



Newsletter – August 2026

The war in the Persian Gulf continues and as I wrote in the Jan/Feb 2026 newsletter "More likely is that Israel and the USA have started something over which they now have no control "

<https://timunderwood.com/wp-content/uploads/2026/03/2026-JanFeb-report.pdf>

How the war impacts investors seeking growth and income from a now disrupted economic world, is still the open question.

The most visible impact and one that the whole world has experienced is the rise in the price of oil products. Yes, petrol for cars is more expensive but so is a whole range of associated oil derived products. Not all oil is the same as I wrote in the May 2026 newsletter -

<https://timunderwood.com/wp-content/uploads/2026/06/2026-May-report.pdf>

One thing that does seem to be the same is the response to higher oil prices by central banks!

In the last week of August the leading central bankers got together for their annual meeting in Jackson Hole, Wyoming. The big question this year was what was the new Chairman of the US Federal Reserve, Mr Warsh, going to say. He replaced in May Mr Powell and the question was, will he raise or lower interest rates. A banker who wants to raise rates is called a "Hawk" while one wanting to lower them is called a "Dove" in the Financial Press.

His speech at the meeting was called "In our Time" which was said to echo the Ernest Hemingway 1924 book which looked at a society changed by war and new ideas. Using the comparison to show today's leaders face a world reshaped by new technology and changing financial rules, so stay disciplined. This was taken to mean he is a "Hawk"

The Press always writes a great deal about what central bankers say or write. The Papers need content and the internet bloggers need a topic to discuss, day traders need to see market movements to catch a spread and so his words were endlessly discussed. The ECB agreed that rate hikes were needed and therefore actually did raise rates on their next meeting on 10 September. Only by 0.25% but for a central banker that is important.

On 16 Sept the US Fed decides on rates and the market is convinced they will rise. The Bank of England decides on 17 Sept.

The reason for a rate rise is central banks have inflation worries. The rate of inflation is too high by their measurements with a typical objective of hitting 2%pa inflation. More is bad, less is good. But it is clear that inflation, at the moment, is a result of the higher oil prices caused by the war in the Persian Gulf mentioned earlier. How does a rise in interest rates allow more oil to flow out of the Gulf and lower inflation you may wonder? For central bankers its not about oil it seems, but "second order effects"

This is the logic. Higher oil prices put up costs, so workers demand higher wages and higher wages put up prices and so have "second order effects" putting up inflation further, hence central bankers need to raise interest rates to stop this bad behaviour!

The fact that "workers" might not get higher wages even though it costs more to fill the petrol tank to drive to work, is not part of this "second order effects" logic. Also not part of this logic is that workers will lose spending power because it now takes more cash from their wages to pay for their petrol and therefore have less to spend on other items, creating a recessionary threat. At some point the central bankers will realise higher interest rates will not help the oil flow to lower inflation and that a recession is a real threat, with the associated unemployment and hardship.

The ECB has already played this game. In 2007 the ECB had rates at 4% and then in March 2008 the US investment bank Bear Stearns collapsed. It was the start of the global financial collapse. But on 9 July 2008 the ECB raised rates to 4.25%. Then in Sept 2008 just two months later Lehmann Brothers collapsed and the world economy went into free fall. By May 2009 the ECB had dropped rates to 1% to correct the mistake, where they stayed or even lower until 2011.

The trouble in the Gulf is not going to end soon and, I think, things are not going to return to the way they were before the war. Central banks are not going to help.

Have some commodity linked investments (oil and stuff) in a portfolio.

Best wishes

Tim

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