-owned veterinarian, companies' pricing power has risen at consumers' expense.

Whatever happens next in Washington, many of the long-term trends that have combined to make corporations so profitable are likely to at least stop improving.

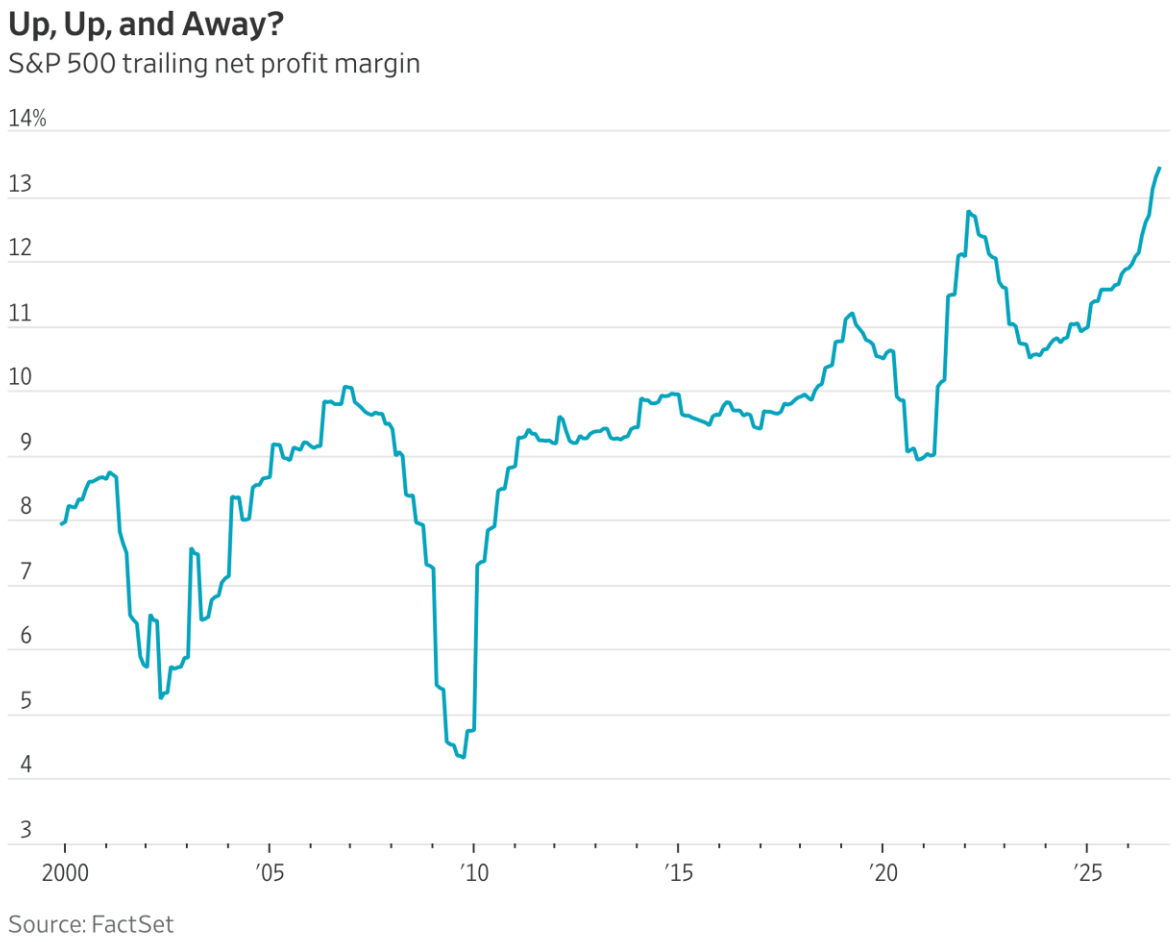
And accounting distortions from the AI capex boom could ding margins in the shorter term. Big capital expenditures by the likes of Microsoft or Meta are written off against taxes immediately, yet expensed on the income statement over many years.

That spending turns into revenue right away for suppliers such as Nvidia or Micron. An investing slowdown would upend this happy situation.

That possibility isn't reflected in analyst expectations. Those polled by FactSet expect S&P 500 profit margins to grow substantially by 2028.

Hand-wringing over unusually high and rising profit margins has been a recurring theme among some more pessimistic strategists over the years, but it seems timely.

The trend is your friend until it ends.



From NYT:

Tech Stocks Had a Terrible Day. What's Coming Could Be Worse.

Nov. 6, 2026

By Jared Bernstein and Ryan Cummings
Mr. Bernstein was the chair of President Joe Biden's Council of Economic Advisers from 2023 to 2025. Mr. Cummings served the council as an economist from 2021 to 2023.

We've been here before. As with so many other transformational inventions — railroads, electricity, the internet — outsize enthusiasm for artificial intelligence is supporting a level of spending that's gotten ahead of plausible profit expectations, a defining characteristic of a financial bubble. Now that the stocks of some A.I. builders and suppliers are wavering, we think it's important to ask the next critical question. What happens to the American economy if this bubble bursts?

The damage could run deep.

It was just over a year ago when we argued that the enormous sums being poured into A.I. are reminiscent of the go-go internet era of the 1990s and the housing boom of the 2000s, both of which turned out to be financial bubbles whose bursting spilled over into the broader economy, leading to job and income losses that affected

most Americans. Now, we're already starting to see signs that this latest boom may be fading: The tech-heavy Nasdaq index fell by more than 5 percent Thursday and is down nearly 10 percent since Oct. 1. Growing investor nervousness led the prominent A.I. lab OpenAI to dial back its latest funding round target by $10 billion.

What happens if the A.I. boom goes bust? There's a consensus building among investors, academics and market analysts that any downturn would be relatively mild, similar to what happened in the early 2000s, after the dot-com bubble burst. The inflation-adjusted value of the overall economy, or real gross domestic product, shrank less than half a percent. And while unemployment rose, it was considerably lower than it was at the peak of the financial crisis.

Unfortunately, this consensus looks too optimistic. First, the A.I. bubble is by all measures substantially larger than the dot-com bubble; the stock market has increased by more than it did between 1996 and 2000 and is currently worth 240 percent of G.D.P., versus 160 percent at the peak of the dot-com bubble.

This difference in magnitude means that if the stock market fell as much as it did over the course of the dot-com bust, the amount of lost wealth could translate into a reduction in real consumer spending that would be twice as large. That reduction would show up as a lower demand for goods and services, which could in turn reduce business investment, hiring and overall growth.

Our current economy is also more fragile than it was back in 2000. Hiring has been sluggish and real wages are falling, the latter because of elevated war-induced inflation. The Federal Reserve has been gradually raising interest rates, leading to higher borrowing costs and potentially dialing back economic activity.

Additionally, today's fiscal conditions and outlook are much worse. In 2001, the federal government ran a budget surplus of 1.2 percent of G.D.P.; today, it is running a historically large deficit of 6.2 percent of G.D.P. That could limit Congress's willingness to inject even more borrowed money into the economy to offset any downturn.

To get a rough read on the magnitude of the damage triggered by what an A.I. bubble burst might do to the economy, we ran the same economic model that the Federal Reserve uses to simulate the workings of the macroeconomy. The results confirmed our concerns. Mapping a dot-com-style sell-off onto today's markets would lead real G.D.P. to fall by more than three times as much as it did during the 2001 recession: 1.4 percent versus 0.4 percent. The unemployment rate would steadily climb from its current rate of 4.2 percent to above 7 percent.

Back when we first expressed our concerns about the stability of the A.I. investment boom, we noted that the companies building the A.I. models and the infrastructure to support them were mostly spending their own cash, meaning a bust would hurt them but not their lenders. That's no longer the case: $445 billion worth of A.I.-related debt, or 1.4 percent of G.D.P., was issued in the first eight months of 2026. If we throw in the opaque off-balance-sheet debt deals companies are relying on to pay for this build-out, we estimate that total A.I. infrastructure debt is roughly 7 percent of G.D.P., approaching levels of subprime mortgage lending that helped trigger the financial crisis.

Households and the banking system are both less exposed and less leveraged now than they were before the financial crisis. That said, debt-triggered recessions can be particularly intractable, because the credit system can take considerable time to recover, as borrowers regain solvency and lenders regain confidence. Should such debt financing continue to inflate the bubble, this risk factor will grow.

One of our biggest concerns this time is whether our leadership can effectively respond to a crisis. The consistently weak economic stewardship of the current administration is evident in persistently elevated inflation, interest rates and uncertainty. The extent to which officials are bogged down in their war of choice in Iran does not inspire confidence regarding their willingness and ability to respond effectively to a bubble-induced downturn, should it occur. We hope that the newly elected Congress will have a mitigating effect.

We've been careful to approach these thorny questions with humility. Trying to identify a bubble is hard enough. Predicting what happens if it pops requires even more speculation. But if current investment jitters deepen, what happens next could hit the economy harder than the last time we were here.

Jared Bernstein is a senior policy fellow at the Stanford Institute for Economic Policy Research, where Ryan Cummings is an economist.

Our take: So, "Are we there yet?" In terms of the AI Bubble bursting, possibly. As HEGEL once wrote, **"What experience and history teaches us is that people and governments have never learned anything from history."** History tells us that asset bubbles burst, and that attempting to time when that is going to happen can be financially painful, very. **"I can calculate the movement of stars, but not the madness of men." -** Sir Isaac Newton after losing a fortune in the South Seas stock bubble of 1718– 1721 by buying too late and holding on too long.