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TheECONOMY

Roses and Thorns

Will changes at the Fed encourage the President's economic agenda to bloom, or will thorny issues remain?

After a series of consistent 25 basis point rate cuts in the second half of 2025, markets are now signaling a potential shift in monetary policy heading into 2026. Current pricing suggests the Federal Reserve is expected to hold rates steady, with the first potential rate cut not anticipated until closer to July of this year. As Jerome Powell approaches the end of his term as Chair of the Federal Reserve, attention is increasingly focused on who may succeed him and how the new Chair could influence policy expectations for the remainder of the year. President Trump has been vocal in his dissatisfaction with the Fed's recent decisions and has publicly mentioned several potential successors whom he believes would support a more aggressive pace of rate cuts. Some market participants now expect cumulative cuts of up to 100 basis points before 2027.

While opinions on longer-term rate policy remain divided, recent economic data points to moderating inflation. The latest CPI reading came in at 2.7%, alongside an unemployment rate of 4.4% in December, both largely unchanged from prior months. Wage growth, however, has continued to trend downward since March 2022, suggesting that although inflationary pressures are easing, consumers are not seeing meaningful gains in average hourly earnings. This dynamic is also reflected in consumer confidence data, which has shown persistent pessimism since February 2025 and may continue to weaken. Overall, the economy still expanded in the third quarter of 2025 after revisions this month show inflation-adjusted GDP increased at a revised 4.4% annualized rate. The report shows back-to-back quarterly growth at the strongest point since 2021.

Geopolitical developments have also taken center stage in 2026. The U.S. engaged in military intervention in Venezuela, resulting in the capture of President Nicolás Maduro, while the Trump administration continues to pursue a deal giving the U.S. increased access to Greenland's natural resources including its mineral reserves. These actions have heightened global tensions and could complicate the administration's efforts to achieve its trade and economic objectives.

Treasury Yields

Maturity	1/22/25	12/22/25	CHANGE
3 Month	3.668%	3.607%	0.061%
6 Month	3.631%	3.592%	0.038%
1-Year	3.528%	3.517%	0.011%
2-Year	3.612%	3.507%	0.106%
3-Year	3.681%	3.553%	0.129%
5-Year	3.849%	3.713%	0.136%
10-Year	4.251%	4.163%	0.088%
30-Year	4.848%	4.836%	0.011%

Source: Bloomberg

Agency Yields

Maturity	1/22/25	12/22/25	CHANGE
3 Month	3.550%	3.530%	0.020%
6 Month	3.510%	3.430%	0.080%
1-Year	3.380%	3.260%	0.120%
2-Year	3.680%	3.534%	0.146%
3-Year	3.630%	3.568%	0.062%
5-Year	3.750%	3.748%	0.002%

Source: Bloomberg

Commercial Paper Yields (A-1/P-1)

Maturity	1/22/25	12/22/25	CHANGE
1 Month	3.632%	3.728%	-0.096%
3 Month	3.751%	3.824%	-0.072%
6 Month	3.774%	3.803%	-0.029%
9 Month	3.790%	3.784%	0.006%

Source: Bloomberg

Current Economic Releases

Data	Period	Value
GDP QoQ	Q3 '25	4.40%
U.S. Unemployment	Dec '25	4.40%
ISM Manufacturing	Dec '25	47.9
PPI YoY	Nov '25	3.00%
CPI YoY	Dec '25	2.70%
Fed Funds Target	Jan 22, 2026	3.50% - 3.75%

Source: Bloomberg

Source: Bloomberg. Data as of Jan 22, 2026. Data unaudited. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment involves risk including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. VIP is not a bank. An investment in VIP is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although VIP seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. All comments and discussions presented are purely based on opinion and assumptions, not fact. These assumptions may or may not be correct based on foreseen and unforeseen events. The information presented should not be used in making any investment decisions. This material is not a recommendation to buy, sell, implement, or change any securities or investment strategy, function, or process. Any financial and/or investment decision should be made only after considerable research, consideration, and involvement with an experienced professional engaged for the specific purpose. Past performance is not an indication of future performance. Any financial and/or investment decision may incur losses.

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