

# Valuation Reset Amid Geopolitical Shock. Uncertainty Persists but Opportunities Are Emerging



OREGON PACIFIC  
WEALTH MANAGEMENT  
*A Registered Investment Advisor*

## Exhibit 1: Trailing Returns as of March 31, 2026

| Index/ETF                                 | 1-Mo   | YTD   | 1-Y    | 3-Y   | 5-Y   |
|---|--------|-------|--------|-------|-------|
| <b>Equities</b>                           |        |       |        |       |       |
| US Small-Caps (SPSM)                      | -4.1%  | 3.5%  | 20.6%  | 10.5% | 4.4%  |
| US Value (SPYV)                           | -4.6%  | 0.0%  | 12.9%  | 13.8% | 10.6% |
| US Large-Caps (SPY)                       | -4.9%  | -4.4% | 17.6%  | 18.2% | 11.9% |
| US Mid-Caps (SPMD)                        | -5.3%  | 2.6%  | 17.4%  | 12.1% | 6.9%  |
| US Growth (SPYG)                          | -5.3%  | -8.1% | 22.5%  | 21.8% | 12.6% |
| Broad-based Emerging Markets (SPEM)       | -7.1%  | 0.2%  | 22.7%  | 14.4% | 4.5%  |
| International Developed Equities (SPDW)   | -8.5%  | 2.8%  | 29.8%  | 16.0% | 8.6%  |
| <b>US Fixed Income</b>                    |        |       |        |       |       |
| High Yield Credit (JNK)                   | -1.0%  | -0.4% | 7.3%   | 7.9%  | 3.5%  |
| Treasury Inflation Protected Notes (SPIP) | -1.5%  | 0.3%  | 2.7%   | 2.9%  | 1.2%  |
| US Aggregate Bond Index (SPAB)            | -1.8%  | 0.1%  | 4.4%   | 3.6%  | 0.3%  |
| Investment Grade Corporate Bonds (SPBO)   | -1.8%  | -0.2% | 5.2%   | 5.0%  | 0.9%  |
| Municipal Bonds (MUB)                     | -2.3%  | -0.4% | 3.9%   | 2.5%  | 0.8%  |
| US Treasury 7-10 Year (IEF)               | -2.3%  | -0.1% | 4.0%   | 2.3%  | -0.7% |
| <b>Commodities</b>                        |        |       |        |       |       |
| Crude Oil (USO)                           | 55.3%  | 84.0% | 64.6%  | 24.2% | 25.7% |
| Broad-based Commodities (BCI)             | 11.4%  | 24.4% | 31.6%  | 13.5% | 13.4% |
| Gold (GLD)                                | -11.1% | 8.6%  | 49.4%  | 32.9% | 21.9% |
| Silver (SLV)                              | -19.8% | 5.8%  | 120.0% | 45.5% | 24.6% |

## S&P 500 Posts Worst Quarter Since Q3 2022

Amid heightened Iran tensions, growing stress in private credit, and a rotation out of AI-related names, large-cap equities struggled in Q1 2026. The S&P 500 Index declined 4.3%, marking its worst quarter since Q3 2022, while the tech-heavy Nasdaq 100 Index fell even further, down 5.8%. Meanwhile, the S&P 500 Equal Weight Index eked out a modest 0.7% gain. Despite a difficult March, other rotational pockets were able to hold onto gains for the quarter as US small-caps led (+3.5%), followed by international developed equities (+2.8%) and US mid-caps (+2.6%). Bonds were mixed as Treasury Inflation Protected Notes and the US Aggregate Bond Index were up marginally (+0.3% and +0.1%, respectively) while high yield credits and municipal bonds fell (-0.4% each). Commodities produced strong positive returns as crude oil rose 84.0%, broad based commodities increased 24.4%, gold was up 8.6%, and silver gained 5.8%.

## Fed Holds Firm, Inflation Persists, and Uncertainty Rises

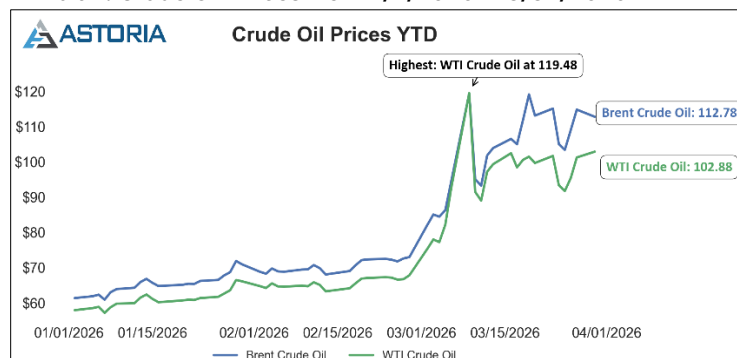
The Federal Reserve held the federal funds rate steady at the March FOMC meeting in an 11–1 vote, maintaining the target range at 3.50–3.75%. This marks the second consecutive rate hold in 2026. The lone dissent came from Governor Christopher Waller, who favored a 25 bps cut. The decision was supported by a mixed but cautious economic backdrop. The February employment report showed Nonfarm Payrolls declining by 92,000, versus expectations for a gain, while the unemployment rate ticked up to 4.4% compared to the unchanged 4.3% estimate. At the same time, inflation data came in stronger than expected, with February PPI (Producer Price Index) readings hotter than forecasted across the board, leaving annualized core PPI at 3.9%. Fed officials and markets have also faced elevated uncertainty amid ongoing developments in the Middle East. “We see the current stance of policy as appropriately restrictive, and we will continue to monitor incoming data and the balance of risks, including geopolitical developments,” stated Fed Chairman Jerome Powell. Looking ahead to April, the CME FedWatch Tool is pricing in another hold with a 99% probability. Although small, the remaining probability has shifted to a hike, with a cut now off the table.

Source: FactSet. Data as of March 31, 2026. 1-Y, 3-Y, and 5-Y numbers are annualized. Past performance is not indicative of future results.

## Geopolitical Tension

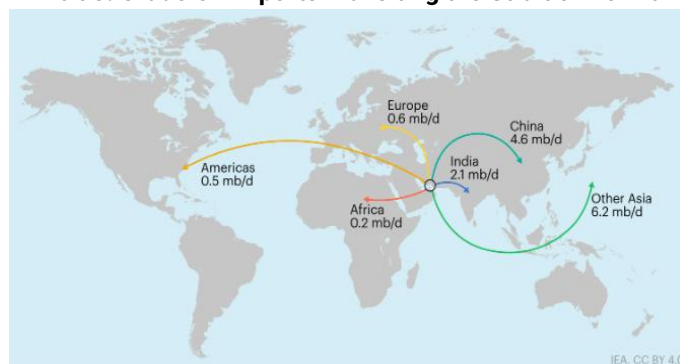
Over the course of March, geopolitical risk emerged as a dominant market theme, driven by escalating tensions among the United States, Israel, and Iran. The conflict intensified from initial shipping disruptions from the effective closing of the Strait of Hormuz to direct strikes on critical infrastructure, driving significant volatility across commodity markets. Brent and WTI crude oil prices surged, reaching highs above \$119 during the month, largely due to the effective closure of the strait. Approximately 80% of the oil and LNG transiting through the strait is destined for Asia, and key regional exporters, including Saudi Arabia, Kuwait, Qatar, Iraq, and Iran, play a critical role in global energy supply. Beyond crude oil and LNG, refined products such as jet fuel also saw sharp price increases. Meanwhile, nitrogen-based fertilizers (including urea and ammonia), other key agricultural inputs, and industrial metals like aluminum and nickel experienced heightened volatility, as supply bottlenecks and shipping delays disrupted global markets and pushed up costs across food, energy, and industrial supply chains.

**Exhibit 2: Crude Oil Prices from 1/1/2026 – 3/31/2026**



Source: FactSet, Astoria Portfolio Advisors. Data shows close prices from January 1, 2026 through March 31, 2026. Past performance is not indicative of future results.

**Exhibit 3: Crude Oil Exports Transiting the Strait of Hormuz**

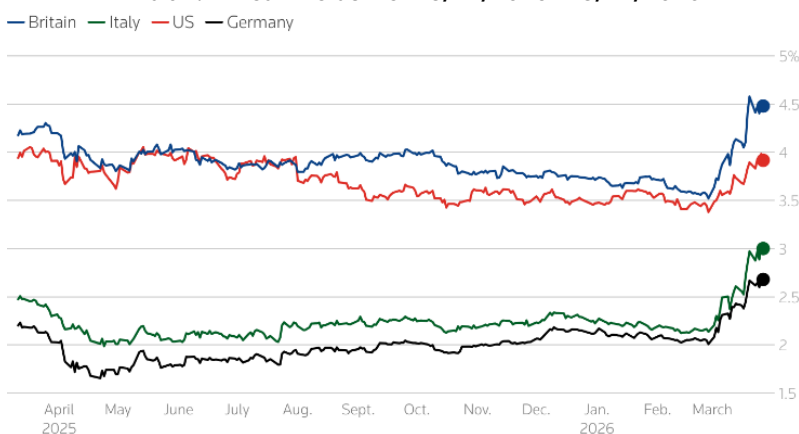


Source: IEA. Analysis based on Kpler. Mb/d represents the number of thousand barrels per day that go through the Strait of Hormuz.

## Stagflation Fears Rise

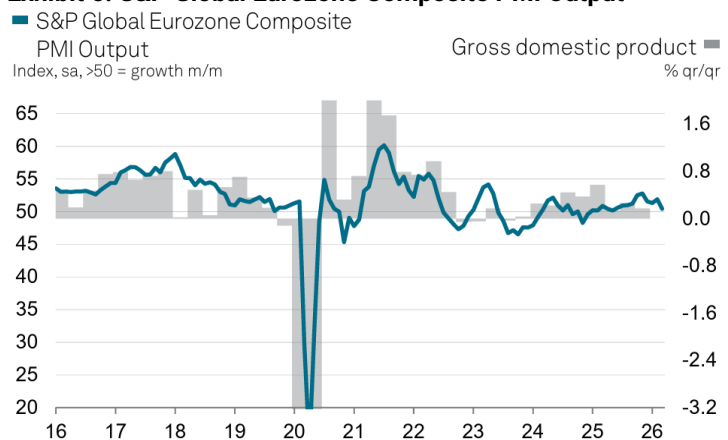
Although markets rallied on the final day of March amid signs of potential off-ramps to end the war, some economic damage may already be underway. Concerns about stagflation, slowing growth combined with persistent inflation, have resurfaced as rising energy prices and higher bond yields have created a difficult environment for central banks. Despite pulling back from recent highs, 2-year yields globally have moved higher as investors scale back expectations for near-term rate cuts. For instance, markets are now pricing at least two rate hikes from the Bank of England this year, a shift from earlier expectations one to two cuts before the war began. Similar tightening is expected from the European Central Bank, as Eurozone headline annualized inflation jumped from 1.9% in February to a flash estimate of 2.5% in March, marking one of the largest monthly increases since 2022. At the same time, the S&P Global flash PMI data indicated weakening private sector growth across the Eurozone in March, with cost pressures rising alongside moderating output. In the US, although the economy is generally viewed as less vulnerable given its net energy exporter status and lower reliance on the Strait of Hormuz, March flash PMI data also showed slowing business activity coupled with elevated input price pressures. This raises the question of whether stagflation pressures will remain concentrated in international markets or persist in the US as well.

**Exhibit 4: 2-Year Yields from 3/27/2025 – 3/27/2026**



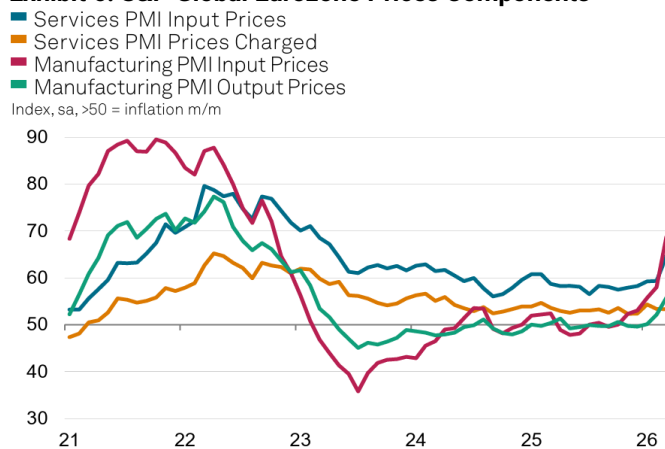
Note: Friday's closing prices  
 Source: LSEG | Dhara Ranasinghe  
 Source: LSEG, Dhara Ranasinghe, Reuters. Data as of March 27, 2025 to March 27, 2026.

**Exhibit 5: S&P Global Eurozone Composite PMI Output**



Source: S&P Global PMI, Eurostat via S&P Global Market Intelligence. © 2026 S&P Global

**Exhibit 6: S&P Global Eurozone Prices Components**



Source: S&P Global PMI. © 2026 S&P Global

## Opportunity for US Equities Amid P/E Derating?

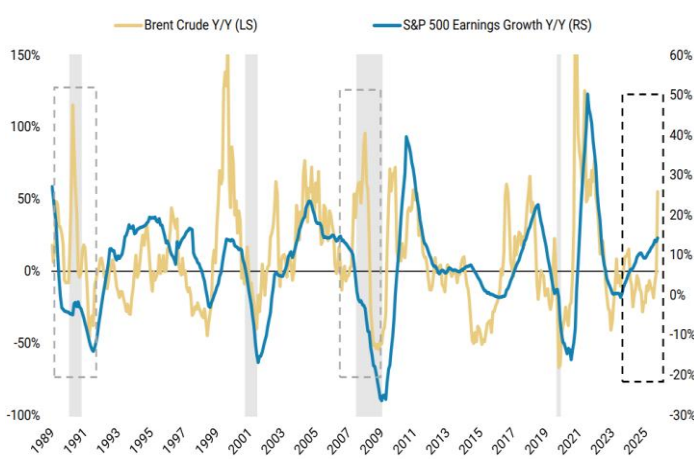
Over the past month, the S&P 500 has experienced a notable valuation derating, with its NTM P/E multiple compressing by as much as 17%. At the same time, consensus NTM EPS growth expectations have moved higher, highlighting a disconnect between valuations and earnings amid both AI-related and geopolitical tensions. Morgan Stanley Research notes that forward returns have historically been above average when NTM P/E drawdowns exceed 10%, earnings growth is inflecting higher, and earnings revisions breadth remains positive. In the following month, the market historically delivered positive returns 69% of the time, with a median gain of 3%, compared with an all-days average of 1% since 1996. Extending to three months, the positive hit rate rises to 75%, with a median return of 7%, versus a long-term average of 2%. Looking further out, six- and twelve-month positive hit rates are 81% and 69%, respectively, suggesting the risk/reward skews favorably. Moreover, unlike past oil shocks, Brent crude has not surged as sharply, and earnings growth is currently accelerating and positive, whereas it was decelerating and negative in prior recessionary periods. Despite the ongoing conflict, this backdrop points to a potentially attractive entry point for equities.

**Exhibit 7: Forward Returns When P/E Falls 10%, Earnings Growth Accelerating, & Positive Earnings Revisions Breadth**

| -10% NTM P/E Drawdowns in Accelerating EPS Environment and Positive ERB | Forward Returns |      |      |      |
|---|-----------------|------|------|------|
|   | +1M             | +3M  | +6M  | +12M |
| 4/11/1997   | 13%             | 25%  | 32%  | 49%  |
| 10/27/1997  | 9%              | 9%   | 26%  | 22%  |
| 8/10/1999   | 5%              | 6%   | 11%  | 14%  |
| 9/21/1999   | -2%             | 8%   | 12%  | 12%  |
| 4/14/2000   | 7%              | 10%  | 2%   | -13% |
| 9/26/2000   | -4%             | -11% | -20% | -27% |
| 4/3/2002  | -5%             | -12% | -24% | -25% |
| 4/30/2004   | 2%              | -1%  | 0%   | 3%   |
| 8/14/2007   | 4%              | 3%   | -7%  | -8%  |
| 1/26/2010   | 1%              | 11%  | 0%   | 18%  |
| 5/4/2010  | -9%             | -6%  | 1%   | 16%  |
| 2/8/2018  | 7%              | 4%   | 10%  | 5%   |
| 3/22/2018   | 0%              | 5%   | 9%   | 8%   |
| 10/28/2020  | 11%             | 18%  | 28%  | 40%  |
| 5/12/2021   | 5%              | 9%   | 15%  | -2%  |
| 10/3/2023   | 2%              | 13%  | 24%  | 35%  |
| 3/12/2026   | -               | -    | -    | -    |
| <b>Average:</b>   | 3%              | 6%   | 8%   | 9%   |
| <b>Median:</b>  | 3%              | 7%   | 10%  | 10%  |
| <b>Positive Hit Rate:</b>   | 69%             | 75%  | 81%  | 69%  |
| <b>LT Average (All days, 1996-Today):</b>                               | 1%              | 2%   | 5%   | 10%  |

Source: FactSet, Bloomberg, Morgan Stanley Research. Data as of March 23, 2026.

**Exhibit 8: Brent Crude Y/Y & S&P Earnings Growth Y/Y**



Source: Bloomberg, Morgan Stanley Research. Data as of March 30, 2026.

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