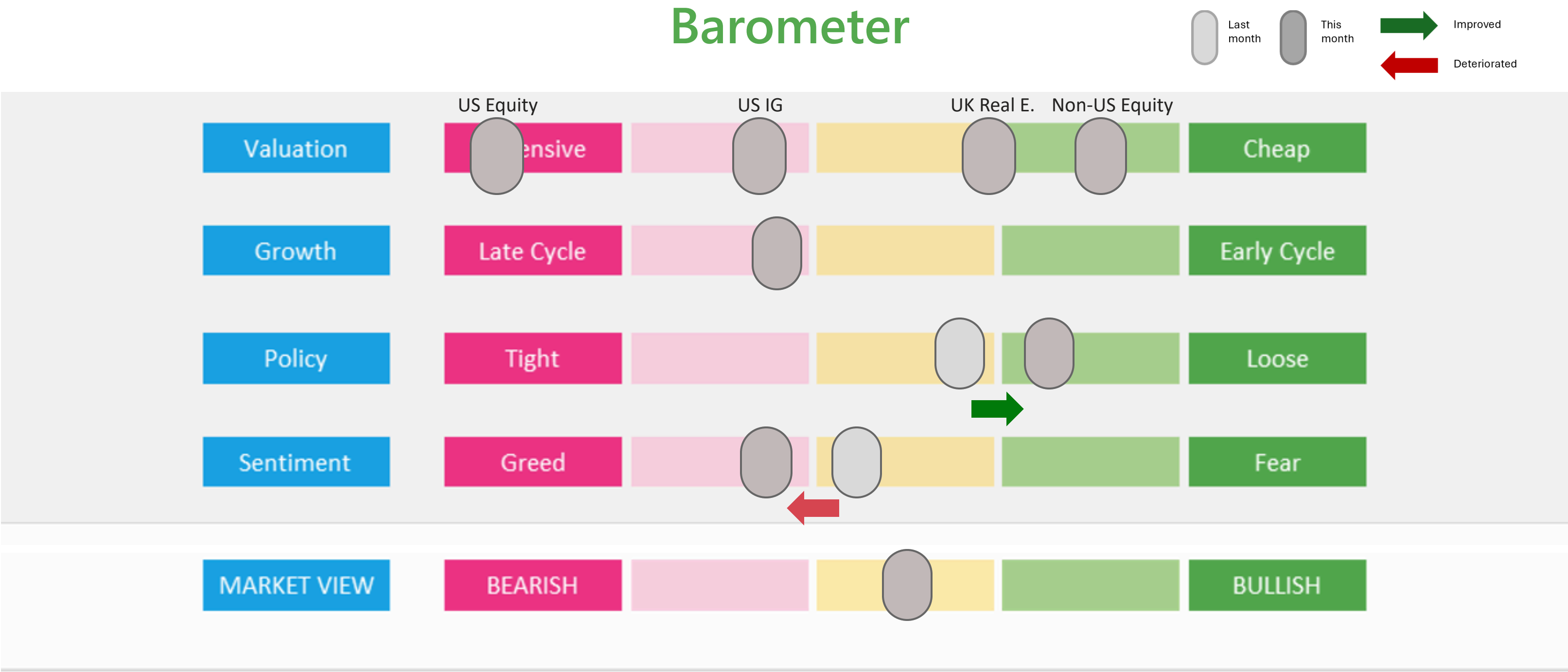
FEBRUARY 2026

CCLA
GOOD INVESTMENT

Market Barometer

Barometer



On it rolls

And so the bull market rolls on. This year has started as last year went, with riskier stocks outperforming safer stocks, price and earnings momentum working, non-US stocks outperforming US stocks and Emerging Markets outperforming them all.

The Barometer doesn't budge overall, but sentiment gets more stretched while Policy gets even easier. On the sentiment side, BofA's Bull Bear Indicator (p21) is now flashing danger, at 9.2 out of 10 where 10 is maximum bullishness, i.e. a bearish signal for market direction. Cross-checking this, State St has 16% of the world's assets under custody, and says equity is now 55% weighted - below the 2000 peak at 60% but still stretched.

Against this warning sign, we move Policy a little easier on the announcement as we type that Kevin Warsh has been appointed as the next Fed chair. While not an outright dove, he's surely going to be less of a thorn in Trump's side than (the excellent) Jay Powell.

In our **Charts of the Month** we look at:

- The **remarkable de-rating of US Software** while the sector's earnings growth accelerates
- The **rollover of US equity market outperformance**
- **How risk-on continues to dominate equity markets** under the hood
- **How extended gold and silver are in real terms**, but wonder what it would take to end their stunning bull market and conclude it's not now

With respect to equities (including PE) we remain invested in line with our strategic asset allocation.

Contents

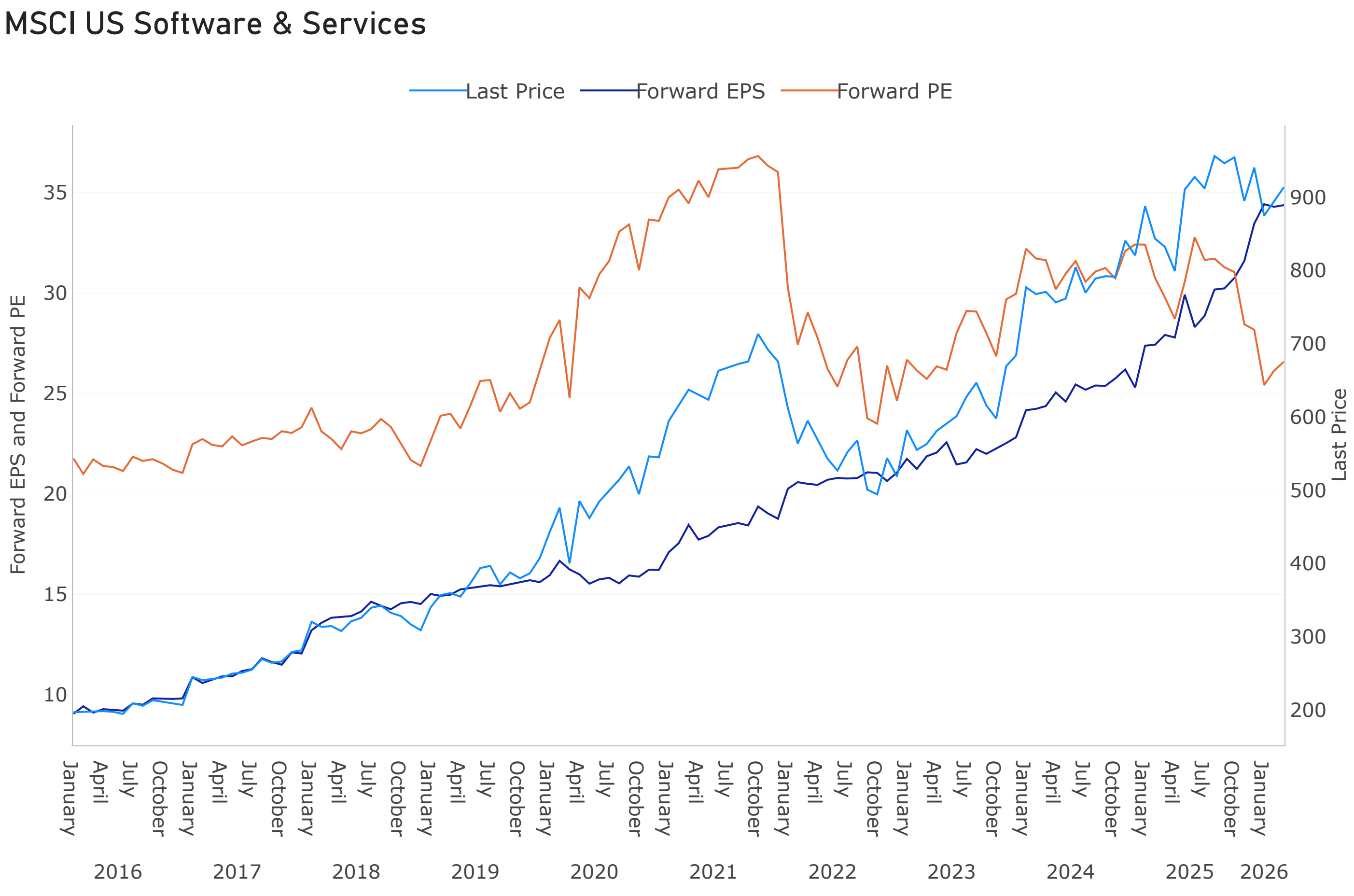
Market Barometer	1
Charts of the Month	4
Valuation	
Equities	8
Fixed Income	10
Alternatives	12
Property	13
Cash	14
Growth	15
Policy	20
Sentiment	21
Other Observations	
The Big Picture	22

TOP OF MIND

Charts of the Month (1 of 4)

The de-rating of US Software is remarkable because it is at odds with what's happening to the underlying earnings of the sector. Thus below we see that US Software's PE (orange line) has fallen from (an admittedly stretched) 37x in the re-opening after the pandemic, to now a more normal 26x. What is unusual is that this de-rating has happened while the sector's earnings (dark blue line) have not only continued to compound at the 12% annual rate that has prevailed over the last decade, but they have even most recently accelerated.

The reason for the de-rating is market scepticism that the business models of software companies can survive the AI onslaught. We are of the opinion that they can, although there will be differentiation between niche companies whose models can be replicated and the behemoths that are so deeply embedded in their customers' operating systems that they will in the end benefit from AI, and that **this presents an excellent opportunity for patient long-term holders.**



Sources | CCLA, Bloomberg. Data as at Jan 2026.

TOP OF MIND

Charts of the Month (2 of 4)

Is this the end of US stock market dominance? The chart shows the relative performance of MSCI US versus the MSCI All Country World ex US index, both in US dollar terms. If we look purely at earnings and cash flow growth, the US has been and remains by far the more attractive of the two regions: since the relative performance low in 2010, MSCI US has grown earnings by 9% per year while the rest of the world has grown them by 3% per year. On the other hand, every asset has a price, and the US now trades at a PE of 22x - nearly a 50% premium to the rest of the world. Much of this gap has been driven by US technology. **Our view is that it will take the peaking out of Tech dominance for the US to definitively underperform, but that in any case the valuation gap is now so wide that you are paid to look increasingly outside the US to populate your equity portfolio**.

Sources | CCLA, Bloomberg. Data as at Jan 2026.

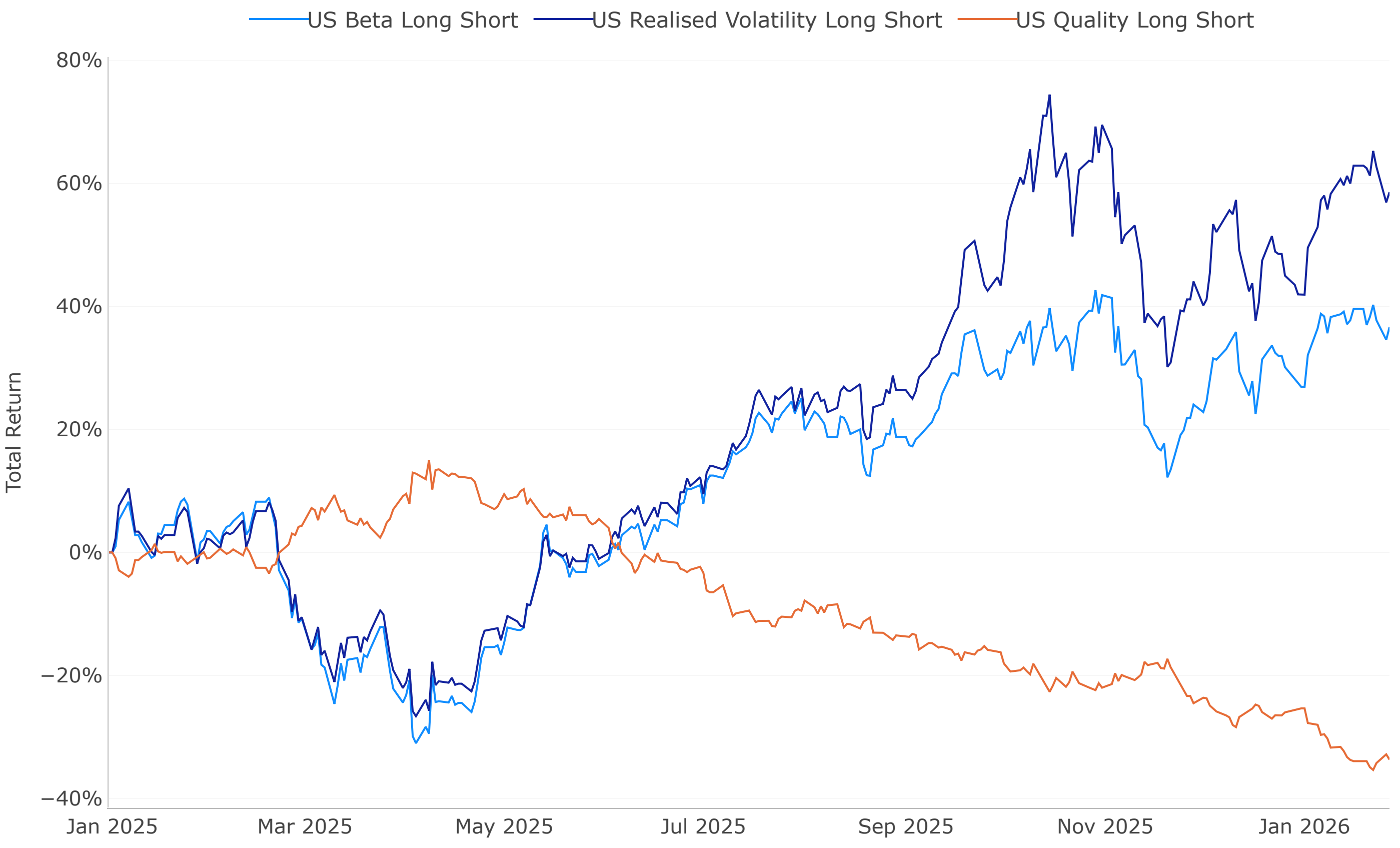
CCLA

Charts of the Month (3 of 4)

It's a risk-seeking market. Risk-seeking long short strategies (long high volatility, short low volatility stocks, long high beta short low beta stocks) are up 40-60% over the last year, while defensive strategies such as the one shown in orange below (long high quality short low quality stocks) are being pummelled, down 30% over a year and still falling.

Not shown here but it's notable that MSCI World Quality now trades at a 14% PE premium to MSCI World. What's the right premium? The low has been 5% but 10% has been a good time to buy Quality in the past.

Morgan Stanley Equity Factor Long Short Strategies



Sources | CCLA, Bloomberg. Data as at Jan 2026.

TOP OF MIND

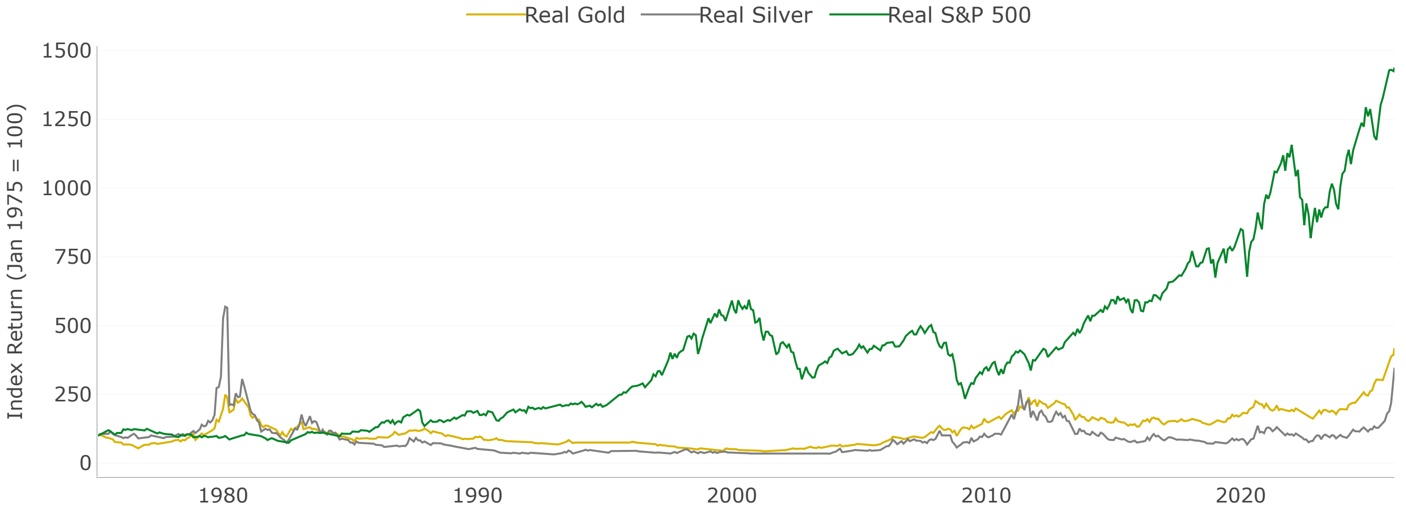
Charts of the Month (4 of 4)

How stretched are precious metals? One of the most popular ways of judging that is comparing the commodity price to the inflation index, which we show here. The rally of the last two years has taken real gold prices to above where they were at the peak of the 1970s inflation, with silver going vertical but still not yet at those levels.

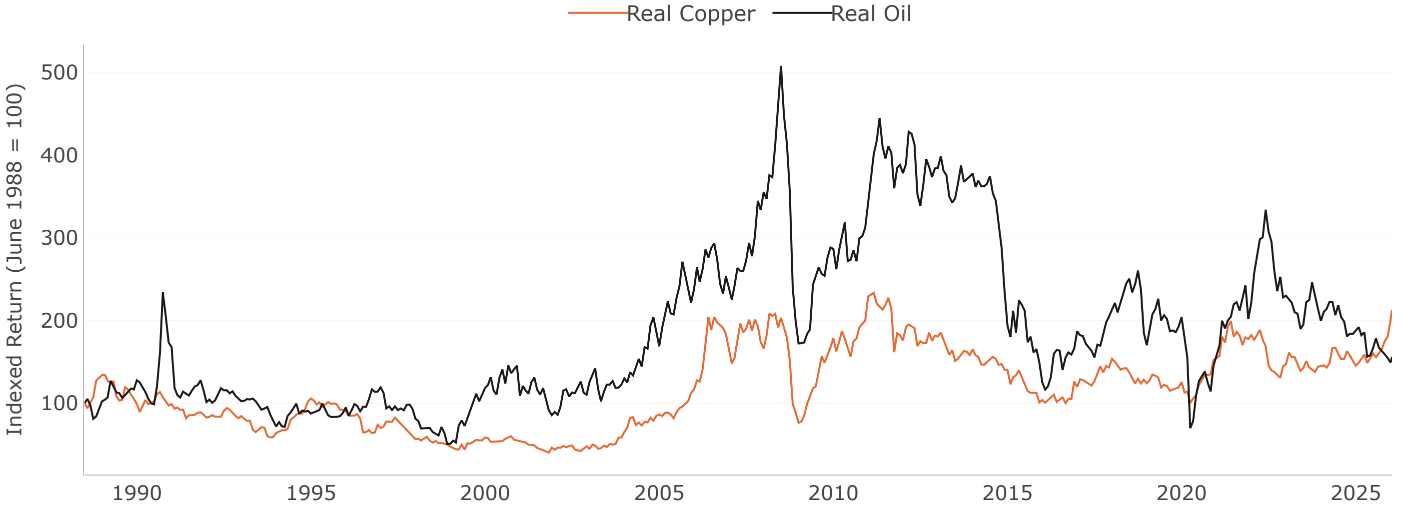
What is the catalyst to end this rally? With fundamentals so overwhelmingly supportive of the commodities -- notably central bank and private sector asset re-allocation away from government securities and into real assets, along with very tight supply-demand balances -- it's seems obvious that it will take a change of monetary policy to a much tighter setting to end the run. That's what happened with the appointment of Paul Volcker as Fed chair (August 1979), with gold making its cycle high in January 1980.

So when do we think policy will tighten? Not now.

Real Price Indices - Gold vs Silver vs S&P 500



Real Price Indices - Copper vs Oil



Sources | CCLA, Bloomberg. Data as at Jan 2026.

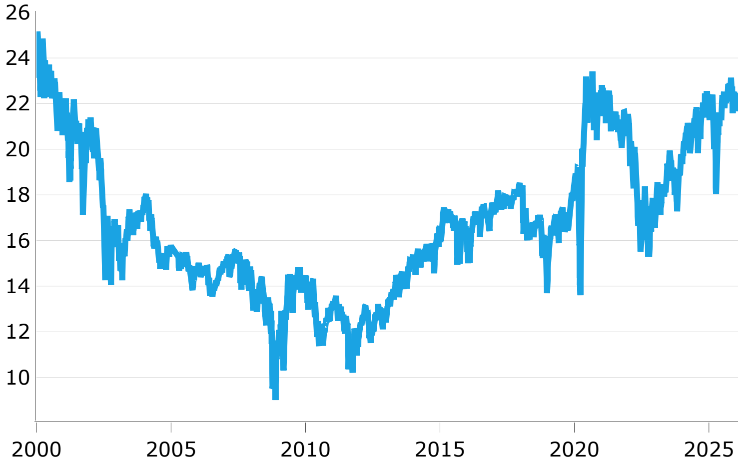
Equity | USA

Scores on the doors for 2025: Global markets outperformed the US, with emerging markets up ~34%, the UK ~26%, Japan ~25%, and Europe ~21%, compared to the US at ~18%[1]. Capital diversified away from the US due to high valuations, heavy reliance on a few tech giants, and questions around AI-driven spending.

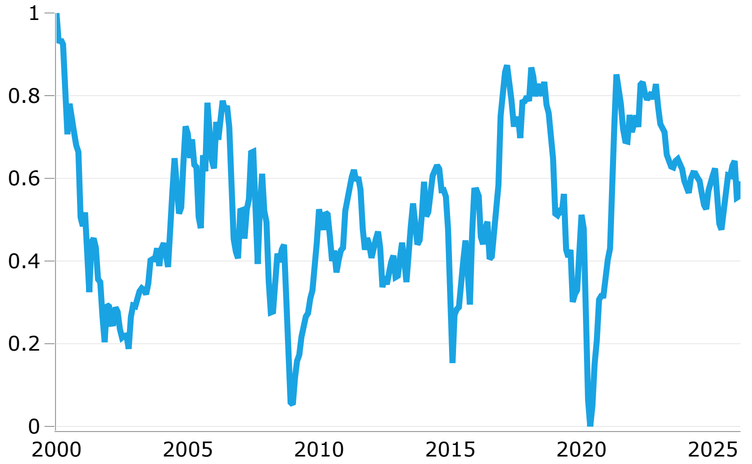
Despite this, US earnings expectations for 2026 remain strong - double-digit for a third straight year (~15%) and broadening performance expected from the remaining 493. Nonetheless, upside looks limited to profits rather than re-rating. While risks are compounded if sentiment shifts: still high Mag-7[2] concentration (~34%), still high investor positioning, still high-interest rate sensitivity and now a growing desire for proof that AI investments deliver returns. **Regional diversification will likely remain a continued theme for investors.**

S&P 500 Valuations

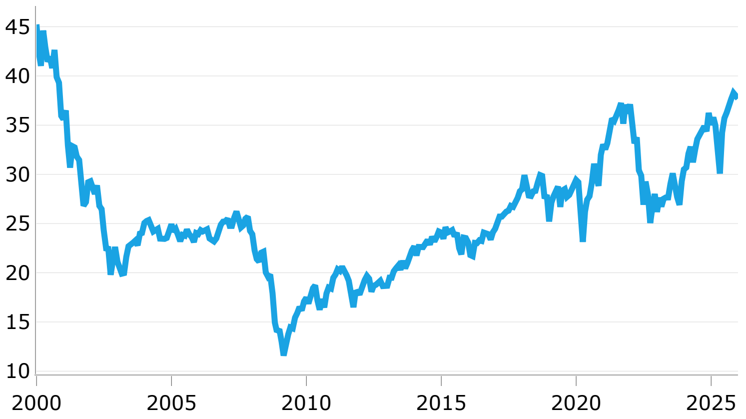
S&P 500 Forward PE



Composite Value Indicator Model



CAPE / Shiller P/E



S&P 500 Equity Risk Premium

Note | Composite Value Indicator was built at Morgan Stanley in 1997 and is published with permission. It is an aggregate of seven equity yields adjusted for bond yield, T bills yield and inflation, and is expressed here in its percentile range. The CAPE / Shiller PE is today's price divided by the average earnings of the last 10 years. The Equity Risk Premium is calculated as the Shiller earnings yield minus the real bond yield.

Sources | S&P 500 PE: Bloomberg as at Jan 2026. Shiller PE/CAPE: Morgan Stanley, CVI Model: CCLA as of Jan 2026, Equity Risk Premium: CCLA as of Dec 2025.

1: Performance figures rounded, in local currency, except emerging markets (USD). 2: Magnificent 7 (Alphabet, Amazon, Apple, Tesla, Meta Platforms, Microsoft, and Nvidia).

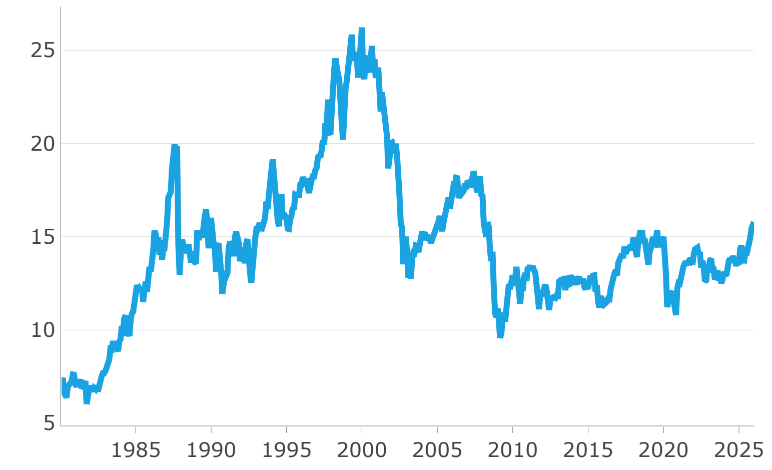
Equity | Regional

Asia could benefit from two big trends: artificial intelligence (AI) and ongoing economic reforms. In the US, heavy investment in AI and military is expected to continue into 2027, supporting global supply chains - especially memory chips (Korea), semiconductors (Taiwan), network hardware (China) and defense (Japan). India and Taiwan look expensive, so returns may come from company profits rather than higher valuations.

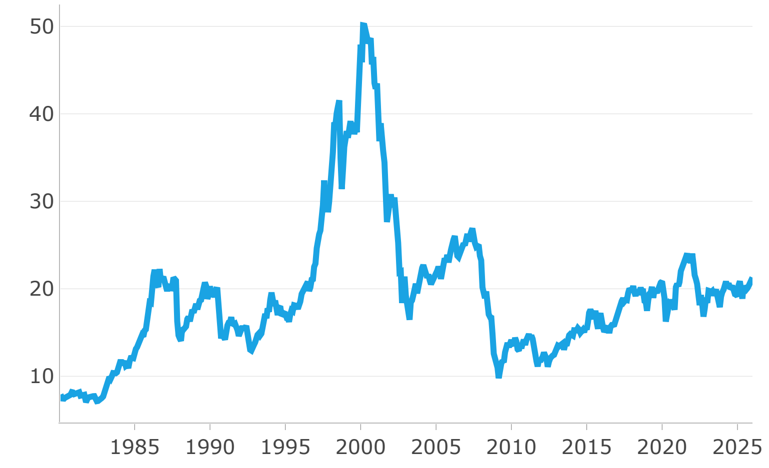
On the other hand, Korea stands out: it's benefiting from supply chain shifts, industrial strength, and government reforms aimed at boosting shareholder value. **Given these structural tailwinds and relatively cheap valuation, it builds a case for Korean stocks over time.**

Europe

UK | Shiller P/E

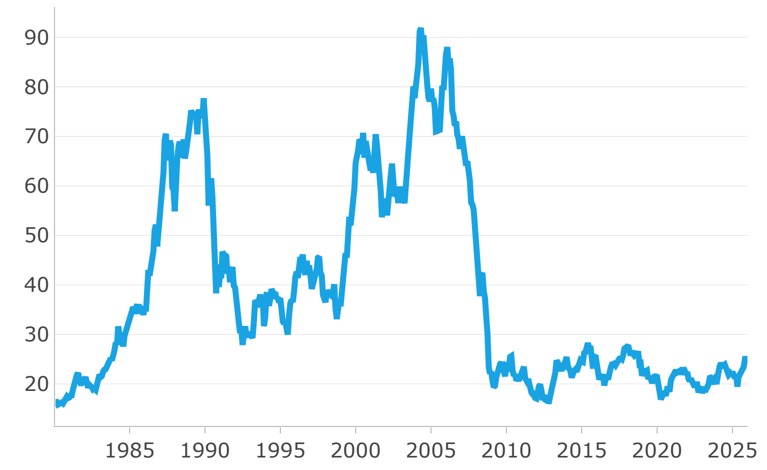


Europe (Ex-UK) | Shiller P/E

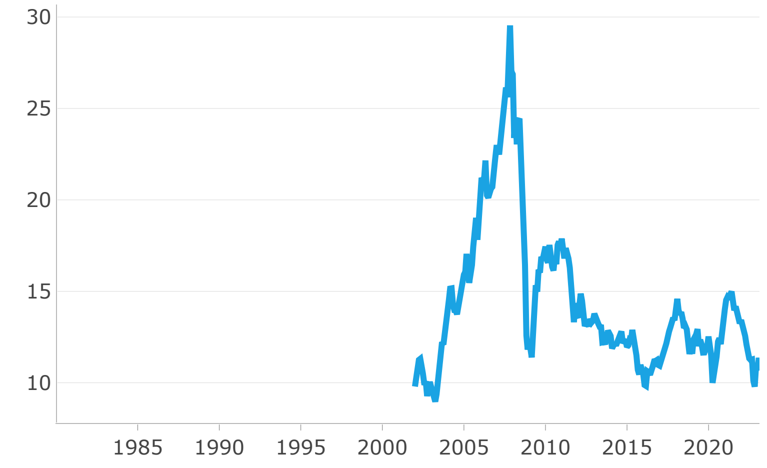


Asia & Emerging Markets

Japan | Shiller P/E



EM | Shiller P/E



Sources | Shiller P/Es: Morgan Stanley as of Jan 2026. Shiller P/E is calculated as today's price divided by the real average earnings of the last 10 years.

VALUATION

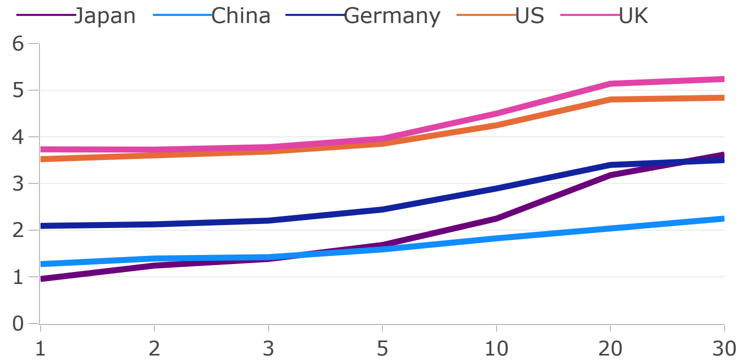
Bonds - Sovereigns

Donald Trump's tariff policy faces a Supreme Court challenge that could force the US to refund about $133bn[1] (~0.4% of GDP). Polymarket puts the odds of tariffs staying at 33%[2]. If the current approach is struck down, the administration is likely to pivot: Section 122 allows a universal 15% tariff under certain rules, while Section 301 enables targeted tariffs on countries with "unfair practices".

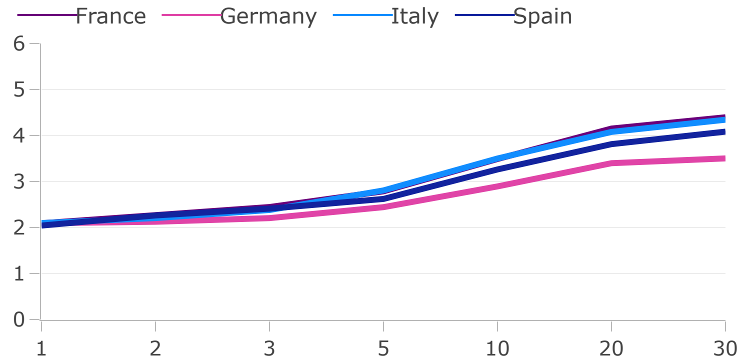
Why does it matter? A refund would worsen the deficit and could push long-term US Treasury yields higher, while keeping tariffs helps preserve revenue and limit that pressure. Noting J. Greer (USTR[3]) has made clear - tariffs are here to stay - so we do not qualify this news as de-escalation, rather a likely re-routing of implementation.

Global Government Yields

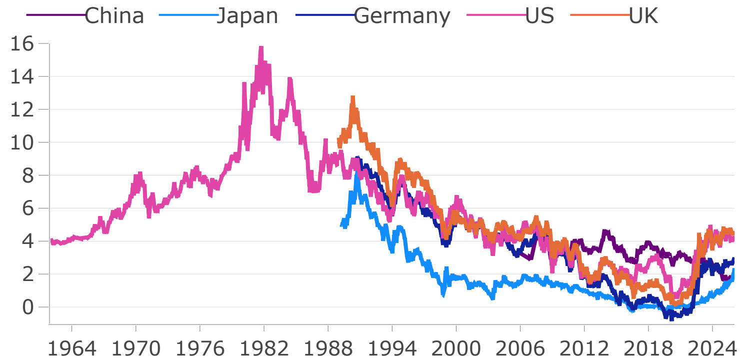
Global Treasury Yield Curves (Term vs %)



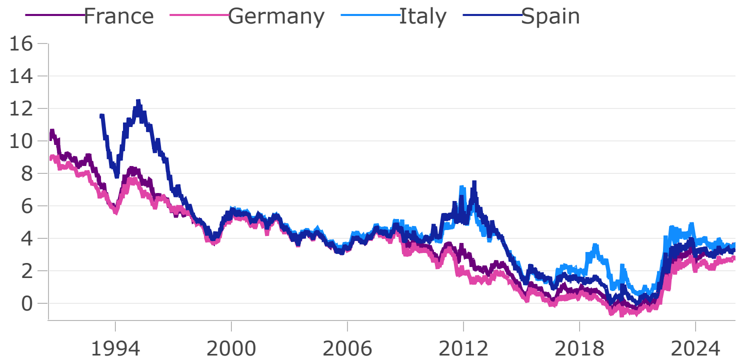
European Treasury Yield Curves (Term vs %)



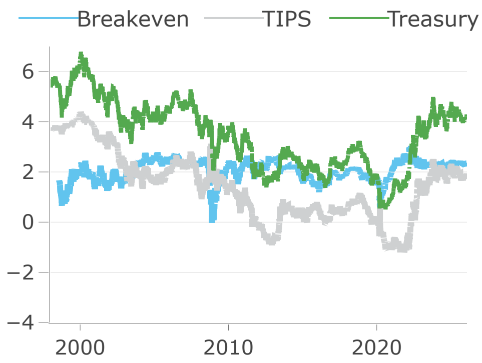
Global 10Y Yields %



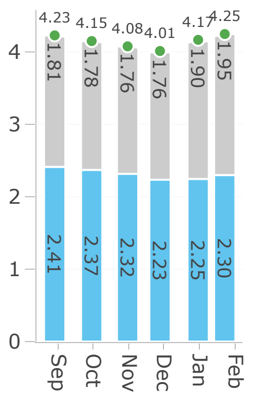
European 10Y Yields %



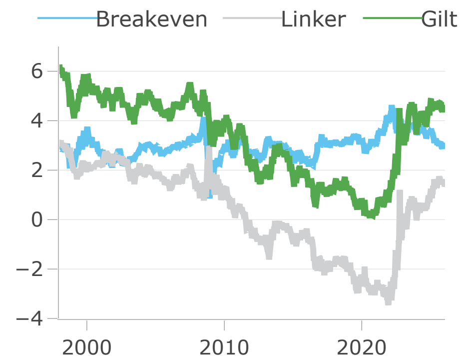
US 10Y Yields Breakdown %



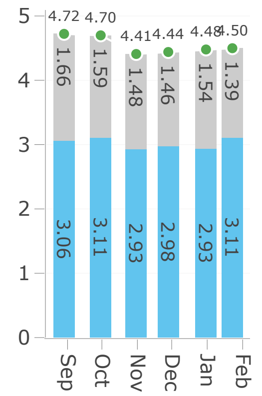
Last 6 Months



UK 10Y Yields Breakdown %



Last 6 Months



Sources | CCLA, Bloomberg as at Jan 2026. 1: Reuters: 'US tariffs that are at risk of court-ordered refunds exceed $133.5 billion' 6 Jan 2026. 2: as at 15 Jan 2026. 3: United States Trade Representative.

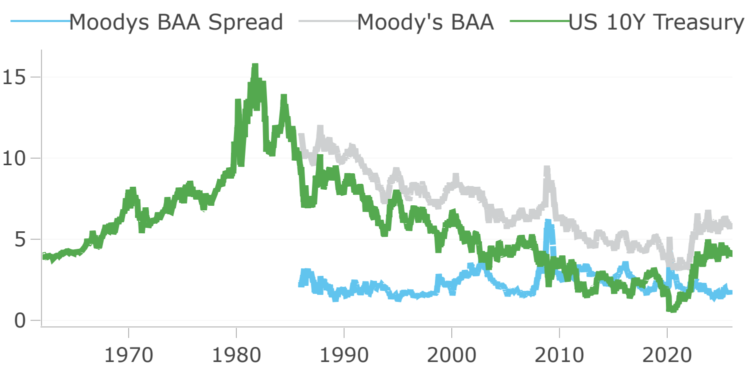
Bonds - Credit

With mid-term elections looming, policymakers are under pressure to boost growth - and housing is key. High mortgage rates have kept the market subdued, so the administration wants Fannie Mae and Freddie Mac to buy $200bn of mortgage-backed securities (MBS). **The aim: lower MBS yields so banks can lend more cheaply. If successful, it won't just be a political win - housing's multiplier effect could meaningfully lift growth too.**

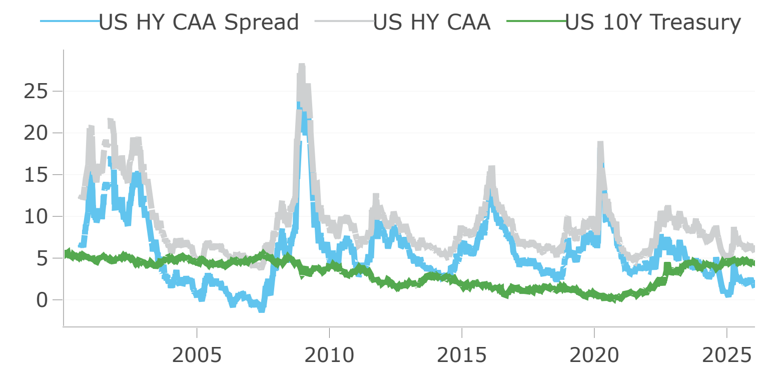
But risks remain: $200bn is small - only 2%[1] of the market, mortgage rates are still high (~6%[2] vs ~3.4% weighted-average[3]). Citigroup estimates the program to tighten spreads by only 0.25%[2]. Not to mention, if housing supply stays tight, lower mortgage costs could be offset by higher house prices. **Whilst in isolation this policy is a tactical step, it reflects an ongoing structural desire of market-intervention without the Fed.**

Global Credit Yields

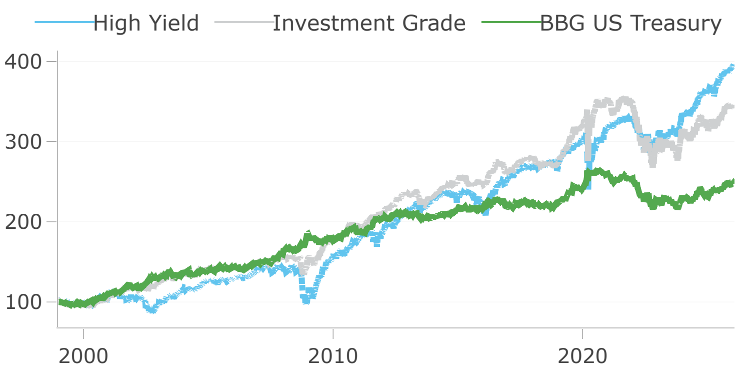
US Corporate Investment Grade Yield %



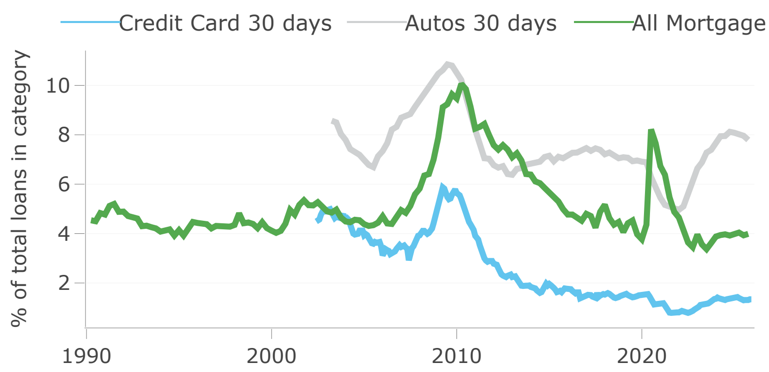
US Corporate Sub-Investment Grade Yield %



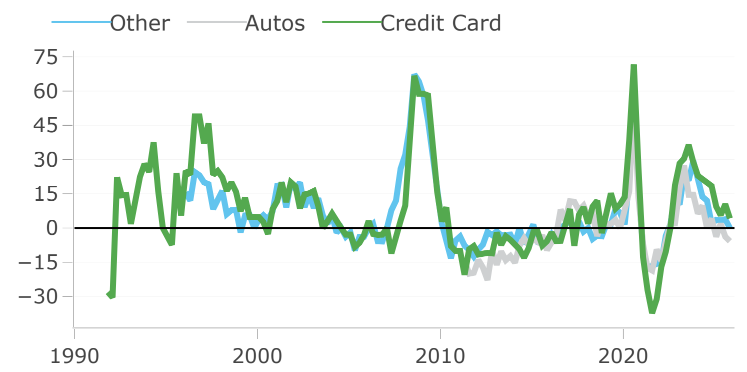
US Tr. vs IBoxx IG and HY Total Return $ (100= 31 Dec '98)



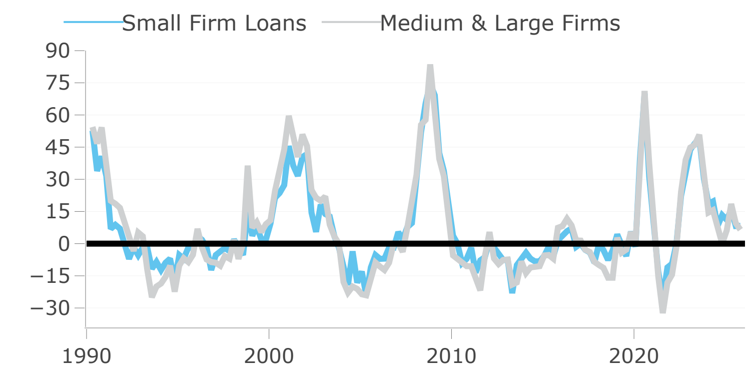
US Delinquencies %



Net % of Banks Tightening Consumers Credit Conditions



Net % of Banks Tightening C&I Credit Conditions



Sources | Federal Reserve, Senior Loans Officers Survey, CCLA, Bloomberg as at Jan 2026. 1: Yahoo Finance: 'Trump Tells Fannie, Freddie to Buy....' 9 Jan 26. 2: www.freddiemac.com/pmms 15 Jan 26. 3: Redfin News: 'Share of Mortgages with Rates Above 6%...' 29 Sep 25 (latest). Weighted-average of 80% of mortgages.

Alternatives

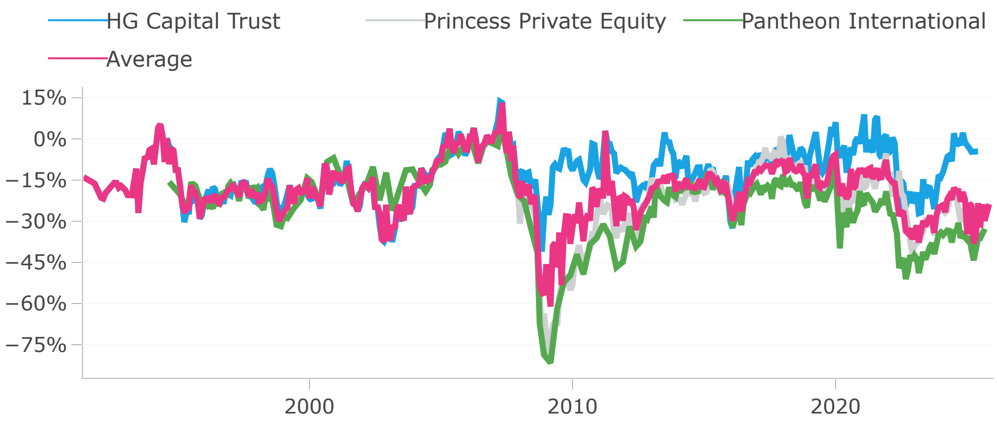
The US has taken a major step to strengthen its control over global oil markets. Following the removal of Venezuela's president, up to 50 million barrels of Venezuelan crude - worth around $2bn - were redirected from China and others, to the US. **The aim is hold influence over ~30% of global oil reserves[1] (when consolidating US, Venezuela and Guyana).**

To do this, Trump wants US firms to modernise Venezuela's oil infrastructure. This could potentially lift output from 0.8 to 1.3–1.4 million barrels per day within two years[1], with longer-term potential of 2.5mb/d[1]. **If successful, this structural shift could help keep oil prices lower, supporting US inflation goals. If not, the impact on global markets is limited as Venezuela currently accounts for <1% of global supply[2].**

Global Valuations

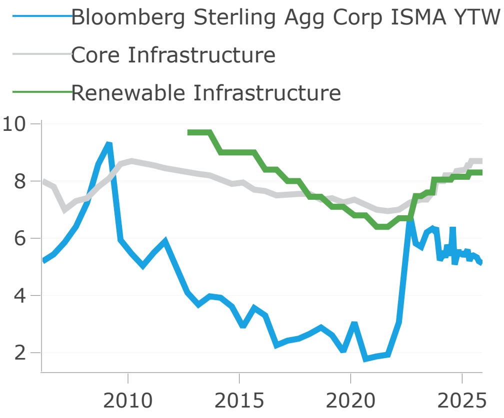
Listed Private Equity

Discount To NAVs



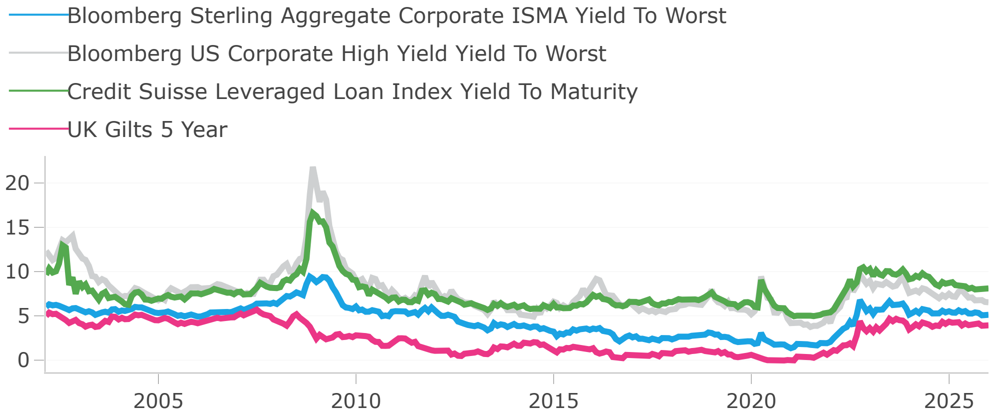
Infrastructure

Infra. Discount Rates vs Bond Yields



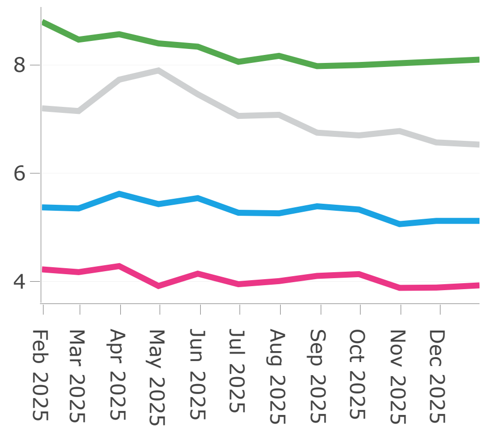
Contractual Income

Income Yields



Last 12 Months

Income Yields



Sources | Private Equity: Bain Global Private Equity Report, Bloomberg, Pitchbook as at Jan 2025 (latest data available); Infrastructure: CCLA, Bloomberg; Contractual Income: Bloomberg, Pitchbook. Data as of Dec 2025. Listed Private Equity Discount to NAV graph: We have used these three securities to give a broad market representation, data as of Nov 2025 (latest data). 1: JP Morgan: 'Andean Equity strategy' 5 Jan 26. 2: www.theworlddata.com 'Venezuela Oil Statistics 2026' 8 Jan 26.

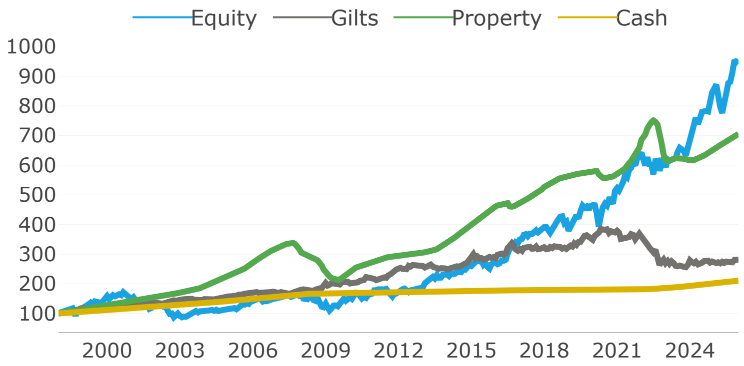
Property

London's prime office market is showing attractive supply-demand dynamics. Vacancies in the City are expected to fall to zero by 2028[1], while demand for top tier space is already ~25% above its nine year average[2]. Yet supply is extremely limited: only 4.75 million sq. ft of new offices are due over the next five years, against 11.2 million sq. ft of leases expiring[1]. Assuming normal 20% renewal rates[1], this leaves a large supply gap.

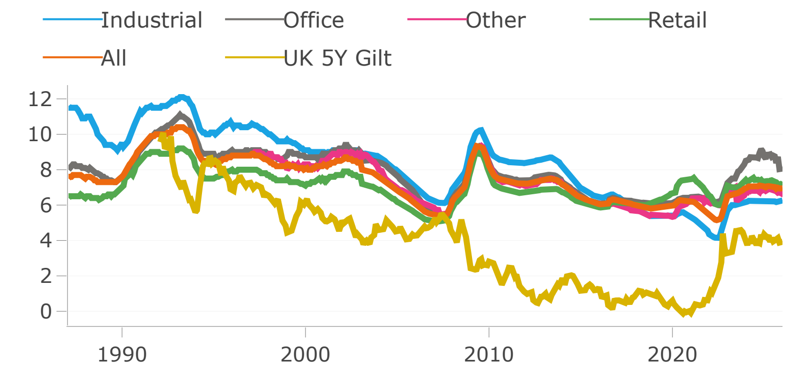
Rents are responding, with some investors achieving 10–15% increases on pre lets[2]. Construction delays since Brexit and Covid have squeezed the pipeline - limiting ESG compliant stock. Plus costly moving and fit-out rates are forcing tenants to stay put and upgrade, further exacerbating the shortages and propping up rents. Similar themes are playing out in prime Paris, Frankfurt and New York markets too.

UK Commercial Property Market

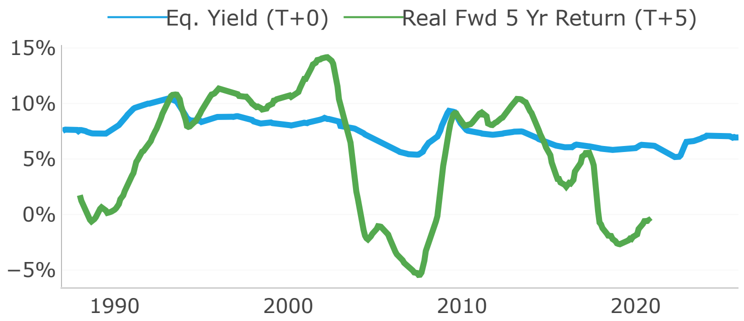
25 Years Of Return 1998=100



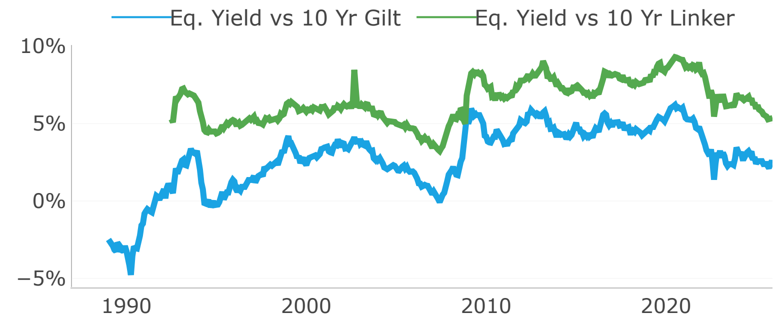
Equivalent Yields vs Gilt Yields %



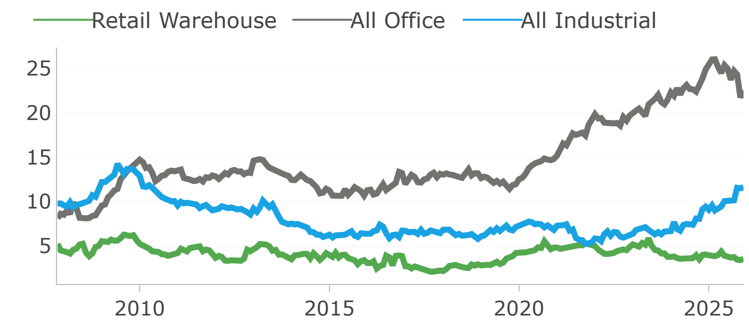
MSCI UK All Property Monthly TR Index %



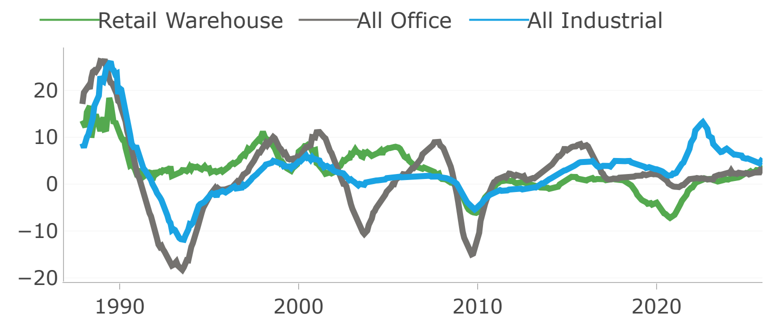
MSCI UK All Property Index - Equivalent Yield Spreads



Vacancy Rate %



Nominal Rental Value YoY Growth %



Sources | Equivalent Yields, Vacancy Rate, and Nominal Rental Value charts: MSCI UK Monthly Property Index as at Dec 2025. 25 Years of Return, All Property Monthly TR Index as at Dec 2025. 1: FT: 'London office shortage...' 6 Jan 26. 2: FT: 'City of London risks running out...' 3 Dec '25.

VALUATION

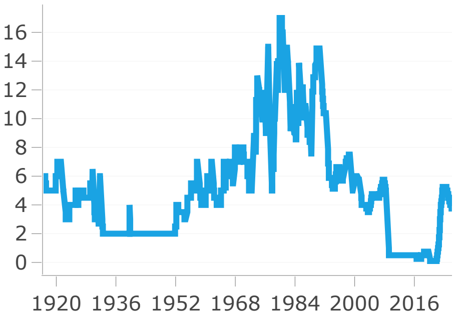
Cash

UK GDP grew 0.3% in November, helped by stronger services and a rebound in car production. This lifts the chance of a slightly positive Q4 reading. Expectations are now for annualised Q4 growth of around 0.8–1%.

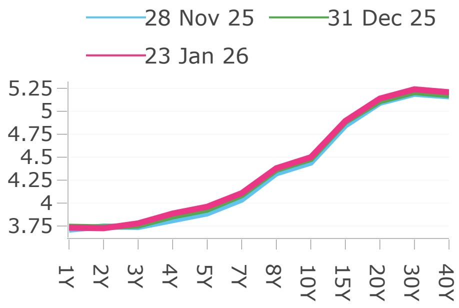
However, the economy is still slowing, hiring easing and surveys pointing to only modest momentum into 2026. This softer backdrop should help inflation fall further, giving the Bank of England more room to cut interest rates next year. **The market currently expects 25bps cuts in June and December 2026, taking rates to 3.25% by end of the year.**

UK Sterling Market

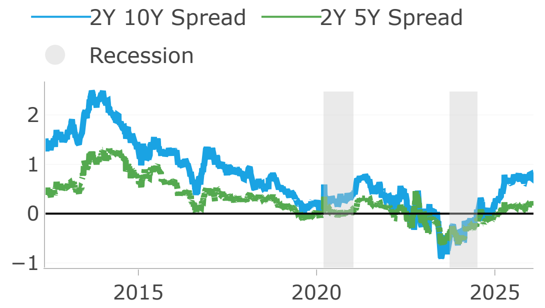
Official Bank Rate



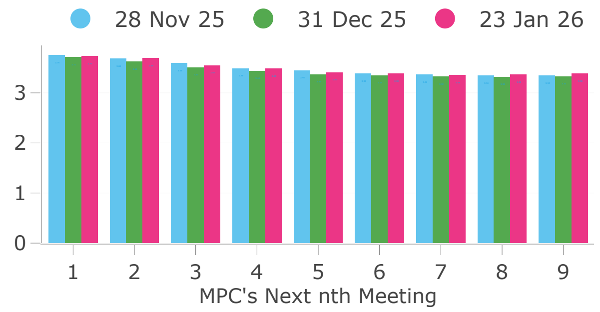
UK Gilt Curve



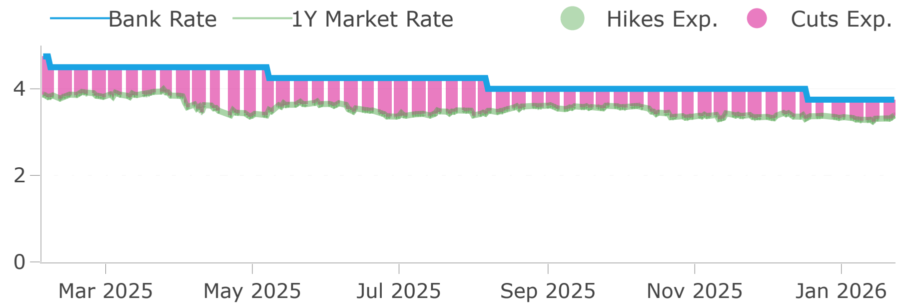
Gilt Spreads



Rate Expectations For Future MPC Meetings



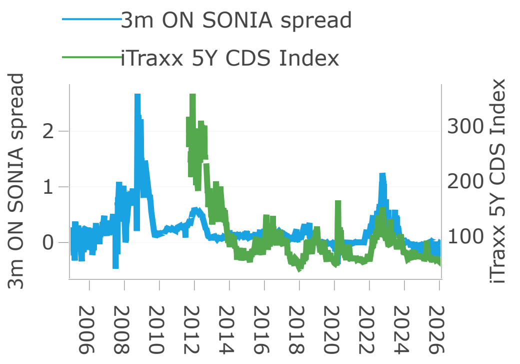
1Y Forward Market Rate Expectations



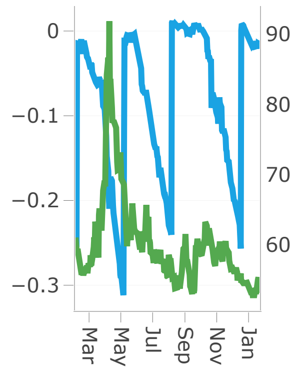
Inflation Readings YoY% | Colour by 10Y Z-Score*

Year	2025				
▲	Aug…	Sep…	Oct…	Nov…	Dec…
RPI	4.60	4.50	4.30	3.80	4.20
CPI	3.80	3.80	3.60	3.20	3.40
CPI Core	3.60	3.50	3.40	3.20	3.20
CPI Services	4.70	4.70	4.50	4.40	4.50
CPI Goods	2.80	2.90	2.60	2.10	2.20
Priv. Wages	4.20	3.90	3.50	3.50	

Market Stress



Last 12 Months



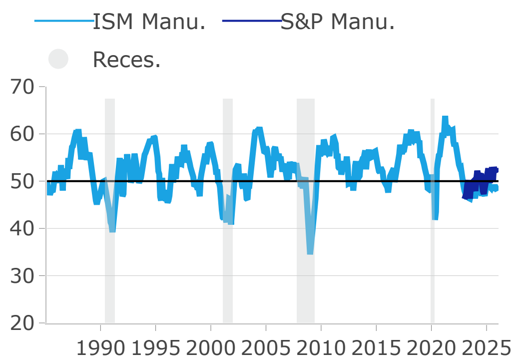
Sources | ITraxx CDS is the Markit iTraxx Europe Senior Financial Index, comprising 30 equally weighted credit default swaps on IG European entities. *10 year z-score applied on each series, coloured using gradient with score of 0 as green, at least +/- 2 standard deviations away scores as red. Bloomberg for all charts, as of Jan 2026.

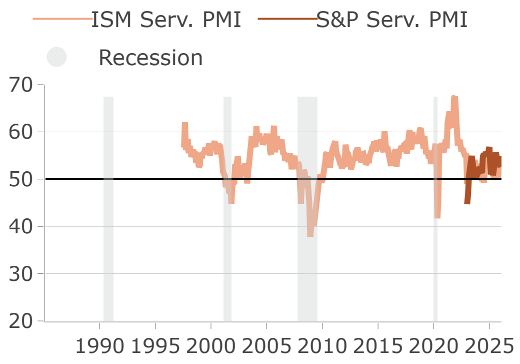
Global PMIs

US services continue to expand (Dec PMI[1]: 52.5), but growth is slowing, with fewer new orders and stalled hiring. Tariffs and wages are pushing up costs, so firms are hiking prices to protect margins, keeping inflation elevated. The future relies on consumer resilience.

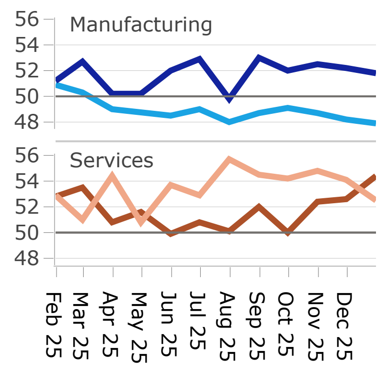
In the UK, services demand grew its fastest in 21 months (Jan flash PMI[1]: 54.3) with more new orders and increased backlogs. Yet, rising wages and pass-through transport costs are forcing firms to raise output costs. Prices charged rose at their fastest rate since Aug. '25. Employment is still declining as a result.

United States

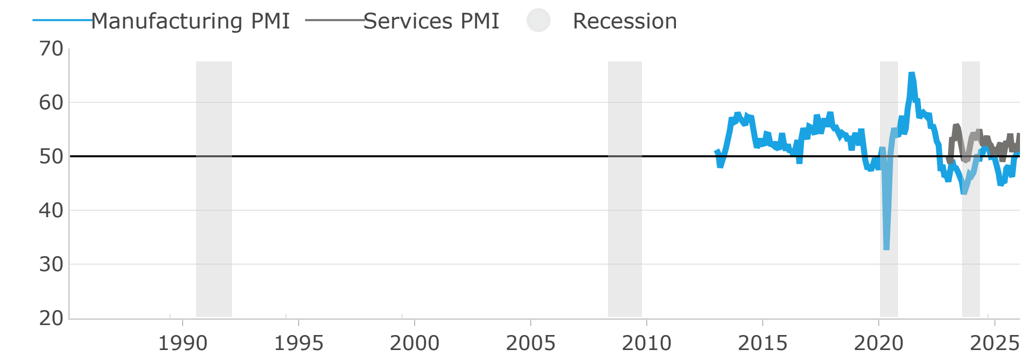




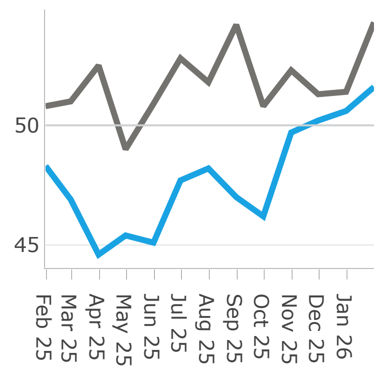
Last 12 Months



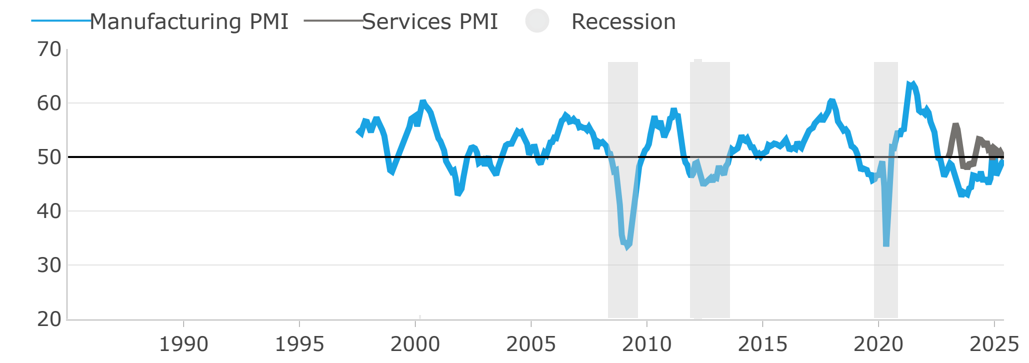
United Kingdom



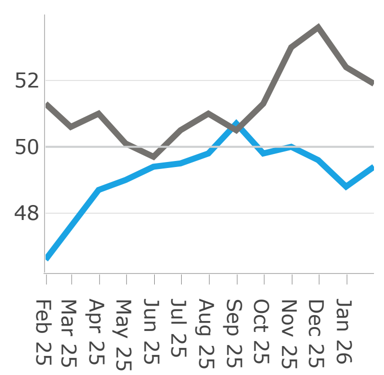
Last 12 Months



Eurozone



Last 12 Months



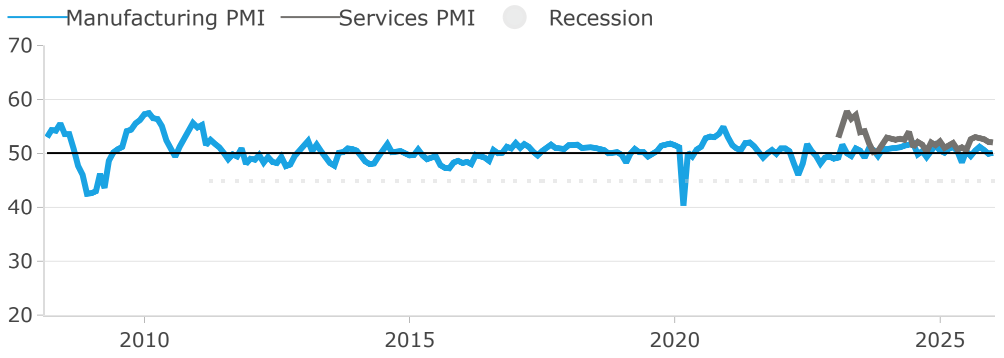
Sources | US Services and Manufacturing: ISM; All other countries including global: S&P Global as of Jan 2026. Recession defined as two consecutive negative quarters of GDP, recession ends with two consecutive positive quarters in GDP. [1] Purchasing Managers' Index (PMI).

Global PMIs

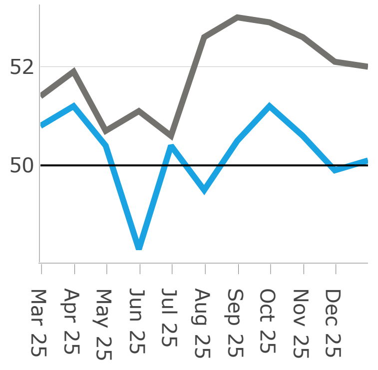
Japan's economy is losing momentum as private consumption - about 55% of GDP - remains weak. High inflation and falling real wages are weighing on consumers. Japan imports 60% of its food and 90% of its energy, making the weak Yen a major driver of sticky prices.

If she wins a majority, the Prime Minister wants to eliminate the food sales tax, which could lower inflation. But longer-term challenges persist: domestic supply is at capacity necessitating food and energy imports, fiscal plans may keep the Yen under pressure and structural reforms to boost wage growth look unlikely in the near term. Annual GDP is expected to grow 1.2% in 2025, 0.8% in 2026 and 0.9% in 2027.

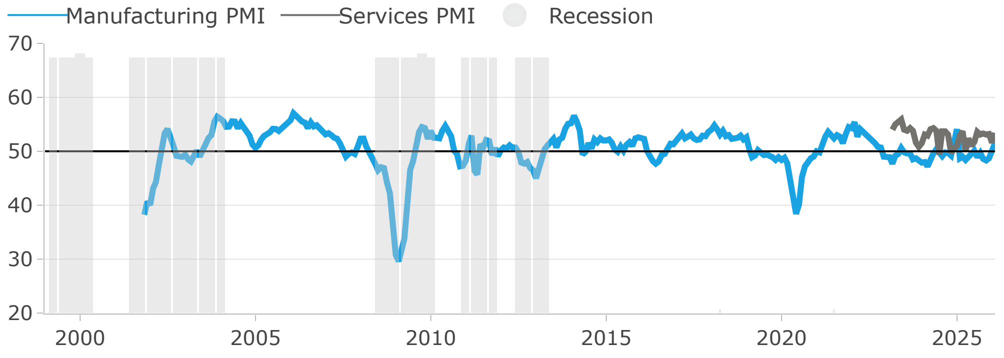
China



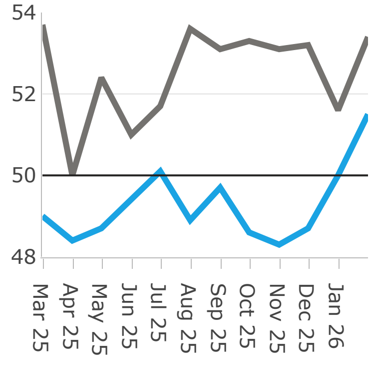
Last 12 Months



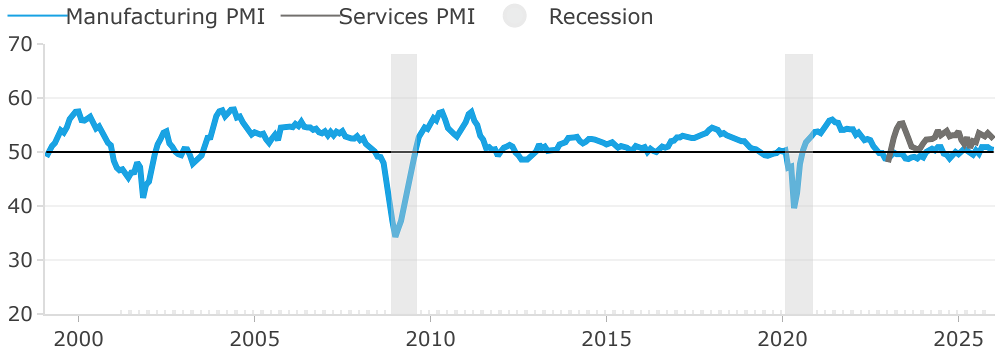
Japan



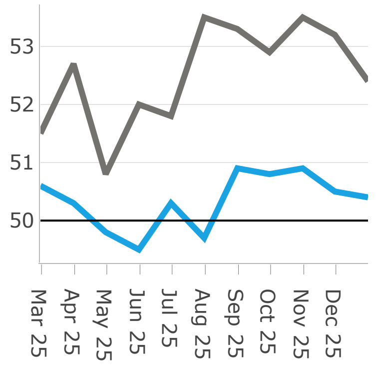
Last 12 Months



Global



Last 12 Months



Sources | All countries including global: S&P Global as of Jan 2026. Recession defined as two consecutive negative quarters of GDP, recession ends with two consecutive positive quarters in GDP.

GROWTH

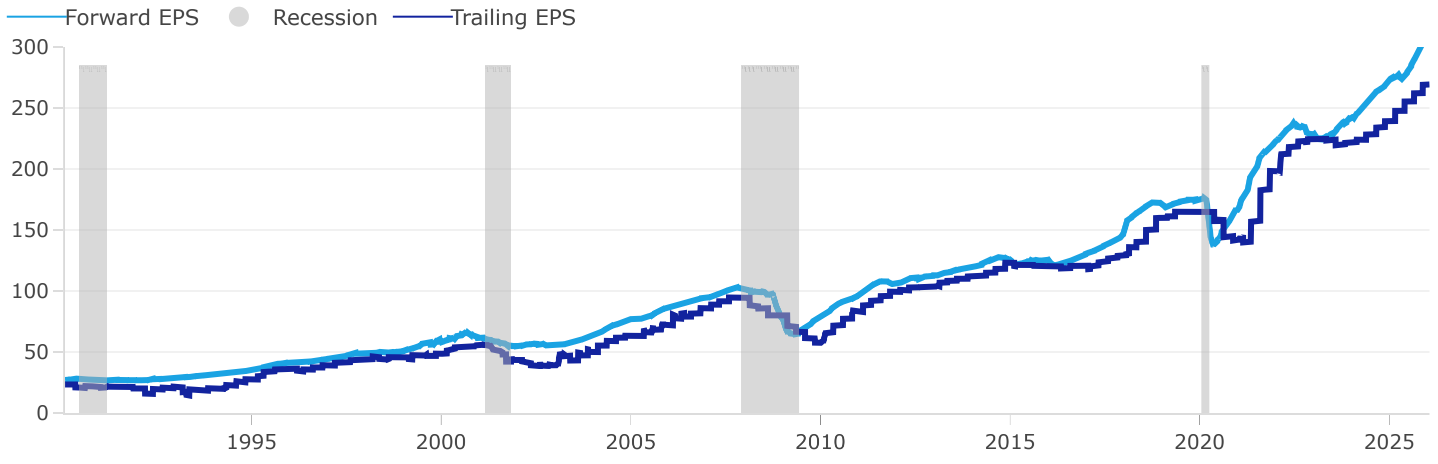
Earnings | USA

US Q4 2025 earnings are tracking about 7% year on year, with 73% of early reporters beating forecasts. Despite this, share-price reactions have been muted: the average stock has risen only 0.2% above the market the day after results, compared with a typical 1%. Over five days, they've dropped -1.1%.

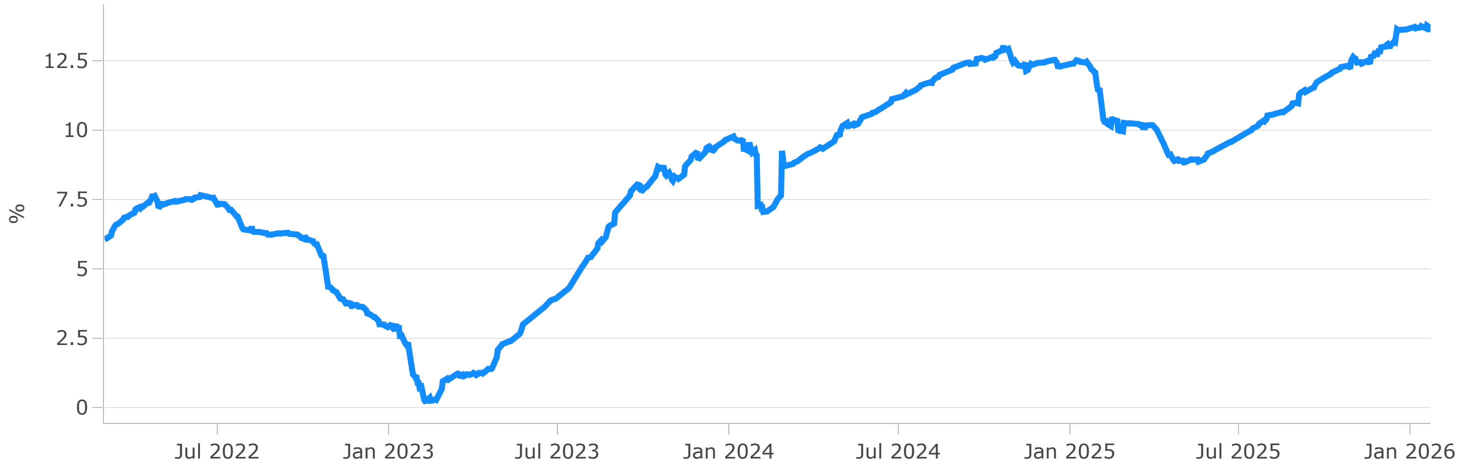
We believe strong expectations, high valuations and crowded positioning are weighing on sentiment. Nonetheless, earnings remain the key performance driver for the US, and they look healthy. The lower chart below shows that forward earnings growth looks rock solid at >13% and holding.

S&P 500

Bloomberg Est. EPS & 12M Trailing EPS



Rolling Forward EPS Growth Forecasts



Sources | S&P500 12M Forward EPS using Bloomberg BF transformation, 12M Trailing EPS from Bloomberg as at Oct 2025. 1: Data for commentary taken from Bank of America: 'Week 1: Light week, solid beats, mixed' 20 Jan 2026.

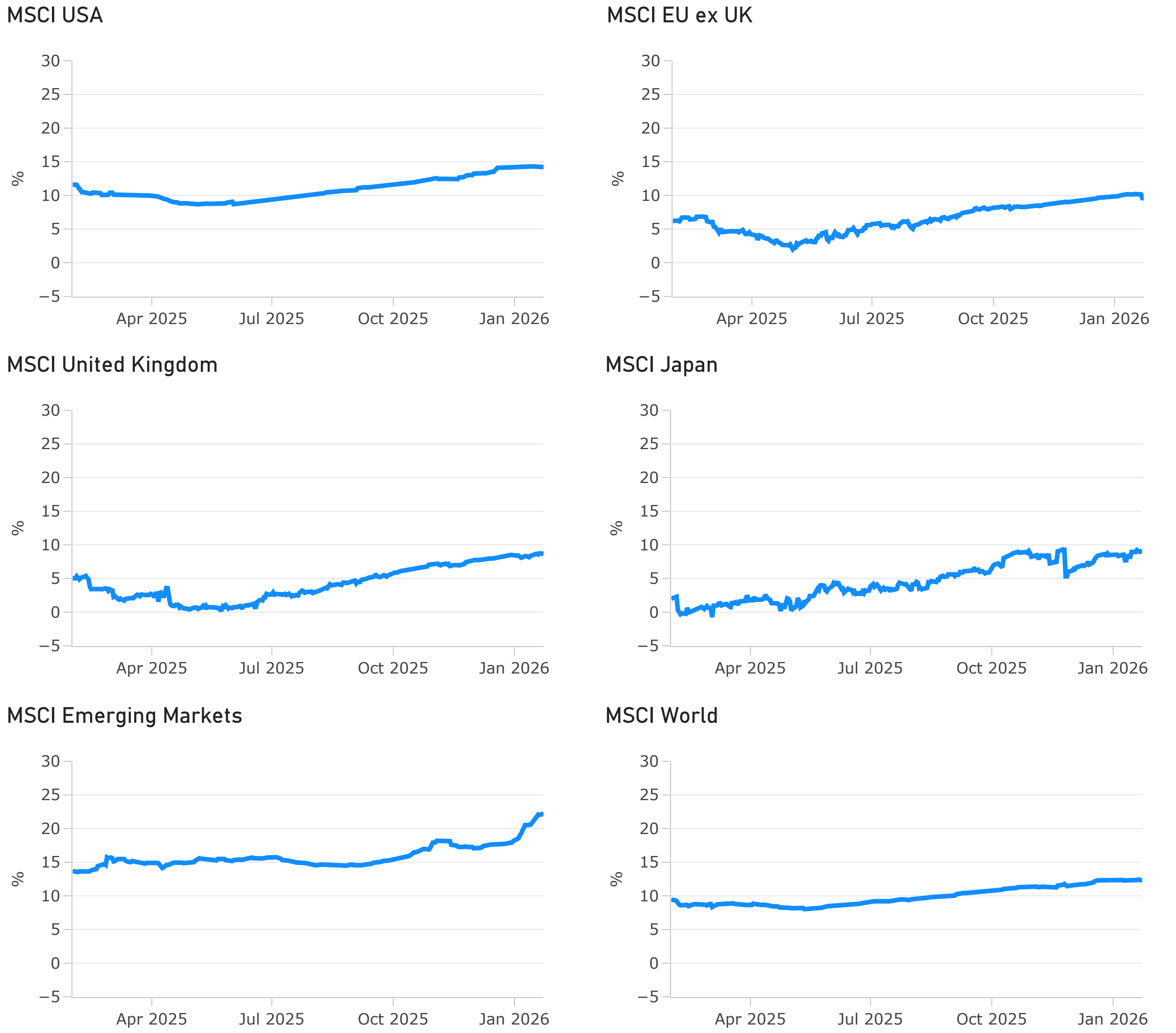
GROWTH

Earnings | Regional

Developed markets have picked up their blended forecasted 12M forward Earning Per Share (EPS) growth rates. USA is now ~15%, above last January's peak. Europe (ex UK) and UK are following a similar pattern around ~10% respectively.

Emerging Markets continue to outpace other regions with an EPS growth rate above 20% - beating last year's peak.

Regional Rolling 12M Blended Forward Earnings Growth



Sources | MSCI regional index 12M Forward EPS using Bloomberg BF transformation with YoY growth as at Jan 2026.

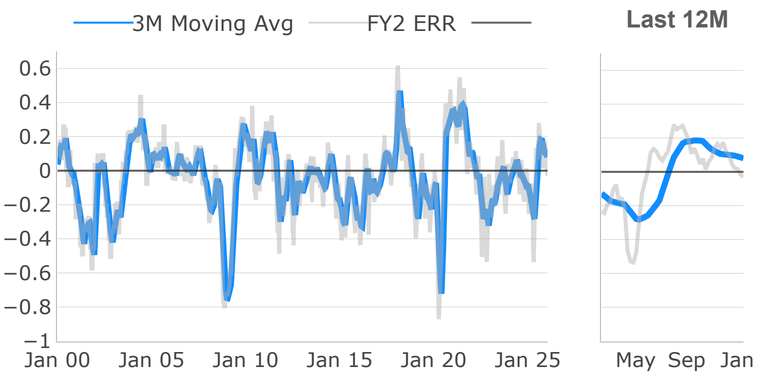
GROWTH

Earnings Revisions

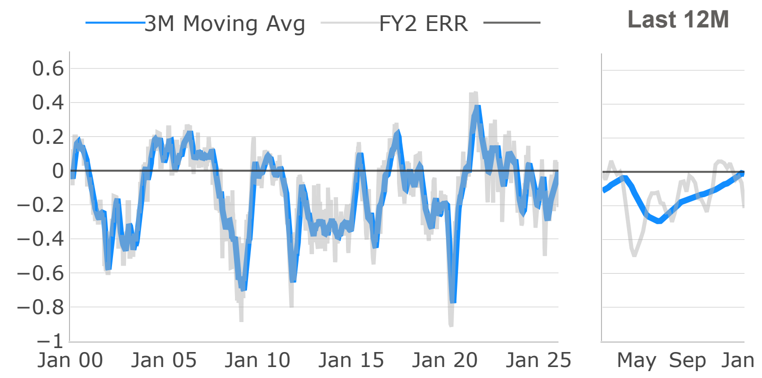
These charts show the breadth of earnings revisions, i.e. # upgrades minus # downgrades / total estimates, so it is a directional measure showing how widespread upgrades or downgrades are. Historically, troughs in revisions breadth have been favourable times to add risk.

Global Earnings Revisions Ratios

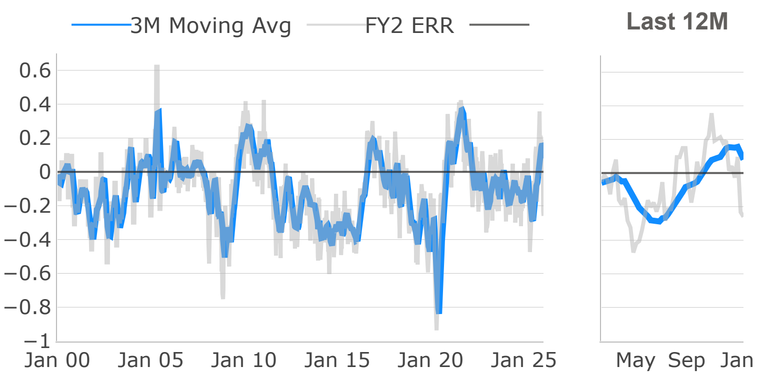
USA



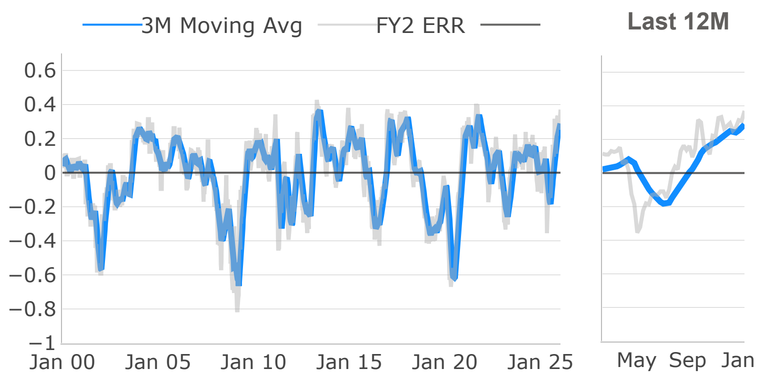
Eurozone



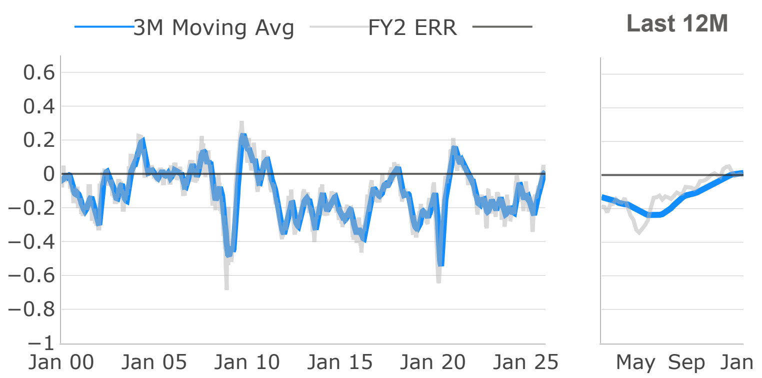
UK



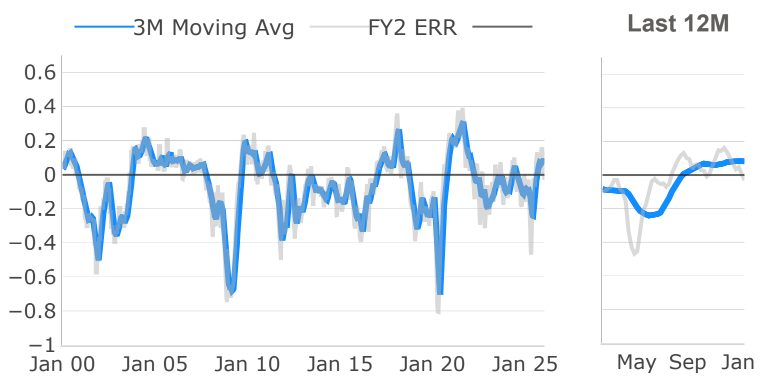
Japan



Emerging Markets



World



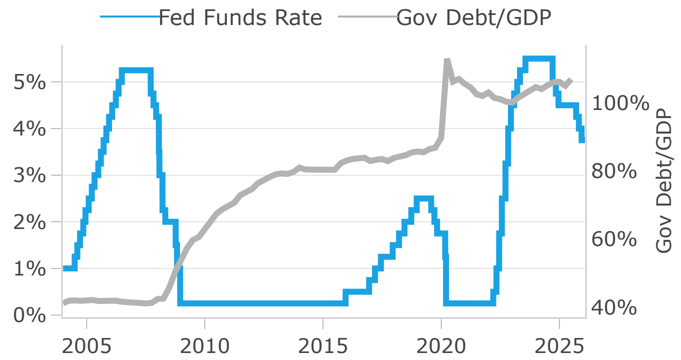
Sources | Eikon, the MSCI index has been used for each respective region, as at Jan 2026.

Policy

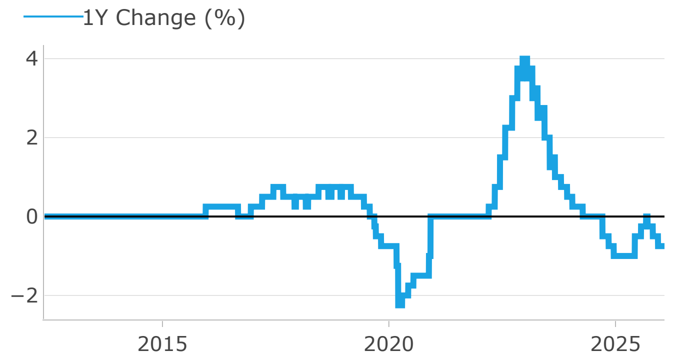
Greenland sits at a strategic crossroads in the Arctic, vital for NATO's defence and monitoring Russian submarine movements, especially through the GIUK Gap[1]. As the polar ice melts, new transpolar routes are opening. This opens the risk of Russia and China bypass traditional defences and entering the Atlantic - making the US vulnerable to attack.

The US' desire for Greenland likely stems from 1) concerns over NATOs ability to monitor the growing routes 2) critical minerals 3) crucially, exclusivity. Ownership will enable the US to have exclusive military access and veto power over any Russian or Chinese presence - shielding shipping routes, military supply lines and enabling rapid response to threats. **Regardless of the final deal, this is yet another tailwind for defence spending.**

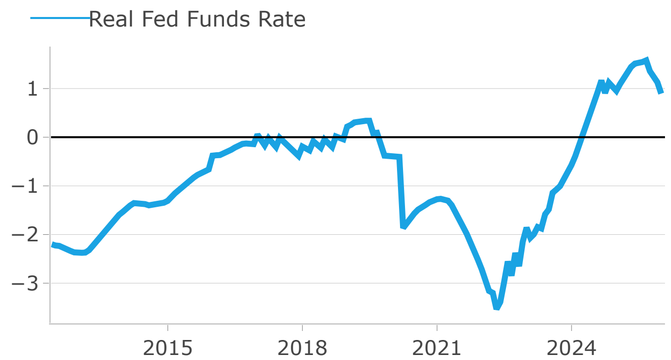
Fed Funds Rate



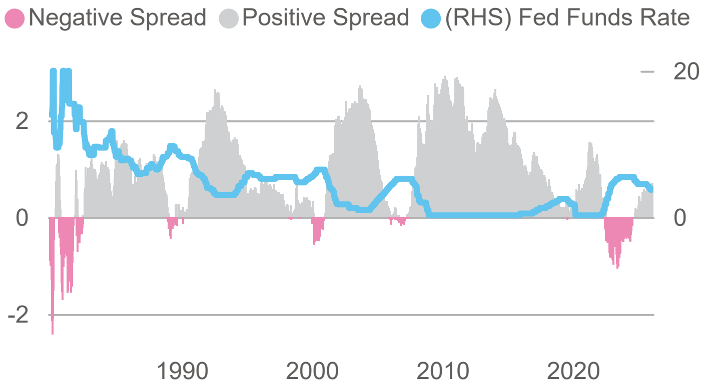
Change in Fed Funds Rate



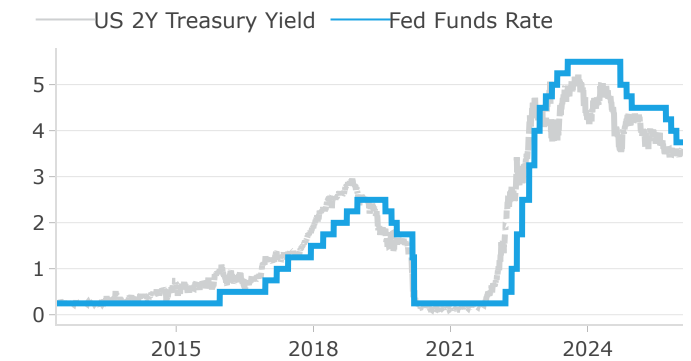
Real Fed Funds Rate (Using 2Y MA CPI)



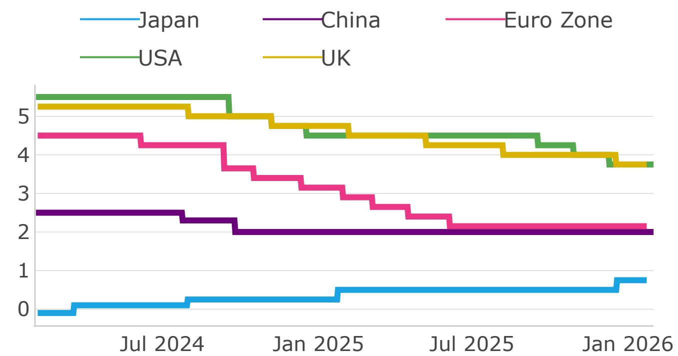
Fed Funds Rate vs 2s10s Curve



Fed Funds Rate vs 2Y Treasury



Global Comparison



Sources | Bloomberg for all charts, as of Jan 2026. 1: Greenland-Iceland-UK Gap: a geographical chokehold separating the Atlantic from Europe.

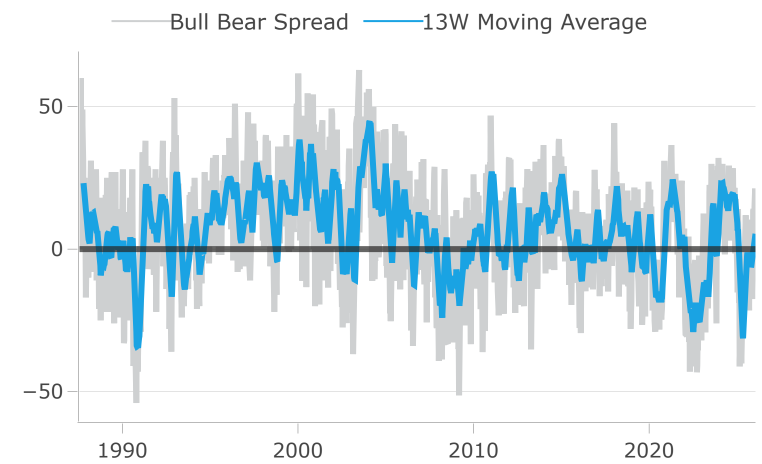
Sentiment

The BAML Hartnett Bull & Bear Indicator has stretched to 9.2. This is considered close to peak bullishness and has historically been a signal to sell.

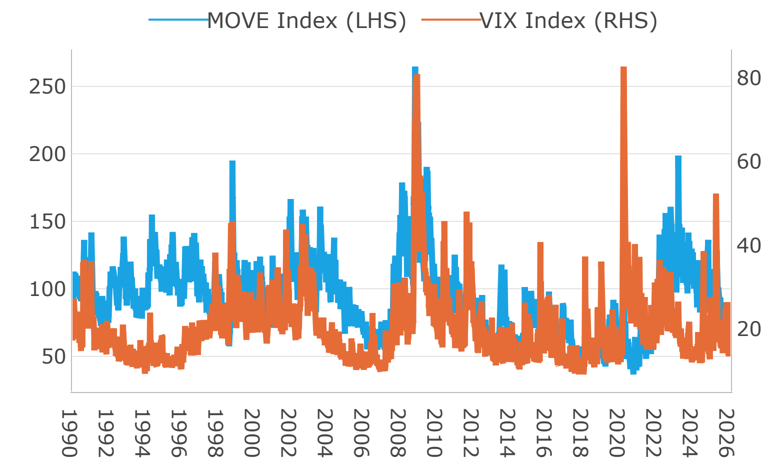
The value can be attributed to bullish sentiment across all metrics - hedge fund positioning, equity and bond flows, credit technicals - just to name a few.

US Equity Indicators

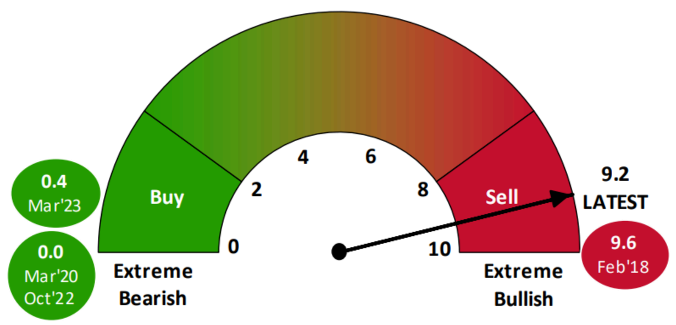
AAII Bull Bear Spread



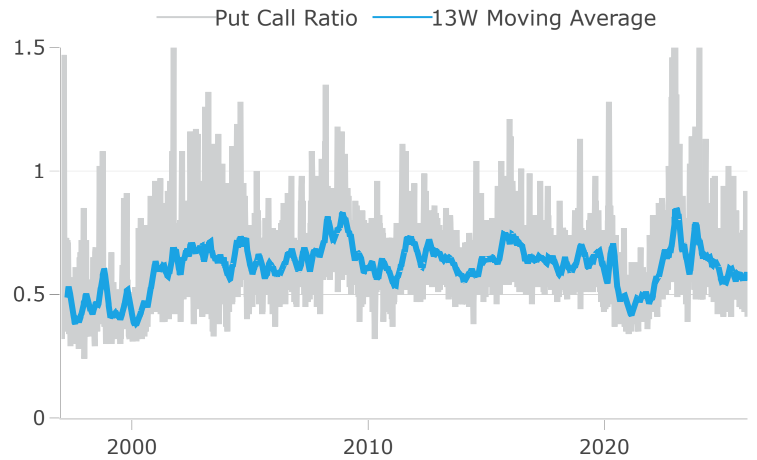
Equity vs. Bond Sentiment



Michael Hartnett's Bull & Bear Indicator (BAML)



Equity Put Call Ratio



Sources | Bull Bear Spread, VIX and Equity Put Call Ratio: Bloomberg. Michael Hartnett's Bull & Bear indicator by kind permission from Bank of America, as of Jan 2026.

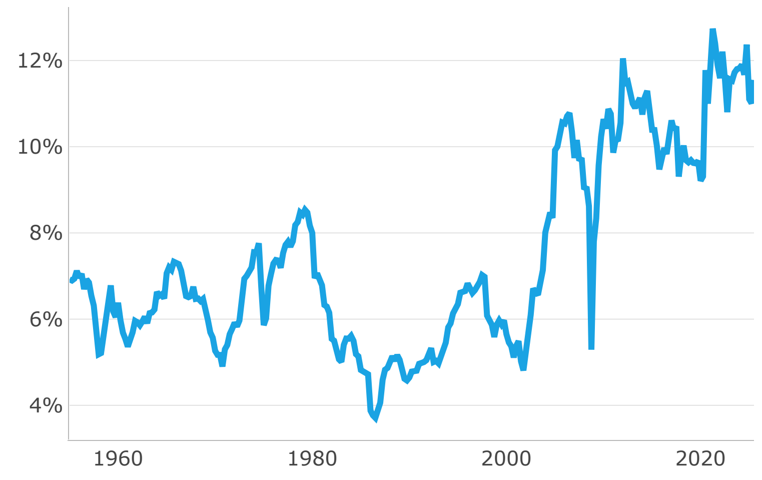
CCLA

The Big Picture

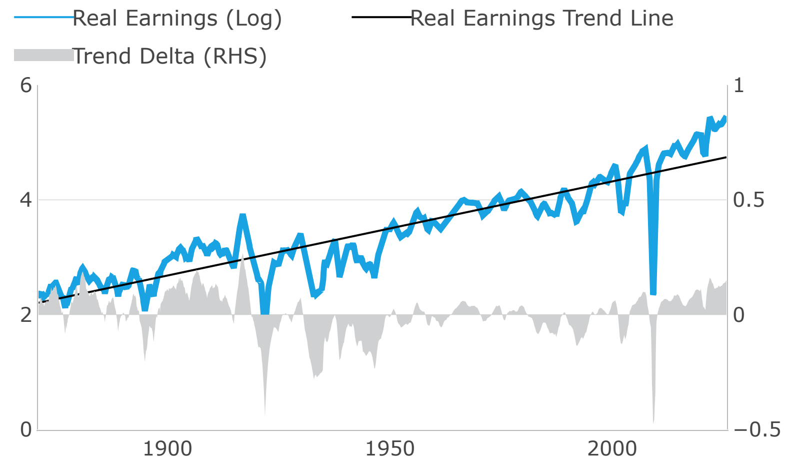
Here we highlight some longer-term imbalances that, **should** they correct, would have an outsized impact on risk asset returns. We don't make predictions but we do watch these. US corporate profit is just off the highest share of GDP that it has ever been since 1929. Its corollary (not shown) is that the wage share is at the lowest level it has been in almost as long. Allied to this, the top right chart shows that earnings are as far above their long run trend in absolute terms as they have also been since 1929. Domestic non-financial debt is also extremely elevated. All of this suggests that if old relationships hold and we get mean reversion, US forward 10 year returns could be much lower than suggested by the ERPs.

Long Term Inbalances

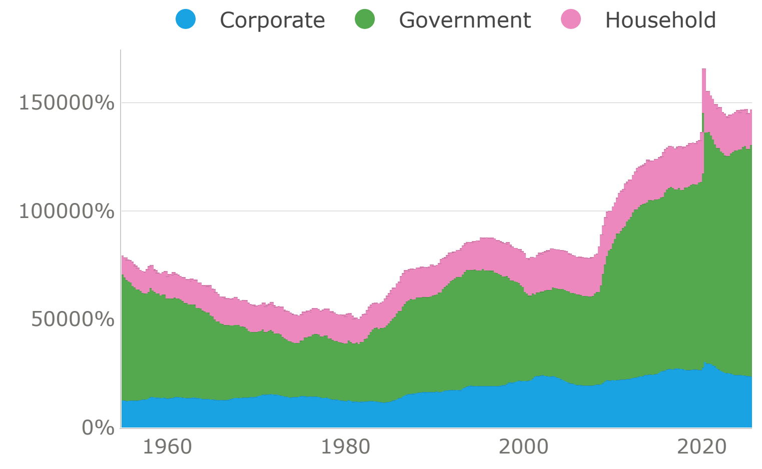
Profit Share of GDP



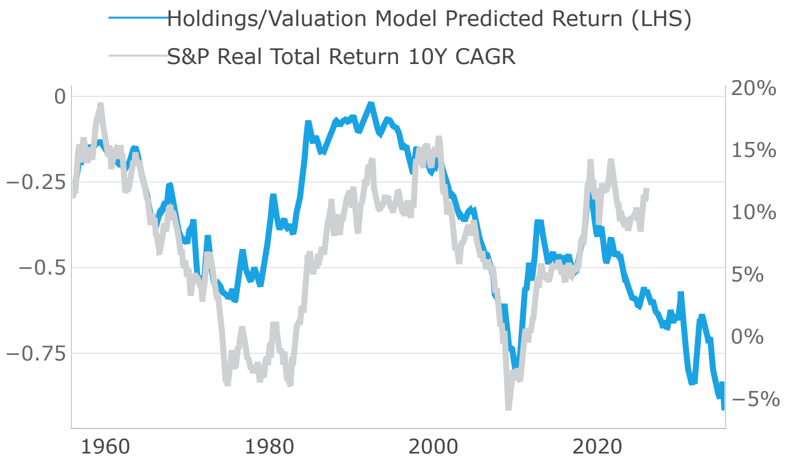
Earnings Deviation From Trend



Non Financial Debt as Share of GDP



S&P 500 10Y Forward Returns



Sources | Profit Share of GDP, and Non Financial Debt as Share of GDP: Federal Reserve Economic Data (FRED) as at July 2025 (latest available); Earnings Deviation From Trend: CCLA using Shiller CAPE data from Yale.edu; S&P 500 10Y Forward Returns: Holdings/Valuation Model uses three inputs: Tobin's Q, Shiller CAPE and Household Equity Holdings to predict 10Y forward returns. All data refreshed as at Jan 2026.

Important information

This document is produced for professional investors and is also available on request.

This document is not intended for general retail public distribution and must NOT be distributed to other persons without CCLA's permission.

This document is issued for information purposes only. It does not constitute the provision of financial, investment or other professional advice and does not constitute an offer or invitation to make an investment in any financial instrument or in any CCLA product.

The market review and analysis contained in this document represent CCLA's house view and should not be relied upon to form the basis of any investment decisions.

Any forward-looking statements are based upon CCLA's current opinions, expectations and projections. Such opinions, expectations or projections may be subject to change at any time. CCLA undertakes no obligation to update or revise these. Actual results could differ materially from those anticipated.

Past performance is not a reliable indicator of future results. The value of investments and the income derived from them may fall as well as rise. Investors may not get back the amount originally invested and may lose money.

CCLA Investment Management Limited (registered in England and Wales, number 2183088) , whose registered address is: One Angel Lane, London, EC4R 3AB, is authorised and regulated by the Financial Conduct Authority.

CCLA

GOOD INVESTMENT