Musical Chairs

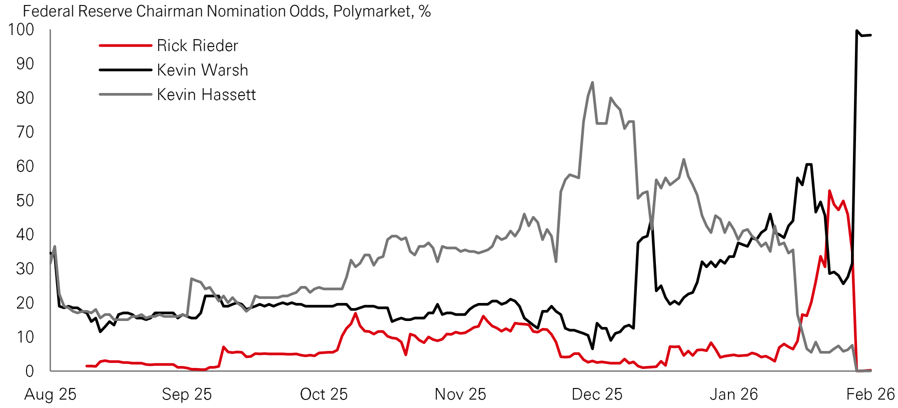
Investment Event | 4 February 2026

Marketing Communication. For Professional Clients and Institutional Investors Use Only.

President Trump makes his pick

President Trump nominated Kevin Warsh for the position of Fed Chair. In the run up to the decision, Kevin Hasset had faded as a contender while Rick Rieder made a late surge become the betting markets most likely candidate (Figure 1), so President Trump's decision to back Kevin Warsh could be viewed as a surprise. However, Fed rate expectations and UST yields have been relatively stable – a modest rise in longer-dated yields and a somewhat stronger USD. This suggests market participants have been putting significant weight on factors other than the nomination for Fed Chair when determining the policy and rate outlook.

Figure 1: Polymarket probabilities on Fed Chair



Source: Polymarket, Macrobond, HSBC AM as of 2 February 2026

The announcement triggered some volatility in other markets – primarily gold and silver, where prices dropped sharply. However, the rapid rise in these asset prices in recent months suggested a speculative bubble was forming, so while the timing of the correction may be linked to the Warsh announcement, the magnitude of the correction was not.

Governing by consent

It is important to remember that US monetary policy is set by the Federal Open Market Committee (FOMC), not just the Chair. While the Chair clearly has greater power, individual committee members can express their opinions and vote as they see fit – indeed, two members dissented at January's meeting and voted for rate cuts. The FOMC is also informed by the work and research of Federal Reserve staff.

The more volatile, unpredictable nature of the global economy also lends itself to greater division within the Committee, given the right course of action may not always be clear. The new Chair could, therefore, find himself in the minority on some occasions.

At the margin, the Fed Chair could push through policy changes if the data are ambiguous and FOMC is split, but it would be difficult for any Fed Chair to force through changes in policy that are not broadly supported by the economic data.

Kevin Warsh has generally been regarded as a policy hawk during his career. However, more recently, he has focussed on the disinflationary impact of Artificial Intelligence (AI), which could allow for lower interest rates in the near term despite recent strong GDP growth. Over the longer-term, however, higher productivity growth implies a higher neutral policy rate.

Keeping things in balance

Warsh has also linked interest rate policy to his view that the Fed should shrink its balance sheet, arguing the two could be offsetting for financial conditions. His desire to see a smaller Fed balance sheet reflect three core issues. He views:

- The Fed's role in financial markets as now too large
- QE as resulting in a misallocation of capital away from the real economy and into financial assets
- The Fed as having artificially depressed the cost of borrowing for the US government

President Trump chose Kevin Warsh as his candidate for new Fed Chair

Fixed income markets were little changed on the news. The USD strengthened. Gold and silver prices fell sharply

The pick of a perceived 'orthodox' candidate may temper some of the recent concerns over the erosion of Fed independence

Nevertheless, investors still need to factor in ongoing uncertainty about Warsh's policy stance alongside other sources of policy uncertainty

We view it as important to "diversify the diversifiers" in the face of ongoing uncertainty – adopting an active, multi-asset approach that captures uncorrelated performance across a broader spectrum of assets

Follow us on:

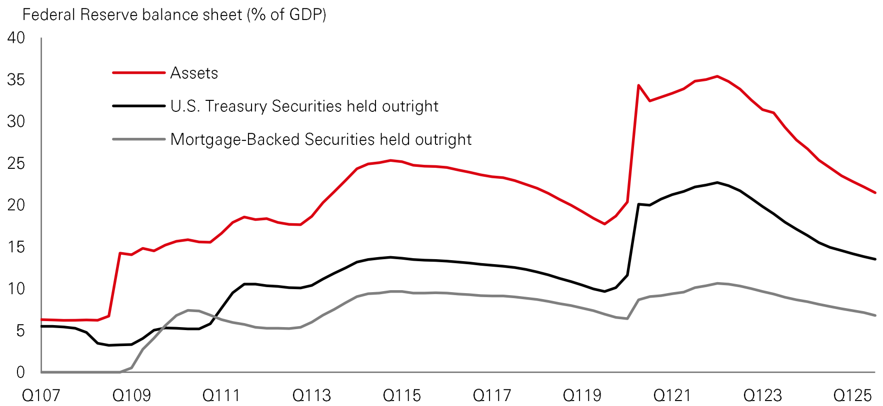
Linkedin:
HSBC Asset Management

Website:
assetmanagement.hsbc.com

Again, however, there are limits to what Keven Warsh can do on balance sheet policy, which is a committee decision. The Fed now operates an "ample reserves" framework, which means the balance sheet needs to expand alongside the economy to avoid a liquidity squeeze. In September 2019, when the balance sheet shrank to below its current size as a percent of GDP (Figure 2), stress appeared in the money markets.

To significantly reduce the size of the balance sheet would require a fundamental change to how monetary policy is conducted. Warsh could, however, push to change the composition of the balance sheet over time so the Fed holds a more short-dated US Treasury instruments and reduces the share of longer-dated USTs – a reverse of "operation twist", which the Fed used in 2011-12 to lower longer dated yields. This could, therefore, have the effect of steepening the yield curve.

Figure 2: Fed balance sheet shrinking as share of economy



Source: Macrobond, HSBC AM as of 2 February 2026

More widely, Kevin Warsh has suggested he wants to rein in what he sees as 'mission creep' by the Fed and other central banks, taking them into areas like social and environmental policy. He would prefer the Fed to "stick to its knitting" and focus on its dual inflation and labour market mandate. In his view "forays far afield—for all seasons and all reasons—have led to systematic errors in the conduct of macroeconomic policy"[1].

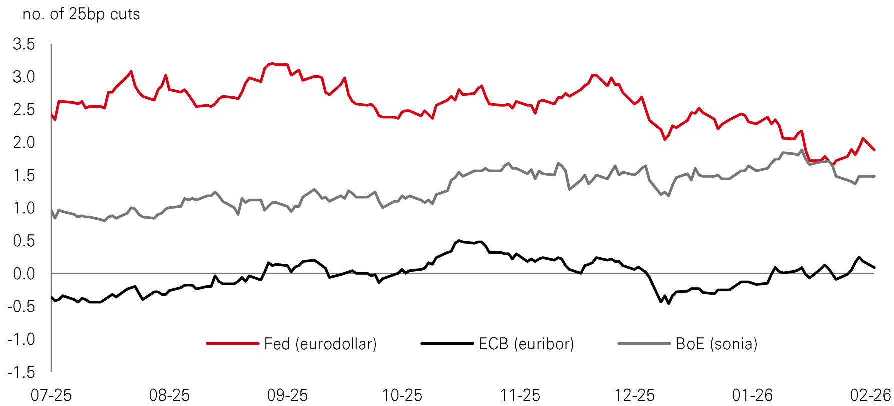
Macro and policy impact

Currently, the US economy is growing at a solid pace but displaying K-shaped dynamics – areas of strength (AI-related investment, wealthy consumers driving spending) and areas of weakness (non-AI related investment and the labour market).

Our base case is that the economy grows at a trend-like pace in 2026 with the two legs of the K coming together i.e. more balance investment and consumption. We also see a stabilisation and modest improvement in the labour market and gradual decline in inflation, albeit remaining above target, over the next 12-months.

Assuming Kevin Warsh's appointment is approved by Congress (which we expect it will be, given he is more of an 'orthodox' candidate), we do not expect a significant change in the projected path for policy unless the macro data warrant it. As noted, we believe it will be difficult for the new Fed chair to force through a radical policy shift in the face of benign data. Of course, if the economy surprises meaningfully in either direction, all bets are off, and policy makers could move quickly.

Figure 3: Market expectation for rate cuts in 2026



Source: Bloomberg, HSBC AM as of 2 February 2026

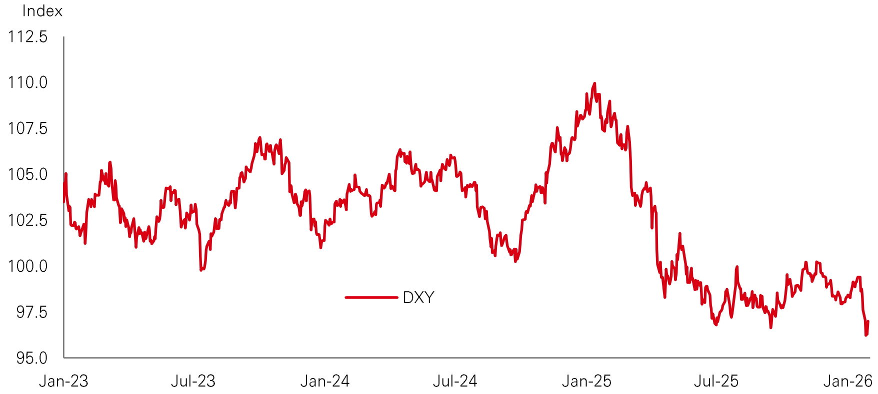
[1] Kevin Warsh, IMF Lecture Hosted by G30, April 2025

Currently, we have target range for Fed funds of 3.00-3.50% on a 12-month horizon. Market pricing is broadly aligned with the centre of this range, pointing to two 25bp cuts this year (Figure 3). If he was inclined to do so, Kevin Warsh may be able to push the FOMC to take the funds rate down to the bottom end of this range. But to go further would likely require a meaningful deterioration in labour market data or much better-than-expected inflation data.

Investment implications

For investors, the pick of a perceived 'orthodox' candidate in Warsh may temper some of the recent concerns over the erosion of Fed independence and the risk that the policy rate is cut too far, leading to a persistent inflation problem. The most obvious area these concerns have shown up is in the behaviour of the US dollar. Not only did it decline in the run up to Warsh's nomination, but it also failed to hedge against risk-off episodes in January, notably during the Greenland crisis. A further recovery in the US dollar is possible, especially given incoming economic data remains robust.

Figure 4: US dollar index



Source: Bloomberg, HSBC AM as of 2 February 2026

Nevertheless, investors still need to factor in ongoing uncertainty about Warsh's policy stance once he is installed, alongside other sources of policy uncertainty (tariffs, fiscal policy, foreign policy etc). Against a backdrop of ongoing Fed rate cuts, elevated US trade/fiscal deficits, and US dollar overvaluation, the currency still looks vulnerable in 2026, especially against many emerging market currencies. It also means there is no guarantee it performs as a reliable portfolio diversifier.

These uncertainties underscore the importance of "diversifying the diversifiers" – adopting an active, multi-asset approach that captures uncorrelated performance across a broader spectrum of assets. This can include liquid alternatives such as hedge funds and other currencies (the Swiss franc for example), private markets and high-quality corporate bonds.

Important Information

For Professional Clients and intermediaries within countries and territories set out below; and for Institutional Investors and Financial Advisors in the US. This document should not be distributed to or relied upon by Retail clients/investors.

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. The performance figures contained in this document relate to past performance, which should not be seen as an indication of future returns. Future returns will depend, inter alia, on market conditions, investment manager's skill, risk level and fees. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in emerging markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries and territories with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries and territories in which they trade.

The contents of this document may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. All non-authorised reproduction or use of this document will be the responsibility of the user and may lead to legal proceedings. The material contained in this document is for general information purposes only and does not constitute advice or a recommendation to buy or sell investments. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. We do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This document has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views and opinions expressed herein are those of HSBC Asset Management at the time of preparation and are subject to change at any time. These views may not necessarily indicate current portfolios' composition. Individual portfolios managed by HSBC Asset Management primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity. Foreign and emerging markets: investments in foreign markets involve risks such as currency rate fluctuations, potential differences in accounting and taxation policies, as well as possible political, economic, and market risks. These risks are heightened for investments in emerging markets which are also subject to greater illiquidity and volatility than developed foreign markets. This commentary is for information purposes only. It is a marketing communication and does not constitute investment advice or a recommendation to any reader of this content to buy or sell investments nor should it be regarded as investment research. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. This document is not contractually binding nor are we required to provide this to you by any legislative provision.

All data from HSBC Asset Management unless otherwise specified. Any third-party information has been obtained from sources we believe to be reliable, but which we have not independently verified.

HSBC Asset Management is the brand name for the asset management business of HSBC Group, which includes the investment activities that may be provided through our local regulated entities. HSBC Asset Management is a group of companies in many countries and territories throughout the world that are engaged in investment advisory and fund management activities, which are ultimately owned by HSBC Holdings Plc. (HSBC Group).

- In Australia, this document is issued by HSBC Bank Australia Limited ABN 48 006 434 162, AFSL 232595, for HSBC Global Asset Management (Hong Kong) Limited ARBN 132 834 149 and HSBC Global Asset Management (UK) Limited ARBN 633 929 718. This document is for institutional investors only and is not available for distribution to retail clients (as defined under the Corporations Act). HSBC Global Asset Management (Hong Kong) Limited and HSBC Global Asset Management (UK) Limited are exempt from the requirement to hold an Australian financial services license under the Corporations Act in respect of the financial services they provide. HSBC Global Asset Management (Hong Kong) Limited is regulated by the Securities and Futures Commission of Hong Kong under the Hong Kong laws, which differ from Australian laws. HSBC Global Asset Management (UK) Limited is regulated by the Financial Conduct Authority of the United Kingdom and, for the avoidance of doubt, includes the Financial Services Authority of the United Kingdom as it was previously known before 1 April 2013, under the laws of the United Kingdom, which differ from Australian laws;
- In Bermuda, this document is issued by HSBC Global Asset Management (Bermuda) Limited, of 37 Front Street, Hamilton, Bermuda which is licensed to conduct investment business by the Bermuda Monetary Authority;
- In France, Belgium, Netherlands, Luxembourg, Portugal, Greece, Finland, Norway, Denmark and Sweden this document is issued by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026);
- In Germany, this document is issued by HSBC Global Asset Management (Deutschland) GmbH which is regulated by BaFin (German clients) respective by the Austrian Financial Market Supervision FMA (Austrian clients);
- In Hong Kong, this document is issued by HSBC Global Asset Management (Hong Kong) Limited, which is regulated by the Securities and Futures Commission. This content has not been reviewed by the Securities and Futures Commission;
- In India, this document is issued by HSBC Asset Management (India) Pvt Ltd. which is regulated by the Securities and Exchange Board of India;
- In Italy and Spain, this document is issued by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026) and through the Italian and Spanish branches of HSBC Global Asset Management (France), regulated respectively by Banca d'Italia and Commissione Nazionale per le Società e la Borsa (Consob) in Italy, and the Comisión Nacional del Mercado de Valores (CNMV) in Spain;
- In Malta, this document is issued by HSBC Global Asset Management (Malta) Limited which is regulated and licensed to conduct Investment Services by the Malta Financial Services Authority under the Investment Services Act;
- In Mexico, this document is issued by HSBC Global Asset Management (Mexico), SA de CV, Sociedad Operadora de Fondos de Inversión, Grupo Financiero HSBC which is regulated by Comisión Nacional Bancaria y de Valores;
- In the United Arab Emirates, this document is issued by HSBC Investment Funds (Luxembourg) S.A. – Dubai Branch (Level 20, HSBC Tower, PO Box 66, Downtown Dubai, United Arab Emirates) regulated by the Securities and Commodities Authority (SCA) in the UAE to conduct investment fund management, portfolios management, fund administration activities (SCA Category 2 license No.20200000336) and promotion activities (SCA Category 5 license No.20200000327).

- In the United Arab Emirates, this document is issued by HSBC Global Asset Management MENA, a unit within HSBC Bank Middle East Limited, U.A.E Branch, PO Box 66 Dubai, UAE, regulated by the Central Bank of the U.A.E. and the Securities and Commodities Authority in the UAE under SCA license number 602004 for the purpose of this promotion and lead regulated by the Dubai Financial Services Authority. HSBC Bank Middle East Limited is a member of the HSBC Group and HSBC Global Asset Management MENA are marketing the relevant product only in a sub-distributing capacity on a principal-to-principal basis. HSBC Global Asset Management MENA may not be licensed under the laws of the recipient's country of residence and therefore may not be subject to supervision of the local regulator in the recipient's country of residence. One of more of the products and services of the manufacturer may not have been approved by or registered with the local regulator and the assets may be booked outside of the recipient's country of residence.
- In Singapore, this document is issued by HSBC Global Asset Management (Singapore) Limited, which is regulated by the Monetary Authority of Singapore. The content in the document/video has not been reviewed by the Monetary Authority of Singapore;
- In Switzerland, this document is issued by HSBC Global Asset Management (Switzerland) AG. This document is intended for professional investor use only. For opting in and opting out according to FinSA, please refer to our website; if you wish to change your client categorization, please inform us. HSBC Global Asset Management (Switzerland) AG having its registered office at Gartenstrasse 26, PO Box, CH-8002 Zurich has a licence as an asset manager of collective investment schemes and as a representative of foreign collective investment schemes. Disputes regarding legal claims between the Client and HSBC Global Asset Management (Switzerland) AG can be settled by an ombudsman in mediation proceedings. HSBC Global Asset Management (Switzerland) AG is affiliated to the ombudsman FINOS having its registered address at Talstrasse 20, 8001 Zurich. There are general risks associated with financial instruments, please refer to the Swiss Banking Association ("SBA") Brochure "Risks Involved in Trading in Financial Instruments";
- In Taiwan, this document is issued by HSBC Global Asset Management (Taiwan) Limited which is regulated by the Financial Supervisory Commission R.O.C. (Taiwan);
- In Turkiye, this document is issued by HSBC Asset Management A.S. Turkiye (AMTU) which is regulated by Capital Markets Board of Turkiye. Any information here is not intended to distribute in any jurisdiction where AMTU does not have a right to. Any views here should not be perceived as investment advice, product/service offer and/or promise of income. Information given here might not be suitable for all investors and investors should be giving their own independent decisions. The investment information, comments and advice given herein are not part of investment advice activity. Investment advice services are provided by authorized institutions to persons and entities privately by considering their risk and return preferences, whereas the comments and advice included herein are of a general nature. Therefore, they may not fit your financial situation and risk and return preferences. For this reason, making an investment decision only by relying on the information given herein may not give rise to results that fit your expectations.
- In the UK, this document is issued by HSBC Global Asset Management (UK) Limited, which is authorised and regulated by the Financial Conduct Authority;
- In the US, this document is issued by HSBC Securities (USA) Inc., an HSBC broker dealer registered in the US with the Securities and Exchange Commission under the Securities Exchange Act of 1934. HSBC Securities (USA) Inc. is also a member of NYSE/FINRA/SIPC. HSBC Securities (USA) Inc. is not authorized by or registered with any other non-US regulatory authority. The contents of this document are confidential and may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose without prior written permission.
- In Chile, operations by HSBC's headquarters or other offices of this bank located abroad are not subject to Chilean inspections or regulations and are not covered by warranty of the Chilean state. Obtain information about the state guarantee to deposits at your bank or on www.cmfchile.cl;
- In Colombia, HSBC Bank USA NA has an authorized representative by the Superintendencia Financiera de Colombia (SFC) whereby its activities conform to the General Legal Financial System. SFC has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Colombia and is not for public distribution;
- In Costa Rica, the Fund and any other products or services referenced in this document are not registered with the Superintendencia General de Valores ("SUGEVAL") and no regulator or government authority has reviewed this document, or the merits of the products and services referenced herein. This document is directed at and intended for institutional investors only.
- In Peru, HSBC Bank USA NA has an authorized representative by the Superintendencia de Banca y Seguros in Perú whereby its activities conform to the General Legal Financial System - Law No. 26702. Funds have not been registered before the Superintendencia del Mercado de Valores (SMV) and are being placed by means of a private offer. SMV has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Perú and is not for public distribution;
- In Uruguay, operations by HSBC's headquarters or other offices of this bank located abroad are not subject to Uruguayan inspections or regulations and are not covered by warranty of the Uruguayan state. Further information may be obtained about the state guarantee to deposits at your bank or on www.bcu.gub.uy.

Content ID: D064140; Expiry Date: 03.08.2026