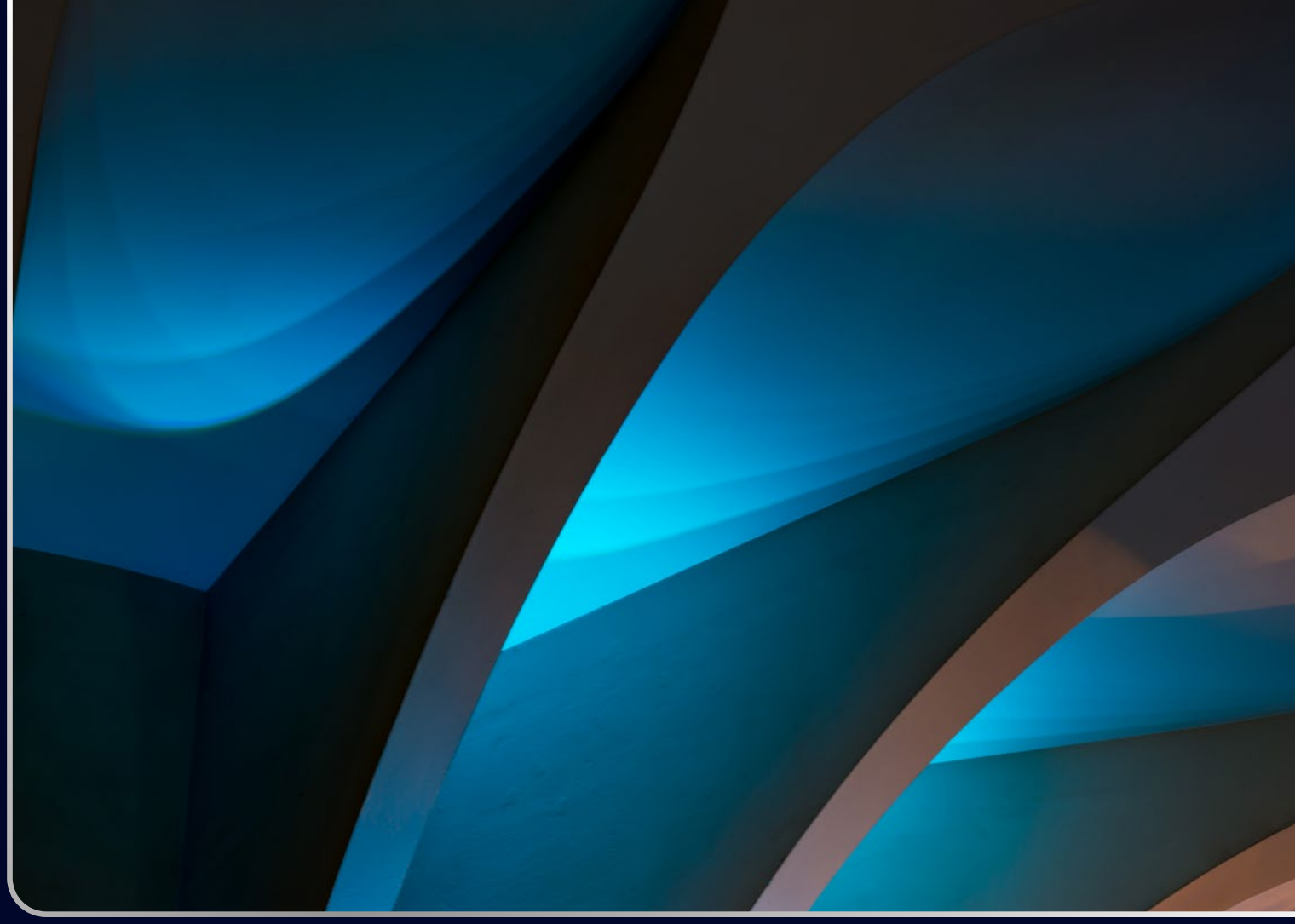
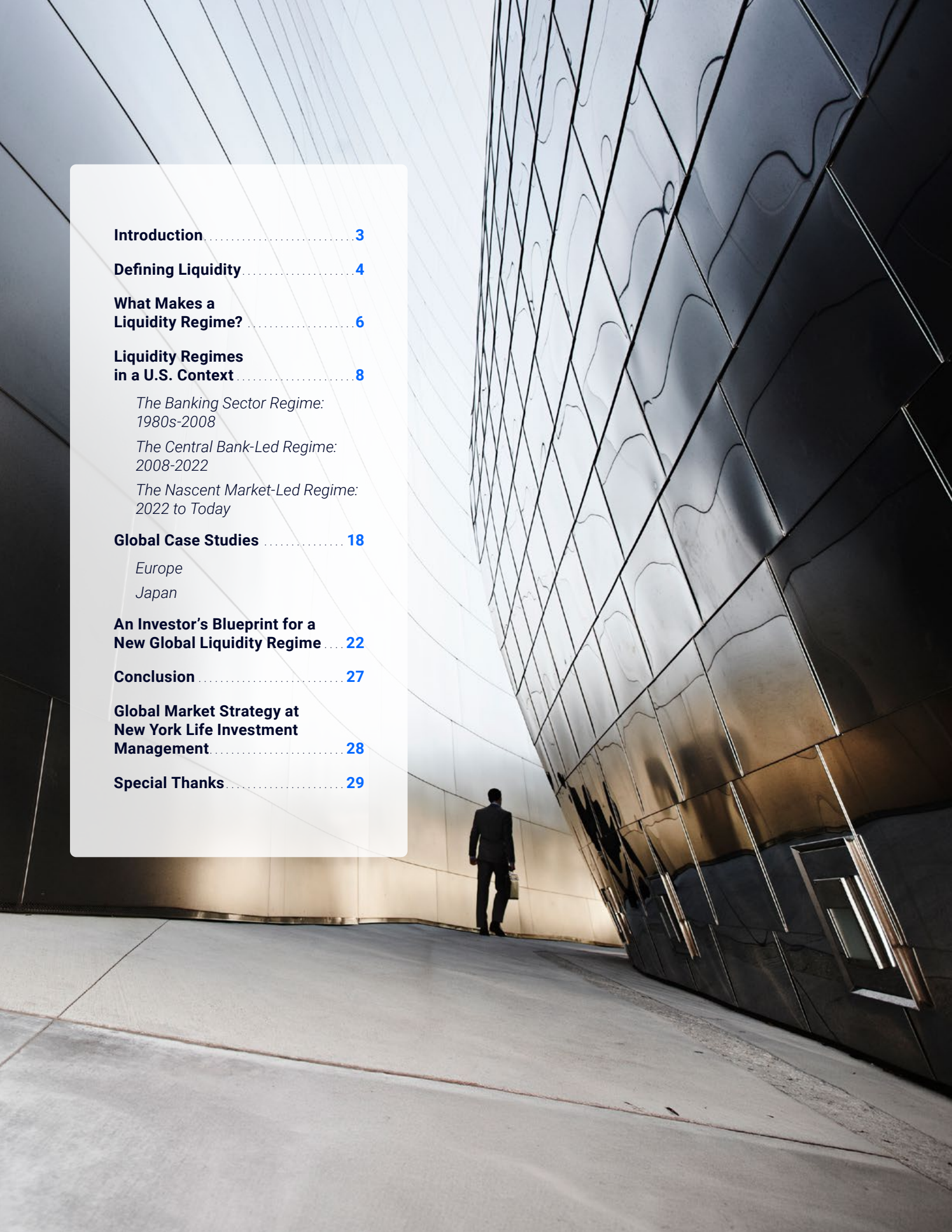


MEGATRENDS 2026

The Next Era in Global Liquidity: An Architecture

NEW YORK LIFE Investment Management



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Introduction

In the background of all macro and market happenings is a constant flow of capital: from issuers to investors, employers to employees, banks to businesses. This global flow of capital can be referred to as liquidity – and though it enables every aspect of economic and financial life, a common market definition of liquidity is elusive. Its effects are challenging to isolate and even more difficult to predict.

We see a holistic architecture of global liquidity as a key long-term allocation consideration. Macro functioning and market drivers are already coping with a range of seismic, secular shifts: the rise of artificial intelligence, a shift to a more security-focused geopolitical regime, and evolutions in traditional "safe haven" assets. Accounting, then, for how investors' needs, expectations, and demands for liquidity are evolving, and how a changing cohort of liquidity suppliers are meeting those demands, can help investors understand shifts in market structure, allocation, and risk positioning.

In our study of global investment megatrends over the years, the unifying thread has been identifying inflection points in key long-term themes that will influence how investors make allocation choices over the coming decades. We see global market structures influencing liquidity conditions – we call them liquidity regimes for short – in the midst of such an inflection point.

We believe major developed economies are adapting to a similar push toward a new liquidity regime: away from banking system and central bank dominance, and toward greater market influence over liquidity conditions. Non-bank financial institutions, in particular, from private credit funds to large institutional investors, have taken on an expanded role in providing and intermediating liquidity, as traditional banking systems constrain their balance sheets. This shift drives critical questions around central banks' roles and investor risk positioning for the coming decade and beyond.

We expect to see an acceleration in how asset allocators adapt to this new liquidity regime. While large institutional investors reconsider portfolio construction and risk, efforts to generate new pockets of liquidity – whether via liquid wrappers around illiquid assets, or even on-chain liquidity – are evolving.

It is time for investors to engage in liquidity discussions at a higher level than individual assets and investment vehicles, and to consider how market-level liquidity shifts can influence allocation.

1 Defining Liquidity

There is no universal definition of liquidity – but the canon of research is in general agreement. An asset is considered "liquid" when it can be bought and sold quickly, without causing significant change in the asset's value. Translating these considerations to market liquidity, a market is considered liquid when capital pools are sufficiently deep, transaction costs are sufficiently low, and price discovery is sufficiently strong – all allowing for financial instruments to be bought and sold without causing material price changes. Whether these conditions are met "sufficiently" is a relative term: ultimately, a market's degree of liquidity comes down to whether market participants can access capital when they need it, with ease and at a reasonable cost. Not only does this access apply to trading assets at fair prices as needed; it also includes funding liquidity, or whether market participants can obtain cash or raise capital to purchase assets or finance their obligations.[1] Each asset's market liquidity and traders' funding liquidity reinforce each other.

Underpinning market and funding liquidity conditions, of course, are liquidity providers themselves. There are considerable differences between how the Bank for International Settlements, the International Monetary Fund, and asset management practitioners define liquidity providers, but all are united in a key distinction: liquidity is not solely determined by money supply and monetary policy dynamics. Liquidity conditions ultimately rest in the ability of market participants and intermediaries to extend capital when needed – and aside from money supply, this ability is subject to regulation, collateral, risk appetite, and market structure. The primary liquidity providers we will explore in this report are the following:

Central banks	→	The world's ultimate, but not sole, liquidity providers. By expanding their balance sheets and using their monetary policy tools to influence banking sector activity, central banks are the only source of official, on-demand backstop liquidity.
Banks	→	Provide liquidity through their direct lending activity, but primarily serve as liquidity intermediaries, the link between the central banks and market participants.
Non-bank financial institutions (referred to throughout this research as NBFIs or, even more broadly, as non-banks)	→	Serve both liquidity provision and intermediary functions; while not all NBFIs are direct liquidity providers, all influence liquidity dynamics. NBFIs include both institutions that own assets or extend credit, as well as those that facilitate market functioning. The former camp includes large institutional investors such as insurers, pension funds, sovereign wealth funds and major investment funds, including private asset funds, hedge funds, and money market funds. The latter camp, which facilitates market functioning, includes principal trading firms, clearing participants, mutual funds, and ETFs.

Across liquidity-related literature, many other market participants such as households and corporates can also be considered liquidity providers. However, **the scope of this research will focus on market and lending liquidity dynamics as influenced primarily by central banks, banks, and NBFIs.** Liquidity conditions can also be focused on a single asset class, such as Treasuries; but our conclusions will take a multi-asset approach where appropriate.

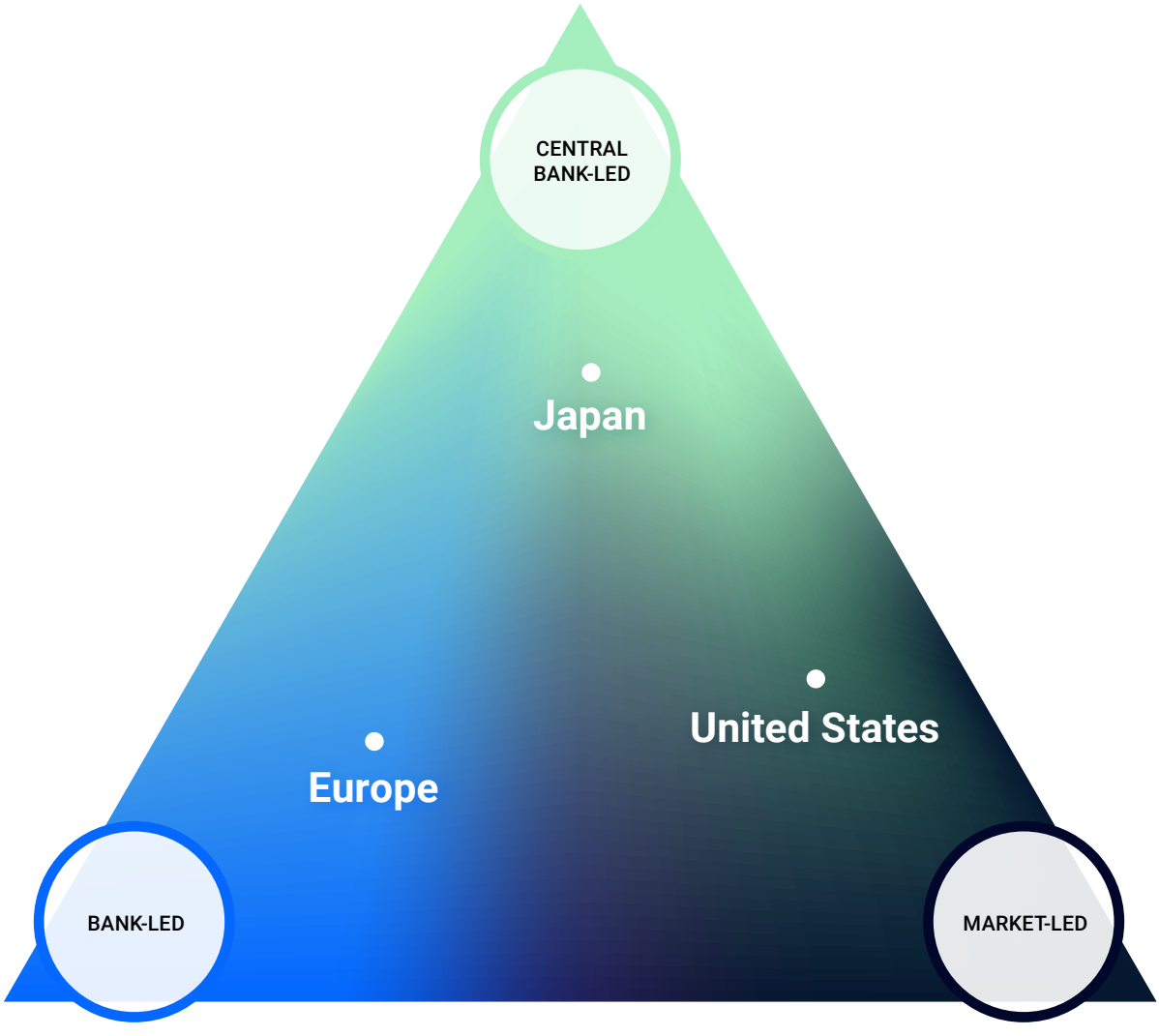
2 What Makes a Liquidity Regime?

The liquidity definitions and providers discussed in the prior section are key to investors' assessment of current liquidity conditions – and this thinking dominates much of the asset management industry's research on liquidity dynamics. But forming a long-term, forward-looking view on liquidity's role in asset allocation requires a repeatable framework for the market architecture supporting liquidity dynamics.

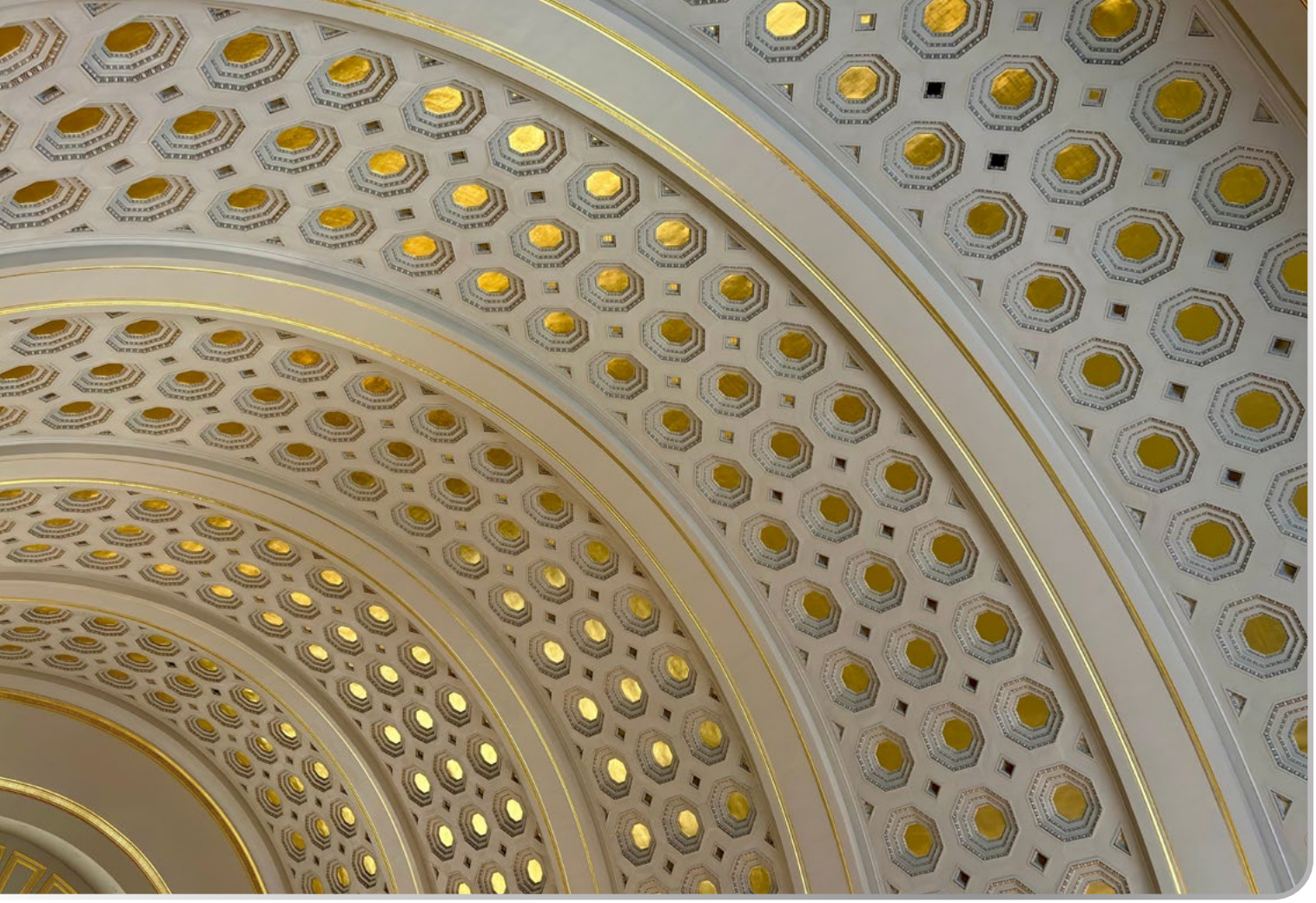
Such architecture could theoretically be centered around the supply or demand side of liquidity: the institutions dominant in providing liquidity, or the market participants dominant in demanding liquidity – or both. But the supply of liquidity often does not perfectly meet demand, particularly in times of stress. Whether at an asset, fund, or market level, supply-demand mismatches often prompt margin calls, messy unwinding of leverage, and defaults. **Whether these mismatches snowball into systemic financial sector stress, however, is at the discretion of liquidity providers.** Accordingly, our liquidity framework centers around the liquidity suppliers.

We have found that the primary liquidity provider within any given region has shifted identifiably over time, playing the predominant role in determining liquidity conditions and influencing investing conditions. For short, we refer to changes in this market architecture as distinct **liquidity regimes.**

WHERE KEY REGIONS SIT WITHIN THE LIQUIDITY REGIME CONTINUUM



Source: New York Life Investment Management Global Market Strategy, October 2026. For illustrative purposes only.



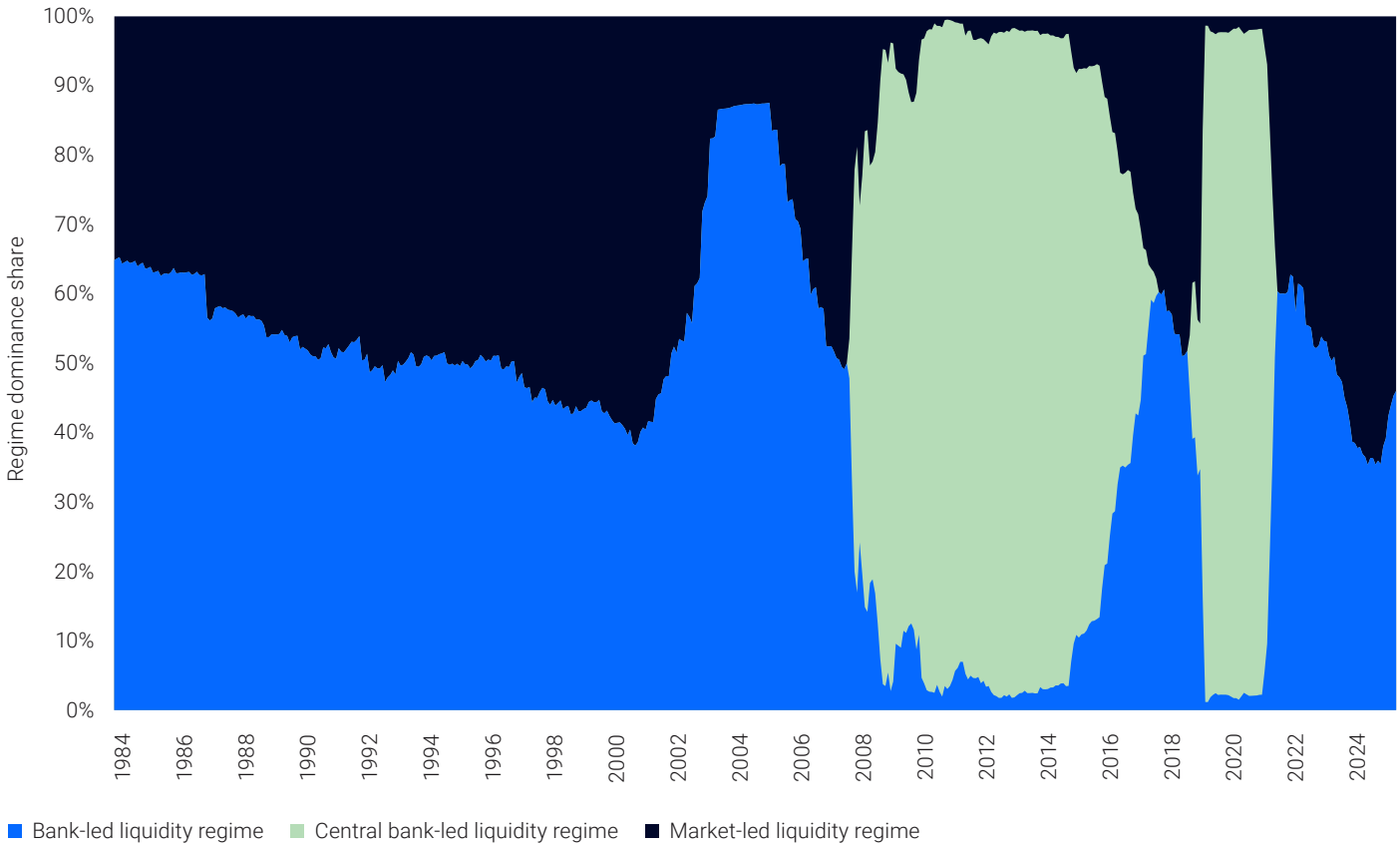
3 Liquidity Regimes in a U.S. Context

Due to the sheer size of its capital markets, extending from the Federal Reserve balance sheet to the depth of its Treasury market, the United States is the preeminent driver of global liquidity conditions. We lay out our liquidity regimes in a U.S. context, then will elaborate on key regional differences in the following sections.

Since the 1980s, we posit that the U.S. has experienced two distinct liquidity regimes: a financial intermediary (primarily bank and dealer)-led regime in the decades leading up to the Global Financial Crisis (GFC), followed by a central bank-led regime spanning the GFC and pandemic eras. Today, we believe the U.S. is ushering in a nascent market-led liquidity regime, driving shifts in liquidity conditions far beyond its borders.

THE UNITED STATES IS LEADING THE WORLD TOWARD A MORE MARKET-LED LIQUIDITY REGIME

NYLIM Global Market Strategy's model of U.S. liquidity regimes[2]



For each regional regime model, three distinct sources of liquidity stock and flow are considered: bank-provided liquidity, using loan data; central bank-provided liquidity, using central bank balance sheet data and effective policy rate; and market-provided liquidity, using a variety of money market, securitized loans, investment trusts, corporate bonds, and/or commercial paper data. The model considers a "flow factor" accounting for each source's structural and trailing 36-month marginal share of liquidity provision, weighting new marginal flow at 70% vs. structural stock at 30% to prioritize changes in liquidity provision. Central bank assets are also considered at a minimum of 7% and a maximum of 14% of GDP. Together these factors determine the degree of relative liquidity provision dominance shown on the y-axis.

Sources: New York Life Investment Management Global Market Strategy, Federal Reserve Economic Data (FRED), October 2026. This proprietary framework reflects NYLIM Global Market Strategy's methodology and assumptions. Other methodologies may produce different classifications. The classifications are illustrative and should not be interpreted as predictions of market performance.

The banking sector regime: 1980s to 2008

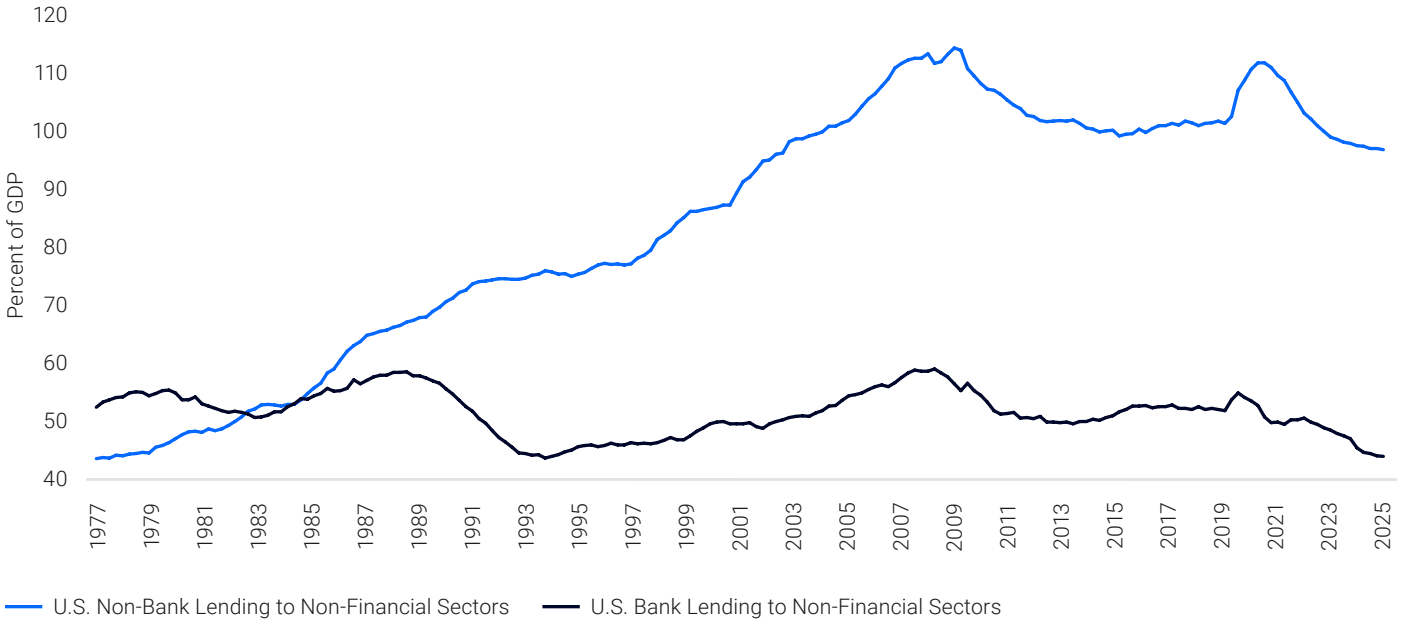
The banking sector-led liquidity regime was marked by competition and regulation. As policy and regulation enhanced banks' ability to compete with rising non-bank market share, both banks' and dealers' liquidity provision expanded. This dynamic met a breaking point in the Global Financial Crisis, prompting a reversal in regulation that would constrain banks' balance sheets, ushering in both central bank and market-led liquidity regimes in later decades.

From the early 1980s until the eve of the financial crisis, banks sat at the center of the world's liquidity architecture. Their dominance rested on more than lending: by the turn of the century, market-making and dealer capabilities, bank-sponsored securitization, and the custody and settlement of cross-border transactions, among other liquidity-influencing activities, sat largely within formal banks.

But this dominance was powerfully contested by the rise of non-banks in this period. When the Volcker-led Fed raised rates sharply from 1979, many depository institutions became illiquid, unable to attract enough deposits to fund loans made at earlier, lower rates. As banks struggled with profitability, the market-based financial system (dominated by non-banks, or NBFIs) gained market share rapidly, capturing both sides of commercial banks' balance sheets – commercial paper and junk bonds on the asset side; money-market funds on the liability side. Large non-bank dealers, including Goldman Sachs, Morgan Stanley, Lehman Brothers, Bear Stearns, and Merrill Lynch played a key role in distribution. Commercial banks' share of total nonfinancial borrowing slid from 35% in 1974 to 22% in 1995.[3]

BANKS AND NON-BANKS ENGAGED IN A MARKET SHARE STRUGGLE IN THE DECADES PRECEDING THE GLOBAL FINANCIAL CRISIS

U.S. lending to non-financial sectors by banks and non-banks



Sources: New York Life Investment Management Global Market Strategy, The Bank for International Settlements (BIS), Macrobond, October 2026.

Both regulation and legislation in the 1980s and 1990s responded by progressively clearing banks' path, each removing a different constraint to how banks could cope with competitive challenges from non-banks.[4] This regulatory surge culminated in the 1999 repeal of the Glass-Steagall Act, which allowed single financial institutions to house deposits, run trading desks, and sponsor securitization vehicles all under one roof. Following 1999, banks found themselves in a stronger position to absorb market competition – and by then, the independent dealers that had once disintermediated banks were providing similar functions to the banking system as leveraged warehousers of risk.[5]

That absorption showed up directly in how banks' and dealers' balance sheets – in other words, liquidity provision – surged in the runup to the Global Financial Crisis. Both sharply expanded their market making and warehousing capacity through the 2000s: dealer inventories of structured and corporate credit climbed to nearly $300 billion in the years before the crisis.[6] Banks' willingness to underwrite (increasingly subprime) loans and warehouse (mounting) risk was a primary engine of the credit and securitization boom – the same balance sheets that would prove the point of failure in 2007–2008.[7] And by the end of 2008, all of the primary independent dealers had either failed, been absorbed by a bank, or converted themselves into a bank.[8]

Perhaps the most impactful legacy of this bank-led liquidity regime was the post-financial crisis regulation it provoked, limiting how banks could extend their balance sheets moving forward and pushing this function toward the non-bank sector. Dodd-Frank, signed in 2010, barred proprietary trading at insured banks, established the Financial Stability Oversight Council to monitor system-wide risk, and mandated Fed-conducted stress testing. Basel III layered on top, raising common equity capital requirements and introducing new liquidity standards purpose-built for what failed in the GFC.[9] The effect of these regulations showed up directly in the same dealer balance sheets that had swelled before the crisis: structured and corporate credit inventories that had peaked near $300 billion collapsed to roughly $50 billion by the end of 2018 as the new capital and liquidity rules bit. These regulations did not banish risk from the financial system; instead, they prompted the migration of risk toward the non-bank vehicles that would come to define the next liquidity regime.

INSTITUTIONS NOW HOLD FEWER SECURITIES TO FACILITATE MARKET MAKING

New York Fed dealer inventory

Sources: New York Life Investment Management Global Market Strategy, Federal Reserve Bank of New York, PIMCO, October 2026. Dealer inventories represent corporate and structured inventories from the Federal Reserve Bank of New York.

The central bank-led regime: 2008 to 2022

The central bank-led liquidity regime featured unprecedented expansion of the Federal Reserve and other central banks' balance sheets and liquidity provision facilities, in response to the two greatest economic crises of the modern era. Short of systemic threats to the financial system, central banks emerged from this regime hesitant to continue deploying their full monetary policy toolkits, opening both opportunity and responsibility for non-banks to fill liquidity gaps.

Many investors characterize the Fed's intervention in the Global Financial Crisis in terms of its most blunt-force tool: quantitative easing (QE). But what truly marks the period from 2008 to 2022 as a central bank-led era in liquidity revolves around its more targeted liquidity efforts. The era featured a clear shift from improvised, temporary central bank liquidity interventions toward a standardized infrastructure around the Fed's role as the lender of last resort and ultimate liquidity provider.

During the intermediary-led liquidity regime, the concept that some institutions were "too big to fail" did exist, requiring some degree of liquidity support from the Fed. But formal Fed intervention primarily relied on a combination of its standing discount window and its ability to persuade and assemble the banking system toward specific courses of action.

The range of pre-crisis Fed intervention

We find two case studies exemplary of the range of tools the Fed used to mitigate systemic threats to the banking and financial systems prior to the financial crisis. Both examples are also critical predecessors to GFC-era interventions: the LTCM bailout, and support following the 9/11 terrorist attacks.

The 1998 Long-Term Capital Management (LTCM) bailout showcased the Fed's incredible power to convene and influence the U.S. banking system. After the Russian sovereign default in August 1998 triggered a negative cycle of spread widening, unwinding of derivates positions, and leveraged losses, LTCM began to represent a systemic financial threat. The Fed assembled a consortium of 14 banks and brokerages to inject ~$3.6 billion in new capital, representing 90% of the net asset value of LTCM – without lending a dollar itself.[10]

In contrast, the Fed's response to the 9/11 attacks enhanced the precedent for multi-channel and customized, though not sustained, liquidity stabilization. On the day following the attacks, the Fed dramatically expanded its liquidity injections via repos, discount window lending, and float offered to banks which could not clear checks due to physical transportation constraints. But importantly, this support was almost entirely normalized just one week after the attacks.

EMERGENCY LIQUIDITY TOOLS USED BY FEDERAL RESERVE IN RESPONSE TO 9/11

USD, millions

Tool	Pre-9/11 Average	September 12, 2001	Differential
Repos	27,298	61,005	2.2x
Discount window lending	59	45,528	771.7x
Float	720	22,929	31.8x

Sources: New York Life Investment Management Global Market Strategy, Federal Reserve Bank of St. Louis Monetary Trends Report, November 2001.
Repos: repurchase agreements. Float: coverage of check clearance. Pre-9/11 average: average of Wednesdays from July 4, 2001 to September 5, 2001.

But in 2008, as the crisis began to set in, this decades-long precedent dissolved – not with an immediate launch into QE, but first via months of emergency liquidity injections at a scale and over a time horizon not seen prior or since. These efforts changed the composition of the Fed's balance sheet before asset purchases changed its size.[11]

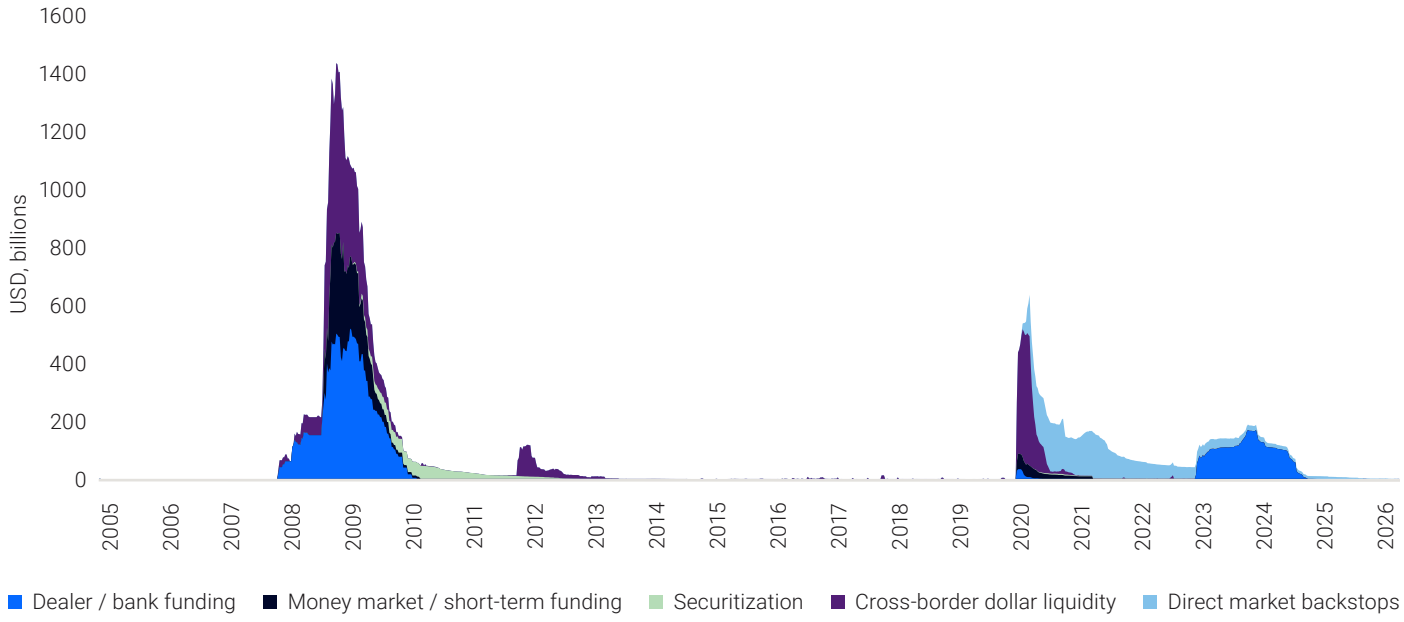
Once QE did arrive, balance sheet expansion became the era's defining, recurring tool; three rounds between 2008 and 2014 took the balance sheet from roughly $870 billion to about $4.5 trillion.[12] Other elements of Fed intervention infrastructure evolved in calmer periods: a 2019 repo rate spike toward 10% led the Fed to institutionalize what had previously been improvised, establishing a Standing Repo Facility in 2021 as a permanent backstop.[13]

The pandemic then tested the toolkit at unprecedented speed. Facilities that had taken most of a year to build were back within days, the balance sheet nearly doubled to $9 trillion in about a year,[14] and for the first time the Fed extended its reach directly into corporate and municipal credit, territory GFC-era QE had never touched.[15] These tools moved spreads before funds were disbursed, proof of how clearly markets had come to rely on the Fed's willingness to act.

But the Fed's expansionary posture during the pandemic was short-lived. Quantitative tightening (QT) began in 2022 alongside the fastest hiking cycle in four decades, and the balance sheet returned to pre-pandemic levels within two years. And when credit spreads widened meaningfully through 2022-2023,[16] the Fed declined to step in. The one exception – the failures of Silicon Valley Bank and Signature Bank in March 2023 – ran through the same standing bank-facing infrastructure this era had built, not a new bailout of markets or non-banks. The Federal Reserve emerged from its crises era having tested the extremes of its intervention capabilities, laying the groundwork for how the Fed may respond to a more market-led liquidity regime outside its formal banking sector purview.

THE FED'S LIQUIDITY BACKSTOP EFFORTS EXTENDED BEFORE AND BEYOND QE IN CRISES

Federal Reserve usage of Section 13(3) and select other emergency liquidity facilities



Sources: New York Life Investment Management Global Market Strategy, U.S. Federal Reserve, October 2026. Facilities included have been utilized by the Fed in emergencies. All but two of the facilities mentioned – the Term Auction Facility and liquidity swap lines – were established under Section 13(3) of the Federal Reserve Act. Dealer / bank funding interventions include: Term Auction Facility, Primary Dealer Credit Facility, Bank Term Funding Program. Money market / short-term funding interventions include: Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, Money Market Mutual Fund Liquidity Facility, Commercial Paper Funding Facility. Securitization-related interventions include: Term Asset-Backed Securities Loan Facility. Cross-border dollar liquidity interventions include liquidity swap lines between the Fed and other central banks. Direct market backstops include: Primary Market Corporate Credit Facility, Secondary Market Corporate Credit Facility, Municipal Liquidity Facility, Main Street Lending, Paycheck Protection Program Liquidity Facility.

The nascent market-led regime: 2022 to today

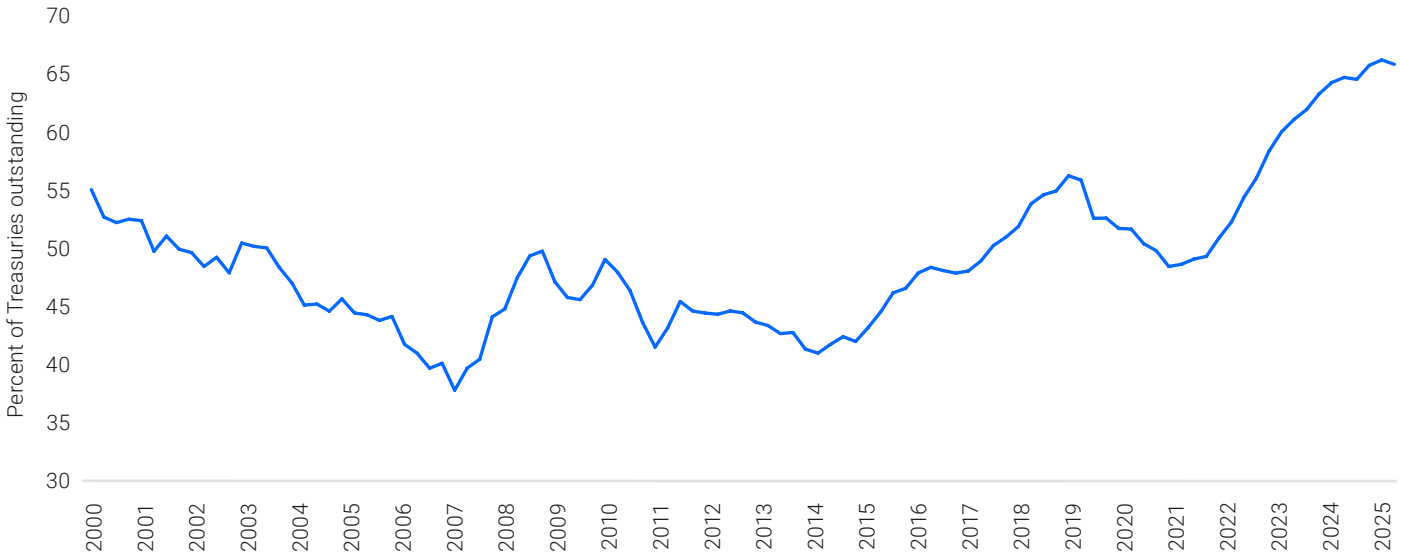
The past eras of liquidity dominance by the banking system and central banks laid the foundation for today's impulse toward greater non-bank and market influence over liquidity provision. As post-financial crisis regulation constrained the ability of banks to extend their balance sheets, central banks have attempted to step back from systemic liquidity support. In their stead, market actors – namely non-bank financial institutions – have become greater providers and intermediators of liquidity across asset classes. Because these non-bank actors fall outside the Fed's formal remit over the banking sector, today's liquidity regime raises uncertainty around how the Fed may respond in times of non-bank stress.

The post-pandemic period marks the early days of a nascent liquidity regime. Liquidity provision today is more fragmented, more market-mediated, and spread across a wider range of participants than at any point in modern financial history – no longer concentrated on the balance sheets of banks, or even central banks, but scattered across a widening constellation of primarily non-bank and market-based players. This new liquidity regime is already visible in how U.S. markets function today and is becoming an increasingly important consideration in asset allocation.

An inflection point toward this new liquidity era was a collision between regulation and issuance: tighter bank capital rules coincided with an explosion in Treasury issuance. In the 2010s, Basel III raised the cost for banks to warehouse Treasury and repo inventory just as Treasury issuance expanded to fund larger federal government deficits. Accordingly, demand for intermediation outgrew what bank-affiliated dealers could economically hold: the number of primary dealers fell from roughly 46 in the late 1980s to 23 by 2019, even as the market they served multiplied in size.[17]

PRIVATE INVESTORS OWN A GROWING MAJORITY OF TREASURY DEBT

Price-sensitive Treasury holders: excludes Federal Reserve, U.S. depository institutions, foreign central banks, and foreign government holdings



Sources: New York Life Investment Management Global Market Strategy, U.S. Federal Reserve, Schwab Center for Financial Research, October 2026. Price-sensitive Treasury holders include foreign private investors, households, insurance companies, money market funds, mutual funds, nonfinancial businesses, nonprofits, pension funds, and other domestic financial holders.

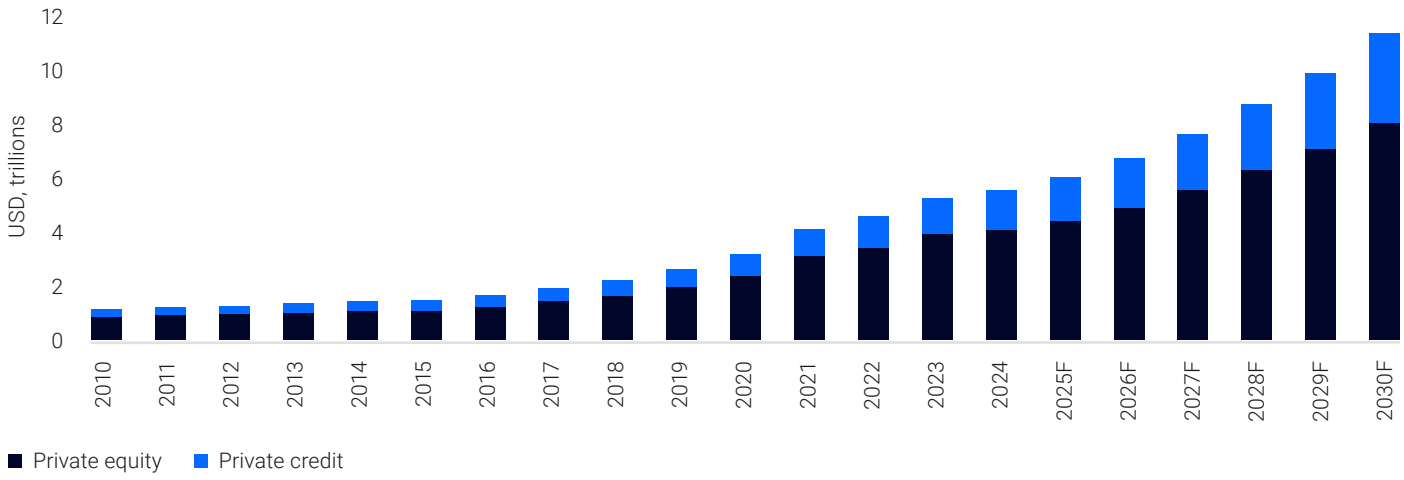
Other market participants stepped into the resulting gap. Private, non-official investors now hold roughly 60% of the Treasury market, up from 37% in 2014.[18] Principal trading firms now account for roughly 60% of trading volume on electronic interdealer Treasury platforms, a function banks alone performed a generation ago.[19] Beyond just the Treasury market, constraints on bank balance sheets also resulted in a pullback in direct bank lending; amid this pullback, private credit grew into a dominant source of corporate financing.

Market plumbing has evolved to support this ecosystem, most consequentially through a new SEC mandate requiring most Treasury trading and short-term financing (including repos) to run through a shared central clearinghouse. This mandate is an explicit regulatory response to preserve the benefits of a more diversified liquidity provider era while containing the contagion risk this more fragmented, NBFI-heavy structure now carries.

That fragmentation is both the market-led liquidity regime's defining feature and vulnerability. A more diverse set of liquidity providers can make the financial system more flexible and sturdy in responding to shocks, rather than relying on a handful of bank balance sheets. But this wider cast of participants does not have equal access to Federal Reserve backstops. **In effect, the financial system's intermediation capacity has grown even as the share of that capacity covered by a formal public safety net has shrunk.** What this mismatch means for the lender of last resort is where we turn next.

AS DIRECT BANK LENDING PULLED BACK, PRIVATE ASSETS FILLED THE GAP

Assets under management, private equity and private credit, North America



Sources: New York Life Investment Management Global Market Strategy, Prequin, October 2026. F represents Prequin forecasts.

"In today's fragmented financial architecture, liquidity in fixed income markets is not merely a risk constraint – it is a strategic asset. Because daily pricing does not guarantee market-clearing liquidity, we structure our multi-sector portfolios with explicit liquidity tiers that act as operational pressure valves. When market leverage unwinds and dealer balance sheets tighten, immediate collateral availability can provide greater flexibility to navigate periods of market stress and evaluate potential opportunities arising from forced selling across global rates, credit and securitized markets."

– Michael DePalma, Co-Head of Global Fixed Income, Senior Portfolio Manager, MacKay Shields

Backstopping a market-led liquidity regime is more ambiguous – for both the Fed and market participants

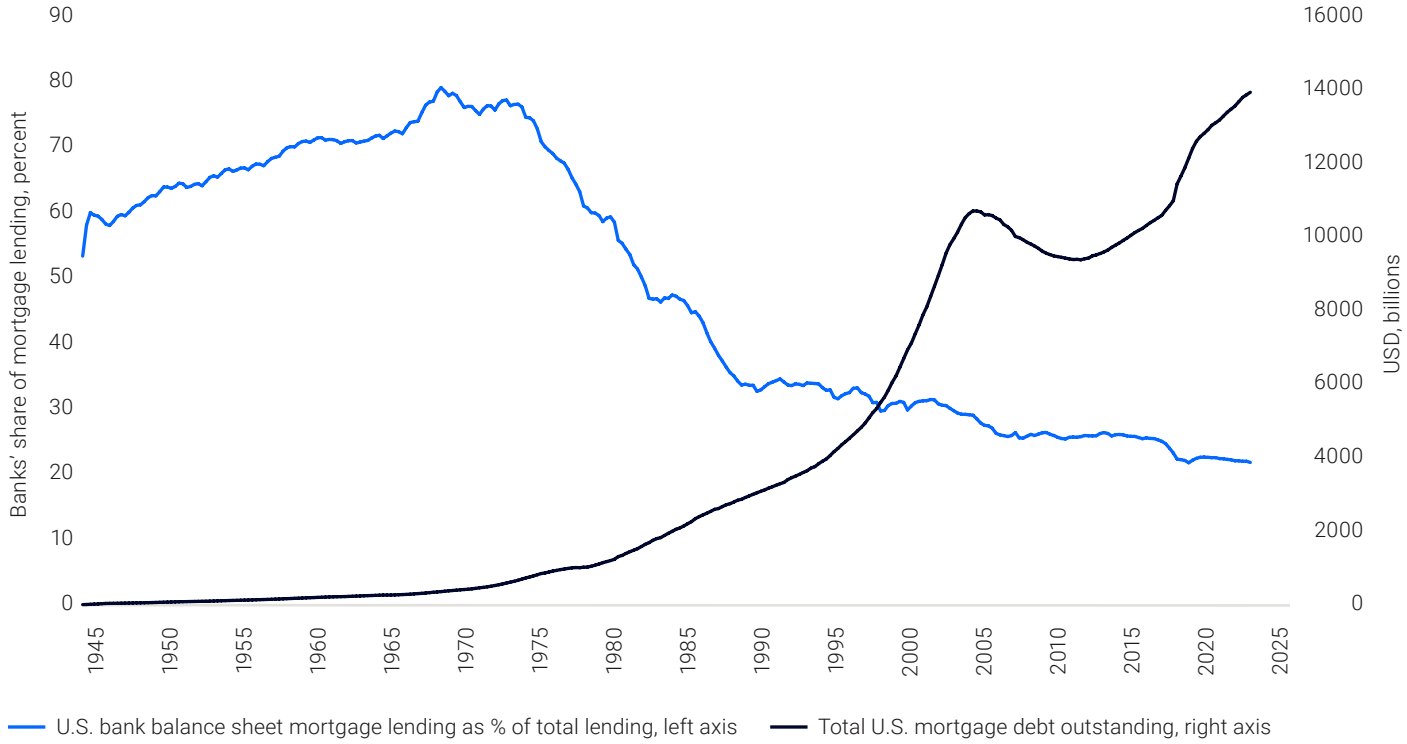
As the locus of liquidity creation shifts more toward NBFIs, the answer to a critical question also shifts: *who is ultimately responsible for backstopping liquidity in a crisis?*

Under a bank-led liquidity regime, banks sit inside standing, rules-based central bank infrastructure. In the U.S., eligible depository institutions retain privileged, perpetual access to the Fed's discount window and a statutory guarantee of access to FDIC deposit insurance. This infrastructure proved its speed and capability most recently in March 2023: when Silicon Valley Bank and Signature Bank failed, the Fed's bespoke Bank Term Funding Program allowed any eligible bank to borrow against Treasuries, agency debt, and agency MBS valued at par – removing the fire-sale dynamic that had triggered SVB's collapse in the first place. Meanwhile, the FDIC invoked its systemic risk exception to guarantee every depositor at both banks, insured and uninsured alike. Discount window borrowing spiked past $150 billion within days, exceeding anything seen during the 2008 crisis.[20] The pace of response and ability to cope with unprecedented use of these facilities reflects the strength of Fed infrastructure in responding to stresses *within its banking system.*

But under a market-led liquidity regime, no formal, repeatable infrastructure exists. Formal liquidity backstops are not explicit at the NBFI level; major developed market central banks, including the Fed, have no legal obligation to liquidity-backstop a pension fund or bail out a hedge fund as they do a bank. This is by design: it limits the moral hazard of any given fund taking on greater risk in the belief that the central bank will intervene in times of trouble. And importantly, many of the functions NBFIs often perform today – specifically dealer intermediation and risk warehousing – were formerly housed within banks prior to the GFC and the regulations that followed. **This means that the same financial market functions that were formally backstopped under the banking-led liquidity regime are no longer officially backstopped today.**

A LESS CLEAR FED BACKSTOP NOW APPLIES TO KEY LENDING AREAS SUCH AS MORTGAGES

Total U.S. mortgage debt and banks' share of mortgage lending

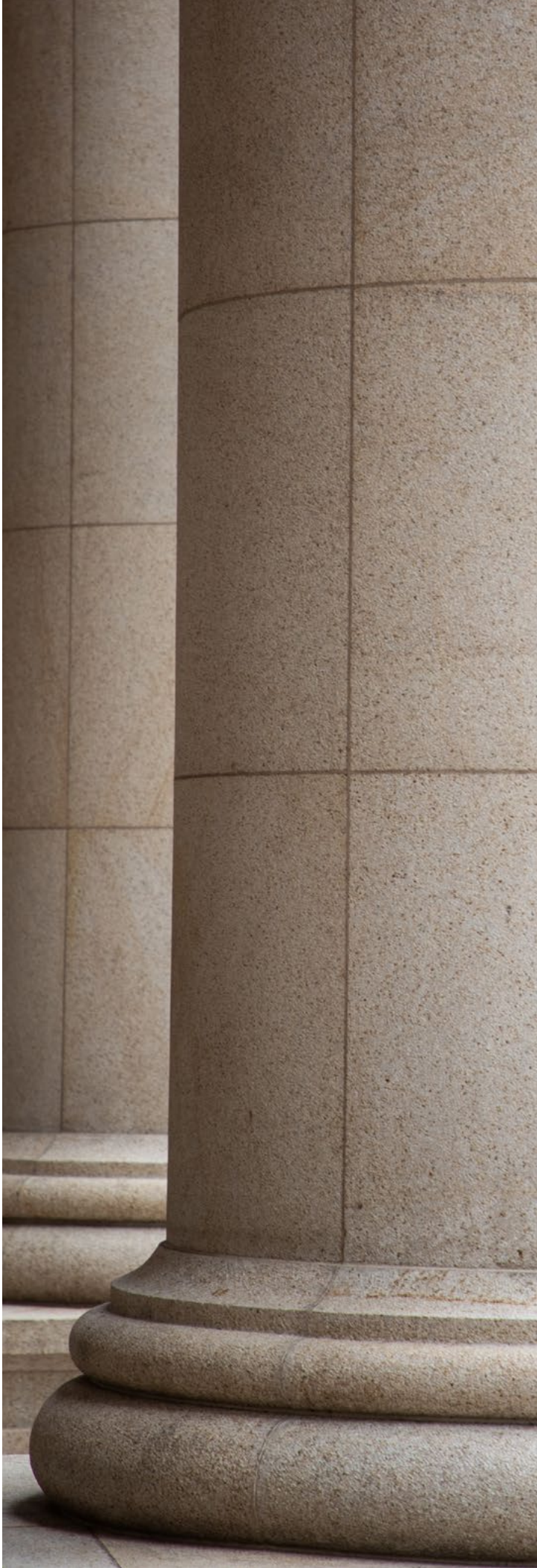


Sources: New York Life Investment Management Global Market Strategy, Federal Reserve Bank of New York, October 2026.

While the Fed certainly has the option of providing liquidity backstops to non-banks, such action lies almost entirely within a central bank's discretion. The Fed, for one, retains emergency lending authority under Section 13 of the Federal Reserve Act.[21] These emergency powers give the Fed the right to intervene in cases that threaten systemic financial stress – whether caused by public equity market selloffs, spread widening in credit, private sector stress, or (more notably in the case of other central banks) currency weakness. But a key source of uncertainty for non-banks and market participants today lies in moral hazard: central banks are prudent to *allow non-banks to fail* in cases when the financial system can handle such failures.

Two large hedge fund failures in 2021[22] drew no central bank response at all, because neither threatened a market's basic functioning. The UK's 2022 LDI crisis did prompt a response from the Bank of England, not necessarily because hedge funds or even pension funds were struggling, but because forced selling was harming the gilt market and prompting a selloff in the pound.[23] The shape of Fed intervention going forward may follow this model: Fed intervention in the future may depend not on the type of NBFI in stress or its size, nor even the systemic importance of the NBFI – but whether the stress has begun to impair a core market's own functioning.

Short of that threshold, central banks and regulators are already reaching for a different tool: shaping the structure NBFIs operate within, rather than standing behind their balance sheets after the fact. The SEC's central clearing mandate is a structural fix aimed at containing contagion risk before a crisis forces the Fed's hand directly. We see this as the more instructive precedent going forward: not the promise of a rescue, but a redesign of the plumbing so fewer rescues are needed at all.



4 Global Case Studies

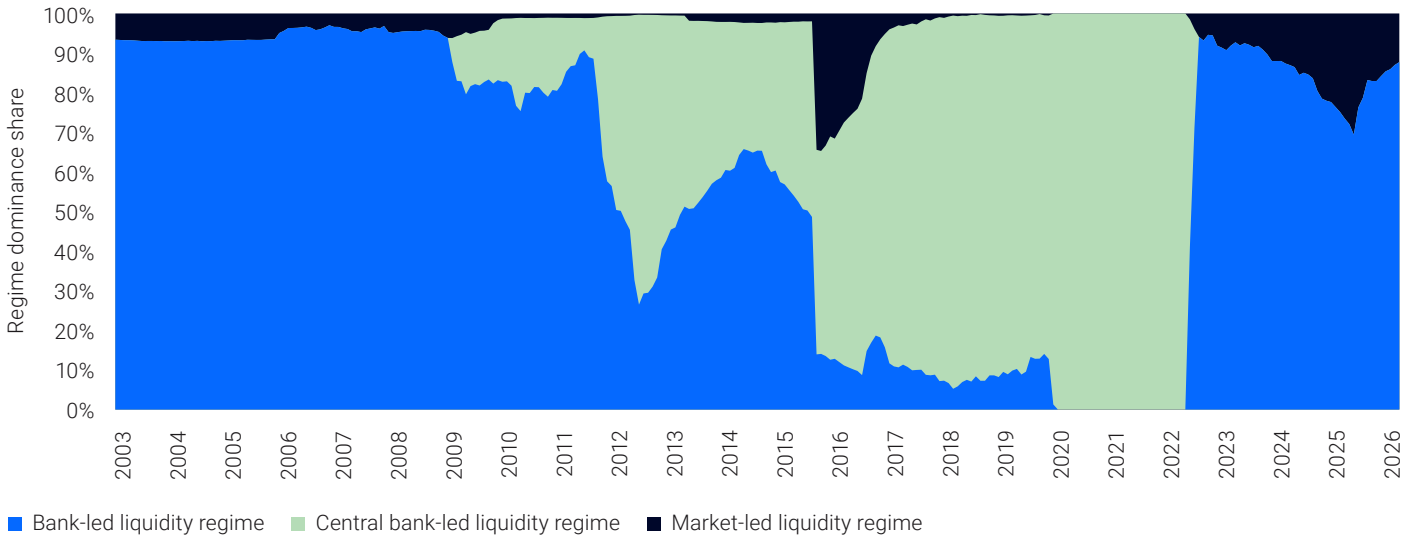
While we find the U.S.-led backdrop key to understanding the global liquidity context, other developed markets have moved through the key liquidity regimes on different timelines – here, we explore the respective journeys of Europe and Japan. Though both markets currently rest in a bank-led liquidity environment, we see major economies *facing the same inflection point:* a pull toward greater market determination of liquidity conditions. In this inflection point, provision of liquidity is fragmenting across NBFIs and investment vehicles, leaving their central banks in a similar position as the U.S. Federal Reserve when it comes to questions around liquidity *stabilization.*

Europe sits firmly within a bank-led liquidity regime, but is meeting pressure to innovate

Europe's liquidity provision still sits squarely within its banking system. This status quo is likely to remain for the foreseeable future, even as market influence over liquidity conditions builds.

EUROPE REMAINS IN A BANK-LED LIQUIDITY REGIME, WITH RISING MARKET FORCES

NYLIM Global Market Strategy's model of European liquidity regimes



For each regional regime model, three distinct sources of liquidity stock and flow are considered: bank-provided liquidity, using loan data; central-bank provided liquidity, using central bank balance sheet data and effective policy rate; and market-provided liquidity, using a variety of money market, securitized loans, investment trusts, corporate bonds, and/or commercial paper data. The model considers a "flow factor" accounting for each source's structural and trailing 36-month marginal share of liquidity provision, weighting new marginal flow at 70% vs structural stock at 30% to prioritize changes in liquidity provision. Central bank assets are also considered at a minimum of 20% and a maximum of 70% of GDP. Together these factors determine the degree of relative liquidity provision dominance shown on the y-axis.

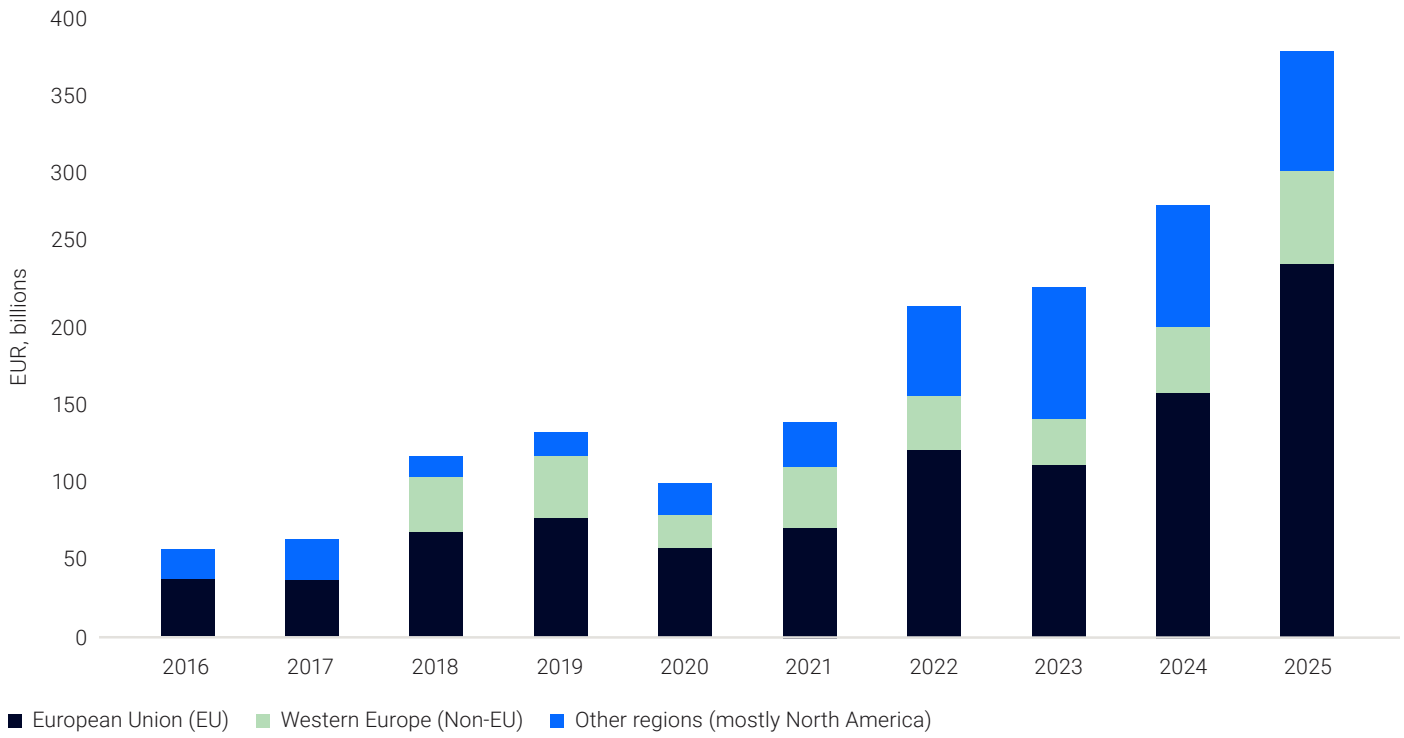
Sources: New York Life Investment Management Global Market Strategy, European Central Bank, Eurostat, October 2026. This proprietary framework reflects NYLIM Global Market Strategy's methodology and assumptions. Other methodologies may produce different classifications. The classifications are illustrative and should not be interpreted as predictions of market performance.

The crux of Europe's bank dominance is a self-reinforcing cycle of fragmented, country-level capital markets, and constrained public corporate bond markets. Corporate bonds account for just 20% of total credit to the euro area's non-financial corporate sector, meaning roughly 80% still runs through bank loans – the same split as before the GFC and euro crisis.[24] Multiple European Commission reviews have independently reached the same diagnosis: roughly €10 trillion[25] in household savings sits in low-yielding bank deposits rather than in shallow and nationally-segmented capital markets.

Though we believe a host of behavioral and regulatory forces are likely to keep Europe in a bank-led liquidity regime for the foreseeable future, banks are actively re-housing risk in non-bank actors, a prime example of how NBFIs are stepping in to fulfill market functions banks are stepping away from. Synthetic Risk Transfers,[26] or SRTs, are a type of securitization that allows banks to transfer risk to investors, while retaining those assets on the bank balance sheet and retaining ownership of the customer relationships. European SRT issuance has quintupled since 2016 – and per the BIS, "has facilitated the redistribution of risk from banks to non-bank financial institutions (NBFIs), thereby deepening the linkages between the two sectors."[27] Importantly, the assumption of risk by NBFIs enables the traditional banking sector to expand its lending activity (liquidity provision), highlighting how the non-bank sector can enhance the economy's liquidity provision capability even without providing liquidity directly.

SYNTHETIC RISK TRANSFER ISSUANCE BY ISSUER REGION

Underlying pool size



Sources: New York Life Investment Management Global Market Strategy, Bank for International Settlements, IACPM Global SRT Bank Survey 2016-2025. Western Europe (Non-EU) included in "other regions" for 2016 and 2017.

The effort by Europe's banks to keep their balance sheets clear and agile; the willingness by Europe's non-bank sector to take on this risk; and other regulatory alignment efforts to lessen the legal and regulatory segmentation of Europe's markets all point to a future in which non-banks and market participants play a larger role in liquidity provision.

"The 2008 global financial crisis is a stark reminder of liquidity's vital role: when combined with excessive risk-taking, a sudden liquidity freeze can threaten the stability of the entire financial system. In today's environment of geopolitical uncertainty and persistent fiscal deficits in some European countries, abrupt market repricing could expose funding vulnerabilities and force leveraged investors to sell assets. Credible medium-term deficit-reduction plans, alongside central bank readiness to address – within its mandate – market dysfunction, are essential to containing these risks."

– Florence Pisani, PhD, Chief Economist, Candriam

– Emile Gagna, Deputy Head of Economic Research, Candriam

Japan's central bank dominance is gradually and unevenly giving way to market forces

Japan's central bank dominance runs deeper and longer than anywhere else in the world. But the Bank of Japan (BOJ)'s efforts toward normalization, along with efforts to unlock latent corporate liquidity, point toward a similar inflection point of greater non-bank liquidity provision.

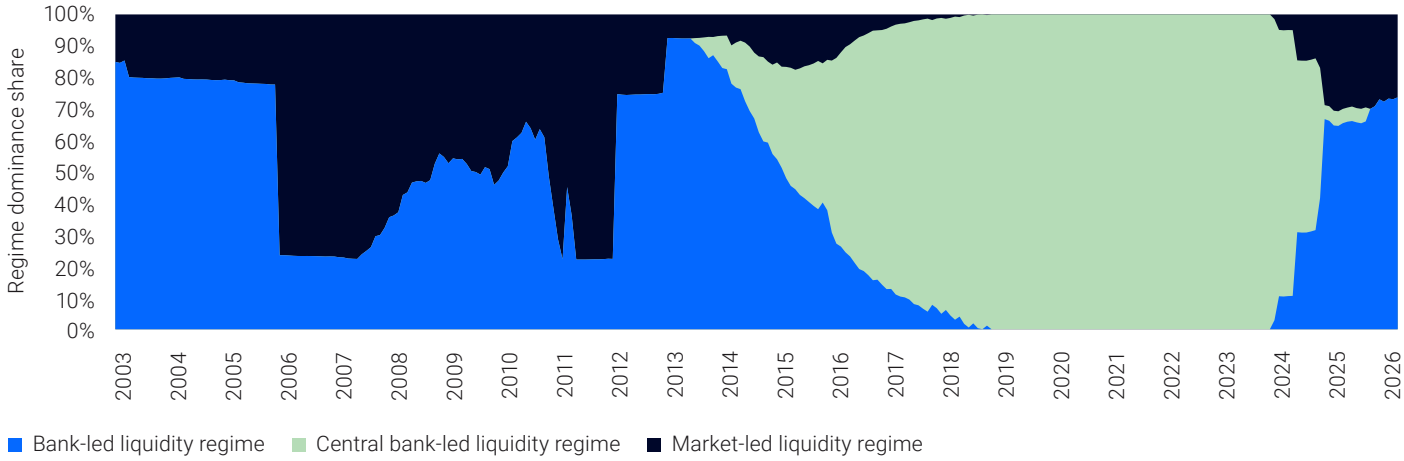
The BOJ pioneered quantitative easing in 2001, seven years before the Fed or ECB, and only exited yield curve control and negative rates in 2024, after two decades in which its balance sheet came to own over half of all outstanding Japanese government bonds.[28] This legacy persists today: Japan's liquidity dynamics remain the most central bank-led of the three economies we've mapped, even as the BOJ's own exit proceeds more on the market's terms rather than its own.

But just as the U.S. and Europe are experiencing a shift toward market and non-bank influence over liquidity conditions, so too is Japan. The Bank of Japan's normalization efforts are well known; we believe the unlocking of corporate liquidity is a less appreciated sea-change in Japanese markets. For three decades, Japanese companies sat on enormous cash piles and legacy cross-shareholdings. The Tokyo Stock Exchange's 2022 reform began prying that capital loose, lifting the market's average return on equity (ROE) from 8.4% to 9.0% and price-to-book ratio from 1.1 to 1.4 in three years.[29] The releases have been dramatic — megabanks and major insurers have committed to keep selling down cross-shareholdings through 2030, funding a buyback boom that hit a record ¥16.81 trillion in 2024 alone.[30]

The shift of liquidity from defensive corporate holdings into market circulation is one of the key early signs that Japan's relationship-based architecture, not just its central bank's balance sheet, is beginning to give ground to market forces.

JAPAN HAS BEEN SLOWER TO EXIT THE CENTRAL BANK-LED LIQUIDITY REGIME, BUT GREETS GREATER MARKET INFLUENCE OVER LIQUIDITY DYNAMICS

NYLIM Global Market Strategy's model of Japanese liquidity regimes



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5 An Investor's Blueprint for a New Global Liquidity Regime

Long-term asset allocation is already adapting to a market-led liquidity environment. Across investor types, expectations for more fragmented provision of liquidity – and a more ambiguous Fed backstop – have the potential to raise required returns across asset classes and prompt investors to shorten duration to minimize liquidity-related risks. We also see three key market evolutions in play that directly reflect the shifts in liquidity provision discussed in this research.

Private markets continue adapting to a liquidity reset

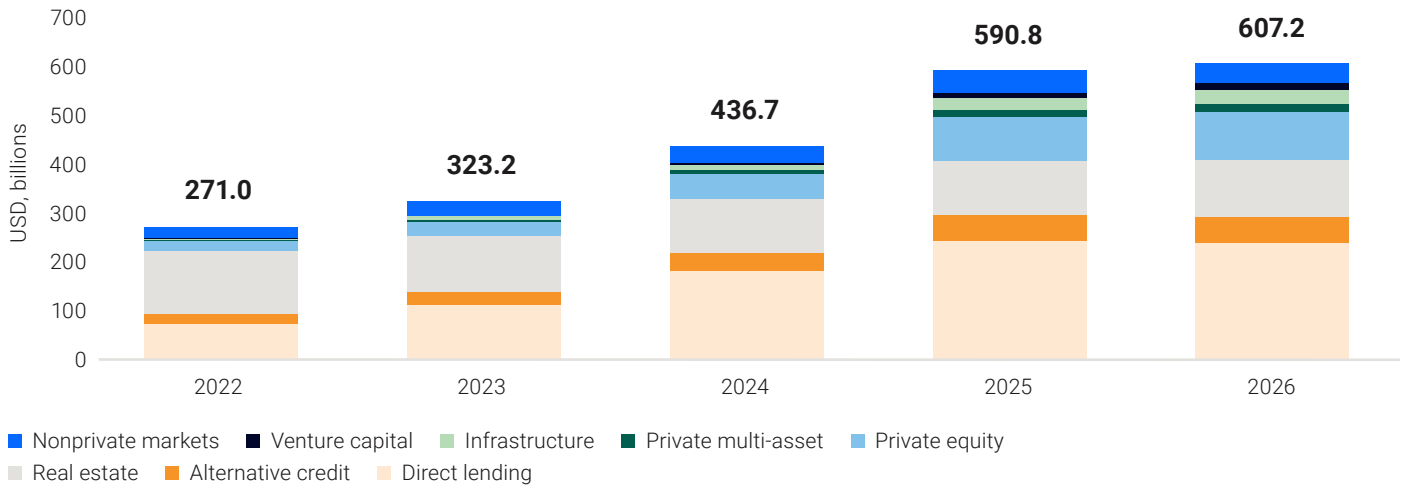
It is well known that investors' liquidity needs have matured considerably when it comes to private markets exposure. The rise of private credit vehicles in the stead of bank lending, as discussed earlier, has represented a sea-change for borrowers and investors alike. Longer holding periods and slower investment realizations can extend holding times for sponsors and distribution timelines for limited partners, increasing demand for mechanisms such as secondaries, continuation vehicles, and other liquidity solutions. Of course, these mechanisms do not make the underlying assets more liquid; rather, they create additional ways for investors and managers to transfer exposures or access capital as their liquidity needs change.

One way private markets investors have adapted to this environment, particularly in today's market-led liquidity regime, has been through the rise of the semi-liquid investment wrapper. Assets under management in semi-liquid wrappers around illiquid assets, including interval and evergreen funds, have grown considerably in the post-pandemic period.

What is often overlooked, however, is how diversification of investment wrappers has become a portfolio construction tool in itself. Semi-liquid vehicles are increasingly used by institutional and retail investors alike, to complement core, illiquid exposures to private asset classes. Semi-liquid vehicles offer not just greater periodic liquidity over the life of the investment; they may also enable investors to establish private market exposure more quickly than traditional drawdown vehicles, through which the timeline to achieve a target allocation depends on the timing of capital calls.[31]

AS INVESTORS SEEK MORE LIQUID WRAPPERS OF ILLIQUID ASSETS, EVERGREEN FUND AUM HAS SURGED

Evergreen fund assets under management by strategy



Sources: New York Life Investment Management Global Market Strategy, PitchBook, Morningstar, October 2026. Data was aggregated by Pitchbook on June 10, 2026. The most recent dates of the disclosure documents range from September 30, 2025 to March 31, 2026. AUM growth does not represent investment performance or imply investment merit, investor returns, or future results.

"Investor's perception of liquidity in private markets has long been driven by distribution dynamics in addition to asset class structure. The faster exit environment in private markets preceding the 2022 rate hike cycle made illiquid assets 'feel' more liquid than they really were, whereas the current environment has done the reverse, challenging allocators to maintain discipline through choppy markets. Evergreen funds have emerged as a potential solution to provide more precision and discipline to private market deployment in an uncertain exit environment."

– Jeremy Held, Head of Evergreen Private Equity, Apogem Capital

The rise of on-chain market plumbing: mobility versus liquidity

Many liquidity discussions relate to the financial "plumbing" responsible for getting capital from one market participant to the next. Digital assets, based on blockchain and settled in stablecoin, represent a new set of such plumbing. We see digital assets as having strong potential to improve on-chain asset mobility, but greater transferability does not, by itself, create liquidity. A liquid market still requires sufficient willing buyers and sellers, effective price discovery, and the ability to transact without materially moving prices – the same characteristics that define liquidity in traditional markets.

This distinction is particularly relevant when tokenization is applied to assets that are inherently illiquid. Changing the technology through which an exposure is represented or transferred does not necessarily change the underlying economics of that asset. Instead, tokenization may create new mechanisms through which ownership and collateral can move through the financial system.

In this sense, the critical distinction around digital assets is not that tokenization can create neo-liquidity where none existed before; rather, digital infrastructure can support the efficiency of existing markets.

Stablecoins, particularly seen as a settlement mechanism within on-chain assets, add another dimension to this emerging infrastructure. Stablecoin-based liquidity ultimately connects back to traditional financial assets, particularly U.S. Treasuries. The GENIUS Act creates a greater regulatory backdrop around those linkages. As those connections deepen, digital-market liquidity and traditional market liquidity may become increasingly intertwined, raising questions around Federal Reserve or other regulatory backstops: who provides liquidity when market functioning comes under stress? A run on digital assets into stablecoins – and potentially then from stablecoins into their traditional reserve assets – could ultimately transmit digital liquidity demands into traditional markets. How effectively existing central-bank backstops would address stress originating in that emerging architecture remains uncertain.

The rise of the Total Portfolio Approach

A visible trend in asset allocation aligned with today's shift in liquidity structure is the gradual rise of the Total Portfolio Approach (TPA)[32] over the traditional Strategic Asset Allocation (SAA) among many global institutional investors.

Although early pioneers of the TPA began in the financial crisis era,[33] adoption is accelerating and broadening 15 years later. In a 2024 survey by the Thinking Ahead Institute, 20 of 26 major pension funds and sovereign wealth funds were already at or moving toward maximum use of the approach.[34] CalPERS's board voted in November 2025 to replace strategic asset allocation with a total portfolio approach – the first U.S. pension fund to do so.[35] Korea's KIC is piloting the same shift on 10% of its AUM (representing roughly $23 billion in assets) starting July 2026, with an explicit goal of building liquidity forecasting models that work across the total portfolio rather than by asset class silo.[36]

Critically, the shift to TPA addresses both sides of how institutional investors consider risk and liquidity concerns. From one angle, these investors must contend internally with shifting liquidity management options. A portfolio-level approach can become particularly relevant when timing and degree of liquidity differ substantially across investments. Capital calls, distributions and redemption opportunities do not necessarily align neatly with traditional asset class sleeves, increasing the importance of liquidity management across the total portfolio rather than asset by asset.

From the other angle, institutional investors are key NBFIs that are now subject to greater external liquidity demands in today's emerging liquidity regime. As their role in liquidity provision expands, the rise of the TPA reflects shifting risk management practices among pension funds in particular. SAA-based portfolio diversification is focused on risk mitigation, not holistic risk management, avoidance, or hedging – and may not be a sufficient risk management technique for increasingly systemically important investors.

A Note on the Rise of TPA

Strategic Asset Allocation has been the predominant portfolio construction tool across investor types for three decades, assigning sizes to asset class sleeves and separating alternatives and private markets exposure from liquid asset classes. An alternative – the Total Portfolio Approach – is now on the rise among institutional investors.

The Total Portfolio Approach is built around the concept that risk exposures often transcend traditional asset class "buckets" and even public-private portfolio divides. In a TPA-led portfolio, each investment is assigned risk factors. Rather than relying solely on traditional asset class sleeves to guide position sizing (as under the SAA approach), investments must "compete" for capital within a fund structure. In doing so, the TPA "evaluates every investment based on its contribution to the total fund's objectives rather than managing capital through rigid asset-class silos."[37]

Importantly, SAA and TPA are not mutually exclusive approaches. Many institutional investors consider the two as a sliding scale, perhaps applying TPA-style risk factors to investments within an SAA-determined allocation sleeve.

ALLOCATORS ARE INCREASINGLY UTILIZING THE "SLIDING SCALE" OF PORTFOLIO MANAGEMENT APPROACHES

General parameters of Strategic Asset Allocation vs Total Portfolio Approach

	SAA ← → TPA	
	Strategic Asset Allocation	**Total Portfolio Approach**
Performance assessed relative to…	Allocation benchmarks	Fund goals (liquidity needs, etc.)
Success measured by…	Excess performance above benchmark	Total return
New investment opportunities influenced by…	Asset class sleeves	(Potential) contribution to total return
Diversification primarily stems from…	Asset class sleeves	Risk factors
Asset allocation process is…	Board-centric	CIO-centric
Portfolio implemented by…	Single collaborative team structure	Multiple teams competing for capital

Sources: New York Life Investment Management Global Market Strategy, Thinking Ahead Institute 2020 global asset owner study on Total Portfolio Approach, October 2026.

Conclusion

As allocators adjust to a more market-led liquidity regime, investors can bear in mind that a more fragmented liquidity architecture is not necessarily less resilient. Our research suggests that a broader range of capital providers can diversify the system's capacity to absorb shocks. But that capacity is also less uniform, and many of those providers operate outside traditional central-bank backstops. And as expectations shift toward the non-bank sector, adaptations in Fed infrastructure and policy may lag.

Institutions moving fastest – institutional investors shifting toward a Total Portfolio Approach, banks offloading risk through SRTs, evergreen structures competing with legacy vehicles – are already treating liquidity as a part of their investment approach rather than confining such considerations to single assets and markets. Investors are prudent to enter this new liquidity regime with eyes open: with a view to the most likely liquidity backstops within each of their investment exposures, and with a strong sense of the systemic demands placed on key institutional investors themselves – who, in a market-led liquidity regime, may find they are as much a source of liquidity stabilization as they are a beneficiary of it.

Global Market Strategy at New York Life Investment Management

Our team of market strategists connects macroeconomics to asset allocation. Leveraging proprietary research alongside the breadth and depth of the New York Life Investment Management platform, we provide actionable insight into market-driving events, structural themes, and portfolio construction to empower investment decision-making.

Julia Hermann, CFA
Global Market Strategist

Sarah Hirsch
Global Market Strategist

Michael LoGalbo, CFA
Global Market Strategist

Special Thanks

The topic of market liquidity has been subject to ample debate among practitioners and academics alike. Many of the world's best thinkers on economic and market plumbing have spent their careers tackling the topic with qualitative and quantitative rigor. We leaned heavily on this work and cite it extensively in the piece. We therefore thank and acknowledge the broader body of research aiming to provide market participants guidance on a topic as important, overlooked, and misunderstood as liquidity.

We humbly thank our business partners. Our fellow practitioners across the New York Life Investment Management platform enriched this work with their skilled research and productive debate. The investment takeaways of this research reflect the breadth and depth of our firm's expertise.

1. Markus K. Brunnermeier and Lasse Heje Pedersen, Market Liquidity and Funding Liquidity. National Bureau of Economic Research Working Paper 12939, February 2007.
2. Our Global Market Strategy team's methodology across liquidity regime models assigns each of three liquidity providers - banks (aggregate loans), the central bank (its balance sheet), and market-based finance (investment trusts, corporate bonds, and commercial paper) - a monthly footprint, and classifies the dominant provider in each period. Dominance between banks and markets is determined by a weighted combination of each provider's share of the outstanding stock (30%) and its share of marginal growth over the trailing three years (70%). The central bank is deemed dominant only when its balance sheet is large relative to GDP and policy rates are simultaneously constrained near a lower bound (which varies across regions). When this condition holds, central bank dominance supersedes the bank–market contest; otherwise, dominance accrues to the provider with the largest resulting share.
3. Franklin R. Edwards and Frederic S. Mishkin, The Decline of Traditional Banking: Implications for Financial Stability and Regulatory Policy. Federal Reserve Bank of New York Economic Policy Review 1, no. 2, July 1995.
4. First, the 1980 Depository Institutions Deregulation and Monetary Control Act eliminated the Fed's authority to cap deposit rates, solving the immediate problem of deposits fleeing to money market funds, but leaving capital rules untouched. Basel I closed that second gap in 1988, replacing flat leverage rules with risk-based capital requirements tied to risk-weighted assets, a market-referential approach to capital that would deepen over the following two decades. What remained was the Glass-Steagall line separating deposit-taking from trading, underwriting, and securitization; the Gramm-Leach-Bliley Act repealed Glass-Steagall in 1999, allowing the same institution to hold deposits, run trading desks, and sponsor securitization vehicles under one roof.
5. In 2004, the SEC's Consolidated Supervised Entities (CSE) program allowed independent dealers (such as Goldman Sachs, Morgan Stanley, Merrill Lynch, Lehman Brothers, and Bear Stearns) to use their own risk models to set capital requirements, in exchange for SEC oversight.
6. Jamil Baz, Josh Davis, Lloyd Han, Sean Klein, Seven Lessons in Liquidity. PIMCO, February 2020.
7. Gorton and Metrick's 2012 Securitized Banking and the Run on Repo paper, focused on the combination of securitization and repo finance, identifies the fusion of banks and market functions as the nexus of 2007–08: the panic took the form of a run on the repo market rather than a run on retail deposits, the exact failure mode deposit insurance had never been built to prevent.
8. Bear Stearns was acquired by JPMorgan Chase in March 2008; Lehman Brothers filed for bankruptcy in September 2008; Merrill Lynch was acquired by Bank of America the same month; Goldman Sachs and Morgan Stanley both converted to bank holding companies in September 2008, gaining access to the Federal Reserve's discount window. The SEC formally ended the CSE program that same month.
9. The Liquidity Coverage Ratio requires banks to hold enough high-quality liquid assets to survive 30 days of stress. The Net Stable Funding Ratio discourages the short-term-funded, long-term-asset model that had proven fragile during the GFC.
10. Responses to Questions Concerning Long-Term Capital Management and Related Events. U.S. General Accounting Office, February 2000.
11. The Term Securities Lending Facility lent up to $200 billion of liquid Treasuries to primary dealers against illiquid collateral, peaking at $236 billion outstanding. Alongside it sat the Primary Dealer Credit Facility (peaking at $130 billion), the Term Auction Facility, and central bank dollar swap lines that helped foreign central banks meet local dollar demand without the Fed taking foreign-currency exposure, peaking near $600 billion. Most facilities wound down by 2010.
12. QE1 (announced November 2008), QE2 (November 2010), the maturity-extension "Operation Twist" (2011), and QE3 (September 2012–October 2014).
13. Daily emergency repo operations were required through September 2019 just to hold the Fed Funds rate within its target range. The Standing Repo Facility, established July 2021, is capped at $500 billion.
14. The balance sheet rose from roughly $4.2 trillion pre-pandemic to nearly $9 trillion within about a year, versus a multi-year build in 2008–2014. Facilities revived within days included the MMLF, a revived CPFF and PDCF, and expanded swap lines.
15. The Primary and Secondary Market Corporate Credit Facilities, the Municipal Liquidity Facility, and Main Street Lending.
16. Middle-market, non-sponsored lending spreads widened by as much as 200 basis points in 2022 alone, alongside a sharp slowdown in private credit deal activity.
17. Federal Reserve Bank of New York Primary Dealer Statistics.
18. Collin Martin, Who Owns Treasury Bonds – and Why Does It Matter? Schwab, March 2026.
19. James Collin Harkrader, Michael Puglia, Principal Trading Firm Activity in Treasury Cash Markets. U.S. Federal Reserve FEDS Notes, August 2020.
20. Tim Sablick, Central Bank Lending Lessons from the 2023 Bank Crisis. Federal Reserve Bank of Richmond Econ Focus, Q3 2024.
21. Section 13, "Powers of Federal Reserve Banks" of the Federal Reserve Act, states: "…any emergency lending program or facility is for the purpose of providing liquidity to the financial system, and not to aid a failing financial company, and that the security for emergency loans is sufficient to protect taxpayers…"
22. Melvin Capital and Archegos.
23. An anatomy of the 2022 gilt market crisis. Bank of England Staff Working Paper No.1,019, March 2023.
24. Margherita Giuzio and Francesca Lenoci, Corporate loans versus market-based finance: substitutes or complements? European Central Bank Financial Stability Review, May 2023.
25. Council of the European Union, latest explainers: Savings and investments union. March 24, 2026. https://www.consilium.europa.eu/en/policies/savings-and-investments-union-siu/
26. "An SRT is a type of securitisation used by banks to transfer part of the credit risk associated with a pool of financial assets (typically loans) to investors. Those assets stay on the bank's balance sheet because the risk transfer takes place through a credit derivative or a financial guarantee. This arrangement differs from a cash or "true sale" securitisation, in which those assets are removed from the bank's balance sheet…By using SRTs, banks get the capital benefit as if they had sold the loan portfolio, but they retain ownership of the customer relationships." Prashant R. Babu, Michael Chui, Costas Stephanou, The rise and risks of synthetic risk transfers. Bank of International Settlements Quarterly Review, March 2026.
27. Ibid.
28. Bloomberg data as of September 2026.
29. Haruyuki Yamashita, Tokyo Stock Exchange Initiative on Cost of Capital and Stock Price Conscious Management. Harvard Law School Forum on Corporate Governance, October 2025.
30. Risa Sato, Japan share buybacks soar to record $108bn on strong profits. Nikkei Asia, December 2024.
31. Semi-liquid investment vehicles are not fully liquid. Redemption or repurchase opportunities are generally periodic and may be subject to limits, gates, suspensions or other restrictions, and investors may not be able to redeem their investment when desired. Investments in private markets may also involve significant valuation uncertainty, illiquidity, fees and expenses, and other risks that vary by strategy and vehicle. Greater availability of periodic liquidity does not eliminate the risks associated with the underlying illiquid investments.
32. TPA may not be appropriate for every investor and involves governance, implementation, measurement and liquidity-management considerations.
33. Early adopters of the Total Portfolio Approach include: Future Fund, Australia's sovereign wealth fund; CPP Investments, Canada's largest pension fund; New Zealand Superannuation Fund, NZ's sovereign pension fund; and GIC, Singapore's sovereign wealth fund.
34. Global Asset Owner Peer Study on Best Practices. Thinking Ahead Institute, 2024.
35. CalPERS, CalPERS Board Adopts Streamlined Investment Approach to Seize Market Opportunities. November 17, 2025. https://www.calpers.ca.gov/newsroom/calpers-news/2025/calpers-board-adopts-streamlined-investment-approach-to-seize-market-opportunities
36. David Dore, KIC confirms total portfolio approach as priority in 2026 as sovereign fund posts 13.91% return. Pensions and Investments, February 2026. https://www.pionline.com/institutional-investors/pi-korea-investment-corp-total-portfolio-approach-2025-results/
37. Roger Urwin and Genevieve Hayman, A Practical Guide for Navigating the Transition to TPA. CFA Institute Research and Policy Center, July 2026.

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