LOCAL INSIGHT INVESTORS

DATE: May 22nd, 2026
TITLE: **Gulf Risk Is Back — Oil, Inflation and AI Are Pulling Markets in Different Directions**

TRANSCRIPT:
Host:
Eric, if you had to summarise this week in one sentence, what would it be?
Eric:
I'd say this week was really about markets trying to hold onto the soft-landing narrative… while the macro backdrop keeps getting more complicated underneath the surface.
You can still feel that investors want to believe we eventually get lower inflation, stable oil prices, rate cuts, and continued AI-driven growth.
But the problem is the data no longer lines up neatly with that story.
The US economy is still surprisingly resilient.
Manufacturing data was actually very strong this week.
But when you look underneath the numbers, a lot of that strength came from companies aggressively building inventories because they are worried about shortages, supply disruption and rising costs.
So growth looks strong on the surface…
but some of that "strength" is actually defensive behaviour.
And that's a very different type of expansion.

Host:
So the manufacturing data wasn't quite as positive as the headlines suggested?
Eric:
Exactly.
The US flash manufacturing PMI jumped to its strongest level in four years, which initially sounds fantastic.
But companies are stockpiling inputs.
Supplier delivery times are worsening.
Input costs are rising again.
That's not the type of growth central banks feel comfortable with.
It's growth being pulled forward because businesses are nervous about supply chains and inflation.
And this is where the oil story becomes incredibly important again.
Markets keep reacting to every Iran headline as if peace is just around the corner…
but oil prices are still sitting around $105 a barrel.
That's the market quietly telling you the risk premium never really disappeared.

Host:
And investors still seem very focused on the Iran negotiations.
Eric:
They are.
But I think markets are underestimating how difficult this situation still is.
The key issues — the Strait of Hormuz, uranium stockpiles, shipping security — those haven't been resolved.
So what markets are really pricing right now is not "peace."
They're pricing "hopefully no major escalation."
And there's a huge difference between those two things.
Because even without a dramatic military escalation, you can still end up with structurally higher energy costs, higher insurance costs, higher freight costs and tighter supply chains.
And we're already starting to see evidence of that feeding into the real economy.

Airlines talking about fuel pressure.
Retailers warning about squeezed consumers.
Manufacturers hoarding inventory.
That's how an energy shock slowly becomes an inflation problem.

Host:
And central banks seem trapped in the middle of all this.
Eric:
Completely trapped.
Because normally if growth slows, central banks can simply cut rates aggressively.
But this is not a normal slowdown.
Europe now has weaker growth forecasts but still rising inflation forecasts.
Japan's inflation headline softened this week…
but the yen remains extremely weak and imported energy costs are still rising underneath the surface.
Australia is another fascinating example.
Normally rising unemployment would give the Reserve Bank room to become more dovish.
But if oil stays elevated, inflation doesn't fully disappear.
So suddenly you move from an "inflation problem"…
to an "inflation plus weak demand problem."
That's actually a much more uncomfortable macro environment.

Host:
And what's interesting is that equity markets still seem relatively calm.
Eric:
Yes — and that's the fascinating part.
Equity markets are still behaving as though this balancing act can continue indefinitely.
The S&P is still near highs.
Tech remains strong.
AI enthusiasm is still enormous.
And Nvidia's numbers this week reinforced that the AI infrastructure cycle remains incredibly powerful.
Data centre spending, chips, networking, power infrastructure — that whole ecosystem is still attracting huge capital.
But I think the market is becoming much narrower underneath the surface.
A relatively small number of themes are now carrying a huge amount of optimism.
And when markets become narrow during a period of rising rates and rising geopolitical risk… fragility increases.
Because expectations leave very little room for disappointment.

Host:
You mentioned something interesting this week about the dollar acting almost like an oil hedge.
Eric:
Yes — and I think that's one of the more important macro developments happening right now.
The stronger dollar is no longer just about "US exceptionalism."
It's increasingly becoming the world's safest hedge against an energy shock.
If you're a country importing oil…
and your currency weakens while oil rises…
you effectively import inflation twice.
And that's why parts of Emerging Markets and Asia are starting to feel pressure again.
Countries like India, Indonesia and the Philippines become very sensitive to this combination of:
higher oil,
higher US yields,
and a stronger dollar.

Meanwhile Japan is stuck with a weak yen and rising imported inflation.
So even though equity markets may look calm, global financial conditions are quietly tightening again underneath the surface.

Host:
And what about credit markets? You touched on that quite a bit this week.
Eric:
Yes — because credit markets are usually where stress appears first.
What's interesting right now is that public credit markets still look relatively stable.
High-yield spreads haven't exploded wider yet.
But underneath the surface, especially in private credit, we're beginning to see cracks emerging.
Smaller lenders are seeing funding costs rise.
Default rates are creeping higher.
Refinancing risk is becoming more difficult.
And historically, late-cycle stress often begins quietly in the edges of the credit system before it becomes visible in broader markets.
That's something I think investors need to watch very carefully over the next few months.

Host:
And finally Eric, what's the key takeaway for investors this week?
Eric:
I think the key takeaway is that markets are still pricing for a very optimistic balancing act.
They're pricing:
stable oil,
contained inflation,
continued AI growth,
resilient consumers,
and central banks that eventually ease without breaking anything.
Individually, none of those assumptions are impossible.
But collectively, it's a very fragile setup.
Because if oil stays elevated…
or inflation broadens…
or rates remain higher for longer…
the margin for error starts shrinking very quickly.
So this remains a market where selectivity matters enormously.
You want quality businesses.
Strong balance sheets.
Pricing power.
Structural demand drivers.
And you want to avoid assuming that the macro environment automatically becomes easier from here.
Because right now markets are still pricing hope…
…but the underlying system is becoming more sensitive to shocks.

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