

The Weekly Market Brief

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Welcome back to this week's edition of The Weekly Market Brief, and 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 Schneider Electric's \$22.6 billion bet on PTC, the sale of Boots to the Weston family, SpaceX's spectrum deal shaking up telecom stocks, new record highs on Wall Street, another spike in Treasury yields and a stark warning from the IMF 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 retail, restaurants, logistics, healthcare and industrial technology. A key theme was again the search for scale and strategic positioning, but this time with a strong focus on data, software and artificial intelligence. The Weston family and Fairfax agreed to buy Boots, the Financial Times reported that Starbucks had explored a takeover of Chipotle, C.H. Robinson agreed to buy RXO for \$5.8 billion, and Schneider Electric's \$22.6 billion acquisition of PTC stood out as the week's most important development because it is a major bet on industrial AI and one of the largest European deals of the year.

Key M&A Developments

One of the most closely watched developments this week came from retail, where Sycamore Partners and the Pessina family agreed to sell Boots to Canada's Weston family and Fairfax Financial in a deal worth \$8.9 billion, or approximately £6.7 billion. The transaction covers Boots UK and Ireland, Boots Opticians, the No7 Beauty Company and the group's businesses in Thailand and franchise markets, while Sycamore keeps other parts of the former Walgreens Boots Alliance empire. Fairfax will contribute up to around \$2.3 billion and is expected to own half of the equity, while the Westons' Wittington Investments will have operational control and Galen Weston will become chairman. Strategically, the deal gives the family behind Loblaw and Shoppers Drug Mart a second major pharmacy and beauty platform, with more than 1,800 stores and over 50,000 employees. For Sycamore, which took Walgreens Boots Alliance private last year, the sale is an important step in monetizing the break-up of the group. The deal is expected to close in the first quarter of 2027.

Another notable development came from the restaurant sector, where the Financial Times reported that Starbucks had worked with advisers on a possible takeover proposal for Chipotle Mexican Grill in recent months. It is unclear whether a formal offer was ever made, and Starbucks said it does not comment on rumors and speculation. The story is particularly interesting because Starbucks CEO Brian Niccol ran Chipotle until 2024, and Chipotle's shares have roughly halved since he left. Chipotle's shares rose after the report, while Starbucks fell, suggesting that investors see a possible deal as more attractive for Chipotle shareholders than for Starbucks. For investors, the report shows that large consumer companies are looking for growth through acquisitions at a time when restaurant traffic is under pressure from high prices and weaker consumer confidence.

This Weeks Deal of The Week: Schneider Electric to Buy PTC in \$22.6 Billion Deal

This week's Deal of the Week is Schneider Electric's agreement to acquire PTC, the U.S. industrial software company, in an all-cash transaction worth around \$22.6 billion in equity value and \$23.7 billion including debt. Schneider will pay \$205 per share, a 42.3% premium to PTC's last closing price before the announcement. It is the largest acquisition in Schneider's history and one of the biggest deals by a European company this year. The French group plans to finance the transaction with around €5 billion to €6 billion of new shares and around €16 billion to €17 billion of new debt.

The reason this deal stands out is that it is one of the clearest attempts by an industrial company to position itself for the next phase of artificial intelligence. Much of the AI investment boom so far has focused on chips, data centers and large language models. Schneider is betting that the next wave of value will come from applying AI to factories, energy systems and industrial operations, and that the companies controlling the data behind these processes will be the winners. As CEO Olivier Blum put it, data is becoming a very critical layer for extracting value from AI.

Strategically, PTC fits this logic well. The Boston-based company makes computer-aided design and product lifecycle management software that manufacturers use to design, build and service their products. This gives PTC access to large amounts of engineering and product data across industries such as automotive, aerospace and industrial equipment. Schneider already owns AVEVA, the industrial software group, and agreed in June to buy the industrial data company Cognite. Adding PTC would create a much broader software platform that connects product design, manufacturing and the operation of industrial assets.

The deal also fits Schneider's broader transformation. Over the past years, the company has moved away from being seen mainly as a maker of electrical equipment such as breakers and switches toward becoming a provider of energy-management systems, data-center infrastructure and software. After the acquisition, software-as-a-service would account for around 24% of group revenue. Schneider expects around €250 million in annual cost synergies and around €800 million in revenue synergies, and says the deal should add to adjusted earnings per share already in the first full year.

The timing is also important. Software valuations have come under pressure this year because investors fear that AI could disrupt traditional software business models. Analysts at Jefferies noted that these fears are still weighing on the sector and argued that Schneider is buying PTC at a decade-low valuation. From this perspective, Schneider is using the weakness in software stocks to acquire a high-quality asset at a time when competition for such assets is lower.

The main opportunity lies in combining Schneider's global customer base with PTC's software. Schneider sells energy and automation products to factories, buildings, utilities and data centers around the world. If it can cross-sell PTC's design and lifecycle software to these customers and integrate it with AVEVA and Cognite, the group could offer an end-to-end digital platform for industrial companies. Analysts at Rothschild & Co Redburn noted that the targeted revenue synergies equal around a third of PTC's revenue, which shows how ambitious the plan is.

There is also a broader industry opportunity. Manufacturers are under pressure to become more efficient, reduce energy costs and make supply chains more resilient. Industrial AI tools that can simulate products, optimize production and predict equipment failures could become increasingly important. If Schneider succeeds in building a leading platform in this area, it

could achieve higher margins and more recurring revenue than in its traditional hardware business.

However, investors reacted very negatively. Schneider's shares fell by nearly 10% on the day of the announcement, wiping out around €15 billion of market value after the stock had gained 29% this year. The reaction shows that many shareholders were not convinced by the strategic logic. Reuters Breakingviews argued that the deal "takes an unambiguous AI winner and mixes in a possible loser," estimating that the return on the purchase price would be around 8%, below Schneider's cost of capital of roughly 9%. In other words, investors fear that Schneider is diluting its strong position in data-center infrastructure with a software business that may itself be disrupted by AI.

Financing is another important risk. The deal will be funded largely with new debt at a time when the 10-year Treasury yield is at its highest level since 2002 and borrowing costs have risen sharply. Analysts at RBC warned that the borrowing could revive concerns about Schneider's spending. The company has said it wants to maintain a strong credit rating, but higher leverage will reduce flexibility and is expected to lead to a pause in share buybacks. The planned share issuance will also dilute existing shareholders.

Integration and regulatory risks also remain. Schneider will need to integrate PTC alongside AVEVA and Cognite, which will be a complex task given the different cultures, products and customer relationships. Delivering the revenue synergies will depend on whether customers actually want to buy a combined offering. In addition, the transaction requires approval from PTC shareholders and regulators, and a French company buying a major U.S. software group may face careful scrutiny. Closing is expected by the third quarter of 2027, which means a long period of uncertainty.

Overall, Schneider Electric's acquisition of PTC stands out because it is a bold bet on industrial AI and on the value of industrial data. The strategic logic is clear: Schneider wants to become a leading platform for the digital and AI-driven transformation of industry, and it is buying PTC at a time when software valuations are depressed. If it can integrate the businesses, deliver the synergies and manage its higher debt load, the deal could reshape the company's long-term growth profile. If AI disrupts traditional software faster than expected or the synergies prove too ambitious, however, investors may be right to worry that Schneider has paid a high price for a risky asset. For that reason, the transaction is both a major strategic move and a test of whether industrial companies can capture value from AI beyond the data center.

Market Movements

Market movements this week were shaped by new record highs for the S&P 500 and the Nasdaq, another spike in long-term Treasury yields, renewed volatility in the AI trade, higher oil prices driven by tanker attacks and a hurricane in the Gulf of Mexico, and a sharp selloff in telecom stocks after SpaceX agreed to buy a major block of wireless spectrum. While investors continued to reward strong structural themes, the week also showed how quickly sentiment can shift when expectations around AI, energy or competition are challenged. At the same time, the start of the third-quarter earnings season highlighted the pressure that higher fuel costs are putting on corporate profits.

Key Market Movements This Week

U.S. equities ended the week higher. On Friday, the S&P 500 rose 0.6% to 7,811.54, the Dow Jones Industrial Average gained 0.8% to 51,654.95 and the Nasdaq added 0.6% to 27,366.17. For the week, the S&P 500 rose 1.2%, the Dow 0.9% and the Nasdaq 0.6%, its fourth consecutive weekly gain. Earlier in the week, the S&P 500 reached a record close of 7,818.93 on Tuesday, while the Nasdaq also set new records on Monday and Tuesday. Smaller companies lagged, with the Russell 2000 falling 0.9% for the week, reflecting their greater sensitivity to higher borrowing costs.

Deal activity provided an early boost. On Monday, PTC jumped by more than 33% after Schneider Electric agreed to buy the company for \$22.6 billion, while RXO rose sharply after C.H. Robinson agreed to acquire it. On Tuesday, Constellation Energy gained after agreeing a long-term power deal with Google, another sign that demand for electricity from data centers continues to reshape the utility sector. Paramount Skydance also completed its roughly \$110 billion acquisition of Warner Bros Discovery on Tuesday, with the combined company now operating under the name Skydance.

The bond market again played a central role. The yield on the 10-year U.S. Treasury rose to 5.364% on Wednesday, a new 24-year high and above last week's peak of 5.34%, while the 30-year yield also climbed to its highest level in 24 years. Drivers included higher oil prices, concerns about corporate debt supply linked to AI spending and a large 10-year Treasury auction. However, solid demand at the week's government bond auctions helped yields ease again, and the 10-year ended the week around 5.24%, slightly lower than a week earlier. The minutes of the Fed's September meeting, which showed that most officials see another hike as likely by year-end, kept markets focused on the December meeting.

The AI trade experienced another bout of volatility. On Thursday, the Nasdaq fell 1.3% after the Financial Times reported that OpenAI's annualized revenue reached around \$50 billion in September, roughly \$20 billion below what investors had estimated. Chip stocks fell sharply, with the Philadelphia Semiconductor Index dropping as much as 4% during the session and companies such as Arm, Intel, Marvell and Micron posting significant losses. The selloff showed how sensitive the market remains to any sign that AI revenues may not keep pace with the enormous investment in infrastructure. However, chip stocks recovered on Friday, with Nvidia and Microsoft gaining, suggesting that investors still view dips in the AI trade as buying opportunities.

Energy markets moved higher. Brent crude settled at \$104.72 a barrel on Friday, up around 2.4% for the week, while WTI ended at \$91.85, a gain of around 0.8%. Prices jumped by around 4% on Thursday after renewed attacks on tankers near the Strait of Hormuz and as Hurricane Isaias forced companies to shut in more than 60% of oil production in the U.S. Gulf of Mexico. Prices dipped briefly on Friday after President Trump said the U.S. would not attack Iran before the midterm elections and Iran said it was reviewing a U.S. response to its proposal to reopen the Strait of Hormuz within seven days. The U.S. also imposed sanctions on 17 more vessels carrying Iranian oil.

Oil markets therefore remain caught between hopes for diplomacy and continued physical disruptions. Tanker traffic through the Strait of Hormuz fell to a two-month low early in the week, while the hurricane added a new, if temporary, supply shock in the U.S. On the other hand, the possibility of a reopening plan for the strait shows that diplomatic channels remain active. U.S. drilling activity continued to increase, with the number of oil rigs rising by six to 462, as producers respond to prices that have remained above \$90 for months.

The third-quarter earnings season began with clear signs of pressure from energy costs. Delta Air Lines reported earnings and revenue below expectations and cut its annual profit forecast by nearly a quarter at the midpoint, as its fuel bill rose by around 62% to \$4.1 billion and came in \$500 million above its July guidance. The result shows how difficult it is for airlines to pass on higher fuel costs to customers, even when demand remains relatively stable. PepsiCo reported revenue above expectations, helped by its strongest global snack volume growth since 2021, but sharply lowered its earnings-growth outlook for the year, as weakness in North America and higher costs weigh on margins.

Healthcare stocks also saw notable moves. Humana rose 12% after the vast majority of its Medicare Advantage members were placed in plans with high star ratings for 2027, which determine bonus payments from the government. Moderna gained 9% to its highest level since 2021 following a report about a U.S. government cancer-vaccine initiative. Apple, by contrast, fell around 2% on Friday after a report that the company had asked suppliers to reduce production of components for its next iPhone Pro models because of higher memory costs and weaker demand.

In Europe, equities ended the week broadly flat after a volatile few days. The STOXX 600 fell to a near four-month low on Thursday as oil prices and bond yields surged, but rose 1% on Friday to eke out a small weekly gain. Euro-zone government bond yields hit multi-decade highs during the week, with French bonds under particular pressure because of fiscal concerns and protests against the budget, which pushed France's CAC 40 down around 1.2% for the week. Germany's DAX slipped around 0.6%, while the U.K.'s FTSE 100 gained around 0.9%. European automakers rose after the EU and China reached an agreement on Chinese hybrid car exports and rare-earth licensing, while telecom stocks fell sharply on Friday.

Asian markets were mixed. Japan's Nikkei briefly closed above 70,000 again on Tuesday but ended the week slightly lower, while Hong Kong's Hang Seng Index rose 1.8% on Friday as technology stocks recovered. South Korea's Kospi fell on Thursday as global chip stocks sold off after the OpenAI report.

Other asset classes reflected the continued strength of the dollar. The dollar index rose for a fourth consecutive week, while the euro fell for a fifth straight week and touched a 17-month low against the dollar, weighed down by concerns about French public finances. Gold rebounded by around 1.3% over the week to around \$4,216 an ounce, supported by geopolitical tensions. Bitcoin, by contrast, fell around 4.5% to around \$82,400, snapping a three-week winning streak as higher yields and outflows from bitcoin ETFs weighed on crypto markets.

Focus Topic: SpaceX Spectrum Deal Rattles U.S. and European Telecom Stocks

This week's focus topic is SpaceX's agreement to buy a nationwide block of low-band wireless spectrum and the sharp selloff it triggered in telecom stocks on both sides of the Atlantic. After the U.S. market closed on Thursday, SpaceX agreed to acquire 800 MHz spectrum licenses from private-equity firm Grain Management for around \$8 billion, according to a person familiar with the matter. SpaceX said the purchase addresses one of the key remaining technical gaps for its planned Starlink Mobile service, while Elon Musk described it as the last critical piece of the spectrum puzzle. The deal still requires regulatory approval.

The market reaction was dramatic. On Friday, T-Mobile fell 13.3%, AT&T dropped 9.8% and Verizon lost around 8.7%, making them the three worst performers in the S&P 500. According to the Wall Street Journal, AT&T and Verizon were on track for their biggest one-day declines in more than 24 years, and more than \$50 billion of market value was erased from the sector before lunch. Cable companies such as Charter and Comcast, which rely on Verizon's network for their mobile services, also fell. In Europe, Deutsche Telekom, which owns a majority of T-Mobile US, dropped 7.9%, its worst day in more than three years, while Vodafone, Telefonica and Orange also declined and the European telecom sector fell to an eight-month low.

The reason this matters is that low-band spectrum is one of the most valuable and scarce assets in the wireless industry. Satellite-based mobile services have so far struggled to provide reliable coverage inside buildings, where more than 70% of mobile traffic takes place. Low-band frequencies travel further and penetrate walls better, which could help close this gap. Combined with spectrum SpaceX previously bought from EchoStar and its growing satellite constellation, the purchase brings SpaceX much closer to being able to offer a full mobile service that competes directly with traditional carriers.

For the incumbent operators, this raises a fundamental question about their long-term competitive position. The U.S. wireless market has long been dominated by three large carriers that have invested hundreds of billions of dollars in spectrum and network infrastructure, which created high barriers to entry and allowed relatively stable pricing. Analysts at Evercore ISI argued that the carriers' defenses against new competition in low-band spectrum are weakening and that the deal places SpaceX in a stronger negotiating position. Investors therefore began to price in the risk of a new, well-funded competitor with a very different cost structure and a global satellite network.

At the same time, many analysts warned that the selloff may be exaggerated. Bernstein noted that buying spectrum is not the same as committing to build a nationwide network, and JPMorgan and UBS argued that SpaceX would still need significant ground infrastructure, including cell towers, to compete effectively, which will take time. SpaceX would also hold far less spectrum than each of the three major carriers. The carriers themselves pushed back as well. Verizon said that spectrum alone does not provide the network or infrastructure needed for true nationwide coverage, while T-Mobile's chief technology officer pointed out that building such a network takes years.

The deal also created clear winners. Tower companies such as American Tower, Crown Castle and SBA Communications rose sharply, by between 6.5% and 16%, as investors bet that SpaceX would need to lease space on their towers to build out a terrestrial network. Morgan Stanley described the deal as incrementally constructive for tower operators. This shows how the market is already thinking through the second-order effects of the deal, with infrastructure providers potentially benefiting from new competition regardless of which operator ultimately wins customers.

The broader context is also important. SpaceX has become one of the most valuable companies in the world following its stock market listing, and Starlink already has more than 12 million paying subscribers. The company is using its strong valuation and access to capital to expand into new markets, from satellite broadband to mobile services. The chairman of the Federal Communications Commission welcomed the deal as good news for American consumers, suggesting that regulators may be supportive of new competition in the wireless market.

There are, however, significant risks for SpaceX as well. Building a hybrid satellite and terrestrial mobile network will require large capital investments at a time when borrowing costs are at multi-decade highs. SpaceX plans to launch its mobile service only in late 2027, and the technology still needs to prove that it can deliver the quality and capacity customers expect. In addition, the company must secure regulatory approval for the spectrum purchase, and the incumbent carriers are likely to respond with aggressive pricing and marketing to defend their customer base.

For investors, the episode highlights how quickly technological disruption can change the valuation of sectors that have traditionally been seen as defensive. Telecom stocks are often owned for their stable cash flows and dividends, but the market's reaction suggests that investors are now assigning a higher risk premium to the business model. If SpaceX succeeds in building a competitive mobile service, pricing pressure could weigh on carriers' margins and their ability to sustain dividends. If the build-out proves slower and more expensive than expected, the selloff could create buying opportunities in stocks that are now trading at much lower valuations.

Overall, SpaceX's spectrum deal stands out because it marks a potential turning point in the competition between satellite and traditional mobile networks. The strategic logic is clear: SpaceX wants to combine its satellite constellation with valuable low-band spectrum to create a mobile service that can reach customers both from space and on the ground. The key question now is how quickly it can turn this spectrum into a working network and whether the incumbent carriers can defend their position. If SpaceX executes successfully, the deal could reshape the telecom industry in the years ahead. If not, Friday's selloff may prove to be an overreaction to a long-term threat that will take years to materialize.

Risks and Opportunities for Investors

For investors, the main opportunity this week is that the market continues to reward companies with strong structural growth drivers. The S&P 500 and the Nasdaq reached new records, and chip stocks quickly recovered from the selloff triggered by the OpenAI revenue report, suggesting that investors still see long-term value in AI infrastructure. Large strategic deals such as Schneider Electric's acquisition of PTC also show that companies are willing to pay significant premiums for assets linked to data and industrial AI, which could support valuations of other software and industrial technology companies that are trading at depressed levels.

There are also opportunities in selected infrastructure and energy names. Tower companies benefited from the SpaceX spectrum deal, as investors expect new competition to increase demand for network infrastructure. Utilities and power producers continue to benefit from long-term contracts with technology companies, as Constellation Energy's deal with Google shows. In energy, oil prices above \$100 continue to support producers and service companies, while the rising rig count shows that U.S. supply is responding. The selloff in telecom stocks may also create opportunities for long-term investors if the competitive threat from SpaceX takes longer to materialize than the market currently fears.

The risks, however, are still meaningful. The OpenAI report showed how vulnerable the AI trade remains to any sign that revenues may not keep pace with investment. If more evidence emerges that AI monetization is slower than expected, highly valued chip and infrastructure companies could come under significant pressure. The SpaceX deal also shows that sectors

traditionally seen as defensive can quickly be disrupted, and Schneider's share price reaction highlights that investors are skeptical of expensive, debt-financed acquisitions in an environment of high interest rates.

Energy and interest-rate risks also remain central. Delta's profit warning and PepsiCo's lower outlook show that higher fuel and input costs are already weighing on corporate earnings, and more companies may follow during the earnings season. The 10-year Treasury yield reached a new 24-year high this week, and further increases could weigh on valuations, especially for smaller companies and rate-sensitive sectors. Finally, the conflict with Iran and the hurricane season continue to create upside risks for oil prices, which could push inflation and interest rates even higher.

Looking Ahead

Looking ahead, markets will likely focus on the third-quarter earnings season, which gathers pace next week with results from the major U.S. banks. Investors will watch closely how companies are coping with higher energy and financing costs, whether consumer demand remains resilient and how much guidance is being lowered. After the warnings from Delta and PepsiCo, the key question is whether the pressure on margins is limited to fuel-intensive sectors or whether it is spreading more broadly across the economy.

Inflation data will also be crucial. The September consumer price index will be released next week and will play an important role in shaping expectations for the Fed's meetings in October and December. At the same time, the IMF will publish its updated World Economic Outlook during its annual meetings in Bangkok, which will show how much the energy shock and higher interest rates are expected to weigh on global growth. If inflation surprises to the upside, long-term yields could rise further and put renewed pressure on equities.

Energy markets and geopolitics will remain important as well. Any progress on Iran's proposal to reopen the Strait of Hormuz could bring oil prices down quickly, while further tanker attacks or prolonged hurricane disruptions could push them higher. In the technology sector, investors will continue to watch for signals on AI monetization and on SpaceX's plans for mobile services. Overall, this week showed that the market is still willing to reach new highs, but it is also highly sensitive to disappointments around AI, energy and interest rates. The coming weeks will show whether the earnings season can provide enough support to keep the rally going.

Economic Policy Shifts & Other Key Developments

Economic policy and macro developments this week were shaped by a stark warning from the International Monetary Fund, Federal Reserve minutes pointing to further rate hikes, rising inflation pressure in the U.S. services sector, volatile German industrial data and continued debate about how far central banks in Europe and Japan need to tighten. A key theme was that the global economy is being pushed in two directions at once: a negative energy shock from the Middle East conflict is weighing on households and industry, while the AI investment boom is supporting demand and capital spending. Both forces are inflationary, which is why central banks remain in tightening mode even as growth signals become more mixed.

One of the most important developments came from the IMF. In her traditional curtain-raiser speech ahead of the IMF and World Bank annual meetings in Bangkok, Managing Director Kristalina Georgieva warned that the energy shock, rising public debt and the risks linked to the AI boom threaten the global outlook. She noted that oil remains around \$100 a barrel, while refining margins add roughly another \$100 a barrel to the cost of products such as diesel, meaning that high energy prices are likely to persist even if the conflict ends soon. The IMF had forecast global growth of 3.0% for 2026 in July, based on the assumption that the Strait of Hormuz would gradually reopen, and the updated World Economic Outlook will be published next week.

Georgieva also highlighted how quickly financial conditions have tightened. Long-term government bond yields in the U.S., Germany and Japan have risen to multi-decade highs, while global public debt is at its highest level since the Second World War and is expected to exceed 100% of GDP before 2030, with advanced economies led by the U.S. described as the worst offenders. At the same time, she described the recent rate hikes by the Fed, the ECB and the Bank of Japan as highly appropriate after more than five years of above-target inflation, and said that a “prudently hawkish bias” may suit many central banks. On AI, she argued that investment could add around 0.5 percentage points a year to global growth, but warned that a market disappointment could turn into a far-reaching shock.

In the U.S., the minutes of the Federal Reserve’s September meeting confirmed that policymakers are leaning toward further tightening. The Fed raised rates by 25 basis points to a range of 3.75% to 4.00% in September in a unanimous decision, its first hike since 2023. According to the minutes, most officials judged that another increase would likely be appropriate by the end of the year, although they did not commit to a specific meeting and stressed that decisions would depend on incoming data. Many participants described the hike as insurance against persistently high inflation, and some noted that AI-related infrastructure spending is pushing demand above the economy’s supply capacity.

The projections behind the minutes underline the Fed’s concern. Sixteen of eighteen officials expect at least one more hike this year, and the median projection sees PCE inflation at 3.7% in 2026, with inflation returning to the 2% target only in 2029. However, after the weak September jobs report, markets see only a small chance of a hike at the October 27-28 meeting and are instead pricing a high probability of a move in December. The meeting also takes place less than a week before the U.S. midterm elections, adding a political dimension to the timing of any decision.

U.S. economic data this week reinforced the Fed’s dilemma. The ISM services index came in at 54.9, still signaling solid expansion, but its prices component rose to 74, the highest level since July 2022, with tariffs and fuel costs cited as the most important pressures. The trade deficit widened to \$105.6 billion in August, its largest since March 2025, as imports reached a record \$420.8 billion, driven by crude oil, gold, semiconductors and AI-related capital goods. Meanwhile, the University of Michigan’s preliminary consumer sentiment index fell to 46.3 in October, below expectations and near historic lows, while one-year inflation expectations rose to 4.7%. Consumers are increasingly frustrated by the rising cost of living and higher borrowing costs.

This combination is difficult for policymakers. Weekly jobless claims remain low at 197,000, which suggests that companies are not cutting workers aggressively, but hiring has slowed sharply and consumer confidence is weak. At the same time, inflation expectations and price pressures in the services sector are rising. This is the classic stagflation problem: tightening

further could weaken an already slowing economy, while pausing too early could allow inflation expectations to become entrenched.

In Europe, ECB policymakers sent a more cautious message. Chief Economist Philip Lane said that the energy shock remains the main reason for the recent rate increases, but that second-round effects on wages and core prices have so far not been very strong. He also noted that higher long-term yields, partly driven by the financing needs of the AI boom in the U.S., are already slowing growth and inflation on their own, and warned that broad-based fiscal support does not help inflation return to 2% in a timely manner. Bundesbank President Joachim Nagel said there is no evidence yet of inflation feeding through to price and wage setting, but kept the door open for a hike in December.

ECB President Christine Lagarde added that the central bank has tools to counter unwarranted market dynamics, a comment widely read as a signal to markets about the pressure on French government bonds. France's budget deficit remains above 5% of GDP, and the spread between French and German yields has widened significantly. Overall, the ECB appears to be preparing for a pause at its October meeting and a possible further hike in December, depending on how energy prices and inflation develop over the coming weeks.

Germany's economic data was volatile. Factory orders fell by 10.6% in August, far worse than the 1.0% decline expected by economists in a Reuters poll. However, the drop was driven almost entirely by a 61.5% collapse in large orders for ships, trains, aircraft and military vehicles after an exceptionally strong July. Excluding large orders, new business was almost unchanged. Industrial production, by contrast, rose by 2.0%, well above expectations and the strongest increase in more than a year, driven by construction and machinery, while automotive output declined.

German exports fell by 0.8% in August, the second consecutive monthly decline, with exports to the U.S. dropping 6.3% from the previous month. Imports from China, meanwhile, rose by 11%. Taken together, the data suggests that underlying demand in German industry remains flat, with large orders and construction creating significant volatility. The government's defense and infrastructure spending continues to provide an important medium-term support, but energy-intensive industries remain under pressure from high energy prices.

In Japan, Bank of Japan Governor Kazuo Ueda said that the central bank will continue to raise interest rates if the economy and prices develop in line with its forecasts, describing financial conditions as still accommodative even after the September hike to 1.25%, the highest level in 31 years. He noted that wage pressures are broadening, a view supported by data showing that real wages rose by 1.5% in August, the eighth consecutive monthly increase, while nominal wages grew by 3.8%. Markets see a moderate chance of another hike at the end of October. With the yen trading near 158 per dollar, a level that previously triggered intervention, the currency remains an important factor in the BoJ's decisions.

Overall, this week's economic policy developments show a global economy that remains caught between an energy-driven inflation shock and an AI-driven investment boom. The IMF is warning about high energy prices, record public debt and the risks of an AI disappointment, while the Fed minutes signal that U.S. policymakers are still leaning toward further tightening. In Europe, the ECB is trying to balance high headline inflation against weak growth and stress in French bond markets, while Germany's data remains volatile. In Japan, rising wages are strengthening the case for further rate increases. The key takeaway is

that central banks are still focused on inflation, and the next IMF forecasts will show how much this tightening and the energy shock are expected to weigh on global growth.

A Few Words

This was another exciting week with a lot happening across markets, deal activity and economic policy. From Schneider Electric's acquisition of PTC and the sale of Boots to SpaceX's spectrum deal, new record highs on Wall Street, higher oil prices and the IMF's warning about energy, debt and AI, 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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