

## The Intelligence Paradox

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Newsletter, October 2020

*"A learned fool is more a fool than an ignorant fool"*  
*Molière (1622 - 1673), French playwright, actor and poet*

Granted, technologies that we have at our disposal may not be sophisticated enough to pick up the subtle transmissions that other, more evolved life forms inhabiting the universe are sending in our direction. Now this could be by design, if they are looking to engage with civilizations that have attained a certain degree of advancement, it is normal that they would use signaling technologies that can only be picked up by equivalently sophisticated receivers. Irrespective of these conjectures however, considering the vastness of the universe with its billions of stars, one cannot help but wonder why we have haven't been contacted yet. The contradiction is so obvious that there is even a term for it, the Fermi Paradox, named after the Italian American physicist Enrico Fermi, to describe it<sup>1</sup>.

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It is probably not too farfetched to assume that other life forms do exist, if only because out of the billions of planets out there, surely there are a few that have the perfect size, tilt and distance from their respective stars to accommodate life. In most cases the lifeforms inhabiting those planets would likely be in too primitive a state to really matter, either because the atmosphere is a tad too harsh or the gravitational push or pull is such that it doesn't allow for more complex lifeforms to flourish. For the lucky few that don't have such constraints, they would still have to go through the grueling process of natural selection or some other form of selection, and, like with the roll of a dice, there is no guarantee that you will end up with a more complex form. All this to say that even if the vastness of the universe makes it more probable that other lifeforms do exist, the chances of them evolving from a blob of cells into a highly advanced civilization that master their destinies would require overcoming so many serious hurdles, it might explain why the universe feels so empty.

Intelligence may be the single most important attribute for survival. After all thanks to it, humans have been able to dominate over all other species, but intelligence also has a dark side to it. Human civilization has advanced in leaps and bounds throughout history, and even more so in the last century, but the process has not always been smooth. History is replete with examples of self-inflicted wounds that, at times, could have almost wiped our kind from the face of the earth (the Cuban missile crisis comes to mind). The advent of nuclear weapons, biological warfare, and the continuous damage we inflict on the environment are just some of the more glaring examples of this. Could it be that as civilization progresses, as our collective intelligence advances, instead of further contributing to our wellbeing, it leads us astray?

There are those like Steven Pinker, the renowned cognitive psychologist, who suggest that as civilization progresses, violence invariably subsides. The statistics for this are rather compelling. He does have a point, but his reasoning assumes that progress is continuous, it doesn't take into account the potential for major disruptions or what happens when some

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<sup>1</sup> [https://en.wikipedia.org/wiki/Fermi\\_paradox](https://en.wikipedia.org/wiki/Fermi_paradox)

of the forces of progress get reversed<sup>2</sup> <sup>3</sup>. The increasingly skewed wealth distribution, rising protectionism, a drop in global trade or the unwinding of strategic alliances, all contribute to raising tensions, bringing us closer to some form of major armed conflict.

In a fractured, increasingly polarized world, we are witnessing the emergence of a new form of identity politics, one that transcends reason in favor of dogma. When our behavior or the decisions we make appear to be irrational in some instances, it usually is because our emotions are getting in the way<sup>4</sup>. We often find ways to dismiss or diminish the importance of fact-based evidence that does not fit our mindset and that can be dangerous. An example would be refusing to wear a mask when scientific evidence overwhelmingly suggests that doing so saves lives. More concerning is that intelligence or education (which can also be a proxy for intelligence) can in certain circumstances make matters worse, what psychologists call “motivated reasoning”<sup>5</sup>.

So when “smarter” persons fall into the “motivated reasoning” mindset, their arguments or attempts in attaining a goal tend to carry more weight because their potential for persuasion tends to be more sophisticated. This is how misguided thoughts become weaponized: there are many well educated, intelligent people out there that are able to convincingly argue that climate change is a hogwash figment of the imagination, or that a group of people that share certain characteristics deserve to be demonized, even when their arguments are in contradiction to scientific evidence.

Could it be that the reason why we still have not been contacted is because most intelligent lifeforms eventually destroy themselves, because intelligence, when unhinged and misguided, can become an existential threat? Shouldn't we be raising greater awareness on this, especially given that we appear to be at a critical juncture with artificial intelligence that is finally showing tangible advancements? What does all this have to do with investments and the financial markets, you wonder? Well it is simple really. Like climate change or weapons of mass destruction, if we don't take a lead and do something about them now, there may come a time when there won't be any markets to trade on.

### ***Where Do We Go From Here?***

We appear to be entering a more volatile phase of the cycle, as we get closer to the tense US presidential elections, but also because there remains a great deal of uncertainty on the way in which a second wave of the pandemic is likely to unfold. The markets have demonstrated a remarkable degree of resilience to numerous headwinds. The impressive rebound from its march bottom was driven in large part by a combination of the aggressive global monetary and fiscal responses to contain the damage caused by the pandemic. It was further reinforced by the subsequent surge in economic activity and by a switch to more positive sentiment that COVID-19's spread would eventually be cut short in the imminence of a breakthrough treatment and through herd immunity.

The pandemic itself exerted enormous headwind pressures on specific sectors such as transportations that were severely hit, as global lockdowns led to a sharp decline in demand for outdoor activities. Others were less damagingly affected whilst some, such as the tech sector, experienced significant tailwinds, as the confinement measures triggered a surge in demand for online activities. Going forward, the economic rebound is likely to be maintained, albeit at a less vigorous pace, as the initial “catch up” phase runs its course. Also, given all experience and hindsight that has been acquired over the last couple of months, governments and populations will be better equipped and prepared to confront and handle a second or third wave, which means that economic activity is unlikely to be impacted to the same degree as earlier this year.

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<sup>2</sup> <https://www.scientificamerican.com/article/steven-pinker-this-is-historys-most-peaceful-time-new-study-not-so-fast/>

<sup>3</sup> Examples of such forces include the rise of nation states, global trade, universal suffrage, mass media, NGOs

<sup>4</sup> For more on this, see our August 2020 newsletter entitled “The Many Dangers of Dissonance”.

<sup>5</sup> Motivated reasoning is thinking through a topic with the aim, conscious or unconscious, of reaching a particular kind of conclusion.

Central banks are also likely to maintain the stimulus taps wide open for the foreseeable future, but especially over the next couple of months or at least until nearer term uncertainties subside or if inflation surges. Over the longer term, the main concern will involve the as yet uncertain geopolitical repercussions of America's abrupt retreat from the global arena, as other powers (China, Russia, India, Turkey) consolidate and become more brazen in challenging the territorial integrity of neighbors. The outcome of the U.S. elections will play a key role on the way in which these emerging geopolitical tensions unfold, but also on other significant matters such as climate change. Countering the threat of climate change as with any other major challenge will require determination and strong leadership, especially given that we seem to be entering a critical juncture, where the future trajectory will very much depend on actions that will have to be taken in the near term<sup>6</sup>.

Although the pandemic will continue to subside and eventually fade away, its social, political and economic ramifications will continue to linger for long after. A combination of paradigm shifts in various spheres will irrevocably change the landscape, creating setbacks and challenges, but also investment opportunities in the years ahead. This crisis appears to have raised awareness on matters that need to be addressed now if we want to avoid going off a cliff. Global trade has brought immense wealth and opportunities for many, but it has come at a steep price by accelerating the damage on the environment and rising inequalities.

The last couple of years has revealed a diminishing return to scale from frameworks that were forged almost a century ago. It suggests that capitalism and free markets may have reached their limits<sup>7</sup>. The most striking effect of this has been the emergence of populism across the globe, but more problematically in countries with liberal traditions, creating new tensions that will be difficult to reverse<sup>8</sup>. It reflects a combination of frustration, fears and discontent against the rising wealth disparities, as emerging markets mature, and new technologies continue to displace and disrupt a broadening segment of the workforce. The next couple of months over which the pandemic and the U.S. elections will play out will be determinant in setting the stage for the future. The path we chose will either take us towards greater prosperity, annihilation, or something in between. Let us hope it is intelligence with common sense rather than with greed that prevails.

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<sup>6</sup> <https://www.nytimes.com/2020/09/22/climate/climate-change-future.html?searchResultPosition=2>

<sup>7</sup> <https://www.nytimes-com.cdn.ampproject.org/c/s/www.nytimes.com/2020/09/10/business/dealbook/milton-friedman-inequality.amp.html>

<sup>8</sup> <https://edition.cnn.com/2020/09/26/politics/trump-european-union-diplomacy-intl-analysis/index.html>