

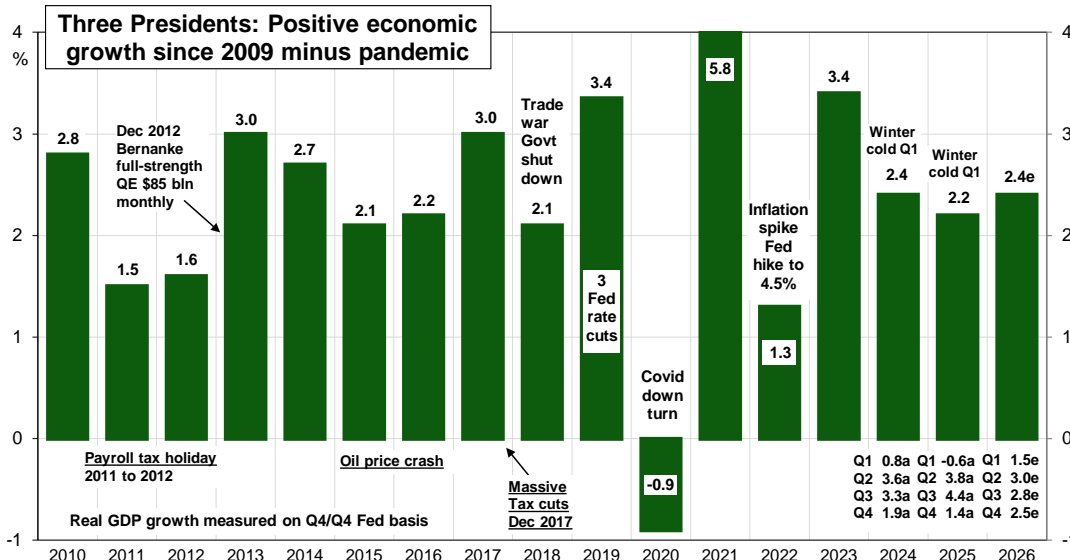
Financial Markets This Week

20 FEBRUARY 2026

Christopher S. Rupkey, CFA
Chief Economist
crupkey@fwdbonds.com

SLOW 1.4 GDP

The 2025 Federal government shutdown from October 1 to November 12 left a mark after all. Economic growth in Q4 2025 dropped below 2% after the strong 2025 Q2 3.8% and Q3 4.4% in the middle of the year. Q4/Q4 2025 growth as



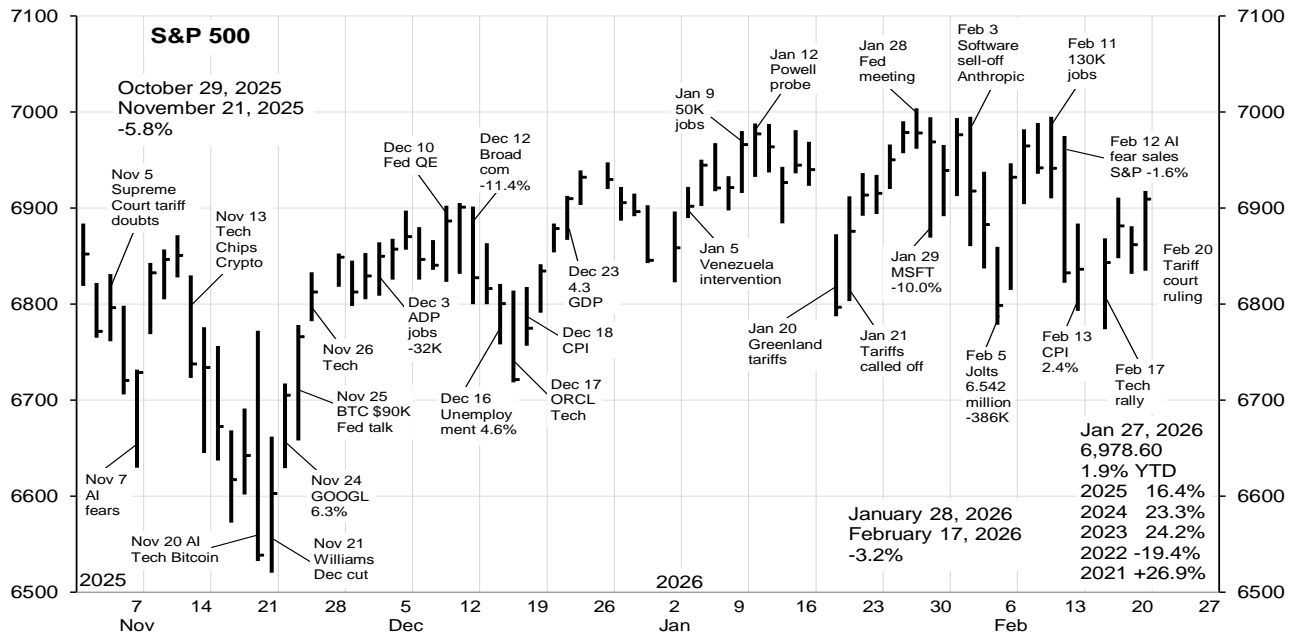
the Fed forecasts measure it is 2.2%. Both GDP numbers were bolstered by net exports normalizing after the Q1 surge to get ahead of the import tariffs. More immediately, it is still a puzzle why FOMC forecasts were only 1.7% last year, their forecast as late as the December meeting. Q4 2025 was always thought to be on the weak side given the Federal government shutdown. It was nice for the Supreme Court to strike down the legality of the Trump import tariffs before fine-tuning a 2026 GDP forecast. We think. Trump is countering back with a legal 10% tariff now and Bessent says it will make up for the lost customs duties. Looking back, much of the tariff uncertainty was psychological, especially with the Trump tariff recession stock market collapse of 21.3% in April 2025. The actual dollars being tacked on to imported goods for consumers and businesses should not be of a dollar magnitude great enough to take down the entire economy. Customs duties pre-Trump in late 2024 were running about \$7 billion monthly, and now in January/December, about \$28 billion monthly has come in, so we are talking about an extra

	Q3 24	Q4 24	Q1 25	Q2 25	Q3 25	Q4p 25
REAL GDP	3.3	1.9	-0.6	3.8	4.4	1.4
REAL CONSUMPTION	4.0	3.9	0.6	2.5	3.5	2.4
CONSUMPTION	2.7	2.6	0.4	1.7	2.3	1.6
Durables	0.6	0.9	-0.3	0.2	0.1	-0.1
Nondurables	0.7	0.5	0.3	0.3	0.5	0.1
Services	1.4	1.2	0.4	1.2	1.7	1.6
INVESTMENT	0.2	-1.3	3.8	-2.7	0.0	0.7
Business Plant & Equipment and Intellectual Property	-0.1	-0.3	-0.1	-0.2	-0.2	-0.1
Homes	0.4	-0.2	1.0	0.4	0.3	0.2
Inventories	0.1	0.0	0.3	0.8	0.3	0.4
Homes	-0.2	0.2	0.0	-0.2	-0.3	-0.1
Inventories	-0.1	-0.9	2.6	-3.4	-0.1	0.2
EXPORTS	1.0	-0.1	0.0	-0.2	1.0	-0.1
IMPORTS	-1.4	0.0	-4.7	5.0	0.6	0.2
GOVERNMENT	0.9	0.6	-0.2	0.0	0.4	-0.9
Federal defense	0.5	0.2	-0.3	0.0	0.2	-0.4
Fed nondefense	0.1	0.1	-0.1	-0.4	0.0	-0.7
State and local	0.4	0.3	0.2	0.3	0.2	0.3

Below line: Percentage point contributions to Q4 2025 1.4% real GDP
Second estimate for Q4 is Friday, March 13

\$250 billion coming in annually, not peanuts, but the fiscal year 2025 Federal budget deficit was \$1.7 trillion. We don't know about the consumer price effect, but the vast number of corporate lawsuits to reclaim the tariffs suggests businesses are mostly the ones who are paying.

INTEREST RATES



The market may have lost track on why the Trump tariffs are good or bad, not forgetting many corporate earnings reports cite the tariff costs as a reason why earnings took a hit. The Supreme Court ruling striking down the tariffs came at 10am ET Friday with the S&P 500 around 6,865, roughly flat on the day. The initial reaction was sell-the-rumor, buy-the-fact perhaps with some retracements before holding higher. The Friday close was 6,909.51 up 0.7% on the day. Trump came out in the early afternoon saying they would put on new trade tariffs although with a different rationale where the President does have authority. The bond market was perplexed and just sat staring most of Friday, closing 1 bp higher in yield at 4.09%, and 4.05% last Friday. Bessent said the new tariffs would bring in the same \$ amount of customs duties by the end of 2026 as the old tariffs. Okay. We will watch.

Walmart Inc. (WMT) up 10.4% YTD; Caution on forecast

The stock was \$126.62 Wednesday before earnings the next morning. Shares fell 1.4% Thursday, one factor in the broader market decline, although fears of an Iran-U.S. conflict sent crude oil up the last two days by \$4.14 to \$66.40. Operating earnings are up 10.8% the last year. Conservative guidance perhaps, but there was nothing in the consumer's behavior that would make the company more cautious than they had been.

Operating income guidance is 6-8% currency-neutral this year.

	Operating	Same-store	13-weeks	
Bln \$	Revenue	Income	Sales YOY *	ending *
Q4 2023	173.4	7.3	4.0%	1/26/2024
Q1 2024	161.5	6.8	3.8%	4/26/2024
Q2 2024	169.3	7.9	4.2%	7/26/2024
Q3 2024	169.6	6.7	5.3%	10/25/2024
Q4 2024	180.6	7.9	4.6%	1/31/2025
Q1 2025	165.6	7.1	4.5%	5/2/2025
Q2 2025	177.4	7.3	4.6%	8/1/2025
Q3 2025	179.5	6.7	4.5%	10/31/2025
Q4 2025	190.7	8.7	4.6%	1/31/2026

* Walmart U.S. comparable sales, ex-fuel



FEDERAL RESERVE POLICY

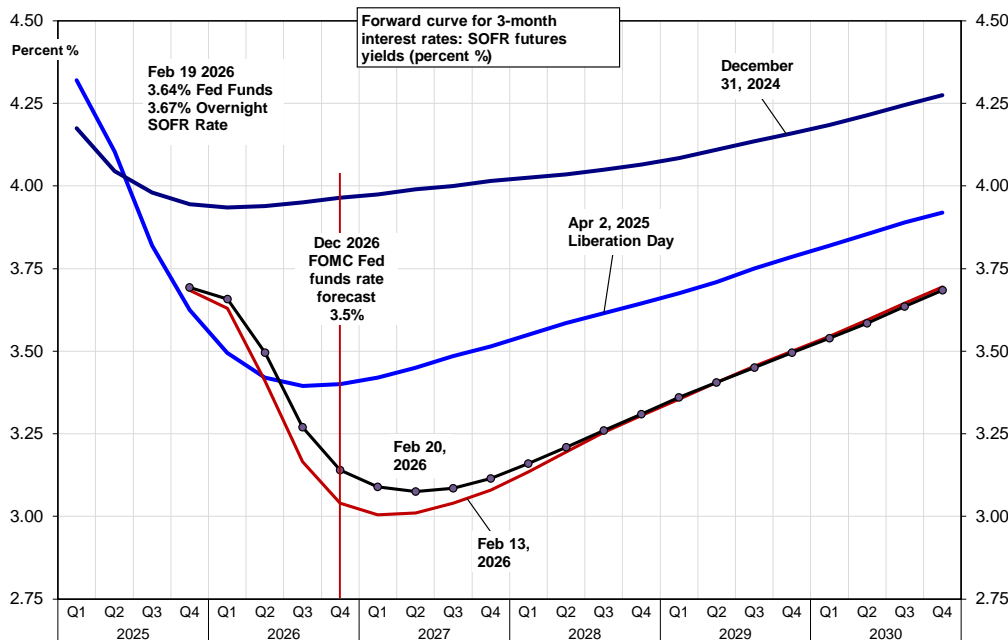
The Fed meets March 17-18, 2026 to consider its monetary policy. Some more Fed official voices saying they could cut rates more than just once this year if inflation falls closer to the 2.0% target. Maybe hedging their bets before Warsh gets there and lights up Fed 2.0 the first time perhaps at the June 2026 FOMC meeting. It is funny how core PCE inflation was less than core CPI inflation through most of the 2010s leading Fed officials to worry about a deflation risk based on the official PCE measure of inflation. Now the tide has turned and PCE inflation is much higher than CPI inflation perhaps because Trump 2.0 officials have not figured out how to bring it down yet.

Meanwhile we want to weigh in on the debate about the Fed's \$6.664 trillion balance sheet when Warsh takes the reins. Don't bother. It just sits there doing nothing. Leave it alone. Next we want to talk about the implications of the January Fed meeting minutes released on Wednesday (Full disclosure: FEDERAL RESERVE POLICY was written by ChatGPT this week and it even emailed this newsletter to some subscribers before we could stop it.)

Selected Fed assets and liabilities						Change from 3/11/20 to Feb 18
Fed H.4.1 statistical release billions, Wednesday data	18-Feb	11-Feb	4-Feb	28-Jan	3/11/20*	
Factors adding reserves						
U.S. Treasury securities	4305.596	4297.606	4281.018	4265.977	2523.031	1782.565
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2023.727	2023.710	2023.710	2023.710	1371.846	651.881
Repurchase agreements	0.006	0.113	3.001	0.006	242.375	-242.369
Primary credit (Discount Window)	4.775	4.418	4.515	4.516	0.011	4.764
Bank Term Funding Program	0.000	0.000	0.000	0.000		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	0.053	0.056	0.058	0.059		
Main Street Lending Program	1.322	1.324	1.323	1.561		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Gold stock	11.041	11.041	11.041	11.041	11.041	0.000
Central bank liquidity swaps	0.058	0.024	0.022	0.032	0.058	0.000
Federal Reserve Total Assets	6664.4	6673.4	6656.9	6638.1	4360.0	2304.344
3-month Libor-% SOFR %	3.73	3.65	3.65	3.64	1.15	2.580
Factors draining reserves						
Currency in circulation	2431.064	2430.663	2431.213	2429.415	1818.957	612.107
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	888.854	910.533	907.737	952.705	372.337	516.517
Treasury credit facilities contribution	0.821	0.821	0.821	0.821		
Reverse repurchases w/others	0.856	1.048	2.414	1.103	1.325	-0.469
Federal Reserve Liabilities	3704.410	3714.914	3719.454	3755.151	2580.036	1124.374
Reserve Balances (Net Liquidity)	2959.961	2958.493	2937.493	2882.940	1779.990	1179.971
Treasuries within 15 days	61.400	75.381	77.391	56.032	21.427	39.973
Treasuries 16 to 90 days	258.173	235.562	229.346	228.507	221.961	36.212
Treasuries 91 days to 1 year	490.135	495.568	483.170	475.696	378.403	111.732
Treasuries over 1-yr to 5 years	1411.109	1382.100	1382.108	1400.674	915.101	496.008
Treasuries over 5-yrs to 10 years	492.753	506.012	506.014	502.929	327.906	164.847
Treasuries over 10-years	1592.028	1602.982	1602.989	1602.139	658.232	933.796
Note: QT starts June 1, 2022	Change	2/18/2026	6/1/2022			
U.S. Treasury securities	-1465.183	4305.596	5770.779			
Mortgage-backed securities (MBS)	-683.719	2023.727	2707.446			

Fed Policy-key variables	2025				Long Term
	2025	2026	2027	2028	
Fed funds	3.6	3.4	3.1	3.1	3.0
PCE inflation	2.9	2.4	2.1	2.0	2.0
Core inflation	3.0	2.5	2.1	2.0	
Unemployed	4.5	4.4	4.2	4.2	4.2
GDP	1.7	2.3	2.0	1.9	1.8

December 2025 median Fed forecasts



All but 9.5 bps of a 25 basis point rate cut to 3.5% is discounted by the June 2026 meeting.

Fed funds futures call Fed policy			
Current target: February 20 -- 3.75%			
Rate+0.11 Contract	Fed decision dates		
3.705 May 2026	Mar 18, Apr 29		
3.595 Jul 2026	Adds Jun 17*		

*July 2026 could be two days at a new rate

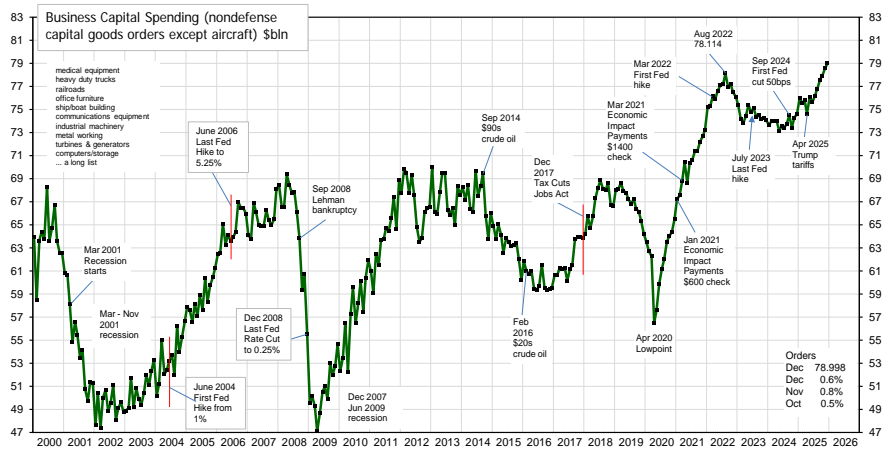
Next up: February CPI inflation Wed, March 11, January PCE inflation Fri, March 13

Monthly	2026		2025		2025												2024	
% Changes	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov			
Core CPI inflation	0.3	0.2	na	na	0.2	0.3	0.3	0.2	0.1	0.2	0.1	0.3	0.4	0.2	0.3			
Core PCE inflation	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.1	0.4	0.3	0.2	0.1			
Core PCE YOY		3.0	2.8	2.8	2.8	2.9	2.9	2.8	2.8	2.6	2.7	3.0	2.8	3.0	3.0			
Core CPI YOY		2.5	2.6	2.6	na	3.0	3.1	3.1	2.9	2.8	2.8	3.1	3.3	3.2	3.3			

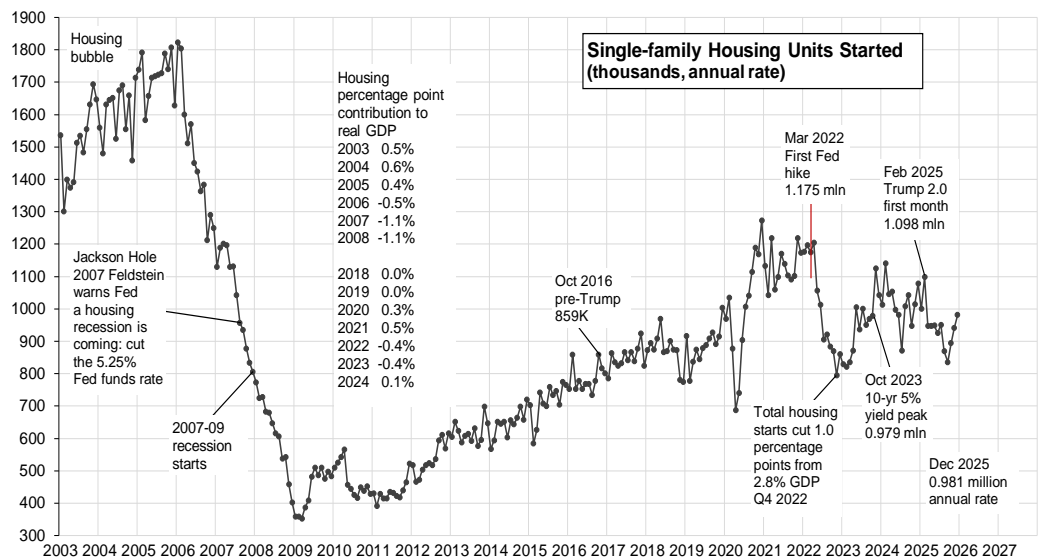
OTHER ECONOMIC NEWS

Economic show of strength (Wednesday)

Breaking economy news. Two reports at 830am today. Durable goods for December, and two more shutdown-delayed reports for November and December residential housing construction. Our monthly proxy for business investment in the durable goods report is nondefense capital goods orders except aircraft where the November gain of 0.4% was revised up to 0.8%, and December rose 0.6% to an all-time high. AI purchases perhaps where the limited breakdown of categories shows Communications equipment rose 2.0% in December, Computers and electronic products rose 3.0%, and Electrical equipment, appliances, and components rose 0.6%. Single-family housing starts are still depressed, but have rebounded to 981 thousand in December from the year's 836 thousand low in September before the Federal government shutdown.

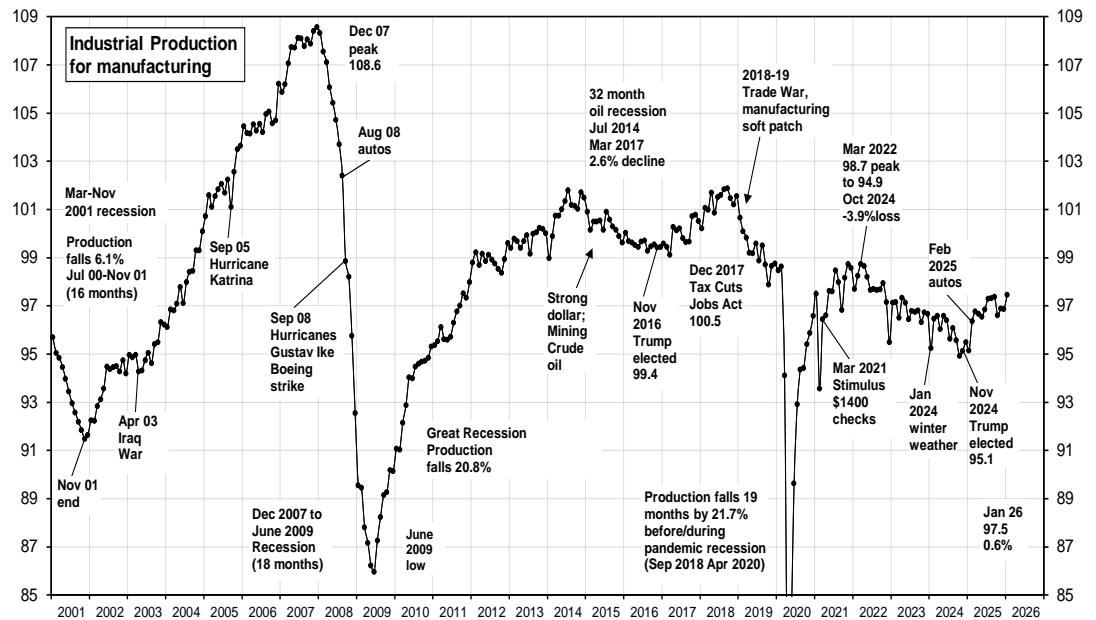


Net, net, the latest economic reports on business activity and housing construction show the economy had a lot of strength at the end of last year with core durable goods orders at all-time highs and also in single family home starts rebounding from the twin uncertainties of import tariffs and the Federal government shutdown which momentarily knocked construction and orders off their feet. There is some reason for hope for the economic outlook even if the business orders may be driven from favorable depreciation rules from the big tax bill, and residential housing construction is rebounding from near-depression levels for the industry. Permits for multifamily residential projects surged in December in the Northeast and out in the West, so at least more supply for renters is on the way. The data are consistent with moderate economic growth in the first quarter of 2026 which is remarkable as the colder than seasonal temperatures are the latest headwind the economy faces at least until the spring. Stay tuned. All in all, a remarkable show of strength for the economic outlook.



Production rebound helps no one. Industrial production released at 915am ET

Industrial production jumped 0.7% in January and is 2.3% higher than a year ago. Consumer goods for Appliances, furniture, carpeting dropped 3.8% in January, not really expecting sofas or refrigerators to be made in America with the category dropping steadily -4.5% 2023,



-4.4% 2024, and -2.3% in 2025. On the other hand, Home electronics under consumer goods production keeps rising, up 2.8% in January, and 5.2% higher than a year ago. Unclear what this is. These are just side categories that are small of course. Most of the increase in production has come from energy (consumer and under industrial materials) and Transit production.

Net, net, factory production jumped in January to start the year, but is little changed after a series of downward revisions starting in September last year in the latest monthly industrial production report from the Federal Reserve. The big pothole in manufacturing industrial production came in the 0.8% plunge during the October 2025 Federal government shutdown from which factories have now fully recovered. Utility output was up 3.0% in December and 2.1% in January due to the colder than seasonal temperatures, and will adjust lower in the next few months. Stay tuned. Manufacturing industrial production is 2.4% higher than year ago levels, but it was all done without additional workers where manufacturing employment in the latest January payroll jobs report fell 83 thousand to 12.590 million, job losses maybe not from AI, but robots and automated production processes could be to blame. It is no good to bring factories back to America if workers do not benefit due the productivity miracle that helps no one. Bet on it.

Percent changes		Industrial Production			
Nov	Dec	Jan	YOY	Weight	Jan 2026
0.1	0.2	0.7	2.3	100.0	Total Index
0.3	0.0	0.6	2.4	75.9	Manufacturing
0.9	-0.9	-0.2	2.5	11.7	Mining
-1.6	3.0	2.1	1.1	12.4	Utilities
					Manufacturing payroll jobs
					12.6 million -83K YOY
					9.3% of Private Payroll Jobs

Housing Starts Total, Single-Family, Multi-Family											
	United States			Northeast		Midwest		South		West	
000s	Total	1 unit	Multi	Total	1 unit	Total	1 unit	Total	1 unit	Total	1 unit
Dec 2025	1404	981	402	152	71	177	124	741	584	334	202
Nov 2025	1322	942	365	144	69	173	132	762	579	243	162
Dec 2024	1514	1078	406	148	63	204	153	883	639	279	223
% Chgs											
Dec/Nov	6.2	4.1	...	5.6	2.9	2.3	-6.1	-2.8	0.9	37.4	24.7
Dec/Dec	-7.3	-9.0	...	2.7	12.7	-13.2	-19.0	-16.1	-8.6	19.7	-9.4

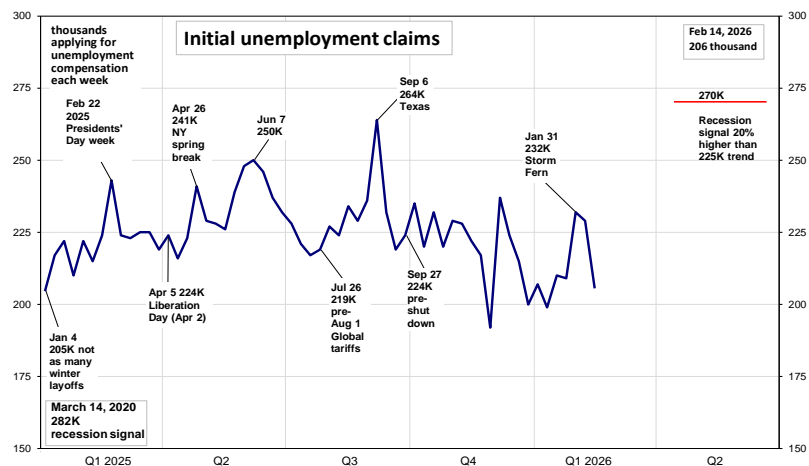
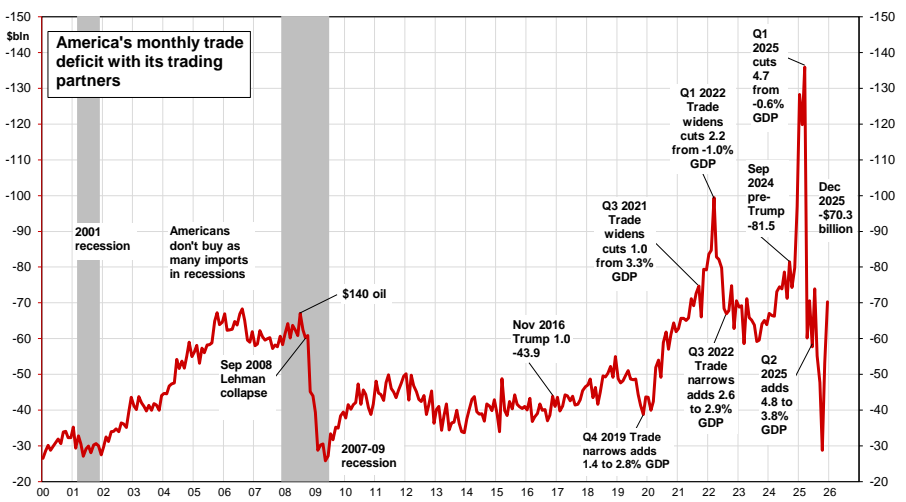
Winning trade story crumbles (Thursday)

\$mIn	Trade balance			Exports			Imports		
	Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
Nov 2025	-53,044	-83,641	30,597	292,290	186,287	106,002	345,334	269,928	75,406
Dec 2025	-70,311	-99,329	29,018	287,287	180,832	106,455	357,598	280,161	77,437
Change	-17,267	-15,688	-1,579	-5,003	-5,455	453	12,264	10,233	2,031

Breaking economy news. First-time applications for unemployment compensation fell 23K to 206K in the February 14 week, back to normal after being elevated by the winter weather, and the trade deficit returned to normal too, jumping \$17.3 billion to \$70.3 billion in December. The Q4 2025 average is \$50.7 billion now, down from \$58.9 billion in Q3 2025, so trade will not be adding as much to the GDP figures that are released tomorrow morning. The winning trade story crumbles headline is an exaggeration, a lot of that going on lately, as imported goods were sky-high at the start of last year to beat the tariffs and then fell quite low as the goods had been brought in already. The calendar year 2025 trade deficit in goods (BOP basis) was a record \$1,240.9 billion versus \$1,215.4 billion in 2024. China's goods deficit fell \$93.4 billion to \$202.1 billion in 2025, but Taiwan increased \$73.1 billion, and Vietnam rose \$54.7 billion which will have to count as the US rebalancing with the world for now.

Net, net, it was a good story while it lasted, the Trump import tariffs were reining in the trade deficit red ink and bringing factories and customs duties cash back to the USA. But the high hopes for the tariff economic policy's success crumbled with the trade deficit's reversion to the mean at the end of last year. The only thing tariffs have not done is destabilize the labor

markets with today's plunge in weekly jobless claims showing companies are not firing workers. Stay tuned. A monthly trade deficit of less than \$30 billion shocked the markets a couple of months ago, but today's \$70.3 billion December trade deficit introduces some reality to the claims that import tariffs are working. The deficits took a couple of decades to build up to this level of reliance on foreign goods, and it will take at least another ten years to reverse this economic trend. The trade deficit should add to fourth quarter GDP in tomorrow's report, but the addition will be less than economists originally forecast. Atlanta Fed GDPNow revised Q4 2025 GDP to 3.0% from their earlier estimate of 3.6%, after the trade report.



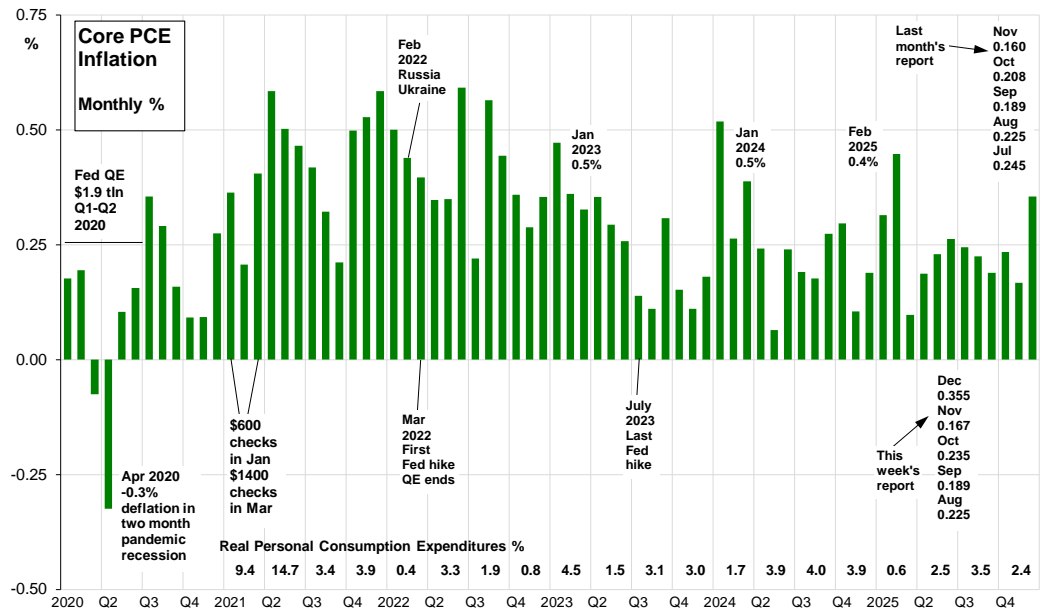
	Trade deficit (\$bln) contribution to Real GDP				
	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25
GDP %	1.9	-0.6	3.8	4.4	1.4
Net Ex	-0.1	-4.7	4.8	1.6	0.1
Deficit	-83.7	-128	-62.8	-58.9	-50.7
\$ Chg	-6.6	-44.3	65.2	3.9	8.2

Growth down, inflation up (Friday)

Breaking economy news. Q4 2025 GDP and December personal income and consumer inflation at the same time. Growth was weaker and inflation was higher than expected which sent stock futures down. Away from the Federal government shutdown dollar spending drop, the uncertainty caused by the longest shutdown in history, seemed to slow real consumer spending to 2.4% in Q4 from 3.5% in Q3 2025, and consumers seemed to dip into their piggy banks to do it. Personal saving as a percentage of disposable personal income was 3.7% in Q4 versus 4.1% in Q3. Given that December real consumer spending was just 0.1%, there is not a lot of momentum going into Q1 2026 with spending up just 0.4% ahead of the January, February, March reports.

A quick scan of prices shows some import tariff effects in December keeping in mind durable consumer goods are only about 13% of total consumer purchases. Furnishings and durable household equipment jumped 0.8% in December, albeit after two prior flat months. Major and small appliances fell however, but dishes and flatware jumped 5.8%. Recreational goods and equipment rose 1.8% in December where computer software jumped 7.0% in December.

The Federal government shutdown clearly sent the economy careening off its strong growth path in the fourth quarter which is a one-off that won't be repeated in early 2026. GDP was only 1.4% in Q4 2025, but adding back the 1.2 percentage point drag from Federal spending, growth was a moderate 2.6%. AI spending saved the



economy's bacon as well in the final quarter last year, or at least equipment purchases of information processing equipment added 0.7 percentage points to growth; this spending has not been consistent, on a percentage points basis, 0.9% Q1, 0.2% Q2-Q3, and now 0.7% in Q4. There is more spending on "data centers," but not enough to turn around the -0.1% contribution from business spending on construction in Q4. Stay tuned. It is looking like the stronger economic growth near 4% in the middle of last year was a mirage, as spending was boosted temporarily by companies scrambling to avoid tariff price hikes on imports at the start of Trump 2.0 in January 2025. Ironically, it was not the Trump 2.0 economic agenda that boosted economic growth, it was the attempt of American businesses to get out of the way of Washington's policies that was responsible for the stronger economy. Meanwhile, the 0.4% jump in core PCE inflation was worse than expected and will likely make Fed officials cautious on further interest rate cuts this year, at least until former Fed governor Warsh gets in there as the new Chair. Core PCE inflation was 3.0% in December and core CPI inflation was 2.6% in December, now 2.5% in January, and the divergence in the data shows progress on bringing down inflation will have to wait.

Analyst Certification

The views expressed in this report accurately reflect the personal views of the research staff at FWDBONDS LLC, the primary analysts responsible for this report, about the subject securities or issuers referred to herein, and no part of such analysts' compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed herein.

The information herein is provided for information purposes only, and is not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. Neither this nor any other communication prepared by FWDBONDS LLC should be construed as investment advice, a recommendation to enter into a particular transaction or pursue a particular strategy, or any statement as to the likelihood that a particular transaction or strategy will be effective in light of your business objectives or operations. Before entering into any particular transaction, you are advised to obtain such independent financial, legal, accounting and other advice as may be appropriate under the circumstances. In any event, any decision to enter into a transaction will be yours alone, not based on information prepared or provided by FWDBONDS LLC. FWDBONDS LLC hereby disclaims any responsibility to you concerning the characterization or identification of terms, conditions, and legal or accounting or other issues or risks that may arise in connection with any particular transaction or business strategy. While FWDBONDS LLC believes that any relevant factual statements herein and any assumptions on which information herein are based, are in each case accurate, FWDBONDS LLC makes no representation or warranty regarding such accuracy and shall not be responsible for any inaccuracy in such statements or assumptions. Note that FWDBONDS LLC may have issued, and may in the future issue, other reports that are inconsistent with or that reach conclusions different from the information set forth herein. Such other reports, if any, reflect the different assumptions, views and/or analytical methods of the analysts who prepared them, and FWDBONDS LLC is under no obligation to ensure that such other reports are brought to your attention.

Copyright 2026 FWDBONDS LLC All Rights Reserved

The articles and opinions in this publication are for general information only, are subject to change, and are not intended to provide specific investment, legal, tax or other advice or recommendations. The information contained herein reflects the thoughts and opinions of the noted authors only. We are not offering or soliciting any transaction based on this information. We suggest that you consult your attorney, accountant or tax or financial advisor with regard to your situation. Although information has been obtained from sources we believe to be reliable, neither the authors nor FWDBONDS LLC vouch for its accuracy, and such information may be incomplete or condensed. Neither the authors nor FWDBONDS LLC shall be liable for any typographical errors or incorrect data obtained from reliable sources or factual information.

Opinions, estimates, forecasts, and other views contained in this document are those of the FWDBONDS LLC research group, and does not necessarily represent the views of FWDBONDS LLC or its management. Although the Financial Markets This Week newsletter attempts to provide reliable, useful information, it does not guarantee that the information or other content in this document is accurate, current or suitable for any particular purpose. All content is subject to change without notice. All content is provided on an "as is" basis, with no warranties of any kind whatsoever. Information from this document may be used with proper attribution. Alteration of this document or its content is strictly prohibited. ©2026 by FWDBONDS LLC.

By the way, in the way of the usual disclaimers, this is a final legal reminder that there is no investment advice offered or given anywhere in this newsletter or on the fwdbonds.com website. These are just the things we would like to see before we save, invest, spend, and otherwise plan for the future, which of course is always uncertain.