

Get Real

The tech sector once again reminded investors that even exceptional companies are not immune to changing financial conditions. Recent volatility among hyperscalers and semiconductor companies has been driven less by deteriorating business fundamentals than by a reassessment of interest rates and the bond market's growing skepticism toward the Federal Reserve. Large tech companies continue to produce impressive earnings while investing unprecedented amounts of capital into AI infrastructure. Demand for semiconductors, equipment, cloud computing, and AI services remains robust, and corporate spending plans suggest that the long-term growth story is intact. Yet despite these strong fundamentals, share prices have experienced meaningful swings. Part of the reason lies in real yields.

Q PERSPECTIVE

Real yields, the return investors receive after adjusting for inflation, represent the discount rate used to value future corporate cash flows. Growth companies derive much of their value from earnings expected years into the future, making them particularly sensitive to higher real interest rates. Even modest increases in real yields can compress valuation multiples ([Chart I](#)) despite little change in companies' operating performance.

The recent rise in real yields as seen in [Chart II](#) reflects more than just stronger economic data. It also signals that bond investors are demanding greater compensation to lend money over the long term. In effect, the bond market appears increasingly unconvinced that the Federal Reserve will successfully return inflation to its target without keeping monetary policy restrictive for an extended period. Longer-term yields have remained elevated even as policy expectations fluctuate, suggesting the bond market is assigning less credibility to the Fed's ability to engineer a smooth path back to price stability.

This environment creates periodic volatility as seen in [Chart III](#) for sectors with the highest valuations, particularly hyperscalers and semiconductor manufacturers that have led the market's advance over the past several years. While their earnings outlook remains favorable, higher real yields can temporarily outweigh strong fundamentals. For long-term investors, this distinction is important. Market volatility does not necessarily imply weakening businesses. Instead, it often reflects changing assumptions about the appropriate price investors are willing to pay for future growth.

INVESTMENT IMPLICATIONS

History has shown that periods of elevated interest-rate uncertainty can produce significant short-term market swings. Maintaining a diversified portfolio and focusing on long-term business fundamentals rather than short-term fluctuations remains the most effective approach for navigating these rapidly shifting environments.

CHART I

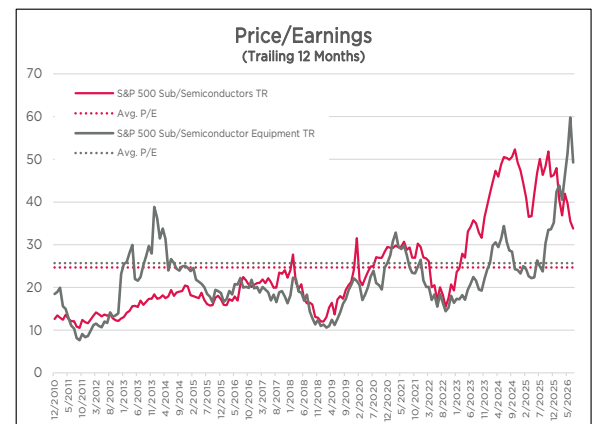


CHART II

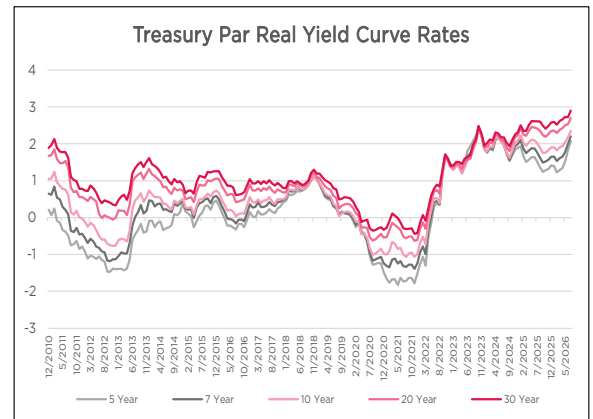


CHART III

