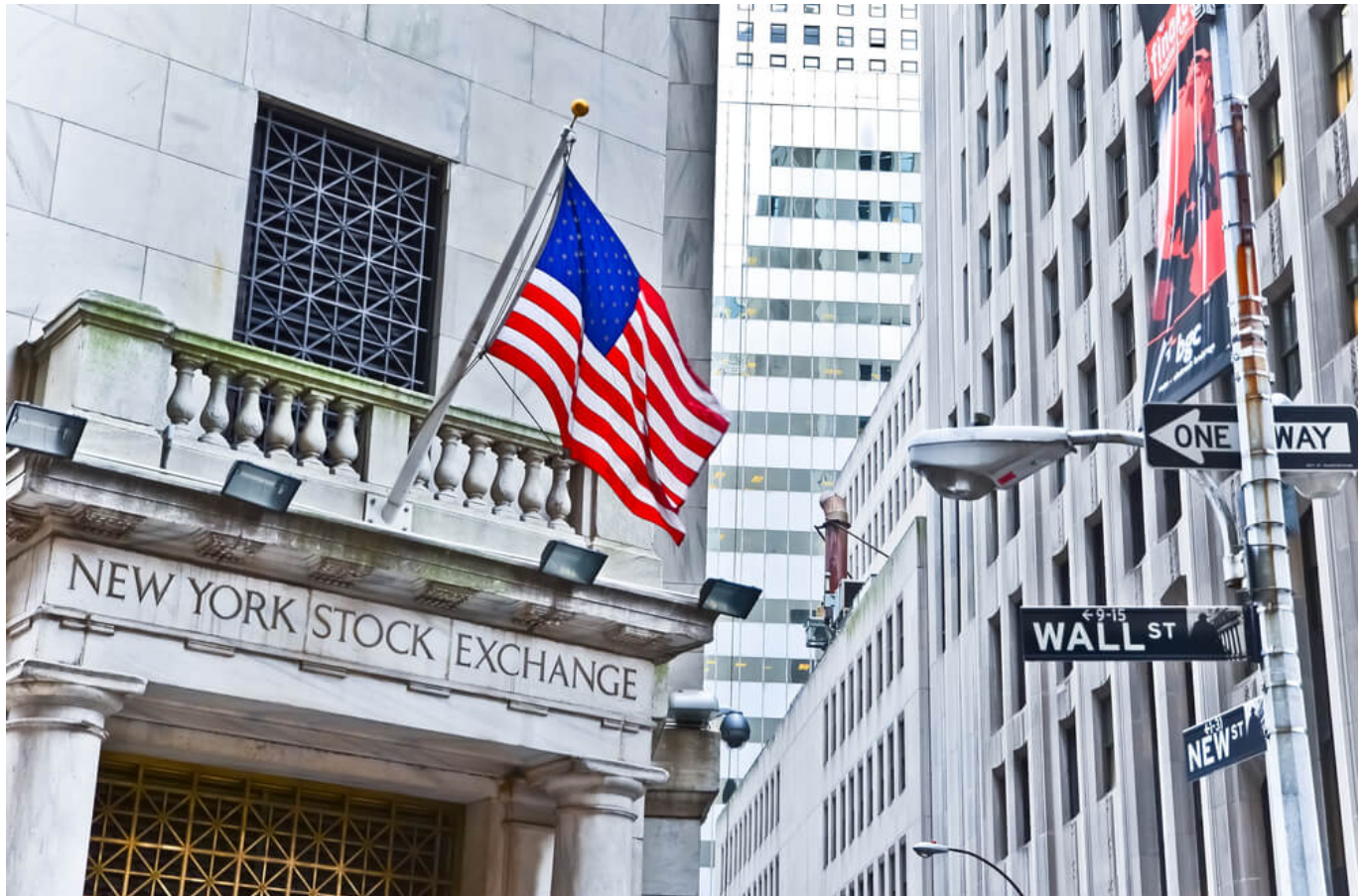




By: Sharmila Devi

Ominous rumblings emerge about whether financial crash is looming



Donald Trump was too busy dialling back potential wounds created by his trade war with China to draw attention to some highly symbolic data that emerged this week: **US debt** levels are on course to exceed those of Italy and Greece for the first time this century by the end of the decade.

The fragility of US public finances was underscored by predictions made by the International Monetary Fund, which said the US will see its debt climb from 125% to 143% of annual income by 2030.

By contrast, Rome and Athens have made strenuous efforts to control spending after the 2008 financial crash and the COVID-19 pandemic.

The IMF forecast came amid other ominous rumblings from central bankers and financial analysts about the US economy amid speculation about if or when a series of small financial crises may turn into a bigger shock.

Driving in the fog

US stock markets fell sharply after the US Federal Reserve warned further reductions in interest rates were not a “foregone conclusion.”

Referring to a lack of timely economic data caused by the US federal shutdown that entered its fifth week on Wednesday as political deadlock over spending plans continued, Jay Powell, chair of the **Federal Reserve**, said: “What do you do when you’re driving in the fog? You slow down.”

But stocks quickly recovered as they digested Wednesday’s quarter point cut in benchmark rates to a range of 3.75%-4%. Indeed, financial markets remain on a roll, with the S&P index rising in September more than in any previous September in the last 15 years.

US markets are at risk of a “sudden, sharp correction,” the IMF said in mid-October

Shares in the biggest investors in AI, known as the **Magnificent Seven** – Nvidia, Amazon, Apple, Microsoft, Tesla, Alphabet and Meta – have risen by almost 37% over the last year, compared with the 15% rise seen in the rest of the S&P index.

US markets are at risk of a “sudden, sharp correction,” the IMF said in mid-October. But investor exuberance so far has been undimmed, despite concern over whether bets in AI will pay off as well as over the US government shutdown, Washington’s tariff war, the sustainability of crypto, the health of the private credit sector, and, of course, Trump’s leadership.

“Step into the casino that now passes for the American economy,” said the New York Times this week.

The US is set to lose billions as tariff wars drag on

The US is set to lose between \$7 billion and \$14 billion depending on the duration of the **government shutdown**, said the Congressional Budget Office on Wednesday. The shutdown will also reduce the US’s GDP by one to two percentage points in the fourth quarter of 2025.

The US may have averted worst-case scenarios from its tariff war after Trump said he agreed with China’s Xi Jinping to postpone export controls on rare earths and chips as part of a broad, one-year trade deal reached at a summit in South Korea on Thursday.

Details about the deal were still emerging, but China-watchers said Beijing had gained the upper hand and Trump still deserved the moniker TACO – Trump Always Chickens Out.

China faced US tariff threats not by backing down but with larger threats while it still retains a firm grip on rare earths, which are needed by the rest of the world for manufacturing a range of tech goods.

“If my father cared about monetising his life, the last thing he would have done is run for president, where all we’ve done is un-monetise our life” – Eric Trump

US trade is still more hobbled by a range of tariffs imposed since Trump took office, even if markets believe they are not as bad as originally feared and their full effect may take time to be felt.

Furthermore, the US dollar is trading poorly against major currencies. The answer to “save the US dollar” is crypto, according to **Eric Trump**, son of the president, who has vowed to make America the “crypto capital” of the world.

Eric batted away worries over the big financial benefits accruing to the Trump family from its crypto interests, telling the Financial Times: “If my father cared about monetising his life, the last thing he would have done is run for president, where all we’ve done is un-monetise our life.”

Even the president’s most ardent supporters might find this hard to square with their admiration for his purported business acumen. Meanwhile, the rise in crypto is likened to that in AI amid speculation over when their respective bubbles might burst.

No one knows when the crash may come

The collapse of two US companies last month prompted warnings over whether there are wider problems in the financial system akin to those in the 2008 crisis.



When you see one cockroach, there are probably more – Jamie Dimon

The bankruptcies of car parts supplier First Brands and subprime car lender Tricolor raised concern about private equity and credit firms, Andrew Bailey, governor of the **Bank of England**, told a House of Lords committee on 21 October.

“I think the big question... is: are these cases idiosyncratic or are they what I call the canary in the coal mine?” he said. “Are they telling us something more fundamental about the private finance and private assets sector? I think that’s still a very open question in the US. I think it’s a question we have to take very seriously.”

Jamie Dimon, chief executive of JPMorgan Chase and who is seen as a possible future player in US politics, succinctly summed up his view: “When you see one cockroach, there are probably more.”

He also ventured into commenting about political risk earlier this month with his views about Trump, telling the BBC that he was willing to take the president “at his word” that he would not interfere in the independence of the Federal Reserve but acknowledged the US had become a “little less reliable.”

What is clear is that no one knows if or when a crash may come, but many more people are getting worried.