# Bank of England warns of AI risks in trading amid market volatility



The Bank of England has recently issued a policy paper warning that the increasing reliance on artificial intelligence (AI) in trading and investment strategies could lead to heightened market volatility and financial instability, particularly during turbulent economic periods. The paper, released this week, highlights the risks associated with widespread AI utilisation, particularly the phenomenon of "herding" behaviour among firms when markets descend into chaos.

This alert comes against the backdrop of significant fluctuations in global equity and bond markets, triggered by President Donald Trump’s recent tariff policy changes. The announcement of a minimum 10% tariff on imports from various countries has resulted in sharp declines in major stock indices. The Dow Jones Industrial Average has seen a drop of 6.2% since the announcement, while the S&P 500 and Nasdaq Composite have lost 7.1% and 6.9%, respectively. Concurrently, benchmark 10-year Treasury yields have risen from 4.053% to 4.509%, indicating a shift among investors towards safer assets.

The Bank of England cautioned that as more firms adopt AI for their trading and investment decisions, there exists a significant risk that they will concurrently make similar choices, particularly during moments of market stress. The paper states, “Greater use of AI to inform trading and investment decisions could help increase market efficiency. But it could also lead market participants inadvertently to take actions collectively in such a way that reduces stability.” This collective action, if taken during a market downturn, could lead to dramatic sell-offs, exacerbating existing financial instability.

The paper elaborates on the potential fragility of markets increasingly governed by AI, indicating that while the technology can enhance efficiency by processing information at speeds unattainable for humans, it may also diminish the market's ability to withstand shocks. The International Monetary Fund (IMF) has identified herding and market concentration as top risks arising from the broader adoption of generative AI in capital markets. According to the IMF’s 2024 report, the use of AI in trading and investing is projected to accelerate, bringing with it both the possibility of improved risk management and the emergence of new vulnerabilities, such as increased volatility under stress.

Federal Reserve Chair Jerome Powell has commented on the broader economic implications of tariffs, suggesting they "are likely to raise inflation in coming quarters," leading to potential changes in monetary policy. His remarks were made shortly before Trump announced a 90-day pause on tariffs for nearly 60 countries, excluding China.

The Bank of England’s paper does offer a nuanced perspective, suggesting that if financial services firms leverage AI effectively, they could enhance their risk management strategies. Such improvements might help firms avoid the urgency to sell off assets en masse during market downturns, thus mitigating fire sales and their associated damaging effects on market stability.

Furthermore, the paper posits another potential stabilising factor in AI’s application: personalising investment strategies for individual clients. This tailored approach could mean less correlation in asset holdings across the market, further reducing the risks associated with herd behaviour.

As discussions surrounding the intersection of AI and financial markets continue, the Bank of England's insights shed light on the dual nature of technological advancement in trading—characterised by both potential efficiencies and the risks of amplified market instability.

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.bankofengland.co.uk/financial-stability-in-focus/2025/april-2025> - This link corroborates the Bank of England's focus on AI and financial stability, highlighting the risks and potential benefits associated with AI adoption in financial markets.
2. <https://www.jdsupra.com/legalnews/bank-of-england-speech-on-artificial-2091877/> - This article supports the notion that the Bank of England is cautious about AI's impact on financial stability, emphasizing both microprudential and macroprudential considerations.
3. <https://www.sidley.com/en/insights/newsupdates/2024/12/artificial-intelligence-in-financial-markets-systemic-risk-and-market-abuse-concerns> - This resource explores the systemic risks and market abuse concerns related to AI in financial markets, aligning with the article's discussion on potential instability.
4. <https://www.imf.org/en> - Although not specific to a 2024 report, this link generally supports the IMF's role in analyzing risks associated with AI in capital markets, such as herding behavior.
5. <https://www.federalreserve.gov/newsevents/speech/powell20230201a.htm> - This link provides context to Federal Reserve Chair Jerome Powell's comments on broader economic policies, although not specifically addressing tariffs in this speech.
6. <https://tradingeconomics.com/indicators/us-stock-market> - This link provides data on stock market indices like the Dow Jones, S&P 500, and Nasdaq, which can support the discussion of market fluctuations.
7. <https://news.google.com/rss/articles/CBMiwgFBVV95cUxQRXhGOE9qdnBSM21ZdElXZmxQVDlNZjAwV2hSU1lHNHNoR3pqVXhaNlJzS2xwcmpoZERpbzNndEdUSTd5S2ZVWVFKN1ZXLW5HNlc2eWNudUdvbjJuLVR3c3R1RndjNlFiQkZDQlVrTEQ5LXhDTkdLOXJnTEhNa0RRTFZ4elN0ck1NMTNTZnFzSkJPOURrUkg2WmxIWHBhZmtEWW5LOWRjOFMtSXNRRUx6bFdnNl8zeHBwNllsQjBsUTZjUQ?oc=5&hl=en-US&gl=US&ceid=US:en> - Please view link - unable to able to access data