
Baltimore, Maryland

WEEK OF MARCH 2, 2026

# Market Navigator

U.S. stocks were down across the board last week as continued concerns about the impact of artificial intelligence (AI) weighed on markets. Beneath the surface, several sectors rallied. International stocks and Treasury bonds were also up. Higher-than-expected producer price data fueled worries that inflation could accelerate.

## Quick Hits

1. **Beyond the headlines:** Do midterm elections drive market returns?
2. **Report releases:** Producer prices rose more than expected in January, raising concerns about the stubbornness of inflation.
3. **Financial market data**: U.S. stocks were weak across the board. Market breadth remained evident, with many sectors rallying.
4. **Looking ahead:** We expect several reports on the health of the economy, highlighted by February's employment update.

## Beyond the Headlines: Do Midterm Elections Drive Market Returns?

Historically, the State of the Union address has marked the unofficial start of midterm election campaigns. With the February 24 speech behind us, election-related headlines are likely to accelerate in the weeks and months ahead—and increasingly capture the attention of investors. Let's investigate what history suggests we may expect over the next eight months.

The party occupying the White House has gained seats in the House of Representatives during midterms only three times: in 1934 under Franklin D. Roosevelt, in 1998 under Bill Clinton, and in 2002 under George W. Bush. In each case, the gains were limited to single digits. Typically, the president's party loses seats—a trend widely expected to continue this year.

The third year of a presidential term has traditionally been strong for markets. Presidents—regardless of party—tend to shift their focus to pro-growth issues that can support reelection efforts or cement their legacy.

**Increased Volatility Likely**
Even when the outcome appears predictable, markets tend to react before Election Day. Campaign rhetoric can become sharp, and challengers often highlight what is going wrong. This dynamic can heighten investor unease and introduce ambiguity about the path forward. And markets rarely respond well to uncertainty. According to research from Capital Group,* average market returns during midterm years are roughly 5 percent lower than in other years of the presidential cycle. Volatility also tends to rise in the six months preceding midterm elections.

As Election Day approaches, however, uncertainty about the eventual outcome generally subsides. Historically, after that cloud lifts, equities have often performed well through year-end.

**Third Year of the Presidential Cycle**
The third year of a presidential term has traditionally been strong for markets. Presidents—regardless of party—tend to shift their focus to pro-growth issues that can support reelection efforts or cement their legacy. That can lead to a relatively strong year for stock market returns, regardless of which party controls Congress. In election years, the most effective investment strategy remains to cast votes in the polling booth, not in portfolios.

Although the data makes sense, elections rarely occur in a vacuum. A range of factors influence market behavior, and it can be difficult to separate what drives the market most day to day and month to month.

Geopolitical risk is always a concern. Labor-market strength and the path of inflation will influence whether the Federal Reserve (Fed) will lower interest rates later this year. These factors, in turn, could affect economic growth and play a role in determining yields on the 10-year Treasury. Interest rates and corporate earnings remain critical for stock valuation levels.

In short, wholesale portfolio changes driven by election-season headlines are rarely warranted. A disciplined focus on fundamentals—paired with a well-diversified portfolio—remains the most effective approach.

* Source: https://www.capitalgroup.com/intermediaries/middle-east/en/insights/articles/how-us-midterm-elections-affect-the-markets.html, January 26, 2026.

## Report Releases: February 23–27, 2026

**Conference Board Consumer Confidence Index**
February (Tuesday)

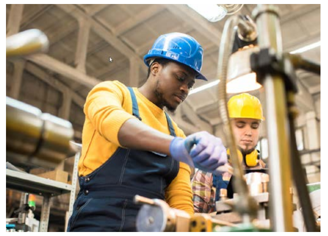
Consumer confidence rose last month after a depressed January reading. The improvement was due to more positive expectations for future economic conditions.

- Expected/prior month consumer confidence: 87.1/89.0
- Actual consumer confidence: 91.2

**Producer Price Index (PPI)**
January (Friday)

In a potentially worrisome sign that inflationary pressure may be rising to start the year, headline and core producer inflation were higher than expected in January. (This is one reason the Fed chose to leave interest rates unchanged last month.)

- Prior monthly PPI/core PPI growth: +0.4%/+0.6%
- Expected monthly PPI/core PPI growth: +0.3%/+0.3%
- Actual monthly PPI/core PPI growth: +0.5%/–0.8%
- Prior year-over-year PPI/core PPI growth: +3.0%/+3.3%
- Expected year-over-year PPI/core PPI growth: +2.6%/+3.0%
- Actual year-over-year PPI/core PPI growth: +2.9%/+3.6%



### >> The Takeaway

- Improved consumer confidence, which could lead to better news for retail sales, was a welcome sign.
- Producer price inflation accelerated to start the year, raising concerns that stubborn inflation may persist.

## Financial Market Data

### Equity

U.S. equity markets were down across the board. The Dow Jones Industrial Average and the small-cap Russell 2000 each fell more than 1 percent. Technology led the sell-off—particularly after Nvidia's earnings report on Wednesday—as AI worries continued to dominate. Market breadth, however, remained evident, with consumer staples, health care, energy, and materials each rising more than 1 percent. International markets saw small gains and continued to outperform U.S. markets.

| Index | Week-to-Date | Month-to-Date | Year-to-Date | 12-Month |
|---|---|---|---|---|
| S&P 500 | −0.42% | −0.76% | 0.67% | 16.96% |
| Nasdaq Composite | −0.94% | −3.33% | −2.39% | 21.07% |
| DJIA | −1.28% | 0.31% | 2.12% | 13.59% |
| MSCI EAFE | 1.25% | 4.65% | 10.13% | 35.46% |
| MSCI Emerging Markets | 2.83% | 5.50% | 14.85% | 50.79% |
| Russell 2000 | −1.15% | 0.80% | 6.24% | 23.37% |

*Source: Bloomberg, as of February 27, 2026*

### Fixed Income

In response to equity weakness, Treasury bonds were stronger across the yield curve. Yields on the 10-year closed below 4 percent, at 3.95 percent, for the first time since November. High-yield bonds, on the other hand, declined.

| Index | Week-to-Date | Month-to-Date | Year-to-Date | 12-Month |
|---|---|---|---|---|
| U.S. Broad Market | 0.54% | 1.64% | 1.75% | 6.26% |
| U.S. Treasury | 0.69% | 1.82% | 1.72% | 5.32% |
| U.S. Mortgages | 0.58% | 1.67% | 2.09% | 7.54% |
| Municipal Bond | 0.33% | 1.25% | 2.20% | 4.96% |

*Source: Bloomberg, as of February 27, 2026*

### >> The Takeaway

- U.S. equity markets were weaker as AI concerns continued to be the dominant theme. Breadth remained, however, with multiple sectors posting positive returns.
- Higher-quality fixed income was higher.

## Looking Ahead

This will be a big week for data. It should give economists and investors an indication of the health of the economy.

- The week kicks off Monday with the Institute for **Supply Management (ISM) Manufacturing index** for February. Consensus expectations are for manufacturing confidence to fall after improving more than expected in January.
- On Wednesday, we'll receive the **ISM Services index** for February. Service sector confidence is expected to rise slightly after remaining flat to start the year.
- Finally, on Friday, we expect February **retail sales** and **employment reports**. Retail sales are anticipated to drop, and it's expected that 75,000 jobs will have been created in February.

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