

AI buys AI: How this Bubble Blows Itself Bigger

Index money, AI agents, and a momentum trade that can feed on itself.



Figure 1. AI builds the stack — machines buying the same names as our retirement drip.

WHAT is the market (US S&P500 index) now? 50% is only 14-16 stocks related to Artificial Intelligence.

Who's buying them? WE are. Every index ETF purchase for dollar cost drip investing employed by our retirement accounts goes half into the AI 15.

WHO is the market now? Yes, index funds. But what is happening to active investing?

There are millions of AI agents being rolled out by major investment houses. On top of that, millions of everyday folks are starting to use AI to invest.

Even before that, 90% of trading volume was algorithmic, but most of that was arbitrage trades, playing tiny

inconsistencies among instruments on the same asset, or index inclusion strategies, other anomalies.

But if directional strategies are unleashed in size, we know that price momentum will be the main factor input. The quant owner of Geomatrix at one point a decade ago tested all factors in equities (and indeed for all asset prices) and found price momentum dominates in the short term, nothing else matters. So this crowding into the AI 15 could go asymptotic, GameStop on steroids, and not just a day trade and a quick collapse but an ongoing trend all this autumn, creating 60%, even 70% index concentration.

The majority of the index is already in a structural bear market

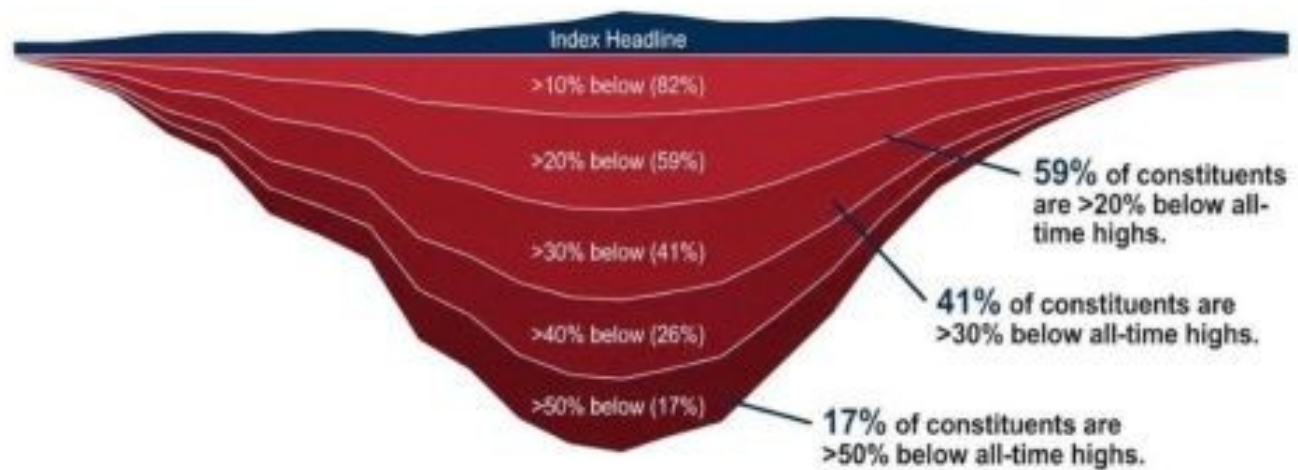


Figure 2. Beneath the headline index, most constituents are already deep underwater.

For active managers not using AI or using it for value investing, what happens to them? We saw that movie in 1999, when many closed down due to redemptions from under performance. Some famous names threw in the towel and traded value for tech just weeks before the bubble popped. When your and your team's livelihoods and rent and family futures are threatened, fear or minimax thinking takes over, and the tech narrative is bought into.

Maybe unlikely, but when history looks back, what could be the disruption in markets written about for decades?

A short history of disruptions

- 1997 Asian Contagion
- 1998 Long-Term Capital Management
- 2000 internet bubble pop
- 2007–9 US housing bubble pop and banking crisis
- 2020 Covid Crash reversed by the Fed liquidity pump
- 2026–27 AI buys AI?

Also posted on LinkedIn. https://www.linkedin.com/posts/robert-howe-akamai_what-is-the-market-us-sp500-index-now-ugcPost-7512554426520334337-IDfV/?utm_source=share&utm_medium=member_desktop&rcm=ACoAAAAU89MBKqv0RdVw_HpnhUUGnpqNsVY3rsw