

Broadening Trade Returns as Conflict Eases. Can It Outlast a Hawkish Fed and Fading Liquidity?



OREGON PACIFIC
WEALTH MANAGEMENT
A Registered Investment Advisor

Exhibit 1: Trailing Returns as of June 30, 2026

Index/ETF	1-Mo	3-Mo	YTD	1-Y	3-Y	5-Y
US Small-Caps (SPSM)	7.3%	19.8%	23.9%	37.6%	16.1%	7.4%
US Mid-Caps (SPMD)	3.6%	14.4%	17.4%	25.9%	15.4%	9.1%
US Value (SPYV)	0.0%	7.9%	7.9%	18.3%	14.3%	11.2%
Equities						
Broad-based Emerging Markets (SPEM)	-0.1%	11.5%	11.7%	24.4%	17.8%	5.8%
International Developed Equities (SPDW)	-0.1%	11.9%	15.1%	28.5%	19.2%	9.9%
US Large-Caps (SPY)	-1.0%	15.1%	10.1%	22.2%	20.5%	13.3%
US Growth (SPYG)	-1.9%	21.7%	11.8%	25.5%	25.8%	14.5%
US Fixed Income						
Municipal Bonds (MUB)	0.7%	2.2%	1.8%	6.4%	3.4%	1.0%
US Aggregate Bond Index (SPAB)	0.3%	0.6%	0.8%	3.8%	4.1%	0.1%
US Treasury 7-10 Year (IEF)	0.3%	0.1%	-0.1%	2.6%	2.9%	-1.1%
Investment Grade Corporate Bonds (SPBO)	0.3%	1.3%	1.1%	4.5%	5.5%	0.5%
High Yield Credit (JNK)	0.1%	2.3%	1.9%	5.8%	8.5%	3.6%
Treasury Inflation Protected Notes (SPIP)	-0.4%	0.9%	1.2%	3.3%	3.7%	0.7%
Commodities						
Broad-based Commodities (BCI)	-8.6%	-8.0%	14.4%	25.0%	11.4%	8.8%
Gold (GLD)	-11.7%	-14.4%	-7.0%	20.9%	27.4%	17.3%
Crude Oil (USO)	-17.5%	-16.4%	53.9%	45.6%	18.8%	16.4%
Silver (SLV)	-21.7%	-21.5%	-17.0%	63.0%	36.8%	17.2%

Source: FactSet. Data as of June 30, 2026. 1-Y, 3-Y, and 5-Y numbers are annualized. Past performance is not indicative of future results.

First Half of 2026 Sees a Shift in Leadership

Despite conflict in the Middle East, sharp oil price swings, and resurging inflation concerns, equity markets posted positive returns in the first half of 2026 amid de-escalating geopolitical risk, strong corporate earnings led by the AI infrastructure buildout, and a still-resilient economy. The Nasdaq-100 Index and S&P 500 Index recovered sharply within the period, each rallying over 32% and 18%, respectively, since the March lows. Notably, US small-caps via the Russell 2000 Index saw their strongest first half since 1991, gaining over 22%. US mid-caps (+17.4%) and international developed equities (+15.1%) followed. Bonds mostly fared well as high yield credits rose 1.9%, municipal bonds gained 1.8%, and Treasury Inflation Protected Notes were up 1.2%. Aside from silver (-17.0%) and gold (-7.0%), commodities posted positive returns as crude oil surged 53.9% and broad-based commodities rose 14.4%.

Fed Holds, Warsh Signals Less Guidance

The Federal Reserve held the federal funds rate steady at the June FOMC meeting, keeping the target range at 3.50–3.75%. This marks the 4th consecutive hold in 2026 and was the first meeting chaired by Kevin Warsh, who succeeded Jerome Powell as Chair. While the decision to hold was widely expected, the accompanying communication shifted in a more hawkish direction. The policy statement was shortened to roughly 130 words from 341 in April, removed prior language signaling a bias toward future cuts, and emphasized that the Committee “will deliver price stability.” Consistent with his prior skepticism of forward guidance, Chair Warsh also declined to submit his own projection in the dot plot. The economic backdrop offered little reason to ease, as May PCE rose 4.1% year-over-year, its highest reading since April 2023, while Nonfarm Payrolls remained firm at 172,000 and the unemployment rate held at 4.3%. The updated Summary of Economic Projections reflected the shift, with nine of eighteen officials now penciling in at least one 25 bps hike in 2026 and six projecting at least two, lifting the median year-end funds rate forecast to 3.8% from 3.4% in March and reversing the cut previously expected. Looking ahead, market pricing via the CME FedWatch Tool implies another hold at the July meeting, with the next move now priced as a hike rather than a cut.

Equal Weight and Small-Caps Regain the Lead as War Tensions Ease

History shows that the early stages of an earnings recovery have often favored the broad market over the largest stocks. As Exhibit 2 illustrates, coming out of past earnings recession troughs (shaded), the equal weight S&P 500 has tended to outperform its market-cap weighted counterpart, while small-caps, as represented by the Russell 2000, have often outperformed large-caps, with each red arrow marking one of these post-trough periods. The current cycle initially mirrored that pattern, as the average stock outperformed from late 2025 into early 2026 following the trough in the 2022–April 2025 rolling earnings recession, before the Iran conflict disrupted the trend. As oil prices spiked and markets shifted from pricing additional rate cuts toward the possibility of renewed tightening, leadership reverted toward the largest AI-related companies, and from the March lows through May the cap-weighted index, supported by semiconductor strength, regained the lead. With shipping through the Strait of Hormuz resuming and oil prices returning close to pre-conflict levels, those headwinds have eased and signs of market broadening have re-emerged, with equal weight and small-cap indices outperforming again since the end of May. The move also has fundamental support, as the median S&P 1500 company is now growing earnings at a double-digit pace while sales are rising by roughly 7%. If policy rates have indeed peaked this year rather than moving higher, a corresponding decline in real rates could provide additional support for broader market participation.

Exhibit 2: Equal Weighted Stock and Small-Caps Are Outperforming Again

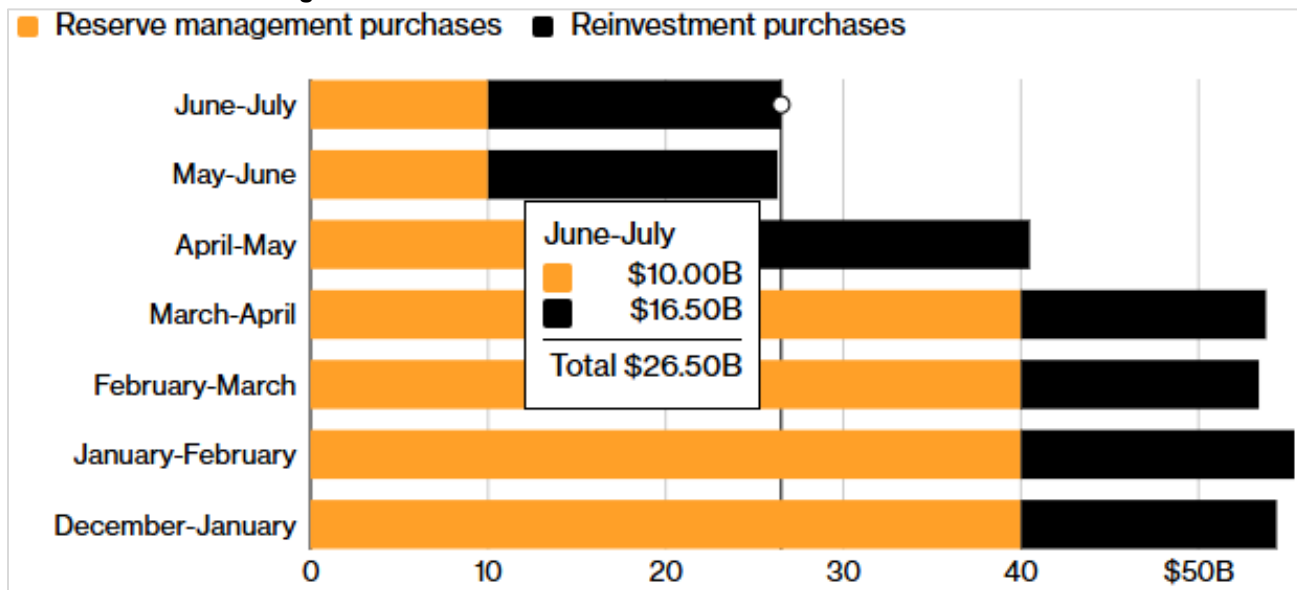


Source: Bloomberg, Morgan Stanley Research. Data as of June 26, 2026.

Liquidity Headwinds Build into the Second Half

Near-term liquidity headwinds appear to be building as the Federal Reserve's balance sheet support fades. The Reserve Management Purchases program, the Fed's monthly Treasury bill purchases intended to maintain ample bank reserves, has been scaled back to about \$10 billion a month, down roughly 75% from the \$40 billion pace at which it began in December 2025 (Exhibit 3, orange). Liquidity shifts have historically tended to lead risk assets rather than move in step with them, often with a lag of several months, so this fading support may point to a softer backdrop for risk assets in the months ahead, even with the economy still firm. The effect is rarely uniform, and the most liquidity-sensitive areas tend to feel it first, from cryptocurrencies and precious metals to high-momentum stocks and mega-cap technology and AI leaders. Those leaders may be particularly sensitive, as elevated investment spending has outpaced near-term revenue generation, leaving valuations increasingly dependent on expectations for longer-duration cash flows.

Exhibit 3: Reserve Management Purchases & Reinvestment Purchases

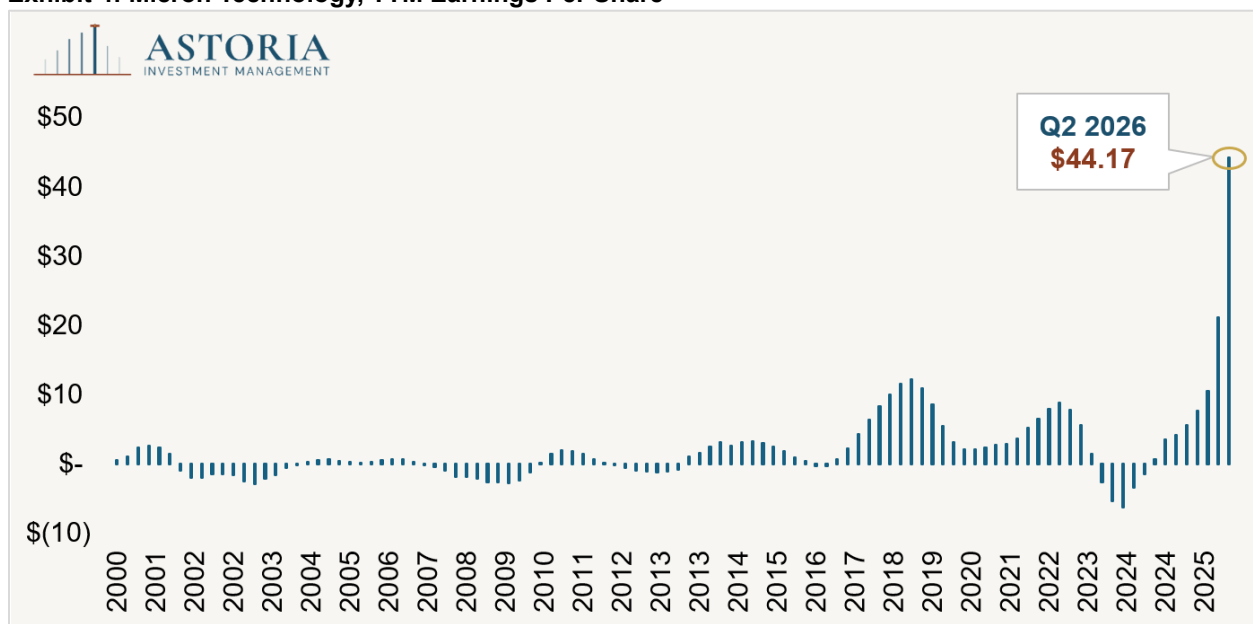


Source: New York Fed, Bloomberg. Data as of June 11, 2026.

Memory Goes Vertical. How Long Can It Last?

Micron Technology, a bellwether for the memory chips at the center of the AI investment cycle, reported record results during the Q2 2026 reporting season. Its trailing 12-month earnings per share reached \$44.17, up nearly 700% from a year earlier, while non-GAAP gross margin rose to a record 84.9%, more than double the prior year's level. The primary driver has been demand for high-bandwidth memory (HBM), the specialized chips used in AI data centers, which has continued to exceed available supply. The stock gained roughly 16% the day after the report and is now up more than 800% over the past year. A key question is whether these results can be sustained. Memory has historically been among the cyclical segments of technology, with periods of strong profitability often followed by oversupply and margin compression. One factor that may distinguish the current cycle is the supply response, as expanding HBM capacity requires significant investment in both fabrication and advanced packaging capabilities, leaving the industry slow to meet rapidly rising AI-related demand. With demand still outpacing available supply, some analysts expect memory pricing to remain elevated for a period, although that outlook remains uncertain. Whether the current upcycle proves more durable than prior cycles may ultimately depend on the persistence of AI-related spending and the pace at which additional supply comes online.

Exhibit 4: Micron Technology, TTM Earnings Per Share



Source: FactSet, Astoria Investment Management. Chart displays Micron Technology's EPS on a quarterly LTM basis going back to Q1 2000. Past performance is not indicative of future results.

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