

INVESTMENT ENVIRONMENT UPDATE

FEBRUARY
2026

PATRIZIA
ADVISERS



Investment Environment Update

Iran, Israel, and the United States are now effectively engaged in open conflict, with the fallout spreading across the region. Strikes have been reported in at least 18 Iranian provinces, and Iran's retaliation has extended toward Israel as well as Iraq, Syria, Oman, Jordan, Kuwait, Bahrain, Qatar, Saudi Arabia, and the UAE – many of which host US military installations. Cross-border exchanges between Israel and Hezbollah have also intensified along the Lebanese frontier. The escalation has had a pronounced impact on commodity markets. Gas prices have surged following the shutdown of Qatari production after Iranian attacks, while WTI crude rose 3.3% in February and climbed a further 10% in the first few days of March. Even OPEC+'s pledge to increase output has done little to offset concerns, as activity in the Strait of Hormuz – a critical chokepoint through which roughly one-fifth of global oil and gas flows – slowed to a near standstill amid continued missile fire across the region. Gold has also benefited from the turmoil, rising 4.8% in February, and is expected to remain supported given its traditional role as a safe-haven asset during periods of geopolitical stress.

The speed with which OpenAI swooped in to replace Anthropic at the US Pentagon reveals a stark reality about the current AI arms race: ethical red lines are easily blurred when the mechanics of state power and market dominance are at stake. When Anthropic refused to compromise its guardrails against mass surveillance and autonomous weapons, the Trump administration branded the startup a "supply chain risk" and ordered a government-wide ban, paving the way for OpenAI to secure a Department of War deal just hours later. This unfolded precisely as Anthropic unleashed a wave of capabilities that are terrifying Wall Street and potentially rewriting the economics of human labour. With the recent launch of Claude Opus 4.6, its new "cowork" team features, and robust terminal plugins, developers are no longer just writing scripts – they are orchestrating autonomous AI agents capable of independently managing complex data pipelines, web scraping, and other end-to-end software workflows. The market's reaction has been swift and brutal: Anthropic's new Claude Code Security tool, which autonomously reasons through codebases to hunt and patch zero-day vulnerabilities, recently wiped billions off major cybersecurity stocks like CrowdStrike and Zscaler, while its demonstrated ability to cheaply modernise legacy code triggered a significant selloff for IBM. Together, this government-level AI deployment, the sudden commoditisation of IT consulting labour, and the sudden decline in software stocks indicate a chilling shift in global dynamics. We are potentially accelerating toward a future in which artificial intelligence not only reshapes national security but could also erode the demand for white-collar workers. The recent decision by Block (formerly Afterpay) to cut 40% of its workforce is an early signal of this shift, and other software companies have followed suit.

Asset Class Returns	February (%)	3 Months (%)	12 Months (%)	3 Years (% p.a.)
Cash	0.28	0.90	3.83	4.14
Australian Fixed Income	0.88	0.46	3.15	3.61
International Fixed Income	1.39	1.39	4.46	4.44
Australian Equity *	3.89	7.12	16.36	12.14
International Equity - Developed (unhedged) *	-1.09	-4.68	5.74	18.52
International Equity - Developed (hedged) *	0.90	3.15	18.75	19.59
International Equity - Emerging (unhedged) *	3.70	8.83	30.85	19.31

* Returns reflect the relevant accumulation indices.

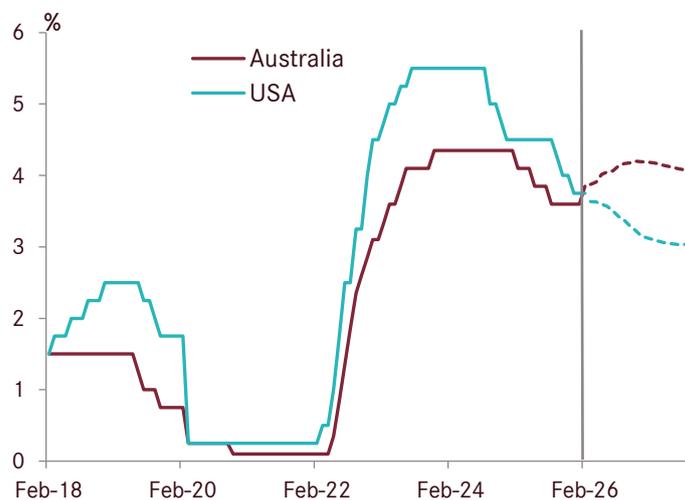
Source: Bloomberg, Datastream, PATRIZIA.

Against this backdrop, the Australian dollar strengthened across major currencies in February, supported by rising commodity prices and notwithstanding heightened geopolitical tensions – it increased 1.7% against the US dollar, 3.8% against the British Pound, 2.5% against the euro, and 3.0% against the yen. Despite Nvidia delivering the largest quarterly revenue in its history and retaining its position as the world’s most valuable company, its share price was flat after the earning release and has been drifting lower since October. Broader tech sentiment also softened, with the US Nasdaq Composite falling 3.4% over the month. Global equity performance was mixed. The MSCI World (ex Australia) hedged index rose 0.9% in Australian dollar terms, while the unhedged index declined 1.1%, reflecting the currency movements. The S&P/ASX 200 gained 3.9%, supported by strong earnings reports from the mining and banking sectors, while emerging markets posted a strong 3.7% increase for February. Fixed income also delivered positive returns, with Australian bonds up 0.9% and global bonds rising 1.4% in February.

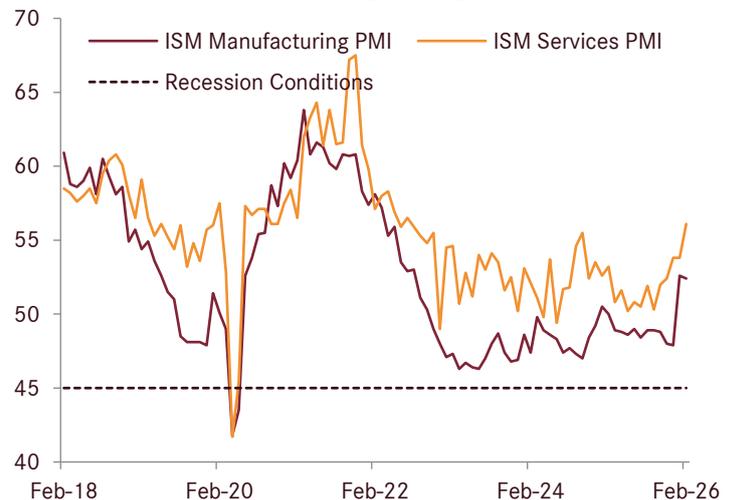
US President Donald Trump’s embrace of tariffs to drive the country’s economy was rejected in a 6-3 ruling by the Supreme Court. Following the ruling, Trump announced a blanket 10 per cent tariff on all countries which he later changed to 15%. The ISM Manufacturing PMI slipped to 52.4 in February from 52.6 in January but remained above market expectations of 51.8. The reading signalled a second consecutive month of expansion in the manufacturing sector, albeit at a slightly slower pace. The annual inflation rate in the US slowed to 2.4% in January, its lowest level since May, down from 2.7% in each of the previous two months and below forecasts of 2.5%. The US economy added 130,000 payrolls in January, much higher than a downwardly revised 48,000 rise in December, and well above forecasts of 70,000. The unemployment rate ticked down to 4.3% in January from 4.4% in December. US net immigration flows fell sharply in 2025 and are expected to remain subdued into 2026. While advances in AI are beginning to soften labour demand, the tighter immigration backdrop is simultaneously constraining labour supply. The result is a labour market that appears to be settling into a new equilibrium: slower hiring momentum driven by technology, offset by a smaller pool of available workers due to restrictive immigration policies. The US economy expanded at an annual rate of 1.4% in Q4 2025, the lowest since Q1 2025 and well below forecasts of 3% but followed a 4.4% growth in Q3. Fed officials decided to keep the federal funds rate unchanged at the January meeting and were divided over the future path of interest rates, reflecting the tension between containing inflation and supporting the US labour market. Since then, with inflation easing and the labour market showing marginal tightening, markets now expect the Fed to keep rates unchanged at the March meeting, with any potential cuts likely deferred until later in the year.

The Reserve Bank of Australia (RBA) unanimously raised the cash rate by 25 basis points to 3.85% at its first policy meeting of 2026, held in February. The context for the decision was higher than expected inflation, with the annualised inflation rate remaining at 3.8% in January, unchanged from the prior month but above market forecasts of 3.7% and remaining above the central bank’s 2–3% target. The RBA’s preferred metric, the trimmed mean CPI, increased by 3.4% year-on-year in January, following a 3.3% rise in each of the previous three months and coming in slightly above market expectations of 3.3%. The Westpac-Melbourne Institute Consumer Sentiment Index dropped 2.6% month-on-month in February to a ten-month low of 90.5, and marking the third straight monthly decline. The latest result highlighted inflation concerns and the impact of the central bank’s rate hike, the first in over two years. The unemployment rate remained unchanged at a low level of 4.1 per cent in January, suggesting pressure in the labour market remains uncomfortably high as the RBA considers more interest rate rises. In addition, RBA governor Michele Bullock has warned that the oil price shock from the conflict in Iran could increase inflation further and that upcoming RBA meetings were “live” in terms of changes to the cash rate.

Australia and US Cash Rates



US ISM Purchasing Manager Indices



Source: Bloomberg

Figures released by the Australian Bureau of Statistics in February showed nominal wages rose 3.4% in the year 2025 to December, in line with market and Reserve Bank forecasts but less than inflation, which was 3.8% over the same period. The result was the first decline in annual real wage growth since September 2023. Australian GDP expanded 2.6% year-on-year in Q4 2025, more than the expected 2.2% growth rate, and accelerating from the 2.1% expansion in Q3.

The S&P Global UK Manufacturing PMI dropped slightly to 51.7 in February compared to a 17-month high of 51.8 in January. The reading continued to point to expansion in the manufacturing sector. Similarly, retail sales volumes grew by 4.5% year-on-year in January, easily exceeding market expectations of a 2.8% rise. It marked the strongest annual growth rate in nearly four years. The UK equity market has been buoyed by the positive data and increased by 6.7% in February.

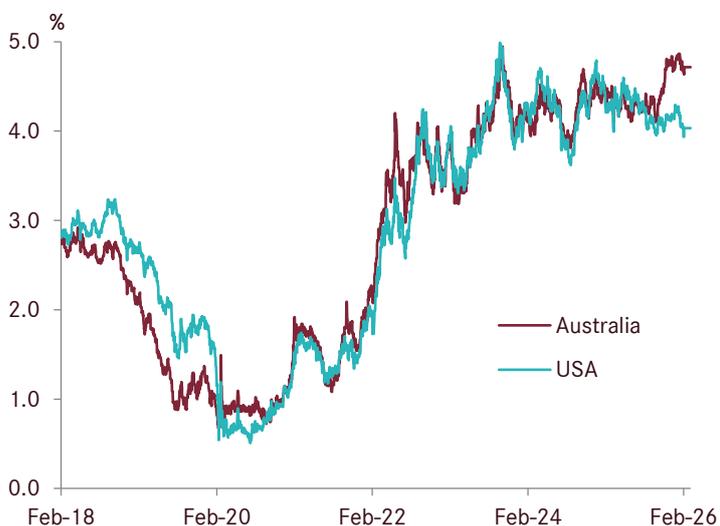
The UK's annual consumer price inflation index eased to 3.0% in January, down from 3.4% in December and in line with market expectations. The UK unemployment rate rose to 5.2% in the three months to December 2025, slightly above market expectations, which had forecast it would remain unchanged at 5.1%. This marks its highest level since the three months to February 2021. The Bank of England (BoE) kept its cash rate unchanged at 3.75% in February, with a narrow 5 to 4 votes, as policymakers balanced easing inflation pressures against risks from a weakening economy. Four members supported a 25 basis point cut, highlighting growing divisions within the Monetary Policy Committee.

The European Central Bank (ECB) left its deposit rate unchanged at 2.00% at its first policy meeting of 2026, reiterating that inflation is expected to stabilise at its 2% target over the medium term. In line with this, the euro area inflation rate was 1.9% in the year to February 2026, up from 1.7% in January. The euro area economy expanded by 1.3% year-on-year in the final quarter of 2025, marking its slowest pace in a year but easing only slightly from 1.4% in the previous quarter.

Japanese voters handed Prime Minister Sanae Takaichi a landslide win in a snap general election held on 8 February, paving the way for promised tax cuts and higher military spending aimed at countering China. The equity market responded positively with the Nikkei increasing 10.4% over the month. Japan's unemployment rate was at 2.7% in January, edging higher from the 2.6% rate recorded in each of the prior five months. This is Japan's highest unemployment rate since July 2024. The annual inflation rate eased to 1.5% in January from 2.1% in the prior month, the lowest since March 2022. The S&P Global Japan Manufacturing PMI rose to 53.0 in February from 51.5 in January, above the initial estimate of 52.8, as companies signalled a stronger recovery in business conditions, with output, new orders, and employment growth all accelerating since January. Exports surged 16.8% year-on-year in January, sharply picking up from 5.1% growth in the previous month and marking the fastest pace since November 2022. This surge in exports was primarily due to the strong demand from China and other Asian markets ahead of the Lunar New Year. By comparison, imports declined 2.5% year-on-year in January, missing market expectations of a 3.0% rise and reversing December's 5.2% increase. The latest result marked the first contraction in purchases since last August, suggesting softer domestic demand, despite Prime Minister Takaichi's stimulus package announced in November 2025.

Data out of China was limited due to the Lunar New Year holidays, and trading activity has remained subdued in the month of February. The latest inflation figures show that annual CPI slowed sharply to 0.2% in January, down from 0.8% in December, its lowest reading since October and below market expectations of a 0.4% rise.

10 Year Government Bond Yields



S&P/ASX 300 (Aus.) and S&P 500 (US) Equity Indices



Source: Bloomberg

Index Returns to 28 February 2026

	MONTH (%)	3 MONTHS (%)	FYTD (%)	12 MONTHS (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	3.9	7.1	10.0	16.4
S&P/ASX Small Ordinaries Accumulation Index	-2.6	1.5	17.5	23.0
International Equities				
MSCI World (ex Australia) Index (hedged AUD)	0.9	3.2	14.2	18.7
MSCI World (ex Australia) Index (unhedged AUD)	-1.1	-4.7	4.7	5.7
MSCI Emerging Markets Index (unhedged AUD)	3.7	8.8	22.4	30.9
Property				
S&P/ASX 200 A-REIT Accumulation Index	-3.5	-4.3	-3.2	4.7
FTSE EPRA Nareit Developed ex Aus Rental hedged AUD	6.9	7.8	12.7	10.8
FTSE EPRA Nareit Developed ex Aus Rental unhedged AUD	4.9	-0.2	3.5	-1.5
Infrastructure				
FTSE Developed Core Infrastructure hedged AUD	9.7	10.8	19.1	21.4
Australian Fixed Interest				
Bloomberg AusBond Composite Index	0.9	0.5	0.3	3.1
Global Fixed Interest				
Barclay's Global Capital Aggregate Bond Index (hedged AUD)	1.4	1.4	3.4	4.5
FTSE WGBI ex-Aust (hedged AUD)	1.6	1.4	2.9	3.7
Cash				
Bloomberg AusBond Bank Bill Index	0.3	0.9	2.4	3.8
Commodities				
Gold (USD per ounce)	4.8	24.6	58.9	84.2
Copper (USD per metric tonne)	1.4	19.3	35.2	42.6
WTI Crude Oil (USD per barrel)	3.3	14.9	3.5	-3.4

Australian Dollar versus Foreign Currencies to 28 February 2026

AUSTRALIAN DOLLAR VERSUS	AS AT 28 FEBRUARY 2026	MONTH (%)	THREE MONTHS (%)	FYTD (%)	12 MONTHS (%)
US Dollar	0.71	1.7	8.7	8.7	14.6
British Pound Sterling	0.53	3.8	7.1	10.8	7.3
Euro	0.60	2.5	6.8	8.1	0.9
Japanese Yen	111.26	3.0	8.7	17.5	18.7



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