



CIO Office Morning Notes

2 February 2026

What a week! Geopolitical risks and trade tensions in the foreground, rollercoaster ride in precious metals, spike higher in Brent crude, an uneventful FOMC meeting followed by Trump's announcement of his Fed chair pick, and tepid movements in equities the surrounding turmoil notwithstanding. Earnings played a role in supporting markets, though doubts about returns on AI investments made for winners and losers in IT megacaps. And volatility carried over in the weekend with Bitcoin's new lows for the year and, as a cherry on the cake, the starting of a partial US government shutdown. The S&P 500 closed the week (+0.3%), and month, in the green reaching the 7,000 milestone on Wednesday led higher through Friday by telecommunication services (+4.1%) and energy stocks (+3.9%). All major indices ended otherwise in the red, from the Nasdaq 100 (-0.2%), to the Dow Industrials (-0.4%), and the smaller companies (-2.1%). Both EM (+1.8%) and DM ex-US stocks (+1.6%) outperformed also on FX gains due to US dollar weakness (-0.6%). Risk-on sentiment at the start of the week took a turn from Wednesday, that marked the first Fed meeting of the year and the onset of the earnings season for big tech. The Fed kept rates unchanged as chair Powell signaled cautious optimism, mentioning a "clear improvement" in the outlook and pointing to a steadying of the jobs market. Bottom line: no cuts until May when he steps down. Markets took the non-event in their stride. Magnificent 7 earnings spurred questions about returns on AI investments. Meta eased concerns about AI capex plans with a great sales outlook while Microsoft's record outlays triggered the worst loss since China's DeepSeek was launched last year. Meta closed 8.8% higher for the week, Microsoft 7.7% lower. The fact that Tesla (-4.1%) pledged to double capital expenditure to move beyond the car business failed to impress investors, whereas Apple (+4.6%) smashed revenue expectations. Newsflow was intermingled with rising trade tensions. There were threats against Korea to hike tariffs to 25% that prompted frantic negotiations towards the end of the week; the harshest warnings against Canada of 100% tariffs on all goods if PM Carney finalizes a preliminary agreement with China; also, President Trump said it would be "very dangerous" for the UK to do business with China as PM Starmer was on a high-stakes visit to Beijing. The week ended with Donald Trump selecting Kevin Warsh as next Fed chair. He is deemed by the market to be hawkish in that he resists Fed's balance sheet expansion, that halted the equity rally, the US dollar's fall, and sent precious metals crashing dramatically. On Friday, gold lost 9%, silver 26%, respectively closing down 1.9% and 17.4% for the week. Brent crude (+7.3%) rallied throughout the week on rising tensions in the Middle East with US aircraft carriers headed for the Gulf. The US yield curve steepened with the bulk of gains at the shorter end while the yield on the 10-year note was little changed to settle at 4.23%.

The real deal for the week was Kevin Warsh nomination for the role of Fed chair. He is known to be strongly against Quantitative Easing, though he is obviously in line with President Trump about the need for rate cuts. Inflation would not be a concern for Warsh, as he holds the view that a high-growth economy would not be producing inflation with rising productivity, as it is currently the case. So, we could picture aggressive rate cuts once he is in office, though some restraining action on Quantitative Easing. The latter is what markets fear the most. In the absence of direct liquidity injections risk premia would have to rise reflecting tighter financial conditions. This was best reflected by the sharp rise of the US dollar (+0.7%) on Friday, and the continued fall in Bitcoin's price during the weekend that saw the cryptocurrency settle below 80,000. Also, taking no QE and multiple rate cuts at face value, long-duration assets would be struggling, from IT megacaps to long-dated bonds. Now, this is the starting point, but we must factor in Warsh's constraints. All past repeated attempts at reversing QE entirely failed as the plumbing of the US monetary system started to be under strain. Also, no QE could bring about much more muted market action, affecting tax revenue from capital gains, that at the margin becomes relevant given the debt load. In the next few months markets may be discounting a more hawkish Fed, though the final outcome may end up being far from that.

Markets this morning:

Asian stocks started on the back foot and precious metals extended declines in a volatile session that reflected weak investor sentiment after the choppy end to last week on Wall Street. Asian shares fell 1% and Nasdaq 100 futures 0.8%. The Dollar Index edged higher following its strongest day since May on Friday as President Trump nominated Kevin Warsh as Fed chair. The yield on the 10-year note advanced 1bps to 4.25%. The yen fluctuated after PM Takaichi commented that a weak yen can be a great opportunity to boost exports. Brent crude plunged 2.4% after its biggest monthly gain since 2022 as President Trump expressed hope for a deal with Iran downplaying threats of a regional war by the supreme leader. Investors are looking forward to a busy week that includes central bank meetings in the euro area and in the UK, a US jobs report, and a heavy slate of corporate results.

Upcoming key events/data:

It is a packed week! See below the key highlights.

Monday, Wednesday: business confidence indicators in the US, euro area, UK and Japan

Thursday: ECB and BOE meetings

Friday: US jobs report

Key earnings reports: Palantir, Pepsi, AMD, Google, Qualcomm, Ely Lilly, Amazon.

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