Flash Economics

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Why have equity indices proved resilient to the rise in long-term real interest rates?

A negative correlation would normally be expected between the levels of long-term real interest rates and equity indices. Yet this negative correlation is currently absent, even though long-term real interest rates have risen markedly since 2022. What explains this resilience of equity indices? It most likely reflects the very strong growth in corporate profits, particularly in the United States, where all productivity gains currently accrue to companies.

A stock market correction could therefore occur:

- if the distribution of value added shifts in favour of workers, a development that the Democratic Party's victory in the midterm elections could encourage;
- if returns on the massive investment in artificial intelligence prove disappointing, as is starting to become apparent;
- or if the Democrats' victory in the midterm elections does indeed lead to a slowdown in data centre investment.

So far, however, the rise in real interest rates has not had the expected effect on equity indices.

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Rise in long-term real interest rates

We examine the situation in the United States and the euro zone. Since 2022, and again since the beginning of 2026, both economies have experienced a **sharp rise in long-term nominal and real interest rates** (**Charts 1A and 1B**).

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

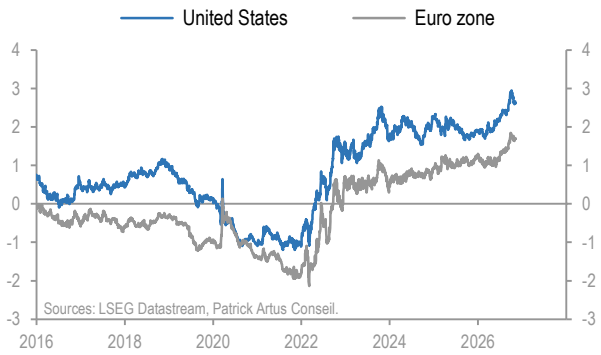
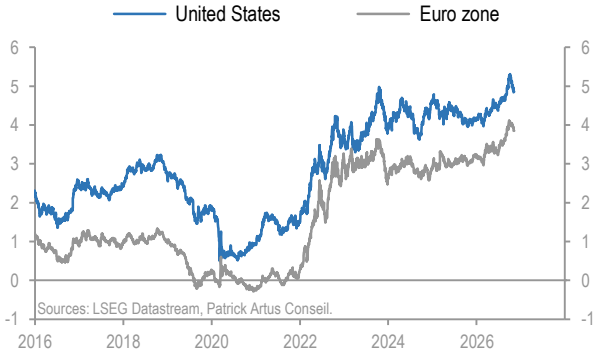


Chart 1B
10-year government bond yields (%)



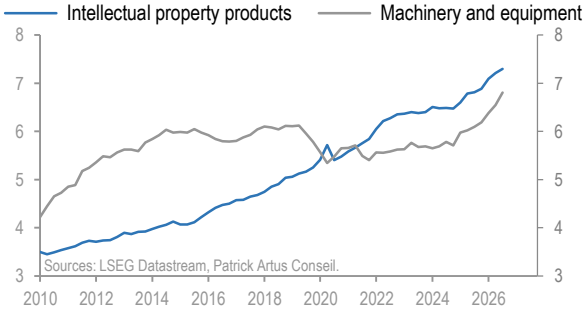
This rise in long-term real interest rates stems first and foremost from a normalisation following the period of highly expansionary monetary policy, marked in particular by the use of **quantitative easing**, i.e. bond purchases by central banks (**Chart 2**).

Since 2024, it has also been driven by **the very sharp rise in investment related to the development of artificial intelligence (AI), and by the resulting financing needs**, particularly in the United States (**Chart 3**).

Chart 2
Monetary base



Chart 3
United States: Private investment in equipment and intellectual property products
(as % of GDP, in real terms, chained 2017 dollars)



As a result of this increase, *ex ante* investment has exceeded available savings, hence the rise in long-term real interest rates.

The rise in long-term real interest rates has not caused equity indices to fall

One would normally expect a **strongly negative correlation between long-term real interest rates and equity indices**. Yet this negative correlation has not materialised (**Charts 4A and 4B**), which is surprising and calls for an explanation. As for the temporary decline in equity indices in 2022, it was linked to the outbreak of the war in Ukraine.

Chart 4A
United States: 10-year real interest rate and Nasdaq Composite index

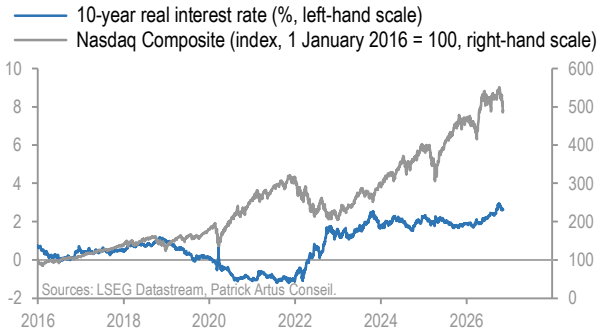
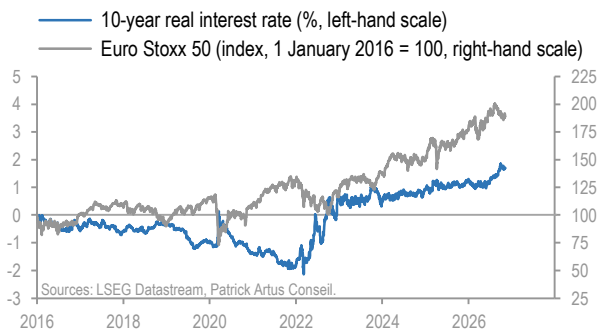


Chart 4B
Euro zone: 10-year real interest rate and Euro Stoxx 50 index



An effect of the sharp rise in corporate profits

Alongside the rise in long-term real interest rates, there has been a **sharp increase in corporate profits** (**Chart 5**). This increase has been particularly rapid in the United States, where all productivity gains accrue to companies and their shareholders, as evidenced by developments in profit margins (**Chart 6**).

Chart 5
12-month forward EPS growth (%)

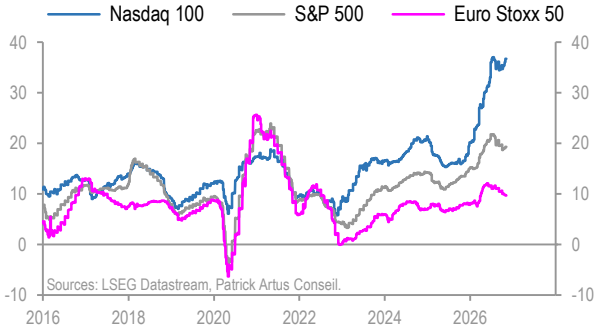
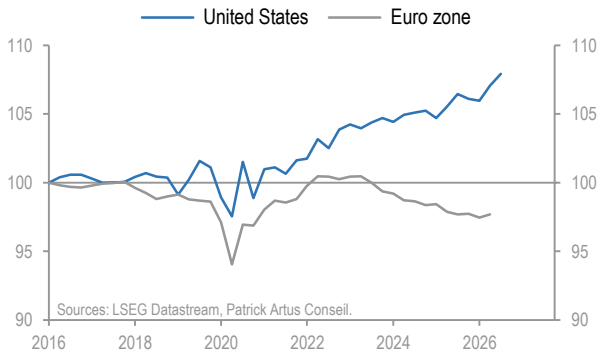


Chart 6
Profit margin* (index Q1 2016 = 100)



* Ratio of the GDP deflator to unit labour costs, whole economy.

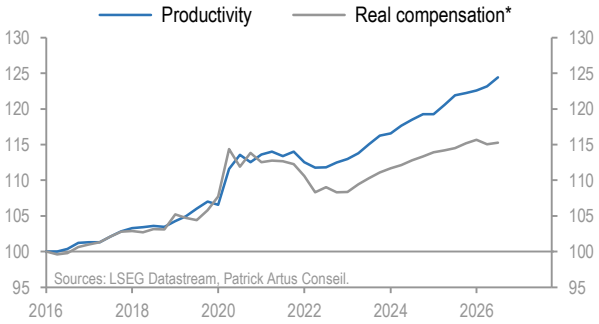
It is therefore highly likely that **the increasingly rapid rise in corporate profits has offset the negative effect of higher long-term real interest rates on equity indices**.

Conclusion: what developments could trigger a stock market correction?

The above analysis identifies three developments that could trigger a correction in equity indices in the future:

- **a distribution of income more favourable to workers**, particularly in the United States (**Chart 7**). Such a distribution of income, less favourable to companies, could result from the electoral victory of the Democratic Party, which regained control of both chambers of Congress in the midterm elections held on 3 November 2026;

Chart 7
United States: Productivity and real compensation per hour, business sector (Q1 2016 = 100)



* Hourly compensation deflated by the GDP deflator.

- **disappointing returns on the massive investment in AI**; these returns would fall short of expectations if less capital- and energy-intensive AI models – such as the Chinese models developed by DeepSeek, Alibaba and ByteDance, among others – were to become widespread;
- **an adverse development for data centre construction**, a possible consequence of the Democrats' victory.

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