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2026 Q1 In Review
QUARTERLY NEWSLETTER

Sirmium Capital

Fear, Headlines, and Opportunity

"You make most of your money in a bear market, you just don't realize it at the time." – Shelby Cullom Davis

Shelby M.C. David built his fortune not by avoiding downturns, but by using them, accumulating shares of high-quality businesses when uncertainty pushed stock prices well below their intrinsic value. At the time, those decisions rarely felt obvious or comfortable. In hindsight, they proved correct.

Markets don't necessarily decline because the future businesses rapidly deteriorate. They decline because the future becomes uncertain. That's where we find ourselves today. Two forces are driving that uncertainty: artificial intelligence and geopolitical risk, centered on Iran and its control over the Strait of Hormuz, a critical chokepoint for global energy supply.

Let's take the first of those forces, artificial intelligence. There is little debate that AI will reshape industries. What remains far less clear is how that change will unfold and who ultimately benefits. The pace of advancement has been unusually fast, making it difficult for markets to separate what is real, what is durable, and what is already reflected in prices. It is progressing quickly enough that long standing assumptions about how work gets done, how businesses create value, and how competitive advantages are built are being challenged. Shifts of this magnitude tend to produce more extreme narratives, particularly in markets, where sentiment often overshoots reality. One such assumption we are seeing today is that AI will render large portions of the software ecosystem obsolete.

We think that view is overstated.

AI is more likely to be a tailwind to incumbents than an extinction event. Companies like Adobe (which we own) already possess the distribution, customer relationships, and embedded workflows that are difficult to displace. These advantages tend to strengthen, not weaken, as new capabilities are layered into existing products. The technology is real, but the assumption that it will broadly erode the economics of established platforms is much less certain.

History has repeatedly suggested that periods like this often led to the wrong conclusions. New technology has always eliminated certain jobs, but it has never eliminated work. In the 1960s, policymakers warned that automation would lead to permanent unemployment. Instead, the opposite happened. Productivity improved, costs came down, and people shifted into more valuable and creative work.

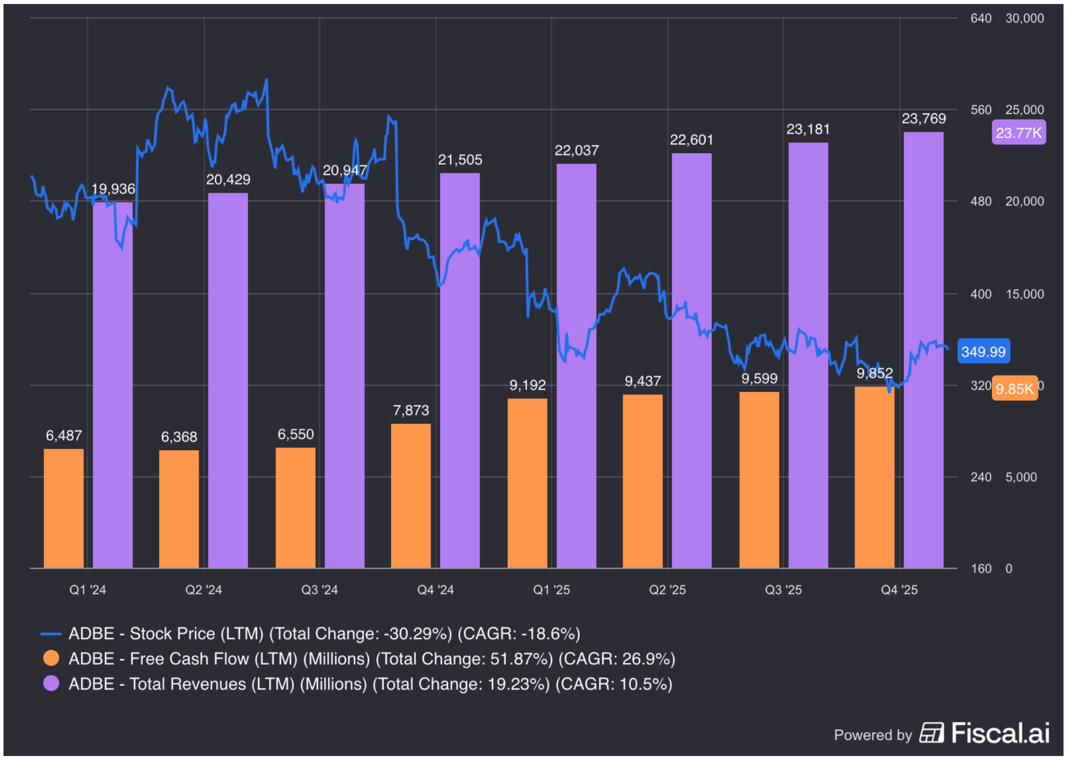
We expect AI to follow a similar path. It will remove a great deal of routine work, but in doing so, it frees up time and resources to be used more productively elsewhere. When something becomes cheaper to produce, the savings do not disappear. They stay in the system. If AI reduces the cost of things like tax preparation, legal work, or commissions, that effectively puts more money back in the hands of individuals and businesses. Over time, that tends to find its way back into the economy.

At the same time, the barrier to starting something new is coming down. The same tools that can replace certain tasks also make it easier to build products, launch businesses, and operate more efficiently. What AI cannot replicate is experience, judgment, and the ability to make decisions under uncertainty. If anything, those qualities become more valuable as the routine work is automated.

We are already seeing this in our own business. We now use AI across many of our workflows. It has reduced time spent on repetitive tasks and allowed us to focus more on thinking, analyzing, and making decisions. That is where the real value has always been.

Market Outlook

It's worth coming back to Adobe, as it illustrates this dynamic clearly. In the graphs below, we can see how company continued to grow revenue, generate substantial cash flow and expand its subscription base. This is not a business in decline; it is one adapting in real time. And yet, the stock has declined meaningfully (see chart below). That divergence between operating performance and market perception is where opportunity often begins.



Conversely, AI is also supporting valuations in other areas of the market, including companies like Tesla, which is a company we are watching closely. By most traditional valuation metrics, Tesla appears expensive, driven in part by expectations around its AI opportunities. Whether those expectations ultimately prove justified is not the point. Tesla is best understood not as a traditional auto company, but as a collection of businesses. Its long-term value is increasingly tied to platforms such as full self-driving, robotaxis, energy infrastructure, and robotics. Its EV segment provides the foundation of data, distribution, and scale, while the longer-term opportunity lies in autonomy and AI systems. So AI is influencing pricing in both directions, creating headwinds in some areas and tailwinds in others (Tesla is up over 25% over the last year).

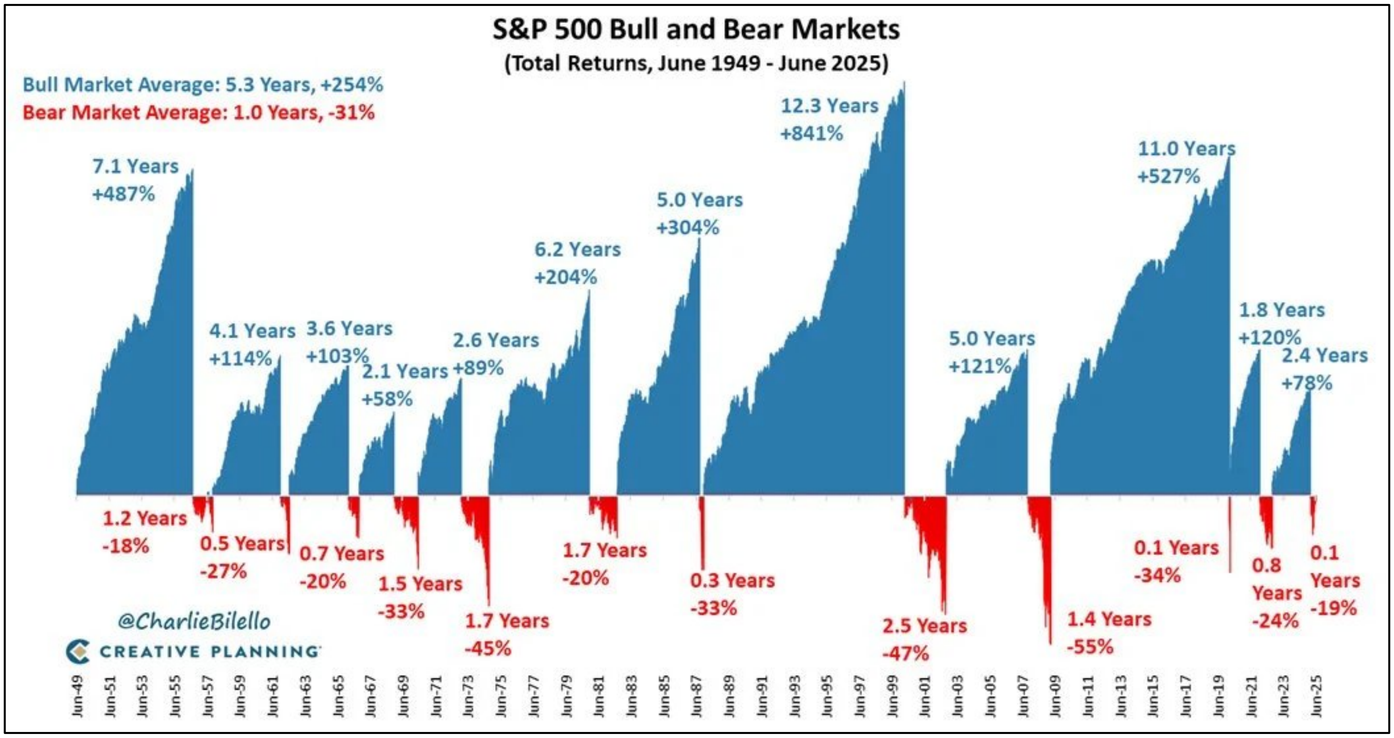
Moreover, hundreds of billions, are being committed to infrastructure and development, with the implicit assumption that the payoff will justify the spend. Commitments of that magnitude require equally large promises, and when expectations reach that level, some degree of hype becomes inevitable. This technology is real, but the timing, magnitude, and distribution of economic benefits remain uncertain. We wrote more about this in our last newsletter.

Coupling this with geopolitical tensions introduces a whole new kind of uncertainty, tied to energy markets, inflation, and global stability, particularly through critical chokepoints like the Strait of Hormuz. This narrow passage carries roughly 20% of the world's oil supply, along with significant volumes of liquefied natural gas (approximately 20–25% of global LNG) and fertilizer (roughly 25–35% of global seaborne trade), meaning disruptions can ripple through energy markets, industrial production, and ultimately food prices.

These are real risks, and if prolonged, could slow global economic activity and potentially tip the world into recession. From an investing standpoint, however, the exact timing of resolution matters far less than how markets respond. Markets price uncertainty instantly, while businesses change slowly. A headline can move a stock sharply in a single day, but it rarely alters long-term earnings power overnight. That gap between price and reality is where opportunity is created, though most investors react to the headline rather than what has actually changed.

We see this dynamic across many of our holdings. Businesses do not change nearly as quickly as their stock prices, and when fear pushes prices down, that is often where the edge lies. MercadoLibre (Ticker: MELI), our second largest holding, is a good example. The long-term trajectory remains intact, but its stock has moved materially on macro headlines. Energy prices are rising and the region is feeling it, but the market reaction appears disproportionate to what has actually changed in the underlying business. But the long-term trajectory of the business has not changed. The price did, and with it, the opportunity.

This pattern is not unique. Market corrections are not exceptions; they are a feature of investing. Markets tend to move higher gradually and decline abruptly, the familiar "stairs up, elevator down" dynamic (see chart below).



As the chart illustrates, when you zoom out, advances have lasted far longer than the interruptions that temporarily reset them. That imbalance is simply the cost of compounding. In the short term, markets price uncertainty. Over time, they reflect business performance.

With that in mind, we focus on businesses where the next several years are reasonably understandable, even if the next quarter is not. We own companies like Uber and Airbnb for that reason. Uber continues to grow revenue, expand margins, and improve its earnings profile. Yet like many high-quality businesses, its stock has reset. Periods like this are when price and value tend to diverge.

To navigate that, we anchor our analysis on a small number of durable factors: the durability of a company's moat, the presence of secular tailwinds, and a consistent track record of capital allocation and execution. These are the elements that tend to persist through cycles, even when prices do not. The key question is whether the underlying business is changing in a meaningful way. Most of the time, it is not.

This is where time horizon becomes critical. Few investors are willing to look out three to five years, which is where the advantage lies. If your time horizon is measured in weeks or months, this environment feels unstable. If it is measured in years, it looks very different. The market is emotional in the short term and rational over time, and that difference is what long-term investors seek to exploit.

For that reason, we view periods like this as opportunity. **The market has always recovered. Not quickly, and not predictably, but reliably.** We are selectively adding where price has diverged from long-term value. The best opportunities rarely feel comfortable in the moment, but that discomfort is often where the edge lies. If it feels easy, it is probably already priced in.

Update on Portfolio

We finished the end of the first quarter with an **average return of -9.74%, compared to -7.11% of the NASDAQ.** While we are clearly disappointed with this outcome, it's worth noting that several idiosyncratic events impacted a handful of our larger positions, which I will touch on in more detail in the *Biggest Losers* section below.

Just as important as the result is how you respond to it. One of the easiest traps in investing is also one of the most human. When things go right, we tend to credit our skill. When they go wrong, it's tempting to blame bad luck. Most people have seen this at a poker table. When someone wins a hand, they are quick to explain how well they played it. When they lose, it is usually chalked up to an unlucky card. Investing is no different, and that instinct can be costly if left unchecked.

If you are not honest about what went wrong, it becomes very difficult to improve. Over time, that loss of objectivity tends to show up in performance. For that reason, we make a conscious effort to review both our successes and our mistakes with the same level of discipline. It is not always comfortable, but it is necessary.

Periods like this are part of the process. Our focus remains on making sound decisions over time, and we believe that discipline will show up in results over a full market cycle.

Biggest Losers –

Burford Capital Limited (Ticker: BUR) – In our prior update, we outlined our view on the Burford Capital case and the strength of the underlying ruling. Since then, the decision has been overturned on appeal. While litigation always carries uncertainty, this outcome was not what we expected, as appeal reversals are generally low, (U.S. Court of Appeals for the Second Circuit averages less than 10%). In this case, our assessment proved incorrect. The key takeaway is clear: we will place greater emphasis on avoiding situations where returns depend heavily on decisions made by outside parties, whether courts, governments, or other third parties. Even when the upside appears extremely compelling, these types of risks are difficult to underwrite and can lead to unpredictable outcomes.

Molina Healthcare Inc (Ticker: MOH) – Molina's selloff was driven by a sharp reset in expectations, as the company lowered guidance due to rising medical costs, pressure in its Medicare and ACA businesses, and challenges tied to new Medicaid contracts. The magnitude of the revision highlighted how sensitive the business is to factors outside of management's control, particularly government reimbursement and utilization trends. The key lesson for us is similar to what we outlined with Burford. Even when a business appears stable, if the underlying economics are heavily influenced by external forces such as regulation, pricing decisions, or cost trends that are difficult to predict, the range of outcomes becomes much wider. Going forward, we will place greater emphasis on understanding and limiting exposure to these types of risks, even when the valuation appears attractive.

Root Inc. (Ticker: ROOT) – Root remains a differentiated business, using telematics and proprietary data to price risk more precisely, supported by what many view as one of the strongest technology stacks in auto insurance. The company has continued to grow revenue, improve underwriting, and recently reached profitability, yet the stock has been volatile, and in our view, the market's reaction has been overdone. Management guided that full-year growth should exceed last year, while near-term earnings may decline as they invest in customer acquisition and their partner channel. Unlike some of our other positions, our thesis here remains intact. At current levels, we believe the market is discounting a far more uncertain outcome than the fundamentals suggest, and we view the shares as materially undervalued.

Biggest Gainers –

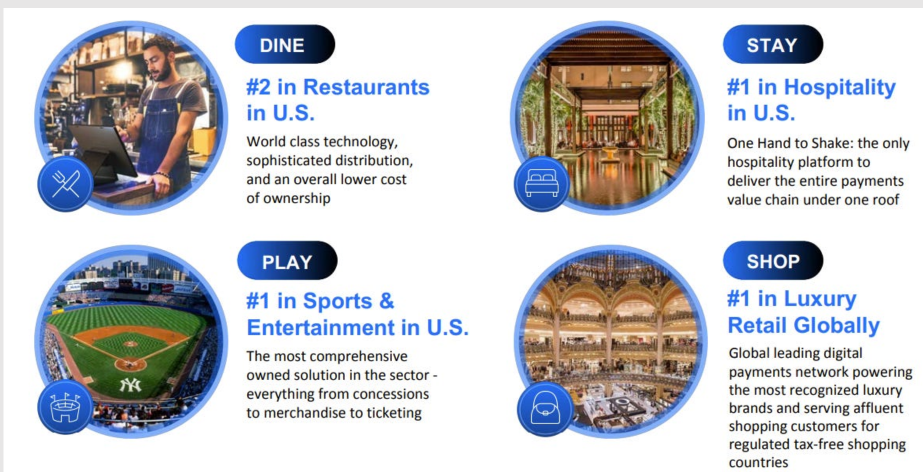
ASML Holdings NV (Ticker: ASML) – ASML is arguably one of the most important companies in the world and sits at the very center of the global semiconductor supply chain. Its monopoly on extreme ultraviolet lithography machines gives it unmatched pricing power and technological leadership that competitors simply cannot replicate. Every advanced chip used in AI, data centers, smartphones, and high-performance computing depends on ASML's equipment. As demand for computing power continues to surge, ASML benefits from long-term structural tailwinds and exceptional visibility into future orders. We view this as a rare business with an extraordinarily wide moat and the ability to compound shareholder value for many years to come.

Alphabet Inc. (Ticker: GOOG) – Google combines one of the strongest digital advertising platforms in the world with a rapidly growing cloud business and meaningful optionality in AI. Its core search business remains deeply entrenched, supported by scale, data, and user behavior that are difficult to disrupt. At the same time, investments in AI and cloud infrastructure position the company to remain a key beneficiary of long-term technological shifts. The combination of durability and reinvestment opportunities makes it a highly attractive long-term compounder.

Brookfield Corp (Ticker: BN) – Brookfield Corporation is a global asset manager with a long track record of allocating capital across real assets, infrastructure, and private markets. The business benefits from fee-based earnings, long-duration capital, and a disciplined approach to value creation. Its scale and access to capital allow it to invest in opportunities that are often unavailable to others, particularly in times of market stress. More recently, management has begun repurchasing shares, a signal we view positively as it reflects confidence in the intrinsic value of the business. Over time, this combination has enabled Brookfield to compound capital at attractive rates across cycles.

Stock Recommendation

Shift4 Payments, Inc. (Ticker: FOUR) – Shift4 is building its payments business in a more focused way than most. Rather than competing broadly, it has concentrated on complex verticals like restaurants, hospitality, sports and entertainment, and luxury retail, areas where integrated software and payments actually matter. The company describes its mission as powering "commerce for life's most memorable moments," which reflects its focus on high-traffic, in-person environments. These are operationally demanding settings. A stadium on game day processes thousands of transactions across concessions, merchandise, and parking, while a large hotel requires its payment system to connect seamlessly with property management, point of sale, bookings, and loyalty systems in real time. As highlighted below, Shift4 has established strong positions across these categories, driven by a single, fully integrated stack that handles everything from payments to software. This unified system is a key competitive advantage, particularly in in-person, high-volume settings where reliability and coordination are critical. Once embedded, these systems tend to be highly sticky, as switching would require replacing core infrastructure.



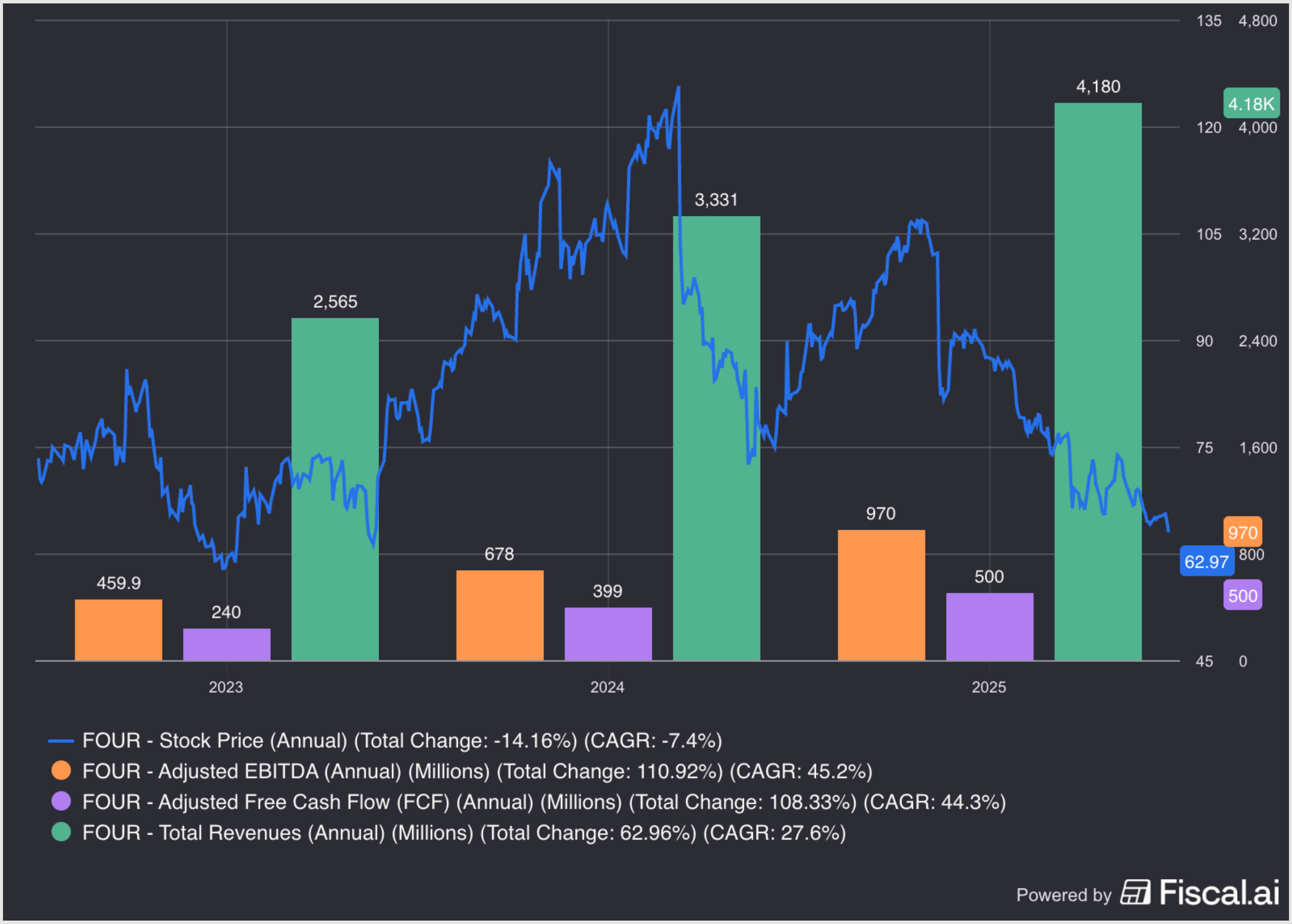
Importantly, this model creates multiple layers of compounding. New customer additions drive incremental volume, existing customers process more transactions as they grow, and monetization improves as Shift4 deepens its integration within each vertical. This includes cross-selling additional products and capabilities to existing customers, allowing the company to increase monetization without needing to acquire new merchants. In many cases, Shift4 is not simply processing payments, it is enabling how the business operates day to day, which strengthens retention and reinforces its competitive position.

This approach also benefits from strong alignment with the types of businesses Shift4 serves. These are high-volume, in-person environments where reliability, speed, and coordination matter. A system failure in these settings is not just inconvenient; it is disruptive to revenue. As a result, once a trusted system is in place, switching becomes both operationally risky and economically unattractive.

More recently, the acquisition of Global Blue introduces a new vertical and expands the company's reach into international travel and luxury retail, particularly through tax-free shopping for cross-border consumers. This moves Shift4 further into high-value, in-person commerce and extends its platform beyond the U.S. into a more global footprint. Strategically, it follows the same playbook: acquire a specialized platform, embed payments, and increase monetization over time. While we view this as an attractive long-term opportunity, the acquisition adds complexity, integration risk, and near-term investment, which has likely contributed to the stock's recent weakness. As with many of the company's prior moves, the benefits may take time to fully materialize, but if executed well, it has the potential to become another meaningful driver of growth.

Stock Recommendation

Stepping back, what stands out most is the disconnect between the company's operating performance and its stock price. As illustrated above, revenue, adjusted EBITDA, and adjusted free cash flow have all grown meaningfully over the past several years, while the stock price has moved in the opposite direction. These adjusted metrics, which management emphasizes as they normalize for one-time items, provide a clearer view of the underlying earnings power of the business.



That divergence is difficult to reconcile with the fundamentals. In our view, it reflects short-term concerns around integration, investment, and sentiment rather than a deterioration in the business itself. Situations like this, where the business continues to improve while the stock does not, are where we tend to find the most compelling long-term opportunities.

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.

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