



Equities in Focus

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Can Today's Momentum Weather Higher Interest Rates?

US Equity markets have been driven higher by stocks having strong price momentum aided, in large part, by the AI trade; however, the 10-year Treasury yield has breached a critical threshold that may be a headwind for equity markets. While today's group of momentum stocks have strong earnings growth and trade at lower levels versus other equities, would that be enough to offset a continued storm of rising bond rates?

Key Takeaways

1. Rates Are a Key Near-Term Risk

History shows that when the 10-year yield pushes above ~4.50%, equity multiples tend to compress.

2. Factor Behavior During Rising Yields

Higher rates have traditionally favored quality, whereas momentum factors tend to lag.

3. Momentum Has Earned Its Lead

Momentum stocks are now supported by stronger earnings growth versus prior speculative periods.

Interest Rates and Valuations

Display 1 shows a demarcation line of sorts regarding 10-Year US Treasury note yields—once they cross 4.50%, price/earnings (P/E) multiples meaningfully contract. And the higher rates climb from elevated levels, the worse pressure on equity prices becomes when inflation fears are in play. Clearly, earnings growth has been strong, and fundamentals also matter ([related content](#)), but so does the cost of money (i.e., interest rates). And when rates rise, leadership tends to change.

Equity Factors' Rate Influence

Factor data reinforce that higher-rate environments reward quality and cash-flow discipline—companies with strong return on assets, solid interest coverage and healthy free cash flow tend to hold up better. By contrast, valuation-sensitive factors like high P/E stocks, and high volatility and momentum equities, have historically lagged as discount rates rise and multiples reset (*Display 2*).

Momentum Has Positively Evolved

But this cycle may not be a simple rerun of the past. In many prior periods, momentum has often been associated with expensive, crowded trades. Today, however, the picture looks more balanced. *Display 3* shows momentum stocks still sit in a favorable zone, supported by strong forward earnings expectations but without the most extreme valuations seen elsewhere in the market. In other words, momentum stocks are not always speculative plays, and perhaps the cohort today could extend their trends.

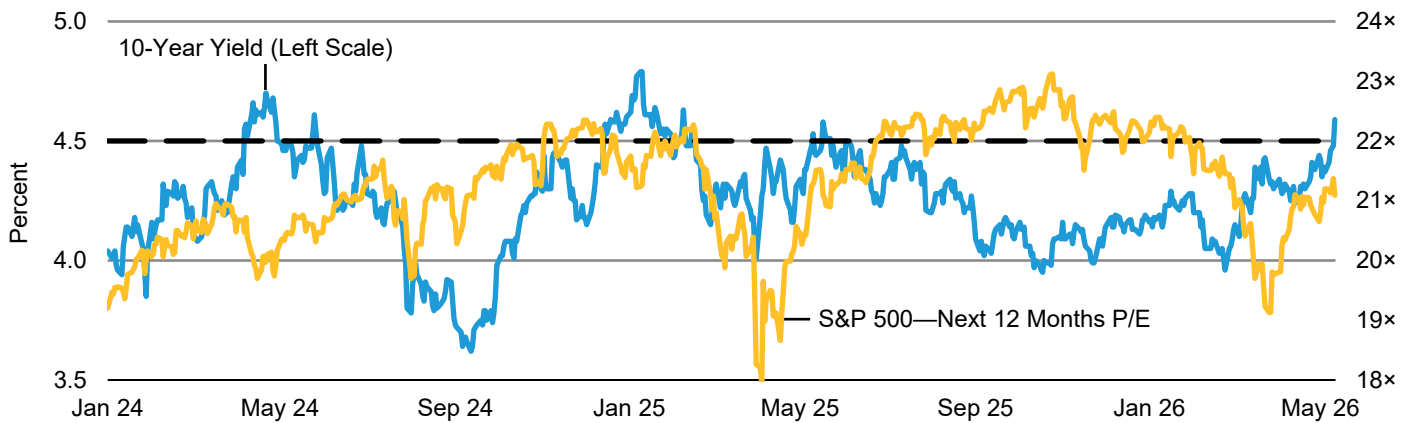
Our View

While momentum can struggle as rates rise, the broader market remains underpinned by the strongest earnings season since 2021, and these companies may prove more durable this cycle. Rising rates often affect valuations, and if inflation concerns remain the culprit, the market could correct from here. If a correction does happen, we advise leaning into dispersion, not away from risk entirely. And recognize that even in a higher-rate world, the right kind of growth can still win.

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Display 1: Breaches Above 4.50% Have Historically Led to Multiple Compression

10-Year Yield vs. S&P 500 Forward P/E



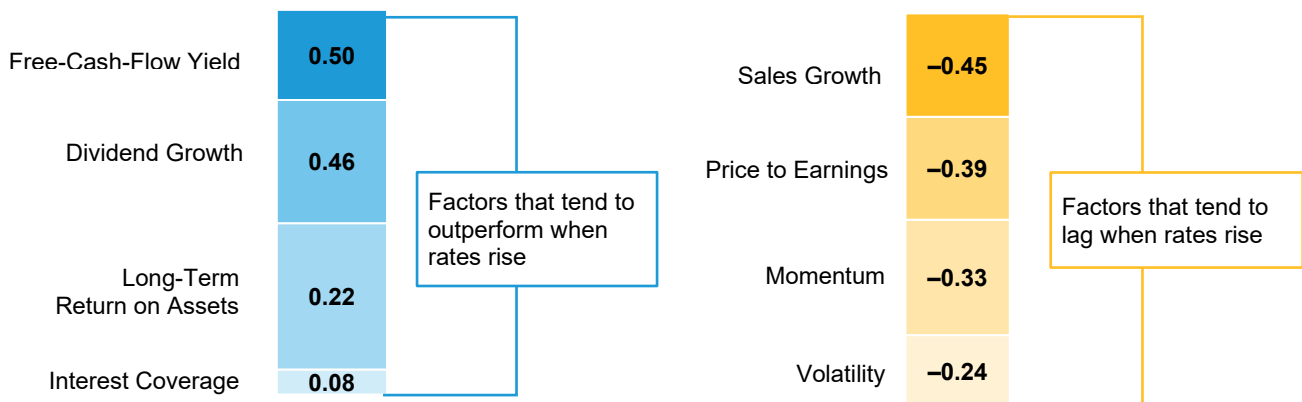
Past performance does not guarantee future results.

As of May 15, 2026

Source: FactSet, S&P and AB

Display 2: Higher Yields Often Lead to Divergent Paths for Key Factors

Five-Year Factor Correlations to 10-Year US Treasury Yields*

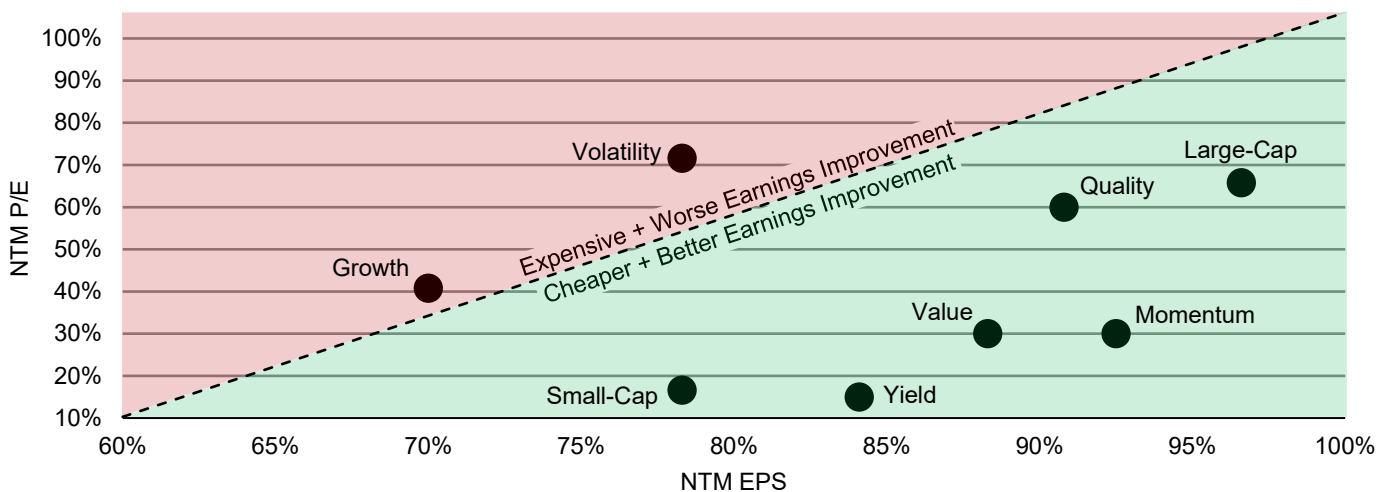


Past performance does not guarantee future results.

As of May 15, 2026

Source: Piper Sandler and AB

Display 3: Momentum Does Not Always Equal Expensive and Speculative



Past performance does not guarantee future results.

EPS: earnings per share; NTM: next 12 months

As of May 6, 2026

Source: Barclays Research, Bloomberg and AB

*Factor returns are calculated by the relative performance of the top quintile cohort versus the bottom quintile cohort within the S&P 500. Free-cash-flow yield: last 12 months' free cash flow per share divided by current share price. Dividend growth: year-over-year change in last 12 months' dividends per share. Long-term return on assets: Five-year average in last 12 months' (LTM) net income divided by LTM average total assets. Interest coverage: LTM earnings before interest and taxes divided by LTM interest expense on debt plus interest capitalized. Sales growth: Five-year median of the year-over-year change in LTM sales. Price to earnings: Current share price divided by next 12 months' earnings per share. Momentum: 52-week price return. Volatility: 30-day variance in daily price change.

The value of an investment can go down as well as up, and investors may not get back the full amount they invested. Capital is at risk. Past performance does not guarantee future results.

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