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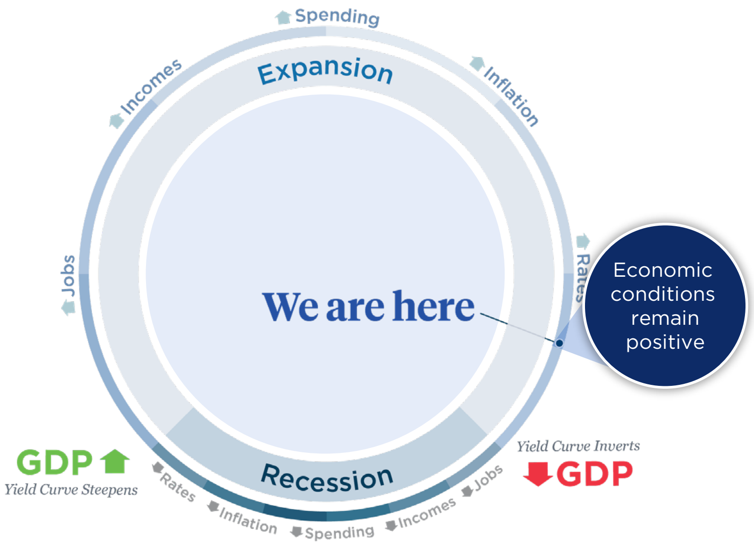
Economic & Financial Markets Monthly Review | February 2026

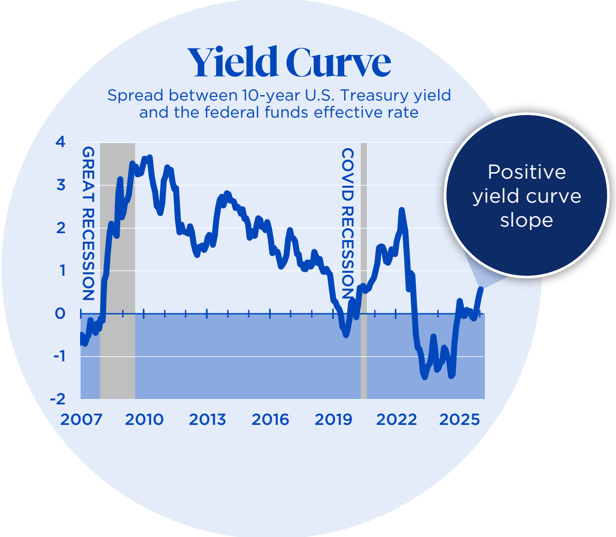
Cold winter won't slow down the economy

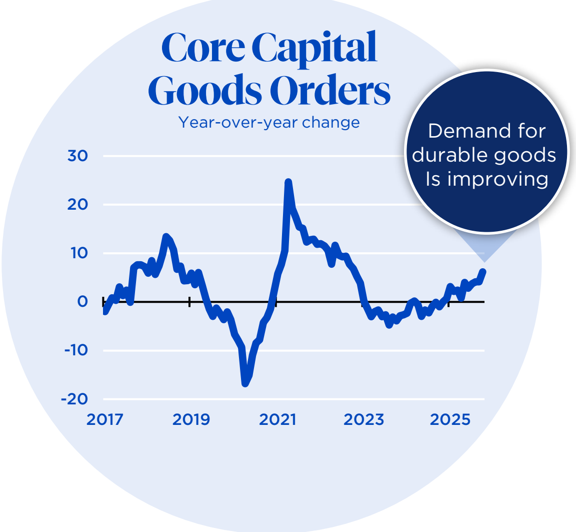
Economic Overview

Where is the economy now?

The economy continues to show solid growth trends in early 2026 as significant AI investment and productivity gains are now accompanied by a firming in job gains. Fiscal stimulus should provide a lift to consumer spending via larger tax refunds, while tax incentives are already prompting some businesses to ramp up investment plans for 2026. The Fed is likely on pause at the next two FOMC meetings, but we expect modest interest rate easing to resume around mid-year.







Where we are this month

What does this mean

Tailwinds for growth are building

There was buoyant momentum at the end of 2025 that looks to be carrying into 2026. While the Fed is on hold for now, substantive fiscal stimulus should help to boost consumer spending and business investment activity.

Extreme winter weather likely dampen some activity readings in early 2026. But significant higher individual tax refunds should provide a boost to spending this spring, while enhance tax incentives should support hiring and investment by businesses over the course of 2026.

We expect the Fed to pause interest rate declines again in March and April. But the presumptive new Fed Chair, Kevin Warsh, is likely to push for a few rate cuts over the second half of 2026.

Yield curve steepens a bit more

Financial markets firmed their rate cut expectations for later in 2026, easing short-term interest rates. Long-term interest rates have remained higher, further steepening the yield curve over the past month.

Yields on 10-year Treasury notes have remained above 4.1 percent. We expect 10-year yields to be relatively steady over 2026, allowing the yield curve to steepen as the Fed cuts rates later this year.

The yield curve has become more normalized with the 2- to 10-year Treasury spread now around 65 basis points. This also reflects the market's view of lower risks to the economic outlook.

Early stages of a capex acceleration

Core capital goods orders (which exclude aircraft and defense orders) were up 6.2 percent over the past year in November, the fastest pace of increase since 2022 as demand for manufactured goods improves.

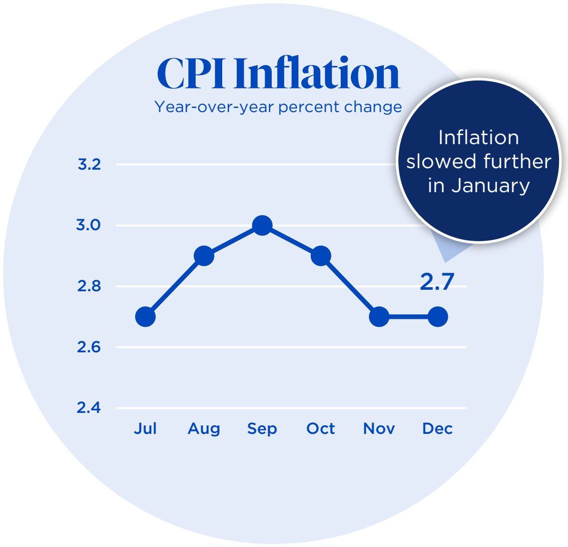
AI investment has boosted orders for manufactured goods as firms build out the infrastructure for the new technology. But this recent increase is also an early sign that tax incentives from the OBBBA budget bill were lifting business investment in late 2025.

We expect increases in commercial construction and equipment investment over 2026 as businesses boost capital expenditures. This adds a further tailwind for economic growth after a more sluggish 2025 for business spending.

Economic Review

Solid economic data kick off 2026

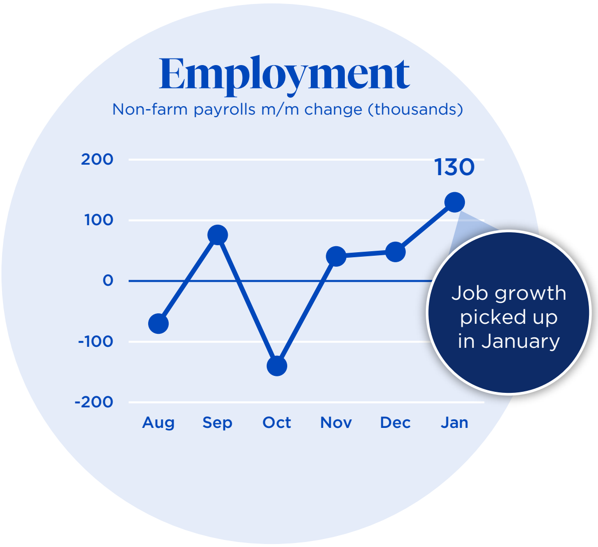
Recent data indicate the economy entered 2026 with buoyant momentum. Inflation remained modest in January, while the labor market showed renewed strength with strong job gains and a lower unemployment rate pointing to improved demand for workers. At the same time, the ISM manufacturing index delivered its first expansionary reading in a year, suggesting an early-year pickup in factory activity as stimulus efforts come into effect.



CPI Inflation

Year-over-year percent change

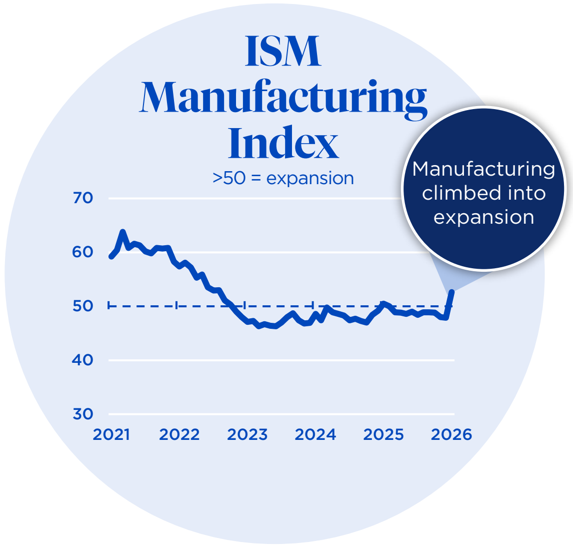
Inflation slowed further in January



Employment

Non-farm payrolls m/m change (thousands)

Job growth picked up in January



ISM Manufacturing Index

>50 = expansion

Manufacturing climbed into expansion

Where we are this month

What does this mean

Inflation extends cooling trend

January’s CPI report delivered another encouraging update, with both headline and core inflation remaining modest and broadly consistent with a gradual cooling trend in early 2026.

Headline CPI was held down by falling energy prices, while core goods were flat again in part due to a decline in used car prices — further evidence that tariff-related price pressures on goods are fading.

Core services price growth was strong mostly because of a spike in airfares, but the broader disinflation trend remains intact. With this report, our expectation for a mid-year Fed rate cut and roughly 50 bps of easing by the end of the year remains intact.

Hiring surges in January

The January jobs report was broadly positive, with payrolls rising a surprising 130,000 and the unemployment rate ticking down to 4.3 percent — the lowest level since August.

While the headline jobs growth was stronger than expected, it continued to be heavily concentrated within healthcare and technical updates to the payroll estimates make it more difficult to separate signal from noise.

Still, job gains remain above our estimated break-even pace. Additionally, the dip in the unemployment rate along with a rise in labor force participation, indicate layoffs aren’t accelerating. Solid GDP growth and supportive policy should support hiring in the coming months.

Factory activity returns to expansion

The ISM manufacturing index jumped to 52.6 in January — its first expansionary reading in a year and the highest reading since 2022.

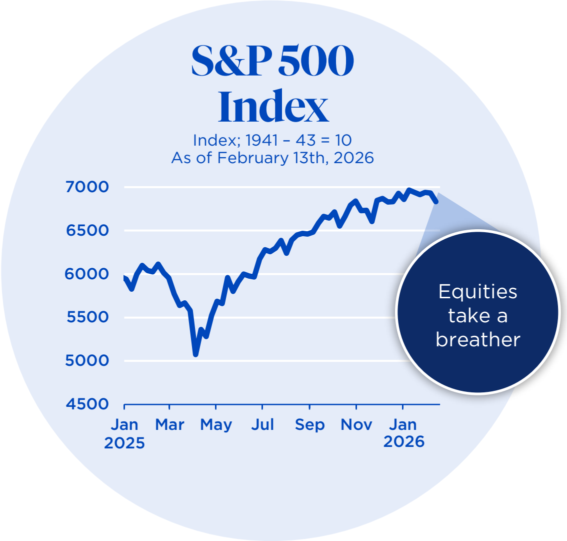
The rise may reflect post-holiday inventory rebuilding or firms front-loading orders amid trade policy uncertainty, though the update surprise is consistent with our view that manufacturing is turning a corner.

Looking ahead, improving domestic and global demand, fiscal incentives, a steadier policy backdrop, accommodative financial conditions, more competitive exports, and continued AI investment should support broader manufacturing momentum in 2026.

Financial Market Review

Markets become jittery as AI disruption fears rise

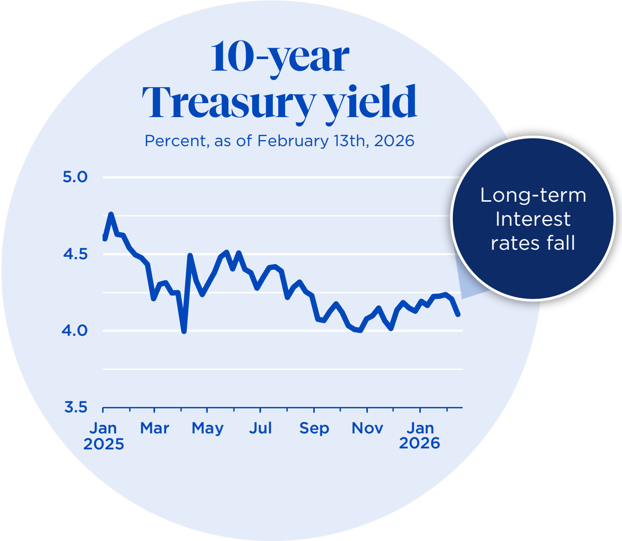
Concerns about AI-induced disruptions to U.S. business models are sending investors rotating out of some equities into defensive sectors of the market and into the safety of U.S. Treasuries. Despite AI-disruption concerns, positive earnings and economic fundamentals should provide support. We continue to anticipate a steeper Treasury curve as the Fed cuts rates while longer-term interest rates remain higher around 4 percent.



S&P 500 Index

Index; 1941 – 43 = 10
As of February 13th, 2026

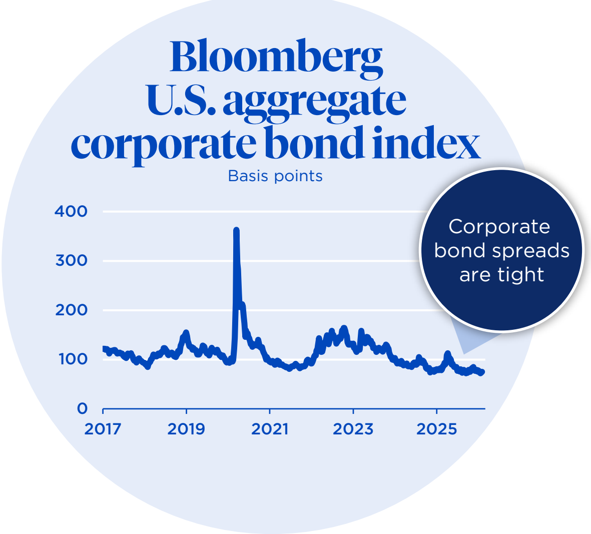
Equities take a breather



10-year Treasury yield

Percent, as of February 13th, 2026

Long-term Interest rates fall



Bloomberg U.S. aggregate corporate bond index

Basis points

Corporate bond spreads are tight

Where we are this month

What does this mean

Equity rally loses steam

Volatility has increased and the equity market is paring some of its gains as investors grow concerned about AI-driven disruptions to business models and lofty tech stock valuations.

Despite the AI-driven sell-off as well as flare ups in global fixed income markets and geopolitical risks, equities have overall held their ground. The S&P 500 index is not far below its historic high.

Fourth-quarter 2025 earnings are positive and companies are upbeat about their 2026 prospects. Solid economic growth and earnings should provide fundamental support for equities.

Long-term Treasury yields decline

Long-term Treasury yields have fallen as equity volatility and AI-related fears pushed investors into safe-haven assets. We see the yield curve steepening as short-term rates fall faster than long-term yields.

Fed policymakers left the federal funds rate unchanged in January. Most policymakers are not in a rush to ease with the policy rate now near neutral and the economy performing well. We continue to anticipate a June rate cut and 50 basis points of total easing this year.

Fed Chair nominee Kevin Warsh will look to enact ambitious change at the central bank, including shrinking the Fed's balance sheet and deregulation to free up capital in the private banking sector.

Interest rate spreads widen slightly

Corporate bond spreads have widened slightly on the heels of recent equity losses and AI-disruption concerns. However, spreads remain tight relative to long-term history — a sign of prevailing underlying confidence.

The persistent narrowness in bond spreads is a testament to the economy's resiliency. Solid corporate fundamentals and upbeat growth should keep corporate bond spreads tight, but pressures exist from AI-fears and large AI-related bond issuance.

Recent corporate debt sales have been well received, showing investors maintain an appetite for debt issuance. However, given the recent volatility from AI-disruption concerns, all eyes will be focused on how well the corporate bond market digests the coming surge of AI-related borrowing in the capital markets.

Outlook

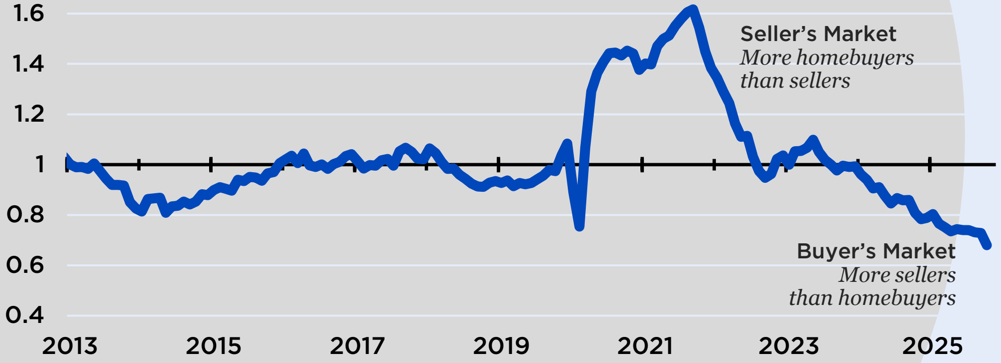
Will a buyer's market for housing lift sales in 2026?

After being sharply in favor of sellers during the pandemic, the housing market has steadily shifted to benefit buyers. According to data from Redfin, there were 600,000 more sellers than potential buyers during December, conditions which have historically led to cooler house price increases and stronger interest in homebuying.

The key factor for housing continues to be affordability. While the current number of sellers is higher than recent years, a steady decline in potential buyers over 2025 drove much of the widening gap in the market. This speaks to the deep affordability concerns for potential buyers caused by elevated mortgage rates and the steep price increases over the past five years. Fortunately, we expect some relief for housing affordability over 2026. Efforts to reduce mortgage rates, including the Trump administration's push for MBS purchases, should lower the 30-year fixed rate below 6.0 percent for the first time since 2022. Home prices have also cooled across the country, easing cost concerns for renters looking for a home purchase. Home sales are likely to take most of 2026 to build momentum, but we expect more normalized market conditions to emerge by 2027.

Ratio of homebuyers to sellers

>1 = Seller's Market



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Forecast

Data as of February 2026

	2024	2025	2026	2027	2028
	ACTUAL	ACTUAL	FORECAST		
REAL GDP [1]	2.4%	2.9%[e]	**2.2%**	**2.3%**	2.3%
UNEMPLOYMENT RATE [3]	4.1%	4.5%	4.2%	4.2%	4.2%
INFLATION [1] (CPI)	2.7%	2.8%	2.5%	2.0%	2.0%
TOTAL HOME SALES	4.75	4.78[e]	5.01	5.52	5.85
S&P/COTALITY HOME PRICE INDEX	3.7%	1.4%[e]	2.7%	3.1%	3.0%
LIGHT VEHICLE SALES	15.8	16.2	15.8	16.5	16.5
FEDERAL FUNDS RATE [2]	4.25%	3.50%	**3.00%**	**3.00%**	3.00%
5-YEAR TREASURY NOTE [2]	4.38%	3.73%	3.55%	3.55%	3.55%
10-YEAR TREASURY NOTE [2]	4.58%	4.18%	4.10%	4.00%	4.00%
30-YEAR FIXED-RATE MORTGAGE [2]	6.91%	6.18%	5.80%	5.30%	5.25%
MONEY MARKET FUNDS	4.96%	4.03%	3.22%	3.03%	3.03%

Strong momentum for growth into 2026

After a stronger than expected end to 2025, real GDP growth should settle around 2.0-2.5 percent annualized growth over 2026. But there remains upside for growth, especially if fiscal stimulus is more stimulative for spending and investment this year.

Rate cuts likely delayed 'til mid-2026

The Fed's pause from January is expected to extend through the next two FOMC meetings to the end of Chair Powell's term in May. But the incoming Fed Chair is likely to push for modest rate cuts over the second half of 2026 to support hiring and growth.

[1] *Percent change Q4-to-Q4*
[2] *Year end*
[3] *Q4 average*
[e] *Estimate*

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Sources

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	Nonfarm payroll gains	*Bureau of Labor Statistics*
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	Latest Forecast	*Nationwide Economics*

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