

Summary

Economic data for the short week included fourth quarter U.S. GDP growth coming in slower than expectations, stronger personal income and spending as well as industrial production, while several housing metrics were mixed, but remained generally in a weak state overall relative to history.

Equities saw gains globally, with international stocks outperforming U.S. for the week. Bonds were little-changed in the U.S. and mixed abroad with a stronger U.S. dollar. Commodities saw continued gains across the board, especially in energy with intensified U.S.-Iran tensions.

Economic Notes

(0/-) The initial release of real **U.S. GDP** growth for the fourth quarter came in at 1.4%, well below expectations calling for 2.8%, and down from the 4.4% of the third quarter. Within the report, the positives included consumer spending (up 2.4%, contributing 1.6% to the overall growth number, almost entirely in services), private investment (3.8%, adding 0.7%) including intellectual property and equipment (data centers), and inventories (adding 0.2%). On the negative side, federal government spending declined (-5.1%, trimming 1.2%), with negative shutdown effects apparent, although that will likely turn into a corresponding growth boost for Q1.

The reading was down sharply from recent **Atlanta Fed GDPNow** estimates, which had been in the 3's, with the most recent reading having fallen only to 3.0% just prior to the official release. Normally, those estimates tend to be a bit more accurate, although the prior quarter saw the government shutdown, which appeared to temporarily affect the results. The initial GDPNow Q1 estimate has come in at 3.1%, which includes assumptions of a 1.9% positive contribution from consumer spending, 0.8% from nonresidential fixed investments (such as data center building), 0.8% from inventories, and -0.5% from net exports.

(+) **Personal income** rose 0.3% in December, in line with expectations. **Personal spending** rose 0.4%, a tenth stronger than expected, led by spending in services. The personal saving rate came in down a tenth to 3.6%. PCE inflation on both a headline and core (ex-food and energy) level rose a rounded 0.4% for the month, a tenth higher than expectations. Year-over-year, headline PCE ticked up a tenth to 2.9%, while core PCE picked up by two-tenths to 3.0%. This was a full percentage point above the Federal Reserve's 2.0% policy target.

(0) The preliminary February **S&P Global U.S. manufacturing PMI** fell by -1.3 points to 51.2, below the median forecast calling for an unchanged 52.4, but remained in over-50 expansionary territory. Under the hood, output, employment, and new orders all declined by several points, but remained in expansion. On the inflation side, input and output prices also fell by up to several points, but remained solidly in expansion (55-65 level). On the positive side, future output rose by over a point to 70, the highest level since June.

(0) The preliminary February **S&P Global U.S. services PMI** edged down by -0.4 of a point to 52.3, below the slight rise to 53.0 expected, but remaining in expansion. Underlying composition was weak for services as well, with new business and employment falling by a fraction of a point, but remaining in expansion. Prices for services ticked higher, also further into expansion in the 60 range. Future output rose by 4 points to 67, solidly expansionary and the highest level in over a year.

(-) **Durable goods orders** fell by -1.4% in December, slightly ahead of the -2.0% median forecast, but a partial reversal of the 5% gain in November. Removing transportation orders, and the sharp drop in lumpy commercial aircraft orders of -25% after a sharp gain the prior month, orders rose by 0.9%. Core capital goods orders rose by 0.6%, about double the forecasted rate, which was led by gains in computers/electronics and metals. Core capital goods shipments rose by 0.9% for the month. Year-over-year total durable goods orders rose by 10%, with the ex-transportation segment up 5%.

(+) **Industrial production** rose 0.7% in January, exceeding the 0.4% gain expected. Manufacturing production rose 0.6%, due to rises of about a percent each in auto assemblies and business equipment, including the strong high-tech equipment group rising another 2% as a sub-component. Mining production, which included petroleum extraction, fell by -0.2%. Utilities rose 2.1%, which was no doubt due to the frigid weather across the U.S., but a component of consumption in U.S. GDP, so it does make a significant contribution. Year-over-year, total industrial production rose 2.2%, with the strongest gains being in motor vehicles/parts (6%) and high-tech equipment (9%), with the latter tracking the continued strong capex spending in AI, with consumer goods and utilities gaining just over a percent for the year. **Capacity utilization** rose by 0.5% to 76.2%, but still below forecast by a few tenths.

(+) **New home sales** fell by -1.7% for December but rose by an average of 6.9% in November/December to a seasonally-adjusted annualized level of 745k units, above the 730k expected, albeit with a downward revision of -81k in October. For the two months, gains were strongest in the West (25%) and Midwest (15%). For the 2025 calendar year, new home sales rose by 3.8%. The median new home sales price rose by 4.2% in December to \$414,400, which was down -2.0% for the calendar year. Inventory came in at 7.6 months' supply in December, down a percent from Nov., and down about -7% for the trailing year.

(+) **Housing starts** rose 6.2% in December and 5.1% on average for both November and December to a seasonally-adjusted annualized level of 1.404 mil., well above the 1.304 mil. expected. Multi-family rose 6% on average, while single-family were up 5% for the two-month stretch. Regionally, the West and South saw the strongest gains, while starts in the Midwest declined. Nationally, starts remain down -7% over the past 12 months, with single-family down -9% and multi-family down -3%. **Building permits** rose an average of 1.3% for those two months, to a seasonally-adjusted annualized level of 1.448 mil., above the 1.400 mil. expected. Multi-family permits rose by an average of 4%, while single-family were little-changed. The Northeast led all regions with double-digit permit gains, while the South saw a small decline. Permits fell -2% over the past year, which masked the disparate results of single-family home permits down -11% while multi-family were up over 15%.

(-) On a similar note, the **NAHB housing market index** fell by another point to 36 in February, below the 38 expected, and well below the 50 level that indicates neutral sentiment. The underlying components included current sales steady at 41, sales expectations for the next six months down -3 points to 46, and prospective buyer traffic down -2 points to 22. The overall weakness has been the case for much of the past two years; however, homebuilder price cutting has decelerated a bit to the lowest levels since last May. As seen in other housing market data, a variety of factors remain as headwinds, including larger new home inventory, high home prices generally, restrictive local zoning, building costs impacted by tariffs, as well as immigration enforcement that has affected worker availability.

(0) The final **Univ. of Michigan consumer sentiment index** for February ended up 0.2 points from the prior month at 56.6, with identical measures for both assessments of current conditions and expectations for the future, implying little change in opinion about the overall economy, with the exception of an improvement in sentiment from respondents who owned stocks, had higher income, and were more educated. Over the past year, both sub-categories were down by -12% to -14%. Inflation expectations for the next year fell by -0.6% to 3.4%, the lowest reading in a year, while those for the next 5 years were steady at 3.3%. Both of those metrics show some improvement and likely lesser concern over tariff impacts.

(0) **Initial jobless claims** for the Feb. 14 ending week fell by -23k to 206k, well below the median forecast of 225k. Continuing claims for the Feb. 7 week rose by 17k to 1.869 mil., above the 1.860 mil. expected. Initial claims dropped sharply in NY, PA, and NJ, among other states, implying a bounceback from frigid weather conditions.

(0) The **FOMC minutes** from the January meeting didn't offer any surprises, but noted that "several" participants were in favor of cutting rates further if inflation declined as expected. Although, at the same time, "some" participants also thought leaving rates unchanged "for some time" as it was perceived that the labor market had shown "some signs of stabilization" and downside risks had "diminished." Interestingly, it was mentioned that "several" participants would have supported a "two-sided description" of future policy decisions, if inflation remains at "above-target levels." This comment referred to a path that could include rate hikes becoming appropriate again at some point "if inflation remains at above-target levels." This seems contrary to the concerns about labor markets and likely rate cuts to come from weakness there, but also a core feeling that inflation needs to be controlled in the absence of other mitigating factors in the data.

Market Notes

Period ending 2/20/2026	1 Week %	YTD %
DJIA	0.29	3.44
S&P 500	1.11	1.11
NASDAQ	1.53	-1.47
Russell 2000	0.67	7.44
MSCI-EAFE	0.86	8.74

MSCI-EM	0.79	11.68
Bloomberg U.S. Aggregate	-0.08	1.20

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2025	3.67	3.47	3.73	4.18	4.84
2/13/2026	3.68	3.40	3.61	4.04	4.69
2/20/2026	3.69	3.48	3.65	4.08	4.72

U.S. stocks ended the week higher on a shortened week, with mixed economic data, rising tensions between the U.S. and Iran, and Friday's judicial news regarding U.S. tariffs. By sector, returns were led by gains in communications (Alphabet/Google and Meta), industrials, and financials, with gains upwards of 2%. On the lagging side were more defensive areas such as consumer staples (mostly Walmart), health care, and consumer staples, as well as materials. Real estate ticked up slightly, even with interest rates up a bit for the week.

The sharp market focus on companies exposed to AI disruption (both positively and negatively) remains intact for the time being. Software-as-a-service firms have taken the brunt of the damage most recently, with fears of AI agent abilities being increasingly able to re-create their specialized functions over time. This may not be immediate, as in affecting cash flows for the next few years, but when assessing the fair value of such companies, the long-term going-concern 'terminal' valuation (representing the bulk of a firm's present value in a dividend discount model) is what's most in question. On the other hand, hardware, including semiconductors and even memory, has seen a resurgence of interest due to high demand for raw computing needs.

By Friday, markets ticked up upon the U.S. Supreme Court striking down, in a 6-3 vote, the more sweeping tariffs imposed under the 1977 International Emergency Economic Powers Act (IEEPA), noting that the conditions didn't qualify under that statute. As Chief Justice John Roberts put it, "IEEPA does not authorize the President to impose tariffs," particularly of "unlimited amount, duration, and scope." Per the Yale Budget Lab, the overall effective tariff rate is expected to fall from roughly 17% down to around 9%. This outcome was largely expected to some degree, with justices on the court appearing skeptical of pro-tariff arguments. However, outstanding questions remain on the topics of: (1) potential tariff refunds (either whole or in part, either of which would be quite messy), as well as (2) whether the administration would attempt an end-around using other tariff rules on issues of trade fairness to attempt to reimpose at least some tariffs. The latter becomes a bit trickier in a mid-term election year, with tariffs being perceived as at least a partial driver of unaffordability that has been a key political hot button this year, and one the administration has been looking to ease wherever possible through other policies. In the immediate aftermath Fri., the President imposed a 10% 'global tariff' under Section 122 of the Trade Act of 1974, which allows tariffs of up to 15% for up to 150 days to address trade deficits (extensions beyond that would require Congressional approval). Then on Sat. morning, he raised the rate to the maximum 15%, although some carve-outs were already acknowledged, making this a complicated puzzle again.

Foreign stocks outperformed U.S. for the week, despite the headwind of the U.S. dollar rising by about a percent, more so against the Japanese yen than the euro. In developed markets, Europe and the U.K. saw gains upwards of a few percent, which offset a drop in Japan, which was held down by weaker-than-expected GDP growth and fiscal expansion concerns with the current prime minister having won the recent election. Emerging markets also saw gains on net of just under a percent, due to sharp gains in South Korea offsetting a decline in China (at least in U.S. ETF terms, as local markets were closed for the Lunar New Year holiday). There continues to be the positive news of international earnings recovery, and interest from investors in diversification outside of the U.S. 'Mag 7,' especially with concerns over capex spending and AI disruptions broadening out in a variety of directions. The strong 2025 returns for the MSCI EAFE and MSCI EM indexes were a bit of a wake-up call for many investors.

Bonds were little-changed for the week, along with minimal change in U.S. Treasury interest rates for the week. With a higher coupon, corporate credit, including high yield, outperformed government slightly. Foreign bonds showed more volatility, along with the stronger U.S. dollar for the week, with unhedged local bonds seeing declines and USD-hedged bonds gains.

Commodities rose across the board, with gains in all key segments, led by a stronger rise in energy, led by crude oil prices rising 6% last week to \$66/barrel. This was again due to rising tensions with Iran during nuclear talks, as the U.S. military has built up assets in the region, although high global supplies have continued to put a damper on these geopolitical effects, with the complication of a rising inventory sanctioned crude oil stranded at sea, so to speak, mostly from sanctioned countries. In turn, this makes the regional supply dynamic more complicated.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.

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