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# Highland ReCAP

*A Review of Capital Markets*

## February 2026

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### Summary

U.S. stocks lagged and interest rates fell during an uneven month marketed by shifting market sentiment, rising geopolitical risk, and continued murkiness on domestic trade policy. Interest rates fell, giving bonds a boost, and international equities continued to shine. The cost and consequence of the AI buildout swayed U.S. markets throughout the month with high projected CAPEX denting hyperscaler stocks, while enterprise software companies were scrutinized by investors seeking to identify possible AI casualties.

### Equities

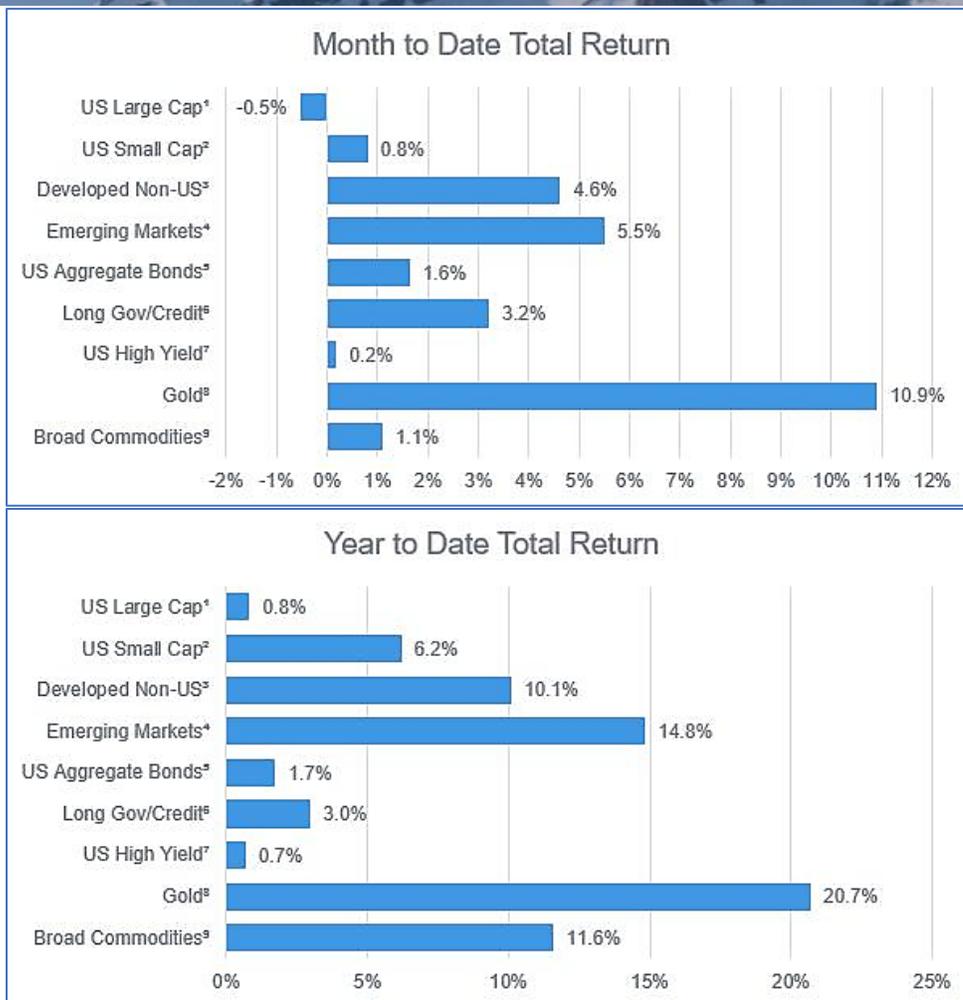
Developed non-U.S. markets continued to enjoy smooth sailing while emerging markets accelerated even further in February. U.S. equities, however, remained stuck in neutral, bogged down by conflicting forces on trade and economic growth. The AI story remains murky with investors sorting through potential productivity growth, high current costs, and future industry disruptions. Meanwhile, the Supreme Court struck down President Trump's emergency reciprocal tariffs, kicking off a fresh round of trade policy confusion. Large cap stocks dropped half a percent in February, while small caps managed meager gains. Coming off banner years, non-U.S. markets have now posted double-digit returns through the first 2 months of 2026.

### Fixed Income

The month opened with increased clarity around the future leadership at the Fed, with Trump nominee Kevin Warsh tabbed as the preferred successor to current Chair Jerome Powell. Bond investors examined Warsh's historical stance on interest rates and the Fed balance sheet against the backdrop of the administration's goals of increased affordability of goods and, more pointedly, housing. Treasury rates fell during the month, with the 10-year yield ending the month just under 4%. Some hiccups in the private credit market hit the headlines in February, with consequences bleeding into public markets, and providing a headwind to high yield investors.

# Market Trends

As of February 28, 2026



	1M	3M	YTD	1Y	3Y	5Y	10Y
US Large Cap <sup>1</sup>	-0.5%	0.8%	0.8%	16.7%	21.4%	13.3%	15.3%
US Small Cap <sup>2</sup>	0.8%	5.6%	6.2%	23.3%	13.1%	5.0%	11.3%
Developed Non-U.S. <sup>3</sup>	4.6%	13.4%	10.1%	34.6%	18.8%	10.8%	10.3%
Emerging Markets <sup>4</sup>	5.5%	18.3%	14.8%	50.0%	21.5%	6.3%	10.7%
US Aggregate Bonds <sup>5</sup>	1.6%	1.6%	1.7%	6.3%	5.1%	0.4%	2.0%
Long Gov/Credit <sup>6</sup>	3.2%	1.6%	3.0%	4.8%	3.6%	-2.9%	1.8%
US High Yield <sup>7</sup>	0.2%	1.3%	0.7%	7.2%	9.4%	4.5%	6.7%
Gold <sup>8</sup>	10.9%	23.5%	20.7%	82.4%	40.7%	23.9%	14.4%
Broad Commodities <sup>9</sup>	1.1%	11.2%	11.6%	23.3%	9.7%	11.1%	7.2%

1 – Russell 1000, 2 – Russell 2000, 3 – MSCI EAFE, 4 – MSCI Emerging Markets, 5 – Bloomberg US Agg, 6 – Bloomberg US Long Gov/Credit  
7 – Bloomberg US Corporate High Yield, 8 – Bloomberg Gold Subindex, 9 – Bloomberg Commodity

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# Disclosure Statements

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