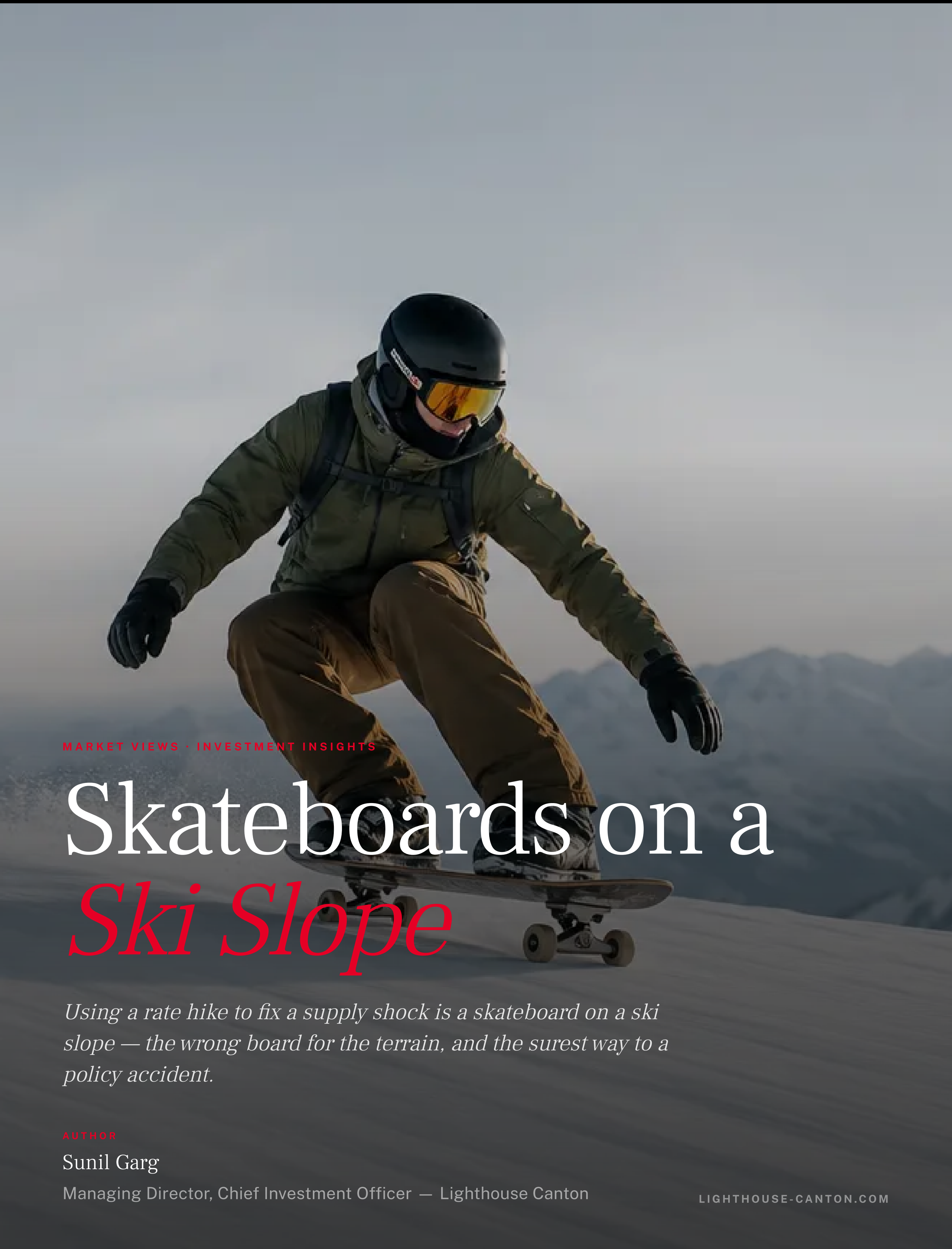

MARKET VIEWS · INVESTMENT INSIGHTS

Skateboards on a *Ski Slope*

Using a rate hike to fix a supply shock is a skateboard on a ski slope — the wrong board for the terrain, and the surest way to a policy accident.

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WHY AN OIL-DRIVEN INFLATION SHOCK IS THE WRONG PROBLEM FOR A RATE HIKE TO SOLVE

Every dollar increase in Brent is doing more to reprice next week's FOMC than anything out of Washington. Brent spiked to an intraday $109.96 this week before settling near $108/bbl, its highest level since the conflict began, as the Iran conflict widens and the Strait of Hormuz stays a live chokepoint. The long end has taken notice - the US 10-year is at 4.975%, up 105bp since Mar lows and testing the Oct 2023 peak. CME FedWatch odds of a 25bp hike on 16 September have gone from 35% before Jackson Hole to 72% today. Today's CPI print will get the headlines. **Oil, and now the long end, is doing the real damage.**

> **Using a rate hike to fix a supply shock is a skateboard on a ski slope - the wrong board for the terrain, and the surest way to a policy accident.**

SURGING BRENT

source: Lighthouse Canton

TREASURY YIELDS - THREATENING 5%

source: Lighthouse Canton

FUTURES IMPLIED PROBABILITY OF A 25BP HIKE ON 16 SEP 26

	CME FEDWATCH TOOL - AGGREGATED MEETING PROBABILITIES				
MEETING DATE	350-375	375-400	400-425	425-450	450-475
16/09/2026	27.64%	72.36%	0.00%	0.00%	0.00%
28/10/2026	0.00%	90.00%	10.00%	0.00%	0.00%
09/12/2026	0.00%	22.74%	77.26%	0.00%	0.00%
27/01/2027	0.00%	0.00%	86.00%	14.00%	0.00%
17/03/2027	0.00%	0.00%	20.71%	79.29%	0.00%
28/04/2027	0.00%	0.00%	10.00%	90.00%	0.00%
09/06/2027	0.00%	0.00%	0.00%	84.89%	15.11%
28/07/2027	0.00%	0.00%	0.00%	55.00%	45.00%
15/09/2027	0.00%	0.00%	0.00%	47.33%	52.67%
27/10/2027	0.00%	0.00%	0.00%	68.00%	32.00%
08/12/2027	0.00%	0.00%	0.00%	73.39%	26.61%

source: Lighthouse Canton

NOT THE 2022 PLAYBOOK

Is this 2022 again? Not quite. In April's *Straight And Narrow*, we flagged that a sustained rise in oil prices would eventually feed through to broader goods and services inflation. That risk is now playing out - higher transport costs and supply disruptions are pushing prices higher across the board, food included. The 2022 tightening cycle worked, to the extent it did, because the problem was demand. This one isn't.

At the heart of it, this remains a supply-side shock, not a demand-side one. Raising the cost of borrowing does very little to unblock a tanker route through the Strait of Hormuz - it just adds a second shock, a growth shock, on top of the first.

CENTRAL BANKERS, CORNERED

Hapless is the word. Central banks now have a narrow set of bad choices - let inflation run, or hike and risk growth. The ECB, hawkish by temperament, has jumped the gun again into an anaemic Euro area growth backdrop that will only soften further from here. The US isn't starting from a position of strength either - strip out AI capex, and underlying growth is moderate at best. **A hike into that backdrop risks accelerating a broader growth correction, not just cooling an overheating economy.**

PRICED FOR PERFECTION

Equity markets, still within striking distance of all-time highs, appear largely oblivious to this. The S&P 500 closed at 7,591.70 on 10 September, roughly 3% below its recent high, and corporate bond spreads look similarly complacent. Of the two possible policy outcomes next week, **equities have the most to lose if a hike is actually delivered.**

S&P - JUST 3% BELOW ALL TIME HIGHS

source: Lighthouse Canton

WHAT WOULD CONFIRM OR DENY THIS

CONFIRMATION SIGNALS

- Brent holds above $105/bbl into the FOMC decision, keeping futures-implied hike odds at or above 70%.
- Today's CPI print shows further broadening into core services and food, not just energy pass-through.
- Credit spreads widen and equity vol (VIX) breaks higher into the meeting -a sign markets are catching up to the risk late.

DENIAL SIGNALS

- A ceasefire or de-escalation in the Gulf takes Brent back toward $90/bbl and hike odds recede with it.
- The Fed's own communication draws an explicit line between energy-driven headline CPI and underlying core trend, and holds regardless.
- Growth data (payrolls, PMIs) rolls over first, giving the Fed cover to prioritise growth over a still-supply-driven inflation print.

POSITIONING

Capital preservation should be at the forefront of portfolio strategy at this stage. Portfolio insurance is still cheap, implied vol has not caught up to the policy risk sitting in front of markets, and that gap is the opportunity.

> **The board doesn't fit the slope. Own the hedge before the market reprices it for you.**

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