

Newsletter: January 2026

Market Update

The S&P 500 generated a total return of nearly 18% in **2025, which marked the third consecutive year of equity market returns significantly in excess of longer-term averages**. Over the last three years, the *annualized* total return of the S&P 500 has been nearly 23%. There was only one other time this century when the three-year total return of the S&P 500 as of the end of the calendar year was as high.¹ As for longer-term averages, the annualized total return of the S&P 500 over the last 20, 30, and 40 years has been 11%, 10%, and 11%, respectively.

An old adage says that **bull markets do not die of old age**, which captures something true and important about the ways in which market returns do, and do not, revert to their longer-term averages. Over the long run, equity market returns are driven by nominal economic growth (real output growth plus inflation) and by corporate capital allocation (e.g., dividends, share repurchases, acquisitions). It is possible that technological innovation, such as the widespread adoption of artificial intelligence (AI), will sustainably accelerate economic growth, and hence market returns, in the future. Alternatively, if the economy continues to grow at rates comparable to those at which it has grown historically, then long-term equity market returns around 10% is a plausible framework.

In our view, equity market returns tend not to *mechanically* revert to the mean; above-average performance one year does not simply *cause* below-average performance the next. The catalyst for a market drawdown is usually an economic recession, a financial crisis, or some kind of negative external shock. Crises and shocks, by their very nature, tend to be unforeseen altogether or at least perceived to be improbable. Crises and shocks can themselves lead to recessions, but recessions also occur non-suddenly in response to factors and trends that can, however imperfectly, be tracked and thus forecast. Nevertheless, economist Paul Samuelson was onto something when he wrote, in the 1960s, “The stock market has predicted nine out of the last five recessions.”

The economy today remains healthy in the aggregate but economic growth is compositionally lopsided. Gross domestic product (GDP) grew by more than 4% in the third quarter, which was the fastest rate of growth in two years. Consumer spending, which accounts for roughly two-thirds of GDP, continues to expand, but higher-income households account for an increasingly disproportionate share of this growth, while lower-income households struggle under the weight of debt and inflation and generally do not own financial assets, which have appreciated substantially in recent years. At the same time, capital investment related to AI represents an increasingly significant component of total business investment, which is also a major contributor to GDP. Thus, while overall growth remains intact, the sources of that growth have narrowed and become more concentrated, thereby rendering the economy more fragile.

When prompted for our market “outlook,” we usually demur, citing both the difficulty of accurately timing market inflection points and its attenuated connection to our investment process of picking individual high-quality stocks of businesses whose earnings power we expect to roughly double every five to seven years. In addition, such outlooks are often presented as a point estimate—i.e., a single number—rather than as a probability distribution, which is more useful for framing potential outcomes. Independent of however the economy may perform in the coming months, **the equity market begins 2026 with valuations richer and sentiment more exuberant than their**

¹ That was the 2019-2021 period, which was followed in 2022 by the worst year for the S&P 500 (down 18%) since 2008.

historical norms.² And if history is any guide, then events will unfold during the coming year that influence future market returns but that are on no one's radar today. In recent months, our research process has identified companies that we would like to own at the right price, and we intend to take advantage of any potential market drawdown or volatility.

Portfolio Update

In our most recent newsletter, from October 2025, we discussed our investment in **Somnigroup International (SGI)**, which we initiated in early 2025. We have been pleased with the ongoing integration of the Tempur Sealy manufacturing business and the Mattress Firm retail business, and we expect more effective advertising and an eventual recovery in the housing market to drive faster volume growth across the industry, which will benefit SGI as the clear market leader. SGI was one of our best-performing investments in 2025.

We also discussed **Waters Corp. (WAT)** in our last newsletter, where he highlighted our enthusiasm for the pending acquisition of assets from Becton Dickinson, in contrast to the market's then prevailing skepticism. In light of our differentiated view of the situation, we added to WAT positions where appropriate, and the share price appreciated from below \$300 in late September to over \$400 by late November.

Alphabet (GOOG), also known as Google, last year underwent an extraordinary shift in sentiment, which began with a favorable antitrust ruling and accelerated with the growing recognition that GOOG was successfully innovating within, and adapting its businesses to, the field of AI. The prior consensus that GOOG's search business would be disrupted by AI was challenged by the company's ongoing advances in its AI model Gemini and the incorporation of AI features into its search engine. Revenue and profitability trends have remained robust across GOOG's search, YouTube, and public cloud businesses, all of which are integrated with AI. In response to the rapid improvement in both sentiment and the stock's valuation multiple, we trimmed position sizes where appropriate, as we continue to vigilantly monitor and analyze the potential effects of AI innovation and adoption on GOOG's various businesses.

JPMorgan Chase (JPM) and **Charles Schwab (SCHW)** were our two best-performing investments in the financial sector last year. JPM's status as the largest bank in the country has been a competitive advantage, providing it with the capacity to invest in technology and people across its business units, whose leading market shares have strengthened in recent years. SCHW meanwhile continues to increase its market share, enhance its service offerings, and grow earnings as high-cost debt and low-yielding securities roll off its balance sheet. We were also pleased with the promotion of Rick Wurster from president to CEO at the beginning of last year.

We have owned **Apollo Global Management (APO)** and **Blackstone (BX)** for many years and provided a detailed discussion of these investments in our October 2023 newsletter. APO and BX generated a negative total return in 2025 but have significantly outperformed the S&P 500 over the last three, five, and 10 years. In many ways, the outlook for these respective franchises is as bright today as it has ever been. APO has carved out a unique competitive position with its market-leading annuities business and best-in-class credit origination platform, while BX is the largest, most global, and most diversified alternative asset manager and the one with the best real estate capabilities. A major growth opportunity for both companies is the further penetration of the retail channel, including the incorporation of alternative or private assets in 401(k) plans.

Fiserv (FISV) is a payments and financial technology business and was one of our best-performing investments in 2024. In early 2025 FISV announced that Mike Lyons would replace Frank Bisignano as CEO, as Bisignano was named commissioner of the Social Security Administration. Our reference calls and other research gave us confidence that Lyons would be a capable successor to Bisignano, under whose tenure FISV had generated

² We discussed these themes in our October 2025 newsletter. For prior newsletters, please see our website: <https://beckmack.com/>.

consistently strong financial performance. With Lyons in the CEO role for less than three months, FISV in July very modestly revised 2025 financial guidance while affirming that the company's long-term growth algorithm remained intact. Just a few months later, however, the company announced a substantial negative revision to 2025 financial guidance, indicated that earnings would decline in 2026 before resuming double-digit growth in 2027, and announced changes in the management team and board of directors. Lyons had determined that the prior management team had overprioritized short-term revenue and profit maximization at the expense of long-term investment in technology and excellent client service—a situation that would require change throughout the organization and take time to fix. This disclosure was so significantly at odds with our prior underwriting that we swiftly concluded that our investment thesis was broken and proceeded to liquidate our positions.

To our way of thinking, the quality of a company's management team is an axiom of stock-picking. In the months following the announcement that Lyons would succeed Bisignano, our FISV research was heavily concentrated on underwriting Lyons including via multiple reference calls. Fatefully, we failed simultaneously to comprehensively re-underwrite the original investment thesis. In response to this painful experience, we have permanently changed our investment process such that any major change in a portfolio company's management team will necessitate not only an underwriting of the new individual(s) but a re-underwriting of the entire underlying thesis. In comparable situations in the future, we intend to evaluate the opportunity as if approaching it for the first time.

Fortrea (FTRE), which we have written about in prior newsletters, is a contract research organization (CRO) that runs outsourced clinical trials for pharmaceutical and biotechnology customers and that was spun off from **Labcorp (LH)** in 2023. Despite having a CEO with a successful prior track record in the CRO industry, FTRE was undermanaged during its first two years as an independent public company, the consequences of which were aggravated by a cyclical downturn in the industry. The company's new CEO has gotten FTRE back on track, and conditions in the CRO market in recent quarters have improved. We largely elected to realize capital losses where available in taxable accounts.

One of the main sources of realized capital gains in 2025 was **Enstar Group (ESGR)**, an insurance company that was acquired in an all-cash transaction.

Conclusion

We believe that our portfolio companies collectively possess the following characteristics in comparison with the companies that constitute the S&P 500: (i) faster earnings growth; (ii) superior reinvestment opportunities and capital allocation; (iii) higher-quality management; (iv) lower financial leverage; and (v) more attractive valuations. We routinely evaluate prospective returns based on conservative assumptions regarding future earnings growth and terminal valuation, often assuming that a stock's valuation multiple compresses during our investment horizon. As 2026 gets underway, we have a prudential agnosticism regarding the short-term path of the equity market and a conviction, anchored in deep and continuous research, that the earnings power of our portfolio companies can roughly double in the next five to seven years. In our view, owning such businesses for long periods of time is an excellent way to protect and compound capital.

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