Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: February 18, 2026 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.8% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.1%. Chinese markets were closed for the Lunar New Year and Spring Festival holiday. US equity index futures are signaling a higher open.

With 379 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, 74.9% have exceeded expectations, while 20.3% 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.
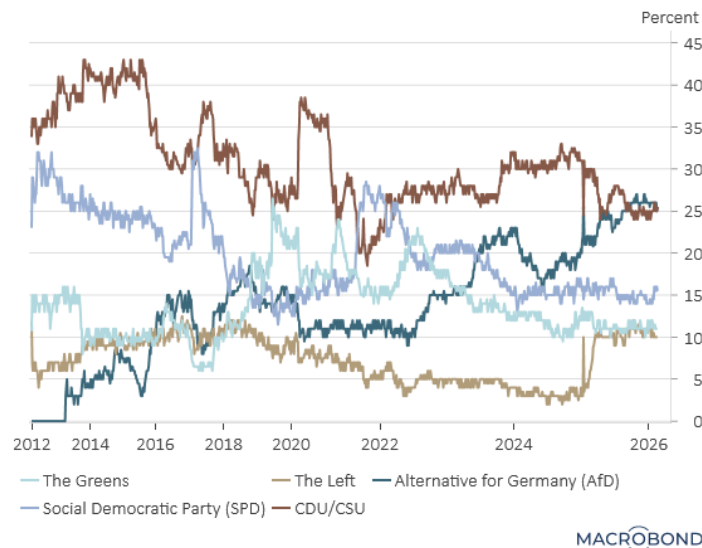

Our *Comment* opens with our take on the EU's efforts to safeguard its institutions from the far right. We then examine the escalating fight over data centers heading into the midterm elections. Next, we discuss how software companies are working to calm AI fears, signs of progress in Iran-US talks, and a possible tax on social media platforms. We close with a summary of key economic data from the US and global markets.

Far Right Fear: As Europe braces for a potential surge in far-right influence, attention is increasingly turning to the guardians of its institutions. In a bid to shield the euro's credibility from future populist governments, policymakers are reportedly weighing leadership changes at the European Central Bank and other key institutions. This kind of defensive maneuvering

speaks to a deeper anxiety that the bloc's political cohesion is eroding, casting fresh doubt over the single currency's long-term trajectory.

- A key sign of this preparation is the rumored early departure of ECB President Christine Lagarde. Although her term does not officially end until April 2027, there is growing speculation that she could step down sooner, allowing European leaders to install a firmly pro-EU successor ahead of France's national elections next year. While no timetable has been announced, expectations are coalescing around a possible exit as early as this summer.

- Her anticipated resignation comes amid mounting discontent with incumbent lawmakers, whose popularity has deteriorated across the European Union, particularly in France and Germany. The French prime minister's approval rating has fallen to historic lows, while support for Germany's ruling CDU/CSU has eroded as voters gravitate toward ascendant populist parties such as the AfD and the Left Party, raising the prospect that movements once seen as fringe could move firmly into the European mainstream in the years ahead.

AfD Surges to Become Germany's Most Popular Political Party

- The mounting fears have led to a push to help make changes to central banks within countries as well. French Central Bank Governor François Villeroy de Galhau is already looking to step down before his term ends in October 2027. While Klaas Knot, the former Dutch central bank chief, is considered a frontrunner for ECB president, Bundesbank President Joachim Nagel is also a top contender, which is a scenario that would allow German Chancellor Friedrich Merz to appoint Nagel's successor.

- The push to insulate the ECB from rising populist influence should help underpin the euro's relatively strong performance against the dollar, for now. That could change, however, if right-wing governments gain enough power to reshape the bank's structure or

dilute its price-stability mandate — moves that would likely damage the ECB's credibility and, over time, weigh on the currency.

Data Center Fight: As the midterm elections draw nearer, the rapid expansion of AI infrastructure is coming under heightened political scrutiny. A recent Politico/Public First survey found that nearly half of respondents believe data center development will emerge as a key campaign issue, reflecting growing public concern over the environmental and physical footprint of these facilities. While lawmakers tout such infrastructure as critical to "winning the AI race," local communities are increasingly pushing back against the real-world costs of hosting it.

- According to the survey, more respondents favor data center construction than oppose it, provided there is no negative impact on their utility costs. Specifically, 37% of respondents supported it, 28% opposed it, and 28% remained undecided. However, a majority of those who initially backed construction stated they would reverse their position if the development resulted in a monthly bill increase of $25 or more.

- The rise of data center corridors follows a surge in infrastructure spending pledged by major tech companies. Currently, the highest concentrations are in Virginia, Texas, and California — states that have become primary targets for investment and are likely to serve as crucial battlegrounds for policy and voter influence.

- To prevent policy reversals, tech companies have begun engaging more directly in the political arena. The super PAC Leading the Future plans to invest heavily in election outcomes to ensure project continuity. Simultaneously, firms like Anthropic are taking proactive measures, such as pledging to cover electricity costs and grid upgrades to shield local communities from the infrastructure's secondary impacts

- The upcoming midterm elections will likely provide significant insight into the direction of AI development as the industry pushes to expand capacity. While AI-related stocks maintain strong momentum and command a major share of the S&P 500, we believe overlooked sectors offer superior value. This is driven not only by a comparative lack of political risk but also by more attractive valuations.
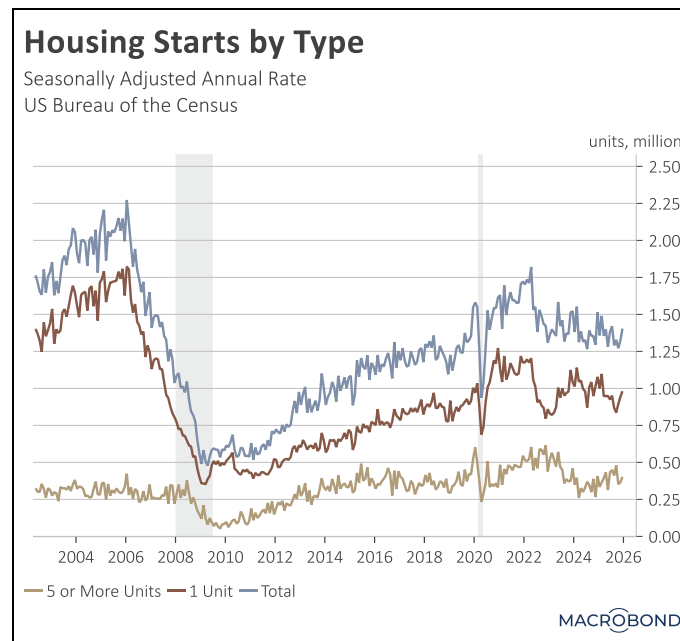
AI Uncertainty: The market continues to grapple with growing uncertainty over how AI will ultimately affect corporate earnings. In response, a handful of software companies, including cybersecurity firm McAfee, have released earnings ahead of schedule to reassure investors and lenders that their businesses remain resilient to the newly deployed AI tools. Executives have stressed that they are still generating solid demand even as AI systems become more capable of replicating elements of the services and workflows they provide.

Iran Deal Progress: The two sides appear to be edging closer to a deal, even though key issues remain unresolved. Officials in Tehran say they have agreed with Washington on the broad guiding principles of an accord, signaling that a pathway to de-escalation exists despite the absence of a finalized text. At the same time, Vice President JD Vance has highlighted remaining roadblocks, suggesting the US is still pressing for additional concessions. Any meaningful easing of tensions would likely reduce pressure on commodity prices.

Social Media Tax: Illinois is weighing a proposal to tax social media companies operating within the state. Under the plan, these platforms would pay a monthly fee based on the number of users whose data they collect, and they would be prohibited from passing the cost on to users. The measure is expected to generate roughly $200 million annually, helping to address the state's budget shortfall. This proposed tax reinforces our long-standing view that investors should diversify into other sectors to reduce concentration risk.

US Economic Releases

December **housing starts** rose to a seasonally adjusted, annualized rate of 1.404 million units, well above the expected rate of 1.304 million. The rate of housing starts in December was up 6.2% from the previous month. Additionally, **housing permits** rose to a seasonally adjusted annualized rate of 1.448 million units, beating their anticipated rate of 1.400 million. Permits issued for new housing units in December were up 4.3% from the previous month.

The chart above shows the growth in new home starts by type of property since just before the GFC. Compared with the same month one year earlier, housing starts in December were down 5.4%, while permits were up 3.5%.

Separately, December **durable goods orders** fell by a seasonally adjusted 1.4%, slightly better than the expected drop of 2.0%. Durable goods orders are often driven by transportation equipment, where just a few airliner orders can have a big impact. December **durable goods orders excluding transportation** rose 0.9%, beating expectations of a gain of 0.3%. Finally, the durable goods report also includes a key proxy for corporate capital investment. In December, **nondefense capital goods orders ex-aircraft** rose 0.6%, beating expectations of 0.3%.

Durable Goods Orders

Source: Census Bureau

The chart above shows the year-over-year change in durable goods orders since just before the previous recession. Compared with the same month one year earlier, overall durable goods orders in December were up 12.5%, while durable orders ex-transport were up 7.0%. Nondefense capital goods orders ex-aircraft were up 7.5%.

Separately, the Mortgage Bankers Association said *mortgage applications* in the week ended February 13 rose by 2.8%, after falling 0.3% in the prior week. Applications for home purchase mortgages fell 2.7%, after dropping 2.4% in the prior week. Applications for refinancing mortgages rose 7.1%, after rising 1.2% the week before. The average interest rate on a 30-year, fixed-rate mortgage fell 4 bps to 6.17%. The chart below shows how mortgage rates have changed over time.

Average Interest Rate on New 30-Year, Fixed-Rate Mortgages

Source: Mortgage Bankers Association

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

Economic Releases							
EST	**Indicator**				**Expected**	**Prior**	**Rating**
16:00	Net Long-Term TIC Flows	m/m	Dec			220.0b	**
16:00	Total Net TIC Flows	m/m	Dec			212.0b	**
Federal Reserve							
EST	**Speaker or Event**		**District or Position**				
13:00	Michelle Bowman Speaks in Washington		Member of the Board of Governors				
14:00	U.S. Federal Reserve Releases Meeting Minutes		Federal Reserve Board				

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	Trade Balance	y/y	Jan	-¥1152.6b	¥105.7b	-¥2142.1b	**	Equity and bond neutral
	Exports	y/y	Jan	16.8%	5.1%	13.0%	*	Equity bullish, bond bearish
	Imports	y/y	Jan	-2.5%	5.3%	3.5%	*	Equity bearish, bond bullish
Australia	Westpac Leading Index	m/m	Jan	-0.05%	0.10%		**	Equity and bond neutral
	Wage Price Index	m/m	4Q	3.4%	3.3%	3.4%	***	Equity and bond neutral
New Zealand	PPI Output	q/q	4Q	0.1%	0.6%		***	Equity and bond neutral
	PPI Input	q/q	4Q	-0.5%	0.2%		***	Equity and bond neutral
	Non Resident Bond Holdings	m/m	Jan	57.8%	59.0%		*	Equity and bond neutral
EUROPE								
France	CPI	y/y	Jan F	0.3%	0.3%	0.3%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jan F	4.0%	0.4%	0.4%	**	Equity and bond neutral
	CPI Ex-Tobacco Index	q/q	Jan F	99.57	119.76		*	Equity and bond neutral
UK	CPI	y/y	Jan	3.0%	3.4%	3.0%	***	Equity and bond neutral
	CPI Core	y/y	Jan	3.1%	3.2%	3.0%	***	Equity and bond neutral
	Retail Price Index	m/m	Jan	406.4	408.5	406.7	**	Equity and bond neutral
	RPI	y/y	Jan	3.8%	4.2%	3.8%	**	Equity and bond neutral
AMERICAS								
Canada	Int'l Securities Transactions	m/m	Dec	-5.57b	15.96b		**	Equity and bond neutral
	Wholesale Sales ex Petroleum	m/m	Dec	2.0%	-1.8%	2.1%	**	Equity and bond neutral
	CPI	y/y	Jan	2.3%	2.4%	2.4%	***	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	13-Feb	$256242m	$255429m		*	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	359	0	Down
U.S. Sibor/OIS spread (bps)	367	366	1	Down
U.S. Libor/OIS spread (bps)	363	363	0	Down
10-yr T-note (%)	4.07	4.06	0.01	Down
Euribor/OIS spread (bps)	201	200	1	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**	
RBNZ Official Cash Rate	2.25%	2.25%	2.25%	On 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.
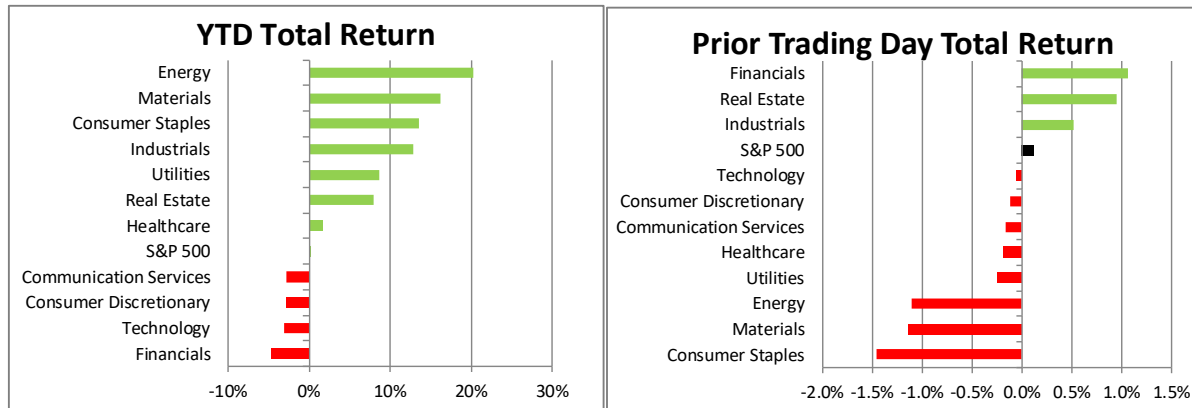
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$69.20	$67.42	2.64%	
WTI	$64.04	$62.33	2.74%	
Natural Gas	$3.01	$3.03	-0.86%	
Crack Spread	$25.06	$24.78	1.14%	
12-mo strip crack	$26.15	$25.85	1.15%	
Ethanol rack	$1.80	$1.81	-0.13%	
Metals				
Gold	$4,923.09	$4,877.89	0.93%	
Silver	$75.63	$73.53	2.86%	
Copper Contract	$578.40	$570.40	1.40%	
Grains				
Corn contract	$437.00	$435.75	0.29%	
Wheat contract	$548.50	$542.50	1.11%	
Soybeans contract	$1,157.50	$1,148.75	0.76%	
Shipping				
Baltic Dry Freight	2,095	2,100	-5	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-0.02		
Gasoline (mb)		0.84		
Distillates (mb)		-1.73		
Refinery run rates (%)		-0.50%		
Natural gas (bcf)		-258		

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler-than-normal temperatures in the Northwest Pacific Coast and Mid-Atlantic regions. The precipitation outlook calls for wetter-than-normal conditions for most of the country, with dry conditions expected in the Deep South and Texas.
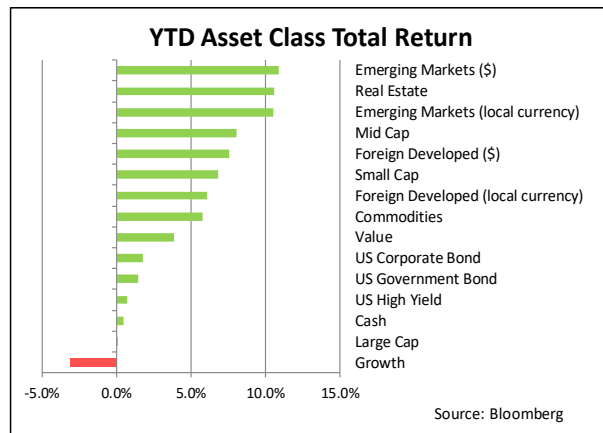
Data Section

US Equity Markets – (as of 2/17/2026 close)

YTD Total Return

Sector	
Energy	~20%
Materials	~16%
Consumer Staples	~14%
Industrials	~13%
Utilities	~9%
Real Estate	~8%
Healthcare	~2%
S&P 500	~0%
Communication Services	~-3%
Consumer Discretionary	~-3%
Technology	~-3%
Financials	~-4%

Prior Trading Day Total Return

Sector	
Financials	~1.1%
Real Estate	~0.9%
Industrials	~0.5%
S&P 500	~0%
Technology	~-0.1%
Consumer Discretionary	~-0.3%
Communication Services	~-0.3%
Healthcare	~-0.4%
Utilities	~-0.4%
Energy	~-1.0%
Materials	~-1.1%
Consumer Staples	~-1.5%

(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 2/17/2026 close)

YTD Asset Class Total Return

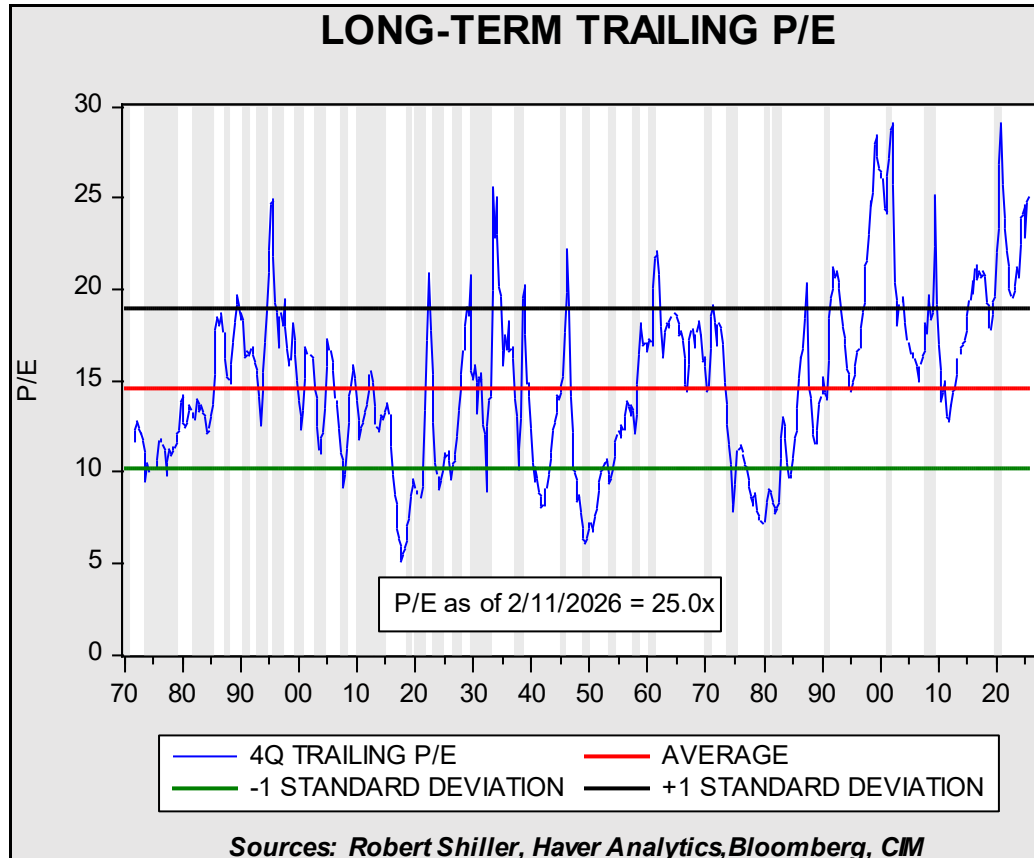| Asset Class	
Emerging Markets ($)	~11%
Real Estate	~10.5%
Emerging Markets (local currency)	~10%
Mid Cap	~8%
Foreign Developed ($)	~7%
Small Cap	~6.5%
Foreign Developed (local currency)	~6%
Commodities	~4%
Value	~1.5%
US Corporate Bond	~1.5%
US Government Bond	~1%
US High Yield	~0.5%
Cash	~0.5%
Large Cap	~0%
Growth	~-2.5%

Source: Bloomberg

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

LONG-TERM TRAILING P/E

P/E as of 2/11/2026 = 25.0x

Legend: 4Q TRAILING P/E — AVERAGE — -1 STANDARD DEVIATION — +1 STANDARD DEVIATION

Sources: Robert Shiller, Haver Analytics, Bloomberg, CIM

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.