



February 11, 2026

Morning Briefing

On Japan, US Housing Affordability & S&P 500 Earnings Boom

Check out the accompanying [chart collection](#).

Executive Summary: With a huge snap election victory behind her, Japan's Prime Minister Sanae Takaichi effectively has a political mandate to run with her fiscal stimulus plans, plans that the Bond Vigilantes won't condone. William discusses the high-stakes gambit being dubbed "Sanaenomics" and why it could roil Japan's financial markets. ... Also: Melissa reports on the forces driving up the costs of housing to the point of an affordability crisis, notwithstanding the strength of the overall economy. ... And: That strength is showcased in better-than-expected Q4 results, says Joe, who shares impressive stats on the aggregate earnings of the two-thirds of S&P 500 companies that have reported so far.

Japanese Economy I: Takaichi's Landslide Dares Bond Vigilantes. Japan's Prime Minister Sanae Takaichi bet big on a snap election, and it paid off big. Her margin of victory on Sunday was the widest of any Japanese party's since World War II.

The results represent a [clear mandate](#) for Japan's first female leader to reopen the fiscal floodgates, with few political constraints now in the way. Takaichi's Liberal Democratic Party has enough votes in parliament to override any opposition to huge stimulus packages, tax cuts, and weaken the yen.

Yet as Takaichi is about to learn, scoring the support of voters was the easy part. Winning over skeptical bond traders will be a much heavier lift for a leader far more focused on short-term sugar highs than reforms to increase competitiveness in the long run.

Let's look at how Takaichi's expansionary fiscal stance might run afoul of the bond market:

(1) *Market jitters.* Like clockwork, the Nikkei 225 index [rallied](#) 5% on Monday, crossing 57,000 for the first time. Japanese government bond (JGB) yields spiked as traders braced for increased borrowing ([Fig. 1](#) and [Fig. 2](#)).

Bank of Japan (BOJ) watchers are scratching out predictions for further tightening. Only time will tell whether the two rate hikes that BOJ Governor Kazuo Ueda's board announced last year—to a [30-year-high](#) of 0.75%—are the last of the cycle ([Fig. 3](#)). Takaichi has called the BOJ's rate normalization efforts “[stupid](#).”

(2) *A stimulus tear.* These diverging impulses will seem familiar to anyone who's been following Japan's zig and zags these last 13 years. The bookmark referenced here is to the last time Takaichi's party went on a stimulus tear—in 2012, when Takaichi's mentor Shinzo Abe took power.

Today's chatter about “[Sanaenomics](#)” is impossible to divorce from the rise and fall of “Abenomics” and the awkward revisionist history about where Japan Inc. finds itself in 2026.

(3) *Too much stimulus.* The catch is that the world is a very different place than it was 13 years ago, as China speeds up Asia's economic clock. The same goes for Japan's finances. Abe never delivered the supply-side revolution he had promised. Promises to cut bureaucracy, modernize labor markets, rekindle innovation, increase productivity, and close the gender-pay gap fell by the wayside.

True, the Abe era saw Japanese companies improve [governance](#) and diversify boards. Mostly, though, Abe treated the symptoms of Japan's challenges rather than the underlying causes.

Japanese Economy II: The Limits of Abenomics 2.0. If Takaichi has a better strategy in mind, her inner circle isn't saying. Not surprisingly, the Bond Vigilantes are already wary of an [Abenomics 2.0](#) gambit. Many worry that Takaichi, a [China hawk](#), will focus more on increasing military spending than raising Japan's economic game.

The months since Takaichi took power in October saw 10-year yields rise to the [highest levels](#) since 1999. Forty-year yields topped 4.00%, a first for any JGB maturity in more than [three decades](#).

Here's more:

(1) *Debt surge.* Worries facing the bond market include persistently high inflation and an even bigger supply-demand imbalance as Team Takaichi adds to the worst debt-to-GDP ratio—[nearing 240%](#)—in the developed world.

To be sure, talk of a “[Liz Truss moment](#)” in Japan is overdone. With 90% of outstanding JGBs held [domestically](#), the risks of a bond crash like the one that former UK Prime Minister Truss caused in 2022 are a reach. But it is concerning that Japan’s [interest payments](#) on bonds are the highest in nearly three decades—about 3%—at a time when its population is shrinking and aging at accelerating rates. In 2025, Japan saw the [fewest](#) births since at least 1899.

(2) *Limited latitude*. The collision of these two dynamics means that Takaichi has less room to run up budget deficits than her inner circle believes. This could complicate the calculation Japan stock bulls are making.

One big wildcard is the BOJ. If Ueda stands his ground and refuses to signal an end to the tightening cycle, the drama could cause volatility in JGB yields and the yen. True, inflation eased to [2.1% y/y](#) in December ([Fig. 4](#)). But that same month, [real wages](#) shrank for a 12th consecutive month.

(3) *The Trump factor*. Though President Trump had [endorsed](#) Takaichi, calling her “a strong, powerful, and wise” leader, [he’s now angry](#) with Tokyo for delaying payment of the \$550 billion “[signing bonus](#)” that Trump demanded in exchange for lowering the US tariff on Japanese imports to 15%.

Takaichi, like officials in Europe and South Korea, hopes the Supreme Court will save the bigger tariffs on Tokyo if he thinks it’s depreciating the yen.

No doubt, Takaichi’s party is riding high. But between Trump’s tariffs, Chinese competition, and the wary watchfulness of the Bond Vigilantes, the honeymoon will be very short.

US Housing Market: What Went Wrong with Housing Affordability? The monthly mortgage payment on a median-priced existing home, financed at today’s rates, absorbs roughly 40% of median household income now versus about 25% before the pandemic. The National Association of Retailers’ (NAR) Housing Affordability Index shows the collapse of US housing affordability to near cycle lows ([Fig. 5](#)). The deterioration reflects the fact that sharp increases in mortgage rates combined with elevated home prices have dwarfed gains in household income.

Mortgage lenders typically deny applicants whose housing costs approach about 40% of gross income before factoring in other debts. Yet today that’s the case for many median-income households. They fail lenders’ qualification math despite having job security simply

because homeownership costs have blown through historical comfort zones. The Mortgage Bankers Association's purchase and refinance gauges show subdued mortgage applications, as potential buyers are deterred by the higher payments required ([Fig. 6](#)). The demographic fallout is evident: The NAR claims the median first-time buyer age has [climbed](#), while the first-time buyer share has fallen.

With housing affordability "broken," President Trump is floating unconventional policy ideas. Recent reports that Lennar and other homebuilders are exploring large-scale affordable "Trump Homes" speaks to the prevalence of the issue. The bottom line is that affordability will remain strained even if the broader economy stays resilient until housing payments realign with what median incomes can support.

So, what went wrong to push housing affordability to today's extremes? Here's a look at some of the cyclical and structural culprits:

(1) *Mortgage rates reset payments.* The biggest hit to affordability came from the rapid rise in mortgage rates since 2020, when 30-year mortgage rates shifted from sub-3% to roughly 6%–7% ([Fig. 7](#)). That shift sharply increased monthly mortgage payments, pushing many households above lenders' acceptable payment-to-income and debt-service thresholds.

(2) *Home prices never corrected.* In past tightening cycles, higher mortgage rates eventually forced home prices lower. This time, that adjustment didn't happen, leaving monthly payments far above what median incomes can support. Nominal home prices largely held onto their pandemic-era gains, flattening at elevated levels. Even after mortgage rates more than doubled from their 2020–21 lows, home prices never meaningfully corrected. When 30-year mortgage rates bottomed near 3% in 2021, the median existing-home price was roughly \$360,000. Today, with mortgage rates closer to 6%–7%, the median price is still elevated, at around \$400,000 ([Fig. 8](#)).

(3) *The lock-in effect froze housing supply.* Many homeowners are effectively locked into mortgages with interest rates that are far below today's market rates. Selling therefore means trading a historically cheap loan for a much more expensive one. This dynamic keeps the inventory of homes for sale tight, preventing prices from adjusting lower—i.e., short-circuiting the normal affordability reset. More than half of [outstanding mortgages](#) carry rates at or below 4%, and nearly 70% are below 5% as of Q2-2025. Existing homes inventory is hovering around three to four months versus the five to six months that historically has signaled a balanced market ([Fig. 9](#)).

(4) *Entry-level supply isn't penciled in.* Entry-level homes are expensive too. Residential construction [costs](#) have run hot since 2020, further boosted by US import tariffs, reflecting higher labor, materials, and financing expenses. That cost structure pushes builders toward higher price points that allow for sufficient profit margins, leaving limited supply below the entry-level threshold. While housing starts have recovered, the median new home price has leveled off near \$440,000, well above the pre-pandemic \$320,000.

(5) *Home prices track average, not median, income.* Home prices increasingly reflect the buying power of higher-income households, not the median household. The distinction matters because average personal income, boosted by gains at the top of the distribution curve, is meaningfully higher than median income. Federal Reserve [research](#) shows that the Federal Housing Finance Agency House Price index tracks average income growth far more closely than median income, allowing higher-income households to continue to sustain prices even as affordability deteriorates for buyers that fall below the average.

(6) *Costs of life inflation delay household formation.* The rising costs of non-discretionary expenses aren't fully offset by wage growth, which is eroding purchasing power ([Fig. 10](#)). Rising health insurance premiums and out-of-pocket costs have absorbed a growing share of households' cash flow. High rents crowd out savings for down payments and emergency buffers, delaying the transition from renting to owning. A study of homeowners in Harris County, TX found that rising property taxes and insurance premiums have [pushed](#) non-mortgage costs to roughly a quarter of monthly housing expenses, materially lifting the all-in cost of ownership.

(7) *Investor competition raises the price bar.* In certain fast-growing markets, first-time buyers face competition from investors, both small and institutional, who often can pay cash or accept lower yields. That additional demand can raise sale prices marginally in markets where it's a factor. Policy attempts to address the issue haven't picked up traction: [Proposals](#), including Trump-backed efforts to curb investor purchases, have stalled in Congress—highlighting how difficult it has been to translate affordability concerns into legislation.

Strategy: Q4 Earnings Season Among the Best Ever! With nearly two-thirds of the S&P 500 companies and six of the Magnificent-7 having reported December-quarter results through mid-day Tuesday, the quarter's surprise "hook" seems likely to lift Q4 earnings to a record high.

(Note: When higher actual results replace analysts' lower estimates in the charted data

series, the earnings surprise makes a hooklike pattern in the data line. Also: The size of beats is measured as the change in actual reported EPS from the consensus Q4 mean at the time of each company's report.)

Notably, the S&P 493's earnings surprise data continue to improve, with a bigger surprise among reporters to date than the Magnificent-6! As of Friday, their aggregate "blended" quarterly EPS—a mix of actual EPS for companies that have reported Q4 and consensus estimates for those that haven't—was \$72.57, just 0.3% below the record-high \$72.77 reached in Q3-2025 ([Fig. 11](#)). (See our [web pub](#) *S&P 500 Quarterly Metrics*.)

The degree to which S&P 500 Q4 earnings have beat analysts' expectations has weakened so far q/q to 5.5% from a 16-quarter high of 9.6% ([Fig. 12](#)). But it's still up among the top one-third of beats since 1987. Also up: Q4's blended EPS relative to analysts' expectations at year-end, when the consensus was EPS growth of 8.6% y/y to \$70.62 ([Fig. 13](#)).

Speaking of EPS growth, it's been in the double digits for five straight quarters and in six of the last seven quarters. The S&P 500's unpublished blended y/y earnings growth rate for Q4 is 11.6%, up from 9.8% last week. Q4 should mark a tenth straight quarter of positive y/y earnings growth—the longest string in over six years (since the 12 quarters through Q2-2019).

Here's more, courtesy of Joe:

(1) *Fewer sectors outperform S&P 500's Q4 earnings growth.* Ten of the 11 S&P 500 sectors have delivered rising earnings y/y among their Q4 reporters so far; but only four top the overall S&P 500's y/y growth rate, skewed higher by Information Technology. If the Consumer Discretionary and Energy sectors finish Q4 with y/y earnings growth too (both have a good shot), all 11 sectors will be y/y growers for the first time since Q4-2021.

Four sectors' Q4 earnings growth is in the double digits versus five in Q3 and way down from seven in Q4-2024. Among Q4's laggards, Consumer Discretionary's earnings are down 0.1% y/y. Information Technology's earnings growth is in the double digits for a tenth straight quarter and Communication Services' for a sixth.

Here's how the sectors' y/y earnings growth stacks up so far on a proforma basis: Information Technology (30.6%), Industrials (15.9), Communication Services (15.1), S&P 500 (13.5), Financials (12.2), Materials (8.6), Utilities (2.5), Consumer Staples (2.5), Energy (2.2), Real Estate (1.2), Health Care (0.5), and Consumer Discretionary (-0.1).

(2) *Magnificent-7*. Nvidia is the only Mag-7 yet to report December-quarter results. The Mag-6's aggregate Q4 earnings surprise of 5.4% lags the S&P 500's. Their y/y earnings growth of 18.6% exceeds the S&P 500's, but has been slowing as AI capex spending ramps higher ([Fig. 14](#)).

Only one of the six reported a double-digit percentage earnings surprise, but four had double-digit y/y earnings growth: Tesla (11.9% earnings surprise, -31.5% y/y earnings growth), Meta (7.8, 10.7), Alphabet (7.3, 31.2), Apple (6.3, 18.3), Microsoft (4.7, 28.2), and Amazon (-1.1, 4.8).

(3) *Record-high Q4 earnings for S&P 493*. The S&P 493's earnings are a healthy 5.7% above the consensus forecast, topping the Mag-6's 5.4%; that attests to the strength of "Main Street" companies. The S&P 493's y/y growth rate has eased to 9.2% y/y in Q4 from 9.9% in Q3 and a 12-quarter high of 13.2% in Q4-2024. Still, the group's total earnings is headed for its third straight record-high quarter.

Strategy Indicators

S&P 500 Q4 Earnings Season Monitor ([link](#)): With 317 companies having reported Q4 results through mid-day Tuesday, the Q4-2025 earnings season is nearly two-thirds complete. The latest readings suggest a tad weaker revenue and earnings surprise than in Q3-2025, but with y/y growth steady q/q near their respective three- and four-year highs. Revenues are ahead of the consensus forecast by 1.7%, and earnings have exceeded estimates by 5.6%. Both of those measures are stabilizing now as the Q4 finish line approaches. Just 72% of the 317 companies has reported a positive revenues surprise, while 78% has reported an earnings beat. That's well above historical averages of 62% (revenues) and 73% (earnings) but below Q3's uncommonly high readings of 77% (revenues) and 83% (earnings). Among the 317 companies that have reported so far, aggregate y/y earnings growth is exceeding revenues growth for a 10th straight quarter. Their aggregate y/y growth rates has improved q/q so far for revenues and weakened for earnings: up to 9.4% from 8.1% for revenues growth and down to 14.2% from 16.6% for earnings growth. More companies have been reporting positive y/y revenues growth in Q4 (83%) than positive y/y earnings growth (74%), but both are at four-year highs now and well above their historical averages of 73% (revenues) and 66% (earnings).

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