

2026 Hidden Engines: 10 Stocks Set to Fuel The Market

January 1, 2026

Outlook for 2026

2025 defied expectations once again. Despite an intra-year drawdown of over 15%, markets closed the year in positive territory. The April 1 tariff shock, declared “Liberation Day” by President Trump, spooked global markets with a sudden policy shift that erased 12% from U.S. equities in a matter of days. But in what markets quickly labeled “TACO” (Trump Always Chickens Out), the reversal was just as swift. Within just 18 trading days, markets staged a sharp V-shaped recovery as a new U.S. – China trade framework emerged.

Investors were forced to navigate a number of macro threats: a prolonged U.S. government shutdown, shocks to rare earth supply chains, concerns of AI valuations, ongoing global conflicts, and a stubborn inflation narrative. The result? Volatility surged, but so did opportunity. Underneath the headline noise, companies with strong business models and real earnings power became temporarily mispriced. The best-performing portfolios in 2025 weren't necessarily the fastest or flashiest, they were the most disciplined in buying great businesses when fear took over.

As we look ahead to 2026, many of the concerns that defined the past year remain unresolved, but the fog is beginning to lift. There's now greater clarity on monetary policy, the evolving tariff landscape, and how markets are digesting geopolitical volatility. Investors can no longer afford to chase narratives. They must now out seek hidden engines, the businesses with pricing power, strategic relevance, and the resilience to grow through turbulence.

Let's look back at some history: the S&P 500 returned 26% in 2023, 25% in 2024, and 18% in 2025. Only eight times since 1926 has the index delivered three consecutive years of 15%+ gains, the most recent being the dot-com stretch from 1995 to 1999. And what followed in 2000? A historic crash. Back in November, Ray Dalio warned that we're at roughly 80% of the bubble conditions seen in the late '90s.

Does that mean it's time to dump growth stocks and hide out in Treasuries? Absolutely not! While valuations are elevated (specifically in tech), there's still room for upside. However, growth may begin to plateau for mega-caps, and allocation is shifting. For example, NVDA's returns over the past three years were +238%, +171%, and +38%, respectively. Still outstanding but clearly decelerating. We're now seeing niche companies and vertical specialists emerge as the new growth frontier.

“When you boil it all down, it's the investor's job to bear risk for profit. Doing it well is what separates the best from the rest.”

- Howard S. Marks

This is not the year to go all-in on tech, or any single sector. Volatility is likely to return, and portfolio construction matters more than ever. The goal is to capture upside when the market runs, while remaining positioned to outperform during inevitable drawdowns. I am excited to share my hidden engines for 2026 with you, companies built to deliver on that mission. Each is uniquely positioned to thrive in the year ahead, and I look forward to seeing where the journey takes us.

My Top 10 Picks

AeroVironment Inc (NASDAQ: AVAV)

AeroVironment is a U.S. defense technology company specializing in unmanned aerial systems, notably small drones and tactical missiles. Its product portfolio ranges from hand-launched reconnaissance UAVs (like the Raven and Puma, used by the U.S. Army for surveillance) to the famed Switchblade loitering munitions (essentially small kamikaze drones that have been supplied to Ukraine). AeroVironment has carved out a niche by focusing on lightweight, rapidly deployable unmanned platforms, distinguishing it from larger defense primes that build big drones or aircrafts. As global defense priorities shift toward unmanned, precision-guided warfare, AVAV is well positioned to benefit from rising demand and budget allocation. Its Switchblade systems in particular are a new class of battlefield assets due to its cost-effectiveness and mobile attributes.

\$726M Backlog at year-end
(Up 82% YoY)

AeroVironment ended FY2025 with record revenue of \$821 million, up 14% year-over-year, with Q4 revenue surging 40% as demand for drones and munitions accelerated. Bookings reached \$1.2 billion for the year, reflecting heightened global demand across multiple product lines. While profitability has historically been inconsistent due to high R&D, adjusted earnings turned sharply positive in Q4 FY25 (EPS \$1.69), driven by scale and cost control. International sales now account for over 50% of revenue, with NATO allies placing significant orders, including ~\$250M in Switchblade drones and growing adoption of the JUMP-20 platform.

In May 2025, AeroVironment acquired BlueHalo for \$4.1 billion, a deal that nearly doubled the company's scale and expanded its reach across air, land, space, and cyber domains. BlueHalo specializes in autonomy, counter-UAS, space sensors, and directed energy systems, offering complementary capabilities to AVAV's core drone business and adding recurring revenue through long-term defense programs. Post-acquisition, management issued FY2026 guidance of \$1.95–\$2.0 billion in revenue and EPS of \$3.60–\$3.70, a dramatic step-up from FY2025. AVAV is benefiting from rising global demand for unmanned systems, driven by the war in Ukraine and broader defense shifts like the U.S. Army's FTUAS program, where its JUMP-20 platform has already won contracts. International expansion is also accelerating with customers in over 50 countries and adoption of Switchblade and JUMP-20 platforms.

Top 10 Hidden Engines

AeroVironment Inc.

- Ticker: AVAV
- Price: \$242.32
- Market Cap: \$12.7B
- Industry: Aerospace & Defense

Arista Networks

- Ticker: ANET
- Price: \$132.15
- Market Cap: \$166.0B
- Industry: Information Technology

AutoZone Inc.

- Ticker: AZO
- Price: \$3,393.49
- Market Cap: \$57.1B
- Industry: Specialty Stores

EMCOR Group

- Ticker: EME
- Price: \$618.89
- Market Cap: \$28.1B
- Industry: Engineering/Construction

Fair Isaac Corp

- Ticker: FICO
- Price: \$1,722.52
- Market Cap: \$41.6B
- Industry: Financial Publishing

Fairfax Financial

- Ticker: FRFHF
- Price: \$1,906.00
- Market Cap: \$41.9B
- Industry: Insurance

Quanta Services

- Ticker: PWR
- Price: \$425.29
- Market Cap: \$64.5B
- Industry: Engineering/Construction

Sterling Infrastructure

- Ticker: STRL
- Price: \$310.35
- Market Cap: \$9.7B
- Industry: Engineering/Construction

Taiwan Semiconductor

- Ticker: TSM
- Price: \$306.50
- Market Cap: \$1.25T
- Industry: Semiconductors

TKO Group Holdings

- Ticker: TKO
- Price: \$211.20
- Market Cap: \$42.4B
- Industry: Entertainment

Arista Networks: (NYSE: ANET)

For the second consecutive year, Arista Networks has made my top 10 list. Last year, the company delivered an 18% return with a peak of 42%. Arista Networks is a leading provider of high-performance cloud networking equipment, notably Ethernet switches that power modern data centers. Arista's software-driven networking solutions are crucial for hyperscale cloud operators (it counts Microsoft Azure and Meta/Facebook as major customers) and enterprises building out large-scale infrastructures. The company's focus on ultra-low latency and scalable switching has made it a key enabler of AI clusters, cloud computing, and high-bandwidth workloads. A defining theme for Arista is the industry transition to 400G and 800G Ethernet – effectively “upgrading from a two-lane road to a highway for data”.

Arista's strategy is to “double down” on cloud and AI infrastructure. The firm has kept a laser focus on data center switching and now benefits as nearly every large cloud and social media company must upgrade network capacity to support AI workloads. The adoption of 400G Ethernet has been a major revenue driver and Arista is already delivering 800G-ready platforms for early adopters. It also expanded into campus networking (enterprise campus switches and Wi-Fi) in recent years, leveraging its core technology to steal share in that \$5B+ market, though the bulk of growth is still in hyperscale data centers. Arista's innovation engine is strong; it continues to enhance its EOS software and introduced AI-driven network management tools to help operators automate and optimize networks for AI traffic patterns. In 2025, Arista even unveiled products targeting quantum computing connectivity, hinting at future opportunities; however, I wouldn't expect these revenues to come in for quite some time.

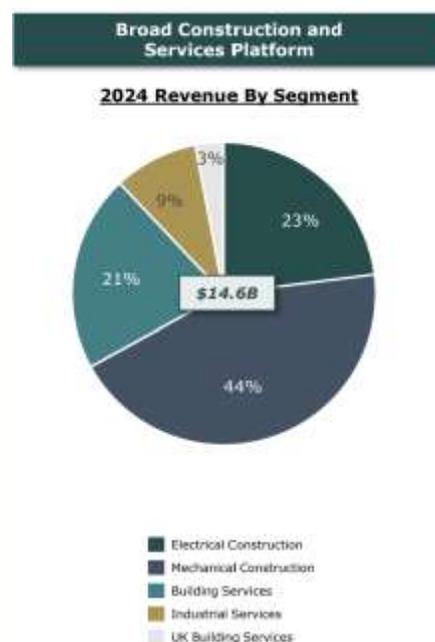
The company enters 2026 with strong momentum, fueled by rising demand for high-performance networking driven by the AI arms race among cloud providers. AI workloads require significantly more bandwidth than traditional ones and Arista is benefiting from large orders as well as new deployments. Management is targeting 20%+ revenue growth with margins expected to remain solid in the mid-60s% range. While cloud capex variability and pricing pressure are potential risks, Arista continues to gain market share driven by its software-focused approach and customer-centric execution. Leadership remains stable under CEO Jayshree Ullal and CTO Andy Bechtolsheim, providing continuity as the company scales. With cloud and AI trends accelerating, Arista is well positioned to play a foundational role in next-generation data center infrastructure.

EMCOR Group (NYSE: EME)

EMCOR Group is one of the largest specialty construction and facility services firms in the U.S., specializing in complex electrical, mechanical, and HVAC systems. The company operates through three key segments:

1. **Construction Services 67%** (Electrical & Mechanical), building critical systems for data centers, hospitals, airports, etc.;
2. **Building Services 21%**, providing facilities maintenance and retrofit services (e.g. HVAC upkeep, energy efficiency upgrades)
3. **Industrial Services 9%**, offering refinery maintenance and industrial fabrication.

This diversified model gives EMCOR exposure to both new construction and recurring maintenance, smoothing out cyclicity. EMCOR has recently ridden the wave of data center construction and high-tech manufacturing buildouts, which require intensive electrical and mechanical installations.



The company heads into 2026 with strong momentum, fueled by record results and robust demand across its infrastructure segments. The company achieved ~\$16.7 billion in 2025 annual revenue (estimated) with Q2 and Q3 revenues each exceeding \$4.3 billion. Its \$11.9 billion backlog (up 32% YoY) reflects surging demand for data center and network infrastructure projects, including \$3.8 billion in networking-related obligations alone. EPS guidance for 2025 was raised to ~\$25.50, and analysts expect continued growth into 2026 with estimates around \$26.70. During its Q3 earnings, the company tightened its 2025 full year guidance and fell within the upper range of original guidance. However, the stock fell 25% after investors seemed disappointed. One key growth segment observed was a 52% increase in U.S. electrical construction YoY (up to \$1.29B). With the looming data center buildout, I see this continuing to increase along with EMCOR's ability to deliver in other segments keeping pace.

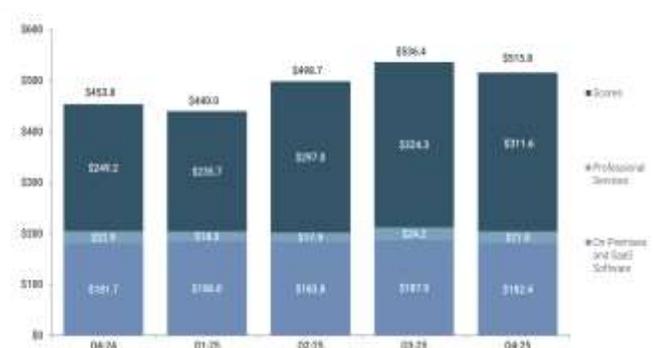
EMCOR's backlog quality is sizable, \$12B with revenues concentrated in segments like data centers, semiconductor plants, and transportation projects that are multi-year and funded. There are currently 5 analysts covering EMCOR, each rating the company as a "Strong Buy" with an average price target of \$693 (~11% above the current price). Based on execution under its CEO Tony Guzzi and backlog visibility, EMCOR has a path toward revisiting prior all-time highs over the next 12 months.

Fair Isaac Corp (NYSE: FICO)

Fair Isaac Corp (FICO) is a dominant analytics and decision software provider best known for the FICO Score which is used by 90% of the top U.S. lenders as a standard measure of consumer credit risk. The company operates in two segments: Scores (credit scoring services to businesses and consumers) and Software (analytics and decision management platforms for enterprises). FICO's scoring franchise enjoys a near-monopoly in U.S. lending with 98.8% of securitizations citing FICO Scores and approximately 65% of all credit card decisions relying on its metrics. This entrenched position gives FICO a wide moat and steady demand for its scores in credit-driven industries.

The company just concluded another record year. In its FY25, revenue rose to \$1.99 billion (+16% YoY) with accelerating momentum in Q4 driven by a 25% surge in Scores segment revenue. Scores revenue hit \$311.6M in Q4 as FICO benefited from higher pricing (29% increase in B2B score revenue) and continued growth in consumer score access (B2C revenue +8%). CEO Will Lansing described FY2025 as a "record year" and highlighted operational efficiency improvements and strong cash generation with Q4 delivering Free Cash Flow (FCF) of \$211 million.

REVENUE TYPE MIX
(in millions)



Despite this performance, FICO's stock price came under pressure in 2025 as FHFA Director Bill Pulte criticized FICO's pricing and signaled a potential shift allowing VantageScore. FICO fell 16% in just one day and had a shaky 2Q until it began to recover in September. In October, the company launched a new direct-to-lender program for mortgage scores. This allowed mortgage lenders to get scores directly from FICO, essentially bypassing credit bureau markups and allowing FICO to capture additional margin. The company's underlying business remains robust and is supported by its market positioning and recurring revenue. With a net retention rate of 112% (Meaning customers will pay 12% for the same product as the year before), FICO appears well positioned for a rebound in 2026 as growth accelerates and regulatory concerns stabilize over the coming year.

90%
Of U.S. consumer credit lending decisions use FICO Scores

98.8%
Of total dollars in U.S. Securitizations solely cited FICO Scores as credit risk measure

90
Of the top 100 largest U.S. lenders use FICO Scores



Fairfax Financial Holdings (OTC: FRFHF)

Fairfax Financial marks the first time I've selected a Top 10 pick that does not trade on the NASDAQ or NYSE. While over-the-counter (OTC) listings can carry additional liquidity and visibility risks, Fairfax is an exception. The business displays durability, scale, and a balance-sheet strong enough to second those concerns. Headquartered in Toronto, Fairfax is a diversified financial services holding company with a core focus on property and casualty insurance and reinsurance, paired with a value-oriented investment strategy.

Often referred to as the "Canadian Berkshire Hathaway," Fairfax is led by founder and CEO Prem Watsa, who built the company around two powerful engines: 1) generating consistent underwriting profits through conservative insurance operations and 2) compounding capital by investing the insurance float across equities, fixed income, and select opportunistic assets. This model has allowed Fairfax to compound book value through multiple market cycles while maintaining a strong capital position. Fairfax enters 2026 in excellent shape with underwriting discipline reflected in a targeted combined ratio in the low 90s, net debt to EBITDA of approximately 0.3X and more than \$2 billion of unused credit capacity available for deployment.

From an investment standpoint, Fairfax provides meaningful diversification away from U.S. mega-cap technology exposure. The equity portfolio is intentionally tilted toward non-tech holdings, with the notable exception of BlackBerry, and is designed to perform defensively in periods of market stress. One area of concentration worth monitoring is Fairfax's concentration risk of 42% in Orla Mining, a Canadian gold producer focused on high-grade, low-cost operations in North and Latin America. While Orla has delivered strong performance (up roughly 148% year-to-date), this level of concentration introduces incremental risk and a gradual reduction would improve portfolio balance following strong performance.



Fairfax Holdings

Prem Watsa, who is now in his 70s, has outlined a clear transition plan as he approaches retirement. The succession plan involves his son, Ben Watsa who is expected to step into the CEO role when the time comes. There is no indication that this transition will be abrupt and I believe Fairfax's deeply ingrained culture of conservatism and patience will persist. As Watsa himself has noted, "patience pays." Entering 2026, Fairfax's strategy remains clear: maintain underwriting discipline, preserve liquidity, and deploy capital aggressively when volatility creates opportunity. This strategic profile makes Fairfax particularly compelling in a year where downside protection may matter just as much as upside capture.

Quanta Services (NYSE: PWR)

Quanta Services is a leading specialty contractor focused on utility, grid, and energy infrastructure. The company has emerged as a pivotal player in the modernization of the electric grid — a trend being accelerated by renewable energy expansion, grid reliability requirements, and rapidly rising power demand from data centers and industrial reshoring. Quanta self-performs roughly 80% of its work, a key differentiator that reduces execution risk, improves safety and efficiency, and supports consistent margin performance.



Quanta has delivered strong double-digit growth year after year. In Q3 2025, the company reported another record quarter with revenue of \$7.63 billion (+17% YoY) while adjusted EPS grew even faster at 22% as margins expanded across major projects. Backlog reached an all-time high with Remaining Performance Obligations (RPO) of \$21.0 billion and total backlog of \$39.2 billion as of Q3 2025 (+16% YoY). CEO Duke Austin stated this growth is driven by “accelerating demand in our Electric segment” as utilities invest in grid hardening, long-distance transmission for renewables, and large-scale power infrastructure tied to data centers and manufacturing facilities.

Looking ahead, Quanta raised its full-year 2025 revenue guidance to over \$30 billion and is targeting double-digit growth again in 2026. A key driver is the data-center power buildout. As AI and cloud computing dramatically increase electricity demand, Quanta earns revenue by constructing the high-voltage transmission and interconnection infrastructure required to support these facilities. In October 2025, management announced an expansion into integrated solutions through its “total solutions platform,” offering end-to-end power generation and infrastructure development. A flagship example is Quanta’s involvement in a 3-gigawatt power infrastructure project with NiSource, a scale equivalent to powering roughly 2.5 million U.S. homes, 6–10 hyperscale data centers, or three nuclear plants.

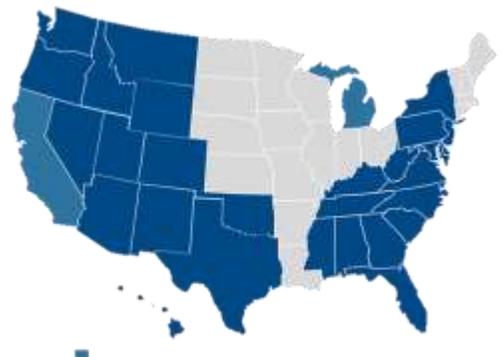
Government policy remains supportive. The Infrastructure Investment and Jobs Act and Inflation Reduction Act funnel billions into grid upgrades, renewable interconnections, and EV infrastructure, providing long-duration visibility into industry demand through 2026 and beyond. Quanta’s \$39 billion backlog provides a clear, modelable revenue base and reinforces confidence in forward growth.

Quanta’s Electric Power segment now generates approximately 60% of total revenue and carries attractive margins. Leadership remains stable under CEO Duke Austin and the company’s culture of safety, execution discipline, and reliability has enabled it to win repeat business from utilities executing mission-critical projects. Margin expansion supports the story with adjusted EBITDA margin reaching 11.2% year-to-date in 2025, up from about 10% the prior year. With steady free cash flow, Quanta appears well positioned to compound earnings profitably as grid investment and power demand continue to scale into 2026.

Sterling Infrastructure (NASDAQ: STRL)

Sterling is a specialty construction company that has undergone a significant transformation in recent years from a regional road builder to a diversified infrastructure solutions provider. Sterling now operates through three segments 1) E-Infrastructure Solutions 2) Transportation Solutions 3) Building Solutions.

Its key segment is E-Infrastructure which focuses on site development for high-growth projects like data centers, e-commerce fulfillment centers, advanced manufacturing facilities, and renewable energy plants. Sterling handles the heavy civil work like earthwork, concrete foundations, electrical, and mechanical to prepare sites for mission-critical projects.



Improve Margins and Returns

Consolidated Adjusted EBITDA Margin⁽²⁾

2016	2025E
7.6%	10.1%

Strategic initiatives designed to improve margins and returns across the portfolio

Opportunity for continued improvement in margins in both segments going forward

Focus on North American and Australian growth opportunities

E-Infrastructure Segment



Sterling delivered record financial results throughout 2025 and surpassed its own forecasts. In Q2 2025, revenue grew to \$522M (+21% YoY) with net income +28%. The momentum continued in Q3. By mid-2025, Sterling's trailing twelve-month (TTM) revenue was about \$2.1 billion. The E-Infrastructure has been the growth engine with Q3 2025 revenue climbing +58% YoY and mid-2025 backlog of \$1.0 billion. Overall, Sterling's total backlog reached \$2.58 billion as of Q3 2025, another record high. This backlog includes long-term programs as Sterling seeks to build physical infrastructure for the ongoing "\$50B global data center construction boom."

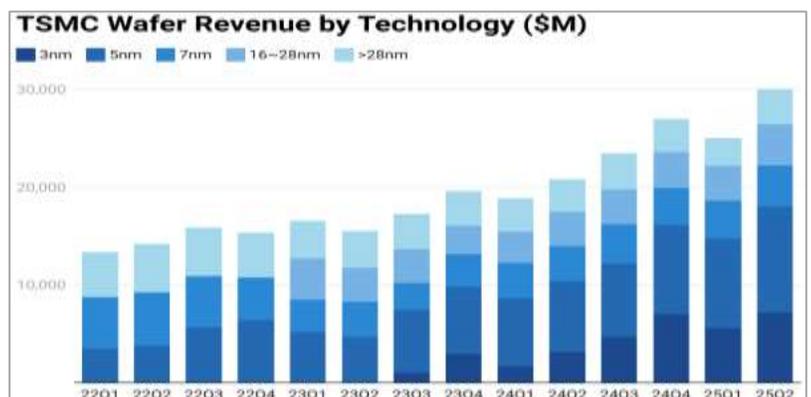
The company has raised its full-year 2025 guidance 3 times. By Q3, it projected 2025 revenue of \$2.00–\$2.15B (roughly +10% YoY) and adjusted net income +18% YoY. The company has been deploying capital to shareholders through buybacks. In November 2025, it authorized a \$400 million share repurchase program (10% of its market cap). This signals management's belief that the stock is undervalued relative to its prospects. They have already started buying back shares, which should boost EPS further in 2026.



With record backlog and strong bidding activity, Sterling is positioned for continued growth into 2026. Management is targeting mid-teens earnings growth, with revenue expected to surpass \$2.3 billion. While the stock trades at a premium valuation of roughly 33x forward earnings, that multiple is justified by Sterling's execution track record and a five-year EPS CAGR of approximately 30%. However, macro sensitivity remains a key risk and any slowdown in infrastructure or private-sector spending could pressure results. Entering 2026, the opportunity is clear: Sterling must continue to execute as the U.S. accelerates its buildout of data centers, AI-driven infrastructure, and large-scale construction projects.

Taiwan Semiconductor Manufacturing (NASDAQ: TSM)

Taiwan Semiconductor Manufacturing Co. (TSMC) is the world's largest contract chip manufacturer. TSMC makes chips for customers like Apple, NVIDIA, AMD, and handles production at cutting-edge nodes (5nm, 3nm, and developing 2nm). Its factories produce the most advanced processors powering smartphones, data centers, and AI accelerators worldwide. With approximately 70% share of the pure-play foundry market, TSMC occupies a near-irreplaceable position in the technology ecosystem.



After a soft 2023, TSMC saw a strong rebound in 2024 and 2025 driven by the surge in AI chip demand. Through the first eleven months of 2025, revenue increased roughly 33% year over year, putting the company on track for record revenue and profitability. Analysts project a 48% spike in earnings to around \$10.42 EPS for FY25 while revenue is expected to exceed \$90 billion (TSMC had ~\$75B revenue in 2022, dipped slightly in 2023, and is now back above prior highs). Gross margins have remained resilient in the mid-50% range, reflecting strong pricing power and leading-edge utilization. Notably, TSMC controls more than 60% of global

3nm production, capacity that has been readily absorbed by Apple and AI chip designers.

Geopolitical risk remains a key consideration as roughly 90% of TSMC's production capacity is still located in Taiwan. While semiconductors are currently exempt from the latest round of U.S. tariffs, trade policy uncertainty persists. In response to customer, government, and national-security pressures, TSMC has begun its most ambitious geographic expansion plans in its history. The company is investing tens of billions of dollars in new fabrication facilities (fabs) in the United States (Arizona), Japan (Kumamoto), and Germany. These plants (Arizona 4nm/3nm, Japan 12/16nm specialty, Germany 28/22nm auto chips) will come online from 2024 through 2026-27. Although these facilities will initially operate at higher cost than Taiwan-based fabs, they represent a strategic move to diversify manufacturing risk and secure long-term customer relationships while being supported by government subsidies.

TSMC stands at the center of multiple secular 2026 growth trends: AI computing, high-performance computing, advanced mobile devices, and automotive semiconductors. While capital intensity and geopolitics introduce risk, TSMC's unmatched scale, technological leadership, and deep customer integration position it to sustain strong growth. In an environment where few companies are truly indispensable, TSMC remains one of the clearest beneficiaries of continued global demand for advanced silicon.



Share in the foundry market



Of TSMC's sales come from 5nm nodes & below



TKO Group Holdings (NYSE: TKO)

TKO Group Holdings is a global sports entertainment powerhouse formed in September 2023 through the merger of Ultimate Fighting Championship (UFC) and World Wrestling Entertainment (WWE). The combination brought two year-round live content engines spanning mixed martial arts, professional wrestling, media rights, and merchandising. The strategic rationale was clear: scale drives negotiating leverage with media partners, while shared infrastructure unlocks meaningful cost synergies across production, marketing, and distribution.

In February of 2025, TKO acquired portions of IMG brand & Professional Bull Riders (PBR), further adding to its growing live entertainment. Q3 2025 earnings highlighted revenue of \$1.1B with net income of \$107M. The company also raised full year 2025 guidance to a range of \$4.69B to \$4.72B. The growth in revenues is largely driven by its recent acquisitions with IMG now accounting for 30%. Looking ahead, TKO has secured a

number of mega-deals that set the company up for success. In August of 2025, TKO announced a 7-year Paramount – UFC deal averaging \$1.1B of revenues. UFC events beginning 2026 will move to Paramount+ streaming while select large events will simulcast on CBS. This is a strategic move for TKO as it replaces the previous ESPN \$300M/year plus PPV revenue with a licensing deal. This change will introduce new viewership from those who did not want to purchase PPV but have access to Paramount+.

\$100M net cost synergies of UFC/WWE merger

TKO struck another major agreement with ESPN in August of 2025, naming ESPN the exclusive U.S. home for all WWE Premium Live Events starting in 2026. This includes flagship events such as WrestleMania, Royal Rumble, and SummerSlam. The deal delivers approximately \$1.5 billion over five years, a 50% increase versus WWE's prior Peacock agreement.

With these deals, TKO Group has rapidly become one of the world's most valuable sports entertainment entities, leveraging the synergy of UFC's real fights and WWE's scripted spectacle. 2026 will be the first full year reflecting that vision and if execution holds (delivering the promised content volume/quality to partners), TKO should see significant revenue and profit growth. Investors consider the company a unique play on live sports entertainment content in a media landscape that highly prizes such content. The next chapter will be about capitalizing on this scale and possibly looking for further acquisitions (TKO executives hinted they could acquire other sports properties or even boxing leagues to add to the stable). TKO's strategy is clearly to mold the future of combat sports entertainment and I believe 2026 will be a knockout year for the company.



AutoZone Inc. (NYSE: AZO)

AutoZone is the largest specialty retailer of automotive replacement parts in the United States and a core beneficiary of an aging vehicle fleet. The company serves both do-it-yourself (DIY) consumers and professional repair shops and operates more than 7,600 stores across the U.S., Mexico, and Brazil. Its store footprint, proprietary brands such as Duralast, and rapid parts availability make AutoZone a critical player in the automotive aftermarket. As vehicle ownership costs rise, maintenance and repair spending has become increasingly non-discretionary.

Recent financial performance has been mixed but shows signs of improvement. In fiscal 2025, AutoZone generated \$18.9 billion in revenue (+2.4% year over year) with same-store sales accelerating into the mid-single-digit range late in the year. Profitability was pressured by higher operating costs, inventory investments, and non-cash LIFO charges, leading to a decline in EPS versus the prior year. Despite these headwinds, AutoZone continued to generate strong free cash flow and returned over \$1 billion annually to shareholders through aggressive share repurchases, supporting per-share value creation.

Leadership continuity adds confidence heading into 2026. In early 2024, longtime CEO Bill Rhodes was succeeded by Phil Daniele who is a 30-year AutoZone veteran. Under Daniele, the company has accelerated store expansion, invested in supply-chain execution, and sharpened its focus on commercial customers. This emphasis on the higher-frequency commercial segment should support revenue growth and improved leverage over time. While competition from O'Reilly remains intense, AutoZone continues to gain share from weaker peers and leverage its scale advantage, particularly as smaller competitors struggle to match inventory depth and delivery speed.

From a valuation and risk-reward perspective, AutoZone enters 2026 at a premium relative to traditional retailers, reflecting its defensive characteristics and consistent execution. The stock trades at a mid-20s forward earnings multiple, justified by steady cash generation, resilient demand, and a long track record of compounding per-share value through buybacks. Key risks include prolonged margin pressure or a significant economic slowdown that could defer discretionary maintenance. However, with a largely non-discretionary revenue base and continued market-share gains, I believe that AutoZone is well positioned to navigate volatility and deliver steady returns in the year ahead.

“ Used Car Sales Grew by nearly 9% between 2019 to 2025 ”

AutoZone's longer-term growth is supported by durable tailwinds. The average age of vehicles on U.S. roads has reached nearly 13 years, an all-time high, driving sustained demand for replacement parts. Elevated interest rates and high new-vehicle prices continue to discourage car replacement, reinforcing repair and maintenance activity. At the same time, AutoZone is expanding its higher-volume commercial business, supplying repair shops at a faster growth rate than its DIY segment, which improves scale and revenue diversification.

The 2026 investment landscape is shaping up to be less forgiving than the past three years. Elevated valuations, geopolitical uncertainty, and shifting growth dynamics mean returns are unlikely to be driven by broad market beta alone. This environment favors disciplined equity selection, diversified exposure, and businesses with real earnings power rather than narrative-driven momentum. The goal for 2026 is not to avoid growth, but to be more selective about where that growth comes from.

The ten companies highlighted in this report share several defining characteristics. Each occupies a strategically important position within its industry, benefits from sustainable tailwinds, and demonstrates the ability to generate cash flow across market cycles. From defense and grid infrastructure to data centers, semiconductors, insurance, live entertainment, and essential consumer spending, these businesses are exposed to long-term demand drivers that extend well beyond a single economic cycle. Importantly, many of these companies operate outside the crowded mega-cap tech trade, offering differentiated sources of growth.

Portfolio construction is central to this framework. Rather than concentrating risk in one sector, the portfolio balances offensive growth (AI infrastructure, defense technology, semiconductors) with defensive resilience (insurance, aftermarket retail, regulated infrastructure). Ultimately, these “hidden engines” are not designed to chase the fastest returns, but to compound capital through execution, durability, and strategic relevance. If volatility returns in 2026 as expected, this portfolio is built not only to capture upside, but to protect capital and emerge stronger on the other side.

Company	Ticker	Market Cap (\$ Billions)	TTM Revenue (\$ Billions)	TTM Operating Margin	PE	Forward PE
AEROVIRONMENT, INC.	AVAV	12.7	1.4	-	-	70.2
ARISTA NETWORKS, INC.	ANET	166.0	8.5	47%	50.2	39.4
AUTOZONE, INC.	AZO	57.1	19.3	18%	24.1	22.5
EMCOR GROUP, INC.	EME	28.1	16.2	9%	25.2	21.3
FAIR ISAAC CORPORATION	FICO	41.6	2.0	47%	66.0	40.8
FAIRFAX FINANCIAL HOLDINGS LIMITED	FRFHF	41.9	38.4	21%	9.4	9.2
QUANTA SERVICES, INC.	PWR	64.5	27.2	6%	64.2	34.4
Sterling Infrastructure, Inc.	STRL	9.7	2.2	16%	31.0	26.1
Taiwan Semiconductor Manufacturing Co., Ltd.	TSM	1,246.0	99.3	49%	30.1	24.6
TKO GROUP HOLDINGS, INC.	TKO	42.4	4.3	34%	90.7	39.2

Thank you and happy trading!

Jake Ramsey
Co-Founder

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Blue Diamond
Investing LLC