AI unhinges markets

BONHÔTE

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N°830

16 February 2026

Equity markets continued in their new configuration last week. After serving as the growth engine for the past two years, AI is now emerging as a source of uncertainty that is infecting a whole range of sectors.

On the one hand, investors are increasingly questioning the prospective returns of the massive investments being channelled into AI, particularly as spending is now being financed by debt rather than solely by the abundant cash reserves of large corporates.

On the other, following an initial sell-off in software houses, scepticism has spread to real estate, logistics and financial stocks. Markets appear increasingly concerned by disruption risks rather than the potential productivity gains that AI may deliver.

Hopes for a US rate cut

On the macro front, the US labour market is sending mixed signals. January's job creation clocked in at 130,000, while the unemployment rate fell to 4.3%, suggesting some continued resilience. But leading indicators tell a different story, with downward revisions to payroll growth, declining job openings and hiring intentions and rising unemployment claims. Consumer confidence remains subdued, and retail sales are stagnating.

US CPI slowed to 2.4% year-on-year in January, down from 2.7% previously and below the consensus forecast of 2.5%. This figure will give the Fed additional leeway and has revived investor hopes for a string of rate cuts in 2026.

Comments by economic advisor Kevin Hassett, who warned of a potential deterioration in employment conditions, added downward pressure on the dollar and bond yields, reinforcing expectations for a faster monetary pivot. Both the US 2-year and 10-year yields drifted down by more than 10 basis points on Friday.

In Switzerland, zero inflation is starting to look like it is hard-wired into the system. CPI fell by 0.1% month-on-month and rose by just 0.1% year-on-year. Rents remain the main driver of prices, but the Swiss National Bank is expected to maintain its policy stance unchanged.

China still fragile

In Japan, a historic win by the Liberal Democratic Party supported equities and hoisted the 10-year government bond yield up to 2.29%, its highest level since January.

In China, momentum remains fragile, with modest inflation and producer-price deflation weighing on company margins. Reports that Beijing may be encouraging banks to reduce exposure to US debt added a geopolitical dimension to tensions on the dollar. Chinese equity markets will be closed this week for the lunar new year holiday.

Against this backdrop, US indices ended last week lower as investors trimmed exposure to sectors viewed as potential casualties from AI disruption. The S&P 500 fell 1.39% and the Nasdaq 2.10%. Europe proved more resilient, supported by strong earnings from several heavyweights, allowing markets to close almost flat. The EuroStoxx 50 was down just 0.22% over the week, while the SMI outperformed, gaining 0.72%.

Swiss Market Index (SMI)

The SMI is on course for the nearest resistance at 13960 with the potential to continue on to 14235.

Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.77	0.91	13'600.67	5'985.23	24'914.88	8'311.74	10'446.35	6'836.17	22'546.67	56'941.97	1'555.12
Trend	↓	→	↑	→	→	↑	↑	↓	↓	↑	↑
YTD	-3.17%	-2.14%	2.51%	3.35%	1.73%	1.99%	5.19%	-0.14%	-2.99%	13.12%	10.73%

(values from the Friday preceding publication)

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