First Citizens Wealth

Making Sense

Basis Points | February 12, 2026

A noisy, but respectable start

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1. Constructive, but cautious

Market activity has been noisy this year. US equities have moved sharply at times, both at the index level and in some of the biggest single-name stocks. Swings in commodities and digital assets have been dramatic. But despite all this turbulence, US and global equity indices have delivered decent returns to date. The path so far may have been bumpier compared to the second half of last year, but that period of nearly uninterrupted gains and very low volatility was the exception, not the rule. Meanwhile, the interest rate backdrop has been notably stable, with the 10-year Treasury trading close to 4.2%.[i] The aggregate bond is showing a very solid return year to date, and returns for international equities are again outperforming. So despite the noise, the first six weeks of 2026 leave us comfortable with our constructive, but cautious view of markets for this year.

2. Gains spread out

US equity market gains are broadening, with participation expanding beyond the mega-cap technology stocks that have dominated the landscape since 2024. Year-to-date returns show the equal-weighted S&P 500 Index, which bypasses the concentration effect of tech heavy weights, is outperforming the conventional market-cap weighted index by 4.8%. Even more striking, the 7.7% total return to date for the Russell 2000 index of small cap US companies is outpacing returns for both the market-cap and equal-weighted S&P 500 indices year to date by 6.2 and 1.4 percentage points respectively. Meanwhile, total return for the seven mega-cap technology stocks that have driven so much of total market returns in recent years is -3.8% to date. This rotation and broadening in US equities suggests leadership in US equity performance this year is moving beyond highly concentrated mega cap tech positions, and it supports the optimistic side of our constructive, but cautious outlook.[ii]

3. Big investments

We are blown away by the recent and forthcoming investment outlays by the hyperscaler technology companies building out the artificial intelligence infrastructure. In recent quarters these companies in total have been spending upwards of $500 billion annualized on AI capex investment, and analysts estimate this number is likely to grow to north of $650 billion by the end of 2026. In terms of capex-to-sales, over the past 10 years the average has been 10%. But since 2025, that average has risen to 14%, and the market consensus is that this will jump to around 24% by the end of 2026.[iii] Market participants are on the edge of their seats waiting for information on how these investments – among the largest in history – are going to pay off for investors. And in the meantime, such large outlays will affect these companies' capital structures, likely leading to some combination of higher debt and equity issuance, as this trend continues to evolve into one of the most important and interesting in years.

4. Low hiring, but low firing

The national employment figures are painting an unclear picture of the US labor market. One reason for this is technical: the reports are facing messy statistical challenges with data collection, seasonal adjustment, and survey methodology. But another reason is that the labor market of the 2020s is still one of the most unique and challenging to measure in decades. Economic analysts and policymakers are still figuring out how to address the effect of net migration on the labor force and job market. In addition, longer-term issues persist, such as how to measure modern work arrangements like freelancing and app-based work. That said, from the evidence we have, it appears a high share of the population who wants a job has one. But the pace of new job creation has slowed dramatically, basically to a stall outside the healthcare sector. A silver lining is that despite periodic layoff announcements from large firms – which we monitor closely – in aggregate, firms still appear reluctant to shed their workforces, leaving the economy in a low-hire, low-fire setting for now.

5. On the back burner, but not on ice

Policy and geopolitical risk have seemingly moved to the back burner of market attention in recent months. Markets ultimately return to focusing on fundamentals, which became the dominant theme after last year's tariff turmoil cooled. With less perceived policy and geopolitical risk, a clearer horizon may allow businesses to press forward with postponed investments and hiring, fueling more growth. That said, even if policy and geopolitical issues have moved to the back burner of the market's attention, that burner is still very much lit. The Supreme Court is poised to rule on the legality of last year's Liberation Day tariffs, there will soon be a new Federal Reserve chair for the first time in eight years, and quantitative geopolitical risk metrics remain above average.

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[i] Source: Bloomberg
[ii] Source: Bloomberg. Data as of 2/11/2026.
[iii] Source: Trivariate Research

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