

Market Digest

FEBRUARY 2026

This commentary provides a review of global markets in February 2026. It takes a closer look at the outlook and current topical themes, plus a market commentary covering the 12 months to 31 December 2025.

> Feb 2026 highlights

Despite concerns about how artificial intelligence (AI) could disrupt some sectors, equity performance remained positive

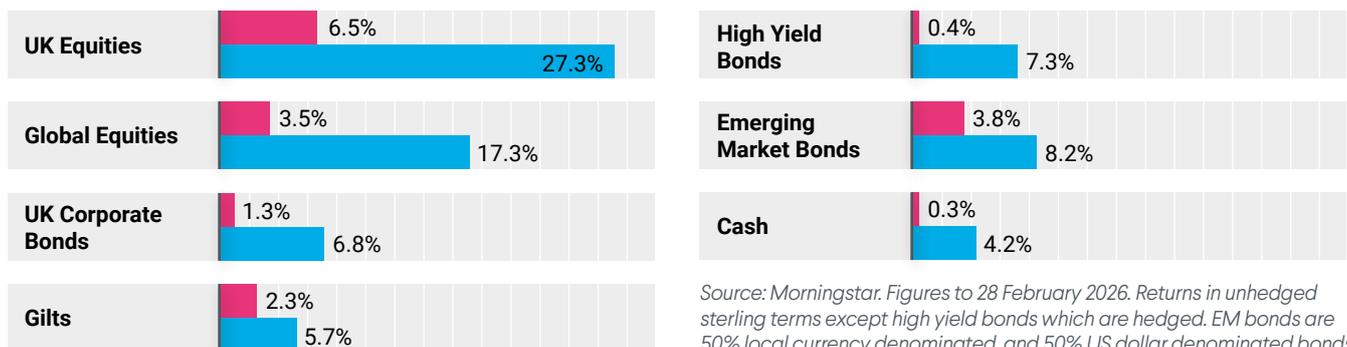
Asian markets continued to outperform, driven in part by the outcome of the Japanese election

Bonds also delivered positive returns, supported by lower-than-expected inflation in the period

- Investors continued to see a rotation in performance away from technology. A wave of AI tools raised concerns about disruption in certain sectors, which led to sharp share price declines in some stocks, although the overall market impact was limited.
- In the US, the Supreme Court ruled that a significant proportion of President Trump's tariffs were illegal, casting doubt over the future of his tariff agenda. Elsewhere, tensions in the Middle East continued to build.
- The Japanese market was a strong performer again, with Takaichi's election victory providing a boost.
- UK equities also continued to perform well, supported by lower exposure to technology and strength in energy companies.
- UK government bonds (gilts) delivered strong returns. Uncertainty around AI and events in the Middle East pushed investors towards safe-haven assets, while lower-than-expected inflation also supported bonds.
- Over the month, equities outperformed bonds. As a result, higher-risk portfolios generally delivered stronger returns than lower-risk portfolios.

Our model portfolios typically invest in a combination of the asset classes shown in this chart

This chart shows percentage asset class returns for February 2026  Feb 2026  12 months



Source: Morningstar. Figures to 28 February 2026. Returns in unhedged sterling terms except high yield bonds which are hedged. EM bonds are 50% local currency denominated, and 50% US dollar denominated bonds.

Outlook and topical market themes



On 28th February investors' attention turned to the conflict in the Middle East

The length of the disruption to energy exports in the Middle East will determine the economic impact in the West

US Big Tech stocks, which have driven gains previously, are now underperforming the wider market

War in the Middle East

We continue to closely monitor developments in the Middle East. For markets, the key question is whether higher oil and natural gas prices (see chart) prove short-lived or more persistent. This will determine whether short-term volatility evolves into a longer-lasting economic headwind.

Markets have been volatile, experiencing intraday swings, but long-term investors should look beyond short-term noise and stay focused on their long-term goals. You can find more detail on recent market moves and what they mean for investments in our clients notes on our [website](#).

At the start of the year, equity market performance broadened out from Big Tech

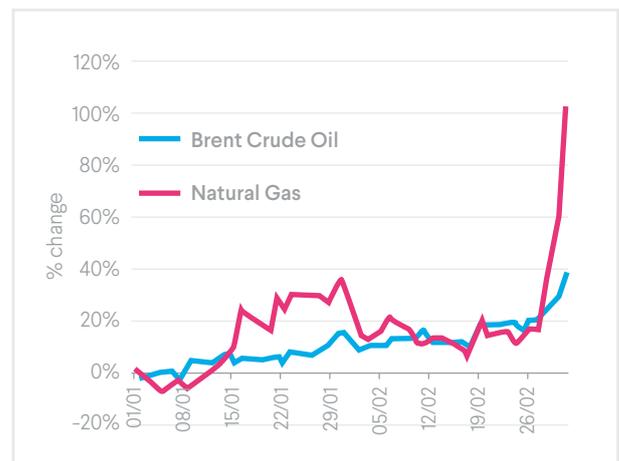
This year has brought a pronounced rotation in equity market leadership. US Big Tech stocks, which have driven much of the market's gains in recent years, are now underperforming the wider market.

Confidence in the AI theme has softened since late last year. This is largely due to the scale of ongoing capital expenditure on AI infrastructure and growing concerns that AI tools could disrupt a wide range of sectors, from financial services to logistics.

Our investment process is designed to perform through such shifts as we are not dependent on a single market style to drive portfolio performance.

Chart of the month

Energy prices have risen as tensions in the Middle East escalate



Key takeaways

- The Middle East's role as a key energy supplier has pushed oil prices almost 40% higher since the start of the year
- Natural gas prices have risen even more sharply, almost doubling over the same period
- The UK and Europe rely heavily on natural gas imports, so a sustained rise in gas prices could push inflation higher and weigh more heavily on the economy than the rise in oil prices.

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31 Dec**

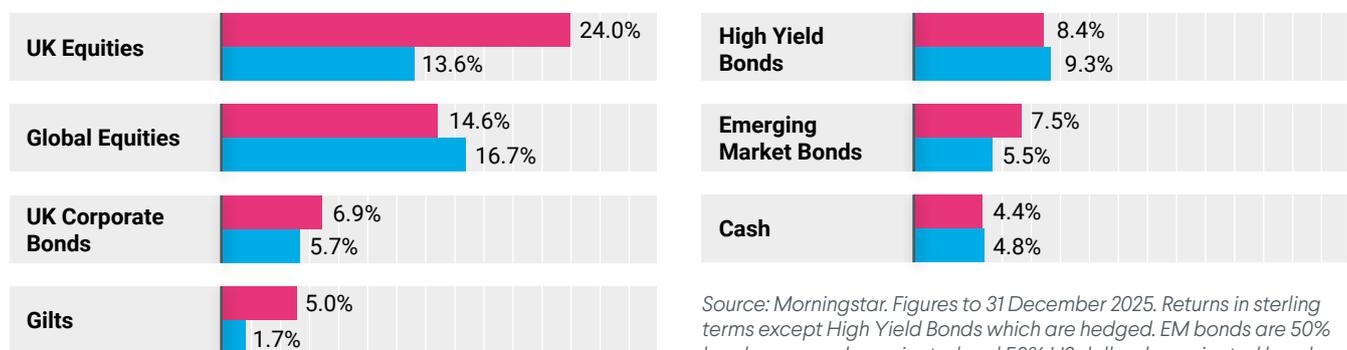
Markets navigated tariff shocks and political uncertainty but still delivered positive returns over the year

Central banks resumed rate cuts later in the year, supporting investor confidence

Concerns over high valuations and heavy spending on AI infrastructure weighed on sentiment

Our model portfolios invest in a combination of asset classes shown in this chart

This chart shows percentage asset class returns for the 12 months ending 31 December 2025 versus the three years ending 31 December 2025. ■ 1 year ■ 3 years (p.a.)



Source: Morningstar. Figures to 31 December 2025. Returns in sterling terms except High Yield Bonds which are hedged. EM bonds are 50% local currency denominated and 50% US dollar denominated bonds.

A volatile start driven by trade policy

Markets experienced a turbulent start to the period as trade tensions and shifting policy expectations drove swings in sentiment. Early performance was shaped by President Trump's tariff announcements, which raised fears of a global trade war and increased market volatility. April's 'Liberation Day' intensified disruption, with tariffs affecting all economies.

Markets recovered quickly after tariffs were postponed and trade negotiations showed signs of progress. However, volatility remained elevated as investors reassessed growth prospects and policy risks.

Strong earnings support recovery

Improving corporate earnings and strong performance from the technology sector helped drive the rebound through Q3 2025. At the same time, the Federal Reserve's return to rate cuts strengthened investor confidence.

Momentum slowed towards the end of the year. Concerns about high valuations and heavy spending on AI infrastructure weighed on sentiment within the technology sector, which in turn moderated overall market returns.

Central banks move toward easing

Central banks continued their path towards lower interest rates. The Bank of England reduced Bank Rate by 1% over the period to 3.75%, with markets expecting further easing following softer inflation data in November.

The Federal Reserve resumed rate cuts in late 2025, lowering rates by 0.75% (to 3.75%) through three consecutive reductions in September, October and December - the first cuts since December 2024. Investors broadly expect further easing through 2026, although the pace will depend on inflation trends and signs of weakness in the labour market.

Equities deliver positive returns

Despite periods of volatility and technology sector concerns, global equities ended the 12 months to December 2025 in positive territory. Asia-Pacific ex Japan and European markets were among the strongest performers, recovering from earlier declines and benefiting from improving sentiment later in the year.

Annual market summary continued

Bonds benefit from falling yields

Bond markets also delivered positive returns. Gilt performance was supported by falling yields (bond prices rise as yields fall) as inflation pressures eased in the final quarter, supported by strong earnings growth.

High-yield bonds delivered even stronger 12-month returns as credit spreads (the additional yield received on corporate over government bonds) fell over the period (bond prices rise as spreads fall) and emerging market bonds benefited from a weaker US dollar.

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