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2026



QUARTERLY REPORT

ACM WEALTH

ADVISORS CAPITAL MANAGEMENT

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Investment Team

The Advisors Capital Investment Committee (IC) comprises Portfolio Managers (PMs), analysts, and members of the firm's trading department. The IC takes a collaborative approach to the due diligence process in approving any security added to an investment strategy. While Portfolio Managers are individually responsible for the day-to-day management of their portfolios, the IC provides oversight, rules and guidelines for each strategy.

Our Investment Committee is designed to maintain rigor, discipline and oversight of the investment process. The role of the IC is to consider, question and challenge the PM's recommendations before voting on whether to include or drop securities from a strategy's portfolio.



Dr. Charles Lieberman
Chief Investment Officer



Dr. JoAnne Feeney
Partner & Portfolio Manager



David Lieberman, M.B.A.
Partner & Director of Investment Research



Kevin Strauss, CFA®
Partner & Portfolio Manager



David L. Ruff, CFA®
Partner & Portfolio Manager



Paul Broughton, CFA®
Portfolio Manager



Kevin Kelly
Partner & Portfolio Manager



Randall T. Coleman, CFA®
Portfolio Manager



Gus Scacco, M.B.A.
Portfolio Manager

Macroeconomic Overview

Living with War

By Dr. Charles Lieberman, Chief Investment Officer

Key Takeaways

- Growth and job markets are holding up well, with no recession expected unless oil disruptions become prolonged and severe.
- Recent volatility reflects geopolitical fears, even as earnings expectations improve and valuations become more attractive.
- While the conflict is unpredictable, current market pullbacks could offer compelling entry points for long-term investors.

Growth Rebounds, But Oil and Uncertainty Rise

Growth appears to have rebounded after a spell of nasty weather slowed the economy in the first quarter. Nonetheless, the war with Iran has elevated oil prices and uncertainty, so it would be reasonable to expect spending to moderate. Still, we do not see a recession on the horizon at this time. A recession is unlikely to be triggered without a sustained large increase in crude prices and a lengthier period of curtailed oil supplies. This remains only one possible outcome and it is not the most likely scenario. Will there be regime change in Iran, or will the government remain in power – either still managed by Islamist's or by a new group of leaders who wish to make peace with the West? These are dramatically different potential outcomes, and any of them seems plausible right now.

Strong Economic Data Beneath Market Volatility

Stock prices have been volatile in response to government policy statements and incoming war news, which isn't surprising. The economic news is far clearer and better.

Job growth rebounded in March and layoffs remain almost surprisingly low, as initial claims declined close to 200,000. Companies will start reporting first quarter earnings in the coming days and estimates actually increased over the past three months. Still, we suspect the solid profit reports will have only a muted positive effect on share prices while attention remains focused on the war. But in our view, the market's retreat should prove to be a good buying opportunity for investors looking beyond the current headlines.

Valuations Improve as Markets Pull Back

The S&P 500 was trading around 22.0 times expected 2026 earnings at the beginning of the year, a level that was worrisome to some analysts who viewed this multiple as steep, even though it was heavily driven by several very large, rapidly growing technology firms. The war and surge in oil prices triggered a market decline, even as earnings estimates for the year increased since year-end from 12.8% to 13.2%. So, the market is currently priced at just 19.8 times expected 2026 earnings, and even less excluding the Magnificent 7. Such market pricing would be considered quite attractive in a more peaceful environment. If this conflict ends anytime soon, it is our judgment that investors would jump back in aggressively, as we saw at the end of March, when it seemed like the fighting might end quickly.

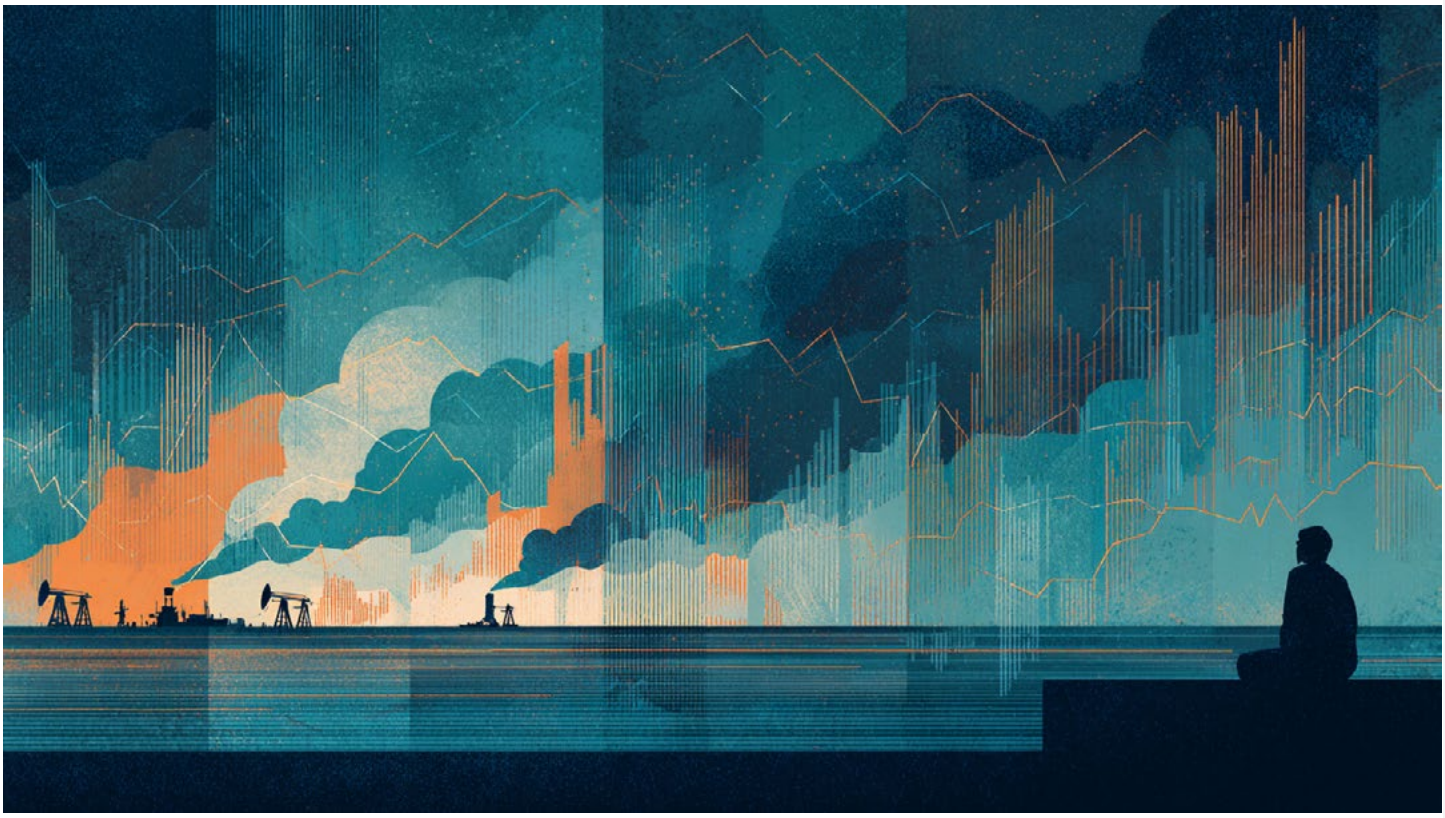
Macroeconomic Overview

War Uncertainty vs Investment Discipline

It is impossible to predict the end of the war with any confidence, but is that necessary to make sensible investment decisions? If the conflict ends before serious damage is done to spending and inflation, we would expect a rebound to new highs. There is a quote attributable to Baron Rothschild from more than a century ago: "Sell on the trumpets and buy on the cannons." In other words, when everything is great and the trumpets are blaring, the news is very positive and stock valuations tend to be high. That's a time to sell. But when the news is awful, the cannons are firing and knocking down the city's walls, asset prices tend to be highly depressed – because people sell regardless of valuations to get cash – and that's a time to buy. It is impossible to know if the worst of the market decline is behind us, but we think current valuations will be viewed as highly attractive as soon as the cannons stop firing.

Staying Flexible with a Long-Term Perspective

Events are unfolding quickly, which is typical of military conflicts, and many aspects of the war will prove to be surprising. So, it is important to remain flexible. But at the same time, it is even more important to have a longer-term vision to guide any short-term tactical adjustments. Because we have that longer-term positive perspective, we believe there may be opportunities to adjust tactically. We are following events very closely.



AI: From Opportunity to Tech Threat?

By Dr. JoAnne Feeney, Portfolio Manager

Key Takeaways

- The impact of AI is more about transformation than replacement, creating both disruption and new opportunities across the sector.
- Valuations have compressed broadly, but companies with strong competitive advantages and AI integration are positioned to emerge stronger.
- Rising usage and continued infrastructure spending support long-term growth across semiconductors, cloud, and AI-enabled industries.

AI's Expanding Market Influence

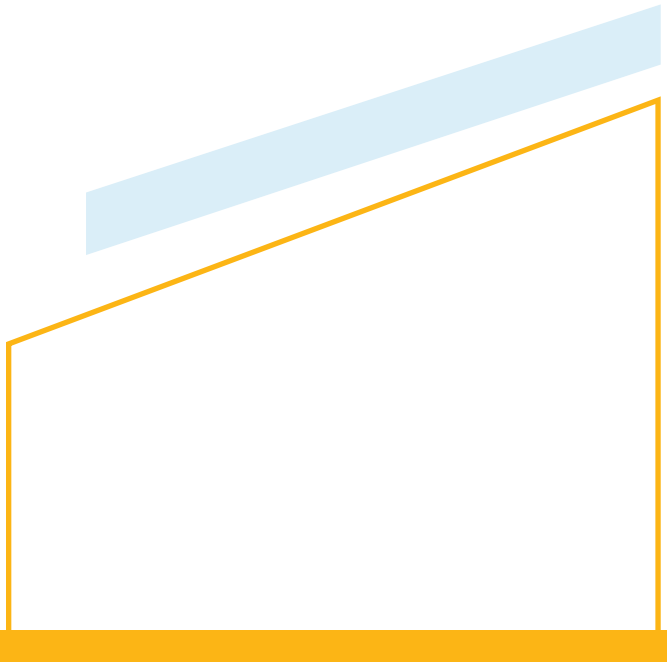
As we wrote in our third quarter 2025 assessment: Artificial Intelligence continues to dominate the market's attention, and for good reason. Not only is AI driving gains in many technology, communication, consumer discretionary, and utilities stocks, but investors are waking up to the potential for AI to streamline operations and enhance product development for a wide range of companies in these areas and well beyond.

From Opportunity to Investor Concern

What a difference six months makes. AI appears to have shifted for many investors from opportunity to threat. Many software and hyperscaler stocks – large cloud computing companies such as Microsoft (MSFT) and Alphabet (GOOG) – have come off their highs of October 2025 – the former because of worries that AI will replace traditional software businesses, and the latter because of the amount they are spending to build more AI capacity in data centers.

Transformation, Not Elimination

The question of whether artificial intelligence (AI) will "eat" the technology industry is less about extinction than transformation. The debate unfolding today is fundamentally about how AI will reshape growth, employment, and investing opportunities in the tech sector: which roles it will displace, which it will augment, and which entirely new ones it will create. The answer is neither a simple yes nor no. Instead, AI is likely to reorganize the technology industry along multiple dimensions, simultaneously compressing some parts of it while expanding others, and with those changes come new opportunities for investors.



AI: From Opportunity to Tech Threat?

Valuation Compression and Market Overreaction

AI has the potential to automate large portions of knowledge work, including software development. Coding assistants can now generate, test, and debug code, and this could reduce the need for entry-level engineers and may undermine the competitive advantages of traditional software businesses. Because of this concern, software-as-a-service companies have seen valuations compress sharply.

At this point, investors are throwing most software companies out with the trash. They are not looking deeply to determine which companies retain their competitive moats. But soon they may because software stock valuations, on average, have compressed to that of the S&P 500 as a whole.

This, despite the expectation that those companies will continue to deliver earnings growth above that of the broader market – at least over the next couple of years. And there's the rub: the perceived threat to software companies is not that they will see material losses in business this year or next, necessarily, but that they stand to lose to new upstarts in the more distant future. Companies that can demonstrate deep moats – because of proprietary data that spans whole industries, superior cross-platform complementaries, and regulatory expertise – are likely to emerge not only as survivors, but also as stronger companies because they, too, are making extensive use of AI. We see several such potential winners and have them scattered through ACM strategies.

> "The question of whether AI will 'eat' the technology industry is less about extinction than transformation."
>
> Dr. JoAnne Feeney

AI as a Productivity Enhancer, Not Just a Disruptor

Another aspect of AI that the broader technology stock malaise seems to be missing is that AI enhances worker productivity in many cases, rather than replacing workers. Developers using AI tools can focus more on system design and architecture while delegating repetitive tasks. Many firms report productivity gains without reducing headcount, suggesting that AI shifts work rather than eliminating it. Think of AI as a powerful, general-purpose tool that companies can engage to raise margins. Its benefits are unlikely to be limited to the technology sector. Indeed, we are seeing financial firms, healthcare businesses, and factory operators all putting AI to productive use.

Rising Demand and Infrastructure Investment

Because of this productivity potential, demand for AI tools continues to rise, and model developers and deployers are responding by increasing investments in new data centers in the US and around the world. The early winners, such as NVIDIA (NVDA) and Broadcom (AVGO), are enabling the initial creation of the AI infrastructure – the data centers through which AI tools are made available – and these companies still have among the strongest outlooks for revenue and earnings growth related to AI. And while increases in capital spending by MSFT, GOOG, and Amazon (AMZN) have led some to worry that overbuilding may be the outcome, reports on increases in AI model usage from OpenAI, Anthropic, and others support the view that such investments are warranted.

The New World Order

By David Ruff, CFA®, Portfolio Manager

Key Takeaways

- The world is moving toward a more fragmented system defined by regional alignment and selective globalization rather than full integration.
- Supply chains, energy systems, defense, and technology are all becoming more redundant and costly as resilience and security take priority over efficiency.
- While system-wide costs are rising, increased spending and duplication across sectors are generating opportunities for companies positioned within these evolving global dynamics.



From Global Efficiency to Strategic Friction

For decades, the global economy operated under a relatively straightforward premise: reduce friction wherever possible across borders. Supply chains were optimized for cost and speed, capital flowed increasingly freely, and energy moved through global markets with minimal political constraint. This system – constructed in the aftermath of World War II and reinforced through globalization – delivered efficiency, scale, and disinflation.

The Rise of Selective Globalization

That era is not ending outright, but it is becoming far less universal and increasingly fragmented. Elements of the old system persist, but they are now shaped by geopolitical alignment rather than global integration. We believe successful investing in this new environment will depend not only on identifying the best-run companies, but on those that combine efficiency with alignment – political, geographic, and strategic – in a way that was largely irrelevant in the prior regime.

The defining shift is not deglobalization, as it is often characterized, but selective globalization. Friction is rising across geopolitical divides – initially between the United States and China, and increasingly between the United States and Europe – while simultaneously declining within emerging economic blocs. Asia is becoming more internally integrated, and agreements such as the Mercosur-European Union Free Trade Agreement highlight a parallel push toward regional openness. The result is a system that is neither fully global nor closed, but increasingly organized around competing spheres of economic alignment.

The New World Order

Supply Chains Built for Resilience, Not Speed

Supply chains provide the most immediate expression of this increased friction. Over the past several decades, outsourcing manufacturing delivered high-quality goods at lower cost, with production increasingly concentrated in China, the world's most efficient manufacturing base. This system, however, proved vulnerable as the pandemic and rising geopolitical tensions exposed its fragility.

In response, companies and governments are rebuilding supply chains with redundancy in mind. Production is being duplicated across regions, structurally increasing costs as new capacity requires higher capital expenditure, more complex logistics, and, in many cases, lower efficiency. These trade-offs are increasingly accepted as the cost of resilience.



"The transition from a low-friction to a high-friction world does not eliminate opportunity – it redistributes it"

David Ruff

Energy Security Becomes the Priority

The same dynamic is now playing out across energy systems. The prior system treated energy as largely fungible, with integrated transport systems smoothing regional imbalances to favor the lowest marginal cost. Today, energy security has superseded cost as the primary directive.

Europe's rapid pivot to liquefied natural gas (LNG), the aggressive expansion of strategic reserves, and a renewed commitment to nuclear power all reflect a world in which access matters as much as price. The result is an intentional duplication of infrastructure – regasification terminals, expanded storage, and redundant transport capacity – that creates a structurally higher cost base. This "security premium" is most taxing for import-dependent industrial hubs like Germany and isolated markets like Ireland, whereas nations with significant indigenous resources or established technical independence – such as Norway (hydro/gas), Sweden (hydro/nuclear), and France (nuclear) – find themselves with a distinct competitive advantage.

Electrification and the New Energy Tradeoffs

At the same time, electrification – most visibly through the adoption of electric vehicles – is becoming a parallel strategy for reducing external dependence on volatile fossil fuel supply chains. In both Europe and parts of Asia, EV penetration is no longer driven solely by climate policy, but increasingly by national security considerations. Electrification shifts the energy mix away from globally traded hydrocarbons toward domestically controlled or regionally sourced electricity.

Importantly, this transition does not eliminate dependency; it reconfigures it. Europe's faster adoption of electric vehicles – with new sales now approaching one-third of the market compared to roughly 10% in the United States – positions it further along the path of reducing oil-price vulnerability. However, this shift creates new exposures to electricity grid resilience, battery supply chains, and critical mineral sourcing. Ultimately, energy security is not being resolved in the traditional sense; it is being redefined as risks to "flows" like pipelines and tanker disruptions are exchanged for more inventory and alternative energy technology.

The New World Order

Defense Spending and a New Global Order

Defense spending represents perhaps the clearest expression of this new global order. The post-Cold War "peace dividend" has finally given way to a recognition that major conflict remains a durable condition of the geopolitical landscape. Consequently, defense budgets are rising globally, not as a temporary response to a single theater, but as part of a longer-term repricing for security.

Critically, this shift is occurring alongside a fundamental change in the security architecture of the West. As the current conflict drives a wedge between Washington and Brussels, the durability of the transatlantic security framework – NATO – is increasingly being questioned in strategic planning circles. Europe is increasingly being forced to take full responsibility for its own defense. This transition requires more than just larger budgets; it necessitates a costly process of building new command structures, independent intelligence, and satellite communication systems divorced from US technology, as well as sourcing military assets once provided solely by the United States.

Importantly, the composition of that spending is evolving to meet these new requirements. Investments are shifting rapidly toward air and missile defense, autonomous systems, drones, and space-based capabilities. These areas reflect the changing nature of modern warfare and create opportunities not only for traditional defense contractors but also for a broader set of technology providers operating at the intersection of commercial and military applications. For the European theater, this is not merely a modernization effort; it represents a form of forced industrial onshoring. The era of being a "soft power" trade bloc protected by a "hard power" ally is ending, replaced by a more self-reliant, albeit structurally more expensive, military posture.



Technology and Financial Fragmentation

Technology, too, is fragmenting with parallel ecosystems – most notably between the United States and China. This bifurcation leads to duplication across the entire stack: semiconductors, cloud infrastructure, software platforms, and standards. While this reduces global efficiency, it expands the total addressable market for companies operating within each ecosystem.

The financial system is similarly transitioning toward a multi-polar reality. While the U.S. dollar remains the world's primary medium of exchange, its exclusivity is eroding.

We are seeing a clear trend toward diversification: sovereign actors are exploring alternative payment systems – such as the expansion of mBridge (a cross-border digital currency settlement platform linking central banks in Asia), Wero (a European bank-backed digital payment platform), and Pix (Brazil's central bank instant payment system) - increasing bilateral trade settlements in local currencies, and accumulating gold as a neutral, "sanction-proof" reserve asset. For the financial landscape, this means a shift from a centralized, dollar-centric system to a more fragmented network of liquidity.

The New World Order

The Return of Industrial Policy

Overlaying these shifts is a resurgence of politically influenced industrial policy. Governments are no longer passive referees of the market; they are becoming its primary architects. Through aggressive subsidies (such as the European Chips Act, the US CHIPS and Science Act, Green Energy credits in many jurisdictions), targeted regulation, and strategic protectionism, they are forcibly directing capital toward sectors deemed vital for national survival – semiconductors, high-density batteries, renewable energy, and critical mineral processing. Market-led capitalism appears to be giving way to state-led strategic investment, where the goal is not necessarily the highest immediate return on equity, but the highest degree of national resilience.



Where Friction Creates Opportunity

The common thread across these developments is that friction, while economically costly at the system level, can be economically generative at the company level.

Every barrier, every redundancy, every duplication creates a need for additional investment. What appears as inefficiency in aggregate becomes opportunity in specific sectors and geographies.

Positioning for a Higher-Friction World

Ultimately, the transition from a low-friction to a high-friction world does not eliminate opportunity – it redistributes it. The key is to recognize that the sources of return are changing. Efficiency is no longer the primary driver of value creation. In many cases, the opposite is true: the deliberate introduction of friction is what generates the next wave of investment. In that sense, the question is not whether the global order is becoming less efficient – it clearly is – but where that inefficiency is being monetized, and who is positioned to capture it.

It also suggests that geographic diversification takes on added importance as regions become less correlated and more self-contained. Exposure to policy-driven sectors becomes more critical, as does an understanding of how geopolitical alignment shapes economic outcomes. At the same time, the persistence of higher costs and lower system-wide efficiency places a premium on companies with pricing power and the ability to navigate complexity. We believe our equity investments are well positioned for this evolving environment.

The Shift From Tech to Value. Will It Continue?

By Kevin Strauss, CFA®, Portfolio Manager &
Gus Scacco, M.B.A., Portfolio Manager

Key Takeaways

- Value-oriented sectors are outperforming as investors move away from concentrated growth exposure and toward more balanced opportunities.
- Elevated tech valuations and concentration risk are driving capital into sectors with stronger cash flows and more attractive pricing.
- Investors should maintain exposure to long-term growth themes while expanding into value sectors to improve diversification and manage risk.



A Shift in Market Leadership

We believe a meaningful rotation from "growth/tech" to "value" equities has taken hold and is likely to persist over the short to intermediate term.

Through the end of March 2026, value-oriented sectors have significantly outperformed. Leadership has come from Energy (+21%), Materials (+17%), Industrials (+12%) and Consumer Staples (+7%), while many areas of Technology have been flat to down 9%. This marks the most pronounced style rotation since 2021 and represents a reversal of several years of growth dominance.

Key Drivers of the Rotation:

Valuation Resetting After the AI Rally

After multiple years of strong performance, valuation dispersion had widened meaningfully. Elevated multiples – particularly among AI-linked equities – have come under increasing scrutiny. With the "Magnificent 7" accounting for more than 30% of the S&P 500's market capitalization, concentration risk has driven investors to seek opportunities in more reasonably valued segments of the market.

Economic Leadership and Broadening Earnings

Market leadership is expanding beyond mega-cap technology. Sectors such as Energy, Industrials and Materials are benefiting from structural tailwinds, including increased power demand tied to data center expansion, infrastructure investment, and restoring trends. Early signs of cyclical recovery are also supporting earnings breadth, favoring companies with stable cash flows and more attractive valuations.

Macro and Policy

A moderating inflation environment, coupled with the potential for Federal Reserve easing – or at a minimum, a pause in tightening – supports a more balanced market. Policy dynamics, including tariffs and infrastructure spending, further reinforce cyclical sectors. While higher rates have historically pressured long-duration growth assets, a more stable rate environment tends to benefit companies with durable, near-term profitability.

The Shift From Tech to Value. Will It Continue?



> "We do not view this as a wholesale exit from technology – instead, we believe investors should maintain exposure to secular growth themes while broadening allocation to include value-oriented sectors."
>
> **Gus Scacco**

Investor Positioning and Risk Management

Heightened concentration in mega-cap tech has led both institutional and retail investors to increase the diversification of their portfolios to reduce volatility. The shift into value, small-cap and international equities reflects a classic response when market leadership becomes overly narrow.

Outlook: Rotation with Balance, Not Replacement

We view this rotation as both data-supported and structurally grounded, with momentum likely to continue through 2026. Valuation discipline has re-emerged as a key driver of returns, while improving earnings breadth supports a more balanced market environment.

That said, we do not view this as a wholesale exit from technology. Instead, we believe investors should maintain exposure to secular growth themes while broadening allocation to include value-oriented sectors in order to enhance diversification and manage risk.

Private Credit and How it Differs from Public Credit

By Kevin Kelly, Portfolio Manager

Key Takeaways

- Higher yields are tied to lower credit quality, limited liquidity, and less transparency, making comparisons to traditional fixed income misleading.
- Redemption gates, opaque valuations, and asset-liability mismatches can create stress during periods of uncertainty.
- Greater liquidity, pricing transparency, and active management flexibility position public markets as a more adaptable solution in changing environments.

Private Credit Sentiment Shifts

Private credit has led asset management growth in recent years, fueled by demand for double-digit returns. However, the tide has turned dramatically and now nearly every private credit headline is negative, especially now that redemptions at select firms are limited. Additionally, frustration is mounting as the private credit market is opaque and investors do not know who or what to believe regarding the current risks. Double digit returns in credit do not come without meaningful risks, including liquidity, credit quality, and potentially leverage. For some investors, private credit is viewed as an alternative to public equities, with lower perceived downside risk, while for others it is simply part of a very diversified portfolio across a range of markets. Investors allocating to private credit thinking it is a comparable alternative to public fixed income are misguided.

Understanding What "Private Credit" Really Means

Private credit is a generic term for a range of private fixed income investments including direct lending, distressed debt, real estate debt, special situations, and other categories.

The Direct Lending portion of the market is the largest and fastest growing portion of Private Credit, consequently it has been garnering investor attention the past few years. For this piece we use the terms interchangeably, but note that we are specifically focused on the direct lending portion of private credit. Goldman Sachs estimates that the private credit market size is approximately $1.7T. For context, the total US Fixed Income Market is nearly $50T as of 4Q'25, excluding loans, with the corporate bond market estimated at over $11.5T according to Securities Industry and Financial Markets Association (SIFMA).

Private Credit in Context



Private Credit and How it Differs from Public Credit

Rising Concerns and Market Stress

Private credit will likely continue to make negative news headlines for the next year or possibly longer, as redemption requests are likely to remain partially unsatisfied. One major concern is the potential software disruption caused by AI. For context, several estimates put software exposure at approximately 20–25% of direct lending exposure. Notably, not everyone agrees on which companies should be classified as software, so some will say the numbers are much higher. A March 29th WSJ article titled, Private Credit's Exposure to Ailing Software Industry Is Bigger Than Advertised, discussed this dynamic in some detail. Additionally, weak public Business Development Company (BDC) equity performance, a few fraudulent loans, and regular redemption news flow have increased investor concerns in the space. This opaqueness to the private credit market increases investor anxiety. Furthermore, articles highlighting how the same loan was marked at two different values by two different investment managers only adds to investor anxiety.



Liquidity Mismatch and Redemption Pressure

Additionally, there is an asset liability mismatch that is not going away, as private credit firms provide loans that typically have maturities of 5–7 years versus some investors assuming they have quarterly liquidity. However, redeeming capital from private assets is often a bit challenging and therefore gates exist, which typically limit withdrawals to 5% per quarter of an investment structures' assets. For better or worse, some investors cannot redeem even if they want, since approximately 80% of Industry Direct Lending is in structures with long duration capital or closed-end vehicles (i.e. no redemption risks per Goldman Research).

Structural Risks and Investor Behavior

Investment firms know putting up these gates can create a domino effect; hence, some investment firms did everything they could do to avoid doing so. The domino effect can occur because investors worry the best, most liquid assets get sold first, leaving the remaining investors with sub-par assets. If investors in these vehicles are concerned that the valuations of the remaining loans are not accurate, they will want out at today's prices. Smarter firms realize dramatic improvements in valuation transparency are needed to avoid such situations, but this will take time. Also, retail investors tend to be more skittish than institutions when it comes to investing, so retail focused private credit vehicles will experience larger redemption requests.

Private Credit and How it Differs from Public Credit

Private vs Public Credit: Key Differences

Even before comparing yield, three clear differences exist between private and public credit investments that must be appreciated by investors of both asset classes. First, public credit generally has much better market liquidity of investments. Second, public credit owned within a separately managed account provides investors with same day redemption flexibility. Private credit liquidity is dependent first upon the structure allowing redemptions and secondly on not too many other investors wanting to redeem simultaneously. The third major difference is transparency. A very reasonable estimate of the current price is available for most public fixed income. Regarding corporate bonds/preferreds, there is often a daily stock price that provides some further sense of how the business servicing the debt is performing. Additionally, a public company often has quarterly financials that are easily accessible to any investor. In contrast there is limited transparency into many private credit vehicles regarding how each Company is performing.

> "Double-digit returns in credit do not come without meaningful risks, including liquidity, credit quality, and potentially leverage."
>
> Kevin Kelly

Credit Quality, Leverage, and Transparency Gaps

In addition to the differences between private and public credit discussed above, there are three additional meaningful differences concerning credit quality, leverage, and liquidity. Regarding credit quality, private credit is typically at the lower-end of the high yield rating scale. Therefore, investors should not compare Investment Grade Bond yields to Private Credit Yields given the significant difference in credit quality. The best comp for direct lending is the leveraged loan market, which has seen the average recovery decline from 79% from 2008–2012 to 60% from 2023–2025 per S&P Global Ratings. This average rating of leveraged loans has systemically declined over the past 15 years compared to the High Yield Bond market, where we invest for select strategies, which has seen improving ratings over time (per Morgan Stanley's US Corporate Credit Strategy Chartbook). Consequently, comparing the credit quality of high yield bonds to private credit is a somewhat inappropriate comparison.

If private credit were rated, it would generally have a lower rating. While leverage varies across investment vehicles, many private credit vehicles use additional leverage in an attempt to enhance returns. Consequently, this creates more upside and downside to investors. While we appreciate some investors like this feature, we tend to view Fixed Income more conservatively. Finally, regarding liquidity, there is no right answer as every investor values liquidity differently, but we think illiquidity warrants significantly more yield.

Why We Favor Public Fixed Income

At ACM, we tremendously value the ability to research and continually track each individual investment. We also think liquidity is crucial to our investment process as it allows us to adapt as companies, industries, and economic environments are constantly changing. Just look at how the market has responded to AI, as an extreme example. We continue to believe public fixed income offers compelling risk-adjusted returns to investors.

Corporate and Municipal Bonds Remain Attractive in a Volatile Market

By Kevin Strauss, CFA®, Portfolio Manager &
Zachary Smith, Associate Portfolio Manager

Key Takeaways

- Rising Treasury yields were the primary driver of negative performance, while corporate fundamentals and credit quality remained relatively stable.
- The selloff has pushed yields to more attractive levels across both corporate and municipal bonds, improving income potential.
- Elevated muni ratios and higher all-in yields are creating compelling entry points without requiring significantly more credit risk.

Rates Drive First Quarter Weakness

Within corporate credit, performance across the first quarter – and particularly in March – was challenged by the steady rise in underlying Treasury yields, which ultimately became the dominant driver of returns. Investment-grade corporates posted modestly negative performance for the quarter, with March accounting for the bulk of the weakness as rates moved sharply higher. Longer-duration bonds underperformed throughout the period, highlighting their sensitivity to interest rate volatility. While credit spreads remained relatively stable for much of the first quarter, they did begin to drift wider in March as geopolitical risks tied to the Iran conflict and renewed inflation concerns prompted a modest repricing of risk.

Fundamentals Remain Stable Despite Pressure

From a fundamental standpoint, corporate balance sheets generally remain in solid shape, with many issuers having termed out debt in prior years at lower rates. However, the cumulative rise in yields over the quarter has pushed borrowing costs higher, which could begin to weigh on lower quality credit, if sustained. Primary market issuance remained active throughout the quarter, especially in investment-grade, as issuers continued to access capital markets despite higher all-in yields. Demand dynamics were somewhat mixed, with periods of inflows earlier in the quarter giving way to more cautious positioning in March as volatility increased.



Corporate and Municipal Bonds Remain Attractive in a Volatile Market

Municipal Bonds Face Rate Headwinds

Municipal bonds also faced headwinds, as rising rates drove negative returns and pushed yields higher across the curve. While munis are typically more stable, the asset class was not immune to the inflation shock in March, with benchmark yields rising and the market posting one of its weaker months in the past few years. Importantly, municipal/Treasury yield ratios moved higher during the quarter, reflecting relative under performance versus Treasuries and creating more attractive valuations for tax-exempt investors. When ratios increase, tax-exempt yields become more competitive compared to taxable alternatives, particularly on a tax-equivalent basis for those in higher brackets. Short and intermediate muni yields rose to roughly 75–80% of Treasuries – above their historical range of 60–80% – while longer maturities approached 95%–100%, near the upper end of their typical 80–100% range. —For long-term investors, this environment reinforces the case for gradually adding high-quality tax-exempt exposure as ratios remain near the higher end of their historical range.



> "While the rate-driven selloff has pressured prices, it has also created a much more attractive entry point for fixed income investors."
>
> **Kevin Strauss**

A More Attractive Entry Point Emerges

In summary, while the rate-driven selloff has pressured prices, it has also created a much more attractive entry point for fixed income investors. Yields across both corporate and municipal bonds are now at some of the most compelling levels seen in the past six months, offering meaningful income potential and improved total return prospects looking forward. As a result, investors are increasingly able to lock in higher levels of income without taking on significantly more credit risk, reinforcing the case for fixed income as a more attractive component of a diversified portfolio. Overall, the first quarter – and March in particular – reinforced that interest rate risk, rather than credit deterioration, has been the primary headwind for corporate and municipal bonds, while simultaneously resetting valuations in a way that benefits long-term investors.

Built Around You

At Advisors Capital Management, we live by the maxim that no two investors are alike. That's why we offer separate accounts with individual portfolios constructed to satisfy the full range of sophisticated needs and objectives. From managing concentrated stock positions to ensuring tax efficiencies, we invest with meticulous attention to detail.



Personalized Portfolios

Separate accounts built around each client's goals and constraints.



Sophisticated Objectives

From concentrated stock management to tax-aware strategies.



Meticulous Execution

Every portfolio constructed with discipline, precision, and care.

Disclosures

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10 Wilsey Square, Suite 200 Ridgewood, NJ 07450 | 201-447-3400 | info@acmwealth.com
www.acmwealth.com