LEAD

The Stock Market Just Hit a Record. 'The Big Short' Investor Michael Burry Says That's a Warning Sign

The Scion founder is betting against Nvidia, Palantir, and other beneficiaries of the AI boom—and says the record-setting rally is creating leverage that could make the next selloff more violent.

BY GEORGIA FEARN, EDITORIAL INTERN

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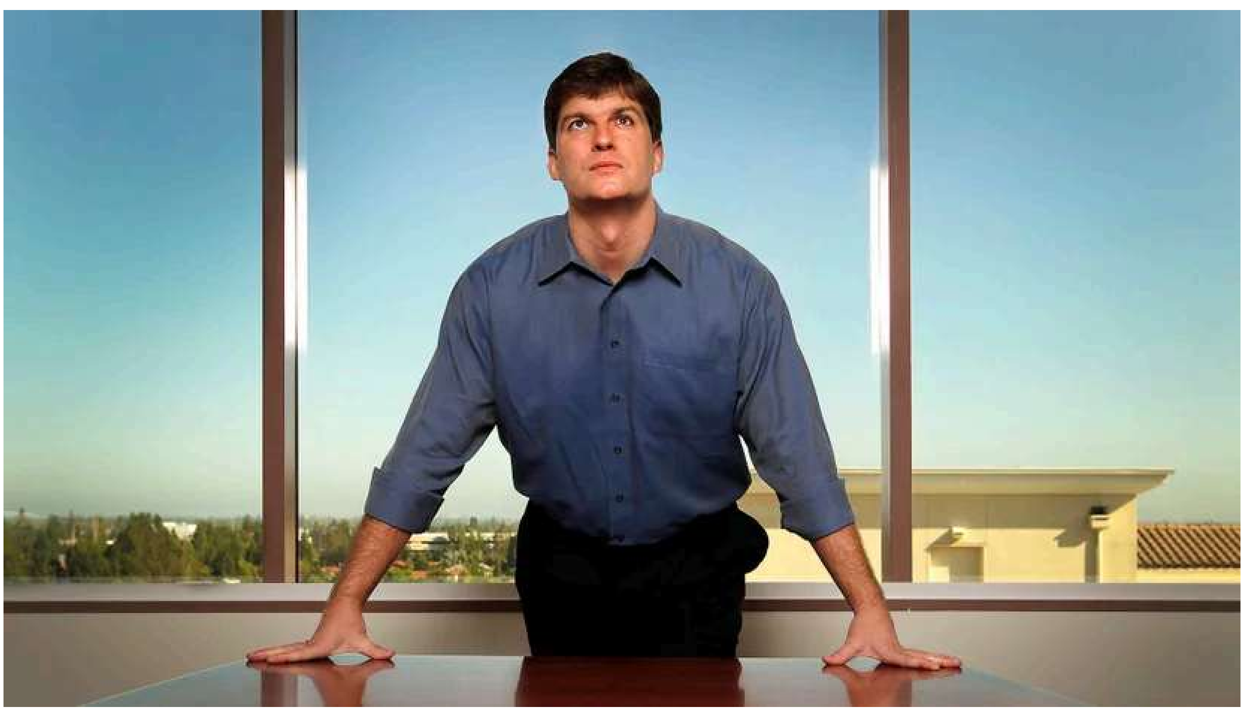

Michael Burry in Cupertino, California. Photo: Getty Images

Michael Burry says six of his seven bets against some of the stock market's biggest AI winners are profitable—and he is keeping them open after those companies helped push the S&P 500 to a record.

Burry, who founded Scion Asset Management, said Tuesday that he remains short Nvidia, Palantir, Micron, Tesla, Caterpillar, Applied Materials, and the iShares Semiconductor ETF. Nvidia is his only losing position, he wrote, while warning that the market may be approaching "a major top" followed by a "1987-type fall."

Burry says the rally is making the market more fragile. As stocks rise and volatility falls, some rules-based funds increase their leverage, while momentum strategies pour more money into assets that are already climbing. That leaves more exposure to unwind if prices suddenly reverse.

"Remember, the market going up on falling volatility forces vol-targeting funds to leverage up, and brings leverage from other momentum strategies into play," Burry wrote on his Substack newsletter.

As the S&P 500 climbed roughly 5 percent over four sessions, the

about 20 percent below its July 29 close, even after rising Tuesday.

For businesses building around the AI boom, Burry's warning is a caution against assuming that today's extraordinary spending, valuations, and access to capital will last.

The other side

The companies Burry is betting against are still reporting growth that gives investors reason to buy.

Palantir co-founder and CEO Alex Karp called its latest quarter "otherworldly" after revenue rose 93 percent and U.S. commercial sales climbed 149 percent. Its shares surged 29.5 percent Tuesday.

Nvidia founder and CEO Jensen Huang has called the construction of AI factories "the largest infrastructure expansion in human history." Nvidia's latest quarterly revenue rose 85 percent, while data center revenue climbed 92 percent.

Micron declined to comment on Burry's position. The company pointed instead to its latest earnings call, where executives said AI had "structurally transformed" the memory industry and that they still could not see when supply would catch up with demand.

At least one of Burry's wagers has already benefited from July's

Semiconductor ETF at around $643. It closed July near $505, a decline of roughly 21 percent.

His Nvidia trade moved the other way. Burry said it remains the only losing position in his basket.

Those results cannot be independently confirmed. Scion says it no longer provides investment management services, leaving no current public filing showing the positions' sizes, entry prices, or values.

Not another 1987?

Burry's comparison rests on the feedback loop that helped deepen the 1987 crash. Portfolio-insurance strategies sold stocks as the market fell on Black Monday, triggering additional rounds of mechanical selling. The Dow lost 22.6 percent in one session.

Campbell Harvey, a Duke University finance professor, said Burry is identifying a real similarity: Rising volatility can force momentum and volatility-targeting funds to sell. But unlike the put-replication strategies used in 1987, their selling generally slows rather than accelerates as volatility keeps rising.

and volatility-targeting strategies manage about $500 billion combined, compared with a stock market worth more than $60 trillion. Harvey added that Burry’s known short positions may prompt questions about whether he is “talking his trade.”

Robert Whaley, the Vanderbilt University professor emeritus who developed the original VIX, was more skeptical.

“A 1987-type market crash is unlikely,” Whaley told Inc. Exchanges in 1987 could not process the volume investors demanded, he said, while today’s markets can handle volumes “thousands of times greater.”

“On average, they tell us nothing,” Whaley said of market forecasts.

Mechanical selling has still intensified more recent downturns. Federal Reserve researchers found that leveraged and inverse volatility products likely contributed substantially to the February 2018 VIX spike. The European Central Bank later said volatility-targeting and risk-parity strategies may have reinforced the March 2020 selloff.

Burry also cited analysis from Jonathan Krinsky, BTIG’s chief market technician, showing that the S&P 500 has gained at least 5 percent over four sessions to a record only three other times in 30 years:

The outcomes point in different directions. Six months after the March 2000 occurrence, the index was down 3 percent. Six months after the November 2020 move, it was up nearly 18 percent.

"Three data points isn't statistically relevant," Krinsky told Inc. Still, he said enough warning signs have emerged to "rhyme with '99-'00," and that the recent downside in AI and momentum stocks may not be over.

A literal repeat of Black Monday would also encounter circuit breakers introduced after the crash. Before 3:25 p.m., S&P 500 declines of 7 percent and 13 percent can trigger 15-minute market-wide halts, while a 20 percent drop ends trading for the day.

Burry said he would close any position that moved decisively against him.

"Shorting is not for everyone," he wrote. "I must short. Most should not."