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Market Snapshot

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60 second market summary

AI safety concerns, escalating geopolitical tensions and rising inflation dominated markets this week. A growing rift emerged between leading AI executives, including Anthropic's Dario Amodei and OpenAI's Sam Altman, who called for a more measured pace of AI development and stronger safeguards, and US president Donald Trump, who argued that regulation would undermine US competitiveness against China. Meanwhile, tensions between the US and Iran intensified, drawing in Saudi Arabia after Houthi attacks on energy infrastructure and helping push Brent crude above $100 a barrel. Further pressure on energy markets came from the Russia-Ukraine conflict, with Trump urging Kyiv to stop targeting Russian diesel infrastructure to ease global fuel shortages.

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Central banks responded to the inflationary backdrop with a broadly hawkish stance. The Federal Reserve raised interest rates and signalled the possibility of further tightening, the Bank of England kept rates on hold but warned of upside inflation risks, and the Bank of Japan raised rates to their highest level since 1995. UK inflation continued to rise, while higher energy costs and rising US Treasury yields kept markets focused on inflation and government borrowing. Despite efforts by Treasury secretary Scott Bessent to support the bond market through increased debt buybacks, 10-year Treasury yields climbed above 5%.

Company news was generally encouraging. Next upgraded profit guidance for the fourth time this year after another strong trading performance, while Kier and Galliford Try both reported solid results supported by large order books and robust cash generation. Barratt Redrow produced resilient full-year figures but lowered completion guidance because of planning delays. Wickes continued to gain market share and MP Evans benefited from strong palm oil production and prices, allowing it to increase its dividend significantly.

The FTSE 100 was up 0.9% over the week by mid-session on Friday, with the more UK-focused FTSE 250 trading 1.5% ahead.

Artificial Intelligence

Markets have been focused on what can fairly be described as a lively debate over whether the AI industry is developing too quickly, with several leading technology executives calling for a more measured approach. Donald Trump has forcefully rejected proposals for any slowdown.

The debate was sparked by Dario Amodei, chief executive of **Anthropic**, who argued in an essay entitled We Must Pace the Frontier that AI development should progress more carefully to allow safety, alignment and regulatory oversight to catch up with rapidly advancing capabilities. Mr Amodei proposed independent evaluators with deep access to AI systems and stronger international safety standards, warning that capability improvements are accelerating faster than many expected.

His concerns found support from other leading figures in the industry. Sam Altman, chief executive of **OpenAI**, said he agreed and welcomed federal safety requirements for the most advanced AI developers. Mr Altman warned that AI could go "very badly" if humans lost control of the technology or if excessive power became concentrated in a single company or individual. Elon Musk also backed Mr Amodei's position, while Satya Nadella, chief executive of **Microsoft**, signalled support for deliberate pacing and the use of independent evaluators, provided customer control and commercial competitiveness were maintained.

The industry's concerns reflect growing unease that AI systems are increasingly being used to help develop the next generation of AI models, potentially accelerating progress beyond the ability of safety frameworks to keep pace. Several executives have argued that slowing development modestly now could reduce the risk of more serious problems emerging later.

President Trump has taken the opposite view. He dismissed calls for stronger AI safeguards and slower development, arguing that regulation would undermine US leadership in a strategic technology race with China. In a series of social media posts, he described AI fears as exaggerated and said the only "guardrails" required were strong presidential leadership. Mr Trump argued that "whoever wins AI, wins" and warned that excessive regulation could damage America's competitive position.

The result is an unusual split between some of the industry's most influential leaders and the White House. While executives such as Mr Amodei, Mr Altman, Mr Musk and Mr Nadella are advocating greater caution and stronger oversight, Trump appears determined to prioritise rapid development and maintaining US technological leadership over new regulatory constraints.

Geopolitics and energy markets

The conflict between the US and Iran intensified significantly, raising fears of a broader regional confrontation and triggering a sharp rise in oil prices. The latest flare-up began with a series of Iranian attacks or attempted attacks on commercial shipping and US military assets in the Gulf. In response, US forces struck Iranian military infrastructure and destroyed several oil tankers linked to Iran's Islamic Revolutionary Guard Corps. Iran subsequently launched missiles towards US-linked targets in Jordan and threatened further retaliation. The tit-for-tat exchanges have raised concerns that both sides are becoming increasingly willing to target economic as well as military assets.

Adding to the complexity, Saudi Arabia has found itself increasingly drawn into the escalating conflict after Iran-backed Houthi rebels launched attacks on Saudi energy infrastructure. The strikes targeted oil facilities and pipelines, marking the most serious attacks on the kingdom's energy assets since the two sides agreed a truce several years ago.

The attacks form part of a broader escalation across the region. As tensions between the US and Iran have intensified around the Strait of Hormuz, the Houthis have sought to pressure both Washington and its Gulf allies by targeting energy infrastructure critical to global oil supplies. Saudi Arabia responded with retaliatory strikes against Houthi positions, raising concerns that a wider regional conflict could emerge. Although the physical damage to Saudi infrastructure appears to have been limited, the attacks reinforced concerns about the vulnerability of oil production and transportation networks across the Gulf.

The market reaction was significant. Brent crude climbed above $100 a barrel and there are concerns that a prolonged disruption to Gulf energy supplies could send prices substantially higher.

Adding to the tightness in energy markets is the Russia-Ukraine conflict. Mr Trump has urged Ukrainian leader Volodymyr Zelenskyy to stop targeting Russian oil refineries and diesel-producing infrastructure, arguing that Ukrainian strikes are contributing to global fuel shortages and pushing diesel prices sharply higher. Mr Trump said Ukraine should continue to pursue other military targets but should "stop knocking out diesel fuel in Russia", claiming the Russia-Ukraine war, rather than the conflict with Iran, is the main driver of rising diesel prices.

The US president subsequently said Russia and Ukraine had agreed in principle to halt attacks on each other's energy infrastructure, presenting such a move as a potential first step towards de-escalation. Kyiv responded that it would be willing to suspend strikes on Russian energy facilities if Moscow also stopped attacking Ukraine's energy and critical infrastructure, although it questioned whether Russia would honour any such agreement.

The surge in energy prices has reignited inflation concerns globally and was a significant driver around the hawkish tone adopted by central banks this week.

Other geopolitics

Ursula von der Leyen, president of the European Commission, has proposed that Canada become the European Union's (EU's) first-ever "associate member", marking a potentially significant deepening of ties between Ottawa and Brussels. Relations on trade between the US and Canada have deteriorated significantly during the Trump presidency. The proposal, unveiled during her annual State of the Union address and attended by Canadian prime minister Mark Carney, would extend cooperation beyond the existing EU-Canada trade agreement into areas including defence, technology, artificial intelligence, critical minerals, energy and Arctic security. The concept of EU associate membership is entirely new, with few details yet available on how it would work or what rights and obligations it would entail.

The US confirmed for the first time that it has deployed weapons in Earth orbit, with Troy Meink, Secretary of the Air Force, revealing that the US Space Force now operates "on-orbit space control weapons" capable of defending US forces against hostile actions from space. Officials did not disclose the nature, number or deployment date of the systems, although the announcement highlights growing concerns over space-based threats from China and Russia and marks a significant shift in the public acknowledgement of US military capabilities in space. China has already warned against an arms race beyond Earth's atmosphere. While the 1967 Outer Space Treaty prohibits nuclear weapons in orbit, it does not explicitly ban conventional weapons, leaving scope for major powers to expand military capabilities in space

Economics

Three key central bank decisions painted a broadly hawkish picture, with policymakers remaining focused on inflation risks, particularly those stemming from higher energy prices linked to the conflict in the Middle East.

The Federal Reserve raised interest rates by 25 basis points to 3.75%-4.00%, its first increase since 2023. Members of its rate-setting Federal Open Markets Committee (FOMC) signalled via its updated "dot plot" that most policymakers expect at least one further rate rise before the end of 2026. The projections also suggested that rates could remain above 4% throughout 2027. Fed Chair Kevin Warsh stressed that inflation remains too high and that policymakers need greater confidence that price pressures are returning sustainably to target. It is important to note that Mr Warsh did not participate in the dot-plot projections.

The Bank of England left its Bank Rate unchanged at 3.75% in a 6-3 vote, but the decision was cloaked in hawkish commentary. Three policymakers voted for an immediate increase to 4%, and Governor Andrew Bailey warned that persistent energy-price volatility could require higher rates. The Monetary Policy Committee said inflation risks are tilted to the upside and stood ready to act if necessary, leading markets to price in a higher probability of a rate rise at its November meeting.

The Bank of Japan raised its policy rate by 25 basis points to 1.25%, the highest level since 1995. The central bank said there was a risk that inflation could overshoot its 2% target and signalled a willingness to continue tightening policy if price pressures persist. However, a 7-2 vote and the presence of two dovish dissents tempered expectations for an aggressive series of future rate rises.

UK inflation rose for a second consecutive month in August, with the Office for National Statistics reporting that annual consumer price inflation increased to 3.1% from 2.9% in July, while prices rose 0.5% month-on-month. The increase was driven largely by higher transport costs, particularly rising petrol and diesel prices, reflecting the impact of higher energy prices following tensions in the Middle East. Core inflation, which excludes volatile food and energy prices, remained unchanged at 2.6%, suggesting that underlying domestic price pressures were broadly stable despite the rise in headline inflation. The figures reinforce expectations that inflation will remain above the Bank of England's 2% target for some time and came out ahead of the central bank's interest rate decision.

The latest UK labour market figures pointed to a gradual cooling in employment conditions, which helped strengthen the case for the Bank of England to keep interest rates on hold. The unemployment rate was estimated at 4.9% in the three months to July, up from a year earlier, while the number of payrolled employees continued to decline and the claimant count increased to 1.69 million in August. Employment remained broadly stable, but vacancies continued to fall, suggesting demand for labour is easing. Overall, the data indicated that the labour market is loosening, although not rapidly enough to remove all concerns about underlying inflation.

US bond markets have remained under pressure despite intervention from Scott Bessent, with investors continuing to drive long-term Treasury yields higher amid concerns about inflation, rising oil prices, government debt levels and fiscal policy.

Earlier this month, the US Treasury dramatically increased its buyback programme for long-dated government bonds, purchasing up to $6bn of debt, three times the normal amount. The move, dubbed the "Bessent Twist" by some market observers, was widely interpreted as an attempt to support bond prices and cap long-term borrowing costs. Because bond prices and yields move inversely, Treasury purchases should in theory reduce yields.

However, the intervention has had little visible impact. The yield on the benchmark 10-year Treasury has climbed above 5%, reaching its highest level since 2007, while 30-year yields have risen above 5.3%. Investors have continued to sell bonds despite the buybacks, reflecting concerns about the growing US debt burden, which has surpassed $40tn, as well as fears that higher oil prices linked to the Iran conflict could reignite inflation. Mr Bessent has defended the operation, arguing that yields would have been even higher without intervention and pointing to strong demand at subsequent Treasury auctions. He has also insisted that he has additional tools available to stabilise markets if necessary.

Company news

Next delivered another strong set of interim results, underpinned by its long-standing strategy of underpromising and overdelivering. The retailer upgraded its profit guidance for the current financial year, marking the fourth increase to expectations this year, after trading exceeded forecasts. Growth was supported by strong international sales and continued resilience in its online operations, helping offset a more challenging UK consumer backdrop. Management remained cautious on the domestic outlook, citing pressure on household finances and higher energy costs, but said the group's diversified business model, growing overseas operations and strong cash generation leave it well positioned for the second half. The company also declared an interim dividend of 98p per share.

Kier Group reported a strong set of full-year results, with revenue rising 7.5% to £4.4bn and adjusted operating profit up 6.7% to £169.8m. The construction and infrastructure group continued to strengthen its balance sheet, achieving an average net cash position for the first time in more than a decade and ending the year with net cash of £232m. Kier's order book increased 8% to a record £11.9bn, providing strong visibility over future revenues, while the company raised its full-year dividend by 8% and outlined more ambitious medium-term growth targets. Management said trading momentum had continued into the new financial year, supported by recent contract wins and a growing pipeline of opportunities, leading it to increase expectations for current-year earnings to the top end of previous guidance.

Galliford Try reported a strong set of full-year results, extending its run of growth as revenue rose 3% to £1.93bn and adjusted pre-tax profit increased 24.2% to £55.9m. The construction group benefited from strength in its highways and environmental businesses, while adjusted operating margin improved to 3.5% from 3.0% a year earlier. Reflecting confidence in its outlook, the board increased the total dividend by 23.7% to 23.5p per share and announced a £15m share buyback. Management said the group's £4.3bn order book, up from £4.1bn last year, provides good visibility and underpins confidence in further progress.

Barratt Redrow delivered a resilient full-year performance despite challenging housing market conditions, with completions rising 5% to 17,667 homes and revenue increasing 6.6% to £6.1bn. Margins came under pressure from incentives and weaker pricing, although the result was broadly in line with market expectations. The group benefited from the successful integration of Redrow, delivering £73m of cost synergies during the year, while maintaining a strong net cash position of £773m. However, management struck a cautious note on the outlook, cutting current-year completion guidance to 17,500-17,900 homes from its previous target range due to planning delays and slower outlet openings.

Wickes reported a resilient set of interim results, driven by growing sales volumes in its retail business and continued strength in its Design & Installation division. The home improvement retailer continued to gain market share, while TradePro sales rose 5% and active members reached a record 671,000. Management said trading had improved further in the third quarter, with retail like-for-like revenue growth accelerating to the mid-single digits, leaving the group on track to meet market expectations for around 10% growth in adjusted profit before tax for 2026 despite an uncertain consumer environment.

MP Evans reported a strong set of interim results, benefiting from higher palm oil production, improved operational efficiency and robust commodity prices. Total crop processed rose 8%, crude palm oil production increased 11% and certified sustainable production climbed 16%, helping drive a 25% increase in gross profit to $78.9m. Reflecting its confidence in the outlook, the Indonesian palm oil producer increased its interim dividend by 39% to 25p per share and highlighted continued strong pricing in the third quarter, alongside a land acquisition that provides further scope for future growth. Management noted that lower rainfall linked to El Niño conditions could affect production levels across the region in 2027, although any reduction in supply could be offset by higher palm oil prices.

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