

# February 2026 Recap

## February 2026 Monthly Market Commentary

### Investor Summary

February 2026 marked a month of divergence and rotation across global equity markets. U.S. large-cap indices posted modest declines, weighed down by persistent inflation concerns, mixed economic signals, and a notable pullback in technology and growth-oriented stocks. The S&P 500 declined approximately 0.9% for the month, while the Nasdaq Composite fell roughly 3.5%, reflecting intensifying fears about the disruptive impact of artificial intelligence on specific industries and the broader economy. In contrast, the Dow Jones Industrial Average was roughly flat, and the Russell 2000 pulled back modestly after a strong January rally.

The month was bookended by key economic releases. The Q4 2025 GDP advance estimate, released February 20, showed growth decelerating sharply to 1.4% annualized—well below expectations—primarily due to the impact of the October–November 2025 government shutdown. The January CPI report came in cooler than expected at 2.4% year-over-year, but this positive signal was offset on the final day of the month by a much hotter-than-anticipated Producer Price Index (PPI), which sent stocks lower into the close. Internationally, European and emerging market equities continued to outperform U.S. benchmarks, attracting record inflows as investors rotated capital toward more attractively valued markets outside the United States. Gold continued its upward trend, trading above \$5,200 per ounce at month-end, supported by central bank demand and geopolitical uncertainty.

### U.S. Equity Market Review

Major U.S. equity indices experienced a difficult February, with the broad market giving back a portion of January's gains. The technology-heavy Nasdaq Composite bore the brunt of the selling, declining approximately 3.5% on the month as investors reassessed AI-related valuations and the potential for AI-driven job displacement weighed on sentiment. The S&P 500 fell roughly 0.9%, while the Dow Jones Industrial Average was essentially flat. The Russell 2000, after surging nearly 8% in January, pulled back modestly.

**Style and Sector Rotation:** A defining feature of February was the acceleration of the rotation away from large-cap growth stocks toward value and cyclical sectors. The S&P 500 Equal Weight Index outperformed the cap-weighted S&P 500 by more than 3 percentage points over the month, underscoring the broadening of market participation beyond mega-cap technology names. Small- and mid-cap stocks, while pulling back from January's surge, maintained their year-to-date leadership. The VIX (CBOE Volatility Index) rose to approximately 19.8, reflecting elevated uncertainty as the month concluded on the hot PPI report.

## Major Index Performance - February 2026

Index	Month Close	YTD Return
S&P 500	6,878	+0.49%
Dow Jones Industrial Average	48,977	+1.9%
NASDAQ Composite	22,668	-2.47%
Russell 2000	2,632	+4.95%

## Global Market Overview

International equity markets continued to outperform the U.S. in February, extending one of the most notable trends of early 2026. The MSCI World ex-U.S. Index gained approximately 8% year-to-date through month-end, compared with a roughly flat return for the S&P 500. European equity funds experienced elevated inflows during February, with EPFR data indicating one of the strongest monthly inflow periods in recent years.

**Europe:** The Stoxx Europe 600 broke through 630 for the first time, powered by improving earnings expectations, supportive macroeconomic data, and the ongoing rotation out of U.S. technology equities. Germany's DAX posted its best performance in years and continued climbing to all-time highs. The UK's FTSE 100, which crossed the symbolic 10,000-point mark earlier in 2026, also reached new records. France's CAC 40 gained over 2% in the final week alone. Eurozone PMI data surprised positively with the fastest rise in new orders in nearly four years.

**Asia-Pacific:** Japan's Nikkei 225 traded above 58,000 during mid-February, reaching a new high before moderating later in the month. The index remains up approximately 13% year-to-date in local currency terms. Emerging markets also posted solid gains, with the MSCI EM Index up approximately 7% year-to-date, supported by a weakening U.S. dollar,

strong AI-related investment in Asia, and continued central bank gold purchases from China.

**Commodities:** Gold posted its seventh consecutive monthly gain, trading in the \$5,190–\$5,226 range at month-end—its seventh consecutive month of gains. The rally was underpinned by strong central bank demand (China extended gold purchases for a fifteenth consecutive month), geopolitical uncertainty, and expectations for a more accommodative Federal Reserve. Silver traded near the \$100 psychological level. WTI crude oil settled near \$67 per barrel, fluctuating within a range as U.S.–Iran diplomatic signals and OPEC+ dynamics provided cross-currents.

## International Equity Performance - February 2026

Index	Month Close	YTD Return
MSCI EAFE	3179.91	+9.93%
MSCI Emerging Markets	1610.70	+14.69%
MSCI World	278.75	+2.02%
MSCI Frontier Markets	802.20	+6.34%

## Regional and International Market Performance

The divergence between U.S. and international equity markets widened further in February. European markets saw strong fund inflows during February and several national indices reached new highs during the month. Asian markets, led by Japan, also outperformed, although gains moderated toward month-end on geopolitical concerns.

Key drivers of international outperformance included more attractive valuations relative to the U.S., a weakening U.S. dollar, improving European economic data (including positive PMI surprises), and the

broadening of AI-related investment beyond U.S. mega-cap technology companies. The valuation discount of European equities to U.S. counterparts remained significant, drawing both institutional and retail capital.

## Sector Performance Details

February's sector dynamics reflected a clear defensive and value tilt. Technology and Communication Services, the market's leading sectors in 2025, lagged significantly as investors reassessed AI-related growth expectations. Block's announcement of over 4,000 layoffs—nearly half its workforce—attributed to AI-driven efficiencies, underscored growing fears about AI's disruptive impact on employment and traditional business models.

Index Sectors	Feb 2026	YTD
Materials	6.23%	17.21%
Utilities	9.09%	10.93%
Industrials	6.52%	13.34%
Consumer Staples	8.31%	15.84%
Real Estate	6.82%	9.12%
Health Care	2.46%	2.76%
Financials	-3.53%	-6.79%
Consumer Discretionary	-7.18%	-4.29%
Information Technology	-6.43%	-5.59%
Communication Services	-3.55%	-0.81%
Energy	11.44%	23.96%

Financial stocks pulled back late in the month on concerns about potential exposure to the collapse of UK mortgage provider Market Financial Solutions, with reports linking Barclays, Jefferies, Santander, Wells Fargo, and Apollo among affected lenders. Defensive sectors including Healthcare and Utilities held up relatively better, while Industrials and Materials benefited from the broadening of market participation and positive signals from European manufacturing data.

Notably, the S&P 500 Equal Weight Index rose approximately 2.6% over the trailing month through February 27, significantly outpacing the cap-weighted S&P 500's decline and the Nasdaq-100's approximately 2.6% drop. This divergence highlighted the ongoing rotation from mega-cap growth toward mid-cap value and cyclical exposure.

## U.S. Economic and Earnings Summary

### GDP Growth

The Bureau of Economic Analysis released the advance estimate for Q4 2025 GDP on February 20, reporting real GDP growth of 1.4% annualized—well below the consensus estimate of 2.8% and a sharp deceleration from the 4.4% rate in Q3. The miss was largely attributable to the October–November 2025 government shutdown, which BEA estimated subtracted approximately 1.0 percentage point from headline growth.

Government spending fell sharply, reflecting a shutdown-induced 17% plunge in federal outlays. However, underlying private sector demand remained relatively solid: consumer spending rose 2.4%, and business investment increased 3.7%, driven by continued AI-related capital expenditures and equipment spending. For the full year 2025, the U.S. economy grew 2.2%, down from 2.8% in 2024.

### Inflation

The January CPI, released February 13, showed headline inflation at 2.4% year-over-year—down from 2.7% in December and the lowest reading since May 2025. Core CPI (excluding food and energy) came in at 2.5% year-over-year, also below expectations. On a monthly basis, headline CPI rose 0.2% and core CPI rose 0.3%. Shelter costs, the largest component, rose just 0.2% for the month, bringing the annual shelter increase down to 3.0%. Energy prices declined 1.5% in January. Analysts noted that the government shutdown data-collection gap created a modest downward bias in the CPI data that is expected to persist through April.

However, the favorable CPI news was countered on February 27 by a hotter-than-expected Producer Price Index (PPI) report. Headline PPI rose 0.5% month-over-month (versus 0.3% expected) and 2.9% year-over-year. Core PPI surged 0.8% month-over-month—the largest increase since July—compared to a consensus of 0.3%. Year-over-year core PPI accelerated to 3.6%. The surprise was driven primarily by services costs, with final demand services prices rising 0.8%, while goods prices actually declined 0.3%.

The hot PPI reading raised concerns about lingering wholesale inflation and its implications for the Fed's preferred PCE inflation gauge, which is scheduled for release on March 13.

### **Federal Reserve Policy**

The Federal Reserve maintained the federal funds rate at 3.50%–3.75%. Minutes from the January FOMC meeting, released in mid-February, revealed a divided committee: several members signaled openness to further rate cuts if inflation continues to ease, while others expressed concern that rate increases could be necessary if price pressures remain elevated. Markets are currently pricing in approximately two rate cuts for 2026, with the first not expected before the June meeting. The next FOMC meeting is scheduled for March 17–18.

### **S&P 500 Earnings**

The Q4 2025 earnings season progressed through February with 74% of S&P 500 companies having reported. The blended year-over-year earnings growth rate stands at 13.2%, which would mark the fifth consecutive quarter of double-digit earnings growth. Of reporting companies, 74% posted positive EPS surprises and 73% beat revenue estimates. In aggregate, companies are reporting earnings 7.2% above estimates and revenues 1.6% above estimates. Nine of eleven sectors reported year-over-year earnings growth, led by Information Technology, Industrials, and Communication Services. Consumer Discretionary and Energy were the only sectors reporting earnings declines.

The forward 12-month P/E ratio for the S&P 500 stands at 21.5, above the 5-year average of 20.0 and the 10-year average of 18.8, but below the 22.0 level recorded at the end of Q4 2025. For CY 2026, analysts project earnings growth of 14.4% and revenue growth of 7.5%. For Q1 2026, expected earnings growth is 11.1%. Negative EPS guidance for Q1 2026 stands at 31 companies versus 38 issuing positive guidance.

## **Consumer and Retail Data**

### **Consumer Sentiment**

The University of Michigan Consumer Sentiment Index was revised to 56.6 in the final February reading, up marginally from January's 56.4 and the highest since August 2025. Despite the modest improvement, sentiment remains approximately 13% below year-ago levels and 21% below January 2025. Approximately 46% of consumers spontaneously cited high prices as a strain on personal finances—a figure that has exceeded 40% for seven consecutive months.

Notable divergences emerged across demographic groups: sentiment improved meaningfully among consumers with large stock portfolios but declined among those without equity holdings. Higher-income and college-educated consumers reported gains, while lower-income and less-educated respondents did not. Year-ahead inflation expectations fell to 3.4% from 4.0%—the lowest since January 2025. Long-run inflation expectations held steady at 3.3%.

### **Consumer Spending and Retail**

Consumer spending remained the backbone of economic growth in Q4, with personal consumption expenditures rising 2.4% in the GDP report, albeit decelerating from 3.5% in Q3. The affluent consumer continued to drive services spending, while purchases of durable goods pulled back. Analysts note that elevated prices, higher borrowing costs, and thinning savings buffers are creating increasingly difficult tradeoffs for lower- and middle-income households, raising questions about the sustainability of consumer-driven growth in 2026.

## **Manufacturing and Industry Indicators**

Manufacturing data in February presented a mixed but cautiously positive picture. Industrial production rose 0.7% month-over-month in January (released February 18), beating expectations and pointing to resilient manufacturing output at the start of 2026. The ISM Services PMI held steady at 53.8 in January, marking 19 consecutive months of expansion in the services sector.

European manufacturing showed encouraging signs, with February PMI data surprising positively and indicating the fastest rise in new orders in nearly four years, supported by improving domestic demand and the beginning of inventory restocking. Japan's manufacturing sector also contributed to the country's Q4 GDP recovery, though growth came in below expectations.

The labor market continued to send mixed signals. The JOLTS job openings report for December fell to 6.5 million—a five-year low—while weekly initial jobless claims rose to 231,000, above the 212,000 consensus estimate. These data points suggest a gradual cooling in labor demand, though the overall employment picture remains far from recessionary. Corporate buyback activity remained robust, with analysts projecting \$1.3 trillion in authorizations for 2026, which would mark the sixth consecutive year above the trillion-dollar mark.

## Key Themes for February 2026

**AI Disruption Fears:** Growing concerns about AI's impact on employment and industry structure weighed on technology stocks throughout the month. Block's announcement of 4,000+ layoffs attributed to AI-driven efficiencies became a flashpoint, fueling broader fears about job displacement across the financial sector and beyond.

**Global Rotation:** The rotation from U.S. large-cap growth to international value equities accelerated. Record inflows into European equity funds, a weakening dollar, and attractive overseas valuations drove the MSCI World ex-U.S. to approximately 8% YTD gains versus a flat S&P 500.

**Inflation Crosscurrents:** A favorable January CPI report was offset by a hot February PPI release, leaving the inflation outlook uncertain. The market is closely watching the PCE report due March 13 and the March 17–18 FOMC meeting for further clarity on the Fed's rate path.

**Supreme Court Tariff Ruling:** The U.S. Supreme Court overturned President Trump's use of emergency measures to implement global tariffs, a ruling that initially boosted market sentiment mid-month before the administration signaled a new 10% global tariff approach, re-introducing policy uncertainty.

**Gold's Continued Rally:** Gold marked its seventh consecutive monthly gain. Several major banks revised their year-end price targets higher, citing central bank demand and geopolitical considerations. These forecasts represent analyst opinions and are subject to change.



**Data Sources:**

*Bureau of Economic Analysis (BEA): GDP Advance Estimate, Q4 2025. Bureau of Labor Statistics (BLS): Consumer Price Index, January 2026; Producer Price Index, January 2026. FactSet Research Systems: Earnings Insight, February 2026. MSCI Inc.: MSCI EAFE, MSCI Emerging Markets, MSCI World ex-U.S. Index data. S&P Dow Jones Indices: S&P 500, Dow Jones Industrial Average index data. FTSE Russell: Russell 2000 index data. NASDAQ: Composite index data. University of Michigan: Surveys of Consumers, February 2026 (Final). Federal Reserve: FOMC Minutes, January 2026 Meeting. Institute for Supply Management (ISM): Services PMI. EPFR Global: Fund flow data. Charles Schwab: Sector and market commentary. LPL Financial: Emerging markets and sector research. Bloomberg, CNBC, Yahoo Finance: Market data and reporting.*

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