Investment market update: February 2026

In February 2026, ongoing uncertainty around trade tariffs and concerns about the impact of AI adoption on business profits affected the markets. Read on to discover some of the factors that may have affected your investment portfolio.

Markets reached record highs but were affected by AI concerns and trade tariffs

The FTSE 100, an index of the largest companies listed on the London Stock Exchange, was off to a great start in February – it closed at a record high of 10,341 points on 2 February, with a range of sectors performing well, including retailers, banks, airlines, and hospitality.

Similarly, Asian markets reported a welcome uptick on 3 February. Japan's Nikkei index reached a record high after closing almost 4% higher than its opening level. In addition, India's Sensex index was up 2.8% after the country struck a trade deal with the US.

However, on 4 February, AI fears affected investors.

Worries that the adoption of AI would harm software and data companies led to a sell-off in European and Asia-Pacific markets. However, the CEO of Nvidia, a leading AI company, Jensen Huang, dismissed the concerns, stating they were "illogical".

Worries around AI intensified on 11 February when California-based firm Altruist Corp launched an AI service that it said could help advisers create personalised tax strategies. The announcement led to shares dipping for wealth managers, insurance firms, and price comparison sites.

On 12 February, the FTSE 100 reached another record high as it surpassed 10,500 points for the first time. This time it was lifted by shares in Schroders soaring by almost 30% in the first hours of trading after the asset management firm accepted a takeover offer from US investor Nuveen.

On 16 February, the BBC reported that the UK government was weighing up increasing defence spending at a faster pace than expected. The government previously set a target of spending 2.5% of economic output on defence by 2027, rising to 3% by the next parliament. The news led to defence stocks rising, including Babcock (2.5%), Melrose (2.2%), and BAE Systems (1.3%).

US trade tariffs have affected businesses and markets globally throughout 2025 and into 2026. On 20 February, the US Supreme Court ruled against the president's economic policy of global tariffs, stating that Donald Trump had exceeded his authority by invoking emergency powers to impose them.

Following the announcement, the US Customs and Border Protection agency said it would stop collecting tariffs imposed under the International Emergency Economic Powers Act from Tuesday, 24 February.

This led to market volatility as investors and businesses assessed what the announcement would mean for them.

Further uncertainty followed on 24 February when Trump's new global tariff was introduced. The new tariff is being applied under the 1974 Trade Act, which allows the president to impose a charge

for 150 days without congressional approval. The changing situation places pressure on businesses exporting to the US.

On 28 February, US-Israeli strikes on Iran triggered fresh geopolitical uncertainty, which is likely to affect stock markets in March 2026 and potentially beyond.

UK

Inflation in the UK fell to 3% in the 12 months to January 2026, according to the Office for National Statistics (ONS). Prime Minister Keir Starmer said the fall would "ease the burden on people".

Despite the inflation dip, the Bank of England chose to hold its base interest rate. However, it's expected that a rate cut will happen in the coming months as inflation stabilises to support the economy.

Official GDP data suggests the UK economy grew by 0.1% in December 2025, and real annual GDP per capita grew following a period of no growth in the previous year. Chancellor Rachel Reeves commented that she expects stronger economic growth in 2026.

The UK posted its largest budget surplus since monthly records began in 1993. According to the ONS, the January surplus was £30.4 billion, compared to an expected £24 billion, which provided a boost to the chancellor ahead of the Spring Statement set to be delivered in March.

Readings from various S&P Global Purchasing Managers' Indices (PMI) – which measure economic health based on surveys of purchasing managers – were positive.

- The manufacturing PMI hit a 17-month high with a reading of 51.8, surpassing the 50 mark that indicates growth. The PMI reported high sales volumes to Europe, the US, China, and several emerging markets.
- The construction sector posted a PMI reading of 46.4 in January. While the figure indicates contraction, it is an improvement on previous months and could signal that the worst of the downturn is over.
- The service sector PMI reading was 53.7. This is the fastest pace of growth recorded in almost two years.

Overall, the PMI data could support the chancellor's assertions that economic growth will improve in 2026.

Europe

Figures from Eurostat show inflation across the eurozone fell to 1.7% in the 12 months to January 2026, taking it below the European Central Bank's (ECB) 2% target.

The ECB opted to hold interest rates as inflation stabilised.

Economic data suggest the eurozone continues to face challenges. S&P Global's manufacturing PMI recorded a reading of 49.5 in January, just below the 50 mark that indicates growth.

In addition, figures released by Eurostat show industrial production was down by 1.4% in December when compared to the previous month in the eurozone, and by 0.8% across the EU. The largest monthly decreases were recorded in Slovakia (-4.9%), Germany (-2.9%), and Spain (-2.6%).

However, the Sentix index, which measures investor morale, increased for the third consecutive month in the eurozone, which could suggest investors feel optimistic.

US

Inflation in the US fell by more than expected to 2.4% in the 12 months to January 2026. The news could mean the Federal Reserve is more likely to consider a cut to its interest rates in the coming months.

The Bureau of Economic Analysis reported economic growth of around 0.35% in the final three months of 2025, and an annualised rate of 1.4%, below the estimated 2.5%.

Figures from the Bureau of Labour Statistics indicate that US employers are feeling confident. In January, businesses hired 130,000 more workers, which was stronger than expected after the White House warned the number could fall because of its deportation program.

While positive, the Guardian noted that these figures may be revised downwards. Indeed, in 2025, the total new jobs for the year were revised significantly downwards to 181,000 from the initially reported 584,000.

Asia

Japan just avoided a technical recession – defined as two consecutive quarters of economic contraction. After the economy contracted by 0.7% in the third quarter of 2025, GDP figures showed weak growth of 0.1% in the following quarter. The news led to Japanese investment markets dipping, including the Nikkei 225 index (-0.24%) and the broader Topix index (-0.8%).

While China's GDP was significantly higher at 4.5% in the final quarter of 2025, it was weaker than in previous years, partly due to trade frictions with the US. However, the country did hit its official 5% annual target.

Please note: This article is for general information only and does not constitute advice. The information is aimed at individuals only.

All information is correct at the time of writing and is subject to change in the future.

The value of your investments (and any income from them) can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.