ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

February 2026

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Monthly Commentary

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Monthly returns and summary

Index	Portfolio Benchmark Risk Level	28/02/2026	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	225.46	+1.2%	+2.4%	+7.6%	+17.1%	+14.8%
ARC Balanced	Medium Risk	295.37	+2.1%	+3.7%	+10.9%	+24.9%	+25.3%
ARC Steady Growth	Medium High Risk	364.38	+2.6%	+4.5%	+12.3%	+29.1%	+31.9%
ARC Equity Risk	High Risk	437.34	+3.1%	+5.2%	+13.5%	+32.4%	+36.6%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	28/02/2026	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	10910.55	6.7%	12.2%	23.8%	38.5%	68.3%
UK All Share	UK	5851.48	6.2%	11.6%	23.1%	35.9%	58.0%
Dow Jones Ind Avg	US	48977.92	0.2%	2.6%	11.7%	50.0%	58.3%
S&P 500 Index	US	6878.88	-0.9%	0.4%	15.5%	73.3%	80.5%
Nikkei 225	Japan	58850.27	10.4%	17.1%	58.4%	114.4%	103.2%
MSCI Europe Ex UK	Europe	248.99	3.5%	9.3%	12.2%	36.9%	54.4%
MSCI Asia Ex Japan	Asia	1045.15	5.8%	17.4%	46.1%	67.5%	17.8%
MSCI Emg Mkts (£)	Emg Mkts	978.01	7.7%	16.6%	40.4%	61.6%	41.2%
MSCI World Index (£)	Global	4556.79	0.6%	3.6%	19.7%	67.9%	67.1%
UK Conventional	Gilts	3248.78	2.3%	2.5%	5.7%	8.5%	-16.2%
UK Index-linked	Gilts	3919.66	3.6%	5.0%	5.1%	-0.2%	-26.4%
UK Real Estate Investment Trusts	Property	2091.79	3.3%	9.2%	14.6%	-3.8%	-15.2%
WTI Crude ($/Barrel)	Oil	67.02	2.8%	14.5%	-3.9%	-13.0%	9.0%
Gold Spot $/Oz	Commodities	5278.93	7.9%	24.5%	84.7%	189.0%	204.4%
£1 = US$	Currencies	1.3482	-1.5%	1.9%	7.2%	12.1%	-3.2%
£1 = €	Currencies	1.1413	-1.2%	0.0%	-5.9%	0.4%	-1.1%
£1 = Yen	Currencies	210.41	-0.7%	1.8%	11.1%	28.5%	41.8%

Source: Bloomberg. NB: Price returns only, excluding dividends

Index	Region / Asset Class	28/02/2026	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	14,603.10	2.0%	5.4%	16.1%	24.3%	15.5%
Latest Weighted Average Discount	-15.1%						
12 Month Weighted Average Discount	-14.4%						

Source: Bloomberg, Refinitiv. NB: Price returns only, excluding dividends

General Comments

February was yet another strong month for markets, with the Europe and the UK again marking new all-time highs and Asia continuing to drive global markets forward thanks to Japan's leadership. In contrast, the US continued to struggle relative to these peers. There seems to be an ongoing shift of investor appetite with minds becoming more focussed outside on companies of the US.

Despite UK stock market strength, sterling weakened over the month as gilt yields fell significantly, reducing the relative attractiveness of the currency. Meanwhile, the US dollar strengthened, reversing recent trends. Gold prices also appreciated once more.

All of this meant another strong month for multi-asset portfolios, as shown above by the ARC indices, with the benchmark with the highest equity exposure, the ARC Equity Risk index, increasing the most.

UK Commentary

Prime Minister Keir Starmer's leadership was severely tested by a scandal involving the appointment of Lord Peter Mandelson as U.S. Ambassador, which unravelled due to revelations regarding Mandelson's historical ties to Jeffrey Epstein. This led to a wave of high-profile resignations, including Starmer's chief of staff, and notable public calls for the Prime Minister to step down following a bruising by-election loss to the Green Party.

Economically, there continued to be mixed signals as unemployment hit a five-year peak of 5.2% and private sector wage growth slowed. However, inflation dropped sharply to 3.0%, fuelling expectations that the Bank of England would soon reduce interest rates from 3.75%. Households also received temporary relief from falling energy bills due to a lower price cap, though long-term power costs remain a concern as the grid undergoes a multi-billion-pound upgrade for "net zero" targets.

Furthermore, official data showed the goods trade deficit hitting a record £248.3 billion in 2025, while services registered a record surplus of £191.8 billion, highlighting the nation's long-term transition away from industrial production.

In a landmark deal, the historic City firm Schroders agreed to a £9.9 billion takeover by the U.S. manager Nuveen, ending its independence and creating a global giant with $2.5 trillion in assets. In similar news, NatWest reported a 25% profit surge and signed a £2.7 billion deal to acquire Evelyn Partners, though its shares dipped as investors questioned if the bank overpaid.

North America Commentary

Markets underwent a significant adjustment as investors rotated away from high-flying tech stocks toward defensive sectors like utilities and energy. A major source of volatility was the shifting tariff landscape; after the Supreme Court ruled his previous emergency levies illegal, President Trump swiftly introduced a new global tariff of 10%, which he later moved to increase to 15%. This sparked immediate backlash from trading partners and demands for billions in refunds from U.S. retailers.

The "AI narrative" also reached a turning point as corporate giants like Amazon, Alphabet, and Microsoft announced a staggering $660 billion in planned capital expenditures for the year. While Nvidia posted record profits, investors grew anxious that this "breathtaking" spending was outpacing actual earnings potential, leading to heavy selloffs for some tech leaders. To reduce its reliance on Nvidia, Meta signed a deal to buy billions of dollars in customized chips from AMD, potentially taking a 10% stake in the company as it builds out an AI infrastructure that requires enough energy to power five million homes.

In related news, OpenAI raised a record $110 billion, valuing the startup at $730 billion. A massive $50 billion of this came from Amazon, with a significant portion of the investment contingent on OpenAI eventually launching an IPO or achieving "artificial general intelligence".

On the policy front, the Federal Reserve entered a delicate phase with the nomination of Kevin Warsh to succeed Jerome Powell, whose transition is complicated by an ongoing Department of Justice investigation. The picture for the incoming chair remains complex, with a cooling GDP growth rate of 1.4% but a surprisingly resilient labour market, which added 130,000 jobs in January.

Europe Commentary

France was at the centre of yet more political drama as Prime Minister Sébastien Lecornu narrowly survived a no-confidence vote to pass a deficit-cutting budget. To secure the deal, the government was forced into major concessions, including abandoning President Macron's hard-fought increase of the retirement age and extension of taxes on large corporations. Elsewhere, the Netherlands approved a landmark tax reform to begin taxing actual investment returns (as opposed to realised gains) at a flat 36% rate by 2028. This is, frankly, economically illiterate, so we hope the bill does not pass the Senate.

In Germany, a sobering study projected a 5% population decline over the next fifty years, raising alarms about the long-term sustainability of its pension and healthcare systems. Meanwhile, the Eurozone's economic data was mixed as inflation fell below the 2.0% target to 1.7%, yet the European Central Bank maintained interest rates at 2% for the fifth consecutive meeting.

In corporate news, Bayer agreed to a massive $7 billion settlement to resolve thousands of U.S. lawsuits claiming its Roundup weedkiller caused cancer, a move that provided some legal certainty for the company and boosted its stock price.

Asia Pacific Commentary

Asia was dominated by a historic shift in Japanese politics and South Korean corporate reform. Japan's Prime Minister Sanae Takaichi secured a landslide supermajority, the most decisive single-party victory in post-war history, prompting the Nikkei 225 to surge past 58,000 for the first time. Investors cheered her mandate for aggressive fiscal stimulus and tech investment.

South Korea's stock market continued its world-leading rally after the National Assembly passed a bill mandating that companies cancel treasury shares, a move intended to protect minority shareholders from the "Korea discount". Surprisingly, Korea also reported a slight uptick in its fertility rate, though it remains well below replacement levels.

China, however, faced persistent deflationary pressures and weak consumer demand. This led the People's Bank of China to intervene in foreign-exchange markets, effectively making it cheaper for market participants to bet against a yuan that had reached a three-year high in an attempt to make their currency weaker and exports more competitive.

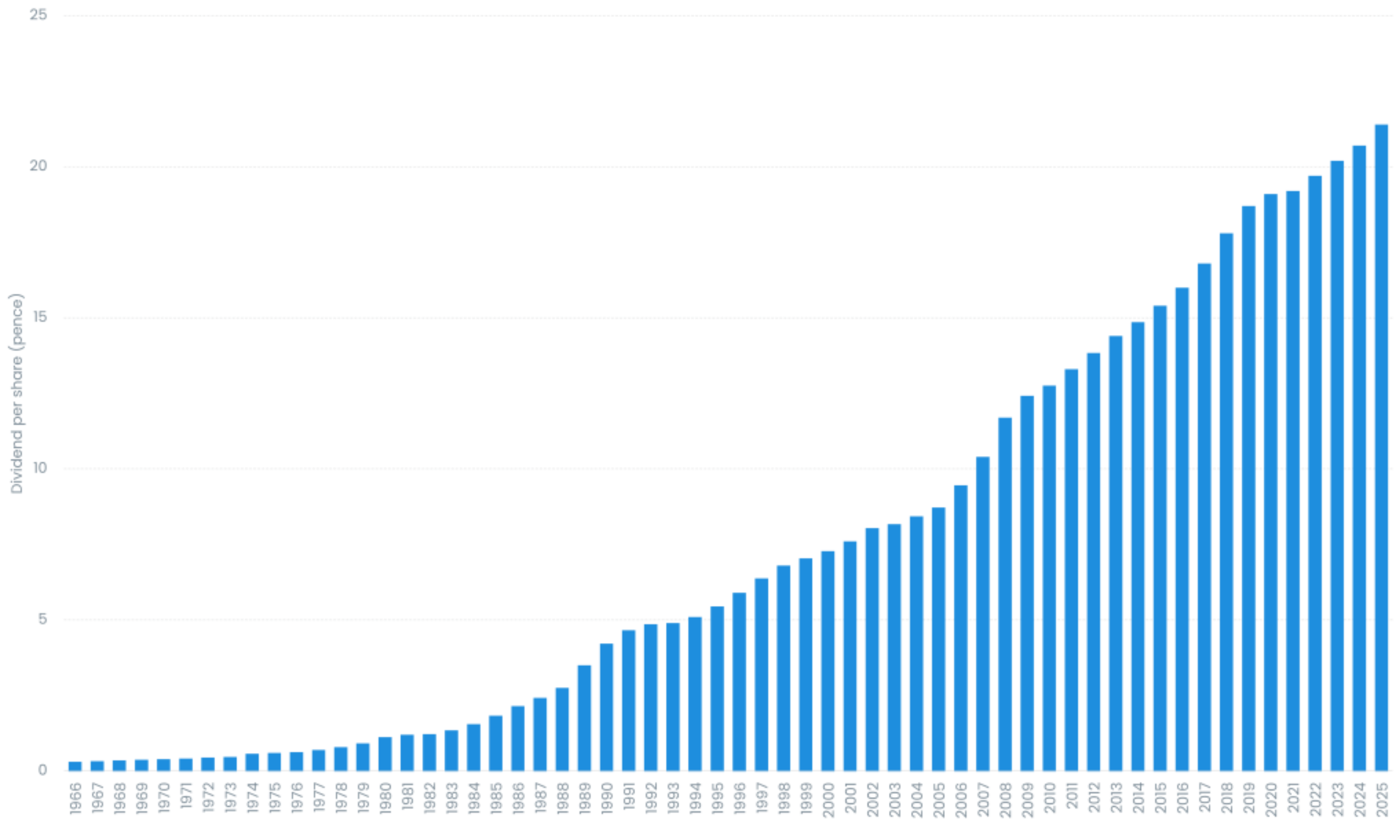
Emerging Market Commentary

Mexico saw significant turbulence as security forces killed the leader of the Jalisco New Generation Cartel, "El Mencho," triggering a wave of retaliatory violence and school closures, just as the country prepares for the 2026 World Cup.

In Argentina, President Javier Milei's libertarian policies led to a 55% surge in consumer imports, with citizens flocking to international platforms like Amazon to buy goods including tech and toys.

Elsewhere, India secured a strategic trade victory, negotiating its U.S. tariff down from 50% to 18% after Prime Minister Modi agreed to stop purchasing Russian crude oil.

Chart of the month – City of London Investment Trust Dividend – 60 years of consecutive growth!



Source: Janus Henderson / The City of London Investment Trust

City of London Investment Trust has confirmed it is on course to deliver its 60th consecutive annual dividend increase, the first investment trust ever to reach this milestone. The trust continues its leadership of the Association of Investment Companies' "dividend heroes" list, reflecting its long record of rising shareholder distributions since 1966.

The UK equity income trust, managed by Job Curtis at Janus Henderson, reported interim dividends of 10.8p per share for the six months to 31 December 2025, up from 10.5p a year earlier, and the board has signalled confidence that the full-year payout will be raised again.

Investment trust companies have the flexibility to smooth their dividends over time. By law, they can retain up to 15% of their income each year, building a reserve that can be drawn upon during leaner periods when portfolio income falls short.

A clear example came in 2020, when UK banks were prohibited from paying dividends. Many investors relying on bank income saw their returns drop sharply. However, investment companies such as City of London—which had significant holdings in banks—were still able to increase their dividends, funded by reserves accumulated from previous years.

Investment Team's thoughts

We read with interest the annual releases of private equity market research from the likes of Bain and McKinsey. They revealed that despite a slight revival in dealmaking, private equity groups are sitting on a record $3.8 trillion backlog of unsold investments. Rising interest rates have forced firms to hold companies for an average of seven years (up from five) leading to a surge in "zombie funds" that hold aging assets but cannot deploy new capital. We will continue to monitor the private markets, both equity and credit, closely for any signs of potential weakness and for opportunities where any listed assets become attractively priced.

Meanwhile, public markets continue to surge upwards. Record market highs in the UK, Europe, and across Asia continue to signal the rotation of at least some of investors' focus away from the US, which we see as a continuation of a now established trend.

We will continue to monitor currency and commodity markets, which have proved volatile in recent weeks, particularly as we write this commentary in early March. The escalation of conflict in the Middle East has, alongside the tragic events unfolding there, rocked oil and gas prices, in turn fuelling wider market worries about inflation and interest rates. We note that this has presented opportunities in government bond markets where attractive yields are on offer and hope that both the conflict itself and related inflation fears abate shortly.