JANUARY 2026

36 South Views

By Richard "Jerry" Haworth

The passing out parade….

As I sit here writing this, the market has had a significant one-day rally. I am reminded that the biggest bull market rallies occur in bear markets.

However, prior to that was a very nasty bearish episode that made even the die-hard bulls stop in their tracks. The everything bear market caused by a looming liquidity crisis seems to be upon us.

Gold and silver kicked latecomers in the teeth and retraced significantly. Bitcoin broke multi-year technical levels and all the other digital assets were subject to a crypto wrecking ball. Equities are rhyming with the 2000 bear market, where there was a passing out parade of stocks topping out and falling over.

What do I mean?

In a passing out parade, at the end of training, soldiers parade past the grandstand for one final act as recruits and an acknowledgement that they are now soldiers.

In an equity market regime change, stocks fall, not in unison, but "passing out" one at a time as investors tire of bad news, and fear rises.

Take Amazon, a market darling, which got punished for promising to spend too much, an act that would have earned them investor accolades a year ago.

And in this way, a lot of internal damage can get done to a lot of stocks before Mom and Pop catch on that a bear market is underway.

Crypto, in particular, could be the canary in the coal mine. It is plummeting in price for no particular reason.

If a major top is forming, volatility will increase, with stocks crashing up and down initially whilst the battle for the market mind commences. A lot of internal market fragility get created as long-term holders shuffle to the sidelines to be replaced with more "retail" investors. A casual look at the insider selling at Nvidia shows the insiders, pretty much to a man, selling.

What is missing is the catalyst for the bear market, which, as I write this, is not immediately apparent.

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The long-term technical picture looks ugly, the geopolitical backdrop is uncertain, liquidity looks like it is drying up, and equity and bond holders are skittish, albeit for different reasons.

In fact, the worst possible scenario is for long term bond prices and equity prices to go down together. This would mean that the counterbalancing function they perform for each other, by being negatively correlated most of the time, is lost, and they actually start accentuating losses in a balanced portfolio, adding further panic fuel to the fire.

Is AI a bubble? I don't even need to answer that question.

What do the birth of radio, railways, TV, internet and AI have in common? They were and are all scalable networks which expanded in a power law fashion. They were all ridiculously overpriced in the stock market at some stage and suffered major collapses. All of them were ultimately useful and are now a vital part of our economy.

Why would I expect any different from AI?

There are very few ways to dodge an "everything" crisis, except maybe being in cash (Warren Buffet?) and owning stakes in tail risk funds whose convex payoff occurs in periods of high volatility and/or bear markets. But most investors will choose to live and die with the herd.

"The old sailor avoids the storm he cannot survive, and survives the storm he cannot avoid." — Anonymous [1]

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[1] https://www.macrocharts.com/p/market-update-everything-you-need?utm_source=publication-search