Yardeni Research

February 17, 2026

Morning Briefing

Europe's Latest To-Do List & Poland Shows How To Do It

Executive Summary: European leaders' annual meeting in Belgium yielded a plan to increase Europe's global competitiveness: One Market, One Europe. William discusses the pressures that have steeled leaders' determination to unite the member countries into a single market, the three pillars of the plan itself, and challenges that stand in the way. Of utmost importance is incentivizing private investment to get member countries on board. … Also: Poland has emerged from decades of transformation to become one of the fastest growing economies in Europe. It faces headwinds from geopolitical forces and domestic challenges alike, but Poland has proven it's not one to bet against.

YRI Weekly Webcast. Join Dr Ed's live webcast with Q&A on Tuesday at 11 a.m., EST. You will receive an email with the link one hour before showtime. Replays of the weekly webcasts are available *here*.

European Economy I: Getting Serious About Competitiveness. After a year of navigating the dueling trade policies of the US and China, Europe finally has a plan to boost competitiveness and potential economic growth.

On February 12, European Union officials *huddled* in a Belgian castle to address a range of stalemates, from bureaucracy to excessive regulation to investment to the long-sought integration of capital markets.

Former European Central Bank (ECB) President Mario Draghi, a leading proponent of *increasing competition*, urged leaders to "move faster." French President Emmanuel Macron said there are "no taboos." European Commission President Ursula von der Leyen gave the bloc until June to agree on a long-stalled union of financial markets.

From all the lofty talk, something remarkable emerged: EU officials finally admitted that it has taken far too long to get all 27 member countries to agree on a plan for greater economic efficiency. So if the EU makes insufficient progress by June, *smaller groups*—as small as nine members—could move ahead on "enhanced co-operation" to accelerate

reforms.

Let's explore what Europe is up against before looking at what it's planning:

(1) *Moving mountains*. Von der Leyen told reporters: "Often we move forward with the speed of the slowest and the enhanced co-operation avoids that. The pressure and the sense of urgency is enormous, and that can move mountains."

Much of that urgency is coming from Washington and Beijing, both of which are sending different kinds of *headwinds* the EU's way.

(2) *Dead world order*. Draghi, who since 2024 has been publishing reports on how to revamp Europe, called the current economic world order "defunct" and "*dead*." At issue, the former Italian prime minister said, is that the EU faces a US that "emphasizes the costs it has borne while ignoring the benefits it has reaped" over the decades.

(3) *Trump's tariffs*. Where President Donald Trump takes his trade war in 2026 is anyone's guess. His threat of a 100% rate on eight European countries over Greenland suggests Trump hasn't gotten tariff-slapping out of his system just yet.

(4) *Threat from China*. With China, Draghi said, Europe faces a rival that "controls critical nodes in global supply chains and is willing to exploit that leverage, flooding markets, withholding critical inputs, forcing others to bear the cost of its own imbalances."

China's overcapacity and the knock-on effects of President Xi Jinping's decade-old "Made in China" program are making life difficult for Germany and other top European economies. The ever-increasing threat from BYD and other mainland *electric vehicle makers* alone is challenging the continent's industrial model.

It's also the case that China is speeding up the globe's economic clock. For all its challenges—including a giant property crisis that's fueling deflation—the hyper-competitiveness emanating from its *$19 trillion economy* is remaking commercial relationships everywhere.

European Economy II: The Plan. All this has the EU racing to implement a "*One Europe, One Market*" strategy. Just not nearly fast enough. The hope is for the initiative to be operational by the end of 2027. Given the threats coming from Washington and Beijing though, that's around 22 months too late.

The plan consists of three main pillars:

(1) *Lowering administrative hurdles.* Among the notorious administrative burdens that slow economic upgrades to a crawl and have to go are: 1) "*gold-plating*," which requires national legislatures to ratify all EU directives; and 2) the "*sunset clause*" that automatically expires regulations and agreements, forcing the 27 countries to renew them over and over again.

(2) *Integrating markets*. Creating a single, integrated market for capital across EU member states would diversify funding sources for small businesses—especially startups—and strengthen the competitiveness by reducing reliance on bank lending. It would take off the drawing board the so-called "*28th regime*" that creates a single, harmonized set of rules for startups and put it into action.

(3) *Creating a single energy market.* Having one EU energy market with cross-border energy grids is considered vital at a time of Russian aggression.

European Economy III: Self-Inflicted Wounds Complicate Change. The idea is for the rubber to hit the proverbial road at the European Summit in early March. Yet for all the ambition on display at *Alden Biesen Castle* last week, the same self-inflicted wounds that long hobbled change are on still on display:

(1) *The Germany/France rift*. One is the traditional rift between top EU economies. Germany thinks deregulation and the simplification of financial rules are more important. France wants to slap *tariffs on China* and prioritize "Made in Europe" policies that protect local manufacturers and increase public investment funded with Eurobonds. German Chancellor Friedrich Merz said "I will not support" the issuance of *joint debt*.

There are many reasons to worry EU leaders are biting off more than they can chew. The vital step of ending gold-plating, for example, would mean countries' transferring more national power to Brussels than tolerable.

(2) *The lack of investment incentive.* How to incent the ample private investment needed to make economic disruption worthwhile for EU member states is an open question.

Carsten Brzeski at ING Bank thinks a European sovereign wealth fund could *do the trick*. Funded by private and public capital and open to retail investors, the fund could invest in pan-European projects across infrastructure, defense, and AI.

The EU would have to act boldly and credibly to succeed. Europe, Brzeski noted, "has never really suffered from a lack of plans or grand vision; the real obstacle has almost always been weak implementation and national interests taking precedence over European ones. Whether this time will be any different remains to be seen."

Draghi, who's known for doing "*whatever it takes*" during his ECB days, said at the summit that unless Europe learns to adapt to a fast-changing world and respond with strength, it risks "becoming subordinated, divided, and deindustrialized at once." In a world "where trade and security intersect," he concluded, "our strengths cannot protect our weaknesses."

Polish Economy I: 'European Tiger' on Germany's Doorstep. On any list of $1 trillion economies set for a buoyant 2026, Poland deserves to be near the top. The largest economy in Central and Eastern Europe joined this most exclusive of clubs last year, as its *3.6% y/y growth* outpaced GDP growth across much of the continent.

That's not the only milestone of note. Forty-five years ago, dissident and future President Lech Walesa predicted that Poland was destined to be a "*second Japan*"—inspiring more eye-rolling than confidence at the time.

Well, Poland is delivering. Per-capita GDP, adjusted for purchasing parity, could surpass Japan's in 2026. This "European tiger" right on Germany's doorstep is likely now among the *top 20* global economies, *topping* Switzerland, Taiwan, and Belgium.

Let's look at what Poland is doing right before we consider where the risks lie. Winds at Poland's back include:

(1) *Goldilocks energy*. The forces behind expectations that Poland's economy will *grow GDP by 3.7% y/y* this year exude a Goldilocks energy: solid consumption, strong industrial output, increasing fixed investment, and tame inflation. Many economists think the risks to this year's growth forecast are to the upside.

True, some of Poland's outperformance reflects an influx of EU money. This year, it's expected to see between *€43 billion and €48 billion* ($46 billion to $50 billion) from the National Recovery Plan and other EU instruments. Such funds are meant to support defense, digital transformation efforts, green energy, and infrastructure.

(2) *Huge achievement*. But Poland has indeed been transforming itself over the three and a half decades since its command-economy days of empty store shelves and rationed goods.

As 44-year-old Finance Minister Andrzej Domański observed recently: “For my generation, it’s a *huge achievement*; for my parents’ generation, it’s a miracle.”

Poland is expected to see increased investment growth, robust industrial production, and overseas shipments amid steady demand from its main export markets, Germany, France, and the Czech Republic. Data from late 2025 suggest efforts to transition Poland from low-cost manufacturing center to a *high-tech*- and services-driven economy are paying off.

Its centralized location, large consumer market of *38 million people*, and well-educated labor force have enabled Poland to diversify its economy into the automotive, financial services, health, and technology sectors.

(3) *Spreading wings*. Poland is expanding its regional presence. Last week, Bloomberg ran an expose on Poland’s 22 Western Europe acquisitions in 2025, the highest ever. Another four M&A deals are underway this year. This includes an increasing number of takeovers in Germany, which helped bankroll Poland’s boom. Nine German transactions to date in industries from automotive to IT to food production.

As Polish tech executive Jacek Swiderski at Wirtualna Polska Holding puts it: “It was *unimaginable for me* that the Polish economy could catch up with the German one in terms of expertise, service quality, or scale of operations. Our transaction, like other acquisitions carried out by Polish companies, shows how far we’ve come.”

(4) *US taking note.* The Trump administration is clearly noticing Poland’s breakaway success. The US is inviting Polish Prime Minister Donald Tusk to attend the G20 summit in Miami this December. “Poland, a nation that was once trapped behind the Iron Curtain … will be joining us to assume its *rightful place* in the G20,” Secretary of State Marco Rubio said recently.

(5) *All this despite Russia.* Poland’s performance since 2022 has been all the more remarkable given how Russia’s invasion of Ukraine has violently shaken up the economic neighborhood as well as deprived Poland of the steady flow of cheap Russian energy on which it relied.

Polish Economy II: Now for the Hard Part. The Russia factor is just one of the ways in which the new global order that’s coming into focus is challenging the way forward. President Donald Trump’s tariff plans remain one of the biggest uncertainties for Poland’s outlook, especially given his disregard for preserving once-close relationships with US

allies. China's rapid move upmarket is an ever-intensifying threat. And even though AI helped propel WIG20 benchmark stocks *up 37%* over the last 12 months, AI *threats*—and opportunities—abound.

It won't be easy for Poland and other open economies that have benefited from the global trading regime to navigate a new protectionist system as it takes shape in real time. There's no telling whether Trump might slap new levies on the EU, China might play hardball with rare-earth minerals, or Russia might expand its campaign in Ukraine into NATO countries—including Poland. That would torpedo future investments.

Poland faces plenty of domestic challenges to growth as well, including:

(1) *Lengthy to-do list*. Increasing social spending is imperiling public finances. The International Monetary Fund projected recently that at year-end 2025 Poland's fiscal deficit—Europe's *second largest*—likely *reached 7%* and its public debt almost 60% of GDP, with the latter projected to rise to *69.2%* by 2027. Many economists worry that Poland isn't investing enough in research and development to increase innovation. It ranks 39th out of *139 countries* in the 2025 Global Innovation Index.

(2) *Labor shortages*. Demographics poses a challenge. Poland's birthrate is below the EU average of *1.1 children* per woman, despite generous social programs and maternity leave. The population could shrink below *30 million* by 2060. Poland is aging rapidly, too, at a moment when anti-immigrant sentiment is limiting the import of Ukrainian labor.

All this has led to tight labor markets, which threaten to erase the previous Polish advantage of low wage costs. So far, though, it hasn't led to runaway cost-push inflation. In January, inflation eased to a two-year low of *2.2% y/y*, down from 2.4% in December.

(3) *Moving upmarket*. With the economy having *grown 4%* y/y during Q4, the fastest in three years, the odds of rate cuts have plummeted. Last week, National Bank of Poland head Adam Glapiński said that "according to all forecasts, Poland's inflation has returned to target for good, which had been our goal."

The question now is whether Poland can maintain its goal of improving its economic ranking. Even as headwinds zoom its way from all directions, Poland hardly seems an economy to bet against this year.

Strategy Indicators

Global Stock Markets (US$ Performance) (*link*): The US MSCI index tumbled 1.4% during the February 13 week to 2.2% below its January 12 record high. The AC World ex-US outperformed with a 2.3% gain for the week, though it slipped on Friday to 0.7% below Thursday's record high. The AC World ex-US has been outperforming the US MSCI since December 24, 2024 and hitting new record highs since May 14—the first time it's had such a long streak of successive record highs since June 15, 2021.

EM Asia was the best performing region last week, with a gain of 3.9%, followed by EM (3.2%) and the AC World ex-US. EMU was the worst regional performer, albeit with a gain of 0.1%, followed by EMEA (0.4), Europe (0.5), EM Latin America (0.8), and EAFE (1.9). The Korea MSCI index, with a gain of 10.9%, performed the best among country indexes, ahead of Taiwan (7.2), Japan (5.9), Australia (3.8), and Canada (1.8). The Spain MSCI index was the worst performer w/w, with a decline of 1.7%, followed by the USA (-1.4), India (-0.7), China (-0.2), and Hong Kong (0.1).

In terms of ytd performance rankings, the 0.3% decline for the US MSCI index ranks as the second worst performer among the 18 MSCI countries that we follow and trails the 8.3% gain for the AC World ex-US. Among the regional indexes outperforming the AC World ex-US ytd, EM Latin America leads with a gain of 18.0%, followed by EM (10.7), EM Asia (10.2), EMEA (9.6), and the AC World ex-US. EMU is the worst ytd performer, albeit with a gain of 4.4%, followed by Europe (5.2), and EAFE (7.7). Korea is the best ytd performer among the country indexes, with a gain of 34.9%, followed by Brazil (18.9), Taiwan (18.1), Mexico (16.9), and Japan (14.9). The worst performing countries ytd: India (-2.9), the USA (-0.3), China (0.4), Spain (2.3), and Germany (2.8).

US Stock Indexes (*link*): Just seven of the 48 major US stock indexes that we follow rose during the week ended February 13, compared to 31 rising a week earlier. The Dow Jones 15 Utilities index was the best performer for the week, with a gain of 7.5%, ahead of S&P 500 LargeCap Pure Growth (1.0%), 500 LargeCap Pure Value (0.8), and S&P 400 MidCap Pure Growth (0.4). The S&P 400 MidCap Pure Value and Dow Jones 20 Transports indexes were the worst performers, with declines of 2.8%, followed by S&P 100 MegaCap (-2.4), Russell 1000 Growth (-2.2), and Russell 3000 Growth (-2.2).

SMidCaps, a.k.a. the SmallCaps and MidCaps, still dominate the top of the ytd gainers list of 48 indexes, but fewer indexes are higher ytd now—36 now versus 45 several weeks

earlier.

With a gain of 12.3%, the S&P 600 SmallCap Pure Value index is still in the top spot as the best performer so far in 2025, ahead of Dow Jones 20 Transports (11.4), Russell 2000 Value (10.1), S&P 600 SmallCap Value (9.7), and Dow Jones 15 Utilities (9.7). The worst performing major US stock indexes ytd: Russell 1000 Growth (-5.7), Russell 3000 Growth (-5.3), S&P 500 LargeCap Growth (-3.5), Nasdaq Industrials (-3.0), and S&P SuperCap 100 (-2.8).

S&P 500 Sectors Performance (*link*): Six of the 11 S&P 500 sectors rose during the week ended February 13, and seven were ahead of the S&P 500's 1.4% decline. That compares to six sectors rising week earlier when eight were ahead of the S&P 500's 0.9% decline.

The outperformers last week: Utilities (7.1%), Real Estate (3.9), Materials (3.7), Energy (1.7), Consumer Staples (1.4), Industrials (0.6), and Health Care (-0.1). The underperformers last week: Financials (-4.8), Communication Services (-3.5), Consumer Discretionary (-2.1), and Information Technology (-2.0).

Seven of the 11 sectors are positive ytd, and the same seven are ahead of the S&P 500. Their average outperformance is 12.1%, but the index is now down 0.1% ytd.

Energy has been pulling away as the best ytd performer, now a gain of 21.3%, followed by Materials (16.6), Consumer Staples (15.6), Industrials (12.3), Utilities (8.7), Real Estate (8.4), and Health Care (1.7). These four sectors are lagging the S&P 500 so far in 2026: Financials (-5.9), Consumer Discretionary (-5.0), Information Technology (-5.0), and Communication Services (-2.5).

Contact us by *email* or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Joe Abbott, Chief Quantitative Strategist, 732-241-6502
Melissa Tagg, Senior Global Investment Strategist, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
William Pesek, Contributing Editor, 516-277-2432
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-228-9102