DATE: Sept 11th, 2026
TITLE: **Oil, inflation and a bond market losing patience**

TRANSCRIPT:

Host: Eric, it has been another difficult week for markets. What is driving the uncertainty?

Eric: The central story is that investors are becoming increasingly concerned about the combination of higher oil prices, persistent inflation and rising government borrowing.

Brent crude has moved above $100 a barrel and briefly approached $110. At the same time, the US 10-year Treasury yield has risen towards 5%, while the 30-year yield reached its highest level since 2007.

Those two moves reinforce each other. Higher oil prices increase inflation, while higher inflation makes investors demand a better return for lending money to governments over long periods. That pushes bond yields higher and raises borrowing costs across the economy.

Host: The US Treasury has been buying back some longer-dated bonds. Why hasn't that brought yields down?

Eric: Because these purchases can improve market liquidity, but they cannot solve the underlying problem.

The Treasury increased its planned long-dated bond buyback to $6 billion. However, that is relatively small compared with the enormous amount of borrowing the US government needs to finance.

Bond investors are looking at large fiscal deficits, stronger-than-expected economic growth, sticky inflation and a major energy shock. They are effectively saying: if you want us to lend money for 10 or 30 years, we need to be compensated for those risks.

So, the bond market is not behaving irrationally. It is questioning whether inflation and government borrowing will remain higher for longer.

Host: Oil seems to be at the heart of this. Is the market simply reacting to another temporary geopolitical spike?

Eric: Increasingly, no. The market is beginning to price a longer-lasting disruption.

The conflict around the Strait of Hormuz has already threatened one of the world's most important energy routes. We now have greater pressure around the Bab el-Mandeb at the southern entrance to the Red Sea as well.

That matters because Saudi oil travelling towards Asia may now face risks at both ends of the Arabian Peninsula. Shipping continues, but insurance, freight and security costs are rising.

The really important issue for inflation may not even be crude oil itself. Diesel and jet-fuel prices have risen very sharply. Diesel feeds directly into the cost of moving goods, operating machinery and running supply chains. Those costs can spread throughout the economy surprisingly quickly.

This is why $100 oil is beginning to look less like a temporary price spike and more like a new operating environment.

Host: What does that mean for central banks?

Eric: It puts them in an extremely uncomfortable position.

The European Central Bank raised interest rates by a quarter of a percentage point this week and now expects inflation to remain above target for longer. Markets believe further increases could follow.

In the US, the latest producer-price figures were also stronger than hoped, and markets are assigning a meaningful probability to another Federal Reserve increase.

The problem is that higher interest rates cannot produce more oil or reopen a shipping route. They can only prevent higher energy prices from spreading into wages, services and broader inflation.

Central banks may therefore find themselves tightening policy into weaker economic growth. That is rarely a comfortable combination for investors.

Host: How are equity markets responding?

Eric: So far, remarkably calmly—but that resilience may be tested.

The S&P 500 is only around 3% below its August high, despite oil moving above $100, government-bond yields approaching 5% and the possibility of further interest-rate increases.

However, markets cannot ignore those pressures indefinitely. Higher bond yields reduce the present value of future company profits, which is particularly important for highly valued growth and technology shares.

Either oil prices and bond yields need to fall, or equity valuations may need to adjust further.

There are still areas of strength. Taiwan’s exports have been exceptionally strong, supported by semiconductors, AI servers and continued investment in technology infrastructure. But Asian markets are also having to absorb higher energy costs, particularly in countries that import most of their oil.

India is a clear example. Higher oil prices increase its import bill, put pressure on the rupee and act rather like a tax on domestic growth. Energy exporters, by contrast, are relatively better positioned.

Host: And artificial intelligence remains an important theme?

Eric: Yes, but the risks are changing.

The debate is no longer only about whether AI companies are too expensive. The industry is consuming enormous amounts of capital, while regulators are considering tougher safety standards and companies are confronting security and intellectual-property concerns.

If regulation slows the rollout of new models at the same time that bond yields are close to 5%, investors may have to wait longer for returns while the cost of financing that investment rises.

AI remains a powerful long-term theme, but the market is becoming more selective about who will ultimately earn an attractive return from all this spending.

Host: So, what is the main message for investors this week?

Eric: The investment environment has changed because the oil shock is beginning to affect inflation, interest rates and corporate profitability simultaneously.

The bond market is demanding greater compensation for fiscal and inflation risk. Central banks are becoming less able to support growth, and equities are only beginning to reflect the implications of higher financing and energy costs.

That does not mean investors should abandon markets. But it does suggest that selectivity and diversification are becoming increasingly important.

Companies with strong balance sheets, genuine pricing power and the ability to grow without relying heavily on cheap finance should be better placed. The same applies to markets that benefit from strong export demand or higher commodity prices rather than suffering from them.

The key question is no longer whether oil can briefly rise above $100. It is how long it stays there—and how much of that increase ultimately finds its way into inflation, interest rates and company earnings.

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