

Crystal Wealth Partners Market Commentary – February 2026

Please find our commentary on investment markets to 28th February 2026.



Conflict in the Middle East resurfaces

On the last day of February, geopolitical tensions in the Middle East finally erupted with military strikes on Iran involving the United States and Israel. This has raised concerns around energy markets, particularly crude oil supply through the Strait of Hormuz, a key route for around one fifth of global oil exports and has contributed to higher oil prices and demand for safe haven assets including the USD. So far, the initial impact of the outbreak of another war has been largely as expected with the US dollar moving higher (AUD lower) as well as higher oil and gold prices.

However, the equity market impact is relatively muted to date with support still for materials, energy and consumer staples in particular. Also, market interest rates remain slightly lower although there is pressure in the 10 year + bond yields on inflation concerns.

With conflicts of this nature, it is impossible to determine what and how will develop next (as evidenced with the ongoing Russia/Ukraine war), however markets will look at a range of scenarios based on the duration, scope and size of the conflict. This includes whether other nations are dragged into the war and the resulting impact on oil price and ongoing supplies. Historically, short-lived geopolitical events have had short-lived influences on markets and economies, hence the focus here on how long the important key shipping Straits of Hormuz may remain closed.

If the conflict leads to a sustained higher oil price for longer, then this would raise both inflation and recession risks – not a desirable combination on top of substantial developed market debt piles. Notably the US is now more self-sufficient with oils supplies in contract to China which is the world's largest net importer of oil. If the conflict can de-escalate then the current dislocation to markets is expected to be short-lived and not sufficient to derail the existing global growth dynamics. This means the management oil supplies and price of oil will be keenly watched.

Apart from the geopolitical shock at the end of the month, February was also shaped by a familiar tension and narrative. Inflation trends continued to ease in some regions, while remaining more persistent in others, leaving uncertainty around the timing and magnitude of interest rate adjustments across the board. As a result, markets remained highly sensitive to incremental data releases and central bank commentary.

Within equity markets, leadership rotated toward businesses with more predictable earnings and stronger balance sheets. Sectors with higher capital intensity and longer-duration growth profiles, particularly parts of the technology sector, were more responsive to shifts in rate expectations and evolving assumptions around near-term profitability.

In fixed income, bond markets acted as a real-time gauge of confidence in the inflation and growth outlook. As economic releases and central bank commentary were absorbed, longer-dated yields moved accordingly. During more cautious trading sessions, demand for government bonds increased and yields eased. When sentiment stabilised, yields tended to level out. This pattern reflected markets reassessing how restrictive policy may need to remain to deal with inflation.

Currency movements also had an impact on Australian investors with overseas holdings. During the month, the Australian dollar strengthened against the US dollar. As a result, returns from unhedged US investments were reduced when converted back into Australian dollars. In simple terms, even if US assets performed steadily, the stronger Australian dollar lowered the return received at home. This remains an important consideration when assessing international performance and overall hedging preferences.

Across developed markets outside the US, conditions were comparatively solid. The UK market benefited from its defensive sector composition and meaningful exposure to large financial institutions. Japan continued to outperform, supported by firm earnings momentum and sustained investor confidence in corporate governance reform. These markets were less exposed to the valuation sensitivity that affected parts of the US growth sector.

In Australia, the Reserve Bank of Australia lifted the cash rate to 3.85% in early February, reinforcing the message that inflation remains above target and policy may need to stay restrictive for longer. Despite this, Australian equities held up well over the month, supported by earnings updates and the index's heavier weighting to financials, materials and businesses with relatively stable cash flows.

Commodity markets remained active. Oil prices increased amid geopolitical uncertainty and ongoing OPEC+ supply issues. Gold remained well supported as a portfolio hedge during periods of policy and trade uncertainty. Iron ore declined, reflecting underlying China demand and pricing concerns rather than currency effects.

US Markets

The underlying theme in the United States remained inflation and what it implies for monetary policy. January CPI data showed prices rising 0.2% month-on-month and 2.4% year-on-year, with core inflation at 2.5% year-on-year. While these figures confirm that inflation has eased from its late 2025 highs, investors continue to look for clearer evidence that the disinflation trend is sustainable. As a result, markets still anticipate eventual monetary easing, but expectations for the timing and pace remain measured.

Minutes from the Federal Reserve's late-January meeting reinforced this cautious stance. Policymakers indicated they require greater confidence that inflation is returning to target before shifting decisively toward easier settings. Ongoing uncertainty around trade and tariff policy was also acknowledged as a factor that could complicate the inflation path. This data-dependent approach explains why bond yields and the US dollar remained responsive to developments throughout the month.

Political and trade headlines also contributed to short-term volatility during the month. A US Supreme Court ruling that limited tariff authority under one statute was followed by renewed discussion of broader tariff measures in response. During periods when policy uncertainty increased, equity markets tended to favour more defensive exposures and traditional diversifiers such as gold. The broader takeaway is not that trade policy became the primary driver of markets, but that headline risk can quickly lift the uncertainty premium when valuations are elevated, and investors are already sensitive to interest rate expectations.

The labour market remained supportive, although the composition of employment gains was closely monitored. Nonfarm payrolls rose by 130,000 in January, led by healthcare, social assistance and construction, while employment in federal government and financial activities declined. This pattern suggests economic growth is moderating rather than contracting, while also highlighting that employment strength is becoming less evenly distributed. Wage and labour dynamics remain central to the inflation outlook, particularly in services.

US equity performance was comparatively subdued in February relative to late 2025. The S&P 500 declined modestly over the month, the Dow Jones Industrial Average was broadly flat, and the Nasdaq 100 underperformed. The dispersion across indices reflected a more selective environment, with investors preferring steadier industrial and value-oriented exposures while growth and technology stocks remained more sensitive to changes in rates and policy expectations. The least favoured sectors currently include Software & IT Services, Internet, Media and other digital content or platform businesses.

For Australian investors, currency movements added to this dynamic. The Australian dollar strengthened 2.21% against the US dollar over the month, meaning unhedged US equity exposures translated into weaker returns in Australian dollar terms than local index moves alone would suggest. February therefore presented a combined headwind for unhedged investments.

Within equities, sector leadership rotated in line with these macro influences. More cautious sessions tended to favour defensives and parts of healthcare, while segments of financials and software experienced periods of pressure. When sentiment improved, technology often regained some leadership, particularly where company results refocused attention on earnings fundamentals. Interest in artificial intelligence remains a structural tailwind for parts of the US market, but investors are increasingly focused on earnings quality, margin durability and whether elevated capital expenditure can deliver measurable returns.

The US 10-year government bond yield fell over the month, declining 6.58%, while the three-month change was slightly negative at 1.42%. This monthly drop reflects periods when investors grew more cautious, shifted toward higher-quality assets, and reassessed both the growth outlook and the pace at which inflation is likely to ease.

World Markets

Among developed markets, the UK delivered one of the stronger equity outcomes for the month. The FTSE 100 rose 6.72% over one month and 12.24% over three months, benefiting from resilient corporate earnings, its defensive sector composition and significant exposure to large financial institutions. Inflation in the UK has continued to ease gradually, helping stabilise expectations around the path of interest rates. Retail and consumption indicators suggest demand has been more resilient than many anticipated, reducing the risk of a sharp slowdown while keeping policy expectations measured.

The Bank of England held the Bank Rate steady at its February meeting, underscoring a data-dependent approach. While progress on disinflation is evident, policymakers are not yet prepared to declare inflation risks resolved. For investors, this combination of steady activity and gradually moderating inflation has supported a supportive rather than excited, equity backdrop.

Japan remained a standout performer. The Nikkei 225 extended its gains, up 10.37% over one month and 17.11% over three months (in local currency terms), supported by improving corporate governance practices, shareholder return initiatives and sustained international investor interest. Domestic reform momentum and earnings growth have reinforced Japan's appeal, although expectations must remain aligned with fundamentals, particularly as monetary policy continues its gradual normalisation process.

In Europe, Germany's market performance was steady rather than dramatic. The DAX rose 3.04% over one month and 6.07% over three months, reflecting stabilising inflation expectations and cautious policy framing. Rather than a sharp valuation re-rating, gains were consistent with improving confidence that inflation is moving in the right direction without materially undermining corporate earnings.

China's signals remained mixed. The Shanghai Composite rose 1.09% over one month and 7.05% over three months, while Hong Kong's Hang Seng declined -2.76% over one month but remained up 2.98% over three months. The divergence reflects uneven domestic growth, ongoing property and credit cycle adjustments, and shifting trade expectations. Inflation has remained subdued, keeping policy support in play, but stimulus measures have tended to be targeted and incremental rather than providing broad-based support for the economy.

Australia

In Australia, February was defined by a reset in interest rate expectations and continued focus on inflation persistence. The RBA's decision to lift the cash rate to 3.85% reinforced the message that inflation remains above target and policy may need to stay restrictive for longer than previously assumed. Markets adjusted accordingly, particularly in rate-sensitive segments.

The monthly CPI indicator continues to point to gradual disinflation rather than a rapid decline. However, the underlying 'trimmed mean' measure for the 12 months to December 2025 rose slightly. The other key data variable (employment) was also stronger than expected in January. As both these key indicators surprised to the upside, inflation concerns remained in focus, which helps explain the RBA's cautious tone. As in other regions, markets have responded quickly to data that influences expectations around real rates and household demand.

Despite the tighter policy backdrop, Australian equities were resilient. The S&P/ASX 200 rose 3.71% over one month and 6.79% over three months, while the All Ordinaries gained 2.95% in February, supported by earnings delivery and the index's significant weighting to financials, materials and companies with relatively stable cash flows. This aligns with the broader global preference for earnings visibility and balance sheet strength. Results season further differentiated between businesses with durable pricing power and those more exposed to margin pressure or weaker discretionary demand.

Resources remained central to the domestic narrative. Iron ore prices declined -6.21% over the month, reflecting demand concerns and typical seasonal influences around Chinese activity. Even with softer pricing, company-specific execution and capital management remained key drivers of relative performance.

Australian bond yields eased modestly over the month after earlier repricing toward tighter conditions, while the Australian dollar strengthened against the US dollar, supported by relative rate dynamics and periods of US dollar softness.

Other

Gold continued to perform strongly, rising over the month and extending gains over the past three months. Its performance was consistent with heightened policy uncertainty, geopolitical developments and shifting expectations for real yields. Gold's role as a portfolio hedge remains relevant in an environment where markets are sensitive to both economic data and political developments. However, gains in gold can unravel quickly when the support structure changes including profit taking.

Oil prices rose 2.78% over the month and remained higher over the three-month period. OPEC+ supply discipline and geopolitical risk premia provided support, even as markets balanced these factors against uncertainty around global demand growth for oil.

Iron ore prices moved the other way, falling -6.21% over one month and -5.51% over three months. Seasonal factors, fluctuations in Chinese steel production and inventory dynamics contributed to the weakness. Given iron ore's importance to Australia's terms of trade and fiscal assumptions, sustained moves carry greater significance for the medium-term outlook than any single monthly change.

Index*	1 Month	3 Months
US – Dow Jones	0.17%	2.64%
US – Nasdaq (100)	-3.38%	-2.99%
US – S&P 500	-0.87%	0.43%
Germany – DAX	3.04%	6.07%
UK – FTSE 100	6.72%	12.24%
Shanghai Composite – SSE	1.09%	7.05%
Hong Kong – Hang Seng	-2.76%	2.98%
Japan – Nikkei 225	10.37%	17.11%
S&P/ASX 200	3.71%	6.79%

All Ordinaries Index	2.95%	5.80%
Gold (USD)	8.48%	25.18%
Oil (USD) – WTI	2.78%	14.47%
Iron Ore (USD)	-6.21%	-5.51%
Δ 10 Year Aus Gov't Bonds (Yield)	-3.14%	2.67%
Δ 10 Year US Gov't Bonds (Yield)	-6.58%	-1.42%
AUD/USD	2.21%	8.64%

* Percentage change in local currency unless stated otherwise

Overall, we remain cautious about the market outlook, given the higher starting valuations in many sectors and general market optimism. This is exacerbated by the flare up in the Middle East. Hence, the need to remain disciplined with portfolio allocations and overall strategy. If you have any questions in relation to the above, or require any additional portfolio or investment information, please do not hesitate to contact your Adviser to discuss your particular circumstances.