

FEBRUARY MARKET UPDATE

**REFINING THE TONE:
FEBRUARY TESTS EARLY
OPTIMISM**

As of
February 28th, 2026



Refining the Tone: Equity Markets Recalibrate as Policy Patience Persists

February marked a pause in the early-year advance as markets digested mixed economic data and evolving Federal Reserve expectations. Broad U.S. equity indices declined modestly during the month, with the S&P 500 falling 1.30% and the Russell 1000 declining 1.07%. The Dow Jones Industrial Average slipped 0.73%, while the technology-heavy Nasdaq experienced a larger pullback of 3.86%.

Despite the equity decline, fixed income markets provided stability and diversification benefits. The U.S. Aggregate Bond Index gained 1.75% and U.S. municipal bonds returned 1.22% as interest rates moved lower during the month.

Investor sentiment remained steady but watchful, reflecting ongoing uncertainty around interest rates and the economic outlook. Historically, February has produced a modest positive return for equities, but this year's decline highlights the market's transition toward a more data-dependent environment.

The Big Picture

Policy Expectations Continue to Diverge

Market participants continue to anticipate a lower Federal Reserve policy rate over the next twelve months, though the timing and magnitude remain uncertain. Current market expectations imply approximately a 47-basis point reduction in the policy rate, reaching roughly 3.17% by March 2027.

Importantly, market-implied expectations remain below the Federal Reserve's own projections, reinforcing the ongoing disconnect between investors and policymakers. This divergence reflects the challenge of interpreting mixed economic data, particularly surrounding inflation trends and labor market conditions. The next Federal Reserve meeting is scheduled for March 18th, where policymakers are expected to provide updated guidance on monetary policy and economic conditions.

What the Economic Data is Telling Us

Inflation Is Moderating, but Still Above Target

Inflation trends remain central to the Federal Reserve's policy outlook. Consumer Price Index (CPI) data shows that inflation has continued to trend downward, with the January release showing inflation at approximately 2.4% YoY, reflecting meaningful progress from the elevated levels experienced in prior years. The Federal Reserve also closely monitors Personal Consumption Expenditures (PCE), with the latest release for the period December 2025 showing 2.99% YoY. The next release is scheduled for March 13th for the period January 2026. While these improvements have been welcomed by markets, inflation levels remain slightly above the Federal Reserve's long-run target, suggesting that policymakers will continue to approach rate adjustments cautiously.

(See *Chart Book*)

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Employment Remains Strong, with Signs of Cooling

Labor market data continues to present a complex picture for policymakers. Nonfarm payrolls remain on an upward trajectory, signaling ongoing strength in employment and economic activity. At the same time, the unemployment rate has risen to 4.40%, compared to 4.10% one year ago, suggesting gradual normalization within the labor market. **(See Chart Book)**

This combination highlights the complexity of the Federal Reserve’s dual mandate of achieving maximum employment while maintaining price stability. Strong payroll growth may indicate economic resilience, yet rising unemployment could signal emerging macroeconomic softness that warrants caution.

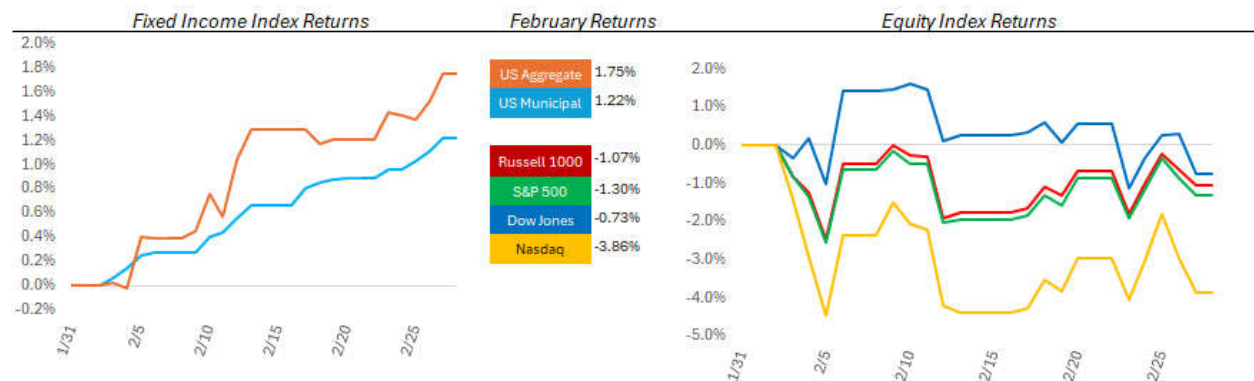
Artificial Intelligence and Productivity Expansion

Artificial intelligence also continues to influence the broader economic landscape. Capital expenditures tied to AI infrastructure, data centers, semiconductors, and power generation remain elevated, supporting pockets of strength within industrial production and corporate investment. Early productivity gains from automation and enterprise AI adoption are beginning to support margin stability across several industries. While still early in the adoption cycle, AI-related investment is increasingly viewed as a structural driver of long-term economic growth rather than a purely speculative market theme.

Investors expect one to two 25-basis point rate cuts in 2026

The Federal Reserve left short-term interest rates unchanged at their January 28th FOMC meeting. The Upper Bound sits at 3.75% and the Lower Bound at 3.50%. Based on the current market implied probability model, the first rate cut of 2026 is projected to come at the September 2026 meeting with potentially one more cut projected at the December 2026 meeting. **(See Chart Book)**

Market Performance in February



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Stock market indexes were influenced by:

- Continued earnings resilience across several sectors
- Profit-taking within technology and AI-related companies following strong gains in 2025
- Ongoing uncertainty surrounding Federal Reserve policy timing
- Shifts in investor positioning toward energy and infrastructure assets

Despite the modest equity decline, earnings season continued to deliver broadly constructive results. Of the 686 companies reporting within the Russell 1000, approximately 67% delivered positive sales surprises and 69% exceeded earnings expectations. Overall sales and earnings surprises were positive at 2.12% and 0.25%, respectively, reinforcing the resilience of corporate earnings.

Bond market indexes benefited from:

- Declining Treasury yields across most maturities
- Continued demand for high-quality fixed income assets
- Attractive yield levels relative to recent history

During February, the 10-year U.S. Treasury yield declined approximately 30 basis points to 3.94%, while shorter-term yields also moved lower, resulting in a modest steepening of the yield curve. Municipal markets experienced similar dynamics, supporting positive total returns across both taxable and tax-free sectors.

What We Are Watching and How We Are Positioning

Key Themes Guiding Market Behavior:

- Inflation trends relative to Federal Reserve targets
- Labor market strength alongside rising unemployment
- Federal Reserve policy direction and interest rate expectations
- The transition from liquidity-driven momentum to fundamentals-driven returns
- Structural investment themes including artificial intelligence infrastructure and energy demand

We Continue to Emphasize:

- **Quality U.S. equities** as the core of long-term appreciation, with a focus on AI infrastructure and power companies
- **Government and Investment-grade credit** for stability and dependable income
- **Strategic global allocations** to diversify macro and policy risk
- **Liquid alternatives**, including selective exposure to assets such as gold, to enhance portfolio responsiveness

How We Are Positioning Across the AI Stack:

Rather than concentrating exposure in a narrow group of high-valuation companies, we seek diversified participation across multiple layers of the AI ecosystem.

We think about the AI opportunity in three primary layers:

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Infrastructure and Compute

- This includes semiconductor designers, equipment manufacturers, data center operators, and networking providers that enable the computational backbone of AI systems. These businesses benefit from sustained capital investment cycles tied to AI buildout.

Platforms and Cloud Providers

- Large cloud and hyperscale providers are integrating AI tools directly into enterprise workflows. These companies are positioned to monetize AI through subscription pricing, productivity enhancements, and enterprise adoption.

Applications and Productivity Beneficiaries

- Beyond the infrastructure buildout, we see opportunities in companies leveraging AI to improve margins, automate processes, enhance customer targeting, and increase operational efficiency across industries.

In addition, we maintain selective exposure to power and energy infrastructure companies, as the electrical demand required to support AI data centers continues to grow at a rapid pace. Reliable energy generation and grid modernization are becoming increasingly important components of the AI expansion cycle.

Final Thoughts

February reinforced the transition toward a more fundamentals-driven market environment. While short-term volatility remains possible as investors react to evolving economic data and policy expectations, the underlying economic backdrop continues to show resilience.

Strong consumer spending, steady employment, and constructive corporate earnings trends continue to support the long-term outlook. At the same time, attractive yields in fixed income markets provide compelling opportunities for income-oriented investors.

Our investment approach balances opportunity with discipline. By combining growth and value exposures across equities, credit, and alternative assets, we seek to position portfolios to capture long-term opportunities while managing risk through changing market environments.

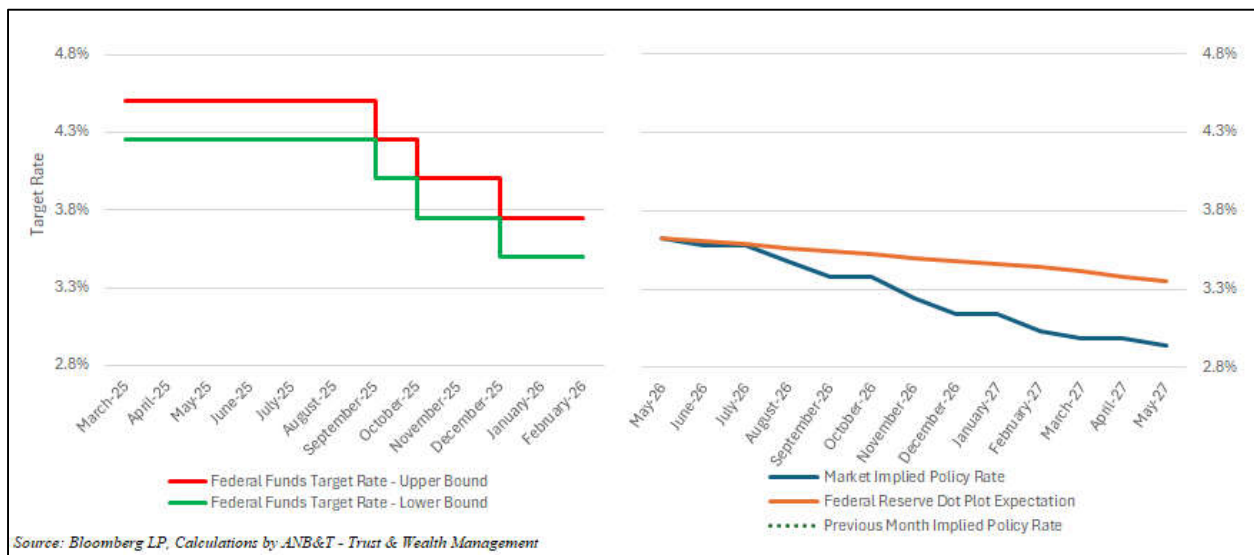
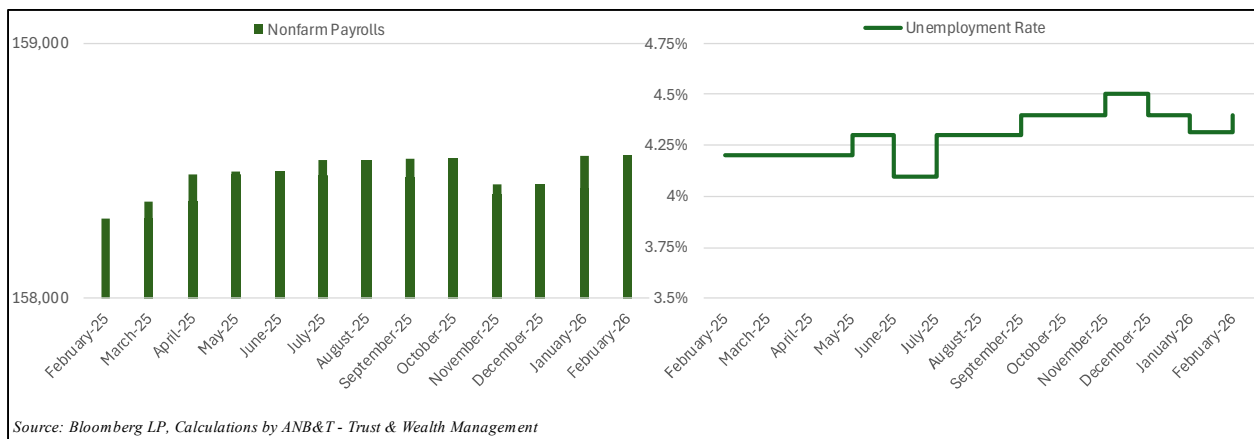
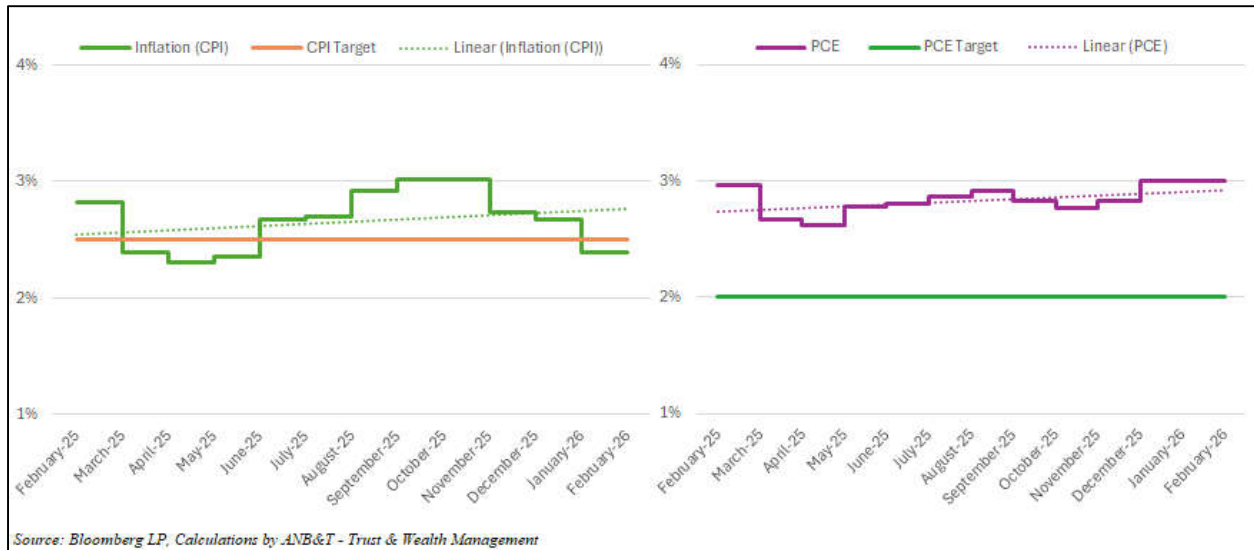
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Chart Book



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