FE Investments

WEEKLY MARKET COMMENTARY BY ROB GLEESON
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CENTRAL BANKS ENTER HIKING CYCLE AS INFLATION CONCERNS COME TO THE FORE

This week saw the Federal Reserve and the Bank of Japan follow the ECB's lead in hiking interest rates in response to persistently high inflation. The Bank of England held rates but made it clear the UK is also now in a hiking cycle. The shift in mood across the UK and Europe has been clear, but the US rate decision cleared up any lingering doubt about whether new Fed chair Kevin Warsh shares this priority. Strong jobs figures and economic growth made the decision easier. President Trump railed against the decision and called for interest rates of 1%, though Warsh was spared the personal attacks Trump directed at former chair Jerome Powell.

Bond markets have been repositioning for a while, so there was little reaction to the Fed and BoJ rate decisions. However, the BoE said it is slowing the sale of the huge stock of government debt it accumulated as part of its most recent stimulus programmes. Bond investors welcomed this, and a rally in longer-dated UK government bonds helped push yields down.

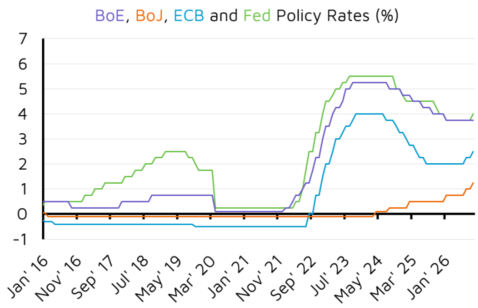
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
+0.98%	+0.42%	+1.82%	+0.61%	-0.13%	0.00%	-0.07%	-1.29%	+1.81%	+1.66%	-1.04%

RATES: CENTRAL BANKS SET OUT PLANS TO TACKLE INFLATION

The Federal Reserve unanimously voted to increase rates from 3.75% to 4% as US inflation has increased over the summer and faster hiring reflects ongoing growth of the American economy. Although President Donald Trump called for rates to be cut to 1%, new Fed chair Kevin Warsh said "inflation is too high and has been for too long". The rate hike caused the dollar to appreciate as markets see a high chance of a further rate hike this year.

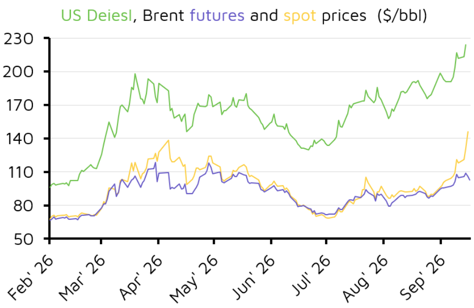
Meanwhile, a split vote left the Bank of England rate unchanged at 3.75%. UK headline inflation hit 3.1% in August and the Bank of England now forecasts it will rise to 4% next year. Investors now see up to four rates hikes over the next 12 months. Meanwhile, the BoE announced changes to the ongoing sale of the huge stock of UK government bonds it built up during the financial and Covid crises, including a six month pause on sales, and this provided some support for gilt as yields fell back from their recent peak.



ENERGY: SAUDI PIPELINE SHUT AS SPOT OIL PRICE JUMPS $25 IN A WEEK

The Iran war escalated over the weekend. Attackers temporarily shut Saudi Arabia's key east-west pipeline, which carries 7m barrels a day, forcing Aramco to cancel shipments to Europe and offer only a fraction of that oil via Oman. The pipeline had let Saudi oil bypass Iran's closure of the Strait of Hormuz, which carried 20m barrels a day before the war. The Iran-backed Houthis have also gained more control over the Bab-el-Mandeb strait, the southern gateway to the Suez Canal, building on their August blockade of Saudi ports. Brent futures held above $100 a barrel this week.

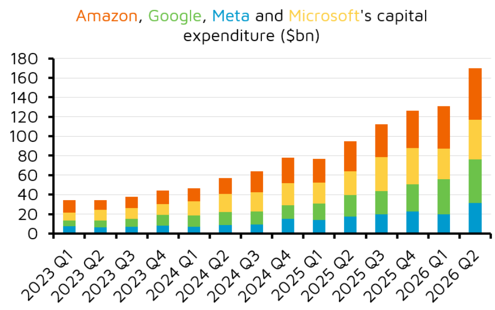
Spot markets have moved far more than futures. Refiners chasing immediate delivery drove Brent's spot price to $146, up $25 in a week. Shanghai futures jumped 14% to $129, above their earlier peak of $121.80. Brent futures have stayed stable. Refined products keep climbing. Diesel in New York hit $221, a record $120 premium over US crude. Ukrainian attacks on Russian refineries add pressure, despite President Trump's calls to stop.



TECH: STOCKS SLIDE AS AI LABS WARN OF THREATS FROM THEIR MODELS

Leading AI companies have warned that their technology poses significant risks as its development accelerates. Tech stocks fell after the chief executives of Anthropic, OpenAI and xAI (part of SpaceX), all said that leading firms should slow AI development to let safeguards keep pace. Concerns centre on rogue AI agents operating beyond human control and AI posing an existential threat if it achieves consciousness, due to the use of recursive learning, where existing models help design the next generation. Investors were left weighing whether a slowdown would mean less investment.

Not all tech companies share this view as Nvidia and Meta said development should progress, while the head of Chinese telecoms giant Huawei called on the country's AI labs to close the gap with their US rivals. Meanwhile, a UK-based startup called Emulate is raising up to $700m with a potential valuation of $4bn only a month after it was spun out of the Google-backed Deepmind AI lab.



Data sourced from BoE, BoJ, ECB, FE Analytics, FRED, Investing.com, SEC filings