

October 8, 2026

Dear Clients and Friends,

If this year's headlines feel familiar, they should. In 1999, investors also had plenty to worry about. After holding steady for months, the Fed began raising interest rates again, and the yield on the 10-year Treasury climbed above 5%.ⁱ The United States was fighting an undeclared war in the Balkans. Oil prices rose relentlessly. Nuclear-armed India and Pakistan fought a border war in the Himalayas, and Russia invaded Chechnya. Washington slapped tariffs on European goods while trying to rework a fragile trade relationship with China. None of it seemed to matter. Unemployment stayed below its long-term average, and the S&P 500 extended its multi-year run, driven by a handful of richly valued companies building out a new technology. The tech-heavy NASDAQ hovered near all-time highs. Meanwhile, investors concluded that many established businesses would not survive the latest tech revolution.ⁱⁱ

“What’s Wrong, Warren?”ⁱⁱⁱ *Barron’s* cover story, December 27, 1999

As the market set new highs that year, **Berkshire Hathaway’s** shares fell 23%.^{iv} Its big holdings, Coca-Cola, Gillette and American Express, had fallen out of favor, and Buffett himself was seen as “passé.” Buffett answered in his next shareholder letter. Berkshire didn’t own technology stocks, he explained, even though he believed “our society will be transformed by their products and services.”^v He simply couldn’t tell which companies would keep a lasting advantage. He made no prediction about the market; he just refused to pay for a guess. The market settled the argument soon enough. The NASDAQ peaked on March 10, 2000, and fell 78% over the next two and a half years. From 2000 through 2002, Berkshire gained about 30% while the S&P 500 lost about 38%.^{vi}

History only rhymes, and we are not predicting investor tears. Artificial intelligence is real, and it will change how nearly every business operates. Unlike in 1999, many of the companies leading today’s buildout are among the most profitable in history, and they are paying for much of it from their own earnings. Still, history offers two lessons. First, rarely do most of the rewards of a new technology go to its builders. The railroads and fiber optic networks eventually enriched the farmers, merchants and online retailers who used them. In many cases, investors in the builders of those transformative technologies didn’t fare so well. Second, a market enamored of a new technology is often too quick to declare established businesses obsolete. That is why we stick to principles that have served investors through market cycles. We look for businesses with advantages competitors can’t easily copy, that reinvest their profits at high returns, and that are run by managers who treat shareholders as partners. We want strong balance sheets, and we want to buy at sensible prices. None of that requires us to predict when a boom ends, or whether it ends at all.

We believe our portfolios are prudently exposed to the explosion in the use of AI. We own significant positions in **Microsoft**, **Alphabet** and **Amazon**, and we recently added both **Meta** and **Taiwan Semiconductor**. These companies are building, and in several cases driving, much of the infrastructure behind AI, and they are among its biggest users in search, advertising, cloud computing and online retail. We own them for the same reasons we own everything else: durable competitive advantages, high returns on reinvested capital, and enormously profitable core businesses that fund their ambitions. We hold them because they pass our investment criteria, not because we are betting on the AI boom.

We also own businesses the market has decided are on the wrong side of the AI revolution. Investors fear that AI shopping assistants and digital currencies will bypass **Mastercard**; that AI-enabled driverless cars will replace **Uber**, and that AI research tools will make **S&P Global's** data offerings obsolete. In each case, the results tell a different story—profits keep growing while share prices stall or fall.

Mastercard has spent 2026 under investor pressure based on their belief in a future that hasn't arrived. Investors fear that AI shopping assistants and digital versions of the dollar ("stablecoins") will route payments around the card networks. The shares are up about 3% this year, against roughly 12% for the S&P 500. Yet revenue grew 12% last quarter and earnings per share 19%. Its fastest-growing business, fraud prevention and cybersecurity, grew 18%, precisely because AI has made fraud harder to detect. Rather than fight the new technology, Mastercard is building itself into it, offering value-added services such as authentication of the AI assistants that shop on consumers' behalf. Mastercard also purchased BVNK, a company that handles payments in stablecoins, which allow complex settlement of transactions 24/7 at a lower cost, opening new opportunities for the company. Mastercard's valuation has fallen from about 35 times earnings to about 30. We think that is a fair price for a business that has grown earnings per share about 17% a year for a decade, keeps roughly 60 cents of every revenue dollar as profit before taxes, and never lends money to cardholders.^{vii} Mastercard looks more like an AI beneficiary than the AI loser the market thinks it is.

Uber, too, is being marked down for a future that hasn't arrived. The fear is that driverless-car companies such as Waymo and Tesla will sell rides directly and make Uber unnecessary. That fear grew in July when Waymo, Uber's best-known robotaxi partner, said it would launch its own app in the two cities where it now operates only through Uber, and Uber's shares are down about 14% this year. Yet bookings grew 22% last quarter, the fourth straight quarter above 20%, and earnings per share rose 35%.^{viii} Uber's secret weapon is Uber One, a paid membership, much like Amazon Prime or a Costco Card, whose more than 50 million members account for half of everything booked on Uber.^{ix} The robotaxi threat, meanwhile, remains small. Every robotaxi on the road worldwide together provides roughly a million rides a week, against about 300 million Uber trips, including deliveries.^x Even in San Francisco, where Waymo competes head-on, Uber's growth has sped up. And while Waymo has about 4,000 cars, Uber's partners have agreements that could put roughly 120,000 robotaxis on its app in the coming years.^{xi} At about 20 times next year's expected earnings, we think the stock is fairly priced for a business growing profits more than 30% a year. Uber's chief executive and president both agree: in September they bought more than \$15 million of its stock.^{xii}

S&P Global, best known for its credit ratings and the S&P 500 index, also sells financial data to Wall Street. Investors worry that AI will enable analysts to gather that information themselves. When a modest 2026 outlook fed those worries in February, the shares fell nearly 10% in a day, and they remain well below where they began the year.^{xiii} The company has responded by offering its data inside leading AI assistants, turning a feared rival into a new way to sell. And the heart of the business is something no chatbot can copy: AI can't issue an S&P credit rating or license the S&P 500 index. Last quarter, index revenue grew 20% and ratings revenue 17%, helped in part by technology companies issuing debt to build data centers. Total revenue rose 11% and earnings per share 23%, and the company plans to buy back more than 5% of its shares this year.^{xiv} Yet the stock trades at about 23 times this year's expected earnings, one of its lowest valuations in years.^{xv} Once again, investor sentiment has made a great business cheaper, not weaker.

A word on AI itself. Technological revolutions often bring predictions of both catastrophe and riches. The current AI boom is no exception. This summer, an experimental OpenAI model broke out of its test environment and into the systems of another company, Hugging Face. Other AI developers have since disclosed similar incidents.^{xvi} Lawyers disagree about whether a machine designed by a human can form the requisite "intent" to commit a crime. The developers themselves are tightening their safeguards, and how governments respond is an open question. Still, we see AI first as a powerful productivity tool, and the companies we own are already using it that way. Uber says AI coding tools have doubled the output of its engineers,^{xvii} and Mastercard uses AI to spot fraud the moment a card is used.^{xviii}

The road ahead will not be smooth. We see three real risks to future returns. The first is Washington's spending, which shows no sign of discipline. Years of large deficits have helped push the 10-year Treasury yield above 5%, and the Fed has begun raising rates again. The government's profligacy raises the cost of capital for everyone. The second is war. The conflicts with Iran and in Ukraine have pushed oil above \$100 a barrel.^{xix} It is hard to see a solution soon to either conflict, and dangerous escalation is possible. The third is unpredictable trade policy. Tariffs that change with little warning make it difficult for businesses to plan. Uncertainty discourages investment.

We can't predict how these risks will unfold. What we can do is own businesses built to withstand them: companies that can raise prices when costs rise, that don't depend on investors' generosity, and that keep growing earnings whatever the headlines say. In 1999, investors who stuck to those principles looked out of step. Within a few years, they looked wise. We believe the same principles will serve our clients well today.

Sincerely,

Douglass Winthrop Advisors

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ⁱ Bloomberg LP

ⁱⁱ Bloomberg LP

ⁱⁱⁱ Barron's, December 27, 1999

^{iv} Bloomberg LP

^v Berkshire Hathaway Annual Reports

^{vi} Bloomberg LP

^{vii} Bloomberg LP, Mastercard Inc Annual Reports

^{viii} Bloomberg LP

^{ix} Bloomberg LP, Uber Technologies Inc Annual Reports

^x Bloomberg LP (*Estimates*), Waymo LLC, Baidu Inc.

^{xi} Bloomberg LP

^{xii} Bloomberg LP, Uber Form 4

^{xiii} Bloomberg LP

^{xiv} Bloomberg LP

^{xv} Bloomberg LP

^{xvi} Bloomberg LP

^{xvii} Bloomberg LP, Uber Technologies Inc Annual Reports

^{xviii} Bloomberg LP, Mastercard Press Release

^{xix} Bloomberg LP