

## Trump sends a Warship to the Fed

We see several implications of US President Trump's nomination of former Fed Governor Kevin Warsh to replace Jerome Powell as Fed Chairman this July. Key among these are:

- a reduction in market concern about overly easy Fed policy and so less dollar bearishness and less support for "dollar debasement" trades such as precious metals;
- a resumption of Fed balance sheet shrinkage from late this year or early 2027 that creates gradual upward pressure on longer dated Treasury yields;
- a reduction in Fed forward guidance about policy that leads to increased market price volatility.

However, little of this is likely to happen soon. Warsh will not take over Fed chairmanship until June and many of his desired Fed reforms will take time to introduce.

In the interim, the Powell Fed will probably remain on hold as long as the unemployment rate remains below 4.5% and the trend rate of monthly payrolls stays above 30k – 40k. The Fed will also continue its USD40bn/month purchases of US Treasury bills.

Markets are also likely to continue pricing for Fed cuts later this year. Warsh's statements over the past year suggest that he currently supports the Fed cutting the Fed Funds rate at least 25bps more and possibly 50bps in response to higher productivity growth. Market pricing for Fed cuts this year increased from 48bps on Friday before Warsh's appointment to 53bps by the end of the day.

Nonetheless, markets perceive Warsh to be a long-term inflation "hawk". Warsh has consistently professed a commitment to the Fed's 2% inflation target as well as to the importance of Fed independence. He argues for a model based approach to targeting inflation and an avoidance of Fed pursuit of labour market or social objectives that are inconsistent with low and stable inflation. He has argued that the Fed has become too sensitive to financial market volatility at the expense of its inflation mandate.

One of Warsh's main desires is to shrink the Fed's balance sheet. Warsh has cited Fed balance sheet expansion beyond crisis periods as facilitating both the post-pandemic surge in inflation and Federal government budget deficits. As such, he has argued aggressively that the Fed's large purchases of Treasuries and mortgage-backed securities have been excessive and should be reversed over time.



**Vis Nayar**  
Chief Investment Officer  
Eastspring Investments



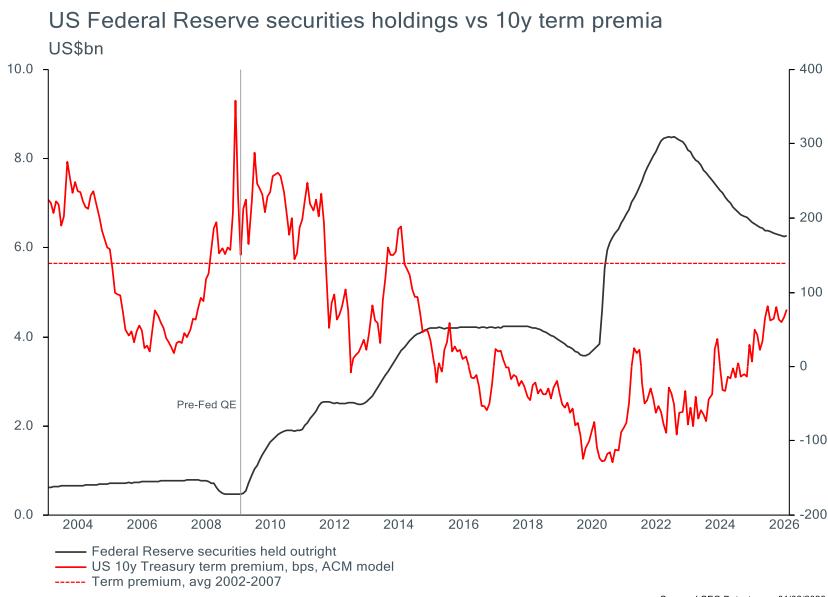
**Ray Farris**  
Chief Economist  
Eastspring Investments

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Warsh has proposed a new "Treasury Accord" which aims to cut the Fed's holdings of mortgage-backed securities completely, reduce its holdings of Treasury securities to as close to pre-GFC (2008) levels as possible, and to focus what securities the Fed owns on shorter term notes and particularly T-bills. His appointment despite this public stance leads us to believe the Trump Administration agrees with Warsh's plans.

More aggressive Fed balance sheet shrinkage would probably push Treasury term premia higher and steepen the Treasury yield curve over time. A 2022 Fed study suggested that every 1% of GDP reduction in 10-year equivalent Fed securities holdings raises the 10-year Treasury term premium by about 10bps. The Fed's current securities holdings of just over USD6tn equate to about 20% of GDP vs. the 5.5% of GDP level in 2008 before the GFC to which Warsh says he would like to return. The chart below suggests term premia could rise 40bps – 60bps over time if the Fed pursues more aggressive cuts to its securities portfolio.



Expectations for this more hawkish monetary policy approach should reduce market dollar bearishness in the near term. Absent a larger deterioration in the US labour market, the chart below suggests the USD has overshot interest rate differentials to the downside and could bounce in the near term.

## US dollar index vs 2-year yield difference



Reduction in market concern about “dollar debasement” may also reduce support for the recent rise in precious metals prices. The chart below shows that the price of gold adjusted for inflation is 62% above its 1980 high despite inflation being at 2.7% today vs. 14.8% in 1980.

## Less support for gold from “dollar debasement” fears



Source: Bloomberg.

Finally, we note that Warsh argues against the Fed's forward guidance of markets. In speeches and interviews he has frequently referred to the Volker and Greenspan years during which the Chairman and other Fed speakers gave markets little guidance about policy.

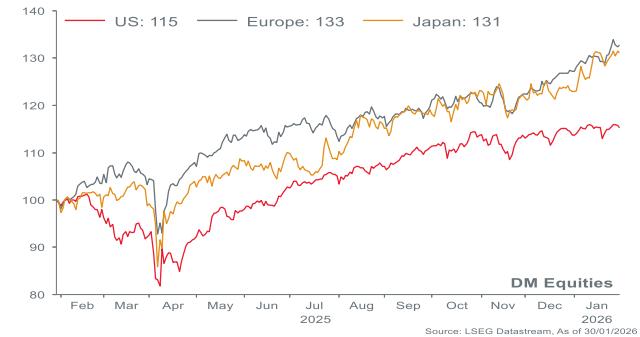
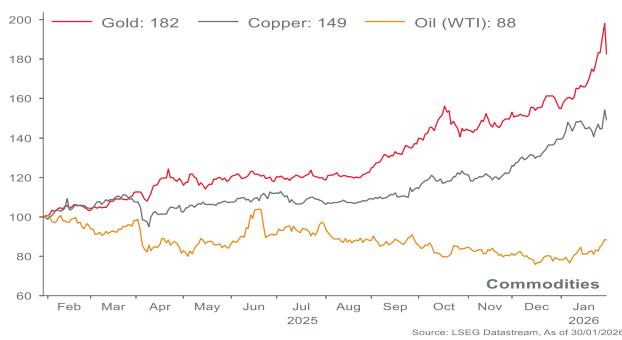
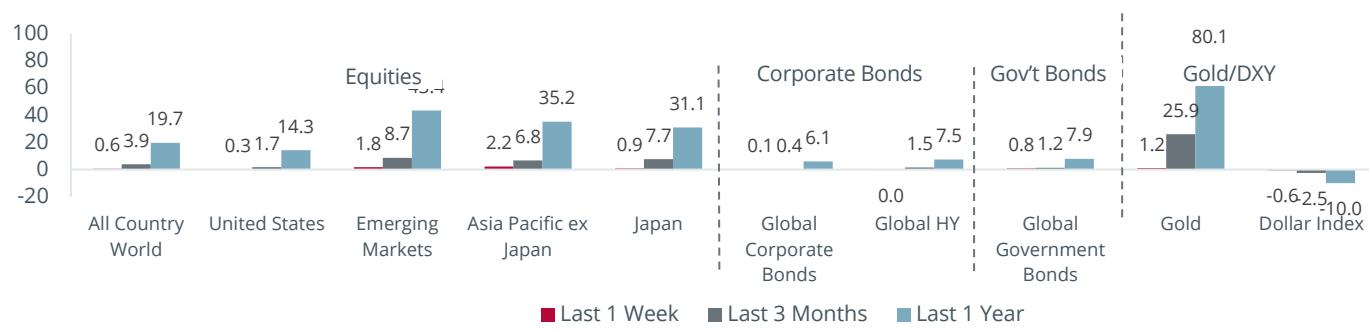
A less vocal, more model driven Fed that is less active in using its balance sheet to smooth shocks at the expense of inflation is likely to increase market volatility. Investors will have to shift focus from Fed speakers to incoming data and may have less confidence about where and when any Fed support for markets – a “Fed put” – will emerge.

## Market Review

Global equities returned 0.6% over the past week. The S&P 500 gained 0.3%, whilst the NASDAQ declined by -0.2%. Emerging Markets and Asia Pacific (ex Japan) equities outperformed on a USD basis, returning 1.8% and 2.2% respectively. Japan rose marginally by 0.9% on a USD basis. Global corporate bonds were flat (+0.1%), whilst Global sovereign bonds rose by 0.8%.

Despite a sell-off at the end of the week, Gold rose by 1.2% for the week as a whole. The US Dollar was weaker, with the DXY declining by -0.6%.

## Asset Performances



## Market Data

Government Bonds	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
US Treasury Yield (%)								
10 Year	4.24	0.05	2.74	3.62	-6.01	2.12	4.64	3.95
10 Year Bond Yield (%)								
Japan	2.25	-0.66	8.45	36.39	85.54	8.45	2.34	1.12
China	1.80	-1.58	-3.69	2.33	9.07	-3.17	1.96	1.61
Australia	4.81	-0.06	1.14	11.54	9.25	0.95	4.84	4.10
Singapore	2.07	-2.86	-8.56	3.55	-28.28	-6.79	2.92	1.75
Malaysia	3.51	-0.11	-0.34	0.03	-7.71	0.37	3.83	3.36
Indonesia	6.35	-1.11	3.69	4.74	-8.89	3.71	7.21	5.92
Equity Indices	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
Bond Indices								
Bloomberg Global Aggregate USD	94.59	0.05	-0.10	-0.77	0.77	-0.06	95.66	93.25
Bloomberg U.S. Aggregate USD	93.91	-0.04	-0.29	-0.36	3.37	-0.17	94.92	90.26
Equity Indices								
World								
MSCI AC World Index (USD)	1,044.26	0.65	2.36	3.89	19.66	2.92	1,051.67	742.96
North America								
US S&P 500 Index	6,939.03	0.34	0.62	1.71	14.29	1.37	7,002.28	4,835.04
US Nasdaq Composite Index	23,461.82	-0.17	0.18	-0.51	19.21	0.95	24,019.99	14,784.03
Europe								
MSCI Europe	2,759.32	1.62	4.19	9.06	28.67	4.41	2,782.19	1,976.06
Asia Pacific								
MSCI Asia Pacific ex Japan	779.69	2.16	7.98	6.77	35.18	7.96	790.44	513.60
Japan Nikkei 225	53,322.85	-0.97	5.93	3.89	34.95	5.93	54,487.32	30,792.74
Shanghai Stock Exchange Composite	4,117.95	-0.44	3.85	3.29	26.68	3.76	4,190.87	3,040.69
Hong Kong Hang Seng	27,387.11	2.38	5.93	4.20	35.41	6.85	28,056.10	19,260.21
Taiwan TAIEX	32,063.75	0.32	11.69	13.35	36.29	10.70	32,996.03	17,306.97
Korea KOSPI	5,224.36	4.70	23.97	27.83	105.94	23.97	5,321.68	2,284.72
India NIFTY 50	25,320.65	1.09	-2.38	-2.15	8.91	-3.10	26,373.20	21,743.65
Australia Stock Exchange 200	8,869.10	0.10	1.74	-0.19	4.42	1.78	9,115.20	7,169.20
Indonesia Jakarta Composite	8,329.61	-6.94	-3.67	1.78	17.76	-3.67	9,174.47	5,882.61
Thailand SET	1,325.62	0.85	5.24	0.83	-0.75	5.24	1,345.86	1,053.79
Malaysia FTSE Bursa KLSE	1,740.88	1.21	3.35	7.85	12.12	3.62	1,771.25	1,386.63
Philippines Stock Exchange PSE	6,328.97	-0.07	4.56	6.73	3.62	4.56	6,591.94	5,584.35
Singapore FTSE Straits Times Index	4,905.13	0.28	5.36	10.54	29.05	5.57	4,933.88	3,372.38
Currencies (vs USD)	Latest	1 week Change	1 Month Ago	3 Months ago	1 Year Ago	YTD	52 week high	52 week low
Developed Markets								
EUR	-1.01	0.19	0.87	2.45	14.03	0.88	1.20	1.03
GBP	-0.83	0.34	1.65	4.09	10.25	1.60	1.38	1.24
CHF	1.16	-0.92	-2.34	-3.59	-15.00	-2.45	0.91	0.76
JPY	1.09	-0.61	-1.04	0.42	0.30	-1.21	159.12	140.85
Asia								
CNY	0.04	-0.17	-0.64	-2.23	-4.13	-0.60	7.35	6.95
HKD	0.10	0.22	0.42	0.56	0.27	0.39	7.85	7.75
INR	-0.12	0.02	2.14	3.46	5.92	2.03	92.02	84.27
MYR	0.36	-1.60	-2.62	-6.10	-10.23	-2.88	4.49	3.92
KRW	1.31	0.30	0.84	1.47	0.47	0.68	1,485.83	1,352.45
SGD	0.63	0.06	-0.93	-2.18	-5.98	-1.04	1.36	1.26
TWD	0.83	0.82	1.17	3.00	-3.84	0.87	33.25	28.90
IDR	0.21	-0.18	0.15	0.87	3.23	0.66	16,945.00	16,106.00

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## Sources

**Asset performances: (bar charts)** Eastspring Investments, Refinitiv, as at 30 January 2026. Equities: using MSCI indices in USD, United States is using the S&P 500. Corporate Bonds: using ICE BofA indices in USD. Government Bonds: using the FTSE Global Sovereign Bond index, in USD. Gold is London Bullion Market US Dollar per Metric Tonne. DXY is US Dollar Index. **(line charts)** Eastspring Investments, Refinitiv, as at the end of the prior week, rebased to 100 as at 1 year ago. Equities: MSCI indices, in USD. Corporate Bonds: using Bloomberg indices in USD. Government Bonds: using ICE BofA US 10 Year US Treasury and ICE BofA 7-10 Year Euro Government indices. Commodities: Gold is London Bullion Market US Dollar per Metric Tonne Ounce. Copper is LME Copper Grade A Cash US Dollar per Metric Tonne. Oil is Crude Oil WTI Spot Cushing US Dollar per Barrel. US Dollar is US Dollar Index.

**Market data:** Eastspring Investments, Refinitiv, as at 30 January 2026. Equities: MSCI indices in USD, other indices in local currency. Other indices or assets as stated. Please note that there are limitations to the use of such indices as proxies for the past performance in the respective asset classes/sector. The historical performance or forecast presented in this slide is not indicative of and should not be construed as being indicative of or otherwise used as a proxy for the future or likely performance of the Fund.



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