

Markets Normalize as Growth Cools and Earnings Take the Lead

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The U.S. and European stock markets closed little changed, as investors absorbed evidence of softer U.S. consumer demand while navigating a heavy slate of corporate earnings across Europe. Markets reflected a transition phase—away from post-pandemic resilience narratives and toward normalization—where data confirmation and company-specific execution are increasingly decisive.

U.S. Markets & Macro

Equities paused as consumption momentum cooled.

U.S. equity markets were largely unchanged following the release of December retail sales, which came in flat versus expectations for a 0.4% monthly increase. Early trading showed a modest defensive tilt, with health care and utilities outperforming, while growth-oriented sectors such as technology and communication services lagged.

Internationally, Asian markets finished higher overnight, supported by regional stability and selective earnings optimism, while European markets opened firmer before fading later in the session. In fixed income, Treasury yields declined following softer consumption data, reinforcing expectations that policy risks are leaning toward easing rather than tightening. The 10-year U.S. Treasury yield fell to 4.14%, while the 2-year declined to 3.45%.

Consumer Pulse

Spending stalled at year-end, but the slowdown remains orderly.

Headline retail sales were flat in December, missing consensus expectations. More importantly for growth calculations, control-group retail sales—which exclude autos, gas, and building materials—declined 0.1%, pointing to moderation in discretionary demand.

Weakness was broad-based, led by furniture and home furnishings (-0.9%), miscellaneous retailers (-0.9%), and apparel (-0.7%). Building materials stood out as a relatively bright spot, rising 1.2%, suggesting that housing-related activity remains uneven but not impaired.

Despite the soft handoff into 2026, the broader consumption outlook remains constructive. Tax legislation passed in 2025 is expected to result in larger refund checks, providing a modest boost to household purchasing power. Combined with a cooling—but still stable—labor market and gradually easing financial conditions, our base case continues to call for real GDP growth of approximately 2% in 2026.

Economic Calendar Watch

Labor and inflation data take center stage.

Investor attention now shifts to a busy data calendar. The January employment report is expected to show non-farm payroll growth of roughly 75,000, with the unemployment rate holding steady at 4.4%. While hiring slowed meaningfully in 2025—averaging 49,000 jobs per month, down from 168,000 in 2024—there are limited signs of labor-market stress. Layoffs remain contained, and initial jobless claims continue to track well below long-run averages.

On inflation, both headline and core CPI are expected to rise 2.5% year-over-year. If confirmed, this would mark the lowest annual core CPI reading since March 2021. With inflation moderation and job

growth normalizing, the policy backdrop continues to improve. Our outlook anticipates one to two interest-rate cuts from the Federal Reserve in 2026.

Europe: Earnings Drive a Cautious Close

European stocks finished Tuesday modestly lower, reversing earlier gains as corporate earnings took center stage. The STOXX Europe 600 ended the session just below the flatline, with most major bourses and sectors mixed—reflecting stock-level dispersion rather than a unified macro signal.

Tuesday marked a busy day for earnings updates from some of Europe's most prominent companies. Among them, Philips reported full-year 2025 results ahead of the open. The company posted comparable order intake growth of 6% and returned to profitability after a net loss in 2024—an important operational inflection.

Philips guided to comparable sales growth of 3% to 4.5% in 2026, signaling steady but measured momentum. Net income for the year increased by €1.6 million, driven by higher operating income, lower tax charges, and reduced expenses. Separately, the company announced it will propose the reappointment of CEO Roy Jakobs at its Annual General Meeting on May 8.

European takeaway: markets are increasingly earnings-led, not macro-driven. With growth expectations tempered and valuation discipline elevated, execution quality and forward guidance are driving outcomes across sectors.

Strategic Takeaway

Markets are adjusting to normalization—not deterioration. Slower consumer momentum, easing inflation, and a stable labor market point to a more sustainable growth environment. In this phase of the cycle, breadth gives way to selectivity: quality balance sheets, credible guidance, and disciplined capital allocation matter more than broad beta. Confidence built on fundamentals—not momentum—is what sustains performance from here.

GDPNow Update:

- The GDPNow for the fourth quarter 2025 fell to 3.70%, down from 4.20%.

Economic Data:

- **US Retail and Food Services Sales MoM:** fell to -0.02%, compared to 0.55% last month.
- **US Business Inventories MoM:** fell to 0.06%, compared to 0.23% last month.
- **US Export Prices YoY:** rose to 3.56%, compared to 3.23% last month.
- **US Import Prices YoY:** are unchanged at 0.07%, compared to 0.07% last month.
- **US Wholesalers Inventories MoM:** fell to 0.16%, compared to 0.21% last month.
- **US Retail Gas Price:** rose to current level of 2.995, up from 2.98 last week.
- **China Inflation Rate:** rose to 0.80%, compared to 0.70% last month.
- **China Producer Price Index YoY:** fell to -1.90%, compared to -2.20% last month.

Eurozone Summary:

- **Stoxx 600:** closed at 620.97, down 0.44 points or 0.071%.
- **FTSE 100:** closed at 10,353.84, down 32.39 or 0.31%.
- **DAX Index:** closed at 24,987.85, down 27.02 or 0.11%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 50,188.14, up 52.27 points or 0.10%.
- **S&P 500:** closed at 6,941.81, down 23.01 points or 0.33%.

- **Nasdaq Composite:** closed at 23,102.47, down 136.19 points or 0.59%.
- **Birling Capital Puerto Rico Stock Index:** closed at 4,210.93, up 27.43 points, or 0.66%.
- **Birling Capital U.S. Bank Index:** closed at 9,500.45, up 64.23 points or 0.68%
- **U.S. Treasury 10-year note:** closed at 4.16%.
- **U.S. Treasury 2-year note:** closed at 3.45%.



Wall Street Recap

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