The Weight of Higher Rates on Asset Valuations

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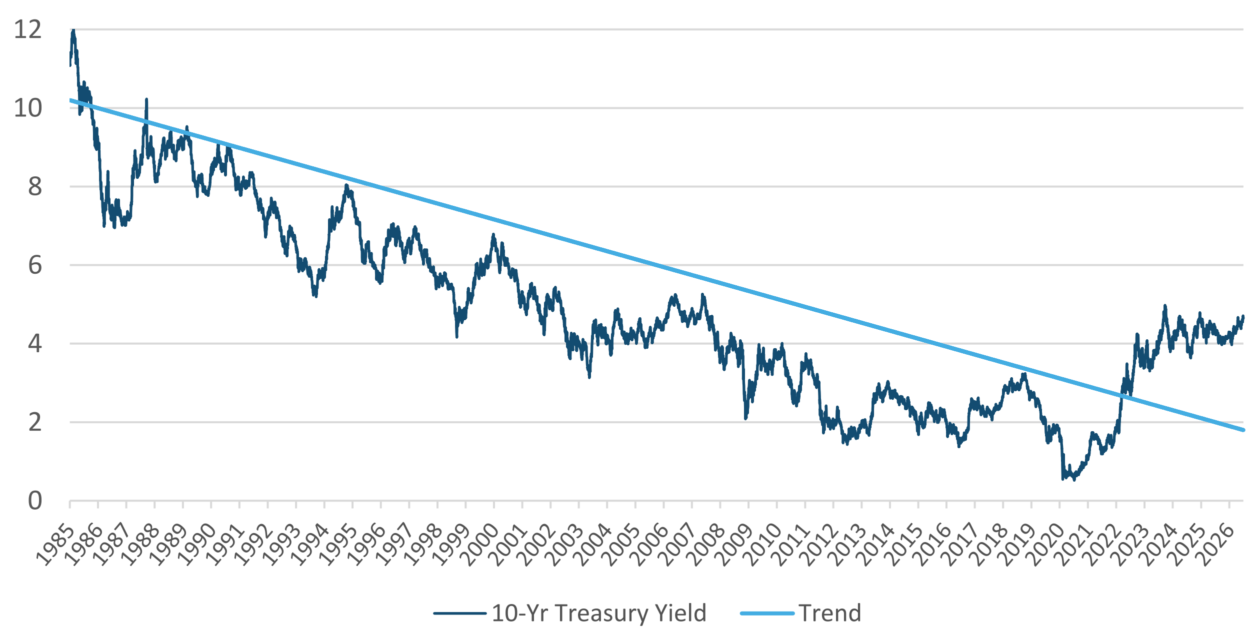
For most of the past two decades, the math of investing was shaped by a single, quietly dominant fact: capital was nearly free. Interest rates across the developed world had been falling since the 1980s, and after the financial crisis of 2008, central banks drove them close to zero and kept them there. That environment had profound consequences for how assets were valued, how businesses were built, and how much risk investors could afford to take without fully reckoning with the consequences.

That era is over.

The trigger was inflation, but the cause runs deeper. When prices began rising sharply in 2021 and 2022, the initial instinct, shared by central banks and most market participants, was that it was "transitory" and would soon pass. It did not pass quickly enough, and the Federal Reserve was forced to raise rates at one of the fastest paces in modern history. That broke the valuation framework that had governed markets for a generation.

Bucking the Trend – Historical 10-Year Treasury Yield (%)[1]



The rise in inflation and subsequent jump in rates were driven by a structural shift in how the global economy is organized, one that has been building for years and is now accelerating. For most of the past four decades, the world benefited from an expanding, increasingly integrated system of trade. Goods moved across borders with minimal friction. Supply chains stretched around the globe in search of the lowest cost. The result was a long period of falling prices for manufactured goods, which acted as a persistent brake on inflation even as economies grew.

[1] As of July 27, 2026. **Source**: Board of Governors of the Federal Reserve System (US) via FRED® "10-Yr Treasury Yield" is represented by Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity

That system is now being unwound. The forces driving the reversal are well-documented: geopolitical competition, supply chain vulnerabilities exposed by the pandemic, and a bipartisan political consensus in the United States and elsewhere that critical industries should be produced domestically rather than sourced abroad. Whatever the merits of those decisions, they have an economic cost. Rebuilding supply chains domestically is more expensive than importing. Maintaining strategic reserves and redundant capacity is inherently less efficient than optimization. More friction means higher costs, and higher costs, sustained over time, mean structurally higher inflation than the world grew accustomed to during the era of globalization.

For investors, this matters in a precise and quantifiable way. The value of any asset today is determined by the cash flows it is expected to produce in the future, discounted back to the present at some rate that reflects the cost of capital. When that discount rate was near zero, even cash flows far in the future were worth almost as much as cash flows today. That made assets with long runways of future growth (e.g., software businesses, growth companies, speculative ventures) look extraordinarily valuable. A dollar of earnings ten years from now, discounted at 2%, is worth about 82 cents today. Discounted at 8%, it is worth about 46 cents.

That arithmetic explains why so much has changed. It is not that the businesses themselves are necessarily worse. It is that the rate used to translate future promises into present value has moved materially, and for businesses whose value was heavily concentrated in distant assumptions, the impact has been severe.

Small Adjustments to Model Parameters Meaningfully Change Valuation

Discount Rate & Terminal Value Impact on Multiples[2]

	2021	2026
Year 1 Growth	40.0%	40.0%
Year 10 Growth	8.0%	8.0%
Terminal Growth Rate	5.0%	3.0%
WACC / Discount Rate	8.0%	12.0%
Implied EV / Earnings	**31.6x**	**9.5x**

Private software transactions illustrate the point starkly. In the peak years of the zero-rate era, deals routinely closed at 30 times earnings or more, with the average reaching nearly 40 times in the second half of 2022. In many of those models, the majority of enterprise value, often more than 80%, resided not in near-term cash flows but in a "terminal value": an assumption about what the business would be worth at some point a decade or more in the future. In a world where those distant assumptions were treated as nearly as reliable

[2] **Past performance is not necessarily indicative of future results.** For illustrative purposes only based on Kennedy Lewis' views. There are no guarantees that historical trends will continue.

as money in hand, that math was defensible. In a world of higher rates and genuine uncertainty about which business models will survive technological disruption, it is much harder to sustain.

The broader implication is not that growth is dead or that all long-duration assets should be avoided. It is that the margin for error has narrowed considerably. Investments that worked in a low-rate, stable-growth, abundant-liquidity world were in many cases more fragile than they appeared, relying on assumptions that could only be sustained so long as the conditions that created them persisted. Now that those conditions have changed, the fragility is becoming visible.

The environment that is taking shape favors assets with different characteristics: tangible collateral, near-term cash flows, and value that does not depend on a decade of uninterrupted growth to justify today's price. It also places a greater premium on discipline, on distinguishing between assets that genuinely hold their value under stress and those that merely appeared to while conditions were benign.

That distinction may matter more in the years ahead than it did in the years behind us.

Important Disclosures