

Market Commentary



Weekly perspective on current market sentiment

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Last week's S&P 500 Index: +1.0%

Can higher Treasury yields upset the market rally?

Key takeaways

- Since late February, the 10-year Treasury yield has risen about 0.7 percentage points. That matters because higher Treasury yields can lead to higher borrowing costs for mortgages, credit, and business loans.
- Markets are paying attention to higher yields, but we do not think rates alone are enough to outweigh the factors that have recently supported stocks.

U.S. Treasury yields have moved up sharply since late February. The 10-year Treasury yield rose from about 3.9% on February 27 to more than 4.65% by May 19. Part of that increase reflects higher oil prices and worries that inflation may stay stubbornly elevated. Some investors are also concerned about the long-term path of U.S. government debt. Higher Treasury yields matter because they often push up borrowing costs across the economy, including mortgage rates, corporate borrowing costs, and other loan rates. Even so, the S&P 500 (the index) has continued to reach new highs. In fact, the last time long-term Treasury yields were around these levels, in mid-2025, the S&P 500 was more than 1,500 points below where it is today.

Because we see only limited room for long-term yields to fall, investors may ask when higher rates could start to weigh more heavily on stocks. For now, several forces are helping offset that pressure. Corporate earnings have generally been better than expected, the job market has stayed resilient, and enthusiasm around artificial intelligence (AI) continues to support many technology stocks. Technology and AI-related companies now make up a large share of the S&P 500 Index, so their strength can have an outsized effect on the overall index. We believe many of these companies also have strong revenue growth expectations for this year, which may help cushion some of the drag from higher borrowing costs.

Because technology companies now carry so much weight in the index, their performance can help support the broader market even when rates are rising. In our view, a large market pullback would likely require one of two things: a cooling in the AI-driven growth story or a more meaningful move higher in rates, such as the 10-year Treasury yield approaching 5%. The pace of rate moves also matters. Recently, yields have been especially volatile, and sharp swings can make investors uneasy. They can also make it harder for companies to plan financing and borrowing needs, which may add pressure to stock prices.

Our current view is that today's higher interest rates are not yet enough to derail the stock market. We continue to favor U.S. large-cap sector, and we still prefer equities over fixed income overall. Within fixed income, we favor investment-grade credit. Investors can consider high quality issuers with attractive yields. If stock or bond markets pull back because of rate volatility, we would view that as a possible opportunity for long-term investors.

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Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Equity securities are subject to market risk which means their value may fluctuate in response to general economic and market conditions and the perception of individual issuers. **Growth stocks** tend to fluctuate more than the overall market and growth may not be realized. The growth style of investing tends to shift in and out of favor. **Technology** and internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. Although **Treasuries** are considered free from credit risk they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate. **U.S. government securities** are backed by the full faith and credit of the federal government as to payment of principal and interest. Unlike U.S. government securities, agency securities carry the implicit guarantee of the U.S. government but are not direct obligations. Payment of principal and interest is solely the obligation of the issuer. If sold prior to maturity, both types of debt securities are subject to market risk. The **commodities** markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility.

Definitions

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

An index is unmanaged and not available for direct investment.

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