Rothschild & Co
Asset Management



Resilience has a price



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Resilience should not be mistaken for stability. Behind relatively robust headline global growth lies an increasingly challenging combination of persistent inflation, elevated interest rates, geopolitical disruption, fiscal pressures and exceptionally strong investment in artificial intelligence (AI).

A resilient, but divided global economy

As impressive as this year's expansion has been in the face of a significant energy shock, economic buffers are becoming increasingly stretched and growth remains highly uneven. Countries benefiting from the technology and investment cycle are travelling along a very different path from economies exposed primarily to higher energy and financing costs, and energy importers outside the technology value chain appear particularly vulnerable.

Nowhere is this divergence clearer than in the US. Growth did not falter despite higher interest rates and elevated energy prices. Consumer spending has proved more resilient than expected, while capital expenditure, led by AI-related investment, has accelerated sharply.

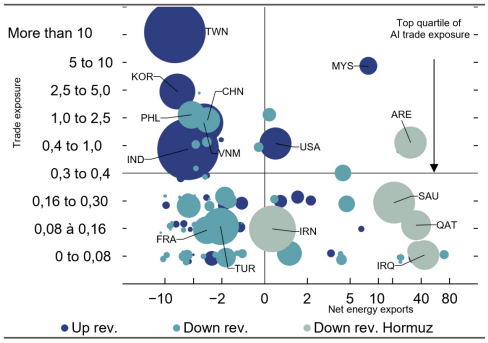
Yet this resilience masks growing disparities. Strong financial markets and rising asset values have disproportionately benefited higher-income households, while lower-income consumers remain much more exposed to the cumulative increase in food, energy, housing and financing costs. The sharp Democratic gains in the November midterm elections therefore highlight an important economic as well as political tension: robust

aggregate growth has not necessarily translated into improving living standards across the income distribution.

This matters because the resilience of the US consumer is increasingly intertwined with financial markets. With household exposure to equities unusually high, a prolonged market correction – amid a reassessment of AI-related returns, or a renewed increase in long-term interest rates – could generate a meaningful negative wealth effect and, in turn, weigh on consumer spending.

World – Cumulative growth rev. 2026-27

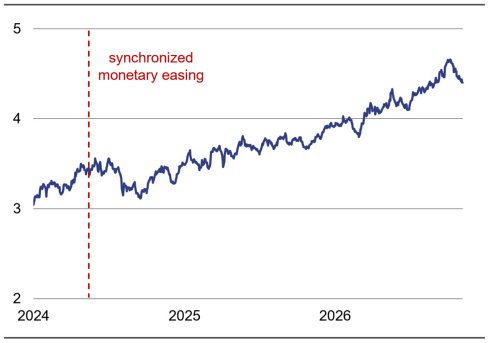
in % of GDP, by net exports, energy and AI



Sources : IMF, Rothschild & Co Asset Management, 30/10//2026

World – Sovereign LT yield

in %, Bloomberg index, 10 yr +



Sources : Bloomberg, Rothschild & Co Asset Management, 30/10/2026

… 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.

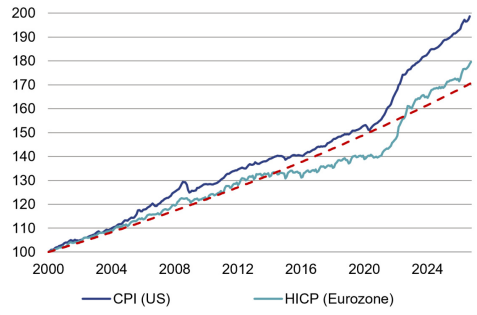
Financial market behaviour further suggests that the rise in yields cannot be explained

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.

Adv. Eco. – Price index

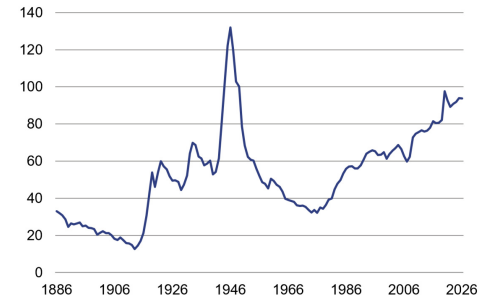
index, dashed = ann. growth 2 %



Sources : Macrobond, Rothschild & Co Asset Management, 30/10/2026

World- Public debt

in % of GDP



Sources : IMF, Rothschild & Co Asset Management, 30/10/2026

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.

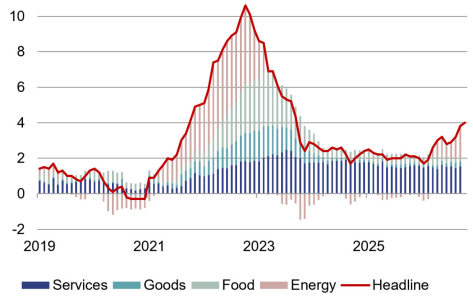
This resilience should not be overstated, however. Over recent decades, households, corporations and governments have accumulated unprecedented levels of debt, leaving the economy structurally more exposed to changes in financing conditions. As existing debt matures and is gradually refinanced at higher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

Eurozone – Inflation rate

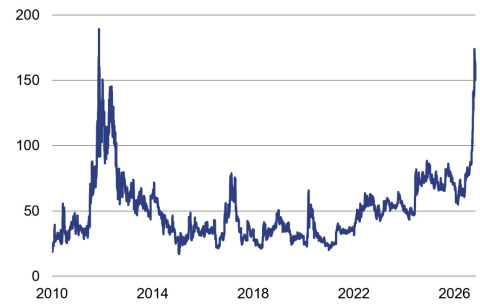
in %, contributions



Sources : Macrobond, Rothschild & Co Asset Mangement, 30/10//2026

Eurozone – French-German yield spread

in %, 10 years



Sources : Bloomberg, Rothschild & Co Asset Management, 30/10/2026

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The paradox confronting the global economy is therefore becoming clearer. AI investment supports growth but absorbs enormous quantities of capital. Fiscal spending cushions activity but increases government borrowing requirements. Elevated asset prices support consumption but make growth more sensitive to financial-market corrections. Geopolitical fragmentation encourages investment in defence, supply-chain resilience and energy security but raises production costs. And all of these forces are competing for financing at a time when the global cost of capital has risen substantially.

The common denominator is that resilience itself has become more expensive.

The key question for 2027 is therefore not simply whether growth can remain resilient, but whether the productivity gains generated by today's investment boom arrive quickly enough to offset a structurally higher cost of capital.

If they do, AI investment could validate elevated asset valuations, raise potential growth and ultimately ease inflationary pressures. If they do not, investors may discover that what looked like economic resilience was partly the consequence of increasingly expensive financial, fiscal and technological buffers.

Performance of the indices and interest rate levels

	Price as of 30/10/2026	1 month % change	2026 % change
Equity markets			
CAC 40	7 969	0.1%	-2.2%
Euro Stoxx 50	6 131	-2.2%	5.9%
S&P 500	7 580	-0.9%	10.7%
Nikkei 225	63 290	-5.2%	25.7%
Currencies			
EUR/USD	1.12	-1,5%	-5.0%
EUR/JPY	175.8	-1.4%	-4.5%

Interest rates	Price as of 30/10/2026	1 month bp(1)	2026 bp(1)
3 month			
Eurozone	2.70%	0	59
United States	4.08%	-3	45
10 years			
Eurozone	3.32%	-26	47
United States	4.93%	-36	76

(1) Basis point.
Source: Bloomberg. data as of 30/10/2026. 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

Bekijk dit document op onze website

(1) Source : Fed, 30/10/2026

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

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