

Dutta's Monetary Thoughts

For Warsh, getting by Trump was the easy part

Neil Dutta

Leaving the merits of the Warsh pick aside, there are four things investors ought to be thinking about right now:

How long?

First, there is an open question as to how long the Warsh confirmation will play out. Typically, when the position of Chair changes hands, the confirmation process lasts about three months, from the time the nomination is announced to the time the nominee is confirmed by the Senate. The confirmation hearing takes place about a month after the nominee is announced. There is no rush if the nominee already holds the position for which they are being nominated. Our nearby table provides a quick summary.

Senator Tillis has vowed to block any nominee to lead the Federal Reserve until the DOJ investigation into Powell is resolved. President Trump has said he will just wait until Tillis is gone. That carries risks. An unconfirmed nominee is a bit like fish that has been sitting out: it starts to stink.

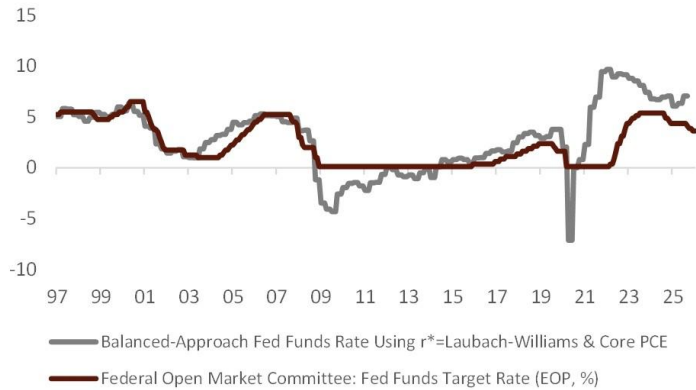
Equity stress test

Second, when a new Chair assumes office, something usually goes awry in the equity markets. Most famously, Alan Greenspan dealt with Black Monday months after assuming office. Bernanke and Yellen saw modest selloffs in their first year while Powell saw a meaningful correction (“long way from neutral”).

Nominee	Date of Nomination	Date of Confirmation Hearing	Days from Nomination to Hearing	Date of Confirmation	Days from Nomination to Confirmation
Ben Bernanke (1st term)	24-Oct-05	15-Nov-05	22 days	31-Jan-06	99 days
Ben Bernanke (2nd term)	25-Aug-09	3-Dec-09	100 days	28-Jan-10	156 days
Janet Yellen	9-Oct-13	14-Nov-13	36 days	6-Jan-14	89 days
Jerome Powell (1st term)	2-Nov-17	28-Nov-17	26 days	23-Jan-18	82 days
Jerome Powell (2nd term)	22-Nov-21	11-Jan-22	50 days	12-May-22	171 days
Kevin Warsh (nominee)	30-Jan-26	Pending	Pending	Pending	Pending

Fed Chair	Start Date	S&P 500 at Start	Peak Date	S&P 500 at Peak	Trough Date	S&P 500 at Trough	Max Drawdown
Alan Greenspan	11-Aug-87	329	25-Aug-87	337	19-Oct-87	225	-33.2%
Ben Bernanke	1-Feb-06	1,277	10-May-06	1,326	13-Jun-06	1,224	-7.7%
Janet Yellen	3-Feb-14	1,817	18-Sep-14	2,011	15-Oct-14	1,862	-7.4%
Jerome Powell	5-Feb-18	2,705	21-Sep-18	2,941	24-Dec-18	2,351	-20.1%

Following rules ...
(percent)



Source: Renaissance Macro Research, Haver Analytics

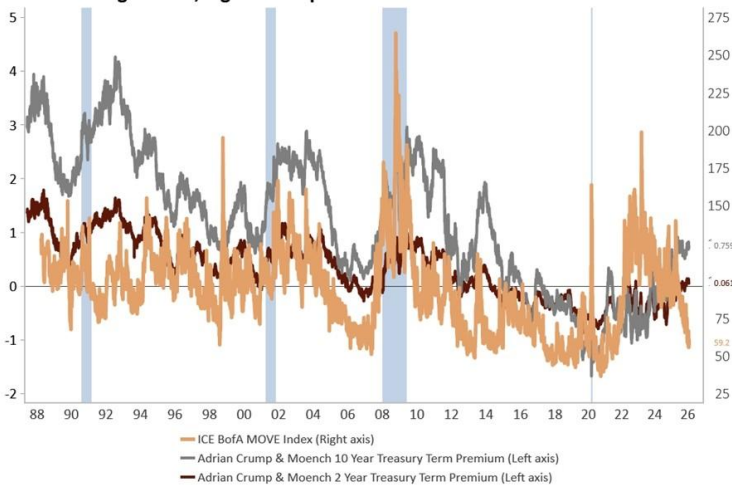
At any rate, if past is prologue, I would not be surprised to see the new Chair tested, especially given the circumstances of his ascension to the job: a newfound policy dove tasked with convincing those around the FOMC, likely suspicious of the motivations, to his position.

Communications change

Third, the most intriguing aspect of Warsh as Fed Chairman is that he thinks policymakers talk too much. Warsh has long believed that the Fed is too reliant on forward guidance for the future path of interest rates. Indeed, during his time as Governor Warsh never really gave speeches on the economic and policy outlook. This implies less discretion and more of a rules-based approach to policy. That approach works in normal times, less so during times of elevated market and economic uncertainty.

What’s notable about the Warsh critique is that now he is making an appeal to discretion. Indeed, Warsh is tasked with convincing those around the FOMC table to buy into the notion that the US economy is on the precipice of a Golden Age of low inflation driven by strong productivity alongside low equilibrium unemployment. Most of his colleagues will likely need convincing based on the evidence – the very data dependence Warsh seems to deride.

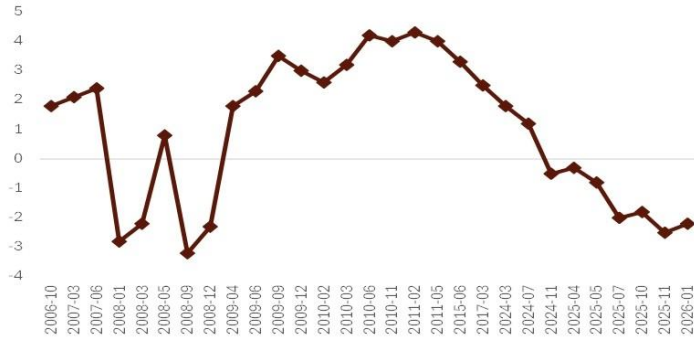
Less forward guidance, higher term premiums?



Source: Renaissance Macro Research, Macrobond

One thing to consider is that less reliance on forward guidance implies that a move in the short-end of the yield curve is less likely to transmit into the long-end. This is ironic since one of Warsh’s critiques about the Fed’s 2024 rate cuts is that the entire curve did not shift down. Anticipation of cuts is what got longer-term rates down in the first place.

Hawkish for too long and conveniently dovish!
Claude Warsh Communications Index (+ hawkish, - dovish)



Source: Renaissance Macro Research, Claude AI

Curious timing

Finally, I asked Claude to construct an index rating Warsh’s public commentary over the years to determine hawkishness or dovishness. A higher score is hawkish, and a lower score is dovish.

A few things stand out to me. First, in the middle of the 2008 economic slump, Warsh was concerned about inflation despite the weakness in economic growth. Next, he never really updated his priors about QE, fretting about inflation for years despite inflation running below the Fed’s target. Finally, Warsh turned dovish, somewhat abruptly in wait for it, November 2024. Since Trump’s election, he was talking up growth optimism, productivity driven disinflation and rate cuts. That pitch will be much harder to make around the FOMC table than it was in the Oval Office.

Fed recap

On balance, **I think the post-meeting press statement was hawkish.** The growth assessment was upgraded and the statement removed language around downside risks to employment. This was probably necessary not to cut in January. If they left the language in, it would have begged the question as to why they kept policy rates unchanged.

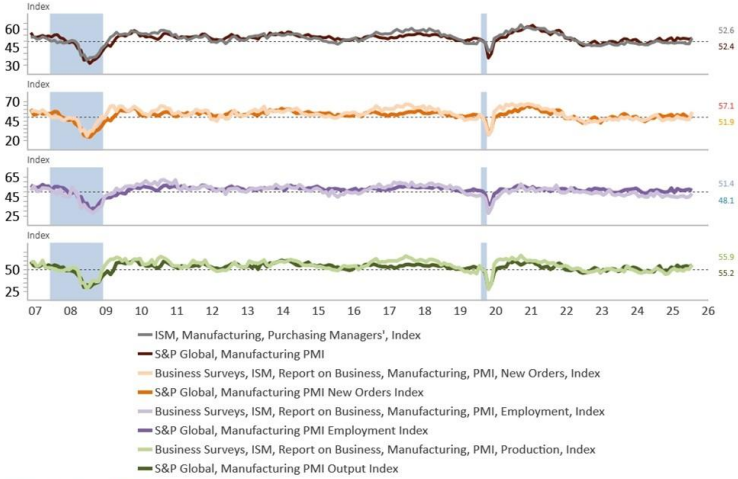
The risk is that the shift in tone is premature. As Governor Waller noted when explaining his dissent, “I have heard in multiple outreach meetings of planned layoffs in 2026. This indicates to me that there is considerable doubt about future employment growth and suggests that a substantial deterioration in the labor market is a significant risk.” If the labor market deteriorates from here, a concern we share, I suspect the Fed statement reflects these risks relatively quickly.

Optim(ISM)

The ISM Manufacturing PMI beat estimates, climbing to 52.6 in January, the highest level since August 2022.

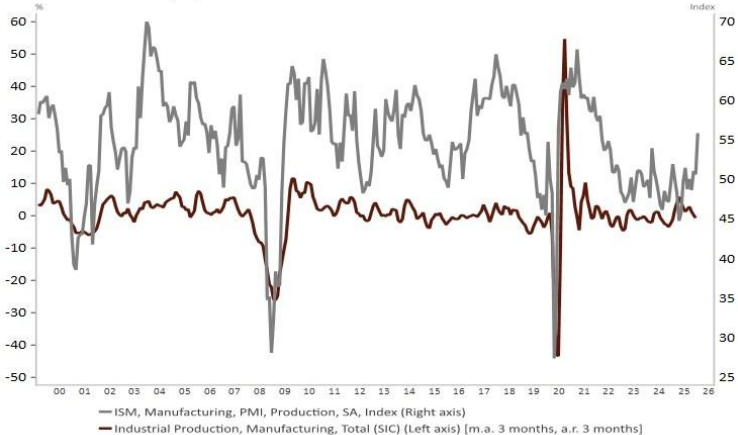
The gap between the S&P Global US PMI and ISM has narrowed finally. New orders jumped to 57.1 with 28.2 percent of survey respondents reporting that inventory levels are too low, the highest since October 2022.

Narrows between S&P Global and ISM



Source: Renaissance Macro Research, Macrobond

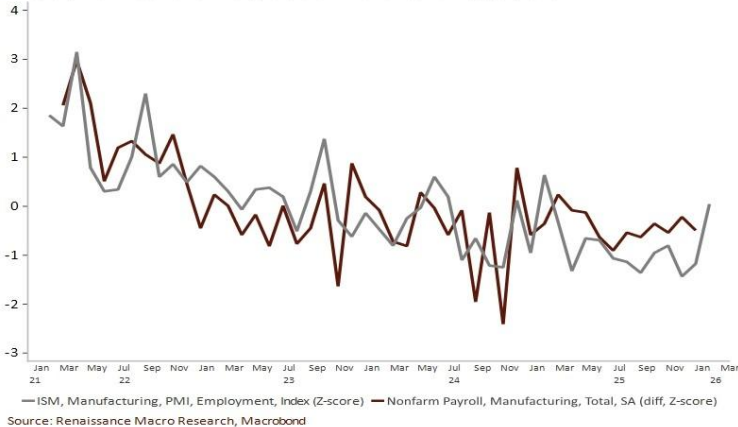
Production survey optimism awaits hard data confirmation



Source: Renaissance Macro Research, Macrobond

The ISM production index jumped to 55.9; however, note that the ISM is not a perfect substitute for hard data. In Q4, as an example, manufacturing production declined modestly.

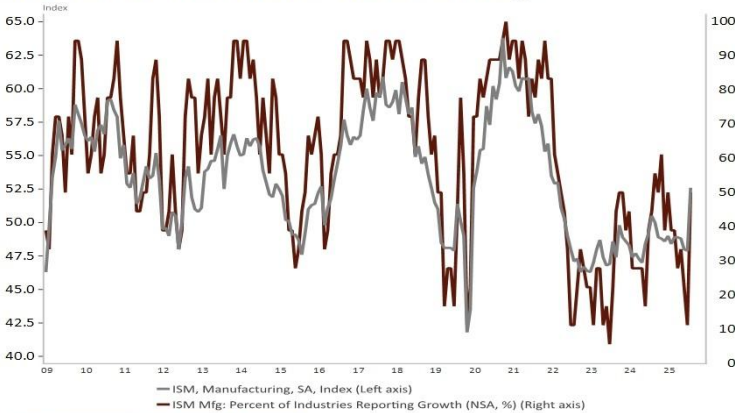
Employment uptick still signals soft manufacturing payrolls



Source: Renaissance Macro Research, Macrobond

The employment component edged higher by 3.3 points to 48.1, the highest reading in a year, though it remains below 50, signaling ongoing softness in manufacturing payrolls.

Growth breadth recovers from weak December readings



Source: Renaissance Macro Research, Macrobond

Respondent commentary was uniformly negative and half the industries reported growth over the month though this follows a month, where breadth was quite weak.

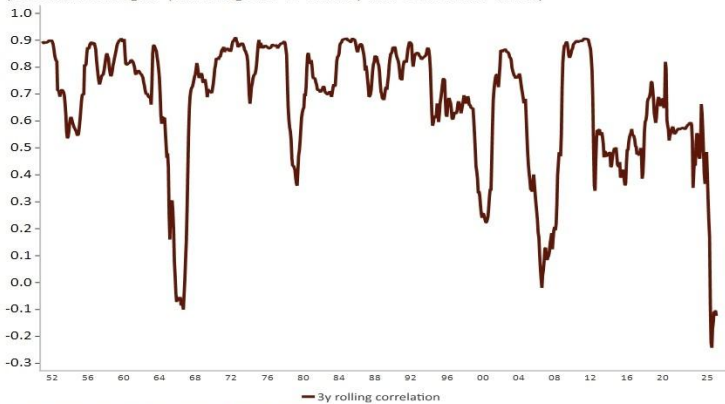
WHAT RESPONDENTS ARE SAYING

- "Hope" has been word of the year in the Transportation Equipment industry. Unfortunately, all the hope in the world has not materialized into order activity in 2025 or the first half of 2026. Across the board, buyers continue to stand on the sidelines. As we enter 2026, every conversation revolves around hope that the second half of 2026 starts the turnaround. It's hard to set strategy on hope, but thanks to the uncertainty brought about by this administration, here we are." [Transportation Equipment]
- "Although our volume is low at the moment, the impact on the latest tariff threats on the European Union will have a huge negative impact on our profit for current quoted orders. We will not be able to recover the increase tariffs in our current quotations." [Machinery]
- "Continuing softness in the market, with December orders below average and buyers reluctant to spend despite beneficial tax policies in the U.S. Geopolitical tensions are fueling 'anti-American' buyer sentiment, and sales are being lost." [Machinery]
- "Another round of emotionally charged tariffs seems imminent, changing the landscape once more. Movement of custom product out of China continues, but the progress is slow with new qualifications required for transitioned materials and assemblies." [Computer & Electronic Products]
- "Business conditions remain uncertain. Customers are cautious. Broad-based inflation continues. The Supreme Court tariff decision looms." [Computer & Electronic Products]
- "Growing construction markets, data centers and energy projects, are straining the contract labor availability. The trade tariff uncertainty is creating volatility in the supply chain." [Food, Beverage & Tobacco Products]
- "A new year, with new challenges. We are moving manufacturing from China to Mexico — which will now impose tariffs on parts made in China. This push for more of a Mexican supply chain and creates some short-term supply management concerns." [Chemical Products]
- "Confused and uninformed tariff policies continue to plague small companies, making long-term planning pointless. Companies are not making capital commitments beyond 30 days." [Fabricated Metal Products]
- "Business conditions remain soft as we continue to miss sales, orders and profits as result of increased costs from tariffs, continued fallout from the government shutdown, and increased global uncertainty." [Miscellaneous Manufacturing]
- "Business trends moving into 2026 feature many of the headwinds from the third and fourth quarters of 2025. While the 'plane' has steadied, there continues to be uncertainty and added costs through our global operations. Tariff impacts on our financial performance last year cannot be overstated, as we had a much smaller EBITDA (earnings before interest, taxes, depreciation and amortization) than previous years. While other inflationary pressures continue to hit the business, tariffs and product costs played a large role. This year, we will continue our multi-country sourcing approach to manufacture and import product from more tariff-friendly countries outside of China. But as we know, nothing is guaranteed with the current administration. We have trimmed costs everywhere inside the business, including on labor and conferences, and reduced our revenue forecast to a much more achievable mark. We're prepared to battle throughout the year for higher profitability." [Apparel, Leather & Allied Products]

Looking ahead, the manufacturing outlook is mixed. On the one hand, there's room for inventory restocking. On the other, weakness in housing construction likely weighs on factory activity.

Manufacturing output fails to track ISM over recent years

(Corrln, b/w Mfg. IP (3m %chg saar of 3mma) and ISM Prodn. Index)

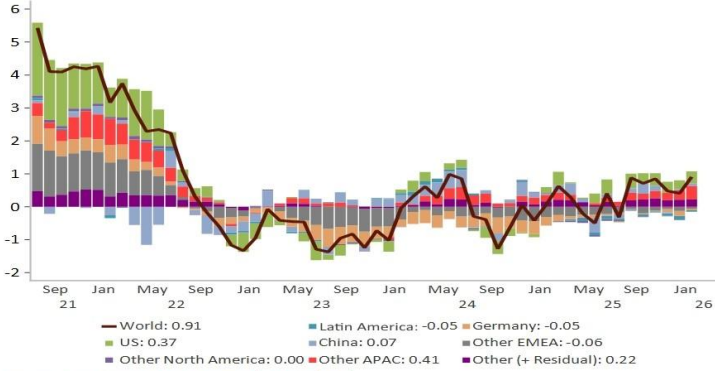


Source: Renaissance Macro Research, Macrobond

The ISM Manufacturing PMI is meant to mirror monthly changes in manufacturing production. It hasn't done an especially good job of this in the last three years. Indeed, the sign is the opposite of what you would expect; there's been an inverse correlation.

Other APAC drove global manufacturing momentum in January

PMI re-centered around 0 as neutral, Contributions weighted by manufacturing value added (USD)

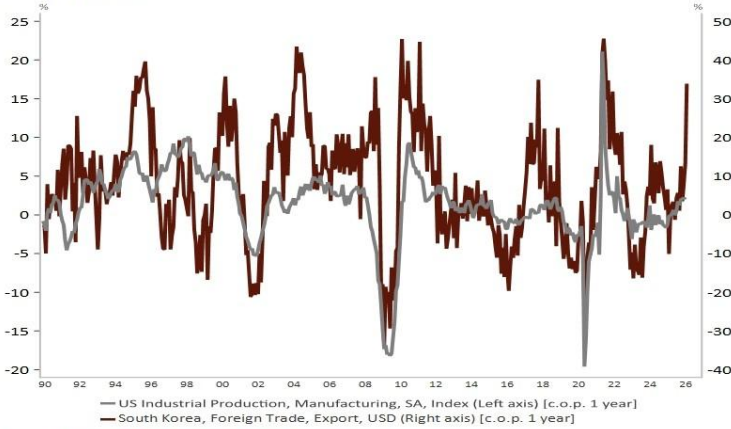


Source: Renaissance Macro Research, Macrobond

Asian factory momentum broadens

Globally, the January PMI readings were notably buoyed by Other APAC (excluding China) as Japan's PMI hit its highest since August 2022, South Korea reached its best level since August 2024, and Taiwan climbed further into expansion.

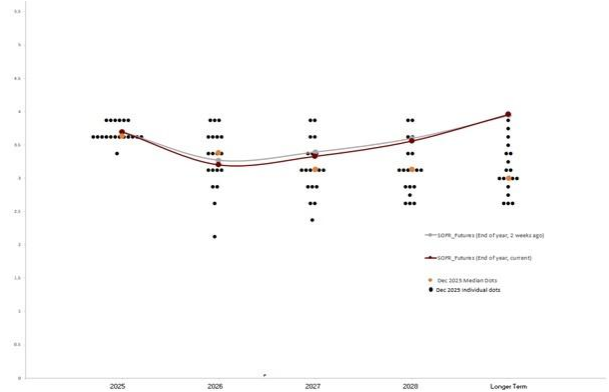
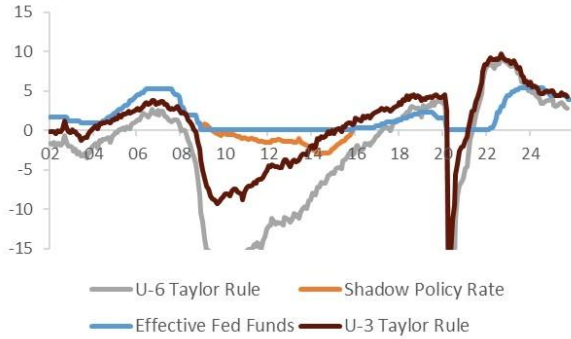
Semiconductor-led export boom decouples from broader US production



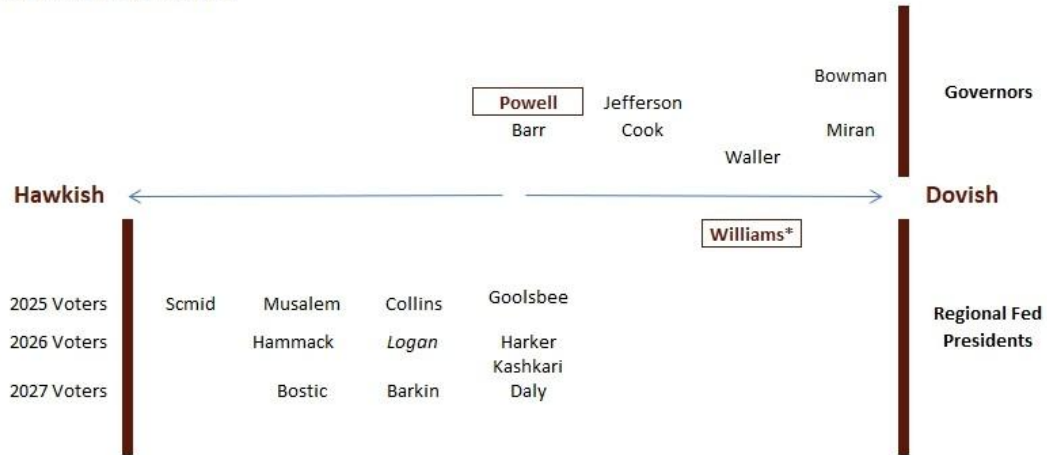
Source: Renaissance Macro Research, Macrobond

South Korean exports surged 33.9% year-over-year in January, the fastest pace since mid-2021, with semiconductor shipments more than doubling on AI server demand. Historically, Korean export strength has tracked US factory output closely, but the rolling correlation has become weaker, likely reflecting the narrow composition of the current export boom tilted toward data center investment rather than broad-based industrial demand.

Monetary metrics



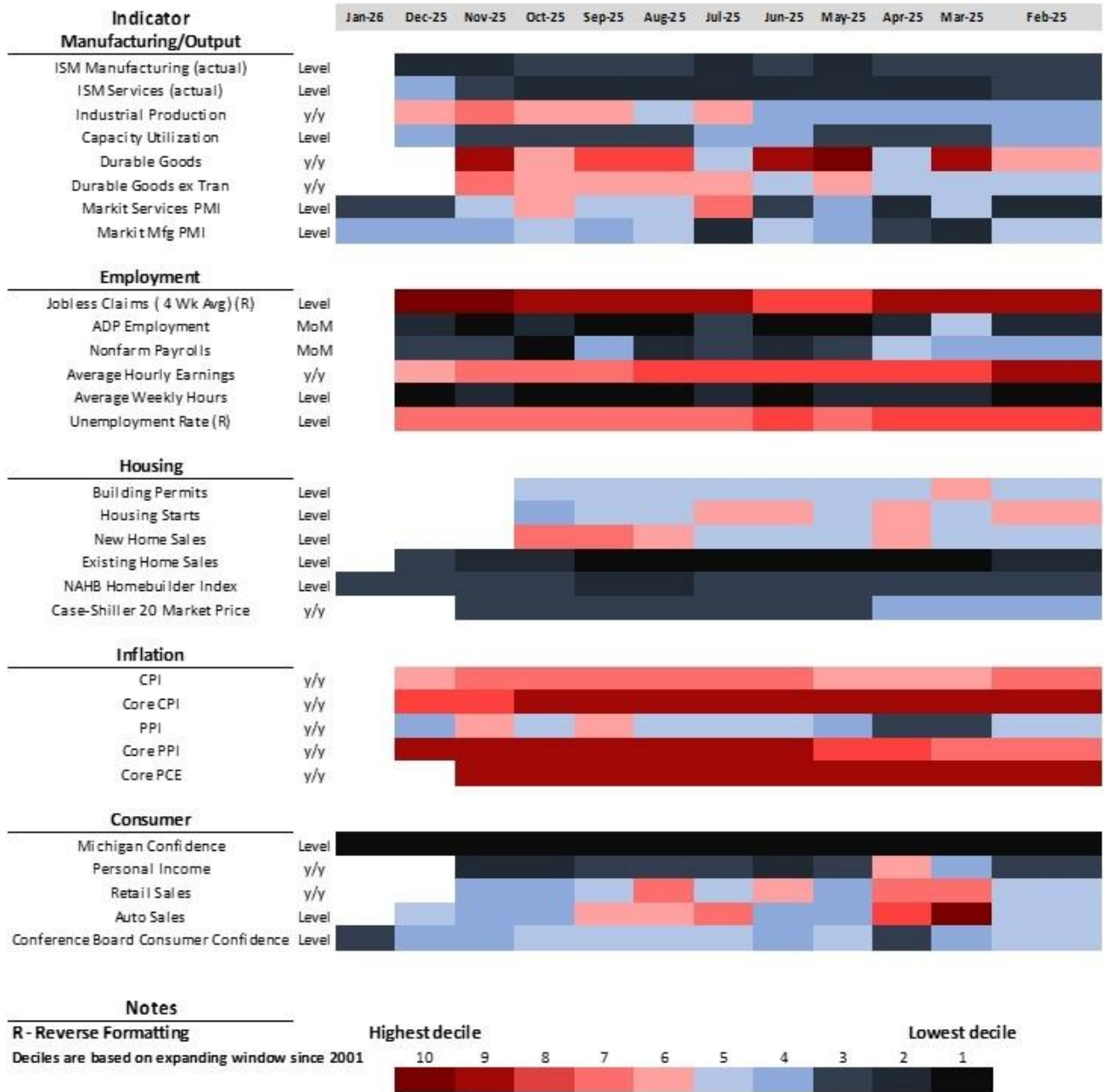
Hawks and Doves



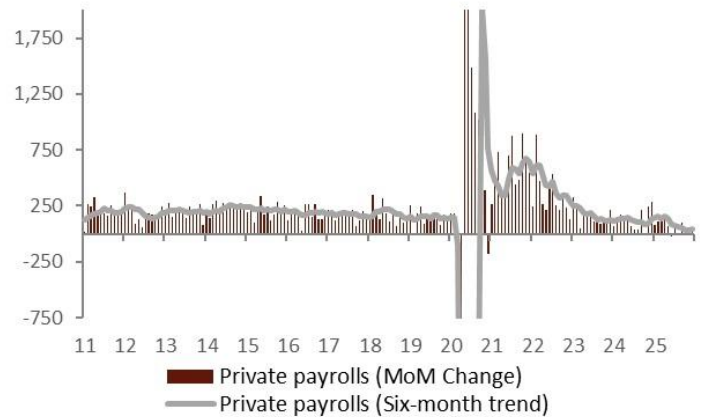
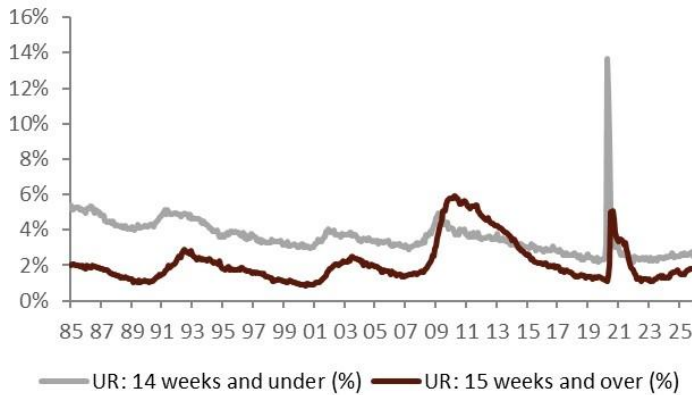
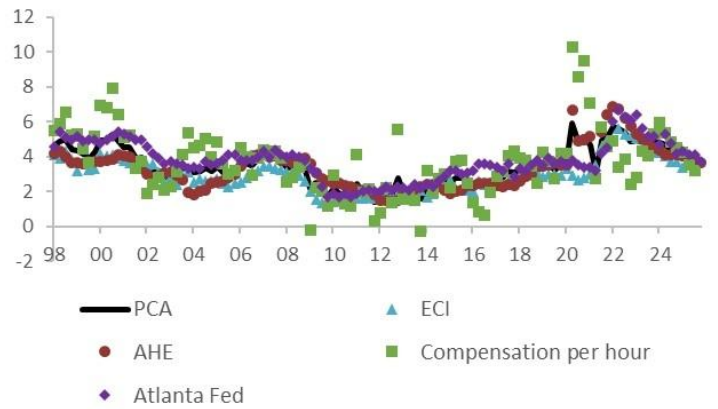
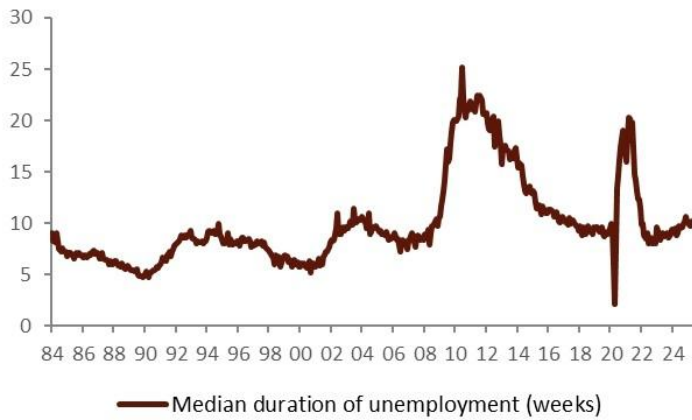
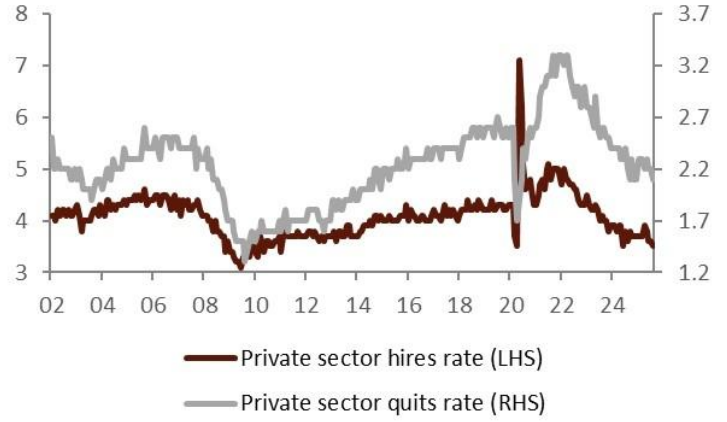
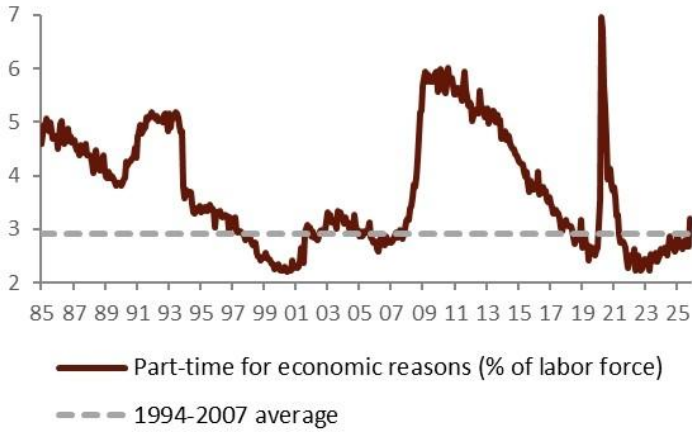
*Federal Reserve Bank of NY President always votes
Boxed individuals represent FOMC core

FOMC Forecasts	Median					Central Tendency				
	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run
Change in real GDP	1.7	2.3	2.0	1.9	1.8	1.6-1.8	2.1-2.5	1.9-2.3	1.8-2.1	1.8-2.0
September projection	1.6	1.8	1.9	1.8	1.8	1.4-1.7	1.7-2.1	1.8-2.0	1.7-2.0	1.7-2.0
Unemployment rate	4.5	4.4	4.2	4.2	4.2	4.5-4.6	4.3-4.4	4.2-4.3	4.0-4.3	4.0-4.3
September projection	4.5	4.4	4.3	4.2	4.2	4.4-4.5	4.4-4.5	4.2-4.4	4.0-4.3	4.0-4.3
PCE inflation	2.9	2.4	2.1	2.0	2.0	2.8-2.9	2.3-2.5	2.0-2.2	2.0	2.0
September projection	3.0	2.6	2.1	2.0	2.0	2.9-3.0	2.4-2.7	2.0-2.2	2.0	2.0
Core PCE inflation	3.0	2.5	2.1	2.0		2.9-3.0	2.4-2.6	2.0-2.2	2.0	
September projection	3.1	2.6	2.1	2.0		3.0-3.2	2.5-2.7	2.0-2.2	2.0	
Projected policy path										
Fed funds rate	3.6	3.4	3.1	3.1	3.0	3.6-3.9	2.9-3.6	2.9-3.6	2.8-3.6	2.8-3.5
September projection	3.6	3.4	3.1	3.1	3.0	3.6-4.1	2.9-3.6	2.9-3.6	2.8-3.6	2.8-3.5

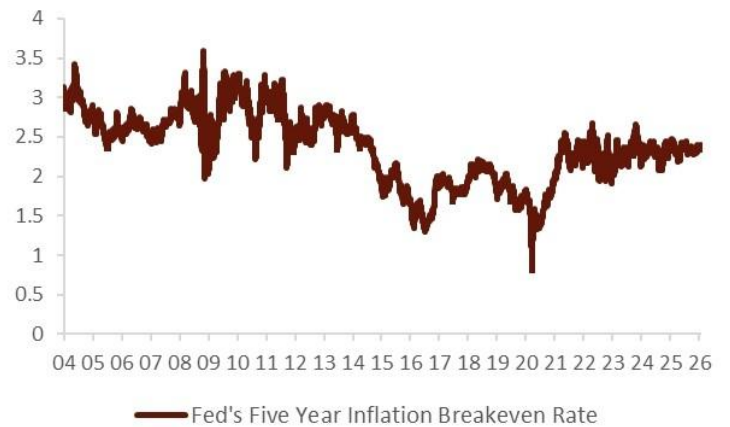
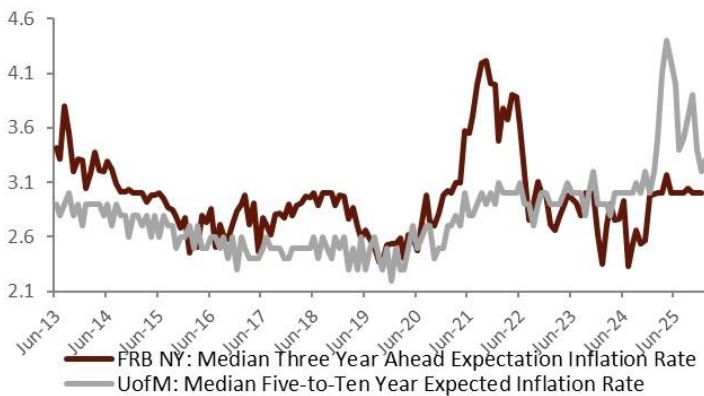
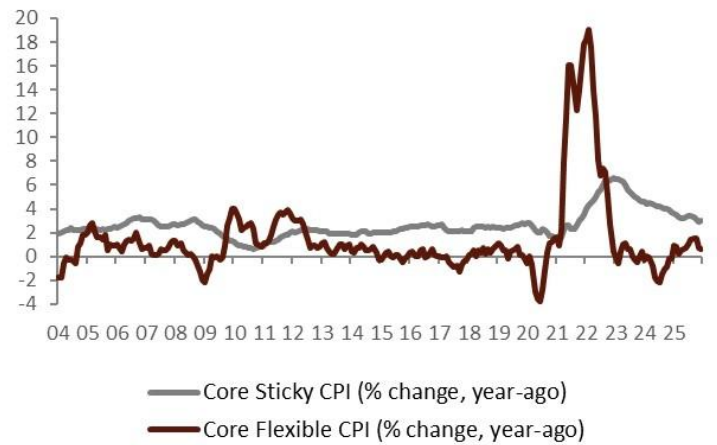
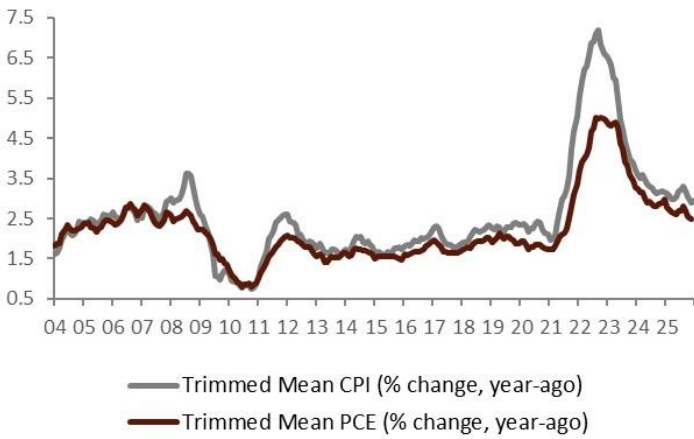
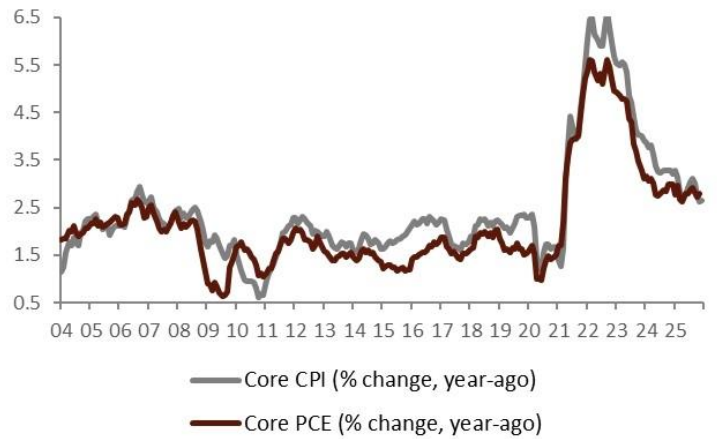
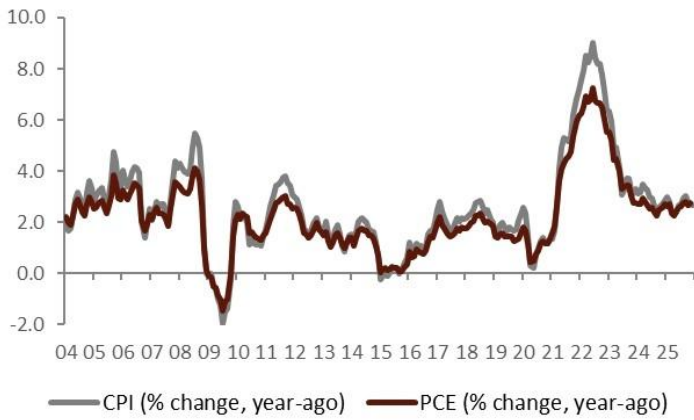
High frequency data heat-map



Labor market indicators

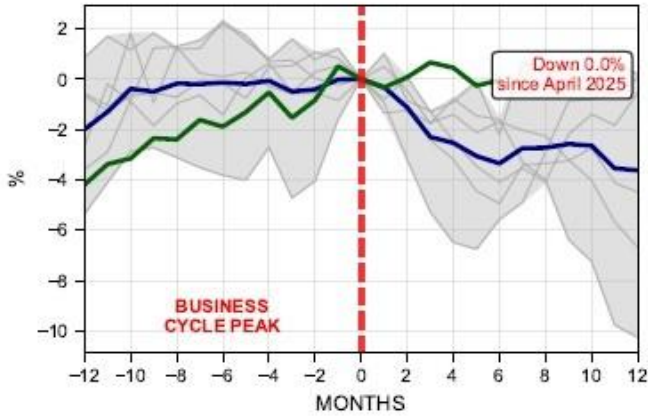


Inflation indicators

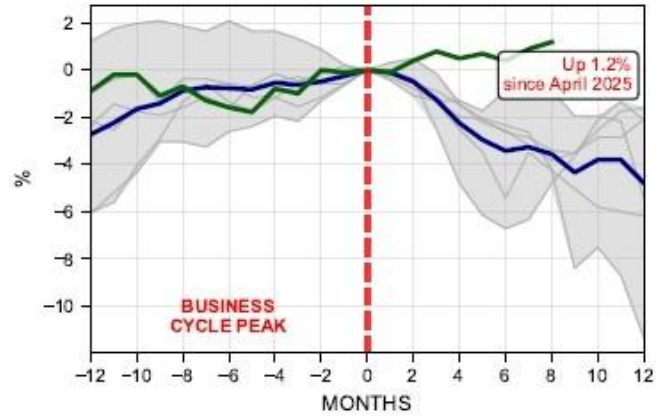


NBER RECESSION INDICATORS DASHBOARD

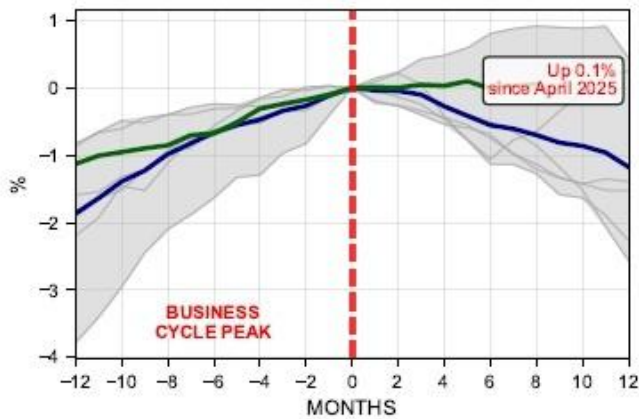
REAL SALES: MANUFACTURING AND TRADE INDUSTRIES



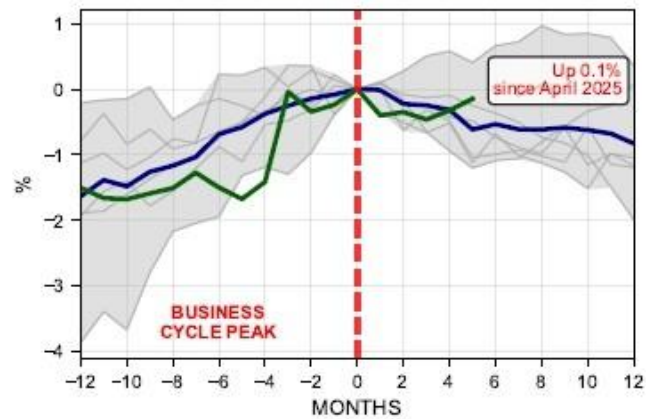
INDUSTRIAL PRODUCTION



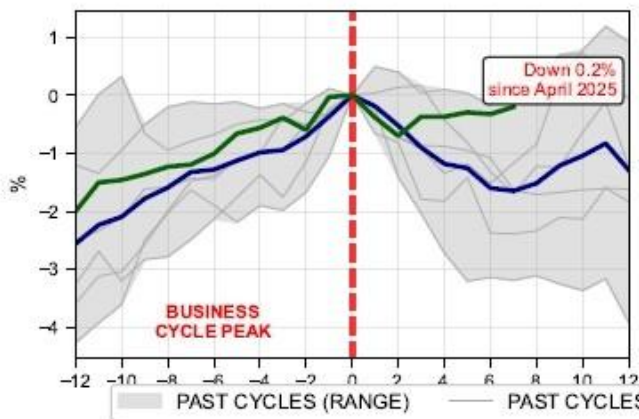
US NONFARM PAYROLLS



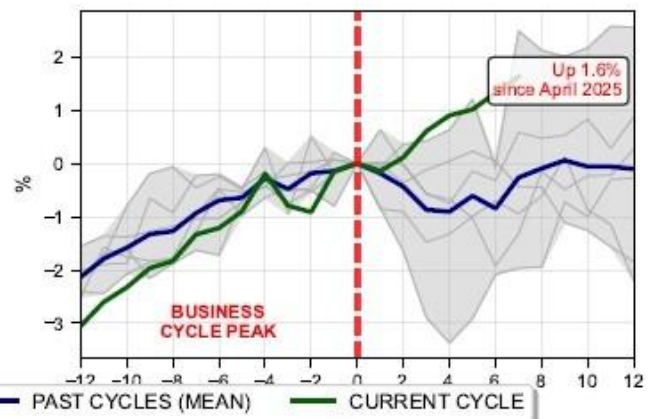
CIVILIAN EMPLOYMENT



REAL PERSONAL INCOME MINUS CURRENT TRANSFER RECEIPTS



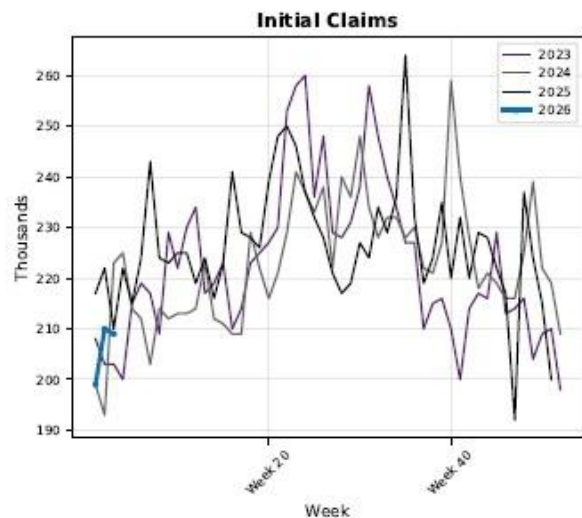
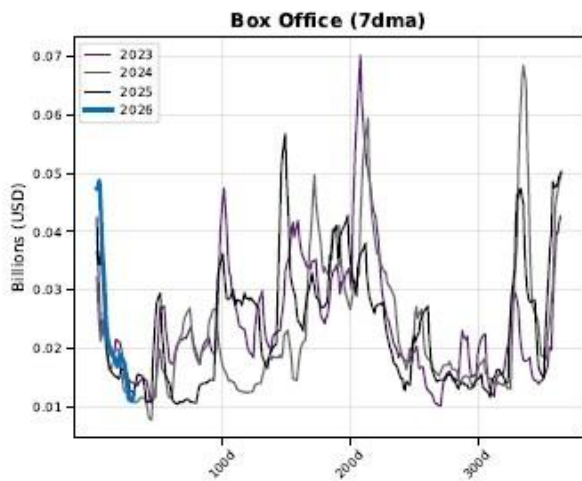
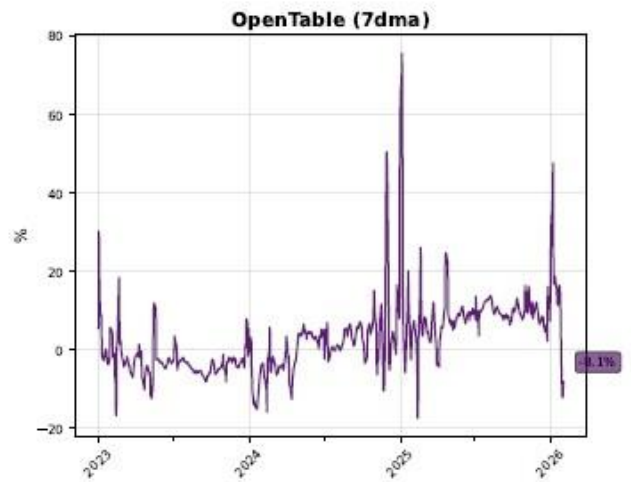
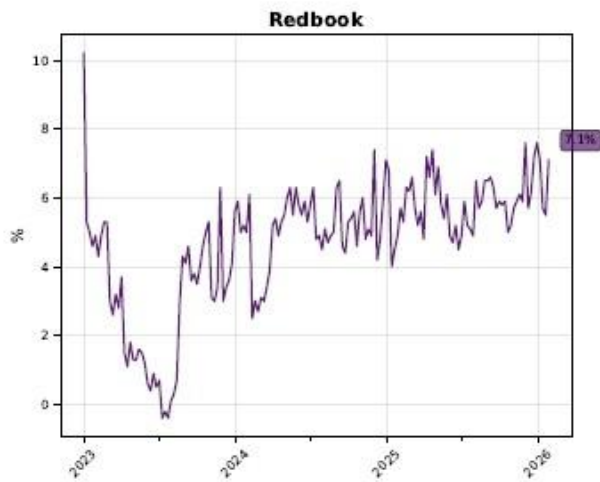
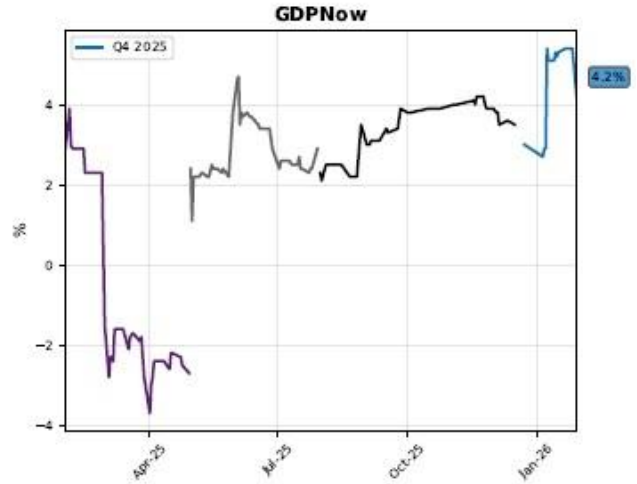
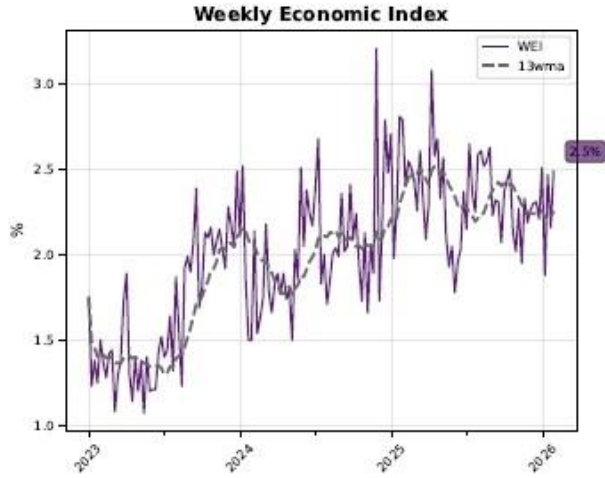
REAL PCE



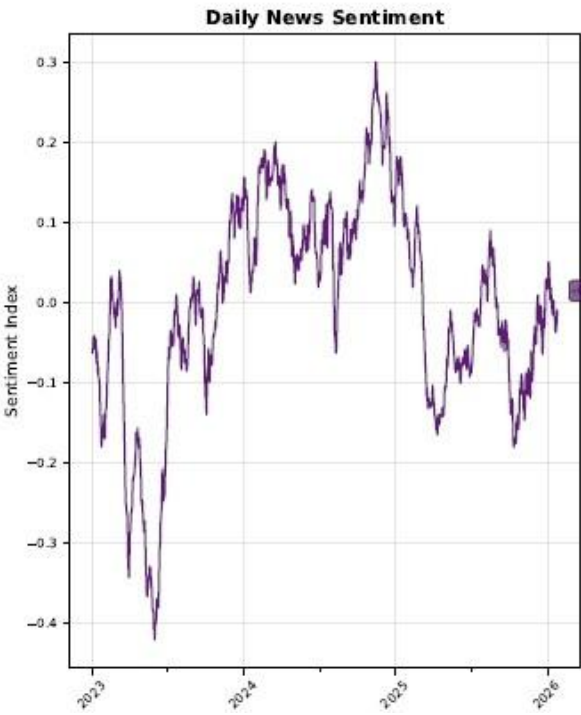
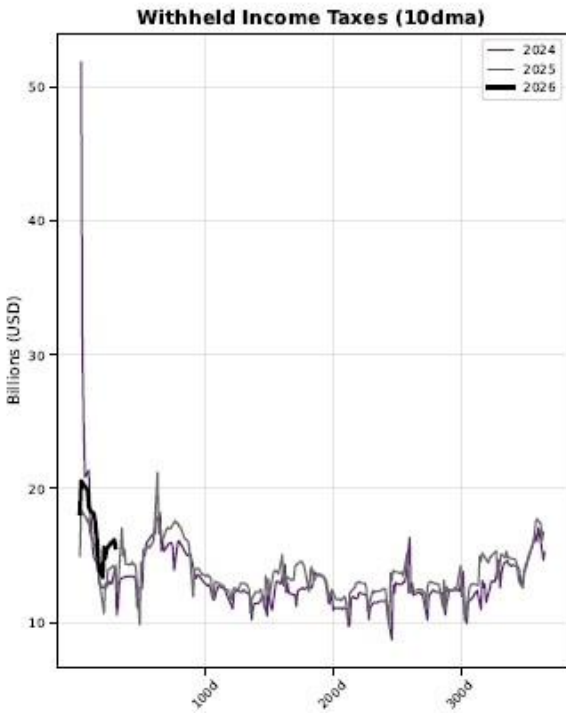
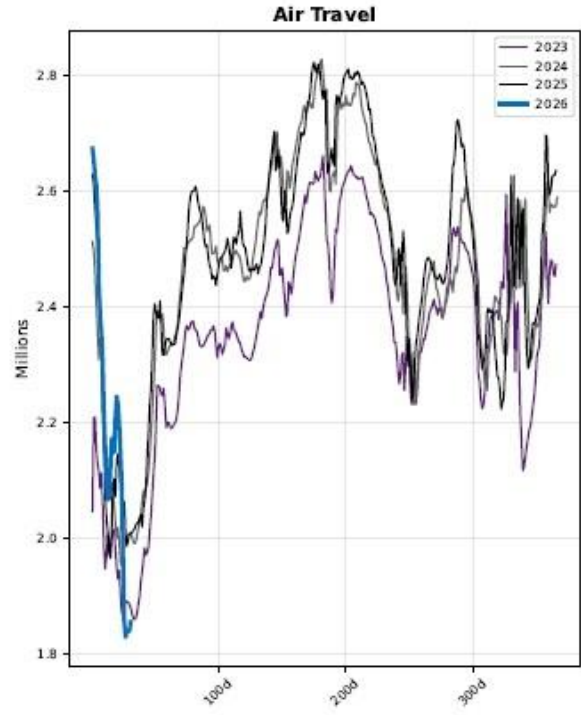
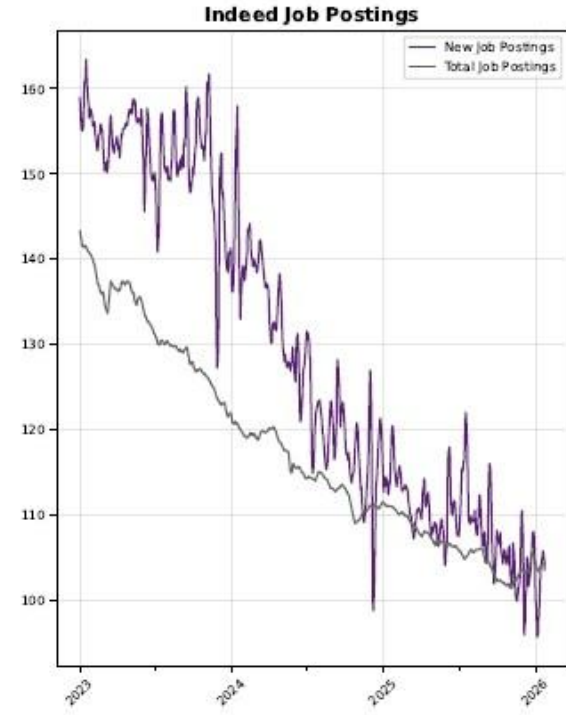
PAST CYCLES (RANGE)
 PAST CYCLES (MEAN)
 CURRENT CYCLE

Past 7 cycles excluding Covid-19 period

High Frequency Economic Dashboard



High Frequency Economic Dashboard



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