Flash Economics

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Long-term interest rates have further to rise

Long-term interest rates have already risen dramatically in all the major OECD countries since the beginning of 2026, and then again since the summer of 2026. However, we are concerned that this rise will intensify further, for two reasons:

- The elasticity of bond supply with respect to the long-term interest rate is low. Bond supply comes partly from firms, particularly technology firms, whose profitability is so high that their investment, and therefore their borrowing, responds only very weakly to rising interest rates. It also comes from governments, which are unable to reduce their deficits. This implies that the (*ex ante*) excess of investment over saving will be corrected only through a very sharp rise in real interest rates.

- At present, the rise in long-term nominal interest rates reflects higher long-term real interest rates rather than higher long-term inflation expectations. Yet inflation is high, driven in particular by rising prices for energy, maritime transport, semiconductors and industrial metals. So far, these price increases have not passed through to wages or to core inflation. However, if headline inflation remains high, employees are unlikely to accept a sustained loss of purchasing power; core inflation would then rise, as would long-term inflation expectations.

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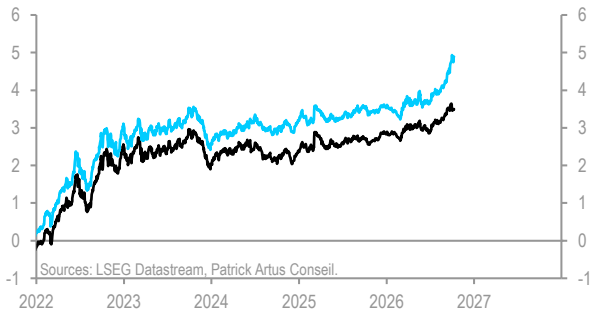
Sharp rise in long-term interest rates

In the major OECD countries, long-term interest rates have risen sharply since 2022, but this increase reflected the exit from an abnormal period of zero, or even negative, interest rates. **They have nevertheless risen markedly again** since the beginning of 2026, and once more since the summer (**Charts 1A and 1B**).

Chart 1A
10-year government bond yields (%)



Chart 1B
10-year government bond yields (%)

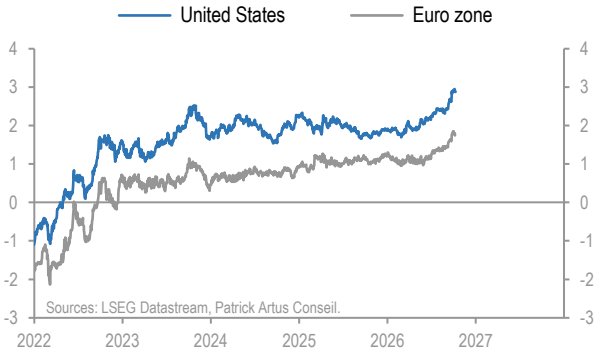


We are concerned that the rise in long-term interest rates will become even more pronounced in the period ahead.

First driver of a continued rise in long-term interest rates: the low sensitivity of investment to real interest rates

For now, the rise in long-term interest rates reflects **higher long-term real interest rates** (**Chart 2**).

Chart 2
Real 10-year government bond yield (%)



Normally, a rise in long-term real interest rates leads to a fall in investment, which brings investment and saving back into balance (such a rise reflects an *ex ante* shortfall of saving relative to investment, i.e. before the adjustment that ensures they are equal *ex post*). Today, however, we observe that **investment, particularly in the United States**:

- **is linked to the development of artificial intelligence** (AI; **Chart 3**), which holds out the prospect of very high returns on these investments – investments that firms will not forgo, even if real interest rates rise;
- **is associated with very rapid growth in corporate profits** (**Chart 4**), which gives firms the means to invest and confirms the high returns on these investments.

Chart 3
United States: private investment by component
(as % of GDP, chained 2017 USD)

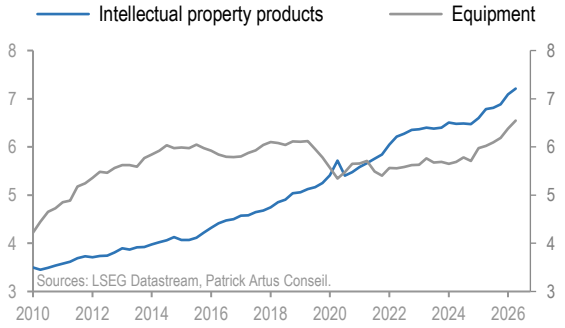
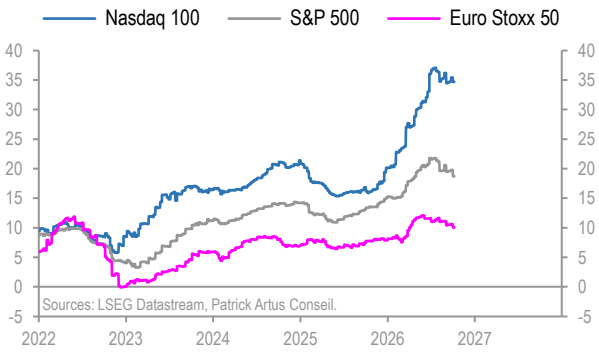


Chart 4
12-month forward earnings growth rate

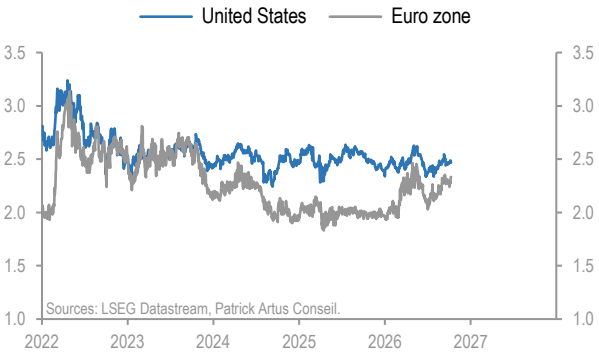


The sensitivity of investment to the long-term real interest rate is therefore probably low, since firms have both the will and the means to continue investing, even if real interest rates rise. This implies that **bringing saving and investment back into balance (*ex post*) will require a sharp rise in long-term real interest rates**.

Second driver of a continued rise in long-term interest rates: the likely increase in long-term inflation expectations

At present, the rise in long-term nominal interest rates reflects higher long-term real interest rates (**Chart 2** above) rather than higher **long-term inflation expectations** (**Chart 5**).

Chart 5
10-year inflation swap rates (%)



However, **many prices are rising owing to the geopolitical situation** (the wars in Ukraine and the Middle East) **and the development of AI**, which is increasing demand for semiconductors and industrial metals. Examples include **the rise in oil and natural gas prices** (outside the United States in the case of natural gas; **Charts 6A and 6B**), **in oil tanker freight rates** (**Chart 7**), **as well as in the prices of semiconductors** (**Chart 8**) **and copper** (**Chart 9**).

Chart 6A
Oil price (Brent, $/bbl)



Chart 6B
Europe: Natural gas price (TTF, €/MWh)

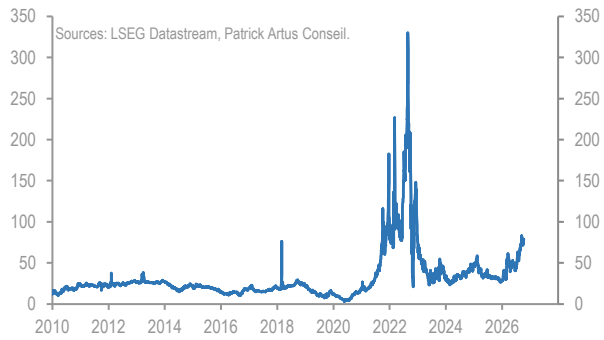


Chart 7
Crude tanker freight rates from the Middle East Gulf
(1 January 2026 = 100)

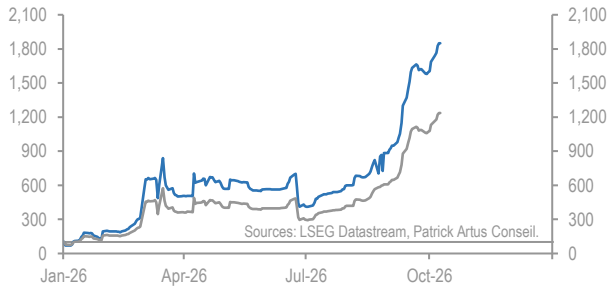


Chart 8
Semiconductor prices (in USD)

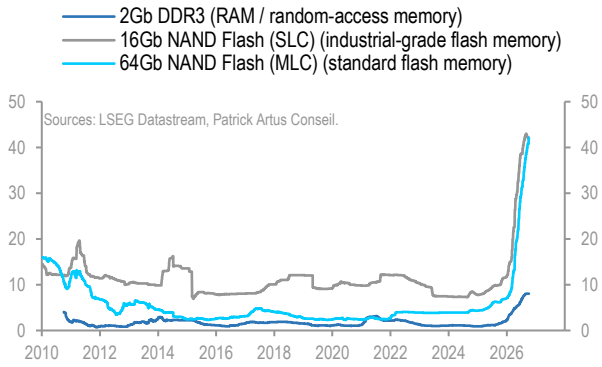
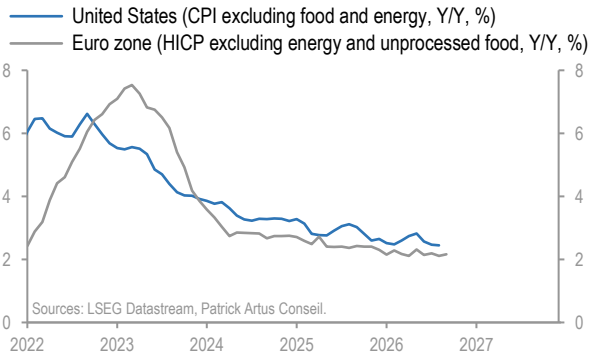


Chart 9
Copper prices (US dollars per tonne)



So far, this broad-based rise in the prices of energy, transport, electronic components and industrial metals has pushed up only headline inflation; **it has not passed through to wages or to core inflation** (**Chart 10**).

Chart 10
Core inflation



But if this inflation (in the prices of energy, transport, semiconductors and metals) persists, there are likely to be demands for wage adjustments, leading to **the emergence of wage inflation** and then, **eventually**, to **a rise in core inflation** (**Chart 10**) **and in long-term inflation expectations** (**Chart 5**). A rise in long-term inflation expectations would then become an additional driver of higher long-term nominal interest rates.

Summary: the rise in long-term interest rates is likely to continue

We have identified two mechanisms that are likely to lead to a continued rise in long-term interest rates in the OECD countries:

- the low sensitivity of investment to the long-term real interest rate, which stems from the investment needs associated with artificial intelligence and from high corporate profitability;
- the pass-through of rising prices for energy, electronic components, transport and industrial metals to wages, then to core inflation and, ultimately, to long-term inflation expectations.

There is therefore particular cause for concern about the dynamics of public debt ratios if long-term real interest rates come to exceed real GDP growth rates across all OECD countries.

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