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EVERYTHING ETHICAL MONTHLY NEWSLETTER

Everything Ethical Newsletter – Feb 2026

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Market Commentary

Geopolitical tensions spiked with the US and Israeli attack on Iran, although given the timing this will have an impact on markets in March and beyond. The build-up of troops heading into the month-end was a clear sign of potential aggression and safe havens have benefited, with bonds and gold higher on the month. A prolonged disruption would impact oil markets notably, which then raises questions over inflation and growth prospects for nations that are heavily reliant on imports. This once again elevates the importance of energy security and is a likely beneficiary for renewable energy, given the further widening of cost competitiveness.

Whilst global equity markets edged higher, under the surface we witnessed cautiousness from investors given the growing concerns over AI disruption and the large-scale investment required. The so called 'HALO' trade (Heavy Asset, Low Obsolescence) was in full swing, whereby investors focussed on those companies with hard assets and least likely to be disrupted by AI. Sectors such as energy, materials and industrials were beneficiaries which has supported UK, European and Emerging Markets (EM), whilst the US with its higher tech exposure, and software in particular, faced pressure. Outside of the disruption, equities were supported by a move lower in yields as investors focussed on the easing of rates in the year ahead.

Japan's recent election delivered a landslide win for the ruling Liberal Democratic Party, giving it a rare two-thirds supermajority in the Lower House. The response has been positive for Japanese stocks which jumped to record levels as investors priced in greater policy continuity and potential economic support. Fiscal stimulus and dovish monetary influences have caused some weakness in the currency and Japanese government bonds.

Portfolios continued to benefit from this broadening of equity returns and sector rotations, as we maintain diversification within portfolios. This benefitted our global income and value funds which we added to at previous rebalances, with CT Sustainable Global Equity Income and Schroders Global Sustainable Value Equity returning +6.24% and 7.72% respectively. EM continued to perform strongly, with UBAM Positive Impact Emerging Equity and abrdn EM SDG Equity returning +8.42% and 7.74% respectively. On top of this, portfolios thematic allocations were notable contributors to performance, benefiting from sector rotations and the 'HALO trade', with RobecoSAM Circular Economy and Regnan Sustainable Water and Waste returning +7.03% and +6.02% respectively.

Major central banks left policy on hold in February, with the main message being that policymakers are increasingly open to rate cuts in 2026, but timing depends on inflation data and labour dynamics. In the US, labour market strength and higher than expected inflation

has muddled the policy outlook. As we write this, investors have lowered expectations for rate cuts further given the geopolitical tensions and the impact prolonged high energy prices would have on inflation which is weighing on most asset classes. Whilst February was a strong month for fixed income, with a leading green bond index returning +1.33%, much of this has reversed at the start of March as markets sell off quite aggressively. Similar moves have been seen in other interest rate sensitive assets such as property, although energy related infrastructure has held up relatively well in the volatility.

Private markets continue to be a concern and redemption levels are starting to rise and grab more headlines. Our portfolios are not exposed to any funds within this asset class but the ripple effects will heighten volatility at a time that markets are already spooked.

Post month-end comment: The Iran conflict is creating an energy shock, and the impact of this will become more severe the longer the conflict continues given the impact this will have on growth and inflation, and subsequently monetary policy. Without this shock, markets would have largely looked through the geopolitics as per previous escalations in tensions.

Around 20% of supply flow through the Strait of Hormuz, which includes significant volumes of natural gas from Qatar who have halted production, helping to send natural gas prices higher. With inflation already a concern for policy makers, the impact energy will have on prices is a major headache, with Bloomberg reporting that the recent rise would lift UK headline inflation by 0.4% over the coming year. Given this, we have seen the market effectively price out any near-term rate cuts, something that had been building at the start of this year. Growth would also be weighed by higher oil prices, with HSBC highlighting that a \$10 rise in the oil price reduces global GDP by 0.1-0.2% in the following year. Stagflation is now a real concern.

Markets have increasingly suffered so far in March, with European equity indices down around 4.5% over the first two trading days of the month, with limited signs of buying the dip emerging thus far. Meanwhile, regional equities such as South Korea who rely on imports have suffered even further. With risk assets taking a hit, fixed income has not provided any downside protection, with yields jumping higher, most notably at the shorter end of the yield curve as interest rate expectations unwind.

Given the focus on energy, alternative energy is seen as relative beneficiary too, with near term events pointing to relatively robust performance during higher electricity prices whilst manufacturers are supported by a renewed focus on energy security. Higher electricity prices improve the relative levelized cost of energy solutions and payback times on consumer-focused technologies such as residential solar.

We had raised cash slightly in our rebalance at the start of February and positioned slightly more defensive in terms of cutting our growth exposure. Whilst we expect heightened volatility, we are closely monitoring risk assets with opportunities presenting themselves, and higher cash balances can be utilised moving forward.

Model Portfolio Transactions in the Month

We rebalanced the portfolios during February, please reach out if you require the details.

Performance

SAS MPS	Feb 2026
Defensive	1.98%
Cautious	2.77%
Balanced	3.41%
Growth	4.43%
Adventurous	5.40%

MPS Stock pick feature:

ReNew is the leading renewable energy independent power producer in India, with a purpose to create a carbon free world. ReNew's clean energy portfolio of 19.2 GW as of Feb 2026 is one of the largest globally. In addition to being a major independent power producer in India, they provide end-to-end solutions in a just and inclusive manner in the areas of clean energy, green hydrogen, value-added energy offerings through digitalisation, storage, and carbon markets that increasingly are integral to addressing climate change. In 2025 they produced 22,185 GWh of clean energy, enough to power six million Indian households. Exposure to this company is via one of their bonds.

Fund House Meetings:

During February we met with T Rowe Price, Marlborough, Redwheel, Amundi, BNPP (Axa), RBC BlueBay, Nuveen, Liontrust & Gravis Capital.

Ethical News

The United Downs power plant in Cornwall marks a milestone as the UK's first facility to generate electricity from geothermal heat. By drilling three miles deep into granite rock, the project harnesses 200°C super-heated water to power 10,000 homes. Unlike intermittent solar or wind, this provides continuous "always-on" energy. Additionally, the site serves as the UK's first domestic source of lithium, a critical mineral for electric batteries. While drilling costs remain high, the project represents a significant step toward maximizing the UK's underground energy potential.

Mining giant Fortescue has introduced two battery-electric locomotives to its Western Australian fleet, aiming for "real zero" emissions by 2030. These trains feature the world's largest land-mobile batteries and utilize regenerative braking to recover up to 60% of energy. Powered by an integrated network of solar and wind energy, the locomotives will eliminate approximately one million litres of diesel annually. This transition demonstrates the viability of heavy-haul rail without fossil fuels, replacing traditional diesel and gas operations with a reliable, renewable energy transmission infrastructure.

Bristol City Council has approved the Bath Road Energy Centre, a 13MW facility that will be the city's largest all-electric district heating hub. Utilizing air source heat pumps and electric boilers, the centre will provide low-carbon heating to 7,000 homes, reducing emissions by 65% compared to gas. Part of the Bristol City Leap partnership, the project also incorporates innovative heat recovery from university servers. Vattenfall's long-term vision aims for the Bristol heat network to warm over half the city's population by 2050, significantly reducing fossil fuel reliance.

Leeds City Council is trialling a cross-pavement charging solution from Kerbo Charge to assist residents without driveways. This British innovation uses a trip-free channel to safely run cables from homes to kerbside vehicles. Home charging via this method costs only 7p/kWh, drastically cheaper than public alternatives and enabling a Leeds-to-London trip for under £5. By making EV ownership more accessible and affordable, the initiative supports the Connecting Leeds strategy to reduce transport emissions and improve urban air quality, addressing a major barrier to widespread green vehicle adoption.

Climate change is causing wetter UK winters and more frequent flooding, with the atmosphere holding 7% more moisture for every 1°C of warming. The Met Office warns that extreme wet seasons could soon occur every 20 years rather than every 80. This trend threatens food security, with farmers facing billion-pound crop losses, and endangers infrastructure, potentially putting half the rail network and one in four homes at risk by 2050. Despite a planned £10.5bn investment in flood defences, challenges remain due to aging infrastructure and continued development on floodplains.

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