Q3 2026

Asset Allocation Overview

Thoughts on Markets, the Economy, and Positioning

Stocks rallied in Q2, in large part due to de-escalation efforts in the war with Iran. The S&P 500 finished 15% higher, while the NASDAQ and Russell 2000 eclipsed 21%. As stock prices moved higher, the price of crude oil moved lower. West Texas Intermediate hit a high of $113 per barrel on April 7th, and closed out June at $69, effectively completing a round trip as pre-war prices sat near $67 per barrel. Extraordinary earnings growth was also a major factor for the move higher for equity markets. S&P 500 earnings grew 28% year on year in Q1, results that easily topped Wall Street's expectations and represented the best growth rate for the bellwether index since 2021. Markets underwent a mild rotation in June, with segments of the market tied to AI momentum taking a breather, evidenced by the -10% decline for the "magnificent seven" tech stocks during the month. Small caps, value stocks, and international markets benefitted from the rotation. Emerging markets especially stood out, finishing Q2 up 24%. Finally, the Federal Reserve under new Chair Kevin Warsh, left interest rates unchanged at its June meeting. Rates may go sideways in the second half of the year, reflecting mixed economic signals tied to the labor market and inflation expectations. Wall Street and the bond market seem content with the potential path forward, reflected in the 10-year Treasury yield hovering near 4.50%.

Key Talking Points

International equity markets have outperformed broad global equities over the past twelve months, up 27% for the period, which is ahead of the S&P 500 by about 500 basis points. While there are still reasons to remain optimistic on the outlook for the asset class, namely attractive valuations, fiscal stimulus in Europe and Japan, and AI competition in emerging markets, Orion's asset allocation committee focused on the less compelling fundamental backdrop in its decision to trim international equity exposure relative to US equities in the second quarter. Fundamentals are weakening (particularly in developed markets), with a less robust earnings profile than domestic equities, translating into a widening earnings growth gap to US equities. Economic data are also diverging, with the Citi Economic Surprise Index showing positive surprises in the US, while the Eurozone registered its weakest readings in nearly three years. Energy market disruption is also a headwind on a relative basis, as the US benefits from being a net exporter of crude oil and natural gas. The rotation is only modest, however, resulting in a neutral US / ex-US split. Our preference for higher expected earnings growth and AI tailwinds in emerging markets is reflected in an overweight exposure relative to developed markets.

POSITIONING - STOCKS	CHANGE	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	RATIONALE
Domestic Equity			●		Robust earnings growth, AI tailwinds, resilient consumer; against stretched valuations, higher analyst expectations, and persistent inflation weighing on potential returns.
International Equity			●		Attractive valuations and fiscal stimulus; against sensitivity to energy price swings and widening earnings gap vs US.
Emerging Markets	→			●	AI competition, record exports in China, stable interest rates, and tailwinds for commodity exporters.
Large Cap			●		Unprecedented capex and earnings growth in tech; against elevated valuations and concentration risk.
SMID Cap			●		Productivity gains and broadening of AI, improved earnings growth, stable borrowing costs, and balanced valuations.
Growth			●		Anchored interest rate expectations; neutral sentiment, growth broadening in bull market's 4th year.
Value			●		Value stocks offering attractive downside protection during recent volatility and maturing market cycle.

POSITIONING - REAL ASSETS	CHANGE	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	RATIONALE
Real Assets				●	Unsettled geopolitical backdrop; secular tailwinds including reshoring of defense, AI infrastructure, and a renewed focus on energy optimization.

POSITIONING - BONDS	CHANGE	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	RATIONALE
Government Bonds			●		Range-bound interest rates and yields, safe-haven during equity market volatility.
MBS			●		Mortgage yields and spreads remain attractive relative to Treasuries.
Corporate Credit		●			Credit spreads remain tight, with a preference toward higher credit quality.
Duration			●		Long-dated yields remain range bound over the past 18 months.

About Orion OCIO

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.

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

2228-R-26211