

Highlights

- The US stock market fluctuated as AI concerns pushed investors toward defensive stocks
- Other major equity markets showed decent gains.
- The European Central Bank and Bank of England both left interest rates unchanged, but the Bank of England's decision was again finely balanced.
- Japan's snap election produced a resounding victory for Sanae Takaichi, which boosted equities and lowered bond yields.
- Gold climbed back over \$5,000 an ounce, ending the month up 10.2%.
- Bond markets rallied over the month in expectation of rate cuts to come in 2026.

AI continued to be a focus for investors in February. In the US, concerns grew about the multi-billion-dollar amounts being earmarked for data centres. Even Nvidia's record fourth quarter results could not stop its share price from dropping 7.3% of the month¹. Other US companies were hit from the opposite side of AI, with concerns that software as a service (SaaS) suppliers would lose subscribers to bespoke – and cheaper – AI solutions.

However, not all AI news was bad news. The Taiwanese and Korean markets continued to benefit from their role in the AI hardware supply chain, with the Korea Composite Stock Price Index (KOSPI) up almost 20% in February after a 24% rise in January.

The final trading day of February was Friday 27th. Having started the year at \$60.85 a barrel², Brent crude closed the day at \$72.48 a barrel, a rise that reflected growing fear of US action against Iran. On 28 February, Operation Epic Fury began.



United States

In February, the S&P 500 churned within a narrow range, eventually ending the month down 0.9%. The limited movement of the index hid a considerable share price volatility within the market. This can be seen in the S&P 500 Dispersion index, which shows the difference in volatility between the average S&P 500 constituent and the index, and is at a historically wide level³.

Concerns surfaced about AI hit tech stocks, with focus on companies such as Salesforce⁴, which were seen as vulnerable to replacement by AI-written systems. In February, the worries about tech were evident in another sign of dispersion – the outperformance of the S&P equal-weighted index, which posted a gain of 3.4% as investors turned towards defensive sectors. In a mirror image, the tech-heavy Nasdaq dropped 3.4%. The Russell 2000 index, covering smaller companies, added 0.71%.

On 20 February, the Supreme Court gave its judgement of the ‘Liberation Day’⁵ tariffs, which Donald Trump had imposed under the International Emergency Economic Powers Act (IEEPA). The 6-3 decision that IEEPA’s powers to “regulate, direct and compel, nullify, void, prevent or prohibit... importation or exportation” did not extend to the imposition of tariffs was no great surprise. The betting markets had given Trump less than a one-in-three chance of winning and US equities, following the same line of thinking, were largely unmoved. The defeat did nothing to end tariff uncertainty, as Trump was almost immediately out of the blocks, promising a 10% universal tariff under the Trade Act 1974, which he subsequently announced would be 15% – the maximum permitted. These tariffs are time-limited to 150 days, so another tariff deadline now looms in July⁶.

The question of what happens to the estimated \$175 billion of tariffs illegally collected under IEEPA was passed down to the lower courts by the Supreme Court. Many large corporations have already filed lawsuits seeking refunds but, to quote the CEO of Costco, “It is not yet clear what the process will be, what refunds, if any, will be received and when this will happen.”⁷

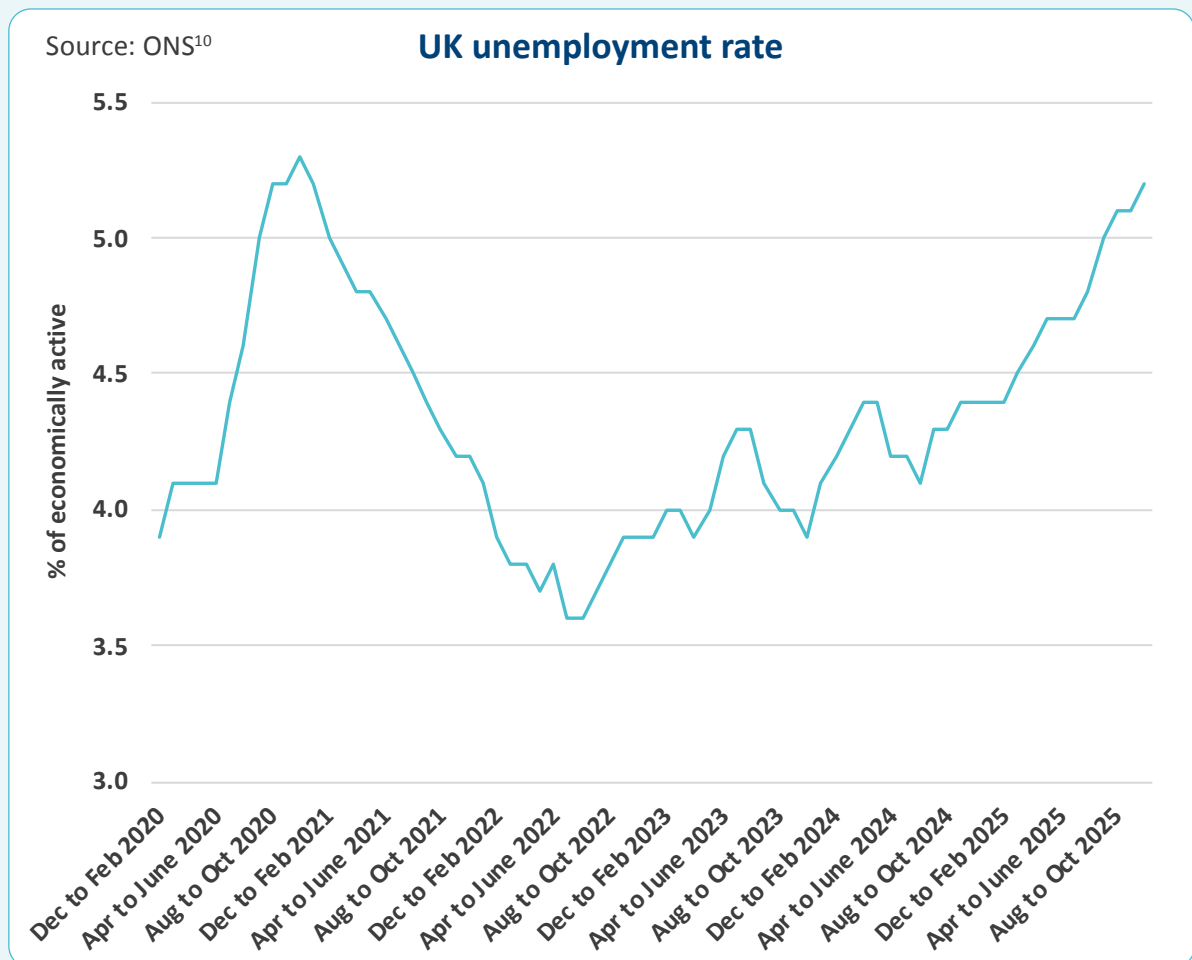
At first sight, January’s US inflation numbers were better than expected (2.4% consumer price index (CPI), 2.5% core CPI), but they were flattered somewhat by large falls in used car prices. To give the Federal Reserve further food for thought, the January jobs report showed 130,000 new jobs being created, the highest in over a year. Unemployment fell to 4.3%. Nevertheless, the markets continued to see the Fed cutting rates two or three times in 2026, evidenced by a fall in Treasury yields over the month that took the 10-year yield to just under 4%.



United Kingdom

UK equity markets continued their strong start to the year, with the FTSE 100 adding 6.7%, ending February at a new all-time high. After long being neglected, international investors are now being attracted to the duller defensive nature of the index's constituents. For companies outside the FTSE 100, February gains were smaller – the FTSE 250 rose 2.2% and the FTSE Small Cap 2.7%.

The weaker performance of indices that focus more on the UK could be due to disappointing domestic economic news. The Office for National Statistics (ONS) data showed quarterly UK Gross Domestic Product (GDP) growth at a meagre 0.1% in the final quarter of 2025, the same as in the previous quarter⁸. Estimated 2025 growth was 1.3%, up 0.2% on 2024, but 0.2% below the Office for Budget Responsibility's (OBR) Autumn 2025 Budget projection⁹. There was also disappointing news on the labour front, with the October-December 2025 unemployment rate edging up to 5.2%, its highest level since November 2020-January 2021, around the COVID-19 peak.



There was some better news on inflation, with the January CPI falling to 3.0%, coincidentally the level in January 2025. Before the figures were published, the Bank of England's Monetary Policy Committee minutes had said "CPI inflation was expected to fall back to around the 2% target from April."¹¹ The Bank left rates unchanged at its February meeting, but, as in the previous two meetings, the vote was 5-4, which upped market expectations that there would be a cut to 3.5% at the next meeting. The gilts market had the same thoughts, with yields at both the 2-year and 10-year market share declining by about 0.2%.

Europe

European markets had a good month, with the Euro Stoxx 50 rising by 3.2%. The Dax in Germany added 3.0%, as that country's economic outlook improved, helped by fiscal policy. In France, political concerns subsided and the CAC 40 (Cotation Assistée en Continu 40) perked up 5.6%, hitting a new all-time high just before the month ended. The Iberian markets remained buoyant, with Spain's IBEX 35 up 2.7% and Portugal's Portuguese Stock Index (PSI) rising 7.1%.

Eurozone growth in the final quarter of 2025 was reported as 0.3%, in line with expectations. Inflation fell faster than expected in January to 1.7% CPI (2.2% core)^{12,13}. This was not enough to prompt any change from the European Central Bank, which held rates at 2% for the fifth consecutive meeting¹⁴. Eurozone government bond yields fell marginally over the month, with the 10-year German Bund down 0.2%.

Switzerland returned to GDP growth (+0.2%) in the final quarter of 2025 from a 0.4% decline in the third quarter¹⁵, thanks to the easing of US tariffs and resilient domestic demand. January saw a third consecutive month of 0.1% CPI inflation, an ongoing challenge for the Swiss National Bank, which already has rates at zero.

Asia

In Japan, Prime Minister Sanae Takaichi resoundingly won the snap election she called on 8 February¹⁶. On the Monday after the election, the Nikkei 225 jumped 6.2% and ended the month up 9.8%. The 40-year Japanese Government Bond (JGB) continued its retreat from the 4.2% peak it reached in January and closed the month at 3.57%, with a smaller fall for the 10-year yield, yielding 2.13% by the end of the month.

Hong Kong's Hang Seng returned to its loss-making ways in February, with the index falling 2.8%. AI and US tariff concerns were to blame, alongside worries about the US military build-up in the Middle East. The Taiwan stock market recorded another monthly gain of over 10% in February with AI chip-and-related-hardware demand a positive.



Emerging Markets

The MSCI Emerging Markets Index rose by 5.4% over the month in dollar terms, with continued help from a falling dollar. The dollar index (DXY) was down by 9.3% in the year to the end of February. In China, the Shanghai Composite rose 1.1% across the month, although the Chinese economy continues to look weak. January's inflation rate was just 0.2%, with falling property prices a drag on consumer sentiment.

Korea's focus on AI hardware once again produced a sizeable monthly jump in the KOSPI. The index was up 19.5% over the month, taking its rise from the start of 2025 to 160%.

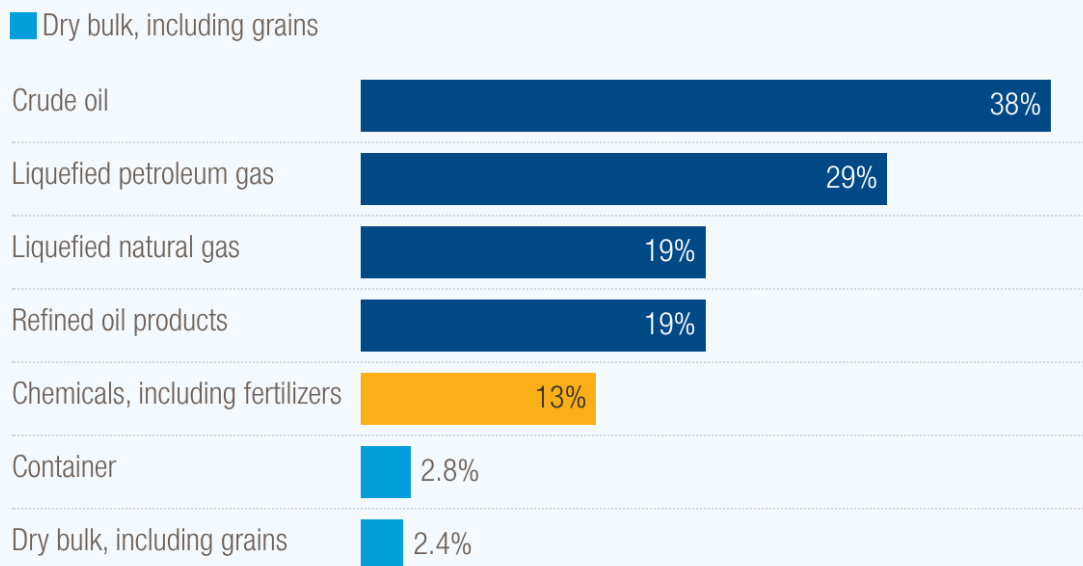
India remained disappointing in the emerging markets sector; the BSE Sensex fell another 1.2% in February. The Indonesian market experienced a similar fall (-1.1% on the Jakarta Composite) as FTSE Russell, the index provider, raised similar questions about credible investment to those MSCI had posed in January. Moody's cut Indonesia's credit rating outlook to 'negative' from 'stable', pointing to effectiveness risks in government policy and signs of weakening governance¹⁷.

The red line for the data used in the above commentary was drawn on Friday 27 February. On the following day, US and Israeli forces began Operation Epic Fury, with heavy bombing of Iran. The markets had been warily watching the build-up of US naval power in the Middle East, evidenced by the rise in the price of oil since the start of the year. However, the timing of the attack was a surprise, given that talks with Iran were ongoing.

On Monday 2 March, the predictable reaction of the equity market was to fall, except for the US, where the S&P 500 just managed to stay in positive territory¹⁸. Brent oil added just over \$5 a barrel, to \$77.74¹⁹. The varying and vague objectives given by Trump initially led the markets to believe that the fighting would be over quickly, with some commentators making comparisons with last June's 12-day war. However, by the end of the first week, Iran's attacks on its neighbours, and its success in effectively closing the Strait of Hormuz, had destroyed such optimism. Trump's suggestion on 9 March that the operation was 'nearly complete' was viewed as a reaction to rising US petrol prices and his falling popularity, with Iran countering that it would decide when the war ended²⁰.

As of close on 11 March, most major equity markets had lost 5%-6% since the beginning of the month, leaving them around the level at which they began the year. The US was the strongest performer, with the S&P 500 down 1.5% in March to date and the NASDAQ 0.2% up, reflecting a trend that now sees US big tech as a (relatively) safe haven²¹. Unsurprisingly, given its earlier run-up, the KOSPI was down just over 10% from the start of the month²².

Share of global trade passing through the Strait, based on average flows during the week before the military escalation that began on 28 February.



Source: UN Trade and Development (UNCTAD), based on data provided by Clarksons Research 2026.

Note: In 2024, total oil transported through the Strait was around 20 million barrels per day (bpd), or the equivalent of 25% of global seaborne oil trade. Crude oil and condensate account for 14 million bpd and petroleum products for 6 million bpd.

While much of the media attention was on the price of oil, which at one point spiked to \$119 a barrel, equally worrying but less in the spotlight were bond yields. The blockage of the Strait of Hormuz is not just an issue for oil; it matters for Liquefied Natural Gas (LNG), Liquefied Petroleum Gas (LPG), refined oil products (notably aviation fuel), fertilisers, sulphur and a variety of petrochemicals. For bond investors, that mix brings back memories of the fallout from the outset of the Ukraine war, together with the inflation that followed.

Expectations of rate cuts from the Fed, European Central Bank and Bank of England have been largely abandoned, with talk now that rates could even rise in 2026. Two-year gilt yields are up 0.5% so far this month, and the yield on the German counterparts has added almost 0.4%. The US 2-year and 10-year yields are both 0.27% higher. Formerly popular 'yield-steepener' bets that the gap between 2 and 10-year bonds would widen as the base rate fell have proved a costly mistake.

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