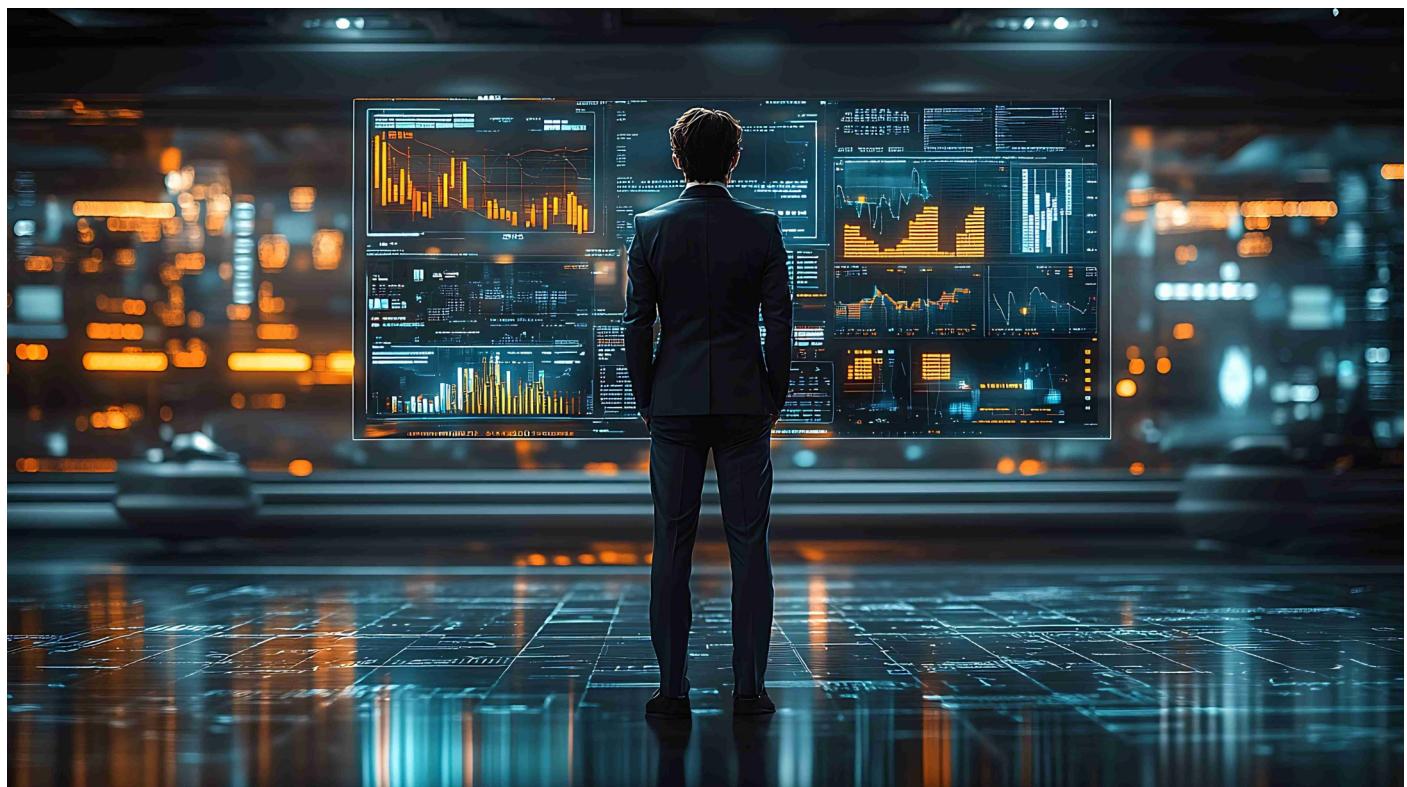




INVESTMENT **COMMENTARY**

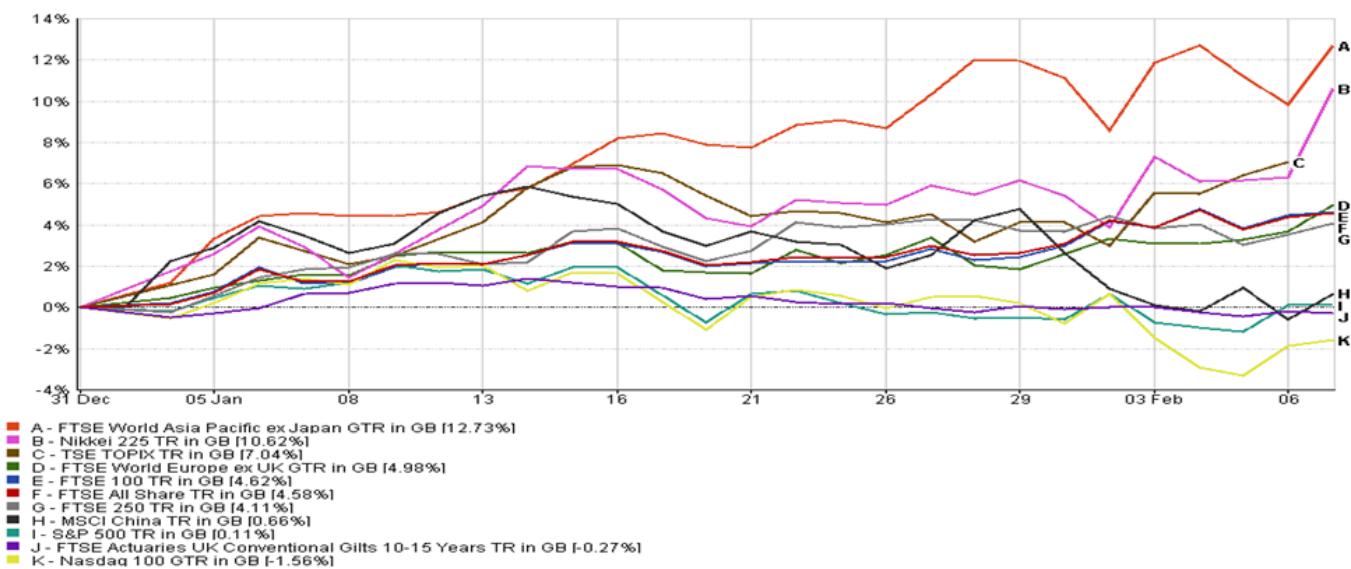


10 FEBRUARY 2026

OVERVIEW

The start of 2026 has seen major equity markets make positive returns in sterling terms, although the technology heavy US NASDAQ 100 index has fallen in value. Asia Pacific markets have made strong gains helped by US dollar weakness. Geopolitics have had a significant impact on investor confidence, which saw commodity prices rise to record levels as investors sought safe assets as tensions between the US and Europe increased over Greenland. Concerns also grew over who would become the next Chair of the US Federal Reserve (the Fed) and whether that appointment would impact on the Fed's independence. Towards the end of January, precious metal prices fell sharply as concerns dissipated to some extent. Technology companies, together with software and data companies, saw their share prices fall as massive capital expenditure plans weighed on the former and AI disruption on the latter. The share prices have recovered in the last few days as the fears were seen to be overdone.

INVESTMENT MARKETS YEAR TO DATE STERLING RETURNS



31/12/2025 - 09/02/2026 Data from FE fundinfo 2026



US equities as measured by the S&P 500 index reached a record high in late January 2026, exceeding 7000 points for the first time in its history. Enthusiasm for AI had driven the equity market as some of the major US technology companies reported strong earnings; however, in recent days investors have once again become concerned about the massive levels of AI-related capital expenditure plans announced by some of the US tech-related companies, including Amazon and Microsoft. These concerns resulted in sharp falls in their share prices - particularly reflected in the performance of the NASDAQ 100 index. Amazon, Alphabet/Google, Meta and Microsoft announced plans to spend a combined \$600bn on AI build-out this year – a 60% rise on their 2025 expenditure. The release of new software by Anthropic, an AI group, led to a sell-off in software companies and data providers' shares. Anthropic has launched a series of open-source plug-ins for its AI coding, 'Claude Code', which can automate specific corporate tasks, for example some of those undertaken by accountancy and legal firms. Their share prices subsequently recovered to an extent as much corporate software has data embedded in it on which workflows are dependent. It would be difficult to replicate these processes quickly through AI currently.



Expectations for further monetary easing by the US Federal Reserve also supported investor sentiment. At its latest meeting, the Fed left its benchmark interest rate unchanged at a range of 3.50-3.75% after three consecutive cuts. The Fed Chair, Jerome Powell, commented that with the ongoing strength of the economy, interest rates did not appear to be "significantly restrictive". US GDP grew at an annualised rate of 4.4% in the third quarter of 2025. Nevertheless, further cuts are expected later this year as consumer spending has weakened and manufacturing output showed signs of deterioration. Employment statistics indicate that perhaps the employment market is stabilising although any further downturns could prompt Fed action. Former Fed Governor, Kevin Warsh, has been nominated by President Trump as the new Chair of the Fed replacing Jerome Powell in May – if approved by the Senate. Kevin Warsh is seen as an orthodox choice, so calming fears that the new Chair may be easier on inflation than his predecessor. These inflationary fears had also stoked the soaring prices of precious metals.

The FTSE 100 index also reached a new high at the start of February 2026 despite oil, gold and silver prices falling. Investors had turned to the UK equity market for its defensive nature, with the FTSE 100 having significant exposure to sectors such as insurance and telecoms and companies with strong income streams. The FTSE 250, comprising medium sized companies, also saw some stronger performance with healthcare, basic materials and energy sectors making attractive returns.

At its February 2026 meeting, the Monetary Policy Committee (MPC) of the Bank of England (BoE) voted by 5-4 to keep Bank Rate on hold at 3.75%. The MPC members prioritised inflation control over risk from a weakening economy. Inflation as measured by the Consumer Price Index (CPI) still remains some way above the BoE's 2% target at 3.4% in December 2025 – up from 3.2% in November, due to higher alcohol and tobacco prices and air fares. However, with a weakening jobs market, lacklustre economic growth, moderating pay growth and services inflation easing, the level of CPI is expected to fall as energy prices decrease. The BoE now expects inflation to move close to its 2% target in April 2026. Therefore, the MPC may be inclined to cut interest rates in the Spring, but future decisions will be data dependent. Andrew Bailey, the Governor of the BoE, commented that “there should be scope for some further easing”.

Eurozone shares have also delivered positive returns, as represented by the FTSE World Europe ex UK index over 2026. President Trump's desire to acquire Greenland, coupled with threats of higher tariffs and military action led to volatility at certain points. A shift to discussions about security cooperation calmed the situation. Against this backdrop and as a result of higher defence spending, European defence companies saw their values increase.



The eurozone economy grew by 0.3% in the final quarter of 2025 which was better than expected. Inflation fell to below target at 1.9% in December 2025 and in January to 1.7%. Unemployment also fell to a record low of 6.2%. The European Central Bank (ECB) kept its main interest rates unchanged at its latest meeting with its deposit rate maintained at 2.0% - as it now appears that inflation is stabilising around 2.0%. This favourable monetary background should provide impetus for growth.

The Japanese equity market has performed strongly since the start of the year. AI related companies, including semi-conductor equipment and optical fibre companies, supported performance. The landslide election of the Liberal Democratic Party, led by Prime Minister, Sanae Takaichi, saw Japanese equities rise sharply in recent days. Investors are confident about the political stability of the country and Takaichi's pro-growth agenda, including expansionary fiscal expenditure and higher spending on AI, energy and defence. Bond yields rose reflecting firmer economic growth and inflation, as well as concerns about looser fiscal spending following the election result.

Asia Pacific equities continued to perform well as investors sought to broaden exposure away from the US equity market. South Korea and Taiwan made strong returns as their AI-related companies supported returns. The Chinese equity market saw weaker returns as uncertainty persisted about policy support and economic growth prospects.

OUR VIEW



Compiled by Angela Cooper, MD - Investment Services.

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It appears that the global economy is likely to be supported by vast amounts of fiscal and monetary stimuli this year. US taxpayers look set to receive tax rebate cheques funded from the tariffs introduced in 2025. The new Japanese government has been elected on a pro-growth agenda involving fiscal stimulus measures and it is likely that China will continue to try to stimulate its fragile domestic economy. Interest rates around the world have been cut as inflation levels have fallen. The US Federal Reserve will probably cut rates further, even though the economy looks in reasonably good shape. Any weakness in the jobs market or the economic growth tailing off should see the Fed intervene. The Bank of England is also likely to cut rates further as growth remains lacklustre in the UK, and if inflation returns to target. The latter is the only likely source of stimulus to UK economic growth presently, beyond increased public expenditure/public sector pay rises which will also contribute to headline growth. Average wage growth in both public and private sectors is still too high if inflation is to remain around its 2.0% target.

US economic growth should be supported by the vast amounts of capital expenditure that US companies are due to invest in AI infrastructure over the next few years. Germany announced in 2025 that it will release its "debt brake" to fund infrastructure and defence projects. The release of funds has been slow but should be supportive of the European economy in the coming years.

Against this highly stimulative background, there is a possibility that inflation picks up. Input prices are increasing but currently wage costs seem to be moderating as jobs markets become looser.



OUR VIEW continued

Our portfolios are fully diversified by asset class and region. We have seen investors looking beyond the US for opportunities as funds invested in other equity markets have been performing well. We use a mix of funds blending growth funds with income funds. The latter provides useful streams of income which add their resilience to portfolios in times of equity market volatility. Equally, high quality fixed interest and infrastructure funds also provide income and diversification as we manage portfolios according to clients' risk tolerance and objectives.

Looking ahead, we remain optimistic in overall terms for 2026 investor returns. Beyond outlying geo-political concerns, the obvious danger to markets (and also major opportunity) increasingly relies in potential disappointments in the mega-techs' development/monetisation of AI and in the corporate disruptors which emerge across all sectors, having harnessed AI the most quickly and successfully.



**If you have any queries please do not hesitate
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