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36 South Views

By Richard "Jerry" Haworth

Are we hallucinating about the prospects for AI?

This is an important question because a lot of the run-up in the last few years is driven by our honey-stick projections for AI.

Three principles, or mental models if you will, make me think we are.

The first is George Soros' reflexivity model. The theory describes the feedback loop between market perceptions and economic fundamentals. It is based on two principles: fallibility – the idea that investors' views are prone to delusion and wish fulfilment – and reflexivity, where these biased views distort their actions, which in turn distort the economic fundamentals.

It applies to all market participants. Nvidia lending money to clients to buy its own chips. The reflexive nature of passive index buying (where the more indices we all buy, the more Nvidia's market share increases). The madness of crowds, especially given easy money conditions.

Reflexivity leads to boom-bust patterns, as rising prices promote enthusiasm, which fuels more buying, and vice versa – making the subsequent, inevitable decline self-reinforcing.

The second theory is Marchetti's theory of logistic growth curves. He predicted that the rabbit population in Australia would be controlled by "something", even when everyone else predicted that rabbits would overwhelm the country given their breeding habits. His theory, however, covers many fields, including resources, gravity, hydraulics, economics, and even ideas.

Basically, he argued that all logistic growth curves rise rapidly at first, then slow down and approach natural limits.

AI is a slam dunk for this principle. When Nvidia's market cap could buy all the gold shares in the world plus the entire FTSE 100 and still have meaningful change left over, I think we are approaching a natural limit.

The third theory is Muller's ratchet. Muller's ratchet predicts an ongoing decline in populations which reproduce asexually. He correctly stated that viruses will, with high probability, decline in their fitness over time, making them less dangerous. This occurs because a virus replicates every half second, but not perfectly, so some DNA does not get copied correctly, leading to an extremely high probability of a slightly weaker virus, which in turn replicates into a virus carrying even more genetic garbage.

It is surprising that I have never seen this theory trotted out in COVID times. It states that most viruses will significantly weaken in the medium term (AIDS?).

Applied to AI, this theory would state that the more AI trains on its own generated data – like dodgy DNA in viruses – the more a small, initial hallucination is carried forward as hallucination garbage. It is possible, given the high replication rate, that the information given could become increasingly

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prone to hallucination, rendering the information less and less reliable. I am seeing this in real time on Instagram. The number of ridiculous AI-generated videos is rising. Maybe it will rise to the point where I give up on Instagram altogether. With Large Language Models (LLMs), the problem is identical... too many hallucinations, and people will stop trusting the content.

Yes, I have cherry-picked my theories that will confirm my potential bias: that trees do not grow to the sky and expectations for AI are totally overblown. While we do not know exactly what will slow its growth – just as Marchetti predicted “something” would stop the rabbits from taking over Australia – the reflexive nature of markets suggests that AI growth will stall in the near future and perhaps even reverse.

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