LOCAL INSIGHT INVESTORS

DATE: May 15th, 2026
TITLE: **Markets Are Pricing Hope — But the Margin for Error Is Shrinking**

TRANSCRIPT:
**Host:**
**Eric, let's start with the big picture. What was the main story driving markets this week?**
**Eric:**
I think the main story this week is that markets still want to believe in a soft landing… but the macro environment is becoming much more fragile underneath the surface.
Equity markets are still holding up reasonably well. AI enthusiasm remains very strong. Investors still want to believe that inflation eventually cools, oil stabilises, and central banks can slowly move back toward easing.
But the reality is that oil is now feeding into much broader parts of the global economy.
And I think markets are still underestimating that risk.
Brent crude around $106 to $110 is not pricing catastrophe. It is pricing hope — hope that the Strait of Hormuz eventually reopens properly and that diplomacy prevails.
But the dangerous scenario is not necessarily a dramatic escalation overnight.
The dangerous scenario is a prolonged standoff where nobody backs down.
Because that is how an oil shock slowly becomes an inflation shock… and then eventually becomes a macro problem.

**Host:**
**So this is no longer just an energy story?**
**Eric:**
Exactly.
Oil is becoming the transmission mechanism into everything else.
Once inventories tighten, the inflation effects spread very quickly through the system.
It becomes freight costs, diesel, chemicals, fertiliser, plastics, shipping insurance, food inputs — all the hidden parts of the economy that eventually feed into consumer prices and corporate margins.
And the uncomfortable part is that the global economy is actually still relatively resilient.
US consumers are still spending.
Labour markets remain tight.
Services inflation is still sticky.
This is not an economy collapsing into recession.
Ironically, that resilience is exactly what makes the inflation risk more dangerous.
Because if growth were weak, central banks could simply cut aggressively and cushion the shock.
But when growth is holding up while inflation is reaccelerating from the supply side, policymakers become trapped.
And that is why the market conversation has shifted so quickly from "when do we get rate cuts?" to "could rates actually go higher again?"

**Host:**
**And bond markets seem to be reacting to that much faster than equities.**
**Eric:**
Absolutely.
Honestly, I think the bond market has been the smarter market recently.
The move higher in long-term yields — especially US 30-year yields moving above 5% — tells you investors are demanding compensation again for inflation risk and fiscal risk.

What is interesting though is that after the sell-off, parts of fixed income are finally beginning to look attractive again.
German Bunds above 3%.
UK gilts above 5%.
Those are meaningful yields again.
And in Europe particularly, where growth is softer than the US, there is now an argument that long-term investors are finally being compensated for uncertainty.
The UK is a bit more complicated because gilt yields now include a political premium as well as an inflation premium.
And that actually links into one of the more interesting themes developing underneath markets right now — the generational political shift.

**Host:**
**You mentioned that in your note this week. Why does that matter for investors?**
**Eric:**
Because politics increasingly shapes capital allocation.
And I think investors still underestimate how much the political backdrop is changing.
Younger generations are dealing with a completely different economic reality compared to the post-financial-crisis generation that dominated politics for the last fifteen years.
Housing affordability is poor.
Asset ownership is concentrated.
Real wage growth has disappointed.
And now AI infrastructure is creating additional pressure around energy, water and power grids.
Younger voters increasingly feel they are absorbing the costs of the system without fully participating in the upside.
And over time, that creates political pressure for more state intervention, higher taxes on wealth and property, and potentially greater scrutiny on large-cap technology and AI infrastructure itself.
Which is interesting because AI is still the thing holding markets together right now.

**Host:**
**And that AI story still seems incredibly strong.**
**Eric:**
Very strong.
This week reinforced that again.
The market is still rewarding anything linked to compute power, semiconductors, networking infrastructure, cooling systems and data centres.
AI has gone from being a theme… to becoming a full capital cycle.
And that is why equity markets are still holding up better than many people expected despite rising yields and higher oil prices.
But there is a tension developing.
The market is becoming increasingly narrow.
A relatively small number of companies are carrying a huge amount of investor optimism.
And that works… until it doesn't.
Because when valuations become stretched and rates are rising at the same time, the market becomes much less forgiving if expectations disappoint.
So this is no longer a broad-based bull market.
It is a very selective market.

**Host:**
**What did you make of the Trump-Xi summit this week?**
**Eric:**
I actually think the tone mattered more than the headlines.

The market focused on the lack of confrontation, the Boeing announcements, and the diplomatic optics.
But the more important thing was who controlled the rhythm of the negotiations.
To me, China looked calm, patient and strategically confident.
The US side looked much more eager to demonstrate visible progress and reassure markets.
And I think that reflects a deeper structural shift.
China increasingly behaves like a country that no longer feels the need to aggressively challenge the existing global order directly. Instead, it appears comfortable letting the global system gradually reorganise around it over time.
And from a portfolio perspective, I think that matters.
Asia increasingly provides the structural anchor — supply chains, manufacturing depth, industrial capability and domestic-demand resilience.
Meanwhile, the West increasingly requires selectivity.

**Host:**
**And finally Eric, what is the key takeaway for investors this week?**
**Eric:**
The key takeaway is that markets are still pricing for rational outcomes.
Oil stabilises.
Central banks avoid policy mistakes.
The US and China manage competition without escalation.
AI continues driving productivity and earnings growth.
None of those assumptions individually are unreasonable.
But together, they leave very little room for error.
And that is why selectivity matters more than ever.
This is not a market where you simply buy everything.
You want companies with pricing power, strong balance sheets, real earnings and structural demand exposure.
And you want to avoid building portfolios purely around the assumption that the macro backdrop will remain benign.
Because right now, markets are still pricing hope… but the cost of being wrong is rising.

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