Wall Street plunge wipes off $3.2 trillion in market value

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6 November 2026

In one of its largest declines this century, the market value of stocks on Wall Street plunged $3.2 trillion yesterday led by a precipitous drop in AI and high-tech stocks which left the tech-heavy NASDAQ index down by 6.4 percent for the day.

The plunge in the market came after an initial uptick following the sweeping repudiation of Trump in the midterm elections for Congress. The violent selloff just 24 hours later appears to have been triggered by concerns that Democrat victories in state governorships will bring about restrictions on the AI buildout.

The Democrats won gubernatorial elections in Texas, Ohio, Nevada, Michigan, Georgia, Pennsylvania and Arizona with warnings that restrictions could be introduced on the construction of AI data centers. There is significant opposition from communities on a variety of grounds, among them fears that AI power demands are going to bring sharp rises in electricity prices along with concerns over water costs.

The issue was significant in Texas where ousted Republican governor Greg Abbott had backed away from his previous fulsome support for data center construction in the lead-up to the election.

Texas has some 248 data centers planned for construction, around a quarter of all planned US data center development, and the incoming Democrat governor, Gina Hinojosa, has said she will issue a ban on all new approvals until new laws are passed.

It has been estimated that 41 percent of all US planned data centers are in states where the new governor is in favor of a pause.

The selloff, described universally as “brutal,” was concentrated in the so-called Magnificent 7 which have powered the market to record highs. They lost a total of $1 trillion, much of it wiped out within minutes of the market opening.

The PHLX Semiconductor Index dropped by 12.25 percent, its worst day since the start of the pandemic in March 2020. Unlike previous high-tech selloffs, there was no shift into other stocks and the S&P 500 index dropped by 4.4 percent, its worst day since the major fall in the market following Trump’s announcement of global “reciprocal” tariffs in April 2025.

The selloff encompassed the major names in AI and high-tech development.

Shares in Nvidia, which manufactures the chips at the center of the AI boom, fell 9.3 percent, reducing its market value by more than $400 billion. Chipmakers were impacted across the board.

Qualcomm shares dropped 9.5 percent, Broadcom 10 percent and Micron was down 17 percent. The *Financial Times* (FT) noted: “Memory stocks Sandisk and Western Digital—among the market’s best performers this year—plunged 22 percent and 17 percent, respectively.”

Elon Musk companies based in Texas, where the multi-billionaire had spent hundreds of millions of dollars in the election campaign, were also impacted. Tesla shares dropped 10.8 percent after a 3.3 percent decline the day before and SpaceX fell 9.1 percent, after a previous 3.8 percent decline.

There was a shocked reaction from the AI and tech chiefs. Greg Brockman of OpenAI told a *Wall Street Journal* conference that he had been surprised by the backlash in local communities against data center construction. “No one really has seen something like this in American politics,” he said.

Comments from a senior manager of a Wall Street broker-dealer cited by the *Journal* summed up the prevailing market sentiment.

“It seems like the rug is getting pulled out from under it,” he said. “The market continues to be extremely

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fragile with all this uncertainty in front of us."

While some executives have been "spooked" by the proposed restrictions of some of the Democrats others are taking a longer-term view.

One unnamed executive at a "large tech company" cited by the FT said while the election result had disrupted construction plans in the short term, it was hoped that a "workable middle" could be reached with Democrats by sometime next year "paving the way for the continued data center buildout" because "eventually, the fundamentals win out."

In any case, concern over possible restrictions on the buildout was not the fundamental cause of the selloff but rather the catalyst which set it off.

The fundamental reason resides in the very nature of the boom and its highly speculative character. Hundreds of billions of dollars, trillions, resting on a mountain of debt, are being outlaid on the basis that at some, unspecified, time in the future there will be a massive profit for those firms which can win the buildout battle.

There have been continuous warnings of a crash of major proportions. Two of the latest came on the eve of yesterday's selloff.

In a comment with the headline "Are we ready for an AI bust?" FT economics commentator Martin Wolf pointed to the cash problems of the hyperscalers, resulting from their free cash flow—the difference between the capital outlays and money they have available after financing their business operations—has gone from positive to negative.

This has led to the development of "ever more complex financial arrangements" being made to take on debt, much of it hidden by syndicated bank loans and private credit facilities for which there is little information available.

Wolf based himself on a recent paper by Stijn van Nieuwerburgh of Columbia Business School which drew out that the AI boom was larger in scope than any specific sector, such as railways, that had gone before it. According to van Nieuwerburgh, "the central issue is not simply that AI infrastructure is exposed to technological and operating risks, but that the sector's financing structure can transmit and amplify those risks."

In a comment published in the FT yesterday, Stephen Roach long-time head of Morgan Stanley Asia and now a professor at Yale, also focused on the cash flow issue, noting that with the hyperscalers going from positive to negative and with interest rates on the rise "a financial squeeze is more likely than not."

Alphabet (the owner of Google) which lost nearly $500 billion in the market last week "could be the canary in the coal mine."

"With Alphabet's net debt issuance in excess of $75 billion in the first nine months of 2026 versus a little more than $11 billion over the comparable period of 2025, there can be no mistaking the ominous turn in the AI leveraging cycle."

Yesterday's market events are a confirmation of that warning.

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