(UBS)

Can equities withstand higher yields after the Fed’s hawkish hike?

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The Federal Reserve unanimously raised the federal funds target range by 25 basis points to 3.75-4.00%, its first increase in three years. Chair Kevin Warsh said policymakers had “removed a dose of accommodation” and described economic activity as expanding at a solid pace.

Sixteen of the 18 participants projected at least one further increase this year. The 10-year Treasury yield reached 5.02%, its highest level since 2007, while the S&P 500 declined only modestly after the decision. The restrained equity response suggests investors remain focused on resilient growth and corporate profits.

The coming week will provide an early test of the Fed’s assessment. Flash purchasing managers’ indices from the US, Europe, and Asia will indicate whether manufacturing and services activity has remained resilient in September. Investors will focus on prices paid to assess whether higher energy costs and renewed supply constraints are feeding into broader inflation. Resilient activity alongside rising price pressures could reinforce expectations for further tightening and keep bond yields elevated.

Our base case remains for a relatively shallow Fed tightening cycle, with one further 25-basis-point increase in December. We do not expect tightening on this scale to derail the US economy or the equity rally. The Fed’s own model indicates that 50 basis points of additional tightening would reduce growth by only a few tenths of a percentage point, while markets are pricing three further increases by the end of 2027.

We forecast S&P 500 earnings to rise 25% in 2026 and 14% in 2027, while profits for the median S&P 500 company are growing by around 14%. Robust and broadening profit growth should help equities absorb moderately higher yields. We think investors should maintain diversified equity exposure, address concentration risk, and use quality bonds to strengthen portfolio resilience.

Original report – **Weekly Global: What to watch in the week ahead, 21 September 2026.**

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