MACRO

Will markets remain resilient with yields above 5%?

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Ten-year Treasury yields moved above 5% on 15 September, just ahead of the Fed hike, and have stayed there, reaching 5.3% on 5 October. That is the highest level in almost 25 years. Yet equity markets have remained resilient, with the S&P 500 and the Nasdaq setting new highs. So, the key question is not just where yields go next, but what is driving them and how they will impact markets.

The cycle is still being supported by investment, but supply shocks are also biting. Energy remains the key near-term constraint, while AI is the bigger structural story. Energy determines how much tightening is needed. AI determines how much the economy can absorb. The Fed sits between the two.

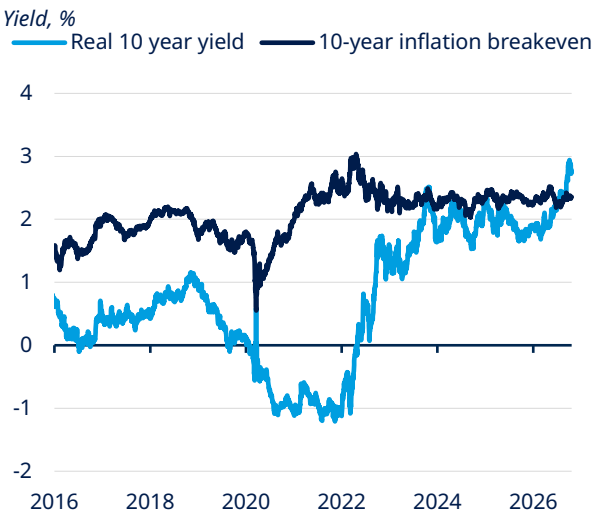
The Fed reaffirmed its commitment to price stability at the latest FOMC meeting, but calibration is now the harder task.

Tightening too much could discourage the productive investment that may eventually help ease inflation. Tightening too little could allow inflation pressures to build again after a long period of missed targets. That uncertainty is itself a risk premium, and it helps explain why bond volatility remains high.

Higher rates are also a capital-allocation story. AI, digital infrastructure, power generation, the energy transition, defence, strategic autonomy and public deficits all require substantial funding. Public and private borrowers are competing more directly, pushing yields higher across the market. Heavy issuance is also changing the marginal Treasury buyer, with the market relying more on private investors, asset managers and hedge funds. These are more price-sensitive buyers, which adds to rate pressure. **The investment boom is therefore creating both the growth that supports markets and the cost of capital that tests them.**

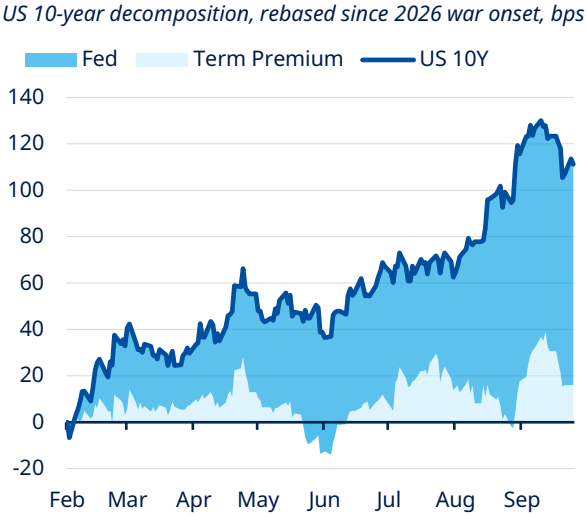
The yield curve movements support this reading. Ten-year breakevens suggest inflation expectations remain anchored, while higher real yields point to persistent investment demand and stronger real growth, which also helps explain the resilience of equity markets.

10-year breakeven stays anchored



Source: Amundi Investment Institute, Bloomberg. Data as of 19 October 2026.

Fed pricing and term premium rise



Source: Amundi Investment Institute, Bloomberg. Data as of 19 October 2026. Term premium is the Adrian Crump & Moench 10 Year Treasury Term Premium.

Six factors to watch to assess the impact of US Treasury yields at 5%

Source
Higher real yields driven by productive investment can be absorbed if earnings rise with them. Energy-driven rises are more damaging because they squeeze margins and bonds together. A credibility or debasement shock would be more dangerous.

Leverage
Private-sector leverage is relatively contained, but vulnerability is concentrated among new homebuyers, lower-income consumers, small businesses and leveraged borrowers. The public sector is the other weak link, as higher rates progressively feed into debt-service costs.

Starting point
Higher rates hurt more when valuations are rich and buffers are thin. Today's equities, credit spreads and funding needs leave little room for disappointment.

Persistence & volatility
A brief breach mainly reprices markets. Sustained high rates progressively affect refinancing, capex, housing, fiscal interest costs, and defaults. Rate volatility also increases required returns and issuance costs.

Speed
Gradual increases are manageable; abrupt moves can trigger hedging, selling and sharp repricing. Speed drives market repricing; persistence determines the economic damage.

Funding cost test
The key test is whether financing costs rise faster than nominal incomes, revenues, and earnings.

Multiple scenarios ahead: From repricing to credit stress

Historically, higher rates usually work through four stages (see sequence below), but the process is neither automatic nor linear. It begins with market repricing, then rationing, then refinancing pressure, and finally credit stress if the shock persists. The transmission of higher yields can be amplified by leverage and liquidity mismatches in nonbank financial intermediation, even before broad corporate credit conditions deteriorate. Today, the evidence is still closer to repricing and selective pressure than broad stress. Spreads have widened only modestly; liquidity is orderly and large-company balance sheets remain resilient. A sustained move into broader stress would show up in wider spreads, tighter lending standards, weaker earnings revisions, lower capex and refinancing failures.

How higher rates transmit through the economy

1 Monetary repricing
Bonds adjust, cash becomes more attractive and equity multiples compress. Long-duration and crowded assets feel it first. In a healthy mid-cycle, this usually means volatility and some cyclical softening, not a broad break.

2 Rationing
Higher hurdle rates start to constrain capital allocation. Lenders discriminate more, and marginal projects are delayed, resized or cancelled. Housing, SMEs and less profitable companies lose access to cheap funding first.

3 Refinancing pressure
If rates stay high as debt resets, floating-rate borrowers feel the cost quickly and fixed-rate borrowers feel it at maturity. Interest expense begins to displace investment, hiring and distributions.

4 Credit feedback loop
Weaker cash flows meet persistent funding costs. Spreads widen, lending standards tighten, defaults rise and capex falls. At that point, the price shock becomes a cash-flow shock, then a macro shock.

Source: Amundi Investment Institute, October 14, 2026

What is most vulnerable and what is most resilient

The key question is not how far rates rise, but why. Different shocks move different parts of the curve and hit different assets. Monetary uncertainty tends to hurt shorter- and medium-term assets. An energy shock impacts mostly growth equities, duration and corporate margins. A term-premium shock hits long-duration assets. Overtightening can eventually spread from housing and weaker consumers into equities and credit. When the regime is unclear, correlations become less reliable and vulnerabilities widen.

Today, equities are more rate sensitive, but not evenly. Real estate, utilities, homebuilders, materials and capital-intensive AI infrastructure and power are among the most exposed because of their long-dated cash flows and funding needs. By contrast, companies with strong pricing power and higher earnings growth should prove more resilient. In that group, selected communication services, semiconductor, hardware, memory and networking exposures still look better placed.

Credit is sensitive, but less so than in the past. Investment grade is exposed through its longer duration, while high yield becomes more vulnerable if higher rates weaken growth and widen spreads. Leveraged loans offer the most initial protection because of floating coupons, although prolonged high rates eventually weaken borrowers' interest coverage.

The dollar will likely remain a resilient asset, even when higher rates reflect Fed uncertainty or stronger US real yields. Oil is resilient in an inflationary or geopolitical shock, but vulnerable to de-escalation.

AI will largely determine where rates land

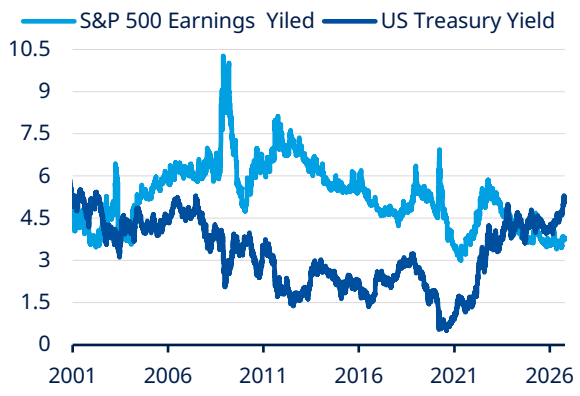
The investment cycle will determine whether today's high-rate environment is sustainable. AI spending raises demand for capital, while productivity gains should lift growth. But it also creates near-term pressure through power, equipment and labour bottlenecks. Higher rates raise AI hurdle rates, financing costs, and scrutiny of distant monetisation. As the buildout broadens from cash-rich hyperscalers toward corporate borrowers, infrastructure providers and private credit, it becomes more dependent on utilisation, revenue quality, and refinancing conditions.

AI therefore supports the higher-rate backdrop, but it also becomes more exposed to it. Recent volatility in AI related credit underscores that continued investment alone is not sufficient: earnings visibility and sustainable financing conditions will be critical to market resilience. If monetisation disappoints, capex and valuations could fall while the debt remains, hurting growth and putting pressure on equities. That is the main risk case.

For now, though, the base case is absorption rather than rupture. Nominal growth remains supportive, inflation expectations are anchored, credit markets are orderly and investment is still strong. In the context of higher inflation and an unstable bond-equity correlation, the Treasury remains a key diversifier in case of a growth disappointment shock. This argues for a selective risk-on stance, a careful approach to duration and greater diversification, including gold and private assets.

US Treasuries look increasingly attractive

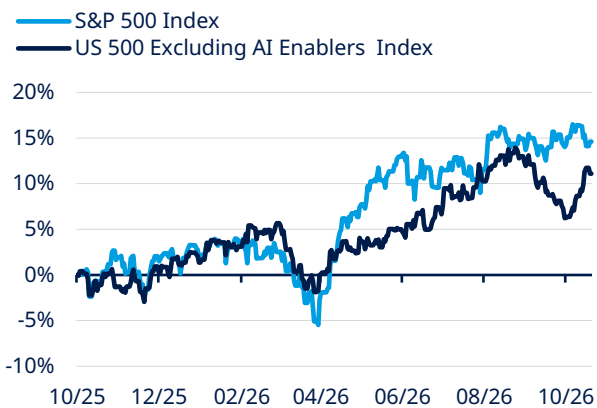
Equity vs bond yields, %



Source: Amundi Investment Institute, Bloomberg. Data as of 19 October 2026. US Treasury refer to the Bloomberg US Treasury Index.

Excluding AI enabler, the market lags

Price indexes normalised as 1 October 2025



Sources: Amundi Investment Institute, Bloomberg. Data as of 19 October 2026. The US 500 excluding artificial intelligence enablers index by Goldman Sachs excludes companies perceived to be enablers of artificial intelligence innovation before applying the S&P 500 Index weighting methodology to the remaining universe.

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