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## MAKING SENSE OF *THIS* WORLD

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***By Brunello Rosa***



### **Why Kevin Warsh May Not Be the Dove Trump Wants at the Fed**

President Donald Trump has said he intends to nominate Kevin Warsh as the next Chair of the Federal Reserve, to succeed Jerome Powell when Powell's term ends in May 2026, subject to Senate confirmation. The announcement is politically charged. Trump has repeatedly pressed for lower interest rates, while critics have framed the succession battle as a test of Federal Reserve independence, especially amid renewed scrutiny of Powell that culminated in a Department of Justice investigation related to renovation works at the Fed's Washington headquarters.

Warsh, however, is no outsider. He served on the Federal Reserve's Board of Governors from February 2006 to March 2011, making him a voting member of the Federal Open Market Committee during the global financial crisis and its immediate aftermath. Under Ben Bernanke, he emerged as a key crisis-era interlocutor with markets, supportive of extraordinary interventions when necessary but consistently alert to the longer-term risks of an expanded central-bank footprint.

That tension defined Warsh's record. During the QE2 period, he was among those expressing concern about the political economy of large-scale asset purchases, warning that rising commodity prices, dollar weakness, and inflation expectations could eventually force the Fed to reconsider the scale or duration of its interventions. Even when voting with the committee, contemporary accounts portrayed him as uneasy with the signaling effects of quantitative easing. More recently, he has continued to criticise the size and persistence of the Fed's balance sheet, arguing for clearer limits and a credible path toward normalization. If confirmed, that stance would likely shape how he balances interest-rate policy against the still-elevated stock of securities on the Fed's books.

Since leaving the Board in 2011, Warsh has cultivated a post-Fed career that spans academia, policy institutions, and the private sector, including roles at Stanford University and the Hoover Institution. That profile may appeal to an administration seeking a chair who can translate between markets, policymakers, and public opinion. But it also raises the stakes for how convincingly he signals independence from political expectations from day one. His record suggests he is unlikely to be the reliably dovish figure Trump has often demanded.

In truth, the central issue is not whether Warsh is a "hawk" or a "dove," but whether he can preserve the credibility of the Fed's reaction function, especially on inflation, under unusually explicit political pressure for easier financial conditions. Put bluntly, can he defend the Fed's independence in the face of sustained pressure from a president who has shown little patience for monetary restraint?


Critics argue that Warsh's nomination owes less to his monetary philosophy than to his personal connections. Warsh is married to Jane Lauder, granddaughter of Estée Lauder and an heir to one of America's most influential business dynasties. The Lauder family has long-standing ties to U.S. politics and to Trump personally. Ronald Lauder, a prominent family member, has been a close friend of Trump for decades, dating back to New York's business and social circles of the 1980s. Lauder has said they first met as students at Wharton. He later served in the Reagan administration, was ambassador to Austria, and ran unsuccessfully for mayor of New York in 1989.


Ronald Lauder also played a role in encouraging Trump's 2016 presidential run and is widely reported to have floated the idea of purchasing Greenland. More recently, he has been linked to a consortium seeking access to Ukrainian mineral resources, an issue that reportedly influenced Trump's rhetoric on sharing Ukraine's assets. Against that backdrop, some observers suspect that Warsh's selection reflects these connections as much as his past service at the Federal Reserve.


Whether that perception proves fair or not, it underscores the challenge Warsh would face as chair. Markets, lawmakers, and foreign central banks will be watching closely to see whether he governs as a steward of institutional credibility, or as a chair shaped by the political currents that brought him to the role.


#### **Our Recent Publications**


 [\*Russia's Shadow War and Putin's Forever War\*](#), by Noel Therattil, 29 January 2026

 [\*Review: FOMC Keeps Rates Unchanged, And Future Moves Will Strictly Depend on Data\*](#), by Brunello Rosa and Nato Balavazde, 28 January 2026

 [\*Oil, Tariffs, and Trade Targets: The Economics of Putin's India Visit\*](#), by Lāsma Kokina, 28 January 2026

 [\*US Economic Growth in Q3: Drivers, Distortions, and the 2026 Outlook\*](#), by Billy Buddell, 26 January 2026

 [\*Preview: Fed To Pause Its Easing Cycle, On Independence and Strong Economy\*](#), by Nouriel Roubini, Brunello Rosa, Nato Balavazde, 26 January 2026

 [\*Review: BoJ on Hold in January, With No Rush for Further Hikes\*](#), by B. Rosa and Nato Balavazde, 23 January 2026



### Looking Ahead

**The Week Ahead: Headline Inflation To Ease Off In EZ; PMIs To Rise In US And UK; ECB And BoE To Keep Rates Unchanged**  
**In the US**, in January, S&P Global Manufacturing PMI is expected to rise to 60.5 (*p*: 58.5). Services PMI is seen staying at 52.5, while Composite PMI is expected to rise marginally to 52.8 (*p*: 52.7).

**In the EZ**, in January, according to flash estimates, headline inflation is expected to ease off to 1.7% y-o-y (*p*: 1.9%), while core inflation is likely to remain at 2.3%. January, HCOB Manufacturing PMI is expected to increase to 49.4 (*p*: 48.8). Services PMI is likely to fall to 51.9 (*p*: 52.4). Composite PMI is seen remaining at 51.5.

**In the UK**, in January, S&P Global Manufacturing and Services PMIs are expected to rise to 51.6 (*p*: 50.6) and to 54.3 (*p*: 51.4). Composite PMI is seen increasing to 53.9 (*p*: 51.4).

**CBs To Remain On Hold**. In the EZ, the ECB is expected to keep its main policy rates i.e. its *i*) interest rate on the 'main refinancing operations' at 2.15%; *ii*) interest rate on the 'marginal lending facility' at 2.40%; and the key *iii*) 'deposit facility' at 2.00%. In the UK, the BoE is expected to keep its Bank Rate at 3.75%.

**The Quarter Ahead: Trump Nominated Warsh As The Next Fed Chair; India-EU Strike Trade Deal Cutting Tariffs On Most Goods**  
**Trump nominated Kevin Warsh to replace Fed Chair Jerome Powell**, whose term ends in May, amid pressure for lower interest rates and rising concerns over Fed independence. Warsh has recently aligned more closely with Trump's push for easier policy. His nomination highlights growing political pressure on the central bank and renewed debate over its independence.

**India and the EU agreed a landmark trade deal** cutting tariffs on most goods to boost bilateral trade. India will reduce duties on nearly 97% of EU exports, including sharply lower car tariffs, while the EU will cut tariffs on 99.5% of Indian goods.

### Last Week's Review

**Real Economy: QoQ GDP Advanced In EZ, Italy And Germany While Decelerated In France; EZ Unemployment Fell; Fed Hold Rates**  
**In the US**, the Fed kept its target Fed funds range at 3.50% - 3.75%.

**In the EZ**, in Q4, according to the flash estimates, the EZ economy advanced by 0.3% q-o-q (*c*: 0.2%; *p*: 0.3%) and 1.3% y-o-y (*c*: 1.2%; *p*: 1.4%). In December, unemployment rate edged down to 6.2% (*c*: 6.3%; *p*: 6.3%). In January, economic sentiment and consumer confidence rose to 99.4 (*c*: 97; *p*: 97.2) and to -12.4 (*c*: -12.4; *p*: -13.1). Among the largest EZ economies, in Q4, according to the preliminary estimate GDP growth rate: *i*) decelerated to 0.2% q-o-q (*c*: 0.2%; *p*: 0.5%) and increased by 1.1% y-o-y (*c*: 1.2%; *p*: 0.9%) in France; *ii*) rose by 0.3% q-o-q (*c*: 0.2%; *p*: 0.0%) and 0.4% y-o-y (*c*: 0.3%; *p*: 0.3%) in Germany; and *iii*) advanced by 0.3% q-o-q (*c*: 0.2%; *p*: 0.1%) and 0.8% y-o-y (*c*: 0.5%; *p*: 0.6%) in Italy.

**Financial Markets: Stocks Were Mixed; Yields Declined; US Dollar And Gold Prices Were Down, While Oil Prices Were Up**

**Market Drivers**: The S&P 500 briefly topped 7,000 before pulling back; large-cap value outperformed growth, while small- and mid-caps lagged. US consumer confidence plunged to a near-decade low in January, while jobless claims were little changed. Europe's STOXX 600 rose 0.44% as earnings optimism offset trade and geopolitical concerns, with major indexes mixed.

**Global Equities**: increased w-o-w (MSCI ACWI, +0.6%, to 1044.26). The US S&P 500 index rose (+0.3% w-o-w, to 6,939.03). In the EZ, share prices were virtually unchanged (Eurostoxx 50, -0.0% w-o-w, to 5,947.81) In EMs, equity increased (MSCI EMs, +1.8%, to 1,528.09). Volatility is virtually rose to 19.04 (VIX S&P 500, 52w avg.: 19.4; 10y avg.: 19.9).

**Fixed Income**: w-o-w, the 10-year US Treasury yields were down (-16 bps to 4.24%). The 2-year US Treasury yields declined (-8 bps to 3.53%). The German 10-year bund yields fell (-6 bp to 2.84%).

**FX**: w-o-w, the US Dollar Index declined (DXY, -0.4%, to 96.99; EUR/USD +1.4%, to 1.19). In EMs, currencies rose (MSCI EM Currency Index, +0.5% w-o-w, to 1,863.38).

**Commodities**: w-o-w, oil prices increased (Brent, +7.3% to 70.69 USD/b). Gold prices fell w-o-w (-4.7% to 4,745.10 USD/Oz).



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**Abbreviations, Acronyms and Definitions**

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	M5S	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DIEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year

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