DATE: October 16th, 2026
TITLE: **Hot Inflation, Falling Yields**

TRANSCRIPT:

Host: Eric, a fortnight ago we asked how long markets could look past higher rates. This week inflation came in hotter than expected, yet bond yields ended up falling. What's going on?

Eric: The bond market has started to worry about growth as much as inflation.

September's consumer price report was uncomfortable. Headline inflation rose to 3.7% from 3.4%, and core prices rose 0.33% in the month against expectations of 0.2%.

For months the explanation has been simple: it's the oil. That alibi is wearing thin. Services and shelter costs are firming too.

Yet the 10-year Treasury yield, which briefly pushed above 5.3% after the report, slipped back. By Thursday it had fallen to 5.09%, its biggest one-day drop in more than a year. Investors are starting to ask what these interest rates are doing to the economy.

Host: So what is the economy telling us underneath the headlines?

Eric: That it's running at two speeds.

On one side, investment in data centres, power and defence is booming. Jobless claims remain low, and a New York manufacturing survey hit a near five-year high.

On the other, the ordinary consumer is being squeezed. Retail sales looked healthy at first glance, but the core measure rose only 0.1%. The Fed's Beige Book described spending concentrated among higher earners, with companies passing on costs even as volumes weaken.

Then producer prices rose 1.3% in September, more than double what was expected. That's inflation still building in the pipeline.

Host: Where does that leave the Federal Reserve?

Eric: In an awkward spot.

Much of the pressure comes from imported energy and goods, which interest rates can do little about. But sticky services inflation is hard to ignore.

Most of Wall Street now expects the Fed to wait at its meeting on 28 October and raise rates in December. Markets still price roughly a one-in-three chance of an October move.

There's a twist, though. Long-term yields above 5% are already doing some of the Fed's work for it. A peak in inflation and a peak in interest rates need not arrive together.

Host: Technology has had a bruising week. Is the AI story changing?

Eric: The story isn't changing. The questions around it are.

TSMC is a good example. Quarterly profit rose 69%, and its guidance was well ahead of expectations. Yet its US-listed shares still fell. Strong results are no longer enough on their own. Investors want to know who is paying for all this capacity, and how.

Credit markets are asking the same question. The cost of insuring CoreWeave's debt against default, a company financing AI infrastructure heavily with borrowed money, rose above 1,100 basis points. And the IMF this week named an AI-led correction as one of three triggers that could abruptly tighten financial conditions.

I still believe AI is a profound technology. But the economic value of AI and the return on the capital spent building it are not the same thing.

Host: How did that play out internationally?

Eric: Asia felt it most sharply.

Korea's Kospi fell as much as 7% on Thursday as memory-chip shares sold off, partly on news of technical progress from a Chinese competitor. It has bounced this morning, but the swings show how concentrated that market is.

China, meanwhile, has moved from exporting deflation to exporting inflation. Factory-gate prices rose 5% in September, while consumer inflation at home is below 1%. Weak at home, raising prices abroad.

India is wrestling with inflation of 5.5% and continued foreign selling. Europe's manufacturing output has fallen for three months running, with gas prices near a four-year high and storage well below normal.

And oil remains the thread running through all of it. Brent is around $106. An Iranian projectile sank a container ship in the Strait of Hormuz, and the IEA warns diesel could stay tight well into 2027.

Host: So what's the takeaway for investors this week?

Eric: Respect the resilience, but be clear about what's holding it up.

Three things are supporting growth: consumer spending funded by stock-market wealth, very large government deficits and the AI build-out. All three face the same two threats, persistent inflation and a higher cost of capital.

That's why we're focused on companies that generate cash, protect their margins and don't depend on cheap borrowing. Third-quarter results will show us who can do that.

The question is no longer how far this expansion can run. It's which of its supports gives way first.

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