DATE: August 14th, 2026

TITLE: **The Cost of Uncertainty**

TRANSCRIPT:

Host:
Eric, it has been another pretty extraordinary week for markets. When you step back from all the headlines, what do you think investors should really be focusing on?

Eric:
I think the interesting thing is that underneath all the geopolitical noise, the economic backdrop is actually becoming rather more constructive.

We have had two important inflation numbers out of the US this week. CPI was relatively benign, and then producer prices were flat in July, with goods prices actually falling.

Now, I would not say inflation is completely behind us — there are still pockets of pressure, particularly in services — but when you put that together with the softer employment data we have seen recently, the Federal Reserve suddenly has much less reason to raise rates again in September.

And that is quite an important shift.

For most of this year, markets have been worried about the Fed having to do more. Now the debate is increasingly about whether they can simply sit back and wait.

Host:
And equity markets clearly liked that message.

Eric:
They did. The S&P 500 went to another record high, technology did well, communications did well, and that is exactly what you would expect when investors start to become less worried about another increase in interest rates.

But this is where it gets interesting, because the bond market is not giving you quite the same message.

At the front end of the curve, yields came down. So that part of the market is effectively saying, *the Fed may be done.*

But then you look at the thirty-year Treasury auction this week, which cleared at around 5.2%, the highest level in more than twenty years.

So the long end is saying something rather different.

It is saying, *yes, perhaps the Fed is done — but don't assume that means the cost of capital is going back to where it was.*

And I think that tension is becoming one of the defining features of markets.

Host:
Why do you think long-term yields are staying so high?

Eric:
There are several reasons.

Obviously, you have the fiscal situation in the United States, very large deficits and an enormous amount of government borrowing.

But I think there is something else going on as well.

The global economy is entering an extraordinarily capital-intensive period.

Just look at artificial intelligence.

We tend to talk about AI as though it is simply a software story, but actually the physical infrastructure required is enormous.
You need data centres. You need semiconductors. You need power generation. You need transmission networks. You need cooling systems. You need networking equipment.
And all of that has to be financed.
So I think the market is beginning to ask a slightly different question about AI.
For the last couple of years, the question was simply: *who has exposure to AI?*
Now it is becoming: *who is actually going to make money from all this spending — and who is going to have to keep borrowing to fund it?*

Host:
And we saw some of that distinction in technology shares this week.
Eric:
Absolutely.
The market is becoming much more selective.
You can report very strong AI orders now and still see your share price fall if margins disappoint or investors do not like the economics behind that growth.
That is actually a healthy development.
The market is no longer prepared to reward the narrative alone.
Investors want to see cash flow. They want to see margins. They want to see a return on all this capital being deployed.
And from an investment perspective, I think that is where it gets really interesting, because the winners from AI may not simply be the biggest technology companies.
Some of the most attractive opportunities could be in the companies supplying the infrastructure around it — semiconductors, power equipment, cooling, engineering, networking.
It is becoming much more of a stock-picking market.

Host:
Which brings us rather neatly to energy, because oil has been one of the biggest complications for markets throughout this whole period.
Eric:
Exactly. And I think oil is really the link between the geopolitical story and everything we have just been discussing.
Brent has now fallen back towards the high 80s. We had a very large increase in US crude inventories this week, and both OPEC and the IEA have become more cautious on demand.
So even with all the disruption around the Strait of Hormuz, the underlying oil market is beginning to look softer.
And that raises a very interesting possibility.
If you were to remove the geopolitical premium as well, oil could have quite a bit further to fall.
And suddenly that starts to change the entire macro conversation.
Lower oil means lower inflation.
Lower inflation means less pressure on bond yields.
That gives the Fed more room.
It helps consumers.
It helps corporate margins.
And it is particularly helpful for energy-importing economies such as India.
So there is potentially a very positive chain reaction sitting there.

Host:
Which is why you have been arguing this week that perhaps the political objective now should simply be to find a way out.

Eric:
Yes, because at some point you have to ask what the endgame actually is.
You have sailors who have been on extraordinary deployments. You have enormous military resources committed to the region. Shipping is disrupted, oil carries a geopolitical premium, and ultimately households and businesses around the world are paying for that through higher energy prices and higher borrowing costs.
There comes a point where the sensible thing may simply be to take the ships and go home.
Get the sailors home. Reopen Hormuz. Let oil prices come down. And allow markets and economies to start finding their own balance again.
Sometimes victory is not about doing more.
Sometimes it is having the judgement to know when enough is enough.

Host:
And your point is that the cost of keeping this going extends well beyond the oil market.
Eric:
Completely.
Because the higher oil price feeds into inflation expectations.
Higher inflation expectations feed into bond yields.
Higher bond yields raise mortgage rates, corporate borrowing costs and the return investors demand from virtually every investment in the economy.
And that seems particularly unnecessary at a time when the world is trying to finance one of the most remarkable periods of technological advancement we have seen in decades.
AI, semiconductors, data centres, power infrastructure — all of this requires enormous amounts of capital already.
It does not need an additional geopolitical financing penalty layered on top.

Host:
So when you put all of that together, how should investors be approaching markets from here?
Eric:
I would still be constructive.
Inflation is moving in the right direction. The Fed has more room to be patient. Earnings remain supportive. And the AI investment cycle is clearly very real.
But I would also be selective.
I want to own companies that can generate cash, finance their own growth and earn attractive returns on the capital they are investing.
I would be much more cautious about businesses that need to keep coming back to the market to finance themselves at these interest rates.
And I would keep a very close eye on oil.
Because if we do get a reopening of Hormuz and you take that geopolitical premium out of the oil price, you could suddenly get lower inflation expectations, lower bond yields, more room for the Fed and a meaningfully lower cost of capital.
The interesting thing is that the economic pieces are beginning to fall into place.
What markets really need now is for politics to stop getting in the way.
And perhaps that is the message from this week: sometimes the most powerful thing policymakers can do is simply know when to stop.

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