Vivaldi Insights

First Quarter 2026

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Q1 2026

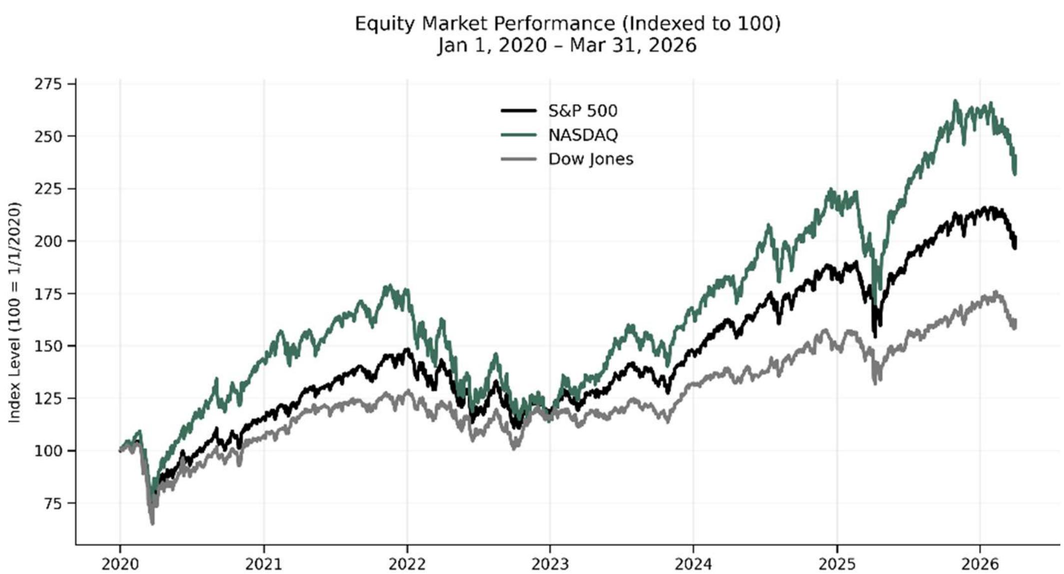
Quarter in Review

The first quarter of 2026 marked a notable reversal from several of the trends observed in the second half of 2025. The year began with expectations of interest rate cuts, cooling inflation, stable economic growth, and continued momentum in technology sectors driven by artificial intelligence. Over the quarter, these expectations shifted as markets faced delayed rate cuts and the potential for future rate increases, rising inflationary pressures, growth concerns, and increased volatility related to geopolitical developments.

During the quarter, oil prices recorded one of their largest increases in recent decades, while European natural gas prices rose significantly and global interest rate expectations shifted upward. Disruptions affecting the Strait of Hormuz, a critical transit route for approximately 20 to 25 percent of global oil supply, have added further pressure to energy markets, contributing to increased supply chain costs, with potential implications for inflation.

Prior to the events in Iran on February 28, 2026, broader equity market indexes were relatively flat, with the Dow Jones Industrial Average and the S&P 500 posting small gains and the NASDAQ Composite Index reporting a modest decline for the year. Following the developments on February 28, major indexes faced heightened volatility and sustained downward pressure throughout March. As a result, the Dow posted its worst monthly performance since September 2022, while both the NASDAQ and the S&P 500 recorded their steepest declines since March 2025. For the quarter, the NASDAQ finished down 7.11%, the S&P 500 down 4.63%, and the Dow down 3.58%.

Despite a weaker start to 2026, these indexes have experienced three consecutive years of double-digit returns and continue to trade within a reasonable range of their all-time highs. Early-year declines have not materially impacted longer-term performance trends. Several sectors still delivered positive results during the quarter, including energy-focused equities, which rose approximately 37%[1], as well as materials, utilities, consumer staples, and industrials.



The bond market delivered modest performance in the first quarter of 2026. Fixed income segments with more conservative characteristics, such as higher-quality investment-grade bonds and shorter-duration maturities, outperformed less conservative areas, including longer-duration and high-yield bonds. This performance reflects a flight to safety, in which investors prioritize lower-risk fixed income assets, a pattern that is common during periods of sudden or unexpected market volatility.

Within this risk-averse environment, the U.S. Treasury yield curve remained upward sloping throughout the quarter, despite increased volatility across rate and credit markets. This represents a notable shift from early 2025, when the curve was flatter or inverted, signaling evolving expectations around economic growth and the future path of Federal Reserve policy.

Credit spreads have widened slightly since the beginning of the year, with the high-yield option-adjusted spread (OAS) rising to 3.28% from 2.81% at the start of the year. This level is the highest seen in the U.S. since the spring of 2025, when spreads widened due to tariff announcements and Liberation Day. Despite this increase, the current spread level remains only slightly above the 10-year low of 2.59% observed in January 2025 and is still well below both the 10-year maximum of 10.87% in March 2020 and the 10-year average of 4.00%.

During the March Federal Open Market Committee (FOMC) meeting, the Federal Reserve left interest rates unchanged at 3.50–3.75%. The Fed noted that the U.S. economy is still growing at a solid pace and the labor market remains stable, but inflation is running above target and progress has been slower than hoped.

The first quarter of 2026 surprised investors as unexpected global events had ripple effects across many asset classes. This quarter highlights why portfolio diversification across a range of asset classes is critical, even when short-term performance varies. Events such as those in the spring of 2025 and throughout the first quarter of 2026 support our approach for an appropriate balance among stocks, bonds, and alternative assets. We are confident that our individualized approach to investment strategy and asset allocation positions our clients to successfully achieve their financial goals.

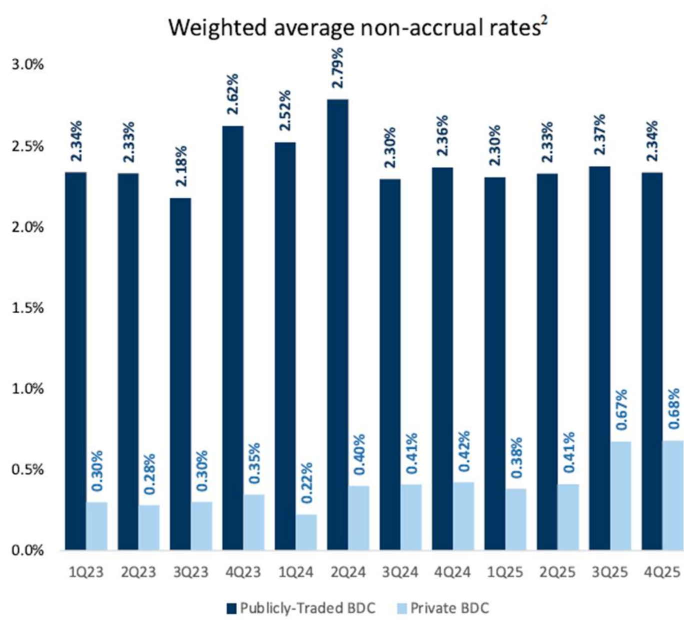
Private Credit Insights

Private credit has received increased attention, raising questions about credit quality, sector concentration and liquidity. The asset class has raised significant capital over the past several years across a range of investment vehicles. The vast majority of private credit assets are invested through long-term private investment structures that insulate the manager from forced selling in times of stress. However, the rise in private credit products that offer quarterly liquidity has raised concerns stemming from the challenges of incorporating an institutional asset class into a retail structure.

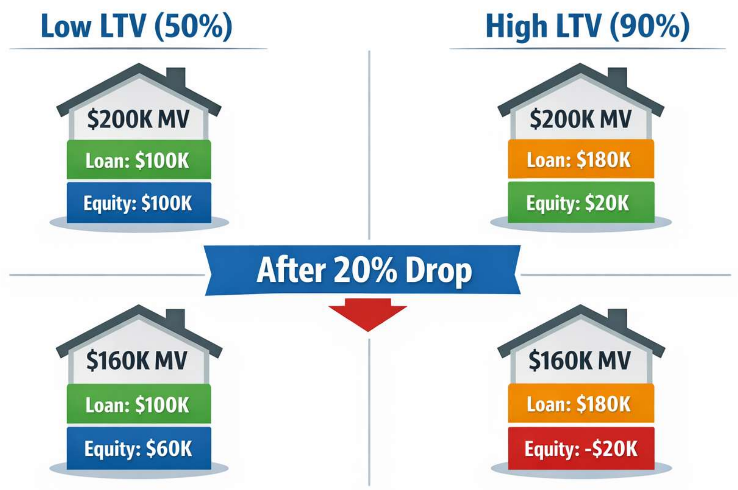
Recent private credit commentary has increasingly focused on fund-level gates from quarterly liquid funds. While these mechanisms may result in investors receiving only partial liquidity upon redemption requests, they are designed to protect both the fund and its investors. Absent such provisions, managers could be forced to sell assets at distressed prices, negatively impacting both redeeming investors and those who remain invested in the fund.

We focus on what we believe are the two primary drivers of fund performance: default rates and recovery rates. Default rates refer to the percentage of loans within a portfolio that fail, while recovery rates measure the amount of principal recouped from collateral in the event of a default. Together, these metrics account for the majority of fundamental performance in a private credit strategy. We believe that maintaining a disciplined focus on how these metrics are evolving and identifying the factors that could place them under pressure is the most effective way to optimize the risk and return profile of a private credit investment.

The data below, which highlights non-accrual -- a metric similar to delinquency/default rates across private and public business development companies -- shows that historical non-accrual rates have generally been lower in private markets than in public markets.



From a portfolio construction standpoint, we focus on senior secured loans, low loan-to-value ratios, and conservative fund structures. Senior secured debt positions us first in line for repayment in the event of default, while lower loan-to-value ratios provide a meaningful cushion if asset values decline.



We also favor managers with the expertise to take control of collateral and maximize recoveries if defaults occur, helping protect principal even in adverse scenarios. Finally, because leverage can magnify losses during market downturns, we emphasize funds with little to no leverage, aligning our private credit exposure with our broader focus on capital preservation.

Despite the recent headlines and concerns surrounding private credit, we remain confident in both the asset class and the managers we select. We emphasize disciplined sizing and meaningful diversification across managers and sub-strategies. In addition, we view private credit primarily as a low-volatility investment with a strong income component, rather than as a source of liquidity. We will continue to approach it this way to help maintain a balance between return and liquidity within portfolios.

Retirement Income & Liquidity Planning: A Structured Approach

Structuring Retirement Income & Liquidity
One of the most common financial planning challenges is structuring retirement income and withdrawals. While portfolio size relative to withdrawal amount matters, equally important are the decisions around how and when assets are used. Withdrawal sequencing and liquidity planning deserve careful, coordinated attention - particularly as the investment offering landscape continues to expand beyond traditional public stocks and bonds.

Withdrawal Hierarchy

A common starting point in retirement planning is to draw assets in the following sequence:

1) Taxable accounts – benefiting from preferential long-term capital gains rates
2) Tax-deferred accounts – Traditional IRAs and 401(k)s, taxed as ordinary income on withdrawal
3) Tax-free accounts – Roth IRAs and Roth 401(k)s, allowing tax-free assets to compound as long as possible

This sequence seeks to preserve tax-advantaged growth while leveraging lower capital gains rates on taxable assets, but is not one-size-fits-all. The optimal approach depends on expenses, account mix, tax brackets, and other liquidity needs. This framework is intended as a general guideline, as individual circumstances may warrant a different approach.

Liquidity Planning: Matching Investments to Time Horizon

Most clients are familiar with the conventional guidance to hold three to six months of living expenses in cash and cash equivalents. Short-term liabilities should be matched with short-term assets. The same logic extends to an entire portfolio, especially when layering in less liquid or illiquid private investments.

Not all assets need to be immediately accessible, and liquidity where not needed represents opportunity cost. Investments offering less liquidity through periodic redemption windows, capital call structures, or multi-year lockups have historically compensated investors with higher return potential, commonly referred to as an illiquidity premium. A practical framework aligns each layer of a portfolio with its corresponding liquidity need:

- Daily liquid, low volatility - cash, money markets, and short-duration fixed income for near-term income needs; publicly traded equities offer daily liquidity but introduce price volatility that makes them less suitable for short-term obligations
- Interval liquidity - private credit and alternative income funds offering periodic redemption windows, suitable for assets intended to be held for at least several years
- Illiquid / capital call structures - drawdown funds with 10+ year horizons, well-suited for long-dated retirement accounts not needed in the near term, particularly for younger investors more than a decade away from penalty-free withdrawals at age 59½.

Holding only liquid assets in long-dated accounts forgoes the return and diversification benefits that less liquid investments can offer. Conversely, relying on volatile or illiquid assets to meet near-term expenses introduces liquidity risk. Understanding redemption terms, capital call timing, and fit within your liquidity profile is essential before allocating to non-traditional investments.

Putting It Together

Liquidity planning represents just one dimension of a comprehensive retirement income strategy. Roth conversion planning, Social Security timing, and Medicare cost management, including the income-based surcharges known as IRMAA, each carry their own depth and nuance, and the use of such techniques are deeply interconnected.

Your advisor, supported by a team of 18 Certified Financial Planners, works to bring structure and clarity to these moving pieces through modeling scenarios, identifying tax-efficient strategies, and adjusting recommendations as laws, markets, and personal circumstances evolve. Please don't hesitate to reach out ahead of your next review.

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. Sourced from publicly available market information for the XLE ticker (Energy Select Sector SPDR Fund). Pricing, performance metrics, and related figures reflect data from January 1 through March 31, 2026.
2. Only includes BDCs that have reported 4Q 2025 data. Source: Company data, Goldman Sachs Global Investment Research