



# POLICY RECKONING

How Fed Leadership Shifts,  
Sticky Prices, and Fiscal  
Strain are Driving a Global  
Re-pricing of Risk



**Created by**

RCK Analytics Pvt. Ltd.

**Date Created**

February 06, 2026

**Issue Number**

15

# Table of Contents



Resilient growth, looser policy expectations, and compressed risk premia are shifting markets from growth-driven pricing to credibility-driven differentiation.

## 01 Fed Signaling Reshapes Financial Conditions

Leadership expectations, not rate moves, are now tightening financial conditions.

## 02 Sticky Inflation Limits the Pivot

Persistent producer and services inflation constrains rate cuts and keeps real rates structurally elevated.

## 03 Fiscal and Trade Frictions Raise Risk Premiums

Policy uncertainty, not stimulus, is now the dominant fiscal and trade influence on markets.

## 04 Currencies and Commodities Signal Systemic Stress

Dollar volatility and rising precious metals demand reflect declining confidence in macro stability.

# Executive Overview

*The U.S. economy remains resilient, with markets pricing a looser monetary outlook rather than tightening. Even as inflation and fiscal pressures persist, risk premia across equities and credit have compressed, shifting risk pricing away from growth concerns toward confidence in policy credibility, leadership, and institutional stability.*

Entering 2026, U.S. economic conditions are increasingly shaped by policy constraint rather than policy stimulus. Recent interventions have focused on limiting labor market deterioration rather than driving incremental growth. Under the surface, labor conditions are weakening: hiring momentum has slowed, job openings have fallen, and wage growth is decelerating, pointing to softer labor demand despite a still-contained unemployment rate. Against this backdrop, market attention has shifted away from cyclical growth dynamics toward policy credibility, institutional effectiveness, and downside risk management.

The nomination of Kevin Warsh as the next Federal Reserve Chair has increased uncertainty around the future path of balance sheet policy and the Fed's tolerance for elevated asset valuations. Warsh has historically criticized prolonged balance sheet expansion, arguing that delayed normalization undermines market discipline and fuels financial imbalances placing him at odds with the current Fed's gradual, stability-focused runoff strategy.

Fiscal uncertainty, including renewed shutdown risks, has compounded volatility by weakening institutional credibility. Trade recalibration and selective tariffs add another layer of unpredictability, disrupting supply chains without delivering clear growth support. Commodities and currencies have responded accordingly: precious metals are attracting defensive flows, while the dollar has become unusually volatile.

Taken together, these forces suggest that the economy is not weakening outright but entering a more fragile equilibrium. The defining feature of this phase is a global repricing of risk, driven less by growth deceleration and more by declining policy confidence.

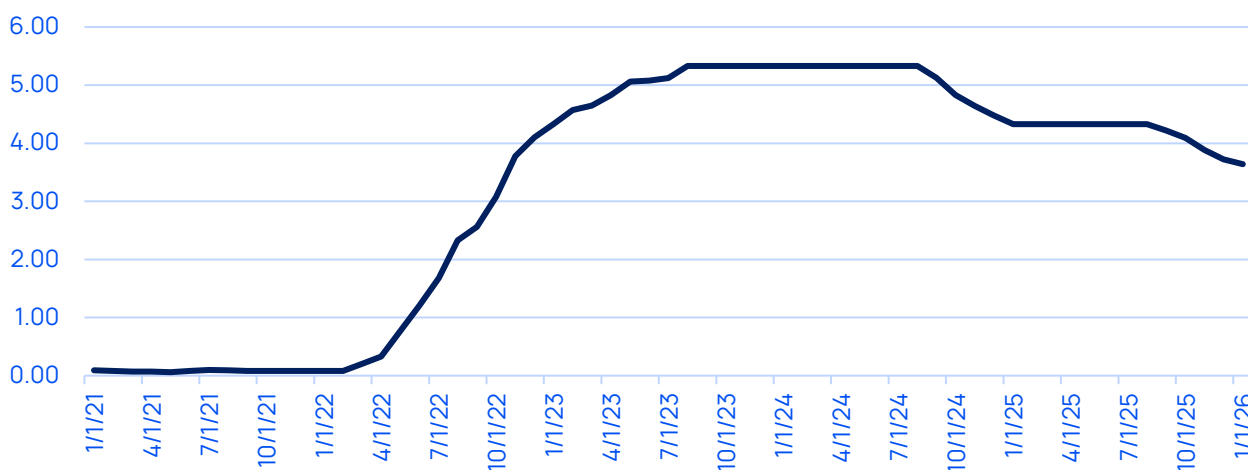
# Fed Signaling Reshapes Financial Conditions

## Leadership Expectations, not Rate Moves, are now Tightening financial Conditions.

The US Federal Reserve remains the central driver of current market behavior, not through immediate action but through signaling. The nomination of Kevin Warsh as incoming Chair has shifted expectations toward a more orthodox and discipline oriented monetary framework, as he is widely perceived as less supportive of an extended balance sheet expansion.

The federal funds rate appears to be anchored at 3.50% - 3.75% for the present, as the Fed paused rate cuts at its January meeting, given that inflation is persistent and the labor market appears to be in limbo. By holding rates steady, the Fed is effectively maintaining tight real financial conditions.

**Figure 1: Federal Funds Effective Rate**



Source: Federal Reserve Economic Data

Importantly, markets are interpreting this stance as structural rather than temporary. Earlier cycles conditioned investors to expect rapid liquidity support at the first sign of stress. That reflex is fading. Instead, the prevailing assumption is that the next policy phase will prioritize price stability over asset-price stabilization.

Global macro conditions over the past fortnight have been marked by a widening divergence between resilient financial markets and increasingly fragile real-economy signals. In the United States, weaker employment data, a rebound in mortgage demand, and softer.

# Sticky Inflation Limits the Pivot

## Persistent Producer and Services Inflation Constrains Rate Cuts and Keeps Real Rates Structurally Elevated.

Inflation has moderated from its peaks but remains sufficiently entrenched to restrict policy flexibility. Recent producer price data indicate sustained upstream pressure, particularly across services, labor-intensive categories, and margin driven sectors. Unlike prior inflation episodes rooted in supply-chain disruptions or energy shocks, today's pressures reflect embedded pricing power and cost pass-through behavior. This distinction is critical. Supply-driven inflation typically fades as bottlenecks resolve. Structural pricing power does not.

**Figure 2: 10-Year Breakeven Inflation Rate**



Source: Federal Reserve Economic Data

For the Federal Reserve, this creates an asymmetric risk profile. Cutting rates too early risks reigniting price pressures and undermining credibility. Maintaining current levels, however, restrains growth and suppresses credit formation. Policymakers have therefore opted for patience, reinforcing a “higher-for-longer” rate environment.

The implication for markets is straightforward: real rates are likely to stay restrictive. Elevated real yields increase discount rates across equities, compress valuation multiples, and weigh on long-duration assets. They also alter corporate behavior, encouraging cash preservation and disciplined capital allocation over expansionary risk-taking. In prior cycles, easing expectations boosted asset prices quickly. Today, persistent inflation is acting as a brake on that dynamic. Until price pressures show convincing structural moderation, the Fed's ability to pivot remains constrained.

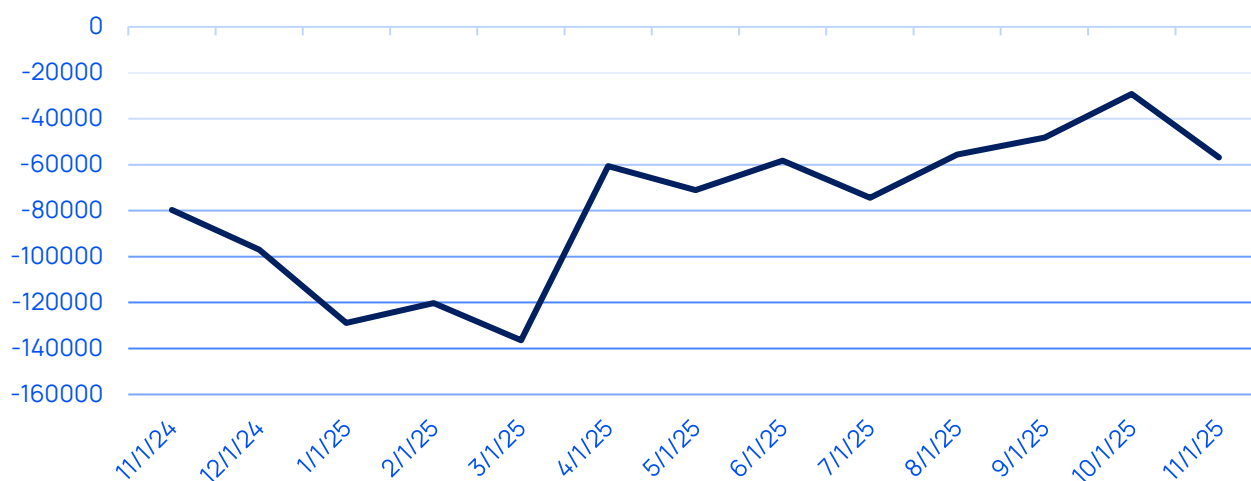
# Fiscal and Trade Frictions Raise Risk Premiums

## Policy Uncertainty, not Stimulus, is now the Dominant fiscal and Trade Influence on Markets.

Fiscal policy has re-entered the macro narrative not as a source of support but as a source of volatility. The recurring threat of government shutdowns underscores institutional fragility and undermines confidence in policy continuity. Unlike traditional fiscal stimulus, today's fiscal backdrop injects uncertainty rather than demand, with persistent deficits and political dysfunction constraining forward planning.

Markets are pricing governance risk instead of growth benefits. Trade policy adds further complexity through selective protectionism targeted measures protect strategic industries without broad escalation, but result in uneven sectoral impacts, higher supply-chain costs, and increased uncertainty absent comprehensive liberalization.

**Figure 3: Trade Balance: Goods and Services, Balance of Payment Basis**



Source: Federal Reserve Economic Data

These frictions influence corporate behavior directly. Firms delay capital expenditure, reassess sourcing decisions, and hold higher precautionary liquidity. Global partners likewise adjust exposures, reducing trade efficiency.

The net effect is a macro environment where policy actions neither fully stimulate nor fully restrict but instead elevate uncertainty. Risk assets tend to underperform in such regimes because predictability the foundation of investment planning is diminished.

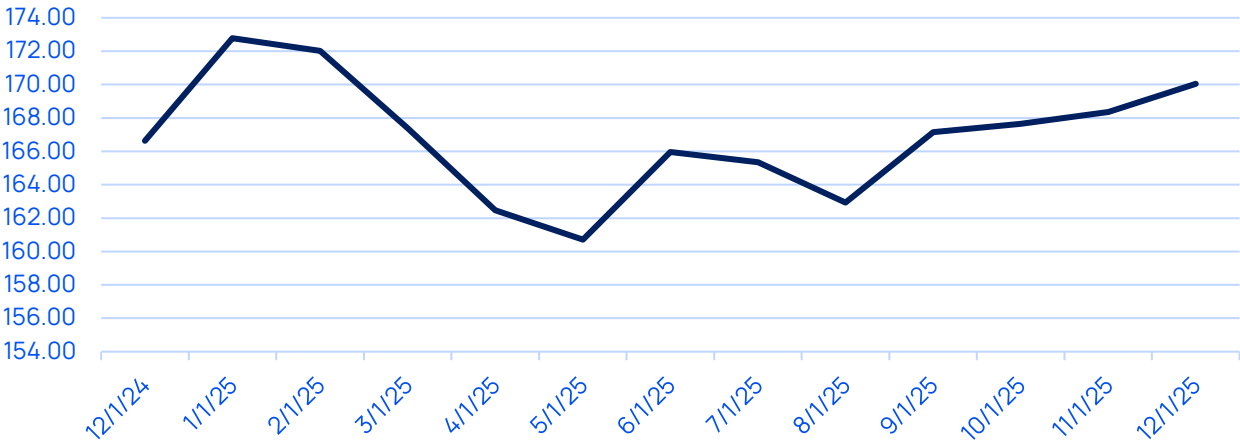
# Currencies and Commodities Signal Systemic Stress

## Dollar Volatility and Rising Precious Metals Demand Reflect Declining Confidence in Macro Stability.

Financial markets often reveal stress faster than economic data, and current signals are increasingly visible in currencies and commodities. Precious metals, particularly gold and silver, have experienced heightened volatility and sustained inflows. These moves reflect not immediate inflation fears but a broader hedge against policy misalignment, geopolitical tension, and currency risk.

Gold's behavior is instructive. When investors question institutional stability or fiat credibility, demand for non-yielding stores of value rises. Recent price action suggests that macro uncertainty, not cyclical demand, is driving flows.

**Figure 4: Global Price Index of All Commodities**



Source: Federal Reserve Economic Data

Gold's behavior is instructive: when confidence in institutions or fiat credibility weakens, demand for non-yielding stores of value rises. Recent price action indicates that macro uncertainty, rather than cyclical demand, is driving flows.

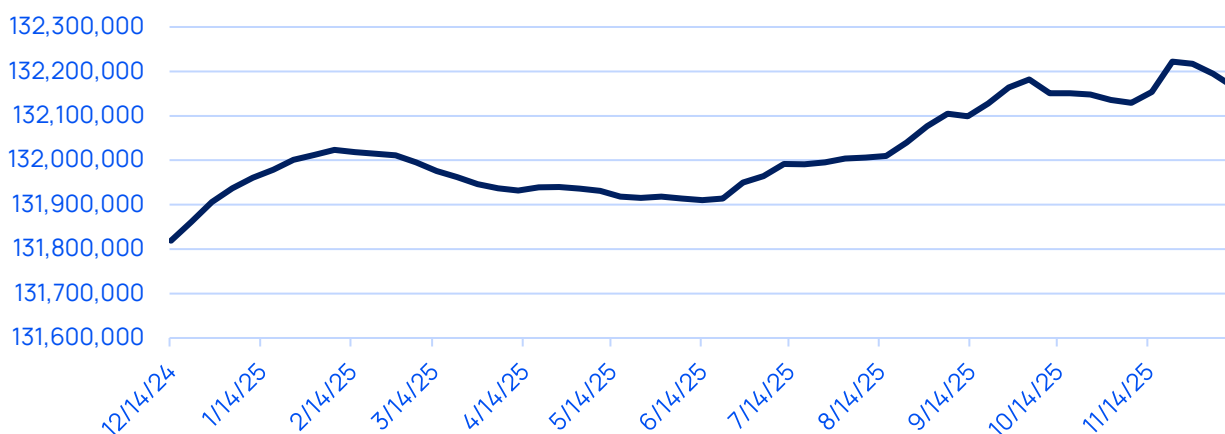
Currency markets tell a parallel story. The U.S. dollar has shown elevated volatility as persistent fiscal deficits, balance-sheet expectations, and shifting rate differentials reshape global capital flows. Periods of dollar softness ease conditions for emerging markets but raise imported inflation risks in the U.S. and complicate global hedging.

# Total Nonfarm Private Payroll Employment

Private Payrolls are Slipping at the Margin, Signaling Early Labor Market Softening.

Private payrolls have turned lower at the margin, signaling emerging labor market softening despite a still-elevated employment base.

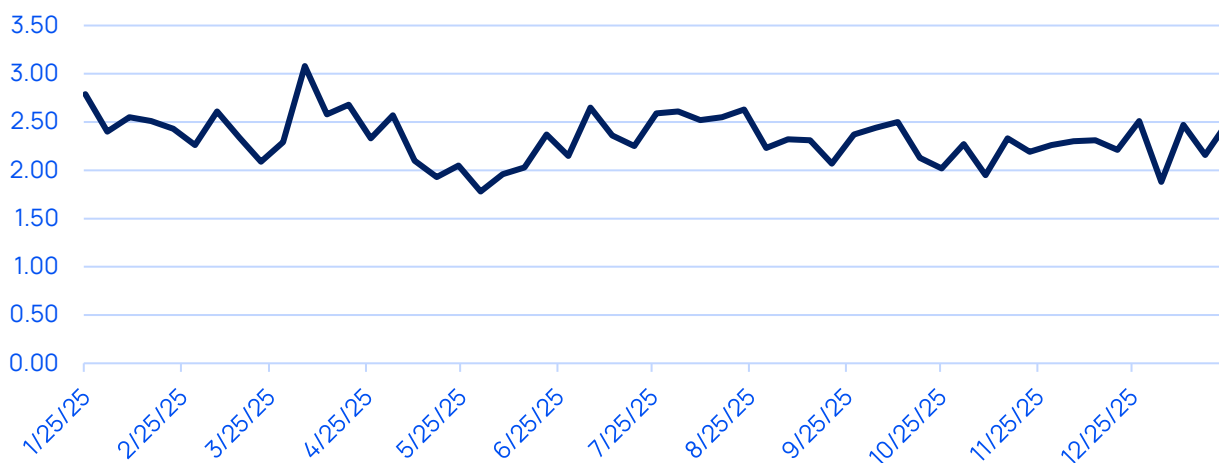
**Figure 5: Total Nonfarm Private Payroll Employment**



Source: Federal Reserve Economic Data

The Weekly Economic Index is fluctuating around a stable range, indicating moderate growth with no clear acceleration or deterioration in recent weeks.

**Figure 6: Weekly Economic Index**



Source: Federal Reserve Economic Data

# Collaborate With Us

RCK Analytics is a global provider of high-quality investment research, investment banking support, PE/VC insights, data science and engineering solutions, market research, analytics, and assurance services. We serve a diverse client base including investment firms, PE/VC funds, asset managers, hedge funds, investment banks, consulting firms, and corporates across sectors. Backed by a skilled team, we deliver data-driven insights and strategic support to help clients make informed decisions and drive financial outcomes.



**Website:** [www.rckanalytics.com](http://www.rckanalytics.com)



**Phone:** +91 72194 74999



M-109, City Avenue Corporate Park, Wakad,  
Mumbai-Bangalore Highway, Pune, India - 411 057

