



### INVESTORS ROTATE INTO EUROPE AS US TECH LOSES ITS SHINE

This week, investors continued rotating away from US technology stocks towards European equities, with over \$20bn flowing into the region in the first two weeks of February. UK equities were among the primary beneficiaries, supported by exposure to physical assets, relatively cheaper valuations and an improving fiscal position — underscored by a £30.4bn budget surplus in January, the largest monthly figure since records began in 1993. European defence stocks also rallied on the back of the continent’s military build-up, with BAE Systems rising after reporting a 10% increase in sales and £36.8bn of new orders in 2025. Yet the rotation has its limits, with US companies delivering 12% earnings growth in the fourth quarter against just 4% for their European peers, a gap that casts doubt on the durability of the move.

Elsewhere, crude oil climbed to an eight-month high after President Trump issued Iran a 10-to-15-day ultimatum to “make a deal”, while the US continued to bolster its military assets in the Middle East and softening UK inflation lifted expectations of a Bank of England rate cut in March.

### THE MARKETS THIS WEEK

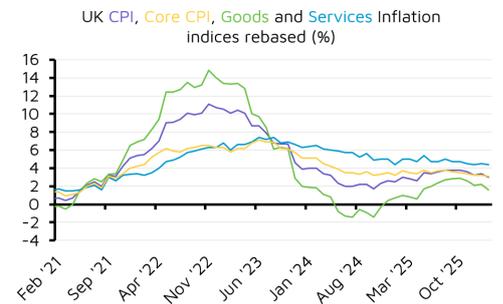
FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
+2.48%	+0.79%	-0.62%	+1.69%	-0.09%	-0.04%	-0.11%	+5.86%	+2.64%	+0.66%	-1.17%



#### UK: RATE CUT ODDS RISE AS INFLATION AND JOBS DATA SOFTEN

Inflation fell sharply to 3% in January, driven by lower food, transport and education costs, reaching its lowest level since March last year. Core CPI, which strips out volatile food and energy prices, edged down only marginally to 3.1%, suggesting some residual stickiness in underlying price pressures. In the labour market, unemployment hit a five-year high of 5.2% in December as overall wage growth cooled to 4.2%. More significant for the Bank of England was the easing in private sector wage growth to 3.4%, broadly consistent with its 2% inflation target.

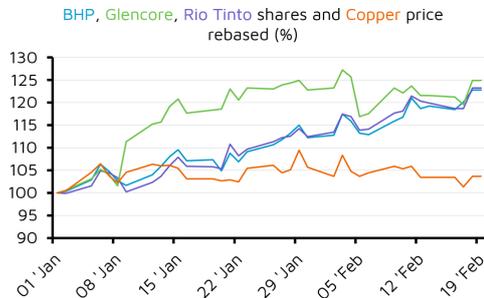
Together, softer inflation and a weakening labour market reinforce the case for further rate cuts. Markets have raised the probability of a quarter-point reduction at the Bank’s March meeting from 70% to around 85%. Gilts rallied across all maturities. Shorter-dated bonds responded to the increased likelihood of near-term rate cuts, while longer-dated gilts benefited from receding inflation expectations. Sterling weakened modestly in response.



#### MINING: COPPER COMES OF AGE AS MINING MAJORS CHASE THE RED METAL

Copper has firmly established itself as the mining industry’s growth engine, and this week’s results left little doubt about its primacy. BHP delivered a near-30% rise in first-half net profit to \$5.6bn — with copper contributing the majority of earnings for the first time in the company’s history — sending shares up 7.5%. Chilean peer Antofagasta reported record operating profits, up 52%. Rio Tinto grew underlying profits 9% to \$25.4bn, driven by an 11% increase in copper output and record iron ore volumes, though net profit fell 14% to \$10bn on higher costs. Glencore’s profits slipped 6% as a 30% collapse in coal earnings overwhelmed solid copper performance.

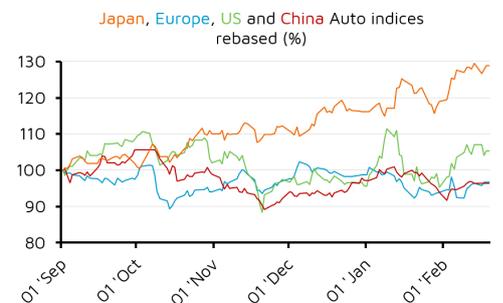
The sector’s consolidation story is ongoing. Rio walked away from a potential \$260bn merger with Glencore over valuation differences, though Glencore’s chief executive has made clear his appetite for transformative deals endures. Rio, meanwhile, is directing 85% of its exploration budget towards copper and building scale through smaller acquisitions.



#### AUTOS: CARMAKERS COUNT THE COST OF EV RETREAT AND CHINA’S RISE

The global automotive industry is absorbing a painful reckoning with its electric vehicle ambitions. Cumulative writedowns have surpassed \$65bn, with Stellantis taking the largest hit after scrapping several EV models and reviving petrol and diesel powertrains, Ford cancelling its electric F-150, and Honda flagging significant annual EV-related losses. Mercedes-Benz reported a 57% collapse in operating profits to €5.8bn for 2025, weighed down by a 19% sales decline in China, \$1bn in tariff costs and adverse currency effects. Renault posted its first loss in five years and guided margins lower for 2026, even as it attempts to stay competitive by cutting model development times in half.

Chinese rivals have gained the upper hand through price, technology and speed, a combination Western carmakers have struggled to match. Brussels is drafting local content rules tying EV subsidies to 70% EU-made components, while several Western carmakers are cautiously exploring partnerships with Chinese groups outside the US.



Data sourced from FE Analytics and Office for National Statistics

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