

Market Perspectives

February 2026



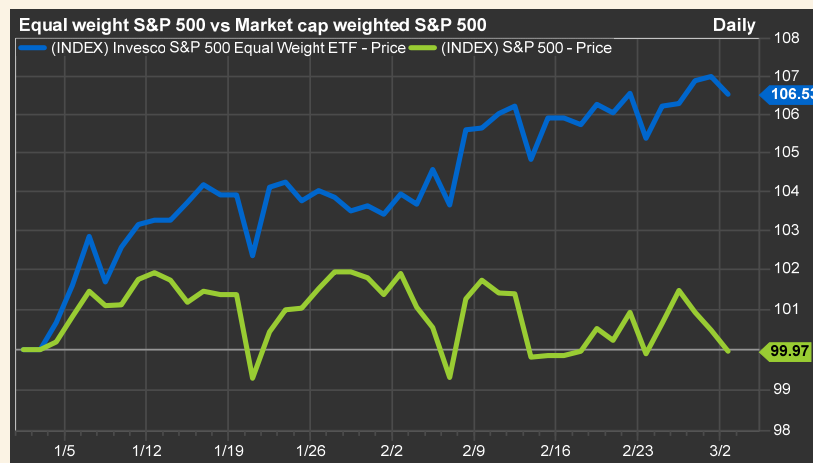
AI disruption fears lead to heightened market volatility in February.

Index	MTD	QTD	YTD	2025	2024	2023
S&P 500	-0.76	0.68	0.68	17.88	25.02	26.29
Dow Jones Industrial Average	0.31	2.12	2.12	14.92	14.99	16.18
Russell 2000	0.80	6.20	6.20	12.81	11.54	16.93
NASDAQ Composite	-3.33	-2.39	-2.39	21.14	29.57	44.64
Europe, Australia, & Far East (EAFE)	4.64	10.11	10.11	31.89	4.35	18.85
MSCI Emerging Markets	5.51	14.86	14.86	34.36	8.05	10.27
Bloomberg Barclays U.S. Aggregate Bond	1.64	1.75	1.75	7.30	1.25	5.53
Bloomberg Barclays U.S. Corporate High Yield	0.19	0.69	0.69	8.62	8.19	13.45

As of 02.28.2026; Returns in percent

FINANCIAL MARKET PERFORMANCE

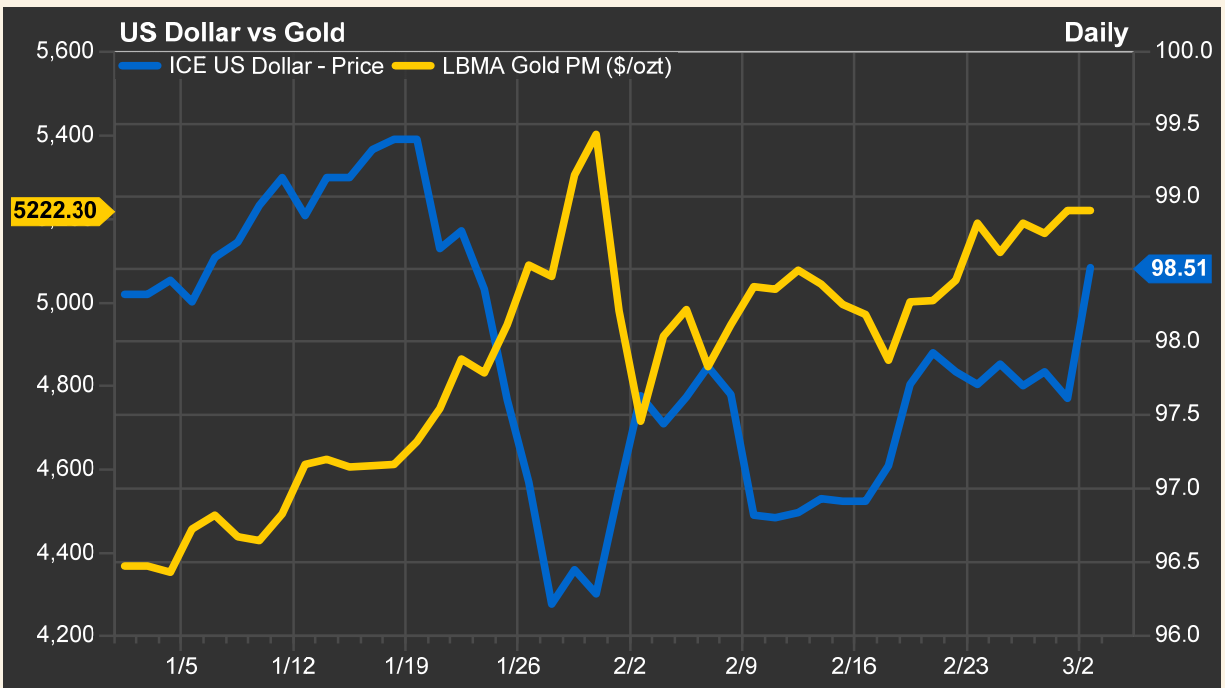
Major US equity indices were mixed in February, with the S&P 500 down for the second time in the past three months and the Nasdaq logging its worst month since March 2025. The S&P 500 fell 0.76% while the Nasdaq Composite dropped 3.33%. Results reflected continued big tech weakness amid AI worries and a widespread rotation toward cyclicals. Amid the dispersion, the equal-weight index rose 3.5% and saw its fourth consecutive monthly outperformance vs the cap-weighted S&P 500. The equal-weight index has now outperformed the market cap weighted index by more than 6% year-to-date, largely due to the underperformance of Tech stocks and the Mag 7.



Source: FactSet As of 03.02.26

In addition, the small cap Russell 2000 gained 0.80% for the month. Big tech was mostly lower, with Amazon falling 12.3% and standing out as the notable Mag 7 decliner for February. Software was a significant laggard amid ongoing concerns about AI disruption. Private equity and private credit also came under pressure amid concerns about exposure to the software sector.

Investment grade bonds performed well as interest rates fell and the yield curve flattened – specifically the 10-year Treasury yield, which dropped 30 bps to end the month back below 4%. The Bloomberg Agg Bond index rose 1.64% while High Yield bonds gained 0.19%. The US dollar gained 0.7% while Gold was up 10.6%, logging its eighth straight month of gains and its strongest month since last March. Gold continues to outperform the dollar on a year-to-date basis.



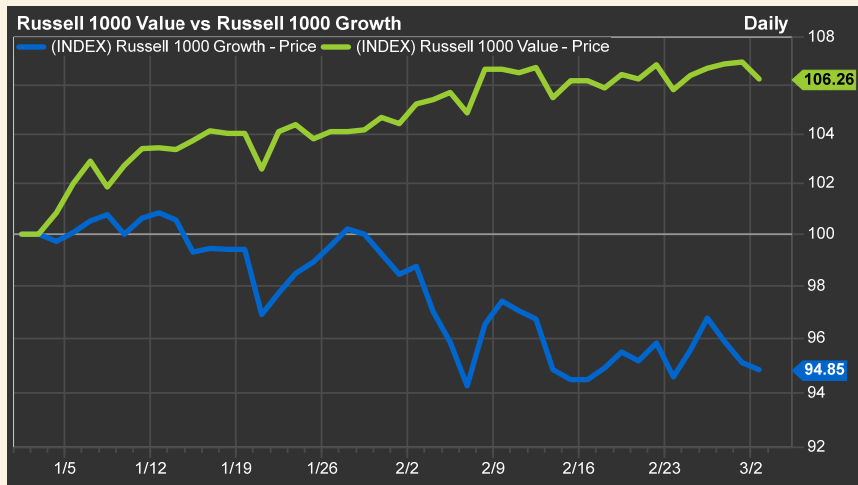
Source: FactSet As of 03.02.26

PERFORMANCE DRIVERS

While the S&P recorded only a modest decline for February, that headline number masks a month characterized by significant volatility. The software industry was once again a major focus, with the group being broadly battered by the threat of AI competition and disruption. There seemed to be a near-daily drumbeat of headlines about new capabilities in AI models that threatened more white-collar job destruction, and the fearful mood seemed to be captured in a Citrini Research blog post illustrating a somewhat apocalyptic scenario occurring in a short period of time.

But these fears were also countered by copious commentary about more benign and even positive potential outcomes, as well as the steep climb to meeting optimistic expectations and the long-term impact of creative destruction. As a result, many software and AI-related stocks are now trading at what we believe are very attractive valuations relative to their expected earnings growth rates.

Alongside this, the month saw a broad trend of rotation, rather than risk-off. Investors shifted out of large cap tech stocks/Mag 7 and into smaller cyclical companies. This was reflected by another month of outperformance by the equal-weight S&P relative to the market-cap-weighted index. This appeared to be driven both by economic optimism and the "run-it-hot" tailwind as well as caution amid the ongoing debate about the return on investment from the massive AI capital spending plans in the tech sector. This trend can also be seen in the dramatic outperformance of value stocks vs growth stocks thus far in 2026.



Source: FactSet As of 03.02.26

The economic backdrop seemed to remain promising. Positive economic surprise momentum continued during the month, bolstered by very strong January payrolls numbers. That said, considerable debate persisted around the path ahead for monetary policy. Policymakers noted both the health of the labor market (though stressed AI impacts on layoffs remain to be seen) and inflation that remains somewhat above the Fed's target (note the hotter than expected January PPI data that came out at month's end). In any event, futures pricing still reflects market expectations for two 25 bps rate cuts this year, the first seen as likely in June.

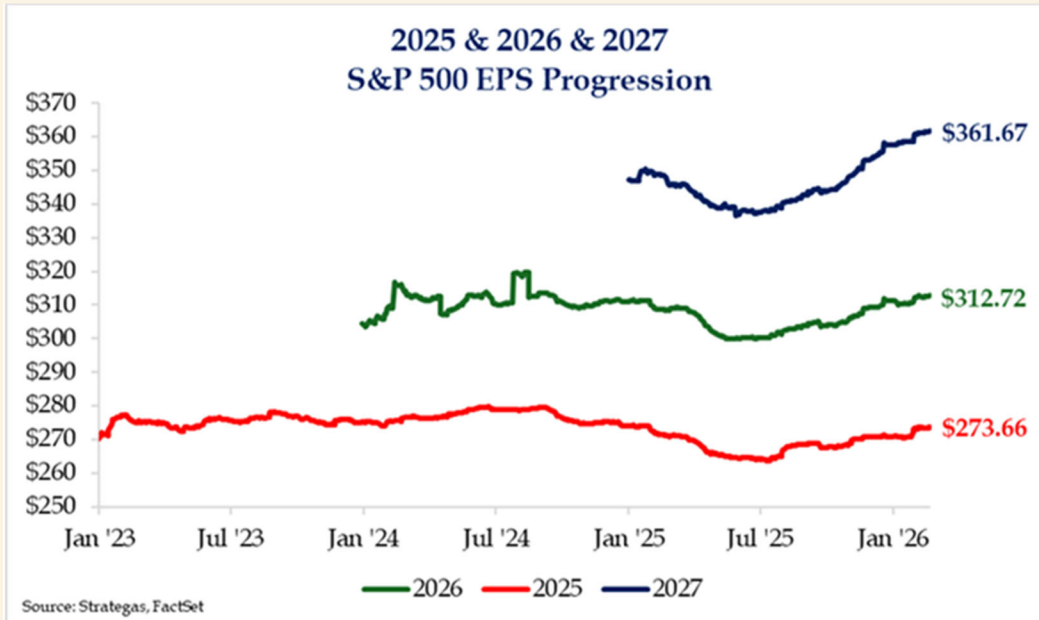
Trade policy re-entered the spotlight as the Supreme Court ruled 6-3 against President Trump's use of emergency tariff powers under the International Emergency Economic Powers Act (IEEPA). In the aftermath of the ruling, the White House instituted a new 10% "global tariff" and talked about a boost to 15%. As a result, the US is expected to owe tariff refunds of between \$70 Bn and \$145 Bn.

On Friday, Feb 27, the US and Israel launched an attack on Iran that resulted in the death of the Supreme Leader Ali Khamenei and a number of his leadership team as well as the destruction of over 1,000 military and intelligence targets. In response, the Iranians and their proxies have launched attacks against US allies and have announced the closure of the Strait of Hormuz, which is intended to disrupt up to 20% of global crude oil shipments. President Trump has set the expectation that this will be a surgical strike that lasts no more than a few weeks, but the global oil markets are already reacting to the potential for a significant decline in supply. In fact, WTI crude surged more than 7% following the attack. Historically, financial markets have responded to geopolitical events to the extent they have negatively impacted the economy, and that impact is most frequently felt in rising oil prices. Given the current state of "sticky" inflation, any major rise in a commodity such as oil may cause some economic disruption. However, the chart below demonstrates that geopolitical events have historically had little to no impact on the markets, in sharp contrast to fundamental financial shocks.

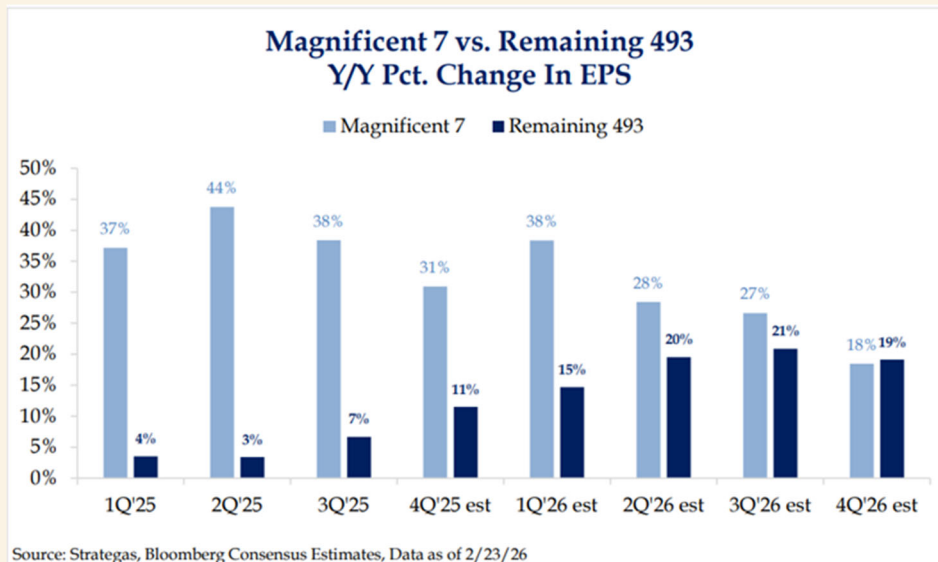
S&P 500 Performance Before/After Major Historical Events					
Event	Date	Pre-Event		Post-Event	
		-6 Mo.	-3 Mo.	+3 Mo.	+6 Mo.
Gulf War I	1/16/1991	-13%	5%	22%	21%
Dot.com Peak	3/24/2000	19%	7%	-5%	-5%
Gulf War II	3/20/2003	4%	-2%	12%	17%
Bear Sterns Takeover	3/16/2008	-13%	-15%	5%	-3%
Lehman Brothers Failure	9/15/2008	-10%	-11%	-23%	-37%
Average:		-3%	-3%	2%	-1%

Source: Strategas, Bloomberg

Corporate earnings growth continues to be a strong tailwind for markets. As of the end of February, the blended earnings growth rate for Q4 S&P 500 EPS currently stands at 14.2%. This is well above the 8.3% growth rate expected. In addition, future year earnings expectations are now being adjusted higher, as can be seen below.

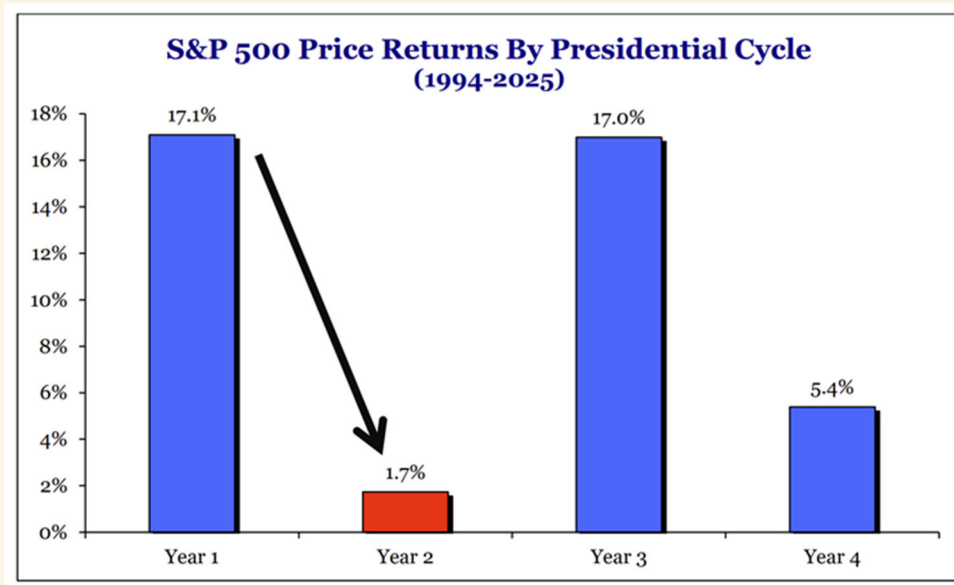


The expectation for the contribution of non-Mag 7 company earnings growth is also trending higher. In fact, by Q4 of this year, they are expected to be roughly equal on a year-over-year basis.

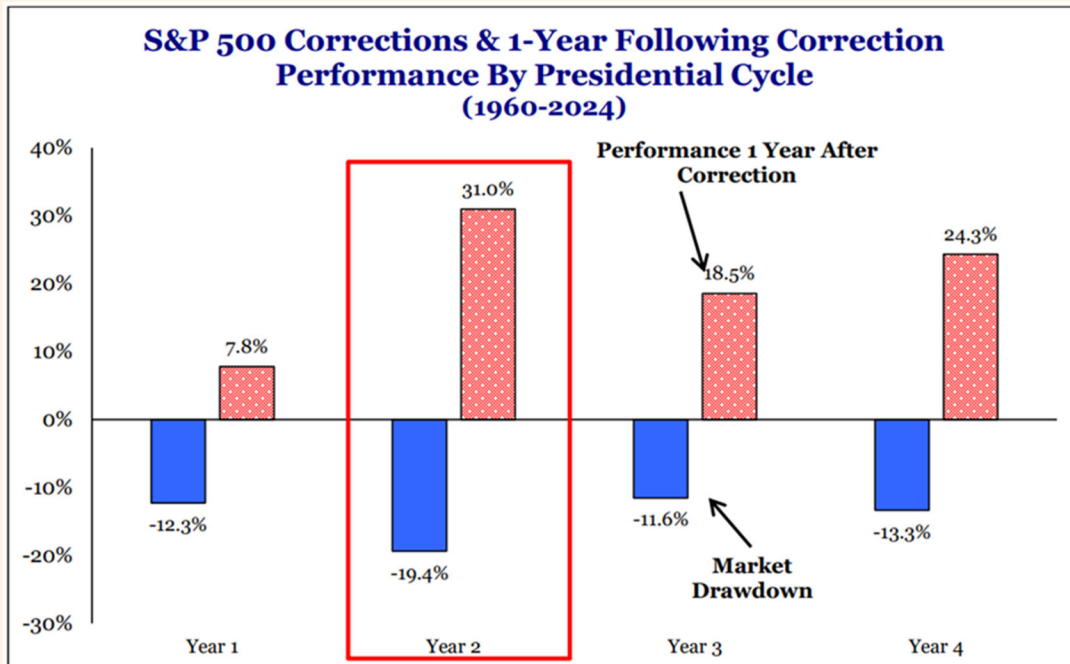


THE BEARISH NARRATIVE

Excessive stock market valuation, sticky inflation, the potential for a weakening labor market, and historical stock price patterns dominate the current bearish narrative today. As seen in the two charts below, the second year of the Presidential term tends to be the weakest and most volatile, with average drawdowns of 19% during the year.

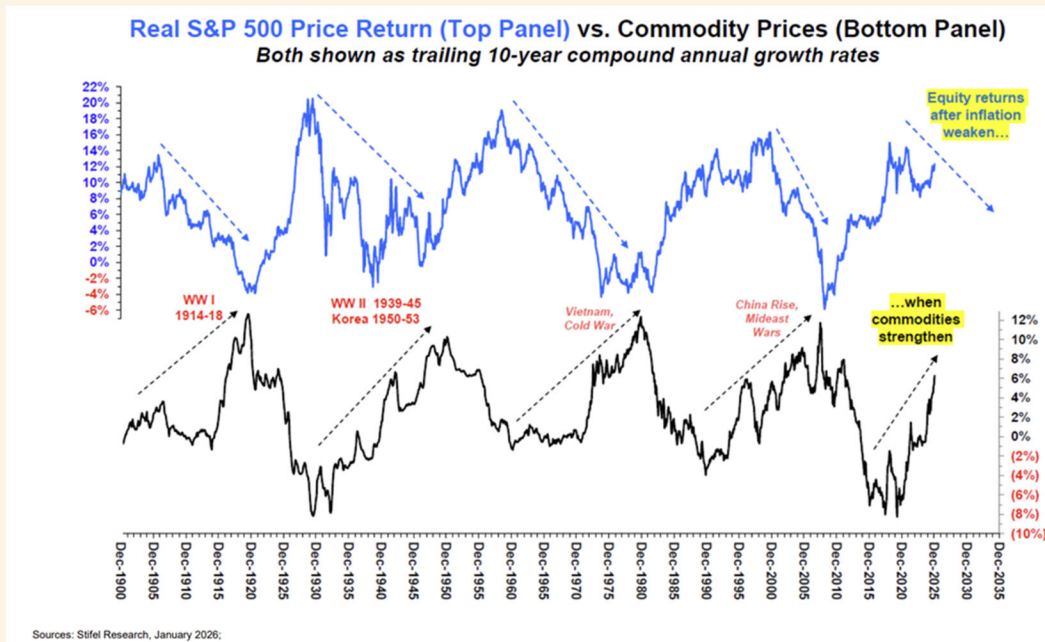


Source: Strategas As of 03.02.26



Source: Strategas As of 03.02.26

In addition, the strong performance of commodities such as Gold and Silver, and potentially oil, is a warning sign for rising inflation and weaker equity market returns.



WHAT TO EXPECT & INVESTMENT PORTFOLIO IMPLICATIONS

The variance in performance among asset classes this year again demonstrates the need for diversification and a patient long-term approach. In contrast to recent years, we are seeing Value beating Growth, small cap stocks outperforming large cap stocks, and foreign markets besting US markets. In addition, despite some of the recent headlines, we still believe alternative strategies such as private equity and private credit can potentially offer excellent diversification and return enhancement to an investor’s portfolio. Also, note that investors with Energy exposure should benefit from any sustained rise in oil prices resulting from the Iran strike.

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WHAT TO EXPECT & INVESTMENT PORTFOLIO IMPLICATIONS

Despite the stock market volatility seen in November, the market trend continues to be favorable as we move through the 4th quarter, given strong corporate earnings growth, the likelihood of an even lower Fed Fund rate by year end, and positive seasonality. However, we continue to believe that the best strategy for long-term investors is a healthy mix of stocks & bonds, US & foreign investments, as well as publicly traded and private investments. Diversification, including private alternatives, is even more imperative today given what appears to be excessive valuation levels in US stocks.

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