Vivaldi Insights

Third Quarter 2025

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Quarter in Review

In the third quarter of 2025, markets continued to prove resilient despite lingering trade tensions and macro uncertainty. After a volatile spring, equities extended their rally, driven by strong corporate earnings, optimism over AI, a softening inflation trend, and growing expectations that the Federal Reserve may begin cutting rates. The S&P 500 notched a fresh string of record highs. Risk-on sentiment drove strong returns across most asset classes. U.S. small-cap and emerging markets led performance, followed closely by U.S. growth stocks. Broader U.S. equities and international markets posted solid, though more moderate, gains.

The Nasdaq gained 11.24%, the S&P 500 rose 7.79%, and the Dow added 5.22% for the quarter. From January 1 through September 30, 2025, the S&P 500 returned 13.72%, while the Nasdaq gained 17.34%, and the Dow added 9.06%, respectively. The Magnificent Seven stocks gained 17.6% year-to-date through September 30, adding $3.1 trillion in market value, with Nvidia leading the surge. While top performers like Nvidia, Google, Meta, and Microsoft drove much of the growth, others like Apple and Amazon lagged behind.

While the third quarter showed greater stability, the macro environment remains difficult to predict. Before the Administration's August 1 deadline, the U.S. secured several trade deals, including agreements with the EU and Japan, while talks with China showed promising progress. However, tensions with Canada persisted, and a federal appeals court ruling cast doubt on the legality of recent tariffs. Despite ongoing tariff news, equity markets became less reactive as investors shifted their focus to reduced policy uncertainty and the strong momentum in AI and technology sectors.

Economic data throughout the quarter painted a mixed picture. The U.S. job market weakened significantly in July and August. The unemployment rate remained steady at 4.2%, but labor force participation declined. Payroll growth over the past three months showed the slowest pace since 2020.

In September, the Fed lowered its target range for the federal funds rate by 25 basis points to 4.00–4.25%. The decision reflected concerns about rising downside risks to employment, persistent (but moderating) inflation, and a softening labor market. The Fed signaled a data-dependent approach going forward, with markets now pricing in additional cuts by year-end.

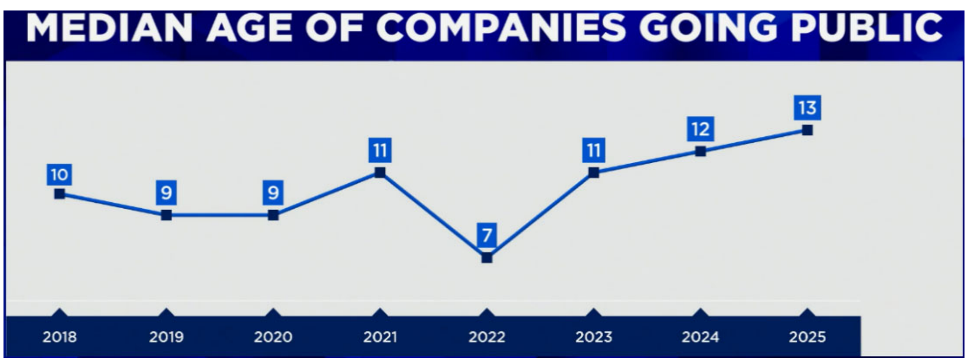
The bond market is shifting as the Federal Reserve cuts interest rates, leading strategists to expect short-term Treasury yields to drop while long-term yields remain high, causing the yield curve to steepen. The difference between 10-year and 2-year Treasury yields has grown from 37 basis points six months ago to 50 basis points recently, reversing the flat or inverted curves seen earlier this year and after the pandemic. This steeper curve offers bond investors a chance to earn higher returns on longer-term bonds, but it also brings new risks: short-term bonds face reinvestment risk if yields fall, while longer-term bonds may experience more price volatility due to uncertain economic conditions, inflation, and policy changes.

Our asset allocation discipline remains unchanged. The principles of diversification across traditional and alternative asset classes apply in all market conditions. Adhering to this all-weather approach is paramount, despite the urges to chase rising markets or sell into fear. Diversifying alternative assets such as private credit, real estate and hedged strategies continue to perform well.
Through the third quarter, hedge funds as an asset class have delivered strong returns of 12.45%[1]. Private credit has also performed well over the same period, posting a gain of 6.67%[2] and demonstrating both solid performance and low volatility.

The Shift Toward Longer Private Company Life Cycles

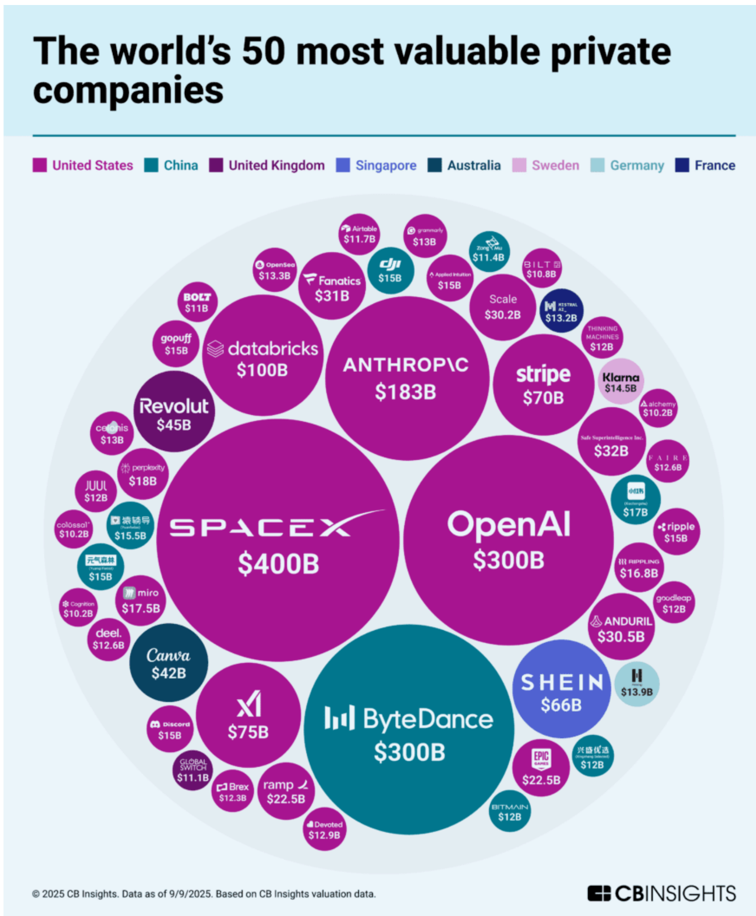
A key difference between public and private equity is liquidity. Relative illiquidity of private equity funds is a trade-off for potentially higher returns, known as the illiquidity premium. While public equity can be sold quickly, private equity investments require time for value creation through operational improvements, strategic acquisitions, and governance changes.

Unlike past years, many startups are delaying going public and staying private longer due to growing access to alternative sources of capital. The median age at IPO has risen from about 10 years in 2018 to 13 years now. These companies are able to sustainably grow while relying more on private equity, venture capital, and secondary markets for funding and liquidity. This shift has reduced the number of IPOs, and analysts forecast the new normal involves startups waiting longer to go public and prioritizing sustainable growth over quick exits.[3]



The IPO market has begun to rebound in 2025, with 271 offerings thus far, an increase from 225 in 2024, 154 in 2023, and 181 in 2022. Although this is still well below the 2021 peak of 1,035 IPOs, the upward trend suggests improving investor confidence and market conditions. However, IPO activity remains relatively subdued by historical standards, highlighting the continued dominance of private equity as a key source of growth capital.

At Vivaldi, we aim to diversify investment risk & return profiles by offering a range of investment options with various access points. Our portfolio includes a diverse mix of venture capital and private equity managers, spanning various sectors and strategies. These range from early-stage Series A investments, businesses ready for an IPO, and large-scale buyouts of multi-billion-dollar global conglomerates. By diversifying access points, our approach manages risk and remains flexible amid changing market conditions and shifting IPO timelines. This approach has allowed us to invest in several of the world's most valuable private companies (including in many of the larger "dots" in the chart below) along with a wide range of smaller, earlier-stage opportunities that we believe offer meaningful long-term potential.



Furthermore, we evaluate realization options by offering investment products that provide multiple exit strategies beyond going public. Traditional exits such as IPOs, strategic acquisitions and management buyouts remain very relevant among our offerings. Recently, however, there has been significant growth in the use of secondary and tender markets. These allow managers to sell company ownership either to other private equity firms through secondary transactions or back to the company through a tender offer. In 2024, secondary transactions accounted for roughly 20% of global private equity exit activity, nearly double the 10-year average, underscoring their rising importance as a key source of liquidity.

Gifting and Charitable Planning in Focus

As we approach year-end, it's an opportune time to revisit gifting and charitable strategies - both to maximize current tax benefits and to prepare for upcoming legislative changes. Whether you're looking to support loved ones, contribute to causes you care about, or optimize your estate plan, recent updates to exclusion limits and charitable deduction rules may affect the size and timing of your intended gifts. In this section, we highlight key strategies to consider now, as well as important changes taking effect in 2026 that may impact your long-term planning.

Key strategies include:

- Annual Exclusion Gifts: Set at $19,000 per donor, per recipient in 2025, annual exclusion gifts remain a simple and effective way to transfer wealth particularly when paired with longer-term strategies that utilize the lifetime exemption.
- Qualified Charitable Distributions (QCDs): IRA owners age 73 and older who are taking Required Minimum Distributions (RMDs) can donate up to $100,000 per year directly to qualified charities tax-free - making QCDs a highly tax-efficient charitable strategy.
- Donor-Advised Funds (DAFs): DAFs provide clients with the ability to front-load charitable contributions while maintaining flexibility over the timing and direction of future grants.
- Grantor Retained Annuity Trusts (GRATs): For clients holding appreciating assets, GRATs continue to be a powerful tool for transferring future growth to heirs with reduced gift tax exposure.

Changes to charitable gifting strategies starting in 2026:

- Limit on cash gifts: Starting in 2026, annual cash gifts will be limited to no more than 60% of the taxpayer's adjusted gross income (AGI).
- New 0.5% AGI floor for charitable contributions: Starting in 2026, taxpayers who itemize can only deduct charitable contributions that exceed 0.5% of their AGI. For example, a taxpayer with a $400,000 AGI must contribute more than $2,000 before their charitable gifts become deductible.
- Cap on tax savings for top earners: For taxpayers in the 37% income bracket, the tax benefit from their itemized deductions beginning in 2026 is effectively capped at 35%. A $10,000 gift, for instance, will yield a $3,500 tax savings instead of $3,700.
- Universal deduction for non-itemizers: For the 2026 tax year and beyond, non-itemizers can once again claim a deduction for cash gifts to public operating charities. The deduction is $1,000 for single filers and $2,000 for married couples filing jointly. This deduction only applies to cash gifts, and does not apply to DAF contributions.

Ask your advisor if it may be beneficial to accelerate charitable giving before 2026 to take advantage of more favorable deduction rules. As always, we encourage coordinated planning with your advisor to ensure you are well-positioned to take advantage of current opportunities—and to adapt as the legislative landscape continues to evolve.

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Thank You

We thank you for your trust and confidence in Vivaldi Capital Management. We continue to work each day to maintain that confidence.

Please contact us with any questions, comments, or concerns - clientservice@vivaldicap.com

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1. Source: As of September 30, 2025, latest data available. Hedge Fund is defined by the Preqin Hedge Fund benchmark.
2. Source: As of September 30, 2025, latest data available. Private Credit is defined by the Cliffwater Direct Lending Index
3. Source: As of September 30, 2025. IPO statistics and the IPO visual is sourced via CNBC.
4. Source: As of September 9, 2025. Data on the 50 largest private companies is sourced from CB Insights' valuation data and visuals.