MARCH 2026

February was a bit of a seesaw for the markets. While the biggest theme for the month was AI (artificial intelligence), we also got updates on tariffs, jobs, and inflation.

AI has continued to dominate headlines as companies announce spending and plans for implementing it into their companies. According to a recent MSN article, the four largest tech companies are likely to spend approximately $650 billion on AI infrastructure this year alone. For the major technology companies who are spending so much to build the AI infrastructure and develop products, the biggest question is what the return on this investment will be and how it will drive revenue; uncertainty of that answer is what is creating the volatility. In addition, the markets are trying to determine the impact to all software companies as AI has been shown to have the ability to do basic programing.

We have continued to see mixed news on the job front. The recent ADP payroll report showed private companies added just 22,000 positions for January. The total was less than the downwardly revised 37,000 increase in December and below the consensus forecast for 45,000. However, the US Non-Farm Payroll numbers showed that the US added 130,000 jobs in January, which was higher than the forecast of 70,000 (source: Trading Economics). In an updated number for 2025 monthly growth, US Non-Farm Payrolls showed an estimated average monthly job gain of 15k per month compared to the previously reported average of 49k, some of these revisions have happened due to data delays from the government shutdown last year.

On February 20th, the Supreme Court ruled that Trump did not have the power to levy the tariffs he implemented last April under the International Emergency Economic Powers Act. Trump almost immediately rescinded them and then threatened new 15% tariffs under Section 122 of the Trade Act of 1974, which he then implemented at 10%. This has injected some uncertainty into the business markets as companies continue to adjust supply chains and look at prices. The biggest thing to look at is not the headline tariff rates but the effective rate (the actual monetary number of tariffs paid). In 2025 the effective tariff rate was 7.7% (source: First Trust). The Tax Foundation estimates that even if the 10% tariffs that Trump just announced expires, the effective rare could still be around 5.6% which is the highest since 1972. Analysts at the New York Federal Reserve have estimated that last year nearly 90% of the tariffs' economic burden fell on US firms and consumers. We may have seen some of this in the new inflation figures.

On the inflation front, the Bureau of Labor Statistics reported that wholesale prices rose at a faster than expected pace in January, PPI (producer price index) rose 0.5%, which was above the 0.3% forecast. They also reported that for the full year, core wholesale prices (this excludes food and energy prices) rose 3.6% while headline prices rose 2.9%; both are well ahead of the Federal Reserve's 2% inflation goal. However, on the Consumer side, the Core Consumer Price Index (excludes food and energy) rose 2.5% on a 12-month basis while the headline CPI which includes food and energy, rose 2.4% which is more in line with what the Fed is looking for. Just for clarification, PPI measures the overall economic health of producers and tracks inflation from the standpoint of manufacturers and suppliers. CPI tracks the inflation that consumers pay. With the appointment of the new Federal Reserve Chair, Kevin Warsh, we will have to wait and see what the Fed does with interest rates. The general consensus among analysts is they will not cut further until the summer (Morgan Stanley).

As we get closer to tax season, Morgan Stanley has been sending out documents in waves. If you have questions, need your tax documents or would like us to send them directly to your accountant, please let us know.

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