

Markets Walk the Tightrope

Equities edged higher last week, with the S&P 500 and NASDAQ marking their sixth positive week out of the past eight. Momentum slowed compared with the previous week's surge, but sentiment stayed firm as large caps extended record territory.

Bonds traded more cautiously as investors weighed mixed inflation signals against growing conviction that the Federal Reserve will cut rates in September. Futures markets now imply one or two more cuts before year-end, setting the stage for a closely watched Jackson Hole meeting later this month.

US consumer inflation held steady at 2.7% year-on-year in July, broadly in line with expectations, though producer prices showed a sharper-than-expected 3.3% increase — the fastest in five months. Tariffs appear to be pushing some consumer prices higher, while businesses are feeling the pinch from rising input costs.

Impact: The divergence between consumer and producer prices underscores how inflation pressures remain uneven and tricky to interpret. Markets may need to adjust to a slower path toward price stability,

which could influence both rate expectations and investor appetite for risk assets.

US retail sales rose 0.5% in July, matching forecasts but falling short of June's upwardly revised 0.9%. At the same time, consumer sentiment slipped for the first time in four months, with inflation expectations ticking higher.

Impact: A consumer picture that is steady but softening, complicates the growth outlook. Strong spending has underpinned the US economy, but signs of fatigue — paired with sticky inflation perceptions — could temper confidence.

Trump pledged to help coordinate European security guarantees for Ukraine if peace could be agreed with Russia, while floating the idea of a meeting between Zelenskyy and Putin. The proposal followed a day of high-level talks in Washington with European leaders and Ukraine's president, though the Kremlin has not confirmed any such summit.

Impact: Trump's push to position the US as mediator underscores the geopolitical uncertainty surrounding the conflict. A breakthrough could ease some global risk concerns, but the lack of clarity over Russia's participation and the details of any settlement keep markets cautious about the near-term outlook.

Spain's solar boom has outpaced demand and grid capacity. So much power is being generated during the day that prices often drop to zero, forcing some plants to shut off and leaving projects unprofitable. The April blackout showed how a grid built for fossil fuels is struggling to handle today's decentralised renewables, highlighting the urgent need for storage, upgrades, and clearer rules.

Impact: Cheap power is good news for households but tough on producers, making new investment less attractive. Bargain sales of solar projects may appeal to opportunistic buyers, but unless Spain strengthens its grid and boosts industrial demand, it risks stalling its energy transition and missing the chance to turn abundant sunshine into a lasting competitive advantage.

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