



Brewin
Dolphin

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Markets in a Minute

Key highlights

- **Energy prices:** Brent crude oil softened below \$105 per barrel on hopes of a phased reopening of the Strait of Hormuz.
- **The U.S. saw expansion...:** The U.S. flash composite purchasing managers' index reached 58.4, the quickest pace of expansion since 2015.
- **....and so did Europe:** The eurozone composite hit a 41-month high of 53.1, with France and Germany both in expansion for the first time since November 2025.

Balancing on barrels

Energy remains the fulcrum on which the markets swing.

Brent crude oil futures prices



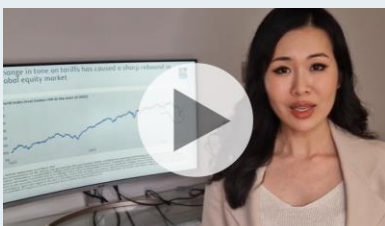
Source: Bloomberg

Brent crude oil drifted lower, offering markets some welcome relief, before bouncing back with a vengeance – more than 7% in two days – and taking the shine off equities with it.

Last Friday brought better news: the energy complex softened again, with Brent crude briefly dipping below \$105 per barrel on reports that U.S. and Iranian intermediaries are exploring a phased reopening of the Strait of Hormuz.

Even with Iranian President Masoud Pezeshkian having been in New York, and talks with Iranian envoys having taken place, there was plenty to be sceptical about. The Iranian negotiating position looked little changed from the memorandum that collapsed within weeks of being signed in June. Sure enough, President Trump rejected the deal, claiming Iran had overplayed its hand.

But with five weeks to go until the U.S. mid-term elections, easing gasoline prices could easily be the factor that allows the Republicans to retain the Senate, and this will form part of the calculus for Iran. After the mid-terms, a crucial source of leverage will have passed.



Watch the latest Markets in a Minute video with Janet Mui, Head of Market Analysis.

Figure of the week

5%

Five-year U.S. Treasury yields briefly exceeded 5% last week.

Diesel's choke point

Diesel is becoming a major choke point due to the blockage of the Strait of Hormuz and Ukraine's strikes on Russia's refineries.

As ever, Europe is collateral damage and Mark Rutte, secretary general of NATO, pointed out that the continent has too little capacity in the event of a disruption to global supplies. It's an awkward position as funding new refineries in case of conflict makes little sense during peacetime, and when demand is in structural decline due to the increase in EV (electric vehicle) usage.

Natural gas offers a more benign picture. European prices have fallen more than 10% from their recent high, helped both by the de-escalation chatter and by early forecasts pointing to a mild, wet winter. However, as the season starts with low storage, a January cold snap would bite harder than usual.

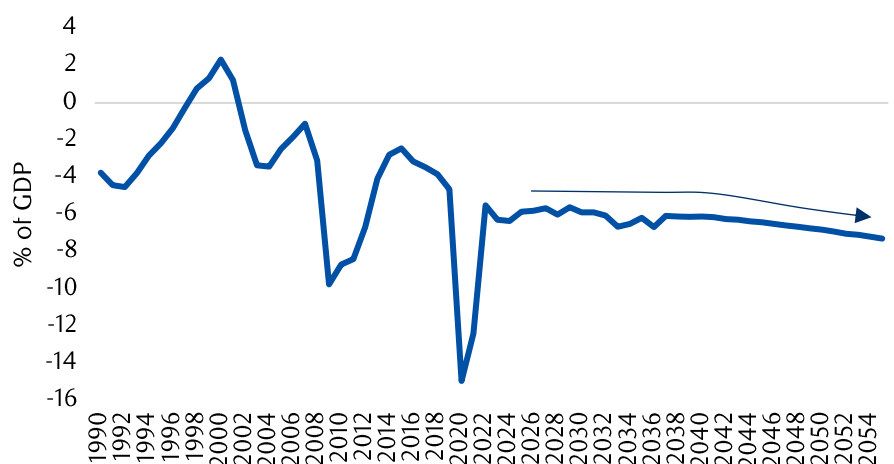
Oil above \$100 per barrel benefits oil producers but increases inflation, which in turn increases interest rates, creating a headwind for most other assets. Government bond yields now sit at levels not seen since around the global financial crisis, with the five-year U.S. Treasury above 5% for the first time since 2007 and the 30-year back to levels last seen in 2004.

Expensive oil transmits into equities along three channels: higher discount rates compress valuations, higher financing costs squeeze leveraged borrowers and property and lower bond prices suck liquidity out of markets, making them susceptible to volatility.

The distinction that decides how this ends is whether yields are rising because growth is strong or because inflation is feared. Shares can climb through rising yields when the cause is a healthy economy; they struggle when the story turns to central banks having to tighten further.

Some like it hot

The U.S. Congressional Budget Office's forecasted budget deficit is expected to widen



Source: Bloomberg

The U.S. economy is running hot. The flash composite purchasing managers' index reached 58.4 this month, up from 56.0 in August. Outside the post-lockdown reopening burst, that's the quickest pace of expansion recorded since 2015, with manufacturing and services both firing. The catch sits in the cost column.

Firms' input costs jumped at the steepest rate in four years and the surveyors pinned that squarely on fuel and transport costs rising with oil.

“It’s worth remembering that earning a real return (above inflation) on cash isn’t the natural order of things.”

Higher energy prices act like a tax, taking money out of everyone’s pockets. Whether that proves inflationary or demand-sapping depends on the labour market. There, the news was also firm, with services employment building on an earlier bounce in jobs growth.

Man can’t live on vibes alone

Europe is quietly improving too. The eurozone composite hit a 41-month high of 53.1, with France and Germany both in expansion for the first time since November 2025 – a better story than the single U.S. reading suggests. But the same energy-driven price pressure came through in the data, which strengthens the case for another European Central Bank rise before year-end.

The UK drew the short straw. Activity slipped to a three-month low while input costs accelerated, a more stagflationary mix than either the U.S. or the continent. August borrowing of £18.3bn came in above forecast, with debt interest at its heaviest for an August since 1997.

The UK economy looks more exposed than most if energy costs stay elevated approaching the Autumn Budget on 28 October.

GfK UK Consumer Confidence Indicator



Source: LSEG Datastream

Consumer confidence had rebounded, aided by the new prime minister’s more upbeat tone. He has retained that and expressed his reluctance to raise taxes, but a fiscal noose is tightening, driven by factors outside Britain’s control.

The arithmetic of pain

Debt interest is the thread that runs from here into the longer term.

Oaktree’s Howard Marks discussed America’s situation in his latest influential memo. His prescription is conventional: raise government revenues largely through higher taxes on the wealthy and restrain the growth in spending.

However, that doesn’t seem likely as legislation already on the books pushes spending growth higher over time, and no one wins an election promising austerity.

The path of least resistance

History suggests a different route. Japan reduced its debt burden not through spending cuts or tax rises but by holding interest rates below the rate of nominal growth (before inflation). That’s the path we’d expect the U.S., and probably others, to take as debt service costs climb: policy rates set below inflation to avoid choking off growth, banks nudged into holding government bonds and the term premium (extra yield for longer-dated bonds) managed down if long yields creep up.

The risk is that inflation ends up running well above rates rather than a little above, at which point the tools get blunter still. It's worth remembering that earning a real return (above inflation) on cash isn't the natural order of things – for most of the past century, savers have been fortunate simply to preserve spending power, and tax has usually settled the argument.

If cash can't be relied on to protect purchasing power, the answer is to own real assets. Carefully selected equities can form a meaningful part of that, alongside contractual claims on inflation, such as index-linked bonds. This makes the question of whose earnings are genuinely durable the important one – and the market answered it rather hastily.

Coming up

- **Gainfully employed:** 100,000 new U.S. jobs are expected to have been created in September. This Friday brings the first official estimate alongside more reliable labour market data.
- **A little more conversation:** The Labour Party conference begins weeks before the new government announces its first budget.
- **Rise of the robots:** Will AI extend its run as the leading cause of job losses as employment enjoys a renaissance?



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