

MAY 2026

# 36 South Views

By Richard "Jerry" Haworth

## Casino shenanigans

Imagine a casino where the owner needs to be seen running a successful casino at any cost. To that end, he promotes it widely and encourages punters far and wide to come and play.

But the lavish expenditure on events, security, marketing, restaurants, etc. means that the expenditure of the casino is constantly increasing. Therefore, he needs to lure more and more punters into the casino to help pay for it.

He has an ace up his sleeve (pun intended). He has access to seemingly unlimited lines of credit.

As such, when punters lose, he simply extends them more credit, never foreclosing anyone in case there is reputational damage. Punters love it and flock there in increasing numbers. They start to bet more wildly on more esoteric games. In fact, the more in hock they get, the wilder their play becomes. One punter, called Alpha India, or AI for short, has developed a superior gameplay system. Everyone is lending to him. He dominates the casino.

Some punters seem like they are winning big, but they have huge lines of credit with the casino. The remaining punters have credit lines but are net losers.

If the casino stopped right now, it would be massively underwater; its extended credit losses are now enormous.

In effect, despite the appearance of wealth, glamour and success, the whole casino ecosystem is underwater. It has no viable pathway left except to keep on extending credit.

Governments are like these casinos. They have extended credit to the casino economy on an almost permanent basis for the last 35 years. Some of the casino punters party like it's 1999. More conservative punters just bet their 401k plan and take on debt via their home loans. The rest of the punters, who cannot borrow or are too fearful to borrow from the casino, sit on the sidelines and watch. Included in this last category, sadly, are most of the under 30's, those who are without access to the "Bank of Mom and Dad".

If the casino stopped extending credit, the whole ecosystem would collapse: government treasury issuance, corporate lending, private equity and private credit, to name a few. Probably close to \$150 trillion in debt that would become due.

Clearly that is not the preferred option, so governments just keep on printing money, with inflation as the inevitable result.

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Asset price inflation, in particular, is now at truly bizarre levels. The Korean market is up over 400% compared to this time last year. The leveraged Korean ETF listed in Hong Kong is one of the biggest ETFs in the world. It is up over 1200% at the time of writing.

The casino economy is in full swing.

Can it continue? Yes, if the governments just keep on printing money or extending credit.

Can the governments keep printing money or extending credit?

Yes, if their end goal is inflation, even hyperinflation.

No, if at some stage they blink for whatever reason: wars, bond vigilantes, interest costs, internal strife.

Sometimes it's just another grain of sand on the sandpile that causes the blink. USSR blinked and defaulted in 1998 for \$150 billion. The US overspends that amount every month today.

A prudent portfolio manager hedges against both possibilities.

He stays long the casino economy even though he knows it is overextended.

He also hedges against what would happen if the governments blink and withdraw credit from this casino economy.

Participate and protect.

## Disclosure

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