Flash Economics

N° 79
August 12th, 2026

Subscribe here.

What effects does the bursting of equity market bubbles have on the US economy?

The United States has already experienced the bursting of the internet bubble in early 2000 (the Nasdaq 100 index fell from 4,700 in March 2000 to 800 in October 2002). It is possible, though not certain, that a bubble has also formed today in US technology stocks, the prices and the valuation of these stocks having risen very sharply since the end of 2022.

To anticipate what would happen if the present bubble (artificial intelligence, space) were to burst, we examine the effects of the bursting of the internet bubble in 2000. These effects are likely to be felt on consumption and on investment – in both cases through the loss of wealth – but also on the general government deficit and on monetary policy. The duration of the adverse effects on the economy of the bursting of a bubble in US equities warrants particular attention.

The bursting of the internet bubble in 2000 was followed, for more than three years, by:

- a slowdown in consumption and in housing investment;
- a collapse in private non-residential investment;
- a high general government deficit;
- a shift to an expansionary monetary policy;
- a loss of growth;
- a loss in the level of GDP lasting six years.

Patrick Artus
Senior Economic Advisor
patrick.artus-ext@ossiam.com
@PatrickArtus
Patrick Artus

Isabelle Gravet
Research Assistant
isabelle.gravet-ext@ossiam.com

Marketing communication: this document is a marketing presentation. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research; and it is not subject to any prohibition on dealing ahead of the dissemination of investment research.

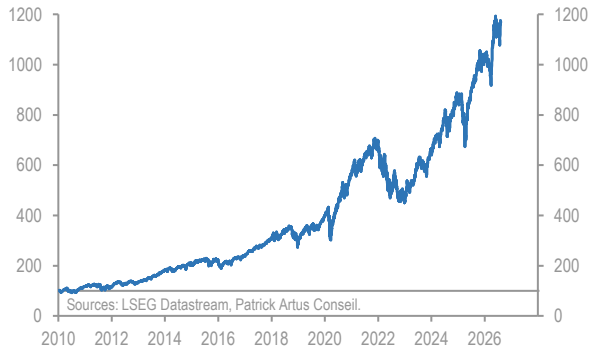
The risk of an equity market bubble in the United States today

It is difficult to establish whether the United States is currently experiencing an equity market bubble. On the one hand, **technology companies' earnings per share have risen sharply**, and the analyst consensus expects earnings to continue rising rapidly in 2026 and 2027: between 2024 and 2027, earnings per share are expected to increase by 82% at Alphabet, 46% at Meta, 84% at Amazon, 64% at Microsoft and 318% at Nvidia.

On the other hand, **several indicators give cause for concern**: the Nasdaq 100 rose from 10,680 at the end of December 2022 to 26,525 on 11 August 2026 (Chart 1); the price/earnings (P/E) ratio of the Nasdaq 100 now stands at 32, compared with 24 at the end of 2022. SpaceX recorded a loss of USD 5 billion in 2025 on revenue of USD 19 billion, while its valuation stands at USD 1.78 trillion. The scale of technology companies' investment in artificial intelligence (USD 750 billion in 2026 and probably USD 1 trillion in 2027) will require, if it is to be recouped, a very high level of return that may not be achieved.

The occurrence of an equity market crisis in the United States, involving **a substantial fall in equity indices and in technology indices in particular, cannot therefore be ruled out**.

Chart 1
Nasdaq Composite index (01.01.2010 = 100)



The precedent of the bursting of the internet bubble

The internet bubble burst in early 2000 (Chart 2).

Chart 2
Nasdaq Composite index (01.01.1995 = 100)



We analyse the effects on the US economy of the sharp fall in equity indices from March 2000 onwards, examining in turn consumption, housing investment, corporate investment, the general government deficit, inflation and monetary policy over the period 1995-2007, that is, before the subprime crisis.

Household consumption, housing investment and non-residential investment are normally adversely affected by the decline in wealth and in the stock market valuation of companies.

A clear rise in the household saving rate and a slowdown in consumption growth can be observed from mid-2000 onwards (**Chart 3**). **Housing investment** moved from rapid growth until 2000 to **a decline** from 2001 onwards (**Chart 4**).

Chart 3
United States: Personal consumption expenditure and saving rate

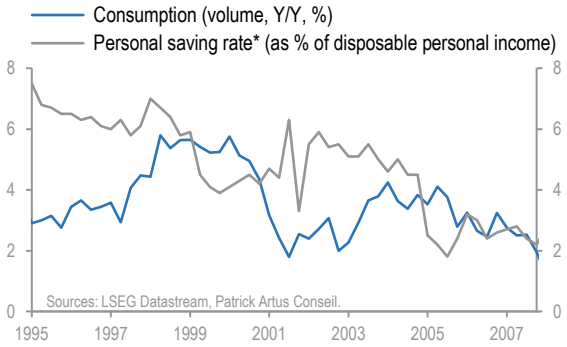
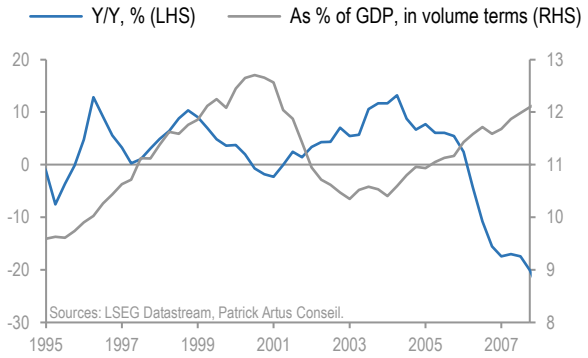


Chart 4
United States: Private residential investment (volume)



*Personal saving is measured net of consumption of fixed capital

Private non-residential investment collapsed from the second half of 2000 onwards (**Chart 5**). **The federal budget balance** moved from a surplus of 2.3% of GDP in 2000 **to a deficit** of 3.3% of GDP in 2003 (**Chart 6**).

Chart 5
United States: Private non-residential investment (volume)

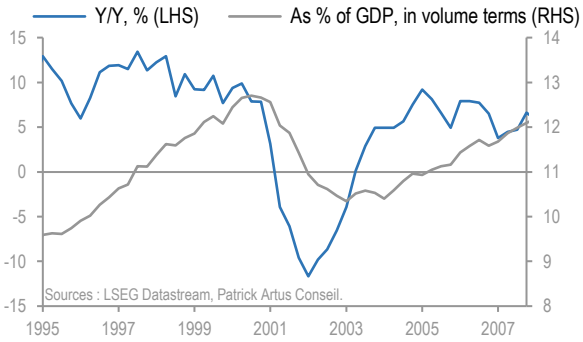
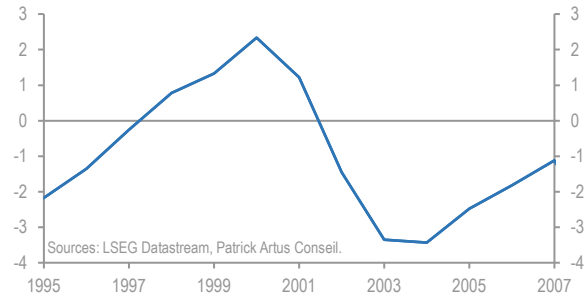


Chart 6
United States: Federal budget surplus or deficit (as % of GDP)



The unemployment rate rose sharply from 2001 onwards, which **brought inflation down** (**Chart 7**). Lastly, the Federal Reserve moved from **a restrictive monetary policy**, with the federal funds rate at 6.5% at the end of 2000, to **a highly expansionary policy**, with the federal funds rate at 1.75% at the end of 2001 (**Chart 8**).

Chart 7
United States: unemployment rate and inflation

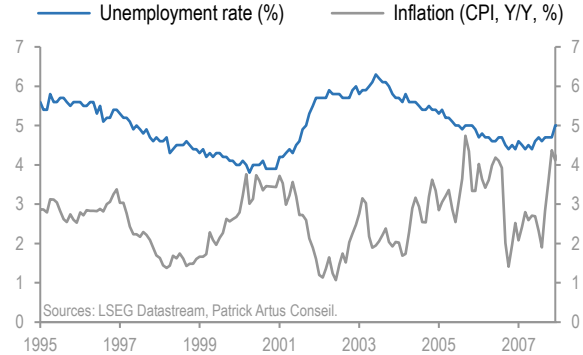
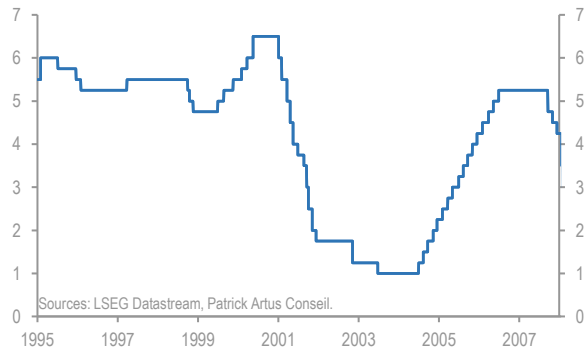


Chart 8
United States: Federal Funds target rate (as %)



Summary: the bursting of an equity bubble weakens the US economy for at least three years

As has just been shown, the bursting of a bubble in US equities leads to:

- a rise in the household saving rate and a slowdown in household consumption;
- a decline in housing investment;
- a collapse in non-residential investment;
- a marked widening of the general government deficit;
- a sharp rise in the unemployment rate and a fall in inflation;
- a major easing of monetary policy.

Overall, GDP growth was affected from 2000 to 2003 (Chart 9) and the decline in consumption and investment was not offset by the shift to more expansionary monetary and fiscal policies. The loss in the level of activity (Chart 10) was not made up until 2006, six years after the equity market crisis.

Chart 9
United States: Real GDP (Y/Y, %)

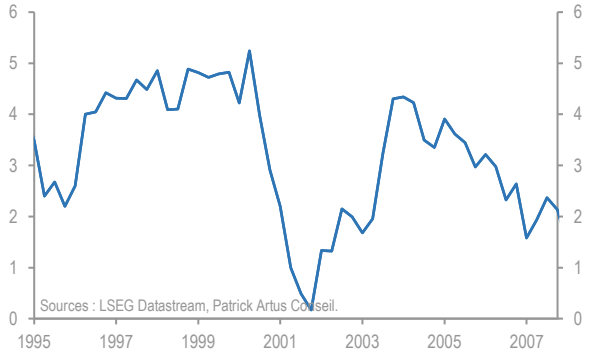
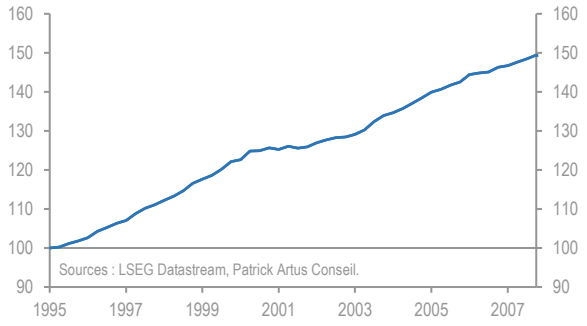


Chart 10
United States: Real GDP (100 = 1995.Q1)



Disclaimer

Ossiam, a subsidiary of Natixis Investment Managers, is a French asset manager authorized by the Autorité des Marchés Financiers (Agreement No. GP-10000016). Although information contained herein is from sources believed to be reliable, Ossiam makes no representation or warranty regarding the accuracy of any information of which it is not the source. The information presented in this document is based on market data at a given moment and may change from time to time. This material has been prepared solely for informational purposes only and it is not intended to be and should not be considered as an offer, or a solicitation of an offer, or an invitation or a personal recommendation to buy or sell participating shares in any Ossiam Fund, or any security or financial instrument, or to participate in any investment strategy, directly or indirectly. It is intended for use only by those recipients to whom it is made directly available by Ossiam. Ossiam will not treat recipients of this material as its clients by virtue of their receiving this material. All performance information set forth herein is based on historical data and, in some cases, hypothetical data, and may reflect certain assumptions with respect to fees, expenses, taxes, capital charges, allocations and other factors that affect the computation of the returns. Past performance does not predict future returns. Any opinions expressed herein are statements of our judgment on this date and are subject to change without notice. Ossiam assume no fiduciary responsibility or liability for any consequences, financial or otherwise, arising from, an investment in any security or financial instrument described herein or in any other security, or from the implementation of any investment strategy. This information contained herein is not intended for distribution to, or use by, any person or entity in any country or jurisdiction where to do so would be contrary to law or regulation or which would subject Ossiam to any registration requirements in these jurisdictions. This material may not be distributed, published, or reproduced, in whole or in part.