



INVESTMENT STRATEGY STATEMENT | February 28, 2026

The AI Reset

by Darren Hinshaw, Pierre Allard, Christopher Fidler, &
Adam Newton

Performance Review & Outlook

AI disruption fears triggered targeted sell-offs across software and several AI-exposed service industries in a clear “sell first, ask questions later” move.

U.S. fixed income yields moved notably lower this month, with the 10-year U.S. Treasury declining from 4.27% at the start of the period to the 4.00% support level by month-end.

While major indexes appeared relatively calm, underlying volatility was significant, with large daily industry-level moves and emerging stress in private credit—highlighted by the wind down of a small lending fund.

A February 20th ruling by the Supreme Court on tariffs injected added trade-policy uncertainty, though markets largely absorbed the news without significant disruption.

Rotation from Growth to Value accelerated, with capital shifting toward industrials, energy, and other less AI-exposed sectors—reinforcing the importance of avoiding overconcentration in any single theme as market leadership evolves.

We are closely monitoring the recent U.S. and Israeli strikes on Iranian targets; historically, markets have proven resilient to geopolitical shocks as focus returns to economic fundamentals.

Equity Market Overview

The defining theme for equity markets in February has been the growing focus on AI-driven disruption and the market’s rapid attempt to reprice perceived winners and losers. What initially showed up as sharp weakness in software stocks broadened meaningfully as the month progressed, spilling into insurance brokers, financial services firms, legal and accounting companies, real estate

services, trucking and logistics providers, and even drug distribution businesses. In each case, the narrative was similar: concerns that AI could compress margins, automate core functions, or upend long-standing business models. On the surface, major equity indexes have not appeared especially volatile, but beneath that calm has been a steady drumbeat of large, single-day moves at the industry and stock level.

While we fully believe that AI will have significant impacts on various businesses, labor and ultimately productivity, this has felt like a “sell first, ask questions later” environment, where the speed of the reaction has often outpaced the underlying fundamentals.

more pronounced. As public equity investors aggressively repriced software and adjacent service businesses in February, similar concerns began to surface in private markets, where underwriting assumptions around growth, margins, and enterprise value multiples are now being scrutinized more closely. That tension appeared to come to a head with the wind down of a small private credit fund by a well-known operator in the space, underscoring how shifting sentiment around AI risk is beginning to ripple beyond public equities and into less liquid corners of the market.

While some of these declines may ultimately prove overdone, February has highlighted how quickly markets are willing to reassess valuations as they grapple with the longer-term implications of AI.

February also saw a continued rotation from growth into value, as investors reassessed AI-related risks and broadened their opportunity set.

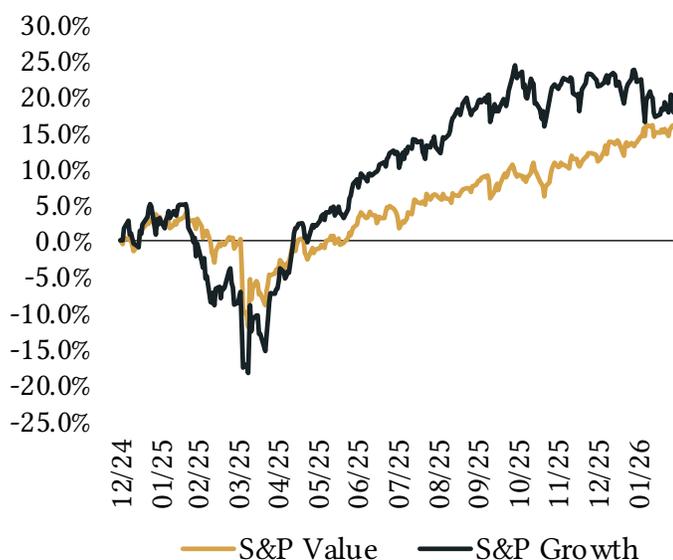
S&P 500 Price Index



Areas of the market that had attracted less attention in recent years—largely overshadowed by AI-driven growth themes—are beginning to gain momentum. More traditional sectors such as industrials, energy, certain financials, and other asset-heavy or service-oriented businesses are increasingly viewed as less directly exposed to AI disruption. As a result, capital has been rotating toward companies with steadier cash flows, tangible assets, and more straightforward business models, reinforcing the shift in leadership beneath the surface of the broader indexes. In our view, this environment makes it all the more important to ensure portfolios are not overly concentrated in any single theme or segment of the market, as leadership can shift quickly when narratives change.

We’re also seeing signs of unease emerging in private credit markets, particularly within software-focused lending strategies where questions around AI disruption are becoming

Growth vs. Value



Following the military strikes by the U.S. and Israel against Iranian targets in late February 2026, we are monitoring the situation closely. While we are always deeply concerned with the potential loss of human life in any conflict, it is important to maintain an objective investment perspective. Historically, equity markets have demonstrated remarkable resilience, often recovering relatively quickly after geopolitical shocks as the focus eventually returns to domestic economic fundamentals.

Notably, despite the gravity of the events, WTI crude oil prices rose a modest 6% initially—a far more tempered reaction than seen in previous Middle Eastern conflicts. We believe this stability is driven by the structural transformation of the U.S. energy landscape. The United States is currently the world’s largest oil producer, with output reaching approximately 13.22 million barrels per day.

Furthermore, the U.S. has maintained energy independence since 2019.

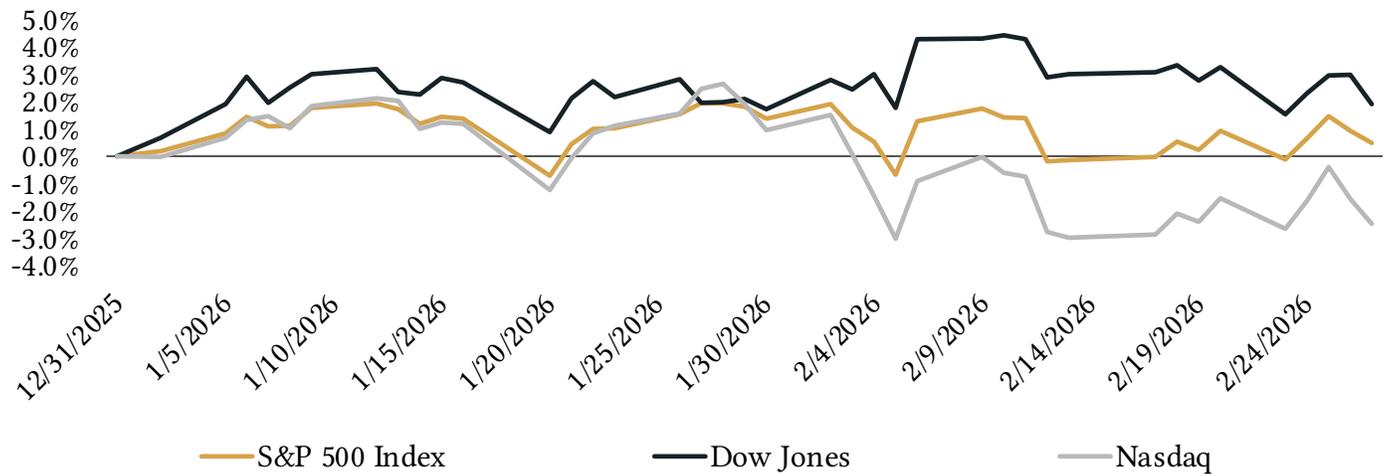
In 2024, the nation achieved a significant milestone by producing approximately 9.7% more energy than it consumed. This domestic surplus provides a powerful "energy buffer" that significantly reduces the sensitivity of the U.S. economy to overseas supply disruptions.

Sector and Index Performance

The S&P 500 fell 0.9% in February as enthusiasm around artificial intelligence shifted to concerns about its disruptive impact, triggering sharp selloffs in software and mega-cap technology stocks. The Magnificent Seven lost momentum, raising questions about the durability of the market’s primary growth engine. Additional pressure stemmed from private credit worries, weighing on financials and pushing high-yield spreads wider. Investors rotated toward defensive areas, with utilities and materials outperforming, while elevated crude prices supported energy shares.

-0.9%	S&P 500
-0.2%	Dow Jones Industrial Avg.
-2.3%	Nasdaq Composite
Outperforming Sectors	
+9.9%	Utilities
+8.8%	Energy
+8.3%	Materials
Underperforming Sectors	
-5.4%	Consumer Discretionary
-5.2%	Communication Services
-4.0%	Information Technology

Index Returns YTD



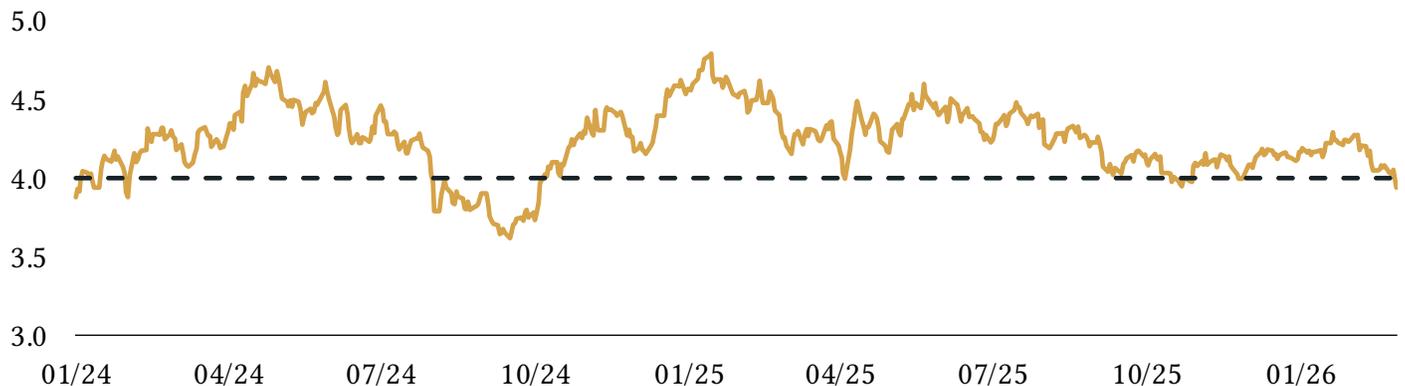
Fixed Income Market Overview

U.S. fixed income yields moved notably lower this month, with the 10-year U.S. Treasury declining from 4.27% at the start of the period to the 4.00% support level by month-end. While employment data came in stronger than expected and inflation readings were generally moderate, equity market volatility appeared to drive sentiment, as the Dow quickly pulled back from the 50,000 level and reinforced a risk-off tone.

Late in the month of January, the President announced Kevin Warsh as the new Fed Chair, coinciding with an FOMC meeting that left rates unchanged. In his post-meeting remarks, Chair Powell provided little forward guidance, reiterating that future policy decisions will remain data dependent.

Among the month's headlines, the Supreme Court's ruling that the President was not authorized to impose sweeping, open-ended tariffs stood out. The decision removed a key pillar of the administration's trade strategy and may have implications for inflation expectations moving forward.

10 Year U.S. Treasury Yield (%)



Despite the steady flow of news, little materially shifted the Fed's policy stance. Chicago Fed President Austan Goolsbee noted that "front-loading too many rate cuts is not prudent," reinforcing the view that additional easing will require clearer evidence of sustained disinflation.

NBCSAM continues to expect the 10-year U.S. Treasury to trade within a 4.00% to 4.50% range. The market's ability to hold the 4.00% level will remain an important technical marker as we move into March, which could play a meaningful role in shaping rate direction for the remainder of the year.

What This Means for Investors

Although February was marked by uncertainty across fixed income markets and an active news cycle, yields remained attractive from an income perspective. We continue to see compelling value in intermediate-term municipal and corporate bonds, where investors are being well compensated for duration and credit exposure. If rates have indeed peaked and begin to trend lower, current yield levels may represent an attractive opportunity to add fixed income exposure while locking in today's income potential.

12-Month Percentage Change of Indices

Index (Local Currency)	Level	February	YTD	12 Month
S&P 500	6,878.88	-0.8%	0.7%	17.0%
Dow Industrials (DJIA)	48,977.92	0.3%	2.1%	13.6%
Nasdaq	22,668.21	-3.3%	-2.4%	21.1%
Russell 2000	2,632.361	0.8%	6.2%	23.4%
U.S. 2yr Treasury	3.3749	-4.2%	-2.8%	-19.6%
U.S. 10yr Treasury	3.9375	-7.0%	-5.5%	-13.2%
Gold (NY Spot \$/oz)	5,278.93	7.9%	22.2%	88.6%
Silver (NY Spot \$/oz)	93.7867	10.1%	30.9%	199.6%
Copper (\$/metric ton)	13,067.62	0.0%	4.9%	46.4%
Oil (WTI Spot/bbl)	67.02	2.8%	16.7%	-7.6%
Oil (Brent Spot/bbl)	72.48	2.5%	19.1%	-5.6%
Natural Gas (\$/mmBtu)	2.859	-34.3%	-22.4%	-6.1%

Data as of February 28, 2026. Source: FactSet/Bloomberg

Economic Overview

Key Economic Indicators



JOB MARKET

Employment Report

U.S. payrolls saw a stronger start to the year, adding 130,000 jobs in January, a notable pickup from the revised 48,000 added in December. Despite the uptick in hiring, the unemployment rate held steady at 4.3%. Significant revisions to 2025 data revealed a much tighter labor market than previously thought; total job gains for 2025 were revised down to just 181,000 for the full year, confirming that the "low-hire, low-fire" environment was even more pronounced than initial estimates suggested.

HOUSING MARKET

House Prices

The S&P Cotality Case-Shiller U.S. National Home Price Index ended 2025 with a 1.3% annual gain in December, marking the weakest full-year appreciation since 2011. High mortgage rates (averaging near 6% in February) and an "impasse" between buyer affordability and seller expectations have stalled momentum. While prices in the Midwest and Northeast (e.g., Chicago, New York) showed resilience, formerly "hot" Sun Belt markets like Tampa saw annual declines as supply began to outweigh demand.



PERSONAL INCOME & SPENDING

Personal Income & Spending

Personal income and disposable income both grew by 0.3% in December, while consumer spending (PCE) rose by 0.4%. The data shows a persistent shift toward services spending, which offset a slight decline in goods purchases. The personal savings rate edged up to 3.6%, suggesting that while consumers are still spending, they are doing so with a slightly more defensive posture compared to earlier in the year.

Economic Overview

Key Economic Indicators

ECONOMIC GROWTH

GDP Growth

The U.S. economy expanded at a 1.4% annualized rate in the fourth quarter of 2025, according to the advance estimate. This represents a significant deceleration from the 4.4% growth seen in Q3, largely due to a downturn in government spending and exports following the late-2025 government shutdown. For the full year 2025, real GDP increased 2.2%. Early forecasts for Q1 2026 suggest a modest recovery, though data remains "noisy" as the economy works through the lingering effects of previous fiscal disruptions.



INFLATION

Consumer Price Index (CPI)

Headline CPI cooled to 2.4% year-over-year in January, down from 2.7% in December. This marked a significant milestone as inflation reached its lowest annual level in several years. Core CPI (excluding food and energy) also moderated to 2.5%. A 1.5% drop in energy prices for the month helped offset persistent, though slowing, increases in shelter and medical care costs.

Personal Consumption Expenditures (PCE) Price Index

The PCE price index—the Fed's preferred gauge—rose 2.9% year-over-year in December, a slight tick up from November. Core PCE, which excludes food and energy, rose to 3% annually. While the headline number remains above the 2% target, we may start to see a reduction in inflation due to the Supreme Court's ruling on tariffs.

Authors



Darren Hinshaw
Director of Research



Pierre Allard
Chief Investment Officer



Chris Fidler
Director of Fixed Income Trading



Adam Newton
Equity Desk Manager

Disclosures

Securities and Investment Advisory services offered exclusively through NBC Securities, Inc. ("NBC Securities") member FINRA and SIPC. NBC Securities is registered as an investment adviser with the U.S. Securities and Exchange Commission.

Any specific securities referenced in this commentary may or may not be held in client portfolios.

Some information contained herein has been obtained from third party sources believed to be reliable but has not been independently verified by us; its accuracy or completeness is not guaranteed. Our commentary is based on information considered to be reliable, but no representation is made that it is accurate or complete and should not be relied upon as such. The views expressed represent the opinions and beliefs at the time of this commentary and are not meant as a market forecast. These views are subject to change at any time based on market or other conditions and NBC Securities disclaims any responsibility to update such views. This information may not be relied on as investment advice or as an indication of trading intent on behalf of any portfolio. Portfolio investments may change at any time. Economic and performance information referenced is historical and past performance does not guarantee future results. References to future returns are not promises or estimates of actual returns we may achieve, and should not be relied upon. No investment strategy or risk management process can guarantee returns or eliminate risk in any market environment. Investing in securities involves risk of loss. Stock prices can decline significantly in response to adverse market conditions, company-specific events, and other domestic and international political and economic developments.

WARNING: All email sent to or from this address will be automatically recorded by NBC Securities email system and is subject to monitoring and/or disclosure to someone other than the recipient, including public authorities, in compliance with applicable laws.

THIS MESSAGE, INCLUDING ANY ATTACHMENTS, IS INTENDED ONLY FOR THE USE OF THE INDIVIDUAL OR ENTITY TO WHICH IT IS ADDRESSED AND MAY CONTAIN INFORMATION THAT IS PRIVILEGED, CONFIDENTIAL, AND EXEMPT FROM DISCLOSURE UNDER APPLICABLE LAW.

If you are not the intended recipient you are hereby notified that dissemination, distribution or copying of this communication is strictly prohibited. If you have received this message in error, please notify us immediately by replying to this message. Thank you.