

Markets Reprice the Fed's Next Chapter as Warsh Nomination Pressures Stocks, While Earnings and Puerto Rico-EAI's Returns to Growth Signal Economic Resilience

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The U.S. and European stock markets closed mixed, with the **Dow Jones Industrial Average falling 179.09 points** as investors weighed a heavy earnings slate alongside President **Donald Trump's** decision to nominate **Kevin Warsh** as the next Chair of the Federal Reserve. Technology shares remained under pressure, extending a recent funk across mega-cap growth stocks, even as markets broadly viewed the Warsh nomination as a credibility-positive development for monetary policy. While the **S&P 500 fell 0.43%**, the **Nasdaq Composite also fell 223.30 points**. However, underscoring **how resilient equity sentiment has been** heading into 2026, **all the indices managed to close January with gains, 1.73% for the Dow, 1.37% for the S&P 500, and 0.95% for the Nasdaq Composite**.

Wall Street | A New Fed Chair Reshapes Expectations

President Donald Trump confirmed that he will nominate Kevin Warsh to succeed Jerome Powell as Chair of the Federal Reserve, a development that immediately reverberated across global markets. The U.S. dollar moved higher following the announcement, reflecting investor confidence in Warsh's policy credibility and his long-standing reputation as a disciplined inflation fighter.

Bond markets delivered a more complex message. Short-term U.S. Treasuries saw modest support, while longer-dated bonds weakened slightly, signaling concern that Warsh could press for a faster reduction in the Federal Reserve's balance sheet and a lower level of government bond holdings. Equity markets eased as investors reassessed the likely timing and scale of future rate cuts under a new Fed leadership. While Warsh has recently argued that productivity gains—particularly from artificial intelligence—could justify lower interest rates over time, markets appear less convinced that easing would come quickly or predictably.

Commodities mirrored this uncertainty. A firmer dollar weighed heavily on precious metals, driving sharp declines in gold and silver prices. By contrast, oil prices remained resilient, with WTI crude holding near \$65 per barrel amid rising geopolitical tensions between the United States and Iran, reinforcing energy's sensitivity to geopolitical risk rather than monetary policy alone.

Warsh's return to the Fed spotlight brings institutional memory back into focus. As a Federal Reserve Governor from 2006 to 2011, he played a critical role during the Global Financial Crisis, helping to shape emergency liquidity programs that stabilized the banking system. At that time, he consistently warned of inflation risks and opposed prolonged ultra-loose policy. More recently, his views have evolved, with greater openness to rate cuts based on the belief that structural productivity gains could lift potential growth and help restrain inflation. His skepticism toward large-scale bond purchases, however, remains intact—a position that could complicate balance-sheet policy given the risk of liquidity stress in short-term funding markets.

Despite the market's fixation on the Fed chair announcement, fundamentals remain decisive. December's PPI data pointed to persistent pipeline pressures, particularly in tariff-sensitive goods, suggesting firms are increasingly passing costs through to consumers to protect margins. Meanwhile, earnings season continues to command attention, with investors closely monitoring AI-related capital spending by mega-cap technology companies and the durability of earnings across the broader economy.

Europe | Earnings Drive a Higher Close After a Busy Week

European equity markets closed higher on Friday, rounding out a busy week of corporate earnings with a constructive tone, even as investors looked ahead to another heavy slate of reports in the coming week. With Friday's earnings calendar slightly lighter, markets were able to refocus on results already delivered, corporate guidance, and broader international developments.

Shares of Adidas rose nearly 4%, building on momentum after the company released earnings update late Thursday. Preliminary results showed currency-neutral revenue growth of 13% in 2025, pushing annual sales to a record €24.8 billion, reinforcing confidence in global consumer demand, brand strength, and execution across key markets.

Spain's CaixaBank also stood out, with shares climbing 6.7% after the bank reported that net profit rose 1.8% to €5.89 billion, exceeding analyst expectations. Dividends increased 15% to €0.50 per share, and management described 2025 as a "great year," raising both growth and profitability targets and highlighting continued operating leverage within the European banking sector.

Beyond earnings, global investors also took note of political developments in the United States. President Donald Trump confirmed that he will nominate former Federal Reserve Governor Kevin Warsh to succeed Jerome Powell as Fed Chair—a move that, while centered on U.S. policy, carried implications for global rates, currencies, and risk sentiment.

Commenting ahead of the official announcement, Deutsche Bank strategist Jim Reid noted that while Warsh's recent remarks have been more supportive of lower interest rates, his historical skepticism toward the Fed's expansive balance sheet suggests markets may eventually need to price in tighter financial conditions at the margin.

Overall, European equities finished the week on firmer footing, supported by solid earnings execution and improving corporate confidence. While global monetary policy transitions remain an important variable, investors continue to reward balance-sheet strength, earnings visibility, and disciplined capital allocation—factors that remain central to equity performance across the region.

PR-EAI | From Prolonged Contraction to Positive Momentum

The October–November 2025 readings of the Puerto Rico Economic Activity Index (PR-EAI) mark an important inflection point in the island's economic trajectory: the formal exit from a prolonged period of contraction into sustained positive growth.

For 13 consecutive months, the PR-EAI posted negative year-over-year readings, reflecting the normalization phase following the post-pandemic and post-reconstruction surge. This contractionary stretch was not abrupt, but rather a gradual deceleration as federal spending tapered, inflation tightened financial conditions, and energy instability weighed on output.

That trend ended in October 2025.

In October, the PR-EAI rose 0.2% year-over-year, marking the first positive annual reading after more than a year of contraction. While modest, this reversal was significant: it signaled that economic activity had stabilized at a higher base rather than continuing to erode. On a month-over-month basis, the index also advanced, confirming that the improvement was not purely statistical. Momentum strengthened further in November. The PR-EAI increased to 0.8% year over year, a fourfold acceleration from October, while maintaining a positive month-over-month gain. This confirmed that the October improvement was not a one-off, but the beginning of a new expansionary phase, albeit at a more sustainable pace than earlier post-shock rebounds. What makes this transition particularly relevant is how it occurred.

The move from contraction to growth was not driven by a single volatile component, but by a broadening of underlying activity. Employment growth accelerated on an annual basis, gasoline consumption posted double-digit year-over-year gains in November, and cement sales swung sharply from contraction into strong expansion—clear evidence that consumption, mobility, and construction activity were re-engaging simultaneously.

At the same time, the recovery occurred despite continued weakness in electricity generation, underscoring that the economy is expanding despite structural constraints. This makes the return to

positive territory more meaningful, not less.

The PR-EAI's progression from 13 months of contraction to +0.2% in October and +0.8% in November

reflects a transition from normalization to renewed growth. The economy is no longer absorbing past excesses—it is rebuilding momentum on a firmer, more internally driven foundation as Puerto Rico enters 2026.

Economic Update:

- **Canada Real GDP MoM:** fell to -0.02%, compared to -0.28% last month.
- **Eurozone Unemployment Rate:** fell to 6.20%, compared to 6.30% last month.
- **Germany Real GDP YoY:** is at 0.30%, unchanged from last quarter.
- **Germany Consumer Price Index YoY:** rose to 2.10%, up from 1.80% last month.
- **Japan Housing Starts YoY:** is at -1.33%, compared to -8.50% last month.
- **China PMI:** rose to 50.10, up from 49.20 last month.
- **China Non-Manufacturing PMI:** rose to 50.20, up from 49.20 last month.

Eurozone Summary:

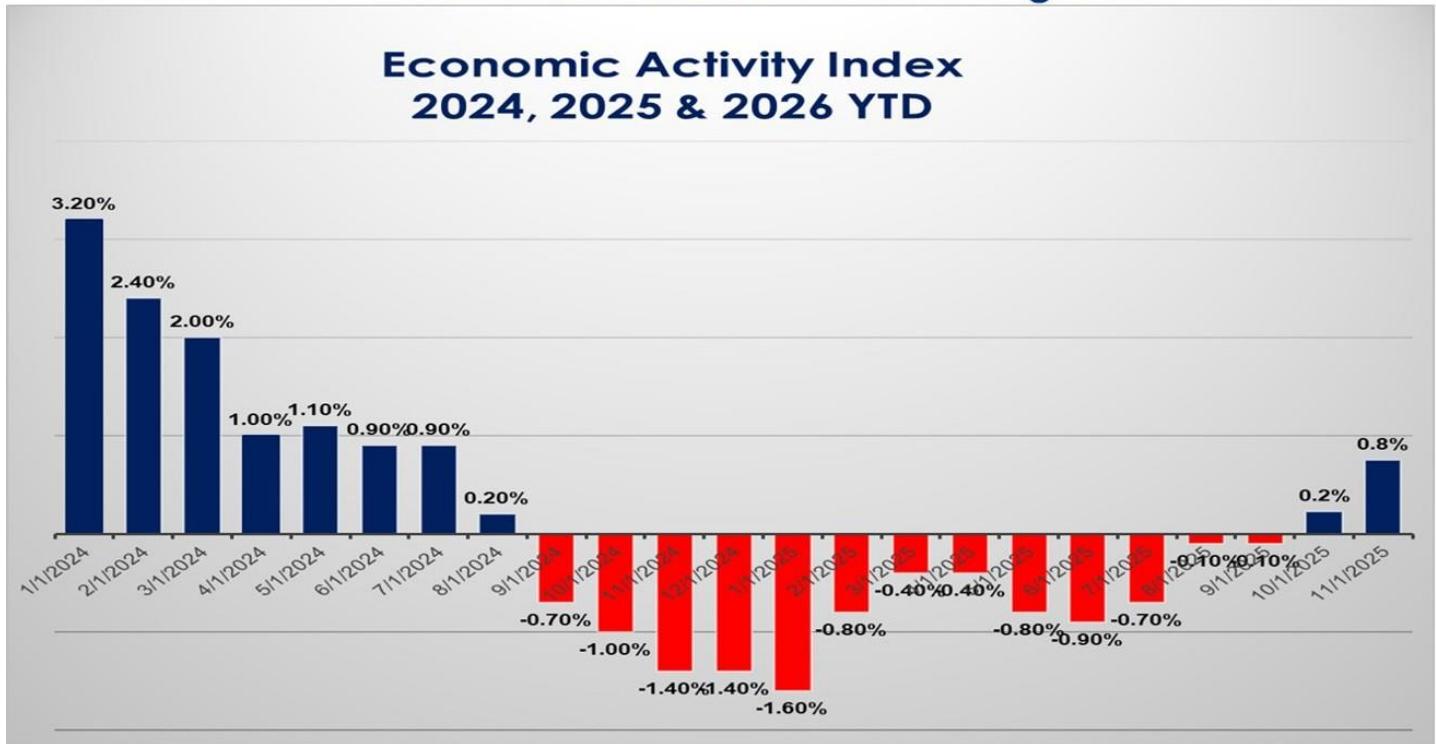
- **Stoxx 600:** closed at 611.00, up 3.86 points or 0.64%.
- **FTSE 100:** closed at 10,223.54, up 51.78 or 0.51%.
- **DAX Index:** closed at 24,538.81, up 229.35 or 0.94%.

Wall Street Summary:

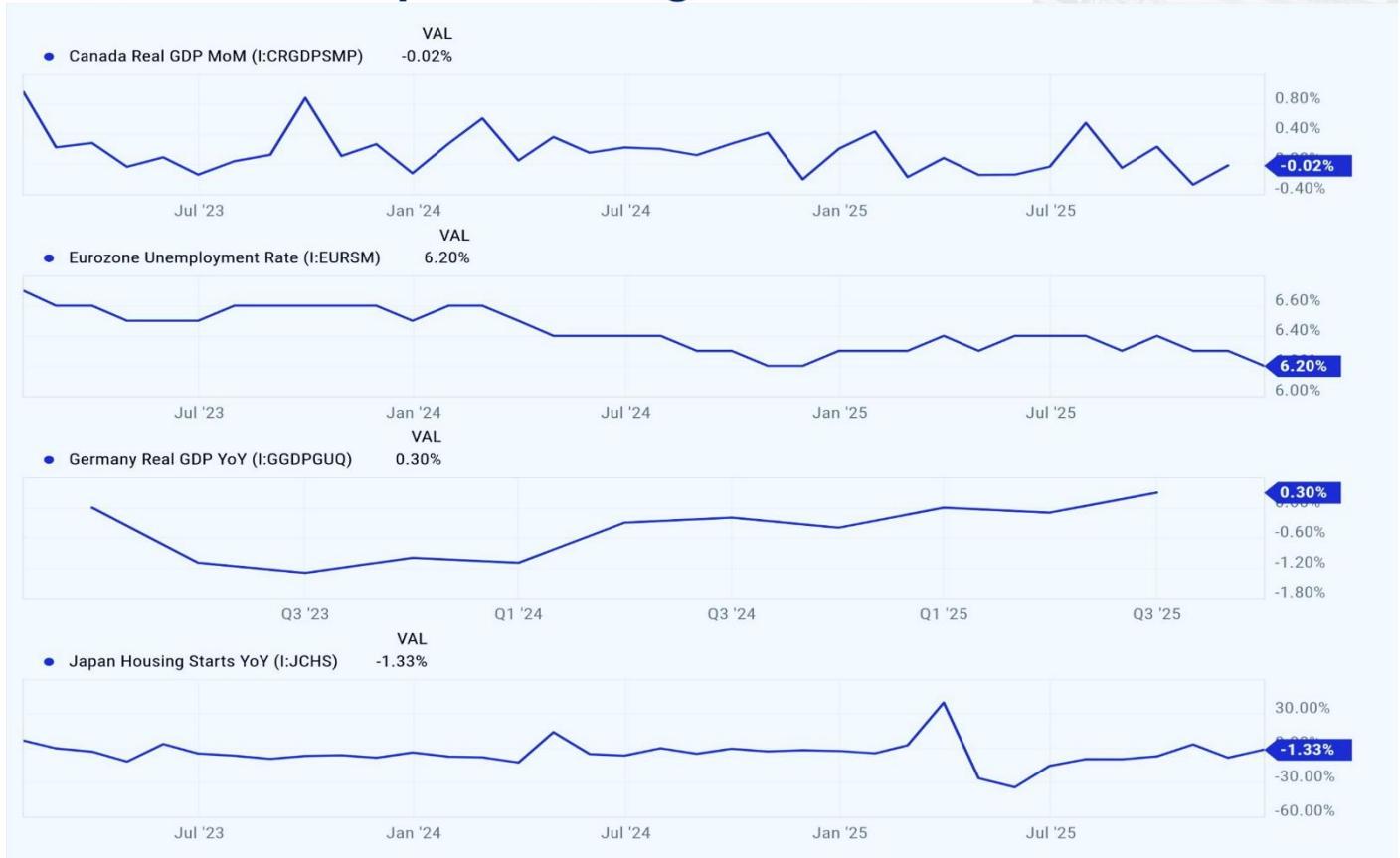
- **Dow Jones Industrial Average:** closed at 48,892.47, down 179.09 points or 0.36%.
- **S&P 500:** closed at 6,939.03, down 29.88 points or 0.43%.
- **Nasdaq Composite:** closed at 23,461.81, down 223.30 points or 0.94%.
- **Birling Capital Puerto Rico Stock Index:** closed at 4,077.56, up 92.39 points, or 2.32%.
- **Birling Capital U.S. Bank Index:** closed at 9,118.32, up 124.16 points or 1.38%.
- **U.S. Treasury 10-year note:** closed at 4.26%.
- **U.S. Treasury 2-year note:** closed at 3.52%.

Economic Activity Index 2024, 2025 & 2026 YTD

The PR-EAI's progression from 13 months of contraction to +0.2% in October and +0.8% in November reflects a transition from normalization to renewed growth

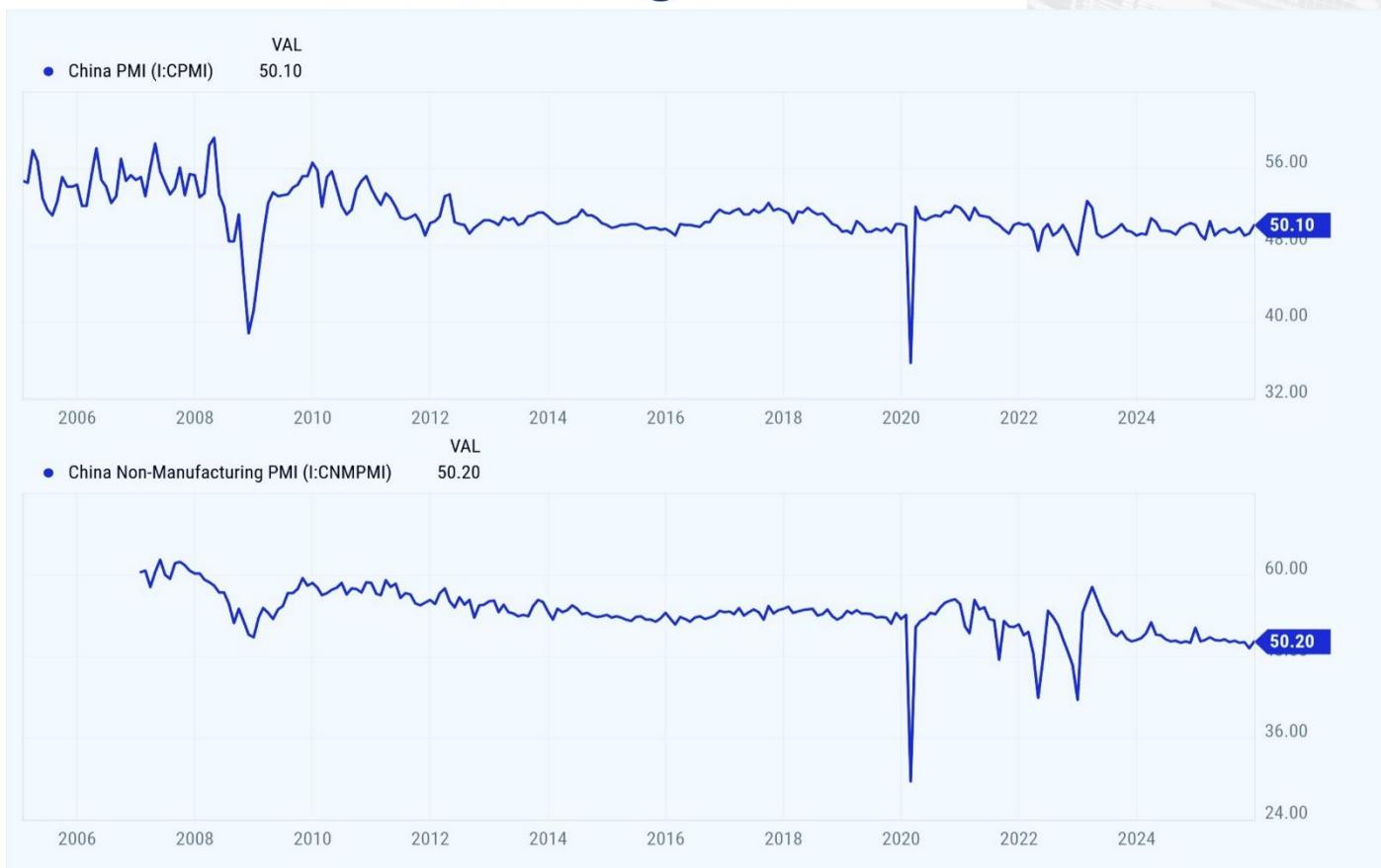


Canada Real GDP MoM; Eurozone Unemployment Rate; Germany Real GDP YoY & Japan Housing Starts YoY



China PMI & China Non-Manufacturing PMI

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