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RESEARCH INSIGHTS

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Market Commentary & Outlook February 2026

Summary

- **Australian** equities **outperformed global markets**, rising roughly 4% during the month.
- **Global** equities posted modest gains overall, but performance diverged significantly by region.
- **US** equities **lagged** due to weakness in mega-cap technology stocks and scrutiny of AI investment spending.
- **Japan** and **emerging markets** were **standout** performers, supported by stronger growth expectations.
- **Bond** markets **rallied** globally, with yields declining as investors sought defensive assets.
- The **RBA raised** the cash rate to 3.85%, highlighting **ongoing inflationary** pressures in Australia.
- **Oil prices** rose modestly, while iron ore prices weakened due to concerns over Chinese demand.
- The **Australian dollar strengthened**, reducing global equity returns when measured in AUD terms.

Global Market Overview

Market performance during the month of February was overshadowed by the end of month escalation of the conflict in the Middle East (more on this below). Nevertheless, February was broadly positive for investors, but the month came with region and asset class performance variance. Global equities posted modest gains overall with Europe, Japan and emerging markets continuing to outperform the US. Unhedged global equity returns were negative for the month. Australian equities outperformed driven by strong bank earnings and resources sector resilience. Bond markets rallied as yields declined, reflecting a demand for defensive assets.

Australia

As widely expected, the RBA raised rates by 25 basis points to a target of 3.85% citing inflation above the RBA's target range, resilient economic growth, and capacity pressures. February was also reporting season, intensifying equity market reactions. Strong bank earnings and a rotation towards value sectors such as financials and resources supported performance.

- **S&P/ASX 200** had a strong month rising 4.8%, led by Materials (9.06%) and Financials (9.22%). Tech (-9.10%) and Healthcare (-13.31%) lagged.
- **Small caps** had a **negative** month (-2.57%) amidst interest-rate pressure, technology sector weakness, commodity volatility, and earnings-season volatility.

Global Equities

The S&P 500 had a negative month in USD terms (-0.76%). In unhedged AUD terms this translated to a -2.44% return as the Australian dollar continued to strengthen. The MSCI ACWI ex Australia hedged returned 1.38% with the unhedged version -0.53%. **Value** stocks **outperformed** growth stocks, indicating a broadening of market leadership.

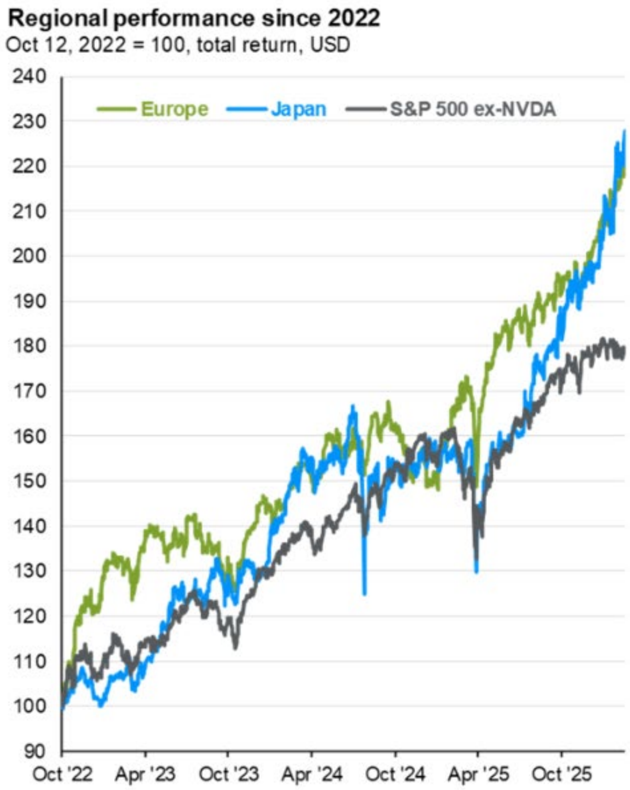
- **Emerging markets**, **Europe**, and **Japan** continued to do well relative to the US with improving earnings expectations and economic momentum key drivers.

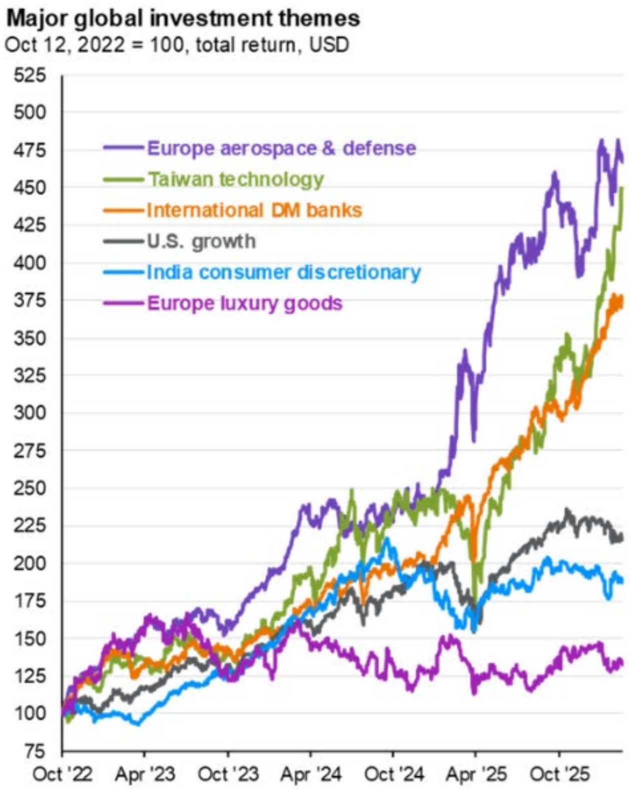
“SaaS apocalypse”

The start of 2026 saw significant derating of software-as-a-service (SaaS) companies with market participants and commentators coining the term “SaaS apocalypse” or “SaaSpocalypse” to describe the rout. A significant driver of the selldown is generative Artificial Intelligence (AI) and autonomous agents. The fear is that these AI systems could replace certain SaaS workflows, reduce the need for specialised software tools, and compress subscription pricing. Companies such as Salesforce, Adobe, and Atlassian all saw significant share price falls amidst the concerns. Towards the end of February and into March a number of SaaS stocks made small gains, but prices are well down from highs.

Whilst the SaaS selloff was indiscriminate, the overall market continues to grow with SaaS companies with large ecosystems, deep data integrations, and strong customer retention expected to dominate.

Global Equity Return Themes





Source: J.P.Morgan Guide to the Markets, FactSet, MSCI, Standard & Poor’s, J.P. Morgan Asset Management. Data are as of February 27, 2026.

The charts above explore the performance of various themes in overseas markets. The left chart shows European and Japanese equities outperforming the S&P 500, excluding Nvidia, since October 2022. The right chart illustrates the performance of themes like European aerospace and defence, international DM banks, Taiwan technology and India consumer discretionary. These themes have kept pace with U.S. growth stocks, highlighting the importance of international diversification and active management.

Fixed Income & Commodities

January saw yield declines across most global markets:

- **Australia**: 10-year government bond yields declined about 16 basis points, delivering positive returns.
- **Global**: 10-year **US** yields fell by 30 basis points, **German** 10-year yields fell by 20 basis points, and **Japanese** 10-year yields fell by 13 basis points consistent with some ‘risk-off’ behaviour as tensions grew in the Middle East.

- **Gold** continued to increase, rising more than 10% during the month. **Oil prices** rose slightly amid geopolitical tensions and **iron ore fell** below US$100 per tonne, reflecting expectations of limited Chinese stimulus.

Early March Update

On the 28th of February the United States and Israel launched an attack on Iran. The initial attack killed several of Iran's senior military and political leaders including Iran's Supreme Leader Ayatollah Ali Khamenei. Iran has since launched counter attacks across the Middle East, not just targeting Israel but also US military positions, oil infrastructure, airports and urban areas across Iraq, Bahrain, United Arab Emirates. Airports in Dubai, Abu Dhabi, and Doha, which are some of the busiest airports in the world, are largely closed at this stage.

After a somewhat benign response in the first few days, markets have started to react strongly to the possibility of a prolonged conflict. The Strait of Hormuz, a critical chokepoint which sees approximately 20% of the world's oil and 25% of the world's liquid natural gas (LNG) pass through it, is effectively closed. Most of the oil and gas coming from the Strait of Hormuz is destined for Asia and Europe, stoking fears of energy shortages and higher inflation in these regions.

In the first six trading days in March the S&P/ASX200 is down around 6%. Global equity markets have also dropped with European and Asian markets bearing the brunt. Oil prices have surged above US$100 a barrel as production cuts from Middle Eastern producers take place. Yields on most major government 10-year bonds increased impacting bond prices globally with markets now anticipating delayed rate cuts or even rate hikes in the face of higher inflation.

Outlook and Positioning

The near-term market focus is now on the longevity of the current escalation in the Middle East. The increase in oil and gas prices is starting to have a domino effect on transport fuels such as jet and shipping fuel. The effect may translate to higher food prices. Energy costs are also a higher percentage of pre-tax income for lower-income consumers threatening to worsen inequality with potential political consequences.

On the other hand, markets are likely to rebound at the first sign of calm in the Middle East. In recent times markets have largely shrugged off geopolitical concerns with buying the dip a rewarding strategy in many cases. Right now, a clear path out of the Middle East conflict is difficult to see.

We continue to favour a diversified approach across portfolios. This means a well-diversified equity exposure across regions and sectors and a preference for active management in fixed interest.

Benchmark Returns

Period Ended: 28 February 2026	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % (pa)	5 Years % (pa)	10 Years % (pa)
Australian Shares							
S&P/ASX 100	4.76	7.86	3.88	15.57	12.08	11.15	10.95
S&P/ASX 200	4.11	7.34	4.07	16.19	12.22	10.78	10.76
S&P/ASX Small Ordinaries	-2.57	1.53	5.42	23.05	12.51	6.60	9.12
International Shares							
MSCI ACWI ex-Australia AUD	-0.53	-3.20	2.50	8.28	18.65	13.63	13.04
MSCI ACWI ex-Australia AUD (Hedged)	1.38	4.64	11.68	21.48	19.78	11.53	
Australian Cash and Bonds							
Bloomberg AusBond Bank	0.28	0.90	1.80	3.83	4.14	2.83	2.13
Bloomberg AusBond Composite Index	0.88	0.46	0.03	3.15	3.61	0,60	1.91
International Bonds							
Bloomberg Global Aggregate AUD (Hedged)	1.39	1.39	3.02	4.46	4.44	0.16	1.84
Global Listed Infrastructures							
FTSE Developed Core Listed Infrastructure 50/50 AUD (Hedged)	8.68	9.70	14.48	20.94	12.36	10.16	8.43
Property							
S&P/ASX 200 A-REIT	-3.54	-4.27	-10.29	4.70	9.85	8.95	6.82
FTSE EPRA Nareit Developed AUD (Hedged)	7.12	8.56	10.87	14.33	8.03	4.40	4.38

Source: Morningstar Direct