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LOCAL INSIGHT INVESTORS

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TITLE: **Markets Are Holding Up — But the Cracks Are Showing**

TRANSCRIPT:
Host:
Eric, markets seem remarkably calm again. US equities are pushing higher, even with oil still close to $100. What do you make of that?
Eric:
Yes, that really is the big story this week — markets have remained impressively resilient, but I think that resilience comes with an important warning.
On the surface, the picture looks constructive. The S&P 500 and Nasdaq have pushed to fresh highs, earnings have started reasonably well, and investors seem more comfortable that the geopolitical shock in the Gulf may not spiral further in the immediate term.
But I do think the market is making a fairly generous assumption here — namely that this is still a temporary energy shock rather than something more persistent.
Because if oil stays elevated, even without another spike, that still matters. It matters for inflation, it matters for margins, and it matters for central banks. So yes, equities are holding up well — but they are holding up in a way that leaves very little room for disappointment.

Host:
So are markets basically just choosing to look through the oil story?
Eric:
For now, yes — and that may prove right, but it is a bold choice.
The market is effectively saying two things at once: first, that geopolitical risk will fade; and second, that the AI-driven investment cycle remains strong enough to keep supporting earnings and sentiment.
That combination can work for a while. But if energy prices remain sticky while investment and performance remain concentrated in a relatively narrow group of technology names, you do not really get a broad-based expansion. What you get is a much narrower market, one where headline indices look fine, but the foundations underneath are less robust than they appear.
And that is where I think investors need to be careful. This is not a market being lifted by everything getting better. It is a market being lifted by a handful of things continuing to work.

Host:
One of the more interesting points in your note was the shift in leadership toward Asia. Is that now becoming a bigger story?
Eric:
I think it is, and I would say it is still not getting the attention it deserves.
A lot of Western investors are still very US-centric in the way they look at markets, but if you step back and look at performance this year, the relative strength in Asia is actually quite striking.
Japan's TOPIX is up strongly year-to-date. Broader Asian equities, particularly through proxies like the Asia 50, have significantly outperformed the S&P 500 in dollar terms. And that matters, because for a long time the assumption was that the US was the only real game in town.
What we are starting to see now is a more interesting regional rotation. Not because the US story has collapsed — it has not — but because valuations are fuller, leadership is narrow, and other regions are starting to offer both better relative value and improving momentum.
So I think one of the more important messages this week is that regional diversification is beginning to pay again, particularly into parts of Asia.

Host:
And what about earnings season? Has that helped justify the strength in equities?
Eric:
It has helped, yes — but again, with a caveat.
The banks have started very well. Goldman Sachs delivered a strong beat, JPMorgan did the same, and broadly speaking the financial sector is benefiting from exactly the kind of environment we are in now — more volatility, more trading activity, stronger capital markets revenues.
That part of the earnings story is clearly constructive.
But then you had Netflix — very strong numbers on the face of it, revenue beat, earnings beat — and the stock still slipped in after-hours trading. And I think that tells you a lot about this market.
Beating expectations is no longer enough on its own. A lot of good news is already priced in. What really matters now is forward guidance, visibility, and whether management teams can convince investors that current strength is sustainable.
So earnings have been good enough to support sentiment — but not so strong that they remove the bigger macro questions.

Host:
And those macro questions still come back to the Fed, I suppose?
Eric:
They do. The Fed is still in a very awkward position.
The latest US data did not really give policymakers any reason to rush toward cuts. Jobless claims were low, business activity data was firm, and parts of the economy still look as though they have decent momentum.
So the Fed is dealing with a situation where growth has not weakened enough to justify easier policy, but inflation risks — especially energy-related ones — have clearly not gone away.
That is why I think some of the market's earlier hopes for aggressive rate cuts always looked a bit premature. The Fed is constrained. It cannot really lean dovishly into an oil-driven inflation backdrop unless the growth data deteriorates much more clearly than it has so far.
And the same general point applies in Europe as well. The ECB is being careful, disciplined, and not rushing to react to every twist in the market narrative.

Host:
What about FX and rates? Are they telling a slightly more cautious story than equities?
Eric:
Yes, I think they are.
The dollar has rebounded a bit technically, the euro has eased, and the yen remains under pressure. That is important, because the yen in particular is becoming one of the clearest signals that not everything is as comfortable as the equity market would suggest.
Japanese authorities are back in active dialogue with Washington over exchange rates, which is really another way of saying that policy discomfort is rising again.
More broadly, bond markets are still reluctant to price a clean disinflation story while oil is sitting near $100. And that feels sensible to me.
Equities are telling you that growth and earnings can carry on. Rates and FX are telling you that inflation risk is still there, policy flexibility is limited, and some stresses remain unresolved.
So if you want the more cautious read on markets right now, it is probably coming more from currencies and bonds than from headline equity indices.

Host:
So when you put it all together, what is the real takeaway for investors this week?

Eric:
I think the key takeaway is this: markets are still behaving as though this is manageable — and maybe it is — but the margin for error is getting smaller.
The bullish case is fairly clear. Geopolitical tensions do not worsen, oil stabilises, AI-related capital expenditure remains strong, earnings hold up, and markets continue to grind higher.
But the risk is that this becomes a more awkward backdrop than that. Oil stays elevated, inflation proves sticky, margins start to feel the pressure, and market leadership remains too narrow to support a genuinely healthy expansion.
If that is the path we are on, then diversification becomes more important, Asia becomes more interesting, duration remains difficult to own, and investors need to be much more selective rather than simply chasing index strength.
So I would say the mood this week is not fear — but nor is it comfort. It is a market that is holding together well, but beginning to show where the cracks could appear.

Host:
So what is the one-line conclusion this week?
Eric:
Markets are still standing strong — but underneath the surface, the story is becoming narrower, more selective, and a little less comfortable than the headlines suggest.

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