



FOUNDED IN

**1988**

EMPLOYEES

**80+**

LOCATED IN

**10+**  
COUNTRIES

ASSETS DIRECTLY  
UNDER MANAGEMENT

**USD 1.4**  
BILLION

ASSETS HELD BY INVESTEE  
& AFFILIATED COMPANIES

**USD 44.5**  
BILLION



# ICM Monthly Outlook

FEBRUARY 2026

## Market Review

The heady days of writing about umpteen new all-time highs for the umpteenth month in a row are over, for now. Year to date, U.S. equity markets are drifting sideways and lagging their global peers. January and February have produced similar patterns of performance for U.S. equity indices. Year to date, the S&P 500 has increased by 0.94%, reaching a high of +1.94% on 27th January, after falling to a low of -0.71% on 20th January.

In contrast, Europe, Asia, and emerging markets are performing significantly better. Year to date, the FTSE 100 is up 8%, the Euro Stoxx 50 has gained 6.17%, and emerging markets are up 14.45%<sup>1</sup>. International diversification continues to gain appeal amid capital flows shifting away from U.S. equities toward global markets. But year-to-date is a very short time frame, and not one to get het up about. Let's not forget that the U.S. has still been well ahead over the past three years.

Another big factor in the U.S. underperformance is sectoral rotation and valuation re-pricing, caused by the compression of the earnings multiple, with a slight overlay from geopolitical risk and macroeconomic data. Regular readers will know we closely follow the S&P 500 P/E ratio. The 12-month forward earnings multiple on the S&P 500 has fallen to 21.4, down from 23 last October.

And here's why. Instead of the usual excitement over AI's capabilities, investors are increasingly anxious about AI's impact on entire industries. In recent months, we shared anecdotal examples of careers under threat from AI weather forecasters (Dec 2025) and architects (Jan 2026). This month, entire sectors are in the spotlight; sectors colloquially referred to as 'middlemen' sectors. Investors and analysts worry that AI will bypass these sectors altogether. Investors are re-valuing the future earnings of sectors that might be exposed to AI substitution risk, most notably software and wealth management. It will probably be another sector next month.

Let us examine Software-as-a-Service (SaaS) providers. Investor sentiment towards software companies has become noticeably negative due to the influence of artificial intelligence. Why pay for SaaS when you can create the same or better product in a few hours using AI? Some software ETFs have fallen by more than 25% this year. Large-cap software firms are down about 15% on average in 2026. Consider Salesforce, once a doyenne of the large-cap software sector, which has declined roughly 30% in 2026. Salesforce laid off around 1,000 workers in marketing, product, and data teams in early February. All major IT and software companies have been reducing staff over the past 12 months, partly due to productivity gains and also to save money, as capex absorbs every available dollar in the race for AI dominance. The following graph of software company equity is quite stark.

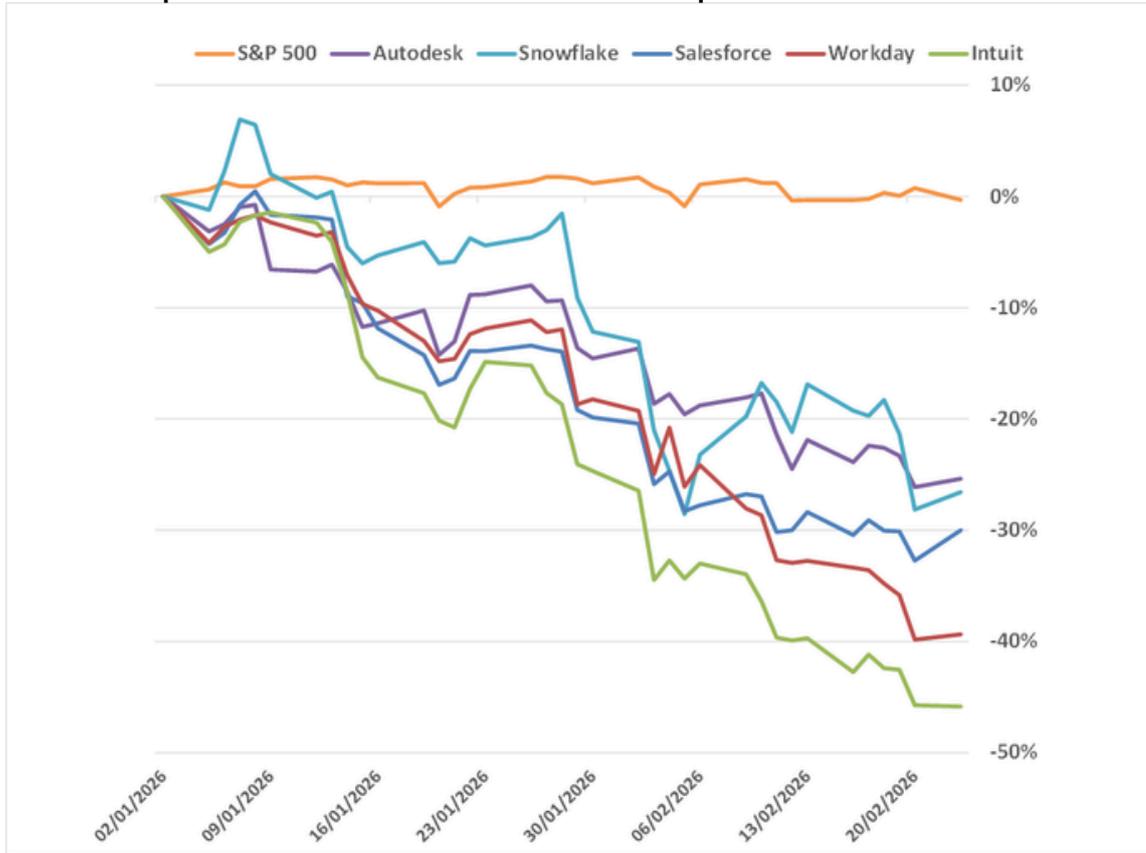
Is AI becoming the new Giant Vampire Squid, sucking the life out of entire sectors for the benefit of a few leviathans? SaaS won't disappear overnight. It'll take time. Adoption always takes longer than initially heralded, but the current earnings multiple and cost of capital suggest their size and influence will wane significantly in the next six to ten years.

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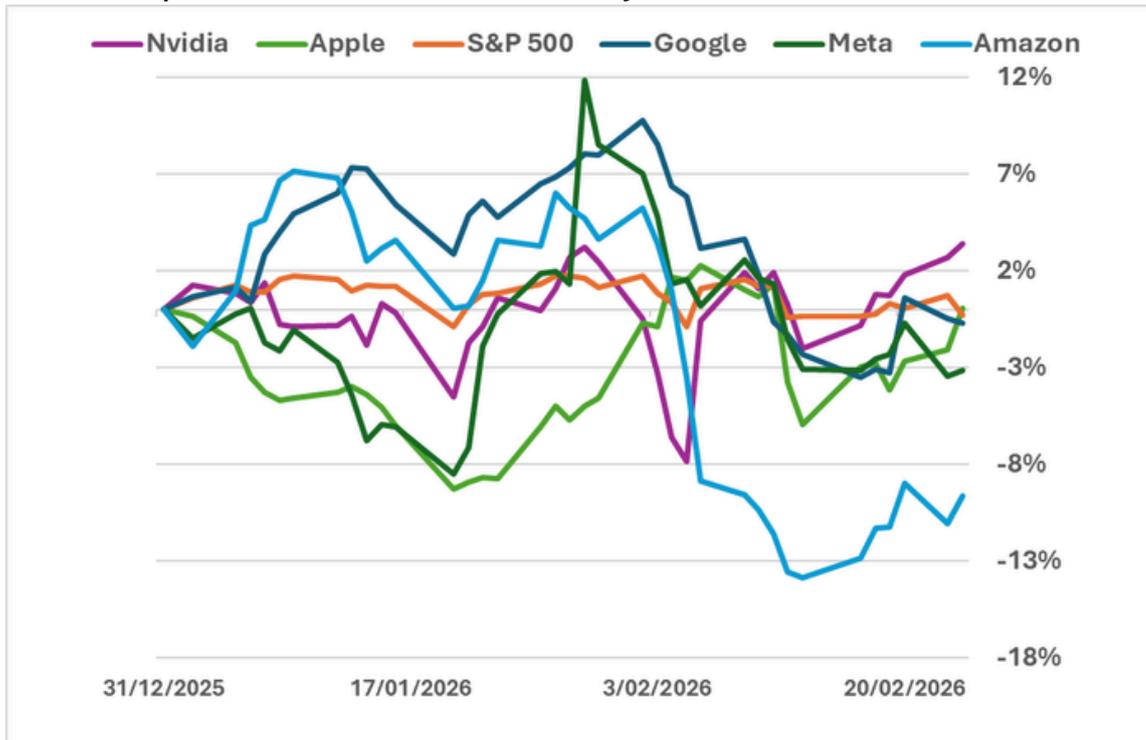


## Year-to-date performance for a selection of software companies



Source: Bloomberg

## Year-to-date performance of AI enablers is relatively better



Source: Bloomberg

AI providers and enablers are holding their own at present, constrained by massive capex projects that are burning through cash. It is reasonable to expect this trend to continue over the medium term.

We are now starting to see real-world consequences of AI across entire industries, even if we have championed the structural growth opportunities it can create.

Valuation dispersion now favours sectors with secular earnings growth and resilient cash flows, such as utilities. Sectors that AI can improve but not replace.

We believe that falling valuations are the most succinct explanation for why U.S. equities are trailing the rest of the world this year.

Beyond equities and AI, gold continues to perform well as a risk hedge. Long U.S. Treasury yields have declined modestly, with most downward pressure at the longer end, possibly reflecting concerns about long-term growth. Since the start of 2026, the U.S. dollar has been weaker across the board against major currencies. U.S. trade policy has introduced some volatility, but not as much as you might expect.

The U.S. Supreme Court's judgment to invalidate certain tariff decisions did not have anything like the impact of previous tariff-related announcements. Once again, it introduces uncertainty into global trade flows, the impact of which remains to be seen. Broadly speaking, while pockets of tariff-related price pressure have emerged since President Trump's Liberation Day announcements, the worst-case potential for significant pass-through to consumer prices has not been realised. In his post-FOMC press conference, Fed Chair Powell showed cautious optimism that most of the pressure related to duties would soon ease. "The expectation is that we will see the effects of tariffs flowing through goods prices, peaking, and then starting to come down..."

I suspect the rest of the world looked on with a frisson of schadenfreude when the U.S. Constitutional Court ruled the Liberation Day tariffs unconstitutional. Let us not forget that these tariffs were designed to plug the hole in lost tax revenue caused by the Big Beautiful Bill tax cuts. Oops. Spare a thought for President Trump, who is due to visit China from March 31<sup>st</sup> to April 2<sup>nd</sup> with a malfunctioning tariff bazooka. The Supreme Court, which ruled that he doesn't have the authority to impose tariffs under emergency legislation, has dealt a severe blow to the President in negotiations.

## Market Outlook

Our outlook is unchanged since last month, notwithstanding everything we just said about the impact of lower valuations and the horrendous start to the new year for software companies. New risks are always entering our orbit. So it goes.

We remain constructive on the outlook for global growth, inflation is under control, and we have supportive monetary and fiscal policy. In short, the global economy should remain resilient. This 'Goldilocks' scenario of expanding economic activity, falling inflation, and supportive monetary and fiscal policy will support risk-on sentiment and positive returns.

Global growth of approximately 3% in 2025 is expected to continue into 2026. Developed economies are projected to grow by around 1.9%, driven by robust U.S. consumer spending and fiscal-led expenditure in Europe. Latest data shows that the U.S. economy grew at a modest pace in Q4 2025, with GDP expanding 1.4% annualised, below consensus expectations. Emerging markets are forecast to grow by 4.1%, easing slightly due to slower activity in China and India in 2026 compared to 2025, but remaining above trend growth. Eurozone manufacturing PMI returned to expansion territory in February, marking a positive shift in business sentiment. Germany's PMI posted above-expected readings, aiding European growth narratives. UK retail sales significantly outpaced expectations, pointing to consumer resilience.

Similarly, we expect inflation to continue to trend lower in 2026, given the growth forecast and the labour market softness. U.S. Consumer Price Index (CPI) (headline inflation) keeps falling. In January, CPI rose by 0.17% month on month, below the median analyst expectation of 0.3%, equivalent to an annualised rate of 2.4% for 2026, down from 2.7% in December 2025<sup>2</sup>, indicating a slow downward trend in inflation. Core PCE (Personal Consumption Expenditures) - the Fed's preferred measure - has risen to 3% annualised<sup>3</sup>, which is disappointing. The Fed would prefer it closer to 2% sooner rather than later.

German producer prices continue to weaken, a signal that inflationary pressures at the wholesale level remain subdued, providing the European Central Bank with latitude on its policy stance. Eurozone core inflation fell to 2.2% from 2.35% in December, reinforcing the view that any possible tightening may not be imminent.

Pending jobless claims and business surveys remain critical in judging the Fed's policy stance in the coming months. And with PCE staying stubbornly above 2%, we believe the Fed will pause any interest rate cuts until the end of Q2 2026 at the earliest.

In the short term, higher commodity prices (oil and metals) pose upside risks to inflation. Oil prices have risen recently due to potential supply disruptions amid heightened geopolitical tensions in the Middle East. Millions of barrels of crude oil and LNG pass through the Strait of Hormuz daily. Any major blockage of this strait could cause an immediate and considerable impact on prices. As usual, we do not expect President Trump to antagonise Iran to the extent that it threatens a spike in the oil price. That would be bad for Trump voters. Over the medium term, we expect oil prices to retrace to closer to \$60 once the negotiations conclude.

### **Contagion risk from the software sector sell-off**

There is a potential contagion risk stemming from the risk-off sentiment towards middlemen sectors that we highlighted at the start of this month's letter. This is reportedly already evident in the private credit markets. We are aware of one software-heavy private credit fund restricting redemptions, which is something we haven't seen since property funds during the Covid pandemic and subprime funds before the 2008 financial crisis.

One particularly loquacious thought leader was quoted as drawing parallels between potential defaults in private credit markets and the 2008 subprime crisis. The same CEO was warning us about cockroaches in the credit world six months ago, too. A stopped clock is right twice a day. Based on the current outlook, we see no similarity between private credit funds and banks facing solvency issues. The opacity of private credit markets is suboptimal. It means no one truly knows how risky the underlying loans are or who bears the risk, but it is safe to say bank balance sheet exposure to private credit is materially lower than subprime mortgage exposure in 2008.

Conor Spencer  
26<sup>th</sup> February 2026

Source Data: ICM, Bloomberg as of 31 January, 2026.

[1] [iShares MSCI Emerging Market EFT <EEM US Equity>](#)

[2] [United States Consumer Price Index \(CPI\)](#)

[3] [United States Core Personal Consumption Expenditure Price Index](#)

### **Risk Warning**

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34 Bermudiana Road | PO Box HM 1748 | Hamilton HM GX | Bermuda  
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