Market commentary notes

Monthly call notes
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Wealth Management

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Summary

1. The war in Iran is the big news of this month. From a market perspective, it creates a great deal of uncertainty and markets don't like increasing uncertainty. One of the short-term effects is rising oil and natural gas prices. The markets may react to this with a sell-off of stocks globally. How long that lasts depend on when hostilities in the Middle East ease and whether they get worse before they get better.
2. The other major development concerned tariffs. SCOTUS ruled that the tariffs imposed under IEEPA—which was most of them—were unconstitutional. The Administration imposed blanket tariffs under Section 122 of a different law, but this has led to confusion over amounts, exemptions and the status of previously negotiated agreements. [https://www.tradecomplianceresourcehub.com/2026/02/24/trump-2-0-tariff-tracker/, Mar. 1, 2026].
3. U.S. large-cap stock market returns were negative in February while mid- and small-caps were positive, as were international stocks. [Morningstar as of Feb. 28, 2026].
4. U.S. manufacturing PMIs indicate modest growth, while the services PMI indicate moderate growth. Globally 23 of our 38 countries had positive manufacturing PMI's–a recent high. U.S. payroll growth in 2025 was negligible and January and February new jobs totaled a weak 34,000. Estimated 4Q GDP growth was a disappointing 1.4%. However, 4Q S&P 500 profits growth was +14.2% YoY, which has been supportive of the major stock indexes. [https://tradingeconomics.com/country-list/manufacturing-production, https://tradingeconomics.com/country-list/services-pmi, Mar. 1, 2026]. [https://www.bea.gov/news/2026/gdp-advance-estimate-4th-quarter-and-year-2025, Mar. 1, 2026]. [https://www.bls.gov/news.release/empsit.nr0.htm, Mar. 6, 2026]. [https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_022726.pdf, Mar. 1, 2026].
5. The Fed held rates steady in their most recent meeting. The most recent inflation indicators suggest a 12-month rate of 2.9% to 3%, which suggests no declines in inflation over the last year and is above the Fed's 2% target. That suggests that the Fed may be reluctant to lower rates for a few more months. [https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20260128.pdf, Mar. 1, 2026].

Key issues

Jobs—A negative tilt — The February new nonfarm payroll numbers came in at -92,000. January's report was +126,000 and December was revised down from +48,000 to -17,000. The three months sum to +17,000 or less than 6,000 per month. Over the last 12 months, average wages were up 3.8%, which is 0.7% to 1% better than inflation. However, in the latest revisions, total 2025 new jobs was revised down from 584,000 to a mere 181,000, or an average of 15,000 per month. Outside of outright recessions, that's the lowest job growth rate that we've experienced in decades. [https://www.bls.gov/news.release/empsit.nr0.htm, Mar. 6, 2026].

Inflation — We had an oddly split Producer Price Index (PPI) inflation report last week: goods prices were down in January 0.3%, while services were up 0.8%. The result for 12 months is that prices were up 2.9% on average. If you look at the trends, though, on average goods price inflation has been rising over 12 months, while services price inflation has been falling, so they are meeting in the middle. A year ago, goods price inflation was less than 2% and services inflation was more than 4% (trailing 12 months). By the end of 2025, goods price inflation had bumped up to 2.5% and services inflation had declined to around 3.4%. [https://www.bls.gov/news.release/pdf/ppi.pdf, Mar. 1, 2026]. The PCE price index—the Fed's favorite inflation gauge—was also up 2.9% YoY.

International trade—The more things change ... — The balance of trade for 2025 came in at -$901.5 billion, which means that we imported $901 billion more than we exported. In 2024, the trade balance was $903.5 billion so virtually no change. This is the result of U.S. exports of $3.4 trillion and imports of $4.3 trillion. [https://www.investopedia.com/total-u-s-trade-deficit-barely-budged-in-2025-11909980, Mar. 1, 2026].

So, an obvious question is "why didn't tariffs reduce our trade deficit?" The answer is because they can't. Costs aren't what drives the deficit. Instead, there's a total called the "balance of payments" which is the sum of all the money flows between the U.S. and the rest of the world. The BoP always has to be zero—inflows match outflows. The BoP has two major parts: The current account, which is mostly trade, and the capital account, which is mostly investments. One has to be the negative of the other. If the rest of the world wants U.S. dollars either for reserves (U.S. Treasuries) or for U.S. investments, the capital account will be in surplus. That means the current account has to be in deficit. The size of that deficit is completely determined by the capital account surplus and not by relative import prices. Raising and reducing tariffs will not affect the U.S. trade deficit as long as the capital account surplus is unchanged.

GDP growth — The 4Q 2025 advance estimate for real GDP growth came in at an unexpectedly low 1.4%. 3Q was at 4.3% and the expectations were that Q4 would be similar. 3Q's results were driven mainly by a decline in imports (enters GDP as a negative, so a decline is positive) and an increase in consumer spending. 4Q saw little change in imports and exports and a small increase in consumer spending along with a decline in government spending. It all added up to a small net positive. That puts 2025 total GDP growth at a moderate 2.2%. [https://www.bea.gov/news/2026/gdp-advance-estimate-4th-quarter-and-year-2025, Mar. 1, 2026].

The Fed — The last FOMC meeting was a month ago and the minutes were released about 10 days ago. Increasingly, the Fed sees to looking at real private domestic final demand—which is domestic consumption plus investment. That slowed in the 4th quarter along with GDP. They also noted that the dollar continues to depreciate somewhat. However, they see the pace of economic growth picking up this year and next year. Interestingly, the governors still seem to believe that over time inflation will move back toward 2%. Housing costs in particular were cited as moderating. You'll notice that this pretty optimistic viewpoint—inflation coming down and solid growth—seems to contrast with the last Beige Book report that eight of 12 districts saw slight to modest growth. Nonetheless, the majority of governors seemed to want to keep rates steady until there was more downward movement in inflation. [https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20260128.pdf, Mar. 1, 2026].

Earnings update — According to FactSet's latest report, with 96% of the S&P 500 companies reporting, earnings are up 14.2% YoY. The 12-month forward PE for the S&P 500 is 21.6, versus a five-year average of 20. Mag 7 earnings were up 27% while earnings of the other 493 companies were up 9.8% (still pretty good). IT and industrials had the highest earnings growth while consumer discretionary and health care had the lowest. Is it unreasonable to pay 22 times earnings for 14% increases? [https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_022726.pdf, Mar. 1, 2026].

The problem of "overidentification" — I was struck on Friday, when the Dow was down 600 points by the CNBC headline, "Dow tumbles 600 points after hot inflation report, mounting concerns about AI impact". I think the headline is a perfect example of what is called the "overidentification problem" in investing: You have an effect, namely the Dow declining, and the media tries really hard to explain it. They focus on the obvious, which is that a high inflation report came out on Friday and alleged fears of stagflation and all week the media has had stories about AI skepticism. The problem is that a lot of other things were going on that the press was ignoring. Notably, even though the Dow was down on average, the following companies in the Dow were up: WMT, KO, MCD, JNJ, HD, PG, V. You wouldn't expect these companies to be up if the fear was stagflation. On top of that they missed three other important indicators: Oil prices had shot up on Friday. Gold was also up and interest rates were down. You wouldn't expect interest rates to be down if people were worried about inflation.

We know now that the driver was probably an impending Iran attack. That makes all of these little data points make sense. The important point is that we have more potential explanations than we have data points to distinguish the real causes. That's why, when you invest, it is critical to look not only at the one or two obvious data points but also several others for confirmation or contradiction. Also, stock markets have a tendency to move with sentiment. Bonds do that too, but bond markets tend to be a little more rational which often makes them better gauges of what investors are really thinking about.

Gold and the U.S. stock market — This week our team undertook a little research exercise and looked at the correlation between gold price changes and the U.S. stock market returns over the last five years using weekly data. We were curious to see how good gold has been as a hedge of stock market moves and whether that has changed over time.

Looking at 2021 through 2024, the correlation between gold and the stock market was +0.26. In 2025 and early 2026, it dropped to +0.03. What that means in real life is that if you invested in either gold or the stock market with 100% of your money, the volatility was about 14%, which is pretty high. If you created a 50/50 gold/stock portfolio in the prior four years, the volatility dropped noticeably to 11.5%—a drop of almost 20%. The 50/50 portfolio in 2025 has a volatility of only 10%—meaning 30% less than either one alone. The point is that gold has been a pretty good hedge to stocks for five years, but an even better hedge over the last year.

Tariffs — It's an ambiguous and confusing situation right now. The Supreme Court votes 6–3 to invalidate the use of the International Emergency Economic Powers Act (IEEPA) for imposing tariffs. That means that invalidates all of the reciprocal tariffs, fentanyl tariffs, India tariffs and threatened tariffs on China, Canada, Mexico and other countries.

The White House responded by declaring a Section 122 tariff of 10% or maybe 15% on all imports. However, there are a couple of caveats. First, these can only be in place for 150 days, taking them to July. Second, the authorizing legislation refers to a balance of payments (not trade) crisis, which we don't have. Our balance of payments is ... balanced. Presumably these will be replaced by summer with Section 301 tariffs which require a finding based on evidence that another country's trade policies with respect to the U.S. violate treaties or are discriminatory. Normally, that would be a pretty high bar. Meanwhile there are exemptions to the Section 122 tariffs that include Canadian and Mexican imports under the USMCA trade treaty, civil aircraft, information materials and goods covered by some other tariffs (Section 232) related to national security.

Another confusing question is what does the Supreme Court ruling do to previously negotiated trade deals? If reciprocal tariffs are off the table, are the deals as a whole nullified? The EU, for instance, has paused ratification because the new tariff would be greater in some cases than what was negotiated, but it isn't clear that the U.S. side of the negotiated rates is still operational.

Then there's the issue of refunds, which wasn't addressed by SCOTUS. FedEx has already initiated a suit against the government to claim tariff payment refunds and they likely won't be alone. [https://thehill.com/business/fed-ex-tariffs-refunds-donald-trump-supreme-court/, Mar. 1, 2026]. I also suspect that it won't be long before we see suits to invalidate the Section 122 tariffs since the premise that underpins them—a BoP crisis—probably doesn't exist. [https://www.tradecomplianceresourcehub.com/2026/02/24/trump-2-0-tariff-tracker/, Mar. 1, 2026].

February—More of the same — AI skepticism was one of the themes of February. The result: S&P 500 was down about .75% while mid-caps and small-caps were up 4.1% and 2.2% respectively. The yield curve rallied (interest rates down, value up) which, in turn, led to REITs rising 7.2%. Oil prices were up 6%, mostly late in the month as a result of rising tensions with Iran. Likewise, gold was up 7.8%.

Global stock indexes

Total Index	February %	YTD %	1 yr. %	Estimated PE Trailing/ Projected
S&P 500	-0.76	0.68	16.99	28.58/22.31
S&P Mid Cap	4.12	8.34	17.24	26.08/16.95
S&P Small Cap	2.17	7.90	17.89	47.62/15.97
FTSE All REIT	7.16	10.17	6.27	
MSCI All Country xUS	5.43	10.32	31.91	
MSCI Emerg Mkt	4.97	14.19	47.28	

Source: Factset as of February 28, 2026. Estimated PEs are 12-month values from https://www.spglobal.com/spdji/en/index-family/equity/us-equity/#overview. *Trailing PEs are as of September 30, 2025. Projected PEs are as of January 30, 2026. Figures are provided for comparisons over time.

Fixed income and alternatives

Total Return Index	February %	YTD %	1 yr %
Bloom Agg Intermed	1.29	1.47	6.58
ICE BofA U.S. Convertibles	1.71	6.39	24.76
S&P GSCI*	2.38	12.44	18.16
Bloom U.S. Corp HY	0.19	0.69	7.18

Source: Factset as of February 28, 2026. *S&P Global Indices as of February 28, 2026.

Sector performance — In February, the best performing sectors were Energy, Utilities and Consumer Staples. Oil prices rose substantially again in February. The worst three in February were Info Tech, Consumer Discretionary and Financials. [https://www.spglobal.com/spdji/en/documents/performance-reports/dashboard-us.pdf, Feb. 2, 2026]. [https://digital.fidelity.com/prgw/digital/research/sector, Feb. 2, 2026].

Commodities

Commodity and food price changes, current month and YoY

Commodity	February %	YoY %
Copper	-1.3%	32.5%
Lumber	-6.6	-12.1
Cotton	2.9	2.7
Sugar	-5.4	-24.8
Coffee	-20.2	-26.0
Wheat	10.7	10.5
Corn	1.9	-3.4
Oil	6.0	-3.9
Natural Gas	-23.9	-25.4

Source: https://tradingeconomics.com/commodities, Mar. 2, 2026.

In February, five of our nine major commodities experienced price declines. On a 12-month basis, six experienced price declines—same as the last two months. Taking a simple unweighted average of the nine YoY price changes gives us a -4.9%. Notably, coffee is down 20% over the month. It is also interesting that oil was up 6%, rising for the second month, while gas was down 24%. That suggests to me that oil's increase is about Iran.

Looking more broadly at commodities, when we look at 22 categories of agricultural commodities and 26 categories of industrial commodities, 25 of the 48 saw price increases in February, which is a decline from January. Twenty-five saw higher prices than a year ago versus 20 in December and 14 in October. This looks like a little upward pricing pressure.

U.S. Economy

U.S. PMI statistics — The U.S. manufacturing PMI dropped a little to 51.2. The services PMI—most of our economy—came down a little to 52.3. Between the two, it looks like U.S. production is growing modestly to moderately. I'd say this is roughly consistent with what we saw in 4Q GDP growth. [https://tradingeconomics.com/country-list/services-pmi, Mar. 2, 2026]. [https://tradingeconomics.com/country-list/manufacturing-pmi, Mar. 2, 2026].

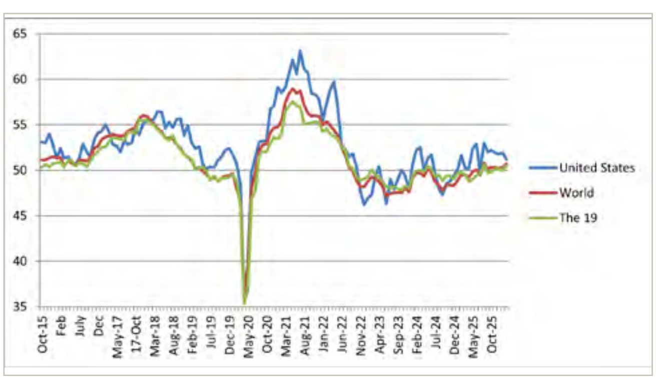
International

Manufacturing PMI — Every month we look at global Purchasing Managers Index (PMI) statistics for 38 countries. In February we had 23 countries reporting PMI's of 50 or higher. That compares to 24 in January and just 19 in November. However, the average reading is up slightly at 50.7. The EuroArea as a whole is also up at 50.8 versus 49.4 last month, just a shade below 50. China was up very slightly at 50.3.

On the services side, the EuroArea was about unchanged at 51.8. China was up slightly at 52.3.

[https://tradingeconomics.com/country-list/services-pmi, Mar. 2, 2026].

Here's our updated graph of Manufacturing PMIs:



Source: Author's calculations based on published PMI statistics, as of Mar. 2, 2026.

Table summary

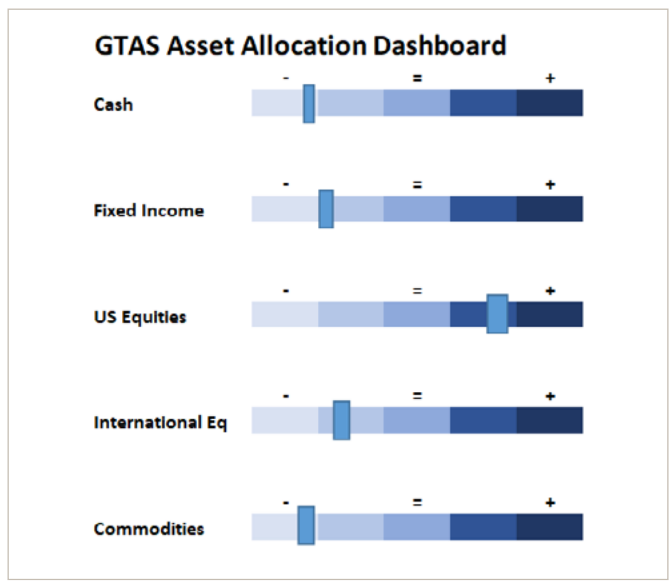
Region	Manu PMI	Last Month	12 mo. Ago
U.S.	51.2	51.9	51.6
19 majors	50.5	49.9	49.8
38 world	50.7	50.3	49.5
EU	50.8	49.4	47.3
China	50.3	50.1	50.1

Source: Author's calculations based on published PMI statistics Mar. 2, 2026.

Investment strategy:

1. Gold—Where we've been able, we've created gold positions or added to existing ones.
2. Bonds—Interest rates have come down, and we would be patient before committing more money to bonds.
3. Equities—We remain overweight on aerospace and defense. We are adding international stocks where we can. Keeping small- and mid-cap exposures.

GTAS allocation chart



(+/=/-) represents our group's views over a 6 to 18 month time horizon concerning tilts relative to our strategic positions.
+ implies an overweight in that asset class.
= implies a weighting similar to our strategic weight.
- implies an underweight.

Index definitions:

Past performance is no guarantee of future results. You cannot invest directly in an index.

Bar Agg Intermed — Bloomberg Barclays U.S. Aggregate Intermediate Total Return index is composed of the BarCap Government/Credit Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The returns for the index are total returns, which includes the daily reinvestment of dividends.

Bar U.S. Corp HY — Bloomberg Barclays U.S. Corporate High-Yield Total Return index includes all fixed income securities having a maximum quality rating from Moody's Investor Service of Ba1, a minimum amount outstanding of $100 million and at least one year to maturity.

FTSE All REIT — FTSE Nareit All Equity REITs Total Return index is an index of publicly traded Real Estate Investment Trusts (REITs) that own commercial property. All tax-qualified REITs with common shares traded on the NYSE, AMSE or NASDAQ National Market List are eligible. Additionally, each company must be valued at more than $100MM USD at the date of the annual review.

ICE BofA U.S. Convertibles — ICE BofA U.S. Convertible Bonds Total Return index tracks the returns of US-traded convertible debt issued by companies with a significant presence in the United States. The index is composed of various combinations of convertible structure and credit quality, e.g. it includes investment-grade, speculative-grade, and non-rated issues. The returns for the index are total returns, which include reinvestment of dividends.

MSCI All Country xUS — MSCI All Country World Index Ex USA NR is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The index consists of 48 developed and emerging market country indices. The returns for the index are total returns, which include reinvestment of dividends.

MSCI Emerg Mkt — MSCI Emerging Markets NR index consists of 26 developing economies including Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

S&P 500 — S&P 500 Total Return index is a market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenues are based in the U.S.; it's often used as a proxy for the U.S. stock market. Total Return (TR) indexes include daily reinvestment of dividends.

S&P GSCI — S&P GSCI Total Return index is a composite index of the commodity futures. It represents unleveraged, long only investments in commodity futures that are broadly diversified.

S&P Mid Cap — S&P MidCap 400 Total Return index is comprised of stocks in the middle-capitalization range and includes approximately 10% of the capitalization of U.S. equity securities. Total Return (TR) indexes include daily reinvestment of dividends.

S&P Small Cap — S&P SmallCap 600 Total Return index consists of 600 domestic stocks chosen for market size, liquidity and industry group representation. Total Return (TR) indexes include daily reinvestment of dividends.

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