Equal Weight Leads as AI Funding Faces a Test. Can the Broadening Hold as Conditions Tighten?

OREGON PACIFIC WEALTH MANAGEMENT
A Registered Investment Advisor

Exhibit 1: Trailing Returns as of October 30, 2026

	Index/ETF	1-Mo	3-Mo	YTD	1-Y	3-Y	5-Y
Equities	US Value (SPYV)	4.9%	3.8%	14.3%	16.7%	18.8%	11.7%
	US Small-Caps (SPSM)	3.2%	-3.2%	17.7%	20.7%	18.3%	6.1%
	US Mid-Caps (SPMD)	1.9%	-2.3%	12.0%	14.5%	17.4%	7.2%
	US Large-Caps (SPY)	-0.9%	1.4%	11.7%	12.0%	23.3%	12.0%
	International Developed Equities (SPDW)	-1.7%	-1.4%	12.7%	17.1%	21.8%	9.1%
	US Growth (SPYG)	-5.4%	-0.5%	9.5%	8.3%	27.1%	11.6%
	Broad-based Emerging Markets (SPEM)	-6.4%	-4.8%	4.6%	4.6%	17.5%	5.5%
US Fixed Income	Municipal Bonds (MUB)	3.3%	-0.6%	-0.4%	0.1%	4.2%	0.6%
	US Treasury 7-10 Year (IEF)	3.1%	-0.2%	-1.7%	-1.5%	4.6%	-1.4%
	Treasury Inflation Protected Notes (SPIP)	2.6%	0.0%	0.4%	-0.1%	4.7%	0.0%
	US Aggregate Bond Index (SPAB)	2.4%	0.0%	-0.5%	-0.2%	5.4%	-0.2%
	Investment Grade Corporate Bonds (SPBO)	2.2%	-0.3%	-0.9%	-0.4%	6.6%	0.1%
	High Yield Credit (JNK)	0.8%	-1.2%	0.5%	2.0%	8.5%	3.3%
Commodities	Crude Oil (USO)	15.9%	30.7%	144.1%	133.4%	31.1%	24.2%
	Broad-based Commodities (BCI)	-0.5%	7.6%	31.8%	35.3%	14.9%	10.0%
	Gold (GLD)	-6.6%	-4.2%	-10.2%	-3.4%	24.6%	16.4%
	Silver (SLV)	-18.2%	-14.8%	-30.8%	1.3%	28.6%	15.1%

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

Equal Weight Outpaces the S&P 500 as Mega-Cap Tech Slides

Amid heightened scrutiny over AI spending, renewed energy price pressure tied to the Iran conflict, and a cautious market response to mega-cap earnings, equities were mixed in October, with the Nasdaq-100 declining 6.7% for its worst month since March 2025. Although the S&P 500 finished the month down 0.9% after erasing its gain in the final session, the S&P 500 Equal Weight Index gained 4.9%, outperforming its market-cap-weighted counterpart by nearly six percentage points, its widest monthly margin since 2009. US value (+4.9%) led, followed by US small-caps (+3.2%) and US mid-caps (+1.9%), while broad-based emerging markets (-6.4%) and US growth (-5.4%) lagged. Bonds were up as municipal bonds rose 3.3%, 7-10 year US Treasuries gained 3.1%, and Treasury Inflation Protected Notes increased 2.6%. Aside from crude oil (+15.9%), commodities declined as silver fell 18.2%, gold decreased 6.6%, and broad-based commodities slipped 0.5%.

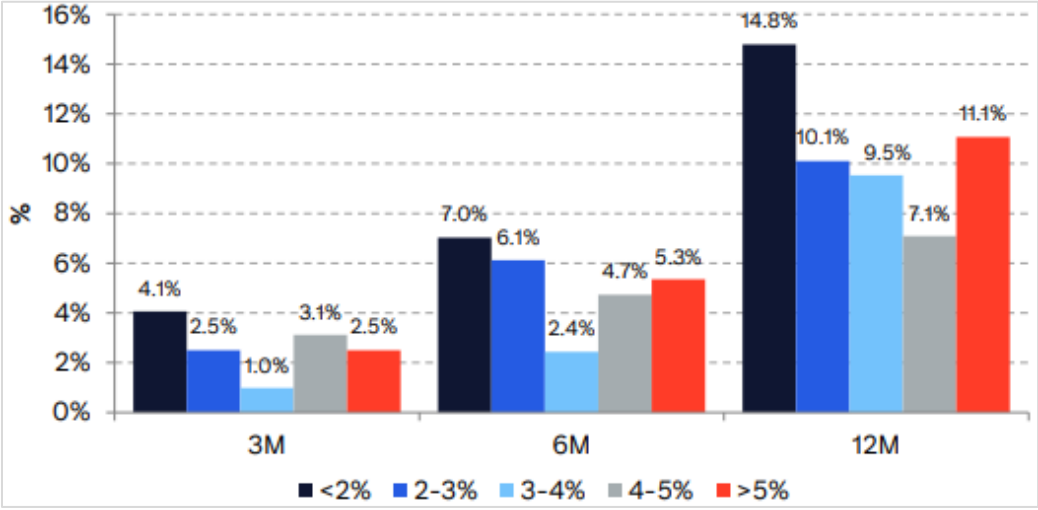
Fed Holds as Warsh Trims the Rate-Setting Calendar

The Federal Reserve held the federal funds rate steady at the October FOMC meeting in a 10–2 vote, keeping the target range at 3.75–4.00%. Governor Lisa Cook and Cleveland Fed President Beth Hammack dissented, both favoring an immediate 25 bps hike. The decision followed September's quarter-point hike and a firmer-than-expected September CPI report, which rose 0.6% month-over-month and lifted headline inflation to 3.7% year-over-year. The statement's most notable change was its description of the economy, upgraded from "solid" to "strong," as it now reads "economic activity is expanding at a strong pace." Chair Warsh pointed to first-half GDP growth being revised up to 2.4% from 1.8% and noted that third-quarter growth appears even faster, while acknowledging that "inflation remains elevated" and that "energy and related prices have moved higher again in recent weeks." Warsh also announced that, beginning in 2027, one of the FOMC's eight meetings will focus solely on long-run strategy, with no rate vote or statement, expanding to two meetings in 2028. With fewer decision points and no forward guidance, each remaining meeting carries more weight. Looking ahead, the CME FedWatch Tool now implies roughly 83% probability of a 25 bps rate hike at the next FOMC meeting in December.

Yields Stay High, but Growth Is Doing the Lifting

With the 10-year Treasury yield hovering around 5%, investors are asking whether higher rates will weigh on equities. Historically, that has not necessarily been the case. Since 1990, when the 10-year yield has been above 5%, the S&P 500 has delivered an average forward return of 5.3% over six months and 11.1% over twelve months (Exhibit 2). Over twelve months, that is ahead of both the 4–5% regime (7.1%) and the 3–4% regime (9.5%). One explanation is that periods of elevated yields have often coincided with strong nominal growth, when rising earnings helped offset the pressure higher rates put on valuations. That appears to be the case today. Third-quarter GDP grew at a 3.4% annualized pace, ahead of the 3.2% consensus, and the 10-year breakeven inflation rate has held in a narrow range of roughly 2.2% to 2.4% since 2023, suggesting that most of the rise in yields reflects stronger real growth rather than higher expected inflation. In other words, yields driven by a strong economy have historically been less damaging to equities than yields driven by stress.

Exhibit 2: Average S&P 500 Forward Returns by 10-Year Yield Level

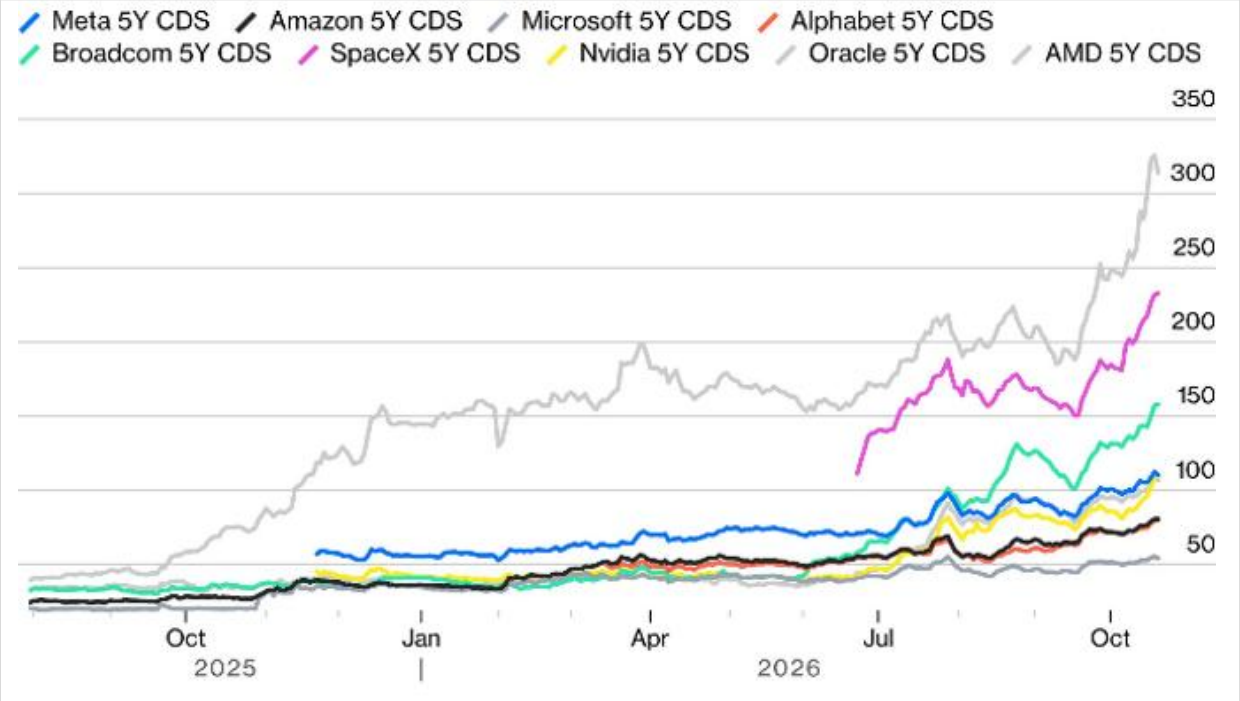


Source: FactSet, Citi. Data as of October 19, 2026. Using S&P 500 forward returns since 1990.

AI Demand Holds as Funding Comes into Focus

As noted last month, hyperscaler capital spending has been running ahead of operating cash flow. In October, the focus shifted from whether the spending is justified to how it gets funded. Demand remains strong. Anthropic's S-1 filing showed roughly $417 billion in future obligations to compute providers, Microsoft's Azure revenue grew 48%, and Google Cloud revenue more than doubled. The challenge is paying for that capacity, and markets appear to be favoring companies that can fund the build-out internally. Meta's Q3 spending outpaced its operating cash flow, leading the company to raise capital through stock offerings in addition to new debt. Results from Microsoft and Alphabet highlighted the divide. Microsoft generated $18.6 billion of free cash flow and expects to stay positive this fiscal year, yet it is also returning to the bond market, seeking at least $25 billion in its first US investment-grade bond sale in 9 years. In contrast, Alphabet's free cash flow fell to -$9.1 billion, its second straight negative quarter, even after raising $28.7 billion in notes and $12.4 billion in stock. Despite strong cloud growth, Alphabet's shares fell nearly 13%, while Microsoft held roughly flat. Credit markets had been signaling this ahead of earnings. Five-year credit default swap (CDS) spreads on hyperscalers and chipmakers have widened since the summer, with most of the pressure concentrated among leveraged neoclouds, which fund GPU purchases largely with debt. CoreWeave shares fell more than a third in October, and its five-year CDS spread more than doubled from its June low. With Alphabet expecting capex to rise significantly again in 2027, the focus may increasingly shift from whether AI demand is real to which companies can fund the capacity needed to meet it.

Exhibit 3: Five-year Credit-Default Swaps on Hyperscalers and Chipmakers

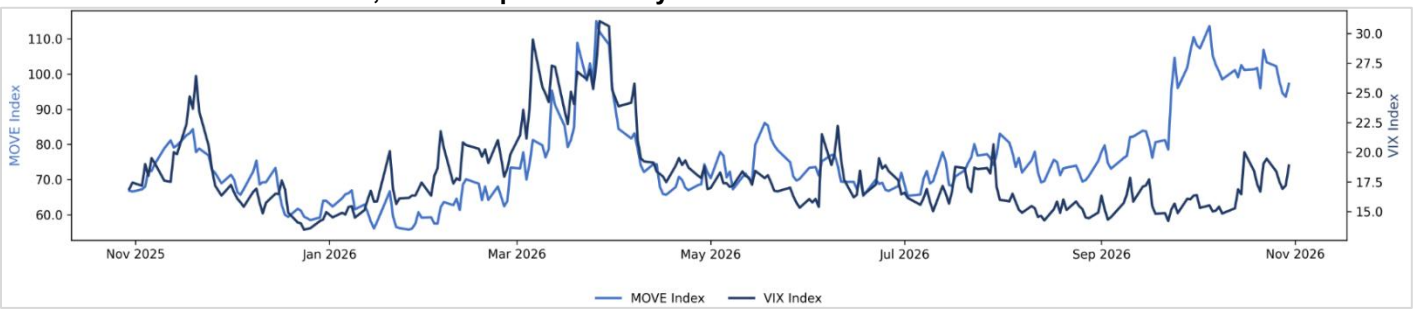


Source: Bloomberg, ICE Data Services. Data as of October 22, 2026.

Volatility Rises as Financial Conditions Tighten

Equity volatility picked up in the final days of October. The MOVE Index, which tracks implied volatility in Treasuries, jumped in September and has stayed well above its summer levels, while the VIX remained comparatively subdued for much of the month (Exhibit 4). That changed on October 30, when disappointing results and cash-burn warnings from Amazon and Intel, following Alphabet's selloff earlier in the week, sent the S&P 500 down 1.8% and the Nasdaq Composite down 2.9%, while the VIX rose 12.9% to 19.4. The selling, however, remained concentrated in the largest names. Since its October 6 record, the Nasdaq-100 has fallen roughly 9%, while the S&P 500 Equal Weight Index has gained nearly 3%, and with the Magnificent 7 accounting for roughly a third of the S&P 500, a handful of earnings reports can have an outsized effect on the broader index. These moves came against a backdrop of tighter financial conditions, driven by higher rates, slower growth in the Fed's balance sheet, rising demand for capital, and higher energy prices. Notably, much of the tightening has come through the balance sheet rather than the policy rate, as the three-month growth rate of the Fed's balance sheet has slowed from about 2% in the spring to near zero. Gold's recent behavior reflects this picture. On October 22, the 10-year real yield fell 12 bps, a backdrop that would normally support gold, yet gold dropped 2.4% alongside silver, platinum, and the Nasdaq, suggesting some investors were raising cash across asset classes. So far, the strain has not spread to short-term funding markets, which remain stable, and the Fed and Treasury have tools to step in if it does. If the Treasury caps long-term yields while inflation stays elevated, real assets like gold stand to benefit.

Exhibit 4: MOVE Index vs. VIX, 1-Year Implied Volatility



Source: FactSet, Astoria Investment Management. Data as of October 30, 2026.

Warranties & Disclaimers

There are no warranties implied. Past performance is not indicative of future results. Information presented herein is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and, unless otherwise stated, are not guaranteed. The returns in this report are based on data from frequently used indices and ETFs. This information contained herein has been prepared by Astoria Investment Management, previously known as Astoria Portfolio Advisors LLC, on the basis of publicly available information, internally developed data, and other third-party sources believed to be reliable. Astoria Investment Management has not sought to independently verify information obtained from public and third-party sources and makes no representations or warranties as to the accuracy, completeness, or reliability of such information. Astoria Investment Management is a registered investment adviser located in New York. Astoria Investment Management may only transact business in those states in which it is registered or qualifies for an exemption or exclusion from registration requirements