

Why the interest rate 'bark' has been worse than its 'bite' 🐶

Borrowers are “well positioned to absorb higher rates” ... for now 💰



SAM RO, CFA

SEP 10, 2026 📄 PAID

Broadly speaking, rising long-term interest rates are a headwind for borrowers, including most households, businesses, and governments.

So then why hasn't this year's interest rate rally led to job cuts, weaker spending, and disappointing earnings? Why is the S&P 500 down less than 3% from its all-time high?

As we've been discussing, it's more complicated than “higher interest rates are bad.”

In a note to clients on Tuesday, HSBC equity strategist Nicole Inui addressed investor concerns for which “the bark may be worse than the bite.”

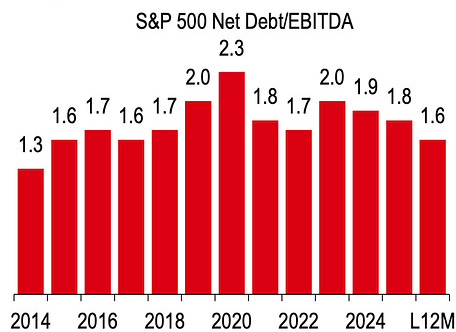
Here's some of what she said about interest rates:

The impact of higher rates on the U.S. consumer is real but uneven. Mortgages are ~70% of household debt and >95% fixed-rate, so pass-through is limited, while delinquency stress is more concentrated in credit-dependent, lower-income segments. Importantly, higher-income households who drive a disproportionate amount of total consumption remain more insulated via fixed mortgages and the wealth effect. Corporates also look well positioned to absorb higher rates: S&P 500 net

debt/EBITDA is a manageable 1.6x and credit spreads remain tight, even as AI capex ramps.

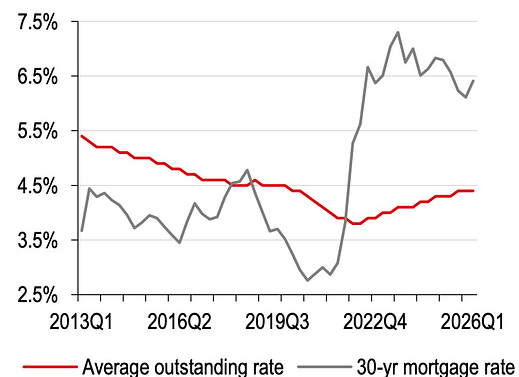
As the below chart on the left shows, S&P 500 companies have relatively low financial leverage, giving them time and flexibility to adjust if higher rates persist. The chart on the right shows how the mortgages held by homeowners haven't really budged since most are fixed-rate and therefore largely unaffected by market rates.

S&P 500 net debt/EBITDA ratios look healthy and...



Source: Factset, HSBC

... most mortgages are fixed, locking-in the largest chunk of household debt



Source: FHFA, FRED | Note: average outstanding rate weighted by # of loans

S&P 500 companies have low financial leverage.
Homeowners with outstanding mortgages are mostly
unaffected by market rates. (Source: HSBC)

In case you're wondering, most debt held by S&P 500 companies has fixed rates. And households have historically low financial leverage.

This is no reason to get complacent ⚠

Just because households and businesses are doing okay now doesn't mean rising interest rates won't ever matter.

If elevated rates persist, a larger share of borrowers will face higher financing costs. Some won't borrow at all. Either outcome could weigh on growth.

For now, low financial leverage and fixed-rate debt afford households and businesses time and flexibility to continue spending now as they adjust for what could be a higher interest rate future.

And to be clear, higher rates don't necessarily mean earnings will eventually stop growing and stocks will stop going up. Both households and businesses have a long history of adapting to headwinds as they drive the economy and stock market higher.

Remember: Interest rates are just one of many things that affect earnings and the stock market. All else equal, rising rates are arguably bad. But all else is never equal.

-

Related from TKer:

- ***3 stock market charts to consider as interest rates rise*** 
- ***A brief 9-point guide to how everything affects earnings*** 
- ***Economic data can often be both 'worse' and 'good'*** 
- ***A note on the equity risk premium with help from TKer's newsletter archive*** 
- ***12 stock market charts that caught my attention*** 
- ***The most important Latin phrase in investing*** 