

## February 2026: Trade realignment, Geopolitical risks, and diverging growth signals

Global markets in February were shaped by heightened geopolitical tensions, shifting trade alliances, and evolving expectations around monetary policy, creating a volatile but broadly resilient macro backdrop. Trade policy remained a central driver of market sentiment, as the United States expanded tariff measures across several fronts, targeting autos, technology supply chains, and strategic imports, while simultaneously pursuing selective bilateral agreements. The US-India trade agreement marked a significant realignment in energy and tariff flows, while negotiations with China continued amid shifting restrictions on technology exports. Legal uncertainty around trade policy intensified after the US Supreme Court struck down parts of the administration's tariff framework, prompting the introduction of a temporary 15% levy on all imports and triggering corporate refund claims.

Geopolitical risk also escalated during the month, particularly in the Middle East. Initial diplomatic progress in US-Iran negotiations quickly gave way to renewed tensions after Washington deployed additional military assets and issued warnings over nuclear negotiations. The downing of an Iranian drone near the Strait of Hormuz further heightened regional instability and supported oil prices, contributing to divergence across global markets.

Central banks maintained a cautious policy stance amid mixed economic signals. The Federal Reserve held rates steady at 3.50–3.75% following earlier easing, signaling patience as growth remained resilient but labor indicators softened. Other major central banks largely paused as well, including the ECB and Bank of England, while policy divergence emerged globally, with Australia raising rates and Russia cutting by 50 basis points. Across emerging markets and the GCC, policymakers also held steady as inflation pressures eased but external risks remained elevated.

Economic data presented a mixed but generally resilient picture. In the United States, activity indicators remained constructive, with manufacturing returning to expansion and corporate earnings continuing to outperform expectations. However, labor-market data pointed to gradual cooling, with weaker payroll growth, rising jobless claims, and job openings falling to a five-year low. Inflation trends were more encouraging earlier in the month, with core CPI slowing to 2.5% year-on-year, its lowest level in nearly five years, though a late-month core PCE reading of 3.0% reinforced expectations that Federal Reserve rate cuts may be delayed until mid-year. Growth also moderated, with Q4 GDP expanding at 1.4% annualized, below expectations, even as domestic demand remained relatively firm.

Across Europe, the recovery remained uneven. Inflation continued to soften, particularly in the UK, but industrial production weakened and sentiment deteriorated toward the end of the month. Eurozone growth remained modest, confirming ongoing structural fragility. In Asia, economic momentum diverged: India and Taiwan reported strong industrial and export performance, while China continued to face disinflationary pressure despite improving trade engagement. Japan's inflation slowed toward target, complicating policy normalization, while flash PMI surveys highlighted diverging activity trends, with growth accelerating in the UK and Japan but softening in the United States.

Overall, February reflected a transition phase in the global macro cycle, characterized by moderating inflation, gradually cooling labor markets, and increasing geopolitical influence on economic outcomes. While underlying growth remained relatively stable, markets became increasingly sensitive to trade developments, geopolitical risks, and the timing of potential monetary easing.

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