

Indices weighed as financials lag on private credit concerns

- **SNAPSHOT:** Equities down, Treasuries flat, Crude up, Dollar up, Gold up.
- **REAR VIEW:** Relative "hawkish" remarks from Miran; Trump says good talks being held with Iran but if no deal is made, bad things will happen; Initial Claims drop more than expected, Continuing Claims rise more than anticipated; US trade deficit widens more than forecasted; EIA crude stocks show unexpected draw; US Pending Home Sales unexpectedly drop; Australian u/e rate holds despite forecasts for an uptick; Trump admin reportedly indicates that USMCA could be scrapped; WMT beats on earnings but profit outlook misses.
- **COMING UP: Holiday:** Chinese Spring Festival Golden Week (17-24 Feb). **Data:** ECB EZ Indicator of Negotiated Wages; UK Retail Sales (Jan), PSNB (Jan), German PPI (Jan), Global Flash PMIs (Feb), Canadian Retail Sales (Jan), US PCE/GDP (Dec/Q4). **Speakers:** ECB's Lagarde; Fed's Logan, Bostic. **Supply:** Australia. **Earnings:** Air Liquide, Danone, Anglo American

MARKET WRAP

US indices were lower, as were the majority of sectors, with Financials the laggard and not helped after Blue Owl halted redemptions at its private credit fund, which sparked fresh selling in other private equity names like Blackstone, Apollo, and KKR. Data from the US came via jobless claims shy of expectations, but continued above, Philly Fed strong on the headline, accompanied by mixed internals, a deeper trader deficit than expected, and pending home sales surprisingly falling M/M. Despite the raft of data, little movement was seen. Energy sat atop the sectorial breakdown and once again buoyed by gains in the crude complex amid heightened US/Iran tensions and fears of a US strike, as Trump said, "We had good talks with Iran", but added, "bad things will happen to Iran if no deal is made", which added to the energy gains. The Dollar saw slight gains, with Antipodeans the G10 gainers, as the Aussie was supported by steady unemployment. CHF, GBP, and Yen all noticed similar losses, while pressure was seen in the CAD and MXN amid NY Times reports that Trump and his advisors have reportedly indicated that the USMCA could be scrapped, and instead the US could have bilateral deals with Canada and Mexico. T-Notes saw two-way trade after a drop in jobless claims and mixed geopolitical messaging, while private credit concerns reignited after Blue Owl halts redemptions from the retail credit fund. In addition, the only Fed speaker was ultra-dove Miran, but he gave some hawkish remarks, relative to his usual tone, as he now sees a less accommodative rate path, and he would reverse his December shift toward easier policy if he is still at the Fed by the March meeting, citing firmer labour data and renewed goods inflation. Miran suggested that if he had to submit a rate projection for 2026 on current data, he would pencil in 100bps in cuts this year, instead of the 150bps he submitted at the December forecast round. Note, still much more than the Fed median SEP of 25bps of cuts this year. Ahead, December PCE is on Friday, along with GDP (Q4) Adv, final UoM (Feb), S&P Global Flash PMIs (Feb), and new home sales.

US

FED's MIRAN (voter, dove): The governor gave some "hawkish" remarks, given his normal ultra-dove speech, but the comments are still dovish in the grand scheme of the Fed. The Governor noted he now sees a less accommodative rate path, and that he would reverse his December shift toward easier policy if he is still at the Fed by the March meeting, citing firmer labour data and renewed goods inflation. Miran also suggested that if he had to submit a rate projection for 2026 on current data, he would pencil in 100bps in cuts this year, instead of the 150bps he submitted at the December forecast confab.

BALANCE OF TRADE: The US Balance of Trade in December saw the deficit widen to USD 70.3bln from 53bln, wider than the 55.5bln deficit expected. Imports rose to USD 357.6bln from 348.9bln, while exports fell to USD 287.3bln from 292.3bln. Looking at the breakdown behind the rise in imports: Industrial supplies and materials rose USD 7.0bln, Capital goods increased USD 5.6bln, while Consumer Goods decreased USD 3.5bln. Imports of services rose by USD 2.0bln to 77.4bln in December. Regarding trade with countries, the US was in a surplus with the Netherlands, South and Central America, the UK, Hong Kong, Brazil, Singapore, Saudi Arabia, Australia, and Switzerland. While it was in a deficit with Taiwan, Vietnam, Mexico, China, the EU, Germany, South Korea, Japan, India, Canada, Malaysia, Italy, France, Ireland and Israel. Oxford Economics highlight that the report suggests net trade will only contribute 0.1ppts to Q4 GDP growth, which adds slight downside risk to their baseline forecast, but notes this will likely be offset by increases in business equipment spending. OxEco also writes that "Depreciation in the dollar may support exports in the near term, by making US goods relatively cheaper in foreign markets. This adds upside risk to our forecast for export growth and increases the odds that net trade makes a positive contribution to GDP growth."

JOBLESS CLAIMS: Initial Jobless Claims fell to 206k from an upwardly revised 229k, below the 223k analyst forecast. Continued Claims rose to 1.869mln from 1.852mln, above the 1.86mln forecast. Regarding the initial claims, the four-week average fell by 1k to 219k. The unadjusted data totalled 208, falling 42.5k W/W, while seasonal factors had expected a 19.7k decrease. The unadjusted continued claims data rose 4.9k to 2.207mln, while seasonal factors expected a 15k decrease. The reversal in initial claims is a welcome sign and continues to show the labour market is not deteriorating quickly, and the recent softness is stabilising. However, it is just one week of data, and it should be judged by a trend. The January FOMC Minutes saw that several said contacts remained cautious on hiring amid outlook and AI uncertainty, but the vast majority highlighted signs of stabilisation and diminished downside labour risks. Meanwhile, Pantheon Macroeconomics highlight that "Fundamentally, the rate of layoffs remains low and the Challenger and WARN leading indicators suggest that they will remain little changed this spring. But equally, we see little to suggest that the trend in hiring is improving".

PENDING HOME SALES: Pending home sales unexpectedly declined 0.8% M/M in January, against December's 7.4% plunge, and also fell way short of the expected 1.3% rise. Geographically, M/M pending home sales rose in the Midwest and West, but declined in the Northeast and South. NAR Chief Economist Dr. Lawrence Yun said, "Improving affordability conditions have yet to induce more buying activity", and further added that "Unless housing supply increases, these additional potential buyers becoming active in the market could simply push up home prices." As a result, Yun added that this will put increasing pressure on affordability, which is why it is critical to increase supply by building more homes.

PHILLY FED: Philly Fed Manufacturing Index rose to 16.3 in February from 12.6, above the expected 8.5 and also surpassing the top end of the forecast range. Looking at the internals, business conditions jumped to 42.8 from 25.5, although employment tumbled to -1.3 from +9.7, its first negative print since June. Prices paid and received encouragingly dipped to 38.9 (prev. 46.9) and 16.7 (prev. 27.7), respectively, while new orders came in at 11.7 from 14.4. Capex printed 14.4 (prev. 30.3), while shipments fell 9 points to 0.3. Ahead, growth expectations are more widespread as the diffusion index for future general activity increased to 42.8 from 25.5, while the future new orders index rose to 54.1, its highest reading since November '24, and future shipments increased to 47.4. Both future price indexes declined but remained elevated.

FIXED INCOME

T-NOTE FUTURES (H6) SETTLED HALF A TICK HIGHER AT 112-31

T-notes see two-way trade after a drop in jobless claims and mixed geopolitical messaging, while private credit concerns reignite after Blue Owl halts redemptions from retail credit fund. At settlement, 2-year +0.8bps at 3.468%, 3-year +0.4bps at 3.497%, 5-year -0.2bps at 3.645%, 7-year -0.4bps at 3.843%, 10-year -0.6bps at 4.075%, 20-year -0.5bps at 4.653%, 30-year -0.2bps at 4.705%.

THE DAY: T-notes were ultimately flat with early downside paring into settlement. The weakness from Wednesday spilled over into Thursday with gradual downside seen overnight and in the European morning. There was some pressure seen in response to the US data, namely the drop in initial jobless claims, albeit the move then pared with T-notes ultimately returning to roughly unchanged. Upside accelerated after a choppy US equity open, while financials were sold after Blue Owl halted redemptions at its private credit fund, which sparked fresh selling in other private equity names like Blackstone, Apollo, and KKR, all hit. Meanwhile, geopolitics was also in focus with Trump noting that good talks are being held with Iran, but they need to make a meaningful deal or else "something bad will happen". Trump said we will find out about an Iranian deal in about 10 days. Ahead of settlement, an interview with Fed's Miran got widespread attention, where the uber dove now sees a less accommodative rate path amid stubborn goods inflation and employment holding up better than expected. The Governor suggests he would now pencil in 100bps in cuts this year (prev. 150bps in Dec). The remarks sparked a short-lived marginal move higher in short-end yields. Attention now turns to the PCE and GDP data due Friday, as well as the Flash PMI report, New Home Sales and the final UoM survey for February. The Supreme Court is also set to be issuing opinions, with participants keenly awaiting any potential decisions on Trump's IEEPA tariffs, but this is yet to be confirmed.

SUPPLY

Bills

- US sold 17-wk bills at a high rate 3.595%, B/C 3.15x
- US to sell USD 95bln of 8-week bills and USD 105bln of 4-week bills on February 19th; all to settle on February 24th

Notes

- US to sell USD 69bln of 2-year notes on February 24th, USD 70bln of 5-year notes on February 25th and USD 44bln of 7-year notes on February 26th; all to settle March 2nd
- US to sell USD 28bln of 2-year FRN's on February 25th; to settle February 27th

TIPS

- US Treasury sold USD 9bln in 30-year TIPS at a high yield of 2.473%.
- Overall, a strong 30-year TIPS auction. The US Treasury sold USD 9bln of 30-year TIPS at a high yield of 2.473%, stopping through the When Issued by 1.7bps. The stop through is not as large as the prior 2.3bps, but still a solid sign of demand. Meanwhile, indirect demand jumped to 78.3% from 70.4%, above the 75.2% average. However, direct demand dropped to 19.2% from 25.1%, but remained above recent averages. This left dealers with just 2.5% of the auction, a better sign of demand when compared to the prior 4.5% and six-auction average of 7.0%.

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: March 0bps (prev. 0bps), April 4.2bps (prev. 4.2bps), June 15.8bps (prev. 18.1bps), December 56.2bps (prev. 56.6bps).**
- SOFR at 3.73% (prev. 3.71%), volumes at USD 3.258tln (prev. USD 3.254tln) on February 18th
- EFR at 3.64% (prev. 3.64%), volumes at USD 104bln (prev. USD 97bln) on February 18th
- NY Fed RRP op demand at USD 0.63bln (prev. 0.86bln) across 5 counterparties (prev. 10)

CRUDE

WTI (J6) SETTLED USD 1.24 HIGHER AT 66.43/BBL; BRENT (J6) SETTLED USD 1.31 AT 71.66/BBL

The crude complex was firmer on Thursday, as US/Iran tensions continue to dominate price action with fears of a US strike. WTI and Brent saw gains through the APAC session and the European morning as traders continued to digest Wednesday's Axios source

reports that the Trump admin is closer to a major war with Iran than people realise. Back to Thursday, benchmarks continued to grind higher as US players entered, although a bout of downside was seen as Trump said, "We had good talks with Iran", however, this soon reversed as he added, "bad things will happen to Iran if no deal is made". The President later reiterated these remarks to reporters by noting, "will get a deal on Iran one way or the other; really bad things will happen if no Iran deal". As such, participants await any breakthrough in talks or the potential repercussions. For the record, there is no update regarding US/Ukraine/Russia. In the weekly EIA metrics, crude saw an unexpected draw, while distillates and gasoline saw much larger than anticipated draws. Overall, crude production rose 1.4% W/W to 13.74mIn. Outside of geopolitics, the IEA Director highlighted significant supply in markets with expectations of an oil surplus due to supply from the Americas. WTI traded between USD 64.77-66.78/bbl and Brent USD 70.19-72.01/bbl.

EQUITIES

CLOSES: SPX -0.28% at 6,862, NDX -0.41% at 24,797, DJI -0.54% at 49,395, RUT +0.24% at 2,665

SECTORS: Financials -0.86%, Consumer Discretionary -0.53%, Technology -0.53%, Consumer Staples -0.38%, Real Estate -0.33%, Health -0.28%, Materials -0.21%, Communication Services -0.04%, Energy +0.64%, Industrials +0.77%, Utilities +1.13%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.80% at 6,054, Dax 40 -1.03% at 25,018, FTSE 100 -0.55% at 10,627, CAC 40 -0.36% at 8,399, FTSE MIB -1.22% at 45,794, IBEX 35 -0.99% at 18,018, PSI -0.52% at 9,095, SMI -0.03% at 13,807, AEX -0.28% at 1,008

STOCK SPECIFICS:

- **DoorDash (DASH):** Despite EPS, rev. light w/ outlook below exp., as investors appeared reassured by strong order growth & mgmts. confidence in investment strategy.
- **eBay (EBAY):** Top & bottom-line beat, issued strong next Q guidance & announced \$1.2bn acquisition of Depop from ETSY.
- **Deere & Company (DE):** EPS, rev. surpassed exp. & raised FY net income
- **Occidental Petroleum (OXY):** EPS beat & outlined cost savings, lower capital spending & improved FCF targets for '26
- **Chewy (CHWY):** Upgraded at Raymond James to 'Outperform' from 'Market Perform'
- **Dell (DELL):** Has been added to 'Tactical Outperform List' at Evercore
- **Walmart (WMT):** EPS, rev. beat, announces new \$30bn share buyback & raises annual div. 5%; Weak next Q & FY profit outlook
- **Molson Coors (TAP):** Issued weaker-than-exp. outlook, warning of significant commodity inflation headwinds & forecasting a decline in earnings
- **Carvana (CVNA):** Adj. EBITDA light, driven by soft margins.
- **Netflix (NFLX)** reportedly has ample room to boost its offer for Warner Bros (WBD) in the bidding war, according to reports.
- Financials were weighed as Blue Owl's opportunistic asset sale came amid a move to suspend regular quarterly redemptions at Blue Owl Capital Corp II (a BDC) signalling tighter liquidity conditions in private credit; KKR (KKR), Blackstone (BX), Apollo (APO), and many others were weighed.

FX

The Dollar was generally firmer on Thursday, likely buoyed by tensions in the Middle East with a mixed jobless claims report and relative hawkish remarks from Fed Governor Miran not moving the needle too much. Despite saying that, saw a slight move post-Miran remarks, but it quickly pared. In the morning, the claims report was mixed with initial claims dropping more than expected while continuing claims came in above forecasts. As newswires picked up on a Miran interview, the uber dove has calmed down his rate cut bets (still a serious dove seeing 100bps of cuts this year vs Fed median of 25bps), now seeing a less accommodative rate path than before. This likely came as a surprise to markets; however, FOMC Minutes on Wednesday highlighted that several participants want to see more progress on disinflation before resuming rate cuts. A flight to quality may have also helped USD, arising from concerns that Blue Owl Capital's BDC asset sale reportedly came amid a suspension of regular quarterly redemptions, signalling tighter liquidity conditions in private credit.

Antipodes outperformed, with AUD supported by an unemployment rate that held steady at 4.1% despite expectations for an uptick to 4.2%. This offset concerns over a slightly underwhelming job growth figure of +17.8k in January (exp. 20k). AUD/USD and NZD/USD were modestly firmer at ~0.7052 and ~0.5970, respectively.

CAD & MXN were in focus following a NY Times report that Trump and his advisers have indicated that the USMCA could be scrapped, wanting separate bilateral deals with Canada and Mexico. This comes as no surprise, given recent remarks from US and Canada officials suggest a continuation of the current agreement is unlikely. CAD and MXN weakened against USD at the time, holding throughout the session.

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