

# PALOS

## The Palos Perspective

Issue No. 6 | February 23, 2026

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*A Macro Market View by Hubert Marleau*

## The U.S. Economy Keeps Rolling On

Last Friday, the BEA revealed that the US economy had increased at the seasonally adjusted annual rate of 1.4% in Q4/2025. If it had not been for the government shutdown that stretched from October 1 through November 12, which subtracted 1.15 percentage points from overall growth in a self-inflicted manner, thus excluding federal government spending, real growth would have tracked a 2.6% annual rate - right in the range of forecasts made by most economists. What is interesting is the fact that all of this growth was generated by private sector productivity gains from the supply side, even though job creation had slowed to a crawl, and on the demand side by a continuing AI investment boom, with processing equipment and software contributing 0.82 percentage points to overall growth and the rest from a decline in the personal savings rate from 4.2% in Q3 to 3.6% in Q4.

In this context, the underlying trend looks solid, thanks to continuous improvement in productivity, continued investment in AI, as well as tax cuts and incentives from last summer's federal mega bill. Put simply, the measures have created a growth tailwind to start the year without any apparent financial stress, since the 4.4% annual rise in nominal GDP has more or less matched that of the money supply. Incidentally, the NY Fed's Nowcasting staff model is predicting that real GDP will rise 2.4% in Q1/2026, while the Atlanta Fed's economic tracker has an estimate of 3.1%. The March quarter could be another blockbuster.

That said, a lot of wild swings could happen with the undergoing tariff game, bringing back unpopular policy uncertainty that businesses had to deal with last year, and additional financial stress on the government budget position. In addition, the global economy is in a transition that faces several structural shifts from AI, demographics, government debt and political malcontentments stemming

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from wealth and income inequality. Nonetheless, the US economy is expected to grow 2.2% in 2026, according to the most recent WSJ survey of economists.

Reflecting this current strength of US economic activity is the rise in forward earnings per share of the S&P 500, which rose to another record high during the week of February 19, according to LSEG Datastream. Yardeni Research reported that the 2026 consensus estimate held steady at \$314.62, while the 2027 estimate increased to \$364.54. In this connection, investors are likely to push the stock market further, but not in a runaway mode because many of them have churned furiously, employing hedging strategies to offset possible erratic mishaps as Trump tries to save face over tariffs, while insiders are making lightning strikes into individual names on sharp declines.

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