

THE BASIS POINT

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EXECUTIVE SUMMARY

Walmart's \$1 Trillion Test (6am CT / 7am ET): The world's largest retailer reports Q4 earnings this morning. With the company recently crossing the historic \$1 trillion market capitalization threshold, investors are looking for confirmation that its aggressive pivot toward high-margin services like advertising and automated fulfillment can withstand a cooling but still complex inflationary environment. This is THE consumer spending bellwether.

The Post-Fed Minutes Environment: Markets absorbed yesterday's Fed minutes with measured optimism. The 10-2 dissent (Waller and Miran wanted to cut) signals the pause is fragile. Any sign of consumer weakness in Walmart's results could shift rate cut expectations forward. Any sign of strength could delay them.

Market Positioning - Dip Buyers Winning: S&P; 500 futures up 0.5%, Nasdaq up 0.6% ahead of the open. After two weeks of AI-driven tech weakness, investors are betting the selloff was overdone. Financials outperformed Tuesday (JPM +1.5%, Citi +2.7%) while software continued to lag.

1. TODAY'S MAIN EVENT - WALMART EARNINGS (7AM ET)

Why This Matters Beyond One Stock:

As the largest private employer in the U.S., Walmart's results this week will tell us not just how the company is doing, but how the American people are faring in a post-shutdown world. The 43-day government shutdown that paralyzed the economy from October-November 2025 is now showing up in consumer behavior. This is the first major read on that impact.

Consensus Expectations:

Q4 Fiscal 2026 (ended Jan 31):

- EPS: \$0.73 (up ~10% y/y from \$0.66)

- Revenue: \$189.99 billion (growth of almost 5.2%)
- U.S. comparable sales (ex-fuel): +4.1% expected
- Key metric: Walmart Connect (advertising) growth - previous quarter saw +30%

→ THE WALMART PARADOX - HIGH VALUATION, DEFENSIVE POSITIONING:

Walmart's stock has outperformed the broader retail index, trading at a premium valuation of approximately 45 times forward earnings. This is remarkable for a retailer. Why?

1. The 'Flight to Quality' Trade: While Target Corp has found itself on the losing side of the current economic cycle, with its shares plummeting 34% over the last year, Walmart is capturing market share from households earning \$100,000+. When uncertainty rises, even wealthy shoppers trade down to Walmart.

2. It's a Tech Company Now: Walmart officially joined the exclusive \$1 trillion market-capitalization club earlier this month, joining a select group largely composed of technology leaders such as Apple, Amazon, Microsoft, Nvidia, Meta, Tesla and Broadcom. The December 2025 move from NYSE to NASDAQ reinforced this perception.

3. AI Is Driving Margins: AI is integrated across forecasting, inventory management, logistics, warehouse operations and internal decision-making. This is lowering costs while revenue grows - the holy grail for valuation expansion.

The Risk: At 45x earnings, any miss on guidance will be punished severely. Remember yesterday's PANW lesson - guidance matters more than results.

What to Listen For on the Call (8am ET):

Topic	What To Listen For	Why It Matters
Walmart+ Membership	Subscription growth numbers, churn rate commentary	Recurring revenue = higher valuation. Amazon Prime comparison.
Walmart Connect (Ads)	Ad revenue growth vs Q3's 30%+. New advertiser count.	This is the highest-margin business. Slowdown = valuation compression.
2026 Tax Refund Impact	Commentary on early February tax refund data trending. Refunds are 44% larger due to 2025 tax changes.	This 'liquidity event' in March-April could trigger a massive spending spree in electronics and home improvement.

Tariff Commentary	Any mention of 2026 tariff impact on costs or pricing	Market will transition from worrying about inflation to worrying about growth and policy-driven costs like tariffs.
FY 2027 Guidance	Most important. EPS range, comp sales, capex plans.	If conservative = stock sells off despite Q4 beat. If optimistic = new ATH.

2. YESTERDAY'S FED MINUTES - WHAT WE LEARNED

The Key Takeaway - Pause Is Fragile:

The January 27-28 meeting ended with a 10-2 vote to hold at 3.5%-3.75%. Governors Christopher Waller and Stephen Miran dissented in favor of an immediate 25-basis-point reduction, citing a need to proactively support a labor market that has shown signs of softening in the manufacturing and tech sectors.

What the Minutes Revealed:

- The committee upgraded its growth outlook from 'moderate' to 'solid' - this is hawkish (less urgency to cut)
- Focus on 'one-time' tariff effects - the Fed is looking beyond temporary inflation spikes
- Discussion of 'data-dependent' approach - no pre-commitment to June or July cuts
- Acknowledgment of labor market 'normalization' vs 'weakness' - still debating which it is

→ MARKET REACTION WAS MUTED - WHY?

Yesterday's 2pm release didn't trigger the dramatic moves we predicted. The S&P 500 rose 0.1%, the Dow edged up 0.07%, and the Nasdaq Composite added 0.14% - essentially flat.

Why so muted? The minutes confirmed what markets already suspected: the Fed is in wait-and-see mode. No major dovish surprise (which would have sparked a rally), no hawkish shock (which would have caused a selloff). The 10-2 dissent was already known from the meeting announcement.

The forward guidance: Currently, the CME FedWatch Tool indicates a 90% probability that the Federal Reserve will maintain interest rates at their current level during the March meeting. June vs July is still the debate, and Friday's PCE data will be the tiebreaker.

3. THIS MORNING'S ECONOMIC DATA (8:30AM ET)

Three reports drop simultaneously at 8:30am, 30 minutes before Walmart's call:

- **Building Permits:** Expected 1.400M (measure of future construction)
- **Housing Starts:** Actual construction begun in January
- **Durable Goods Orders:** Forecast -1.7% (reflects business capex appetite)

→ **WHY HOUSING DATA MATTERS RIGHT NOW:**

The Fed's rate pause has kept mortgage rates elevated (~6.5-7%). If building permits and housing starts both miss expectations, it reinforces the case that higher-for-longer rates are damaging the real economy - making the dovish Fed members' case stronger.

Conversely, strong housing data suggests the economy doesn't need rate cuts urgently, pushing the first cut from June to July or beyond.

The timing trap: These reports drop BEFORE Walmart earnings, so initial market reactions at 8:30am could get completely overridden by WMT at 7am (6am CT). Watch for the 9:30am open to see which data point wins - macro or micro.

4. TUESDAY'S SECTOR ROTATION - THE POST-AI-FEAR TRADE

What Happened Tuesday:

Financials outperformed, with JPMorgan Chase up 1.5% and Citigroup 2.7%, after Fed Governor Michael Barr indicated that policy may need to remain restrictive for an extended period, reinforcing expectations for resilient net interest margins. When rates stay higher, banks make more money on the spread.

Investors continued trimming expensive software exposure with Salesforce falling 2.9%, Intuit losing 5.1%, and Oracle shedding 3.8%. The AI disruption fears that started two weeks ago are still working through the system.

The New Market Structure:

Sector	What's Happening	Why / Catalyst
Financials (Banks)	Outperforming - JPM, Citi, BAC rallying	Higher-for-longer rates = wider net interest margins = more profit
Traditional Software	Underperforming - CRM, INTU, ORCL down 3-5%	AI disruption fears + high valuations + weak guidance (see PANW)
Semiconductors	Mixed - NVDA up, AMD down	Selective positioning. Winners (NVDA) vs laggards (AMD) diverging.
Consumer Discretionary	In focus TODAY with Walmart	If WMT beats = consumer resilient. If misses = recession fears return.

5. PROFESSIONAL ANALYST TAKEAWAY

Today Is a 'Macro Meets Micro' Day

We have housing data (macro) dropping at 8:30am and Walmart (micro) reporting at 7am. Normally, macro data moves markets. But Walmart is so large (\$681 billion in annual revenue, 2.1 million employees) that it IS macro. The question: which signal dominates?

Three Possible Scenarios for Today:

1. The 'Goldilocks' Scenario (40% probability): Walmart beats on Q4 and guides in-line or slightly above for FY2027. Housing data shows resilience. Market interprets this as 'soft landing achieved' - economy strong enough to not need aggressive cuts. S&P; rallies 0.5-0.8%. June cut odds fall to 40%.

2. The 'Consumer Cracks' Scenario (30% probability): Walmart beats Q4 but guides cautiously for 2027, citing consumer pullback in discretionary categories. Housing data misses. Market reprices growth expectations lower. S&P; falls 0.5-1%. June cut odds jump to 70%.

3. The 'Ignore Macro' Scenario (30% probability): Walmart blows out estimates, stock rallies 5%+, pulls entire market higher regardless of housing data. This is the 'flight to quality' trade - when uncertainty rises, money flows to winners. Broader market follows WMT.

My Base Case: Scenario 1 with a Twist

I expect Walmart to beat Q4 (they always do) and guide in-line for 2027. The 44% larger tax refunds coming in March-April give management confidence in H1 2027. Housing data will likely be weak, but the market will look through it given Walmart's strength. Net result: modest rally (S&P; +0.3-0.5%), financials continue outperforming, software continues lagging.

The Friday Setup

Tomorrow's PCE inflation data (the Fed's preferred measure) is more important than today's Walmart earnings for rate cut timing. If PCE comes in at $\leq 2.0\%$, June cut is back on the table. If $\geq 2.2\%$, July becomes consensus. Today just sets the tone.

6. TODAY'S HOMEWORK - THE WALMART EARNINGS CALL

Exercise 1 - Listen Live to the Call (8am ET)

Go to stock.walmart.com/investors. Click 'Events.' Listen to at least the Q&A; section. Write down: What question did analysts ask MOST? That tells you what Wall Street cares about most. (Hint: It will likely be about guidance or tax refund impact.)

Exercise 2 - Stock Price vs Analyst Reaction

Watch WMT stock price from 7am-10am (pre-market through first hour). Compare to analyst commentary appearing on CNBC, Bloomberg. Sometimes the stock moves opposite of analyst takes. Why? Because the stock reflects positioning/expectations, not just results.

Exercise 3 - The Guidance Lesson (Part 2): After WMT reports, read ONLY the guidance section of the press release. Before looking at the stock price, predict: will it go up or down? This is your second practice of the PANW lesson - guidance > results. Build this muscle.

Sources: Financial Times, Bloomberg, Business Wire, Trading Economics, CME FedWatch, Yahoo Finance

Compiled: Thursday, February 19, 2026, 6:00 AM ET | **Next Briefing:** Friday, February 20, 2026 (PCE Inflation Data - The Week's Most Important Release)

Disclaimer: Educational purposes only. Not investment advice. Always do your own due diligence.