

STRATEGY & OUTLOOK

Market Update

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February Review

Global equities had a somewhat tumultuous February, though managed to finish the month higher by about 1.8% in euro terms. While economic activity remained solid, increasing concern about risks of future AI driven unemployment, combined with rapidly rising geopolitical risks, put downward pressure on bond yields. Business surveys pointed to continued broadening in global growth, while signs of cooling inflation pressures in the US, UK, and Japan were relatively well received by markets. The dollar edged higher as tensions in the Middle East boiled over into open war as the US and Israel launched the opening salvos of their attacks against the Iranian Regime.

February was marked by a landmark Supreme Court decision on February 20th that struck down President Trump's sweeping global tariffs in a 6-3 ruling, delivering his largest legal defeat since returning to the White House. The court ruled that the President exceeded his authority by invoking IEEPA to impose his "reciprocal" tariffs across the world, invalidating \$130+ billion in levies. The decision sparked an immediate market rally, with some major US and European indices and emerging-market currencies reversing losses. Trump responded by calling the ruling a "disgrace" and pledged to impose a flat 10% levy, soon revised up to 15%, on foreign goods using alternative legislation, while more than 100 companies filed new lawsuits seeking refunds on tariffs already collected.

Nvidia's highly anticipated fourth quarter earnings on

February 25 delivered record results, easily beating estimates, yet shares fell 7.5% over two days as investors questioned the sustainability of AI growth into 2027. There was a relentless selloff in software stocks as investors fled companies perceived as vulnerable to the growing AI disruption narrative. There has been continued broad based selling of software stocks for months on fears of AI displacement with anxieties intensifying after a bearish report from Citrini Research outlined the potential for mass white-collar unemployment. Wealth management also found itself under pressure, and this, combined with concerns about the software exposure of listed private credit managers, weighed on the broader financials sector. The selloff in software has now pushed the spread between software and semiconductor stocks to historical levels.

Japanese politics underwent a dramatic transformation in early February when Prime Minister Sanae Takaichi's Liberal Democratic Party secured a historic landslide victory in the February 8th snap election, winning 316 out of 465 seats and achieving a two-thirds supermajority—the biggest post-war victory for a single party in a Japanese general election. The yen fell following the election results, as markets anticipated more fiscal stimulus and a more assertive, nationalist Japan under Takaichi's strengthened mandate. The victory positioned Takaichi to implement her vision of expanding defense spending, strengthening ties with the United States, and pursuing more aggressive fiscal policies, though concerns emerged about the sustainability of Japan's debt servicing costs amid these plans.

The ECB indicated it would assess the impact of the euro's recent strength on inflation in its March quarterly forecasts, with Executive Board member Piero Cipollone noting that recent currency moves had been relatively limited. On the final day of the month, a joint operation by the US and Israeli militaries set in motion what has already come to be referred to

as the Third Gulf War, embroiling world markets and tragically dragging the entire region into open conflict. The repercussions of such a horrific event are hard to fathom at such an early stage, though the impact on global energy markets will be substantial if the conflict drags on.

While the equity exposure of the multi-asset funds remains at the low end of the range, February saw a few changes made to the portfolio. Based on an improving rate and policy cycle, we added a number of US and UK housebuilders. We further reduced the beta in the portfolio, which is now effectively at a record low, by selling a number of financials that had consistently outperformed despite increasing credit concerns and changing rate-cycle landscape. We also added to our energy exposure as the oil price continued to display no risk premium given the size of the US Military Build up in the Middle East. Economic, Credit and Geopolitical concerns continue to be mispriced risks in what is an expensive and complacent market.

**Note this outlook was written preceding the Crisis in the Middle East*

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WARNING: The value of your investment may go down as well as up.

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