Significant loss by major Wall Street trading firm

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The announcement by Jane Street, a powerful Wall Street trading firm, that it lost $15 billion in the month of July shows how quickly the effects of a crisis in one relatively small part of the stock market can be rapidly transmitted more broadly.

The chief cause of Jane Street's losses, the biggest ever monthly loss for the firm which specialises in risk management using algorithms and statistical analysis, was the virtual collapse of the hedge fund Situational Awareness which had made big bets on the AI boom using large amounts of borrowed money.

Situational came to grief last month because of the sharp fall in the value of the stocks of chipmaking companies which it had bought. A major selloff to meet its debts, which could have had far-reaching consequences, was only averted when the Ken Griffin-owned hedge fund, Citadel, bought its public equity stocks for $16 billion at a 10 percent discount.

Founded in 2000 by a small group, Jane Street was known for its tightly controlled operations, using its own capital. But like others it moved to enter the AI boom and, in a departure from its previous practice, invested heavily in Situational as it was making concentrated and heavy bets, based on large borrowings, that AI stocks would continue to rise without interruption.

According to the *Wall Street Journal*, Jane Street's investment in Situational rose from an initial outlay of $2 billion to nearly $10 billion earlier this year. It suffered a loss of about $7 billion as a result with the rest of the loss coming from other investments in AI stocks.

Up until the July loss, Jane Street had been breaking records, according to a report in the *Financial Times*.

"In the first quarter of the year, it notched a record $16.1 billion in trading revenues, far outstripping comparable hauls among Wall Street banks. In 2025, it reported record revenues of roughly $40 billion," the FT said.

The Jane Street loss is only one indication of growing instability and the possibility that, due to the highly leveraged nature of the stock market boom, a crisis in one area can have a cascading effect.

Another example also occurred last week. As also reported by the FT, the owner of the Phoenix Suns NBA team billionaire financier Mat Ishbia began the week by making a presentation on YouTube to deliver "an upbeat analysis of the state of the housing market."

Three days later, United Wholesale Mortgage (UWM), one of America's biggest mortgage lenders, majority-owned by Ishbia, announced that a bad investment based on an assessment that interest rates would fall, meant it had incurred a $603 million loss.

As a result, it had agreed to a $2.1 billion capital injection organised by distress debt investor Oaktree Capital Management. Ishbia was reported to have put in at least $150 million.

UWM board member Robert Verdun told the FT that the company "just had to make the call and take the hit" and issued the obligatory assurance that he had "zero concerns about the future of the business."

However, the company's shares continue to fall—down by 30 percent this month and by nearly 90 percent since its 2021 public listing.

As part of the deal, UWM agreed to Oaktree having two board seats at the company. In its report the FT noted that the series of events have "laid bare the strains in a company at the heart of America's $13 trillion mortgage market."

Those strains, which no doubt are being felt elsewhere, are caused to a significant degree by the rise in interest rates, set off by the increase in inflation flowing from the Iran war, and concerns over the unrelenting rise of US debt.

The yield on the 30-year Treasury bond is around 5.2 percent, its highest level in almost three decades and the yield on the 10-year bond is at 4.7 percent and in an upward trend. The 10-year market forms one of the foundations of the US and global financial system and there are concerns about how long it can continue to finance the accumulation of US debt now approaching $40 trillion.

The US Treasury market, where government debt is bought and sold, increasingly through the operations of hedge funds, which tend to move rapidly in and out of the market, has risen from $21 trillion in 2021 to its present level of around $32 trillion.

The upward movement in interest rates was responsible for the loss incurred by UWM—a signal of deeper problems as indicated by the intervention of Oaktree. UMW had organised a package of derivatives which would have gained value in the event of a fall in interest rates. But they have moved up and the company took a significant hit.

Other problems are indicated by the fact that UMW is reported to have pledged shares as backing for five loans totalling $2.3 billion from JPMorgan and last week, after the share selloff, it is said to have requested increased collateral.

Rising interest rates are also impacting private equity firms' business models which often involve taking over companies and loading them with debt to give them an improved financial performance, boosting their share values, and then selling them off at a profit in many cases to other private equity firms.

But this parasitic business model has run into problems. When interest rates were very low this operation could be run relatively cheaply. The firms involved in the buyouts could obtain the funds for their purchases and buyers could be found when they wanted to sell.

The *New York Times* reported last week that private equity firms were saddled with more than 33,000 unsold businesses and that this "growing backlog is a challenge for private equity's core business model."

There are broader consequences, it noted.

"The state of limbo has been difficult for large investors like pension fund and endowments that have spent decades paying steep fees to private equity promising market-beating returns. Some investors and industry professionals are worried that the firms won't be able to sell companies without taking big losses."

AI is having a major impact as well. This is because much of private equity investment has been in software companies which have been declining in value because of fears that the use of AI will hit their earnings.