



Lorne Steinberg  
Wealth Management

QUARTERLY NEWSLETTER



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“

*Deja vu all over again*

”

– Yogi Berra (NY Yankees baseball player)



Lorne Steinberg,  
MBA CFA  
CO-PRESIDENT

## 2025: Brought to you by the Letter K

This is the time of year when we reflect on the year behind us, while also looking ahead to 2026.

At this time last year, our 2024 year-end letter was titled “Yes, the Stock Market Will Go Down.” The market did, in fact, fall nearly 20% between February and April, but it recovered quickly, and 2025 proved to be another positive year for investors. The sell-off was one of the fastest descents into (and recoveries out of) a bear market in modern history. By late June, the market had climbed back above the February peak, completing a full recovery in roughly three months from the onset of the decline. It was a timely reminder that owning quality investments and staying invested is generally a wiser strategy than attempting to time the market.

Looking ahead, we could probably use the same title for this year’s letter. While there is much to be optimistic about (strong corporate earnings growth, rising dividends, ongoing share buybacks, lower interest rates, and a resilient economy), valuations have risen, particularly for the technology and communications sectors, and geopolitical risks remain elevated. More than ever, prudent portfolio construction requires thoughtful and disciplined diversification.

Market concentration continues to be a notable concern. Today, the ten largest companies account for approximately 40% of the S&P 500’s market capitalization and more than 30% of its earnings. Remarkably, just four of the so-called “Magnificent Seven” companies contributed nearly 50% of the index’s total return last year. Companies such as Microsoft, Amazon, Alphabet (Google), and Meta remain attractive, but they are not as cheap as they once were and should be held in disciplined and responsible weights.



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## K-Shaped

One of the defining features of the 2025 market environment was not volatility, inflation, or even interest rates ... It was dispersion. Economically, socially, and in markets, outcomes split sharply. This is the essence of a K-shaped economy. A K-shaped economy describes a recovery or expansion where different segments move in opposite directions at the same time.

The upper arm of the "K" represents companies, households, and sectors that continue to grow, while the lower arm represents those experiencing stagnation or decline. Unlike a traditional recovery where rising GDP and a strong economy lifts most participants, K-shaped outcomes concentrate gains among those with capital, pricing power, and scale, while others are left behind.

2025 was a textbook example of capital concentration when a small group of mega-cap, AI-exposed companies continued to drive a disproportionate share of equity returns.

These firms benefited from strong margins, global revenue streams, and massive operating leverage to AI investment. Meanwhile, smaller companies in different sectors struggled with higher financing costs, weaker demand, and limited pricing power. The result was that headline indices looked healthy, but the median stock experience was far less impressive.

This creates opportunity for investors, and we were active in 2025 to ensure that we were taking advantage of robust, world leading businesses in sectors that had fallen out of favour. Sometimes, these situations result in mergers and acquisitions in sectors and businesses that aren't the talk of cocktail parties. Here are two examples of takeover bids that impacted our Global Value Equity portfolio in the last quarter of the year.



## Recent activity / Takeover bids: Kenvue / Kimberly-Clark

We have owned shares in Kenvue since 2023. The company was formerly the consumer division of Johnson & Johnson, with such brands as Tylenol, Neutrogena, Listerine, Band-Aid, and Zyrtec. Late last year, it was announced that they would be accepting an offer to be acquired by Kimberly-Clark, in a largely share-based transaction.

After reviewing the transaction details as well as performing due diligence on Kimberly-Clark, we decided to purchase shares in Kimberly-Clark as the combined entity offers very attractive upside.

Established in 1872, Kimberly-Clark is a global consumer goods company specializing in essential, non-discretionary, fibre-based products. The company operates through 3 main segments:

Personal Care (diapers, feminine & incontinence care with brands such as Huggies, Kotex, and Depend), Consumer Tissue (facial tissues, toilet roll, and kitchen towel from the likes of Kleenex, Scott, and Cottonelle), and Professional (workplace wipes and apparel etc.).

North America accounts for over half of sales and two-thirds of profits. This is a low-growth industry, but demand is resilient. Brand loyalty is a key attribute of the business, and the company holds the number 1 or 2 market share positions in some 70 countries.

This company is truly a "dividend aristocrat," having increased its dividend for over 50 consecutive years.

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We view the combined entity as more attractive than the individual companies, bringing together two highly complementary businesses with ten “mega brands” (\$1 billion of sales). Cost synergies of over \$2 billion have already been identified, a significant amount for a company with just over \$30 billion in annual revenues. For a stable consumer products business, the valuation of the combined entity is compelling, both on an absolute basis and versus that of many of its peers.

## Electronic Arts

We will shortly be saying goodbye to Electronic Arts (EA) from our global equity mandate. As arguably the most ‘utility-like’ of the videogaming companies, we were initially attracted to EA’s broad portfolio of games, consisting more of dependable franchises than one-off hit titles.

Most notably, they are a leader in sports titles such as EA Sports FC soccer, Madden NFL, NHL, and Formula 1, each of which enjoys a natural annual refresh cycle as players move around and team rosters change etc. In addition, their portfolio also includes classics like The Sims as well as games based on movies such as Harry Potter and Star Wars.

The business commands around 80% gross margins which has regularly translated into high and sustained profitability and prodigious free cash flow generation. Despite these attributes, when we first purchased the shares, the shares traded at a steep discount to its main competitor, Activision Blizzard, which was purchased by Microsoft.

Good businesses at compelling valuations do not go unnoticed forever, and in September of last year, EA’s management agreed for the business to be taken private in an all-cash transaction at \$210 per share from a consortium led by Saudi Arabia’s Public Investment Fund alongside Silver Lake and Affinity Partners. The deal is expected to close in the 2nd quarter of this year, providing a source of funds to deploy elsewhere.



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## Final Thoughts

Any time one sector dominates market performance investors tend to forget about everything else, and the momentum drives valuations ever higher. However, the long-term objective for any investor should remain the same: to grow and protect wealth through a high-quality, well-diversified portfolio. This principle is central to our focus and ethos at LSWM, and we are well positioned to carry it forward.

History offers a useful reminder. In 1881, railroad stocks accounted for approximately 63% of the U.S. stock market, reflecting the dominant economic theme of that era. The same was true for the "Nifty Fifty" and "Dot-com" eras. We are keenly aware that the five most dangerous words in the investment industry are, "this time it is different." Yogi Berra's quote is a reminder that every time investors buy a hot sector regardless of valuation, the result is usually disappointment.

It is true that the impact of AI is already being felt, as large companies such as banks, are in net layoff, using technology to drive ever greater efficiencies. However, tech companies are spending massive amounts on AI-related capital expenditures, and it remains to be seen whether the returns on this spending will be justified.

As we move into 2026, we remain mindful that markets are inherently unpredictable in the short term. Periods of enthusiasm are often followed by periods of uncertainty, and leadership within markets can change quickly. What endures, however, are the fundamentals: owning high-quality businesses that are trading at rational valuations, maintaining appropriate diversification, and staying disciplined through market cycles.

By focusing on the basics, we aim to ensure that portfolios are positioned not just for the next quarter, but for many years ahead.

We are confident that this approach, grounded in discipline, diversification, and patience, will continue to serve our clients well, regardless of the market environment. As always, we are grateful for the trust you place in LSWM and remain committed to navigating the path forward with care, clarity, and conviction.

Sincerely,



Lorne Steinberg  
Co-President

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