ISSUE
06
2026 Q2 In Review

QUARTERLY
NEWSLETTER

Sirmium Capital

The Founders Knew This Was Coming

“No one pretends that democracy is perfect or all-wise. Indeed, it has been said that democracy is the worst form of Government except for all those other forms that have been tried from time to time.”

— Winston Churchill. House of Commons. 11 November 1947

Democracy is a bad system. It is loud, slow, easy to manipulate, and never more than one charismatic liar away from disaster. The only thing to be said for it is that every alternative is worse. That reluctant, almost grudging endorsement is exactly the right way to think about the men who designed the American republic, because they shared that temperament. They were not idealists drunk on the perfectibility of man. They were skeptics who had read their history and assumed the worst about human nature.

It is fashionable now to flatten the founders into marble. It is more useful to remember how genuinely formidable they were as a working group of minds. Think about the sheer concentration of intellect packed into a few rooms in Philadelphia. There was Madison, who showed up having read crates of books on the history of confederacies (that Jefferson had shipped him from Paris) and who had basically reverse engineered why every earlier republic had failed. There was Hamilton, who taught himself finance well enough to build a sovereign credit system from nothing, and whose feel for how money actually moves through an economy would not be matched in American government for a century. There was Franklin, a working scientist of international standing who also happened to be the shrewdest diplomat of his age. And there was Jefferson, all of 31, who could put the philosophical charter of a nation on paper in a few weeks, even if he never fully lived up to what he had written.

They really were the Einsteins of their time. It was an extraordinary stroke of luck to have that many minds of that caliber meet in one place at the one moment when the fate of the nation was up for grabs. It wasn’t exactly a single flash of brilliance, but more a combination of deep historical knowledge, a hardheaded realism about power, and the discipline to build a machine that did not depend on the people running it being good. They were systems designers. They assumed the inputs would be flawed, that the people in charge would be vain and greedy and ambitious, and they built a structure that could absorb all of that and keep working anyway.

The founders were keen students of the actual mechanical practice of democracy, not theorists fixated on what was desirable. They approached government the way an engineer approaches an engine that has to run for a very long time, not the way a utopian considers an ideal. Read them that way and *The Federalist Papers* stop looking like political philosophy and start looking like technical specifications: long, almost obsessively detailed working papers on structural design, the balance of powers, and the concrete mechanics of a government that could actually be sustained. It is the documentation an engineering team writes when it knows the system must run unattended for centuries, under heavy load, operated by people it will never meet and has no reason to trust. It’s somewhat similar to how we analyze a business. We care about how the thing actually works, not the story it tells about itself.

From there, the founders started with a premise that modern political talk has almost completely abandoned: that there would always be a ruling class, and that the real question was never how to get rid of it but how to chain it. They had no illusion that power could simply be handed to the people in any pure form. They distrusted concentrated power in a king, and they distrusted concentrated passion in a mob, and they built defenses against both at the same time.

That is why the Constitution reads less like a celebration of democracy than like a set of locks. The framers deliberately built a republic rather than a direct democracy, a system in which the public will gets filtered, slowed down, and refined by a fairly small number of chosen representatives. Madison spelled out the logic in Federalist No. 10. A representative body, he hoped, would refine and enlarge the public views by running them through a group of citizens whose judgment might better catch the true interest of the country. The filtering was the whole point. A small number of hands would hold real power, but those hands would be set against one another.

So they separated the powers and then forced them to fight. The legislature could write law but not carry it out. The executive could act but could not fund himself. The judiciary could judge but command an army or control the treasury. Each branch got just enough leverage to frustrate the others. The Senate was small, insulated, and at first not even elected by the public. The president was chosen indirectly through electors. Judges were given their seats for life precisely so they would answer to no crowd. Every one of those choices put real authority in the hands of a few people, and then deliberately set those few against each other so that no single faction could grab the whole thing. The design rests on a clear-eyed reading of human nature. Instead of assuming leaders would behave perfectly, the founders assumed they would chase their own interest and built the checks to turn that self-interest against itself. Ambition, as Madison put it, was made to counteract ambition.

For an investor this is a very familiar architecture. The founders were building governance controls. The same instinct that makes a checked and balanced republic durable is the one that makes a well governed company durable: aligned incentives, power that is spread out rather than hoarded, and a structure that holds up even when the individuals running it do not. The men who designed that system would have understood a capital allocator perfectly, because they were allocators of power. They built for the world as it actually was, populated by the people who actually existed.

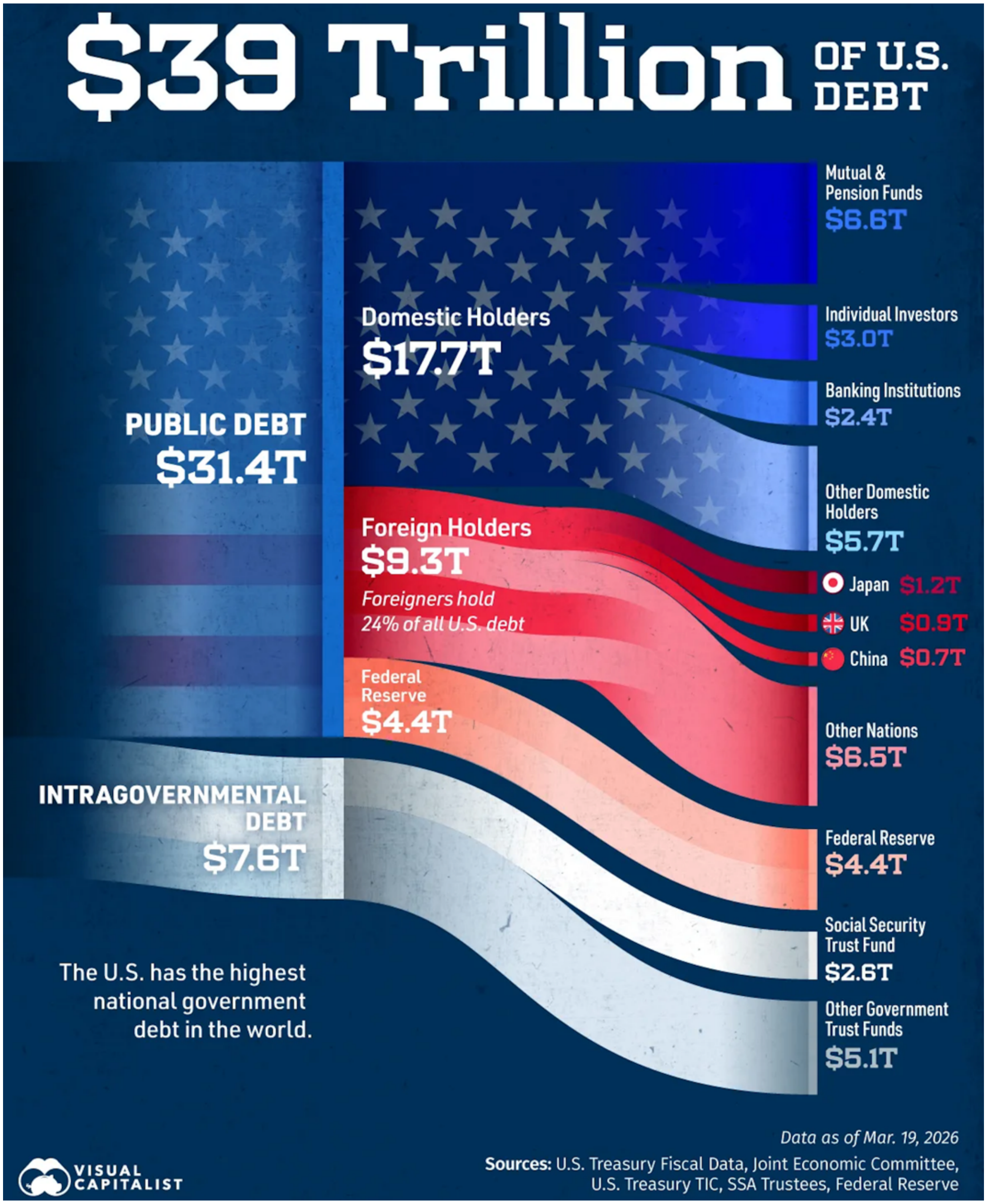
Nowhere was that realism, and the disagreement that came with it, sharper than on the question of money. The young republic's deepest fault line was not about liberty in the abstract. It was about debt, and it ran right between the two most powerful minds in Washington's cabinet.

Hamilton, the first Treasury Secretary, looked at the war debts scattered across the thirteen states and saw not a burden but a tool. His 1790 plan had the federal government take on the states' Revolutionary War obligations, fund them reliably, and in the process tie the nation's creditors, who were also its wealthiest and most influential citizens, to the success of the new government. A debt honestly serviced would establish credit. Established credit would let the nation borrow on good terms the next time an emergency came. And the machinery of that debt would stitch the country together into a single financial body. Properly managed, he argued, a national debt would actually be a national blessing. In the most literal sense, he was building the creditworthiness of the United States from a blank page.

Jefferson recoiled from the whole idea. To him a permanent public debt was a moral hazard dressed up as statecraft, a way for the living to mortgage the unborn and for financial power to dig itself in close to the seat of government. Writing to Madison from Paris in 1789, he laid down a principle he held for the rest of his life: that the earth belongs to the living, that one generation has no right to bind the next, and that debts, like the men who run them up, ought to expire on something like a nineteen-year cycle. Perpetual debt meant perpetual taxation. Perpetual taxation meant a permanent transfer from the many who worked to the few who lent. To Jefferson, that was a quiet form of tyranny.

The irony, which really should sit at the center of any honest look at our own moment, is that Hamilton won and was right, for about two hundred years. His system built the bottomless creditworthiness that still underwrites the Treasury market, the deepest and most trusted pool of capital in the history of the world. The blessing was real. But Jefferson was not so much wrong as early. His warning was about what happens when the discipline drains out of Hamilton's system and only the borrowing is left, when debt stops being a tool you reach for in an emergency and becomes the permanent operating condition of the state. That is the warning we are now, two and a half centuries later, finally in a position to test.

So here is the plain arithmetic of where Hamilton's blessing has ended up. The United States has not run a budget surplus since fiscal year 2001, the last of four straight surplus years under the Clinton administration. That is now almost a quarter century of unbroken deficits, through booms and busts, war and peace, with both parties taking turns holding the pen. Total federal debt closed fiscal 2025 at roughly 37.6 trillion dollars and has since pushed past 38 trillion. See a breakdown of where we stand below.



The number that should really get an investor's attention, though, is not the debt itself. It is the interest on it. In fiscal 2025 the federal government paid roughly 1 trillion dollars just to service its debt, a figure that has nearly doubled in three years. Net interest has now passed both defense and Medicare to become the second largest line in the entire federal budget, behind only Social Security. In the first quarter of fiscal 2026, interest ate up nearly 45 percent of the deficit. The government is increasingly borrowing simply to pay the interest on what it has already borrowed. CBO has net interest climbing toward 2 trillion dollars a year within the decade. This is the exact mechanism Jefferson feared.

The conclusion I draw from this is not apocalyptic, and I want to be careful here. I'm not saying that the United States is going to default anytime soon. A government that borrows in its own currency does not have to. That is exactly the problem. When the math of the debt becomes unmanageable, the pressure does not escape through default. It escapes through *inflation*. A government that cannot plausibly grow or tax its way out of its obligations, and will not cut its way out, is left with the oldest tool in the box: paying back tomorrow's creditors in money worth less than today's. None of this has to be dramatic. It can simply mean that inflation runs hotter than the official targets, for longer than anyone is forecasting, as a quiet and politically convenient way of shrinking the real value of the debt.

This is the framework people sometimes call fiscal dominance: the point where the sheer size of the debt and its interest bill start to box in monetary policy itself, because the cost of fighting inflation, namely higher rates, directly makes the fiscal hole worse. The central bank's independence does not disappear, but it operates under a heavier and heavier thumb. For an allocator, the practical takeaway is simple and a little uncomfortable. The base case for the next decade is not a clean return to 2 percent inflation. It is a structurally higher and stickier price level than the consensus is set up for. You should plan for the erosion to outlast the forecasts.

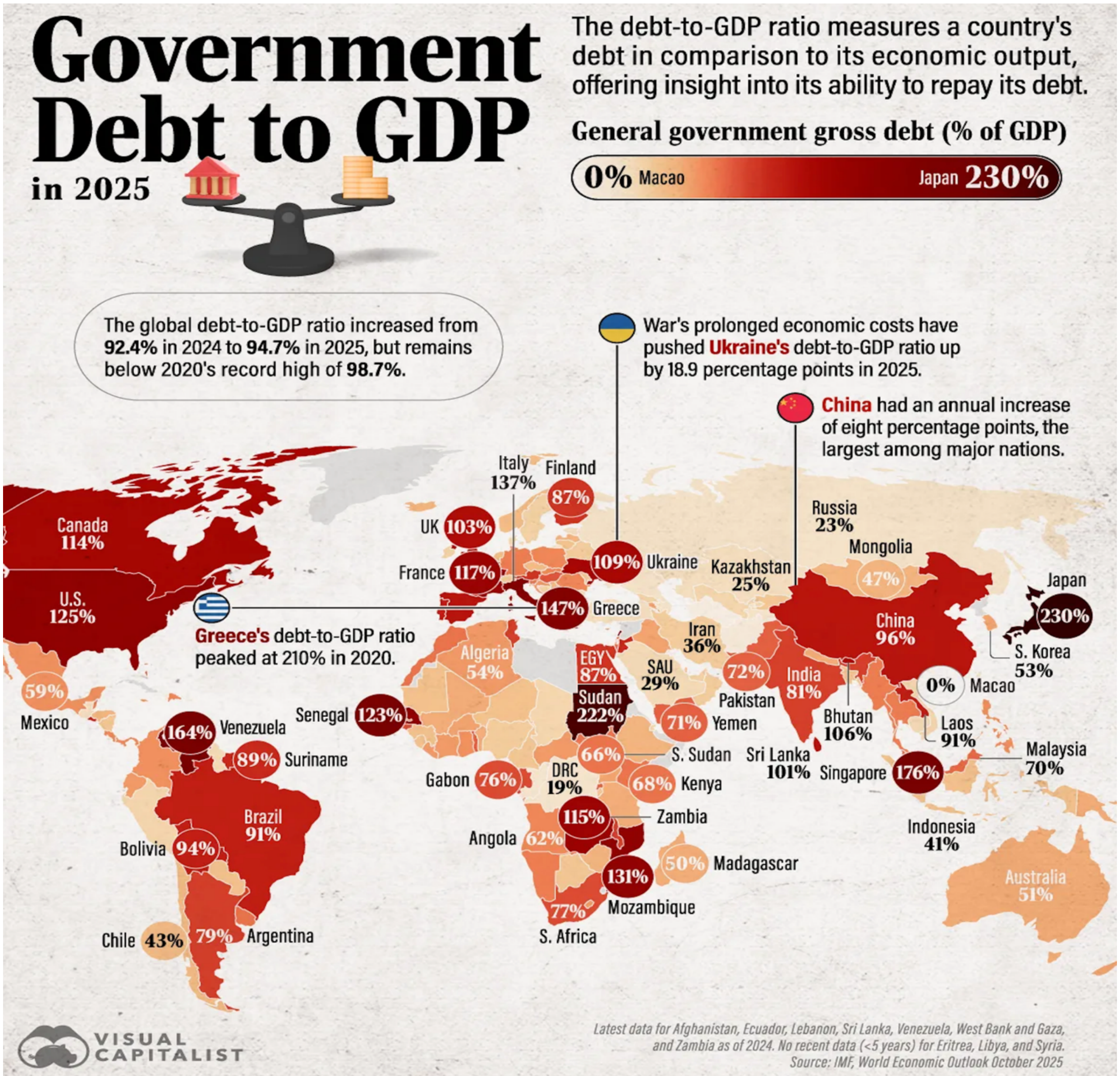
If the long arc of the debt really does point toward persistent inflation and a slowly debasing currency, then the central job of a portfolio is to own things whose value does not depend on the currency holding up. That is a real reorientation, and it cuts against the instincts most investors built over forty years of falling inflation. Three categories deserve a deliberate place in that rethink.

The first is hard assets and energy infrastructure. If the long arc of the debt really does point toward persistent inflation and a slowly debasing currency, then the portfolio should own things whose value does not depend on the dollar holding up. The most direct hedge is owning scarce, productive assets that governments cannot create out of thin air. Farmland, commodities, energy infrastructure, and the businesses that produce the world's essential resources derive their value from real-world demand rather than financial engineering. When the purchasing power of money declines, assets with genuine scarcity and utility have historically done a much better job preserving wealth than paper claims alone.

Years of underinvestment in the energy sector have further strengthened this case. Political pressure, capital discipline, and increasingly difficult permitting have limited investment in new production, even as global demand for oil, natural gas, and industrial commodities continues to grow. When supply struggles to keep pace with demand, commodity prices can remain elevated for extended periods, creating a favorable environment for businesses tied to the production and movement of energy.

Rather than attempting to predict commodity prices, we prefer owning businesses that generate durable cash flows by producing, transporting, and supporting the world's energy infrastructure. Our largest exposure comes through the **MLPI ETF**, which owns a diversified portfolio of midstream energy companies operating pipelines, storage facilities, and other essential infrastructure. We complement that position with smaller investments in **CNX Resources (CNX)**, a disciplined, low-cost natural gas producer focused on free cash flow generation and shareholder returns; **Occidental Petroleum (OXY)**, a low-cost oil producer with meaningful leverage to higher commodity prices; **Noble Corporation (NE)**, one of the world's leading offshore drilling contractors positioned to benefit from increased offshore investment; and **YPF**, Argentina's largest integrated energy company with significant exposure to the world-class Vaca Muerta shale formation. Together, these holdings provide diversified exposure across the energy value chain, spanning transportation, natural gas, oil production, offshore drilling, and international energy markets, while offering durable cash generation, inflation protection, and attractive long-term appreciation potential.

The second are American Depositary Receipts (ADRs). Piling everything into dollar assets is its own kind of risk when the dollar is the thing under structural pressure. Owning excellent businesses based outside the U.S. using ADRs, does two useful things at once. It spreads the currency exposure of the portfolio away from a single government's fiscal path, and it opens the door to high-quality compounders in economies that are, in a lot of cases, less burdened by debt and more reasonably priced than the U.S. market. The discipline is the same one we use everywhere: buy durable, well governed, cash generating businesses at sensible prices. The ADR structure just lets us do it across-borders, so that not every holding lives and dies with the fate of one currency. If they are paid in their local currencies and report in USD, then that could be a tailwind. This is never a reason to invest, but a nice addition. Here is a breakdown of how things currently stand across the globe:



The third is scarce monetary assets. Throughout history, whenever governments have accumulated debt faster than the underlying economy could support it, they have eventually found ways to reduce the burden through currency debasement rather than outright default. In that environment, the assets that tend to preserve purchasing power are those that no government can create at will.

Gold has filled that role for thousands of years. It is durable, globally recognized, and its supply grows only slowly regardless of political decisions. Bitcoin offers a modern alternative. Its monetary policy is fixed in code, with a maximum supply of 21 million coins that cannot be changed without broad network consensus. Unlike fiat currencies, neither asset depends on the fiscal discipline of a single government.

That does not mean either is a perfect investment. Gold produces no cash flow, and Bitcoin remains volatile. But that volatility should not distract from their purpose. They are not intended to maximize returns every year. They are designed to preserve purchasing power over long periods when confidence in fiat currencies is gradually eroded. In a world where governments appear increasingly likely to solve debt problems with larger deficits, financial repression, and structurally higher inflation, owning a modest allocation to scarce monetary assets can provide an important layer of portfolio resilience.

Update on Portfolio

We had a solid second quarter, with an **average client return of 12.84%.** While I'm pleased with the result, the more important question is how we respond to it.

One of the biggest mistakes investors make is confusing a good outcome with a good decision. Markets have a way of rewarding bad decisions in the short term and punishing good ones. When our investments perform well, it's easy to attribute the success to our own skill. When they don't, it's equally easy to blame bad luck or the market.

The reality is that long-term success doesn't come from chasing good outcomes. It comes from consistently making sound decisions, staying humble when things go well, and remaining disciplined when they don't. The outcome of any single quarter matters far less than the quality of the process that produced it.

Biggest Gainers –

Remitly Global Inc. (Ticker: RELY) – Remitly is modernizing cross-border money transfers by replacing the slow, expensive legacy providers that have dominated the industry for decades. Its digital first platform offers customers a faster, lower cost, and more convenient way to send money internationally. As the company scales, it continues to add new customers while improving profitability, benefiting from both network effects and operating leverage. With a large addressable market, increasing free cash flow, and a long runway for international expansion, we believe Remitly has the potential to compound value for many years.

ASML Holding NV (Ticker: ASML) – ML is arguably one of the most important companies in the world and sits at the center of the global semiconductor supply chain. It is the sole manufacturer of extreme ultraviolet lithography machines, technology that every leading chipmaker depends on to produce the world's most advanced semiconductors. That monopoly creates extraordinary pricing power, high barriers to entry, and exceptional visibility into future demand. As artificial intelligence, cloud computing, and data centers continue to drive demand for advanced chips, we believe ASML remains one of the highest quality businesses available to long-term investors.

Sezzle Inc. (Ticker: SEZL) – Sezzle operates a rapidly growing buy now, pay later (BNPL) platform focused on financially responsible consumers. Unlike many competitors that pursued growth at any cost, Sezzle has emphasized disciplined underwriting, profitability, and capital efficiency. The business continues to expand its merchant network while increasing engagement with existing users through subscription offerings and additional financial services. We believe management has demonstrated an ability to allocate capital intelligently, and the combination of strong unit economics, accelerating earnings, and a large addressable market provides an attractive opportunity for long-term compounding.

Biggest Losers –

Adobe Inc. (Ticker: ADBE) – Adobe is the global leader in creative software, with flagship products like Photoshop, Illustrator, Acrobat, and Premiere deeply embedded into the workflows of creative professionals and enterprises. Its subscription-based business generates highly recurring revenue, exceptional free cash flow, and industry-leading margins. While concerns surrounding generative AI have pressured the shares, we believe Adobe is uniquely positioned to incorporate AI into its products, strengthening customer value rather than disrupting it. Combined with its pricing power, sticky customer relationships, and disciplined capital allocation, we believe Adobe remains a high-quality long-term compounder.

Copart Inc. (Ticker: CPRT) – Copart operates the world's largest online marketplace for salvage vehicles, connecting insurance companies, dismantlers, exporters, and buyers through a global auction platform. The business benefits from powerful network effects, significant real estate advantages, and decades of operational expertise that are difficult for competitors to replicate. As vehicles become more technologically advanced and repair costs continue to rise, a growing percentage of damaged cars are declared total losses, expanding Copart's addressable market. We continue to view the company as an exceptional business with a wide competitive moat and a long runway for growth.

CNX Resources Corp. (Ticker: CNX) – CNX is one of the lowest-cost natural gas producers in the United States, with a concentrated asset base in the Appalachian Basin and a management team focused on disciplined capital allocation. The company prioritizes free cash flow generation, share repurchases, and balance sheet strength, allowing shareholders to benefit from rising natural gas demand without requiring aggressive spending. As electricity consumption increases from artificial intelligence, data centers, and the broader electrification of the economy, we believe CNX is well positioned to benefit from long-term structural demand for natural gas while continuing to create shareholder value through disciplined execution.

Stock Recommendation

dLocal Ltd. (Ticker: DLO) – Imagine you're a global company like Spotify, Microsoft, Amazon, or Uber that wants to sell products or services in countries like Brazil, Mexico, Nigeria, or Egypt. Accepting payments in those markets is surprisingly difficult. Every country has different banks, payment methods, currencies, regulations, and fraud risks. Building that infrastructure yourself would be expensive and time consuming. That's where **dLocal** comes in.

Rather than building separate payment systems for every country, merchants integrate with dLocal once. dLocal then connects to local banks, processes payments, manages currency conversion, navigates regulations, and helps prevent fraud. Every transaction that flows through its network generates a small fee.

Think of it as a **toll bridge for global payments**. Every transaction that crosses the bridge generates revenue, regardless of what's being sold. What makes this business especially attractive is its economics. Once the payment network is built, processing additional transactions requires very little additional capital. Unlike manufacturers or retailers, dLocal doesn't need to build factories, hold inventory, or hire thousands of employees to support growth. As payment volume increases, a large portion of incremental revenue has the potential to become profit and free cash flow.

The company currently processes roughly **$25 billion in Total Payment Volume (TPV)** and continues to grow that figure by approximately **40 to 45% annually**. Given its expanding relationships with large enterprise customers and existing infrastructure, scaling to **$100 billion in TPV** over the next several years appears entirely achievable. See below.

That operating leverage is beginning to show up in earnings. Analysts expect EPS to grow **more than 50% this year**, **over 35% next year**, and roughly **25% in 2027**, reaching approximately **$1.00 per share**. Yet the stock trades around **$10**, or roughly **10 times 2027 earnings**, for a business capable of compounding earnings at an attractive rate while generating significant free cash flow.

Management is another reason for confidence. CEO **Pedro Arnt** has built an exceptional business, and insiders maintain meaningful ownership, ensuring management's incentives remain aligned with shareholders.

But no investment is without risk. The biggest concern is margin compression. As larger customers represent a greater share of payment volume, they gain negotiating leverage and may push for lower pricing. Increased competition in cross-border payments could also pressure margins over time. However, dLocal's scale, local payment infrastructure, regulatory expertise, and relationships across emerging markets create competitive advantages that should allow the company to remain a preferred partner for global enterprises.

For me, the appeal of dLocal is simple: a long runway, exceptional capital efficiency, high returns on capital, strong management, and the ability to compound cash flow with minimal reinvestment. Those are exactly the qualities I look for in a long-term investment.

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.

Disclaimer

This document and the information contained herein are provided by Sirmium Capital, LLC (“Sirmium Capital”) solely for educational and informational purposes. Nothing herein constitutes, or should be construed as, an offer to sell or a solicitation of an offer to buy any securities or other financial instruments. Any responses to inquiries that may involve the rendering of personalized investment advice, or the effecting of securities transactions will not be made absent compliance with applicable laws and regulations, including investment adviser or broker-dealer registration requirements, or applicable exemptions or exclusions therefrom.

This document, and the information contained herein, may not be copied, reproduced, distributed, transmitted, published, or disclosed, in whole or in part, to any other person without the prior written consent of Sirmium Capital. By accepting and reviewing this material, you agree to comply with these restrictions and acknowledge that your compliance is a material condition to Sirmium Capital providing this information to you.

The information and views expressed herein reflect those of Sirmium Capital as of the date indicated and are subject to change without notice. Sirmium Capital has no obligation to update or revise any information contained herein. No representation is made, and it should not be assumed, that past investment performance is indicative of future results. All investments involve risk, including the potential loss of principal.

Certain information contained herein regarding economic trends, market data, or other third-party sources has been obtained from publicly available information or other sources believed to be reliable. While Sirmium Capital believes such information to be accurate, it makes no representation or warranty as to its accuracy or completeness and has not independently verified such information. Third-party sources referenced herein make no representations or warranties regarding any information attributed to them and shall have no liability in connection with the use of such information.