

Growth vs. crisis: Markets weigh a higher-rate reality

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Key takeaways

Rising yields can tell different stories. While some investors may see signs of a debt crisis, others see an economy that has remained resilient and capable of supporting higher rates.

Key market indicators haven't pointed to a debt crisis. The dollar has been firm, inflation expectations contained, and credit spreads have been relatively tight.

The more important debate may be strong growth versus slowing growth. Either could be constructive for stocks, but they may favor different market leaders.

It's become a cliché to describe something as a Rorschach test. You see two human figures. I see an elephant. We look at the same image and come away with entirely different conclusions.

But the original Rorschach test was likely never meant to be analyzed in isolation. Psychologists probably didn't look at a single inkblot and make a diagnosis. The results were interpreted alongside other tests, observations, and evidence. Context mattered.

Investors can look at a chart of the 10-year US Treasury yield and reach very different conclusions. Some may see a debt reckoning long foretold. Years of large fiscal deficits, mounting government debt, and rising borrowing needs¹ may finally be catching up with the United States. Others may see something different. They see an economy that remains surprisingly resilient,² massive investment related to artificial intelligence,³ and the prospect of stronger productivity growth pushing real interest rates higher.⁴

Both groups are looking at the same chart.

Early-stage debt crisis debate

The debate has intensified as bond yields have continued to climb. Adding fuel to the crisis narrative, French government bond spreads versus Germany have widened sharply,⁵ raising questions about whether developed economies can continue to sustain large deficits in a higher-rate world. France is being viewed by many as an important test case for bond markets globally.

Yet if we want to determine whether we're witnessing a debt crisis, it helps to examine the results of other tests as well.

If investors were genuinely losing confidence in the fiscal sustainability of the United States, one might expect a collapsing dollar. Instead, the dollar has remained firm.⁶ One might expect inflation expectations to become unanchored as investors demand compensation for deteriorating fiscal discipline. Yet longer-term inflation expectations have remained relatively contained.⁷

Credit markets have been telling a slightly more nuanced story. To be sure, there are areas showing

stress. Spreads in the lower segments of the high yield market have widened noticeably.⁸ That shouldn't be surprising. Lower quality businesses reliant on refinancing can naturally be vulnerable when borrowing costs rise.

But the picture can be less alarming when viewed more broadly. Investment grade spreads and high yield spreads outside the lowest quality tier have widened only modestly and have remained relatively tight by historical standards.⁹ Credit markets have been displaying caution, not panic, in my view.

That makes it difficult for me to embrace the idea that we're in the early stages of a debt crisis.

Impact on cyclical parts of the economy

What I do think is happening is that higher interest rates and higher oil prices have begun to have a meaningful impact on more cyclical parts of the economy. The long-anticipated and momentarily realized broadening trade has struggled recently as sectors tied more closely to economic activity have faced increasing pressure from financing costs and energy prices.¹⁰ The economy isn't immune to higher rates. I believe it has responded exactly as economic textbooks would suggest.

And perhaps that's the most important point. The solution to higher rates has often been higher rates.

At some level, borrowing costs could become restrictive enough to cool demand, slow economic activity, and relieve the pressures that drove yields higher in the first place. If rates move high enough, growth may slow. If growth slows, rates may eventually stop rising and may even begin to fall.

That's why I increasingly view the debate as being less about growth versus crisis and more about strong growth versus slowing growth.

Constructive backdrop for stocks

Both outcomes can be consistent with a constructive backdrop for stocks. The difference may likely be found in leadership. Strong growth had been favoring cyclical sectors and the overall broadening of markets.¹¹ The prospect of slower growth appears to have shifted leadership back toward higher quality and mega-cap growth companies.¹²

The inkblot may look different depending on who's viewing it. But when I step back and consider all the tests together, I see an economy and markets that have adjusted to higher rates, not one that has fallen into crisis.

Source: Bloomberg, L.P., Oct. 8, 2026, based on the 10-year US Treasury rate.

Source: Federal Reserve Bank of Atlanta, Oct. 8, 2026, based on the Atlanta Fed GDPNow Indicator, which seeks to forecast the growth rate of US real gross domestic product before the official estimates are released by the government.

Source: US Bureau of Economic Analysis, June 2026, based on US private fixed investment nonresidential. Latest data available.

Source: Bloomberg, L.P., Oct. 8, 2026, based on the Federal Reserve US Treasury Constant Maturity 10-Year Real Yield.

Source: Bloomberg, L.P., Oct. 8, 2026, based on the spread between the 10-year French bond yield and 10-year German bund yield.

Source: Bloomberg, L.P., Oct. 8, 2026, based on the US Dollar Index, which measures the value of the

US dollar versus a trade-weighted basket of currencies.

Source: Bloomberg, L.P., Oct. 8, 2026, based on the 5-year US Treasury inflation breakeven.

Source: Bloomberg, L.P., Oct. 8, 2026, based on the option-adjusted spread of the Bloomberg Caa US High Yield Bond Index.

Source: Bloomberg, L.P., Oct. 8, 2026, based on the option-adjusted spreads of the Bloomberg US Corporate Bond Index and Bloomberg US Corporate High Yield Index.

Source: Bloomberg, L.P., Oct. 7, 2026, based on the year-to-date performance of the S&P 500 Equal Weight Index (11.44%) vs. the S&P 500 Index (14.96%).

Source: Bloomberg, L.P., Oct. 8, 2026, based on the year-to-date as of Aug. 31, 2026 performance of the S&P 500 Equal Weight Index (15.57%) vs. the S&P 500 Index (13.12%).

Source: Bloomberg, L.P., Oct. 7, 2026, based on performance since Aug. 31, 2026 of the S&P 500 Equal Weight Index (-3.58%) vs. the S&P 500 Index (1.63%).

- October 5, 2026
- September 28, 2026
- September 23, 2026
- September 21, 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.

A bund is a debt security issued by the German federal government. It is the German equivalent of a US Treasury bond.

The Bloomberg Caa US High Yield Bond Index (often referenced as the CCC/Caa high-yield tier) is a sub-index of the Bloomberg US Corporate High Yield Bond Index that tracks the lowest-rated, riskiest segment of the USD-denominated, fixed-rate, non-investment-grade corporate bond market.

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.

The Bloomberg US Corporate High Yield Bond Index measures the US dollar-denominated, high-yield, fixed-rate corporate bond market.

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

The Consumer Price Index (CPI) measures the change in consumer prices and is a commonly cited measure of inflation.

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

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.

Gross domestic product (GDP) is a broad indicator of a region's economic activity, measuring the monetary value of all the finished goods and services produced in that region over a specified time period.

The Harmonised Index of Consumer Prices (HICP) is a weighted average measure of consumer price inflation in the euro area. The term "harmonised" reflects that the calculations for all EU countries were compiled in a consistent manner.

High yield bonds, or junk bonds, involve a greater risk of default or price changes due to changes in the issuer's credit quality. The values of junk bonds fluctuate more than those of high quality bonds and can decline significantly over short time periods.

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

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 Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

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

Real interest rates are adjusted to remove the effects of inflation.

The S&P 500® Equal Weight Index is the equally weighted version of the S&P 500® Index.

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. 12, 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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