Atchison

February 2026

Monthly Market Update

Illuminating
the way forward

Key Events in February 2026

February – Complex macroeconomic environment

- A significant escalation in the conflict involving U.S, Isreal and Iran occurred late in February 2026, including military strikes on Iranian territory and closure of parts of the Strait of Hormuz, a key global oil transit checkpoint. These actions triggered sharp moves in oil and financial markets as investors pondered over equity allocations.

- The Australian share market rose a healthy +4.1% in February. Gains were led by Financials, and Materials sectors.

- Developed international equities excluding Australia declined, with the unhedged index returning -1.09%. The pullback reflected softer performance across major developed markets, particularly the US, with weakness concentrated in consumer discretionary and consumer staples. Currency movements also affected unhedged returns for Australian investors, while persistent inflation concerns, uncertainty around policy easing and elevated valuations in some growth sectors contributed to more cautious sentiment.

- Within this environment, unhedged U.S equities fell around -0.76% for the month. Weakness was partly driven by declines in several large technology companies, as investors reassessed the scale of capital expenditure required to support artificial intelligence infrastructure, and cloud investment. Microsoft, Atlassian and Oracle each recorded double-digit declines, reflecting a broader reassessment of earnings expectations and valuations across parts of the technology sector.

- Global bond markets delivered positive returns, rising approximately 1.49% in February. Gains were supported by a modest decline in long-term government bond yields as investors rotated toward defensive assets amid equity market volatility. Expectations that global growth may moderate also supported demand for government and investment-grade bonds.

- In commodity markets, silver rebounded modestly during February after a sharp decline at the end of January. Precious metals benefited from safe-haven demand amid a more stagflationary backdrop, with persistent inflation pressures alongside signs of moderating growth. Ongoing geopolitical tensions and continued central bank demand also supported sentiment toward precious metals.

- In early February the Reserve Bank of Australia (RBA) increased the official cash rate by 0.25% to 3.85% addressing persistent inflation pressures. The bank signalled that inflation was expected to remain above the 2 – 3% target range for an extended period.

- The RBA's Statement on Monetary Policy (February) indicated that private demand had been stronger than anticipated, and that GDP growth forecasts were revised moderately upwards for 2026. Inflation was forecast to remain above target, and the labour market was expected to remain tight.

- Australian business surveys and market commentary through mid-February showed the economy running into capacity constraints, and the unemployment rate remaining low, suggesting sustained demand and the risk of ongoing price pressures.

- The International Monetary Fund (IMF) published a forecast describing the U.S. economy in 2026 as "buoyant", with expected growth acceleration and modestly tighter unemployment, also highlighting risks from tariffs and rising federal debt burdens.

- President Donald Trump delivered the 2026 State of the Union to a joint session of Congress. The speech focused on economic achievements, immigration policy and national security themes amid heightened partisan divisions and ahead of the 2026 midterm elections.

- In a major political and economic decision, the U.S. Supreme Court struck down the administration's broad tariff programme under the International Emergency Economic Powers Act. This was interpreted as a setback to the president's signature trade strategy, and stirred political debate over executive authority and protectionism.

- Across markets, central bank policy divergence emerged as a major theme. While the U.S. Federal Reserve signalled a "hawkish delay" on rate cuts, anticipating holding rates higher for longer, the Bank of England was increasingly viewed as likely to cut sooner amid softer UK inflation. The European Central Bank maintained a cautious stance, balancing easing inflation with exchange rate effects on price-stability goals.

Asset Class Summary

Table 1: Asset Class Returns – Periods to 28 February 2026

	1 Month %	**3 Months** %	**1 Year** %	**3 Years** % pa	**5 Years** % pa	**10 Years** % pa
Australian Shares	4.11	7.40	16.33	12.18	10.71	10.66
Australian Small Companies	-2.22	2.06	21.75	11.58	6.03	8.56
International Shares (Unhedged)	-1.09	-4.68	5.77	18.58	14.46	13.43
International Shares (Hedged)	1.05	3.66	20.45	19.54	12.28	12.90
Emerging Markets (Unhedged)	2.63	8.59	30.27	18.14	7.26	9.79
Australian Property Securities	-2.00	-4.37	11.45	9.16	8.55	7.52
Global Property Securities (Hedged)	6.91	7.89	11.07	6.99	3.66	
Global Listed Infrastructure (Hedged)	7.84	9.69	21.72			
Australian Bonds	0.91	0.47	2.97	3.52	0.46	1.77
Global Bonds (Hedged)	1.49	1.87	4.38	4.11	-0.42	
Cash	0.30	0.92	3.90	4.22	2.90	
Change over the month						
AUD/USD	1.74%	0.7126				

Past performance is not a reliable indicator of future performance.
Source: iShares Core S&P/ASX 200 ETF, iShares S&P/ASX Small Ordinaries ETF, Vanguard International Shares Index, Vanguard MSCI Index Intl Shrs (H) ETF, iShares MSCI Emerging Markets ETF, VanEck Australian Property ETF, VanEck FTSE Intl Prop Hdg ETF, iShares Core FTSE Global Infrastructure (AUD Hedged), iShares Core Composite Bond ETF, Vanguard Global Aggregate Bd Hdg ETF, iShares Core Cash ETF

Australian Markets

Australian and New Zealand equity markets delivered positive returns in February, supported by strength in large-capitalisation companies. The ASX 200 advanced 4.1% during the month and reached a new record high, while New Zealand's NZX 50 rose about 2%. Market leadership was concentrated in larger companies, reflecting strong performance in sectors with heavier index weightings.

In contrast, smaller companies underperformed. Both the ASX Small Ordinaries and NZX Small-Cap indices declined during the period, suggesting the strong rally seen previously in small-capitalisation stocks paused. Meanwhile, Australia's largest listed firms outpaced the broader market, with the ASX 20 rising roughly 8%, reinforcing the theme of large-cap leadership.

Sector performance within the Australian market played a significant role in shaping overall index returns. Financials and Materials, which together represent a substantial share of the ASX 200, each climbed around 9% and were key contributors to the index's advance. By contrast, Health Care experienced notable weakness, falling roughly 13%. The Information Technology sector also continued to decline, extending losses linked to ongoing concerns around artificial intelligence disruption, leaving the sector ~41% below its July 2025 peak.

Fixed income markets across the region also recorded gains despite tighter monetary policy in Australia. The ASX iBoxx Australian Fixed Interest 0+ index rose about 1% over the month, even after the RBA implemented a 25-basis-point rate increase. In New Zealand, the NZX Composite Investment Grade Bond index performed more strongly, climbing around 2%.

Commodity markets broadly strengthened during February. Gold rebounded and Agricultural commodities also performed well, with skim milk powder rising around 13% and emerging as one of the stronger performers. In contrast, digital assets remained under pressure, with the Bitcoin index falling roughly 18% over the month, reversing gains accumulated since the US election.

Global Markets

Global equity markets delivered mixed performance in February as investors responded to shifting macroeconomic expectations and regional economic trends. US equities declined modestly, falling around 0.8% for the month, as sentiment toward large technology companies weakened. Investors increasingly questioned the scale of capital expenditure required to support artificial intelligence development, raising concerns about profitability. A stronger-than-expected producer price reading late in the month also revived inflation concerns and reduced expectations for near-term interest rate cuts.

Within the United States, market leadership rotated toward smaller companies. Mid-cap equities gained approximately 4% and small-cap stocks rose around 2%, outperforming larger companies. Sector performance among large-cap equities was uneven as investors adopted a more defensive stance. Utilities led the market with gains of roughly 10%, while sectors more closely tied to discretionary spending and media, including Communication Services and Consumer Discretionary, experienced declines.

European equity markets extended their positive momentum during February. The Europe 350 rose about 4%, marking a second consecutive month of solid gains and outperforming several global peers. Most sectors advanced during the period, with Communication Services and Real Estate delivering double-digit returns, while Financials was the only sector to record a modest decline. Dividend-focused and low-volatility strategies also performed particularly well across the region, outperforming the broader market.

Asian equity markets were among the strongest performers globally. Japanese shares surged approximately 11% in February, reaching record levels following improved investor sentiment after Prime Minister Sanae Takaichi's election victory. The rally was broad-based, with 10 of 11 sectors advancing and Real Estate rising around 20%. Across the broader region, Asia-Pacific equities climbed roughly 7%, supported by strong gains in developed markets.

Regional performance within Asia varied considerably. South Korea led the region with gains of around 20%, while Thailand, Taiwan, and Japan also delivered strong double-digit returns. In contrast, Chinese equities declined about 2%, largely reflecting weaker consumer activity during the Lunar New Year period.

Interest Rates and Bonds

Expectations around Australian monetary policy shifted higher over the past month following stronger-than-anticipated inflation and labour market data. The December employment report and the fourth-quarter CPI release reinforced the view that inflationary pressures remain persistent. As a result, financial markets are currently pricing two interest rate increases this year, with a smaller probability that a third increase may occur should inflation remain elevated.

In contrast, expectations for monetary policy in the United States changed only slightly. Markets continue to anticipate around two interest rate cuts during the year, reflecting a more moderate inflation outlook and expectations that economic growth will gradually slow. The divergence in policy expectations between Australia and the United States has contributed to shifts in bond market pricing and currency movements.

Australian government bond yields moved only modestly during the period. The 10-year Australian bond yield increased slightly to around 4.24%, remaining broadly within the trading range that has persisted since early 2024. This relatively stable yield environment has resulted in inconsistent performance between bonds and cash, with bond returns moving in a volatile sideways pattern relative to the higher yields currently available on short-term cash instruments.

Credit markets have been comparatively stable. Corporate bond spreads have largely stabilised in recent months, allowing credit markets to maintain a modest performance advantage over government bonds. With spreads no longer tightening materially, the relative outperformance of corporate bonds has been incremental rather than pronounced.

Australian fixed income markets also lagged their global counterparts in recent months. Local bond yields have risen relative to global bond yields, creating a widening yield differential that has contributed to weaker relative performance for Australian bonds. However, the relationship between domestic and global bond markets has largely moved within a sideways range over the past two years, reflecting ongoing uncertainty around global monetary policy.

Currencies and Commodity Markets

Currency movements have also been influenced by these changing interest rate dynamics. The Australian dollar has strengthened in recent months, supported by firmer iron ore prices, a modest weakening in the US dollar and a widening in short-term interest rate expectations between Australia and the United States. The expected 12-month forward cash rate differential has moved from around -0.6% in mid-2025 to approximately +1% by January 2026, while iron ore prices rose to roughly US$104 per tonne and the US dollar index softened. As a result, the Australian dollar appreciated from around US$0.64 to nearly US$0.70, with the prospect of further US rate cuts suggesting potential for additional currency strength in the months ahead.

Commodity markets entered 2026 with strong momentum, supported by broad gains across metals and energy. Gold has remained the standout performer, underpinned by both structural and cyclical drivers. Persistent geopolitical risks, continued central bank purchases and ongoing diversification of foreign exchange reserves have sustained strong demand. Investor participation has broadened across both institutional and retail markets, while physical demand particularly from China ahead of the Lunar New Year has also provided support.

Energy markets remained relatively stable during February, with crude oil prices largely trading within a narrow range. Geopolitical developments in the Middle East continued to provide underlying support, particularly given the strategic importance of the Strait of Hormuz as a key global oil transit route. Ongoing tensions involving Iran, the United States, Israel, and Venezuela highlight the potential for supply disruptions should regional risks escalate, including the possibility of restrictions to shipping through the strait. Given these dynamics, we continue to monitor developments closely.

Outlook for Investment Markets

Investment markets continue to transition away from the narrow leadership that characterised much of the past two years. In the United States, market breadth improved meaningfully during February. While US equities declined approximately 0.8% for the month, the equal-weight US equity index rose 3.6%, indicating that performance broadened beyond the largest technology companies. This rotation reflects investors reassessing valuations in mega-cap growth stocks while allocating more capital toward sectors that may benefit from persistent inflation and higher interest rates.

Sector leadership in the US has also shifted. Utilities, energy and materials recorded stronger performance during the month, supported by resilient economic activity, infrastructure investment and ongoing geopolitical risks. These sectors tend to benefit from higher nominal growth and inflationary pressures, while also offering more attractive valuations relative to some of the large technology companies that previously dominated market returns.

Within Australian equities, we reduced our exposure to Small-Cap companies. Small-Caps are typically more sensitive to financing conditions, and the current environment of higher inflation and elevated interest rates continues to weigh on the sector. This decision also reflects portfolio discipline. Australian Small-Caps delivered approximately 23% over the past 12 months, materially outperforming the ASX 200, which returned around 16%, providing an opportunity to crystallise gains.

In commodities, we maintain a constructive view on energy markets and currently hold exposure to oil and natural gas. Oil prices continue to be supported by geopolitical tensions and supply risks, particularly in the Middle East. However, our positioning remains valuation-sensitive, and we would consider reducing exposure should prices continue to rise to levels where the margin of safety becomes less compelling.

The listed private equity sector experienced a notable sell-off. Volatility in the sector has increased amid higher financing costs and slower deal activity, the recent decline has improved valuations. Over the medium term, a stabilisation in interest rates and a gradual recovery in transaction activity will support the sector.

Looking ahead, several structural investment themes remain compelling. Gold continues to benefit from persistent inflation risks, geopolitical uncertainty and central bank demand. Uranium and critical minerals are supported by the global energy transition and growing demand for electrification technologies. Meanwhile, defence companies are likely to remain well supported as governments increase military spending in response to an increasingly complex geopolitical environment.

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