

October 3, 2026

Dear Clients and Friends:

As we close in on the end of 2026, the old phrase “may you live in interesting times” comes to mind. Often referred to as an ancient Chinese proverb, it is actually nothing of the kind, though the caution embedded within remains relevant regardless of origin. With so much going on in the world today, I would narrow our focus to the areas most interesting and relevant to Reams, which are, of course, all matters financial. Within that universe, we will turn our attention to interest rates and artificial intelligence (AI). The interplay between these two themes presents an opportunity that comes along infrequently.

The comparisons to the dotcom bubble are pervasive, and while they should not be dismissed, they seem to miss the point. Focusing on the efficacy of the internet versus that of AI is, in our view, the wrong debate. Both are transformational technologies, and their effects on society and the economy will take years to play out. The more interesting comparison is the suspension of disbelief that existed in 1999 and clearly exists today. Back then, because there were no earnings to speak of, we were told to use clicks as a proxy for value. All the analysts nodded sagely and clapped like trained seals. Valuation was once derived from the price-to-earnings ratio, which gave way to the price-to-sales ratio and has now morphed into TAM, or total addressable market. I believe all of these statistics are used to disguise the fact that the return on investment makes no sense and simply cannot work. AI technology may be wonderful (it is not what most think it is, but that is a discussion for another time), but as an investment, it seems to be a great place to lose money. But hey, if you stuck with Cisco Systems, you finally got back to even after roughly 25 years, so maybe you can just be patient.

Another commonality with the dotcom bubble is questionable accounting practices. Back in 2000, we had shady characters like Jeff Skilling of Enron, Gary Winnick of Global Crossing, and of course Bernie Ebbers of WorldCom. These were mostly finance guys and straight up fraudsters, and the fraud they perpetrated served to accelerate the crash. Now we have the tech bros, with their earnest speeches and quarter zips, or in the case of Jensen Huang of Nvidia, with his cool leather jacket, promoting a technology that will revolutionize the world, assuming it does not kill us all first. Seemingly lost in the current euphoria is the insane circular financing taking place in plain sight. The inevitable collapse of the AI ecosystem will, as in 2000/2002, be exacerbated by the unravelling of this daisy chain.

You may ask, “What has this to do with interest rates and the bond market?” Quite a bit. Bubbles often require a lot of capital - think railroads, electricity, the internet, and of course AI. In 2000,

real interest rates, or rates after inflation, hit 4.3%. This is very high by any historical standard and proved to be a massive buying opportunity. The break-even inflation rate was only 2%, so rates were driven by demand for capital not fear of inflation. Today we have real interest rates around 3%, and despite all of the talk about the price of oil, the war in Iran, and "affordability," the break-even inflation rate is still around 2.25%, largely unchanged for the year. This rise in rates is, as it was then, largely a result of an investment boom, and that is why I believe we should be looking at 2000 for some direction today. The euphoria over a new technology and the fear of missing out skew the perspective of investors, whereas the rational investor sees a historic opportunity in risk-free rates and a hedge against irrational behavior that will become obvious to most only in hindsight.

This is a time to step back and look at the implied returns using fundamentals, not fantasies that involve data centers in space, asteroid mining, or even the elusive Artificial General Intelligence (AGI). I believe when we take this approach that the correct positioning becomes clear: capture very high risk-free, inflation-adjusted returns for as long as you are permitted, shun all but the safest credit, and maximize liquidity and safety. The unraveling, implosion, bursting, or whatever you wish to call it will be accompanied by much wailing and gnashing of teeth, as well as many opportunities for those who are prepared.

Sincerely,



Mark M. Egan, CFA
Managing Director

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