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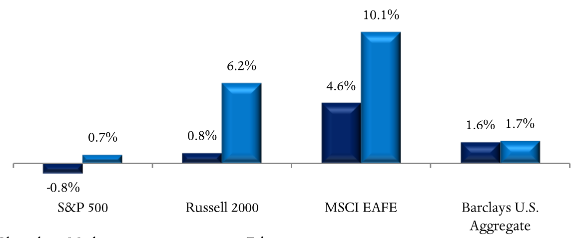
February - March 2026 Issue # 274

Markets

US equity markets delivered a mixed performance in February, with performance of major indices concealing a significant degree of rotation and dispersion. The S&P 500 index declined -0.8% for the month (+0.7% ytd). Conversely, its equal weight counterpart produced its best monthly performance of the past year (+3.5%; +7.0% ytd), outperforming for the fourth consecutive month. Investors continued to reallocate away from the "Magnificent 7" toward a broader mix of cyclicals and defensives, as seen by strong gains across a wide swath of sectors. Meanwhile, the software sector emerged as a notable laggard (-14.6% and -9.9% in January and February, respectively, and -35.0% from the peak of last October) as concerns around artificial intelligence (AI) disruption intensified. Small capitalization equities echoed the aforementioned broadening trends, with the Russell 2000 index rising +0.8% during February (+6.2% ytd). From a factor perspective, value's outperformance over growth widened last month, underscoring the market's pivot toward fundamentals. These rotations suggest confidence in the durability of economic activity, even as debate persisted over the economic returns and timing of large-scale AI investment.

Overseas equities, as measured by the MSCI EAFE index, continued the strong performance seen over the past year (+4.6% in February; +10.1% ytd) driven by attractive valuations. European markets marched higher, benefiting from improving macro data and capital flows seeking diversification away from US technology concentration (+3.9% in February; +7.3% ytd). Further, beneficiaries of ongoing AI capex, such as manufacturers in Asia and Latin American raw material exporters saw sharp gains, leading emerging markets to outperform, rising +5.5% in February (+14.9% ytd).

Bond markets rallied in February, as interest rates on US



Source: Bloomberg Markets

Treasuries moved decisively lower, reinforcing a slower growth, easier monetary policy narrative. The 10-year Treasury Note's yield fell 30bps to 3.94%, signaling increased confidence that inflationary pressures are moderating. Meanwhile the 2-year yield declined 15bps to 3.38%, its lowest level since August 2022, reflecting growing conviction of further Federal Reserve interest rate cuts, later in 2026. Private credit continued to be in the spotlight as concerns about the sector's software exposure grew, but the spillover into public markets remained limited. In all, the US Aggregate bond index rose +1.6% for the month (+1.7% ytd).

In commodity markets, precious metals digested recent volatility with gold gaining +8.5% in February, its 13th monthly gain over the past 14 months (+22.3% ytd), highlighting the yellow metal's role as both an inflation hedge and a beneficiary of easing financial conditions. Energy markets continued to rebound, with WTI crude oil rising +2.8% in February following its +13.6% gain in January (+16.7% ytd). Driven by heightened geopolitical risk following the US-Israeli attack on Iran, crude oil prices have risen to over $100/bbl compared to $57.42/bbl at the start of the year. Overall, commodities rose +1.1% in February (+11.6% ytd).

Geopolitics

The US Supreme Court ruled against President Trump's use of the International Economic Emergency Powers Act to justify the April 2025 reciprocal tariffs. In response to the court's ruling, Trump announced a new

15% global tariff (limited to 150 days without a congressional extension) and made the case that he would find alternatives to impose tariffs on imports. Exemptions include critical minerals, agricultural products, pharmaceuticals, certain electronics (including semiconductors), autos, and USMCA-compliant goods from Canada and Mexico. Outstanding issues include potential importer refunds, possibly up to $170 billion, that are likely contingent on litigation.

The United States and Israel launched a large-scale offensive against Iran following weeks of negotiations concurrent with a military buildup and threats from President Trump, who said the operation aimed to prevent Iran from acquiring a nuclear weapon and to "defend the American people by eliminating imminent threats from the Iranian regime." He also urged Iranians to seize what he called the "only chance for generations" to overthrow their government. Trump and Israeli officials confirmed that Israeli strikes on Tehran killed Supreme Leader Ayatollah Ali Khamenei and a significant number of high ranking political and military personnel, suggesting that regime change had become the ultimate objective. US and Israeli strikes hit military sites across Iran, leading to retaliatory ballistic missile attacks on Israel, US military facilities and civilian centers across the Middle East.

US

Economic data is indicative of an economy that is cooling rather than contracting, while inflation remains uneven. Business activity is expansionary, with February's manufacturing PMI reading 52.4% and services 53.0%. Growth data was also supportive, as Q4 GDP was revised up to a 2.8% annualized pace, driven by 2.4% personal consumption growth. Housing data is mixed but shows tentative signs of stabilization, with NAHB builder sentiment improving and home prices continuing to rise modestly.

Conversely, February nonfarm payrolls showed that American employers unexpectedly cut 92,000 jobs, with prior months revised lower. The unemployment rate ticked-up to 4.4%, a still-healthy level. Inflation continued to ease, but unevenly. January CPI and core CPI showed annual headline inflation of 2.4%, while core PCE inflation stood at 2.9%. The weakening employment picture and heightened economic and geopolitical uncertainty would seem to support the view that the Federal Reserve will lower rates sooner rather than later, with the caveat that Kevin Warsh is expected to be elected as its new chairman in May.

February 2026 Economic Statistics

	Feb-26	Dec-24	Dec-23
Federal Funds Target Rate	*3.50 - 3.75%*	*4.25 - 4.50%*	*5.25 - 5.50%*
Consumer Confidence Index	*91.2*	*104.7*	*110.7*
Manufacturing PMI Index	*52.4%*	*49.3%*	*47.4%*
Unemployment Rate	*4.4%*	*4.2%*	*3.7%*
JPY/USD	*156.05*	*157.18*	*141.06*
USD/EUR	*1.1813*	*1.0353*	*1.1036*
Gold/oz.	*$5,277.29*	*$2,623.81*	*$2,062.59*
Oil (WTI)/bbl	*$67.02*	*$71.72*	*$71.65*

Sources: see disclosure *

Europe

Eurozone manufacturing expanded at its fastest pace in nearly four years, last month. New orders bounced and factory output rose, although increasing cost pressures squeezed margins. The region's inflation oscillated to 1.9% in February, up from 1.7% in January, but down from 2.0% in December. The European Central Bank expects price increases to remain below its 2.0% target in 2026 and 2027, thus holding interest rates steady, with ECB President Christine Lagarde repeating the view that inflation is "in a good place."

Asia

China's Spring Festival timing led to a deferral of economic data. Even so, its PMI readings suggested softer overall activity, although high-tech manufacturing remained resilient. Inflation is on an uptrend after being flat in 2025, with a 2.0% target, while economic growth is expected to be within a range of 4.5% to 5.0% in 2026. Externally, recent changes to US tariff policy have been relatively favorable for China, given its higher starting rate versus many other economies.

In Japan, snap-elections delivered a historic landslide for the Liberal Democratic Party, giving Prime Minister Sanae Takaichi a powerful mandate and substantial room to advance her agenda, including defense policy and structural economic reform.

Outlook

US economic data continues to point toward a deceleration rather than a contraction. Activity remains positive, the labor market is easing without signs of stress, and inflation has moderated sufficiently to support a more stable interest rate backdrop.

War in the Middle East introduces a material risk to the global economy and financial markets through several interconnected channels. The clearest near-term threat is to energy supply and transport, given that fighting has disrupted oil production, regional infrastructure, and marine traffic through the Strait of Hormuz, which has sent oil prices rocketing higher, reviving inflationary pressure globally. Further, active conflict increases the risk of contagion, including cyberattacks and retaliatory strikes on commercial or strategic assets such as water infrastructure. Together, these would place unexpected pressure on consumers and corporations.

This backdrop increases the complexity of analysis that central banks must conduct, leading to monetary policy uncertainty and, in turn, potential volatility across currencies, credit, and equities. In the short-term, markets are likely to respond with a flight to safety, supporting assets such as US Treasuries, gold, and the US Dollar, while weighing on more cyclical and risk-sensitive sectors. Even though our base case does not call for a protracted Middle East conflict, nor a broadening escalation, investors should be prepared for varying expectations surrounding inflation, interest rates, and global growth, which is likely to lead to heightened market volatility.

For fundamental equity investors, corporate earnings remain an important valuation anchor. Fourth quarter 2025 earnings for S&P 500 index constituents were strong and continued to support the case for remaining invested in our favored global large capitalization stocks. Index earnings are on track to grow 14.2% from a year earlier, marking the fifth straight quarter of double-digit growth, led by the "Magnificent 7" which posted a 27.2% increase, compared with 9.8% for the remaining companies in the index. While technology was the biggest contributor, delivering 33.4% earnings growth, all eleven sectors recorded year-over-year earnings gains. Entering March, improving breadth, sustained rotation across styles and sectors, and resilient earnings trends suggested that a normalized environment would be best characterized by consolidation and rebalancing than by a meaningful risk-off shift, which bodes well for diversified long-term oriented investors. Exposure to international and small capitalization equities was also on a positive trend. These factors should resume driving equities once there is clarity with regard to events in the Middle East.

In fixed income markets, the upward trajectory of US growth and the prospect of ongoing fiscal stimulus were on track to keep interest rates relatively range-bound. Now, rising energy prices are likely to complicate the inflation outlook, while signs of softening in the labor market weigh on growth, perhaps leading to stagflation. Taken together, these crosscurrents are likely to fuel considerable debate among the FOMC which, in our view, argues for a continued monetary policy pause, particularly given the transition of Fed chairs from Powell to Warsh in May.

The current bout of volatility is yet another example why investors are advised to consider alternative asset diversification, with our favored hedge funds poised to add value. Unique investments in cybersecurity, water infrastructure, and natural resources offer compelling opportunities to deploy capital into the private markets. Precious metals have historically protected purchasing power during inflationary and unstable periods. For contrarian investors, liquid software-related equities present an attractive entry point given highly publicized investor fears of the disruptive nature of AI. Lastly, our proprietary efforts to source direct investments are gaining traction, with several interesting small and middle market prospects.

*Sources: Reuters, Bloomberg, Bureau of Labor Statistics, Conference Board, Federal Reserve, Institute for Supply Management, MSCI, Russell, Standard & Poor's, Financial Times and the Wall Street Journal.