



Independent Adviser's Report for Teesside Pension Fund Committee

William Bourne

20th February 2026

Market Commentary

1. When I last reported, I said that we were back to a reasonably benign environment for markets, mainly because monetary policy continues to be loose. Since then, there have been some bumps, most notably in the tech sector, but bond yields have declined and equity markets have held up well. The S&P 500 in the U.S. is at the time of writing, close to its all-time high.
2. U.S. economic growth continues to be remarkably strong, approaching 4%. Trump supporters will say it is down to his policies; opponents will say it is unsustainable and a once-off adjustment as a result of Trump's policies.
3. The U.S. Senate was unable to agree a funding deal after the temporary one ran out at the end of January. As a result, there is a further temporary shut down of the U.S. Government. Markets have so far not paid much heed, but it remains a source of volatility for bond markets in particular, until a more permanent solution is found.
4. Trump nominated Kevin Warsh as the new Chair of the Federal Reserve. If appointed he will have a remit to cut back both the Fed's balance sheet and the 'mission creep' which he believes has occurred. I remind readers that past attempts to rein back loose monetary policy have been reversed at the first whiff of grapeshot – e.g., the 'Taper Tantrum' of 2013.
5. His focus will be on helping Main Street, not Wall Street, and any such tightening move would likely come with lower interest rates, though the strength of the economy will restrict how much he can lower them while keeping inflation under control.
6. He is close to others of Trump's coterie, such as Scott Bessent, and combined they may be able to impose some control over the U.S.'s fiscal policy. Alternatively, they may just rely on the U.S.'s superior growth rates. How markets will react to this combination of policies – lower interest rates combined with Quantitative Tightening (QT) – is uncertain – but it is likely to be different.

7. Consumer inflation is turning down, mainly because the price of oil has fallen. The US inflation rate now stands at 2.4%, the Eurozone at 1.7%, and Japan at 1.5%. The exceptions are the U.K., where it remains higher at 3.0% (driven by service sector inflation at 4.4%) and China (0.2%).
8. Fourth quarter U.S. earnings grew 13.2% over the previous year, substantially higher than the 8.3% expectation. Tech earnings (with Nvidia yet to report) grew by 20.6% compared to the expected 17.9%. As importantly, 2026 prospective earnings growth is expected to be about 14%. These numbers do something to justify the very high ratings of the U.S. market.
9. There has been a flicker of improvement in China, and 2025 economic growth came in at 5%. Exports were the strongest positive factor, while domestic consumption remains weak. The general trend in economic growth is downwards and will probably settle down at about 2 to 3%, similar to the U.S. But the spectre of deflation continues to haunt China – consumer inflation stands at 0.2% and producer at -1.4% as a result of fierce price competition.
10. The U.K. is close to stagflation, with higher inflation and lower growth, despite the Government's 'focus' on it. Other European countries may be in a similar position, but the U.K.'s is uniquely dangerous because of its weak fiscal position. Raising more tax may help the latter but not the former.
11. Warsh's appointment means a shift in market direction for equities. The easy monetary environment will come to an end, and future stimulus, whether fiscal or monetary, will be directed at consumers, not asset owners. That will be broadly negative for equity market valuations despite the prospect of good earnings growth. My best guess is therefore that equity indices will at best go sideways.
12. Bond markets are likewise subject to opposing pressures. The U.S fiscal outlook ought to be a substantial negative, as would any uptick in current inflation or excessive reduction in interest rates (leading to fears of future inflation). On the other hand, if bond yields rose a lot, many governments would be unable to service their debt. I therefore expect that they will take measures to suppress yields below about 5.5% or so at the long-end of the yield curve.

Portfolio Recommendations

13. Last time I said we were back to an environment of quantitative easing. Assuming Warsh is appointed, that era is likely to come to a close. While I expect equities to do OK in the short term, because U.S. earnings are so strong, any disappointment on that front would lead to market falls.
14. Ahead of the changes expected on 1st April, I am not recommending any change.