

The Long Run

Investment Letter
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RM REYNDERS, McVEIGH
CAPITAL MANAGEMENT, LLC

*'You can see the stars
and still not see the lights'*

—Already Gone, The Eagles

We are all guilty of it at times. We see evidence right above us, but miss what is really happening. There is a difference between seeing and understanding. This is usually due to viewing things through a prism that is already colored by our social, political, and world beliefs.

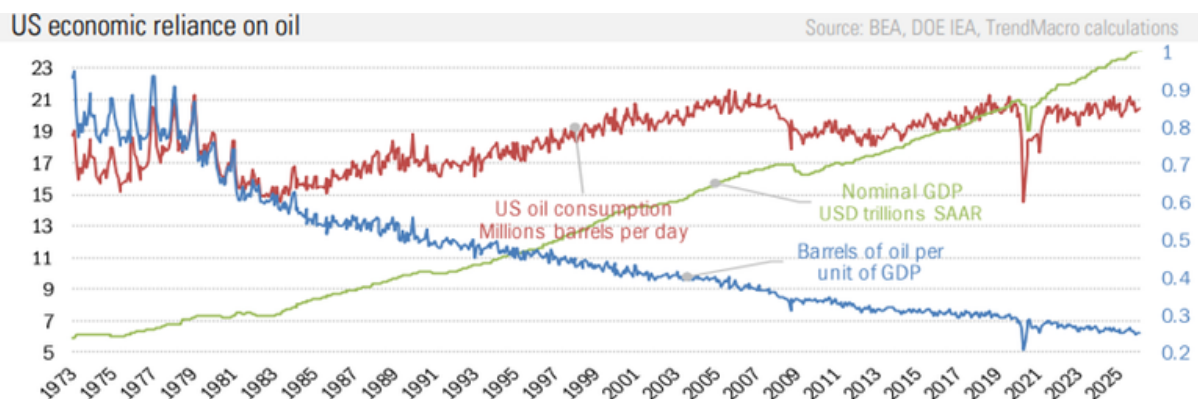
This was epitomized by a July 2026 editorial in The Economist titled, "We woz wrong about oil." Influenced by their opinion of our President, they thought you had to be in "la-la land" to think oil prices would come down in price and likely not cause a recession. But they did—and stock prices had their best quarterly results in six years.

Take it Easy

Before you think we are ascribing any particular negotiating skill to the President (we aren't), we will tell you the real reason that the oil blockade didn't produce prices high enough to cause the recession that most predicted.

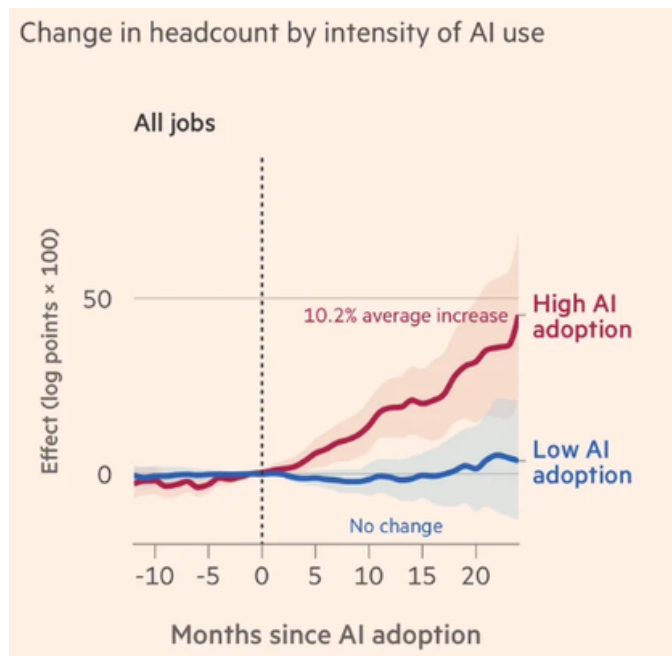
The simple fact is that oil is not as important to the world economy as it used to be. We are much less reliant on it and it would take a significantly higher price than we just experienced to shut the economy down.

As you can see from the following chart, it used to take one barrel of oil to produce one unit of GDP. Now it takes less than 0.3 barrels. The U.S. is also using about the same amount of oil that it consumed back in 2000. As we transition to electricity, renewables and greater efficiency, oil becomes less important. It doesn't mean that oil can't cause a recession, it is simply that it would take a much higher price than we have just experienced to do so.

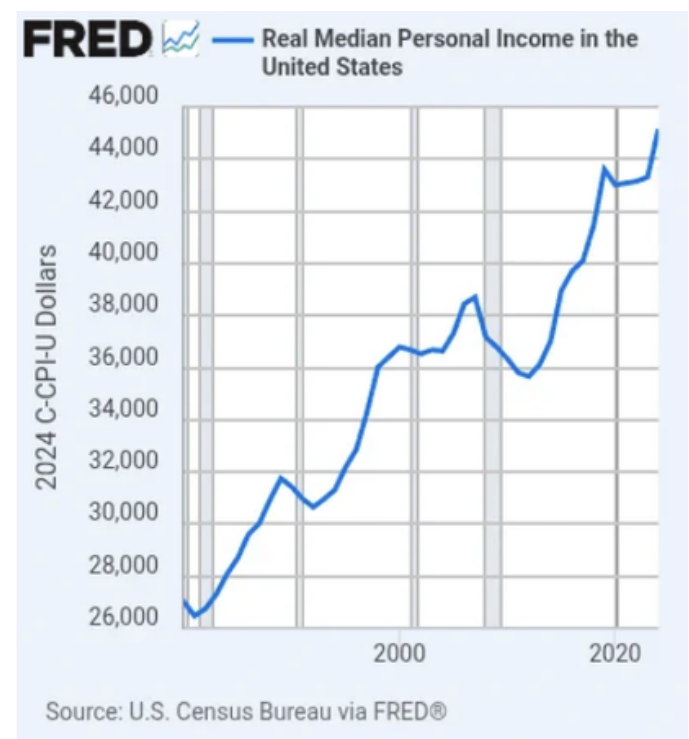


The same missed view has been around the impact of AI on employment. The ongoing fear is that AI has started to create a black hole around job growth and that large-scale layoffs will lead to a recession. A valid thesis, to be sure, though there is no evidence this has yet to occur. Employment has been relatively good. Those filing for unemployment as a percentage of the workforce is at a historically low level and the number of job openings has been going up.

In fact, a **new study** of 21,559 firms done by The Ramp & Revelio Labs showed that those firms that have been most active in adopting AI have been growing their workforces much faster than the average. And for those who believe that AI will make it particularly difficult for recent college graduates to find work, the study found that the fastest job creation has actually been in entry level positions—with employment growth in this group at 12%.



There are other cases we could cite where data conflicts with conventional wisdom. For example, the contention is that higher costs and greater income inequality are hollowing out the economy. But this isn't necessarily what statistics are showing. While enormous wealth has been created among the top 10% of individuals, we still are seeing real income (adjusted for inflation) growing for the middle class. The following chart shows that real income is once again growing after the Covid years for those in the middle. This helps to explain why retail sales have been growing at a strong pace despite higher gasoline prices.



Life In The Fast Lane

All in all, while the pricing on some technology company stocks has clearly flown too close to the sun, the broader stock market has been reacting to strong fundamentals. Corporate earnings grew at a greater than 20% rate in the past quarter. Earnings for technology companies have risen by over 40%. This compares to the long-term average of 6–8% for the entire economy. Fundamentals have been improving, led by rising productivity gains which we have discussed previously.

While the stock market remains extremely concentrated in a small number of large technology companies, it was interesting to see some of this speculation begin to shift. For example, the Mag-7 stocks are now underperforming the broader stock market this year. Some of the other most speculative assets have also faltered. Bitcoin, for example, has declined by over 40% in the past year.

We will continue to focus on those assets where we see sustainable growth at a reasonable valuation.

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We would be remiss if we didn't touch upon what many consider to be the biggest stars of the market. SpaceX went public this past quarter and two other leading AI firms, OpenAI and Anthropic, are scheduled to become publicly traded companies later this year. All are expected to be valued over \$1 trillion.

While all three address revolutionary market opportunities, we note the difficulty in valuing these businesses. None will be profitable. All will need to raise much more capital. And there are many unanswered questions about what the revenue potential really is for each.

We also have concerns about the governance at SpaceX and OpenAI. (Anthropic has a fairly positive governance structure.) SpaceX concentrates 85% of voting control with the CEO, Elon Musk. The company also makes it nearly impossible for investors to bring legal challenges. This aligns with recent changes from the SEC that is making it more difficult to file shareholder resolutions. Last year, about **one-third fewer** sustainability related resolutions were filed.

For all newly-traded companies, we advise patience and a long-term view. Initial excitement over obtaining shares often moves the stocks higher, only to see this evaporate as reality sets in. For example, SpaceX is currently trading below where its shares initially started trading.

Looking ahead, we will follow our discipline of conducting financial and social analysis on all of these companies to find the true brightness of the lights behind these stars. 

SOURCES: BEA, DOE IEA, TrendMacro calculations, Financial Times, adapted from Kharazian et al. (2026), "A New Look at AI's Impact on Jobs," and Ramp Economics Lab, U.S. Census Bureau via FRED (Federal Reserve Economic Data), and RMCM research.

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