3 reasons not to fear a 3%+ 10yr yield

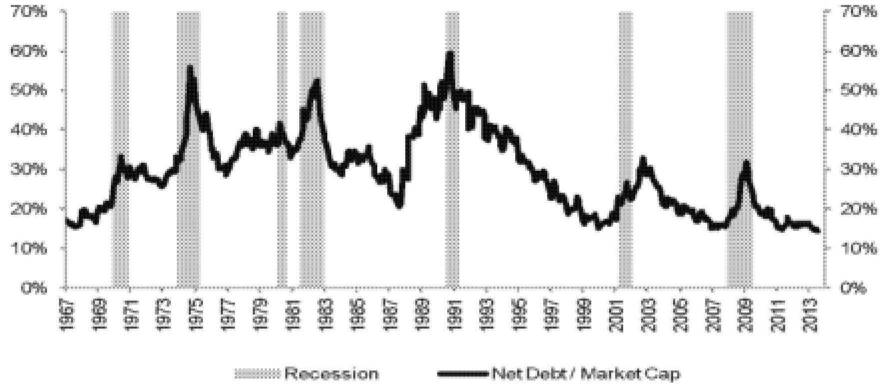
Interest expense is relatively small and likely overpowered by pension swings

EPS hit from higher interest rates is likely to be very small and should be overpowered by pension swings.

If we assume that 15% of the $2.8 trillion in long-term debt rolls to a rate 100bp higher the hit to 2014 S&P EPS would be ~$0.25.

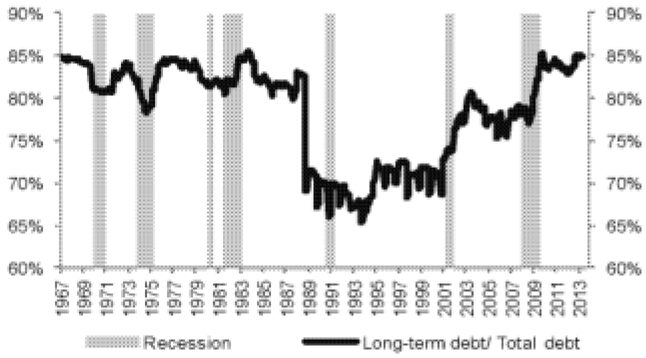
Pension expense is likely to fall by more and a 100bps increase in long-term rates should eliminate pension deficits.

Figure 1: S&P ex-financials net debt/market cap at 14% is considerably lower than historical levels



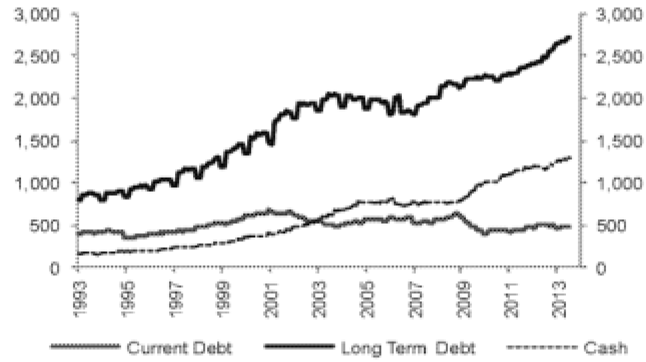
Source: Deutsche Bank

Figure 2: Share of long-term debt (> I y)at S&P ex. financials has increased to 85% from 75% in 2003



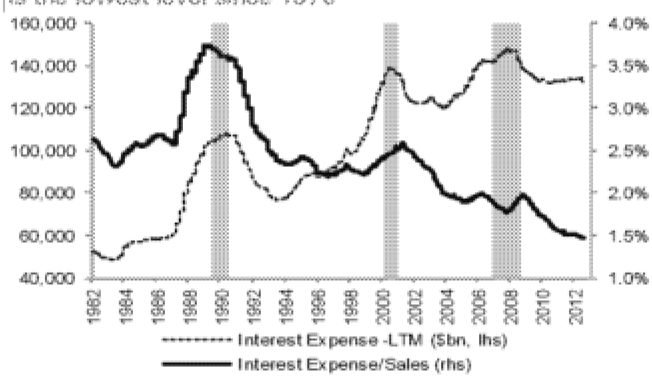
Source: Deutsche Bank

Figure 3: S&P ex-financial cash, current and long-term debt ($ millions)



Source: Deutsche Bank

Figure 4: S&P ex-financial interest expense/sales at 1.5% is the lowest level since 1970



Source: Deutsche Bank

Figure 5: 10-15 year IG corporate bond yield is up 100bp from 1Q13 end but still below 2011 end.

Source: Bank of America Merrill Lynch, Deutsche Bank