GLOBAL
Insight
WEEKLY

Wealth Management

Perspectives from the Global Portfolio Advisory Committee February 5, 2026

Trump Warshes his hands of Powell

Thomas Garretson, CFA – New York

President Donald Trump's year-long campaign to rid himself of Fed Chair Jerome Powell culminated in what was always the most likely outcome—simply nominating a replacement. With Kevin Warsh on track to become just the 17th chair of the Fed, we offer thoughts on potential economic and market impacts.

As fate would have it, on this day eight years ago Jerome Powell was sworn in as the 16th chair of the Board of Governors of the Federal Reserve, dating back to 1914. For perspective, there have been 20 different U.S. presidents over the same stretch.

Clearly then, a new Fed chair is no insignificant occasion. But for all the drama around it, up to and including the pick of former Fed Governor Kevin Warsh to take over from Powell, is it really all that significant this time around?

Getting to know you

By way of short introduction, following a relatively short stint on Wall Street, Warsh made the jump to the White House in 2002 via an economic advisory role, before famously becoming the youngest Fed governor in history in 2006—which unceremoniously ended with his resignation in 2011 largely in protest of the central bank's quantitative easing program. (More on that in a moment.)

As has been widely covered by the media, Warsh's reputation is largely that of a traditional "hard money hawk," which naturally has raised eyebrows given Trump's very public—and unambiguous—desire to see interest rates lowered. Of course, views change, but since leaving the Fed in 2011 there's simply little evidence to believe they have, in our view. While we think it's safe to say Warsh wouldn't have gotten the nod had he not voiced agreement with lower rates, Trump alluded to the reality that talking the talk is one thing, walking it is usually another, lamenting at the recent World Economic Forum in Davos that officials tend to "change once they get the job."

All told, it's a fine choice, even if we don't find it a particularly inspired one. Beyond that, we think the market reaction—to the limited degree we can explicitly tie it back to this choice—likely is the exact opposite of what the administration hoped to see.

Judgment day

It has been nearly a week since the initial reports that Trump had zeroed in on Warsh as his pick. And while it's never so easy to explain market dynamics via a singular lens, it does appear to us that the one-two combo of a Fed rate cut pause and a more hawkish-than-expected choice to replace Powell last week at a minimum kicked off this recent bout of market volatility and sector rotation.

Since last Tuesday, Bitcoin has declined more than 25 percent; gold is down sharply, the dollar has rallied nearly two percent; the S&P 500 has dropped to the lowest level since last December led by Tech and software—

For perspectives on the week from our regional analysts, please see pages 3–4.

For important disclosures, required non-U.S. analyst disclosures, and authors' contact information, see page 6.

Priced (in USD) as of 2/4/26 market close (unless otherwise stated). Produced: 2/5/26, 17:07 ET; Disseminated: 2/5/26, 17:15 ET

all generally the opposite of what one would expect if Fed sentiment was seen as shifting more dovish with someone new at the helm. But market expectations for Fed rate cuts over the near- and long-terms are essentially unchanged—the market-implied prospect of a cut at the Fed's June meeting is still barely 50 percent, while markets are still fully priced for roughly 50 basis points (bps) of cuts in total this year—a far cry from the president's stated aim of rates being lowered by 200–300 bps.

Again, recent market rallies in certain corners of the market amid a confluence of factors left some asset classes at potentially lofty valuations, but sometimes all it takes is a spark. The other possibility, in our view, is that where questions remain about where Warsh's interest rate conviction lies, there's one area where his beliefs have remained consistent.

Is this elephant with us in the room right now?

In a 2025 speech, Warsh perhaps laid out his broader ethos of the Fed, and where he may aim to leave his mark—the Fed's balance sheet and what he perceives to be the Fed's "mission creep" away from its traditional congressional mandates of price stability and maximum employment.

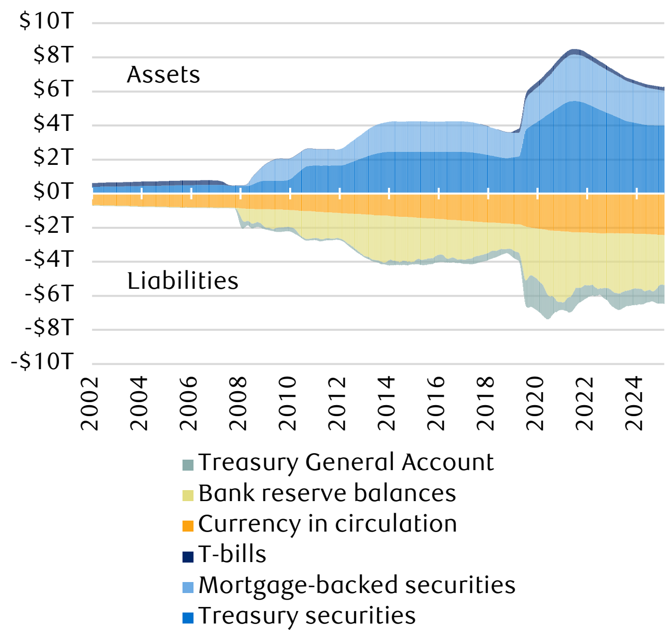
For nearly 20 years now, the Fed's balance sheet has been the elephant in the room for markets, and to some extent, the U.S. Congress. But via both purposeful, and natural, efforts—the elephant simply isn't what it used to be. In absolute terms, the Fed's balance sheet is still north of $6 trillion, but that is now just around 20 percent of U.S. GDP, and only 11 percent of the market capitalization of the S&P 500, from peaks of closer to 35 percent and 30 percent, respectively. The Fed's footprint is already smaller than many might believe.

And it's smaller still when we think about the drivers of its expansion. The chart at right shows a basic view of the Fed's assets and liabilities. Two liabilities it has are the currency in circulation, now at roughly $2.5 trillion, and the cash the Treasury Department holds at the Fed in its general account, about $900 billion. The Fed controls neither of those things. And no, the Fed doesn't "print money"; currency outstanding is simply a function of economic growth and the demand for it via the banking system.

At a minimum then, and through no fault of its own, the Fed's balance sheet would have to be at least roughly $3.5 trillion. The balance then is bank reserves, or the regulatory capital banks are required to have, at about $3 trillion. There could be regulatory relief to bring that number down. Against all of that, the Fed holds a mix of Treasuries and mortgages as assets. With limited room to shrink the balance sheet, Warsh could lead a drive to simplify it instead, by either selling mortgages and/or by shortening the maturity of Treasuries. But in our view, that could drive longer-term bond yields and mortgage rates

Breaking down the Fed's balance sheet

USD trillions



Source - RBC Wealth Management, Bloomberg; assets do not equal liabilities due to the exclusion of some smaller components for simplicity

higher—at odds with the administration's aim of bringing borrowing rates lower.

Markets, rightly or wrongly, might be concerned about Fed balance sheet issues. But just as interest rates are set by the Federal Open Market Committee (FOMC), so too are balance sheet decisions—and we see no reason to believe that the core of the FOMC will see the need to change course under a new Fed chair. Still, this appears to us to be one risk factor that markets might be homing in on.

New Fed chair, same old problems?

Our view had been that regardless of who replaced Powell, the power within the FOMC was likely to shift to the voting members and away from the chair, simply from the nature of the process thus far. Policy decisions will still be made prudently and based on the economic data by a majority—but likely with more dissents at times.

One risk we see is what happens if the Fed opts not to cut rates at the June meeting when Warsh will take over if confirmed. What if there are only modest cuts this year, if any at all? Will Trump ramp up his criticism and risk further market volatility and further Fed independence fears? Could he try to replace Warsh?

Ultimately though, we think it's still business as usual. There's no free lunch, and no easy path to lower rates for the sake of lower rates. Fed decisions this year will be determined based on the incoming data, but as a new Fed chair is a relative rarity through history, it will almost certainly come with its own uncertainty for markets to navigate.

UNITED STATES

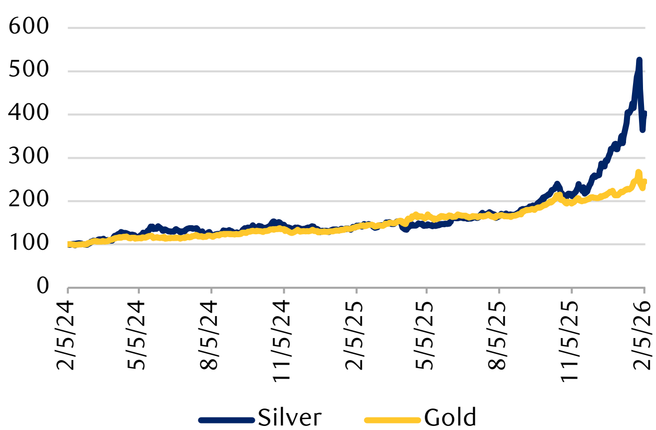
Miles D'Alessandro – Minneapolis

- **Precious metals remain off all-time highs following a short but drastic selloff to end last week.** Gold and silver have been in a multiyear uptrend that started in 2023, fueled by geopolitical tensions and economic uncertainty. Inflation, tariffs, and a weakening dollar contributed to the flight to gold and silver. However, last Friday ended with an explosive selloff in both precious metals, with gold down roughly 10% and silver down 30%—the worst single-day performance for silver since 1980. Additionally, Bitcoin hit a two-year low, exacerbating investor uncertainty. We think the precious metals selloff was partly due to President Trump's nomination of Kevin Warsh as Federal Reserve chairperson, which is discussed further in this week's feature article. While gold and silver have regained some ground, lower spot prices could occur given the psychological threshold around $5,000/oz for gold, coupled with historic gold cycles, of which similar uptrends have lasted for only around a year longer than the current cycle. The Chicago Mercantile Exchange raised gold trading margin requirements over the weekend to curb investment risk during the selloff.

- **Trump announces plans to secure domestic critical mineral supply.** As another part of the administration's reshoring efforts, Project Vault will receive nearly $10B in loans from the U.S. Export-Import Bank, along with private equity investment, to strengthen the domestic critical mineral supply chain. In tandem with domestic funding, the White House has also signed agreements with a variety of countries to secure critical mineral supply to further decrease reliance on China, the world's preeminent critical mineral processor and distributor. Procurement and stockpiling of critical minerals such as lithium and cobalt, which are vital for products such as iPhones, batteries, and an array of military equipment, could lower supply risks for U.S. businesses, in our opinion.

Gold, silver sold off last week; remain off all-time highs

Spot price (USD/oz) indexed to 100 on 2/5/24



Source - RBC Wealth Management, FactSet

- **Software stocks continue to trend down as AI concerns overshadow earnings.** Anthropic's updates of new AI tools, specifically to support law- and financial-related businesses, further contributed to a subsector-wide selloff to start the year, with the S&P North American Expanded Technology Software Index down 6% this week and 20% year to date. Companies such as ServiceNow beat expectations for the quarter while providing solid guidance, but concerns about the impact of AI on software businesses are outweighing quarterly results and near-term company outlooks.

CANADA

Matt Altro, CFA & Elizabeth Grant – Toronto

- **The S&P/TSX Composite started the year strong with continued momentum out of the Materials sector. Following the brief rally, the index has given up much of those gains as a retracement in gold and silver dragged down mining equities.** The selloff in precious metals was in part attributed to the announcement of Kevin Warsh as the U.S. Federal Reserve Chair nominee, a candidate markets perceived as credible, which softened fears around the U.S. dollar and inflation. Gold has now settled in the high $4,000 range, and focus has shifted to the Technology sector, namely software. The Canadian Information Technology sector has declined by over 15% so far this year as AI-related disruption risk has dampened investor sentiment. In our opinion, this shift reflects growing uncertainty about AI's potential to erode competitive advantages, reduce barriers to entry, and increase competition for the software industry. As we evaluate the Canadian Tech sector, our focus remains on the transformative potential of AI, the value proposition of proprietary data and specialized expertise of the incumbents, and the defensibility potentially provided by high enterprise switching costs. While the significant decline in Tech sector valuations suggests to us a meaningful amount of risk is now discounted in prices, we believe the onus will now likely be on management teams to show the resilience of their business models and outline credible strategies for AI integration and growth.

- **Canada's economy saw no growth in November compared to the prior month,** as contractions in goods-producing industries offset expansions in services-producing industries. According to Statistics Canada, services-producing industries were a notable driver behind stabilization, with retail trade, educational services, and transportation and warehousing contributing to the 0.1% expansion. The Canadian economy continues to endure headwinds from global supply chain disruptions, which have driven contractions in the manufacturing and the agriculture, forestry, fishing, and hunting sectors. After goods-producing industries contracted by 0.3% in November, the third decline in four months, Statistics Canada forecasts Canada's economy will see a -0.1% annualized contraction in Q4 and an annual expansion of 1.3% for 2025. As Bank of Canada policymakers seek to balance a fragile output outlook with underlying inflation trends that remain slightly above target rates, futures markets currently anticipate no changes to the benchmark rate in 2026.

EUROPE

Rufaro Chiriseri, CFA – London

- **The Bank of England (BoE) kept Bank Rate at 3.75% but delivered a surprise as four members voted in favour of a cut compared to the expectation for two votes.** The BoE's Monetary Policy Committee's minutes revealed that the risk of higher inflation is now "less pronounced," and pay growth continues to ease. Furthermore, there is "evidence of subdued economic growth and building slack in the labour market."

- During the press conference, **BoE Governor Bailey stressed that a short-term inflation undershoot is acceptable as most downward forces are temporary.** The central bank may have more confidence on wage inflation by April when most pay settlements are agreed, as well as further evidence of falling inflation expectations, in our view. Regarding current market pricing, Bailey notably stated, "I will not endorse 3.25%, but it is a reasonable market curve." Markets are now placing a 63% probability of a cut in March from 18% previously, and we maintain our base case for a Q1 cut.

- **The February Monetary Policy Report, compared to the November report, showed significant downward adjustment to headline inflation.** It is expected to fall to 1.7% from 2.2% in Q1 2027 and reach the 2.0% target in Q1 2029, according to the report. GDP growth is expected to be weaker in 2026 at 0.8% and in 2027 at 1.2%, and then to recover in 2028–2029. The labour market is expected to continue loosening this year and peak in 2027, before tightening modestly through to 2029.

- Two-year Gilts initially rallied by 9 basis points (bps), before settling at 3.64%, while the 10-year Gilt only rallied by around 4 bps to settle higher at 4.56%. Sterling against U.S. dollar moved to an intraday low of 1.3518 before bouncing higher and eventually settling 0.73% lower at 1.3555.

- **The European Central Bank (ECB) remains in "a good place" according to ECB President Christine Lagarde, and the central bank unanimously voted to maintain the deposit rate at 2%**—in line with expectations. The ECB sees underlying inflation stabilising around the 2% target, with services inflation remaining somewhat sticky. Economic growth is seen as resilient by the ECB, led by strength in services, but headwinds are intensifying from trade and geopolitics.

- **The strength of the euro was quite topical during the press conference, but Lagarde stressed that the currency appreciation since March 2025 is embedded in its baseline forecasts, and the moves are within acceptable ranges.** While Lagarde downplayed currency strength, further appreciation against the U.S. dollar poses a downside risk to inflation.

ASIA-PACIFIC

Belmen Woo – Singapore

- **China's economy has endured a weak start to the year, bolstering the case for the People's Bank of China (PBoC) to ramp up policy support,** especially with the Lunar New Year approaching in the coming weeks. The official China Manufacturing Purchasing Managers' Index (PMI) and related confidence surveys unexpectedly declined into contraction territory in January, with the Manufacturing PMI falling to 49.3 from 50.1 in December. We believe the data reflects heightened risks of an economy losing steam due to weak domestic demand. While this could increase the likelihood of more stimulus measures, policymakers have been reluctant to announce major policy support due to the need to balance risks tied to local government debt as well as the ongoing property crisis.

- **In Japan, the focus is on the snap election for the lower house of Parliament on Feb. 8,** with market participants positioning for a decisive victory by Prime Minster Sanae Takaichi's Liberal Democratic Party (LDP) that would allow her and the LDP to gain a strong mandate, consolidate power, and push for expansive fiscal policies. Recent public opinion polls have reaffirmed that Takaichi retains solid support, while the newly formed Centrist Reform Alliance is still struggling to resonate with voters. **The yen extended its declines against the U.S. dollar, depreciating from 154.78 last Friday to 157.16** as of the time of this writing, inching closer to the 160 level where authorities last intervened in the currency market.

- **Japan's long-term bond yields, on the other hand, stabilized this week** on the back of an encouraging 30-year Japanese government bond (JGB) auction that drew stronger demand than expected by market participants. The 30-year JGB yield fell by almost 8 basis points (bps) to 3.557%, and the 40-year yield declined by nearly 9 bps to 3.845% on Thursday. While fiscal concerns remain, we think high all-in yields appear to be attractive for investors looking to buy the dip. We have also seen multiple Bloomberg news reports this past week of Japanese life insurers and major banks stating they have begun to consider adding to their existing JGB positions due to attractive yields. **Japanese equities rebounded to near all-time highs with the TOPIX rising to 3,652.41** on Thursday. However, our local research correspondents continue to see **negative implications for Japanese equities if the yen exceeds 165 per dollar.**

MARKET
Scorecard

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	6,882.72	-0.8%	0.5%	14.0%	38.8%
Dow Industrials (DJIA)	49,501.30	1.2%	3.0%	11.1%	28.1%
Nasdaq	22,904.58	-2.4%	-1.5%	16.5%	46.6%
Russell 2000	2,624.55	0.4%	5.7%	14.6%	33.7%
S&P/TSX Comp	32,571.55	2.0%	2.7%	28.8%	54.5%
FTSE All-Share	5,598.46	1.6%	4.6%	20.3%	34.6%
STOXX Europe 600	618.12	1.2%	4.4%	15.3%	27.7%
EURO STOXX 50	5,970.47	0.4%	3.1%	13.4%	28.3%
Hang Seng	26,847.32	-2.0%	4.7%	29.1%	72.8%
Shanghai Comp	4,102.20	-0.4%	3.4%	26.2%	50.3%
Nikkei 225	54,293.36	1.8%	7.9%	39.9%	50.2%
India Sensex	83,817.69	1.9%	-1.6%	6.7%	16.3%
Singapore Straits Times	4,965.50	1.2%	6.9%	29.9%	56.2%
Brazil Ibovespa	181,708.23	0.2%	12.8%	45.2%	42.9%
Mexican Bolsa IPC	68,699.05	1.6%	6.8%	32.4%	18.0%
Gov't bonds (bps change)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. 10-Yr Treasury	4.276%	4.0	10.9	-23.5	25.6
Canada 10-Yr	3.435%	1.8	0.2	42.2	5.5
UK 10-Yr	4.546%	2.4	6.7	2.4	62.8
Germany 10-Yr	2.859%	1.6	0.4	46.3	61.8
Fixed income (returns)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Aggregate	4.40%	-0.1%	0.0%	6.5%	9.4%
U.S. Investment-Grade Corp	4.87%	0.0%	0.1%	7.0%	10.8%
U.S. High-Yield Corp	6.58%	0.1%	0.6%	7.9%	18.2%
Commodities (USD)	**Price**	**MTD**	**YTD**	**1 yr**	**2 yr**
Gold (spot $/oz)	4,969.82	1.5%	15.1%	74.8%	143.6%
Silver (spot $/oz)	88.23	3.6%	23.1%	174.3%	288.8%
Copper ($/metric ton)	13,408.60	2.6%	7.7%	48.6%	60.1%
Oil (WTI spot $/bbl)	64.35	-1.3%	12.1%	-11.5%	-11.0%
Oil (Brent spot $/bbl)	68.58	-3.0%	12.7%	-10.0%	-11.3%
Natural Gas ($/mmBtu)	3.48	-20.1%	-5.6%	7.0%	67.4%
Currencies	**Rate**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Dollar Index	97.6480	0.7%	-0.7%	-9.6%	-6.0%
CAD/USD	0.7320	-0.4%	0.5%	4.8%	-1.5%
USD/CAD	1.3662	0.4%	-0.5%	-4.6%	1.5%
EUR/USD	1.1807	-0.4%	0.5%	13.8%	9.4%
GBP/USD	1.3652	-0.2%	1.3%	9.4%	8.1%
AUD/USD	0.6998	0.5%	4.9%	11.9%	7.5%
USD/JPY	156.9200	1.4%	0.1%	1.7%	5.8%
EUR/JPY	185.2700	1.0%	0.7%	15.6%	15.7%
EUR/GBP	0.8648	-0.2%	-0.8%	4.0%	1.3%
EUR/CHF	0.9174	0.1%	-1.4%	-2.3%	-1.9%
USD/SGD	1.2727	0.2%	-1.0%	-5.9%	-5.2%
USD/CNY	6.9439	-0.2%	-0.6%	-4.2%	-3.5%
USD/MXN	17.3218	-0.8%	-3.8%	-15.5%	1.0%
USD/BRL	5.2460	-0.3%	-4.2%	-8.9%	5.5%

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.73 means 1 Canadian dollar will buy 0.73 U.S. dollar. CAD/USD 0.5% return means the Canadian dollar has risen 0.5% vs. the U.S. dollar year to date. USD/JPY 156.92 means 1 U.S. dollar will buy 156.92 yen. USD/JPY 0.1% return means the U.S. dollar has risen 0.1% vs. the yen year to date.

Source - Bloomberg; data as of 2/4/26

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