

QUARTERLY INSIGHTS

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Recent Private Credit Headlines and the Importance of Manager Selection



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Headlines around private credit have reignited familiar investor concerns. Reports of sharp valuation adjustments in individual vehicles, rising non-accruals, and questions around leverage have prompted some to ask whether stress in private credit is becoming systemic. While these developments deserve attention, they are best understood as a reminder of an enduring feature of private markets rather than evidence of a broad breakdown. Manager selection is critical in private credit, and outcomes are driven far more by underwriting discipline and portfolio construction than by macro headlines.

Private credit is not a single market. It is a collection of thousands of individual loans, negotiated privately, each with its own borrower, capital structure, and risk profile. As a result, performance differences across managers and strategies can be wide. When problems emerge, they tend to be concentrated rather than evenly distributed. A small number of troubled credits, particularly when paired with higher leverage or less diversified portfolios, can have an outsized impact on returns.

Media headlines often frame markdowns as a verdict on private credit broadly, but history suggests they are more often a verdict on specific underwriting choices. Loans made at aggressive leverage levels, to weaker credits, or with limited covenant protection are more vulnerable when conditions tighten. When those exposures are concentrated, the resulting losses can dominate portfolio outcomes even if most loans continue to perform as expected.

The structural role of private credit has not changed. Since the Global Financial Crisis, banks have retreated from large segments of middle-market lending due to regulatory constraints. Private lenders stepped into that gap, offering borrowers speed, certainty of execution, and flexible capital solutions. Middle-market loans are generally not rated, are considered non-investment grade, and are not traded in the secondary market. As a result, yields are generally greater than traditional broadly syndicated bank loans and publicly traded high-yield bonds.

Several factors consistently separate resilient private credit portfolios from fragile ones:

- 1. Positioning in the capital structure.** Senior secured, first-lien loans provide a very different risk profile than junior or equity-like credit exposures. In periods of stress, seniority matters. Recovery rates, loss severity, and cash flow stability are all heavily influenced by where a lender sits in the borrower's capital stack.
- 2. Diversification.** Private credit portfolios are only as diversified as their underlying borrowers. Concentration by issuer, industry, or

private equity sponsor increases vulnerability to idiosyncratic risks. In contrast, broadly diversified portfolios are better positioned to absorb individual credit losses without allowing them to dominate the results of the fund.

3. **Leverage discipline.** Leverage can enhance returns in calm environments, but it amplifies mistakes when underwriting proves too optimistic. Higher leverage increases sensitivity to credit losses and reduces flexibility when conditions deteriorate. Conservative leverage is a critical aspect of risk control.
4. **Underwriting standards and monitoring remain critical.** Ongoing borrower oversight, covenant enforcement, and early intervention are essential to preserving capital. Strategies that emphasize deal volume or yield maximization at the expense of underwriting rigor tend to experience more volatile outcomes over full cycles.

Liquidity is another area where expectations matter. Private credit is designed to be held through cycles.

Mismatches between asset liquidity and investor expectations tend to surface during periods of stress, precisely when patience is most valuable. If you plan on including an allocation to private credit within your portfolio, proper sizing is essential.

From a portfolio construction standpoint, private credit continues to serve a specific role. It is not appropriate for every investor, it is not a substitute for equities, and it is not a risk-free alternative to traditional fixed income. Its appeal lies in its high floating-rate yield and diversification benefits when implemented thoughtfully.

The recent wave of concern reinforces a familiar conclusion. Private credit is not broken, but it is unforgiving of weak underwriting, excessive leverage, and poor diversification. Investors who focus on structure, discipline, and manager selection are far better positioned than those who rely on labels or headline yields. As always, we continue to monitor developments across credit markets closely. Periods of heightened scrutiny can be uncomfortable, but they often provide useful clarity.

What Is Capital Gains Tax? 2026 Rates Explained

Now that tax season has wrapped up, many investors may be reviewing what drove their tax bill last year. For many, capital gains taxes could have played a significant role.

If your tax professional didn't walk you through how capital gains tax works or proactively look for ways to offset it for you, it might be time to explore other options. Capital gains tax is a vital part of tax planning that should be considered throughout the year, not only as you scramble to submit your return on time. Understanding the rules that drive this tax today may help you plan more intentionally for the future.

2026 CAPITAL GAINS TAX: KEY TAKEAWAYS

- Capital gains tax is owed when you sell an asset

for more than its adjusted cost basis.

- Short-term capital gains (assets held one year or less) are taxed at ordinary income tax rates.
- Long-term capital gains (assets held more than one year) are taxed at 0%, 15%, or 20%, depending on taxable income and filing status.
- 2026 capital gains tax brackets vary by filing status and taxable income.

WHAT IS CAPITAL GAINS TAX?

Capital gains tax is the tax owed on the profit from selling an asset for more than your adjusted cost basis (generally what you paid for it, plus certain adjustments).

Of course, it's a welcome thing to profit from selling your capital assets. That's a good problem to have! However, when you do so, it's important to plan for the increased tax bill.

Capital gains tax is most often associated with assets such as:

- Investments (stocks, bonds, mutual funds, ETFs)
- Real estate
- Personal property (car, home, furniture)
- Business holdings

It's important to note that mutual funds distribute capital gains at the end of each year, which may create taxable income even if you didn't personally sell shares. Capital gains are typically realized when you:

- Sell appreciated investments
- Receive capital gain distributions from funds
- Exit a business or real estate holding
- Rebalance or unwind concentrated positions

How much capital gains tax you owe depends primarily on two factors:

- How long you held the asset
- Your taxable income and filing status in the year of sale

REALIZED VS. UNREALIZED VS. RECOGNIZED GAINS

Realized gain is the profit made when an asset is sold or transferred. Unrealized gain is the increase in the value of a capital asset that you have not yet sold, or the “on paper profit”. Recognized gain is the portion of the realized gain that is taxable and must be reported on your tax return.

Not every realized capital gain or loss is fully recognized in the current tax year. This can occur in certain exchanges, exclusions, deferrals, or tax-advantaged accounts. For example, gains and losses held in tax-advantaged accounts such as IRAs, 401(k)s, HSAs, and 529s are generally not taxable in the year realized. Losses on personal-use property are unfortunately never tax-deductible. However, in certain situations, capital gains tax can be postponed until future tax years.

It is especially essential for business owners, real estate investors, and those using proactive tax planning strategies to understand these distinctions.

SHORT-TERM CAPITAL GAINS TAX

A short-term capital gain occurs when you sell an asset held for one year or less at a profit. These gains are taxed at ordinary income tax rates. Your ordinary income tax rate is the rate that applies to your wages and non-qualified income. These rates are typically higher, so it's usually not tax-efficient to sell at a profit within a year of purchase.

2026 Short-term Capital Gains Tax Brackets

Short-term capital gains are taxed according to the 2026 ordinary income tax brackets. These are progressive and graduated rates, meaning income is taxed in layers. Your exact short-term capital gains tax rate depends on your total taxable income and filing status.

For 2026, federal ordinary income tax rates are:

Tax rate	Single filers, taxable income	Married, filing jointly, taxable income	Married, filing separately, taxable income	Head of household, taxable income
10%	\$0 to \$12,400	\$0 to \$24,800	\$0 to \$12,400	\$0 to \$17,700
12%	\$12,401 to \$50,400	\$24,801 to \$100,800	\$12,401 to \$50,400	\$17,701 to \$67,450
22%	\$50,401 to \$105,700	\$100,801 to \$211,400	\$50,401 to \$105,700	\$67,451 to \$105,700
24%	\$105,701 to \$201,775	\$211,401 to \$403,550	\$105,701 to \$201,775	\$105,701 to \$201,775
32%	\$201,776 to \$256,225	\$403,551 to \$512,450	\$201,776 to \$256,225	\$201,776 to \$256,200
35%	\$256,226 to \$640,600	\$512,451 to \$768,700	\$256,226 to \$384,350	\$256,201 to \$640,600
37%	Over \$640,600	Over \$768,700	Over \$384,350	Over \$640,600

LONG-TERM CAPITAL GAINS TAX

A long-term capital gain occurs when you sell an asset held for one year and one day or more at a profit. These are taxed at preferential rates (0%, 15%, or 20%) when realized and recognized. Your threshold is based on your taxable income, including the capital gain, and filing status. Since these rates are typically lower, one of the simplest ways to reduce capital gains

tax is to hold assets for over a year.

2026 Long-term Capital Gains Tax Brackets

Long-term capital gains tax brackets are separate from ordinary income tax brackets. While thresholds may change due to legislation, the structure has historically remained consistent.

For 2026, federal capital gains tax rates are:

Tax rate	Single filers, taxable income	Married, filing jointly, taxable income	Married, filing separately, taxable income	Head of household, taxable income
0%	\$0 to \$49,450	\$0 to \$98,900	\$0 to \$49,450	\$0 to \$66,200
15%	\$49,451 to \$545,500	\$98,901 to \$613,700	\$49,451 to \$306,850	\$66,201 to \$579,600
20%	Over \$545,500	Over \$613,700	Over \$306,850	Over \$579,600

Higher-income households may also need to account for the Net Investment Income Tax (NIIT). NIIT is an additional 3.8% surtax that applies once income exceeds certain levels.

FINAL THOUGHTS ON CAPITAL GAINS TAXES

Capital gains tax is an expected side effect of successful investing. The key to minimization is understanding when gains are realized, how they are taxed, and which bracket applies to your situation.

A proactive approach throughout can make a substantial difference in your after-tax results. If capital gains caught you and your tax bill off guard this year, we'd love to help coordinate your future approach. If you anticipate a large sale, liquidity event, or portfolio transition in the future, let us help you coordinate those decisions with a broader investment and wealth management strategy.

FAQs

What is the tax rate on capital gains?

The capital gains tax rate depends on how long the asset was held, your taxable income, and your filing status in the year of sale. Short-term capital gains are taxed at ordinary income tax rates (federally 10% to 37%). Long-term capital gains are taxed at 0%, 15%, or 20%, based on taxable income and filing status, plus a potential 3.8% Net Investment Income Tax for high-income households.

How do I avoid capital gains on my taxes?

Capital gains generally cannot be avoided entirely when an asset is sold at a profit. However, strategies such as holding assets for more than one year, coordinating income timing, and thoughtful planning may reduce the overall tax impact. A proactive investment and tax strategy is often the most effective approach.

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