



Is This Time Really Different?

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“Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria.” - Sir John Templeton

In conversations with other investors, the question I've heard most in the last few months is whether we're in an AI bubble, so it felt worth addressing here. As a caveat, I'm not an active trader, but rather a student of the market. I'm also no tech expert and don't claim to know more about AI than the average generalist investor. With that in mind, here's my take.

What's most interesting about bubbles isn't their timing, but their pattern. Markets move through familiar emotional stages, starting with doubt, shifting to optimism, and eventually tipping into widespread enthusiasm. Something new and seemingly revolutionary captures the public's imagination. Early participants see outsized gains. Those on the sidelines feel envy and regret, and driven by FOMO, they rush in. Valuation becomes an afterthought, replaced by confidence and bold forecasts. Investors stop asking whether today's prices can reasonably deliver attractive returns with acceptable risk.

Importantly, the presence of truly transformative technology doesn't prevent bubbles from forming. Back in 2000, there were no smartphones, no Wi-Fi, no TikTok, no cloud computing and no streaming. The internet changed the world, yet it still produced one of the most dramatic market manias in history. Innovation and overexuberance can coexist, and often do. The result is usually painful in the short to medium term, even if patience eventually rewards a select few.

The potential AI bubble is most visible in large language models (LLMs), where ChatGPT, Gemini, Grok, Claude, and Deepseek are competing for users while their creators command extreme valuations. OpenAI is now priced at \$500 billion despite generating a projected revenue of \$12-\$13 billion (with a net

loss of \$16 billion). Anthropic, creator of Claude, is valued at \$350 billion on \$7 billion of revenue. Elon Musk's xAI, behind Grok, is estimated at \$230 billion on roughly \$3.2 billion in revenue (including X). Alphabet's 2025 market cap surge is partly tied to Gemini, while Meta and Amazon have also benefited from LLM exposure. In total, LLM ownership is valued at over \$1.5 trillion against less than \$100 billion in combined revenue.

And unlike traditional software, where serving an extra user is nearly free, each LLM query consumes expensive GPU compute. Each new user adds incremental cost, creating unit economics that simply don't scale profitably. Without a major cost breakthrough, the sector appears meaningfully overheated.

I have a great deal of respect for Howard Marks and his thoughtful approach to markets, so his latest memo, *Is It a Bubble?*, is worth a read. He points to several signs of speculative excess in today's AI landscape, including massive funding rounds for companies with little to show beyond ambition. One example is Thinking Machines Lab, founded by former OpenAI executive Mira Murati, which reportedly raised \$2 billion at a \$10 billion valuation despite having no public product and declining to say what it was building. Within months, it was said to be in talks at a \$50 billion valuation.

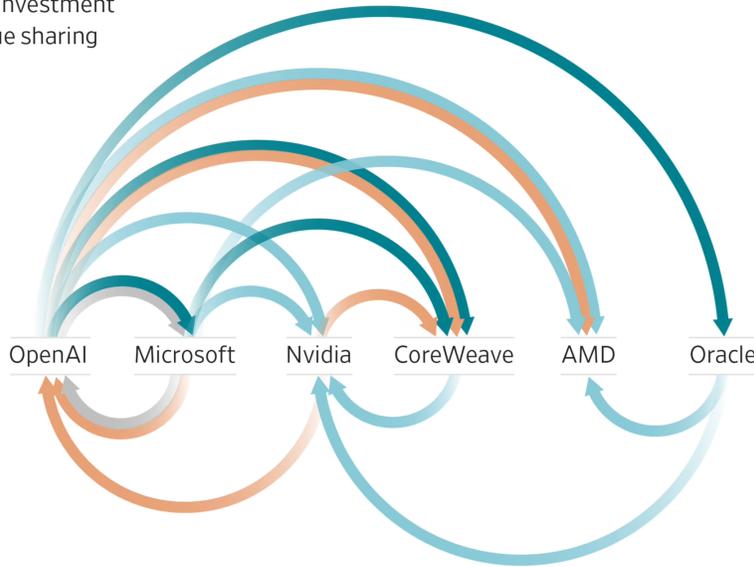
Marks also highlights Safe Superintelligence, founded by former OpenAI chief scientist Ilya Sutskever, which raised \$2 billion at a \$32 billion valuation, again without a released product. He further raises concerns about "circular" deals, where AI companies appear to be recycling capital among themselves. Goldman Sachs estimates Nvidia could generate 15 percent of next year's sales from such arrangements.

Market Outlook Continued

This “circular economics” dynamic worries me because the same dollar gets counted as “revenue” multiple times as it moves through the ecosystem. On the surface, it looks like explosive demand. Underneath, much of the cash is simply being recycled among the same players. A visualization from recent Wall Street Journal article makes this especially clear.

Select capital flows

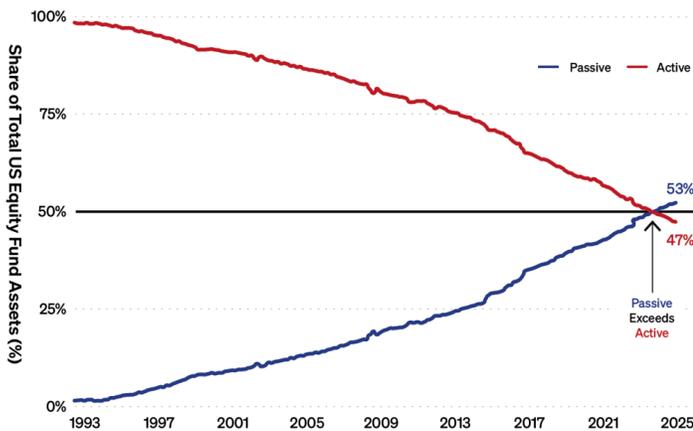
- Chip purchases
- Infrastructure purchases and rentals
- Equity investment
- Revenue sharing



What this shows is how capital can flow in loops between AI developers, cloud providers, and chipmakers, creating the appearance of rapid growth even when much of the spending originates from the same pool of money. This doesn't mean demand isn't real, but it does suggest growth may be overstated during periods of heavy capital recycling.

When we zoom out, today's market structure adds an important layer to this discussion. Index funds and ETFs now account for the majority share of U.S. equity ownership (see left chart), meaning more capital is being allocated mechanically rather than selectively. At the same time, market leadership has become increasingly concentrated in a small group of stocks (the top 10 stocks now account for 39% of the S&P 500 – see chart on the right).

Active vs Passive Fund Share of US Equity Fund Assets



Source: Research Affiliates, Data as at 31st Dec 2024

Market cap of 10 largest S&P 500 firms, % of index total



Source: S&P

Unfortunately, these two trends reinforce each other. Passive investing does not favor any single stock. It buys the entire index. But when the market itself becomes concentrated, more of each new dollar naturally flows into the largest names simply because they make up a bigger share of the index. The result is a system where concentration feeds on itself, creating momentum that can push prices higher regardless of fundamentals. This can persist for a long time, but it also leaves markets more exposed when sentiment eventually turns.

Takeaways

With all due respect to the late Sir John Templeton, whom I quoted at the start of this newsletter on the nature of market bubbles and cycles, and who famously warned that the words “*this time is different*” are among the most dangerous in investing, I find myself wondering if this cycle truly may be different. Not because the Magnificent Seven or the AI boom represent something fundamentally new, but because of the sheer scale this cycle could reach and how long it may persist. During the dot com era, index funds represented less than 10 percent of total assets. Today, they account for the lion’s share of market ownership. That structural shift has meaningfully altered how capital flows, effectively directing more money into the largest stocks and reinforcing their rise regardless of underlying fundamentals.

So what are we going to do about it?

First and foremost, we are not going to chase large companies simply because they dominate the indexes or have recently driven market performance. Instead, we will stick to our core strategy of owning high quality businesses with predictable cash flows and strong returns on invested capital. As Charlie Munger liked to say, “The big money is not in the buying or selling, but in the waiting.” In a market full of noise, hype, and bold predictions, patience remains one of the most underrated advantages. Our focus will stay on letting time work in our favor rather than reacting to every surge in market excitement.

And now onto the portfolio...

Update on Portfolio

After outperforming the portfolio for the first three quarters, we finished 2025 with an **average return of 6.09%, compared to 17.72% of the S&P 500**. While we are clearly disappointed with this outcome, particularly our performance in the final quarter, it's worth noting that several idiosyncratic events impacted a handful of our larger positions toward the end of the year, which I will touch on in more detail in the *Biggest Losers* section below. Even so, we view this period as an important learning experience.

There are several factors that contributed to the gap, including our cash position, limited exposure to high profile AI names, and aforementioned broader market flows into index funds. But rather than dwell on explanations, we take full responsibility for the results. Our focus remains on continuous improvement and disciplined decision making.

On a more positive note, we are already up nearly 4% year to date, which is considerably ahead of the S&P 500 so far. For those who follow along with this newsletter and share an interest in long term, fundamentals driven investing, this early start reinforces why staying disciplined through difficult periods matters. While short term results can vary, we remain confident in our process and believe it positions us well for future outperformance over a full market cycle.

Biggest Losers –

If you invest long enough, you will inevitably experience both winners and losers in your portfolio. This is exactly why we focus so heavily on margin of safety, business quality, and long-term fundamentals. While our portfolio has slightly underperformed this year, we remain highly confident in our 5–10 year return potential. Short-term volatility is the price we pay for long-term outperformance, and we continue to view these drawdowns as opportunities rather than failures.

Burford Capital Limited (Ticker: BUR) – Burford has faced near term pressure following headlines from an appellate hearing where a judge raised a procedural question that the market briefly misinterpreted as negative. Importantly, this question had nothing to do with the underlying merits of the case and did not signal any shift in legal precedent. Judges routinely ask hypothetical, probing questions during oral arguments to stress test both sides which is standard practice and not indicative of how they will ultimately rule. Fundamentally nothing has changed in Burford's business. It continues to originate high quality legal assets with asymmetric payoff potential and its portfolio value continues to grow. The long duration nature of litigation investing remains intact. We believe the recent selloff was emotional rather than fundamental and patient investors should be rewarded as cases resolve and capital is redeployed at attractive returns.

Coupage Inc (Ticker: CPNG) – Coupage has reached an inflection point in its growth journey. Shares came under pressure following news of a data breach which initially sparked concerns around customer trust, regulatory scrutiny, and potential financial liability. However, as more details emerged, the impact proved to be considerably less severe than originally feared, with limited customer exposure and no material long term damage to operations. While margins have been pressured as the company continues to invest aggressively in logistics and expansion, its dominant market position in South Korea remains unmatched. Customer retention remains strong, delivery infrastructure is best in class, and free cash flow generation continues to improve. We view the recent weakness as transitional rather than structural and believe the long term thesis remains firmly intact.

Remitly Global Inc (Ticker: RELY) – Remitly saw its shares pull back after growth slowed and management issued softer guidance than expected, which pressured the stock in the near term. While this created understandable concern, we view it as a temporary deceleration rather than a structural issue. The long term story remains firmly intact as the company benefits from secular tailwinds such as global migration and the shift from cash based to digital money transfers. Remitly now serves millions of active customers across more than 170 countries and continues to grow revenue at a healthy double digit pace. Recent product rollouts including new international corridors and enhanced app features are already improving engagement and retention. Importantly, Remitly has now reached profitability, a major milestone that positions the company for operating leverage and long term shareholder value.

Biggest Gainers –

SoFi Technologies Inc (Ticker: SOFI) – SoFi has successfully evolved from a digital lender into a full-scale financial platform. Fee-based and non-lending revenue now represent a majority of total sales, improving the durability of the business model. Key growth drivers include rapidly expanding deposits, scalable fintech infrastructure through Galileo and Technisys, and high-margin third-party loan origination via its Loan Platform Business. While valuation remains elevated, we believe it is justified if management continues executing and interest rates move lower. That said, we did trim our position recently as other higher conviction opportunities emerged, but we remain bullish on SoFi's long term potential and continue to view it as a core holding in our growth allocation.

Update on Portfolio

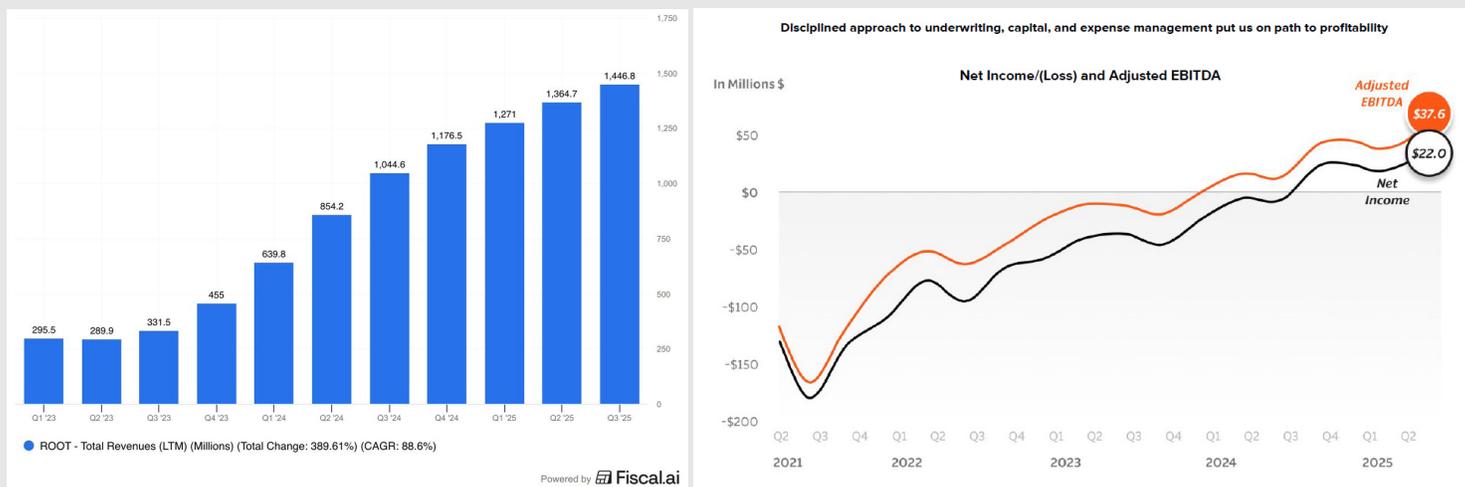
ASML Holdings NV (Ticker: ASML) – ASML is arguably one of the most important companies in the world and sits at the very center of the global semiconductor supply chain. Its monopoly on extreme ultraviolet lithography machines gives it unmatched pricing power and technological leadership that competitors simply cannot replicate. Every advanced chip used in AI, data centers, smartphones, and high performance computing depends on ASML's equipment. As demand for computing power continues to surge, ASML benefits from long term structural tailwinds and exceptional visibility into future orders. We view this as a rare business with an extraordinarily wide moat and the ability to compound shareholder value for many years to come.

Brookfield Corp (Ticker: BN) – Brookfield stands out as a compelling long-term investment for several reasons. First, it has the potential to continue compounding value for shareholders through disciplined capital allocation and exposure to enduring secular trends. Second, its diversified portfolio of real assets provides both dependable cash flow and meaningful growth potential across multiple industries. Finally, Brookfield offers a natural form of diversification, giving investors exposure to a broad range of sectors rather than being tied to the performance of any single industry, which helps mitigate risk while maintaining upside participation.

Alphabet Inc (Ticker: GOOG) – Alphabet remains one of the most dominant and strategically important technology companies in the world. Our main investment thesis centers on its best in class artificial intelligence capabilities, which can be applied across its entire product suite including Search, YouTube, Cloud, advertising, and emerging AI driven tools. While there is understandable concern around a potential AI bubble in the broader market, Alphabet stands apart as a real world beneficiary with proven monetization, massive distribution, and decades of proprietary data. In addition to its core businesses, Alphabet owns valuable stakes in companies like SpaceX and Waymo, giving shareholders exposure to disruptive technologies in space and autonomous driving. With strong free cash flow generation, a fortress balance sheet, and multiple levers to pull for future growth, we believe Alphabet is uniquely positioned to compound value over the long term.

Recently Added –

Root Inc. (Ticker: ROOT) – Root has quietly evolved from a cash burning direct to consumer insurer into a scalable, tech driven embedded insurance platform. Recent results show meaningful progress, including improved loss ratios, an 88 percent revenue CAGR since 2023 (see left chart), and positive net income (see right chart). Together, these metrics provide clear evidence that the business model is working. Embedded partnerships especially with Carvana are driving policy growth while lowering customer acquisition costs. Despite this progress the stock trades at just 0.8x sales which we believe underestimates the improving fundamentals. While volatility remains we see meaningful upside as execution continues and the business scales.



Growth stocks can command premium valuations when profitable growth is sustained, and Root has the potential to continue disrupting the insurance industry. While I would have preferred to buy at lower levels and insurance is not one of my core areas of expertise, we believe there is still significant upside ahead. Normally a 1.0x price to sales multiple would be an exit point rather than an entry, but Root operates more like a growth technology company. The stock may remain volatile around earnings, but at roughly 1.0x sales it is far from expensive. At current levels it makes sense as a starter position, with the opportunity to add on future pullbacks.



ABOUT

A West Point graduate with an MBA from Notre Dame, William held senior positions at EY and Deutsche Bank before founding Sirmium Capital over a decade ago. He is a Series 65-licensed investment adviser representative specializing in value investing for families impacted by September 11th.

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