

PRESS RELEASE

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The AI boom is 2008, not 1999: investors re looking for the bubble in the wrong place, warns SCM Direct's CIO, Alan Miller

With the Budget a month away and borrowing costs close to their highest since 2007, SCM Direct warns that the bond market, not the Chancellor, is setting the terms of the Budget. It argues that the real risk in markets lies in corporate borrowing rather than share prices, and that gilts are the opportunity most investors are missing.

The AI investment boom is increasingly funded by debt rather than earnings. According to SCM Direct, the London-based online wealth manager, this makes the boom resemble the credit build-up before 2008 more than the dotcom valuations of 1999.

The firm set out its analysis at an investor briefing last week, drawing on company filings, central bank data and 145 years of valuation history. Its conclusion is that the risk investors should worry about now lies in the balance sheets behind the AI trade, not in headline share prices.

The borrowing behind the boom

The five largest capital spenders in the S&P 500 are Amazon, Alphabet, Microsoft, Meta and Oracle. Since early 2024, these five have increased annual capital expenditure by \$403bn, compared with \$184bn for the other 495 companies combined. JPMorgan estimates that \$4.1tn of a projected \$5.5tn in AI capital spending will be financed by debt.

Company filings show the shift is under way. In the first half of 2026, Alphabet's long-term debt more than doubled, from \$46.5bn to \$98.2bn. Amazon's rose from \$65.6bn to \$128.9bn. Alphabet reported negative quarterly free cash flow in the second quarter; Amazon's was negative in both the first and second quarters.

The visible borrowing is only part of the picture. SCM Direct estimates off-balance-sheet obligations at around \$1.65tn, covering long-term chip and server commitments and data centre leases. This exceeds the \$1.35tn already on these companies' balance sheets, bringing total AI-related obligations to roughly \$3tn.

Alan Miller, Co-Founder and Chief Investment Officer of SCM Direct, said:

"Everyone is looking for the AI bubble in share prices. We think they are looking in the wrong place. This is increasingly a story about leverage, and leverage is what turns a correction into a crisis. The US market's cyclically adjusted valuation has been above 40 only twice in 145 years: in 1999 and 2000, and since May this year. What is different now is that the spending is being financed with borrowed money. Last week's jump in US Treasury yields to their highest since 2007 shows why that matters: the higher the cost of money, the heavier that debt becomes."

The US shock

On Wednesday 23 September, the 10-year US Treasury yield rose 15 basis points to 5.11%, its biggest one-day move since November 2024, its highest level since July 2007. The trigger was a far stronger-than-expected set of S&P Global purchasing managers' surveys: the services index rose to 58.7, a near five-year high, and manufacturing to 57.0, its highest in more than four years.

Hawkish comments from Federal Reserve Governor Michael Barr, a poorly received five-year Treasury auction, and Brent crude above \$103 a barrel added to the pressure. Markets now put the chance of a further Fed rate rise in October at around two in three, only a week after the Fed raised rates for the first time since 2023.

Gilts were pulled along in the sell-off. By Thursday, the 10-year gilt yielded 5.35% and the 30-year 5.84%.

The gilt paradox

The firm argues that much of the alarm over gilt yields is misplaced. At 5.35%, the 10-year gilt yield is close to its highest level since 2007, yet it is less than one percentage point above its average since 1711 of 4.39% and below its average since 1900. Yields are higher today than at the worst of the October 2022 pension fund crisis, yet the gilt total-return index is around 12% above where it stood on 12 October 2022. Income has more than made up for the fall in prices.

Gina Miller, Co-Founder of SCM Direct and Founder of MoneyShe, said:

“Two things are true at once. The headlines say gilts are in trouble. The numbers show that investors who held on are better off. For the first time since the financial crisis, savers are being paid a real return for lending to the government. That deserves a plain explanation, not panic. Investors should be told what they own, what it costs and what they are being paid to hold it.”

Key findings

- The US market's CAPE ratio stands at 40.58, in the 98.8th percentile of readings since 1881.
- The premium for owning US equities over bonds has fallen by more than a third in twelve months, from 1.63% to 1.01%, against a long-run average of 4.59%.
- The FTSE 100 trades at 14.8 times earnings, against 26.2 times for the S&P 500, a discount of 44%.
- UK gilts offer positive real yields across every maturity. The 10-year gilt yields 5.35%, around 0.2 percentage points more than the 10-year US Treasury.
- At its 17 September rebalance, SCM Direct increased its long-dated gilt holdings, funded by selling sterling corporate bonds. The firm is taking interest-rate risk, which it is paid for, instead of credit risk, which it is not.

The Budget: written by the bond market

Ahead of the Budget on 28 October, much of The City expects tax rises of around £5bn. Reports this week that the Chancellor, John Healey, is considering setting his fiscal buffer below the £23.6bn the Office for Budget Responsibility forecast in March point the same way, with some gilt investors suggesting that around £14bn would be tolerated. SCM Direct agrees the tax rises are likely to be modest but argues that the figure that matters more is being set in the bond market.

The OBR estimates that a one-percentage-point rise in interest rates and gilt yields shift annual borrowing by about £15bn. The 10-year gilt yield has risen from around 4.2% before the Middle East conflict to 5.35% today. **Under the OBR's own rule of thumb, that move alone is worth about £17bn a year, far more than the roughly £10bn of cover the Chancellor would be giving up by letting the buffer fall from £23.6bn to £14bn.**

Borrowing in the first five months of the financial year was already £8.1bn above the OBR's forecast, driven by debt interest and inflation-linked costs. Less cover means greater exposure.

Alan Miller added:

"The Chancellor can have smaller tax rises or a bigger buffer, but not both. With US yields back at 2007 levels, it is the bond market, not the Treasury, that will decide whether thinner cover is acceptable."

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Notes to Editors

A recording of the briefing, "The Budget, Gilts and the Wrong Bubble", and the full presentation with sources are available on request.

Alan Miller and Gina Miller are available for interview.

Market data as at 24 September 2026. Sources: Bloomberg, S&P Global, CME FedWatch, Office for Budget Responsibility.

SCM Direct is the trading name of SCM Private LLP, a London-based wealth manager founded by Alan Miller and Gina Miller that has managed portfolios since 2009. The firm is known for its campaign for total fee transparency in the investment industry.

MoneyShe, founded by Gina Miller, is a women-focused investment and financial literacy platform, also a trading name of SCM Private LLP. SCM Private LLP is authorised and regulated by the Financial Conduct Authority (FRN 497525).