

The Weekly Market Brief

10/04/2026

After a short break of almost two months, The Weekly Market Brief is back, and I am very happy to welcome you to this week's edition. As always, thank you for the continued feedback and support so far. This week once again brought a lot to cover across deal activity, markets and economic policy, with Paramount clearing the final hurdle for its Warner Bros Discovery takeover, rejected approaches for Northern Star and Evonik, the U.S. 10-year Treasury yield reaching its highest level since 2002, oil prices holding above \$100, a record buyback from Nvidia and a surprisingly weak U.S. jobs report all shaping the broader picture. As usual, I have tried to focus on the developments that felt most relevant and interesting, while picking out the key stories that may matter most for investors and the global economy in the weeks and months ahead.

M&A activity - Deal of the Week

M&A activity remained active this week, with several notable developments across mining, chemicals and media. A key theme was the search for scale in industries where size increasingly determines bargaining power, cost efficiency and access to capital, even as rising borrowing costs make valuations tougher. Northern Star rejected a takeover approach from Gold Fields that would have created the world's second-largest gold producer, Evonik rebuffed BASF's approach for a major German chemicals combination, and the Paramount Skydance and Warner Bros Discovery merger stood out as the week's most important development because it cleared its final legal hurdle and is now set to reshape Hollywood and U.S. news media.

Key M&A Developments

One of the most closely watched developments this week came from the mining sector, where Australia's Northern Star Resources rejected a takeover approach from South Africa's Gold Fields worth A\$38.7 billion, or approximately \$27.1 billion. Under the proposal, Northern Star shareholders would have received 0.3125 Gold Fields shares plus A\$7.25 in cash for each share. The offer was worth A\$27.00 per share when it was made in mid-September, but only A\$25.19 at the most recent close, a premium of just 14%, while takeovers in Australia typically carry premiums of 30% or more. Northern Star's chair described the timing as "highly opportunistic" and said the price falls well short of the company's value. Strategically, the combination would have created the world's second-largest gold producer behind Newmont, with around 4.1 million ounces of annual output and A\$3.7 billion in expected synergies. The story is not necessarily over, however. Activist investor Elliott argued that the board has an obligation to engage with any serious buyer, and Northern Star's shares rose 6.2% while Gold Fields fell sharply, suggesting that investors expect further negotiations.

Another notable development came from the German chemicals sector, where Evonik rejected a non-binding takeover approach from BASF. According to the Financial Times and Reuters, BASF offered €22.15 per share, valuing Evonik at around €10.3 billion, or approximately \$11.7 billion, and around €14.2 billion including debt. The offer represented a premium of nearly 29% to Evonik's share price before speculation began. Evonik's board judged the proposal insufficient to merit formal negotiations or to grant access to due diligence. Strategically, BASF is looking for European scale to better compete with large global rivals such as Dow and Sinopec at a time when European chemical companies are under heavy

pressure from high energy costs and weak demand. The key player in the process is the RAG-Stiftung foundation, which holds around 44% of Evonik and will effectively decide whether a deal can happen. For investors, the approach shows that consolidation in Europe's struggling chemicals industry is moving from theory to practice.

This Week's Deal of the Week: Judge Allows Paramount to Close Warner Bros Deal

This week's Deal of the Week is Paramount Skydance's \$110 billion acquisition of Warner Bros Discovery, which cleared its final legal obstacle after a U.S. judge approved Paramount's settlement with a coalition of 12 states led by California. The transaction, which includes around \$80 billion of combined debt, was announced in February, approved by Warner Bros Discovery shareholders in April and cleared by the U.S. Department of Justice in June. The remaining state lawsuit was the last major barrier, and with its settlement approved, the deal is now expected to close within days. On Friday, David Ellison also revealed that the combined company will be named Skydance.

The reason this deal stands out is that it is the largest M&A transaction of the year and one of the most important media combinations in decades. It brings together two of Hollywood's oldest studios, Paramount Pictures and Warner Bros., together with major television networks, the streaming services Paramount+ and HBO Max, and two of America's most prominent news organizations, CBS News and CNN. In an industry that has been reshaped by streaming, cord-cutting and competition from technology giants, the deal is a clear bet that only companies with very large content libraries and global distribution can compete effectively in the long term.

Strategically, the logic is built around scale. Netflix, Amazon, Apple and YouTube have changed how audiences consume entertainment and have far greater financial resources than most traditional media companies. By combining the Paramount and Warner Bros. libraries, franchises and streaming platforms, Skydance aims to build a business that can compete for subscribers, advertising budgets and talent on a more equal footing. The company has set a target of around \$6 billion in cost savings, which would come from combining overlapping operations, technology platforms, marketing and back-office functions.

The structure of the settlement is also important. Instead of forcing the sale of major assets, the states accepted a set of behavioral commitments. Skydance must release at least 30 films a year in U.S. theaters for five years and spend an additional \$300 million a year on U.S. production. If the company misses its film quota, it could be forced to sell Miramax. It must also negotiate basic cable distribution deals separately for each company's channels and establish a board of journalists to oversee the editorial independence of CBS News and CNN. Separately, Paramount settled an antitrust lawsuit from the Writers Guild by contributing \$17.5 million to the guild's health fund.

These conditions show what regulators and states were most concerned about. The states had argued that the merger would create "a media behemoth capable of driving up film and TV prices." Theater owners feared fewer releases, creative workers feared job cuts and lower pay, and politicians from both sides raised concerns about the concentration of news media under one owner. The settlement tries to address each of these concerns without breaking up the deal. California's attorney general described it as a strong antitrust outcome, while critics argued that it lacks meaningful structural remedies.

Leadership is another important part of the story. Mattel CEO Ynon Kreiz joins as co-CEO alongside David Ellison, who remains chairman and chief executive. Kreiz is known for turning Mattel's brands into successful film franchises, most notably with Barbie, which fits well with the plan to make greater use of the combined company's intellectual property across film, television, streaming and consumer products. The choice signals that the new company intends to focus heavily on franchise management and brand monetization.

The main opportunity lies in the combined content library and the potential to create a stronger streaming business. HBO Max and Paramount+ have both struggled to match Netflix in scale and profitability. A combined platform with HBO, Warner Bros., DC, Paramount, Nickelodeon and CBS content could reduce churn, increase pricing power and attract more advertising revenue. Combining two major film studios could also strengthen bargaining power with cinemas, distributors and licensing partners, while the cost savings could improve margins if they are delivered on schedule.

There is also a broader market opportunity. Traditional media companies have traded at depressed valuations for years because investors doubted their ability to compete with technology platforms. If Skydance manages to show that a combined legacy media company can grow profits and generate stable cash flows, it could support valuations across the sector and encourage further consolidation among the remaining mid-sized media groups.

However, the risks are significant. The most obvious challenge is debt. The combined company carries around \$80 billion of debt, and Paramount has had to raise very large amounts of new financing at a time when the 10-year Treasury yield is at its highest level since 2002. Higher interest costs could absorb a meaningful part of the expected savings and limit flexibility for investment in content. If the advertising market weakens or streaming growth disappoints, the high leverage could quickly become a burden.

Integration risk is also important. Combining two large studios, multiple television networks and two streaming platforms is a complex task. Warner Bros Discovery itself was the product of a difficult merger only a few years ago, which involved large write-downs, cost cuts and cultural tensions. Achieving \$6 billion in savings will likely require job cuts and restructuring, which may face resistance from unions and creative talent. At the same time, the company must keep producing successful content, because cost savings alone cannot create long-term value in the entertainment industry.

Political and reputational risks remain as well. The combination of CBS News and CNN under one owner is highly sensitive, and the editorial independence board will be closely watched. Any perception that news coverage is being influenced by business or political interests could damage both brands and lead to renewed regulatory scrutiny. In addition, the behavioral commitments on film releases and production spending limit management's flexibility and could become costly if the box office weakens.

Overall, the Paramount and Warner Bros Discovery merger stands out because it marks the end of a long regulatory battle and the beginning of a new era for Hollywood. The strategic logic is clear: greater scale, a deeper content library and a stronger position against technology giants in streaming. If Skydance can integrate the businesses, deliver the planned savings and manage its high debt load, it could become one of the most powerful players in global entertainment. If integration proves difficult or higher interest rates weigh on cash flows, however, the company may struggle under the weight of its own size. For that reason,

the deal is both a bold strategic move and a major test of whether traditional media can still compete through consolidation.

Market Movements

Market movements this week were shaped by a deepening global bond selloff, continued volatility in oil prices linked to the conflict with Iran, renewed strength in AI-related technology stocks and a weaker-than-expected U.S. jobs report that cooled expectations of an immediate Fed rate hike. While the Nasdaq managed a weekly gain and reached a record, the S&P 500 and the Dow ended lower for the fourth time in five weeks as rising yields weighed on more rate-sensitive parts of the market. At the same time, European equities had their worst week since April, and investors continued to assess how much higher borrowing costs the economy can absorb.

Key Market Movements This Week

U.S. equities ended the week mixed after a strong Friday rally. On Friday, the S&P 500 rose 0.73% to 7,722.72, the Nasdaq gained 1.19% to 27,190.86 and the Dow Jones Industrial Average added 0.49% to 51,176.96, as the soft September jobs report reduced expectations of another rate hike in October. For the week, however, the S&P 500 slipped 0.27% and the Dow fell 1.26%, while the Nasdaq rose 0.45%. The divergence shows that investors remain willing to pay for growth and AI exposure, but are increasingly cautious toward sectors that are more sensitive to higher interest rates and slower economic activity.

The most important driver of market sentiment was the bond market. The yield on the 10-year U.S. Treasury rose to 5.34% on Thursday, the highest level since 2002, after posting the largest quarterly increase this century in the third quarter. The 30-year yield also climbed to its highest level since 2002. Although yields eased somewhat after the jobs report, the 10-year still ended the week around 12 basis points higher at roughly 5.28%, while the 2-year yield declined slightly. This shows that the pressure is concentrated at the long end of the curve, which is why the bond market is this week's focus topic.

Energy markets remained highly volatile. Brent crude ended the week at \$102.25 a barrel, broadly unchanged for the week, while WTI settled at \$91.11, down around 1.6%. Oil prices jumped early in the week after President Trump rejected Iran's peace proposal, and rose by around 4% on Thursday after reports that Chinese refiners had halted fuel exports and that the U.S. was sending a third aircraft carrier and additional troops to the Middle East. On Tuesday, three tankers were hit by unknown projectiles while transiting the Strait of Hormuz. Prices then eased on Friday after Europe agreed to release diesel and crude stocks, with France proposing a coordinated release of around 100 million barrels through the International Energy Agency.

Oil markets therefore remain caught between two competing forces. On the one hand, the conflict with Iran has now entered its seventh month, Gulf exports remain well below normal levels and every new attack on shipping increases the risk premium. On the other hand, emergency stock releases and partial recoveries in Gulf exports are limiting the upside. Analysts in a Reuters poll raised their 2026 forecasts, now expecting Brent to average around \$89 for the year, with one analyst noting that markets are "not betting on a resolution to the conflict within the next three to six months." U.S. drilling activity remained broadly stable, with the oil rig count rising by one to 456.

AI infrastructure remained one of the most important market themes. Nvidia added a record \$150 billion to its share buyback program, bringing its total authorization to around \$235 billion and surpassing Apple's previous record of \$110 billion. The move comes at a time when Nvidia's stock has gained only around 20% this year, lagging rivals such as AMD and Intel, and trades at around 16.5 times forward earnings, its lowest multiple in more than a decade. By Friday, Nvidia reached a record high with a market value of around \$5.7 trillion, suggesting that investors welcomed the buyback as a signal of confidence in the durability of AI demand.

Memory chips also delivered strong results. Micron reported quarterly revenue of \$54.2 billion, compared with \$11.3 billion a year earlier, and guided for revenue of around \$61.5 billion in the current quarter. The company also pointed to \$32 billion in customer commitments under its supply agreements, and its shares rose 3% on Thursday. The results confirmed that demand for high-bandwidth memory and data-center infrastructure remains extremely strong, even as investors debate how long the AI spending cycle can continue at its current pace.

The AI capital-markets story also moved forward. Reuters reviewed Anthropic's draft IPO prospectus, which showed revenue of \$4.6 billion in 2025, an operating loss of around \$8 billion and compute commitments of \$518 billion over the next ten years. The company is reportedly targeting a valuation above \$2 trillion and a Nasdaq listing as early as mid-November. The filing also showed that Broadcom will lend Anthropic up to \$42 billion through convertible notes to finance chip leases, highlighting the growing role of so-called circular financing, where chip suppliers help finance their own customers. This raises the question of how much of the AI boom is supported by vendor financing rather than end demand.

Consumer stocks sent more mixed signals. Carnival reported record quarterly net income of \$1.9 billion and raised its full-year outlook, sending its shares up by more than 12% on Tuesday and around 15% for the week, the best performance in the S&P 500. This shows that demand for travel and leisure remains resilient despite higher fuel costs. Nike, by contrast, fell 4.5% on Friday after quarterly revenue missed estimates, sales in China dropped 26% and the company forecast a high-single-digit revenue decline for the year along with further job cuts. Cal-Maine Foods reported a quarterly loss after conventional egg prices fell by around 59% due to oversupply.

The auto sector also showed mixed signals. Tesla's third-quarter deliveries of 486,532 vehicles beat expectations, and its shares rose on Friday. U.S. car sales, however, declined by around 1% in the third quarter, with General Motors reporting a 5.5% decline in sales and a 62% drop in electric-vehicle sales. With gasoline prices averaging \$4.43 a gallon in September compared with \$3.20 a year earlier, hybrid sales surged, showing how strongly higher energy prices are already influencing consumer behavior.

In Europe, equities came under significant pressure. The STOXX 600 fell around 1.9% over the week, its worst weekly performance since April, after a 1.3% drop on Thursday when global bond yields surged. Banks were hit particularly hard, with the sector index falling 3.7% on Thursday and HSBC, Barclays and Lloyds each losing more than 4%. Euro-zone inflation came in above forecasts, and markets now see a high probability of an ECB rate hike in December. Technology stocks provided some support on Friday, with chipmakers such as Infineon gaining strongly on renewed AI enthusiasm.

Asian markets were also mixed. Japan's Nikkei gained around 2.9% over the week, its third consecutive weekly gain, despite a decline on Friday. Hong Kong's Hang Seng Index, by contrast, fell 2.6% on Friday, its steepest daily drop since March, as financial and technology heavyweights such as HSBC, AIA, Alibaba and JD.com declined, leaving the index down 2.2% for the week. South Korea's Kospi rose to around 7,000, supported by a sharp increase in chip exports.

Other asset classes reflected the stronger dollar and higher yields. Gold fell around 3.4% for the week, its second consecutive weekly decline, as higher real yields and a firmer dollar reduced the appeal of non-yielding assets. The dollar index reached its highest level since April 2025 on Thursday and gained around 0.7% over the week. Bitcoin traded around \$85,400, little changed for the week, as crypto markets continued to trade cautiously in an environment of rising interest rates.

Focus Topic: U.S. 10-Year Treasury Yield Hits Highest Level Since 2002

This week's focus topic is the global bond selloff, which pushed the yield on the 10-year U.S. Treasury to 5.34%, its highest level since 2002 and above the peak reached before the global financial crisis in 2007. The move followed the largest quarterly increase in the 10-year yield this century, with yields rising by around 87 basis points in the third quarter alone. The 30-year yield also climbed to its highest level since 2002, and the selloff was not limited to the U.S. In the U.K., 30-year gilt yields rose above 6% for the first time since 1998, Germany's 10-year yield reached its highest level since 2009, and French 10-year yields rose to their highest level since 2002.

The reason this matters is that government bond yields are the foundation of almost every other price in financial markets. They determine borrowing costs for governments, companies and households, influence the discount rates investors use to value stocks, and shape the attractiveness of bonds relative to equities. When the 10-year yield rises above 5%, it puts pressure on mortgage rates, corporate financing costs and equity valuations at the same time. This week, the average 30-year fixed mortgage rate in the U.S. rose to 7.28% from 7.03% a week earlier, illustrating how quickly higher yields are passed on to the real economy.

There are several reasons behind the selloff. The most important is inflation. The conflict with Iran and the disruption in the Strait of Hormuz have kept oil above \$100 a barrel, pushing up energy and transport costs across the global economy. The Federal Reserve responded with a rate hike in September, and before the jobs report markets were pricing up to three more hikes before mid-2027. As one investor summarized it at the start of the week, "Iran is driving oil prices, and oil prices are driving inflation, and inflation is driving interest rates."

The second reason is the growing supply of debt. Large government deficits in the U.S. and Europe mean that governments need to sell more bonds, while the AI boom is creating enormous funding needs as companies finance data centers, chips and power infrastructure. Analysts at HSBC argued that "large government deficits and enormous funding demand from the AI sector are also pressuring interest rates higher." At the same time, investors are demanding more compensation for holding long-term bonds in an environment of uncertain inflation. One strategist put it bluntly: "We don't have enough buyers who want to buy bonds and that's not helping."

Market positioning also played a role. A strategist at State Street noted that there did not appear to be one specific trigger for Thursday's move and that it felt as if positions had been stopped out. In other words, once yields broke above key levels, investors who had been betting on lower yields were forced to sell, which accelerated the move. This explains why the selloff gathered pace even without major new economic data.

The interesting part of this week is what happened after the weak U.S. jobs report. Payrolls rose by only 29,000 in September, and expectations for an October rate hike fell sharply. Short-term yields declined, as would be expected. However, the 10-year and 30-year yields still ended the week higher. This so-called bear steepening shows that the bond market is not only worried about the next Fed decision, but also about longer-term inflation risks, government finances and the overall supply of debt. Even a softer economy is therefore not automatically bringing long-term yields down.

The effects are already visible in equity markets. Rate-sensitive sectors such as European banks have come under pressure, while the Dow and the S&P 500 posted another weekly decline. Technology stocks have been more resilient because strong AI-related earnings growth can partly offset higher discount rates, but even there, valuations become harder to justify when risk-free assets offer yields above 5%. Corporate borrowing has also become more expensive. Global M&A volumes fell by 41% in the third quarter, and bankers noted that higher yields make valuations "a little tougher."

At the same time, higher yields create pressure on governments. Rich-world governments now face an annual interest bill estimated at around \$3.3 trillion, and every further increase in yields makes it more difficult to finance deficits, defense spending and energy subsidies. This is one reason why some market participants argue that the bond market will only calm down if governments take harder decisions on spending. It also explains why the issue has become politically sensitive in countries such as the U.K. and France, where fiscal credibility is already under scrutiny.

There are, however, also arguments that the selloff may be nearing its end. One strategist described the move as "the Treasury bear market that had to happen," adding that "the end is in sight." Yields above 5% are attractive for long-term investors such as pension funds and insurers, and a slowing labor market could eventually reduce inflation pressure. If oil prices stabilize and the Fed signals that it is close to the end of its tightening cycle, long-term yields could fall back. The risk is that higher yields first tighten financial conditions enough to cause a broader economic slowdown, as some investors warned this week.

Overall, the move in the 10-year Treasury yield to its highest level since 2002 stands out because it connects almost every major theme in markets right now: the energy shock from the Middle East, the Fed's fight against inflation, rising government debt and the enormous financing needs of the AI boom. The key question now is whether the selloff is reaching its peak or whether yields will continue to rise as inflation remains elevated and debt supply keeps growing. If yields stabilize, equities and credit markets could regain momentum. If they keep climbing, investors may face a more difficult environment in which higher borrowing costs gradually weigh on valuations, corporate investment and economic growth.

Risks and Opportunities for Investors

For investors, the main opportunity this week is that yields on high-quality bonds have reached levels not seen in more than two decades. A 10-year Treasury yield above 5% allows investors to lock in attractive long-term returns with relatively low credit risk, and if the economy slows further, bonds could also benefit from price gains. At the same time, the AI infrastructure cycle continues to deliver strong results. Nvidia's record buyback, Micron's exceptional earnings and the Anthropic IPO plans all suggest that demand for chips, memory and data-center infrastructure remains robust, creating opportunities in companies with clear exposure to AI bottlenecks.

There are also opportunities in selected energy, travel and media names. Oil prices above \$100 continue to support producers, oil-services companies and infrastructure assets, while Carnival's record results show that demand for travel remains resilient. In media, the completion of the Paramount and Warner Bros Discovery merger could create a stronger competitor in streaming, and consolidation themes in mining and European chemicals, highlighted by the Gold Fields and BASF approaches, may continue to create opportunities around potential takeover targets.

The risks, however, are still meaningful. Rising long-term yields put pressure on equity valuations, especially for companies with high debt levels or weak cash flows. Highly leveraged transactions, such as the Paramount and Warner Bros Discovery deal, become more expensive to finance, and corporate bond markets showed signs of strain as borrowing costs increased. In the AI sector, the growing use of vendor financing, such as Broadcom's loan to Anthropic, raises questions about how much of the current demand depends on suppliers financing their own customers. If expectations become too high, even strong earnings may not be enough to support valuations.

Geopolitical and energy risks also remain central. The conflict with Iran shows no clear sign of resolution, tankers are still being attacked in the Strait of Hormuz and the U.S. is increasing its military presence in the region. If the conflict escalates, oil prices could rise sharply and push inflation and yields even higher. Consumer companies are particularly exposed, as Nike's weak outlook and the shift toward hybrids in the auto market show. Finally, central banks are still in tightening mode. If inflation remains sticky, the Fed and the ECB may raise rates further, which would weigh on growth stocks, credit markets and economic activity.

Looking Ahead

Looking ahead, markets will likely focus on whether the bond selloff can stabilize. The 10-year Treasury yield at 5.34% marked a new 24-year high this week, and the next moves in long-term yields will be crucial for equities, credit and the housing market. Investors will watch upcoming inflation data, Fed communication ahead of the October 27-28 meeting and government bond auctions to judge whether demand for long-term debt is improving. If yields ease, equities could regain momentum. If they continue to climb, pressure on valuations and borrowing costs is likely to increase.

Energy markets will also remain important. Oil prices are still above \$100 a barrel, and the situation in the Strait of Hormuz remains fragile. The coordinated release of European stocks may provide some short-term relief, but it does not solve the underlying supply problem. Any progress in negotiations with Iran could bring prices down quickly, while further attacks on shipping or a broader military escalation could push them sharply higher and revive inflation concerns.

The corporate calendar will also matter. The Paramount and Warner Bros Discovery merger is set to close, Anthropic's public IPO filing could appear in the coming weeks, and the third-quarter earnings season will soon begin with the major U.S. banks. Investors will watch closely whether companies can maintain margins in an environment of higher energy and financing costs. Overall, this week showed that the market is still willing to reward strong structural themes such as AI infrastructure, but it is also becoming increasingly sensitive to interest rates, energy prices and geopolitical risk. The coming weeks will show whether the latest rebound on Friday can hold or whether higher yields continue to dominate the market.

Economic Policy Shifts & Other Key Developments

Economic policy and macro developments this week were shaped by a surprisingly weak U.S. labor-market report, a sharp rise in euro-zone inflation, renewed pressure on the German economy and a further pause by OPEC+. A key theme was that central banks are still fighting an energy-driven inflation shock while growth is beginning to lose momentum. The Federal Reserve, the European Central Bank and the Bank of Japan have all raised rates in recent months, but this week's data showed how difficult the balance has become: inflation is moving higher in Europe, input prices are surging in the U.S., and at the same time hiring is slowing and unemployment is rising on both sides of the Atlantic.

One of the most important developments came from the U.S. labor market. Nonfarm payrolls rose by only 29,000 in September, far below the 90,000 economists had expected, and August was revised down to 133,000 from the 162,000 first reported. The unemployment rate rose to 4.2% from 4.1%, while average hourly earnings increased by only 0.1% from the previous month. Economists partly blamed seasonal-adjustment quirks, including the late timing of Labor Day, but the report still marked a clear slowdown compared with the solid hiring seen earlier in the year. As one strategist put it, "This wasn't a firecracker of a report; it was more like a dud."

The reason this matters is that the report directly changes the outlook for monetary policy. After the Fed raised rates by 25 basis points in September to a range of 3.75% to 4.00%, investors had been pricing a high chance of another increase at the October 27-28 meeting. Following the jobs report, the probability of an October hike fell to roughly one in five or lower, down from around two-thirds a week earlier. At the same time, the labor market is not collapsing. Initial jobless claims remain near historic lows, corporate profits are still growing and slower population growth, retirements and tighter immigration mean that the economy now needs only around 50,000 to 80,000 new jobs a month to keep pace with the working-age population.

Fed officials had already started to cool expectations of an immediate move before the data was released. New York Fed President John Williams said that "there is no need for urgency," although he suggested one more hike may be appropriate later this year. Vice Chair Philip Jefferson stressed that future adjustments should depend on a careful examination of the data, while Dallas Fed President Lorie Logan described the September hike as a "first step" and argued that roughly another half percentage point of tightening may be needed. The overall message is that the Fed still leans toward tighter policy, but it is no longer in a hurry, and December now looks more likely than October for the next move.

The difficulty for the Fed is that inflation pressure is still building beneath the surface. The ISM manufacturing index came in at 54.5 in September, broadly unchanged and still signaling

solid expansion, supported by AI-related investment and inventory rebuilding. However, the prices-paid component jumped to 77.9 from 71.1, reflecting record diesel prices and continued supply disruptions linked to the Middle East conflict. This combination of softer hiring and rising input costs has a stagflationary flavor. It explains why policymakers want to keep the door to further hikes open, even as the labor market cools.

In Europe, inflation moved sharply higher. Euro-zone flash inflation rose to 3.8% in September from 3.2% in August, above expectations of 3.6% and the highest level in around three years. The increase was driven mainly by fuel, natural gas and food prices, while core inflation edged up only slightly to 2.5%. National data released earlier in the week showed the breadth of the move, with inflation reaching 3.4% in France, 4.1% in Italy, 3.3% in Germany and 5.0% in Spain. Economists warned that with no resolution of the Middle East tensions in sight and winter approaching, a correction in energy prices is unlikely any time soon.

For the European Central Bank, this creates a complicated backdrop. The ECB has already raised its deposit rate twice since the summer to 2.5%, and markets are pricing further increases over the next year. ECB President Christine Lagarde said this week that the bank sees “higher inflation ahead but no signs yet that it is becoming embedded,” adding that a measured response remains appropriate. Because core inflation is still contained and there is little evidence of energy prices feeding into wages, markets see only a small chance of a hike at the October meeting, with the next move more likely in December or January. However, some economists argued that a further rise in energy prices could still make an October move possible. Widening French government bond spreads add a financial-stability dimension that may make the ECB more cautious.

Germany offered a less encouraging picture than earlier in the summer. Inflation rose to 3.3% in September, the highest level since December 2023, with energy inflation climbing to 14.9%. At the same time, seasonally adjusted unemployment increased by 12,000 to 3.01 million, pushing the number of jobless above the politically sensitive three-million mark for the first time since April. The head of the Federal Labour Office said that the economic improvement “is not yet reaching the labour market.” Economists at ING described inflation as primarily “an energy price phenomenon,” which could lead some ECB members to question the need for further tightening.

The German government is responding with targeted relief. Chancellor Merz’s government plans to cut fuel taxes by €0.17 per litre through December, which should temporarily dampen measured inflation. However, the measure only shifts part of the burden, and inflation is expected to rebound once the tax cut expires. More broadly, the German data shows how exposed Europe’s largest economy remains to energy prices. Higher costs are squeezing households and energy-intensive industry, while the labor market is weakening before the expected boost from defense and infrastructure spending has fully arrived.

Energy policy also remained in focus after OPEC+ decided on Sunday to keep its November output targets unchanged, the second consecutive monthly pause. The decision reflects the unusual situation in the oil market. Gulf producers are pumping well below their quotas because of the disruption in the Strait of Hormuz, with exports running at around 60% to 80% of normal levels. Output from the group’s seven core members was around 25 million barrels per day in August, roughly 5 million barrels per day below pre-war levels. In other words, the constraint on supply is not OPEC+ policy but physical access to export routes. The group also delayed a capacity review that will set production baselines for 2027 and will meet again on November 1.

In Asia, Japan's Tankan survey delivered a mixed signal. Sentiment among large manufacturers rose to +24, the highest level in eight years, supported by AI-related demand and easing supply constraints. However, sentiment among large non-manufacturers fell to +35 from +37, the first decline in five quarters. Companies' inflation expectations remained stable. After the Bank of Japan raised rates to 1.25% in September, the survey supported the case for further tightening over time, but not strongly enough to justify back-to-back hikes. Expectations for an October move therefore receded and the yen weakened.

Trade policy remained another source of uncertainty. A three-judge panel at the U.S. Court of International Trade heard a challenge from small businesses and 25 Democratic-led states against the 10% to 12.5% tariffs the administration imposed in July on 60 trading partners, including the European Union and China, using forced-labour authority. These tariffs were introduced after the Supreme Court ruled against the earlier emergency tariffs in February. A ruling is expected within weeks, and if the court strikes the tariffs down or demands more justification, it could once again reshape the U.S. trade landscape for importers and exporters.

Overall, this week's economic policy developments show a global economy caught between an energy-driven inflation shock and slowing growth. In the U.S., the weak jobs report reduced pressure for an immediate rate hike, but rising input prices mean the Fed cannot declare victory yet. In Europe, inflation is moving higher while Germany's labor market weakens, putting the ECB in a difficult position. OPEC+ is effectively sidelined because supply is constrained by geography rather than policy, and trade policy remains exposed to legal challenges. The key takeaway is that central banks are increasingly forced to choose between fighting inflation and protecting growth, and the path of energy prices will likely determine which risk proves more important in the months ahead.

A Few Words

This was an exciting week to return with, with a lot happening across markets, deal activity and economic policy. From Paramount's path to closing its Warner Bros Discovery takeover and the rejected approaches for Northern Star and Evonik to the global bond selloff, oil prices above \$100, Nvidia's record buyback and a surprisingly weak U.S. jobs report, there is still plenty to watch in the coming weeks and months. That is also why it will be worth coming back next week for another edition of The Weekly Market Brief.

As always, thank you to everyone who took the time to read this week's brief. I really appreciate the continued support, comments and feedback so far. If you have any thoughts, criticism or suggestions, feel free to leave a comment or reach out directly. And if you have not subscribed to the newsletter yet, make sure to do so to get notified when next week's Market Brief is published.

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