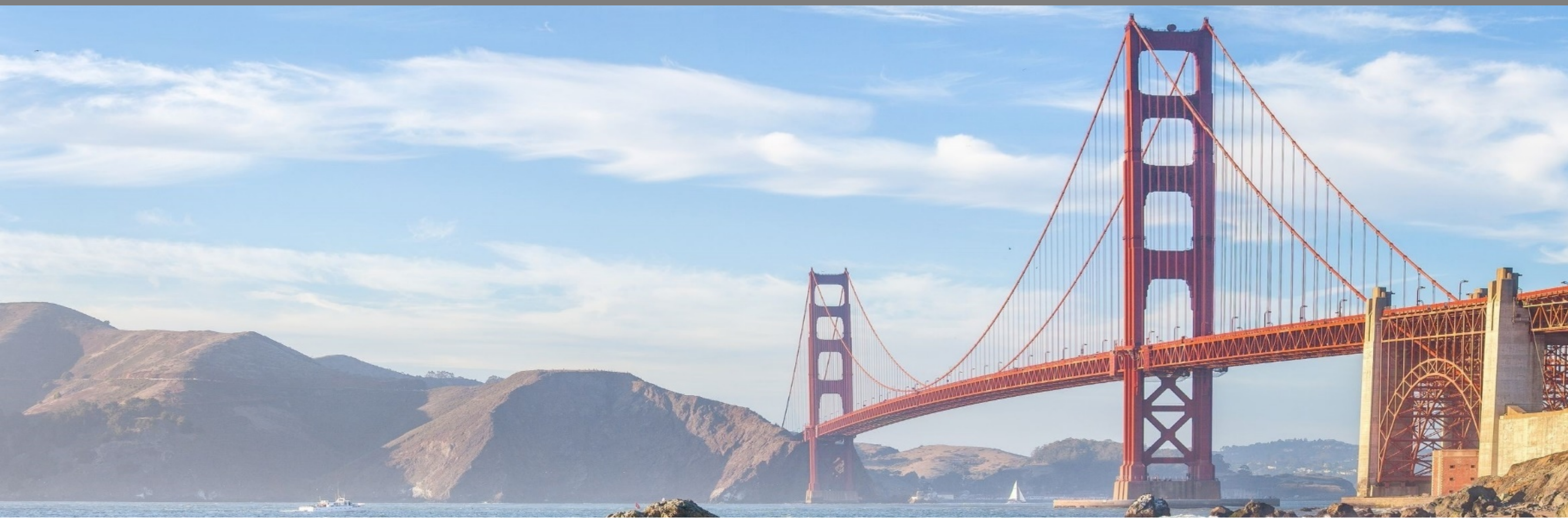
BEA 東亞銀行

Economic Research Department February 2026

*Market Monitor – United States*

# Kevin Warsh emerged as the next Fed Chair



- Trump nominated Kevin Warsh to replace Jerome Powell as the next Fed Chair.
- The Fed held interest rates unchanged in January, as expected.
- The US labour market showed surprising strength in January.

## Kevin Warsh was announced as the nominee for the next Fed Chair

**Trump nominated Kevin Warsh as the next Fed Chair.** Kevin Warsh, a former Fed governor from 2006-11, was nominated by President Donald Trump to replace Jerome Powell as the next Fed Chair in May. A long-standing critic of the Fed's expanding role in the economy, Warsh's nomination signals a potential recalibration of the central bank's core mission, given his philosophy on restoring discipline to monetary policy, with a sharper focus on price stability. Warsh has consistently argued that the Fed's balance sheet should not be a permanent tool of fiscal accommodation but rather reserved for genuine crises and will likely reduce the Fed's reliance on quantitative easing. He also views inflation as the primary threat to economic stability and believes the Fed should prioritise controlling it.

At the same time, Warsh acknowledges the evolving role of technology in shaping productivity and wages. He emphasises artificial intelligence as a structural force that could ease inflationary pressures by boosting productivity and suggests that monetary policy must adapt to these dynamics without losing sight of its primary objectives. Overall, his views imply a leaner, more disciplined Fed and one that avoids mission creep, resists political pressures, limits forward guidance, and refocuses its mandate around inflation control and financial stability.

**The Fed held rates unchanged.** The Federal Reserve voted 10-2 to keep interest rates unchanged at 3.50-3.75% during its January meeting after three consecutive cuts. Governors Stephen Miran and Christopher Waller dissented, preferring a further 25 basis point reduction. The decision was widely expected. The meeting statement adopted a more positive tone on the labour market by removing references to downside risks for employment and noting that the unemployment rate has begun to stabilise. The Fed also upgraded its assessment of economic activity from moderate to solid, citing resilient growth despite weaker job gains. Regarding the monetary policy outlook, Fed Chair Powell underscored that existing interest rates are near the estimated range of neutral levels and stressed that monetary decisions will be made meeting by meeting.

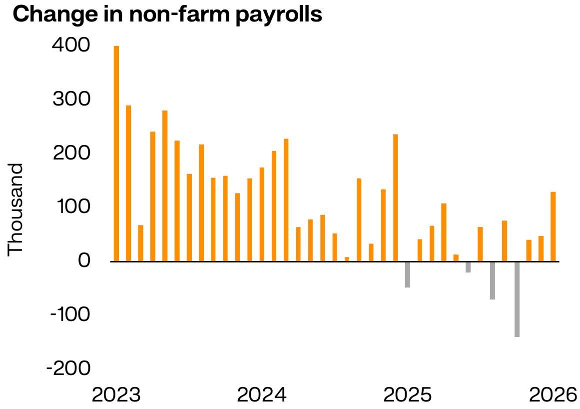
**Trump signed a bill ending the partial government shutdown.** In early February 2026, President Trump signed a USD 1.2 trillion funding bill that ended a brief partial 4-day government shutdown. The bill, narrowly passed by the House after Senate approval, reopened most federal agencies through the end of September while providing only a short-term extension for the Department of Homeland Security. Although the incident underscored a tense standoff in Congress, its economic impacts are expected to be mild.

## The US labour market surprised to the upside

**The US labour market showed surprising strength in January 2026.** Nonfarm payrolls rose by 130,000, significantly outperforming forecasts. Job gains in the month were concentrated in the healthcare, social assistance, and construction sectors. Meanwhile, the unemployment rate edged down to 4.3% in January from 4.4% in December. In terms of wages, average hourly earnings rose by 3.7% YoY (year-on-year) and 0.4% MoM (month-on-month) in January, compared to 3.7% and 0.1% In December. Despite the upside surprise in January, job growth estimates over the past two years were lowered in the annual benchmark revision. The latest estimates reported an increase of around 181,000 jobs for 2025 compared to the previously estimated 584,000, while estimates for 2024 were significantly revised down from 2 million to just 1.46 million. Collectively this represents a discrepancy of roughly 900,000 jobs, reflecting a substantial over statement in the previous labour market reports.

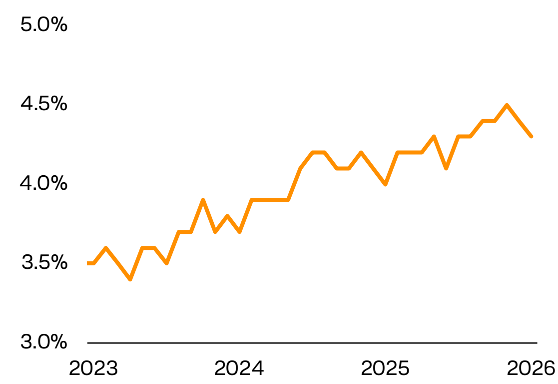
Besides, the latest job openings and labour turnover survey (JOLTS) revealed weaker hiring demand. Job openings dipped to 6.542 million in December from 6.928 million in November. Alternative data from Challenger, Gray, and Christmas also showed a remarkable rise of job cuts to 108,435 in January, an increase of 118% YoY and 205% MoM. All in all, while financial markets priced in a lower likelihood of a rate cut in March following the release of a strong labour market report in January, it remains uncertain whether these gains will persist or be revised downward in the future.

**Change in non-farm payrolls**




Source: CEIC

**Unemployment rate**

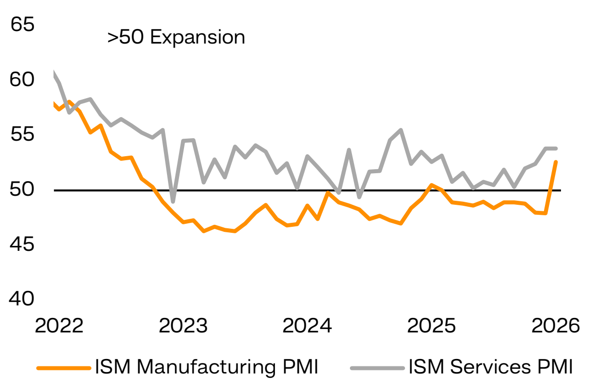



Source: CEIC

## Business surveys signalled a solid expansion in early 2026

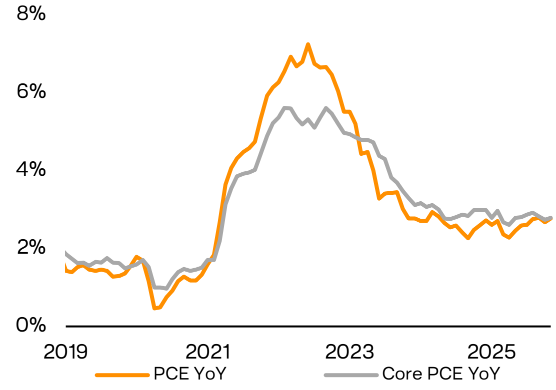
**Business surveys signalled a solid expansion in early 2026.** The Institute of Supply Management (ISM) manufacturing purchasing managers' index (PMI) rose to 52.6 in January, its first monthly expansion after ten consecutive months of contraction, suggesting a stabilisation of factory activity with new orders and production leading the way. The ISM services PMI remained in expansionary territory at 53.8, indicating continued expansion. Meanwhile, the S&P Global manufacturing and services PMIs rose to 52.4 and 52.7 in January, respectively. These readings highlighted a broad-based pickup across sectors, signalling a solid expansion at the start of 2026.

**ISM Manufacturing and Services PMI**




Source: Bloomberg, data as of 05/02/2026

**US PCE Inflation**




Source: Bloomberg, data as of 23/01/2026

**US retail sales were unexpectedly flat in December 2025**. Retail sales were stalled, after a 0.6% MoM rise in November. The year-end stagnation indicated emerging signs of moderation in consumer spending. Besides, delinquency rates on loans of all outstanding US household debt rose to 4.8% in Q4 2025, the highest level since 2017. This increase was driven by low-income and young borrowers. These developments pointed to growing risks to private consumption as the economy heads into 2026.

**The Fed's primary inflation gauge edged up in November.** The latest personal income and outlays report revealed that headline and core PCE inflation both rose to 2.8% YoY in November from 2.7% in October. On a monthly basis, headline and core PCE inflation both rose by 0.2% MoM in November, the same pace as in October. Looking ahead, the next CPI report should be monitored to assess any emerging inflationary trends. Altogether, the figures suggest that the economy was still on a steady growth path in Q4 2025.

## Disclaimer

This material is prepared by The Bank of East Asia, Limited ("BEA") for customers' reference only. The content is based on information available to the public and reasonably believed to be reliable, but has not been independently verified. Any projections and opinions contained herein are expressed solely as general market commentary, and do not constitute an offer of securities or investment, nor a solicitation, suggestion, investment advice, or guaranteed return in respect of such an offer. The information, forecasts, and opinions contained herein are as of the date hereof and are subject to change without prior notification, and should not be regarded as any investment product or market recommendations. This material has not been reviewed by the Securities and Futures Commission of Hong Kong, Hong Kong Monetary Authority, or any regulatory authority in Hong Kong.

BEA will update the published research as needed. In addition to certain reports published on a periodic basis, other reports may be published at irregular intervals as appropriate without prior notice.

No representation or warranty, express or implied, is given by or on behalf of BEA, as to the accuracy or completeness of the information and stated returns contained in this material, and no liability is accepted for any loss arising, directly or indirectly, from any use of such information (whether due to infringements or contracts or other aspects). Investment involves risks. The price of investment products may go up or down, and may become valueless. Past performance is not indicative of future performance. The investments mentioned in this material may not be suitable for all investors, and the specific investment objectives or experience, financial situation, or other needs of each recipient are not considered. Therefore, you should not make any investment decisions based solely on this material. You should make investment decisions based on your own investment objectives, investment experience, financial situation, and specific needs; if necessary, you should seek independent professional advice before making any investment.



For more information, please visit our webpage at https://www.hkbea.com/html/en/bea-about-bea-economic-research.html. For any enquiries, please contact the Economic Research Department of BEA (email: lerd@hkbea.com/telephone number: (852) 3609-1504/postal address: GPO Box 31, Hong Kong).