



Market update

March 2, 2026

The market volatility that began the year continued into February. Large-cap U.S. stocks struggled particularly as investor uncertainty over the outlook for returns on AI-related expenditures rose. A higher-than-expected increase in producer-price inflation reduced expectations for further, near-term cuts in policy rates. Bond yields remained relatively stable with the 10-year U.S. Treasury yield falling below 4% for the first time since November. At the same time, the potential price of credit risk appeared in a decline in the value of leverage loans. Developed market stocks far outperformed U.S. stocks as the perception of risk there remained subdued.

| | <u>FEBRUARY</u> | <u>TWELVE MONTHS</u> |
|----------------------|-----------------|----------------------|
| • U.S. Taxable Bonds | +1.6% | +6.3% |
| • U.S. Stocks | -0.5% | +17.1% |
| • Foreign Stocks | +5.0% | +40.5% |

In some respects, equity market volatility in February under-reflected the many risks faced by investors. Among them are tariff policy; AI's impact on earnings and stock prices; and inflation's uncertain trend. Tariff policy uncertainty just turned higher as the Supreme Court ruled that some recent changes implemented by executive order were illegal. The odds of recession have trended even lower. Future leadership of the Federal Reserve now is settled with a bias toward lower rates. Outlooks for both economic growth and inflation remain moderately positive, underwriting a favorable outlook for both stock and bond returns.

| <u>STOCK SECTOR</u> | <u>Y-T-D RETURN 02/28/2026</u> |
|-------------------------------|------------------------------------|
| ENERGY | 25.22% |
| MATERIALS | 17.82% |
| CONSUMER STAPLES | 16.26% |
| INDUSTRIALS | 14.26% |
| REAL ESTATE | 9.38% |
| HEALTH CARE | 3.52% |
| UTILITIES | 1.85% |
| COMMUNICATION SERVICES | 0.37% |
| CONSUMER DISCRETIONARY | -3.76% |
| INFORMATION TECHNOLOGY | -5.51% |
| FINANCIALS | -6.03% |

Cycle after cycle, broad market index returns mask the variability of market returns by sector. The table here shows this variability in the year-to-date. Of particular note is the return difference between the energy sector and financials. The price of oil is a key indicator for energy earnings. Expectations that perhaps the price of oil has run its course to the upside have been challenged by the war against Iran. At the least, portfolio underweighting of energy may be an incorrect strategy in the period ahead. The outlook for financials is influenced by interest rate levels and expected rate trends. Credit spreads also play a role and uncertainty there is on the rise. After posting very strong gains, information technology returns have declined significantly. A continuation of this trend seems highly unlikely.