

This Month in the Markets

February 2026



Equity Commentary: SaaSocolypse

The February market narrative shifted from "AI as a savior" to "AI as a disruptor," as investors began aggressively repricing industries perceived as vulnerable to automation. While global indices did not see declines, the underlying sector rotation was violent, marked by a flight from high-growth tech toward defensive "old economy" sectors. The tech-heavy S&P 500 Index led the decline by 0.8% as the "Magnificent Seven" lost their status as a haven, while utilities and energy provided a rare silver lining. The MSCI ACWI Index rose 1.3% led by significant strength of emerging markets, which rose 5.5% in February.

Sector Group	Performance	Investor Sentiment
Utilities	8.80%	Safe haven; AI data centers need power regardless of software volatility.
Energy	8.40%	Buttressed by oil prices and geopolitical friction with Iran.
Materials	9.90%	"Hard assets" over "soft code."
IT / Tech	-1.00%	The "growth engine" is being questioned due to disruption risks.
Consumer Disc.	-3.20%	Fear that AI-driven layoffs will gut discretionary spending.

Key Drivers of the "AI Panic"

The month was defined by three specific catalysts that broke the "AI Bull Case":

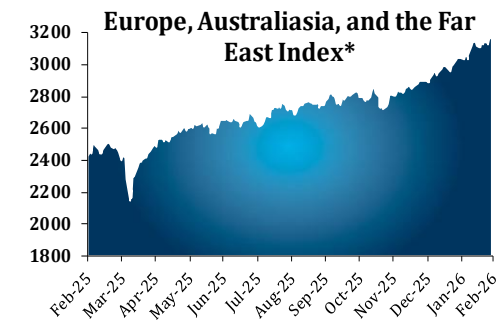
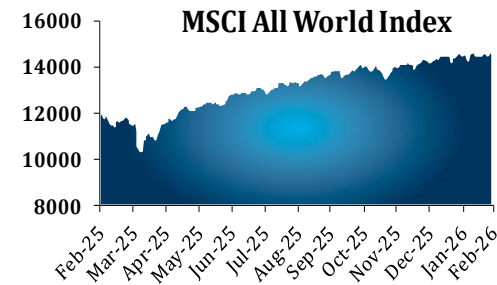
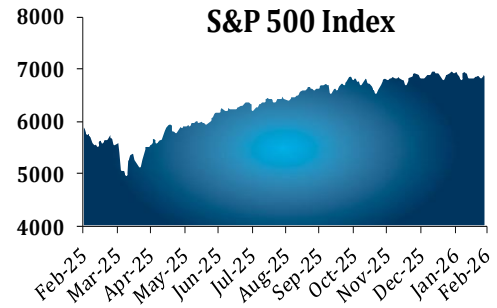
1. The Application Threat: On Feb. 3, Anthropic's release of Claude Code triggered a \$285 billion wipeout. Investors realized that if AI can code and automate business logic, traditional SaaS and software companies might be obsolete.
2. Service Sector Vulnerability: By mid-month, AI tools from Altruist (tax planning) and Algorhythm (logistics) proved that wealth management and freight scaling could now be handled with significantly less human "headcount," hammering insurance and real estate stocks.
3. The Citrini Effect: A bearish report late in the month from Citrini Research sparked a final rout in delivery and payment processors. This culminated in IBM's worst trading day in 25 years.

Private Credit Cracks

A secondary crisis emerged in the private credit market, where heavy exposure to tech company debt created a "contagion" effect.

- Blue Owl Capital: The firm halted redemptions in its retail-focused fund (OBDC II) and sold \$1.4B in loans to raise cash, leading the stock to finish the month down 23%.
- Dividend Cuts: Institutional giants Apollo Global and BlackRock both reported portfolio write-downs or dividend cuts, signaling that the private debt market is finally feeling the squeeze of high rates and tech-sector volatility.

The market seems to have currently moved past the "infrastructure build" phase (buying chips) and is now in the "disruption pricing" phase (selling the displaced). Crude oil strength and geopolitical tension in Iran further incentivized traders to hide in Energy and Staples, leaving the high-flying tech trade of 2024-2025 in a precarious "whipsaw" state.



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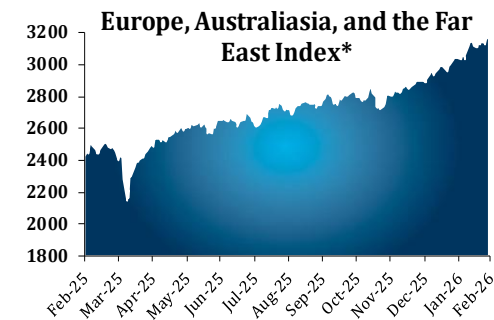
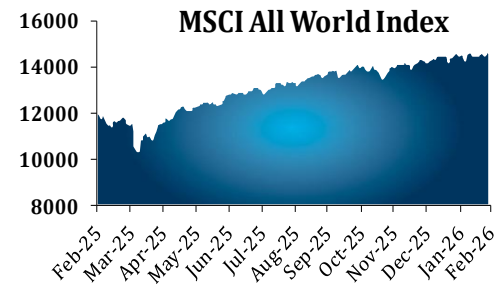
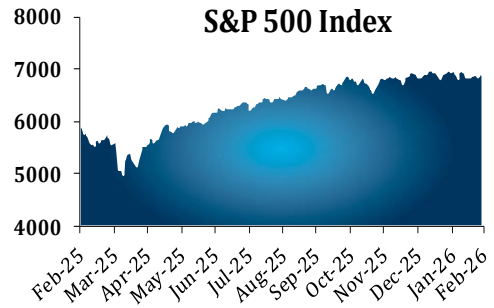


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The worst performing current position for February was MercadoLibre Inc. ("MELI"), which declined 18.2% following disappointing earnings where margins continued to compress as their long-term market share continued to be the priority at the expense of shorter-term profits. The best performer was Koninklijke Ahold Delhaize NV ("AD NA") which rallied 25.7% on a better-than-expected Q4 earnings report where margins came in higher than expected.

We sold three positions in February. PayPal Holdings Inc. ("PYPL") growth slowed down and AI disruption fears within the payments industry took hold despite the cheap valuations. We also sold Avantor Inc. ("AVTR") as it has become increasingly clear that its turnaround will take an exceedingly longer time frame and its market share looks to be at risk of serious erosion. Lastly, we sold Apollo Global Management Inc. ("APO") amid spreading stress in private credit markets via selective defaults and heightened exposure to software (estimates are 40% of all private credit (direct lending) outstanding is software).

We bought three positions in January. We purchased shares of the Vanguard FTSE Japan UCITS. Prime Minister Sanae Takaichi, who was formally reappointed following her landslide election victory in February 2026, has introduced several major initiatives that aim to benefit the Japanese economy through enhanced fiscal stability, economic growth, and strategic positioning. We also acquired shares in Spotify Technology SA ("SPOT") which despite its recent sell-off, just delivered its first full year of profitability and demonstrated its ability to raise prices, grow users and expand margins simultaneously. Lastly, we purchased RIO Tinto PLC ("RIO") to add exposure to base metals. We believe that given the amount of investment required to deliver and provide power to an increasingly electrified world, there is a strong probability that we are on the verge of a super cycle, of which RIO will benefit.



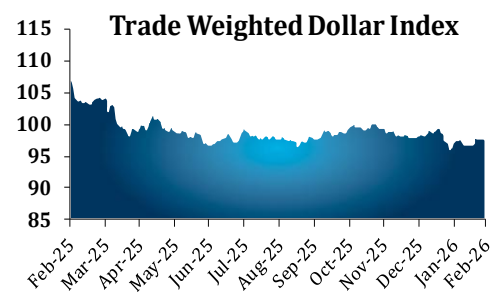
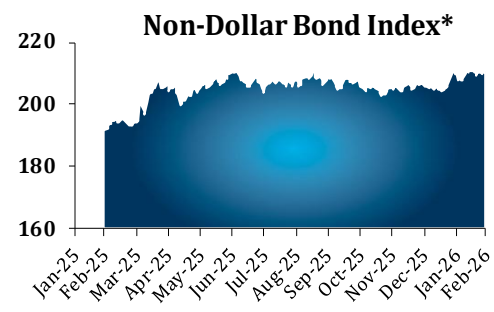
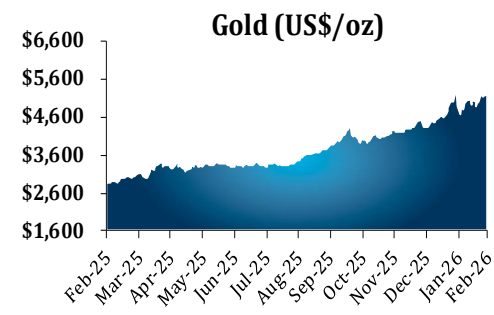
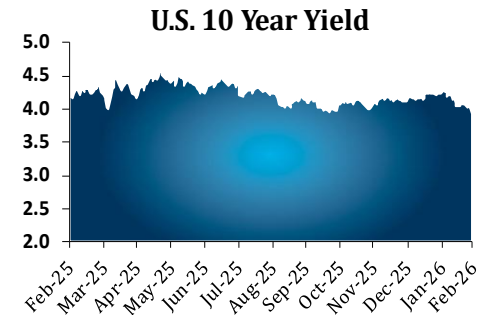
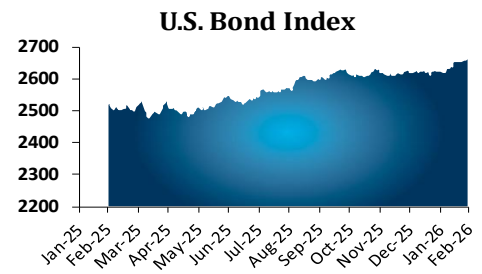
Fixed Income Commentary: Crosscurrents Define February

February was defined by moderating inflation, continued labor market crosscurrents, and renewed divergence in global monetary policy. Bond markets rallied meaningfully during the month, while credit spreads widened modestly and currency markets reflected both policy and geopolitical developments.

In the U.S., labor market data sent mixed signals. Job openings (JOLTS) declined again, with the ratio of openings to unemployed workers falling further to 0.87 — now firmly below 1.0 and indicative of a cooling labor market. However, nonfarm payrolls surprised to the upside, though the strength was heavily concentrated in the Education & Health Services sector. The labor force participation rate edged higher to 62.5%, while the unemployment rate ticked down from 4.4% to 4.3%. Taken together, the data suggest gradual softening rather than an abrupt deterioration.

On the inflation front, the Consumer Price Index (CPI) came in below expectations, while Personal Consumption Expenditure (PCE) inflation printed slightly above consensus. Encouragingly, Super Core CPI — which excludes food, energy, and shelter — continued to decline on a year-over-year basis. Taken together, the data reinforced the broader disinflationary trend, prompting markets to increase expectations for Federal Reserve easing in 2026. Futures now price approximately two to two-and-a-half 25 bp rate cuts next year, up from roughly two cuts at the end of January. As a result, treasury yields moved notably lower during the month, resulting in a flattening of the yield curve. The 2-year Treasury yield declined 25 basis points to 3.44%, while the 10-year yield fell 30 basis points to 3.93%. The rally reflected softer inflation data and growing confidence that policy rates have peaked for this cycle.

Credit markets were less constructive. Investment-grade spreads widened 0.10% (ICE BofA US Corporate Index), while high-yield spreads widened 0.22%. The widening was led by the technology sector, particularly software companies, amid renewed concerns over AI-related demand sustainability. The ICE BofA US High Yield Technology Index widened 0.68% month-over-month and 1.31% year-to-date. Notably, the MSCI (Baa3/BBB-) bond we own saw its credit spread widen 0.38% in February. MSCI remains a high-quality issuer with a dominant franchise, anchored by more than 246,000 equity indices including the MSCI World, ACWI, EAFE, and Emerging Markets benchmarks. While spread volatility reflects sector sentiment, the company's recurring revenue model and strong free cash flow generation remain intact.



*Merrill Lynch Global Broad Market, Ex US Dollar Index

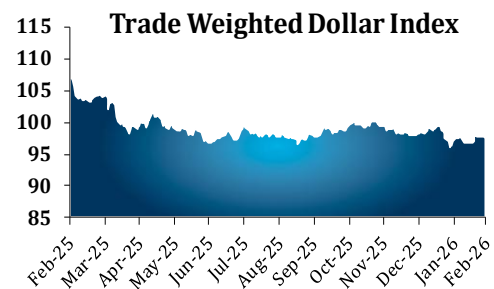
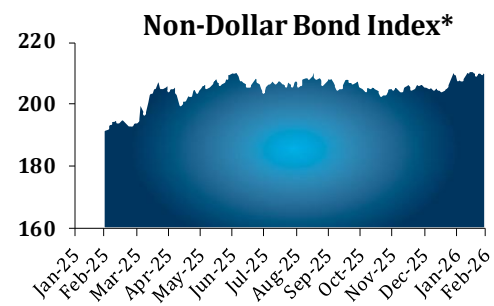
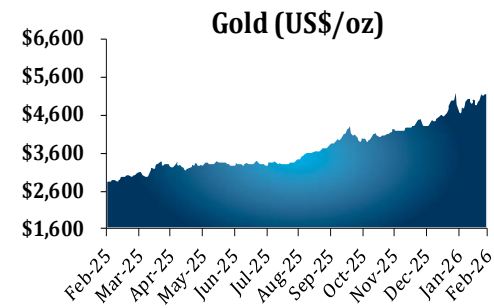
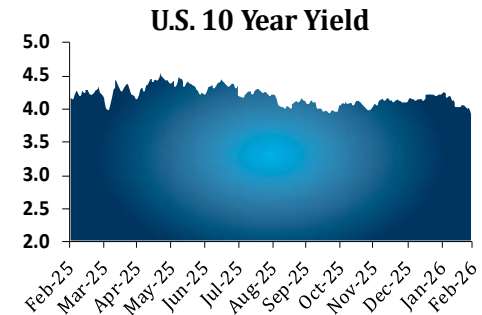
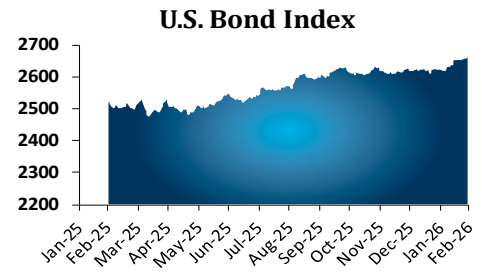
Fixed Income Commentary: Crosscurrents Define February

The U.S. dollar strengthened modestly in February, rising 0.63% as measured by the DXY index. It is worth noting that the DXY is heavily weighted toward the euro (57.6%), yen (13.6%), and pound sterling (11.9%), which together comprise over 83% of the index. Currency movements were also influenced by policy divergence abroad.

The Reserve Bank of Australia (RBA) raised its policy rate by 0.25% to 3.85% in a unanimous 9–0 decision, while lifting its 2026 core inflation forecast from 2.70% to 3.20%. Australian CPI stands at 3.8% year-over-year, well above the RBA's 2–3% medium-term target band. The hawkish move supported the Australian dollar, which appreciated 2.2% versus the U.S. dollar during the month.

In Norway, inflation also surprised to the upside, with headline CPI rising to 3.6% and core inflation increasing to 3.4% year-over-year – well above the Norges Bank's 2% inflation target. The unemployment rate edged down to 2.2%. The Norwegian krone strengthened 1.1% versus the dollar in February, as short-term interest rates markets priced out any expectations of a rate cut in 2026.

As of this writing, the U.S. dollar is rallying further amid geopolitical escalation stemming from the U.S.–Israel conflict with Iran. At the same time, interest rates are moving higher on rising energy prices and firmer inflation expectations. We enter March expecting heightened volatility as markets navigate evolving geopolitical risks alongside shifting monetary policy expectations.



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