

## Primary Market Drivers

### Earnings & Economic Data

With 74% of the S&P 500 reporting, the blended earnings growth rate for Q4 S&P 500 EPS is +13.2%, making Q4 a near lock for cementing a fourth straight quarter of double digit earnings growth. This week, 58 S&P 500 companies are reporting (11.6% of the index). Notable companies reporting include: Medtronic (MDT 2/17), Palo Alto Networks (PANW 2/17), Analog Devices (ADI 2/18), Booking Holdings (BKNG 2/18), Carvana (CVNA 2/18), DoorDash (DASH 2/18), Deere & Co (DE 2/19), Quanta Services (PWR 2/19), Walmart (WMT 2/19), Newmont (NEM 2/19), among many others. Expect outsized attention PANW due to software industry scrutiny and Walmart due to its lofty P/E despite being a defensive retailer. On the economic front, we will see Empire Manufacturing (2/17), Retail Sales (2/17), NAHB Housing Market Index (2/17), Durable Goods Orders (2/18), Building Permits & Housing Starts (2/18), Industrial Production (2/18), Philadelphia Fed Index (2/19), Wholesale Inventories (2/19), Pending Home Sales (2/19), Q4 US GDP (2/20), December Core PCE (2/20), PMI Services & Manufacturing (2/20), Michigan Consumer Sentiment (2/20), and New Home Sales (2/20). Attention should be centered on Retail Sales, Core PCE, and GDP.

### Fed Policy

FY 2026 rate cut expectations are on the move. The market is now pricing in a 49.2% chance of three or more rate cuts by year end, up from 25.6% just one month ago. A mix of good but not great economic data, low inflation readings, and a new Fed chair incoming seem to be the cause for the optimism surrounding the cuts. Odds of a cut before Powell leaves office remain muted at just 26.9%, though the market is placing a 68.6% chance that we get a rate cut at Warsh's first meeting as Chair on June 17th. Expect these odds to shift quite a bit over time as we get more data and more information on what to expect from Warsh, but it's clear that the market is beginning to expect more dovish policy moving forward than it has in some time.

### Fear Narratives & Basket Trades

Narratives and associated trade baskets have been wreaking havoc on growth stocks over the past few months, so we're adjusting this section to keep track of why the volatility continues, whether it makes sense or not. The pervasive fear among Wall St currently being peddled is that software (SaaS in particular) is going to be squeezed/killed by agentic AI. Thus, hedge funds are heavily shorting *all* software with little individual distinction. At the same time, there is extreme volatility in the hyperscalers (MSFT, AMZN, META, etc) for spending money on AI infrastructure because the market doesn't think the investment will pay off, despite record earnings and CEO optimism. The concurrent narratives of "AI isn't worth it" but also "AI will be the end of software as we know it" are blatantly at odds but traders have successfully created panic in both segments. Also curiously caught up in the basket of names being sold are the companies *doing* the disrupting. The other major observation in this environment is the parabolic trends in defensive sectors. Typically, this occurs with the macro taking a major turn for the worse, but the macro today is relatively healthy - strong GDP, strong earnings growth, stable economic data, low unemployment, Fed easing cycle, falling interest rates, etc. We now find ourselves with a glut of low margin, low-growth defensive names trading parabolic charts at P/E's that would make big tech blush (see: Walmart 46.9, Kroger 64.2, Hershey 51.1, Colgate 36.8 vs. Microsoft 25.0, Amazon 27.2). The question remains, "but why?" We'll see how long the fear-based volatility lasts, though it's important to note retail investors bought the dip last week in historic fashion.

All referenced market information, statistics, and economic data were gathered from StreetAccount, a paid subscription data service provided by FactSet Research Systems Inc.

Market Returns 2/13/2026		
Category	Ticker	YTD%
<b>Domestic Equity</b>		
S&P 500	SPY	-0.02%
Dow Jones	DIA	3.10%
Large-Cap Growth	QQQ	-2.02%
Large-Cap Value	IVE	3.88%
Mid Caps	MDY	7.85%
Small Caps	IWM	6.82%
<b>International Equity</b>		
Developed Intl	EFA	8.55%
Emerging Markets	EEM	11.72%
<b>Fixed Income</b>		
Core Bonds	AGG	1.44%
Corporate Bonds	LQD	1.65%
High Yield Bonds	HYG	0.77%
ST Treasuries	IEI	0.97%
LT Treasuries	TLT	3.33%
International Bonds	BNDX	1.25%



Performance data and stock chart were gathered from eSignal, a paid market screening application provided by Intercontinental Exchange, Inc.

## Current Environment Summary

What's Working	What's Not	What's Next
Inflation Subdued	Stubborn Elevated Interest Rates	<b>58 S&amp;P 500 Companies Report Earnings</b>
Historically Strong Earnings Growth	Uncertain Labor Market	<b>Earnings: PANW, DASH, DE, PWR, WMT</b>
AI & Tech Revolution Bull Market	Continued Volatility in Growth Assets	<b>December Core PCE (2/20), GDP (2/20)</b>
Trade & Global Investment Deals	Tariff Uncertainty	Retail Sales 2/17), Housing Market Data
Fed Easing Cycle	Cryptocurrency Slump	Watching volatility in growth, crypto
Mid- & Small-Caps Rallying	Trade Narratives Making Little Sense	Still Waiting on SCOTUS Tariff Ruling

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