

PLAINSCAPITAL BANK

# MARKET HIGHLIGHTS



Market Commentary  
February 2026

By Andrew Cunningham, CFA, CMT, ChFC

## Executive Summary

- Market leadership expanded beyond technology into several major sectors.
- Stocks remained near highs despite signs of weakening momentum.
- AI-related fears boosted volatility across various industries.
- Physical asset sectors strengthened while digital sectors declined.
- Earnings surpassed expectations in most sectors.
- Lower Treasury yields reduced valuation pressures.
- Market breadth stayed strong with broad stock participation.
- Bond market volatility rose due to tariff uncertainty.
- Fed policy debates concentrated on the risks of reducing the balance sheet.
- Credit spreads slightly widened for companies exposed to foreign markets.
- The yield curve showed gradual steepening pressures.
- Short rates could decline if labor activity weakens.
- Long-term rates are pressured upward by economic growth momentum.
- Opportunities arose in corporates and MBS during times of volatility.

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## Markets at a Glance:

Equity - TR (%)	1M	3M	YTD	1Y
MSCI EM LATIN AMERICA	6.0	27.1	20.9	69.1
MSCI EM	6.1	18.0	13.4	45.7
MSCI AC ASIA PACIFIC	6.5	16.7	12.5	39.9
MSCI EAFE	4.6	13.9	8.3	31.9
MSCI WORLD x USA	4.3	13.7	8.0	33.0
RUSSELL 2000 INDEX	-0.6	10.2	7.0	23.4
S&P500 EQUAL WEIGHTED IX	2.3	9.5	6.2	15.2
DOW JONES INDUS. AVG	0.3	6.3	2.5	15.1
MSCI WORLD	0.9	5.1	2.7	21.2
S&P 500 INDEX	-0.3	3.0	0.8	16.6
NASDAQ COMPOSITE	-2.7	0.1	-1.6	19.3
Sectors - TR (%)	1M	3M	YTD	1Y
Energy	12.0	25.2	23.4	26.4
Materials	6.7	23.7	17.5	24.2
Industrials	7.8	18.4	14.1	33.6
Consumer Staples	8.3	17.3	15.6	12.7
Real Estate	6.7	8.4	9.0	7.8
Utilities	10.9	6.7	10.6	21.5
Healthcare	0.2	2.0	1.9	8.8
Consumer Discretionary	-6.8	0.2	-3.9	6.4
Communications	-2.8	-0.4	-1.3	26.5
Financials	-3.9	-1.6	-7.0	1.3
Information Technology	-2.1	-1.9	-3.4	21.8
Alternatives - TR (%)	1M	3M	YTD	1Y
ALERIAN MLP INDEX	8.5	15.3	14.6	13.2
FTSE NAREIT All Eq REITS	7.4	9.3	9.9	9.0
LS Managed Futures Index	0.5	2.2	1.4	-0.3
S&P LISTED PRIV EQUITY	-11.8	-5.1	-10.9	-10.8
BBG Galaxy Bitcoin Index	-28.2	-26.6	-26.7	-27.2

Data source: Bloomberg

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## US Style Returns (%) - Russell Indices

### 1M

	Value	Core	Growth
Large	2.7	-0.4	-3.3
Mid	3.5	2.0	-3.1
Small	1.7	-0.6	-2.6

### YTD

	Value	Core	Growth
Large	6.7	0.9	-4.3
Mid	8.7	6.3	-1.1
Small	9.9	7.0	4.4

US Factor Returns (%)	1M	3M	YTD	1Y
MSCI Value	4.2	18.0	10.6	39.2
S&P 500 High Beta	0.9	13.6	5.3	39.1
MSCI High Dividend Yield	5.1	12.2	9.9	16.6
MSCI Size	0.8	7.1	3.9	12.3
MSCI Quality	0.4	4.4	2.0	15.0
MSCI Momentum	-0.8	3.9	1.0	13.6
MSCI Growth	-3.4	-3.5	-4.6	16.0

Commodities TR (%)	1M	3M	YTD	1Y
Silver	-14.4	68.0	22.8	158.0
Gold	2.5	24.2	18.8	76.1
Copper	-0.7	16.0	3.9	27.0
WTI Oil	8.6	14.6	15.6	1.1
BBG Commodities Index	0.2	11.7	9.3	13.9
Wheat	6.4	5.5	10.6	-13.8
Sugar	-3.0	-3.1	-4.2	-21.2
Natural Gas	-19.0	-20.2	-6.6	-30.5

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Index Characteristics	FWD ERP	P/E TTM	P/S TTM	Div Yield
S&P 500	2.7%	27.5	3.4	1.2
MSCI EAFE	4.0%	18.8	1.8	2.6
MSCI EM	5.6%	19.2	1.9	2.1



Fixed Income - TR (%)	1M	3M	YTD	1Y
Municipal Bond Index	1.3	2.1	1.9	5.2
10 - 20 Yrs	2.2	2.0	2.1	10.4
U.S. Corporate High Yield	0.1	2.0	0.8	7.6
Corporate	1.0	1.5	1.3	7.3
US Agg 1-7 Yrs.	0.9	1.2	0.9	6.4
1-3 Yr	0.6	1.0	0.6	5.2

Interest Rates (%)	01/31/26	12/31/25	09/30/25	02/28/25
US Fed Funds Effective Rate	3.64	3.64	4.09	4.33
US Generic Govt 1 Mth	3.67	3.59	4.10	4.29
US Generic Govt 3 Mth	3.65	3.63	3.93	4.29
US Generic Govt 12 Mth	3.46	3.47	3.61	4.08
US Generic Govt 5 Yr	3.79	3.73	3.74	4.02
US Generic Govt 10 Yr	4.24	4.17	4.15	4.21
BBG Tax Muni AGG YW	5.14	5.09	5.11	5.14
BBG UA Corporate YW	4.84	4.81	4.81	5.08
BBG U.S. Corp HY YW	6.58	6.53	6.70	7.15

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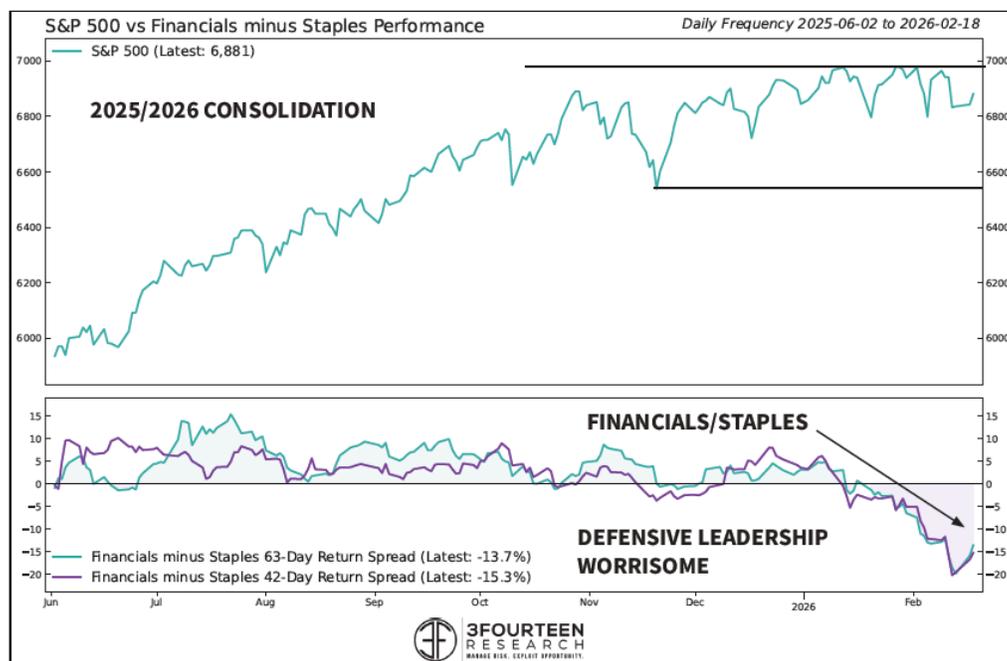
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## Equity Highlights

The equity market spent the past month in a narrow consolidation phase after a long rally, with prices staying near all-time highs even as momentum weakened and leadership shifted. Technology stocks, which had driven much of the previous gains, cooled significantly. Meanwhile, leadership expanded across several sectors, including Energy, Consumer Staples, Materials, and Industrials, and small-cap stocks and equal-weighted indexes outperformed. Market behavior remained orderly, with no signs of the extreme investor enthusiasm typically seen near major market tops. Credit spreads stayed tight, and both IPO and merger activity appeared healthy, though still below the elevated levels seen earlier in the decade. Economic conditions continued to support the market, with strong U.S. growth, low unemployment, controlled inflation, and solid corporate profits. Global trends also contributed, as rising earnings expectations and improved conditions in Japan added to the positive backdrop.

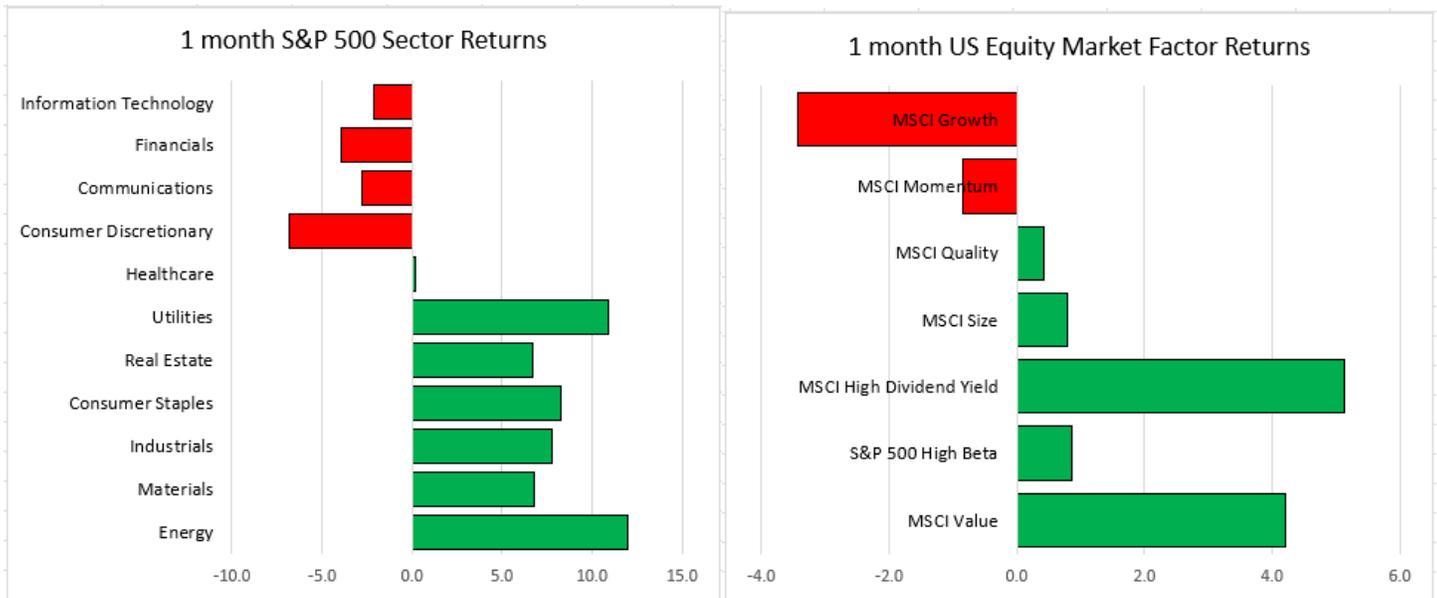


Despite a mostly stable market environment, risks became more noticeable as sector performance diverged. The sharp decline in major technology companies, especially the “Mag 7” group, affected well-known market indexes and contributed to weakness in the Nasdaq. Volume patterns in some sectors began to resemble distribution phases, suggesting increased selling pressure even as prices remained steady. Concerns also grew as investors reacted to rising fears that artificial intelligence could threaten existing business models. These worries spread from large technology firms to software, financials, logistics, and other industries, often causing investors to sell first and think later. This created a sense of uncertainty, intensified by how quickly AI-related concerns seemed to shift from one sector to another. However, the market’s

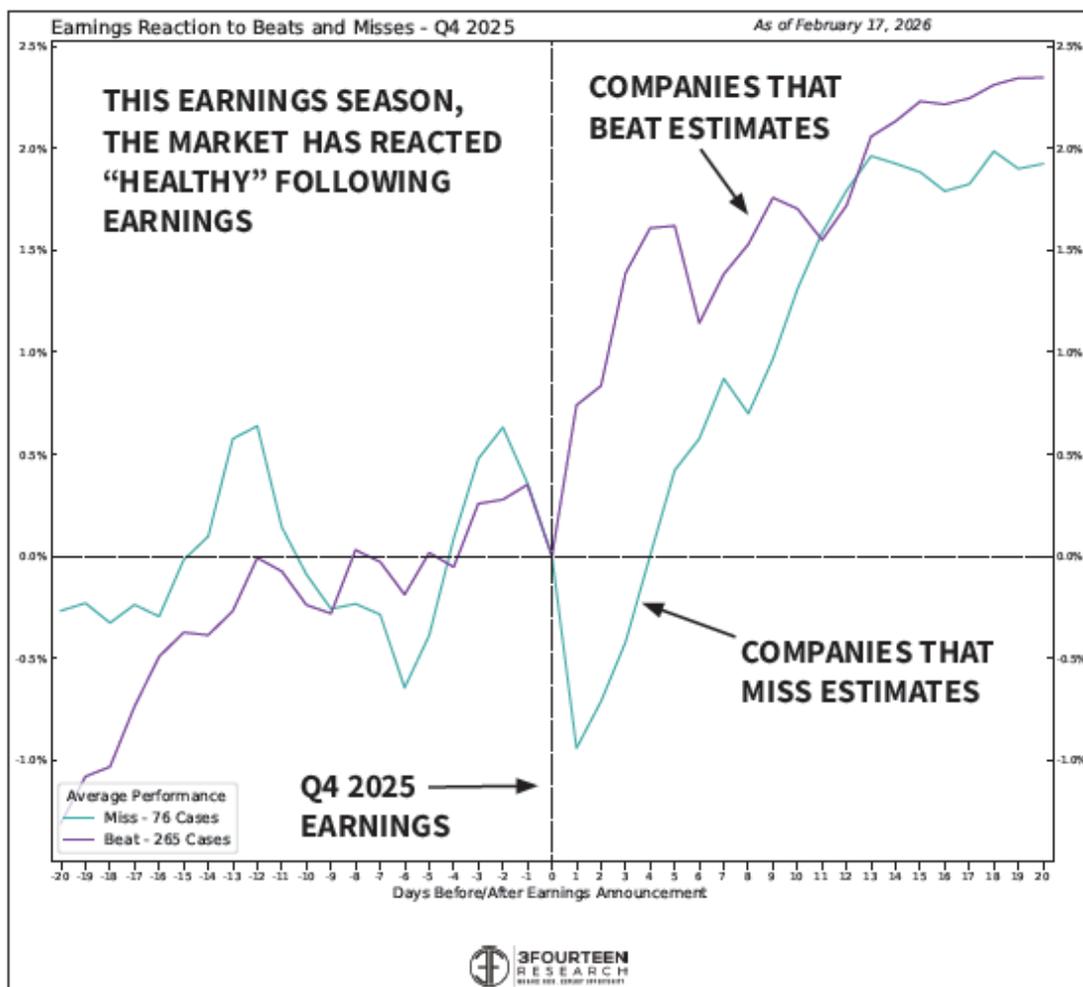
### Critical points for the equity markets:

- Market leadership expanded beyond technology into several major sectors.
- Stocks remained near highs despite signs of weakening momentum.
- AI-related fears boosted volatility across various industries.
- Physical asset sectors strengthened while digital sectors declined.
- Earnings surpassed expectations in most sectors.
- Lower Treasury yields reduced valuation pressures.
- Market breadth stayed strong with broad stock participation.

core structure stayed solid, and many sectors continued to strengthen even as others faced difficulties.



A notable pattern during the month was the shift toward sectors that some investors considered more durable or "physical." Consumer staples, energy, and industrials, along with companies dependent on tangible goods, regained interest. This trend partly reflected concerns that digital business models could be quickly disrupted by rapid advances in AI, while physical assets and resources were less easily replaced. It also mirrored wider global trends, including increased central bank gold holdings since the start of the war in Ukraine and efforts by several countries to secure access to critical minerals. Demand for materials was further fueled by the growing need to build AI-related infrastructure, such as data centers and power plants. Lastly, a healthier market reaction to Q4 2025 earnings reports has emerged. Generally, companies that beat expectations are rewarded, and those that miss are modestly penalized—unlike in 2025, when a similar market consolidation phase led to sell-offs even for positive earnings surprises.



Even with sector volatility, earnings trends remained a clear source of strength. About three-quarters of companies surpassed expectations, and forward earnings estimates continued their upward trend. Valuation pressures eased as Treasury yields fell from 4.3 percent to 4.1 percent, giving an additional boost. Investor sentiment showed broad participation across the market, with nearly 70% of stocks trading above their 200-day moving averages. With no signs of a market top and leadership continuing to diversify, the overall outlook stayed positive. The market appeared well-positioned to extend its advance, though investors remained alert to ongoing sector rotation and the evolving impact of AI on corporate fundamentals.

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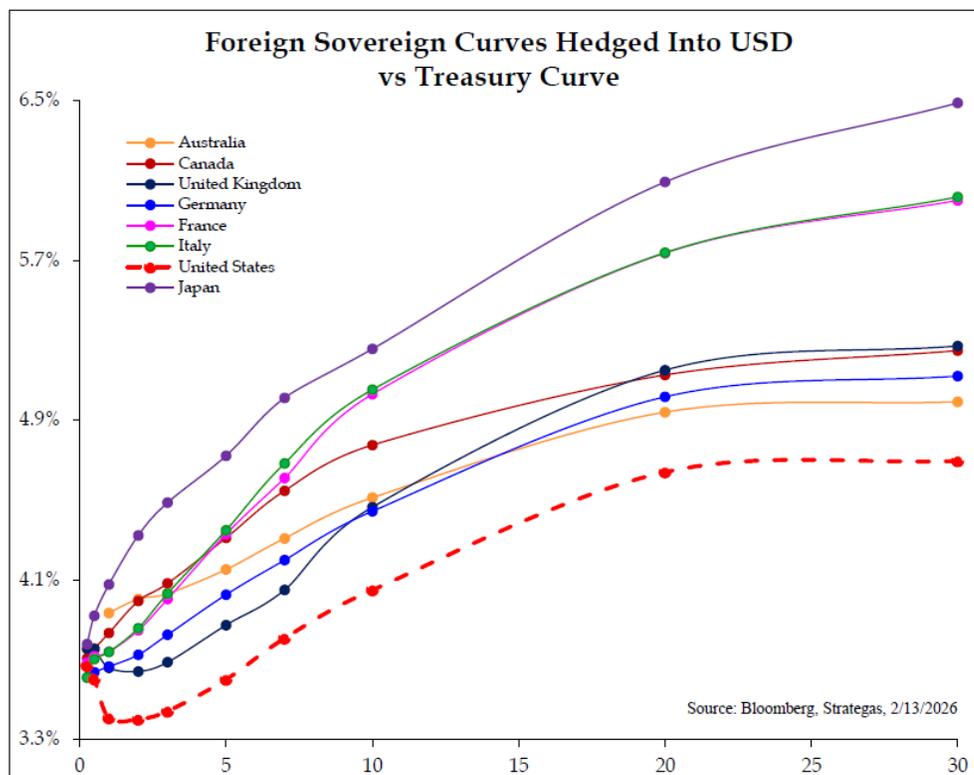
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## US Fixed Income Highlights

Fixed-income markets saw increased volatility over the past month as tariff uncertainty affected trading conditions and widened mortgage-backed securities spreads. Although spreads and volatility remain low compared to historical levels, the recent rise echoes earlier tariff-related episodes, prompting leveraged investors to reduce their exposure. Treasury yields continue to compare favorably with foreign markets, with dollar-hedged global sovereign and corporate yields staying high relative to historic levels. Market positioning shifted to a modest short bias in the Treasury market for the first time since 2024, driven by stronger economic momentum and expectations of a steeper yield curve. The Federal Reserve's policy outlook remains key to market behavior, with ongoing debates about the future size of the Fed's balance sheet and the level of liquidity support needed to maintain stability in the world's largest debt market.



UST yields are almost always below foreign bond yields, and the same holds for corporate bond spreads. While the dollar is weaker, a quality bias persists. However, if we are on the verge of a cyclical growth upswing, foreign corporations with strong balance sheets might be more appealing than sovereigns facing debt issues.

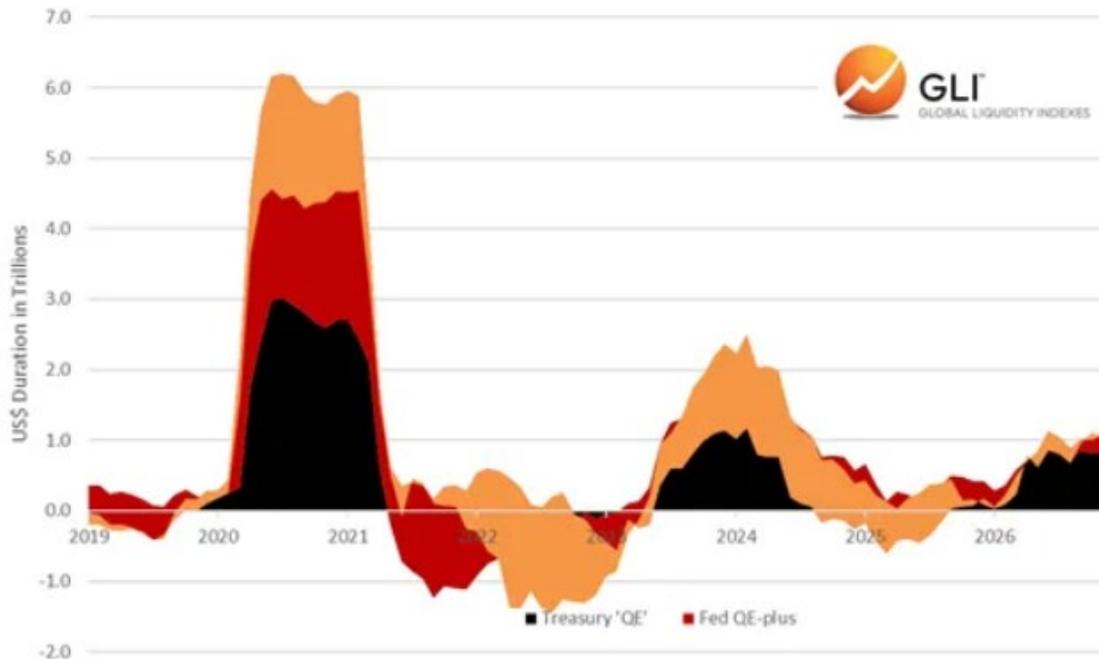
Federal Reserve policy debates centered on the stated goal of the presumptive Fed Chair to reduce the balance sheet. While this aimed to shrink the central bank's footprint, structural changes since the financial crisis have increased the system's reliance on central bank liquidity. Banks, dealers, and non-bank entities all depend

### Critical points for the fixed-income markets:

- Bond market volatility rose due to tariff uncertainty.
- Fed policy debates concentrated on the risks of reducing the balance sheet.
- Credit spreads slightly widened for companies exposed to foreign markets.
- The yield curve showed gradual steepening pressures.
- Short rates could decline if labor activity weakens.
- Long-term rates are pressured upward by economic growth momentum.
- Opportunities arose in corporates and MBS during times of volatility.

on reserves and liquidity in ways that did not exist before 2008. Efforts to reduce the balance sheet could cause renewed instability, similar to the liquidity strains seen in 2025. As a potential compromise, policymakers might shift from traditional Federal Reserve asset purchases to “Treasury QE,” in which liquidity reaches the real economy through bank balance-sheet expansion rather than directly supporting asset prices. This approach could preserve credit availability while preventing further growth of the Federal Reserve’s balance sheet.

## US Fed & US Treasury: All Stimulus



Credit and funding markets stayed mostly stable throughout the month. Companies with significant foreign revenue exposure experienced slight spread widening, although spreads remained below their 12-month highs. Credit performance continued to benefit from the economic cycle, as corporate bonds usually outperform Treasuries during growth periods. Short-term interest rates might decrease if labor conditions weaken and the Federal Reserve cuts rates again. Conversely, long-term rates could rise due to ongoing economic momentum and changes in Treasury issuance related to tariff developments. This environment has created conditions favorable for a gradual steepening of the yield curve.

Interest rate risks remain shaped by the balance between policy objectives and a rapidly expanding economy. Although the administration favors lower policy rates, strong real GDP growth of 4 to 4.5 percent limits the short-term potential for significant rate cuts. Yield curve movements continue to show upward pressure at the long end, along with market expectations of eventual easing. The outlook highlights ongoing risks for bond investors, including occasional volatility, tariff-related uncertainties, and changes in issuance. However, opportunities may arise in areas such as corporate credit, sectors benefiting from spread widening, and strategies that capitalize on curve steepening. While equity markets might not get strong support from this environment, fixed-income investors could find select opportunities as liquidity flows into the broader economy.

Sources: 3Fourteen Research, Strategas Research Partners LLC, and Capital Wars

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### Asset Class Return Rank

Asset Class	2022	2023	2024	2025	2026	10Y Cumulative	10Y Annualized
Gold	(0.8)	12.7	26.7	63.9	19.8	171.73	15.81
Emerging Market Stocks	(20.6)	9.0	6.5	34.1	14.5	97.16	8.18
Commodities	19.4	(6.2)	2.2	8.1	10.6	72.73	6.33
Developed International Stocks	(14.4)	18.5	3.5	31.6	9.0	100.72	9.05
US REITs	(26.3)	11.8	4.8	3.3	7.5	64.92	5.04
US Small Cap Stocks	(20.5)	16.9	11.4	12.7	7.0	90.99	8.17
US Mid Cap Stocks	(17.5)	17.1	15.2	10.4	6.3	110.52	10.12
20Y+ US Treasury	(31.3)	2.8	(8.1)	4.3	3.5	6.49	(0.32)
Preferred Shares	(18.2)	9.2	7.2	4.9	2.9	40.57	3.64
International Agg Bond Market	(22.1)	5.6	(6.5)	10.0	2.6	3.74	(0.17)
Agriculture	2.5	7.7	33.5	(0.6)	1.9	49.35	4.25
USD Emerging Market Bonds	(18.7)	10.6	5.5	13.9	1.9	36.77	3.18
US Corporate Investment Grade Bonds	(18.0)	9.4	0.9	7.9	1.7	31.78	2.73
US Agg Bond Market	(13.1)	5.7	1.4	7.1	1.5	20.67	1.87
US TIPS	(12.3)	3.8	1.7	6.8	1.3	27.65	2.58
US Large Cap Stocks	(19.2)	26.5	24.3	17.2	0.9	144.71	13.27
US Corporate High Yield Bonds	(11.0)	11.6	8.0	8.6	0.7	44.27	4.19
Cash (\$)	1.4	5.0	5.2	4.2	0.5	20.98	2.08
US Large Cap Growth Stocks	(32.7)	55.0	25.6	20.8	(1.0)	215.60	18.54
Bitcoin (Digital Assets)	(63.9)	153.7	122.5	(6.5)	(26.7)	1978.09	52.45

Highest Return	19.4	153.7	122.5	63.9	19.8
Lowest Return	(63.9)	(6.2)	(8.1)	(6.5)	(26.7)
% Asset Classes Positive	15%	95%	90%	90%	90%

1978.09	52.45
3.74	(0.32)
100%	88%

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