THE BASIS POINT

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EXECUTIVE SUMMARY

Markets Reopen After Holiday: US markets reopen today after Presidents' Day. Wall Street returns to a week packed with high-impact events: Palo Alto Networks earnings tonight, Fed minutes Wednesday, Walmart Thursday, and GDP + PCE data Friday.

Big Theme - Rate Timeline Shifting: The dollar is firming as traders temper expectations for three Fed cuts this year, with **July now overtaking June** as the most likely timing for the first move. This is the key tension to watch all week.

AI Disruption Continues: S&P; 500 futures cautiously higher (+0.25%) as investors balance optimism about earnings with ongoing fears about AI threatening traditional business models.

1. MARKET SNAPSHOT

S&P; 500 Futures	Nasdaq 100	Dollar (DXY)	EM Markets
+0.25%	+0.38%	+0.27%	+0.05%
Cautious optimism	Tech stabilising	Rate re-think	Thin volumes

What's Driving Action Today:

Thin liquidity persists: China and South Korea remain closed for Lunar New Year. EM trading volumes were 96% below the 30-day average overnight. Any significant move today can be amplified - expect wider bid/ask spreads.

Last week's damage: Dow fell 1.23%, S&P; 500 declined 1.39%, Nasdaq dropped 2.1%. Software names led the selloff on AI disruption fears. Megacaps Apple, Amazon, Meta, Alphabet and Broadcom all fell 2-8%.

Rate cut repricing: Money markets have shifted the first expected cut from June to July. This is a significant change - one month less of easing reprices billions in assets.

→ HOW RATE REPRICING MOVES MARKETS:

Dollar strengthens: Higher-for-longer US rates = more attractive yield for foreign investors = demand for dollars rises. This pressures EM currencies and commodity prices.

Short-term Treasury yields rise: 2-year yields are most sensitive to Fed expectations. If June cut is priced out, 2-year yields climb.

Rate-sensitive sectors give back gains: The REITs, utilities, and homebuilders that rallied on Thursday's CPI print started to reverse Friday when the jobs report pushed cut expectations later.

The lesson: Markets constantly re-balance between 'inflation is beaten' (supports cuts) and 'economy too strong' (delays cuts). This week's data will tip the balance again.

2. KEY EVENTS TODAY - TUESDAY FEB 17

Palo Alto Networks (PANW) Earnings - After Market Close ■

Revenue guidance: $2.57-2.59B (14-15% y/y growth). Consensus EPS: $0.93 non-GAAP. This is the first major tech earnings since the AI disruption selloff - a bellwether for the entire software sector.

Scenario	Market Reaction	Why It Matters
Beats & raises guidance	Cybersecurity rallies. Positive read-through for AI security spending.	Shows enterprises ARE spending on AI security. Counters disruption narrative.
Misses on platform metrics	Software sector extends selloff. AI disruption fears intensify.	Signals customers consolidating security budgets.
Guidance disappoints	Broad tech selloff in after-hours. Negative tone into Wednesday.	If cybersecurity can't grow, who can?

Key Metric to Watch: Platformization progress. PANW is trying to consolidate all security tools onto one platform. Net new platform customers >50 this quarter = bullish.

Other Earnings Today

Medtronic (MDT): Medical device bellwether for healthcare capex and AI adoption in medical tech. Watch for AI diagnostics commentary.

Constellation Energy (CEG): Nuclear/clean energy - a key AI data center power play. Rising electricity demand from AI is a major tailwind. Watch for data center supply agreements.

3. THE FOUR MACRO DRIVERS

DRIVER #1: INFLATION - Still the Dominant Force

January CPI came in at 2.4% y/y (reported last Friday), an 8-month low. However, Friday's strong jobs data caused markets to question whether the Fed will act as quickly as hoped.

→ WHY ONE GOOD PRINT ISN'T ENOUGH:

The Fed's 'higher for longer' scar: In 2022-2023, the Fed cut too early, inflation re-accelerated, forcing aggressive hikes. They need 2-3 consecutive months of sub-2.5% CPI before acting.

PCE vs CPI: The Fed targets PCE, not CPI. PCE runs 0.3-0.4% below CPI. With CPI at 2.4%, PCE is likely ~2.0-2.1% - essentially at target. This is bullish for cuts.

Next key date - Friday Feb 21: Core PCE releases. If ≤2.0% = June cut back on the table. If ≥2.2% = cuts pushed further back. Most important data print this week.

DRIVER #2: INTEREST RATES - Timeline Shifting

Current Rate: 3.50-3.75% (held at Jan 28 meeting, 10-2 vote with two members dissenting in favour of a cut)

What's Changed: Money markets shifted the first expected cut from June to July. One month less of easing = billions of dollars in repriced assets across bonds, equities and FX.

→ WHAT TO LOOK FOR IN WEDNESDAY'S FED MINUTES (2pm ET):

The 2 dissenting votes: Two members wanted to cut in January. Strong arguments from dissenters = majority is not far behind.

Balance sheet discussion: Any mention of slowing Quantitative Tightening (QT) = effective easing, bullish for bonds.

Language analysis: 'Patient' and 'data-dependent' = neutral. 'Premature to ease' = hawkish. 'Downside risks to inflation' = dovish.

How to watch in real-time: At 2pm Wednesday, watch the 2-year Treasury yield on TradingView. It will move within SECONDS. Drop = dovish. Spike = hawkish.

DRIVER #3: EMPLOYMENT - Healthy But Slowing

January ADP: just 22,000 (below 48,000 forecast), but official NFP showed 130,000. ADP Pay Insights shows wages up 4.5% y/y for job-stayers - slightly above the 3-3.5% 'Goldilocks' range.

→ THE EMPLOYMENT PARADOX:

Strong jobs = Good for stocks (earnings growth) **BUT bad for bonds** (delays rate cuts)

Weak jobs = Bad for stocks (recession fears) **BUT good for bonds** (accelerates rate cuts)

At 130k NFP and 4.3% unemployment, we're in the 'sweet spot.' The risk is data moving out of this range - too strong delays cuts, too weak triggers recession fears.

DRIVER #4: GROWTH - Friday is the Big Day

Preliminary Q4 2025 GDP data releases Friday. Expected to show cooling from Q3's strong 4.4% annualised pace to ~2.5-3%. Combined with PCE data on the same day, Friday is arguably more important than Wednesday's Fed minutes.

4. COMPLETE WEEK AHEAD CALENDAR

Day	Event	Watch For	Market Impact
Tue Feb 17 Today	PANW, Medtronic, Constellation Energy earnings	PANW EPS: $0.93 Rev: $2.58B	Beat → tech rallies Miss → selloff extends
Wed Feb 18 ■ KEY	FOMC January Minutes (2pm ET) DoorDash, eBay, Booking earnings	Dovish vs hawkish tone 2 dissents in focus	Dovish → yields fall Hawkish → dollar rises
Thu Feb 19	Walmart (WMT) Earnings Deere & Co, Pending Home Sales	WMT EPS: $0.73 Same-store: +4.2%	Miss → consumer fears Beat → resilience confirmed
Fri Feb 21 ■ BIG	Prelim Q4 GDP + PCE Inflation + PMI Flash	GDP: ~3% PCE: ~2.0% PMI: >50	PCE high → cuts delayed PCE low → June cut returns

5. PROFESSIONAL ANALYST TAKEAWAY

The Core Tension This Week

Narrative 1 - 'Goldilocks is Real': CPI 2.4%, jobs 130k, wages 3.2%. Perfect soft landing. Fed cuts 2-3 times. Risk assets should rally.

Narrative 2 - 'Too Good to Cut': NFP beat (130k vs 55k expected), wages up 4.5%, dollar firming. Economy doesn't need cuts. Higher for longer.

Who wins? Friday's PCE decides. PCE ≤2.0% = Narrative 1 wins. PCE ≥2.2% = Narrative 2 wins.

Positioning Summary

High conviction: Underweight traditional SaaS (disruption is structural), Overweight AI infrastructure (data centers, semiconductors, power)

Tactical: Watch 2-year Treasury yield Wednesday at 2pm - your real-time Fed sentiment gauge

Wait and see: Rate-sensitive sectors (REITs, utilities) - hold until Friday's PCE confirms cut timeline

Key Risk: PANW miss tonight + hawkish Fed minutes Wednesday = double negative catalyst → S&P; toward 6,700 support

6. TODAY'S HOMEWORK - BUILD YOUR INTUITION

Exercise 1 - Real-Time Earnings Reaction After close, watch PANW's after-hours price move. Write down: Did it move as you predicted? What drove the reaction - revenue, EPS or guidance? Note the pattern.	**Exercise 2 - Dollar vs Yields** Today compare DXY (dollar index) movement to 2-year Treasury yield. They should move together. If they diverge, ask yourself why. Divergences are where traders find opportunities.

Wednesday Prep: Before the Fed minutes at 2pm, write your prediction: if dovish, what happens to (a) 2-year yields, (b) S&P; 500, (c) dollar? Watch the first 60 seconds after release. Compare. This is how market intuition is built.

Sources: Bloomberg, Financial Times, CNBC, Trading Economics, ADP Research, CME FedWatch, Seeking Alpha

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