



A P O L L O N

Market Recap

February 2026



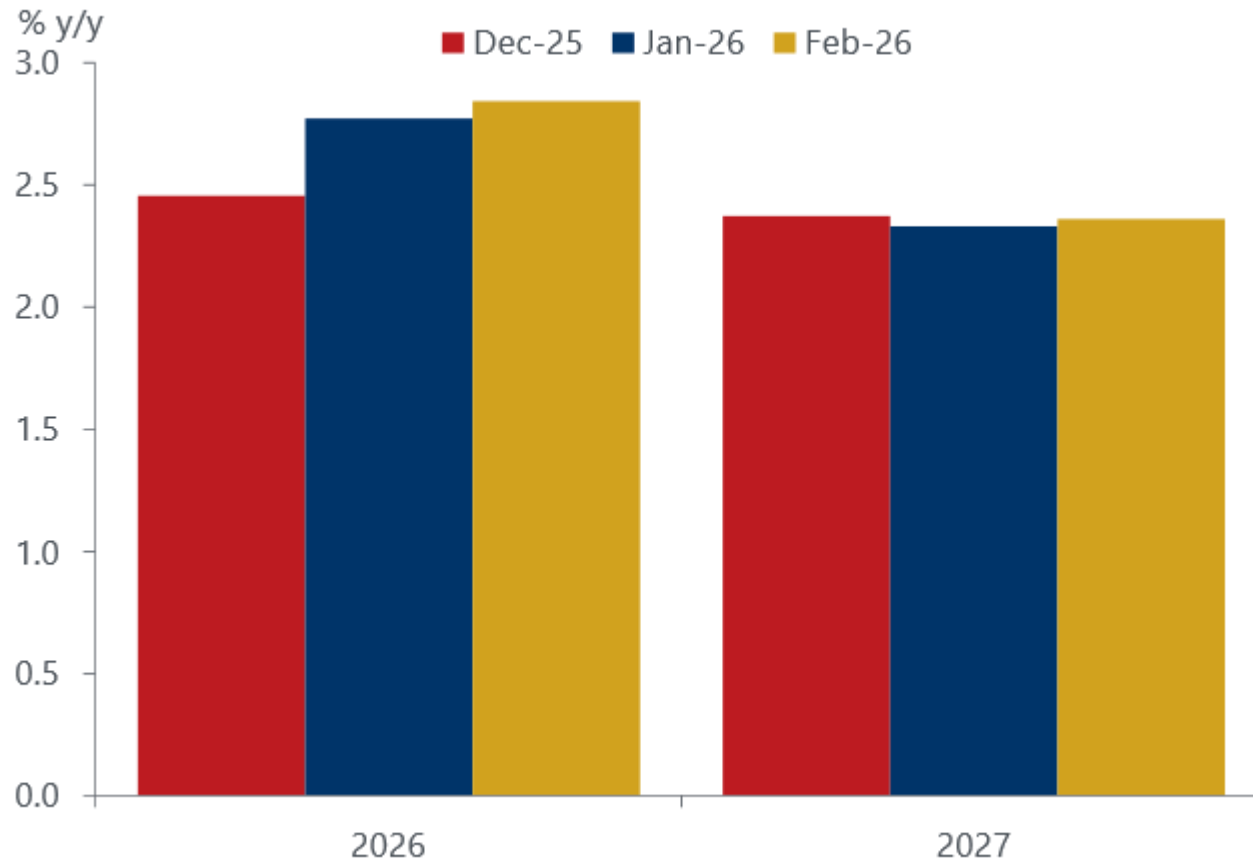


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Productivity gains will drive growth

US: GDP forecasts by forecast vintage



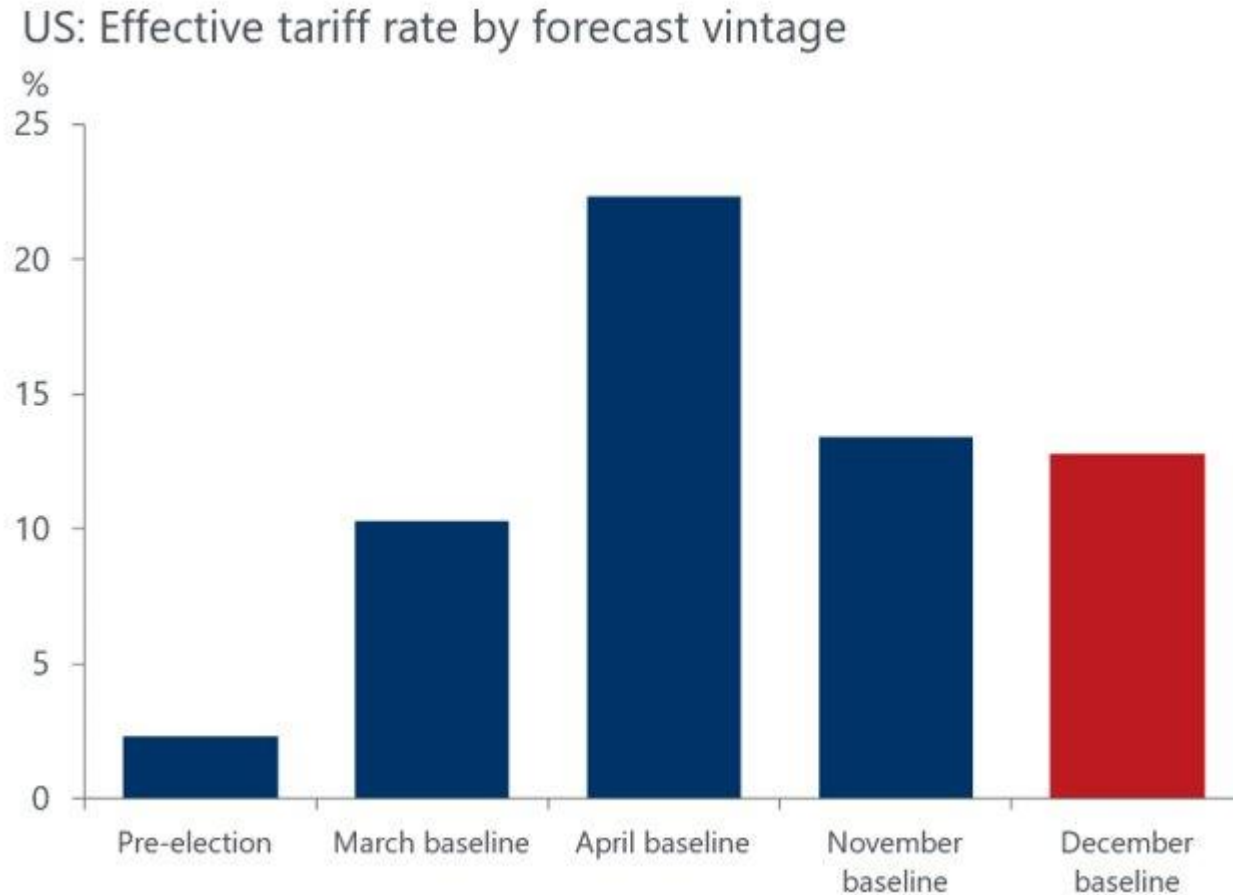
Sources: Oxford Economics, Haver Analytics

Key takeaways

- We expect US real GDP growth of 2.8% in 2026. We've reduced our net immigration forecasts and now expect the labor force to remain stable.
- The past tightness of the labor market, investments in software, research and development, and the pickup in new firm creation are all helping to support productivity growth.
- AI isn't playing much of a role yet, but that will change as adoption rates climb over the coming years.
- Consumer spending will be supported by a rebound in real disposable income growth, and a stronger tax refund season.

Effective tariff rate will net out around 12%

Key takeaways



Source: Oxford Economics

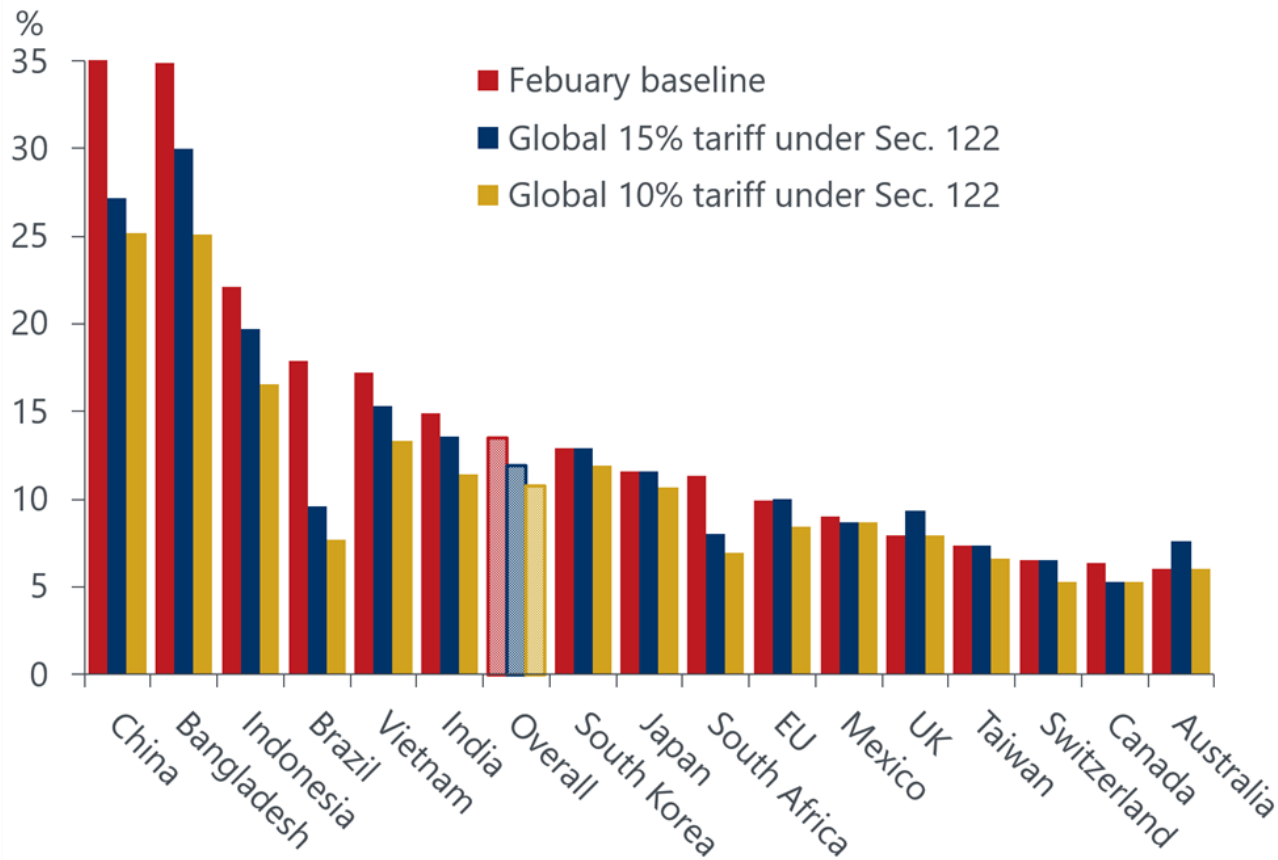
- Our estimate of the average effective tariff rate has fluctuated appreciably since the SCOTUS decision. Once the White House raises the global levy to 15%, we expect the effective tariff rate will settle at 11.9%.
- Uncertainty will persist, as the global tariffs are only in effect for 150 days. Afterwards, other tariff authorities will be used for specific countries and products.
- One upside is that the global tariffs will have the same exemptions as before and bilateral trade deals secured by the Trump administration are unlikely to face challenges.



Focus: IEEPA ruling shakes up tariff policy

Most trade partners will benefit from ruling

US: Effective tariff rates before and after IEEPA removal



Sources: Oxford Economics, Haver Analytics

Key takeaways

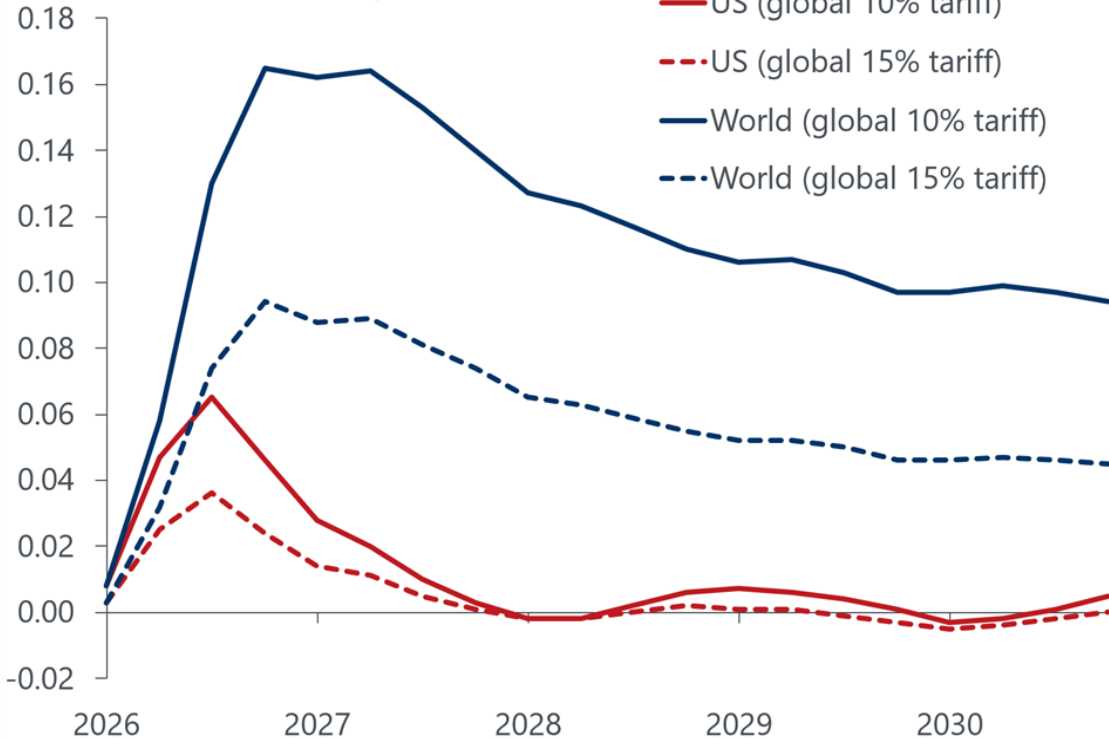
- Following the Supreme Court's IEEPA ruling, the White House quickly pivoted to a new tariff authority to impose a global 10% duty, though President Trump has threatened to raise it to 15%.
- The implications for US GDP growth are mild. However, under a 10-15% global tariff scenario, the Treasury will receive \$0.5-
- \$0.9tn less in tariff revenues than if IEEPA tariffs were still in place.
- The macroeconomic benefits of lower US tariffs are larger for the rest of the world. Asian economies including Bangladesh, Pakistan, Indonesia, Vietnam, and Cambodia, are among the biggest winners.

Slight upside for GDP, but treasury will collect less revenue



US: Real GDP

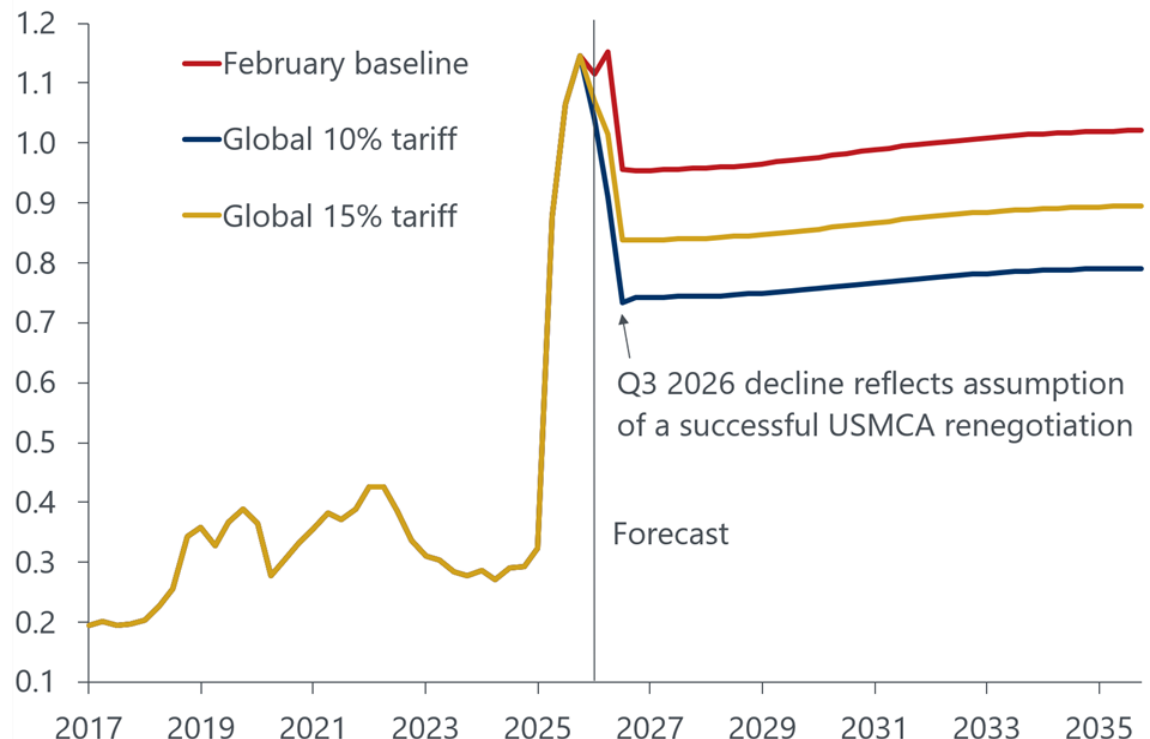
% difference from February baseline



Source: Oxford Economics

US: Federal customs duties

% of GDP



Sources: Oxford Economics, Haver Analytics

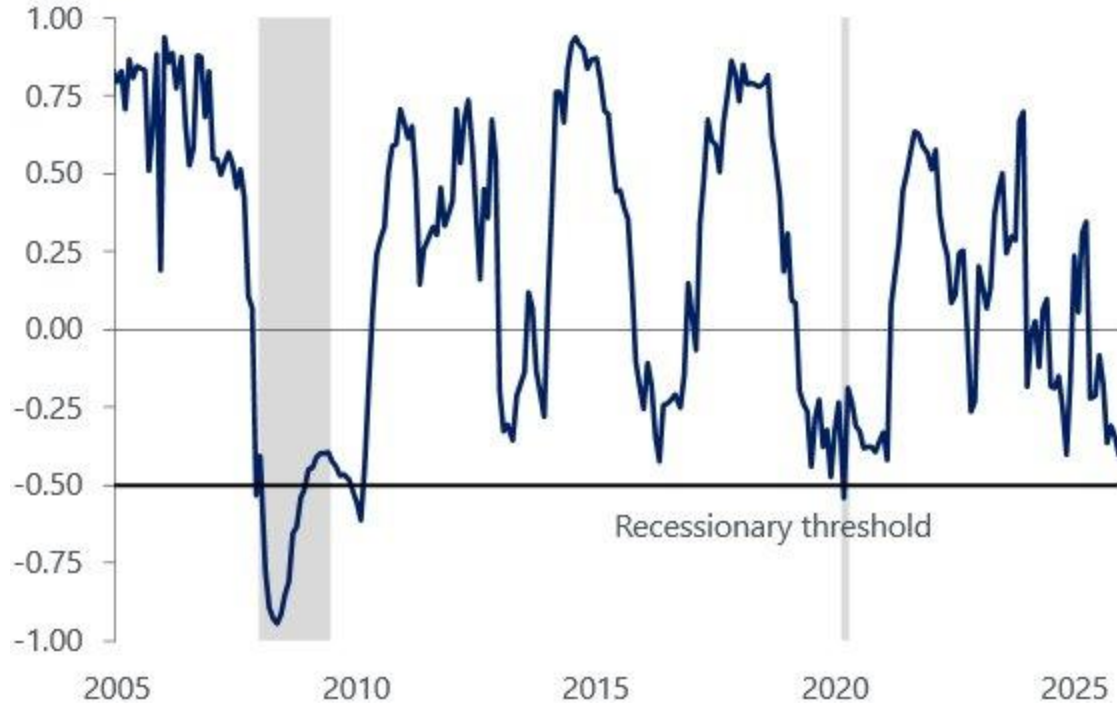


Health check on the economy

Economy resilient despite softer labor market

US: Oxford Economics' US Business Cycle Indicator

Index, -1 to +1



Note: Latest month is estimated due to lagging datapoints and is subject to revisions

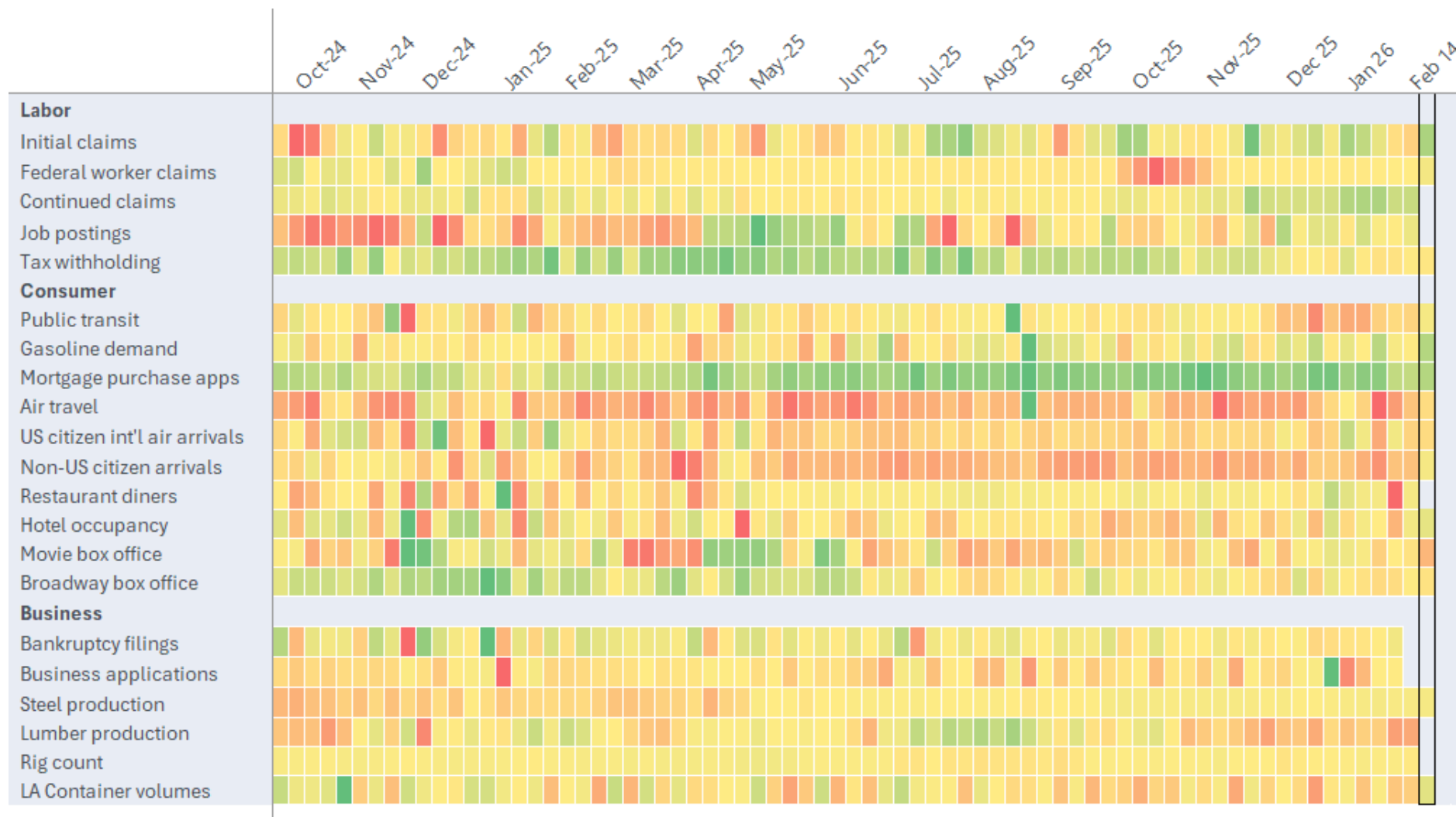
Source: Oxford Economics

Key takeaways

- Our business cycle indicator (BCI) softened at year-end, but a productivity upswing, improving manufacturing activity, and strong consumer spending point to faster growth in 2026.
- The labor components of the BCI have weighed most heavily on the index, but signs of labor market stabilization and improved job growth should keep it from recessionary territory.
- Real disposable income has also been weaker, but a more favorable tax refund season, falling inflation, and a declining unemployment rate will support this component in 2026.



No high frequency indicators are raising alarm bells



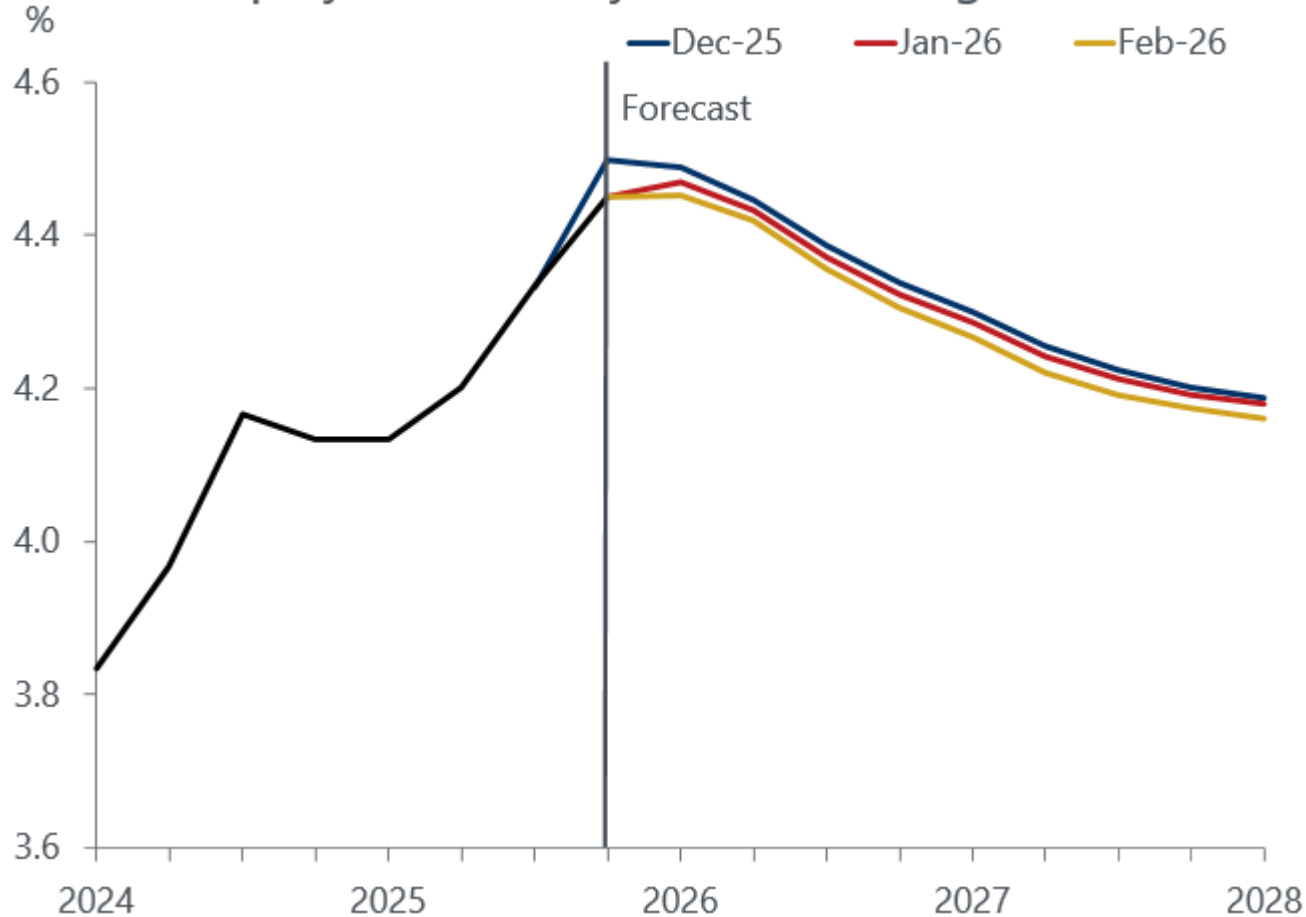
Sources: Oxford Economics, Haver Analytics



**Labor market is broadly
steady**

Labor market will stabilize in 2026

US: Unemployment rate by forecast vintage

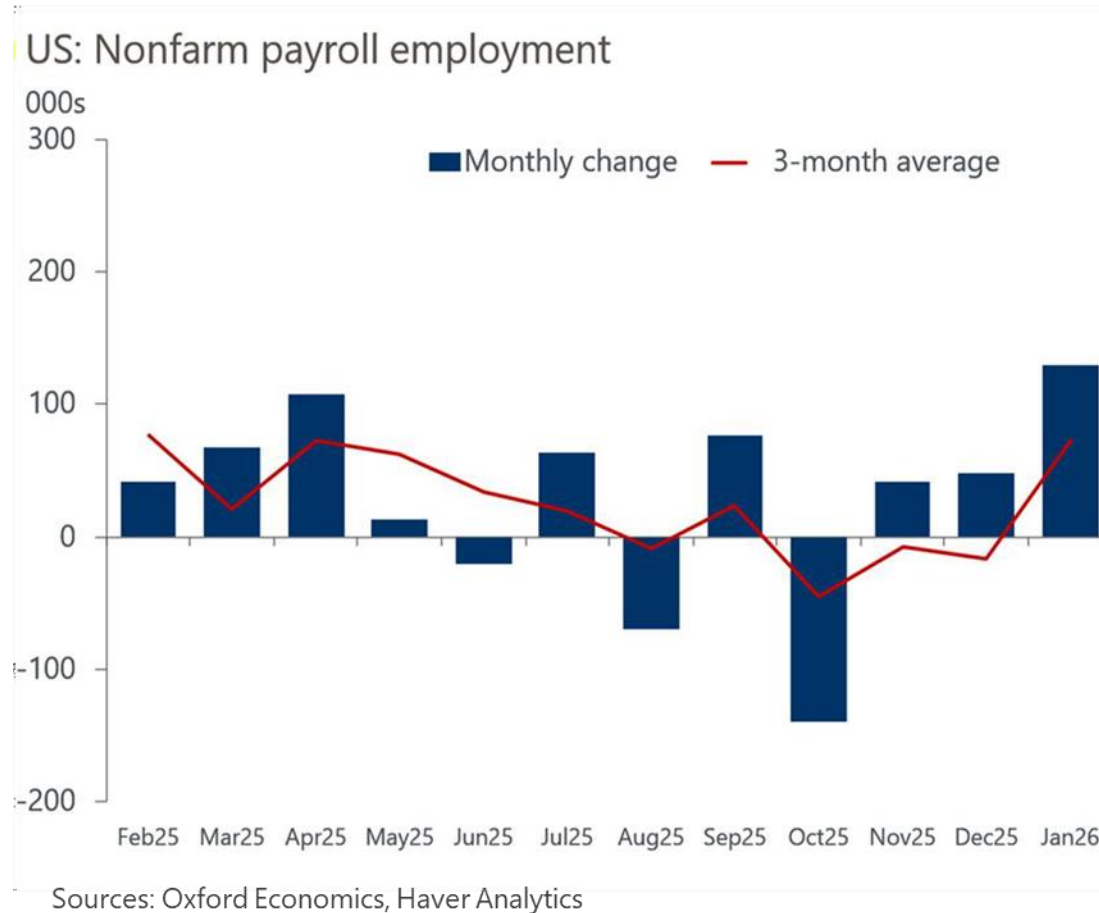


Sources: Oxford Economics, Haver Analytics

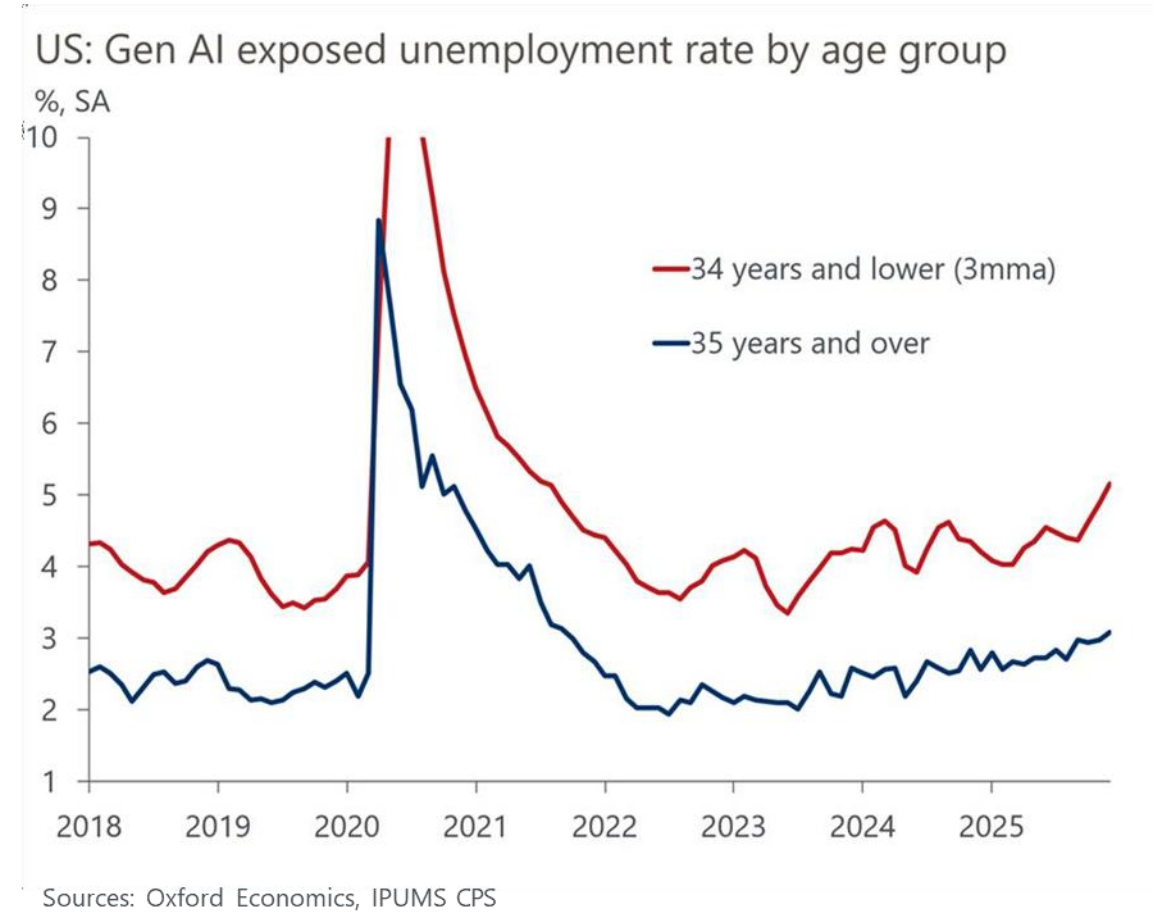
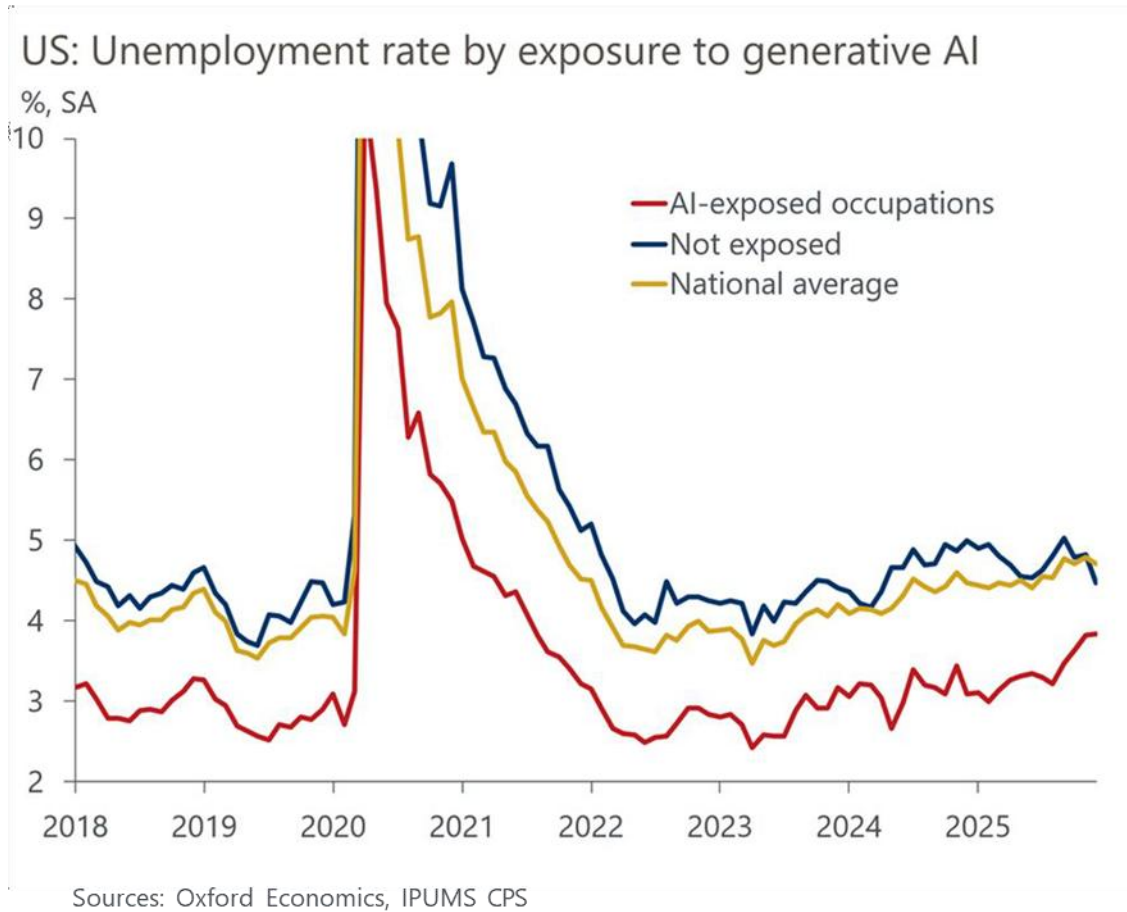
Key takeaways

- Although January payrolls surprised to the upside, we expect growth to average closer to 40k in the coming months.
- The unemployment rate ticked down to 4.3%, but the job openings-to-unemployed ratio is at its lowest level since March 2021, highlighting the no hire, no fire labor market dynamic.
- The jobless rate for AI-exposed occupations rose in January, we estimate workers under 34 are most exposed.
- We reduced our 2026 net immigration forecast to 160k due to new restrictions on legal immigration, increasing the odds of a jobless expansion.

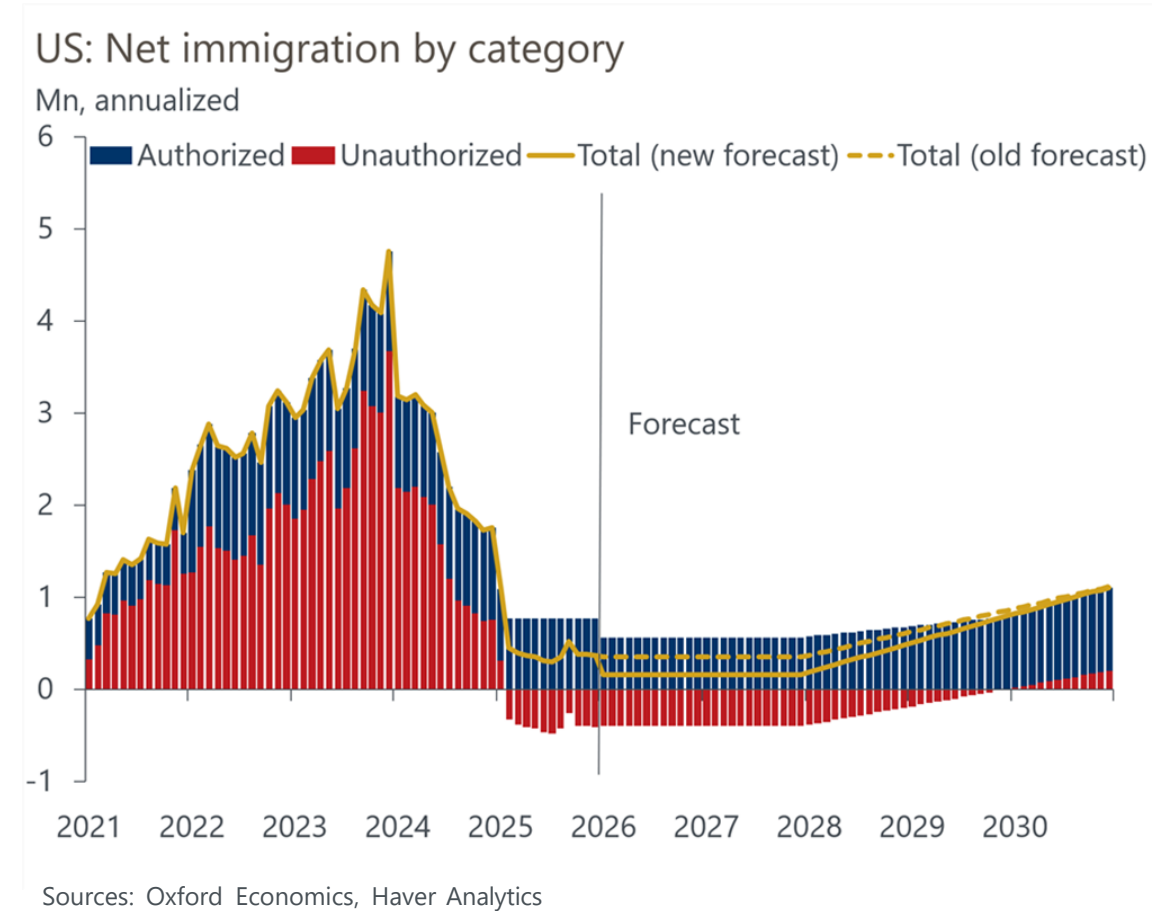
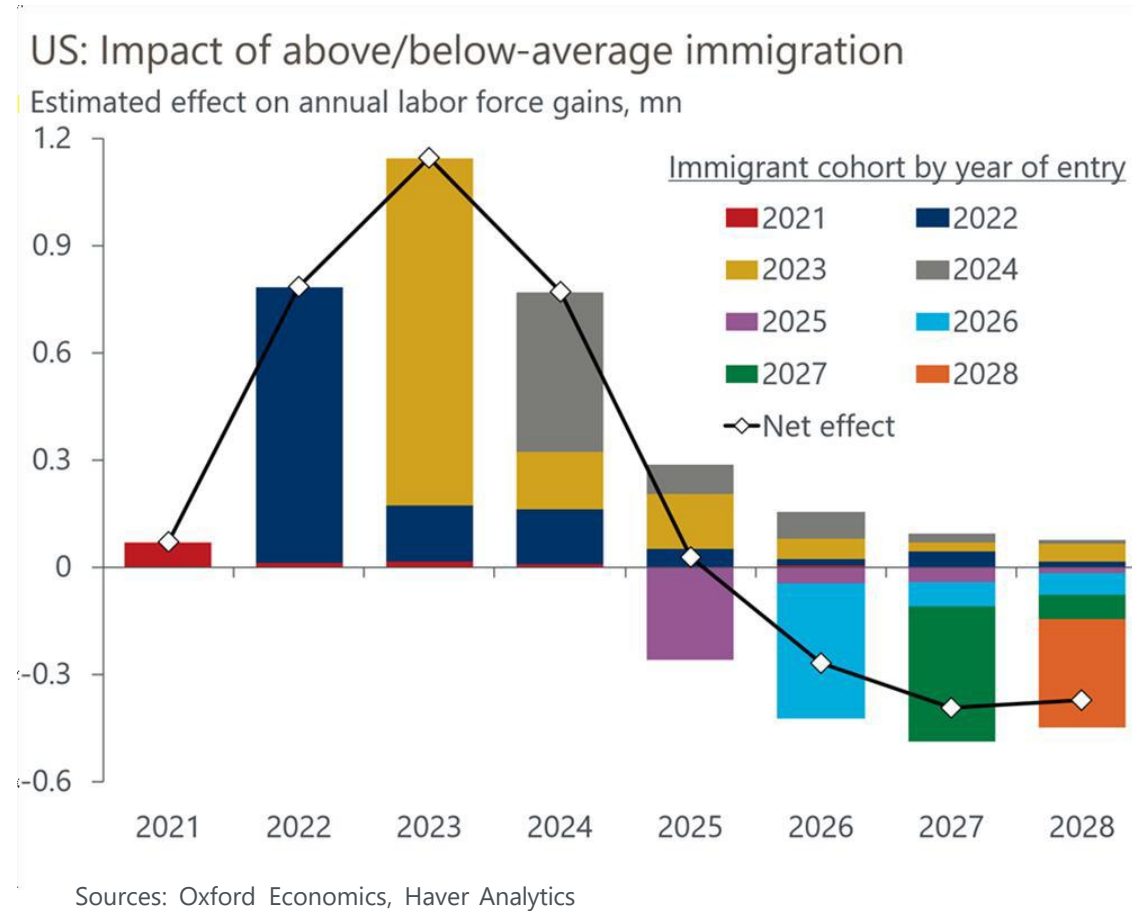
January employment report shows stabilization



Unemployment is rising more quickly in AI-exposed jobs



Past immigration no longer cushions hits to the labor supply

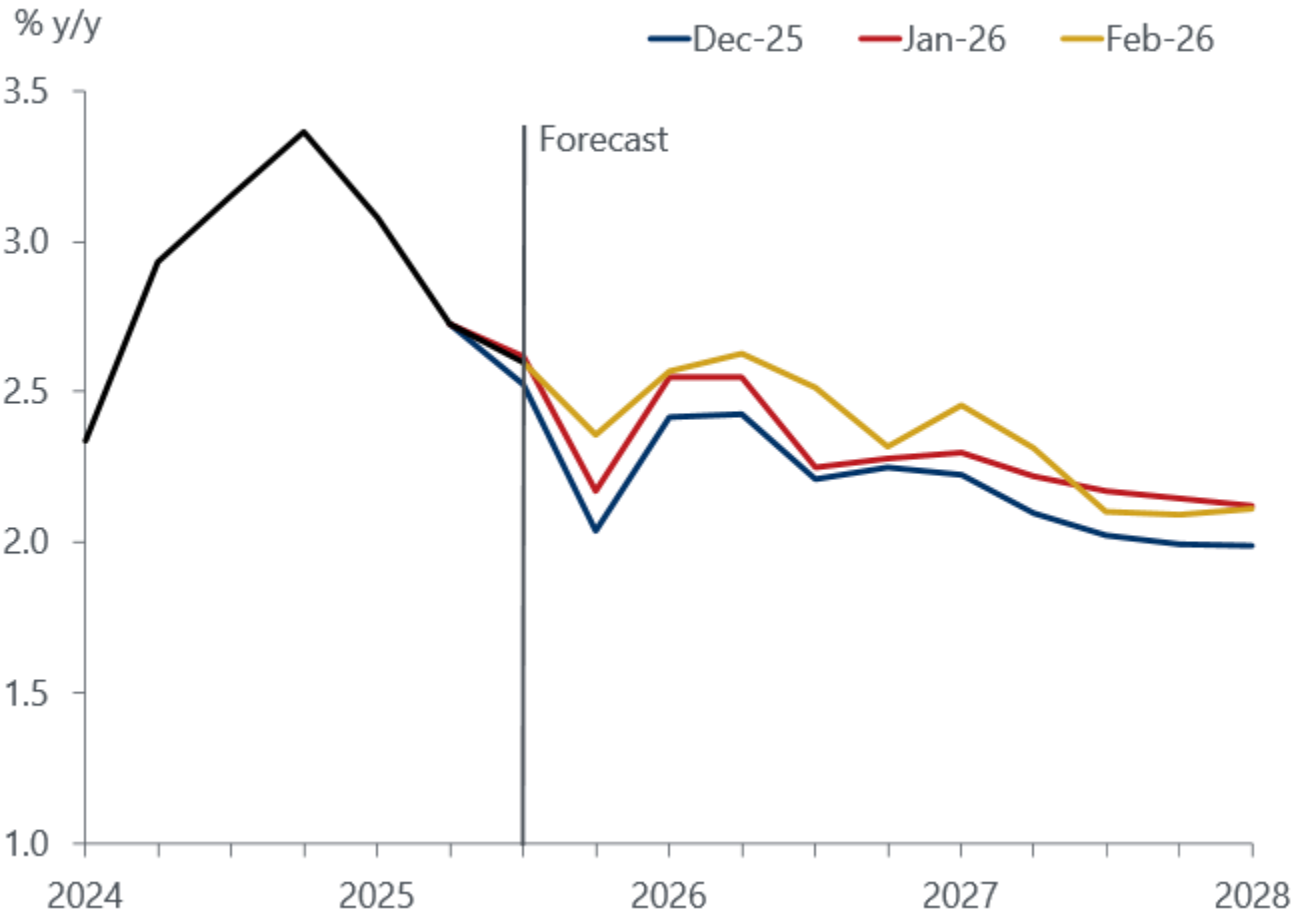




Consumer spending in solid shape

Resilient outlook for consumer spending

US: Consumer spending by forecast vintage



Sources: Oxford Economics, Haver Analytics

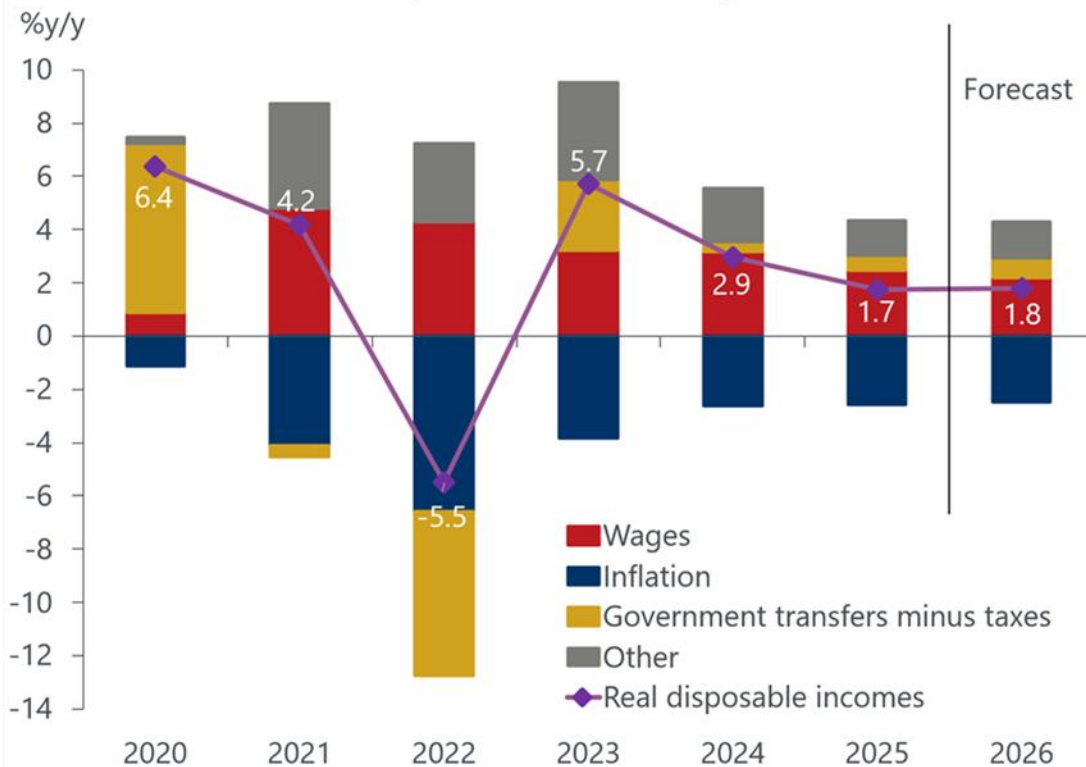
Key takeaways

- Growth in real disposable income, easing inflation, labor market stabilization, and larger than average tax refunds are set to keep consumer spending solidly above 2% in 2026.
- Consumer bifurcation will likely intensify in 2026. The net impact of tariffs and fiscal policy will reduce the lowest-income quintiles' real disposable income while boosting the highest income consumers.
- Consumer sentiment has improved slightly but remains downbeat. Concerns over high prices and labor market health are especially pressing for low-income respondents.

Income growth and wealth gains will support spending

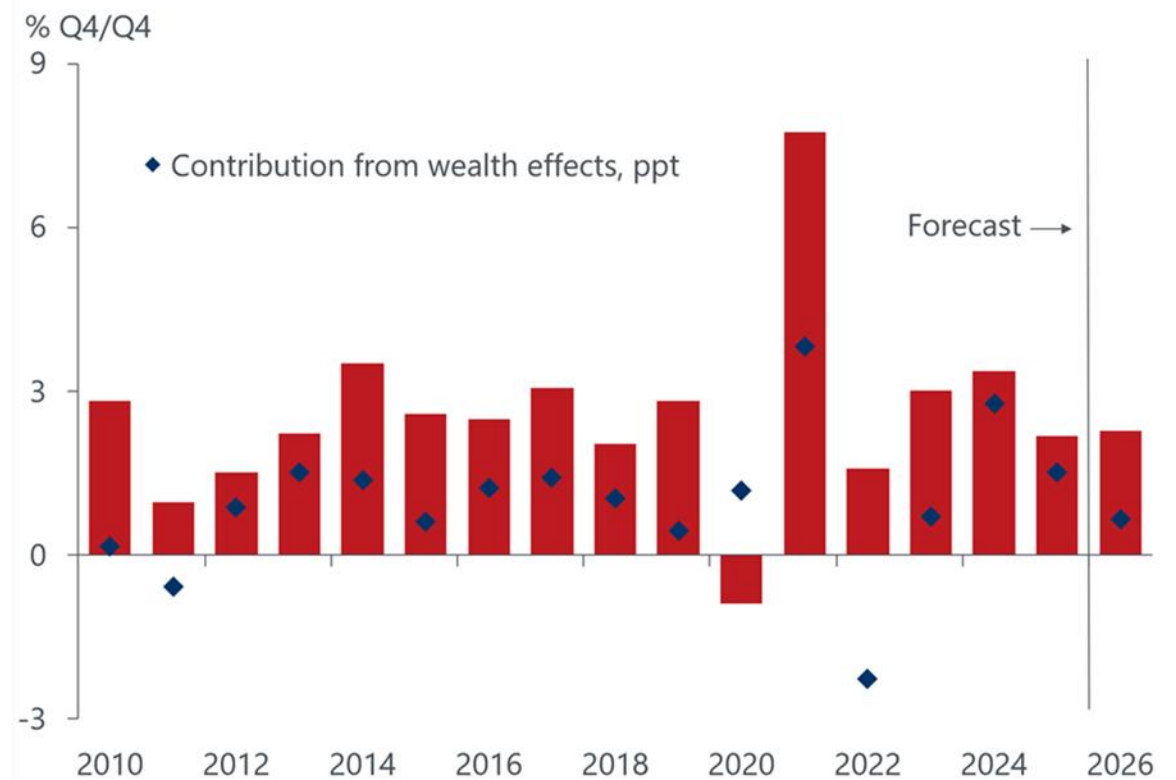


US: Household real disposable incomes growth



Sources: Oxford Economics, Haver Analytics

US: Real consumer spending

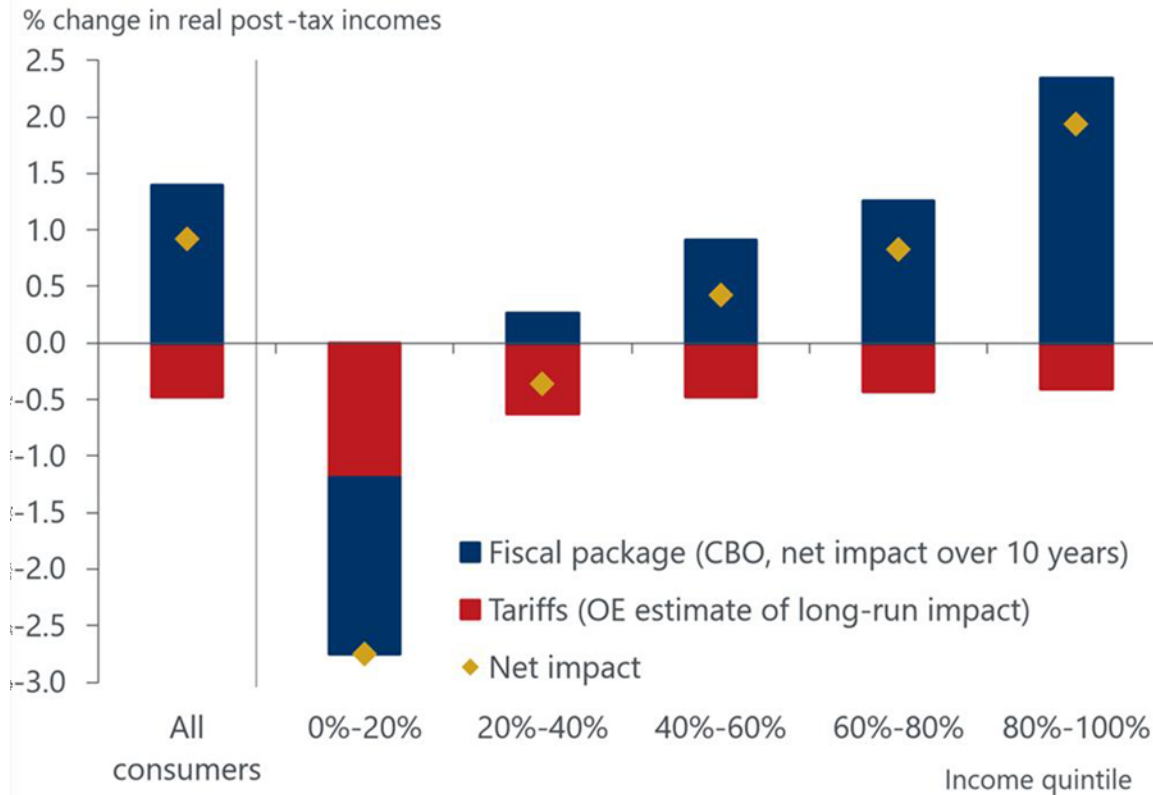


Sources: Oxford Economics, Haver Analytics

Though policy will deepen consumer bifurcation in 2026

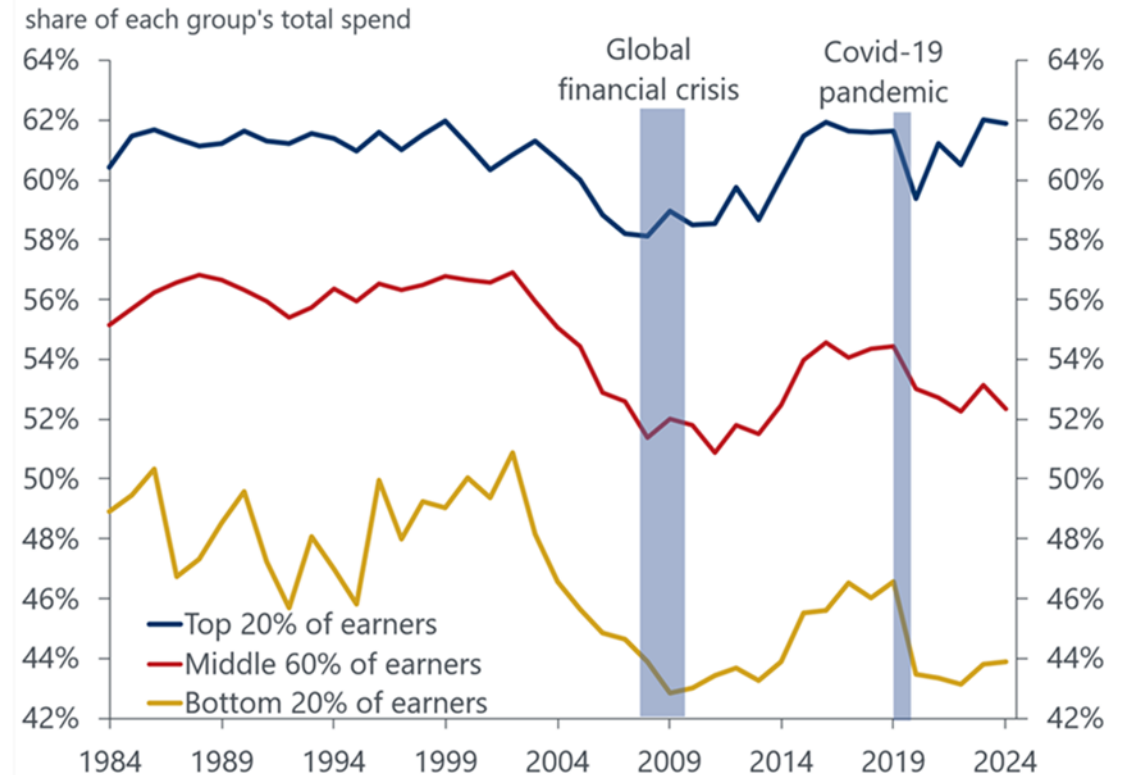


US: Net impact of policy by household income



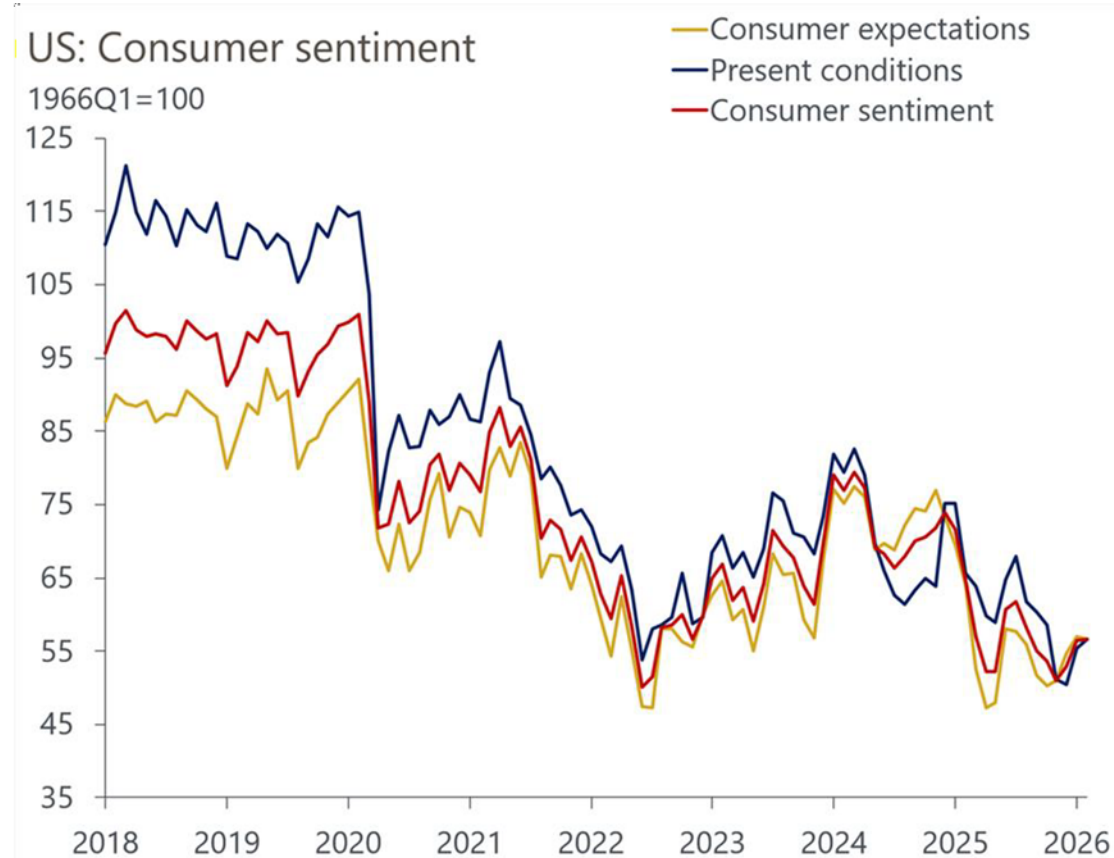
Sources: Oxford Economics, Haver Analytics

US: Consumer discretionary spending by income



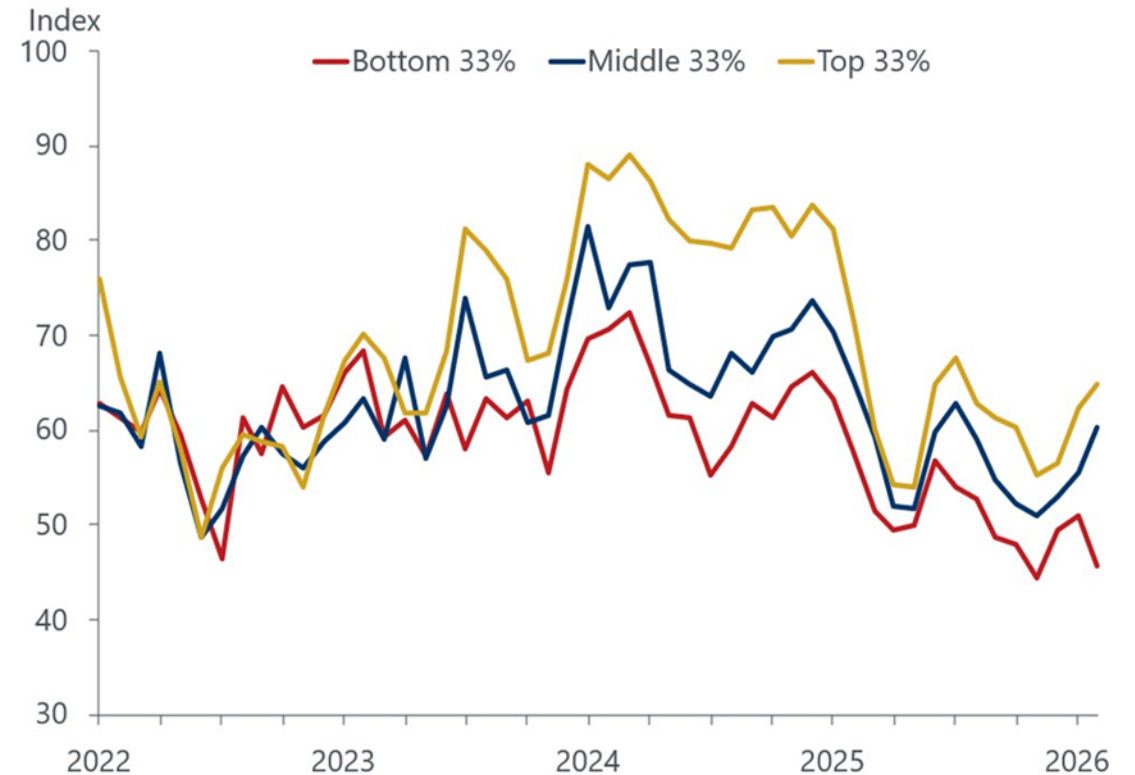
Sources: Oxford Economics, Haver Analytics

Sentiment diverged across income groups in February



Sources: Oxford Economics, Haver Analytics

US: Sentiment by income bracket



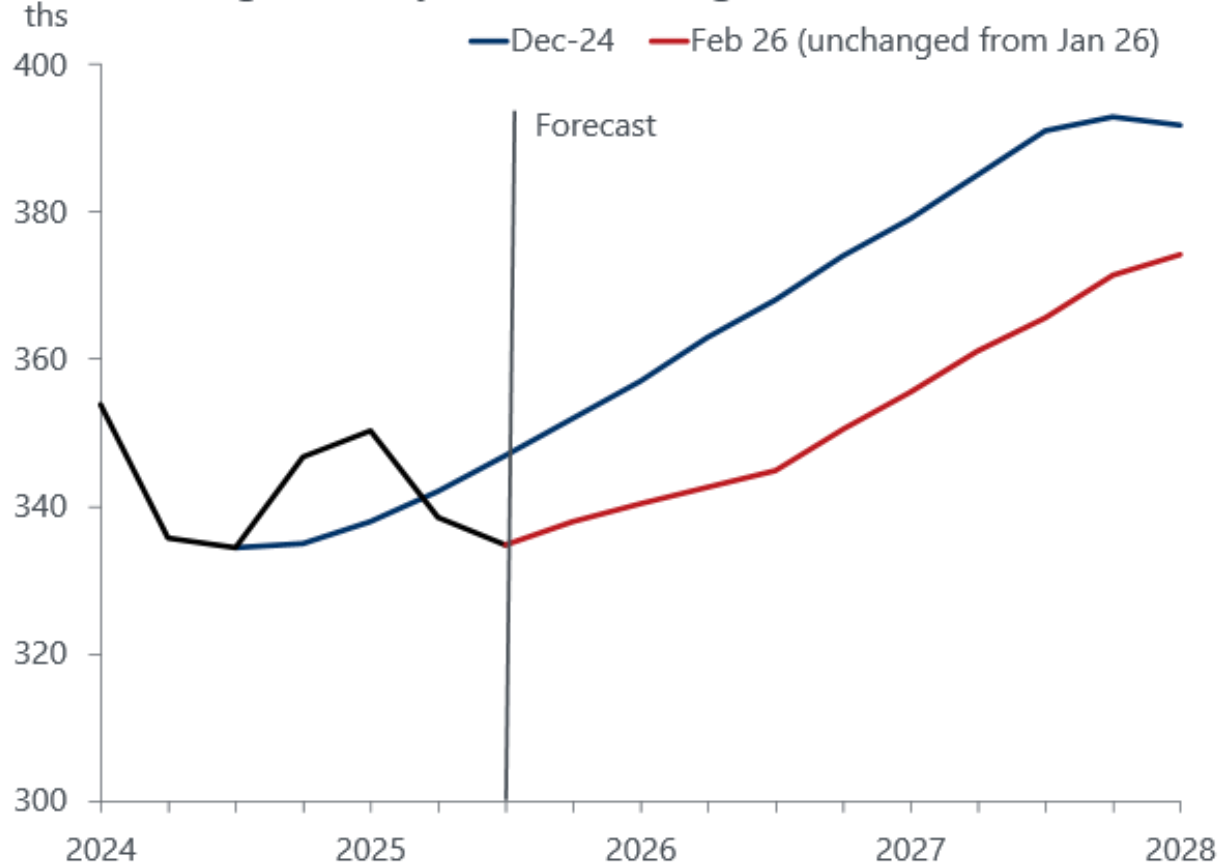
Sources: Oxford Economics, Haver Analytics



Housing market to slowly recover

Gradual recovery ahead for housing

US: Housing starts by forecast vintage



Key takeaways

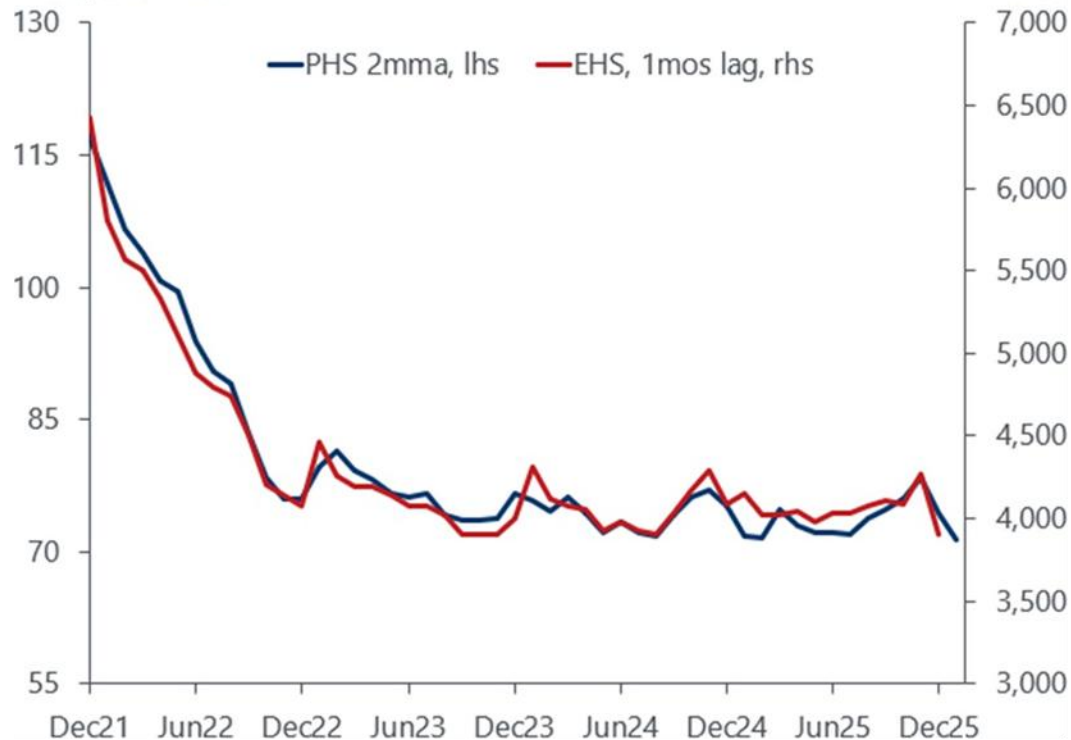
- Pending and existing home sales fell in January. Severe winter weather was likely a key factor behind the decline, especially in the Northeast and South.
- We expect sales to gradually rise over 2026 as mortgage rates inch lower and the labor market improves.
- Lower rates and homebuilder incentives supported a recovery in new home sales at the end of 2025. Still, high inventories will remain a drag on construction for a while longer.
- Home price growth continues to diverge by region, with markets in the West and South showing more softness than other regions.



Winter weather temporarily weighed on home sales

US: Pending and existing home sales

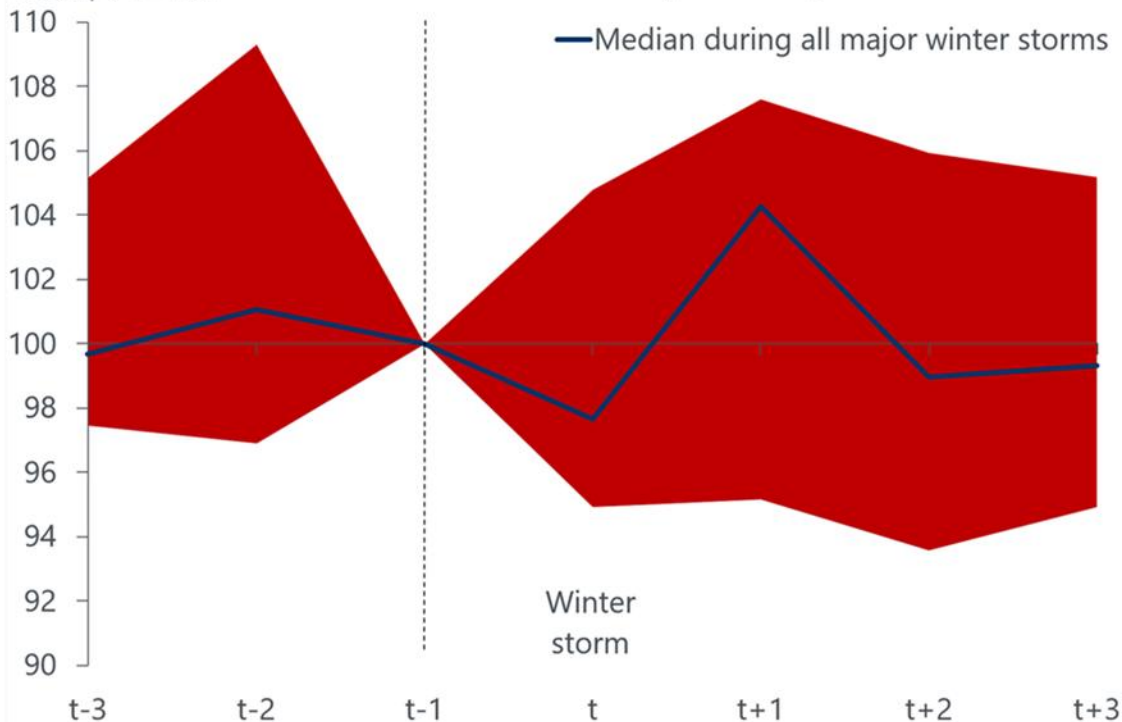
Index, 2001=100



Sources: Oxford Economics, Haver Analytics

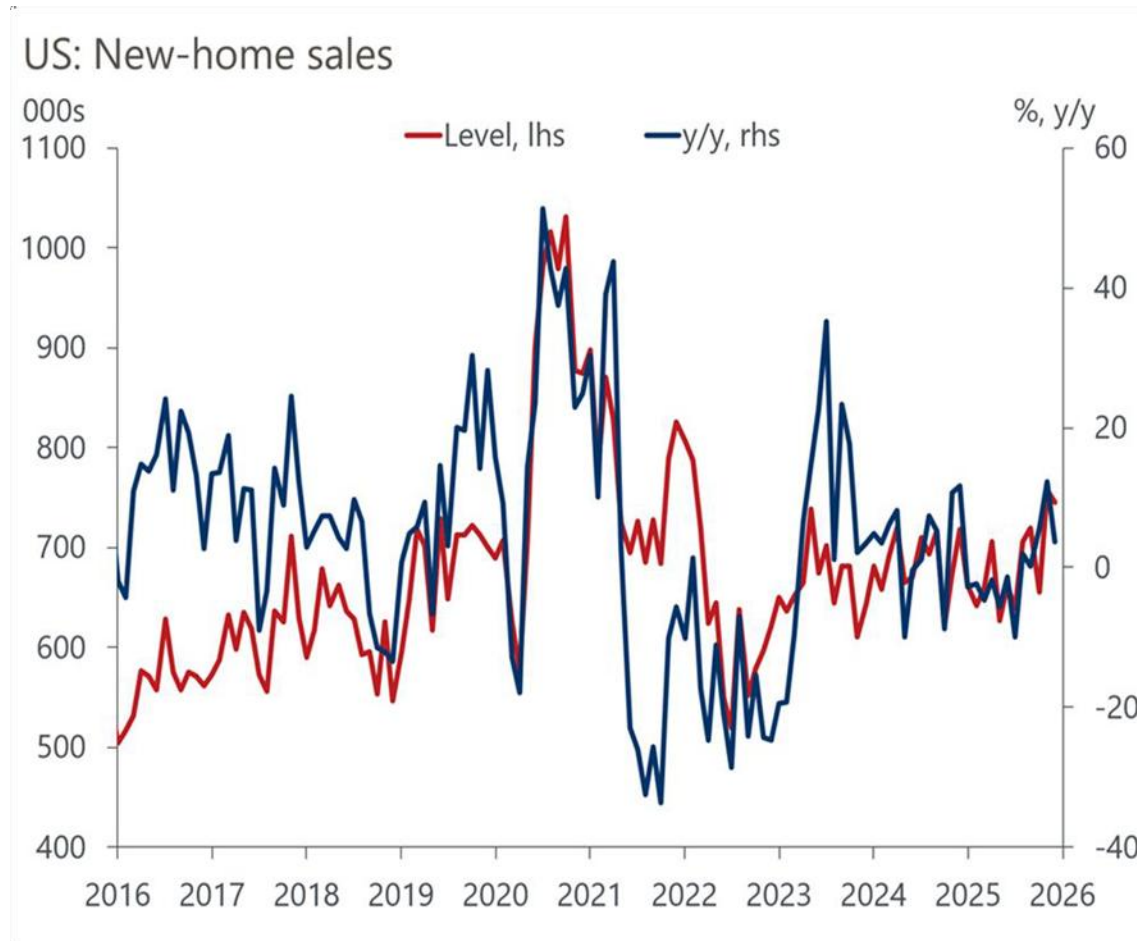
US: Single-family housing starts

Index, t-1=100

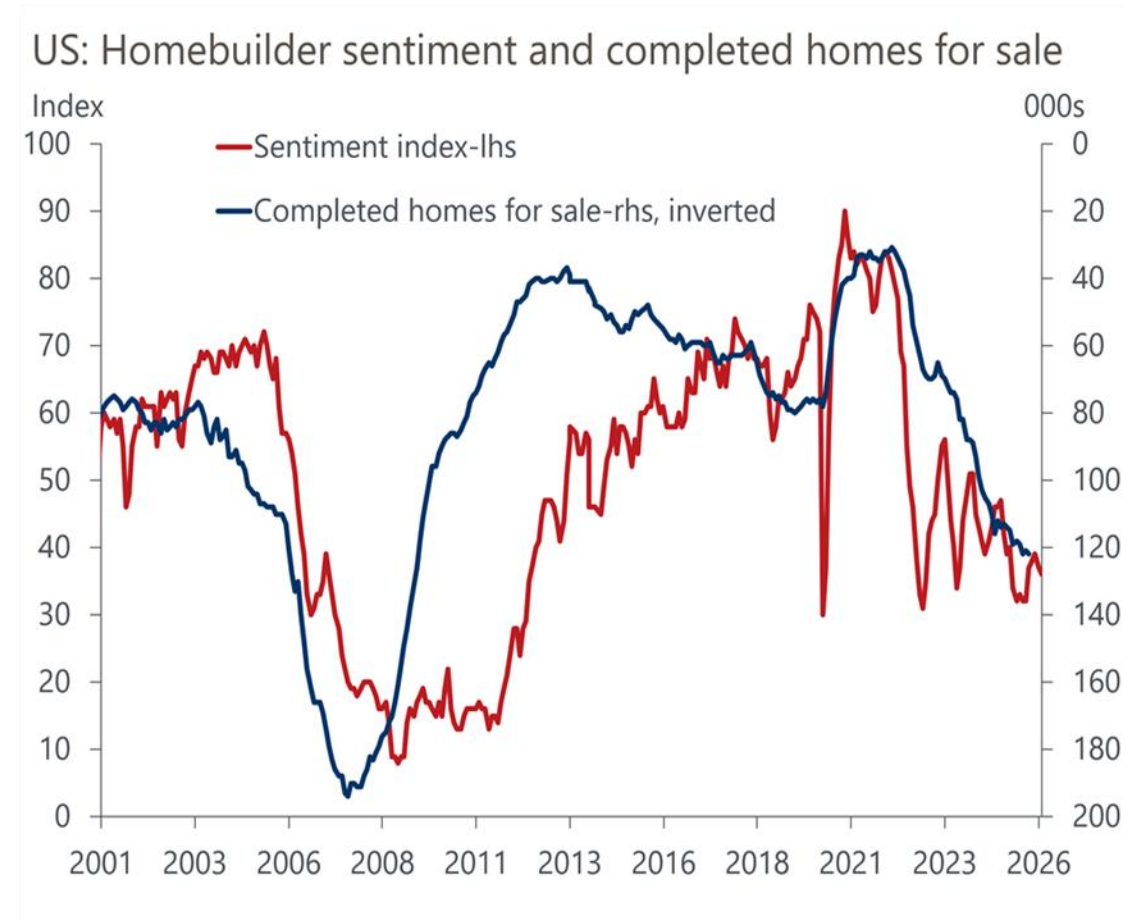


Sources: Oxford Economics, Haver Analytics

Despite builder sentiment, lower rates will support sales



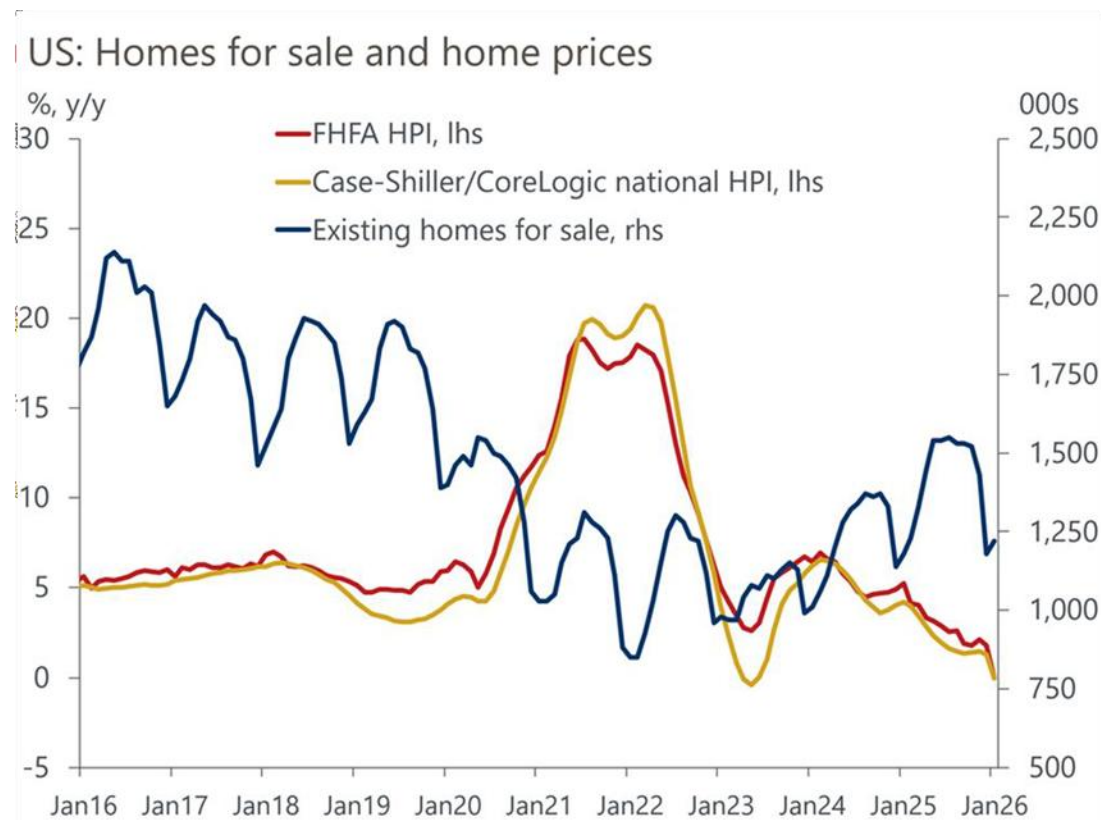
Sources: Oxford Economics, Haver Analytics



Sources: Oxford Economics, Haver Analytics

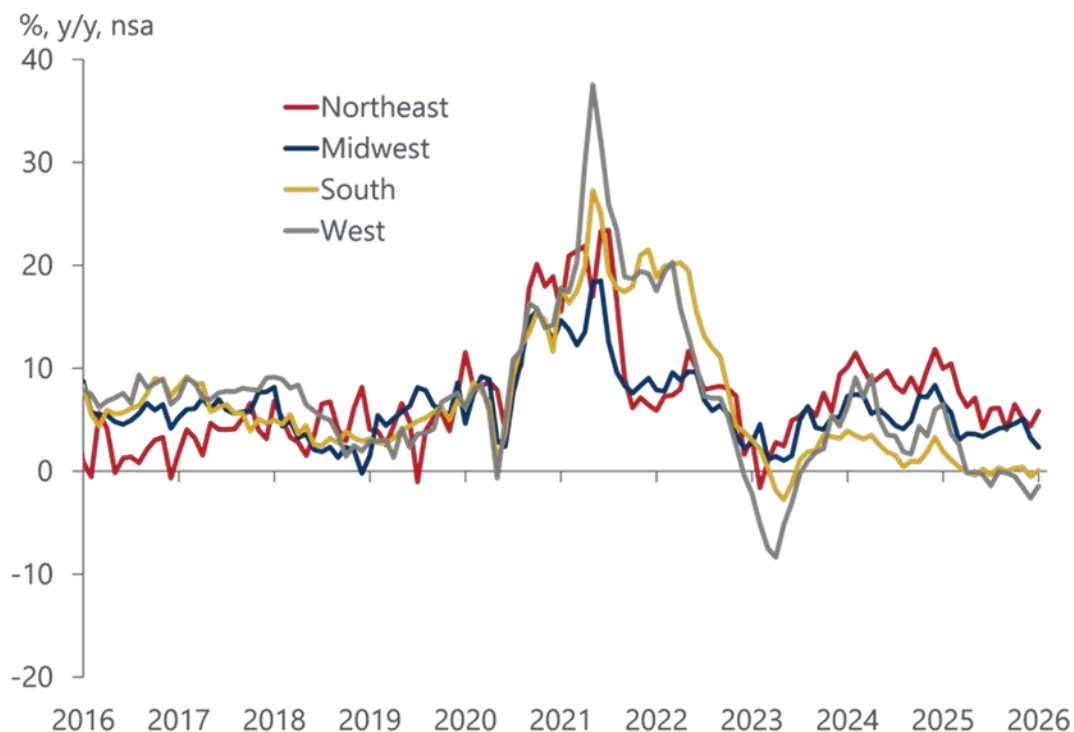


Home price growth softens, but not for all regions



Sources: Oxford Economics, Haver Analytics

US: Regional existing home price growth

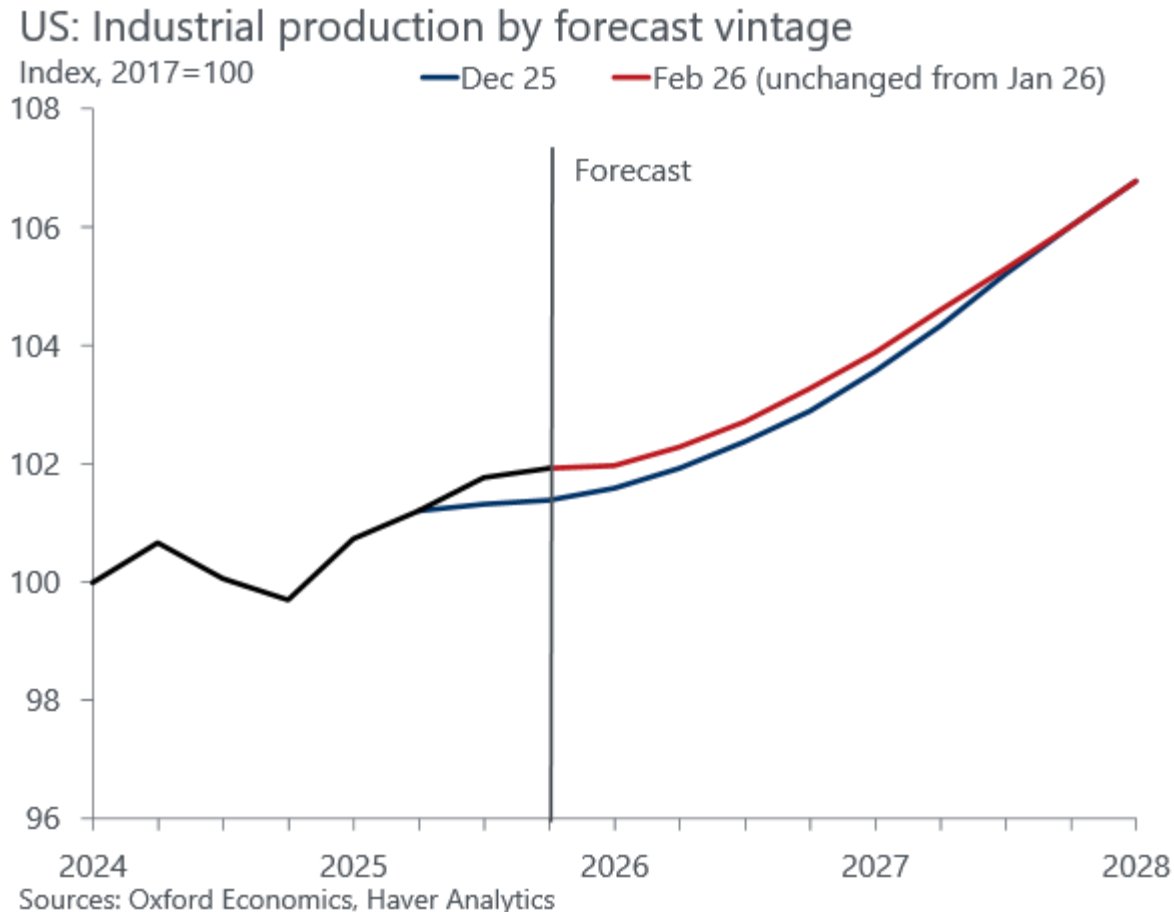


Sources: Oxford Economics, Haver Analytics
Sources: Oxford Economics, Haver Analytics



Manufacturing sector faces a slow recovery

Manufacturing faces heightened uncertainty



Key takeaways

- Strong new orders and low inventories suggest there could be positive momentum in the manufacturing sector. We expect industrial production to grow 1.1% y/y in 2026.
- Still, policy uncertainty is a drag on sentiment and is contributing to layoffs in the sector. The boost from the OBBBA, interest rate relief, increased defense spending, and AI investment should some support this year.
- AI investment and capex will contribute to add to GDP growth in 2026. We estimate that AI spending boosted US GDP by 0.4ppts last year and should post a similar gain in 2026.



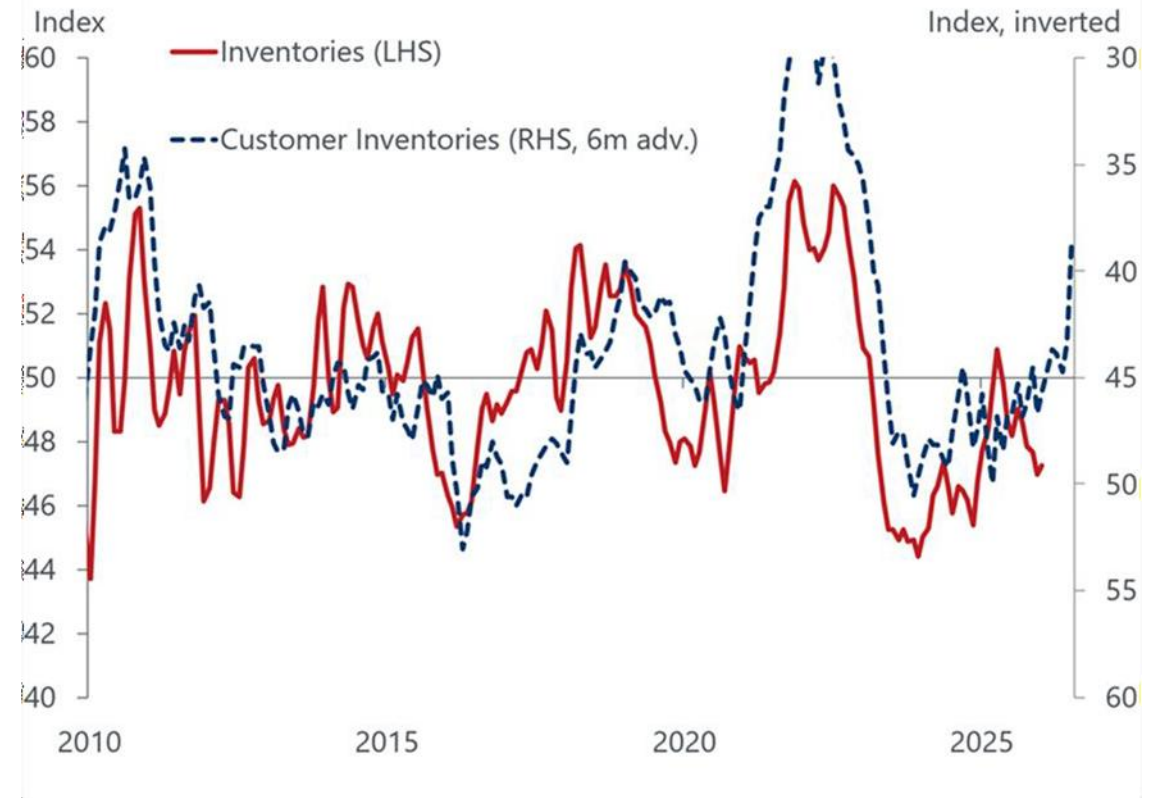
Increased order demand points to emerging momentum

US: Machine tool orders



Sources: Oxford Economics, Haver Analytics

US: ISM inventory measures

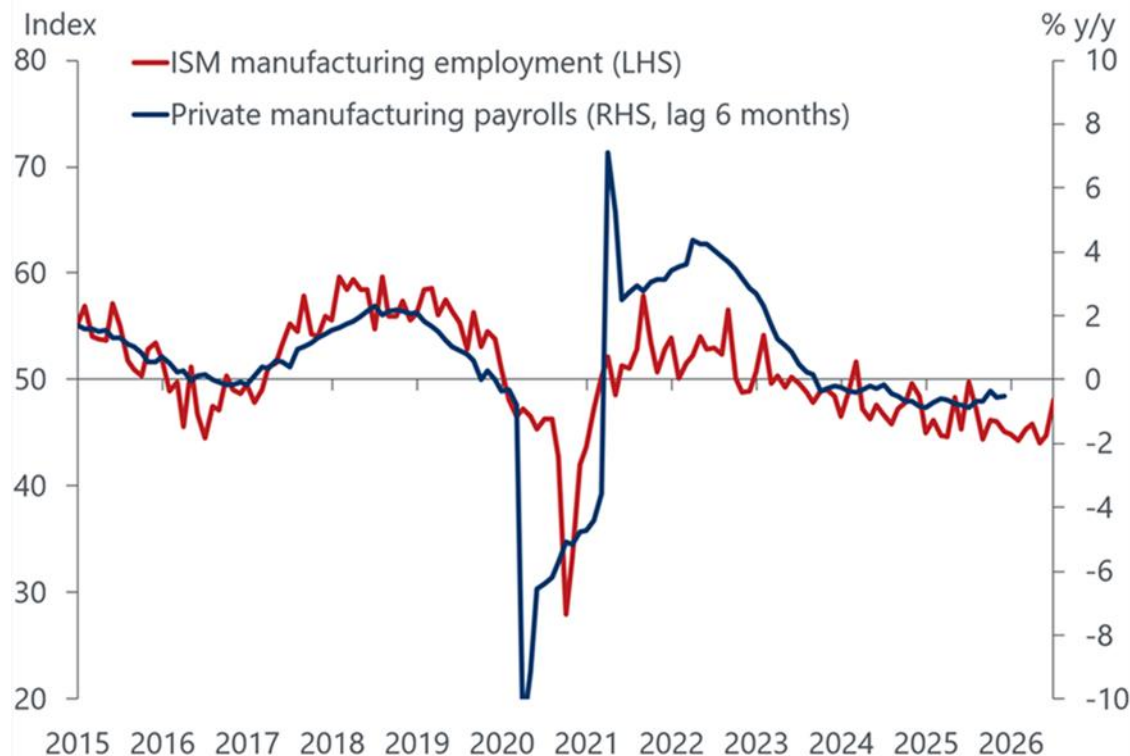


Sources: Oxford Economics, Haver Analytics



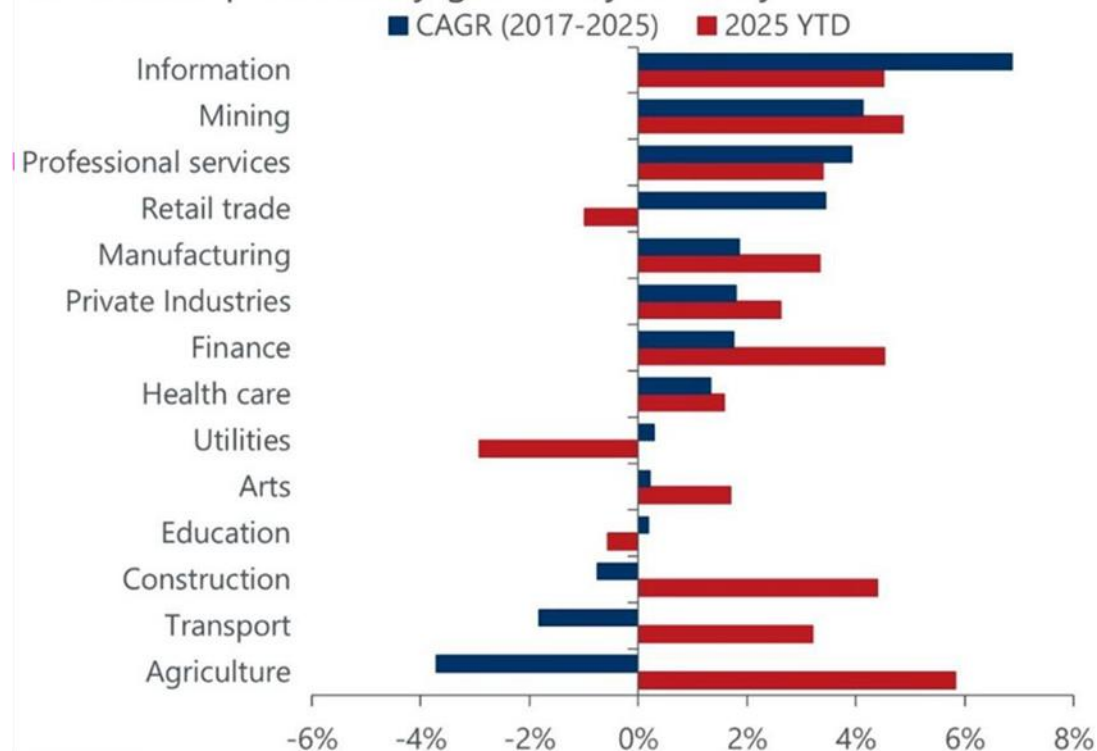
Solid productivity gains weigh on employment in sector

US: Manufacturing employment measures



Sources: Oxford Economics, Haver Analytics

US: Labour productivity growth by industry



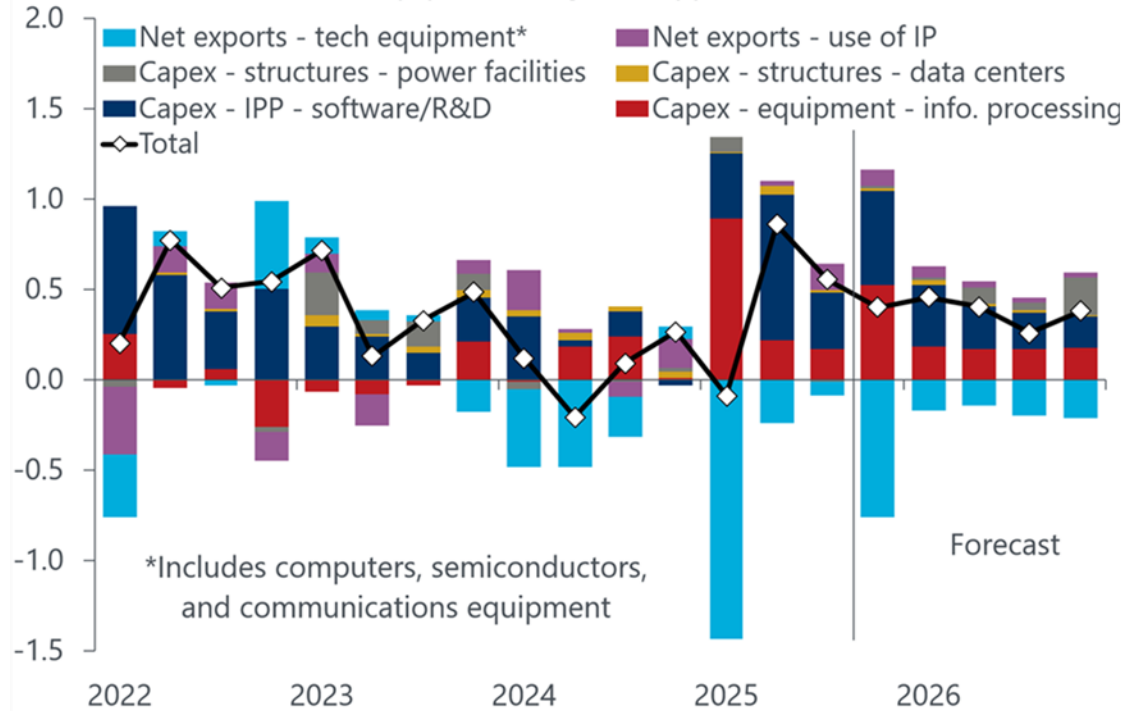
Sources: Oxford Economics, Atlantic Council



AI investment and capex is on the rise

US: AI-related components of GDP

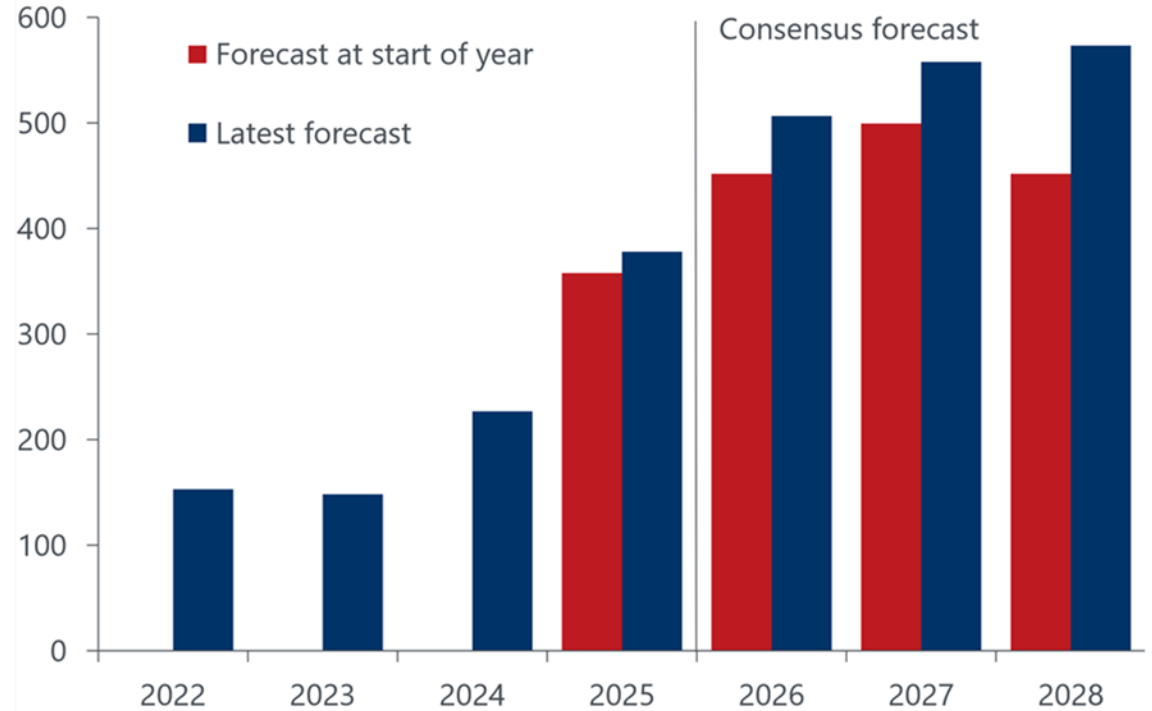
Contribution to annualized q/q real GDP growth, ppt



Sources: Oxford Economics, Haver Analytics

US: Mega-cap tech capex plans*

\$ bn



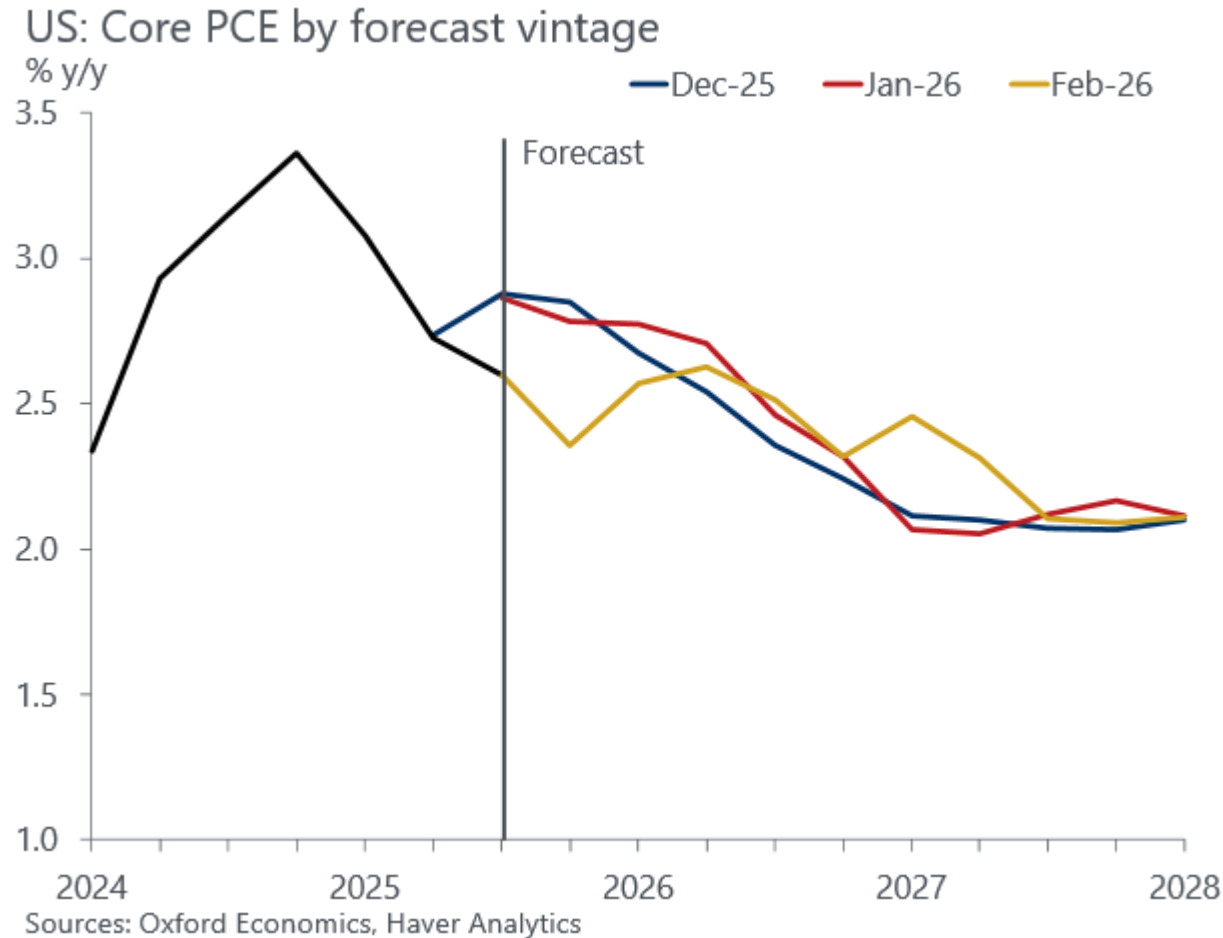
Sources: Oxford Economics, Haver Analytics

*Alphabet, Amazon, Meta, Microsoft



Core inflation to moderate in 2026

Inflation will fall closer to target in 2026



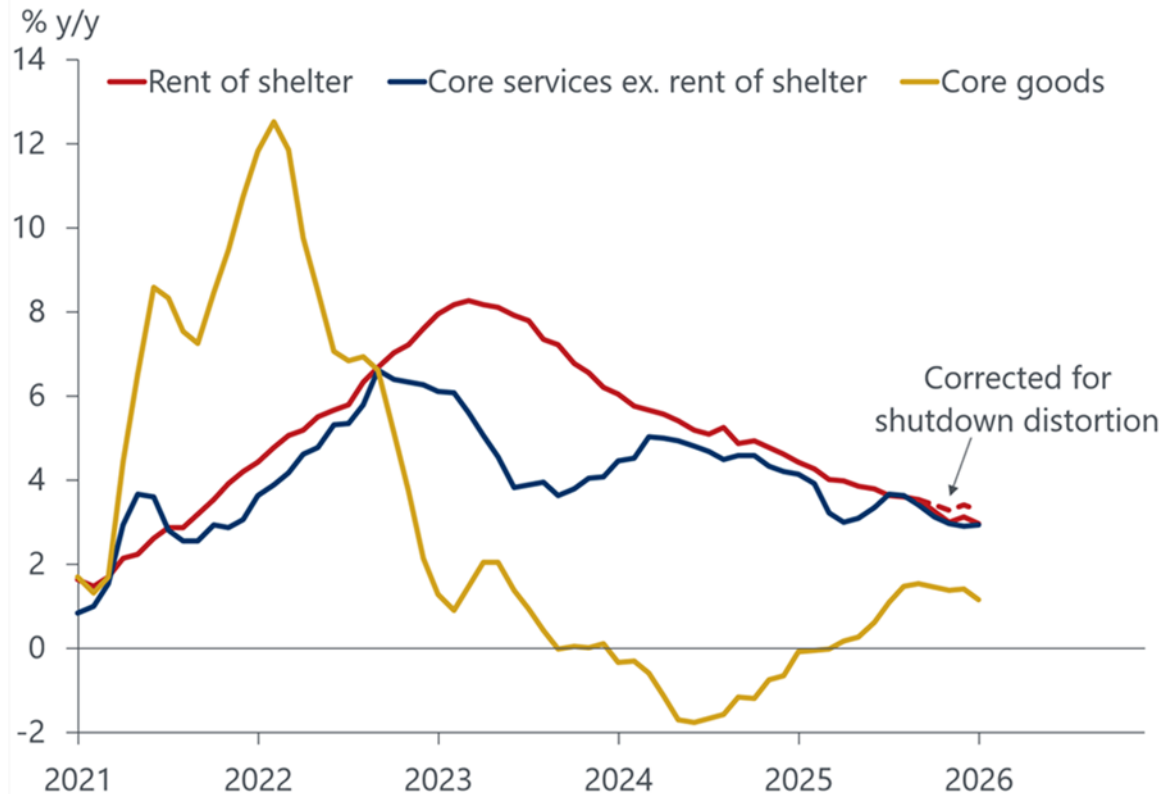
Key takeaways

- Headline CPI rose 0.2% m/m in January, driven by easing goods and housing inflation. While we estimate that the tariff passthrough is largely behind us, new or expanded sectoral tariffs after the fall of IEEPA are an upside risk.
- We forecast for headline PCE inflation to fall to 2.2% by Q4, a shade above the Fed's 2% target.
- Compensation costs rose at the slowest pace in over four years in Q4. Given the strong pace of productivity growth, wage growth won't be a source of inflationary pressure in the near-term.

January CPI surprised to the downside, expectations fell

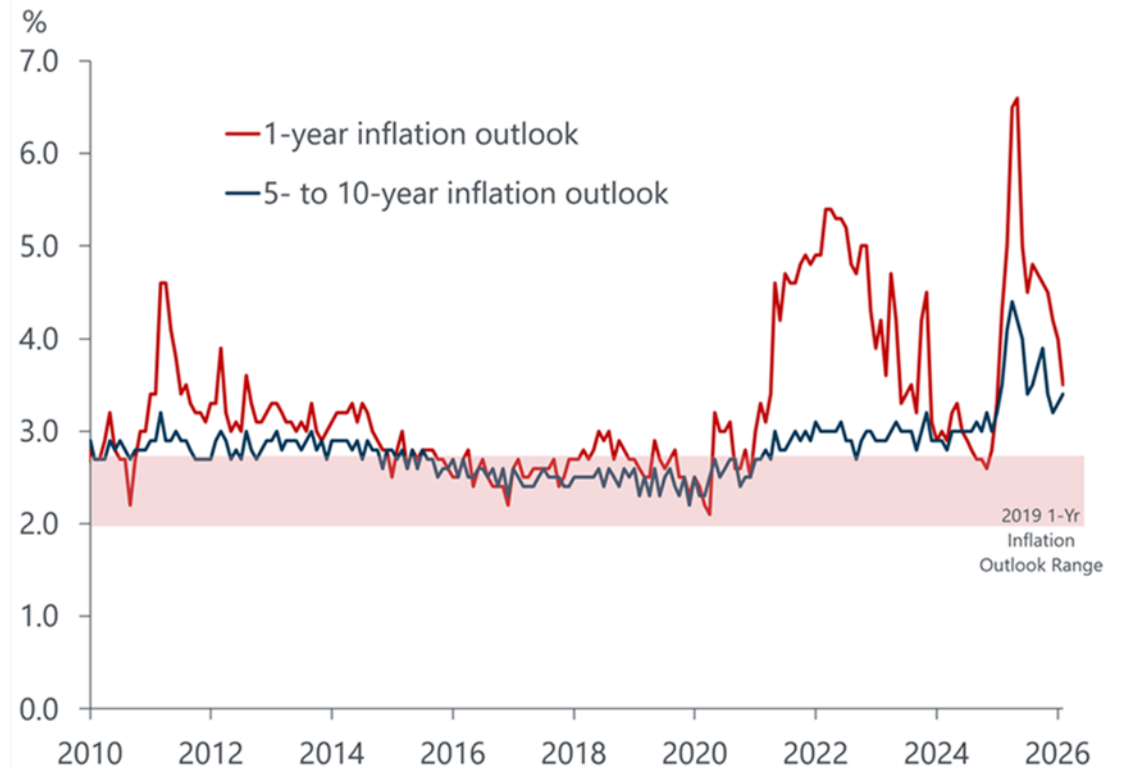


US: Core CPI categories



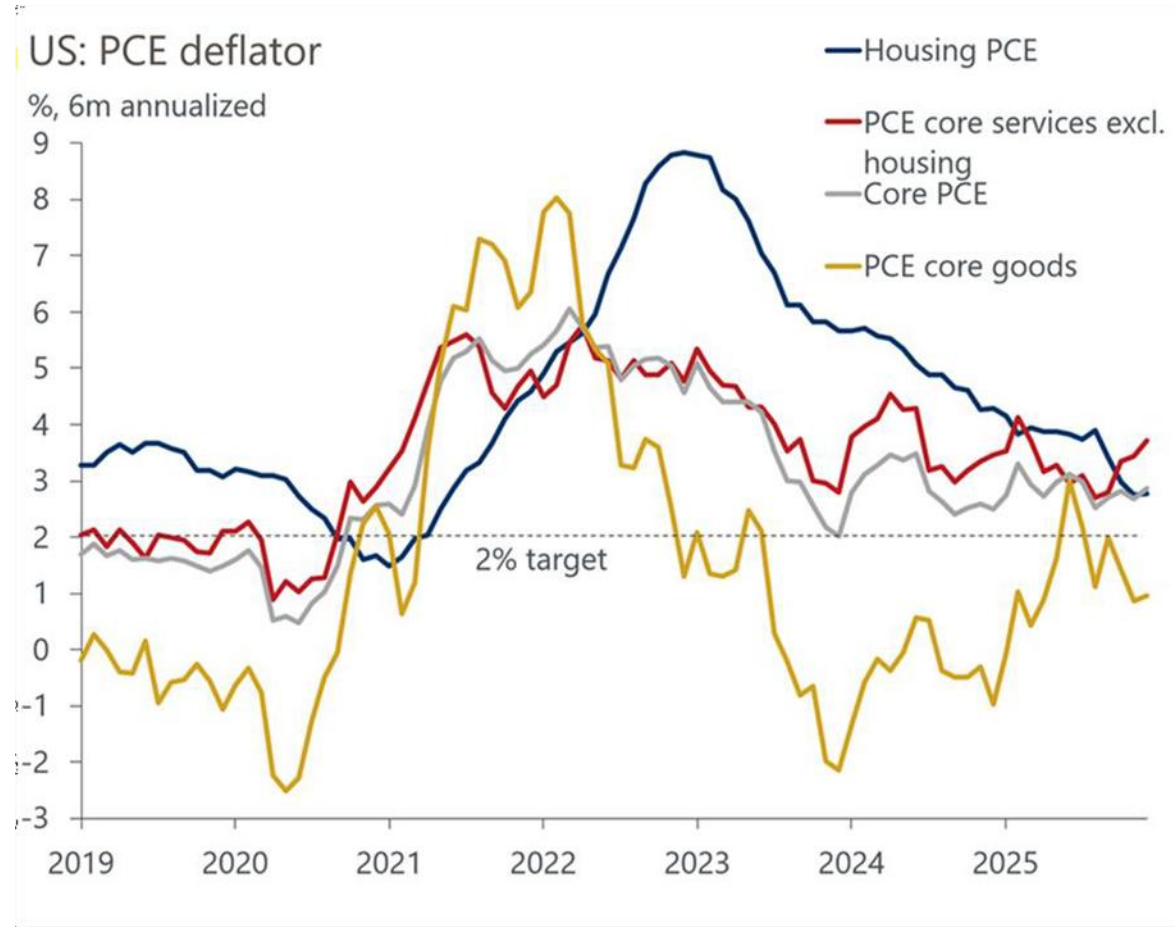
Sources: Oxford Economics, Haver Analytics

US: University of Michigan household inflation expectations

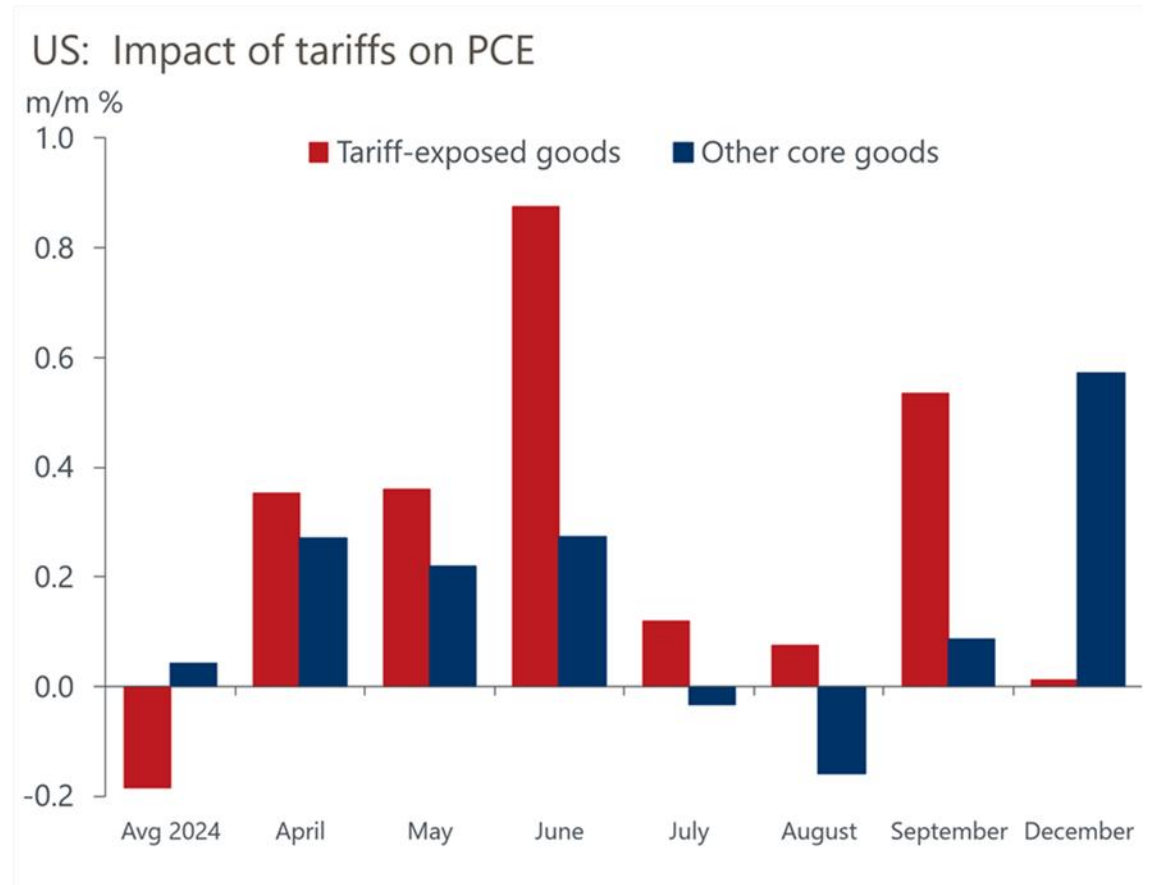


Source: Oxford Economics, Haver Analytics

With tariff passthrough complete, PCE will move toward 2%

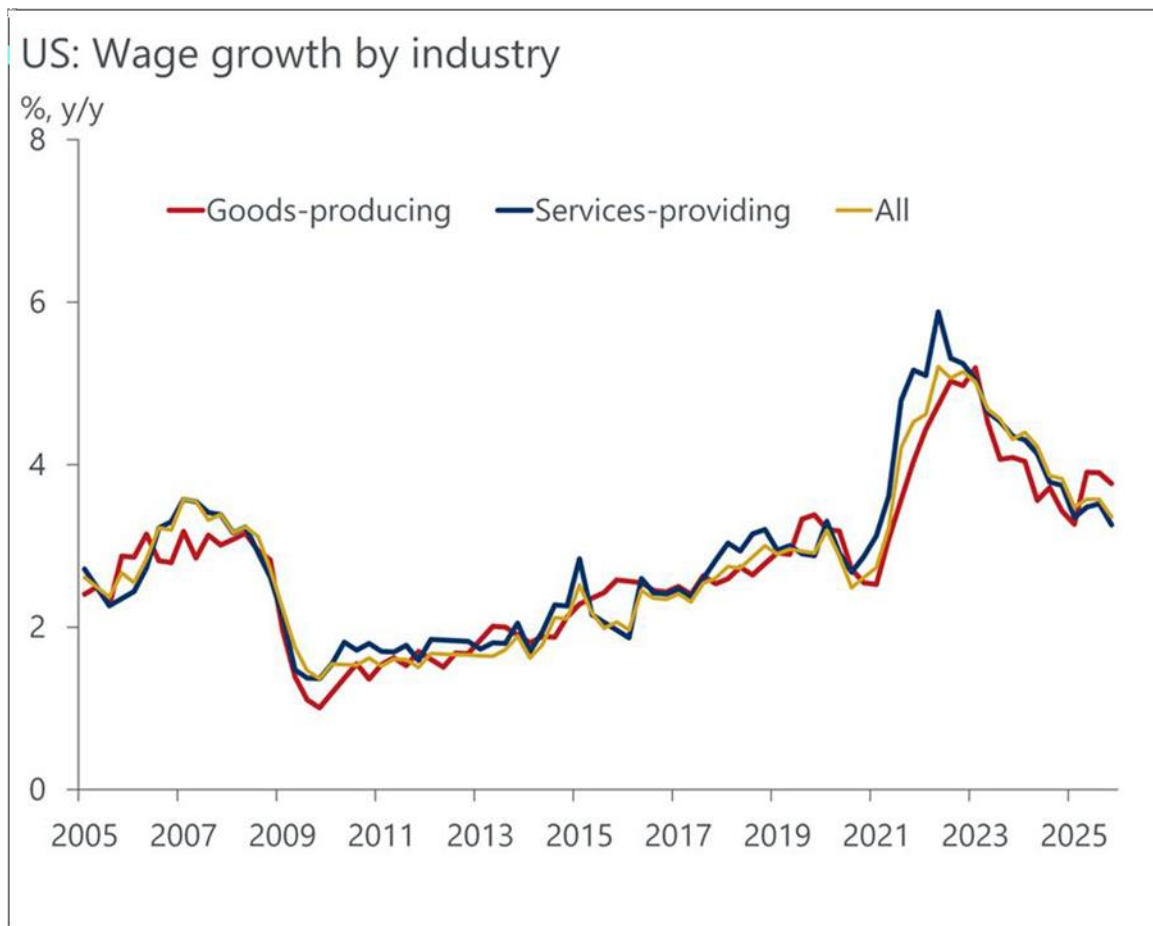


Sources: Oxford Economics, Census Bureau

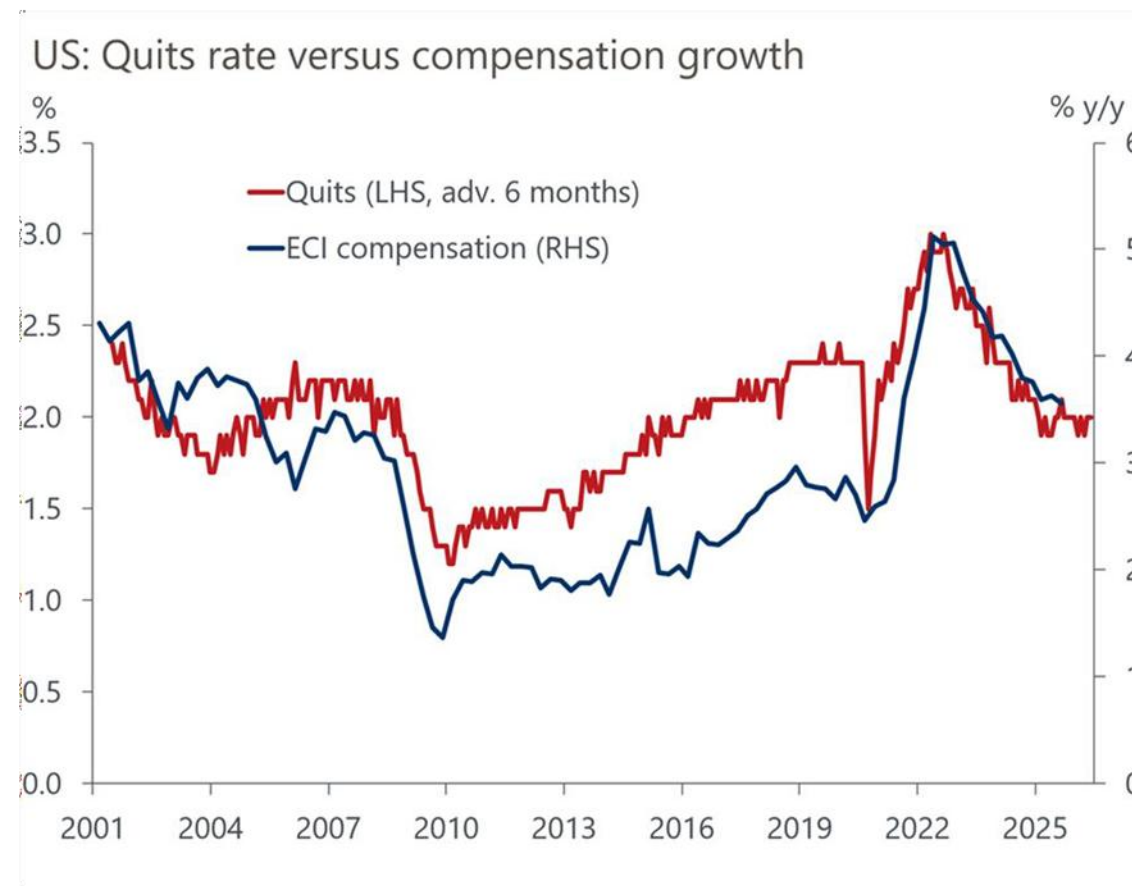


Sources: Oxford Economics, Haver Analytics

Wages won't be an inflationary pressure in the near-term



Sources: Oxford Economics, Haver Analytics



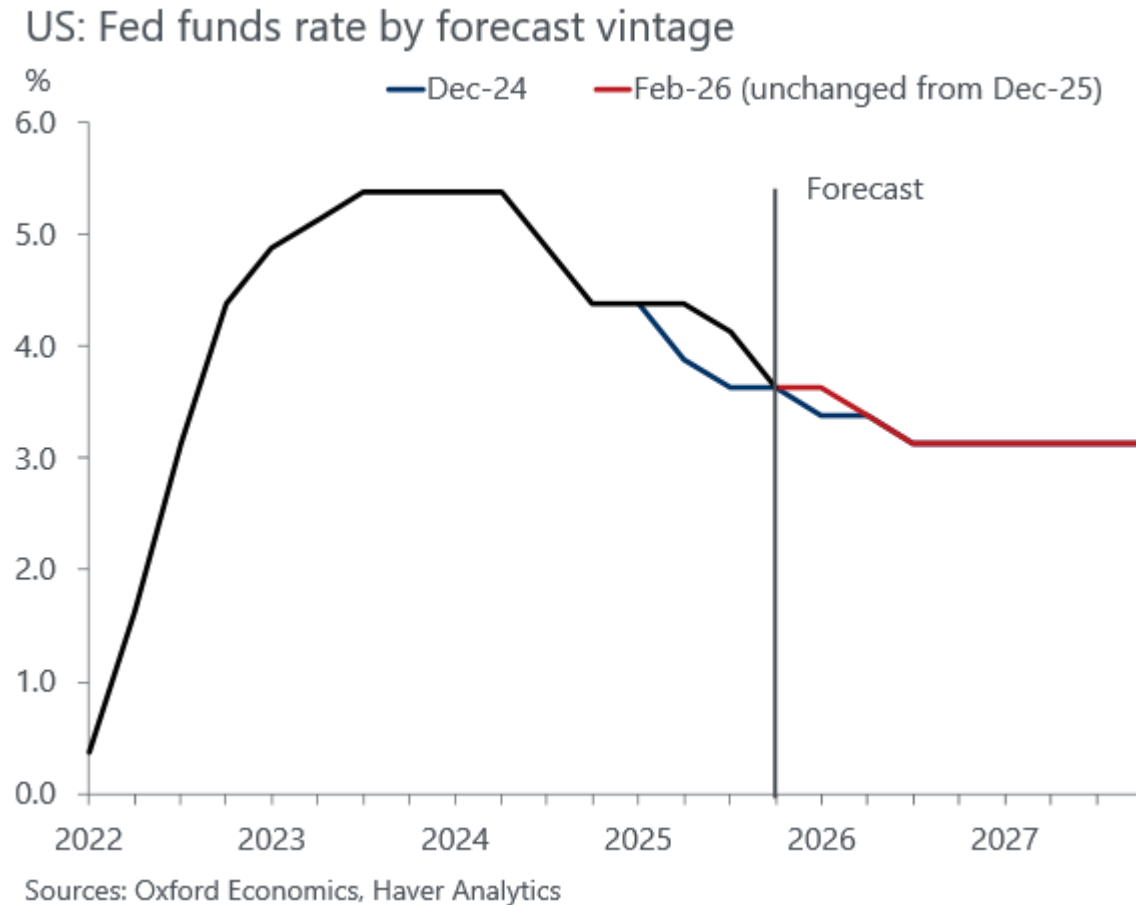
Source: Oxford Economics, Haver Analytics



Financial market conditions and the Fed

Fed to proceed with caution in 2026

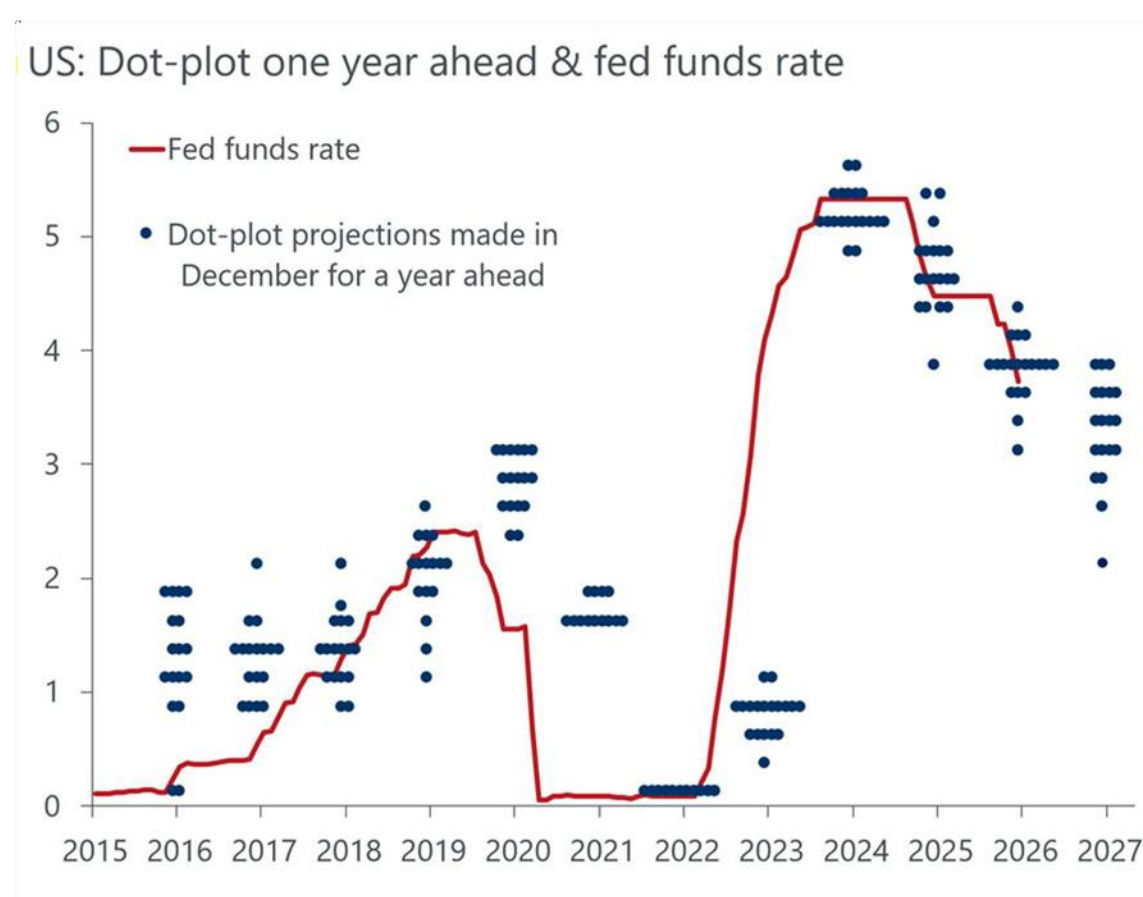
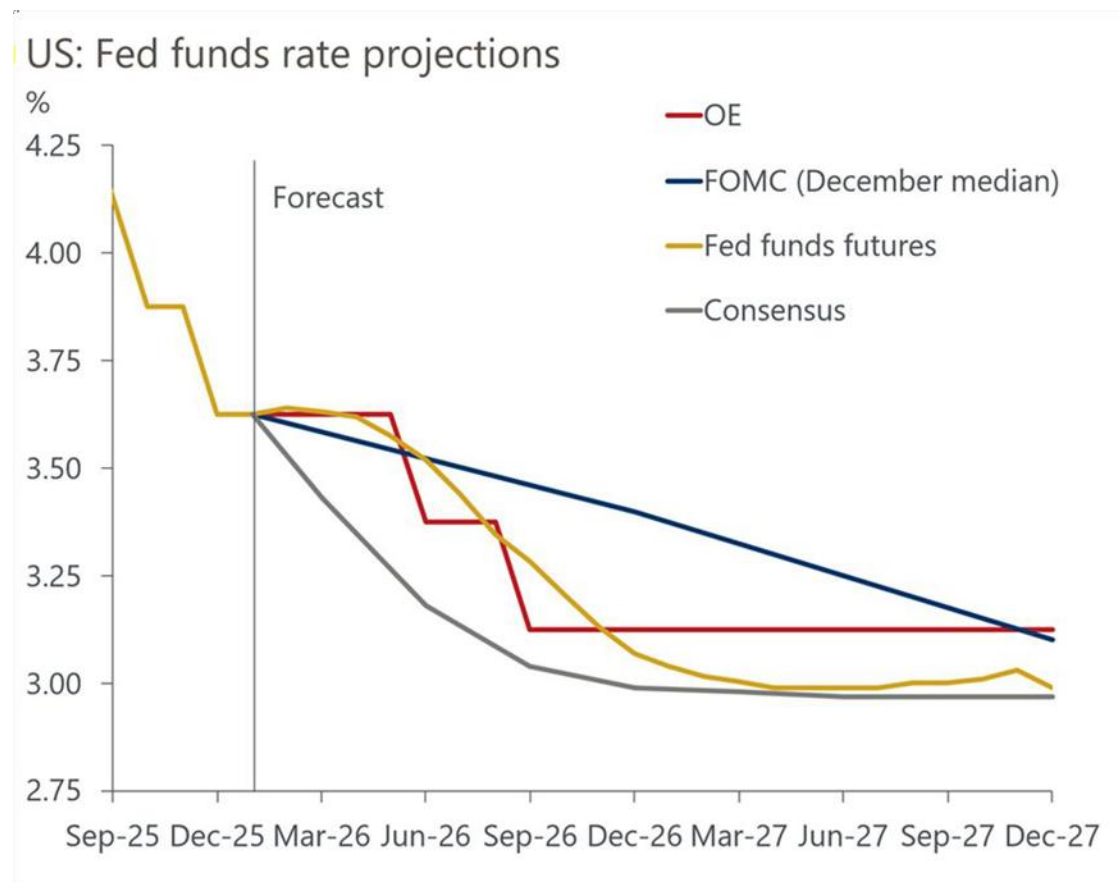
• Key takeaways



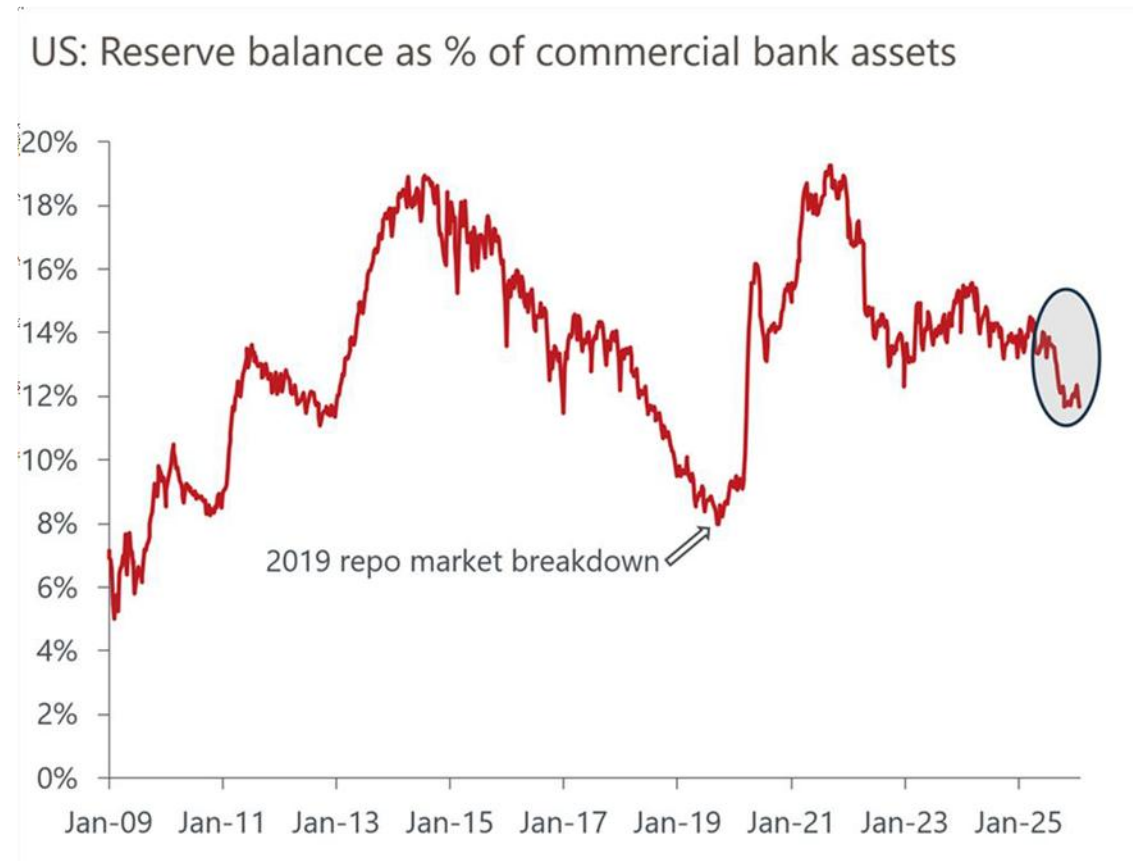
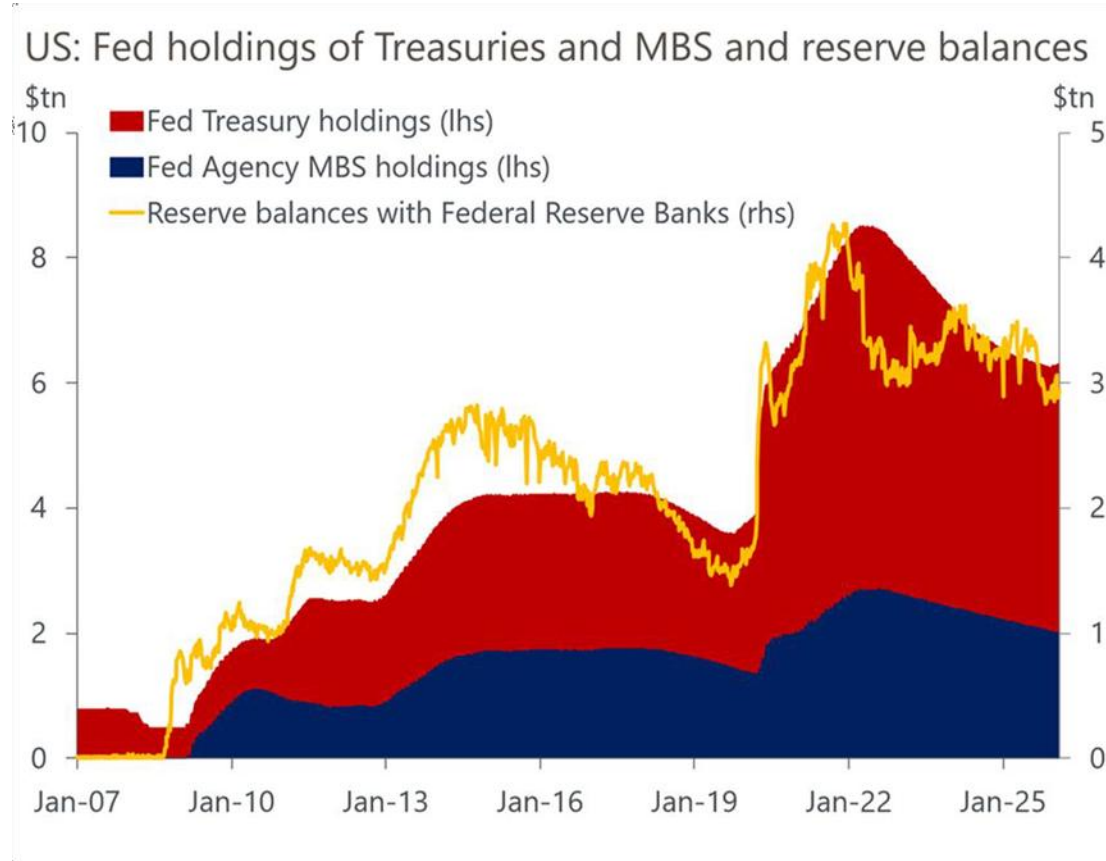
- With rates close to neutral and the labor market showing signs of stabilization, the Fed is likely to opt for an extended pause. As gradual disinflation continues, we expect the Fed to deliver two 25bp rate cuts, in June and September.
- A large reduction in the Fed balance sheet, as advocated for by Kevin Warsh, is unlikely to materialize given the committees split views and the risks to the repo market.
- We expect financial markets to benefit as the US investment boom broadens beyond AI this year, supported by low corporate borrowing costs, rising profitability, and fiscal incentives.



Divided FOMC is likely to remain on hold in H1



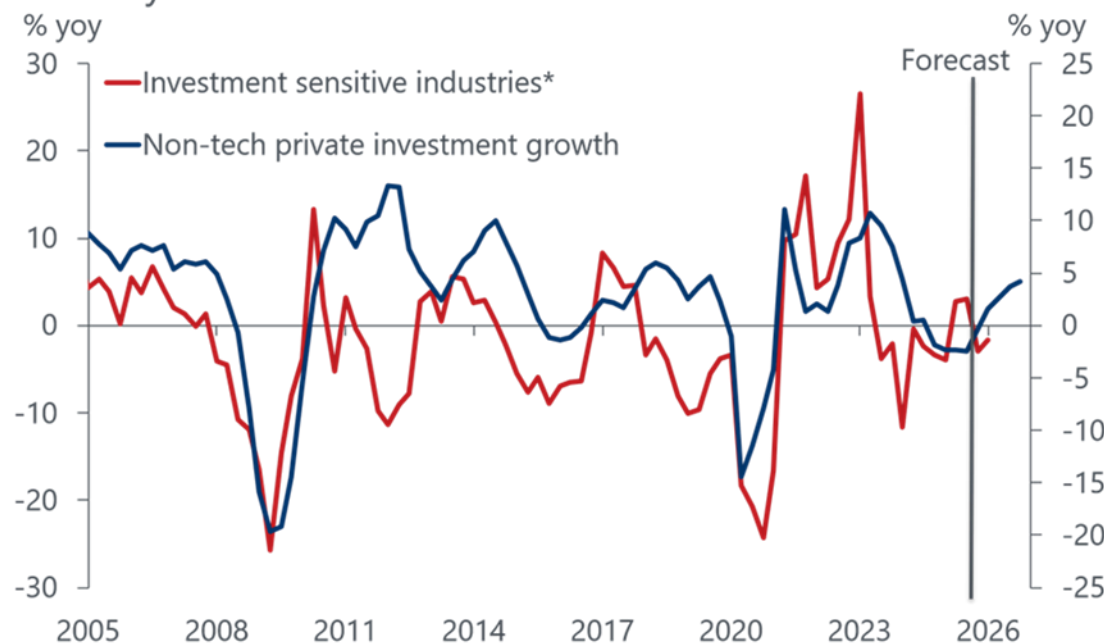
Balance sheet reductions pose risks to the repo market





The investment boom and earnings growth will broaden

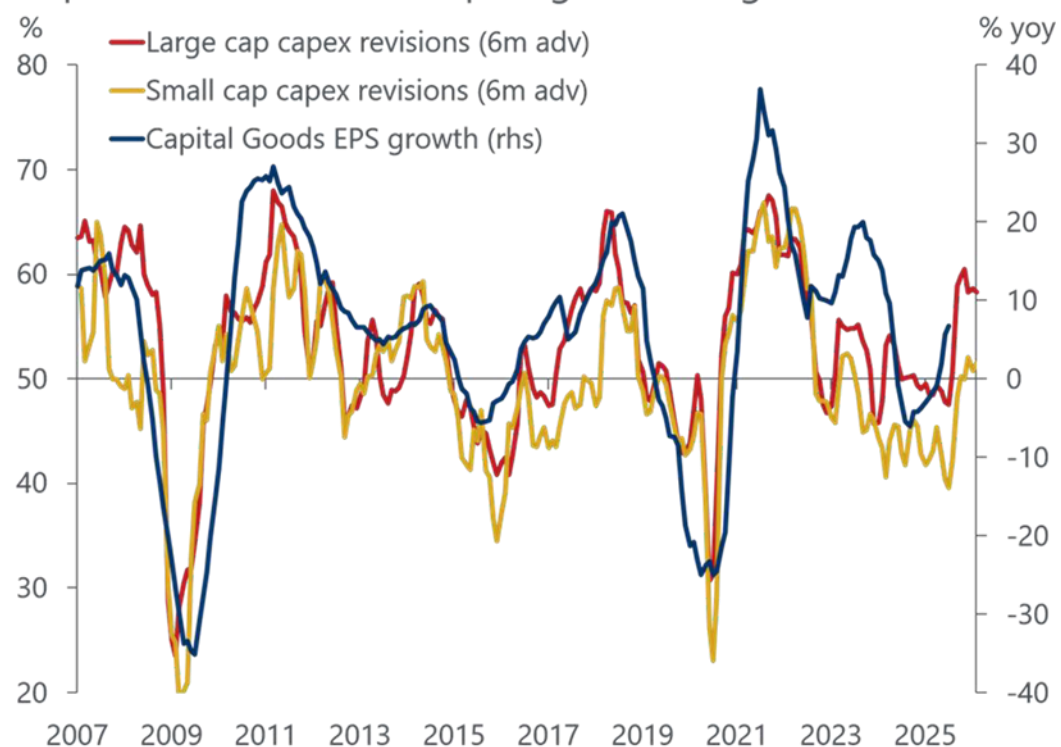
US non-tech investment growth vs. investment sensitive industry relative returns



*Industries with highest beta to non -tech investment growth since 2005: banks, capital goods, energy, financial services, insurance, materials

Sources: Oxford Economics, Haver Analytics

Capex revisions ratio vs capital goods EPS growth



Sources: Oxford Economics, Haver Analytics



Forecast summary



US yearly outlook table

Forecast for United States						
(Annual percentage changes unless specified)						
	2023	2024	2025	2026	2027	2028
GDP	2.9	2.8	2.3	2.8	2.4	2.2
Private consumption	2.6	2.9	2.7	2.5	2.2	2.1
Fixed investment	3.8	3.5	3.0	3.8	3.8	3.3
Government consumption	3.0	3.3	0.8	2.0	1.0	1.0
Exports of goods and services	2.8	3.6	1.9	2.2	2.1	2.0
Imports of goods and services	-0.9	5.8	2.6	-2.0	3.6	3.1
Industrial production	-0.2	-0.6	1.3	1.1	2.3	2.7
Consumer price index	4.1	3.0	2.7	2.5	2.1	2.3
Unemployment rate (%)	3.6	4.0	4.3	4.4	4.2	4.1
Current a/c balance (% of GDP)	-3.3	-4.0	-3.7	-2.9	-3.0	-3.0
Government balance (% of GDP)	-6.1	-6.2	-5.8	-6.5	-6.3	-6.1
Central bank policy rate (% , EOP)	5.375	4.375	3.625	3.125	3.125	3.125
10yr government. bond yield (% , EOP)	3.88	4.58	4.18	4.21	4.20	4.20
Exchange rate (Yen per US\$, EOP)	141.91	156.65	156.43	153.46	151.67	147.13
Exchange rate (US\$ per euro, EOP)	1.11	1.04	1.18	1.18	1.18	1.18

Source: Oxford Economics



US quarterly outlook table

Quarterly forecasts for US								
	2025	2026	2026	2026	2026	2027	2027	2027
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
GDP (% chg, saar)	2.8	2.4	2.5	2.6	2.3	2.3	2.3	2.3
CPI inflation (% year)	2.8	2.6	2.8	2.5	2.3	2.1	2.1	2.1
Core CPI inflation (% year)	2.7	2.6	2.8	2.5	2.6	2.6	2.5	2.5
PCE inflation (% year)	2.8	2.7	2.7	2.4	2.3	2.0	2.0	2.1
Core PCE inflation (% year)	2.8	2.8	2.7	2.5	2.3	2.0	2.1	2.1
10-year Treasury yield (% EOP)	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Federal funds rate (% EOP)	3.625	3.625	3.375	3.125	3.125	3.125	3.125	3.125

Source: Oxford Economics

Fiscal Policy Assumptions



Permanent Version in the One Big Beautiful Bill Act as Assumed in the Baseline Forecast												
	<i>Estimated Budgetary Effects Relative Current Policy</i>											
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025-2029	2025-2034
Net Deficit Impact	-46,962	270,653	153,507	134,089	73,542	14,477	-29,525	-55,489	-29,925	-19,544	584,828	464,819
TCJA Expansions	21,878	89,657	82,395	87,036	82,709	87,131	91,987	95,447	100,226	103,535	363,677	842,003
Campaign Tax Proposals	2,663	54,773	44,970	44,603	48,447	51,633	53,645	55,045	56,624	58,380	195,456	470,783
Investment Incentives	100,034	128,307	100,156	83,070	61,882	40,132	22,144	15,018	13,118	12,703	473,449	576,564
Defense	2,020	41,864	44,677	45,741	47,868	48,932	51,059	52,123	54,251	55,314	182,170	443,850
Border Security/Immigration	0	13,683	25,455	35,890	37,966	38,533	41,349	41,490	42,902	44,281	112,994	321,549
IRA Recissions (Outlays)	-857	-1,027	-1,316	-937	-607	-360	-112	0	0	0	-4,744	-5,216
IRA Recissions (Tax Credits)	138	-11,276	-36,791	-53,755	-67,749	-79,073	-86,370	-94,397	-60,658	-52,728	-169,433	-542,659
Social Benefits Cuts (Medicaid)	-835	-21,813	-54,248	-73,117	-106,367	-127,074	-146,220	-156,518	-170,171	-186,243	-256,380	-1,042,606
Social Benefits Cuts (SNAP)	0	-7,961	-16,116	-21,645	-21,744	-21,748	-21,565	-24,743	-25,150	-25,268	-67,466	-185,940
Social Benefits Cuts (Other health)	4	-4,047	-11,992	-16,518	-12,543	-9,233	-10,715	-12,274	-14,706	-16,533	-45,096	-108,555
Other (Spending)	-171,940	-9,411	1,144	-7,304	-11,174	-23,155	-31,933	-33,690	-28,685	-19,642	-198,685	-335,790
Other (Revenue)	-68	-2,097	-24,828	11,024	14,853	8,759	7,206	7,009	2,324	6,656	-1,114	30,836

Source: Oxford Economics



Major tariff assumptions

Tariff assumptions in our baseline (based on information available as of December 5)		
Tariffed countries	US tariffs	Retaliation measures
US / Canada	Tariffs of 50% on steel, aluminium, and copper, 10% on lumber, 25% on furniture, 25% on the non-US content of USMCA-compliant autos and trucks, 10% on non-USMCA-compliant energy and potash, and 35% on all other non-USMCA-compliant products. USMCA compliance rose sharply after tariffs were implemented. Consequently, the effective tariff rate on Canada is estimated to peak not much higher than 6% this year. Most tariffs are still assumed to be removed by Q3 2026 as the USMCA is renegotiated, but smaller 10% targeted tariffs remain in place permanently for metals and select agricultural products.	As of March 4, 25% tariffs on C\$30bn of US goods imports. As of March 13, 25% tariffs on an additional C\$29.8bn of US goods imports (i.e., steel, aluminium, and other products). As of April 9, 25% tariffs on C\$35.6bn of non-USMCA-compliant autos and the US content of USMCA-compliant autos. As of October 23, GM and Stellantis reductions in remissions leaves C\$31.6bn of US auto imports eligible for tariff relief until mid-2026. As of September 1, Canada removed counter tariffs on all non-auto products except for C\$15bn worth of steel and aluminium products, of which we estimate about half are eligible for remission until mid-December. Most tariffs are assumed to be removed by Q3 2026 as the USMCA is renegotiated, but smaller 10% targeted tariffs remain in place permanently for steel and aluminium products.
US / Mexico	Tariffs of 50% on steel, aluminium, and copper, 10% on lumber, 25% on furniture, 10% on non-USMCA-compliant potash, and 25% on non-USMCA goods and the non-US content of autos and trucks. As with Canada, USMCA compliance has risen sharply. As a result, the average tariff rate on Mexico is estimated to peak at 9% this year. However, these tariff hikes are assumed to be largely reversed in mid-2026 when a new USMCA trade deal is agreed.	Mexico does not retaliate and instead concedes to US demands on border security, hoping to secure a reduction in the current 25% tariff on non-USMCA-compliant exports.
US / EU	The 50% tariff on steel, aluminium, and copper apply to the EU. However, the EU-US trade deal imposes a 15% tariff ceiling for EU goods subject to reciprocal tariffs. The 15% flat rate also applies to autos, auto parts, and furniture, not to mention additional product categories such as pharmaceuticals and semiconductors that are subject to Section 232 trade investigations. For now, the baseline is holding off from assuming a 15% tariff on pharma and chips until more details are known. The US cut tariffs on aircraft and parts to zero as part of the deal.	We now assume no retaliation from EU countries following the agreement with the US announced on 27 July.
US / China	The US has recently cut the earlier 20% 'fentanyl' tariffs on China to 10%, while the baseline 10% rate remains. We assume the latest de-escalation in US-China trade tensions is permanent. Accounting for exemptions and other sectoral tariffs, including the new 10% lumber and 25% furniture tariffs, we estimate the effective tariff rate on Chinese exports to the US is now lower at 29%.	Revised bilateral trade terms in October brought China tariffs on US goods down to around 18%, from around 30% previously. Under those terms China would also suspend retaliatory non-tariff countermeasures taken against the US since March - including restrictions on export licenses valid for critical minerals and the listing of certain American companies on China's unreliable entity lists. We expect the effective tariff rate to stay at the new current level, despite still-meaningful risks that a re-escalation of bilateral tensions could drive tariffs back up again.

Source: Oxford Economics



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