Article in the respected Danish journal Finans/Invest, 27 August 2026:

Is the financial system prepared for a major correction, for example triggered by the AI boom?

The financial system is historically well prepared for a traditional banking crisis. Is it equally prepared if the next major systemic correction originates outside the banking sector? The current AI investment boom is highly significant for economic growth in the US and for global financial markets. Yet it is financed predominantly through Private Credit, where central banks lack, among other things, transparency on ultimate ownership, leverage and related exposures. A correction in this area could therefore have broad effects across economies, for example if the economic gains from AI are delayed or if the technology changes direction. For investors, it is therefore relevant to consider who would stabilise a global systemic AI shock, and when, if the financing sits outside the regulated system or comes from foreign investors?

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Note: The author thanks an anonymous referee and Ken L. Bechmann for comments on the article.

Markets are historically and broadly optimistic ...

Broad equity markets are currently priced for historically high levels of optimism, as illustrated by, for example, Advisor Perspectives (2026). Investors are therefore expecting earnings to continue rising, with progressively fewer factors capable of disrupting that trajectory.

- AI stocks have risen more than any other major equity segment over the past five years, but in many cases their revenues, earnings and cash flows have risen alongside them. Their relative valuations (forward P/E) in the US are therefore often lower than those of defensive companies such as Walmart and Costco, industrial companies such as General Electric, or most large real estate companies (REITs), cf. Figure 1.
- Equity optimism is therefore broad, as well as deep, and extends to small and mid-cap companies. Average forward P/E for the Wilshire 5000 and Russell 2000, for example, are both at or above the level of the S&P 500, even though seven times as many of these companies – more than 40% – have negative or zero earnings, cf. Sløk (2024).
- The same pattern is broadly visible in credit markets. The spread between higher- and lower-quality debt (Investment Grade versus junk) is close to its lowest level since Covid. These low risk premia persist even as inflationary pressures are rising, putting upward pressure on interest rates and spreads.

This optimism rests on several expectations which, taken together, make markets sensitive to disappointment. Among the broader macroeconomic assumptions is a strong belief that:

- AI will soon transform economies by increasing both economic productivity and growth, while also reducing inflationary pressures.
- Financial stability will persist, making historically high levels of debt leverage (margin debt), cf. FINRA (2026), sustainable. This depends in particular on central banks continuing to assess both inflation developments and the transmission effects of interest rates correctly. It also requires liquidity to remain abundant, including central banks' continued willingness to provide liquidity when signs of market stress emerge.

... following a.o. 18 years without a global systemic crisis

Historically, financial crises have shown that the earlier structural risks are identified and made transparent, the more effectively their systemic contagion can be contained, cf. IMF (2021). Since the financial crisis, greater insight into aggregate credit risk has contributed to the avoidance of major systemic crises despite events such as the European sovereign debt crisis in 2011–12 and a global pandemic with extensive lockdowns in 2020–22.

- Transparency has been built primarily around the banking sectors in the US and Europe, which have been subject to periodic and structured stress tests and risk-management requirements. This has improved understanding of risk exposures and interdependencies between market participants. Once transmission mechanisms are understood, they can be modelled, providing a basis for effective crisis preparedness.
- Stress tests and modelling in the banking sector have therefore contributed to an increase in aggregate credit volumes without a corresponding deterioration in overall credit quality in the banking sector, cf. BIS (2021).

Today, however, new political and monetary winds are blowing ...

In recent years, a number of shifts have taken place that could affect the West's internal political and financial cohesion. The US's geo-economic fragmentation as a consequence of the America First strategy, cf. Scharling (2026a), could constrain or delay parts of the free movement of capital. The paradigm shift could be reinforced by changes in the Federal Reserve's room for manoeuvre and willingness to act.

- Since the financial crisis, central banks have intervened at a very early stage with extensive and prolonged liquidity support whenever financial stability was at risk. The interventions have been so substantial and effective that markets have developed a widespread expectation of a "central bank put" – that central banks will intervene if significant market falls occur, cf. BIS (2024).
- An increasing number of members of the Fed's Federal Open Market Committee (FOMC), including the Fed's new Chair, Kevin Warsh, want to reduce the use of liquidity support going forward, cf. Citadel (2026). This is primarily because the inflation surge in 2021 weakened the Fed's balance sheet sufficiently to place the central bank in a difficult political position, cf. Rangvid (2023). The Fed still has significant "deferred assets" to run down.

... while many risks have been shifted rather than eliminated

Stress tests and risk management have largely been built around familiar investor dynamics. This makes it possible to contain their effects, particularly through temporary lending facilities.

However, significant and growing parts of financial vulnerability have increasingly moved from the regulated banking sector into less transparent parts of the financial system. In the US, for example, between USD 1.2 and 1.5 trillion of the riskiest corporate lending has moved from the banking sector to Non-Bank Financial Institutions (NBFIs), particularly Private Credit funds, cf. FSB (2026a).

Financial stability is therefore increasingly dependent on actors about whom authorities have considerably less insight into financing structures, leverage, ultimate ownership and interdependencies. In a crisis in this part of the system, the Fed could therefore face a situation where liquidity support benefits individual investors more than the market as a whole, potentially conflicting with the Fed's democratic mandate.

Systemic breaks often occur when investor positioning and behaviour become synchronised and exiting positions suddenly proves more difficult than expected – creating a risk of illiquidity. The aggregate effect of many insufficiently understood relationships can therefore develop more rapidly into broad-based market fear. Financial systems are not necessarily most vulnerable to the largest shocks, but rather to the least understood dynamics. Systemic resilience therefore depends on institutional understanding and the ability to coordinate. When it is unclear where losses ultimately reside, it is also unclear where central banks can intervene to restore market confidence.

Is the market's low risk aversion therefore reasonable today? Are markets overlooking material risks because their understanding of risk is primarily based on past experience?

Today's risk understanding is generally deep and experience-based ...
Six scenarios (grey swans), for example, are now regarded as relatively well understood, cf. OMFIF (2026b). Although the resulting losses could be enormous, prior understanding of the underlying dynamics makes it possible to intervene early and relatively effectively, cf. Figure 2, thereby limiting broad-based market anxiety:
- Liquidity tightening / interest-rate shock / funding squeeze
- Conventional recession / earnings compression
- Geopolitical shock
- Pandemic
- Carry-trade collapse / JPY unwind
- Climate shock / Super El Niño shock / food stress

... but the AI investment boom may lie outside current preparedness
The current AI investment boom, discussed below, could become the first genuine stress test of the financial architecture that has developed since the financial crisis.
The boom differs from the scenarios above because it combines several of the risk characteristics that have historically made financial crises difficult to manage: high concentration of capital, high valuations of specific assets, limited transparency around ultimate ownership, unknown transmission mechanisms and large irreversible investments.

AI is a tool that shifts the economy's capacity constraint away from intelligence. It therefore creates the potential for deep and sustained transformation of economic productivity and efficiency across the economy, cf. Scharling (2023). This explains the strong expectations for increases in productivity and innovation across most companies, cf. Scharling (2025a).
This is an important reason why many non-AI companies are valued more highly than many AI companies, as noted in the introduction. Companies with the strongest consumer credibility – their brand – and the most effective go-to-market channels are best positioned to convert the emerging market opportunities into economic results.

Investors have long recognised the enormous potential. Investor behaviour has therefore periodically resembled euphoria and fear of missing out (FOMO). This has affected equity markets across the globe. It is nevertheless useful to focus on the US in what follows because, over the past two to three years, the US has built the world's broadest AI ecosystem, closely followed by China. AI is also among the US's highest national development priorities. Sensitivity to the technology's returns and timing is therefore particularly high in the US, cf. Figure 3.

The boom is driving growth in the US economy, ...
Expectations for the technology's transformative impact are enormous, and AI-related investment now accounts for a substantial share of US economic growth.

- IT investment accounts for more than one-third of total capital expenditure this year, cf. Sløk (2026).
- Four of the largest US technology giants alone are expected to invest more than USD 710 billion in data centres this year, cf. Figure 4. This is equivalent to 2.2% of total US GDP.
- Including related investment, the total will reach approximately 5% of US GDP, cf. BIS (2026a).

Growth is also expected to continue. Total AI investment is projected to reach as much as USD 7.6 trillion over the next five years, cf. Goldman Sachs (2026). This exceeds the Fed's balance sheet of USD 6.7 trillion.

The amounts are therefore sufficiently large relative to the economy to generate systemic effects if the timing or scale of AI returns shifts, if significant parts of AI investment prove unprofitable, or if new and poorly understood dynamics emerge among investors and their interconnected exposures, as discussed below.

... and the investment is driven by a relatively small number of major players, ...
Investment across the AI value chain can be divided into three main areas.
A common feature is that each is dominated by a relatively small number of, in particular, US-based players:

- **Foundation models**, where competition is currently concentrated primarily among OpenAI, Google and Anthropic. Both OpenAI and Anthropic are considering IPOs this year, potentially valuing each at more than USD 1 trillion. Combined, the market capitalisation of the two companies would correspond to more than 6.5% of US GDP, or almost one-third of the Fed's balance sheet.
- **AI core hardware**, particularly GPU manufacturers such as NVIDIA, Broadcom and Intel, as well as memory-chip manufacturers such as SK Hynix, Samsung and Micron, as discussed below.
- **AI data centres**, which can be divided into three sub-segments:
  - Hyperscalers, which own and operate the computing infrastructure and services hosted in the data centres. AWS, Google Cloud, Microsoft Azure and Meta alone are expected, as noted above, to invest more than USD 710 billion in data centres in 2026.
  - Colocation providers, which own the physical buildings, power infrastructure and cooling systems, particularly Equinix, Digital Realty, NTT and atNorth.
  - Hardware manufacturers, supplying servers and networking equipment deployed inside the facilities, particularly Dell, Supermicro, Cisco, Nokia and Schneider Electric.

... and is concentrated in irreversible assets
AI developers in the US overwhelmingly focus on online-based AI delivered through data centres. This involves large and largely irreversible investments in physical infrastructure.

Globally, slightly more than half of all data centres are already located in the US, cf. Figure 5, with a further 3,400 data centres planned or under construction. The US is currently building data centres at a greater value than it is constructing office space. This is accompanied by substantial investment in supporting infrastructure for operations, cooling, cabling and

electricity. Global data centres already consume more electricity than Germany, and by 2030 they are expected to consume as much as India, cf. IMF (2025).

If current plans are realised, data centres' share of total US electricity consumption will double to one-eighth over the next five years, while their electricity consumption will quadruple over the next ten years. Energy-efficient power plants normally take more than five years to build, while nuclear power plants take 10–20 years. This has already created five-to-seven-year supply bottlenecks among gas-turbine manufacturers, which are among the few stable sources of electricity that can be brought online within three years. This is one of several reasons why major manufacturers such as GE are currently trading at very high valuations, as noted at the beginning of the article.

If demand for data centres therefore turns out to be substantially lower than currently expected, the result could be large volumes of stranded assets, potentially accompanied by significant declines in revenues among the relatively small number of suppliers currently serving the market, as noted above.

The US economy is therefore sensitive to the continuation of the AI investment boom
Large parts of the US economy and economic growth therefore depend on whether investor expectations, financing structures and time horizons correspond to the actual maturation of the technology, including whether:
- growth in AI development continues to accelerate;
- users become willing to pay substantially more for AI in the near term; and
- the technological direction remains stable, given the scale and irreversibility of the investment.

There are today six particular risk factors that could materially alter the assumptions underlying the AI investment boom and therefore the high valuation expectations:
- Circular financing between a relatively small number of primary investors and AI players
- Historically large IPOs expected from two of the three major foundation-model developers
- Unclear investor dynamics in Private Credit due to leverage and refinancing
- AI's disruptive impact on existing industries, particularly SaaS
- Risk of hardware shortfalls
- Increasing uncertainty about future demand for data centres – the technological platform

These risks are outlined individually below.

Risk 1: Circular financing between a relatively small number of primary investors and AI developers
According to Morgan Stanley, half of total investment in AI infrastructure over the next five years will come from hyperscalers, providers of cloud and data-centre capacity, while the other half will come from a combination of corporate bonds, third parties such as investment funds, and Asset-Backed Finance (ABF). Taken together, these are all Private Credit and therefore outside the direct reach of financial supervision.

The development of AI requires such large investments and is simultaneously so technologically rapid and advanced that a substantial share of both equity and debt financing is now being undertaken by the hardware and cloud giants Nvidia, Microsoft and Oracle, cf. Figure 6 and BIS (2026c). These companies generally have strong profit margins, yet they are increasingly

financing their data-centre investments and related infrastructure with debt of increasing maturity and declining quality, cf. BIS (2026a). Lenders are therefore becoming more cautious.

From a strategic perspective, it makes sense that those investing enormous sums in developing AI chips, foundation models or hosting infrastructure also invest themselves. From a financial perspective, however, this increases the companies' sensitivity to self-reinforcing corrections if expectations change – for example, regarding whether AI development will continue at the same pace, whether the current technological direction will persist, or whether cash flow and the quality of earnings will increase substantially in the near term.

The dynamic, unpredictable and extremely rapid nature of the technology favours those that are quickest to identify and adapt to changes in the technological environment. Financing large physical facilities or infrastructure generally lacks reversibility.

Risk 2: Signs of emerging "commoditisation"
A second financial risk relates to the forthcoming IPOs of OpenAI and Anthropic, both of which are being considered for Q3 2026 at market capitalisations of around USD 1 trillion each.

There is growing concern that these valuations may be substantially overstated or hyped. OpenAI's operating cash flow, in particular, is very low relative to such a high valuation. OpenAI also has a relatively large base of private users who have proved reluctant to pay for its products.

- OpenAI is experiencing the effects of Jevons' paradox in several ways: what is free leads to increased use, rather than necessarily increased efficiency.
- When users become accustomed to free access, they are reluctant to start paying for the product, even if doing so could unlock new benefits.
- There also remains a surprisingly strong tendency towards ad hoc usage, prompt by prompt. Many users are reluctant to commit to a platform on which to build systems and agents. This keeps switching costs low, even though it delays productivity gains.
- Users therefore increasingly tend to view AI products as commoditised. This makes them more inclined to switch provider if the price is lower.

This undermines part of the fundamental assumption underlying AI technology: pricing power. It therefore raises questions about the enormous earnings potential reflected in the very high valuations of OpenAI and Anthropic. The technological development remains rapid and dynamic across many dimensions.

- Chinese open-source models from DeepSeek, Moonshot AI and Zhipu AI are currently closing the quality gap rapidly because of their greater algorithmic efficiency, cf. Stanford (2026a). At the same time, these models are often up to nine times cheaper.
- When paying users can afford to ask, "Which model is good enough at the lowest price?", this indicates that AI is increasingly being assessed as an infrastructure layer rather than as a product in monopolistic competition with unconditional pricing power.

Due to national-security requirements in the US, this development is unlikely to have a major impact on American companies. It could, however, affect European and Asian companies' choice of AI platforms if China and, among others, Canada accelerate development of offline algorithms and on-premise deployment. The current geopolitical fragmentation has created substantial market demand for AI that can operate without exchanging data with data centres in the US.

AI will remain relevant in the future, but the leading actors and timing could change if uncertainty emerges over who will ultimately capture the earnings potential from AI. Such uncertainty could rapidly trigger self-reinforcing valuation corrections in the US because expectations are so large and the technology remains so dynamic.

Risk 3: Private Credit is "opaque" and shows early signs of distress

There is therefore a combination of high concentration among actors, a circular capital structure and uncertainty over who will ultimately capture the earnings potential. In recent years, there has also been broader concern about liquidity and leverage in the principal source of financing: Private Credit.

The US Private Credit market is estimated at USD 2.5–3.0 trillion. Asset managers and funds provide loans directly to companies outside traditional banks, while they themselves often finance those loans with bank borrowing. This makes the market sensitive to rising interest rates, weaker economic growth and declining overall market liquidity, all of which affect refinancing risk.

The market grew particularly strongly following the 2008 financial crisis, when new regulations constrained banks' corporate lending risk, and it has quadrupled since 2015. At the same time, it has become increasingly concentrated around three major players: Blackstone, Apollo and KKR.

Although most of the major players were established before the financial crisis, the sector, its structure and its leverage have grown substantially since then. Its dynamics during a genuine global credit cycle are therefore largely unknown, which is why central banks and regulators are concerned about elevated risk in the sector:

- In March 2026, the BIS concluded that Private Credit is "opaque", that the sector is "largely untested", that liquidity dynamics are unclear and that the sector is exposed to the risk of "liquidity runs", cf. BIS (2026b).
- There are now early signs of weakness. Critics such as Jamie Dimon, CEO of JPMorgan, went so far as to compare early signs of distress in parts of software funds in April with the run-up to the 2008 financial crisis. At that time, complex and illiquid credit products had grown rapidly without full transparency. Such comparisons would normally cause credit executives to increase their focus on risk materially.
- Finally, central banks' and regulators' concerns about Private Credit have increased significantly over the past year. At the end of April, Sarah Breeden, Deputy Governor for Financial Stability at the Bank of England, stated: "There's a lot of risk out there and yet asset prices are at all-time highs. We expect there will be an adjustment at some point." The warning was subsequently narrowed to: "It's a Private Credit crunch rather than a banking-driven credit crunch that we're worried about".

Private Credit has unclear investor dynamics and transmission mechanisms because leverage is high and ultimate ownership is unknown. There is therefore an elevated risk that relatively small waves of losses could spread rapidly, unpredictably and in a self-reinforcing manner. A crunch in this market could therefore hit AI financing directly and propagate unpredictably among investors and lenders.

Risk 4: AI's disruptive impact on existing industries

Alongside the AI boom, there has been substantial investor interest in software companies over the past six to seven years. Private-equity funds focused on Software-as-a-Service (SaaS) have increased tenfold in size since 2020 and, according to Bloomberg (2026), software loans accounted for 13–15% of total US CLO lending over the past year. CLOs (Collateralised Loan Obligations) are securities based on pools of corporate loans. They differ materially from the subprime-based securities that preceded the financial crisis, but, like securitisation more generally, they illustrate how credit risk can quickly be transferred and become difficult to trace.

Many of these software companies are now experiencing declining activity because they are increasingly competing with generative AI.

- The scale and frequency of the disruption are increasing so rapidly that, in March this year, Marc Rowan, CEO of Apollo, warned that AI could be triggering "a massive valuation shakeout" in the SaaS sector. Blackstone and Guggenheim are also concerned and have materially reduced their SaaS exposure over the past year.
- This has created broader and growing concern about the intrinsic values of software PE funds, which in turn has generated increasing redemption requests, particularly from large retail investors. Many funds have therefore had to enforce withdrawal limits, typically 5%, cf. Reuters (2026). Examples include Vista Credit, Apollo, Ares, Blue Owl and Cliffwater. It is unusual for funds to be forced to enforce redemption limits. This therefore adds to investor concerns about the underlying risks in the funds.
- Falling earnings among SaaS companies could reduce the value of the loans and funds financing them. If investors simultaneously seek redemptions, funds may be forced to sell their most liquid assets first. This intensifies liquidity pressure on the remaining portfolio because the most liquid assets are often also the most profitable.

The sector's high leverage can quickly accelerate uncertainty about underlying risks because the direction and pace of AI development remain uncertain. A broader loss of confidence or waves of losses in Private Credit will affect AI financing because the investor base overlaps. This could trigger self-reinforcing feedback loops.

Risk 5: Hardware shortfall

AI has now become a geo-industrial race for energy, chips and physical infrastructure. Demand for both compute and data centres exceeds supply and is creating several structural bottlenecks. Even small supply disruptions can therefore affect revenues and cash flows in an industry that generally lacks redundant supply options, cf. FSB (2026b).

- NVIDIA, which manufactures two-thirds of all AI GPU chips, has sold out capacity more than a year ahead. It cannot increase capacity further at the world's almost sole production location for AI chips, TSMC in Taiwan.
- Similarly, ASML lacks the capacity to increase production of the EUV machines used to manufacture advanced AI chips.
- There is also no available capacity for roughly a year and a half at SK Hynix, Micron and Samsung, which together supply two-thirds of the type of memory chips required by data centres.

This makes the entire AI supply chain particularly sensitive to relatively small external supply shocks. These could, for example, be triggered by a Chinese blockade of Taiwan or continued uncertainty over shipping through the Strait of Hormuz. The latter affects, among other things, the supply of helium, which is critical to several stages in the manufacture of AI chips.

Shortfalls could therefore delay revenues and cash flows throughout the AI value chain, while debt obligations and investment commitments remain fixed. Aggregate cash flows are consequently at risk.

Risk 6: Increasing uncertainty about the technological platform going forward
The sixth risk factor concerns whether the fundamental technological assumptions underlying AI investment will continue to hold. Financially, this is a risk with potentially significant systemic effects and rising probability.

One of the central principles underlying AI development is the so-called scaling hypothesis, based on the experience to date that the more data an AI system is trained on, the higher the quality of its algorithms becomes. There are now increasing indications, however, that the marginal value of additional data is flattening out. In some cases, it has even declined slightly because the quality of training data has fallen. This is consistent with several earlier expectations, cf. Scharling (2025a). There is therefore a risk that the industry will simply replicate increasingly poor-quality data across systems as more and larger data centres are built.

- If AI training for general-purpose algorithms has therefore passed a critical point, the consequences could be enormous for the new data centres, power plants and related infrastructure currently being built. Many could prove unnecessary: stranded assets.
- AI pioneer Yann LeCun and Dario Amodei, CEO and co-founder of Anthropic, have both expressed increasing concern about this since February, cf. Dwarkesh (2026). AI development has reached a point where small improvements require disproportionately more resources. More data centres do not automatically mean better AI – perhaps the opposite. Stanford's Center for Human-Centred AI also leans towards this conclusion, cf. Stanford (2026b).
- The next steps in AI development are more likely to require new learning architectures and new types of sensory data that are currently absent from data centres, cf. Scharling (2026b).

A failure of the scaling hypothesis primarily shifts when AI will make it possible to realise the expected economic gains. This could rapidly create a self-reinforcing uncertainty spiral around when the very large investment boom will translate into the cash flows required to support its financing.

Overall, there is a combination of new investor dynamics and very high expectations …
Individually, each of the six risks above may be manageable. There is, however, substantial vulnerability if several materialise simultaneously in a market characterised by high expectations, high leverage and limited transparency.

A disappointing IPO could, for example, trigger broad downward revisions to software valuations. This could increase refinancing costs in Private Credit, delay data-centre investment, reduce hardware orders and thereby weaken the cash flows on which the financing depends. Credit spreads could rise further in a self-reinforcing feedback loop.

More generally, insufficient earnings would rapidly translate into falling prices for both equities and loans. This could create situations in which pension funds are unable to execute stop-loss strategies, forcing sales of liquid assets and further reducing refinancing opportunities, potentially triggering illiquidity.

The greatest risk surrounding AI is therefore probably that the financing cannot wait for AI to fulfil expectations at a later stage. A classic duration mismatch emerges between financing and earnings if the economic gains materialise only in five to ten years while large parts of the financing structure require strong cash flows within the next few years.

As noted in the introduction, most companies in the debt and equity markets are priced for historically high levels of optimism. This optimism rests in particular on the expectation that central banks can and will still stabilise the system early. The experience since 2008, however, comes from the banking system, while AI is financed primarily outside it. It is therefore uncertain whether the existing stabilisation mechanisms will work as expected. AI could become the first major test of the new financial architecture.

BIS, IMF, Fed, FSB, ECB and ESRB are therefore interested in conducting systemic stress tests of the area. They currently lack the necessary basis, however, because the ultimate investor base is unknown and technological development is so rapid and volatile. Small changes in returns or timing could lead to illiquidity and related effects in parts of the market.

Institutional preparedness may simultaneously have weakened as a result of new dynamics since 2020, including geopolitical and geo-economic fragmentation, political attempts to influence monetary policy, and increased uncertainty surrounding inflation and therefore the future path of interest rates.

... which may be balanced by AI having become a national strategic priority

The increasing geopolitical fragmentation between the US and China, and between the US and the EU, has nevertheless made AI a top national strategic priority for many countries. States have therefore become financial participants through ownership and subsidies. All else equal, this extends the life of a bubble because the investment case is driven by more than the prospect of short-term financial returns.

- In the US, the Department of Defense, DARPA, the NSA, the Department of Energy and the National Science Foundation have become increasingly involved through investment and grants. In addition, Project Stargate and the AI Action Plan, cf. White House (2025), mean that the US government is participating directly and is indirectly perceived as a guarantor of the development.
- Finally, an explicit objective of the US "Vault" of critical metals and minerals is to ensure supplies for the manufacture of AI chips in the event of supply disruptions from China.

Similar developments are taking place in China, India and the EU. The latter is also seeking to secure strategic sovereignty over both AI and AI chips.

- The core of the EU's approach is the EU AI Act, with future financing coming primarily through Horizon Europe and the Digital Europe Programme.
- In addition, the EuroHPC Joint Undertaking is intended to develop European supercomputers and reduce dependence on US cloud providers.
- Individual countries, particularly Germany and France, have also introduced large-scale support programmes for the AI industry, for example to support the construction of TSMC's factory in Dresden.

Corrections are triggered when collective concern about irreversibility emerges

For investors, there is therefore reason to focus on fallback options rather than specific expectations about market developments. The technological direction of AI development is fundamentally uncertain. The combination of circular financing, emerging distress in Private Credit and irreversible AI investment increases the risk.

AI is likely to succeed in transforming the economy and labour market over the long term because it breaks through one of the economy's most important constraints on growth: intelligence.

- There may nevertheless be a duration mismatch, because the very large investments in data infrastructure are being financed on the expectation of rapid and substantial cash flows within the next few years.
- It is also uncertain which actors will ultimately convert the transformation into earnings. The race remains open because the profitable part of the AI value chain could ultimately shift from model development towards actors with distribution, data and existing cash flow.

Central-bank preparedness may be constrained by opacity, mandates, etc.

If a broad correction in AI investment occurs, it could trigger significant financial instability, cf. OMFIF (2026a). Initially, this would primarily affect the Fed, but because AI financing is often globally interconnected, losses could rapidly affect non-US central banks such as the ECB, BoE and BoJ.

Central banks could, in principle, stabilise systemic AI shocks through three approaches:

- Limited intervention, where they only support banks experiencing bank runs or liquidity mismatches. This risks increasing refinancing problems and broader liquidity stress.
- Indirect intervention, where they provide broader liquidity support through banks, repo facilities, swap lines and similar mechanisms. This could stabilise the banking component of the system, but would not in itself stabilise the Non-Bank Financial Institution (NBFI) side.
- Direct intervention, where they purchase or support assets outside the regulated banking sector, including Asset-Backed Finance and Private Credit. This would be historically new and would raise questions about mandate, market neutrality and democratic legitimacy. Can the Fed and other central banks legitimately rescue this part of the market?
  - Such intervention would take place at a time when confidence in the Fed's independence is already under pressure following repeated attempts by President Trump to exert political influence over monetary policy.

Since the financial crisis, increased regulation has made banks more robust. Transparency has also created a credit-information basis for central banks to provide stimulus during crises. They knew where liquidity needed to be deployed when financial stability was at risk.
How far should such regulation extend in the future?

One consequence of increased regulation was that a growing share of credit creation instead moved into market-based forms of finance, including Private Credit. This reduced risk where authorities could see it, but did not necessarily reduce aggregate systemic risk.

If AI becomes the first test of this new financial architecture, it will simultaneously become the first test of whether central banks' crisis-management tools still match the way credit is created.

"Deep changes in technology and the economy require equally deep changes in the socio-institutional framework".
– Carlota Perez, The Social Shaping of Technological Revolutions

Figures

Figure 1: Forward P/Es are high in broad parts of the market

Source: Finviz.com

Figure 2: There is relatively high institutional preparedness for familiar scenarios

Potential grey swans (high consequence, but assessed as low probability)	Degree of systemic understanding	Institutional reversibility	Coordination risk
Liquidity tightening / interest-rate shock / funding squeeze For example, if Kevin Warsh implements rate cuts and misjudges inflation in the process, or if the Fed continues reducing its balance sheet even though bid-to-cover ratios fall to critically low levels.	Broadly analysed, modelled and continuously stress-tested, including for the risk of systemic funding squeezes that could lead to financial decoupling through loss of confidence between central banks and commercial banks, cf. OMFIF (2026c). Market reactions are included, among other things, in the Fed's annual CCAR stress tests and Euro Liquidity Fragmentation tests.	Potentially reversible if the response is coordinated and early enough to prevent waves of sovereign debt crises or currency wars.	Low, because the dynamics have been thoroughly investigated for a long time. The major central banks are therefore relatively well prepared. Swap lines and lending programmes would be particularly effective tools, cf. BIS (2024/2).
Conventional recession / earnings compression For example, if the current decline in real wages among the lower half of the US population continues, cf. Scharling (2025).	Broadly analysed, modelled and continuously stress-tested. The most recent recession was, for example, in 2021, and this is a typical scenario in current stress tests. The Fed simulates, among other things, CRE collapse, unemployment shocks and rapid deterioration of corporate credit.	Potentially reversible if the response is coordinated and early enough to prevent tipping points in economies with high debt ratios. The IMF monitors signs of stress, among other things through its Global Financial Stability Reports.	Low, provided existing central-bank coordination mechanisms remain strong and crisis preparedness remains institutionally intact.
Geopolitical shock For example, in the event of a Chinese invasion or blockade of Taiwan, where more than 90% of global EUV chips are currently manufactured. A Taiwan conflict would probably also affect global shipping through the South China Sea.	Modelled but not fully operationally tested. Supply chains for advanced chips are currently gradually being diversified towards Japan, the US and Germany (Dresden). It will nevertheless take many years to bring supply dependencies below critical levels.	Likely to have persistent structural effects on economies in the US and Europe, although to varying degrees. Neither BIS, IMF nor ECB has conducted full Taiwan-war simulations, but components have been modelled.	Medium, particularly if geopolitical fragmentation between the US and Europe continues.
Pandemic Since Covid-19, probably the most extensively tested global shock. A new scenario could, for example, involve a zoonotic SARS or H5N1 outbreak among cattle in the US or poultry in the EU. This would probably increase global political fragmentation and geo-economic protectionism, for example through "biosecurity supply chains".	Extensively modelled and actually tested during Covid-19. It remains uncertain whether the lessons from Covid-19 will be institutionally retained in the event of a new pandemic. BIS, IMF, Fed and ECB have all conducted various pandemic stress tests, including of liquidity backstops, corporate defaults and sovereign stress.	Low reversibility. Could have long-lasting structural effects on highly indebted economies and trigger broader debt crises.	Low to medium, particularly if the US and Fed restrict liquidity nationally and maintain the objective of a "free banking" system.
Carry-trade collapse / JPY unwind For example, triggered by a Taiwan crisis affecting Japanese imports and exports, or by an interest-rate increase by the Bank of Japan in response to rising inflation or a significant correction in US target assets. An unwind could affect currencies and trigger forced reductions and losses in leveraged positions, particularly in Japan, the US and Asian countries.	Broadly understood, although the size of global leveraged positions remains uncertain. Major central banks, particularly the Fed, ECB and PBoC, have sought in recent years to mitigate the effects of declines in cross-border flows through swap lines. This also applies to wealthy and commodity-rich countries such as the UAE.	Dependent on the duration and coordination of monetary policies, particularly if global mechanisms for coordinating USD liquidity weaken.	Medium, particularly if the Fed introduces the Trump administration's plans for a "free banking" system, etc.
Climate shock / Super El Niño shock / food stress For example, if this results in prolonged droughts in wheat-producing parts of the world, particularly Canada, Russia and Ukraine, and flooding in rice-producing regions. Taken together, this could lead to famine, increased geopolitical fragmentation and armed conflict.	Broadly analysed and modelled, although mainly through regional and moderate stress scenarios by BIS, IMF, ECB/ESRB and, to a lesser extent, the Fed.	Dependent on duration and coordination, particularly if several major agricultural regions are affected simultaneously.	Medium, particularly if the US continues its "America First" strategy.

Figure 3: Figure 3: The US is the global leader in the number of AI models

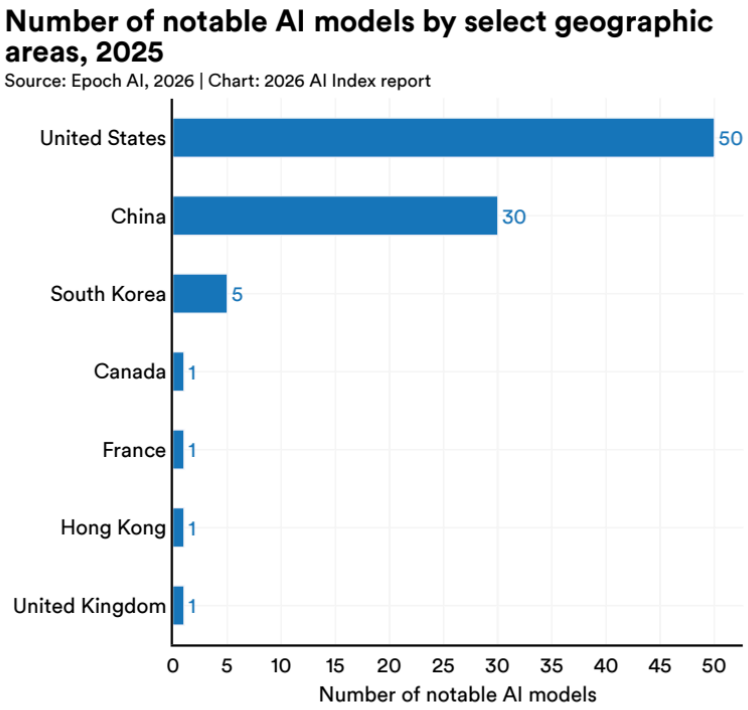
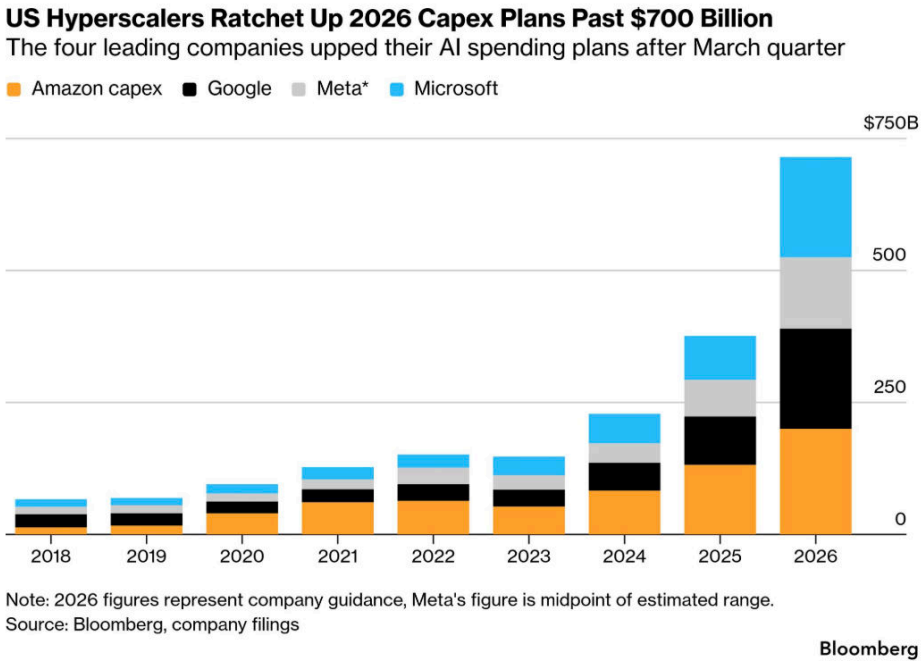


Figure 1.1.1[3]

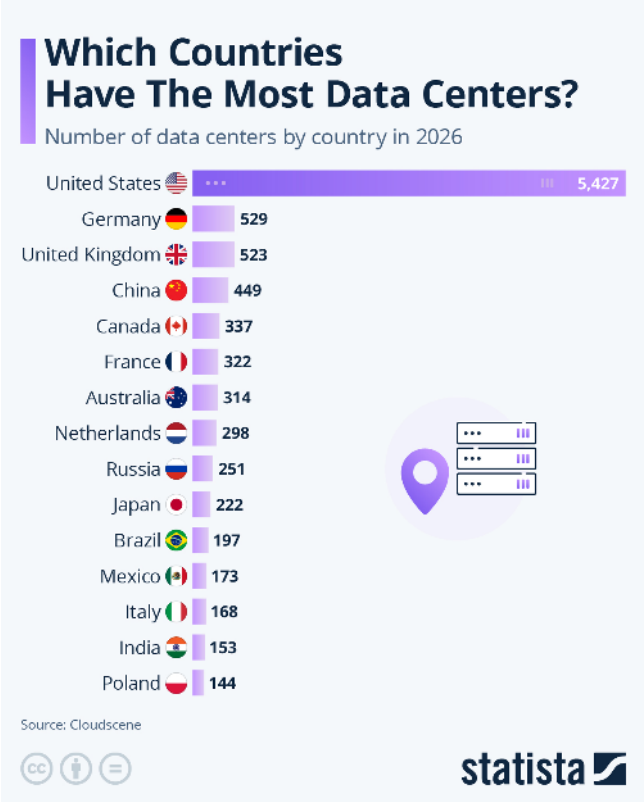
Source: Stanford HAI 2026 AI Index Report

Figure 4: Hyperscaler investment in AI is rising sharply



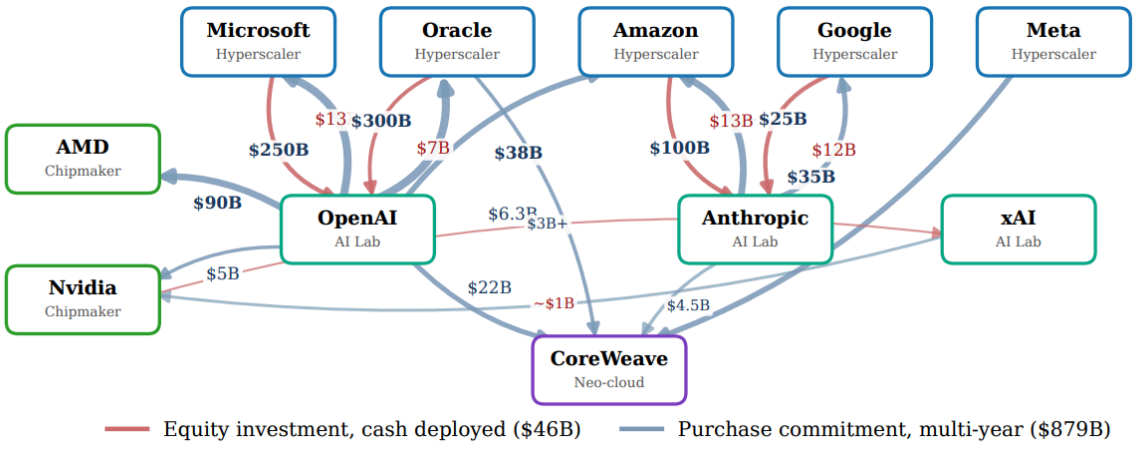
Source: Bloomberg article, US Big Tech Ratchets Up AI Spending Past $700 Billion This Year.

Figure 5: The vast majority of data centres are in the US



Source: Statista.com

Figure 6: Circular financing between a relatively small number of players



Source: BIS (2026c)

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