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Market Update - February 2026

The Bank of England held interest rates at 3.75% in February, pausing its cutting cycle as it assessed a more balanced inflation picture. CPI fell to 3.0% in January, the lowest since March 2025, raising expectations of a rate cut as early as March or April. The FTSE 100 extended its record-breaking run, climbing nearly 7% in February to close above 10,900. Globally, markets were gripped by the US Supreme Court ruling that struck down President Trump's sweeping emergency tariffs, triggering fresh uncertainty over the future of global trade policy.

UK policy

At its meeting ending on 4 February 2026, the Bank of England's Monetary Policy Committee voted 5-4 to maintain Bank Rate at 3.75%. Four members voted to reduce rates by 25 basis points to 3.5% - a notably more divided vote than markets had anticipated before the meeting.

Although inflation remains above the 2% target, the BoE expects CPI to fall back to around that level from April owing to recent developments in energy prices. The Bank noted that pay growth and services price inflation have generally continued to ease, and that the risk from greater inflation persistence has become less pronounced.

The more dovish-than-expected vote split has prompted a reassessment among forecasters. Suren Thiru, ICAEW economics director, says rate-setters look likely to opt for two interest rate cuts in 2026, possibly in April and July - whilst keeping a third reduction in reserve to deploy if the economy fares worse than forecast. Some analysts at BNP Paribas went further, arguing the first cut could arrive as early as March.

The UK economy

The UK unemployment rate for over-16s was estimated at 5.2% in October to December 2025. This is up from the latest quarter and above last year's estimates. Youth unemployment climbed to 14% (the highest in five years), with the number of 18 to 24-year-olds out of work rising by 80,000 on the quarter to 575,000.

Annual growth in employees' average earnings was 4.2% for both regular earnings (excluding bonuses) and total earnings in October to December 2025. Wage growth in the private sector slowed to 3.4%, suggesting that underlying inflationary pressures from pay are gradually fading, which will reassure BoE policymakers.

CPI inflation fell to 3.0% in the 12 months to January 2026, down from 3.4% in December. This marks the lowest annual inflation rate since March 2025, primarily driven by softer increases in transport and food prices. The BoE's February projections forecast CPI falling to 2.1% in the second quarter of 2026, with inflation then expected to remain close to target.

January was an unusually strong month for government finances. The UK public sector ran a £30.4 billion surplus (the largest January surplus on record) largely due to high tax receipts from self-assessment and capital gains. Long-term UK gilt yields also fell during February, offering some relief to lower-risk portfolios.

The UK market

The FTSE 100 hit 10,686 points on 19 February. This marked its second consecutive record high, cementing a remarkable run for the UK's flagship blue-chip index. The index continued pushing higher through the rest of the month. It hit a fresh all-time closing high of 10,910.55 on 27 February. The psychologically important 11,000 barrier was now within touching distance.

February's performance represented a rise of approximately 6.8%, the best monthly gain since 2022, and the index's eighth consecutive monthly advance (its strongest such run since 2013). The breadth of the rally was notable. AstraZeneca has climbed almost 15% since the start of 2026, illustrating how gains have extended well beyond commodities. Mining stocks provided strong support, with Antofagasta surging 10.5% and Anglo American rising 4.6%.

Pharmaceutical names, defence stocks and AI-adjacent businesses such as RELX and London Stock Exchange Group also contributed meaningfully. However, Melrose Industries fell sharply after issuing cautious guidance citing supply chain pressures and tariff uncertainty.

UK Prime Minister Keir Starmer stated that Britain must go faster on defence spending, lending additional momentum to the sector. Corporate activity also supported the market, with several large FTSE constituents announcing share buyback programmes. Consumer confidence dipped slightly in February, with GfK's index falling three points to -19, as rising unemployment and ongoing concerns about household finances weighed on sentiment.

The Global Outlook

The dominant global story of February was the US Supreme Court's ruling on trade policy. On 20 February, the Supreme Court ruled that many of President Trump's tariffs imposed under the International Emergency Economic Powers Act (IEEPA) were unconstitutional, finding the statute does not authorise the use of tariffs and that the power to tax lies with Congress. Undeterred, Trump swiftly announced a new 10% global import tariff under a different legal authority - Section 122 of the Trade Act of 1974 - later raising this to 15%. These tariffs carry a 150-day time limit absent congressional approval, adding a further layer of uncertainty for businesses and trading partners worldwide.

The US Federal Reserve left the federal funds rate unchanged at the 3.5%-3.75% target range at its January meeting, in line with expectations, after three consecutive rate cuts in 2025. US CPI inflation fell to 2.4% in January (below the prior month's reading), with markets now anticipating potential cuts in the second half of 2026 at the earliest. The Federal Reserve faces additional institutional uncertainty, as Chair Jerome Powell's term expires in May and the identity of his successor remains unclear.

The ECB kept its key interest rates unchanged at its first meeting of 2026, with the deposit facility rate remaining at 2.00%. European Central Bank Eurozone inflation fell to 1.7% in January, its lowest since September 2024. This is below the ECB's 2% target. Core inflation has also eased to 2.2%, its lowest level since October 2021. The strong euro, which hit its highest level against the dollar since 2021, has introduced new complexities. Yes, it reduces import costs and helps suppress inflation, but it also poses a headwind for eurozone exporters. Most forecasters now expect the ECB to hold rates steady through much of 2026.

Japan's new Prime Minister Sanae Takaichi called a surprise snap election in early February, winning a historic majority for her ruling coalition. The Nikkei 225 surged to record highs on hopes of sustained stimulus and higher domestic demand. However, her policies - including suspending the sales tax on food - have also rattled some investors concerned about Japan's public finances, weakening the yen and pushing long-term bond yields higher.

Overall, global investors face a landscape shaped by monetary policy caution, a tariff environment in legal flux and pockets of strong equity performance in markets that have successfully positioned themselves outside the AI-concentration risk weighing on US large-caps. The FTSE 100's outperformance of many global peers this year reflects precisely this: its diversified, old-economy character has proved a source of stability, not a weakness.

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