

APRIL 2025

36 South Views

By Richard "Jerry" Haworth

The Sword of Damocles

King Dionysius had a sword hung above Damocles' banquet table, aimed at his head. It was suspended with a single horsehair. He did this to show to Damocles that we all live under looming, inescapable threat.

The financial markets since 1987 have lived, figuratively, under the sword of Damocles. The looming, inescapable threat being the US twin deficits.

Largely disregarded in macro discussion now, it comes again to my front burner because we have entered the Ponzi stage of bubble financing, where the income received is less than the interest on the debt.

Like a nuclear power station where the management decides to crank up the power far beyond what the scientists think is prudent or safe.

Management scoffs: "Nothing has happened or will happen."

They won't know when it happens because they will be a sheet of glass...

I have watched this financial sword of Damocles over the years. It has fallen a few times over the years, only to be saved by attendant courtiers who work for the Federal Reserve. They catch it and replace it with less horsehair than before...

That single horsehair seems to be AI.

AI is powering the market, causing a disturbing narrowing of leadership.

It is either everything it is cracked up to be, i.e. destined to be much more intelligent than us, or it is going to be difficult to commercialise.

If it is the former, history is replete with examples of more intelligent civilisations decimating their lesser rivals.

If it is the latter, the last horsehair will break...

Yes, I suppose I am a permabear, but that's good. You don't want a permabull running your tail risk fund.

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