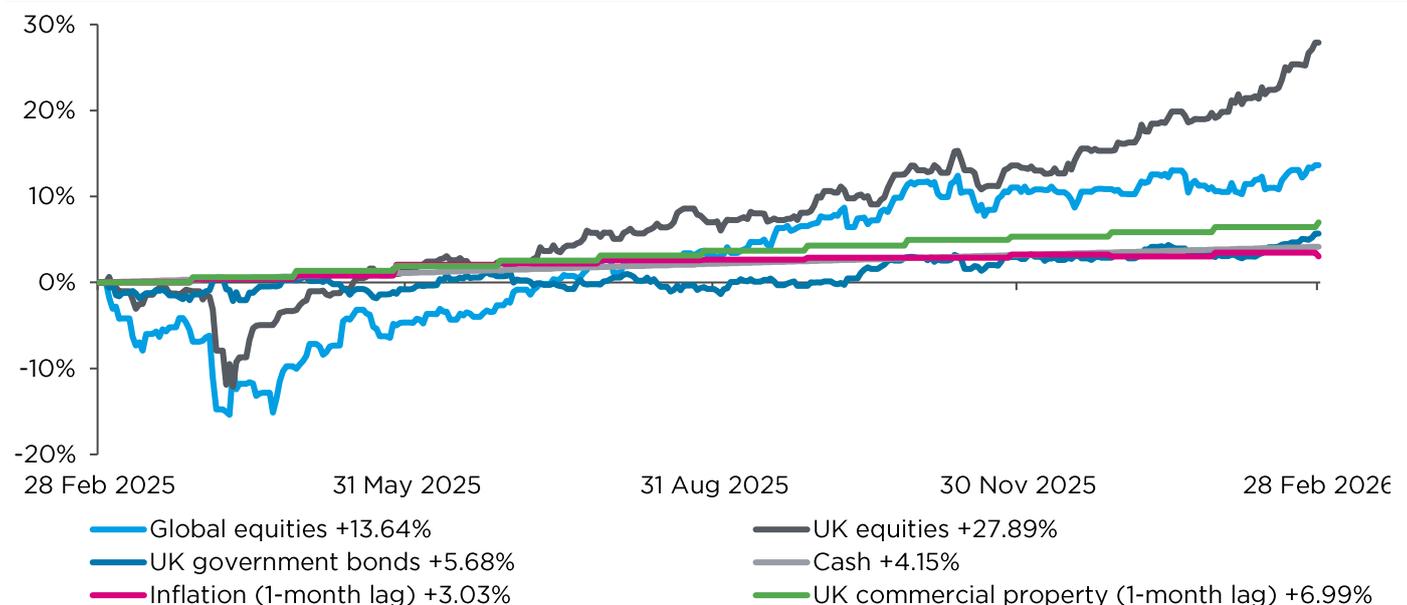


Market review

The headlines

- ▶ **Globally, stock markets advanced in February. However, US share prices fell during the month, while share prices rose in most other developed markets.**
- ▶ **Concerns over the disruption of some industries by artificial intelligence (AI) and over overinvestment by large tech firms into AI infrastructure continued to weigh on US stocks.**
- ▶ **In our outlook, we consider the possible economic costs of the ongoing conflict in the Middle East.**

Market returns: Global equities posted modest gains in February, but US shares lagged.



Sources: Bloomberg, returns in pound sterling as of 27 February 2026 (28 February 2025=0%). Daily data, except for inflation and UK commercial property, shown monthly. UK government bond returns as per Markit iBoxx £ Gilts Index. Inflation as per the Office of National Statistics' UK Consumer Prices Index, with a one-month lag. UK commercial property as per MSCI UK Monthly Property Index, estimated for the most recent month. Cash returns as per Sterling Overnight Index Average (SONIA). Global and UK equity returns as per MSCI World Index and MSCI UK IMI Index, respectively. **Past performance is not a reliable indicator of future results.**

Economics and markets news

World share prices rose 0.7% in February, in local currency. US share prices fell 0.9%, eurozone share prices rose 3.6% and UK shares 6.7%.⁽¹⁾

In the tech-dominated US market, AI-related concerns weighed on share prices for most of February. By contrast, more traditional, AI-agnostic sectors in other parts of the world served as safe havens. Those included UK-listed bank and mining shares and, in the eurozone, consumer, financial and industrial firms.

Bond yields fell in most developed markets. In the US and UK, investors looked forward to central banks cutting interest rates soon. In the eurozone, inflation appeared under control, so investors expect policy interest rates to remain unchanged for the foreseeable future.

The pound weakened versus the euro and the US dollar, which boosted the prices of foreign assets in pound sterling terms.

United States

US share prices fell 0.9% during February, in dollar terms. Before US airstrikes started on the last day of February, negotiations with Iran had little impact on the US market. Instead, so-called 'AI disruption', concerns about over-investment in AI infrastructure, and another round of tariff news dominated.

'AI disruption' is the idea that cheap tools built by AI firms can do tasks for which specialised software firms currently charge high prices. For example: an AI tool like 'Claude' could edit a publicity photo in minutes, which now takes a designer using Adobe Photoshop a day or longer. As a result, Adobe's share price fell 23% from its opening price this year to its February low.

Similar panics impacted the share prices of enterprise software firms such as Salesforce and Workday. Shares in other sectors also got caught up in this frenzy, including, for example, advertising firm WPP, travel app Expedia, and car website operator Autotrader.

Investors continued to be **sceptical** of the sums that tech firms spend on data centres and other AI infrastructure. Google parent Alphabet, Facebook owner Meta and Amazon, all large providers of remote computing services, told investment analysts that their 2026 investment in physical AI assets will, together, be 35% higher than those analysts previously thought.

Investors' concern is: how will these firms generate the sales and the profits needed to justify their enormous outlays? Alphabet, for example, announced on 4 February that it would spend \$185 billion on AI in 2026, nearly double what it spent in 2025. Alphabet's share price had peaked at \$348 on 3 February but, after this announcement, fell to \$300 later in the month.

During February, US firms, including tech firms, continued to report their **earnings** for the fourth quarter of 2025. Semiconductor firm NVIDIA beat analysts' revenue expectations (\$68 billion in the fourth quarter versus \$66 billion expected), beat profit expectations, and nearly doubled net income, compared to the fourth quarter of 2024. Nevertheless, the company's share price fell 5% on the day of the announcement, as investors wondered whether the company's returns could continue for the long run.

On 20 February, the US Supreme Court ruled that President Trump could not use the International Emergency Economic Powers Act (IEEPA) to impose broad **tariffs**. Immediately after the Court's decision, however, President Trump used other laws to impose new tariffs, which will keep his administration's 2026 tariff revenues virtually unchanged.

Share prices reacted moderately positively to the Supreme Court's decision, particularly in the retail, automotive, logistics and tech sectors, which depend on international supply chains. But that positive reaction wasn't sufficient to reverse poor performance earlier in the month.

By the end of February, the consumer discretionary, communications and information technology sectors were the worst-performing US stock market segments. By contrast, utilities, energy and materials (including mining and chemicals) were the best performers.

The Supreme Court left open whether the Trump administration must refund the \$130 billion that tariffs had already collected. That left the US budget deficit steady for this year. As a result, yields on short-dated US Treasuries, which would probably finance refunds, were unchanged to slightly lower over February.

By contrast, long-dated US Treasury yields benefited from safe-haven demand by investors fleeing the stock market. Ten-year US Treasury yields, for example, fell from 4.26% at the end of January to 3.97% at the end of February. (Bond yields fall as bond prices rise.)

The Federal Reserve's interest rate-setting committee did not meet in February. Core personal consumption expenditure (PCE) inflation, the Fed's preferred inflation gauge, rose from 2.8%, year on year (yoy), in November 2025 to 3.0% in December.

Much of the Fed's position in the run up to its meeting on 17-18 March, will hinge on the February jobs report (due 6 March) and the next US consumer price inflation data (due 11 March). For now, investors' consensus view is that the Fed will leave rates unchanged in March.

United Kingdom

UK share prices rose 6.7% in February. Merger target Schroders, defence firm BAE and data businesses RELX and London Stock Exchange Group were among the best performers. By sector, energy and mining were the main contributors to market gains.

Betting firm Flutter, pharmaceuticals producer Hikma and builders Barratt Redrow were among the poorest UK stock market performers during the month. By sector, financials, tech firms, and travel companies were the main sectors that lost ground.

The Bank of England (BoE) left its Official Bank Rate unchanged when it met in early February. Later, it was reported that UK consumer price (CPI) inflation fell from 3.4% yoy in December 2025 to 3.0% in January 2026. As a result, most investors expected - before the war in the Middle East - the BoE to cut interest rates when it meets on 19 March.

Ahead of that expected rate cut, yields on two-year UK government bonds ('gilts') fell from 3.63% at the end of January to 3.42% at the end of February. Ten-year gilt yields also fell over February, from 4.63% to 4.35%.

Other markets

Eurozone share prices rose 3.6% in February, led by supermarket retailer Ahold Delhaize, Italian oil and gas firm Eni and power engineering firm Siemens Energy.

Eurozone inflation fell from 2.0% yoy in December to 1.7% in January, below the European Central Bank (ECB)'s 2% target. The ECB left interest rates unchanged in February.

Japanese share prices rose 9.9% in February, after Japan's prime minister, Sanae Takaichi, won a landslide election victory. Her win made investors hope for higher government spending and more dovish monetary policy. The shares of smaller Japanese companies, with more domestic revenues, performed best, followed by infrastructure stocks and tech shares.

After rising nearly 5% in January, **Chinese** share prices fell 5.8% in February, led by falls in the prices of technology shares, financial and real estate firms, as manufacturing weakened and inflation fell to 0.2%, yoy.

The annual meeting of China's National People's Congress started in early March and is expected to rubber-stamp Xi Jinping's next 'Five Year Plan', including its target for economic growth.

⁽¹⁾ Source: MSCI (total return, net of withholding tax, in local currency), except where stated

⁽²⁾ Sources: US Fed, Bank of England, European Central Bank

Looking ahead

The scale of human suffering amidst the Middle East conflict remains top of our minds as we go about our day-to-day. Because of that suffering, our hope is that we won't have to consider the impact of a continuing war for long.

Until that wish for peace becomes reality, we are committed to look out for our clients' interests and protect their portfolios. Our current view is based on nearly a week of conflict, and assumes that hostilities will last weeks, not months.

The main way in which war in the Middle East affects the world economy is through energy costs. Developed economies have grown less dependent on oil over the last decades, but prices for oil and gas continue to matter for inflation. We are also monitoring whether higher inflation might hold back economic growth.

- The US economy is significantly insulated from world energy prices: the US produces nearly twice as much oil as Saudi Arabia, making it a net energy exporter, with the additional benefit of a 'Strategic Petroleum Reserve' and, possibly, Venezuelan oil.

Moreover, the Fed's main policy rate is now 3.50%-3.75%. That is more restrictive than the 0.25%-0.50% level it was at when Russia attacked Ukraine

in February 2022. So, even if inflation rises, the Fed wouldn't need to raise rates by as much as in 2022.

As for economic growth, the US economy continues to benefit from President Trump's One Big Beautiful Bill (OBBB) and President Biden's Inflation Reduction Act (IRA). The latest US purchasing manufacturing indices (PMIs) were 56.1 for services, its highest since 2022, and 52.4 for manufacturing.

- The impact of the Middle East war is substantially worse for Europe and the UK. Both are net importers of oil and gas, including substantial imports from Qatar.

If the oil price remains at c. \$80 per barrel, UK CPI inflation could be c. 0.7 percentage points higher than currently forecast. That would reverse the current downtrend, might make further cuts unlikely and could dampen economic growth.

- Asia is particularly sensitive to oil prices, because its dependence on Middle East oil has risen in recent decades. Indirectly, upward pressure on producer prices in Asian manufacturing could contribute to higher inflation in the rest of the world.

What does the war mean for our investment portfolios? Indices of quality shares have marginally outperformed broader indices in the year to date and have continued to do so in the days since this conflict started.

In addition, some diversifying strategies that we initiated earlier in 2026 performed well when volatility rose during Russia's invasion (2022) and when President Trump imposed tariffs (2025). These strategies have continued to work well in the few days since the war in the Middle East started.

Glossary

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