DATE: July 3rd, 2026

TITLE: **The Rest of the World Turns Up**

TRANSCRIPT:

Host:
Eric, for much of the past two years, markets have been dominated by artificial intelligence and a relatively small group of American technology companies.
But this week felt different. What changed?

Eric:
The rest of the world finally turned up.
This was not another week in which a handful of AI stocks pulled the major indices higher while everything else watched from the sidelines.
European equities reached record levels. South Korea rose sharply. Japan advanced. Industrials, banks, miners and capital-goods companies all participated.
That matters because a market driven by one narrow theme is inherently fragile.
The AI investment cycle remains very real. Companies are spending enormous amounts on chips, data centres, power and digital infrastructure.
But this week was less about technology falling from favour and more about the rest of the market beginning to catch up.

Host:
What evidence do we have that this broadening is supported by the economy?
Eric:
The clearest evidence came from the latest manufacturing surveys.
Across several major regions, factories reported improving activity and stronger order books.
In the United States, manufacturing remained comfortably in expansion territory, while some of the cost pressures facing producers began to ease.
That is an attractive combination: stronger demand supporting revenues and lower input costs helping profit margins.
Europe was particularly encouraging.
Eurozone manufacturing has now expanded for several consecutive months, while Germany edged back into growth after a prolonged period of industrial weakness.
European industrial companies have been valued as though stagnation might be permanent. Even a modest recovery can therefore create meaningful upside.
Japan is also benefiting from stronger manufacturing, investment in automation and semiconductors, and improving corporate governance.
So this is becoming a multi-regional industrial recovery rather than a purely American technology story.

Host:
Does this mean investors should reduce their technology exposure?
Eric:
Not necessarily.
The technology companies should still benefit from the extraordinary spending taking place around AI.
But that spending is now flowing into the physical economy.
Data centres require electricity.
Power grids require upgrading.
Cooling systems have to be manufactured.
Copper has to be mined.
Buildings and industrial equipment have to be constructed.

The AI story is therefore broadening beyond software and semiconductors into infrastructure, industrials and commodities.
The sensible response is not to abandon technology. It is to avoid relying entirely on it.

Host:
The latest American employment report was much weaker than expected. Is that good or bad for markets?
Eric:
Markets initially treated it as good news because weaker hiring reduces the likelihood of further Federal Reserve rate increases.
But weak employment data are not automatically positive.
There is an important difference between an economy cooling gently and one losing momentum because corporate demand and household incomes are weakening.
For now, investors are choosing the optimistic interpretation: inflation moderates, the Fed becomes less restrictive and corporate earnings remain resilient.
But the Federal Reserve is not yet declaring victory.
Chair Kevin Warsh made clear that the 2% inflation target remains non-negotiable and that future decisions will depend on the data.
So the Fed does not actually need to raise rates to disappoint investors. It simply needs to leave rates higher for longer than markets expect.

Host:
Oil prices have fallen back. Has the geopolitical risk faded?
Eric:
The immediate risk has reduced, but it has not disappeared.
Progress in talks with Iran and the partial normalisation of shipping through the Strait of Hormuz have taken some of the fear premium out of oil.
That is helpful for inflation, consumers and corporate margins, particularly in energy-importing economies such as Europe and India.
But the situation remains fragile.
The political transition in Iran is uncertain and the nuclear negotiations remain unresolved.
The distinction investors need to make is why oil is falling.
Oil falling because geopolitical tensions are easing is positive.
Oil falling because global demand is weakening would send a much less encouraging message.

Host:
What should investors do with all of this?
Eric:
Broaden their portfolios.
The United States remains home to many of the world's most innovative and profitable companies, and AI will remain an important investment theme.
But investors should ask whether their portfolios have become too dependent on one country, one sector and one narrative.
There are increasingly attractive opportunities in European industrials, Japanese manufacturers, banks, miners, infrastructure businesses and selected emerging-market companies.
The objective is to own several different sources of earnings growth.

Host:
And what could undermine this broader rally?
Eric:
Three things.
First, a renewed increase in oil prices, which would revive inflation concerns.
Second, persistent wage and services inflation in the United States, keeping the Fed restrictive.
And third, evidence that the improvement in manufacturing was only temporary stockpiling ahead of tariffs or supply disruption.
The confirmation we want to see is continued strength in Europe, Japan, industrials, banks and miners, alongside stable bond yields and oil prices.

For now, the evidence suggests the global industrial pulse is improving enough to challenge the narrow American technology leadership of the past two years.

The rest of the world has finally turned up.

And investors should make sure their portfolios have noticed.

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