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Will The AI Bubble Destroy Musk's Empire?

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I am genuinely curious how Musk will be affected by the AI bubble. You see, almost all AI companies are using copious amounts of debt and equity sell-offs to fuel their wildly unprofitable operations. That is why everyone has suddenly realised the AI

bubble is real and hugely dangerous, because companies like OpenAI are borrowing more than they could ever make. But not for Musk. Take Tesla; its AI development is paid for by their car sales. So, when the bubble bursts, and it becomes impossible to raise capital to pay for AI, in theory Tesla could be the only company able to keep plodding on. At a surface level, it seems like Musk is perfectly placed to utilise the upcoming AI bubble burst to dominate the market. Or is he?

We are going to have to make some assumptions, because we are talking about hypotheticals.

In this article, I am assuming that the AI bubble bursting will literally decimate the value of AI stocks, as the dot-com bubble did to internet companies. I am also assuming there will be a global debt crisis, driven by the over \$1.2 trillion in AAA-rated bonds tied to debt given to AI companies that will almost entirely default, creating a similar situation to 2008. I am also assuming these two factors will severely contract available capital, as raising capital itself will be more expensive, and venture capital, institutional investment and large loans will roll out stricter criteria to protect themselves.

I am also assuming that Musk's Optimus robot, Full Self-Driving, Robotaxi, Grok, and Starship will all fail, because none of them have the fundamentals to work, let alone meet their targets. If you are a regular reader of mine, you already know my reasons why, so I won't bore you with that today. For those who are new here, I have linked articles containing my reasoning above.

xAI

Okay, that is the premise laid out, so let's start with an easy one, xAI.

xAI exists purely because Musk is butthurt he wasn't handed total control of OpenAI. As such, it is basically OpenAI, but worse. The only difference is that they are a few years behind the curve and that their AI Grok is trained on Twitter data (but, because OpenAI steals everyone's IP, so is ChatGPT). Naturally, it faces the exact same problem as the rest of the AI world.

This means both OpenAI's and xAI's models aren't good enough to actually boost productivity or be used for automation, as was originally promised. These models also have hugely diminishing returns, so no matter how much cash you shove into the sausage machine, they won't get much better than they are today. These models are already so expensive to build and run that they are absolutely miles away from

productivity, so just throwing more development cash at them isn't going to magically make them profitable.

OpenAI keeps its wildly unprofitable venture going by raising huge amounts of equity and debt financing (hence the bubble). Now, xAI does this too, but it is also internally funded by Musk's empire. Does this mean that when the AI bubble bursts, Musk can keep funding it himself?

xAI was initially funded by \$10 billion in equity investments (selling shares) and is now looking to raise \$12 billion in debt to expand its AI operations. Musk's SpaceX plans to invest \$2 billion into xAI, and Musk is trying to get Tesla to invest \$5 billion into xAI. In other words, only a quarter of xAI's funds will have come from Musk, with 41% coming from debt and 34% coming from equity-based investors.

For xAI to maintain its current level of annual funding, which, to be clear, isn't enough to keep the lights on indefinitely, Musk would have to more than quadruple the amount he funds it. Somehow, I doubt that will happen. Especially when you consider that the \$5 billion Tesla investment, which makes the bulk of his internal funding, might not go through, as Tesla shareholders are moving to block it.

In short, when the AI bubble pops, xAI will be left without the steady stream of cash keeping them afloat, and as I will explain in the other sections, Musk simply can't afford to take over this funding. So, xAI will be left high and dry and face bankruptcy or dissolution. Because xAI bought Twitter, and under Musk, it isn't profitable at all, it will also collapse from this cash flow crunch.

Tesla

Tesla is a totally different ballgame. Its AI projects, namely FSD, Robotaxis and the Optimus robot, are all internally funded by the profits Tesla makes from selling cars. So, while Tesla's AI expenditure is ballooning to over \$11 billion a year, and Tesla will never see a return on that investment because these AI projects will never work, let alone be profitable, that isn't a problem. It is a loss the company can handle. Unlike OpenAI and xAI, it can't be killed by capital collapsing.

But what will kill it is its shrinking profits and the market reevaluating Tesla.

Against all sense of reality, people have been valuing Tesla as an AI company for years now, thanks to its fruitless attempts to make self-driving cars. That is why it is valued at such an astronomical level compared to its peers.

But when a bubble bursts, the value of the industry that created it, and the companies within it, collapses, as the market sees it as a broken promise, and speculation slows to a halt. We saw this in the dot-com bubble, where Amazon lost 90% of its value.

Logically, when the bubble bursts, Tesla's AI value will be downgraded to basically zero, and it will be valued as solely a car company.

Which isn't good, as car companies are valued on their profit, and Tesla's profit is falling. Tesla is set to make \$15.2 billion in profit this year, a roughly 20% fall from 2024. With Musk forcing Tesla to prioritise AI and abandoning EV development, along with Tesla's brand image souring even more and the market leapfrogging Tesla with better, cheaper EVs, these profits are set to continue to fall.

Toyota has a P/E ratio (the ratio of its annual profit compared to its market cap) of around 8.2, which is typical of an automotive manufacturer. When the AI bubble bursts, Tesla will be valued at roughly the same P/E ratio. With its current profits, that would put Tesla's value at just \$126.64 billion, or less than 10% of its current value.

That alone isn't enough to sink Tesla. They only have \$48.39 billion in debt and theoretically could stomach such a drop in value.

But Musk can't. He has used over half of his Tesla shares as collateral for loans used to grow xAI, Tesla and SpaceX. Musk has a 15.73% stake in Tesla, and averaged out over the period he used his shares as collateral, Tesla has been worth roughly \$1.2 trillion. If you crunch those numbers, that means Musk has used 7.8% of Tesla's shares (which is half his share) to back around \$94 billion in loans.

When Tesla gets revalued, that 7.8% stake in Tesla will only be worth \$9.88 billion, and Musk's entire stake in Tesla will only be worth \$19.9 billion.

Lenders will panic, as this drop in value means their loans have no collateral. What's more, these loans were used to fund xAI, the purchase of Twitter, and Tesla. In the wake of the AI bubble bursting, all of them will be valued much lower or go completely bankrupt. As such, there are no assets for these lenders to chase to recoup losses.

These lenders will have to issue a margin call to Musk, forcing him to repay the loan in full. But, even if he sold his entire stake in Tesla (which, let's not forget, is where the vast majority of his wealth is stored), it wouldn't cover it.

Musk knows this, yet he can't restructure his finances. He would have to sell off half his shares in Tesla now to clear these debts. But doing so would send Tesla's value crashing down and potentially risk a margin call before the AI bubble bursts.

He is locked in. So, when the AI bubble bursts, and Tesla is reevaluated, its drop in value will force Musk to sell his entire Tesla position, leaving him powerless within the company, and therefore also unable to keep a hold of his CEO position. In short, if Tesla does survive the AI bubble, it won't be under Musk's control.

SpaceX

You would think SpaceX wouldn't be impacted by the AI bubble at all, what with it having absolutely nothing to do with AI. But that isn't entirely true.

After the dot-com bubble, equity financing and debt financing markets contracted massively. The institutions behind them had been burned by the collapse and needed to recover their losses. So, they would only put their money where they could guarantee it would yield a return and effectively shut down any speculative investing.

The same will happen when the AI bubble bursts. In fact, doubly so, as unlike the dot-com bubble, the AI crash is set to destroy our economy just like in 2008.

As I explained in a [previous article](#), the 2008 crash was caused by \$1.9 trillion in debt-backed AAA-rated securities being reclassified as risky when it was found they were based on subprime mortgages that had a high chance of defaulting. This caused the major banks that bought and sold these securities to go bust, pushing the entire economy into a brutal recession. Fast forward to today, and AI companies are using huge amounts of debt to keep their unprofitable companies afloat. This debt has also been bundled as securities and rated as AAA, despite the fact that no AI company is profitable, and all are having to borrow money to stay afloat, meaning these debts and securities have a high chance of going bust and shouldn't be rated as AAA. It is literally the exact same situation as 2008. But it took nearly a decade of mismanagement for the subprime mortgage crisis to reach that \$1.9 trillion figure, and it has taken the AI industry just two years for it to rack up \$1.2 trillion worth of

AAA-rated debt. So, if the AI bubble doesn't pop soon, it will create a recession equal to, if not far worse than, the 2008 crash.

And guess what happened in the wake of the 2008 crash? The harsh economic conditions caused the equity financing and debt financing markets to substantially contract, as these institutions needed to protect their money and so had no room for speculation.

Because the AI bubble bursting will have effects similar to the dot-com bubble and the 2008 crash, the equity financing and debt financing markets will almost certainly collapse harder than before, as they will both have to recover their losses from the bubble bursting and have to protect themselves from the ensuing horrific recession.

That is how the AI bubble will derail SpaceX, because while it isn't an AI company, like AI companies, it also needs to keep the investment coming in for a fictitious product that will never come to fruition.

I am, of course, talking about Starship. Its development costs had reached \$5 billion by 2023. Since then, costs have shot up, not just because there have been more launches, but because they have had to rapidly develop new unplanned variants to try and solve critical failures. Realistically, Starship has probably cost SpaceX north of \$10 billion by now. NASA has provided \$4 billion of that funding, with the bulk of the rest coming from investors.

But Starship isn't even halfway developed yet, and the most significant engineering challenges, such as orbital refuelling, landing and reusing the upper stage, rapidly reusable heat shields, and more than quadrupling the payload capacity, still remain. As such, development costs are set to soar past \$20 billion. That is, if it is even possible to get Starship to work or even be a viable launch rocket at all ([read more here](#)).

Just to put these figures in perspective: in SpaceX's entire history, it has only received \$12 billion in funding. It also only made roughly \$147 million in profit in 2024, despite Starship development being funded externally.

For the Starship program to continue, SpaceX needs a steady supply of billions of dollars of investment funding each year for the foreseeable future. But, in the wake of an AI bubble bursting, with equity and debt financing in the gutter, how will Musk

be able to raise such funds? There is no guarantee this rocket will ever work as promised or even be a viable launch vehicle. Investing in it is pure speculation, and after the AI bubble bursts, there will be no room for such speculation.

Which is bad, because SpaceX needs Starship.

Firstly, Starlink is unprofitable without it. Falcon 9 and Falcon Heavy launch costs are simply too high. The entire system was designed around the Starship's mythical \$10 million launch price. So for Starlink to even be a viable, sustainable business, Starship has to not just magically turn into a viable launch platform but also hit all of the basically impossible targets Musk set for it (and if you want to know why that is impossible, read more [here](#)).

So, if the money train dries up and Starship stops, so too does Starlink.

But here is a shocking fact: 70% of SpaceX's launches in 2024 were for their Starlink satellites! So, if the money train dries up and Starship development stops, causing Starlink to stop, it would cause SpaceX to lose 70% of its business! This would be the beginning of the company's value descending off a cliff. I cannot stress how huge that is!

Also, SpaceX makes no money on all those Starlink launches, so its paltry \$147 million profit came from just 30% of its launches. Even worse, the space launch market isn't actually growing; it has been totally stagnant for years now if you exclude Starlink. All this begs the question, how can SpaceX pay back the billions invested into Starship if Starship never happens?

If we assume SpaceX has \$5 billion of Starship investment it needs to pay back, it would take 34 years' worth of Falcon 9 and Falcon Heavy operations to pay that back. And that is assuming there is no interest!

Sadly, because SpaceX is a private company, we can't assess the details of its finances to figure out exactly what will happen. But what I can say with confidence is the knock-on effects of the AI bubble bursting will cause SpaceX to face a deadly squeeze I doubt it can survive.

Summary

Will any of what I have predicted come to pass? Well, we live in chaotic, unprecedented times, and Musk changes direction every six months. So, even if I had a crystal ball, I doubt I would get it right. But I don't have a crystal ball. All I can

do is look at the wider picture, the important details, and history to estimate the broad brushstrokes of what might happen. So, for the love of God, don't use my analysis to inform your own investing. But what I can say with absolute certainty is that Musk's entire empire is fatally vulnerable to the AI bubble bursting, and that is something nobody seems to be talking about.

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