Market Review - February 2026

Global Reset

Thanks to the hyperactivity of the US administration, not a day goes by without something happening. The US president is rightly criticized for his lack of discernment and finesse. Still, it must be acknowledged that he has an innate gift for hitting where it hurts and challenging often outdated consensuses. The world's prominent leaders frequently demonstrate doublespeak and hypocrisy; the gathering at the World Economic Forum in Davos exemplifies this: every year, they talk about change, but the status quo is the goal.

When the US military captured Venezuelan leader Maduro, Trump clearly stated that it was oil that interested him, even though the heads of major US oil companies expressed skepticism. Trump challenges conventional policies, including free trade, a liberal meritocracy, and traditional alliances. He came to power because the right and the left failed to address the fundamental issue: the impoverishment of the middle class, resulting from decades of neoliberal policies, and the feeling of being left behind by a hypocritical and cynical elite.

In Davos, following Trump's threats against Greenland, the Canadian prime minister gave a master class „. "We knew the story of the international rules-based order was partially false, that the strongest would exempt themselves when convenient, that trade rules were enforced asymmetrically. And we knew that international law applied with varying rigour depending on the identity of the accused or the victim." The whole speech is worth reading. This is a rude awakening for Europeans who still thought they could play by the old rules, under US protection. Now they must do as Trump does and put their interests first, even if it means negotiating with unsavory characters.

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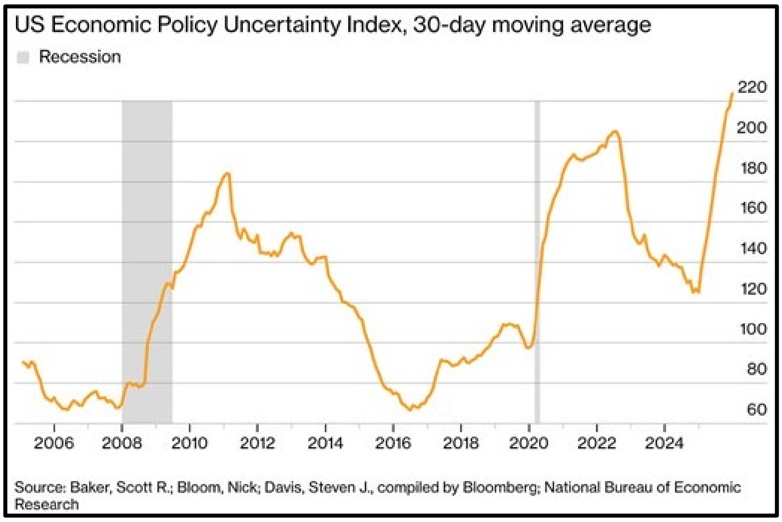
US Economic Policy Uncertainty



Economic visibility is reduced as the rules of the game change rapidly; a high level of uncertainty is expected. Will this discourage investment? Not yet. Defense, AI and energy capex are more critical than ever.

In this context, former allies, including Europe, Canada, and the UK, are attempting to rebalance their trade flows. The EU has focused most of its trade diversification efforts on concluding agreements with several middle powers. It signed a trade agreement with four South American countries and with India in January. The UK and Canada have also sought to strengthen their trade relations with other trading partners, including China. We can thus observe the ongoing rebalancing of global trade in real time.

Globalization has not had its final say. The aggressive behavior of the US president has finally awakened allies to this new reality: there is a risk in aligning with and submitting to America.
On the domestic front, the aging president is not sitting idly by. To win the midterm elections, Trump is frequently signing executive orders. He wants to cap credit card interest rates at 10% for one year, ban institutional investors from buying single-family homes, and prohibit defense companies from paying dividends and buying back their shares until they build factories on American soil. The goal is to stimulate private consumption. However, these executive orders cannot be implemented; laws must be passed, and Congress must be involved.

The issue of affordability will be central to the November campaign. Although the president claims that inflation is no longer a problem, the average American family is struggling to make ends meet as prices for basic goods and services continue to rise.

In this electoral context, electricity prices will be a significant issue. Last November, Governor Abigail Spanberger was elected based on a program called the "*Affordable Virginia Plan*," which promised that large data centers establishing themselves in the state would pay their "fair share" of network costs by bearing the expenses associated with upgrading the power grid.

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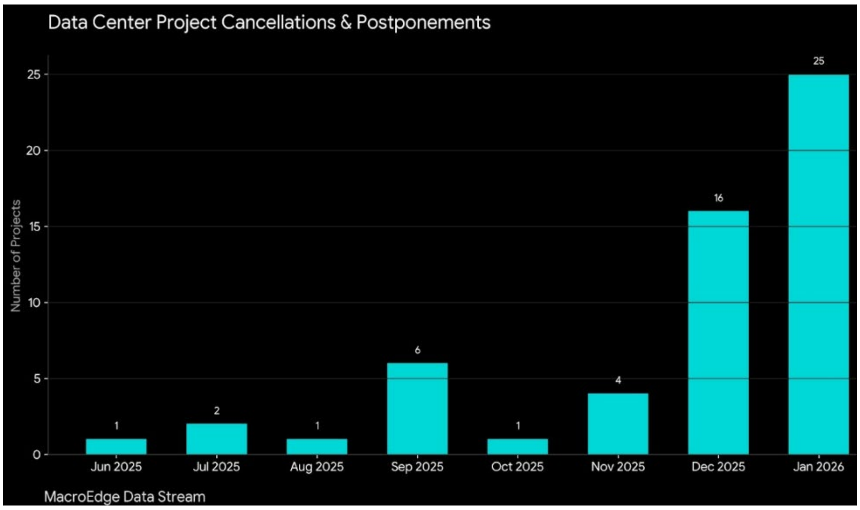
US Data Center Project Cancellations & Postponements



Next November, this campaign theme will be taken up by many candidates running for House seats. Will this affect the capital expenditure of large technology companies and, consequently, growth? In early January, no fewer than 25 data center projects were canceled or postponed, according to MacroEdge. This figure could exceed 100 by November. Artificial intelligence is not a popular topic; on the contrary, it is especially so if we assume that many jobs are likely to disappear as a result of this development.

To encourage households to spend their savings, President Trump also wants short-term interest rates to be lowered. But the Fed chairman does not seem to share this view, even though he gave in to pressure at the end of last year by lowering the key interest rate three times. In this context, the criminal investigation opened at the beginning of the year against J. Powell, linked to the renovation of the Federal Reserve buildings, has provoked strong reactions, starting with the man himself, who denounced it as a political attempt to intimidate the central bank. Some Republican senators have said they will not vote for a new chair until the complaint is withdrawn.

As expected, the Federal Reserve left its key rate unchanged on January 28. Only the two governors who want to be in Trump's good graces, Hasset and Miran, voted for a 25 bp reduction. The market expects one additional rate cut in 2026, perhaps two, and after J. Powell's departure. The change in leadership and the risks to the institution's governance have so far had no impact on rate expectations. Kevin Warsh has been nominated to succeed J. Powell, awaiting Senate approval. Warsh served as a Federal Reserve governor from 2006 to 2011 and was known for his hawkish stance. However, he has since significantly shifted his position. Will he be a puppet of the White House? He appears more credible than Kevin Hassett.

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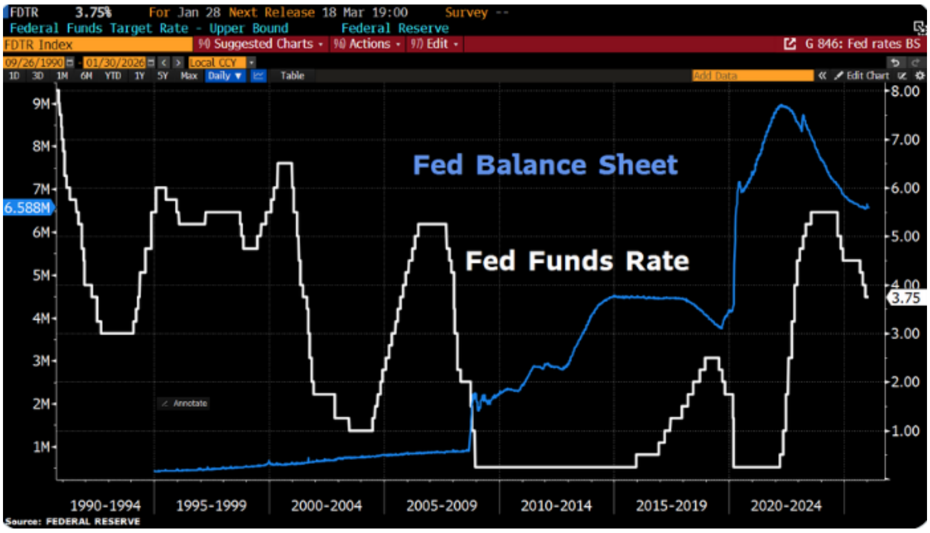
Federal Funds Rate Target



Melt-up and interim peak?

What is happening to precious metal prices? For years, fundamentals have been favorable for gold and other precious metals. Why this sudden acceleration in the uptrend since October last year? How should this signal be interpreted? Gold was up 60% since August 2025, silver 180% and platinum 100% before the correction on Friday, January 30. Even if the fundamentals remain good, there are other reasons besides central bank purchases and political tensions to explain the upward acceleration; silver and platinum have industrial uses and are not considered stores of value.

Gold Oz Price

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What does this remarkable performance signify? Could it indicate an upcoming rise in inflation or a notable drop in the dollar? Maybe it's a mix of both. One needs to observe whether inflationary pressures resurface, although current price trends seem manageable for now.

Gold has always been a diversification tool in traditional long-only portfolios. This is unlikely to change in the future. Reducing exposure during the melt-up was a matter of risk management. Even if the fundamentals remain unchanged, much of the good news is already priced in. An intermediate top is probably in; gold and metal prices are expected to consolidate for months. Don't be surprised.
The dollar appears to have entered a new phase of decline. On January 27, 2026, at a meeting in Iowa, Donald Trump said the following about the decline of the dollar: *"I think it's great, I mean, look at the business we are doing."* The US government is not opposed to a devaluation of the dollar.

Dollar Index

Over the past two decades, Europeans have invested trillions of dollars in the US. Will the current tensions between the Old Continent and Uncle Sam's country lead institutional managers to reduce their exposure to US assets? This might have been expected in 2025, but it did not happen.

However, uncertainties are growing. What if Donald Trump has alternative strategies for advancing US interests and his personal goals? Will access to capital invested in the US remain feasible during periods of diplomatic tension? Is there a possibility that the rules of the game could change? In the context of the Greenland saga, the tariffs negotiated in the summer of 2025 were called into question. It therefore seems that international law no longer applies to the US. That is why, as Europeans, it would be wise to review and reduce the financial risk associated with the United States.
The decline of the greenback could be surprising in its magnitude over the coming months.

Global growth remains strong
Despite an anxiety-provoking international context, there has been no change since last month. Government spending, combined with the excellent health of the private sector on both sides of the Atlantic, should lead to higher-than-expected growth, especially in Europe. German economic growth could be driven by a recovery in the automotive sector in 2026 and lower energy costs.

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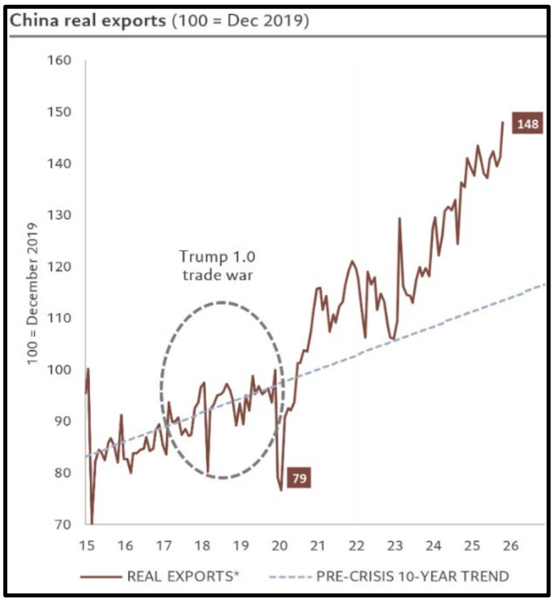
China Real Exports



Despite weak domestic consumption and the trade war with the US, China continues to increase its international trade substantially. Shipments to non-US markets have risen sharply, while exports to the US have fallen by more than 25% in volume. There is still a risk of deflation in China.

The International Monetary Fund slightly raised its growth forecasts for 2026 in its latest report, released on January 5. The fiscal and monetary environment is conducive to an easing of financial conditions.

Yield curves are steepening

The central banks of major Western countries have lowered or are in the process of reducing their key interest rates. Inflation appears to be under control, with CPI indices returning to the 2% target. However, long-term rates are rising in all regions except China. The most striking example is Japan. The Land of the Rising Sun is burdened by public debt exceeding 230% of GDP. The BOJ holds half of this.

Japan 10Y Treasury Bond Yield

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Against a backdrop of inflationary pressures and rising living costs, Prime Minister Sanae Takaichi announced the abolition of the 8% VAT on food and non-alcoholic beverages for two years. The Japanese bond market did not appreciate this proposal. The yield on 10-year government bonds rose 30 bp to 2.4%, while 30-year bonds nearly reached 4%, an all-time high.

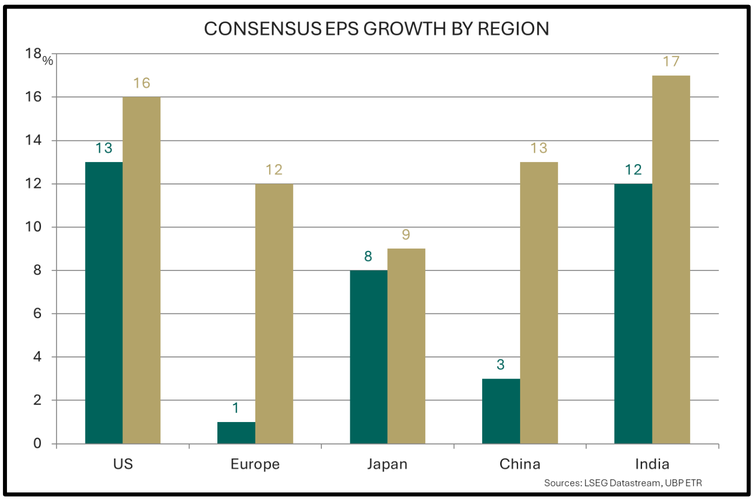
In Europe, the yield on 10-year bond is consolidating at levels among the highest since the Covid crisis (2.8%). In the US, after hitting 4%, the 10-year Treasury bond yield is rising back towards 4.5%.
Long-term rates are therefore rising in all regions. The markets are repricing reinvestment risk. Should we conclude, as with the surge in gold prices, that inflation could rise again in the coming years? This would come as a surprise to many economists.

Corporate bond markets are calm. Except a few special situations, spreads remain close to their lowest levels. Even the "B" and "CCC" indices, which are most sensitive to economic conditions, have seen credit spreads fall. Spreads have been narrowing since the beginning of the year. For the time being, the credit market seems to be ruling out any economic accidents.

Good earnings season

Earnings season is in full swing. In the US, 4th quarter 2025 earnings growth is expected to reach 13%, driven primarily by the technology sector, which is forecast to grow by 26%. However, the market harshly punishes companies at the slightest sign of doubt about growth or expected returns on capital expenditure. In Europe, the situation is more mixed, with earnings expected to contract by 4% in Q4, ending the year at 0%. 2026 will be challenging, as the market expects average earnings growth of 12% for the MSCI Europe. It is worth noting the acceleration in earnings growth expected in all regions between 2025 and 2026. This is shown in the chart below: 2025 is green, and 2026 is beige.

Consensus EPS Growth By Region



After three years of uninterrupted market gains, investor sentiment is very bullish. According to Bank of America's Fund Manager Survey, the average percentage of cash in portfolio allocations has never been

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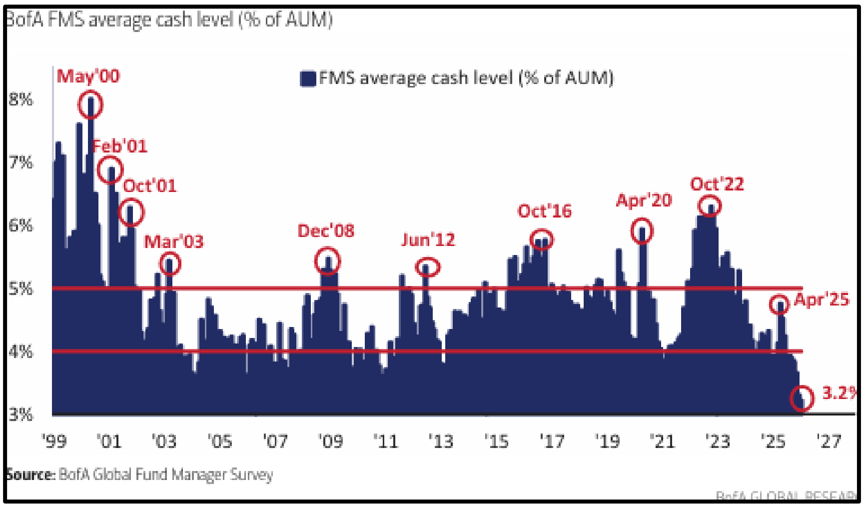
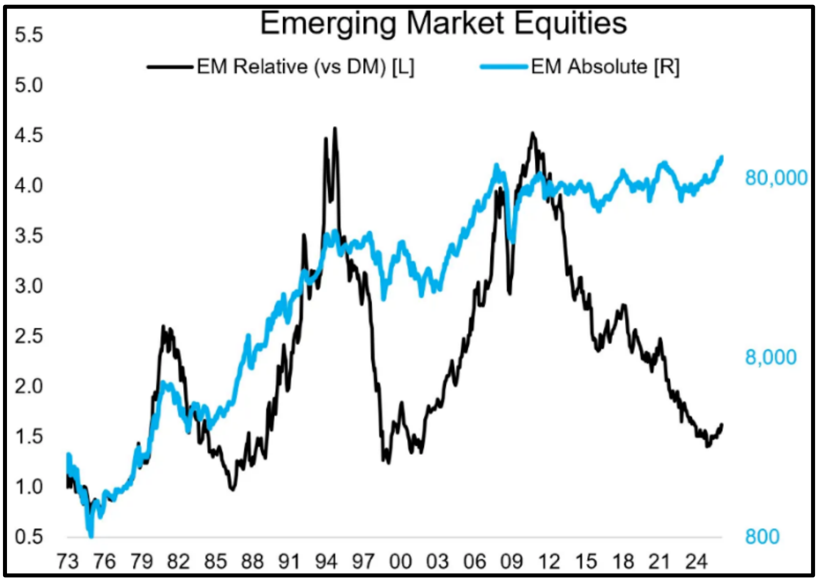
lower over the past three decades. This has been true for several months; it is not a timing tool. However, in a period of stress, it can be significant. Risk appetite is high among fund managers.

Fund Managers Survey Average Cash Level



The performance of emerging markets should be highlighted. Artificial intelligence was a hot topic in 2024 and 2025. However, since January 1, 2025, the major US indices have significantly underperformed Europe and, even more so, emerging markets. Valuations are lower, but growth prospects are similar. Emerging markets suffered so much between 2016 and 2024 that they fell off the radar for many investors. This is why a small reallocation of flows away from the US could significantly affect prices. Only India and Taiwan have valuations similar to those in the US. As shown in black on the chart (from Topdown Charts) above, emerging markets' outperformance still has a bright future, with 2025 likely just the appetizer.

EM Equity Markets Vs DM Equity Markets (black line)



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Conclusion

Equity markets stay strong with solid earnings. US valuations are high, and expectations are elevated, while institutional portfolios hold little cash. The weak dollar and international tensions are benefiting markets outside the US, especially emerging markets. Precious metals are expected to undergo a prolonged consolidation phase.

Not a day goes by without important news; it is challenging to cover all the topics, so here are a few highlights.

- There is likely to be a US military operation in Iran.
- The dismissal of General Zhang in China on January 28 surprised sinologists. He was a close associate of President Xi. Is this a new purge in the army? What does it mean? Is it related to Taiwan?
- In the US, a partial government shutdown has begun, as Democrats and Republicans disagree on funding for the anti-immigration paramilitary force ICE.

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