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## Markets on the Rise Even as AI Disruption Fears Linger

AI disruption concerns that have plagued US equity markets for the past several weeks seem to be on the backburner this morning as futures on the S&P 500 are up by 0.3% in pre-market trading. While concerns have likely not subsided, investors appear willing to buy at the decreased valuations so far this morning. Even with the gains, however, US equities continue to lag peers elsewhere. If the pre-open gains hold, the S&P 500 should manage to enter positive territory year-to-date, but that compares to a nearly 6% year-to-date return on Europe’s Stoxx 600. In data released this morning, UK inflation was reported largely in line with expectations but above the BoE’s own projections. The data may give support to more hawkish members of the MPC, but markets still price a high likelihood of an interest rate cut at next month’s meeting. Elsewhere in Europe, the FT reports ECB President Lagarde may leave her post early so French President Macron can help select her replacement before France’s elections next April.

Key Global Financial Indicators

Last updated: 2/18/26 8:16 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		6843	0.1	-2	-1	12	0
Eurostoxx 50		6075	0.9	1	1	10	5
Nikkei 225		57144	1.0	-1	7	46	14
MSCI EM		61	-0.4	1	5	36	11
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.06	0.2	-11	-16	-49	-11
Germany 10y Yield		2.75	0.7	-5	-9	25	-11
EMBIG Sovereign Spread		243	-3	-1	-4	-70	-10
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		47.7	0.1	0	2	8	2
Dollar index, (+) = \$ appreciation		97.2	0.0	0	-2	-9	-1
Brent Crude Oil (\$/barrel)		69.2	2.6	0	8	-9	14
VIX Index (% change in pp)		19.9	-0.4	2	4	5	5

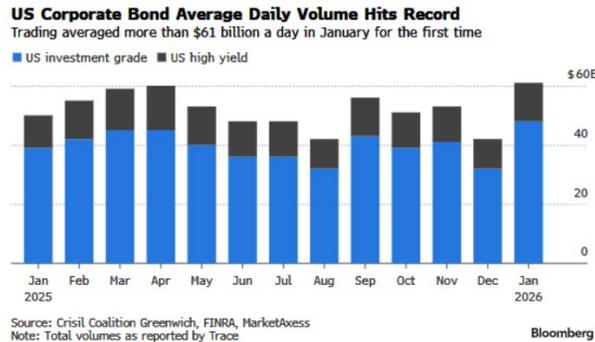
Colors denote **tightening/easing** financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

**Mature Markets**

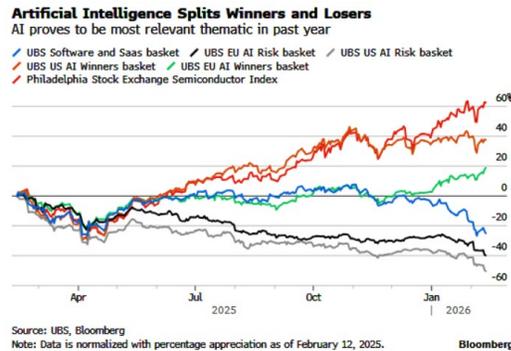
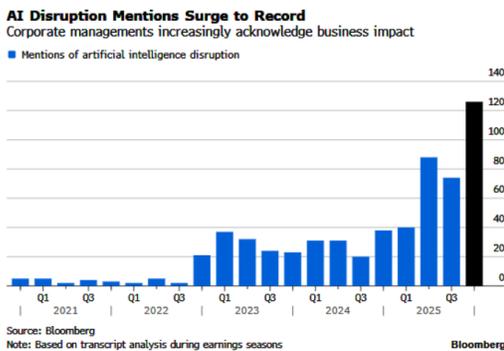
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**United States**

**Increased corporate bond supply has been met with relentless investor demand.** Investor appetite for US corporate bonds has become intense, with secondary trading markets registering record trading volumes, averaging over \$61 billion per day in January, up 11% from a year earlier. Heavy issuance has been fueled by AI-related borrowing from tech “hyperscalers” and a sharp increase in M&A activity, while trade automation is further boosting trading volumes. Strong secondary-market activity is supporting tight spreads, with investment-grade spreads near multi-decade lows and yields still attractive. However, the combination of robust supply, relentless demand, and looser covenants raises concerns about potential credit weakening, with early signs of dispersion already emerging, particularly in segments like business development companies, suggesting that in 2026 performance gaps across issuers may widen.



**AI disruption risks overwhelm strong earnings season.** This earning season has been strong, with S&P 500 profits up 12% year over year and almost 75% of reporting companies beating expectations. Nevertheless, investor attention has shifted decisively to risks posed by artificial intelligence (AI). Mentions of AI disruption on earnings calls have surged, and markets are reacting swiftly to any hint of vulnerability, as witnessed by CBRE Group Inc. falling sharply after beating expectations, due to a warning that AI could reduce long-term office demand. The rotation away from sectors perceived as vulnerable started a year ago, with software companies suffering losses, but recently broadened to include professional services and logistics companies, while favoring semiconductor and AI infrastructure companies. UBS baskets tracking AI “risk” stocks globally have dropped 40–50% over the past year, underscoring the strength of the bearish narrative. At the same time, hyperscalers continue ramping up capital spending on AI infrastructure, reinforcing a market dynamic in which AI is dividing corporate winners and losers even before its full earnings impact is visible.



**Europe**

**European equities are trading higher, extending their outperformance against US stocks.** The Stoxx 600 was around 0.9% higher in early morning trade led by gains in the basic resources and industrials sectors on the back of strong corporate earnings, with BAE systems gaining 6% after posting results.

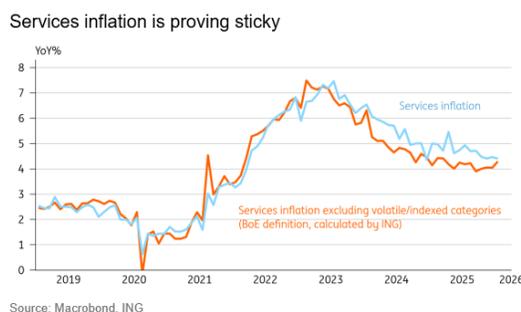
Regional bourses are also higher, with the banking sector index outperforming (+1.9%). Government bond yields were trading in narrow ranges while intra-EMU government bond spreads were marginally tighter, with the 10Y BTP-Bund spread at around 60bp and the 10Y OAT-Bund spread at around 58bp. Elsewhere the euro was fractionally weaker against a broadly stronger dollar to trade at 1.1835.

**Further steepening of long-end government bond curves may be challenged in the near-term.** Bank of America (BofA) analysts argue that steepening momentum in the 10s30s EUR curve appears to be stalling at the start of the year. The analysts note that ECB easing expectations, combined with concerns over a supply/demand imbalance particularly for longer-dated bonds drove much of the curve steepening in 2025. However, Dutch pension fund behavior surprised markets last month after PFZW, the second largest pension fund in the Netherlands said that it would hedge a larger share of interest rate risk for younger age members of its pension plan than markets had anticipated. Other near-term factors that BofA analysts believe will support some flattening of the 10s30s curve include lower supply and growing insurer inflows which should support demand for long-dated bonds. That said, the analysts expect the 10s30s curve to steepen to around 45bp by year-end. Meanwhile, Commerzbank analysts believe that lower structural demand for longer-dated government bonds, combined with lower demand for life insurance products, should support continued steepening of the 10s30s curve.



## United Kingdom

**UK headline inflation slowed in January, in line with expectations, but services inflation remains sticky.** Headline inflation printed at 3.0% y/y, in line with consensus expectations and down from 3.4% in the prior month. However, today's data was a touch above the Bank of England's (BoE) own projection which forecast headline inflation at 2.9% y/y for January. While money market pricing for BoE rate cuts was little changed, with two cuts priced by year-end, analysts at Deutsche Bank note that signs of still sticky services inflation may strengthen calls from more hawkish leaning MPC members to keep rates on hold at the upcoming March meeting. Services inflation declined to 4.4% y/y, above consensus projections of 4.3% and higher than the BoE's own forecast of 4.1%. HSBC analysts note that today's data presents a somewhat hawkish bias relative to the BoE's forecasts and a contrast to yesterday's soft labor market data. That said, the analysts note that if the BoE does not cut the Bank Rate in March, that would "deliver a hawkish surprise to the market". Gilt yields were marginally lower, outperforming European peers, while pound sterling was rangebound against the dollar.



## Japan

Since the LDP's super-majority victory on February 8, market participants have noted a perception of stability in Japan, with optimism around reduced fiscal slippage due to less need for political compromise. However, although the USD-JPY fell sharply (JPY appreciating vs the USD) following the results, supported by a softer USD, HSBC analysts note that there may still be headwinds for further appreciation of the JPY. This includes unknowns over how macro policies will play out amid what some market participants still believe is a "reflationist" policy bias by PM Takaichi. Although markets are broadly giving Takaichi the benefit of the doubt, especially heading into the US-Japan leaders' summit in DC in March, HSBC believes that a sustainable reduction in the JPY's risk premium will require further action. This includes additional BoJ rate hikes that bring shorter tenors of the real yield curve above zero, in addition to clear evidence of fiscal discipline by authorities, especially around how the government designs tax relief. Structural reforms that raise growth and tax revenues will also be necessary. FX intervention, meanwhile, can prompt traders to close short JPY positions and/or refrain from putting on fresh shorts, but it cannot resolve underlying issues. As of yesterday, OIS markets are pricing in about 50bp of cuts by the BoJ this year and the USDJPY is trading around 153. While HSBC analysts believe that the USDJPY will settle at a year-end forecast of around 155, their outlook is for choppy trading in the near-term, with the potential for upward pressure coming after the US-Japan summit.



Source: Bloomberg, HSBC

## Emerging Markets

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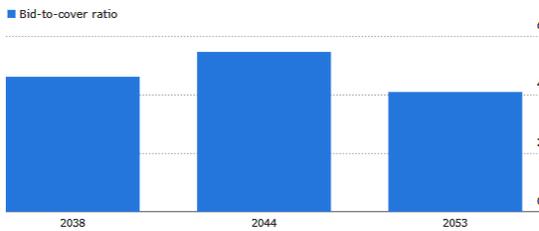
**EMEA risk assets posted broad gains this morning as global sentiment recovered from yesterday's AI rotation-scare.** Equities in South Africa (+2%), Hungary (+2%) and Türkiye (+1.8%) outperformed. The rand strengthened by 0.4% against the US dollar, while CEE currencies were marginally firmer versus the euro. Romania's National Bank kept its policy rate unchanged at 6.5%, in line with expectations. According to Bondradar, Kenya has mandated two US dollar-denominated bonds with 8-year and 13-year maturities, alongside a tender offer to buy back selected outstanding bonds; execution remains subject to market conditions. Last week, Kenya's Treasury Secretary signaled scope for further liability management operations, particularly targeting expensive syndicated loans. The Bank of Namibia held its policy rate at 6.5% today. **Latin American equities were little changed Tuesday**, with Mexico edging higher while Colombia and Chile slipped modestly. FX changes were similarly limited as the Mexican and Colombian pesos firmed slightly, while the Chilean peso softened. Brazil remained closed for a holiday. In Peru, Congress voted to remove the interim president, triggering political uncertainty ahead of the April presidential election. The MSCI Peru index fell 1.7% while the Peruvian sol appreciated slightly.

## South Africa

**Strong demand at rand-denominated bond auctions has come as markets anticipate a narrower FY2025–26 deficit ahead of next week's budget.** Barclays expects the deficit to decline to around 4.1% of GDP (from 4.7%), supported by revenue over-runs of about 20 billion rand and expenditure undershoots of 30–35 billion rand, reducing borrowing needs by roughly 40–45 billion rand, mainly via lower domestic issuance. Debt is seen peaking near 77.5% of GDP, though further transfers from the gold and foreign exchange reserve account appear unlikely due to recent rand strength. Bloomberg reports that weekly bond auction demand was nearly five times covered, with 14.2 billion rand in bids for 3 billion rand on offer. The 2044 bond drew 5.5 times coverage, and its yield fell two basis points to 8.54%, the lowest since 2015, reflecting improved fiscal sentiment ahead of the budget. Today, South Africa's January CPI came in at

3.5% y/y, slightly higher than the expected 3.4%; but Bloomberg considers the country’s “bond rally to be on track” despite the higher print, adding that “South African government bonds have returned 60% in dollar terms since April’s Liberation Day tumult.”

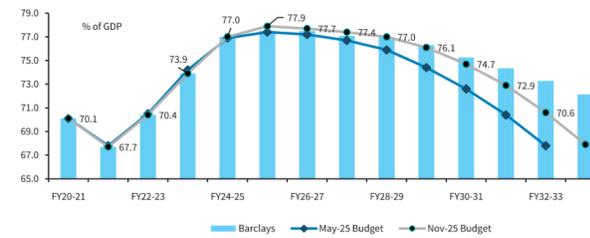
**Investors Snap Up 2044 Bonds at Weekly Debt Sale**



Source: Bloomberg  
Note: Results are from debt auction conducted on February 17, 2026.

Bloomberg

Figure 3. Debt will likely peak around 77.5% this year, below the government's 77.9% target

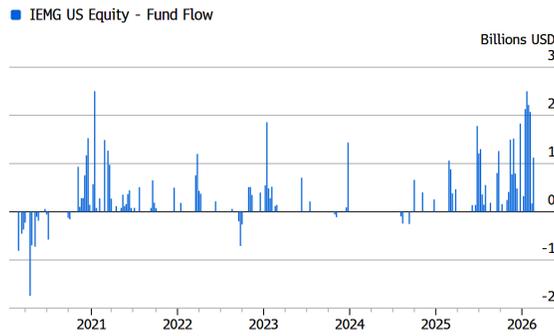


Source: National Treasury, Barclays Research

**Emerging Market ETF Flows**

**US-listed EM ETFs logged a 17<sup>th</sup> consecutive week of inflows**, with net flows rising to \$4.0 bn in the week ending Feb 14 from \$1.1 bn the prior week, according to Bloomberg data. The pickup was broad based, with every region posting inflows. Strong demand coincided with a 10.8% YTD gain in the MSCI EM index and a further shift in positioning as investors are now more overweight EM equities than at any time since early 2021, according to BofA’s Global Fund Manager Survey. Blackrock’s \$144bn iShares Core MSCI EM ETF led flows, and analysts expect momentum to continue, through at a more moderate pace.

**BlackRock EM ETF Continues to Rake In Cash**  
IEMG leads flows across emerging-market ETFs



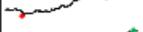
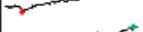
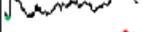
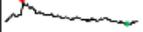
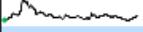
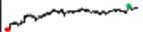
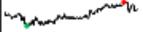
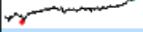
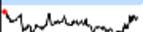
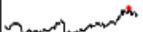
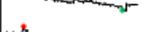
Source: Bloomberg

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## Global Financial Indicators

2/18/26 8:16 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		6,865	0.1	-1.1	-1.1	12.0	0
Europe		6,075	0.9	0.6	0.7	9.8	5
Japan		57,144	1.0	-0.9	6.6	45.9	14
China		4,660	-1.3	0.4	-0.9	17.4	1
Asia Ex Japan		103	-0.2	1.0	4.7	36.2	11
Emerging Markets		61	-0.4	0.6	5.2	36.2	11
<b>Interest Rates</b>			basis points				
US 10y Yield		4.1	0	-11	-16	-49	-11
Germany 10y Yield		2.7	1	-5	-9	25	-11
Japan 10y Yield		2.1	1	-9	-4	72	8
UK 10y Yield		4.4	-1	-11	-3	-19	-11
<b>Credit Spreads</b>			basis points				
US Investment Grade		112	-1	3	8	1	4
US High Yield		345	-2	15	31	40	9
<b>Exchange Rates</b>			%				
USD/Majors		97.2	0.0	0.4	-2.2	-9.2	-1
EUR/USD		1.18	-0.1	-0.2	1.7	13.4	1
USD/JPY		153.7	0.2	0.3	-2.8	1.1	-2
EM/USD		47.7	0.1	-0.1	1.9	7.6	2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		69.2	2.6	-0.4	9.0	-3.0	14
Industrials Metals (index)		166.5	1.3	-2.1	-1.5	12.7	2
Agriculture (index)		53.2	0.5	0.1	-0.8	-13.9	0
Gold (\$/ounce)		4958.6	1.7	-2.5	6.2	68.9	15
Bitcoin (\$/coin)		67559.0	-0.1	-1.9	-29.2	-28.9	-23
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		19.9	-0.4	2.1	4.1	4.6	5.0
Global FX Volatility		7.4	0.0	-0.3	0.8	-0.5	0.5
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		60	-1	0	9	-22	1
Italy		61	-1	0	-1	-45	-9
France		58	0	-1	-11	-14	-13
Spain		37	0	0	-1	-23	-6

Colors denote **tightening/easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations.  
Data source: Bloomberg.

### Emerging Market Financial Indicators

2/18/2026 8:17 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)					YTD	Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	1 Day	7 Days	30 Days	12 M	YTD	
	vs. USD		(+)= EM appreciation						% p.a.						
China		6.90	-0.1	0.4	1.1	5.5	1.2		1.9	0	-1	-7	14	-8	
Indonesia		16884	-0.3	-0.6	0.4	-3.6	-1.2		6.2	0	-6	10	-54	18	
India		91	0.0	0.0	0.3	-4.1	-0.9		7.2	-1	-8	-10	7	14	
Philippines		58	0.2	0.7	2.8	0.6	1.9		4.9	10	0	9	-26	17	
Thailand		31	0.2	-0.6	-0.1	7.7	0.8		2.0	1	-2	10	-40	23	
Malaysia		3.90	0.2	0.9	4.1	13.7	4.1		3.5	-3	-5	-3	-28	1	
Argentina		1399	0.0	0.4	2.5	-24.4	3.7		34.0	0	-74	94	637	164	
Brazil		5.23	0.0	-0.8	2.7	8.8	5.2		13.2	0	-5	-45	-150	-41	
Chile		864	0.3	-1.1	2.9	10.0	4.3		5.2	-2	-2	-5	-76	-14	
Colombia		3655	0.1	0.4	0.6	12.0	3.3		13.0	9	15	87	139	15	
Mexico		17.11	0.1	0.4	2.7	18.4	5.3		8.6	-2	0	-33	-127	-35	
Peru		3.3	0.1	0.4	0.4	10.5	0.5		5.8	0	-5	-20	-71	-2	
Uruguay		39	-0.3	-0.7	-1.2	11.2	0.7		7.2	0	-2	-12	-249	-30	
Hungary		319	-0.2	0.1	3.7	20.3	2.5		6.2	-1	-6	-25	-20	-29	
Poland		3.56	-0.1	-0.3	1.9	11.6	0.8		4.3	-3	-8	-18	-126	-28	
Romania		4.3	0.0	-0.3	1.7	10.8	0.8		6.2	-1	-7	-34	-110	-48	
Russia		76.6	0.1	0.7	1.3	19.6	2.9		8.2	-3	-7	-50	-247	-39	
South Africa		16.0	0.0	-0.9	2.3	14.9	3.4		29.8	2	-40	-21	96	22	
Türkiye		43.76	-0.1	-0.3	-1.1	-17.1	-1.8		3.63	1	-11	-18	-77	-9	
US (DXY; 5y UST)		97	0.0	0.4	-2.2	-9.2	-1.2								

	Equity Markets							Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)					YTD	Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	7 Days	30 Days	12 M	YTD		
	basis points														
China		4,660	0.0	0.4	-0.9	17.4	0.7		103	0	31	9	28		
Indonesia		8,310	1.2	3.5	-9.0	22.3	-3.9		106	3	17	10	20		
India		83,734	0.3	-0.6	0.6	10.3	-1.7		84	-3	-5	-7	-6		
Philippines		6,395	0.4	-1.2	-0.7	4.5	5.6		85	-1	10	-5	10		
Thailand		1,467	0.5	3.9	14.3	16.2	16.4								
Malaysia		1,741	0.0	-0.6	1.7	10.1	3.6		60	1	0	-9	1		
Argentina		2,816,128	-1.3	-5.4	-4.0	17.7	-7.7		519	5	-52	-157	-50		
Brazil		186,464	-0.7	0.1	13.1	45.1	15.7		202	1	5	-15	-1		
Chile		10,936	-0.2	-2.5	-2.0	49.8	4.3		95	1	3	-25	4		
Colombia		2,362	0.0	-0.6	0.7	49.8	14.2		263	3	3	-50	-14		
Mexico		71,156	-0.3	-0.2	6.0	30.6	10.6		213	3	-5	-83	-4		
Peru		3,226	-2.1	-5.1	4.4	82.6	24.9		113	3	6	-26	4		
Hungary		127,553	2.1	-1.5	4.3	43.8	14.9		129	-1	-6	-20	-10		
Poland		124,540	0.8	-1.5	2.3	31.6	6.2		93	5	5	-17	2		
Romania		28,754	0.6	3.8	5.0	61.9	17.7		163	4	-11	-74	-13		
South Africa		121,188	1.5	-0.5	0.8	36.1	4.6		229	0	2	-69	11		
Türkiye		14,294	0.5	3.7	12.8	44.1	26.9		246	4	3	-12	12		
EM total		61	0.3	0.6	5.2	36.2	11.3		261	-3	-1	-98	-11		

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

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