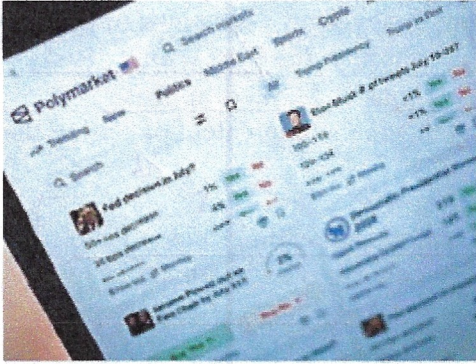


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Intercontinental Exchange's recent investment in Polymarket is essentially a bet on the business of speculation. GABBY JONES/ BLOOMBERG NEWS



A Speculative Era Without Limits

CAPITAL ACCOUNT

By Greg Ip

Today's artificial-intelligence- centered boom (or, if you prefer, bubble) has a lot in common with its predecessors, such as leveraged buyouts in the 1980s, dot-com stocks in the 1990s, and housing in the 2000s; stocks at nosebleed valuations, easy credit for risky borrowers, faddish new financial products.

But something about it feels different. The speculative fever has spread well beyond the usual stocks, bonds and property. Crypto, a brand-new asset class, is now valued at some \$4 trillion. Americans bet \$150 billion on sports last year, up 24% from 2023, according to the American Gaming Association. Gold, a hedge against bubbles, is looking bubbly itself. Speculation has become woven into today's political, economic and cultural psyche.

And official Washington, instead of leaning against the speculation, is egging it on: the Federal Reserve is lowering interest rates, the Trump administration is loosening regulations across the financial system, and President Trump's own family is cashing in.

The recent investment of up to \$2 billion by **Intercontinental Exchange**, operator of the New York Stock Exchange, in Polymarket nicely embodies the zeitgeist. It is, in essence, a bet on the business of speculation: Polymarket lets you gamble on almost anything, from the World Series to Ireland's presidential election. The deal includes an ethereal valuation: Intercontinental Exchange said its stake values Polymarket at \$8 billion, though the company reports no revenue. (A spokesman for Polymarket declined to say whether it had any.)

The investment is also a bet on crypto, the currency used to place bets. And it's a bet that Trump will look more kindly on the prediction business than former President Joe Biden. In 2022 Polymarket blocked access to Americans following a settlement with the Commodity Futures Trading Commission, which accused the company of running an unregistered derivatives-trading platform. Finally, the Trump family stands to profit: Donald Trump Jr. is an investor in Polymarket, and an adviser.

Maybe this is simply the emergence of a new normal. Betting on football and elections is becoming as much a part of our lives as watching football and voting. AI's transformative powers justify the valuations it attracts. And a vast array

of crypto or blockchainbased financial products may be around the corner.

Or maybe this is a bubble whose longevity and ubiquity will magnify the pain of its eventual deflation.

The latter scenario preoccupied some of the policymakers who gathered in Washington this week for meetings of the World Bank and the International Monetary Fund. In its semiannual report on financial stability, the IMF wrote: "Risk asset prices are well above fundamentals, increasing the probability of disorderly corrections... Markets appear complacent as the ground shifts." For an institution normally given to understatement, this is the equivalent of setting its hair on fire.

The IMF estimates the current ratio of the S&P 500 to future earnings is in the 4% highest such readings since 1990. The market is less overvalued than at the peak of the dot-com bubble in 2000, but more concentrated in a handful of companies. Meanwhile, the global lender warns that climbing government debts and worries about the U.S. dollar menace bond and currency markets.

A bubble is hard to identify before it bursts, but bubblelike behavior isn't. Today's examples include tiny companies going public then cratering, and ordinary businesses turning into "crypto-treasury" companies by issuing equity and debt to buy crypto.

So are circular financing deals that obscure the underlying revenue, or lack thereof: Nvidia invests in OpenAI, OpenAI buys computing power from Oracle, Oracle buys chips from Nvidia.

But does any of this really matter? Speculation and bubbles are intrinsic to how capitalist economies grow. Many burst without broader consequences, such as special-purpose acquisition companies (SPACs) and meme stocks. Crypto has already blown up several times. The sorts of linkages to the financial system that made the housing bust so destructive appear absent. (That may be changing: more data centers are being financed with debt. And banks recently took big losses on the surprise failures of two finance companies, one providing subprime auto loans.)

At the outset of the dotcom boom, then-Fed Chairman Alan Greenspan, though --worried about "irrational exuberance," concluded that the Fed shouldn't raise interest rates to deflate bubbles: pricking them would do more damage than letting them deflate on their own.

Nonetheless, in the late 1990s and again during the mid-2000s as housing took off, the Fed raised rates anyway, in part because escalating asset values put upward pressure on inflation.

Today the Fed is doing the opposite. Inflation is above its 2% target, yet it cut rates last month and is on course to do so again. This makes sense given the recent weakness of the labor market. Yet in effect the Fed has refilled the speculative party's punch bowl. If Trump gets his way, the Fed could spike the punch bowl even more, as he seeks to install loyalists on the central bank.

Monetary policy is a blunt instrument. Regulatory policy is better suited to protecting investors and the financial system from bubbles. But Trump's financial agenda has focused on lightening regulation and enforcement.

The current view in Washington is that under Biden, regulators stifled innovation and growth, drove an exciting new industry abroad and deprived ordinary Americans of new ways to build wealth.

Today, working-class investors are flocking to all these markets: stocks, betting and crypto. They are beneficiaries of a new age of democratic finance. Or the last invitees to a party that's going to end.

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