

The flexiweekly that reaches new heights - published on 16 March 2026

## "ARE YOU READY FOR THE FIREWORKS?"

- Kevin Warsh's arrival at the helm of the Fed is revolutionary
- Contrary to popular belief, he is much more of a "dove" than a "hawk"
- What's more, he plans to reform the role of the US central bank
- Bond markets could reap historic benefits

### CHART OF THE WEEK: "The next Fed Chair will be a reformer"



## FINANCIAL MARKETS ANALYSIS

**Events are unfolding rapidly at the start of 2026:** overinvestment in artificial intelligence, the abandonment of customs tariffs, the private credit crisis and war in Iran. The global economy is being shaken by various shocks that will have an impact on employment dynamics, productivity gains and inflationary pressures.

**The bond market is already reacting to all these factors, fluctuating more than usual.** The yield on US sovereign bonds, considered by investors around the world to be a risk-free asset, provides a perfect example. The interest rate on 10-year *Treasuries* fell from 4.30% in January to 3.93% in early February, before rising sharply to 4.24% (see Fig. 2). The performance of these bonds, which move inversely to interest rates, thus shifted from significantly positive to zero. **With structural impacts being more**



**recessionary than short-term factors are inflationary**, the downward trend in yields should prevail throughout 2026. This will enable investors indexed to interest rates to **generate positive returns**, whether they hold bonds denominated in dollars, euros or Swiss francs, or have opted for structures linked to interest rates with constant maturity. **Recent underperformance is frustrating, but it should be more than offset in the coming months.**

The market consensus still believes that central banks could keep interest rates high for longer than initially expected or even raise them to counter inflation (see Fig. 3). **This perception of monetary policy tightening is misguided**, as central banks rarely act to counter supply shocks over which they have no control. Rates are therefore likely to remain low, or even be lowered, in order to stimulate the ability of businesses and households to take out loans for investment and consumption. **Clearly, if central banks were to surprise us in the coming months, it would be by lowering rates more than expected.**

Fig. 2 – Change in 10-year US interest rates

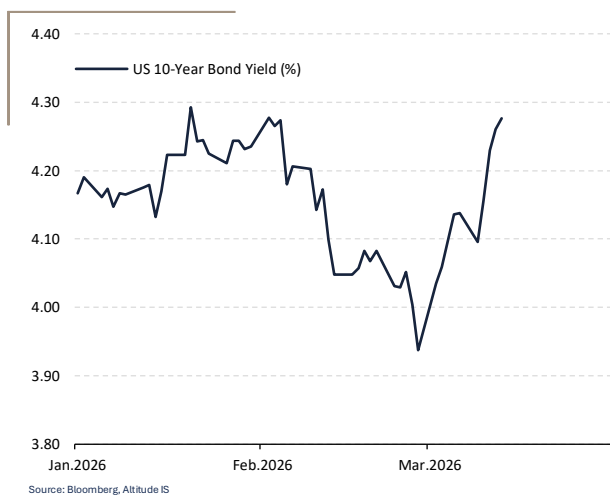
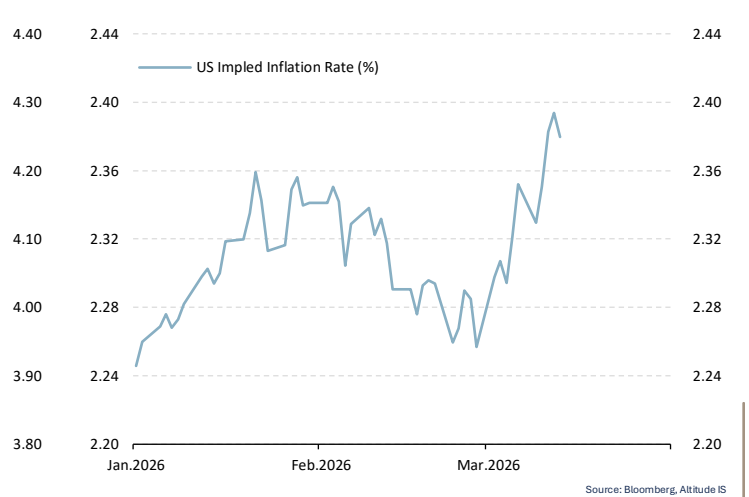


Fig. 3 – 10-year US inflation expectations



**There is one event that everyone knows about but whose implications for the bond markets are greatly underestimated: Kevin Warsh's arrival at the helm of the Fed in May 2026.** Regular readers of our analyses will have noticed that we rarely discuss the ups and downs of monetary policy, as it is widely commented on elsewhere and its impact on the markets is quickly absorbed by investors. This does not seem to be the case this time around. To understand the impact of Kevin Warsh's appointment on the Fed's monetary policy, financial institutions and Treasury bond issues, it is necessary to examine the issues surrounding US public debt.

It is no secret that US debt has become very high, perhaps too high (see Fig. 4). The ideal way to reduce it would be to stop adding to it, but reducing deficits is politically complicated. The other solution would be to make it small in comparison with US wealth but growing nominal GDP faster than debt is not so simple. The final solution is therefore to lower interest rates to reduce interest charges (see Fig. 5) and facilitate repayment. Economic history has repeatedly shown that humanity always ends up going down this path. Unfortunately, interest rates do not fall naturally, as investors perceive the risk of default and demand an increasingly high premium to purchase debt. **It is therefore necessary to use artificial means to bring interest rates down to an "unnatural" level, below the nominal growth rate of the economy or even below the rate of inflation.**



Fig. 4 – US public debt

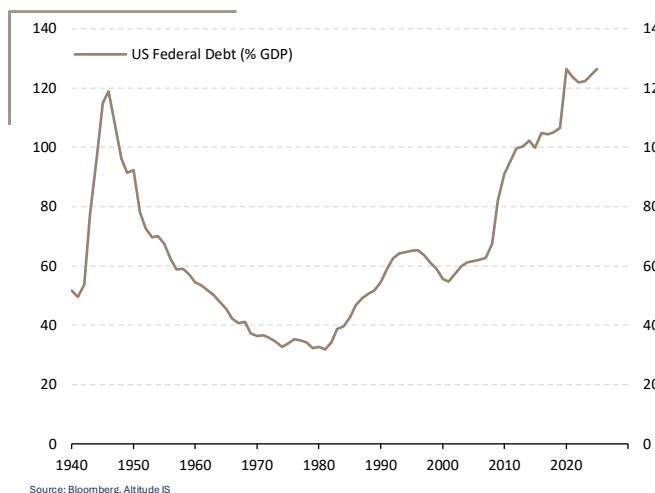
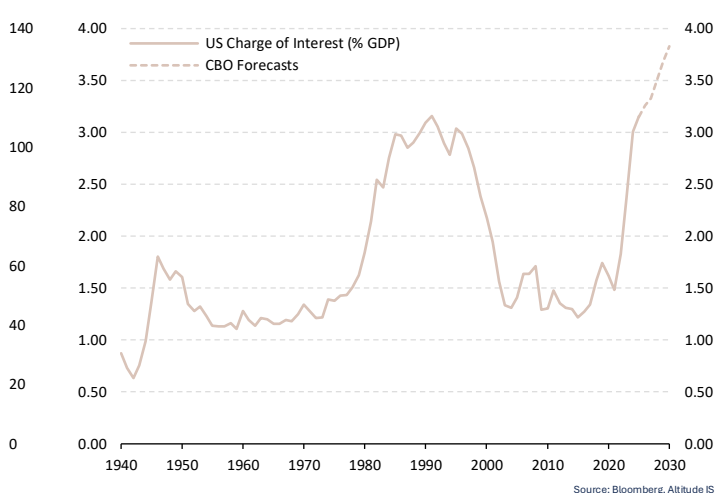


Fig. 5 – Interest charges



**There are many different tricks that can be used, as with fireworks. One option is debt monetisation**, i.e. having the central bank finance the debt, as Stephen Miran would like to see by bringing back the Fed's third mandate (see WIF of 27 October 2025). It could also **involve financial repression**, legally forcing financial institutions to buy more sovereign bonds, as Scott Bessent might do. In a rather subtle way, Kevin Warsh plans to encourage these same financial institutions to buy public debt. This would involve using a carrot rather than a stick to carry out this financial repression, but the objective is the same: to reduce interest rates and ease the debt burden. These three pyrotechnicians may even light all the fuses simultaneously and set off a veritable fireworks display.

**How could Kevin Warsh, considered a "hawk", an orthodox monetary policy advocate, a champion of central bank independence and an opponent of quantitative easing in 2010, encourage banks, insurance companies, pension funds and other investment funds to hold more US public debt?**

- **The simplest option available to him would be to increase the term premium.** By widening the spread between long-term and short-term rates (see Fig. 6), he would encourage bond investors to buy more long-term bonds. Aware that the interest burden paid by the United States is already very high, he will seek to do so by sharply lowering short-term rates rather than allowing long-term rates to rise. This argument must have appealed to Donald Trump, who has often criticised Jerome Powell for not lowering the Fed's key rates sufficiently.
- **The other option would be to relax capital requirements**, particularly the Basel leverage ratio (*Supplementary Leverage Ratio, SLR*). By easing the balance sheet constraints on financial institutions, they would find a natural economic incentive to favour US sovereign securities. Their new ability to absorb large volumes of debt would allow the Treasury to issue more but also allow the Fed to sell (QT) without causing an uncontrolled surge in yields.

**Thus, contrary to popular belief, Kevin Warsh seems much more of a "dove" than a "hawk".**

Furthermore, the future Fed Chair believes that the productivity boom linked to artificial intelligence (AI) should be disinflationary (see Fig. 7). This technological shock is a powerful and lasting force, allowing for a sharp drop in key interest rates without risking a new surge in inflation. The Fed's traditional model favours demand-side regulation. If prices rise too sharply, the central bank raises its key interest rates to slow down activity. **Kevin Warsh advocates a supply-side approach, where price stability no longer necessarily depends on economic growth.** Technological optimisation becomes the main bulwark against inflationary pressures. In concrete terms, if AI increases



productivity, companies can produce more without increasing their costs. This dynamic automatically increases potential GDP. In this paradigm, inflation does not need to be contained by a slowdown in the economy because it will be contained naturally. Traditional economic relations are giving way to a high-pressure economic regime. The Fed can therefore allow the economy to accelerate without fear of inflationary overheating. **This approach justifies a sharp cut in the Fed's key interest rates.**

Fig. 6 – Yield curve

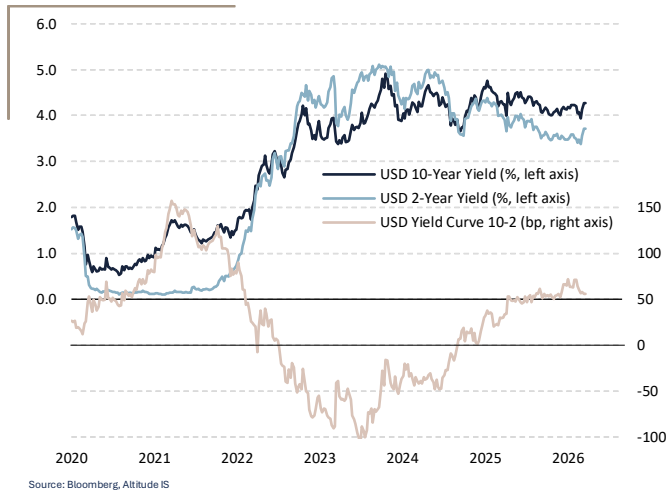
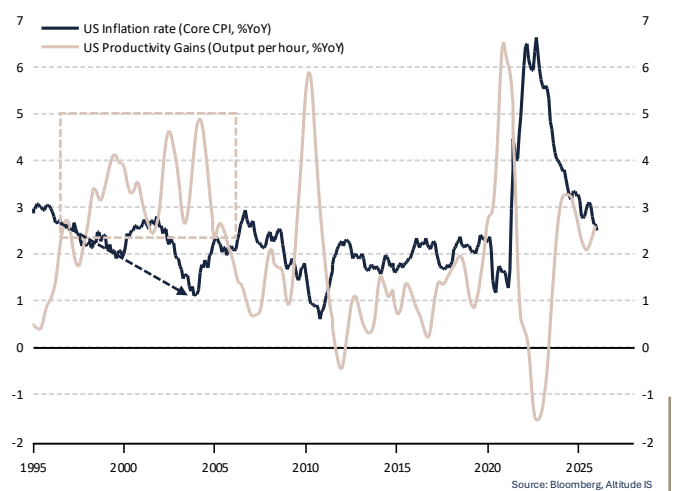


Fig. 7 – Productivity gains & inflation

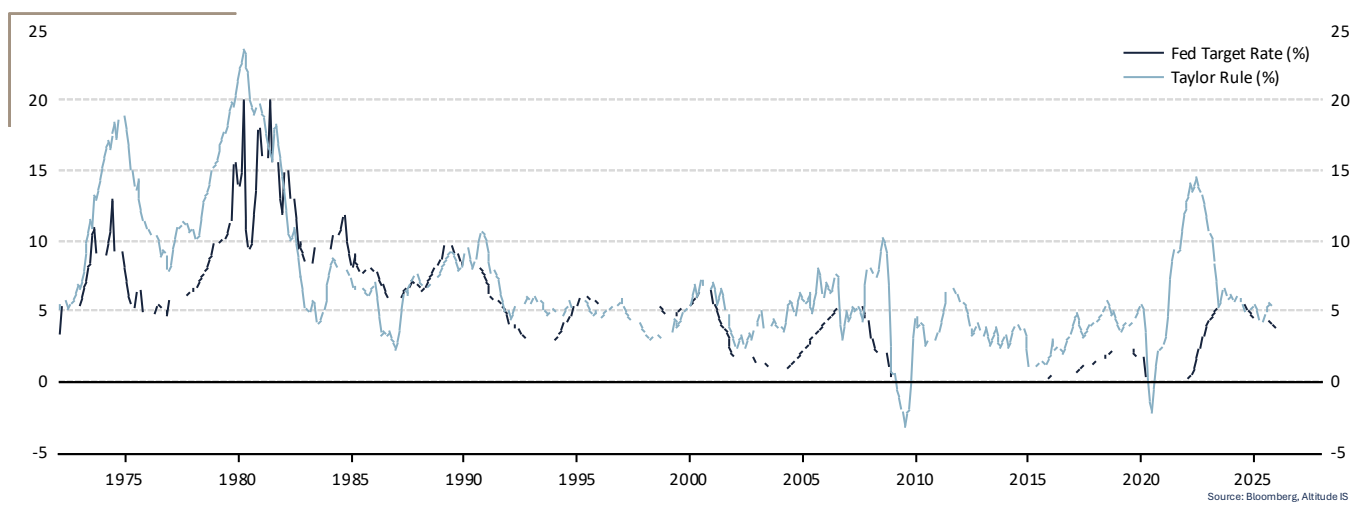


**Beyond this cyclical adjustment to monetary policy, Kevin Warsh is also likely to seek to redefine the Fed's institutional role:**

- **He intends to wean the Fed off its dependence on short-term macroeconomic data and cyclical considerations**, which he describes as minor distractions and compares to weather conditions. The central bank should no longer seek to respond to temporary hazards, which he says include wars, pandemics and supply chain disruptions. He believes that this volatility in monetary policy is unnecessary and undermines investor visibility. Instead, he argues that Fed governors should focus on structural factors that influence long-term price levels. The central bank must return to a strategic stance rather than simply act as an accountant for the past month. He wants to put an end to the Fed's *forward guidance*, which was dear to Alan Greenspan and even more so to Ben Bernanke. He wants the Fed to be in the financial newspapers as little as possible. The transparency of the central bank would require clearer, simpler and more rigorous rules. He has often expressed his interest in mathematical models, such as the Taylor rule, to guide key interest rate decisions (see Fig. 8).
- **He wants to put an end to "monetary dominance"** so that the Fed has no control over the government budget or the real economy, as has been the case in recent decades. Kevin Warsh sees the institution's massive balance sheet as a dangerous anomaly for financial stability. This situation, which began during the Great Financial Crisis of 2008 and has continued with each crisis since then, creates major distortions in asset allocation. The abundance of liquidity has also favoured the development of large companies, to the detriment of a more granular and agile economic fabric. **Kevin Warsh's objective is also to prevent any form of "fiscal dominance"**, where monetary policy would be forced to finance government deficits. In both cases, a drastic reduction in the size of the Fed's balance sheet would restore healthier market mechanisms. The ideal would be to return to a regime of strict neutrality, rejecting both monetary dominance and fiscal dominance.



Fig. 8 – Taylor rule for the United States

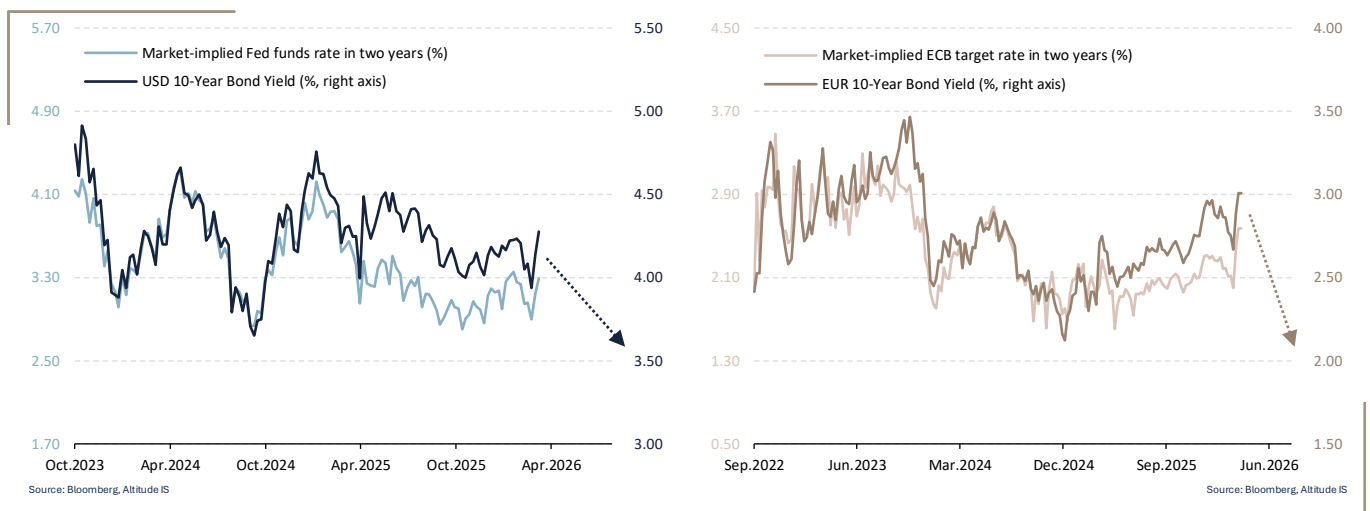


- **He plans to revise the 1951 agreement between the Treasury and the Fed, which would constitute a real upheaval.** This historic agreement was designed to ensure the independence of the central bank and guarantee the autonomy of its decisions in the face of the government's post-war financing needs. It was this agreement that gave credibility to the Fed's actions and reassured investors about inflation control, rate stability and the sustainability of the dollar. Kevin Warsh believes that the current level of public debt requires a major update to this founding pact. While he does not wish to alienate monetary policy for the exclusive benefit of fiscal policy, the aim is nevertheless to limit the Fed's independence. He is in favour of greater coordination between the two parties, but with a smaller and less powerful central bank. Such a reform would simplify the issuance of US Treasury bonds but would weaken their international status as a risk-free asset or safe haven, as well as that of the dollar.
- **He is cautious about the Fed's role as a banking regulator and supervisor and advocates a clean break with the international standards set by the Basel Committee.** He believes that these rules were designed according to standards that unduly penalise US banks. He believes that global coordination of banking supervision is counterproductive to US interests. He wants to regain control of the national prudential framework, without outside interference. Banks could then play a more active and direct role in financing sovereign debt. This newfound freedom would offset the central bank's gradual withdrawal from the government bond market. However, by easing the constraints on financial institutions' balance sheets, Kevin Warsh would increase the likelihood of a systemic crisis.
- **He condemns the idea that a central bank should control certain aspects of a country's social or environmental life.** The Fed should not go beyond its original mandate. This deliberately narrow view of the Fed's role is in fact a powerful tool for the economy. By withdrawing from certain non-essential areas, the central bank would avoid becoming a permanent target for political parties, both Republican and Democrat. Most economists and investors also share this view, as it would establish the institution's credibility to act forcefully in accordance with its mandate.

**The arrival of Kevin Warsh at the helm of the Federal Reserve in May increases the likelihood of rates falling in 2026, both short-term, and long-term rates to a lesser extent** (see Fig. 9). This steepening, combined with a downward shift in the yield curve, will facilitate the work of the US Treasury and reduce Uncle Sam's interest charges. For their part, investors will reap significant profits.



Fig. 9 & 10 – 10-year CMS rates and central bank rate forecasts in the US and the eurozone



Changes in US rates will inevitably have an impact on European rates, which will fall in tandem due to arbitrage. **As the advantage of high yields in the United States diminishes, investors will turn their attention back to European rates with renewed interest.** Furthermore, as this situation favours the appreciation of the euro, the ECB should be able to respond. To prevent an overly strong currency from penalising European exporters, it should resume its monetary easing programme. It began to raise this possibility at the end of January. According to François Villeroy de Galhau, "the Eurosystem has no exchange rate target, but we are closely monitoring the appreciation of the euro and its possible consequences on lower inflation". "This is one of the factors that will guide our monetary policy and our decisions on interest rates over the coming months". The ECB's key interest rates could thus fall from 2.15% to 1.25%, far below market expectations of 2.37%. In such a scenario, the 10-year CMS rate would have no difficulty settling at 1.80%.

### Conclusion:

Donald Trump did not choose Kevin Warsh by chance, and certainly not by mistake. His past as a "hawk" perfectly conceals his future as a "dove". Not only is the next Fed Chair very much in favour of cutting key interest rates, but his desire to see the Fed work in concert with Scott Bessent's Treasury is likely to put downward pressure on long-term rates. Ironically, while a criminal investigation is underway against Jerome Powell over the renovation of the Federal Reserve, Kevin Warsh could reform it thoroughly.



## RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2026 Year-to-Date (%)	2025 (%)	2024 (%)	
<b>Equities</b>								
World (MSCI)	999.2	29.53	-1.7%	-4.0%	-1.2%	22.9%	18.0%	
USA (S&P 500)	6 632	33.15	-1.6%	-2.9%	-2.9%	17.9%	25.0%	
USA (Dow Jones)	46 558	27.96	-1.9%	-5.7%	-2.8%	14.9%	15.0%	
USA (Nasdaq)	22 105	37.44	-1.2%	-1.9%	-4.8%	21.2%	29.6%	
Euro Area (DJ EuroStoxx)	608.1	38.10	-0.1%	-3.9%	-0.5%	25.2%	10.2%	
UK (FTSE 100)	10 261	41.68	0.0%	-1.1%	4.0%	25.7%	9.6%	
Switzerland (SMI)	12 839	29.69	-0.9%	-4.6%	-2.2%	18.0%	7.5%	
Japan (Nikkei)	53 725	43.65	-3.2%	-5.4%	7.0%	28.7%	21.3%	
Emerging (MSCI)	1 469	40.47	-2.0%	-5.4%	4.9%	34.3%	8.0%	
Brasil (IBOVESPA)	177 653	41.23	-1.0%	-4.7%	10.3%	34.0%	-10.4%	
Mexico (IPC)	65 649	34.40	-2.5%	-8.1%	2.3%	35.1%	-11.0%	
India (SENSEX)	74 565	22.33	-5.5%	-9.8%	-12.3%	10.5%	9.6%	
China (CSI)	4 666	48.46	0.2%	0.2%	1.0%	21.0%	18.2%	
Com. Services (MSCI World)	158.2	37.84	-0.9%	-1.0%	-3.5%	33.0%	31.9%	
Cons. Discretionary (MSCI World)	418.3	27.12	-2.8%	-5.5%	-8.5%	9.8%	20.7%	
Cons. Staples (MSCI World)	307.1	37.97	-0.6%	-5.6%	6.3%	9.3%	4.7%	
Energy (MSCI World)	330.6	73.54	1.5%	7.3%	25.9%	14.8%	2.9%	
Financials (MSCI World)	209.3	27.57	-3.0%	-6.8%	-7.1%	29.5%	25.1%	
Health Care (MSCI World)	379.9	25.96	-2.1%	-6.3%	-3.3%	15.3%	1.5%	
Industrials (MSCI World)	492.0	31.42	-2.8%	-6.0%	5.6%	26.2%	12.8%	
Info. Tech. (MSCI World)	934.1	40.42	-1.1%	-2.1%	-3.3%	26.6%	31.9%	
Materials (MSCI World)	420.7	34.37	-2.8%	-7.0%	7.0%	32.5%	-7.6%	
Real Estate (MSCI World)	1 017	31.06	-3.0%	-5.4%	3.2%	3.6%	-0.4%	
Utilities (MSCI World)	212.2	56.34	0.8%	0.1%	10.2%	24.7%	13.0%	
<b>Bonds (Bloomberg)</b>								
World (Aggregate)	3.72%	28.53	-1.2%	-2.6%	-1.0%	8.2%	-1.7%	
USA (Sovereign)	4.08%	35.29	-0.8%	-1.2%	0.0%	6.3%	0.6%	
Euro Area (Sovereign)	3.15%	31.78	-0.8%	-1.7%	-0.4%	0.6%	1.9%	
Germany (Sovereign)	2.77%	32.40	-0.6%	-1.2%	-0.2%	-1.6%	0.6%	
UK (Sovereign)	4.78%	32.89	-1.1%	-2.2%	-1.2%	6.1%	-3.0%	
Switzerland (Sovereign)	0.55%	33.60	-0.2%	-1.1%	-0.2%	0.3%	5.4%	
Japan (Sovereign)	1.98%	41.22	-0.5%	0.1%	-0.5%	-4.6%	-2.1%	
Emerging (Sovereign)	6.19%	30.13	-0.7%	-2.2%	-0.7%	13.1%	7.0%	
USA (IG Corp.)	5.14%	24.54	-1.8%	-2.2%	-0.9%	7.8%	2.1%	
Euro Area (IG Corp.)	3.56%	29.30	-0.5%	-1.6%	-0.5%	3.0%	4.7%	
Emerging (IG Corp.)	6.32%	27.45	-0.4%	-0.9%	0.0%	8.1%	7.0%	
USA (HY Corp.)	7.26%	26.55	-0.7%	-1.2%	-0.5%	8.6%	8.2%	
Euro Area (HY Corp.)	6.05%	29.54	-0.2%	-1.4%	-0.7%	5.2%	8.2%	
Emerging (HY Corp.)	7.66%	32.31	-0.5%	-2.0%	-0.1%	13.9%	14.9%	
World (Convertibles)	557.9	39.59	0.1%	-2.7%	3.5%	22.4%	9.4%	
USA (Convertibles)	727.2	44.62	0.9%	-2.1%	3.9%	16.9%	10.1%	
Euro Area (Convertibles)	299.4	44.10	-0.1%	-0.8%	3.0%	24.8%	14.7%	
Switzerland (Convertibles)	299.7	52.16	-1.3%	0.3%	5.9%	17.5%	-10.5%	
Japan (Convertibles)	276.2	43.66	-2.2%	-3.2%	7.1%	13.8%	6.4%	
<b>Hedge Funds (Bloomberg)</b>								
Hedge Funds Industry	1 872	90.72	n.a.	0.9%	3.5%	12.3%	11.1%	
Macro	1 555	84.07	n.a.	1.6%	5.9%	9.4%	7.4%	
Equity Long Only	2 555	81.74	n.a.	1.3%	3.3%	11.8%	12.0%	
Equity Long/Short	2 051	90.84	n.a.	1.1%	4.1%	17.6%	14.0%	
Event Driven	1 992	90.16	n.a.	2.1%	3.8%	11.3%	8.7%	
Fundamental Equity Mkt Neutral	1 972	97.57	n.a.	2.3%	5.3%	13.4%	12.4%	
Quantitative Equity Mkt Neutral	1 758	66.94	n.a.	-2.0%	-2.8%	8.7%	9.8%	
Credit	1 743	98.81	n.a.	0.3%	1.4%	7.7%	8.5%	
Credit Long/Short	1 770	100.00	n.a.	2.1%	2.1%	6.5%	10.0%	
Commodity	2 154	93.53	n.a.	1.4%	7.7%	11.8%	14.7%	
Commodity Trading Advisors	1 551	72.60	n.a.	4.4%	9.2%	5.9%	7.9%	
<b>Volatility</b>								
VIX	27.19	61.67	-7.8%	32.0%	81.9%	-13.8%	39.4%	
VSTOXX	30.33	63.08	-2.9%	53.7%	106.1%	-13.5%	25.3%	
<b>Commodities</b>								
Commodities (CRB)	562.4	n.a.	0.0%	3.6%	4.2%	0.6%	5.1%	
Gold (Troy Ounce)	5 024	n.a.	-2.2%	0.6%	16.3%	64.6%	27.2%	
Silver (Troy Ounce)	80.17	n.a.	-7.8%	4.6%	11.9%	148.0%	21.5%	
Oil (WTI, Barrel)	98.71	n.a.	8.6%	57.0%	71.9%	-19.9%	0.1%	
Oil (Brent, Barrel)	103.57	n.a.	9.8%	47.7%	65.8%	-15.7%	-4.6%	
<b>Currencies (vs USD)</b>								
USD (Dollar Index)	100.36	70.90	1.2%	3.6%	2.1%	-9.4%	7.1%	
EUR	1.1427	24.93	-1.8%	-3.6%	-2.7%	13.4%	-6.2%	
JPY	159.39	33.60	-1.1%	-3.7%	-1.7%	0.3%	-10.3%	
GBP	1.3245	32.24	-1.4%	-2.8%	-1.7%	7.7%	-1.7%	
AUD	0.7015	47.99	-0.9%	-0.8%	5.1%	7.8%	-9.2%	
CAD	1.3721	42.85	-1.0%	-0.6%	0.0%	4.8%	-7.9%	
CHF	0.7912	35.82	-1.7%	-2.7%	0.2%	14.5%	-7.3%	
CNY	6.9003	52.88	0.1%	0.1%	1.3%	4.5%	-2.7%	
MXN	17.866	37.55	-1.4%	-3.9%	0.8%	15.7%	-18.5%	
EM (Emerging Index)	1 844.2	37.01	-0.6%	-1.5%	-0.5%	7.2%	-0.7%	
XBT	73 837	n.a.	4.5%	7.3%	-15.8%	-6.5%	120.5%	

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)



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