Third Quarter 2026 Commentary

In the third quarter the S&P 500 and the tech-heavy Nasdaq Composite showed remarkable resilience, with the indexes hovering at or within striking distance of their all-time highs. The returns were primarily driven by mega-cap companies in the technology, energy, and communication services sectors.

For the quarter the S&P 500 rose 2.3%, while the Nasdaq advanced 2.6%. The Dow Jones Industrial Average bucked the trend for the major indexes, falling -2.3%, while the small-cap Russell 2000 dropped -7.2%.

250 Years of Progress

On July 4, 2026, we marked the 250th anniversary of the founding of the United States. Milestones like this offer a rare opportunity to step back from the noise of the present and consider what two and a half centuries of human ingenuity, capital formation, and compounding can achieve.

In 1776, the United States was a fledgling agrarian economy, powered largely by human and animal labor and connected to the world through slow and limited trade routes. Today, the U.S. economy represents roughly a quarter of global GDP and sits at the center of the world's financial system, supported by technological leadership, deep capital markets, entrepreneurial dynamism, and remarkable capital productivity.

This transformation is not simply a story of American exceptionalism. It is a testament to the power of markets, innovation, institutions, and compounded returns over generations. Americans did not become dramatically smarter than the rest of the world. Rather, a system that encouraged experimentation, competition, investment, and entrepreneurship created an environment in which millions of individuals could build, invent, and accumulate.

The scale of that compounding is difficult to appreciate when viewed one year at a time. Over 250 years, however, even modest advantages can become extraordinary. So, let's take a step back and look at where the United States began and where it stands today.

Metric	Founding (1776)	Semiquincentennial (2026)	Impact
Population	2.5 million	349 million	140x
Land Area (sq. mi.)	430,000	3.8 million	9x
Total GDP	$3 billion	$29.5 trillion	10,000x
Inflation-Adjusted Real GDP per Capita	$1,200	$85,000	70x

Share of Global GDP	<1%	25%	largest economic power
Life Expectancy	35-40 years	79 years	>2x
Urban / Rural Population	5% / 95%	83% / 17%	complete reorientation
Average Workweek	60-70 hrs/wk	34-40 hrs/wk	more productivity & more leisure

source: Wikipedia, Museum of the American Revolution, Reader's Digest, Inkwell analysis

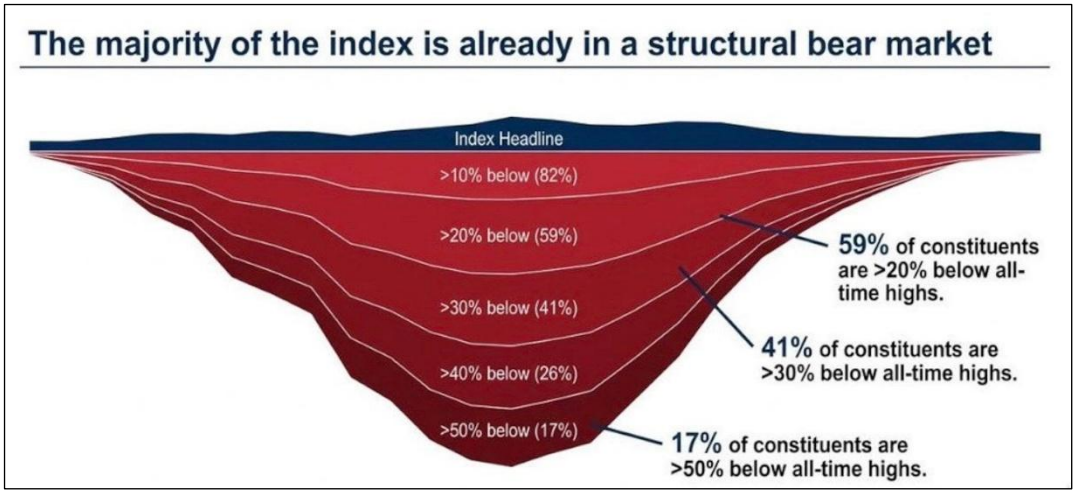
What started in 1776 as a bold political experiment, conceived by a small group of remarkable but imperfect individuals, has evolved into the world's largest economy and one of its most influential technological and financial powers.

When Is a Bear Market Not a Bear Market?

While market headlines continue to portray a robust bull market near all-time highs, a look beneath the surface tells quite a different story. We believe investors are navigating what can best be described as a stealth bear market.

As we have noted in previous letters, the S&P 500 is an index weighted by market capitalization, meaning the largest companies exert a disproportionate influence on the index's performance. In recent months, a small group of mega-cap technology companies has driven a remarkably large share of the S&P 500's gains, masking considerable weakness among the broader universe of stocks.

The chart below illustrates just how narrow the market's strength has become. More than half of the S&P 500's stocks are already in bear-market territory (i.e., trading at least 20% below their all-time high), and a sixth of the constituents are down by at least 50%. In other words, while the headline index remains near record levels, a significant portion of the underlying market has already experienced a substantial decline.



source: HowMuchFromATH.com

The current environment bears a striking resemblance to the period around 1998, in the years leading up to the bursting of the Internet bubble. Then, as now, market gains were increasingly concentrated in a handful of technology companies, while many businesses in more traditional industries were largely ignored—or outright punished by investors. Valuations and investor enthusiasm became increasingly detached from the fundamentals of much of the broader market.

But markets are cyclical, and leadership eventually changes. When the tide turned in the early 2000s, many of the unloved "old economy" stocks went on to perform exceptionally well, while some of the market's most popular technology companies suffered staggering declines. The lesson is not that history repeats itself precisely, but that market leadership is rarely permanent, and excessive concentration can create significant opportunities when the cycle inevitably turns.

More To Come

Our long-term outlook for America remains firmly optimistic. The past 250 years demonstrate what can happen when innovation, entrepreneurship, capital, and creativity are given the freedom to compound over generations. We have no reason to believe that process has ended.

But optimism about America does not require optimism about every investment at every price. Markets can become concentrated, valuations can grow stretched, and investor enthusiasm can temporarily overwhelm fundamentals. Today's narrow market leadership is a reminder that, even in a healthy economy, individual investments can carry significant risk.

As value investors, our job is not to predict when the tide will turn. It is to remain disciplined while others become complacent, focus on the underlying economics of the businesses we own, and insist on paying reasonable prices for durable streams of cash flow.

We look forward to reporting to you again in three months.

Sincerely,

FELIPE

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