

February 2026 Market Recap

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In February, financial markets navigated a mix of shifting leadership in equities, evolving expectations around interest rates and a late-month rise in geopolitical tensions. While headline equity indexes finished the month with modest changes, the underlying market dynamics suggested improving breadth and a rotation toward more attractively valued areas of the market. At the same time, fixed income markets benefited from declining Treasury yields, while investors remained attentive to both Federal Reserve policy signals and geopolitical developments.

U.S. Equity Markets

U.S. equities experienced modest volatility during the month as investors recalibrated expectations following the strong performance seen earlier in the year. The S&P 500 finished February slightly lower, though performance varied significantly beneath the surface.

One of the most notable developments during the month was a rotation away from the most crowded mega-cap growth positions toward broader market participation. Several of the largest technology and AI-related names experienced periods of consolidation as valuations remained elevated following last year's strong gains. At the same time, areas such as industrial, financial and select cyclical sectors saw improving performance as investors looked for opportunities in segments of the market with more attractive valuations and earnings growth potential.

Small-cap stocks also showed signs of stabilization during the month. After lagging large-cap benchmarks for much of the past year, smaller companies began to attract renewed interest from investors anticipating that easing financial conditions and improving economic momentum could benefit domestically oriented businesses. Overall, market sentiment remained constructive, though investors appeared increasingly selective as they balanced optimism around economic resilience with concerns about valuations in certain segments of the market.

Our Current Market Perspective

Markets enter 2026 with supportive macro fundamentals, including moderating inflation, resilient earnings growth and a gradual shift in monetary policy toward accommodation. Elevated valuations following several years of strong returns warrant increased selectivity and disciplined risk management.

Periodic consolidation and market volatility are likely as investors digest prior gains, navigate policy uncertainty and expected continued government funding challenges. While potentially disruptive in the near term, we view such volatility as pauses within an ongoing expansion rather than signals of a sustained downturn.

Ongoing productivity gains — driven by artificial intelligence, automation and technology investment — continue to support corporate margins and earnings growth across a widening set of industries.

While inflation risks persist, material inflationary pressure has yet to fully materialize. The Federal Reserve remains data-dependent, balancing economic strength with the need to avoid reigniting inflation.

This report is incomplete without the important disclosures at the end.

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International Equity Markets

International equities were a relative bright spot during February, with both developed and emerging markets outperforming U.S. large-cap benchmarks.

Developed international markets benefited from attractive relative valuations and improving economic data, particularly in parts of Europe where inflation pressures have moderated and central banks are increasingly discussing potential policy easing later in the year. Additionally, a modest weakening in the U.S. dollar during portions of the month provided a supportive backdrop for international equity returns.

Emerging markets also posted positive results, supported by improving sentiment toward global growth and continued stabilization in several key emerging economies. Commodity-sensitive markets in particular benefited from firmer energy and industrial metal prices.

The improved performance outside the United States highlighted a theme that has been gradually developing over the past several months: investor interest in diversifying equity exposure beyond the highly concentrated U.S. mega-cap segment.

Fixed Income: Positive Returns, But the Bigger Story was Stability

Fixed income markets delivered positive results during February as Treasury yields moved lower across much of the curve. The decline in yields reflected a combination of moderating inflation data, expectations that the Federal Reserve may eventually begin easing policy later in the year and periodic risk-off sentiment during bouts of geopolitical uncertainty.

The 10-year U.S. Treasury yield declined during the month, supporting returns across duration-sensitive sectors of the bond market. Investment-grade corporate bonds benefited from the decline in underlying Treasury yields, although credit spreads widened modestly, suggesting investors remain somewhat cautious toward credit risk given the uncertain macroeconomic backdrop.

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Our Longer-Term View

- The U.S. economy remains in a post-COVID, productivity-led expansion supporting a secular bull market in equities. While initially concentrated in technology, productivity gains are increasingly broadening across other sectors of the economy.
- Despite ongoing policy uncertainty, corporate earnings growth and productivity improvements remain the primary drivers of long-term equity performance.
- Signs of moderation in the labor market are viewed as a normalization rather than a precursor to recession, with productivity gains helping offset slower employment growth.
- With the yield curve no longer deeply inverted, fixed income markets have moved closer to historical norms, reinforcing their role as income generators and portfolio diversifiers within balanced allocations.

High yield bonds also experienced modest spread widening, though fundamentals across the high yield market remain relatively stable with default rates still historically low. Overall, the fixed income market environment reflected a balance between improving interest rate dynamics and continued attention to potential economic risks.

Federal Reserve & Policy

Monetary policy remained a key focus for investors throughout February. While the Federal Reserve did not implement any policy changes during the month, communications from policymakers reinforced a data-dependent approach to future rate decisions.

Recent inflation data has continued to show gradual improvement, though policymakers remain cautious about declaring victory over inflation too early. As a result, the Federal

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Reserve has maintained a relatively balanced stance, signaling that policy easing could occur later this year if inflation continues to trend lower and economic growth moderates.

Market expectations for the timing of potential rate cuts shifted somewhat throughout the month as investors reacted to incoming economic data and commentary from Federal Reserve officials. Despite these fluctuations, the overall consensus remains that the next major policy move is likely to be toward gradual easing, provided inflation continues to move toward the Federal Reserve's long-term target.

Geopolitical Developments

Geopolitical tensions increased toward the end of February following a significant escalation involving the United States, Israel and Iran. Reports indicated that coordinated military strikes targeted Iranian leadership and military infrastructure, marking one of the most serious confrontations between the

countries in recent years. Iran subsequently responded with missile and drone attacks across the region, raising concerns about the potential for a broader regional conflict.

Financial markets reacted quickly to the heightened uncertainty. Energy prices moved higher and market volatility increased, reflecting concerns about potential disruptions to global energy supply — particularly given the strategic importance of the Strait of Hormuz, a critical passageway for global oil shipments.

Despite the initial market reaction, investors largely treated the situation as a geopolitical risk event rather than an immediate threat to global economic growth. Nonetheless, developments in the Middle East remain an important factor to monitor, as any escalation that materially disrupts energy markets could have implications for inflation expectations and global financial conditions.

Looking Ahead

As we move into the spring months, investors are likely to remain focused on several key themes: the trajectory of inflation, the timing of potential Federal Reserve policy easing, corporate earnings growth and geopolitical developments.

While markets may experience periods of volatility as these factors evolve, the broader economic backdrop remains relatively supportive. Economic growth has proven resilient; corporate balance sheets remain generally healthy and financial conditions have stabilized compared to the tightening cycle experienced over the past two years.

From a portfolio perspective, the evolving market environment reinforces the importance of maintaining diversification across asset classes, regions and investment styles, while remaining attentive to opportunities created by shifts in market leadership and changing macroeconomic conditions.

Please reach out to your Financial Professional with any questions.

Important Disclosures

These views are as of March 5, 2026 and are subject to change based on subsequent developments. The material presented is provided for informational purposes only. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed. Nothing contained herein should be construed as a recommendation to buy or sell any securities. As with all investments, past performance is no guarantee of future results. No person or system can predict the market. All investments are subject to risk, including the risk of principal loss.

Diversification does not guarantee a profit or protect against a loss. International investing involves special risks, including, but not limited to, currency fluctuations, economic instability, and social and political uncertainties, not typically present with domestic investments. Emerging market environments can increase these risks. A high-yield bond (non-investment-grade bond, speculative-grade bond, or junk bond) is a bond that is rated below investment grade. These bonds have a higher risk of default or other adverse credit events, but typically pay higher yields than better quality bonds to make them attractive to investors. The S&P 500 index is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. Large-cap (sometimes called "big cap") refers to a company with a market capitalization value of more than \$10 billion. Large-cap securities represent a significant portion of the U.S. equity market and are often used as core portfolio holdings. Small-cap companies typically have a market capitalization in the range of \$300 million-\$2 billion. They have greater growth potential, risks, and volatility than both large- and mid-cap companies. Treasury securities are guaranteed by the U.S. Government and, if held to maturity, offer a fixed rate of return and fixed principal amount. If not held to maturity, principal will fluctuate and may be worth more or less. Guarantee only applies to the timely payment of principal and interest and does not pertain to the portfolio, mutual fund, or variable annuity holding such securities. The Federal Reserve is the central banking system of the United States composed of 12 regional Reserve banks which supervise state member banks and controls the Federal Funds Rate, an important benchmark in financial markets used to influence the supply of money in the U.S. economy.