

# Macro Pulse

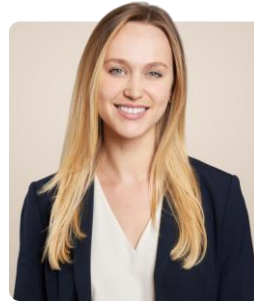
Macro spillovers from the Strait

APRIL 2026

# Demonstrating the depth and breadth of the New York Life Investment Management platform

## Objective, top-down analysis

*Global Market Strategy at New York Life Investment Management*



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## Seasoned bottom-up expertise

*Multi-boutique structure*



### UNAFFILIATED SUB-ADVISORS



# Table of contents

1

## Top convictions

- Executive summary
- High conviction investment ideas
- Top investment convictions

2

## U.S. economic & market outlook

- Economic growth
- Fed policy and financial conditions
- Key economic indicators

3

## International economic & market outlook

- Global economic cycle
- Developed markets
- China and emerging markets
- Commodities
- U.S. Dollar

4

## Long-term themes

- Long-term rates
- U.S. debt sustainability
- Geopolitical risk
- Megatrends

5

## Equity

- Earnings
- Valuation
- Style
- Size
- International equities

6

## Fixed income

- Investment grade
- High yield
- Bank loans
- Convertibles
- Municipal bonds

7

## Alternatives

- Alternatives through the cycle
- Infrastructure
- Commodities
- Liquid real estate

8

## Private markets

- Capital markets backdrop
- Allocation trends
- Key takeaways per asset class
- A global case for the lower middle market

*Readers can click on any title or subtitle to jump to that section.*

# Executive summary

Geopolitical risk has upended market outlooks, raising fresh, global questions about growth, inflation, and the policy path ahead. The risk of a protracted period of higher oil prices stemming from a prolonged disruption around the Strait of Hormuz broadens the range of possible macro and market outcomes for the year. The challenge is not simply slower growth or higher inflation in isolation, but the possibility that both pressures begin to build at once, making the policy response less straightforward. **Our view remains that supportive policy and liquidity conditions should continue to underpin markets and investment conditions, but the path forward is likely to be less linear, more volatile, and more headline-driven than it appeared at the start of the year.**

## Recent developments

Global markets had already experienced key shifts in sentiment and price action to start the year.

- **Risk-on:** Expectations for neutral-to-constructive global policy environments and ongoing loose financial conditions spurred risk-on performance patterns, including outperformance of small cap, value, and ex-U.S. equities relative to U.S. large cap – up until the onset of the Iran conflict.
- **AI sentiment:** Investors suddenly shifted from celebrating AI capex to demanding immediate investment monetization. At the same time, agentic AI pulled forward timelines for disintermediation of key industries, with software seen as the near-term sector “loser”. We believe this sentiment shift is a temporary disconnect from strong profitability in tech.
- **Maturing credit cycle:** Recent pockets of stress, as well as headlines around private credit concentration in software, have sparked renewed focus on quality and driven volatility across public and private credit. While we see these risks as contained, this shift comes as we move later into the credit cycle; a time when dispersion is likely to rise and selectivity will be increasingly important.

## Base case

Even before the Iran shock, we expected the U.S. to lead global returns, as it was set to experience the most supportive policy environment among major economies. Now, we believe the U.S. “flight to safety” remains largely intact.

**U.S.** Our base case remains constructive: the U.S. enters the energy shock in robust macro health, but the Iran conflict complicates the near-term outlook and policy path. The range of outcomes for Fed policy has widened as it weighs growth and consumer pressures against inflation risk. Fiscal policy will likely remain pro-growth, with additional defense spending possible. If the oil shock does not wear on, financial conditions may loosen from here, corporate investment and profitability can remain resilient, and consumers can continue to drive economic activity.

**Non-U.S.** Policy outside the U.S. is more neutral, leaving macro expectations mixed in light of higher oil prices. In Europe and Japan, heavy dependence on imported energy has already spiked prices higher than in the U.S., meaning that even a transitory oil price shock may have a larger negative impact on activity.

## Risks to the base case view

The longer the oil price shock wears on, the more stark global “winners and losers” become. The U.S. is more prone to stagflation dynamics in a protracted oil shock, while energy importers are more prone to recession.

**U.S.** A prolonged oil shock could keep inflation elevated, weaken consumption, and delay or reduce policy easing. Higher gas prices act as a tax on households, while rising input and transportation costs could pressure margins and weigh on business confidence. What begins as a geopolitical shock could evolve into a more persistent macro headwind, leaving the Fed in a tougher position and markets more vulnerable to downside re-pricing.

**Non-U.S.** We are more concerned about downside risk to economic activity in non-U.S. markets. In Europe, higher imported energy costs have pushed inflation concerns to the forefront and halted any remaining path for rate cuts, particularly as higher energy costs weigh on the industrial and consumer activity outlooks. These dynamics are similar in Japan, where the oil impact is even more acute as yen weakness amplifies imported fuel costs. In China, lower inflation and large energy stockpiles may help to absorb the shock, though a prolonged energy disruption would erode buffers and increase downside risks to growth.

This piece is designed to share our holistic global economic, geopolitical, and asset allocation views. Use the links in the table of contents to explore.

# High conviction investment ideas

	MARKET CONVICTIONS	PORTFOLIO CONSTRUCTION
EQUITY	<ul style="list-style-type: none"> <li>Year to date, early risk-on positioning, driven by accommodative Fed and fiscal policy, has partially reversed amid geopolitical shocks. At minimum, higher oil prices may delay additional policy easing.</li> <li>Entry points for deployment of cash look increasingly compelling as valuations adjust to geopolitical risk. We see opportunities for diversifying additions in U.S. large cap value and high quality small cap equities, and short duration credit (for its equity-like risk characteristics).</li> <li>AI is likely to remain a key equity market driver, with investors unlikely to turn away from tech's sustained profitability for a prolonged period.</li> <li>Global preference for U.S. assets may strengthen amid geopolitical risks and sustained oil shocks, which will weigh more heavily on oil importers, including parts of Europe and Asia; this dynamic supports continued U.S. outperformance alongside a balanced allocation to ex-U.S. equities.</li> </ul>	1 Fully invested (market weight) in U.S. large cap equities; prioritizing strong earnings quality
		2 Upgrading small-cap exposure to neutral; focusing on quality names benefiting from AI and policy tailwinds
		3 For new equity deployments, diversifying equity exposure into (1) materials and digital infrastructure tied to the AI theme and (2) high quality small caps
FIXED INCOME	<ul style="list-style-type: none"> <li>The U.S. public and private credit cycle is maturing. Overall credit quality is – and we expect it to remain – robust, but lower-quality segments (such as CCCs within HY credit and more concentrated areas of private credit) look more vulnerable. We expect strong underwriting to pay off this year.</li> <li>Recent rate volatility, widening credit spreads, and higher yields have renewed questions about the risks to fixed income. In our view, the income generation opportunity has improved, with higher all-in yields providing a cushion against uncertainty as fundamental quality remains robust.</li> <li>A still-resilient economic backdrop supports credit fundamentals (interest coverage, maturity timeline) over the medium term, though stress in parts of the credit market warrants greater selectivity.</li> <li>We favor a “buy and hold” short duration corporate credit approach, which has the potential to maximize the benefits of quality while reducing exposure to volatile market-determined interest rates.</li> </ul>	4 Keeping credit exposure (IG / HY / muni) shorter duration to manage rate volatility and credit risk
		5 Balancing short duration credit exposure with longer duration in infrastructure debt, leaning into the steeper municipal curves
		6 Within credit, maintaining an underweight position to floating rate bank loans.
PRIVATE MARKETS	<ul style="list-style-type: none"> <li>Private markets allocations continue to grow, increasing competition for high-quality assets, especially in large deals; selectivity remains key as performance dispersion is likely to increase.</li> <li>Deal activity has improved, but macro uncertainty and private credit stress may temper opportunities.</li> </ul>	7 Using resilient mid-market private credit and equity for qualified investor portfolios
ALTS	<ul style="list-style-type: none"> <li>Historically, commodities and gold have served as effective diversifiers in eras of upside inflation surprise; recent geopolitical events reinforce this role. While we do not yet expect a double-peak in inflation, pressures from tariffs, oil, and structural factors – supply chain re-globalization and AI infrastructure spending – are likely to keep inflation sticky.</li> <li>Geopolitical shocks have become more frequent, influencing even traditionally “safe haven” U.S. assets.</li> </ul>	8 Hedging inflation and geopolitical risk with both gold and commodities allocations. Considering gold/precious metals/industrial metals as a 5-20% satellite sourced from equity.

# 1 Top investment convictions

## Base case

- [Economic and market drivers hold, while disruptors rise](#)
- [Iran conflict raises risks and widens potential macro outcomes](#)
- [Assessing the U.S. economic impact of higher oil prices](#)
- [Oil import dependency now influences regional investment preference](#)
- [Rising global rates focus on near-term inflation risks](#)
- [U.S. Federal Reserve remains supportive](#)
- [Pro-growth fiscal policies may be a buffer to higher oil prices](#)
- [Signs of a maturing credit cycle are clear](#)
- [U.S. tech remains the profitability hub among global equities](#)

*These views represent macroeconomic opinions only and are not personalized investment advice or recommendations to buy or sell any security. Forward-looking statements are based on current assumptions and involve uncertainties; actual outcomes may differ materially. Past performance is not indicative of future results. Investors should consider their personal financial circumstances and consult a financial professional before making investment decisions.*

# Iran conflict: economic and market drivers hold, while disruptors rise

Our U.S. base case remains constructive, even as disruptors widen the possible range of outcomes for the economy this year.

## Drivers: policy support, fiscal tailwinds, and AI investment underpin resilience.

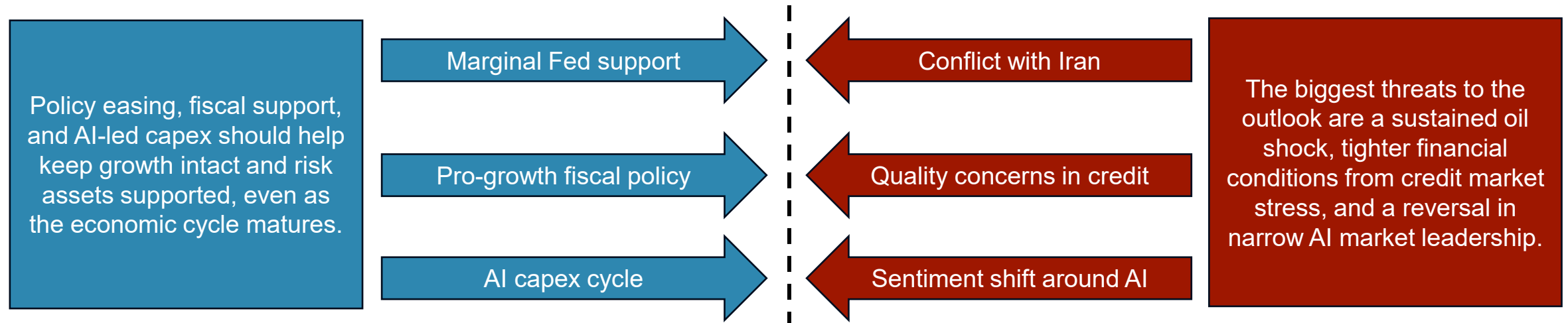
- The U.S. economy remains supported by three factors: a Fed that is biased toward easing if growth softens, a fiscal backdrop supporting activity, and ongoing AI-led spending supporting earnings and market leadership.
- These supports help explain why growth may slow without breaking, and why markets have remained relatively resilient despite a more complex macro backdrop.

## Disruptors: geopolitical risk, quality concerns in credit markets, and AI concentration risks have increased.

- The list of potential disruptors has grown, led by conflict with Iran, which raises the risk of sustained higher energy prices. This risk complicates the Fed's ability to ease.
- Concerns around credit quality are another key risk, particularly if stress begins to spill over into broader financial conditions.
- Expectations around the timeline for AI disruption have shifted considerably, leaving markets more vulnerable to swings in sentiment, despite ongoing strong profitability in tech.

Overall, the factors supporting our base case are becoming more fragile at the margin, reinforcing the case for diversification and a more balanced approach to portfolio risk.

## Base case economic & market drivers vs disruptors



Source: New York Life Investment Management, Global Market Strategy, April 2026.

# Iran conflict: rising stagflation risks and wider potential outcomes

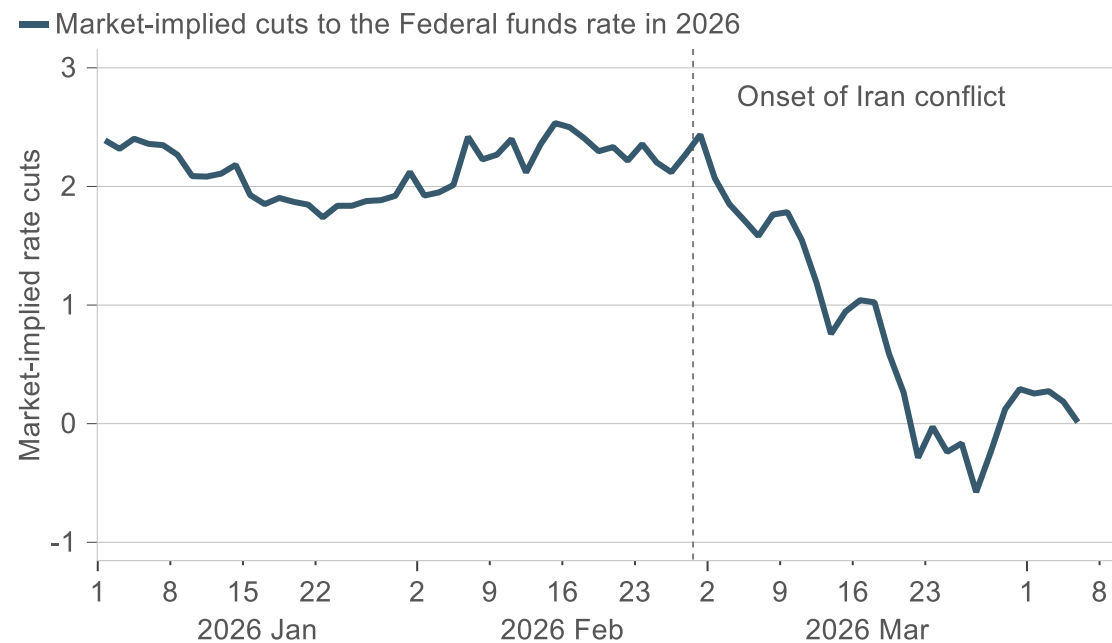
The closure of the Strait of Hormuz is forcing investors to reprice inflation, growth, and Fed expectations all at once.

- The U.S. conflict with Iran has led to the closure of the Strait of Hormuz, a critical global chokepoint, which accounts for roughly 20% of global oil and liquid natural gas (LNG) flows. While the impact of this shock depends on how long energy prices remain elevated, the implications for the global economy are wide reaching.
- The threat of higher inflation has driven a rapid repricing of Fed cut expectations (**left chart**). In principle, central banks tend to look through supply shocks, as monetary policy primarily affects demand. **Our view is that the recent oil shock may delay cuts, rather than eliminate them.** If inflation proves temporary or downside risks to growth become more

visible, the Fed could still ease later this year.

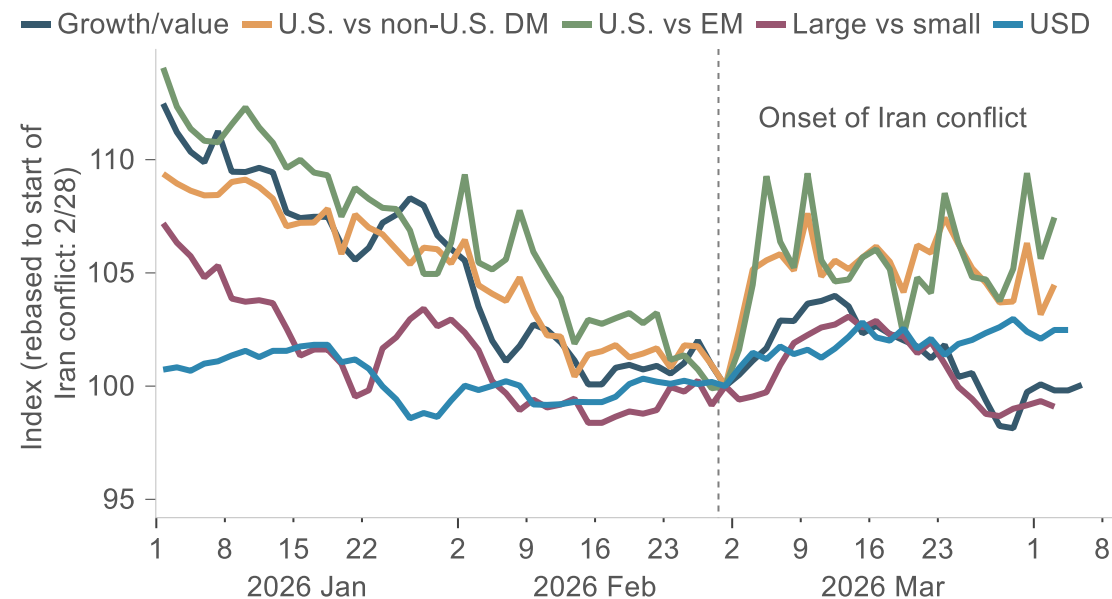
- The Iran conflict has triggered a sharp reversal in market trends and increased volatility across equities, rates, and energy (**right chart**). These moves suggest that the traditional flight to safety dynamic – one that has been in doubt for well over a year, benefiting asset classes such as gold – is intact, favoring relative U.S. allocations. **Even if the U.S. were to disengage from Iran in the near term, we doubt that markets can immediately return to the lower volatility, lower energy cost, and easier Fed backdrop that existed before the conflict.**

## Iran conflict is repricing the Fed outlook



Sources: New York Life Investment Management, Global Market Strategy, , Macrobond, April 2026.

## The Iran conflict shifted market trends



Sources: New York Life Investment Management, Global Market Strategy, S&P Global, Intercontinental Exchange (ICE), U.S. Department of Treasury, Bloomberg, Macrobond, April 2026. Past performance is not a guarantee of future results. It is not possible to invest in an index.

# Iran conflict: assessing the U.S. economic impact of higher oil prices

The price of oil is the key transmission mechanism from the Iran conflict. Both degree and duration of the price shock matter for markets.

## What different oil price ranges could mean for the U.S. outlook



Sources: New York Life Investment Management, Global Market Strategy, Piper Sandler, Macrobond, April 2026.

- The duration of oil price dislocation is the clearest signal for how far this conflict will transmit through the economy and markets. In our view, where crude settles, *and for how long*, will determine whether investors can return to the early-year playbook or need to prepare for a more persistent stagflation or recession risk.
- The range of outcomes is wide for oil prices, particularly when thinking beyond crude to consider refined product markets (LNG, jet fuel). We have already seen disparate pricing across products and regions (Singaporean jet fuel above \$200/bbl for the first time in history; European natural gas futures up ~50% while trading near 6-month lows in the U.S.). Analysts agree that the main oil price shock still lies ahead, as energy markets entered the Iran conflict in a state of oversupply, which has wound down over the past month.
- Piper Sandler research suggests that between \$75 and \$100/bbl oil, the predominant market risk is stagflation (**left chart**). In this scenario, the Treasury curve would likely flatten, as expectations for policy easing are pushed out: this is the effect we have seen thus far, as the market focuses on near-term inflation concerns. Portfolio positioning should emphasize quality assets and companies with pricing power.
- If oil remains above \$100/bbl for a prolonged period, outright recession concerns outweigh an inflationary impact. Higher energy and input costs are likely to weigh on earnings growth, while increasing stress in credit markets; consumers would also likely trade down and reduce consumption while coping with higher gas prices.

### Diversification becomes increasingly important during geopolitical regime change

- As with the reset in global yields after the pandemic and Russia's invasion of Ukraine, markets may begin to price a world where shipping, trade, and energy security carry a higher structural cost.
- The path and timing of any resolution remain highly uncertain, which means investors should be prepared for continued volatility.
- **In our view, the right response is diversification:** not making one big bet on how the conflict ends, but building portfolios that can absorb a wider range of outcomes.

# Iran conflict: oil import dependency contributes to investors' regional preference

A sustained oil spike can erode purchasing power and create a broader drag on growth at a fragile moment for global energy markets.

## The Iran conflict is a global shock, with uneven regional impacts

- The economic effects of the conflict are highly uneven across regions and countries. Energy exporters may see a near-term income boost from higher oil and gas prices, while importers may face slower growth, higher inflation, and pressures on margins and real incomes.
- At the start of the year, our regional preference was driven by the degree of policy support. Today, this combines with major economies' relative oil import dependency – increasingly so as the conflict in Iran wears on.
- The U.S. is looking relatively more cushioned on both fronts, set to experience the more supportive of global policy environments, while also a relatively more self-sufficient oil producer, namely in natural gas.
- Many countries in the euro area, Japan, Korea, and oil import-dependent emerging markets, however, look more vulnerable (**right image**).

## Early-year investor rebalancing towards ex-U.S. assets has and may continue to reverse

- Non-U.S. equities began the year outperforming, but that leadership has reversed as the Iran conflict has refocused investors on relative energy vulnerability.
- Leadership going forward will depend on the path of the conflict, the direction of the dollar, and the breadth of earnings outside the U.S.; a prolonged shock would likely pressure energy-importing economies and reinforce U.S. outperformance.
- However, international exposure remains important for sector and business cycle diversification. We continue to favor a neutral ex-U.S. allocation within portfolios.

## Our view on the U.S. dollar

- Coming into the year, we expected a rangebound and volatile dollar index (DXY) with levels between 92 and 102. While structural concerns around U.S. policy and debt remain (dollar bearish), they are being offset by relative economic strength and safe haven flows (dollar bullish). On balance, this environment suggests more room for dollar upside in the near term.

## Regional views: a quick look “around the world”

*We believe that even amid geopolitical risk and a wide range of both policy environments and oil dependency, a balanced global exposure provides worthwhile business cycle diversification.*

**EMERGING MARKETS** are diverse; some are more sensitive to China's growth; others are more sensitive to U.S. growth and policy changes. Similarly, EMs feature both strong oil exporters among Gulf economies, as well as dependent oil importers (Korea and India source 42% and 60% of their oil through Hormuz, respectively). In general, higher global risk and volatility favor safe haven geographies relative to most emerging markets.

We believe the **UNITED STATES** is more prone to stagflationary dynamics in a protracted oil shock than outright recession, due to ongoing policy support and relative self-sufficiency in natural gas production.

Amid ongoing policy normalization by the BOJ and a political transition influencing fiscal priorities, **JAPAN** is highly exposed to the energy shock: 67% of Japan's oil imports come through Hormuz. Yen weakness is likely to compound this impact in the near term.

In the **EURO AREA**, a moderate economic outlook now meets high oil import dependency. Stronger fiscal spending on infrastructure and defense may cushion against more negative macro scenarios, but we see meaningful pressure on industrial activity stemming from higher oil prices.

In **CHINA**, lower inflation and large energy stockpiles may help to absorb the oil shock, though a prolonged energy disruption would erode buffers and increase downside risks to growth.

Source: New York Life Investment Management, Global Market Strategy, April 2026.

# Iran conflict: rising global rates focus on near-term inflation over downside risks

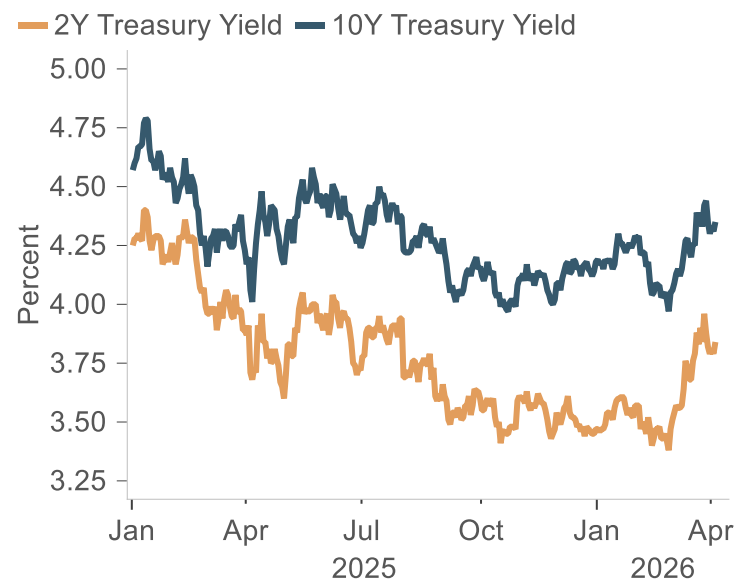
The outsized rise in shorter-term interest rates reveals a focus on inflation risk – and sanguine sentiment around downside economic risks.

- Global long rates have risen meaningfully in response to the Iran shock, but short rates have seen a larger move – meaning that global yield curves have flattened, as the market focuses on near-term upside inflation risks over downside economic risks.
- We saw strong potential for a bear steepener effect to dominate global curves even before the Iran conflict, driven in part by mounting fiscal risks. We believe a bear steepener effect is most likely in the case of a prolonged oil shock, as demand destruction potential bakes into near-term policy and rates expectations, while higher defense spending potentially worsens existing

concerns around long-term fiscal sustainability in major economies.

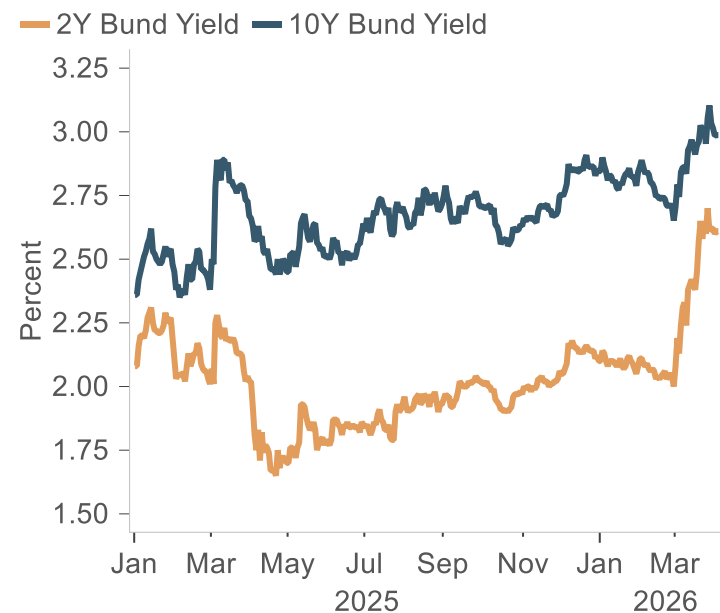
- Similarly, the Iran conflict influences the nature of, but does not change our view on, global allocation. The U.S. was set to benefit from the most supportive policy environment; today, its relative benefit lies in its relative oil production cushion relative to much of Europe and Asia.
- The flight to safety remains intact in recent dollar strength. The dollar remains within our expected DXY range of 92 to 102, with upside risk in a prolonged energy shock. A strong dollar may exacerbate the energy shock for importers (higher USD-denominated oil prices).

## Short rates have seen outsized repricing relative to long rates in the U.S. ...



Sources: New York Life Investment Management, Global Market Strategy, U.S. Department of Treasury, Macrobond, April 2026.

## ... in German Bunds ...



Sources: New York Life Investment Management, Global Market Strategy, Macrobond Financial AB, Macrobond, April 2026.

## ... and in the French OATs curve.



Sources: New York Life Investment Management, Global Market Strategy, Macrobond Financial AB, Macrobond, April 2026. OATs: Obligations assimilables du Trésor.

# Base case: the U.S. Federal Reserve remains supportive

The Fed is torn between conflict-driven inflation risk and the drag higher energy prices could place on growth.

- The Fed's mandates continue to face opposing pressures. The U.S. entered the year on strong economic footing with inflation risk already in play. The U.S.-Iran conflict adds upside inflation risk through energy, freight, and food. While the market is almost solely focused on inflation risk, we are also mindful of downside risks to consumer and industrial activity (**left chart**).
- The Fed's current easing cycle has delivered 175ps in total easing so far. We have been consistently hawkish relative to consensus pricing for the past year, but today, the market has priced out all cuts for the year and we continue to believe further cuts are possible in 2H.
- Importantly, even if the Fed keeps the policy rate on hold this year, the Fed remains in a

- modestly dovish stance due to its reinvestment of proceeds into the Treasury curve, providing a modest liquidity drip.
- The Fed has been clear that today's easing cycle is meant to return policy to a neutral rate that neither stimulates nor slows the economy. We've seen a wide range of views among investors and within the FOMC (**right chart**). Our own sense of neutral is around 3.5%, higher than in past cycles due to chronically high fiscal deficits, as well as large investment initiatives in supply chain re-globalization and artificial intelligence.
- Though we do not expect the Fed to lose independence in May, we discuss that risk [here](#).

## The Iran conflict exacerbates the opposing pressures on Fed policy

### Biasing the Fed to cut rates

Downside risks to consumer activity and business profit margins under higher oil

Downtrend in hiring

K-shaped economy: consumption faltering for all but highest-income consumers

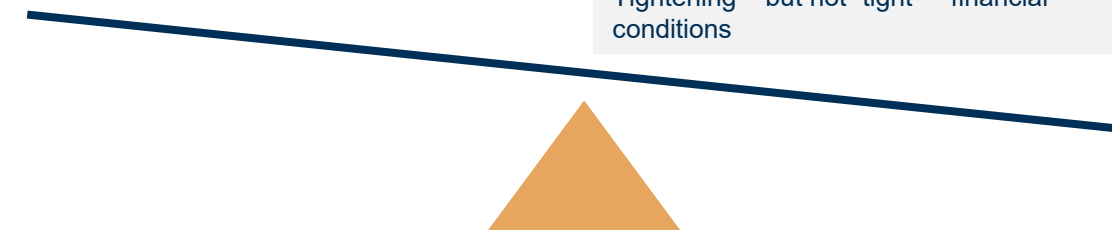
Housing market slowdown

### Biasing the Fed not to cut rates

Supply side shocks (Iran conflict): not much Fed policy can do

Upside inflation risk stemming from oil and tariffs

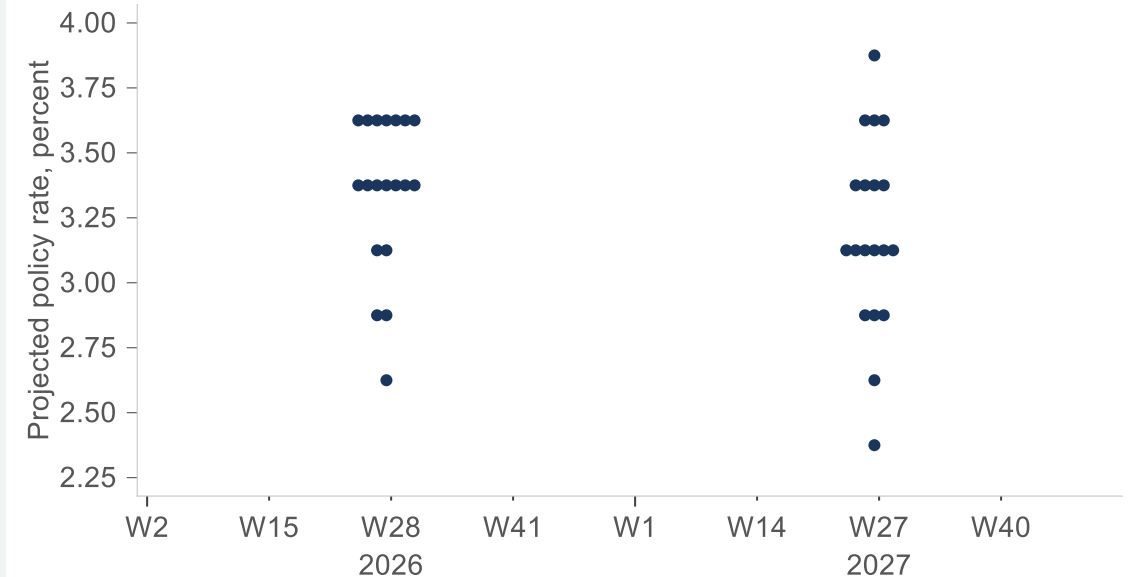
Tightening – but not “tight” – financial conditions



Opinions of New York Life Investment Management, Global Market Strategy, April 2026.

## The Fed's Dot Plot points to debate around the terminal rate for the cycle, and therefore the neutral rate

FOMC members' interest rate projections, as of March 2026



Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve, Macrobond, April 2026.

# Base case: pro-growth fiscal policy may act as a buffer against higher oil prices

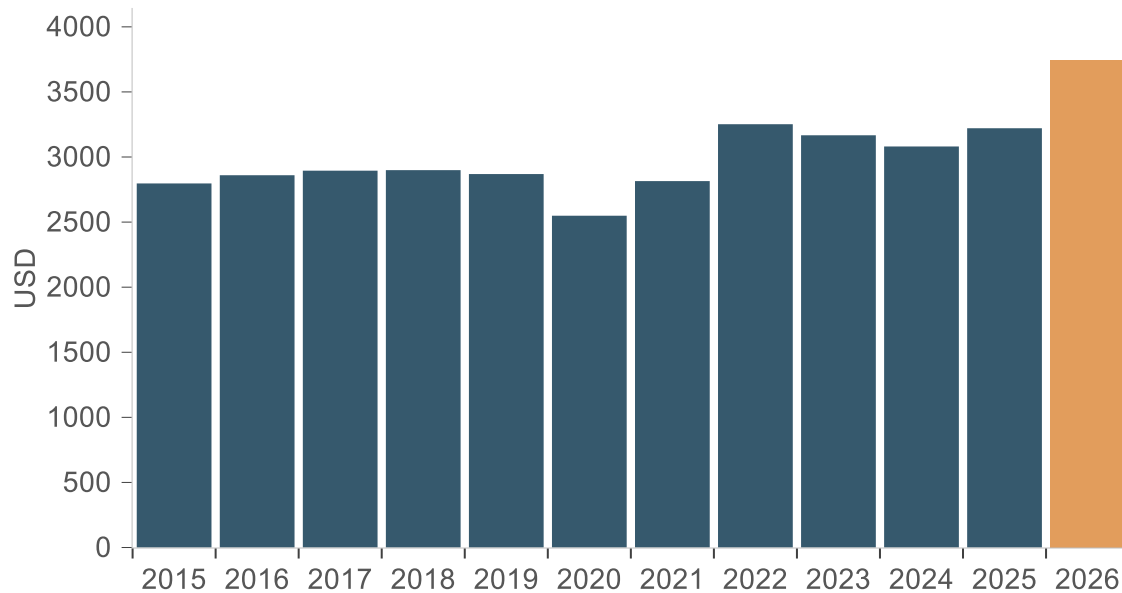
As the midterms approach, growth and affordability take center stage, with tax cuts and deregulation supporting economic activity.

- The tax cuts in the One Big Beautiful Bill Act are expected to deliver a significant boost to both consumers and businesses, especially in the first half of 2026. Higher year-over-year tax refunds (**left chart**) may inject an estimated \$100 billion of additional stimulus into the economy between January and April.
- On the corporate side, the bill introduces generous tax incentives – including 100% depreciation for capital expenditure and immediate expensing for R&D – which may spur business activity and pull forward investment.
- While these measures are supportive of near-term growth, higher oil prices could partially

- offset these benefits, weighing on consumer purchasing power and increasing input costs of businesses. In the case of an extended oil shock, policies such as a gas tax holiday or subsidies could be proposed to smooth this impact for consumers.
- Deregulation and industrial policies are expected to provide a tailwind for growth through this year. Financial sector deregulation, in particular, is likely to take the form of lower bank capital requirements that could fuel loan growth, share buybacks, and dividends. The top 13 banks alone hold an estimated \$200 billion in excess capital above current requirements (**right chart**).

## Annual tax refunds are likely to rise meaningfully in 2026

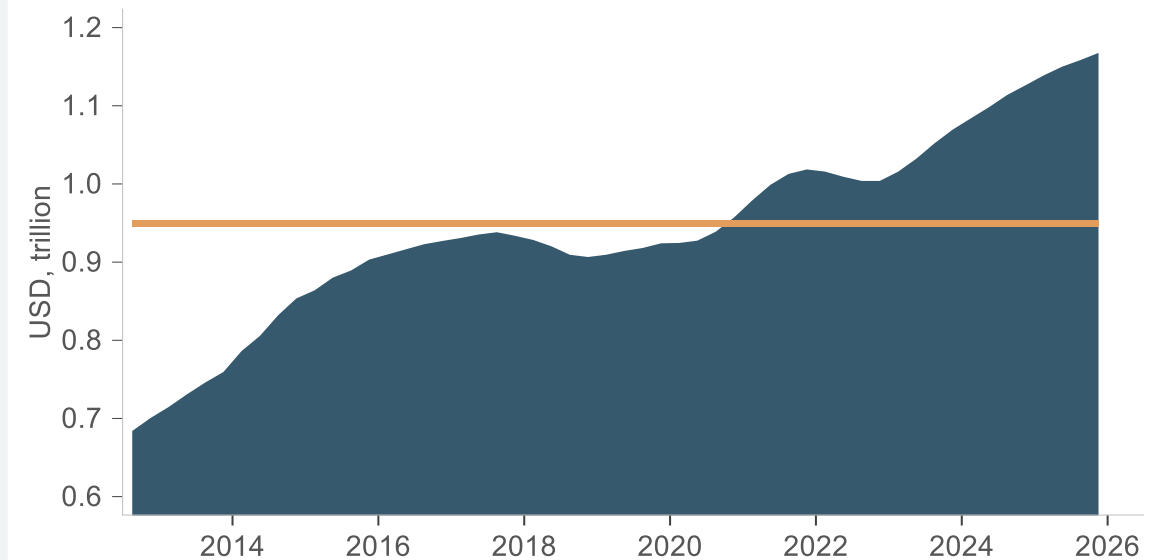
■ Forecasted 2026 average tax refund ■ IRS average tax refunds



Sources: New York Life Investment Management, Global Market Strategy, IRS, JP Morgan, Macrobond, April 2026. JP Morgan estimate of the average 2026 tax refund taking into account the One Big Beautiful Bill Act.

## Bank capital holdings exceed regulatory requirements, providing excess capacity to extend credit to the real economy

— Today's regulatory required capital ■ Aggregate CET1 capital holdings



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg, Macrobond, April 2026. Data includes: JPM, BAC, C, GS, MS, PNC, RF, TFC, USB, BK, NTRS, STT.

# Base case: signs of a maturing credit cycle are clear, but fundamentals remain sound

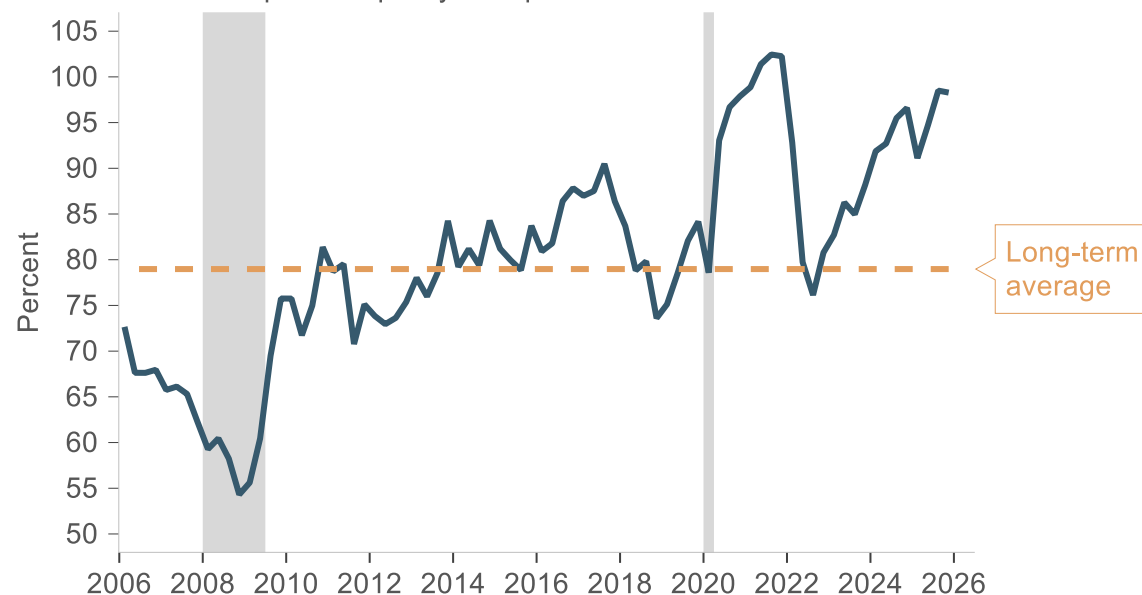
The next phase of the credit cycle is likely to be defined less by broad beta and more by performance dispersion.

- Recent pockets of stress have renewed investor scrutiny of where we are in the credit cycle. High profile bankruptcies, rapid valuation adjustments in certain private credit loans, concerns about concentration risk in AI-exposed sectors, high redemption activity at select BDCs, and a gradual increase in defaults have heightened the scrutiny of credit risk.
- In the absence of publicly available data, private credit is – and we believe it will remain – prone to headline risk. Still, we do not view recent developments as indicative of an imminent systemic credit event.

- We maintain a constructive outlook on U.S. credit. The economy is resilient, earnings growth is strong, and corporate liquidity remains well above the pre-pandemic trend (**left chart**). Liquidity is at healthy levels, and defaults remain low (**right chart**). In private credit, institutional investors continue to signal intentions to maintain or increase allocations.
- We remain fully invested in credit, but portfolio construction matters more as liquidity tailwinds fade and the credit cycle extends. We continue to advocate for selectivity, strong underwriting, and disciplined exposure as performance dispersion rises.

## Corporates' financial buffers are still at healthy levels

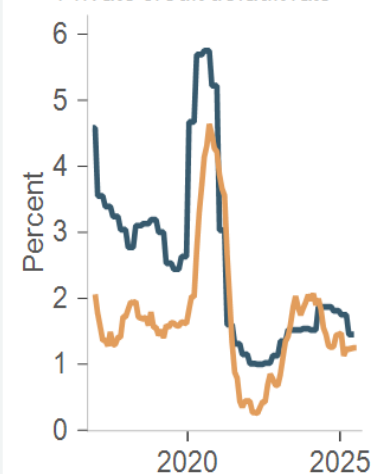
— Nonfinancial corporate liquidity as a percent of short-term debt



Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, April 2026.

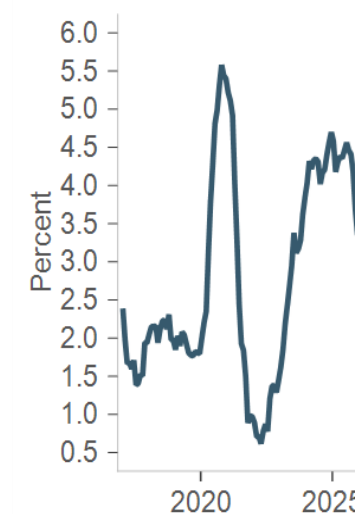
## Default rates for both private credit and leveraged loans remain low...

— Leveraged loans default rate  
— Private credit default rate



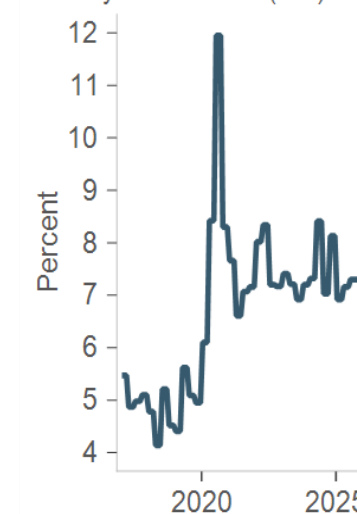
## ...while leveraged loan default exchanges...

— Default and DE rate



## ...and private credit payments-in-kind remain elevated post-pandemic

— Payments-in-kind (PIK)



Sources: New York Life Investment Management, Global Market Strategy, Cliffwater LLC, Macrobond, April 2026. Represents private credit data from all loans in the BDC universe. DE: distressed exchanges.

# Base case: U.S. tech remains the profitability hub among global equities

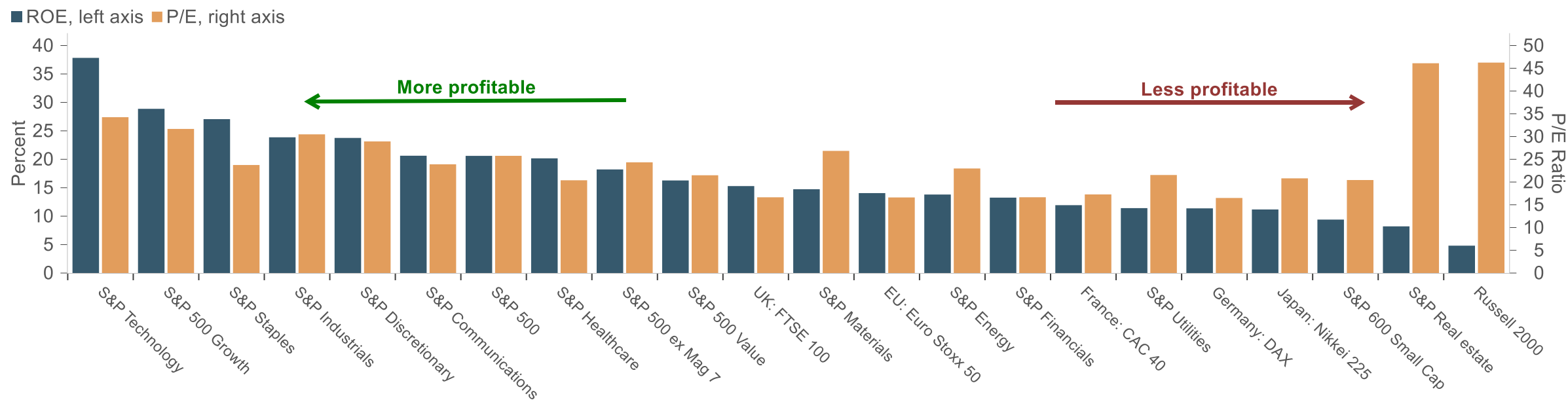
We expect to see markets return to the virtuous cycle between strong earnings and capex intentions among AI hyperscalers.

- We believe the AI thesis still has room to run. The volatility around AI in 2026 reflects a shift in investor focus from the infrastructure AI requires, toward how AI is applied (software, monetizing AI investments). We do see capacity for software disintermediation, but believe determination of winners and losers in AI application is premature.
- We have high conviction in the positive cycle of tech's strong core (non-AI) earnings and capex investment, driving our comfort with a market-weight neutral position to U.S. AI hyperscalers. Despite rich valuations, earnings growth remains the key driver of AI performance. Hyperscalers continue to recycle cash flow from profitable business lines into AI,

- creating a virtuous cycle between earnings, cash flow, and capex.
- Hyperscalers' use of cash has been disciplined, generating enough to fund buybacks, dividends, and AI investments – roughly 60% of operating cash flow – all at once.
- As this global megatrend evolves, we are closely monitoring the factors that would either accelerate or inhibit adoption: energy constraints, technological disruption, labor market impact (possibly contributing to the slowdown in hiring already), and geopolitical developments.
- We advocate for deploying *new* capital into AI infrastructure – particularly where providers are investing to ease undercapacity in power and energy supply chains.

## U.S. large cap tech's high valuations do not read "expensive" relative to profitability

Public equity ROE and valuation by country, style, sector, and size



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Macrobond, April 2026. Sectors refer to sectors within the S&P 500 Index.

# 2 U.S. economic & market outlook

## U.S. economic cycle

- [Status of economic cycle](#)

## Monetary policy & financial conditions

- [Fed outlook](#)
- [Fed balance sheet](#)
- [Risks to Fed independence](#)
- [Long-term interest rates](#)
- [Yield curve and bank lending](#)
- [Market-based financial conditions](#)

## Economic indicators

- [Inflation](#)
- [Labor market](#)
- [Consumer](#)
- [Housing](#)
- [Business](#)

## Fiscal policy

- [Fiscal outlook](#)

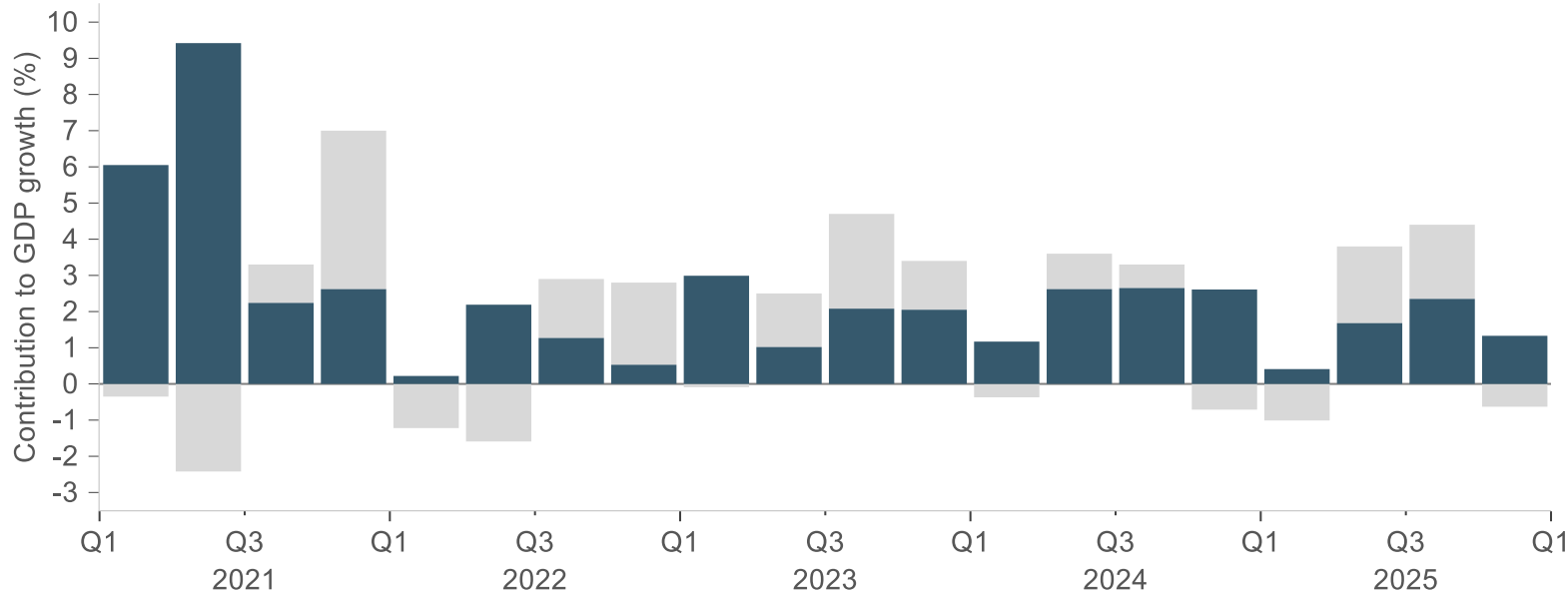
# We expect resilient economic activity as the cycle extends

Though we see clear downside risks, U.S. economic activity is likely to be resilient in the case of a contained oil shock.

- U.S. GDP growth in the post-pandemic period stabilized above its trend pace of 2.0-2.5%, driven by strong consumer activity, which comprises about two-thirds of U.S. GDP (**left chart**). The Q1 2026 GDP Nowcast is running at 2% annualized growth, a strong starting point for the economy to cope with downside economic risks stemming from higher energy costs.
- Consumer activity – and the economy with it – has become more deeply “K” shaped: the majority of consumption is driven by the highest-income earners (**right chart**). Lower-income cohorts struggle with inflation but are sustained by a balanced labor market; higher-income consumers have been fueled by strong wealth and income effects from elevated asset prices.

## A consumption-dominated economy is being held up by high-income consumers

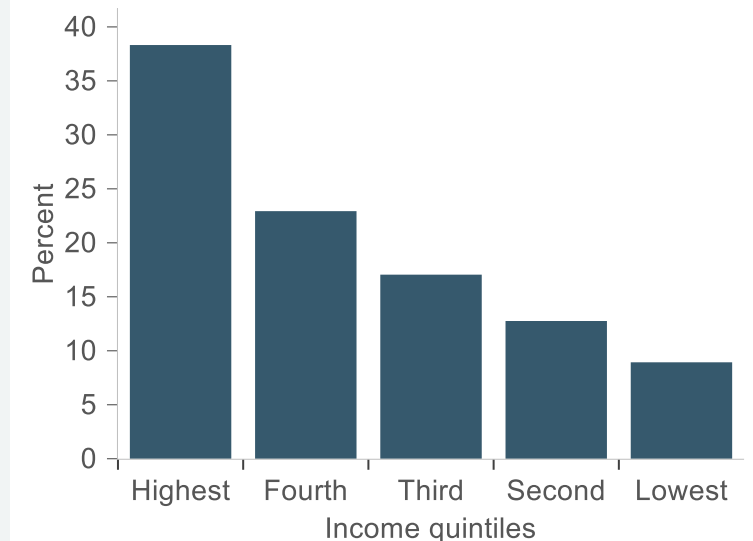
■ Other GDP categories ■ Consumer spending



Sources: New York Life Investment Management, Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), Federal Reserve Bank of Atlanta, Macrobond, April 2026.

## High-income earners generate the majority of consumer spending

2024 consumer spending by income quartile



Sources: New York Life Investment Management, Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, April 2026.

# The Federal Reserve faces a tricky balance of its mandate

We remain marginally hawkish relative to consensus and expect moderate easing from here, in part due to upside risks to inflation.

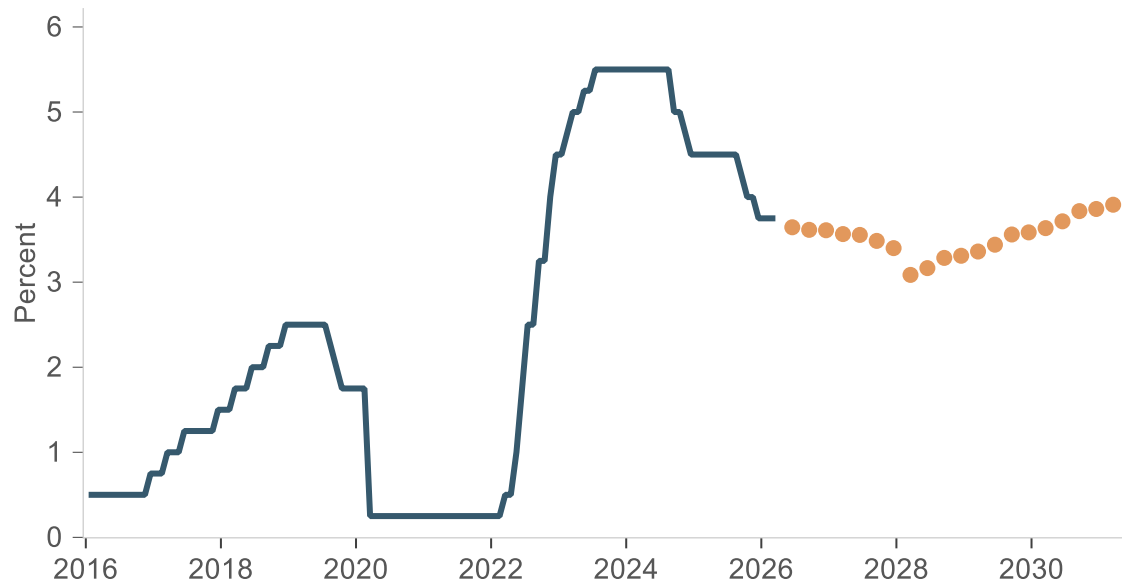
- The two sides of the Fed's mandate – maximum employment and price stability – are at odds. Hiring has slowed, but wage growth and goods prices are sticky – now with additional upside inflation risks from rising energy prices.
- In response to the Iran shock, consensus has priced out all Fed cuts for 2026, from 2-3 expected at the start of the year. Our team's expectations have been more stable: the 1-

2 cuts we've expected for 2026 will likely be delayed, but we are mindful of downside economic risk rather than solely focused on upside inflation risk.

- Importantly, even if the Fed keeps the policy rate on hold this year, the Fed remains in a modestly dovish stance due to its reinvestment into the Treasury curve, providing a modest liquidity drip. See next slide for details.

## Though the market is focused on near-term risks, rates were long expected to be stickier in the medium-term

Federal funds rate and implied Fed funds futures curve



Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve, Bloomberg, Macrobond, April 2026.

## Our Fed cuts checklist: conditions tenuously met, allowing small space to ease

Condition	Status	View
<b>Inflation expectations well anchored</b>	Long-term inflation expectations remain well anchored. Even a prolonged oil shock would be unlikely to de-anchor long term inflation expectations.	✓
<b>Core inflation moving closer to target</b>	Core inflation is still above the Fed's target, and energy costs represent a clear threat to near-term inflation targets. Though the Fed cannot address the supply side of the economy, it will have to balance downside activity risks with upside inflation risk.	—
<b>Unemployment rate <math>\geq</math> 4.0%</b>	Already-slow hiring, immigration shifts impacting labor supply, and the Iran shock all come together to muddle the near-term employment outlook – but strong corporate profitability is a key buffer against widespread layoffs.	✓
<b>Wage growth commensurate with stable prices</b>	Wage growth has neared the 3.5% year-on-year figure that we believe would make the Fed comfortable with maintaining a rate cutting cycle. Stickier wages would mean stickier rates.	—
<b>Financial conditions still well behaved</b>	The Fed would need to see a strong deterioration in financial conditions – and therefore a visible risk to the economic outlook – before pre-emptively easing. Using 2018's "insurance" cuts as a guideline, we expect that an equity market selloff of 20%+ would be required to prompt Fed action.	—

Opinions of New York Life Investment Management Global Market Strategy, April 2026.

# Fed balance sheet tightening has ended, closing a multi-year liquidity drain

The Fed is reinvesting in short-end Treasuries at a \$40B/month pace, providing marginal liquidity.

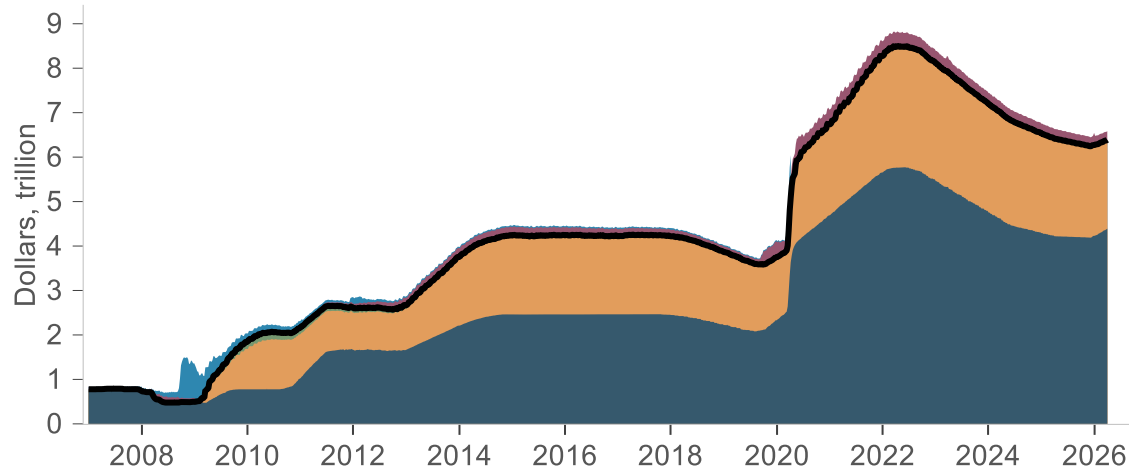
- The Fed's balance sheet is made up of assets (**left chart**) and liabilities (**right chart**). The Fed used QT to shave off \$2T in assets between June 2022 and December 2025; as it did so, it also had to trim its liabilities, thereby draining liquidity from the system.
- Fed liabilities include bank reserves (blue area, right chart), currency in circulation (green area), and vehicles for liquidity support such as its reverse repo facility (orange area).
- Post-pandemic, the Fed kept reserve levels abnormally "abundant" to ensure maximum

flexibility in supporting liquidity and bank functioning. Though select banks tapped the Fed's emergency liquidity facilities in Q4 2025, liquidity is not systemically tight, which has allowed the Fed to reduce reserves toward "ample" levels.

- Now that QT has ended, the Fed will reinvest interest back into the short end of the Treasury curve to align the duration of its balance sheet with that of Treasury issuance. This does not mark a pivot back toward QE but does support liquidity on the margin.

## Asset side of balance sheet: QT is done, now that the Fed has tapered its pandemic purchases

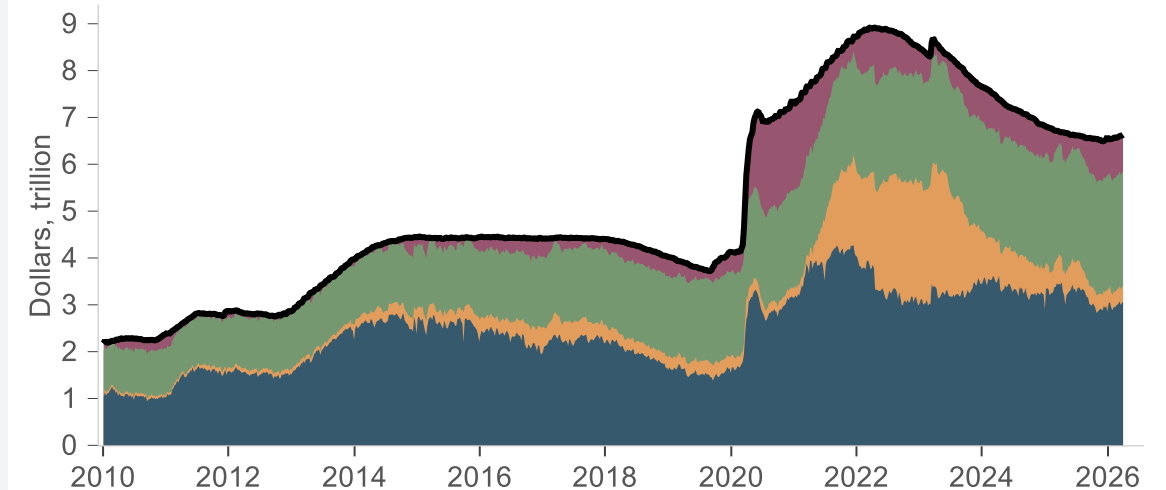
— Fed assets held outright ■ Other ■ Repos, premiums/discounts ■ Agencies ■ MBS ■ Treasuries



Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve, Macrobond, April 2026. MBS: Mortgage-backed securities. Agencies: Agency-backed securities. Repos: repurchase agreements, used to adjust systemic liquidity. Other: misc assets amassed during GFC, including Term Asset-Backed Securities Loan Facility, used to create asset backed securities of consumer loans.

## Liability side of balance sheet: from "abundant" to "ample" reserves, plus marginal liquidity support where needed

— Total Federal Reserve Liabilities ■ Other liabilities ■ Currency in circulation ■ Reverse repurchase agreements ■ Bank reserves



Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve, Macrobond, April 2026. Reverse Repurchase Agreements area a facility used by the Fed to support bank liquidity. Other liabilities include non-reserve deposits held by the Federal Reserve.

# The risks to Fed independence

Benign inflation has muted the near-term perceived stakes of Fed independence. An energy shock that potentially coincides with a new Fed Chair, however, raises focus on the Fed's inflation-fighting credibility and further expands the range of potential Fed policy.

## Why does the Fed need to be independent from politics?

- The Fed's mandates of price stability and maximum employment often align with political goals (e.g. policy support during crises). But sometimes, the Fed must make unpopular decisions (e.g. allowing for recessions to control inflation). If the Fed was not independent, no politician would allow for tighter monetary policy, likely stoking inflation over the long term.

## Why is a loss of Fed independence not our base case?

- The Fed's two decision-making bodies, the FOMC and Board of Governors (**chart**) control the Fed's policy tools via majority consensus. President Trump has nominated Kevin Warsh as Fed Chair, but the Chair is one of 12 or 7 votes in each decision-making body, respectively.
- We believe the FOMC, along with its key policy tools (Fed Funds rate and QE/QT) are cushioned from political influence due to the presence of 5 rotating regional Fed presidents.

## If not policy itself, what can the Fed Chair control?

- The Chair controls how the Fed communicates. Shifts in transparency (press conferences, forward guidance) can materially affect how the market prices uncertainty.

## Where is there vulnerability in the Fed's independence?

Relatively speaking, we are more concerned about the independence of the Board of Governors. This independence comes down to two key questions:

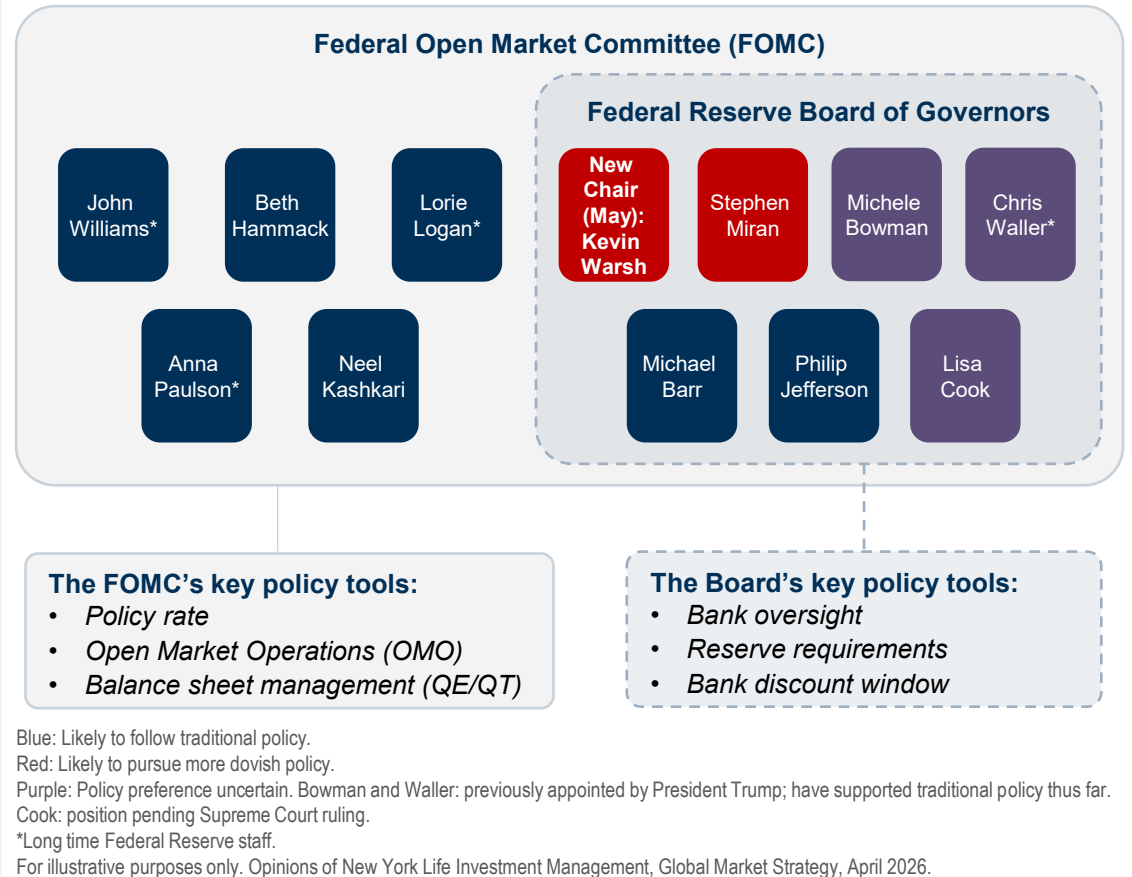
- Will governor Lisa Cook, a Biden appointee and advocate of traditional policy, keep her job? The Supreme Court will rule on this matter, likely in the coming months.
- Will existing Board members previously appointed by President Trump – Michele Bowman and Chris Waller – change their assessments of monetary policy as a result of political pressure? *Notably, these governors have not been as dovish as Trump appointee Stephen Miran in recent meetings, suggesting they may maintain a traditional policy approach.*

## How would a loss of Fed independence impact the economy?

- The Board has many policy making tools at its discretion, including oversight of bank reserve management. Shifts in Board-related policy tools could create discord in the overall policy stance *even without changes to interest rates*, forcing the market to price greater uncertainty.
- If the market begins to doubt the Fed's inflation-fighting credibility, we'd expect to see greater dollar hedging, higher long rates, and rising inflation expectations.

## Fed independence comes down to the independence of its governors

Structure of the Fed's two key decision-making bodies, FOMC and Board of Governors, and the policy tools each controls



# Market rates are not consistently pricing long-term risks

Even after long rates' adjustment in the wake of the Iran conflict, we are mindful of further upside risks and encourage balance on duration.

- In our 2025 outlook, we wrote that upward pressure on long Treasury rates was likely due to a confluence of long-term risks. This view was proven wrong as long Treasuries rallied throughout the year. However, we maintained high conviction that long-term risks are unchanged, and that a bear steepener effect on the long end remains a key risk to the outlook.
- We consider 3.75-4.50% a credible range for the 10Y Treasury yield over the next 6 months, with a widening confidence interval in the case of a prolonged oil shock.
- Sustained high fiscal deficits are the cornerstone of this perspective. The Treasury is aiming to concentrate issuance in the short end of the curve, where rates have declined, yet we have

seen no shift in the effective interest rate paid on Treasuries after 175bps of cumulative easing this cycle; shifting interest costs is a gargantuan task in the nearly \$40T Treasury market.

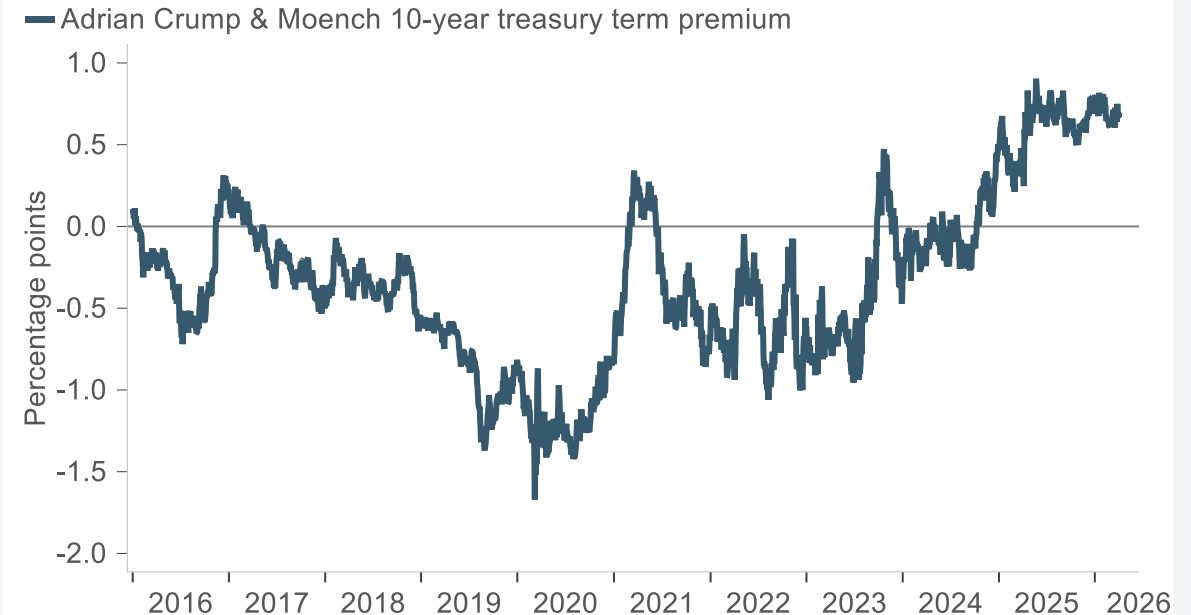
- The Iran conflict influences the nature of this view: long rates are reacting to inflationary risks, but higher defense spending would also play a key role in keeping long rates elevated.
- Two additional risks factor into the affordability of federal debt: global investor demand, flight to safety is intact but can turn on a dime, and Fed independence. Threats to Fed independence could pressure long rates higher by eroding confidence in the Fed's long-term inflation-fighting credibility.

## We expect more tension in the 10Y yield in 2026 as long-term risks compound



Sources: New York Life Investment Management, Global Market Strategy, U.S. Department of Treasury, Macrobond, April 2026.

## The rising term premium reflects expectations for greater Treasury supply (issuance) relative to demand



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Macrobond, April 2026.

# Barring a protracted oil shock, the bank lending outlook is marginally positive

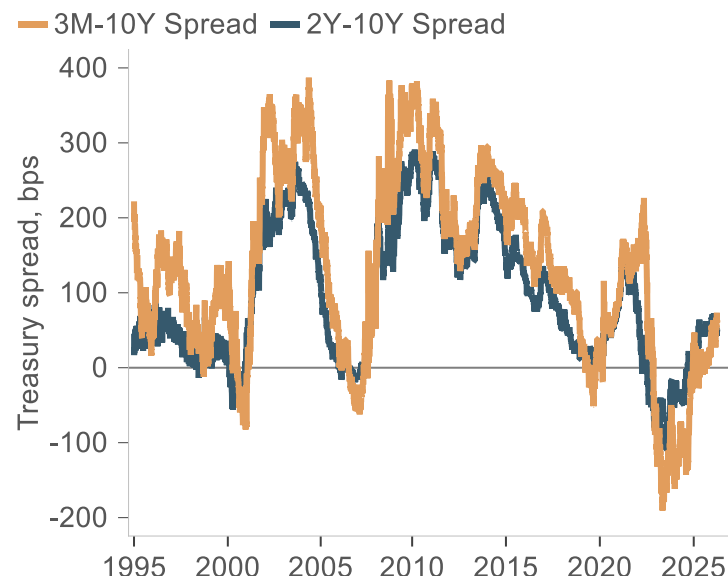
Both supply and demand of loans to businesses and households have moved up from depressed levels.

Though the yield curve is in flux amid the Iran conflict, it has achieved a normalized shape on both 3M and 2Y tenors. We are constructive about the easing outlook and loan demand if today's oil price shock proves transitory.

Loan supply side: tight lending standards typically precede economic contractions, but the most recent era of restrictive conditions did not produce a recession. The Senior Loan Officer Opinion Survey (SLOOS) now points to lending slightly tightening for businesses but loosening for households.

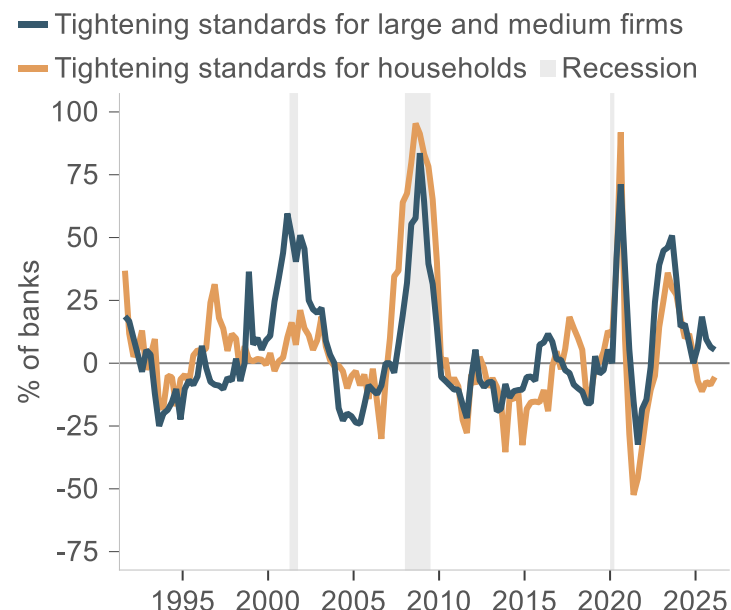
Loan demand side: last year both households and businesses exited an era of depressed demand for bank loans. We continue to see policy uncertainty as an x-factor for loan demand, particularly from businesses – but for now, an acceptance of the pace of policy change paired with modestly lower rates should support loan demand.

## The Treasury yield curve has finally normalized across tenors



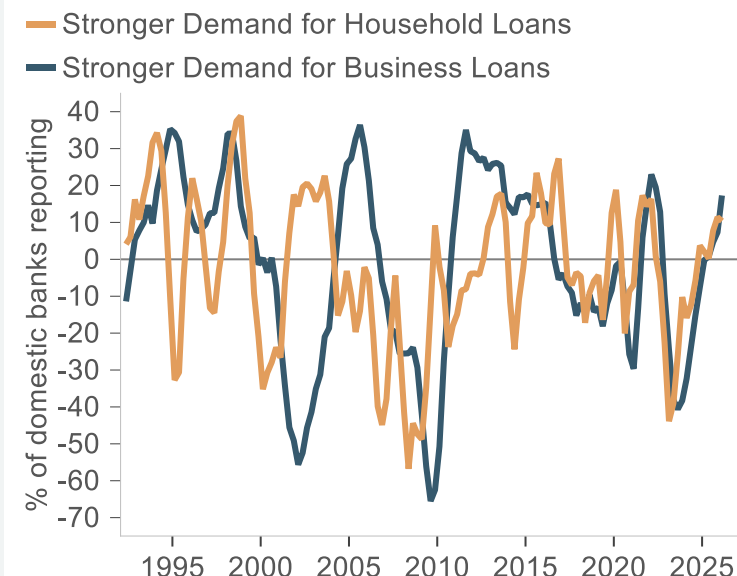
Sources: New York Life Investment Management, Global Market Strategy, Bloomberg, Macrobond, April 2026.

## Bank lending standards have moved to neutral



Sources: New York Life Investment Management, Global Market Strategy, U.S. Federal Reserve, Bloomberg, Macrobond, April 2026.

## Loan demand has improved for both businesses and households



Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve, Macrobond, April 2026.

# Market-determined financial conditions have tightened, but are not “tight”

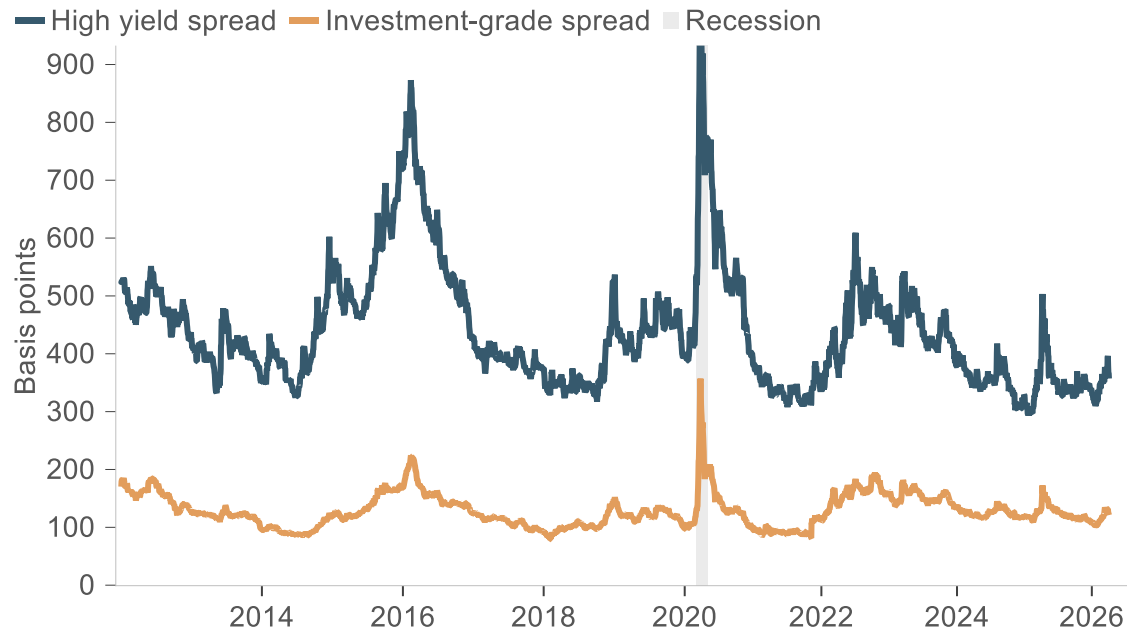
Equity valuation pressure and spread widening have tightened financial conditions off of loose levels. This pressure may continue.

- Market-determined financial conditions can turn on a dime. As equity valuations come off historic highs and corporate credit spreads widen from historically tight levels (**left chart**), we are seeing financial conditions tighten – but in historic terms, do not read market conditions as “tight” (**right chart**).
- In our view, this tightening does not reflect an extended Iran conflict (appropriately so,

given the information we have today), and associated risks to economic activity and credit quality. Still, the cycle likely has runway thanks to Fed and fiscal support.

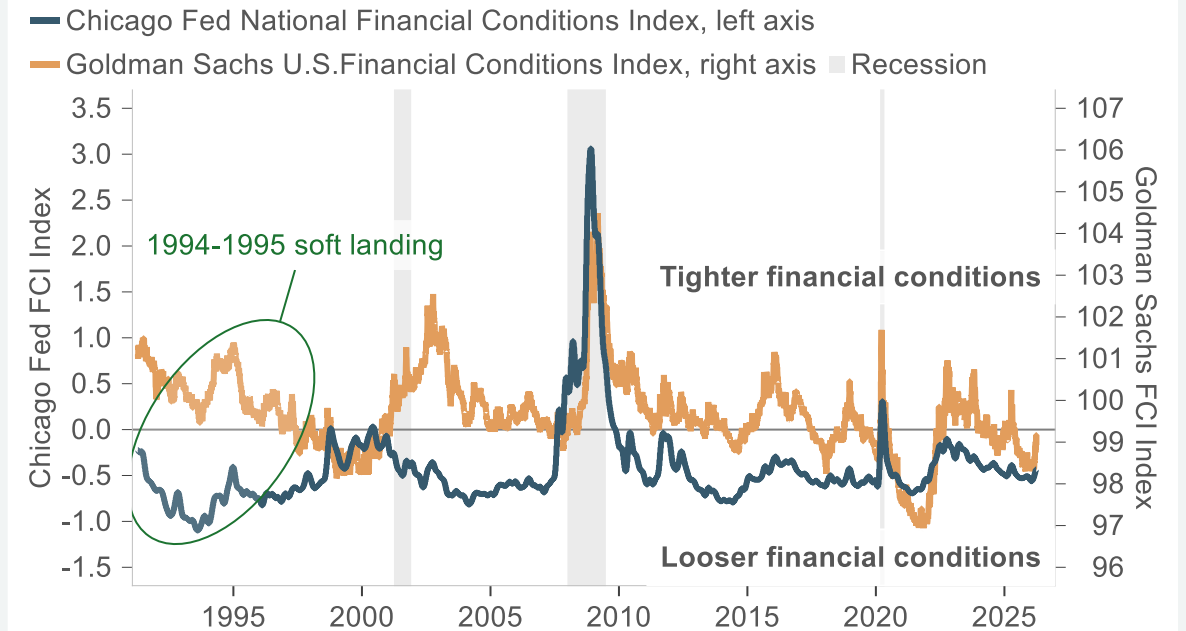
- We remain constructive on credit quality in the near term. Even amid higher oil prices and tariffs, post-pandemic programs and improved cash management support confidence in corporates’ ability to repay over the next 2–3 years.

## Spreads are widening off historic lows in credit



Sources: New York Life Investment Management, Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, April 2026.

## Market financial conditions do not screen “tight” yet, but could do so on a dime



Sources: New York Life Investment Management, Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, April 2026.

# Inflation was already the key risk to our outlook, now compounded by energy costs

While tariffs still matter, the U.S.-Iran conflict adds a more immediate upside risk to inflation through energy, food, freight, and other input costs.

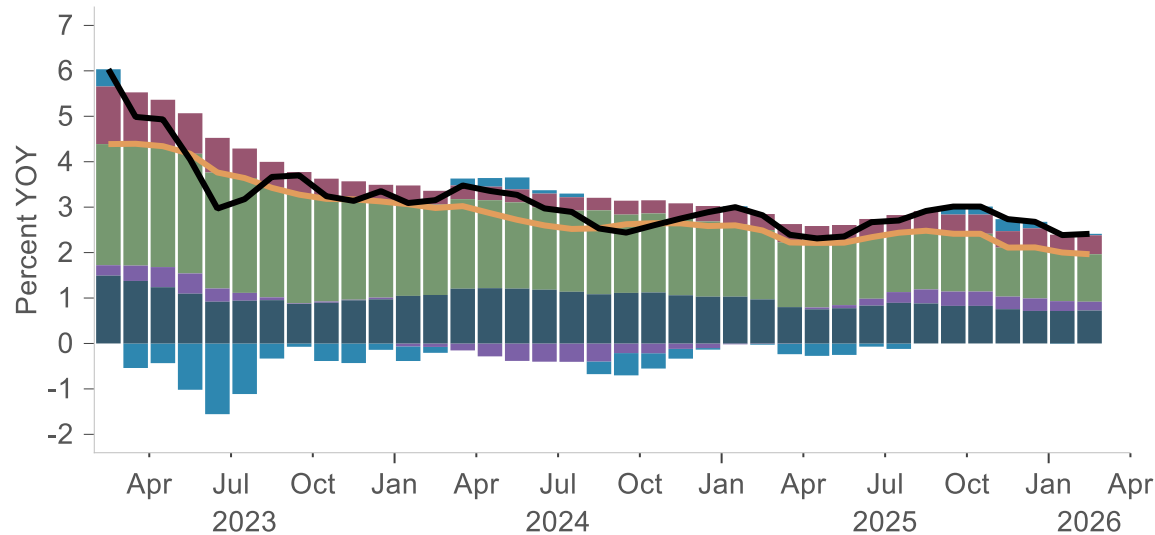
- Before the Iran conflict, strong economic activity presented a clear risk of cyclical inflation reacceleration. Today, the clearest inflation risk is through energy. Any sustained disruption around the Strait of Hormuz could keep oil and gas prices elevated, putting renewed upward pressure on headline inflation. Hormuz carries about 20% of global oil and gas trade; each day of closure compounds supply issues downstream.
- This shock is likely to filter through the economy. Higher fuel, freight, and logistics costs

can feed through to consumer prices more broadly, while a 20% unexpected rise in crude can translate into roughly a 10% increase in gasoline prices and lift CPI by about 0.3%, with most pass-through occurring within about four weeks.

- Food is another important second-round transmission channel. Gulf countries are key global fertilizer suppliers. Higher fertilizer costs increase the risk that an energy shock broadens into food and other input-sensitive categories over time.

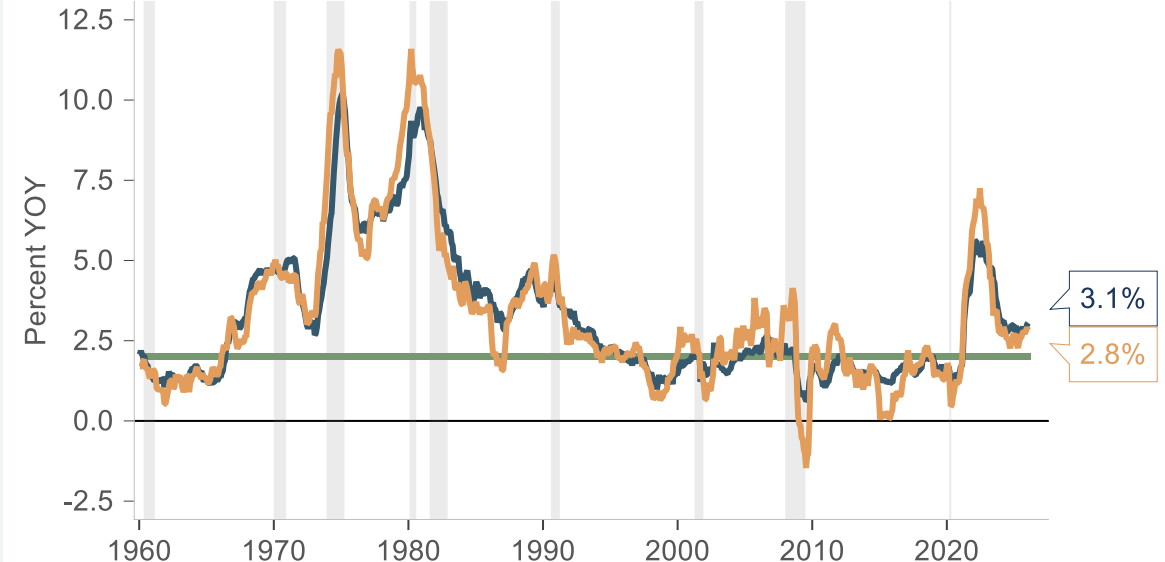
## CPI has leveled out above target, with ongoing upside risks to both goods and services prices

— Headline CPI — Core CPI — Energy — Food — Shelter — Core Goods — Core Services



## PCE inflation is far from peak, but progress toward target has stalled

— Headline PCE — Core PCE — Fed target: 2% — Recession



# Near-term inflation expectations have spiked off recent lows

Near-term pricing reflects market focus on energy-driven inflation, yet longer-term expectations continue to signal inflation-targeting credibility.

Near-term inflation expectations tend to be more volatile than longer-term expectations, as long as the market believes the Fed can hold to its 2.0% target. Near-term TIPS breakevens have risen in 2026, reflecting renewed inflation concerns. While technical supply and demand factors may have contributed, levels point to rising energy-driven inflation.

Inflation swaps have a more compressed range than breakevens (note difference in y-axes) but tell a similar story as the TIPS market. Near-term expectations have been volatile in 2026 after coming off their post-pandemic peaks, while long-term inflation expectations remain well-anchored.

Consumer surveys are naturally noisy, and inflation expectations have moderated after a spike driven by tariff fears. Expectations for 1- and 5-year forward inflation in the University of Michigan survey are still elevated, and we expect greater consumer sensitivity to new inflation concerns following 5 years of above-trend inflation.

## Long-term TIPS-derived inflation breakevens are well anchored; near-term remains volatile

- U.S. 10-year breakeven rate
- U.S. 5yr 5yr forward breakeven rate
- U.S. 1-year breakeven rate



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Macrobond, April 2026. Inflation breakevens are the implied rate of inflation implied by the pricing of TIPS, Treasury Inflation Protected Securities. The 5yr 5yr breakeven: expected inflation in 5 years, for the following 5 years.

## Zero-coupon inflation swaps also point to a more volatile near-term inflation outlook

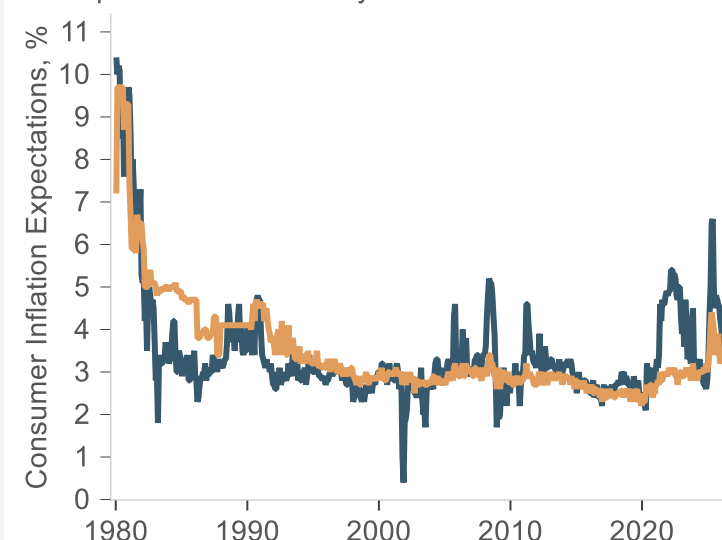
- 1-Year Swap
- 5-Year Swap
- 10-Year Swap
- 30-Year Swap



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Macrobond, April 2026. A derivative used to transfer inflation risk from one party to another through an exchange of cash flows. In a zero coupon inflation swap, only one payment is done at maturity where one party pays a fixed rate on a notional principal amount, while the other party pays a floating rate linked to an inflation index.

## Consumer inflation expectations remain elevated

- Expected inflation next year
- Expected inflation in 5 years



Sources: New York Life Investment Management, Global Market Strategy, University of Michigan, Federal Reserve Bank of New York, Macrobond, April 2026.

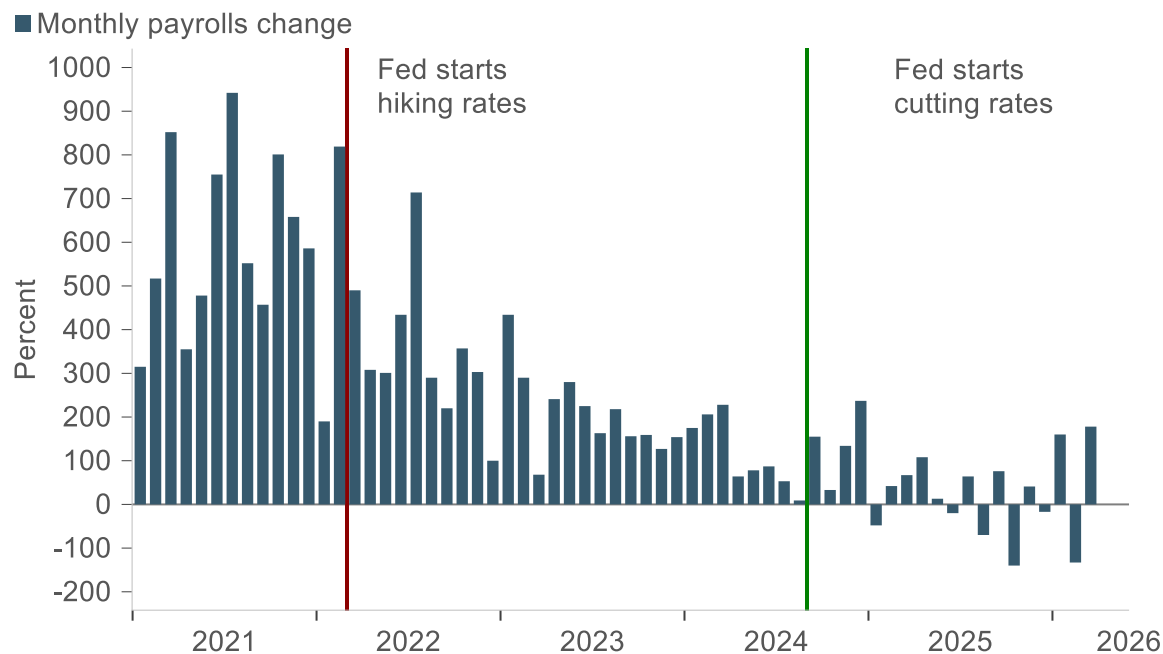
# Labor demand has slowed, seen in hiring pressure and slowing wage growth

On its own, weak hiring is not enough to upend our macro outlook. We expect supportive policy to prevent a widespread acceleration of layoffs.

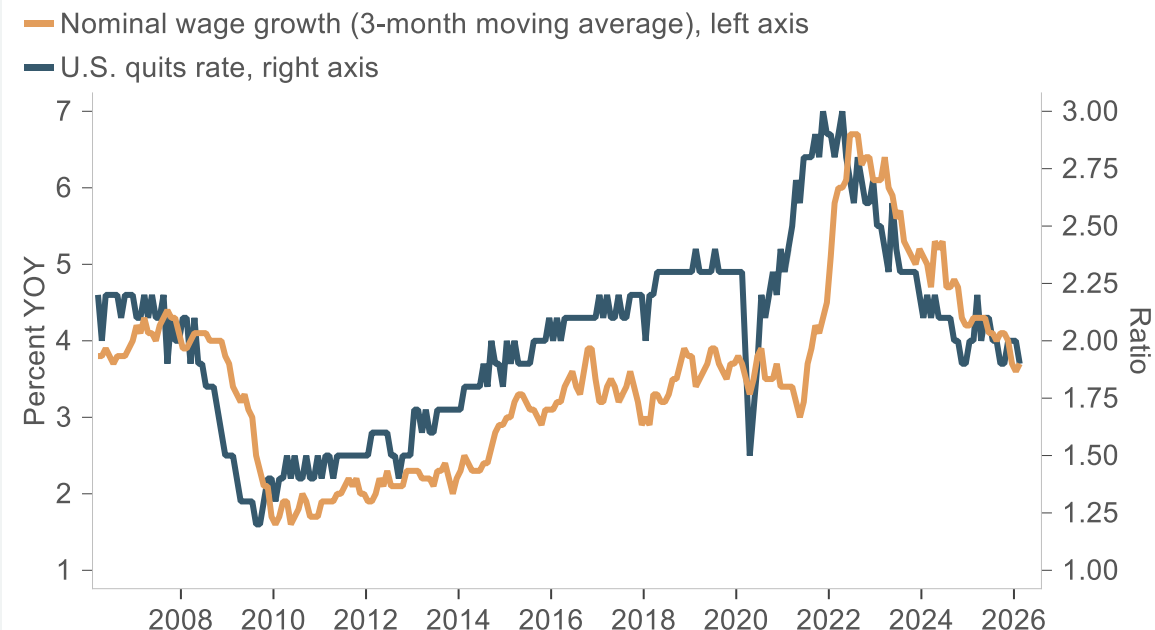
- Labor market stability has been paramount to our economic view; strong wages and job availability carried consumers through an inflationary environment.
- Now, hiring has slowed and, considering the 2024 and 2025 downward payroll revisions, has been much weaker than previously thought for two years. Facing policy change, tariff risks, and AI integration, companies have slowed hiring plans.

- The good news: even weakening labor confidence, seen in a lower voluntary quits rate and decelerating wage growth, have not shaken overall activity. We believe it will take another leg of labor market deterioration, namely an acceleration of layoffs, to prompt negative knock-on effects for consumer behavior. The Iran shock could be a trigger, but as a second order-effect if oil prices have a great enough impact on input costs to harm profitability.

## Job growth has slowed over the past four years



## Fewer workers feel confident enough to switch jobs



# Labor supply constraints from immigration impact both employment and wages

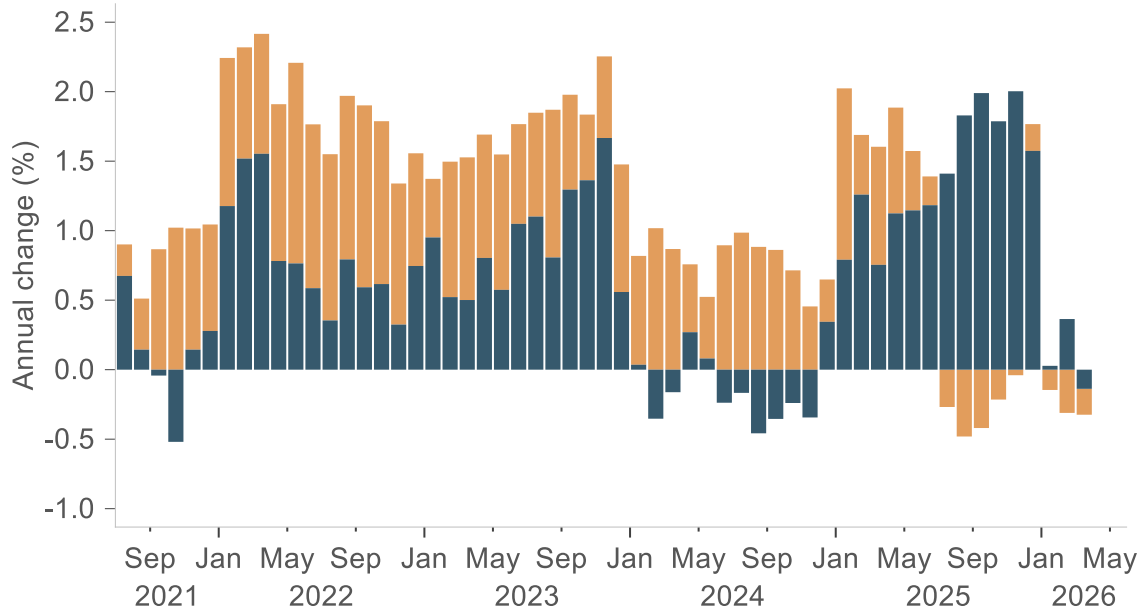
Changes in labor supply may keep the unemployment rate low, even without strong hiring, and may pose upside risks to wages.

- More restrictive immigration policy is impacting labor supply. With a smaller workforce, the U.S. economy is able to add fewer jobs without a spike in the unemployment rate. In a more extreme scenario, the unemployment rate may even move *lower*, which could create wage pressures.

- Though alarm bells are not ringing yet, fewer job openings and fewer jobs created each month suggest that labor demand is weakening.
- So far this year, weekly claims have averaged 213k, signaling continued strength. We see 250k to 275k as the key threshold where investors should be wary of a labor market downturn.

## Immigration - and the labor supply with it - was more restrained in 2025

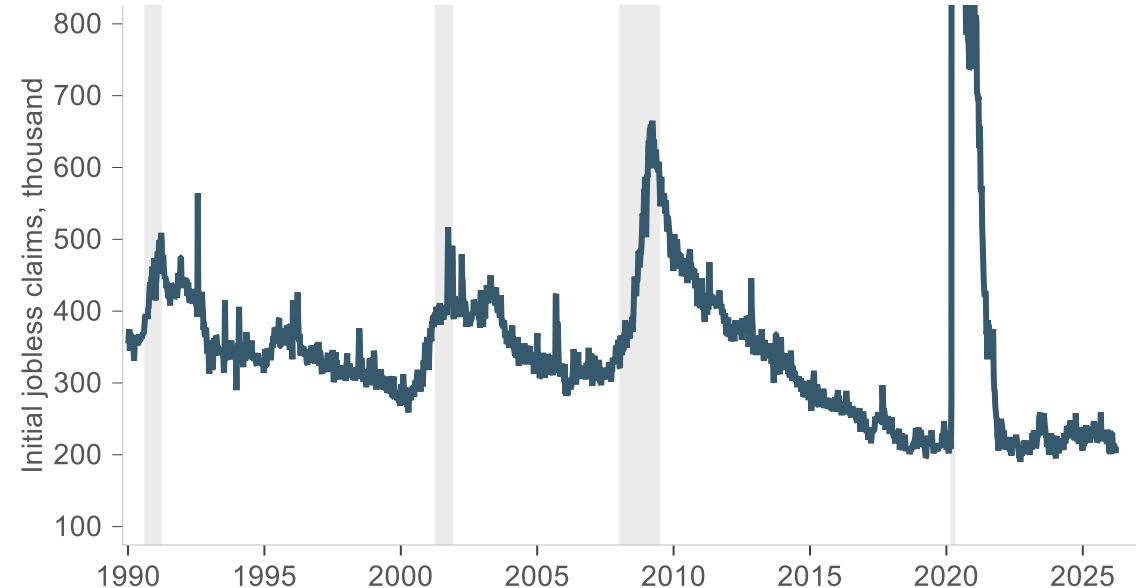
Foreign-born labor growth Native-born labor growth



Sources: New York Life Investment Management, Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, April 2026.

## Jobless claims should provide an early signal of labor market weakness

Initial jobless claims Recession



Sources: New York Life Investment Management, Global Market Strategy, U.S. Department of Labor, NBER (National Bureau of Economic Research), Macrobond, April 2026.

# An energy shock has the potential to deepen the U.S. consumer divide

A renewed energy shock, via higher food and gas prices, may exacerbate the K-shaped divide between high- and low-income consumers.

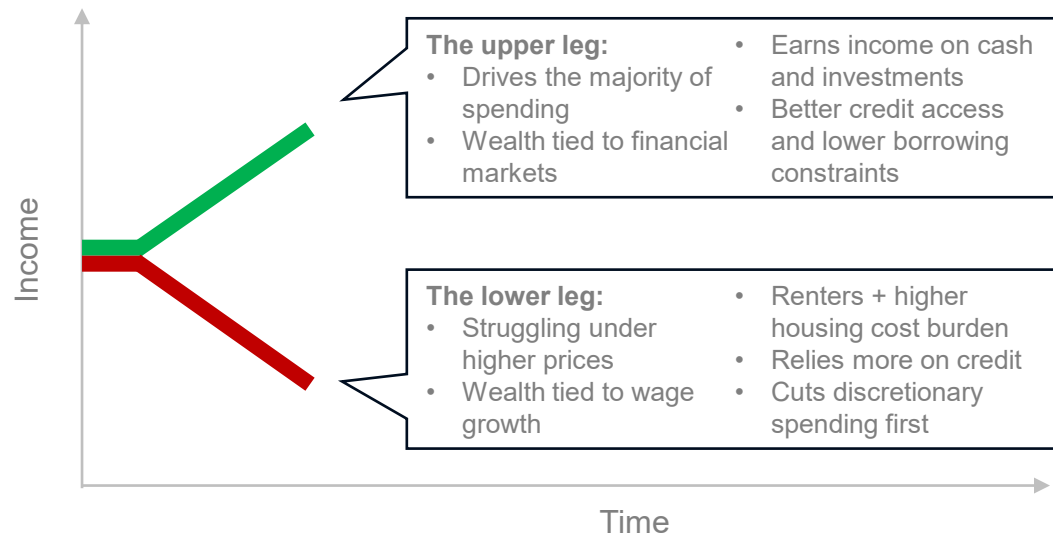
- The U.S. economy remains defined by the “K-shaped” divide, where high-income households drive the majority of spending, supporting headline growth (**left chart**).
- Higher oil prices are likely to deepen that divide, as past oil shocks have forced consumers to devote a larger share of spending to energy, leaving less room for discretionary purchases – a burden that tends to fall hardest on lower-income households

(**right chart**).

- What the “K” means for investors: overall, headline economic and consumer activity will be supported by high-earning cohorts. Consumer staples company earnings may see support as lower-income consumers trade down. We expect inequality to play a major role in narratives around the midterm elections.

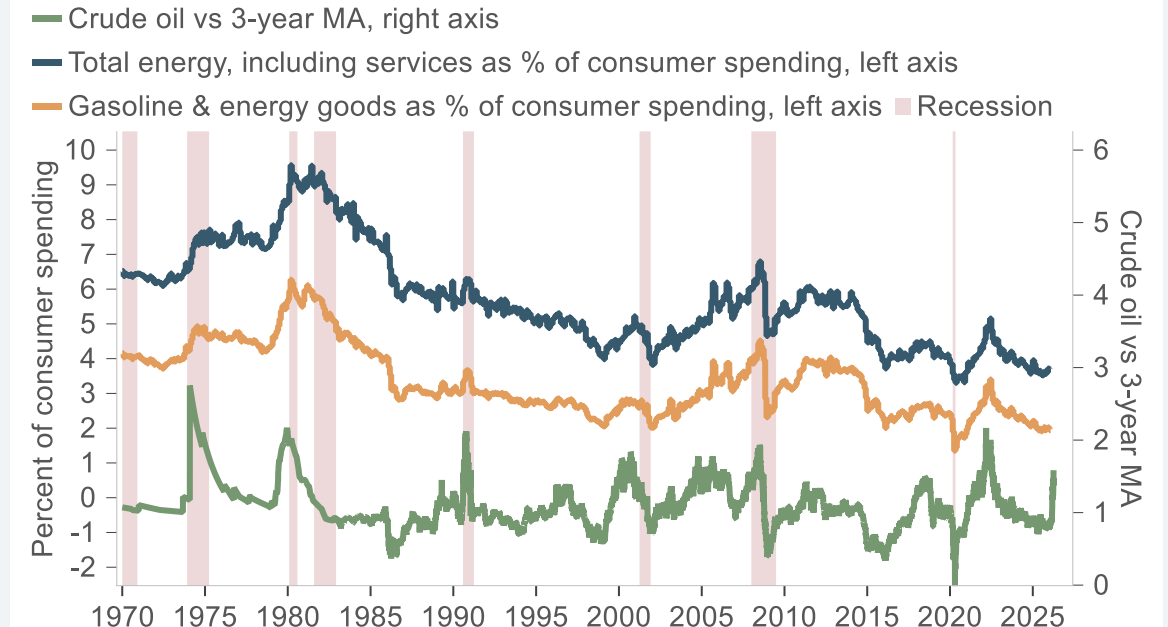
## The U.S. economy has long experienced inequality, but the 2020's have widened the K-shaped divide

A visualization of a K-shaped economy



Opinions of New York Life Investment Management, Global Market Strategy, April 2026.

## Past oil shocks have forced consumers to spend more on energy



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), NBER (National Bureau of Economic Research), Macrobond, April 2026.

# Consumer credit faces risks, but from an overall healthy position

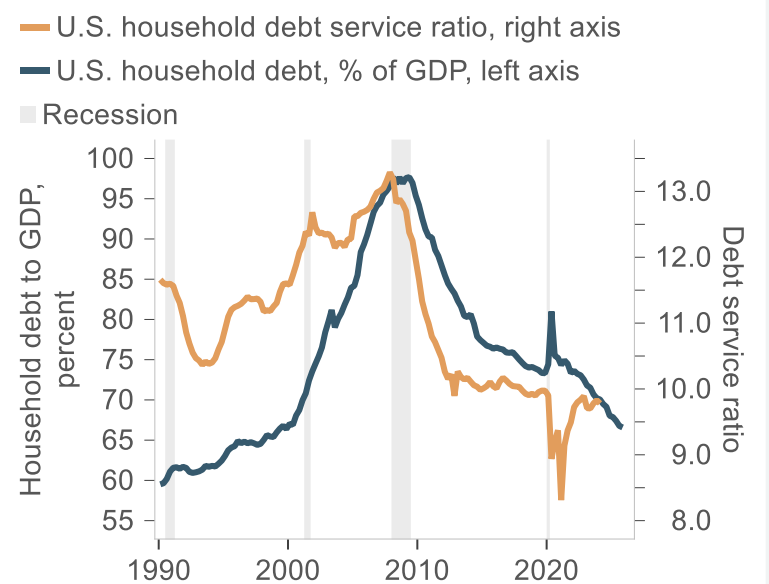
Though lower-income and younger households are struggling, we see no *systemic* signs of consumer overleverage or credit quality concerns.

American consumers are not over-leveraged on the whole. Mortgage debt service (orange line) is near its easiest point on record barring pandemic-era distortions, keeping overall debt service comfortable on aggregate.

Consumer credit *growth* slowed in 2024 and 2025, but off of a historically strong base. We are monitoring consumer credit closely: requiring credit to finance normal spending is not healthy, but nor do we want to see a collapse in consumer loan demand.

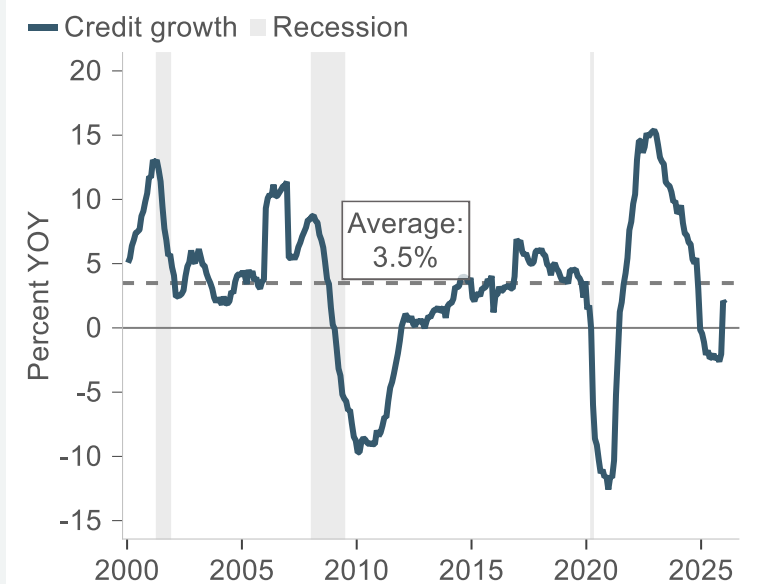
Pockets of stress, namely among younger and lower-income segments that lack a savings backstop, are likely to continue: modest Fed easing is not a game changer for consumer credit affordability. In these groups, we see higher credit card balances and rising delinquencies in credit cards and auto loans.

## The household debt imbalance that preceded the GFC is nowhere to be found



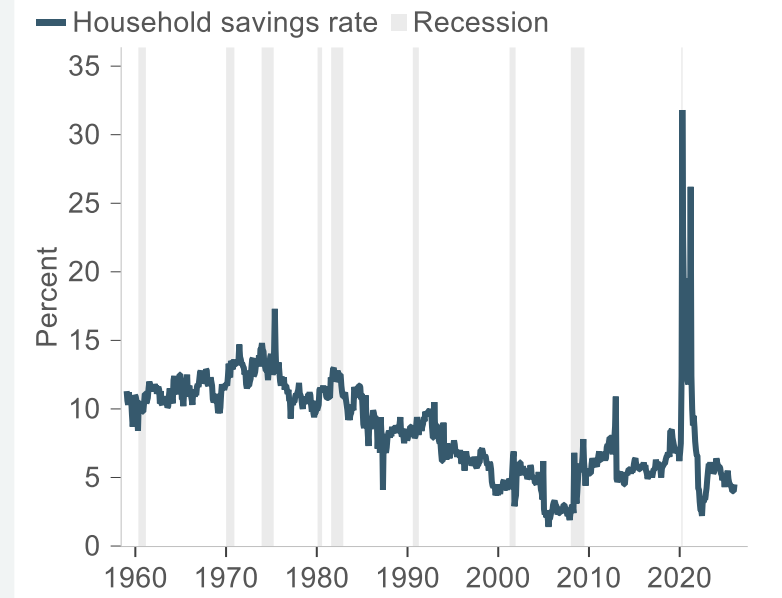
Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Federal Reserve, Bloomberg, Macrobond, April 2026.

## Consumer credit growth has slowed off a strong base



Sources: New York Life Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, April 2026.

## The U.S. savings rate is dwindling



Sources: New York Life Investment Management, Global Market Strategy, National Association for Business Economics, NBER (National Bureau of Economic Research), U.S. Bureau of Economic Analysis (BEA), Macrobond, April 2026.

# Housing affordability shows little signs of easing, particularly with long rates rising

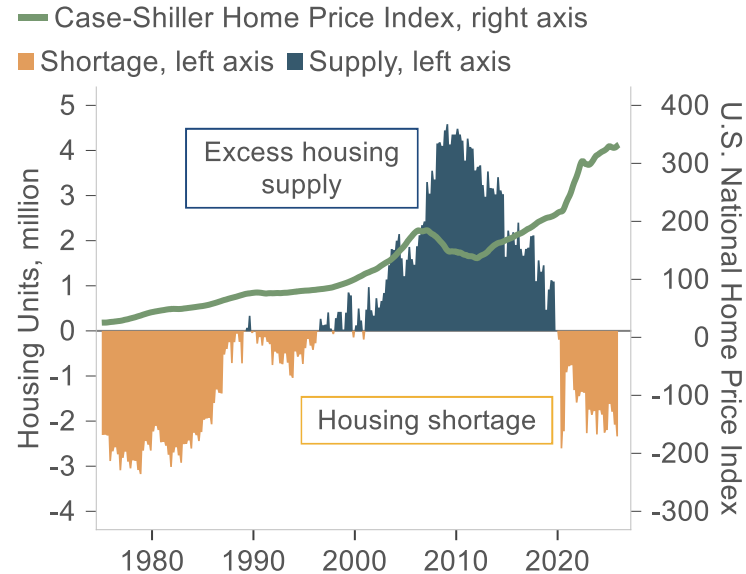
Modestly lower mortgage rates are no game changer for affordability, and home prices have a strong supply-constrained floor in the medium term.

Housing supply has become a “tale of two markets.” Record housing construction in the past few years has resulted in price moderation in the sun belt, while constrained supply on the coasts remains a challenge. And, though affordability is a structural issue for younger segments, home equity has been a boon to owners.

Accordingly, housing sales volumes are depressed. Existing homeowners are unwilling to give up a paid-off home (40% of all U.S. homes are paid off) or a low mortgage rate. Transactions are concentrated in newly built homes, where supply exists and low maintenance costs attract new homeowners who are stretched with high mortgage rates.

It would take meaningful market shifts – greater housing supply and meaningfully lower mortgage rates – for these dynamics to improve. The average effective mortgage rate is 4.2%; 70% of homes already have a mortgage rate under 5.0%. Accordingly, modest mortgage rate relief is not enough to change the incentive to buy or move homes.

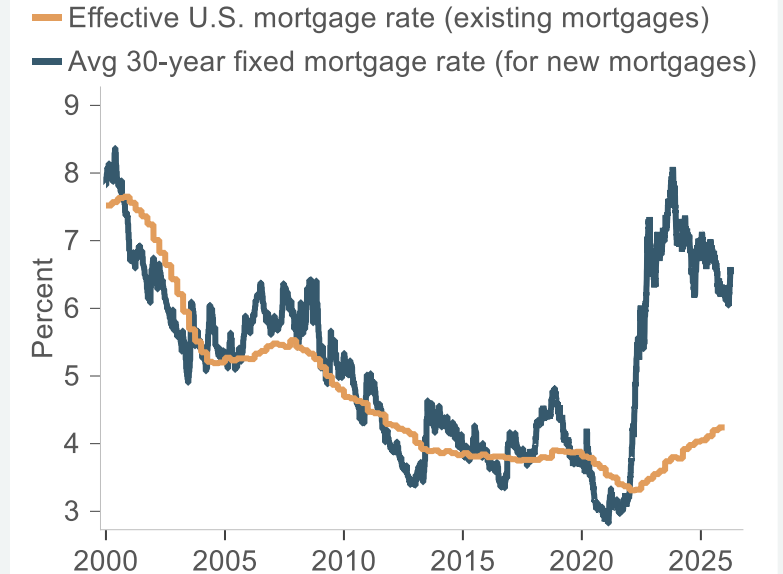
## The U.S. housing shortage has put a floor under prices



## Existing homeowners are unwilling to give up their low mortgage rates



## Mortgage rates would need to plummet to incentivize housing turnover



# U.S. government focus on housing policy is likely to continue ahead of the midterms

Policymakers are prioritizing housing affordability amid persistently high mortgage rates and constrained supply.

- Housing affordability has deteriorated sharply with home prices up over 30% and mortgage rates sustained above 6% since the pandemic (**left chart**). The age of first-time homebuyers has climbed to 40 amid worsening supply-demand imbalances and high mortgage costs.
- Supply constraints and mortgage “lock-in” are key pressures: years of underbuilding, high construction costs, restrictive zoning, and homeowners holding low-rate mortgages have limited inventory and supported elevated prices (**right chart**).
- Policymakers are considering supply and demand-side solutions to help improve housing

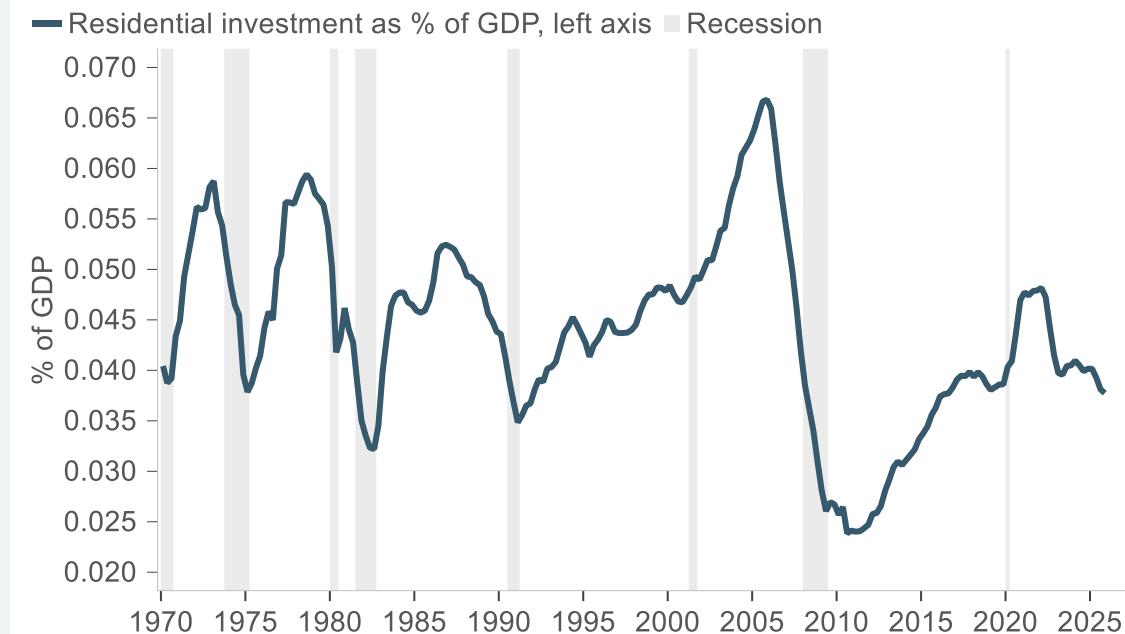
- affordability – including expanding the balance sheets of Fannie Mae and Freddie Mac; encouraging permitting and zoning reforms; and limits on institutional investor purchases.
- Meaningful improvement in housing affordability will likely require time for new and existing mortgage rates to converge. Policy supports, namely those focused on increasing supply, may help accelerate a recovery and have the most lasting impact. Among public markets, homebuilders stand to be the clearest beneficiary.

## Housing affordability has tracked home prices until recently, as mortgage rates remain elevated



Sources: New York Life Investment Management, Global Market Strategy, Bankrate, Macrobond, April 2026.

## Housing shortage persists as residential investment slows



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), NBER (National Bureau of Economic Research), Macrobond, April 2026.

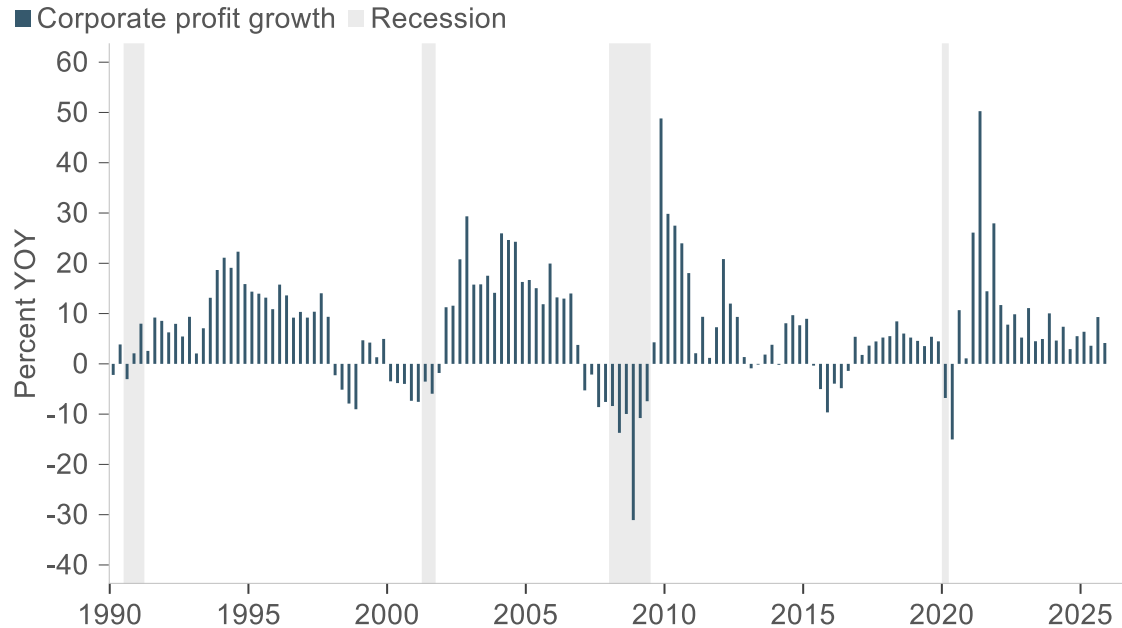
# A strong base for business in 2026: corporate profits are hardy

Resilient corporate profits provide a strong base for employment; inflation presents a key risk to how companies manage margins.

- Corporate profit margins have been largely resilient, making near-term mass layoffs unlikely.
- However, profit growth may be hard-pressed to improve from here: core inflation was forming a choppy uptrend even before the Iran shock. Higher inflation would force companies to choose between passing costs on to consumers or eroding margins; their ability to pass on costs will depend on sector and price elasticity of goods.

- Today, S&P 500 operating margins are well above 12.5%, the level at which falling margins have historically become a concern associated with recessions.
- Technology-driven productivity improvements could support margin expansion in the medium term, but we believe consumer spending and inflation are likely to dominate the near-term story.

## Hardy corporate profit growth remains a sign of overall business health



Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, April 2026.

## Operating margins were resilient to policy risk in 2025; inflation is a risk in 2026



Sources: New York Life Investment Management, Global Market Strategy, NBER (National Bureau of Economic Research), Bloomberg, Macrobond, April 2026. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. Past performance is not a guarantee of future results. It is not possible to invest in an index.

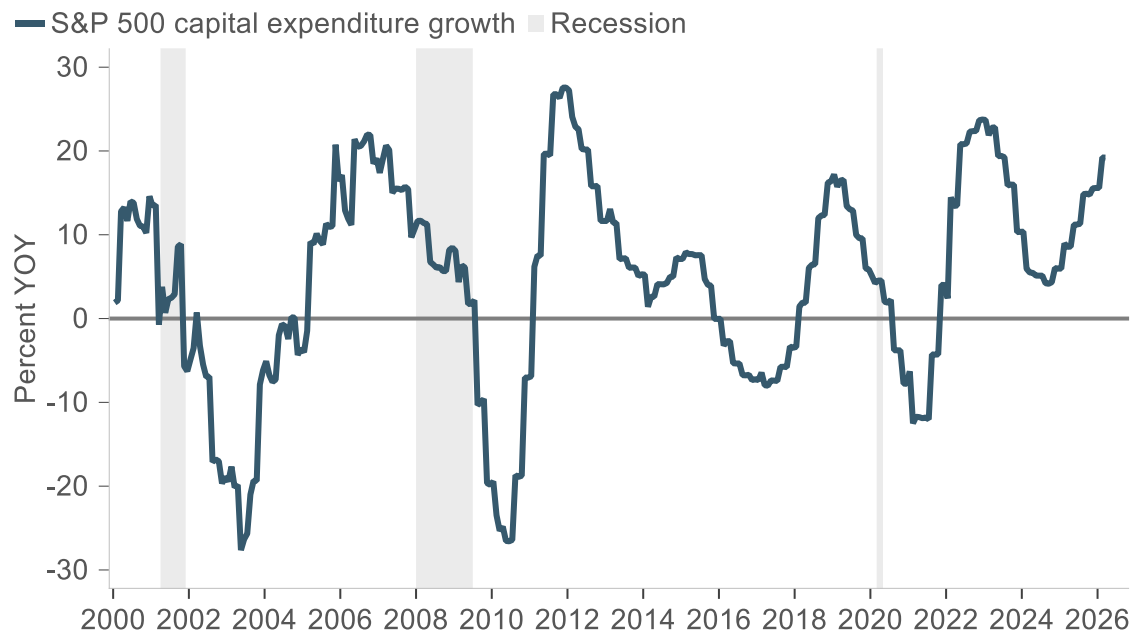
# A strong base for business in 2026: investment may see a broadening

Capex is in an uptrend, but almost entirely driven by the AI boom – both direct and infrastructure-related investment.

- At an economy-wide level, capex is accelerating (**left chart**), but this masks meaningful sector differences.
- AI and digital infrastructure continue to see a capex boom. The combination of domestic government spending in the semiconductor supply chain, plus strong corporate and consumer interest in AI, creates a solid foundation for sustained growth.

- The outlook for broad capex is shifting: in 2025, many companies paused new capex plans as they navigated a complicated business cost and planning environment. While policy uncertainty still exists, both acceptance of the “new normal” and the return of 100% capex depreciation – a portion of the 2017 TCJA that lapsed at the end of 2022 – should be directionally supportive of capex intentions across sectors in 2026.

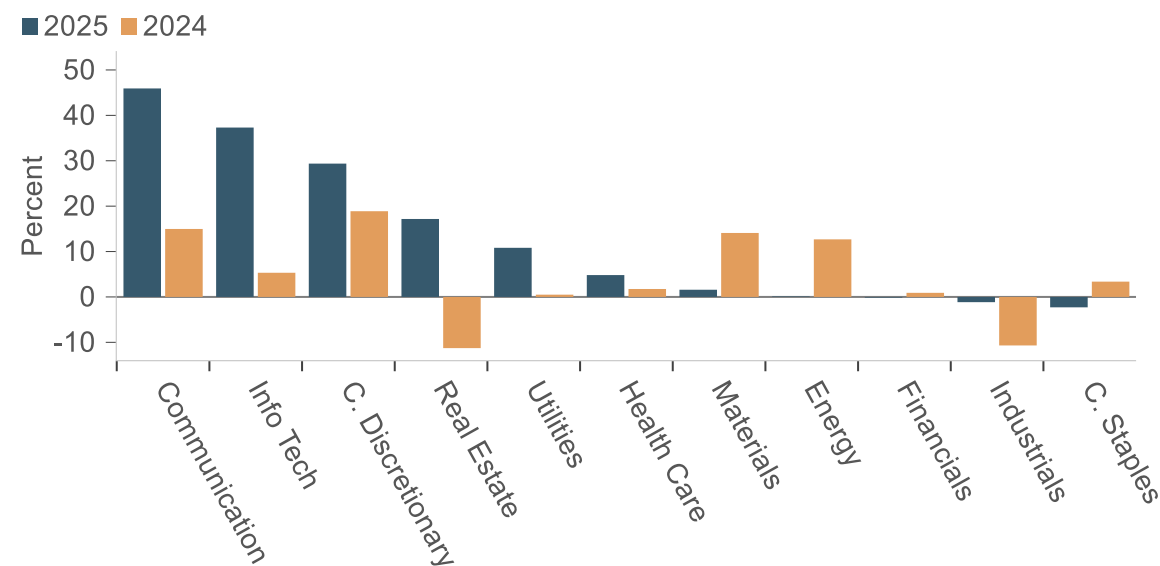
## Capex appears to have recovered...



Sources: New York Life Investment Management, Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, April 2026.

## ... but masks sector divergence that strongly favors AI and digital infrastructure

Percent change in capital expenditures over the first 10 months of the year



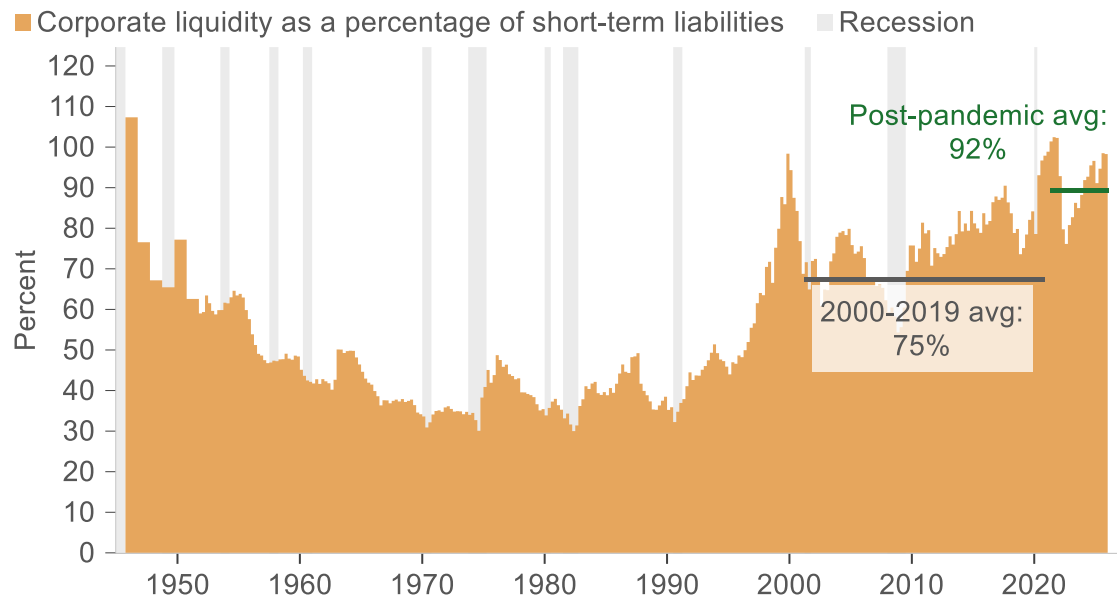
Sources: New York Life Investment Management, Global Market Strategy, Bloomberg, Macrobond, April 2026. It is not possible to invest in an index. Past performance is not a guarantee of future results. Each sector index comprises those companies included in the S&P 500 that are classified by the GICS® Level 1 sector of the same name. Y-axis cut off at -10%

# A strong base for business in 2026: debt levels and service show no cause for concern

Even as ultra-cheap pandemic era financing rolls off, corporate capital structures look healthy.

- Large U.S. corporations are very well capitalized, able to cover over 90% of their short-term liabilities with cash. This cash buffer was initially built with the help of very cheap financing in the pandemic era, but companies have been able to maintain this buffer even as financing costs rose, thanks to strong money market rates. Now, Fed easing should provide a moderate cushion for financing.

## Large companies with access to public capital markets have maintained strong short-term liability coverage



Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, April 2026.

- Corporate debt-to-asset levels are back on the rise, but still near 30-year lows. Rather than accrue debt to get through the pandemic, U.S. companies benefitted from an easy financing environment and passed through inflation to consumers, allowing these firms to emerge from the pandemic with an improved capital structure. Here, too, we see no reason for immediate concern.

## We see no structural debt imbalance amongst listed corporations



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Standard and Poor's, Macrobond, April 2026. The S&P 500 Index tracks the performance of 500 large cap U.S. companies. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

# Tempering the business outlook: input costs are likely to rise on higher energy

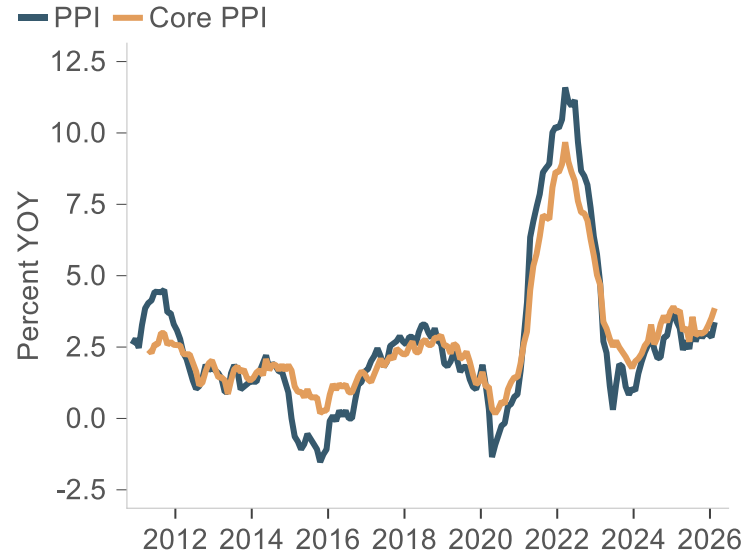
Sticky input prices – even before tariffs and the Iran shock – make it unlikely businesses will be lowering prices for their customers.

Producer prices rose sharply during the pandemic, which U.S. corporations successfully passed onto customers. Now, after some relief, input prices are moving higher again, driven by services and goods costs. We expect this trend to accelerate, driven by both tariffs and higher energy prices.

The cost to hire and retain employees has normalized from post-pandemic highs. As wage growth slowed, the Employment Cost Index fell. We are watching for signs of higher labor costs from restricted labor supply, as well as for erosion of wage growth if the labor market deteriorates further (not our base case).

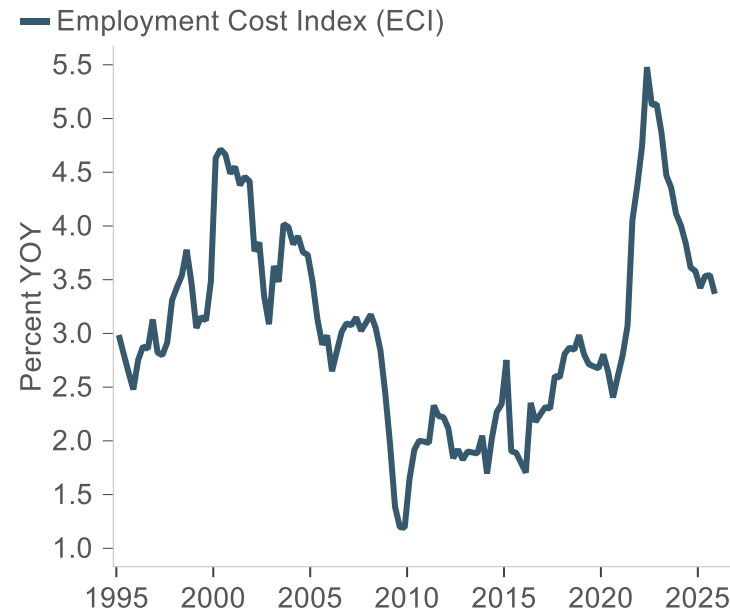
Energy prices, reflected in the broad producer price index (PPI) visualized below, are historically volatile. In addition to demand-side disruptions from the pandemic, supply-side disruptions from conflicts in Europe and the Middle East have driven volatility. We expect a clear uptrend in energy to filter through input costs across industries.

## Producer Price Index points to a gradual reacceleration in input costs, which may accelerate



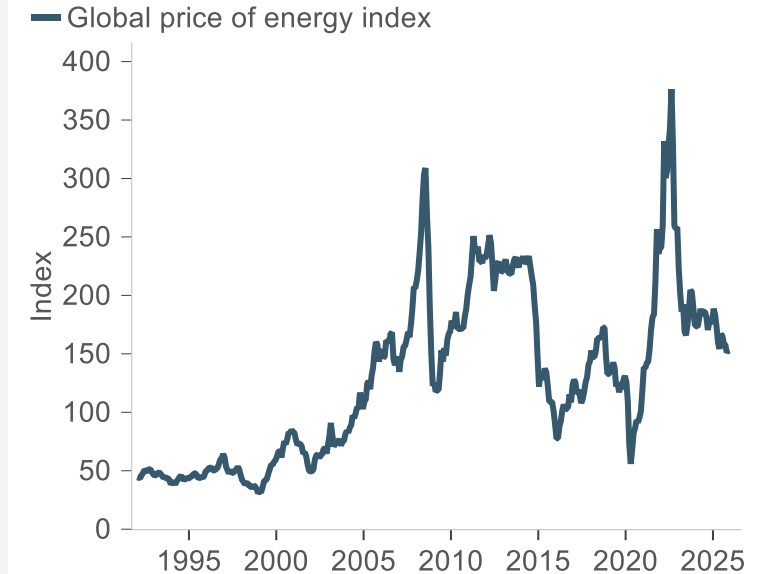
Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, April 2026. Core Producer Price Index (PPI): total less food and energy.

## Businesses' employment costs face a crossroads



Sources: New York Life Investment Management, Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, April 2026.

## Energy costs have normalized after reaching new highs



Sources: New York Life Investment Management, Global Market Strategy, International Monetary Fund (IMF), Macrobond, April 2026.

# Tempering the business outlook: tariffs bring a new wave of business uncertainty

The U.S. Supreme Court struck down “Liberation Day” tariffs, with limited impact to the effective tariff rate but high impact to operational risk.

**On February 20<sup>th</sup>, the Supreme Court’s struck down the tariffs imposed under the International Emergency Economic Powers Act (IEEPA) materially reshaping the administration’s tariff framework.**

- In response, the President announced plans to impose a 10% across-the-board tariff under Section 122, with work underway to increase the tariff rate to 15%, to address a serious balance of payments problem. Section 122 allows temporary tariffs for up to 150 days, after which congressional approval would be required.
- While this temporary measure is in effect, the administration is likely to advance more durable tariff actions under Section 301 (country-specific measures addressing unfair trade practices) and Section 232 (industry-specific tariffs tied to national security), both of which require more formal investigative processes.

**The court’s decision introduces uncertainty around potential tariff refunds.**

- The court remanded decisions about the tariff rebate process to the lower courts. Roughly \$150bn in IEEPA-related tariff revenue has already been collected.
- The process behind refunds could meaningfully affect near-term Treasury financing needs and deficit projections. Even absent immediate repayments, markets must now reassess the durability of tariff revenue embedded in current fiscal projections. We expect some curve steepening to reflect this increased fiscal risk.

**Ultimately, the ruling against the IEEPA tariffs raise policy uncertainty.**

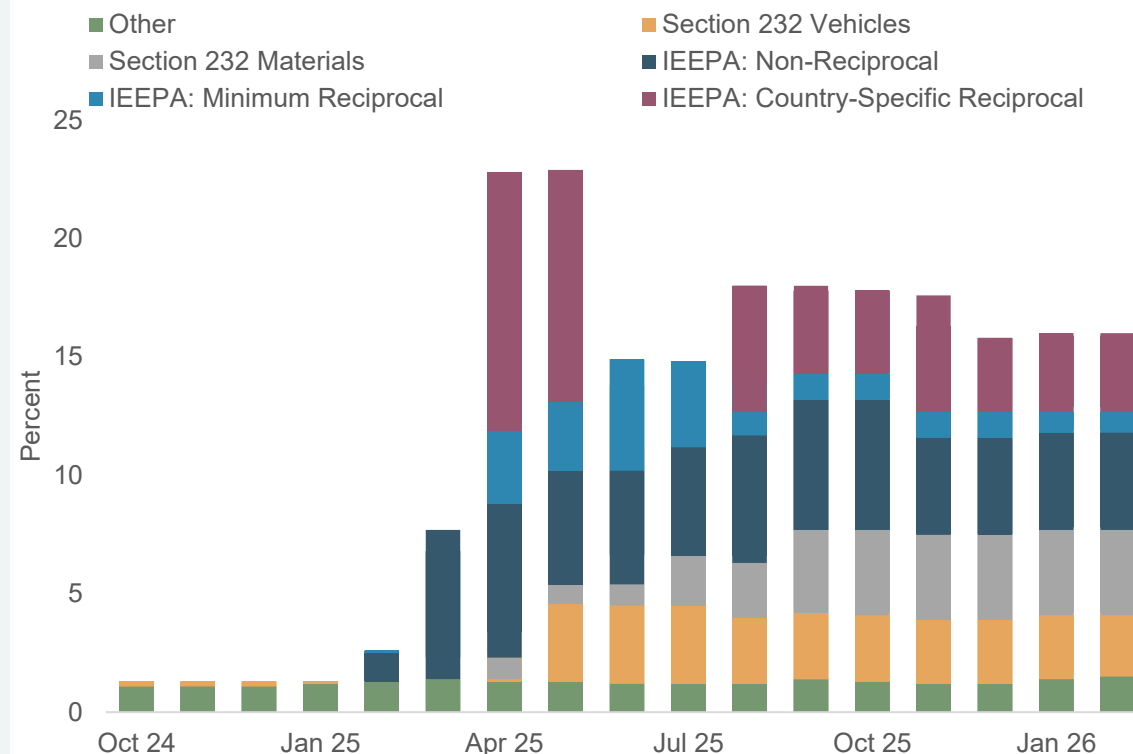
- We expect the administration to pursue alternative tariff mechanisms to preserve revenue, keeping the effective tariff rate elevated. The sector winner and losers from this news will depend on the use of non-IEEPA tariffs from here.
- As a new tariff strategy takes shape, businesses are likely to face greater uncertainty around pricing and supply-chain decisions, adding volatility to near-term market outcomes.

**The decision is consequential, as it clarifies the boundaries of some U.S. executive authority.**

- Greater clarity may reduce tail-risk hedging demand in foreign exchange and rates markets at the margin.

**Even with IEEPA rolled back, the overall tariff rate can remain high given the size of non IEEPA tariffs**

Average applied tariff rate, by tariff type



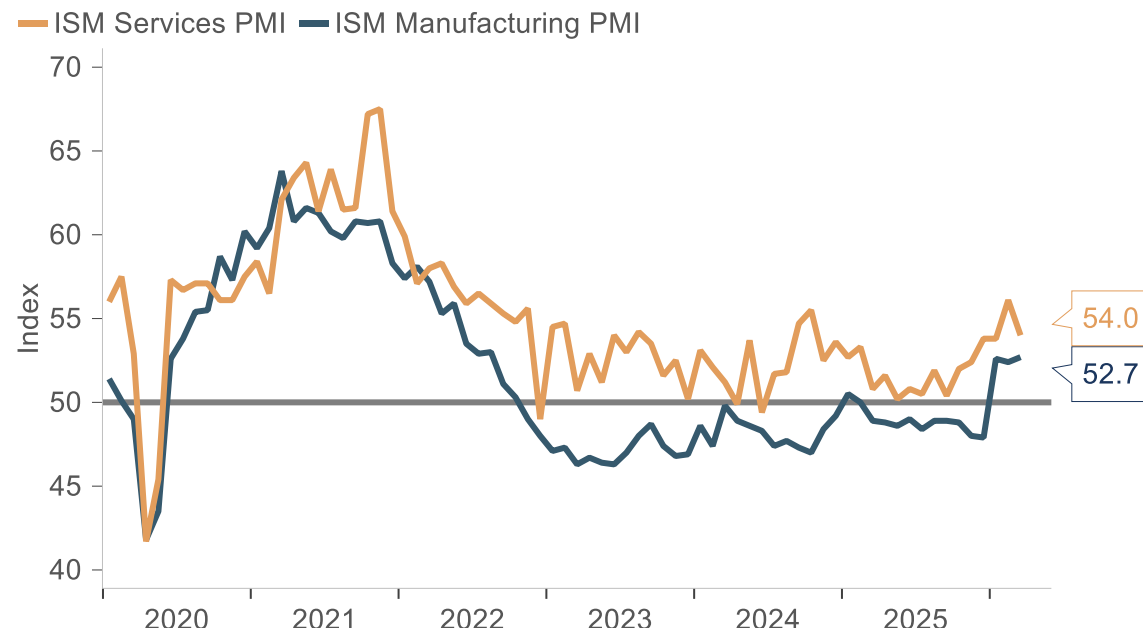
Sources: New York Life Investment Management, Global Market Strategy, Tax Policy Center, U.S. Treasury, April 2026.

# Tempering the business outlook: sentiment remains tepid

We are monitoring both large and small business sentiment for impacts of tariffs, higher energy costs, immigration policy shifts, and deregulation.

Services and manufacturing sector sentiment has been tepid for three years now, following a notable deceleration in 2021 and 2022. In recent months, services and manufacturing PMIs have been on the rise. We expect large business sentiment to be torn between geopolitical risk, policy uncertainty (including tariff uncertainty), and an improved outlook for capex and Fed easing.

## Manufacturing and services PMIs are seeing increasing activity

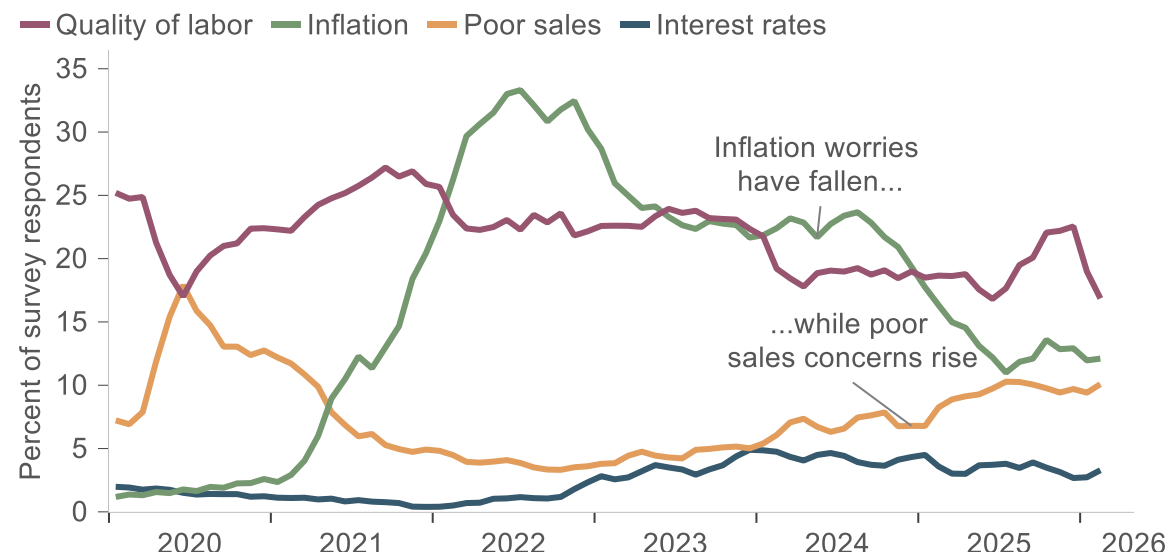


Sources: New York Life Investments Global Market Strategy, Institute for Supply Management (ISM), Macrobond, April 2026. PMI: Purchasing Managers Index, a survey-based sentiment indicator.

Small business sentiment is sitting around neutral, surveyed uncertainty is elevated, and hiring plans have stagnated. We do not see Fed easing as a catalyst for small business activity, because high interest rates were not a chief concern for small business owners this cycle. We are, however, minding both concerns around poor sales and the recent uptick in concerns around labor quality – as well as renewed risks around inflation, which had faded in prior years.

## Small business optimism remains elevated, but interest rate cuts do not solve their top problems

Survey of small businesses' "single most important problem":



Sources: New York Life Investment Management, Global Market Strategy, National Federation of Independent Business, Macrobond, April 2026. Data presented as 3-month moving averages.

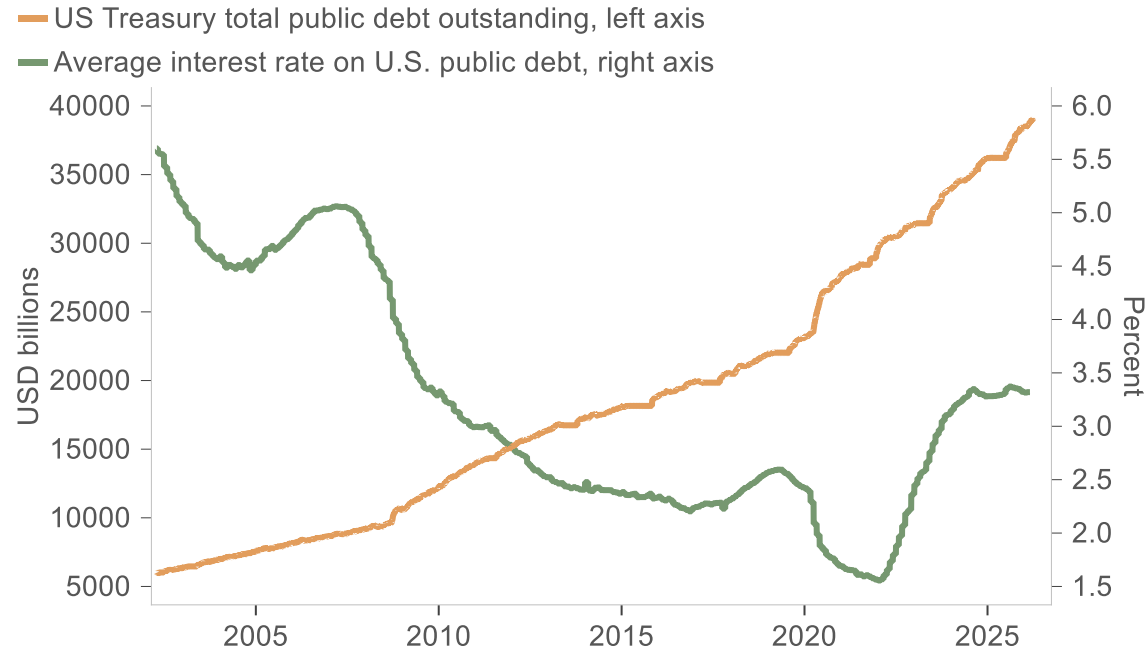
# The fiscal outlook presents a key upside risk to U.S. long rates

The combination of higher spending rates and higher interest rates has created a greater interest burden on federal spending.

The interest rate paid on U.S. public debt remains at a decade high, while U.S. government spending has ballooned. Treasury rates, which are set by the market, are impacted by the supply and demand for Treasuries. Higher U.S. government issuance – including issuance required to finance existing debt – pushes rates upward, all else equal. Notably, the average interest rate on Treasuries outstanding has not declined as the Fed has eased this cycle.

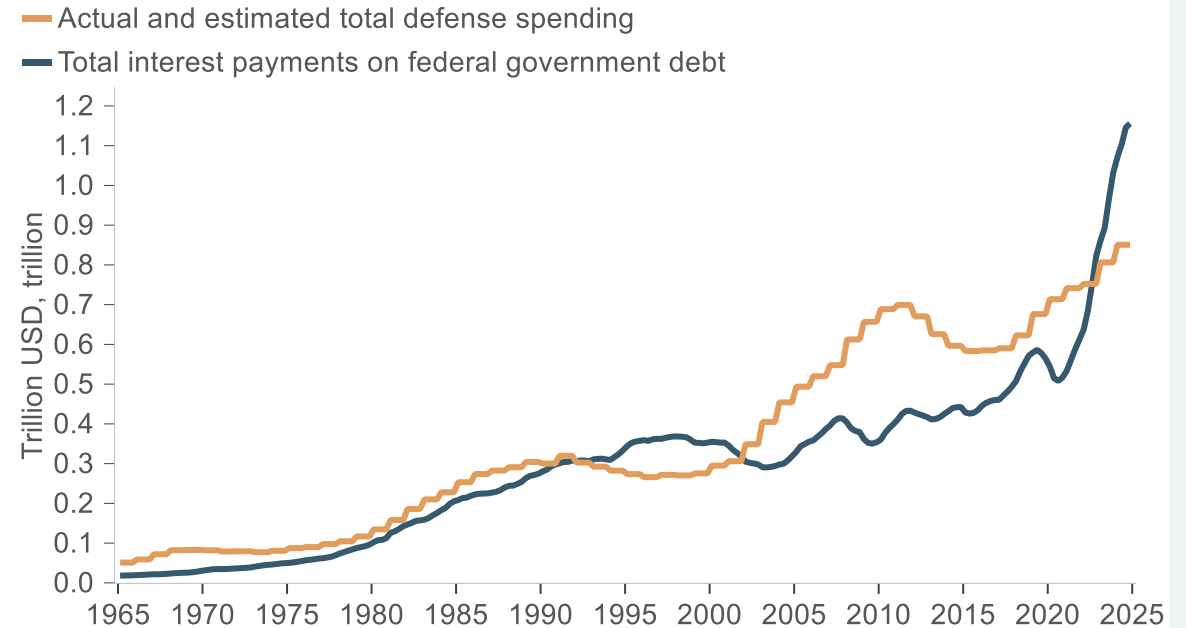
Between higher interest rates and growing debt levels, total interest payments have risen rapidly and now exceed the amount spent on the (previously) largest portion of the U.S. federal budget: defense. As interest payments mount, the U.S. may be forced to reduce its spending (fiscal austerity) or raise revenue (taxes) to pay down debt or pursue higher growth (and higher inflation) policies to reduce debt burden in real terms.

## U.S. debt levels - and the average price paid on that debt - are on the rise



Sources: New York Life Investment Management, Global Market Strategy, U.S. Department of Treasury, Macrobond, April 2026.

## U.S. interest payments on its public debt are outpacing defense spending



Sources: New York Life Investment Management, Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), U.S. Congressional Budget Office (CBO), Macrobond, April 2026.

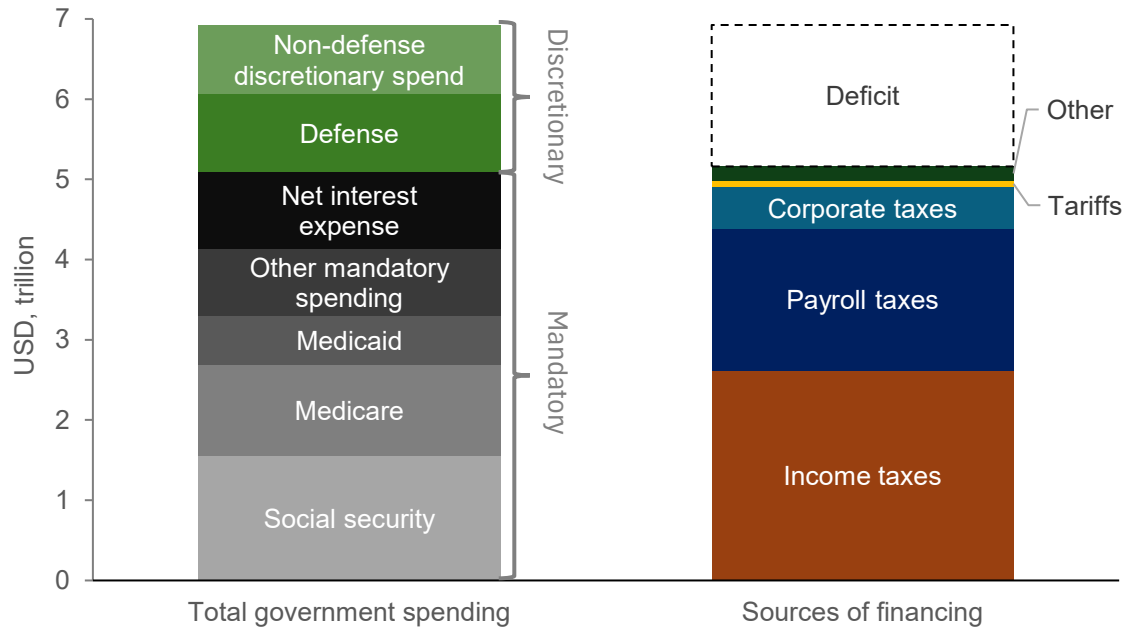
# The budget deficit is set to grow, but new sources of revenue could ease the impact

The U.S. government balance sheet shows a severe imbalance, which may be modestly offset by new sources of revenue, such as tariffs.

The U.S. budget deficit is the difference between how much money the government makes and how much it spends. Mandatory spending (vs. discretionary) accounts for most of government spending, while income and payroll taxes serve as the primary source of federal revenue. Pandemic-related spending widened the deficit significantly. Today, the possibility of higher defense spending associated with the Iran conflict, as well as fiscal outlays to smooth higher gas prices to consumers, both represent near-term risks to the budget outlook.

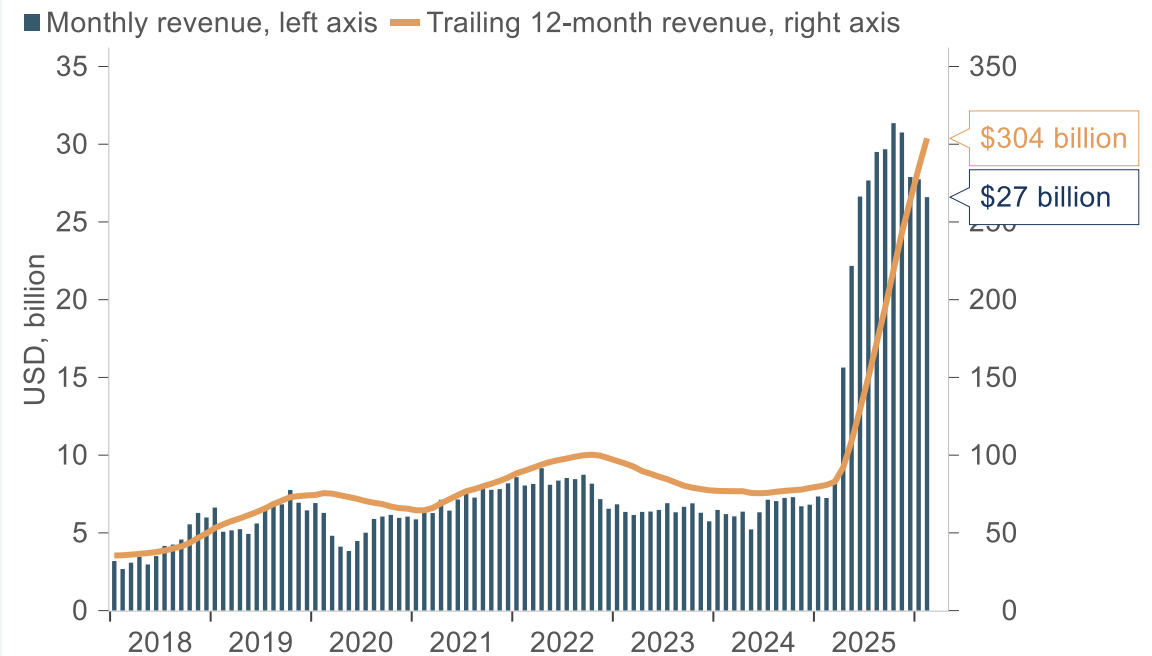
To offset spending, the administration is leaning on both conventional and unconventional revenue-generating measures. Tariff revenue (paid by U.S. companies and consumers) has started to rise – but now faces uncertainty due to the Supreme Court [ruling on IEEPA](#). The administration also announced revenue sharing on chips sales to China and a U.S. government ownership stake in a rare earths companies and Intel.

## The 2025 budget (Oct 2025 to Sep 2026) is expected to extend the deficit



Sources: New York Life Investment Management, Global Market Strategy, U.S. Congressional Budget Office (CBO), Macrobond, April 2026.

## U.S. tariff revenue is on the rise



Sources: New York Life Investment Management, Global Market Strategy, U.S. Department of Treasury, Macrobond, April 2026.

# 3 International economic & market outlook

## Global cycle

- [De-synchronized global growth](#)
- [Euro area](#)
- [Japan](#)
- [China](#)

## Commodities & alternative currencies

- [Gold](#)
- [Digital assets](#)

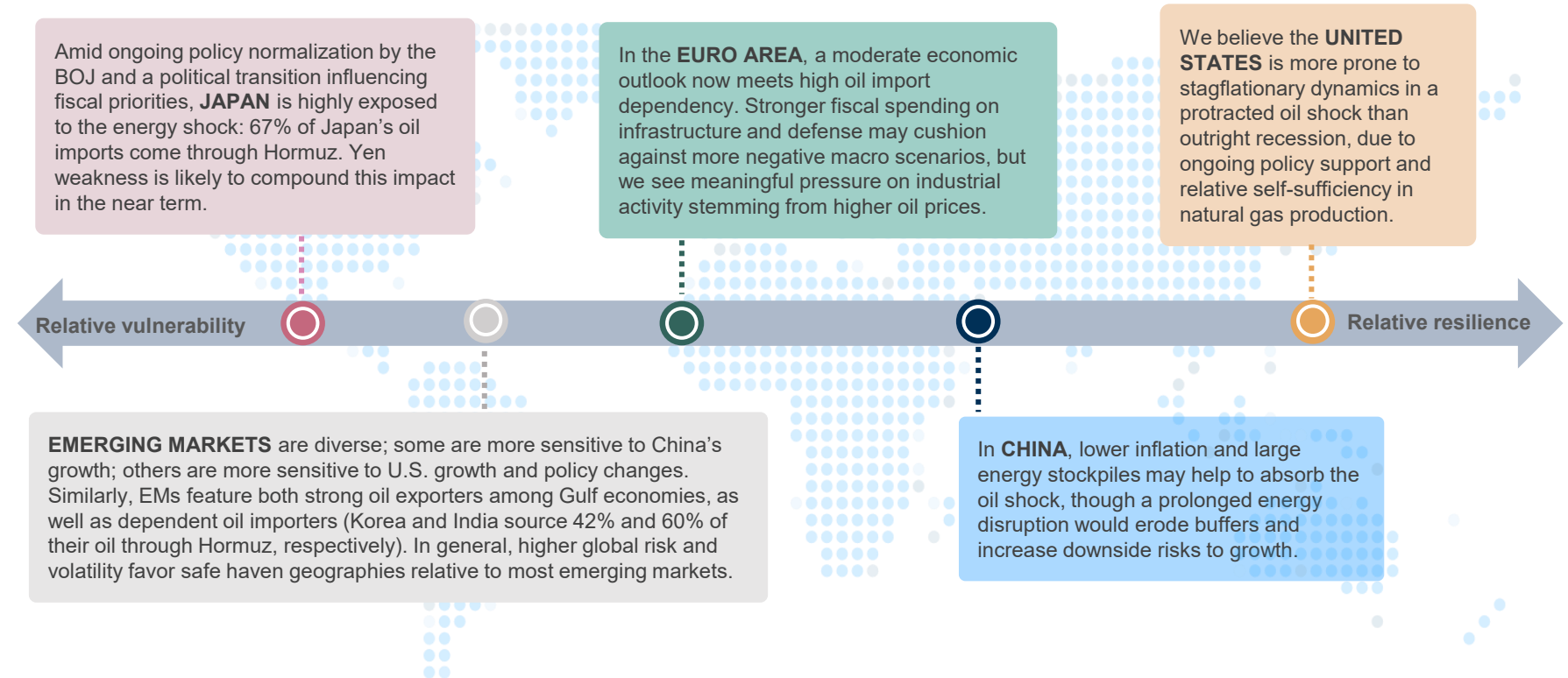
## U.S. dollar

- [“Dollar Smile”: tactical dollar view](#)
- [What it takes to be a reserve currency](#)

# Policy support and oil import dependence drive our regional preference

- After years of synchronized global stimulus in the post-pandemic period, growth across major economies is now diverging – and as many regions have moved later in their economic cycles, the extent of policy support influencing the length of each country's economic cycle has become increasingly important.
- Today, major economies' relative oil import dependency increasingly influences our near-term regional preference – increasingly so as the conflict in Iran wears on.
- The U.S. is looking relatively more cushioned on both fronts, set to experience the more supportive of global policy environments, while also a relatively more self-sufficient oil producer, namely in natural gas.
- Many countries in the euro area, Japan, Korea, and oil import-dependent emerging markets, however, look more vulnerable.

## Countries are facing different degrees of policy support and oil import dependence



Sources: New York Life Investment Management Global Market Strategy, Candriam, EIA, LSEG Datastream, J.P. Morgan, April 2026. For illustrative purposes only. "EM" is short for emerging markets.

# Euro area

A moderate economic outlook now meets significant oil import dependency.

- In the past two years, easing inflation and wages contributed to a consistent ECB rate-cutting cycle. Moderate credit conditions and recovering domestic demand led to resilient outcomes. In the first half of 2025, persistent U.S. dollar depreciation and policy uncertainty also contributed to European outperformance.
- While only 12% of Europe's oil imports flow through the Strait of Hormuz, the continent relies heavily on oil imports overall, particularly natural gas, for which inventories among many major European powers are low. Energy price spikes are already filtering into inflation baskets, particularly in Germany, where heavy industrial activity amplifies potential downside economic risk in the case of a prolonged oil shock.
- Amid these crosscurrents, we expect the ECB to remain on hold; rates are accommodative, but Europe will now lack a cyclical tailwind from monetary policy. Stimulative defense and infrastructure spending from Germany may provide a boost, helping to avoid more negative macro outcomes.

## Below-average inventories and geopolitical risks are keeping European gas markets sensitive ahead of the refill season.

Natural gas storage across European countries

Fill level (%)	Feb 2026	Jan 2026	Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025
<b>Austria</b>	36	45	64	77	84	85	81	73	65	54	47	44
<b>Belgium</b>	25	31	59	78	93	95	91	88	81	69	55	38
<b>Denmark</b>	27	35	50	60	62	50	42	37	33	34	34	27
<b>France</b>	22	31	60	82	93	92	87	77	66	55	43	25
<b>Germany</b>	21	32	57	67	75	77	71	61	51	40	33	29
<b>Hungary</b>	35	44	59	65	70	71	68	61	53	46	39	36
<b>Italy</b>	48	57	73	87	95	92	89	80	71	60	48	43
<b>Netherlands</b>	11	25	49	65	73	70	65	58	48	36	25	21
<b>Poland</b>	51	65	84	91	100	100	90	76	64	48	42	43
<b>Portugal</b>	77	82	94	91	96	97	102	101	98	94	92	81
<b>Spain</b>	58	58	68	84	87	87	85	80	74	73	69	63
<b>Sweden</b>	15	71	102	102	102	68	51	51	21	21	21	21
<b>United Kingdom</b>	29	37	52	55	56	47	44	35	26	26	27	23

Sources: New York Life Investment Management, Global Market Strategy, Gas Infrastructure Europe (GIE), Macrobond, April 2026.

**TAKEAWAY:** Stronger fiscal spending on infrastructure and defense may cushion against more negative macro scenarios, but we see meaningful pressure on industrial activity stemming from higher oil prices.

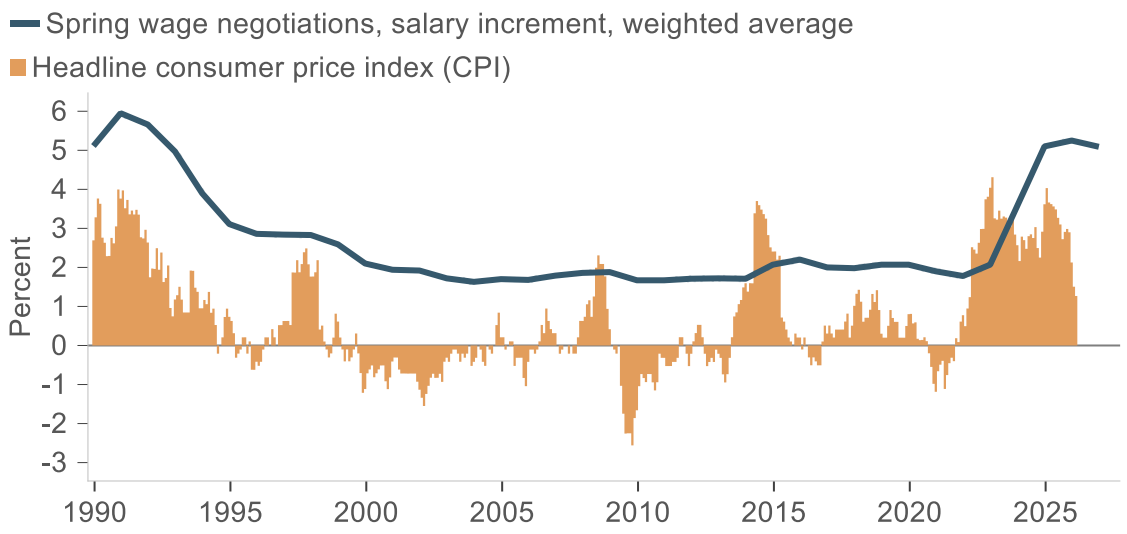
# Japan

Japan's dual policy transition now contends with an oil price shock and currency weakness.

- While most global central banks were raising rates from 2022-2024, the Bank of Japan (BOJ) maintained accommodative monetary policy. This has now reversed. A weaker yen spurred import-price inflation, contributing to higher wages for the first time in many years (**left chart**). In response, the BOJ loosened yield curve control, ended negative interest rate policy in April 2024, and hiked rates to 0.75% by December 2025 (**right chart**).
- As BOJ policy normalizes, fiscal policy is re-setting under the new leadership. PM Takaichi-

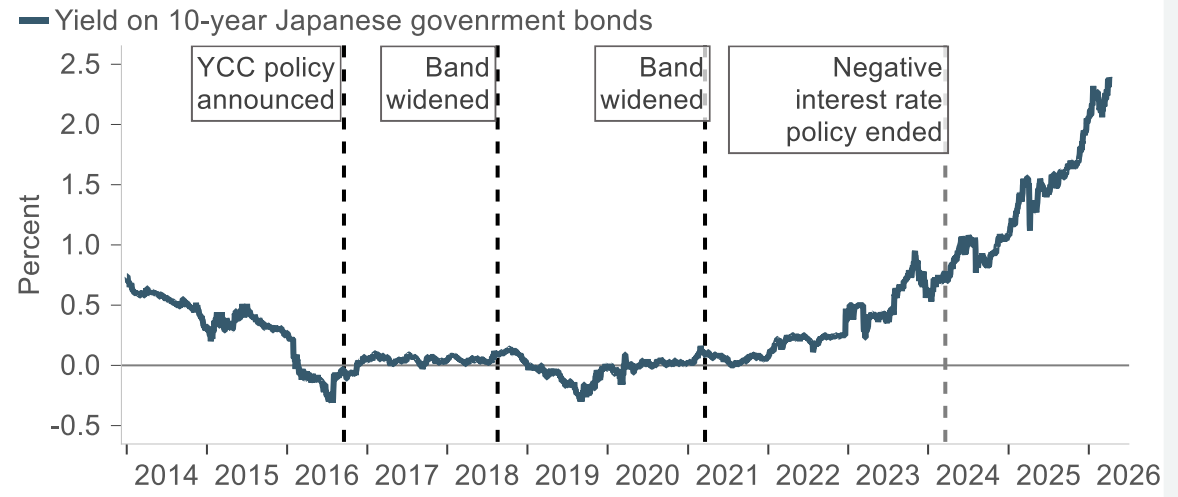
- san's snap elections and consolidation of support for spending plans, which initially prompted a Japanese bond selloff and Yen weakness, calmed after assurance that fiscal spending will be prudent. We believe this volatility is representative of ongoing tension between Japan's growth tradeoffs.
- Yen weakness may exacerbate the oil price shock for Japanese importers, raising the potential for demand destruction to outweigh inflationary impact, even in a short-lived shock.

### Negotiations lead to steepest wage increases in 30 years



Sources: New York Life Investment Management, Global Market Strategy, Japanese Trade Union Confederation (RENGO), Japanese Statistics Bureau, Ministry of Internal Affairs & Communications, Macrobond, April 2026.

### Higher inflation has led to loosening yield curve control and an end to negative interest rate policy



Sources: New York Life Investment Management, Global Market Strategy, Macrobond Financial AB, Bank of Japan (BOJ), Macrobond, April 2026.

**TAKEAWAY:** Amid ongoing policy normalization by the BOJ and a political transition influencing fiscal priorities, Japan is highly exposed to the energy shock: 67% of Japan's oil imports come through Hormuz. Yen weakness is likely to compound this impact in the near term

# China

China's stimulus is not meant to spark an economic acceleration, possibly to the detriment of key emerging markets trading partners.

- This cycle and on a structural basis, China uses monetary policy to counterbalance the real estate market, in part by reducing required reserve holdings by banks to encourage lending when real estate is in contraction (**left chart**). In the past year, China has also expanded its fiscal deficit. Given the extent of the real estate recession in China, we believe this stimulus is meant to control the extent of total economic slowdown rather than foster an outright economic acceleration. In 2026, Chinese growth is expected to slow from 4.9% YoY to 4.6%.

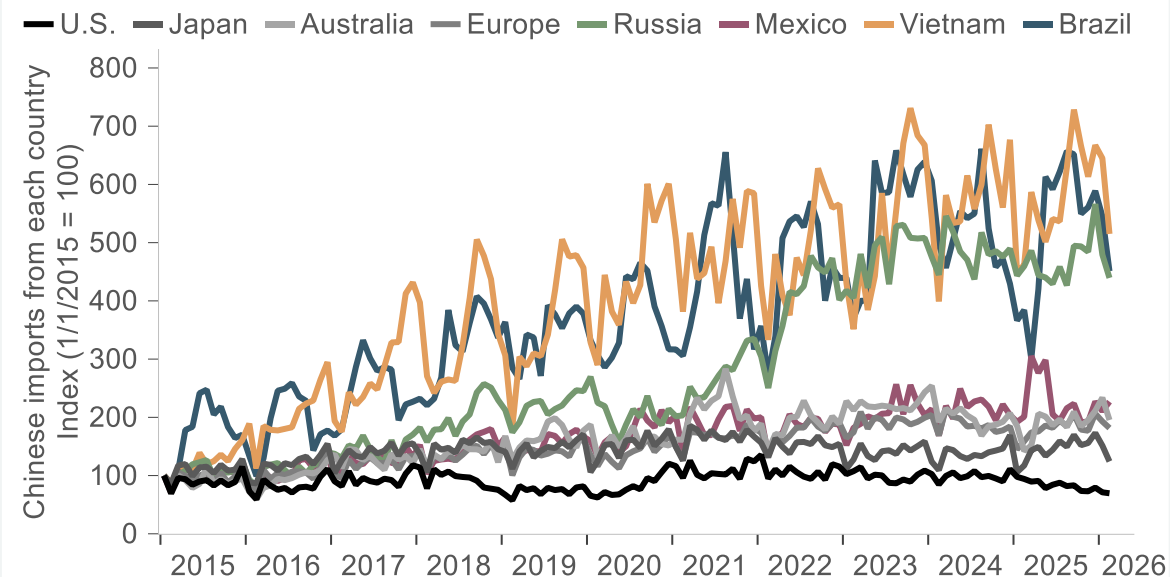
## China is countering the real estate crash with easier monetary policy



Sources: New York Life Investment Management, Global Market Strategy, China National Bureau of Statistics (NBS), People's Bank of China (PBoC), Macrobond, April 2026. Lower reserve requirement ratio indicates that banks are required to hold fewer reserves, incentivizing them to lend; this is a form of monetary policy stimulus.

- Now, China must also contend with trade tension with the U.S. (**right chart**) and the oil price shock. China has roughly 3-4 months of oil usage on hand, equipping it to handle a short-term shock well. However, a prolonged shock would likely raise the stakes of long-standing structural concerns within the Chinese economy. These include lackluster consumption, and a strong impulse toward stimulus and credit that has resulted in over-leverage and structurally slower growth.

## We are monitoring a wide variety of Chinese trade relationships to capture tariff impact

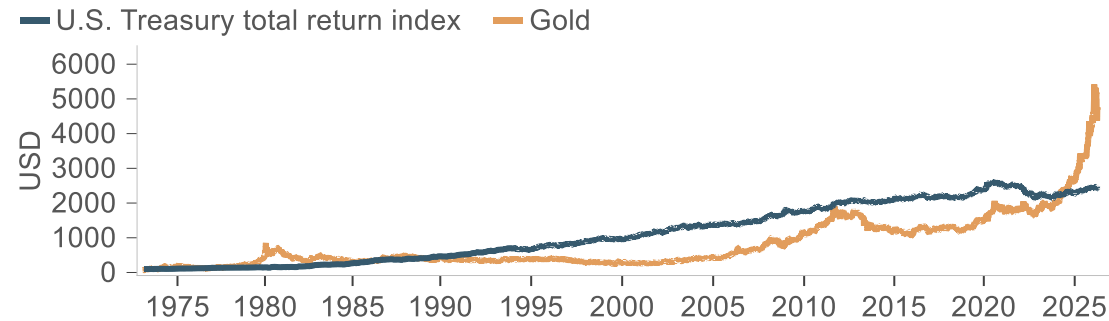


Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Customs General Administration of the People's Republic of China, Macrobond, April 2026.

# We expect gold to continue shining in 2026, but beware the FOMO trade

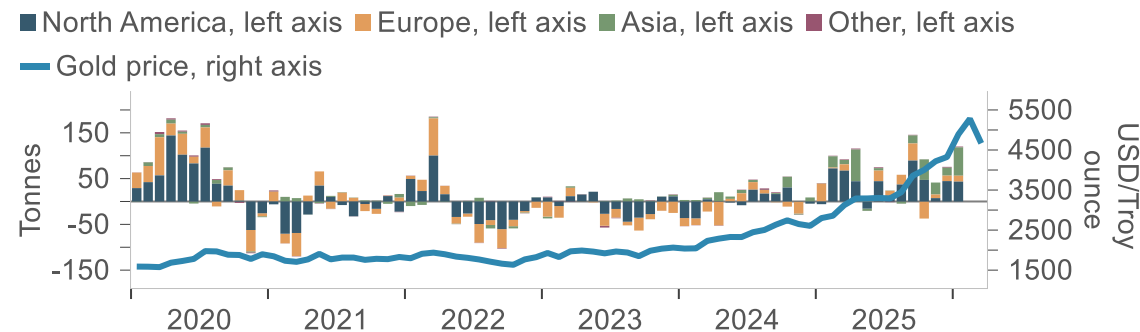
We are bullish on gold, but are wary of investors seeking outperformance, rather than diversification, from gold exposure.

## Gold's return has outpaced Treasuries over the last 50 years



Sources: New York Life Investment Management, Global Market Strategy, Macrobond Financial AB, Bloomberg, Macrobond, April 2026. The U.S. Treasury total return index measures US dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Past performance is not a guarantee of future results. It is not possible to invest in an index.

## Gold ETF flows by region: flows into gold ETFs are nearing pandemic levels, suggesting rising investor concerns



Sources: New York Life Investment Management, Global Market Strategy, World Gold Council, Macrobond, April 2026.

Gold is a time-tested, safe-haven asset, the price of which has historically held up well during inflation spikes, market volatility, and geopolitical uncertainty (**top chart**). Our 2026 outlook for gold remains bullish, but as gold increasingly becomes a momentum and “FOMO” trade, we believe investors can use today’s elevated prices to rebalance exposure.

### Today’s gold price drivers

- Central banks have been persistent net buyers of gold, gradually increasing its share in reserves as a politically neutral, sanction-resistant store of value.
- Large fiscal deficits, negative real rates in many major economies, and rising geopolitical tensions support demand for gold as a hedge against currency debasement, financial repression, and geopolitical tail risks.
- Beyond central banks, a large share of marginal demand is coming from investors diversifying their portfolios. Physically-backed ETFs are particularly benefitting, meaning flows from retail and institutional buyers are having an outsized impact (**bottom chart**).

### Gold’s correlation with the 60/40 portfolio

- When stocks and bonds are negatively correlated, a 60/40 portfolio is already somewhat hedged, and gold’s additional diversification benefit is less impactful. When stocks and bonds become positively correlated – as tends to happen in inflationary scenarios – the 60/40 portfolio can suffer concurrent losses, and this is when gold tends to outperform. Over longer time spans, incorporating gold has improved the risk-adjusted performance of a 60/40 portfolio.

### Potential mega-catalyst

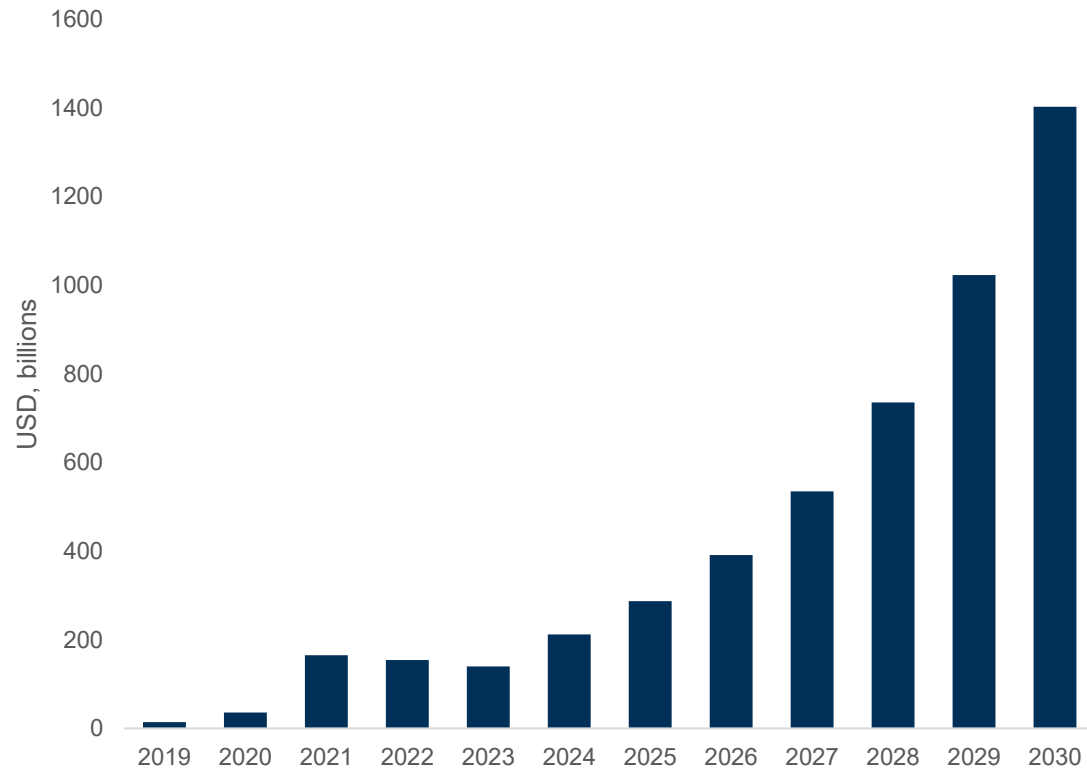
- Potential regulatory changes that reclassify gold as a High-Quality Liquid Asset (HQLA) under Basel III could create a massive demand shock. Both the London Bullion Market Association and the World Gold Council are actively advocating for gold’s inclusion as an HQLA.

# The growing digital asset market: an accelerating theme for 2026

Stablecoins and tokenization are reshaping how money and markets move; we are closely monitoring the industry implications.

## Stablecoin adoption is expected to increase with further support from Washington

Forecast of stablecoin supply ( – 2030)



Sources: New York Life Investment Management Global Market Strategy, ARK Invest, April 2026.

Investors are increasingly treating digital assets as part of portfolio construction, but different types of digital assets serve different roles.

### Bitcoin

- Bitcoin is an unregulated, speculative asset and has seen stellar price performance post-pandemic, benefitting from broader retail participation in the wake of cryptocurrency ETF creation and pro-cryptocurrency policies from the Trump administration.
- Though we believe digital currencies could play an important role in financial markets development in the future, we view bitcoin and similar cryptocurrencies as a speculative asset and should be treated as such in portfolio construction.

### Stablecoins

- Stablecoins, on the other hand, are regulated digital assets designed to maintain a stable value, typically by pegging value to a traditional currency like the U.S. dollar. Their goal isn't price appreciation, it's price stability.
- For investors, regulation reduces the legal uncertainty around stablecoins. Clear rules open the door for broader adoption across payments, trading, and decentralized finance – and bring stablecoins closer to integration with traditional finance. It also signals growing institutional support, which could accelerate use cases well beyond crypto markets. Some forecasters expect stablecoins to reach 1% of global monetary supply by 2030 (**chart**).
- Many expect the establishment of a U.S. framework for stablecoins to increase demand for Treasuries, thereby supporting the Treasury market. Dollar-backed stablecoins purchased over \$33bn of U.S. T-bills in 2025, similar to the largest U.S. money market funds.

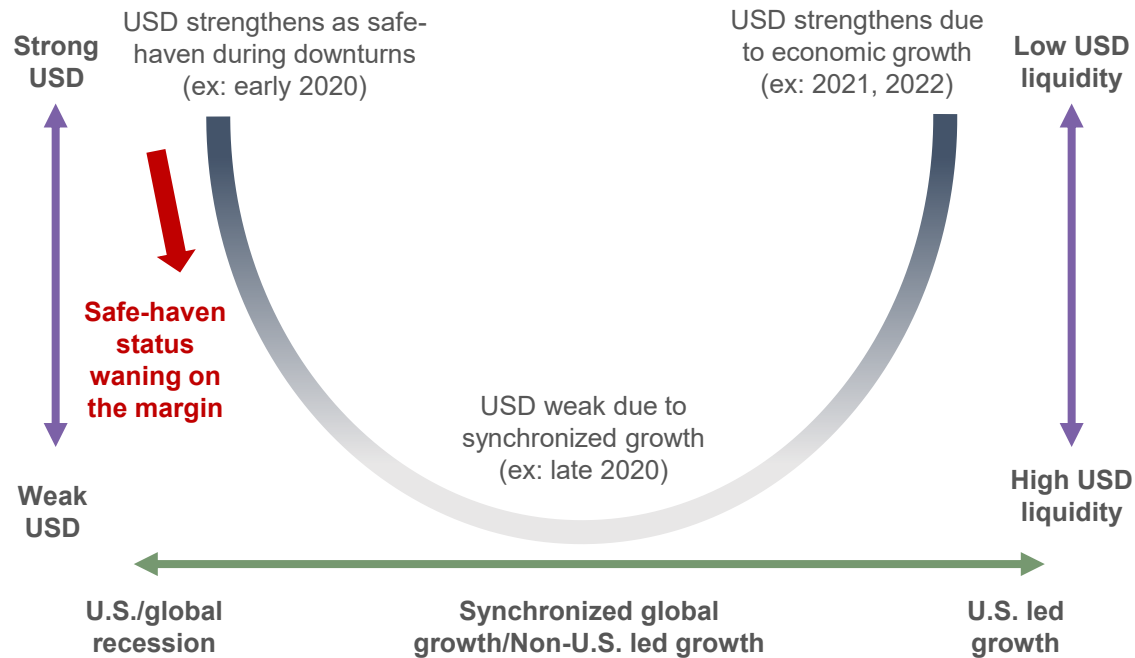
### Tokenization

- Tokenization wraps traditional assets – like Treasuries, funds, or real estate – into digital tokens recorded on a blockchain, leaving underlying assets with a regulated custodian.
- The goal is greater asset mobility: tokens can be split and transferred faster, enabling smaller tickets and near-24/7 trading in markets that are still slow and illiquid.
- In private markets, tokenization could eventually support more robust secondary trading in assets like private credit, real estate, and venture funds, creating pockets of liquidity.

# Our framework for thinking about U.S. dollar moves

Relative global growth and relative global monetary policy create a high degree of uncertainty for the near-term direction of the U.S. dollar.

## The “dollar smile” is becoming more of a “dollar smirk”



Opinions of New York Life Investment Management Global Market Strategy, April 2026. For illustrative purposes only.

## The dollar smile

- The U.S. dollar's path can materially affect global investors' returns. One useful framework for analyzing the dollar is the "dollar smile" (**chart**). Since the U.S. dollar became the global reserve currency in the 1940s, moments of low liquidity (such as a crisis or recession) and moments of U.S. economic growth outperformance resulted in a stronger dollar. When global liquidity or growth were ample, by contrast, the dollar has tended to weaken.
- These patterns are still true in aggregate, but the potency of the U.S. dollar as a global “safe haven” during downturns is shifting – with implications for our U.S. dollar view.

## The dollar smile in 2025

- The dollar weakened against major currencies through 2025 – a rare moment when both cyclical forces (stronger global growth relative to the U.S.) and structural concerns (waning safe-haven demand) worked in the same direction.
- Hedging also played a role. Faced with U.S. policy uncertainty, investors increasingly hedged their dollar exposure rather than adjusting underlying exposure outright.





## Our U.S. dollar view for 2026

- Our base case economic view calls for U.S. economic outperformance in H1 2026 and a flight to safety mechanism amid geopolitical risk (dollar bullish), balanced with global investors' concerns about U.S. policy stability, U.S. debt, and high U.S. dollar liquidity (dollar bearish).
- On balance, we believe these opposing forces result in a rangebound and volatile dollar index (DXY), with levels between 92 and 102. Key upside risks increasingly stem from a prolonged oil shock environment, which is likely to attract flows to the dollar while creating a more painful oil price environment for many importers.

**TAKEAWAY:** We see a flight to safety mechanism favoring the dollar in a prolonged oil shock scenario.

# Dollar dominance: the U.S. dollar remains chief of all reserve currencies

The Chinese renminbi in particular does not yet meet the criteria for reserve currency status and is unlikely to pose a threat to dollar dominance.

REQUIREMENTS FOR A GLOBAL RESERVE CURRENCY				
REQUIREMENT	 U.S. DOLLAR	 EUROPEAN EURO	 JAPANESE YEN	 CHINESE RENMINBI
<b>Trust in the central bank</b> <i>Share of global FX reserves</i>	57%	20%	6%	2%
<b>Liquidity</b> <i>Foreign holding of government debt</i>	35%	38%	30%	9%
<b>Broad acceptance</b> <i>Share of foreign currency debt issuance</i>	64%	24%	3%	1%
<b>Convertibility</b> <i>FX transaction volume</i>	45%	16%	9%	4%
<b>Open capital account</b> <i>Capital controls</i>	None (Open)	None (Open)	Some (Restrictions)	Tight (Closed)
<b>Floating exchange rate regime</b> <i>Exchange rate regime</i>	Floating	Floating	Managed (Yield curve control)	Managed (against a basket of currencies... including the U.S. dollar!)

Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve, Bank for International Settlements (BIS), International Monetary Fund, April 2026. FX refers to foreign exchange. The Chinese currency can be referred to interchangeably as the renminbi or the yuan. BIS data: Drehmann, Mathias, and Vladyslav Sushko. "The Global Foreign Exchange Market in a Higher-Volatility Environment." BIS Quarterly Review, Bank for International Settlements, 5 Dec. 2022, [https://www.bis.org/publ/qtrpdf/r\\_qt2212f.htm](https://www.bis.org/publ/qtrpdf/r_qt2212f.htm)

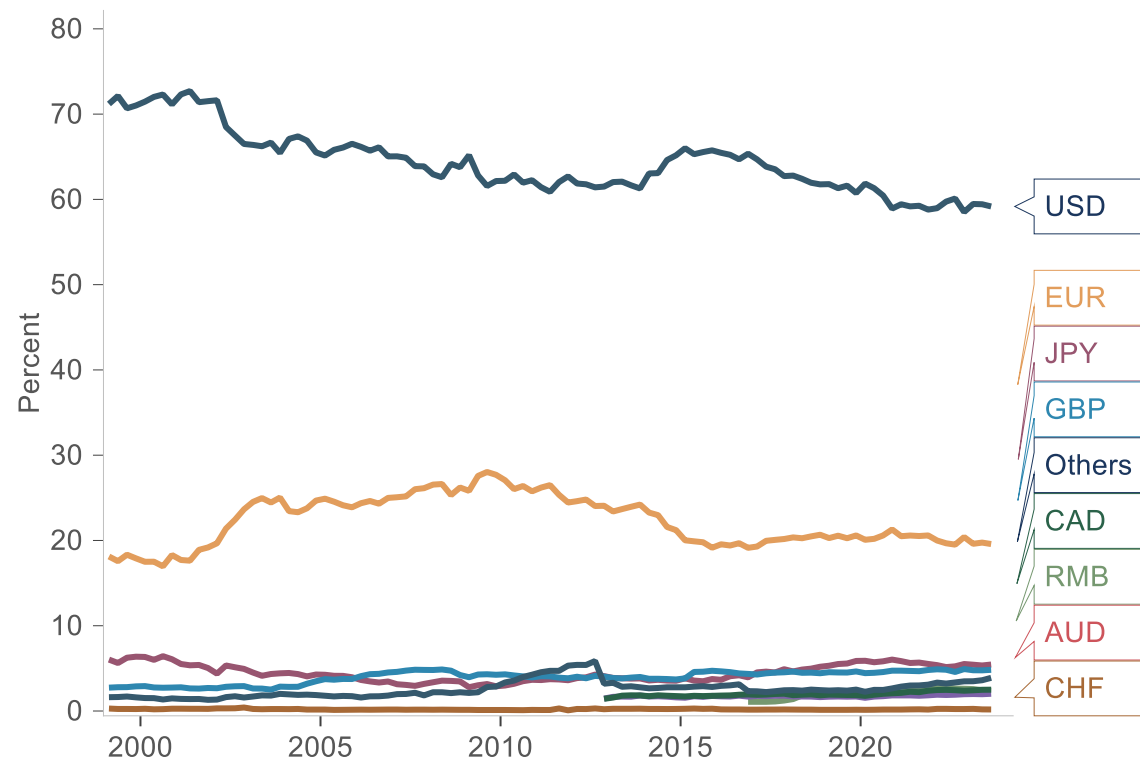
**TAKEAWAY:** Dominating global reserves, transactions, and global debt, the USD is set to remain the world's primary reserve currency. China's capital controls and lack of global convertibility and transactability make it unlikely for RMB influence to expand beyond select commodity-based relationships. In our view, the most likely candidate for dollar disruptor is innovation in the financial system.

# Dollar dominance: only innovation can unseat the USD

Real disruptive potential comes not from competitor currencies, but innovation.

## The USD still dominates global finance

Share of global currency reserves



Sources: New York Life Investment Management, Global Market Strategy, Macrobond, April 2026.

- What could truly pose a threat to the vast scale of USD dominance (left chart)?
- History tells us that a combination of innovation and global conflict have been the catalysts for currency regime change. It is not a country's rise in importance, but rather the emergence of a new and more efficient system, that has initiated past currency transitions. Digital currency and tokenization could be the next such innovations to disrupt today's financial infrastructure and currency regime.

DOMINANT CURRENCY	MAINSTREAM VIEW FOR DOMINANCE	INNOVATION CATALYST
<b>Venetian ducat (12th century–16th century)</b>	The Fourth Crusade and other medieval military conflicts	Gold standard, minting and navigation technology
<b>Spanish dollar (16th century–1800)</b>	Spanish Armada's defeat of the English navy in 1588	Mining and transportation technology
<b>British pound (1815–1920)</b>	The Seven Years' War and the Napoleonic Wars	Steamship industry expansion
<b>U.S. dollar (1920–?)</b>	WWI, WWII	Early adoption of telegraph, federal reserve system, development of aviation industry

**TAKEAWAY:** Though countries like China are increasing in global geopolitical importance, it is not a single country's rise that displaces a currency – at least in historical terms. Instead, we expect the U.S. dollar system would be more likely to be replaced when a more efficient alternative to fiat currencies – such as a global digital currency system – were to emerge.

# 4 Long-term themes

## Insights

- [Long-term interest rates](#)
- [Sovereign debt sustainability](#)

## Global megatrends

- [Geopolitical risk](#)
- [Supply chains and capital intensity](#)
- [Artificial intelligence and digital infrastructure](#)

# What is driving long rates?

We find that long rates are showing complacency around critical risks, including fiscal profligacy, threats to Fed independence, and inflation.

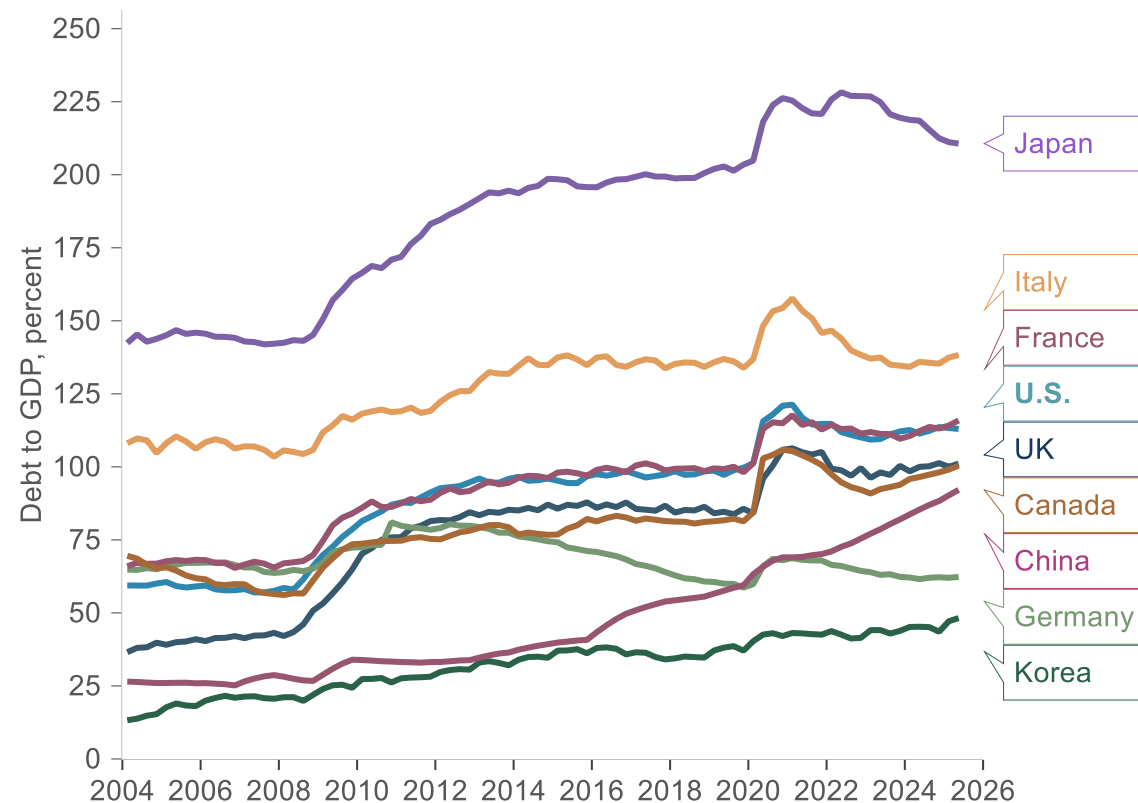


Opinions of New York Life Investment Management Global Market Strategy, April 2026.

# Global debt sustainability: sovereign spending can increasingly influence allocation

Higher public debt levels are associated with slower growth, higher interest rates, and higher inflation.

## Many developed economies feature a troubling sovereign debt trajectory



Sources: New York Life Investment Management, Global Market Strategy, International Monetary Fund (IMF), Macrobond, April 2026.

- In the post-war era, demand for sovereign debt has generally been strong and sovereign defaults have been increasingly rare – a dynamic all the more notable given ever-rising global debt levels, periods of very high interest rates, and seismic political-economic shifts throughout this time period,
- Underpinning debt sustainability is a symbiotic relationship between the federal debt of the United States and global savings: U.S. Treasuries offer a moderate, risk-free yield that has become a sink for the excess savings of other countries. In the last 20 years in particular, the relationship between Treasuries and savings has enabled and benefited from globalization: as the world has integrated, demand for the reserve currency has broadened.

### Debt management choices can drive allocation decisions

- Of the traditional paths an economy can take to manage sovereign debt, outside of default and assistance from multilateral institutions, we see four with the clearest impacts on country-level allocation and, by extension, relative geographic investor preference:
  - Austerity: less government spending can create a risk-off market environment, with pressure on growth, interest rates, and inflation.
  - Pro-growth spending: greater government spending can be a boon to an economy if spending is productive, pushing the growth rate above the rate of interest owed on debt. This can promote a risk-on market environment; selection in private markets is key if the growth backdrop supports public asset class returns.
  - Financial repression: the debt management period common to the U.S. and UK post-WWII, financial repressions allows inflation to run hot, eroding the real (inflation-adjusted) value of debt. Inflation hedges, from gold to real assets, become critical in such an environment.
  - Financial engineering: central bank and finance ministry/Treasury department intervention compresses interest rates, prompting an investor focus on income generation.

**TAKEAWAY:** We see more opportunities for sovereign debt management to influence long-term asset allocation decisions. Globally, we see an increasing tolerance of higher debt and moderately higher inflation and interest rates, all in the name of supporting economic growth. Examples of U.S. and European debt sustainability are explored in the following pages.

# U.S. sovereign debt requires some near-term solutions, but is structurally robust

The U.S. must address its acute interest burden problem, but other determinants of debt sustainability are healthier than many investors realize.

- What allows the U.S. to carry an over 100% debt-to-GDP ratio: *exorbitant privilege*. With the U.S. dollar as the world's dominant reserve currency and the world's deepest capital markets, the U.S. can carry and finance more debt than other advanced economies thanks to structural demand for Treasuries and dollar-denominated assets.

## Applying our sovereign debt sustainability framework

- U.S. debt sustainability has two Achilles heels. First, **interest expense** on the national debt is rapidly becoming unaffordable, growing exponentially due to both higher financing costs and a larger stock of debt. Second is a recent, dramatic deterioration in **policy credibility**. Both threaten U.S. exorbitant privilege.
- However, the other pillars of U.S. debt sustainability look healthy. Its **capital markets** remain the deepest and most liquid in the world. It has a **healthy mix of foreign and domestic ownership of its debt**, and its **central bank** provides a selective rather than sustained demand backstop. **Private sector investment** is robust; today's policy uncertainty notwithstanding.

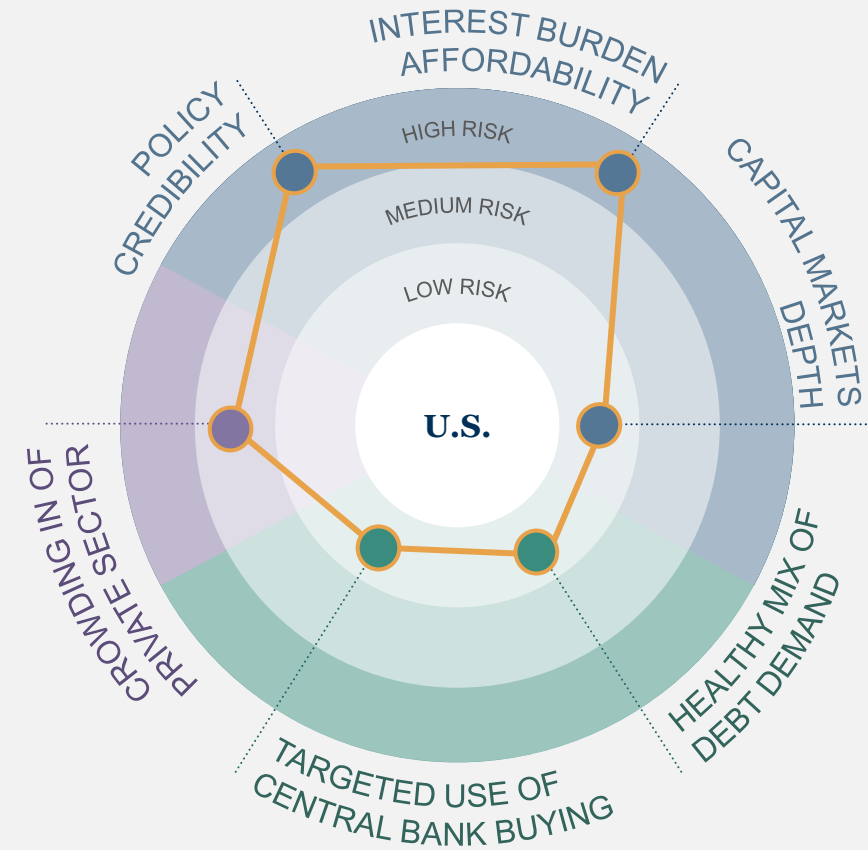
## The path forward

- We do not expect a U.S. sovereign default in the foreseeable future because of the enormous depth of U.S. capital markets relative to those of other highly indebted countries.
- We do not believe austerity is politically feasible in the U.S.; we see greater inclination for the government to invest *more* in structural spending areas (below), in the aim of supporting a growth rate that exceeds the interest burden.

## We expect the following areas to dominate the next years of U.S. spending:

- Energy: traditional and green
- Digital infrastructure, from electric vehicles to data centers
- Power grid infrastructure to fuel generative artificial intelligence
- Defense, including cyber defense
- Health, including on an aging population

## U.S. debt sustainability framework



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

# European debt sustainability dynamics may shift as the continent invests in itself

Recent tolerance of greater debt to finance domestic investment is promising, but fragmented capital markets may cap this progress.

- Though its individual members have taken heterogeneous approaches to debt management, Europe as a whole has the most fiscal space of the major economies – and is starting to show a willingness to use it.
- Germany's recent move to relax fiscal rules in favor of greater infrastructure and defense investment may, in hindsight, be recognized as a sea-change in Europe's attitude toward fiscal austerity, domestic investment, and tolerance of inflation.

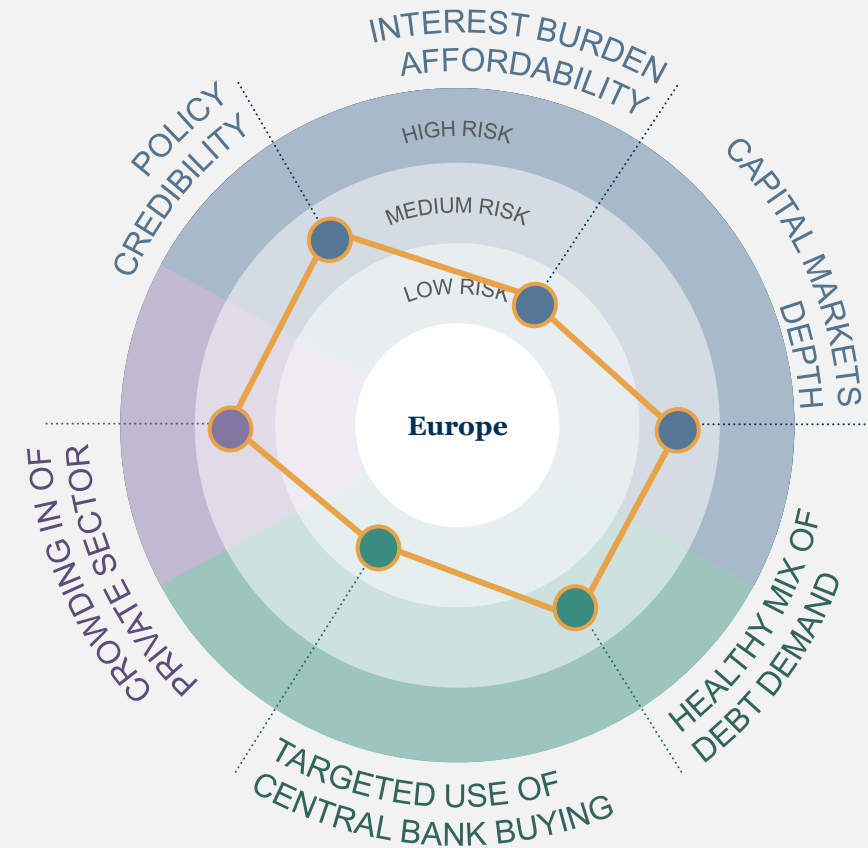
## Applying our sovereign debt sustainability framework

- Use of austerity to manage debt crises in Europe has been effective – overall debt levels are manageable; **interest burdens** are affordable; and the countries affected by the 2011 crises now see some of the fastest growth in the region.
- However, austerity has had the painful side effects of lower economic growth and chronic underinvestment. We expect to see a continued, gradual shift toward greater infrastructure, defense, and technology spending, requiring a greater tolerance for inflation.
- Europe faces one obstacle that detracts from its **policy credibility, capital markets depth and liquidity, demand mix** for its sovereign debt, and **private sector productivity**: the incredible legal, financial, and political difficulty of integrating its capital markets.
- This fragmentation has contributed to crises of confidence that have been resolved by strong **central bank** leadership (Mario Draghi's "whatever it takes" moment) and severe policy adjustments (the Greek economy shrunk by a quarter amid post-2011 austerity).

## The path forward

- Like the U.S., we see European countries inclined to accelerate their pace of spending in a growth-supportive manner, departing from the region's legacy of austerity.

## Europe's debt sustainability framework



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

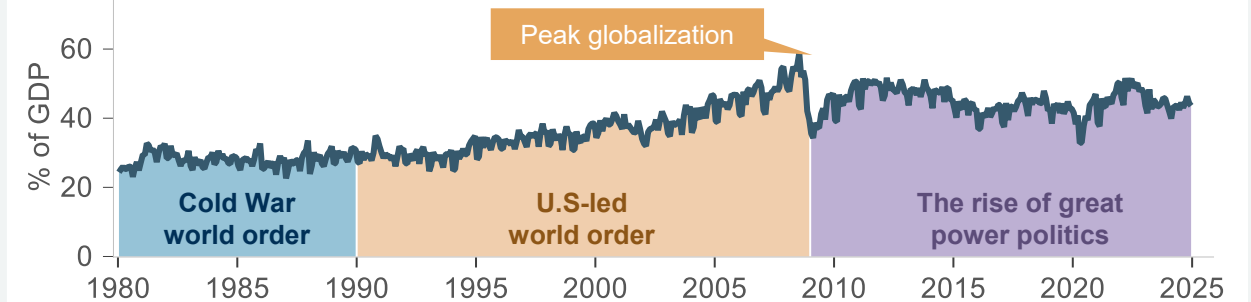
# Navigating the new geopolitical order

The end of U.S.-led globalization is reshaping markets and strategy.

- We believe the U.S.-led world order, which took hold in the early 1990s and peaked around 2010, has been gradually giving way to a return of great power politics (**chart**) defined by economic nationalism, strategic industrial policy, onshoring, and the weaponization of trade, technology, and financial systems. This regime change has far-reaching implications for capital flows, inflation, and portfolio construction.
- The end of the Cold War world order was abrupt, driven by the collapse of the Soviet Union. The rise of great power politics has been more gradual, shaped by economic competition, shifting alliances, and regional rivalries.
- Though recent U.S. policy positions may have accelerated this regime change, the broader trend is about more than one country or one administration. The global economic landscape has shifted in stages: as free trade and open markets became more entrenched; as the beneficiaries of those economic ideas ebbed and flowed; and as policymakers' tools and preferences changed.

## Globalization peaked alongside the U.S.-led world order

Trade openness: sum of global exports and imports as a percent of world GDP



Sources: New York Life Investment Management, Global Market Strategy, International Monetary Fund (IMF), United Nations Trade & Development, Macrobond, April 2026.

### The principles of the U.S.-led world order are giving way to...

### ...the principles of great power politics

Globalization



Economic nationalism

Free trade



Weaponization of trade and finance

Market liberalization



Preference for bilateral relations over multilateral institutions

Multilateral institutions



Strategic competition; emphasis on industrial policy

Efficiency over resilience



Resilience over efficiency

### Results

Countries increasingly pursue onshoring, reshoring, strengthening their own domestic industries.

Sanctions, tariffs, and financial restrictions are deployed more frequently as instruments of geopolitical pressure, especially by the United States.

Governments move away from multilateral agreements and institutions – such as the Trans-Pacific Partnership and the WTO – in favor of bilateral negotiations that prioritize national interests.

Governments direct investment into strategic sectors to bolster industrial capacity and national competitiveness.

Countries reconfigure supply chains to emphasize resilience and redundancy, marking a shift away from cost-optimized globalization.

# Geopolitical regime change is reshaping investor expectations

A multi-year shift towards great power competition is changing the way countries, companies, and investors consider the global backdrop.

## 2026 has seen a resurgence of market-moving geopolitical events.

- A rising incidence of geopolitical risk is not just about the U.S. administration or about the change in the calendar. Rather, it reflects a longer-running shift from a U.S.-led rules-based order toward great power competition. We expect this dynamic to persist, and that it will continue to impact trade, capital flows, and supply chains.

## The new U.S. National Security Strategy makes this shift explicit, and global dialogue is showing signs of strain

- The U.S. 2025 National Security Strategy calls for a robust U.S. industrial base as a core pillar of national power and makes industrial strength a top economic priority.
- It flags supply-chain access to critical minerals and rare earths as a national security risk, and calls for investment in mineral supply, resilient energy infrastructure, and broader reshoring.
- Global leaders are responding in kind, leaning further into industrial policy, defense investment, and critical materials strategies, which is raising the risk of a more fragmented trade and investment backdrop.

## Why geopolitical risk feels more tangible in markets now

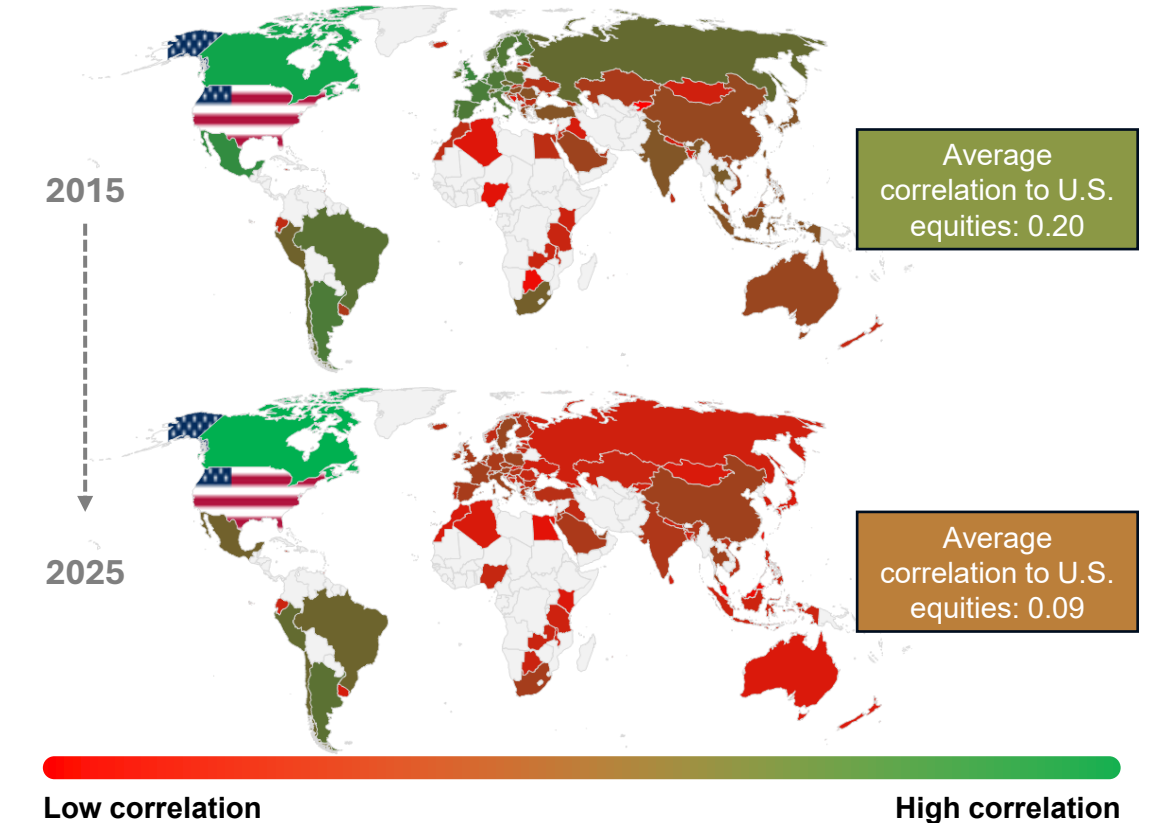
- When national security (rather than economic or social issues) is countries' chief organizing principle, policy approaches like tariffs, export controls, procurement, and investment restrictions become recurring tools, not occasional headlines. That raises the odds that geopolitics shows up as real-world constraints on inputs, logistics, and pricing.

## Geopolitical risk is a live input in portfolio construction

- Investors should treat geopolitics as an active driver of regional allocations, with knock-on effects for capital flows and a growing interest in private markets where access to new markets can diversify income streams and broaden exposures.
- Diversification matters more in this regime, and the correlation heat map shows that relationships to U.S. equities have shifted meaningfully over time (**chart**).

## Diversification delivers more value in this new regime

Correlation heat map vs U.S. equities: a darker map means less co-movement with U.S. markets



Views of the New York Life Investment Management, Global Market Strategy team, April 2026. For illustrative purposes only.

# How can investors account for geopolitical risk?

Investors can consider a range of investment approaches for the return of great power politics.

- Regime change from a U.S.-led world order to great power politics carries significant implications for global economic organization and policy decision-making.
- In an era defined by great power politics, investors should focus on addressing inflation and political volatility risks by prioritizing real assets, commodities, infrastructure, and resilient (or beneficiary) sectors.

Theme	Approach	Portfolio shift
Long U.S. resilience, short global interdependence	→ Position for domestic reindustrialization and higher prices	→ <ul style="list-style-type: none"> <li>• <i>Add inflation-aware asset classes:</i> TIPS, real assets</li> <li>• <i>Build income across asset classes:</i> Dividend-paying equities; high-yield corporate bonds</li> </ul>
Autocracy risk premium rising	→ Buy the macro volatility portfolio	→ <ul style="list-style-type: none"> <li>• <i>Satellite exposure:</i> equal parts oil, gold, and bitcoin, implemented as a small satellite exposure sourced from equity</li> <li>• <i>Diversify country exposure:</i> The benefits of diversifying country exposure are likely to grow as globalization weakens and national economic trajectories diverge</li> </ul>
Declining appeal of multilateralism	→ Lean into the U.S.-economic bloc; hedge currency volatility	→ <ul style="list-style-type: none"> <li>• <i>Favor markets aligned with the U.S. bloc,</i> i.e. Mexico, Taiwan, South Korea, India</li> <li>• <i>Manage currency risk:</i> Consider a 50% currency hedge as currency volatility is likely to be higher as national trajectories diverge.</li> </ul>
New Cold War fiscal impulse	→ National security is becoming a justification for industrial policy and large-scale public investment	→ <ul style="list-style-type: none"> <li>• <i>Overweight domestic champions and beneficiary sectors:</i> Industrials, energy, semiconductors, cybersecurity, and defense</li> <li>• <i>Capture global megatrends:</i> Digital and energy infrastructure may benefit from the confluence of geopolitical trends and global economic needs (e.g. artificial intelligence).</li> </ul>
Fortress America is investable	→ Adapt to new drivers of economic growth	→ <ul style="list-style-type: none"> <li>• <i>Lean into active management:</i> Dispersion is rising, so selection matters more than beta.</li> <li>• <i>Remember the “old economy” toolkit:</i> Metals, minerals, and the industrial and energy supply chains behind them matter again.</li> </ul>

Opinions of New York Life Investment Management Global Market Strategy, April 2026.

# Global megatrends: creating persistent demand for capital

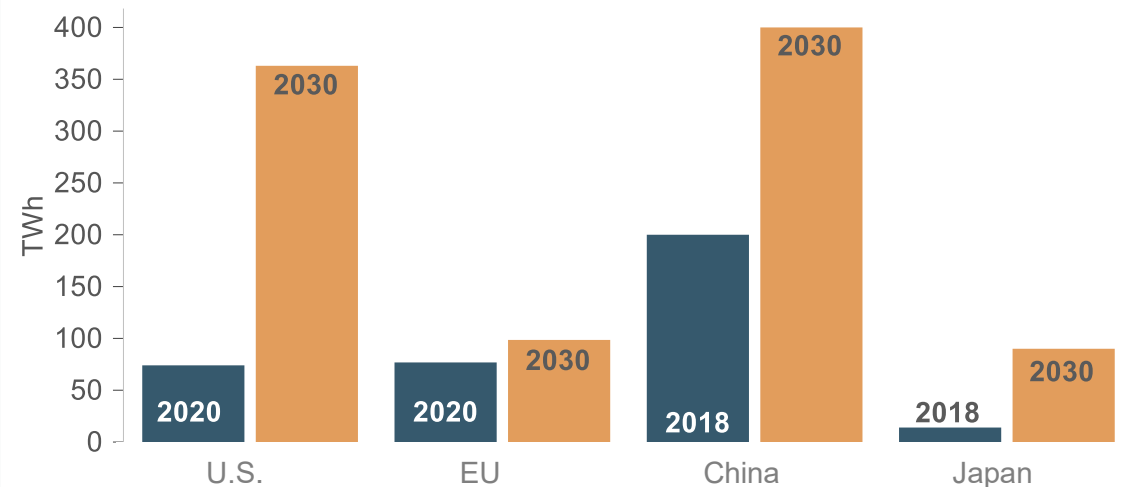
Rapid changes in geopolitics, energy needs, and innovation are fueling real economic activity, driving investment opportunity.

- A powerful combination of global economic and geopolitical events – the COVID-19 pandemic, the resulting inflation wave, the increasing visibility of climate change, Russia’s invasion of Ukraine, the rapid rise in computing power of semiconductors — has rapidly changed the global economic model. Efficiency of supply chains is no longer as important as the security of, and persistent access to, key materials.
- We believe that the combination of national interest (public funding), corporate leadership (capital expenditure), and universal application (household interest) in these trends will result

- in durable investment.
- For the next few years, these transitions are likely to be highly capital intensive. More materials will be required, promoting potentially higher prices for those materials, and contributing to our conviction that inflation and interest rates are likely to be higher and more volatile.
- These transitions may also drive policy changes. Stickier inflation, alongside a strategic demand for capital investment, may encourage central banks to re-consider their inflation targets.

## AI's additional power requirements are extensive

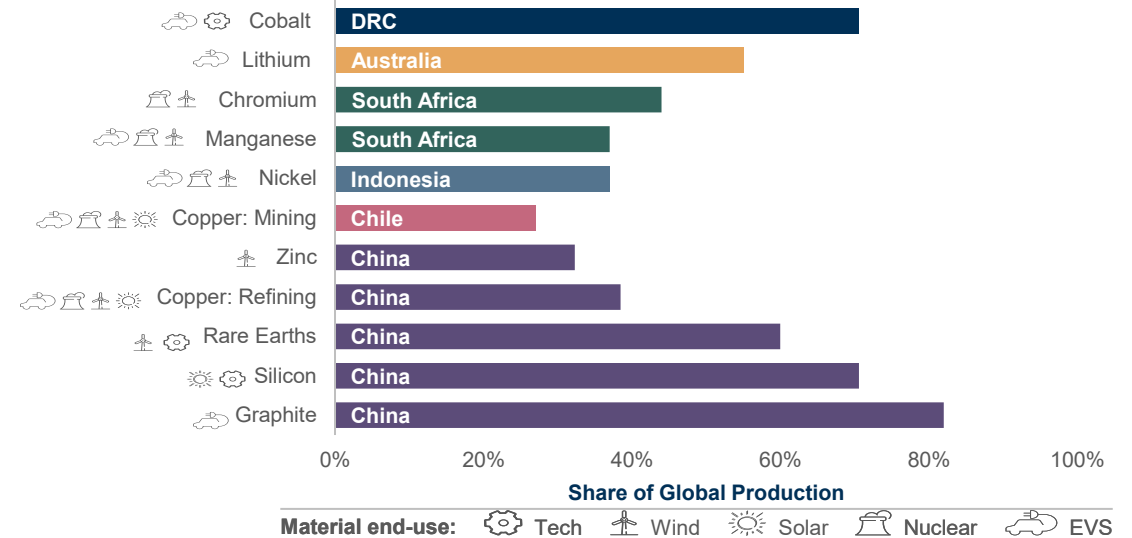
Data center electricity use



Sources: New York Life Investment Management, Global Market Strategy, Macrobond, International Energy Agency, CBRE Investment Management, European Commission, China’s State Council, Japan Science and Technology Agency, S&P Global, U.S. Energy Information Administration, June 2024. TWh = terawatt hours of electricity

## Global resource production for key technologies is highly concentrated

Share of raw materials: top producer for each commodity



Sources: New York Life Investment Management Global Market Strategy, U.S. Geological Survey, International Energy Agency. Data as of 2021.

# Global megatrends: AI is sparking sustained capital reallocation

Investment opportunities are likely to be concentrated in three underpinning layers of AI.

## Digital infrastructure



### Chips, data centers, power

- Data centers' computation and cooling needs are expected to drive astonishing increases in electricity demand.
- Some past innovation waves, such as electric vehicles, did not see a timely infrastructure buildout. We believe AI has three critical ingredients for a successful infrastructure timeline:
  - Public funding: the \$300bn U.S. CHIPS Act is just one national initiative to support tech infrastructure, mirrored by many other countries.
  - Corporate leadership: Magnificent 7 firms are footing the bill for development of GenAI models and proprietary infrastructure.
  - Universal application: with over 100mn weekly users, ChatGPT alone shows the enthusiasm behind GenAI that is necessary to support allocation of resources toward this innovation.

AI has daunting infrastructure requirements, but we believe they will be achieved.

## Foundational models



### Data, model creators, cloud

- Up to this point, investment hype around AI has been concentrated around the major AI model providers. GenAI models are expensive and onerous to create, requiring high-quality data, time to train models, and a specialized talent pipeline.
- As AI adoption and use-cases broaden, we see competition reaching foundational model providers. This competition may come from new entrants creating large models, or from large corporations creating in-house models.
- Greater competition among model providers should lower costs for corporate users of AI, in turn fostering even broader adoption.

As AI use-cases expand, expect more competition among GenAI model providers to lower costs for AI users.

## Corporate application



### Software, services, use case exploration

- Companies looking to leverage AI face classic cost and corporate strategy tradeoffs, but there are areas of uncertainty in the early days of AI that will require specific attention and capital allocation:
- Ethical AI: we believe companies willing to leverage strong corporate governance toward a robust responsible AI framework will see a return on that investment.
- Regulation: regulation has not yet caught up with AI in the U.S., creating a cheaper but more uncertain operating environment.
- Competition: at the corporate and national level, an AI arms race may foster both rivalry and cooperation.
- Labor policy: we see AI creating a net upskilling effect for the labor force rather than mass unemployment, as jobs move from execution to monitoring and compliance.

Companies will not only need to allocate capital to AI use cases, but also to buffer against regulatory uncertainty.

# 5 Equity

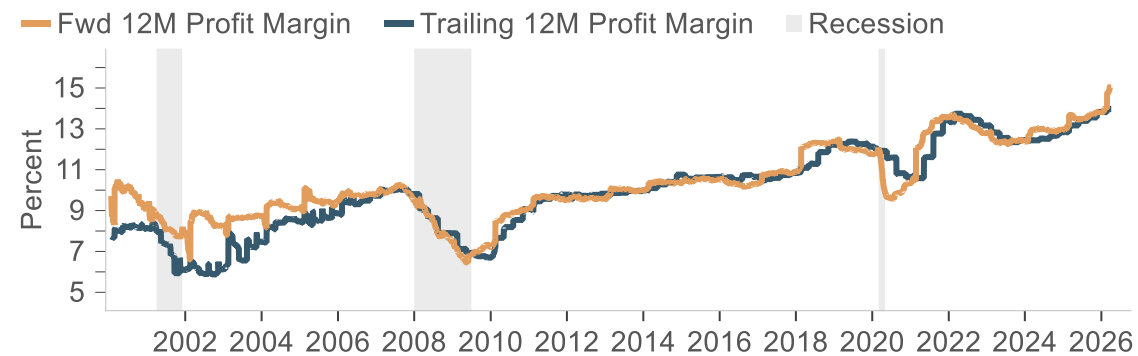
## Insights

- [Corporate earnings](#)
- [Valuation](#)
- [Style](#)
- [Dividends](#)
- [Size](#)
- [Non-U.S. developed markets](#)
- [Equity risk premium](#)

# The outlook for corporate earnings is still positive in the face of growing risks

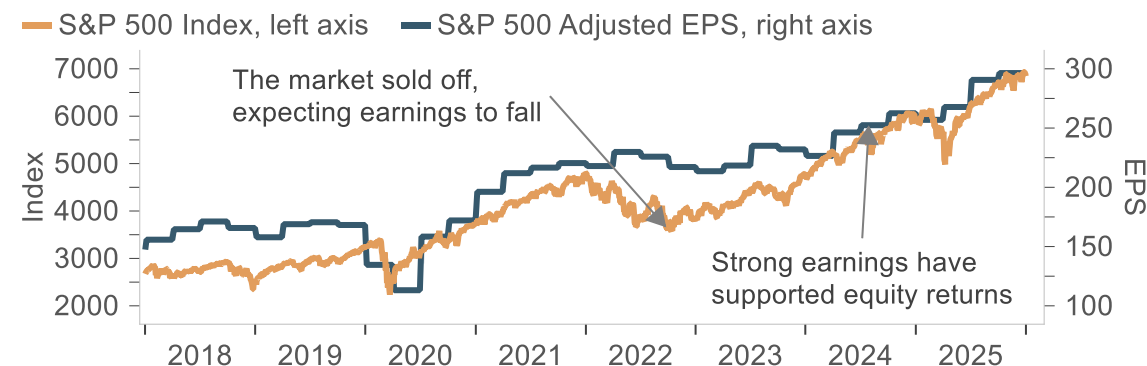
Earnings remain resilient, and the next leg will depend on energy-related margin pressures and policy risks.

## Rising corporate profit margins prove managers have been able to weather inflation concerns and supply chain pressures



Sources: New York Life Investment Management, Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, April 2026.

## Strong earnings have justified lofty valuations and stellar price performance



Sources: New York Life Investment Management, Global Market Strategy, S&P Global, Macrobond, April 2026. EPS: Earnings per share. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. It is not possible to invest in an index. Past performance is not a guarantee of future results.

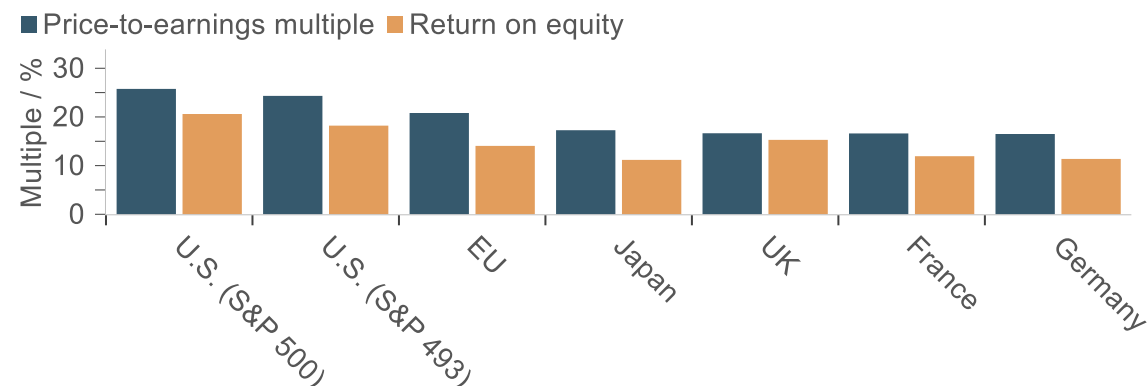
- Equity markets are priced based on earnings and multiple expansion (or contraction), with multiples influenced by factors such as cost of capital and investor sentiment.
- Corporate earnings have remained resilient in the face of increasing risks. Profit margins appear resilient (**left chart**), thanks to resilient economic activity and impressive business agility in the face of changing policy. Earnings growth is running at double-digit levels, and estimated revisions across sectors have accelerated upwards.
- Our constructive economic view supports further earnings momentum this year.
- It is worth mentioning that there is a wide dispersion between sector-level profitability, with tech seeing the most earnings strength. We believe we are likely to see continued sector dispersion as tech and communication services lead revisions, industrials improve on capex and reshoring, and financials hinge on yield curve dynamics and credit quality.
- In 2022, the S&P 500 experienced a 25% drawdown when investors began to doubt corporate resilience (**right chart**). But in this case, performance rebounded - profits were ultimately boosted by business and wage supports, as well as lower rates locked in from the years of easy monetary policy. If earnings don't expand further from here, investors hoping for higher equity valuations would be left to rely on multiple expansion via falling rates and improving confidence, looking less likely the longer the Iran conflict wears on.

**TAKEAWAY:** Stable corporate earnings have provided support for equity performance, driven by resilient margins and productivity gains. We expect earnings growth to hold up, supported by AI-driven efficiencies and steady consumer demand, even as companies navigate geopolitical and trade uncertainty.

# Equity valuations: rich, but more compelling than pre-Iran conflict

While most sectors are still trade rich relative to history, recent market volatility hasn't created any holistic bargains.

## The U.S. commands higher valuations because its companies return more of their capital to investors



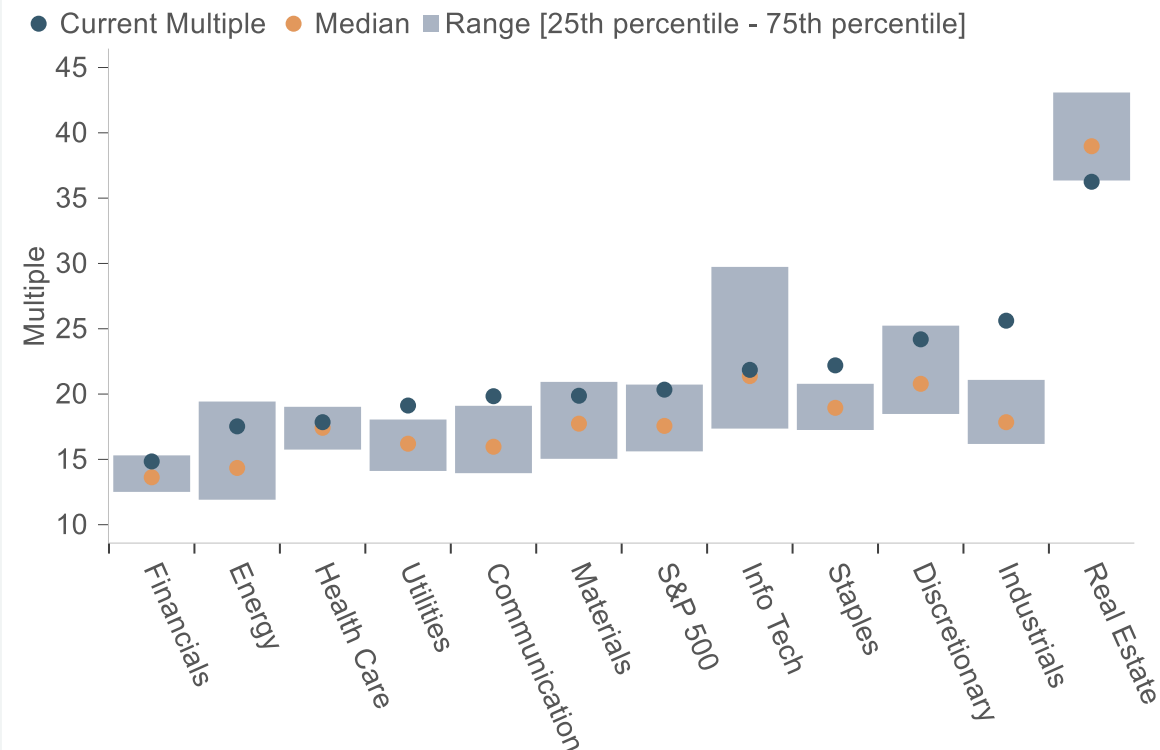
Sources: New York Life Investment Management, Global Market Strategy, Bloomberg, Macrobond, April 2026.

As investors remain worried about the S&P 500's high valuations, consider:

- Valuations are a poor predictor of short-term price performance.
- Current fundamentals support higher valuations. Earnings growth, profit margins, and returns on equity (**left chart**) dominate in the U.S., supporting our regional allocation preference.
- Valuations may be misleading: the S&P 500 ex-Mag 7 (the other 493 stocks) trades at 17x forward earnings, in line with historical averages.

Sector dispersion (**right chart**) highlights the importance of selectivity: at this stage, investors may need to focus on quality and earnings durability rather than relying on broad market multiple expansion.

## Most S&P 500 sectors are trading above their long-term medians



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg, Macrobond, April 2026. It is not possible to invest in an index. Past performance is not a guarantee of future results. Each sector index comprises those companies included in the S&P 500 that are classified by the GICS® Level 1 sector of the same name.

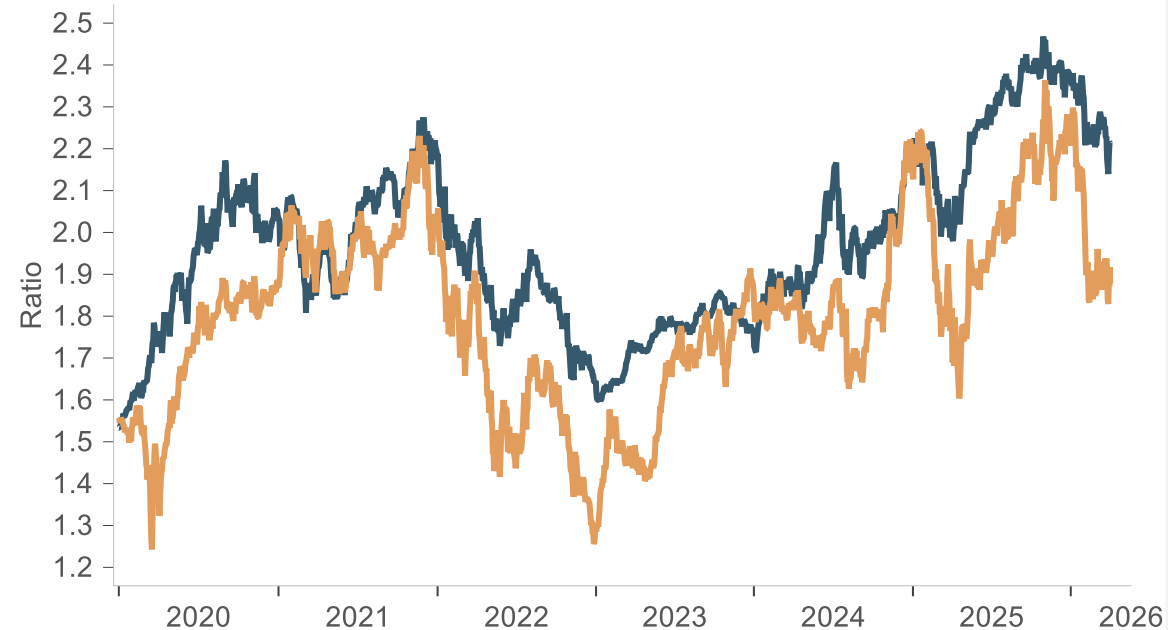
**TAKEAWAY:** U.S. equity valuations are – and can remain – above their long-term averages, even in the face of rising geopolitical risk and volatility, particularly if the flight to safety in U.S. assets remains intact, favoring U.S. equity allocation relative to ex-U.S. equity.

# Value's outperformance in the U.S. may represent a tactical rotation

Diversification remains essential, but the shift in leadership away from U.S. growth represents a disconnect from durable profitability.

## Rotation toward consumer staples may be an early signal for value equity outperformance

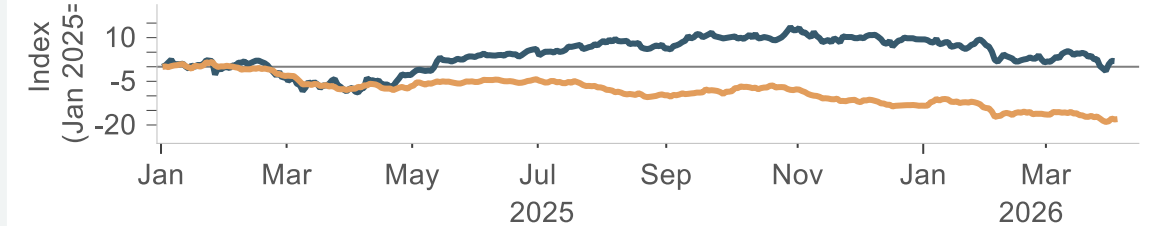
— Consumer discretionary vs consumer staples  
— Growth equities/Value equities



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg, Macrobond, April 2026. the S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. It is not possible to invest in an index. Past performance is not a guarantee of future results.

## Growth equity outperformance has been a U.S. story, which we expect to continue despite recent market pricing

— U.S. growth equity vs. value equity  
— Non-U.S. developed market growth equity vs. value equity



Sources: New York Life Investment Management, Global Market Strategy, S&P Global, Macrobond, April 2026. U.S. growth and value equities are represented by the S&P 500 Index which is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. Non-U.S. growth and value equities are represented by the EAFE index which is a free-float weighted equity index covering DM countries in Europe, Australasia, Israel, and the Far East. It is not possible to invest in an index. Past performance is not a guarantee of future results.

- U.S. growth stocks have been giving up ground to value equities since the start of this year (**left chart**).
- In Europe, value stocks lead due to index composition (**right chart**), and a more hawkish central bank backdrop and higher-for-longer yields could keep the relative case for value intact.
- We believe the AI infrastructure buildout and policy support are likely to unlock opportunities in traditional value sectors such as industrials, materials, and energy.
- Ultimately, U.S. tech is the hub of profitability amongst global geographies and sectors. We believe investors are unlikely to turn away from this durable profitability for a prolonged period of time.

**TAKEAWAY:** Value equities still trade at a meaningful discount to growth, and early rotation signals suggest the gap may start to close in the U.S. Leadership can remain choppy, and the opportunity set is widening beyond mega cap growth, but we believe tech's profitability leadership should prevent a sustained rotation away from growth equities this year.

# Dividend-paying stocks boost equity-based income generation potential

Upside inflation risks call for diversified income generation potential within portfolios.

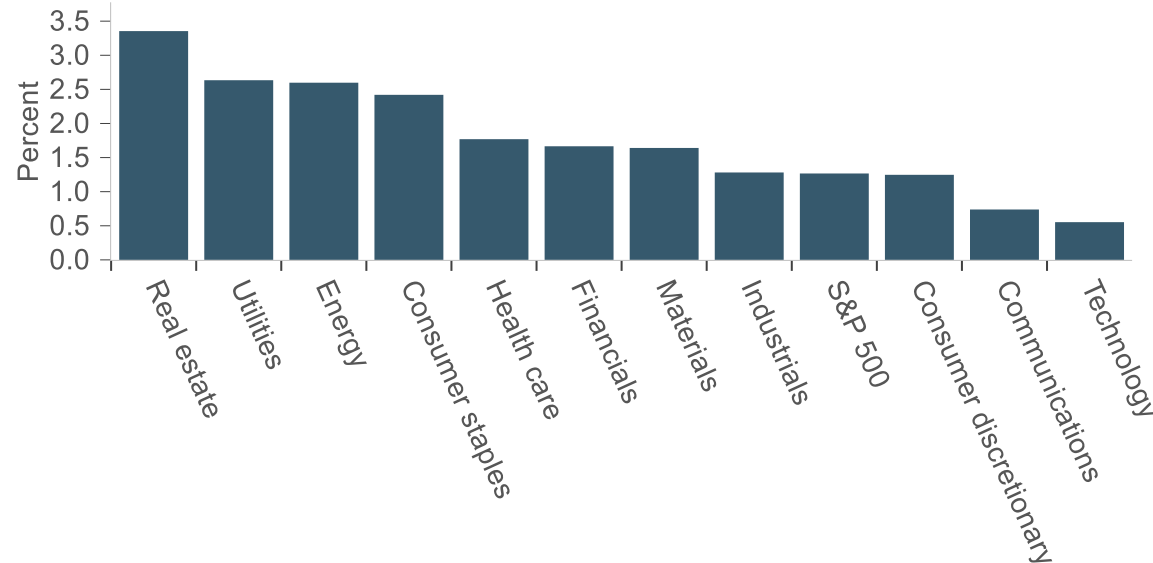
- For investors concerned about U.S. equity market performance, we suggest considering dividend stocks for new allocations. Dividend yielders combine characteristics of high quality and income generation that fit well into our broader market outlook. These companies also tend to be value companies, a diversifier for many growth-heavy U.S. portfolios.
- Dividend-paying equities reduce portfolio duration by delivering a greater share of their total

return in the form of near-term cash flows rather than long-term capital appreciation. In effect, they function like shorter-duration assets, with more of their value realized up front (**left chart**).

- By tilting toward dividend payers, investors can improve the risk-return profile of a portfolio (**right chart**), reduce interest rate risk, increase cash flow resilience, and maintain equity exposure without taking on the full brunt of duration-driven volatility.

## Where to find durable income in equities?

Dividend yield by S&P 500 sector



Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, April 2026. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. It is impossible to invest in an index. Past performance is not a guarantee of future results.

## Dividend payers offer a significantly higher risk-return than the broader market

3-month rolling Sharpe ratio

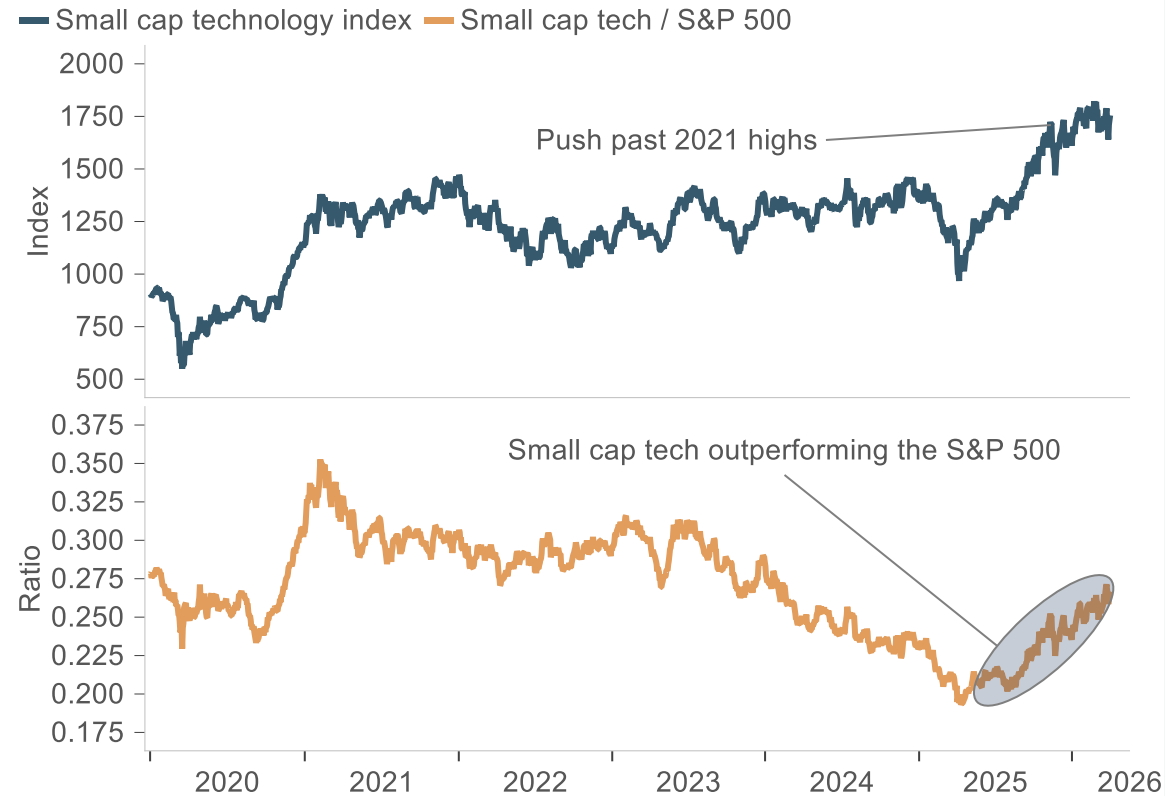


Sources: New York Life Investment Management, Global Market Strategy, S&P Global, Macrobond, April 2026. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. The S&P 500 Dividend Aristocrats index is designed to measure the performance of S&P 500 index constituents that have followed a policy of consistently increasing dividends every year for at least 25 consecutive years. It is not possible to invest in an index. Past performance is not a guarantee of future results.

# Our small cap view remains neutral, balancing diversification with macro risks

We are moderately more constructive on small cap equities due to our conviction that policy support will support diversification.

## Small cap tech is waking up



Sources: New York Life Investment Management, Global Market Strategy, S&P Global, Macrobond, April 2026.

- After several years of an underweight view on small caps – driven by downward cyclical pressure – we are upgrading our view on the space to neutral, in line with our constructive economic and capital markets outlook.
- Large cap equities tend to hold less floating-rate debt, maintain greater operating leverage, and generally have greater balance sheet buffer amid policy uncertainty. While small caps are less robust on these metrics and therefore more susceptible to the downside risks to our view, our base case still supports a neutral allocation to small caps.

### Does the cycle support buying small caps?

- Overweighting small cap exposure is primarily about the cycle: small cap outperformance typically occurs when the economy is rebounding, unemployment is falling, and corporate earnings growth is strong. While today's economy is resilient and profits are strong and supported by policy, we have less conviction in a sustained cyclical upswing given the Iran conflict.

### The small cap complex may offer overlooked growth opportunities

- Within the asset class, there are pockets of opportunity in which investors can capitalize on structural themes. Small and medium-sized profitable growth companies, for instance, may offer exposure to artificial intelligence development at attractive valuations.
- Investors looking to broaden their AI exposure at reasonable valuations have found a home in small cap tech names. Small cap tech started outperforming the S&P 500 in mid 2025 (**chart**).

### We still place a premium on high quality

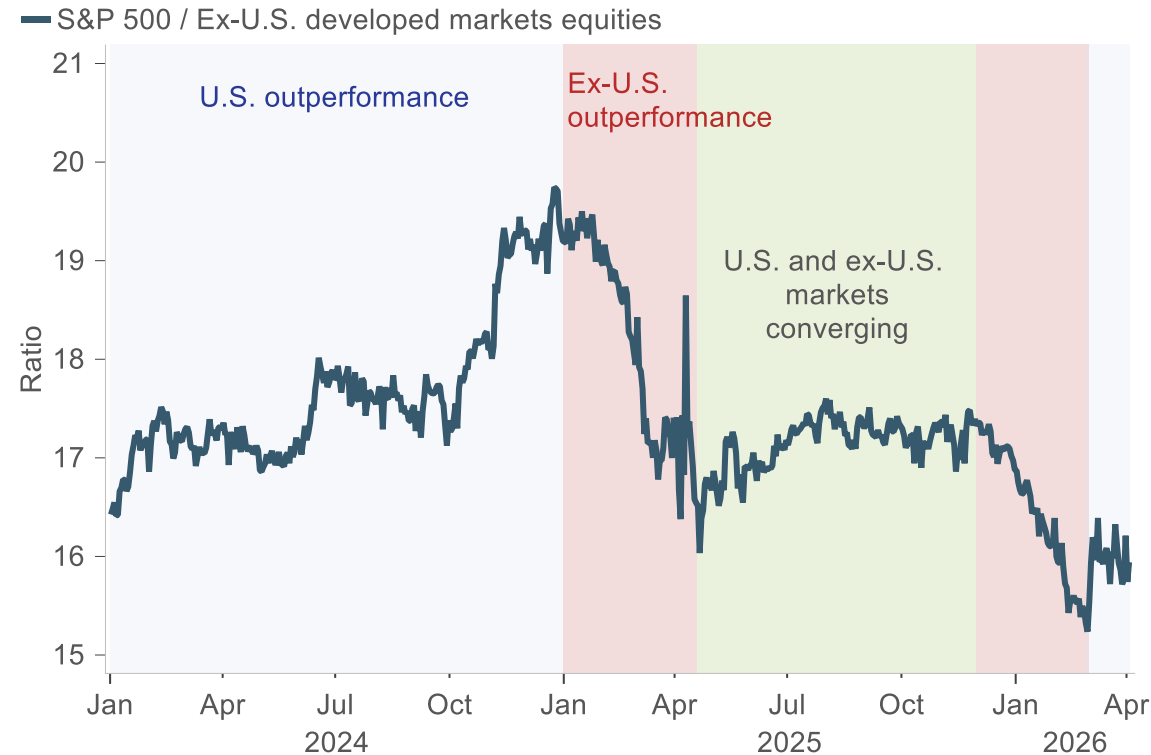
- Since Liberation day (2025), the lower-quality Russell 2000 small cap benchmark has outperformed the higher-quality S&P 600 benchmark. While healthy liquidity and policy support could support moments of "junk" outperformance, high-quality small cap exposure already represents a step down the risk spectrum without bordering on speculation.

**TAKEAWAY:** Large caps remain our core overweight given resilient profits and a moderating growth backdrop. Small caps may lag in a higher-than-expected-rate environment, yet select areas, particularly those tied to technology and artificial intelligence, show renewed strength. A diversified approach across market caps helps capture upside while cushioning against cyclical volatility.

# International equities: reconsidering global allocations amid a shock

The Iran conflict is not a reason to abandon non-U.S. equities, but it does argue for more selective positioning.

## U.S. flight to safety is intact, seen in reversal of U.S. underperformance YTD



Sources: New York Life Investment Management, Global Market Strategy, S&P Global, Macrobond, April 2026. It is not possible to invest in an index. Past performance is not a guarantee of future results. Ex-U.S. developed markets equities measured with MSCI ACWI Ex-U.S. Index.

## Global equity tilts: U.S. vs ex-U.S.

- Non-U.S. equities started the year outperforming (**chart**), but that leadership has reversed as the Iran crisis has shifted investor focus back toward energy vulnerability.
- The U.S. looks relatively more insulated from the energy shock, while many foreign markets are more exposed to higher oil and LNG prices, supporting a flight-to-safety in U.S. assets.
- This year, leadership likely hinges on both the path of the conflict and the dollar, as well as earnings breadth outside the U.S. A contained shock and softer dollar would help non-U.S. markets, but a longer conflict could still tilt leadership back to the U.S. by putting greater pressure on energy-importing economies and foreign corporate margins.

### Across cycles, international equities offer investors the opportunity to capture sector and business cycle diversification

- Sectors: The S&P 500 is overweight the technology and communications sectors. Europe and Japan have more exposure to cyclical sectors like industrials and consumer discretionary. Relative valuations, especially in Europe, remain attractive for bottom-up stock picking.
- Cycle: Because the global economic cycle is desynchronized, a diversified international exposure can help investors capture recovery cycles globally.

### Portfolio strategy: we still call for a neutral ex-U.S. equity allocation

- We expect the U.S. to remain a dominant – even overweight – role in global portfolios; structural underweight exposure to ex-U.S. assets limits the potential of global equities to provide sector and business cycle diversification.
- In conventional portfolio allocation, international equities make up roughly one-third of total equity exposure. So, in a standard 60/40 portfolio comprised of 60% equities and 40% bonds, international equities would constitute 20% of the portfolio.

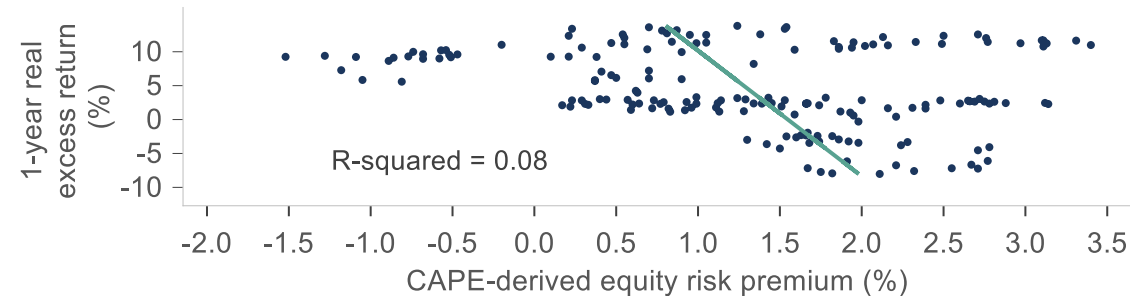
**TAKEAWAY:** We believe that structural exposure to international equity can help investors capture sector and business cycle diversification. Tactically, policy changes may necessitate rebalancing – increasing allocations to economies with less oil import exposure.

# Long-term equity fundamentals: a study of the equity risk premium

Today's equity risk premium suggests bonds may outperform stocks in the long run.

## The U.S. equity risk premium is a weak indicator of one year excess performance of stocks over bonds...

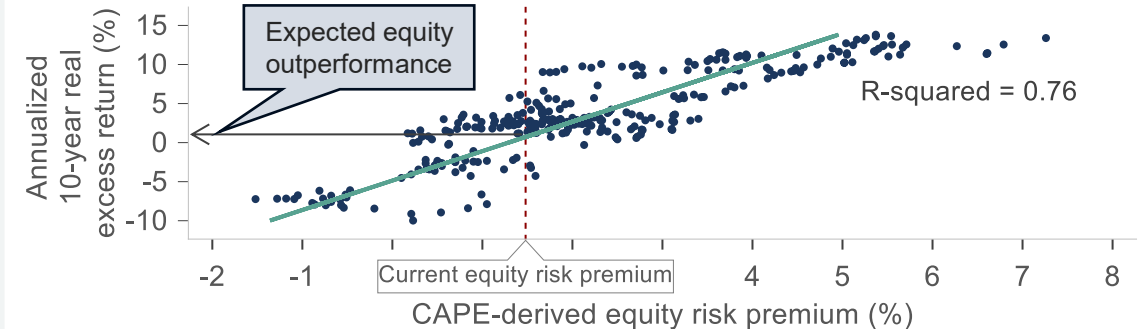
Individual dots represent months, data from 1980



Sources: New York Life Investment Management, Global Market Strategy, Shiller, Macrobond, April 2026. R-squared quantifies how much of the variation in the dependent variable is explained by the independent variables in a regression model. CAPE: cyclically adjusted (for inflation) price-to-earnings ratio.

## ...but a much stronger predictor over a 10-year horizon

Individual dots represent months, data from 1980



Sources: New York Life Investment Management, Global Market Strategy, Shiller, Macrobond, April 2026. R-squared quantifies how much of the variation in the dependent variable is explained by the independent variables in a regression model. CAPE: cyclically adjusted (for inflation) price-to-earnings ratio.

- The equity risk premium measures the difference between the expected return from equities (the earnings yield or inverse of the price-to-earnings ratio) and the risk-free return (typically the U.S. 10-year Treasury yield). A low or negative equity risk premium implies that equities are potentially overvalued relative to bonds, suggesting a lower likelihood of equities outperforming bonds.
- As a predictor, the equity risk premium has historically done a weaker job on a short-term time horizon. There is virtually no relationship between the equity risk premium and one-year ahead returns suggesting equity risk premium is a weak predictor of year ahead returns (**left chart**).
- However, over a 10-year horizon, the equity risk premium has historically been a much better predictor of future returns (**right chart**). Based on historical experience, today's equity risk premium would point to an annualized 10-year real outperformance of stocks over bonds of roughly 1.5%. This says to us that there is more risk to buying equities at these levels and outperformance of stocks over bonds is challenging in this environment.

**TAKEAWAY:** Based on current market valuations and interest rate levels, expecting stocks to significantly outperform bonds over the next decade might be overly optimistic.

# 6 Fixed income

## Insights

- [Credit overview](#)
- [Core bonds](#)
- [High yield](#)
- [Bank loans](#)
- [Convertible bonds](#)
- [Municipal bonds](#)

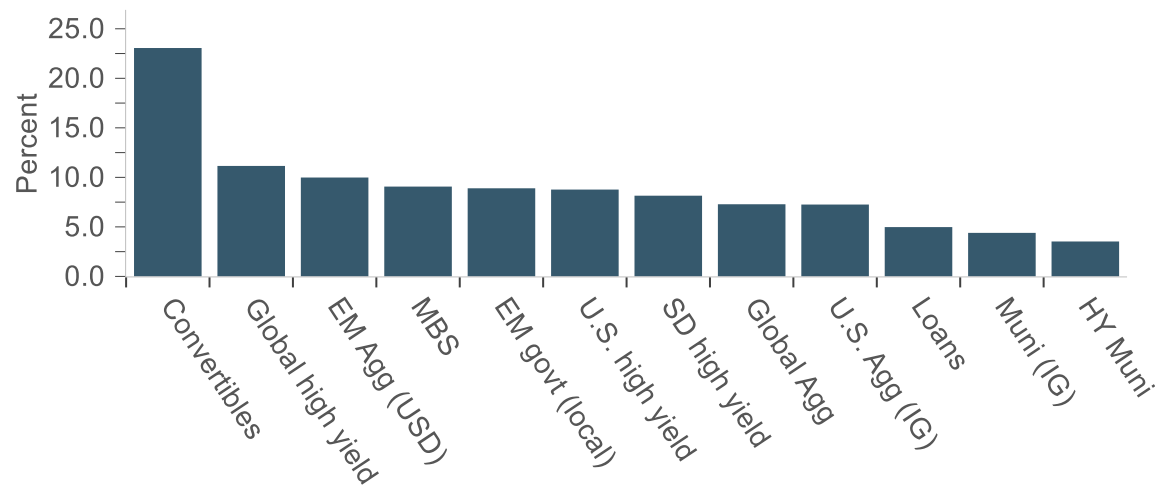
# We maintain conviction in credit allocation amid global risks and a maturing cycle

Cash has lost yield potency, driving a clear incentive toward buy-and-hold total return opportunities in credit.

- The credit cycle is healthy today, but macro risks have risen and the credit cycle has matured. We also expect ongoing yield curve volatility. Our “solve” for both concerns is to stay short duration across credit types in the U.S.: investment grade, high yield, and municipal bonds.
- Spread widening is a value creation opportunity in many fixed income asset classes, as it reflects sentiment shifts rather than a deterioration in holistic credit quality.
- Upside risks to long rates remain: we are staying on the short side of neutral in duration. We prefer to balance short duration Treasuries, convertibles, and corporate credit exposure with longer duration in securitized credit and municipal bonds (both taxable and tax-exempt), where we see long-end exposure as better rewarded.

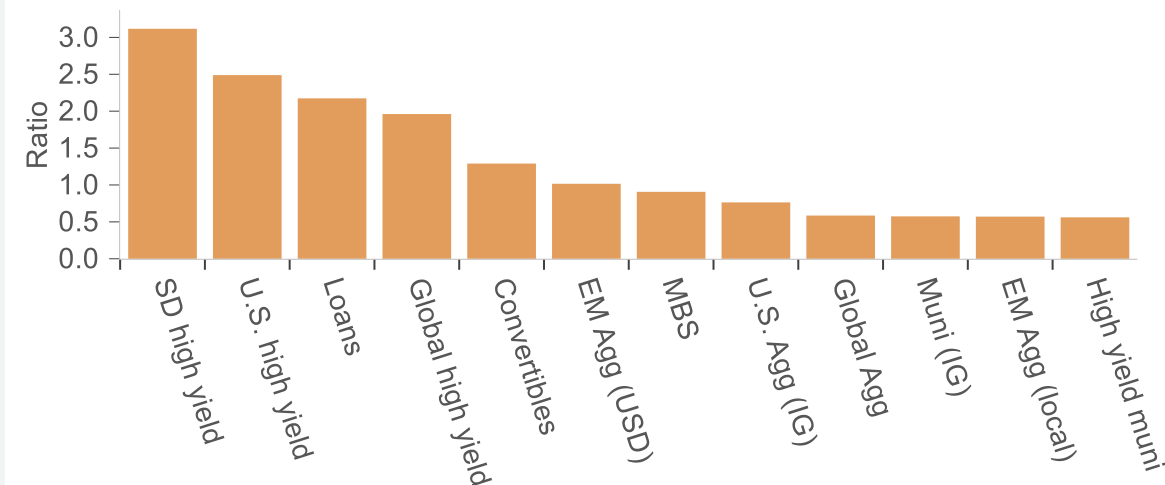
## Ex-U.S. credit outperformed in 2025

Returns from January 2025



## As the credit cycle matures, we prefer maximizing yield per duration

Yield per duration (prior 30-day average)

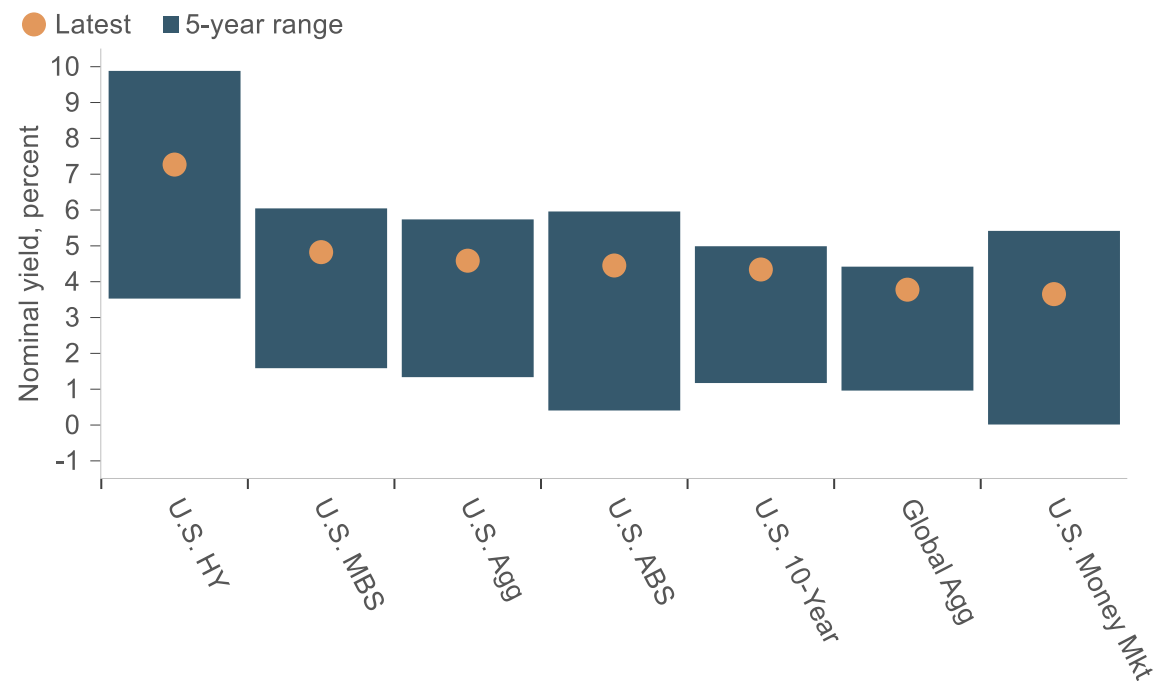


Sources: New York Life Investment Management, Global Market Strategy, Bloomberg, Macrobond, April 2026. Convertibles represents the Bloomberg U.S. Convertibles Liquid Bond Index. EM Agg represents the Bloomberg Emerging Markets (EM) Hard Currency Aggregate Index- a flagship hard currency EM debt benchmark. EM govt represents the Bloomberg Emerging Markets Local Currency Government Index-a flagship index that measures the performance of local currency Emerging Markets (EM) debt. Global Agg represents the Bloomberg Global Aggregate Index- a flagship measure of global investment grade debt. Global high yield represents the Bloomberg Global High Yield Index-a measure of the global high yield debt market. Loans represents the Bloomberg US Leveraged Loan Index-measures the institutional leveraged loan market. Muni represents the Bloomberg U.S. Municipal Index-covers the long-term tax-exempt bond market. U.S. Agg represents the Bloomberg US Aggregate Index-a broad-based benchmark that measures the investment grade bond market. U.S. high yield represents the iBoxx USD Liquid High Yield Total Return Index-measures the sub-investment grade, corporate bond market. U.S. MBS represents the Bloomberg US Mortgage Backed Securities (MBS) Index-tracks agency mortgage backed pass-through securities. U.S. high yield muni represents the Bloomberg Muni High Yield Total Return Index. Short duration (SD) high yield represents the Bloomberg US High Yield Ba/B 1% Cap 1-5 Year TR Index. It is not possible to invest in an index. Past performance is not a guarantee of future results.

# Within a core bond sleeve, we favor securitized credit to investment grade

As the credit cycle matures, we favor quality and believe selectivity will be more accretive to returns than in past years.

## Core bond yields look attractive relative to cash, but not in comparison to credit



Sources: New York Life Investment Management, Multi Asset Solutions, Bloomberg Finance LP, Standard and Poor's, Barclays, MSCI, Macrobond, April 2026. \*Yield: Dividend yield for equities; yield to worst for bond indices; nominal yield for government yields. Indexes used: S&P 500 Index, MSCI ACWI Index, MSCI World High Dividend Index, Bloomberg Barclays High Yield Corporate Index, JPM EMBI Global Diversified Bond Index, Bloomberg Barclays U.S. Investment Grade (IG) Index, Bloomberg Barclays U.S. Aggregate Bond Index, Bloomberg Taxable Muni Index. Munis represent municipal bonds. Past performance is no guarantee of future results, which may vary. An investment cannot be made directly in an index.

## Corporates' financial buffers are at a healthy level



Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, April 2026.

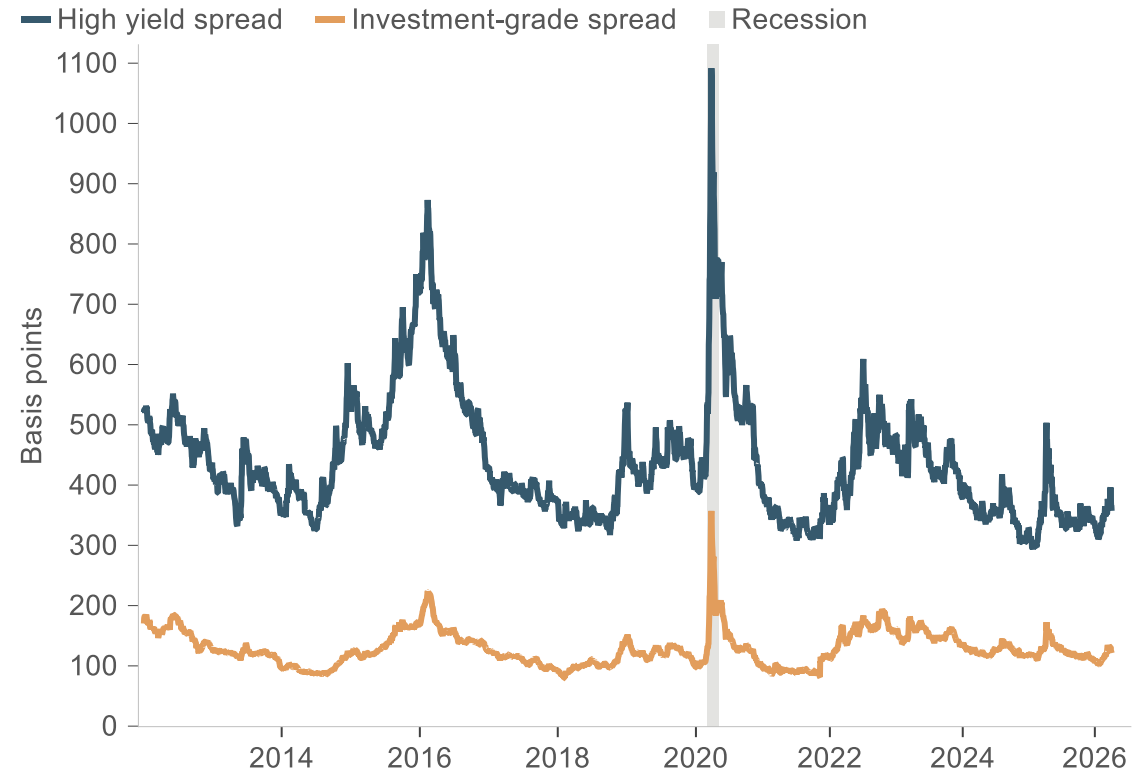
- **Income:** When focusing on total return, IG credit has less income generation opportunity relative to other credit tranches. For the risk-averse investor IG can represent a constructive move away from cash, but we favor securitized credit within a core bond sleeve and short duration HY credit (next slide) within a credit allocation.
- **Duration:** We prefer to stay on the short side of neutral, accounting for ongoing yield curve volatility and reducing exposure to longer-dated credit risk.
- **Structure:** Securitized credit, including MBS and ABS, offers strong issuer and collateral quality, strong transparency, and credit protection (subordination, overcollateralization, excess spread).

**TAKEAWAY:** Amid a maturing credit cycle, we favor quality and selectivity within a core bond sleeve. The very limited yield pickup for investment grade bonds may limit total return potential, while strong issuer and collateral quality in the securitized space, supported by our base case for resilient consumer activity, should enhance resilience.

# U.S. high yield remains one of our highest conviction ideas

Spread widening opens new value opportunities; we maintain a positive outlook on U.S. high yield credit.

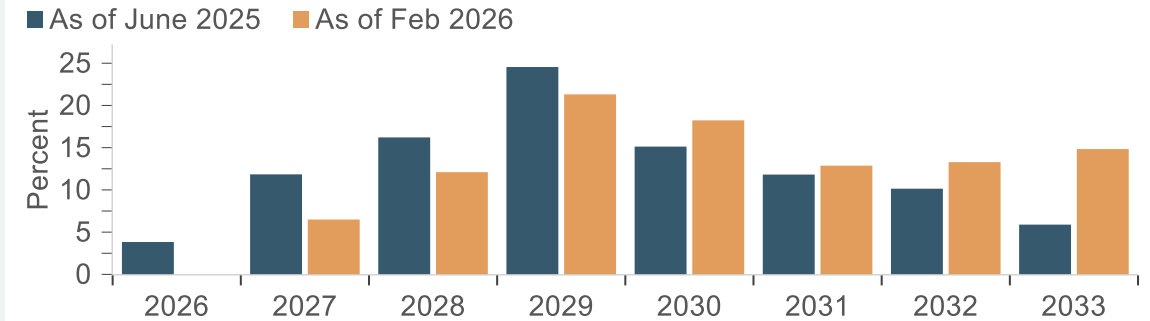
## Spreads are widening off historic lows



Sources: New York Life Investment Management, Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, April 2026.

## The high yield "maturity wall" is far from an imminent threat to corporate health

Share of high yield corporate benchmark maturing each year



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Macrobond, April 2026. 2033+ represents maturities for 2033-2050. Benchmark: Bloomberg U.S. Corporate High Yield Total Return Index. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.

- The U.S. high yield asset class has improved in quality thanks to changes in corporate financing structure since the financial crisis, and thanks to pandemic-era support programs.
- Cyclically, leverage and interest expense levels in high yield are healthy, meaning widening spreads are a sentiment indicator, not a credit quality red flag (**left chart**).
- Over half of major HY benchmark weight is now rated BB or higher. We see this quality at work in the maturity wall: high yield issuers in the U.S. have been incredibly successful at pushing out their obligations (**right chart**).
- Keeping HY exposure short duration – and short maturity – can cushion against rates vol.

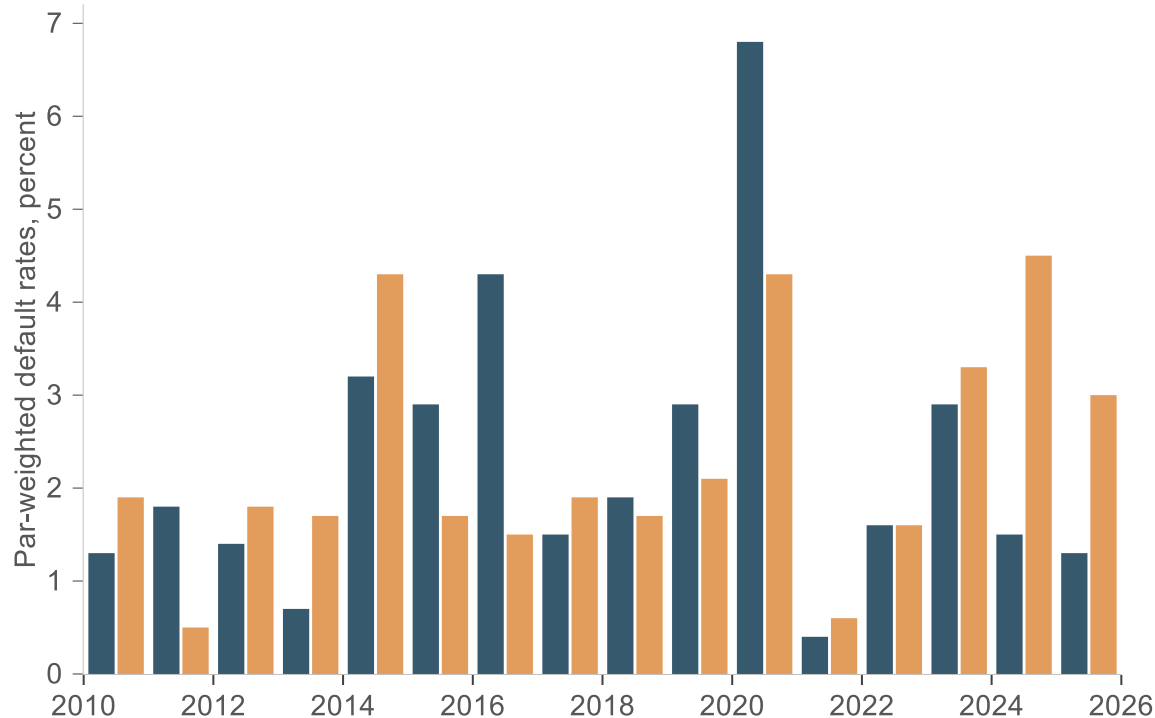
**TAKEAWAY:** We believe the higher quality high yield borrowers could provide significant value in a portfolio this year – thanks to strong credit fundamentals. For investors concerned about credit quality, macro volatility, or policy uncertainty, the relatively short-duration exposure of high yield credit is a compelling option.

# Bank loans may be out of room to run

Amid a maturing credit cycle, bank loans may have the wrong combination of default risk and total return.

## Bank loans have become a hub for defaults as higher quality becomes concentrated in HY

■ HY Default Rate ■ Loan Default Rate



Sources: New York Life Investment Management, Global Market Strategy, J.P. Morgan, Macrobond, April 2026.

## Are floating-rate bank loans the place to be when the Fed is easing?

- Though bank loans have defied expectations for total return – delivering a higher yield than expected, for longer than expected – Fed easing represents a direct hit to total return expectations for bank loans. Notably, even with the market moving toward more hawkish expectations for Fed easing this cycle, we expect lower policy rates to erode total returns in floating rate loans.

## Are floating-rate bank loans the place to be when macro risk is rising?

- Currently, overall yields appear to compensate investors for the greater degree of credit quality risk in the asset class, which stems from smaller companies with less of a balance sheet buffer against economic pressures.
- But in line with our view that large cap equities are likely to outperform small caps, and that higher credit quality is likely to outperform, bank loans may be out of room to run. We believe investors are better compensated for going down the credit stack in HY rather than floating rate, particularly given higher default rates in floating rate (**chart**).

## Portfolio strategy

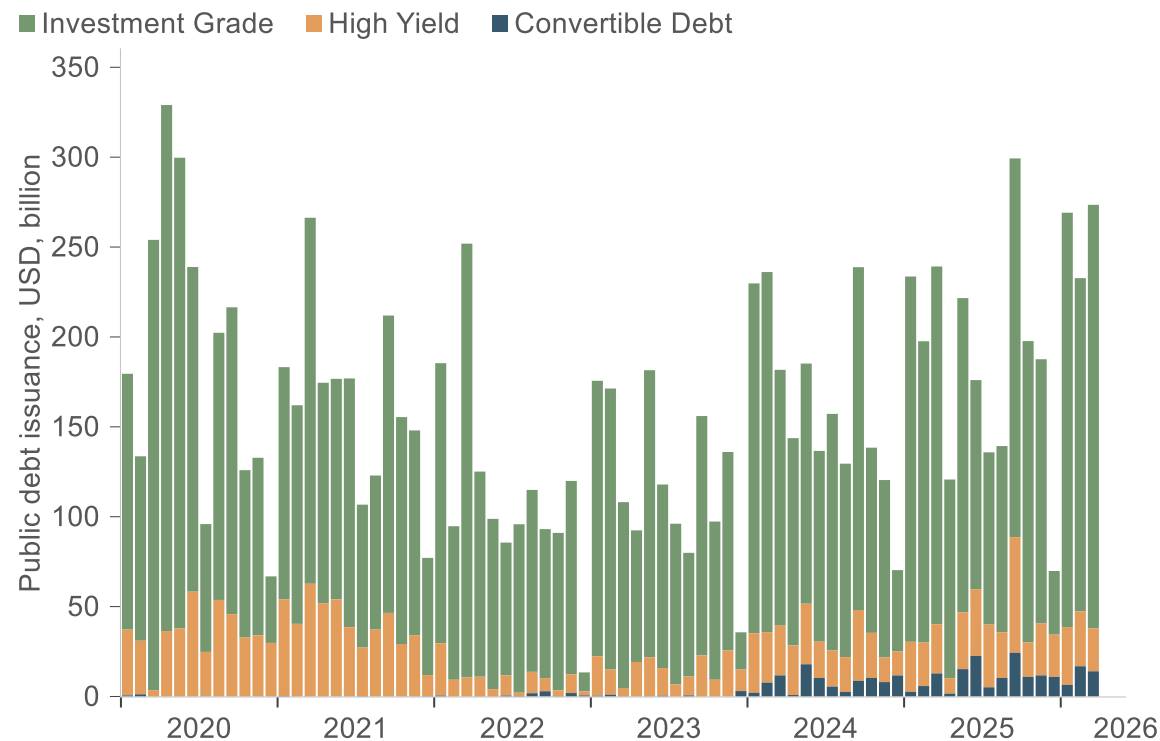
- We believe bank loans can be an important component of diversified global bond exposure. Because of their relatively lower credit quality, security selection and credit quality analysis is paramount when operating in this asset class in an unfavorable macro environment. Within floating rate bank loans, we prefer portfolios that are overweight senior secured loans with low leverage. We are closely monitoring for signs of credit quality slippage.

**TAKEAWAY:** In line with our view that the credit cycle is maturing, floating rate bank loans are one of the first asset classes where we expect to see credit quality slippage. Yields are higher than they were expected to be at this point and have compensated investors for credit quality risks, but this dynamic has lost steam. Selection is paramount.

# Convertible bonds' convexity delivered in 2025; likely to continue in 2026

Convertible bonds look attractive from both issuer (lower interest expense) and investor (upside participation; downside risk mitigation) perspectives.

## Convertibles have seen renewed issuance, corresponding with stronger performance



Sources: New York Life Investment Management, Global Market Strategy, SIFMA (Securities Industry & Financial Markets Association), Macrobond, April 2026.

Our constructive view on convertible bonds, based on favorable dynamics from both issuer and investor perspectives, panned out: convertibles were the top performing major global fixed income asset class in 2025. We remain constructive for 2026.

### What makes convertible bonds special?

- In many ways, convertible bonds offer the best of both worlds. Like equities, convertible bonds offer unlimited upside potential from the embedded call option on the issuer's common stock. Like bonds, converts can limit downside risk.
- Over a complete market cycle, convertibles have tended to generally participate in about 60-80% of equity market upside and 50% of the downside.
- Converts are naturally short-duration instruments: most convertible bonds have a duration of approximately 2-3 years, limiting their sensitivity to interest rate fluctuations.

### Tactical market outlook:

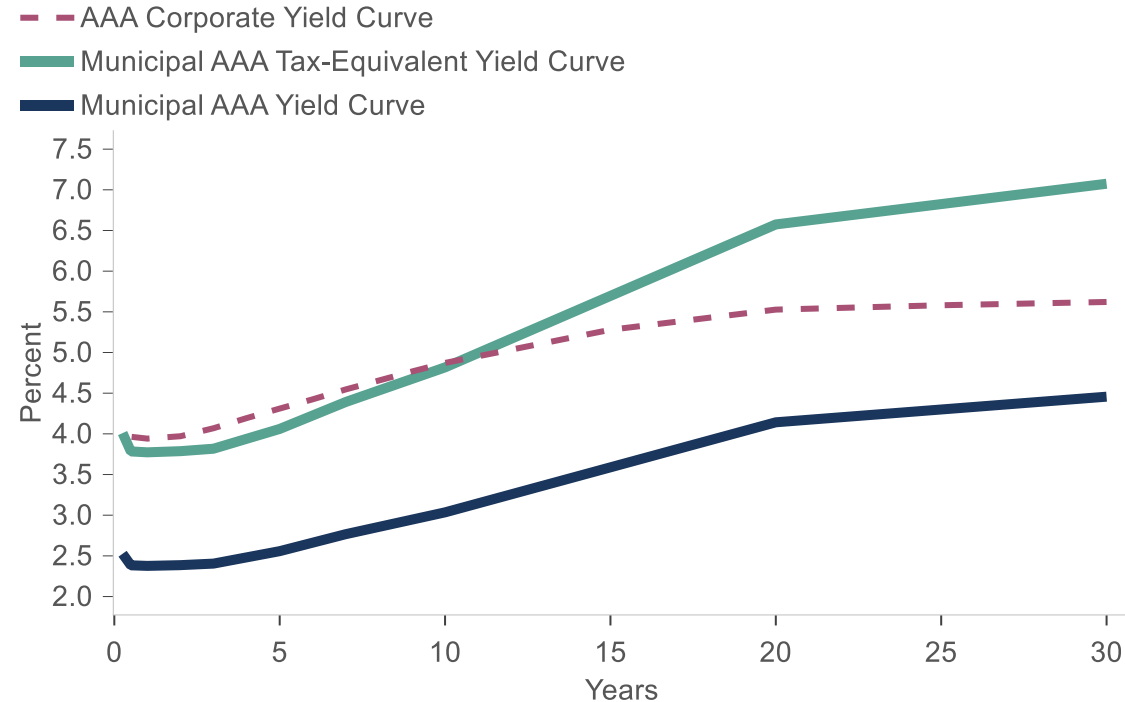
- Issuance: Issuance was strong in 2024 and 2025, with \$49 billion across 58 deals in H1 2025. Strong issuance suggests lower interest rates for issuers are balancing well with investor demand for upside participation in the equity features of convertibles. Issuance is expected to increase as investment grade companies with debt maturing may be drawn to the convertible market, as they can no longer issue bonds yielding 2% to 3%.
- Quality: With issuance focused within the tech sector and larger companies making first-time issuances, quality looks strong, supported by well-capitalized large borrowers.
- Valuation: The U.S. convertible market is weighted towards mid and small-cap companies which have significantly lower valuations than large caps. While we are neutral the SMID cap space in our equity view, we find the value proposition of converts to be focused on their blended equity/bond characteristics rather than SMID cap focus.

**TAKEAWAY:** Convertible bonds are a well-positioned defensive asset class. As some corporate bond issuers are priced out of the investment grade and high yield markets, we expect to see strong issuance that is both less expensive for issuers while offering a compelling risk-return dynamic for investors.

# Municipal bonds provide a diversified approach to credit and duration exposure

Strong credit fundamentals make munis an attractive credit diversifier in our view. We remain wary of flows in a retail-dominated asset class.

## Muni's tax equivalent yields exceeds AAA corporates' at longer durations



Sources: New York Life Investment Management, Global Market Strategy, U.S. Department of Treasury, Macrobond, April 2026. The AAA corporate yield curve is populated with USD denominated senior unsecured fixed rate bonds issued by U.S. companies with a rating of AA+, AA, or AA-. The Municipal AAA yield curve is populated with high quality U.S. municipal bonds with an average rating of AAA from Moody's and S&P. The tax-equivalent yield curve assumes a 37% tax rate. Duration of fixed income securities is a measure of a security's price sensitivity to changes in interest rates, measured in years.

## Tailwinds & outlook for municipal bonds

- The curve: steeper municipal bond curves clearly incentivize investors to lock in higher rates where they are available. And as policy rates decline, short-term munis offer a "step out of cash" with competitive tax-equivalent yields to money market returns.
- Quality: Like corporate bond issuers, municipalities are also well capitalized with healthy reserve balances. This strong starting point provides a needed cushion should revenues and federal aid decline.
- Munis may see relative demand improve due to quality; 13 states now have higher Moody's credit ratings than U.S. sovereign debt.

## This said, municipal bonds rely heavily on volatile retail flows.

- When yield curve volatility causes wild swings in how municipal bond funds trade relative to NAV, munis have fallen victim to their skittish retail investor base.

## Muni's as a critical component of our duration view

- In our view, a flat taxable yield curve gives investors little incentive to take excessive duration risk in U.S. Treasuries; however, not all duration is created equal.
- The vast majority of issuance in the municipal curves remains upward sloping, which continues to compensate investors for longer-term risk. Tax-free municipal bonds can also balance shorter-duration allocations in taxable credit sleeves.
- We also like *taxable* municipal bonds as a duration-balancing, long-infrastructure play. Higher credit quality and diversified credit exposure provide additional benefits to this portfolio construction technique, in our view.

**TAKEAWAY:** Instead of adding duration in Treasuries, investors can consider interest rate risk where it pays: on the municipal bond curve. While federal policy uncertainty is likely to affect the muni environment in 2026 along with all other asset classes, we do not see this as a reason to avoid the tax benefits and/or relative quality of the asset class.

# 7 Alternatives

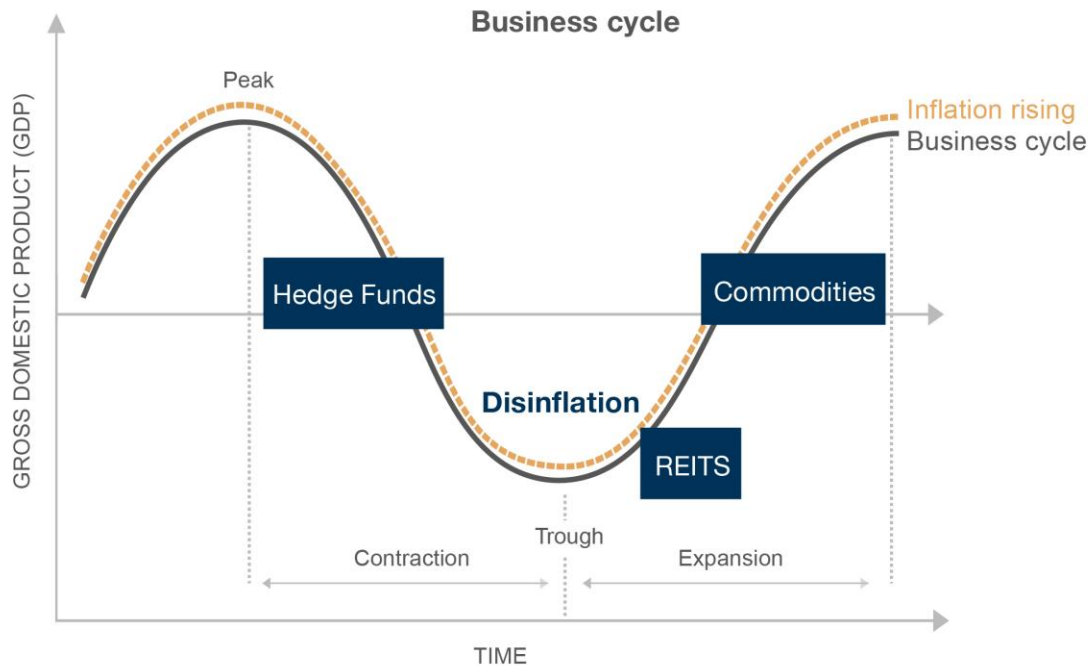
## Insights

- [Alternatives through the cycle](#)
- [Infrastructure](#)
- [Commodities](#)
- [Liquid real estate](#)

# Alternative investments across the business cycle

Plus: asset weighting recommendations based on quantitative portfolio risk/return analysis.

## How alternative assets might perform at different stages of the economic cycle



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

- Alternative investments offer diversification potential and are some of the least correlated public and private investment opportunities (**chart**).
- Though potentially less liquid than traditional investments, performance is typically less sensitive to the movements of global markets – instead, driven by diverse sources of returns.

### How much alternatives exposure do I need?

- A suitable range typically falls between 5% and 25% of a portfolio.

### Commodities

- Commodities tend to benefit from sticky and rising inflation and more recently from AI-driven geopolitical competition. The asset class exhibits very little correlation to both stocks and bonds, making it a solid diversifier and inflation hedge.
- Allocating between 1% and 7% can provide diversification and help mitigate the impacts of inflation. Equities should be the primary source of funding this allocation.

### Hedge Funds

- Not all hedge fund strategies are created equally. With equity markets rising, equity-oriented strategies like long/short and event-driven could be successful in this environment.
- A range of 1% to 12% allows for exposure to skilled fund managers and unique strategies. Typically, this allocation can be sourced from equities.

### REITs

- Concern about commercial real estate has impacted investor sentiment but we think this has the potential to create investment opportunities.
- Allocating between 1% and 15% offers real estate exposure with the potential for income and capital appreciation – and can potentially be sourced primarily from equities.

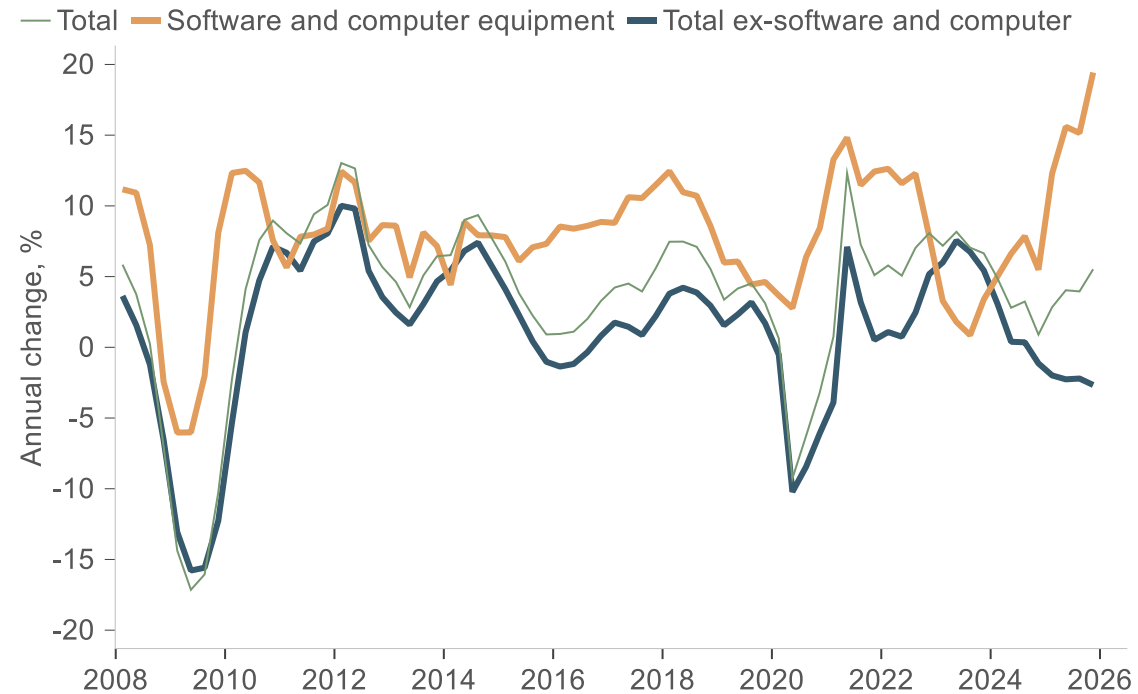
**TAKEAWAY:** Investors may benefit from adding exposure across alternatives. Given sticky inflation, and the risk of reacceleration, we think commodities could offer compelling risk-adjusted returns at this stage of the cycle.

# Infrastructure is one of our highest conviction structural themes

The structural case for infrastructure is expanding just as the cyclical case (lower rates) begins to support the asset class.

## The AI boom continues to drive tech and infrastructure investment while other sectors lag

Private fixed investment across sectors



Sources: New York Life Investment Management, Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), Macrobond, April 2026.

## A secular investment case for infrastructure

- We see infrastructure as a key beneficiary of secular global investment trends. A changing economic landscape (artificial intelligence), geopolitical trends (U.S.-China competition), and a renewed focus on resource access (after the COVID-19 pandemic) have driven a surge in public and private sector investment in infrastructure. We expect this trend to persist.
- We believe that the supply chains experiencing the most change are those which may benefit the most from investment: digital transition and artificial intelligence, green transition and energy independence, and supply chain re-globalization. As a result, we have particularly high conviction around global infrastructure investment with a focus on digital infrastructure (**chart**), green and brown energy, utilities, and communications.
- Infrastructure projects are increasingly funded through the sale of taxable municipal bonds.

## Portfolio construction benefits in equity

- Global equity infrastructure may close a frequent investor gap in international exposure.
- The asset class offers a potential inflation hedge as cash flows are often linked to inflation, and on the cost side, inflation protection is often written into long-term contracts.

## Portfolio construction benefits in fixed income

- Issuance of taxable municipal bonds increased in recent years due to the *Tax Cuts & Jobs Act* of 2017 which limited the issuance of tax-free municipal bonds. The *One Big Beautiful Bill Act* preserves the tax-exempt status of munis.
- Investors may be less familiar with taxable municipal bonds, especially outside the U.S. where municipal bonds are less frequently used. We believe this asset class may provide additional means of generating yield, with the benefit of higher quality and diversified credit exposure.
- We also like taxable municipal bonds as a duration-balancing, long-infrastructure play.

**TAKEAWAY:** The global economy is shifting, and we believe that infrastructure provides a durable opportunity to capture that change. We perceive infrastructure as a structural allocation in both equity and fixed income, allowing investors access to these trends as well as important portfolio construction benefits. Importantly, an interest rate cutting cycle has historically supported sectors such as utilities and energy that tend to make up important portions of the infrastructure asset class, adding cyclical firepower to an already strong structural case in our view.

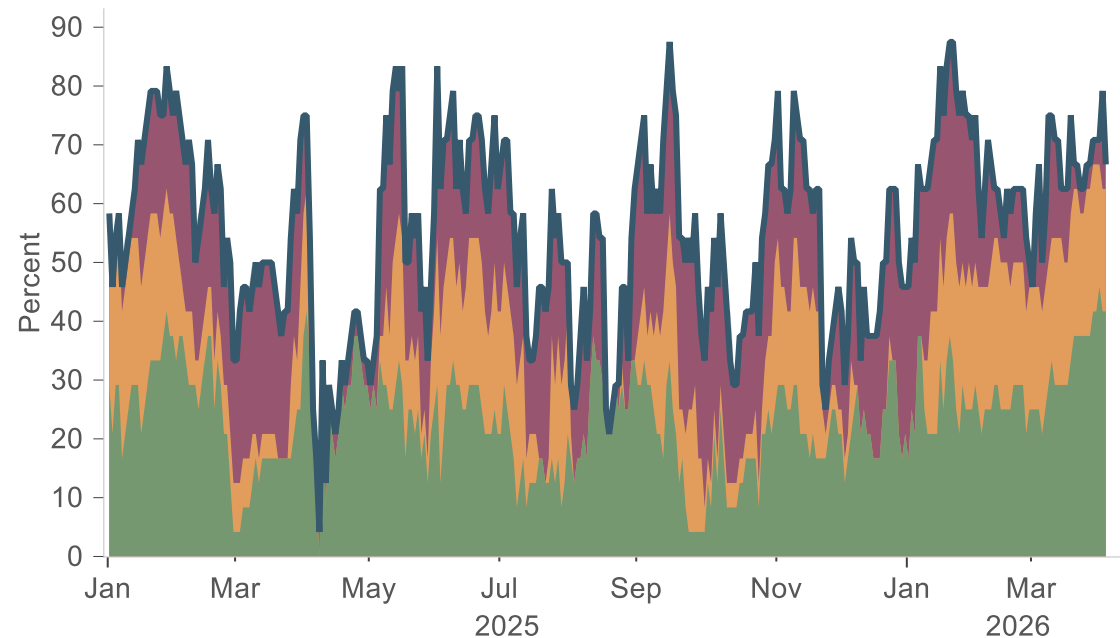
# Inflation risk and structural demand drive a medium-term allocation to commodities

Rising demand for resources amid restructuring supply chains provides a compelling investment backdrop for commodities.

## Demand is rising while supply remains tight across commodities, supporting prices

Share of commodities with positive monthly returns

— Share of commodities with a positive monthly return ■ Metals ■ Energy ■ Agriculture & Livestock



Sources: New York Life Investment Management, Global Market Strategy, S&P Global, Macrobond, April 2026.

The 2020s so far have been described as the next commodity super cycle by some commodity experts, driven by national policies to keep supply chains secure and resilient (**chart**).

### A tactical approach to commodity investing

- When inflation is high, stock-bond correlation tends to be higher. Investor portfolios may therefore be less diversified than finance theory would suggest.
- Since the cause of that potentially lower diversification is high inflation, investors could consider increasing their allocation to commodities which may help to manage both risks.

### A strategic approach to commodity investing

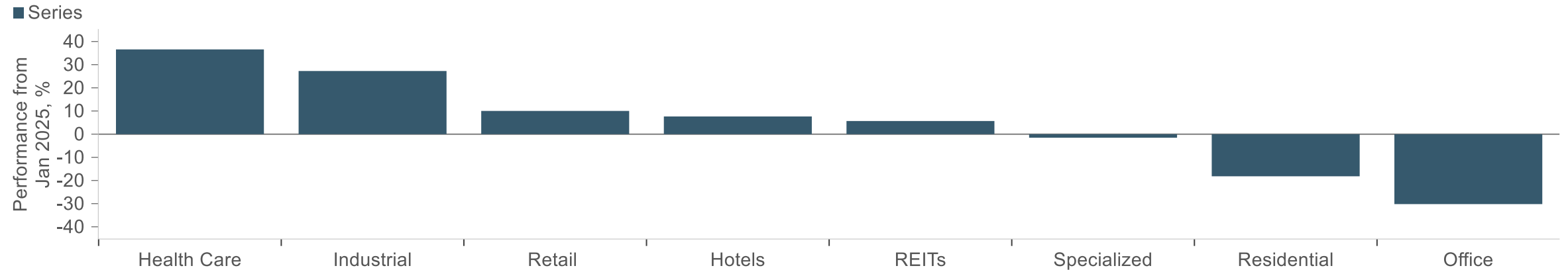
- Historically, commodities, as a whole, outperform stocks and bonds when growth and inflation *surprise to the upside*, or miss expectations. These jolts have tended to see investors rush to into commodities.
- However, in this new regime, marked by economic nationalism, national security priorities, and trade protectionism, we believe commodities deserve a larger role in portfolios.
- As competition for supremacy in the AI races intensifies, select resources are likely to benefit under tight supply and growing demand.
- Demand is likely to remain high. Even the U.S. government has taken steps to secure supply chains – the Department of Defense partnered with MP Materials on rare earth magnets and the Department of Energy is funding new lithium supply.
- While energy and metals draw most investor attention, agricultural and food-related commodities also stand to benefit as food security becomes a larger policy focus, though active management remains key.

**TAKEAWAY:** We think investors should consider adding commodities exposure as a hedge against persistent inflation and in response to global dynamics such as escalating trade tensions and the push for critical resource access.

# Secular trends are shaping returns in a struggling REITs sector

Long-term demand is supporting healthcare and data centers; some residential and office segments continue to face headwinds.

## REITs sector performance reflects secular forces



Sources: New York Life Investment Management, Global Market Strategy, S&P Global, Macrobond, April 2026.

- U.S. commercial real estate took a one-two punch from the pandemic-driven shift to remote work and the 2022-2023 rate hiking cycle. Higher yields elsewhere have also made REITs less competitive, with credit offering comparable income and lower historical volatility. But the biggest drag on listed real estate, higher rates, is starting to fade.
- Lower rates improve the setup for REITs by reducing refinancing pressure, lifting asset values through a lower discount rate, and making REIT dividends more competitive for income.
- Looking ahead: lower interest rates have historically benefited the sector, but we'd likely need to see a durable easing cycle or a rotation out of AI-led growth into income, to see a meaningful cyclical tailwind for REITs.
- We still see meaningful opportunity in REITs, but selectivity is key (**chart**). It is clear that secular trends are driving the dispersion between REITs sectors. The trend behind healthcare's outperformance is an aging population and need for more senior-housing facilities. Industrials are benefitting from the AI revolution's surge in data-center demand.

**TAKEAWAY:** Liquid real estate presents opportunities, but targeted exposure matters. The REITs sector is broad, and in our view active management of sector and security exposure is vital. A broad REITs rebound likely needs a clearer easing cycle, but secular winners can work now; we are focused on the growing industrial and technological segments within the REITs market.

# 8 Private markets

## Insights

- [Macroeconomic forces impacting private markets](#)
- [Allocation to private markets is growing and democratizing](#)
- [Key takeaways per asset class](#)
- [A global case for the lower middle market \(LMM\)](#)

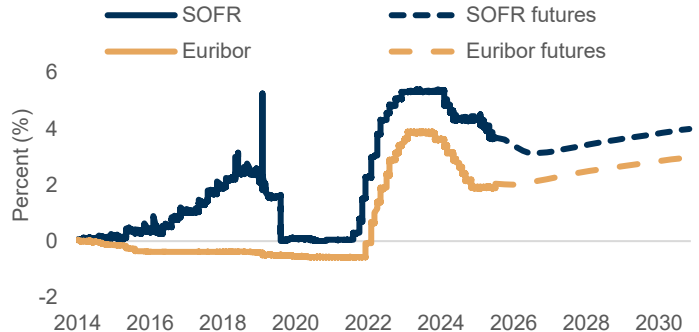
# Macroeconomic forces impacting private markets

Private markets enter 2026 on firmer footing. While higher oil prices may weigh on growth, we expect a constructive year ahead.

## Financial conditions continue to support activity

Easy financial conditions at the beginning of the year supported confidence and deal flow. While financial conditions have tightened, we see no cause for widespread concern. Higher rates reinforce discipline and elevate the importance of underwriting and manager selection.

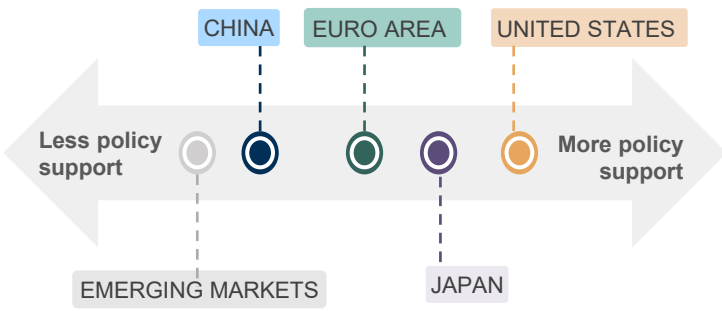
Rates have moved lower, but remain elevated<sup>1</sup>



## The policy backdrop is constructive, particularly in the U.S.

Even with higher oil prices, we expect a supportive global policy backdrop, led by the United States. Policy support – fiscal, deregulatory, and industrial initiatives – is likely to continue to drive investment and economic momentum.

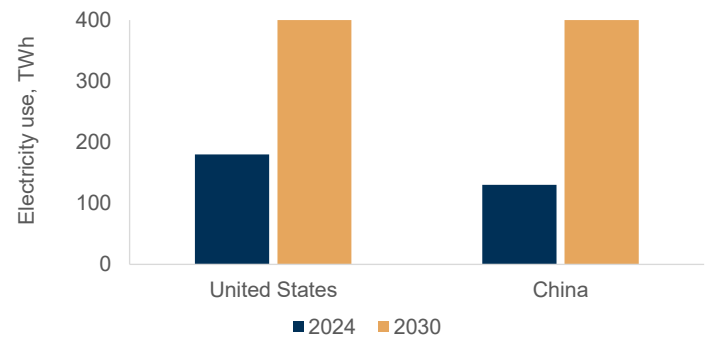
Countries are facing differing degrees of policy support



## Global megatrends are driving capital-intensive investments

Geopolitical developments reinforce our conviction that global megatrends related to supply chain re-globalization, electrification, and AI are powerful drivers of capital-intensive investments, creating sector and diversification opportunities.

Data center electricity use is expected to grow substantially<sup>2</sup>



**Key takeaway:** Private markets remain a core and growing component of portfolios, with opportunity increasingly defined by selectivity, diversification, and transition-oriented exposure. As the cycle extends, investors are leaning into greater complexity and control to unlock differentiated sources of return.

Sources: Opinions of New York Life Investment Management, Federal Reserve, European Central Bank (ECB), Bloomberg, Macrobond, April 2026. 1. The Secured Overnight Financing Rate (SOFR) is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. The Euro Interbank Offered Rate (Euribor) is a daily reference rate, published by the European Money Markets Institute, based on the averaged interest rates at which Eurozone banks borrow unsecured funds from counterparties in the euro wholesale money market.. 2. International Energy Agency, CBRE Investment Management, China's State Council, S&P Global, U.S. Energy Information Administration, April 2026, with data available through May 2025. TWh = terawatt hours of electricity.

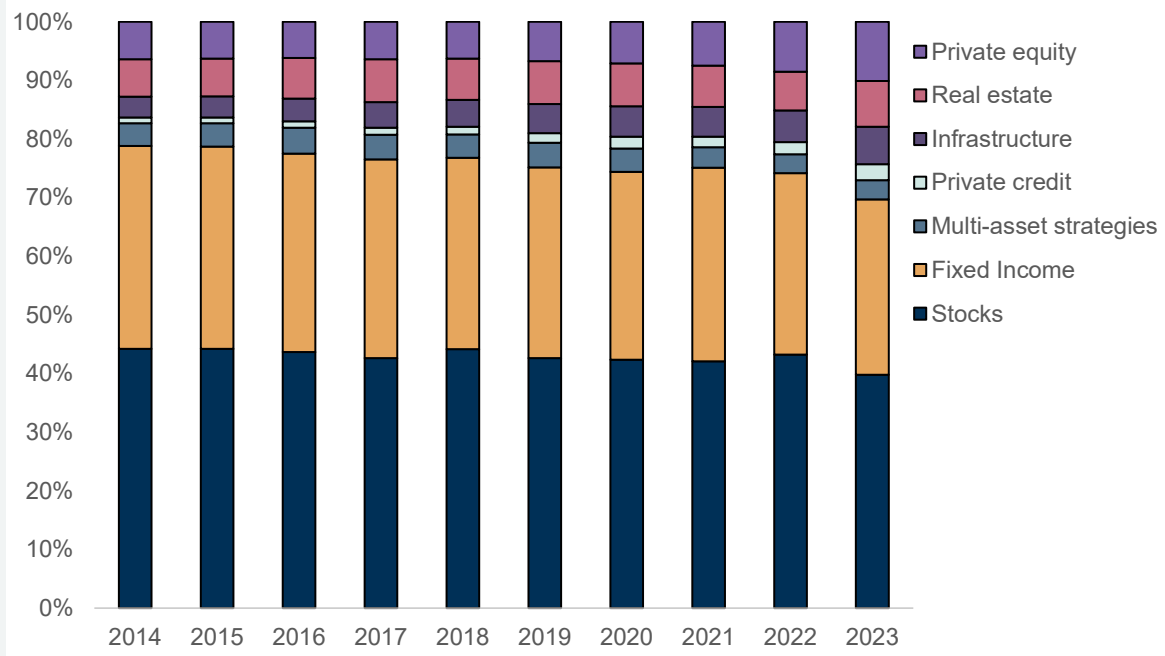
# Investor allocation to private markets continues to increase...

In the past, lower-for-longer interest rates drove investor attention to private markets. Now, even amid higher rates, allocation has grown.

- After the global financial crisis, lower rates forced institutional investors to seek yield and higher returns from private markets. In the current environment, interest rates are higher, but allocations continue to grow. Data on investor allocations suggest that investors have more appreciation of the diversifying benefits of private markets.
- New investment products and technologies are opening private markets capabilities to a broader range of investors. Wealth investors have emerged as one of the fastest growing segments in private markets investing, fueled by evergreen fund structures and technological advancements that have streamlined the purchasing of private assets. The potential for supportive U.S. policy change, such as the examination of private assets for retirement portfolios, adds to our view that further democratization of private assets is forthcoming.

## Institutional investors have steadily increased their allocations to private markets

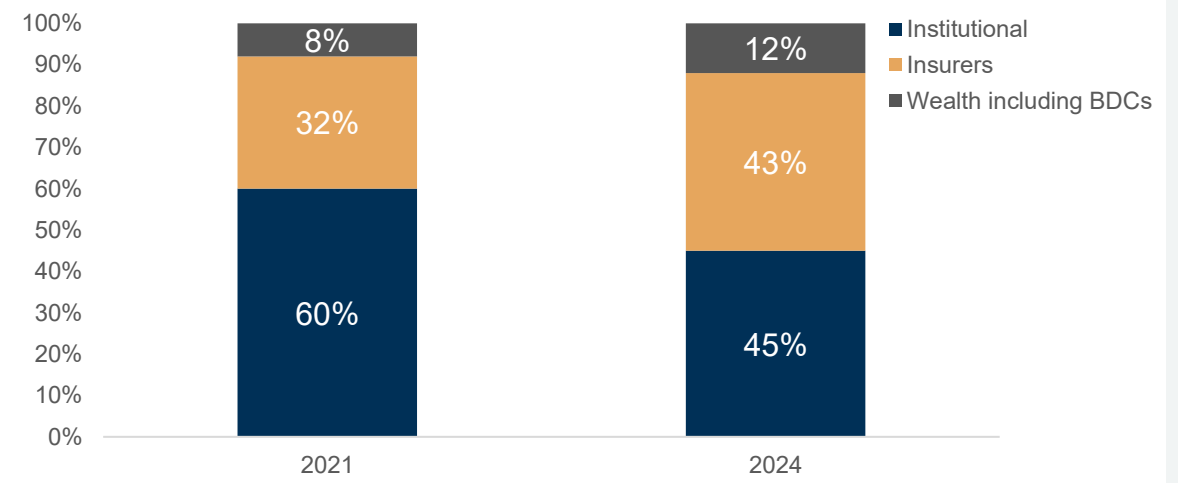
Institutional investor asset allocations, 2014 - 2023



Sources: McKinsey, CEM Benchmarking, 2024. Data for 2024 is not available.

## Wealth investors' share of private credit has and is expected to increase

Estimated AUM in credit for the largest seven private markets firms by client segment



Sources: Oliver Wyman estimates based on company disclosures, filings, and earnings calls. April 2026 with data available through July 31, 2025. Client segments as defined by each individual firm. Note that there may be some differences in perimeter definitions across firms, although efforts have been made to normalize wherever possible when information is available; Wealth including BDCs is based on company disclosures on AUM from wealth/retail channels wherever possible, however where estimates were made using BDC reporting, some institutional capital may be included. Efforts have been made to exclude institutional capital from BDC figures where possible; institutional includes AUM from all other sources. Business development companies (BDCs) are U.S.-regulated investment vehicles that provide debt or equity financing to small and mid-sized private companies, often in the lower middle market.

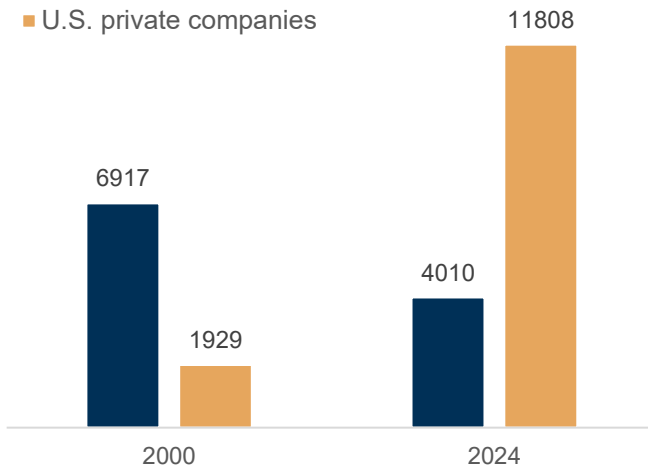
# ... desire for access is driving democratization of private markets, too

Public equity market concentration and the proliferation of private markets knowledge create interest among qualified investor types.

- Product innovation in the private markets space has created opportunities for qualified investors to fundraise among a larger set of investors, including high-net-worth investors. Interest in private markets strategies among these investors has grown in part due to its historically higher return and low volatility profile (though infrequent mark-to-market policies contribute to this expectation).
- However, several trends in public markets have also contributed to this dynamic. In equity, for example, fewer and fewer companies are listed for public shareholding (**left chart**). In recent years, as large-cap technology stocks have outperformed the index, equity market concentration – both geographically (**middle chart**) and strategically (**right chart**) – has increased. These dynamics give investors the perception that the public markets do not provide as diverse an opportunity as they used to, nor do they provide efficient access to the “main street” or early-stage opportunities.
- As a result, we have seen an increase in qualified investor curiosity about and allocation to the private markets as an opportunity to diversify their equity holdings. This includes access to the “main street” opportunities for value creation that the middle market and lower middle market provide.

## Company ownership has moved steadily from public to private markets

- U.S. public companies
- U.S. private companies



Sources: New York Life Investment Management, Global Market Strategy, PitchBook, World Federation of Exchanges, World Bank, April 2026.

## U.S. market capitalization dominates global market capitalization

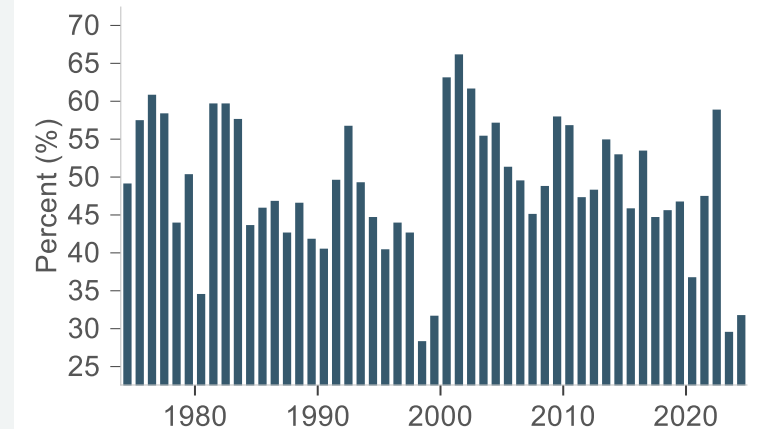
- U.S. market cap / world market cap



Sources: New York Life Investment Management, Global Market Strategy, , Macrobond, April 2026.

## Few stocks outperform the S&P 500 index in recent years

Percent of S&P 500 stocks outperforming the index over the calendar year



Sources: New York Life Investments Global Market Strategy, NDR, Bloomberg, Macrobond, April 2026.

# Our key takeaways per private markets asset class

Private and illiquid strategies may not suit all qualified investors; those with access can consider these high conviction themes.

## Private equity

- Momentum in private equity deal activity continued to build through 2025, setting the stage for a stronger recovery in 2026. Improved financial conditions and greater confidence accelerated deal flow and exits – helping to re-energize the private equity flywheel.
- While traditional fundraising remains more constrained, alternative sources of liquidity have strengthened the ecosystem beyond exits and fundraising.
- Looking ahead, private equity remains well positioned, supported by substantial dry powder, increasing activity by corporate buyers, and an evolving secondary market.
- As deal flow accelerates into 2026, opportunity sets are expanding beyond the highest-quality assets, creating attractive entry points.

**Investor approach:** Private equity momentum is building. We favor the middle and lower middle market for its attractive entry points, lower competition, and resilient fundamentals

## Private credit

- As the credit cycle matures, private credit fundamentals remain resilient, supported by strong corporate liquidity, defensive structures, and long-term relationship-based lending.
- Selectivity is essential as investors lean increasingly into complexity and structure to help build resilience before it is tested.
- In Europe, structural tailwinds and continued bank selectivity support opportunity, while increased competition points to the benefits of a focus on smaller, sponsor-less deals in our view.
- Resilience is strongest in the middle and lower middle market, where credit quality remains high, competition is lower, and relative value is compelling in our view.

**Investor approach:** As the credit cycle matures, focus on resilient segments like middle and lower middle market direct lending, with disciplined manager selection and attention to competitive dynamics.

## Real estate

- Differences in pace and persistence of rate normalization are driving uneven price discovery across U.S. and European real estate.
- In Europe, rate normalization has enabled price discovery to advance, with early signs that valuations have bottomed and recovery becoming increasingly cash-flow led.
- In the U.S., higher rates slowed the price discovery process, though further easing and growing refinancing pressure are creating selective equity and credit opportunities.
- Demographic shifts and internal migration are reshaping local supply and demand dynamics, both within and across regions.
- Structural trends, such as re-globalization, digitization, and the continued rise of e-commerce, are also driving capital formation.

**Investor approach:** Leverage regional differences to capture cyclical opportunity. Focus on sectors with durable demand growth, such as those driven by foundational changes in demographics and global megatrends.

## Real assets

- Recent geopolitical developments have strengthened our conviction that global transitions – digitization, electrification, and supply chain re-globalization – will drive increased demand for real assets.
- These transitions are highly capital intensive, requiring sustained investment in energy, materials, and infrastructure to support AI adoption and industrial reshoring.
- While valuations have risen in parts of the AI and infrastructure ecosystem, inputs such as energy and materials have seen more limited valuation expansion, creating attractive relative value opportunities.
- In an environment of higher inflation and interest rate volatility, real assets may offer diversification benefits and durable cash-flow generation potential.

**Investor approach:** Opportunities related to global transitions (digitization, electrification, supply chain re-globalization) have become clear. Diversify a private portfolio by considering the natural resources inputs to that process

Opinions of New York Life Investment Management, 2026.

# We believe the lower middle market presents a global private opportunity

Qualified investors may benefit from focusing on less efficient parts of the market; the lower middle market is one such opportunity in our view.

- Private markets have reached a considerable \$14.5 trillion in size across asset classes. Still, they remain a small portion – just 4% – of the total investable market. At the same time, company financing trends have shifted. The number of listed companies has fallen from 7,000 to 4,000 since 2000, and equity market capitalization has become increasingly concentrated in the United States.
- In response, more types of qualified investors are shifting their focus to private markets, seeking return potential and diversification. We believe qualified investors should focus on areas of the market that are less efficient, or where return characteristics cannot be as easily achieved in public markets. We see the lower middle market (LMM) of private equity and private credit to be one such opportunity – and one that is particularly attractive at the capital markets turning point investors may be facing today.

## Our case for the lower middle market

### What is the lower middle market (LMM)?

- The lower middle market is typically defined as companies with less than \$250 million in enterprise value, or private equity funds with less than \$1 billion in assets under management. The middle market is typically larger, with up to \$500 million in enterprise value. Large companies are typically those with \$1 billion or more in enterprise value.
- The number of companies in this segment is much larger than it is for large companies, providing a deeper pool of acquisition opportunities.
- Companies tend to be family or founder owned, so investment is typically the first institutional capital applied to the company's business.
- Qualified investors can focus more holistically on value creation through business building, rather than focusing on financial engineering as is typical in larger parts of the market.

Benefit	Description
<b>Competitive resiliency</b>	<ul style="list-style-type: none"> <li>• The lower middle market offers an attractive supply-demand imbalance, with a large number of potential target companies and lower fundraising volume.</li> <li>• Historically, the supply-demand imbalance for companies / assets has resulted in attractive entry valuations, with smaller companies trading at a discount to larger companies.</li> <li>• Deep pools of capital available to potential acquirers, such as corporate strategic acquirers and large/mega private equity funds, can result in consistent exit opportunities.</li> <li>• The cyclical nature and variability of bank loan volume create the need for private financing in credit markets.</li> </ul>
<b>Economic resiliency</b>	<ul style="list-style-type: none"> <li>• Lower middle market funds have historically outperformed larger segments over the long term, including in high interest rate and high inflation environments.</li> <li>• Contrary to common belief, company size explains only 6% of default frequency, whereas higher leverage, which is a key characteristic of larger funds, is the largest factor explaining expected default frequency.</li> </ul>
<b>Portfolio resiliency</b>	<ul style="list-style-type: none"> <li>• Lower middle market, middle market, and large &amp; mega funds can offer diversification benefits and complementary exposure when paired together.</li> </ul>

Opinions of New York Life Investment Management, April 2026. For illustrative purposes only.

# Global Market Strategy: our resources

## Macro Pulse: Economic & market commentary

In an ever-changing landscape, understanding the trajectory of macro trends and economic forecasts is critical to making informed investment decisions.



Comprehensive outlook (& quarterly webinars)



Weekly market update

From the desk...  
(timely response to market movement, policy, data, etc.)



Weekly podcast & bi-weekly videos



## Thought leadership

(thematic reports, portfolio construction, podcast series, etc.)

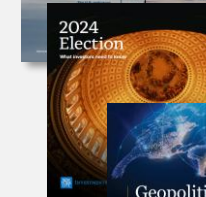
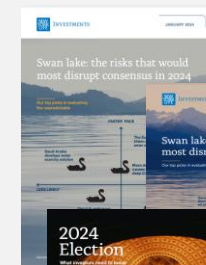
### Megatrends

- Trust or bust: the next era of global debt sustainability
- Artificial intelligence: from imagination to investment
- (re)globalization



### Politics and geopolitics

- Geopolitical risk in a shifting world order
- Swan Lake: the risks that would most disrupt consensus



### Private markets

- Global market outlook



### Important disclosures

The commodities industry can be significantly affected by commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions. The precious metals market can be significantly affected by international monetary and political developments such as currency devaluations or revaluations, central bank movements, economic and social conditions within a country, trade imbalances, or trade or currency restrictions between countries. Fluctuations in the price of precious metals often dramatically affect the profitability of companies in the precious metals sector. The precious metals market is extremely volatile, and investing directly in physical precious metals may not be appropriate for most investors.

Prospective investors should be aware that investments in private funds or alternative investment strategies are suitable only qualified investors who do not require liquidity and who can bear the economic risk, including the potential for a complete loss, of their investment. A Qualified Investor, also known as an accredited investor, is an individual or entity that is legally permitted to invest in hedge funds, venture capital funds, private equity offerings, and other private placements. This qualification is typically based on the investor's income and net worth.

All investments are subject to market risk, including possible loss of principal. Diversification cannot assure a profit or protect against loss in a declining market. Active management typically involves higher fees than passive management.

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