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BBR BULL & BEAR RESEARCH

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Macroeconomic Research Team

Rahul Kapur

Director

(203) 232-8735

kapur.ra@northeastern.edu

Jake Eisner

Associate

(919) 519-0856

eisner.ja@northeastern.edu

Ahmad Shaikh

Analyst

(214) 973-6325

shaikh.ah@northeastern.edu

Dhilan Vyas

Analyst

(609) 285-7493

vyas.dhil@northeastern.edu

Riya Pallamreddy

Analyst

(617) 306-9556

pallamreddy.r@northeastern.edu

Jessica Chen

Analyst

(510) 579-1636

chen.jessica3@northeastern.edu

Equities Outlook

Metric	$ (USD)
S&P 500	$6,878.88 -0.43%
DJIA	$48,977.92 -1.05%
NASDAQ	$22,668.21 -0.92%
Russell 2000	$2,632.36 -1.68%
FTSE 100	$10,910.55 +0.59%
Nikkei 225	$58,850.27 +0.16%
WTI Crude	$67.29 +3.19%
10-yr Treasury	3.95% -0.06%

European Markets Higher Today Due to Lowered Tariffs

European markets closed higher Tuesday, despite the uncertainty over U.S. trade policy, as investors reacted to President Donald Trump's latest tariff announcement. The pan-European STOXX Europe 600 ended the session up about 0.3%, reversing earlier losses, while major regional indexes also posted gains.

France's CAC 40 rose 0.47%, Germany's DAX gained 0.76%, Italy's FTSE MIB jumped 1.11%, Spain's IBEX 35 climbed 1.49%, and the U.K.'s FTSE 100 advanced 1.18%. Autos, a sector particularly sensitive to trade policy, led gains, rising nearly 2%.

Markets had fallen Monday after Trump threatened to impose a blanket 15% tariff on global imports. However, when the policy took effect Tuesday, the rate was set at 10% for 150 days, easing immediate fears. The lower-than-expected tariff helped calm investor's nerves, but uncertainty remains about future increases and potential retaliation from Europe.

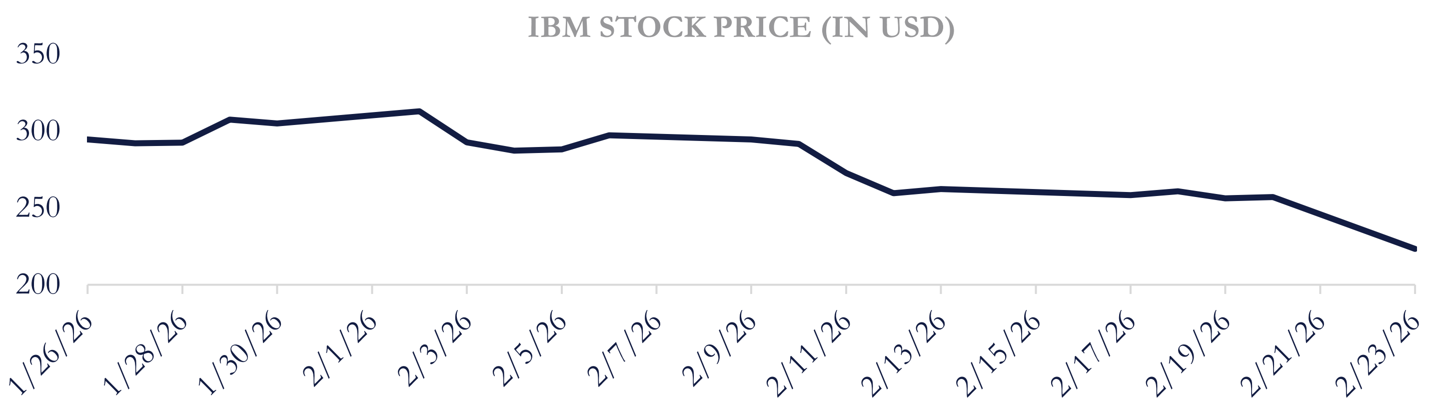
Meanwhile, shares of Standard Chartered slipped 1.5% after the bank reported a 16% rise in annual pre-tax profit that still fell short of expectations, and this added mixed corporate sentiment across the region.

IBM Stock Tanks 13% After Anthropic's Claude Code Threat

Shares of International Business Machines (IBM) fell by nearly 13.2%, closing at $233.35, as investors reacted to growing concerns that advances in AI could threaten one of the company's core businesses. This concern increased following an announcement from Anthropic that its Claude Code tool can help modernize legacy systems written in COBOL, a programming language closely tied to IBM's long-standing mainframe business.

The steep drop wiped out billions in market value in a single session and pushed IBM shares down more than 24% year to date. Investors view Anthropic's AI capabilities as a potential disruption to IBM's lucrative legacy system modernization services, which have historically required significant time and labor. The news intensified an already volatile "sell first and ask questions later" market environment driven by rapid AI innovation.

IBM's decline also reflects investor anxiety that established technology companies could lose competitive ground as AI tools can potentially streamline complex processes that were once considered high-value.



Note: Adjusted Closing Prices

Sources: CNBC, Yahoo Finance

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Nvidia Extends Its AI Dominance

Nvidia reported $68.1 billion in fourth-quarter revenue and $43 billion in net income, well ahead of expectations and sharply higher than a year ago. Profit rose 94%, while sales climbed 73%, numbers that are difficult to dismiss as speculative momentum. Data center products, primarily chips and networking equipment used for AI systems, made up more than 90% of total revenue.

Investors have grown cautious in recent months, questioning whether demand from major customers such as OpenAI and large cloud providers could keep pace with Nvidia's valuation. Competition in custom chip design and uncertainty around China sales added to those concerns. Still, gross margins held at 75%, suggesting the company retains significant pricing power.

Management's guidance for the current quarter, which projects revenue of roughly $78 billion, also came in above forecasts. That outlook implies demand for AI infrastructure remains strong, even as the market shifts gradually from training large models to running them in real-world applications. While risks remain, Nvidia's results suggest the AI cycle continues to be supported by tangible spending rather than purely speculative enthusiasm.

Fixed Income Outlook

Fed Reveals Surprise Shift as Several Officials Ponder Hike

The Federal Reserve meeting minutes for the January 27–28 meeting were published on Wednesday. They indicated that the Fed is taking a more hawkish approach. The Federal Open Market Committee voted 10-2 to maintain the benchmark interest rate between 3.5% and 3.75%. However, the minutes also indicated that Fed officials are increasingly becoming concerned about persistent inflation. Some are even contemplating raising interest rates if inflation does not ease.

The minutes also indicated that the Fed is less concerned about labor market weakness that prompted three consecutive rate cuts in late 2025. Fed officials noted that inflation risks stay elevated, and that further rate cuts could signal a lack of commitment to the Fed's 2% inflation target. Recent macroeconomic data has supported the Fed's patient stance. The US economy added more jobs in January than in any month in over a year, while the unemployment rate fell to 4.3%, and core CPI came in line with expectations.

The Fed is also under pressure from President Trump to lower interest rates. Trump's nominee for Fed Chair, former Governor Kevin Warsh, will inherit a divided committee and a strained relationship with the White House when he takes over from Jerome Powell in May.

Fed funds futures still price in a rate cut by June, though expectations have softened considerably since the start of the year.

Bond Traders Extend Fed Rate Cut Expectations Into 2027

USD rates traders have recently begun increasing their bets on continual rate cuts from the Federal Reserve. Spreads on futures of the Secured Overnight Financing Rate (SOFR) have become increasingly inverted, signaling that traders increasingly expect further policy easing.

Up until recently, market participants expected the central bank to begin raising interest rates again in 2027, following two 25-basis-point cuts projected for later this year. However, increasing discussion about how artificial intelligence could reshape the labor market has prompted investors to reconsider that view. On Tuesday, Federal Reserve Governor Lisa Cook cautioned that if AI adoption leads to higher unemployment, the Fed may have limited ability to offset those job losses through monetary policy.

Sources: Wall Street Journal, Bloomberg

The repricing has coincided with growing debate over AI's labor market impact, leading to upward pressure on long-duration treasury prices. The December 2026 to December 2027 one-year SOFR spread slipped into negative territory on Friday and extended further to -8 basis points by Tuesday. That move suggests investors have shifted from expecting rate hikes in 2027 to anticipating rate cuts instead. Trading volume was also elevated, with just over 150,000 contracts traded in the 12-month spread on Monday, a record high for a single session.

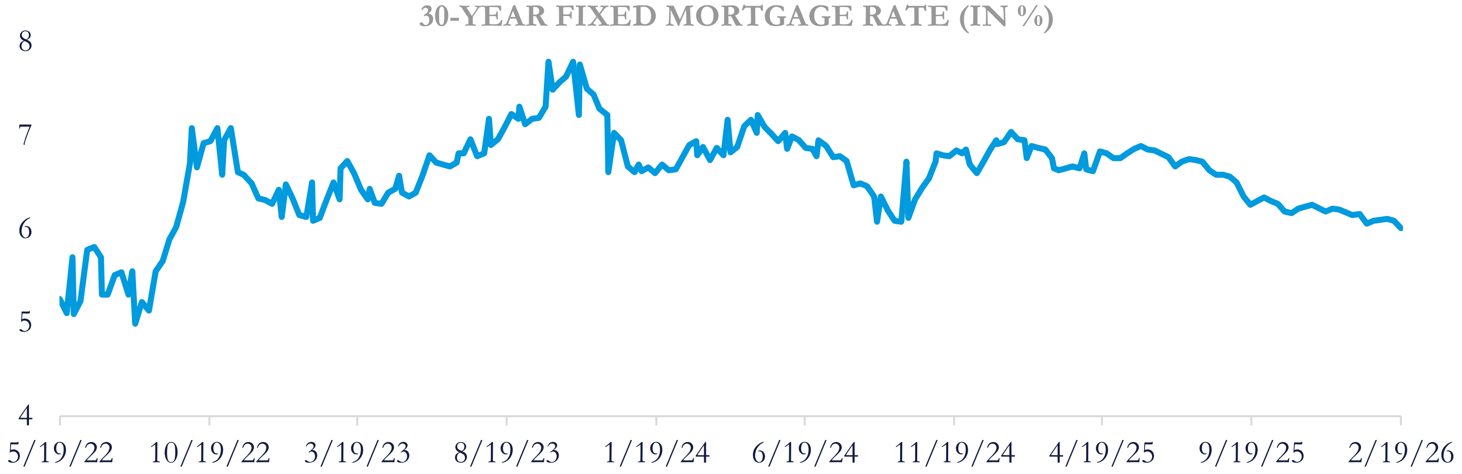
Fiscal / Monetary Policy Outlook

Mortgage Rates Fall Below 6% for First Time Since 2022

Following a stock market sell-off, investors rushed to the safety of the bond market, driving yields lower and mortgage rates to follow suit. The average rate on a 30-year fixed mortgage fell to 5.99% on Monday, marking its lowest level since 2022. At this time last year, the rate was 6.89%. The drop in yields is due to many factors, including increased uncertainty over tariffs and cooling inflation shown in the latest GDP report.

Although rates fell to the 5% range for a few hours back in January, they were also able to bounce back that same day. According to Matthew Graham, chief operating officer at Mortgage News, it will not happen this time. If the broader bond market does not sell off in a major way, mortgage rates have a better chance of staying closer to present levels than they did last time, and if the broader bond market improves further, mortgage rates could edge even lower.

This drop in rates will lead to more refinancing, which has been rising over the last couple of weeks, with home loan refinancing applications 130% higher than they were last year. Lower rates also boost the purchasing power for homebuyers entering the spring market, with an estimated 5.5 million additional households now qualifying for a mortgage compared to a year ago.



Yen Weakens After Sanae Takaichi Picks Dovish Candidates for Bank of Japan

The yen fell against the dollar after Prime Minister Sanae Takaichi selected two academics known for dovish views to fill upcoming vacancies on the Bank of Japan's policy board. The currency moved toward ¥156 per dollar following the announcement, adding to losses that had already built since her election victory earlier this month.

Investors had viewed the board appointments as an early signal of how firmly Takaichi intends to shape monetary policy. Both Ayano Sato and Toichiro Asada have previously supported lower interest rates and continued stimulus, raising questions about how smoothly Governor Kazuo Ueda's normalization campaign will proceed. The BOJ has gradually lifted rates from crisis-era levels, and markets had been pricing in the possibility of another increase in the spring. That outlook now looks less certain.

Sources: Bloomberg, CNBC, Macrotrends, Financial Times

Takaichi's broader policy stance has also fueled unease. She has outlined plans for proactive fiscal spending and has previously suggested that inflation above the 2% target would not necessarily be problematic. While some analysts believe Ueda retains enough authority to keep policy on its current path, the nominations have introduced fresh doubt. Our medium-to-long-term short dollar-yen trade remains viable. Takaichi's nominations have not significantly changed implied market pricing for BOJ normalization, and JGB yields remain historically attractive. Our position is also driven by a new catalyst: potential Fed intervention. FOMC minutes from the January meeting confirmed that the Fed rate-checked dollar-yen. Historically, this has preceded significant rallies.

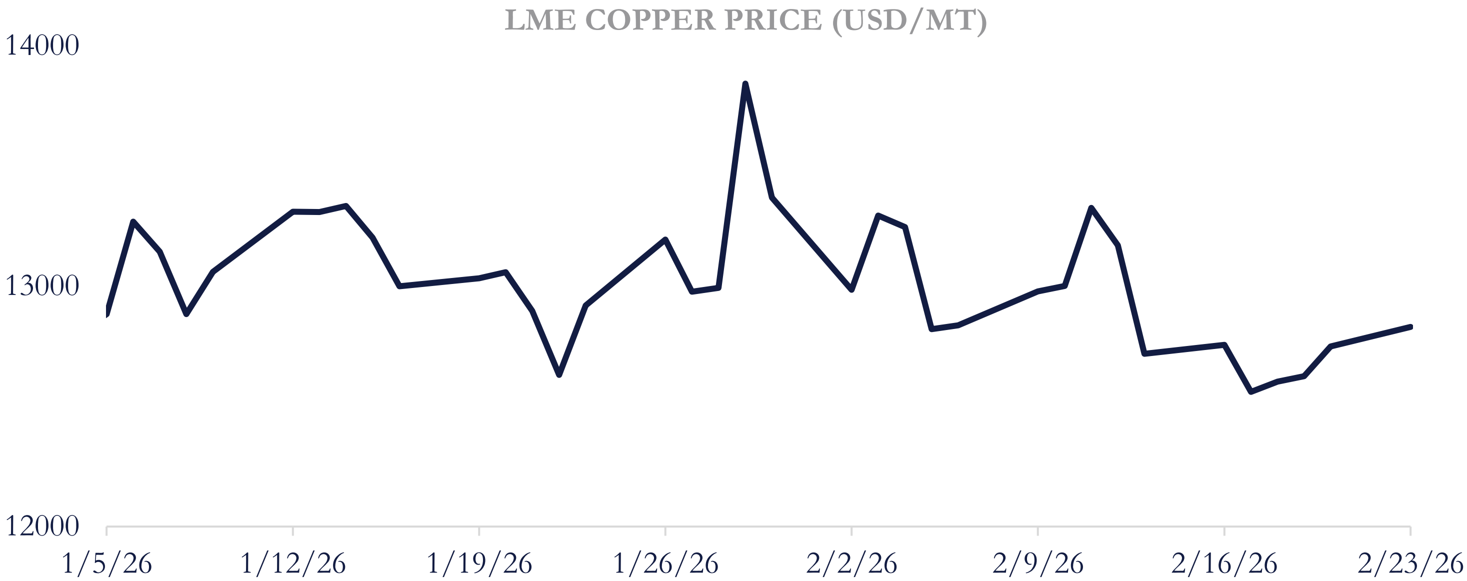
Commodities Outlook

Copper Eases as Traders Weigh Impact of US Tariff Shift on China

Copper prices edged lower on Monday as market participants were weighing the changing US tariff environment and its implications for Chinese demand. Copper traded 0.7% lower on the London Metal Exchange, closing at $12,868.50 per ton, falling below the $13,000 level after a narrow gain last week. This follows Friday's Supreme Court ruling, which struck down President Trump's use of emergency powers to impose reciprocal trade tariffs.

In response, the US administration announced a 15% across-the-board global tariff, which is less punitive than the prior structure and, in theory, provides some relief to China's metal-intensive export sector. However, the reprieve is likely to be temporary, as the existing sectoral tariffs on copper products, aluminum, and steel are unaffected by the Supreme Court ruling. Copper has been consolidating near record highs since hitting an all-time peak in January, having been subject to whipsaw trading last year due to shifting US policy, supply disruptions, and elevated demand forecasts driven by the energy transition. Despite this, persistently high prices have begun to weigh on physical demand in China (the world's largest copper consumer), contributing to rising inventories.

The market will now shift its focus to the reopening of Chinese markets on Tuesday following the Lunar New Year holiday, with traders watching closely for signals on whether returning buyers provide a demand catalyst or confirm softening appetite at current price levels.



Oil Prices Hit Seven-Month High Amid US-Iran Tensions

Oil prices have reached a seven-month high as traders reacted to heightened tensions between the U.S. and Iran amid nuclear talks. U.S. crude futures rose to $67.28 a barrel on Monday, while Brent crude reached its highest level since last July at $72.50 a barrel.

Sources: Financial Times, Bloomberg, Business Insider, The Guardian

James Hosie, research analyst at Shore Capital, believes the oil markets were “rationally trying to price in a risk premium for oil prices, given the disruption a conflict could have on global supplies”.

Washington and Tehran are set to hold a third round of discussions on nuclear talks in Geneva. The negotiations signal that President Trump’s team believes Iran is open to diluting its stockpile of highly enriched uranium and abandoning its nuclear program. On Monday, Trump said it would be a “very bad day” for Iran if it did not come to a deal with the U.S. Prior to negotiations, both countries had engaged in military force, with the U.S increasing its military presence in the Middle East over the weekend. Analysts note that current price levels are largely driven by anticipation of potential supply disruptions rather than actual production losses, suggesting oil could face volatility depending on how the negotiations unfold.

Emerging Markets Outlook

Top Active Emerging-Market ETF Sees Surge in Inflows as US Tariffs Struck Down

After the Supreme Court's decision to strike down President Trump's wide-reaching global tariffs, emerging market equities saw a significant boost. This led to a surge in demand for risk assets. The $20.3 billion Avantis Emerging Markets Equity ETF is the largest actively managed emerging market ETF. It saw a single-day inflow of $429.5 million on Friday, pushing assets to an all-time high. Following the ruling, President Trump introduced a 15% across-the-board tariff structure to replace the prior framework, effectively removing the more punitive tariffs previously imposed on China, India, and Brazil.

Emerging market ETFs collectively attracted more than $35 billion in net inflows year-to-date, with equity markets in Brazil, Colombia, and South Korea trading near all-time highs. For the week ended February 20, inflows into US-listed emerging market ETFs totaled $2.61 billion. Among individual countries, South Korea led with the highest inflows at $694.7 million, driven by continued strength in Asia's semiconductor rally.

Another notable trend is the shift from passive to actively managed emerging market ETFs. Although passive products still comprise more than 90% of the $553 billion emerging market ETF universe, nearly 15% of year-to-date inflows have gone into active products. This reflects investors' desire to reduce concentration risk in the traditional emerging market index, which allocates roughly 80% to Asia and more than 25% to China. Latin America has also emerged as a favored destination, with the MSCI EM Latin America Index rising to an eleven-year high.

South Korea’s Kospi Breaks 6000

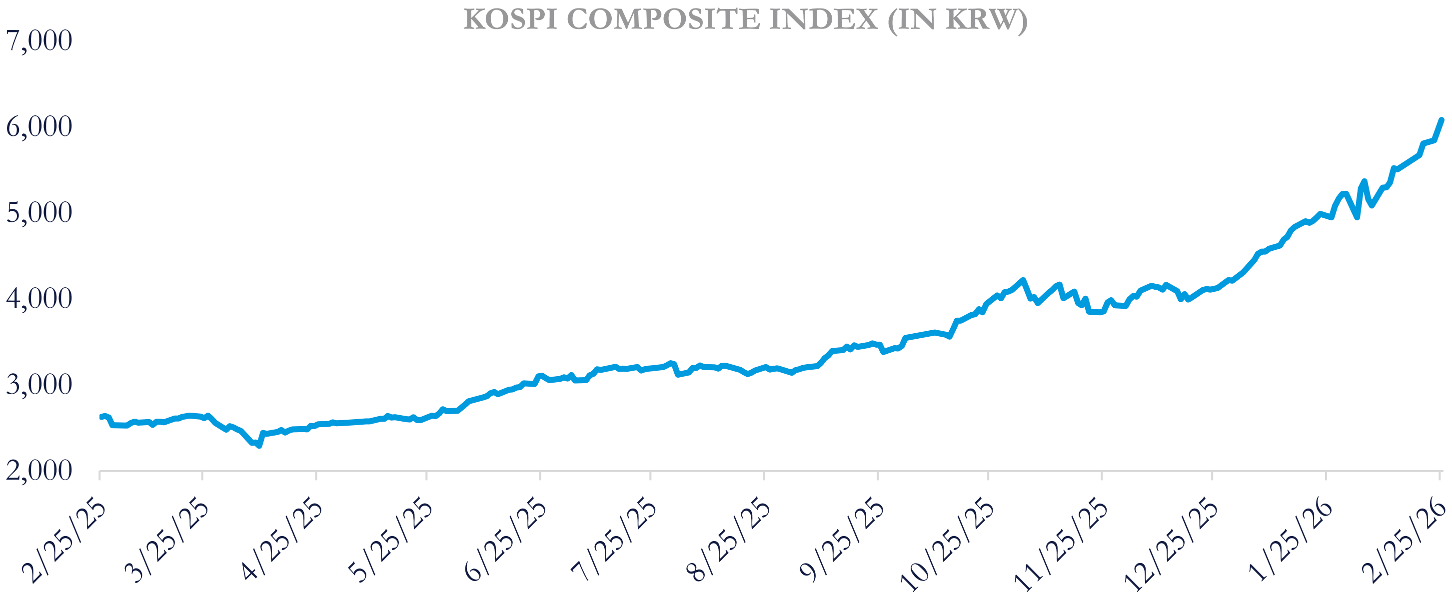
South Korea’s Kospi index has surged more than 40 percent this year, breaking above the 6,000 level for the first time and placing it among the strongest-performing equity markets globally. The rally has been driven largely by semiconductor and automotive stocks, both of which have benefited from renewed optimism in global markets and sustained demand tied to artificial intelligence.

Chipmakers have been central to the move. Heavy investment by major technology firms in AI infrastructure has tightened the supply of memory products such as DRAM, NAND, and high-bandwidth memory. As a result, shares of Samsung Electronics and SK Hynix have climbed sharply, with analysts projecting significant earnings growth next year as pricing remains firm. Expectations that the memory shortage could persist into 2027 and 2028 have further supported valuations.

Automakers have also contributed to gains, particularly as companies such as Hyundai reposition toward AI-related investments, including robotics and autonomous-driving infrastructure. Beyond sector strength, domestic reforms under President Lee Jae Myung aimed at improving corporate governance and shareholder returns have helped narrow the long-standing “Korea discount.”

With global banks raising their index targets, investors appear increasingly confident that structural reform and AI demand are reshaping South Korea’s equity outlook.

Sources: The Guardian, Bloomberg, Wall Street Journal



Note: Adjusted Closing Prices

M&A Environment

Meta Lands Multibillion-Dollar Chip Deal with AMD

Meta has landed a multibillion-dollar chip deal with AMD, which could lead to Facebook's owner taking a 10% stake in the group. The social media giant announced it would acquire customized chips with a capacity of 6 gigawatts from AMD as part of its race to create and deploy its AI models. Lisa Su, AMD's chief executive, said "each gigawatt ... is worth double-digit billions" in terms of the deal. AMD shares surged as much as 14% on Tuesday following the announcement, giving the company a market capitalization of $342 billion. AMD issued Meta with a performance-based warrant, essentially giving the option to buy up to 160 million AMD shares in tranches at an exercise price of $0.01 as Meta buys successive orders of processors.

The deal represents the latest transaction in the industry and mirrors a similar deal AMD struck with OpenAI in October, where the ChatGPT creator was offered a 10% stake in the chip company over time. The transaction also marks the latest sign of Big Tech customers looking to diversify their supply away from Nvidia, which last week announced its own multiyear deal with Meta to supply it with millions of chips over the next couple of years.

Meta has said it will nearly double its AI infrastructure spending this year to as much as $135 billion, making AMD a critical partner alongside Nvidia and Meta's own custom silicon. The chips, a custom version of AMD's MI450, will be used primarily for inference workloads and will require 6 gigawatts of power, equivalent to the amount needed by 5 million US households for a year.

Gilead Acquires Arcellx in $7.8 Billion CAR T-Cell Bet

Gilead Sciences has agreed to acquire the remaining stake in its development partner Arcellx in a deal valued at approximately $7.8 billion. Gilead will pay $115 per share in cash for the 88.5% of Arcellx it does not already own, representing a 79% premium to Arcellx's previous closing price of $64.11. Arcellx shares surged nearly 78% in premarket trading following the announcement.

In addition to the upfront payment, Arcellx shareholders will receive non-transferable contingent value rights worth up to $5 per share, tied to future sales performance of anitocabtagene autoleucel, or anito-cel. The investigational CAR T-cell therapy is being developed as a treatment for relapsed or refractory multiple myeloma.

Sources: Yahoo Finance, Financial Times, Wall Street Journal

The two companies first partnered in 2022 to co-develop and co-commercialize anito-cel, with Gilead making an upfront payment and a $100 million equity investment, alongside potential milestone payments and royalties. By acquiring Arcellx outright, Gilead gains full control over drug development and commercialization while eliminating future payout obligations. The U.S. Food and Drug Administration is currently reviewing anito-cel for approval, with a decision expected later this year.

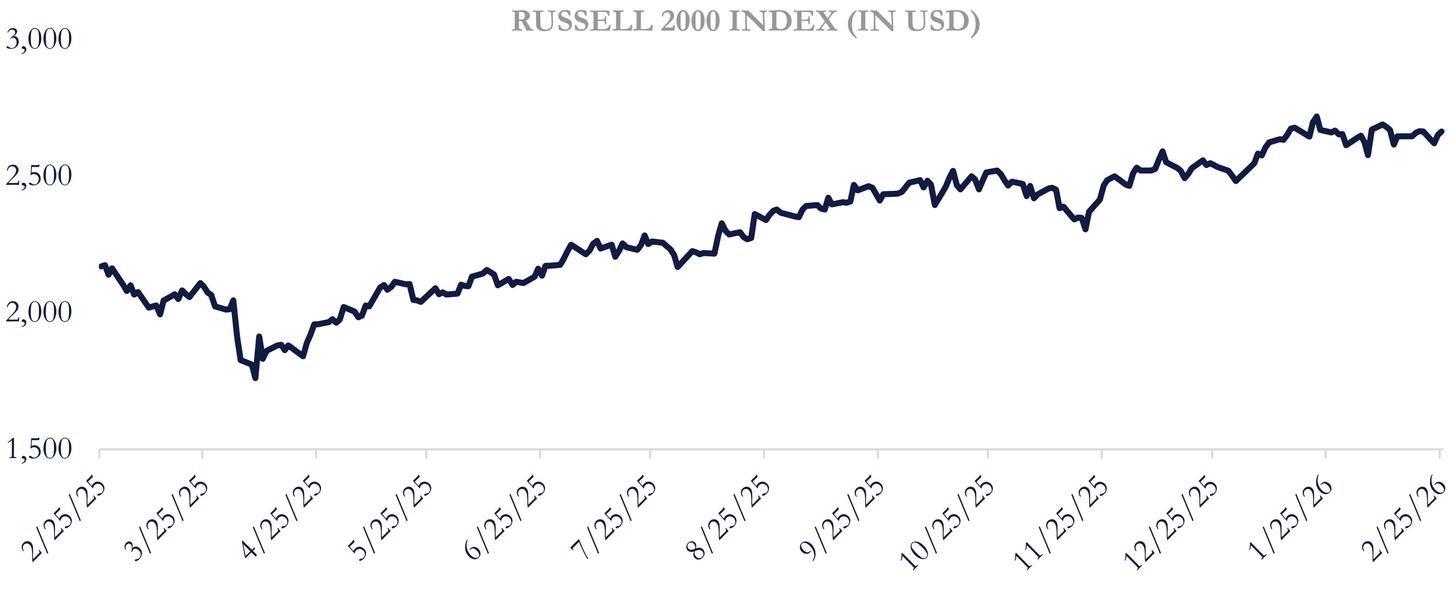
Trade of the Week

The Rotation Trade: Long Defensive and Cyclical Sectors – Dhilan Vyas

Investors have preferred the Nasdaq and the Magnificent 7 over the past 10 to 15 years because those names have generated the highest returns. However, that trend has shifted this year. U.S. technology is underperforming relative to the broader market. The Nasdaq is down roughly 0.36% year to date, while the Magnificent 7 has declined about 7%. In contrast, the Russell 2000 has staged a strong rally, rising more than 6% year to date. This divergence suggests a clear rotation out of large-cap technology and into more defensive and cyclical sectors.

There are two primary drivers behind this shift. First, the economy is forecasted to accelerate in 2026. Consensus GDP growth is projected to be around 2.5% year over year, and January's ISM reading came in well above expectations at 52.6 versus 48.5. With expansion gaining traction, investors have rotated into cyclical sectors such as financials and industrials to capitalize on improving growth conditions.

Second, the economy appears to be entering a new phase of generative AI. The past few years reflected the "build-out" phase, which largely benefited major technology firms. Investors now expect an "implementation" phase, where companies in defensive and cyclical sectors begin leveraging AI to improve efficiency and productivity. If realized, this broader adoption could support earnings growth and justify higher valuations outside of mega-cap tech.



Note: Adjusted Closing Prices