

Weekly Macro and Markets View

16 February 2026



Highlights and View

The US unemployment rate ticks down to 4.3% while headline inflation slows to 2.4% YoY

A stronger labour market and fading inflation is a benign environment for stock markets though investors remain cautious.

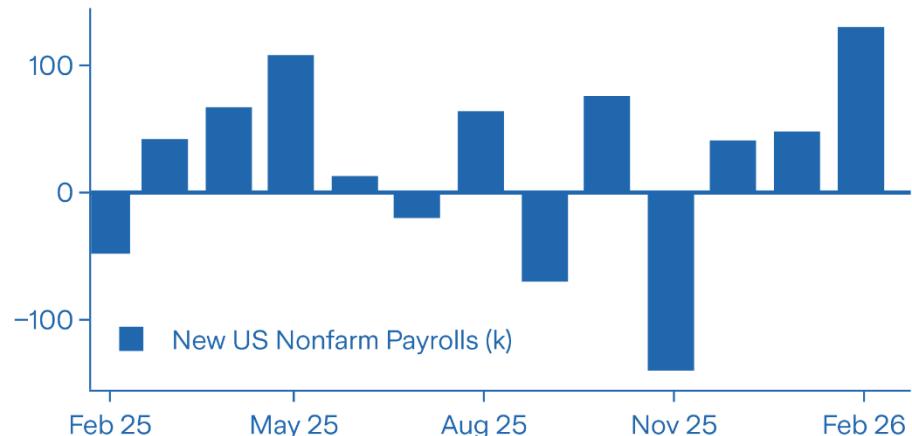
Government bonds rally on the back of soft activity and inflation data, with equity market volatility also contributing

Further downside to yields is likely to be limited as economic activity is set to remain resilient while prospects for further rate cuts are restricted.

JGB yields tighten across the curve following emphatic election victory of PM Takaichi in Japan

The market had expected expansionist policies to necessitate further debt issuance, however cutting the supplementary budget seems to have firmed as an appropriate remedy, thereby easing concerns about the bond market.

The US labour market strengthens at the beginning of the new year



Source: Bloomberg

The US labour market entered 2026 on a solid footing, alleviating fears of a slowdown. Though notoriously volatile, nonfarm payrolls jumped by 130'000 in January, up from 48'000 in December, to the highest level in more than a year. The unemployment rate ticked down to 4.3% from 4.4% the month before despite a pickup in the participation rate. The broader underemployment rate fell from 8.4% to 8.0%. Finally, hours worked picked up, further emphasising the strong set of employment data. Meanwhile, price pressure faded at the beginning of the year, with headline CPI inflation slowing to 2.4% YoY from 2.7% YoY the month before, and core CPI ticking down to 2.5% YoY from 2.6% YoY. While small business optimism did not change significantly in January, consumers were more reluctant to spend at the end of last year with retail sales not growing at all in December.

The equity market struggled last week despite the reassuring combination of strong employment data and weaker inflation rates. The S&P 500 lost 1.4% over the course of the week, though smaller cap companies fared slightly better. The technology sector remained a major drag with the Nasdaq shedding 2.1%, though software companies stabilised with a modest gain following a 15% drop over the course of the prior two weeks.

Eurozone

'EU Inc' gains traction

Last week's EU news was dominated by high-level meetings in a Belgian castle and at the Munich Security Conference. Rhetoric flowed about the need for urgent reforms to boost growth. The immediate takeaways were less impressive. Concretely, the European Commission is set to unveil specific legislative ideas in the middle of March. Most promisingly, 'EU Inc' looks to be on the agenda. It would be significantly positive news if an EU regulation (as opposed to directive) creates a start-up friendly corporate structure that streamlines incorporation and

cross-border investment. Otherwise, Chancellor Merz pushed back on further common borrowing. It may be a moot point, given EU bonds are increasingly established and issuance continues to increase. Despite market jitters as global investors try to discern the distributional implications of AI advances, EU sovereign debt markets were unaffected. These markets have become more structurally robust. Lastly, the Sentix investor survey showed economic growth expectations reach their highest in four years.

Japan

Equity risk on; JGB yields tighten

One week after the emphatic election of PM Takaichi, local equity markets continued their upward momentum, positioning Japan as nearly the best performing market in region. While Korea and Taiwan, which are dominated by just a handful of semiconductor names, are the top performers, Japan has had the broadest positive returns in the region on a sector basis. JGB yields tightened across the curve on renewed thinking that the consumption tax revenue shortfall over two fiscal periods would be addressed through other measures, such as

cutting the supplementary budget. This would in turn lessen the need for a higher level of debt issuance and ease market concerns. The expectation thereof, coupled with market commentary reminiscent of the previously well-used game plan of the Japanese Ministry of Finance and the Bank of Japan to control and manage JGB weakness, served to calm markets. For more details, please refer to our recent Topical Thought paper, [The Widowmaker](#).

LatAm

Contained January CPI prints support easing ahead in LatAm

Brazil headline inflation edged up to from 4.3% YoY to 4.4% in January, in line with expectations and still below the upper bound of the BCB's target range. Core pressures softened, though services inflation remained above target. This backdrop supports beginning the easing cycle in March, as previously signalled by the BCB. Weaker than expected activity data and ample room to ease underpin our 50bp cut base case for March, although cautious communication from BCB authorities leaves a 25bp move as a non-negligible risk. In Mexico, January

headline inflation rose from 3.7% YoY to 3.8%, below expectations, driven by still modest non-core inflation. Core inflation accelerated from 4.3% to 4.5%, influenced by new tax adjustments and higher tariffs on non-FTA goods. We continue to expect Banxico to hold the policy rate until Q2, though the downside inflation surprise and this month's dovish pause means a March cut is still feasible. That said, easing should remain limited this year as the policy rate is already within the neutral range.

Government Bonds

Bonds rally on the back of softer activity data and equity market volatility

Government bonds rallied last week, with the 10yr US Treasury yield posting the largest weekly drop since August 2025, falling 16bps to 4.05%. Yields also dropped in Europe while moving sideways in Japan. The rally in US bonds partly reflected a dovish repricing of the Fed rate outlook following a weak batch of US activity data earlier in the week and the soft CPI print on Friday. Two additional Fed rate cuts are now firmly priced for 2026. The long end of the curve outperformed though, as bonds benefitted from a general risk-off move, with AI concerns continuing to rattle

equity markets. Volatility in the Japanese government bond market also settled down following PM Takaichi's election win last week as concerns around fiscal expansion and further debt issuance receded, benefitting global bond markets more broadly. We are encouraged by last week's government bond market moves, which confirm that the asset class remains in demand during periods of general market volatility. With economic activity set to remain resilient, we suspect the rally may have run its course for now, however.

Credit

Strong demand for tech supply despite equity volatility

Corporate credit markets remained orderly despite last week's equity volatility. Some weakness was seen in lower-quality names, with CCC bonds underperforming and High Yield (HY) technology names also lagging. Outside these segments, Investment Grade (IG) and higher-quality HY held up relatively well, pointing to selective caution rather than broader market strain. Large tech issuance continues to be the dominant theme. Two weeks ago Oracle's bond supply saw record demand, which was followed by Alphabet's USD 32bn multi-currency deal last week.

Notably, Alphabet's rare 100yr sterling bond was ten times oversubscribed, underscoring strong appetite even for ultra-long duration in the tech space. The trend is also gaining traction in HY markets, where a growing number of data centre and digital infrastructure financings are coming to market and are being met with strong investor demand. Overall, elevated AI-driven supply is being absorbed smoothly, with no signs of credit stress at this stage, though we continue to monitor the pace of debt growth closely.

What to Watch

- In the UK, inflation numbers, labour market data and PMIs will give crucial insights into the current state of the economy.
- Alongside PMIs, this week brings Q4 negotiated wage data in the Eurozone. We will also receive Eurozone December Industrial Production and German PPI.
- In Switzerland, GDP and industrial production data will be released, alongside trade and PPI data.
- Brazil's December economic activity indicator will be in the spotlight.

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