Nordwand Capital LLC

First Quarter 2026 Market Commentary

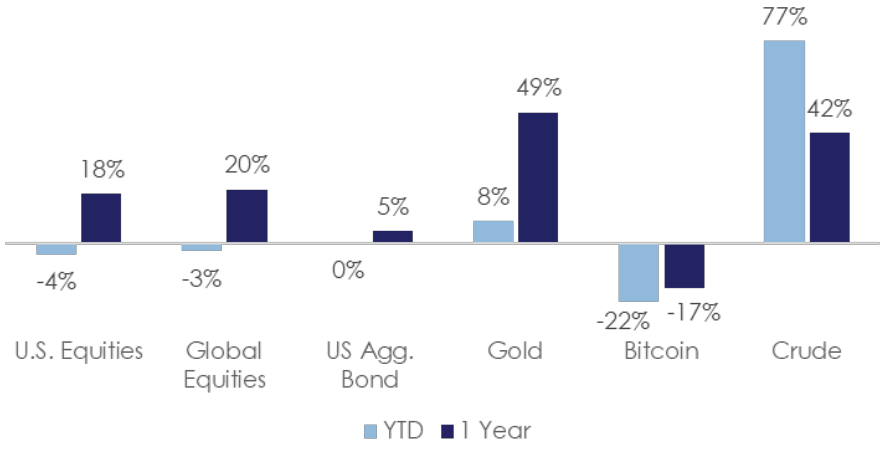
1Q markets: Groundhog Day redux?

April 2026

Executive Summary

- *Looking at markets in the first quarter, anyone could be forgiven for thinking they'd seen this movie before: geopolitics takes the wheel and markets reel in response. Last year it was the tariff tantrum; this year it's Iran.*
- *In both years, equity markets rallied hard off the bottom – with the S&P 500 up over 10% and Nasdaq bouncing more than 16% off the March 30th bottom this year at the time of our writing. Last year it was a softening of tariff tone, this time a tenuous cease fire has done the trick.*
- *A look under the hood reveals a lot more at play, as the post-2022 market rally enters a new phase with increased skepticism and volatility. The bifurcated view of Mag 7 business models, continued emergent disruption of AI, and relentless negativity surrounding private credit are three critical areas that we'll discuss below.*
- *Thinking about the rest of 2026 and beyond, we see a lot more IPO activity and AI-induced uncertainty on the horizon that will almost certainly impact stock performance. We also see pockets of value in parts of private markets that may prove fruitful for investors over the coming 3-5 year time period.*

Figure 1: Asset Class Returns
(1Q26 & 1 Year)



Source: Bloomberg, Nordwand Capital as of 3/31/2026.
Note: US equities = S&P 500 Index; Global equities = MSCI ACWI Index.

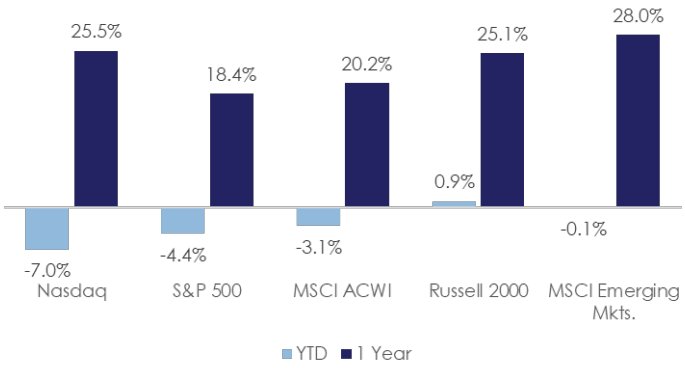
Reflecting on an Inflection

Clients will recall that we've focused for some time on stretched valuations as a basis for diversifying away from US large cap stocks. We alluded in our summary to more churn below the surface of equity markets, and that pattern expanded in a few ways in the first quarter of 2026.

On the first page, Figure 1 highlights that some asset classes have been paring back gains or slowing their advance to start the year. Bitcoin prices, to name a popular allocation, were cut in half from roughly $125,000 to $63,000 in the period from October 2025 through February 2026. Gold – another alternative exposure for many – peaked at over $5,500/oz. earlier this year, only to fall almost 20% from that peak at its lowest point YTD. Leaving aside the difficulty in assessing a fair price for Bitcoin or what the rise in gold from 2023-2025 says about financial market concerns, we are constantly reminded when we see this level of volatility that even safe-haven assets or dollar-alternatives are not without significant downside when markets turn.

In Figure 2, we look at equity markets by both geography and size, and it reveals that small cap stocks (i.e. Russell 2000) and emerging markets again posted solid performance in an environment where investors were trimming their exposures in sectors and markets that were well-owned by both institutional and retail investors. Geopolitical concerns will always matter to markets, and the onset of hostilities with Iran at the end of February did nothing to inspire confidence and risk-taking.

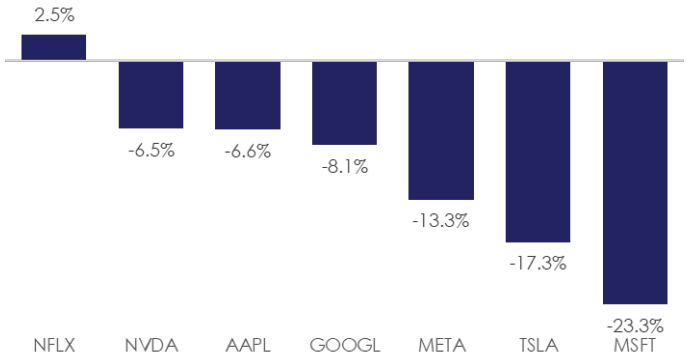
Figure 2: Equity Market Returns
(1Q26 & 1 Year)



Source: Bloomberg, Nordwand Capital as of 3/31/2026.

We would remind our clients, however, that tech stocks and the Nasdaq were both negative prior to Iranian hostilities, and the S&P 500 was relatively flat. The Russell 2000 small cap index and MSCI Emerging Markets index were both solidly positive in January and February (+8% and +15%, respectively). In other words, investors have been pivoting away from their tech-heavy 2023-2025 exposures for many months.

Figure 3: "Magnificent 7" Returns
(1Q26)



Source: Bloomberg, Nordwand Capital as of 3/31/2026.

In fact, returns for the "Magnificent 7" tech stocks – whose overall performance largely carried equity markets in 2023 and 2024 – has shown cracks and shifts for the last 6-12 months. The latest iteration of these concerns is focused on software, whose business and pricing model – according to conventional wisdom – is under imminent threat of disruption by A.I. (aka the "SaaS-pocalypse"). Hence, in early 2026 it is Microsoft's turn in the dock, while NFLX's customer and content focus, NVDA's continued chip

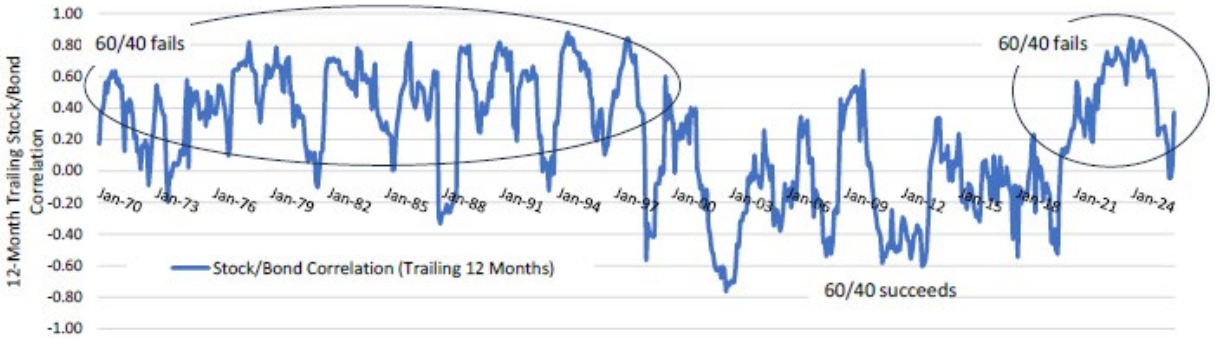
dominance, and AAPL's relatively smaller footprint on A.I. matters, all have been positive factors in their performance relative to their peers. Put another way: fewer investors were playing AAPL and GOOGL for their positive A.I. leverage over the last couple of years, so there has been less selling pressure as fears emerge. In other words, even within the Mag 7 the benefits of diversifying exposures emerge.

Another factor worth noting for clients is the relatively unimpressive performance of liquid credit or fixed income. In Figure 1, this can be seen in the performance of the US Aggregate Bond index, which is flat YTD and +5% over the last 1 year. The Agg, as this index is colloquially known, is the most commonly used measure of the investment grade ("IG") bond universe, comprised of corporate bonds, US Treasuries, etc.

We have highlighted for clients over the last several quarters that fixed income spreads (i.e. the additional yield paid to IG or high yield bond holders versus just investing in Treasuries) have been very tight. In other words, we felt that investors were not being paid to take credit risk, and current spreads indicate much of the same conditions, and our conclusions are the same.

This is a critical point, and one we will return to when we discuss private credit shortly: if liquid investment grade bond returns are so meager, investor options are very simple: accept a lower return or take additional risk. In 2022-2024 this was an easier puzzle to solve with money market interest rates around 5% for much of that time; it requires more thought with cash interest rates closer to 3.5%. Additional risk means either a higher exposure to equities – public or private – which is often a lucrative trade over longer periods of time, but brings with it more volatility and exposure to loss (whether short-term or permanent in nature); or more exotic credit exposures like leveraged loans or private credit.

Figure 4: Stock-Bond Correlation
(1970-March 2026)



Source: Cliffwater, as of 3/31/2026.

Adding another dimension to this, in moments of increased market stress bonds and stocks often trade together. Figure 4 highlights this trend – the classic 60/40 stock/bond portfolio often struggles in the face of enhanced risk, with liquid assets all trading together in response to a flight away from risk by investors. This presents an obvious challenge.

Taking a step back, the question we continually ask ourselves is: what should a portfolio look like to achieve the optimal risk-adjusted return for clients? The goal of diversification is to provide balance; not all assets should be rising or falling at the same time. This balance naturally leads to some return trade-off in periods when equities rip higher like we saw in 2023-2025. But if traditional bonds trade off alongside equities in these periods, then investors often seek solace in US

Treasuries, gold, derivatives, and private equity and debt. To be clear, US Treasuries and managed futures are hardly the same asset with respect to risk and return; they merely represent points on a spectrum of alternatives that investors seek to improve their prospects over time.

A.I., Markets, & Private Credit

This is where the risk of A.I. disruption, portfolio construction, and private credit converge in our story.

Let's take A.I. first. Since A.I. exploded on the scene in 2022 as a tangible thing, we all have wondered what its impact might be. Would it disrupt industries and economies? Would it challenge and change business models? Would it be additive to productivity, profitability, and growth? And when, and in what form, would these changes begin to be felt? All of these questions – the positive and the worrisome – are being answered in the affirmative. If the PC in the 1980s and the internet in the 1990s were seismic shifts in how companies and economies operated, so too will A.I. change how we all deal with each other.

Initially concerns were focused on security and jobs. These looked like increased concerns over data security and entry-level jobs in many white collar professions. They were also nebulous in a way that presented nagging questions but not the kind of narrow targets that lead to market sell-offs. In the last year, these concerns have leveled-up (as the kids say), and focused on sector disruptions. Software, in particular, has come in for a lot of concern and negative attention. The thought process is simple: if A.I. can generate programming code faster than humans, then perhaps not only can it cause job losses, but also affect the way software is consumed and priced. This change could be gargantuan. The software model has been a keystone of technology growth over the last 20-30 years. It requires low levels of capital investment and often leads to multi-year enterprise-level contracts that are highly profitable. In short, it's a Goldilocks business model.

In equities, this is creating shifts in leadership as market participants analyze the right multiple to pay for a business whose current profitability is stellar but whose future profitability is murkier. Software leaders like Salesforce, Oracle, and Microsoft have all sold off to start the year, with some popular software-focused ETFs down 15-20% YTD.

In private credit, the changes coming to software have converged with recent retail fundraising success and intense media scrutiny to create a whirlwind. Many of the vehicles investors use to access private credit are semi-liquid (i.e. monthly or quarterly liquidity with limits or "gates" on how much investors may withdraw from the fund in any given window), and this semi-liquidity has led to queues as investors wait to exit. This has led to increased concern, which has either led to – or been fed by – media speculation that private credit is sitting on a mountain of bad assets.

A group of approximately thirty business-development companies (BDCs) that we track at Nordwand sits at an approximate 20% discount to their median net asset values (NAV) at the time of our writing. These BDCs are traded daily and that liquidity often means that they end up bearing the brunt of emotional investor activity because the other vehicles cannot be exited.

Software comprises perhaps 25% of the lending in many of these private credit portfolios. In other words, many publicly-traded BDCs are discounting something close to a complete write-off of all software exposure. We think this overstates the risk in the space. We also would suggest that if software credit is in such mortal danger that a 3-year loan is worthless, then the implied impact on

the broader private equity space (which is structurally junior and a longer-term bet on the health of a company or industry, remember) would have staggering implications.

Figure 5: Avergae quarterly returns when the S&P 500 was negative
(Sep. 2004-Dec 2025)

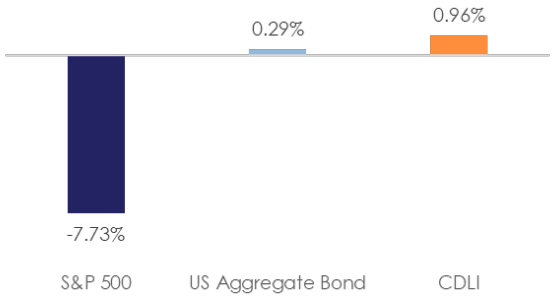
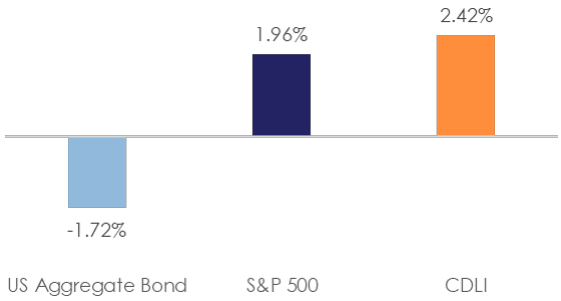


Figure 6: Average quarterly returns when the US Agg Index was negative
(Sep. 2004-Dec 2025)



Source: Cliffwater, Nordwand Capital. CDLI = Cliffwater Direct Lending Index.

We hope we would never be foolish enough to completely discount risks of this magnitude. Nordwand's team have lived through the tech bubble of 25-30 years ago and had a front-row seat for the global financial crisis 15-20 years ago. Those scars remind us daily that bad things can compound and accelerate. So we remain vigilant – but also think the recent hysteria overstates the risk to investors.

Bringing this to a conclusion, Figures 5 & 6 illustrate a point we would make for reference. We noted above that yield spreads for liquid fixed income were unimpressive, and in Figure 4 highlighted the correlation issue between stocks and bonds in periods of stress. It is therefore notable, that in periods of market distress between 2004-2025, that private credit has historically performed well when stocks or bonds have negative quarters. To wit, two very sizable semi-liquid vehicles in which we've invested have posted 1-2% total returns for 1Q26 – beating the 0% returns we highlighted in Figure 1.

So, while we think the risks are newer with A.I. disruption and big retail investor flows to private credit, we also would remind everyone that these risks are borne not just by private credit, but by public equities and liquid credit as well. Sensibly constructed, the yield premium investors are receiving in private credit can still be a very useful part of a portfolio in our view.

Conclusion

Overall, the first quarter of 2026 was highly eventful. Geopolitics, tax cuts, inflation, A.I. hysteria, software fears, private credit boogeymen… it feels like we've had it all. On the horizon in 2026 are some highly anticipated IPOs that could see >$3 trillion of new companies traded publicly, the hopeful cessation of hostilities in Iran, and a return to more fundamentals-based investing.

We think care is the watchword for 2026. Diversification in equity and credit markets has paid off to start the year, with small cap and emerging market stocks outperforming US large caps, value outperforming growth, and the Mag 7 underperforming the market. While we are comfortable that some of that will mean-revert over the course of the year, we think maintaining diversified exposure is the best way to protect portfolios in a period of heightened risk and deep into a market rally.

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