



Higher for longer



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The rapid rise in long-term sovereign bond yields has become one of the most important developments in global financial markets. Can the global economy withstand higher long-term interest rates?

An endogenous shock...

While higher yields are often viewed as a threat to economic growth, the issue is more nuanced. If yields are being driven by rising risk premia, the consequences for growth could prove negative. However, if they are rising because growth prospects are improving, then higher rates may be both sustainable and economically justified.

Indeed, stronger economic growth increases demand for capital, boosts expected returns on investment and typically pushes up the equilibrium level of interest rates. Financial markets can comfortably absorb higher yields because it is matched by stronger nominal income growth and improved debt-servicing capacity. Historically, some periods of rising yields have coincided with strong economic expansions.

There are reasons to believe that part of the recent increase in yields reflects stronger underlying growth dynamics. The global economy has proved remarkably resilient despite successive shocks, from trade tensions to conflicts in the Middle East. Consumption has been cooling but remains sturdy despite sluggish pace of job growth. In addition, AI has become a powerful catalyst for capital expenditure across a wide range of industries. September PMIs showed an improvement in the services sector business confidence, suggesting that the economic upturn is both accelerating and broadening beyond manufacturing. IT-related services are, unsurprisingly, showing particularly strong growth.

More surprising, however, is the resilience of consumer-facing services PMI despite recent energy price increases.

In fact, optimism surrounding AI and other technological innovations has led some investors to revise upward their assessment of future productivity growth, particularly in the US, and higher equilibrium interest rates would thus be a natural consequence.

World – Sovereign LT yield

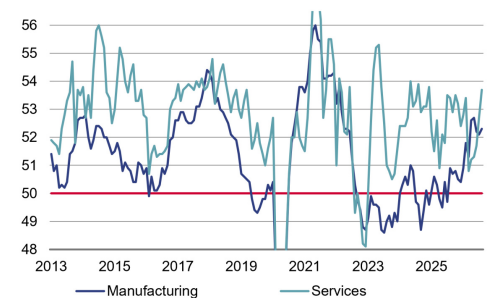
in %, Bloomberg index, 10 yr +



Sources : Bloomberg, Rothschild & Co Asset Management, 30/09/2026

World- Business confidence

S&P Global



Sources : Macrobond, Rothschild & Co Asset Management, 30/09/2026

... or exogenous?

However, the evidence suggests that stronger growth is only part of the story and several indicators point to less benign explanations for the rise in yields, particularly inflation. Even before the Iran conflict, inflationary pressures proved more persistent than expected. Policy rates may need to remain elevated for an extended period to ensure central bank's credibility, implying that higher bond yields partly reflect the need to maintain restrictive monetary conditions.

A second indication comes from fiscal developments. Public debt ratios have increased substantially across most advanced economies, while deficits remain unusually large despite relatively healthy economic conditions. Governments are expected to issue large volumes of debt for years to come, reflecting defence spending and ageing populations, while the AI boom is adding further upward pressure as massive financing requirements boost demand for long-term capital. The growing supply of bonds requires investors to absorb more duration risk, contributing to higher yields. Moreover, higher yields would further worsen debt dynamics by increasing governments' debt-servicing costs.

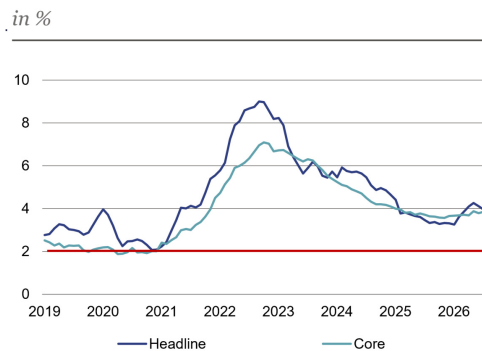
The recent rise in yields also appears to reflect higher term and risk premia amid elevated uncertainty, while quantitative tightening has reduced central banks' presence in bond markets, removing an important source of demand for government securities.

Financial market behaviour further suggests that the rise in yields cannot be explained entirely by optimism about growth. If investors viewed higher rates primarily as a consequence of stronger economic fundamentals, credit markets would likely remain

broadly stable. Yet in recent months, spreads have shown signs of widening in riskier segments of the market, particularly high-yield credit.

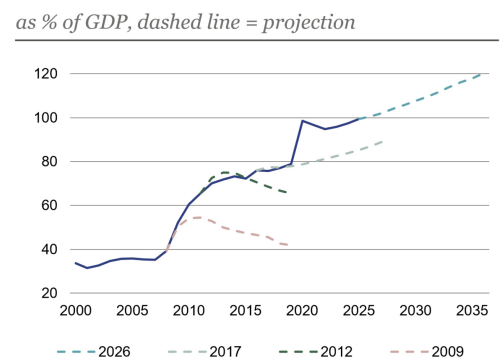
A moderate widening in spreads is not unusual during periods of monetary tightening. However, if they continue to increase and begin affecting investment-grade credit or bank lending conditions, the effects on economic activity could become much larger. Financial conditions would tighten across the economy, amplifying the drag already created by higher borrowing costs and reducing the availability of credit to households and businesses.

World - Inflation



Sources : OECD, Rothschild & Co AM, 30/09/2026

US – Federal debt



Sources : CBO, Macrobond, Rothschild & Co AM, 30/09/2026

That said, the transmission of higher interest rates may be slower than in previous cycles. Over the past decade, governments, households and corporations have locked in historically low borrowing costs by issuing debt with longer maturities and at fixed interest rates. In that regard, the US housing market provides a good example of how a high share of fixed-rate debt can dampen the transmission of rising interest rates to the broader economy.

As a result, the immediate sensitivity of borrowers to rising market rates has diminished, delaying the pass-through of higher yields to debt-servicing costs. Consequently, the global economy may be able to withstand elevated long-term rates for longer before the most visible negative effects on growth begin to emerge.

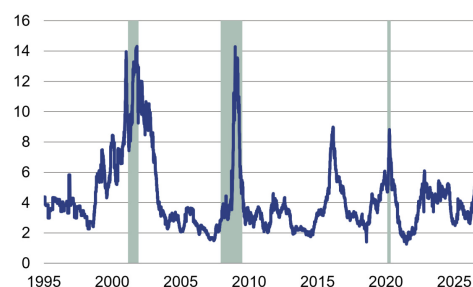
This resilience should not be overstated, however. Over recent decades, households, corporations and governments have accumulated unprecedented levels of debt, leaving the economy structurally more exposed to changes in financing conditions. As existing debt matures and is gradually refinanced at higher rates, borrowing costs will inevitably rise across the economy.

At present, the evidence remains mixed but points more towards a rise in interest rates driven by inflation persistence, fiscal imbalances, elevated bond supply and higher risk premia than by a significant improvement in long-term growth prospects. If yields continue to rise, the resulting tightening of financial conditions could eventually weigh

significantly on global growth, even if the adjustment process proves slower than in previous cycles.

US – High yield spread

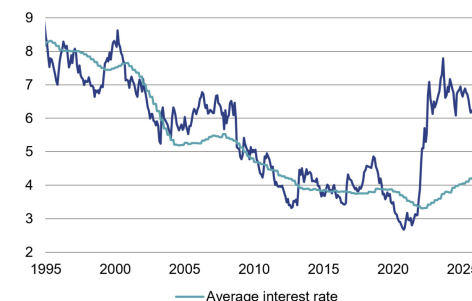
en p.p., CCC over B bonds



Sources : Bloomberg, Rothschild & Co Asset Management, 30/09/2026

US. – Mortgage loan interest rates

in %, 30 years



Sources : Bloomberg, Rothschild & Co Asset Management, 30/09/2026

Performance of the indices and interest rate levels

	Price as of 30/09/2026	1 month % change	2026 % change
Equity markets			
CAC 40	7 965	-4.4%	-2.3%
Euro Stoxx 50	6 269	-2.4%	8.2%
S&P 500	7 652	-0.5%	11.8%
Nikkei 225	66 754	0.7%	32.6%
Currencies			
EUR/USD	1.13	-2.5%	-3.5%
EUR/JPY	178.35	-3.9%	-3.1%
Interest rates			
	Price as of 30/09/2026	1 month bp ⁽¹⁾	2026 bp ⁽¹⁾
3 month			
Eurozone	2.70%	20	59
United States	4.11%	28	48
10 years			
Eurozone	3.59%	26	43
United States	5.28%	53	112

(1) Basis point.

Source: Bloomberg, data as of 30/09/2026. Performances in local currency.

Past performance is not a reliable indicator of future performance and is not constant over time. Index's performance is calculated on the basis of net dividend reinvested

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(1) Source: Rothschild & Co Asset Management, 31/07/2026.

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