Vivaldi Insights

Fourth Quarter 2025

Year in Review

2025 proved to be another resilient year for the markets. The first half of the year was marked by volatility, concern, and uncertainty, while the second half delivered a sharp contrast. Following the April "Liberation Day" drawdown, which was triggered by the new administration's tariff announcements and resulting market turbulence, conditions led many investment professionals to anticipate an imminent recession. However, the outlook improved significantly in the second half of the year as a strong rebound, fueled by an AI and technology boom, easing tariff pressures, and continued investor resilience, ultimately drove another year of solid market performance and economic growth.

Despite the strong market rally in the second half of the year, periods of uncertainty challenged short-term investment decisions. A temporary government shutdown raised investor concerns and contributed to short-term market volatility. At the same time, signals from the Federal Reserve suggested progress on inflation, with policymakers indicating greater confidence that price pressures were moderating. The Federal Reserve cut rates three times in late 2025, in September, October, and December, bringing the federal funds rate down to 3.50% – 3.75%, with the final cut occurring in December 2025. These developments helped reinforce optimism about the economic outlook and supported continued momentum in equity markets.

The Nasdaq gained 20.17%, the S&P 500 increased by 17.88%, and the Dow Jones Industrial Average rose 12.97% for the year, supported by solid fourth-quarter performances of 2.57%, 2.35%, and 3.59%, respectively. These results marked the third consecutive year in which all three major indexes posted positive returns and exceeded 10%, a milestone not seen since the late 1990s[1]. Beyond the broader market, large-cap stocks, particularly in the technology and value sectors, were the primary drivers of equity performance.

In 2025, the S&P 500 added approximately $8.9 trillion in market capitalization, reflecting a 17.9% increase. Notably, four major AI-linked companies, Nvidia, Alphabet, Microsoft, and Broadcom, accounted for nearly half of the index's total gains. Nvidia contributed 15.5% ($1.38 trillion), followed by Alphabet at 13.5% ($1.20 trillion), Microsoft at 7.4% ($0.66 trillion), and Broadcom at 7.2% ($0.64 trillion), collectively representing 43.6% of the S&P 500's 2025 rise.

Outside the United States, international equities posted their strongest performance in 15 years. The MSCI World ex USA Index returned 28.59% in 2025, driven largely by more attractive valuations relative to U.S. equities and a weakening U.S. dollar, both of which provided meaningful tailwinds for overseas markets.

The U.S. fixed income market also had a positive year in 2025, with the Bloomberg U.S. Aggregate Bond Index returning around 7%. Bond returns were supported by Federal Reserve rate cuts, which provided price appreciation over and above coupon income, making bonds a stabilizing element amid equity market volatility. Credit spreads showed notable trends: Investment Grade corporate spreads tightened significantly to multi-year lows, reflecting strong economic confidence and solid corporate earnings, while High Yield spreads also narrowed, though lower-rated CCC bonds lagged as investors favored higher-quality debt. Overall, bonds delivered steady returns and diversification benefits. However, looking forward, current tight credit spreads provide investors limited compensation for taking on additional credit risk.

Each year global markets present surprises and investment challenges. 2025 was no exception. Our job is to anticipate unknowns with a thoughtful plan, discipline, and an asset allocation consistent with our clients' individual objectives. With this foundation we can react to changing market dynamics with appropriate risk management and act opportunistically. Our approach seeks to minimize emotional decision-making and market timing. We maintain diversification across both traditional and alternative asset classes, helping to construct portfolios designed to perform across a wide range of market environments. Our investment selection in traditional stocks and bonds, along with alternative assets in various categories, generated positive returns in each of these asset classes in 2025. We are confident our individualized approach to investment strategy and asset allocation puts our clients in a favorable position for whatever surprises 2026 will bring.

The Benefits of Real Assets

A real asset is a physical, tangible item, unlike financial assets such as stocks or bonds which represent claims on future cash flows. Real assets include land, buildings, infrastructure, natural resources, and commodities, and they offer practical use, protection against inflation, and diversification benefits for investors.

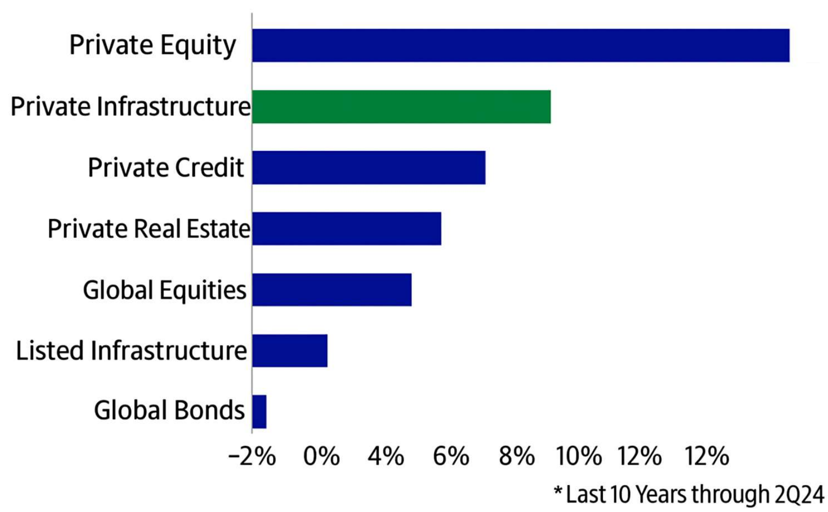
The scope of real assets has evolved and accessibility to this investment category has improved over time. Whereas investing in real assets once meant directly owning physical property, a barrel of oil, or a gold bar, today the asset class has progressed into a technologically advanced and widely accessible universe that includes commodity ETFs, real estate operating companies and investment trusts, options contracts tied to natural resources, and much more.

Real assets offer attractive attributes as stand-alone investments and importantly as diversifying assets in a portfolio context. Real assets can offer inflation protection to preserve long-term purchasing power and often generate stable, inflation-linked cash flows. Essential goods and services with steady demand add resilience during economic downturns. In a diversified portfolio, their low correlation to public markets further enhances portfolio stability, making real assets a reliable tool for long-term wealth preservation.

More accessible real asset investments have also become increasingly modern through their underlying holdings and allocations. Infrastructure is a clear example. More than 20 years ago, the infrastructure asset class largely consisted of traditional investments such as roads, bridges, and shipping ports. Today's infrastructure strategies include modern infrastructure assets like data centers, nuclear and solar energy facilities, fiber-optic networks, and many others.

Infrastructure investing has become a more frequent topic in client conversations, particularly as the asset class has evolved and modernized. We have found that private infrastructure is not widely held among our clients. Many inquire about investing in structural investment themes such as energy, transportation, and data centers, and we view private infrastructure as a long-term way to achieve this exposure. Infrastructure is an all-weather asset class that offers stability in high volatility periods, low correlation to equity and fixed income markets and inflation protection - all attributes that offer important diversification and are complementary within an asset allocation.

Relative Strength Across Asset Classes Over the Economic Cycle (2)



At Vivaldi, we take pride in selecting best-in-class real asset investments and managers. We provide access to a wide range of asset classes, including non-traded REITs, ground-up development projects, student housing, value-add real estate, triple-net lease funds, modern and traditional infrastructure, and commodities. Risk objectives, cash flow, and liquidity are all considerations when selecting from this diverse set of real assets. Our focus is on delivering top-tier, thoughtfully curated solutions and integrating them into our client's custom portfolio design.

Early 2026 Financial Deadlines: Planning Ahead to Stay on Track

As we move into the first quarter of 2026, several important financial deadlines come into focus. These early-year milestones can have meaningful tax and cash-flow implications, particularly for individuals with estimated tax obligations, retirement accounts, or irrevocable trusts. Proactive planning now can help avoid penalties and create opportunities for thoughtful coordination across your broader financial plan.

Key Early 2026 Deadlines Include:

Fourth Quarter Estimated Tax Payments
The final estimated tax payment for the 2025 tax year is due January 15, 2026. This applies to individuals, trusts, and estates that are required to make quarterly payments.

Income Distributions from Irrevocable Trusts
Many irrevocable trusts require income distributions to beneficiaries on a calendar-year basis. While the taxable income is determined for 2025, distributions may still need to be completed by March 5, 2026. Your financial advisor and accountant should work in tandem to determine the appropriate distribution amount.

IRA Contribution Deadlines
Contributions to Traditional and Roth IRAs for the 2025 tax year can be made up until the tax filing deadline, April 15, 2026. This window allows individuals to finalize contributions after year-end once income levels and tax outcomes are clearer. It is important to note that for those who extend their tax filing, only SEP IRAs are allowed to extend the contribution deadline.

First Required Minimum Distribution (RMD) Deadlines
Individuals who turned age 73 in 2025 must take their first required minimum distribution (RMD) for tax year 2025. While this first RMD may be taken as late as April 1, 2026, opting to take it in 2026 rather than in 2025 will result in two RMDs being required in 2026 - the tax year 2025 RMD, and the 2026 RMD by December 31, 2026.

Early-year deadlines often arrive quickly, but thoughtful preparation can turn compliance requirements into planning opportunities. We encourage proactive coordination with your advisor and tax professional to ensure each of these items is addressed in a way that aligns with your broader financial objectives.

Staying ahead of these early 2026 milestones can help set the tone for a well-structured and efficient year ahead.

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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Sources

1. *https://www.slickcharts.com/dowjones/returns*
    a. *Index performance*
2. *Note: Analysis using quarterly returns from 2Q14-2Q24. Private Equity, Private Infrastructure, Private Credit, and Private Real Estate refer to the respective Cambridge Associates Benchmark Index and are quoted in net return. Global Equities refers to the MSCI World Index. Listed Infrastructure refers to the S&P Global Infrastructure Index. Global Bonds refers to the Bloomberg Global Agg Index. Global Equities, Listed Infrastructure, and Global Bonds are gross returns. Source: Bloomberg, MSCI, Cambridge Associates, KKR GBR analysis.*