WEEKLY ECONOMIC UPDATE FEB. 16, 2026

Stocks fell last week as investors reacted to mixed economic data and concerns over signs of broadening AI disruption of business models.

The Standard & Poor's 500 Index fell 1.39 percent, while the Nasdaq Composite Index declined 2.10 percent. The Dow Jones Industrial Average slid 1.23 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, rose 1.92 percent.[1,2]

AI Disruption Fears

Big tech started last week back in the driver's seat, leading the Nasdaq and S&P 500 to modest gains as investors appeared cautiously optimistic about the economy and Q4 corporate reports.[3]

Stocks slid modestly on Tuesday after December retail sales were flat, sparking some anxiety about the economy. Investors also fretted about the impact of artificial intelligence (AI) on financial stocks.[4]

A stronger-than-expected jobs report initially sparked a rally midweek, but momentum quickly faded as investors dug deeper into the numbers.

Stocks then came under pressure as AI disruption fears spread across several industry groups. Traders worried that AI would disrupt certain business models and possibly increase unemployment.[5]

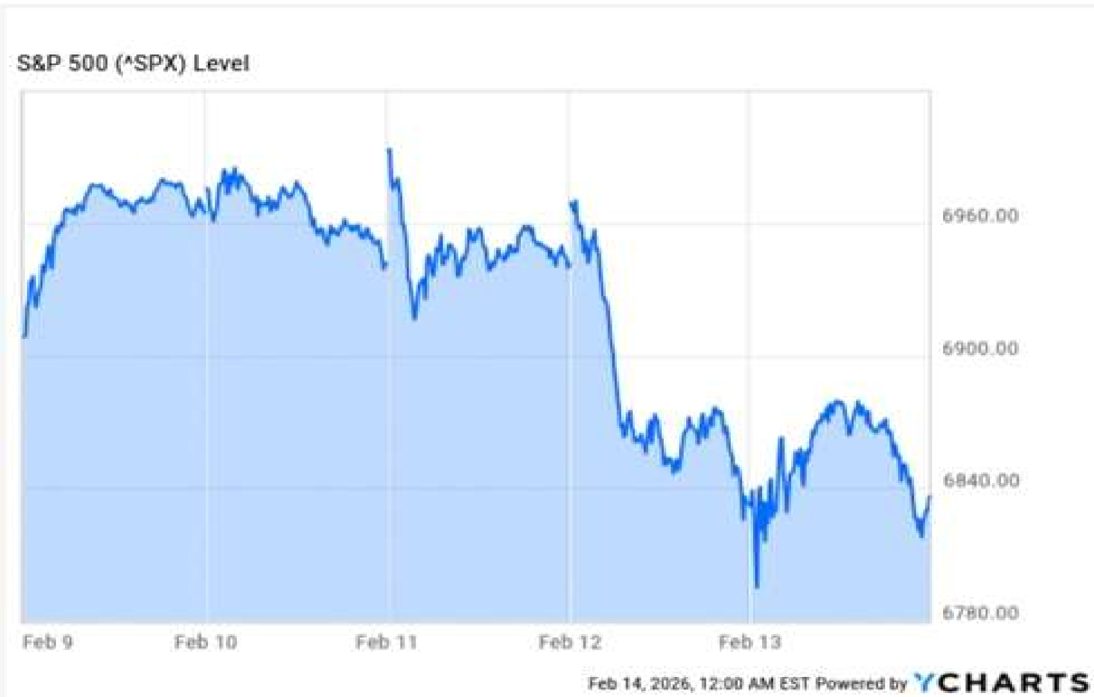
Markets rebounded following Friday's Consumer Price Index (CPI) reading, which gave investors another economic data point to cheer as the pace of inflation slowed in January.[6]

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
MSCI EAFE	6.13%	8.79%	35.42%	64.76%
Dow Jones Industrial Average	-0.21%	3.00%	13.38%	72.95%
S&P 500	-2.00%	-0.07%	14.35%	86.79%
Nasdaq Composite	-4.76%	-2.74%	15.74%	66.31%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 02/13/26	4.04%	4.18% 4.11% 4.52%	-3.35% -1.70% -10.62%

Good News, Bad News

Investors focused on three key economic reports out last week: retail sales, jobs, and inflation. Here are the key good news/bad news takeaways from each report:

Retail sales: Consumer spending was flat in December, below expectations and below November's 0.6 percent growth. Good news: Given that two-thirds of the economy runs on consumer spending, the Fed may reconsider its wait-and-see stance on raising rates.[7]

Employment: January job growth was mostly concentrated in a single sector. Plus, downward revisions showed employers only added 181,000 jobs last year—70 percent fewer than initially thought. There was essentially no job growth in the back half of 2025. Good news: January job growth was more than double what economists expected—the biggest gain in over a year. The unemployment rate also edged down.[8]

Inflation: Inflation was cooler-than-expected but remains above the Fed's target. Good news: The CPI's 2.4 percent year-over-year growth in January marked a drop from December's 2.7 percent annual pace.[9]

This Week: Key Economic Data

Monday: Markets closed for Presidents' Day

Tuesday: Empire State Manufacturing Survey

Wednesday: Housing Starts (Nov., Dec.). Building Permits (Nov., Dec.). Durable Goods (Dec.). Trade Balance in Goods (Dec.). Retail Inventories (Dec.). Wholesale Inventories (Dec.). Federal Open Market Committee Meeting Notes (Jan.).

Thursday: Weekly Jobless Claims. Trade Deficit (Dec.). Pending Home Sales. Minneapolis Fed President Neel Kashkari speaks.

Friday: Gross Domestic Product (GDP), Q4. Personal Consumption Expenditures (PCE) Index (Dec.). New Home Sales (Nov., Dec.). Consumer Sentiment.

Quote of the Week

"It is easier to give up smoking than to give up an opinion."

– *Theodore* Dalrymple

Of Note

Despite the influx of tariff revenue, the federal government continues to run a massive budget deficit.

The December budget shortfall came in at $144.75 billion, a record for the month. That was 68 percent higher than December 2024.

However, looking at just one month gives a bit of a skewed picture. Calendar effects and delayed payments stemming from the government shutdown last year continue to muddle the accounting. Calendar effects pushed some January payments into December.

We get a better picture of the government's fiscal trajectory when we look at the last three months (the first three months of fiscal 2026).

Looking at the three-month data, we find tariff receipts are modestly narrowing the budget gap. The deficit is down around 15 percent through the first three months of fiscal 2026 compared to the same period last year.

That may sound like great news until you realize that even with the modest decline, the three-month deficit is still $602.38 billion.

Through the first three months of fiscal 2026, the U.S. Treasury collected $90 billion in tariffs. That compares to $20.8 billion through the same period in fiscal 2025. However, it appears tariff revenue may have peaked.

Customs receipts dropped slightly to $27.9 billion in December. That compares to $30.76 billion in November, which was down modestly from a record $31.4 billion in October.

In total, the Treasury collected $484.38 billion in December, a 6.6 percent increase over last year. Through the first three months of fiscal '26, the federal government collected $1.23 trillion, up 13 percent over the first three months of fiscal 2025.

It should be clear that claims that the federal government is going to use tariff revenue to pay a "dividend" to poor and middle-class taxpayers and pay down the national debt are nothing but political rhetoric. Math is the great enemy of this ambitious plan. Even with triple-digit percent increases in tariff revenue, the federal government is still running a huge deficit.

Surging tariff revenue has helped paper over the real problem. The federal government keeps spending more and more money.

In December, the federal government spent $629.13 billion, bringing the three-month spending total to $1.83 trillion. That's up about 2 percent over the same period last year.

The increased spending comes despite cuts to the EPA and the Department of Education budget that are now showing up in the data. Lower disaster spending also helped moderate spending levels through the first two months of fiscal '26.

Looking at the big picture, the spending trajectory is up. Even with all the hype about DOGE and some lip service to cutting spending during the early days of the Trump administration, the U.S. government spent just over $7 trillion last year. That's an average of $583.3 billion per month or $19.2 billion per day.

Despite some non-specific talk about "spending cuts," there seems to be little to no commitment to dealing with the runaway spending in a substantial way.

The Big Beautiful Bill trimmed some spending but increased it in other areas. Furthermore, those "cuts" were from projected spending increases. Actual expenditures will still go up, just not as fast as originally planned. The bottom line is that even with the Big Beautiful Bill, spending will increase on an absolute basis. We're seeing it now.

And all that waste uncovered by DOGE? Virtually none of it was removed from the budget.

This is par for the course.

You might recall that President Biden promised that the [pretend] spending cuts would save "hundreds of billions" with the debt ceiling deal (aka the [misnamed] Fiscal Responsibility Act). That never happened.

Supporters of the Big Beautiful Bill expect economic growth stimulated by tax cuts to boost revenue and narrow the deficit. However, history casts significant doubt on this claim.

The ugly truth is the government isn't committed to cutting spending in any meaningful way, and it always finds new reasons to spend even more, whether for "crises" at home or wars overseas.

On October 21, the national debt surged to over $38 trillion. Less than two months later, the debt stands at $38.4 trillion.

Uncle Sam must pay interest on all that debt. Interest expense has grown into the second-largest spending category in the federal budget behind only Social Security.

In December, the Treasury forked out $153.92 billion on interest expense alone. That pushed interest expense to $354.58 billion through the first three months of fiscal 2026. Interest on the national debt cost $1.2 trillion in fiscal 2025. That was up 7.3 percent over 2024.

Net interest (interest expense – interest receipts) was $92 billion in December. Last month, the federal government spent more on interest on the debt than it did on national defense ($102 billion) or Medicare ($78 billion). The only higher spending category is Social Security ($134 billion).

Much of the debt currently on the books was financed at very low rates before the Federal Reserve started its hiking cycle. Every month, some of that super-low-yielding paper matures and must be replaced by bonds yielding much higher rates. And even after the Federal Reserve cut rates, Treasury yields have pushed upward as demand for U.S. debt sags.[10]

Footnotes And Sources

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