

WEEK ENDED FEBRUARY 20, 2026

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Still Nauseously Optimistic

“There is nothing permanent except change.”

– Heraclitus

The Through Line: The last 12 months have sprayed a firehose of change at investors, consumers and businesses alike. We’ve been asked to absorb major shifts in macro policy (trade, immigration, employment, regulation, taxation) while at the same time rapidly advancing technology is forcing us to rethink even our most basic daily activities. So much transformation on simultaneous fronts can be intensely disorienting. Or, given the right mind set, it can also be intensely exhilarating – laying the groundwork for growth and opportunity.

What’s really happening on the front lines?

Earlier this week, we had the chance to once again attend the *Women in Manufacturing Winter Leadership Conference* in Clearwater Beach, Florida. Over the course of several days, leaders from some of the world’s top producers did a deep dive into a variety of challenges and opportunities facing their companies. This year’s specific emphasis highlighted work force preparedness, plus development and deployment of new technologies and processes. Against a backdrop of increasingly fraught headlines related to AI, automation, vacillating trade policy and such, it was great to have the opportunity to level set what’s actually transpiring at the level of ground truth. **HINT: AI is NOT coming for your job, but it may well be coming to your job if it’s not there already. Time to get your head – and skills – in order.**

At last year’s conference, President Donald Trump’s administration was barely a month old. Trade issues were already a key concern, as were DOGE, threats to workforce numbers from shifting immigration policy, and the existential threat posed by rapidly advancing new technologies (e.g., DeepSeek, humanoid robots). After last year’s event, we shared our observations (*WSP - Nauseously Optimistic*) re the many levers leaders planned to pull to help their companies adjust. By multiple measures, companies in general have been quite successful at navigating the year’s many challenges:

- S&P 500 up over 17% in 2025 and still near all-time highs; many global bourses advanced even more smartly – the MSCI All Country World Index up over 20% in 2025
- U.S. real GDP growth tracking in the 3% to 4% range and global growth estimates coming in better than originally expected (especially post Liberation Day)
- inflation moderating (even if it’s not all the way back down to the Fed’s target of 2%)

- aggregate U.S. unemployment in the low 4% range
- bond market yields relatively flat year over year
- aggregate S&P 500 earnings growth running in the low- to mid-teens

Kudos to companies’ resilience and adaptability – even without the clarity we were repeatedly told was necessary before companies could proceed.

Manufacturing: the center of the bullseye

President Trump campaigned on promises to bring manufacturing back to the United States. The hollowing out of domestic production happened over decades as various trade agreements facilitated manufacturing in countries with lower employment costs, more technically developed infrastructures and/or industries that were heavily subsidized by specific countries intent upon developing expertise that could help move their own citizens out of poverty and into a more sustainable middle class. North American consumers benefitted from access to more goods that were also less expensive. However, that development exacted a tangential cost: key manufacturing prowess was displaced when factories were shuttered and production sent to other markets. The pandemic and supply chain snarls of the past decade emphasized the importance of having core expertise in critical industries (think pharma, defense, materials, chemical inputs, semiconductors, batteries) on North American soil.

Many of the Trump administration’s new policies put manufacturers directly in the crosshairs – creating both positive and more challenging consequences (at least in the short run). Traditional trade relationships and import/export routines were disrupted. However, substantial tax benefits were teed up via the One Big Beautiful Bill Act and a host of deregulation initiatives helped remove barriers to progress.

“The times they are a’ changin’” *And. Fast.*

After the flurry of policy actions in the past 12 months, many companies are still working to determine a long-term path forward with so many key components still in flux. Manufacturing employment has yet to show signs of renewed vigor – realistically not that surprising given it takes more than a week or two to commit to decisions that have decades-long consequences (and/or to unwind other decisions that were decades in the making). This doesn’t mean companies are sitting idly by. Based on numerous conversations throughout the conference this week, it was clear that, behind the scenes, companies are engaging in significant scenario-planning and options-weighting.

Yet we were struck by one core theme that cropped up in virtually every session and conversation: the rapid deployment of new technologies, including automation (robotics, AVs) and particularly AI. We saw a clear shift from last year’s somewhat tentative explorations to full-scale testing and implementation.

Perhaps the rapid rollout of AI shouldn’t be all that surprising given the record-breaking pace of adoption in the first place. ChatGPT achieved its first million users within five daysⁱ of its launch in November 2022, reaching 10 million barely a month later. All told there are now over one billion users – and an estimated 100 to 200 million active daily users. It took TV more than a decade to achieve 10 million units while the iPhone reached that point in a relatively speedy 3.5 years.^{ii,iii}

At the moment, there are three primary types of AI: *classic AI* (enhanced recommendations/deep and fast search); *Generative AI* (having a conversation); and *agentic* (coordinated programs that bring together multiple data sources to perform a set of functions such as reviewing your calendar, email, phone messages and note storage system to generate specific task lists, meeting requests, emails and news summaries to kick off your day).

A number of attendees at this year’s conference were far down the path of framing, testing and, in many cases, launching sophisticated AI systems in a variety of functions (e.g., HR, planning, generating management insights, customer service, employee training, website redesign, client invoicing/maximization/sales campaigns, shop floor machine diagnostics and maximization).

Firms noted that they have dozens – if not hundreds – of AI agents in various stages of development and deployment. Common denominators were finding rote, routine, replicable tasks that could be “automated” via AI, freeing workers to perform higher-level creative and interactive tasks. **NOTE: the emphasis throughout was on finding ways to enhance – not replace – workers.**

Active incorporation of AI and other technologies will undoubtedly require rethinking and retooling of job descriptions, but it is meant to *augment not replace* humans. Gating factors in the implementation of AI include working through regulatory hurdles while accommodating the need to lock down and protect sensitive or trademarked information and processes. Proprietary information cannot simply be uploaded to Claude or ChatGPT, for example, because that puts it into the public domain under the control of Anthropic or OpenAI.

Implications for the workforce

Employee fear, skepticism and discomfort pose another challenge to the pace of implementation. A presentation from Deloitte noted that **93% of the AI spending to date has focused on tools and technologies while only 7% has been directed toward change management, reskilling or training** in the new tech. In essence, companies are rapidly making AI available but leaving it up to workers to figure out how to put it to use. In an information vacuum, humans will often fill in worst-case scenarios – especially when bombarded by a chorus of headlines chanting “AI is coming for your job.” **Leaders emphasized the need for critical thinking, curiosity, emotional intelligence, strategic coordination/oversight of multiple tasks and an ability to think from a 10,000-foot level.** Essentially, they’re looking for employees who can assess the forest versus tend to individual trees (though they need to know enough about those individual trees to ensure that AI is tending them correctly). Interestingly, it was noted that those employees who leaned into such activities were being highlighted within their companies and often given seats and a vote at the decision-making table.

Economic implications for 2026 and beyond

In addition to AI, the rollout of automation, robotics, autonomous vehicles and other labor-saving devices continues. The use of such technologies accelerated thanks to the tight labor markets that have existed since even before the pandemic. While technological deployment obviously takes upfront capital, the payback periods should be aided by more favorable tax treatment under the OBBBA. A valid argument can be made that deployment allows higher and better use of human capital leading to disinflationary growth – not unlike what we saw from 1995 to 2000 (or perhaps even that period on steroids?). The current argument among economists hinges on whether the benefit will accrue to the worker or the corporation – or perhaps some combination of the two. Time will tell. **Bottom line: the implications of technology implementation hint that a miracle of faster growth plus lower inflation productivity could well be in sight.**

Implications for investors

Change can be both terrifying and exhilarating in the very same breath – not unlike the queasy feeling we get at the top of the first hill on a rollercoaster. As investors, we have been particularly encouraged that so many companies are pushing through the slightly nauseous feeling to optimistically incorporate innovations and new methods. While much remains to be sorted to ensure sustainability, the momentum seems directionally constructive for those willing to strap in for the ride.

In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

This week

Odds of a rate cut at the U.S. Federal Reserve's March meeting continue to shrink – Last week's nonfarm payroll report showed labor market growth that was higher than anticipated while consumer price inflation data for December came in below the Wall Street consensus forecast. Subsequent commentary from Federal Reserve members further solidified the view that the policy rate will remain on hold in the near term. Kansas City Fed President Jeffrey Schmid warned that consumer demand continues to outpace supply, leaving the economy primed for additional inflationary headwinds that would likely accelerate if rate cuts resumed too soon. Dallas Fed President Lorie Logan said that monetary policy is currently well positioned to provide the central bank with policy options for addressing changes to the labor market or inflation. Chicago Fed President Austan Goolsbee is amenable to additional rate cuts this year if inflation proves transitory, but for now service sector inflation remains a watch point. He has also been wary of frontloading rate cuts. Federal Reserve Governor Michael Barr noted that while both sides of the Fed's dual mandate have made progress, the prudent course is to hold rates steady for some time. Perhaps a few more months on pause will afford a clear opportunity to cut rates if/when Kevin Warsh chairs his first Federal Open Market Committee meeting in June.

Green shoots in U.S. manufacturing? – The *Empire State Manufacturing survey* indicated firms in the region are increasingly optimistic about the business outlook. Both new orders and worker hours strengthened from January. This has led to improved hiring and capital expenditure plans, hinting that the manufacturing sector could finally emerge from a lengthy downturn. The New York Fed's data aligns with the most recent *Institute for Supply Management (ISM) survey*, which showed the fastest pace of expansion for the manufacturing sector since 2022, plus growth in new orders and output. Last week's nonfarm payroll data revealed modest job gains in the manufacturing sector for a second consecutive month. Inflationary concerns remain – Empire State survey respondents anticipate that both prices paid and prices received will rise in the coming months. While a sustainable recovery in the manufacturing sector is far from certain, green shoots have provided hope for better times ahead.

The Trump administration overturned the Environmental Protection Agency (EPA) Endangerment Finding – It called the move “the single largest deregulatory action in U.S. history.” In 2007, the Supreme Court ruled that the EPA must assess whether greenhouse gases endanger public health or welfare and if so it must regulate these air pollutants under the 1970 Clean Air Act. The EPA then conducted a formal review. That led to the 2009 Endangerment Finding concluding that six greenhouse gases do indeed threaten human health and welfare, triggering mandatory regulation under the statute. This determination became the foundation of modern emissions policy. The auto, power and industrial sectors were most heavily impacted by rising compliance costs as standards tightened. President Trump labeled the Endangerment Finding “disastrous” and having “no

basis in fact.” Interior Secretary Doug Burgum said this move to cut red tape will “unleash American energy and make everything more affordable.” As the situation currently stands, the EPA would no longer enforce emissions standards, effectively nullifying prior regulation. The matter is now headed to the courts for a lengthy legal battle, with existing Supreme Court precedent still in place. Impacted companies will need to weigh the risk that a future administration could reintroduce emissions standards when laying out strategic policy.

Canada's inflation rate slows – January's inflation reading of 2.3% was below expectations, holding steady from the prior month (or up a modest 0.1% in seasonally adjusted terms). Adjusting for the temporary GST holiday last year would leave the annual inflation rate just a touch above the Bank of Canada's 2.0% target (at 2.05%, to be precise). Core measures were also encouraging: the median eased a tick to 2.5% and trim fell three ticks to 2.4% – the average of the two matched the lowest reading in almost five years. Overall, this is an encouraging result for the Bank of Canada since inflation is finally nearing the 2% target on a broader basis. There's still some wood to chop on core inflation, but the shorter-term metrics are moderating noticeably. Still, the bank has made it abundantly clear that the bar to cut rates again is quite high and continues to stress that monetary policy cannot fix supply shocks. Even so, if inflation continues to decelerate, the bank could be in position to support the economy should growth truly struggle while it undergoes a structural shift.

Canada's economic outlook – The Canadian economy likely skirted a recession in 2025 thanks to the tariff-free status of most goods shipped to the U.S., supportive fiscal and monetary policies and the TSX's 28% rally. BMO Economics expects stronger (1.8%) growth in 2026, assuming no nasty surprises on the trade front. For 2026, the critical assumption is that the USMCA/CUSMA review will extend past this year, keeping the U.S. in the agreement and preserving the compliance exemption on most Canadian goods. Potential issues for discussion include supply management plus the Online Streaming Act and Online News Act. This review could lead to a reduction of some sectoral duties, notably the 50% import tax on steel, aluminum and some copper products, and trim the average U.S. tariff on Canadian imports from its current level of around 7%. Apart from a few hard-hit industries, the economy will largely adjust to the lower level of exports. Combined budget deficits are projected near 4% of GDP this fiscal year, or more than two percentage points above fiscal year 2024/25. Federal initiatives aim to jump-start investment by accelerating infrastructure, mining and energy projects while reinstating full and immediate capital expense deductions and supporting tariff-impacted industries. The unemployment rate fell slightly in the last year and sat at 6.5% in January. However, it could tick higher in the near term before declining courtesy of improving economic activity and slowing labour force growth (caused by immigration curbs). The Canadian dollar is expected to appreciate further to C\$1.333 (US\$0.752) by year's end as Fed rate cuts compress bond spreads in the two countries.

Fed governors discuss AI's potential impact on their deliberations

In past comments, incoming Federal Reserve Chair Kevin Warsh has suggested that he believes AI will drive productivity gains, which in turn will boost economic growth with less inflation pressure. He has suggested rates could be cut proactively in anticipation of these gains. On Tuesday, Federal Reserve Governor Michael Barr said in a speech to the New York Association of Business Economics that the long-term impacts of AI are "likely to be profoundly positive, but in the short term may deeply disrupt labor markets." He noted that AI may be rapidly adopted, "boosting productivity growth but also leaving less time for workers, businesses and the economy to adapt to these changes." Generative AI's impact on labor markets is difficult to determine and could ultimately prove positive or negative; progress could also potentially be constrained by the sheer scale of required investment. Mr. Barr notes that monetary policy is ill-suited to deal with structural changes in the labor force. Stronger productivity growth induced by AI raises the economy's potential growth rate without necessarily adding inflation pressure, which in turn could support a higher equilibrium policy rate, while near-term investments in AI infrastructure could prove inflationary. Both considerations argue

that "the AI boom is unlikely to be a reason for lowering policy rates." Improvements in potential growth do not automatically translate into easier policy in the current inflation environment.

Next week

A relatively light data week, especially after this week's heavy data dump. A few reads on U.S. and Canadian manufacturing – and Friday's Canadian GDP – are the primary events.

Monday 2/23 – U.S. Factory orders

Tuesday 2/24 – U.S. Wholesale inventories, consumer confidence, President Trump delivers his State of the Union address

Wednesday 2/25 – Canada Manufacturing sales

Thursday 2/26 – U.S. Initial jobless claims | Canada Wholesale sales

Friday 2/27 – U.S. Producer price index, Construction spending | Canada CFIB Business barometer, GDP

Data scorecard as of February 18, 2026

Equity Market Total Returns						
	2/18/2026 Level	WTD	YTD	2025	2024	5-Year*
S&P 500	6,881	0.7%	0.7%	17.9%	25.0%	14.4%
NASDAQ	22,754	0.9%	-2.1%	21.2%	29.6%	13.4%
DOW	49,663	0.3%	3.5%	14.9%	15.0%	11.6%
Russell 2500	4,644	0.6%	8.0%	11.9%	12.0%	7.3%
S&P/TSX	33,390	1.0%	5.5%	31.7%	21.7%	16.1%
MSCI EAFE	11,525	0.8%	8.7%	31.2%	3.8%	8.9%
MSCI EM	853	0.4%	11.2%	33.6%	7.5%	4.2%
Bond Market Total Returns						
		WTD	YTD	2025	2024	5-Year*
Bloomberg U.S. Aggregate		-0.1%	1.2%	7.3%	1.3%	-0.4%
Bloomberg U.S. Treasury		-0.1%	1.0%	6.3%	0.6%	-1.0%
Bloomberg U.S. Corporate		0.0%	1.2%	7.8%	2.1%	-0.1%
Bloomberg U.S. High Yield		0.2%	0.9%	8.6%	8.2%	4.5%
Bloomberg 1-10 Year Munis		0.1%	1.7%	5.1%	0.9%	1.2%
Bloomberg Canada Aggregate		0.1%	1.7%	2.4%	4.0%	-0.4%
Bloomberg Canada Treasury		0.2%	1.5%	1.4%	2.9%	-0.8%
Bloomberg Canada Corporate		0.0%	1.6%	4.4%	6.9%	1.5%
Government Bond Yields						
	2/18/2026	Last Month End	Last Quarter End	2025	2024	5-Year Average
U.S. 10-Year Treasury	4.08%	4.24%	4.17%	4.17%	4.57%	3.37%
Canada 10-Year Government	3.23%	3.42%	3.43%	3.43%	3.23%	2.81%
U.K. 10-Year Gilt	4.37%	4.52%	4.48%	4.48%	4.56%	3.16%
German 10-Year Bund	2.74%	2.84%	2.85%	2.85%	2.36%	1.66%
Japan 10-Year Government	2.14%	2.24%	2.06%	2.06%	1.09%	0.65%
Currencies & Real Assets						
	2/18/2026 Level	WTD	YTD	2025	2024	5-Year*
USD Index	97.70	0.8%	-0.6%	-9.4%	7.1%	1.8%
CAD:USD	\$0.73	-0.6%	0.2%	4.8%	-7.9%	-1.5%
Bitcoin	\$66,305.35	-3.7%	-24.4%	-6.5%	120.5%	24.8%
Gold	\$4,977.56	-1.3%	15.2%	64.6%	27.2%	17.9%
Oil (WTI)	\$65.19	3.7%	13.5%	-19.9%	0.1%	3.4%

*Annualized

5-Year data as of December 31, 2025. Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index. Index definitions can be found at the end of this publication.

Index Definitions

Equity indices

S&P 500® Index is an index of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

NASDAQ Composite Index is a market-cap weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange.

Dow Jones Industrial Average (“DOW”) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

Russell 2000® Index (Russell 2000®) is an unmanaged index that measures the performance of the smallest 2000 U.S. companies in the Russell 3000® Index.

S&P/TSX Index is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada’s primary stock exchange, the Toronto Stock Exchange (TSX).

MSCI EAFE Index (Developed Markets —Europe, Australasia, and Far East Index) is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International. The index captures large and mid-cap representation across 21 developed markets countries around the world, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a market capitalization weighted index representative of the market structure of the emerging markets countries in Europe, Latin America, Africa, Middle East and Asia. Prior to January 1, 2002, the returns of the MSCI Emerging Markets Index were presented before application of withholding taxes.

Fixed income indices

Bloomberg U.S. Aggregate Bond Index is an unmanaged index that covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities.

Bloomberg U.S. Treasury Index is an unmanaged index that includes a broad range of U.S. Treasury obligations and is considered representative of U.S. Treasury bond performance overall.

Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg U.S. Corporate High Yield Index is an unmanaged index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+ or below.

Bloomberg 1-10 Year Blend Municipal Bond Index is a market value-weighted index which covers the short and intermediate components of the Bloomberg Capital Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market.

Bloomberg Canada Aggregate Bond Index measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market. It includes treasuries, government-related, and corporate issuers.

Bloomberg Canada Aggregate Bond Index - Treasury is the treasury sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.

Bloomberg Canada Aggregate Bond Index - Corporate is the Corporate sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.



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ⁱ Number of ChatGPT Users (January 2026)

ⁱⁱ Time until tv, cable, iphone, ai had 10 million users - Google Search

ⁱⁱⁱ The State of AI in the Enterprise - 2026 AI report | Deloitte US