First Citizens Wealth

Making Sense

Basis Points | September 22, 2026

Worth the rate

1. Five percent

Today's conditions support higher interest rates in a way they haven't in decades. The 10-year Treasury, the world's most important financial asset, yielded over 5% last week, its highest level since 2007. There's nothing magical about 5.00%, but it has once again acted as an important psychological threshold for investors, just as it did in 2023. Three years ago, investors quickly viewed yields above 5% as unsustainable and rushed in to buy. By the end of the day, the 10-year yield had fallen sharply and closed at 4.85% that day. This time, investors appear more comfortable with yields near 5%, likely for several reasons. In 2023, the Fed had just ended a hiking cycle; today, the Fed is just starting one. Three years ago, recession and unemployment fears kept a lid on longer-term growth expectations. But today, nominal GDP growth is running near the highest rate in 30 years, unemployment is very low, and the AI investment boom is on track to become one of the largest in history.

2. The long and short

The Fed hiked its policy rate by 0.25% last week to a range of 3.75-4.00%, its first such move in three years. Fed policy action directly influences short-term rates: the Fed does not control longer-term interest rates like the 10-year Treasury yield or 30-year mortgage rates.[i] Those rates depend on a much broader set of forces like inflation expectations, economic growth, global capital flows, fiscal deficits, and the supply and demand for Treasury securities. Is this time different? The persistence of today's higher yields suggests it may be. Today's 5% rates aren't the anomaly; the near-zero rates from 2009-2021 were likely the historical anomaly. Fixed income is once again offering meaningful yield, restoring a role in portfolios that was difficult to fill during the era of near-zero rates.

3. Discounted…at these prices?

Higher interest rates are typically a headwind for equities, but they have not prevented stocks from notching record highs this year. A stock's value generally reflects the earnings investors expect it to generate over time. So when interest rates rise, those future earnings are discounted more heavily, reducing what investors may be willing to pay today. Yet higher rates have collided with an unusually powerful offset: S&P 500 earnings growth is pacing roughly 30% this year. And today's mega cap technology companies aren't only expected to generate strong earnings in the future; they are already generating enormous profits today. And it isn't just in big tech: earnings growth across the S&P 500 has been so strong that it has more than offset the drag from lower valuation multiples.

4. A high nominal world

Higher interest rates may not be an aberration but instead a rational response to a persistently high nominal-growth environment. GDP growth is typically presented in real terms, which

CONTACT

Blake Taylor | VP, Market and Economic Research Analyst
blake.taylor@firstcitizens.com
919-716-7964

Phillip Neuhart | SVP, Head of Market and Economic Research
phillip.neuhart@firstcitizens.com
919-716-2403

Brent Ciliano, CFA | SVP, Chief Investment Officer
brent.ciliano@firstcitizens.com
919-716-2650

means after subtracting inflation. Before the pandemic, a balanced economy looked something like 4% nominal economic growth, 2% of that being the inflation rate and the other 2% the real growth rate. Today, nominal GDP growth is running at a 7% pace, close to the highest rate in 30 years. Real growth is holding up, largely due to massive investment spending on data centers and other AI-related infrastructure. But inflation remains uncomfortably high, as it has for the last five years. Even before accounting for today's $4.50 gasoline and $6.50 diesel prices, consumer prices are up by 29% since 2020, compared to the 14% increase that would have occurred had inflation hit the 2% target over that period.

5. Shifting imbalances

A chorus of policymakers, analysts, and commentators argued that elevated post-pandemic inflation rates were due to post-pandemic "transitory factors" and supply shocks like Russia's 2022 invasion of Ukraine.[ii] Those views are now largely viewed as incomplete, as that bout of inflation was also driven by trillions of dollars of direct fiscal stimulus, soaring consumer demand, and zero-rate monetary policy. However, it is true that in those years no change in the Fed's policy rate could have reopened shuttered corners of the economy, eased supply chain bottlenecks, or loosened energy markets disrupted by war. Similarly, no change in Fed policy today can move oil tankers through the Strait of Hormuz or print new computer chips. More appropriate Fed policy may repair some imbalances, but it could also shift some others.

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[i] The late Fed Chairman Alan Greenspan famously called it a "conundrum" that the 10-year Treasury yield barely budged while he raised the federal funds rate from 1.00% to 5.25%.

[ii] The April 2021 FOMC statement said, "Inflation has risen, largely reflecting transitory factors." In December 2021, the Fed dropped "transitory" from its policy statement.