

WEEKLY STRATEGY Perspectives

WEEK ENDED FEBRUARY 13, 2026

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And the Story Line is...

"It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so."

– Mark Twain

The Through Line: We're barely two-thirds of the way into Q4 2025 earnings report season, yet a bevy of market-moving revelations have already surfaced. Traders acted quickly to adjust individual stock/sector prices for potentially revised realities, prompting more than a wee bit of whiplash. We parse the themes and how they may impact longer-term investment plans.

Equity markets love a good story

Last week, we discussed in great detail ([WSP - Nuggets versus Noise](#)) how investors are privy to a flood of information in the most normal of weeks – much of it nonsense. This earnings season has already seen more than its fair share, running the gamut from economic surprises to industry-specific, potentially arc-bending revelations.

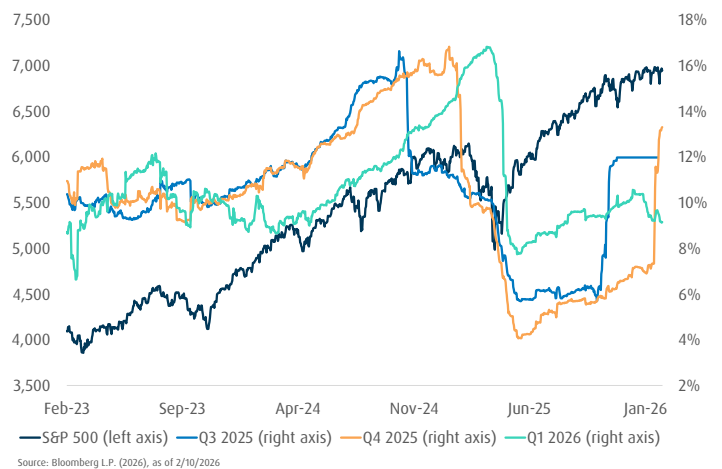
The stock market likes its stories to have black and white *actionable* clarity (more along the lines of *See Spot Run* versus *War and Peace*) and has a tough time digesting nuance on the fly. As we have seen in technicolor these past couple weeks, full valuations, narrow but crowded leadership and surprising shifts in competitive fundamentals can prompt a "sell first, sort later" reaction.

Equity markets in particular are not very adept at handling nuance. They are discounting mechanisms, which means they want to race to the bottom line and move on. Take economic numbers for example: markets often react on the initial release of the Consumer Price Index, non-farm payroll reports or GDP. They rarely respond when the final revision is announced many months later – even if it's a large change that potentially alters the original thesis.

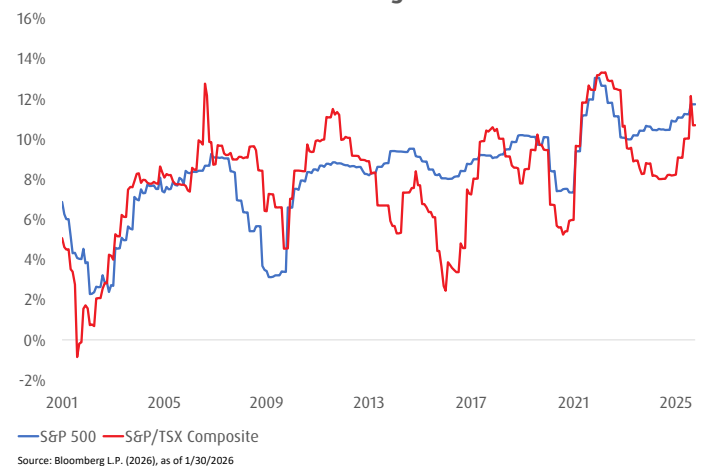
Q4 2025 earnings results so far

With 70% of S&P 500 results in, Bloomberg is reporting that aggregate revenues are up 9% while earnings are up over 13%. Importantly, the results are widespread, with 10 of 11 sectors showing revenue increases. Nine of the 11 have bottom line increases (four in the 18 to 38% range). Results in aggregate are coming in better than expected (chart 1) thanks to the margin leverage we've been talking about for months (chart 2).

S&P 500 Estimated EPS Year-over-Year Growth



Profit Margins

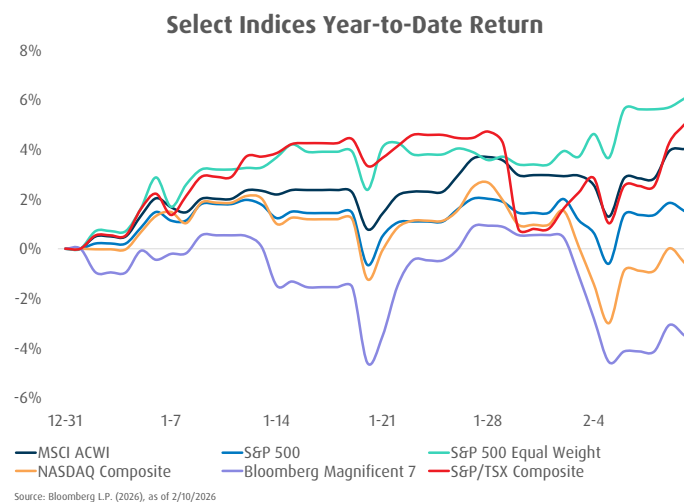


Though TSX earnings have yet to fully blossom, the 27% that have reported are posting revenue growth of 8% and earnings increases of nearly 11%. **Bottom line – despite the variety of challenges that companies faced in 2025, the overarching results show resilience, adaptability and an economy girded for growth.**

The long-awaited market rotation is here

The Mag 7 have dominated market psychology for much of the past several years. A significant broadening in market performance and participation began last fall and has gained momentum in 2026 (chart 3). The Mag 7 index is down nearly 4% year to date, while the broader (though still tech-heavy) NASDAQ is down less than a percent. The S&P 500 is up over 1%, but illustrating a broadening in size, the equal-weighted index is up nearly 6%. The Russell 2000 (small cap) and Russell 2500 (mid cap) are up 8% and 9% respectively. This broader participation, supported by the breadth of earnings progress, should help support the market's overall durability. That said, **we have warned that this type of leadership handoff could bring heightened volatility – and indeed it has.**

Global markets also continue their outperformance. The S&P/TSX is up 5%, Nikkei (Japan) is up 15%, South Korea (KOSPI) up 31% and MSCI All Country World Index up 4%. Global bourses are benefiting from the promise of increased fiscal stimulus in many parts of the world plus increased defense and infrastructure spend.



Make up your mind, pretty please

During the Q2 and Q3 reporting seasons, investors began to question when viable use cases, growth and/or margin enhancement from the billions in AI spending would emerge. Careful analysis of spend relative to cash flow and/or margins crept into the equation.

This quarter, equity investors are pushing back even harder on the spend itself, especially after the four hyperscalers (Microsoft, Amazon, Meta, Alphabet) announced plans to push their aggregate CapEx (capital expenditures) past \$650 billion in 2026 alone. *Note: that level is larger than Germany's annual budget and is only slightly less than Japan's total expenditures.* While stock investors gulped hard, it's also worth noting that part of the spending will be funded in the debt markets. Investment grade (IG) bond issuance from Oracle last week

and Google this week was in heavy demand. Offerings from both companies were oversubscribed (more demand than supply) by factors of at least 5:1.

In a throwback to early 2025's DeepSeek technological surprise, new AI modules introduced by Anthropic in the past couple of weeks caused great consternation among a variety of specialty software companies in the legal services, wealth management, real estate and insurance industries. For good measure, in the initial frenzy traders threw all software companies out with the bath water. The presumption seemed to suggest that corporations would wholesale abandon processes and existing software to incorporate the new advances – by next Friday.

Can we all just take a collective breath here? Anyone who works in a regulated industry (e.g., legal, wealth management, insurance) knows how difficult it is to get new enterprise software and processes approved and implemented.

Bottom line: a few quarters ago, investors began begging for use cases, but now that viable advances are showing up, they're punishing a broad swath of companies quite indiscriminately.

It will take some nuance and sorting to figure out new valuation levels and viable paths forward. However, we suspect that in the long run AI will be complementary to many of the existing methods – helping leverage the drudge work and leaving those that lean into the change in a better position to innovate and contribute. Case in point: I started in this industry pre-PC, meaning I hand calculated 30-day moving averages and hand plotted data points on green graph paper – and wrote my reports in pencil on yellow legal pads. Cut and paste was literally scissoring the sentence out and taping it into place somewhere else. I'm still here and accomplishing a ton more thanks to all the software and technology I now have at my fingertips. Most days, I don't even remember life before my iPhone – yet over half my career was spent in a tech desert.

A handful of economic nuggets

In addition to some microeconomic trends that can be gleaned from the quarter's report period to date, the past few weeks have yielded a handful of economic insights:

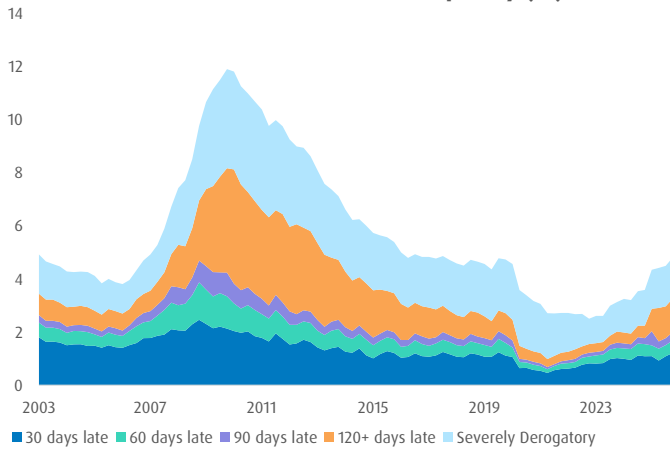
The jobs market remains in a "curious balance": Layoffs are ticking up (especially in the white-collar sector), though for now the cuts are being executed with scalpel-like precision. Managements note they are flattening leadership ranks and trimming excess staff (either overtly or by slow walking replacements when employees leave/retire). None of this is surprising since C-suites are still struggling to sort out ever-evolving trade and geopolitical policy. On earnings calls some have blamed AI, but we think it's less of a disruptor than managements are suggesting. Pointing the finger at AI is the glittery equivalent to companies referring to themselves as dot.coms in 1998.

Consumers flagging: The most recent consumer expenditures report showed an unexpected softening in December – after November's above-average expectations. Delinquencies are up from the stimulus-supported levels of the pandemic era (chart 4). Several trailing factors are at work, including reinstatement of student loan payments that were deferred for much of the last five years. **A soft consumer was NOT in evidence in recent financial industry reports, however.** The largest credit card companies (according to *The Wall Street Journal*) racked up nearly \$150 billion in revenue from fees in 2025, a 7% annual increase. It remains to be seen if the highly anticipated

tax refunds will be sufficient (and spread across enough people) to stabilize/turn the tide, but we suspect it will at least prove helpful at the margins.

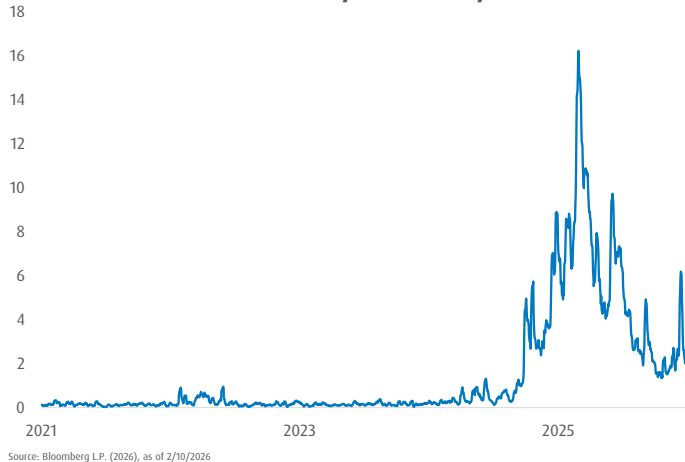
their way through the system. Companies have leaned into growth and change, largely adapting with laudable flying colors. Investors can use the volatility that has erupted in key capital markets to assist them with ongoing portfolio maintenance (regular rebalancing, monitoring of asset/liability matches and focusing on the long term). We'll take anything that can help investors anchor to the emerging story line in these unusual times.

Share of U.S. Loans in Delinquency (%)



Factories strengthening: While shifting tariff and trade policy is still biting selectively (e.g., Ford estimated this week that the tariff hit alone was over \$900 million in 2025 and will be similar in 2026.ⁱⁱ), management teams recently pointed to future expanded plants, joint venture explorations, M&A and other moves ahead. Aside from the massive AI spend, they mentioned infrastructure, energy, pharmaceuticals manufacturing, mining and plant expansions. A bit more clarity on trade and tax policy is helping (chart 5). Adding to the hopeful sentiment are substantive deregulation, faster permitting and work on establishing ground rules for AI, crypto, stable coin and prediction markets. An additional important factor: a weaker dollar boosts the more than 30% of S&P 500 revenue generated outside the U.S.

Global Trade Policy Uncertainty Index



Implications for investors

This year's earnings season has seen more than the typical amount of news, much of it substantive. Calendar 2025 ushered in a host of changes – both politically and technologically – that are still working

In focus in North America

Jon Borchardt, Sr. Analyst

Jay Ritter, Sr. Equity Strategist

George Trapkov, CFA, VP and Portfolio Manager

This week

Canada employment update – Canadian employment fell 24,800 in January, the first drop in five months and following a surprisingly strong stretch last fall. However, the unemployment rate dropped by 0.3% to 6.5%. It's not normal to see unemployment pull back aggressively while job growth goes into reverse. But there is a ready explanation: the labour force fell by 119,000 in the month (one of the largest non-pandemic drops ever) driven by slowing population growth and a steep drop in the participation rate. Full-time positions rose 44,900 (while part-time posts fell 69,700) in another sign that the report was softer than the headline. This report is consistent with an economy that is adjusting rapidly to three simultaneous structural changes (to borrow Bank of Canada Governor Tiff Macklem's theme). First, U.S. tariffs, which have hit manufacturing. Second, the abrupt slowdown in population growth, which is taking the steam out of unemployment rates. Third, the rapid rise in the over-65 population, which is also taking pressure off the jobless rate.

Canadian tariffs still on the front burner – While the outlines of U.S. tariff deals with other countries have been announced, Canada and Mexico await the USMCA/CUSMA review (slated to start later this year) to see if their lower average tariff rate will change. Despite a significant diversification push, Canada's merchandise exports to the U.S. still accounted for 17% of Canadian GDP in 2025. Trade uncertainty is grinding on the manufacturing sector. Although S&P's PMI for the sector actually bounced above 50 last month, almost every other factory indicator is pointing to stress; steel and autos in particular are under strain. Manufacturing output is down 5% year over year and payrolls in the sector have dropped almost 3% in the last year. For the Bank of Canada, Governor Macklem made it abundantly clear in remarks last week that the bar for additional rate cuts is very high indeed. He warned not to misinterpret the weakness in the economy; if it's structural in nature, he suggested the bank cannot fight that. January's big drop in factory jobs would suggest to the BoC that this is due to the trade war, a structural shift and loss of capacity, so lower rates won't help.

U.S. consumers sending mixed signals – This week delivered two data points that raised fresh concerns about the underlying strength of the consumer. Headline retail sales data for December showed flat month-over-month spending, masking declines across eight of 13 tracked segments. The control group, which excludes more volatile components of the index, contracted by 0.1% in December. That weakness was compounded by a downward revision to the November figure. These weaker-than-expected results are likely to pressure Q4 GDP forecasts and raise questions about momentum heading into Q1. On Tuesday,

the New York Federal Reserve reported that 4.8% of aggregate household credit balances were at some stage of delinquency in Q4, skewed higher by student loan past-due balances and rising mortgage delinquencies among lower-income households. While delinquencies were stable for credit cards and auto loans, both remain elevated. Markets broadly expect that fiscal stimulus from President Donald Trump's One Big Beautiful Bill will support consumer spending in 2026; that assumption still underpins most outlooks. While neither release is alarming in isolation, both represent yellow flags for investors assessing the strength of the consumer and where stimulus dollars may ultimately be directed.

Software stocks take a hit – The software sector entered 2026 on a weak footing, reflecting investor concern over slowing revenue momentum and fears that longer-term growth assumptions had become overly optimistic. Tossing fuel on the fire was Anthropic's January 29 release of new AI-based tools, prompting investors to question the durability of Software-as-a-Service (SaaS) and broader business-model moats. Generalist investors indiscriminately dumped software stocks based on the narrative that AI will eventually replicate and replace both people and incumbent software platforms. Through February 5, the S&P 500 Software Index fell over 20% on a year-to-date basis. The rapid pace of AI advancement certainly poses a risk to simple user-interface and single-function software applications, but core enterprise software that sits underneath the business (managing data, infrastructure, security and records) is much harder to replace. In addition, the added complexity introduced by AI could actually make these systems more important over time.

Conflicting messages re U.S. jobs market – Last week, a pair of data points raised fresh questions about the durability of the labor market. According to the Challenger, Grey & Christmas jobs report, U.S. private sector employers announced 108,435 job cuts in January and indicated employers on net had become less optimistic about the outlook for 2026. Weekly jobless claims then topped the consensus forecast. The stage was set for disappointment from this week's nonfarm payrolls report, but instead the Bureau of Labor Statistics delivered a meaningful upside surprise. In January, 130,000 net new jobs were created, led by strength in the private sector. Wall Street had anticipated an increase of 65,000 jobs. The unemployment rate fell to 4.3%, 10 basis points below both the month prior and the consensus forecast. Average hourly earnings increased 0.4% month over month, double the number forecast by economists. U.S. equities rallied on the news, led by strength in small caps. Treasury yields rose after stronger labor market data reinforced the view that Federal Reserve policy can remain on hold.

Next week

A data-rich week in both the U.S. and Canada will offer reads on retail and manufacturing, trade balances and inflation. The FOMC January meeting minutes, out on Wednesday, will be scrutinized – especially in the wake of mixed reads on consumers, jobs and inflation.

Monday 2/16 – U.S. Markets closed for Presidents' Day Holiday | Canada Housing starts, Core inflation rate, CPI, Manufacturing sales

Tuesday 2/17 – U.S. Empire State manufacturing | Canada Wholesale Sales, Foreign Security purchases

Wednesday 2/18 – U.S. Housing starts, building permits, Durable-goods orders, Retail and Wholesale inventories, FOMC January meeting minutes

Thursday 2/19 – U.S. Initial jobless claims, U.S. trade deficit, Philly Fed | Balance of trade

Friday 2/20 – U.S. GDP, PCE, S&P services and manufacturing PMIs, Home sales, Consumer sentiment | Canada New housing price index, retail sales, PPI, retail sales

Data scorecard as of February 11, 2026

Equity Market Total Returns						
	2/11/2026 Level	WTD	YTD	2025	2024	5-Year*
S&P 500	6,941	0.2%	1.5%	17.9%	25.0%	14.4%
NASDAQ	23,066	0.2%	-0.7%	21.2%	29.6%	13.4%
DOW	50,121	0.0%	4.4%	14.9%	15.0%	11.6%
Russell 2500	4,653	0.1%	8.2%	11.9%	12.0%	7.3%
S&P/TSX	33,254	2.4%	5.0%	31.7%	21.7%	16.1%
MSCI EAFE	11,517	2.7%	8.6%	31.2%	3.8%	8.9%
MSCI EM	854	3.9%	11.5%	33.6%	7.5%	4.2%
Bond Market Total Returns						
		WTD	YTD	2025	2024	5-Year*
Bloomberg U.S. Aggregate		0.2%	0.6%	7.3%	1.3%	-0.4%
Bloomberg U.S. Treasury		0.2%	0.4%	6.3%	0.6%	-1.0%
Bloomberg U.S. Corporate		0.2%	0.6%	7.8%	2.1%	-0.1%
Bloomberg U.S. High Yield		0.2%	0.8%	8.6%	8.2%	4.5%
Bloomberg 1-10 Year Munis		0.2%	1.5%	5.1%	0.9%	1.2%
Bloomberg Canada Aggregate		0.3%	1.1%	2.4%	4.0%	-0.4%
Bloomberg Canada Treasury		0.4%	0.8%	1.4%	2.9%	-0.8%
Bloomberg Canada Corporate		0.3%	1.2%	4.4%	6.9%	1.5%
Government Bond Yields						
	2/11/2026	Last Month End	Last Quarter End	2025	2024	5-Year Average
U.S. 10-Year Treasury	4.17%	4.24%	4.17%	4.17%	4.57%	3.37%
Canada 10-Year Government	3.34%	3.42%	3.43%	3.43%	3.23%	2.81%
U.K. 10-Year Gilt	4.48%	4.52%	4.48%	4.48%	4.56%	3.16%
German 10-Year Bund	2.79%	2.84%	2.85%	2.85%	2.36%	1.66%
Japan 10-Year Government	2.23%	2.24%	2.06%	2.06%	1.09%	0.65%
Currencies & Real Assets						
	2/11/2026 Level	WTD	YTD	2025	2024	5-Year*
USD Index	96.83	-0.8%	-1.5%	-9.4%	7.1%	1.8%
CAD:USD	\$0.74	0.7%	1.1%	4.8%	-7.9%	-1.5%
Bitcoin	\$67,757.23	-3.6%	-22.7%	-6.5%	120.5%	24.8%
Gold	\$5,084.39	2.4%	17.7%	64.6%	27.2%	17.9%
Oil (WTI)	\$64.63	1.7%	12.6%	-19.9%	0.1%	3.4%

*Annualized

5-Year data as of December 31, 2025. Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index. Index definitions can be found at the end of this publication.

Index Definitions

Equity indices

S&P 500® Index is an index of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

NASDAQ Composite Index is a market-cap weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange.

Dow Jones Industrial Average (“DOW”) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

Russell 2000® Index (Russell 2000®) is an unmanaged index that measures the performance of the smallest 2000 U.S. companies in the Russell 3000® Index.

S&P/TSX Index is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada’s primary stock exchange, the Toronto Stock Exchange (TSX).

MSCI EAFE Index (Developed Markets —Europe, Australasia, and Far East Index) is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International. The index captures large and mid-cap representation across 21 developed markets countries around the world, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a market capitalization weighted index representative of the market structure of the emerging markets countries in Europe, Latin America, Africa, Middle East and Asia. Prior to January 1, 2002, the returns of the MSCI Emerging Markets Index were presented before application of withholding taxes.

Fixed income indices

Bloomberg U.S. Aggregate Bond Index is an unmanaged index that covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities.

Bloomberg U.S. Treasury Index is an unmanaged index that includes a broad range of U.S. Treasury obligations and is considered representative of U.S. Treasury bond performance overall.

Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg U.S. Corporate High Yield Index is an unmanaged index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+ or below.

Bloomberg 1-10 Year Blend Municipal Bond Index is a market value-weighted index which covers the short and intermediate components of the Bloomberg Capital Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market.

Bloomberg Canada Aggregate Bond Index measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market. It includes treasuries, government-related, and corporate issuers.

Bloomberg Canada Aggregate Bond Index - Treasury is the treasury sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.

Bloomberg Canada Aggregate Bond Index - Corporate is the Corporate sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.



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¹ [The Credit-Card Rate Cap Has Stalled, and Issuers Are Doing Just Fine - WSJ](#)

² [Ford \(F\) Sees Profit Rebounding in 2026 After Surprise Year-End Tariff Bill - Bloomberg](#)