THE BASIS POINT

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EXECUTIVE SUMMARY

■ **Friday's Reality Check - The Worst-Case Scenario Happened:**

Core PCE came in at 3.0% y/y (above the 2.8% expected, highest since April). Q4 GDP collapsed to 1.4% (massively below the 2.5%+ expected). This is the stagflation setup: hot inflation + weak growth. The June rate cut is officially DEAD. Even July is now questionable.

Markets' Muted Reaction: Dow -0.3%, S&P; -0.1%, Nasdaq +0.1% Friday. Why so calm? The 10-year yield FELL to 4.06% (not spiked) because traders interpreted weak GDP as 'recession risk rising' which eventually forces Fed cuts. This is bond traders front-running an economic slowdown.

This Week's Main Event - Nvidia Earnings Wednesday (AMC):

After Friday's stagflation scare, all eyes turn to Nvidia. If NVDA delivers a massive beat and raises guidance, it could override the macro concerns and spark a tech rally. If it disappoints (like PANW, like Walmart), the AI trade faces its biggest test yet. Expected EPS: $0.79, Revenue: $39.6B.

1. FRIDAY'S DATA BREAKDOWN - WHAT ACTUALLY HAPPENED

The Numbers That Matter:

Metric	Expected	Actual	Implication
Core PCE (y/y)	2.8%	**3.0%** ■	Highest since April. Inflation NOT cooling - re-accelerating. Well above Fed's 2% target.
Core PCE (m/m)	0.3%	**0.4%** ■	Up from 0.2% in November. Goods prices jumped 0.4% (from 0.1%). Tariff impact showing.

Headline PCE (y/y)	2.8%	**2.9%** ■	Up from 2.8% in November. Wrong direction entirely.
Q4 GDP	2.5-2.8%	**1.4%** ■	Massive miss. Government shutdown subtracted ~1.0pp. But even adjusting for that, growth is weak.

Why This Is the Worst Combination:

HOT inflation + WEAK growth = stagflation. The Fed's nightmare scenario. They can't cut rates (inflation too high) but the economy might need support (growth slowing). This is exactly what happened in the 1970s - high inflation became entrenched while growth stalled. The Fed is now in a policy bind.

→ THE TARIFF FACTOR - WHY INFLATION SPIKED:

Goods prices jumped 0.4% in December (from 0.1% in November). This is the tariff impact from policies enacted in H1 2025. Key question: Is this a 'one-time' price level shift or the start of sustained inflation?

Economist View: Most analysts (including Schwab's Martin) believe tariff-driven inflation is temporary. Once the price adjustment passes through, inflation should moderate. But if tariffs remain or escalate, this becomes structural.

The Kevin Warsh Factor: The incoming Fed Chair (Powell's term ends May 2026) opposed the 2025 rate cuts. Friday's data validates his hawkish stance. This suggests the new Fed will be LESS willing to cut, even if growth weakens.

2. FED POLICY IMPLICATIONS - JUNE CUT IS DEAD

What Markets Are Pricing Now:

• March FOMC (March 18): 90%+ probability of HOLD (no change)

• June FOMC: Cut probability collapsed from 70%+ to <20%

• July FOMC: Now the earliest realistic cut window (~40% odds)

• Full 2026: Only 1-2 cuts priced in (down from 3 cuts last week)

The Market's Counterintuitive Reaction:

Despite hot inflation, the 10-year Treasury yield FELL to 4.06% (from 4.11% Thursday). Why? Bond traders are betting that weak GDP + eventual recession forces the Fed to cut LATER in 2026, making today's 4% yields attractive. This is 'front-running the slowdown.'

→ THE THREE SCENARIOS FOR 2026 FED POLICY:

Scenario 1 - 'Temporary Tariff Inflation' (35% probability):

PCE moderates to 2.5% by April as tariff impact fades. GDP rebounds to 2.5%+ in Q1 as shutdown effects pass. Fed cuts in July, then again in September. Total: 2 cuts in 2026.

Scenario 2 - 'Higher for Longer' (40% probability):

PCE stays elevated at 2.8-3.0% through summer. GDP limps along at 1.5-2%. Fed holds ALL of 2026. No cuts. Kevin Warsh's arrival in May solidifies this stance. Rates stay at 3.5%-3.75% until 2027.

Scenario 3 - 'Recession Forces Cuts' (25% probability):

Q1 GDP comes in negative (recession confirmed). Unemployment spikes to 4.8%+. PCE still at 2.8% but Fed cuts anyway to support labor market. Three cuts in H2 2026 (July, September, November). Stagflation trade dominates.

3. THIS WEEK - NVIDIA IS EVERYTHING

The Week Ahead Calendar:

Day	Event	Expected / Watch For	Market Impact
Mon Feb 23	Dominion Energy (D) earnings	Utility earnings, infrastructure demand	Minor - not a market mover
Tue Feb 24	Home Depot (HD), Alibaba (BABA) Jan New Home Sales Feb Consumer Confidence	HD EPS: ~$3.50. China exposure via BABA. Consumer health check.	HD guidance critical for consumer discretionary. If cautious → selloff
Wed Feb 25 ■ NVIDIA	Nvidia (NVDA) AMC Lowe's, Salesforce, Snowflake	NVDA EPS: $0.79, Rev: $39.6B. AI demand sustainability.	Beat → AI rally continues Miss → Tech selloff accelerates Guidance > results
Thu Feb 26	Q4 GDP 2nd estimate Durable Goods Orders Weekly Jobless Claims	GDP revision (likely minimal) Durables: capex health	GDP unlikely to change much. Jobless claims more important now.
Fri Feb 27	Jan Personal Income & Spending Michigan Sentiment (final)	Income growth sustaining consumption? Inflation expectations	If spending weak → recession fears rise. Key for soft landing thesis.

Why Nvidia Is THE Event:

After Friday's stagflation setup, the market needs a positive catalyst. Nvidia is it. With a $3 trillion market cap, NVDA moves the entire market. A guidance raise could override macro concerns. A miss would confirm the 'peak AI capex' fears and trigger a tech rout.

4. PROFESSIONAL ANALYST TAKEAWAY

Friday Changed Everything

Two weeks ago, markets priced 83% odds of a June cut. As of Friday, June is dead. The 'soft landing' narrative is on life support. We're now debating stagflation (high inflation + low growth) vs recession (Fed cuts to save jobs despite inflation).

The Bond Market Is Smarter Than the Stock Market

Yields FELL on Friday despite hot inflation. Why? Bond traders are pricing in a recession by mid-2026 that forces Fed cuts. Stocks haven't caught up yet - they're still trading on earnings momentum. When stocks wake up to the recession risk, we'll see the real selloff.

Nvidia Wednesday Is Pass/Fail for Tech

If NVDA beats and raises guidance, tech can rally 2-3% this week despite macro headwinds. If NVDA disappoints (like PANW, like Walmart), the Nasdaq breaks support and we test 15,500. There's no middle ground - this is binary.

My Positioning This Week:

Defensive: Overweight utilities, consumer staples, healthcare. These sectors hold up in stagflation.

Tactical long: Small position in NVDA into earnings (the only tech name worth the risk).

Avoid: Banks (recession = bad loans), cyclicals (weak growth), software (AI disruption + high valuations).

Watch: 10-year yield. If it breaks below 4.00%, recession fears are real. If it spikes back above 4.15%, inflation panic returns.

5. THIS WEEK'S HOMEWORK - STAGFLATION POSITIONING

Exercise 1 - Stagflation Playbook	Exercise 2 - Track the 10-Year Yield Daily
Research which sectors historically outperform in stagflation environments (1970s). Hint: Commodities, energy, utilities. Compare to which sectors are leading NOW. If they don't match, that's your opportunity.	Every day this week at market close, note the 10-year yield. Is it trending down (recession) or up (inflation panic)? By Friday you'll have a clear directional bias. This teaches you to read bond market signals.

Exercise 3 - The Nvidia Pre-Mortem: Before Wednesday's earnings, write down your prediction: Will NVDA beat or miss? Will guidance be raised or lowered? Will the stock go up or down? Most importantly: WHY? (Don't just guess - have a thesis.) Then compare to reality Wednesday night. Building prediction muscles is how intuition develops.

Sources: Bureau of Economic Analysis, Schwab Market Update, Nasdaq, Seeking Alpha, Financial Times, Bloomberg

Compiled: Monday, February 23, 2026, 6:00 AM ET | **Next Briefing:** Tuesday, February 24, 2026 (Home Depot Earnings Preview)