

Stocks Finish Mixed as Inflation Eases with Asset Rotation Defining the Session

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The U.S. and European stock markets closed mixed as investors absorbed a softer inflation report while navigating a market increasingly defined by internal rotation rather than broad directional moves. Inflation continued to moderate, bond yields declined, and leadership dynamics shifted beneath the surface, producing a session that appeared quite at the index level but carried important strategic signals. Rather than a risk-off environment, markets reflected a recalibration — one in which capital continued to move away from concentrated growth exposure toward a more diversified, valuation-conscious structure.

U.S. Markets

U.S. equities finished the session divided, reflecting a market searching for new leadership rather than reacting to macro shock. The Dow Jones Industrial Average managed a modest gain, while the S&P 500 ended slightly higher, supported by cyclical and defensive sectors. The Nasdaq Composite declined amid continued weakness in large-cap technology and software names.

The session reinforced a theme that has gradually gained traction throughout early 2026: broad market stability masking significant internal rotation. Industrials and healthcare remained relatively resilient, while technology continued to lose relative momentum as investors reassessed valuations after several years of dominant performance. Small- and mid-cap segments also showed improved participation, suggesting capital is broadening beyond mega-cap concentration.

Fixed-income markets provided a clearer signal. Treasury yields fell after inflation data confirmed ongoing disinflation. The 10-year Treasury closed near 4.04%, while the 2-year finished around 3.40%, reinforcing expectations that monetary policy risks are slowly shifting toward eventual easing. Falling yields supported duration-sensitive assets but also weighed on financials, with the Birling Capital U.S. Bank Index declining sharply as investors reassessed net interest margin expectations amid a flatter curve.

Overseas, risk appetite was more cautious. Asian markets closed lower overnight, and European indices finished modestly in negative territory as earnings results drove selective volatility rather than broad directional strength.

Inflation Moderates — But Policy Patience Remains

January inflation data continued to confirm that disinflation is progressing, though not yet complete. Headline CPI eased to 2.4% year-over-year, down from the previous month, while core CPI slowed to 2.5% — its lowest annual pace since 2021. On a monthly basis, price gains remained contained, supporting the broader narrative that inflation pressures are gradually normalizing.

Under the surface, however, the data remains nuanced. Goods prices were generally stable, helped by declines in used-vehicle prices, but some categories continued to show lingering cost pass-through pressures. Services' inflation remained firmer, particularly in transportation-related segments, while shelter costs continued a slow but constructive moderation trend.

For the Federal Reserve, the message is one of cautious progress. Inflation is moving toward the target but remains above the 2% objective, and labor markets remain stable. As a result, the most probable near-term path remains a policy pause. Markets, however, are increasingly pricing the

possibility that continued moderation through the second half of 2026 could open the door for one or two rate cuts — a view reflected most clearly in declining Treasury yields. Leadership Rotation Deepens Perhaps the most important story beneath the headline numbers is the continuing evolution of market leadership. The dominance of growth and technology that defined much of the post-pandemic period is giving way to a broader and more complex structure.

Technology shares, particularly software, remain under pressure as investors scrutinize valuation multiples and the evolving competitive landscape shaped by artificial intelligence. The long-term AI thesis remains intact, but markets are demanding greater clarity on monetization, pricing power, and margin durability.

Meanwhile, sectors more closely tied to the real economy — industrials, materials, energy, and consumer staples — have shown greater resilience. This shift reflects a market increasingly focused on balance-sheet quality and cash-flow sustainability rather than pure growth narratives.

The rotation is not limited to sectors. Mid-cap and small-cap equities continue to gain traction relative to large caps, while international markets maintain momentum, suggesting that diversification across regions and capitalizations is becoming a defining characteristic of the 2026 market environment.

European Markets

European equities closed modestly lower as investors assessed a dense earnings calendar and mixed corporate signals.

Siemens advanced after raising its fiscal 2026 earnings outlook, reinforcing confidence in industrial demand and supporting the broader narrative that manufacturing and infrastructure-linked companies remain well positioned in the current cycle.

Luxury goods provided another focal point. Hermès rose following stronger-than-expected results, supported by resilient demand in the United States and Japan. However, performance across the broader luxury sector remained mixed, highlighting increasing dispersion between brands capable of sustaining pricing power and those facing softer momentum.

The European earnings picture mirrors developments in the United States: markets are rewarding execution and operational discipline over thematic enthusiasm.

Strategic Perspective

Today's session reinforced that markets are not retreating — they are reorganizing. Inflation risks are receding, but the environment no longer supports narrow leadership driven purely by momentum. Falling yields are encouraging broader participation, yet they are simultaneously pressuring financials and reshaping sector dynamics.

The decline in the Birling Capital U.S. Bank Index underscores this reality. Lower yields improve financial conditions overall but compress expectations for lending margins, illustrating how the same macro catalyst can produce very different outcomes across sectors.

For investors, the takeaway is increasingly clear: portfolios built around diversification — across sectors, market capitalizations, and geographies — are better aligned with current market behavior than those concentrated in a single narrative.

The Final Word: Stability at the Surface, Change Underneath

Markets did not sell off — they rotated.

Inflation continues to cool, yet policy patience remains.

Equity indices appear stable, yet leadership is shifting.

Innovation persists, yet valuation discipline is reasserting itself.

In 2026, the market is moving beyond momentum-driven concentration toward a more mature phase defined by balance, breadth, and strategic allocation — a transition that often unfolds quietly before it becomes obvious.

Economic Data:

- **U.S. Consumer Price Index YoY:** fell to 2.40%, compared to 2.70% last month.
- **U.S. Core Consumer Price Index YoY:** fell to 2.50%, compared to 2.60% last month.
- **U.S. Inflation Rate:** rose to 3.06%, up from 2.71% last month.

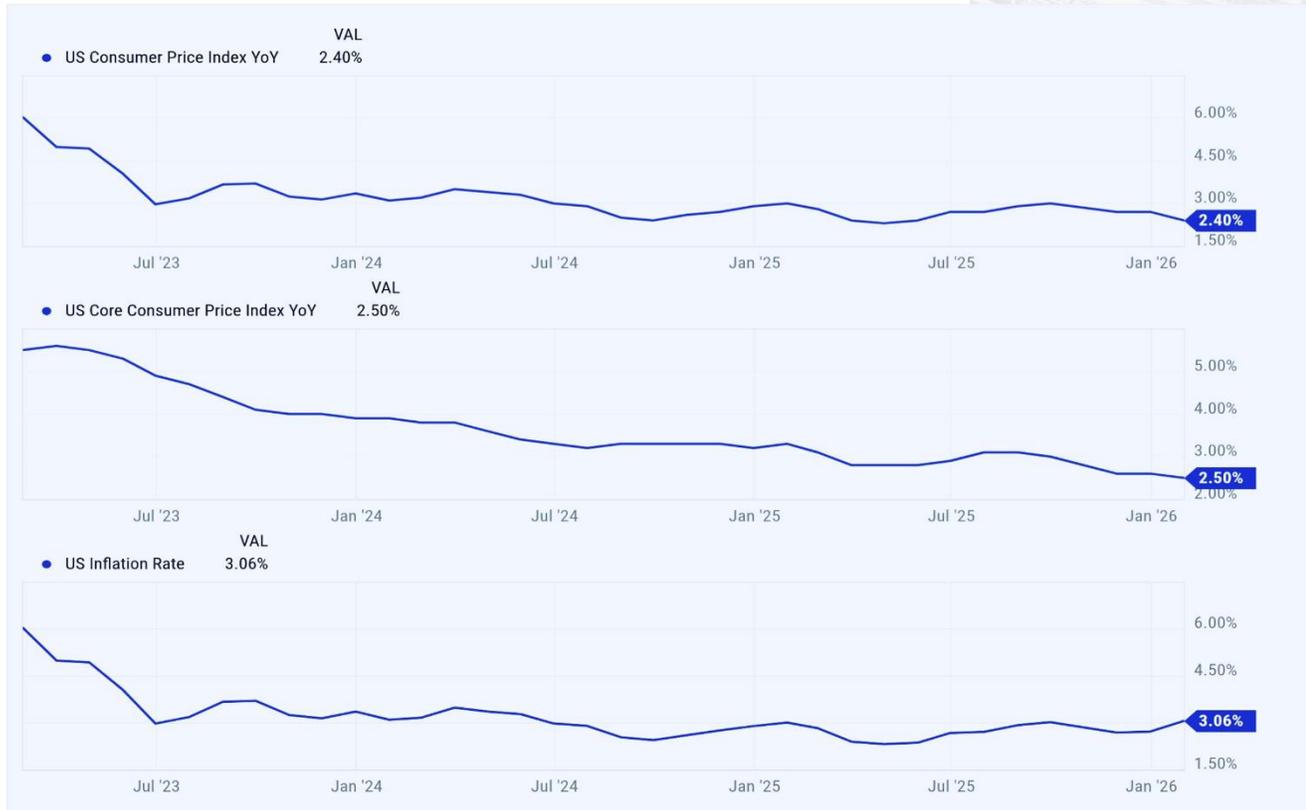
Eurozone Summary:

- **Stoxx 600:** closed at 617.70, down 0.82 points or 0.13%.
- **FTSE 100:** closed at 10,446.35, down 43.91 points or 0.42%.
- **DAX Index:** closed at 24,852.69, down 62.19 points or 0.25%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 49,500.93, up 48.95 points or 0.10%.
- **S&P 500:** closed at 6,836.17, up 3.41 points or 0.05%.
- **Nasdaq Composite:** closed at 22,546.67, down 50.47 points or 0.22%.
- **Birling Capital Puerto Rico Stock Index:** closed at 4,114.26, down 44.71 points, or 1.07%.
- **Birling Capital U.S. Bank Index:** closed at 8,862.69, down 342.95 points or 3.75%
- **U.S. Treasury 10-year note:** closed at 4.04%.
- **U.S. Treasury 2-year note:** closed at 3.40%.

US Consumer Price Index YoY; US Core Consumer Price Index YoY & US Inflation Rate





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