



ECONOMIC OUTLOOK

FEBRUARY 17, 2026

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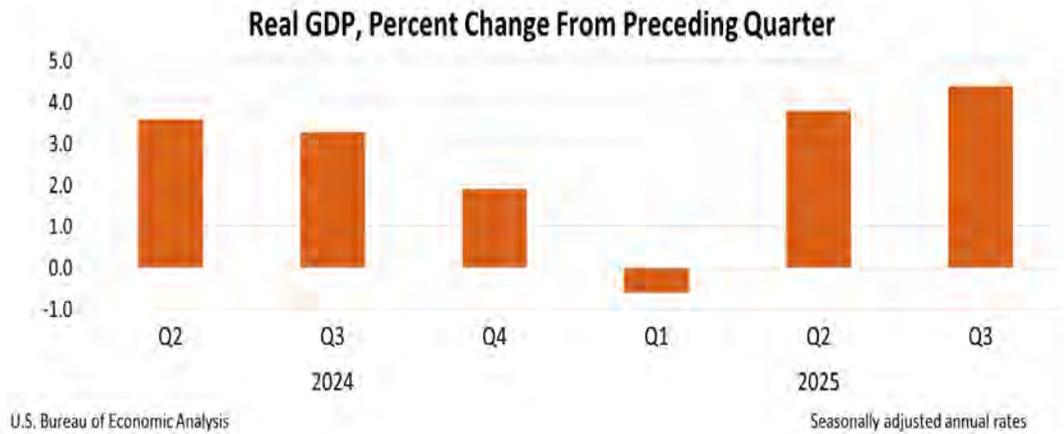
FINAL U.S. Q3 REAL GDP GROWTH AT +4.4%. GDPNOW FOR Q4-25? +3.7%.

Note: This report has four sections – Key Points, This Month’s Topics, Conclusion(s) and Our Economic Projections

SECTION 1: KEY POINTS

A. U. S. Real Gross Domestic Product (GDP)

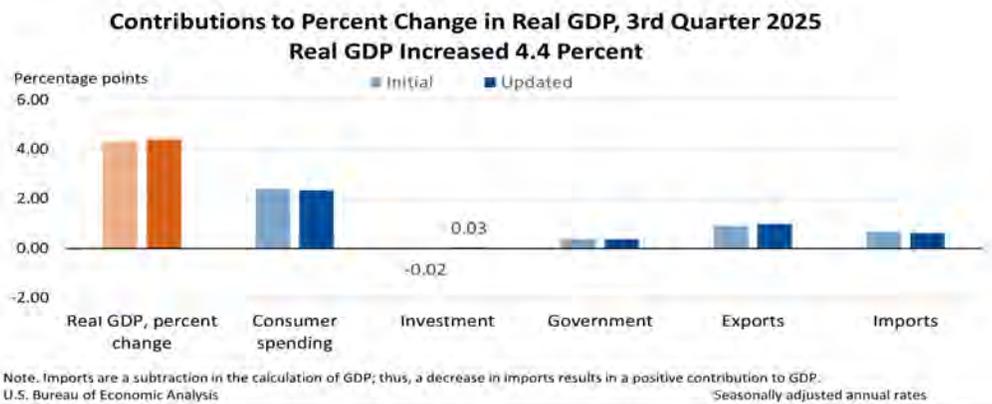
Real gross domestic product (GDP) increased at an annual rate of +4.4% in Q3-2025 (July, August, and September), according to the 3rd and final estimate that was released by the U.S. Bureau of Economic Analysis. In Q2-25, real GDP increased +3.8%.



The advance estimate, on Q4-25 real GDP growth, gets released on Feb. 20th, 2026.

Real GDP was revised up 0.1 percentage point from the initial estimate, primarily reflecting upward revisions to exports and investment that were partly offset by a downward revision to consumer spending. Imports were revised up.

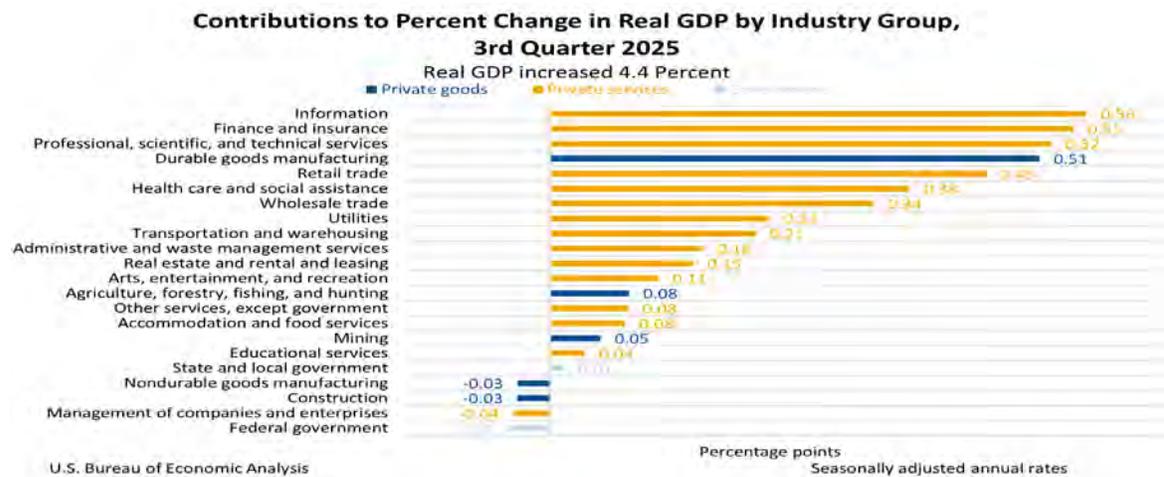
Compared to the second quarter, the acceleration in real GDP in Q3-25 reflected upturns in investment, exports, and government spending, as well as an acceleration in consumer spending. Imports decreased less in the third quarter than in the second.





Real final sales to private domestic purchasers, the sum of consumer spending and gross private fixed investment, increased 2.9 percent in the third quarter, revised down 0.1 percentage point from the previous estimate.

From an industry perspective, the increase in real GDP in the third quarter reflected increases of 5.3 percent in real value added for private services-producing industries and 3.6 percent for private goods-producing industries that were partly offset by a decrease of 0.3 percent in real value added for government



Real gross output increased 3.2 percent in the third quarter, reflecting increases of 4.4 percent for private services-producing industries and 2.1 percent for government that were partly offset by a decrease of 0.1 percent for private goods-producing industries.

The price index for gross domestic purchases increased 3.4 percent in the third quarter, the same as previously estimated.

The personal consumption expenditures (PCE) price index increased 2.8 percent, and the PCE price index excluding food and energy increased 2.9 percent, both the same as previously estimated.

A forward look: Feb. 10th, 2026 Atlanta Fed GDPNow Q4-25 real GDP growth is +3.7%. (The NY Fed Nowcast was +2.7)

For a 2026 Recession probability, turn to **Polymarket, or any number of private forecasters.**

On Feb. 16th, 2026 **“U.S. Recession in 2026”** Polymarket odds stood at 22%.

Click the hotlink above, for a real-time Polymarket update

Want a credible Wall Street view?**“The Economy is Not ‘Crying Out’ for Interest Rate Cuts”**

– Goldman Sachs’ Jan Hatzius, Feb. 11th, 2026, excerpted from **CNBC**.

“The U.S. economy remains strong enough that it does not require immediate interest rate cuts, according to Jan Hatzius, chief economist at **Goldman Sachs**.”

“The economy is doing well in general. So, it’s not crying out for cuts at this point in time,” Hatzius said in an interview with CNBC.

“Rather than aggressive rate reductions, Hatzius expects the Federal Reserve to move toward a neutral rate once committee members are confident inflation is returning to target.”

“The Fed’s current estimate for the neutral rate sits at 3.0%, with current rates approximately 50 to 75 basis points above that level. Hatzius expressed skepticism about the practical usefulness of neutral rate estimates, noting that the range of projections is simply too wide to rely upon heavily.”

“On the Fed’s balance sheet, Hatzius acknowledged that Kevin Warsh has long advocated for a smaller balance sheet but cautioned that significant short-term changes are unlikely. The implementation of monetary policy has changed dramatically since 2008, making rapid adjustments difficult. While regulatory changes could eventually create room for balance sheet reduction, Hatzius does not expect this to happen in the near term.”

“Consumer spending presents a mixed picture, with lower-end consumers struggling while higher-income households and capital spending remain healthy. Hatzius revised Q4 growth down to +1.6%, though he noted that figure would be closer to +2.5% to +3.0% when accounting for government shutdown effects.”

“Rising delinquency rates and flat retail sales represent what he called a “weaker aspect of the economy.””

“Regarding artificial intelligence, Hatzius remains optimistic about a future productivity boost even though the impact has not yet materialized.”

“The AI cavalry, if you will, has yet to arrive,” he said, adding that while some tech employment categories show weakness that could signal an early AI effect, it remains “pretty early days” for significant labor market disruption.

“Despite marginal weaknesses in certain economic data, Hatzius concluded that the U.S. remains in a “pretty solid growth environment.””

“The overall picture suggests stability rather than an urgent need for dramatic policy intervention from the Federal Reserve.”

B. Update on U.S. Consumer Price Inflation (CPI)**The JAN 2026 CPI data got released on Feb. 13th, 2026**

- The U.S. Bureau of Labor Statistics reported the Consumer Price Index for All Urban Consumers (CPI-U) increased by **+0.2% m/m in JANUARY** on a seasonally adjusted basis
- Over the last 12 months, the broad All-Items index increased **+2.4% y/y**, before seasonal adjustment

- The core U.S. CPI rose **+0.3%** m/m in JAN
- The core All-Items less Food and Energy index has also risen **+2.5%** the last 12 months
 - The energy index fell -0.1% y/y, over the last 12 months
 - In that series, the gasoline index was down -7.5% y/y
 - The food index has risen +2.9% y/y, over the last 12 months
 - In that series the food-at-home index was up +2.1% y/y, while food-away-from-home was up a 'hot' +4.0% y/y
- In y/y terms, Shelter cost was up +3.0%. In m/m? JAN shelter was up +0.2%.
 - A DEC shelter print of +0.2% m/m, is welcome.
 - FOMC thinking? A +2.5% core CPI over the last 12 months is an improvement.
- Four sub-categories rose above the +0.2% m/m average in JAN:
 - Transportation Services (+1.4%)
 - Utility Piped Gas (+1.0%)
 - Apparel (+0.3%)
 - Medical Care Services (+0.3%)
- Four sub-categories rose in line with a modest +0.2% m/m core CPI rise in JAN:
 - Food at Home (+0.2%)
 - Shelter (+0.2%)
 - Food Away from Home (+0.1%)
 - New Vehicles (+0.1%)
- Five sub-categories remained flat, or declined in JAN:
 - Medical Care Commodities (-0.1%)
 - Electricity (-0.1%)
 - Used Cars and Trucks (-1.8%)
 - Gasoline (-3.2%)
 - Fuel Oil (-5.7%)

Likely FOMC thinking?

The All-Items less Food and Energy CPI tracked at +3.2% y/y entering 2025. It is now down to +2.5% y/y in JAN data. That shows their price stability statutory mandate of an expected +2.0% y/y core CPI is within reach, perhaps late this year.

FOMC thinking? They cut 25-75 bps, in the second half, only if the CPI declines by a similar amount. They closely watch what happens to risk markets and macro data, in MAR, APR and MAY.

The next 2026 meetings: March 18-19 then April 28-29. Chair Powell exits May 15th.

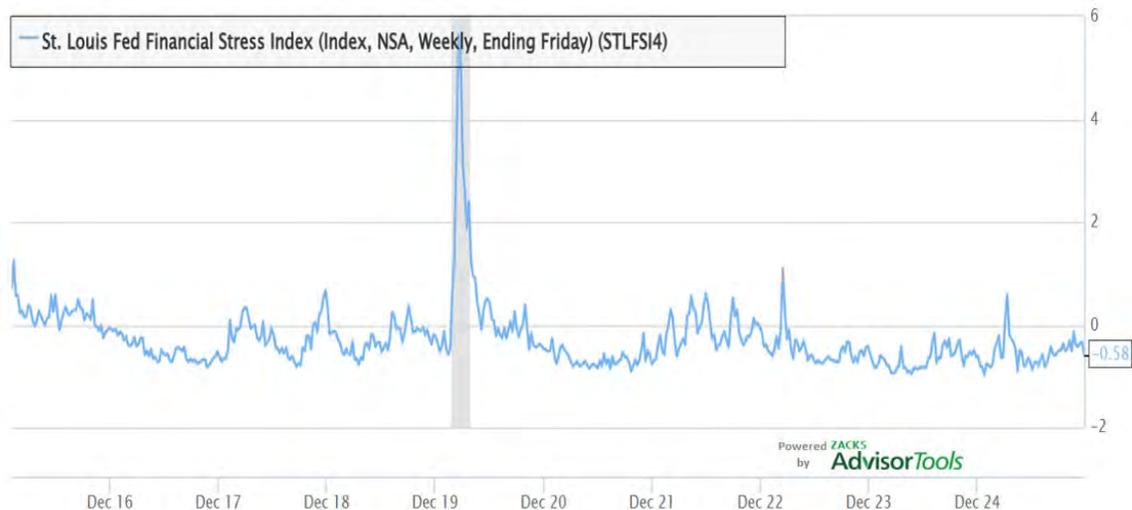
Incoming FOMC Chair Warsh likely place more emphasis on the 2nd part of their dual mandate, maximum household employment. That criterion remains weak. Just +6K cyclical job additions showed up in the latest JAN data.



CME Fed Funds Futures on Feb. 16th showed 51% odds for one 25-bps cut by JUNE 2026; plus +15.1% odds for more than that; and just 34% odds for no further cuts in the first half of 2026.

Going forward, be vigilant, about observing a rise in U.S. **Financial Stress** measures. Think about how a panicked FOMC would intervene, to relieve that specific type of stress.

St. Louis Fed Financial Stress Index (Feb 2016 to Feb 2026)



- The (above) FRED chart shows the **St. Louis Fed Financial Stress Index** is low.
- Sudden jumps like 2020 or 2023 should be recognizable. Watch for something like that.

C. University of Michigan Consumer Sentiment

- U. of Mich. Consumer Sentiment index went up to 57.3 in FEB, from 56.4 in JAN.
- Year-on-year change in U.S. consumer sentiment was down -11.4%.

Read FEB 2026 comments from U. of Michigan Survey Director Joanne Hsu:

- “Consumer sentiment was essentially unchanged, inching up less than one index point from last month and sitting about 20% below January 2025.”

- “Sentiment surged for consumers with the largest stock portfolios, while it stagnated and remained at dismal levels for consumers without stock holdings.”
- “On net, modest increases in current personal finances and buying conditions for durables were offset by a small decline in long-run business conditions.”
- “While sentiment is currently the highest since August 2025, recent monthly increases have been small—well under the margin of error—and the overall level of sentiment remains very low from a historical perspective.”
- “Concerns about the erosion of personal finances from high prices and elevated risk of job loss continue to be widespread.”
- “Year-ahead inflation expectations fell from 4.0% last month to 3.5% this month, the lowest reading since January 2025.”
- “This month’s reading still exceeds those seen in 2024 and remains well above the 2.3-3.0% range seen in the two years pre-pandemic.”
- “Long-run inflation expectations inched up for the second straight month, from 3.3% last month to 3.4% this month.”
- “In comparison, readings ranged between 2.8% and 3.2% in 2024, and were below 2.8% throughout 2019 and 2020.”
- The U. of Michigan consumer sentiment time series chart is shown below.

University of Michigan Consumer Sentiment (1996 = 100)



D. Labor Markets.

- The Federal BLS report stated on Feb. 11th, 2026: Both total nonfarm payroll employment (+130K) and the unemployment rate (4.3%) changed little in January 2025.

- Job gains occurred in Health Care, Social Assistance, and Construction, while Federal Government and Financial Activities lost jobs.

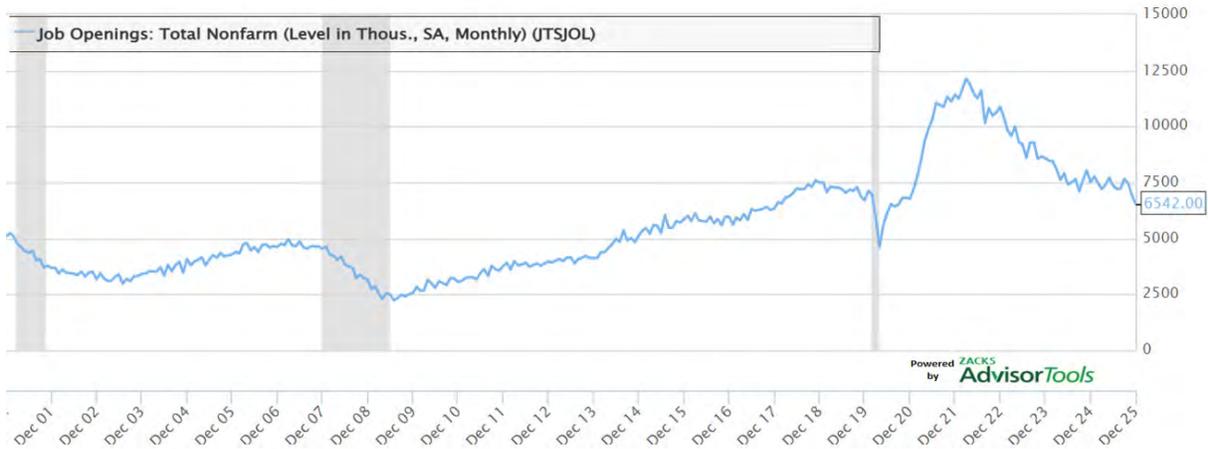
For bulls:

- Total nonfarm payroll employment moved up in January (+130,000).
- Over the past 12 months, average U.S. hourly earnings rose +3.7%. This stayed above a core CPI rising +2.5% thru JAN, displaying real wage improvement.
- The number of people employed part time for economic reasons, at 4.9 million, fell -453K in January. But it is up +410K over the year.
- The number of people not in the labor force who currently want a job decreased by -399K to 5.8 million in January.
- Among those not in the labor force who wanted a job, the number of persons marginally attached to the labor force changed little at 1.7 million.
- The U.S. labor force participation rate changed little at 62.5% in JAN, changed little. The employment-population ratio changed little at 59.8%.

For bears:

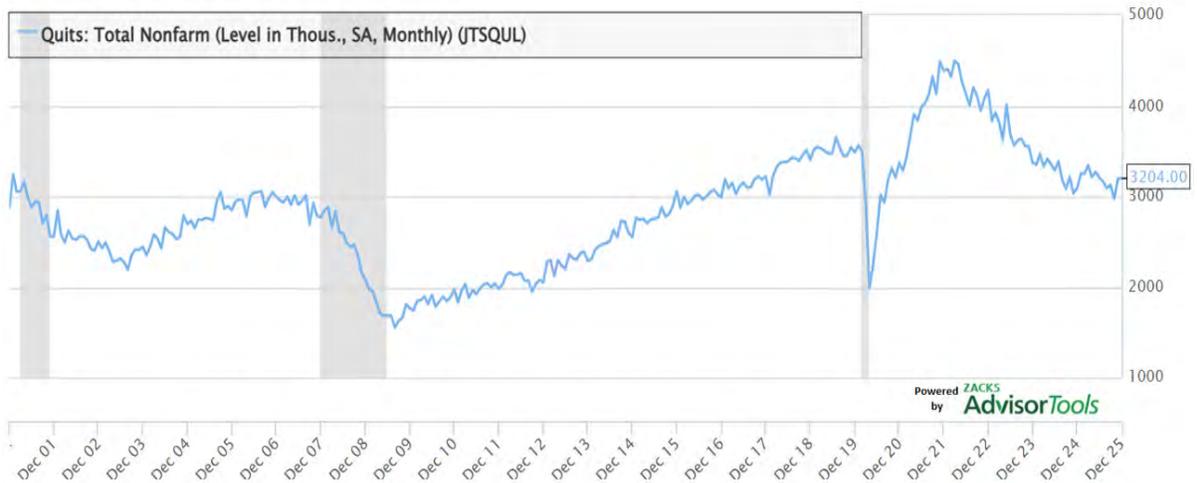
- Payroll employment rose by 584,000 in 2025 (an average monthly gain of 49,000), less than the increase of 2.0 million in 2024 (an average monthly gain of 168,000).
- The number of long-term unemployed (those jobless for 27 weeks or more) changed little in January at 1.9 million, but is up by -386K from a year earlier. The long-term unemployed accounted for 25.0 percent of all unemployed people in January.
- Mostly non-cyclical jobs were added: Health care added +82K jobs in January. Health care averaged 34,000 per month in 2025. Social Assistance increased by +42K jobs in January. Construction added +33K jobs in January.
- Only +6K jobs from the +130K January 2026 total were in cyclical industries.
- Federal government employment fell in January (-34,000). Since reaching a peak in Oct. 2024, federal government employment is down by 327,000, or 10.9 percent. (Some Federal employees who accepted a deferred resignation off in 2025 came off Federal payrolls.)
- The U.S. showed 6.542M job openings in JAN 2026 versus 8.1M in NOV 2024. The data remains in a downtrend from a MAR 2022 peak at 12.027M job openings.
- Pre-COVID job openings were ~7M. The JAN data shows a -500K in those job openings.
- A MAR 2022 Job Openings top remains easy to identify (see chart below).

Total Nonfarm Job Openings (2000 to FEB 2026)



- JAN 2026 quits were at 3.20M, below a NOV 2024 election moment at 3.54M. A NOV '21 peak was 4.50M. U.S. quits data is now -400K below its 3.6M pre-COVID level!

Total Nonfarm Quits (2000 to FEB 2026)



- Layoffs and discharges (NSA) were at 2.029M in DEC 2025. This data +200K above the 1.80M seen in the prior U.S. election period, aka NOV 2024.

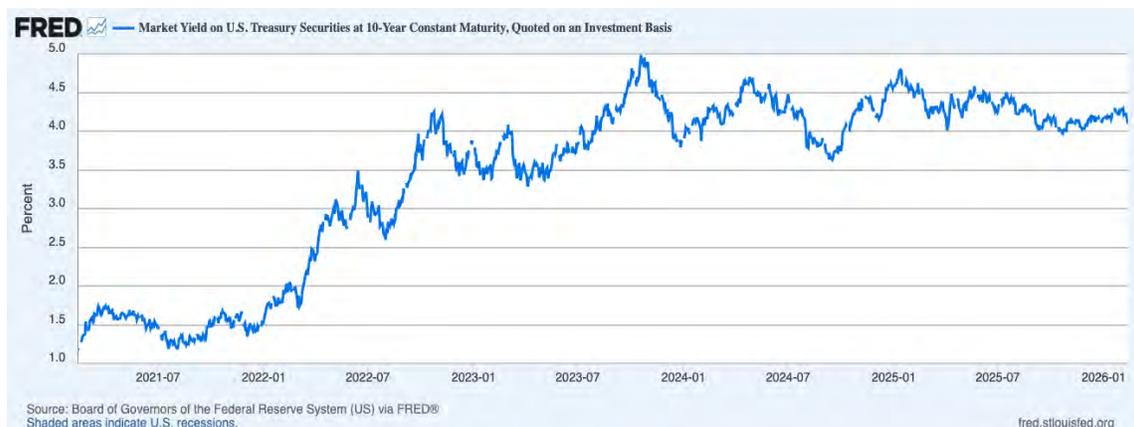
E. Fixed Income

- The U.S. Total Bond Market Aggregate ETF was up +1.4% YTD in 2026.
- Returns data gratis Charlie BiLello: His latest data came out on Feb. 14th, 2026.
- The Biggest U.S. Bond Market Gainer, so far, YTD in 2026?
- Long-duration U.S. Treasuries were up +3.3% YTD in 2026.



- Investment Grade bonds were up +1.6% YTD in 2026.
- Emerging Market (EM) bonds (in USD) were up +1.4% YTD in 2026.
- TIPS were up +1.3% YTD in 2026.
- High Yield bonds were up +0.8% YTD in 2026.
- A chart shows a market yield on the 10-year U.S. Treasury at 4.09%.

Market Yield on U.S. Treasury Securities at 10-year Constant Maturity, Quoted on an Investment Basis (Feb. 13th, 2016 to Feb. 13th, 2026)



- Want a visible monetary restraint factor, in early January 2026? The next chart shows the ‘real’ inflation-indexed U.S. Treasury Long-Term Average 10-year yield.
- This ‘real’ LT Treasury yield shows a Feb. 2nd, 2026 print at 2.51%.
- For perspective, the U.S. Treasury ‘real’ chart shows an inflation-indexed U.S. 10-year Treasury range between +0.5% and +1.0%, running from 2015 to 2020.

- The FOMC likes ~1.0% ‘real’ long-term yields. A pre-COVID ‘real’ inflation indexed yield peak was seen on Nov. 2nd, 2018 at 1.27%.
- Now, it’s 2.51%. That is moderately restrictive monetary policy.
- Five 25-bps cuts of implied Fed policy rate easing (to YE 2027) look possible.

**Treasury Long-Term Average (Over 10 Years),
Inflation-Indexed (from Jan. 1st, 2000 to Feb. 2nd, 2026)**



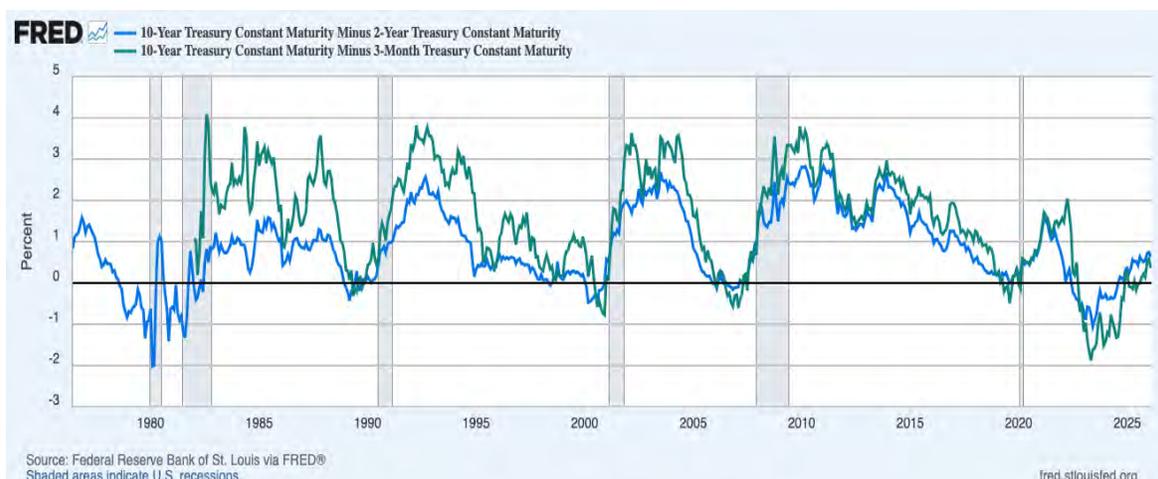
- Can we get into a U.S. 2026 recession from +2.51% ‘real’ long-term U.S. Treasury yields? Increasing U.S. Treasury debt issuance, and more global debt issuance, are worth watching, later in 2026.
- If we had a very stubborn FOMC (we don’t), this benchmark real yield can grind above the ~2.6% high on Oct. 20th, 2023, and keep on going...
 - U.S. equities sell-off, when algorithmic asset allocators run their real-time ‘risk-parity’ operations.
 - Recession by the FOMC ‘worry’ tips up, with that selling.
- A 2026 recession can also arrive via endless chaotic Federal policy ‘emergency’ actions, poorly swallowed debt issuance, or via unwelcome job market distress.
- Bond vigilantes could return, if the Supreme Court nullifies U.S. ‘emergency’ tariffs.
- ‘Big Beautiful Bill’ fiscal effects have not shown up. Income tax benefits arrive during the April tax filing season in 2026. Medicare cuts happen after the Nov. 2026 election.



1. A Signal Portending U.S. Recession: U.S. Treasury Yield Curve Inversion

- A third chart (below) shows the 10-year Treasury minus the 2-year U.S. Treasury rate spread, along with the 10-year to 3-month U.S. Treasury rate spread.

10-yr Treasury Constant Maturity minus 2-year Constant Maturity (blue)
and 10-yr Treasury Constant Maturity minus 3m Constant Maturity (green)
Data from 1982 to Feb. 2026.

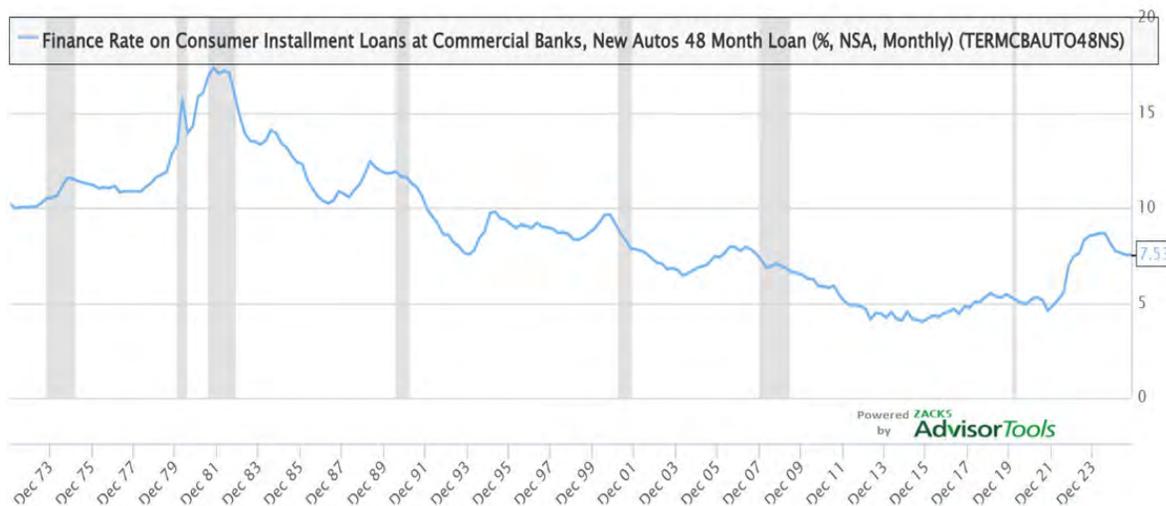


- Over the last 12 chaotic months, risk-free U.S. bond markets show traders a 2-10 U.S. Treasury yield curve inversion.
- The 10-yr to 3-month yield difference is inverted now, too.
- This chart bears watching closely.
- These are ominous signs, if you look back at 1990, 2000, and 2008.

2. Status of the “Wall of Worry”

- As Jan. 7th, 2026, the average credit card interest rate in the United States was 19.65%, according to Bankrate.
- According to the Experian credit bureau, the average new car loan rate was ~6.5%. and the used car rate was ~11.4% in late 2025.

**Finance Rates on Consumer Installment Loans at Commercial Banks,
New Autos 48-Month Loan
(1970s to Nov. 2025)**



3. The J.P. Morgan Global Manufacturing PMI rose to a 3-month high of 50.9 in JAN

“Global Manufacturing Rises at Joint-quickest Pace Since June 2024”

January 2025

- Output rises at faster paced as new order growth resumes
- Business optimism at 10-month high
- Input prices increase at quickest pace in three years

“Global manufacturing business conditions improved at a modest but faster pace in January, with an encouraging increase in the numbers of economies reporting higher production. Total worldwide output growth was the joint sharpest since June 2024.”

“The J.P. Morgan Global Manufacturing PMI® rose to a three-month high of 50.9 in January, from 50.4 in December, to remain above the neutral mark of 50.0 for the sixth month running.”

“Manufacturing output rose at the joint-quickest pace since June 2024, underpinned by the strongest rise in new work for almost a year (although rates of expansion were mild in both cases).”

“There were signs of international trade flows stabilizing, as new export orders fell only slightly and to the joint-weakest extent during the current ten-month downturn.”

“Looking deeper into output trends, strong growth was seen in India, the US and the ASEAN economies, the latter led by Vietnam. While the Indian expansion followed a general pattern of robust growth in recent years, US growth was the joint-best since April 2022 and the overall ASEAN increase was the joint-fastest since April 2023.”

“Output growth hit 45- and 11-month highs in Japan and Taiwan respectively, while South Korea’s upturn was the joint-strongest in 17 months.”

“A modest sustained upturn was also seen in mainland China.”

“In Europe, the UK’s expansion was the fastest in 16 months and the eurozone returned to growth. Areas of weakness persisted, however, including a sharp downturn in Brazil.”

“Data broken down by sub-sector definitions saw expansions across the consumer, intermediate and investment goods industries, with the fastest growth in the consumer goods category. Two sectors also saw new orders rise (consumer and intermediate goods).”

Comment Maia Crook, Global Economist at J.P. Morgan, said:

“The J.P. Morgan global manufacturing output PMI rose 0.9-point to 51.8, suggesting a solid pace of global goods production to start the year. The underlying details were similarly encouraging. The consumer goods output PMI rose to its highest level since January 2025, and business demand continues to look resilient. The new orders PMI also rebounded to approach its recent highs, and the future output and employment indexes each ticked up on the month (albeit to still low levels). Accompanying these strong activity indicators was a 1.4-point move up in the output price PMI to its highest level since early 2023, though this jump was largely driven by the US.”

4. Update on Three Major 10-year Government Bond Yields. And One FX Rate.

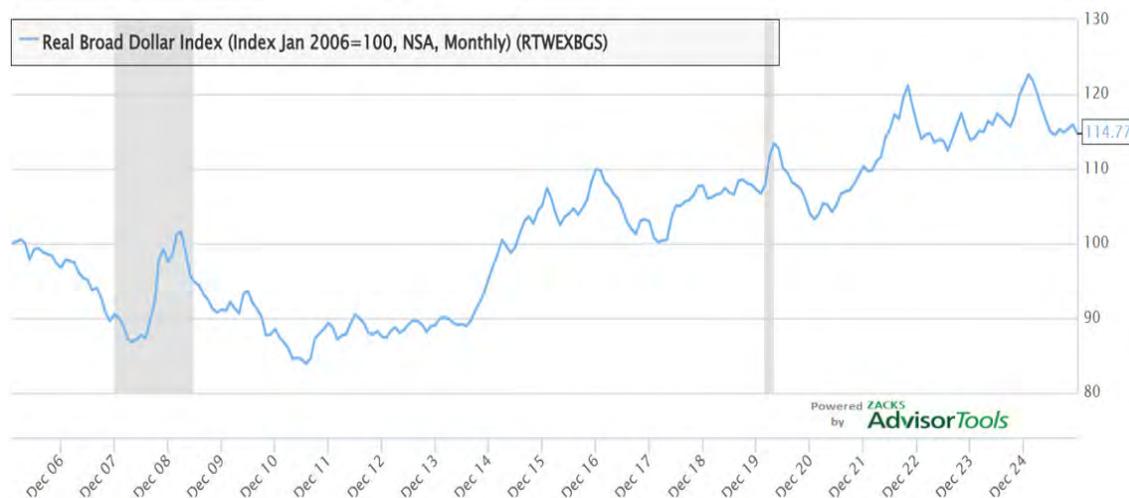
- Zacks stays on top of sovereign bonds and macro data in Germany, Italy, and Japan.
 - Germany- Its long-term bond yield remains below its recent OCT 2023 peak of 2.89%: **On Feb. 16th, 2026 it was 2.76%.**
 - Italy- On Oct. 1st, 2023, the Italian 10-yr peaked at 4.93%. **On Feb. 16th, 2026 it was 3.37%.**
 - Japan – On Jan. 2nd, 2022, this yield was 0.05%. On Oct 29th, 2023 the 10-yr JGB yield was 0.92%. **On Feb. 16th, 2026, it was 2.22%, a level not seen in 2 decades!**
- Divergence between these 10-year developed country bond yields relative to U.S. 10-year Treasury yields plays a major role in shifting around bi-lateral USD FX rates.
- I follow one currency pair, more closely than others: The Japanese yen to USD traded at 115 per USD in March 2022. On Feb. 16th, 2026? It is at 153.



5. Real Broad U.S. Dollar (USD) Index

- The Feb. 2nd, 2026 real broad USD? The most recent data was at 113.52.

Real Broad U.S. Dollar Index (Jan. 2006 = 100, data thru Jan. 1st, 2026)



An FX Street Euro comment made on Feb. 16th, 2026:

“**EURUSD is holding losses near 1.1865, extending the pullback from the 1.1900 region despite the dollar coming under pressure on Friday following softer inflation figures, which reinforced expectations for Fed rate cuts.** That said, activity remains muted on Monday with US markets closed for the President’s Day holiday.”

“The **RSI** is hovering above the neutral threshold, though it is flattening, while the **MACD** remains above zero but marginally below its red signal line. This indicates that **momentum has cooled** but also suggests that **any dips may remain limited** before the broader uptrend reasserts itself.”

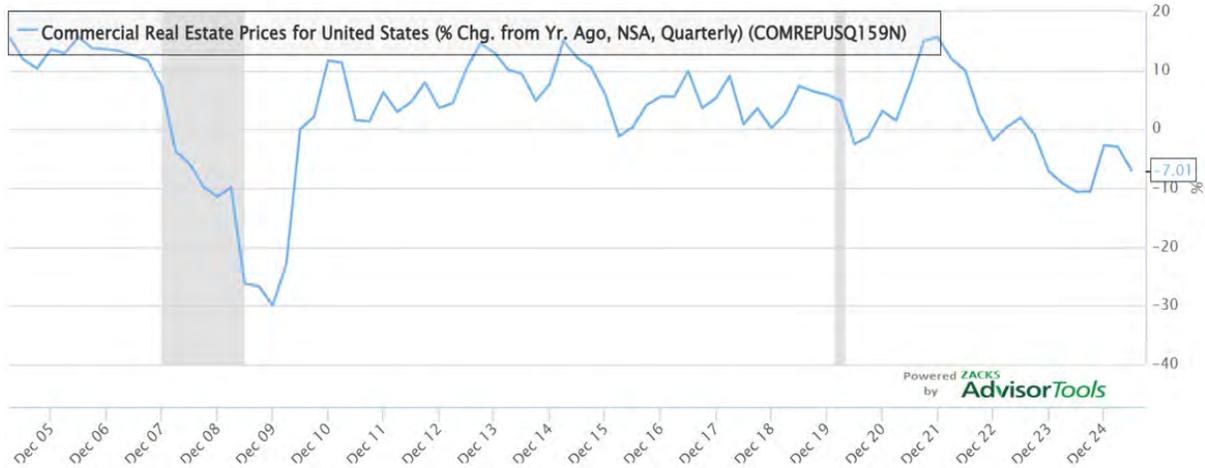
“If the price **rebounds** off the short-term uptrend line where it currently sits and clears the **38.2% Fibonacci** retracement of the January 27-February 6 pullback from the fourandahalfyear high at **1.1885**, resistance could emerge at the monthly highs near the **50% Fibonacci level** at **1.1923**. A further extension could target **1.1960-1.1974**, just below the key **1.2000** threshold, the highest level since June 2021.”

F. Zacks Expectations for Fed Policy

1. Chair Powell & the FOMC target a conflicting ‘dual mandate’: Support weakening full employment. Get a ‘hot’ 3% core CPI rate moving towards +2.0% annually.

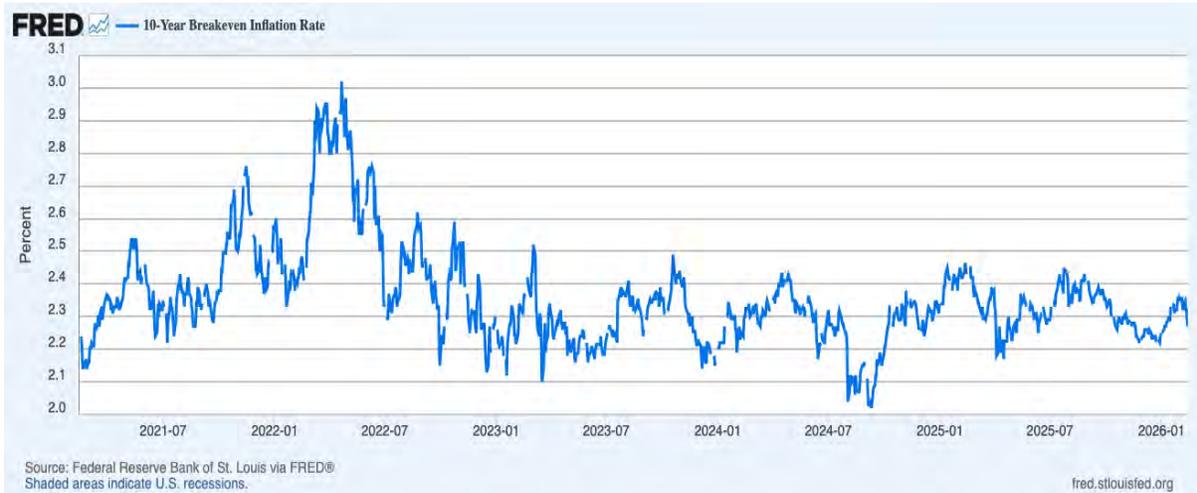
- Secondary concerns: Commercial Real Estate lending (with those prices currently down -7.01% y/y) remains a secular Fed concern, particularly on Office lending.

U.S. Commercial Real Estate values for the United States (01/05 to 12/25)



- A following chart shows how the broad U.S. consumer price inflation battle looks.
- Zacks provides the U.S. 10-Year Breakeven Inflation Rate across the last 5 years.

USA 10-Year Breakeven Inflation Rate (Feb. 13th, 2021, to Feb. 13th, 2026)



- **A “sticky” CPI remains the obvious observation.** On Feb. 13th, 2026 a **Breakeven U.S. Consumer Inflation Rate** was 2.27%.
- An April 22nd, 2022 breakeven U.S. 10-year rate at **2.98%** was the 20-year chart high.
- With a Feb. 13th breakeven inflation rate at 2.27%; this is 27 basis points above the Fed’s +2.0% statutory mandate for expected core CPI (best thought of as core PCE), and 77 bps above pre-COVID 2019 levels.
- An outlook for a lower CPI shoulders this headwind: The Congressional Budget Office (CBO) estimated U.S. tariffs



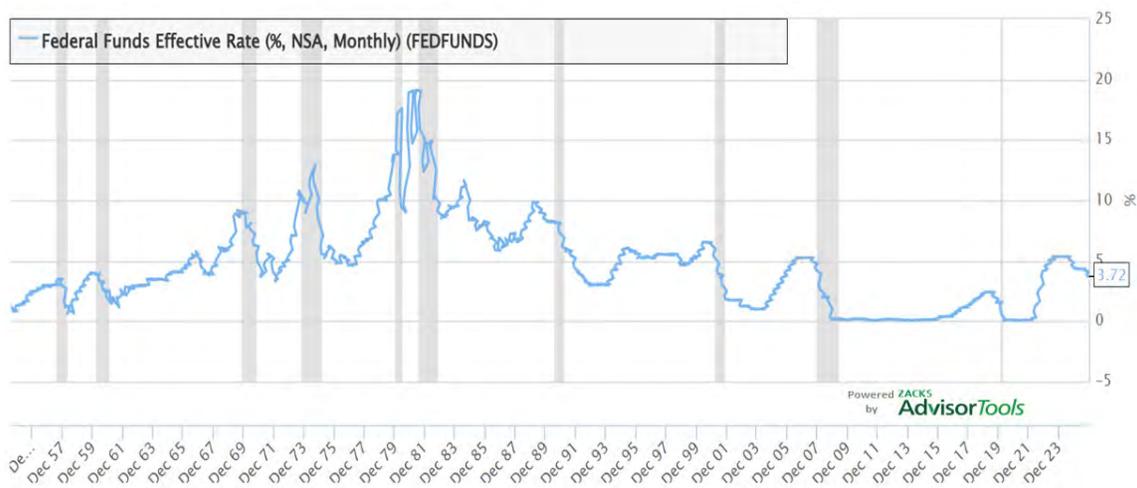
will increase consumer price inflation by an annual average of +0.4% in 2026, reducing U.S. consumer’s purchasing power.

- But the bulk of the tariff increases may have already been incorporated, and there is news of lower tariffs on industrial metals now.

2. Current Fed Funds rate, vis-à-vis Peer Central Bank Rates.

- The FOMC — as of Feb. 2nd, 2026 — has cut the Fed Funds effective rate 175-bps, from 5.33% to 3.64%. The U.S. Federal Reserve started its cutting back in Sept. 2024.
- Is this a path to a ‘neutral’ real rate? The NOV 2025 core PCE rate recorded +2.8%.
- The FOMC (more or less) likes a +1.0% ‘real’ rate.
- The latest data computes a moderately restrictive +0.84% ‘real’ Fed Funds policy rate.

U.S. Federal Funds Effective Rate (1955 to Feb. 2nd, 2026)



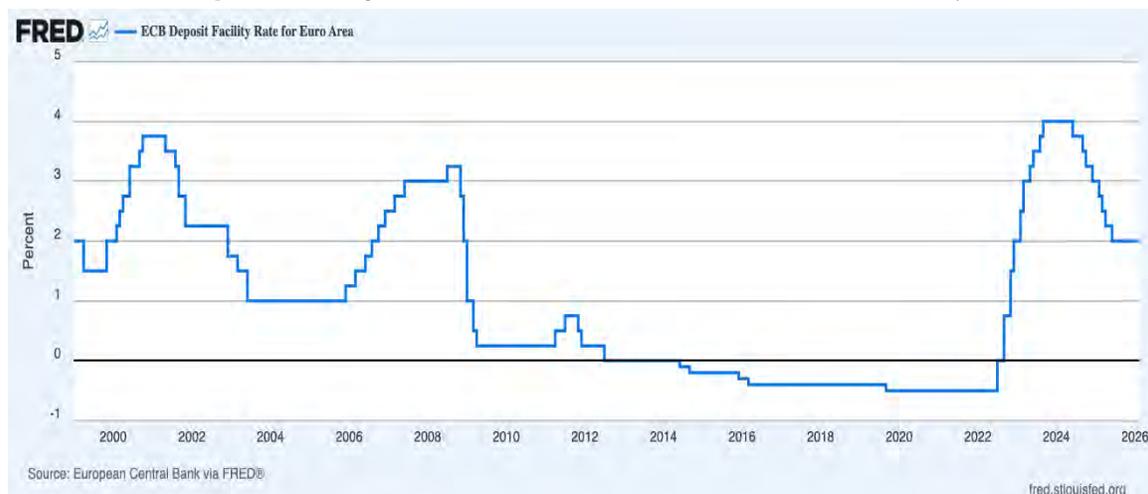
- With a Fed Funds at 3.64%, below are regional monetary policy rates (tracked by Charlie BiLello). His global policy rate table was published on Feb. 4th, 2026.
 - The U.S. Fed Funds policy rate stands at 3.64%.
 - The U.K.’s BoE is at a 3.75% policy rate, after an DEC 2025 cut.
 - In Europe, **the Eurozone’s ECB is at a 2.00% deposit rate** after 2025 cuts (the Euro-USD FX



trading pair was at ~1.19 on Feb. 16th, 2026).

- o A broader European list has: the Czech Republic (3.50%, MAY cut), Poland (4.00%, DEC cut), Norway (4.00%, SEPT cut), Sweden (1.75%, SEPT cut), and Russia at (16.50%, OCT cut).
 - o In Latin America: Argentina (29.0%, JAN cut), Brazil (15.00%, JUNE hike), Columbia (9.25%, APR cut), Mexico (7.00%, DEC cut), Chile (4.75%, JULY cut), and Peru (4.25%, SEPT cut).
 - o In Asia: Indonesia (4.75%, SEPT cut), Australia (3.85%, FEB hike) and South Korea (2.50%, MAY cut), while
 - o Mainland China shows a Loan Prime Rate at 3.00% (After a MAY cut.).
- The European Central Bank (the ECB) rates has cut its policy rate 200 basis points, from a 4.0% policy rate in June 2024 to 2.00% in Feb. 2026. More than the FOMC pace.

ECB Deposit Facility Rate for the Euro Area (Jan. 1999 to Feb. 13th, 2026)



3. Back on Jan. 28th, 2026, the FOMC Issued their last policy statement.

- In 2026, the next two FOMC meetings land on March 17-18 and April 28-29.

“Available indicators suggest that economic activity has been expanding at a moderate pace. Job gains have slowed this year, and the unemployment rate has edged up through September. More recent indicators are consistent with these developments. Inflation has moved up since earlier in the year and remains somewhat elevated.”

“The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook remains elevated. The Committee is attentive to the risks to both sides of its dual mandate and judges that downside risks to employment rose in recent months.”

“In support of its goals and in light of the shift in the balance of risks, the Committee decided to lower the target range for the federal funds rate by 1/4 percentage point to 3-1/2 to 33/4 percent.”

“In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.”

“In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee’s goals. The Committee’s assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.”

“The Committee judges that reserve balances have declined to ample levels and will initiate purchases of shorter-term Treasury securities as needed to maintain an ample supply of reserves on an ongoing basis.”

4. A Current and Useful Press Release, Pulled from the FOMC Website.

The Annual Bank Stress Test, published on Feb. 4th, 2026 –

“The Federal Reserve Board on Wednesday finalized the hypothetical scenarios for its annual stress test, which helps ensure that large banks can continue to lend to households and businesses even in a severe recession. The final scenarios are substantially similar to the scenarios proposed in October. Additionally, the Board voted to maintain the current stress capital buffer requirements until 2027, when new requirements can be calculated based on models that take public feedback into consideration.”

“Waiting to calculate new stress capital buffer requirements until we receive public feedback will give us the opportunity to correct any deficiencies in our supervisory models based on that feedback,” said Vice Chair for Supervision Michelle W. Bowman. “This should further improve the transparency, effectiveness, and fairness of our models and improve our accountability to the public.”

“The Board’s annual stress test evaluates the resilience of large banks by estimating losses, net revenue, and capital levels under hypothetical recession scenarios that extend two years into the future. This year, 32 banks will be tested against a severe global recession with heightened stress in both commercial and residential real estate markets, as

well as in corporate debt markets. The scenarios are not forecasts and should not be interpreted as predictions of future economic conditions.”

“In the 2026 stress test scenario, the U.S. unemployment rate rises nearly 5.5 percentage points, to a peak of 10 percent. The unemployment rate increase is accompanied by severe market volatility, a widening of corporate bond spreads, and a collapse in asset prices, including about a 30 percent decline in house prices and a 39 percent decline in commercial real estate prices.”

“Large banks with substantial trading or custodial operations are also required to incorporate a counterparty default scenario component to estimate potential losses from the unexpected default of the firm’s largest counterparty amid an acute market shock. In addition, banks with large trading operations will be tested against a global market shock component that primarily stresses their trading and related positions. The final scenarios include two revisions to the global market shock component to improve consistency across shocks applied to similar exposures and enhance plausibility.”

5. Zacks Fed Policy Rate Outlook

- As of Feb. 16th, 2026, the short-term Fed Funds policy rate stood at 3.64%.
- Will the FOMC, under Chair Powell, cut again, before his term end in May 2026?
 - Feb. 16th, 2026, there was a 73.1% of 3.64% staying in place in April 2026
- Stay consistent in your U.S. 2026 policy rate outlook. Use both CME and FOMC.
 - The FOMC Dec. 10th, 2025 ‘dot plots’ projected a 3.00% to 4.00% policy rate for 2026, and 3.25% for 2027 (that’s just 2 25 bps rate cuts more).
 - *The CME FedWatch tool — at **DEC 2026** — shows the following probabilities for Fed Funds policy rate cuts. This data was pulled on Feb. 16th, 2026:*
 - DEC 2026 shows 0.5% odds for 2.00% and 2.25% (6 25-bps cuts)
 - 3.8% odds for 2.25% to 2.50% (5 25-bps cuts)
 - 14.3% odds for 2.50% to 2.75% (4 more 25-bps cuts)
 - 28.6% odds for 2.75% to 3.00% (3 more 25-bps cuts)
 - **31.3% median odds for 3.00% to 3.25% (2 25-bps cuts)**
 - 17.6% odds for 3.25% to 3.50% (1 25-bps cuts)
 - 3.9% odds for 3.50% to 3.75%. (no more cuts)

6. Conclusion(s)

- On Feb. 16th, 2026, CME futures traders price modest odds (31%) for two 25-bps cuts, through the end of December, 2026.
- The DEC 2025 “Summary of Economic Projections” are consistent with anything between a 3.0% Fed Funds rate and a 4.0% Fed Funds rate in 2026.
- In other words, there is a wide variance across the FOMC -- on their policy rate path for 2026.

SECTION 2: THIS MONTH'S KEY TOPIC

Scaling Up: How Increasing Inputs Has Made Artificial Intelligence More Capable

“The path to recent advanced AI systems has been more **about building larger systems**, than making scientific breakthroughs.”

OUR WORLD IN DATA

By Veronika Samborska

January 19th, 2025

For most of Artificial Intelligence's (AI's) history, many researchers expected that building truly capable systems would need a long series of scientific breakthroughs: revolutionary algorithms, deep insights into human cognition, or fundamental advances in our understanding of the brain.

While scientific advances have played a role, recent AI progress has revealed an unexpected insight: a lot of the recent improvement in AI capabilities has come simply from scaling up existing AI systems.

Here, scaling means deploying more computational power, using larger datasets, and building bigger models. This approach has worked surprisingly well so far.

Just a few years ago, state-of-the-art AI systems struggled with basic tasks like counting.

Today, they can solve complex math problems, write software, create extremely realistic images and videos, and discuss academic topics.

This article will provide a brief overview of scaling in AI over the past years.

The data comes from Epoch, an organization that analyzes trends in computing, data, and investments to understand where AI might be headed. Epoch maintains the most extensive dataset on AI models and regularly publishes key figures on AI growth and change.

What is scaling in AI models?

Let's briefly break down what scaling means in AI. Scaling is about increasing three main things during training, which typically need to grow together:

- The amount of data used for training the AI
- The model's size, measured in “parameters”
- Computational resources, often called “compute” in AI

The idea is simple but powerful: bigger AI systems, trained on more data and using more computational resources, tend to perform better. Even without substantial changes to the algorithms, this approach often leads to better performance across many tasks.

Here is another reason why this is important: as researchers scale up these AI systems, they not only improve in the tasks they were trained on but can sometimes lead them to develop new abilities that they did not have on a smaller scale.

For example, language models initially struggled with simple arithmetic tests like three-digit addition, but larger mod-



els could handle these easily once they reached a certain size. The transition wasn't a smooth, incremental improvement but a more abrupt leap in capabilities.

This abrupt jump in capability, rather than steady improvement, can be concerning. If, for example, models suddenly develop unexpected and potentially harmful behaviors simply as a result of getting bigger, it would be harder to anticipate and control. This makes tracking these metrics important.

What are the three components of scaling up AI models?

1. Data: scaling up the training data

One way to view today's AI models is by looking at them as very sophisticated pattern recognition systems. They work by identifying and learning from statistical regularities in the text, images, or other data on which they are trained. The more data the model has access to, the more it can learn about the nuances and complexities of the knowledge domain in which it's designed to operate.

In 1950, Claude Shannon built one of the earliest examples of "AI": a robotic mouse named Theseus that could "remember" its path through a maze using simple relay circuits. Each wall Theseus bumped into became a data point, allowing it to learn the correct route. The total number of walls or data points was 40. You can find this data point in the chart; it is the first one.

While Theseus stored simple binary states in relay circuits, modern AI systems utilize vast neural networks, which can learn much more complex patterns and relationships and thus process billions of data points.

All recent notable AI models — especially large, state-of-the-art ones — rely on vast amounts of training data. With the y-axis displayed on a logarithmic scale, the chart shows that the data used to train AI models has grown exponentially. From 40 data points for Theseus to trillions of data points for the largest modern systems in a little more than seven decades.

Since 2010, the training data has doubled approximately every nine to ten months. You can see this rapid growth in the chart, shown by the purple line extending from the start of 2010 to October 2024, the latest data point as I write this article.

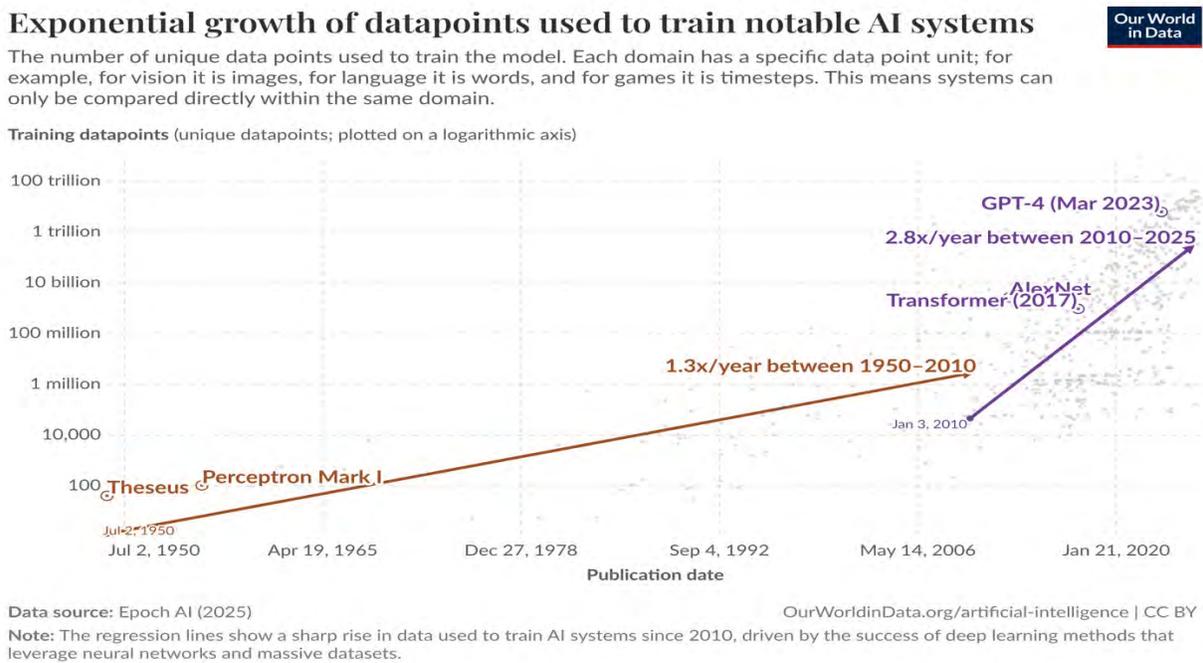
Datasets used for training large language models, in particular, have experienced an even faster growth rate, tripling in size each year since 2010. Large language models process text by breaking it into tokens — basic units the model can

encode and understand. A token doesn't directly correspond to one word, but on average, three English words correspond to about four tokens.

GPT-2, released in 2019, is estimated to have been trained on 4 billion tokens, roughly equivalent to 3 billion words. To put this in perspective, as of September 2024, the English Wikipedia contained around 4.6 billion words. In comparison, GPT-4, released in 2023, was trained on almost 13 trillion tokens, or about 9.75 trillion words. This means that GPT-4's training data was equivalent to over 2000 times the amount of text of the entire English Wikipedia.

As we use more data to train AI systems, we might eventually run out of high-quality human-generated materials like books, articles, and research papers. Some researchers predict we could exhaust useful training materials within the next few decades. While AI models themselves can generate vast amounts of data, training AI on machine-generated materials could create problems, making the models less accurate and more repetitive.

Exponential growth of datapoints used to train notable AI systems



2. Parameters: scaling up the model size

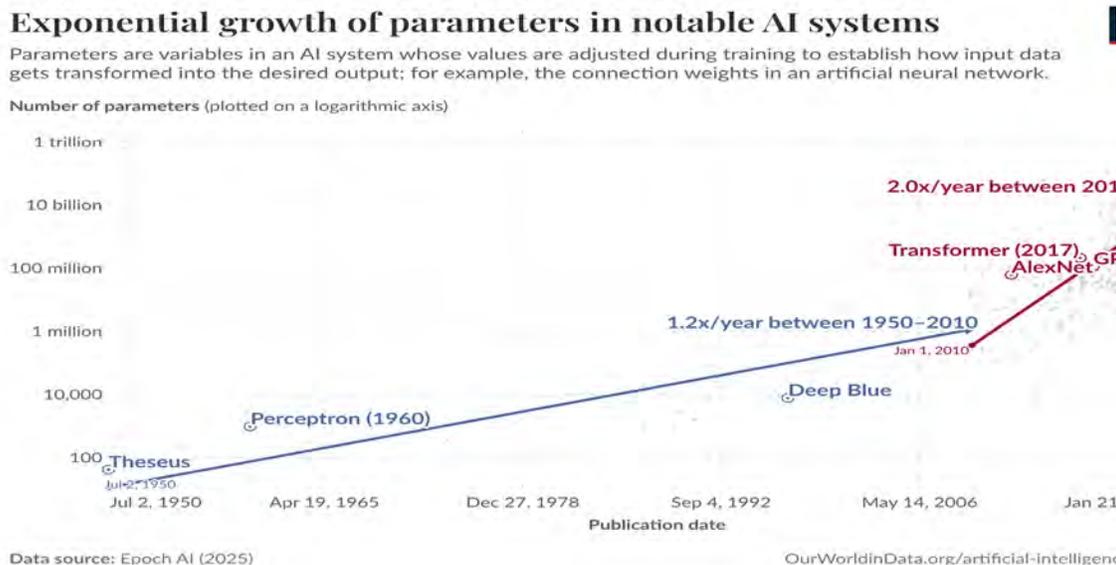
Increasing the amount of training data lets AI models learn from much more information than ever before. However, to pick up on the patterns in this data and learn effectively, models need what are called “parameters”. Parameters are a bit like knobs that can be tweaked to improve how the model processes information and makes predictions. As the amount of training data grows, models need more capacity to capture all the details in the training data. This means larger datasets typically require the models to have more parameters to learn effectively.

Early neural networks had hundreds or thousands of parameters. With its simple maze-learning circuitry, Theseus was a model with just 40 parameters — equivalent to the number of walls it encountered. Recent large models, such as GPT-3, boast up to 175 billion parameters. While the raw number may seem large, this roughly translates into 700 GB if stored on a disc, which is easily manageable by today's computers.

The chart shows how the number of parameters in AI models has skyrocketed over time. Since 2010, the number of AI

model parameters has approximately doubled every year. The highest estimated number of parameters recorded by Epoch is 1.6 trillion in the QMoE model.

While bigger AI models can do more, they also face some problems. One major issue is called “overfitting”. This happens when an AI becomes “too optimized” for processing the particular data it was trained on but struggles with new data. To combat this, researchers employ two strategies: implementing specialized techniques for more generalized learning and expanding the volume and diversity of training data.



3. Compute: scaling up computational resources

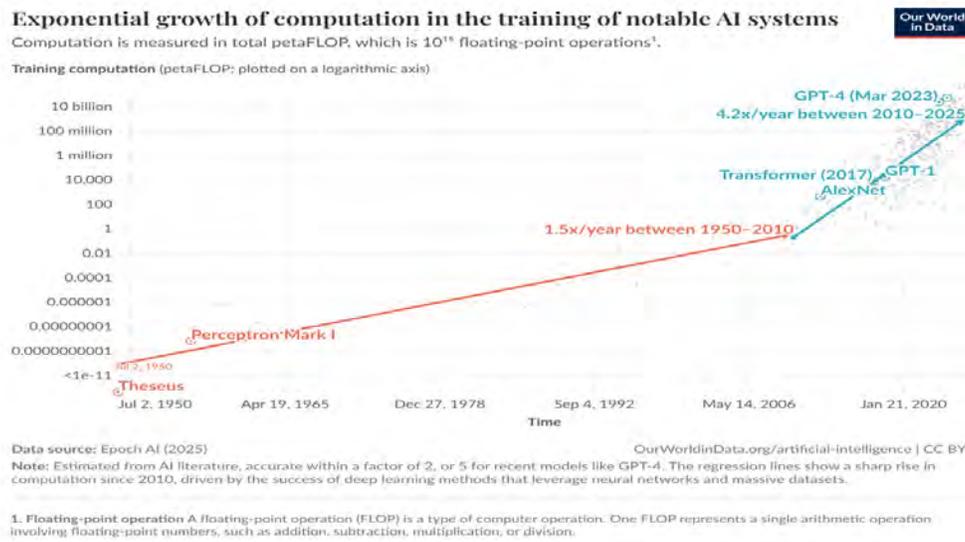
As AI models grow in data and parameters, they require exponentially more computational resources. These resources, commonly referred to as “compute” in AI research, are typically measured in total floating-point operations (“FLOP”), where each FLOP represents a single arithmetic calculation like addition or multiplication.

The computational needs for AI training have changed dramatically over time. With their modest data and parameter counts, early models could be trained in hours on simple hardware. Today’s most advanced models require hundreds of days of continuous computations, even with tens of thousands of special-purpose computers.

The chart shows that the computation used to train each AI model — shown on the vertical axis — has consistently and exponentially increased over the last few decades. From 1950 to 2010, compute doubled roughly every two years. However, since 2010, this growth has accelerated dramatically, now doubling approximately every six months, with the most compute-intensive model reaching 50 billion petaFLOP as I write this article.

To put this scale in perspective, a single high-end graphics card like the **NVIDIA GeForce RTX 3090** — widely used in AI research — running at full capacity for an entire year would complete just 1.1 million petaFLOP computations. 50 billion petaFLOP is approximately 45,455 times more than that.

Achieving computations on this scale requires large energy and hardware investments. Training some of the latest models has been estimated to cost up to \$40 million, making it accessible only to a few well-funded organizations.



Compute, data, and parameters tend to scale at the same time!

Compute, data, and parameters are closely interconnected when it comes to scaling AI models.

When AI models are trained on more data, there are more things to learn. To deal with the increasing complexity of the data, AI models, therefore, require more parameters to learn from the various features of the data.

Adding more parameters to the model means that it needs more computational resources during training.

This interdependence means that data, parameters, and compute need to grow simultaneously. Today's largest public datasets are about ten times bigger than what most AI models currently use, some containing hundreds of trillions of words.

But without enough compute and parameters, AI models can't yet use these for training.

What can we learn from these trends -- for the future of AI?

Companies are seeking large financial investments to develop and scale their AI models, with a growing focus on generative AI technologies.

At the same time, the key hardware that is used for training — GPUs — is getting much cheaper and more powerful, with its computing speed doubling roughly every 2.5 years per dollar spent.

Some organizations are also now leveraging more computational resources not just in training AI models but also during inference — the phase when models generate responses — as illustrated by OpenAI's latest o1 model.

These developments could help create more sophisticated AI technologies faster and cheaper. As companies invest more money and the necessary hardware improves, we might see significant improvements in what AI can do, including potentially unexpected new capabilities.

Because these changes could have major effects on our society, it's important that we track and understand these developments early on.

To support this, we will update key metrics — such as the growth in computational resources, training data volumes, and model parameters — on a monthly basis.

These updates will help monitor the rapid evolution of AI technologies and provide valuable insights into their trajectory.

SECTION 3: CONCLUSIONS

((1) Hyper-scaler capital expenditure (Cap-Ex) has experienced an unprecedented surge, driven by massive investments in artificial intelligence (AI) infrastructure, including data centers, servers, and, most notably, **NVIDIA** GPUs.

The major players — **Alphabet’s Google Cloud (GOOG)**, **Amazon’s AWS (AMZN)**, **Microsoft’s Azure (MSFT)** and **Oracle Cloud Infrastructure OCI (ORCL)** — are spending over \$600 billion annually — as of early 2026.

To build a deeper understanding up, on this?

I need to re-quote and re-position formal statements made, in the 2025 “Our World in Data” article I shared with you, this month.

Scaling Up: How Increasing Inputs Has Made Artificial Intelligence More Capable

“The path to recent advanced AI systems has been more about building larger systems, than making scientific breakthroughs.”

What is scaling in “AI” models?

Let’s briefly break down what scaling means in AI.

Scaling is about increasing three main things during training, which typically need to grow together:

- The amount of data used for training the AI
- The model’s size, measured in “parameters”
- Computational resources, often called “compute” in AI

The idea is simple but powerful: bigger AI systems, trained on more data and using more computational resources, tend to perform better.

Even without substantial changes to the algorithms, this approach often leads to better performance across many tasks.

Next, consider the implications of this table...

Net Profit Margin Overview (Q1 2026)

Entity	Net Profit Margin (%)
S&P 500 Index	~13.9%
NVIDIA (NVDA)	~56.0%
Mag 7 (Including TSLA)	~26.2%
Mag 7 (Excluding TSLA)	~29.8%

Source: Zacks research

In short, the fear hypers-scalers have, living inside a ‘tech oligopoly’ generating excess net profit margins? “AI” can destroy those juicy 2.5X to even 4X net profit margins.

In turn, U.S. hyper-scalers are attempting to ‘bury the competition’ the only way they can: By spending huge annual amounts on “AI” cap-ex compute investment.

As the ‘Our World in Data’ author stated: This approach often leads to better performance across many tasks. That is a moat of competitive advantage the hyper-scalers are looking for.

(2) Now, let’s revisit the latest broad U.S real macro facts: Final U.S. Q3 Real GDP Growth at +4.4%. GDPNow for Q4-25? +3.7%.

Does the huge “AI” cap-ex spending on data center you see make better sense of these broader U.S. real macro growth facts? Yes, it does.

Directly, through the data center construction spending they are doing, and **NVDA** chips, and other high-performance chips (**MU, AVGO, WDC**, etc.) they are buying, and

Indirectly, through the run-up in major large cap U.S. stock indices. These market cap weight indices disproportionately include these hyper-scaler and major semi-chip stock tickers.

Passive investing then sees consumer discretionary stock-market driven wealth rise.

(3) Next, let’s revisit the following average monthly U.S. Federal nonfarm job additions, running quarter by quarter over 2025.

These are established, revised facts now...

Quarter	Average Monthly U.S. Job Adds
Q1:2025	20
Q2:2025	34
Q3:2025	23
Q4:2025	-17

As of January 2026, here are the historical averages for the U.S. labor market:

Timeframe	Period Covered	Avg. Monthly Job Gains	Key Context
Last 5 Years	Feb 2021 – Jan 2026	~262,000	Driven by the post-pandemic “rebound” hiring surge, though slowed significantly in 2025.
Last 10 Years	Feb 2016 – Jan 2026	~171,000	Balanced by the massive losses of 2020 and the moderate growth of the late 2010s.

Source: Zacks Research

So, did “AI” cap-ex, over the last year or two, contribute to the slack U.S. job growth seen, across all 12 months of 2025?

The short answer is: **Yes, but not as a “job killer.”**

In 2025, “AI” Cap-Ex acted more as a **hiring brake** than a layoff engine.

My Zacks Econ FEB 2026 revised quarterly data (20k, 34k, 23k, -17k) perfectly captures the narrative of a “slow-hiring, slow-firing” U.S. economy — that eventually stalled.

The surge in AI investment (about \$300B+ from hyper-scalers in 2025) essentially diverted capital from “human-centric” expansion, into “compute-centric” efficiency.

(4) Finally, here are two key outside observations, made by respected experts, in FEB 2026.

A. Here is how Joanne Hsu, Survey Director at the **University of Michigan** put it, in FEB 2026:

“Sentiment surged for consumers with the largest stock portfolios, while it stagnated and remained at dismal levels for consumers without stock holdings.”

B. Here is how **Goldman Sachs’** Chief Economist Jan Hatzius put it, on Feb. 11th, 2026:

“Consumer spending presents a mixed picture, with lower-end consumers struggling while higher-income households and capital spending remain healthy.

Hatzius revised Q4-25 growth down to +1.6%, though he noted that figure would be closer to +2.5% to +3.0% -- when accounting for government shutdown effects.”

That’s it for me.

Consult the final table for the latest summery U.S. macro facts...



SECTION 4: ECONOMIC PROJECTIONS

Zacks February 2026 Forecasts

A +3.7% Q4-25 Atlanta Fed, and +2.7% Q4-25 NY Fed Nowcast, get built into this forecast.

The Conference Board projects modest 1H-26 growth. The 2nd half of 2025? +4.4% in Q3-25 & +2.2% Q4-25. *The 1st half of 2026 shows +1.2% in Q1-26 and +1.5% in Q2-26.*

The Q4-25 Philly Fed survey “risk of a negative quarter” had 23% in Q1-26 & 24% in Q2-26.

FEB 2026 London economist consensus showed a +2.7% U.S. CPI rate in 2026. This reaches +2.1% across 2027.

The FEB 2026 median London Consensus Econ Fed Funds rate shows 3.38% in June, 2026 (25-bps in cuts foreseen). In Dec 2026? 3.11% (50-bps in cuts, in total, across 2026).

- **For real GDP growth updates?** Zacks mixes four outside outlooks.
- The Feb. 10th Atlanta Fed GDPNow sees **+3.7% growth for Q4-25**. NY Fed has **+2.7%**.
- Feb. 11th Conf. Board has **+2.2% in Q4-25**, then **+1.2% in Q1-26**, and **+1.5% in Q2-26**.
- Feb. ‘26 Consensus Econ. real GDP growth has **+2.2%** across 2025, and **+2.6% in 2026**.
- Q4-25 Philly Fed consensus showed Q4 at **+1.9%**, Q1-26 at **+1.6%**, and **Q2-26 at +1.7%**.

	Real GDP	Unemployment Rate	Payroll (000s/ month)	Core PCE
2025:Q1	-0.5%	4.1%	20	2.8
2025:Q2	+3.8%	4.2%	34	2.7
2025:Q3	+4.4%	4.3%	23	2.9
2025:Q4	+3.0%	4.4%	-17	2.9
2026:Q1	+2.2%	4.5%	57	3.1
2026:Q2	+2.1%	4.6%	65	2.8
2026:Q3	+1.9%	4.7%	62	2.4
2026:Q4	+1.7%	4.6%	81	2.3
2025	+2.2%	4.3%	15	2.7
2026	+2.1%	4.6%	55	2.5
2027	+1.8%	4.4%	80	2.1