

## FIRST QUARTER, 2026 INVESTMENT REVIEW

### *These are the Ways*

*"I just want to thrive, and there's gonna be hysteria"*  
- Anthony Kiedis (Red Hot Chili Peppers)

The high-energy, climactic song *These are the Ways* by the Red Hot Chili Peppers aptly captures the dual nature of today's market: universally speaking, it's the desire to grow wealth and the chaotic noise that often comes with it. With the rise of retail trading, prediction markets, consumer cash balances at historical highs, and the round-the-clock news cycle, these are the ways of the world right now: a landscape with volatility around world events, cryptocurrencies, and the dark necessities of the artificial intelligence (AI) rollout. Capital flowing into private credit markets promising attractive yields has also created a sense of "FOMO" (fear of missing out) that feels more like a fever dream than a fundamental shift. This hysteria often acts as a siren song, tempting investors to abandon or revisit their long-term strategies in favor of the latest trend. However, true thriving is not found in chasing the crowd. It is found in the discipline to strip away emotions from investing and remain committed to a process that prioritizes fundamentals over sentiment.

#### **Markets**

Global capital markets demonstrated continued resilience in the first two months of 2026, but sharply sold off in March on renewed geopolitical tensions and shifting interest rate expectations. Due to the heavy wing of inflation and geopolitical fears, markets ended the quarter modestly lower as investors balanced inflationary fears against a still-robust corporate earnings season.

Investors continued rotating out of US equities to start the year, with the S&P 500 Index returning -4.3% for the quarter. The tech-heavy NASDAQ closed lower, down -7.1% as the AI-driven narrative and risk-off sentiment continued to dominate. Small-cap companies, as measured by the S&P 600 Index, posted a positive return of +3.5% as investors searched for areas of the market with more attractive valuations. Overseas, markets saw a cooling from their 2025 momentum with the MSCI ACWI Ex-US Index returning -0.6% for the quarter, reflecting closer economic

proximity of international markets to the ongoing instability in the Middle East.

Fixed income, as measured by the Bloomberg Aggregate Bond Index, returned -0.1% for the quarter as the Federal Reserve opted to hold rates steady, pausing the cutting cycle seen late last year to assess the impact of rising energy costs. The likelihood of interest rate cuts remains muted as the Fed digests recent geopolitical developments in Iran and around the world, with some market participants suggesting the possibility of a rate hike if inflation due to high energy costs persists. The 10-year US Treasury yield ended the quarter at 4.28%. Gold continued acting as a primary safe-haven asset and climbed +9.8% to end the quarter at \$4,742 per ounce, reaching as high as \$5,417 per ounce during the quarter. WTI and Brent Crude Oil surged to \$101 and \$118 per barrel, respectively, as the war in Iran fueled significant supply-side concerns and disrupted global shipping lanes.

#### **Have We All Had Too Much? Avoiding the Hysteria of Private Credit**

With many areas of the market continuing to thrive, we believe the private credit space has simply had "too much" of a good thing. Our view is that the once-nascent asset class born out of Dodd-Frank regulation in 2010 has grown too big, too quick, leading to a scenario where a massive mountain of capital is now chasing too few quality deals. Many deals were underwritten in the 2022-2023 "vintage" years, when both base rates and credit spreads (i.e. the extra yield investors demand for the risk of lending to private firms) were at historic highs, offering yields in excess of 10-15%.

We've consistently warned that this "well" would eventually run dry. As the Federal Reserve lowered (and may continue lowering) rates, we expect those yields and spreads to compress. Furthermore, as funding for these private credit vehicles tightens, it creates a secondary layer of stress for the private companies that rely on them to operate. More thematically, a large majority of private credit has been lent to software companies whose legacy business models now face potential disruption from AI. The stress is already hitting many retail investors, as evidenced by Blue Owl Capital and several other private credit managers, recently "gating" redemptions in their flagship funds. When a major player locks the doors to keep capital from leaving, it signals that the liquidity mismatch we feared is becoming a reality – so much so, that opportunistic hedge

funds are now offering stranded investors a “liquidity option” of roughly 65 to 70 cents on the dollar. Table 1 shows major private credit fund redemptions for Q1 2026:

**TABLE 1: PRIVATE CREDIT FUND REDEMPTIONS, Q1 2026**

Fund Name	Redemption Requests (%)	Redemptions Honored (%)	Comments
Blackstone Private Credit Fund (BCRED)	7.9%	7.9%	Blackstone raised their 5% gate to 7% and covered the remaining 0.9% with a personal capital infusion by Blackstone’s senior management team.
Blue Owl Capital Corp (OBDC II)	N/A*	~30%	Fund is Gated/in Liquidation: quarterly redemptions were halted. Instead, Blue Owl is selling \$1.4b in assets to return approx. 30% of NAV ratably to all shareholders.
BlackRock (HPS Corporate Lending)	9.3%	5.0%	Gated. Strictly enforced the 5% cap despite nearly double the requested amount.
Morgan Stanley North Haven (PIF)	10.9%	5.0%	Gated. Honored only 46% of total requests to avoid “fire sale” of assets.
Cliffwater Corporate Lending Fund (CCLF)	13.95%	7.0%	Partial Gate. Board authorized 7% (above the 5% minimum) and was downgraded by S&P to “negative” as a result.
Blue Owl Tech Income (OTIC)	~15.0%	5.0%	Gated. Highest request level among peers; driven by specific jitters in the software/SaaS sector.

\*Blue Owl OBDC II effectively transitioned from a redemption model to a “return of capital” model via asset sales

SOURCE: BLOOMBERG, REGENCY WEALTH MANAGEMENT

**Outlook and Investment Strategy**

Our conviction in a disciplined, quality-first approach remains the anchor of our strategy. While the broader indices are often swayed by loud headlines, we continue to focus on economic data and company fundamentals. We believe that 2026 will be a year where “boring is beautiful,” as investors continue to rotate into quality companies with robust cash flows, rather than chase the aeroplane of crowded trades. This commitment to quality acts as our primary defense against the volatility currently stemming from energy shocks and geopolitical unrest.

We continue to find compelling opportunities in the valuation gap between the broader market and our sleeve of individual large cap companies. Currently, this sleeve trades at about a 21% discount to the S&P 500. This margin of safety allows us to participate in equity growth while remaining somewhat insulated from the “priced to perfection” multiples seen in some pockets of the market. By buying quality companies at attractive valuations, we aim to strip the emotion out of the investment process. Looking ahead, we maintain our diversified stance, including purposeful allocations to international and small-cap equities where valuations remain historically disconnected from US mega-caps. In fixed income, we remain defensively positioned to take advantage of the “higher for longer” rate environment. We are modestly underweight credit, as we anticipate a wave of tech and AI-driven debt issuance that could saturate the market and put downward pressure on corporate bond prices.

**Closing Thoughts**

It bears repeating: true thriving is not found in chasing the crowd. It is often found in the discipline to strip away the emotion of the moment and see the market and its opportunities for what it is. While others may be swept up in the “hysteria” of crowded trades, we remain committed to a rigorous process that prioritizes stability over sentiment. This commitment to discipline is especially vital as we continue to monitor geopolitical developments overseas.

As always, we thank you for allowing us to be on your financial team. Whether you are by the way of the coast or more inland, we appreciate you referring us to those you care about the most.



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