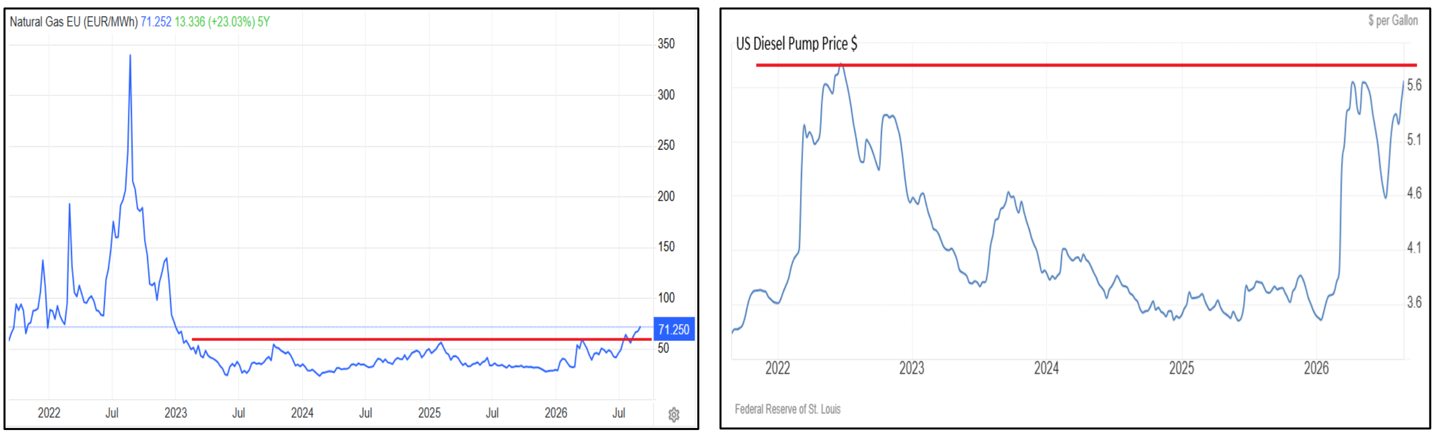
SRS
Strategic Retirement Solutions

Market View

Bull markets don't 'die of old age,' they are killed off either by recession or by central banks. It is the latter that are starting to move in the wrong direction for markets. The US Federal Reserve sets the trend, though the European Central Bank, where interest rates are the lowest at 2.4%, is likely to move first. The new Fed Chair is talking tough, as markets would always expect a new incumbent to do, however, the inflation numbers are a problem, the impact of the Iran conflict is just starting to appear in the official statistics. Gasoline prices remain painfully high for the US consumer, it is diesel, however, that impacts all prices. The new Chair will feel the need to stamp his authority if the Core PCE Inflation numbers rise too far. A reopening of the Straits of Hormuz would, however, completely flip the narrative. As we write, a resolution seems unlikely, yet crude oil does seem to be getting through in enough quantities to keep prices capped at around $90 per barrel. But the shortages are in refined products such as diesel and LNG. The latter is critical for Europe and the UK. Central Banks will be forced to raise rates, just as they did after the invasion of Ukraine, if inflation rises too far. Bond prices know this, and that is why they worryingly keep falling. Of note, though, during the month was the suggestion from US Treasury Secretary Bessant that the Treasury could start buying long-dated US Government Bonds, an attempt to limit the rise in yields and thus US mortgage rates. The key US 30-year fixed rate mortgage is now 6.8%, a move over 7% ahead of the midterm elections would not be good politically.

Europe Gas and US Diesel Prices source: Tradingeconomics.com



If the price of energy in Europe and the UK continues to rise, as well as diesel in the US, then interest rates are highly likely to go up. European gas stocks are low due to the record-breaking temperatures during the summer, which led to increased electricity demand from air conditioning. With LNG supply restricted prices are rising as this first chart shows. EU gas storage is currently at around 64% of capacity (measured by Gas Infrastructure Europe), which is 20% below the 5-year seasonal average. The UK has no storage capacity but is reliant on a pipeline from Norway. The UK, as we have previously written, remains integrated into the European electricity pricing system, UK energy prices will rise due to gas shortages in Europe. The magnitude of price rises might be mitigated by government subsidies, but given the parlous state of the UK’s finances, this is likely to be token at best. The inflationary pressures of 2022, after the Ukraine invasion, were enhanced by post-Covid labour shortages, which drove up wage settlements. The UK and Europe currently have higher unemployment, which means the magnitude of the inflationary pressure might be less this time around. While an immediate reopening of the Straits seems distant at present, we must not underestimate Trump's need for inflationary good news ahead of the midterm elections in early November. He needs a deal with Iran and soon, as do the world’s central banks. Whether all this inflationary pressure is enough to kill the current bull market is uncertain, as this time "it is different." These are the most dangerous words in investment, however, this Bull market has been driven not by the consumer but by the staggering large AI data centre build-out program."

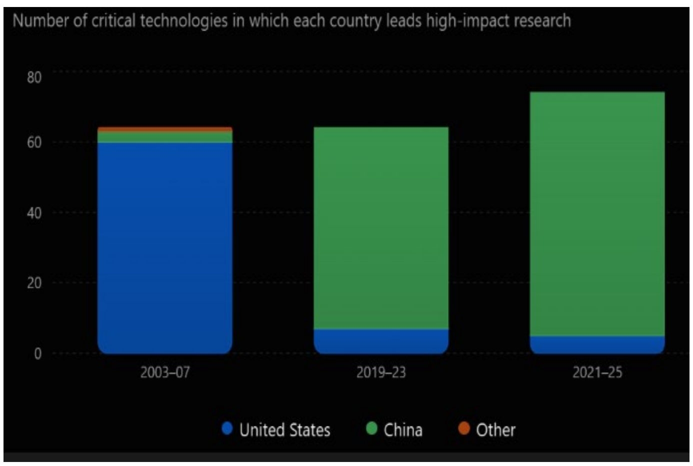
Bonds and AI

SRS
Strategic Retirement Solutions

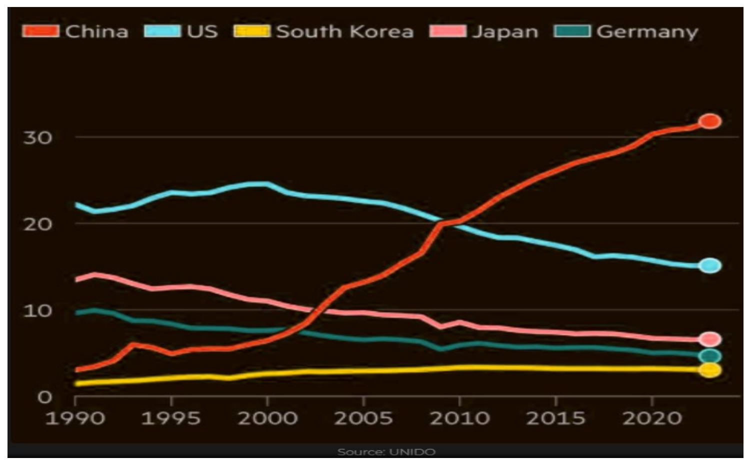
Market View

We have previously discussed the impact that AI is having on global bond markets. Companies like Alphabet, Meta, Nvidia, OpenAI, Oracle, and Anthropic are investing significant amounts of money into data centres and the production of powerful semiconductors. Pre-orders for yet-to-be-built data centres are on the rise, with estimates suggesting a total investment of up to $3 trillion, which is double the UK government's annual spending and 4% of the entire value of the S&P 500. This is a staggering and concerning figure. Germany has though recently reported running out of data center capacity, while Anthropic, currently the leading AI company, has annualised sales of $65 billion. Furthermore, AI adoption remains low at this early stage. Economic history suggests that the true "winners" from AI will not be existing businesses with legacy employees, products, services, and factories, but rather new businesses that are yet to be created.

China Critical Technologies



Global Manufacturing % by Country



Twenty years ago, the US led the world in technology, but now it is China. The first chart shows the Critical Technology Tracker, this is a large, data-driven project that covers seventy-four critical technologies spanning defence, space, energy, the environment, artificial intelligence, biotechnology, robotics, cyber, computing, advanced materials, and key quantum technology. China has overtaken the US and this trend is accelerating. There is currently no 'Other' which is concerning for the UK and the EU. In 2025, the US installed 38,000 robots, while China installed two million. China now represents over 30% of global manufacturing and growing. Trump's aim of containing China with tariffs has not been successful."

Markets

Bond markets are indicating that there is stress in the financial system, the yield curve is steepening. What is the Yield Curve? It means that the interest rates offered to depositors and charged to lenders by the bond market will vary according to how long the money is deposited or borrowed for. A two-year fixed rate mortgage usually has a lower interest rate than a five-year, which in turn has a lower rate than a 25-year one. What is happening now is that interest rates for all time frames are going up but longer-dated are going up more than shorter-dated ones. There is nothing inherently wrong with this as it usually reflects a booming global economy, with corporate earnings accelerating away and Central Banks no longer need to "pump" their economies….it just feels too early. There are also technical reasons for this, such as the US and the UK governments being over-borrowed and thus paying a punishment premium. Furthermore, big tech companies are borrowing heavily from the bond markets and soaking up cash that would normally go to governments. All this is occurring at a time when oil prices and a Super El Niño are pushing up inflation. For now, it's all just part of normal day-to-day volatility, but as always, we need to be aware that it could spiral out of control. US 10-year yields need to stay below 5% (currently 4.8%) and the Straits of Hormuz need to reopen. If Iran wants a deal, then Trump is likely to be at his most receptive ahead of the Mid-Term elections. Bond yields are concerning.

September 2026