Richard Rose Wealth Management February 2, 2026

WEEKLY COMMENTARY **Richard Rose AIF®**

Good morning,

What's in this week's Report:

- Does the Warsh Nomination Jeopardize the Rally?
- Weekly Market Preview: Is the Goldilocks Economy Still Rolling?
- Weekly Economic Cheat Sheet: "Big Three" Monthly Reports This Week (Including Jobs Friday)
- Why the Threat of Currency Intervention Matters
- Another "Run-Hot" Policy: A Weaker Dollar

Futures are moderately lower on momentum from Friday's decline as markets digest the surprise Warsh nomination. Geopolitical headlines were mixed: the government partially shut down (but it should be brief), while fears of a strike against Iran receded following positive Trump comments.

Economically, Chinese Feb. PMIs missed estimates, and both the manufacturing and services PMIs fell below 50.

Today's focus will be on the ISM Manufacturing PMI (E: 48.3) as that is the first of the big monthly economic reports, and the stronger the data, the better for stocks.

We also have one Fed speaker today, Bostic (12:30 p.m. ET), but he shouldn't move markets (the market wants to hear from Warsh now).

Earnings continue, and some key reports today include: DIS ($1.57), PLTR ($0.17), and NXPI ($2.93).

Market	Level	Change	% Change
S&P 500 Futures	6,935.50	-30.25	-0.43%
U.S. Dollar (DXY)	97.34	0.35	0.36%
Gold	4,772.70	27.60	0.58%
WTI	61.83	-3.38	-5.18%
10 Year	4.235%	-0.009	-0.21%

Stocks

Last Week (Needed Context as We Start a New Week)

Equity market volatility picked up considerably last week as market focus shifted fluidly between government shutdown risks, a slightly hawkish Fed, mixed mega-cap tech earnings, and President Trump's Fed chair nominee announcement. The S&P 500 topped 7,000 midweek but ended Friday off the highs with a weekly advance of just 0.35%.

Stock futures were initially sharply lower to start last week as an ICE-involved killing of a protestor over the weekend led to Congressional Democrats threatening to withhold DHS funding from the next spending bill, reintroducing familiar government shutdown risks. Trump struck a somber tone regarding the event, which eased shutdown worries before NVDA announced a $2B investment in CoreWeave, reigniting an AI/mega-cap tech rally that saw the S&P 500 end higher by 0.50%.

The market gapped higher again on Tuesday as a soft weekly ADP report and mostly positive earnings helped offset a ~20% drop in UNH shares, driven by a lower-than-expected proposed increase in Medicare Advantage plans for 2027. After the strong start, a sense of "Fed paralysis" set in, and the S&P 500 drifted sideways, ending 0.41% lower at just shy of 7,000.

AI enthusiasm was revived overnight on Tuesday thanks to much stronger-than-expected earnings from niche semiconductor supplier ASML, which prompted the S&P 500 to open above the psychological 7,000 mark on Wednesday for the first time before the market drifted lower into the Fed decision. Traders took the FOMC's "hawkish optimism" in stride amid only a modest rise in yields, which saw the S&P 500 come off the lows to close down just 0.01%.

Stocks opened with a tentative bid Thursday as investors digested solid META revenue (shares +12%), mixed TSLA results (shares +2%), and concerning ROI on massive capex by MSFT (shares -12%). JPM analysts reiterated their underweight rating on TSLA and cut their price target by $5/share shortly after the open, which sparked a broad, heavy wave of selling pressure across equities. The S&P 500 fell nearly 2% peak-to-trough before ending well off the lows, down just 0.13%.

Volatility remained elevated on Friday after Trump announced Kevin Warsh as his nominee for the next Fed chair. As both an adamant advocate of Fed independence and an inflation hawk, Warsh's nomination sparked a massive selloff in precious metals and buoyed the dollar, moves that were later bolstered by a "warm" U.S. PPI print. Stocks traded lower into midday, with ~10% and ~30% declines in gold and silver, respectively, but the S&P 500 bounced off support at 6,900 to end off the lows (down 0.43%).

Does Warsh's Nomination Change the Bullish Setup for Stocks?

Markets were handed yet another surprise announcement from the administration on Friday when Trump nominated Kevin Warsh to be the next Fed chair. This choice wasn't out of left field but did, nonetheless, surprise markets. And as Friday's decline showed, Warsh was not the market's first choice. There are two reasons the market was mildly disappointed by the Warsh nomination.

First, he's made some less-than-supportive comments about QE. Last summer, Warsh described QE as "reverse Robin Hood," benefiting asset holders more than non-asset holders. Specifically, Warsh argues that QE compounds inequality in the economy, and he's likely correct. However, QE has become an integral part of the Fed policy, and many believe it is critical to the massive appreciation in asset prices over the past 17 years. Abandoning or altering the Fed's reliance on QE would be a significant shift in Fed policy, and markets will want to hear from Warsh about his commitment to QE.

Second, Warsh called for "regime change" at the Fed, essentially saying that the people running the Fed (Powell, etc.) are the same ones who let the inflation genie out of the bottle, and that new leadership is needed to restore public credibility. Again, that's not necessarily a bad thing (his comments aren't totally off base). Still, markets will want to hear more specificity on what exactly "regime change" means in the coming weeks. Bottom line, markets don't "hate" the

Warsh choice, but markets view the Fed as a significant ingredient of the 10+ year bull market in stocks and risk assets, so any potential change makes investors nervous, and we saw that Friday.

Does Warsh's Nomination Jeopardize the Rally?

Expectations that the Fed will keep cutting rates (even if it's later this year) are an important support for this bull market. So, does Warsh's nomination jeopardize that? No, it does not.

Warsh is dovish on rates and, based on his commentary, believes rates should be lower than they are here, so this nomination should reinforce that rates will continue to decline. And as long as his views on QE or Fed personnel don't alter the market's belief that 1) QE will be an integral part of policy like it has been in the past and 2) The Fed won't see its staffing radically changed, then Warsh should be viewed as a dovish choice (but to embrace that, markets will want claity on QE and Fed staffing over the coming weeks).

Economic Data (What You Need to Know in Plain English)

Last Week

The Fed decision was the key event last week and delivered no major surprises, while the few economic reports contained more Goldilocks data. Both events helped support stocks amid more chaotic policy headlines and an avalanche of earnings.

Starting with the Fed, it made no change to rates as expected but did make several minor hawkish tweaks to the statement, reinforcing that rate cuts are not coming in the next couple of months. Specifically, the Fed 1) Upgraded Its commentary on economic growth (so there is less need for rate cuts), 2) dropped its specific concern that a weakening labor market is a bigger risk than inflation (so there is less need for rate cuts), and 3) kept its language about elevated inflation unchanged.

The net result wasn't a major hawkish shock, but it did more forcefully show the Fed is not in any hurry to cut rates. Practically, that resulted in expectations for a June rate cut dipping modestly, from about 70/30 before the meeting to about 60/40 after. Again, that's not a big enough move to directly push stocks or bonds lower, but it reinforces that, while the Fed is still in a cutting mode, the next cut isn't coming anytime soon.

Turning to economic data, there were only two notable reports, both positive. Durable goods (delayed from November) rose solidly at 5.3% vs. (E) 3.0%, and, more importantly, New Orders for Non-Defense Capital Goods ex-Aircraft (NDCGXA), which is the best measure we have of business spending and investment, rose 0.7%. That number has been resilient, showing that despite policy and trade volatility, businesses are still spending and investing (and that's good for broader economic growth).

Weekly jobless claims rose to 209k vs. (E) 205k, but that remains an incredibly low number, and it reinforces that we are still in a "no hire/no fire" labor market. That's fine with the market because that's the type of Goldilocks stability that investors want to 1) Tell them growth remains solid but 2) Keep Fed rate cuts on the table.

Between the Fed and the data last week, the news was generally “fine” for stocks as we exited, with economic growth still solid, and the Fed expected to cut rates later this year. Those two realities helped support stocks amidst mixed earnings and currency/policy volatility.

Important Economic Data This Week

This week brings the “big three” monthly economic reports via Friday’s jobs report, today’s ISM Manufacturing PMI, and Wednesday’s ISM Services PMI, and markets will be looking for them to continue to reinforce the current Goldilocks state of the economy (and support markets amidst chaotic headlines).

Friday’s jobs report is the most important of the week because the labor market has lost momentum over the past year, and if that continues, it will raise concerns about growth. The bottom line is that modestly positive job gains (above zero) and, most importantly, no rise in the unemployment rate are key. If the jobs data is generally solid and the unemployment rate is stable, it will make investors more confident in the durability of the Goldilocks economy.

Turning to the ISM PMIs, the Services PMI (again, out on Wednesday) is the more important of the two because the service sector is so much larger than the manufacturing sector. The Services PMI jumped in December, and markets will be looking for a continuation of that strength this month. The key here remains 50. It’s not often the Service PMI falls below 50, and when it does, that’s usually a bad economic sign. Currently, the Services PMI is comfortably above 50 (at 54.4) and investors will want to see it remain there.

Turning to the manufacturing PMI, it was soft in December at 47.9, which is a multi-month low. But it’s still generally “close” to 50, and the key is that we don’t see manufacturing “falling away” from 50, which would hint at broader economic weakness. Again, stability in the numbers is key.

Finally, in addition to Friday’s jobs report, it’s really more like “jobs week” as we get the JOLTS on Tuesday, the ADP employment report on Wednesday, and Challenger layoffs and jobless claims on Thursday. In total, we’ll have a great look at the labor market by 9 a.m. Friday and the stronger it is, the better (markets would much rather see healthy jobs and rate cuts later than a weakening labor market and rate cuts earlier than June).

Bottom line, nearly perfectly Goldilocks data that shows solid growth and stable inflation (which keeps Fed rate cuts on the table) has been an important fundamental support for markets amidst headline volatility, and markets will want to see that continue this week with the most important economic reports of the month.

Special Reports and Editorial

Why the Threat of Currency Intervention Matters

Volatility in Japanese assets has been a direct influence on U.S. markets for over a week (Japanese Government Bond volatility was the main reason behind the recent 2.0% one-day drop in the S&P 500), with a Japan-driven steep drop in the dollar that helped support stocks generally but sent hard assets and certain commodities surging.

Last week’s influence from Japan centered on currency intervention. Put simply, it was the rumor that the Fed and the Bank of Japan were working together to buy the Japanese yen and sell the U.S. dollar, thereby causing a stronger Japanese yen and a weaker U.S. dollar. Hints of a possible intervention, last seen in 2011 after the tsunami in Japan, sent the yen higher by more than 1.5% last Monday, the dollar moderately lower (down 0.7%), and hard assets sharply higher.

Volatility in Japanese assets (JGBs and the yen) could remain an influence on U.S. markets, so I want to make sure we all understand 1) What's happening, and 2) How it could impact markets.

Why Would the Fed and BOJ Intervene in the Currency Markets? Because the yen is getting too weak, too fast. I've often said that what markets crave is stability, and that's especially true in currency markets, but that's not what's happening with the yen. The yen has weakened sharply over the past several months, from around 146 yen to the dollar in September to greater than 159 yen to the dollar earlier this month. That's a near-10% depreciation of the yen. The dollar/yen exchange rate can be tricky to understand, so think of it this way: In September, one U.S. dollar bought 146 yen. About two weeks ago, one U.S. dollar bought 159 yen. That's how the yen weakens vs. the dollar, even though the way we quote it can be confusing.

Why Is a Very Weak Yen a Problem? A very weak yen is a problem for global markets in several ways. First, it threatens to boost inflation in Japan because the country imports many products, and as the yen declines, those imports become more expensive (it takes more yen to buy the same product at the same price). Second, it forces the BOJ to threaten to raise interest rates to support the yen and combat inflation, which could lead to higher rates and, potentially, slower economic growth. Third, and most importantly, it threatens to disrupt the yen carry trade, which is critical.

How Does This Impact the Yen Carry Trade? For a refresher, the yen carry trade is a large-scale strategy used by large investment firms: they sell Japanese Government Bonds (which yield around 2.5%) and use the proceeds to buy higher-yielding assets such as U.S. Treasuries, emerging-market bonds, and stocks. It's a massive trade that provides leverage and funding for many global assets.

However, for the carry trade to work, it requires a stable and generally weak yen. If the yen weakens too much or too quickly (as it is now), it can prompt intervention in the currency markets by the BOJ (as it is now), and depending on the size of that intervention, it can disrupt the yen carry trade.

I say that because the yen carry trade is leveraged. If the yen were to appreciate too quickly, it could trigger margin calls, forcing investment firms to sell Treasuries, emerging-market bonds, stocks, Bitcoin, or other assets they had bought with the proceeds of selling Japanese government bonds. Put simply, intervention can trigger a short squeeze in the yen and JGBs, which can affect all assets as the carry trade unwinds (this occurred in August 2024 and was the reason for the market decline then).

Why Is the Yen So Weak? The fiscal outlook for Japan is deteriorating. Japan is already, by far, the worst major developed economy from a fiscal standpoint, with debt-to-GDP well over 200%. Now, the government wants to enact tax cuts while the BOJ is hiking rates to keep inflation at bay. Less tax revenue and higher interest expense (from higher rates) isn't the best combination for an economy that's already in a bad fiscal state.

The lack of fiscal discipline being floated by the Japanese government is causing JGBs and the yen to drop sharply, which is fueling rumors of looming intervention.

How Important Is This? It depends. Volatility in the yen carry trade, unless it blows up (which is very unlikely), won't end the U.S. bull market, but it can cause intense volatility (as we saw Tuesday). The biggest takeaway for us is to be prepared for more volatility.

More granularly, this is bullish for hard assets because it means more downward pressure on the dollar. Surging global volatility and uncertainty, combined with rumors of direct intervention in the yen (which would pressure the dollar), are the reasons gold and silver were higher. And the more currency market rumors swirl, the more upward pressure will be placed on hard assets such as gold, silver, and even digital assets like Bitcoin. To be clear, it's essentially a weak dollar play.

Another "Run-Hot" Policy: A Weaker Dollar

President Trump sent the dollar to four-plus-year lows last Tuesday as he dismissed the recent slide in the greenback. And in doing so, he intentionally or unintentionally endorsed a weaker dollar. The net impact of that choice is to create another "run-hot" influence on the economy.

I profiled how the totality of the administration's policies is resulting in a run-hot economy. Specifically, the administration has enacted tax cuts (pro-growth), pressured for lower interest rates (pro-growth), enacted sweeping deregulation (pro-growth), and courted direct investment from foreign companies in exchange for tariff relief (also pro-growth).

The positive side of these policies is resilient, solid economic growth. The downside, however, is the country's affordability issue, as ever-increasing amounts of money chase finite goods and services. Add tariffs and an immigration crackdown (which reduces the supply of low-wage labor), and you have an economy where growth is strong and prices remain high. Well, endorsing a weak dollar adds more fuel to this fire. Here's why.

First, a weaker dollar makes imports more expensive. Despite efforts to re-shore, the reality is the U.S. still imports most of its "stuff." That means a substantially weaker dollar will make those imports more expensive, simply because the currency is weaker vs. the exporting countries' native currency (if a French bottle of wine is 30 euros and the dollar weakens from "buying" 0.90 euros to only 0.85 euros, the same bottle of wine at the same price gets more expensive for U.S. consumers). That means higher prices on imports.

Second, it boosts earnings because companies that sell goods to foreign markets now offer lower prices to their customers. That's one of the reasons the technology and consumer discretionary sectors have rallied over the past few days. Think about it: If an iPhone costs $1,000 and the euro strengthens from "buying" 1.10 dollars to 1.20 dollars, the iPhone becomes cheaper to European buyers even though it stays the same nominal price. A weaker dollar favors companies with a solid portion of foreign sales, specifically technology, consumer discretionary, industrials, communications, and materials.

Third, it makes tangible assets more expensive. Gold and silver are surging. Oil and natural gas have rallied. Yes, there are fundamental factors behind each of these increases, but a weaker dollar automatically raises commodity prices because they are hard assets. They can't be devalued like a currency. The net result is to add more upward pressure on prices, as sustainably higher energy and materials prices will further fuel inflation.

Here's the simple reality: If weakening a currency were the path to prosperity, emerging market economies would have ruled the world for the last 100 years. That said, a modest, orderly decline in a strong currency can be an economic positive. However, an 11% decline over the past year, with nearly half occurring in the last two weeks, in the world's most important currency is neither "modest" nor "orderly."

So far, the dollar decline hasn't bothered stocks too much, and that's because, around 96, the dollar is not extraordinarily weak. But the dollar decline does add to the overheating economy, with stronger growth/earnings and higher prices. Additionally, if the dollar continues to decline and falls quickly into the low 90s, such a disorderly decline will start to rattle markets.

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