

March 2000 and October 2002, destroying billions in market value. That collapse of internet-based companies, massive investor losses, and widespread tech layoffs caused a broader downturn in the economy.

A financial fire

There's also the question of how effectively policymakers could hose down a financial fire. In 2008, governments eventually got a grip on the chaos by pumping billions of public money into major banks to prevent their collapse, and raising guarantees on bank deposits to prevent savers fleeing. At the same time, major central banks cut rates, including a rare coordinated rate cut in the autumn of that year. But some worry that those options may no longer exist. In 2008, UK government debt amounted to less than 50% of national income. Today, that number is close to 100%, after major interventions in 2008 bailing out banks, wage support during Covid-19, and the energy subsidies in 2022 after Russia's attack on Ukraine. So, the government's ability to borrow money is much more limited. Mohammed El-Erian uses the analogy of a fire brigade that has run out of water. "Governments and central banks have had to respond to crisis after crisis and as they have done, they've run down the ability to respond," he warns. That sentiment is echoed by the International Monetary Fund



(IMF), which said earlier this month that the world's manifold economic challenges come at a time when "policy space has been eroded". There's also the poor state of international relations. Amid the 2008 crisis, national leaders met at a series of emergency meetings, including a crucial one in Washington in November 2008, where they hammered out their plan to pour billions into banks; and another in London in April 2009. Gordon Brown, the prime minister who helped to lead the inter-

national response, has said that strong international cooperation is what stopped the crisis from turning into a depression. All that could be more difficult today, amid significant disagreements between rich countries over trade policy, NATO, and even the status of Greenland. Writing earlier this month about the dangers of a financial crisis, the IMF made a point of warning that "international cooperation is weaker" now than in previous years. The implication, perhaps, is that in an era of war in Europe, US-China trade wars, and

US President Donald Trump's "America First" policy, it will prove more difficult for governments to put aside their differences and get around a crisis table in the way they did in 2008. And Brown has repeatedly warned of the dangers of an isolationist, "us versus them" approach to international affairs.

Financial fragilities

Sarah Breedon, however, gives a note of optimism, arguing that banks have more capacity to absorb shocks than they did in 2008.

G20 leaders pose for a family photo at the Summit on Financial Markets and the World Economy in Washington, D.C., US, on November 15, 2008. WIKIMEDIA

She takes comfort from the fact that banks are "much more capitalised now" — in other words, they have higher reserves of cash, rather than relying on borrowed money. "I don't think if we get stressed it will be on the same scale," she says. Mohammed El Erian agrees — to an extent. "We're not exactly in 2008 territory because I do not believe that the banking system, and therefore depositors' money and the payments system, is at risk. But we are in a 2008 moment in that the financial system could aggravate economic fragilities that tip us into recession." And if that does happen, he's in no doubt who will suffer most. "Economic and financial fragilities tend to expose the most vulnerable segments of the population. They have the least resilience and tend to get [hit] particularly hard." Bobby Seagull, now a Maths teacher — says financial markets are even more complex now and you never quite know what nasty surprises are lurking under the surface. "You're sort of passing on financial instruments from one person to the other, not sure what's inside it. And I think the worry is if things happen, they escalate very quickly in financial markets. And that's where you don't want to be the last person left holding that package."

The article first appeared on BBC.

2008 crash predictor warns of looming Wall Street meltdown

By Benjamin Curry
Deputy editor at Daily Mail

PERSPECTIVE

Almost nothing can stop a recession from happening this year, warns one of the top US economists. But that's not all: The recession might very well be accompanied by a massive stock market crash that could wipe out as much as a third of your 401(k)'s value. The doomsayer is Gary Shilling, who believes this massive economic catastrophe is inevitable thanks to declining consumer spending. Shilling thinks the benchmark S&P 500 stock index is so wildly overvalued at the moment that it could crash by 30 percent or more later this year. This top economic thinker, who accurately predicted the housing crisis and economic crash in 2008, is not alone in his predictions: Just last week, hedge fund legend Ray Dalio warned that the US economy had already slipped into a "stagflationary environment". Shilling said his dire outlook is based on the sudden and rapid increase in prices that are hurting US consumers — recall that consumer spending supports 70 percent of the economy. You don't have to look far to see for yourself what Shilling and Dalio are worried about since the Iran war stalemate has driven gas prices right back to four-year highs, with nationwide gas prices averaging \$4.40 a gallon, up 30 cents in a week. As for the stocks, you might wonder what Shilling is worry-



FINANCIAL CONTENT

ing about when markets are at all-time highs — but that's exactly his point because the sky-high valuations tee up stocks for a massive correction. In an interview with the Business Insider last week, Shilling highlighted the signals that were telling him the US economy is on the verge of a downturn. First and foremost, the housing market is still frozen up, with home sales still in a rut after four years thanks to uncertainty and elevated mortgage rates. Next, businesses across the economy — with the exception of AI — have stopped investing in new hires and equipment. Finally, there's consumer

spending, which hasn't begun contracting as of yet, but Shilling says he expects it to crack under the pressure of growing inflation and soaring energy prices. "So, let's call it what it is: We have a slowing economy and re-accelerating inflation hitting simultaneously," Mark Malek, chief investment officer at Siebert Financial, told the Daily Mail. "My business school students have a word for that too: it's called stagflation, and it is the Fed's absolute worst nightmare." Siebert agrees with much of Shilling's take on the economy, and adds some doom of his own, noting that the energy

supply shock is so extreme, it feels like something he would use as an example for students. "Ok, students, what happens when you take a double-digit percentage of commodities supply out of the market? That's right, prices go up. And what's that called? Inflation," he told us. But the S&P 500 is at an all-time high, people might say — but both Seibert and Shilling also agree that this is in itself bad news because it's a very small group of companies on an AI-powered sugar high that are holding up the markets. Outside of giant companies like Microsoft, Meta and Tesla, the average S&P 500 stock



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is well off its highs. "Basically, we have slowing growth, re-accelerating inflation, a Fed that cannot move cleanly in either direction, and a new chair who is about to inherit all of it," warns Seibert. Dalio and another influential Wall Street Insider, Paul Tudor Jones, have highlighted the warning being flashed by the Buffett Indicator as another tell showing that the stock market is heading for a crash. This tool named after the Oracle of Omaha divides the total value of all US stocks by the total economic output of the United States, delivering one number that sums up how over- or under-valued stocks are at any given moment. A Buffett Indicator reading of 100 percent suggests markets are in balance, while a lower figure means stocks are undervalued. Right now, the index is around 230 percent, its highest level ever, telling us that stocks are historically overvalued. "Stocks are very expensive and there probably is a major correction coming somewhere in the relatively near future," said Shilling, warning that he expected a stock market correction by the end of 2026. Shilling is well-known for his consistently pessimistic views on stocks and the economy, and he has been warning about potential recession and a market crash for the last four years. But this time around, he may be right.

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