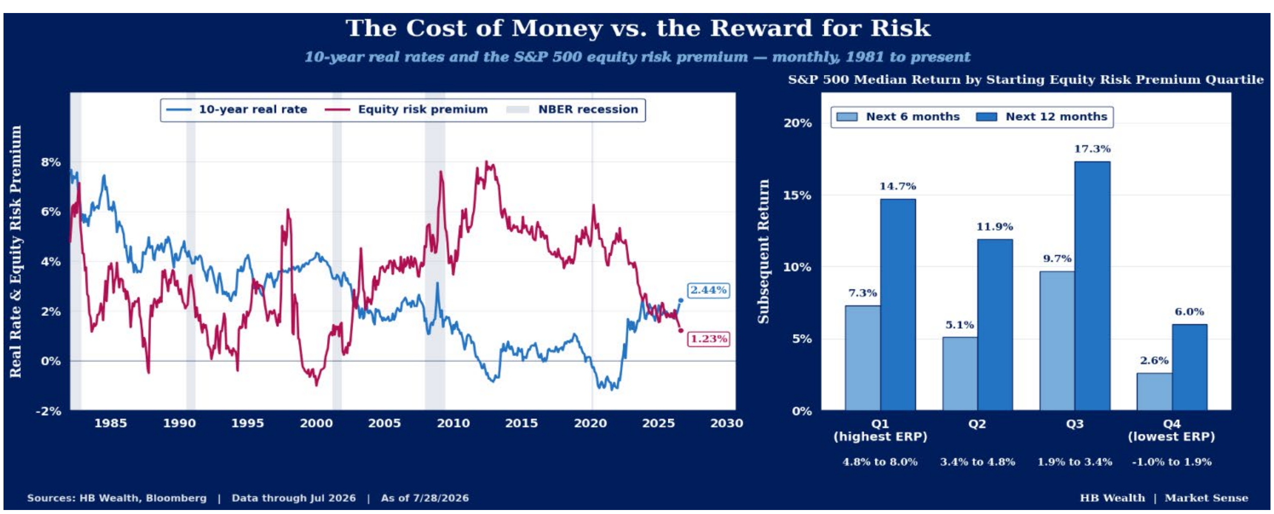
HB Wealth

Market Sense – Rising Real Yields Suggest Stocks May Have a Rocky Road Ahead

July 28, 2026

Bond markets are throwing cold water on the outlook for stocks. Real yields (10-year Treasury yields adjusted for inflation) are now at the highest level since late 2023. As a result, stocks' equity risk premium (ERP) is now lower than 75% of history since 1980. This range for the ERP has historically hinted at a volatile and slower return backdrop for stocks, helping to explain the choppiness in markets of late.

Currently, the S&P 500 carries an earnings yield – the inverse of the trailing price/earnings ratio – of 3.67%. In absolute terms, that's cheaper than the 3.4% commanded by the index in May, as strong earnings have largely offset stock price gains. However, thanks to rising TIPS yields, real yields have climbed to 2.4% -- the highest level since fall 2023. Thus, equities now look extremely expensive compared to bonds. The 123-bps spread between the earnings yield and the 10-year TIPS yield is the narrowest since the tech bubble and is in the fourth (lowest) quartile of the last half-century. As we noted in our Market Sense in May, not all low ERP regimes portend bad times for stocks, but average returns tend to be lower when stocks are so expensive relative to bonds. When the ERP was near current levels historically (in the 4th quintile), 6- and 12-month forward S&P 500 returns were below long-term average, at median 2.6% and 6%, respectively.



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