WELLS FARGO

International Commentary — February 19, 2026

International

International Economic Outlook: February 2026

Summary

- **Global growth steady, policy divergence widening.** Global growth holds near ~3%, with U.S. strength offsetting China/India slowdowns. A firmer U.S. outlook leaves less room for Fed cuts than most other DM central banks, while on balance, room for rate cuts still exists in EMs.
- **Idiosyncratic risks rising beneath stable aggregates.** Japan's fiscal trajectory, China hard-landing risks, LatAm elections and USMCA renegotiation add tail risks alongside a clouded policy outlook.
- **China: Near-term upside, long-term risks.** Exports remain resilient and property sector policy easing suggests a potential bottom in the local real estate sector, but rising leverage and export-driven price cuts risk prolonged deflation and renewed hard-landing fears.
- **Eurozone: Disinflation firming, cuts skew asymmetric.** Weak manufacturing, EUR strength, China goods diversion and tightening credit raise the risk of ECB undershooting its 2026 inflation forecast, biasing policy toward easing.
- **Canada & Japan: Policy constrained by weak inflation vs. fiscal risks.** Canada's disinflation points to renewed BoC cuts and CAD downside, while Japan's fiscal slippage raises long-term risks even as weak data keep the BoJ sidelined.
- **Brazil & Mexico: Regime dependence.** Brazil's election-linked fiscal risks limit BCB easing despite market pricing, while Mexico's outlook hinges on USMCA—supportive if renewed, destabilizing if not.

Economist(s)

Brendan McKenna
International Economist | Wells Fargo Economics
Brendan.McKenna@wellsfargo.com | 212-214-5637

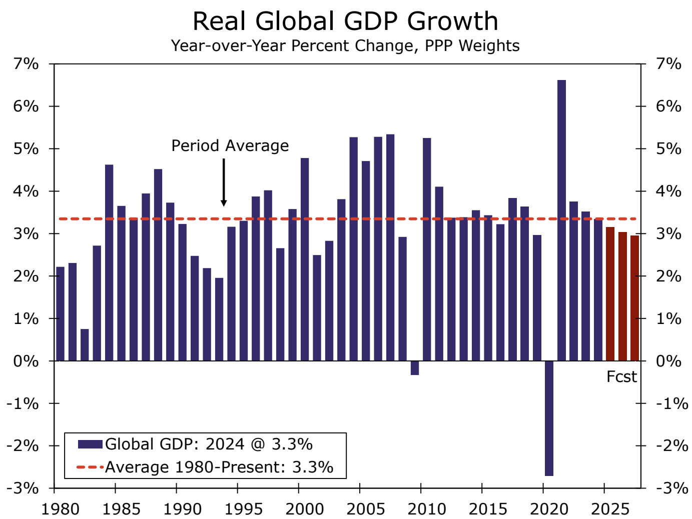
Aroop Chatterjee
Senior Economist | Wells Fargo Economics
Aroop.Chatterjee@wellsfargo.com | 212-214-8819

Azhin Abdulkarim
Economic Analyst | Wells Fargo Economics
Azhin.Abdulkarim@wellsfargo.com | 212-214-5154

Key Themes

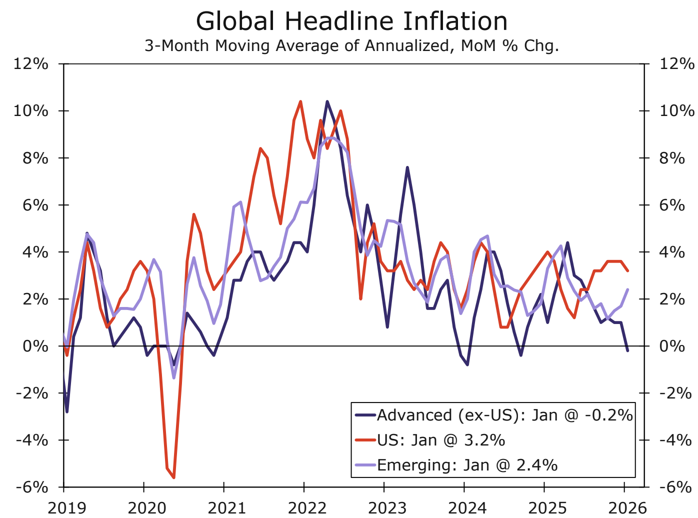
- **Global growth to hold near 3% this year despite elevated policy uncertainty.** While growth should run slightly below its long-run average, expansionary fiscal policy in parts of the advanced world, lagged effects of past monetary easing and the AI/commodity boom provide important offsets to a still clouded policy outlook. The U.S. remains the engine of global growth and is likely to contribute more in 2026 than 2025, offsetting growth slowdowns in China and India. Diverging growth prospects between the U.S. and the rest of the world also underpins inflation divergence: Price pressures remain firmer in the U.S. relative to other G10 economies, while EM inflation trends are mixed. While our U.S. economists forecast two Fed rate cuts this year, a strong U.S. growth outlook leaves less room for Fed cuts relative to other DM central banks (ex-Japan and Australia), where easing risks remain asymmetric. EM central banks are still responding to local trends and have space for further easing. Even with stable global growth, **idiosyncratic risks that could dampen global growth are rising**—from Japan's fiscal trajectory and China hard-landing risks to elections in Brazil and Colombia as well as USMCA negotiations for Canada and Mexico.

Figure 1



Source: International Monetary Fund and Wells Fargo Economics

Figure 2



Source: Bloomberg Finance L.P. and Wells Fargo Economics

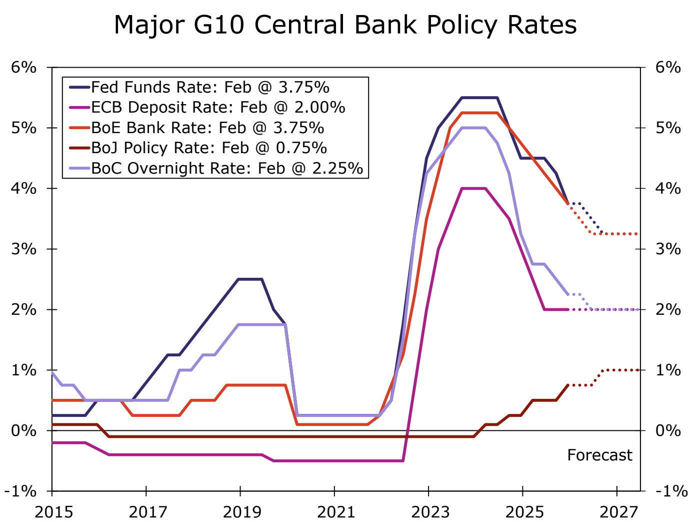
- **China: Near-term gain for long-term pain.** Our view on China is broadly in line with consensus, although we believe risks around our near-term growth forecast are tilted to the upside. Despite tariffs, China exports remain supported, a key pillar that could drive more robust growth should exports continue to take market share. Also, the "three red lines" policy that sparked China's latest real estate sector downturn have been relaxed. Perhaps, the bottom is in for local property developers and a tempered recovery could act as an impulse. At the same time, **"hard-landing" risks are building** as underlying fundamentals are worsening. Worsening fundamentals include still-excessive and rising private sector debt, which may intensify should property developers accumulate more leverage. Even on manufacturing, manufacturers are still cutting prices to stimulate exports, a dangerous path that could lead to deflationary pressures lingering for longer. Perhaps authorities will offer insight into how a hard landing will be avoided and growth sustained at the National People's Congress (NPC) in March.

- **Eurozone: ECB on hold, but cut risks are asymmetric.** The growth backdrop shows modest resilience, driven by services and marked cross-country divergence. Manufacturing remains under pressure from tariff headwinds, market-share losses to China and a strong EUR weighing on exports. While lower energy prices explain much of the recent inflation downside, core inflation has also surprised lower amid easing wage momentum, renewed goods disinflation from China diversion and EUR strength. Credit conditions are tightening: the latest bank lending survey points to an unexpected tightening in corporate credit in Q4-2025, with further tightening expected in Q1 of this year. Against this backdrop, **an undershoot of the ECB's 1.9% inflation forecast for 2026 looks increasingly plausible.** Germany's fiscal impulse is unlikely to provide meaningful support before 2027. Overall, risks remain skewed toward European Central Bank (ECB) cuts, though a shift in communication is likely needed before markets reprice meaningfully—raising the importance of quarterly meetings with updated staff forecasts.

- **Canada: Rate-cut expectations set to build, weighing on the CAD.** January CPI undershot expectations across both headline and core despite anticipated base effects. Underlying momentum remains weak, with three-month annualized trim and median measures running near 1%, signaling broadening disinflation into shelter and services. As base effects fade from February and growth stays sub-trend amid elevated U.S. trade uncertainty, we see risks shifting decisively toward Bank of Canada (BoC) easing below neutral—negative for the CAD. **We now expect a restart of cuts, with a 25 bps cut in Q2** as evidence of labor-market cooling and fading inflation accumulates. Faster fiscal rollout would limit further easing, while failure to extend USMCA would deepen and prolong the cycle. This contrasts with consensus expectations for an on-hold BoC and market pricing of just 6 bps of cuts by end-June and end-2026.

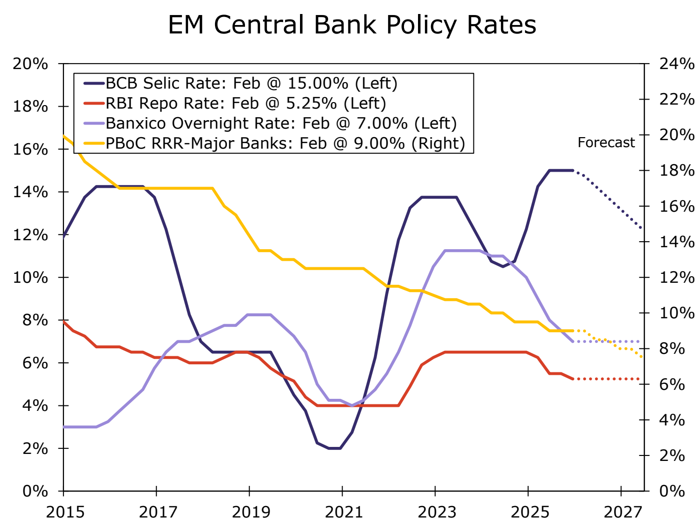
- **Japan: Fiscal risks rising beneath surface calm as macro weakens.** Market calm masks rising fiscal fragilities and a deteriorating macro backdrop. The LDP's supermajority gives PM Takaichi broad latitude to pursue "Sanaenomics," but the proposed food tax cut has shifted the fiscal impulse further toward consumption and transfers, with strategic investment (including defense) accounting for less than 30% of the total. We see this low-multiplier stimulus worsening Japan's fiscal dynamics amid rising debt-service costs and already high debt levels. **A sustained move in long-term JGB yields above 2.5% would likely refocus markets on debt sustainability.** Post-election calm appears driven more by positioning and faith in establishment restraint than fundamentals. Meanwhile, activity and inflation surprises have turned negative, keeping the Bank of Japan (BoJ) on hold for longer and weighing on the JPY. While we retain our call for a BoJ hike to 1% later this year, upside risks to rates increasingly stem from fiscal concerns and FX weakness rather than a meaningful improvement in growth.

Figure 3



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Figure 4



Source: Bloomberg Finance L.P. and Wells Fargo Economics

- **Brazil: Fiscal and election risks to keep BCB cautious.** Latin America's trend toward conservative political platforms is intact in early 2026; however, Brazil general elections are arguably most pivotal and yet to come. Elections in Brazil are very much binary: Lula wins or Lula loses. In the coming quarters, **we believe Lula will deploy a more populist policy agenda aimed at supporting his re-election bid**—particularly enhancing "Bolsa Familia" and extending cash transfers to more households. Brazil has little fiscal flexibility, so not only will looser fiscal policy create a more unsustainable path for public debt, local financial markets are likely to turn volatile. Our view for looser pre-election fiscal policy and BRL volatility also underpins our less dovish view on the Brazilian Central Bank (BCB) relative to market pricing. As of now, markets are priced for a Selic rate closer to 12.00%-12.25% by YE-26 relative to our YE forecast of 13.25%. In our view, potentially looser fiscal policy and new inflation pressures will keep BCB policymakers tempered on rate cuts. Our base case is still that Lula will be unseated, which in our view, will allow the BCB to extend the easing cycle into 2027 but also stabilize BRL as local political risk premium eases.

- **Mexico: U.S.-supported, but USMCA dependent.** Strong U.S. growth prospects support a *fragile*—and we stress *fragile*—growth recovery in Mexico. We forecast Mexico's economy to grow ~1.6% this year, but **risks to Mexico's growth outlook are tilted to the downside, given the uncertainty around the USMCA renegotiation**. An unfavorable renegotiation, or if the North America trade agreement fails to be renewed, would cause significant and long-lasting damage to the Mexican economy, given the dependency on frictionless trade with the U.S. and Canada. To make matters worse, Mexico has limited policy space—both fiscal and monetary—to support its economy in the event trade is materially disrupted. And adding insult to injury, Mexico could be hit with credit rating downgrades that takes the sovereign out of investment grade territory. Forced capital outflows and higher cost of capital would compound economic stresses. For now, our base case is centered around minimal trade disruptions and for MXN to outperform Latam peer FX. But should the downside scenario materialize, an overvalued and over- owned Mexican peso could experience a sharp selloff that takes USDMXN back above MXN20.00 rather quickly.

Wells Fargo International Economic Forecast

	GDP				CPI			
	2024	2025	2026	2027	2024	2025	2026	2027
Global (PPP Weights)	3.3%	3.1%	3.0%	2.9%	5.8%	3.7%	3.8%	3.7%
Advanced Economies[1]	1.8%	2.0%	2.1%	2.1%	2.6%	2.7%	2.4%	2.3%
United States	2.8%	2.2%	2.7%	2.3%	3.0%	2.7%	2.6%	2.3%
Eurozone	0.9%	1.5%	1.5%	1.7%	2.4%	2.1%	2.2%	2.2%
United Kingdom	1.1%	1.3%	1.0%	1.6%	2.5%	3.4%	2.4%	2.0%
Japan	-0.2%	1.1%	0.7%	1.0%	2.7%	3.2%	1.7%	1.9%
Canada	2.0%	1.7%	1.5%	2.0%	2.4%	2.1%	1.6%	2.0%
Australia	1.0%	1.9%	2.2%	2.4%	3.2%	3.0%	3.1%	2.6%
Developing Economies[1]	4.3%	3.9%	3.6%	3.5%	7.9%	4.3%	4.7%	4.6%
China	5.0%	5.0%	4.6%	4.3%	0.2%	0.1%	0.8%	1.0%
India	6.7%	7.5%	7.0%	6.8%	4.6%	2.2%	3.9%	3.7%
Mexico	1.4%	0.6%	1.6%	1.6%	4.7%	3.8%	3.3%	3.9%
Brazil	3.4%	2.6%	1.6%	2.2%	4.4%	5.1%	4.2%	4.0%

Forecast as of: February 19, 2026

[1]Aggregated Using PPP Weights

Source: International Monetary Fund and Wells Fargo Economics

Wells Fargo International Interest Rate Forecast

(End of Quarter Rates)

Central Bank Key Policy Rate	2026					2027	
	Current	Q1	Q2	Q3	Q4	Q1	Q2
United States	3.75%	3.75%	3.50%	3.25%	3.25%	3.25%	3.25%
Eurozone[1]	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
United Kingdom	3.75%	3.50%	3.25%	3.25%	3.25%	3.25%	3.25%
Japan	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%
Canada	2.25%	2.25%	2.00%	2.00%	2.00%	2.00%	2.00%
Australia	3.85%	3.85%	4.10%	4.10%	4.10%	4.10%	4.10%
China[3]	9.00%	9.00%	8.50%	8.50%	8.00%	8.00%	7.50%
India	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%
Mexico	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Brazil	15.00%	14.75%	14.25%	13.75%	13.25%	12.75%	12.25%

2-Year Note	2026					2027	
	Current	Q1	Q2	Q3	Q4	Q1	Q2
United States	3.47%	3.45%	3.40%	3.40%	3.40%	3.40%	3.45%
Eurozone[2]	2.06%	2.10%	2.10%	2.10%	2.10%	2.10%	2.15%
United Kingdom	3.57%	3.50%	3.30%	3.30%	3.30%	3.30%	3.30%
Japan	1.26%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
Canada	2.45%	2.55%	2.55%	2.55%	2.55%	2.60%	2.65%

10-Year Note	2026					2027	
	Current	Q1	Q2	Q3	Q4	Q1	Q2
United States	4.10%	4.10%	4.15%	4.20%	4.25%	4.25%	4.30%
Eurozone[2]	2.75%	2.85%	2.90%	2.95%	3.00%	3.05%	3.10%
United Kingdom	4.39%	4.30%	4.25%	4.25%	4.25%	4.25%	4.25%
Japan	2.15%	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%
Canada	3.24%	3.40%	3.40%	3.45%	3.50%	3.55%	3.60%

Forecast as of: February 19, 2026

[1] ECB Deposit Rate [2] German Government Bond Yield [3] Reserve Requirement Ratio Major Banks

Source: Bloomberg Finance L.P. and Wells Fargo Economics

Economics Group

Tom Porcelli	Chief Economist	212-214-6422	Tom.Porcelli@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Aroop Chatterjee	Senior Economist	212-214-8819	Aroop.Chatterjee@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Azhin Abdulkarim	Economic Analyst	212-214-5154	Azhin.Abdulkarim@wellsfargo.com
Anagha Sridharan	Economic Analyst	704-410-6212	Anagha.Sridharan@wellsfargo.com
Andrew Thompson	Economic Analyst	704-410-2911	Andrew.L.Thompson@wellsfargo.com

Required Disclosures