



## Introduction

February was shaped by a combination of improving economic signals and rising political and geopolitical uncertainty. While business surveys pointed to a resilient economy due to increased economic growth around the world and reduced inflation, financial markets periodically experienced disruption due to legal, policy, and geopolitical developments.

Equity performance reflected movement away from US mega-cap technology stocks, as investors moved money into other equities, driven by concerns over return on investment. At the same time, falling bond yields boosted the performance of fixed income and real estate related stocks, indicating a shift toward broader market leadership, though the overall environment felt more uncertain.

### **Anxiety over disruption to AI stock prices drove a major market shift**

Markets spent much of February reassessing the implications of AI. Updates from leading developers accelerated concerns that increasingly autonomous systems could threaten existing business models through compressing profit margins and the threat of increased unemployment. Investors responded abruptly, selling first and asking questions later.

While AI had previously been viewed as something that would be a source of growth for most companies, it has become clear that it could cause volatility in the markets. These concerns spilled beyond equities. Fears around the threat to existing business models contributed to a flight-to-safety move towards government bonds, pushing

# Portfolio & Market Update

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return yields lower, despite the market still performing reasonably.

These AI-related dynamics reinforced the trend towards broader market leadership. Indices that give companies equal-weighting performed better than those that had a mega-cap weighting, signalling fatigue with the risk associated with cap-weighted concentration and a reassessment of whether premiums on these companies were worth their price.

In contrast to this weakness in US technology stocks, Asian equities, particularly those linked to semiconductors and AI infrastructure, benefited from strong demand tied to the physical build-out of AI, such as the manufacture of computer chips and other hardware. The result of these factors was a pronounced move from perceived AI “winners” such as the Magnificent Seven, toward assets seen as either beneficiaries of capital investment from these companies, or those insulated from rapid technological innovation.

Software, payments, professional services, and other asset-light sectors came under pressure, due to concerns over AI in these industries. In addition, mega-cap technology names, such as Microsoft and Meta, were penalised for announcing ever-larger capital expenditure, with no clear indication of when or whether investors would see a profit.



February reinforced that AI is no longer a simple narrative of growth acceleration; it is now a catalyst for differentiation, which is challenging investors to distinguish between exposure to innovation and exposure to disruption risk.

Within that context, our ProsperityBuild investment fund has benefited from exposure to semi-conductors and AI infrastructure through an overweighting towards Asia and emerging markets. The strategy served investors well, particularly because prices of memory chips continued to rise amid persistent supply shortages, underscoring the supplier-led dynamics of this market. In addition, ongoing production restraint in this area and strong demand reinforced the pricing power of manufacturers, which supported predictable profits across the sector.

### **Geopolitical uncertainty reinforced a shift toward global diversification**

February also saw geopolitical and policy uncertainty reassert themselves as meaningful factors, influencing where investors choose to put their money.

In the US, the Supreme Court ruled that President Trump acted unlawfully when using the claim of a national emergency to justify tariffs he introduced in 2025. Tariffs imposed under other legislation, such as those targeting steel and aluminium imports, were not affected. Because of this, an introduction of temporary alternative measures reopened questions around trade durability, supply chains, and the treatment of existing import duties.

While immediate economic damage relating to this appeared to be limited, it reminded

investors that policy frameworks remain fluid and are subject to political risk. This uncertainty was compounded by rising geopolitical tensions in the Middle East, reinforcing concerns that the extended period of economic growth is maturing and therefore more susceptible to shocks, even though growth data remains broadly supportive.

In response, investors increasingly favoured resilience over efficiency. Investor capital moved towards sectors anchored in tangible assets and domestic demand, such as energy, materials, utilities, and industrials. These are all areas that are perceived as less exposed to regulatory shocks, technological displacement, or sudden shifts in global trade.

International markets also continued to attract money inflows. European equities were supported by companies with healthy profits aggressively buying back shares, while emerging markets benefited from improving economic growth and stabilising inflation. Falling bond yields reflected a desire for protection amid higher macro and geopolitical risks, not economic weakness.

Overall, February highlighted a market environment in which diversification across regions, asset classes, and sources of risk was rewarded, as investors sought portfolios that can withstand policy uncertainty, geopolitical stress, and an increasingly fragmented global landscape.



## More recent events

On the last day of February, the US and Israel attacked Iran, killing Iran's Supreme Leader, along with several senior officials. While the timing and scale of this couldn't have been anticipated, the outlook remains uncertain. Further military escalation appears likely, particularly as Iran retaliates against US and Israeli interests, affecting shipping lanes, energy infrastructure, and military bases. The campaign's focus on senior political leadership also raises the risk of internal instability within Iran. Although the Strait of Hormuz remains officially open, shipping disruption has been severe and oil prices have escalated significantly due to the conflict.

Periods of global uncertainty can understandably be unsettling. However, history shows that markets have faced numerous crises over the past decades, and these episodes have tended to be temporary. Over the long term, disciplined investment has continued to deliver positive outcomes, despite short-term volatility.

The ProsperityShield fund strategy is positioned to deliver resilient returns across a range of scenarios. The construction of the portfolio reflects elevated geopolitical and policy risk, with increased exposure to alternatives and commodities. It favours real assets that continue to perform well during supply shocks and geopolitical stress. In addition, a lower allocation to US and UK bonds given ongoing inflation, fiscal pressures, and uncertainty around their long-term defensive effectiveness rounds out the diversification.

## Glossary

**Mega-cap:** Refers to the very largest companies, as defined by market value.

**Market leadership:** Refers to the companies that are leading stock market gains. Broad market leadership means more sectors and investment are doing well.

**Yield:** Measures income from an investment over a set period of time, such as dividends from shares or interest from bonds.

**Asset-light sectors:** Sectors that don't have many physical assets such as equipment and vehicles.

**Capital expenditure:** Money a company spends on big, long-term investments.

**Magnificent Seven:** Seven US technology companies – Amazon, Apple, Google, Meta, Microsoft, Nvidia, and Tesla.

**ProsperityBuild:** A growth-oriented investment fund co-manufactured by Flying Colours Investment Management and Fidelity International, designed to provide global equity exposure.

**ProsperityShield:** A diversified, defensive investment fund co-manufactured by Flying Colours Investment Management and Fidelity International, designed to grow capital over the long term, while providing a smooth performance path for investors.