Week in review and ahead (vol.08-26)

Claudio Calado | Managing Partner

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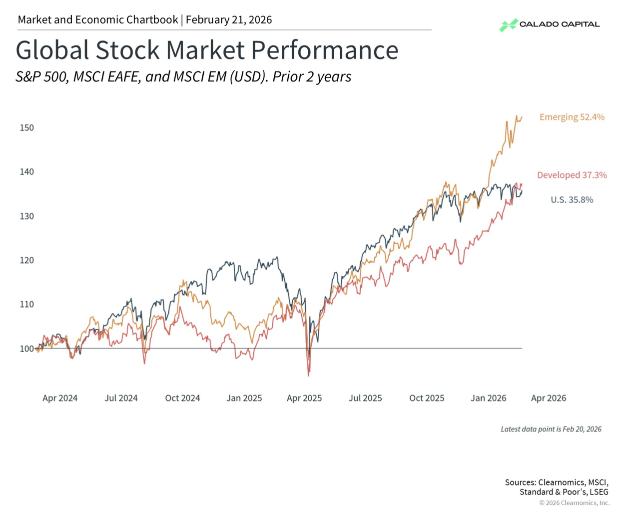
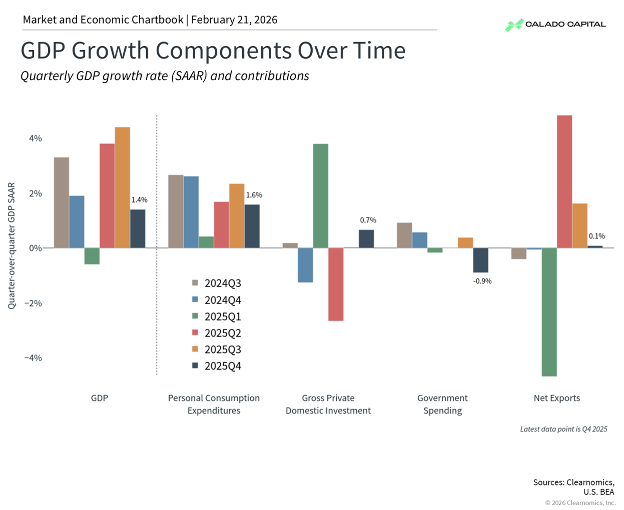
Week in review
The holiday shortened week began with heightened volatility in US markets driven continued AI-sparked selloff (now adding cybersecurity Companies on Friday), and increased geopolitical tensions as US-Iran negotiations appear to stall. The Cboe's volatility index that began the week above 22 ended the week, or and indication of rising anxiety in markets, somewhat surprising, ended below 20, or in "stable market conditions" level. Despite volatility (which subdued towards the end of the week), geopolitical tensions, disappointing macroeconomic data in the US, and renewed tariff risks following a ruling by the Supreme Court of the US ("SCOTUS") Friday, all major indices in the US posted gains for the week, including the Nasdaq, after realizing weekly losses for five (5) consecutive weeks. With equity markets remaining near all-time highs, it somewhat is reflective of the market "choppiness" since the beginning of the year. For the week, the Nasdaq and S&P500 both posted gains of 1.5% and 1.1%, respectively. The Dow Jones and Russell-2000 managed to advance 0.3% and 0.7%, respectively.

Internationally, Asian markets were mixed with mainland China markets closed for the week to observe the Luna new year. It is scheduled to reopen on Tuesday. Markets in Hong Kong reopened for a full trading day this past Friday and declined -0.6%. In Japan, equity markets saw profit taking (but not after setting yet another record high) as repricing of Japanese Government Bonds continue to garner interest with yields of longer yields declining on the week. On the other hand, the rally in South Korea continued with the Kospi gaining nearly 10% for the week and nearly 15% now for the last two week. In Europe, all major markets posted gains for the week amidst lifted investor sentiment and a strong inflation report in the UK that showed inflation cooling. Markets in the UK and France advanced by 2.3% and 2.5%, respectively, while Germany's DAX gained 1.4%.



Week in review – US macroeconomics
US macroeconomic data was mostly disappointing, with both US GDP Q4’25’s first estimate, and PCE inflation index, on headline and core, missing expectations. In addition, consumer sentiment remains range bound to historically weak levels as the housing market continues to see anemic activity despite mortgage rates retracing to the lowest level since Sep’25, notwithstanding marginally better than expected reports on housing starts and building permits. Data for the labor market, however, continues to support the notion of some level of stabilization with initial jobless claims declining sequentially to 206K (from 229K) and below estimates of 230K as layoffs remain low, notwithstanding some headlines particularly in January, of significant job cuts at mainly at larger companies.

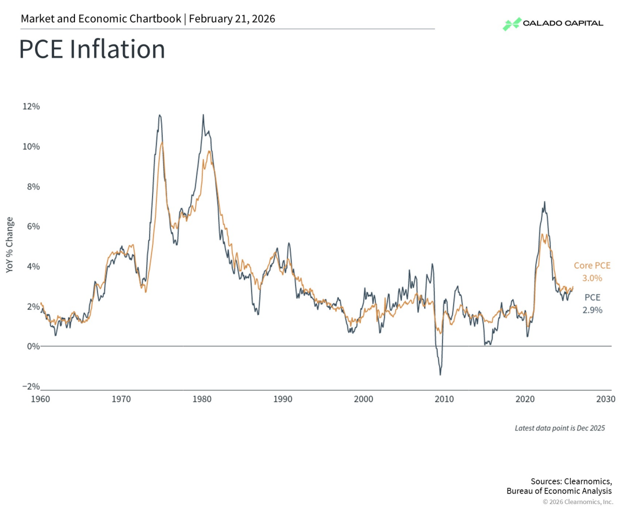
The first estimate on real US GDP Q4’25 growth of 1.4% disappointed, as expectations were closer to 3%, with Atlanta’s Fed GDP tracker at one point in late January estimating real GDP growth to exceed 5%, despite the government shutdown. With governmental spending and investment contracting sharply (to the lowest levels since 1972), due to the historical government shutdown, it lowered real growth in Q4 by -0.9% for the quarter. Consumer spending slowed for the quarter and sequentially to 1.6% (from 2.3%), falling below the 1947-2025 average of 2.1%, and net exports were once again negative, reducing GDP by -0.1%, after adding a full 1% the previous quarter. With growth declining sequentially (from 4.4% in Q3’25), overall GDP for 2025 is estimated at 2.2%, down from 2.8% in 2024. The gross domestic purchases price index of 3.7% increased sequentially denoting that inflation pressures continue and may weigh on the consumer.



Similarly, the Fed’s closely watched inflation gauge, the PCE inflation index (delayed report) for December disappointed with both headline and core inflation higher sequentially and exceeding expectations, on a month-over-month (“MoM”) and year-over-year (“YoY”) basis. Headline PCE was 0.4% MoM and 2.9% YoY, while core inflation was 0.4% MoM and 3.0% YoY, with the latter at the highest since Apr’24.

With data continuing to show that inflation pressures remain and risks to re-accelerate emerging, the Fed, which indicated that it saw risks to its dual mandate in balance previously, may reconsider its position particularly as the labor market continues to show signs of stabilization, as the unemployment rate retraced to 4.3%. In fact, some of the FOMC members have publicly reasserted and acknowledged inflation risks to the US economy, including the most dovish. With the Fed releasing its meeting minutes from January’s FOMC meeting, markets were surprised by the sharp divergence in policy outlook. While perception in the markets was that FOMC members had formed two (2) camps, one seeing current interest rates above the neutral rate, hence supporting further cuts, the other assessing rates are within neutral rate range in support to keep monetary policy steady, a third appears to form.

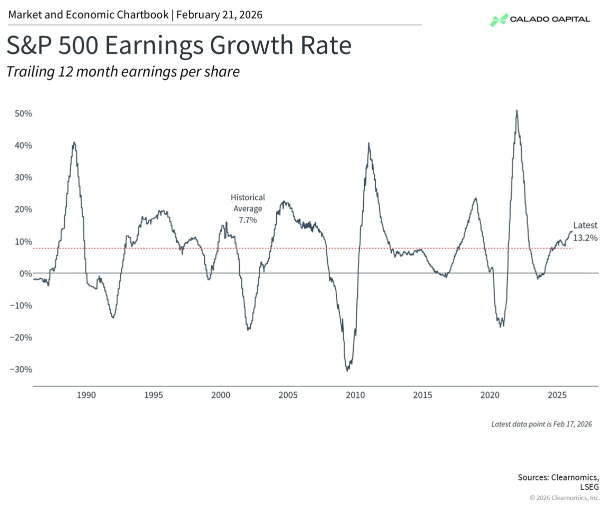
As the Fed may shift focus to prioritize inflation rather than its full employment mandate, some FOMC member appear to assert that an upward revision to target rates may be appropriate if inflations risks do not dissipate, and which may not be reflected in any market projections and therefore priced by the market. Next week will see a number of public appearances by FOMC members and it will be interesting to see their reaction to the recent macroeconomic data, including much slower growth of the US economy than expected and inflation pressures persisting.



Week in review – Corporate earnings

Corporate earnings continue to report solid results through the end of last week, keeping EPS YoY growth rate well above the average, as the earnings season shifts to consumer discretionary and staples that provide markets insights into the state of the consumer with big box retailers report as well as numerous retailers scheduled to report. These may garner greater focus after a first estimate of Q4’25 GDP disappointed and may hint to slowing growth of consumer spending. Last week, reports from Walmart beat quarterly estimates, however, guidance was mixed and somewhat cautious as management noted risks from uncertainties in the macro environment.

Besides consumer related companies, markets will focus on NVIDIA’s report scheduled for the 25th, the last of the so-called Magnificent Seven and bellwether for the market as a whole and the AI trade in specific. Expectations are for a sound beat with focus on the Companie’s guidance particularly as capital spending from hyperscalers and AI-infrastructure related companies have seen significant increases, and which have raised concerns on levels and timing of returns-on-investment for those companies that have depressed price action, somewhat. NVIDIA should be a beneficiary of the increased expenditure and markets will look to see if it is reflected in the guide.



Week ahead

Markets closed last week on a positive note despite heightened geopolitical risks and renewed tariff related risks following SCOTUS' decision to affirm a US trade court decision, that POTUS does not have legal authority to impose tariffs under the emergency act. POTUS' reaction to the decision was to announce and sign an executive order that would impose a new temporary 10% global tariff on all countries possibly with the aim to substitute tariffs affected by the decision. The imposition of these global, nondiscriminatory tariffs under Section 122 of the Trade Act can remain in effect up to 150 days, unless Congress extends it.

From a macroeconomic perspective, inflation remains in focus with the delayed wholesale inflation report, the PPI report for January, scheduled for Friday amidst public appearances by a number of FOMC members next week and the week after. Additionally, markets will get an update on consumer confidence for February from the Consumer Board, which was previously surprised by dropping nearly 10 points to the lowest since the pandemic. Finally, weekly jobless claims should not surprise but factory orders may (to the downside) after a significant increase in Nov'25 of 2.7% compared to estimates of 1.4%.

Number of the week: 6.01%

The average 30-year mortgage rate in the US at the end of last week, the lowest since Sep'22. The average 30-year rate jumped above 6% on September 15, 2022, and has not been below since then.

Word of the week: IEEPA

The International Emergency Economic Powers Act, which tariffs imposed by POTUS last year followed by the US trade court ruling he did not have the authority to do so, was affirmed by the long-awaited SCOTUS's decision in a 6-3 vote by the Supreme Court justices.

If you have questions about how this may impact your investments, or how you should be positioned, please do not hesitate to contact us at claudio@caladocapital.com.

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