



The Tatton Weekly

Market Jitters

23 October 2026

This week's topics:

The sentiment gap

Who's using AI?

China's Japanification is a monetary problem

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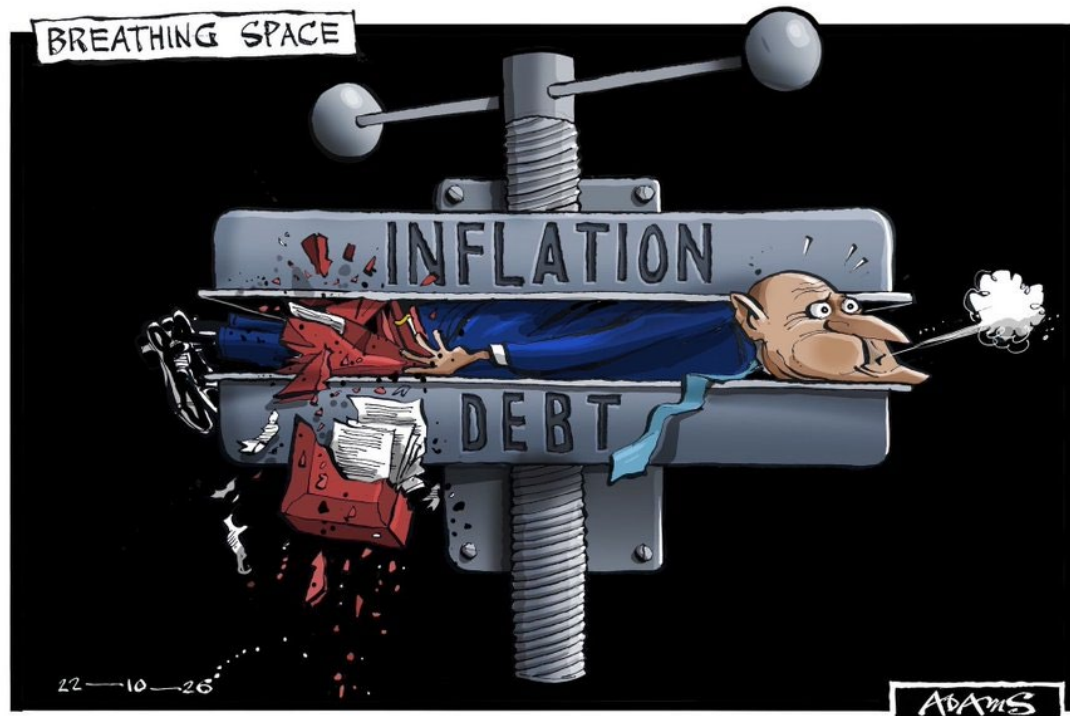
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Source: Christian Adams on X, 22 October 2026

The sentiment gap

Global stocks were recovering well from last week's sell-off – then took another plunge on Thursday. AI-related firms again dominated the narrative. Despite strong quarterly earnings results, Meta's expected AI investment plans renewed fears about unsustainable, debt-fuelled AI growth. Investors are increasingly nervous that the profit growth that has fuelled markets for years cannot go on forever. Why these doubts are creeping in right now is not clear; underneath the noise, the fundamentals for stocks are still improving.

Pessimism or healthy scepticism?

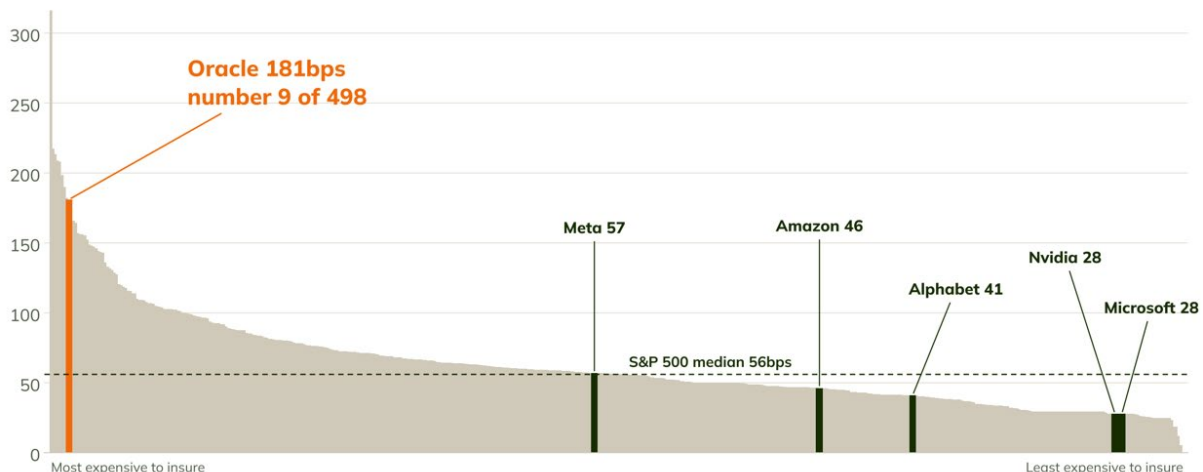
It feels like the media narrative about an AI bubble supposedly waiting to burst has reached fever pitch. We think that is less about this week's events, and more about commentators catching up with stories markets have been mulling over for a while. There were several warning stories about higher prices and increased demand for tech firms' credit default swaps (CDS – the cost of insuring a corporate bond against default). Datacentre construction firm CoreWeave, whose unsecured bonds are officially distressed (defined as 10 percentage points above US government bond yields), is at the centre of the concerns.

CDS spikes are scary because they evoke memories of the opaque financial engineering that collapsed during the 2008 global financial crisis. But, even if tech companies' debt problems get significantly worse, we are a long way from 2008. Banks' debt back then was interconnected and opaque in a way we do not see today. Barclays' Ajay Rajadhyaksha pointed out on Monday that,

even for the much-discussed CoreWeave, only some of its bonds are distressed. These unsecured bonds form just a small part of the company's overall funding pile.

Only eight S&P 500 companies cost more to insure than Oracle

5-year CDS spread for 498 S&P 500 companies, ranked from most to least expensive to insure (bps)



Source: Bloomberg model-implied 5-year CDS spreads (RSK_BB_IMPLIED_CDS_SPREAD) for current S&P 500 members, Tatton Investment Management. Data to 23 October 2026.

Even if CoreWeave did go bust entirely, that would not by itself endanger the AI investment boom. It is true that many big tech firms hold debt or equity in other tech firms (Nvidia and OpenAI both have stakes in CoreWeave) but it is still a small piece of the puzzle. CDS prices and credit spreads (the difference between corporate bond yields and US government yields) have increased for tech companies more broadly, but to nothing like the level of highly indebted CoreWeave. The big Silicon Valley names still have significantly lower credit spreads than the average S&P 500 company.

That brings us to our usual rebuke of the AI bubble narrative: it is certainly not a bubble in the classic sense of exuberant price-to-earnings valuations. Earnings growth has even outpaced share prices this year, so valuations have *fallen*. Previously, we tempered that good news by pointing out that higher real (inflation-adjusted) government bond yields and corporate credit spreads made valuations less attractive than you would otherwise think. But now, yields have fallen and, in the past week, credit spreads have been fairly stable – all while share prices are falling. In other words, even on a relative basis, stocks really have become cheaper.

Yields fall but fiscal fears remain

Most government bond yields fell even lower into the end of the week – led by the US 10-year yield sneaking just below 5% for the first time in weeks. The one major exception to this yield relief is France: French bond yields have now broken above 5%. This looks like fiscal anxiety from bond investors. France's government budget has now been delayed until November amid political

opposition and national unrest. With little sign of a financial or political way out, ratings agency Moody's is reportedly considering downgrading France's credit rating.

Yields on UK government bonds (gilts) did fall slightly, but not quite as much as the US. Stubbornly high gilt yields are a major headache for Chancellor John Healey ahead of a difficult autumn budget, causing a steady climb in UK debt repayments. Britain's economic data was also mixed – last week's surprising growth numbers tempered by this week's higher-than-anticipated inflation – which effectively confirmed an interest rate rise from the Bank of England.

Healey has very little room to manoeuvre: Labour MPs are against spending cuts, while the party's 2024 manifesto promised no tax rises (which is partly why there is speculation about an early election). All the while, higher interest repayments eat into the fiscal headroom. There is speculation about targeted taxes on banks, but there is also a growing feeling that the budget might be a non-event in the end. All things considered, it would seem that the speculative cohorts in UK markets are holding still on UK assets until after the budget.

Risks dent investor sentiment

Lower yields and ever-stronger corporate earnings (third quarter US earnings are on track to beat even Q2's strong growth) are supportive for share prices. And yet, this week's sell-off, together with the media's AI doom stories, shows investors are not feeling supported. Why the sentiment gap?

There is certainly no shortage of scare stories. The highly publicised PHP cybersecurity vulnerability – which resulted in websites being temporarily taken down across the world – probably unnerved many corporate managers. Advanced AI tools have intensified the race between would-be hackers and cybersecurity protocols, meaning that costly security upgrades will probably become more common (on the flipside, that could be a gain for cybersecurity companies).

Oil prices keep rising too. Brent crude's rise above \$110 per barrel – close to its post US-Iran war peak – has gone strangely unremarked upon, but that does not make high energy prices any easier to stomach. The spike itself is a little strange, considering the Wall Street Journal report that more oil is flowing out of the Middle East now than before the war began. Oil markets seem to be tightening up on the rumour that the US will launch another large attack on Iran just after the midterm elections. We should probably treat these rumours with caution, but there is no denying that Washington and Tehran look as far from resolution as ever.

Perhaps the scare stories are heightening the sense that double-digit earnings growth cannot be sustained forever. So, while there might not be an AI bubble in valuation terms, some think there is a bubble in AI earnings growth itself. The timing is odd, considering the latest earnings reports continue to prove that growth – but that is sometimes just the way sentiment goes. As long as actual earnings growth keeps up the pace, and especially if bond yields keep falling, we should expect to see sentiment rebounding eventually.

Who's using AI?

AI-related stocks took a dive this month. That was primarily about perceived weakness in demand growth for AI computing power, and what that might mean for future AI profits. As we highlighted last week, it is hard to get an accurate picture of AI firms' prospects because of the complicated metrics used to measure AI demand. It can be equally hard to get a grip on how people and businesses are using the AI tools already on offer. So, as a first step, we should delve into who is actually using AI and what added value may result from it.

Business uses and S-curves

Generative AI is now a common feature in many people's lives. Most are familiar with the chatbots that make up the most basic level of generative AI capabilities, or the slightly more complex AI assistants that have access to your documents and tools to complete tasks. But for many companies, the exciting AI capabilities are the top rungs of the ladder: agentic workflows that carry out multi-step processes, or fully embedded automation that runs by itself inside businesses. According to GenAI Adoption Tracker, 60.8% of US working-age adults reported using AI tools for any purpose in August. That figure has climbed steadily from 44.6% in August 2024.

However, the most recent report is actually down slightly from May's 61.8%. The drop is even larger for those who say they use it for work – 40.5% in August, down from 45.2% in May. This might just be a blip in the data, but it is interesting how closely the adoption figures follow the so-called S-curve: a quick increase in new technology usage, followed by a plateau or even slight decline.

Business usage is perhaps more important for AI companies over the long term, as that is where future productivity gains – and therefore profits and willingness to pay – are supposed to arise. On that, 19.8% of US businesses said they used AI in some form in May 2026, while 20% of EU companies with 10 employees or more reported using AI in late 2025 (figures from US Census Bureau and Eurostat, respectively).

The US business adoption is significantly higher than the 3.7% reported in late 2023, but that is partly down to a change in how the Census Bureau asked their questions about adoption. AI adoption analyst Jan Suski estimates that this new wording added about eight percentage points to the adoption figure.

The survey figures are crude, in that they do not account for how intensely businesses or individuals are using AI tools. But they paint a fairly consistent picture: people are using AI more than they did, but adoption has not been as rapid as some of the most fervent AI optimists predicted.

Tokens and types

How do the survey figures match up with the narrative about slower demand for AI 'compute'? The story that knocked AI stocks last week was a drop in the LLM Token Expenditure Index, compiled

by Silicon Data. The index tracks the cost of AI ‘tokens’ – roughly, a unit of computing power that AI model providers use to price their offerings. At the time, industry insiders were quick to point out that the fall in this index does not mean people are using AI less, but rather that they are getting cheaper.

The complication comes from how different AI models do their work. The most basic free chatbots use minimal computing power, while more advanced subscription models like Claude’s Fable use a substantial number of tokens.

Token prices have fallen recently, for a variety of reasons (competition between providers, and possibly efficiency gains). But the amount businesses are paying for AI, in aggregate, is rising. That is because the more complicated agents now on offer require more tokens to execute tasks, because they go through exponentially more computing steps. Ramp, an AI vendor management platform, says that aggregate AI expenditures by businesses rose 60% in the nine months up to July 2026.

Still, there are concerns that the demand for AI is too heavily concentrated on a small number of companies – making it vulnerable. Ramp also reported this week that just 1% of firms drive 80% of OpenAI and Anthropic revenues.

Existential risk at a convenient time?

The fact that the latest AI models are more expensive should, all else being equal, incentivise businesses to use older, less compute-intensive models. Downgrading might have had too high an opportunity cost for businesses when the older models significantly underperformed the so-called frontier, but many feel that the existing models are already good enough for most business tasks. The Financial Times reported some evidence of this downgrading but, as usual for AI usage metrics, the data is murky.

What we do know is that this AI usage is not (yet) causing extensive job losses – which would be the clearest sign of business adoption. The media is full of stories about companies citing AI as a reason for layoffs, but the aggregate job data in most major economies shows pretty consistent employment figures. In fact, in the US, software engineering jobs – seen as the main contender for AI automation – are increasing (albeit with some drop-off in entry-level jobs).

The murky data is also consistent with the general sense that AI model development is moving much faster than usage. That certainly feels right, if you compare the relatively slow reported adoption rates with the exponential increases in frontier model capabilities.

Perhaps that is why AI industry leaders, like Anthropic’s Dario Amodei, are now advocating for a slowdown in AI development. They cite existential risks to human life – and maybe they are right – but we note that these warnings are coming at a convenient time in financial terms. Investors are not happy with the amount that AI firms are spending, but companies cannot unilaterally slow their

investment if others will spend and get ahead of them. A government-enforced slowdown in AI development would give many firms a good excuse to slow their investment in frontier models.

That might be an overly cynical take but – just like all the data on AI usage – we cannot say much more than that it is consistent with the trends we are seeing. With so much opaque data around, it is no surprise that narratives are moving AI stocks more than cold hard facts.

China's Japanification is a monetary problem

China's 'Japanification' is by now a common topic in the financial media. The world's second-largest economy experienced decades of remarkable growth – but a busted property market and ageing population have slowed the economy and created a deflation problem. That is a description of China in the 2020s, but it is also a word-for-word description of Japan in the 1990s.

Is China bound for 'lost decades' just like its East Asian rival? We do not think that is inevitable. But just like Japan decades ago, the key problem is that money is too expensive.

If it looks like a lost decade and acts like a lost decade...

After Japan's property bubble burst in the late 1980s, Japan's postwar economic miracle gave way to the 'lost decades' of stubbornly low growth and price deflation. In that time, Japan has gone from being the world's second-largest economy to being its fourth – now only just ahead of the UK. The regression is so stark that 'Japanification' has been coined as a term for the process of economic stagnation.

The comparison to China seems a little strange on the face of it: China's National Bureau of Statistics just reported 4.5% year-on-year GDP growth for the third quarter of 2026, well above the numbers Japan recorded during its lost decades.

Most people take China's GDP figures with a pinch of salt, however. But even taking them at face value, the aggregate number disguises the fact that the economy is so heavily concentrated on industrial production and exports (admittedly, with a significant AI investment component too). In terms of the domestic economy, there is little to no real growth.

Continually weak retail sales data shows the dearth of Chinese consumer demand. Price deflation has become a major issue for companies. The government has unveiled measures to address these ailments, but it has been over two years since Beijing pivoted to stimulus and the results have been lacklustre at best.

Last month, the finance ministry announced subsidies for mortgage payments, and the People's Bank of China (PBoC) cut one of its key policy rates. These announcements used to excite international investors, but they now barely react. The deeper problem is the overhang of the burst property bubble – holding back consumers saddled with debt. The long-term economic prospects

are dimmed by the slow decline of the working-age population too. Those two factors are exactly what happened in Japan decades ago.

Beijing seems unwilling or unable to boost profits

The struggles of Chinese companies are clear in their share prices. Excessive price wars – called “involution” by the government – have led to persistently low producer prices, creating deflation and low corporate profits. The weak profit outlook has led to a weak stock market.

China and World equity total return indices
China composite 300, NASDAQ Golden Dragon & Bloomberg World



The underperformance of Chinese companies to global peers (starkly shown in the comparison of China’s ‘golden dragon’ tech firms) is actually larger than the underlying profit growth numbers would suggest. Chinese profits are not growing close to US peers – but they are still growing. Share prices, meanwhile, have gone in the opposite direction.

That suggests that investors doubt the outlook for future profits. Given the government’s recent history of interventions, that is a reasonable assumption. The Communist Party keeps announcing new support measures, and says it wants to support the private sector by ending price wars, but it also keeps clamping down on profitability. In the summer, several large firms were hit by one-off tax clawbacks – as the government retroactively denied historical tax break claims and demanded backdated tax bills – seriously denting their bottom lines.

There are two levels to this problem: does the government want to help, and are they able? On the former, the record so far is at best inconsistent, and many get the sense that Xi Jinping may be opposed to profitability on an ideological level. On the latter, Beijing has a structural problem when it comes to stimulating the economy. The classic response of its centralised command

economy is to ramp up production, but that has only increased the oversupply and worsened domestic demand.

Real yields need to be lower

We cannot deny the similarities to 1990s Japan, but we should never assume that China is destined to have the same fate. One revealing similarity between the two Asian giants is that both their governments were (or are, in China's case) reluctant to truly boost short-term consumption.

It will sound odd to Westerners, given that our economic policymakers are typically too focussed on the short term, but one sometimes gets the sense that Beijing is too long-term focussed. The party wants to deleverage the financial system, following years of excessive borrowing and shadow banking – but there is relatively little attention paid to what this means for the economy in the here and now.

Beijing wants local governments to stop loading up on debt through off-balance-sheet vehicles, for example. This is reasonable, considering the bad debts built up by such vehicles in recent decades. But this debt is also where investment has come from. Beijing has replaced some of that spending with fiscal stimulus, but the expansion has been mild, leaving a shortfall of investment.

The biggest spur for growth would be to get people borrowing again. Right now, they are deterred by the fact that government bond yields – despite being significantly lower than in most other nations – are too high, relative to expected growth and inflation. Real (inflation-adjusted) yields are low in global terms, but are still so much higher than expected economic returns that there is little incentive to invest anywhere but government bonds. Part of that is down to the PBoC's relatively tight monetary policy. If the central bank loosened conditions and injected liquidity into the financial system, that would likely result in lower yields, easier borrowing conditions for companies and a greater incentive to invest.

That is exactly the same problem Japan had in the 1990s, and its real yields did not significantly fall until much later and therefore likewise undermined business investments for a long time. If Japan's late premier Shinzo Abe had enacted his 'Abenomics' of fiscal and monetary stimulus earlier, perhaps things might have been different. There are some suggestions that the PBoC might seek to loosen monetary policy even further to help with this, but we will not hold our breath. Japanification is not inevitable, but it increasingly looks like where China is headed.

Global Equity Markets		23-Oct		Technical		Valuations		
Market	Level	% 1 Week	% 1 Week (GBP)	Short Medium	Div YLD %	LTM PE	NTM PE	10Y AVG NTM PE
UK FTSE 100	10654	-1.9	-1.9	→ →	3.2	13.9	13.4	12.6
UK FTSE 250	24186	-1.4	-1.4	→ ↗	3.5	8.1	14.3	13.0
UK FTSE All-Share	5741	-1.9	-1.9	→ →	3.2	13.2	13.5	12.5
FTSE Small x Inv_Tsts	6926	-1.0	-1.0	↗ ↗	3.9	15.7	11.0	9.8
EU STOXX ex UK	799	-1.9	-2.6	→ →	3.0	16.8	16.8	15.1
France CAC 40	7745	-2.7	-3.4	↘ →	3.4	15.2	14.7	14.1
Germany DAX 40	25088	-2.2	-2.9	→ →	2.5	17.2	17.5	13.5
US S&P 500	7627	-1.4	-1.8	↗ ↗	1.1	23.3	21.3	19.1
US NASDAQ comp	26000	-2.0	-2.4	↗ ↗	0.5	30.0	26.4	26.2
Japan Nikkei 225	62693	-4.0	-3.6	↗ ↗	1.5	20.3	23.0	18.8
World Bloomberg	2587	-1.6	-2.0	→ ↗	1.6	20.1	18.3	16.7
China Bloomberg	1155	-3.3	-3.6	↘ ↘	2.6	12.7	13.1	12.5
Emerging Bloomberg	1675	-2.6	-3.0	→ →	2.2	14.1	10.7	12.4

FTSE100 Top 6		S&P Global Top 6		(GBP terms)	Global Sectors			(GBP terms)
Company	%	Company	%		Sector	%	Sector	%
London Stock Exchange	+8.0	UCB	+29.6		Tech	-1.0	Staples	+0.3
Experian	+7.5	Randstad	+18.9		Financials	-1.2	Energy	+0.5
Rentokil Initial	+6.2	Hasbro	+17.3		Health	+1.2	Materials	-4.4
Smith & Nephew	+6.0	EssilorLuxottica	+15.7		Discretionary	-0.9	Utilities	-0.5
Sage	+4.7	Roper Technologies	+14.1		Industrials	-3.8	Real_Estate	+0.2
BP	+3.5	Charles River Laboratories Intern.	+13.2		Communications	-5.1		

FTSE 100 Bottom 6		S&P Global Bottom 6		(GBP terms)	Fixed Income		
Company	%	Company (GBP terms)	%		Govt bond	%Yield	1 wk chg
Fresnillo	-14.5	NEXTDC	-38.4		UK 5yr Gilt	4.99	+0.03
Diploma	-12.2	Comfort Systems USA	-22.5		UK 10yr Gilt	5.36	-0.01
Antofagasta	-12.0	Kering	-18.2		UK 15yr Gilt	5.61	-0.04
Rolls-Royce	-11.4	Carrefour	-17.6		US 10yr Treasury	4.98	-0.09
Anglo American	-10.6	Flex	-17.4		France 10yr OAT	5.03	+0.23
Aberdeen	-10.4	Howmet Aerospace	-16.3		Germany 10yr Bund	3.34	-0.08
					Japan 10yr JGB	2.79	-0.13

Currencies			Commodities			UK Mortgage Rate Estimates		
Pair	last	%1W	Cmdty	last	%1W	Rates (LTV c.75%, no fee)	23-Oct	23-Sep
USD per GBP	1.338	+0.1	Oil Brent \$:bl	116.11	+10.1	UK BoE base rate	3.75	3.75
GBP per EUR	0.838	-0.5	Gold \$:oz	4008	-4.3	2yr fixed	5.26	4.92
USD per EUR	1.121	-0.4	Silver \$:oz	53.75	-6.9	3yr fixed	5.23	4.77
JPY per USD	156.77	-0.7	Copper \$:lb	647.2	-2.1	5yr fixed	5.17	4.78
CNY per USD	6.670	-0.2	Alumnm \$:mt	3040	+0.9	10yr fixed	5.43	5.25
USD per Bitcoin	81,590	-0.6	Agriculture BBG	59.92	-1.7	Standard variable	6.58	6.58

Where possible, prices taken levels at 23 October 3:00 PM and 16 October 3:00 PM. Mortgage rates from moneyfacts.co.uk
LTM PE is the index price as a ratio of last 12 months earnings.

NTM PE is next 12 months earnings, adjusted for historic analyst overoptimism.

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Lothar Mentel

