Research @ Citi Podcast Markets Edition: Mr. Warsh Goes to Washington

Recorded: Feb. 9, 2026

Published: Feb. 10, 2026

Host: Dirk Willer, Global Head of Macro Strategy and Asset Allocation, Citi

Guest: Alex Saunders, Head of Global Quant Macro Strategy, Citi

Transcript:

Opening Teaser: (00:00)

Research @ Citi Markets Edition.

Dirk Willer (00:03)

Welcome to Research @ Citi Markets Edition, where we break down global macro in 10 minutes or less. I'm your host, Dirk Willer, Citi's Global Head of Macro, and with me today is Alex Saunders, our Quantum Macro Head. Welcome to the show, Alex.

Akex Saunders (00:15)

Thanks, Dirk.

Dirk Willer (00:16)

We are recording this podcast at 9 a.m. on Monday, Feb. 9, 2026.

Macro trading started this year with a bang and there's much to discuss, ranging from the designated new Fed chair to equity jitters to large sell-offs in precious metals and Bitcoin and the Japanese election. So let's jump right into it.

Let's start with Mr. Warsh, because that really is what triggered the initial round of sell-offs, certainly in metals but also in equities to some extent. And the reason is of course that Mr. Warsh is seen as relatively orthodox and a balance-sheet hawk. This impacted the debasement views, which were especially strongly expressed in precious metals.

But to us, more importantly, we see Mr. Warsh as a productivity dove because he does stress the disinflationary impact of AI, and that likely means, of course, a weaker job market. And he also stresses that he doesn't want the Fed to be too data-dependent but more forward-looking. And the question is, of course, is he going to be correct?

So far, there's not that much in the data, but it's starting to show up. So, we had the Challenger job cuts that showed increasing job losses that were blamed on AI in January. We more broadly see productivity gains in industries, especially in those industries where AI adoption is high — so in the IT sector, but also in finance to some extent.

And we think in the bigger picture, really, the AI story creates two tails — two fat tails — that both point to lower rates. One is eventually the AI bubble is going to burst and that will require a lot of cuts, just as happened in the aftermath of the 2000 bubble. Alternatively, AI could be a huge success, creating a lot of labor-market stress in the process of increasing productivity, which also would require a lot of cuts. I think the current pricing of cuts is still relatively small, given those two fat tails both pointing to the risk of larger cuts.

And on the other side of the coin, of course, it would take a lot for Mr. Warsh to hike, it seems to me. So that is, I think, the main lens to see Mr. Warsh's appointment through.

The other is, of course, the back end. Is he going to be a back-end hawk? That is less clear to us. And the Fed is trying to reduce — or tried to reduce — its balance sheet. And then the repo market acted up and reacted poorly to the liquidity reduction, which forced the Fed back into buying T-bills.

Now, maybe Mr. Warsh can reduce that program somewhat. Maybe he can reduce duration in the SOMA portfolio. But he will have to tread quite carefully. So, we think of Warsh more as a front-end bull than a back-end bear. In the big picture, we therefore like the U.S. front-end lower.

Now, Alex, equity markets have been a bit shaky as well. What is your take on that?

Alex Saunders (03:06)

So first — and the shakiness of the price action seems to have overtaken this — we did have an upside surprise in manufacturing ISM, which moved above 50 last week for the first time in a year and only the second time since 2022. Equities tend to trade well into the crossover. But interestingly, there's some indigestion in the month following. We see that spillover to sectors as well, with materials and consumer discretionary tending to outperform tech and utilities. And turning to sectors, that's where a lot of the action has been.

So tech has been in focus, given that we're in the middle of earnings season and it's been quite a mixed one for the Mag 7 so far. There's been a big divergence in returns between software and semis, with concerns on the software side about AI eating into the moats of some of those companies.

But divergence has also explained country performance, with EM Asia outperforming because it has a much greater exposure to hardware. And, on the other side, the U.S. and Germany are the laggards, given that they have the highest software weights.

On a tactical basis, our markets team has a polls indicator that triggered on the 23rd of Jan, and it tends to foreshadow some equity weakness. The indicator remains at a high level, so still signals tactical caution and we continue to hold hedges related to the S&P and the dollar. And perhaps more structurally, but related, our generals indicator has not triggered.

We require four of the main names to dip below their 200-day moving average for at least five days. Some — and this reflects that software/hardware dispersion we just discussed — are below or close to their 200-day moving average. So we continue to monitor the generals as a more structural indicator. And slightly relatedly, we still see credit as a useful hedge, especially as some of that software weakness has spilled over into private credit and the business-development company equities.

Talking of volatility, Dirk, what are you thinking about metals?

Dirk Willer (05:04)

Thanks Alex. Yes, the precious-metals sell-off that started with the Warsh appointment certainly is interesting. But the important thing to realize is that gold has benefited from two important drivers, not just one. One was indeed these debasement fears, but the other one was central-bank buying, largely because the U.S. administration is using the dollar as a financial weapon in some cases, with the sanctions policy. I think the latter: The debasement fears really have reduced with Warsh.

We obviously were skeptical of the debasement story, partly because we do think that Lisa Cook will not lose her job, and we never thought that Fed independence would really become too problematic. But the last leg up in gold was driven by the debasement story, and so it's not too surprising that we saw this correction.

But the central-bank story is, of course, still very much with us. Certainly China, but also some other countries, still have a lot of gold to buy to diversify away from the dollar. And so, in general, we still think that gold is a buy on dips.

Silver, not that clear to us — much less or no central-bank support. And it started to behave a little bit like a meme stock. The other point to make is that the extreme physical tightness we had observed earlier this year has eased, also removing one's support. So we are a bit more cautious on that front.

Lastly, base metals, copper, aluminum were dragged lower a bit by the precious-metals story, but they have decent support from the global economic cycle in general and from the data-center buildup in particular. So we keep a bullish bias on those.

But Alex, certainly Bitcoin was interesting too, and it did not trade like digital gold. What are your thoughts there?

Alex Saunders (06:40)

Yeah, thanks Dirk. But Bitcoin has experienced volatility, as probably everyone knows — mostly downside volatility. One point I make at the outset is Bitcoin's obituary has been written many times before. So I think the burden of proof should be a bit more on the skeptics than usual.

But having said that, we think ETF flows have been and will be the most important driver, with the most likely catalyst for an increase in those flows being legislation that's been progressing but in an uneven way — and at Washington D.C., not crypto, pace.

Right now we think we've gone through a couple of key levels. So firstly, around 82k, which is where we estimate the flow-weighted average ETF price, so it'll be interesting to see if those new investors lose patience or if they add to their holdings.

And then the second one is around 70k, which is at pre-U.S. election level. Given the progress that we've seen since the election, does (or will) a drop below that level be viewed as attractive to long-term holders, or does it galvanize the current administration to continue with that regulatory process?

But excluding the regulatory action, we believe we're currently below technical levels. Bitcoin has been underperforming its analog gold counterpart, as you mentioned Dirk, and equities since the Oct. 10 flash crash. So, it's difficult to see what the organic catalysts might be in the short term.

The other macro story, Dirk, we just got the results of the Japanese election. Any views there?

Dirk Willer (08:13)

A very decisive victory, of course, by Takaichi. I think at this stage the fiscal plans are probably relatively well understood. Well, there's always some risk for more on the defense side. So we saw some pressure on rates, but in a flattening context.

But the other important issue is, I think, the mere fact that the election is now behind us. The political calendar may have contributed to some cautiousness by the BOJ, and with the election in the rearview mirror, the hiking cycle can continue.

Secondly, FX intervention had been discussed, and there was of course the famous rate check earlier this month, but intervention we always thought was unlikely before the election because it could have impacted equities negatively. So now, with the election behind us, that also became somewhat more likely. And at the very least, it means it's somewhat unlikely that USDJPY will be making highs.

So overall, the Takaichi trades are back in the sense that we're expecting higher rates in the flattening context and higher equities, while USDJPY may become more of a range trade.

So to sum it all up for you, we think Mr. Warsh should have a bigger impact on the short end of the curve than the long end. We think gold has other supports than just the debasement fears and we still have some long exposure in equities. Our tactical indicator had become more negative two weeks ago, but more structurally we remain quite positive.

Thank you for joining us today. This episode was recorded on Feb. 9, 2026, and I'm your host, Dirk Willer. For more details, Citi clients can check out our report on Citi Velocity. Next week's Research @ Citi Markets Edition will be hosted by Scott Chronert, Citi's Head of U.S. Equity Strategy.

And be sure to watch for our Research @ Citi podcast, which you can view on the same channel. The Macro Strategy team will be back in two weeks. Stay sharp!

Disclaimer (09:58)