The Tatton Weekly

Changing perspectives stall US tech stocks

27 February 2026

This week's topics:

AI boom or doom

Where Europe now gets its gas

Is the 'Donroe Doctrine' good for LatAm?

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27 February 2026

Loss of assumed power, Michael de Adder, 26 February 2026

AI boom or doom

Global stocks went more or less nowhere this week. The UK and Europe's strong runs continued, US markets consolidated, and China returned from holidays to find increasing overseas demand for the Renminbi. President Trump's State of the Union Address barely moved markets. After the Supreme Court's tariff ruling, the Trump factor feels much less influential on markets than the AI theme.

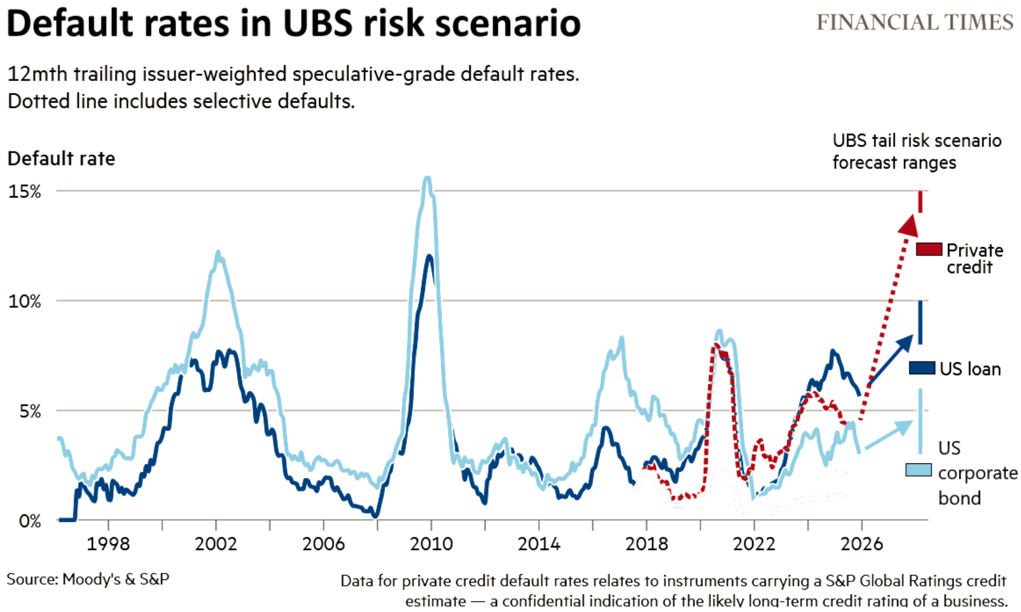
February was filled with polarising narratives but very little price movement at the index level. Stasis reflects investors' deep uncertainty: does AI spell doom or boom? Are private credit problems another financial crisis or a storm in a teacup?

Unlike a few months ago, there is no sense that markets are overexcited – as the tepid reaction to Nvidia's stellar earnings showed. The AI bubble talk has disappeared and investor positioning may, if anything, have become biased towards the negative.

Private credit crunch should lead to greater transparency

Private credit provider and fund manager Blue Owl halted redemptions in one of its retail-focussed funds this week due to a lack of liquidity, sparking fears of a private credit crisis and hitting private credit-equity firms' shares hard. Fears were compounded when UBS put out a research note saying that *"US high yield, leveraged loan and private credit defaults could rise to 3-6%, 8-10% and 14-15%, respectively"* if software companies fall to AI disruption.

Toby Nangle, of the FT's Alphaville, points out that UBS' projection is a risk scenario rather than their base case – full blown recession with many more AI losers than winners. Still the probability has risen since November. His chart below (slightly amended) compares this risk scenario to history.



It also emphasises that Blue Owl has halted fund redemptions because of investor fears, not actual defaults. Indeed, actual defaults have fallen.

This is a classic case of investment providers marketing a product as liquid when it is not. Public market investors are understandably worried about contagion – considering the growth of private markets since the 2008 global financial crisis (GFC) – but we note that this has not affected yields on even the lowest-rated investment grade bonds in the public market. That is probably due to different underlying assets: private credit firms lent extensively to tech companies, which AI now threatens to displace.

That should limit the spread into public markets. We do not want to underplay the risks that a run on private credit firms pose, but it is worth noting that the amount of leverage in the system is a fraction of what it was before the GFC. That is because private credit firms simply cannot create money in the same way banks can.

For the private credit firms that weather the storm, there could be a positive outcome. The need to generate more liquidity means private markets will be forced to become a little less private, increasing transparency for their underlying assets. New technologies like the crypto currencies' blockchain open ledger mechanisms – which many private credit providers already use – make greater transparency possible.

The SaaS-pocalypse is a risk scenario, not a central scenario

The rush to redemptions in private credit funds was partially brought about by the so-called 'SaaS-pocalype' – the supposed wiping out of software-as-a-service firms by new AI tools. One relatively unknown research firm, Citrini, put out a thought-provoking piece this week that shook equity markets with its hypothetical picture of a 2028 world economy ravaged by rapid AI adoption. The central idea behind this scenario – and Citrini stresses it is just a scenario – is that the threat of AI causes the companies most at risk of replacement to invest in the technology replacing them, collapsing the knowledge economy and causing a deep recession.

The fact that Citrini's sci-fi dystopia had such a profound effect on markets, despite containing no new hard data or quantitative forecasts, is fascinating in itself. It shows the power of narratives to shape nervous investors' actions. In tying together the many themes that we discuss, Citrini make it clear how they might combine into a larger-than-expected downside.

The competing narrative on AI – articulated nicely in a response from Citadel Research – says that the adoption of the new tools will be much slower than the 'move fast and break things' crowd suggest. That allows productivity gains to feed back into growth, wealth creation and new jobs. Importantly, none of the doomsday AI forecasts are playing out in the current economic data. Citadel point out that US job postings for software engineers are actually rising. Initial jobless claims in the US have barely moved either.

Unfortunately, the current data cannot tell you whether the doomsday narrative is correct or not. AI layoffs, if they come, will not show up in the jobless claims for a while, as higher paid service workers tend not to claim immediately. The futurists say we are at an inflection point for AI. If that is right, the backward-looking data is immediately obsolete.

The global economy keeps growing all the while

The aforementioned fall in actual credit default rates is a consequence of robust global growth. US growth is running at 2.1%, according to the Chicago Fed, while JP Morgan's nowcast puts UK growth at 2% annualised for this quarter.

Meanwhile, equity price-to-earnings valuations look much less stretched. Nvidia's share price declined – despite stellar earnings results – as analysts downgraded their growth forecasts. That means the world's biggest company is trading at less of a premium (in price-to-earnings terms) to other US stocks than before.

Earlier in the week, there was even some relief for tech companies that were previously under pressure. Investor positioning has become overly negative for these shares, so even mild relief can see markets squeeze up.

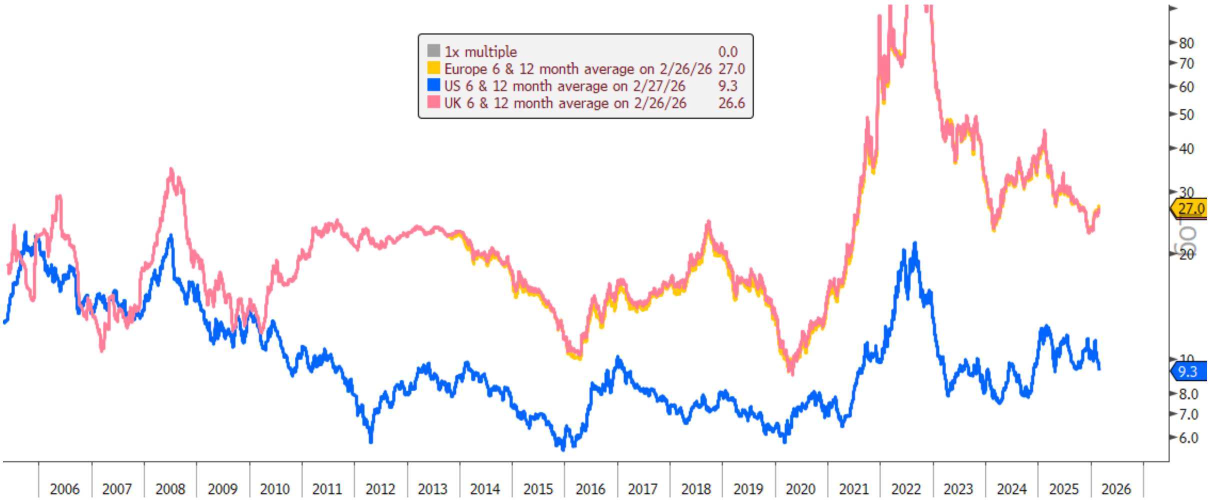
Japan's markets look particularly strong. International investors have fully bought into the Japanese growth story – the only question now being whether that growth will be too strong and lead to inflation. We expect inflation to stay as contained – as January's 2% reading suggests – but the very debate shows that Japan's lost decades are over.

Across the world, it is the consumer-focussed economy that will ultimately decide where growth goes, and that is holding up well. Underneath all the market predictions, the global economy keeps growing. Investors should not lose sight of that.

Where Europe now gets its gas

Good news for British households: Ofgem will lower its energy price cap 7% in April, bringing typical household bills down by £117 to £1,641 a year. Ofgem's cap is set by a cocktail of policy and energy market factors, but falling wholesale prices were a strong factor this time. That is largely due to the drop in European and UK natural gas prices (which move in tandem as the chart below shows). Wider Europe has suffered from high energy prices since Russia invaded Ukraine, but our energy market finally seems to have settled.

UK & Europe natural gas futures prices compared to US
UK ICE, Dutch Facility and US Henry Hub contracts, all in GBP/MWh



Source: Tatton IM, Bloomberg: G2498
.AXIS F Index (Axis) EU UK vs US gas 1y out Daily 29APR2005-31DEC2026 Copyright© 2026 Bloomberg Finance L.P. 27-Feb-2026 11:53:04

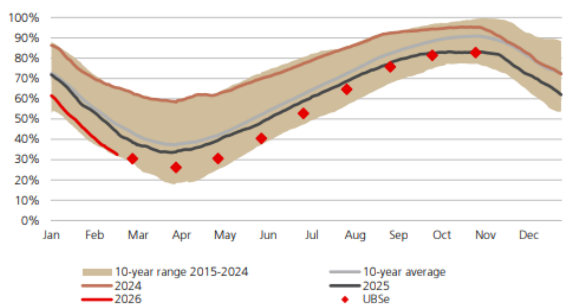
Gas is priced by its energy content, not volume like oil, and having spiked upward at the start 2025 to nearly £50 per Mega Watts per hour (MWh) European and UK natural gas prices fell throughout the year to below £25/MWh in December and are now settling just above that level. A recent mild upswing was less about the usual Ukraine-related panic, and more about the recent cold snap across much of the US. With US liquified natural gas (LNG) now accounting for a significant portion of Europe's supply, events across the Atlantic now have a bigger influence on our energy prices.

27 February 2026

European storage at seasonal lows

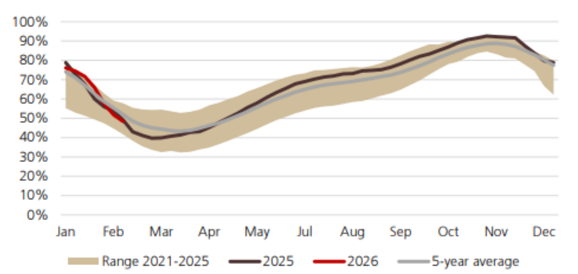
Closer to home, there are also concerns about EU gas storage dropping too low. Europe's storage is seasonal – dropping in the winter to heat homes and building in the summer when there is less demand – but gas storage is much lower than usual for this time of year, as the chart below from UBS shows.

Figure 1: Gas storage utilisation levels in the EU



Source: AGSI+, UBS

Figure 2: Gas storage utilisation levels in the US



Source: EIA, UBS

At the start of the year, colder weather across much of the continent drew supplies from storage and led to concerns about what might happen to prices during the summer rebuild. But temperatures have been milder in recent weeks, tapering off demand. UBS analysts now expect storage levels to bottom out not much lower than current levels in April.

Still, Europe's gas market contracts for future gas delivery are cheaper than current gas prices, despite the decline of overall prices through 2025. Traders may be worried about the fragility of current gas supplies if there is a US attack on Iran. Around 20% of global oil and LNG flows through the Strait of Hormuz, which Iran regularly threatens to close. However, the market indicates little long-term impact and see supplies as secure once the winter ends.

Europe diversifies its gas supply

Underneath these price moves, the makeup of Europe's energy market has fundamentally changed. In the four years since Russia invaded Ukraine, Europe's dependence on Russian pipeline gas has fallen dramatically. The EU still received around 12.1% of its natural gas from Russia in 2025 (Hungary and Slovakia were among the largest buyers) but other producers like Norway (31%), the US (26.4%) and Algeria (12.3%) were bigger contributors.

Most of Europe's gas imports are now in LNG form, and the US accounts for almost 58% of LNG imports. That is affecting the price gap between US and European gas. Even though European gas prices have been significantly higher than the US for decades, the price differential used to be too low to justify shipping LNG across the Atlantic. That changed after Europe turned off the Russian tap: gas suppliers have invested heavily in port infrastructure, expanding Europe's access to US LNG.

Due to the transport costs, European gas will always trade at a premium against the US, but the gap has lowered and we expect it to remain stable. That is a good thing for long-term prices, even if it makes Europe more sensitive to the American weather. It also gives context for why the EU has been running its gas storage at seasonal lows: with LNG availability expanding, gas provision has become more 'just-in-time'. Europe does not have to keep as much gas stored away.

There are risks, but the energy outlook looks decent

On the fourth anniversary of Russia's invasion of Ukraine, UK and European gas supplies finally look stable. Considering how dependent the continent was on Russia before – and the price spikes along the way – that is a relatively fast change.

We should also bear in mind that this is happening at the same time as the EU expands its renewable energy capacity. Renewables overtook fossil fuels for the first time in 2025, according to an Ember energy report.

The continued importance of natural gas means that there are still energy security concerns. Northern pipelines from Norway could become prime military targets as Arctic warfare becomes a bigger danger, and EU leaders are not exactly happy about being reliant on imports from a potentially antagonistic US.

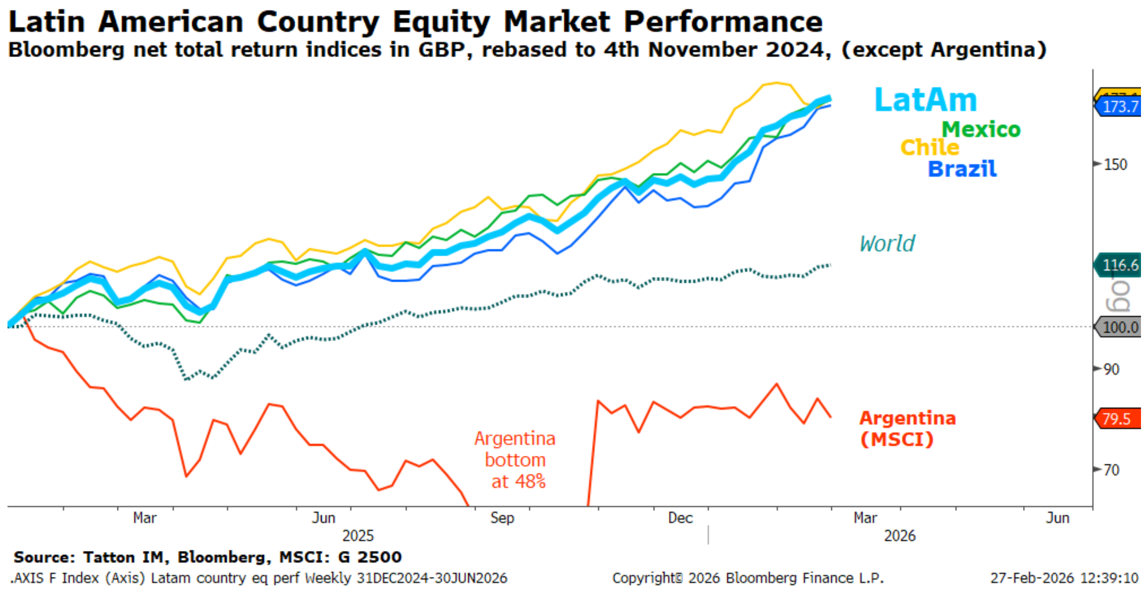
The other big unknown for global energy markets is what happens with large AI datacentres, which are sprouting up everywhere and are expected to increase energy demand several times over. There is some expectation that this will lead to political ringfencing around AI datacentre energy production, but it is a long-term issue for everyone.

Those risks do not detract from a decent energy outlook for the UK and Europe. Supply is stable, which should lead to steady declines in wholesale prices. Price falls will not always be reflected in Ofgem's price cap – as the UK still has to invest in its energy infrastructure (exemplified by recent costs for upgrading electric and gas networks). But on the whole, this is welcome relief for energy prices.

Is the 'Donroe Doctrine' good for LatAm?

Donald Trump is understandably seen as particularly aggressive towards Latin America. Kidnapping Venezuelan President Maduro, threatening to invade Panama and intermittently blowing up boats in the Caribbean sea will do that. The US under Trump is reasserting its dominance over the Western hemisphere in what the president likes to call the "Donroe Doctrine". The president announced his take on the 19th century Monroe Doctrine after US forces captured Maduro, stating "American dominance in the Western Hemisphere will never be questioned again".

Intuitively, you would think this should be bad for Latin American assets. Quite the opposite: Bloomberg's LatAm index has surged, a total return of 77% in Sterling terms since January 2025.



AI capex should benefit LatAm's cheap valuations

Earlier this month, Morgan Stanley Research published their "Anatomy of a LatAm Bull Market", arguing that the good times will continue for LatAm equities. Morgan Stanley drew an analogy with the 2003-2007 bull market, in which LatAm stocks jumped up nearly six-fold. Back then, it was China's ravenous demand for commodities, following its entrance to the World Trade Organisation. Now, it is a wave of AI infrastructure spending which could propel LatAm businesses.

This is not like South Korea's rally, focussed on semiconductors and high-tech goods. The good news story for LatAm is more about the 'old economy' – raw materials and manufacturing. We have argued before that AI infrastructure spending is boosting demand for old economy goods, fuelling a capital market rotation. Chile in particular stands to gain from this, with its copper and lithium exports.

Morgan Stanley also think geopolitical shifts and falling interest rates (regionally and globally) will benefit LatAm producers in the coming years. Washington's anti-globalisation drive means shifting its demand to regional partners. With higher demand, LatAm stocks also have room to increase their price-to-earnings valuations. LatAm equities currently trade at a valuation discount relative to other emerging market equities. That has historically been the other way around, so LatAm stocks have room to catch up.

In a multipolar world, the US wants to keep LatAm close

Morgan Stanley's geopolitical predictions suggest that the Donroe Doctrine might actually benefit LatAm. In a January report, researchers argued that, in a multipolar world, LatAm governments will move closer to the US, opening up investment opportunities. Mexico might agree to limit trade with China in exchange for lower US tariffs in the upcoming USMCA review, for example. And if Brazil enacts fiscal reforms after the 2026 election, that could lead to a surge of foreign investment.

Commentators talk about US 'friendshoring' – shifting trade from the likes of China to nearer and dearer allies. But that relies on LatAm governments being friends with Washington, which (for now) means courting Trump.

A close friendship can then be lucrative in ways other than trade: the US effectively gave Argentina a $20bn loan (confusingly known as a currency swap line) to support the Argentine peso, seemingly predicated on Trump-ally Javier Milei's victory in last October's election.

However, US patronage is not always as personal as it may seem. Washington will likely give some tariff relief to Mexico in the USMCA renegotiations, for example (with provisos on China), despite Trump frequently coming to blows with Mexican president Claudia Sheinbaum. Brazil's left-wing president Lula bemoaned a "new Cold War" with the US ahead of his visit to Washington but, underneath that rhetoric, trade ties are already improving. In November, the Trump administration exempted key Brazilian exports from a 40% tariff, when the Lula administration refused to budge on Trump's tariff threats.

Even Argentina's rescue package could be construed as strategic, rather than personal. In recent years, Argentina has increasingly borrowed from China – a flirtation which arguably led to more lenient terms from the Washington-based IMF. In a multipolar world, the US has a strong interest to attract LatAm to its pole.

Disruption to increase stability?
We also should not discount the impact of Trump's tirades and interventions against LatAm drug cartels. Organised crime has become an even more pressing issue for many LatAm countries after the pandemic, to the point of preventing effective governance. Even LatAm leaders opposed to US interventionism want the cartels gone, exemplified by the recent killing of El Mencho by Mexican forces.

Stable institutions are the bedrock of advanced economies, so anything that stabilises governance will be welcomed by LatAm investors. As part of that, we have also seen falling inflation across much of the region – particularly in Brazil. That builds on monetary reforms during and after the pandemic, which should allow for lower interest rates and higher equity valuations ahead. This stability is one of the key reasons Morgan Stanley expect LatAm capital markets to expand in the coming years.

We wrote recently that Trump's disruptive policies are increasing the importance of purchasing power parity (PPP) differences in prices – effectively acting as a trade and investment leveller. If LatAm currencies adjusted to PPP levels, we think it would be because of large effective inward investment (as explained in the article from 13th February). This might not benefit local populations immediately (Brazilians are underinvested in their own equity market, for example) but it is yet another case in which Trump's policies could have a different impact than you (and he) might assume.

Tatton
Investment Management

27 February 2026

Global Equity Markets	27-Feb			Technical	Valuations			
Market	Level	% 1 Week	% 1 Week (GBP)	Short Medium	Div YLD %	LTM PE	NTM PE	10Y AVG NTM PE
UK FTSE 100	10883	+1.7	+1.7	⬈ ⬈	2.9	15.9	14.5	12.7
UK FTSE 250	23676	-0.2	-0.2	⬈ ⬀	3.8	14.6	12.5	13.4
UK FTSE All-Share	5836	+1.5	+1.5	⬈ ⬈	3.0	15.8	14.3	12.8
FTSE Small x Inv_Tsts	6696	-0.3	-0.3	⬈ ⬀	4.1	20.0	11.6	10.1
EU STOXX ex UK	803	+0.4	+0.7	⬈ ⬀	2.8	18.7	16.5	15.1
France CAC 40	8564	+1.0	+1.4	⬀ ⬀	3.1	21.1	16.3	14.1
Germany DAX 40	25217	+0.3	+0.6	⬀ →	2.3	18.5	16.0	13.3
US S&P 500	6844	-0.3	-0.1	→ →	1.2	24.9	21.5	18.9
US NASDAQ comp	22616	-0.4	-0.2	→ →	0.6	35.5	25.0	26.1
Japan Nikkei 225	58850	+3.6	+3.0	⬈ ⬈	1.4	24.4	24.2	18.5
World Bloomberg	2437	+0.5	+0.7	⬀ ⬀	1.6	22.1	18.8	16.6
China Bloomberg	1369	+0.4	+0.5	→ →	2.2	15.0	12.4	12.4
Emerging Bloomberg	1739	+2.9	+3.1	⬈ ⬈	2.2	18.4	13.2	12.5

FTSE100 Top 6

Company	%
London Stock Exchange	+13.3
Endeavour Mining	+13.0
Howden Joinery	+12.2
Convatec	+11.8
Fresnillo	+11.4
RELX	+10.9

S&P Global Top 6 (GBP terms)

Company	%
Sumitomo Metal Mining	+25.5
Keysight Technologies	+25.3
Axon Enterprise	+22.9
Lynas Rare Earths	+22.0
Kia	+20.3
Block	+20.2

Global Sectors (GBP terms)

Sector	%	Sector	%
Tech	-0.0	Staples	+1.7
Financials	-1.0	Energy	+1.4
Health	+0.3	Materials	+3.2
Discretionary	-0.9	Utilities	+2.9
Industrials	+0.3	Real_Estate	+0.9
Communicatic	+0.0		

FTSE 100 Bottom 6

Company	%
Hikma Pharmaceuticals	-17.6
Melrose Industries	-16.1
Diageo	-12.3
Mondi	-5.4
Whitbread	-5.3
Babcock Int'l	-5.3

S&P Global Bottom 6 (GBP terms)

Company (GBP terms)	%
Syensqo	-36.0
Novo Nordisk	-20.6
First Solar	-19.1
Melrose Industries	-16.1
NU Cayman Islands	-13.9
Grupo Cibest	-13.9

Fixed Income

Govt bond	%Yield	1 wk chg
UK 5yr Gilt	3.69	-0.09
UK 10yr Gilt	4.25	-0.10
UK 15yr Gilt	4.66	-0.11
US 10yr Treasury	3.98	-0.11
France 10yr OAT	3.24	-0.05
Germany 10yr Bund	2.67	-0.07
Japan 10yr JGB	2.11	+0.00

Currencies

Pair	last	%1W
USD per GBP	1.345	-0.2
GBP per EUR	0.877	+0.5
USD per EUR	1.180	+0.2
JPY per USD	156.18	+0.5
CNY per USD	6.864	-0.6
USD per Bitcoin	65,888	-1.8

Commodities

Cmdty	last	%1W
Oil Brent $:bl	72.69	+1.7
Gold $:oz	5224	+3.3
Silver $:oz	91.69	+12.2
Copper $:lb	609.2	+4.4
Alumnm $:mt	3145	+3.0
Agriculture BBG	54.44	+0.8

UK Mortgage Rate Estimates

Rates (LTV c.75%, no fee)	27-Feb	28-Jan
UK BoE base rate	3.75	3.75
2yr fixed	3.79	3.97
3yr fixed	3.93	3.99
5yr fixed	3.96	4.00
10yr fixed	4.55	4.52
Standard variable	6.77	6.77

Prices taken levels at 14:45 where possible

LTM PE is the index price as a ratio of last 12 months earnings. NTM PE is next 12 months earnings.

Mortgage estimates are derived from sterling swaps markets and moneyfacts.co.uk

Lothar Mentel