



WOODSTOCK

# Quarterly Market Perspectives

Winter 2026

A quarterly newsletter offering our views on the market and economic topics of interest to investors.

## IN THIS ISSUE

Watch the Horizon, Focus on Quality

What Makes Woodstock a Unique Value Proposition for Clients?

Is There a Bubble in AI Stocks?

A Look at Drawdown Triggers

The Obesity Epidemic and Weight Loss Drugs

Tax Update: The Art and Strategy of Taxation

## Watch the Horizon, Focus on Quality

William H. Darling, Chairman & CEO  
Adrian G. Davies, CFA – President

At the end of 2024, “global household wealth surged again to a record \$310 trillion.”<sup>1</sup> “North America still commands about half of all global household financial assets and more than half of asset growth in 2024.”<sup>2</sup> The value of US stock markets was approximately \$64 trillion at the end of 2025.<sup>3</sup> Of course, “households” own only a part of that. Woodstock deals almost exclusively with households, so that is our focus.

In general, the best advice for managing financial assets is to buy low and sell high.<sup>4</sup> Not easy to do, as competing investment theories, current trends and current events combine to complicate the process. “No one can buy low and sell high perfectly. But systematic rebalancing is the closest analogue we have.”<sup>5</sup> Yes, but even here is a choice. “Systematic” may be stretched if you believe your winners have more room to run.

Because we have had two major market adjustments in our financial lifetimes (1999-2000 and 2007-2008), where there was at least a 30% drop in the S&P 500 that recovered slowly (Covid was a fairly rapid recovery), it is a good idea to keep your eye on the horizon to, perhaps, spot the next drop approaching. This also is not easy to do. As we have found before, “the best approach is to build a sturdy foundation for your investments and to treat crashes the way insurance companies do natural disasters: know (or try to know) the odds and accept that they happen every so often.”<sup>6</sup>

As to be expected given his retirement at the start of 2026, there was a flurry of articles on Warren Buffett, Jimmy’s “cousin.” One author compares Mr. Buffett’s



investing style to “his own list of six that drive returns.” Of course, definitions for these six factors do vary widely. The three that Mr. Buffett concentrated on were: value, quality and intangible value. The three he focused less on were: momentum, size (smaller better than large) and investing skill.<sup>7</sup> The author concludes by focusing on a “two-factor model of intangible value and quality.”

Investment professionals can’t help but be blindsided by events over a career. Our favorite professional response is that “I’m never wrong but often early.” Another is for investors in general, from renowned “permabear” and GMO cofounder Jeremy Grantham: “The realization that you can have an idea, a new idea or a different idea and you can be right, and the market in general, can be wrong, is the single most

<sup>1</sup> “Global Wealth Surges to New Record,” *InvestmentNews.Com*, 11/10/25, p. 40.

<sup>2</sup> *Ibid.*

<sup>3</sup> Spencer Jakab, “Will Stocks Crash in 2026,” *WSJ*, 1/8/26, p. B10.

<sup>4</sup> James Grant, “The Path of a Proud Pessimist,” book review of “The Making of a Permabear” by Jeremy Grantham with Edward Chancellor, *WSJ*, 1/10-11/26, p. C7.

<sup>5</sup> Burton G. Malkiel, “A New Year’s Resolution to Fortify Your 401(K),” *WSJ*, 1/7/26, p. A15.

<sup>6</sup> Spencer Jakab, “Will Stocks Crash.”

<sup>7</sup> Spencer Jakab, “How to Invest Like Warren Buffett,” *WSJ*, 12/26/25, p. B10.



*“Capital moves towards profits: excess returns attract competition and bad returns drive capital away.”*

*“Woodstock’s general framework or investment style is to concentrate on high quality and industry leadership with sound financials and strong managements when picking stocks.”*

*“We believe we have a very good and flexible system for generating long-term success in the financial markets, balancing risk and reward.”*

(Continued from Page 1)



powerful lesson that anyone can learn in this business.”<sup>8</sup>

#### **Tactical Tips**

The above defines a general framework. Below are some specific examples to, perhaps, influence tactics going forward. What are the odds of a 30% drop in the S&P 500 in 2026? “8% to 10% or once every 10 to 12.5 years,” say some economists.<sup>9</sup> However, a warning comes from a quote attributed to Peter Lynch. “Far more money has been lost by investors trying to anticipate corrections, or trying to time the market, than has been lost in the corrections themselves.”<sup>10</sup>

According to Grantham, “Capital moves towards profits: excess returns attract competition and bad returns drive capital away. Pretty soon you have mean reversion.” Even the reviewer of Grantham’s memoir comments: “Who can disagree?” However, he points out, “The market can and does more often than you might suppose.”<sup>11</sup>

Finally a detour into behavioral economics. According to Richard H. Thaler and Alex O. Imas, the authors of *The Winner’s Curse*, the notion of the “winner’s curse” originated with a study by Atlantic Richfield on why its winning bidding in government auctions for the right to drill usually found less oil than their experts had predicted. The answer is that “a winning

bid always anticipates more oil than the average of all the other bidders and the average tends to be more accurate.”<sup>12</sup>

Woodstock’s general framework or investment style is to concentrate on high quality and industry leadership with sound financials and strong managements when picking stocks. We anticipate that there will be occasional dramatic downturns and believe that a sturdy portfolio of high-quality companies has the best chance of rebounding from a major event or surviving the market as it follows whatever violation of the rules of investing it wants to. We believe we have a very good and flexible system for generating long-term success in the financial markets, balancing risk and reward. Please ask your portfolio manager for our 2025 GIPS report.

We know that you are the most valuable business development tool that we have. Your referral of a friend, colleague or family member to us is the most important way that we grow. We thank you for your support and want you to know that we are dedicated to serving your best interest.

<sup>8</sup> James Grant, “The Path of a Proud...”

<sup>9</sup> Spencer Jakab, “Will Stocks Crash...”

<sup>10</sup> Ibid.

<sup>11</sup> James Grant, “The Path of a Proud...”

<sup>12</sup> Daniel Akst, “Irrational Actors,” *WSJ*, 12/27-28/25, p. C9.



## What Makes Woodstock a Unique Value Proposition for Clients?

*Adrian G. Davies, CFA -- President*

*I first want to acknowledge and mourn the October 2025 passing of Pete Simpson, who led this company for many years. He guided the firm in honing many of the principles discussed here, and was a mentor to me. We appreciate his years of service in building Woodstock into the institution it has become. We will miss him.*

What makes Woodstock work well? In my view, there are five principal factors which make Woodstock's investment management proposition unique.

### **Our Service Focus**

This may sound familiar, but foremost it is our people and their service orientation. Clients and portfolio managers get a high level of support from our sister company, Woodstock Services. They are responsive to customer questions and requests, and navigate the bureaucracy, enabling our portfolio managers to focus on more complex client issues, stock analysis, and portfolio maintenance.

On the investment side, service means taking the needs of individual clients into account. We don't rely on a "model portfolio" to guide investments. While Woodstock portfolios have a lot in common with each other, we believe each portfolio should be crafted with the client's unique circumstances and preferences in mind. The stock prices when funds are contributed or withdrawn are likely to be different from the prices when model portfolio positions were established, making client portfolios' performance different from the ideal portfolio they strive to replicate. All active managers strive to make timely decisions based on market conditions, but when trading, we further take into account the needs of each client to have more or less cash, to take on more or less risk, and tax sensitivity. Woodstock's stock selection decisions are coordinated with asset allocation decisions and transactions based on client needs.

### **Stocks Over Funds**

The second principle is that we manage individual stocks owned by our clients. Actively selecting and monitoring individual holdings has several advantages over investing in funds. To the uninitiated client, it can be hard to appreciate the difference. Keeping up with the market indices is a challenge for everyone and we don't promise to outperform other investment managers. However, by investing in individual securities, we can manage your capital gains taxes in a way that managers of funds cannot. Our tax-loss selling is necessarily customized to each account.

Tax-loss selling alone can generate savings comparable or higher than our management fees, effectively offsetting our fees. A Vanguard study found: "[tax-loss harvesting] alpha—the potential additional annual after-tax return achieved by conducting [tax-loss harvesting]—to range between 0.47% and 1.27% [per year]."<sup>1</sup>

Another advantage of investing in individual stocks is that clients aren't incurring a second layer of investment management fees at the fund level. Further, Woodstock portfolio managers are following what company executives are saying about their businesses and industries. This fundamental research informs our macroeconomic view "from the bottom up" and it helps your portfolio manager make timely, informed investment decisions for your account. Finally, if our clients understand what they own, and our portfolio managers can explain clearly why they own what they own, clients are more likely to stay invested through the market's ups and downs.

### **Thorough Knowledge**

The third factor is that we know our investments well. There are 91 stocks currently on the Woodstock Monitor List. We get to know them thoroughly by following them over the long term, discussing them regularly to understand better their competitive dynamics, risk

<sup>1</sup> Vanguard Research, "Tax-loss Harvesting: Why a Personalized Approach Is Important," July 2024.

*"While Woodstock portfolios have a lot in common with each other, we believe each portfolio should be crafted with the client's unique circumstances and preferences in mind."*

*"Another advantage of investing in individual stocks is that clients aren't incurring a second layer of investment management fees at the fund level."*



*“Our portfolios are better off because we aren’t attempting to trade short-term trends. We aren’t chasing shiny objects.”*

*“Woodstock portfolio managers are also analysts following specific sectors and industries. We rely on the quality of one another’s research...”*

*“If we can participate in the upside, while providing some protection on the downside by investing in high-quality stocks, we are doing our job.”*

(Continued from Page 3)



factors, and growth potential. That’s our investment discipline. We put a handful of these stocks, 40 or so, in a basket—your portfolio—and we watch that basket closely. We don’t get every stock right, but we limit our focus to this list, having more in-depth discussions on fewer stocks.

#### **Long-term Focus**

Fourth, our portfolios are better off because we aren’t attempting to trade short-term trends. We aren’t chasing shiny objects. Our ability to trade is limited because we review and trade each portfolio on an account-by-account basis, and because we are tax-sensitive. We are therefore forced to prioritize our ideas and to focus on the long term. We follow stock news daily, but rarely react to whatever the financial media and short-term investors are focusing on. Having said that, short-term setbacks or excitement sometimes offer opportunities for long-term investors to take the other side of the trade.

#### **Collaborative Competitiveness**

Fifth, our portfolio managers are engaged because we are accountable for making real-world decisions for clients. We all have to answer to clients (and the other portfolio managers have to answer to me!). Woodstock portfolio managers are also analysts following specific sectors and industries. We rely on the quality of one another’s research, “eating one another’s cooking,” or we have a vested interest in challenging it, as the case may be. We try to foster an environment where everyone speaks their minds because we all have valid points to bring to our investment discussions. The candid exchange of ideas brings out a broader perspective on

individual stocks and results in better investment decisions for every client. We are team-oriented, but the healthy level of competitiveness serves clients as we vie to generate exceptional performance.

#### **The Results**

It’s unusual for an investment advisor such as Woodstock to have 90% of its assets under management in one investment performance composite. Last year, almost 90% of the assets we manage are included in our Growth Composite, generally comprised of accounts with stock allocations at 70%-100% of total account values. We think clients are best served over the long term by a generous allocation to equities. While client preferences and account mandates do vary quite a bit, we aren’t trying to hide the performance of any group of accounts behind a curtain.

Woodstock’s Growth Composite slightly outperformed its benchmark in 2025 gross of fees, but underperformed net of fees. We outperformed both on a gross and net basis in 2024. GIPS performance is available upon request. The S&P 500 Index returned 86.0% over the last 3 years, driving our Growth Composite benchmark up 69.3%. That’s a tough bogey to meet. We kept up with it gross of fees over the three-year period, but again not net of fees. We believe our clients are still pretty happy with how their assets have grown. If we can participate in the upside, while providing some protection on the downside by investing in high-quality stocks, we are doing our job. Our equity composite remains ahead of our Growth Composite Benchmark over five and ten years both gross and net of fees.

In summary, here are the five factors that make Woodstock a unique value proposition for clients:

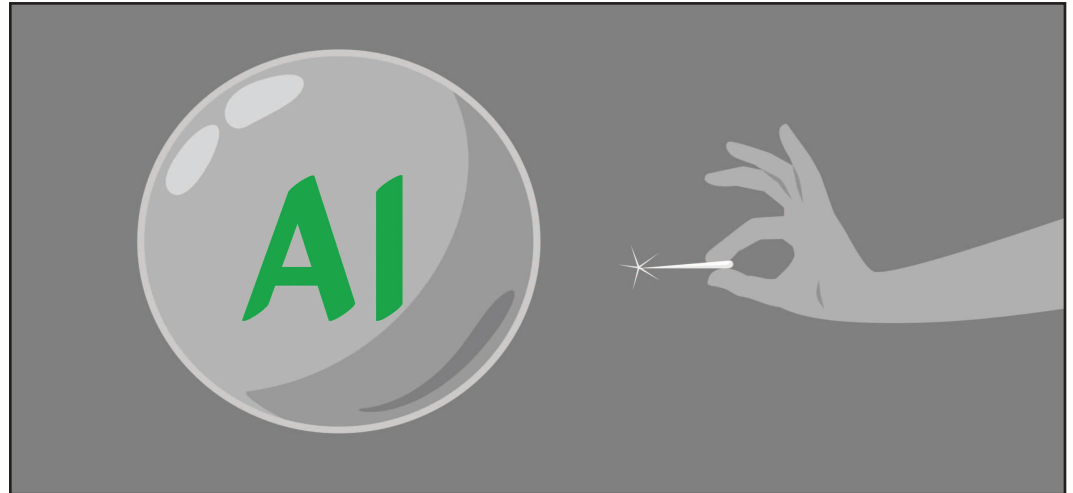
1. A high level of customer service
2. Tax-loss selling in individual securities
3. Knowing our stock holdings thoroughly
4. A focus on long-term investing
5. Collaborative competitiveness

We think the results speak for themselves.



*“Some investors who remember the harsh, dramatic stock market downturns of 2000 and 2008 may fear that we are on the precipice of a third downturn, driven by excessive enthusiasm for artificial intelligence (AI) stocks.”*

*“There are multitudes of real-world applications driving interest in AI. Companies are using AI to optimize everything from advertising placements, shipping routes, and processing insurance claims to new ingredient combinations, drug discovery, and molecular modelling simulation.”*



### **Is There a Bubble in AI Stocks?**

*Adrian G. Davies, CFA -- President*

Some investors who remember the harsh, dramatic stock market downturns of 2000 and 2008 may fear that we are on the precipice of a third downturn, driven by excessive enthusiasm for artificial intelligence (AI) stocks. The AI investment cycle resembles the dot-com internet bubble of 2000 in that there is a massive buildout of infrastructure based on the hopes of a new technology. AI looks to be at least as revolutionary as the internet in changing our daily lives and our economy. The current market is less comparable to the Great Financial Crisis of 2008-2009, when a speculative bubble in house prices, spurred on by lax lending standards, brought down a much larger part of the economy.

Some investors can't get enough "AI" in their portfolios. Not all investors have a clear sense of which businesses will prove to be economically viable, and they are throwing money at AI stocks indiscriminately. This will likely turn out to be a mistake: any number of stocks will turn out to be bad investments.

The largest corporate investors in AI are the hyperscale data centers, Alphabet, Microsoft, Amazon, and Meta Platforms. In addition to their capital expenditures, Microsoft invested \$13 billion in OpenAI,

and Amazon invested \$8 billion in Anthropic. Both investments are now valued at multiple times those initial amounts. The four largest data center players had strong businesses before the advent of AI, and continue to generate strong cash flow from those businesses. These companies didn't become some of the largest businesses in the world by having lax financial discipline. Their creditworthiness remains high. Their stocks would certainly fall if they did not earn decent returns on their AI investments, but they would remain very solvent falling back on their core businesses.

AI promises to do a fairly good job of automating the routine, mindless parts of our jobs for us. That's not to say results from AI algorithms aren't wrong with some regularity and should not be supervised,<sup>1</sup> but we are banking on the technology improving and safeguards being in place. There are multitudes of real-world applications driving interest in AI. Companies are using AI to optimize everything from advertising placements, shipping routes, and processing insurance claims to new ingredient combinations, drug discovery, and molecular modelling simulation. Self-driving cars and robotics will consume considerable amounts of computational power in the coming years. Like the internet, these technologies will take years to develop.

<sup>1</sup> *The same is true for humans!*



*“AI is already generating billions worth of revenue for the hyperscale data centers, which are saying demand is exceeding what they can provide.”*

*“AI proliferation could, however, be limited by our ability to build enough electrical generation capacity to fuel the AI data centers.”*

*“Portfolios at Woodstock for the most part have moderate exposure to AI.”*

(Continued from Page 5)

AI could make millions of employees redundant. That was true for the industrial revolution, and it has been true for technology ever since. Observers were worried that the automatic switchboard would put telephone operators out of work in the 1960s. It did. Observers were worried that the automated teller machine (ATM) would put bank tellers out of work in the 1970s and 1980s. It did. The more optimistic take is that if AI improves productivity, competing firms can lower their prices, providing more services, and providing services to more people. That is the stuff of economic expansion. While some areas of the economy will contract, others will expand. We are optimistic this will lead to growth overall, as has been the economic norm. It's too early to know which companies implementing AI will be winners and losers.

AI is already generating billions worth of revenue for the hyperscale data centers, which are saying demand is exceeding what they can provide. Demand is only likely to grow. Spending on AI hit \$1.75 trillion globally in 2025,<sup>2</sup> with about \$344 billion of that coming from the big four US hyperscalers. Global spending is expected to hit \$2.5 trillion in 2026 and \$3.3 trillion in 2027, according to Gartner. The global economy was estimated to be \$104 trillion in 2025, making AI a noteworthy but still small component of the overall global economy. These forecasts could prove too optimistic and AI developers could spend too much.

Some see the AI spending boom as a race among the largest technology companies to develop artificial general intelligence (AGI), a level of intelligence which exceeds that of humans. We don't believe our clients should worry about AGI, and believe the spending boom is justified based entirely on real world applications for the more rudimentary AI.

AI proliferation could, however, be limited by our ability to build enough electrical generation capacity to fuel the AI data centers. Current data centers in the US use

an estimated 62 gigawatts (GW) of capacity. Demand is expected to rise to 134 GW by 2030.<sup>3</sup> While energy constraints could be a cause for the bubble to burst, it would suggest underinvestment in power generation capacity rather than overinvestment in AI compute capacity.

None of this is inconsistent with the idea that AI is in a bubble. The internet was wildly hyped in 2000. That hype turned out to accurately forecast how the internet would develop, if not underestimate its potential, but there were also bad investments. Many people saw their net worth decline, and the US suffered an 8-month recession in 2001.

### **Diversify!**

Because the Magnificent Seven stocks comprise such a large percentage weighting in the S&P 500 Index, the bursting of an AI bubble would likely lead to a decline in the index, but that doesn't even mean most stocks would decline. There could be plenty of stocks not directly related to AI, and hitherto obscured by the AI enthusiasm, which come into their own as the bubble bursts. The year 2000 was an excellent time to invest in value stocks. While both value and growth stocks fell from the market top on March 10, 2000, looking at 5-year returns starting from the market peak, the Russell 1000 Value index was up 46.6% for the period, or 7.9% per year, while the Russell 1000 Growth Index was down -39.8%, or -9.6% per year. Investing at any other time than the day the market peaked, an investor would likely have higher returns. For the current cycle, it's also possible some investment factor or theme other than value outperforms. Value stocks did not outperform during the Great Financial Crisis—growth stocks did.

Portfolios at Woodstock for the most part have moderate exposure to AI. We believe most clients should have some exposure, since the industry is still developing and

<sup>2</sup>“Gartner Says Worldwide AI Spending Will Total \$2.5 Trillion in 2026,” Gartner press release, 1/15/26.

<sup>3</sup>Garrett Hering and Susan Dlin, “Data Center Grid-power Demand to Rise 22% in 2025, Nearly Triple by 2030,” S&P Global, 10/14/2025.



*“We endeavor to invest in high-quality companies, with defensible moats and strong free cash flow. Many of these dominant companies will likely prove to be most advantaged by AI.”*

*“For clients with a long-term time horizon, we recommend maintaining positions in high-quality AI stocks, and that would be all the more true if they were to sell off.”*



may still have some strong winners. We endeavor to invest in high-quality companies, with defensible moats and strong free cash flow. Many of these dominant companies will likely prove to be most advantaged by AI. The more important point is to maintain broadly diversified portfolios, which are likely to have some winners and some losers in almost any macroeconomic regime.

While the broader stock market can and does decline, the Equal-Weighted S&P 500 Index, which minimizes the importance of the Magnificent Seven, trades for an estimated 17.2x forward earnings, not far off its 10-year median price-to-earnings ratio of 16.6x. The Magnificent Seven as a group trades for 29.8x forward earnings. That's still well below the nosebleed levels technology stocks traded at during the height of the dot-com bubble. For clients with a long-term time horizon, we recommend maintaining positions in high-quality AI stocks, and that would be all the more true if they were to sell off. It's not clear what level of investment will prove to be excessive, and when bubbles have burst in the past, the market has always come back. Clients who are not comfortable with the intermediate-term risks should discuss their exposure with their portfolio manager. For all clients, regardless of their investment time horizon, we recommend keeping enough cash on hand to meet near-term obligations.



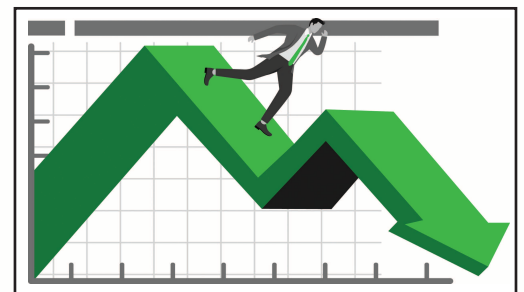
## A Look at Drawdown Triggers

*David Layden, Portfolio Manager*

The US economy continues to be resilient! Inflation has moderated from its highs but is sticking in the upper 2's. Unemployment is creeping up but still healthy from a historical perspective—50,000 monthly job adds is the new breakeven number. And gross domestic product (GDP) is unequivocally strong, reaccelerating in the back half of 2025.

The stock market is humming along; any dips get filled, quickly. The S&P 500 was up 86% cumulatively between 2023 and 2025. Another low double-digit increase in 2026 and the market will have doubled in four years! So, there's ample reason to be bullish on US equities, in part due to the macro numbers but primarily because of the enormous potential of emerging technologies.

Exciting times for sure, but it's always a useful exercise to examine what could trigger a lasting drawdown. This is not a permabear predicting collapse—the bears are always certain, but often wrong. This is a search for reasons why the market could trade at 18x instead of 23x forward earnings, closer to its historical average.



### #1: The Obvious

Investors grow tired of waiting for artificial intelligence (AI) to diffuse beyond the Magnificent Seven<sup>1</sup> to other sectors and industries. If the earnings multiple is a barometer of investor sentiment, the longer the wait for real-world AI benefits, the more likely positive sentiment will begin to wane.

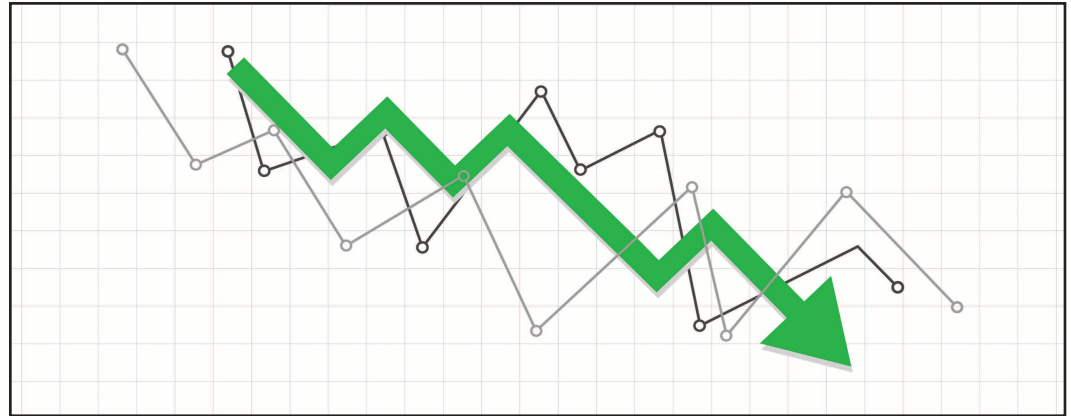
<sup>1</sup> The Magnificent Seven are Apple, Microsoft, Amazon, Alphabet, Meta, Nvidia, and Tesla.



*“There will be winners and losers under a fewer data centers scenario, but it could be a net negative, given AI capital expenditures contributed a material amount to 2025 GDP growth.”*

*“Consumption is being driven by too few people. Moody’s claims the top 10% of US earners account for 50% of all consumer spending.”*

*“Every year has its drawdowns, often in double digits, and the market is rich.”*



**#2: Non-Consensus AI View**

Historically, technology gets smaller, cheaper and more powerful – with improved computing power. If that pattern follows, we wouldn’t need as many data centers as forecast. Or, power supply could prove to be a big enough chokepoint to restrict the buildout of these data centers. There will be winners and losers under a fewer data centers scenario, but it could be a net negative, given AI capital expenditures contributed a material amount to 2025 GDP growth.

**#3: Wealth Effect**

Real estate and stock markets at all-time highs are exacerbating the wealth effect. People feel well-off, so they spend money, pushing up company earnings, which leads to higher stock prices, which reinforces the wealth effect and the cycle circles around again.

Real estate prices could break the cycle. Housing affordability is a problem driven more by supply than demand. The US is short almost five million units, according to estimates.<sup>2</sup> Eventually supply will catch up—every shortage becomes a glut. Maybe politicians will “encourage”<sup>3</sup> a faster buildout via more lax regulation, lowering real estate values and weakening the wealth effect.

**#4: K-Shaped Economy**

Consumption is being driven by too few people. Moody’s claims the top 10% of US earners account for 50% of all consumer spending.<sup>4</sup> A perfect example of this is that Delta Air Lines expects all current-year seat growth to come from the premium

sector, and none from the main cabin.<sup>5</sup> A broadening of those consuming would probably make for a healthier picture, but strictly from an economic viewpoint, it’s possible this is more feature than bug—as long as the top half of the K spends.

Additionally, there are countless Black Swans, not to mention a federal debt and deficit that’s crowding out more useful spending. There’s also the chance that China or Japan could dump Treasuries, driving up the 10-year yield, or another episode of geopolitics triggering the “sell America” trade.

One of these scenarios may come to pass! Every year has its drawdowns, often in double digits, and the market is rich. High returns on earnings and record profit margins are valid reasons for higher earnings multiples. Still, a broad pullback could be healthy at these levels, and that pullback would provide an opportunity to purchase good companies at lower valuations and rebalance portfolio allocations. With AI, blockchain and robotics on the horizon, there’s still ample reason to be bullish on US equities long-term, which only reinforces our belief to stay invested long-term.



<sup>2</sup> US Chamber of Commerce, “The State of Housing in America,” 2/12/26.

<sup>3</sup> Bloomberg, “Builders Push ‘Trump Homes’ to Win Backing for a Million Houses,” 02/03/2026.

<sup>4</sup> Danielle Antosz, “The Top 10% of Earners Drive Nearly Half of All Consumer Spending,” Yahoo! Finance, 12/31/25.

<sup>5</sup> Leslie Josephs, “Delta CEO Sees Record Earnings in Reach Again,” CNBC, 1/13/26.



“According to the US Centers for Disease Control (CDC), in 2023 more than 40% of US adults were obese with prediabetes or had estimates indicate that the measure is rapidly approaching 70%.”

“All these contribute to higher rates of early mortality and high benefits expenses as well as reduced economic productivity.”



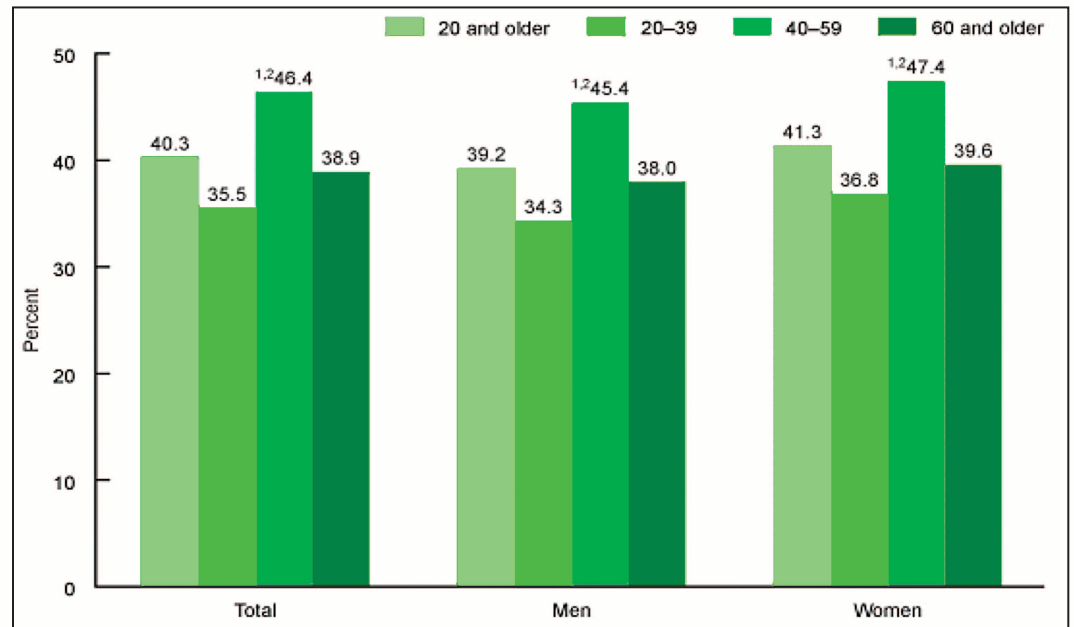
### The Obesity Epidemic and Weight Loss Drugs

Peter C. Hartzel, Senior Vice President

According to the US Centers for Disease Control (CDC), in 2023 more than 40% of US adults were obese with prediabetes or had Type II diabetes (see Figure 1). Some estimates indicate that the measure is rapidly approaching 70%.

Obesity and diabetes are serious metabolic diseases with pronounced comorbidities that have substantial personal and economic costs. The latter include the untoward downstream consequences of heart disease and a host of chronic diseases. All these contribute to higher rates of early mortality and high benefits expenses as well as reduced economic productivity.

Figure 1 – Percentage of US Adults with Obesity with Prediabetes or Type II Diabetes



Source: [www.cdc.gov/obesity/data-and-statistics](http://www.cdc.gov/obesity/data-and-statistics)



“The GLP-1s are marketed under a variety of brand names, including Ozempic, Mounjaro, Zepbound, and Wegovy.”

“Given the size of the market and its expected growth, many competitors are angling for a piece of the action.”

“Wall Street is modeling future global GLP-1 annual revenues exceeding \$100 billion.”

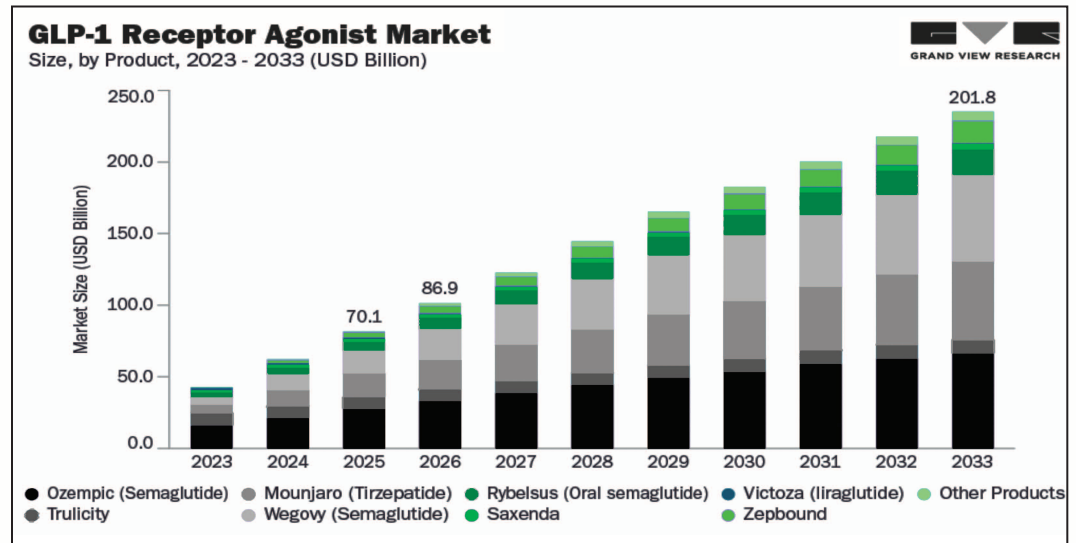
(Continued from Page 9)

The pharmaceutical industry has responded to the crisis with the development of GLP-1 drugs. This class of drugs operates to trigger insulin release by the pancreas and to reduce the release of glucose (sugar) into the blood. The drugs need to be administered under the guidance of a physician. Treatment starts

at a low dosage and is adjusted up or down as individuals respond.

Initially GLP-1s were primarily for diabetes and dosed by injections, but now a much wider range of medical indications is evolving and oral forms (pills) are becoming available. The uptake of the drugs has been dramatic and is expected to remain so well into the next decade (see Figure 2).

Figure 2



Source: Grandview Research

The GLP-1s are marketed under a variety of brand names, including Ozempic, Mounjaro, Zepbound, and Wegovy. The FDA-approved iterations of these mediations are from Eli Lilly and Novo Nordisk, but more are on the horizon.

**A Competitive Market**

Given the size of the market and its expected growth, many competitors are angling for a piece of the action. This includes almost all the major drug companies, but these are well behind Lilly and Novo, which seem to have the advantage of a substantial head start with large multipronged forward-looking R&D programs and manufacturing facilities. However, there still appears to be plenty of room for new competitors to gain profitable niches.

Many marginal entities have entered the market. These offer deeply discounted

drug look-alikes while treading on patent laws. Most of these iterations lack clinical data that supports claims of efficacy or safety. Indeed, many are sourced in China or India and often contain impurities and poorly controlled chemical elements.

The GLP-1s offer potential weight loss in the middle teens percentage. However, side effects include nausea and diarrhea which, over time, should moderate, but sagging skin and muscle loss can be significant negatives, especially for older patients. Maintaining weight loss benefits requires lifetime usage by the patient.

**Industry Prospects**

Wall Street is modeling future global GLP-1 annual revenues exceeding \$100 billion. Since competitive factors and government pressures are acting to reduce prices of these medications, realizations are likely to fall short of projections. Still, operating





*“Revenues from a plethora of drugs for downstream maladies are likely to augment the GLP market.”*

*“The major pharma companies are pouring significant resources into R&D and acquisitions to improve and expand their weight loss portfolios.”*

margins (and earnings) should remain robust as R&D spending on related drugs moderates, distribution costs (pharmacy benefit manager discounts) are rationalized, and manufacturing efficiencies are realized. Revenues from a plethora of drugs for downstream maladies are likely to augment the GLP market.

The weight loss drugs are expensive, with the current list price of GLP-1s for individuals in the \$1,000 per month range (see Figure 3). However, only the uninsured few pay the full price. Many of the latter often turn to marginal marketers, taking on the risks of poor quality and efficacy. Even with declining prices, the poor and uninsured will not be able to afford the drugs.

**Figure 3 – GLP-1 Prices**

		 Formulation	 Efficacy	 Launch Price	Summary	
	Saxenda (2014)	Twice daily injection	7% weight loss 56 weeks	\$1,000 Per month		\$230 MM FIRST YEAR SALES
	Wegovy (2021)	Once weekly injection	10% weight loss 104 weeks	\$1,350 Per month		\$900 MM FIRST YEAR SALES
	Zepbound (2023)	Once weekly injection	21% weight loss 72 weeks	\$1,100 Per month		\$2,000 MM FIRST YEAR SALES

Source: OZMOSI

Burgeoning weight loss and related costs are stressing the already stressed US healthcare system. Insurance companies are responding by increasing prices and reducing or terminating coverage. As discussed above, drug companies have begun reducing prices (but hope to maintain margins) through direct-to-consumer sales. States are beginning to cut related Medicaid coverage.

In coming years, the GLP-1 landscape is up for significant change. The major pharma companies are pouring significant resources into R&D and acquisitions to improve and expand their weight loss portfolios. Independent research entities (often funded by private equity) are attempting to find new therapies. Successful researchers are likely to be acquired by large companies.

Notwithstanding lower unit prices, the increasing utilization of weight loss and related drugs will continue to stress budgets. Still, these drugs do have the potential to truncate the obesity crisis. The

GLP-1s cut morbidity-associated obesity, thus reducing system costs. At least as important, emergent therapies for downstream diseases will contribute mightily to stabilizing costs and mortality from many diseases. Thus, much as antibiotics drugs did in the mid-20th century, this new class of drugs could make significant contributions to the US health system.





## We've Moved!

Our new address is:  
21 Custom House St.,  
5th Floor  
Boston, MA 02110

Our phone and  
email remain the  
same:  
617-227-0600  
info@  
woodstockcorp.com

## Tax Update: The Art and Strategy of Taxation

*William H. Darling, CPA – Chairman & CEO*  
*Jeanne M. FitzGerald, CPA – Tax Manager & Vice President*

Because the US tax code has been consistently used by both parties to further political/social priorities, it is good to remember that its basic purpose is to raise money. We agree that the “art of taxation” is akin to “plucking the goose” to obtain maximum revenue (“feathers”) from citizens with minimal complaint (“hissing”).<sup>1</sup> It helps that process if government expenditures are kept in a reasonable range. From the taxpayer’s point of view the key difference to keep in mind is between “avoidance” (arranging your affairs so as to pay as little tax as possible) and “evasion” (which is illegal).

So far the US tax code taxes income. The main tax is the Individual Income Tax, started in 1913. Mostly this income tax applies to earned income. Most taxpayers are on the cash basis, which means income must be received by the taxpayer in cash, services or property during the tax year, usually the calendar year. There is a political movement afoot to tax the unearned income of certain wealthy individuals. There is also a movement to tax government payments to certain less wealthy individuals—payments which are not currently counted as income. There is no doubt these government payments are in cash, services or property received during the tax year.

Historically these government payments were smaller and meant to alleviate poverty, which probably meant bringing an individual or family up to their calculated poverty level of income, leaving an incentive to work to gain higher income. The problem is “the government’s failure to

count its largesse as recipient’s income allows welfare households to blow past the income level above which a working family no longer qualifies for government help.”<sup>2</sup> The numbers are dramatic. The poverty level for a single parent with two school-age children earning \$11,000 per year, is \$25,273. This family qualifies for \$53,128 worth of benefits,<sup>3</sup> which brings their total income to \$64,128 or 254% of the poverty level.<sup>4</sup> If these benefits were included as the recipient’s income, they would not qualify for so many programs (because these programs are means tested), the government would save money and there would still be an incentive for the recipient to find work.

### Social Security Fixes?

The stability of Social Security is a major concern of taxpayers. Some political actors believe that this concern benefits them and they are loath to let the problem be solved. There are complex solutions proposed, involving the full retirement age, the early eligibility age, new benefit calculations involving “bend points,” the annual Cost of Living Adjustment (COLA), benefits taxation, and the payroll tax itself.<sup>5</sup> Simpler solutions involve raising taxes at the high end, privatizing the program, and ending its status as just a “promise” to pay. The good ideas are there. They just need to be acted on.

If you or any other advisors have questions about the issues raised here, please contact your investment manager or one of us.

<sup>1</sup> The saying is attributed to Jean-Baptiste Colbert, Finance Minister for King Louis XIV of France, as per *Oxford Essential Quotations*, 6th ed.

<sup>2</sup> Phil Gramm and John Early, “The Biggest Fraud in Welfare,” *WSJ*, 12/18/25, p. A15.

<sup>3</sup> *Ibid.*

<sup>4</sup> *Ibid.*

<sup>5</sup> Rudy Boschwitz, “Social Security Needs Saving Again,” *WSJ*, 6/8/22, p. A17.

**Your ideas and questions are important to us.** What would you like to see in our Quarterly Market Perspectives? Please contact your portfolio manager, or anyone from Woodstock’s team of professionals, and let us know. We want to hear from you! If you’re new to Woodstock, you can reach us at [info@woodstockcorp.com](mailto:info@woodstockcorp.com).