Harry's Take

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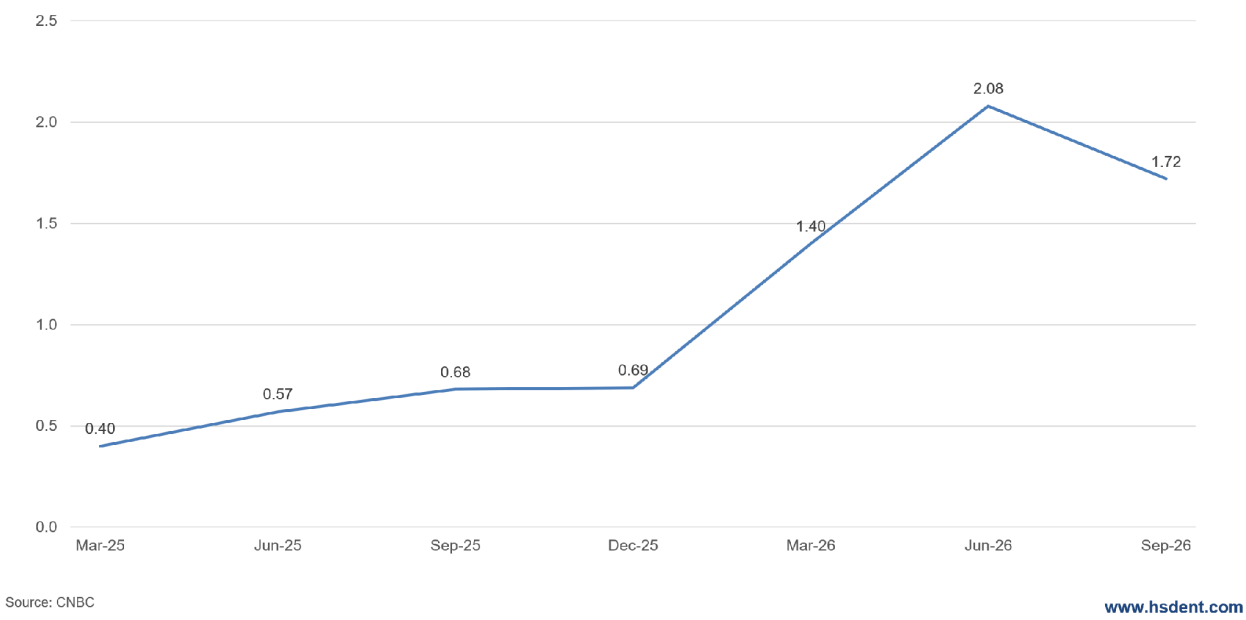
The Race for Leadership in AI Coming to a Head!

There couldn't have been a worse time for Jensen Huang to have a leadership crisis at Nvidia. There's always a race for leadership as new technologies and growth sectors of the economy emerge, like PCs in the early-to-mid 80s and the Internet in the latter 90s. The Internet hit 40% adoption in 2000 right where a shake-out traditionally occurs on the S-Curve progression.

The leading Internet stock Cisco led the crash, providing all the routers to build it, falling 86%. What followed? There was a slowdown and a shake-out in the overall tech sector and a minor slowdown for the economy. Why minor? The Baby Boomers were still on their massive Spending Wave from 1983 into 2007.

What most people miss is that there is an initial race for leadership to narrow down who are going to be the few dominant companies that can continue to increase scale and bring costs down to usher the new technologies into mainstream markets. It's just when high growth slows just enough to make it clear there's not room for everyone, and the productivity gains start to slow from diminishing returns.

This chart shows that it now appears to be starting in AI chips and software.



This is just one sign of "just enough" of a slowdown to trigger a consolidation to force this shake-out. Other than the greatest, longest bubble in history, there is no clear trigger other than the overvaluation of stocks, especially AI and tech stocks.

A 17% slowdown in the payoff from these new AI chips is a very good reason to have a slowdown in tech stocks triggered by its new leading sector, that in turn triggers a long overdue crash in highly overvalued stocks altogether between 2027 and 2028/29. The economy is also stretched the most in history from $31T in stimulus - and will feel this as well.

Harry

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