Did you find this information helpful? Scan the QR code to subscribe to our Monthly Equity Update email.

FIRST FINANCIAL TRUST

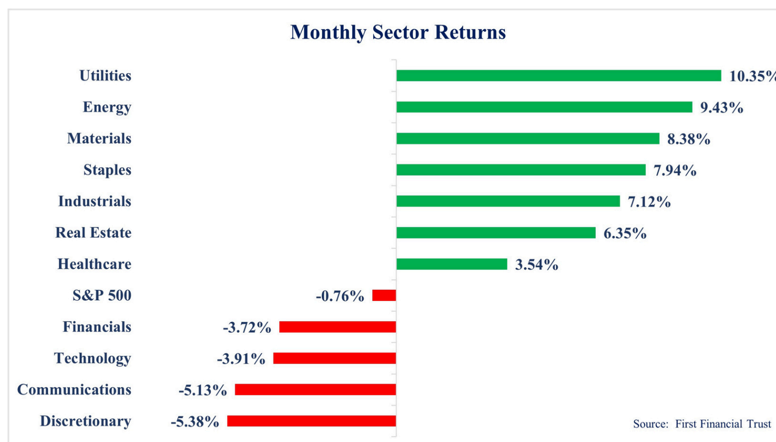
Equity Market Update

As of February 28, 2026 | Volume 15, Issue 2

Stocks experienced their first negative month since the Liberation Day sell-off last April.Single-stock volatility was high as investors balanced resilient consumer spending and a surprising rebound in manufacturing against the headwinds of a cooling labor market and concerns about spending on artificial intelligence. Sentiment was particularly impacted by a landmark Supreme Court ruling that struck down several of the administration's sweeping "emergency" tariffs, though the immediate relief was tempered by President Trump's quick pivot to alternative legal grounds for new 15% levies. Internationally, Middle Eastern tensions—specifically surrounding stalled U.S.-Iran nuclear talks—pushed crude oil and metals higher, with gold crossing the $5,000 per ounce threshold. Consequently, the month concluded with a clear rotation into defensive "safe havens" and hard assets as market participants braced for potential energy-driven reflation and persistent uncertainty regarding the Federal Reserve's path toward interest rate cuts.

Performance

The financial markets experienced mixed results during the month of February, characterized by a slight downturn in broad equity indices despite strength in specific sectors. The S&P 500 and Nasdaq Composite saw monthly total returns of -0.76% and -3.33%, respectively, reflecting downward pressure on mega-cap technology and growth stocks. In contrast, the Dow Jones Industrial Average managed a marginal gain of 0.31%, while mid-cap and small-cap indices outperformed significantly, posting total returns of 4.12% and 2.17%. This divergence suggests a rotation away from high-valuation tech names toward value-oriented and smaller-capitalization equities.



Sector-specific performance was defensive and commodity-focused throughout the month. The Utilities and Energy sectors led the market with robust total returns of 10.35% and 9.43%, followed closely by Materials and Consumer Staples. Conversely, the Information Technology, Communication Services, and Consumer Discretionary sectors were the primary laggards, all posting declines of more than 3.9%. Individual stock performance within the S&P 500 was heavily impacted by significant pullbacks in major technology companies such as NVIDIA, Amazon, and Microsoft, which offset gains made by leaders like Apple, Johnson & Johnson, and ExxonMobil.

Equity Market Update

From a year-to-date perspective, the market maintains a modest upward trajectory with the S&P 500 up 0.67% and the Dow up 2.12%. The Energy sector remains the standout performer for the year with a staggering 25.22% return, while the Financials and Information Technology sectors continue to face year-to-date deficits. While the broader indices show relative stability, the underlying data reveals a clear shift in market leadership, as traditional "Magnificent Seven" stocks face valuation headwinds, while industrial and cyclical components provide critical support to the indices.

Economic Data Summary

The U.S. economy enters early 2026 displaying a mix of resilience and emerging pressure points. Consumer activity remains steady, with retail sales rising 0.8% in February and continuing to show moderate month-to-month growth. Inflation has generally cooled compared with the post-pandemic highs; for example, the most recent Consumer Price Index increased 2.4% over the past year. However, recent geopolitical events—most notably the U.S.–Iran conflict, which has disrupted global oil flows—have raised concerns about renewed inflationary pressure and supply-side shocks.

Labor market conditions remain stable but show subtle signs of cooling. The unemployment rate has hovered between 3.7%–4.3% throughout 2025 and early 2026, while nonfarm payroll growth slowed, including a modest +60,000 jobs forecasted for February. Wage growth has been positive, with consistent increases in average hourly earnings. Yet broader analyses highlight a “low-hire, low-fire” environment as firms become more cautious amid uncertainty surrounding tariffs and disruption from advances in artificial intelligence.

Inflation dynamics remain a focal point for policymakers and investors. While headline and core inflation trended lower throughout 2025, recent energy market disruptions threaten to reverse some of this progress. Analysts warn that oil price spikes following the Strait of Hormuz shutdown could push inflation higher and increase the risk of stagflation, particularly if elevated energy costs persist. Forecasts from the Federal Reserve and private economists still expect inflation to drift toward 2.4% in 2026. Households continue to feel the strain of elevated living costs, creating what is being called a “k-shaped economy” where wealthier households continue to spend freely due to rising equity prices and large sums of home equity, while lower-income citizens are cutting back on spending given the high prices on everyday essentials.

Business activity indicators paint a cautious but not recessionary picture. Manufacturing PMI readings were consistently below 50 throughout 2025, indicating contraction; however, the first two releases of 2026 show an acceleration in activity. Services PMI has remained in expansion territory. Economists note that despite slower growth, no recession is currently forecast for 2026, though tariffs, weakening job growth, and inflation pressures could moderate activity relative to 2025’s stronger periods.

The FOMC held interest rates steady at a range of 3.50% to 3.75% at their January meeting, but post-meeting details showed two dissenters that wanted to cut rates by a quarter-point. The Fed is likely to take no action at their March 18th meeting given recent hot inflation readings, along with uncertainty surrounding the conflict in Iran.

Valuation & Earnings

The valuation of the S&P 500 currently stands at 21.1x forward earnings estimates. This is slightly more than one year ago (20.9x), and it is also above the 5-year (20.0x) and 10-year (18.8x) averages despite the higher interest rate environment. Therefore, the equity risk premium that compensates investors for the excess risks associated with stocks compared to bonds remains thin.

FIRST FINANCIAL TRUST

Equity Market Update

We have concluded another earnings season, and results were better than expected. Profits grew 11.9% from one year ago, better than analysts' 8.3% estimate. It marked the fifth consecutive quarter of double-digit earnings growth. All eleven sectors reported year-over-year growth, with Information Technology, Industrials, Communications, and Materials growing faster than the total index. The strong results encouraged analysts to boost their full-year 2026 earnings growth rate to 14.7% from 14.3%. Technology is still expected to be the best grower of earnings, but the spread between tech and other sectors is thought to narrow. That view has been the primary driver of the rotation away from the more expensive big tech names towards other areas of the market where growth rates are improving at much lower valuations, like industrials and materials. We would caution that above-average profit growth in these other sectors is coming from select industries or individual names that are skewing overall results.

With the market currently trading above the valuations of the past decade, stocks are vulnerable to headline risk from major economic reports, the Fed, and geopolitical events. The S&P 500 has experienced three straight years in which returns exceeded profit growth, resulting in significant PE multiple expansion. However, analysts are quick to remind investors that the S&P 500's forward PE ratio expands ~90% of the time when EPS growth is above the long-term average and monetary policy is accommodative. This makes quarterly earnings reports and forecasts, along with Fed meetings, must-watch events.

Conclusion

For months, we have written about the large difference in valuation between the big tech companies at the top of the index and everybody else. Currently, if you equal-weight the names inside the S&P 500, the forward PE ratio drops from 21.1x to 17.3x. For the last three months, we have seen a major rotation away from higher valuation tech names at the top of the index to reinvest in areas with improving profit growth at lower valuations, primarily industrials, healthcare, energy, and materials. The PE premium assigned to the market cap weighted index has collapsed from 6 turns in November to 3.8 turns today. That is still higher than readings from the past 5 and 10 years, so the incentive to buy non-tech positions remains in place. However, we would not count out big tech quite yet. Currently, the Mag 7 (ex-Tesla) trades at a PE ratio in line with the index and a discount to consumer staples. That seems strange given that big tech is forecasted to grow earnings 31.8% in 2026, well in excess of the total index. If that comes to fruition, technology gets cheaper versus the rest of the market every day it ties or underperforms. The sharpest declines within technology have been in software-related names due to disruption fears from advances in AI-related coding. We believe a pocket of opportunity has opened within select software names that are deemed mission-critical given their "systems of record" business models. Also, in a market where participants have shifted to hard assets and defensive sectors, we believe now is the time to begin adding back to technology, along with banks and asset managers.

Investment & Insurance Products Are: Not A Deposit | Not FDIC Insured | Not Insured by Any Federal Government Agency | Not Guaranteed by the Bank | May Lose Value