

February Market Overview

February's macro backdrop was broadly encouraging. Growth expectations for 2026 remain positive, with global GDP still projected to expand by around 3.3%. Inflation, meanwhile, continues to moderate rather than disappear altogether, a distinction markets have been grappling with for some time. That combination, resilient growth alongside gradually easing inflation pressures, supported both equities and bonds through most of February. Against this backdrop, clients continued to see gains from the equity portions of their portfolios. However, leadership broadened further beyond the US. European markets and parts of the emerging world delivered some of the strongest returns, while the S&P 500 slipped modestly. Investors increasingly questioned the scale of spending commitments by large US technology firms in artificial intelligence, particularly if the productivity benefits from AI take longer than expected to materialise. As a result, areas of the market with more attractive valuations began to regain favour. This environment naturally favoured more flexible investment approaches. Active portfolios, with the ability to lean into these emerging opportunities, continued to outperform. More passive oriented allocations, which by design mirror the composition of major indices and therefore remain heavily concentrated in US technology stocks, were held back to a greater degree. Bond markets enjoyed a calmer month. Government bonds rallied as inflation data continued to soften, reinforcing hopes that central banks may still be able to deliver further interest rate cuts later in 2026. Corporate bonds also produced positive returns, although the tone beneath the surface was somewhat more cautious. Higher quality issuers generally performed better than riskier segments of the market. Some uncertainty remains around parts of the credit market, particularly where exposure to private credit and highly leveraged companies intersects with sectors still struggling to generate sustainable profitability.

Portfolio Positioning

As we moved into March, however, the relatively placid narrative that defined February began to shift. Escalating tensions involving Iran pushed oil prices briefly above \$100 per barrel, raising fresh concerns that the recent progress in reducing global inflation could stall. Unsurprisingly, fears of higher energy costs feeding back into inflation have unsettled markets and are likely to influence investor sentiment in the near term. Markets now face two relatively clear paths. A de-escalation in the conflict would likely see oil prices retreat,

easing inflation concerns and allowing equities in Europe and emerging markets to regain momentum, while bonds would also benefit as rate expectations stabilise.

Conversely, if tensions persist into the spring, higher oil prices could strengthen the US dollar and favour US and UK equities, while keeping inflation worries elevated. Our own view remains measured and calm. While the situation is clearly fluid, our base case is that cooler heads ultimately prevail over the coming months. As a result, we are not seeking to make wholesale changes to client portfolios. Political realities may also play a role. Sustained high energy prices and rising inflation tend to weigh heavily on households, and with US midterm elections approaching in 2026, policymakers will be mindful of the economic pressures voters face. Stepping back, the broader investment backdrop remains constructive. Global growth remains positive, inflation outside of energy continues to ease, and central banks are still broadly aligned around the goal of gradually lowering interest rates. Periods of market volatility, such as the one we are currently experiencing, often create the conditions for the next phase of market recovery once uncertainty begins to fade.

Outlook

Within the income range, February's performance continued to benefit from a shift into value investing and the income range benefited from its high allocation to cheap stocks paying good dividends. Specifically, the UK market proved a very good contributor to performance as did global value and emerging market value. Contra to the Active range, income was able to hold significant underweights to the US market which helped boost relative performance in February. Active bond strategies contributed positively to overall performance whilst helping to deliver that all important 5% yield target.

Looking ahead to March and April, the Income range will see a small number of tactical adjustments designed to take advantage of market dislocations created by the recent geopolitical developments. These include selectively increasing exposure to US value equities, as well as adding to global value and emerging market strategies. We see the UK as having done very well of late and will use this performance as a good reason to take some profits here and reallocate to these global income opportunities.



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