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Market Commentary

Equity markets again saw a broadly positive return in February, with many reaching new highs although there was a marked divergence in sectors and geopolitical events intensified towards the end of the month. The economic outlook remained mostly reassuring with better news on the US labour market, while the central banks in the US and the UK pointed to further cuts in interest rates if the rate of inflation does not deteriorate.

The United States and Israel launched attacks on Iran after inconclusive talks; there is some debate over the objective, which might bring a new regime or renewed regional conflict, or both. The risks to markets lie in the impact of potentially higher inflation – the oil price was materially higher over the month – and a further supply shock to a global economy that has been resilient but has shown some vulnerability. Elsewhere Russian losses seemed daunting in Ukraine, where the war passed its fourth anniversary, yet President Putin seemed as reluctant as ever to make concessions in negotiations to end the conflict. In Japan the prime minister Sanae Takaichi won a decisive victory in the early election she called to confirm her mandate. The Liberal Democratic Party claimed a substantial majority with 316 seats out of a total of 465 in the Lower House, the first time in the post-war era that a single party has held more than two-thirds, while its coalition partner Nippon Ishin won 36 seats. Takaichi has committed to cut food prices and to bolster defence, while she raised the issue of a change to the pacifist constitution, which was the founding principle of the LDP; the Japanese market rose sharply on the result.

The US was forecast to grow at the fastest rate among G7 nations at 2.4% in 2026 according to the IMF, although the annualised expansion of 1.4% in the fourth quarter was half the expected level and well down on the 4.4% in the prior quarter; the prolonged government shut-down was a factor. America did see the creation of a reported 130,000 new jobs in January, the largest in a year and higher than expected if subject to revision, as the Bureau of Labour Statistics lowered its figure for 2025 from 584,000 to 181,000. The level of unemployment reached 5.2% in the UK, the highest in five years; the rate of 16.1% for those aged 16 to 24 years is now above the EU average. Initial data indicated that the UK economy had only grown at 0.1% and the Japanese one also at a lacklustre rate of 0.2% in the fourth quarter of 2025, which was weaker than expected. President Trump implemented a new global tariff at 10% if still threatening a proposed rate of 15%, after the US Supreme Court ruled that his use of emergency powers to apply previous policies had been illegal.

In the UK the consumer price index (CPI) rose by 3% in January, down from 3.4% in December, and the rate is forecast to fall to around 2% after April. In the US the CPI rate fell to 2.4% in January from 2.7% in the prior two months although the producer price index was at an annualised 2.9%, well ahead of expectations. The personal consumption expenditures index, a preferred measure for the central bank, had risen to 2.9% in December, the highest level since March 2024. In the eurozone the headline rate of inflation fell to 1.7% in January from 2% in December. In Japan the annual rate of inflation fell sharply again to 1.5% in January from 2.1% in December, the lowest level since March 2022. In China the annual rate of CPI was up by just 0.2% in January.

The Bank of England as expected held its rate at 3.75% if again by a narrow 5:4 majority, and it is likely to cut again in the coming months, one factor for Sterling along with political uncertainty. The European Central Bank also held rates, at 2%, in a unanimous vote at its February meeting. The US Federal Reserve rate is at the level of 3.5-3.75%. The Bank of Japan may raise its rate from 0.75%, although the prime minister nominated two members to its board who share her preference for lower rates. The Reserve Bank of Australia raised its interest rate for the first time in two years, from 3.6% to 3.85%. The Swiss National Bank has been forced to contemplate negative interest rates again, after the Swiss franc continued to rise against the US$ and the euro, putting pressure on exporters, given its safe haven appeal.

US companies reported strong earnings growth for the fourth quarter of 2025, in the order of 12% making for a fourth successive quarter of double-digit growth, while revenues increased at the fastest pace since 2022. The potential impact of Artificial Intelligence led to a sustained fall in the software sector while also impacting other areas such as consulting and financial advice; markets saw a rotation to asset-heavy industries.

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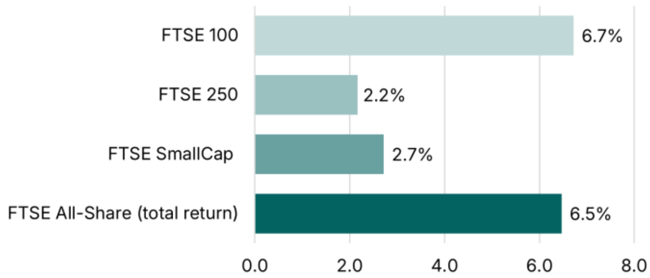
United Kingdom

The FTSE 100 index rose by 6.7% over the month to 10,911 while the FTSE 250 index of mid-sized companies and the FTSE SmallCap index rose respectively by 2.2% and 2.7%.

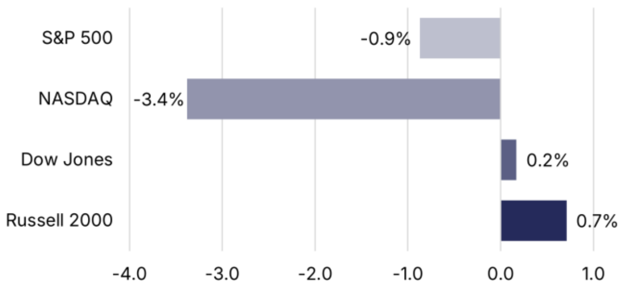
The total return for the FTSE All-Share index, including income, was 6.5% in the period.



United States

In the US the S&P 500 index was down by 0.9% in the month, while the equal-weighted version rose 3.4%; the technology-oriented NASDAQ index fell by 3.4% and the Dow Jones Industrials index rose by 0.2%.

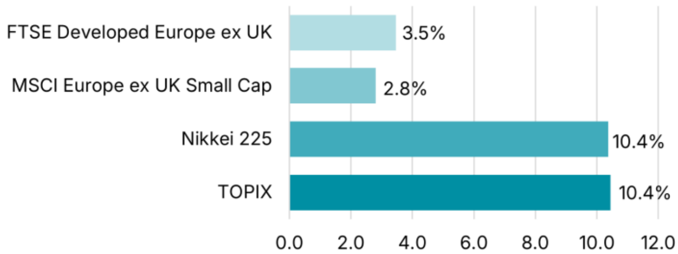
The Russell 2000 index of smaller companies was up by 0.7%.



Europe & Japan

The FTSE Developed Europe ex UK index was up by 3.5% over the month, with all major markets making useful gains, most notably the French market. The MSCI Europe ex UK Small Cap Index rose by 2.8%.

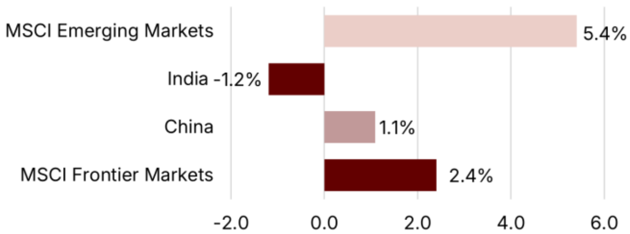
In Japan the Nikkei 225 index was up by 10.4% and the more representative TOPIX index also rose by 10.4% in the period.



Emerging Markets

MSCI Emerging Markets index in US$ was up by 5.4% in the month; there were significant gains of 19.5% in Korea and 10.5% in Taiwan, while the Indian market fell 1.2%. The Shanghai index was up by 1.1% and the Hang Seng index in Hong Kong was down by 2.8%.

The MSCI Frontier Markets index was 2.4% higher and the Vietnamese market rose 2.8%.



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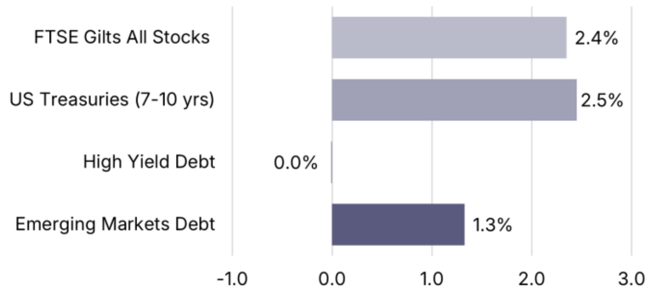
Bond Markets

In bond markets the UK 10-year gilt yield declined from 4.52% to 4.23% and the total return for the FTSE Gilts All Stocks index in the month was 2.4%. In Germany the 10-year bund yield moved from 2.84% to 2.64% and in the US the 10-year yield was also lower at 3.94% from 4.24%.

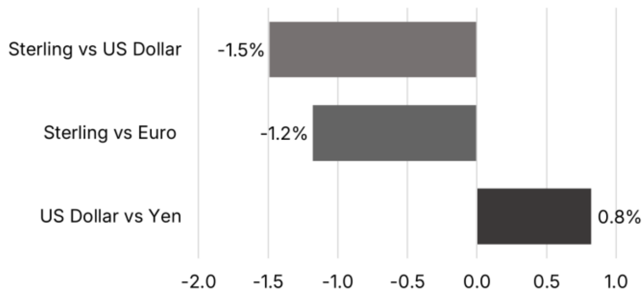
There were gains in the major bond markets aside from high yield debt, with US Treasuries and index-linked gilts in the UK doing best.



Currencies

Sterling was down by 1.5% against the US$ in the month, ending at a rate of $1.35:£, while against the euro Sterling was 1.2% lower to end at a rate of €1.14:£.

The US$ was up by 0.8% at ¥156:$ against the Japanese yen.



Commodities

The price of Brent crude oil ended the month up by 5.7% at a level of $74 per barrel. Gold gained over the month by 7.9% to close at $5279 per troy ounce, if still off its highs.

The main metals were higher in the month, with the bellwether copper up by 1.3%, and the main agricultural commodities were mostly higher, with wheat up 8.3%.