DATE: May 1st, 2026
TITLE: **Rate Cuts Talk — But Oil, Yields and Scarce Capacity Are Running the Show**

TRANSCRIPT:
Host:
Eric, let's start with the big picture. Markets are still talking about rate cuts, but your note this week suggests bond yields are telling a very different story. What's going on?
Eric:
Yes, exactly. The market still wants to believe that rate cuts are coming. But the bond market is basically saying: not so fast.
The key point this week is that the US economy is not weak enough to justify cuts. Jobless claims just fell to 189,000 — the lowest level since 1969. That is not a labour market screaming for emergency support.
And at the same time, inflation is not quietly fading away. It is being rebuilt from the supply side — through oil, energy, freight costs and supply-chain disruption.
So the Fed has a problem. It cannot cut rates with a straight face when employment is that strong and oil is back above $100. The priority has shifted again. It is less about protecting growth and more about protecting inflation credibility.
That's why bond yields are not behaving the way equity investors want them to behave.

Host:
So this is less about recession risk and more about inflation risk coming back?
Eric:
Yes — and that's the important distinction.
This is not a classic recession story. It is something more uncomfortable: resilient activity colliding with renewed inflation pressure.
The US economy is still holding up. Manufacturing is improving. Labour markets are firm. But the price of that resilience is that central banks have less room to ease.
And that's why today's ISM manufacturing data matters. The headline number is important, but the real focus should be the prices-paid component. If we get stronger activity and higher input prices at the same time, that is not a friendly backdrop for long-duration growth stocks.
It basically tells you that the economy is still moving, but the cost of keeping it moving is rising.

Host:
How does Europe compare?
Eric:
Europe looks more fragile.
The ECB held rates at 2%, but growth is barely moving — GDP slowed to 0.1% — while inflation has moved back up to 3%. That is very uncomfortable.
Europe is much closer to a stagflation problem: weak growth, but sticky inflation. And because Europe is more exposed to imported energy, the oil shock hits harder.
So I would be careful with the idea that European cyclicals automatically re-rate just because rates stop going up. Holding rates steady is not the same thing as creating a growth recovery.

Host:
Asia looks better on the surface. Japan and China both had stronger PMI data. Is that encouraging?

Eric:
It is encouraging — but only up to a point.
Japan's manufacturing PMI jumped to 55.1, which sounds very strong. China's private PMI also improved to 52.2. So yes, factories are still busy.
But the quality of that improvement matters. Some of it looks like panic stockpiling — companies building inventories ahead of higher energy costs, shipping disruption, or supply-chain problems. That is not the same thing as healthy final demand.
So Asia is getting a boost from restocking and AI-linked demand. But at the same time, margins are being squeezed by energy costs and companies are still cautious on hiring.
That is why I would describe the recovery as fragile rather than self-sustaining.

Host:
Japan is particularly interesting because the yen has been under serious pressure. What does the intervention tell us?
Eric:
The intervention tells us that Japan is uncomfortable — but it does not solve the problem.
Japan intervened after dollar-yen broke 160, but intervention is a warning sign, not a fix.
The real issue is structural. Japan is a major energy importer. Oil prices are rising. US yields are grinding higher. And the rate differential between Japan and the US still favours the dollar.
So this is not just speculative pressure. It is a current account problem, a rate differential problem, and now a geopolitical energy problem all layered together.
The Bank of Japan may now be forced into a June rate debate it probably did not want. And hiking rates to defend a currency during an energy shock is a very painful position to be in.

Host:
Let's come back to oil, because it feels like the centre of everything this week.
Eric:
It is. Oil is the macro variable that markets are still under-pricing.
Brent moved above $120 before pulling back to around $112. But the exact price is less important than the transmission mechanism.
Oil is not just an energy story. It is a tax on consumers. It is a margin shock for transport, chemicals and industrial companies. It is a problem for central banks. And it complicates the entire inflation outlook.
The World Bank is now talking about a potential 24% rise in energy prices this year. That does not stay neatly inside the oil market. It moves into food, fertiliser, freight, manufacturing and household spending.
So the simple "buy commodities" trade is too crude. The smarter question is: who has pricing power over energy-intensive supply chains?

Host:
US equities still seem fairly resilient. Is that mostly earnings?
Eric:
Yes — earnings are doing the work.
The S&P and Nasdaq both rose around 1%, and mega-cap technology is still being treated as defensive growth. But the bar has moved.
The market is no longer simply rewarding AI as a story. It is rewarding AI monetisation as proof.
That distinction is crucial.
If a company is spending heavily on AI but cannot show revenue growth, the market will become less forgiving. But if AI investment is turning into real cloud growth, real infrastructure demand, real semiconductor orders, real data-centre expansion — then investors will still pay for it.
And that is why the AI cycle is now much broader than software. It is power equipment. Cooling systems. Grid infrastructure. Data centres. Copper. Semiconductors. Memory. Transformers.

AI is becoming an industrial investment cycle.

Host:
So bring it all together. What is the main takeaway this week?
Eric:
The main takeaway is that markets are still behaving as if relief is coming — but the macro backdrop is pushing in the opposite direction.
Growth is not weak enough for rate cuts. Inflation is not low enough for central banks to relax. Oil is acting like a tax on consumers and margins. And bond yields are refusing to validate the equity market's optimism.
At the same time, there are real winners in this environment — particularly around AI infrastructure, energy security and industrial bottlenecks.
So this is not a market to avoid entirely. But it is a market where selectivity matters enormously.
The winners are likely to be companies that own scarce capacity, have pricing power, and benefit from structural demand.
The losers are likely to be companies that depend on cheap money, cheap energy and smooth supply chains.

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