

Marketline February 2026

Stocks

US stocks made little headway during February, with all three indices flat to down. The NASDAQ bore the brunt of the bearishness, losing 2.5%. Overseas, returns were strong, with Mexico's Bolsa rising 5.6%, Canada up over 7%, and European stocks returning 6.7%. This was the fourth month of recent relative outperformance by overseas stocks, which are benefiting from low valuations and in many cases, decent dividend yields. Too, our market is tech-heavy, and so long as technology stocks remain under a cloud, our index returns will look worse next to less tech-oriented indices. Publicly traded foreign stocks tend to be financials, extraction industries (oil, gas, mining), health care, and industrials – sectors that are favored in the current environment.

Of course, the more important news here in early March is the US/Israeli-led attack on Iran, which has increased risks globally. These risks include inflation, supply chain disruption, and political instability. We're early in the game, so it's difficult to know how long this volatility will last, but we do know that unique opportunities will arise as events unfold. For instance, before this war started, several cybersecurity stocks had declined precipitously as artificial intelligence was seen as a threat to their businesses. We were able to add one more such company to our buy list in this time frame, only to discover that after bombs began to fall, the entire sector reversed to the upside. Cyber warfare is a specialty of Iran's; companies that supply technology surveillance and protection services will be in demand. On the opposite side of the coin, energy stocks have performed well all year, and are seeing an even larger boost in this environment. We're wary about the persistence of this move, since the world has diversified its energy sources considerably over the last decade. At some point, prices may settle lower once again.

Bonds:

During the month, interest rates declined fairly substantially from ten years out – enough to bring mortgage rates below 6% briefly. However, in the wake of the Iran war, rates have reversed, while still remaining below January's closings across most of the curve. The reversal is logical – we may be borrowing still more at the federal level to buy munitions, and inflation may tick up thanks to higher oil prices.

Signals we watch in the bond market – other than the shape of the Treasury yield curve – include spreads. A spread measures the yield of some non-government bond versus its closest comparator on the Treasury curve. So for instance, if General Motors' bonds due in ten years sell at 5.3%, and the ten-year Treasury sells at 4% - that's a 130 basis point spread. Spreads grow if investors are worried about the economy. We like it when that happens, because although the bonds we already own don't perform that well, higher yields offer better long-term opportunities. Unfortunately, spreads are very narrow right now – about as narrow as they've ever been. That signals a sanguine outlook for the economy and faith in corporate balance sheets. Darn! Anyway, we'll keep an eye out for bad news in this arena, or bad news affecting some sector of the corporate bond market, so we can build higher cash flows into portfolios.

Meanwhile, the municipal market absorbed very high supply over the last year, with 2026 expected to be another record year. But very recent issuance has abated somewhat, leaving municipals a bit expensive. That will likely change, so we can take another look at this market when issuers move to market again.

Our best opportunity lately to enhance bond portfolios has been to selectively sell shorter bonds to buy longer issues. Circumstances aren't perfect for this strategy – but they're good enough. These "swaps" from one bond yielding, say, 4.7%, to another yielding 5.1% can help us add value. And that's the goal in your bond portfolios – posting a win by gaining an inch here and an inch there.

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