Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: February 19, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.8% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.5%. Chinese markets were closed for the Lunar New Year and Spring Festival holiday. US equity index futures are signaling a lower open.

With 409 companies having reported so far, S&P 500 earnings for Q4 are running at $73.80 per share compared to estimates of $71.07, which is up 8.3% from Q4 2024. Of the companies that have reported thus far, 74.6% 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.

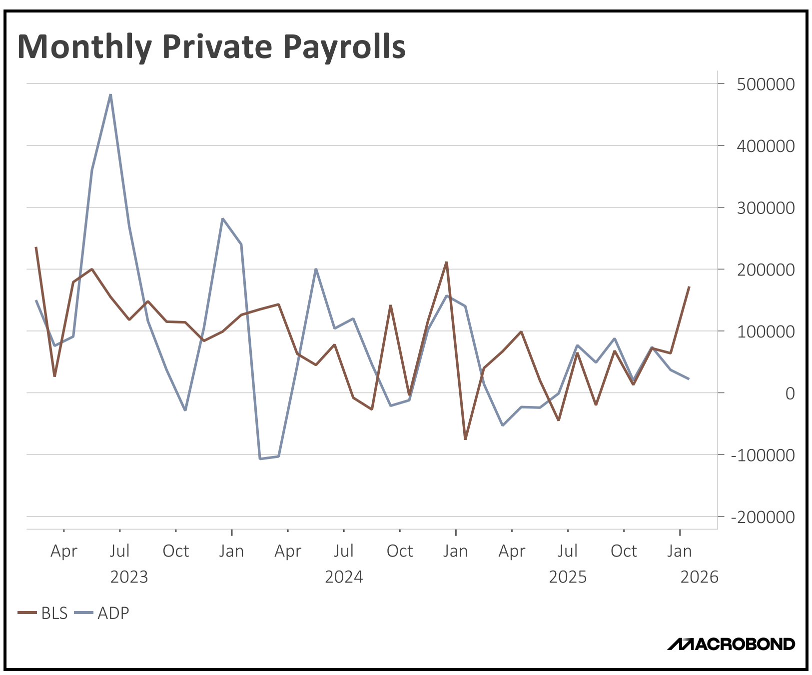
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"US Foreign Policy: Comparing the New vs. Old" (2/9/26) + podcast	"The Warsh Doctrine" (2/17/26) + podcast	Q1 2026 Report Q1 2026 Rebalance Presentation	**Confluence of Ideas podcast** The Case for Hard Assets

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 analysis of the latest Federal Reserve meeting minutes. We then turn to the upcoming Supreme Court ruling on tariffs, followed by updates on Iran, the US administration's efforts to circumvent EU content restrictions, and the IMF's push for China to reduce state subsidies. We also include a summary of key economic data from the US and global markets.

FOMC Pivot? Federal Reserve officials signaled openness to a rate hike following their latest meeting. Minutes from the discussion revealed concern that tariffs may have contributed to the recent rise in core goods prices. While some officials expressed optimism that these pressures could ease, most participants cautioned that progress toward the inflation target is likely to be slower and more uneven than previously anticipated. This caution has led some policymakers to consider further rate increases if inflation remains elevated for longer than expected.

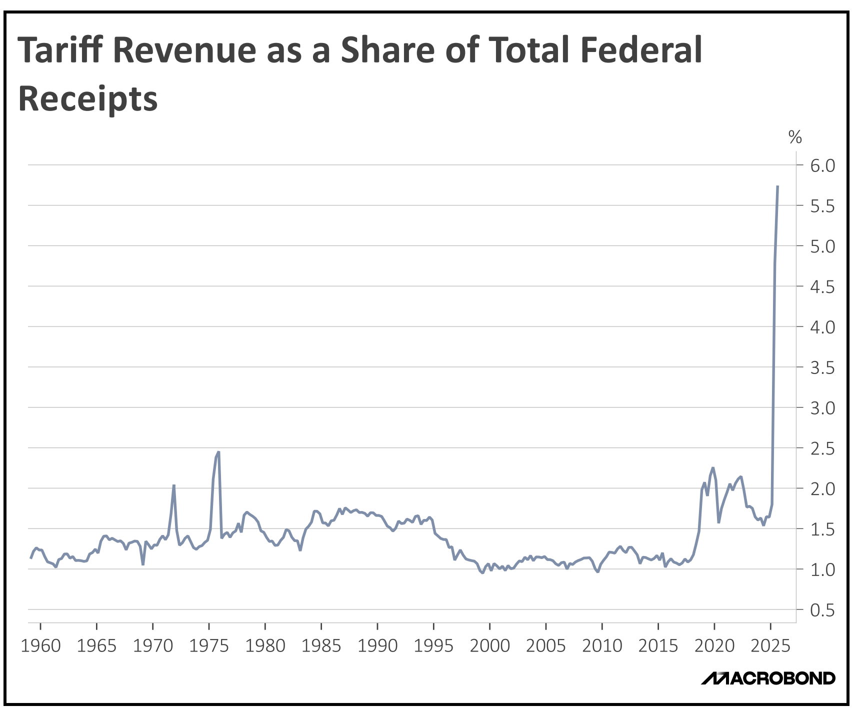
- The decision to raise rates reflects the Federal Reserve's growing confidence in the broader economy and its effort to closely monitor evolving conditions. Officials noted that, although hiring remains soft, there are emerging signs that the labor market may be stabilizing. They also expressed confidence in the economy's underlying resilience, adding that productivity could strengthen further as more firms adopt artificial intelligence technologies.
- Although a few participants raised the possibility of increasing the federal funds target range, there was little evidence that a move is imminent. Most officials emphasized that policy is not on a preset course, favoring a steady approach at current levels. However, the more hawkish members advocated for language that recognizes a "two-sided" policy path, leaving the door open to additional rate hikes if inflation remains above target.
- The Fed meeting minutes suggest that policymakers view the current federal funds target as being within the range of estimates of the neutral rate, giving them flexibility to take their time before deciding on further rate cuts. The minutes also indicate that officials are paying closer attention to financial stability, with several members highlighting vulnerabilities in private credit markets and in the debt financing of AI-related infrastructure as areas that warrant ongoing monitoring.
- While the minutes indicate that the FOMC is unlikely to cut rates anytime soon and remains noncommittal about the timing of any potential easing, markets appear to expect the first cut as early as June, with two reductions currently priced in for the year. Whether the market's expectations prove accurate will likely influence the dollar's performance, as much of its recent depreciation has been driven by widening interest rate differentials with other major economies.



- At this point, we tend to side with the market's view that the central bank is likely to cut rates more than the minutes suggest. For one, there are increasing signs that inflation is steadily moving toward the Fed's 2% target. Additionally, while the latest BLS payroll report continues to show labor market strength, the ADP private payroll data points to emerging weaknesses. Taken together, these factors support our view that the Federal Reserve's rate-cutting cycle still has room to run.

Supreme Court Tariffs: The US Supreme Court is expected to come out with a new set of rulings starting Friday focused on tariffs. Justices are set to give rulings on Friday, Monday, and Tuesday, which could potentially rule on whether or not the White House has the authority to impose tariffs without congressional approval. The impact of the ruling could potentially overturn tariffs that were previously imposed by the government and could lead to uncertainty regarding trade policy.

- There is growing speculation that the Supreme Court may ultimately curb the White House's ability to impose tariffs unilaterally under emergency powers. During oral arguments, conservative-leaning Justice Neil Gorsuch warned that the White House interpretation would create a "one-way ratchet" of authority from Congress to the president. He cautioned that allowing such broad tariff powers could effectively leave the president with near-unchecked authority in this area.
- The potential overturning of these tariffs would be a setback for the White House's trade agenda, though it is unlikely to be a fatal one. The legal challenge at hand centers on the president's use of the International Emergency Economic Powers Act (IEEPA) to enact his "reciprocal tariffs." However, this represents just one pillar of his trade policy, which has also relied on Section 232 for national security tariffs and Section 338 to counter discrimination against US commerce.



- However, the most significant challenge will likely concern how the government handles tariff revenues if those measures are ultimately ruled illegal. Numerous firms have already sued the government seeking refunds of duties paid under the contested tariffs, should they be invalidated. In addition, the loss of this revenue stream is likely to exacerbate concerns about the fiscal deficit, as tariffs have effectively functioned as an alternative source of federal income.
- Rolling back these tariffs would provide meaningful relief to the sectors most affected, particularly Consumer Staples and Consumer Discretionary, where margins have been under sustained pressure. This potential shift reinforces the case for diversification beyond AI-related companies, as areas previously hurt by trade uncertainty may stand to benefit from greater clarity on policy direction.

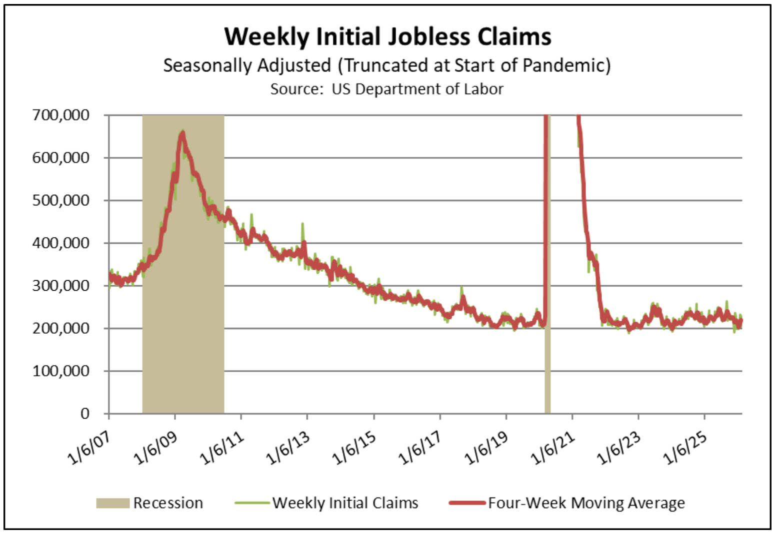
Iran Conflict: Tensions between Tehran and Washington, which had previously appeared to be easing around potential nuclear talks, now seem to have stalled. Recent rhetoric has hardened on both sides, with Ayatollah Khamenei reportedly warning that Iran is prepared to target US ships and Washington responding by stepping up its military deployments in the region. While some of this brinkmanship likely reflects strategic posturing, the probability of miscalculation and a broader conflict has clearly risen.

Circumvent EU: The US appears to be taking steps that could undermine its allied governments in the EU. The White House is reportedly developing an online portal designed to allow users to bypass EU content restrictions, including those targeting material deemed by the bloc to be harmful — such as hate speech and terrorist-related content. The move comes as the US seeks to support the electoral appeal of right-wing parties in Europe. This development is likely to further strain transatlantic relations and could accelerate the EU shift toward strategic autonomy.

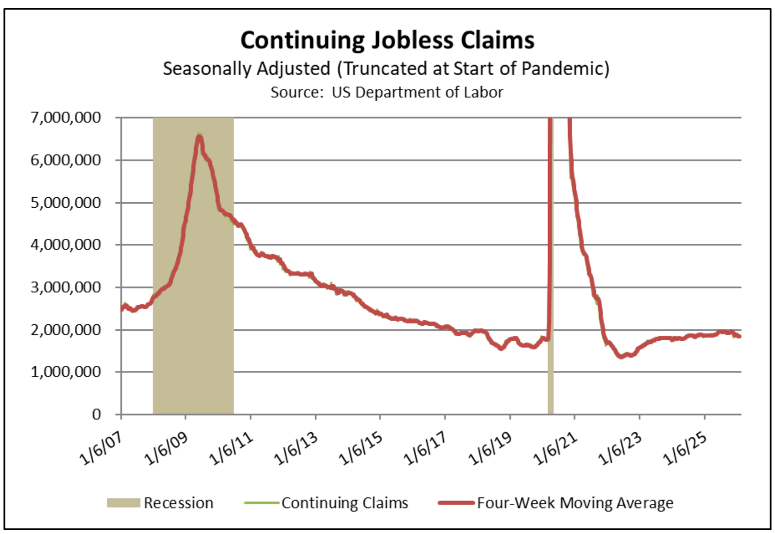
IMF Callout China: The International Monetary Fund has urged China to cut its industrial subsidies to 2% of GDP, roughly half of current levels. The organization criticized the excessive use of subsidies, warning that they may create spillover effects across the broader economy and contribute to China's heavy reliance on exports. The IMF's recommendation comes amid growing pressure from Western nations, particularly the United States, which argues that China's industrial policies have created unfair market outcomes.

US Economic Releases

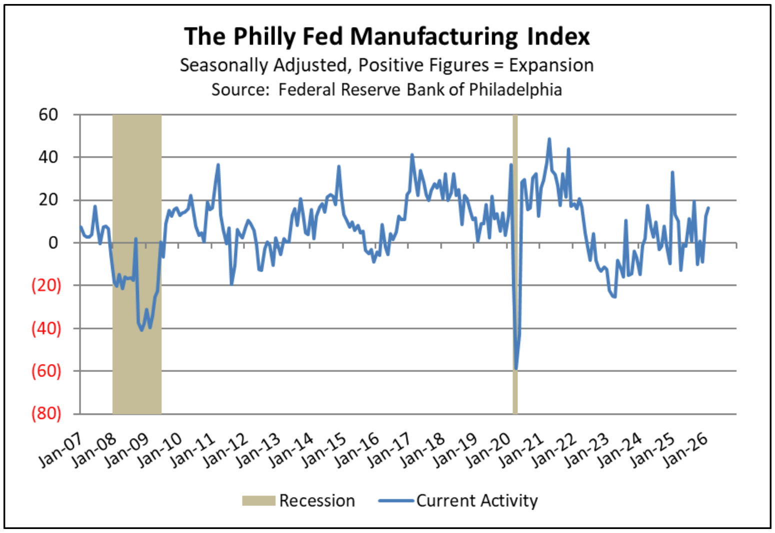
In the week ended February 14, ***initial claims for unemployment benefits*** fell to a seasonally adjusted 206,000, well below both the expected level of 225,000 and the previous week's revised level of 229,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to 219,000. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.



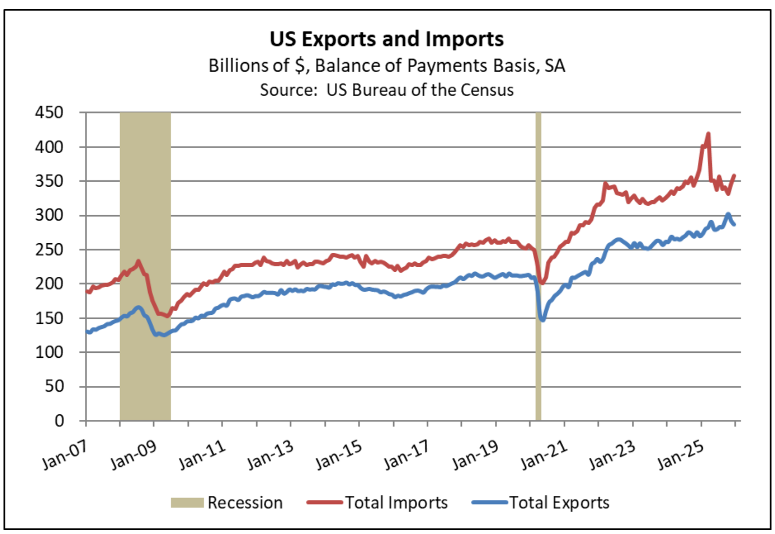
In the week ended February 7, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.869 million, above both the anticipated reading of 1.860 million and the prior week's revised reading of 1.852 million. The four-week moving average of continuing claims rose to 1,845,250. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period because of the high level of claims at the time.



Separately, the Philadelphia FRB said its February ***Philly Fed Index*** rose to a seasonally adjusted 16.3, beating expectations that it would fall to 7.5 from 12.6 in January. The index, officially designated as the Philadelphia FRB Manufacturing Activity Index, is designed so that positive readings point to expanding factory activity in the mid-Atlantic region. At its current level, the index suggests mid-Atlantic manufacturing is continuing to grow smartly. The chart below shows how the index has fluctuated since just before the GFC.



In a final major report so far today, the December ***trade balance*** showed a seasonally adjusted deficit of $70.3 billion, far worse than the anticipated shortfall of $55.5 billion and the revised November shortfall of $53.0 billion. According to the data, total ***exports*** fell 17%, while ***imports*** rose 3.6%. Compared with the same month one year earlier, exports in December were up 6.3%, while imports were down 2.6%. The chart below shows the monthly value of US exports and imports since just before the previous recession.



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	Leading Economic Index	m/m	Dec	-0.2%	-0.3%	***
10:00	Pending Home Sales	m/m	Jan	2.0%	-9.3%	**
10:00	Pending Home Sales NSA	y/y	Jan	2.3%	-1.3%	**
Federal Reserve						
EST	Speaker or Event	District or Position				
8:20	Raphael Bostic Gives Opening Remarks at the Banking Outlook Conference	President of the Federal Reserve Bank of Atlanta				
8:30	Michelle Bowman Gives Opening Remarks at Banking Conference	Member of the Board of Governors				
9:00	Neel Kashkari in Fireside Chat on Economic Outlook	President of the Federal Reserve Bank of Minneapolis				
10:30	Austan Goolsbee Gives Opening Remarks at Conference on Financial Crisis	President of the Federal Reserve Bank of Chicago				

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	Core Machine Orders	y/y	Dec	16.8%	-6.4%	3.3%	**	Equity bullish, bond bearish
	Japan Buying Foreign Bonds	w/w	13-Feb	-¥489.5b	-¥359.5b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	13-Feb	-¥25.8b	¥162.7b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	13-Feb	-¥393.0b	-¥459.2b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	13-Feb	¥1424.2b	591.4b		*	Equity and bond neutral
	Tokyo Condominiums for Sale	y/y	Jan	1.3%	-6.0%		*	Equity and bond neutral
Australia	Employment Change	m/m	Jan	17.8k	68.5k	20.0k	***	Equity and bond neutral
	Unemployment Rate	m/m	Jan	4.1%	4.1%	4.2%	***	Equity and bond neutral
	Participation Rate	m/m	Jan	66.7%	66.7%	66.7%	**	Equity and bond neutral
EUROPE								
Eurozone	ECB Current Account SA	m/m	Dec	14.6b	8.9b		*	Equity and bond neutral
	Construction Output	y/y	Dec	-0.9%	-1.4%		*	Equity and bond neutral
Italy	Current Account Balance	m/m	Dec	3109m	1333m		*	Equity and bond neutral
Switzerland	Industrial Output WDA	y/y	Q4	-0.7%	2.0%		*	Equity and bond neutral
	Real Exports	m/m	Jan	3.6%	0.1%		*	Equity and bond neutral
	Real Imports	m/m	Jan	1.0%	-0.3%		*	Equity and bond neutral
Russia	PPI	y/y	Jan	-5.0%	-3.3%		***	Equity and bond neutral
AMERICAS								
Brazil	Econimic Activity	y/y	Dec	3.05%	1.27%	2.30%	**	Equity bullish, bond bearish

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)	360	361	-1	Down
U.S. Sibor/OIS spread (bps)	366	367	-1	Down
U.S. Libor/OIS spread (bps)	363	363	0	Down
10-yr T-note (%)	4.10	4.08	0.02	Down
Euribor/OIS spread (bps)	201	201	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

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.

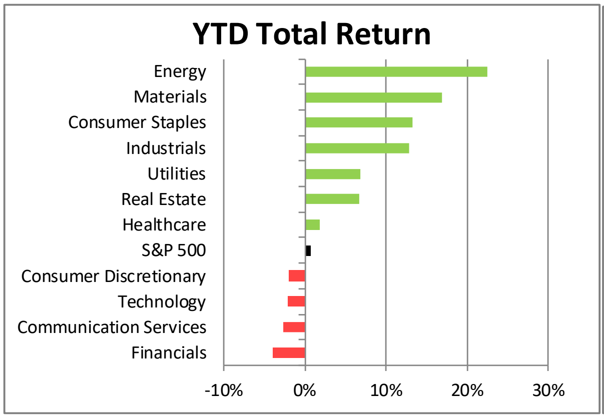
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$71.35	$70.35	1.42%	
WTI	$66.19	$65.19	1.53%	
Natural Gas	$3.05	$3.01	1.39%	
Crack Spread	$25.31	$25.18	0.52%	
12-mo strip crack	$26.51	$26.48	0.14%	
Ethanol rack	$1.81	$1.81	0.08%	
Metals				
Gold	$4,992.36	$4,977.56	0.30%	
Silver	$77.96	$77.20	0.98%	
Copper Contract	$577.40	$586.30	-1.52%	
Grains				
Corn contract	$437.50	$436.75	0.17%	
Wheat contract	$561.50	$552.50	1.63%	
Soybeans contract	$1,152.00	$1,149.00	0.26%	
Shipping				
Baltic Dry Freight	2,063	2,095	-32	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		1.65		
Gasoline (mb)		-0.33		
Distillates (mb)		-1.95		
Refinery run rates (%)		0.95%		
Natural gas (bcf)		-149		

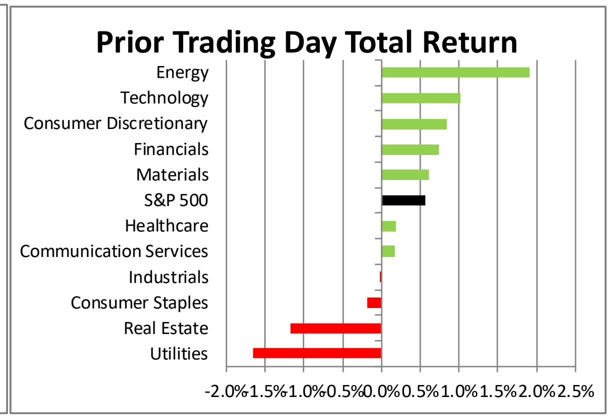
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in almost the entire country other than Washington, Oregon, and northern California, where temperatures will be below normal. The outlook calls for wetter-than-normal conditions throughout the northern half of the country, with dry conditions in Texas.

Data Section

US Equity Markets – (as of 2/18/2026 close)

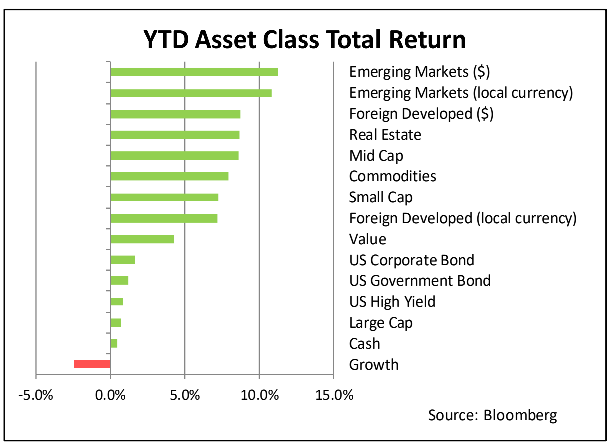




(Source: Bloomberg)

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 2/18/2026 close)

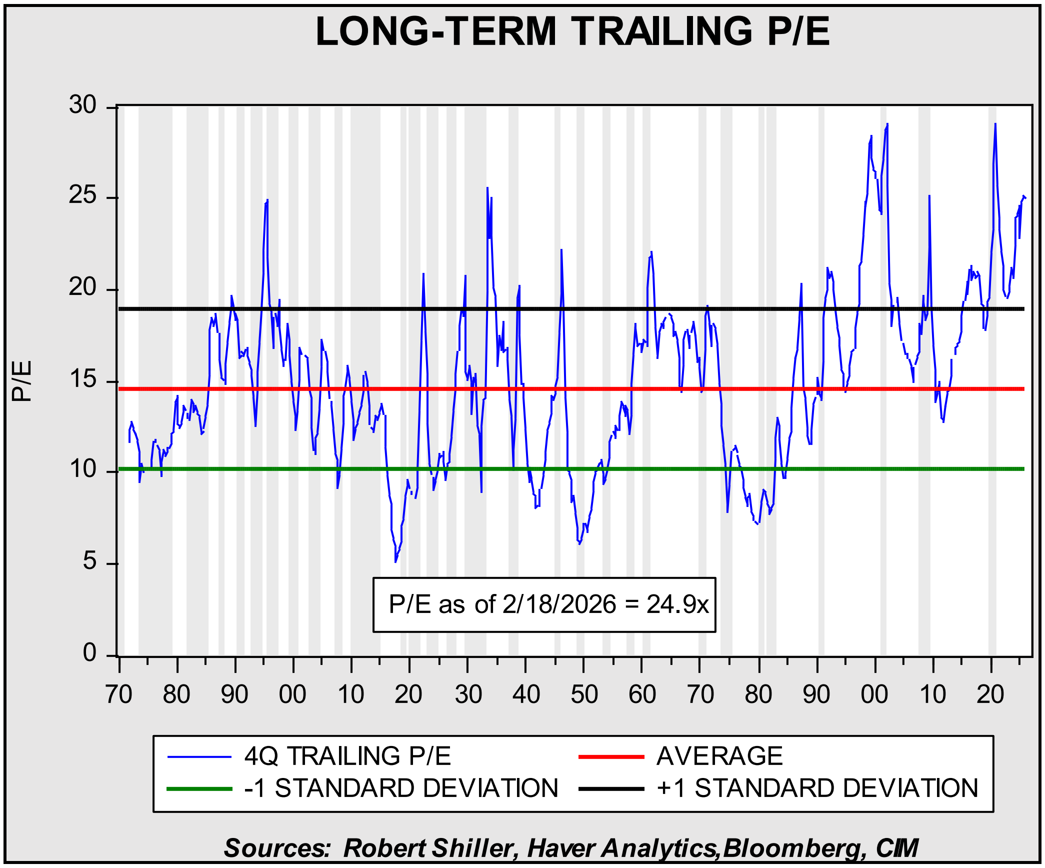


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 19, 2026



Based on our methodology,[1] the current P/E is 24.9x and is down 0.1 from the previous report. Last week, the stock price index fell slightly while 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.