Richard Rose Wealth Management February 17, 2026

WEEKLY COMMENTARY **Richard Rose AIF®**

Good morning,

What's in this week's Report:

- How AI Turned Into a Market Headwind
- Updated Market Outlook: Three "AI Problems" to Monitor
- Weekly Economic Cheat Sheet – The First February Data Is In Focus

Stock futures are lower, with tech leading amid ongoing AI-related worries, while bond yields are falling amid global growth concerns.

Economically, U.K. Unemployment rose to a 5-year high of 5.2% vs. (E) 5.1% while German CPI held steady at 2.1%.

Looking ahead to today's session, economic data will be in focus early, with the Empire State Manufacturing Index (E: 10.0) and the latest Housing Market Index (E: 38) both due for release.

In the afternoon, two Fed officials are scheduled to speak: Barr (12:45 p.m. ET) and Daly (2:30 p.m. ET), and a 52-Week Treasury Bill auction is at 1:00 p.m. ET. The auction results could offer fresh insight into the market's outlook for Fed policy between now and year-end and, in turn, could move markets (stocks and bonds) this afternoon.

Finally, earnings season continues this week with Q4 results due from ET ($0.34), MDT ($1.33), LDOS ($2.57), and PANW ($0.49).

Market	Level	Change	% Change
S&P 500 Futures	6,813.25	-37.25	-0.54%
U.S. Dollar (DXY)	97.29	0.20	0.21%
Gold	4,937.70	-108.60	-2.15%
WTI	63.27	0.52	0.83%
10 Year	4.028%	-0.024	-0.59%

Stocks

Last Week (Needed Context as We Start a New Week)

Stocks remained volatile last week amid mixed signals from the latest economic data, while "AI disruption" angst spread to non-tech sectors. The S&P 500 fell 1.35% on the week.

Equity markets began last week with a flat open on Monday as traders weighed Japan's LDP Party's landslide political victory, which bolstered stimulus expectations. Stocks began to drift higher midmorning before the NY Fed's Survey of Consumer Expectations revealed a significant and favorable drop in inflation expectations, sparking risk-on money flows. The S&P 500 added 0.47%.

On Tuesday, the delayed December Retail Sales report came in weaker than expected, adding to dovish bond flows that initially supported equities. However, "AI disruption" concerns prompted a wave of rotational capital flows, with "old economy" stocks outperforming while big tech traded lower, dragging the S&P 500 down 0.33%.

Wednesday contained the big economic release of the week via the December jobs report, and it was better than expected and reinforced the current Goldilocks economy. However, it failed to spur a rally, and the S&P 500 finished the day little changed.

Volatility picked up in earnest on Thursday, with the selloff in big tech intensifying amid soft margin guidance from legacy tech CSCO, which cited "surging chip prices" as a critical negative influence on its outlook. That corporate news, paired with jobless claims and existing home sales reports that both missed estimates, weighed heavily on the market, and the S&P 500 ended near its lows, down 1.57%.

Stocks fell to their lows of the week shortly after the open on Friday despite solid earnings from semiconductor manufacturer AMAT and a favorable January dip in both headline and Core CPI figures released ahead of the open. The market steadied quickly as dip buyers stepped in to defend 6,800 in the S&P 500, but the bid was tentative, and the rally lost momentum into the afternoon, leaving the index to close up just 0.05%.

How AI Turned into a Market Headwind

The biggest "event" of 2026 so far has been the fact that AI market-related news has transitioned from being a consistent positive for stocks to suddenly becoming a direct headwind, as concerns about the ROI of AI spending by major tech firms and potential AI disruption of various sectors pressured stocks last week (and really since November).

Given the focus on AI and the recent market volatility, I want to take some time to tell the "story" of what's happening with AI in plain English—because I know investors I talk to want to know what's happening. I believe this story will help 1) explain why tech is weak, 2) explain why the market is volatile, and 3) what's next for AI.

Before I explain what's changed, however, I have to establish important context. For the past three years (even since the AI bull market started), investors have viewed AI as universally positive for stocks, specifically that AI was going to 1) boost productivity and 2) increase corporate profits and be positive for corporate earnings (for all companies). That's why the simple mention of any AI build-out/integration was a positive catalyst for virtually any stock in the market since 2023.

Additionally (and importantly), investors had the view that no amount of money spent on AI was "too much" because it was all viewed as money that would grow earnings. So, the more a company spent to build out AI, the more they would grow and the faster the stock would appreciate!

The peak of this thinking came in September of last year, highlighted by a 30% daily rally in Oracle (ORCL) after it reported a significant backlog of orders. However, in October (and immediately after the ORCL results), sentiment toward AI began to shift.

Problem 1: What if OpenAI Doesn't Actually Spend All This Money?

After further review, the ORCL backlog was almost totally attributable to one company: OpenAI. OpenAI, which created ChatGPT, has committed to spending more than $1 trillion on AI infrastructure companies such as ORCL, NVDA, AVGO, MSFT, and others.

Expectations for these payments and the massive earnings growth they would deliver were key to fueling the huge rallies in many major tech stocks (which, coincidentally, powered the markets higher over the past three years).

However, that meant part of this tech-driven bull market was almost entirely attributable to the commitments of just one company. So, what would happen if OpenAI couldn't obtain financing to make these payments in the future? Or what would happen if another competitor began to take market share and erode ChatGPT's market share? In that case, gains in many tech stocks would be premature, and their multiples would contract as expected earnings growth doesn't materialize.

Problem 2: Gemini

In November, parts of those fears were realized. Alphabet (GOOGL) released an update to its AI LLM named Gemini. The update was so good that, based on many testing metrics, Gemini now outperforms ChatGPT. This was the initial catalyst that shook the positive AI mantra, and here's why…

First, if Gemini takes market share from ChatGPT, OpenAI may not have the funds to meet its $1 trillion in obligations to major tech companies. That means lower multiples and declines for the AI hyperscalers and infrastructure names (MSFT/NVDA/ORCL, etc.).

Second, Gemini is being built on Google's proprietary semiconductors. This is a big deal because the rapid growth of Nvidia, Broadcom, Taiwan Semi, and others in recent years was driven by insatiable demand for their semiconductor chips, which are necessary to build out LLMs. Google's move to manufacture its own chips implies lower chip demand from NVDA, AVGO, and TSMC than expected. That means less earnings growth and a lower multiple for semiconductor stocks.

Finally, if Google can make Gemini as good as ChatGPT on its own chips, others can likely do the same. The fear is that AI becomes commoditized, making trillions of dollars in AI infrastructure investment foolish. Put plainly, Gemini challenged the notion that all AI spending was "good" money that would drive earnings growth. Instead, it ushered in scrutiny of AI capex spending, altering the paradigm within which AI/tech stocks operate. Practically, that means it's no longer the case that the company that spends the most on AI infrastructure "wins," and we can see that in the market reaction to the collapse of mega-cap free cash flow.

Problem 3: Cannibalization

This concern has emerged more recently, as AI advancements raise the risk that AI will disrupt not just white-collar office jobs but also entire industries integral to markets. That fear is why Claude Cowork and Claude Legal crushed software stocks two weeks ago and why the brokers and transports were hit so hard last week, as fears erupted that AI would disrupt the entire industry. Those AI anxiety fears spreading beyond tech are negatively impacting the rotation trade that's supported stocks since October, as ostensibly no sector is safe from fears that AI could disrupt it.

Here's the overarching point we need to understand: The bull market of the past three years has been driven by two factors: 1) Increased earnings expectations (as tech companies massively grew profits amidst surging AI demand) and 2) Multiple expansion, as investors viewed AI as a productivity boosting machine for all industries, leading investors to pencil in better future earnings growth. Gemini, cannibalization, over-reliance on OpenAI, and other recent AI headlines are eroding those two beliefs. For this to stop, we need evidence that AI capex is generating a positive ROI and that AI will not destroy entrenched industries, but instead make them more efficient and productive and boost earnings. Until we get that, we can expect mixed sentiment and elevated volatility.

Economic Data (What You Need to Know in Plain English)

Last Week

Economic data last week continued the Goldilocks trend that's supported markets since late November and, importantly, pushed back on the small rise in concern about the labor market. The key report last week was the delayed jobs report, and it was better than expected and met our "Just Right" scenario analysis. The December jobs report showed 130k jobs added vs. (E) 65k and, importantly, pushed back against the four soft labor market readings from two weeks ago. More importantly, the unemployment rate fell to 4.3%, has now backed off solidly from the recent high of 4.6%, and is falling away from the negative 5.00% level.

Turning to growth, the one notable report last week was disappointing: December retail sales were soft on the headline and in the key details. The headline reading was flat vs. (E) 0.1%, while the control group, which is retail sales less autos, gasoline, and building materials, declined to -0.1% vs. (E) 0.4%. The fact that the control group declined is notable, as most categories in retail sales associated with discretionary consumer spending also declined. But while it wasn't a good report, it'll take a few more soft retail sales reports and some cautious commentary from credit card companies on spending before we get more concerned about the state of the consumer.

Finally, Friday's CPI report continued the Goldilocks data trend, with headline inflation slightly better than expected: 0.2% vs. (E) 0.3% m/m and 2.4% vs. (E) 2.5% y/y. In comparison, Core CPI met expectations (0.3% m/m and 2.5% y/y). From a Fed standpoint, CPI didn't alter the outlook for rate cuts (still July or possibly June), so the market impact wasn't substantial. Bottom line, CPI reinforced that while inflation is not at the Fed's 2.0% target, it is mostly stable (and rate-cut positive).

Important Economic Data This Week

The key reports this week provide the first look at February economic data, via the Empire State manufacturing survey (today) and the Philly Fed survey (Thursday). Both numbers were better than expected in January, and markets will want to see stability in the data that makes us think growth suddenly slowed in February. On the Fed front, we will receive the FOMC Minutes tomorrow, which will be closely reviewed for clues about how open the FOMC is to cutting rates in the coming months.