

Furstenau Wealth Update February 17, 2026

The Markets

AI is reshaping the world – and markets are jittery.

Last week, investor attitudes continued to shift. Instead of celebrating AI as a growth engine, they focused on its potential as a business disruptor. The catalyst for this change was the introduction of AI tools that automate tasks in legal services, coding, financial research, and freight shipping. The news generated a wave of stock selloffs, reported Jeran Wittenstein, Ryan Vlastelica, Phil Serafino, and Charles Riley of Bloomberg.

Investors are concerned about “creative destruction”. It’s a theory developed by Joseph Schumpeter, who wrote that historically waves of innovation have destroyed older business models and created new ones, according to Richard Alm and W. Michael Cox in The Library of Economics and Liberty.

Today, AI appears to be a disruptive force – dismantling and reorienting business models.

Signs of AI disruption are clear in the labor market. Researchers at Stanford analyzed payroll data from millions of workers to track AI’s early impact. Erik Brynjolfsson, Bharat Chandar, and Ruyu Chen of Stanford reported:

“...since the widespread adoption of generative AI, early-career workers (ages 22-25) in the most AI-exposed occupations have experienced a 13 percent relative decline in employment even after controlling for firm-level shocks. In contrast, employment for workers in less exposed fields and more experienced workers in the same occupations has remained stable or continued to grow. We also find that adjustments occur primarily through employment rather than compensation. Furthermore, employment declines are concentrated in occupations where AI is more likely to automate, rather than augment, human labor.”

They concluded that these workers may be “canaries in the coal mine” – early signs of broader structural change.

Last week, major U.S. stock indexes moved lower on concerns about AI, wrote Paul R. La Monica of Barron’s. Bond investors focused on economic data, which showed a stabilizing job market and lower inflation. That led to a rally in U.S. Treasuries with the two-year Treasury yield dropping to its lowest level since 2022, reported Rita Nazareth of Bloomberg.

Data as of 2/13/26	1-Week	YTD	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	-1.4%	-0.1%	11.8%	18.2%	11.7%	13.7%
Dow Jones Global ex-U.S. Index	2.4	8.3	31.7	14.7	5.3	7.7
10-year Treasury Note (yield only)	4.1	N/A	4.5	3.7	1.3	1.8
S&P GSCI Gold Index	1.3	16.3	71.3	39.4	22.9	15.4
Bloomberg Commodity Index	-0.5	7.0	10.8	2.6	6.7	4.6

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury; London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

AMERICA'S PLUMBING PROBLEM. The United States financial system is like the plumbing in your home. The water pressure needs to be just right to keep the system flowing smoothly. The Fed, which is the U.S. central bank, is the primary plumber responsible for maintaining the system.

The Fed adjusts interest rates

One tool the Fed uses to keep the financial system operating efficiently is the federal funds rate. When newscasters say the Fed raised or lowered rates, that's often the rate they're discussing. Many investors keep a close eye on Fed rate cuts and hikes because they can influence financial markets. For example:

- When the economy is overheating (water pressure is too high), the Fed can release the pressure by raising the federal funds rate. Higher rates make it more expensive to borrow, reducing the flow of money. This action can also put pressure on stock prices because higher borrowing costs can lead to lower profits, according to Mary Hall of Investopedia.
- When the economy is slowing or in recession (water pressure gets too low), the Fed can increase the pressure by lowering rates, causing money to flow more freely through the system. Rate cuts can boost stock prices because lower borrowing costs can lead to higher profits.

The Fed also buys bonds

Over the past few months, Wall Street's attention has shifted from the federal funds rate to another tool the Fed relies on to keep money flowing through the system – the Fed's balance sheet. That's basically a list that includes everything the Fed owns, such as Treasury bonds and mortgage-backed securities.

- When the pressure in the financial system is low, the Fed pumps more money into the system by purchasing government bonds and securities. This process is known as quantitative easing or QE.

During the financial crisis, and again during the COVID-19 pandemic, the Fed bought a lot of government bonds to stabilize U.S. financial markets. Over the last two decades, its "balance sheet grew from about \$800 billion to roughly \$6.5 trillion—an increase from around 6 percent to 21 percent of GDP," reported Burcu Duygan-Bump and R. Jay Kahn, writing in FEDS Notes.

- When pressure in the financial system is high, the Fed stops buying bonds and lets the ones it owns mature. As a result, the Fed's balance sheet gets smaller. This process is called quantitative tightening or QT.

After the pandemic, as inflation rose well above the Fed's target inflation rate, the central bank raised the federal funds rate to cool the economy. It also stopped buying bonds, shrinking its balance sheet from about \$9 trillion to about \$6.5 trillion.

The size of the Fed's balance sheet affects long-term interest rates. A bigger balance sheet can keep long-term rates lower, encourage borrowing, and support stock prices. In contrast, a smaller balance sheet can push long-term rates higher, make borrowing more expensive, and put pressure on stock prices. In other words, the Fed's balance sheet can influence mortgage rates, bond prices, and even the stock market.

A change of course in 2026

After years of shrinking its balance sheet, the Fed paused in December and began buying bonds again. Typically, it does this to stimulate economic growth, but the economy isn't slowing. The Fed paused because of a different stress that was building in the financial system — falling bank reserves, according to Michael S. Derby of Reuters.

Over the next couple of weeks, we'll explain the role of bank reserves in the financial system and how the selection of Kevin Warsh as the next Fed chair could affect the Fed's balance sheet and financial markets.

Weekly Focus – Think About It

“Acting is not an important job in the scheme of things. Plumbing is.”

— *Spencer Tracy, Actor*

Best regards,

Ryan D. Furstenau

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- * The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- * Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), <https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM>.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- * The Dow Jones Industrial Average (DJIA), commonly known as “The Dow,” is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
- * The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
- * International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

- * The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.
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