

## Monthly Market Commentary

February 2026

### US Economy

The US economy at the start of the year built on what we view as strong, above-average growth in the latter part of 2025. Increased momentum was apparent from numerous economic indices, which sustained a noticeable uptrend through February. High-frequency indicators of consumer activity regained traction from a late-January hiccup tied to harsh winter weather, overcoming weak consumer confidence. Windfall gains in financial wealth propelled upper-income household spending that masked less buoyant spending by lower-income groups under greater financial strain.

Purchasing managers' surveys signaled more balanced activity from a faster pace of manufacturing growth that added support to a still-resilient services sector. Green shoots were also evident in improved housing affordability, spurring a noticeable rebound in existing home sales. Inflation remains above the Federal Reserve's (Fed's) 2% target but low enough to restrain longer-term interest rates and cushion consumer purchasing power.

### US Markets

US equity markets ended February slightly off after bouncing sideways for most of the month. The Supreme Court struck down the bulk of the Trump administration's 2025 tariff increases as unconstitutional. While this was widely anticipated since the oral arguments were first heard by justices in early November, investors still reacted to this long-awaited official development by sending stocks higher. Nonetheless, this was not enough to ultimately lift stock prices higher into month end, as investors were hyper-focused on several high-profile artificial intelligence (AI) company's current earnings and forecasts. Despite strong earnings reported by these companies, their capital expenditures and use of debt financing caused jitters amongst investors. While we are constructive on technology equity trends, we anticipate additional investor scrutiny on equipment spending and debt financing, while revenues depend on still-developing AI adoption rates in the economy.

### Fixed Income

Last October, the Fed announced a pivot to its balance sheet operations, moving from quantitative tightening (i.e., balance-sheet reduction) back to a lite version of purchases. That transitioned into the Fed starting to reinvest all of its maturing holdings (including Treasuries, agency debt, and agency mortgage-backed securities) back into Treasury bills and other Treasury securities with remaining maturities of three years or less to maintain an ample level of reserves.

Then, Kevin Warsh was nominated as Fed governor and chair, and the discussion around the Fed's balance sheet strategy began to intensify. Warsh has been a persistent critic of the Fed's asset

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expansion following the global financial crisis, arguing that the central bank's balance sheet has become excessively large. In Warsh's view, the problem is that the Fed accumulates assets, raising its balance sheet, but pays for these additional assets with cash that goes into the economy and the financial markets. That extra cash can distort financial conditions by making it too easy to borrow. Warsh argues that a smaller balance sheet would avoid this distortion and thereby require fewer changes in interest rate policy.

If the Fed eventually begins to step back from reinvesting in Treasuries, we believe this could be another factor that may cause longer-term Treasury yields to rise. The impact could be further widening of the spread between long and short-term Treasury yields, especially if investors demand higher compensation for reduced Fed support.

### **International Markets**

Purchasing managers' reports showed Eurozone economic growth held in slight expansion. Improvement in the lagging manufacturing sector offset moderating services activity. Germany's recent outperformance – tied to optimism about defense and infrastructure spending – has outweighed weakness in France, which remains hindered by ongoing political and budgetary issues. We believe fiscal stimulus could drive a modest recovery across Europe this year, but lingering tariff uncertainties and ongoing structural issues could constrain growth. Inflation continues to decline, leaving the European Central Bank with a dovish bias despite a high bar for renewed interest rate cuts.

Over in Asia, China's economy has been buoyed by a high-tech spending boom and surprisingly resilient exports. China's trade surplus hit a record in 2025 despite US tariffs as the country made inroads with other nations diversifying their supply chains. Economic activity slowed in January, however, based on purchasing managers' surveys. We anticipate government officials could announce more broad-based stimulus to stoke weak domestic consumer spending, but structural headwinds could restrain growth. In Japan, both services and manufacturing rebounded, supported by greater fiscal stimulus and a flexible approach to interest rate hikes conveyed by the Bank of Japan. Elsewhere, manufacturing in Taiwan and South Korea accelerated, benefitting from strong demand for semiconductors and autos, while India's boom-like growth gathered momentum.

### **Commodities**

Metals of all stripes have seen prices rise sharply and then pull back, and copper is no exception. Copper's sensitivity to global growth means increased price volatility, especially during times of economic uncertainty. Nonetheless, we are constructive on copper prices over the longer term. We see a continued recovery in US housing, a continued bottoming in the Chinese economy, the build-out of AI data centers, and the related increase in power generation needs. US housing could rebound if the Fed cuts interest rates, which should make home ownership more affordable and spur construction. The Trump administration has also increased rhetoric around housing affordability and spurring housing construction.

With respect to China, a focus on supporting the domestic economy, which relies heavily on manufacturing, to offset the headwinds from global trade protectionism should increase demand for industrial metals. Lastly, AI has been a game changer both with respect to the building of data centers and the power needed to run them, both of which require the usage of copper and industrial metals.

### **What Does This Mean to Me?**

The US and Israeli attacks on Iran (and Iran's subsequent retaliation) have injected a new round of volatility into financial markets. This will continue to be a fast-moving story in the early days of the conflict, and markets will very likely continue to be volatile and quickly responsive to information flows as they occur. We believe investors need to try and keep a clear head, look through the headlines, and stick to a well thought out plan. As of this writing, we still look for a global economic recovery this year that is led by the US, which we believe could potentially push equity prices higher into year end. As such, despite the recent uncertainty, we continue to advise clients to use any equity pullbacks as an opportunity to deploy sidelined cash.

If you have any questions or concerns, please do not hesitate to reach out to us at any time.

Sincerely,

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