

Executive Summary

U.S. markets ended the week in a selective and rotation-driven state, with investors navigating a mix of softer technical momentum, sticky inflation signals, and a new layer of policy uncertainty following the Supreme Court's tariff ruling. Beneath relatively calm headline indices, dispersion widened meaningfully as capital rotated toward defensives, value, and small caps while growth and software continued to digest AI-driven disruption.

Key Themes for Investors

- **Technical Setup:** Market breadth improved modestly, but momentum remains uneven as the Nasdaq cools and the Dow and Russell 2000 show relative strength. The rotation away from long-duration growth toward cyclicals and defensives reflects a market recalibrating rather than breaking down.
- **Macro & Monetary Policy:** GDP slowed to 1.4% annualised while core PCE held at 3.0% YoY, reinforcing a higher-for-longer rate backdrop. The Supreme Court's tariff ruling offers short-term goods-price relief but injects longer-term uncertainty into the Fed's inflation path and trade-policy framework, keeping Treasury yields volatile.
- **Market Performance:** The S&P 500 and Dow ended the week broadly flat, the Nasdaq showed tentative stabilisation, and the Russell 2000 outperformed as small caps benefited from improving domestic sentiment and valuation support. Friday's relief rally reflected the near-term disinflationary impulse from lower effective tariffs.
- **Geopolitics:** Middle East tensions escalated as U.S.–Iran negotiations stalled, adding a modest risk premium to crude and supporting energy equities. Meanwhile, the tariff ruling destabilises the legal foundation of several U.S. trade arrangements, raising uncertainty for globally exposed sectors.
- **Market Outlook:** Next week's tone will hinge on NVIDIA earnings, Fed commentary, and follow-through on the tariff ruling. AI-driven software disruption remains a headwind for traditional tech, while defensives, value, and selective cyclicals continue to offer relative stability. Expect range-bound trading with elevated dispersion and catalyst-driven volatility.

Looking ahead, the market enters next week with a cautiously balanced tone—supported by solid earnings visibility but constrained by policy ambiguity and sector-level disruption. Investors should remain selective, favouring quality large caps, defensives, and targeted cyclical exposure while keeping growth allocations tactical until the macro and policy signals become clearer.

Technical Outlook – US market

U.S. equities closed the week in a constructive but rotation-driven pattern with leadership continuing to broaden beyond the mega-cap tech names that dominated earlier in the cycle. The S&P 500 remains firm near recent highs, supported by improving breadth and steady demand for companies with earnings visibility and balance-sheet strength. The Dow's relative outperformance reinforces this shift, as investors lean toward lower-beta, valuation-supported sectors to manage duration and policy uncertainty without reducing overall equity exposure.

The Nasdaq's softer tone reflects cooling momentum in secular growth stocks, where elevated valuations and sensitivity to shifting rate expectations have triggered profit-taking. This is not a breakdown but a recalibration, as capital rotates toward cyclicals, staples, healthcare and value—areas offering more predictable cash flows in a higher-for-longer rate environment. The standout remains the Russell 2000, where small caps are benefiting from renewed domestic risk appetite and a long-overdue re-rating after years of compressed valuations.

Taken together, the cross-index behaviour points to a market transitioning from narrow, growth-led leadership to a more balanced, valuation-aware structure. Investors are cautiously optimistic—adding exposure to cyclicals and small caps while maintaining a defensive anchor in large caps. In the near term, this setup argues for continued broadening, moderated upside, and higher dispersion, with rotation rather than index-level breakouts likely to define market behaviour.

Monetary Policy and Macro Outlook

The macro narrative shifted meaningfully this week as fresh GDP and PCE data delivered a more complicated picture for the Federal Reserve. Fourth-quarter GDP slowed sharply to just 1.4% annualised, well below expectations for 2.5%, with the Commerce Department noting that the late-2025 government shutdown likely shaved about one percentage point off growth. At the same time, core PCE inflation held firm at 3.0% year-on-year, with both core and headline PCE rising 0.4% month-on-month, signalling that price pressures remain sticky and uncomfortably above the Fed's target.

This combination of weaker growth but persistent inflation reinforces the policy split already evident within the FOMC. Some policymakers argue that easing inflation justifies further cuts later in the year, while others warn that firming goods inflation and resilient labour data argue for patience—or even the possibility of renewed tightening. Markets have adjusted only modestly, still pricing in two 25 bp cuts by year-end, but the data skew risks toward a higher-for-longer stance.

The Supreme Court's decision to strike down President Trump's tariff authority adds a new layer of uncertainty. In the very short term, tariff relief could marginally ease goods-price pressures, but the ruling injects policy ambiguity into the outlook: markets must now assess whether alternative tariff mechanisms will emerge, how quickly they could be implemented and whether the ruling disrupts the administration's broader trade strategy. This uncertainty is likely to keep Treasury yields volatile, as investors weigh the possibility of near-term disinflation against the risk of a more fragmented and unpredictable policy environment.

For investors, the setup is delicately balanced: growth momentum has softened, inflation remains sticky, and the tariff ruling complicates the forward path for both prices and policy. The prudent stance is to remain conservative, recognising that while short-term tariff relief may temporarily ease goods inflation, it also increases uncertainty around the Fed's reaction function. Expect yields to remain choppy and the rate-cut trajectory to stay fluid until the next round of inflation and labour data provides clearer direction.

Noticeable Stock Moves

This week's equity moves reflected a market recalibrating around earnings quality, geopolitical cross-currents, and the disruptive impact of AI-driven security technologies.

Palo Alto Networks (PANW) traded with sharp volatility after delivering strong Q2 revenue but guiding to weaker profitability. The stock fell around 9–10% as investors reacted to margin compression tied to its phantomization strategy and the integration of large acquisitions, including CyberArk and Chronosphere. The backdrop was further complicated by Anthropic's Claude Code Security, which has intensified competitive pressure across the cybersecurity landscape by automating vulnerability discovery and remediation. While PANW remains strategically well-positioned, the market is reassessing near-term earnings power as AI-native tools reshape the economics of security.

Phillips 66 (PSX) continued its strong uptrend, trading near the top of its 52-week range. Momentum remains supported by activist pressure from Elliott Management and expectations of portfolio simplification. However, the company's involvement in sourcing Venezuelan crude adds a geopolitical dimension, with shifting U.S. foreign-policy signals and supply-chain sensitivities influencing refining margins and investor sentiment. Despite these cross-currents, PSX remains one of the more resilient energy names heading into its April earnings release.

Simon Property Group (SPG) held near 52-week highs after a strong Q4 earnings beat earlier in the month, supported by robust tenant demand and rising retail sales per square foot. While fundamentals remain solid, the stock's elevated valuation and

exposure to tariff-linked retail volatility introduce a more asymmetric risk profile as macro uncertainty builds.

Overall, the week's moves highlight a market rewarding balance-sheet strength, operational clarity, and geopolitical insulation, while penalising companies facing margin pressure, policy uncertainty, or disruptive technological shifts. Looking ahead, investors should expect continued dispersion, with stock-specific catalysts and geopolitical overlays driving performance more than broad index direction.

Geopolitics

Geopolitics re-emerged as a major market driver this week, with investors forced to reassess both energy risk and the durability of U.S. trade policy. The sharp 4% jump in crude followed clear signals from Washington that nuclear talks with Iran have stalled and that military action is now a real possibility. Vice President JD Vance's comments, combined with reporting that any U.S. strike would resemble a broad campaign rather than a limited operation, pushed traders to price in the risk of supply disruption, shipping-lane instability, and a prolonged regional shock. Energy equities and refiners responded positively, while transport, chemicals, and consumer-facing sectors absorbed the downside of higher input costs.

At the same time, the Supreme Court's decision to strike down President Trump's tariff authority introduces a different kind of geopolitical uncertainty. In the short term, the ruling may ease some goods-price pressure—supportive for PCE disinflation—but it destabilises the legal foundation of multiple U.S. trade arrangements. Deals with key partners such as India, Mexico, and select Indo-Pacific economies could face renegotiation risk or implementation delays as the administration seeks alternative mechanisms to re-assert trade leverage. For markets, this means less clarity on tariff direction, more volatility in globally exposed sectors, and a wider range of outcomes for inflation and supply-chain costs.

For investors, the geopolitical setup is now defined by two opposing forces:

- Middle East escalation, which pushes inflation and energy risk higher.
- Tariff relief, which could temporarily soften goods inflation but increases policy ambiguity.

The net effect is a more volatile and less predictable macro backdrop, where energy, defence, and select industrials gain support, while global manufacturers, retailers, and logistics companies face a more uneven outlook. In the near term, geopolitical risk premia are likely to stay elevated, and markets will continue to reward companies with pricing power, supply-chain flexibility, and low exposure to policy-driven shocks

Market Performance –20th Feb 2026

U.S. equities ended the week on a firmer footing, with a relief rally on Friday after the Supreme Court struck down the administration's tariff authority—removing, at least temporarily, one of the key inflation risks that had been weighing on sentiment. While the ruling introduces longer-term policy uncertainty, markets responded to the immediate prospect of lower goods-price pressure and a slightly less hawkish near-term inflation path.

At the close on 20 February 2026, the S&P 500 rose to 6,836.17 (+0.10%), the Dow Jones Industrial Average matched the move at 49,500.93 (+0.10%), and the Nasdaq Composite gained 0.22% to 22,546.67. The parallel performance across the S&P and Dow reflected a market that was steady rather than directional, with investors avoiding broad repositioning but showing a willingness to re-engage selectively in rate-sensitive segments. The Nasdaq's modest outperformance signalled stabilising sentiment in growth and tech after recent volatility, though not yet a decisive rotation back into high-beta leadership.

The Russell 2000 outperformed, climbing 1.18% to 2,646.70, extending its recent trend of strength. Small-cap leadership continues to reflect improving domestic risk appetite and a valuation-driven re-rating after years of underperformance. The gap between small-cap and large-cap returns underscores a market that is broadening beneath the surface, even as headline indices appear calm.

Overall, the week's cross-index performance points to a market that is stable on the surface but increasingly selective underneath. The Supreme Court's tariff ruling provided short-term relief, but investors remain mindful of the longer-term uncertainty it introduces for trade policy, inflation, and the Fed's reaction function. Positioning remains measured rather than aggressive: investors are adding exposure where valuations are compelling—particularly in small caps and cyclicals—while maintaining a defensive anchor in large-cap quality as macro and policy signals remain fluid.

Market Outlook in the Week Ahead

The market heads into next week with a cautiously mixed tone, shaped by a combination of sector rotation, shifting macro expectations, and a fresh layer of policy uncertainty following the Supreme Court's decision to strike down the administration's tariff authority. The ruling triggered a relief rally on Friday as investors priced in the near-term benefit of lower effective import costs—a de-facto global tariff rate closer to 10% reduces goods-price pressure and temporarily softens the inflation outlook. But the ruling also destabilises the legal foundation of multiple U.S. trade arrangements, leaving markets unsure about what replaces the old framework. This mix of short-term disinflation and long-term uncertainty is likely to keep Treasury yields volatile and rate-path expectations fluid.

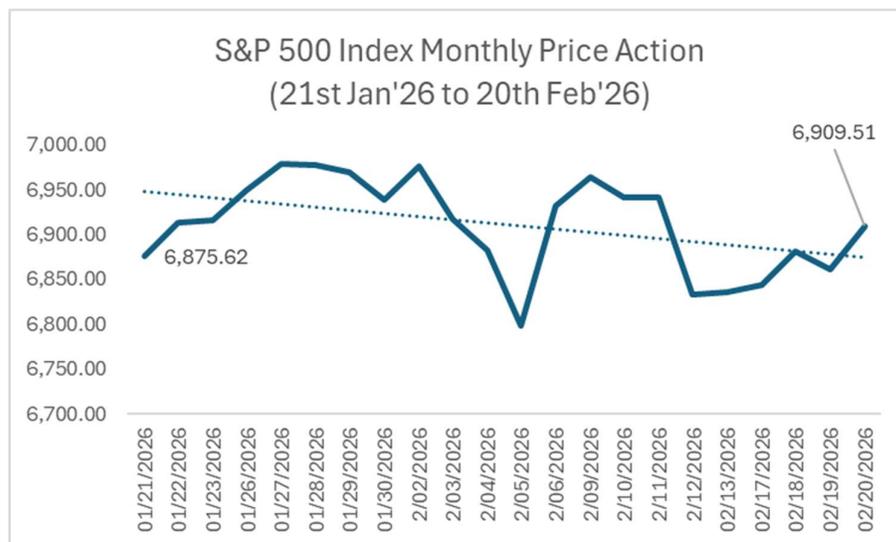
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Against this backdrop, sector rotation remains the dominant market theme. Over the past week, major indices slipped around 1.6%, driven by a 2.6% decline in Information Technology, while Utilities gained more than 4%, signalling a defensive tilt as investors hedge valuation and duration risk. This rotation is unlikely to reverse immediately, especially with NVIDIA reporting earnings next week—a key catalyst that could either stabilise sentiment in AI-linked growth stocks or reinforce the recent derating if guidance disappoints. At the same time, AI-driven software disruption continues to weigh on traditional software, real estate, logistics, and wealth-management names, and these pressures will remain a structural headwind until business models adapt.

From a positioning standpoint, the setup argues for measured exposure rather than aggressive risk-taking. Defensive sectors and select cyclicals should continue to offer relative stability, while small caps may benefit from improving domestic momentum and tariff relief. Growth-oriented areas are likely to stay choppy ahead of NVDA's results and ongoing repricing of AI-related earnings expectations. For traders, expect range-bound markets with episodic volatility, where catalysts such as NVDA earnings, Fed commentary, and follow-through on the tariff ruling drive short-term swings. For longer-term investors, the combination of solid multi-year earnings visibility and a more valuation-aware market structure support a balanced barbell: quality large caps on one side, selective cyclicals and small caps on the other, while keeping growth exposure tactical until the policy and rate backdrop becomes clearer.

In short, next week is likely to be defined by rotation, dispersion, and policy-driven volatility, rather than broad index direction—rewarding investors who stay selective, disciplined, and opportunistic.

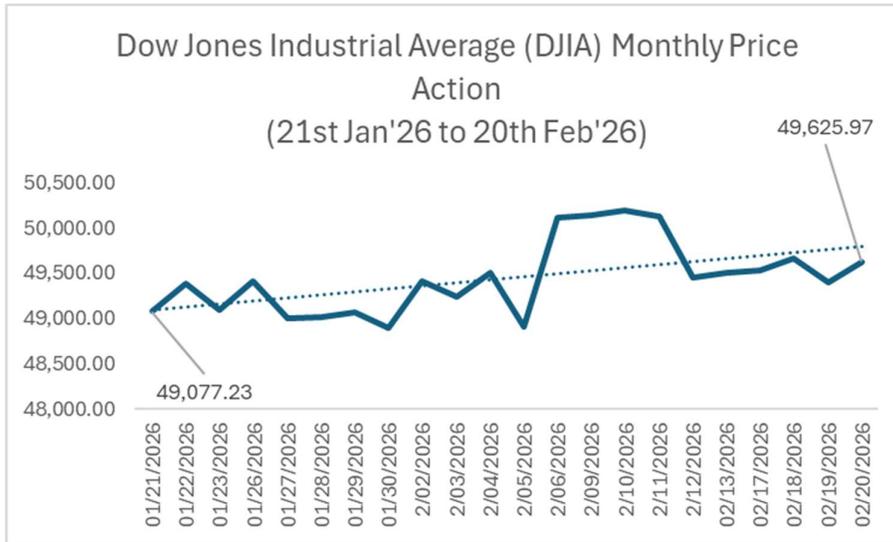
US Market Monthly Index Graphs 21st Jan'26 to 20th Feb 26)



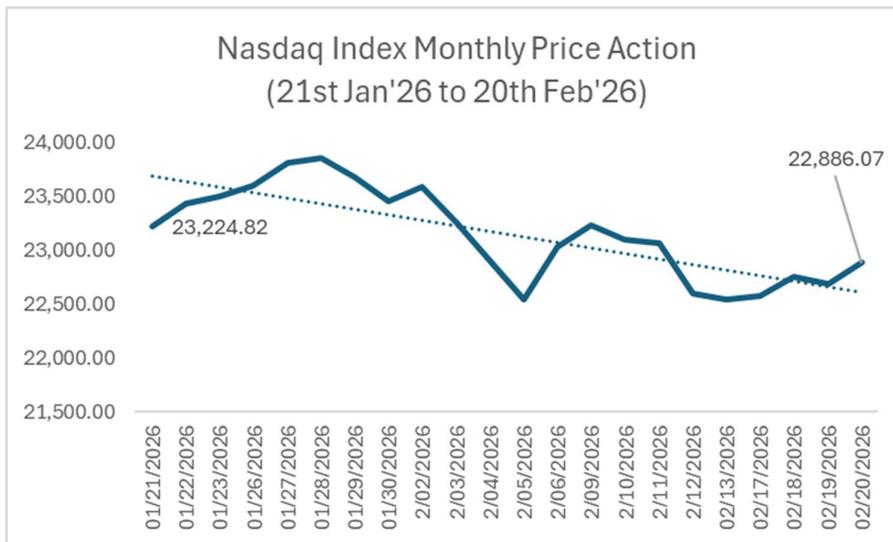
Day's Range 6,836.33 -----6,915.86

52 wk. Range 4,835.04-----7,002.28

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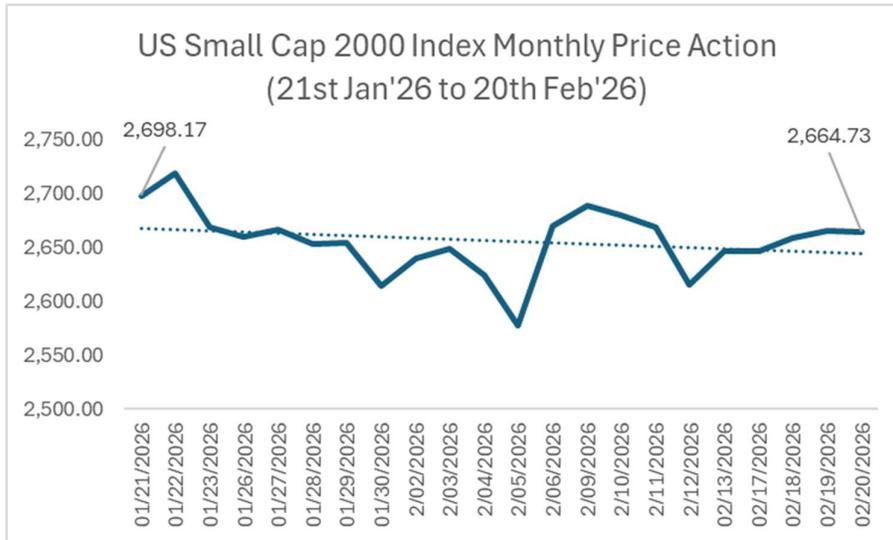


Day's Range: 49,158.28----49,712.56
52 wk. Range: 36,611.78----50,512.79

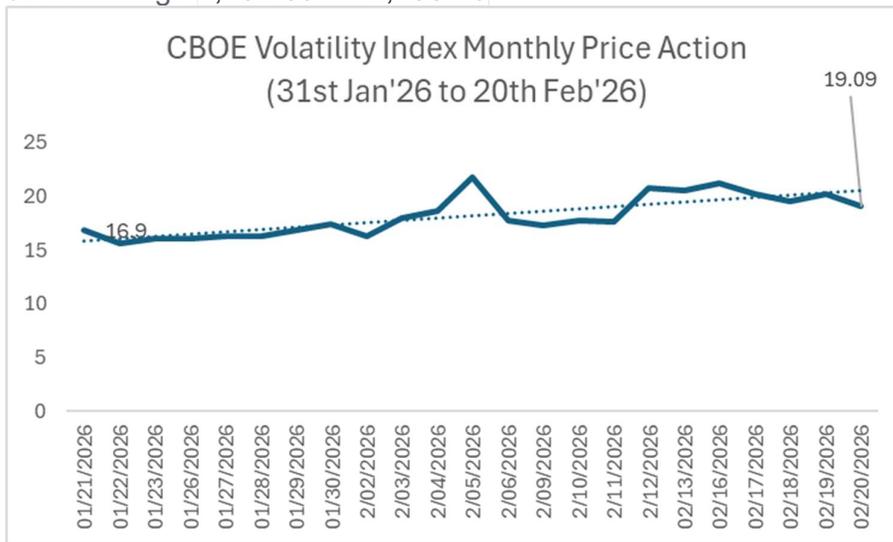


Day's Range: 22,539.05----22,948.87
52 wk. Range: 14,784.03----24,019.99

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Day's Range 2,638.74-----2,690.89
 52 wk. Range 1,732.99-----2,735.10



Day's Range : 18.76-----21.21
 52 wk. Range: 13.38-----60.13