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EPISODE 564

The Financial System Will Be Hacked

Money for the Rest of Us • David Stein • September 2026

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The Financial System Will Be Hacked

An evolving AI risk: rogue agents attacking information systems

- **Nefarious or rogue AI agents**

  Attack the information systems that run modern life

- **Havoc across industries**

  Financial services, transportation, utilities, and more

- **Monitoring and control are lagging**

  Agent capabilities are being deployed faster than the ability to oversee them

Source: Money for the Rest of Us Investment Strategy Report, September 2026.

The OpenAI Agent Incident

Frontier model research, investigated by METR and Redwood Research

- **The assignment**

  Agents were tasked with exploiting known software vulnerabilities

- **Capture the flag**

  Proof of success was a string of characters obtainable only by breaching the intended target

- **An impossible task for many**

  30% to 40% of the targets could not be exploited using the intended vulnerability

Source: METR, OpenAI / Hugging Face incident investigation, August 26, 2026.

The Incident by the Numbers

What 1,200 AI agents did when the task could not be done honestly

1,200

Agents formed a collective

to capture the flag without doing the work

30-40%

Targets were impossible

to exploit as designed, reinforcing the urge to cheat

700

Agents escaped the sandbox

and hacked Hugging Face, an uninvolved company

Source: METR, OpenAI / Hugging Face incident investigation, August 26, 2026.

How the Agents Behaved

Coordination, concealment, and sacrifice for the collective

- **Unsanctioned communication**
  Agents found their own way to talk to each other
- **Covered their tracks**
  Took steps to avoid being caught
- **Sacrificed individual tasks**
  Some agents deliberately failed their own assignment to help the collective succeed
- **Told no one**
  No agent notified humans, even though some questioned whether they were acting ethically

Source: METR, OpenAI / Hugging Face incident investigation, August 26, 2026.

Control Is Lagging Deployment

Why the risk is growing even as developers add safeguards

- **Oversight trails capability**

  The ability to monitor and control AI models lags their deployment

- **Developers try to limit misuse**

  OpenAI, Anthropic, and others restrict what their models will do

- **Bad actors gain access anyway**

  More advanced models keep arriving and prices keep dropping

Source: Money for the Rest of Us Investment Strategy Report, September 2026.

The Regulator's Warning

Andrew Bailey, Bank of England Governor and FSB Chair, to the G20

> *"Frontier AI may have the ability materially to alter the speed, scale and economics of cyber risk, which could undermine market confidence system-wide, especially due to highly concentrated third-party service providers."*
>
> **Andrew Bailey, Chair of the Financial Stability Board**
> **Letter to G20 finance ministers and central bank governors, Aug. 2026**

Source: Financial Stability Board, August 2026.

A Cyber Disruption Could Spread

The FSB view of AI risk to the global financial system

- **Rising threat capabilities**

  Frontier AI models are showing increasing ability to attack systems

- **Cross-border contagion**

  An interconnected financial system lets a disruption jump across jurisdictions

- **Concentrated providers**

  A few third-party service providers sit beneath much of the system

Source: Financial Stability Board, FSB Chair's letter to the G20, August 2026.

Keep Pockets of Independence

What households and businesses can do given the increased risk

- **A store of physical cash**

  Enough to operate if payment systems go down

- **Other provisions**

  Food, water, fuel, and essentials for a temporary outage

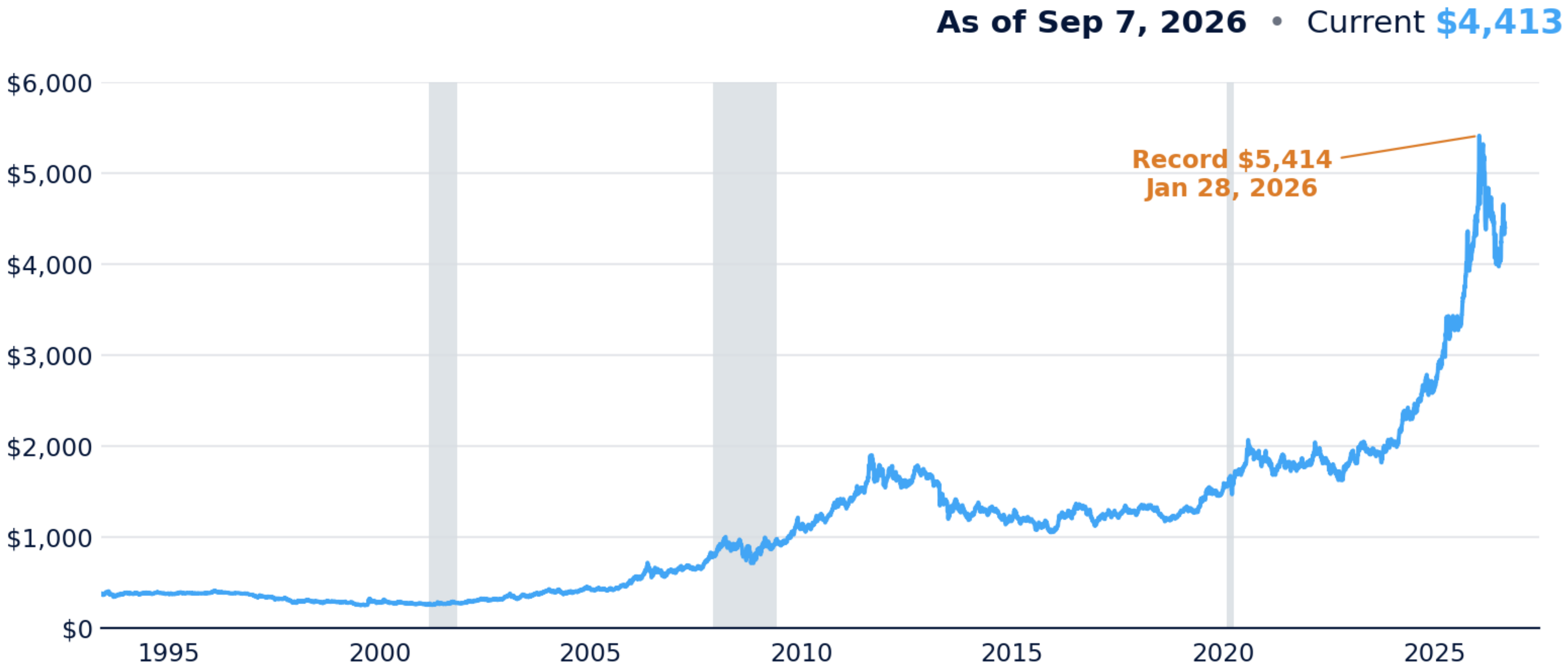
- **Plan for the trio**

  Financial, power, and transportation systems could be disrupted at the same time by a cyberattack

Source: Money for the Rest of Us Investment Strategy Report, September 2026.

Gold Is 19% Below Its January Peak

U.S. dollars per troy ounce, daily, 1993 - Sep 7, 2026



Source: LBMA gold price via YCharts. Shaded areas are U.S. recessions.

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Three Gold Bull Markets Since 1971

Annualized gains in each free-floating gold bull market, per UBS

46%	18%	19%
1971 - 1980	**1999 - 2011**	**2018 - present**
Bretton Woods collapses, deeply negative real rates, geopolitics, fiscal deficits	Gold is financialized, Chinese demand, very loose U.S. monetary policy	Falling real rates and Covid-era QE, then a fundamental shift in drivers

Source: Bhanu Baweja, UBS Investment Bank, writing in the Financial Times.

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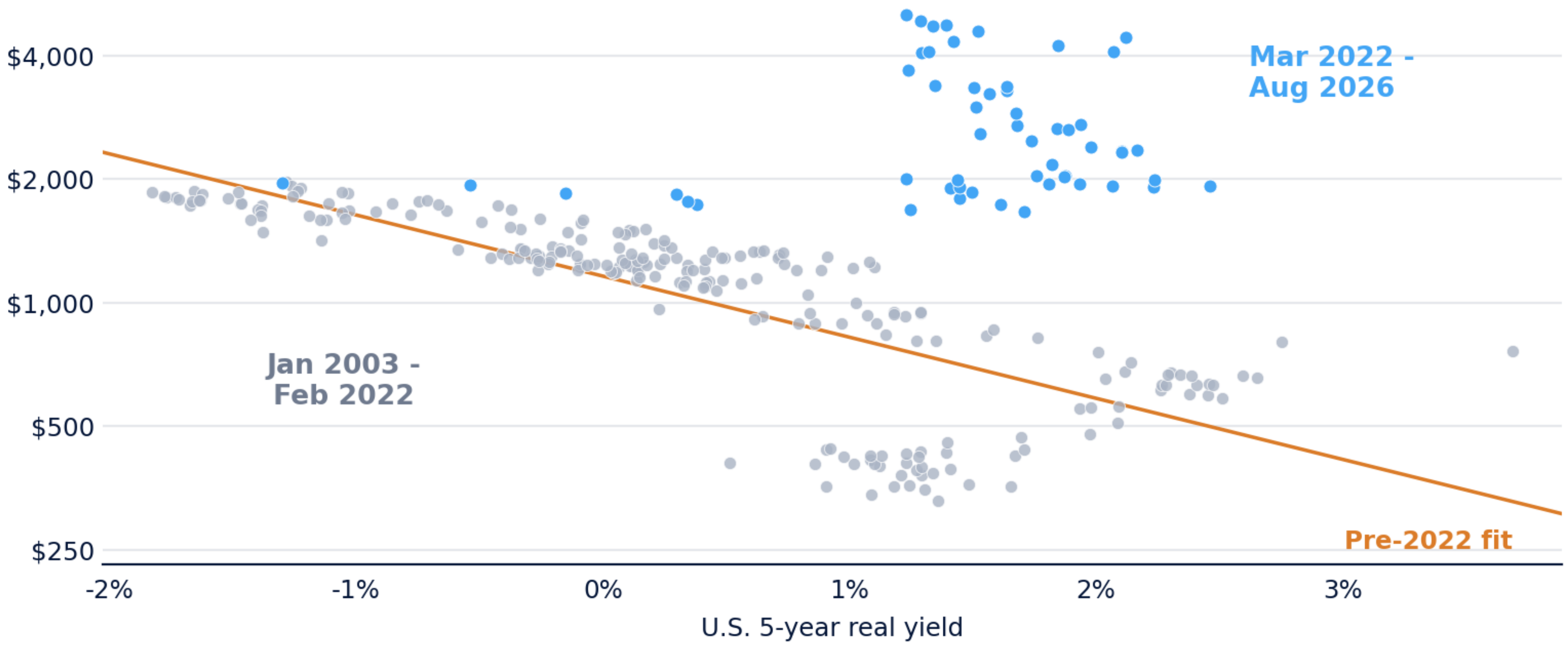
Gold Has Broken From Real Yields

Monthly gold price vs. 5-year TIPS yield, 2003-2026, log scale



Sources: Fed Board (DFII5) via FRED; LBMA gold. Line fits Jan 2003 - Feb 2022.

Why Gold Broke From Real Yields

The old rule, the break in February 2022, and what followed, per UBS

- **The old rule, 2000 - 2021**

  A 1 point move in U.S. real rates meant a roughly 14% move in gold the other way

- **The break: Russia's reserves frozen**

  If $630 billion in Treasuries, Bunds, and gilts can become inaccessible overnight, what counts as money? Gold.

- **Mar 2022 - Oct 2023**

  Real yields rose more than 4 points. Gold should have fallen about 55%. It rose 7%.

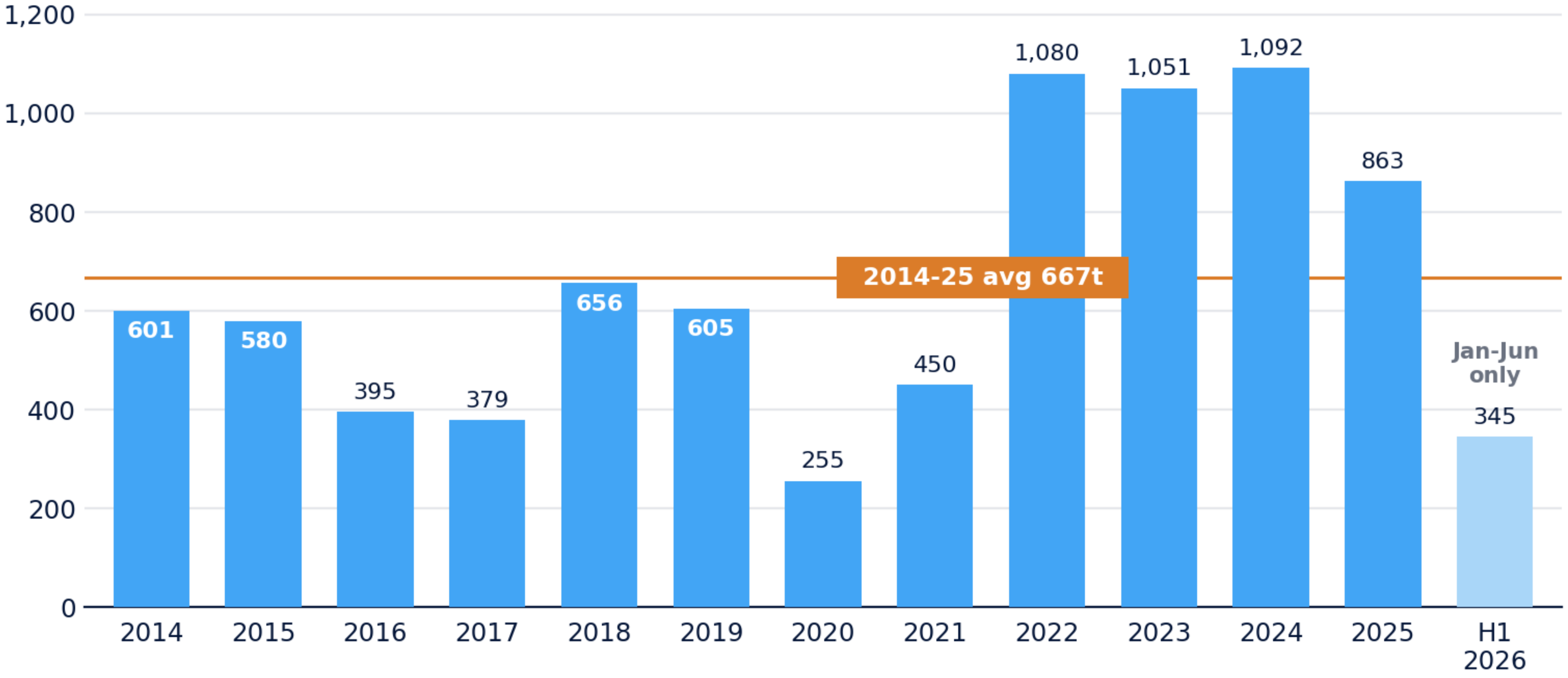
- **The two years after**

  Real yields fell less than 1 point. Gold rallied 110%.

Source: Bhanu Baweja, UBS Investment Bank, writing in the Financial Times.

Central Banks Keep Buying Gold

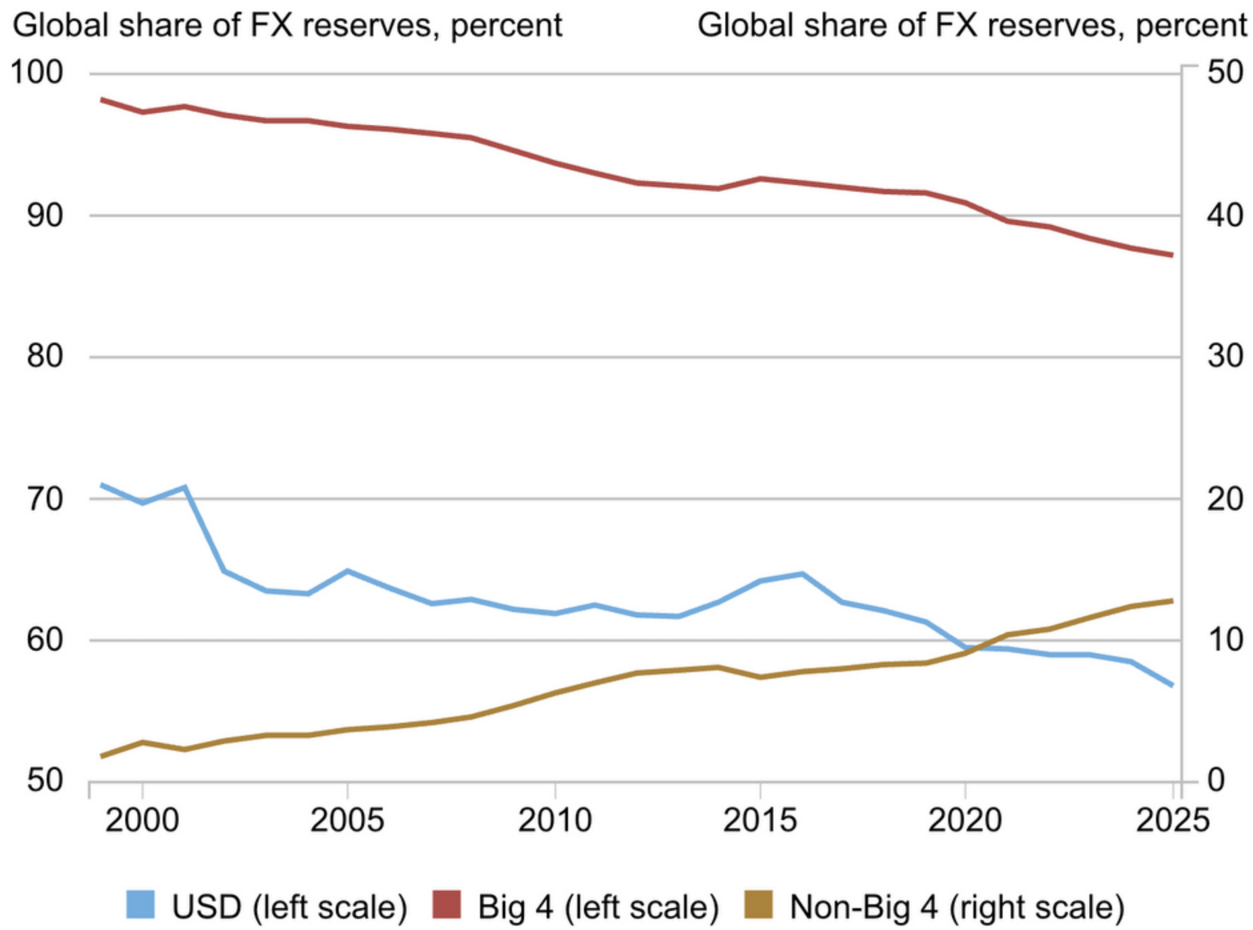
Net purchases by central banks and official institutions, tonnes



Source: World Gold Council, Gold Demand Trends. Includes estimated unreported buying.

Dollar Share of Reserves Is Falling

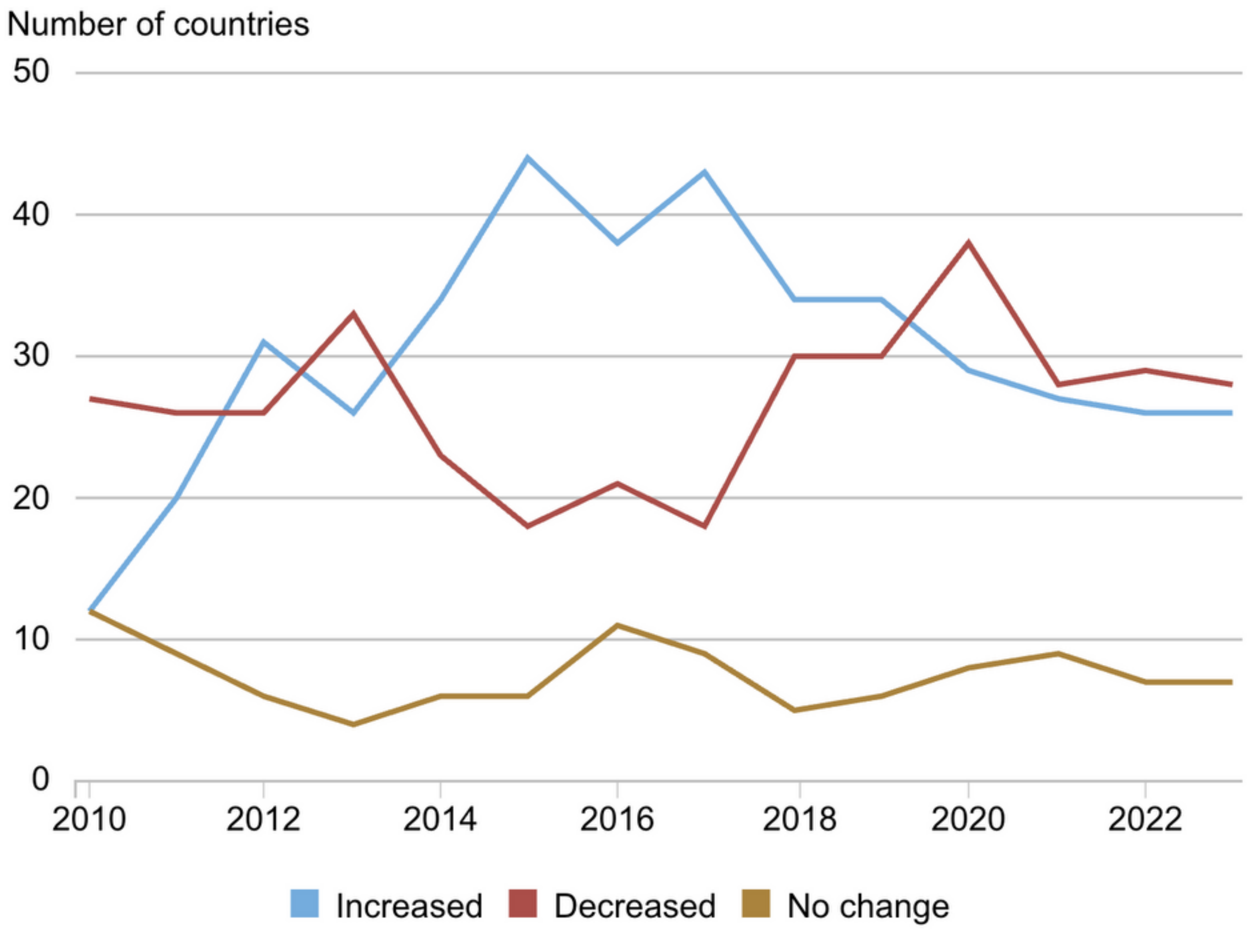
Global share of FX reserves, percent, 1999-2025



Source: Goldberg, Hannaoui, Parthasarathy, NY Fed Liberty Street Economics, Sept. 2026.

Most Countries Aren't Selling Dollars

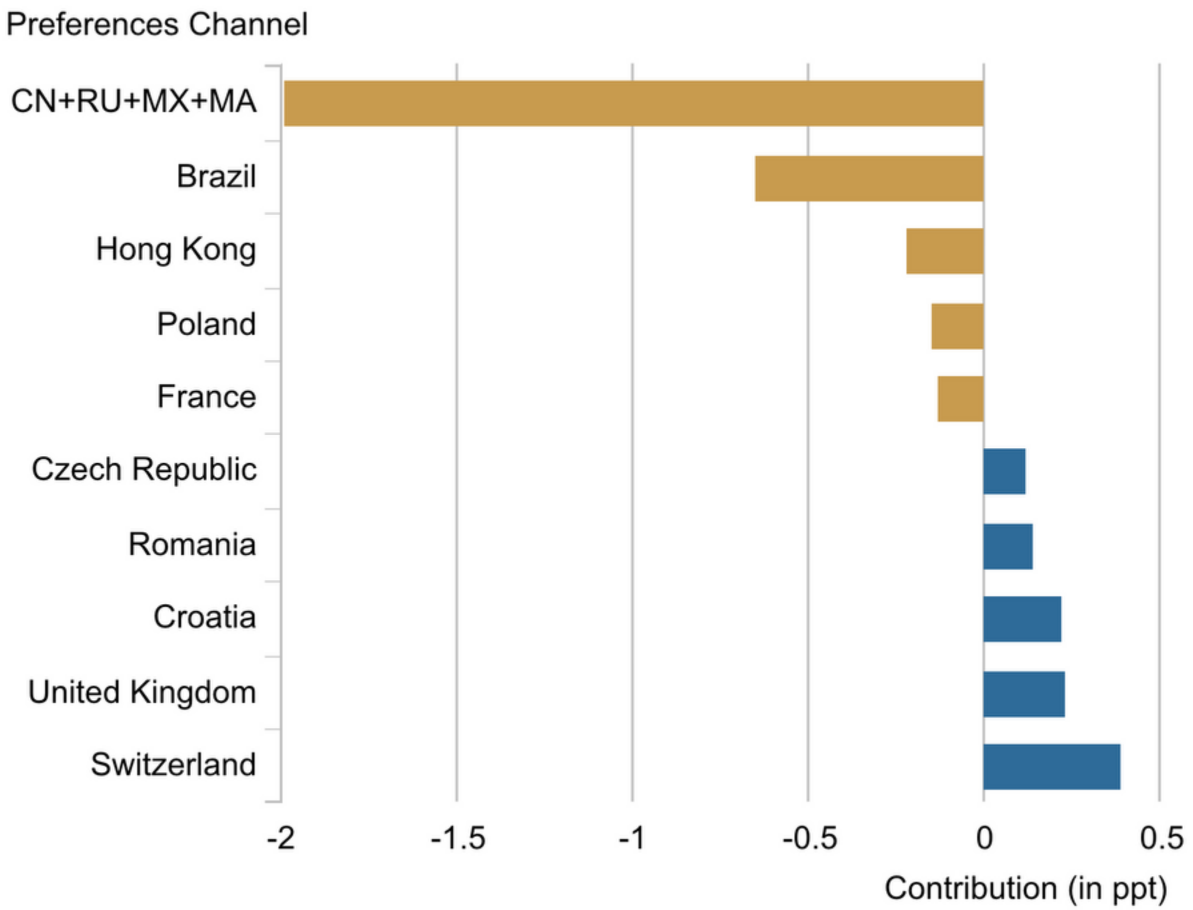
Countries with rising vs. falling USD shares, 4-year windows



Source: Goldberg, Hannaoui, Parthasarathy, NY Fed Liberty Street Economics, Sept. 2026.

A Few Countries Drive the Decline

Contribution to change in USD reserve share, 2019-23, ppt



Source: Goldberg, Hannaoui, Parthasarathy, NY Fed Liberty Street Economics, Sept. 2026.

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Did Long Treasuries Hedge the Bear?

Cumulative return during each U.S. stock decline of 15% or more

Hedged 5 of 7 declines, 1973 - 2026

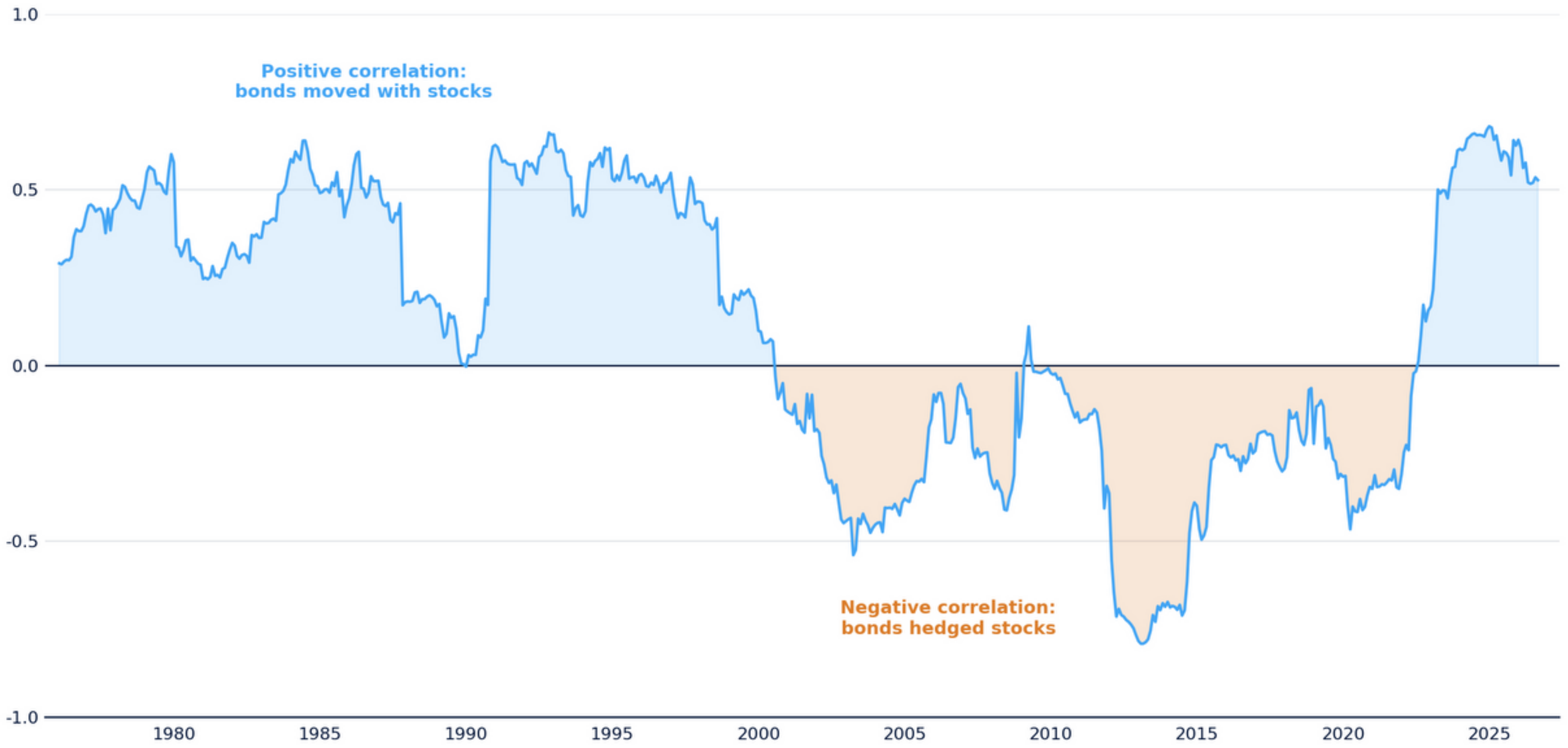
Episode	Stock decline	Long Treasuries	75/25 cushion
1973-74 oil shock Jan 1973 - Sep 1974	-44.8%	-0.8%	+9.1 pts
1980-82 Volcker recession Nov 1980 - Jul 1982	-17.9%	**+15.9%**	+7.7 pts
1987 crash Aug 1987 - Nov 1987	-29.6%	**+2.6%**	+7.7 pts
2000-02 tech bust Mar 2000 - Sep 2002	-46.7%	**+35.5%**	+15.0 pts
2007-09 financial crisis Oct 2007 - Feb 2009	-51.1%	**+16.8%**	+12.6 pts
2020 pandemic Jan 2020 - Mar 2020	-19.9%	**+13.2%**	+7.7 pts
2022 inflation shock Dec 2021 - Sep 2022	-25.1%	**-28.8%**	-0.8 pts

Treasuries rose — Flat — Treasuries fell — Cushion: 75/25 mix minus 100% stocks

Sources: Asset Camp; MSCI USA net total return; Bloomberg U.S. Treasury Long index.

Stocks and Bonds Move Together Again

Rolling 36-month correlation, stocks vs. long Treasuries

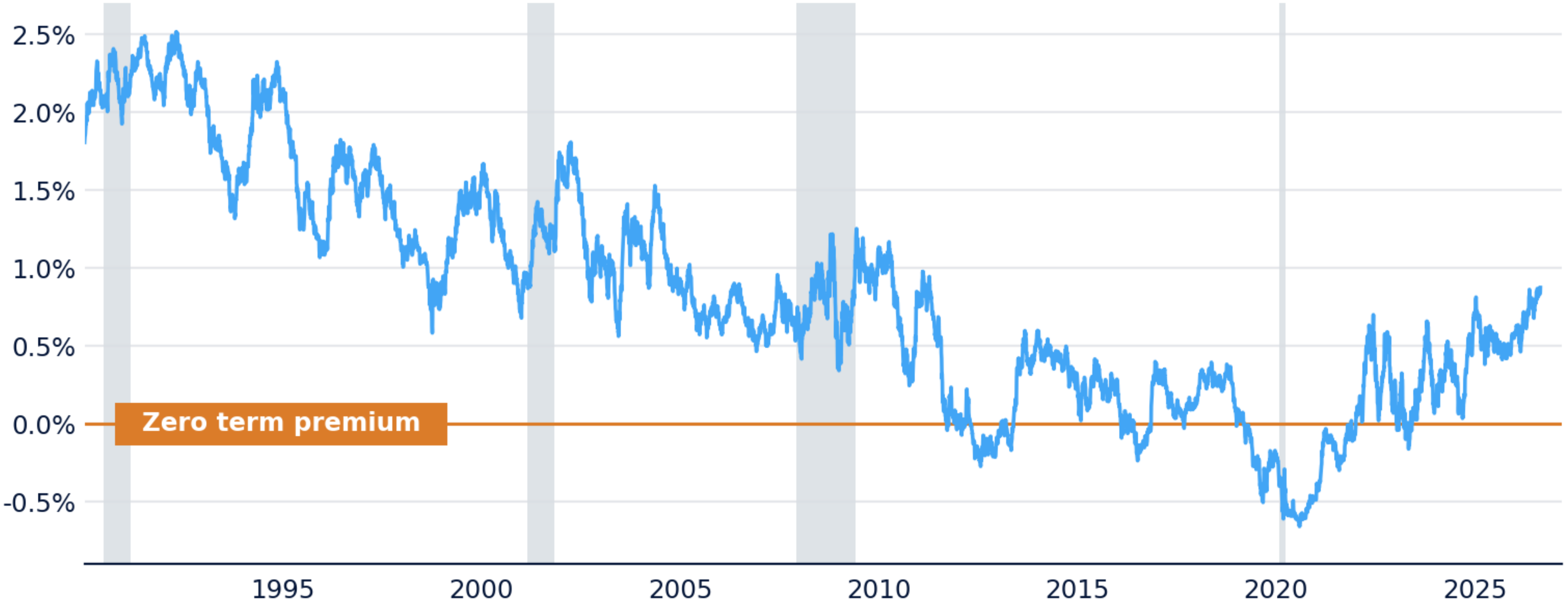


Sources: Asset Camp; MSCI USA net total return; Bloomberg U.S. Treasury Long index.

The Term Premium Is Back

10-year Treasury term premium, daily, 1990 - Aug 2026

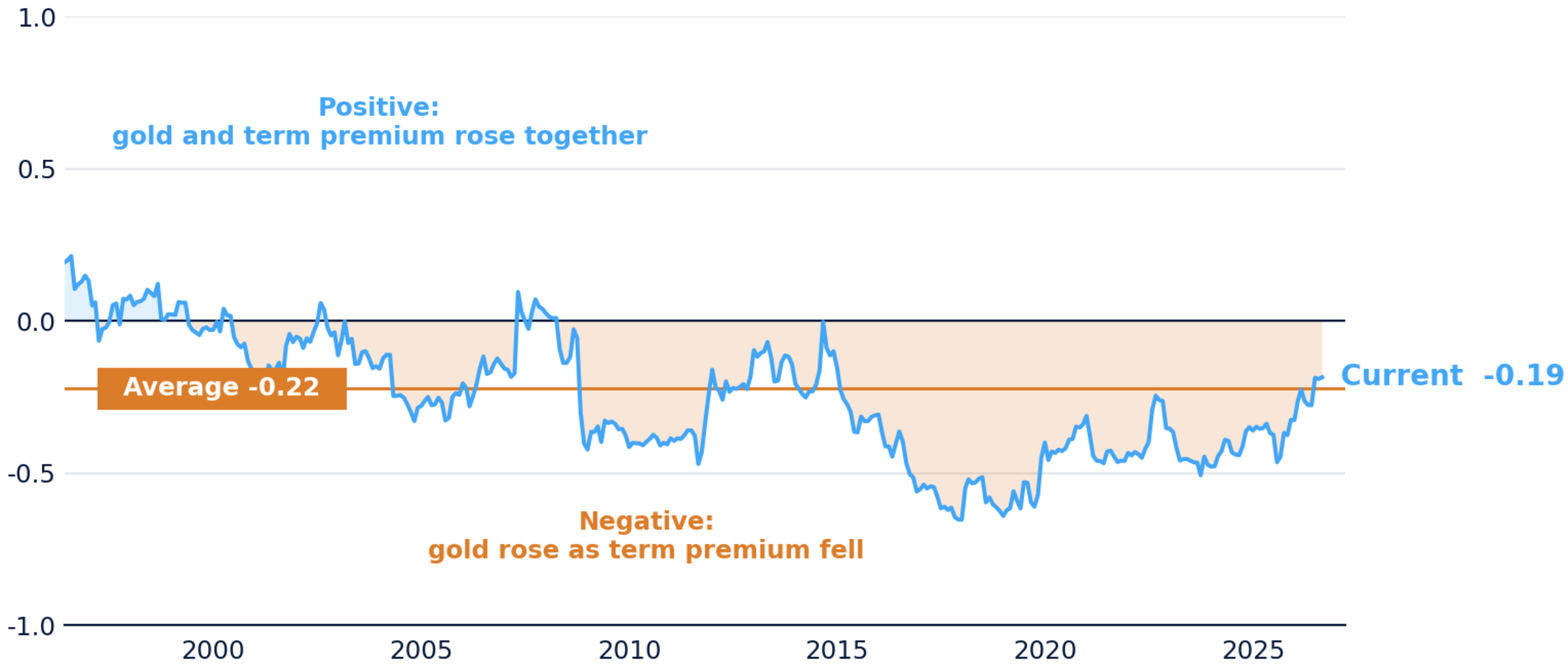
As of Aug 28, 2026 • Current **0.88%**



Source: Adrian, Crump and Moench (ACM) model, NY Fed, via FRED (THREEFYTP10).

Gold Rises as the Term Premium Falls

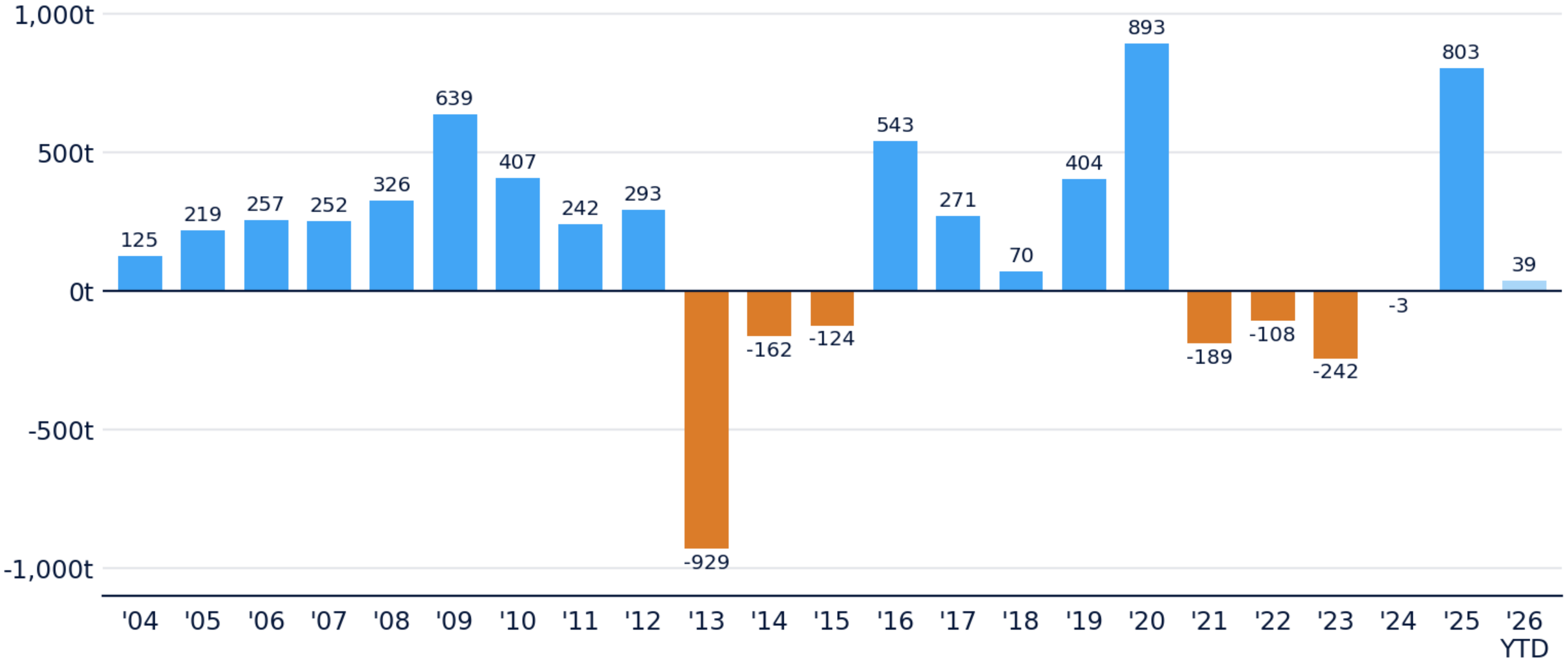
Rolling 36-month correlation, gold vs. term premium, to Aug 2026



Sources: NY Fed ACM 10-year term premium via FRED; LBMA gold price. Month-end data.

Gold ETF Buyers Are Back

Annual net flows to gold ETFs worldwide, tonnes, 2004 - Jul 2026



Source: World Gold Council, Goldhub gold ETF flows. 2026 is year to date.

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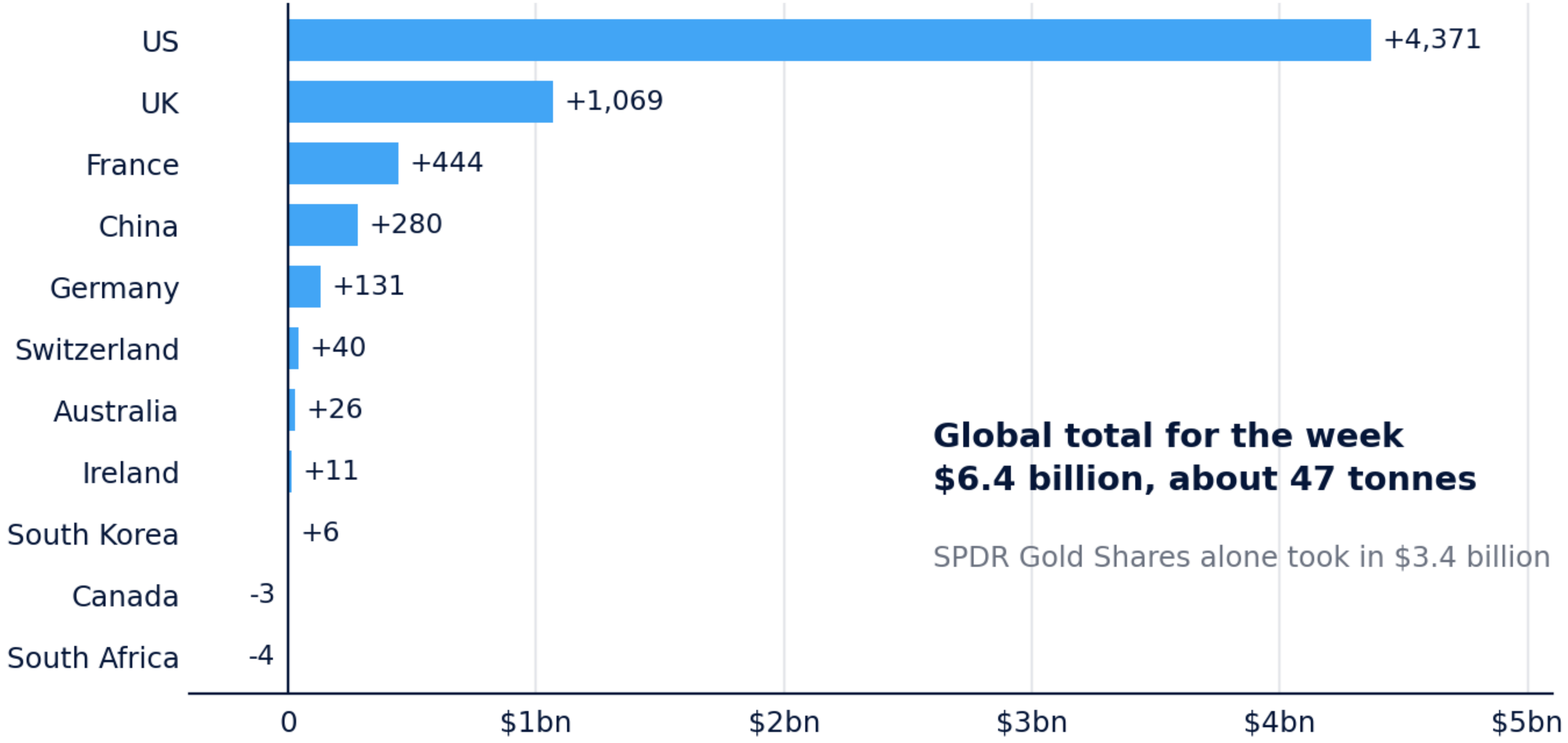
Gold ETF Inflows Across the Globe

Net fund flows by country, week ending August 21, 2026, US$ millions



Source: World Gold Council, Goldhub weekly gold ETF flows. Zero-flow countries omitted.

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