

The Structure and Implications of the Transition to a High-Interest Rate Era on Economic Cycles and Policy Responses

The recent shift in the global economic environment marks a significant transition from a prolonged low-interest-rate era to a new phase characterized by higher interest rates and evolving economic cycles. This change is not merely a temporary fluctuation but a structural transformation with profound implications for asset valuation, corporate financing, and global trade dynamics. Rising bond yields exert downward pressure on stock prices, particularly affecting growth sectors such as artificial intelligence and semiconductors, where future earnings are discounted more heavily due to increased rates. Concurrently, the cost of capital for companies rises, compressing profit margins and further influencing equity valuations.

The end of the three-decade low-interest-rate period signals a return to a financial landscape reminiscent of the 1980s and 1990s, where borrowing and investment carry heightened risk. This environment demands greater caution in leveraging and capital allocation. Moreover, the global economic structure is undergoing a fundamental reconfiguration. The previous model, heavily reliant on China's low-cost labor and efficient supply chains, is challenged by geopolitical tensions, demographic shifts, and rising wages in China. Consequently, the strategy of maximizing cost efficiency through globalization is being reconsidered, prompting a reassessment of supply chain resilience and production localization.

Government bond yields serve as a benchmark for asset pricing, and their recent ascent has amplified market volatility. In South Korea, rising sovereign yields coincide with increased fluctuations in the stock market, as evidenced by volatility indices approaching levels seen during past financial crises. Exchange rates are also influenced by complex interactions among interest rates in the United States, Japan, and South Korea, alongside shifts in global risk sentiment. The sustained strength of the U.S. dollar reflects these intertwined factors, and stabilization of exchange rates will likely depend on the moderation of U.S. long-term yields, easing of global risk aversion, and resolution of trade tensions.

These macroeconomic developments represent a structural realignment rather than a transient episode. Foreign investors' recent sell-offs in Korean equities should be understood as portfolio

rebalancing in response to changing risk and return profiles, rather than a loss of confidence in specific companies or markets. The interplay between exchange rates and interest rates must be viewed as a complex, interconnected system. Looking ahead, the policies of the U.S. Federal Reserve, adjustments in the Bank of Japan's asset purchase programs, and the trajectory of geopolitical risks will be critical determinants of market stability.

To deepen the understanding of this multifaceted economic landscape, it is instructive to consider the perspectives of three prominent economists, each offering distinct interpretations of the current environment and its implications for the economy's direction.

Expert	Core Perspective	Keywords	Interpretation Point
Ray Dalio	Interest rate increases and debt reduction mark a turning point in the economic cycle	Debt reduction, rate normalization, structural change	End of low-rate era, transition to a high-rate "new normal," increased volatility during debt deleveraging
Paul Krugman	Emphasizes the need for coordinated monetary and fiscal policy	Inflation, policy adjustment, economic stabilization	High-rate environment can be managed with policy to mitigate recession risks, balancing inflation control and growth
Milton Friedman	Highlights market self-regulation and the signaling role of interest rates	Market autonomy, interest rate signals, resource allocation	Rising rates reflect normal market adjustments, minimal government intervention preferred, efficient resource distribution

These perspectives collectively enrich the comprehension of the current economic situation by illustrating its layered complexity. The transition in economic cycles and the process of debt reduction

inherently generate volatility, which policy measures can influence but not entirely eliminate. While coordinated policy responses may help stabilize growth and control inflation, respecting market mechanisms remains essential for efficient capital allocation. This balanced viewpoint offers valuable insights for both investors and policymakers navigating the evolving landscape.

The prevailing economic trajectory is shaped by sustained high interest rates that depress valuations of growth-oriented assets and increase corporate financing costs, thereby constraining profitability. Policy impacts are subject to fluctuations depending on central bank actions in the United States and Japan, with asset purchase programs and rate decisions playing pivotal roles. Investment strategies must prioritize risk management and prudent asset allocation, with careful attention to the dynamic relationship between exchange rates and interest rates.

Given these complexities, it is pertinent to consider: How does one's current investment or economic outlook align with the realities of this intricate macroeconomic environment?

This topic reveals something that is easy to overlook if viewed only as information. The fundamental structural shift from a prolonged low-interest-rate regime to a sustained high-rate environment signifies more than a mere policy adjustment; it reflects a redefinition of economic fundamentals that will influence capital flows, corporate strategies, and individual financial decisions for years to come. For individual investors and the general public, this means reassessing risk tolerance, reducing reliance on leverage, and aligning asset allocations with more conservative cash flow expectations. Looking forward, the interplay between policy uncertainty and geopolitical developments will shape market stability, underscoring the importance of adaptive strategies that anticipate rather than react to change. Embracing this perspective fosters a disciplined approach to navigating an era where traditional assumptions about growth, valuation, and risk are being fundamentally recalibrated.

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