

Global Market Review

The last trading day of February closed on the cusp of the start of the Iran war. The main body of this Global Market Review covers developments through end-February. The annex to this review considers the market’s preliminary reaction to the war, highlighting commodity, currency, bond, and equity market movements in the early days of the conflict through noon, March 3, 2026.

Prior to the initiation of hostilities, U.S. equities declined slightly in February in largely range-bound trading. Large tech stocks—including software service providers and AI-related firms—were the main contributors to this decline. Developed and emerging non-U.S. equity markets, in contrast, rose strongly in the course of the month. U.S. Treasury prices rose as longer term yields fell and the yield curve flattened. With war tensions mounting, oil prices shot higher in February, extending their strong January gains. Gold prices also rose sharply in February and are up 22.2% so far this year. The U.S. dollar appreciated somewhat against major currencies.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



Non-U.S. equity markets outperform the U.S. in February.

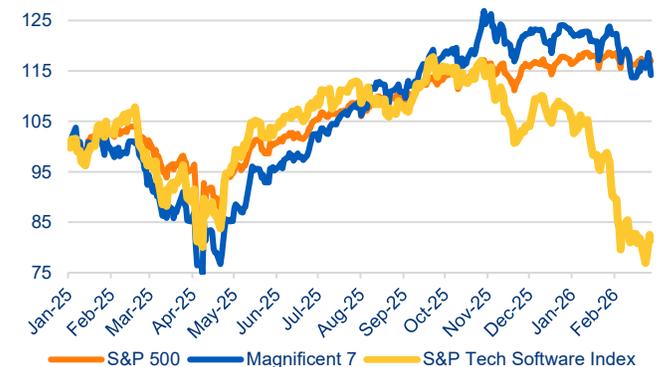
Impact of AI Excesses and Successes Weigh on Market

The S&P 500 fell 0.8% in February. Over the first two months of the year, the index has gained 0.7%. The sharp declines of large cap tech stocks, especially those related to AI and software service providers posed the main drag on overall market performance. Reflecting this dynamic, growth stocks fell 3.3% in February. Value stocks, in contrast, rose 2.6%. So far this year, value has gained 7.4% versus growth’s decline of 4.6%.

Two segments of the tech sector suffered significant declines in February, the first from the risk of excessive capital expenditure by rapidly growing AI firms and the second from the potential for AI success in displacing well established software service providers. Concerns over the sustainability of large capital spending plans were best exemplified by NVIDIA’s recent performance. NVIDIA’s shares fell 4.5% in February, notwithstanding its announcement of earnings for final quarter of last year that handily exceeded expectations and reflected strong growth from the previous quarter. Software service providers also fell sharply, largely reflecting concerns that increasingly sophisticated AI coding tools would render their services redundant. S&P’s Tech Software Index fell 9.6% in February and is down 22.8% so far this year (Exhibit 1).

Exhibit 1. Large Tech Stocks Weigh on U.S. Equity Market

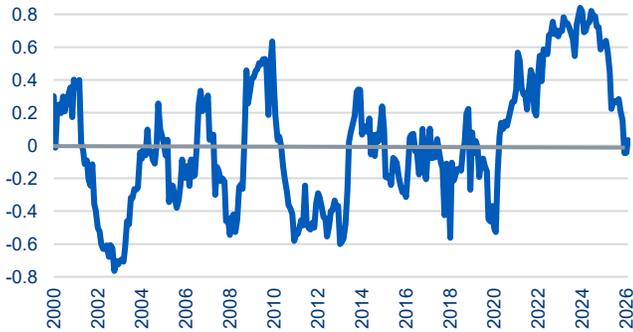
Source: Bloomberg. Index January 1, 2025 = 100.



Since the COVID crisis, the correlation between U.S. stocks as measured by the S&P 500 and bonds represented by the Bloomberg U.S. Aggregate Bond Index have become more

consistently positive than during the previous 20 years of mainly negative correlations (Exhibit 2). This development reduces the effectiveness of a portfolio diversification strategy that relies on bonds to dampen equity market volatility. This was most starkly manifested by the sharp sell-off of U.S. stock and bond markets in 2022 during a period of rising inflation. Increased correlations also raise financial market stability risks by potentially amplifying the disruptive impact of large market downturns.

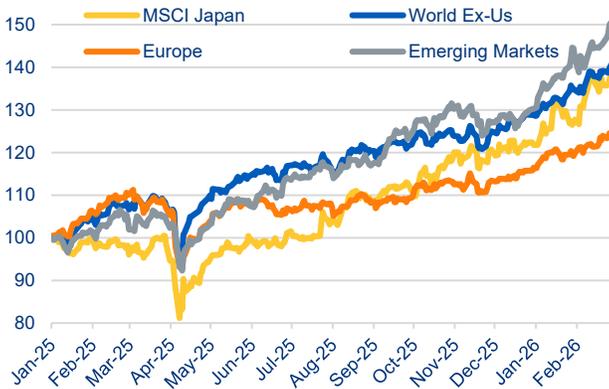
Exhibit 2. U.S. Stock and Bond Correlations Increase
 Source: Bloomberg. One-year rolling correlations of the S&P 500 and the Bloomberg U.S. Aggregate Index. Positive correlations reduce diversification benefits and vice versa.



Emerging Equity Markets Extend Strong Performance

Emerging equity markets rose 5.5% in February and are up 14.8% so far this year (Exhibit 3). The returns to U.S. investors have been boosted by the strong appreciation of emerging market currencies. While all emerging equity market regions have performed strongly this year, Latin American bourses have led others by a wide margin. They are up 19.7% so far this year, reflecting a combination of sharply rising oil, copper, and other commodity prices. Asian emerging markets are also registering strong gains, rising 15% so far in 2026 thanks largely to the strong performance by Korean and Taiwanese firms engaged in AI chip production.

Exhibit 3. EM and Advanced Equities Outperform U.S.
 Source: Bloomberg. Index January 2025 = 100.



The MSCI World ex-US index of advanced non-U.S. equities rose 4.8% in February, bringing its gain over the past two

months to 9.8% (see Exhibit 3). Japanese stocks extended their strong performance in February and are up 15.8%. The decisive break with decades of deflationary pressures, and the recent embrace of policies designed to improve corporate governance and promote growth have contributed to the recent strong performance of the Japanese equity market. European equities have also performed well, gaining 7.9% so far this year (see Exhibit 3).

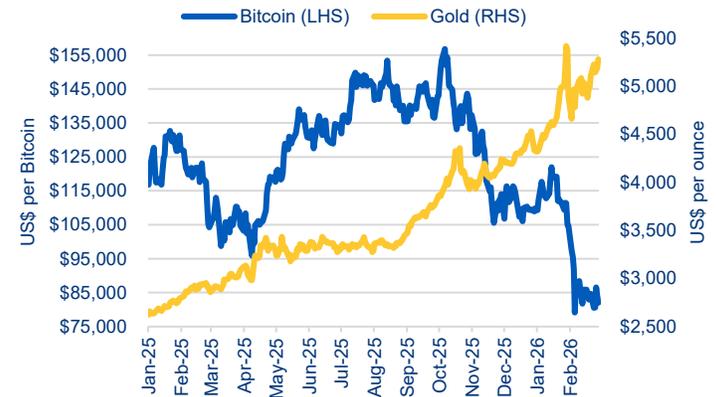
U.S. Treasury and Credit Markets Post Modest Gains

The U.S. Treasury curve flattened in February as yields fell at the long end of the curve while short-term yields remained unchanged. Falling real yields were the main driver of this decline. The broad U.S. Treasuries index rose 1.8% in February and is up 1.7% so far this year. Treasuries with maturities of 10+ years have gained 4.1% in 2026. U.S. credit markets rose in February, led by the investment grade sector. So far this year investment grade and high yield bonds are up 1.8% and 0.7%, respectively.

Gold and Bitcoin Prices Diverge

An increasingly uncertain and dangerous world has sent gold prices ever higher, reviving gold’s iconic role as a store of value. Prior to the initiation of hostilities with Iran, the main drivers of gold gains were related to the shattering of longstanding norms guiding economic governance and geopolitical relations. Bitcoin, in contrast, has not lived up to its widely touted role as “digital gold” (Exhibit 4).

Exhibit 4. Gold Outshines Digital Gold
 Source: Bloomberg. U.S. dollars per bitcoin and ounce of gold.



Performance of Major Market Indices through 02-28-2026
 Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	-0.8%	0.7%	0.7%	17.0%	21.8%	14.2%
Russell 2000	0.8%	6.2%	6.2%	23.3%	13.1%	5.0%
MSCI World Ex-US (USD)	4.8%	9.8%	9.8%	35.5%	19.1%	11.2%
MSCI Emerging Mkts (USD)	5.5%	14.8%	14.8%	50.0%	21.5%	6.3%
Citigroup US Treasuries	1.8%	1.7%	1.7%	5.3%	4.2%	0.0%
Citigroup Credit	1.4%	1.6%	1.6%	6.9%	6.4%	0.9%
Merrill High Yield	0.1%	0.6%	0.6%	7.0%	9.3%	4.5%
JPM EMBI Global (USD)	1.4%	2.0%	2.0%	12.4%	10.2%	2.9%
Citigroup WGBI Ex-US (LC)	1.4%	1.6%	1.6%	1.2%	2.4%	-1.7%
Barclays US Aggregate	1.6%	1.7%	1.7%	6.3%	5.1%	0.4%
GSCI Total Return	2.4%	12.4%	12.4%	18.2%	9.4%	13.9%
HFRX Eq. Wtd. Strategies	0.2%	1.9%	1.9%	8.5%	5.9%	3.1%

Appendix – Preliminary Market Impact of the Iran War

Fog of War Envelopes Markets

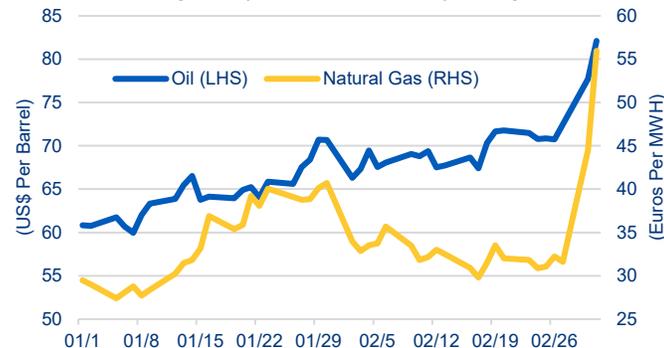
The U.S. and Israel initiated hostilities against Iran in the early morning hours (EST) of Saturday February 28. This appendix to the February 2026 monthly market review considers the preliminary market reaction to the Iran war using data as of noon on March 3. It is impossible to judge the likely duration of the war's disruption to markets or whether the trends of the first few days of the war will persist, reverse, or intensify.

Fears of Prolonged Disruption Roil Oil and Gas Market

Oil and gas prices spiked sharply higher following the start of the war, amplifying the already strong gains of January and February (Exhibit 1A). This spike was provoked by Iranian attacks on a major Saudi oil refinery and a key LNG plant in Qatar as well as fears of a sustained closure of the Strait of Hormuz. With about one fifth of global seaborne crude oil and LNG tanker shipments passing through the Strait, a sustained closure would provoke a massive increase in oil prices from the current level of about \$80-85 per barrel. So far oil prices have increased by about 13% since the start of the war and LNG prices are up 77%.

Exhibit 1A. Oil and Gas Prices Surge Higher

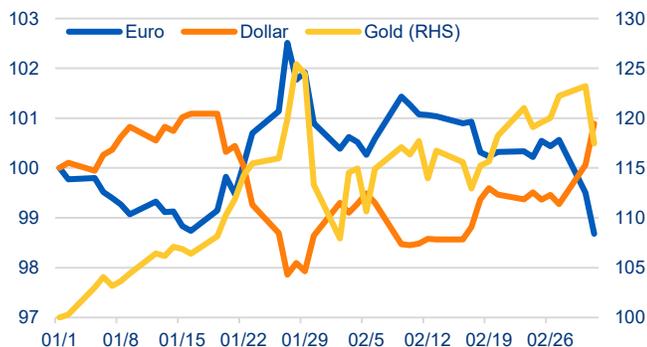
Source: Bloomberg. US\$ per barrel and euros per megawatt-hour.



Dollar Benefits from Safe Haven Flows

Exhibit 2A. U.S. Dollar Regains Its Safe Haven Status

Source: Bloomberg. Index. January 1, 2026 = 100.



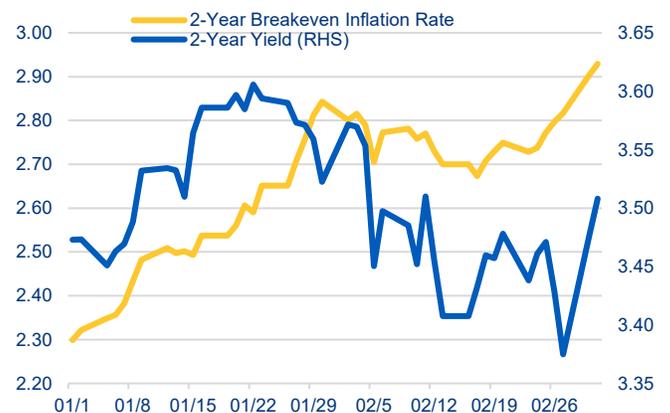
The dollar has appreciated against a basket of currencies since the start of the war, reasserting its role as a safe haven asset (Exhibit 2A). Gold, however, has declined about 4% since the start of the war, but remains up 17.5% so far in 2026. The euro has fallen by about 2% on concerns over the impact of higher energy prices on the European economy.

U.S. Treasuries Signal Heightened Inflation Fears

Unlike the U.S. dollar, the U.S. Treasury market does not appear to have benefitted from safe haven flows since the initiation of hostilities. Rather, yields have risen driven primarily by rising inflation expectations as concern grows on the impact of rising oil prices on inflation (Exhibit 3A).

Exhibit 3A. Short-term Inflation Expectations Increase

Source: Bloomberg. Breakeven inflation rate represents the average inflation rate expected over the next two years calculated as the difference between the nominal and real yield of 2YR USTs.



Stock Markets Tumble in Wake of War

Global equity markets have declined since the start of the war. The German Dax index has lost nearly 6%, reflecting Europe's heavy reliance on shipped LNG following the suspension of Russian pipeline flows. Japanese equities have also fallen sharply, losing 4.4%, but remain up for the year. Equity movements have been more muted in the U.S. The S&P 500 and NASDAQ are both down by about 1.3% since the start of the war (Exhibit 4A).

Exhibit 4A. Global Equity Markets Fall

Source: Bloomberg. Index. January 1, 2026 = 100.

