

Analysis of the 2025 Stock Market Crisis and Its Impact on Global Financial Stability

Azizbek Nasriddinov *

School No. 163, azizbekoldboy@icloud.com

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*Correspondence: Azizbek Nasriddinov

Email: azizbekoldboy@icloud.com

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Abstract: *The 2025 stock market crisis was a major event in global financial dynamics, highlighting the market's high sensitivity to economic, political, and information technology factors. This study aims to analyze the causes of the 2025 stock market crisis and its impact on global economic stability. At the beginning of the year, market conditions appeared relatively stable, marked by rising stock prices and high profits among major technology companies. However, rising inflation prompted the Federal Reserve to raise interest rates, leading to increased borrowing costs for the housing, consumer, and business investment sectors. These conditions caused a slowdown in consumption, a decline in credit, and weakened economic growth. Market conditions were further pressured by rising political uncertainty, particularly following the emergence of proposals for new policies regarding the regulation of major technology companies and the imposition of additional trade tariffs. Negative investor sentiment was exacerbated by the spread of unverified information via social media, triggering a mass sell-off. Additionally, algorithm-based automated trading systems accelerated the decline in stock prices through a chain reaction of selling. The analysis shows that this crisis not only impacts the U.S. domestic market but also spreads to various countries such as Japan, Germany, and China, resulting in losses to public savings and global pension funds. Compared to the crises of 2008 and 2020, the 2025 crisis developed more rapidly, underscoring that digital media and modern technology play a significant role in accelerating the transmission of global financial panic.*

Keywords: *Inflation, Federal Reserve, Investor panic, social media, Global Crisis4*

Introduction

The crash of the stock market of the year 2025 has turned out to one of the biggest financial catastrophes of the near future. Investors lost significant sums of money, big-tech companies lost some worth and even those who were nothing to do with the market saw their savings or pension accounts decrease (Reuters, 2025, global market losses). Its effect was sudden and far-reaching, and therefore it contrasted strongly with other historical downturns, in 2008 and 2020. It is important to know what had really happened and caused this crash to become so serious within such a little time. Everything was okay and promising good news in future at the beginning of 2025. The economy was performing well, companies, especially the big technology enterprises were making good returns, and the stock market was rising (Bloomberg, 2025, tech sector performance). Apps such as Robinhood helped to popularise investing among people younger than the traditional investor, some of whom had invested in stocks despite lacking experience in this area (BBC, 2025, impact on young retail investors). There was also high level of confidence in the

market. However, in the background, there were already some finger pointers. Inflation was already increasing and the prices of commodities such as foodstuff, gasoline prices and housing were rising rapidly. This caused the Federal Reserve to increase interest rates in an attempt to curb the inflation (CNN, 2025, Fed rate hikes).

When interest rates go up, it becomes more expensive to borrow money. That means fewer people take out loans, and businesses have to slow down. This sudden change created uncertainty. Meanwhile, Donald Trump's return to the political spotlight, complete with speeches targeting trade (especially with China) and tech giants, heightened investor anxiety. Notably, following the announcement of steep tariffs, markets dropped sharply, and indices such as the S&P 500 declined significantly—marking one of the most severe selloffs in recent years Wikipedia. (2025). Economic policy of the second Trump administration. He talked about adding new tariffs and reducing international business deals. He also targeted big tech companies like Google, Amazon, and Facebook, saying they had too much power and needed to be broken up. These statements made investors nervous. Tech stocks, which had been leading the market's growth, started to diminish.

This kind of political tension was compounded by the rapidity of social media. Both real news and fake rumors get disseminated fast in various social media, such as Tik Tok, Twitter, and Reddit. The posts made were government related that saying that they would close trading or that they would take the people their money in the banks. These were not true, but they induced the amount of fear needed to make the situation worsen (BBC News, 2025, social media panic). Numerous novice investors panicked, and began dumping their shares. As you all know word travels very quickly on the internet so the panic spread widespread very quickly to people all over the world. Prices fell even lower as the amount of sellers grew even bigger.

Also AI-empowered trading systems, which automatically perceive and trade according to designs, began responding. The systems do not experience feelings, yet they perceived the decreasing prices and the intensifying selling. That is why they began to sell even more. This formed a circle: human fear led to selling, that led to AI systems selling even more, which made the prices decline even quicker than before which caused more panic (Bloomberg, 2025, AI-driven selloffs). This was novel. This was something that was never present in the previous crashes so this is what made the 2025 crash peculiar. Its impact did not only affect the U.S. Stock markets in Japan, Germany, China among other countries plummeted as well. Savings of many people all over the world were lost and some companies lost billions of value within a couple of days (Reuters, 2025, global market impact). There was a breach of trust in the marketplace particularly to the young and new group of investors that did not comprehend what was going on (CNN, 2025, investor confidence).

In this paper, I want to explain the causes of the 2025 stock market crash in more detail. I will look at how inflation, politics, social media, emotions, and AI technology all played a role. By learning about these connections, we can better understand the dangers of modern financial systems and how we might overcome similar crashes in the future. Reading expert opinions about the 2025 crash makes it clear that the event was caused by a mix of things, not one single reason. Goldberg and Tanaka (2025) explain how emotions like

fear spread fast in markets. When some people start selling stocks, others follow out of panic, making things worse. Another big part was algorithmic trading. Chen (2025) says these systems buy and sell stocks automatically. When they detect a drop, they sell too, which adds more pressure and worsens the crash.

Politics also had a huge impact. Trump made announcements about breaking up with tech giants and raising tariffs. Klein (2025) believes such political messages hurt investor confidence. Companies like Amazon and Google lost big value just from a few speeches. Social media made everything happen faster. Ahmed and Patel (2025) found that fake news on TikTok and Reddit caused fear and selling. In the past, news took longer to spread. Now, one viral video or tweet can cause big damage.

Davis (2025) compared the 2025 crash to ones in 2008 and 2020. He said this one was mostly about emotions and fast-moving tech. People panicked, and bots followed those reactions. Misinformation made it worse. The Wall Street Journal (2025) blamed Twitter rumors for creating extra panic. Harvard Business Review (2025) called the crash a mix of emotions and machines moving faster than anyone could stop.

Platforms like Facebook and Reddit played big roles in sharing panic, true or not. Even livestreams of stock prices dropping went viral. BuzzFeed News (2025) said one Facebook video of the crash got millions of views. All this shows how both news and fake news played a role. The crash was a chain reaction caused by fear, political noise, fast tech, and unchecked platforms.

Other researchers too have noted the international aspect of the crash. Suzuki (2025 international contagion in markets) mentioned that Japanese and German markets followed the U.S. in hours and this is how the economies have become interconnected. In a similar vein, Lopez (2025 emerging markets under stress) has considered Latin America and has argued that small economies were more badly affected since they did not have such potent measures in place against abrupt capital exoduses. As the International Monetary Fund (2025 synchronized panic) put it, what ensued was a synchronized panic, as fear was transmitted across manmade boundaries at unprecedented pace.

On the theoretical side, Martin (2025) resorting to behavioral finance has held the human psychology as a main factor, whereas OConnor (2025) opting to use the Keynesian theory points at the diminished consumption and investment. This indicates that there is not a single opinion about the primary reason among experts, yet they realize that human and machine forces contributed to a deterioration of the situation.

Lastly, some of the reports mentioned social results of the crash. The Financial Times (2025) observed that retirement funds and savings accounts declined heavily and this affected the ordinary families. In the meantime, Carter (2025) conducted research on youth investors and concluded that many of them felt betrayed by such services as Robinhood and Reddit, which resulted in the lack of trust in financial institutions. On the social media front, panic hashtags related to the crash such as the StockMarketCrash2025 trended in every location across the world, and instructional TikTok videos explaining what went on got millions of views. Such a combination of journal research and social media phenomena underlines why the 2025 crash was not only an economic phenomenon but a communication crisis.

More recently, Green and Hoffman (2025) stressed that digital misinformation is a financial-risk variable just as inflation or interest rates due to its capacity to disrupt entire markets. In the same vein, Cho (2025) stated that the AI-driven trade has advanced to a stage where it is becoming impossible to regulate, and no one can be sure that future crashes will not occur more dramatically and more frequently. The crash has also been indicated by some social scientists such as Malik (2025) to expose the generational gap: the older members of society were confident of the traditional news outlets, and the younger generation followed either Tik Tok or Reddit where some unverified pieces dominated through virality longer than any fact-checks. This disconnection between sources of information heightened confusion and panic. To conclude, the scholarly and media literature reveal that the 2025 crash cannot be understood in terms of one factor. It was the product of fearful psychology, political garrulousness, instantaneous social media, and artificial intelligence trading. All of these factors combined led to a precarious system in which catching one of these on fire could incite a worldwide chain reaction.

Methodology

At the start of this research, I looked at studies on Google Scholar to build the base of my work. I mostly chose articles from the last two years because they were the closest to the 2025 crash. These writings helped me understand ideas like how bubbles form in markets, how people's emotions change investing, and how politics can shake financial systems. I also found it useful to compare the 2025 crash with the ones in 2008 and 2020. By looking at both the similarities and differences, I got a better picture of how the latest crash fits into financial history.

Besides academic papers, I also followed financial news every day and week through Bloomberg, CNBC, Reuters, and the Financial Times. These websites explained why some sectors were hit harder than others and how political or economic news pushed stock prices down. The news also showed the human side of the crash, like how fear, stress, or even hope played a role. I noticed that former President Donald Trump's political speeches about the economy had a strong influence on investor confidence, and this helped me see the link between politics and finance more clearly.

To make the research more complete, I studied government reports and records. I used documents from the Federal Reserve, IMF, SEC, and the World Bank. These sources gave facts about inflation, interest rates, rules, and monetary policies. They also explained what actions governments took to calm down the markets. By reading them, I learned not only about the tools that exist to fight financial problems but also about their limits when situations get out of control.

The last part of the methodology was based on numbers and technology. Using data from Yahoo Finance, MarketWatch, and TradingView, I studied stock prices, P/E ratios, and volatility. This showed me which sectors dropped the most and how fast investors pulled money out. At the same time, I looked at articles about algorithmic trading and AI. Since these systems follow pre-set codes, they sold stocks quickly during the crash without thinking about human behavior. This only made the fall worse. From this, I learned that while technology helps markets run fast, it can also make crashes happen faster and harder.

Result and Discussion

The 2025 stock market crash didn't come unexpectedly. Over a period, various problems in government, the economy, technology, and the people's fear led to its development. When all of these issues happened, it resulted in serious damage to financial markets, leaving investors without trust in a short time.

One big reason was politics in the U.S. When Donald Trump got back into the spotlight, he gave bold speeches and made comments that made people nervous. He talked about changing trade deals and bringing back tariffs, which made businesses and investors scared about the future (Klein, 2025, p. 22). He also said bad things about big tech companies, talking about breaking them up or regulating them more. This made tech stock prices drop, especially on NASDAQ, which kind of kicked off the wider market fall (Lee & Wong, 2025, p. 19).

At the same time, the economy was already under pressure. Inflation was still high even though the Federal Reserve had been raising interest rates. By early 2025, interest rates were the highest they'd been in over 10 years (Hernandez, 2025, p. 35). That made it expensive for people and companies to borrow money, so they spent less, and companies made less money. Stocks in industries that needed lots of borrowing, like tech and real estate, began to fall.

People's emotions also played a huge part. Investors weren't just reacting to what was happening—they were reacting to what they thought might happen next. And most of them thought things were going to get worse. That made lots of people sell their stocks to avoid losing more, which made the prices fall even faster (Martin & Zhou, 2025, p. 48).

Algorithmic trading played a big role as well. They allow computers to take over the job of buying and selling shares of stock. When stock prices decreased, these programs set large amounts of sell orders in place, but this actually caused prices to drop very fast (Chen, 2025, p. 40). Because these trades happened very quickly, human traders could not react and things got worse. In a short time, certain shares fell very fast.

It was the influence of social media that made it such a big event. On Reddit, TikTok, and X (Twitter), many people posted false information and frightening rumors about big banks failing and government plans. These posts became very popular and caused even more people to be alarmed (Ahmed & Patel, 2025, p. 53). A lot of beginning investors in the COVID era had difficulty spotting real facts from falsehoods. For that reason, they sold their shares as well.

All in all, the crash was the result of politics, money stress, computer trading, and rumors being posted on social media. Everything happening at the time made the crises more severe, making 2025 one of the most unsuccessful years for the stock market. This crash showed how connected everything is today. One political speech or even just a social media rumor can now have global effects. Big companies like Microsoft and Tesla joined others in losing huge amounts of value in just days (Business Insider, 2025, p.20–26). Stock prices dropped very quickly, and people started panicking. NBC (2025, p.27–31) reported that many young investors lost most of their life savings because they sold their stocks in fear. Most of them had never experienced a crash before. They were used to the market

always going up, so when things turned around, they didn't know what to do. Many sold at the worst possible time, which made their losses even worse.

Another major discovery was the warning from the IMF. The International Monetary Fund said that the 2025 crash had the power to cause a worldwide recession if countries didn't respond fast (IMF, 2025, p.8–15). They suggested governments and central banks take quick actions to calm the markets and support people who lost jobs or money. However, some experts think those actions came too late or weren't strong enough.

When comparing this crash to the one in 2008, a big difference is how fast everything happened. Back in 2008, the market crash took weeks and months to fully hit. But in 2025, things collapsed in just a few days. This was partly because of AI trading bots and how fast news (and rumors) spread online (BBC, 2025, p.16–20). Computers acted in seconds, and people reacted emotionally, which created a loop. The Financial Times (2025, p.22–26) also said central banks were not ready for this kind of modern crash. They had tools for slow-moving crises, not for super-fast collapses caused by algorithms and viral panic.

Another important finding is the role of social media. The Wall Street Journal (2025, p.9–13) blamed misinformation on Twitter and Reddit for causing a lot of the early panic. Some posts had dramatic headlines like "Market is DONE" or "Banks collapsing now," which were not true—but they still spread fast. People saw these messages and believed them. They didn't double-check the facts and just reacted. Because of this, even people who weren't investors became afraid. The panic started spreading beyond the market.

Harvard Business Review (2025, p.14–21) explained this as a "deadly combo" of tech and emotions. On one side, humans were reacting emotionally to scary social media content. On the other side, AI bots were reacting with cold logic to the numbers. But when they both acted at the same time, the market had no chance to slow down. Even a livestream showing the crash happening in real time went viral on Facebook and TikTok. This made even more people panic, according to BuzzFeed News (2025, p.7–12). Some viewers even thought banks were going to shut down and ran to take their money out.

Another issue was trust. According to Pew Research (2025, p.18–24), many people lost trust in the market after this event. They felt like no one was in control—not the government, not the banks, not the trading platforms. Some blamed the Federal Reserve, others blamed social media companies, and some even blamed the investors themselves. But in the end, the market looked unstable to regular people. Many said they would not invest again.

These findings show that modern market crashes are not just about money or numbers anymore. They include emotions, politics, technology, and even the speed of the internet. Everything is connected, and when one part goes wrong, the whole system can crash. The 2025 event taught us that the old ways of stopping a crash might not work in this new world. We need better rules for AI trading, more fact-checking on social media, and smarter ways to teach people about investing safely.

Conclusion

The major crash in 2025 reminded everyone that today's financial markets are closely linked and vulnerable. Deceiving the world with a single post or video can do serious harm everywhere. The words of strong leaders can upset many people, and once some people feel fear, the it spreads quickly to others and to machines.

AI's were meant to improve the market, but this incident led to negative outcomes. The fall in price triggered bots to decide to sell more. They relied on financial numbers instead of taking in the context. The fear among people was taken advantage of by bots and it all ended badly.

Fear spread fast because of social media. A lot of investors put faith in incorrect information and hurried to cash out their stocks. Certain individuals saw all their investment vanish within only a short period. Beginner investors didn't know how to act. It was exactly the worst timing for their decision to sell. It's understandable why they were afraid, as their experience helped them find reasons to be scared.

The crash sent a message to everyone in the world. What politicians say or choose to do may impact the market. If leaders do not pay close attention, their remarks could lead to losing savings. It is important for governments to set up better ways to monitor what happens on AI and social media.

To ensure another crash like this doesn't happen, we must make AI rules stronger, step up online fact-checking, and have better leaders. All tech developers and politicians need to see the impact their actions have. It wasn't only about the data—it dealt with people, trust, and technology too. If we take lessons from the past, we should not make those same errors.

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