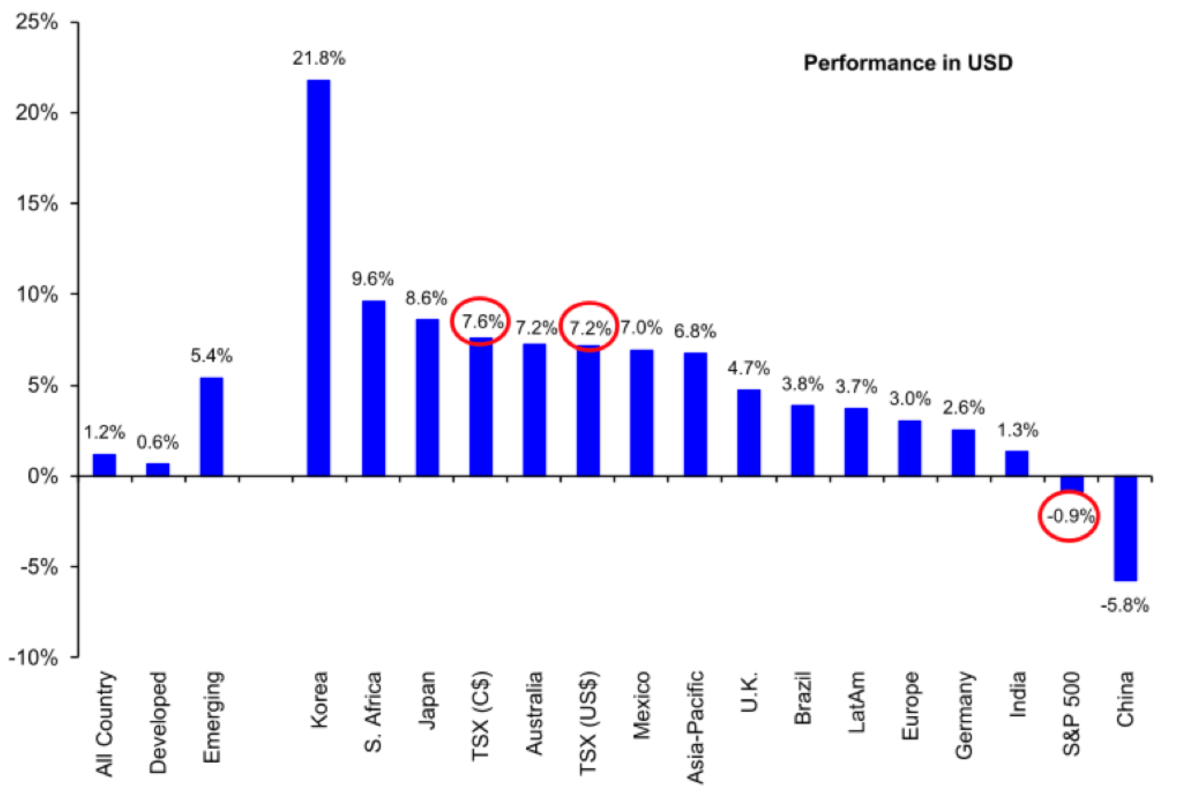
February Market Commentary | AI and Geopolitics in Focus

Many global markets moved higher in February, while bond yields generally declined. Lower yields supported bond prices and returns.

Canadian equities were among the stronger performers during the month. The S&P/TSX Composite Index rose 7.7% (total return in Canadian dollars). Korean equities also posted strong gains, with the KOSPI rising 21.8% according to Scotiabank.

Exhibit 1 - Global Large Cap Equities: MTD Performance (As at February 27, 2026)



Based on MSCI indices unless otherwise indicated

Source: Scotiabank GBM Portfolio Strategy, Bloomberg.

Large-cap U.S. equities were comparatively weaker. The S&P 500 declined 0.8% on a total return basis in U.S. dollars, although the broader market performed better. The S&P 500 Equal Weight Index rose 3.6%.

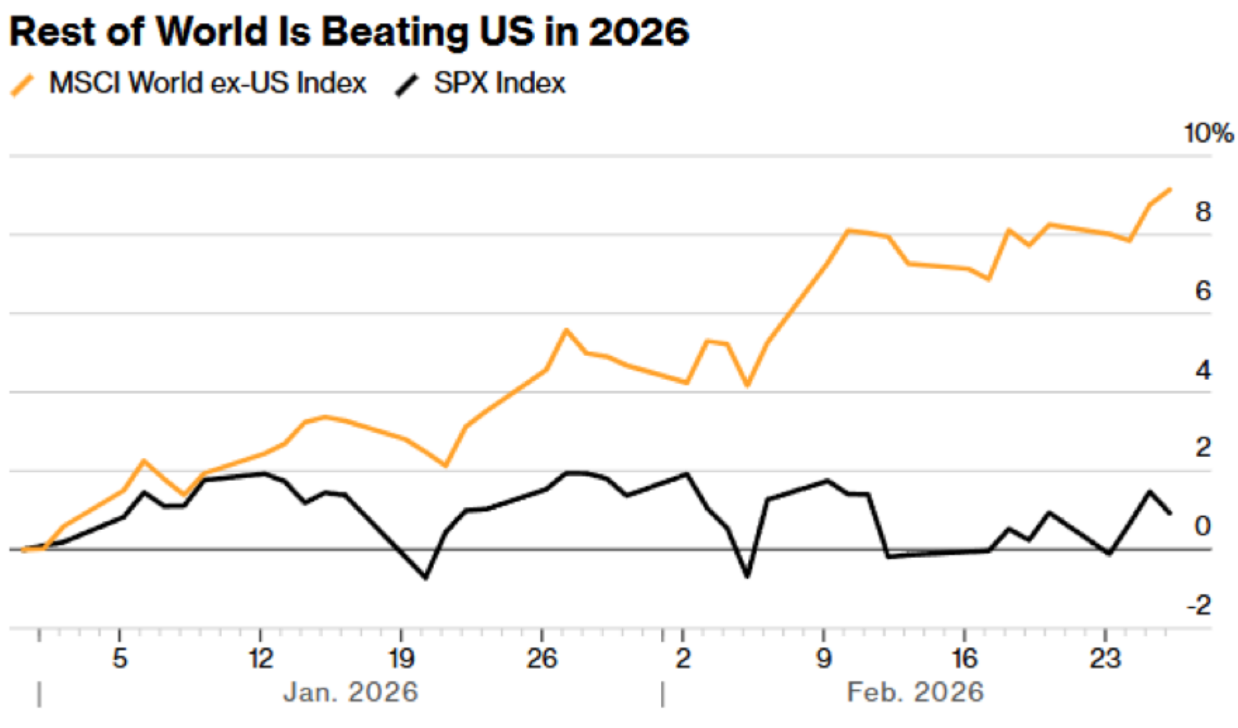
Bond markets also strengthened. Bloomberg noted that U.S. Treasuries recorded their best monthly performance in roughly a year.

Two themes shaped much of the market activity during the month. Developments in artificial intelligence affected sentiment toward several sectors and companies. Late in the month, the outbreak of conflict involving Iran introduced an additional source of uncertainty.

The implications of both developments remain difficult to assess. While the remainder of this commentary reviews recent developments and their potential implications, we continue to approach the environment with diversified portfolios and an openness to a range of outcomes.

Market leadership may be starting to shift.

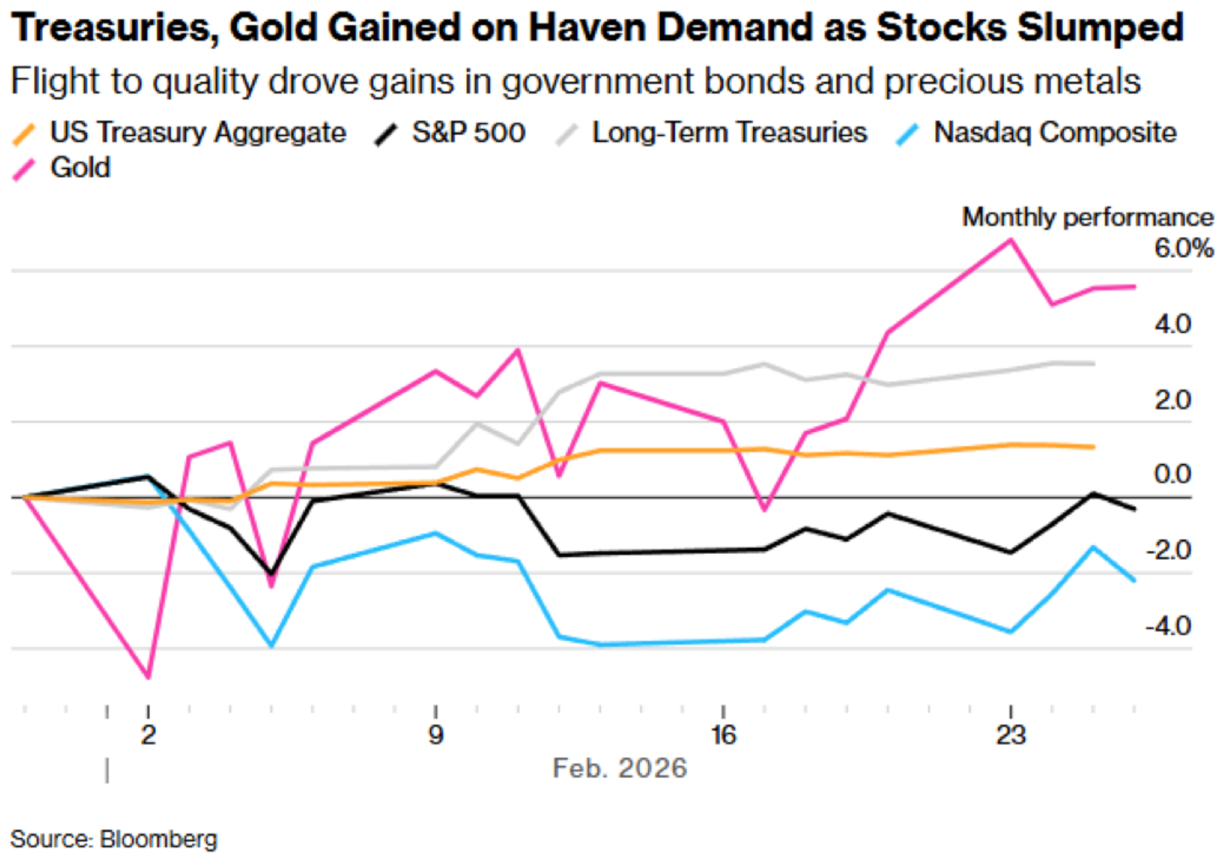
February also showed signs that investors may be adjusting to a different investment environment. After outperforming most global markets for years, large-cap U.S. stocks began to lag in early 2026. While the S&P 500 was relatively flat until the end of February, the MSCI World ex-U.S. Index rose more than 11% (total return in U.S. dollars).



Source: Bloomberg
Note: Data is normalized with percentage appreciation as of December 31, 2025.

Technology shares have been particularly weak. The NASDAQ Composite declined 2.4% and the Bloomberg Magnificent 7 Total Return Index fell 6.8%.

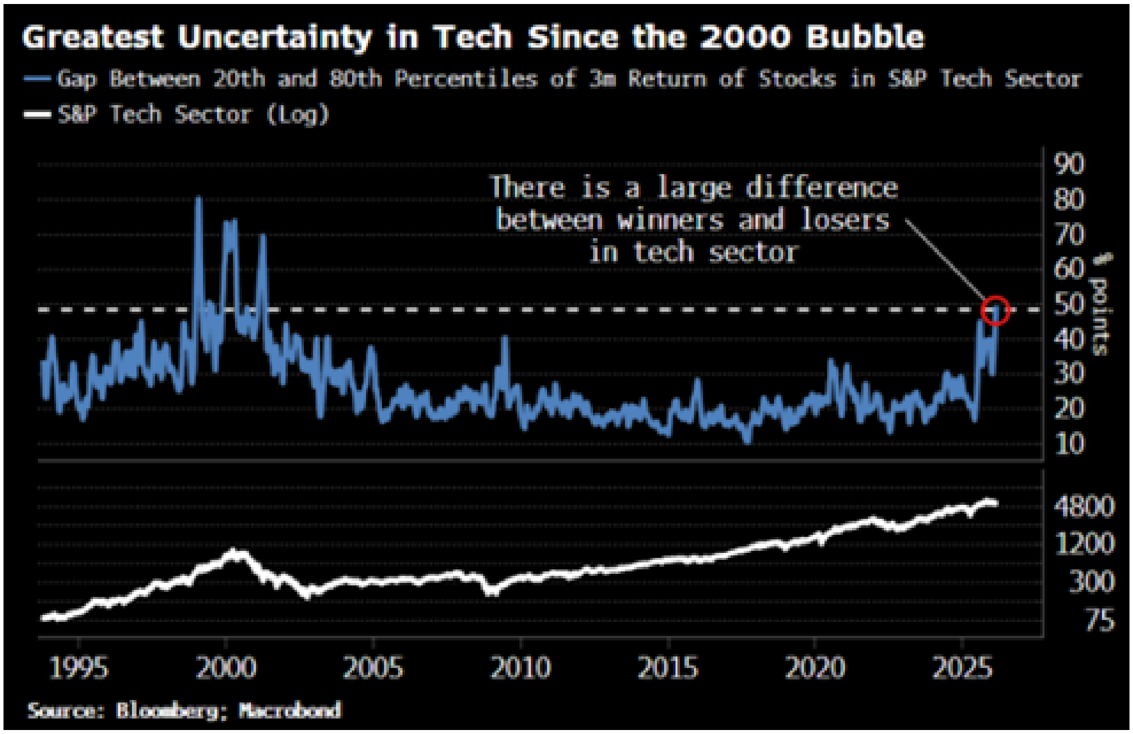
At the same time, several assets traditionally viewed as safe havens have moved higher, including gold and long-term U.S. Treasuries. The decline in Treasury yields is notable given that economic data has remained relatively strong.



Bloomberg's "Macro Man" also highlighted a shift in correlations. Daily movements in stocks and bonds have recently turned positive again, with both yields and stock prices declining simultaneously.

Artificial intelligence is driving greater differentiation across sectors.

Despite the broad market gains in February, performance varied significantly across sectors. Markets are increasingly differentiating between companies expected to benefit from artificial intelligence and those perceived to be at risk of disruption. Bloomberg strategist Simon White described the resulting environment as the greatest uncertainty in the technology sector since the 2000 technology bubble.

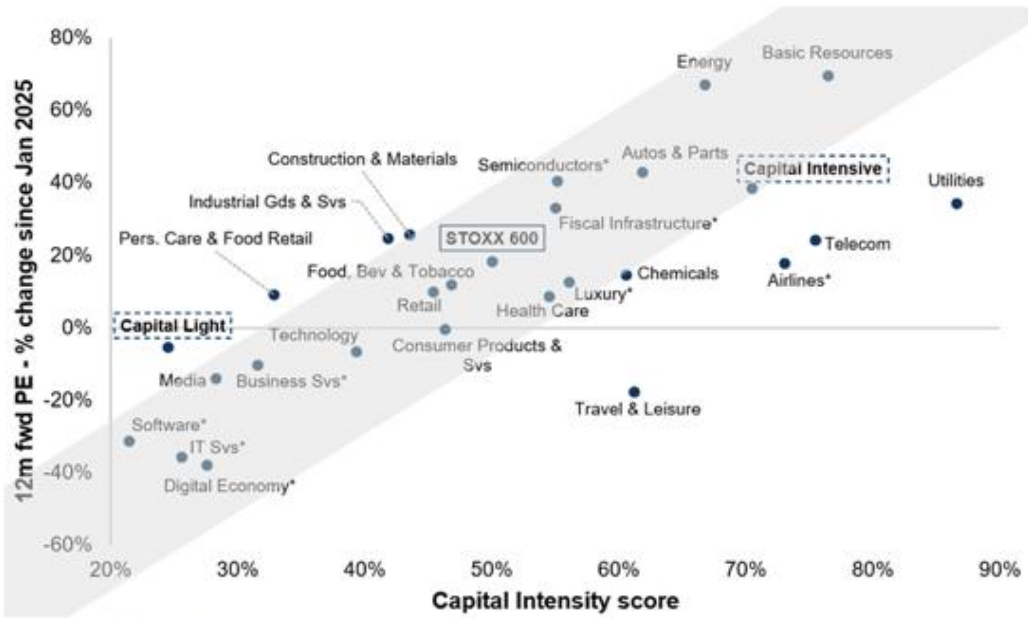


Companies positioned to benefit most from AI development tend to be capital-intensive businesses such as semiconductor manufacturers, hardware providers, and data infrastructure companies. These firms supply the equipment and systems required to support the enormous investment needed to develop artificial general intelligence.

Josh Brown, CEO of Ritholtz Wealth Management, recently described this approach as “HALO investing.” The term refers to investing in companies with heavy physical assets and relatively low risk of technological obsolescence.

Goldman Sachs has noted that the appeal of capital-intensive businesses extends well beyond the technology sector. Within European markets, sectors with higher capital intensity, including energy and basic resources, have experienced stronger valuation gains than more asset-light industries such as software and IT services.

Exhibit 5: The level of capital intensity is now a key driver of returns and valuation changes
European sectors and styles – weighted average of stocks' Capital Intensity score



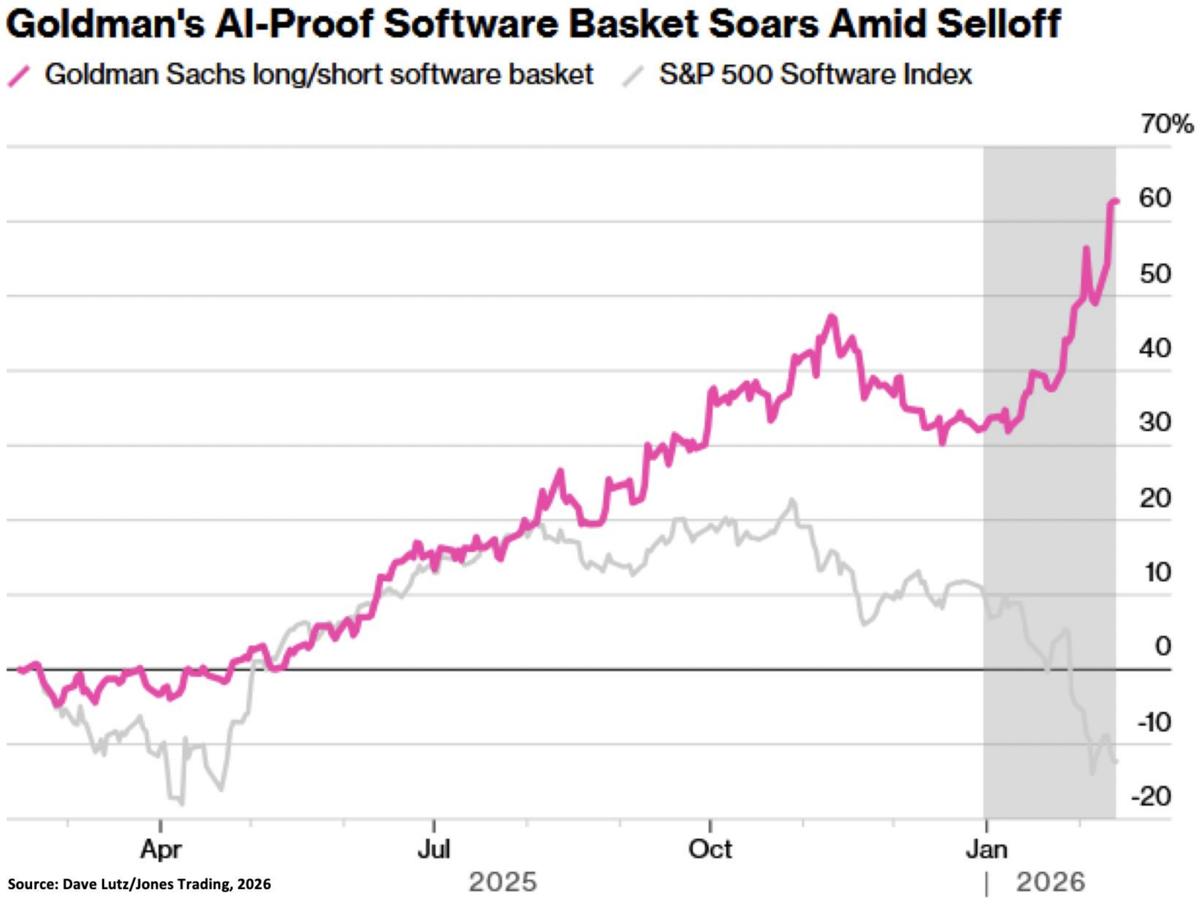
*GS Subsector Basket. Business Svs: GSSBBUSC, Luxury: GSSBLUXG, Airlines: GSSBTRAA, IT Svs: GSSBITSE, Semiconductors: GSSBSEMI, Software: GSSBSFTW, Digital Economy: GSSBDIGI, Fiscal Infrastructure: GSSTFISC

Source: FactSet, Datastream, Bloomberg, Goldman Sachs Global Investment Research

Concerns about technological obsolescence are influencing investor behaviour.

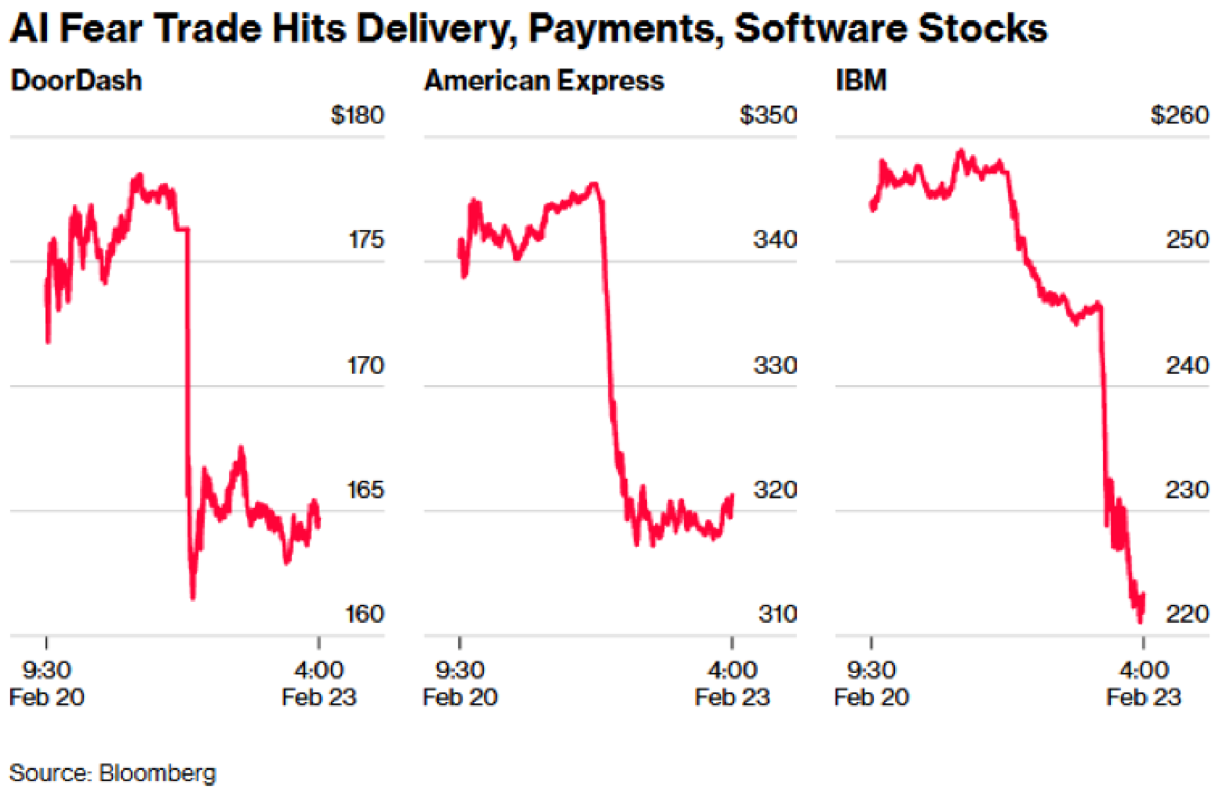
Artificial intelligence has also heightened concerns about technological obsolescence. Some investors now view AI as a disruptive force that could reshape large parts of the economy. Software companies were among the first sectors affected, as investors began to question whether AI could replace certain legacy systems and services.

However, the impact has not been uniform. Goldman Sachs identified a basket of “AI-resistant” software companies that have significantly outperformed the broader S&P 500 Software Index.



Source: Dave Lutz/Jones Trading, 2026

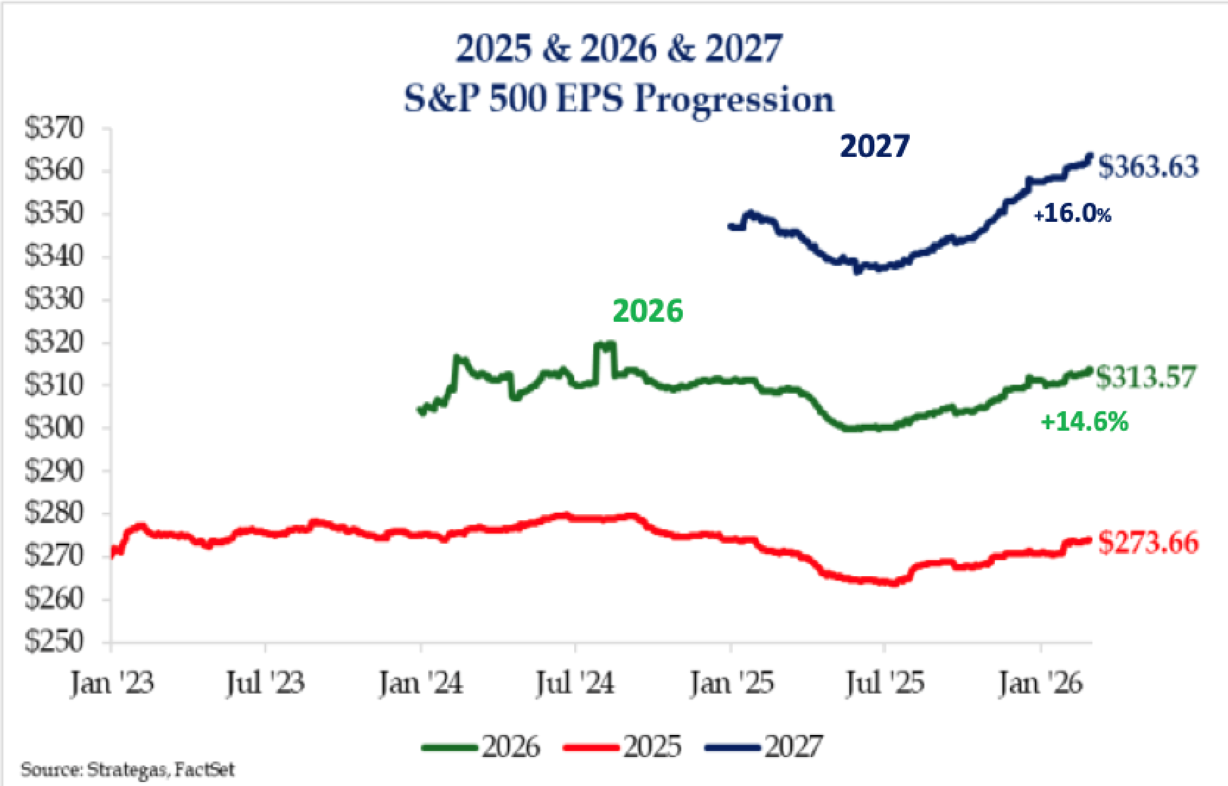
Beyond technology, Bloomberg has also highlighted weakness in sectors such as insurance brokerage, financial services, and real estate services. Companies including American Express and IBM have also experienced pressure as investors reassess long-term competitive dynamics.



Debate continues around the economic impact of artificial intelligence.

A recent report from Citrini Research outlined a particularly negative scenario for how artificial intelligence could affect the global economy a few years down the road, which added to investor anxiety. While Citrini emphasized that the report described a scenario rather than a prediction, the prospect of unemployment rising above 10% and the S&P 500 declining by nearly 40% understandably drew attention.

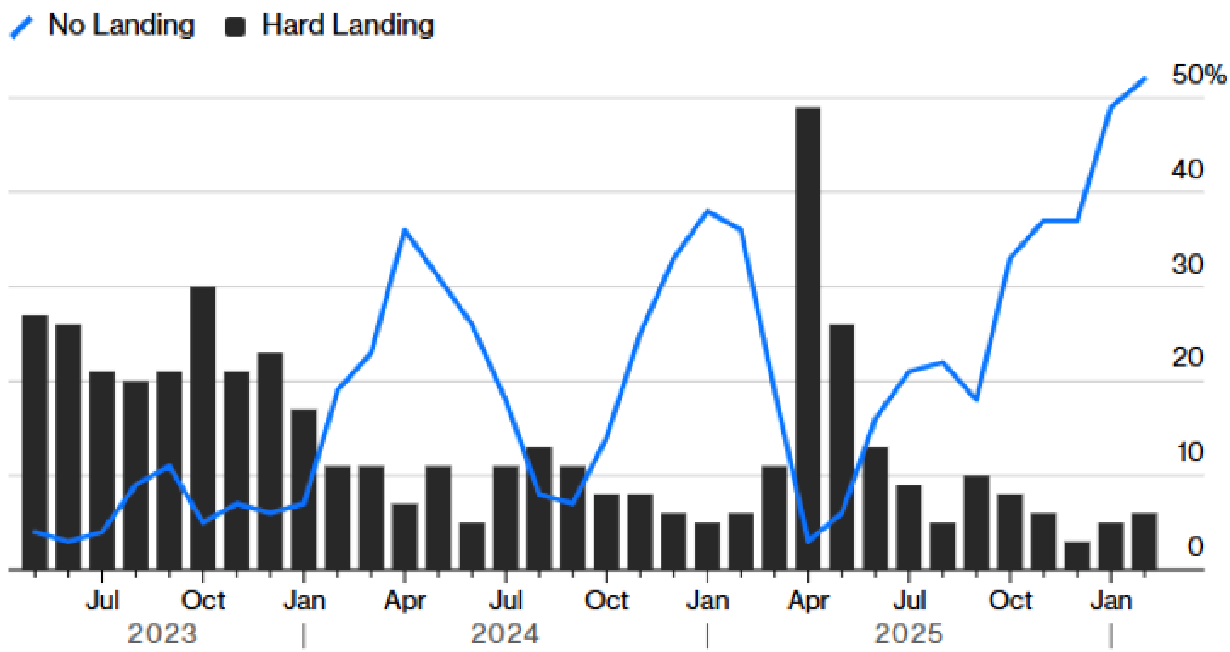
It is worth taking a step back, however. As BMO has noted, and as we highlighted last month, both fiscal and monetary policy remain stimulative. Strategas also points out that expectations for corporate earnings have continued to move higher.



According to the most recent Bank of America Global Fund Manager Survey, many global investors now expect a “no landing” scenario for the global economy, along with higher short-term bond yields. That outlook is difficult to reconcile with the idea of an economy being hollowed out by artificial intelligence.

Landing? What Landing?

Most global fund managers now expect 'no landing' for the world economy

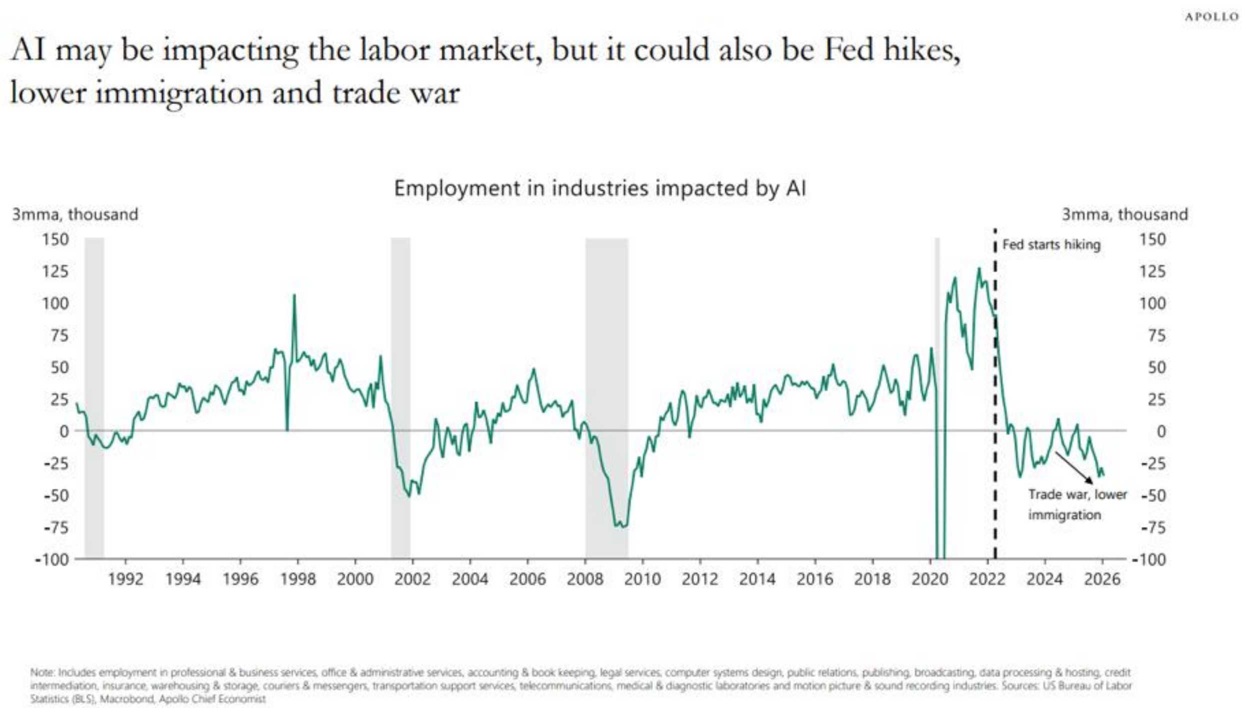


Source: BofA Global Fund Manager Survey

The potential impact of AI on employment has become a major topic of debate.

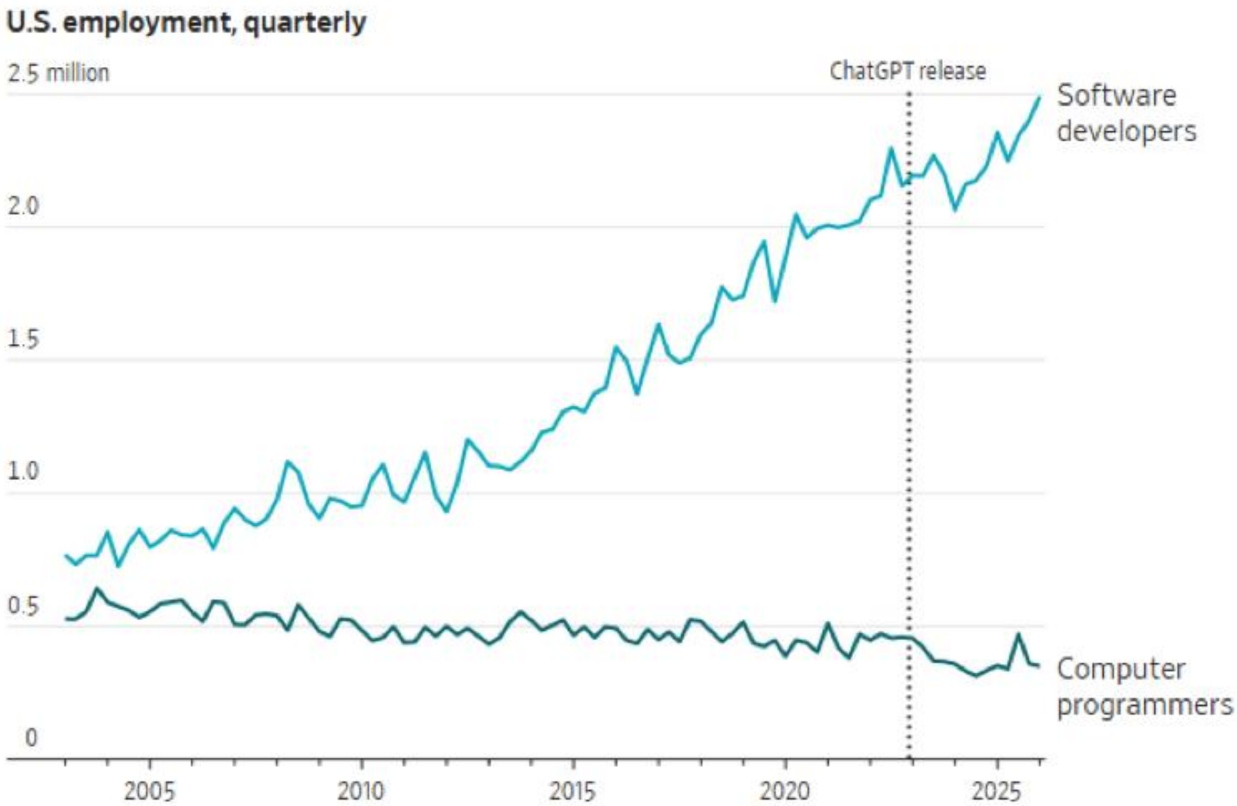
The speed with which market narratives have shifted has been striking. Apollo recently highlighted the sharp decline in market expectations for short-term interest rates, noting how traders appear to have moved from believing “the economy is strong” to worrying that “we are all becoming unemployed.”

While Apollo acknowledges that artificial intelligence could be affecting parts of the labour market, it also points to other possible factors, including earlier Federal Reserve rate hikes, lower immigration, and ongoing trade tensions.



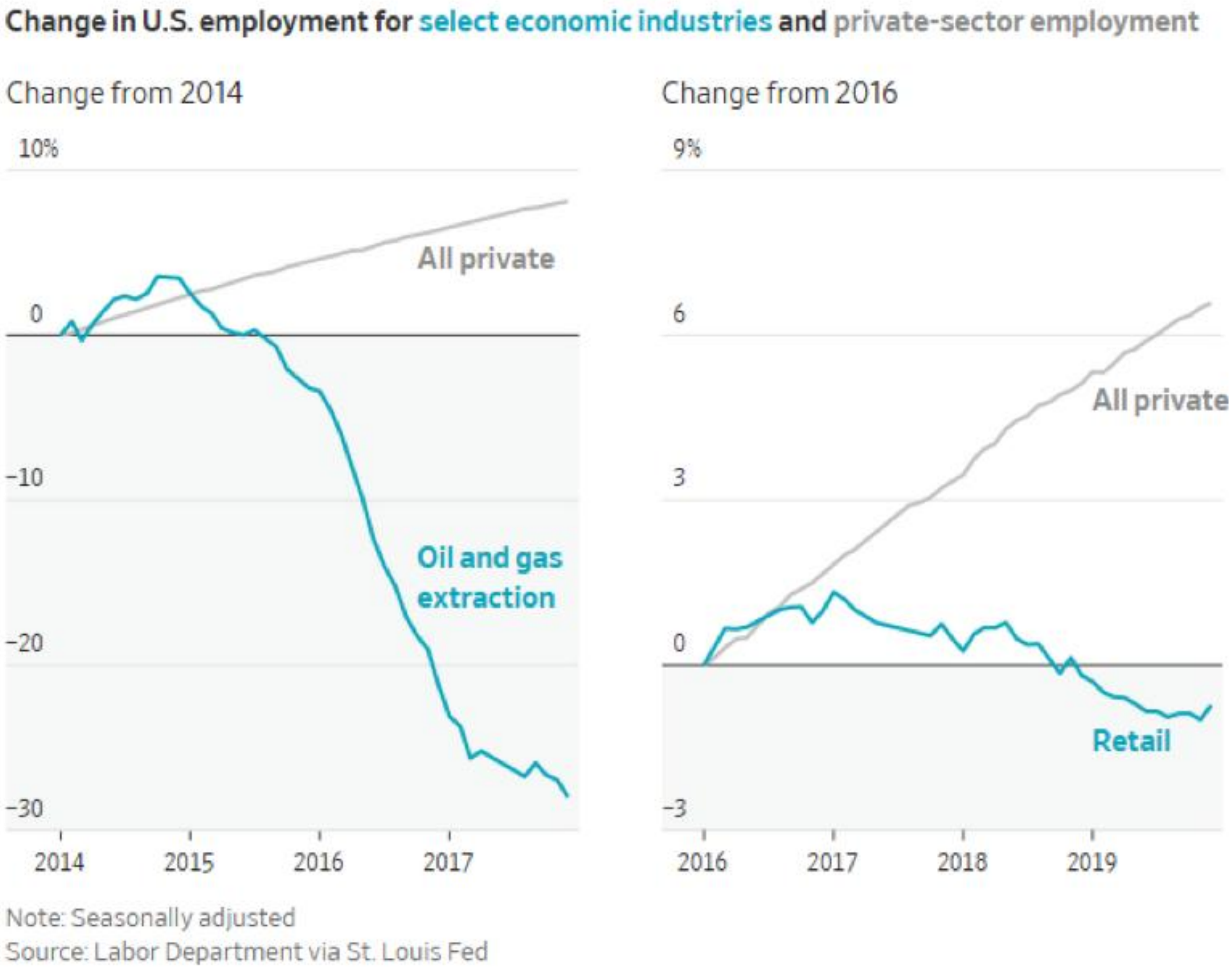
Wall Street Journal columnist Greg Ip recently cautioned readers against assuming that technological change will trigger widespread job losses. Historically, major technological advances have not produced sustained unemployment, and Ip does not believe current data points to an AI-driven job dislocation.

Software developers would likely be among the first occupations affected if AI were significantly disrupting employment. Instead, the U.S. Department of Labor reported a 5% year-over-year increase in employment for software developers in January. Employment among computer programmers declined slightly, but that trend has been in place for decades.



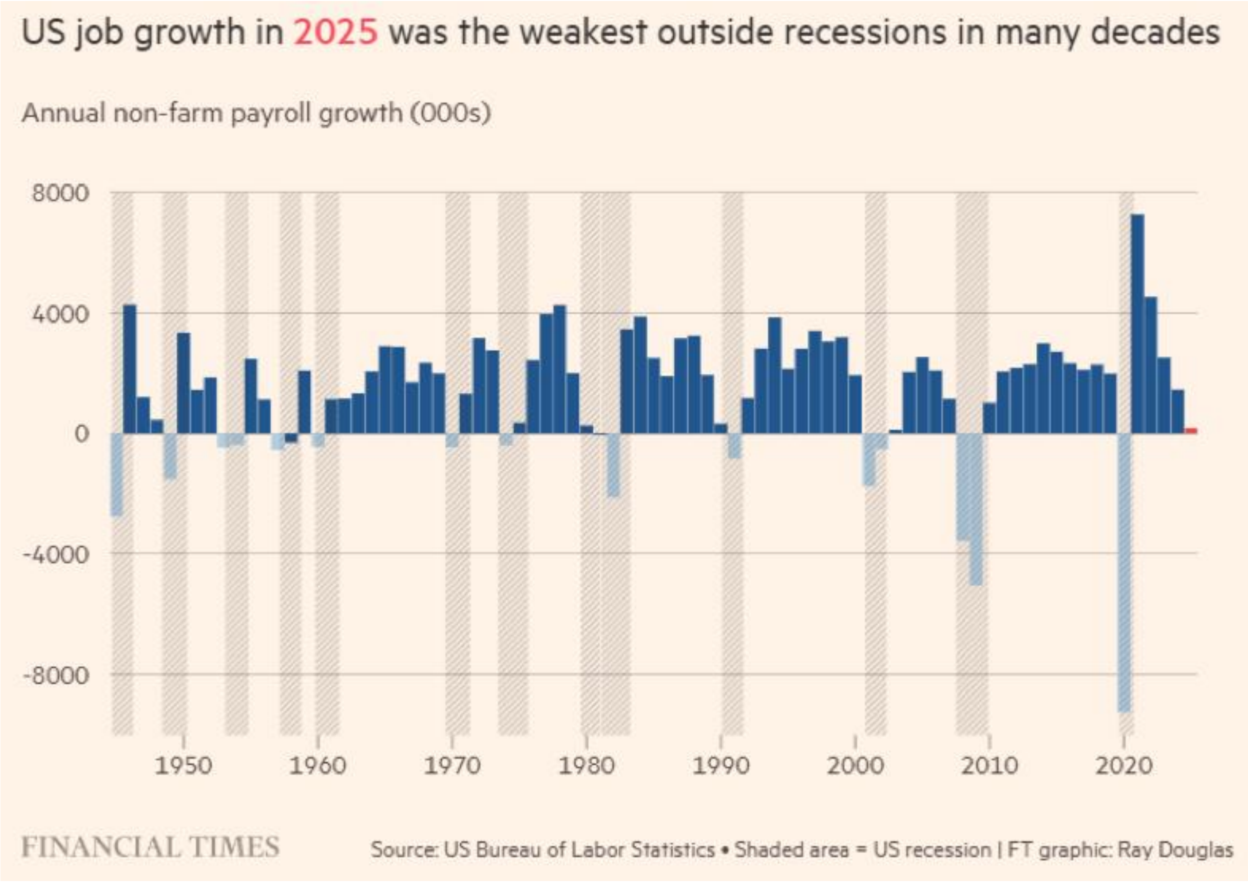
Note: Quarterly averages; 1Q 2026 figure is as of January. Not seasonally adjusted.
Source: Labor Department via James Bessen, Technology and Policy Research Initiative at Boston University

Even if AI eventually eliminates more jobs than it creates, Ip argues the broader economy is unlikely to contract as a result. Past episodes of structural change offer context. China's entry into the World Trade Organization led to significant manufacturing job losses. Oil and gas employment fell nearly 30% in 2014. The retail sector lost roughly 250,000 jobs as e-commerce expanded between 2017 and 2019. In each case, overall employment continued to grow.

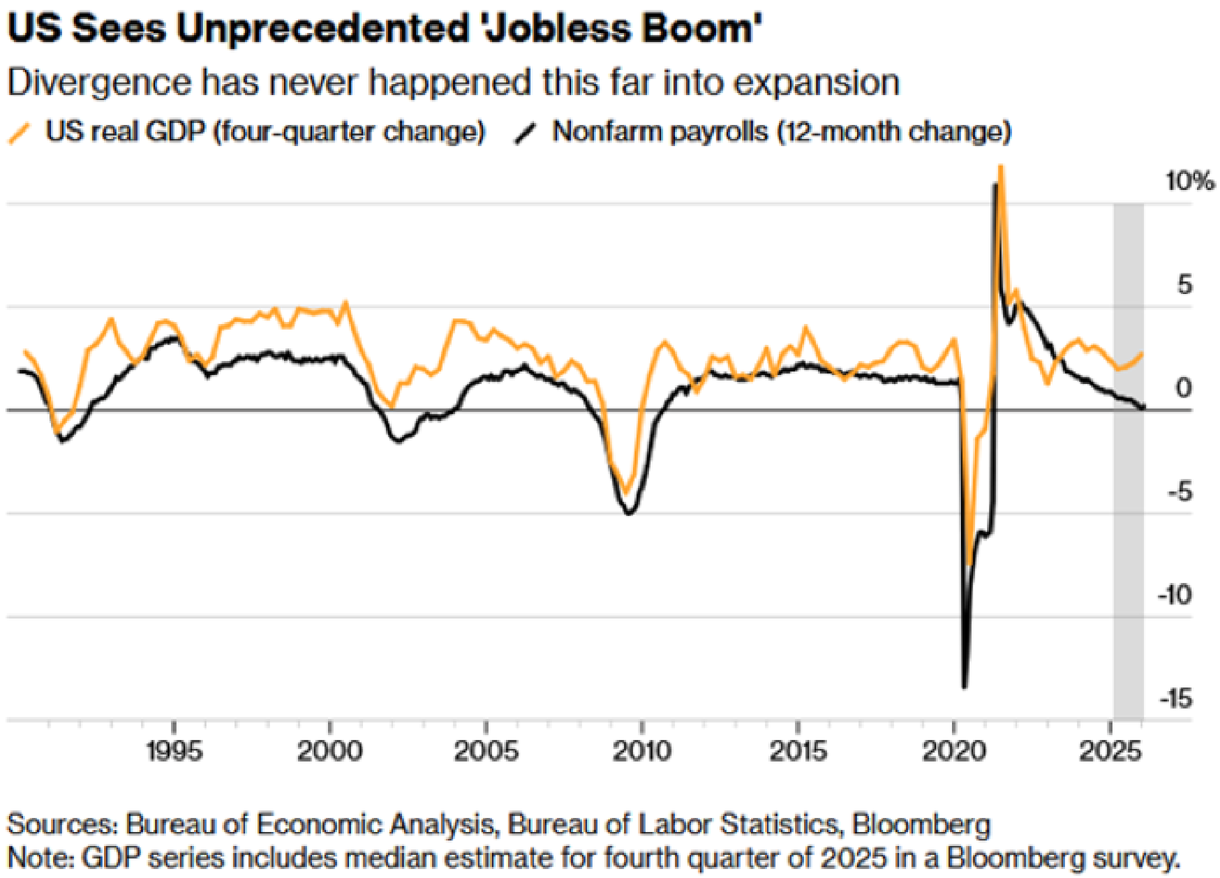


Economic growth has remained resilient despite weaker job creation.

This does not mean the labour market is without concerns. The Financial Times recently reported that U.S. job growth in 2025 was the weakest outside of a recession. Without employment gains in healthcare and social assistance, job growth would have been nearly flat over the past two years.

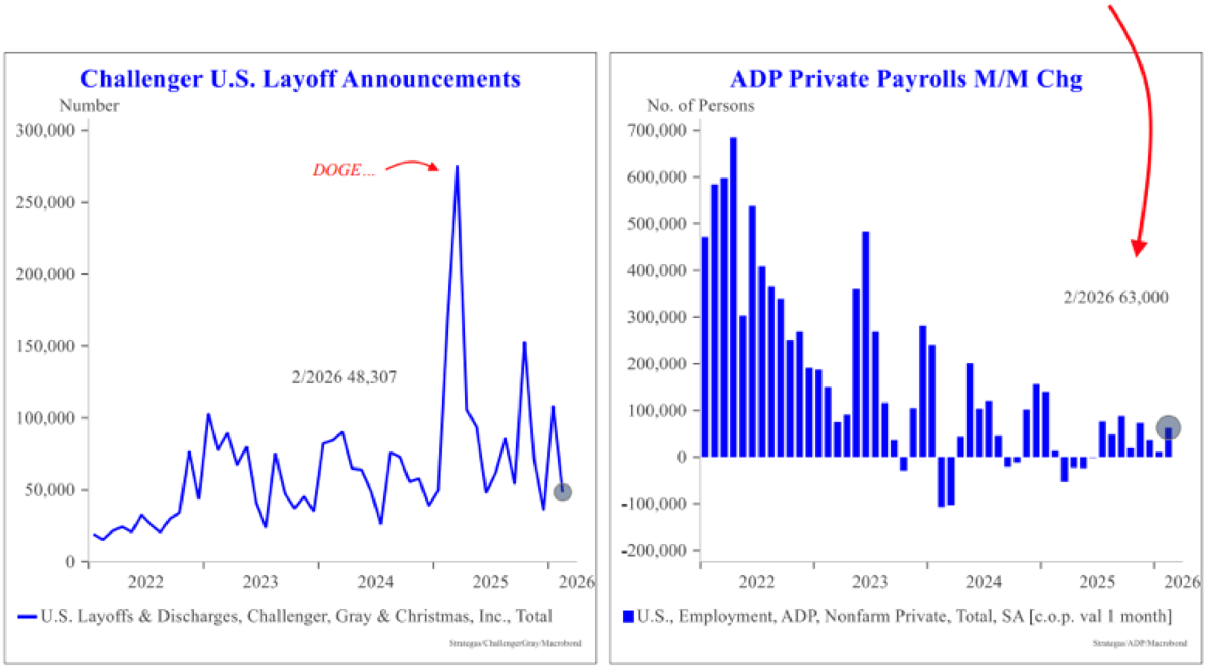


Bloomberg has described the current environment as a “jobless boom,” referring to the unusual combination of strong economic growth alongside relatively modest job creation.



Fortunately, layoffs remain limited, although Strategas has noted several recent spikes in layoff announcements.

U.S. LAYOFF ANNOUNCEMENTS HAVE POPPED SEVERAL TIMES RECENTLY. BUT FEBRUARY DATA LOOKED BETTER FOR NUMEROUS DATA SERIES.

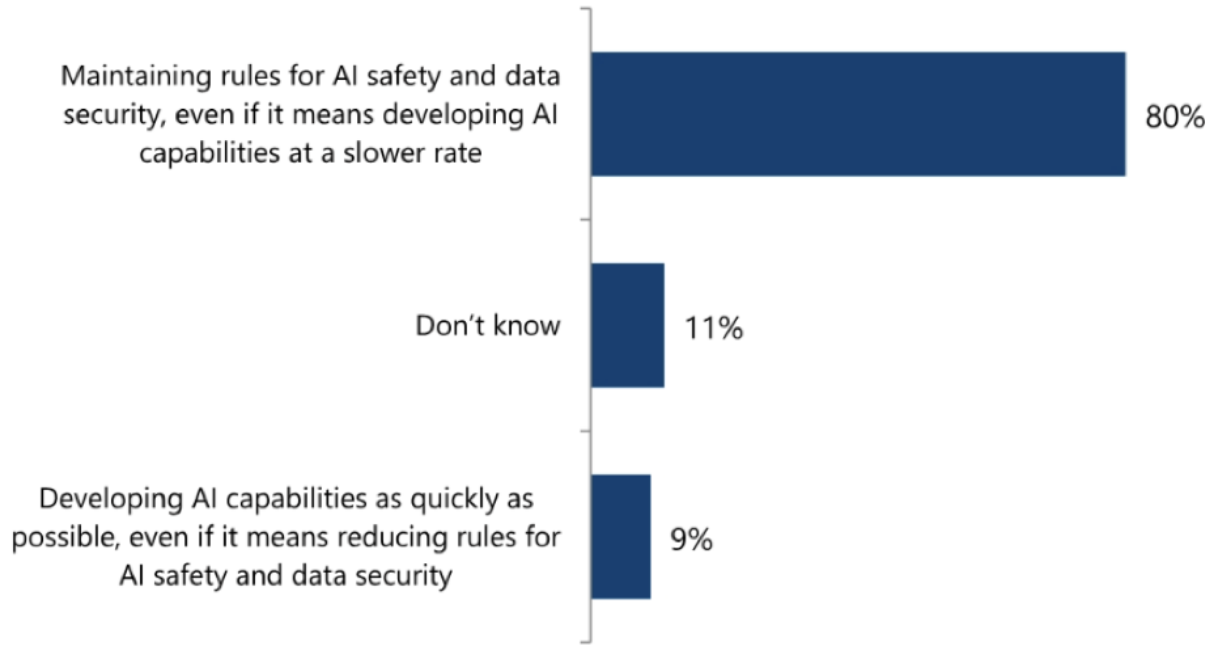


The labour market therefore remains an important variable for policymakers. For now, however, the evidence does not clearly support the view that AI is the primary cause of labour market weakness.

Public attitudes toward artificial intelligence are becoming more cautious.

Public opinion reflects growing caution around artificial intelligence, and not just around jobs. A Gallup poll cited by Jefferies found that roughly 80% of Americans believe safety and data security regulations should remain in place, even if they slow the pace of AI development.

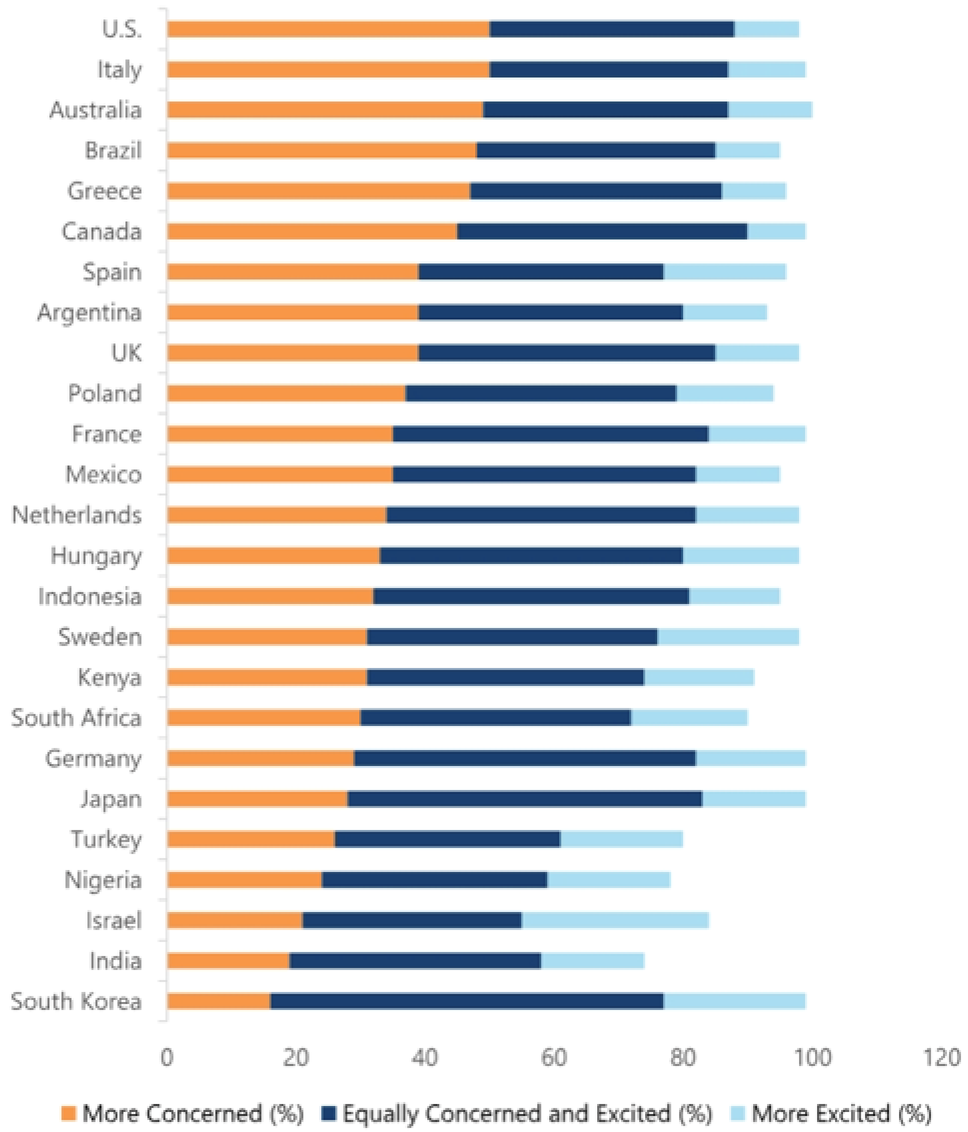
Exhibit 2 - Majority of Americans prefer guardrails over rapid innovation



Source: GALLUP

Research from the Pew Research Center suggests Americans are also more concerned about AI than citizens in other major economies. Given these concerns, AI policy may become a meaningful issue in upcoming U.S. midterm elections.

Exhibit 1 - Americans are most concerned about AI than other major economies.



Source: Pew Research Center, October 2025

Geopolitical developments involving Iran added new uncertainty.

Artificial intelligence and its potential impact on markets and society appear significant. How significant, and over what timeframe, remains heavily debated. According to Amara's Law, named after futurist Roy Amara, the effect of new technologies tends to be overestimated in the short term and underestimated in the long term.

The same may also be said of wars and other geopolitical events, at least in the short term. According to Morgan Stanley, geopolitically driven volatility has historically been relatively short-lived, with the S&P 500 delivering average returns of 8.4% over the following 12 months.

There are important outliers, however, particularly for investors on the losing side of a conflict. As highlighted in the Global Investment Returns Yearbook, German investors during the First World War lost roughly 66%, while Japanese equities declined by an estimated 96% during the Second World War.

Exhibit 1: Geopolitically-Led Volatility Is Typically Short-Lived

Let's hope it's not like this one!

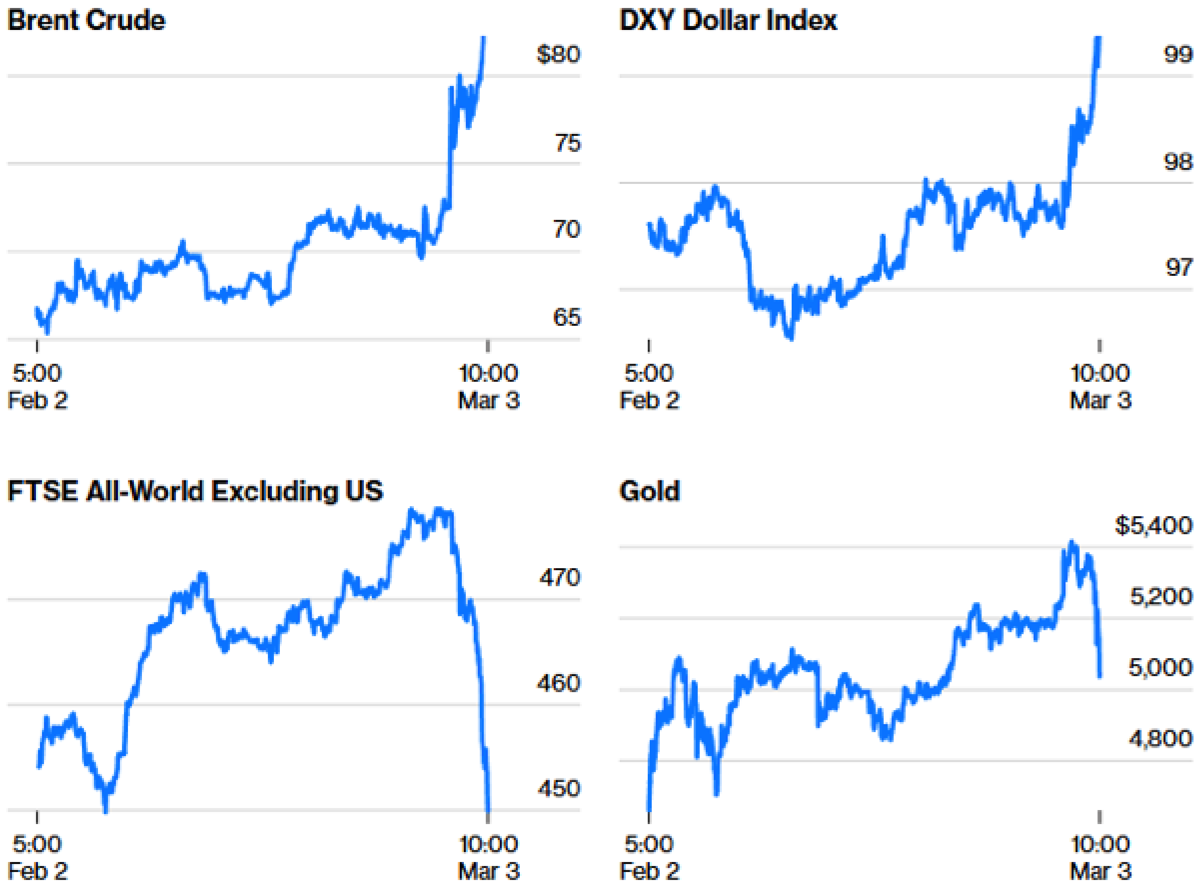
		S&P 500 Return				
	Date	+1W	+1M	+3M	+6M	+12M
Korean War	Jun-50	-7.6%	-10.0%	1.5%	4.9%	11.2%
Vietnam War	Nov-55	4.4%	7.3%	4.1%	13.9%	10.0%
Suez Crisis	Oct-56	2.6%	-4.4%	-3.6%	-1.4%	-12.3%
1958 Lebanon Crisis	Jul-58	2.9%	5.3%	12.1%	23.8%	32.1%
Cuban Missile Crisis	Oct-62	-6.3%	5.4%	13.3%	21.1%	27.8%
India-Pakistan War	Aug-65	0.7%	2.6%	7.7%	8.7%	-2.1%
Six-Day War	Jun-67	4.1%	3.3%	6.5%	7.7%	13.0%
Yom Kippur War	Oct-73	1.4%	-4.5%	-10.0%	-15.3%	-43.2%
Fall/Liberation of Saigon	Apr-75	2.0%	4.4%	1.8%	2.3%	16.4%
Iran Hostage Crisis	Nov-79	-1.0%	4.2%	11.6%	3.0%	25.9%
Soviet-Afghan War	Dec-79	0.3%	5.6%	-7.8%	6.9%	26.2%
Iran-Iraq War	Sep-80	-5.3%	1.2%	4.1%	2.8%	-10.5%
Multinational Force in Lebanon	Aug-82	0.6%	4.9%	13.9%	27.4%	36.8%
US Action in Libya	Apr-86	2.0%	-1.4%	-1.7%	0.5%	19.6%
US Action in Panama	Dec-89	1.7%	-1.1%	-0.4%	4.7%	-3.7%
Gulf War	Aug-90	-3.3%	-8.2%	-11.3%	-2.4%	10.2%
Croatian War	Mar-91	0.0%	0.0%	-1.1%	3.4%	7.6%
Bosnian War	Apr-92	0.1%	2.8%	2.0%	0.4%	8.8%
Kosovo War	Feb-98	0.6%	4.4%	4.6%	-2.1%	18.0%
War in Afghanistan	Oct-01	1.9%	4.1%	8.7%	4.8%	-26.7%
Iraq War	Mar-03	-0.8%	2.0%	13.7%	18.3%	26.7%
Russia/Ukraine	Feb-22	1.7%	5.4%	-8.1%	-3.4%	-7.4%
Average		**0.1%**	**1.5%**	**2.8%**	**5.9%**	**8.4%**
Median		**0.6%**	**3.0%**	**3.1%**	**4.1%**	**10.7%**

Source: Morgan Stanley Wealth Management Global Investment Office, Morgan Stanley Research, Bloomberg.

Although U.S. and Israeli attacks on Iran occurred after markets had closed the books on February, the reaction was immediate and largely predictable. Bloomberg reported that Brent crude oil prices moved sharply higher, global equity markets declined, and the U.S. dollar strengthened. Interestingly, gold, another traditional safe haven, moved lower.

A Selloff Takes Shape

Selling intensified on the second day of trading after the outbreak of hostilities



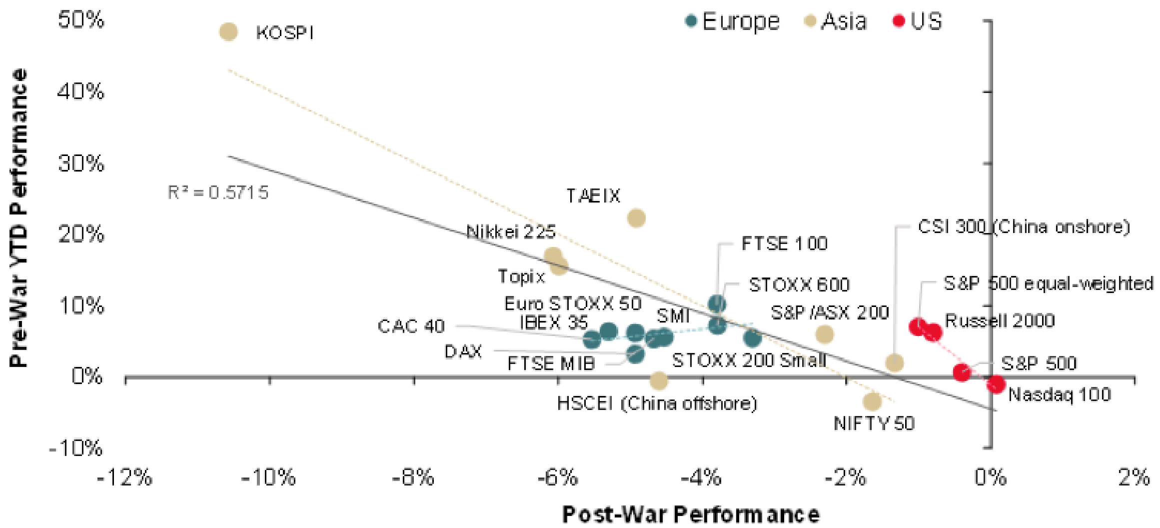
Source: Bloomberg

Market reactions following the conflict have not been uniform.

Weakness in gold was likely a reaction to the stronger U.S. dollar, but also reflected some profit-taking after a period of strong performance leading into the conflict in Iran. A similar pattern was observed in equity markets, where many of the strongest performers prior to the conflict came under pressure afterward.

A chart prepared by Société Générale highlights this relationship between pre- and post-conflict winners and losers, with the South Korean KOSPI providing a clear example. European and Asian equities declined more than other markets, likely reflecting their greater reliance on imported energy.

YTD Performance: Pre- vs. Post-War in Iran

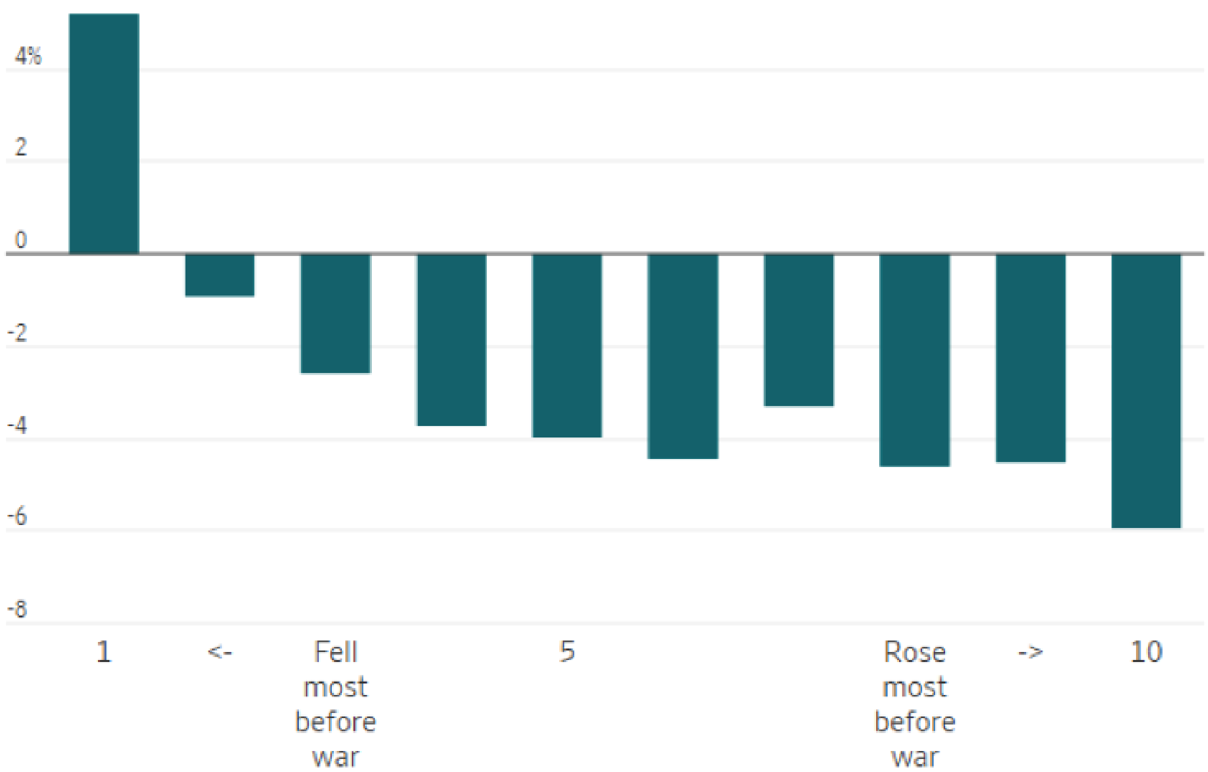


Pre-War = 31/12/2025 (close) to 27/02/2026 (close), Post-War = 27/02/2026 (close) to 05/03/2026 (intraday), in total return in local currency, Source: Bloomberg, SG Cross Asset Research/Equity Strategy

Looking more closely at the S&P 500, a similar pattern emerges. Data from LSEG shows that stocks which performed well ahead of the conflict have generally lagged since.

And the Last Shall Be First

S&P 500 stock moves since war started, by decile of moves in 2026 before the war



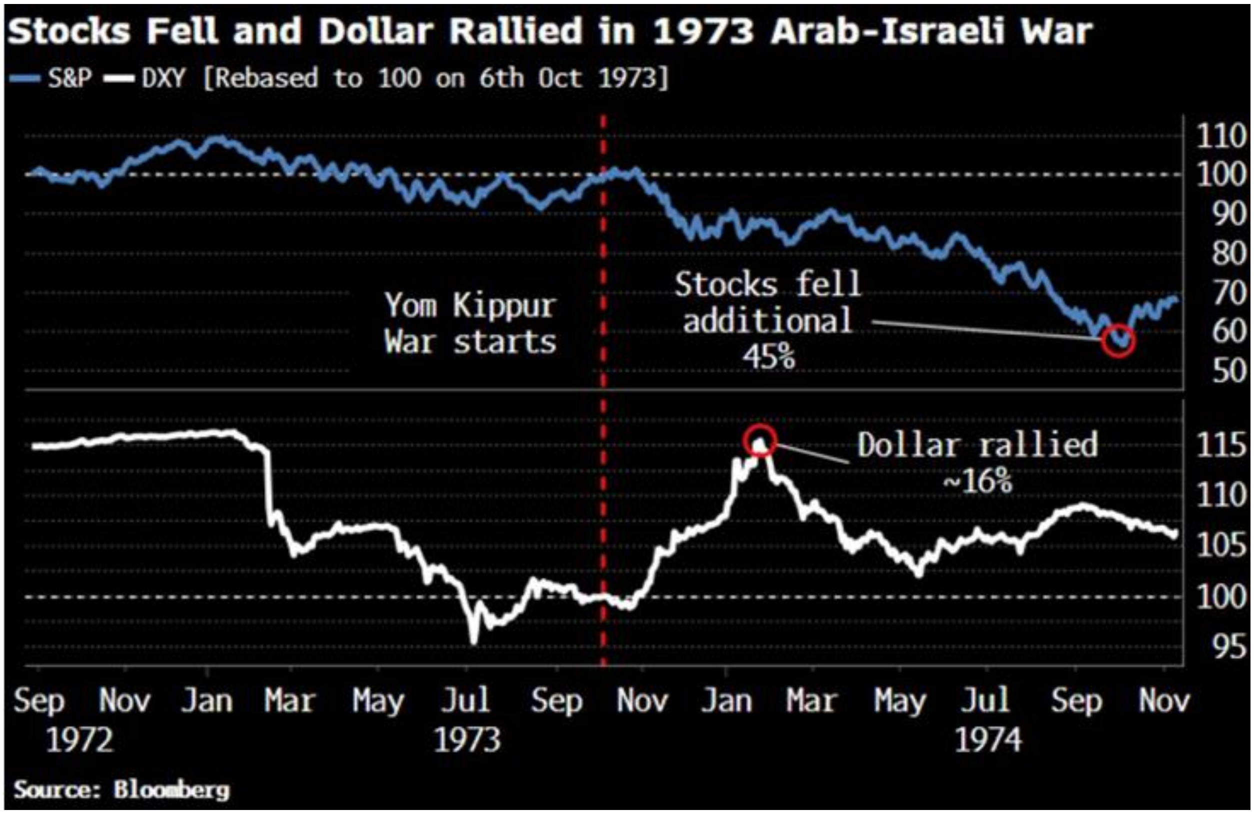
Source: LSEG

One notable exception to typical market behaviour has been 10-year U.S. Treasury bonds. Like gold, longer-term Treasuries are often viewed as safe havens, and one might have expected yields to decline and prices to rise. Instead, 10-year yields moved higher, likely reflecting expectations for higher inflation and increased government spending.

Rising yields and historical parallels warrant careful attention.

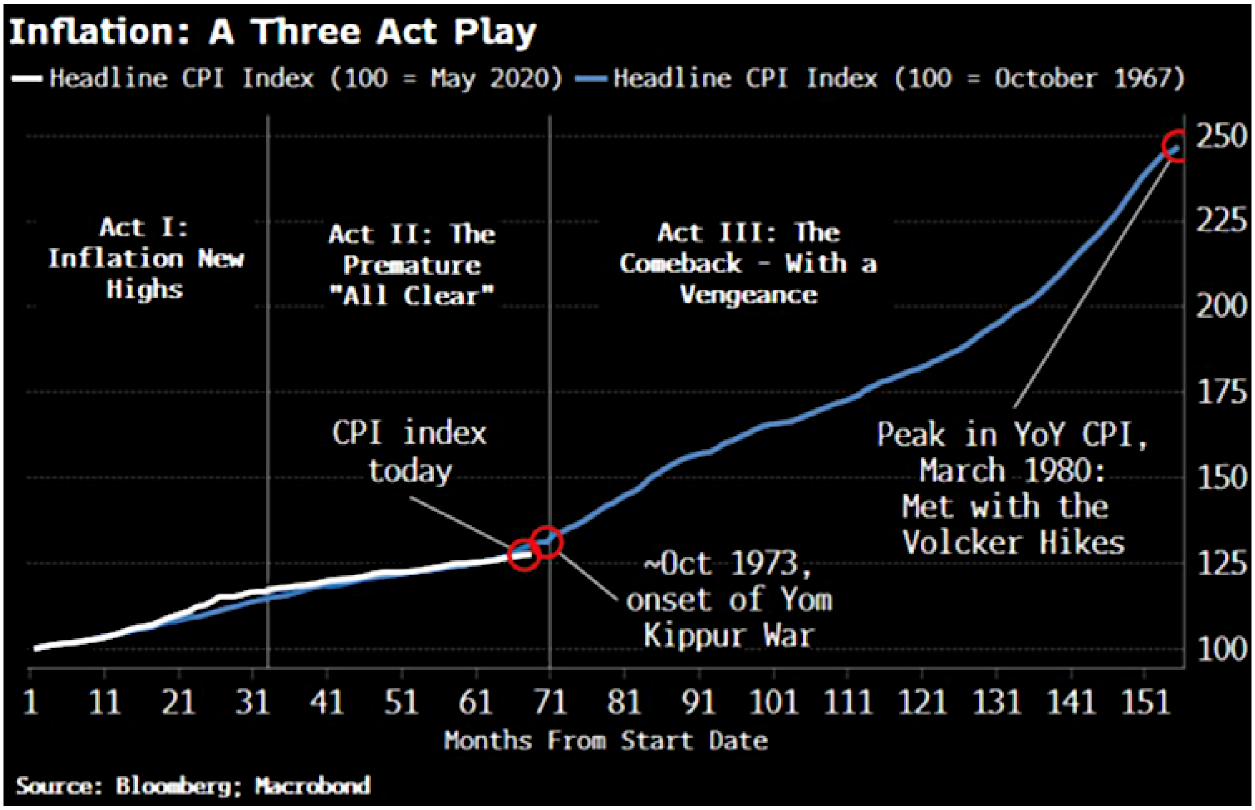
We do not take moves in 10-year yields lightly, particularly when they are rising. While Morgan Stanley's "Geopolitically-Led Volatility is Typically Short-Lived" chart above suggests that the market impact of geopolitical events is often short-lived, the -43% return during the 1973 Yom Kippur War offers a useful historical reference.

In both periods, equities declined and the U.S. dollar strengthened. However, valuations in 1973 were meaningfully lower, which suggests there may be greater downside risk in the current environment.

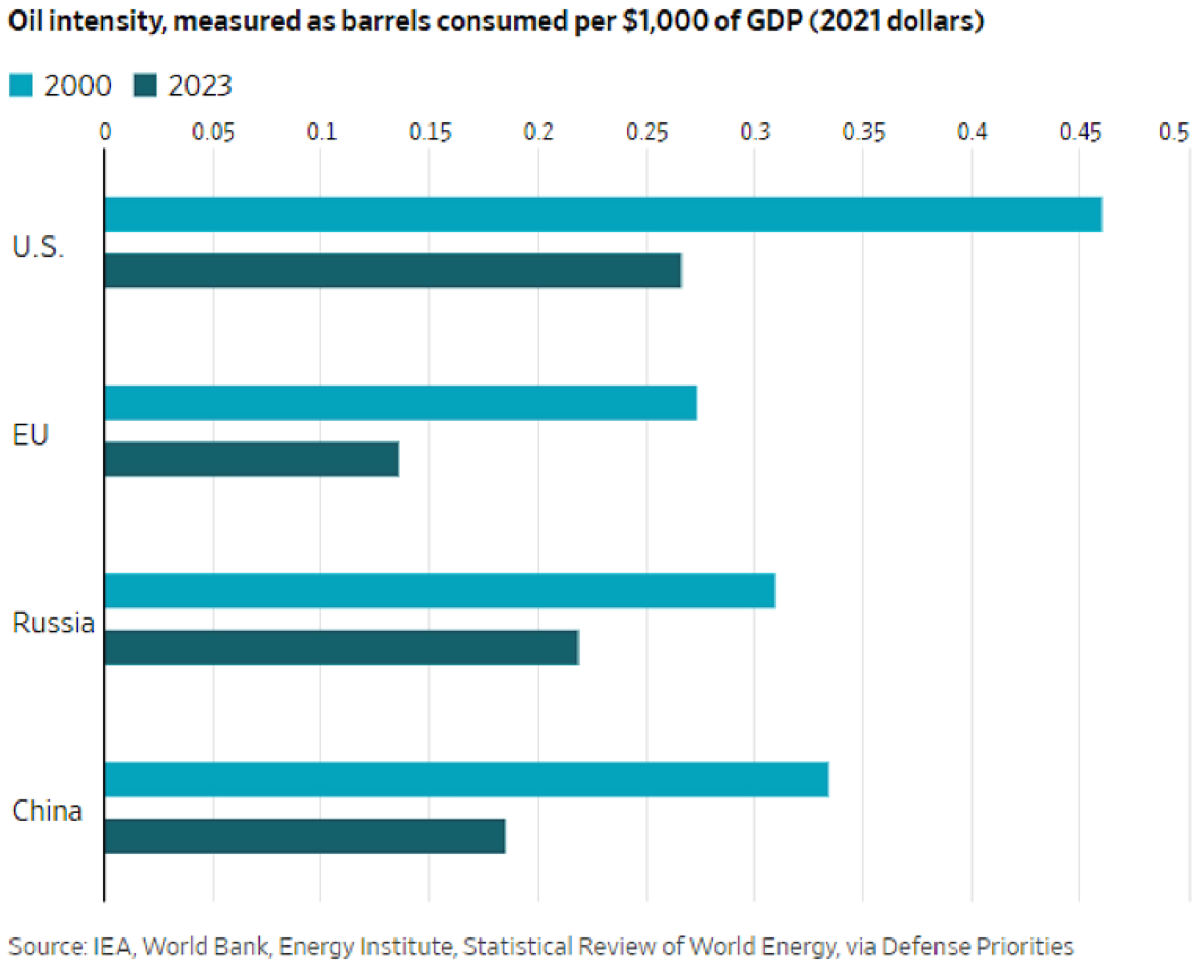


Although the Yom Kippur War itself lasted only three weeks, oil prices rose by roughly 400% following the Arab oil embargo.

Bloomberg's Simon White describes inflation in the 1970s as a three-act sequence: inflation initially reached new highs, followed by a premature "all clear," before reaccelerating after the 1973 conflict and ultimately peaking near 15% in March 1980.



The U.S. economy is less dependent on oil than it was in the 1970s. According to the Wall Street Journal, the U.S. economy has grown 42% since 2007 while consuming 4% less gasoline. On a per-unit basis, however, the U.S. remains more reliant on oil than other developed economies.



The path of the conflict will be a key driver of oil and inflation outcomes.

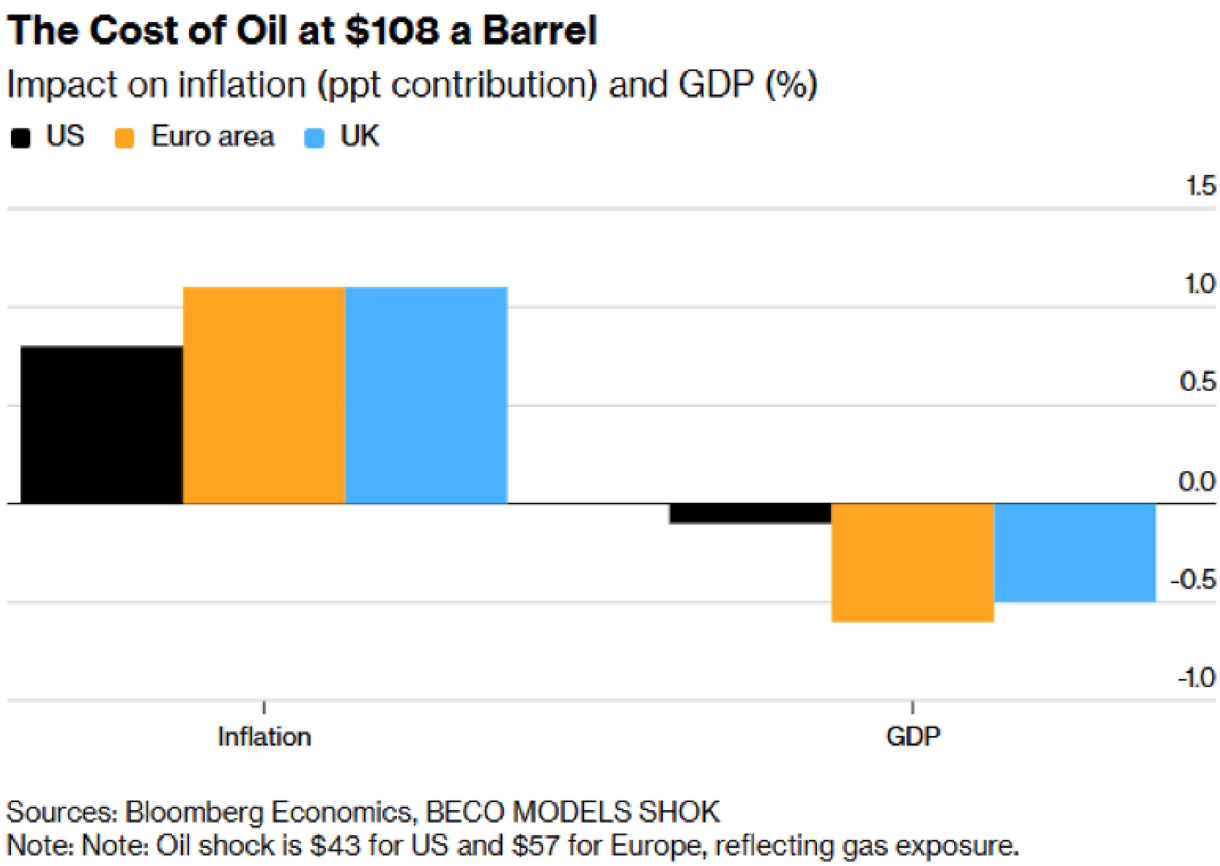
Much will depend on the duration of the conflict and its eventual resolution. Bloomberg outlines four potential scenarios.

Four Futures for the Middle East War

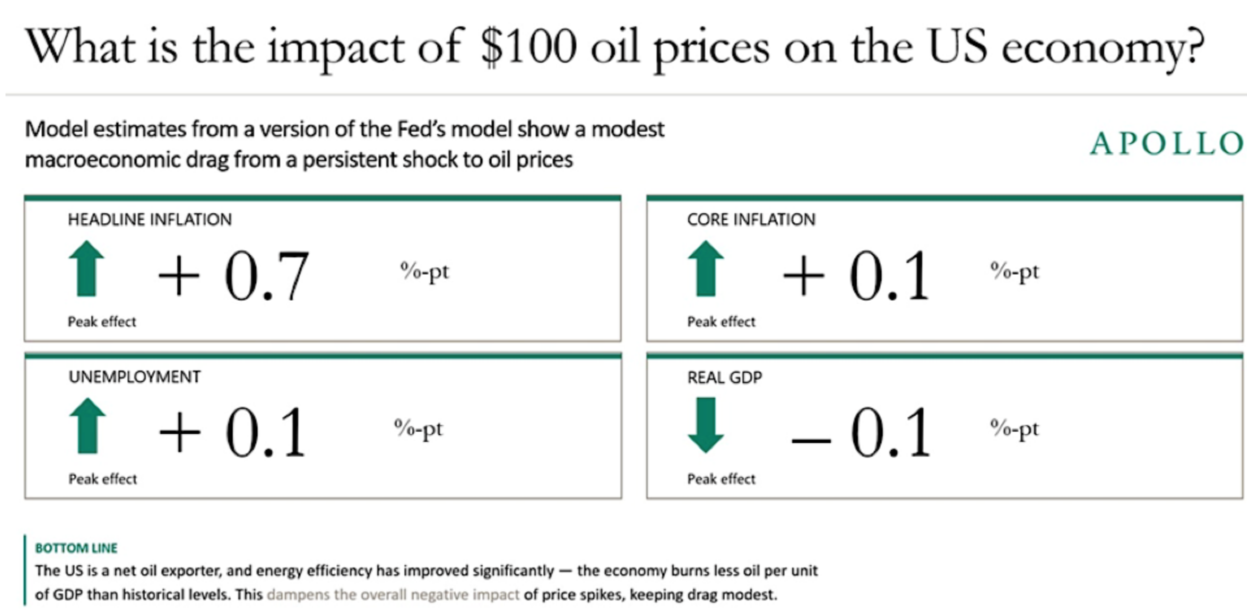
Scenario	Likelihood	Resulting oil price (per barrel)	Economic impact
War - intensified attacks on energy	Low to medium	$108	Significant boost to inflation, blow to growth, central banks' reaction depends on inflation expectations
War - limited attacks on energy	Medium to high	$80	Modest boost to inflation and blow to growth, limited central bank reaction
Ceasefire	Medium to high	$65	Limited
Islamic Republic collapses	Low	$65	Limited

Source: Bloomberg Economics

At $108 oil, Bloomberg estimates U.S. inflation could rise by 0.8%, with a limited impact on GDP. Europe and the U.K. would likely experience both higher inflation and slower growth.



Apollo estimates that $100 oil would increase U.S. headline CPI by 0.7%, with only a 0.1% increase in core CPI, alongside modest increases in unemployment and a slight decline in real GDP.



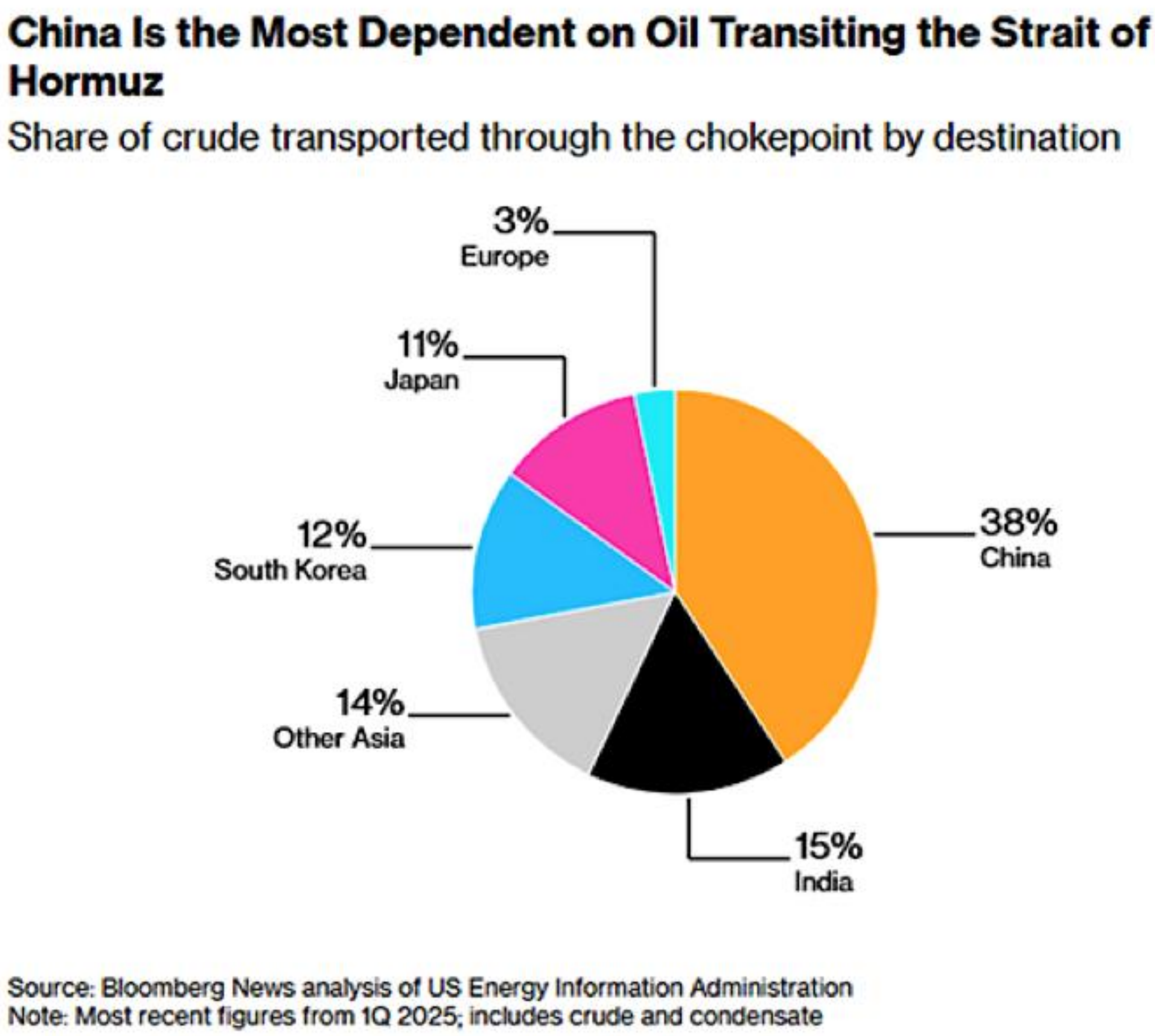
While these impacts appear manageable, oil prices briefly reached $120 per barrel in early March before declining toward $90, highlighting the potential for further volatility.

NICOLA WEALTH

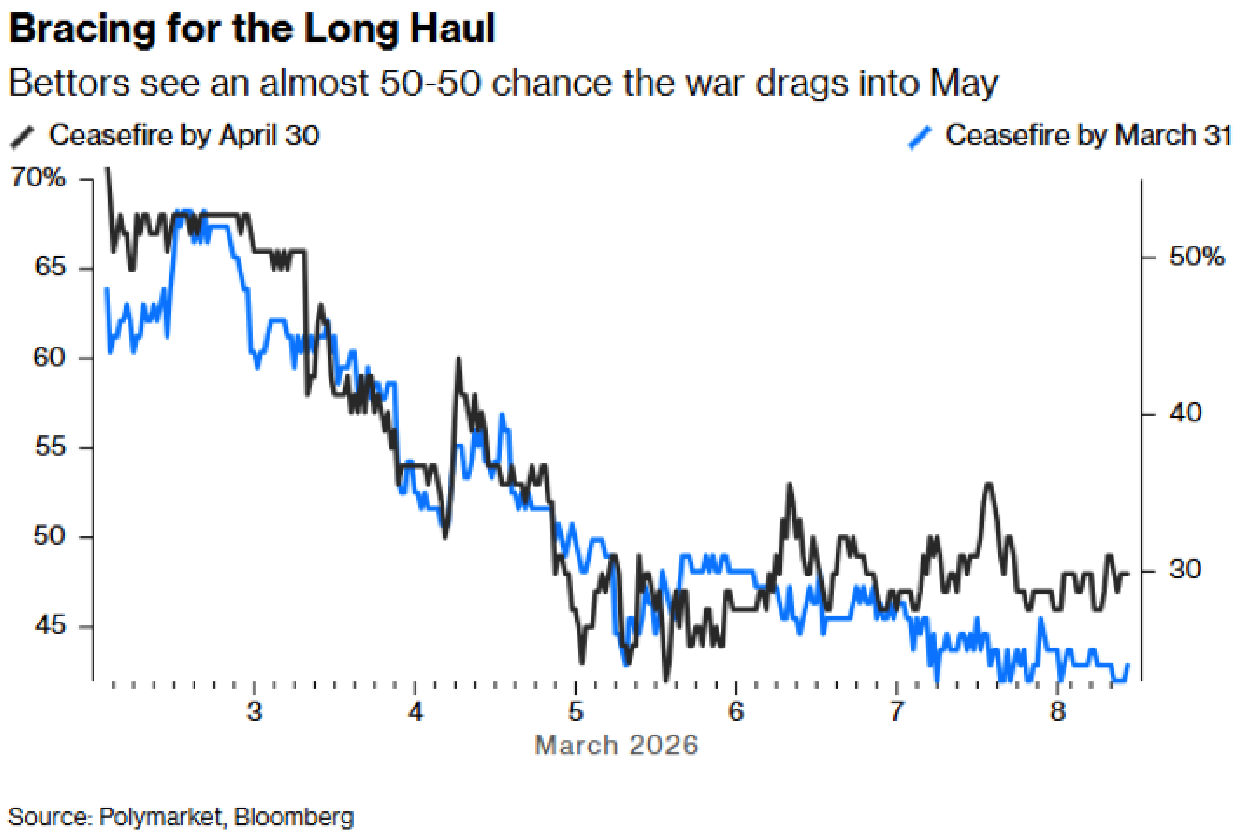
The Strait of Hormuz remains a critical pressure point for global supply.

The situation continues to evolve, and conditions may change by the time this commentary is distributed. A key factor is the Strait of Hormuz, through which nearly 20% of global oil supply, or roughly 18 million barrels per day, passes.

As of early March, tanker traffic through the Strait had slowed significantly in both directions. This is particularly relevant for China, which typically receives close to 40% of these shipments. While China has built strategic reserves that may provide a temporary buffer, prolonged disruption would increase the risk of production shutdowns and broader supply chain impacts.

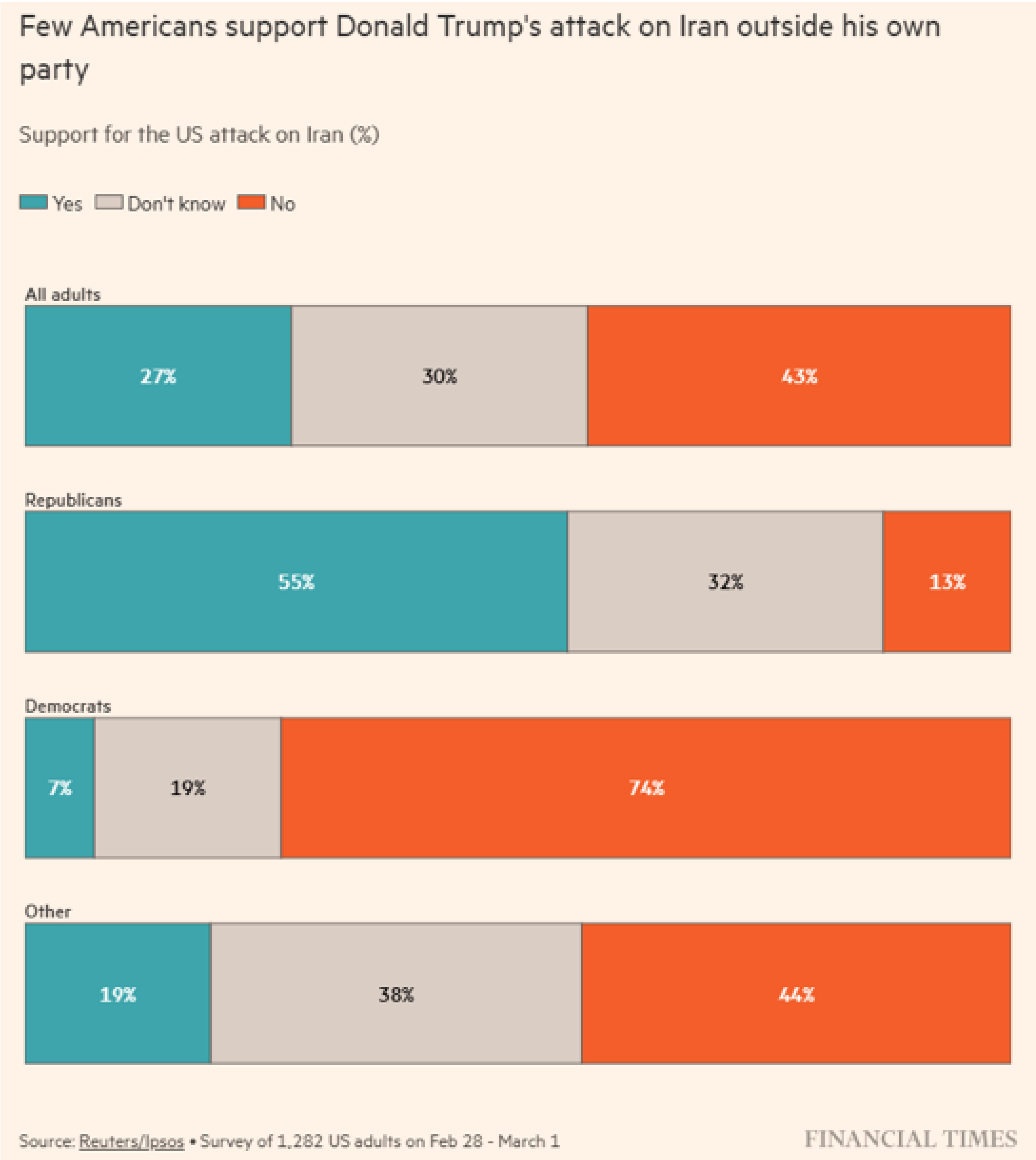


Prediction markets in early March suggested roughly a 50% probability that the conflict could extend into May.



Political and logistical constraints may influence the duration of the conflict.

President Trump is also operating within political and logistical constraints. With midterm elections approaching, public support for the conflict appears limited. A recent Reuters/Ipsos poll showed 27% of U.S. adults support the attack on Iran. Strategas, citing CBS polling, notes that support declines materially as conflicts extend in duration.



From a logistical perspective, the cost and availability of military resources are also factors. For example, Patriot missile interceptors cost approximately $4.6 million each, with limited annual production. While precise inventory levels are not public, available data suggests inventories may be under pressure on both sides.

US Uses Costly Munitions in Iran Campaign

Weapon	Contractor	Cost per unit ($)	2025 Production
Patriot PAC-3 MSE	Lockheed Martin	4.6 million	620
THAAD	Lockheed Martin	12.8 million	96
Precision Strike Missile (PrSM)	Lockheed Martin	2.5 million	54
SM-6 missile	RTX	8.2 million	—
Tomahawk Missile	RTX	1.7 million	57

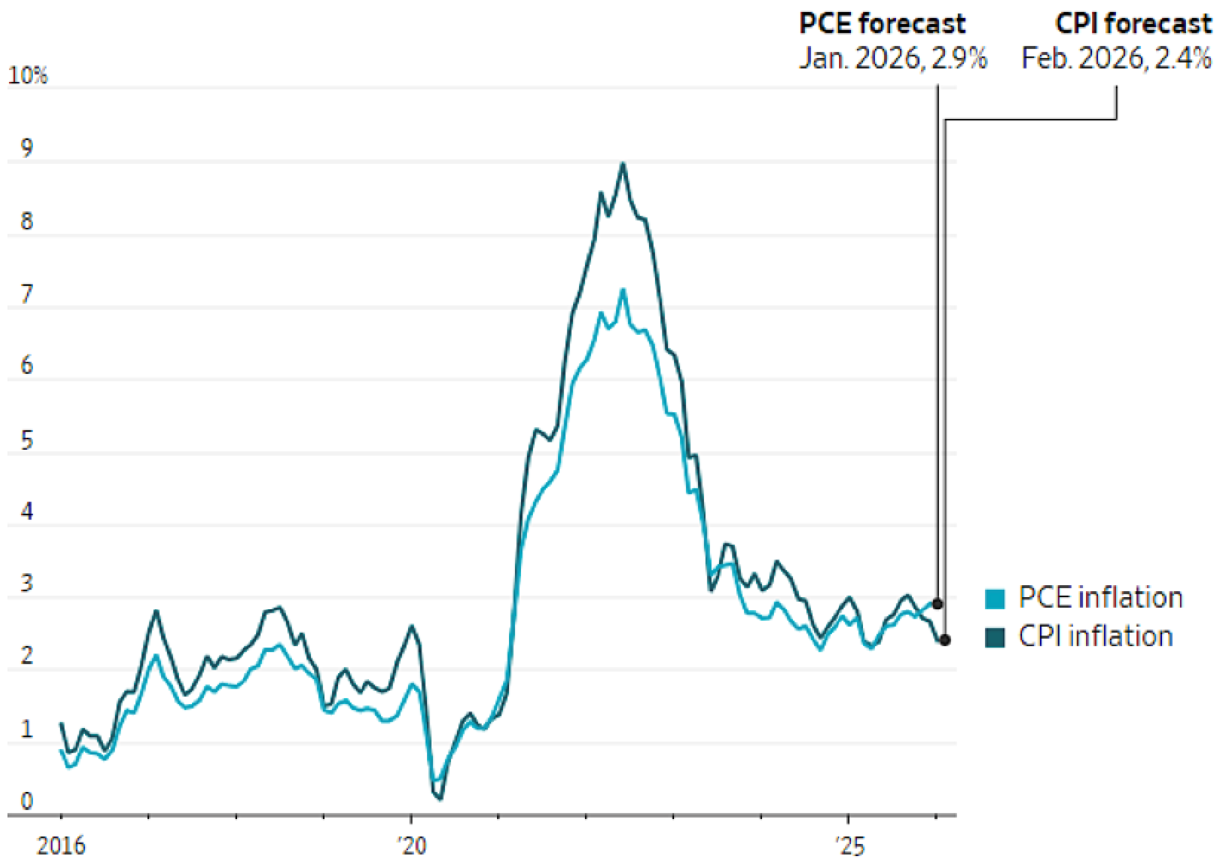
Source: US Defense Department; Bloomberg reporting

Inflation remains a central economic and political consideration.

From an economic perspective, inflation remains an important constraint as the U.S. approaches the midterm elections. On this front, the picture is mixed.

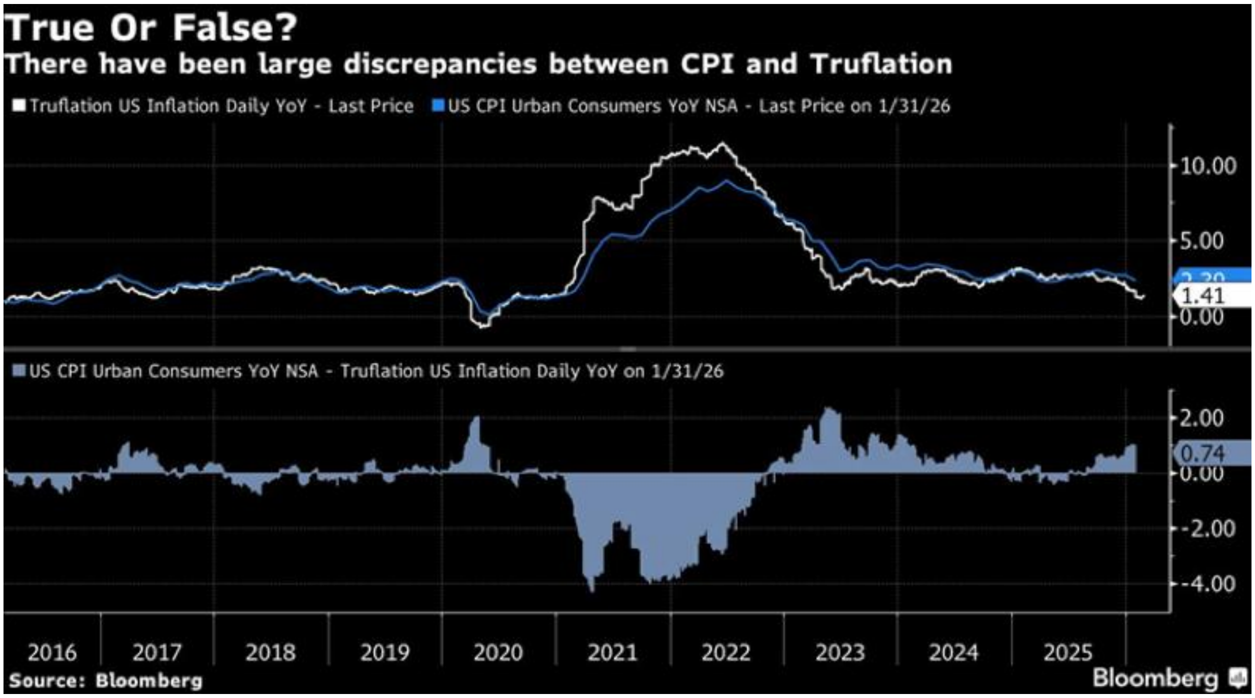
Prior to the conflict, inflation appeared relatively contained, although still somewhat above the Federal Reserve's preferred level. January CPI met expectations, while PCE inflation moved higher and remains close to 3%. The difference between the two measures largely reflects methodology. CPI captures out-of-pocket expenses, while PCE includes a broader measure of consumption, including items not directly paid for by households, such as healthcare.

Inflation, PCE and CPI



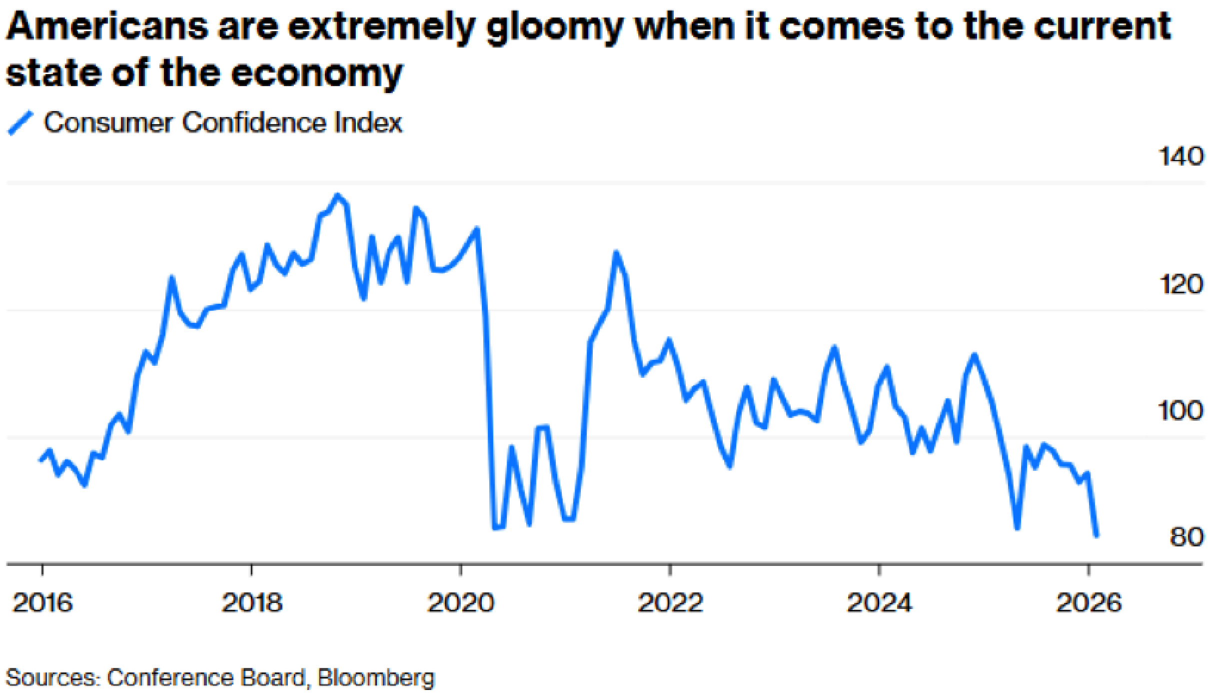
Source: Commerce Department (PCE), Labor Department (CPI), WSJ survey (forecasts)

Alternative measures present a different view. The Truflation index, which tracks real-time transaction data, estimated U.S. inflation at 1.41% at the end of February, well below both CPI and PCE. At the same time, producer price inflation came in higher in January, driven by rising service costs.

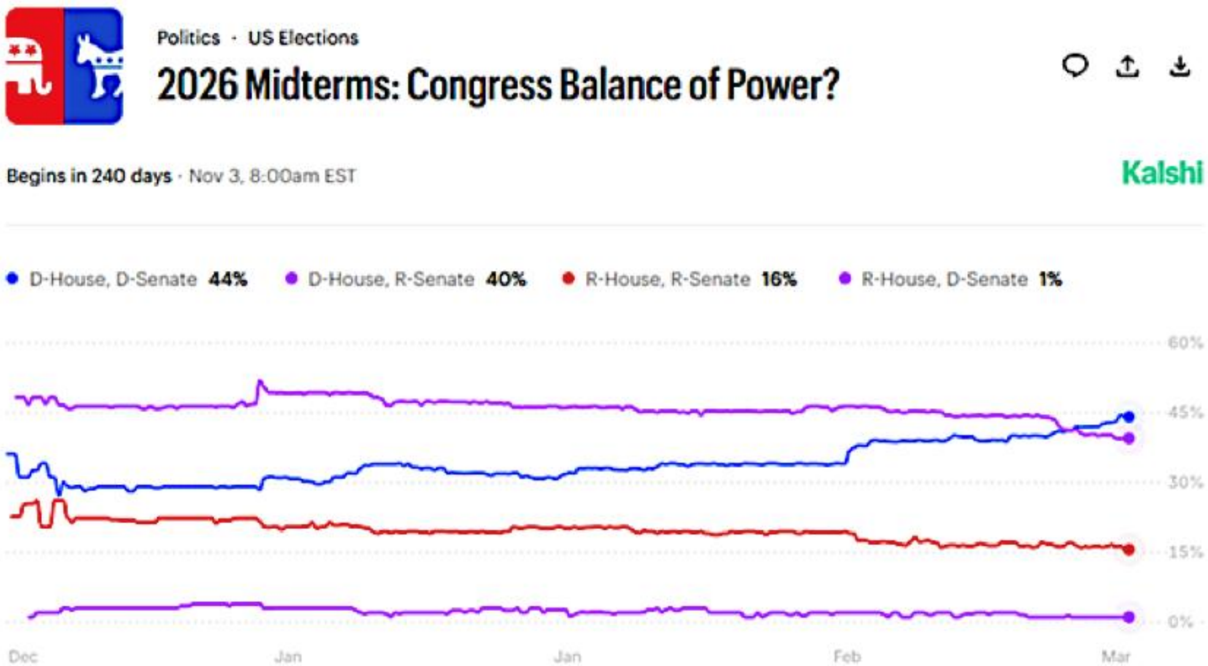


Consumer sentiment continues to reflect affordability pressures.

Regardless of the measure used, inflation continues to affect consumer sentiment. According to the Bureau of Labor Statistics, real wages have increased only 3.7% since 2020, suggesting that inflation has eroded much of the nominal wage growth over that period. The Conference Board's Consumer Confidence Index remains at relatively low levels.



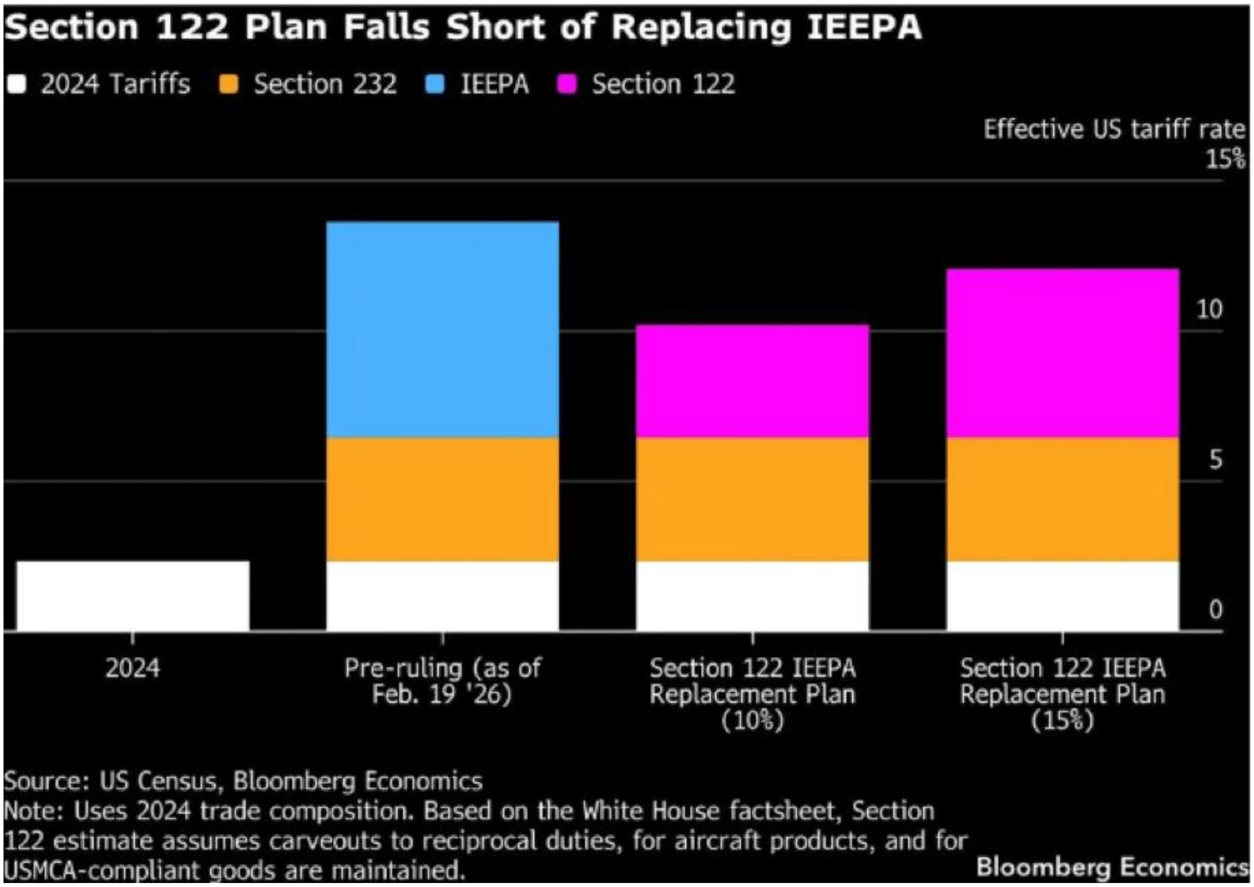
Prediction markets have also begun to reflect shifting political expectations, with Kalshi assigning a higher probability to a Democratic outcome in the upcoming midterm elections.



Tariff policy remains part of the broader fiscal response.

With the Supreme Court striking down his "Liberation Day" tariff initiative, President Trump had an opportunity to make some headway on the affordability front by allowing this effective tax on consumers to lapse, but chose not to.

Instead, using Section 122 (balance of payments authority), he announced universal tariffs of 10%, with plans to increase them to 15% in the near term. As these measures are limited to 150 days, more durable tariffs under Sections 301 (unfair trade practices) and 232 (national security) are also being considered.



While tariffs can serve as a source of government revenue, they also function as a cost to consumers. In our view, they are likely to play an increasing role in offsetting the cost of government spending and tax initiatives. With the added fiscal pressures associated with the conflict in Iran, this trade-off may become more pronounced.

Source: Dave Lutz/Jones Trading, 2026

Near-term conditions remain stable, but longer-term risks are evolving.

Risks to the U.S. economy in the near term appear manageable, supported by expected fiscal stimulus. While financial conditions may have tightened modestly amid increased market volatility since the start of the conflict in Iran, monetary policy remains accommodative, and the Federal Reserve is still expected to continue cutting rates in 2026.

Over the longer term, we are more concerned. U.S. debt levels remain on an unsustainable path, with inflation proving somewhat persistent.

From a geopolitical perspective, some analysts argue that political transitions in countries such as Venezuela, and potentially Cuba and Iran, could affect energy markets and regional stability. China has been a major buyer of oil from both Venezuela and Iran, which may carry broader strategic implications.

At the same time, the risks are significant. A more prolonged or widening conflict could create additional geopolitical pressure points. Higher government spending could also contribute to renewed inflationary pressures and rising bond yields.

Strategas has argued that the fall of the Berlin Wall marked an inflection point in global economic history. Globalization accelerated, contributing to lower inflation and declining interest rates. Lower rates, in turn, enabled governments to expand spending under relatively stable monetary conditions.

Moving To A Pre-Berlin Wall Political Environment

The Fall of the Berlin Wall Was A Seismic Event In World History

A. Accelerated the trend of globalization
B. Led to lower inflation, lower interest rates, higher PEs on stocks, and less geopolitical volatility
C. Higher budget deficits were tolerable due to low debt-servicing costs
D. Fed Independence
E. Consolidation in the Defense industry

This 35-Year Trend Is Reversing. Investors Need To Adopt Accordingly

Source: Strategas, 2026

That multi-decade trend may now be changing. The rules-based international order appears to be evolving, with geopolitical considerations playing a more prominent role.

From an investment perspective, the question is whether capital markets have fully adjusted and appropriately reflect this changing environment.