

### Risk-off trade as AI disruption fears mount while Trump hikes tariffs

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar mixed, Gold up
- **REAR VIEW:** Research firm raises AI disruption fears; Trump raises Section 122 tariffs to 15% from 10%, threatens even higher tariffs; EU Parliament agrees to postpone vote on EU-US trade deal; Fed's Waller says March decision is a coin toss; Witkoff and Kushner to meet Iran on Thursday; Pentagon pushing Trump for diplomatic approach; US's Rubio weekend visit to Israel postponed to Monday; Hungary said it will block EU Ukraine decisions until the Druzhba pipeline flow resumes; Novo Nordisk CargriSema trial disappoints; PYPL reportedly attracts takeover interest.
- **COMING UP: Data:** US ADP Weekly, House Prices (Dec), Consumer Confidence (Feb), Dallas/Richmond Fed (Feb), Atlanta Fed GDP. **Events:** PBoC LPR; NBH Policy Announcement. **Speakers:** BoE's Lombardelli, Bailey, Greene, Taylor, Pill; Fed's Goolsbee, Collins, Bostic, Waller, Cook, Barkin; ECB's Lagarde. **Supply:** Australia, UK, Italy, US. **Earnings:** Home Depot, Standard Chartered, Keurig Dr Pepper.
- **WEEK AHEAD:** Highlights include NVDA earnings, Australian CPI, Tokyo CPI, PBoC LPR, and BoK. [Click here for the full report.](#)
- **CENTRAL BANK WEEKLY:** Previewing PBoC LPR, BoK; Reviewing RBNZ, FOMC Minutes, RBA Minutes, reports on the ECB President Job. [Click here for the full report.](#)
- **WEEKLY US EARNINGS ESTIMATES:** Tech behemoth NVDA is the highlight. [Click here for the full report.](#)

### MARKET WRAP

It was a risk-off session on Monday with equities sliding on fears of further AI disruption, while US President Trump hiked tariffs. The AI fears seemingly sparked from a research piece from Citrini Research exploring severe downside risks if AI exceeds expectations. This is not the firm's base-case scenario, but it highlighted how unemployment could spike to 10% with the SPX down 38% from late-2026 peaks (which it pencilled in at 8,000) with a recession in 2027. It largely highlighted payments, software and private credit stocks as highly exposed to such a scenario. All of which sectors tumbled on Monday, while IBM also took a chunky hit as Anthropic announced that Claude can now automate COBOL modernisation efforts - further adding to the AI disruption fears. Meanwhile, on trade, Trump lifted his Section 122 tariffs to 15% from 10% over the weekend. Nations like Mexico announced they will now be paying less tariffs on non-USMCA-compliant goods, while the EU has frozen trade talks with the US and is not seeking to alter the pre-existing deal at this stage. Trump has warned that those who decide to play games will be met with a higher tariff than what they recently agreed to. The risk-off sentiment around AI disruption and also the lifting of tariffs saw T-notes catch a bid throughout the US session to settle around peaks, with eyes turning to supply in a data-light week. However, several central bank speakers are on the docket for Tuesday. Waller spoke today, noting it is almost a coin toss for a cut or a hold in March. In FX, the Dollar was mixed vs peers while activity currencies lagged in the risk-off trade. Crude prices ultimately settled slightly lower while eyes turn to the US/Iran talks on Thursday. On this, reports suggest the Pentagon has been pushing Trump to go for a diplomatic resolution, warning about the risks of striking Iran. Trump has apparently been leaning towards strikes, but has agreed to give Witkoff and Kushner more time to negotiate for diplomacy. Gold and Silver rallied on the risk conditions, while Bitcoin slumped.

### US

**FED'S WALLER (voter):** The Governor said he would support a 25bps reduction in March if January labour strength is revised away or evaporates, but may be appropriate to hold if downside labour market risks have diminished. On the March meeting, he views the two possible outcomes as close to a coin flip and details that he will need to see the February report due March 6 before forming any judgment on a labour rebound. Following the SCOTUS decision to strike down Trump's IEEPA tariffs on Friday, Waller said it may have a positive impact on spending and investment, will look through tariffs if they come down, and added that the ruling is unlikely to have a significant impact on his view of the appropriate policy stance. Ahead, he estimates Jan PCE inflation of ~2.8% over the next 12 months, with core at ~3%, but believes underlying inflation without tariff effects is close to 2%. Waller expects real GDP to grow above 2% over the next six months after smoothing shutdown effects. He noted that there are reasons, including AI, to think the hiring may remain weak, and said a weak labour market is likely to continue going forward.

### FIXED INCOME

#### T-NOTE FUTURES (H6) SETTLE 14 TICKS HIGHER AT 113-12

**T-notes catch bid as Trump hikes tariffs and as sentiment takes a hit on further AI disruption worries.** At settlement, 2-year -4.2bps at 3.438%, 3-year -5.7bps at 3.444%, 5-year -6.9bps at 3.579%, 7-year -6.8bps at 3.780%, 10-year -6.0bps at 4.025%, 20-year -4.1bps at 4.632%, 30-year -3.1bps at 4.694%.

**THE DAY:** T-notes rose on Monday paring some of the post IEEPA downside with US President Trump upping his Section 122 tariffs to 15% from 10%, bolstering expected government revenues. The upside had started overnight before meandering throughout the European session, but upside really picked up during the US session. There was no tier 1 data to digest but a lot of focus was on further AI disruption which heavily hit sentiment and supporting T-notes through haven demand. T-notes went on to hit a high of 113-14 from the overnight lows of 112-27+. Fed speak saw Governor Waller speak at NABE, where the dovish dissenter said the decision for March is close to a coin flip between a cut and a hold. He is largely data dependent, noting if labour market data for

February is consistent with stronger job creation and low unemployment, it may be appropriate to hold, but if the good labour market news in January is revised away, or evaporates in February, he would support a 25bps cut in March. He stressed the decision hinges on the February labour and inflation data.

## SUPPLY

### Bills

- US sells 3-month bills at high rate 3.590, B/C 3.30x; sells USD 6-month bills at 3.525%, B/C 3.03x
- US to sell USD 90bln of 6-week bills on February 24th; all to settle February 26th

### 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

## STIRS/OPERATIONS

- Market Implied Fed Rate Cut Pricing: March 0bps (prev. 0bps), April 3.2bps (prev. 3.2bps), June 13.6bps (prev. 12.5bps), December 57.3bps (prev. 53.9bps).
- SOFR at 3.66% (prev. 3.67%), volumes at USD 3.224tln (prev. USD 3.238tln) on February 20th
- EFR at 3.64% (prev. 3.64%), volumes at USD 101bln (prev. USD 100bln) on February 20th
- NY Fed RRP op demand at USD 0.88bln (prev. 0.5bln), across 7 counterparties (prev. 4) on February 23rd

## CRUDE

**WTI (J6) SETTLES USD 0.17 LOWER AT 66.31/BBL; BRENT (J6) SETTLES USD 0.27 LOWER AT 71.49/BBL**

The crude complex started the week with losses, albeit in a choppy session, as participants continue to digest geopolitical relations. The latest update on US and Iran is that the Pentagon's General Caine (Joint Chief Chairman) is raising concerns to Trump about an extended military campaign against Iran, advising that war plans being considered carry risks including US and Allied casualties, depleted air defenses and an overtaxed force. Trump is said to have been leaning towards launching a strike for several days, but agreed to give Witkoff and Kushner more time for negotiations. In terms of meetings, US Secretary of State Rubio postponed his Saturday visit to Israel, now scheduled for next Monday, while Witkoff and Kushner are to meet with Iran in Geneva on Thursday. Elsewhere, newsflow was sparse on Monday in a week with a lack of tier 1 US data, as traders await any geopolitical developments, Fed speak, and/or Nvidia earnings on Wednesday. For the record, WTI traded between USD 65.38-67.28/bbl and Brent USD 70.28-72.04/bbl.

## EQUITIES

**CLOSES:** SPX -1.04% at 6,838, NDX -1.21% at 24,709, DJI -1.66% at 48,804, RUT -1.61% at 2621

**SECTORS:** Materials +2.04%, Health +1.96%, Industrials +1.38%, Consumer Discretionary +0.94%, Technology +0.66%, Real Estate +0.62%, Utilities +0.49%, Financials +0.45%, Consumer Staples +0.13%, Communication Services -0.49%, Energy -2.81%

**EUROPEAN CLOSES:** Euro Stoxx 50 -0.24% at 6,117, Dax 40 -1.09% at 24,987, FTSE 100 -0.02% at 10,685, CAC 40 -0.22% at 8,497, FTSE MIB +0.49% at 46,699, IBEX 35 +0.57% at 18,290, PSI +1.71% at 9,246, SMI +0.21% at 13,866, AEX -0.12% at 1,016

### STOCK SPECIFICS:

- **Alphabet (GOOGL)** upgraded at Wells Fargo to 'Overweight' from 'Equal Weight'
- **Arcellx (ACLX)** to be acquired by GILD for \$7.8bln or \$115/shr; note, ACLX closed Fri. at 64.11.
- **Domino's Pizza (DPZ):** Rev. beat w/ 15% increase in Q div.
- **General Mills (GIS)** downgraded at BofA to 'Neutral' from 'Buy'
- **Getty Images (GETY)** and Shutterstock (SSTK) received unconditional US antitrust clearance from the DoJ for their merger.
- **Novo Nordisk's (NVO)** CagriSema 2.4 did not meet the primary endpoint of showing non-inferiority on weight loss vs. Eli Lilly's (LLY) tirzepatide 15mg at 84 weeks
- **Nvidia (NVDA)** laptop chips are set to launch this year in products from Dell (DELL) & Lenovo (LNVGY).
- US President Trump said **Netflix (NFLX)** should fire Susan Rice "immediately" or "pay the consequences".
- **V.F. Corp (VFC)** downgraded at JPM to 'Underweight' from 'Neutral'
- **Veris Residential (VRE)** to be acquired by Affinius for \$3.4bln or \$19/shr; note, VRE closed Fri. at 16.77.
- **Abbott (ABT)** reportedly seeks USD 20bln in US bond sales for Exact Science (EXAS) deal, Bloomberg News.
- **PayPal (PYPL)** said to attract takeover interest after share slump; filed bank meetings amid unsolicited interest; suitors show early interest for all, part of the company. PayPal interest is preliminary and may not lead to any deals.
- **IBM (IBM)** hit on update from Anthropic that says Claude code can now automate COBOL modernization efforts.

## FX

The **Dollar Index** was more or less flat to start the week, and mixed against G10 peers, as participants digested the latest tariff updates and comments from Fed Governor Waller. On the former, Trump raised the blanket tariff rate to 15% from 10% over the weekend, and later added that any country that wants to "play games" with the SCOTUS decision, especially those who ripped off the US, will be met with a much higher tariff, and worse, than what they recently agreed to. On Fed speak, Waller sees the March

FOMC decision as a “coin-flip” and noted it will all depend on the February jobs and inflation data. Overall, headline newsflow was rather light to start the week ahead of a plethora of Fed speakers on Tuesday, Nvidia earnings on Wednesday, and the ever present focus on geopolitical tensions, tariff updates and AI.

**JPY** was the G10 gainer, and seemingly buoyed by the risk-off sentiment that was seen throughout the session as AI concerns once again reared their ugly head, weighing on software names and IBM, with the latter hit on a separate update. **GBP, EUR, and CHF** all saw slight strength vs. the Greenback. Out of Europe, German Ifo was better than expected. In the tariff space, European MP Lange said they have decided to postpone the vote on a US trade deal, which was set for Tuesday and intend to vote eventually, but they need clarity first. That followed earlier reports that the EU is set to freeze trade deal approval over US President Trump's tariff risk. ECB President Lagarde remarked that inflation and policy are in a good place; ECB will decide policy meeting-by-meeting, must remain agile, and completing the term is her baseline. For the Pound, BoE's Taylor said they are 2-3 cuts away from neutral.

**Antipodeans and the Loonie** underperformed and weakened vs. the Dollar as risk sentiment weighed, as opposed to any currency-specific developments. On the Aussie, SocGen quips that a very large (and growing) net AUD long position makes January CPI data important, which is due early Wednesday morning GMT. The market expects a steady trimmed mean rate at 3.3% Y/Y, with eyes on RBA Governor Bullock speaking at a ‘Fireside Chat’ later that morning (UK time).

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