



BULL & BEAR RESEARCH

Macroeconomic Research | Issue 1

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Equities Outlook

Dow Jones Industrial Average Rallies to 50,000

The Dow Jones Industrial Average reached 50,000 for the first time this week, marking another milestone in a long rally driven by U.S. economic strength and sustained investor confidence. The index rise was driven by monetary policy, aggressive fiscal support, and rapid innovation led by the technology sector. More specifically, optimism around artificial intelligence has played a major role in lifting equity markets to new highs.

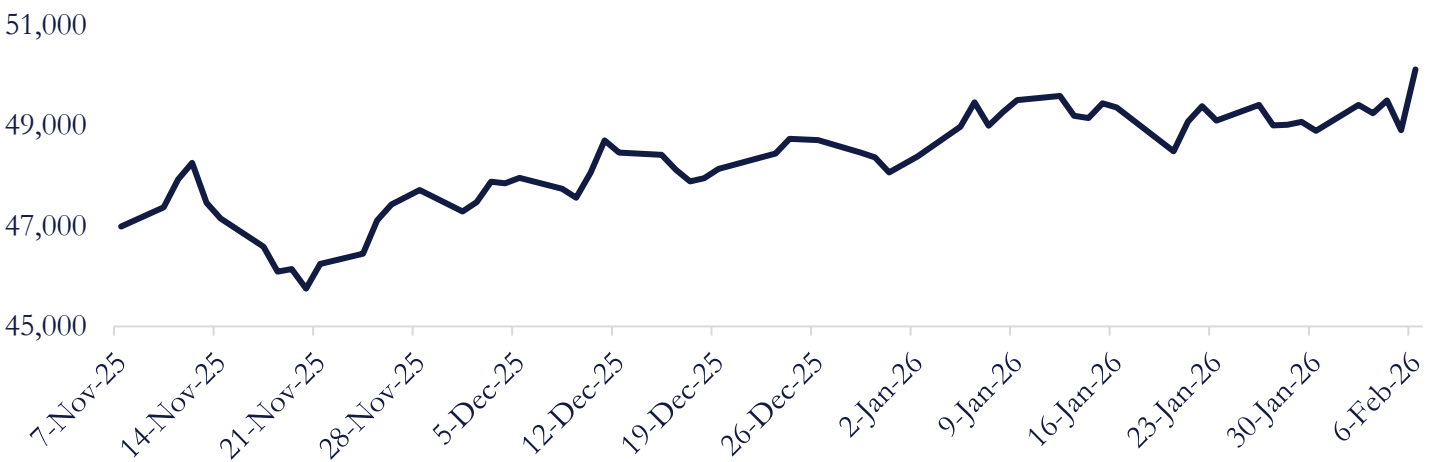
What makes the latest move notable is its timing; As enthusiasm around AI has faced increased scrutiny and volatility, investors have shifted capital toward companies more closely tied to real economic activity, such as banks, industrial firms, and consumer staples. This rotation has helped the Dow outperform more tech-heavy indexes in recent weeks, suggesting renewed confidence in U.S. growth rather than purely speculative trends.

Still, the rally is not without risk. Stock valuations remain elevated, inflation pressures persist, and job growth has shown signs of slowing. Political uncertainty and trade policy also remain sources of potential volatility. At the same time, stronger growth abroad has made international markets more competitive relative to U.S. equities.

Overall, the Dow’s move above 50,000 reflects both confidence in the U.S. economy and ongoing shifts in investor positioning as markets adapt to a changing macroeconomic environment.

Metric	\$ (USD)
S&P 500	\$6,932.30 +1.97%
DJIA	\$50,115.67 +2.47%
NASDAQ	\$23,021.21 +2.18%
Russell 2000	\$2,670.34 +3.60%
FTSE 100	\$10,369.75 +0.59%
Nikkei 225	\$54,253.68 +0.81%
WTI Crude	\$63.50 +0.33%
10-yr Treasury	4.20%

DOW JONES INDUSTRIAL AVERAGE (DJIA) PRICES (IN USD)



Note: Adjusted Closing Prices

Markets Rebound on Friday as Tech and Bitcoin Recover

After several days of significant losses caused by a dramatic drop in cryptocurrency prices and weakness in technology companies, U.S. markets recovered on Friday, February 6. The gain was supported by a recovery in bitcoin and large-cap tech names, which helped ease the more conservative sentiment that had dominated trading Monday through Thursday.

Investors shifted into cyclical companies like financials and industrials, causing the Dow Jones Industrial Average to rise more than 1,000 points on Friday and set a record high. The search for deals in technology helped the S&P 500 and Nasdaq rise as well, but both indexes ended the week lower overall.

Following significant selling off earlier in the week, Nvidia and Broadcom both saw increases of about 7%, while Oracle and Palantir also recovered as valuations improved. There are also increasing concerns about the disruption caused by artificial intelligence, which has kept software stocks under pressure.

The week highlighted a rotation out of high-growth technology and into large-cap value stocks, benefiting firms like Caterpillar and Goldman Sachs. Improved risk sentiment also helped lift small-cap stocks. After temporarily dropping below \$61,000 overnight, Bitcoin rose almost 10% on Friday, regaining its position above \$70,000. The late-week recovery considerably lessened what had been threatening to be one of the worst weeks of the year, even though it did not completely reverse weekly losses.

Fixed Income Outlook

€2.5 Billion Debt Package Takes Shape for ContiTech Unit Sale

Bankers are preparing roughly €2.5 billion in debt financing to support the potential sale of Continental AG's ContiTech unit. The ContiTech business, which produces industrial products such as conveyor belt systems and agricultural hoses, is expected to be valued between €4 billion and €5 billion. Deutsche Bank and Perella Weinberg Partners are advising on the sale. The proposed financing would equate to roughly 4.25 times EBITDA, which is estimated at €600 million, and is expected to include a mix of leveraged loans and high-yield bonds denominated in both euros and dollars.

The transaction would represent the second multi-billion-euro industrial divestment in Germany in 2026, following Volkswagen's move to sell a stake in its heavy engine unit. Private equity firms, including EQT, CVC, KPS, and Blackstone, are among the potential bidders.

This deal is the final step in breaking up the umbrella company Continental as it gets hit by weak European demand, rising Chinese competition, and increasing pressures across the automotive supply chain.

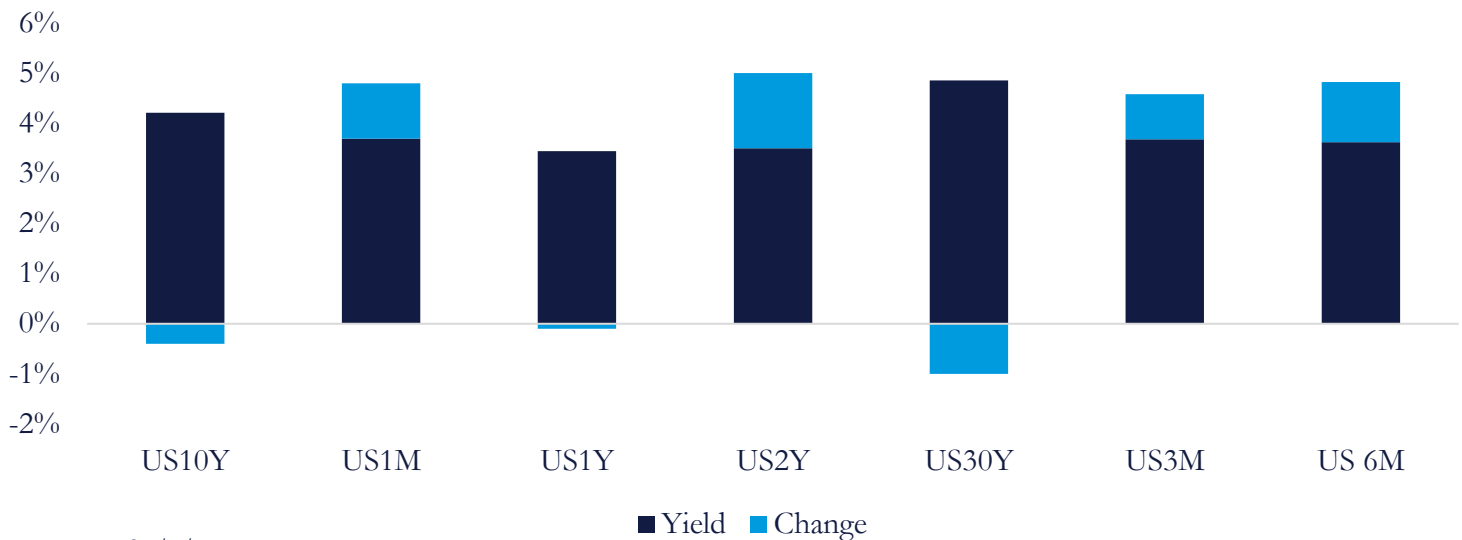
Treasury Yields Tick Higher on Strong US Data

Treasury yields have moved modestly as investors assess the implications of President Donald Trump's nomination of Fed Governor Kevin Warsh to replace Jerome Powell as chairman of the Federal Reserve Board of Governors. Warsh's nomination has introduced some uncertainty as market participants try to interpret how monetary policy expectations could shift under new leadership. U.S. Treasury yields moved higher on Monday, with the 10-year yield rising more than 4 basis points to roughly 4.28% and the 2-year and 30-year yields also climbing by similar amounts.

After little change earlier in the week, yields moved as markets processed signals from economic indicators and Fed positioning. Warsh's nomination has left traders uncertain as to how the Fed's message will change under new leadership. The January ISM manufacturing index surpassed expectations at 52.6 and returned to expansionary territory after a long period, suggesting economic momentum was improving.

The move lower in Treasury prices is likely a function of markets continuing to price in expectations for Fed rate cuts later this year while waiting on the next series of economic data. Investors will also be looking at the recent ADP employment report as well as upcoming labor market data, though the government jobs report was delayed by the partial government shutdown. The Fed recently also stated the economic outlook had improved and removed language on downside risks to employment, causing some investors to push out expectations for rate cuts.

UNITED STATES TREASURY YIELDS (IN %)



Note: As of 2/6/26

Fiscal / Monetary Policy Outlook

Consumer Sentiment Hits Six-Month High, But Concerns Remain

US consumer sentiment in early February reached its highest level in six months as the University of Michigan's index increased to 57.3 from 56.4 in January, above economists' expectations and marking the third straight monthly improvement; however, it is still 20% below where it was a year ago. These gains were very concentrated among higher-income households with large stock portfolios.

Still, the labor market and cost of living remain a concern. Job openings fell to 0.87 openings per unemployed person, down from 0.89 in November and are now at a five-year record low. Many consumers remain concerned about high prices and the risk of job loss.

The sentiment data was collected before this week's stock market selloff, driven by concerns over AI spending, so it remains to be seen whether February's improvement will hold. One economist noted that while positive fundamentals should support attitudes in the future, a sharp rebound in sentiment seems unlikely unless the recent market turbulence stabilizes.

Brazil Holds Rates Steady

Brazil's central bank decided to keep its benchmark interest rate unchanged at 15%, but it signaled that a shift toward lower rates could begin soon. The decision was widely expected, yet the tone of the statement marked a change from previous meetings. Policymakers suggested they may start cutting rates as early as March, while stressing that monetary policy will remain restrictive for now.

Inflation remains above the bank's 3% target, with consumer prices rising 4.5% over the past year. Even so, officials pointed to signs that economic growth and the labor market are cooling, which has strengthened the case for easing. Market participants were somewhat surprised by how openly the central bank discussed the possibility of cuts. Analysts are now debating whether the first reduction will be modest or more aggressive. Forecasts suggest the benchmark rate could fall to around 12.25 percent by year's end. However, the BRL has remained unaffected, with the currency strengthening 17% against the dollar over the past year. Overall, the case for EM carry remains strong, especially in high-yielding environments such as Brazil, where the significant rate differential creates high real returns.

The Chosen One: Kevin Warsh

Kevin Warsh's nomination as the next chair of the Federal Reserve signals a potential shift in the direction of U.S. monetary policy. Warsh has previously served on the Fed's board during the 2008–09 financial crisis, where he generally advocated for inflation-conscious policies. This hawkish stance led Warsh to leave the Federal Reserve in 2011. This was in opposition to QE2, the Fed's plan to buy \$600 billion in Treasury securities to stimulate economic growth. After leaving, Warsh became one of the institution's most vocal critics, arguing that the Fed was overstepping its role and had weak oversight.

Warsh will now likely lead the Fed by balancing his hawkish and dovish sides. Market participants saw the hawkish side over the last decade, especially over his stance to QE2. More recently, Warsh has expressed his more dovish side. In an interview on CNBC in July 2025, Warsh openly called for lower rates and reform within the Fed. On top of this, the nominee will also experience unprecedented political influence from the Trump administration to lower rates below what is needed.

Looking ahead, we expect Warsh to make two cuts to lower the terminal rate to 3.25% in 2026. We expect a dovish and market-moving Fed speech after Warsh's official appointment. This will likely be followed by an almost immediate 25 bps cut during the June meeting. It is also widely expected that Warsh will begin quantitative tightening with the Fed's balance sheet. Lastly, we believe that after this initial 25 bps cut, Warsh will become more data-dependent and see how inflation reacts. If inflation is relatively steady, another 25 bps of easing is expected in the latter half of the year.

Commodities Outlook

Oil Drops 5% as Trump Signals Progress in Iran Talks

Oil prices plummeted on Monday, with global benchmark Brent Crude falling nearly 5%. The fall in oil prices follows Trump's comments on the U.S.-Iran talks. Over the weekend, the president indicated that Tehran was "seriously talking" with the U.S., as heard from top Iranian security officials mentioning negotiations were being prepared. The change in tone appears to have eased tensions that led to oil prices reaching its six-month high due to fears of a U.S. military strike against Iran.

Several factors have been cited to keep prices in check outside of the diplomatic developments with Iran. Venezuelan crude has been quietly entering the market as the country liquidates offshore and onshore inventories, adding to available supply even as global production continues to outpace demand. Simultaneously, the OPEC+ group on Sunday decided to keep oil output unchanged for March, extending a three-month supply freeze that has been supporting prices.

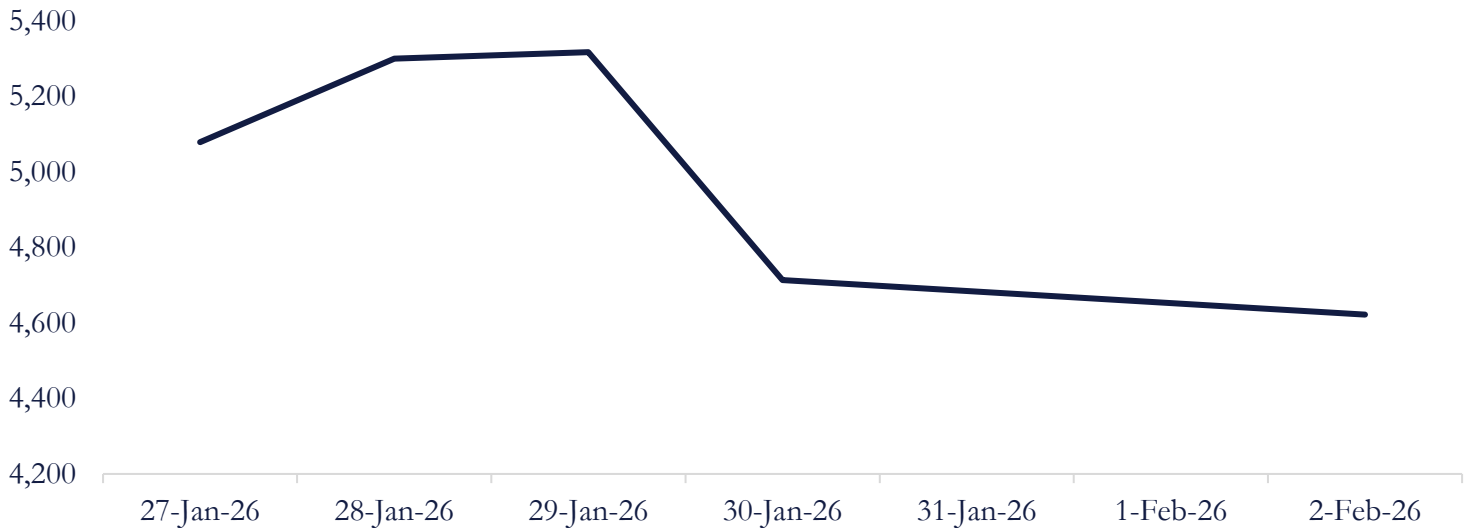
The Trump administration's sensitivities to oil prices may also be contributing to a further hold in price escalation. This is due to the fact that this year, the mid-term elections are around the corner, and with oil prices escalating further, it could prove to be a political handicap.

Major Banks Stand by Gold Forecasts After Worst Selloff Since 1980

Gold and silver faced their worst sell-off since 1980 following President Trump's nomination of Kevin Warsh to replace Jerome Powell at the Federal Reserve. Both gold and silver have experienced sharp swings in response to the news, but gold fell by as much as 16% from its recent peak. Despite this, banks remain positive on gold, even after the sharp decline; for example, JPMorgan has increased its year-end target to \$6,300/ounce. Most analysts have characterized this as a tactical selloff driven by expectations regarding Warsh, who has been viewed as more hawkish, rather than any fundamental changes to the gold thesis.

On the other hand, the case of silver presents a more complex picture. Some analysts believe that speculative trading, particularly from the Chinese markets, is artificially inflating silver prices beyond fundamental justification. Even industrial demand for semiconductors, silver, and solar panels remains robust, but there are concerns about a further decline in silver prices due to the exit of speculative traders. Banks view the recent gold pullback as temporary rather than the start of a reversal, but silver's outlook is less certain given the role speculation played in its rally.

GOLD PRICE (IN USD)



Note: Adjusted Closing Prices

Emerging Market Outlook

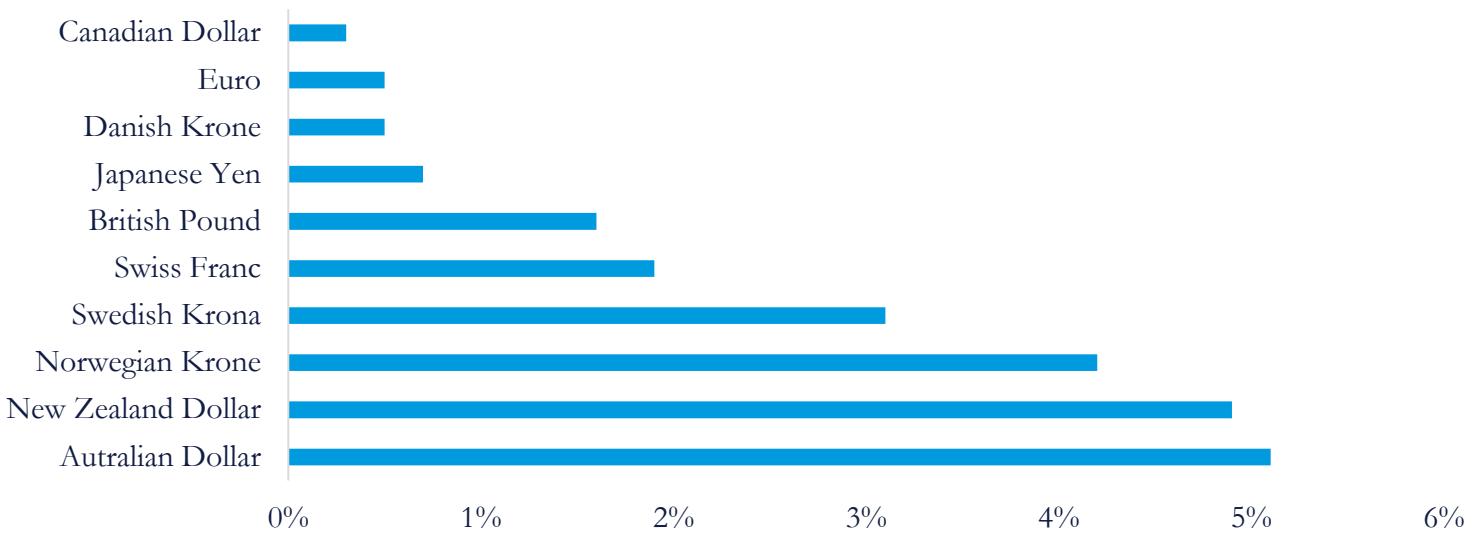
European Funds Bet on a Rebound in the New Zealand Dollar

Fund managers based in Europe have begun buying into the Kiwi in anticipation of New Zealand's recovery and a re-pricing of rate cut expectations for the Reserve Bank of New Zealand (RBNZ). London-based asset managers Candriam, Ninety One Plc, and Amova Asset Management highlighted their overweight positions toward New Zealand dollars (NZDs), citing better-than-expected fundamentals coming into 2026 and the view that the currency is currently trading at a discount to its true value.

The New Zealand dollar surged in January, recording the best performance in G-10 FX, up nearly 5%. Investment demand fueled by anticipated fundamental improvement helped push the kiwi higher during its recent rally, but a weaker dollar backdrop also provided support. Managers buying into NZD are beginning to look toward "cyclical" currencies as global economies begin to diverge. This contrasts earlier narratives in 2025 that focused on rate cuts and subdued NZD performance.

This story reminds currency macro investors that flows can lead to changes in monetary policy expectations if managers believe that current prices are cheap relative to underlying fundamentals. Markets will see if economic data out of NZ continues to beat expectations to justify this positioning moving forward. For now, if risk appetite persists, we could see the NZD continue to outperform, but if investors rush back into the U.S. dollar, any NZD strength could be threatened.

THE KIWI IS AMONG THE TOP G-10 PERFORMERS IN 2026



Note: Year-to-Date Gains Versus US Dollar

M&A Outlook

Santander Bets Big on U.S. Growth with \$12.2B Webster Deal

In a significant move to increase its retail and commercial banking footprint in the United States, Banco Santander announced on Tuesday, February 3, that it would buy Webster Financial for \$12.2 billion in cash and stock. Santander would rank among the top 10 retail banks in the United States by assets after the deal, resulting in a combined U.S. bank with around \$327 billion in assets.

As to the agreement, Webster shareholders will receive 2.0548 Santander shares for every Webster share, along with \$48.75 in cash. By 2028, Santander anticipates that the purchase will increase its U.S. return on tangible equity to roughly 18% and create cost savings of about \$800 million, or nearly 19% of the combined cost base. Santander announced it has no plans to make any more acquisitions in the upcoming three years.

The transaction coincides with a resurgence of large-scale banking M&A due to hopes of less stringent U.S. bank regulation under President Donald Trump. Santander's U.S.-listed shares dropped 6.4% on Tuesday despite the strategic justification, indicating investor hesitancy on execution and integration risks.

Subject to shareholder and regulatory approvals, the transaction is anticipated to close in the second half of 2026 after Santander had a successful year with a record 2025 net profit of €14.1 billion.

SpaceX Acquires xAI

SpaceX has acquired xAI for \$250 billion, valuing the combined company at \$1.25 trillion. Together, Elon Musk's two largest ventures present an unprecedented tech consolidation. The transaction aligns with Musk's strategy to vertically integrate AI development with space-based infrastructure. xAI and rivals OpenAI and Meta will all need to develop data centers for the AI models as infrastructure ownership becomes more competitive. Musk believes that orbital data centers will be necessary as AI companies grow and start to address energy constraints when terrestrial solutions cannot meet needs.

This transaction builds on xAI's \$230 billion funding-round valuation, and SpaceX's marked up \$1 trillion private-company valuation in recent months. xAI stock will convert to SpaceX common stock at a ratio of roughly 7:1. SpaceX is concurrently targeting a \$50 billion IPO, which would pass Saudi Aramco's previous record \$29 billion offering.

The two firms have demonstrated how AI software development is quickly becoming a compute-intensive endeavor where platform ownership acts as a sustainable competitive advantage. The trillions of dollars of valuation suggest investor optimism even as monetary policy tightens. However, regulatory and execution risks remain due to the uncertainty of space data centers. Despite the risks, the success of this integration could influence how investors price AI and space ventures in the future.

Texas Instruments Inks a \$7.5 Billion Acquisition of Silicon Labs

Semiconductor designer and manufacturer, Texas Instruments Inc. (NASDAQ: TXN), has agreed to purchase Silicon Laboratories Inc. (NASDAQ: SLAB) for \$7.5 billion. This deal comes as Texas Instruments aims to gain further exposure in the markets for chips by utilizing SLAB for home appliances, power, and medical devices. SLAB is expected to receive a payout of \$231 per share of common stock when the transaction occurs.

SLAB's chips have been widely implemented by many manufacturers, with notable use in smart-home equipment, battery storage, and commercial lighting. After the news broke, SLAB stock leaped to \$206.48, a 51% increase, all while continuing to trade noticeably lower than the offer price. In TXN's sales forecast last month, the analog chipmaking giant announced that its products had received an increase in demand, indicating that industrial customers and carmakers are beginning to desire more chips to convert electronic signals for machinery and vehicles.

TXN is being advised by Goldman Sachs & Co. LLC, and A&O Shearman is currently serving as legal counsel. Additionally, Qatalyst Partners is acting as the advisor to SLAB, with DLA Piper being legal counsel. The deal, pending approval by SLAB's investors, is worth approximately \$4.5 bn: TXN shares sunk 3.8% to \$216.70.

Trade of the Week

Dhilan Vyas - Short USD/JPY

USD/JPY has drawn growing attention from real money investors in 2026. Volatility has also been elevated relative to the rest of the G10, driven largely by macroeconomic developments and central bank policy shifts. The case for a short USD/JPY position is driven by three main catalysts: BOJ rate hikes, Prime Minister Takeuchi's fiscal policy, and the dollar's infamous depreciation.

Markets are pricing in three rate hikes and a median terminal rate of 1.5% near year-end. As rates rise, yields on Japanese assets become more attractive, narrowing the gap with higher-yielding foreign markets. This shift should support the yen by increasing demand for domestic assets. This is already impacting investor flows, specifically in Japan. Japanese investors have gradually reduced their positions in foreign yields and are increasing their domestic allocations.

On the fiscal side, Takaichi has signaled a shift toward expansionary policy focused on strengthening domestic demand. Aggressive government spending would provide a meaningful stimulus to the economy. This expansion will increase inflation in the medium-term and force the BOJ to maintain a higher terminal rate than markets currently expect, further supporting the yen.

Finally, the U.S. dollar remains well-positioned as the funding leg of the trade. With market pricing in more Federal Reserve cuts, U.S. borrowing costs will decrease, and the dollar will likely continue to depreciate against major currencies. This will reinforce downside pressure on USD/JPY, allowing investors to benefit from a short position.

Riya Pallamreddy – Long Devon Energy (DVN)

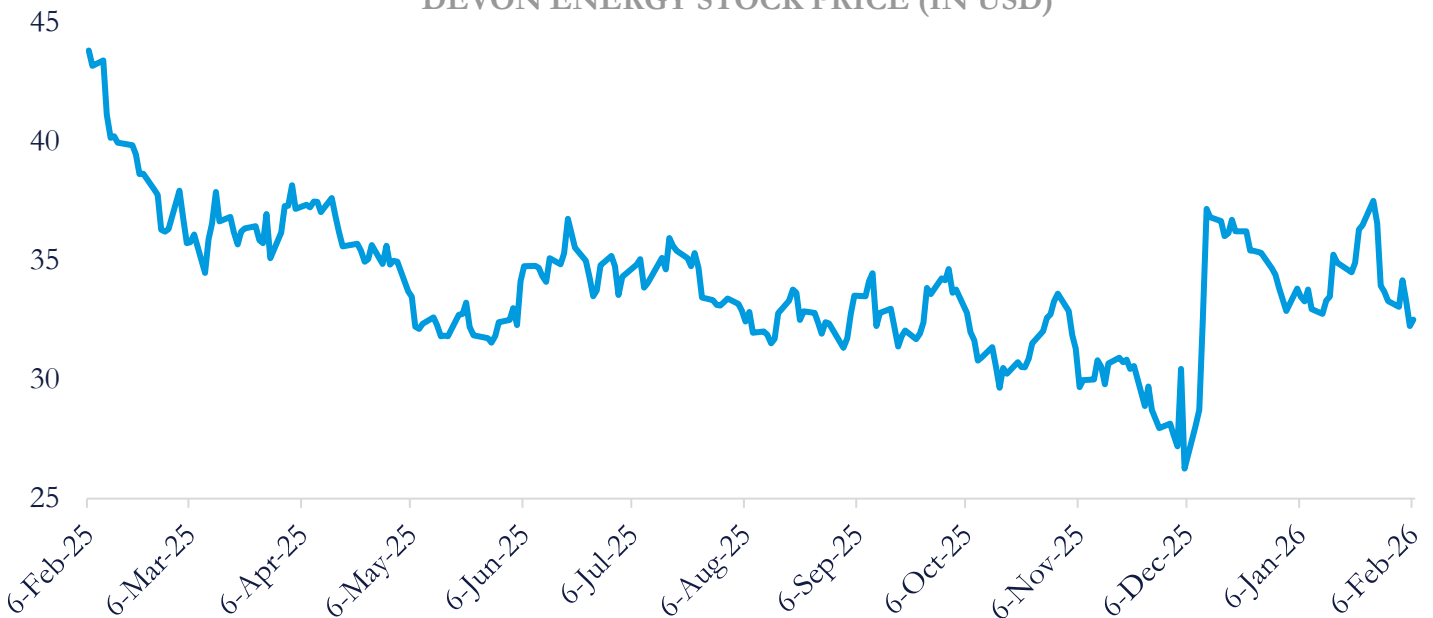
The U.S. oil and gas sector is undergoing historic consolidation. American oil producers are now controlled by a handful of large companies capable of maintaining production while returning 40% to 70% of free cash flow to investors. This transformation represents a fundamental shift from the growth-at-all-costs mentality of the 2010s to disciplined capital allocation focused on shareholder returns. Devon Energy's \$58 billion merger with Coterra, announced February 2nd, mirrors this trend where two efficient operators are combining to dominate America's premier oil-producing region.

The deal creates scale in the Delaware Basin, a geological formation spanning West Texas and New Mexico that produces more oil than most OPEC countries. The combined company will pump 1.6 million barrels daily with projected annual cost savings of \$1 billion by 2027. More importantly, management plans a \$0.315 quarterly dividend and has authorized over \$5 billion in share buybacks, signaling aggressive capital returns ahead.

What's most interesting is the valuation differences. DVN trades at 9.65x earnings while the energy sector averages 18.7x— a 48% discount. Yet Devon's profit margins of 16.43% are double the industry average of 8.06%. The market is pricing Devon as a struggling producer when it's actually doing amazing in terms of profitability. This mispricing likely stems from broader energy sector pessimism and merger execution concerns, neither of which appear justified by the fundamentals.

Cash flow generation provides substantial downside protection. Even if oil crashes to \$50 per barrel, Devon generates \$1.5 billion in annual free cash flow. At current oil prices near \$65, that figure jumps dramatically higher. This resilience matters because it supports both dividend and buyback programs regardless of commodity volatility.

DEVON ENERGY STOCK PRICE (IN USD)



Note: Adjusted Closing Prices