

Market Review – February 2026

Geopolitical risks intensify

Economic and market developments in February were overshadowed by coordinated strikes on Iran by the United States and Israel.

The strikes have targeted air defence systems and military infrastructure, aiming to reduce Iran’s retaliatory capacity and weaken the regime. Iran has retaliated with drone and missile attacks across the region, including Bahrain, Kuwait, Qatar and the UAE as well as Israel, and has sought to reduce traffic through the Strait of Hormuz, a key energy chokepoint through which about 20% of the global oil supply passes.

See the Appendix for a more detailed review of developments in the Middle East.

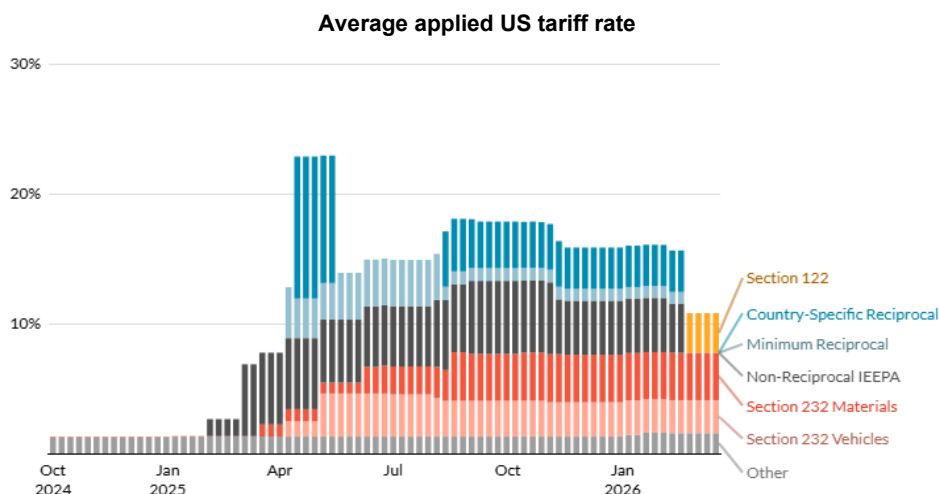
The escalation of tensions in the Middle East is a continuation of geopolitical events since the beginning of the year, including US military action in Venezuela and attempts by President Trump to annex Greenland, which involved threats by Trump to impose new tariffs on eight European allies.

Although global equity markets have fallen in response to the conflict in the Middle East, they have shown resilience in the face of geopolitical events. This reflects the positive economic backdrop, characterised by robust corporate earnings growth and solid global economic activity, supported by rising government spending and low interest rates. As hostilities ease in the Middle East, see Appendix for likely scenarios, expectations are that global financial markets will likely increasingly focus on the positive backdrop.

US trade policy uncertainty came into focus during February following a Supreme Court of the United States (SCOTUS) ruling that President Trump could not rely on the International Emergency Economic Powers Act (IEEPA) to impose tariffs. The decision does not affect tariffs imposed under alternative authorities, including national security provisions e.g., tariffs on steel, autos, and copper, or trade enforcement measures, most notably those tariffs targeting China.

In response, President Trump moved quickly to impose replacement tariffs under Section 122 of the Trade Act, initially set at 15%. These measures are generally time limited to 150 days.

With the IEEPA tariffs struck down, the US tariff rate fell to around 9%, compared with approximately 17% prior to the ruling. On the introduction of the new tariffs under Section 122, the tariff rate increases to 11.0%.



Source: Tax Policy Centre

Tariffs and cost of living, likely to be exacerbated by higher oil prices if tensions in the Middle East persist, are expected to be key issues in the lead-up to the US midterm elections in early November.

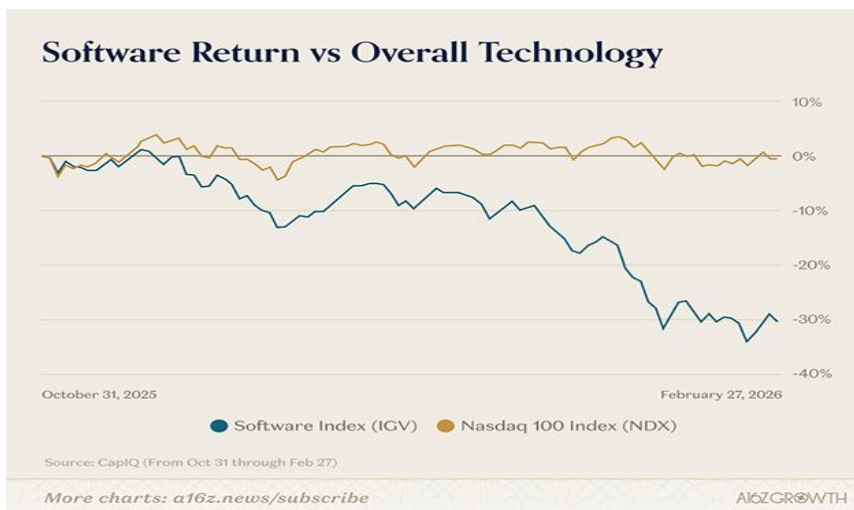
International Shares

At the index level, global sharemarkets rose 1.4% in February 2026. Emerging markets, Europe and Japan were once again among the better performing regions. The US sharemarket underperformed, weighed down by uncertainty surrounding the larger technology companies as concerns over the level of capital spending these companies are undertaking continue to linger.

Under the surface of the market index, software and services companies' share prices have fallen materially as investors reassess their prospects amid rapid advances in agentic artificial intelligence (AI).

Agentic AI describes systems that can autonomously plan, make decisions, and execute tasks. Recent demonstrations, including tools released by Anthropic, have heightened concerns that AI could disrupt traditional software and consulting models. As a result, investors are questioning the durability of revenues and customer retention for these companies, particularly where valuations had assumed sustained high margin growth.

Software companies have underperformed other technology companies in recent months.



Source: Mauldin, Economics, A16Z

Global companies whose share prices have fallen include Microsoft, Salesforce, and SAP. Closer to home, companies include Xero, Seek, and Vista. The sell off in these companies has not been associated with weaker current trading conditions, rather it reflects a change in expectations. To some degree, the underperformance of these companies represents an evolution of the AI driven technology investment theme that has driven markets recently. Investors are increasingly focused on identifying potential winners and losers from AI, in some cases reducing exposure before fully assessing longer term implications.

Against this backdrop, the technology sector has underperformed the broader market so far in 2026. In this environment, investors have rotated away from the US and into emerging markets and Europe, with value orientated strategies also outperforming.

Australasian Shares

New Zealand's sharemarket rose 2.3%, its strongest monthly gain since September, supported by a solid reporting season that helped rebuild confidence in corporate earnings. Company earnings results were broadly in line with or ahead of expectations. Exporters performed well, with companies such as a2 Milk and Skellerup benefiting from offshore revenue exposure and a more supportive backdrop for internationally earned earnings.

Several large-cap companies (Auckland International Airport (+10.9%), a2 Milk (+17.0%), and Fisher & Paykel Healthcare (+5.1%) were notable outperformers over the month, providing meaningful support to the index. Company updates also highlighted investment themes tied to New Zealand's energy transition. Contact Energy announced a NZ\$525 million equity raising to accelerate renewable development across battery, solar and geothermal assets. Genesis Energy also announced plans to raise NZ\$400 million, with the New Zealand Government committing approximately \$198 million to retain its 51% shareholding.

The Australian sharemarket rose 4.1% after the December half year earnings season confirmed a return to profit growth. Consensus expectations for earnings growth have risen to around 13% (from 11.7% a few weeks ago and 7% in November). This follows three consecutive years of earnings declines. The rebound was driven mainly by a 33% surge in mining profits, while banks grew around 8%, energy profits fell 18%, and the rest of the market grew close to 4%.

Banks were the standout performers, supported by improving margins, strong credit growth, and low bad debts, which helped push the market toward record highs. Among the better-performing companies in February were banks CBA (+16.9%) and National Australia Bank (+13.0%), and resource company BHP (+15.5%). Seek (-21.0%) and WiseTech (-18.0%) were among the worst-performing stocks, caught up in the global sell-down of software and business services companies.

Fixed income and cash markets

The Bloomberg Global Aggregate Bond Index (New Zealand dollar hedged) rose 1.3%. US longer-term interest rates declined in February due to softer economic data, rising geopolitical risks in the Middle East, and increasing concerns within private credit markets. The ongoing conflict in the Middle East places global central banks, including the US Federal Reserve, in a challenging position. The conflict has resulted in a sharp rise in oil prices due to supply constraints, leading to higher fuel and transport costs and placing upward pressure on inflation. This complicates efforts to bring inflation back to target. At the same time, higher energy costs can weigh on consumer spending and business confidence, slowing economic growth. Central banks must balance these opposing forces when setting interest rates. They also closely monitor financial markets, as geopolitical shocks can trigger volatility, tighter financial conditions, or a flight to safe assets.

Overall, the Middle East conflict increases uncertainty, encouraging central banks to move cautiously, rely heavily on incoming data, and clearly communicate their policy intentions to maintain market confidence.

The Reserve Bank of New Zealand (RBNZ) held the Official Cash Rate at 2.25% in February, as expected. While interest rates are expected to remain low for some time, the RBNZ's updated guidance signalled that the first interest rate hike is likely to be in late 2026 or early 2027. The RBNZ noted that the economic recovery is gaining traction and becoming more broadly based. Recent surveys of business conditions support the view that the New Zealand economy has entered a recovery phase, with momentum evident across a range of economic indicators.



Source: BNZ

Summary

2026 has begun with an unusually high level of geopolitical risk, which has culminated in conflict in the Middle East. This has contributed to a spike in oil prices and weakness in global sharemarkets.

Geopolitical shocks are unsettling, but not uncommon. Historically, the impact of geopolitical shocks on markets has tended to be short-lived, unless they develop into economic shocks.

Based on past experience, global markets typically return to focusing on fundamentals. In this light, the economic backdrop for global sharemarkets remains supportive, characterised by solid global economic growth, rising corporate profits, and increased government spending.

Financial markets in New Zealand and Australia appear well positioned relative to global peers. In New Zealand, the economy is showing encouraging signs of improvement, which should support continued corporate earnings growth. The Australian economy remains resilient and corporate profits have returned to growing after three consecutive years of decline.

As always, and particularly during periods of heightened uncertainty, investors should continue to focus on their longer-term goals, remain patient during short-term market fluctuations, and maintain a portfolio of assets aligned with their objectives and risk tolerance.

Indices for Key Markets

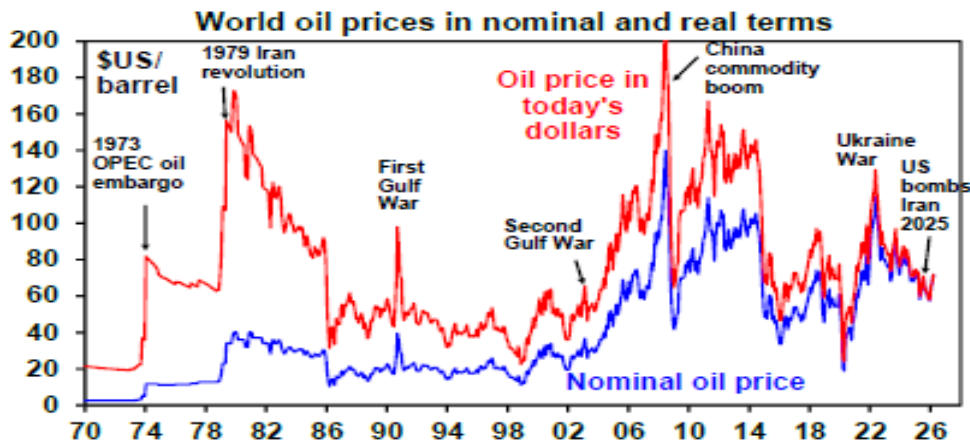
As at 28 February 2026	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.
S&P/NZX 50 Index	2.3%	1.9%	6.5%	9.7%	5.7%	3.1%
S&P/ASX 200 Index (AUD)	4.1%	7.3%	4.1%	16.2%	12.2%	10.8%
MSCI ACWI Index (Local Currency)	1.4%	4.7%	11.6%	21.4%	20.3%	12.6%
MSCI ACWI Index (NZD)	1.9%	0.8%	9.8%	15.9%	22.1%	16.0%
S&P/NZX 90 Day bank bill Total Return	0.2%	0.6%	1.4%	3.2%	4.7%	3.5%

Appendix – Middle East Conflict

The United States and Israel have commenced large scale military strikes against Iran, marking a significant escalation in tensions across the Middle East. The conflict follows the breakdown of diplomatic negotiations over Iran’s nuclear program and has prompted retaliatory action by Iran against regional targets.

Global Risks

The principal risk to global financial markets and the economy is the potential disruption to energy supplies, particularly through the Strait of Hormuz, a critical shipping route for approximately 20% of global oil and a meaningful share of LNG exports.



Source: AMP

Even limited interference with energy supplies through the Strait of Hormuz has the potential to lift oil prices sharply, adding to inflationary pressures and acting as a drag on global growth. Higher energy prices effectively function as a tax on consumers and businesses, which may complicate the outlook for interest rate cuts in the US and elsewhere.

Likely scenarios

The current environment in the Middle East is fast moving, with risks remaining fluid. A key risk factor is the duration of the conflict. The longer oil prices remain elevated, the more likely are the negative consequences of higher inflation and slower global growth.

One way of assessing likely outcomes from a geopolitical event is to consider a range of scenarios.

The following scenarios have been developed by the EFG Asset Management team members based in London and Zurich. EFG Asset Management is the investment management arm of Shaw and Partners parent company Swiss-based private bank EFG International. EFG has assigned likely probabilities to each scenario as presented in the parentheses.

Iranian leadership survives (Base Case 65%)

While strikes occur, Iran's leadership remains in place. The regime continues military activity and may support actions beyond the region. A short-term ceasefire is reached before the end of March 2026, allowing President Trump to claim success, but with little change to the underlying political situation. This scenario has limited impact on financial markets beyond the initial period of elevated risk. This scenario is consistent with historical outcomes where there is a brief spike in oil prices and global equity market volatility that eventually subsides.

Leadership removed and uncertain transition (25%)

In this scenario, US and Israeli strikes succeed in removing Iran's leadership. This is followed by a period of political uncertainty, as it is unclear what form of government replaces the current regime. During this time, the Strait of Hormuz becomes heavily militarised, with a strong US naval presence aimed at keeping shipping lanes open. No agreement is reached on nuclear proliferation, leaving longer term tensions unresolved. Under this scenario the oil price and market volatility remain elevated for most of 2026.

New leadership and renewed diplomacy (10%)

A less likely but more constructive outcome would involve the emergence of new Iranian leadership that is acceptable to the US and key Gulf states. In this scenario, ceasefire talks are successful and, within months, a new nuclear agreement is reached, including limits on Iran's ballistic missile program. This outcome would be positive for global financial markets, with the oil prices falling materially from current levels.

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