MARKET REVIEW & OUTLOOK

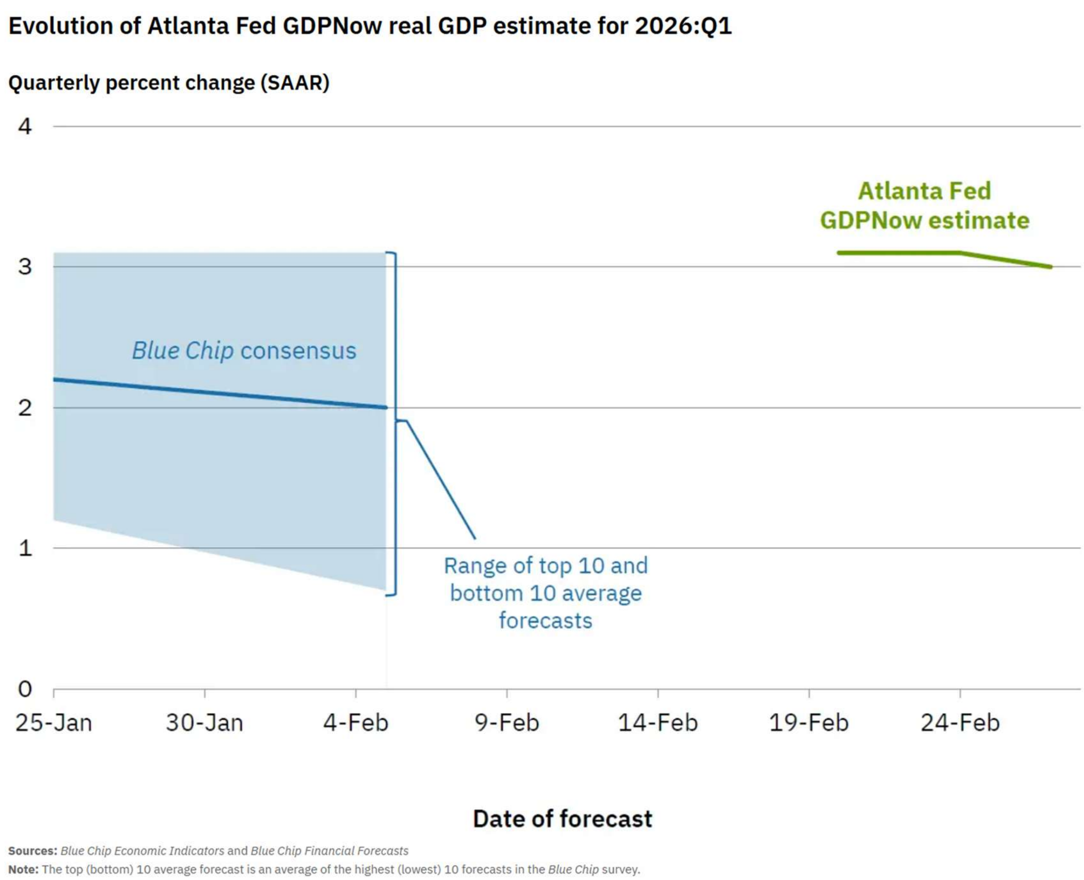
FEBRUARY 2026

KEY TAKEAWAYS

- **Equities:** The markets experienced some sharp drops and strong rallies, but once again the S&P 500 really didn't go anywhere and remains near all-time highs.
- **Fixed Income:** The U.S. 10-year Treasury Yield fell sharply throughout the month, ending below 4.0% and near the October low yields.
- **Crude oil** chopped around through mid-month but rallied to the highs by month end on Iran tensions.

The U.S. Economy

The initial read on 4th quarter GDP came in weak at 1.4% vs. expectations of 2.8%. Somehow the 6-week government shutdown wasn't factored into estimates 😉, though likely creates a large snap back in 1st quarter. The PCE, the embedded GDP inflation, came in at 3.0% with a hot December. With the 4th quarter in the rearview mirror, the GDPNow estimate is at +3% and the Blue-Chip consensus forecast is at 2%, as shown in the chart below. Even with the weaker than expected 4th quarter, 2025 was probably stronger than most expected. 2026 looks to be off to a good start.



Source : https://www.frbatlanta.org/cqer/research/gdpnow

Stocks and Bonds

The U.S. 10-year Treasury yield was again capped at 4.3% to start the month and then saw yields fall throughout the balance of the month ending at the low yields near October levels. It is not clear what the catalyst was for the strong rally in bonds, especially when measured against the strong rally in commodities, which is usually inflationary. My best guess is that the market was absolutely convinced that we would see lots of rate cuts and everyone expected bond yields to rise sharply. In connection with the Japanese bond market calming down, found everyone on the same side of the boat and thus the least expected outcome, falling bond yields, ends up being the result. The sharp drop in yields was a meaningful tailwind for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF rose +1.60% for the month. The U.S. 10-year Treasury bond yield ended the month at 3.96%, down significantly from January's close of 4.24%.

The Dow Jones Industrial Average increased +0.17%, the S&P 500 eased -0.87%, and the small cap iShares Russell 2000 ETF climbed +0.68%. The International markets again traded significantly better than the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index jumped +4.54%, and the MSCI Emerging Markets iShares Core ETF Index popped +5.79%.

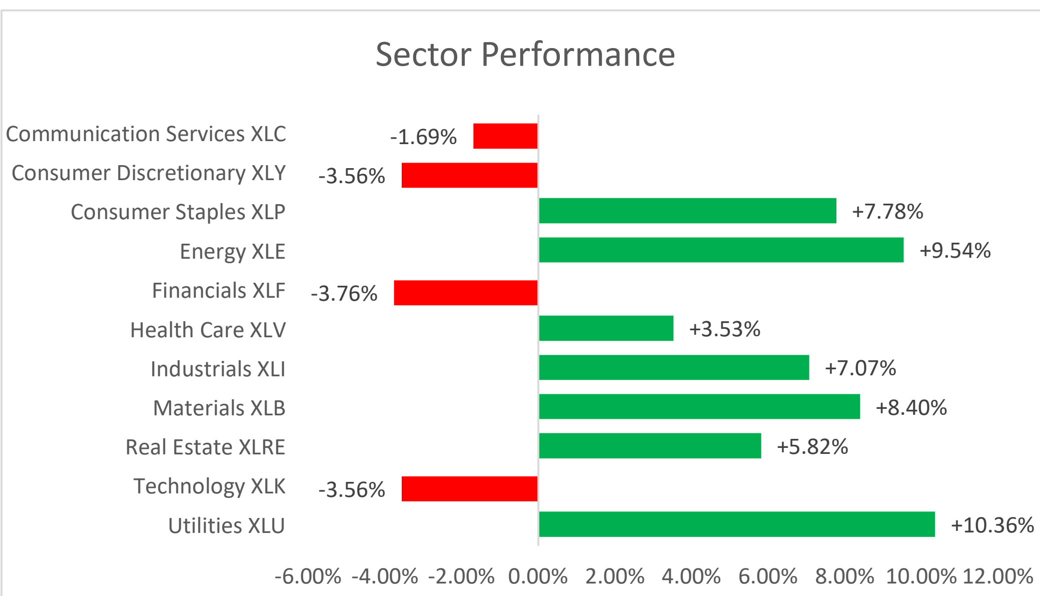
February's sector performance was even more bifurcated than last month. Technology and Financials were still weak, but had a couple of others join, on the other hand green was really green.

The best performers were…

- Utilities: +10.36%
- Energy: +9.54%
- Materials: +8.40%

The worst performers were…

- Financials: -3.76%
- Technology: -3.56%
- Consumer Discretionary: -3.56%



Source: https://www.morningstar.com

Oil Report

Crude Oil continues to rally this year, though more from continual geopolitical concerns versus robust demand. Now it is Iran, and to a much lesser extent Cuba, and of course the Ukraine/Russia conflict is always on the radar. There were several rounds of negotiations ~~and after the months' closing bell came news that Iran agreed to the terms laid out by the U.S~~, while that may have been the case, Israel and the U.S. launched another bombing campaign against Iran on Saturday. Crude finished the day/month at the highs so Sunday night's opening will be interesting to watch. The current NYMEX WTI Crude Oil futures settled at $67.29, rising over 3% from the prior month's close of $65.21 a barrel. RBOB gasoline was much stronger than Crude, surging over 18% for the month vs. January's close on the heels of the Iran saber rattling. The usual slow winter season has been anything but as the geopolitical whack a mole continues, and the East Coast deals with many bouts of snow and fridged temperatures.

The Rest of the Data

The January ISM Manufacturing Index jumped to 52.6 from December's reading of 47.9, over the 50 level for the first time in 26 months. The ISM Services Index eased to 53.8 in January, from December's print of 54.4, remaining above the 50 level. Any reading below 50 generally indicates deteriorating conditions and any reading above 50 generally indicates improving conditions. The prices paid component for Manufacturing remained just below elevated levels, but Services' prices bumped up again and remained at elevated levels. Consumer confidence jumped to 91.2 in February, which compares to 84.5, as reported in January. The unemployment rate fell again in January, now 4.3%, while the number of jobs added came in at 130,000, double expectations of 65,000. The Consumer Price Index for All Urban Consumers (CPI-U) for January came in at 0.2% versus 0.3% for the month of December, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate fell to +2.4% on a non-seasonally adjusted basis. The CPI ex Food and Energy increased to +2.5% over the last year. Economic growth reports are good, other than the government shut down noise, the unemployment rate has stabilized, and while low, job growth has been steady. The fly in the ointment has been inflation reports are showing more signs of firming. We will continue to monitor economic activity, policy announcements, and inflation reports for potential shifts.

Summary

The S&P 500 continues to be marking time as measured by price, but as the sector performance has been showing, there is a rotation going on under the hood. The shift is from Growth, spenders, to Value, builders, i.e. the Technology companies with all the growth and free cash flow are now spending that cash flow on Data Centers and AI which requires stuff to be built and the Value areas of the economy is where that building infrastructure resides. Further, commodities are also needed as inputs for manufacturing and that is supporting Emerging Markets and Developed Markets. The markets are now expecting less rate cuts as inflation continues to perk up, but economic activity seems to be resuming stronger growth. We will just take it one day at a time and stay focused on our process.

More than ever, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is inflation/tariffs vs.

growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.

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