DIAMOND HILL

INVESTED IN THE LONG RUN

A (Temporary?) Tariff Takedown

Feb 2026

Markets notched another solid month in February, adding just over 5% as measured by the MSCI ACWI ex USA Index and bringing year-to-date returns to 11%. Regionally, Asia and the Pacific led the way higher, while US stocks declined modestly, making North America the only major region in the red.

The major headline was the US Supreme Court's ruling striking down President Trump's tariffs and raising questions about what to do with the tariffs collected thus far. However, immediately following the ruling, Trump announced first a 10%, and then a 15%, across-the-board tariffs under the 1974 Trade Act, which allows the president to impose tariffs for up to 150 days. While the court's ruling was a clear setback for the administration, it seems likewise clear the administration is likely to find alternative ways in which to continue imposing tariffs.

The ruling also understandably roiled various ongoing trade negotiations. For example, the EU paused ratifying its deal with the US while it awaits clarification of the ruling's full implications — though the pause seems likely to be relatively short as the EU wants to move forward with securing the agreement. Meanwhile, the US and UK restarted negotiations, which the US paused in December, on their "tech prosperity deal," with senior officials beginning discussions on collaborating on civil nuclear technologies and hosting a joint summit on fusion technologies.

Just prior to the Supreme Court's ruling, the US had concluded a trade deal with Indonesia which would lift Indonesian tariffs on 99% of US exports, including agriculture, health products, seafood, auto parts and chemicals. The US agreed to eliminate tariffs on Indonesian palm oil, rubber, coffee, cacao, spices and electronic and aircraft components exports. Earlier in the month, the US and Taiwan also reached a deal prior to the ruling, agreeing to reduce tariffs on food imports and other products. The agreement brought Taiwan in line with other US trade partners, namely Japan and Korea. Likewise, following India's agreement to diminish its Russian oil purchases, the country reached an interim deal with the US early in February. While these deals seem likely to hold, the full fallout from the Supreme Court's ruling remains to be seen over the coming months.

Meanwhile, on the monetary policy front, major global central banks, including the European Central Bank (ECB) and Bank of England (BOE), paused rate hikes in February — though the decision was hotly debated at the BOE as signs of economic weakness are rearing their heads. For example, even as inflation has fallen sharply, rising unemployment and a weak GDP reading could prompt the BOE to take a more dovish stance at upcoming policy meetings. In contrast, the ECB is expected to hold rates for longer as economic readings improve — including Q4 GDP and January inflation, which was meaningfully below the bank's 2% target. In other ECB news, President Christine Lagarde is expected to step down early from her eight-year term, which is otherwise set to expire in 2027, ostensibly to give French president Emmanuel Macron an opportunity to weigh in on her successor before his own presidential term expires in April 2027.

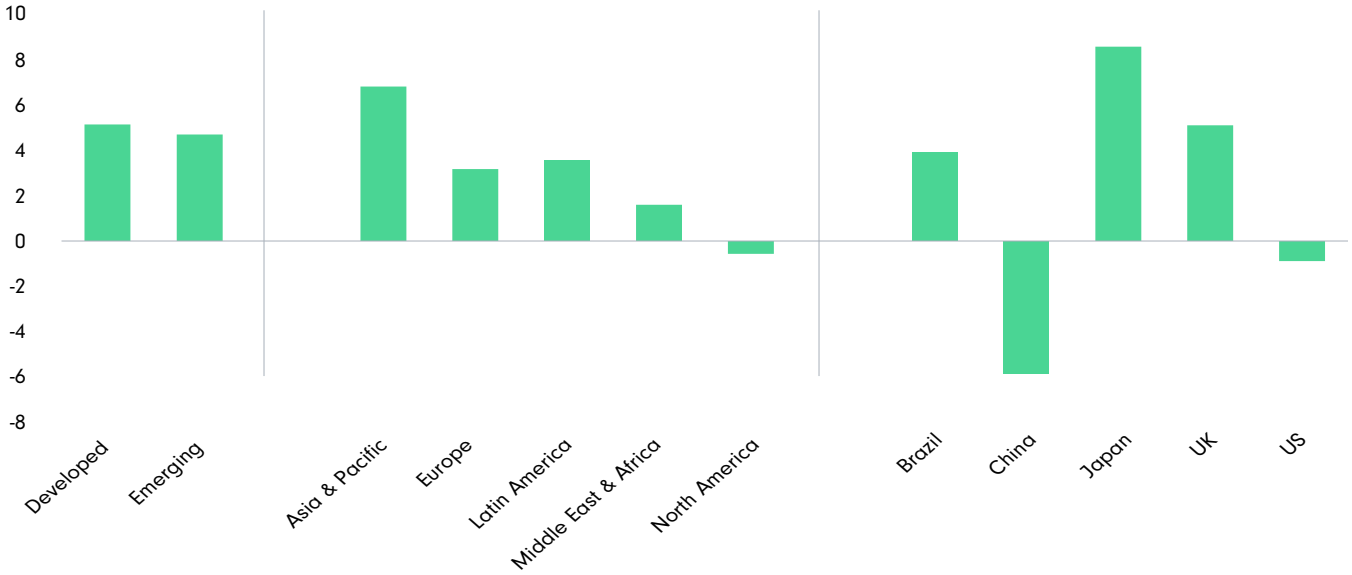
The Federal Reserve didn't meet in February but warned in its January minutes that progress toward its 2% inflation target may be choppier than expected — though Chairman Powell also indicated rates are likely to remain on hold for the foreseeable future as inflation does continue ticking down (to 2.4% in January) and employment remains relatively stable. Meanwhile, US GDP growth slowed to a 1.4% annualized rate in Q4 as the prolonged government shutdown hindered growth during the quarter. While growth is largely expected to reverse course in Q1, Q4's tepid rate likely contributes to some uncertainty on the US economic outlook for the coming quarters.

In Japan, monetary policy could shift again in the period ahead, following a historic return to rate hikes last year as the country saw emerging signs of inflation. Prime Minister Sanae Takaichi won a landslide victory in early February in the snap election she called, giving her Liberal Democratic Party a supermajority in the Japanese parliament's more powerful lower house. While Japan's market has reacted positively as it expects increased government spending and possibly tax cuts, the outlook for monetary policy has become murkier as Takaichi's nominees to the Bank of Japan's (BOJ) policy board are generally dovish and favor lower interest rates and economic stimulus. Whether these new members can (or do) challenge BOJ governor Kazuo Ueda's rate-hike regime remains to be seen.

As the month ended, the US and Israel launched air strikes on Iran, killing the country's leader, Ayatollah Ali Khamenei, who had ruled the country for nearly four decades, and as we write, Iran has launched counterstrikes across the Middle East. While the US has indicated the mission will continue with targeted strikes for several weeks, the conflict's full scope and whether and how it evolves or even expands will unfold in the period ahead.

Regionally, the Asia and Pacific region was the biggest contributor to the index's positive February return, rising nearly +7%. Japan (+9%), Korea (+22%) and Taiwan (+13%) continued their hot year-to-date run, Japan likely getting a boost from the aftermath of its election, while Korea and Taiwan likely benefited from trade developments in the month. China, where there was relatively little major news in the month, slid nearly -6% and posed a modest headwind to the region's return. European markets also had a positive month on the back of solid returns from the UK (+5%), France (+5%) and Switzerland (+6%). The region's primary detractor was Denmark, whose market fell nearly -19% in February. Latin America rose north of 3.5% amid strength in Mexico (+7%) and Brazil (+4%), while the Middle East and Africa gained over 1% as South Africa's market rose nearly 10%.

Exhibit 1 — February Returns for Major Markets (%)



Source: FactSet, as of 28 February 2026.

Sector returns were mostly positive, led by materials (+11%) and information technology (+10%). Conversely, communication services was the sole sector in the red, falling just over -3% in February.

There is truly never a dull moment, and 2026 to date has been as headline-packed as any start to the year. However, as the volume of news remains loud and the pace seems poised to hold, if not accelerate, we value as much as ever our investment approach, which seeks to read between the lines of near-term noise and aim to identify the high-quality individual companies which are best positioned to thrive over a longer-term horizon. As the situation evolves apace, we will remain focused on diligently deploying this investment approach.

MSCI ACWI Index measures the performance of large- and mid-cap stocks in developed and emerging markets. **MSCI ACWI ex USA Index** measures the performance of large- and mid-cap stocks in developed (excluding the US) and emerging markets. The indexes are unmanaged, market capitalization weighted, include net reinvested dividends, do not reflect fees or expenses (which would lower the return) and are not available for direct investment. Index data source: MSCI, Inc See diamond-hill.com/disclosures for a full copy of the disclaimer.

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