
Pathstone

Summary

Monthly Market Insights

March 2, 2026

Economic Summary

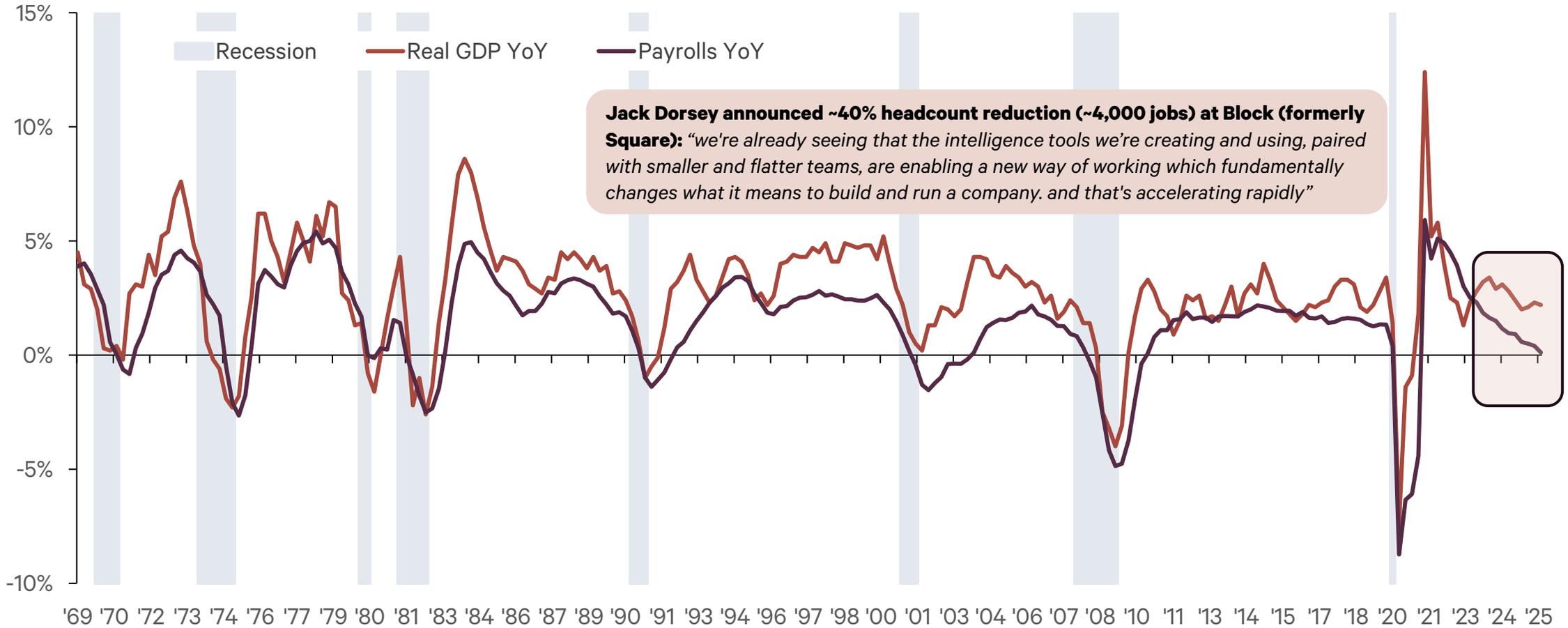
- 1 “Jobless growth” phase continues**
 - 4Q GDP of 1.4% would have been 2.3% if you add back drag from government shutdown.
 - Payroll growth remains soft, highlighting weak demand amidst AI excitement and concerns.
- 2 Tariffs & Iran strike = geopolitical uncertainty**
 - IEEPA tariffs struck down, so Trump initiated new 10% global tariffs under Section 122
 - Iran strike puts pressure on energy markets
- 3 AI “economic diffusion” debates break out**
 - Economic diffusion refers to how quickly AI will be adopted and permeate through the economy. While the technology may see exponential growth, human nature, embedded inertia, and the practical limits of productivity vs. end consumer demand may provide some limitations on it’s disruptive potential – but it’s moving quickly.

Market Summary

- 1 The "broadening out" trade accelerates as non-US and value lead**
 - Market breadth is expanding significantly beyond the mega-cap tech trade. Non-US equities (particularly in Europe and Japan) are outperforming year-to-date, driven by more attractive relative valuations. Simultaneously, cyclical and value stocks are consistently beating growth across US indices as investors rotate into sectors like energy, industrials, and materials.
- 2 Strong earnings fundamentals are supporting elevated valuations**
 - Fourth-quarter earnings have been robust, with the S&P 500 tracking toward 14% growth and comfortably beating consensus estimates. While the information technology and communication services sectors continue to lead the pack in absolute growth, the market is beginning to intensely scrutinize rising AI capital expenditures to ensure they are translating into proportional revenue gains.
- 3 AI disruption fears trigger a sharp equity and credit rotation**
 - The debate over AI "economic diffusion" is creating a new paradigm of clear winners and losers. While "physical AI" plays (semiconductors, power, and utilities) continue to rally, software stocks and private credit markets are facing significant valuation pressure. Investors are aggressively pricing in the risk that autonomous AI agents will disrupt traditional SaaS "per-seat" business models, which in turn threatens the underlying software loans heavily concentrated in BDC portfolios.

“Jobless growth” continues with healthy GDP but softer labor markets

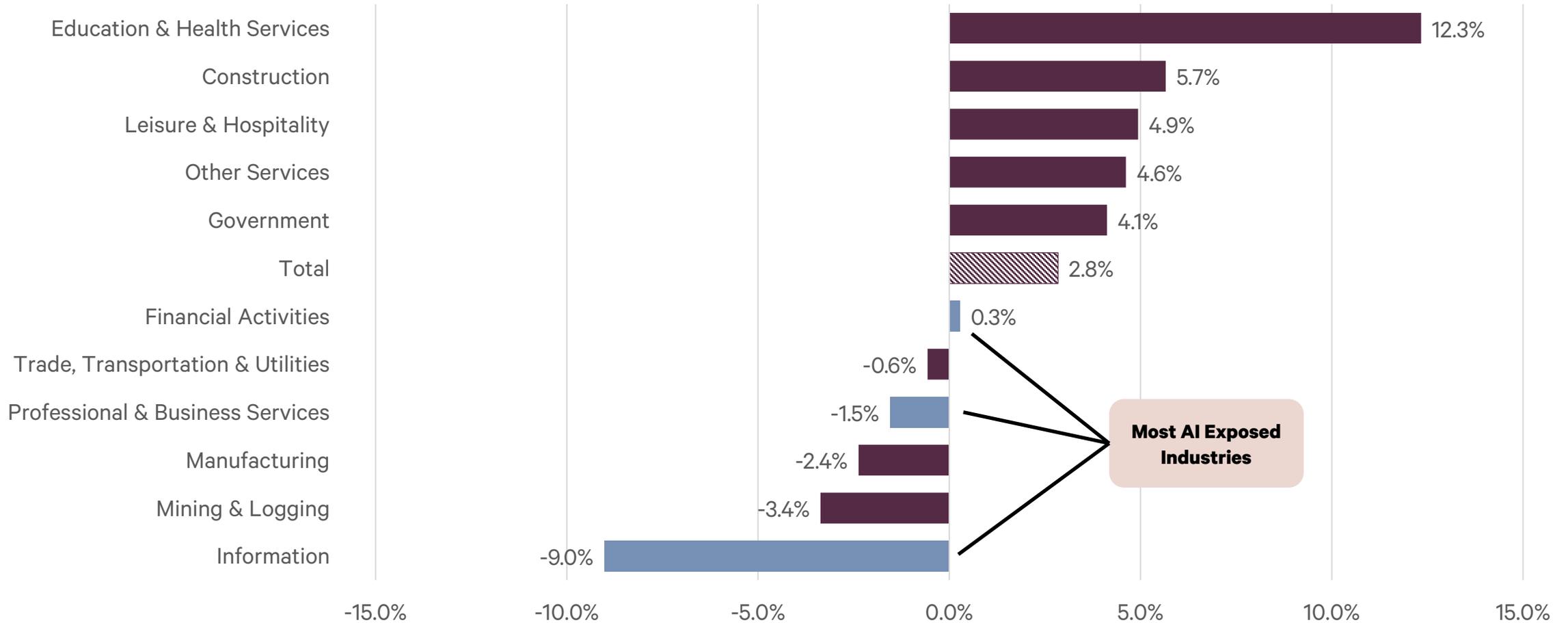
Real GDP and Nonfarm Payrolls YoY



Source(s): Pathstone with data from Bloomberg, Bureau of Economic Analysis. Data as of 2/20/2026.

Industries most exposed to AI already feeling pain

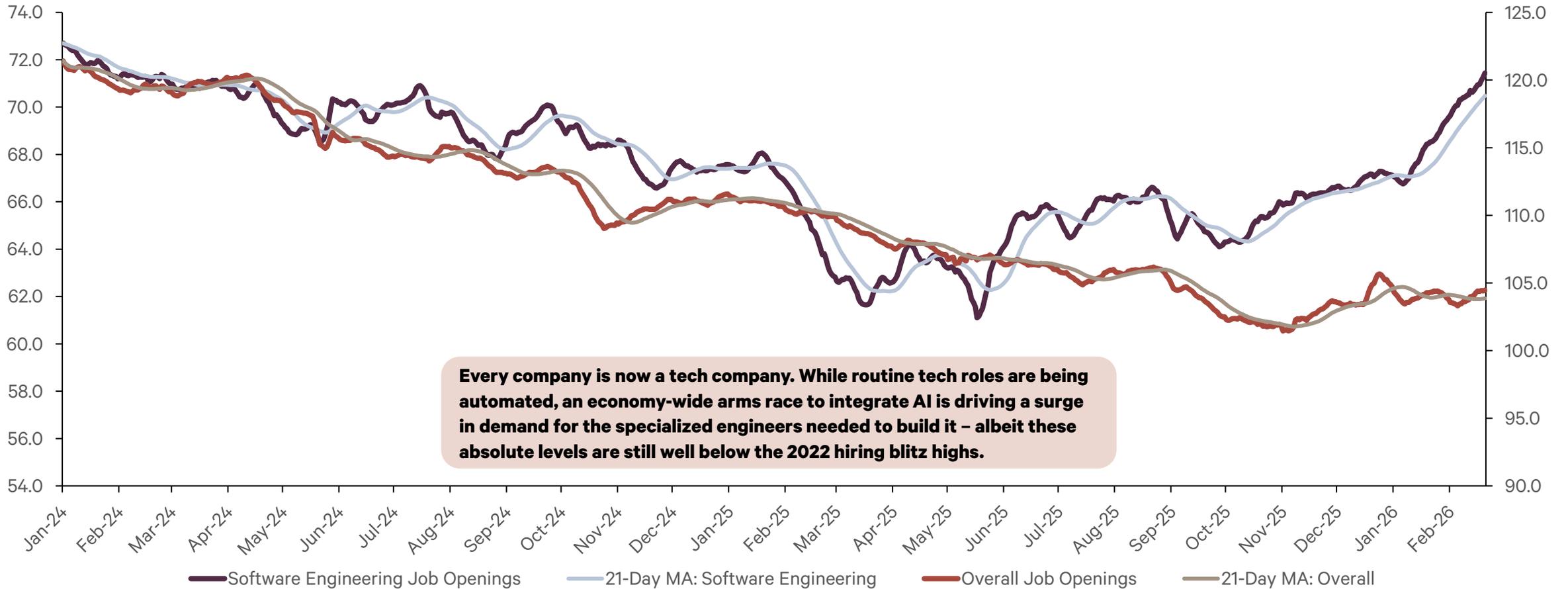
Percent Change in Jobs Since 11/30/2022 (ChatGPT Launch)



Source(s): Pathstone with data from Bloomberg, Bureau of Labor Statistics. As of 2/25/2026.

Rise in software job postings despite software concerns

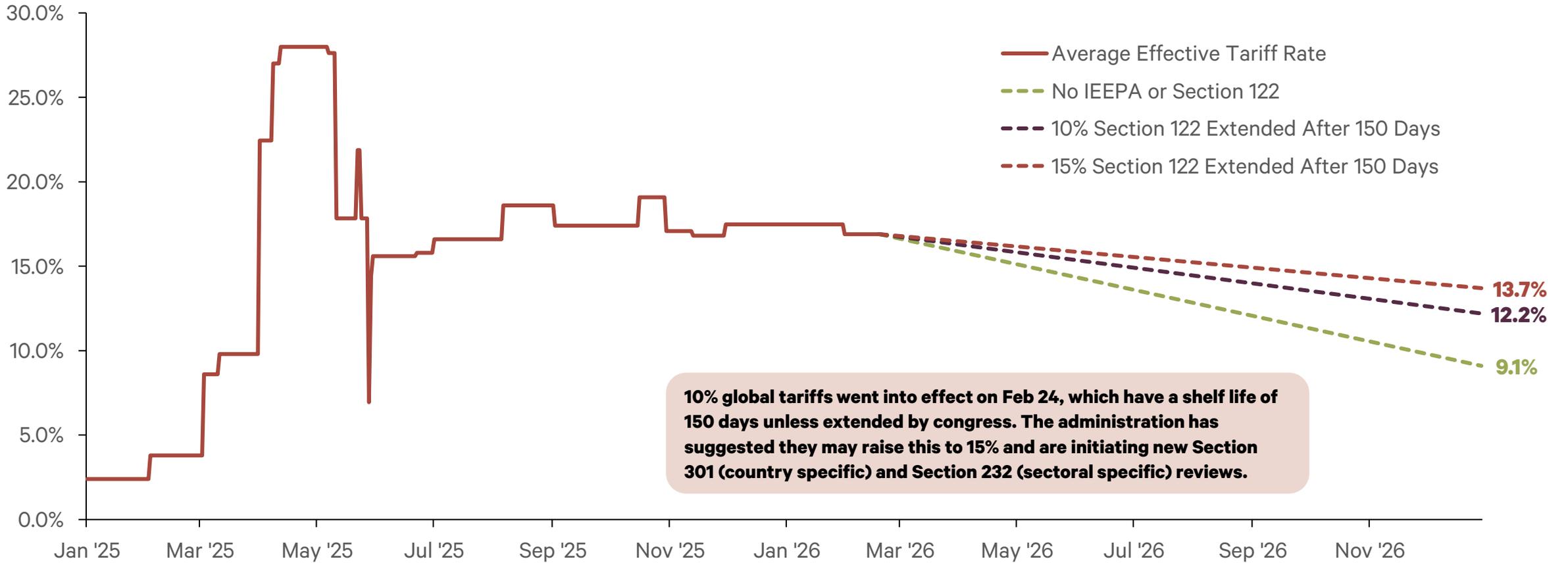
Job Postings for Software Engineers vs Overall Job Postings



Source(s): Pathstone with data from Indeed and FRED. As of 2/25/2026.

SCOTUS ruling leads to lower tariff rates, no news on refunds yet

Average Effective Tariff Rate



10% global tariffs went into effect on Feb 24, which have a shelf life of 150 days unless extended by congress. The administration has suggested they may raise this to 15% and are initiating new Section 301 (country specific) and Section 232 (sectoral specific) reviews.

Source(s): Pathstone with data from The Budget Lab. As of 3/2/2026.

Oil under pressure as US and Israel jointly strike Iran

Joint military operation sparks regional escalation

On February 28, Israel and the United States launched a series of preemptive strikes against targets in Tehran and other Iranian cities. Iran immediately retaliated with ballistic missiles targeting Israel and US military bases across the Persian Gulf, damaging pipelines in Qatar, which is causing natural gas prices to spike, impacting Europe.

Trump reports Supreme Leader Ayatollah Ali Khamenei is dead

U.S. goals in Iran: 1) No nuclear weapon 2) destroy missile program 3) annihilate navy 4) elimination of the offensive military capability of Iran's proxies in the region 5) invitation for the Iranian people to rise up against the regime

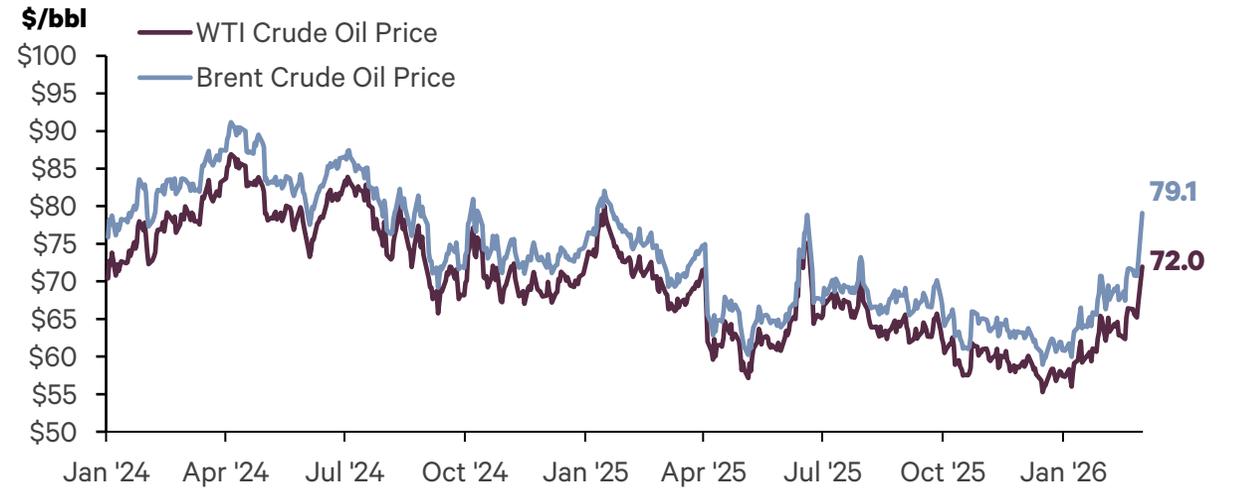
Oil prices spike as the Strait of Hormuz is threatened

Iran has said they will not close the Strait, which sees around 20% of daily oil flow through it (and 80% of Iranian oil), but at least 5 commercial ships have been impacted and traffic has fallen from over 50 ships a day to single digits.

Oil markets price in a geopolitical risk premium

Even if physical disruptions are brief, the threat of a naval blockade or further retaliation has introduced a significant "headline-driven risk premium" to energy markets. We are monitoring the situation closely, but given Iran produces less than 5% of global oil supplies, significant global macro risks are limited – some inflationary pressure, but more so in Europe, and questions on China's response.

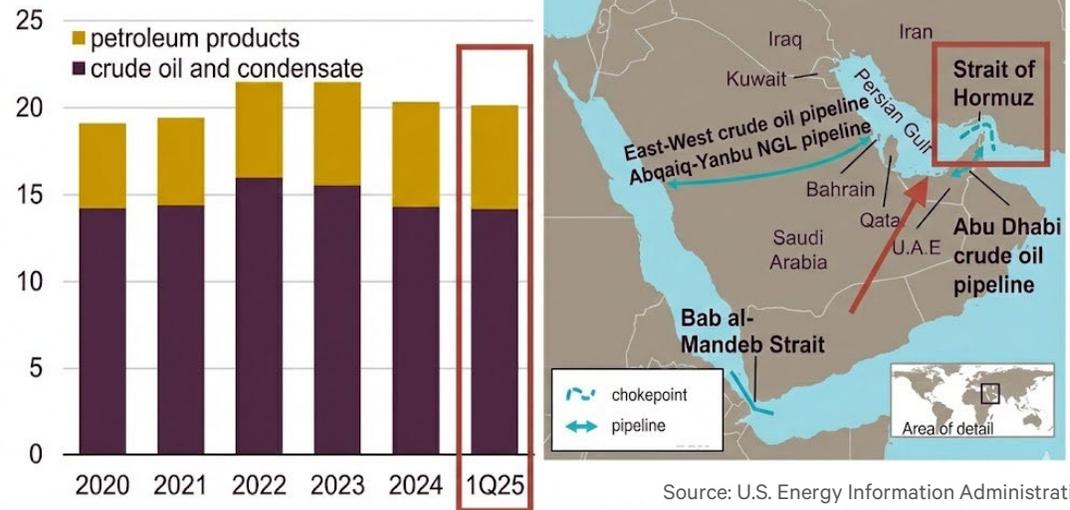
Crude Oil Price



Source(s): Pathstone with data from Bloomberg. Data as of 3/2/2026.

Volume of petroleum transported through the Strait of Hormuz

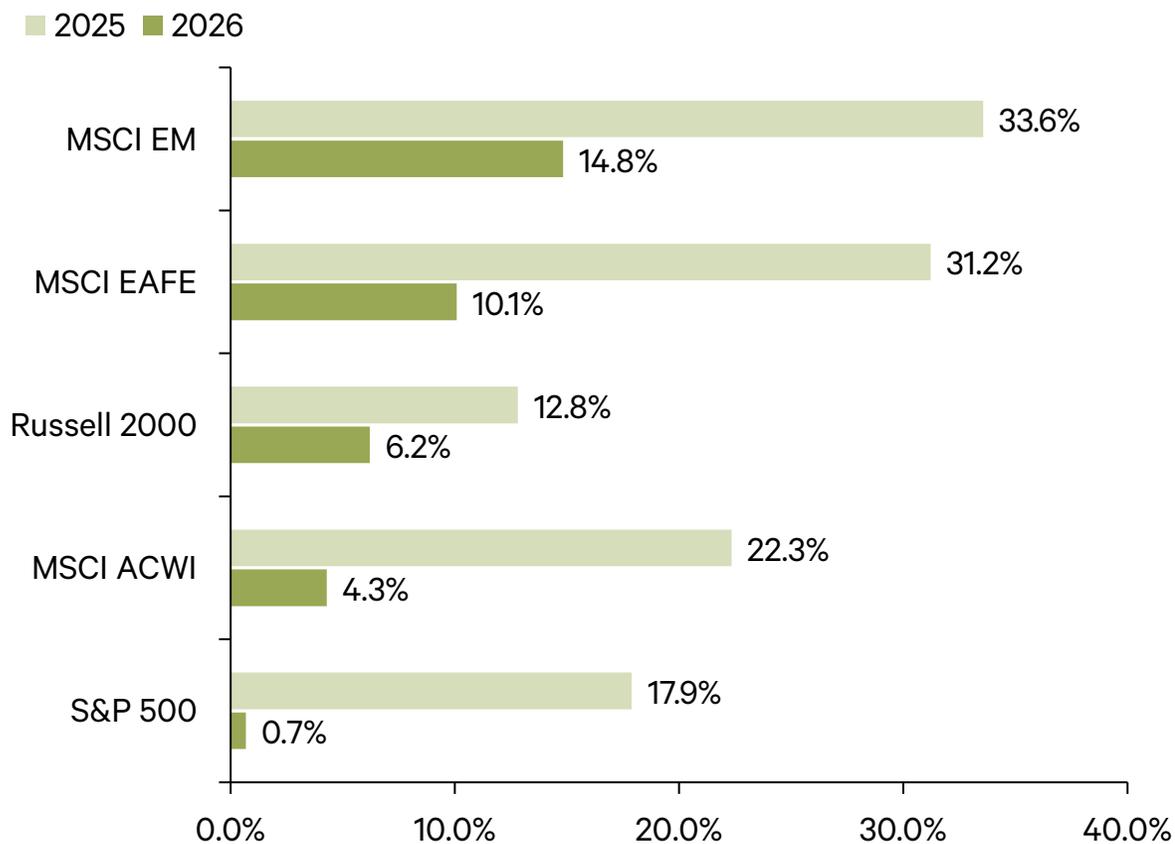
million barrels per day



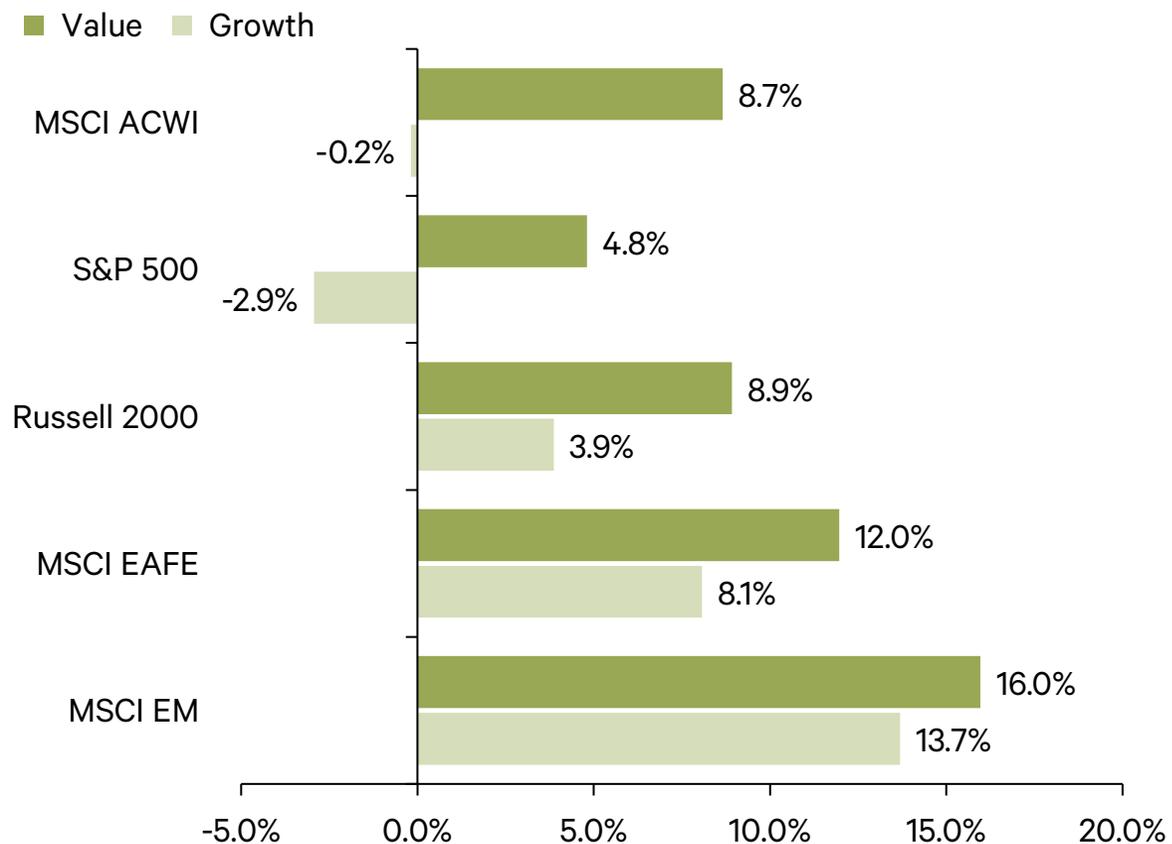
Source: U.S. Energy Information Administration

“Broadening out” continues: non-US over US & value over growth

Calendar Year Returns



Growth vs. Value YTD Return

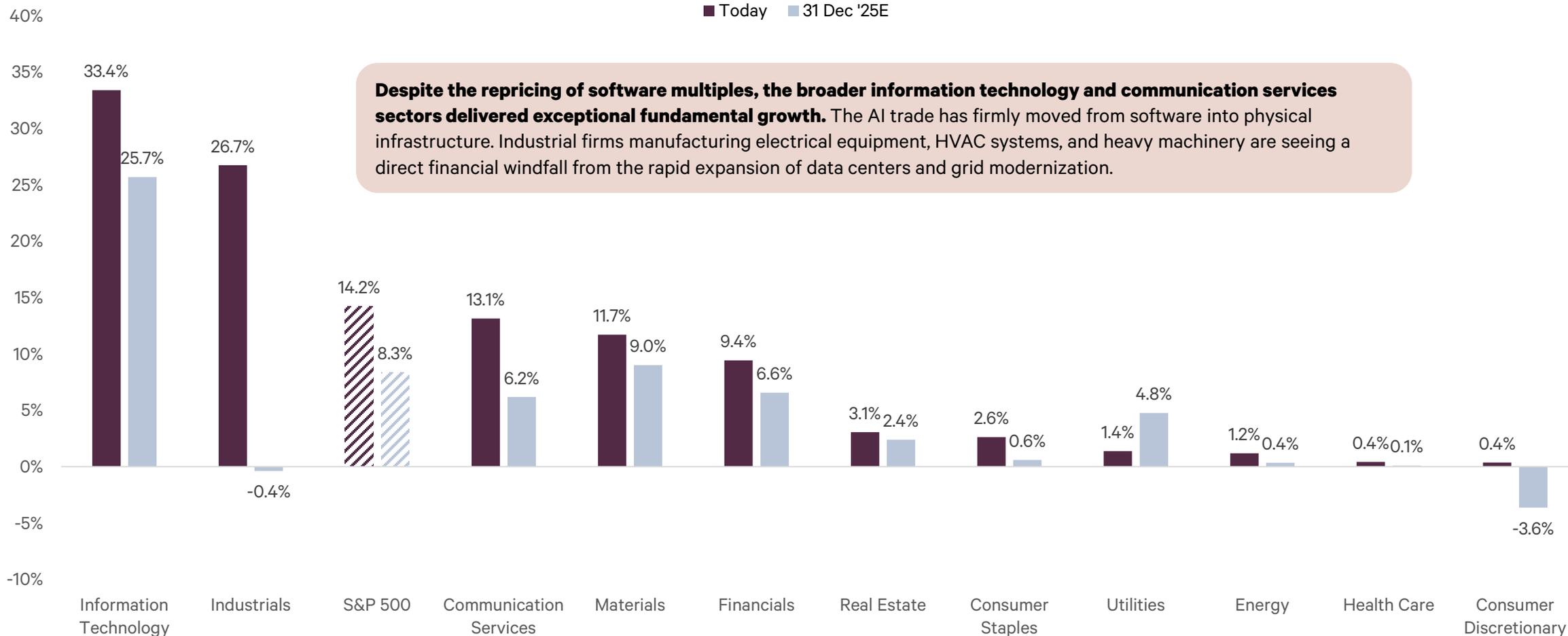


Sources: Pathstone with data from Bloomberg. Data as of 2/27/2026

4Q earnings growth beat estimates across 9 of 11 sectors

S&P 500 Sector Earnings Growth (Q4 '25)

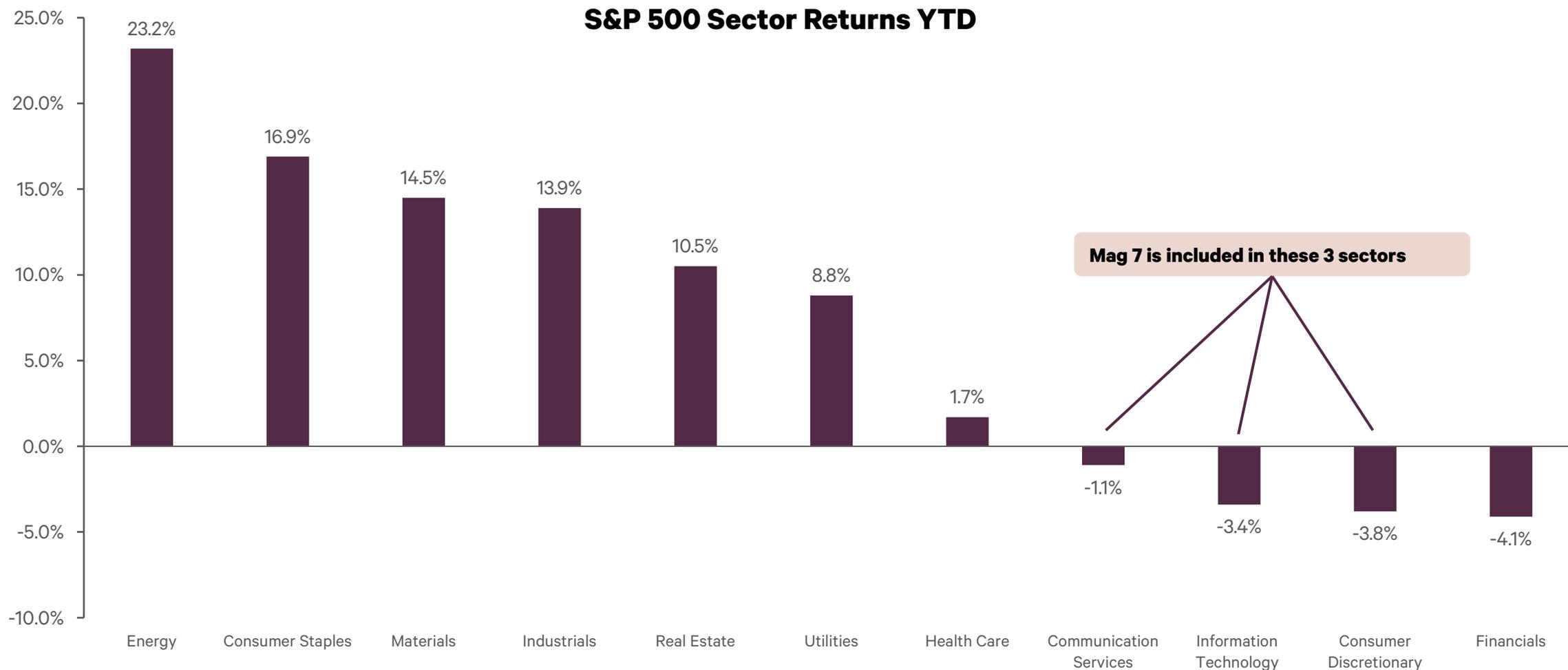
■ Today ■ 31 Dec '25E



Despite the repricing of software multiples, the broader information technology and communication services sectors delivered exceptional fundamental growth. The AI trade has firmly moved from software into physical infrastructure. Industrial firms manufacturing electrical equipment, HVAC systems, and heavy machinery are seeing a direct financial windfall from the rapid expansion of data centers and grid modernization.

Sources: Pathstone with data from FactSet

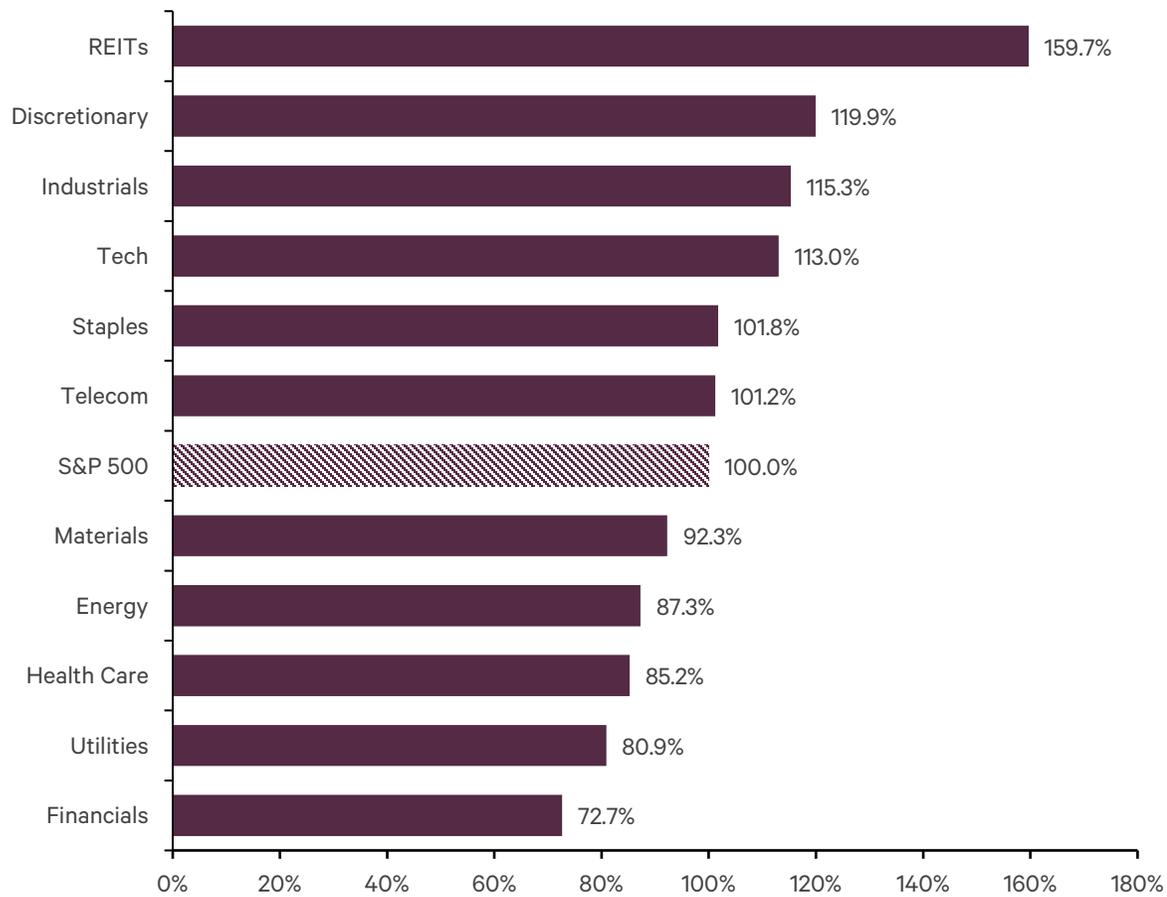
Energy and Consumer Staples lead the way as Tech lags



Sources: Pathstone with data from FactSet

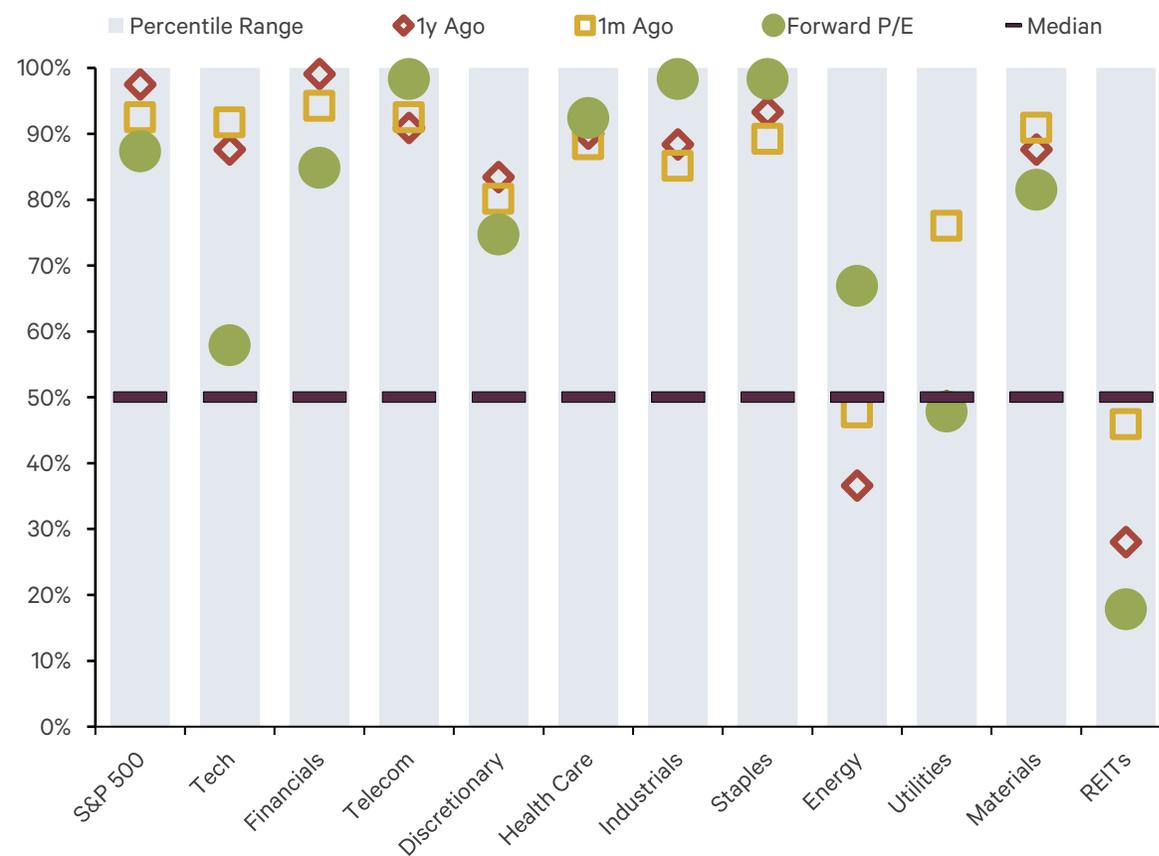
Eight sectors now trade more expensive than Tech vs. historic range

Blended 12m Forward P/E: Sector Relative to S&P 500 Multiple



Source(s): Pathstone with data from Bloomberg. Data as of 2/25/2026.

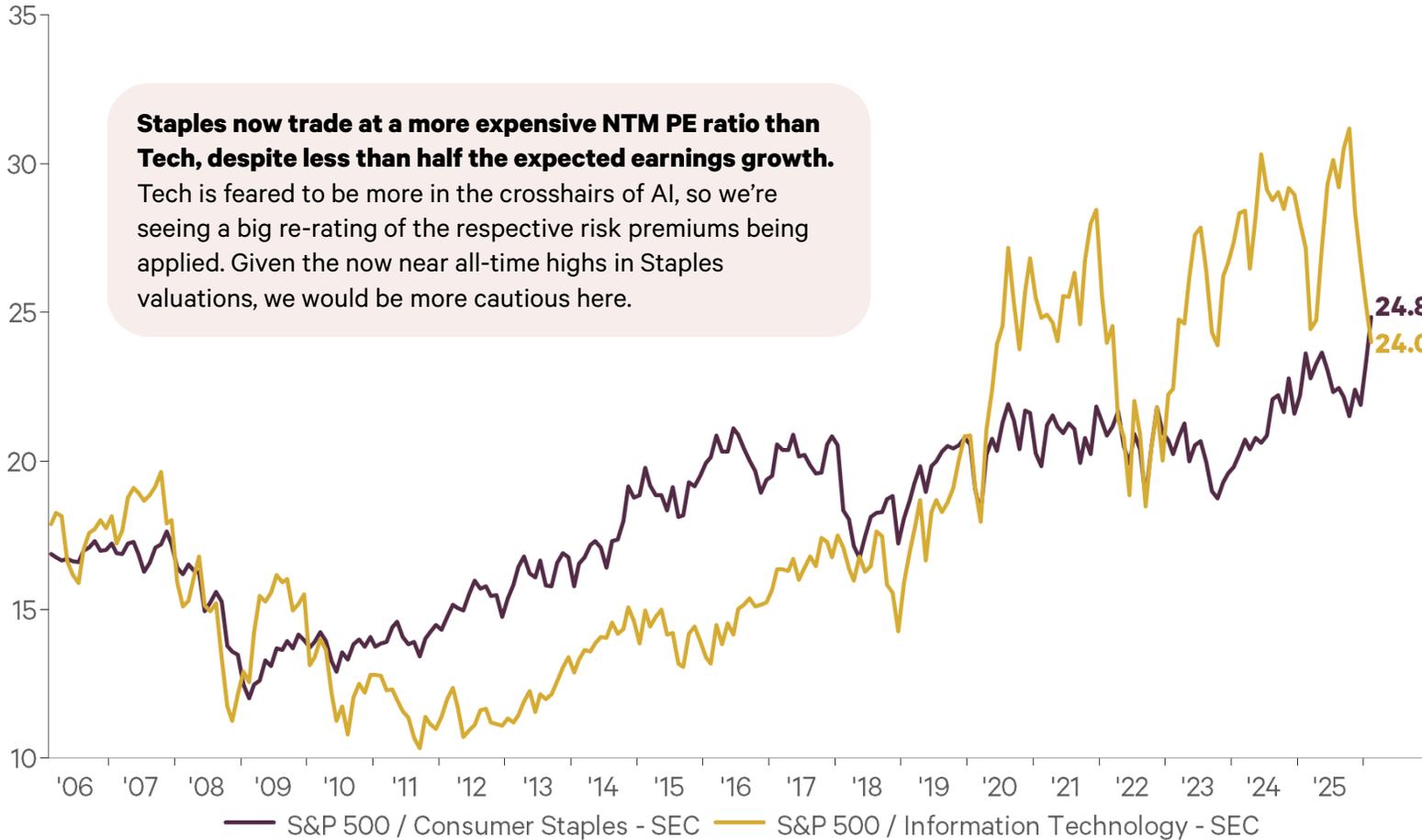
Blended 12m Forward P/E Percentile Rank vs. Last 10 Years



Valuation multiples used: Forward P/E.
Source(s): Pathstone with data from Bloomberg. Data as of 2/26/2026.

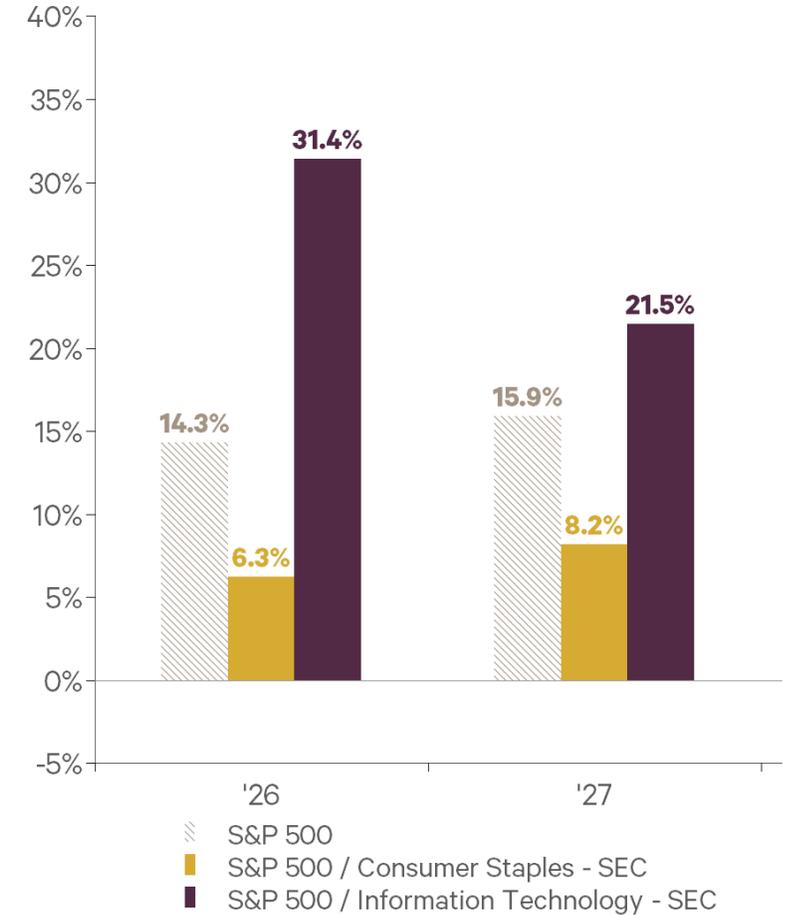
Staples move reflects investors favoring “stability over uncertainty”

Next-Twelve Months Price/Earnings Ratio



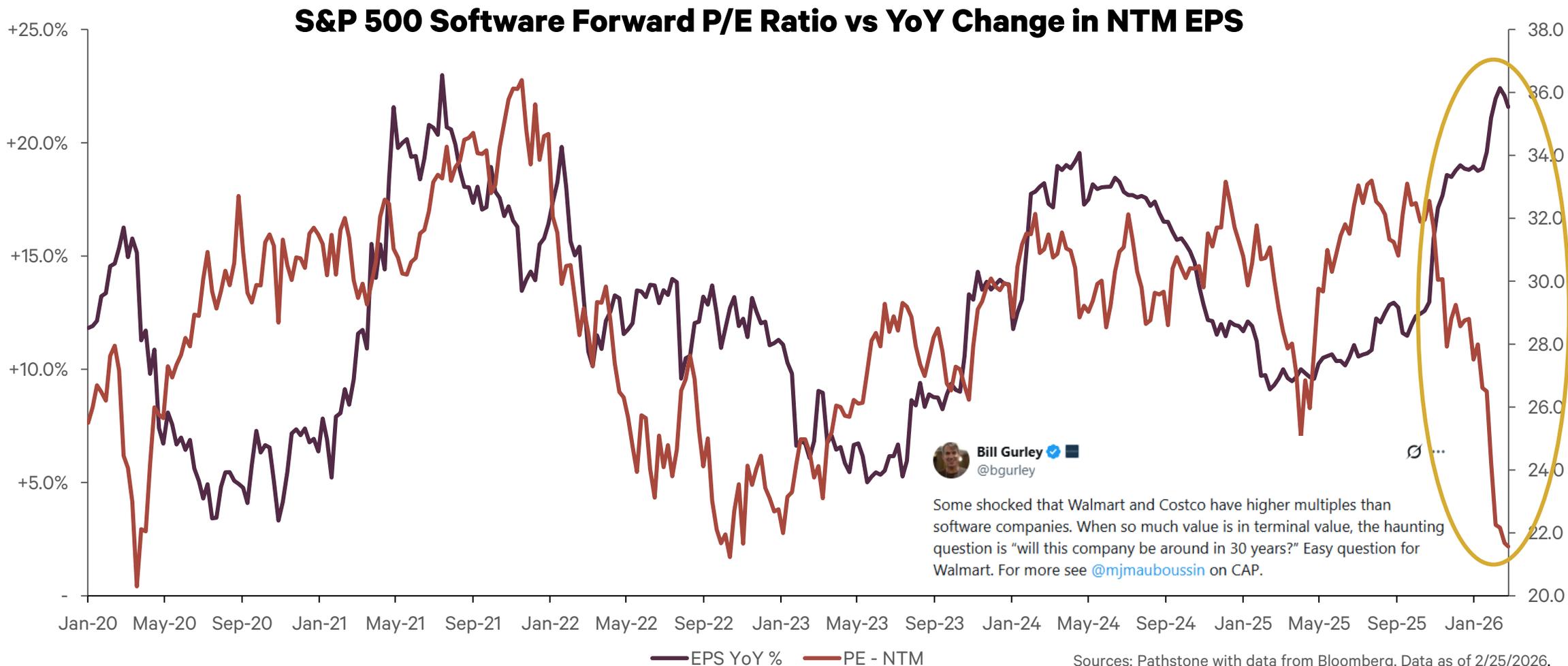
Sources: Pathstone with data from FactSet

Analysts Expected Earnings Growth



Sources: Pathstone with data from FactSet

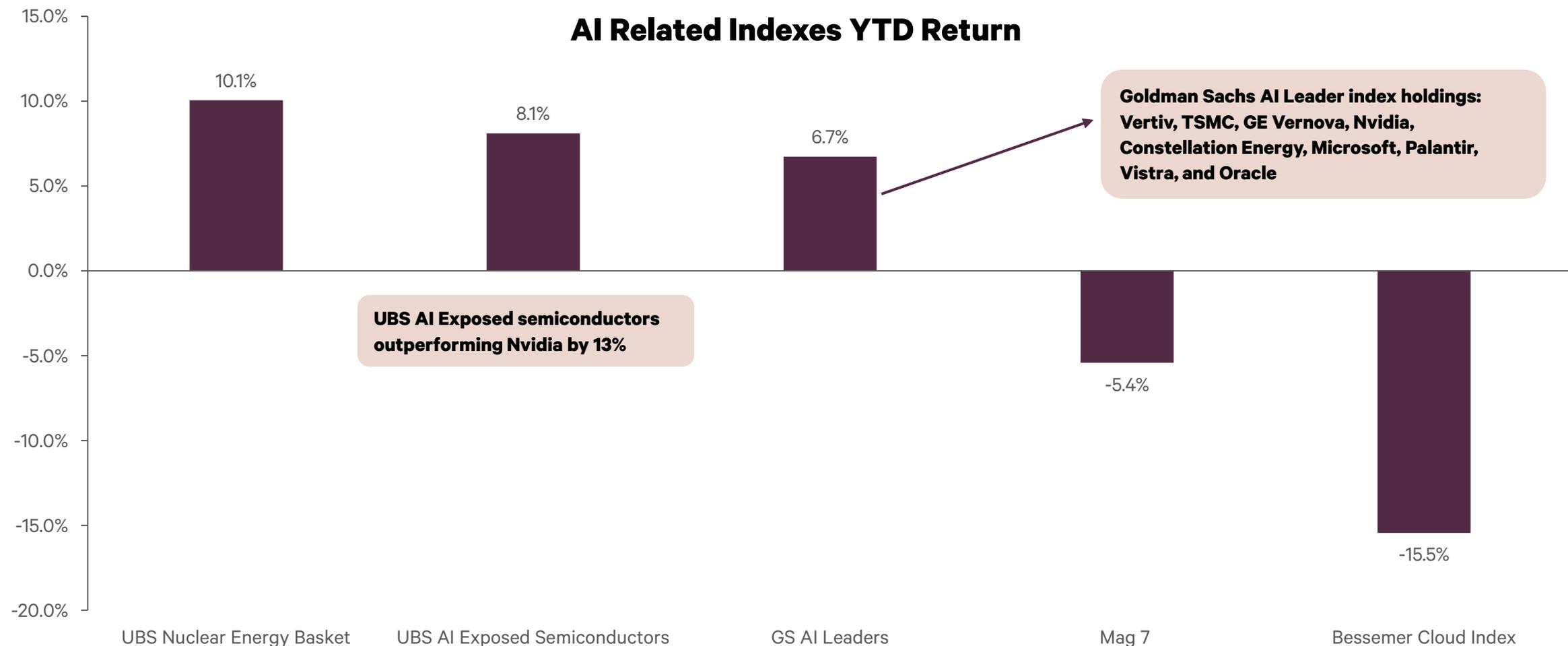
Software multiples diverging from earnings fundamentals



Bill Gurley @bgurley

Some shocked that Walmart and Costco have higher multiples than software companies. When so much value is in terminal value, the haunting question is "will this company be around in 30 years?" Easy question for Walmart. For more see @mjmauboussin on CAP.

AI trade also “broadening out” – energy and semiconductors leading



Sources: Pathstone with data from Bloomberg. Data as of 2/27/2026.

BDCs also under pressure on “SaaSocalypse”

The software "saasocalypse" exposes vulnerabilities in private credit as software accounts for 20-25% of BDC loan portfolios.

As "agentic AI" threatens legacy SaaS models, the EBITDA multiples on 2021-2022 vintage loans are compressing rapidly.

Blue owl redemption halt highlights the "semi-liquid" challenges of some fund structures.

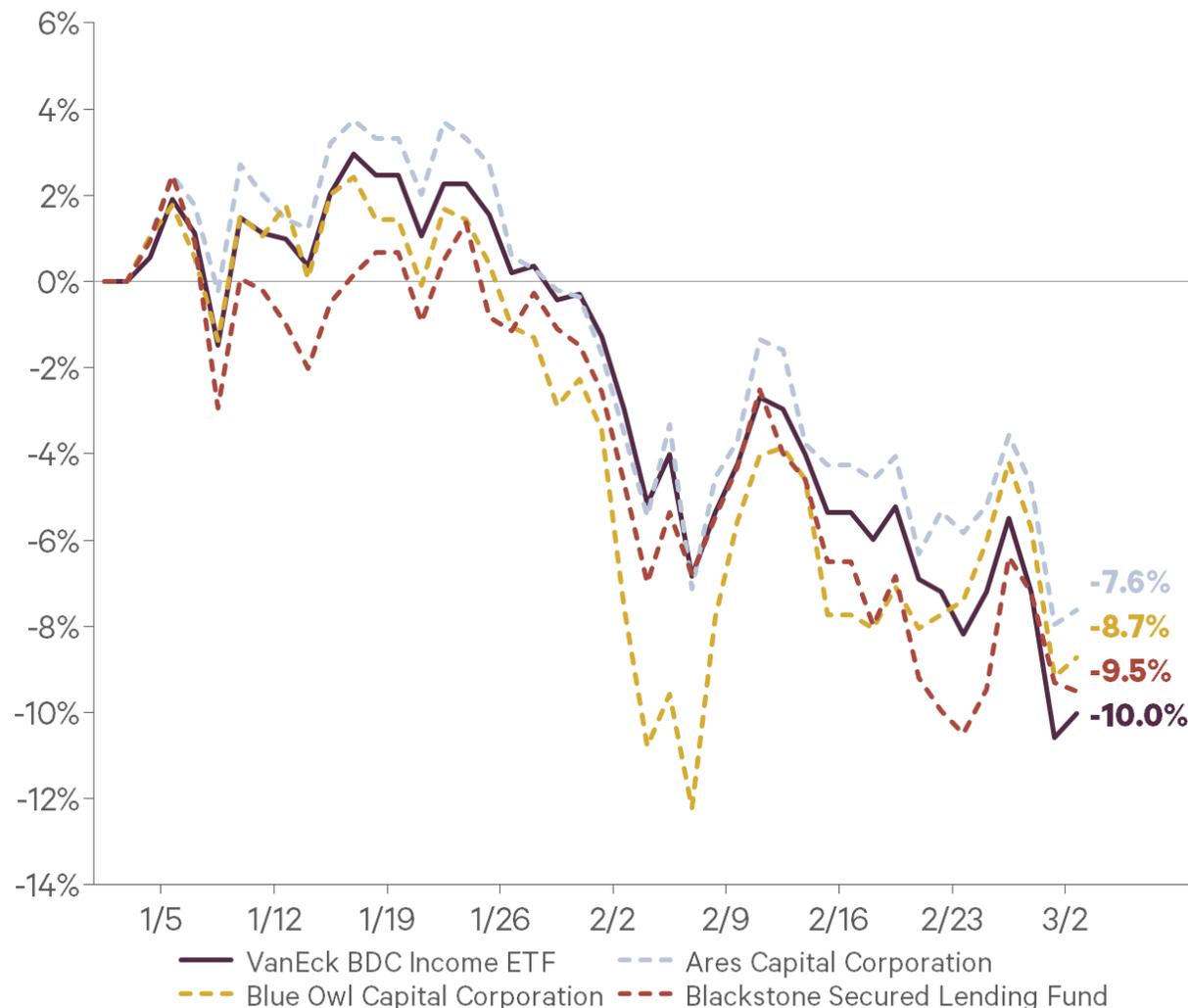
The suspension of redemptions on a \$1.6B retail BDC forced a market-wide reassessment of private credit liquidity, driving a 5-10% YTD sell-off across top-tier public BDCs.

Underlying loan performance is stable, but structure and future value is in question.

Despite Blue Owl clearing a \$1.4B bulk asset sale clearing at 99.7% of par within their non-traded BDC OBDC II, the shift to a "return of capital" runoff model has spooked investors worried about asset/liability mismatch.

Looming maturity wall amplifies refinancing risks as lenders face a steep wall of software debt maturing in 2027-2028, sparking concerns over refinancing viability in a tighter credit environment.

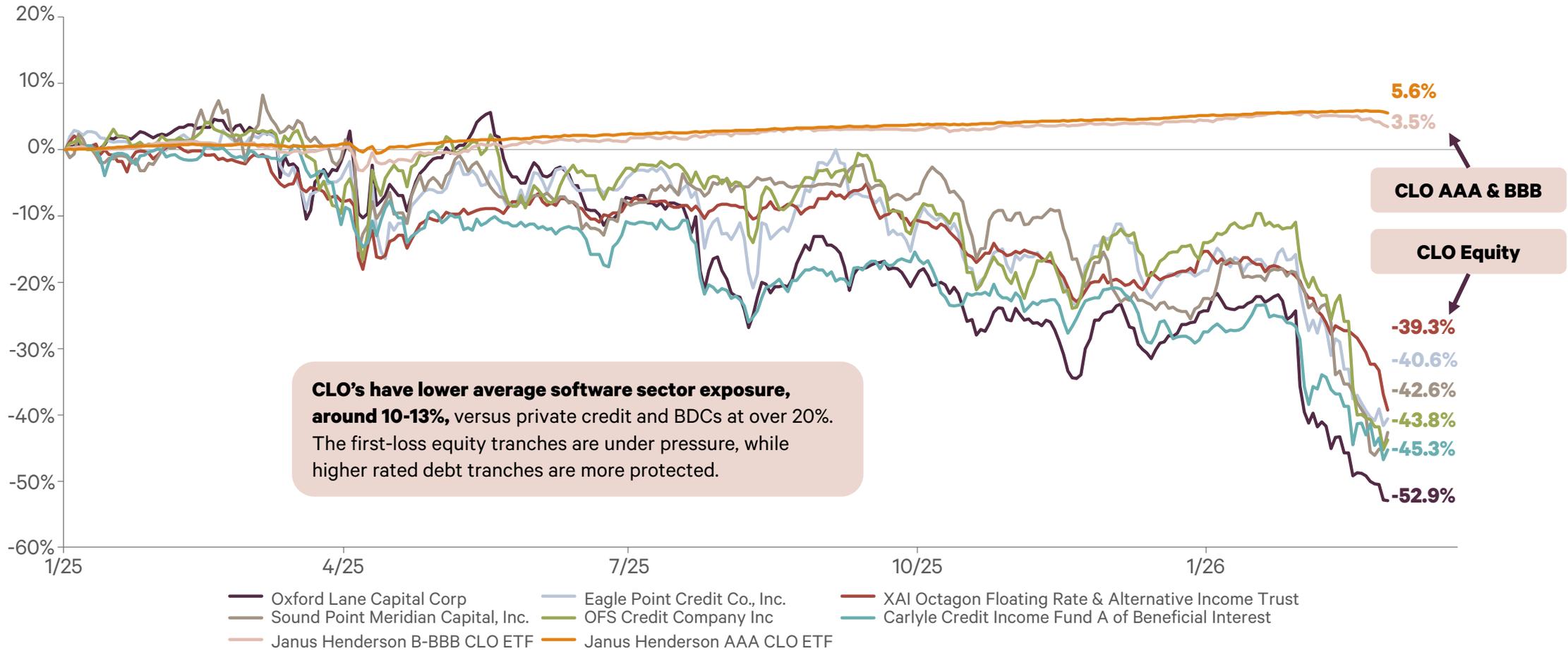
BDC Total Returns



Sources: Pathstone with data from FactSet

CLOs also under pressure, but CLOs offer different levels of credit risk

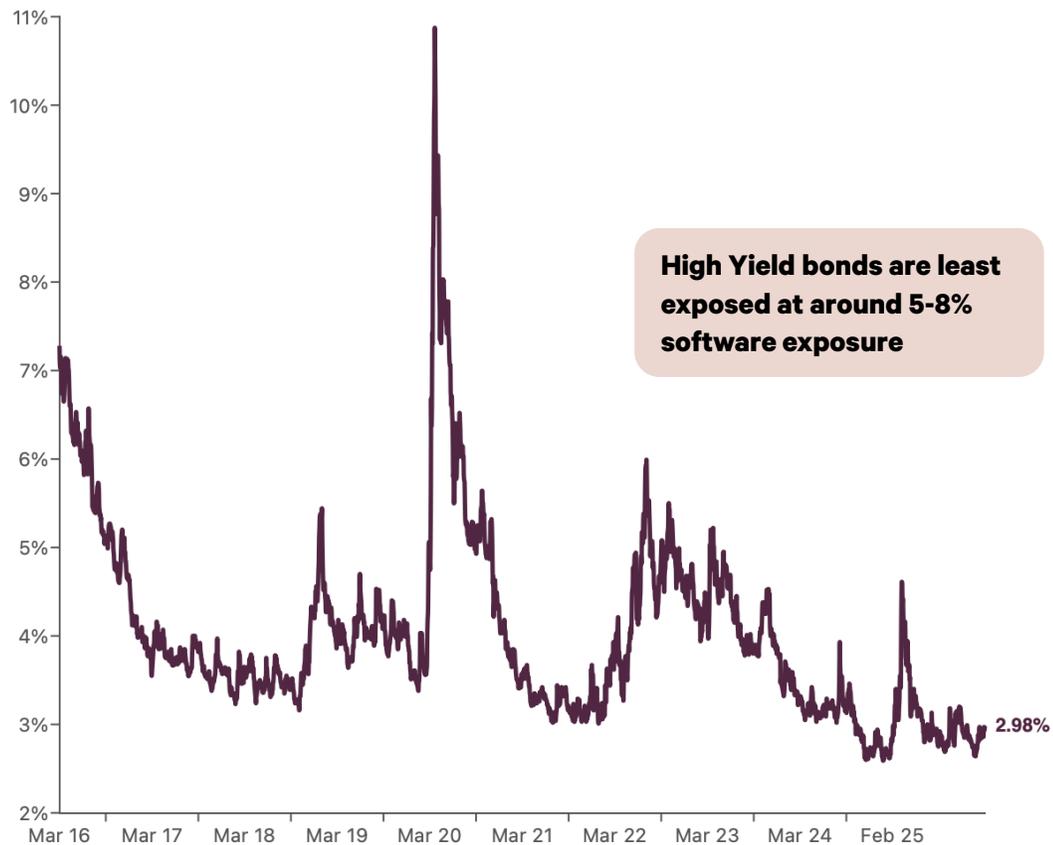
CLO Fund Total Returns



Sources: Pathstone with data from FactSet

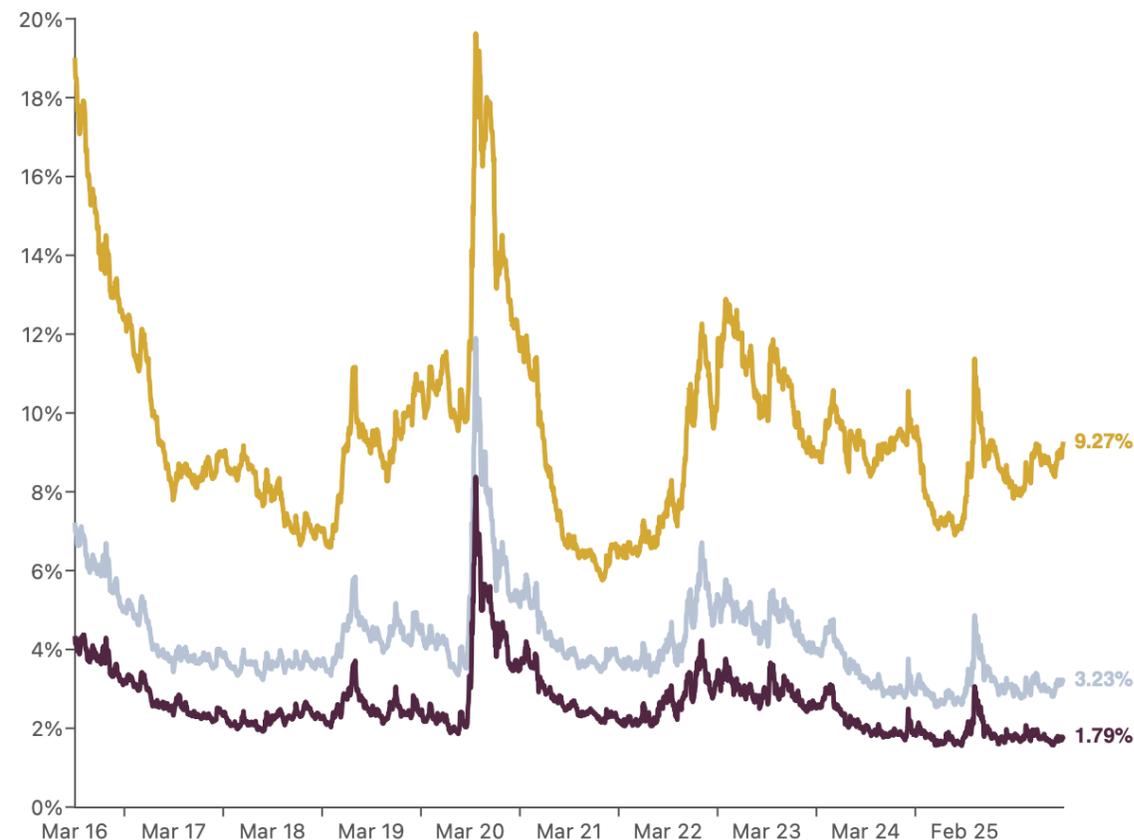
Broader high yield spreads remain relatively tight, but CCC widening

US HY Corporate OAS (Overall)



Sources: Pathstone with data from FRED, ICE BofA

HY Corporate Spreads by Rating

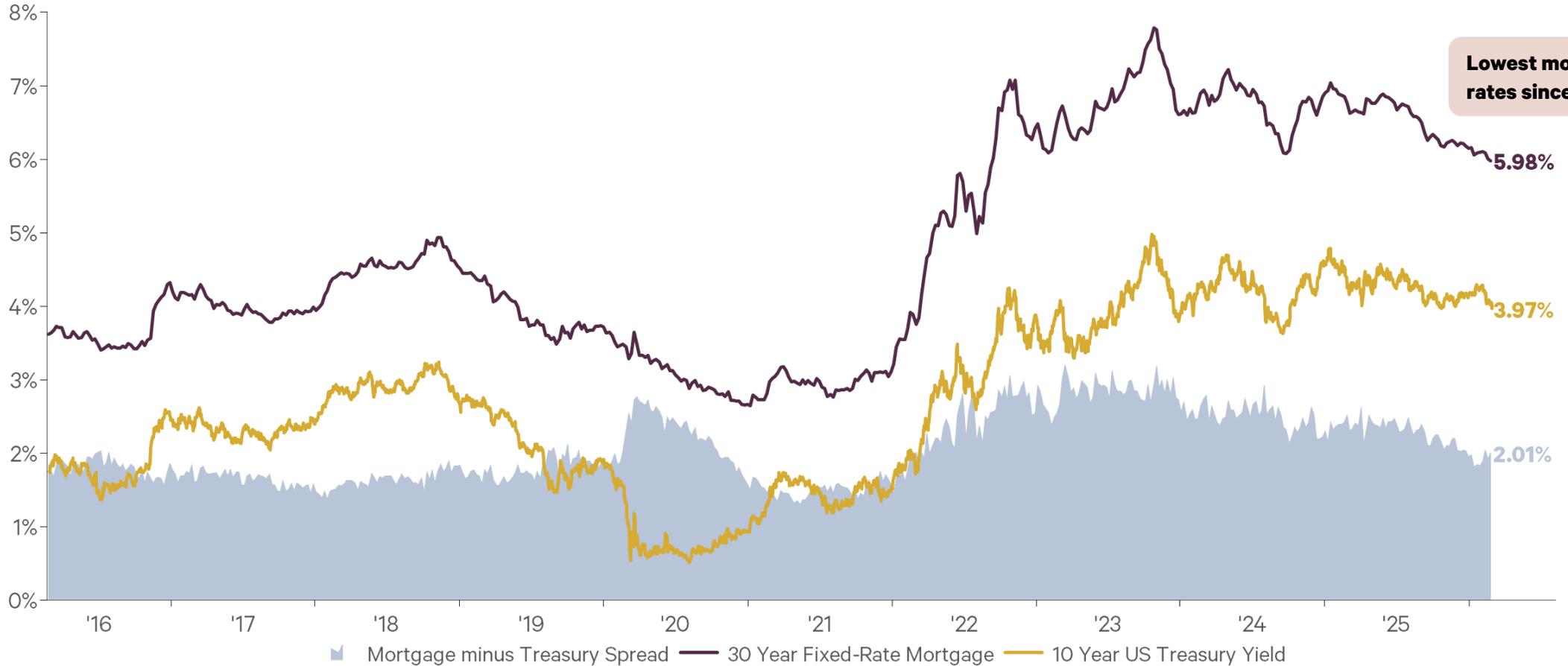


BB B CCC & Lower

Sources: Pathstone with data from FRED, ICE BofA

Mortgage rates dip below 6% as 10Y Treasury dips below 4%

30Y Mortgage Rates & Spread to 10Y Treasury



Sources: Pathstone with data from FactSet, Freddie Mac

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US Equities by Size and Style

US Large Cap	Russell 1000 TR USD	The Russell 1000 Index consists of the largest 1000 companies in the Russell 3000 Index.
US Large Cap Growth	Russell 1000 Growth TR USD	Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
US Large Cap Value	Russell 1000 Value TR USD	Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
US Small Cap	Russell 2000 TR USD	The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.
US Small Cap Growth	Russell 2000 Growth TR USD	Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.
US Small Cap Value	Russell 2000 Value TR USD	Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.
US Mid Cap	Russell Mid Cap TR USD	Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.
US Mid Cap Growth	Russell Mid Cap Growth TR USD	Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values.
US Mid Cap Value	Russell Mid Cap Value TR USD	Russell Midcap Value Index measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values.

Global Equities

US Large Cap	S&P 500 TR USD	The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.
US Large Cap Tech	NASDAQ	The NASDAQ-100 Index is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ.
All Country World	MSCI ACWI	The MSCI ACWI Index is a free-float weighted equity index. It was developed with a base value of 100 as of December 31 1987. MXWD includes both emerging and developed world markets.
International Developed	MSCI EAFE	The MSCI EAFE Index is a free-float weighted equity index. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East
Emerging Markets	MSCI Emerging Markets	The MSCI EM Index is a free-float weighted equity index that captures large and mid cap representation across EM countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.
European Large Cap	MSCI Europe Large GR USD	The MSCI Europe Large Cap Index is a free-float weighted equity index.
European Small Cap	MSCI Europe Small Cap GR USD	Europe Small Cap - Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Spain, Sweden, Switzerland
Japan	MSCI Japan GR USD	The MSCI Japan Index is a free-float weighted equity index. This index prices in real time in USD.
Asia ex-Japan	MSCI AC Asia Ex Japan GR USD	The MSCI AC Asia ex Japan Index is a free-float weighted equity index. This index is priced in USD.
China	MSCI China GR USD	The MSCI China Index is a free-float weighted equity index. This index is priced in USD.
EM Latin America	MSCI EM Latin America GR USD	The MSCI EM Latin America Index is a free-float weighted equity index. This index is priced in USD.
EM Europe	MSCI EM Europe GR USD	The MSCI EM Europe Index is a free-float weighted equity index. This index is priced in USD.
Magnificent 7	Magnificent 7 Index	The Mag 7 index tracks the performance of the seven largest US-listed technology and communication companies: Apple, Tesla, Nvidia, Meta, Amazon, Google, and Microsoft
AI Winners Index Ex Mag 7	UBS AI Winners Ex Mag 7 Index	The index developed by UBS selects global companies positioned to benefit from artificial intelligence integration while excluding “Magnificent 7” firms to provide diversified exposure to the broader AI ecosystem.
AI Winners Ex Mag 7 Equal Weight	UBS AI Winners Ex Mag 7 Equal Weight	The index developed by UBS applies an equal weight scheme to a curated list of AI-centric companies- excluding the “Magnificent 7”
AI Risk Index	UBS AI Risk Index	The index developed by UBS identifies and evaluates companies vulnerable to disruption from artificial intelligence.
Nuclear Energy Basket	UBS Nuclear Energy Basket	The index developed by UBS provides exposure to the nuclear power value chain by selecting companies involved in uranium mining, enrichment, and nuclear technology services through a rules-based methodology.
Cloud Index	Bessemer Cloud Index	The index tracks the performance of emerging public companies primarily involved in providing cloud computing software and services to their customers.

Fixed Income

Short-term Treasuries	Bloomberg 1-3 Yr US Treasury TR USD	The Bloomberg US Treasury 1-3 Yr Index measures the performance of US Treasuries with a maturity of between 1-3 years.
Long-term Treasuries	Bloomberg US Treasury 10+ Yr TR USD	The Bloomberg US Treasury 10+ Yr Index measures the performance of US Treasuries with a maturity of at least 10 years.
Inflation-Linked Bonds	Bloomberg US Treasury US TIPS TR USD	The Bloomberg US Treasury Inflation-Linked Bond Index (Series-L) measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. Federal Reserve holdings of US TIPS are not index eligible and are excluded from the face amount outstanding of each bond in the index.
Municipal Bonds	Bloomberg Managed Money Short/	Bloomberg Managed Money Short/Intermediate Total Return Index Unhedged USD
Mortgage-Backed Securities	Bloomberg US MBS TR USD	The Bloomberg US Mortgage Backed Securities (MBS) Index tracks fixed-rate agency mortgage backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage.
Short-term Investment Grade	Bloomberg USD Corp Bd 1-5 Yr TR USD	Bloomberg US Corporate 1-5 years Total Return Index Value Unhedged USD.
Long-term Investment Grade	Bloomberg US Corp Bond TR USD	The Bloomberg US Corporate Bond Index measures the investment grade, ftaxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.
High Yield	Bloomberg US Corporate High Yield TR USD	The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.
EM Aggregate Bonds	Bloomberg Emerging Markets Hard Currency Aggregate Index	The Bloomberg Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.