DATE: July 31st, 2026

TITLE: **Proof, Not Promises**

TRANSCRIPT:

Host:
What is the market telling us?
Eric:
I think the message is that investors have been given permission to take risk again — but they have certainly not been given an all-clear.
The most important numbers came from the United States.
The economy grew at an annualised rate of just 1.5% in the second quarter, which was weaker than expected, while core PCE inflation increased by only 0.1% in June.
That combination is almost ideal for equity investors.
Growth is slowing, but it is not collapsing. Inflation is softening, but not because demand has disappeared.
So the immediate pressure on the Federal Reserve to raise interest rates has diminished somewhat.
But I would describe that as relief rather than a fundamental change in the outlook.

Host:
And the bond market seems rather less enthusiastic than the equity market.
Eric:
Exactly. And I think that is probably the most interesting contradiction in markets today.
Equities rallied sharply, particularly technology shares.
But the thirty-year Treasury yield is still above 5%, and the ten-year yield remains close to 4.7%.
So the front end of the bond market is responding to softer growth and inflation.
The long end is saying something different.
It is telling us that inflation risk, government borrowing and the sheer amount of capital required across the economy may keep the cost of money structurally higher.
That matters enormously.
A company with strong cash flow can live perfectly comfortably in that environment.
A company that constantly needs to refinance itself cannot.
And I think that distinction is going to become increasingly important for equity investors as well.

Host:
We saw something similar from central banks this week. Nobody seems quite ready to tighten aggressively, but nobody seems comfortable either.
Eric:
That is right.
The Federal Reserve held rates despite three members voting for an increase.
The Bank of England also held rates at 3.75%, again with three policymakers preferring a hike.
And then we had Japan intervening in the currency market to support the yen, while the Bank of Japan kept its policy rate at 1%.
There is a common theme here.
Central banks are saying they are worried about inflation, particularly with oil still around 90 dollars, but they are reluctant to tighten into slowing growth.
The difficulty is that eventually markets want action rather than rhetoric.
Japan is a perfect example.

You can intervene and buy yen, but unless investors believe the interest-rate differential is going to change, the effect of intervention tends to fade.
So increasingly, markets are demanding proof rather than promises.

Host:
And perhaps we are seeing the same thing in China?
Eric:
Absolutely.
China's manufacturing PMI fell to 49.2 in July and its non-manufacturing index fell to 49.
So both manufacturing and the domestic service economy are now contracting.
What is particularly striking is the divergence within China.
Technology exports and advanced manufacturing remain relatively strong.
But property, construction, household spending and private-sector confidence remain weak.
Beijing continues to provide support, but it has resisted the kind of enormous stimulus programme we saw after previous downturns.
That may be sensible from a financial-stability perspective.
But it also means investors need evidence that domestic demand is actually recovering rather than simply assuming another government rescue is coming.

Host:
Technology was probably the most dramatic example of this idea during the week.
Microsoft rose more than 15% after its results.
What did investors like so much?
Eric:
They saw evidence that the money being spent on artificial intelligence is beginning to generate revenue.
And that is becoming the critical dividing line within technology.
For the last few years, the market rewarded companies simply for having exposure to AI.
Now investors are asking a much more difficult question:
What return are you actually earning on all this capital?
Microsoft demonstrated very strong Azure growth and gave investors confidence that enormous investment in data centres and AI infrastructure is translating into commercial demand.
Contrast that with companies where capital expenditure is rising rapidly but the incremental profitability is less obvious.
The market is not rejecting AI investment.
It is becoming much more selective about who is making money from it.
And I think that creates a very attractive environment for active investors.
The simple technology trade is becoming a stock-picking trade.
The winners may increasingly be found not simply among the biggest technology companies, but across semiconductors, networking, power infrastructure, cooling and other parts of the AI supply chain where pricing power and returns on capital remain strong.

Host:
Where does oil fit into all of this?
Eric:
Oil remains the potential spoiler.
Brent has fallen back towards 90 dollars, which is welcome, but 90-dollar oil is hardly cheap.
It still acts as a tax on consumers, squeezes corporate margins and complicates the job of central banks.
It is particularly important for emerging markets.
A softer dollar would normally be very supportive for emerging-market assets.

But countries such as India import a large proportion of their energy, so higher oil can offset much of that benefit.
That is another reason investors should resist treating emerging markets — or indeed Asia — as one homogeneous trade.

Host:
So what is the practical conclusion for investors after this week?
Eric:
I would not fight the equity rally.
Growth is still positive, inflation has softened and corporate earnings remain supportive.
But I would be increasingly selective about what I own.
Look for companies with strong balance sheets, visible cash generation and the ability to finance investment internally.
Within technology, look for evidence that AI spending is actually generating incremental revenue and profits.
Within emerging markets, distinguish between countries with strong domestic growth and those particularly exposed to energy or external financing.
And keep watching the bond market.
If equities continue rising while long-term bond yields remain stubbornly high, that is telling us the hurdle rate for every investment in the economy is rising.
This week investors were rewarded for taking risk.
But the deeper message from markets is that the era of simply believing the story is ending.
Whether it is central banks, governments or technology companies, investors increasingly want the same thing.
They want proof.

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