

Rising interest rates and rising stock markets — can that really work out?

Since the outbreak of the Iran War, worries about inflationary trends have reignited. The sharp rise in prices for petroleum products and natural gas is having varying effects on national consumer price indices. The acceleration of monthly inflation in the U.S. by a full 0.6% brings to mind “Covid inflation,” a surge in prices that peaked at 9.1% and was downplayed as “transitory” by the Fed for too long.

The markets have reacted and completely reversed their interest rate expectations for the U.S.: instead of three rate cuts, a rate hike by the Federal Reserve is now expected this year. Yields in bond markets rose significantly, with the 30-year U.S. Treasury hitting a multi-year record. In the eurozone, a 0.5% increase in the key interest rate is expected, after interest rates were previously assumed to remain stable. In Switzerland, negative interest rates have fallen out of the spotlight for the time being. If we now place these interest rate expectations in the context of economic dynamics, the following observations can be made:

In the U.S., the economy is showing tremendous strength, driven by the wave of AI and -related investment. Various indicators suggest that inflation is more likely to rise further than to return to the target level. The new Fed Chair, Warsh, is likely to take a pragmatic approach to the inflation target, however — for example, a different price index (the trimmed index) is under discussion. Conclusion: an interest rate hike is unlikely, while a rate cut remains possible. Stock markets continue to be driven by strong earnings momentum, which interest rate markets are unlikely to be able to slow down.

In Europe, economic hopes have completely faded. The latest figures from the Purchasing Managers’ Indices point to a significant economic slowdown. This affects almost exclusively the services sector, which is more relevant to the overall economy than the manufacturing part. We therefore doubt whether a rate hike in the eurozone to combat inflation is appropriate under these circumstances, especially since core inflation — which can be influenced by monetary policy — stands at 2.2%, only slightly above the target. In Switzerland, the economy grew surprisingly strongly in the first quarter, but it is unlikely to be able to decouple itself from the European economy as the year progresses. In our view, the SNB will maintain its key interest rate at 0% and will not change this even if the ECB raises rates. In summary, the interest rate environment for Europe will not really deteriorate, but the economy could come under pressure, and the stock markets could lose some steam.

Despite ongoing war concerns, we are maintaining our equity allocation. Defense and oil stocks could lose appeal, while all stocks linked to the development of artificial intelligence are likely to continue benefiting. Precious metals should also be able to benefit from easing interest rate concerns.

Wangs May 27, 2026

