

Monthly Market Commentary

Benchmark Returns AS OF FEBRUARY 28, 2026

	MONTH	YTD
S&P 500	-0.76%	0.68%
Dow Jones Industrial Average	0.31%	2.12%
Nasdaq	-3.33%	-2.39%

	MONTH	YTD
Bloomberg Agg Bond Index	1.64%	1.75%
Developed International	4.64%	10.11%
Emerging Markets	5.51%	14.86%



Supreme Court Tariff Decision & Market Implications

On February 21st, the U.S. Supreme Court delivered a landmark ruling that struck down the tariffs first announced by the Trump administration in April 2024. The Court ruled that the White House lacked authority under the International Emergency Economic Powers Act (IEEPA) without explicit Congressional backing. After an initial relief rally, policy uncertainty returned; within hours, President Trump announced a global tariff under Section 122 of the Trade Act of 1974. The ongoing legal and fiscal ambiguity continues to raise questions about companies' profit margins, pricing power, and overall inflation trends.

Major Economic Releases: Labor, Growth, & Inflation

The U.S. labor market remains resilient. The January employment report showed a much stronger-than-expected gain of 130,000 new jobs. The unemployment rate fell to 4.3%.

The advance estimate of fourth quarter GDP indicated that the U.S. annual rate of economic growth slowed markedly to 1.4% from 4.4% in the third quarter. Most analysts and pundits pointed to the 42-day U.S. government shutdown for the weakness. For the year, GDP growth was 2.2%, down from 2.8% in 2024.

Measures of consumer prices point to decelerating but persistent inflation. Both the CPI and PCE reports came in above the Federal Reserve's stated 2.0% goal. The most surprising report came at month-end with a much higher level for the Producer Price Index. The continued stickier cost pressures may complicate near-term Fed easing expectations.

The Bull Market: Outlook & Cycle Considerations

The current bull market, which began in October 2022, has delivered strong cumulative gains, led by technology and AI-linked sectors. Historical market cycles suggest that three-year-plus bull markets often have additional room to run. As noted by Argus Research, "the five bull markets since 1980 have seen stocks advance about 240% over a period of almost six years."

However, caution is warranted:

- Valuation pressure: The concentration in a few mega-caps increases vulnerability to drawdowns if broadening leadership is not sustained.
- Presidential cycle dynamics: Historically, markets in the second year of a four-year U.S. presidential cycle (as 2026 is) tend to exhibit greater volatility and occasional weakness compared to the typically stronger third and fourth years of the cycle—a pattern documented in long-run seasonality research.
- Policy & macro risks: Trade policy uncertainty, sticky inflation, and geopolitical concerns remain catalysts for market corrections.

Conclusion

While the structural underpinnings of the bull market (monetary policy support, corporate earnings resilience, productivity gains) suggest room for continued gains, intermediate volatility and typical cycle ebb phases are likely. We continue to position client portfolios with a focus on appropriate diversification and risk management.

Earnings Strength Amid Market Turbulence

Financial markets saw significant volatility and policy uncertainty this month, but earnings are still delivering. U.S. companies are reporting fourth-quarter earnings growth that exceeds revenue growth. These improved margins drive profits. Profits are the strongest factor behind investment returns. If companies' bottom lines are intact, the depth and duration of any sell-off is limited.

AI Anxiety & Market Sentiment

February's market moves were a study in AI-related market psychology. Investors questioned whether the enormous investments of the mega-cap hyperscale's would pay off, while "scare trade" became a new watchword in the financial media. The "scare trade" may have originated from a widely circulated report forecasting AI-driven job losses and recession pressures. This amplified fears that rapid automation could slow growth and weigh on equity valuations, particularly outside AI leadership.

“February's series of selloffs were “the sector version of ‘Whac-A-Mole’ ... initiating corrections in transportation, wealth management, insurance, and commercial real estate in succession.”

Sam Stovall *Chief Investment Strategist, CFRA*

This ambivalence between AI optimism (structural growth) and AI anxiety (displacement risk) has become a key bifurcation in market leadership and sentiment. On the plus side, technological innovation may spread faster than investors have expected, leading to productivity gains that are reflected in higher stock prices. Companies should benefit from AI's increased efficiency by becoming nimbler and more profitable.

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