



# The Tatton Weekly

## The real cost of oil

18 September 2026

### This week's topics:

Hawks to the rescue

French debt looms large

Stocks and bonds split up

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*"It might do a number of useful things we can't anticipate.  
The only drawback is, it may destroy all life on earth."*

*AI warnings, Peter Kuper, 16 September 2026*

## Hawks to the rescue

It was a week heavy on narrative but, for the most part, light on stock market movement. President Trump bristled at Canada's flirtation with Europe; tech leaders made a plea for slower AI development and attacks on Middle Eastern oil infrastructure continued. These stories had only minor impacts, not moving markets too much in either direction.

Markets were moved – sharply down then back up – by central banks. The Federal Reserve raised US interest rates by 0.25 percentage points on Wednesday, as Chairman Kevin Warsh emphasised his inflation-fighting credentials. The Bank of England declined to join the Fed just yet, but signalled a rate rise for November. The Bank of Japan then closed out the week with a widely anticipated 0.25 percentage point hike on Friday. In the end, central bankers' tough talk has helped calm some nerves.

### **Warsh affirms Fed independence**

In the minutes after Warsh's speech, government bond yields rose and stocks fell. The Fed chair delivered on his recent hawkish rhetoric by raising rates and signalling potentially more to come. Warsh famously hates giving markets 'forward guidance' of Fed policy, but his promise to quash

inflation was about as clear guidance as he could give. Tellingly, he phrased the hike as removing the Fed's "dose of accommodation", rather than actively restricting the economy.

Markets then calmed from their initial reaction. Yields on 10-year US treasury bonds dropped below 5% again, stock prices recovered and the dollar strengthened. Market-based inflation expectations dropped substantially – helped by falling oil prices, admittedly. We interpret these moves as a bolstering of the Fed's credibility: the central bank will squeeze right now, but lower future inflation will allow markets to breathe.

In particular, Warsh's speech was a win for Fed independence. The Fed chair is anything but the Trump stooge that some critics alleged when he was picked by the president. Strangely, Trump gave his full confidence to Warsh on Wednesday, despite lambasting the Fed's decision. The president seemed to suggest that Warsh wants lower rates but is being thwarted by the rest of the Fed board – a sharp contrast to Warsh's own comments.

Whether Trump believes that or is merely saving face, it is a good sign. Warsh is right that the strong US economy can cope with a hike right now and, if that changes, his willingness to react to incoming data suggests the Fed could quickly turn dovish if needed.

### **The BoE eases its guilt-y conscience**

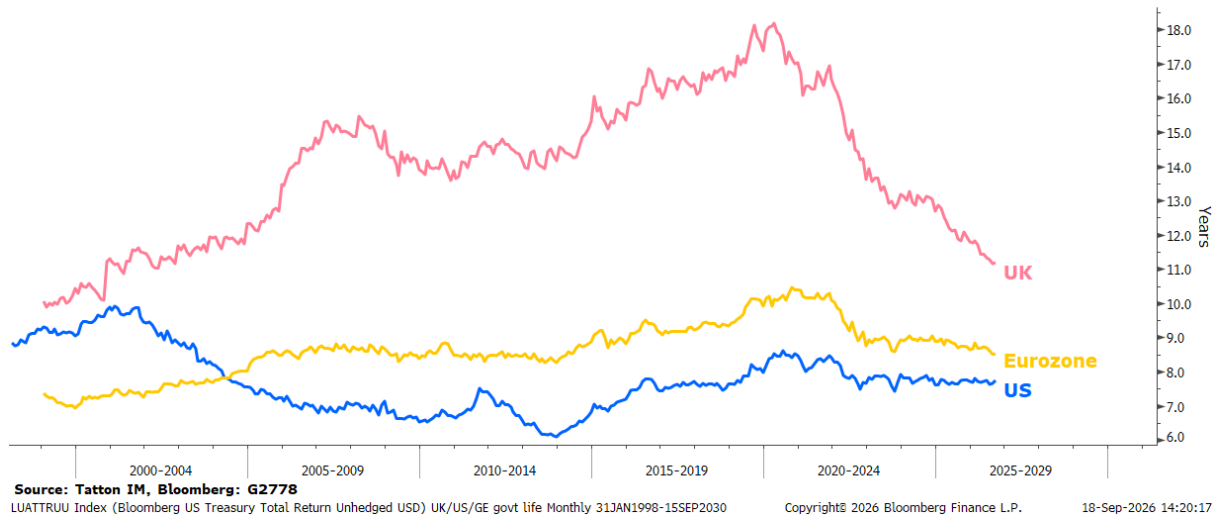
Bank of England (BoE) members voted 6-3 to keep rates unchanged, but strongly signalled they will hike in November. Markets took the result as a signal that the BoE is getting tougher on inflation, benefitting UK assets. UK government bond (gilt) yields dropped sharply on Thursday.

The BoE's biggest gift to gilts was its plan to reduce its sale of long-term bonds and sell them directly back to the treasury – the government effectively buying back its own long-term debt. Most central banks have reduced or stopped their quantitative tightening (QT) programs of bond sales in recent years, but the BoE has carried on. That has been a significant factor in gilts' underperformance.

The other big factor, as we often argue, is the imbalance of outstanding gilts. They are heavily inflation-linked and skewed to the long-term, making gilt yields more sensitive to global bond moves. The buyback plan effectively swaps high-interest long-term debt for lower-interest short-term debt – similar to US Treasury Secretary Scott Bessent's plan announced a few weeks ago.

### Government bond average life

Bonds (not including inflation-linked bonds) weighted average life



Inevitably, some will call this market manipulation. We rather see it as correcting an imbalance caused by previous policies. As the chart above shows, gilts' average maturity has already declined in recent years, from a very high level. Gilts still have some way to go, and the BoE's latest policy will help.

### Inflation eases but market nerves remain

The Bank of Japan (BoJ) backed up central banks' hawkish consensus by raising rates on Friday – though the BoJ's two political appointees voted for no rate rise. The bolstering of monetary credibility had a calming effect on bond markets but, in the near-term, a more hawkish BoJ could well lead to selling pressure for global bonds.

Renowned economist and market strategist Ed Yardeni recently argued as much, pointing to the potential unwind of the so-called 'yen carry trade'. This popular trade involves investors borrowing cheaply in yen to buy US assets, particularly US treasury bonds. Low Japanese rates and a weakening yen make that trade profitable – so higher Japanese rates and a stronger yen encourage those investors to sell their treasuries. That might make bond markets choppy, but the BoJ's move is still a positive for global inflation.

Midweek, it looked like inflation would also be eased by falling oil prices, as Saudi Arabia announced that much of its damaged East-West pipeline capacity could be quickly restored. But oil prices unfortunately climbed again during late Thursday trading and continued to bounce around on Friday. Oil price volatility will continue to challenge markets.

Finally, we also saw some high-profile pronouncements on the need to slow global AI development – from the very people leading its rapid growth. It is not entirely clear how investors should interpret these grave warnings, like Anthropic CEO Dario Amodei's claim that regulation is needed to blunt

AI's existential threat. We only note that the calls to slow down are coming just as the AI spending race dramatically raises costs for tech firms.

The stocks most at risk from a slowing in AI spending – chip manufacturing companies – reacted nervously to the news, but they are finishing the week stronger as we write. This is just the latest twist in the AI theme that has propelled stock markets for years, and it will not be the last. For the world economy, the silver lining is that if AI spending is slower, it might provide relief from medium-term inflation pressures. Central bankers would appreciate it.

### French debt looms large

Talk of debt crises is rife. With energy costs and government bond yields rising in tandem, bond investors worry that government debt might rapidly become unserviceable. In Britain, media commentators accuse the government of irresponsible spending policies and warn of a potential crisis in UK government bonds (gilts).

UK government debt has grown significantly following the pandemic, but the fact gilt yields are higher than elsewhere has more to do with structural gilt market problems than public spending. Indeed, there are other nations whose debt metrics and economic issues are more challenging. France is one of the worst offenders in that regard. Its fiscal predicament is not only a cautionary tale for governments, but a live risk for global markets.

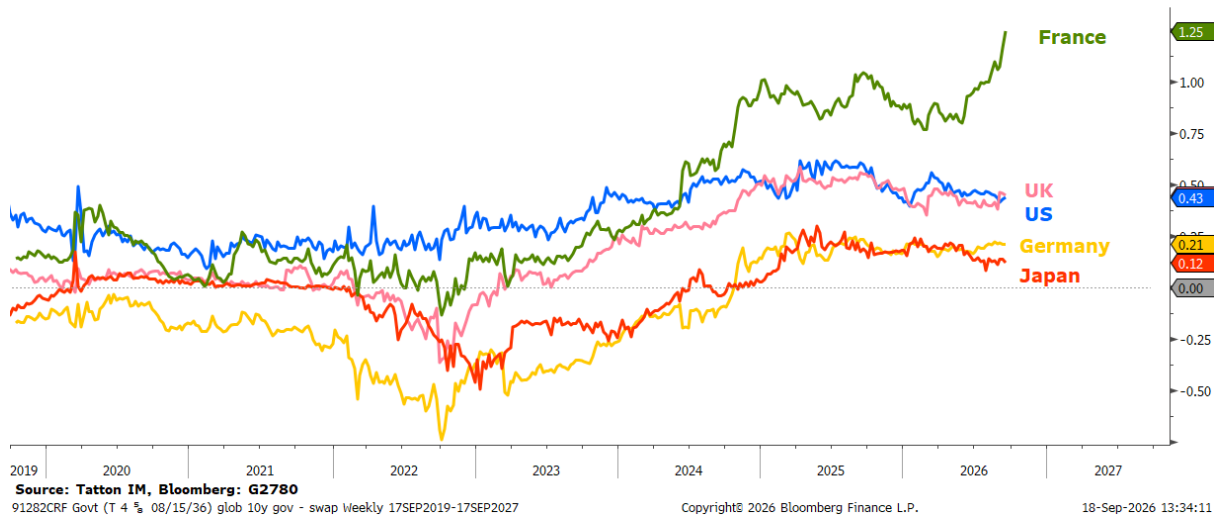
#### **OATs aren't healthy**

On the face of it, French bonds (OATs) look healthier than gilts. OAT yields are lower than gilts across all maturities, and the all-important 10-year yield is at 4.53%, versus 5.27% in the UK (as of Friday 18<sup>th</sup> lunchtime). As we have written before, gilts typically react worse to global shocks than other bond markets, known in bond trader lingo as the UK's 'high beta'.

That comparison hides many worrying signs for France, however. OAT yields are now higher than in Greece, Italy, Spain or Portugal, and the 10-year yield is now more than 1% above the equivalent German yield. Yields across all OAT maturities have risen faster than all other major markets – including the UK – in recent weeks. The gap between 10-year and 30-year yields, which reflects investors' willingness to lend over the very long-term, is also wider for OATs than gilts.

Perhaps the most damning sign of all is that our measure of government fiscal risk – the difference between bond yields and equivalent maturity "swaps", a form of bank lending rate – has worsened for France more than other major G7 nations.

### 10-year government-swap spreads yield less overnight interest rate swaps



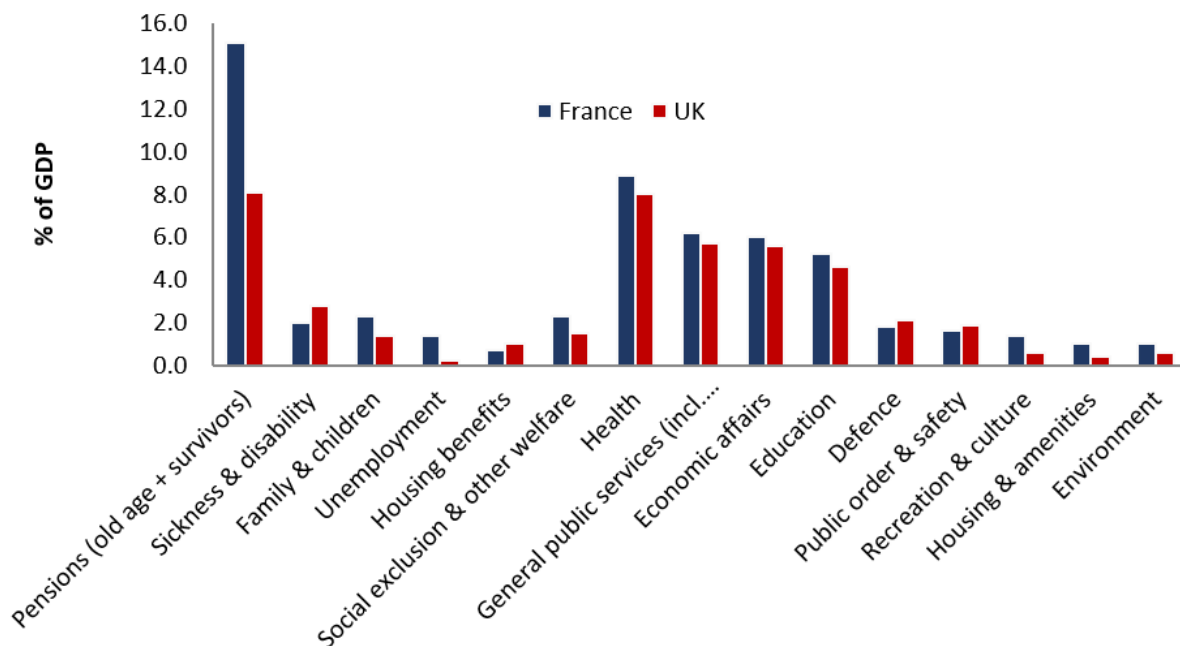
Looking at underlying debt metrics tells us why this might be the case. France's debt-to-GDP stood at 115.6% in 2025, while its budget deficit was 5.1%, compared to 94.3% and 4.3% for the UK respectively. On Thursday, Finance Minister Lescure estimated that this year's budget deficit would be 5.4% of GDP. He said that next year's deficit would decline to 5% but has yet to publish a definite plan.

The only debt metric where France fares better than Britain is net interest payments. The UK's high interest payments are largely thanks to the structural gilt market problems already mentioned (the UK has more inflation-linked and longer-term bonds outstanding, which have higher yields). But France's interest payments are rapidly expanding, increasing 25% this year, according to the FT.

### Spending patterns show no resolution

While the UK's public spending problems are primarily about rising debt costs, France's primary public spending is high and rising. In fact, France outspends the UK, as a percentage of GDP, in almost every category. That leaves France with a primary budget deficit (excluding debt costs) worth 3% of GDP, compared to an almost balanced primary budget in the UK.

## Spending by function with social protection split, 2023 (% of GDP)



Source: ONS, Eurostat, Tatton IM

As the chart above shows, the biggest single spend is on pensions – a bill that Emmanuel Macron has tried to reduce throughout his near 10-year presidency, with little success. France is not alone in having large and growing pension commitments, of course. The UK's pension spending has similarly increased since the introduction of the triple lock in 2010.

In France, however, there is very little chance that will change. Despite coming from opposite edges of the political spectrum, Marine Le Pen and Jean-Luc Mélenchon – the frontrunners for next year's presidential election – both oppose Macron's attempted pension reforms. Parties across France's fractured political landscape largely agree that the country faces a major debt problem; they just cannot agree on any solution. It is difficult to see any resolution coming out of this deadlock and, in the meantime, the debt problems keep building.

### Euro crisis coming?

France's strained fiscal position is being stretched ever further by rising yields. Commentators talk about a potential 'doom loop' in the UK – more borrowing to fund higher borrowing costs – but that loop is arguably a bigger danger for France.

If that becomes a full-blown debt crisis or default, could that spiral into another eurozone crisis? Political and financial pundits have long suspected that a default in the EU's second-largest economy and founding member could spell the end of the single currency – and perhaps the European project itself. Because of that threat, the European Central Bank would undoubtedly adopt the same “whatever it takes” approach that saved the euro in 2012. But France is a different beast to Greece, or even Italy. It may be too big to fail, but it is certainly too big to bail.

Any collapse in the OAT market would undoubtedly have knock-on effects on European and global bonds. Strangely, if it came to it, that contagion could be the thing that prevents an OAT crisis from becoming a euro crisis.

It is hard to imagine a scenario where investors sell their OAT holdings due to fiscal fears, but are still comfortable holding US treasury bonds. The US fiscal position is just as strained as France, if not more, and there is virtually no political desire in Washington to address that. An OAT sell-off would therefore almost certainly hit the world's biggest bond market too.

Because of the amount of global capital invested in the US, a significant sell-off in US assets always results in a weaker dollar – and a weak dollar means a stronger euro. This hypothetical process would be exceptionally painful for global investors, but it would prevent a full-blown euro crisis. That gives us hope for European bonds, despite France's strained fiscal position.

## Stocks and bonds split up

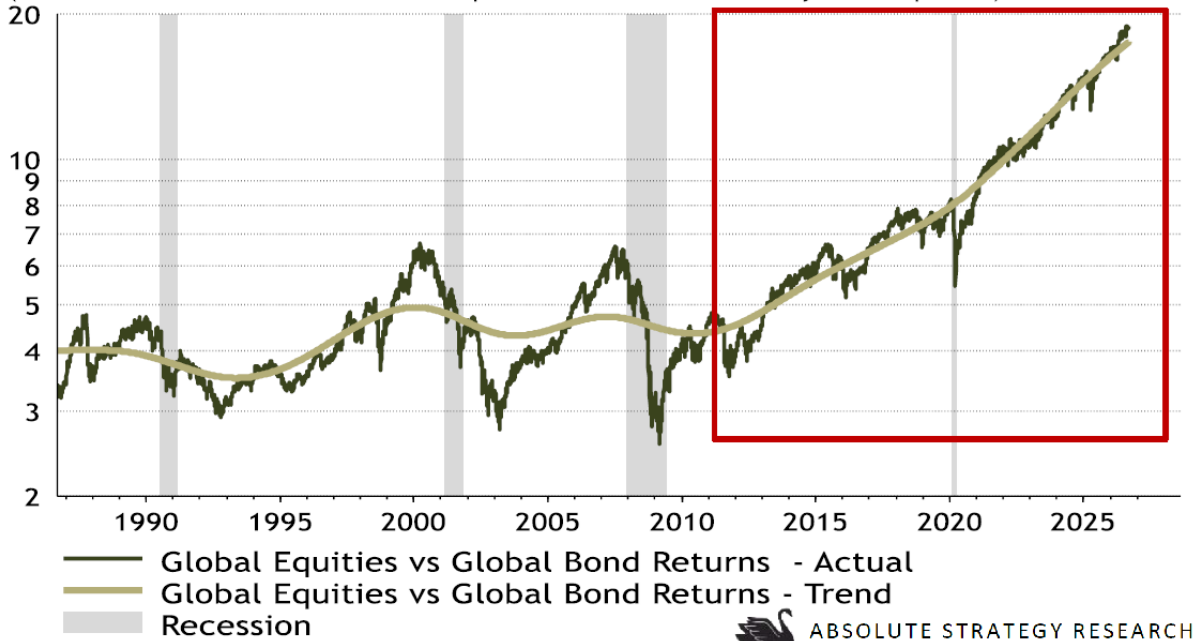
The past few years have been great for equity investors and rougher for bond holders. That is not unusual; the two asset classes have their periods of relative strength and weakness, which historically move in a cycle. What is unusual is that stocks have now outperformed bonds for 17 years, since the end of the global financial crisis (GFC). In that time, the inverse relationship between stocks and bonds – the bedrock of globally diversified multi-asset portfolios – has broken down. How long can stocks reign?

### **Correlation breakdown**

The traditional wisdom of multi-asset portfolio theory says that stocks and bonds should be inversely correlated. Economic growth pushes up company earnings – helping stock prices – while simultaneously raising ‘risk free’ government bond yields, the inverse of bond prices. Weak growth brings down bond yields, hence raising bond prices, but also compresses company earnings. The relative performance of stocks and bonds should therefore move in a cycle, just like the economy itself. That is why diversified portfolios invest in both, to protect value through boom or bust.

## Identifying the Trend in Global Stocks vs Bonds Returns (U\$)

(Trend uses a Hodrick-Prescott Filter to decompose the series into trend and cyclical components)



David Bowers and Ian Harnett of Absolute Strategy Research (ASR) point out how this cycle has changed since the GFC. Equity outperformance has become the norm, to the point where many investors now think rising stock markets are secular, not cyclical. There have been stock market downturns in that time but, in many of these periods, stock and bond prices have been *positively* correlated, not the inverse.

This began with the post-GFC era of ultra-low interest rates and low growth – but strong expansion of corporate profit margins. The world has seen stronger economic growth since the pandemic, especially in the US, accompanied by phenomenal earnings growth. This year, bond yields have soared and stocks continued to motor ahead, largely powered by AI-related earnings growth.

This is not the first time that the bond-equity relationship has broken down. After the collapse of the gold standard in the 1970s, repeated inflation shocks and a sea change in the monetary policy regime, bond yields rose even as stock prices fell. The combination of high inflation and stalling real growth detracted from bonds' value as a portfolio hedge.

### Entrenched investors

Following the US-Iran war and subsequent oil shock, bond yields have soared. Contrary to the narrative about inflation hitting bonds, it is actually real (inflation-adjusted) yields that have risen, while inflation expectations have stayed relatively low. But despite historically attractive real yields, investors are not being tempted to swap their stocks for bonds. After nearly two decades of equity outperformance, it looks like bond and equity investors are each entrenched in their camps, with little cross-asset movement.

People want to keep hold of their equities because they have been on such a long and prosperous run. When you factor in the volatility in bond prices in the last few years, the risk-adjusted returns for stocks look much better than bonds – even if the interest the bonds pay out is high.

In the low rates, quantitative easing era, the feedback loop into stock markets made sense. Investors could borrow cheaply to buy equities, which increased their price-to-earnings valuations, and hence improved those investors' leverage ratios – allowing them to borrow even more to buy.

That process is much harder when rates go up. It is even harder if, just as now, companies themselves start issuing more equity – increasing the pool of available assets, while central banks tighten the pool of available capital. And yet, despite those challenges, higher borrowing costs have not led investors to sell their stocks.

### **Outperformance can't last forever – but timing is everything**

The reason equity holders do not want to sell is obvious: everyone thinks AI will keep delivering double-digit earnings growth for years to come. AI companies themselves seem impervious to higher rates, so it is hard to bet against tech stocks. Meanwhile, AI companies' huge corporate bond issuance is also sapping capital from government bond markets – making it hard to bet on yields coming down.

It is naïve to think that things will always be like this, though. Earnings growth and profit margins cannot expand forever. ASR points out that it is not just the usual policy variables – interest rates or government spending – that affect the global financial landscape. It is also the intangibles, like the US government's effective underpinning of the global financial system through trade and the dollar system. Those intangibles look more uncertain now than they have in decades.

If investors do finally migrate from stocks to bonds, it will be because the outlook for equity returns looks worse than the returns available in bond markets. That would happen if, for example, the global energy shock hampered company earnings while bond yields stayed at their historic highs.

Regardless, it would be a bold call to predict the end of stocks' long reign. Many have made that prediction in the last 17 years and been proven wrong. We do not think the switch is imminent but, with global instability and historically cheap bonds, equity risks look greater than they have for some time.

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| Global Equity Markets | 18-Sep |          |                | Technical |        | Valuations |        |        |                |
|-----------------------|--------|----------|----------------|-----------|--------|------------|--------|--------|----------------|
| Market                | Level  | % 1 Week | % 1 Week (GBP) | Short     | Medium | Div YLD %  | LTM PE | NTM PE | 10Y AVG NTM PE |
| UK FTSE 100           | 10682  | +0.2     | +0.2           | →         | ↗      | 3.2        | 14.0   | 12.7   | 12.6           |
| UK FTSE 250           | 24250  | +1.1     | +1.1           | →         | ↗      | 3.4        | 9.1    | 12.8   | 13.0           |
| UK FTSE All-Share     | 5756   | +0.3     | +0.3           | →         | ↗      | 3.2        | 13.1   | 12.7   | 12.6           |
| FTSE Small x Inv_Tsts | 6603   | -0.1     | -0.1           | →         | ↗      | 4.2        | 21.2   | 9.8    | 9.9            |
| EU STOXX ex UK        | 809    | -0.8     | -0.6           | →         | ↗      | 2.9        | 17.0   | 15.2   | 15.1           |
| France CAC 40         | 8064   | -1.5     | -1.3           | ↘         | ↗      | 3.1        | 16.1   | 13.8   | 14.1           |
| Germany DAX 40        | 25354  | -0.7     | -0.6           | →         | ↗      | 2.5        | 17.5   | 14.9   | 13.4           |
| US S&P 500            | 7628   | -0.5     | +0.9           | ↗         | ↗      | 1.1        | 23.3   | 19.1   | 19.1           |
| US NASDAQ comp        | 26390  | +0.1     | +1.5           | →         | ↗      | 0.5        | 31.1   | 23.5   | 26.2           |
| Japan Nikkei 225      | 65019  | +1.6     | +0.1           | ↘         | ↗      | 1.3        | 21.1   | 20.6   | 18.8           |
| World Bloomberg       | 2627   | -0.8     | +0.5           | →         | ↗      | 1.5        | 20.4   | 16.4   | 16.7           |
| China Bloomberg       | 1263   | +0.2     | +1.5           | →         | →      | 2.4        | 13.8   | 11.4   | 12.5           |
| Emerging Bloomberg    | 1818   | -0.8     | +0.5           | ↘         | ↗      | 2.1        | 15.3   | 10.2   | 12.4           |

| FTSE100 Top 6  |      | S&P Global Top 6                |       | (GBP terms) | Global Sectors |      |             | (GBP terms) |
|----------------|------|---------------------------------|-------|-------------|----------------|------|-------------|-------------|
| Company        | %    | Company                         | %     |             | Sector         | %    | Sector      | %           |
| Barratt Redrow | +7.9 | Revvity                         | +19.1 |             | Tech           | +1.5 | Staples     | +0.4        |
| BAE Systems    | +7.6 | Crowdstrike                     | +15.6 |             | Financials     | -1.0 | Energy      | -0.1        |
| AstraZeneca    | +6.9 | United Microelectronics         | +11.9 |             | Health         | +2.9 | Materials   | -1.1        |
| GSK            | +5.7 | Lasertec                        | +11.5 |             | Discretionary  | -0.5 | Utilities   | -0.8        |
| Persimmon      | +5.5 | Alexandria Real Estate Equities | +11.3 |             | Industrials    | -0.4 | Real_Estate | -0.7        |
| Sage           | +5.4 | Recruit                         | +10.3 |             | Communications | +1.9 |             |             |

| FTSE 100 Bottom 6      |      | S&P Global Bottom 6        |       | (GBP terms) | Fixed Income      |        |          |
|------------------------|------|----------------------------|-------|-------------|-------------------|--------|----------|
| Company                | %    | Company (GBP terms)        | %     |             | Govt bond         | %Yield | 1 wk chg |
| Glencore               | -7.7 | JB Hunt Transport Services | -11.7 |             | UK 5yr Gilt       | 4.93   | +0.03    |
| Airtel Africa          | -7.1 | Charter Communications     | -10.0 |             | UK 10yr Gilt      | 5.31   | -0.03    |
| JD Sports Fashion      | -5.2 | Comcast                    | -9.6  |             | UK 15yr Gilt      | 5.58   | -0.07    |
| Marks & Spencer        | -5.1 | Stellantis                 | -9.1  |             | US 10yr Treasury  | 5.00   | +0.05    |
| Barclays               | -4.9 | Doosan Enerbility          | -8.6  |             | France 10yr OAT   | 4.57   | +0.11    |
| Metlen Energy & Metals | -4.7 | Corning                    | -8.4  |             | Germany 10yr Bund | 3.53   | +0.02    |
|                        |      |                            |       |             | Japan 10yr JGB    | 2.97   | -0.00    |

| Currencies      |        |      | Commodities     |        |      | UK Mortgage Rate Estimates |        |        |
|-----------------|--------|------|-----------------|--------|------|----------------------------|--------|--------|
| Pair            | last   | %1W  | Comdty          | last   | %1W  | Rates (LTV c.75%, no fee)  | 18-Sep | 19-Aug |
| USD per GBP     | 1.335  | -1.3 | Oil Brent \$:bl | 104.89 | -0.1 | UK BoE base rate           | 3.75   | 3.75   |
| GBP per EUR     | 0.859  | +0.0 | Gold \$:oz      | 4352   | -0.7 | 2yr fixed                  | 5.08   | 4.79   |
| USD per EUR     | 1.146  | -1.3 | Silver \$:oz    | 66.22  | +2.0 | 3yr fixed                  | 5.07   | 4.68   |
| JPY per USD     | 157.81 | +2.8 | Copper \$:lb    | 665.8  | +1.4 | 5yr fixed                  | 4.98   | 4.61   |
| CNY per USD     | 6.700  | -0.1 | Alumnm \$:mt    | 3322   | +1.7 | 10yr fixed                 | 5.45   | 5.17   |
| USD per Bitcoin | 80,269 | +1.6 | Agriculture BBG | 62.47  | -2.4 | Standard variable          | 6.60   | 6.60   |

Where possible, prices taken levels at 18 September 3:00 PM and 11 September 3:00 PM. Mortgage rates from moneyfacts.co.uk  
LTM PE is the index price as a ratio of last 12 months earnings. NTM PE is next 12 months earnings.

**Please note:** Data used within the Personal Finance Compass is sourced from Bloomberg/FactSet and is only valid for the publication date of this document. The value of your investments can go down as well as up and you may get back less than you originally invested.

Lothar Mentel

