Asset Risk | Consulting

Monthly macro focus

February 2026

When canons roar

Macro in a minute

Markets

Equity markets were mixed as resilient corporate earnings competed with rising geopolitical risk.

US technology stocks were volatile with investors weighing heavy AI investment against intensifying competitive pressures.

Non-US equities outperformed as investors diversified away from concentrated US technology exposure.

Government bonds strengthened late in the month as safe haven demand rose and US long dated yields moved lower.

Energy prices surged as US and Israeli operations in Iran raised concerns about disruption in the Strait of Hormuz.

Gold benefited from risk aversion and currency swings although prices remain stretched relative to historical valuation anchors.

Geopolitical tensions escalated sharply at month end. Firstly, US and UK governments evacuated staff from the region. Subsequently, Israel and the US confirmed major combat operations in Iran on February 28th with the death of Ayatollah Ali Khamenei Iran's supreme leader announced on March 1st.

Policy and central banks

Markets shifted attention towards potential 2026 policy easing with expectations that the new Fed governor may lean towards rate cuts.

Economy

The global macro backdrop stayed broadly resilient with US earnings showing healthy industrial and consumer trends.

Japan’s political clarity supported sentiment while Europe’s recovery remained uneven and emerging markets faced ongoing currency volatility amid faster reserve diversification.

When cannons roar, markets often panic first and think later

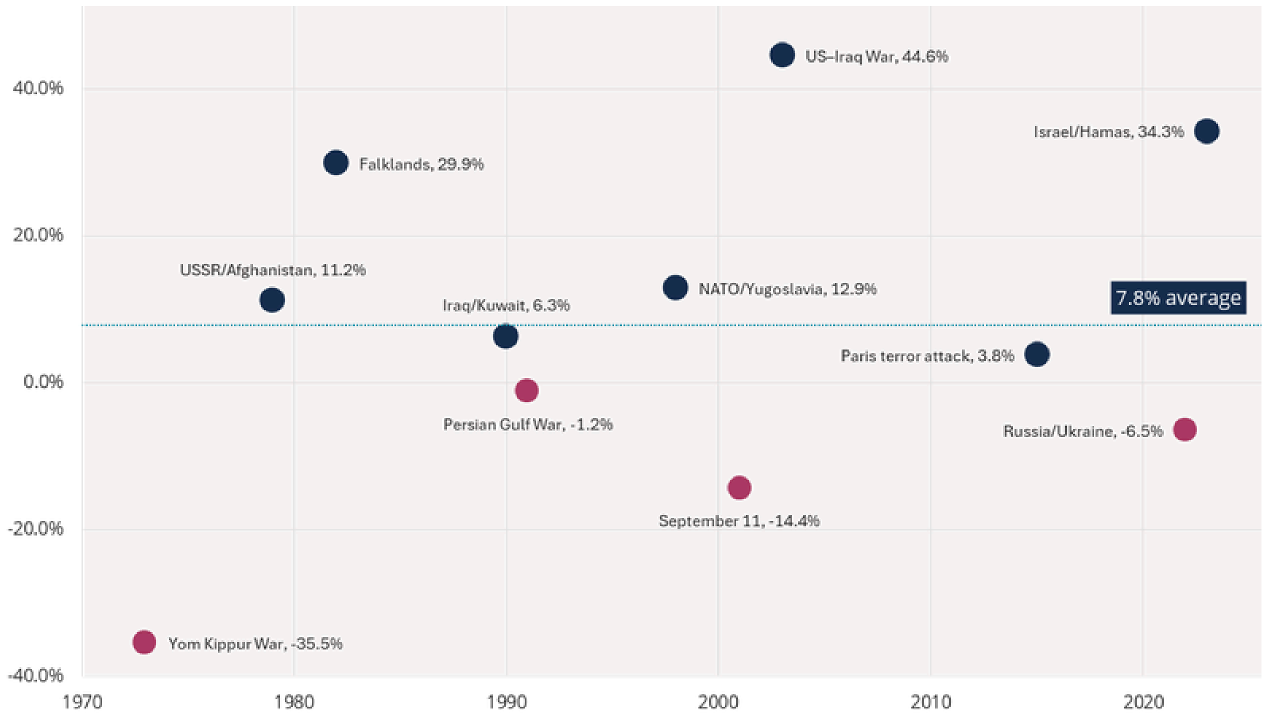
They can be volatile, excitable and easily swept up in fashionable fads, usually due to a new technology. They lurch, surge and wobble on incomplete information. Yet when it comes to geopolitical shocks, history shows that their bark is usually worse than their bite.

Caldara and Iacoviello's Geopolitical Risk Index, built from systematic searches across ten major newspapers, spikes around events such as the Cuban Missile Crisis and 9/11. These spikes typically coincide with short-term pressure on investments and equities but not sustained bear markets. Once uncertainty stops rising markets tend to stabilise.

Invesco illustrates the one-year returns following each peak in geopolitical risk. Across major geopolitical shocks since the 1970s, the MSCI World Index delivered an average one-year return of **7.8%** following peaks in the Geopolitical Risk Index. There are a handful of notable exceptions. The 1973 Yom Kippur War produced a large drawdown of **35.5%** due to an oil embargo triggering an unexpected US recession. Russia's invasion of Ukraine in 2022 similarly produced an oil shock, while the market decline following the September 11 attacks were more related to the dot com hangover.

Viewed together, the pattern is not of markets serenely gliding through crises, but of markets that react sharply yet recover with surprising reliability.

WORLD EQUITY INDEX RETURNS ONE YEAR AFTER GEOPOLITICAL RISK INDEX PEAK



Source: Invesco, Lipper, MSCI, Caldara, Dario and Iacoviello, Matteo (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225. The Geopolitical Risk Index peaks were: Oct 1973, Jan 1980, Apr 1982, Aug 1990, Feb 1991, Apr 1992, Sep 2001, Mar 2003, Nov 2015, Mar 2022 and Oct 2023.

MSCI's analysis[1] indicates that a sustained disruption to oil flows through the Strait of Hormuz that lifts oil prices by about **20%** would push breakeven inflation higher and reduce US equities by around **12%** within the scenario horizon. In other words, the macroeconomic channel does the damage, not the geopolitical headline.

Inflation is the real risk in a geopolitical shock

A further complication is that many of today's investment professionals have not actually managed money through a major geopolitical crisis.

The industry has grown younger and promotion cycles have accelerated, leaving a cohort whose exposure to past shocks is academic rather than lived. Collective memory is thinner than it once was and behavioural anchors are less widely held. This generational shift does not change the historical evidence, but it does influence how reactions play out in real time.

Collective memory is thinner than it used to be

Investors may get spooked, overshoot or chase fads, but geopolitical shocks rarely alter long-term return paths unless they spill into inflation, energy supply or credit conditions.

Markets panic first, think later and usually move on well before the headlines do.

So when cannons roar, markets do not yawn out of indifference. They yawn because by the time the headlines peak, they have already started thinking ahead.

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[1] MSCI, "Scenario Analysis: Middle East War, Oil and the Stagflation Threat"

Market commentary

Markets spent February pulled between resilient earnings and rising geopolitical stress.

US technology stock prices were volatile with investors balancing heavy AI spending and competitive pressures. Prices of energy, industrials, materials and staples companies all pushed higher.

Japanese equities outperformed helped by expectations of further fiscal support after Prime Minister Takaichi's snap election victory delivered a supermajority that is expected to ease policy implementation.

World equities were modestly up but hid notable divergences. US equities weakened late in the month while non-US markets outperformed as investors diversified away from concentrated US technology exposure.

Fixed income: safe havens regain purpose

As geopolitical risk rose towards month end, government bonds strengthened. US 10-year yields fell below four percent and the 30-year rallied by more than 20 basis points as investors sought safety amid fears of further escalation in the Middle East.

Markets also shifted attention to when central banks might start easing in 2026 with an expectation that the new Federal Reserve governor will follow through with Trump's desired interest rate cuts.

Safe havens reminded investors why they matter when geopolitical risk surged.

Commodities: energy leads the charge

Energy prices surged as the US and Israel began major combat operations in Iran, raising concerns over potential disruption in the Strait of Hormuz, a vital global oil corridor. Analysts expected oil to rise more sharply given the region's strategic importance.

Gold benefited from heightened uncertainty and currency swings as investors turned to traditional stores of value during the deepening crisis. With the gold price sitting at the upper end of the all in cost curve it appears increasingly disconnected from historic valuation anchors.

A steady US backdrop contrasted with uneven global momentum and exposed the economy's quieter pressure points.

Macro: Resilience with clear vulnerabilities

Despite geopolitical noise, the economic backdrop remained steady. Early US earnings showed broad-based growth across technology, industrial and consumer sectors. Banks pointed to stable spending and healthy credit conditions reinforcing a picture of an economy still holding up well.

Globally, momentum varied. Japan's improved political clarity supported sentiment while Europe's recovery remained uneven. Emerging markets were shaped by currency volatility and shifting rate expectations as global reserve diversification accelerated, prompting several central banks to adjust their reserve mix to reduce concentration risk.

Energy and gold both jumped as the Iran conflict deepened, showing how quickly geopolitics can push prices beyond their usual anchors.

Trump's tariffs

During the month, investors also had to contend with growing trade uncertainty. The Supreme Court struck down baseline tariffs earlier in the year. Despite this legal setback, President Trump introduced new tariff measures, adding further uncertainty at a time when risk appetite was already fragile.

Legally blocked yet politically renewed.

Geopolitics: the month the storm arrived

Evacuations across the Middle East

Throughout February tensions built steadily before culminating in a marked escalation in the final days of the month. As the regional situation worsened, non-essential staff and their dependants were evacuated by US and UK governments.

A regional flashpoint became a genuine market risk.

US and Israel strike Iran

At month end the US confirmed it had begun major combat operations in Iran targeting ministries in southern Tehran. Markets viewed this as a significant escalation with far wider economic implications than previous flashpoints given Iran's central role in global oil flows.

Outlook

Provided instability remains largely within Iranian borders major disruption to the global economy is unlikely, although the situation remains fluid. What would change our outlook?

Three triggers stand out:

1. Unhelpful involvement by another major power would widen geopolitical risk
2. Nuclear escalation, particularly given the US strikes on Iranian nuclear facilities last year
3. Sustained Iranian attacks on Gulf energy or logistics infrastructure, especially if damage becomes material rather than contained

Our base case remains one of temporary market volatility rather than a prolonged economic shock.

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