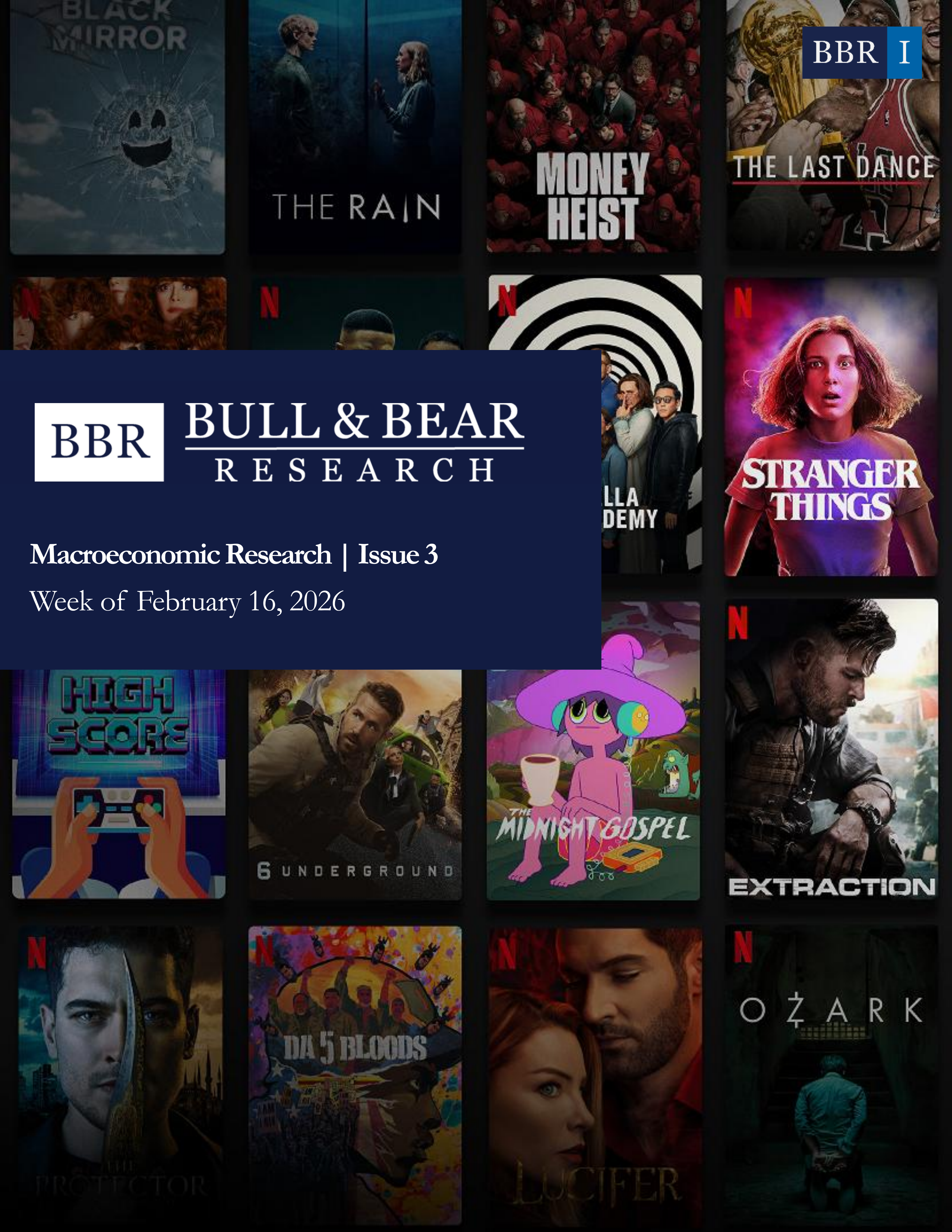

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BBR BULL & BEAR RESEARCH

Macroeconomic Research | Issue 3

Week of February 16, 2026

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Equities Outlook

U.S. Stocks Hold Steady Despite Volatility and Earnings

Metric	$ (USD)
S&P 500	$6,909.51 +0.69%
DJIA	$49,625.97 +0.47%
NASDAQ	$22,886.07 +0.90%
Russell 2000	$2,663.78 -0.05%
FTSE 100	$10,686.89 +0.56%
Nikkei 225	$56,825.70 -1.12%
WTI Crude	$66.48 +0.12%
10-yr Treasury	4.08% +0.011%

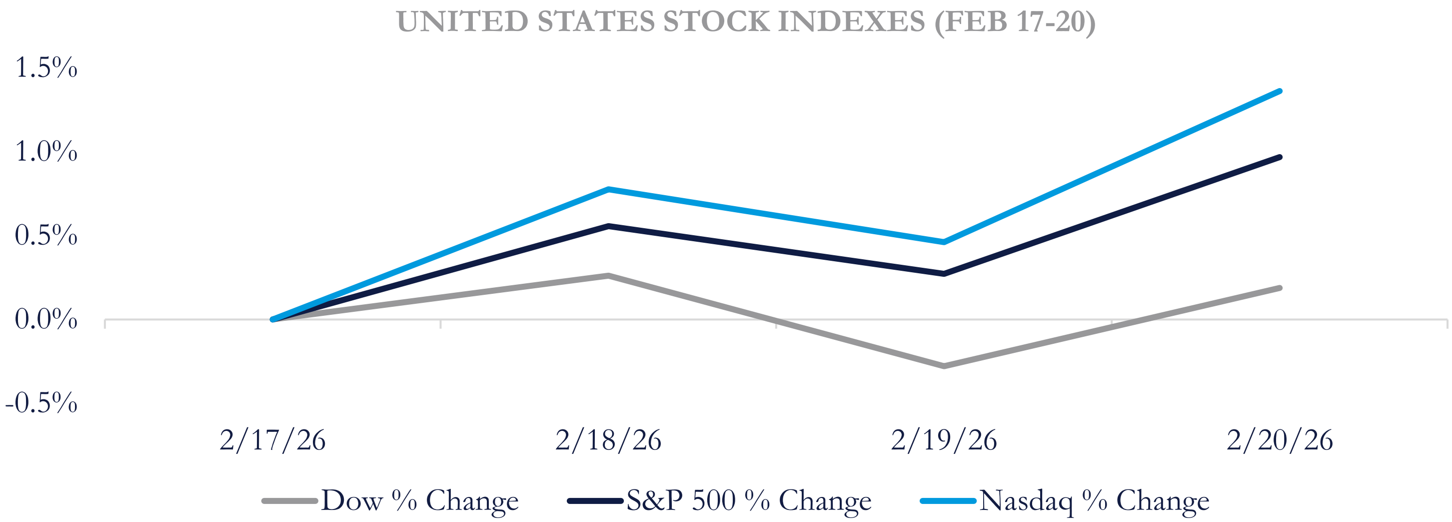
U.S. stocks moved higher on Wednesday as investors reacted to the release of minutes from the Federal Reserve's January policy meeting and continued strength in large-cap technology names.

The S&P 500 rose 0.56% to close at $6,881.31, while the Nasdaq Composite gained 0.78% to finish at $22,753.63. The Dow Jones Industrial Average added 129.47 points, or 0.26%, ending the session at $49,662.66.

Technology stocks led the advance. Nvidia climbed 1.6% after Meta Platforms announced plans to use millions of Nvidia chips in its expanding data center buildout. Amazon rose nearly 2% after regulatory filings showed Bill Ackman's Pershing Square increased its stake in the company by 65% during the fourth quarter, making it the fund's third-largest holding. Micron Technology jumped more than 5% after David Tepper's Appaloosa Management boosted its position in the chipmaker.

Investors also reviewed minutes from the Fed's January meeting, which showed officials unanimously supported holding interest rates steady at 3.5% to 3.75%, though opinions differed on the path forward.

Oil prices rose amid renewed U.S. and Iran tensions, adding another layer of focus for markets as traders assessed geopolitical risks alongside monetary policy uncertainty.



Note: % Change Based off Closing Price

U.S. Q4 Earnings Enter the Homestretch as Mixed Results Drive Market Swings

In US Q4 earnings news, the remainder of the earnings calendar heads into its homestretch with 74% of S&P 500 companies having reported through February 13th. With blended earnings growth (factored results and estimates) at 13.2%, we could see 10 straight quarters of annual earnings growth for the index, as well as 5 consecutive quarters of double-digit growth.

Sources: Investors Business Daily, Yahoo Finance

The highly anticipated Walmart earnings report came this week and posted a narrow earnings beat in its first quarter under CEO John Furner. Shares moved higher on the day. Solid profit and revenue beats from Deere & Co. helped lift its full-year profit outlook as construction and equipment sales rebounded, sending the industrial giant's shares higher. Shares of Carvana sank as much as 20% after profits missed estimates and management provided little guidance on the future. DoorDash fell as investors reacted negatively to mixed earnings: while $3.96 billion in revenue grew 28% year-over-year, it fell short of expectations, and the company's Q1 EBITDA guidance fell short of expectations. Klarna posted its first public quarterly results as it generated over $1 billion in Q4 revenue, largely on accelerating growth in the United States, but saw shares plunge.

The sharp decline likely indicates that investors were anticipating an even stronger set of numbers ahead of its expected IPO. Etsy shares jumped 22% after it sold its Depop social commerce business to eBay for $1.2 billion; investors saw the sale as a noteworthy simplification of Etsy's business. Shares of Analog Devices advanced 6% as strong demand for AI-driven semiconductors from industrial and data center customers drove its results. Palo Alto Networks fell as it trimmed its full-year guidance. US stocks navigate mixed Q4 earnings.

Fixed Income Outlook

U.S. Investment Grade Credit Markets Care About the Tech Wreck, Just Not Very Much

While equity markets have seen a dramatic rotation away from software and into energy, staples, and industrials amid AI disruption fears, the $9.6 trillion investment-grade bond market tells a more nuanced story. Credit spreads in this market have tightened modestly since late October, though individual issuer data reveals notable differences.

Financials, utilities, healthcare, and energy dominate the IG index, collectively accounting for three-fifths of outstanding debt. Oracle's bonds have widened from 176 basis points to 207 basis points over swaps ($95 billion of IG-index-eligible debt), despite the company being more of an AI winner. The reason is its large issuance and upcoming cash flow crunch, rather than any existential threat from AI. Large money-center banks have also seen a slight spread widening, even as the broader market tightens. Expect more divergence here, as hyperscalers are poised to generate roughly $400 billion of IG issuance in 2026 alone.

Credit investors are certainly concerned about AI disruption in software. SaaS names like Intuit, Open Text, and Atlassian have seen spreads blow out. However, these issuers carry relatively small index weights, limiting their broader market impact. The more significant AI-related credit risk may lie in private markets, where BDC and private credit manager stock prices have already begun to reflect investor unease.

Fiscal / Monetary Policy Outlook

U.S. Economy Stumbles to End 2025, Growing Just 1.4% in Q4 - Half the Expected Rate

The U.S. economy closed out 2025 on a weak note, growing at just a 1.4% annualized rate in Q4, which was far below the 3% economists had forecast and a steep drop from Q3's strong 4.4% expansion. The Commerce Department's Bureau of Economic Analysis (BEA) released the advance estimate today, flagging consumer spending and investment as positive contributors, while declines in government spending, exports, and imports weighed the overall figure.

A major factor behind the disappointment was the partial government shutdown that stretched from October through mid-November. The BEA estimates the resulting reduction in federal employee labor services alone shaved roughly one full percentage point off Q4 growth, which meant underlying private-sector momentum was closer to 2.4%.

Sources: Yahoo Finance, Financial Times, Fox Business

For the full year, the U.S. economy averaged 2.25% growth across 2025, bookended by a 0.6% contraction in Q1 and the strong Q3 rebound, with Q4 giving back much of that momentum. Real final sales to private domestic purchasers, which is a closely watched measure of core demand, rose 2.4%, down slightly from 2.9% in the prior quarter.

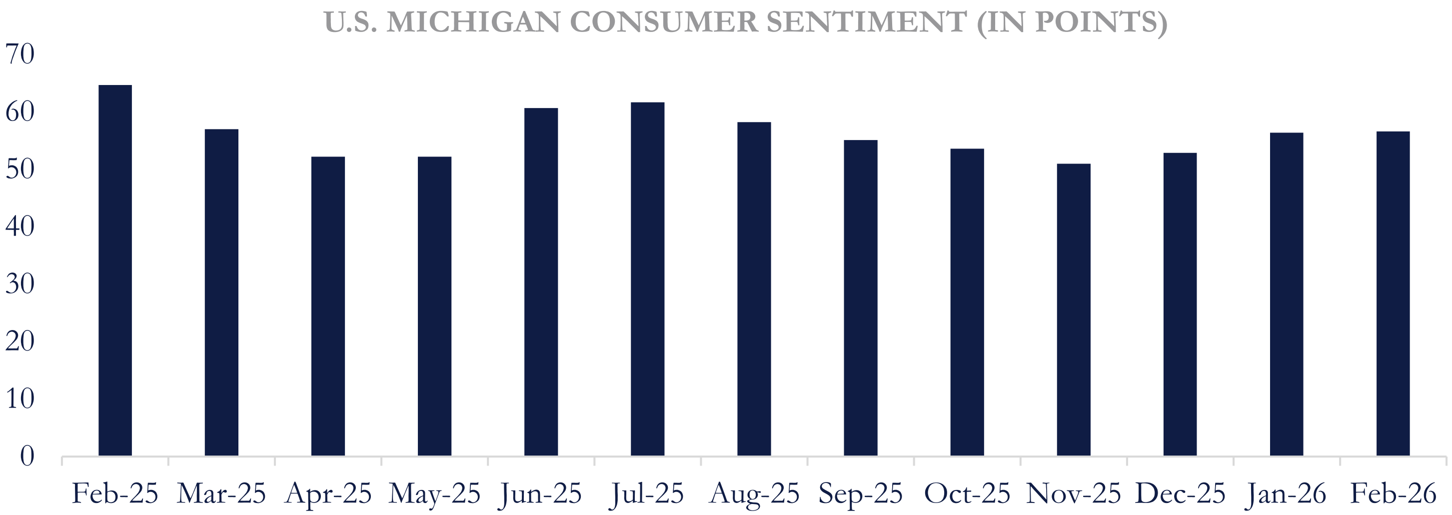
The Q4 figure is an advance estimate and will be revised twice as additional data comes in.

Consumer Sentiment Inches Up in February Amid Persistent Inflation Concerns

Americans' view of the economy improved slightly in February, but high prices are still making many people uneasy. The University of Michigan's monthly survey showed the sentiment index increased to 56.6, just above January's 56.4. Earlier in February, a preliminary reading had even shown 57.3.

The improvement in mood was strongest among higher-income, better-educated consumers with stock holdings. As the survey director Joanne Hsu explained, these households "feel better insulated from any possible risks to the economy" thanks to stronger income prospects and investment portfolios.

Meanwhile, expectations for inflation over the next year fell slightly, while long-term inflation expectations stayed steady. That matters because when people expect prices to rise, they tend to spend sooner and push for higher wages, behaviors that can further fuel inflation. That's why the Federal Reserve closely monitors inflation expectations.



Uncharted Territory

The Federal Reserve is entering unprecedented territory. Nominal gross domestic product (GDP) is growing faster than it has been in decades, and the U.S. dollar has lost about 10% of its value against the G10. However, markets are still pricing in >50bps of cuts for the remainder of 2026, specifically when Kevin Warsh becomes the new chair in May. Lower future rate expectations in this unusual macro environment are signaling the Fed's willingness to allow a decline in the U.S. dollar going forward. President Trump shares this view and has stated that the dollar's decline is beneficial for American businesses. Investors have not dealt with pending dollar weakness in over 20 years.

Considering these conditions, investors should re-evaluate how they position their portfolios. International equities can provide better valuations, yield dividends, and currency diversification. When comparing yield dividends across MSCI ACWI ex US and MSCI US indices, non-US stocks have double the yield dividend (2.5 percent vs 1.2 percent). They also have considerably lower valuations, with price-to-trailing-earnings multiples of 18 times versus 26 for American stocks. International equities also allow investors to diversify away from the dollar and invest in more stable currencies across the G10. In this unprecedented economy, international stocks are well-suited for investors.

Sources: Fox Business, Wall Street Journal, Trading Economics, Financial Times

The Shift in Safe-Haven Securities

The long-standing perception of U.S. Treasuries as the world's ultimate safe-haven asset is beginning to fade. The persistent deficit spending of the federal government, along with increasing public debt levels and rising political uncertainty, have caused many investors to wonder if U.S. government securities should continue to be considered a "risk-free" investment option. More specifically, investor concerns over the Federal Reserve's independence under President Trump, his erratic trade policies, and rising geopolitical tensions have further eroded investor confidence in U.S. assets. This resulting instability has raised additional concerns about the long-term viability of U.S. government securities as a safe-haven investment vehicle.

At the same time, there is a significant shift occurring in the global capital market's structure. As central banks begin to unwind their quantitative easing programs, reserve managers have reduced their Treasury holdings, and the historical "convenience yield," which previously contributed to lower borrowing costs for the United States, has decreased. Additionally, the correlation between equities and fixed income instruments has increased, which reduces the ability of U.S. Treasury securities to provide hedging protection during times of market volatility.

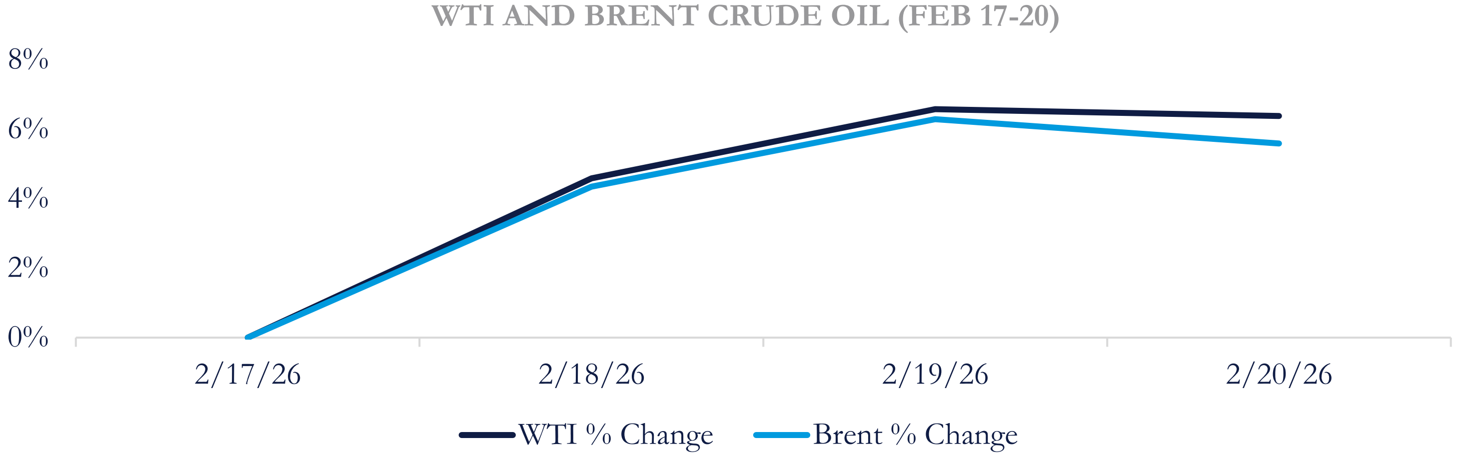
As a result of these factors, investors are increasingly seeking to diversify. Safe-haven demand has shifted to other assets such as the Swiss Franc, Gold, and German Bunds. Foreign investors have increased their investment in U.S. equities at the expense of their Treasury holdings, thus creating a situation where U.S. equity investments are providing a degree of reserve asset demand that was previously provided to U.S. government bond securities.

Commodities Outlook

OPEC+ Further Increases Supply

OPEC+ is expected to resume increasing oil supply after a pause during the first quarter. The alliance is expected to slowly release the remaining 1.66 million barrels per day over six months. This additional supply was originally held back by OPEC+ to help stabilize prices after soft global demand. However, the impact on oil prices from the alliance's decision could be limited. Several OPEC+ countries are not in a position to fully meet their production quotas. For example, Russia has had capacity constraints that will limit the country's ability to sign contracts to raise output.

As a result, Kpler's senior crude analyst, Naveen Das, does not expect a sharp downside move in crude prices. Kpler continues to project that Brent crude will average around $65 per barrel this year, suggesting that supply additions are likely to be absorbed by the market. OPEC+ members are scheduled to meet virtually on March 1 to determine production policy for the coming months, a decision that will be closely watched by energy markets.



Note: % Change Based off Closing Price

Sources: Financial Times, Wall Street Journal, Yahoo Finance

Emerging Markets Outlook

Currency Markets Lift Dollar as Fed Cut Forecasts Fade

The US Dollar has ticked up since the start of this week, partly due to the Mortgage Market Index, but the bulk of the greenback's momentum comes as FX traders bet against a tally of three rate cuts from the Fed this year. Roughly 61 bps of rate cuts have been priced in by money markets through the end of 2026. The dollar index shot up to its highest level over the last week, with the USD rising against the rest of the G10.

The Dollar has seen increased pressure since the beginning of the Trump Administration; however, this week marked a brief calming of the bearish momentum. According to Bank of America Corporation, consumer exposure to the dollar has been at an all-time low "since at least 2012", the earliest year of data collection. Markets may see the dollar rise if the Fed keeps interest rates up. Furthermore, the January jobs report showed the US saw an 85% increase in expected new employment, pointing to a weak case for a cut in the spring, according to Danske Bank Chief FX analyst Jens Naervig Pedersen.

It is vital to note that the dollar's recent rebound may not last. Since January 2025, the currency has fallen about 9%, as investors tentatively reacted to policy uncertainty and trade tensions. The Bloomberg Dollar Spot Index dropped to a four-year low in late January, with options traders continuing to bet that the currency could weaken further.

Carry Trade, Commodities Make EM Currencies More Stable Than G-7

Developing-market currencies have surprised the downside and haven't been volatile compared to developed-market currencies lately. Bloomberg's USD EM Volatility Index (per JPMorgan) shows that developing-market currency volatility has undershot G7 volatility for 199 straight days, the longest streak since 2008, with just 9 more days till an all-time streak since 2000.

A weaker dollar and expectations for gradual Fed easing have provided some tailwinds for developing markets. Additionally, high commodity prices and strong capital flows have buoyed demand for emerging-market currencies. Those factors help fuel the carry trade, where investors borrow in low-yielding currencies to purchase higher-yielding EM assets. The carry trade helps dampen volatility further by incentivizing continued inflows. Asian low yielders continue to be the funding currencies for leverage. As such, portfolio flows into EMs are happening at the fastest pace for this time of year since 2019. This has extended last year's capital flood into EMs (best since 2009). As a result, the Bloomberg EM Currency Index that measures eight developing-market currencies is already about 2.8% higher year-to-date, adding to its 17.5% gain last year.

EM fundamentals have also strengthened and should continue to buttress currencies. Their economies are likely to outperform their developed market peers this year, and countries have continued to hoard FX reserves. Developed-market volatility is also rising on worries over President Trump's posts about tariffs, who the Fed's next chairman will be, and the trajectory of U.S. fiscal policy. Some investors are rotating back into typically lower-volatility EM currencies like the Singapore dollar, Thai baht, and Chinese yuan as a result. One caveat would be if yen volatility suddenly spikes, causing a carry trade unwind.

M&A Environment

Warner Bros. Discovery Reopens Talks with Paramount Under Netflix Waiver

Warner Bros announced on Tuesday reopening deal talks with Paramount under a seven-day waiver from Netflix to reanalyze deficiencies in Paramount's offer to buy the entirety of WBD.

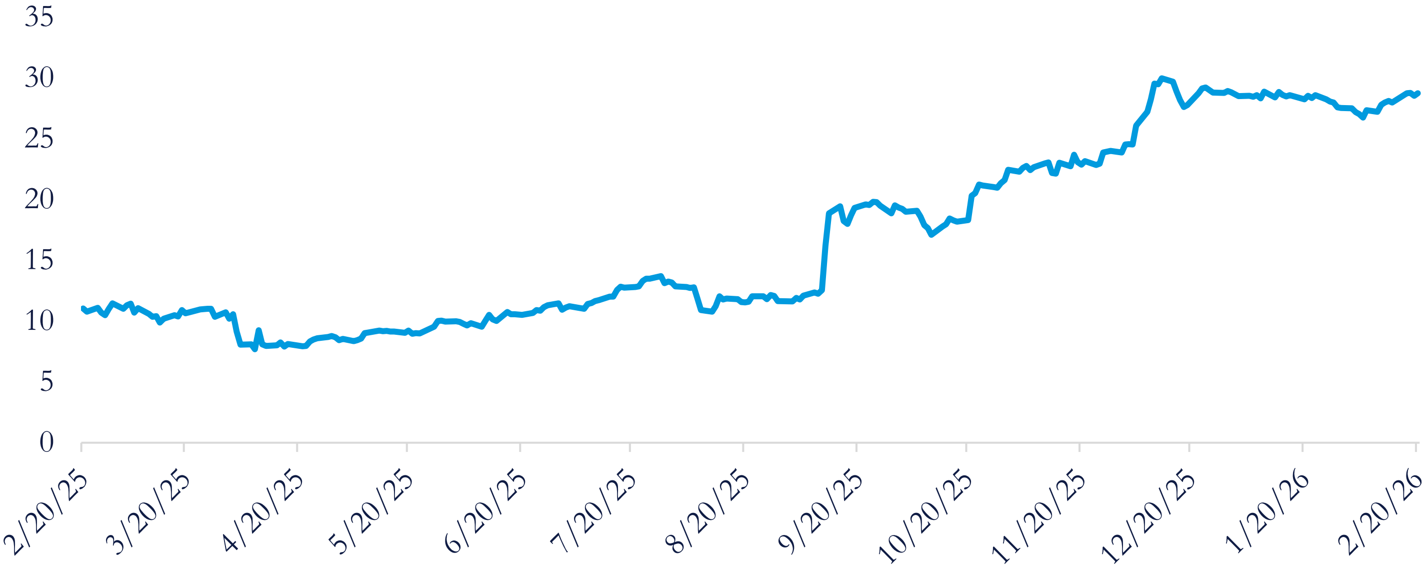
Sources: Bloomberg, CNBC

The media company currently has a pending transaction with Netflix. After losing the initial bidding war to Netflix, Paramount launched a hostile tender offer directly to WBD shareholders at $30 per share.

Netflix granted WBD a limited waiver, allowing WBD to re-engage discussions with Paramount Skydance for seven days to ensure WBD stockholders and to give Paramount the ability to make its best offer. Paramount leadership came out, stressing that its $30-per-share, all-cash offer was not its best, and that the company had sweetened it with additional "enhancements." On Tuesday, WBD said a senior Paramount representative indicated they would pay $31 per share if deal talks reopened.

WBD CEO David Zaslav, in a statement, has ensured that they will seek the best option to increase shareholder value for WBD shareholders. After the seven-day waiver period ends, Netflix will retain its matching rights under the merger agreement. Netflix currently has an offer on the table at $27.75 per share for WBD's streaming and studio assets.

WARNER BROS. DISCOVERY INC. STOCK PRICE (IN USD)



Activist-Backed Masimo Sold to Danaher in $10 Billion Acquisition

Danaher has landed a $10 billion deal to buy Masimo, a patient monitoring company, in an all-cash deal valuing Masimo at $180 a share, a 40 percent premium to the company's Friday closing price of just over $130 a share. Following reports on the deal, Masimo's shares soared 34 percent to almost $175. By acquiring Masimo, Danaher will become a market leader in the production of pulse oximeters, non-invasive devices that monitor blood oxygen levels.

Rainer Blair, Danaher's chief executive, believes the acquisition will strengthen the company's "diagnostics franchise," in which Masimo would operate as a standalone company. Masimo has also been in a long-standing intellectual property dispute with Apple over its heart-monitoring technology used in the Apple Watch, for which the company was awarded $634 million in damages by a U.S. federal court.

The deal comes two years after Politan Management, an activist hedge fund, overhauled Masimo's board following proxy contests in 2024, which led to the departure of founder and CEO Joe Kiani. Following Politan's control of the board, Masimo shares are up 40 percent, and this marks Danaher's largest acquisition in the last five years, with the deal expected to close in the second half of 2026.

Sources: CNBC, Yahoo Finance, Financial Times

Blackstone Bets $2.5 Billion on Home Services Amid AI Disruption Fears

Blackstone has agreed to acquire Champions Group, a residential service provider, signaling a shift by private equity firms into sectors less sensitive to A.I disruptions. Blackstone is buying from the existing owners, Odyssey Investment Partners. The deal values the Orange County, California-based company at $2.5 billion; however, the exact financial terms remain undisclosed.

Blackstone is making the investment through its retail-focused perpetual private equity strategy, BXPE, with Odyssey and management retaining a significant minority stake. Champion specializes in essential home services, including heating, air conditioning, plumbing, and electrical work. Odyssey previously invested in Champions in 2021, when they were known as Service Champions.

Residential service providers generate steady revenue by handling essential tasks such as furnace repairs and AC maintenance, which consumers need regardless of economic conditions. The acquisition reflects a broader trend among buyout firms moving into sectors less exposed to AI. In recent weeks, investors have shown increased concerns that AI tools from Anthropic and OpenAI could threaten many software-dependent companies in PE portfolios.

Trade of the Week

Betting on Retail After Supreme Court Tariff Ruling - Riya Pallamreddy

On February 20th, 2026, the Supreme Court of the United States struck down broad executive tariff authority, removing a major overhang on companies that are reliant on imported goods. This has reshaped the short-term investment landscape. By curbing the use of emergency powers to impose the reduction of import duties, the ruling reduces uncertainty around trade costs and signals a more stable policy for businesses reliant on these global supply chains.

Markets reacted positively, particularly in sectors sensitive to input costs. Retailers and consumer electronics companies that source heavily from overseas stand to benefit the most. Lower tariff risk improves the margin of visibility, supports earnings forecasts, and reduces the likelihood of sudden price shocks for consumers.

Large U.S. retailers such as Walmart, Target, and Best Buy operate on tight margins, and even modest reductions in import costs can boost their profitability substantially. Since there continues to be inflation concerns, improved cost stability may strengthen investor confidence while moving closer to upcoming earnings announcements.

However, risks remain. There is a possibility of potential legislative responses or renewed global trade tensions because of this policy. But in the near term, the ruling presents a tactical opportunity to position margin expansion and earnings growth in import-dependent retail companies.

2s10s U.S Treasury Curve Steepener - Jake Eisner

A compelling macro-opportunity is the U.S 2s10s curve steepener, structured by receiving 2-year treasury rates while paying 10-year treasury rates. This is anchored in growth incrementally slowing while inflation acceleration slows. The front end of the yield curve is incredibly sensitive to expectations of Federal Reserve Policy. If incoming economic data keeps softening, markets could price in more aggressive rate cuts. This would lead to the 2-year yield sliding downward. Moving to the right of the curve, the 10-year yield is structured to react to long-term expectations for growth, inflation, and Treasury supply. The U.S. Department of the Treasury's continuing issuance of debt, paired with ongoing deficits, will likely keep long-term yield higher. This would limit how much the 10-year falls relative to the 2-year.

As a result, this trade stands to benefit if the curve steepens, showing the 2-year yield declining more than the 10-year yield. It is critical to note that this trade must be done on a Dollar Value of 1 basis point move, or DV01, to offset the longer duration of the 10Y and reduce exposure to broader interest rate moves. The trade is then focused exclusively on the relative difference between the two maturities, while not being skewed by the long duration of the 10Y.

Catalysts for this trade include soft CPI data, weaker jobs numbers, and cautious communication from the Fed. The main risk is higher inflation that causes the Fed to maintain or raise rates, ultimately leading to the yield curve flattening further.

Disclaimer: Not Investing Advice
Sources: FRED