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TITLE: **Fragile Calm – Inflation, AI and the Rotation Beneath the Surface**

TRANSCRIPT:

Host:

Eric, markets feel tense this week. Not collapsing — but fragile. Everyone seems to be waiting for one number: US inflation. Why does this CPI print suddenly matter so much?

Eric:

Because sentiment is already shaky.

It's not that inflation has re-accelerated. It hasn't. Expectations are fairly benign — around 0.2 to 0.3% month-on-month, roughly 2.5 to 2.6% year-on-year. That's hardly alarming.

But the backdrop is delicate. Retail sales have softened. Yet payrolls were stronger than expected. So the market is caught between "growth is cooling" and "maybe it isn't cooling enough."

What makes today's CPI different is psychology. If it lands in line, the market can breathe. If it overshoots — even modestly — it feeds the narrative that rate cuts get pushed further out. And in a market already questioning valuations, that matters.

Host:

And while inflation grabs headlines, equities have been wobbling — particularly tech.

Eric:

Yes — and this is where the story becomes more structural.

The Nasdaq dropped roughly 2%. The S&P about 1.6%. The Dow around 1.3%. That's not panic — but beneath the surface, it's sharper.

Cisco fell about 12% after margins disappointed, partly because memory-chip costs are rising. Apple dropped close to 5% — its sharpest one-day decline in nearly a year.

But here's the bigger point: this isn't about one earnings miss. It's about a widening debate around AI profitability.

For the past year, the market embraced the "build it at any cost" narrative. Massive capex. Data centre expansion. Infrastructure everywhere. The assumption was that monetisation would follow automatically.

Now investors are asking a tougher question: where are the margins?

And what's fascinating is that the worry is spreading beyond pure tech. Logistics names sold off on fears that AI-driven efficiency could compress pricing power structurally. That tells you something important — AI isn't just a growth story anymore; it's a disruption story.

Dispersion is increasing. Blanket AI optimism is fading. Selectivity is rising.

Host:

Asia has also softened, but the tone there feels slightly different.

Eric:

Exactly.

MSCI Asia ex-Japan was down about 0.6%. The Nikkei off roughly 0.9%. Hang Seng down closer to 1.5–2% as investors lock in gains ahead of Lunar New Year.

But here's the nuance: Asia is not cracking — it's consolidating.

Bloomberg ran a headline this week saying Asia is off to its best start versus the US in a century. That sounds dramatic — but it captures something real. Capital is rotating.

Many Asian economies are rebuilding balance sheets, pushing AI adoption, accelerating green infrastructure, and leveraging demographics.

Even in Australia, Westpac hit a record high on better-than-expected loan and deposit growth. Higher-for-longer rates are not universally bad — they support bank margins where credit quality remains solid.

So while US tech wrestles with valuation and profitability questions, parts of Asia are quietly benefiting from rotation and structural growth.

Host:

And what about India? Inflation there looked benign.

Eric:

Yes — January CPI came in around 2.75% year-on-year. That's comfortably within the RBI's 2–6% target. The new base year slightly changes composition, but the broader message is stability.

That likely means an extended rate pause — which provides policy predictability.

Equities, however, are still searching for momentum. After underperforming the global index, India is holding ground — but it lacks a dominant theme right now. It's not weak, it's just waiting for a catalyst.

Host:

So stepping back — what's the real message from this week?

Eric:

I'd frame it like this:

The market is not breaking. It's recalibrating.

Inflation hasn't re-ignited — but it hasn't vanished. Growth hasn't collapsed — but it's not accelerating cleanly. AI hasn't failed — but monetisation is being questioned.

And in that environment, markets become more selective, more disciplined, more valuation-sensitive.

Leadership is broadening geographically. Asia is asserting itself. Equal-weight indices are competing with cap-weighted giants. Commodities are resetting. Tech is fragmenting into winners and laggards.

This is not panic. It's maturity.

The easy narrative phase of this cycle — “buy AI, buy mega-cap, buy duration” — is behind us. The next phase rewards balance sheets, pricing power, regional differentiation, and intelligent risk management.

If CPI comes in calm, volatility likely fades. If it surprises, dispersion increases.

Either way, this is no longer a market driven by a single story.

It's a market demanding judgment.

And that's not a bad thing.

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