Economics

THE WEEK AHEAD

February 2 - 6, 2026

Not the Warsht pick, but...

by Avery Shenfeld avery.shenfeld@cibc.com

Donald Trump's latest beauty pageant is over, and the sash and tiara bestowed upon the Fed Chairman have been awarded to Kevin Warsh. Actually, not quite, because Warsh still has to complete the last stage of any pageant, answering skill testing questions in front of the judges at his Senate confirmation hearing. But Warsh has enough of the qualifications on paper that he's likely to get the necessary votes from the Republican majority.

We say "on paper" because his track record as a Fed Governor showed an error in judgement that will likely be raised by Democrats at those hearings. In the wake of the global financial crisis, then Chairman Ben Bernanke stepped on the monetary policy gas with full force, not only taking the funds rate to its lower bound, but launching an aggressive quantitative easing program. Substantial labour market slack, and weak bank lending activity, made it unlikely that this policy would seriously stoke inflation, and CIBC's own research at the time pushed back against those who feared that it would do so.

Hindsight proved that Bernanke and the majority of economists were correct, since inflation stayed muted, and monetary policy helped bring the economy back from the abyss. Kevin Warsh was on the wrong side of that debate, not only questioning the merits of QE (while not voting against it), but calling for a much earlier tightening in monetary policy than proved necessary. Even at the time, he was a hawkish outlier at the Fed, and his views ran against standard economic theory on the link between economic slack and inflation.

In a U-turn, Warsh now argues for more aggressive rate cutting than the Fed's current consensus, at a time in which inflation is still above target, and the jobless rate sits only a hair above full employment. If he sticks with that view, the knee-jerk reaction in the bond market might be to steepen the curve, pricing in more cuts at the front end, while worrying about inflation pushing nominal long rates higher. Moreover, some will see Warsh's advocacy of a much smaller Fed balance sheet as a factor that can push up Treasury yields.

But first impressions can be wrong, and this one could prove to be as well, for a few reasons. For one, Warsh won't be taking the Chair's seat until mid-May. The Fed may well have been on hold over that period, but by then, some of the current ambiguities in the data, which combine weak hiring with a low jobless rate and strong GDP gains, are likely to have cleared up, one way or another.

If inflation has further decelerated and unemployment has nudged up, there will likely be a consensus and a need to deliver additional rate cuts, without sparking inflation fears and raising long yields. If we're still enjoying brisk growth, a low-4% jobless rate, and inflation proves sticky, Warsh is unlikely to find other FOMC voters willing to press ahead with cuts. We won't be suddenly replacing the Regional Fed Presidents, or hopefully, firing existing Governors, who are mindful of both sides of their dual mandate.

Shrinking the Fed's balance sheet, and requiring the Treasury to refinance that debt in the bond market, could indeed steepen the curve. But that might not actually show up for a couple of years, since for now, the Treasury seems more inclined to replace those Fed holdings with bills rather than longer-dated issuance.

Moreover, Warsh seeks to combine further cuts at the front end with an easing in regulatory policy, aimed at unleashing more lending by regional banks. If that happens, and loan demand picks up, it might be mid-term rates in the belly of the curve, where such lending takes place, rather than at the long end, where we see the upward pressure. In sum, the curve impacts have some complexities.

Warsh wasn't the worst pick on Trump's short or long list, which after all, was a flock of doves with nary a hawk in sight. Our base case forecast, with only a further 50 bps of cuts in store, still rests on the need for a Fed majority to sway rates policy, and the bond market's ability to signal its distaste for excessive rate cutting by pushing long rates higher, and thereby deter the Fed from an irresponsibly aggressive easing.

Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, February 2	-	-	-	-	-	-	-
Tuesday, February 3	-	-	-	-	-	-	-
Wednesday, February 4	-	AUCTION: 5-YR CANADAS $5.3B	-	-	-	-	-
Thursday, February 5	12:40 PM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-
Friday, February 6	8:30 AM	EMPLOYMENT CHANGE	(Jan)	(H)	5.0K	7.0K	10.1K
Friday, February 6	8:30 AM	UNEMPLOYMENT RATE	(Jan)	(H)	6.8%	6.8%	6.8%
Friday, February 6	10:00 AM	IVEY PMI	(Jan)	(L)	-	-	51.9

Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, February 2	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Jan)	(L)	-	-	51.9
Monday, February 2	10:00 AM	ISM - MANUFACTURING	(Jan)	(H)	48.5	48.3	47.9
Monday, February 2	12:30 PM	Speaker: Raphael W. Bostic (Atlanta) (Non-Voter)	-	-	-	-	-
Tuesday, February 3	10:00 AM	JOLTS Job Openings	(Dec)	-	7250K	7175K	7146K
Tuesday, February 3	8:00 AM	Speaker: Thomas I. Barkin (Richmond) (Non-Voter)	-	-	-	-	-
Tuesday, February 3	9:40 AM	Speaker: Michelle W. Bowman (Governor) (Voter)	-	-	-	-	-
Wednesday, February 4	7:00 AM	MBA-APPLICATIONS	(Jan 30)	(L)	-	-	-8.5%
Wednesday, February 4	8:15 AM	ADP EMPLOYMENT CHANGE	(Jan)	(M)	-	45K	41K
Wednesday, February 4	9:45 AM	S&P GLOBAL US SERVICES PMI	(Jan)	(L)	-	-	52.5
Wednesday, February 4	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Jan)	(L)	-	-	52.8
Wednesday, February 4	10:00 AM	ISM - SERVICES	(Jan)	(M)	53.8	53.5	53.8
Thursday, February 5	8:30 AM	INITIAL CLAIMS	(Jan 31)	(M)	-	210K	209K
Thursday, February 5	8:30 AM	CONTINUING CLAIMS	(Jan 24)	(L)	-	1850K	1827K
Thursday, February 5	10:50 AM	Speaker: Raphael W. Bostic (Atlanta) (Non-Voter)	-	-	-	-	-
Friday, February 6	8:30 AM	NON-FARM PAYROLLS	(Jan)	(H)	50K	65K	50K
Friday, February 6	8:30 AM	UNEMPLOYMENT RATE	(Jan)	(H)	4.4%	4.4%	4.4%
Friday, February 6	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Jan)	(H)	0.3%	0.3%	0.3%
Friday, February 6	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Jan)	(H)	-	34.2	34.2
Friday, February 6	8:30 AM	MANUFACTURING PAYROLLS	(Jan)	(H)	-	-	-8K
Friday, February 6	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Feb P)	(H)	-	55.8	56.4
Friday, February 6	3:00 PM	CONSUMER CREDIT	(Dec)	(L)	-	-	$4.2B

Week Ahead's market call

by Avery Shenfeld

In the **US**, and globally, oil traders will be keeping a watchful eye on the Middle East, as an American armada steams towards Iran, and odds of a military strike grow. Judging by events over the past year, if he acts, Trump's plans will likely lean towards only a quick, one-off strike, which would initially leave oil production capacity unscathed, but the full story will depend on how Iran and other regional players respond. Payrolls data might have some weak details even if the headline jobless rate stays low at 4.4%, but that news, and other lesser data, should still leave markets pricing in fairly thin odds of a Fed cut in March.

In **Canada**, weak Q4 economic growth would be consistent with very modest job gains in January, but soft population growth might be enough to keep the jobless rate at 6.8%. That's high enough to sustain some disinflationary momentum, but the Bank of Canada seems willing to stand pat as long as things don't get materially worse at this point. On the political front, this weekend we'll find out if Pierre Poilievre has enough support to hang on as leader of the opposition, of note because there are some rumblings that Carney will seek a majority in a spring election if that's the case.

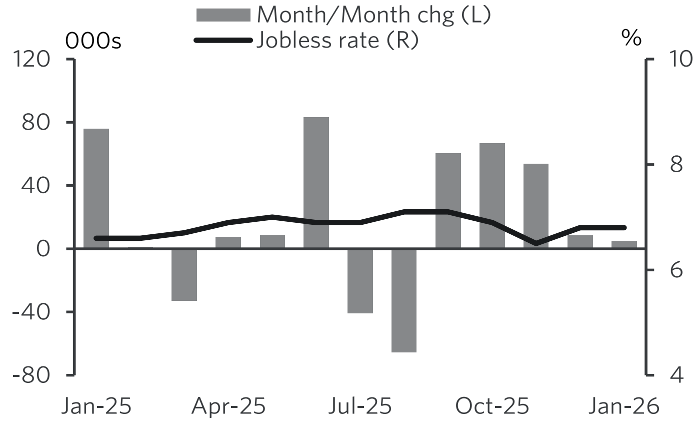
Week Ahead's key Canadian number: Labour force survey—January

(Friday, 8:30 am)

Andrew Grantham andrew.grantham@cibc.com

Variable	CIBC	Mkt	Prior
Employment change	5.0K	7.0K	10.1K
Unemployment rate	6.8%	6.8%	6.8%

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

Employment growth appears to be slowing again, and we expect a further step down to a 5K pace in January. That's partly a reflection of slower population growth, although still-soft demand for additional staff is also a factor given that the unemployment rate remains elevated. Indeed, we suspect that the marginal increase in jobs in the month will only just keep pace with labour force growth, leaving the jobless rate at 6.8%.

Forecast implications — The seemingly swift recovery in the labour market during the second half of last year appears to have been partly statistical noise, and in fact it was partly revised away when Statistics Canada updated its seasonal factors last week. A jobless rate closer to 7% than 6% is indicative of slack remaining in the Canadian economy, which will keep inflationary pressures in check and allow the Bank of Canada to keep interest rates in stimulative territory throughout 2026.

Week Ahead's key US number: Employment situation—January

(Friday, 8:30 am)

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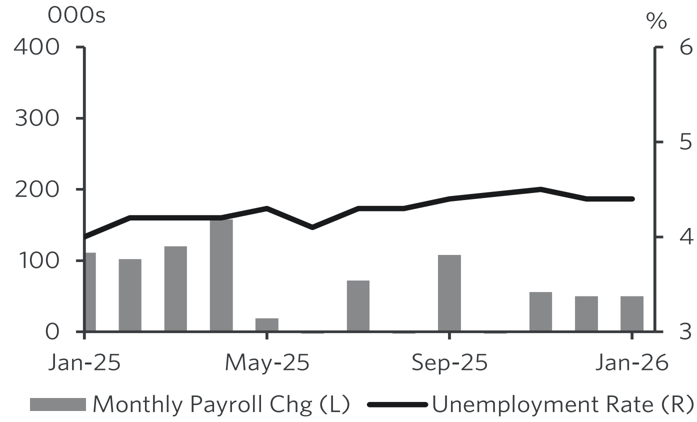
Variable	CIBC	Mkt	Prior
Employment (m/m)	50K	65K	50K
Unemployment rate	4.4%	4.4%	4.4%
Avg hourly earnings (m/m)	0.3%	0.3%	0.3%

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

We'll get our first look at 2026 data with the January payroll report. Our call is that the headline figures will look ok, but the details won't be so great. We are expecting job growth of 50K, driven entirely by health care, but there is a high risk of the pattern of negative revisions continuing. The BLS will also incorporate population revisions to the household survey, which will likely lower the population a bit. We expect that the jobless rate will be unchanged at 4.4%, but see the participation rate and employment-to-population ratio to move down a tick.

Forecast implications — It will take poor readings from both January and February data for the Fed to cut in March. If not, the first cut of 2026 will likely be around the middle of the year.

Market implications — The market will only modestly raise bets for an earlier cut if the details are soft.

Other US Releases: ISM Manufacturing—January

(Monday, 10:00 am)

Regional manufacturing surveys point to ISM manufacturing index improving modestly in the month to 48.5.

JOLTS Job Openings—December

(Tuesday, 10:00 am)

Private job posting sites showed a surge in job openings in December. We expect job openings to rise to 7250K in the month.

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