

What if the *AI bubble* bursts?

This is a real bubble, built on capex, concentration and circular financing, but funded at its core from real cash flow. That split is the whole story. The equity de-rate is the leg the market can already price, while the second-order credit event and the third-order growth shock are the legs it cannot. Low-ish odds, high magnitude, and convex.

P ≈ 20-30% OVER 24M · VS BASE RATE ~10%

~\$710bn

2026E BIG-FOUR CAPEX, AI-LED — THE BET

~35%

AI-LINKED SHARE OF S&P 500 MARKET CAP

~95%

ENTERPRISE GENAI PILOTS WITH NO P&L RETURN

−40/−65%

AI SILICON & POWER DE-RATE IF ACTIVATED (COMPLEX ~−30/−40%)

Scenario Dossier

Contents & conventions

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ABOUT GRAVITYWELL RESEARCH

Gravitywell Research publishes independent research for professional investors across public and private markets, both institutions and sophisticated individuals, and for policymakers, not regulated ratings or investment advice. The What-If series studies defined shocks conditionally: we state the trigger, weigh it against base rates, trace the mechanism, and end in positioning. We source to primary filings and official statistics, disclose coverage and confidence, and mark every figure to its date.

CONVENTIONS & DATA VINTAGE

Currency: USD throughout. Markets as of Jul 2026; company figures to the latest reported quarter.¹ "The AI-cap complex" = the AI-capitalisation-weighted equity basket (merchant silicon, hyperscalers, AI-power, memory, networking, neoclouds). Estimates are ranges, not points. **Confidence tiers:** ● filed/official · ● modeled/derived · ○ Gravitywell estimate. **Magnitude and probability are separate axes throughout.**

HOW TO READ THIS DOSSIER

Every effect in this dossier comes with a mechanism, a dated and tiered magnitude, an order in the chain (first, second or third), and a source. As you read, keep two questions apart: how big the burst would be, and how likely it is to happen. They are separate, so a large drawdown is never evidence that the event is probable. And this is a conditional study of a defined trigger, a careful look at what would follow if the burst came, rather than a prediction that it will, or any suggestion that the AI build lacks a future.

The Shock

The activation condition

Almost everyone now agrees that an AI bubble exists, yet almost no one has priced the burst, and that gap is what this dossier is about. Calling something a bubble is a claim about valuation, but a burst is a claim about a mechanism and a date, and only the second is something an investor can actually position around. So instead of treating the shock as a mood, we define it as an observable regime that the market either enters or does not.¹²

ACTIVATION CONDITION – WHAT MUST BE TRUE

The froth (the AI-cap complex's leadership layer: Nvidia-led merchant silicon, AI-power, memory and the neoclouds) falls $\geq 40\%$ from its peak and holds $\geq 40\%$ below peak for 60+ trading sessions; aggregate top-tier AI/datacentre capex is cut $\geq 25\%$ YoY (the hyperscalers plus Oracle, xAI and the neoclouds pull planned AI spend — a buildout freeze, not a pause); and a marquee credit event lands in the AI-infrastructure financing stack — a neocloud or GPU-lease default, a GPU-backed-ABS mark-down, or a failed marquee-lab raise.

We use three tests rather than one because any single test would be too weak on its own. A 40% fall by itself is just a correction that the dip-buyers reverse, a capex freeze by itself is a growth scare, and one default by itself is idiosyncratic. It is only when all three line up, with the equity signal, the real-economy signal and the financing signal pointing the same way, that the scenario becomes the self-reinforcing regime we are studying. And if that regime cannot be confirmed from capex guidance, Nvidia's data-centre revenue, the equity tape and AI-infra credit spreads, then it falls outside our scope.

~\$710bn

2026E BIG-FOUR CAPEX (AI-LED) – THE LINE THAT MUST FREEZE¹

~35%

AI-LINKED SHARE OF THE S&P 500 – THE CONCENTRATION⁵

~95%

GENAI PILOTS WITH NO P&L RETURN – THE ROI GAP³

~1/decade

BASE RATE OF A $\geq 40\%$ NAMED-COMPLEX BURST¹⁴

PROBABILITY (MAGNITUDE $\neq$ LIKELIHOOD)

20–30% / 24m · conf. low-med

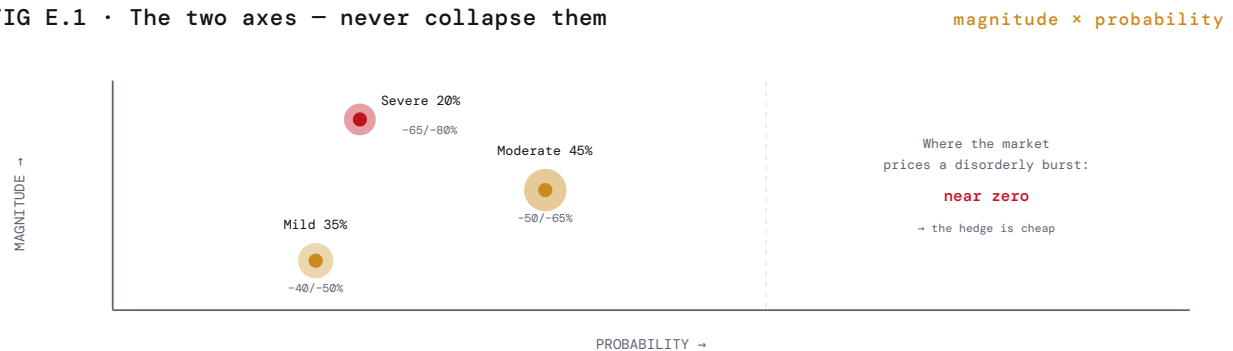
Base rate ~10%/24m, adjusted up for live preconditions. Movers: capex guidance + AI ROI · rates/liquidity · an infra credit event · the circular financing unwinding.¹⁴

Executive summary

The scenario in one page

The odds of this burst are low-to-moderate, the magnitude if it comes is large, and the two facts are independent of each other. We put the chance of activation at 20–30% over 24 months. If it does activate, the moderate branch takes the frothy leaders down –50 to –65%, which works out to about –30 to –40% across the wider cap-weighted complex once the cash-rich core is folded in, and it pulls the S&P 500 down –20 to –26%.¹⁴ What makes the scenario worth acting on is the asymmetry between those two facts. Because the market prices a disorderly burst as though it were near-impossible, insurance on the credit-and-macro leg is cheap relative to what it would pay if the burst arrived.

FIG E.1 · The two axes – never collapse them



Bubble magnitudes are the frothy periphery (silicon/power/neocloud) peak-to-trough, conditional on activation; the cap-weighted complex is shallower (the cash-rich core cushions it – see §15). Weights sum to 100% within the scenario ○. Bubble area ≈ conditional weight, not a probability distribution over the level.¹⁴

WHAT THE MARKET ALREADY PRICES

The first-order re-rating is already largely in the price. Merchant silicon and the AI-power names fall, their multiples compress, and the momentum trade unwinds. All of this is visible on any screen, so owning it gives an investor no real edge.

THE READ – WHAT IT MISSES

What the screen cannot show is the second order. A GPU and neocloud credit stack, much of it vendor-financed and wired together by circular Nvidia, OpenAI and Oracle commitments, can turn a demand air-pocket into an outright credit event two or three quarters later. There is a third order on top of that, because AI capex has been carrying an outsized share of both US growth and index earnings, so a freeze reaches well beyond the stock market.⁶

THE ONE TRADE

The trade this points to is to own convexity on that second-order leg rather than to trade the fear. Long-dated put spreads on the merchant-silicon and AI-power names, together with protection on the AI-infra credit stack, are cheap for now because the buy-the-dip bid keeps realised volatility low. You can fund them by staying invested in the non-AI market that the burst would leave standing. At roughly a one-in-four probability, that insurance looks underpriced against a payoff that could reach –50% or more.

Quick read

The cascade in sixty seconds

FIG Q.1 · Guidance cut → de-rate → credit event, in four beats day 1 → month 6



The fork is the financing plumbing, not the index level: if internal cash flow funds the buildout, the de-rate stays an equity event 0.⁶

TOP HEDGES — CHEAP NOW

Silicon put spreads
MERCHANT-SILICON + AI-POWER · VOL
SUPPRESSED BY THE DIP BID

Infra-credit protection
NEOCLOUD / GPU-LEASE / DC-REIT SPREAD
HEDGES

Own the non-AI market
EQUAL-WEIGHT + VALUE · WHAT THE BURST
LEAVES STANDING

BY-STAKEHOLDER POSTURE · 30 SECONDS

STAKEHOLDER	DO NOW (CHEAP INSURANCE)	IF IT ACTIVATES
Allocator	Measure the hidden AI beta in passive holdings; buy the suppressed-vol put spread; rotate to equal-weight.	Add gold + long-vol; short merchant silicon and AI-power; underweight DC-exposed credit.
Corporate / risk	Stress-test AI-linked revenue and any GPU-lease or PPA commitments; term-out funding while spreads are tight.	Pull discretionary AI capex; renegotiate take-or-pay; preserve liquidity.
Policymaker	Map the DC-credit and private-credit exposure; watch the growth contribution from one sector.	Sequence the response: liquidity to funding markets before a broad rate cut; ring-fence contagion.

IN ONE LINE

A –40%-plus de-rate of the frothy AI leadership is roughly a one-in-four event over two years, even though the market treats it as near-impossible. The part that is really mispriced sits underneath the fall, in the credit-and-growth leg that almost no one is watching.

PART I

The *Setup*

Before the mechanism, the conditions. How often a named tech complex actually bursts, what this buildout rhymes with, why the pressure is live now, and the question that decides who gets hurt: whether the froth sits at the cash-rich core or the debt-financed edge.

READING

Pages 06 — 09

KEY FIGURE

~35% · index in AI

BASE RATE

~10% / 24m

WHAT YOU'LL TAKE AWAY

01

The outside view

A named tech or capex complex bursts $\geq 40\%$ roughly once a decade; even inside a bubble, a disorderly deflation is a minority path, not the default.

02

What rhymes

2000 telecom-fiber, not pets.com: real infrastructure, circular vendor financing, and ROI timing that wipes the financiers before demand catches up.

03

Where the froth is

The mega-cap core is funded from cash flow; the froth is in the merchant-silicon multiple, the neocloud credit and the AI-power names.

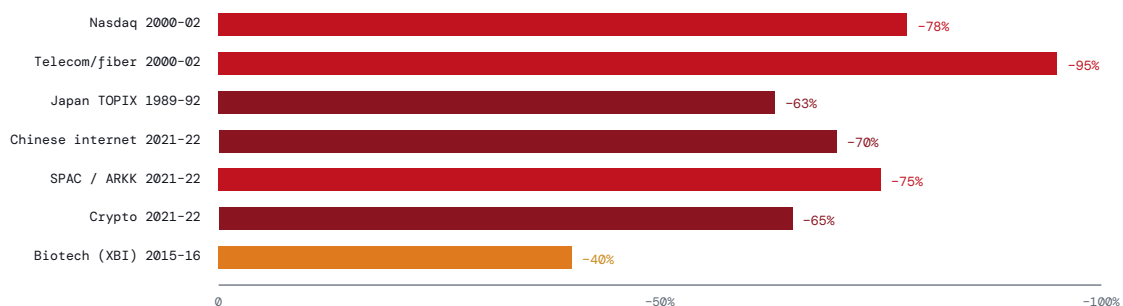
§ 01 · Base rate

The reference class

IN ONE LINE · A NAMED TECH COMPLEX BURSTS $\geq 40\%$ ABOUT ONCE A DECADE; CONDITIONED ON ALREADY BEING IN A BUBBLE, A DISORDERLY 24-MONTH DEFLATION IS ROUGHLY A 1-IN-4 EVENT — NOT REMOTE, NOT A COIN FLIP.

Strip the AI story and ask only the outside-view question: how often has a named, concentrated tech or capex complex de-rated $\geq 40\%$ and stayed there? The answer disciplines both sides — it is far from the bulls' "this time is permanent" and equally far from the bears' "it must crash."¹⁴ A large drawdown is a fact about the reference class before it is a fact about AI.

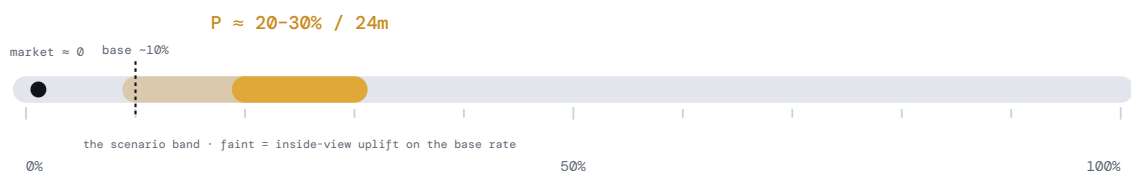
FIG 1.1 · The reference class — peak-to-trough drawdowns of named bubbles %, peak → trough



Peak-to-trough index drawdowns; telecom/fiber = the equipment + carrier complex ●.¹¹ Roughly one $\geq 40\%$ named-complex burst per decade in US markets, counting distinct episodes (2000, 2015-16, 2021-22), not each index.¹⁴

FIG 1.2 · From reference class to a probability band

P(activation) / 24m



Base rate $\sim 10\%/24m$ from the reference-class frequency ○; the band adds an inside-view uplift for the live preconditions (§03) ○. The band draws over [20%,30%] only — not from zero.¹⁴

THE READ

The outside view makes a hard burst a minority outcome even from inside a bubble, and the error is symmetric: the bull who prices it at zero and the bear who prices it at certainty are both ignoring the reference class. The number to hold is a band around one-in-four over two years — high enough to insure, low enough that a crash call is unjustified.

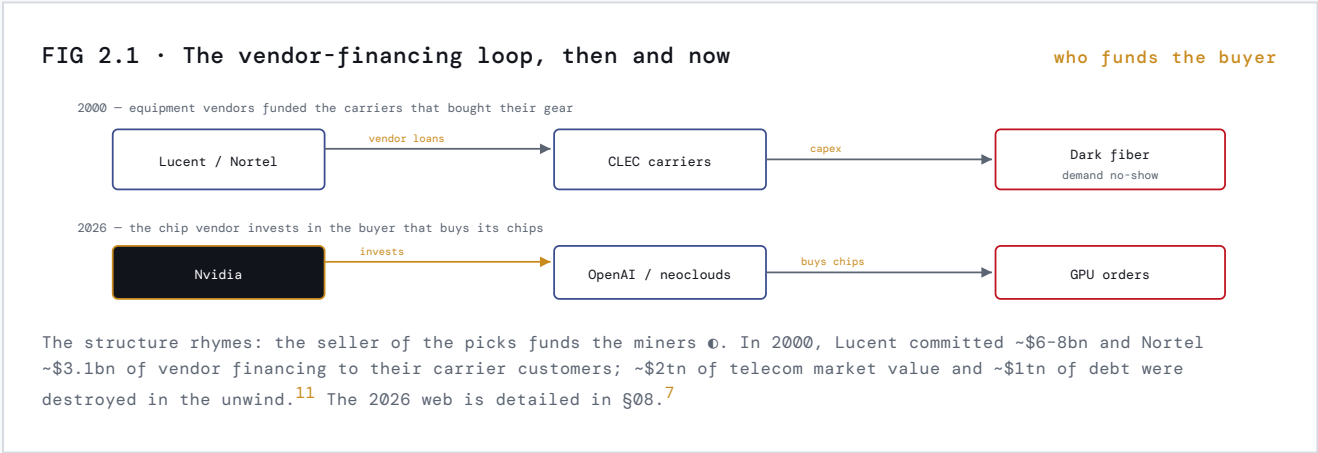
§ 02 · Analogues

What rhymes, what's different

IN ONE LINE · THE BUILDOUT RHYMES WITH 2000 TELECOM-FIBER, NOT PETS.COM — REAL INFRASTRUCTURE, CIRCULAR VENDOR FINANCING, AND ROI TIMING THAT WIPES THE FINANCIERS BEFORE DEMAND ARRIVES.

If the reference class sets the odds, the closest analogue sets the shape of the burst. And the best analogue here is not the dot-com froth of profitless websites. It is the telecom and fiber capex boom that ran right alongside it, where the infrastructure was real, useful and eventually used, and yet the capital that financed it ahead of demand was destroyed anyway.¹¹

EPISODE	WHAT RHYMES WITH AI NOW	WHAT'S DIFFERENT THIS TIME
Telecom / fiber 2000–02	Real infrastructure over-built ahead of demand; vendor financing (Lucent, Nortel funded the carriers that bought their gear); ~85–95% of laid fiber sat "dark" for years.	Hyperscalers earn real cash flow today; compute demand is growing now, not just promised. The overbuild question is timing, not existence.
Railway mania 1840s / 1873	A genuinely transformative network built faster than the revenue to fill it; the rails outlived the companies that laid them.	Depreciation is far faster: a GPU's useful life is measured in years, not the decades of steel rail — the write-down clock runs quicker.
Dot-com equities 2000	Narrative-driven multiples, retail participation, concentration in a handful of names carrying the index.	The AI leaders are the most profitable companies on earth, not cash-burning start-ups. The froth is in the periphery, not the core.
Crypto / FTX 2021–22	Circular financing — assets pledged as collateral for the entities that created them; a reflexive web where one default propagates.	The collateral here (GPUs, data centres) has real utility and a resale market, however soft in a glut.
Japan 1989	"It can only go up" concentration; a market whose weight became a self-justifying flow.	Earnings are real and global, not a domestic land-and-equity cross-holding loop.



THE READ

Real but overbuilt infrastructure destroys the capital of whoever financed it ahead of demand, even when the technology goes on to win outright. The fiber laid in the boom was eventually lit and now carries the internet, but the carriers and their financiers were wiped out a decade before that payoff arrived. The risk for AI is much the same. It is not that the technology fails, but that the demand curve shows up two years after the debt has come due.

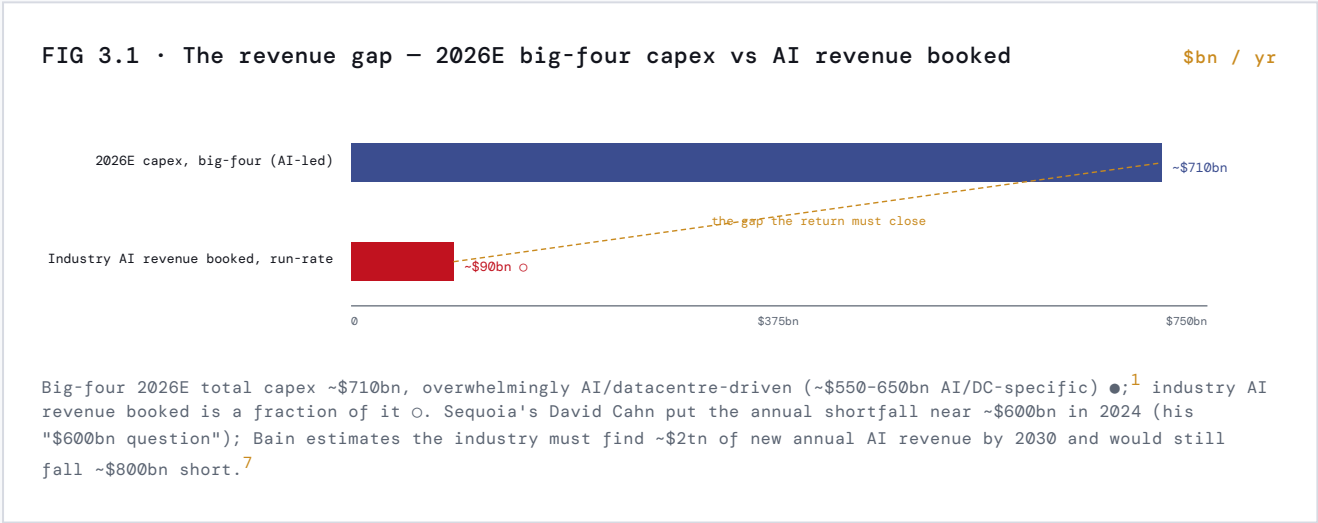
§ 03 · Why now

The live preconditions

IN ONE LINE · THREE PRECONDITIONS ARE LIVE AT ONCE (THIN ROI EVIDENCE, RECORD CONCENTRATION, CIRCULAR FINANCING), WHICH IS WHAT LIFTS THE INSIDE VIEW ABOVE THE BASE RATE.

An analogue only rhymes if its preconditions are present now, and here three of them are, all at once. Enterprise returns on AI spending are still hard to find, the index has never been more concentrated in a single theme, and the financing has turned circular, so the same dollars now show up as revenue in more than one place.³

~95% ENTERPRISE GENAI PILOTS WITH NO MEASURABLE P&L RETURN³	~35% AI-LINKED SHARE OF S&P 500 MARKET CAP⁵	~\$1.4tn CUMULATIVE AI COMPUTE COMMITMENTS ANNOUNCED⁶	<10% OF THAT BACKED BY CONTRACTED END-DEMAND TODAY ○
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WHY THE GAP CAN PERSIST

There is a genuine land-grab logic to it. If compute is the scarce input to the next platform, then over-building now can be entirely rational for a hyperscaler that funds it from cash flow and can afford to be early.

WHY IT MIGHT NOT

But that logic only holds for players funding the build internally. The neocloud and marquee-lab layer funds it with debt and equity raised against demand that has not arrived, and it cannot wait two years for the returns.

THE READ

No single precondition is a trigger on its own. Together they leave the buildout with no margin of safety if enterprise returns disappoint, because concentration has removed the diversification, circular financing has removed independent price discovery, and the revenue gap has removed the fundamental floor. The system is primed rather than lit, which is the condition in which a routine guidance cut can cascade.

§ 04 · Valuation

Froth at the core, or the edge?

IN ONE LINE · ON CASH FLOW THE MEGA-CAP CORE IS STRETCHED BUT NOT 2000-CRAZY; THE FROTH IS IN MERCHANT-SILICON MULTIPLES, NEOCLOUD CREDIT AND THE AI-POWER NAMES — SO A BURST RE-RATES THE PERIPHERY HARDEST.

With the preconditions primed, the next question is the one that decides who actually gets hurt: is this a bubble at the cash-rich core, or at the debt-financed edge? That distinction runs through everything downstream. The hyperscalers trade richly but earn enormous cash flow, so the real froth, the part with no earnings floor beneath it, sits one layer further out.¹

FIG 4.1 · The AI-cap complex by layer — multiple vs cash-flow support froth rises outward

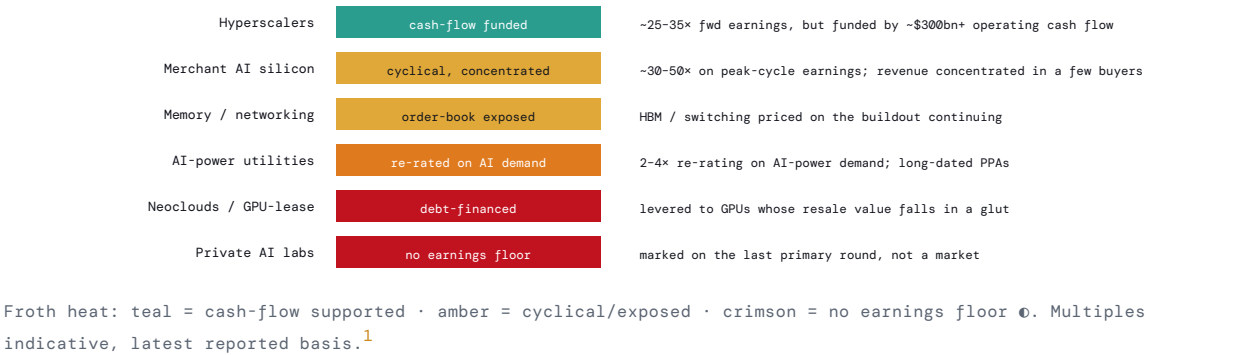
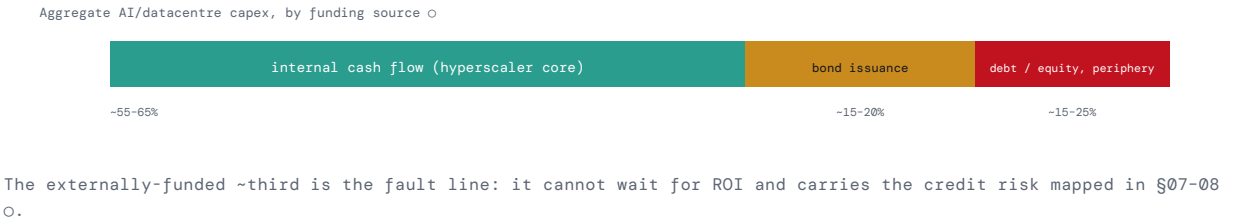


FIG 4.2 · How the buildout is funded — the fault line share of AI capex



THE READ

So the burst is first a re-rating of the externally-funded periphery, and not obviously a solvency event at the internally-funded core, and that single structural fact routes the rest of the report. The credit risk sits at the debt-financed edge, which is the second order, while the growth risk sits in the core's own capex line, which is the third, and the equity de-rate runs through both. The setup is loaded, and because the trigger is a capex guide, the capex channel is where the cascade begins.

PART II

The *Transmission*

How a capex air-pocket becomes a market event — channel by channel, first order to third. The equity de-rate is fast and visible and the tape prices it in hours. The credit event a few quarters later and the growth shock underneath it are the legs the market cannot see until they move.

READING

Pages 10 — 15

1ST ORDER

the equity de-rate

2ND / 3RD

credit · growth

WHAT YOU'LL TAKE AWAY

01

Three channels, three speeds

Equity multiples reprice in hours; the credit stack in quarters; the growth hit over a year — and only the first is priced.

02

The credit stack & the circular web

A >\$20bn neocloud debt load and a >\$800bn interlocked financing loop turn a demand pause into a credit event.

03

Capex is now GDP

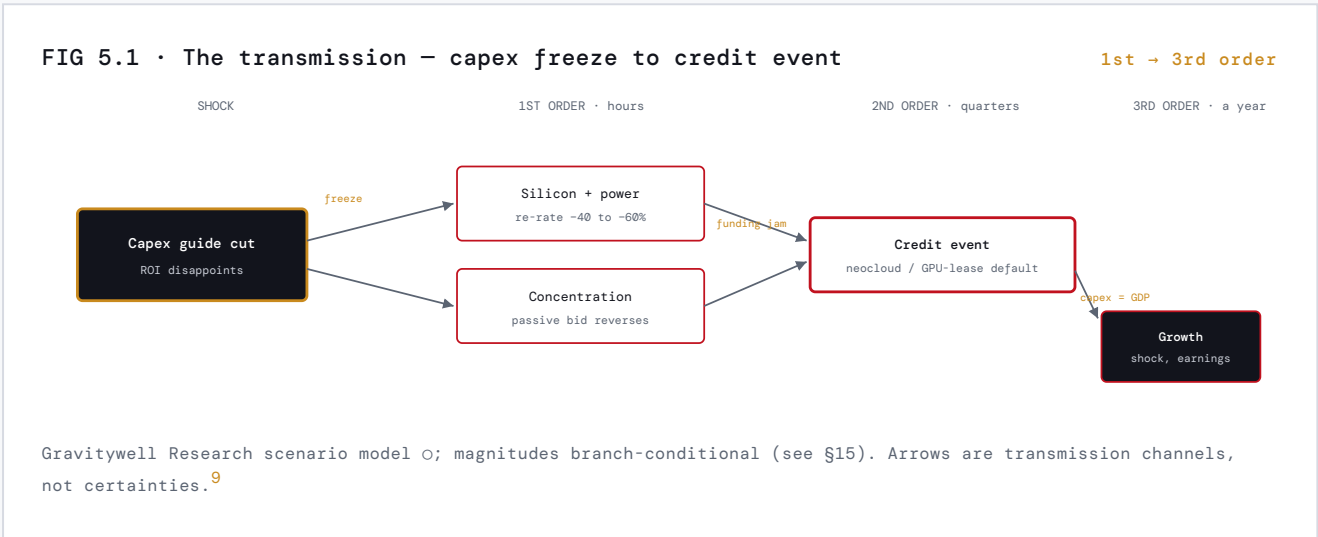
Information-processing investment was ~92% of H1-2025 US growth, so a freeze is a macro shock, not a sector one.

§ 05 · The chain

Shock to credit event, by order

IN ONE LINE · THE MARKET PRICES THE FIRST-ORDER EQUITY DE-RATE IN HOURS; THE MISPRICED LEGS ARE THE CREDIT EVENT A FEW QUARTERS LATER AND THE GROWTH SHOCK UNDERNEATH IT.

The transmission is a mechanism you can trace explicitly, channel by channel. A capex air-pocket runs down three of them at three very different speeds. Equity multiples reprice in hours, the AI-infrastructure credit stack reprices over quarters, and the hit to growth and earnings plays out across a year or more. Of the three, the market prices only the first with any real conviction.¹



WHAT IS ALREADY PRICED – OWN THE UNPRICED COLUMN

NODE	MECHANISM	PRICED?
Equity de-rate	Multiple compression as the growth narrative breaks.	half-priced
Concentration unwind	Cap-weighted funds sell the complex proportionally.	half-priced
Infra credit event	GPU-lease / neocloud default; collateral value falls in the glut.	unpriced
Circular unwind	One broken link re-rates the whole interlocked loop.	unpriced
Growth & earnings	Capex was carrying US growth and index EPS; a freeze cuts both.	unpriced

THE READ

The two rows that matter are the unpriced ones. Everyone can see the multiple compress, but almost no one is positioned for the credit event and the growth shock that follow it, because both lag the equity move by a quarter or more and neither shows up on an equity screen. So the pages ahead walk the chain in order: the priced equity leg first, to size what the tape already holds, and then the two unpriced rows where the real mispricing sits.

§ 06 · First order

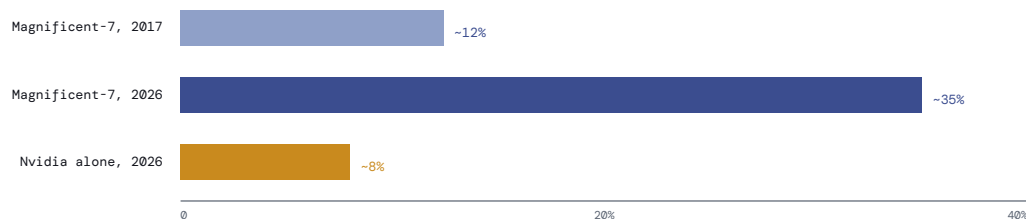
The equity de-rate

IN ONE LINE · THE DE-RATE HITS MERCHANT SILICON AND AI-POWER HARDEST BECAUSE THEIR FORWARD REVENUE IS THE MOST CONCENTRATED IN THE HYPERSCALER ORDER BOOK — AND ONE STOCK, NVIDIA, IS ~8% OF THE INDEX.

Start with the fast, visible leg. The equity de-rate is largely arithmetic. Multiples that were set on the buildout continuing simply revert once it pauses, and the damage to any given name is proportional to how much of its forward revenue rests on a handful of buyers.⁵ The most concentrated exposure is also the most crowded, because a single chipmaker now carries around 8% of the S&P 500, the heaviest one-stock weight since records began in 1981.²

FIG 6.1 · The most concentrated index in fifty years

% of S&P 500 market cap



Mag-7 ~34-35% of S&P 500 cap, roughly tripled from ~12% in 2017; Nvidia alone ~8% — highest single-stock weight since 1981 ●.⁵

WHY THE PERIPHERY FALLS FURTHER THAN THE CORE

The hyperscalers earn the cash flow, so their de-rate is really the loss of a growth premium, which is painful but bounded. Merchant silicon, AI-power and memory have no such floor beneath them. Their multiples price the slope of the buildout, so a freeze compresses the multiple and the forward estimate at the same time.

WHY IT IS ONLY HALF THE STORY

This leg is already on every screen and in every risk model. It is a re-rating rather than a solvency event, and a diversified index holder can ride it out. The trouble is that owning or hedging only the equity de-rate leaves the two legs that actually surprise, credit and growth, completely unhedged.

THE READ

The equity de-rate is the part the market has already rehearsed, which is why owning it gives no advantage. Price it as arithmetic, roughly –40 to –65% at the frothy periphery and –15 to –45% at the cash-rich core in the deepest branch, and then move on to the legs the screen cannot show. The question worth asking is not how far the silicon falls, but what its fall does to the debt secured against it.

§ 07 · Second order

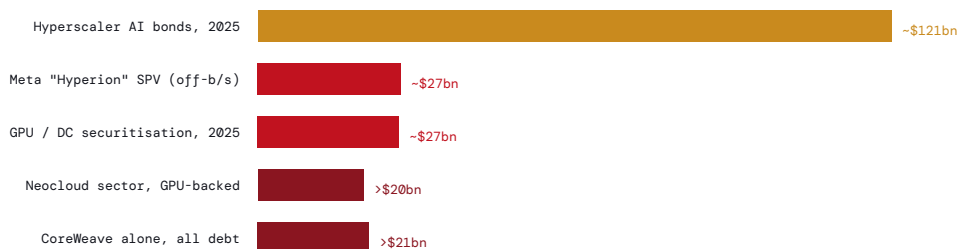
The neocloud & GPU-lease credit stack

IN ONE LINE · THE UNPRICED LEG IS A DEBT STACK SECURED AGAINST GPUS WHOSE RESALE VALUE FALLS IN THE VERY GLUT THAT TRIGGERS THE DEFAULT – COLLATERAL THAT IS WORTH LEAST EXACTLY WHEN IT MUST BE SOLD.

That question, what the silicon's fall does to the debt secured against it, is the second order, and it is a mechanism the equity screen simply cannot show. A fast-growing AI-infrastructure credit market has been built on the assumption that the buildout, and the value of the GPUs behind it, keep rising.⁹ It runs through neocloud borrowings, GPU-collateralised loans and off-balance-sheet data-centre vehicles. One marquee neocloud already carries more than \$20bn of debt at a blended cost near 11%, secured against chips whose resale value is estimated at only about 45% of new by their third year.⁹

FIG 7.1 · The AI-infra credit stack – what funds the buildout's edge

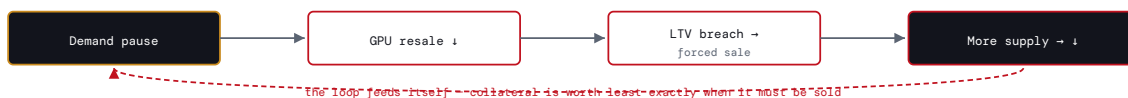
\$bn, 2025-26



Hyperscaler AI-related bond issuance ~\$121bn in 2025, >4× the 2020-24 average ●;¹⁰ GPU/DC securitisation ~\$27bn (JPMorgan sees \$30-40bn/yr in 2026-27); CoreWeave's all-source debt >\$21bn (from <\$8bn in 2024) ●.⁹ Meta's ~\$27bn data-centre JV was flagged a "critical audit matter."¹⁰ Total debt exceeds the sector's GPU-backed-only estimate because it includes corporate facilities – the two bars are different measures.

FIG 7.2 · The collateral doom-loop – why the default is reflexive

procyclical LTV



GPU collateral is procyclical: a glut cuts resale value, which breaches loan-to-value, which forces sales into the glut ●.⁹

THE READ

The collateral is procyclical, and that is really the whole mechanism. A GPU is worth most when demand is strong and you would never dream of selling it, and worth least in the glut when a covenant forces you to. Investment-grade wrappers and off-balance-sheet vehicles have made this stack look safer than the cash flows underneath it, which is the same maturity- and-mark mismatch that official-sector watchers have started to call "shadow borrowing".¹⁰ That mismatch is what turns an equity air-pocket into a credit event.

§ 08 · Second order

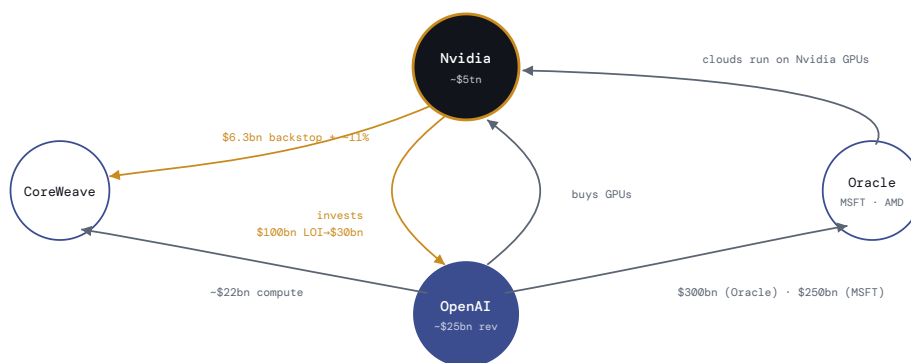
The circular financing web

IN ONE LINE · THE SAME DOLLARS APPEAR AS REVENUE IN SEVERAL PLACES AT ONCE — A >\$800BN INTERLOCKED LOOP WHERE THE CHIP VENDOR FUNDS THE BUYER THAT BUYS ITS CHIPS, SO ONE BROKEN LINK RE-RATES THE WHOLE RING.

The credit stack is dangerous because it does not stand on its own. It is wired into a circular financing web that removes the market's ability to price any single link independently. The chip vendor invests in the model lab, the lab commits hundreds of billions to the clouds, the clouds buy the vendor's chips, and the vendor then backstops the cloud's unsold capacity.⁸ Estimates put the interlocked commitments above \$800bn.⁸

FIG 8.1 · The circular web — who funds whom

announced commitments, \$bn



Amber = vendor funds customer; grey = customer buys/commits. Nvidia's marquee ~\$100bn OpenAI commitment was a letter of intent, never signed, and was restructured to a ~\$30bn equity stake by early 2026.⁸ OpenAI: ~\$25bn revenue run-rate against ~\$1.4tn of compute commitments.⁶

WHY "CIRCULAR" IS THE RISK, NOT A SLUR

When a vendor funds its own customer, the customer's purchase is partly the vendor's capital coming back as revenue. That flatters the demand signal on the way up and reverses it on the way down, because if the funding stops, the revenue and the collateral fail together, having been the same dollars all along. OpenAI shows how fragile this can be. A revenue run-rate of around \$25bn stands against roughly \$1.4tn of compute commitments and a cash burn that leaked investor documents put in the hundreds of billions through 2030.⁶

THE READ

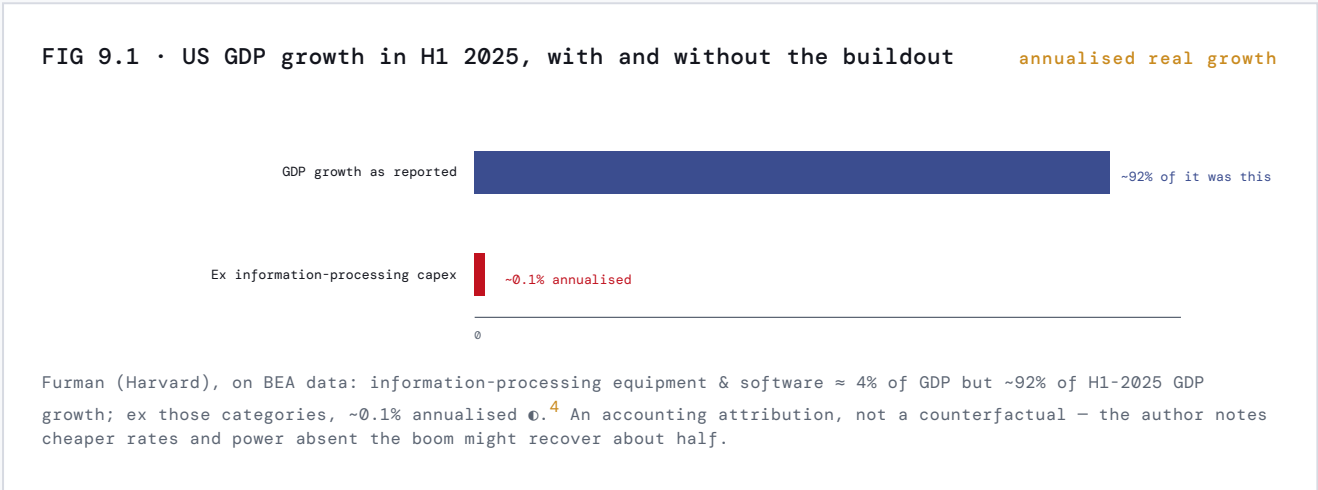
Circularity removes independent price discovery, which is the one thing a stressed market needs most. On the way up it manufactures the very demand that justifies the next round of spending. On the way down a single broken link, a stalled raise or one lab that misses a payment, re-rates every commitment in the ring at once, because each was underwritten against the others. So the web is the amplifier that turns the local credit event of \$07 into a systemic one.

§ 09 · Third order

When capex is the economy

IN ONE LINE · INFORMATION-PROCESSING INVESTMENT WAS 4% OF GDP BUT ~92% OF US GROWTH IN H1 2025 – SO A CAPEX FREEZE IS A MACRO SHOCK AND AN EARNINGS SHOCK, NOT A ONE-SECTOR DRAWDOWN.

Even if the financing holds, the third order is unavoidable, because the buildout has become load-bearing for the economy itself. Investment in information-processing equipment and software was only about 4% of US GDP in the first half of 2025, yet it accounted for roughly 92% of the growth, and strip it out and the economy grew at just a 0.1% annual rate.⁴ That same spending is also the market's earnings engine.⁵



~46% OF THE S&P 500'S 2025 TOTAL RETURN FROM THE MAG-7⁵	~2.8pp OF THE S&P'S ~17.9% 2025 GAIN FROM NVIDIA ALONE⁵	~100bp EST. ADD TO US REAL GDP GROWTH FROM DC CAPEX⁴	~\$710bn 2026E BIG-FOUR CAPEX – THE LINE THAT WOULD FREEZE¹
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THE READ

The same capex line is at once the market's earnings and the economy's growth, and that collapses the usual firewall between a stock correction and a recession. A freeze cuts index earnings and GDP at the same moment, and the two then feed on each other, because weaker growth compresses the multiple further, that tightens financial conditions, and tighter conditions slow growth again. This is why the moderate branch carries a mild recession rather than just a bear market. The third order routes the equity shock straight into the real economy.

§ 10 · Third order

Concentration & the passive bid

IN ONE LINE · RECORD INDEX CONCENTRATION TURNS THE PASSIVE BID THAT INFLATED THE COMPLEX INTO A PASSIVE OFFER — THE FLOWS THAT NEVER CHOSE THE AI TRADE BECOME ITS FORCED SELLERS.

The third order closes a loop back into the first, because concentration makes the de-rate self-reinforcing through the mechanics of the index itself. A market-cap-weighted fund holds the AI-cap complex in proportion to its weight, so the same passive flows that bid it up on the way in are forced to sell it down on the way out. And at around 35% of the index, there is no non-AI position of comparable size to take the other side of that trade.⁵

FIG 10.1 · The passive reflexivity loop

why concentration amplifies



Cap-weighted passive flows are procyclical by construction; concentration removes the diversifying bid ⁵.

THE LIMITER ON THE OTHER SIDE

The loop is not unbounded, though. The hyperscaler core keeps generating cash and can keep buying back its own stock, a deep buy-the-dip reflex has been trained into the market by fifteen years of V-shaped recoveries, and price-insensitive sovereign buyers of compute can support the private layer. Which of these forces wins, the amplifier or the limiter, is the subject of Part IV, and it is what separates a -40% air-pocket from a -70% bust.

THE READ

Concentration is the amplifier that ties the three orders into a single system. The equity de-rate cuts the index weight, forced passive selling deepens the de-rate, and the growth and credit legs remove the fundamental buyers who would normally step in. Because the same flows are both the accelerant and the largest holders, this de-rate could easily overshoot the fundamentals, which is exactly why the next Part turns to the question of which force wins.

PART III

The *Impact Map*

Where the burst actually lands — across assets, sectors, geographies and the stakeholders who hold the risk. The damage is not where the index weight sits: the mispriced nodes are the false safe-havens dressed as defensives and the passive holders who are long the theme without knowing it.

READING

Pages 16 — 18

FALSE HAVEN

AI-power utilities

HIDDEN LONG

every passive S&P holder

WHAT YOU'LL TAKE AWAY

01

By asset

Merchant silicon and AI-power fall hardest; cash, gold, long-vol and the non-AI market are the shelter.

02

By sector

The utilities bought as bond-proxies are the surprise casualty; the beneficiaries are whatever did not re-rate on AI.

03

Who holds it

Concentration means the risk sits in passive index funds and pensions that never chose the AI trade.

§ 11 • By asset

Who gets hit, who gets paid

IN ONE LINE • THE FALSE SAFE-HAVEN IS THE AI-POWER UTILITY BOUGHT AS A BOND-PROXY; THE SHELTER IS CASH, GOLD, LONG-VOL AND THE EQUAL-WEIGHT MARKET THE BURST LEAVES STANDING.

Map the credit-and-macro leg onto asset classes and the mispriced nodes come into view. The obvious casualties, merchant silicon and the hyperscalers, are on every screen already. The ones that are not so obvious are the AI-power names that re-rated as defensives and the investment-grade credit that quietly funded the whole buildout.¹⁴

FIG 11.1 • Impact heatmap — asset × horizon (moderate branch) % move, scenario-conditional



■ -40% or worse ■ -20 to -40% ■ -5 to -20% ■ 0 to +10% ■ +10% or better

AI-cap peak-to-trough by asset, moderate branch, conditional on activation O. AI-infra credit lags equities — the second-order leg (§07) prices last, not first.¹⁴

THE READ

Two nodes are mispriced. The AI-power utilities were bid up as a way to own AI demand inside a "defensive" bond-proxy wrapper, but their re-rating was really AI beta rather than utility beta, so they fall with the theme instead of cushioning it. Investment-grade credit, meanwhile, looks safe until the market notices how much of the recent issuance actually funded the buildout. That credit hit lags the equity hit by a quarter or two, which is precisely why it is still cheap to hedge today.

§ 12 · By sector

The winners & losers ledger

IN ONE LINE · THE CASUALTIES CLUSTER WHERE FORWARD REVENUE IS CONCENTRATED IN THE BUILDOUT; THE BENEFICIARIES ARE WHATEVER THE AI TRADE LEFT CHEAP — VALUE, NON-US, AND THE BALANCE SHEET ITSELF.

If the asset map shows who falls, the sector ledger shows why. A sector's exposure is simply the share of its forward revenue or valuation that rests on the buildout continuing, so the deepest cuts land where a single customer set, the hyperscaler order book, carries the top line.¹ The entries worth reading first are the non-obvious ones: the surprise casualty and the surprise shelter.

CASUALTIES — RANKED BY BUILDOUT DEPENDENCE	BENEFICIARIES — WHAT DID NOT RE-RATE ON AI
AI-power & electrical -50/-65% false safe-haven: utilities, gas-turbine and grid names re-rated 2–4× on data-centre demand and long-dated PPAs that a freeze strands	Value & equal-weight equity + / flat the ~two-thirds of the market that carried none of the AI premium
Merchant AI silicon -45/-60% forward order book concentrated in a handful of hyperscaler buyers	Gold & long-vol +10/+20% the flight-to-safety and the de-concentration trade
Memory (HBM) & networking -40/-55% priced on the buildout continuing at the current slope	Cash & short Treasuries + the option value of dry powder when everything correlated falls
Neoclouds / DC-REITs -30/-50% levered to GPU resale value and take-or-pay leases	Defensives ex-AI rel. + staples, healthcare, real (non-DC) assets — genuine, not AI-proxy, defensives
Hyperscalers -15/-25% cash flows cushion; the capex write-down and lost growth premium do not	

THE TRAP IN THE LEDGER

Every "AI beneficiary" that was sold as a diversified way to own the theme is in fact a leveraged bet on the slope of the buildout rather than its level. That includes the picks-and-shovels utility, the cooling supplier, the copper miner and the "AI real estate" REIT. In a burst, none of them diversifies the AI position; each one concentrates it. The only genuine diversifier is something whose cash flows never touched the theme in the first place.

THE READ

Sort every holding by a single question: what share of its forward value assumes the buildout keeps running at the current pace? That number, and not the sector label, is the real loss estimate. A "utility" at 90% is a merchant-silicon proxy, while a "tech" name at 10% is a shelter. The ledger is a re-underwriting exercise, and most books have not yet done it.

§ 13 · Stakeholders

By geography & who holds the risk

IN ONE LINE · THE EXPOSURE IS MOST DANGEROUS WHERE IT IS LEAST CHOSEN AND LEAST LIQUID: IN PASSIVE INDEX FUNDS THAT NEVER DECIDED TO OWN AI, AND IN THE PRIVATE VENTURE, CREDIT AND LP BOOKS THAT CAN ONLY MARK THE BURST DOWN A QUARTER OR MORE AFTER THE PUBLIC TAPE HAS MOVED.

Concentration decides who holds the AI theme, and the ownership splits in two. Public holders carry it in liquid form and can sell in a day, while private holders carry it in venture, growth and credit funds that can only reprice it slowly, through down-rounds and write-downs. The geography is US-centred, with an East-Asian supply chain and a Gulf financing sleeve, but the ownership is what decides who actually bears the loss.⁵

BY GEOGRAPHY

GEOGRAPHY	EXPOSURE	RELATIVE HIT
United States	Epicentre: hyperscalers, merchant silicon, AI-power, the index concentration and the growth contribution.	High
East Asia	Taiwan's advanced-node silicon and Korea's HBM memory, plus Japan's equipment and its leveraged AI-investment sponsors.	High
Gulf sovereigns	Price-insensitive financiers of both the compute and the labs, holding large primary stakes marked to the last round.	Med
Relative shelters: China is walled off from the Western capex loop; India and Europe are exposed to AI demand more than to AI capex.		Low (rel.)

WHO HOLDS IT – PUBLIC VS PRIVATE

HOLDER	EXPOSURE & HOW IT TRANSMITS	SPEED
Passive / index funds	About a third of the index is the AI-cap complex, so a cap-weighted tracker is a concentrated AI bet held by savers who never chose it.	Same-day
VC & growth funds	AI took more than half of US venture dollars in 2025, and the labs raised huge equity rounds on top: OpenAI alone took in ~\$40bn, led by SoftBank and MGX. ⁶ Those stakes sit at last-round marks that only reprice in a down-round. ¹⁴	Lagged 1-3 qtrs
Private credit funds	The data-centre and GPU lending of \$07, a market Morgan Stanley sizes near \$800bn. ⁹	Mark-based
Sovereign & crossover	Gulf sovereign and crossover funds holding primary stakes marked to the last round.	Last-round
LPs (pensions, endowments)	Public index beta plus private AI and VC marks, hit twice as the denominator effect then forces rebalancing.	Slowest

THE READ

The dangerous exposure is the one nobody chose, and the slowest to escape. If the thing that cracks is a marquee lab, through a failed raise or a sharp down-round, the loss lands first on the venture, crossover and sovereign funds that own its equity, and then on their LPs, concentrated in whichever fund vintages leaned hardest into AI. Those private marks reprice a quarter or more after the public tape, and the denominator effect then drags the whole fund into selling good assets to rebalance. There is no policy put in private markets and no same-day exit, so the only defence is to run private marks against public comps now and slow commitment pacing.

PART IV

The *Dynamics*

What sets the magnitude. A burst spans a distribution of outcomes, and where it lands is a tug-of-war between the forces that amplify it (passive concentration, circular financing, procyclical collateral) and the forces that limit it: core cash flow, the buy-the-dip reflex, and a policy reaction that bends the path but lags it.

READING

Pages 19 — 21

BRANCHES

35 / 45 / 20

SEVERE TAIL

~5% / 24m

WHAT YOU'LL TAKE AWAY

01

The tug-of-war

Three amplifiers against three limiters; the balance decides whether the de-rate overshoots the fundamentals or is bought.

02

Mild · Moderate · Severe

Weighted 35 / 45 / 20 given activation, anchored to how past bubbles resolved and the cash buffer at the core.

03

The policy put lags

The Fed reacts to the credit-and-growth leg, not the equity leg, so the backstop arrives later than in a pure sell-off.

§ 14 · Reflexivity

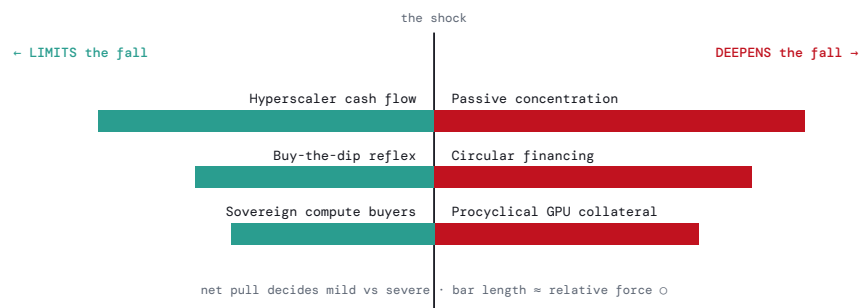
What amplifies, what limits

IN ONE LINE · THE MAGNITUDE IS A TUG-OF-WAR — THREE AMPLIFIERS (PASSIVE CONCENTRATION, CIRCULAR FINANCING, PROCYCLICAL GPU COLLATERAL) AGAINST THREE LIMITERS (CORE CASH FLOW, THE DIP REFLEX, PRICE-INSENSITIVE SOVEREIGN BUYERS).

Which force wins is what sets the magnitude, so the question left open in Part II, amplifier or limiter, deserves an explicit ledger. Each amplifier turns a fall into a bigger fall, and each limiter puts a floor under it. The severity of the burst comes down to which side pulls harder once the shock lands.¹⁴

FIG 14.1 · The tug-of-war that sets the magnitude

amplifiers vs limiters



Relative force is a Gravitywell judgement, not a measured quantity ○. The core's cash flow is the strongest single limiter; concentration the strongest amplifier.¹⁴

WHY THE AMPLIFIERS CAN WIN EARLY

Passive selling and the circular unwind are fast and mechanical, and they do not wait for a committee to decide anything. In the first weeks the amplifiers have the field to themselves, which is why the initial leg can overshoot before any limiter has a chance to engage.

WHY THE LIMITERS WIN EVENTUALLY

Cash flow and the dip reflex are real and large. Given enough time, the hyperscaler core can keep spending and buying back stock, and price-insensitive buyers can set a floor under compute. So the limiters decide where the fall stops, even if they do little to slow how fast it gets there.

THE READ

Timing is really the whole game. The amplifiers are fast and the limiters are slow, so the path is an overshoot that gets retraced later, rather than a smooth glide down to fair value. That shape is what makes the convex trade work, because the market travels further in the first three months than the eventual resting point would justify, and the hedge is paid on the overshoot rather than the destination.

§ 15 · The branches

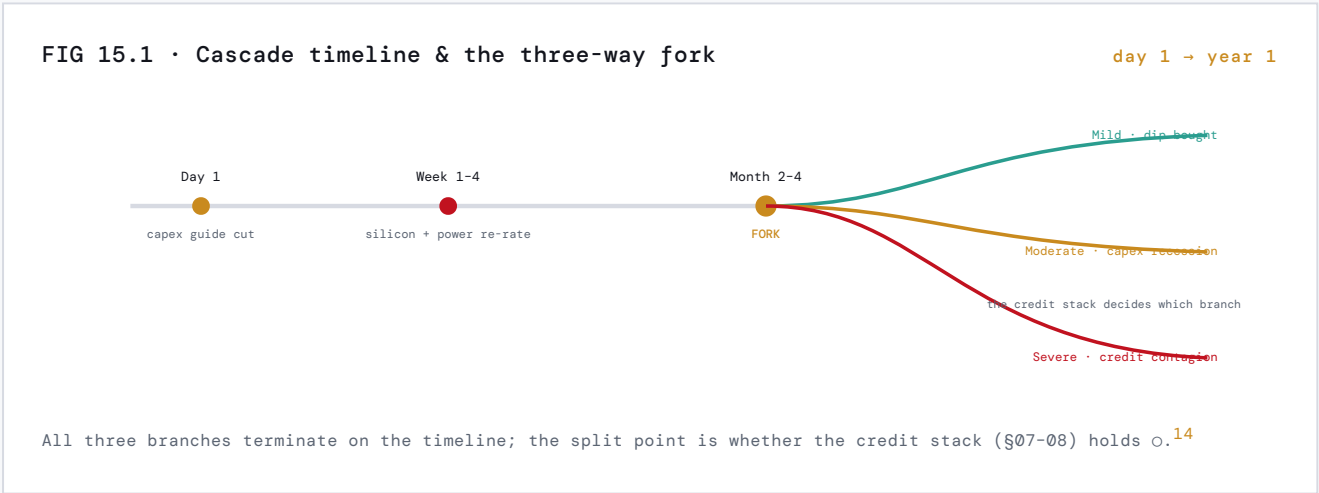
Mild · Moderate · Severe

IN ONE LINE · WEIGHTED 35 / 45 / 20 GIVEN ACTIVATION – DERIVED FROM HOW BUBBLES ACTUALLY RESOLVE, THE CASH BUFFER AT THE CORE AND THE STARTING VALUATION, NOT ASSERTED.

A single path would be a fantasy; a distribution is the analysis. So we branch the counterfactual into three, defined by how far the amplifiers get before the limiters engage, and weight them from the outside view. Most bubbles deflate somewhere between mild and moderate, and the internally-funded core here makes the systemic tail the minority case.¹⁴

BRANCH	WHAT HAS TO BE TRUE	FROTH PERIPHERY	COMPLEX, CAP-WTD	S&P 500	WEIGHT
Mild	Air-pocket: core cash flow holds, no credit event, the dip is bought within two quarters.	-40/-50%	-20/-28%	-12/-18%	35%
Moderate	Capex recession: the freeze ripples to semis, power and memory; a neocloud/GPU-lease credit event; growth stalls.	-50/-65%	-30/-40%	-20/-26%	45%
Severe	2000 plus a credit leg: the circular web and GPU-collateral stack crack; contagion to private credit and DC-exposed lenders; recession.	-65/-80%	-48/-58%	-30/-38%	20%

Froth periphery = merchant silicon, AI-power, memory and neoclouds. The cap-weighted complex is shallower because the cash-rich hyperscaler core (which re-rates only -15/-45% by branch) carries most of the basket's market value.



THE READ

Multiply the two axes together and the number that sizes the hedge appears. A roughly 25% chance of activation, times a roughly 20% severe branch, gives about a 5% unconditional probability over two years of a -48 to -58% de-rate across the cap-weighted complex, or -65 to -80% through the froth. That is a small number, and yet the tape prices it at essentially zero. The moderate branch is the base case within the scenario, but the convex trade is underwritten against the severe tail rather than the modal path.

§ 16 · Reaction

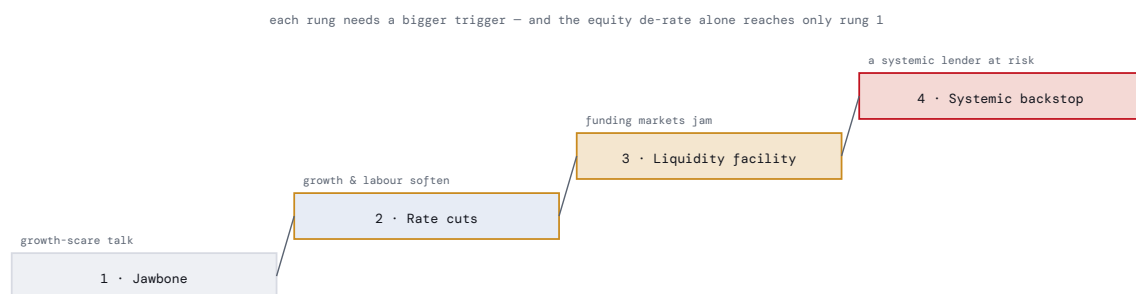
The Fed's ladder — and why it lags

IN ONE LINE · THE POLICY PUT BENDS THE PATH BUT ARRIVES LATE, BECAUSE THE FED REACTS TO THE CREDIT-AND-GROWTH LEG, NOT THE EQUITY LEG — A FALLING STOCK MARKET ALONE DOES NOT MOVE IT.

The branch you land in depends heavily on the policy reaction, and here that reaction lags. A central bank does not ease simply because AI stocks fall. It eases when the fall starts to threaten funding markets or growth, which are the second and third orders, and those arrive a quarter or two after the equity leg.¹⁰ That delay is why the mild branch needs the dip-buyers, and not the Fed, to do the early work.

FIG 16.1 · The reaction ladder — what triggers each rung

escalation by stress



Escalation is triggered by funding and growth stress, not by the equity fall alone. Rungs 3-4 require funding-market or systemic stress, which the mild branch never reaches.¹⁰

WHAT MAKES THE PUT LATER HERE

Unlike a liquidity crash, the buildout itself was disinflationary, and the labour market is not the trigger here. The Fed's reaction is keyed instead to funding stress and growth data, both of which lag the equity move, so the reflexive early leg runs without a backstop underneath it.

WHAT MAKES IT EVENTUALLY DECISIVE

Once rung 3 is reached, meaning a genuine funding jam in the credit stack, the response can be fast and large, because that is squarely within the mandate. A decisive facility is what caps the severe branch and pulls the path back toward moderate.

THE READ

The policy put is real but back-loaded, and that is precisely what preserves the convexity. The market has to travel through the unbackstopped early leg before help arrives, so the option pays on the gap between the overshoot and the eventual floor. To time the reaction, follow the credit signals rather than the equity tape, because the ladder moves when spreads move, well before the index does.

PART V

The *Playbook*

From analysis to action. The scenario converts into two things a reader can keep: a dashboard of leading indicators with trigger levels, so it becomes a live monitor rather than a one-off warning; and a convex position — cheap to hold now, large to own if the credit leg cracks.

READING

Pages 22 — 23

WATCH

the credit tape, not the index

TRADE

convexity, not fear

WHAT YOU'LL TAKE AWAY

01

The dashboard

Capex guidance, Nvidia DC growth, neocloud spreads and the ABS market — each with a checkable trigger and a current reading.

02

The convex trade

Long-dated protection on silicon, power and infra credit, funded by owning the non-AI market the burst leaves standing.

03

By stakeholder

A now / if-active split for the allocator, the risk officer and the policymaker.

§ 17 · Signposts

The dashboard to keep

IN ONE LINE · THE SCENARIO IS MONITORABLE – SIX LEADING INDICATORS, EACH WITH A CHECKABLE TRIGGER AND A CURRENT READING, SO THIS IS A LIVE MONITOR RATHER THAN A ONE-OFF WARNING.

The dashboard leads with the credit signals, because they are the ones that move the reaction ladder first. Each comes with a trigger level you could confirm from data and a current reading, and these second-order signals, the spreads, the guidance and the funding, all flip ahead of the equity move that everyone is already watching.¹⁰

Hyperscaler capex guidance the buildout's own signal · now +50–60% YoY for 2026	2 down-quarters
Nvidia data-centre revenue growth now ~+90% YoY (~\$75bn/qtr)	< +25% YoY
Neocloud debt spread marquee 9.25% notes traded to ~90.6¢	< 85¢ / +200bp
Hyperscaler / Oracle CDS Oracle already BBB–; 5yr CDS ~139bp	> 200bp
Enterprise-AI ROI evidence ~95% of pilots show no P&L return today	no inflection in 2 qtrs
PPA / lease cancellations watch for stranded power take-or-pay	> 2GW pulled
Private-AI down-rounds the private leg reprices here first, lagging the tape	a marquee lab down-round

WHAT CONFIRMS ACTIVATION

No single row is the trigger on its own. Activation is confirmed only when the three signals align: capex guidance down two quarters, a neocloud or GPU-lease credit event, and the froth $\geq 40\%$ below peak and holding there. It is the activation condition from page 03, restated as things you can actually watch tick over.

THE READ

The credit signals lead the equity signal by a quarter or more, which is what makes this a dashboard rather than a rear-view mirror. Neocloud spreads, CDS and capex guidance will move while the index is still near its high, so an allocator who watches the funding tape can buy protection before the volatility that would price it properly, and a risk officer gets a quarter's warning that the equity screen never gives.

§ 18 • Positioning

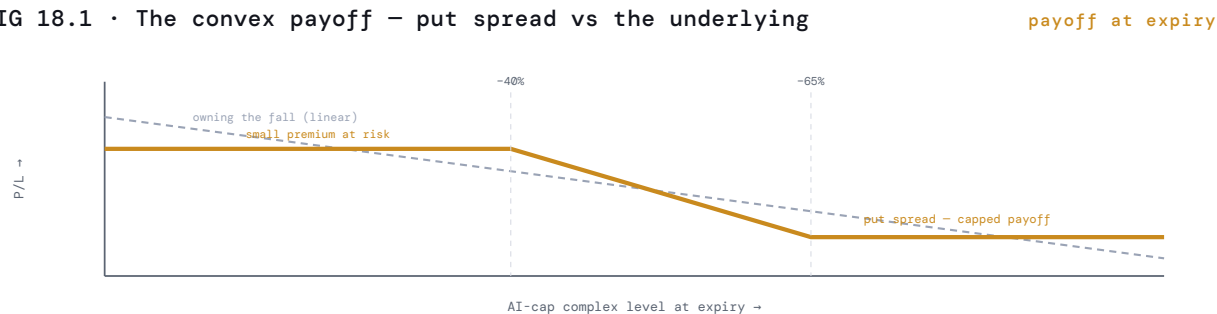
The hedges & the convex trade

IN ONE LINE • THE TRADE IS CONVEXITY ON THE SECOND-ORDER LEG – LONG-DATED PROTECTION ON SILICON, POWER AND INFRA CREDIT, FUNDED BY OWNING THE NON-AI MARKET – CHEAP WHILE THE DIP BID SUPPRESSES VOLATILITY.

If signposts tell you when, positioning tells you what to do. The trade follows directly from the analysis. Because the equity de-rate is already priced, protection is cheapest on the credit-and-growth leg the tape ignores, and it can be funded by staying long the two-thirds of the market that carried none of the AI premium.¹⁴

STAKEHOLDER	NOW (CHEAP INSURANCE)	IF IT ACTIVATES
Allocator	Measure hidden AI beta in passive books; buy 12–18m put spreads on silicon + AI-power while vol is suppressed; rotate toward equal-weight and ex-US; run private AI and VC marks against public comps and slow commitment pacing; hold a gold / long-vol sleeve.	Add to the credit-stack hedge; short AI-power as a false haven; keep dry powder for the retrace.
Corporate / risk	Stress-test AI-linked revenue, GPU-lease and PPA commitments; term-out funding while IG spreads are tight; avoid take-or-pay against unproven demand.	Pull discretionary AI capex; renegotiate leases; preserve liquidity ahead of the funding jam.
Policymaker	Map DC and private-credit exposure and the growth reliance on one sector; pre-position liquidity tools for the funding channel.	Sequence the response: liquidity to funding markets before a broad rate cut; ring-fence contagion in private credit.

FIG 18.1 • The convex payoff – put spread vs the underlying



Illustrative: a 12-18m put spread struck ~-40% / -65% risks a small premium and pays a multiple if the moderate-to-severe branch lands ○. Vol is suppressed by the dip bid, so the premium is cheap relative to the payoff.

THE READ

The idea is to own convexity rather than fear. A put spread beats simply owning the fall because its cost is bounded and known, while its payoff scales into exactly the moderate-to-severe branch that the tape treats as a non-event. At around a 25% activation probability, insurance that costs a small premium and pays a multiple on a -50 to -80% move is underpriced. What we are recommending is that structure and its price, and not a crash call.

Falsification

Why it happens — and why it might not

A scenario with no stated way to be wrong is really just propaganda, so it is worth naming the falsifiers plainly. We do it in two steps. First a pre-mortem that assumes the burst has already happened and explains it in hindsight, which tends to surface the real chain better than forward speculation does. Then the strongest case that it does not happen at all, given real airtime, followed by an honest reconciliation with our headline probability.

PRE-MORTEM • ASSUME IT HAPPENED

It started with a routine line in a Q2 call, when one hyperscaler held its capex flat and admitted that inference returns were lagging the spend. Nvidia then guided its data-centre line below the whisper number, and the AI-power utilities cracked first, because they had the least cash-flow support for their re-rating. Within weeks a neocloud missed a GPU-lease payment and a GPU-backed ABS was marked down, and the market began to re-read the whole circular web, the vendor that had funded the buyer and the lab whose commitments dwarfed its revenue, as a single exposure rather than many separate ones. Passive funds sold the complex into a market with no non-AI bid anywhere near its size, and the growth data soon confirmed what the tape already knew, that the capex which had been carrying the economy was gone.

THE DISCONFIRMING VIEW — THE STRONGEST CASE IT DOES NOT HAPPEN

Unlike 2000, the buildout's core is funded from real cash flow, not fresh issuance: the big four earn hundreds of billions in operating cash flow and can keep spending through a narrative break, so a de-rate need not force a capex freeze. Compute demand is real and growing, not a promise — inference and agentic workloads are scaling now. If enterprise ROI inflects even modestly, the "revenue gap" closes over time exactly as dark fiber was eventually lit, and the multiple compresses without a solvency event anywhere in the chain. In that world this is a drawdown, not a burst.

WHY WE STILL WEIGHT IT ~20-30%

The steelman is powerful, but it caps the severity rather than the odds of activation. Every disconfirming reason, whether internal funding, real demand or the eventual absorption of the build, limits how far the burst goes and how much credit contagion it carries. None of it stops a de-rate from starting, because the trigger is ROI disappointment and a concentration unwind, and those can fire regardless of who funds the core. So the steelman shifts weight from the severe branch toward the mild and moderate ones, but it does not push the probability of a $\geq 40\%$ de-rate below our band. Two things would move that number: a clear, sustained inflection in enterprise-AI revenue, or capex that keeps rising with margins intact. Until one of those appears, the band holds.

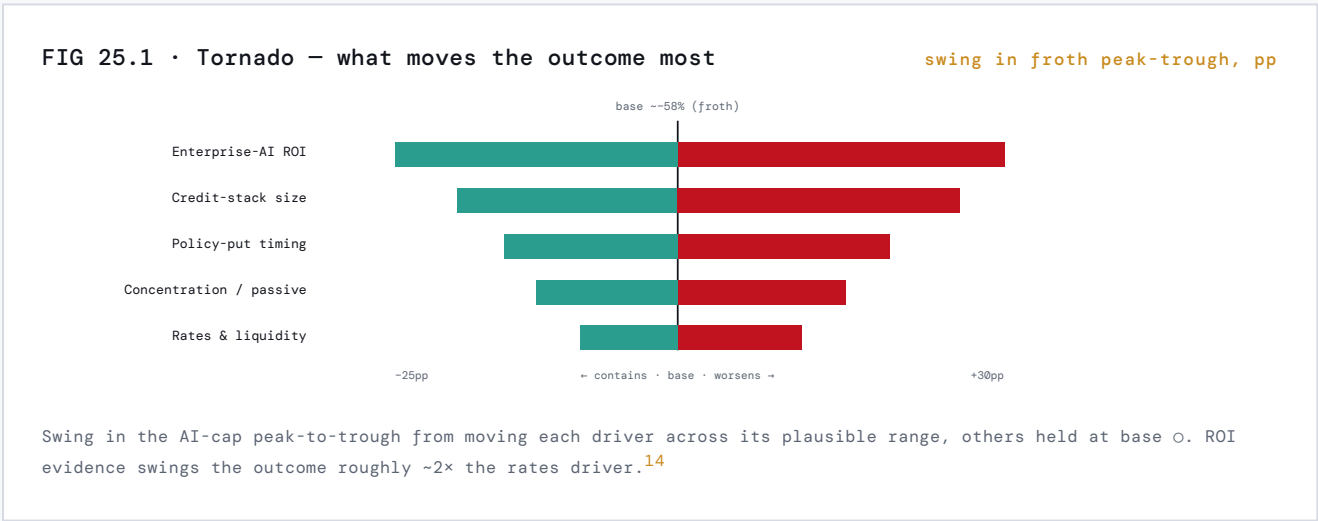
Probability

The assumption ledger & sensitivity

IN ONE LINE · THE SCENARIO RESTS ON A HANDFUL OF LOAD-BEARING ASSUMPTIONS, AND ONE, WHETHER ENTERPRISE-AI ROI INFLECTS, MOVES THE OUTCOME FAR MORE THAN THE REST.

A scenario is only as strong as its weakest unstated premise, so it is worth stating them and marking which ones are load-bearing. The whole chain rests on a small set of assumptions, and if any of the load-bearing ones breaks, the cascade breaks along with it.¹⁴

ASSUMPTION	LOAD-BEARING?	IF IT BREAKS
Enterprise-AI ROI stays thin through the horizon	Yes	A clear inflection removes the trigger — bubble grows into itself.
The neocloud / GPU-lease credit stack is large & interconnected enough to transmit	Yes	If contained, no second-order credit leg — a pure equity de-rate.
AI capex remains a large share of US growth & index EPS	Yes	Broadening growth severs the third-order macro leg.
Passive concentration amplifies via index mechanics	Partly	Active de-risking ahead of the move dampens the overshoot.
No decisive policy backstop in the first months	Partly	An early, large facility caps the severe branch.
The hyperscaler core keeps funding capex from cash flow	Buffer	If the core also retrenches, severity rises toward the tail.



THE READ

One driver dominates all the others, and that is whether enterprise-AI returns inflect. It is both the likeliest falsifier and the widest swing in the outcome, which is why the signpost dashboard leads with ROI evidence and capex guidance, since those are the cheapest early reads on the assumption that carries the whole scenario. Everything else merely adjusts the severity. ROI decides whether there is a scenario at all.

Bottom line

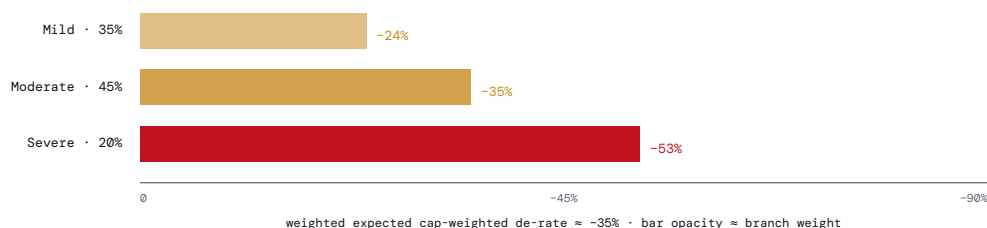
The probability-weighted read

IN ONE LINE · A ~25%/24M CHANCE THE FROTH FALLS $\geq 40\%$ AND HOLDS, DRAGGING THE CAP-WEIGHTED COMPLEX -30 TO -40% AND THE S&P -20 TO -26% , WITH A ~5% SEVERE TAIL THE TAPE PRICES NEAR ZERO. A CONVEX HEDGE, NOT A CALL.

Put the two axes back together one last time, without letting them collapse into one. The magnitude is large and the probability is moderate, and the value sits in the gap between what the analysis implies and what the market actually prices, which is a disorderly burst treated as though it were essentially a zero-probability event.¹⁴

FIG 26.1 · Probability-weighted expected de-rate

AI-cap complex, conditional on activation



Cap-weighted AI-cap complex, conditional on activation: weighted expected de-rate $\sim -35\%$; the frothy periphery runs deeper (-40 to -80%). Unconditional severe tail ($P \times \text{severe}$) $\approx 5\% / 24m$.¹⁴

THE ASYMMETRY

A 25% probability of a -30 to -40% cap-weighted de-rate, or more than -50% through the froth, priced by suppressed volatility as though it were near zero, is the very definition of a convex opportunity. The cost of the hedge is small and bounded, while its payoff scales into the moderate-to-severe branch. You do not have to believe the burst is likely in order to want the insurance.

THE ONE TRADE

The one trade is to own convexity on the second-order leg, through long-dated protection on silicon, power and the AI-infra credit stack, funded by staying long the non-AI market. Activation will show first in the credit tape, a step ahead of the equity screen. This is not a crash call. It is a cheap, dated and priced hedge against the tail the tape ignores.

The AI build may well be the most important capital cycle of the decade. That is entirely consistent with a -50% detour along the way, because the railways and the fiber were real too, and both ruined the people who financed them ahead of demand.

GRAVITYWELL RESEARCH · SCENARIO DESK

Methodology

How this was built

This is a conditional scenario analysis rather than a forecast. The method follows the Gravitywell rational-scenario framework, which means we define the shock as an activation condition, anchor a base rate, keep magnitude and probability separate, trace the transmission order by order, map the impact, branch the counterfactual, and end in positioning.

SCOPE & COVERAGE

- 01 **In scope:** the transmission of a sustained $\geq 40\%$ de-rate of the AI-capitalisation complex through equity, the AI-infrastructure credit stack, and US growth and earnings, and the cross-asset, sector, geographic and stakeholder impact — under a defined activation condition.
- 02 **Out of scope:** a point forecast of the level or timing of any burst; a view on the long-run value of AI itself; full general-equilibrium second-round effects; and non-US markets beyond the contagion map.
- 03 **Where data is thin:** private-company figures (OpenAI economics, neocloud debt, the circular-web sizes) rest partly on leaked documents and press, marked ●/○; branch magnitudes, the tornado and the weighted de-rate are scenario estimates, marked ○.

HOW THE KEY NUMBERS WERE DERIVED

- 01 **Probability band (20–30%/24m):** the ~ 1 -per-decade base rate for a named-complex $\geq 40\%$ burst ($\sim 10\%/24m$) adjusted up for the live preconditions (thin ROI, record concentration, circular financing) and capped below a coin-flip by the internal-cash-flow buffer at the core.
- 02 **Branch magnitudes & weights (35/45/20):** anchored to how analogous bubbles resolved (mild-to-moderate the majority, systemic tail the minority), the cash buffer at the core, and starting valuation; AI-cap and S&P de-rates are Gravitywell scenario estimates.
- 03 **Tiers:** ● filed/official · ● modeled/derived · ○ Gravitywell estimate, on every exhibit. Point-in-time: figures are marked to the dates shown and may be revised.

STANDARDS

Built to the desk's institutional bar: base-rate anchoring against a stated reference class, uncertainty shipped as bands, coverage and confidence disclosed, magnitude and probability held on separate axes, and every effect carrying a mechanism and a source. Confidence is set by coverage depth and source tier, not optimism. **House view · Medium conviction · Cautious on the tail.**

Sources

Register

Every in-text ⁿ resolves here. Primary sources (filings, official statistics, central-bank and academic studies) weighted over secondary; private-company internals flagged. Figures marked to the dates shown; tiers: ● filed · ● modeled · ○ estimate.

- 01 Microsoft, Alphabet, Amazon, Meta Q1-CY2026 earnings (29 Apr 2026) & 10-Ks; Oracle Q2 FY26 (10 Dec 2025). CY2026E capex: MSFT ~\$190bn · Alphabet \$180–190bn · Amazon ~\$200bn · Meta \$125–145bn; combined ~\$695–725bn (vs ~\$410bn 2025). Server/GPU useful-life extensions (MSFT/Google 6yr, Meta 5.5yr, Oracle 6yr; Amazon cut to 5yr). ●
- 02 Nvidia 8-K / earnings (Q1 FY27, 20 May 2026). First close >\$5tn 29 Oct 2025 (peak ~\$5.12tn); latest ~\$4.7tn; data-centre revenue ~\$75bn/qtr (+92% YoY); ~8% of S&P 500, highest single-stock weight since 1981. Strategic AI investments >\$40bn in 2026 (CNBC tally). ●
- 03 MIT NANDA, *The GenAI Divide: State of AI in Business 2025* (Aug 2025). ~95% of enterprise GenAI pilots show no measurable P&L impact; 52 interviews / 153 surveys / 300+ deployments; \$30–40bn spend. Measures pilots with no P&L impact, not a technical failure rate. ●
- 04 J. Furman (Harvard), on BEA NIPA data (~Sep 2025). Information-processing equipment & software ~4% of GDP but ~92% of H1-2025 GDP growth; ex those, ~0.1% annualised; author caveats ~half potentially recoverable via lower rates/power. Morgan Stanley: DC capex ~+100bp to US real GDP growth. ●
- 05 Forbes; S&P Dow Jones Indices; FactSet; JPMorgan AM (2025–26). Mag-7 ~34–35% of S&P 500 cap (from ~12% in 2017); Mag-7 ~46% of 2025 total return, Nvidia ~15.5% of the ~17.9% gain (~2.8pp); Mag-7 ~33% of 2025 earnings growth (Goldman). ● / ●
- 06 S. Altman (6 Nov 2025, via TechCrunch/CNBC); The Information; Fortune. OpenAI revenue run-rate >\$20bn exiting 2025 (~\$25bn Mar 2026), FY2025 ~\$13bn (leaked); ~\$1.4tn compute commitments over ~8yr; ~\$600bn total compute spend to 2030 (investor target); cumulative burn est. ~\$665bn to 2030. Stargate \$500bn / 10GW (Jan 2025). OpenAI equity: ~\$40bn raised in 2025 (SoftBank/MGX-led) at a ~\$300–500bn mark; Anthropic and xAI raised tens of billions more from sovereigns, crossover funds and chip vendors. ● / ○
- 07 Sequoia Capital, D. Cahn, "AI's \$600bn Question" (Jun 2024); Bain & Company 6th Global Technology Report (23 Sep 2025): ~\$2tn new annual AI revenue needed by 2030, ~\$800bn short, ~\$500bn/yr capex and ~200GW. ●
- 08 Bloomberg "AI Circular Deals" (2026); company releases & SEC filings. Nvidia–OpenAI up to \$100bn LOI (22 Sep 2025, unsigned → ~\$30bn equity Feb 2026); OpenAI–Oracle ~\$300bn/5yr; OpenAI–Microsoft \$250bn + ~27% stake; OpenAI–AMD 6GW + ~10% warrant; OpenAI–Broadcom 10GW (FT est. \$350–500bn); CoreWeave–Nvidia \$6.3bn backstop + ~11% stake; CoreWeave–OpenAI up to ~\$22.4bn. Interlocked web est. >\$800bn. ●
- 09 CoreWeave IR / SEC (FY2025; DDTL 4.0 \$8.5bn, first IG-rated GPU-backed facility, Moody's A3; blended debt cost ~11%; total debt >\$21bn; 9.25% 2030 notes to ~90.6¢). Forbes / JPMorgan: GPU/DC securitisation ~\$27bn (2025), \$30–40bn/yr 2026–27E. BIS Bulletin 120 & Morgan Stanley on private credit (AI direct lending 0 → ~4%; >\$40bn originated 2025; ~\$800bn opportunity). GPU resale ~45% of new by year 3. ● / ●
- 10 Bloomberg; Mellon. Meta \$30bn bond (Oct 2025, largest US IG deal of 2025) + "Hyperion" SPV ~\$27.3bn (Blue Owl 80%, off-balance-sheet; EY "critical audit matter"); Oracle \$18bn+; Amazon \$15bn+\$25bn; Alphabet ~\$25bn+; ~\$121bn across five majors 2025 (>4× the 2020–24 avg), \$159bn in first five months of 2026; Morgan Stanley ~\$570bn AI-debt 2026E. S&P cut Oracle to BBB– (9 Jul 2026); 5yr CDS ~139bp. BIS Quarterly Review (Mar 2026) "shadow borrowing"; IMF GFSR (Oct 2025 / Apr 2026); Fed FSR (May 2026, AI = 3rd-ranked stability threat). ● / ●
- 11 P. Starr, "The Great Telecom Implosion" (2002); NPR (2015); episode studies. Nasdaq –77 to –78% (peak 5,048.62, 10 Mar 2000 → ~1,114, Oct 2002), ~15yr recovery; S&P –49%; telecom ~\$2tn cap and ~\$1tn debt destroyed, ~85–95% of laid fibre "dark"; Lucent ~\$6–8bn / Nortel \$3.1bn vendor financing; WorldCom >\$11bn fraud; Global Crossing bankruptcy (Jan 2002). ● / ●
- 12 IMF GFSR (Oct 2025 — Gourinchas, "echoes ... of the dot-com boom"; Georgieva); Bank of England FPC record (Oct 2025, "sharp market correction"; five largest tech ~30% of S&P) & FSR (Dec 2025); BIS Bulletin 120 (overinvestment; >\$1tn AI capex 2025–26). J. Dimon (~30% correction, 6–24m); D. Solomon (10–20% drawdown, 12–24m); T. Pick (10–15%); Altman, Bezos ("industrial bubble"), Pichai ("some irrationality"). ●
- 13 BofA Global Fund Manager Survey (2025). "AI in a bubble": 40% (Sep) → 54% (Oct) → ~53% (Dec); "AI bubble" top tail risk ~45% (Nov); first majority since 2005 calling companies "overinvesting"; "Long Magnificent 7" the most-crowded trade (~54%). ●
- 14 Base-rate & bubble-history literature; PitchBook (private-markets shares); Gravitywell Research scenario model. Reference-class frequency of ≥40% named-complex busts (~1 per decade); AI ~ half of US venture dollars in 2025 ●, with private marks lagging public comps ~1–3 quarters; the probability band, branch weights & magnitudes, tornado and weighted de-rate are Gravitywell scenario estimates. ○
- 15 IEA, *Energy and AI* (DC electricity 415 TWh 2024 → ~945 TWh 2030); EPRI (US DC 9–17% of US electricity by 2030); PPAs — Talen–Amazon 1,920MW ~\$18bn, Constellation–Microsoft (Three Mile Island) 835MW \$1.6bn; LBNL interconnection queue ~2,060GW (~13% historically reach operation); 2024 utility re-rating (Vistra +257%, Talen +184%, Constellation +122%, GE Vernova +92%). ● / ●
- 16 M. Burry (Nov 2025, via CNBC; Scion Q3-2025 13F). Argues hyperscaler useful-life extensions understate depreciation ~\$176bn 2026–28 (his model, contested and single-originator); useful-life schedules per 10-K disclosures. ○

Reference

Glossary & list of exhibits

GLOSSARY

Activation condition

The precise, observable trigger that defines the scenario; everything downstream is "given this."

AI-cap complex

The AI-capitalisation-weighted equity basket: merchant silicon, hyperscalers, AI-power, memory, networking and the neocloud/AI-software beneficiaries.

Hyperscaler

A large cloud operator funding the buildout from its own cash flow (Microsoft, Alphabet, Amazon, Meta).

Neocloud

A specialist GPU-cloud provider (e.g. CoreWeave) that rents compute, typically debt-financed against its chips.

Circular financing

When a vendor funds the customer that buys its product, so revenue is partly the vendor's own capital returning.

GPU-lease / GPU-backed debt

Borrowing secured on the GPUs themselves — collateral whose resale value falls in a glut.

Reflexivity

A feedback loop where price moves change fundamentals that then drive further price moves (here, passive flows and collateral values).

Convexity

A payoff that gains far more than it loses — a small, bounded cost for a large, scaling gain if the tail lands.

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DATA PACK

The exhibit series behind these figures ships as `ai-bubble-bust-data.csv` — one row per datapoint, with tier and source ids, so a reader can rebuild the scenario inputs.

Governance

Disclosures

SCENARIO, NOT FORECAST

This is a conditional scenario analysis of a defined trigger, not a forecast, prediction, or investment advice. Magnitude and probability are stated separately throughout. A high magnitude is not evidence of high likelihood, and nothing here is a view that the AI build lacks long-run value.

CERTIFICATION (REG AC STYLE)

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HOUSE RATING & GOVERNANCE

House view • **Medium conviction** • **Cautious on the tail**. Conviction reflects coverage depth and source tier; stance reflects the direction of the house view on the opportunity — here, the asymmetry of the hedge, not a crash call. **Prior calls:** first edition — no prior Gravitywell call on this topic to score. **Errata:** material errors are corrected in a dated erratum and noted in the next edition; the permalink serves the current version. **Permalink:** gravitywell.research/whatif/ai-bubble-bust. **Version:** GWW-2026-001 · v1.0 · as of 21 Jul 2026.

DESK

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What if the AI bubble bursts? A ~25%/24-month chance of a –40%-plus de-rate the tape prices near zero — real on capex, concentration and circular financing, but funded at its core from cash flow, so the mispriced legs are the credit event and the growth shock, not the fall. A convex hedge, not a call.