

ABOVE THE FRAY

High Rates Don't Put the Brakes on Stocks

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Some investors have asked if stocks make sense in a world where short-term US Treasuries are yielding north of 5.5%.¹ These investors can take solace in the historical evidence, which suggests that interest rates have not been meaningful predictors of stock returns. In years with above-median interest rates since 1955, during which the average three-month Treasury yield was 6.7%, US stocks returned an average of 12.1%. This is slightly higher than the average return in below-median interest rate years (11.6%), although the averages are statistically indistinguishable from each other.²

Plotting annual US stock returns vs. Treasury yields further emphasizes the lack of a meaningful relation between the two. The level of interest rates is of little help in predicting stock returns. This is perhaps unsurprising when you consider interest rates are one of many factors reflected in discount rates for future cash flows.

Exhibit 1**Rising to the Occasion**

Annual US stock returns vs. beginning-of-year three-month US Treasury yields, 1955-2022



Past performance is no guarantee of future results. Actual results will vary.

In USD.

US stocks represented by the Fama/French Total US Market Research Index, obtained from the data library of Ken French. Treasury yields obtained from FactSet. The Fama/French index represents academic concepts that may be used in portfolio construction and is not available for direct investment or for use as a benchmark. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. See "Index Description" for descriptions of the Fama/French index data.

This article originally appeared in Above the Fray, a weekly newsletter for Dimensional clients.

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1. "Daily Treasury Par Yield Curve Rates," [US Department of the Treasury](#).
 2. The t-statistic for the difference in means is just 0.13. The t-statistic is a statistical quantity commonly used to test whether a sample average is reliably different from a specified value (e.g., zero). Researchers often cite an absolute t-statistic value of at least 2.0 as the threshold for statistical reliability.

Fama/French Total US Market Research Index: Fama/French Total US Market Research Factor + One-Month US Treasury Bills. Source: [Kenneth R. French - Data Library \(dartmouth.edu\)](#)

Results shown during periods prior to each index's inception date do not represent actual returns of the respective index. Other periods selected may have different results, including losses. Backtested index performance is hypothetical and is provided for informational purposes only to indicate historical performance had the index been calculated over the relevant time periods. Backtested performance results assume the reinvestment of dividends and capital gains. Profitability is measured as operating income before depreciation and amortization minus interest expense scaled by book. Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP.

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