

Can stocks stay resilient with higher Treasury yields

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Key takeaways

Resilient economic growth, more than inflation or fiscal concerns, in my view, appeared to be supporting higher Treasury yields.

Higher borrowing costs appeared to be pressuring lower-quality credit and narrowing stock market leadership.

Near-5% Treasury yields may be able to coexist with a healthy stock market if earnings and nominal growth remain strong.

I can think of many years when I've used the Green Day line "wake me up when September ends" to start an early fall commentary. Perhaps I need new material. Or better yet, maybe September could simply become less eventful.

Typically, it has been stock investors who wish they could have hibernated through the month. This time, it has been bond investors. (And New York Giants fans like me, who watched their star quarterback go down in the first quarter of the second game.)

There's no shortage of explanations for the rise in interest rates. It's fiscal spending. It's inflation. It's the correlation with oil prices. It's the crowding out from hyperscaler bond issuance. It's stronger economic activity. Or some combination of these.

Count me more in the economic activity camp than the inflation or fiscal spending camps. To me, there's little indication in the bond market that something more nefarious has been happening.¹ Rates have increased, in my view, because nominal growth has remained resilient enough to support them.²

That doesn't mean higher rates are inconsequential.

Consider the Caa segment of the credit market, where spreads have widened.³ I wouldn't call that the proverbial canary in the coal mine for the business cycle. Still, we ignore them at our own peril. These companies have tended to be more leveraged and in many cases face a wall of maturity that could increasingly need to be refinanced at higher rates.⁴ Some also operate businesses that may be particularly vulnerable to disruption from artificial intelligence (AI). Those challenges appear far less evident in higher quality credit in my view. It's likely not telling us the end of the market cycle is nigh but rather reminds us that risks can emerge as higher borrowing costs work their way through the economy.

Impact of higher rates on market breadth

Higher rates appear to have contributed to a significant deterioration in market breadth.⁵ This shouldn't be surprising. Utilities and consumer staples face greater competition from higher bond yields. Real estate is rate sensitive for obvious reasons. Meanwhile, performance has rotated back toward technology.⁶ After rolling challenges across different parts of the tech complex, many investors appear

to be gravitating again toward companies capable of producing structural growth in a somewhat more challenging macro environment.

For the broadening trade to reengage, we may need rates and oil prices to do more than simply peak. They may need to move lower. That seems plausible if higher borrowing costs and higher energy prices ultimately moderate economic activity.

S&P 500 near all-time high

None of this means that 5% yields can be inherently incompatible with a healthy stock market. Investment grade and high yield (CCC-rated bonds notwithstanding) corporate bonds widened only modestly in September,⁷ while the S&P 500 remained within striking distance of its all-time high.⁸ And for those convinced that stocks have been caught in a mania, consider that the market's price-to-forward-earnings ratio has declined this year, even as stocks have advanced.⁹ Higher rates have likely played a role, in my view, by restraining multiples while earnings have continued to grow.

Fortunately, there's little historical basis to assume that a 5% Treasury yield will translate into sustained lower stock valuations. If anything, history has suggested that higher yields can coexist with healthy multiples if those yields reflected stronger nominal growth and rising corporate earnings.¹⁰

We awake from September after a sharp rise in yields to find stock and bond markets have remained resilient. I think there are certainly worse things to wake up to.

Source: Bloomberg L.P., Oct. 1, based on the 10-year US inflation breakeven.

Source: Bloomberg L.P., Oct. 1, based on the Federal Reserve US Treasury constant maturity 10-year real yield rate.

Source: Bloomberg L.P., Oct. 1, based on the option-adjusted spread of the Bloomberg Caa US High Yield.

Source: Bloomberg L.P., Oct. 1, based on the percentage of NYSE stocks closing above the 200-day moving average.

Source: Bloomberg L.P., Sept. 30, based on the 1-month return of the S&P 500 Information Technology Sector (+5.53%).

Source: Bloomberg L.P., Oct. 1, based on the option-adjusted spread of the Bloomberg US Corporate Bond Index.

Source: Bloomberg L.P., Oct. 1. The S&P 500 closed on Oct. 1 at 7,666, after peaking at 7,798 on Aug. 13.

Source: Bloomberg L.P., Oct. 1, based on the price-to-expected earnings of the companies in the S&P 500 Index.

Source: Bloomberg L.P., Oct. 1, based on the historical analysis of the 10-year US Treasury rate and the S&P 500 Index price-to-earnings ratio.

- September 28, 2026
- September 23, 2026
- September 21, 2026

- September 14, 2026

All investing involves risk, including the risk of loss.

Past performance does not guarantee future results.

Investments cannot be made directly in an index.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

Artificial intelligence (AI) technology companies are sensitive to specific risks such as small markets, business cycle changes, economic growth, technological progress, obsolescence, and regulation. These companies may have limited products, markets, resources, or personnel, making their securities more volatile, especially for smaller start-ups. Rapid technological changes can adversely affect their results. AI companies often rely on patents, copyrights, trademarks, and trade secrets to protect their technology, but there's no guarantee these protections will be sufficient. Significant research and development (R&D) spending doesn't ensure product or service success.

The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes US dollar-denominated securities publicly issued by US and non-US industrial, utility, and financial issuers.

Breakeven inflation is the difference in yield between a nominal Treasury security and a Treasury Inflation-Protected Security of the same maturity.

A credit rating is an assessment provided by a nationally recognized statistical rating organization (NRSRO) of the creditworthiness of an issuer with respect to debt obligations, including specific securities, money market instruments, or other debts. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest); ratings are subject to change without notice. If securities are rated differently by the rating agencies, the higher rating is applied. NR indicates the debtor was not rated and should not be interpreted as indicating low quality. Ratings source: Standard & Poor's, Moody's or Fitch, as applicable. For more information on rating methodologies, please visit the following NRSRO websites: www.standardandpoors.com and select 'Understanding Credit Ratings' under Rating Resources 'About Ratings' on the homepage; <https://ratings.moody's.io/ratings> and select 'Understanding Ratings' on the homepage.; www.fitchratings.com and select 'Ratings Definitions Criteria' under 'Resources' on the homepage. Then select 'Rating Definitions' under 'Resources' on the 'Contents' menu.

Credit risk is the risk of default on a debt that may arise from a borrower or issuer of bonds failing to make required payments.

Credit spread is the difference in yield between bonds of similar maturity but with different credit quality.

Earnings per share (EPS) refers to a company's total earnings divided by the number of outstanding shares.

Fixed income investments are subject to credit risk of the issuer and the effects of changing interest rates. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as

well as general market, economic, and political conditions.

Hyperscalers are large cloud service providers that can provide services such as computing and storage at enterprise scale.

Inflation is the rate at which the general price level for goods and services is increasing.

Many products and services offered in technology-related industries are subject to rapid obsolescence, which may lower the value of the issuers.

A market cycle is a trend or pattern that may exist in a given market environment, allowing some securities or asset classes to outperform others.

Option-adjusted spread (OAS) is the yield spread that must be added to a benchmark yield curve to discount a security's payments to match its market price, using a dynamic pricing model that accounts for embedded options.

The price-to-expected earnings measures a stock's valuation by dividing a company's current share price by its expected earnings for the next 12 months or next fiscal year.

The price-to-earnings (P/E) ratio measures a stock's valuation by dividing its share price by its earnings per share.

Purchasing Managers' Indexes (PMI) are based on monthly surveys of companies worldwide and gauge business conditions within the manufacturing and services sectors.

The S&P 500® Information Technology Index includes stocks in the S&P 500 Index classified as information technology companies based on the Global Industry Classification Standard methodology. The index is market-cap weighted.

The S&P 500® Index is an unmanaged index considered representative of the US stock market.

The opinions referenced above are those of the author as of Oct. 2, 2026. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties, and assumptions; there can be no assurance that actual results will not differ materially from expectations.

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