

March 2, 2026

February Market Recap

The mostly flat surface of the S&P 500 through February belied turbulence underneath. AI-driven disruption fears in areas such as software contributed to volatility as investors effectively played whack-a-mole across sectors perceived as vulnerable.

The markets rotated away from the mega-cap tech stocks that have been largely responsible for the domestic equity market's intense growth for the past three years despite the average stock lagging. These "average stocks" now stand to gain both visibility and room to grow, helping offset contractions elsewhere in the market and rewarding diversification, although tech stocks aren't going away any time soon, either.

"The year's strongest momentum was coming from unloved corners of the market," Raymond James Chief Investment Officer Larry Adam said, pointing out that the energy and consumer staples sectors had surged to all-time highs while the recent leaders lagged.

We'll dive into more details below but first let's look at how the month of February ended.

	12/31/25 Close	2/27/26 Close*	Change Year to Date	% Gain/Loss Year to Date
DJIA	48,063.29	48,977.92	+914.63	+1.90
NASDAQ	23,241.99	22,668.21	-573.78	-2.47
S&P 500	6,845.50	6,878.88	+33.38	+0.49
MSCI EAFE	2,892.71	3,179.91	+287.20	+9.93
Russell 2000	2,481.91	2,632.36	+150.45	+6.06
Bloomberg Aggregate Bond	2,348.85	2,389.86	+41.01	+1.75

*Performance reflects index values as of market close on February 27, 2026.

AI flankers move toward center stage

While the mega-cap tech stocks leading the AI boom have dominated the markets for the past few years, last month's trends are showing a move toward broader industries that will serve to support those innovations as they become more widely implemented across industry and daily life.

Manufacturers of semiconductors and networking equipment, data-center builders and power generation companies appear to be next in line for AI-driven growth as they help accelerate adoption, amplify services and deliver the critical need for profitability that has loomed over the AI industry.

More late-year rate cuts likely

Trading in federal funds futures suggests that the market anticipates two interest rate cuts in 2026, although we only anticipate one. Those cuts likely won't come for a while, though, with current estimates signaling an October to December timeline. Both 2024 and 2025 saw rate-cut anticipation early on that didn't come to fruition until the end of the respective calendar year, a pattern that could repeat in 2026.

Trade policy in question

The US Supreme Court ruled 6-to-3 to strike down President Trump's International Emergency Economic Powers Act (IEEPA) tariffs, leading the president to promptly reimpose a baseline 10% sweeping tariff using Section 122 of the 1974 Trade Act, while indicating that an increase to 15% may be on deck. Tariffs under Section 122 are limited to 150 days, unless Congress were to approve an extension. The Supreme Court sent the question of refunds back to the Court of International Trade. Timing and the structure of refunds remain a question, but are very likely to occur. Some companies, such as Costco and FedEx, are seeking to expedite the process through individual lawsuits.

New tariff winners and losers

The Supreme Court's takedown of President Trump's IEEPA tariffs and subsequent imposition of 10% sweeping tariffs leveled the playing field on the international scale, for some better and for others worse. Countries facing the most severe punitive tariff rates under IEEPA like Brazil, India and China got a substantial discount, while those enjoying a preferential 10% rate such as Australia and the UK saw an increase. The EU and Japan remain mostly unaffected, although details regarding the durability of these new measures are unclear.

Consumer confidence remains shaky

Driven largely by poor jobs growth, a weak housing market and long-term inflation expectations, both the Consumer Sentiment Index and Present Situation Index show ongoing pessimism surrounding household financial conditions. While both indices are up compared to January of this year, February's numbers are still low on a year-over-year basis. Affordability is a primary concern, but labor conditions have improved, which can be credited with the month-to-month rebound.

Oil prices hit seven-month highs, as Iran crisis heightens supply concerns

Even before the start of US and Israeli airstrikes in Iran, the oil market's risk premium significantly widened, reflecting concerns about potential disruptions of oil supply from Iran and/or other countries in the region. As military action continues, oil prices could rise further. History suggests that once the conflict is in the rearview mirror, the price spike is likely to subside. Longer term, we see fair value for WTI crude in the \$55-\$60/barrel range.

The bottom line

Despite the markets being internally volatile in February, the performance of many non-tech stocks that were previously overshadowed kept averages mostly flat, helping diversified, long-term investors minimize exposure as the momentum of mega-caps slowed. Tariff uncertainties remain a headline theme for the second straight year.

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