Q1 2026

Asset Allocation Overview

Orion OCIO

Thoughts on Markets, the Economy, and Positioning

Equities delivered positive returns for the fourth quarter, rising approximately 2.7%, which capped off a stellar 2026 for investors. Following a volatile first quarter, the S&P 500 found its footing and finished the year ahead by 17.8%, led by communication services (+33%) and IT stocks (+24%). All eleven sectors of the S&P finished higher for the year. Overseas markets fared even better, with developed markets gaining 31.8% and emerging markets up 34.2%. Diversification was beneficial for investors, including commodities advancing 16%, gold surging 62%, and fixed income returning 7.3%. From an economic perspective, tariffs captured headlines in 1Q, as Wall Street feared trade uncertainty could upend inflation and economic growth. Fortunately, policy was softened, agreements were negotiated, and impacts were less than feared, prompting an equity rally through the summer. The Federal Reserve was also accommodative, cutting interest rates three times in 4Q, as a cooling labor market was cited as the primary driver of monetary policy. Rates could remain rangebound in the first half of 2026, with Fed Chair Jerome Powell's term set to expire in May, and just one rate cut priced in by markets in the new year. Finally, earnings growth accelerated throughout the year, as the AI growth continued, the US consumer remained resilient, and risks to economic growth were short-lived.

Key Talking Points

Markets provided a tailwind for risk-assets across the asset class spectrum in 4Q, continuing momentum that began in the Spring. Diversification continues to benefit our discretionary model portfolios, with positive returns beyond the headline grabbing large cap and tech sectors. Volatility has also been benign, with economic data coming in better than expected. As such, we did not feel compelled to re-balance portfolios following our model trades in July of 2025. We remain optimistic on risk assets heading into the new year, as earnings growth is accelerating, interest rates are gradually moving lower, worse-case scenarios tied to trade uncertainty have dissipated, the corporate bond market is signaling confidence, the US consumer remains resilient, and tailwinds from AI are prevalent. We are mindful of potential headwinds to near-term performance, including elevated valuations, lofty expectations for AI, sticky factors contributing to inflation, the geopolitical landscape, and our concerning national debt figure. The former group of positive factors holds a larger weight in our eyes, expecting the long-term bull market to advance forward. From a positioning perspective, we are maintaining a very slight overweight to small cap and international equity. On the fixed income side, we are maintaining our preference for investment-grade credit at the expense of high yield, as yield spreads remain historically tight.

POSITIONING - STOCKS	CHANGE	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	RATIONALE
Domestic Equity			●		Healthy earnings growth, AI tailwinds, resilient consumer, lower interest rates
International Equity			●		Fiscal spending boost, weaker USD, improving fundamentals, EPS expectations
Emerging Markets			●		Trade impacts muted, stimulus in China, weaker USD, tailwind for commodities
Large Cap			●		AI capex, tariff exemptions, lofty investor expectations; elevated valuations
SMID Cap			●		Lower borrowing costs, AI broadening, attractive valuations; unsettled inflation
Growth			●		Growth has become expensive of late but remains attractive over the long-term
Value			●		Value stocks remain attractive amidst elevated tech multiples, concentration risk

POSITIONING - BONDS	CHANGE	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	RATIONALE
Government Bonds			●		Improving rates, safe haven from equity market volatility; expanding US debt
MBS			●		Mortgage yields and spreads remain attractive, relative to Treasuries
Corporate Credit		●			Improved default risk for high yield, but credit spreads remain tight
Duration			●		Long-dated yields remain range bound over the past 12 months

About Orion OCIO

Orion’s OCIO offering can help your firm grow and scale your business with a complete suite of investment and operational services, customizable to your firm’s needs. From the original client interaction to the allocation of the account, our investment management team can help you through the entire client acquisition process. If you can provide a current brokerage statement from a client, we will help you do the rest! We’ll create a customized investment report, an ‘Audit’, that is designed to expose the current investment inefficiencies in their portfolio. If you want, we can help at the point-of-sale to help close the client account as well. From there, this same team will create a customized proposal based on what the client needs from their portfolio. In part due to this process, since 2018 advisory firms that have partnered with Orion OCIO have collectively averaged an impressive year-over-year growth rate of over 67%.[1] Our Trade Desk has a disposition towards accuracy and communication, and staff our desk accordingly. Our desk of 15+ traders is available from market open to end-of-day via phone and email. Led by a leadership with a combined 25+ years of experience in Trading within the Orion environment and in managing single-strategy accounts, or UMAs/sleeved accounts. Whether you are needing contributions/ distributions, DCAs, and TLH requests (to name a few), we intend to trade so that you don’t have to.

Don’t Work With Us Yet?
Let’s Change That.

Visit Us Online

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[1]Source: Proprietary Orion data, as of 6/18/2024.