

## FEBRUARY: ROTATION FROM US TECH CONTINUES US GROWTH, INFLATION, EMPLOYMENT & THE FED

**Figure 1: 2/28/2026 Returns** (source: FactSet)  
Conditional formatting: green (high) to red (low) for each time period

Bonds	ETF	Month	YTD	1YR	vs. 52-wk	
					High	Low
US Aggregate Fixed Income	AGG	1.6%	1.9%	6.2%	-0.1%	5.5%
Investment Grade Corp Bonds	LQD	1.4%	1.7%	6.6%	-1.1%	8.0%
U.S. 20+ YR Treasuries	TLT	4.6%	4.6%	2.7%	-3.5%	9.0%
Muni Bonds	MUB	1.3%	2.0%	4.4%	-0.1%	8.6%
US High Yield	HYG	0.0%	0.6%	6.8%	-0.8%	7.5%
Non-US Corp Bonds	IBND	0.0%	1.8%	16.6%	-1.7%	13.9%
Emerging Markets Bond LC	EMLC	1.6%	3.5%	19.4%	-0.2%	15.6%
<b>Global Equity</b>						
ACWI Global Equity	ACWI	1.3%	4.2%	24.0%	-0.9%	45.6%
ACWI Global Equity ex US	ACWX	5.2%	10.9%	38.7%	-0.6%	52.0%
International Developed	EFA	4.6%	9.7%	33.8%	-0.5%	46.1%
Emerging Markets	IEMG	5.8%	14.2%	47.9%	-1.2%	62.3%
<b>Global Equity by Region</b>						
United States	VTI	-0.5%	1.0%	17.0%	-1.6%	43.3%
Europe	IEUR	3.1%	7.8%	31.7%	-0.6%	43.9%
Asia ex-Japan	AAXJ	6.3%	14.5%	47.5%	-1.2%	65.7%
China	MCHI	-5.4%	-1.7%	12.7%	-12.3%	32.1%
Japan	BBJP	7.9%	14.4%	41.9%	-1.9%	53.8%
Latin America	ILF	3.2%	19.8%	70.7%	-2.5%	74.0%
<b>US Equity</b>						
US S&P 500	IVV	-0.8%	0.6%	17.0%	-1.7%	42.4%
NASDAQ 100 QQQ	QQQ	-2.3%	-1.1%	20.1%	-4.7%	50.9%
US Large Growth	IWF	-3.4%	-4.9%	14.5%	-8.7%	45.8%
US Large Value	IWD	2.6%	7.2%	18.1%	-0.4%	38.2%
US Eqwt S&P 500	RSP	3.5%	7.0%	15.7%	-0.1%	36.3%
US Mid Cap	IJH	4.1%	8.3%	17.2%	-1.5%	42.6%
US Small Cap	IJR	2.1%	7.9%	17.8%	-2.9%	45.4%

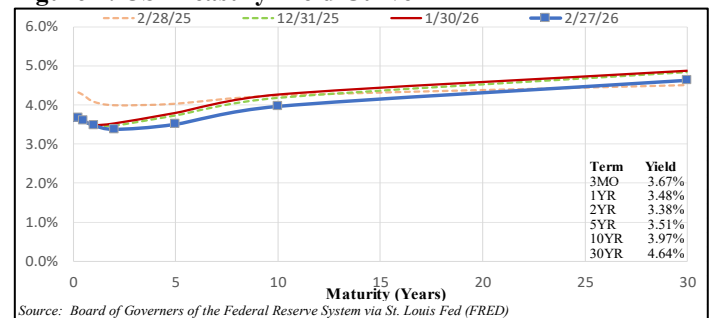
Global equity markets were mixed amid an on-going rotation away from US tech stocks, exacerbated by fears that rapid artificial intelligence (AI) advances will disrupt software businesses and profits. Bonds performed well as interest rates fell. Performance highlights for February and year-to-date (YTD) include:

- **Bonds:** The US Aggregate index (AGG) rose 1.6% this month (+1.9% YTD). Long-term Treasuries (TLT) are most sensitive to interest rates, rising 4.6% (+4.6% YTD) as yields fell. High yield (HYG) underperformed as credit spreads widened. Non-US bonds gained and have been very strong over the last year.
- **Global equity:** ACWI rose 1.3% in February (+4.2% YTD).
- **US Equity:** The broad market (VTI) fell 0.5% (+1.0% YTD); the S&P 500 (IVV) lost 0.8% (+0.6% YTD). Losses were steeper among large tech stocks; the Nasdaq 100 (QQQ) fell 2.3% (-1.1% YTD) while small (IJR) and midcap stocks (IJH) continued to outperform. Returns at the sector level were mixed, with gains led by energy stocks as Middle East tensions drove oil prices higher; several sectors were down 3-4%, including Financials, Technology and Consumer Discretionary.
- **Non-US Equity:** Stocks outside of the US continued to outperform US stocks this month, with non-US equity (ACWX) gaining 5.2% in February (+10.9% YTD). Stocks in Japan were strong (BBJP +7.9%, +14.4%), but South Korean stocks (EWY) continued their meteoric rise, gaining 23.7% (+55.7% YTD) and are up 183% in the last year, powered by huge tech conglomerates (Samsung and SK Hynix). Along with the US, stocks in China (MCHI -5.4%, -1.7% YTD) and India (INDA +1.0%, -3.3% YTD) continue to underperform.

## Interest Rates and the Economy

Interest rates declined this month as recent economic data increased hopes for more imminent Fed rate cuts. The job market appears to be stabilizing, albeit at weaker levels, as the unemployment rate ticked down to 4.3%. Inflation came in below expectations with headline CPI at 2.4% and core CPI (excluding volatile food and energy prices) at 2.5% over the past year; inflation remains above the Fed's 2% target but does not appear to be worsening so far. Markets expect two more 0.25% rate cuts this year with another possible in 2027. The yield curve (Figure 2) plots the interest rates for various US Treasury maturities. US 10-year Treasury yields moved back below 4% and now yield 3.97%.

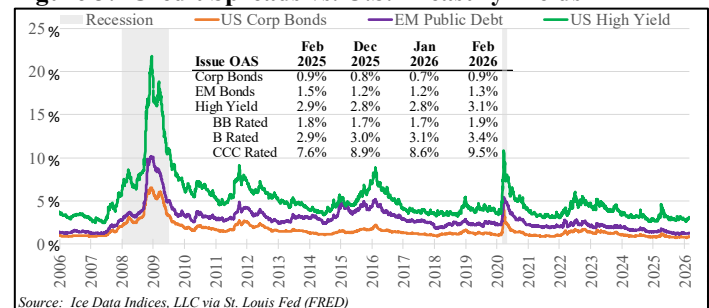
**Figure 2: US Treasury Yield Curve**



For bonds other than US Treasuries, we track the option-adjusted spread (OAS) between their yields and Treasuries of comparable maturities (Figure 3). Low or narrowing spreads signal optimism; high or widening spreads signal fear. Spreads widened this month, reflecting the "risk off" tone of US markets.

- Investment grade corporate bond spreads widened to +0.9% but have been relatively stable over the past year.
- High yield (non-investment grade) spreads widened to +3.1% last month but remain at historically low levels. Spreads of the riskiest bonds (rated CCC & below) widened to +9.5% and are well above the +7.6% spreads one year ago.
- Emerging market spreads widened to +1.3% but have tightened from +1.5% last year; investors see low risk in EM debt.

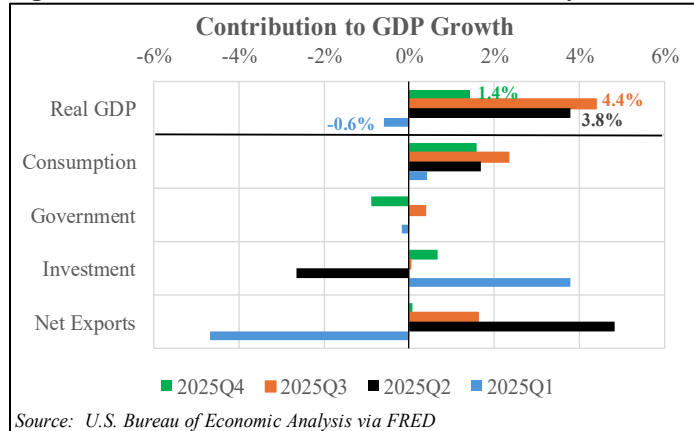
**Figure 3: Credit Spreads vs. U.S. Treasury Yields**



## Growth, Inflation, Employment & The Fed

Economic data released over the last few weeks painted an unclear picture of the US economy. The Bureau of Economic Analysis reported US Real GDP growth of 1.4% (annualized) in the fourth quarter (Q4) and 2.2% for 2025, down from 2.8% in 2024. (Note: Real GDP stands for Gross Domestic Product, the value of all final goods and services produced in the US, net of inflation.) After several years of consistent growth, economic activity has been erratic recently due to tariff and trade war uncertainty and the prolonged government shutdown. Figure 4 compares the primary drivers of 2025 quarterly Real GDP growth.

**Figure 4: 2025 Real GDP Growth Contribution by Quarter**



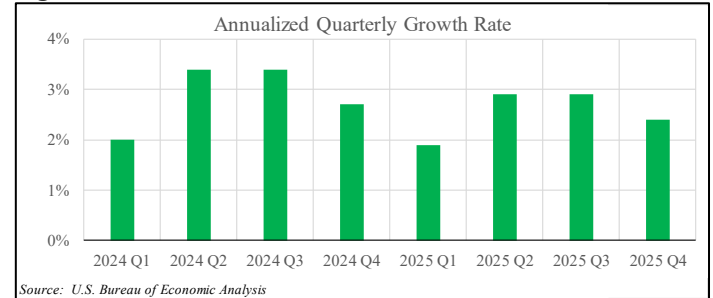
The chart is “busy” and difficult to interpret, and that is exactly the point: 2025 growth was erratic. Tariff and trade uncertainty caused growth to whipsaw early in the year. The economy contracted in Q1 due to a huge increase in the trade deficit, which reversed in Q2 and Q3. Growth in Q4 was negatively impacted by the longest government shutdown in history. A brief summary of the key drivers of 2025 US economic growth follows.

- **Personal Consumption:** 68% of the US economy is powered by consumer spending, which continues to be a positive driver of economic growth, despite a brief slowdown in Q1
- **Government Expenditures:** 17% of GDP is driven by direct consumption of goods and services by federal, state and local governments; the impact on growth was negative in 2025 amid aggressive downsizing in federal government employment and a prolonged government shutdown late in the year.
- **Private Investment:** 18% of US economic activity is due to business spending and investment, including construction, equipment, manufacturing and inventories. Spending surged in Q1 as businesses built inventories, accelerating imports ahead of looming US tariffs on foreign goods; the growth contribution reversed in Q2 as imports decreased and inventories fell.
- **Net Exports:** An unusually large trade deficit (US exports minus imports) negatively impacted Real GDP growth in Q1 as imports surged in anticipation of tariff-related price increases. The trade deficit shrank in Q2 and Q3, positively impacting growth. Changes in the trade deficit were mostly due to import fluctuations, as US export levels have not changed materially.

Because of multiple disruptions (tariffs/trade, government disfunction, geopolitics), it is difficult to ascertain the health and trajectory of the US economy. At a minimum, we must recognize the “noise” in the data. To better assess the “organic” economic growth, economists and investors have increasingly focused on a

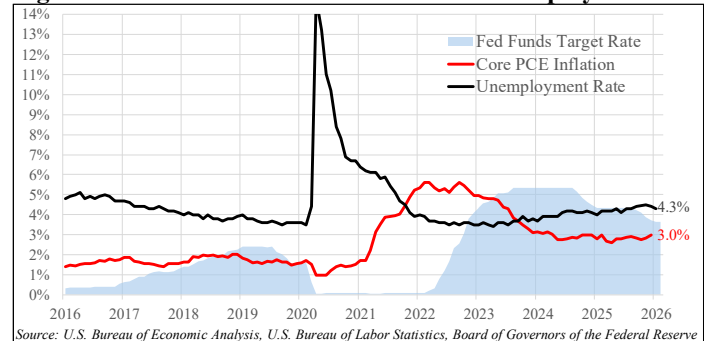
different metric, the Real Final Sales to Private Domestic Purchasers data (Figure 5), which excludes the volatile trade, inventory and government spending categories from the Real GDP data. Although US economic growth has been uneven recently, this data shows that consumer and business spending growth has remained remarkably consistent, even net of inflation.

**Figure 5: Real Final Sales to Private Domestic Purchasers**



The Fed is once again in wait-and-see mode regarding interest rates. By law, their “dual mandate” is to maintain price stability (manage inflation) *and* promote full employment. Figure 6 plots the primary measures for each along with the Fed Funds Target Rate over the past 10 years for perspective. The pandemic caused seismic economic shifts in 2020-21. Unemployment spiked, and the Fed aggressively cut interest rates to support the economy. Then inflation spiked (as measured by Core Personal Consumption Expenditures, the Fed’s favored inflation metric) leading to aggressive rate hikes. Recent data indicate that unemployment rate remains relatively stable at historically low levels, but inflation has persisted at about 3% over the past several years, well above the Fed’s 2% target. Investors and the Fed remain focused on incoming data for clues as to future rate cuts/hikes; markets are pricing in two more 0.25% cuts later this year.

**Figure 6: Fed’s Dual Mandate: Inflation & Employment**



## Bottom Line

Global markets have been volatile amid heightened uncertainty (geopolitics, war, tariffs/trade, government disfunction, AI, etc.) but remain at or near all-time highs despite the on-going rotation out of US tech stocks. Within the US, small and midcap stocks have surged in recent months, and non-US stocks and bonds continue to outperform, aided by on-going US dollar weakness.

US investors continue to focus on the potential for further Fed rate cuts, which disproportionately benefit small and mid-sized stocks and may push the dollar lower, benefiting non-US assets. The Fed is closely monitoring inflation and employment trends and will likely cut rates further toward a terminal rate of 3%. Given the escalating conflict in the Middle East, market volatility will likely continue; portfolio diversification remains critical.



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