

The central bank of central banks just red-flagged the AI boom.

Railway mania. The roaring 20s. Dotcom. The BIS put today's AI boom on the same chart.. and notes those episodes ended in recessions.

The BIS Annual Economic Report, June 2026. Owned by **63 central banks**, the Basel institution writes the supervisor's supervisor view. This year it flags **capex outpacing cash flow, circular financing** with poor disclosure, **valuations pricing ambitious growth**, and **private credit concentrating** in the same AI names.

Extracts from the report, the BIS's own charts, my read on each.. and the full source trail at the end.

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\$1trn+

hyperscaler AI capex, 2025 through 2026..
outpacing cash flow

4X

AI investment vs its pre-boom level, just 3 years in.. the **fastest climb of any mania** on the BIS chart

~15%

of direct-lending books now in **AI and IT**.. quadrupled in 5 years

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The story in one page

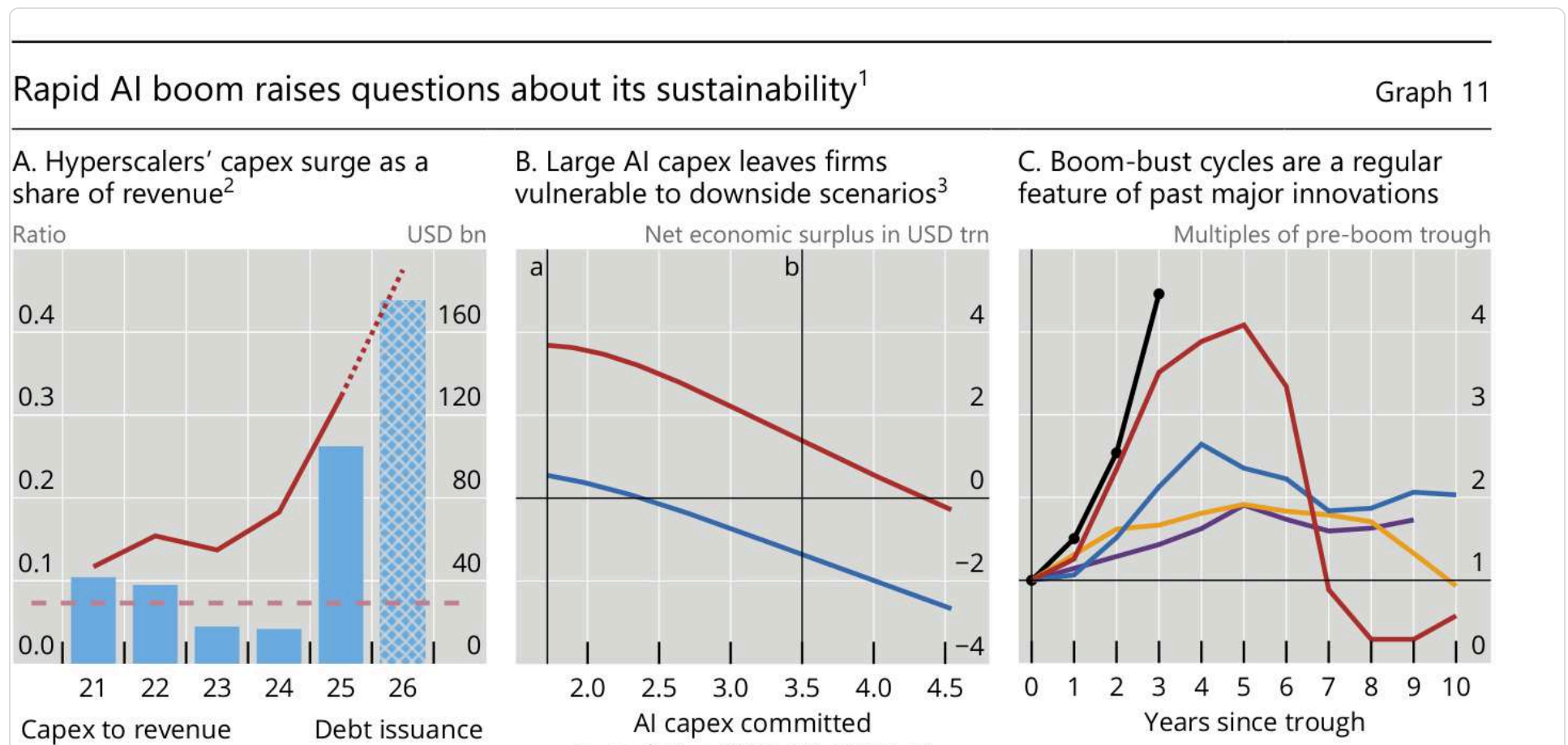
Six red flags, spread quietly across eight pages of a 133-page flagship report. Here they are in one place.

THE PARALLEL	The AI boom charted next to canal mania, railway mania, the roaring 20s, dotcom.. all ended in recessions.
THE MONEY	\$1trn+ hyperscaler capex outpacing earnings and free cash flow.. firms now issuing debt to fund it.
THE CIRCULAR WEB	Circular financing, poorly disclosed deals, and risks of the same asset pledged multiple times.
VALUATIONS	Stocks pricing growth above what these firms have ever delivered.. risk premia compressed to complacency levels.
PRIVATE CREDIT	Direct lenders quadrupled AI/IT lending to ~15% of books.. multiple funds stacked on the same software borrowers.
LABOUR	Firms signalling automation and labour substitution on earnings calls.. AI-exposed sectors already hiring less.

Any one is a caution. The BIS lists all six in its flagship report.

Railway mania, the 20s, dotcom.. and now AI

The BIS drew the chart itself. The black line is the AI boom.. the steepest climb of the five.



Source: [BIS Annual Economic Report, June 2026](#) · Graph 11, page 23

*"..a genuine technological breakthrough that attracted **capital in excess of what commercial returns could ultimately justify.** These episodes ended with an eventual reversal in investment, **inducing economy-wide recessions.**"*

*"The scale and pace of the current AI investment boom.. **bear resemblance to these precedents.**"*

My read: the placement is the statement. A central bank institution does not put your boom on a chart with four historical manias by accident.. and the AI line is outpacing all four.

The trillion is outrunning the cash

Capex past free cash flow, funded with debt.. and the BIS models the whole sector going underwater.

\$1trn+

five largest hyperscalers, AI capex 2025 through 2026

\$3-4trn

the 2030 projection the BIS cites.. from **Nvidia's CEO**

Negative

where sector **net economic surplus** lands in the BIS adverse scenario

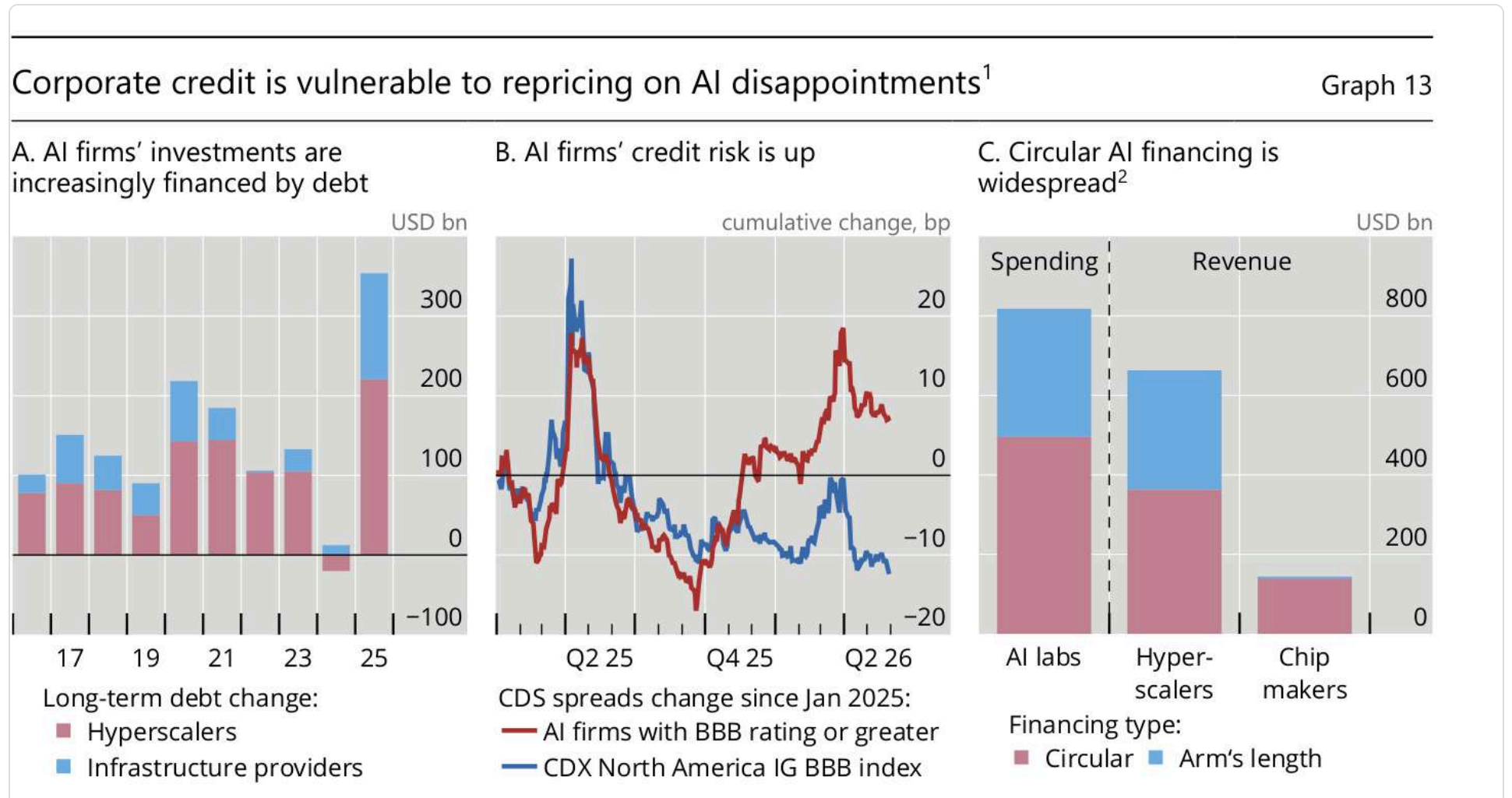
Source: [BIS Annual Economic Report, June 2026](#) · pages 22 to 23 and Graph 11

- **The commitments are outpacing the cash.** BIS: capex plans are running past "earnings and the free cash flow of these firms, leading some to **issue debt** to raise additional financing." Capex to revenue has pulled far above the all-firm benchmark.
- **The race itself is the risk.** Firms betting that only a few winners survive.. "over-committing resources to investment projects with **still uncertain returns.**"
- **The bust is modelled, in print.** Disappointment in returns "could trigger a sudden pullback in financing and turn the capex boom into a **protracted investment bust,**" with potential knock-on effects on financial conditions.

My read: the BIS built a formal model of the AI capex race.. and the sector's surplus goes negative in the adverse case. A stress test of the boom itself, in the flagship report.

The circular web nobody can see into

Chip makers fund AI labs. AI labs buy chips. The revenue is the investors' own money coming back.



Source: [BIS Annual Economic Report, June 2026](#) · Graph 13, page 25

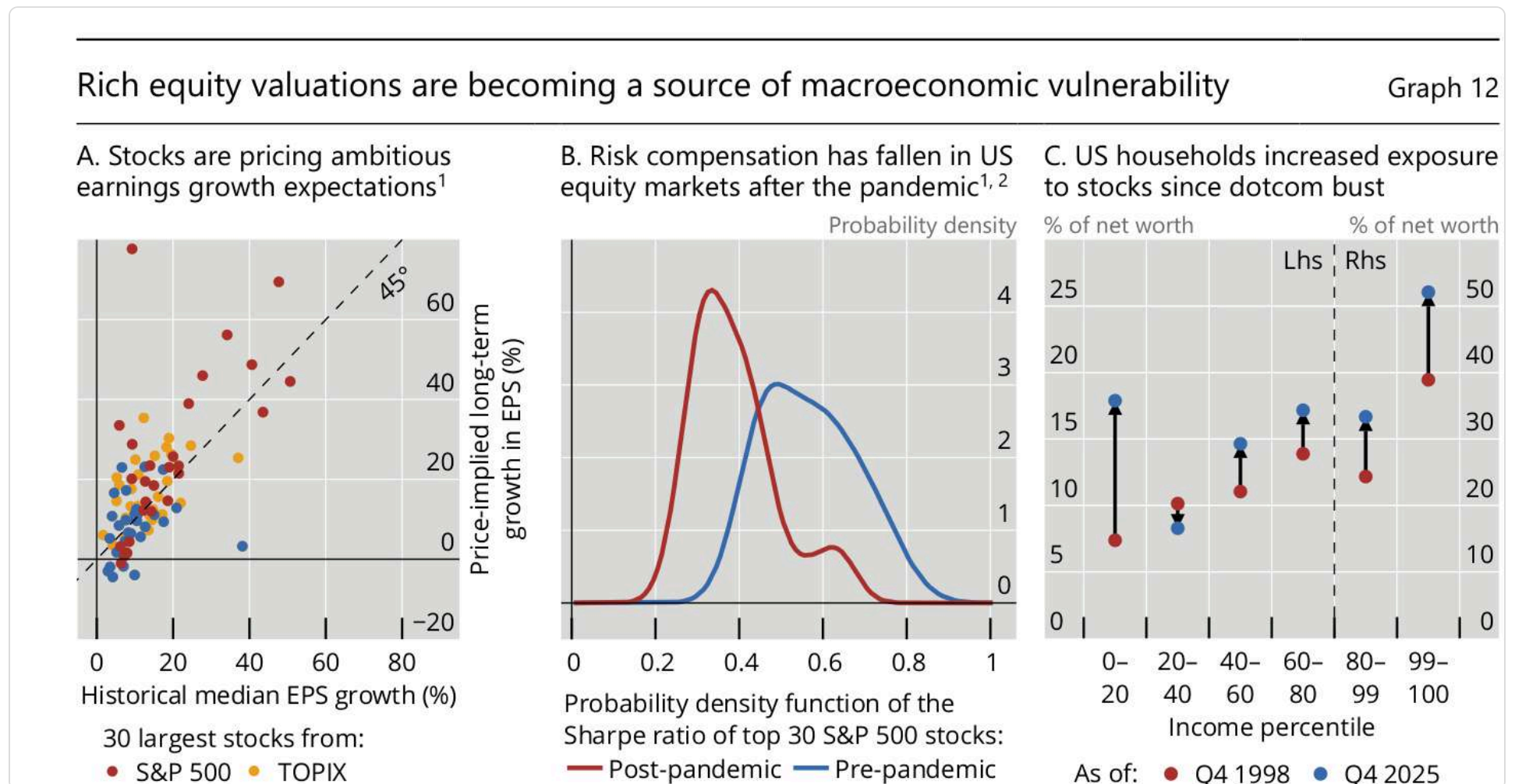
*"The terms of such deals are typically **poorly disclosed**, with risks of the same asset being pledged multiple times."*

*"..a **complex web of private arrangements**" that accounts for "a sizeable share of sector-wide financing and forward revenue."*

My read: "same asset pledged multiple times" is 2008 language. In 2008 it appeared in the post-mortems. This time it is in print before the event.

Valuations pricing the impossible

Implied growth above anything these firms have ever delivered.. held by households at record exposure.



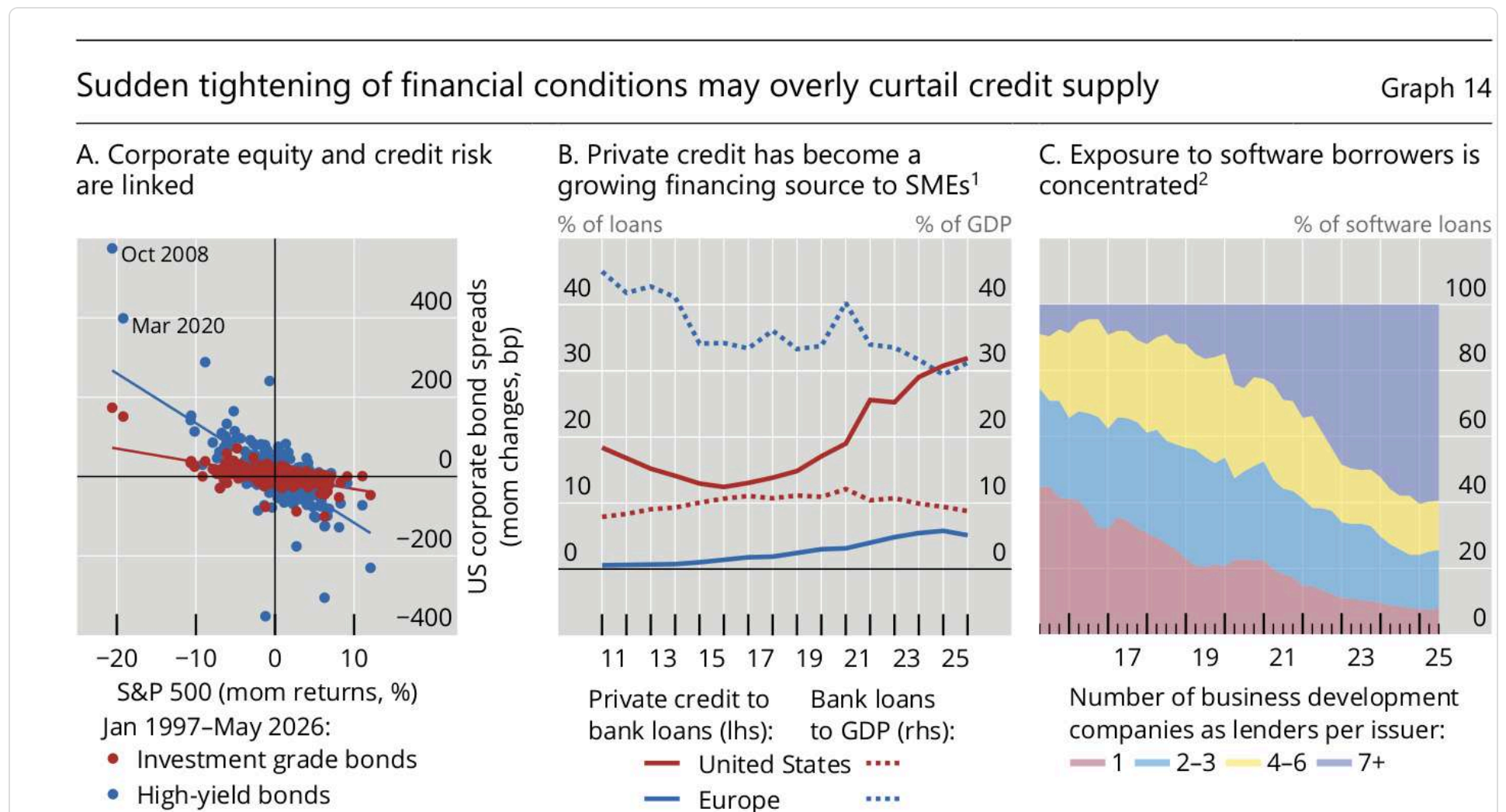
Source: [BIS Annual Economic Report, June 2026](#) · Graph 12, page 24

- Implied growth rates "often exceed even the elevated growth that some of the technology firms **have delivered in their relatively short lifetimes.**"
- Risk premia point to "growing investor **complacency** and reduced compensation for risk-bearing."
- US stocks are **~64% of the MSCI Global index**.. "A major equity market correction could have **larger macroeconomic consequences today than in the past.**"

My read: the same setup I documented in my [Irrational Exuberance brief](#) in May.. CAPE at 39.6, the second highest in 145 years. The BIS now makes the macro case for why that matters.

Private credit is stacked on the same bet

The opaque lenders quadrupled their AI exposure.. and the BIS says the stress has already started.



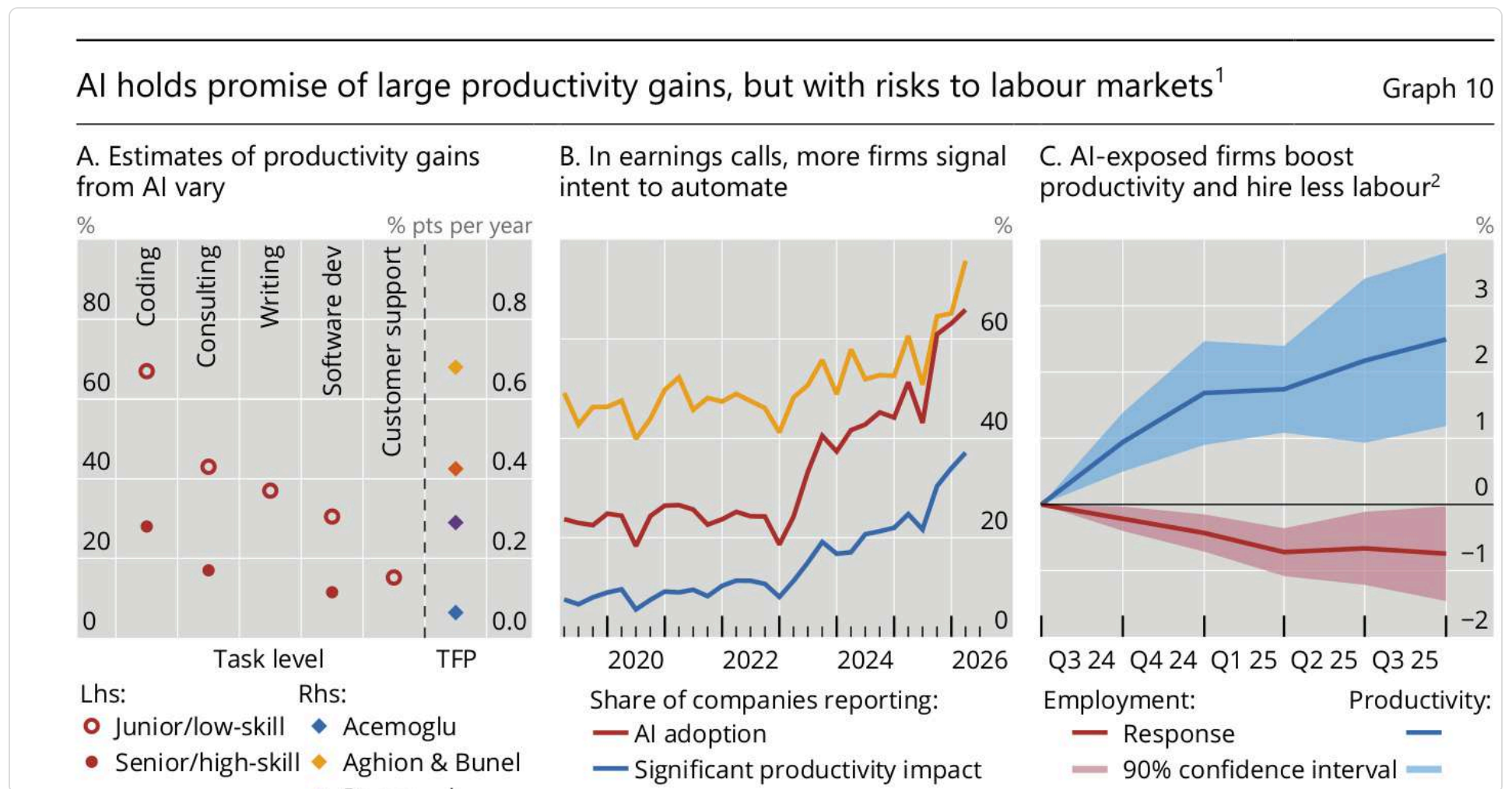
Source: [BIS Annual Economic Report, June 2026](#) · Graph 14, page 26 · [Tigzig private credit hub](#)

- Direct lending funds have **quadrupled** lending to AI and IT in five years, to **~15%** of portfolios.. larger loans, similar terms, "raising questions about **lending standards and risk pricing.**"
- Stress is visible now: retail-facing funds forced to **liquidate assets** under redemptions. Contagion path: banks' "**growing and opaque exposure**" to the funds.. and "the real economy implications could be substantial."

My read: the Bank of England already asked whether private credit is a "[market for lemons](#)".. record 6.0% defaults, a KKR fund rescue, a DOJ valuations probe, all covered in my dispatches. The BIS just wired that market to the AI boom.

Every displaced worker is a lost consumer

The quiet chapter: firms are telling investors they will automate.. and the BIS models where that leads.



- Unlike past technologies, AI "competes directly with **human cognitive abilities**, possibly narrowing the scope for workers to move up the value chain."
- The BIS "demand bottleneck" scenario: "Since every displaced worker is also a **lost consumer**, the spending that rewards innovation eventually shrinks".. growth ends up **below trend**, from automation itself.

My read: productivity gains of 20 to 50% at task level are real.. I build with these tools daily. The question the BIS puts on the table: who buys the output when the workers who consumed it are gone?

The regulators have stopped whispering. They are now shouting.

Bank of England: a possible "market for lemons." ECB: US private credit as a spillover risk. IMF, FSB, OCC, the Fed.. each flagged a piece of it this year.

Each of those was a whisper between the lines. A flagship annual report that charts the AI boom next to railway mania, models the capex bust, and names the circular financing.. **that is the shout.**

*I have been documenting this same pattern since
March.. exuberance, credit, opacity.*
***The supervisors' supervisor just put it on the
record.***

More: my deeper work on fundamentals, macros and markets is at tigzig.com/analysis

Sources

BIS Annual Economic Report, June 2026

Released 28 June 2026. 133 pages. This deck draws on Chapter I: "AI progress and investment boom under pressure" and "Financial vulnerabilities as amplifiers".. pages 19 to 26, Graphs 10 to 14 and Box C. All charts on these pages are reproduced from the report.

[Report page](#) · [Full PDF \(5.2 MB\)](#) · [Press release, 28 June](#)

MY EARLIER CALLS

Early warning: another full bear? (14 March 2026)

The first call, published while markets were making new highs. CAPE at 40-year highs, gold vertical, crude towards 2008 levels, US delinquencies past COVID highs.. tremors before a quake.

[tigzig.com](#) → [Tremor Macro Early Warning Signals](#)

S&P 7,400. Irrational Exuberance (17 May 2026)

CAPE 39.6, second highest in 145 years. The last two times this setup held, the index halved. My valuation brief that this BIS chapter now echoes.

[tigzig.com](#) → [Irrational Exuberance](#) · [all analysis: tigzig.com/analysis](#)

Is Private Credit Turning Into a Lemon? (May 2026)

Bank of England's "market for lemons" warning, the record 6.0% default rate, the FS KKR rescue, the DOJ valuations probe. Fourth dispatch in my private credit series.

[tigzig.com](#) → [Private Credit Lemons](#) · [private credit hub: tigzig.com/private-credit](#)

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Point any AI agent at it, and it picks up the work for you.

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