BECK MACK + OLIVER

Newsletter: July 2026

Market Update

The S&P 500 was up more than 16% over the course of April and May, and the index finished the second quarter up approximately 10% year-to-date, a remarkable reversal from being down more than 4% as of the end of March. The 16% move during first two months of the second quarter was unusually large for such a short period of time and was concentrated among a narrow group of stocks, nearly all of which sell semiconductors or related components in high demand due to the ongoing buildout of artificial intelligence (AI) infrastructure. During this two-month stretch nearly 80% of the S&P 500's constituents underperformed the index itself, and nearly 40% were down in absolute terms. Torsten Slok, chief economist at Apollo Global Management, recently observed that excluding AI and energy the S&P 500 would be down on the year.[1]

The S&P 500 is weighted by market cap, and today just eight stocks account for approximately one third of the total index, which is **the most concentrated the S&P 500 has ever been, surpassing even the dot-com bubble of the late 1990s**. While index investing was originally conceived as a low-cost way for investors to own a diversified stock portfolio, today's S&P 500 is increasingly a bet on the technology sector, and its recent performance has been dominated by a narrow group of companies that primarily supply semiconductors, hardware, and other equipment to the AI buildout.[2] These businesses have been compared to the sellers of picks and shovels during a gold rush—regardless of whether OpenAI or Anthropic has the more cutting-edge AI model, for instance, the world is going to need more and more graphics processing units, data center servers and racks, and electrical transmission equipment, the supply of which is today insufficient to meet demand.

We believe the foregoing market conditions are likely to change. The extraordinary share price action in the AI buildout suppliers, with some stocks having more than doubled in just a matter of weeks, has become detached from economic reality, which itself we expect to change as more industry capacity comes online and as demand growth moderates. For the last few years there has been a "land grab" aspect to the AI investment boom, whereby data centers are built and the related infrastructure is installed as fast as funding sources and physical logistics permit, which have led to various shortages across the broader supply chain. For those firms that sell into these supply-constrained product markets, the equity market has repriced their stocks as if current conditions of scarcity will persist indefinitely.

Changes are already afoot. Enterprises that had previously been using and experimenting with AI as much as possible have lately begun to pull back on and optimize their utilization in an effort to manage expenses. A recent headline is indicative of a broader trend: "Uber's COO says it's getting harder to justify the money spent on AI tokenmaxxing."[3] For many businesses the link between AI utilization and productivity remains elusive, and there is a growing realization that cheaper, less advanced models—which tend to use fewer and less expensive semiconductors and other components—are sufficient for most AI use cases. At the same time, even within the most advanced models, technological innovation is reducing the unit production costs of "tokens," the basic unit of intelligence generated by AI models.

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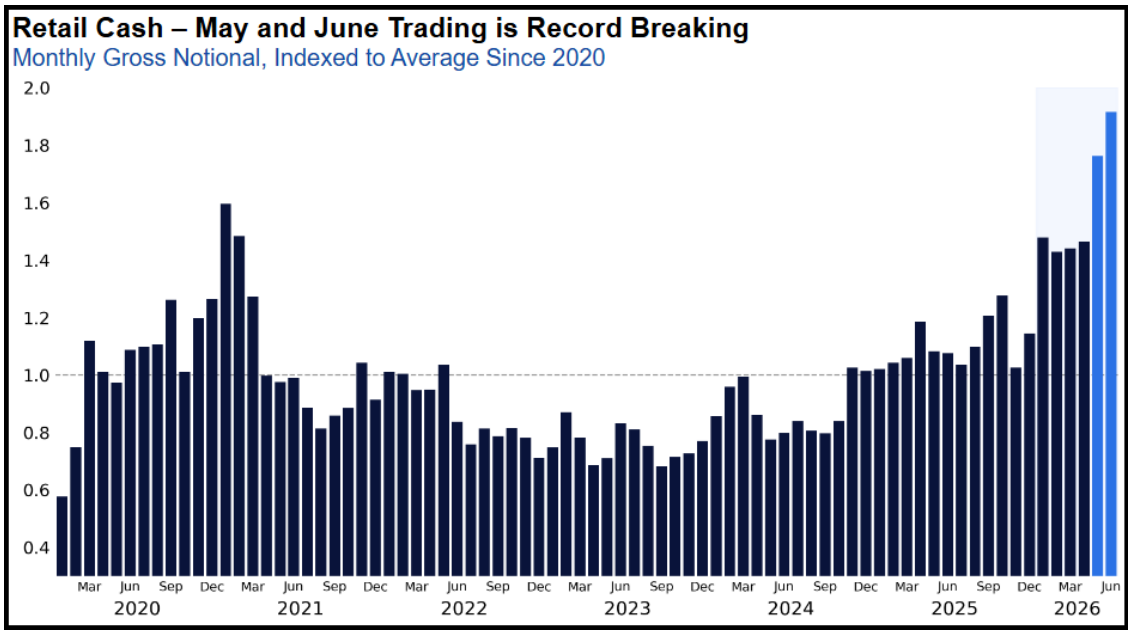
[1] https://www.apollo.com/wealth/the-daily-spark/strip-out-ai-and-energy-and-the-sp-500-is-down.

[2] Examples of individual companies include Micron Technology (MU), Marvell Technology (MRVL), and Sandisk (SNDK).

[3] This was shortly after Uber's chief technology officer disclosed that the company had by April exceeded its AI budget for the full year. https://www.businessinsider.com/uber-coo-andrew-macdonald-ai-token-spending-harder-justify-2026-5.

The "land grab" phase has led to enormous increases in capital expenditures—and corresponding pressure on free cash flow—at the public cloud providers, such as Microsoft's Azure, Amazon Web Services, and Google Cloud. These businesses purchase semiconductors and other equipment from the AI supply chain and then rent out access to computing capacity in their data centers to enterprise customers. As these customers economize on their AI spending and as technological efficiency drives token cost deflation at the model layer, capital expenditures at the public cloud providers—and thus the revenue flowing to the AI supply chain—could moderate. This is a potential scenario that in our view the market is not pricing in.

The recent share price appreciation among the AI suppliers has been amplified by significant retail investor participation, margin debt, and leveraged exchange-traded funds. Exuberant sentiment among individual investors and the use of leverage are **classic signs of an overheated market**, as are increases in the size and number of initial public offerings (IPOs). The recent IPO of SpaceX, the largest ever, garnered a tremendous amount of attention from retail investors. Also setting a record was the more than $250 billion of aggregate new equity issuance in the US during the first six months of the year, and new corporate bond issuance was many multiples of that. The AI investment boom requires unprecedented amounts of capital investment, which is increasingly being financed by the sale of newly issued debt and equity. As long as there is strong investor demand for these newly issued securities, companies can be expected to pursue these sources of funding.[4]



In the long run share prices are determined by fundamental factors such as corporate earnings, but in the short run they can be heavily influenced by technical factors, primarily the supply of and demand for a particular stock at a single point in time. Whether the equity market can successfully absorb a wave of IPOs depends on the ability of market participants to create the balance sheet capacity with which to purchase and own the new stock. Such capacity can be created via the use of excess cash, financial leverage, or selling other assets.[5] **An excess of IPOs was one of the principal catalysts for the bursting of the dot-com bubble a generation ago. Today there are signs that the equity market is struggling to absorb the current IPO wave**: the share price of

[4] The chart below, which shows the amount of stock trading by retail investors, is from Bloomberg, and the underlying data are from Citadel Securities: https://www.bloomberg.com/news/articles/2026-06-17/citadel-securities-saw-astronomical-retail-trading-in-spacex.

[5] Gold and bitcoin, which were popular retail trades not that long ago, have traded down substantially this year.

SpaceX declined by nearly 35% over a five-day period shortly after its IPO; AI semiconductor company Cerebras recently traded below its May IPO price; and OpenAI has reportedly delayed plans for its own IPO until 2027. A worrying similarity between the dot-com bubble and the current market moment is the lack of profitability among companies attempting to go public.

In sum, **we believe that the S&P 500 sits at a precarious juncture**. Its remarkable spring rally was heavily concentrated in a single investment theme, which in our view is likely to undergo turbulence in the coming months.[6] We have observed share price movements that have far overshot economic reality and that have been exaggerated by an influx of retail trading, the use of leverage, and a burst of IPOs and other securities issuance. Meanwhile, other parts of the equity market, including some of our single-stock investments, are the object not of frenzied speculation but of something closer to indifference.

Portfolio Update

When we have had occasion this year to provide updates to our clients regarding the operational and financial performance of our portfolio companies, those updates have been almost entirely positive—by and large, our portfolio companies are growing their businesses and allocating capital in ways that meet or exceed our expectations. **If we owned them all privately, we would be pleased with how the overall portfolio is progressing this year. An axiom of investing in public equity markets, however, is that *share prices* tend to move up and down to a far greater extent than changes in underlying *business values*.** Over long periods of time share prices follow corporate earnings, but over short periods of time these two things can wildly diverge. This divergence both creates periodic opportunities to buy great companies at discounted prices and generates short-term price volatility in a stock portfolio that is unrelated to long-term fundamentals.[7]

We recently added two new investments to our portfolio "buy list." **Alcon (ALC)** is a leading eye health business, with a dominant competitive position in cataract surgery machines and a significant share of the attractive, consolidated contact lens market. In cataract surgery, phacoemulsification systems perform the incision and removal of the cloudy lens. Approximately 50% of people develop some form of cataracts by age 60, and cataract surgery is one of the most commonly performed medical procedures. ALC's market share in phacoemulsification systems is nearly 80%, and its brand and technology are highly regarded among ophthalmologists. This part of the business is attached to high-margin sales of consumables such as interocular lenses. In contact lenses, ALC is the second largest competitor in a four-player market characterized by brand loyalty among consumers and strong pricing power. ALC also has an ocular health business, which includes treatments for dry eye, pink eye, and glaucoma.

The core business of **Sotera (SHC)** is the sterilization of medical devices and pharmaceuticals. Sterilization is a highly regulated market, with approvals by the Food and Drug Administration specifying both the sterilization modality—e.g., gamma irradiation, ethylene oxide, or electron beam—and the location of the particular facility, which creates a recurring revenue stream for the sterilization providers and high switching costs for the customers. While certain large customers are capable of sterilizing their own products, more than half of the industry is outsourced, and much of the incremental growth over the last several years has been on an outsourced basis. SHC is one of only two major outsourced sterilization companies in an industry that remains tightly capacity-constrained. The critical nature of sterilization, industry capacity constraints, and the fact that sterilization represents a small portion of total product cost facilitate strong pricing power for outsourced sterilization providers such as SHC. In addition to its core sterilization business, known as Sterigenics, SHC owns

[6] We hold these beliefs with an awareness of the difficulty of identifying market inflection points and of their tendency towards both predictable and unpredictable consequences from which no stock portfolio would be entirely immune, especially in the short run.

[7] Our April 2026 newsletter discussed a number of portfolio companies in the context of this theme. For prior newsletters, please see our website: https://www.beckmack.com/.

a supplier of cobalt, which is the main input in gamma irradiation, and a laboratory testing business whose customers overlap significantly with those of Sterigenics.

We have been following the vision care and eye health industry for a decade, and we identified SHC as a potential investment opportunity more than three years ago. For both ALC and SHC, we have spent a great deal of time with the respective management teams and other industry participants in an effort to validate each company's future runway for organic revenue and earnings growth and opportunities to allocate capital. We believe that ALC is capable of sustainable mid-teens growth in earnings per share and that SHC's growth profile is solidly in the double-digits, while neither stock trades at a valuation that reflects the growth trajectory that we have underwritten. **Our decision to invest now was predicated on both how the respective businesses are positioned fundamentally and on their prevailing valuations**.

ALC and SHC are in the healthcare sector, which, despite attractive growth and secular tailwinds, has been the worst performing sector of the S&P 500 over the last three years, which in our opinion has created a richer set of potential investment opportunities. There are various reasons for this sectoral underperformance, but one of them is likely related to the discussion above about investor exuberance towards companies involved in the AI buildout and the associated changes in investor balance sheets. At the level of an individual investor, if there isn't available cash or a willingness to take on margin debt, then the purchase of a security must be funded by the sale of some other asset. We hypothesize that much of the healthcare sector's relative underperformance has been a function of its "source of funds" status among investors, which has been aggravated by the perception that healthcare is less exciting than, say, semiconductors. Ironically, healthcare offers some of the most compelling illustrations of how AI is having a real economic impact in the world, for instance, in radiology and drug discovery. Anteceding the rise of AI but continuing to be of great significance are the aging of the population and the high income elasticity of healthcare spending—i.e., the tendency that as incomes rise, a greater portion of income is spent on healthcare. **Healthcare spending accounts for nearly 20% of the US economy and its economic share continues to expand, and yet due to its recent relative underperformance the healthcare sector now represents less than 10% of the S&P 500**. Though our investment theses in ALC and SHC do not in any way depend on that dynamic reversing, we suspect that it will.

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