

NO MARKET MOVES UP IN A STRAIGHT LINE

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As we move toward 2026, the AI trade has met resistance. After 200+ days of relentless euphoria, the Nasdaq has slipped ~6% from its peak in less than a month, Nvidia shed \$800 billion in market cap, and investor sentiment swung from FOMO to genuine concern that the AI boom is topping out.

The bears are having their moment. CNBC talking heads claim the house of cards is collapsing. The Economist warns in a recent Leader that "[If the AI bubble bursts, an unusual recession could follow](#)". And legendary short-trader Michael Burry (from The Big Short) has taken a sizable position against the AI/semiconductor complex, sending headlines of fear into overdrive.

But the naysayers are missing the forest for the trees. The AI trend isn't another dotcom bubble. It's a race toward a technological inflection point powered by the strongest balance sheets in corporate history. Billions flow monthly because mega-tech faces an existential prisoner's dilemma: participate or perish. And unlike the 1999's hollow promises, the technology actually delivers, and for every new version, it feels as if the future is edging closer.

The game theory is brutally simple. If AI represents the "final trend", the technology that subsumes all others, then sitting out poses a bigger risk than any capital spent participating. Even with just a 20% chance of AI delivering on its promise, non-participation means competitive death. Microsoft, Google, Meta, Amazon. None of them can afford to watch from the sidelines and those who hesitate will face board revolts and [upset shareholders](#).

This also creates a self-fulfilling prophecy. When the world's most sophisticated companies are compelled to bet everything on a single outcome, that outcome becomes increasingly more likely. The stakes are granular. Why else would Jeff Bezos come back from semi-retirement to deploy a \$6B investment and a [new AI venture](#)? He sees the endgame.

As investors it's our job to decipher this widening chasm of what exists today and what might be here tomorrow. The spread between those two vectors are treacherous, and OpenAI exemplifies the worry. With the collective amount of mega-deals announced, OpenAI has pledged more than \$1 trillion over the coming decade. A staggering contrast to its underlying fundamentals of "just" ~\$20 billion per yearly in revenue.

The deeper concern is structural and that AI financing is turning into a "circular economy". Hyperscalers invest billions into startups (like CoreWeave or OpenAI) that immediately round-trip that capital back into cloud credits and GPU purchases from the investor. This

creates a reflexive loop where revenue is technically booked but economically hollow, obfuscating true organic demand.

It's up to markets to judge this (in)balance, and right now it seems to be discounting the opacity. However, as we remain critical, we must also ask what drives Sam Altman's aggression? His actions hint desperation, but they also tell us that the person with the highest information asymmetry is willing to bet the house. What does that tell us?

Meanwhile, the infrastructure layer remains unbothered and Nvidia just posted its 12th beat of quarterly earnings. As for Burry? He will forever be a legend for his subprime prediction, but his followers ought to remember that he was three years early and nearly got liquidated before he was right.

Consequently, I view the current AI correction as technical noise. Fundamentals keep delivering. The world's smartest capital keeps flowing. And game theory demands continued participation. In other words, we are likely witnessing what is a classic mid-cycle consolidation within a multi-year structural uptrend.

The real pressure point has been financial conditions, not collapsing demand.

The constraint on risk assets has been tight financial conditions, not eroding demand. The Fed's cuts so far have been reactive and addressing labor market weakness rather than easing financial conditions, explaining the lag in asset price response after the last FOMC meeting.

The immediate pivot point arrives in mid-December, when the FOMC convenes for its next policy decision. Markets are currently pricing a ~60% probability of an additional rate cut. Should those odds shift higher, risk appetite will likely pick up into the end of the year. Conversely, while a potential BOJ rate hike threatens further unwind of the yen-carry trade, the market likely already absorbed the majority of the shock during July and August last year, suggesting diminishing marginal impact.

More importantly, the broader liquidity picture is turning more supportive beneath the surface. US M2 is expanding again, global M2 is up roughly 8% year-to-date, and the Fed will halt quantitative tightening on December 1st after a balance-sheet reduction exceeding \$2 trillion. We are transitioning from a regime of liquidity withdrawal to one of net expansion, a backdrop that historically serves as fuel for risk and growth assets.

Finally, the friction between the White House and Chair Powell signals a deeper regime shift. With Powell's term ending in 2026, markets will likely soon start to price in a 'Shadow Chair', a successor chosen for fiscal accommodation rather than hawkish restraint. The administration views lower rates as a necessity for debt sustainability, and ignition of accelerated growth, making it almost a given the new Fed Chair will support this strategic direction. As this narrative takes hold, financial conditions will loosen well ahead of the official transition, rendering the current dot plot obsolete.

Bitcoin's Eventual Re-Pricing

Sentiment in digital assets today has collapsed to levels last seen during April's trade-war panic. The CMC Fear & Greed Index signals capitulation, and yet the exhaustion is not driven by fundamental deterioration. Rather, it is a psychological unwind taking place exactly as the macro backdrop is improving. This represents a disconnect that should excite any serious investor.

Over the last quarter, Bitcoin has effectively round-tripped its year-to-date performance. This drawdown was catalyzed by the historic liquidation event on October 10th. In a single trading session, over \$19 billion in leverage was flushed from the system. Investors must understand that a flush of this magnitude is a structural shock rather than a simple price correction.

Market makers do not step in to buy the dip immediately during such events, and a few of them likely got carried out during the decline. It will take time for institutions to like their wounds and repair balance sheets. In the meantime, it will be prudent to expect choppy price actions as late sellers will be motivated to seek safety.

The digestion of this event has now left Bitcoin technically oversold on every major timeframe. This creates a coiled spring dynamic where selling exhaustion meets structural demand. Once sellers run out of ammunition, the path of least resistance shifts decisively upward. At current valuations, bigger players will be incentivised to re-accumulate and defend the price floor, using the material discount to accumulate size before the next leg of the cycle begins.

Bitcoin's Silent IPO Moment

Beneath this immediate volatility a deeper structural rotation is nearing closer to completion. Wallets untouched for a decade or more have been steadily selling into the deep liquidity created by ETFs, DATs, and institutional demand. Investors will misread this as a bearish signal, but in reality, it closely mirrors an IPO process: early insiders finally gaining the ability to exit meaningful size without cratering the market. For early Bitcoin holders, the \$100,000 always represented a natural profit-taking zone. This is a healthy churn. Once this legacy supply is fully absorbed, the structural overhang vanishes, clearing the path for price discovery to resume.

Crucially, the maturation we observe in the order book has finally spilled into codified U.S. law. The recent passage of the Clarity Act and the GENIUS Act has effectively ended the era of "regulation by enforcement". By establishing federal guardrails for reserves and defining clear custody protocols, these legislative pillars allow digital assets to be integrated into the U.S. banking core. This is big deal and will green light compliant capital to flow between on-chain protocols and off-chain balance sheets without fear of retroactive prosecution.

This regulatory shield triggers the ultimate catalyst: Bitcoin's transition to High-Quality Liquid Asset (HQLA) status. With the repeal of SAB 121, prime brokers can now accept Bitcoin as institutional collateral. This unlocks a massive "credit impulse" where holders no longer need to sell to raise liquidity; they can simply borrow against their position. This dynamic simultaneously unlocks liquidity while tightening supply, a setup that historically precedes explosive repricing.