THE FELIX MARKET UPDATE

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THE BRIEF

Europe's energy system has a water *problem.*

Europe's latest energy stress test is not coming from gas storage, LNG cargoes or another pipeline shock. It is coming from lack of water.

Drought and low river levels are turning a climate issue into a power-market problem. Nuclear plants need cooling water, hydropower depends on inflows and thermal plants lose efficiency in extreme heat. Fuel deliveries sometimes rely on navigable rivers. At the same time, heatwaves raise electricity demand just as parts of the supply stack become less reliable.

Hungary and Romania offer the clearest warning. The Paks nuclear plant has faced output reductions because the Danube has fallen too low to support normal cooling. Cernavoda has experienced similar pressure. The lesson is simple: even low-carbon baseload power can carry meaningful climate risk when it depends on increasingly volatile river systems.

Europe is also discovering that energy security is no longer purely national. Cross-border imports, including flows from war-hit Ukraine, are becoming part of the resilience toolkit. That shows the value of grid integration, but also the fragility of a system in which climate stress, geopolitics and infrastructure are increasingly intertwined. Europe is used to worrying about winter gas. It now also needs to worry about summer electricity. Heat increases cooling demand, drought reduces generation flexibility and wholesale prices can rise during periods that were once relatively benign.

Energy-intensive users may face higher prices, demand reductions or rationing risk. Low river levels can also restrict cargo volumes on the Rhine and Danube, raising costs across chemicals, manufacturing, agriculture, construction materials and fuel supply chains.

For infrastructure investors, the key lesson is that weather risk can no longer sit in the ESG appendix. It belongs in the base case. Underwriting must take greater account of hydrology, cooling-water access, heat-related derating, river logistics, network congestion and locational exposure. A power asset can be low carbon and still be climate fragile. Asset selection should also shift towards flexibility. Batteries, demand response, interconnectors, grid reinforcement, storage optimisation and digital grid tools become more valuable as weather volatility drives price volatility. The relevant question is no longer simply: "What is the cheapest megawatt-hour?"; it is: "What keeps the system functioning when the weather stops behaving?"

Our view: Europe needs more than additional renewable capacity. It needs a more resilient electricity architecture: stronger grids, more storage, better cross-border connections, upgraded cooling systems and planning assumptions that reflect hotter, drier and more volatile environmental conditions. The assets that will outperform are not necessarily the greenest. They are the ones that still work when the rivers run low.

Sources: Paks output cut as Danube hits record low · Cernavodă shutdown risk · Ukraine flows keep Hungary's lights on

IN THIS ISSUE

Europe's energy system meets the drought.

Macro

FACTOR / THEME	OUR READ
Eurozone growth / inflation	Eurozone GDP grew 0.4% quarter-on-quarter in Q2, better than the flat first quarter. But July inflation increased to 2.9%, driven partly by a 10% rise in energy prices. Europe received better growth and worse inflation in the same week. That is preferable to stagnation, but it gives the ECB less freedom to support the economy.
Fed / labour market / CPI	Wednesday's CPI print is the week's defining macro event. Consensus expects core inflation of 0.2% month-on-month — a reading consistent with inflation returning to target. Anything higher would challenge the Fed's working assumption that tariff and energy shocks are transitory. Chairman Warsh's ambiguous communication last month has raised the stakes: the 30-year Treasury yield rose during his press conference and has not come back down. A firm CPI print would force Warsh to demonstrate with action what he struggled to convey in words. At least six FOMC voters have signalled they could support raising rates if inflation does not improve.
U.S. activity / inflation pressure	The economy is sending an unusual combination of signals. Manufacturing PMI jumped to **55.6**, its highest since May 2022, while services remained firm at 54.1. But the prices-paid indices were still above 70 in both surveys. Growth is holding up; the problem is that supply constraints, energy and AI infrastructure demand are keeping costs elevated. That is not an easy backdrop for monetary easing.
Oil / Middle East	Brent fell roughly **7% over the week** as markets became more optimistic about talks that could eventually reopen the Strait of Hormuz. But the WSJ reports that Gulf energy producers are concluding Iran's control over the strait will become permanent — they simply prefer a bad deal to another war. Negotiations have stalled over Iranian demands for financial relief and U.S. opposition to shipping restrictions. The risk premium can return quickly.
China / exports	China's export machine remains one of the strongest parts of its economy. July exports rose **23.9% year-on-year**, while imports increased 27.5%. AI-related global demand is helping offset weak domestic momentum, but the imbalance is becoming harder to ignore: China is increasingly relying on the rest of the world to absorb what its own consumer is not. That supports near-term growth while increasing the risk of further trade friction.

Public markets

NAME / THEME	WHAT HAPPENED	OUR READ
Palantir / AI monetisation	Palantir raised its 2026 revenue forecast to around **$8.2bn**, with U.S. government revenue up 90% in Q2 and commercial growth also accelerating. Shares jumped almost **30%** the following day.	Palantir is increasingly difficult to dismiss as an AI narrative stock. The valuation remains demanding, but this is what the market wants to see: AI converting into contracts, revenue and upgraded guidance.
Intel / AI capital raising	Intel raised **$20 billion** in an upsized share sale — a third more than targeted — priced at $95 per share, a 6.5% discount. The offering drew more than **$100 billion in demand**. Alphabet is raising up to $85 billion; Oracle has a $20 billion at-the-market sale. SK Hynix raised $26.5 billion in the largest-ever foreign listing on a U.S. exchange.	The AI supply chain is now the dominant force in equity capital markets. These are not distressed raisings — they are growth capital at scale, and investors are oversubscribing them. The question is whether the returns on this capital will match the enthusiasm of its allocation.
AMD / expectations catch up	AMD's data-centre revenue more than doubled to **$6.7bn**, and Q3 revenue guidance of around $13.0bn came in above consensus. The shares still fell around 7%.	Good is no longer good enough. With the stock priced for a major share of the AI accelerator market, investors want evidence that AMD can close the gap with Nvidia faster than currently expected. The results were strong; the expectations were stronger.
SpaceX / first public test	SpaceX's first results since its IPO showed revenue rising **92% to $7.8bn**, comfortably ahead of expectations, while losses were smaller than forecast. Yet the shares fell after results as attention moved to AI spending and a large post-IPO share unlock.	This was the clearest example of the market separating the company from the stock. The operating story remains extraordinary. The valuation now has to survive normal public-market questions about capital intensity, concentration and cash generation.
Caterpillar / AI beyond semiconductors	Caterpillar revenue rose **24% to $20.5bn**, adjusted EPS reached $8.17 versus $6.20 expected, and backlog climbed to **$72.1bn**. Data-centre construction and backup-power demand helped drive the beat.	AI is no longer only a semiconductor story. The physical buildout is flowing through generators, construction equipment, electrical systems and infrastructure. Caterpillar may be one of the cleaner ways to see how digital investment creates very analogue demand.
Eli Lilly / Novo Nordisk	Lilly beat expectations and raised its revenue outlook as Mounjaro and Zepbound sales surged. The two drugs generated almost **65% of quarterly revenue**. Novo also upgraded its outlook, but weaker-than-expected Wegovy pill sales and pipeline concerns left investors less convinced.	The obesity market is moving from category creation to competitive execution. Both companies can grow in a very large market, but product efficacy, manufacturing capacity and pipeline quality increasingly matter more than simply having GLP-1 exposure.
Disney / IP economics	Disney reported revenue of **$25.2bn**, up 7%, with adjusted EPS ahead of expectations. *Toy Story 5* fed through not only to cinema revenue, but also streaming engagement, merchandise and theme-park attendance.	Disney's advantage is not merely owning successful films. It is its ability to monetise the same intellectual property repeatedly across different channels. One successful piece of content can support streaming, parks, licensing and merchandise simultaneously.

M&A

NAME / THEME	WHAT HAPPENED	OUR READ
Prologis / SEGRO	SEGRO agreed to a takeover by Prologis valuing the UK warehouse group at up to **£14.3bn**, after previously rejecting three approaches. The offer represents a 42% premium to SEGRO's pre-approach share price.	Another very large UK-listed asset is being bought by overseas capital. Public markets may have become more optimistic, but strategic buyers still appear willing to pay materially more than quoted valuations for scarce infrastructure-like platforms.
KKR / Integer Holdings	KKR agreed to take medical-device manufacturer Integer private for approximately **$5.7bn**. The deal deepens KKR's healthcare exposure and follows sustained private-equity activity across medtech.	Healthcare remains attractive to private capital because demand is relatively defensive and fragmented sectors offer scope for platform consolidation. Integer could become the starting point rather than the end of KKR's strategy.
Prysmian / Atkore	Prysmian agreed to acquire U.S. electrical-products manufacturer Atkore for **$3.8bn**, extending its North American presence and exposure to data centres, utilities and electrification.	The AI infrastructure trade is showing up in M&A as well as earnings. The strategic bottleneck is increasingly everything around the chips: power, fibre, cables, cooling and electrical infrastructure.
Williams / Momentum Midstream	Williams agreed to acquire Momentum Midstream in a transaction worth up to **$5.5bn**, expanding its Haynesville position and exposure to rising LNG and power demand along the Gulf Coast.	Gas infrastructure is becoming strategically more valuable as LNG exports and data-centre electricity consumption grow together. The energy transition is proving considerably less linear than many portfolios once assumed.
AstraZeneca / Bristol Myers Squibb	Reports of a potential combination creating a company worth almost **$400bn** sent AstraZeneca sharply lower. Days later, Reuters reported that no discussions were taking place.	Sometimes the market's reaction to a deal that does not happen is more informative than the deal itself. Investors effectively told AstraZeneca that scale for its own sake would not be enough — the strategic and return case would have to be exceptional to justify a transaction of that size.

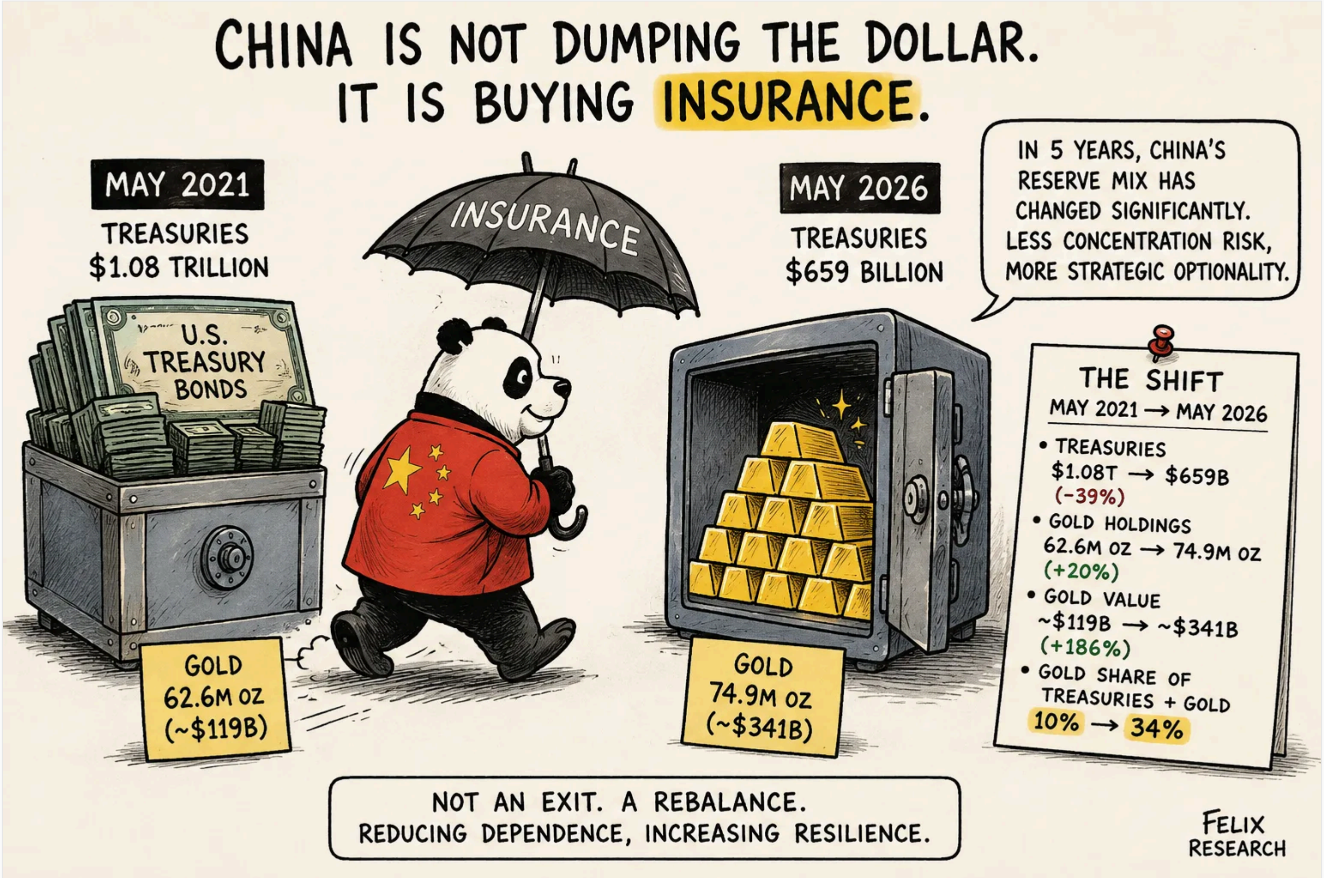
Staying Diligent

Things we are watching this week: 10–14 August 2026

EVENT / THEME	WHY WE CARE
U.S. CPI (Wednesday)	The week's defining macro event. Consensus expects core inflation of 0.2% month-on-month. A cool number relieves pressure on Warsh and the FOMC. A firm one forces the Fed to demonstrate it will act, not just talk. The 30-year Treasury yield is already signalling doubt.
U.S. PPI (Thursday)	Producer prices arrive Thursday. We are particularly interested in whether the elevated prices reported in the ISM surveys are beginning to appear in official inflation data. If companies are absorbing those costs, margins matter. If they are passing them on, CPI eventually matters.
UK Q2 GDP (Thursday)	The first estimate for UK Q2 GDP arrives Thursday. Recent activity data have remained relatively resilient, but the economy is operating against higher energy costs and a Bank of England that has become more concerned about inflation. The composition of growth will matter as much as the headline.
Cisco, CoreWeave and Applied Materials	This is the week's remaining AI test. CoreWeave reports Tuesday, Cisco Wednesday and Applied Materials Thursday. Together they give us three different views of the infrastructure stack: compute capacity, networking and semiconductor manufacturing equipment. After the divergence between Palantir, AMD and SpaceX, the question is not whether AI demand exists — it is where the economics are strongest.
Oil / Strait of Hormuz	Oil fell sharply last week and rebounded on Monday as Iran attached conditions to reopening the Strait. Gulf producers are concluding that Iranian control may be permanent. The direction matters immediately for inflation expectations, transport costs and rate pricing. Until shipping normalises, we would treat any large oil move as conditional rather than permanent.
U.S. retail sales / consumer	Retail-sales data arrive Friday and will provide another check on the consumer after mixed corporate signals. McDonald's showed pressure at the lower-income end, while Disney's parks remained strong. The aggregate number matters, but the distribution of spending matters more.
Market breadth after earnings	Roughly 90% of the S&P 500 has now reported, with earnings growth comfortably exceeding earlier expectations. The next question is whether the rally can broaden beyond the strongest AI-linked winners, or whether record indices remain dependent on a relatively narrow group of companies.

Unhedged Commentary

China is not dumping the dollar. It is buying insurance.



China swaps Treasury concentration for gold insurance.

China's move away from U.S. Treasuries and towards gold is often described as "de-dollarisation". The numbers suggest something more gradual: a deliberate reduction in concentration risk.

Over the five years to May 2026, China's reported holdings of U.S. Treasuries fell from approximately **$1.1tn to $659bn**, a decline of nearly **39%**. Over the same period, its official gold holdings rose by around **20%**, from **62m to 75m ounces**. Higher gold prices amplified the shift. The value of China's gold reserves increased from roughly **$119bn to $341bn**. In 2021, China held about **$9.10 of Treasuries for every $1.00 of gold**. Five years later, that ratio had fallen to around **$1.90**.

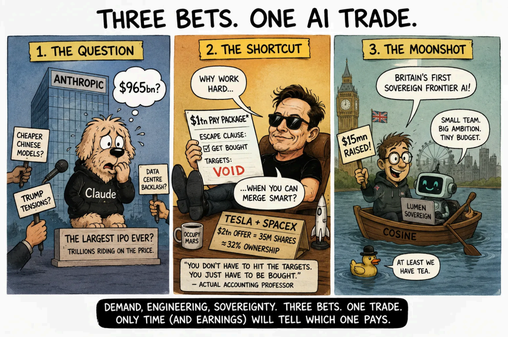
This is not an abandonment of the dollar. But the geopolitical context has changed. Trade restrictions, sanctions and the freezing of Russian central-bank assets have shown that reserves held inside another country's financial system can carry political as well as financial risk.

Gold offers something different. It has no sovereign issuer, does not depend on U.S. fiscal or monetary policy and, when stored domestically, is harder to restrict through foreign financial infrastructure. China is therefore not replacing Treasuries with gold one-for-one. The two assets serve different purposes: treasuries provide liquidity and income; gold provides independence and crisis protection.

For the United States, the risk is not a sudden Chinese sell-off. It is the gradual erosion of the automatic official-sector demand that has historically helped absorb Treasury issuance. For China, the objective is resilience: less dependence on U.S. financial infrastructure without attempting a destabilising break from the dollar system.

> **Our view:** China is not dumping the dollar. It is reducing its reliance on it and buying insurance against a world in which financial reserves are increasingly political.

In Other News



Three bets on the AI trade's next phase.

A $965bn question, a $1tn shortcut and a $15mn *moonshot*.

Three stories this week capture the AI trade's next phase better than any index level.

The question. Anthropic is meeting potential investors ahead of a planned IPO that could launch in September or early October — and could be the largest of all time. Investors are pressing the **$965bn** company on cheaper Chinese models, tensions with the Trump administration and a growing backlash against data-centre construction. Its coding tool has made Anthropic the front-runner in the AI race; it has also made Silicon Valley nervous about how much power one company now holds. The price it sets will establish how public investors value the frontier labs — and trillions of dollars of AI infrastructure spending rest on the answer.

The shortcut. The WSJ this week worked through the arithmetic of a Tesla–SpaceX merger. Buried in Musk's **$1tn** pay package is an escape clause: if SpaceX acquires Tesla, key performance targets fall away instantly. At a $2tn offer price, Musk would receive 35 million shares on completion and own roughly **32% of the combined company**. As one accounting professor put it: "This $1 trillion — that was supposed to be a stretch. It turns out it isn't really that hard. All you have to do is be bought." Last week the market asked Musk for proof. The pay package may offer a route around it.

The moonshot. Britain's answer to OpenAI is a 30-person London start-up that has raised just **$15mn**. Cosine is building Lumen Sovereign — described by officials as Britain's first fully sovereign frontier AI model — with government support, access to the Isambard supercomputer and partners including BAE Systems, PwC and Lloyds. Days after the UK granted that access, the US temporarily barred foreign groups from Anthropic's most advanced models, sharpening the sovereignty argument. The question is whether sovereignty can substitute for scale — or whether $15mn buys a seat at a table where the chips cost billions.

> **Our view:** the AI trade is quietly splitting into three separate bets — that demand justifies the largest IPO in history, that financial engineering can stand in for operating proof, and that sovereignty can stand in for scale. They will not all be right.

Sources: WSJ — Anthropic · WSJ — Tesla/SpaceX · FT — Cosine

The Thinking Corner

> *When companies keep increasing investment in AI and other long-term growth projects, what evidence should investors demand before treating that spending as value creation rather than expensive ambition?*

FROM THE FELIX VIEW

Latest from the team

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JUL 23, 2026	The checking problem	→
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