

Daily Finance Briefing

Monday, February 16, 2026

■ MARKETS CLOSED TODAY

US markets are closed for Presidents' Day. Chinese markets remain closed for Lunar New Year (Feb 16-23).

EXECUTIVE SUMMARY

Big Picture: Friday's CPI report was the catalyst that shifted market expectations dramatically. Inflation cooling faster than expected has traders now pricing in 83% odds of a June Fed rate cut - up from less than 50% just two days ago. This is driving a broad "risk-on" rotation: bonds rallying (yields falling), rate-sensitive sectors outperforming, and defensive positioning unwinding.

Key Theme: AI disruption fears continue to reshape sector leadership, creating a barbell market where traditional software/logistics stocks sell off while AI infrastructure plays (data centers, semiconductors, power) rally.

1. Headline News & Market Implications

Major UK M&A: Schroders Acquired for £9.9 Billion

What Happened: US asset manager Nuveen agreed to acquire UK's Schroders, ending over 220 years of family control and creating a \$2.5 trillion asset management giant. Schroders shares surged 28% to a 52-week high.

Why It Matters: This deal shows asset management consolidation is accelerating. Mid-sized managers face pressure from fee compression (passive investing) and rising compliance costs. Largest EMEA asset management deal ever signals deal-making confidence is returning.

CPI Drops to 2.4% - The "Goldilocks" Print

What Happened: January CPI rose just 2.4% year-over-year (vs 2.7% in December), marking an 8-month low. Core CPI at 2.5% - lowest since April 2021. Monthly CPI: +0.2% vs +0.3% expected.

Market Reaction: Bonds rallied hard (10-year Treasury yield fell ~5bp to 4.11%), rate cut odds surged (June cut probability jumped from <50% to 83%), equities mixed (rate-sensitive sectors outperformed; tech stayed weak on AI fears).

2. The Four Macro Drivers - With Market Mechanics

DRIVER #1: INFLATION - Cooling Faster Than Expected

Latest Data: CPI: 2.4% y/y (vs 2.7% prior), Core CPI: 2.5% y/y (lowest since April 2021), Monthly CPI: +0.2% (vs +0.3% expected)

Why This Matters: Inflation is THE most important macro variable right now because it determines: (1) When the Fed can cut rates, (2) Whether consumers have real purchasing power, (3) Corporate profit margin sustainability.

The Market Reaction Chain:

Step 1 - Lower Inflation → Higher Rate Cut Odds: CME FedWatch now shows 83% probability of June cut (was <50% Thursday). Full-year: 91% odds of THREE 25bp cuts by Dec 2026.

Step 2 - Higher Cut Odds → Lower Bond Yields: When investors expect rate cuts, they buy longer-duration bonds NOW to lock in today's higher yields. This buying pushes bond prices up → yields down. 10-year Treasury: 4.11% (testing 2-month lows).

Step 3 - Lower Yields → Sector Rotation: Money flows OUT of banks (rate cuts hurt margins). Money flows INTO rate-sensitive sectors (utilities, REITs, homebuilders). Growth stocks become relatively more attractive.

Step 4 - Dollar Reaction: Lower US rate expectations → dollar weakness (foreign investors get less yield from US assets). Sterling gaining: \$1.3645.

DRIVER #2: INTEREST RATES - Cut Expectations Surging

Current Fed Funds Rate: 3.5%-3.75% (held at Jan 28 meeting)

Market Expectations: June 2026: 83% probability of a cut, Full Year: 91% odds of at least three 25bp cuts

How Rate Cuts Impact Markets:

Winners: REITs (property values rise when discount rates fall), Utilities (stable dividends become more attractive vs bonds), Homebuilders (lower mortgage rates), Small Caps (less interest expense on debt)

Losers: Banks (net interest margin compression), Insurance (earn less on bond portfolios)

3. What to Watch This Week

Tuesday, February 17 - ADP Private Payrolls (8:15am ET)

Expected: ~120k. If >150k: Reduces urgency for June rate cut. If <80k: Increases recession fears, could accelerate cut timeline.

Wednesday, February 18 - Fed January Meeting Minutes (2:00pm ET) ■ MOST IMPORTANT

What to Look For: Dovish signals: "downside risks to inflation," "appropriate time to adjust policy". Neutral: "data-dependent approach." Hawkish: "concerns about premature easing," "upside risks to inflation"

Friday, February 21 - February PMI Flash Estimates (9:45am ET)

Above 50 = expansion, Below 50 = contraction. Services PMI more important (70% of US economy). If Manufacturing <48: Industrial recession fears. If Services <50: Broader recession warning.

4. Trading Themes for the Week

■ Bullish Catalysts:

1. **Rate Cut Momentum:** 83% odds for June cut unlikely to reverse. Plays: TLT (bonds), XLU (utilities), VNQ (REITs)
2. **Banking Recovery:** Sector down sharply last week, bouncing on short-covering. Plays: KRE (regionals), JPM/BAC (large banks)
3. **UK Gilt Rally:** Goldman's 4% target implies 40bp upside. Plays: UK government bonds, UK homebuilders

■ Bearish Risks:

1. **AI Disruption Continuation:** Software selloff could accelerate. Vulnerable: High-valuation SaaS, commercial real estate, logistics
2. **Thin Liquidity:** US closed Monday, China closed all week = low volumes amplify moves
3. **Hawkish Fed Minutes:** If Fed pushes back on cut expectations, rapid repricing. Impact: Yields spike, rate-sensitive sectors tumble

Key Technical Levels

Asset	Current / Support / Resistance
S&P 500	Support: 6,797 (100-day MA) Resistance: 6,950
10-Year Treasury	Current: 4.11% Support: 4.00% Resistance: 4.25%
FTSE 100	Current: 10,446 Resistance: 10,500
Brent Crude	Current: \$67 Support: \$65

■ PROFESSIONAL ANALYST TAKEAWAY

The 48-Hour Story: Friday's CPI print was a regime change moment. In two days, markets went from "Fed might cut once in 2026" to "Fed probably cuts three times." That's a massive repricing driven by: (1) Positioning - traders were positioned for stubborn inflation, (2) Confirmation Bias - market WANTED to believe inflation was beaten, (3) Technical Triggers - breaking key levels triggered algorithmic buying.

The Critical Question: Is It Sustainable?

Bull Case (60% Probability): CPI trend is real - shelter, vehicles, energy all cooling. Fed's preferred PCE likely at ~2.0% (their target). Wage growth at 3.2% is non-inflationary. Fed can cut without looking weak.

Bear Case: One month of data isn't a trend. Wage growth could reaccelerate. Trump tariff policies could reignite inflation. Kevin Warsh (new Fed Chair in May) might want to establish hawk credentials. Geopolitical risks could spike oil.

■ YOUR HOMEWORK TO BUILD MARKET INTUITION

- 1. Before Tuesday's ADP Data:** Write down predictions for how markets will react if payrolls come in at 180k (strong) vs 80k (weak). Predict: bond yields, S&P; 500, dollar. Then watch the actual reaction.
- 2. Watch Fed Minutes Release (Wed 2pm):** Don't just read headlines. Watch Bloomberg/CNBC and see how FAST yields and S&P; futures move in the first 60 seconds. That's algorithmic trading.
- 3. Track One Sector All Week:** Pick either utilities (rate-sensitive) or software (AI disruption). Track it all week. By Friday, you'll understand its drivers better than 90% of retail investors.

Sources: Financial Times, Bloomberg, Wall Street Journal, Bureau of Labor Statistics (CPI), CME FedWatch Tool, Goldman Sachs Research, institutional market commentary

Briefing compiled: Monday, February 16, 2026, 3:00 PM GMT

Next briefing: Tuesday, February 17, 2026

Disclaimer: This briefing is for educational purposes only. Not investment advice. Always conduct your own due diligence and consult with qualified financial professionals before making investment decisions.