

Market Review Monthly

February 2026



Key takeaways February 2026

- Australian shares rose by 3.9% in February, outperforming international markets, with the financials sector being the best performer. International shares (hedged) rose 0.9% in February, as Q4 2025 corporate reporting season showed earnings growth of 14.2% for 2025.
- The United States and Israel launched military strikes on Iran, resulting in the death of Supreme Leader Ayatollah Ali Khamenei. While these developments are geopolitically significant, financial markets are likely to focus primarily on the risk of disruption to energy supplies.
- The US Supreme Court has ruled that the US reciprocal tariffs were not legal. However, President Trump has made it clear that tariffs will remain in place and that the Administration will impose them through other means.
- The Reserve Bank of Australia (RBA) voted unanimously to increase the cash rate by 0.25% to 3.85%, in line with market expectations. Markets are pricing another 0.25% increase in 2026, which appears likely given the RBA now expects inflation to peak at 4.2% by mid-year before easing back to its 2-3% target in 2027. Globally, the Bank of England (BoE), European Central Bank (ECB), and Reserve Bank of New Zealand (RBNZ) all kept policy rates unchanged.

Upcoming

1. US/Israel – Iran conflict (March) –

What will be the implications for the Middle East and for global markets and economies?

2. RBA meeting (17 March) –

Will the RBA follow up with another rate hike?

3. Australian CPI (25 March) –

Will inflation remain elevated?

Portfolio implementation of house views may differ depending on the Mercer Fund for which MIAL is the responsible entity or trustee and issuer of interests.

Market review February 2026

Strong month for Australian shares, outperforming international markets

- Australian shares rose by 3.9% in February, outperforming international markets, with 7 of 11 sectors advancing. The financials sector was the strongest performer, up 9%; followed by the materials sector, which ended the month up 8.9%. Rising commodity prices pushed mining shares higher while banking shares benefited from rising interest rates.
- Healthcare was the largest detractor, down -13%. The information technology sector also continued to fall, down -8.1% over the month, bringing its total decline over the past five months to -38.4%, amid valuation concerns and AI disruption fears amongst software companies.

International share markets marginally higher in February

- International shares (hedged) rose 0.9% in February as the Q4 2025 corporate reporting season concluded; with S&P 500 companies having reported 14.2% earnings growth for 2025, ahead of market expectations.
- The best performing sector was materials, up 10.8% over the month, as commodity prices climbed; closely followed by the utilities sector, which was higher by 9.4%. The largest detractor was the telecommunication sector, which fell -4.0%.
- Emerging market shares (unhedged) rose 3.7% in February, supported by their attractive valuations compared with other international share markets.

International real assets surge on lower interest rate expectations

- International listed property gained 7.2% in February, while international listed infrastructure rose 8.3%. These markets were supported by expectations of lower international interest rates and bond yields, as well as attractive earnings yields.

Fixed interest market returns were largely positive

- Australian government bonds returned 1% over the month, as yields fell -16bps. While the economic data did not justify the risk-off move in bond markets, the decline in yields likely reflects a partial reversal of the sharp rise seen in previous months.
- International credit spreads widened moderately while international credit returned 1.1% in February as the fall in international bond yields contributed positively to total returns.

Australian 10-year government bond yield (%)



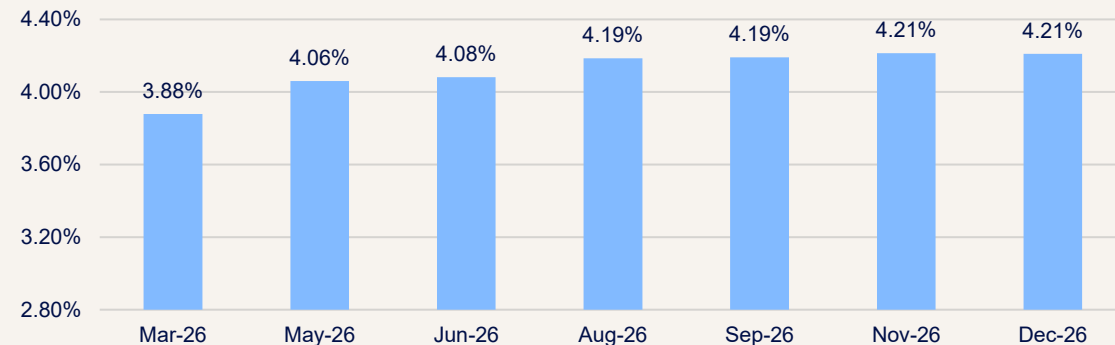
Source: Bloomberg, Mercer, 28/2/2026

Economic review February 2026

Australia: RBA increased the cash rate for the first time since 2023

- The RBA voted unanimously to increase the cash rate by 0.25% to 3.85%. This is the RBA's first hike since 2023 and comes just six months after its most recent rate cut. The RBA noted that inflationary pressures picked up materially in the second half of 2025. Markets are pricing in another 0.25% hike in 2026, which appears likely given the RBA expects inflation to peak at 4.2% by mid-year before easing back to its target of 2-3% in 2027.
- The Australian ANZ-Indeed Job Ads series posted its strongest gain in four years, rising 4.4% in January. The rise was broad-based across states. This data suggests the Australian labour market will likely remain robust in early 2026.
- Recent labour market data reinforced this picture, with employment up by 17,800 in January, driven by strong growth in full-time roles. The unemployment rate held at 4.1%, defying expectations for an uptick to 4.2%. Overall, this data is unlikely to alter the current expected path for interest rates.

Market expectation of RBA cash rate at each meeting (%)

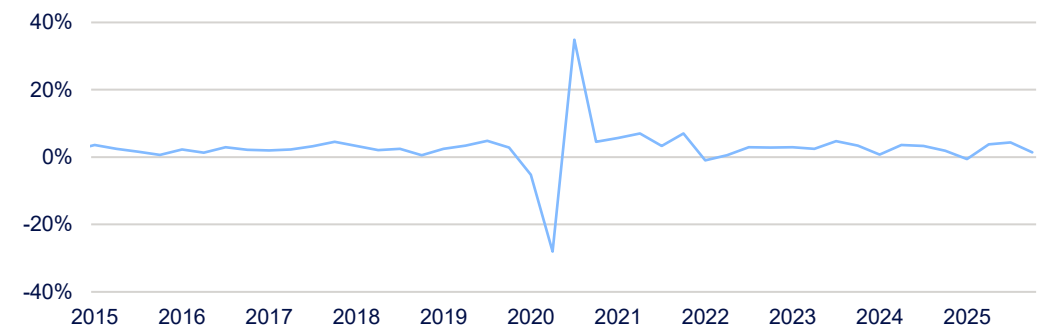


Source: Bloomberg, Mercer, 28/2/2026

International: Military strikes on Iran pose risk to oil supplies

- On 28 February, the United States and Israel launched military strikes on Iran, resulting in the death of Iranian Leader, Ayatollah Ali Khamenei. While these events are geopolitically significant, financial markets will focus on whether oil supplies are disrupted; particularly if shipments through the Strait of Hormuz – which carries around 20% of global seaborne oil – face prolonged disruption.
- The US Supreme Court ruled that the US reciprocal tariffs were illegal under the International Emergency Economic Powers Act. President Trump, however, kept tariffs in place and immediately raised the base rate from 10% to 15%, with the Administration planning to use alternative legal mechanisms.
- Key Central Banks left interest rates unchanged: the BoE at 3.75%, the ECB at 2.0%, and the RBNZ at 2.25%.
- US real GDP figures for Q4 2025 came in below expectations at 1.4%, largely reflecting the prolonged government shutdown.

US GDP Quarterly Annualised (%)



Source: Bloomberg, Mercer 28/2/2026

Outlook

Australian economic growth is expected to pick up in 2026

- Headline inflation is widely expected to continue rising in 2026; as government energy rebates have expired and recent readings remain above the RBA's 2-3% target band. We anticipate at least another RBA rate hike this year; following the February shift to a tightening stance, in response to persistent above-target inflation and a robust labour market.
- The RBA has adopted a more hawkish stance amid rising inflation concerns, pushing Australian government bond yields higher. We view this as broadly consistent with market expectations for monetary policy and, as a result, maintain a neutral position in Australian government bonds.
- The AUD has marginally attractive valuations against the USD, but valuations are less supportive against other currencies. With Australian economic growth still running below potential and valuations only mildly supportive, we believe that maintaining a neutral position in the AUD remains appropriate.

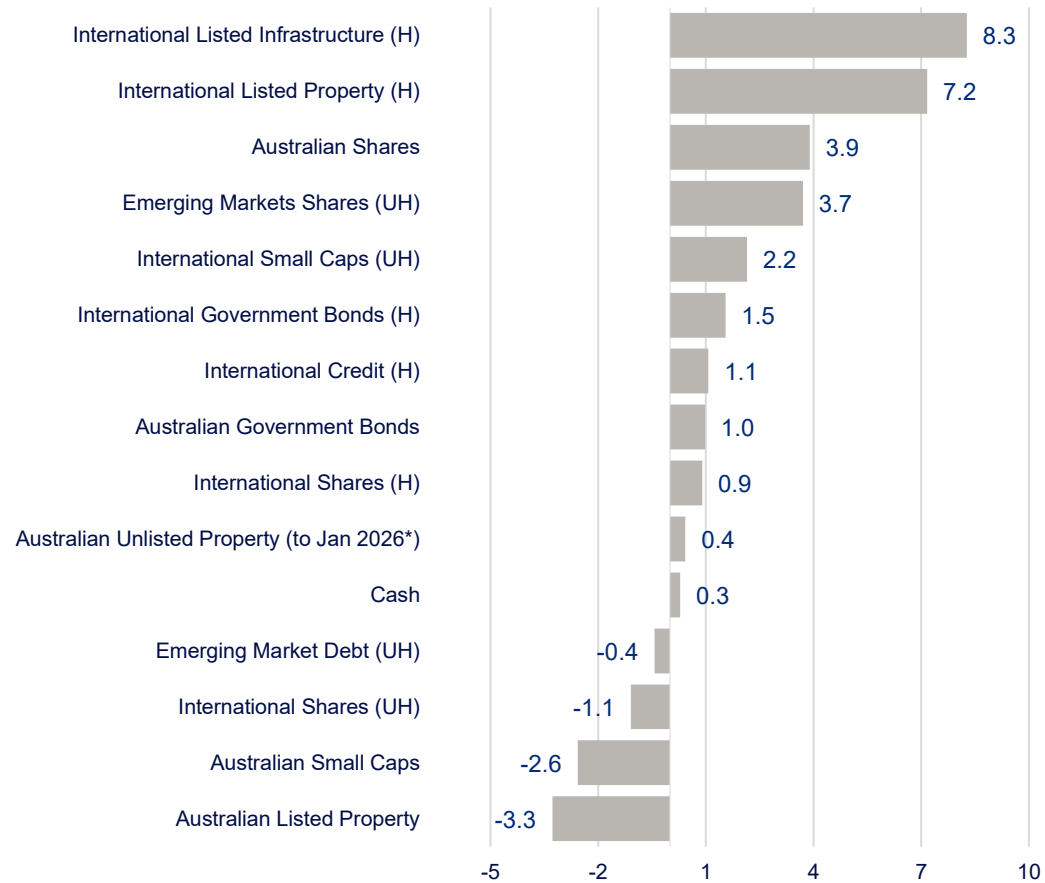
Oil prices at risk of rising, but the global economy remains resilient.

- We are not making any immediate changes to portfolios as a result of the unfolding situation in the Middle East. However, the situation remains fluid, and we are monitoring developments closely.
- Policymakers in the US are likely to be sensitive to any sharp rise in oil prices, given affordability concerns ahead of the midterm elections.
- Global economic growth is likely to accelerate in 2026. We expect growth in most economies to run close to trend; as the drag from higher tariffs fades with reduced trade policy uncertainty and ongoing supply chain adjustments.
- Fundamentals for shares are solid, supported by AI enthusiasm, fiscal stimulus measures, and monetary policy easing but valuations remain expensive.
- We have a positive view on Emerging Market shares, supported by accommodative monetary policy, stimulative fiscal measures, and generally low inflation.



Performance

Market performance February 2026 (%)



Data source: LSEG Datastream. Data provided 'as is'. Details on chart constituents can be found on last page

Market performance 12 months February 2026 (%)



Data source: LSEG Datastream. Data provided 'as is'. Details on chart constituents can be found on last page

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Chart Constituents

Asset class	Benchmark	Data type
Australian Shares	S&P/ASX 300	Total Return
Australian Small Caps	S&P/ASX Small Ordinaries	Total Return
International Shares (UH)	MSCI World ex Australia	Net Index
International Shares (H)	MSCI World ex Australia 100% Hedged	Net Index
International Small Caps (UH)	MSCI World Small Cap	Net Return
Emerging Markets Shares (UH)	MSCI Emerging Markets	Net Index
Australian Unlisted Property (one month lag)	MSCI/Mercer Australia Core Wholesale Monthly PFI	NAV Post Fee
Australian Listed Property	S&P/ASX 300 A-REIT	Total Return
International Listed Property (H)	FTSE EPRA/NAREIT Developed Hedged	Net Return
International Listed Infrastructure (H)	FTSE Global Core Infrastructure 50/50 Hedged	Net Return
International Credit (H)	Bloomberg Global Credit	Hedged Return
Emerging Market Debt (UH)	JP Morgan GBI EM Global Diversified Composite	Total Return
Australian Government Bonds	Bloomberg AusBond Treasury 0+ year	Total Return
International Government Bonds (H)	Bloomberg Global Treasury Hedged	Hedged Return
Cash	Bloomberg AusBond Bank Bill	Total Return

Notes

- Currency: AUD.
- UH: Unhedged.
- H: Hedged.
- Where a lag exists, the performance start and end dates shift accordingly.
- Total Return: Total Return Index with Gross Dividends.
- Net Index: Total Return (Net Dividends Reinvested).

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