AI slide deepens after boost from Nvidia chief's return

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25 November 2026

It took only a day for the euphoria which greeted the reinstatement of Jensen Huang as CEO of the chipmaking firm Nvidia to dissipate and for the underlying fragility of the AI bubble and the financial system to once again reveal itself.

On Tuesday, following Monday's unprecedented intervention by US president Trump to have Huang return, Nvidia shares, which had seen the largest one-day rise for any company lifting its market value by almost $1 trillion, were falling again, down by almost 6 percent.

The turmoil continued yesterday with the tech-heavy NASDAQ index falling by 4.7 percent in the course of afternoon trading before recovering. The S&P 500 was down by as much as 3.2 percent before finishing the day at 0.13 percent down.

Shares in Nvidia finished down by a further 3.9 percent and have now lost around two fifths of their surge on Monday.

Significantly Anthropic, the developer of the AI agent Claude, which had what was described as a "blockbuster" initial public offering (IPO) last Thursday, raising $81.3 billion, saw its share price on Tuesday go below the level set at its launch. Its shares closed 6.5 percent lower after being down by as much as 13.7 percent in the course of the day.

Further falls followed yesterday. At one point its share price went to $73.85 which took its market valuation to below the $1 trillion mark. It recovered somewhat to finish at $82.79, just below the issue price of $83, leading to the IPO being dubbed "Anflopic" in some quarters.

The massive swings in the market, involving hundreds of billions of dollars, both from hour to hour in any given trading day and from one day to the next, indicate the extreme fragility not just of AI but the whole financial system, which has become increasingly dependent on it.

Summing up the situation in a note to clients, Dubravako Lakos-Buias, JP Morgan's head of global markets strategy said: "Investor sentiment has shifted from euphoria to broad pessimism, with fears of the AI cycle rolling over and spilling into the real economy."

Marta Norton, chief investment strategist at the financial advice firm Empower, described the situation as "centuries away from June" when Elon Musk's SpaceX had its IPO and it appeared that the sky was the limit for the AI boom.

"We're in a different world now, where AI is just facing risk upon risk," she said in comments reported by the *Financial Times*.

There are two main issues dominating the development of AI.

The first is whether it will prove economically and financially viable and provide a boost to the capitalist economy, increasingly beset by low growth, record levels of debt and rising interest rates, or lead to a massive financial crisis.

The second is how the US can use the undoubted capacities of AI to maintain economic and military supremacy over its strategic rival China.

The first issue was raised in a *Washington Post* editorial on the return of Huang. His reinstatement, it said, did not answer "the larger question hanging over Nvidia: whether the extraordinary AI buildout can justify its cost. Monday's rally established that investors wanted Huang back. It didn't establish that the hundreds of billions pouring into data centres will earn adequate returns."

Anthropic, it continued, illustrated the distinction.

"Its blockbuster IPO last week shows investors' enormous appetite for AI. Yet after the still-unprofitable company committed roughly $900 billion to computing infrastructure, bond investors reportedly expected that its debt could receive a BB-range rating. That's commonly called junk."

An editorial in the *Wall Street Journal* was an expression of the conflict in ruling circles over the issue

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of AI and China. Powerful factions within the military and intelligence agencies and the political establishment, on both sides of the aisle, insist that measures must be taken through export controls and other bans to prevent China from acquiring the same level of AI development as the US.

As the supplier of the most crucial chips, Huang has opposed controls—one of the claims being made against him is that he allowed them to be evaded—on the grounds that the best way to ensure American superiority—he has described himself as an American patriot—is to ensure that China becomes "addicted" to its chips. Of course, such "addiction" is of enormous benefit to Nvidia.

The editorial noted that one of the assurances given to the Nvidia board by Trump was that his administration had conducted a "very thorough investigation" into the company and Huang was "exonerated."

"That must be the quickest very thorough investigation in history," it commented acidly and suggested that what had actually taken place was that the administration had indicated it would not punish Nvidia for possible violations of export controls and security laws if they returned Huang to his post.

The editorial noted that the Trump intervention resulted in a boost of $1 trillion to Nvidia's market value but that did not eliminate "the heavy cost that Mr Trump's intervention will exact on the rule of law and national security."

The intensity of the conflict in ruling circles was demonstrated by what followed:

"Mr Trump is signalling that export controls are notional, and national security is subordinate to his political wishes. Recall how in 2025 he refused to follow a law passed by bipartisan majorities of Congress that banned TikTok based on national security concerns.

"We're beginning to understand why Mr Trump so admires Xi Jinping. He likes the way China's Communist Party boss can give orders to private companies and ignore the law when it suits his purposes."

Notwithstanding the intensity of the conflict, the reality is that neither perspective—bans and controls or accommodation—can prevent the development of Chinese AI and its challenge to the dominance of the US. Military means increasingly become the only viable option.

The financial issues are by no means confined to the AI sector as the US economy and its financial system become increasingly dependent on the continuation of its growth.

The banks, private credit firms, hedge funds and investors are already tied into it—a process which is extending.

In a recent article, the *New York Times* reported how insurance companies, historically among the most cautious investors, were also being drawn in.

"The amount of AI debt being held by insurance companies has soared this year," it reported, with life insurers holding $85.2 billion in AI debt as of the end of June, an increase of 24 percent over six months. Life insurers now hold about 15 percent of AI data centre debt.

As deals become more opaque and risky, it appears that the credit rating agencies are playing a similar role to that in the lead-up to the 2008 crash.

According to the *Times* report: "Making possible this flood of insurance money into risky AI deals are credit rating agencies like Moody's and S&P Global Ratings. They have blessed this rapidly expanding pool of debt with relatively safe credit ratings, which meet the criteria that insurance firms need to invest in a particular asset."

If the AI plunge turns to bust it will have far reaching consequences for the American economy and globally. The *Journal* noted that the US economy has become "addicted to AI spending" in the past two years and that "AI investment accounted for a staggering 25 percent of economic growth in the last year."

Major Asian economies have become ever-more dependent on AI data centre investment in conditions where their economies have been growing at a slower pace.

Capital Economics has noted that as much as 80 percent of the growth in world trade this year has been concentrated in AI-related goods.

The head of international economics at Moody's Analytics, Gaurav Ganguly, has warned that because of globalised financing an AI bust would spread financial pain around the world and add to the damage caused by the fall in trade. The world would struggle to absorb a sharp AI stock slide on top of an oil shock, tariffs and rising interest rates, he said, according to a report in the *Journal*.

"The result could be a severe economic shock with global recessionary consequences," he said.

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