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Wealth Advisory Market Update

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Market Update

Market Commentary

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February marked the second monthly decline in the past three months for the S&P 500, though the drop was modest at less than 1%. Technology stocks weighed on the broader index, with the Nasdaq posting its worst month since March 2025 falling 3.38%. The month was characterized by widespread headlines around artificial intelligence–driven disruption, earnings season and escalating geopolitical tensions.

Equities

As noted, developments related to artificial intelligence drove significant market activity. Many of the resulting moves were unexpected. For instance, a $3 million karaoke company that pivoted into AI development announced a logistics initiative that triggered a decline of more than 6.5% in the Russell 3000 trucking index[1]. Similar announcements have affected a range of sectors including logistics, software, and credit card companies. One of the most notable events was a report from Citrini Research, where a hypothetical future scenario sparked a broad selloff across multiple names.

These developments have contributed to a sharp increase in market volatility this year. Single-stock volatility is seven times greater than that of the broader market[2]. The average S&P 500 constituent has moved 10.8% this year even though the overall index has remained largely flat. This level of dispersion ranks in the 99th percentile over the past 30 years[3]. In environments like this, maintaining discipline is critical. We remain focused on companies with strong underlying fundamentals while also seeking opportunities in quality names that may have become oversold relative to their intrinsic value.

Earnings season is now largely complete, and a familiar theme persisted. As discussed in our last update, announcements from hyperscalers regarding increased capital expenditures have pressured several technology names. Despite this, overall earnings growth remained strong, marking the fifth consecutive quarter of double-digit expansion.

Geopolitics

The most significant geopolitical development occurred on the final day of the month when airstrikes on Iran resulted in the death of the country's supreme leader along with several senior members of the regime. This major escalation has introduced new uncertainty into the markets as investors assess both the potential duration of military operations and the risk of broader regional instability.

Energy markets reacted immediately. Oil prices surged toward $100 per barrel, pushing the national average gasoline price to $3.45 from $2.98 just a week earlier. The Strait of Hormuz—through which a significant portion of the world's oil supply flows—has effectively been closed, further amplifying supply concerns. The inflationary implications of higher energy prices will largely depend on the duration of the conflict.

Amid the uncertainty, the U.S. dollar has strengthened as investors seek safe-haven assets. Treasury yields, which had been declining prior to the conflict, moved sharply higher following the escalation and the move higher in oil prices. What is worrisome is the threat of a 1970's style inflation shock due to the massive increase in oil prices.

Strategy

Given the substantial market movements observed this year, we have been closely evaluating companies that may have become oversold and now present attractive entry points. In a more volatile environment, we favor businesses with strong balance sheets, resilient demand profiles, and consistent free cash flow generation. Historically, companies with these characteristics have proven better positioned during periods of elevated volatility.

Fixed income markets have also experienced meaningful fluctuations. While long-term yields remain similar to levels seen last year, they have moved significantly in both directions. Prior to the events in Iran, the 10-year Treasury yield had fallen below 4%, but it rose roughly 20 basis points in the week that followed. Despite this volatility, we continue to favor the intermediate portion of the yield curve. Within that segment, mortgage-backed securities (MBS) remain particularly attractive from a risk-reward perspective.

Outlook

We remain committed to active, risk-aware portfolio management as the macroeconomic landscape continues to evolve. While uncertainty persists, we continue to identify opportunities that align with our long-term investment philosophy. Thank you for your continued trust and partnership as we navigate these challenging market conditions together.

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