Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: February 17, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.2%. Chinese markets were closed for the Lunar New Year and Spring Festival holiday. US equity index futures are signaling a lower open.

With 371 companies having reported so far, S&P 500 earnings for Q4 are running at $73.60 per share compared to estimates of $71.07, which is up 8.3% from Q4 2024. Of the companies that have reported thus far, 75.5% have exceeded expectations, while 19.7% have fallen short of expectations.

The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our website. We highlight recent publications below with new items of the day in bold.

Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"US Foreign Policy: Comparing the New vs. Old" (2/9/26) + podcast	**"The Warsh Doctrine" (2/17/26) + podcast**	Q1 2026 Report Q1 2026 Rebalance Presentation	Confluence Mailbag The Case for Hard Assets

Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Our *Comment* today opens with an overview of current dynamics in both the US stock market and the commercial office market. We next review other international and US developments that could affect the financial markets today, including a conciliatory speech by US Secretary of State Rubio at the Munich Security Conference over the long weekend and signs that Japanese Prime Minister Takaichi isn't resisting further interest-rate hikes by the Bank of Japan.

US Stock Market: As of this writing, stock index futures are pointing to another sizable price decline in technology shares today, with many trading down more than 1%. One apparent factor is a new Bank of America survey showing that the share of major fund managers who believe companies are currently over-investing is now at a record high. The survey results will feed into growing concerns about a bubble in investment related to artificial intelligence. As a result, investors will likely continue to rotate into value sectors such as Consumer Staples.

US Commercial Office Market: According to new data from Trepp, the delinquency rate for office loans in commercial mortgage-backed securities climbed to a record 12.34% in January. As lenders increasingly conclude that today's lower office demand is permanent, the data suggests they are abandoning their "extend and pretend" strategy that artificially held down delinquency figures over the last couple of years.

- All the same, the debt on some property types, including industrial buildings and grocery-anchored retail centers, continues to perform well, as those building benefit from steadier demand and more resilient cash flows.
- In any case, the high office delinquencies serve as a reminder that some sectors of the economy are facing increased stress, even if overall economic growth surprises to the upside.

US Financial Regulation: In a speech yesterday, Fed Vice Chair for Supervision Bowman said the central bank will adjust its rules to encourage banks to get more involved in mortgage origination and servicing, potentially reversing some of the migration of mortgage activity to non-banks over the past 15 years. The move is designed to boost the supply of mortgages and bring down mortgage costs. This adjustment would be on top of the administration's broader action to deregulate the banking sector, which is expected to boost bank profits and stock values.

US Fiscal Policy: Congress on Friday failed to meet a deadline to pass a full-year funding bill for the Department of Homeland Security, leaving the agency in a technical shutdown. However, most of the department's functions, such as the Transportation Security Administration's security screenings at airports, will continue with workers being unpaid. For now at least, the limited governmental shutdown is expected to have little if any significant impact on the economy or financial markets.

US-European Security Policy: At the Munich Security Conference over the weekend, US Secretary of State Rubio delivered a relatively conciliatory speech aimed at assuring European leaders that Washington has no intention of abandoning them. The speech was reportedly a relief after the much more hard-hitting speech of Vice President Vance last year, but reports say many European leaders are still skeptical of US intentions given that Rubio also brought up several criticisms of Europe that Vance had made.

- At one level, Rubio's relatively warm speech may simply reflect his personality versus that of Vance. Historically, Rubio has been much more supportive of traditional US foreign policy. Since other officials in the US administration remain much more hawkish, and since the Europeans can't "unsee" US moves to date (such as the threat to take over Greenland), we suspect the Europeans will continue looking to rearm, boost economic growth, and fend for themselves.

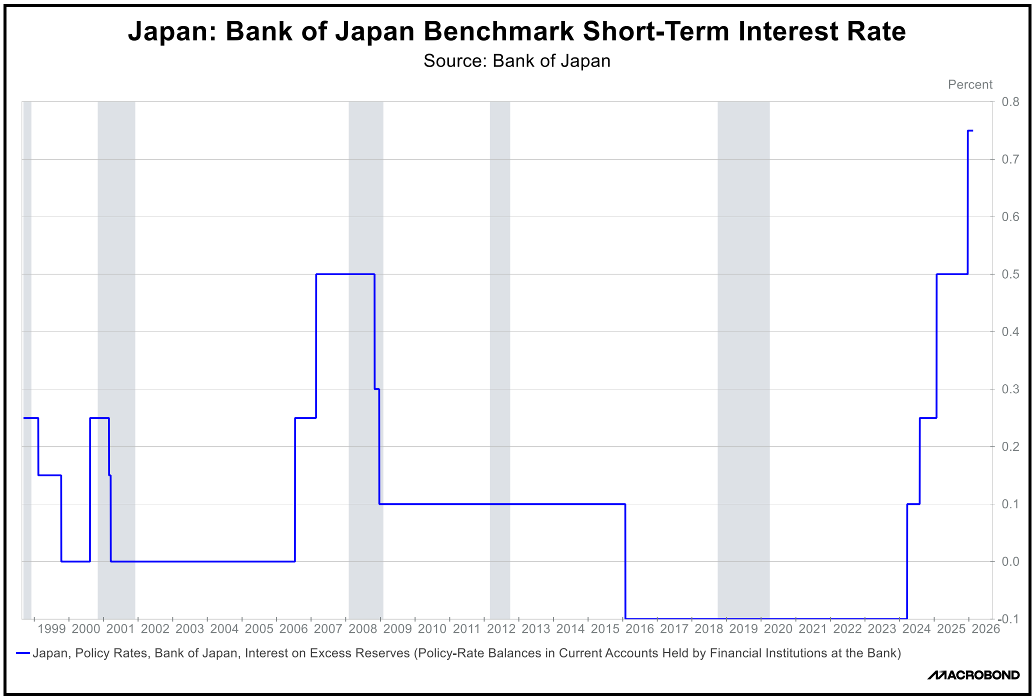
- As we have argued in the past, adopting more stimulative economic policies and boosting defense spending will likely be positive for European stocks going forward, especially in the defense sector.
- All the same, we have also argued in the past that pushing the Europeans to fend for themselves is a risk, given that the effort will weaken US influence over the Europeans and spur them to take actions potentially at odds with US interests.
- For example, European leaders at the Munich conference openly discussed how they are starting to discuss developing an independent European nuclear arsenal. This is consistent with our view that the evolving US foreign policy could well spark a new, global nuclear arms race (which, incidentally, would likely be positive for uranium prices).

European Union-China: The European Commission has drafted new legislation to protect its key manufacturing industries from low-priced Chinese goods. One change would require electric vehicles to consist of at least 70% EU content to be eligible for public subsidies. Under another rule, at least 25% of products made from aluminum and 30% of plastics used for windows and doors in the construction sector must be manufactured in the EU to qualify for public subsidies or benefit from public contracts. The laws are likely to worsen EU-China trade tensions.

China: Late Friday, the *Wall Street Journal* carried an interesting article showing that Chinese state-owned companies have been actively selling down their positions in high-flying technology stocks. According to the article, the sales reflect government pressure to help prevent any destabilizing bubble in the stocks but allow for a "slow bull" market. The effort could potentially keep Chinese tech stocks looking attractive even if prices for US tech shares falter more substantially.

Japan: Prime Minister Takaichi and Bank of Japan Governor Ueda met briefly yesterday to discuss the country's general economic and monetary situation, but Ueda later insisted to reporters that the prime minister didn't make any particular request regarding monetary policy, just as she refrained from broaching the topic of interest rates in their initial meeting in November. If true, that suggests Takaichi is satisfied with the slow pace of BOJ rate hikes and implies that investors should expect more of the same so long as the Japanese economy continues on its current path.

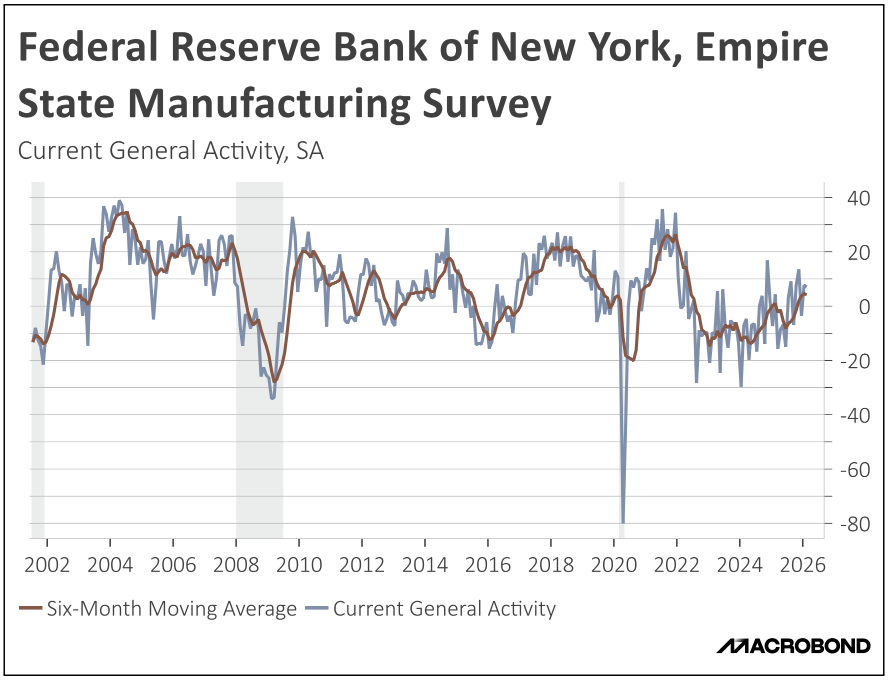
- Separately, data yesterday showed Japanese gross domestic product grew at an annualized rate of just 0.2% in the fourth quarter of 2025, little more than one-tenth the expected growth rate. Since Japanese GDP contracted at a rate of 2.3% in the third quarter, the data suggests the economy barely avoided the conventional definition of recession in the second half of the year.
- All the same, Japanese GDP in full-year 2025 rose a healthy 1.1%, marking its best annual growth since 2022.



United Kingdom: In data released today, the national unemployment rate in the three months ended in December rose to a five-year high of 5.2%, up from 5.1% in the previous three-month period. Youth unemployment rose to 16.1%, the highest in more than a decade. The figures reflect the on-going slowdown in British economic growth, which is now widely expected to push the Bank of England to cut interest rates again as soon as March. In response, the pound has continued its recent depreciation, falling 0.7% so far today to $1.3539 per dollar.

US Economic Releases

The New York FRB said its February Empire State Manufacturing Index fell slightly to a seasonally adjusted 7.1, roughly in line with estimates of 7.0 and the January reading of 7.7. This index is designed so that positive readings point to expanding factory activity in New York state. At its current level, the index suggests manufacturing continues to have momentum. The chart below shows how the index has fluctuated since 2002, but the most recent reading currently sits slightly above its six-month average.



The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
EST	Indicator			Expected	Prior	Rating
10:00	NAHB Housing Market Index	m/m	Feb	38	37	*
Federal Reserve						
EST	Speaker or Event	District or Position				
12:45	Michael Barr Speaks on AI and the Labor Market	Members of the Board of Governors				
14:30	Mary Daly Speaks on AI and the Economy	President of the Federal Reserve Bank of San Francisco				

Foreign Economic News

We monitor numerous global economic indicators on a continuous basis. The most significant international news that was released overnight is outlined below. Not all releases are equally significant; thus, we have created a star rating to convey to our readers the importance of the various indicators. The rating column below is a three-star scale of importance, with one star being the least important and three stars being the most important. We note that these ratings do shift over time as economic circumstances change. Additionally, for ease of reading, we have also color-coded the market impact section, which indicates the effect on the foreign market. Red indicates a concerning development, yellow indicates an emerging trend that we are following closely for possible complications, and green indicates neutral conditions. We will add a paragraph below if any development merits further explanation.

Country	Indicator			Current	Prior	Expected	Rating	Market Impact
ASIA-PACIFIC								
Japan	GDP SA	q/q	4Q P	0.1%	-0.7%	0.4%	***	Equity and bond neutral
	GDP Deflator	q/q	4Q P	3.4%	3.4%	3.2%	***	Equity and bond neutral
	Capacity Utilization	y/y	Dec	1.3%	-5.3%		**	Equity and bond neutral
	Industrial Production	y/y	Dec F	2.6%	2.6%		***	Equity and bond neutral
	Tertiary Industry Index	m/m	Dec	-0.5%	-0.4%	-0.2%	***	Equity and bond neutral
New Zealand	Food Prices	m/m	Jan	2.5%	-0.3%		***	Equity and bond neutral
India	Wholesale Prices	m/m	Jan	1.81%	0.83%	1.42%	*	Equity and bond neutral
	Trade Balance	m/m	Jan	-$34678m	-$25046m	-$25400m	**	Equity and bond neutral
	Exports	y/y	Jan	0.6%	1.9%		**	Equity and bond neutral
	Imports	y/y	Jan	19.2%	8.8%		**	Equity and bond neutral
EUROPE								
Eurozone	Industrial Production WDA	y/y	Dec	1.2%	2.5%	1.3%	**	Equity and bond neutral
	ZEW Survey Expectations	m/m	Feb	39.4	40.8		**	Equity and bond neutral
Germany	CPI	y/y	Jan F	2.1%	2.1%	2.1%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jan F	2.1%	-0.1%	2.1%	**	Equity and bond neutral
	ZEW Survey Expectations	m/m	Feb	58.3	59.6	65.2	**	Equity bearish, bond bullish
	ZEW Survey Current Situation	m/m	Feb	-65.9	-72.7	-65.9	**	Equity and bond neutral
UK	Average Weekly Earnings 3M/YoY	m/m	Dec	4.20%	4.60%	4.60%	**	Equity and bond neutral
	ILO Unemployment Rate 3Mths	m/m	Dec	5.20%	5.10%	5.10%	**	Equity and bond neutral
	Claimant Count Rate	m/m	Jan	4.40%	4.30%		**	Equity and bond neutral
	Jobless Claims Change	m/m	Jan	28.6k	2.7k		**	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	13-Feb	437.0b	430.6b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	13-Feb	452.7b	447.4b		*	Equity and bond neutral
Russia	CPI	y/y	Jan	5.00%	5.59%	6.45%	***	Equity bearish, bond bearish
	Core CPI	y/y	Jan	5.43%	5.44%		**	Equity and bond neutral
AMERICAS								
Canada	Housing Starts	m/m	Jan	238.0k	280.7k	262.5k	**	Equity and bond neutral
	Manufacturing Sales	m/m	Dec	0.6%	-1.3%	0.5%	**	Equity and bond neutral

Financial Markets

The table below highlights some of the indicators that we follow daily. Again, the color coding is similar to the foreign news description above. We will add a paragraph below if a certain move merits further explanation.

Fixed Income	Today	Prior	Change	Trend
3-mo T-bill yield (bps)	359	360	-1	Down
U.S. Sibor/OIS spread (bps)	366	365	1	Down
U.S. Libor/OIS spread (bps)	363	363	0	Down
10-yr T-note (%)	4.03	4.05	-0.02	Down
Euribor/OIS spread (bps)	200	200	0	Down
Currencies	**3 Mo**			
Dollar	Down	US		Down
Euro	Up	Euro		Up
Yen	Up	Japan		Up
Pound	Up	UK		Up
Franc	Up	Switzerland		Up
Central Bank Action	**Actual**	**Prior**	**Expected**	
Bank of Russia Key Rate	15.50%	16.00%	16.00%	Below Forecast

Commodity Markets

The commodity section below shows some of the commodity prices and their change from the prior trading day, with commentary on the cause of the change highlighted in the last column.

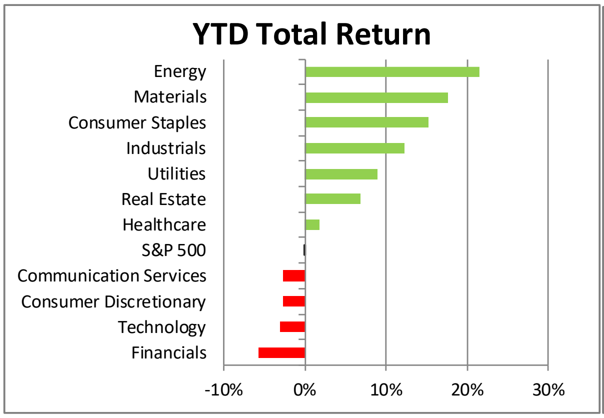
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$68.68	$68.65	0.04%	
WTI	$63.79	$62.89	1.43%	
Natural Gas	$3.15	$3.24	-2.90%	
Crack Spread	$24.23	$23.93	1.23%	
12-mo strip crack	$25.59	$25.28	1.23%	
Ethanol rack	$1.81	$1.81	-0.01%	
Metals				
Gold	$4,935.62	$4,992.08	-1.13%	
Silver	$74.68	$76.61	-2.53%	
Copper Contract	$575.85	$586.25	-1.77%	
Grains				
Corn contract	$438.75	$442.00	-0.74%	
Wheat contract	$542.00	$548.50	-1.19%	
Soybeans contract	$1,147.50	$1,148.50	-0.09%	
Shipping				
Baltic Dry Freight	2,100	2,083	17	

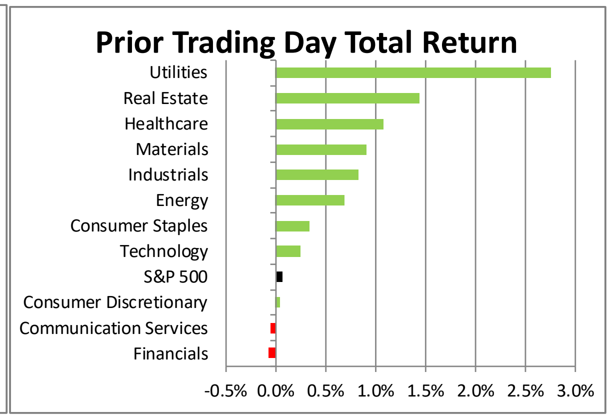
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the eastern slopes of the Rocky Mountains to the East Coast, with cooler-than-normal temperatures in the Pacific Northwest. The precipitation outlook calls for wetter-than-normal conditions for most of the country, with dry conditions expected in the Deep South and Texas.

Data Section

US Equity Markets – (as of 2/13/2026 close)

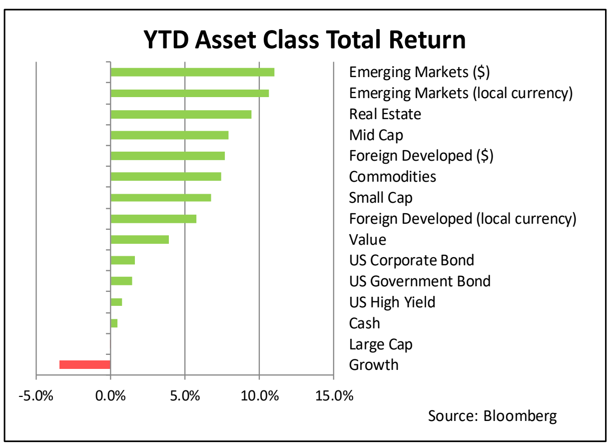




(Source: Bloomberg)

These S&P 500 and sector return charts are designed to provide the reader with an easy overview of the year-to-date and prior trading day total return. Sectors are ranked by total return; green indicating positive and red indicating negative return, along with the overall S&P 500 in black. These charts represent the new sectors following the 2018 sector reconfiguration.

Asset Class Performance – (as of 2/13/2026 close)

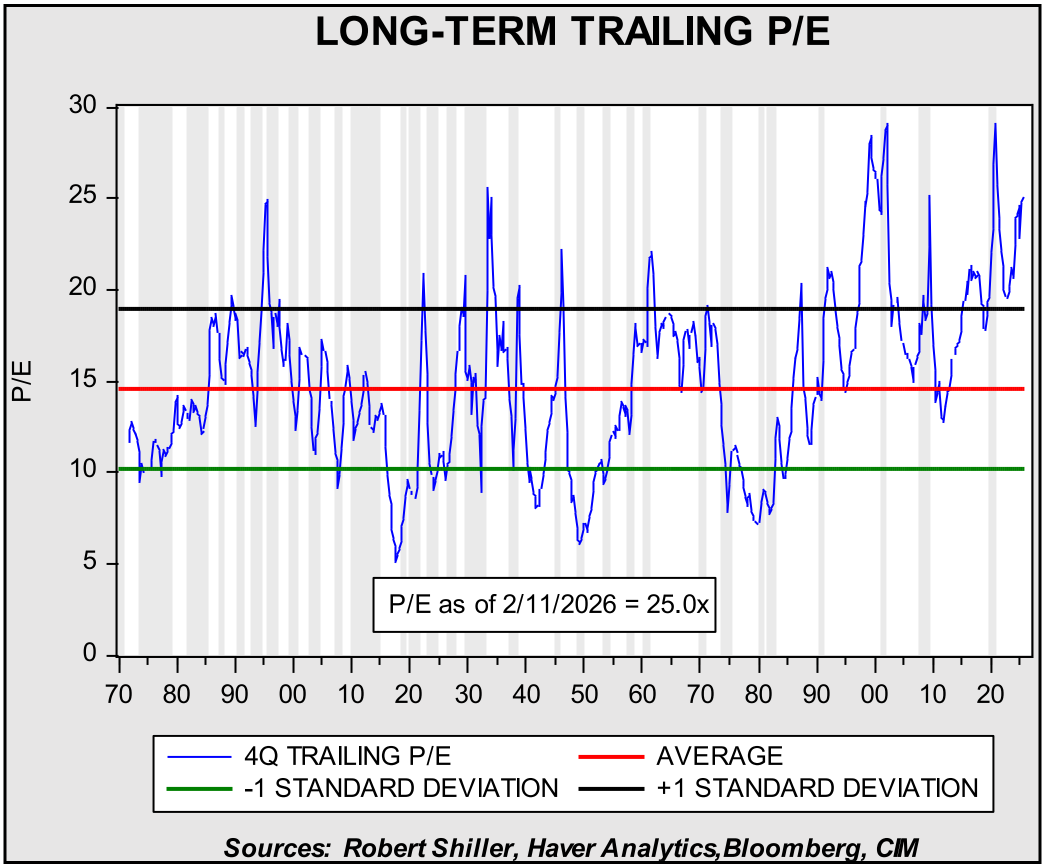


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

Asset classes are defined as follows: Large Cap (S&P 500 Index), Mid Cap (S&P 400 Index), Small Cap (Russell 2000 Index), Foreign Developed (MSCI EAFE (USD and local currency) Index), Real Estate (FTSE NAREIT Index), Emerging Markets (MSCI Emerging Markets (USD and local currency) Index), Cash (iShares Short Treasury Bond ETF), US Corporate Bond (iShares iBoxx $ Investment Grade Corporate Bond ETF), US Government Bond (iShares 7-10 Year Treasury Bond ETF), US High Yield (iShares iBoxx $ High Yield Corporate Bond ETF), Commodities (Bloomberg total return Commodity Index), Value (S&P 500 Value), Growth (S&P 500 Growth).

P/E Update

February 12, 2026



Based on our methodology,[1] the current P/E is 25.0x and is unchanged from the previous report. Last week, the stock price index and earnings were relatively unchanged.

This report was prepared by Confluence Investment Management LLC and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change. This is not a solicitation or an offer to buy or sell any security.

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[1] This chart offers a running snapshot of the S&P 500 P/E in a long-term historical context. We are using a specific measurement process, similar to *Value Line*, which combines earnings estimates and actual data. We use an adjusted operating earnings number going back to 1870 (we adjust as-reported earnings to operating earnings through a regression process until 1988), and actual operating earnings after 1988. For the current quarter, we use the Bloomberg estimates which are updated regularly throughout the quarter; currently, the four-quarter earnings sum includes three actual quarters (Q1, Q2, Q4) and one estimate (Q3). We take the S&P average for the quarter and divide by the rolling four-quarter sum of earnings to calculate the P/E. This methodology isn't perfect (it will tend to inflate the P/E on a trailing basis and deflate it on a forward basis), but it will also smooth the data and avoid P/E volatility caused by unusual market activity (through the average price process). Why this process? Given the constraints of the long-term data series, this is the best way to create a long-term dataset for P/E ratios.