

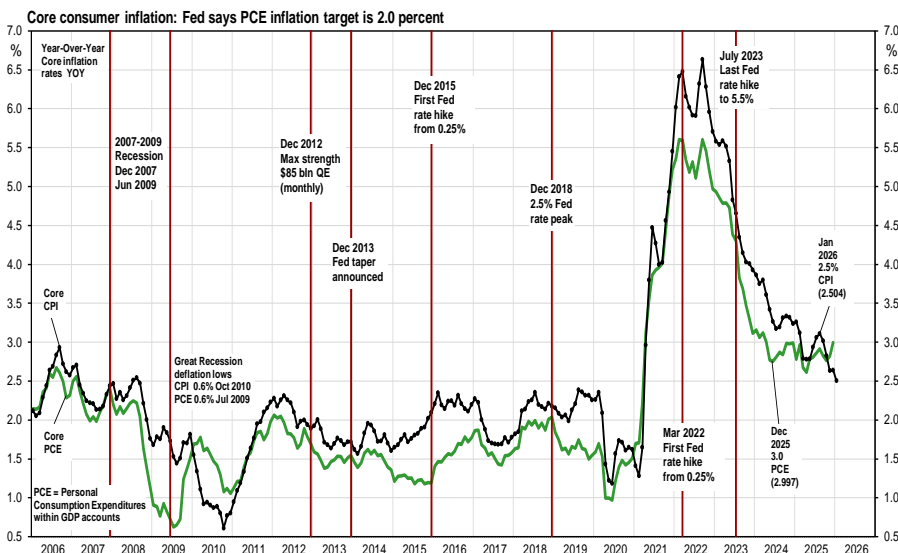
Financial Markets This Week

27 FEBRUARY 2026

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INFLATION BATTLE WON

The President cited the good news in the State of the Union address that his Administration had driven core inflation down to the lowest level in more than five years. Core CPI was 2.5% year-on-year in January. Meanwhile, a majority of Fed official voices don't like the core PCE inflation of 3.0% and are reluctant to cut interest rates. That's the good thing about current



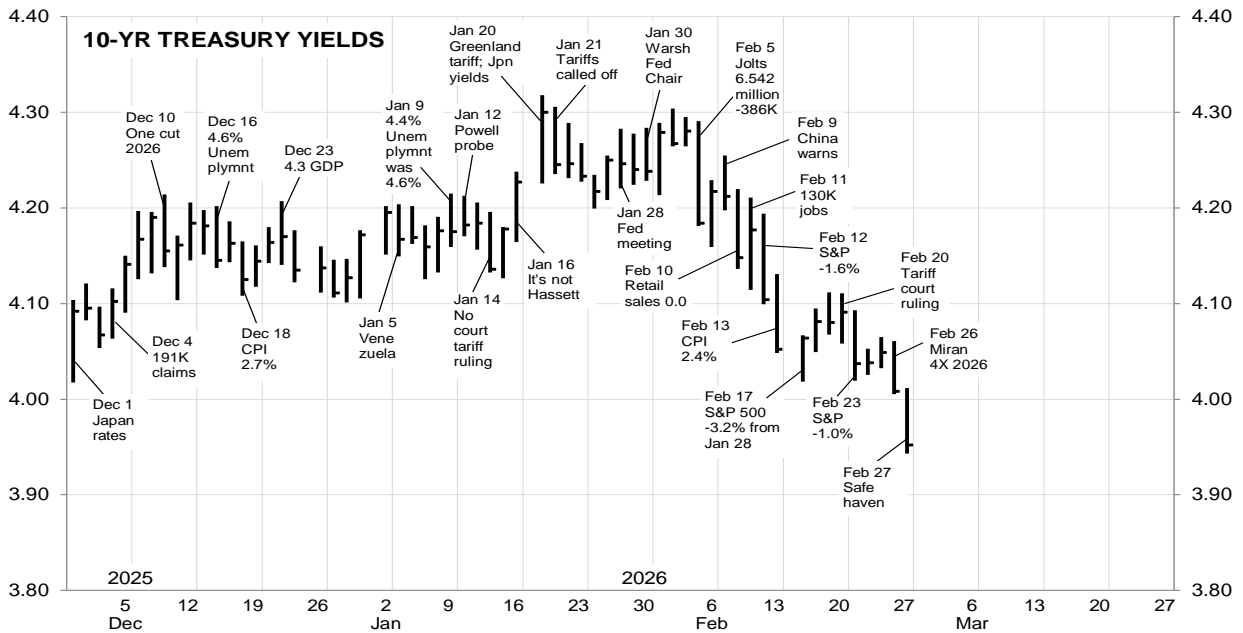
economic analysis, there's always some indicator that supports your argument. Two main consumer inflations: CPI says inflation is down, PCE says no progress has been made, keeping in mind everyone has their own basket of goods and services that they purchase and will have their own personal inflation rate. Hopefully yours does not include beef or instant coffee.

Key Differences in Core Inflation					
Weight	PCE inflation	YOY	Weight	CPI inflation	YOY
(89.1)	Core inflation	3.0	(79.0)	Core inflation	2.6
17.6	Housing/shelter	3.3	44.4	Housing/shelter	3.2
19.3	Medical care services	2.6	8.5	Medical care services	3.5

Year/Year (YOY) inflation is Dec 2025 for PCE, Dec for CPI
Housing/Medical care weights relative to core inflation

Core CPI inflation is less than core PCE inflation which is rare. In 2010, CPI shelter prices were a little weaker than for the PCE housing measure, but it was the much greater weight of housing in CPI that accounted for the divergence, and CPI inflation was less than PCE inflation. Core PCE inflation fell lower relative to core CPI in 2015 with Obamacare (signed 2010, reducing Medicare and Medicaid reimbursement rates) the likely culprit as Medical care has a larger weight in PCE. Fed officials were very concerned about deflation for that period even though CPI inflation was not pointing to deflation. The biggest disparity between PCE and CPI are these relative weights of medical care and shelter prices. There are more differences such as there are many more goods and services in the PCE inflation "basket," and the 6.4% weight of financial services in core PCE is much higher, so with PCE financial services inflation running 7.8% the last year this is adding about half a percent to 3.0% core PCE inflation the last year. We will see how this turns out. Perhaps measurement of CPI and PCE prices is not back to normal after the government shutdown. At the moment however, Fed officials are not buying the President's optimism on inflation. Core CPI inflation was 2.5% year-on-year in January, February data are on March 11, and January PCE inflation is due Friday, March 13.

INTEREST RATES



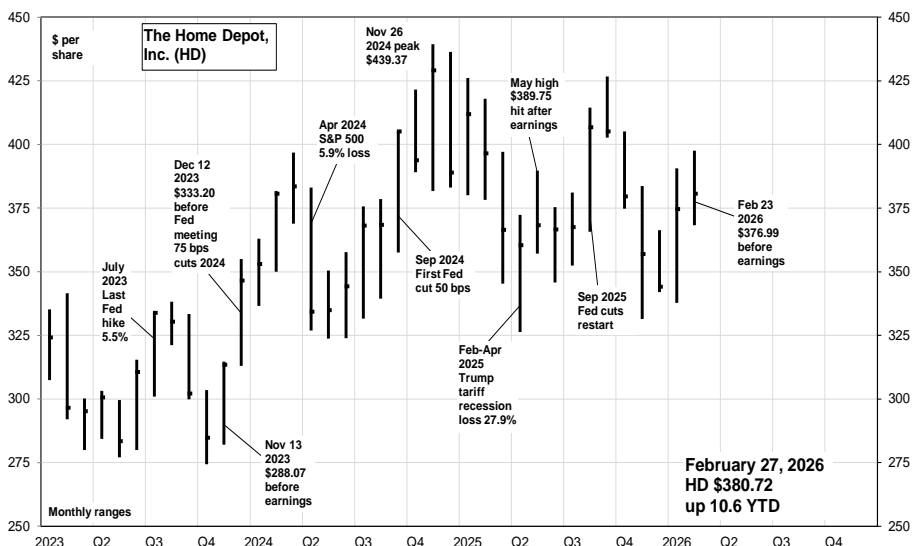
Bond yields fell under the psychological 4.0% level on Friday before the PPI report. The investment theme generally this week was run for the hills with the stock market volatility as investors worry about AI disruptions, and heightened geopolitical risks as well, with the potential for an imminent U.S. attack on Iran if talks break down. Things started out downhill this week with Trump saying over the weekend that the across the board tariffs, after the Supreme Court strike-down ruling Friday, were 15% not 10%. There was a strange Citrini Research report Monday as well, warning the AI boom's disruption would lead to a stock market crash. IBM fell 13.1% on Monday and the S&P 500 was down as much as 1.3% at one point. [US and Israel attack Iran early Saturday morning.]

The Home Depot, Inc. (HD) up 10.6% YTD

Earnings before the bell Tuesday, February 24 for the January 2026 quarter with net sales down 3.8% from a year ago while the average ticket was up to \$91.28 from \$89.11 last year. Earnings did beat Street estimates. The company has been in a rut for the last three years waiting for the housing market to pick up, citing consumer uncertainty. The stock price peaked at \$439.37 back in November 2024.

\$mIn	Operating	Average	Retail
Quarter	Net sales	Income	Ticket Sales NSA
2.1.26	38,198	3,849	\$91.28 37,987
11.2.25	41,352	5,353	\$90.39 40,948
8.3.25	45,277	6,555	\$90.01 44,602
5.4.25	39,856	5,133	\$90.71 38,793
2.2.25	39,704	4,495	\$89.11 36,545
10.27.24	40,217	5,418	\$88.65 42,435
7.28.24	43,175	6,534	\$89.90 45,080
4.28.24	36,418	5,079	\$90.68 38,862
1.28.24	34,786	4,143	\$88.87 36,170

Retail sales building material/garden qtr avg NSA



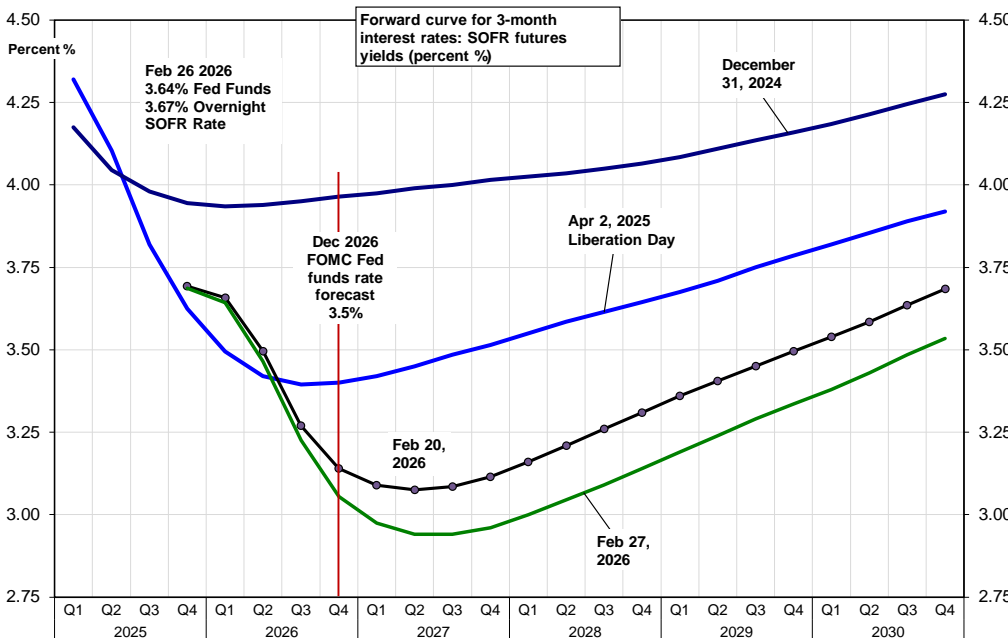
FEDERAL RESERVE POLICY

The Fed meets March 17-18, 2026 to consider its monetary policy. We will lean in on the dark side of Fed 2.0 with Fed governor Waller on Monday and Fed governor Miran on Thursday. Their outlaw ideas are not really moving the market yet. Waller talked about the 130K payroll jobs report and how this made him less inclined to cut interest rates. Oh wait. Less inclined to cut rates on March 18 he meant, when absolutely no one is looking for a FOMC rate cut at next month's meeting. He does need another stronger jobs report to rule out downside risks to the labor market that he is worried about. Waller also wants to see continued progress on inflation moving down to their 2% target, and still says once you subtract away the import tariff effects, "underlying" inflation is near 2%. OK

Miran said he thought maybe 4 rate cuts this year (to 2.75%). We thought he owned up previously to being the lowest, meanest dot for savers on the [December meeting dot-plot](#) interest rate forecasts which was 2.25%. Fed 2.0 is coming. Maybe literally. Get ready for it.

Selected Fed assets and liabilities						Change from 3/11/20 to Feb 25
billions, Wednesday data	25-Feb	18-Feb	11-Feb	4-Feb	3/11/20*	
Factors adding reserves						
U.S. Treasury securities	4321.596	4305.596	4297.606	4281.018	2523.031	1798.565
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2010.418	2023.727	2023.710	2023.710	1371.846	638.572
Repurchase agreements	0.003	0.006	0.113	3.001	242.375	-242.372
Primary credit (Discount Window)	4.483	4.775	4.418	4.515	0.011	4.472
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	0.049	0.053	0.056	0.058		
Main Street Lending Program	1.323	1.322	1.324	1.323		
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	0.055	0.058	0.024	0.022	0.058	-0.003
Federal Reserve Total Assets	6664.6	6664.4	6673.4	6656.9	4360.0	2304.560
3-month Libor % SOFR %	3.67	3.73	3.65	3.65	1.15	2.520
Factors draining reserves						
Currency in circulation	2432.413	2431.064	2430.663	2431.213	1818.957	613.456
Bank Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	838.975	888.854	910.533	907.737	372.337	466.638
Treasury credit facilities contribution	0.821	0.821	0.821	0.821		
Reverse repurchases w/others	1.159	0.856	1.048	2.414	1.325	-0.166
Federal Reserve Liabilities	2660.158	3704.410	3714.914	3719.454	2580.036	80.122
Reserve Balances (Net Liquidity)	3004.429	2959.961	2958.493	2937.493	1779.990	1224.439
Treasuries within 15 days	62.087	61.400	75.381	77.391	21.427	40.660
Treasuries 16 to 90 days	266.868	258.173	235.562	229.346	221.961	44.907
Treasuries 91 days to 1 year	496.769	490.135	495.568	483.170	378.403	118.366
Treasuries over 1-yr to 5 years	1411.100	1411.109	1382.100	1382.108	915.101	495.999
Treasuries over 5-yrs to 10 years	492.751	492.753	506.012	506.014	327.906	164.845
Treasuries over 10-years	1592.021	1592.028	1602.982	1602.989	658.232	933.789
Note: QT starts June 1, 2022	Change	2/25/2026	6/1/2022			
U.S. Treasury securities	-1449.183	4321.596	5770.779			
Mortgage-backed securities (MBS)	-697.028	2010.418	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables					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 7 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 27 -- 3.75%		
Rate+0.11 Contract	Fed decision dates	
3.685 May 2026	Mar 18, Apr 29	
3.570 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

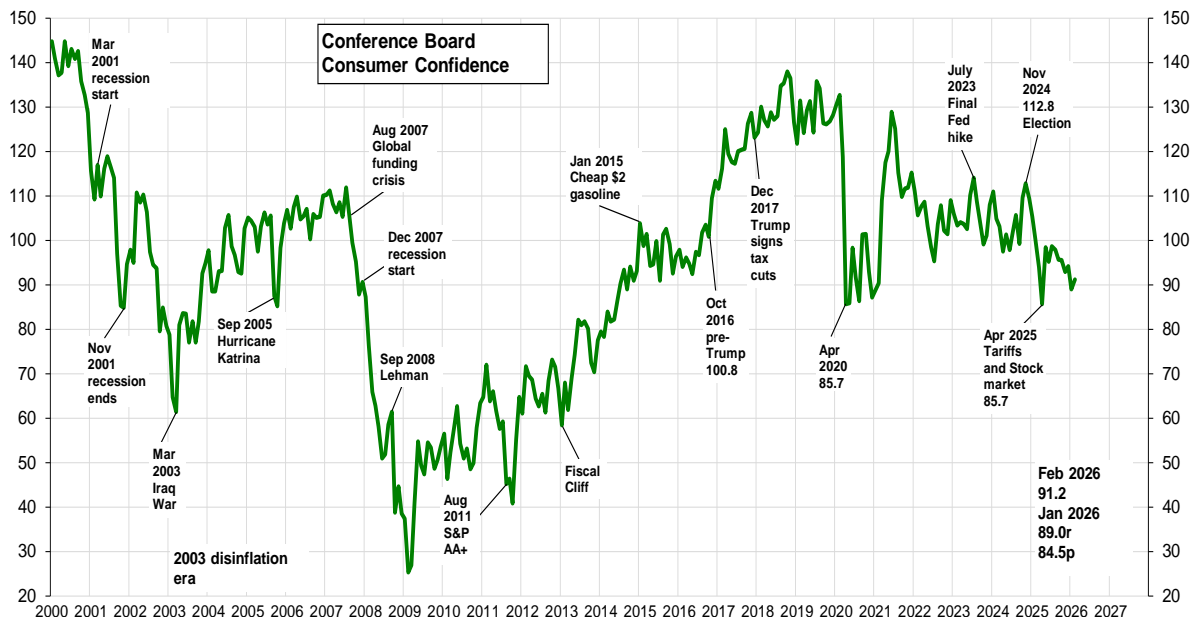
Monthly % Changes	2026				2025								2024		
	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov
Core CPI inflation	0.3	0.2	na	na	0.2	0.3	0.3	0.2	0.1	0.2	0.1	0.3	0.4	0.2	0.3
Core PCE inflation		0.4	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.1	0.4	0.3	0.2	0.1
Core PCE YOY		3.0	2.8	2.8	2.8	2.9	2.9	2.8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

OTHER ECONOMIC NEWS

Consumer confidence rebound (Tuesday)

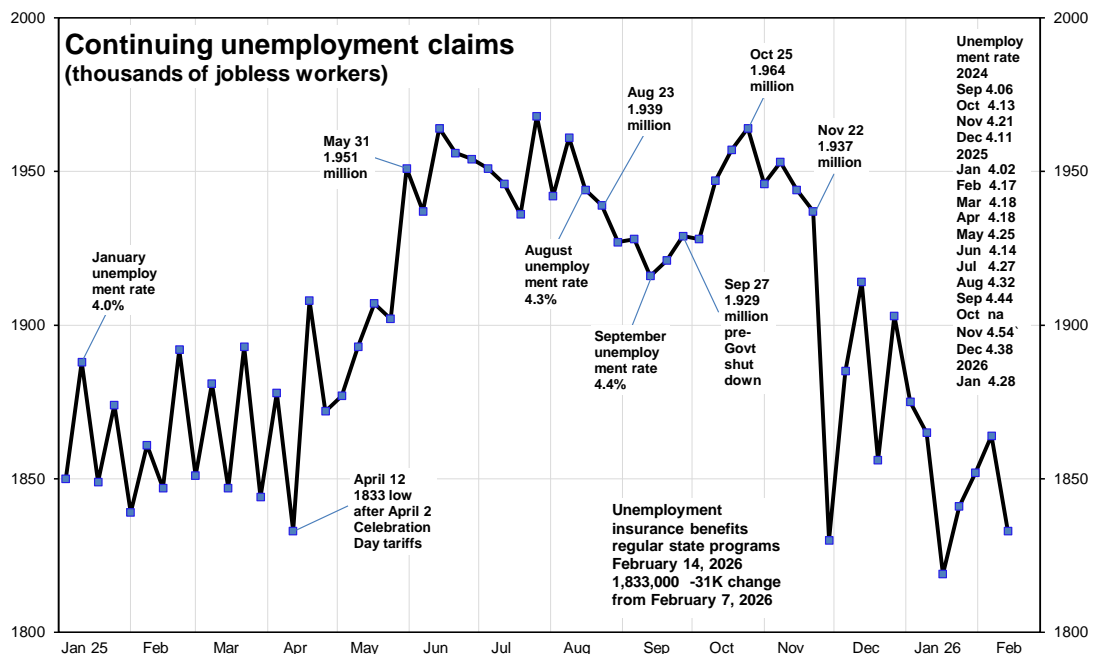
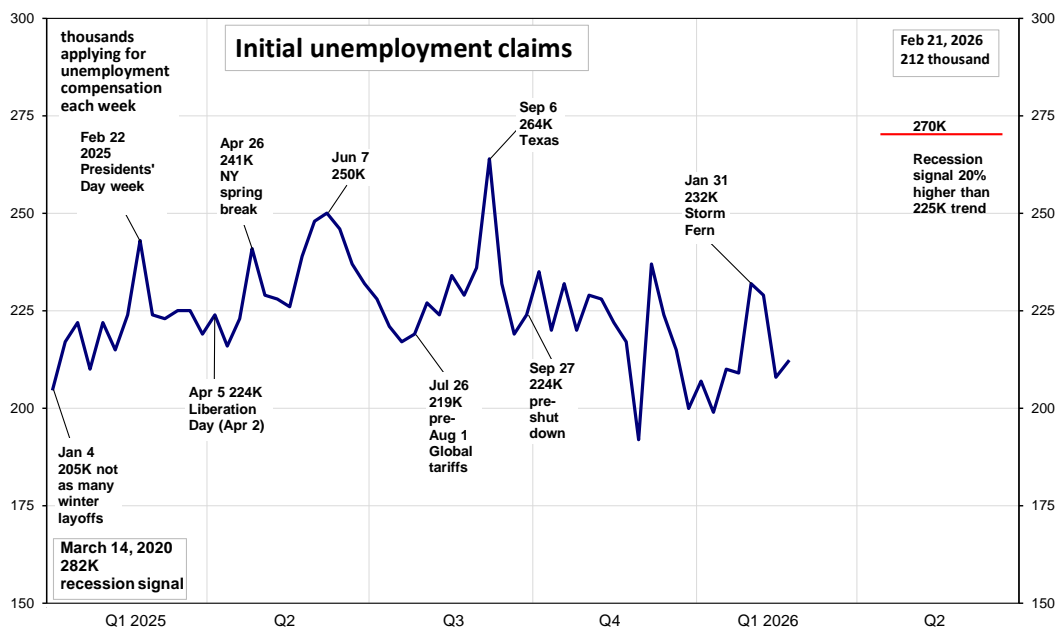
Breaking economy news. Consumer confidence was not as downbeat as we thought in January’s 84.5 reading because the February index is now 91.2. Whatever concerned Americans at the start of the year has been resolved apparently (upward revision helps), keeping in mind the cutoff date for survey responses was February 17 so the news of the surprise 130K jobs report for January, released February 11, was known to consumers and perhaps one reason they saw jobs were “more plentiful.”

Net, net, the consumer was more upbeat in February and has shaken off the January lows at the start of the year. Consumer spending slowed in the fourth quarter last year and today’s confidence report gives economists greater certainty on the economy’s path in the first quarter of 2026. The outlook is not one of complete confidence of a better tomorrow, but the downside uncertainties appear to have diminished at least prior to the Supreme Court dismantling the Administration’s signature economic policy on Friday. Stay tuned. Economic news and market turbulence have made it hard to read the economic tea leaves this year and the readings on consumer sentiment have not been immune from uncertainty. The consumer confidence index was thought to be way down at 84.5 in January, but now has been revised sharply higher to 89.0 in today’s report before moving slightly higher to 91.2 in February. Jobs are a little more plentiful according to the survey and this could spell curtains to Fed officials’ efforts to lower interest rates this year if the downside risks to the labor market are truly diminishing.



Jobless claims stable (Thursday)

Breaking economy news. First-time applications for unemployment compensation rose 4K to 212K in the February 21 week, The unadjusted filings dropped 16.7K to 193K during the Presidents' Day week, but the seasonal factor offset it correctly. The labor market is showing no sign of stress from the timeliest indicators, assuming states have not tightened up the requirements for getting compensation where the atmosphere generally under Trump 2.0 is to cut back on government spending at all levels which means the benefits given to those in need as well. The highest so-called insured unemployment rates were 3.0% in Rhode Island, 2.9% New Jersey, followed by the other states down to 2.0% for Massachusetts, Minnesota, Washington, Illinois, California, New York, Montana, Michigan, Oregon, and Pennsylvania with Montana being the only Red State if you will. Meanwhile, continuing claims are low and say the 4.3% unemployment rate will never rise again.



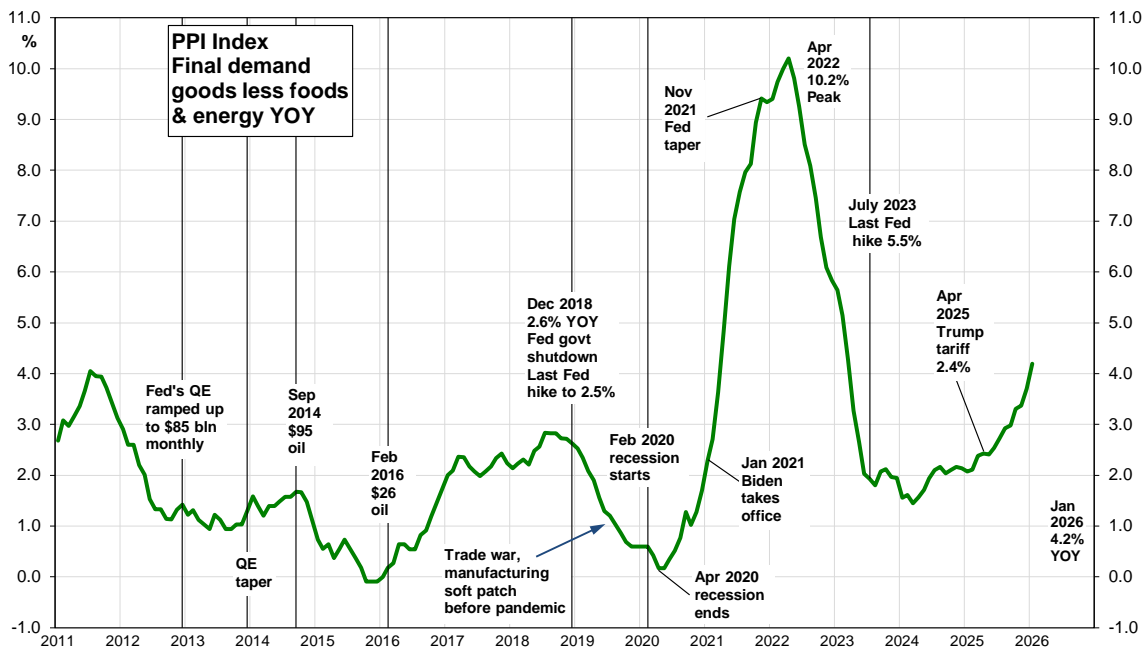
Producer inflation sky-rocket (Friday)

Breaking economy news. The delayed January PPI inflation report was released today. Old-fashioned PPI which focuses on commodities “goods” as opposed to services rose 0.7% in January and is rising 4.3% year-on-year. There are some services that feed into PCE inflation that are not in CPI, like Portfolio management rising again by 1.5% in January and is 17.9% higher than a year ago; inflation that appears to be tied to the stock market performance. Offices of physicians jumped 0.9% in January as well and feeds into PCE inflation to be released Friday, March 13.

Monthly % SA Total final demand	Final demand goods					Final demand services				
	Total	Foods	Energy	Less foods and energy	Total	Trade	Transportation and warehousing	Other		
2025										
Apr	-0.3	-0.1	-1.0	-0.5	0.3	-0.3	-0.3	0.1	-0.4	
May	0.3	0.1	0.2	-0.2	0.3	0.4	1.3	0.0	0.1	
Jun	0.2	0.3	0.2	0.9	0.2	0.1	0.0	-0.6	0.2	
Jul	0.8	0.6	1.2	0.7	0.4	0.9	1.2	1.4	0.7	
Aug	-0.2	0.2	-0.1	-0.2	0.4	-0.3	-2.1	0.6	0.3	
Sep	0.6	0.6	0.8	2.0	0.2	0.6	1.6	0.7	0.2	
Oct	0.1	-0.2	-0.4	-2.2	0.5	0.2	-0.9	0.0	0.7	
Nov	0.2	0.7	0.1	3.2	0.2	0.1	-0.5	0.8	0.2	
Dec	0.4	-0.1	-0.2	-1.5	0.4	0.7	1.8	0.4	0.2	
2026										
Jan	0.5	-0.3	-1.5	-2.7	0.7	0.8	2.5	1.0	0.0	

**Final demand goods, less foods and energy is old-fashioned PPI

Net, net, core factory goods prices sky-rocket at the start of the year which could be the January-effect when many companies adjust their price lists each year or it could be that the import tariffs continue to apply pressure to many PPI prices used by businesses and eventually passed on to the consumer. Markets did not need the bad inflation news this morning and stocks extended their losses. Bond yields fell below the psychological 4.00% level before the producer prices report and you can bet your bottom dollar that bond yields are not going to move back above this key level anytime soon. Factory prices are soaring today, and businesses will find out later how the new 10% across the board tariffs proposed by the Trump administration will affect prices in the future.



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