

# Macro Pulse

Outlook for 2026: charting the year ahead

DECEMBER 2025



INVESTMENTS

# Demonstrating the depth and breadth of the New York Life Investments platform

## Objective, top-down analysis

*Global Market Strategy at New York Life Investments*



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## Seasoned bottom-up expertise

*Multi-boutique structure*

### AFFILIATED BOUTIQUES

### UNAFFILIATED SUB-ADVISORS



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# Executive summary

As investors look to 2026, markets are defined by tension. The U.S. is getting later in its economic and credit cycles, yet policy remains supportive enough to delay a slowdown. Valuations are high, yet earnings are concentrated in a narrow set of AI leaders that continue to drive returns. Global investors have digested a rapid pace of policy change, but this sentiment – and hedging behavior with it – can turn on a dime. **These crosscurrents shape our macro view for 2026: a supportive global policy backdrop should keep financial conditions loose, encouraging both risk-taking and corporate investment – even as market tensions test investors' conviction.**

## Key shifts from 2025

Since the “Liberation Day” disruption, global markets proved surprisingly resilient to policy change. In the U.S., the resumption of Fed easing, de-regulation, and AI capex buildout supported valuations. Concerns about market concentration risk and the maturation of the credit cycle were raised, but not disruptive.

Political uncertainty in Japan, the UK, and France contributed to upward pressure on government bond yields. Risks have been contained so far, but policy credibility is in focus amid broader debt concerns.

The U.S.-China relationship, including both trade and AI competition, remained in the spotlight.

H1 2025 saw strong ex-U.S. outperformance driven by a weaker dollar. As the dollar stabilized in 2H, ex-U.S. equity performance converged with that of the U.S.

Private markets deal flow began improving, thanks to lower rates, cyclical tailwinds, and, in the U.S., a de-regulatory impulse.

## Base case for 2026

We believe U.S. capital markets conditions will remain constructive in 2026, supported by modest Fed easing, targeted liquidity support, and a pro-growth fiscal policy backdrop ahead of midterm elections. These factors are typically supportive of resilient corporate profitability, which should in turn prevent a sustained uptick in layoffs.

We expect AI to remain a concentrated driver of loose capital markets conditions, with a strong virtuous cycle of earnings growth and capex intentions rewarded by the market.

Globally, we anticipate neutral-to-constructive policy environments in Europe, Japan, and China. Though we expect U.S. assets to remain dominant – and even overweight – in global portfolios, a shifting geopolitical backdrop is likely to support regional and asset class diversification.

A constructive market backdrop should contribute to further improvements in private markets activity. We remain optimistic about private markets' resilience given strong credit quality, new sources of liquidity, and democratization of access.

## Risks to the base case view

Building on our constructive economic outlook, the primary risk to markets is economic overheating, which would be reflected in a more pronounced reacceleration of inflation.

Trade and supply chain risks have moderated, but surprise policy moves or court-driven shifts in tariff implementation could still disrupt business planning. Rising logistics costs and legal uncertainty remain meaningful headwinds to corporate activity.

In the AI boom, sky-high expectations, market concentration, power constraints, and speculative behavior in parts of the supply chain could create near-term volatility. AI's impact on the labor market, including its contribution to slower hiring, cannot be isolated yet.

Dollar dynamics – caught between strong U.S. growth and policy uncertainty – will hinge on global capital flows, central bank activity, and evolving allocation preferences.

As the U.S. midterm elections approach, we expect fiscal policy to remain generally supportive, but the pace and direction of policy change could surprise markets. A perceived threat to Fed independence represents a key downside risk to market functioning, while deregulation could offer a short-term boost to performance.

**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>We believe accommodative Fed and fiscal policy will support risk-on positioning in 2026, with upside inflation risks – both cyclical and policy-driven – acting as a “brake” on the extent of policy support.</li> <li>Deploying new capital is difficult when valuations are this rich. We see opportunities for diversifying additions in U.S. large cap value and high quality small cap equities, ex-U.S. developed market equity, and short duration credit (for its equity-like risk characteristics).</li> <li>AI is likely to remain a concentrated equity market driver, with a virtuous cycle of quality earnings growth and capital expenditures rewarded by the market.</li> <li>Global preference for U.S. assets can turn on a dime, and ex-U.S. equity outperformance was a powerful diversifier in 2025. Higher fiscal spending and loan growth in Europe, along with a pro-growth policy direction in Japan, support an ongoing neutral allocation to ex-U.S. equities in 2026.</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) financials, (2) materials, and digital infrastructure tied to the AI theme, (3) high quality small caps, and (4) developed ex-U.S. equity
FIXED INCOME	<ul style="list-style-type: none"> <li>The combination of moderate borrowing costs and tight credit spreads have investors asking whether fixed income allocations are worth the risk. In our view, the income generation opportunity remains attractive. Additional Fed cuts may also compress spreads further from here, as could any upside risks to Treasury yields.</li> <li>A strong economic backdrop supports credit fundamentals (interest coverage, maturity timeline) over the medium term. We see no signs of systemic over-leverage or credit quality concerns at this time.</li> <li>That said, the U.S. public and private credit cycle is maturing. We expected strong underwriting to pay in 2026, despite the potential for “junk,” such as CCCs within HY credit, to outperform on the back of supportive liquidity and growth conditions.</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 a core bond allocation, favoring structured credit. Within credit, maintaining an underweight position to floating rate bank loans.
PRIVATE MARKETS	<ul style="list-style-type: none"> <li>Private markets allocation is growing and democratizing, contributing to competition for quality assets in large and mega deal terms.</li> <li>Resilient growth, lower policy rates, and deregulation have increased deal flow.</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 accretive portfolio diversifiers in eras of upside inflation surprise. We are not yet concerned about a double-peak in inflation, but expect cyclical factors – resilient growth and tariff policy shifts – as well as structural factors – supply chain re-globalization, AI infrastructure spend, and trends towards energy independence – 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 for 2026

- [AI persists as a concentrated market driver](#)
- [The U.S. Federal Reserve remains supportive](#)
- [Fiscal policies lean pro-growth](#)
- [Dealmaking primed for resurgence](#)
- [Favorable corporate profitability supports U.S. employment](#)
- [The U.S. credit cycle matures](#)
- [U.S. remains dominant in regional preference](#)
- [Global long rates see upward pressure](#)

## Where could we be wrong?

- [Upside risks to inflation](#)
- [Downside risks to labor](#)

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.

*Readers can click on any item to jump to that section.*

# Putting our allocation views into a global context

A shifting geopolitical landscape, the growing reach of AI, and benign economic backdrop make 2026 a year for rebalancing, in our view.

Structural macro forces are directly influencing how we size risk and where we diversify in 2026.

## The geopolitical landscape is shifting, with concrete macro impacts becoming more visible

- The global order is undergoing a profound transformation. The era of U.S.-led globalization is giving way to a world defined by great power competition, economic nationalism, and rising conflict. Policy positions that once seemed unthinkable – trade wars, new energy alliances, and nationalistic industrial policy – are now common. This may be even more the case in election years, as we believe will be true for the U.S. in 2026.

## AI's importance is fueling an investment “space race” and amplifying geopolitical tensions

- As AI becomes central to economic and national security, it is raising stakes of geopolitical disruption and magnifies its impact on portfolios. The concentration of key supply chain elements – rare earth processing by China, for example; chip design by the U.S.; manufacturing in Taiwan; fabrication equipment sourced from Europe – creates constraints for major countries.
- Competition over the AI supply chain is contributing to the rapid pace of investment. Though rapid uptake of AI tools could bring productivity gains, resource constraints, including electricity capacity, are also creating upward price pressures and higher volatility.

## Macro risks may build throughout 2026, but are not yet breaking

- Our base case view, explored in depth in this section, calls for U.S. economic outperformance in 2026. Fed easing, fiscal support for U.S. taxpayers, a de-regulatory impulse, and improving deal flow all support our view.
- This pro-growth policy backdrop, combined with a geopolitically-fueled technological megatrend in AI, mean that leverage – for households, companies, and national governments – is likely to build in 2026. We are monitoring this trend closely, but do not see system-level risks currently.

## As for allocation: we are fully invested, focusing new deployments on diversification

- In our view, it is critical that investors not lose sight of these big-picture developments. Diversification has always mattered theoretically, but the last 15 years of “lower for longer” interest rates and stable U.S. outperformance have driven a visible shift in portfolio construction: portfolios have shifted more to equity, more to U.S. assets, and even more towards unhedged exposures.
- Now, investors are recalibrating: rebalancing regional allocations, currency exposure, and inflation hedges for a new regime.

## Diversifying our allocation in 2026

### AI and policy-driven uplift

- Moderately risk-on across asset classes
- Closing underweights to small cap (now neutral)
- Maintaining large-cap U.S. tech exposure (neutral to a market-weight benchmark)
- Bull steepener effect prominent in Treasuries, barring long rates risks (in which case we'd expect a bear steepener)
- Expect rangebound dollar

### Global transitions are costly

- Inflation is sticky; reacceleration would be a policy “brake”
- Building commodity satellites (gold, precious metals industrial metals) sourced from equity sleeves
- Slightly hawkish in our U.S. Fed view

### New deployments used to diversify

- Using new cash to balance overall exposure, bringing underweights in value, ex-U.S. exposure, and small cap back to neutral
- Junk may outperform in brief moments: look past this and stay in quality

# Base case: AI persists as a concentrated market driver

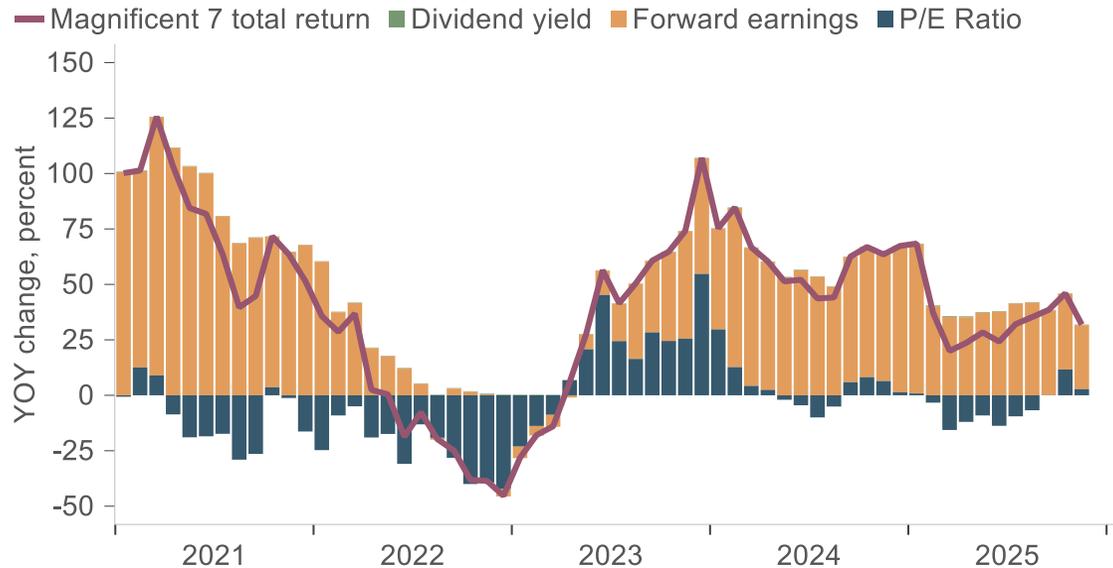
We expect to see markets reward the virtuous cycle between strong earnings and capex intentions.

- We believe the AI thesis has room to run. Our approach is balanced: maintaining a market-weight U.S. equity position while deploying *new* capital into AI infrastructure – particularly where providers are investing to ease undercapacity in power and energy supply chains.
- Despite rich valuations, earnings growth remains the key driver of AI performance (**left chart**). Hyperscalers continue to recycle cash flow from profitable business lines into AI, creating a virtuous cycle between earnings, cash flow, and capex.
- Their use of cash has been disciplined, generating enough to fund buybacks, dividends, and AI

investments – roughly 60% of operating cash flow – all at once (**right chart**).

- Investor concerns related to market concentration, circularity of spend, and private financing are reasonable – giving us a greater focus on quality in this space – but early. We see plenty of space for debt financing to expand before we would be worried about systemic risk.
- 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.

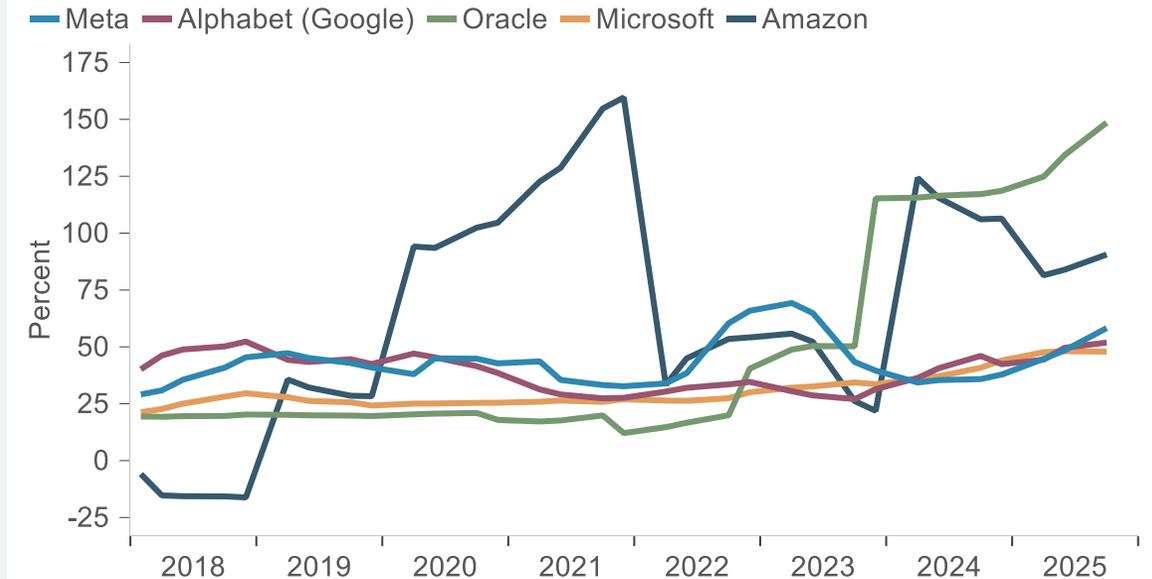
## Magnificent 7 earnings growth has led price performance and justified lofty valuations



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, December 2025. Price to equity (P/E) ratios denote equity valuation. The Magnificent 7 are Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla. Past performance is no guarantee of future results, which will vary.

## Capex is not straining hyperscalers' cash

Capital expenditures as a share of operating cash flow



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, December 2025. Smoothing used: 1-year moving average for Meta, Alphabet, Microsoft. 2-year moving averaged used for Oracle and Amazon due to greater volatility.

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

We expect marginally less easing than market consensus, but modest cuts will still be an important capital market support in 2026.

- The Fed's mandates continue to face opposing pressures. Loose financial conditions – strong equities, tight credit spreads, and ample liquidity – make it difficult to justify rapid easing, and upside risks to inflation remain. But weak job creation, economic inequality, and sluggish housing market activity – paired with recent emergency liquidity needs by select banks – all shift the balance of risks towards Fed cuts (**left chart**).
- The Fed's current easing cycle has delivered 150bps in total easing thus far. We are modestly hawkish relative to consensus, expecting roughly 50-75bps of further easing between December 2025 and year-end 2026 (market is pricing ~100bps).

- 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 reglobalization and artificial intelligence.
- We do not perceive any systemic liquidity issues at this time, but expect the Fed would step in with select liquidity support if necessary. The Fed ended its QT program on December 1, 2025, having reached its estimate of "ample" reserves.

## The Fed's mandates are facing opposite pressures

### Biasing the Fed to cut rates

Downtrend in hiring

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

Liquidity 'crunch' in select banks

Housing market slowdown

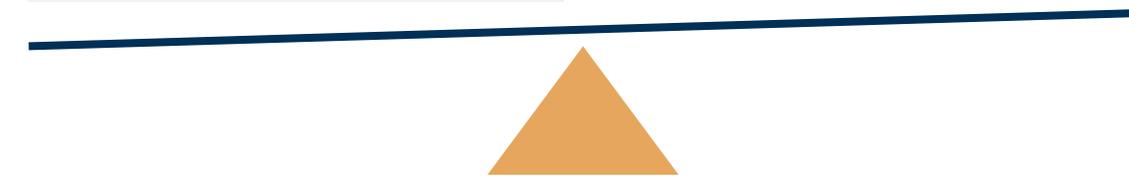
### Biasing the Fed not to cut rates

Upward wage risk from tighter immigration

Goods and services price pressure from tariffs

Loose financial conditions

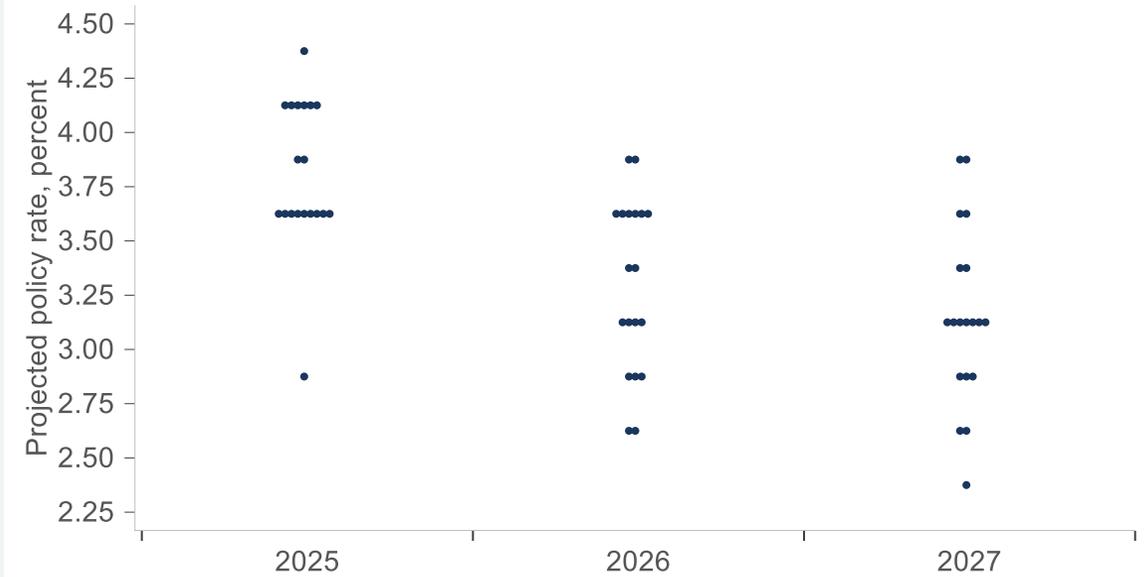
Supply side shocks: not much Fed policy can do



Opinions of New York Life Investments Global Market Strategy, December 2025.

## 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 September 2025



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Macrobond, December 2025.

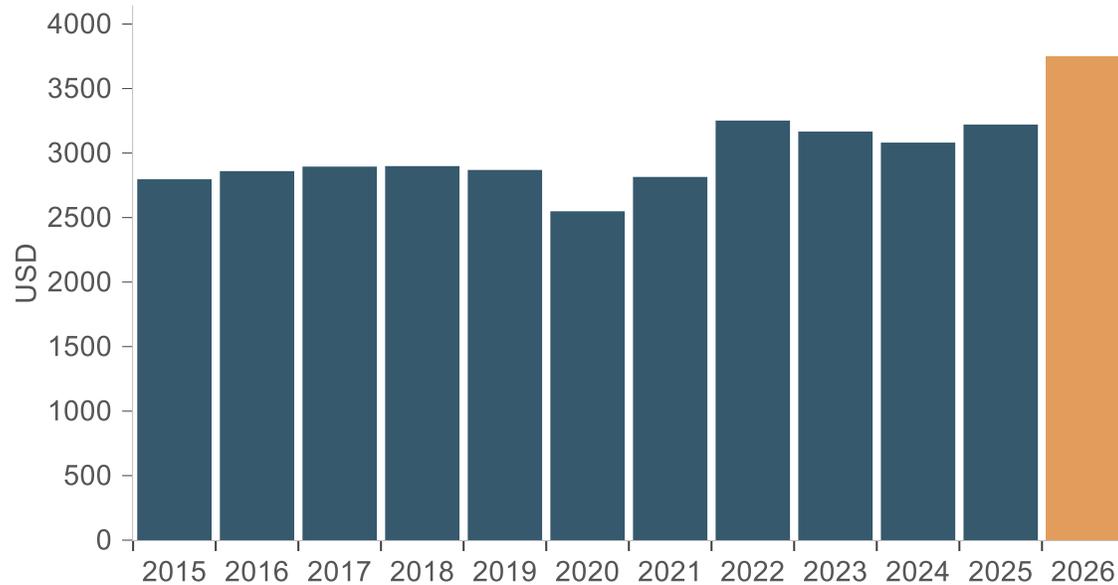
# Base case: pro-growth fiscal policies should sustain strong U.S. economic activity

As the midterms approach, growth and affordability will take center stage, with tax cuts and deregulation delivering to economic momentum.

- The tax cuts in the One Big Beautiful Bill Act are expected to deliver a significant boost to both to 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.

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

■ Forecasted 2026 average tax refund ■ IRS average tax refunds

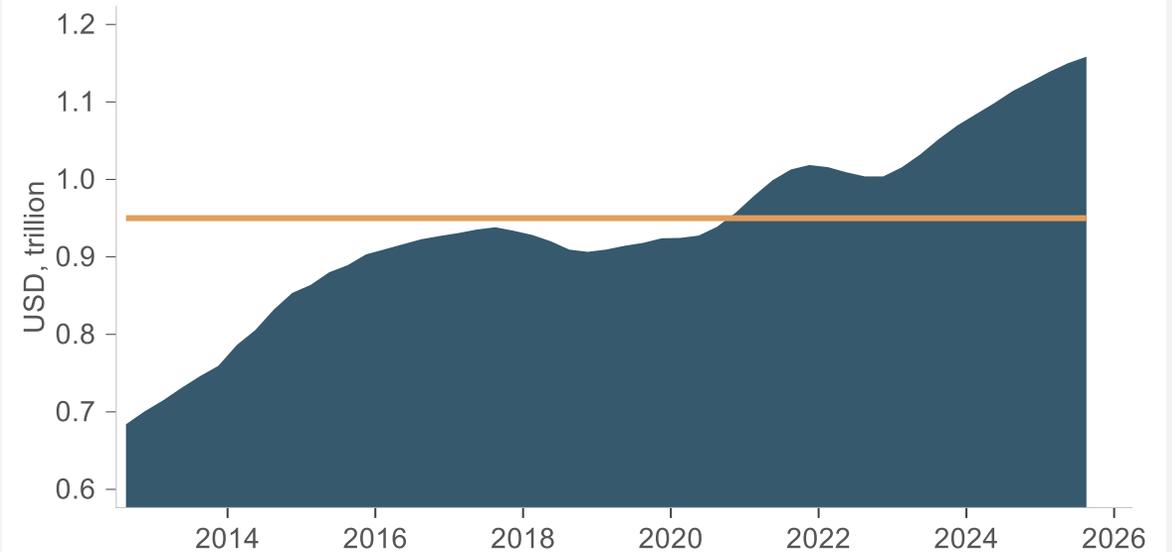


Sources: New York Life Investments Global Market Strategy, IRS, JP Morgan, Macrobond, December 2025. JP Morgan estimate of the average 2026 tax refund taking into account the One Big Beautiful Bill Act.

- Deregulation and industrial policies are expected to provide a tailwind for growth through 2026. Expanded government support for key industries, including energy, financial services, and technology, may strengthen strategic sectors and spur innovation and investment.
- 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.

## 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 Investments Global Market Strategy, Bloomberg, Macrobond, December 2025. Data includes: JPM, BAC, C, GS, MS, PNC, RF, TFC, USB, BK, NTRS, STT.

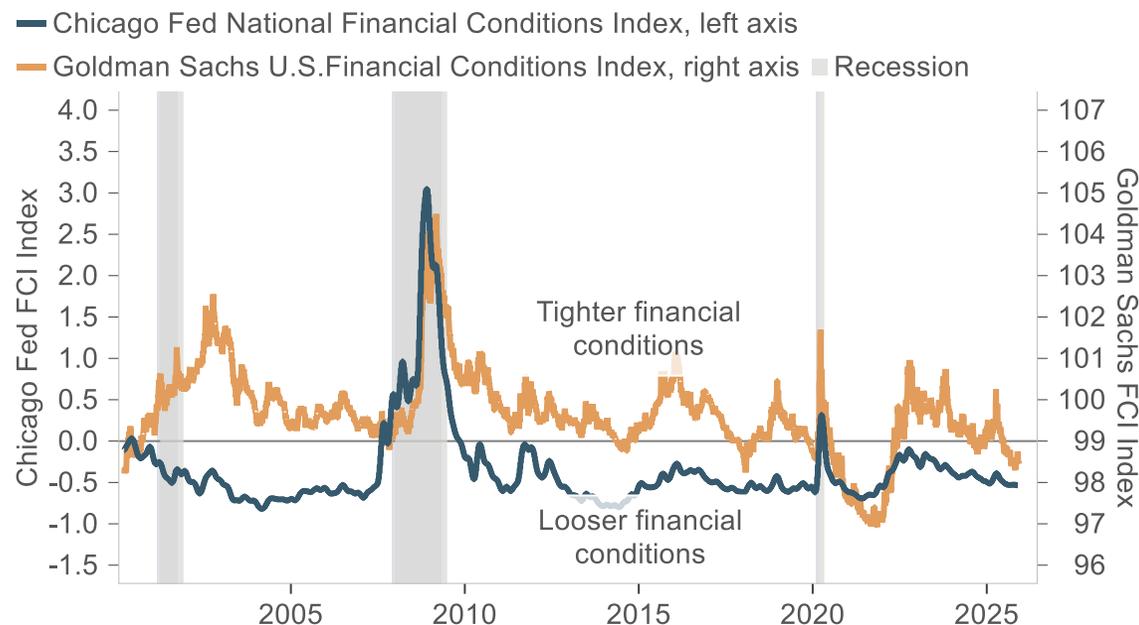
# Base case: policy support sets the stage for 2026 dealmaking resurgence

Strong growth, easier financial conditions, and supportive policy should propel dealmaking into 2026.

- After a banner year in 2021, the rate-hiking cycle of 2022–2023 triggered a sharp slowdown in global dealmaking. IPO and M&A volumes fell as financial conditions tightened (**left chart**), creating a slow-moving credit crunch in private equity as exits stalled.
- 2025 has marked a clear resurgence in dealmaking, with lower rates reopening the IPO window and lifting M&A activity (**right chart**).
- Heading into 2026, we expect the central tenets of our economic view – strong growth, easier

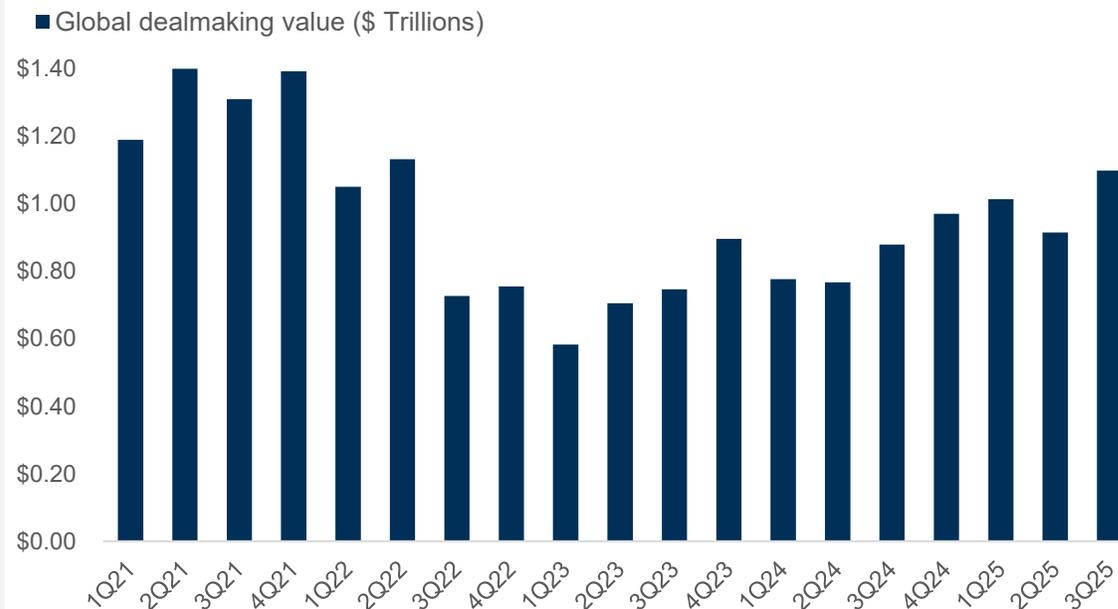
- financial conditions, and greater liquidity, aided by lighter bank capital requirements – to further support deal flow.
- Private equity activity should strengthen as lower rates bolster valuations, setting the stage for broader deal flow. Combined with rising M&A momentum, the private equity “flywheel” of exits, fundraising, and new deals is likely to continue to accelerate.

## Market financial conditions are likely to loosen further amid interest rate cuts



Sources: New York Life Investments Global Market Strategy, Federal Reserve Bank of Chicago, Goldman Sachs, Bloomberg, Macrobond, December 2025. FCI: Financial conditions index.

## Global dealmaking value picked up throughout 2025, driven by large and mega-deals



Sources: New York Life Investments Global Market Strategy, Bloomberg, December 2025.

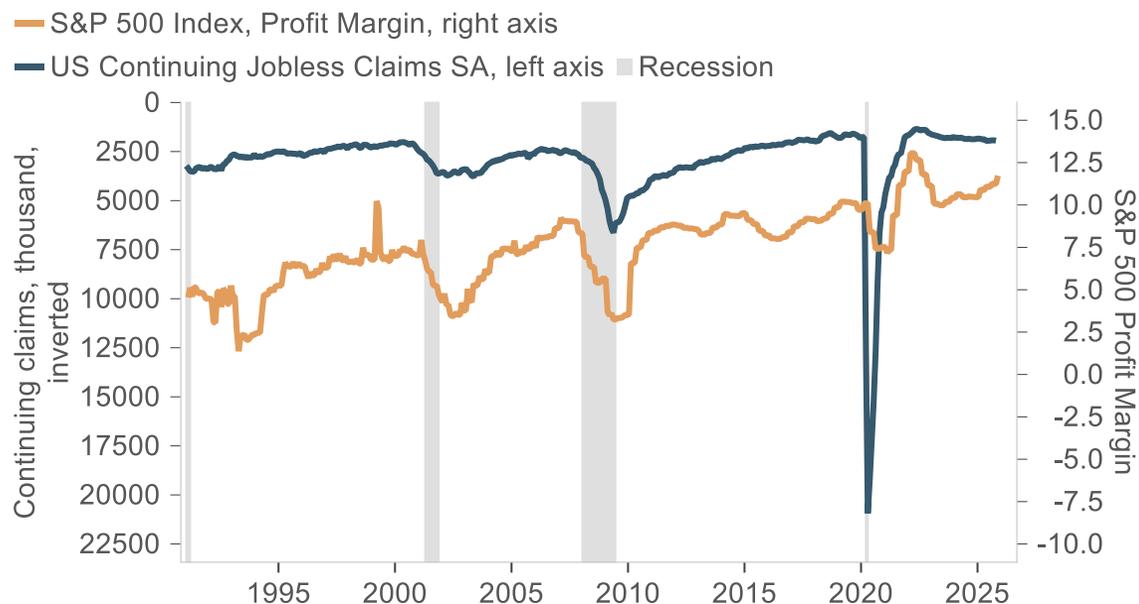
# Base case: favorable corporate profitability supports U.S. employment

Corporate profitability is likely protect employment, thereby protecting consumers.

- We expect the 2026 economic environment to remain supportive of corporate profitability, driven by Fed easing and a favorable fiscal backdrop ahead of the midterm elections.
- When profits hold up, companies are less likely to cut headcount, helping sustain consumer spending (**left chart**), particularly for mid- and lower-income consumers.
- Fascinatingly, the dip in corporate profitability in 2022 did not create layoff pressure, an exception to the historical examples of the pandemic period, Global Financial Crisis, and early 2000s recessions. We attribute this exception to labor hoarding activity during the pandemic. It is unknowable whether this behavior would continue in a further down leg for

- corporate profitability.
- Research shows that spending tends to fall only when people in a consumer's social or professional circles begin to lose jobs (**right chart**). In this sense, a low hiring environment can be sustained with limited knock-on effects to consumer activity, but accelerating layoffs are more likely to shift consumer behavior.
- Business activity has remained solid, with corporate profit growth is still positive, though rising input costs could pose a headwind.

## As long as profit margins hold up, a severe labor downturn looks unlikely



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, December 2025. 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.

## Job loss anxiety is on the rise after a period of stability

Survey of consumer expectations: Job separation expectations (How worried are you about losing your job?)



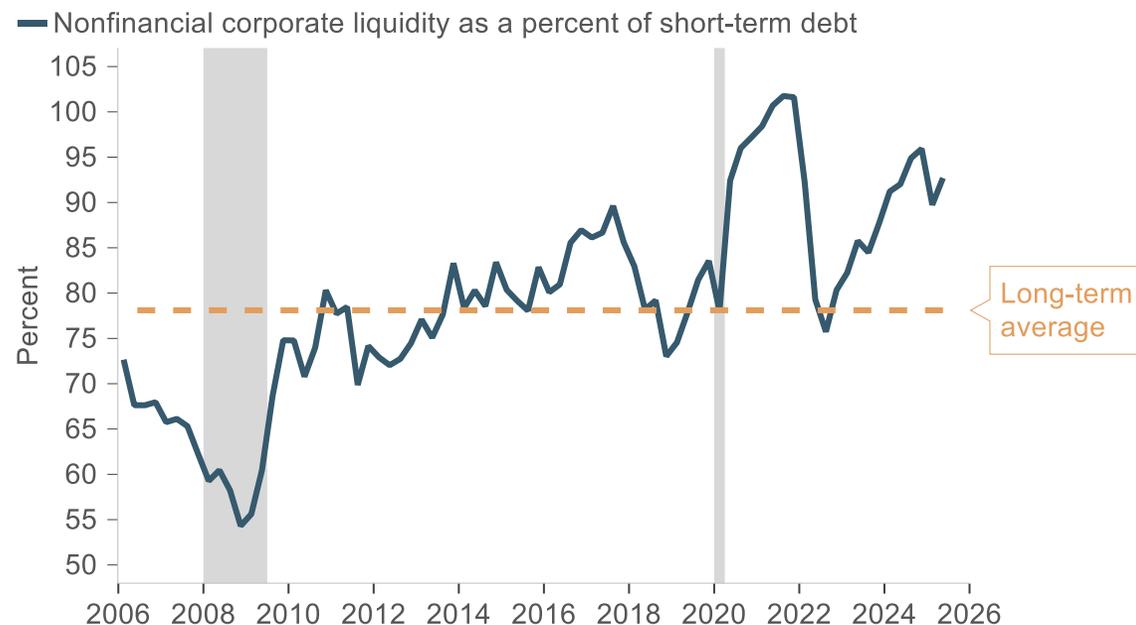
Sources: New York Life Investments Global Market Strategy, Federal Reserve Bank of New York, NBER (National Bureau of Economic Research), U.S. Bureau of Labor Statistics (BLS), Macrobond, December 2025.

# Base case: the U.S. credit cycle is maturing, but fundamentals remain solid

We view recent high-profile credit events as idiosyncratic, within an otherwise resilient landscape.

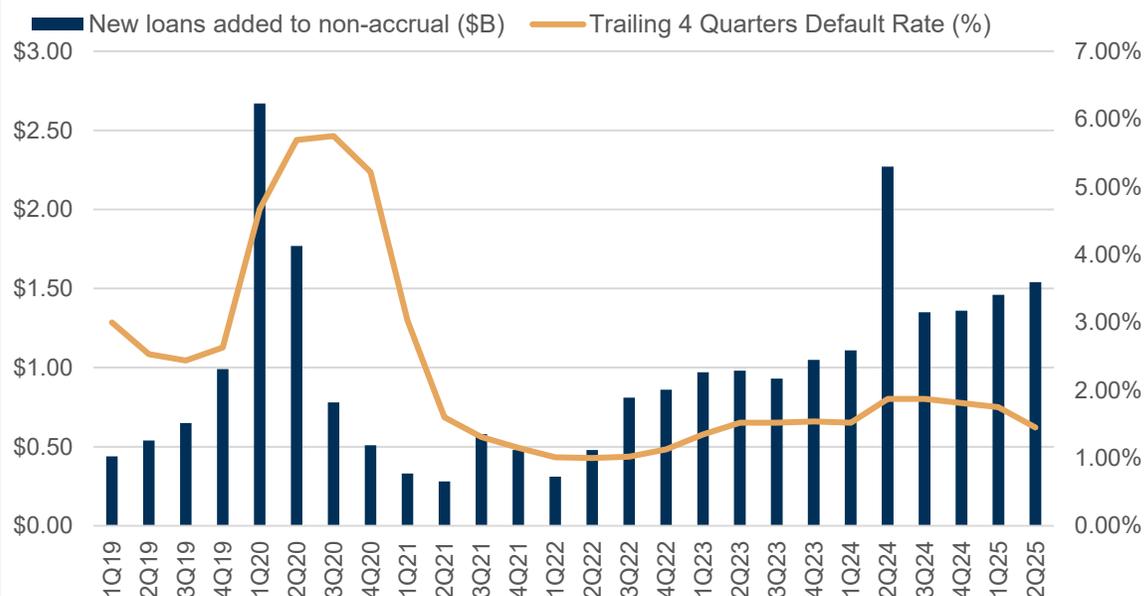
- As the credit cycle matures, investors are watching for signs of strain. Recent bankruptcies (First Brands Group, Tricolor Holdings) alongside unexpected bank loan losses have heightened the scrutiny of credit risk. In the absence of publicly available data, private credit is – and we believe it will remain – prone to headline risk. Still, we view these events as isolated, not systemic, in part because of the role of fraud in recent bankruptcies.
- We maintain a constructive outlook on U.S. credit. The economy is resilient, and corporate liquidity remains well-above the pre-pandemic trend (**left chart**). Liquidity is at healthy levels, and defaults remain low (**right chart**). As the Fed lowers rates, flows from cash-like instruments may support overall flows and tighten spreads further.
- We continue to advocate for selectivity, strong underwriting, and disciplined exposure – not because we expect stress, but because resilience is best built before it is tested.

## Corporates' financial buffers still at a healthy level



Sources: New York Life Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, December 2025.

## Private credit default rates remain low, while non-accruals have picked up modestly



Sources: New York Life Investments Global Market Strategy, Cliffwater LLC, December 2025. Represents data from all loans in the BDC universe.

# Base case: strong U.S. growth moderates the transition in regional preference

A geopolitical regime shift and U.S. policy uncertainty are driving a closer look at portfolio diversification, but not unwinding U.S. dominance.

## Geopolitical shifts and U.S. policy uncertainty are driving investor rebalancing

- As we wrote earlier in this section, the global economic and geopolitical landscape is shifting. A model defined by U.S.-led globalization is ceding towards great power competition and economic nationalism. The importance of AI may be accelerating this shift, as countries compete over key resources and processes to influence this global megatrend.
- For investors, this means rethinking portfolios that have become overly concentrated in either U.S. assets or equity during the “lower for longer” and strong dollar period of the last 15 years.
- U.S. trade policy shifts in 2025 may have accelerated this trend - at least temporarily. Concerns about policy stability and growing U.S. indebtedness prompted investors to take steps towards rebalancing their exposure. Global flows data suggest that much of this rebalancing was done via U.S. dollar hedging rather than outright sales of U.S. assets.

## For now, outperforming U.S. growth and dollar dominance keep the transition in check

- Overall, we believe that the persistence of U.S. growth outperformance, and the resilience of the U.S. dollar as global reserve currency, will keep investors fully allocated – and even overweight – U.S. assets.
- However, both policy-related and structural (debt service) concerns remain, and investor preference can shift on a dime – likely felt first in the U.S. dollar volatility and potentially in long rates. Key triggers in 2026 include relative economic performance (upside risks to ex-U.S. growth or downside risks to U.S. growth), threats to Fed independence, volatility around the U.S. midterm elections.

## Our view on the U.S. dollar

- We have exited an era in which the dollar was in a secular uptrend and diversification did not matter. Our base case economic view calls for U.S. economic outperformance in H1 2026 (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.

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

*We believe investors should consider a more balanced global exposure. This view is focused on diversification and risk management rather than expecting bold international outperformance.*

**EMERGING MARKETS** are diverse; some are more sensitive to China’s growth, others are more sensitive to U.S. growth and policy change. Lower U.S. rates are typically positive for the EM landscape; an upside surprise on U.S. tariff policy would be even more supportive. For now, our view that the Fed may cut less than the market is currently pricing, coupled with our expectation that trade policy may remain ambiguous for business planning, leaves us with a neutral position.

We expect growth in the **UNITED STATES** to remain resilient in 2026, and for this resilience to slow the pace of global portfolio rebalancing. Key risks to this view lie in policy uncertainty – real or perceived. Global investors are particularly attuned to Fed independence and the path of U.S. debt.

Recent stimulus is meant to control the pace of **CHINA**’s slowdown but is unlikely to foster a re-acceleration of activity. Longer term, a structural leverage problem and illiberal capital markets policy constrain growth and investment opportunities.

The **EURO AREA** economy has benefited from a faster interest rate cutting cycle over the last two years. Now, that cycle has likely stabilized, reducing cyclical lift. Germany’s infrastructure plan should stabilize activity in 2026, but outperformance is unlikely.

**JAPAN** is in transition. Bank of Japan (BOJ) policy is normalizing, inflation is still above target, and trade rules are mid-implementation. Takaichi-san leans towards policies supporting growth via fiscal spending and lower interest rates. But ultimately, slim majorities in parliament may mean investors don’t see major change.

Source: New York Life Investments Global Market Strategy, December 2025.

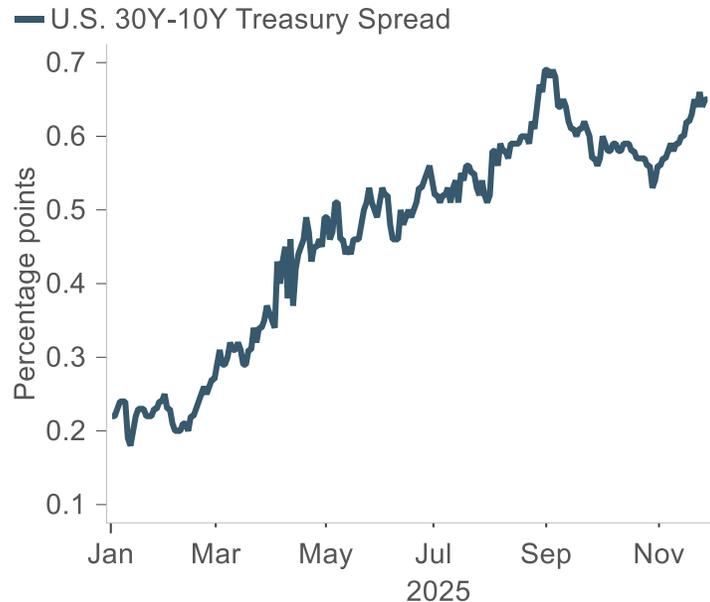
# Base case: rising global long rates reflect long-term policy and debt risks

Steeper global yield curves highlight pervasive concerns about the nexus of political dysfunction and debt sustainability.

- Throughout 2025, long rates rose, producing a bear-steepener in the 30Y–10Y spread across several major sovereign curves (**charts**).
- Political dysfunction and economic discontent have been simmering in many major economies, including the U.S., France, Japan, and the UK for years, bringing debates over the size of government, debt-service costs, and the role of central banks to the forefront.
- We see a steepening tendency in most developed-market yield curves. On the short end, governments are keeping policy rates compressed to support growth. On the long end, heavier

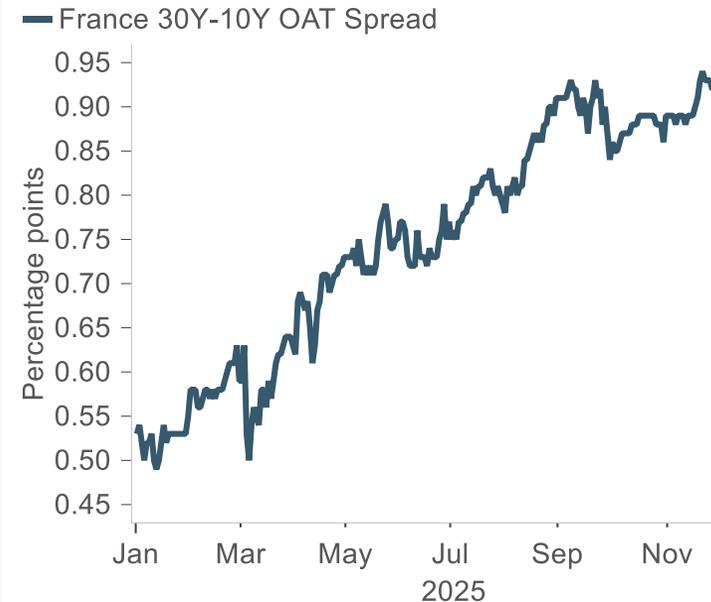
- fiscal spending, elevated issuance, and associated inflation risks put a floor under long rates.
- We expect this upward pressure to persist in 2026. In the U.S., fiscal expansion is likely to continue even amid solid growth. In France, political turnover is likely to continue, even as debt surpasses 100% of GDP. In Japan, we expect tension between a new government in favor of expansive policy and a BOJ intent on reducing its market role.
- A sharper steepening could challenge our constructive outlook, signaling eroding investor confidence.

## Pressure in U.S. Treasury long rates...



Sources: New York Life Investments Global Market Strategy, U.S. Department of Treasury, Macrobond, December 2025.

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



Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Macrobond, December 2025. OATs: Obligations assimilables du Trésor.

## ... and in Japanese government bonds.



Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Macrobond, December 2025. JGB: Japanese Government Bond.

# What if we're wrong? The upside risks to inflation

Inflation – both from cyclical overheating and overly accommodative fiscal policy – could force the Fed to pump the brakes.

- A key risk to our constructive macro and market outlook is the potential build-up of inflation pressures.
- In our view, the most likely path would begin with cyclically driven inflation – economic overheating as policy support meets an already above-trend pace of economic growth. Incremental fiscal stimulus, including the proposed \$2,000 tariff dividend checks to select households, could amplify this.
- An inflationary reacceleration could challenge our base case in escalating ways. First, a pickup

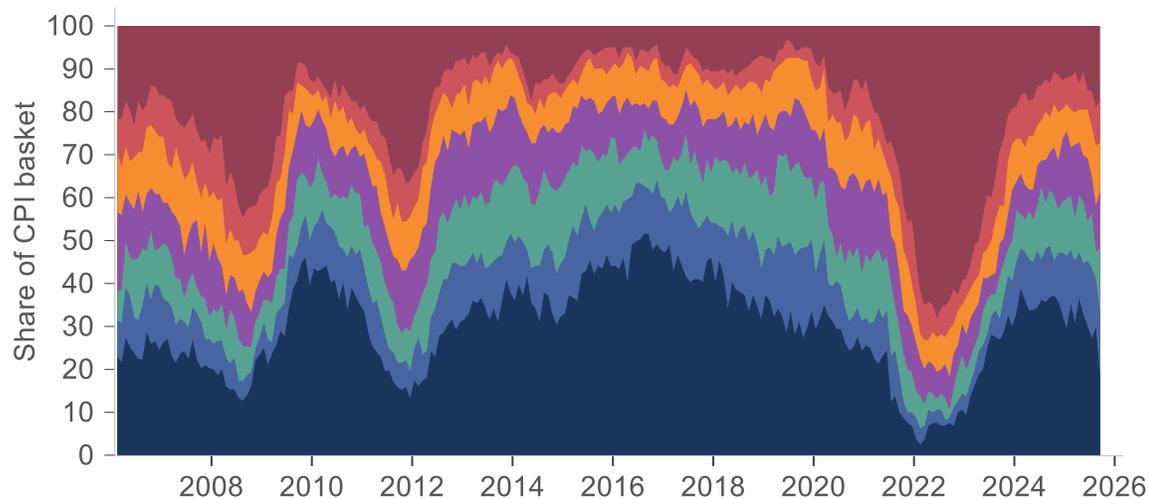
in inflation could force the Fed to pause, or even reverse, its rate-cutting cycle. This would erode the expectation for supportive policy underpinning our outlook.

- A second escalation – more concerning but less likely in our view – would take place if continued inflation met a less independent Fed. Specifically, a Fed that was cutting rates as inflation rose would likely drive real rates negative, push long rates higher as investors question inflation-fighting credibility, and weaken the dollar as hedging flows increase.

## A greater share of goods are now seeing prices reaccelerate

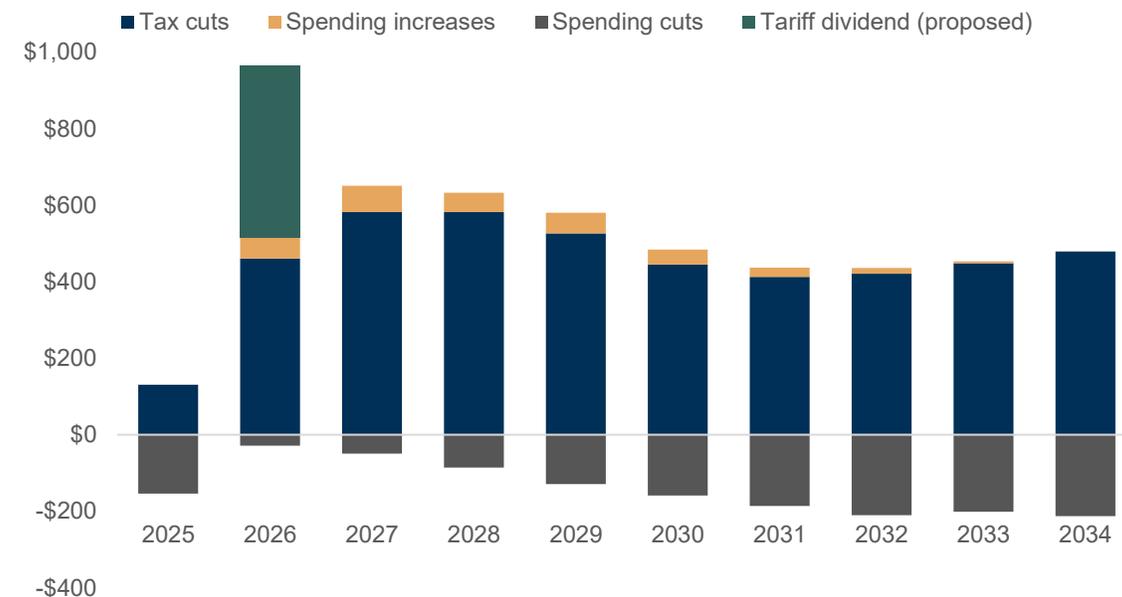
Distribution of price changes in the CPI basket

- Share of CPI basket components rising over 5% annually
- 4-5%
- 3-4%
- 2-3%
- 1-2 percent
- 0-1%
- Unchanged or falling



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), U.S. Bureau of Economic Analysis (BEA), Macrobond, December 2025.

## With tax cuts from the One Big Beautiful Bill Act and proposed tariff dividends, fiscal stimulus in 2026 could reach close to \$1 trillion



Sources: New York Life Investments Global Market Strategy, Congressional Budget Office, Joint Committee on Taxation, Yale Budget Lab, December 2025. The tariff dividend is the \$2,000 stimulus proposed by President Trump for households earning less than \$100,000 per year.

# What if we're wrong? The downside risks to labor

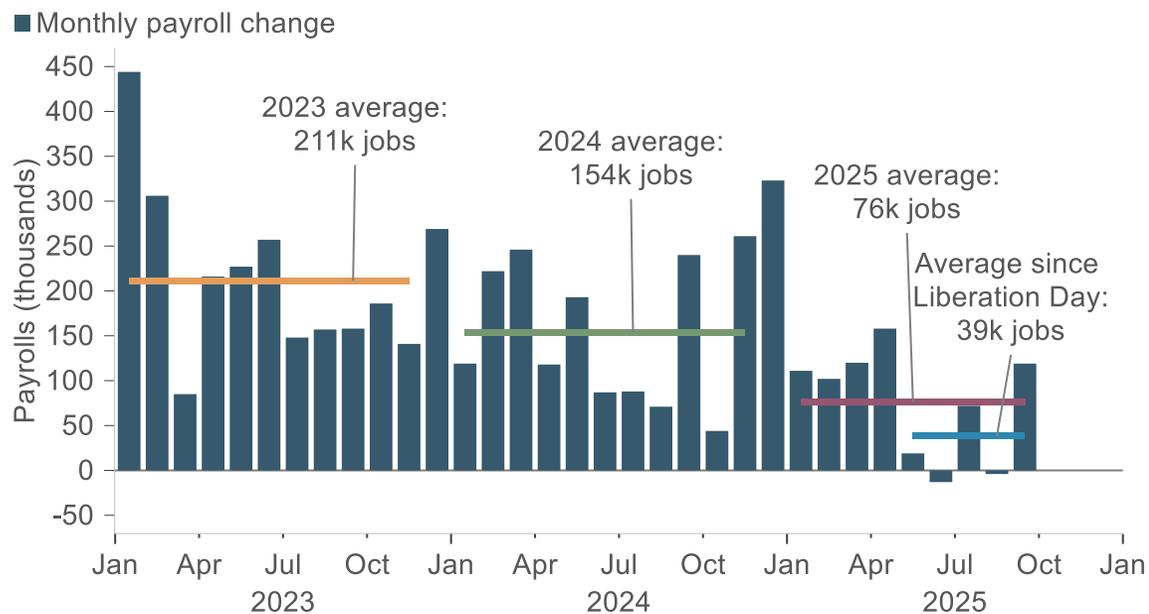
While we expect corporate profits to support employment, the labor market enters 2026 in a fragile “low hire, low fire” state.

- While we believe inflationary overheating is the greater risk to the U.S. economy in 2026, we cannot ignore the downside scenario, likely driven by an acceleration of layoffs.
- The end of the “low hire, low fire” economy would likely be brought on by a down-shift in corporate profitability, stemming from slower demand than we expect, or possibly from policy shifts including tariffs. An example of a possible trigger: the Supreme Court ruling on the use of IEEPA authority for tariffs. We believe a rollback would simply spark more ad-hoc

tariff policy, keeping overall tariff rates elevated and potentially creating a greater inflationary impact stemming from higher transportation and logistics costs.

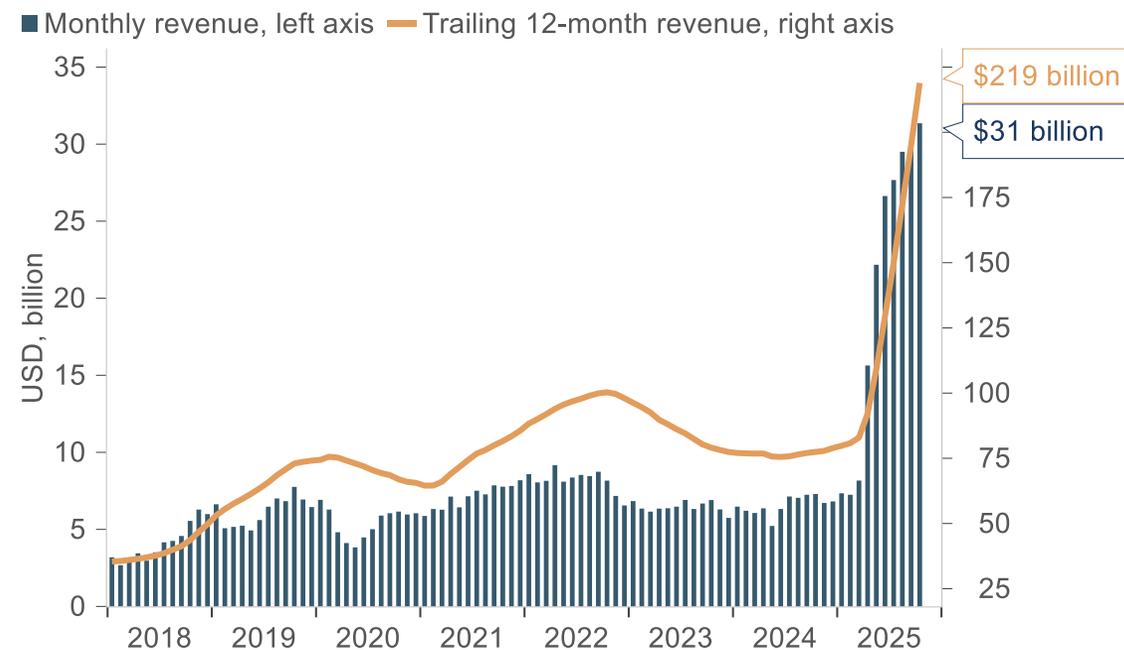
- Should U.S. corporates respond to margin pressure with layoffs, we'd expect to see a swift and severe negative impact on consumer activity; strong job availability has been a key component of supporting most consumer cohorts through the inflationary post-pandemic period.

## Job growth has slowed, now facing policy uncertainty after a period of labor hoarding



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, December 2025.

## As tariff revenues rise, so does the impact of tariffs on the economy



Sources: New York Life Investments Global Market Strategy, U.S. Department of Treasury, Macrobond, December 2025.

# 2 U.S. economic & market outlook

## U.S. economic cycle

- [Status of economic cycle](#)

## Monetary policy & financial conditions

- [Fed outlook](#)
- [Fed balance sheet](#)
- [Liquidity](#)
- [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](#)

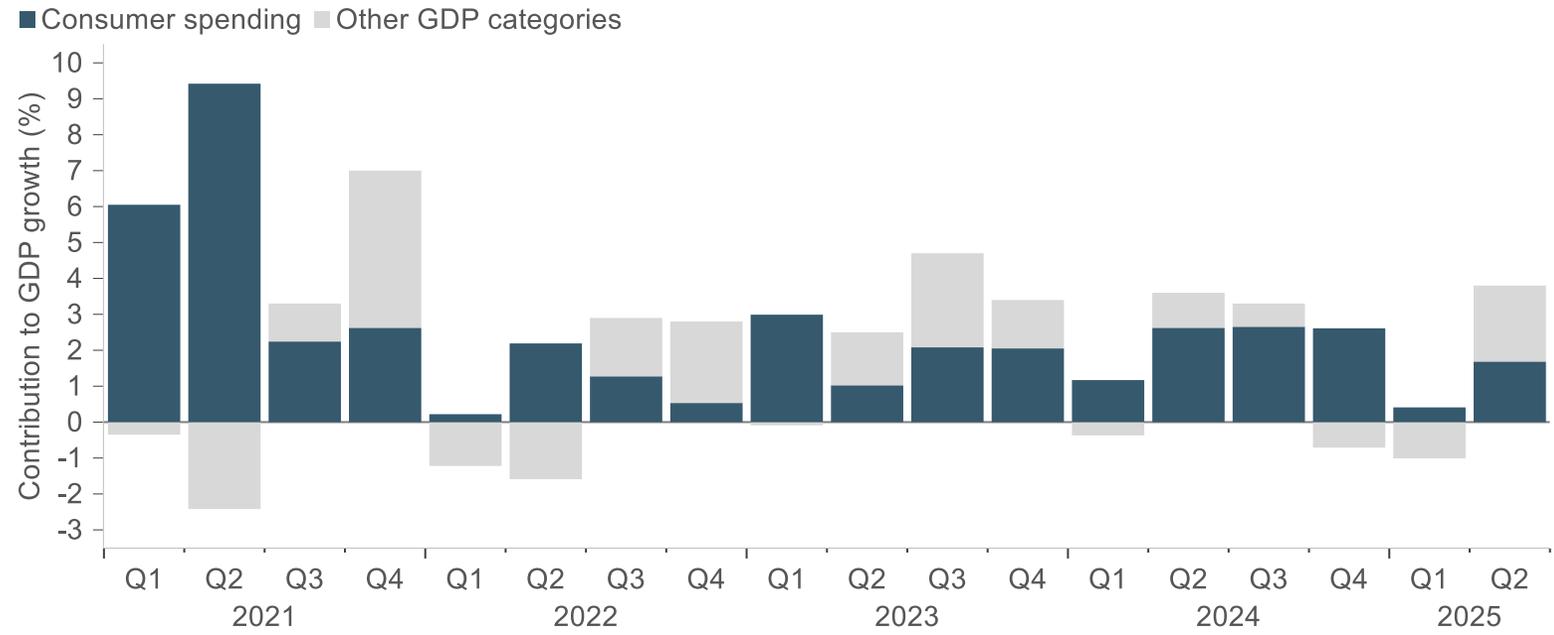
# We expect resilient economic activity as the cycle extends

Though economic activity has been K-shaped – favoring high-income consumers – we expect overall activity to remain resilient in 2026.

- 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**). Q2 2025 GDP growth was a breakneck 3.8% annualized, driven by consumption and capital expenditure. Q3 growth is expected to be robust. Drags from the government shutdown on Q4 2025 growth will likely be made up in Q1 2026.
- We expect U.S. economic growth to remain at or above trend in 2026. Activity is not

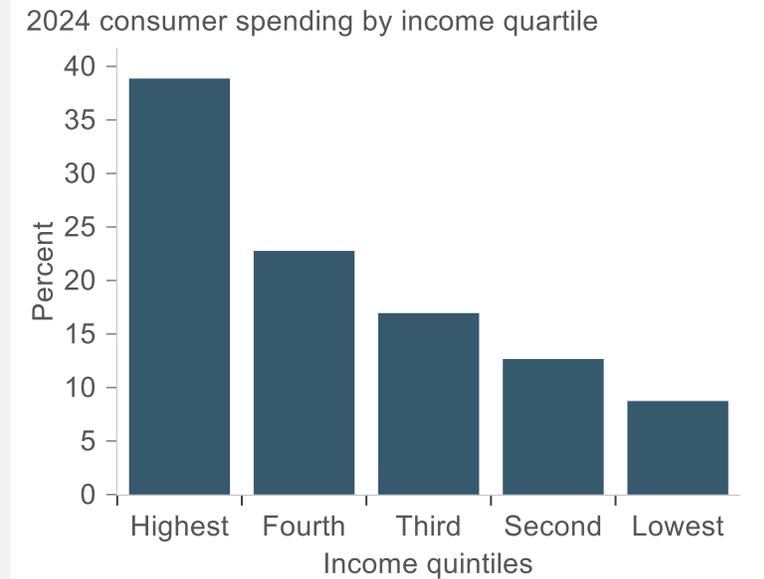
- immune to the broad range of policy changes that may create uncertainty for households and businesses. However, supportive Fed and fiscal policy should cushion these effects.
- Consumer activity – and the economy with it – has become more deeply “K” shaped: the majority of consumption is driven by 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.

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



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), Federal Reserve Bank of Atlanta, Macrobond, December 2025.

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



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, December 2025.

# The Federal Reserve faces a tricky balance of its mandate

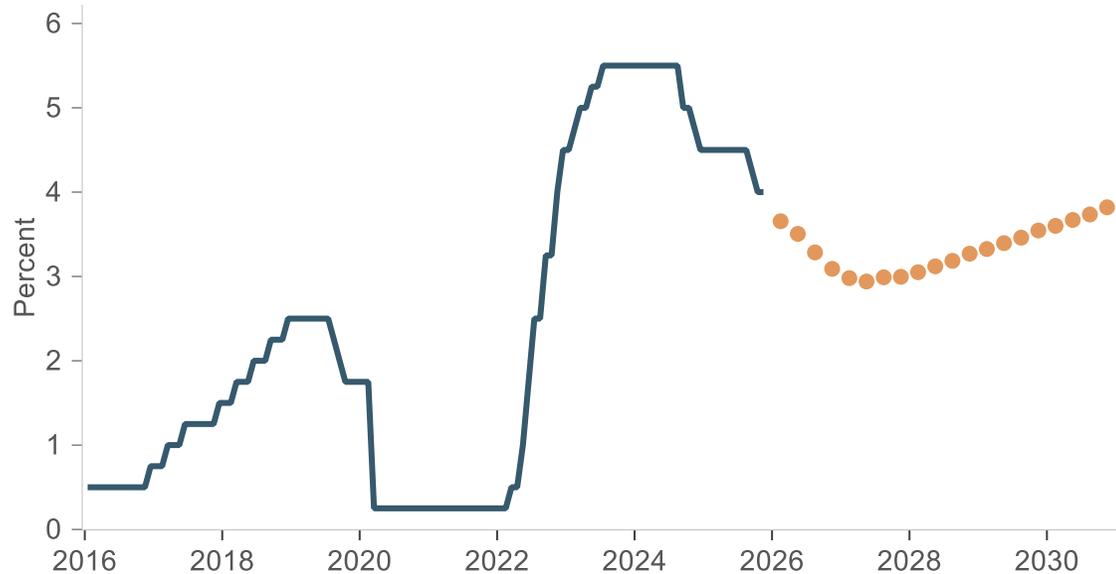
We remain hawkish relative to consensus and expect moderate easing from here, in part due to upside risks to inflation.

- 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. Lately, the Fed has been most focused on the labor market – namely a risk of rising layoffs. We have a keen eye on upside risks to inflation, landing us modestly hawkish in our Fed view relative to market consensus. We expect 50-75bps of further easing between December

- 2025 and December 2026; market consensus is pricing ~100bps of further easing.
- Modest easing is intended to return policy toward neutral, not representing a fundamental shift for those looking for relief in credit creation or asset purchase financing. A sustained, or faster, easing cycle is unlikely to materialize in our view, amid ongoing inflation risks and loose financial conditions.

## Though the market is focused on near-term cuts, rates are expected to be stickier in the medium-term

Federal funds rate and implied Fed funds futures curve



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Bloomberg, Macrobond, December 2025.

## 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.	✓
<b>Core inflation moving closer to target</b>	Core inflation is still above the Fed's target, reaccelerating in a choppy uptrend over the past six months. Policy risk amid resilient growth may re-firm inflation, which would slow the Fed's pace of cuts all else equal.	—
<b>Unemployment rate <math>\geq</math> 4.0%</b>	The labor market has come into better balance this year, but immigration policy changes mean labor supply is falling, which may push the unemployment rate <i>lower</i> – increasing wage risk.	—
<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 Investments Global Market Strategy, December 2025.

# Fed balance sheet tightening is at its end, closing a multi-year liquidity drain

Quantitative tightening (QT)'s December 1, 2025 end marks a shift toward a marginally supportive liquidity environment.

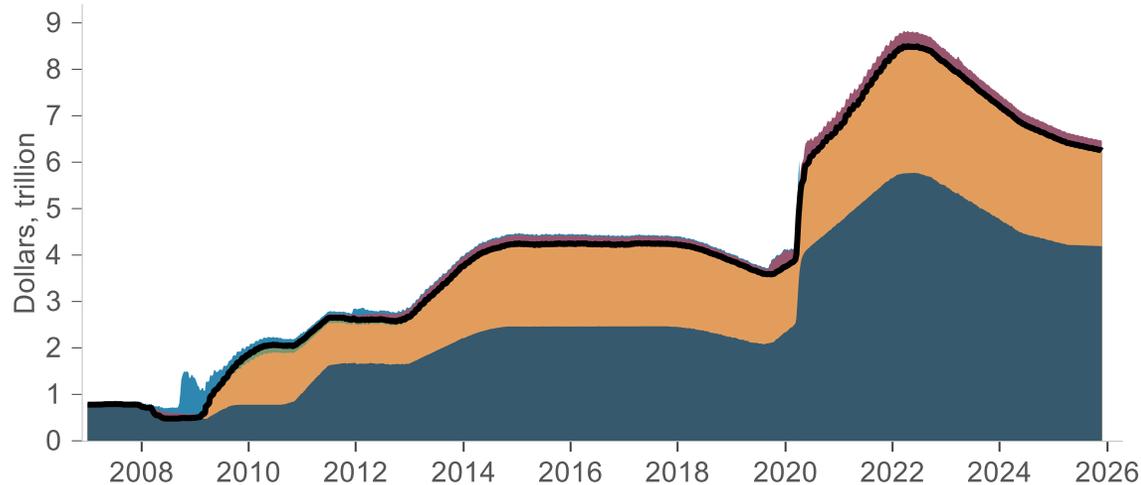
- The Fed's balance sheet is made up of assets (**left chart**) and liabilities (**right chart**). The Fed used QT to shave off \$2T in assets between June 2022 and December 2025; as it did so, it also had to trim its liabilities, thereby draining liquidity from the system.
- Fed liabilities include 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

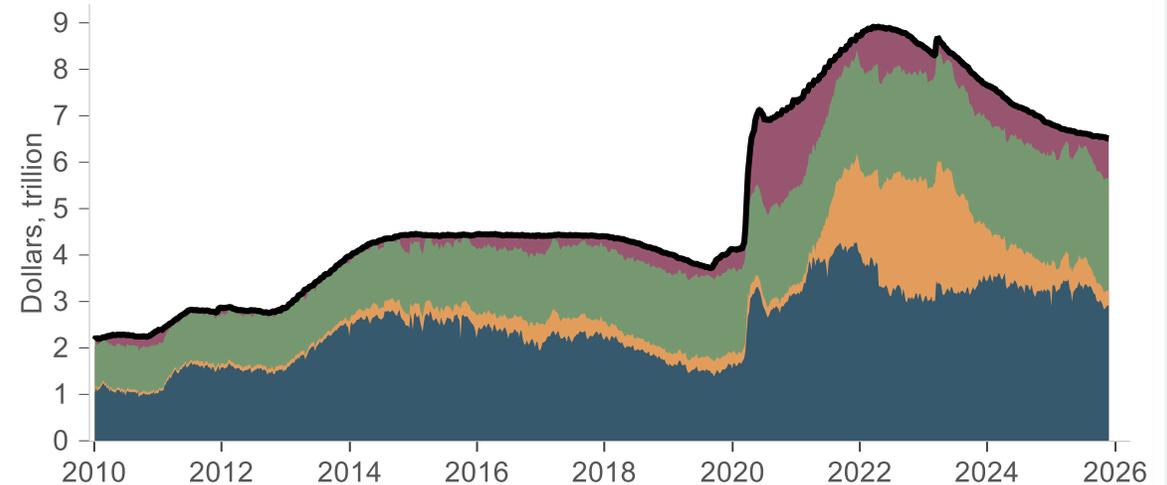
— Fed assets held outright ■ Other ■ Repos, premiums/discounts ■ Agencies ■ MBS ■ Treasuries



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Macrobond, December 2025. 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 Investments Global Market Strategy, Federal Reserve, Macrobond, December 2025. 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.

# We expect the Fed to step in with liquidity support when it is needed

As recent events demonstrate, liquidity is no longer plentiful as the Fed has right-sized its balance sheet. Still, we do not see systemic stress.

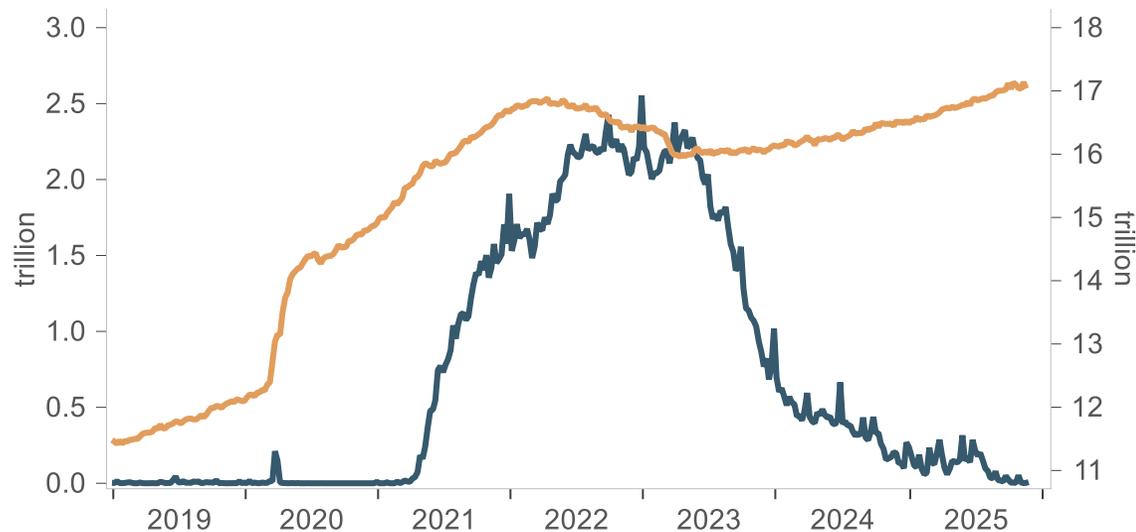
- The Fed is providing just enough balance-sheet support to align with market needs: liquidity is not scarce or causing stress, but it's no longer abundant either.
- During COVID, banks relied heavily on the reverse repo facility to park excess cash; the facility's decline shows that surplus liquidity has largely been absorbed (**left chart**).
- The Fed can still smooth liquidity "bumps," as seen in 2023 when regional banks tapped the Bank Term Funding Program (BTFP) and discount window as stress rose.
- Now in recent months, some banks have tapped the Standing Repo Facility (SRF)

signaling select liquidity constraints (**right chart**); we believe the Fed is highly attentive to these moments and will continue to address market liquidity concerns as they arise.

- The degree of that liquidity support may depend somewhat on the degree of Fed independence. The Fed Board of Governors is more likely to become politically influenced than the broader FOMC. Since the Board has sole discretion over the discount window, expanding access to this window could have the effect of expanding liquidity support.

## Near-zero use of the reverse repo facility suggests banks do not have excess cash to park with the Fed

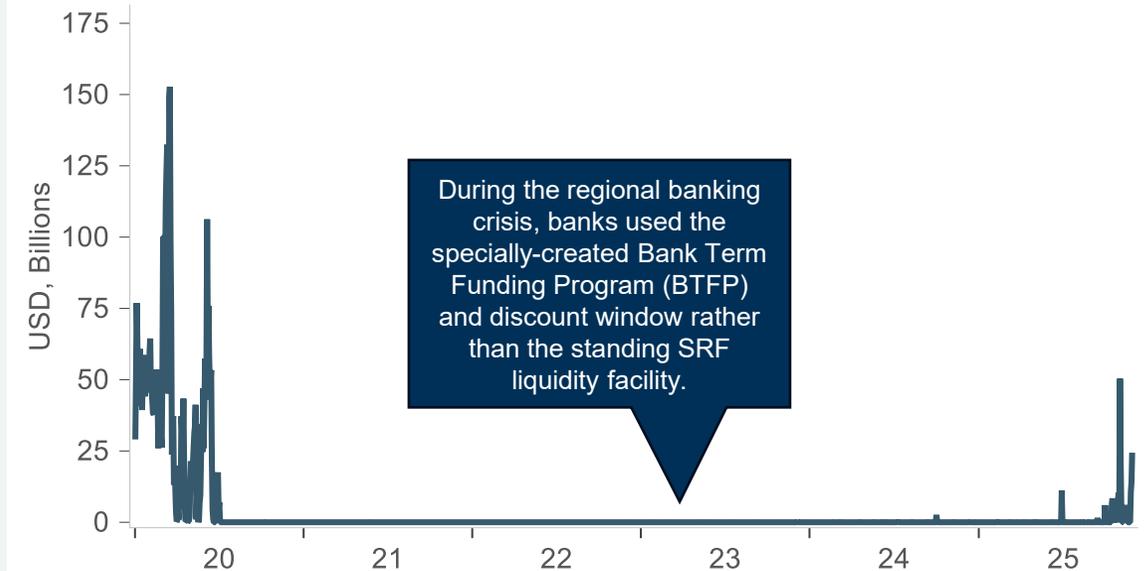
- Deposits held by depository institutions, right axis
- Balance of overnight reverse repurchase agreements, left axis



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Macrobond, December 2025.

## Select banks tapped emergency liquidity facilities in Q4 2025, signaling pockets of stress in funding markets

- Federal Reserve Bank of New York, Standing Repo Facility Value Accepted



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, December 2025.

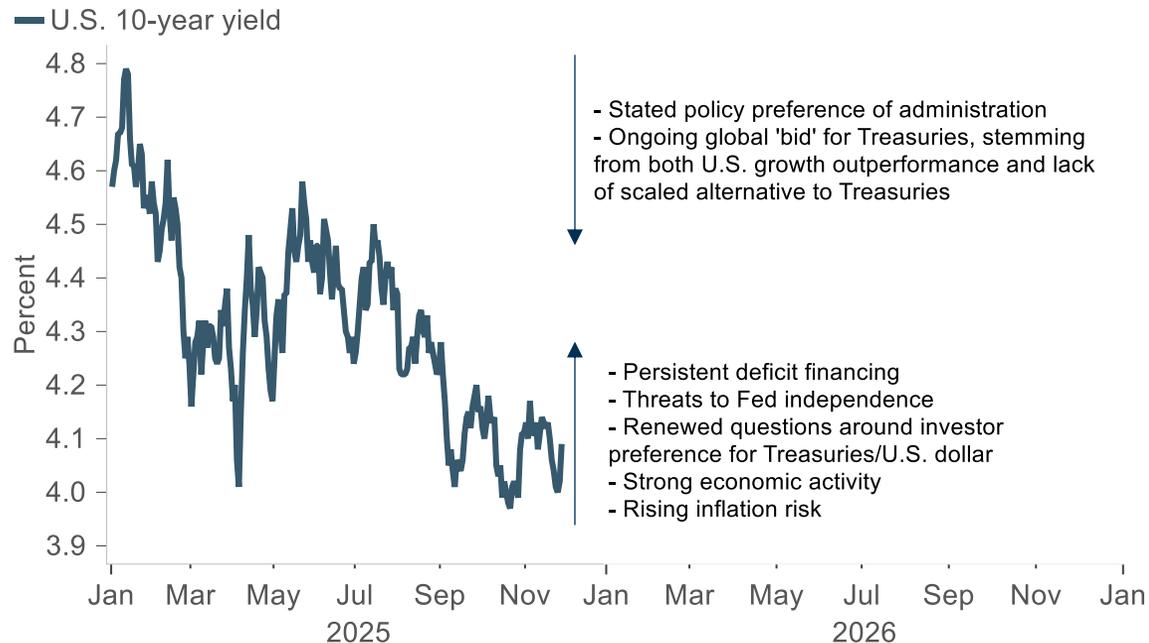
# Market rates are not consistently pricing long-term risks

Long-term rates are torn between a sanguine near-term environment and long-term risks, informing our caution on duration.

- In 2025, we believed 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 maintain 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.
- 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 150bps of cumulative easing

- this cycle; shifting interest costs is a gargantuan task in the nearly \$40T Treasury market.
- Two additional risks factor into the affordability of federal debt: global investor demand, which held up well in 2025 but could 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 abilities.
- Steep yield curves – especially when long rates rise due to strong economic activity – are not a bad thing on their own, and can encourage strong lending activity. We are minding both the “what” (yield curve steepness) and the “why” (the mix of risks and opportunities priced in).

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



Sources: New York Life Investments Global Market Strategy, U.S. Department of Treasury, Macrobond, December 2025.

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



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, December 2025.

# Modest easing directionally supports, but is not a game changer for, bank lending

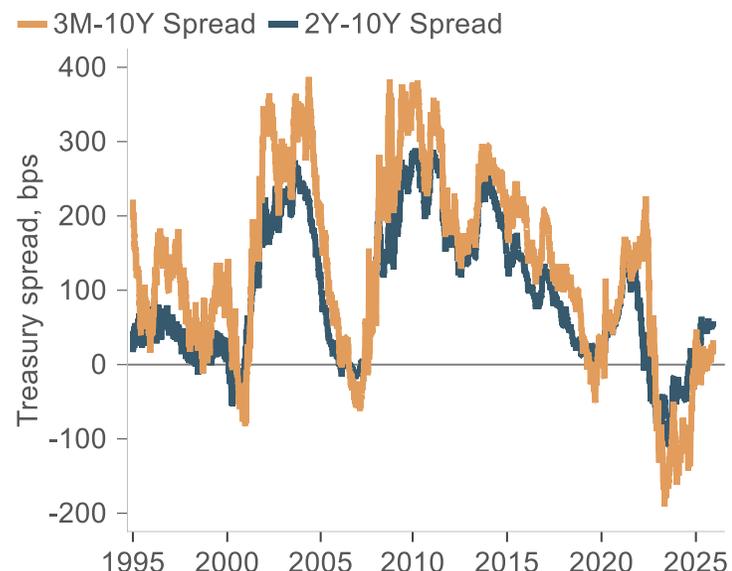
Both supply and demand of loans to businesses and households have moved from depressed levels to marginally positive.

Yield curve steepness remains a moving target. While the 2Y-10Y spread has normalized, the 3M-10Y spread is hovering near zero. This is driven by a shallower-than-expected easing cycle on the front end and volatility on the long end of the curve. Further easing should modestly support near-term loan demand.

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.

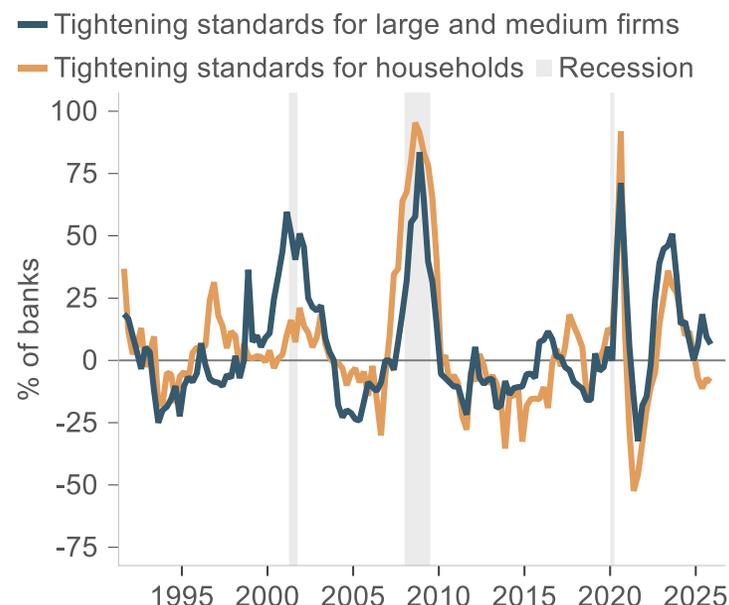
Loan demand side: late in 2024, both households and businesses were exiting an era of depressed demand for bank loans. We continue to see policy uncertainty as an x-factor for loan demand, particularly from businesses – but for now, an acceptance of the pace of policy change paired with modestly lower rates should support loan demand.

## The Treasury yield curve has finally normalized across tenors



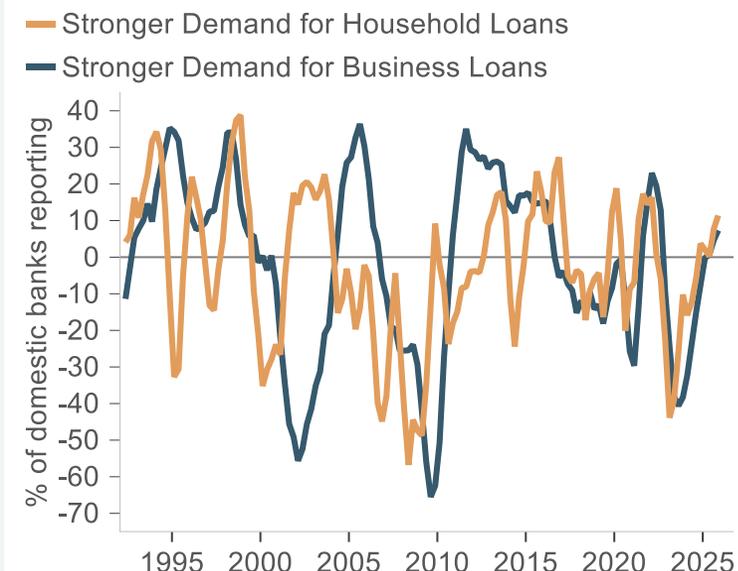
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, December 2025.

## Bank lending standards have moved to neutral



Sources: New York Life Investments Global Market Strategy, U.S. Federal Reserve, Bloomberg, Macrobond, December 2025.

## Loan demand has improved for both businesses and households



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Macrobond, December 2025.

# Market-determined financial conditions are loose today, and biased looser

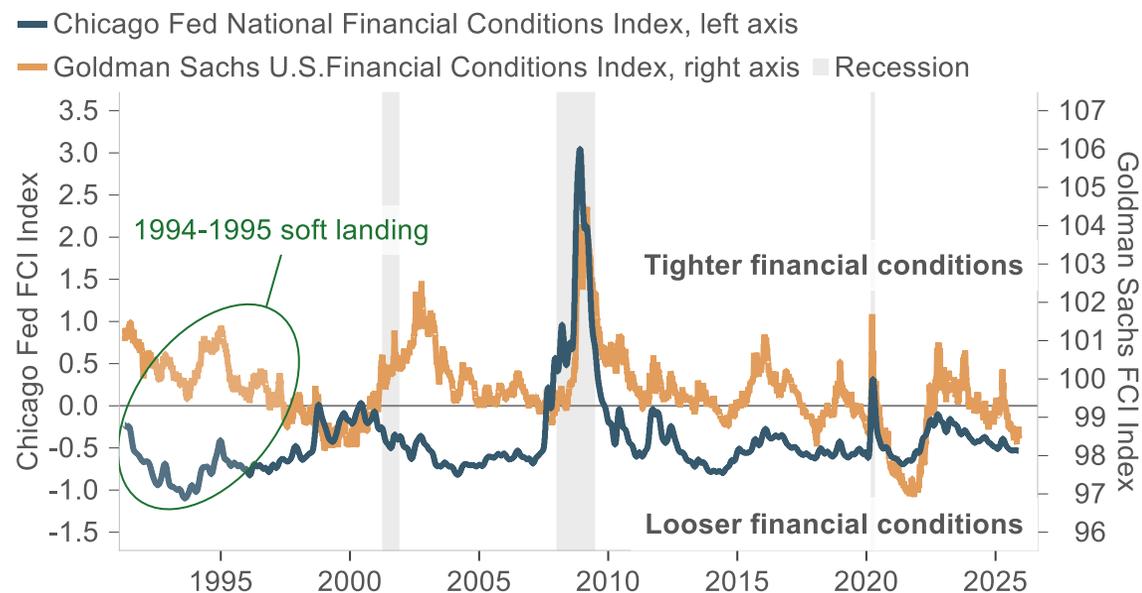
On the whole, markets have priced out risk, a setup we expect to continue – supported by both Fed and fiscal policy.

- Market-determined financial conditions are loose (**left chart**), as equity valuations sit near historic highs and corporate credit spreads sit near historically tight levels (**right chart**).
- In our view, current financial conditions – driven in large part by market valuations – do not incorporate key risks we see to both macro and markets. However, the market likely has at least ~12 months of runway in light of 1) both interest rate and liquidity support

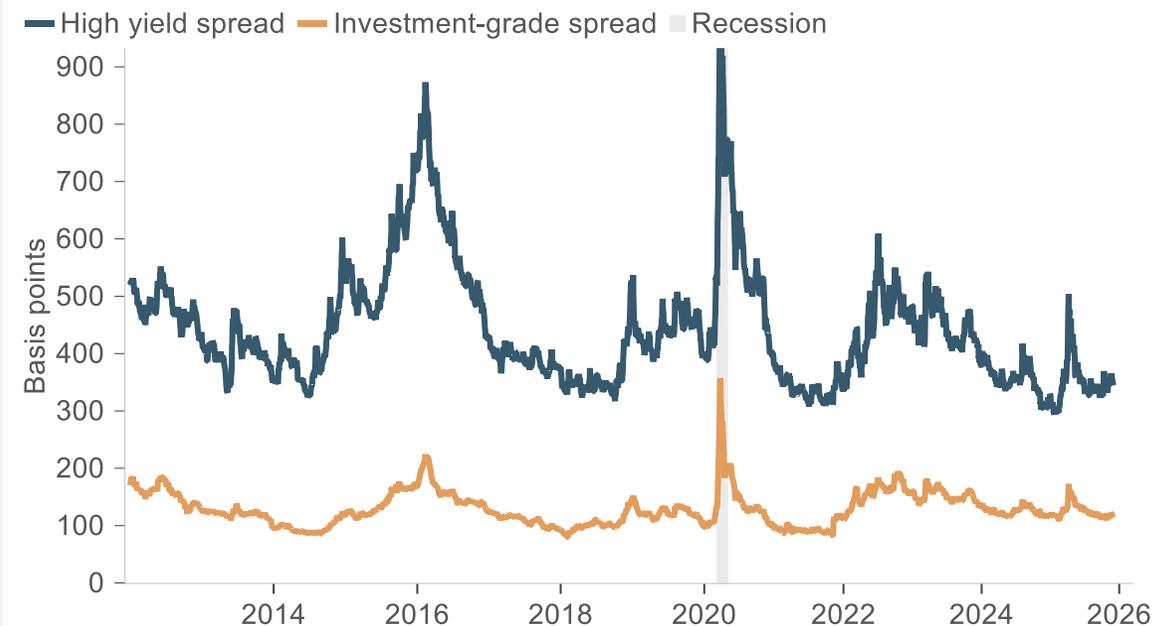
from the Fed, 2) greater fiscal stimulus ahead of the midterms, and 3) the rapid pace of U.S. policy change is accepted by global market participants. .

- We remain constructive on credit quality in the near term, and Fed cuts could cause spreads to tighten further. Even amid tariffs, post-pandemic programs and improved cash management support confidence in corporates' ability to repay over the next 2–3 years.

## Market financial conditions are loose, but liable to change on a dime given such high valuations



## Spreads are near historic lows for high yield credit



# Inflation is a key risk to our outlook

While policy risks – namely tariffs – work their way through prices, Fed and fiscal support could also drive a wave of cyclical inflation.

- Our base case for resilient growth and supportive Fed and fiscal policy in 2026 may mean inflation stays sticky or even accelerates. A cyclical upswing in inflation would likely be broad-based, visible also in energy costs, which have been benign for several years.
- Macro developments could present inflation risks to the upside. For example, tariffs are still working their way through the economy, and court rulings around tariff authority (IEEPA) complicate the outlook further. We see clear evidence that tariffs are hitting

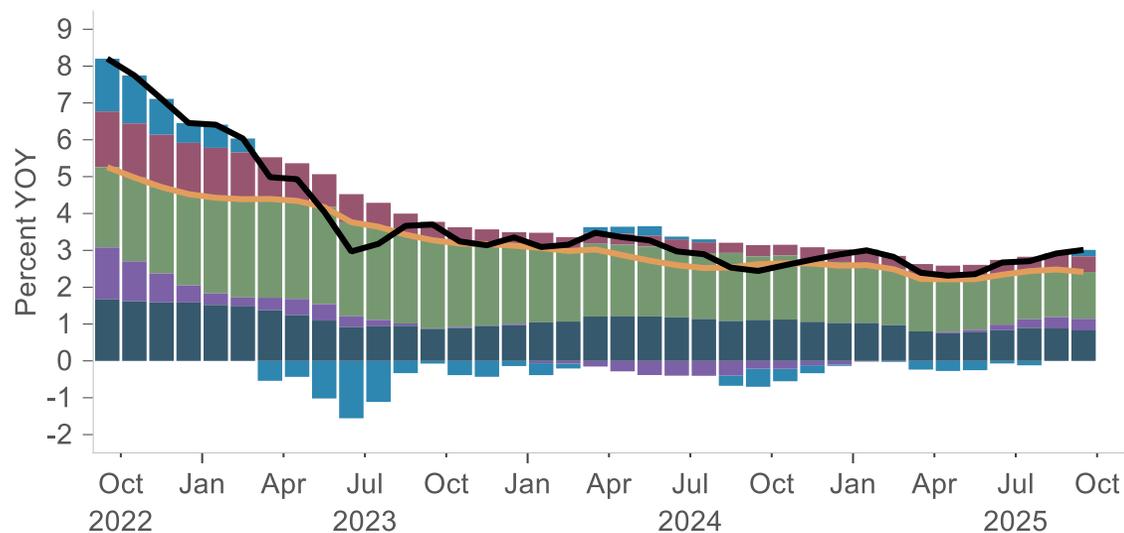
prices: durable goods inflation is reaccelerating, particularly for imported items such as household furnishings, consumer staples, and electronics. Services inflation for is also on the rise, namely in higher transportation and logistics costs.

- We're also minding downside risks. Many investors are pointing to the potential for AI to raise productivity and slow hiring, both of which could be anti-inflationary – but we believe these are medium or long-term risks, and not likely to dominate in 2026.

## 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

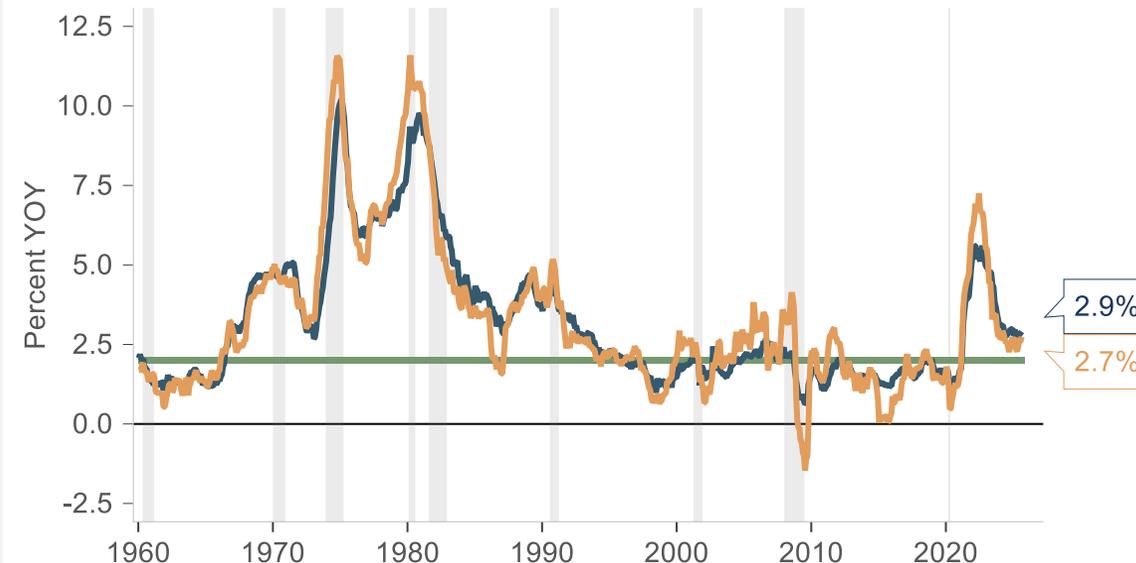
■ Core Services



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, December 2025.

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

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



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), NBER (National Bureau of Economic Research), Federal Reserve, Federal Reserve Bank of New York, Macrobond, December 2025. PCE: Personal Consumption Expenditure, the Fed's targeted inflation measure

# Near-term inflation expectations are calming off their peak

Elevated inflation expectations can drive inflation itself. The calming of near-term expectations is constructive, but pricing is volatile.

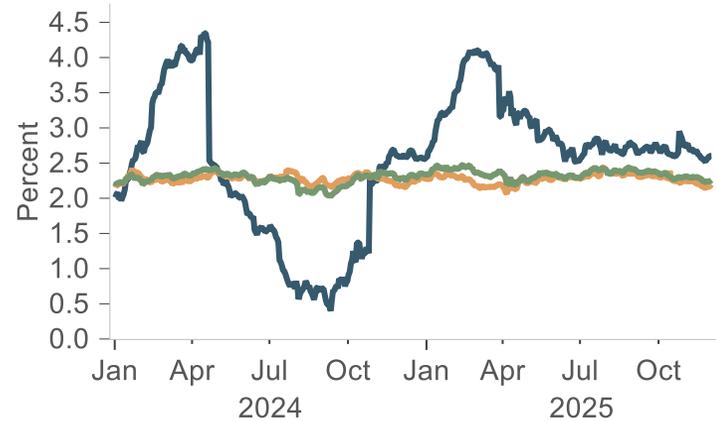
Near-term inflation expectations tend to be more volatile than longer-term expectations, as long as the market believes the Fed can hold to its 2.0% target. Near-term TIPS breakevens have recovered the most from their tariff-related increases earlier in 2025, though broader asset allocation choices may be playing a role here.

Inflation swaps have a more compressed range than breakevens (note difference in y-axes). Near-term expectations have come off their recent peak, 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 very elevated, and we expect elevated 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

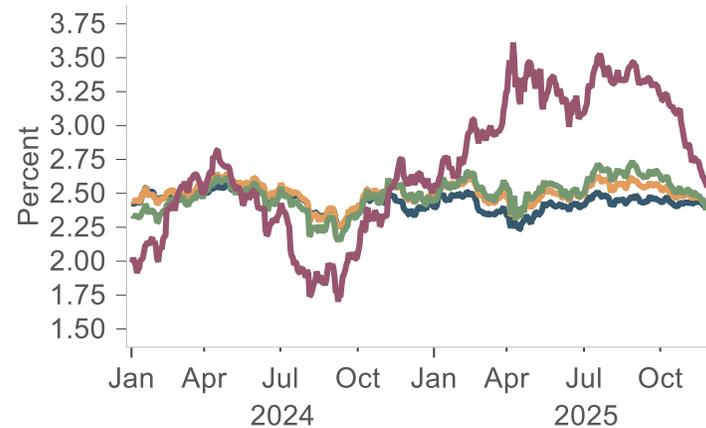
— US Breakeven 10 Year  
— U.S. Breakeven, 5yr/5yr Forward  
— US Breakeven 1 Year



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, December 2025. 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

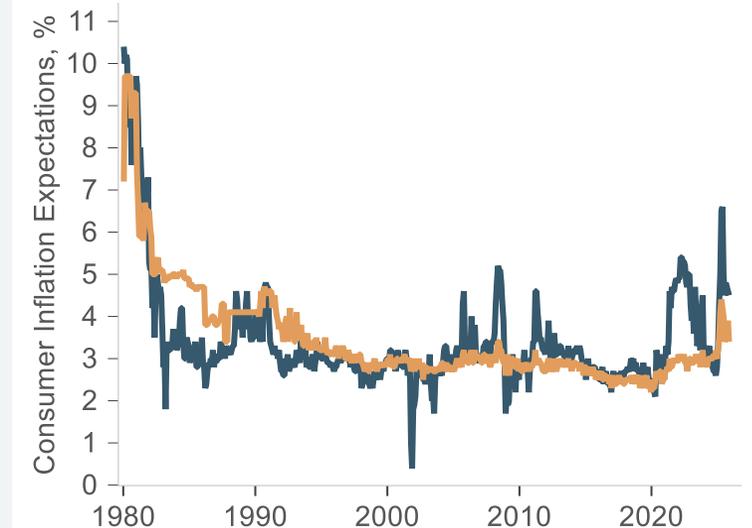
— 1-Year Swap — 5-Year Swap — 10-Year Swap  
— 30-Year Swap



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, December 2025. 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

— U Michigan Survey, Inflation 5 Years Ahead  
— U Michigan Survey, Inflation In Next Year



Sources: New York Life Investments Global Market Strategy, University of Michigan, Federal Reserve Bank of New York, Macrobond, December 2025.

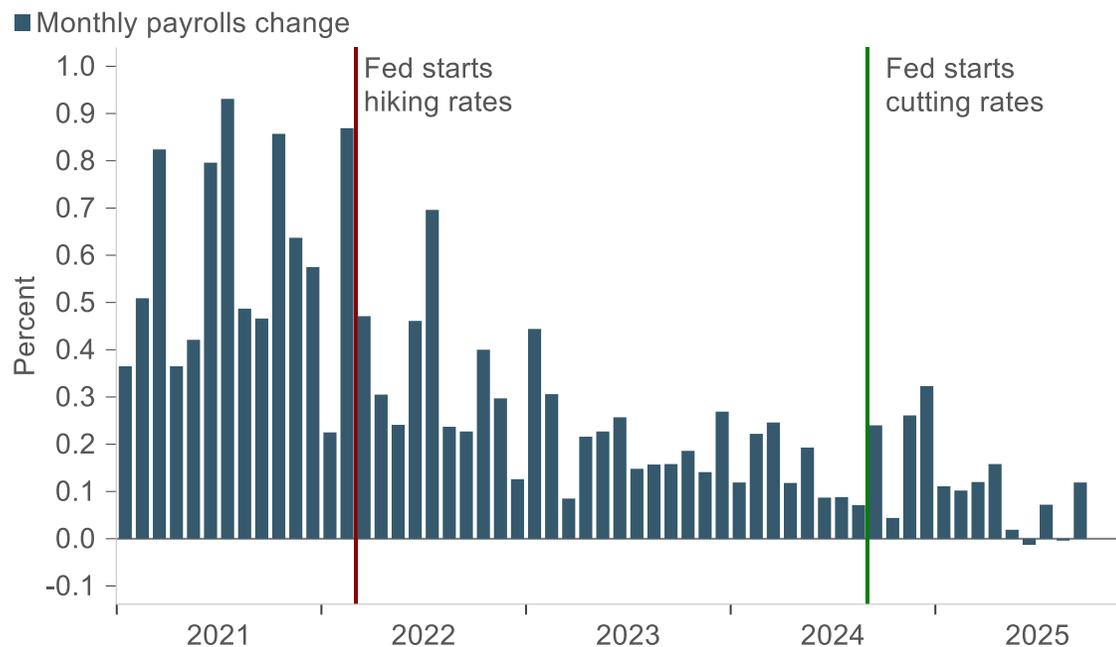
# Labor demand has slowed, seen in a hiring halt and slower wage growth

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

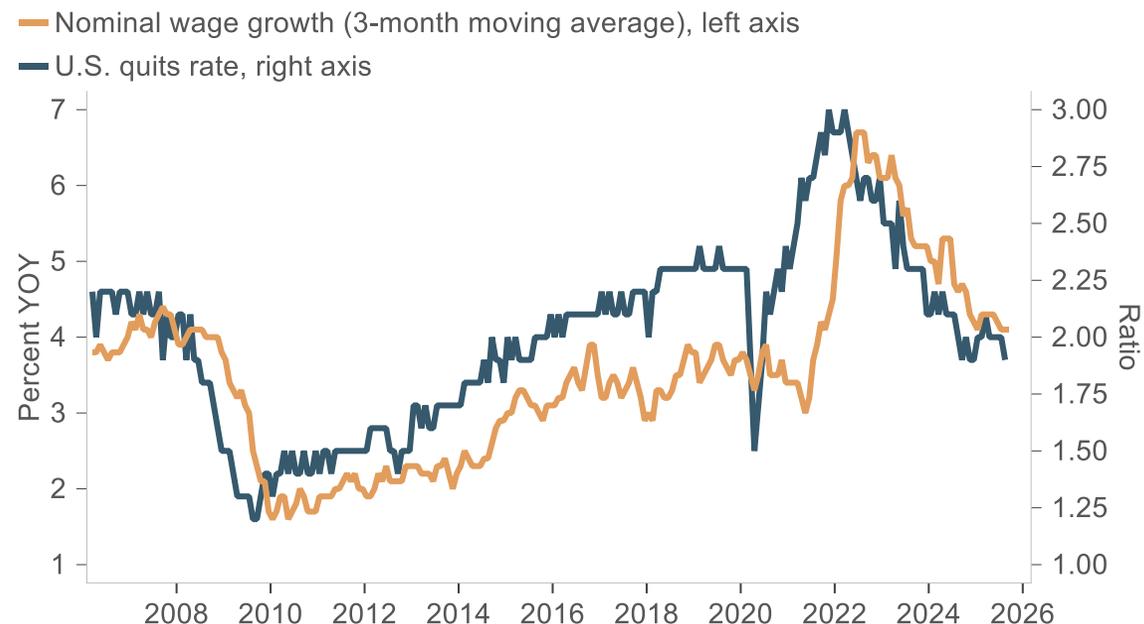
- Labor market stability has been paramount to our economic view; strong wages and job availability carried consumers through an inflationary environment.
- Now, hiring has slowed and, considering the 2024-2025 downward payroll revisions, has been much weaker than previously thought for nearly two years.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

- The good news: strong hiring has not been required for the U.S. to achieve above-trend growth. 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 – and the Fed is intentionally trying to prevent – another leg of labor market deterioration, namely an acceleration of layoffs, to prompt negative knock-on effects for consumer behavior.

## Job growth has slowed over the past two years



## Fewer workers feel confident enough to switch jobs



# Labor supply constraints from immigration impact both employment and wages

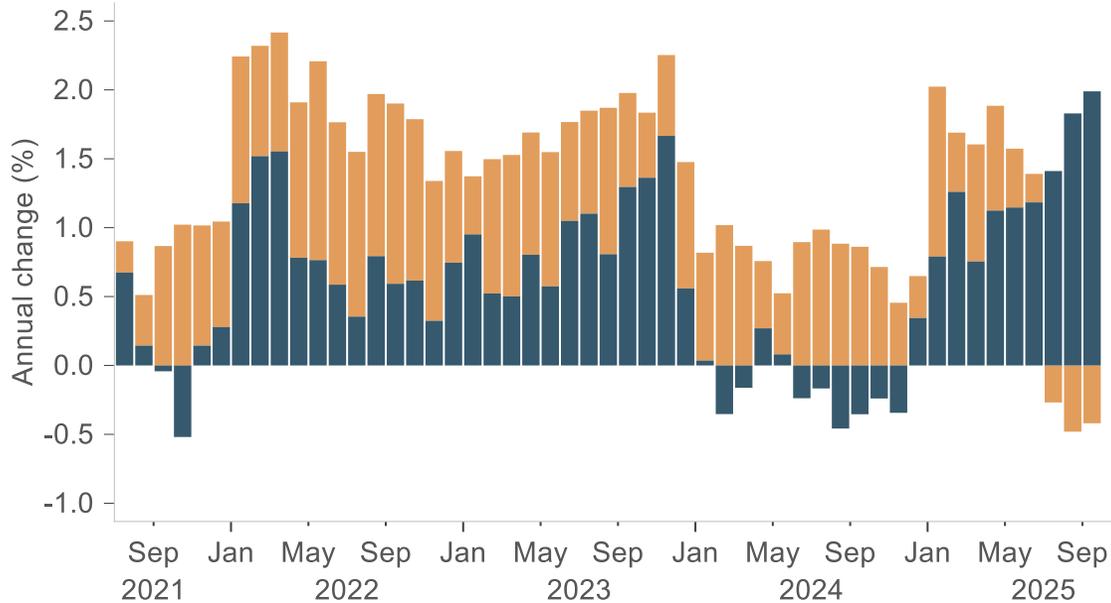
Changes in labor supply mean the unemployment may remain low even without strong hiring, and may pose upside risks to wages.

- 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, a slowing quits rate, fewer job openings, and fewer jobs created each month suggest that labor demand is weakening.
- So far this year, weekly claims have averaged 228k, 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

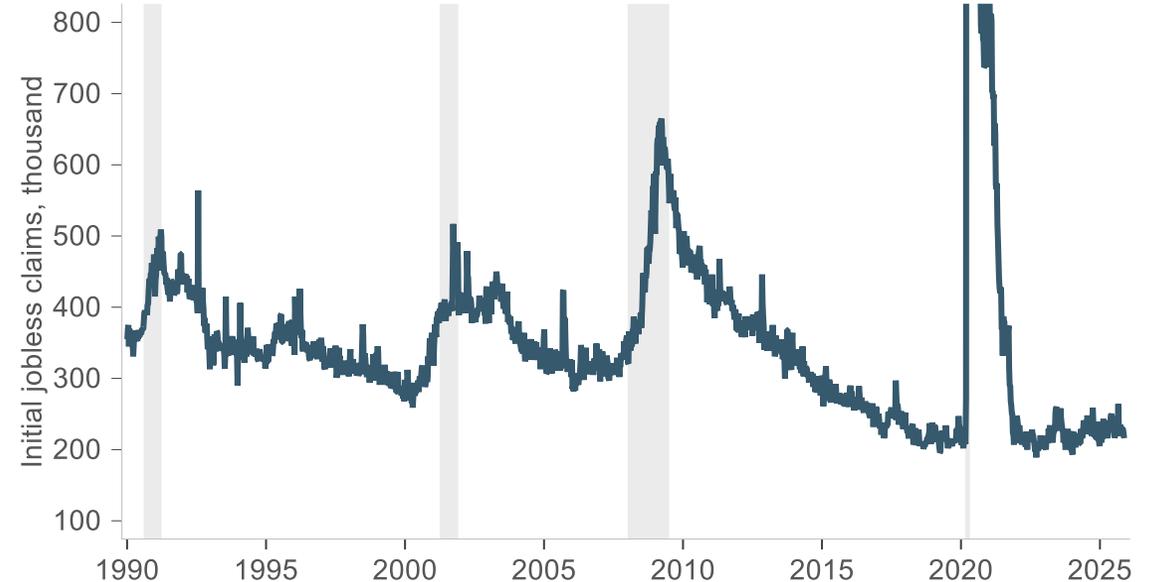
Foreign-born labor growth Native-born labor growth



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, December 2025.

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

Initial jobless claims Recession



Sources: New York Life Investments Global Market Strategy, U.S. Department of Labor, NBER (National Bureau of Economic Research), Macrobond, December 2025. High risk level reflects opinions of the Global Market Strategy team.

# The U.S. consumer expansion has been “K” shaped

Consumer spending, driven by high-income households, is holding up well – masking some distress in lower-income cohorts.

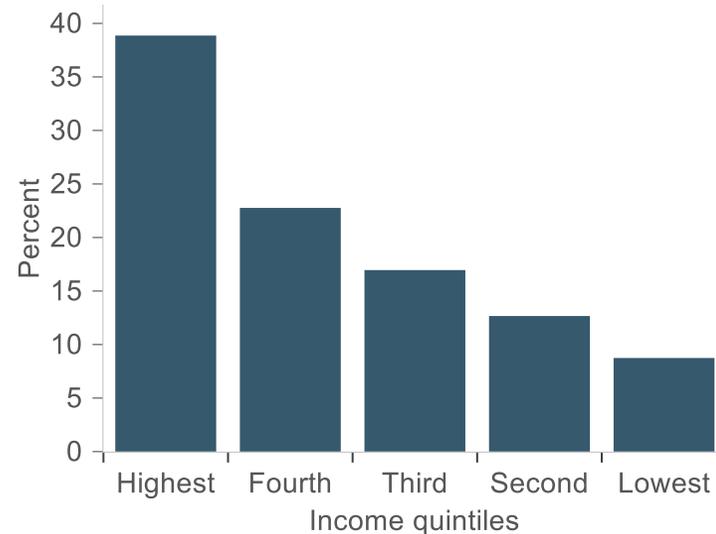
- The “K” shape to the U.S. consumer expansion reflects that high-income consumers drive the vast majority of U.S. consumer spending (**left chart**). These consumers are supported by high home prices and low mortgage debt service, and strong capital markets returns (both price appreciation and income, **middle chart**).
- On the lower part of the K., lower-income and younger consumers lack a savings backstop (**right chart**) and have disproportionately felt the impact of inflation, seen in

rising credit card balances and delinquencies, as well as auto repossessions. Notably, we do not expect Fed easing to improve overall affordability of revolving consumer credit.

- 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 some shifts as lower-income consumers trade down. We expect inequality to play a major role in narratives around the midterm elections.

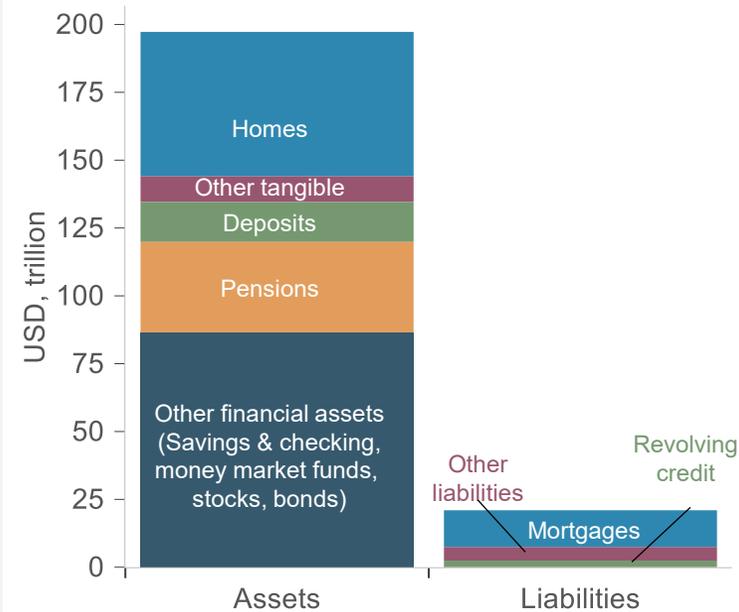
## High-income earners generate the majority of consumer spending

2024 consumer spending by income quartile



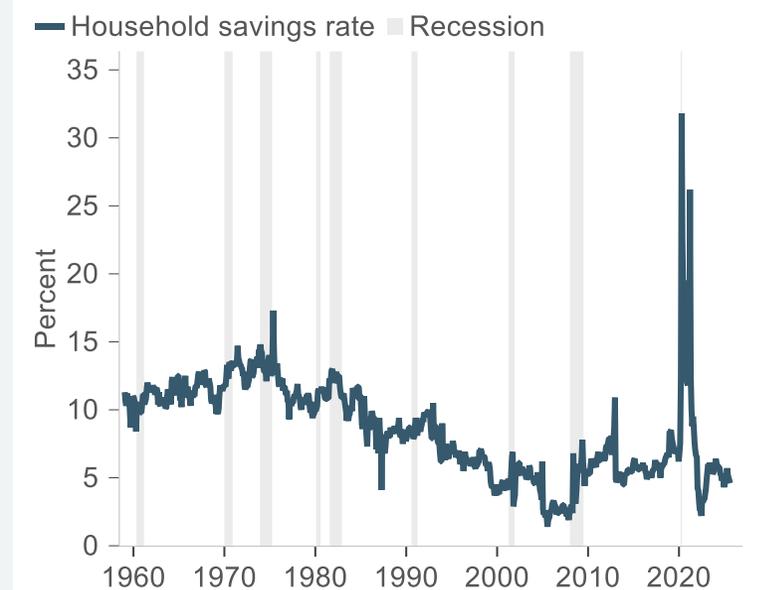
Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, December 2025.

## On aggregate, consumer balance sheets are healthy



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Macrobond, November 2025.

## Savings rates are dwindling



Sources: New York Life Investments Global Market Strategy, National Association for Business Economics, NBER (National Bureau of Economic Research), U.S. Bureau of Economic Analysis (BEA), Macrobond, December 2025.

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

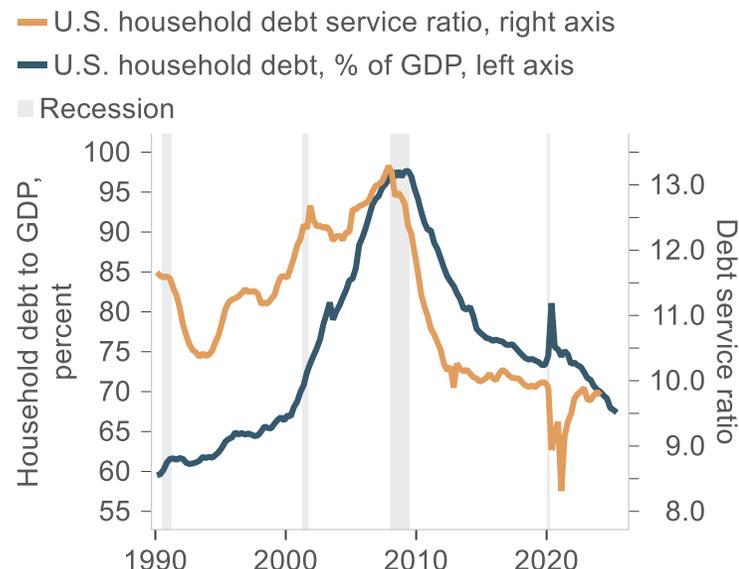
Though lower-income and younger households are struggling, we see no *systemic* signs of consumer overleverage or credit quality concerns.

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 plummeted below zero in January 2025, but off a historically strong base of credit growth. 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.

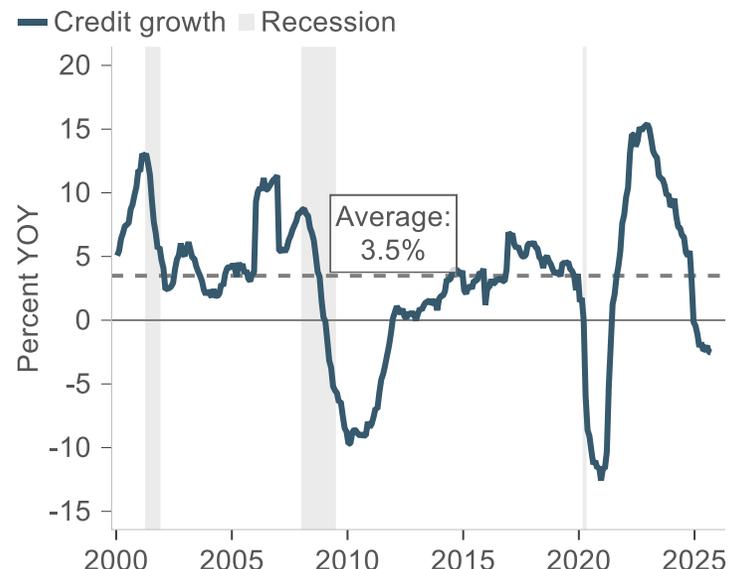
Pockets of stress, namely among younger and lower-income segments that lack a savings backstop, are likely to continue: modest Fed easing is not a game changer for consumer credit affordability. In these groups, we see higher credit card balances and rising delinquencies in credit cards and auto loans.

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



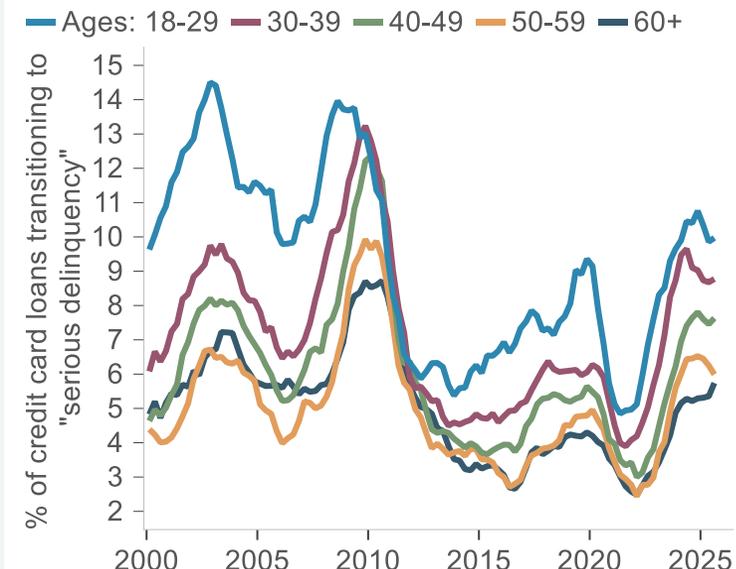
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Federal Reserve, Bloomberg, Macrobond, December 2025.

## Consumer credit is now contracting off a strong base



Sources: New York Life Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, December 2025.

## Credit quality issues are concentrated, not broad based



Sources: New York Life Investments Global Market Strategy, Federal Reserve Bank of New York, Macrobond, December 2025.

# Housing supply and affordability issues show little signs of easing

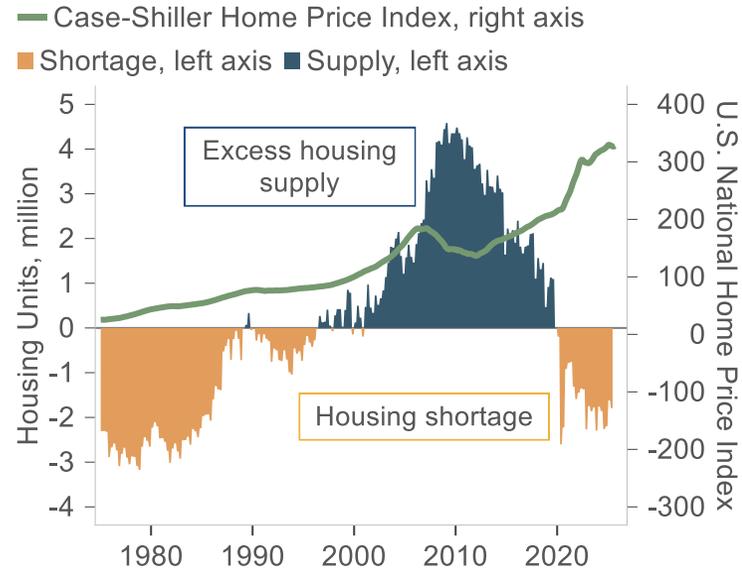
Modestly lower mortgage rates are no game changer for affordability, and home prices have a strong supply-based floor in the medium term.

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 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 4.1%; 72% 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



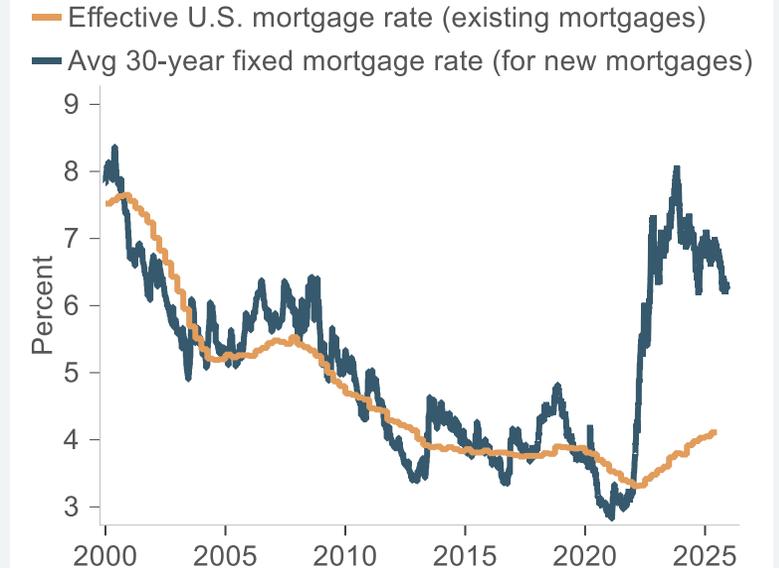
Sources: New York Life Investments Global Market Strategy, U.S. Census Bureau, U.S. Bureau of Economic Analysis (BEA), S&P Global, Macrobond, December 2025.

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



Sources: New York Life Investments Global Market Strategy, U.S. Census Bureau, National Association of Realtors (NAR), Macrobond, December 2025.

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



Sources: New York Life Investments Global Market Strategy, Bankrate, Macrobond, December 2025.

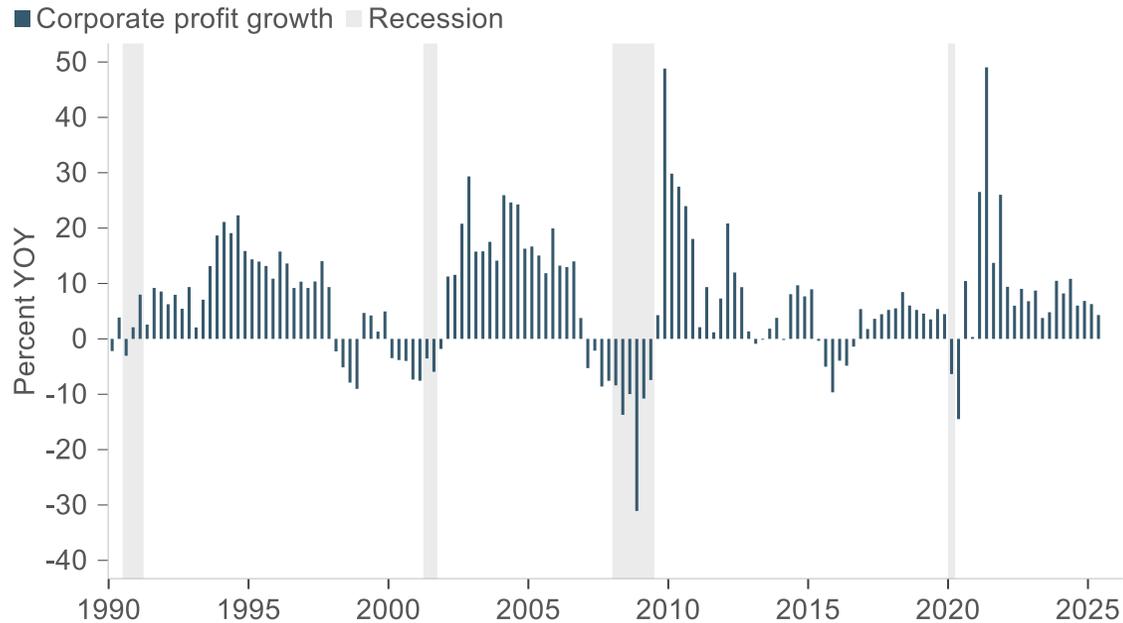
# A strong base for business in 2026: corporate profits are hardy

Hardy corporate profits provide a strong base for employment; overheating 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 is forming a choppy uptrend and both policy and cyclical forces risk a further upswing. 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 Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, December 2025.

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



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Bloomberg, Macrobond, December 2025. 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.

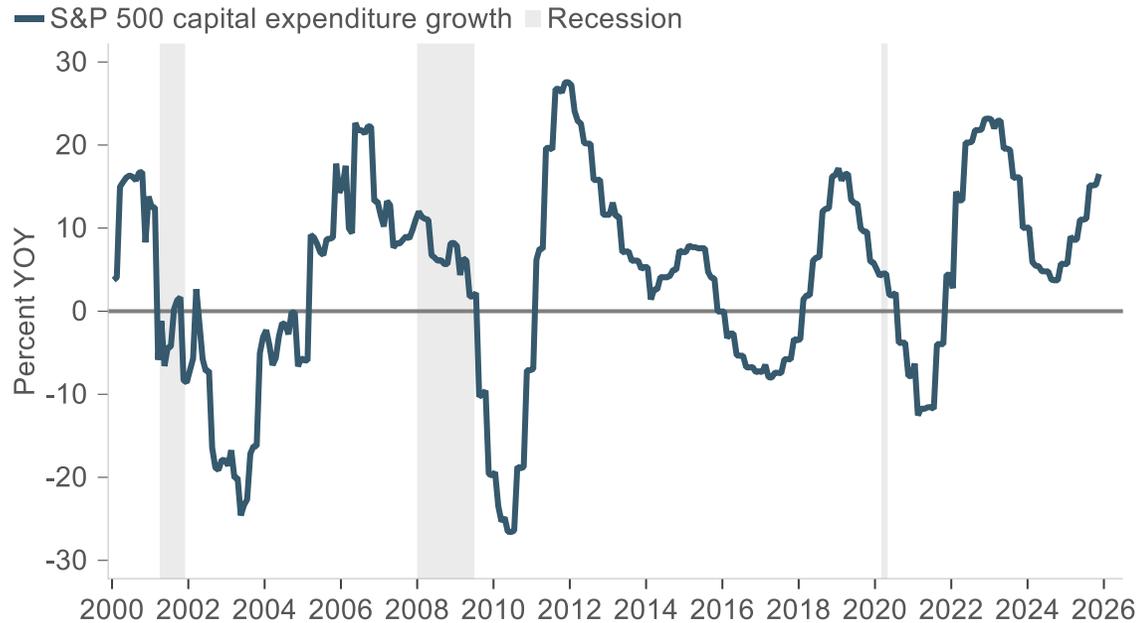
# A strong base for business in 2026: investment may see a broadening

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.

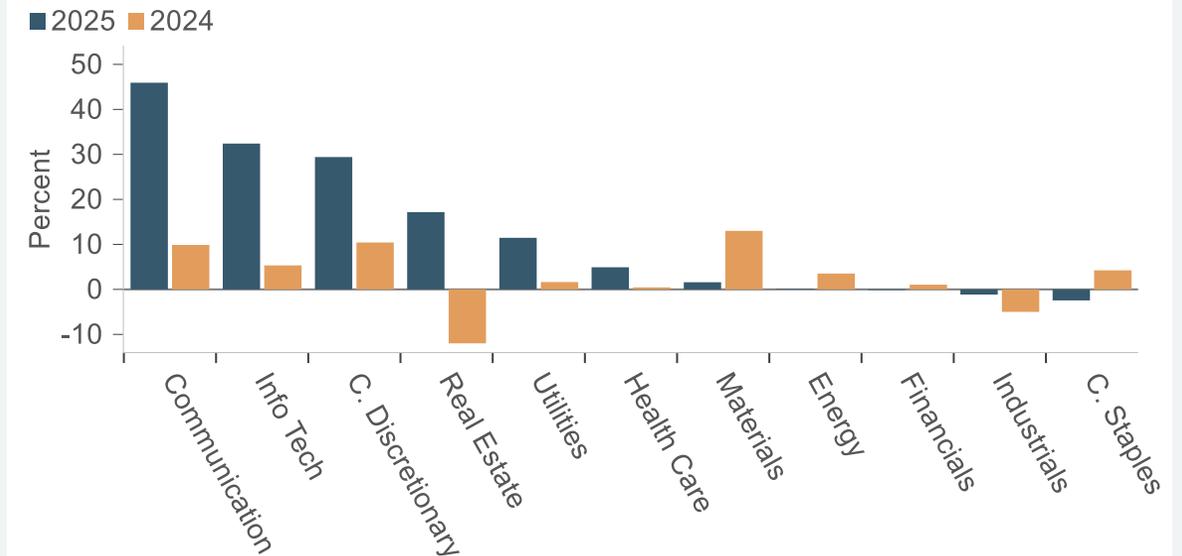
## Capex appears to have recovered...



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, December 2025.

## ... 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 Investments Global Market Strategy, Bloomberg, Macrobond, December 2025. 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%

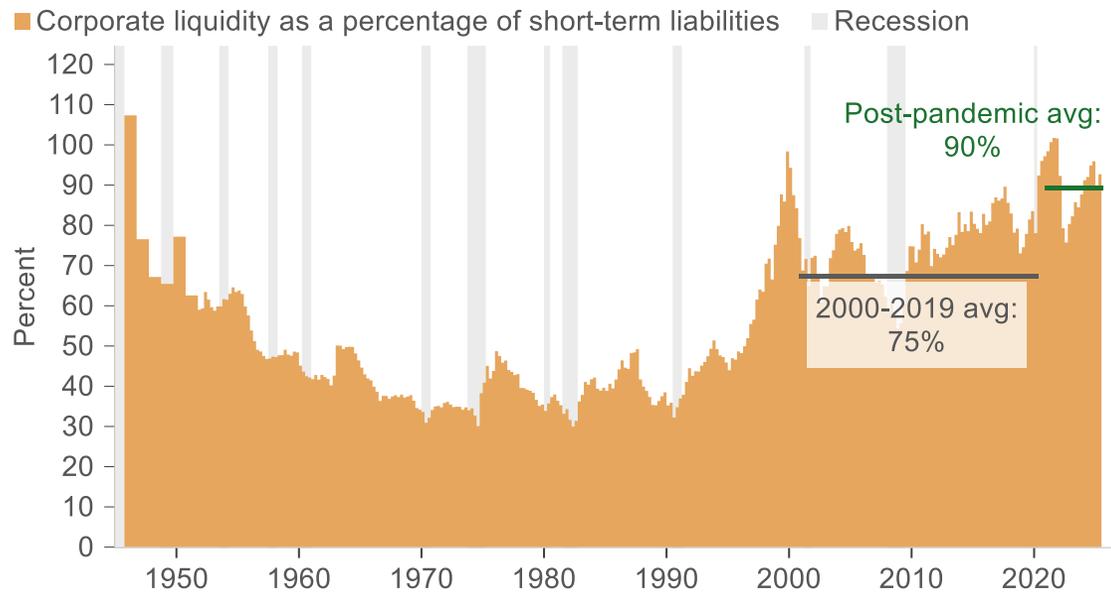
# A strong base for business in 2026: debt levels and service show no cause for concern

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.

- 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.

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



Sources: New York Life Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, December 2025.

## We see no structural debt imbalance amongst listed corporations



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Standard and Poor's, Macrobond, December 2025. 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.

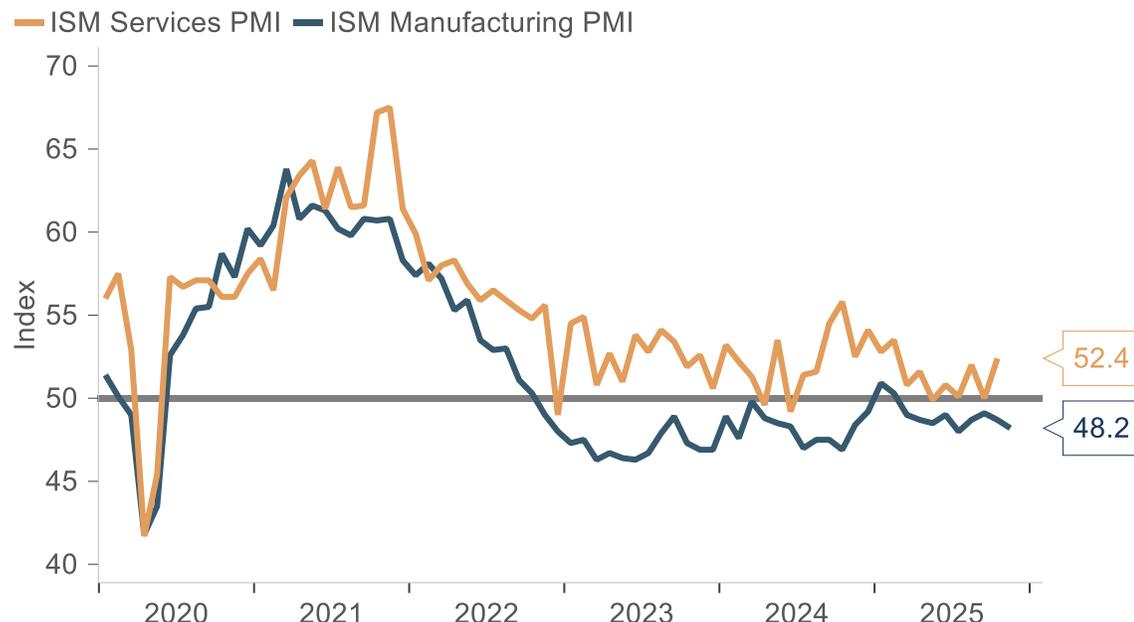
# Tempering the business outlook: sentiment remains tepid

We are monitoring both large and small business sentiment for impacts of tariffs, 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. We expect large business sentiment to be torn between policy uncertainty, including potentially rising input costs due to tariffs, and an improved outlook for capex and Fed easing.

- Small business sentiment is sitting around neutral, surveyed uncertainty is elevated, and hiring plans have stagnated. We do not see Fed easing as 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.

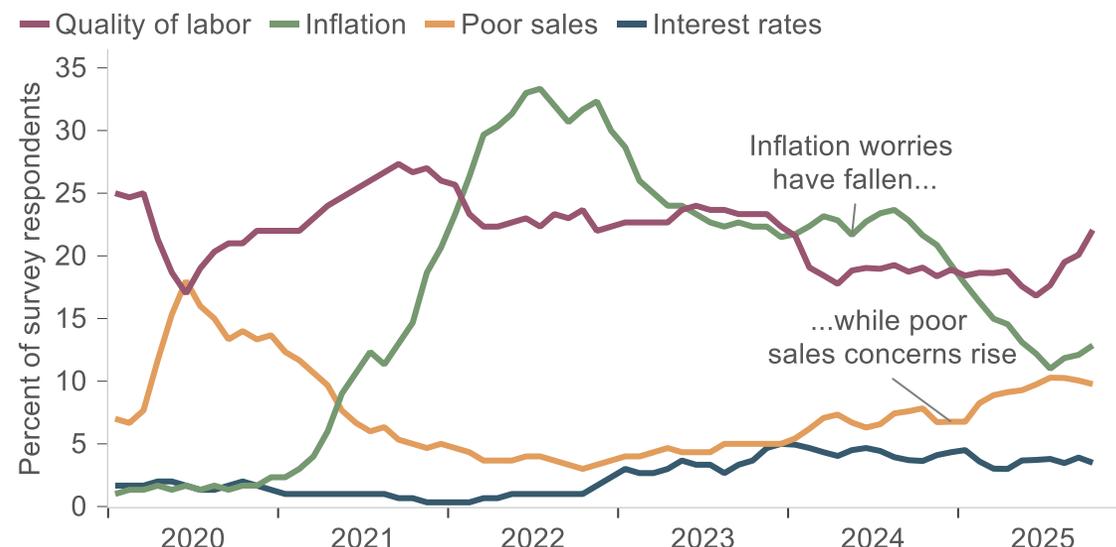
## Services and manufacturing PMI has declined in recent months



Sources: New York Life Investments Global Market Strategy, Institute for Supply Management (ISM), Macrobond, December 2025. PMI: Purchasing Managers Index, a survey-based sentiment indicator.

## 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 Investments Global Market Strategy, National Federation of Independent Business, Macrobond, December 2025. Data presented as 3-month moving averages.

# Tempering the business outlook: input costs are not out of the woods

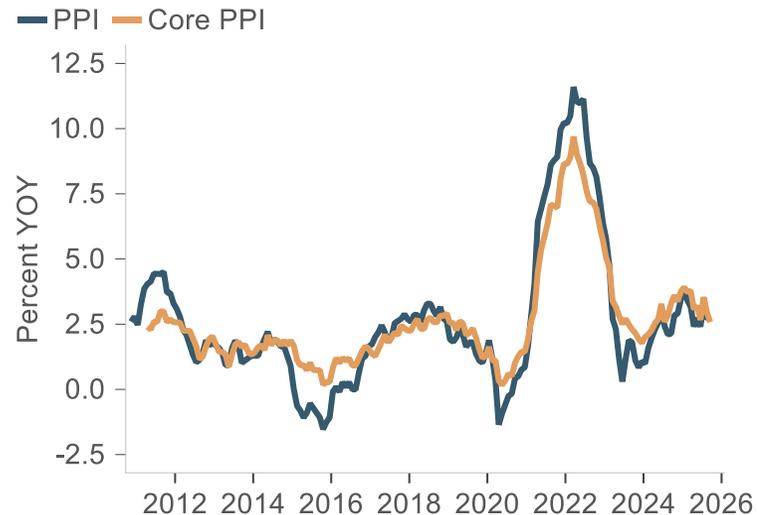
Sticky input prices – even before tariffs – make it unlikely businesses will be lowering prices for their customers.

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 cyclical “overheating” risks.

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. A path to peace in Ukraine could sustain recent stability.

## Producer Price Index points to a gradual reacceleration in input costs, now likely to accelerate



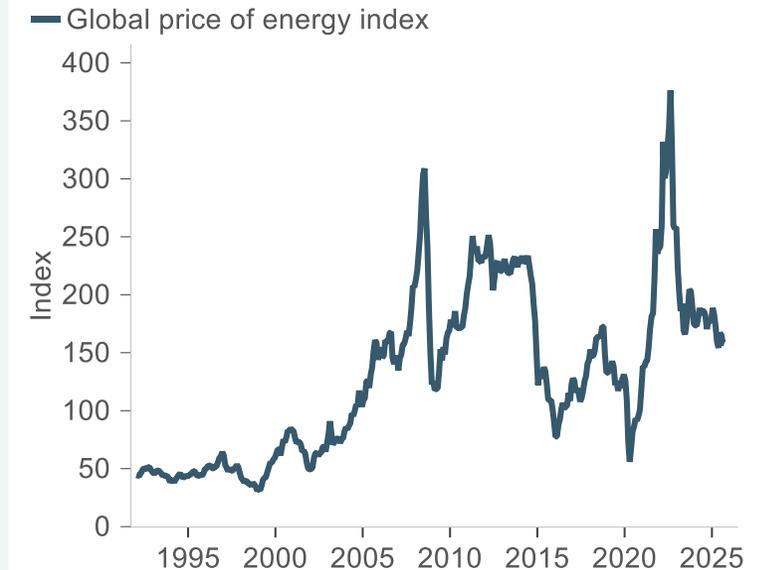
Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, December 2025. Core Producer Price Index (PPI): total less food and energy.

## Businesses' employment costs face a crossroads



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, December 2025.

## Energy costs have normalized after reaching new highs



Sources: New York Life Investments Global Market Strategy, International Monetary Fund (IMF), Macrobond, December 2025.

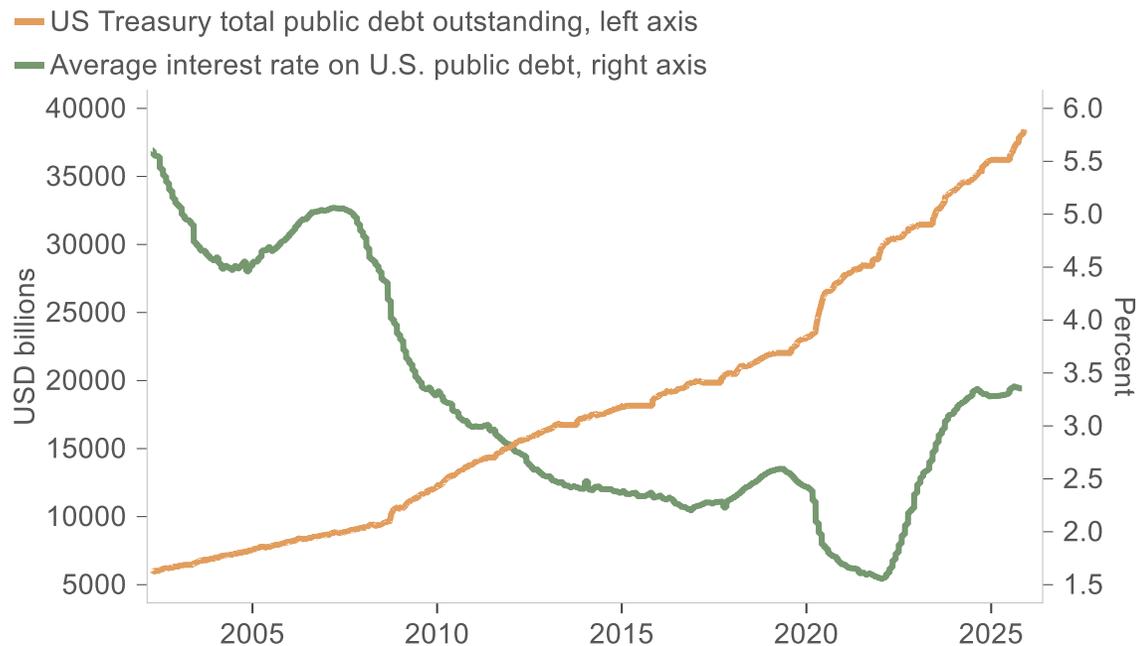
# The fiscal outlook presents the chief upside risk to U.S. long rates

The combination of higher spending rates and higher interest rates have 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.

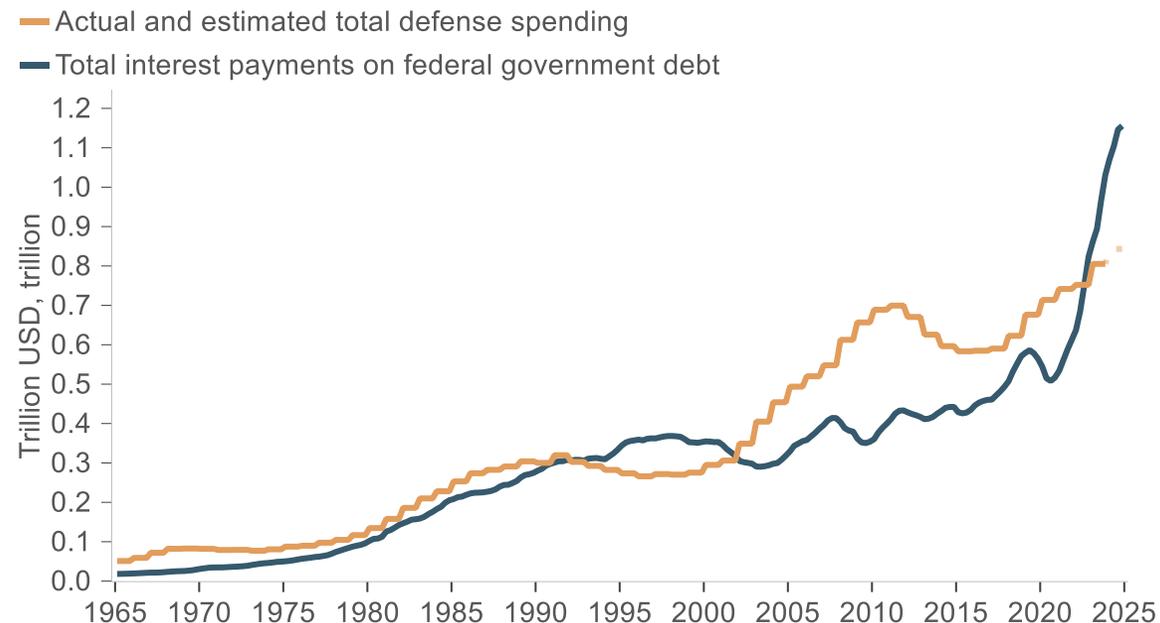
- Between higher interest rates and growing debt levels, total interest payments have risen rapidly and now exceed the amount spent on the (previously) largest portion of the U.S. federal budget: defense. As interest payments mount, the U.S. may be forced to reduce its spending (fiscal austerity) or 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 Investments Global Market Strategy, U.S. Department of Treasury, Macrobond, December 2025.

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



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), U.S. Congressional Budget Office (CBO), Macrobond, December 2025.

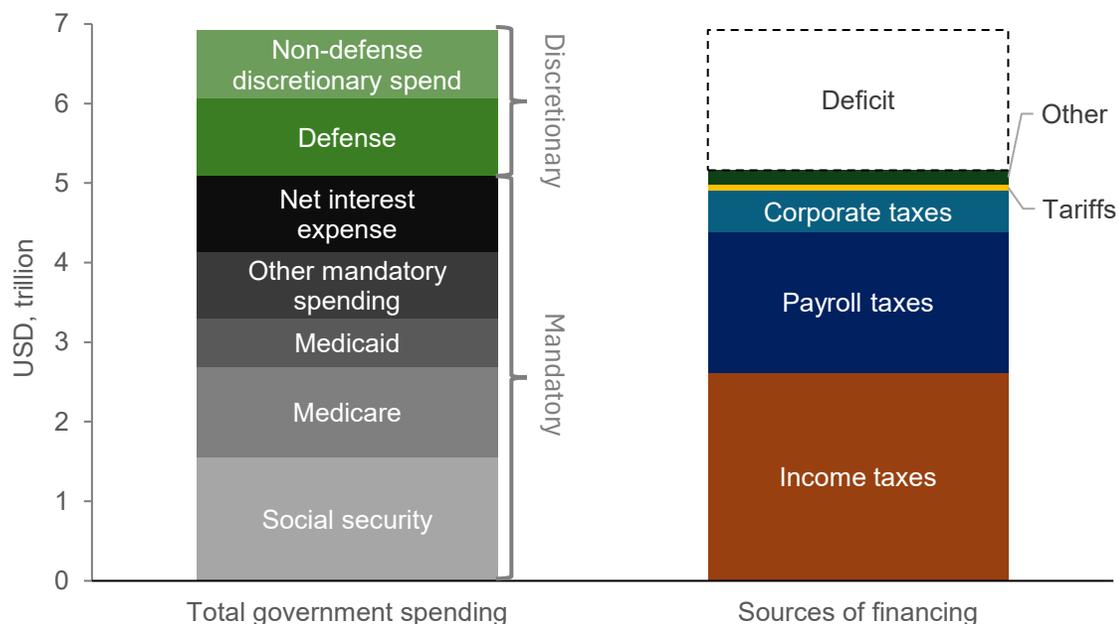
# The budget deficit is set to grow, but new sources of revenue could ease the impact

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. It's possible the level of federal deficits will constrain Trump's policy agenda in the coming years.

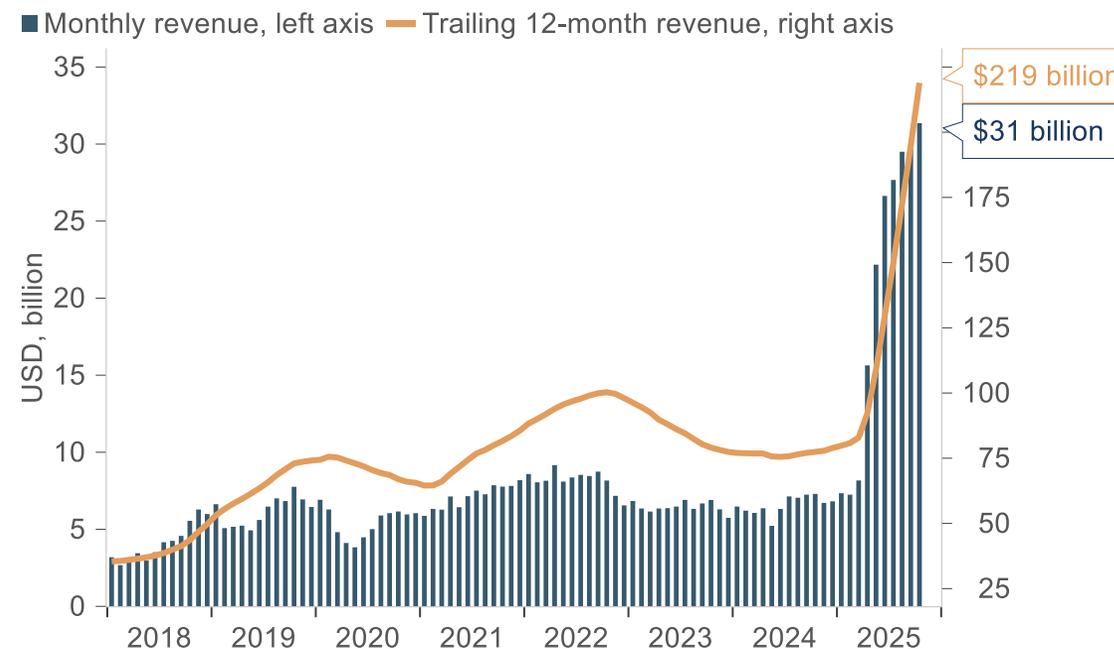
- To offset spending, the administration is leaning on both conventional and unconventional revenue-generating measures. Tariff revenue (paid by U.S. companies and consumers) has started to rise – but may be at risk given ongoing court cases on the legality of tariffs. The administration also announced revenue sharing on chips sales to China and a U.S. government ownership stake in a rare earths companies and Intel.

## The 2025 budget is expected to extend the deficit



Sources: New York Life Investments Global Market Strategy, U.S. Congressional Budget Office (CBO), Macrobond, December 2025.

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



Sources: New York Life Investments Global Market Strategy, U.S. Department of Treasury, Macrobond, December 2025.

# 3 International economic & market outlook

## Global cycle

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

## Commodities & alternative currencies

- [Energy](#)
- [Metals and agriculture](#)
- [Gold](#)
- [Digital assets](#)

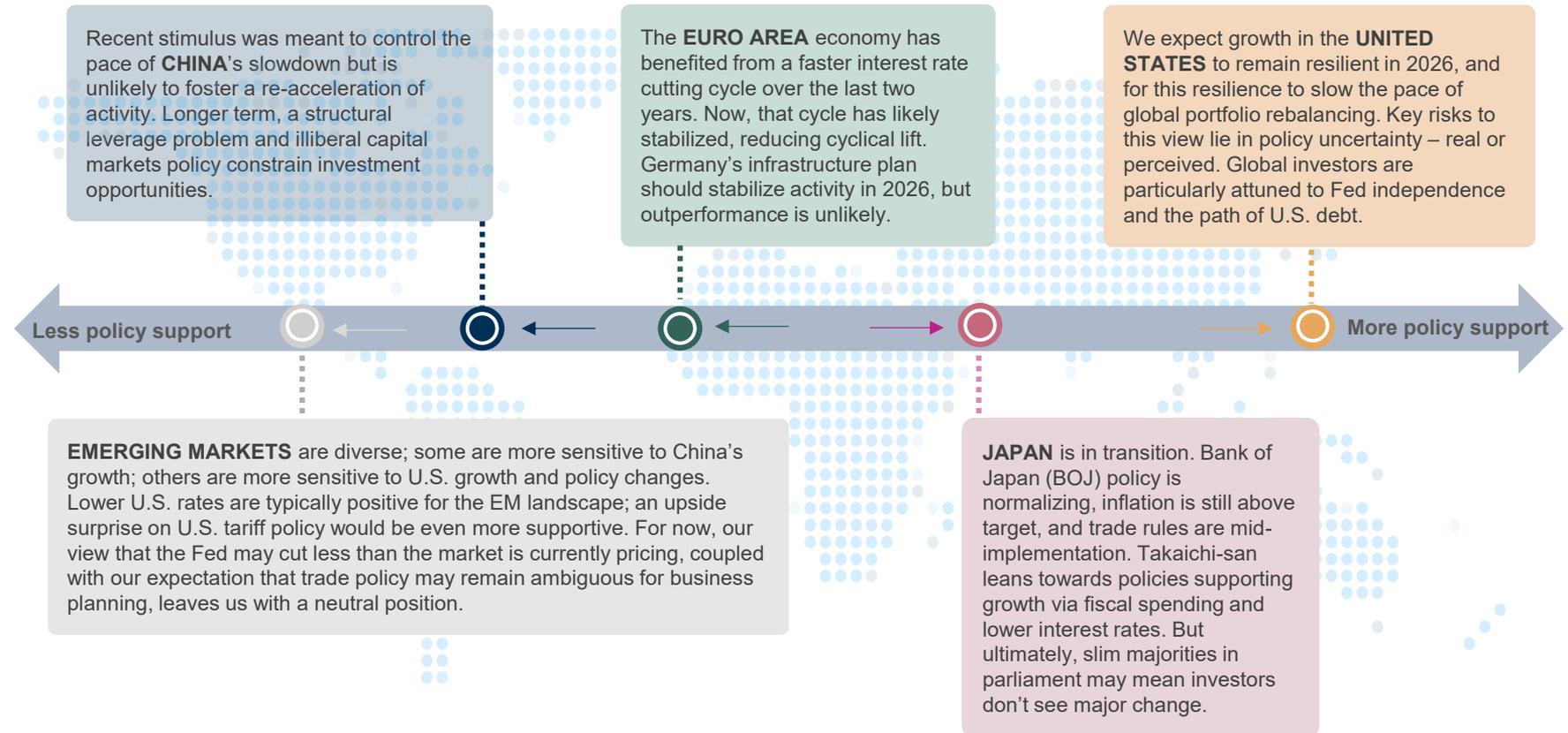
## U.S. dollar

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

# Given a benign global backdrop, policy support drives 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.
- In the U.S., our expectation for greater policy support places it as the most accommodative of developed market policy backdrops.
- Meanwhile, Japan faces tension between the incoming PM, who would like to enact greater stimulus, and a BOJ intent on normalizing policy.
- In Europe, increased German defense spending has supported sentiment, and easing is at its end.
- China, after several years of fiscal stimulus, looks set to allow growth to decelerate modestly; similarly, many Emerging Markets are on a neutral path.

## Countries are facing different degrees of policy support



Sources: New York Life Investments Global Market Strategy, December 2025. For illustrative purposes only. "EM" is short for emerging markets.

# Euro area

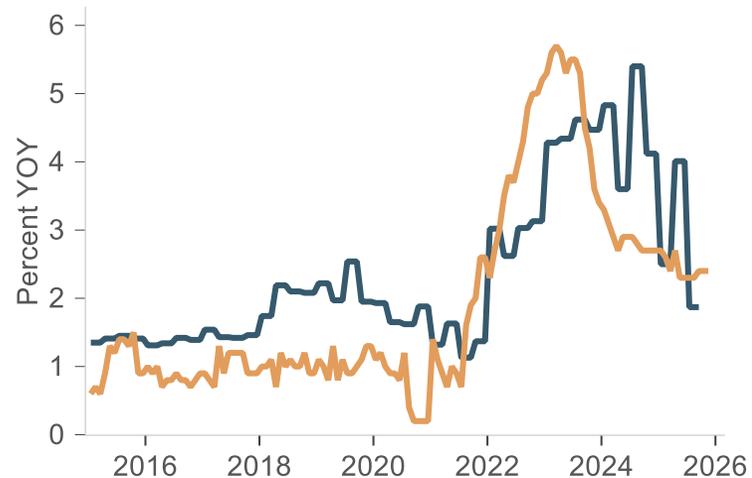
The euro area's rate cutting cycle has stabilized, reducing cyclical lift.

- In the past two years, easing inflation and wages (**left chart**) contributed to a consistent ECB rate-cutting cycle. Moderate credit conditions (**middle chart**) and recovering domestic demand (**right chart**) led to resilient outcomes. In the first half of 2025, persistent U.S. dollar depreciation and policy uncertainty also contributed to flows toward European assets.
- In 2026, we expect the ECB to remain on hold; rates are accommodative, but Europe will now lack a cyclical tailwind from monetary policy. Stimulative defense spending from Germany

- may provide a boost, but our European partners expect this impact to be delayed and more moderate than consensus.
- From an economic perspective, Europe is still at risk of disruption from global policy change. Key concerns include Europe's vulnerability to a global slowdown and the impact that a U.S.-China escalation may have; the U.S. and China are Europe's two largest markets.

## Inflation and wage growth continue to ease

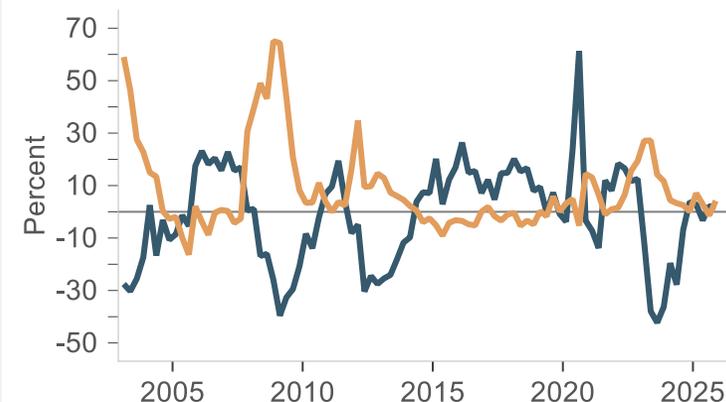
— Core inflation — Negotiated wage growth



Sources: New York Life Investments Global Market Strategy, ECB (European Central Bank), Eurostat, Macrobond, December 2025.

## Normalizing policy rates have contributed to improving credit standards and loan demand

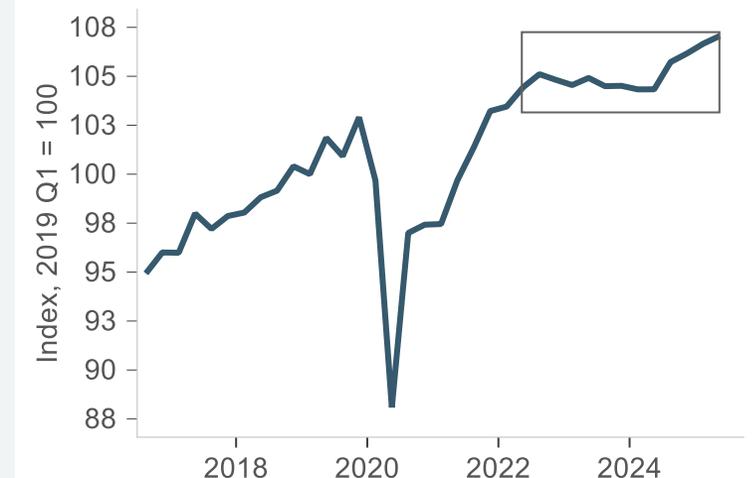
— Changes in credit standards for businesses — Business loan demand



Sources: New York Life Investments Global Market Strategy, ECB (European Central Bank), Macrobond, December 2025.

## Domestic demand improved as rates moved lower

— Euro Area GDP



Sources: New York Life Investments Global Market Strategy, Eurostat, Macrobond, December 2025.

**TAKEAWAY:** Without a monetary tailwind from ECB easing, we expect growth in Europe to soften slightly. In this “soft landing” environment, relative global investor preference is likely to be a key driver of currency behavior. We have our eye on beneficiaries of German defense spending, as well as demand for bank loans.

# Japan

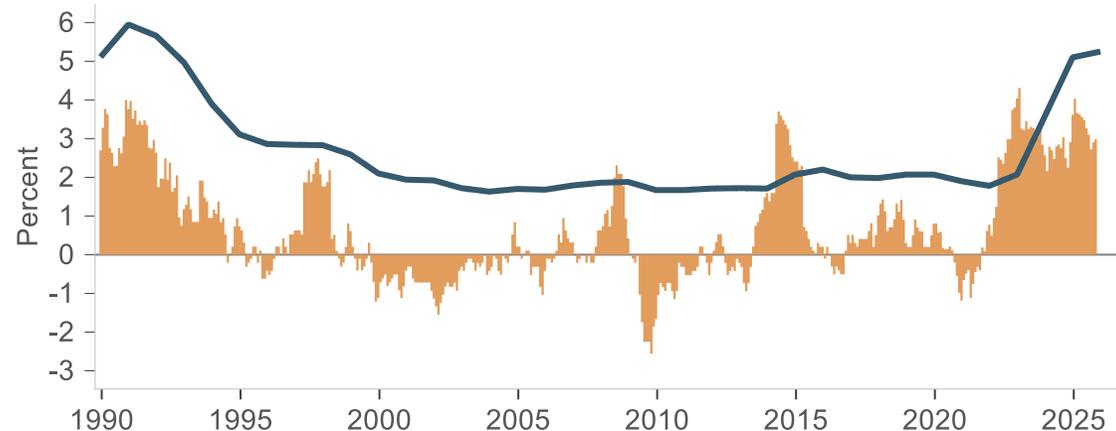
Domestic and global policy disruptions will likely slow the pace of BOJ policy normalization and make currency volatility manageable.

- 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 0.5% in Jan 2025 (**right chart**). Market financial conditions, including equity market valuations, have tightened considerably in response.

- Investors expected the BOJ's gradual policy normalization to continue, but global and local policy uncertainty muddied the picture. Domestically, growth and inflation have been sticky; the new prime minister leans pro-growth via fiscal support and lower interest rates, though low political margins may limit policy change. Globally, a U.S. tariff deal helps bring stability, but implementation remains uncertain. On balance, we expect the BOJ to reach a 1.0% nominal policy rate over several more quarters.

## Negotiations lead to steepest wage increases in 30 years

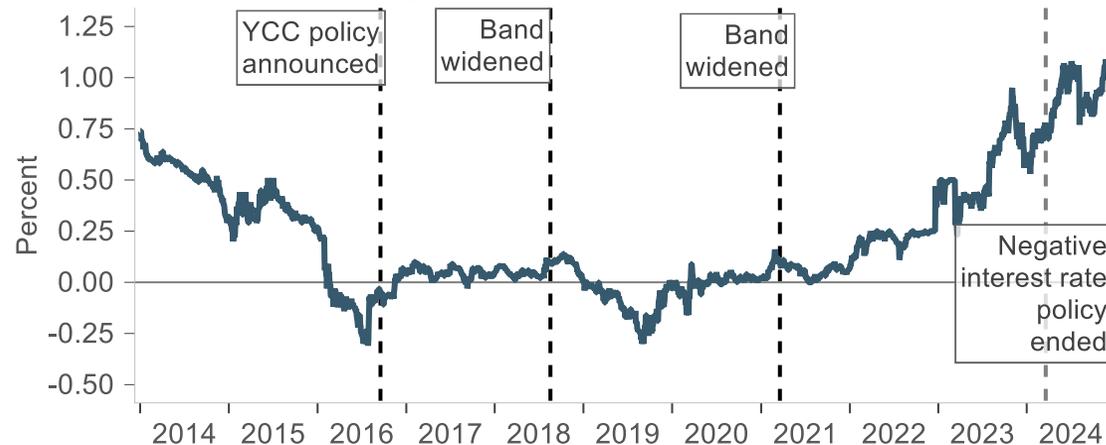
- Spring wage negotiations, salary increment, weighted average
- Headline consumer price index (CPI)



Sources: New York Life Investments Global Market Strategy, Japanese Trade Union Confederation (RENGO), Japanese Statistics Bureau, Ministry of Internal Affairs & Communications, Macrobond, December 2025.

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

- Yield on 10-year Japanese government bonds



Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Bank of Japan (BOJ), Macrobond, December 2025.

**TAKEAWAY:** In recent years, Japanese policymakers made meaningful efforts towards renewed global competitiveness. Changes in global conditions – including U.S. tariffs – now muddy the waters. We expect ongoing tension between a pro-growth government and a BOJ intent on gradually normalizing policy by raising interest rates and backing away from intervention in JGB markets.

# China's structural story: a sustained deceleration in growth

A deleveraging problem and illiberal capital markets policy are likely to constrain investment opportunities in China over the medium term.

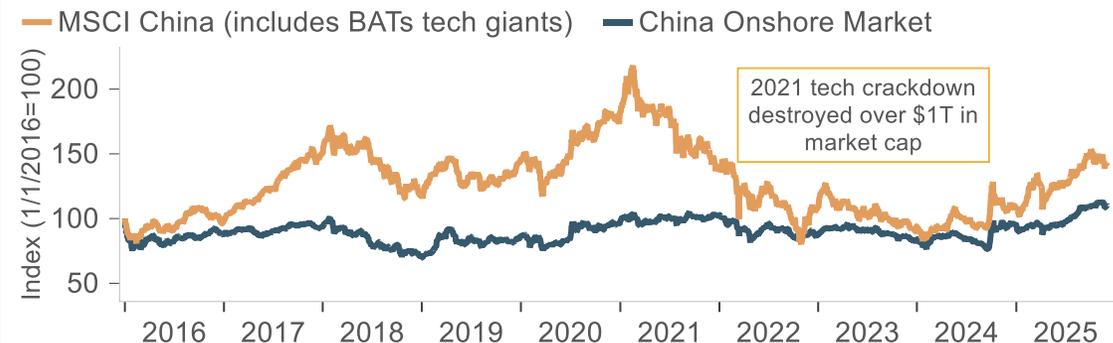
## China's decades of high growth have been fueled by high leverage



Sources: New York Life Investments Global Market Strategy, People's Bank of China (PBoC), BIS (The Bank for International Settlements), China National Bureau of Statistics (NBS), Macrobond, December 2025. GDP: Nominal.

- In the past several decades, credit expansion – through formal banking, shadow banking, infrastructure, and real estate – has been utilized to mitigate cyclical slowdowns, with diminishing returns (**left chart**).
- Recent years' policies seem to acknowledge that the high-leverage model is unsustainable: shadow lending had slowed, Chinese real estate giant Evergrande was allowed to fail, and local and central government growth targets have been periodically relaxed.
- On a structural basis China also needs to cope with its export-led growth model and has signaled its intent to foster greater domestic consumption. Foreign portfolio inflows could ease this transition away from export-led inflows, but we see little impulse to liberalize markets.

## China's regulation has hampered value creation in equities



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, MSCI, Macrobond, December 2025. BATs: Chinese tech giants listed outside China's onshore markets: Baidu, Alibaba, Tencent. Onshore markets represented by Shanghai Composite, comprising all A and B shares listed in Shanghai. MSCI China: large and mid-cap representation across Shanghai and Shenzhen.

- China's closely regulated onshore equity markets do not include exposure to major tech firms, including the BATs: Baidu, Alibaba, and Tencent, which operate within China but are listed primarily in the U.S. (**right chart**). Lack of onshore exposure to these names enabled China's infamous tech crackdown of 2021, where harsh new regulations and fines against these firms destroyed over \$1T in market cap for U.S.-listed China indexes.
- While China made decades of great strides to liberalize its capital markets, recent years have seen a slew of anti-investor regulation that has harmed market confidence in the country.
- Other structural issues on our radar: demographics, productivity, and intellectual property protection.

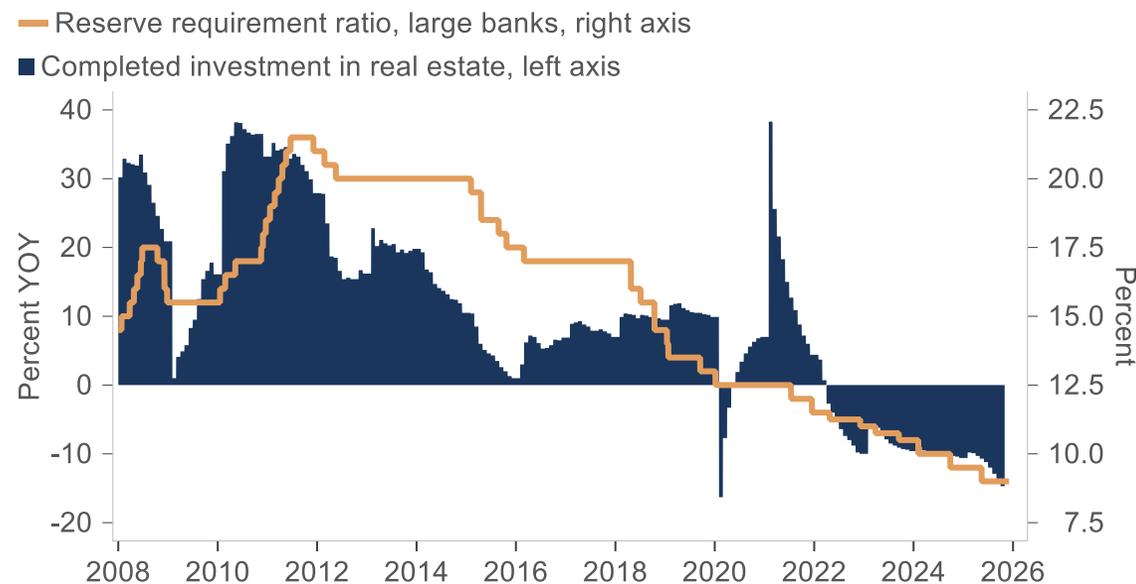
**TAKEAWAY:** China remains the world's #2 economy and trade power, and in this sense continues to be a "must have" in a diversified international allocation. However, the country's proclivity for avoiding economic growth slowdowns with the use of leverage, paired with wavering investor-friendly policies, make us cautious on the medium-term outlook.

# China's cyclical story: managing internal and external pressures

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 4.4%.

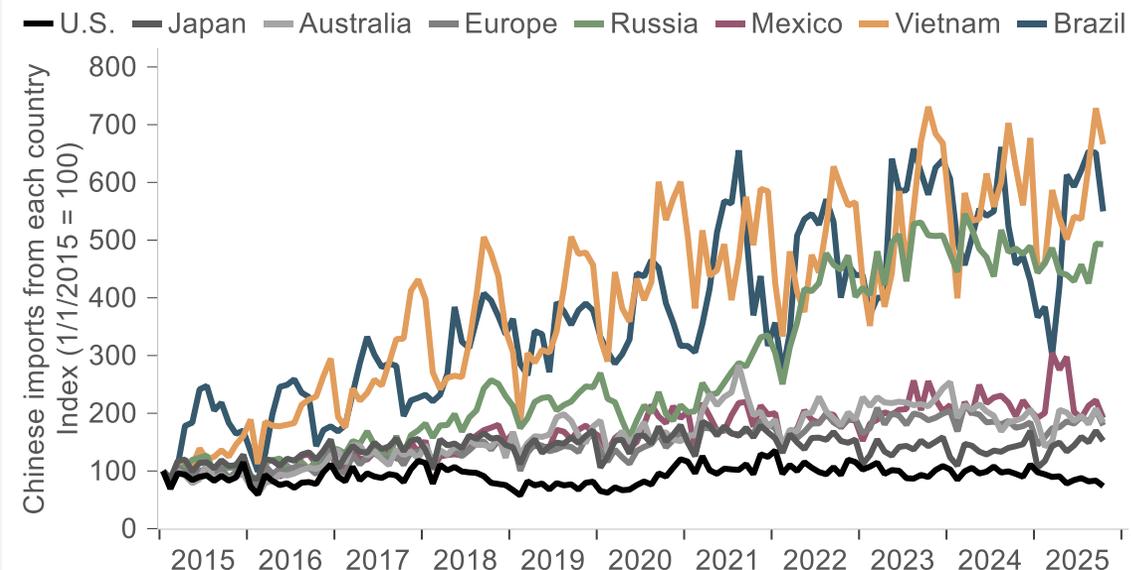
## China is countering the real estate crash with easier monetary policy



Sources: New York Life Investments Global Market Strategy, China National Bureau of Statistics (NBS), People's Bank of China (PBoC), Macrobond, December 2025. 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. Reduced foreign inflows from exports are likely to pressure China's GDP growth to some degree, even with a trade deal achieved.
- We may not see this direct impact for several quarters still but are monitoring how shifting trade restrictions affect China's trade relationships with Brazil, Mexico, and others (**right chart**).

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



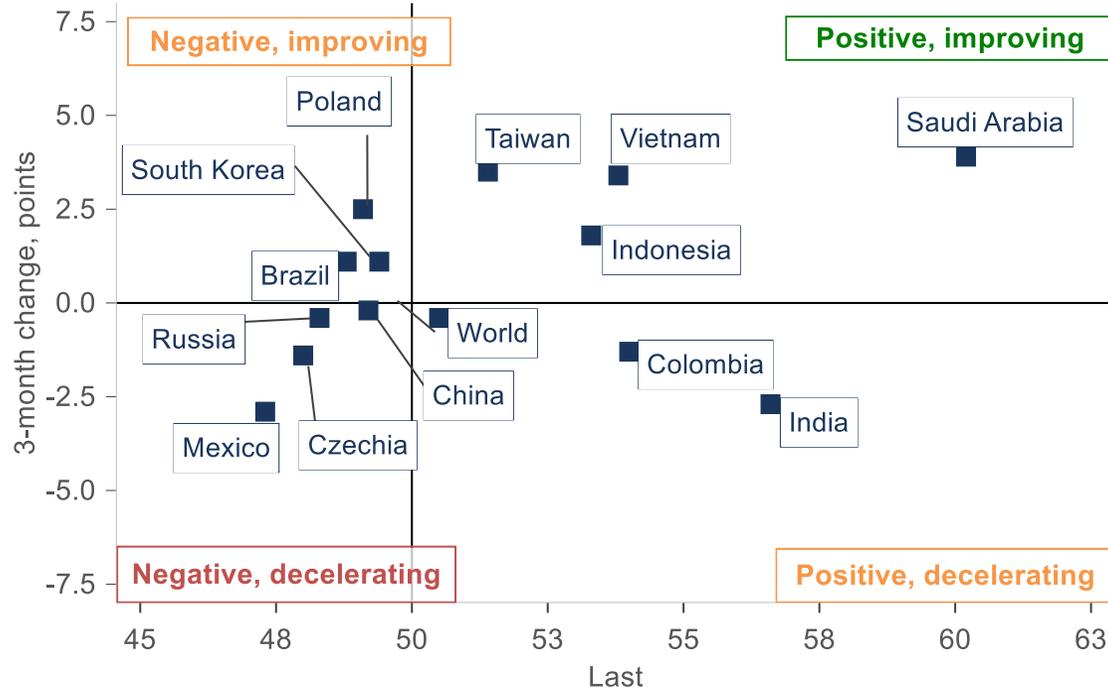
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Customs General Administration of the People's Republic of China, Macrobond, December 2025.

# Emerging markets

Emerging markets are likely to benefit from easing Fed policy, but inflation pressures may limit further accommodation from here.

## Emerging market economic activity is consolidating below neutral, with select clear outperformers

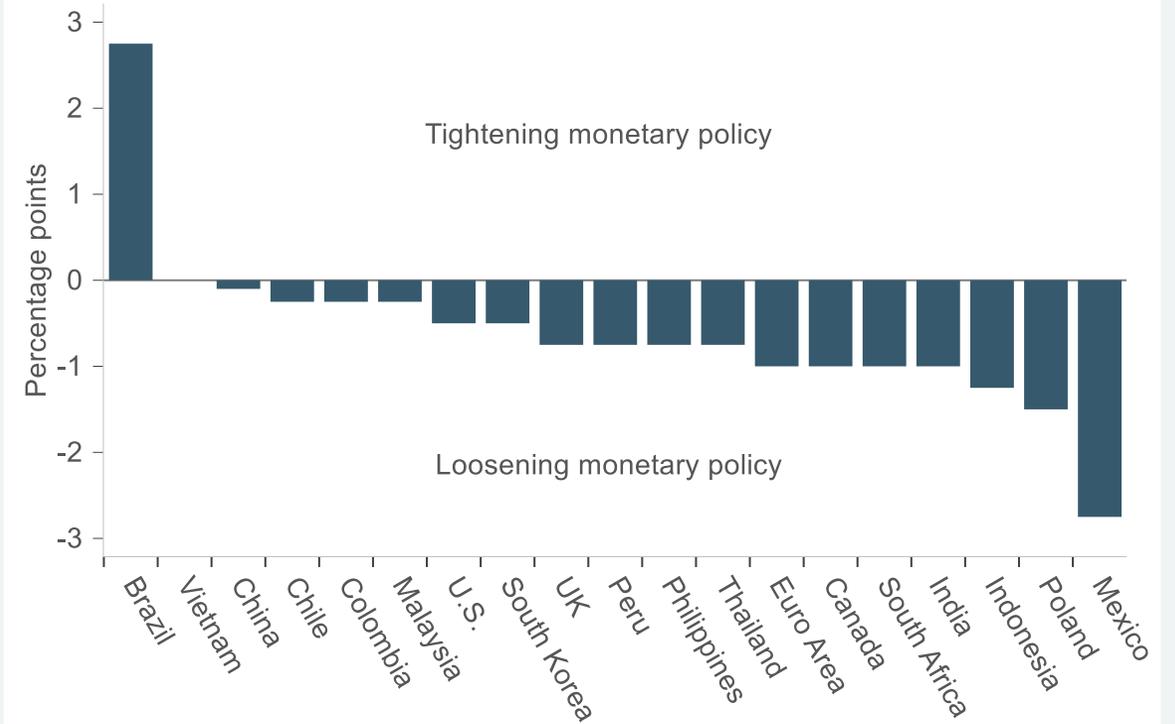
■ Emerging Markets Manufacturing PMI: Last value and 3-month change



Sources: New York Life Investments Global Market Strategy, S&P Global, China Federation of Logistics & Purchasing, Taiwan National Development Council, Bureau for Economic Research of South Africa (BER), Macrobond, December 2025.

## A weaker dollar helps Emerging Markets keep policy accommodative

■ Percentage point change in policy rate since Jan 2025



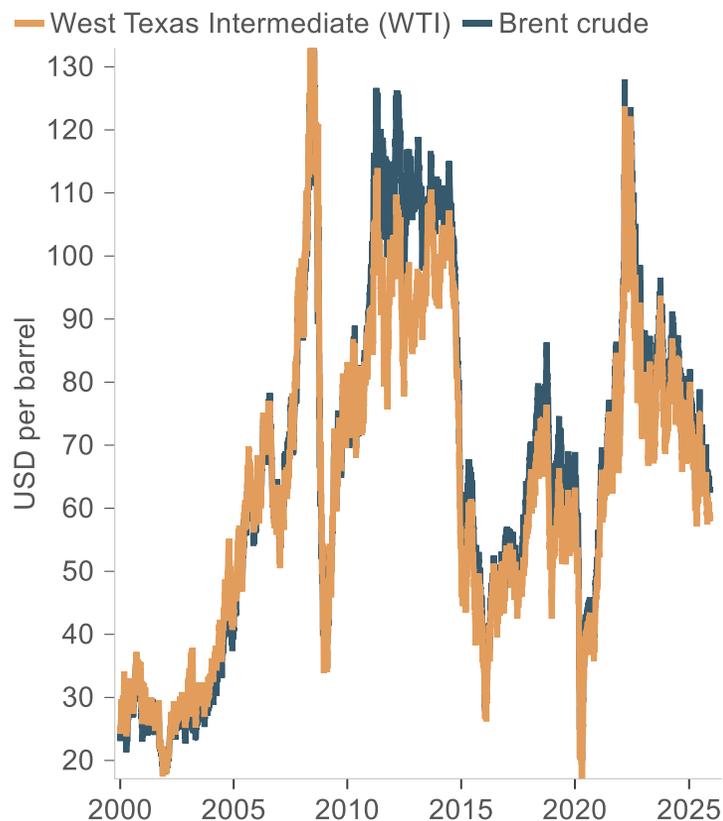
Sources: New York Life Investments Global Market Strategy, Federal Reserve, ECB (European Central Bank), Macrobond, December 2025.

**TAKEAWAY:** Emerging markets can more easily cut rates without currency depreciation in eras of Fed easing. Investors should be sensitive to the earnings and valuation outlooks in each market or should consider a holistic hedging strategy to counter broad-based EM currency weakness in periods of slowing global growth (for more, [see asset class insights](#)).

# Global energy costs have largely normalized, but upside risks remain

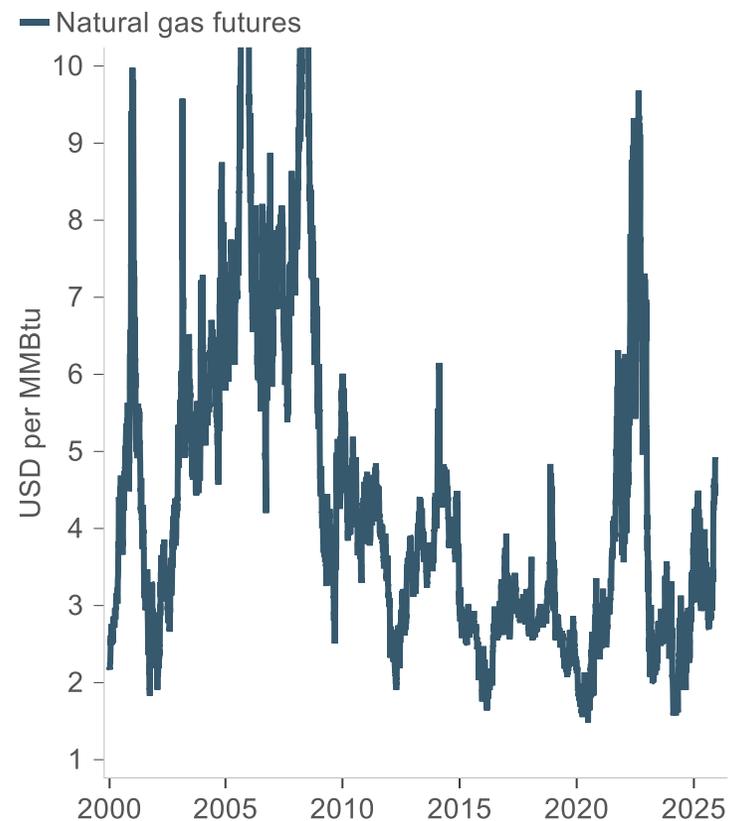
Shocks related to the pandemic and invasion of Ukraine have settled, leaving global energy prices broadly balanced.

## Oil prices have normalized after the post-pandemic period and invasion of Ukraine



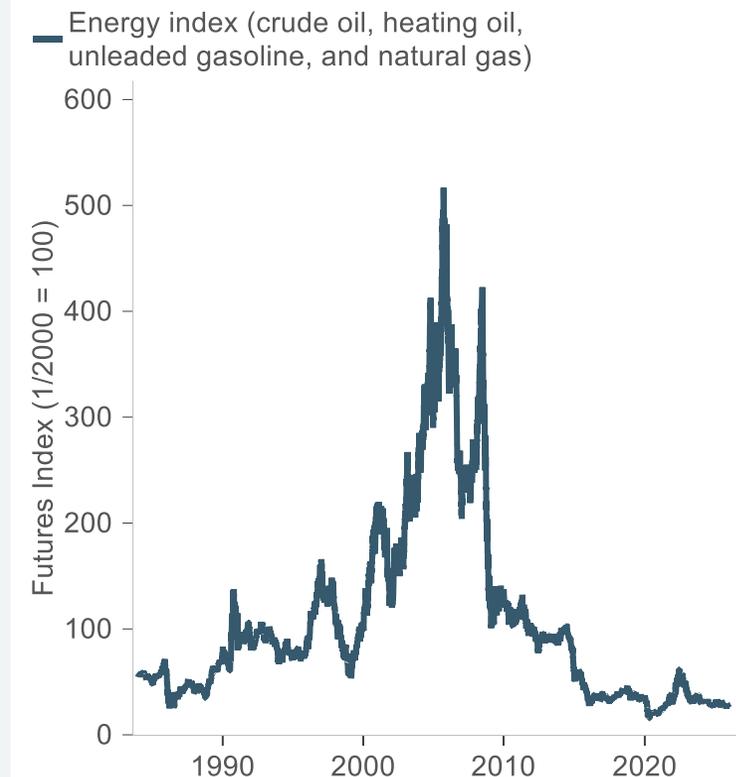
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, December 2025.

## Natural gas has similarly normalized from its 2022 spike



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, December 2025. MMBtu: million metric British thermal units

## Overall energy futures are at their lowest point in over 30 years



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, December 2025. Past performance is not indicative of future results. It is not possible to invest directly in an index. Bloomberg Energy Subindex is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas.

# Other commodities have unique drivers

Geopolitical factors from central bank gold-buying to war-related disruptions are prompting major commodities to adjust to “new normal” levels.

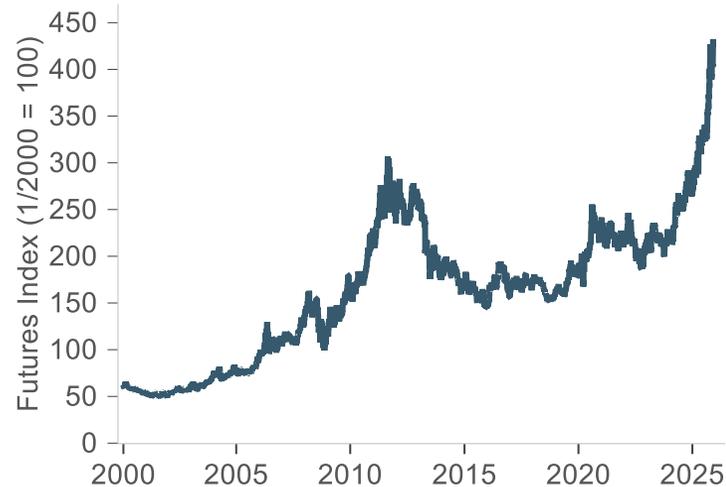
Gold has led precious metals strength, benefitting from rising geopolitical tensions, global ETF buying on strong momentum, and a structural wave of central bank buying as actors such as Russia, China, and Iran built up greater gold reserves.

Industrial metals have benefitted from long-term investment themes, including infrastructure supporting energy independence and the digitization (AI) boom.

Agriculture futures were driven by higher grain prices after the invasion of Ukraine (Ukraine is one of the world’s largest producers of wheat and corn). Ukrainian grain exports are down today relative to their pre-war levels, but they have not ceased outright, supporting normalization in the agricultural commodities price index.

## Precious metals futures, driven by strong gold demand, sit at historic highs

— Precious metals index: gold and silver



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, December 2025. Past performance is not indicative of future results. It is not possible to invest directly in an index. The Bloomberg Precious Metals Subindex is composed of futures contracts on gold and silver.

## Industrial metals demand remains elevated

— S&P industrial metals index

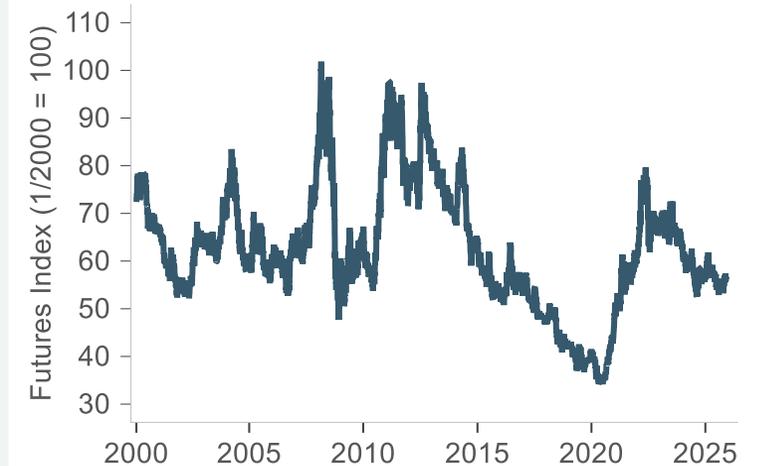
— Bloomberg industrial metals index



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, December 2025. Past performance is not indicative of future results. It is not possible to invest directly in an index. S&P GSCI Industrial Metals Index is comprised of aluminum, copper, nickel, lead, zinc. The Bloomberg Industrial Metals Subindex is comprised of the same, excluding lead.

## Agriculture futures, however, have been compressed by greater production

— Agriculture index

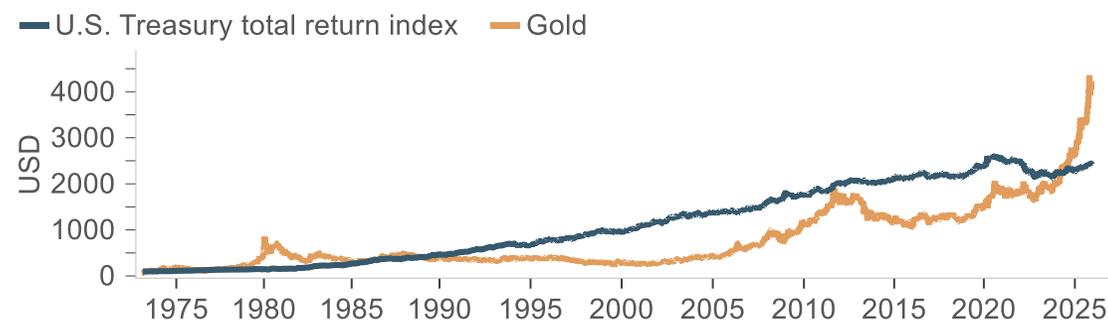


Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, December 2025. Past performance is not indicative of future results. It is not possible to invest directly in an index. Bloomberg Agriculture Subindex composed of futures contracts on coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar and wheat.

# We expect gold to continue shining in 2026

Central bank rebalancing and a more robust approach to investor diversification drive our still-bullish view on gold.

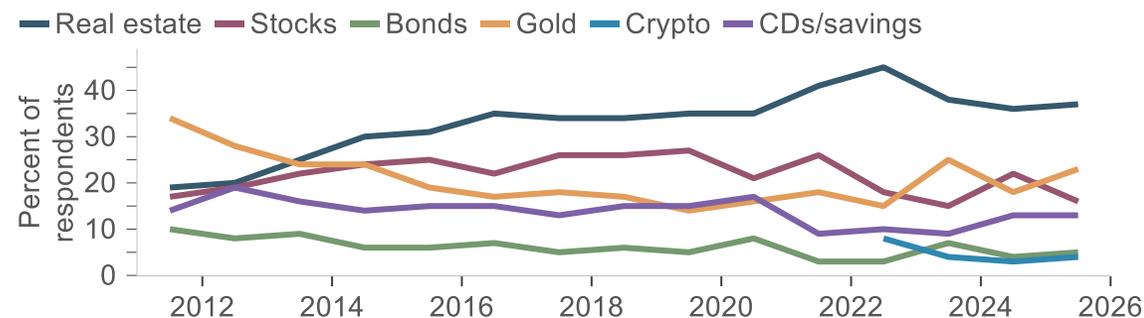
## Gold's return has outpaced Treasuries over the last 50 years



Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Bloomberg, Macrobond, December 2025. 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's appeal increasing

Americans' perceptions of the best long-term investment



Sources: New York Life Investments Global Market Strategy, Gallup, Macrobond, December 2025.

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, supported by these factors as gold increasingly becomes a momentum and “FOMO” trade.

### 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 (**bottom chart**). Physically-backed ETFs are particularly benefitting, meaning flows from retail and institutional buyers are having an outsized impact.

### 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

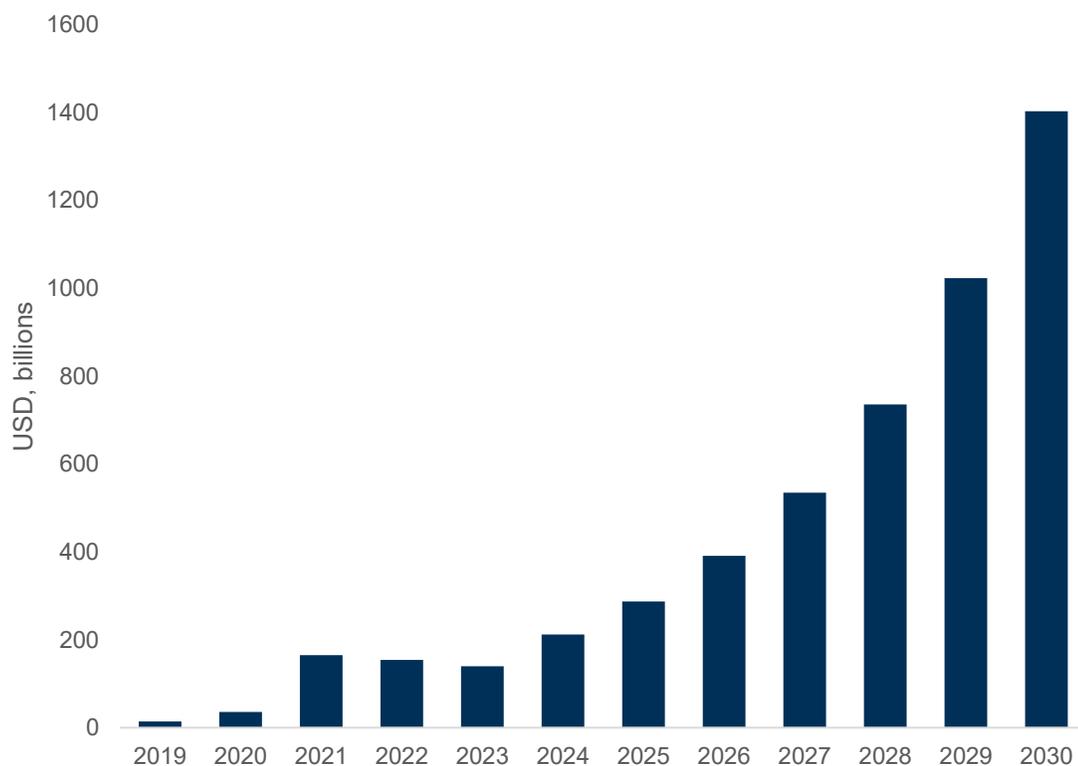
- Potential regulatory changes that reclassify gold as a High-Quality Liquid Asset (HQLA) under Basel III could create a massive demand shock. Both the London Bullion Market Association and the World Gold Council are actively advocating for gold's inclusion as an HQLA.

# 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 (2025 – 2030)



Sources: New York Life Investments Global Market Strategy, ARK Invest, December 2025.

Investors are treating digital assets increasingly in their portfolios, 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 \$35B of U.S. T-bills in 2024, similar to the largest U.S. money market funds.

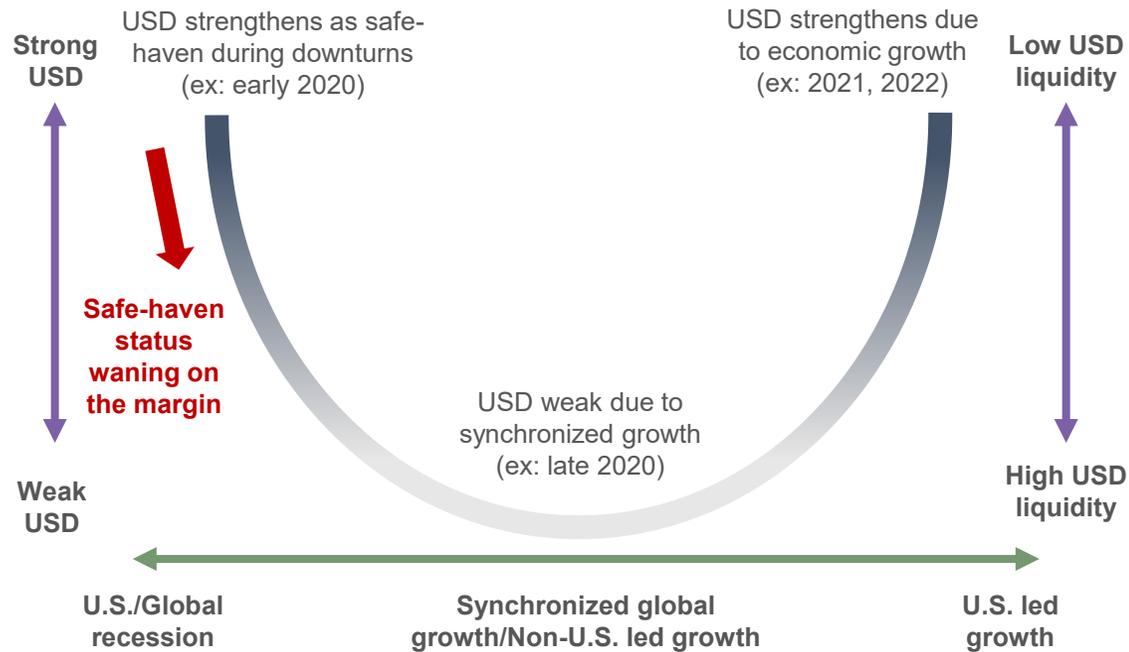
### Tokenization

- 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 Investments Global Market Strategy, December 2025. 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 (dollar bullish), balanced with global investors' concerns about U.S. policy stability, U.S. debt, and high U.S. dollar liquidity (dollar bearish). We also perceive – and share – low conviction about the U.S. dollar view, which may contribute to higher hedging volume in Q1 (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 are cyclical: that growth will outperform without inflation risks pulling real rates higher. Key downside risks are political; investors are focused on Fed independence.

**TAKEAWAY:** The dollar has weakened, but we see risks as roughly balanced for now. Still, strong opposing forces – tariffs pushing up and growth concerns pulling down – point to continued volatility. Investors with global exposure can consider a currency hedged strategy.

# 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 Investments Global Market Strategy, Federal Reserve, Bank for International Settlements (BIS), International Monetary Fund, December 2025. 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)

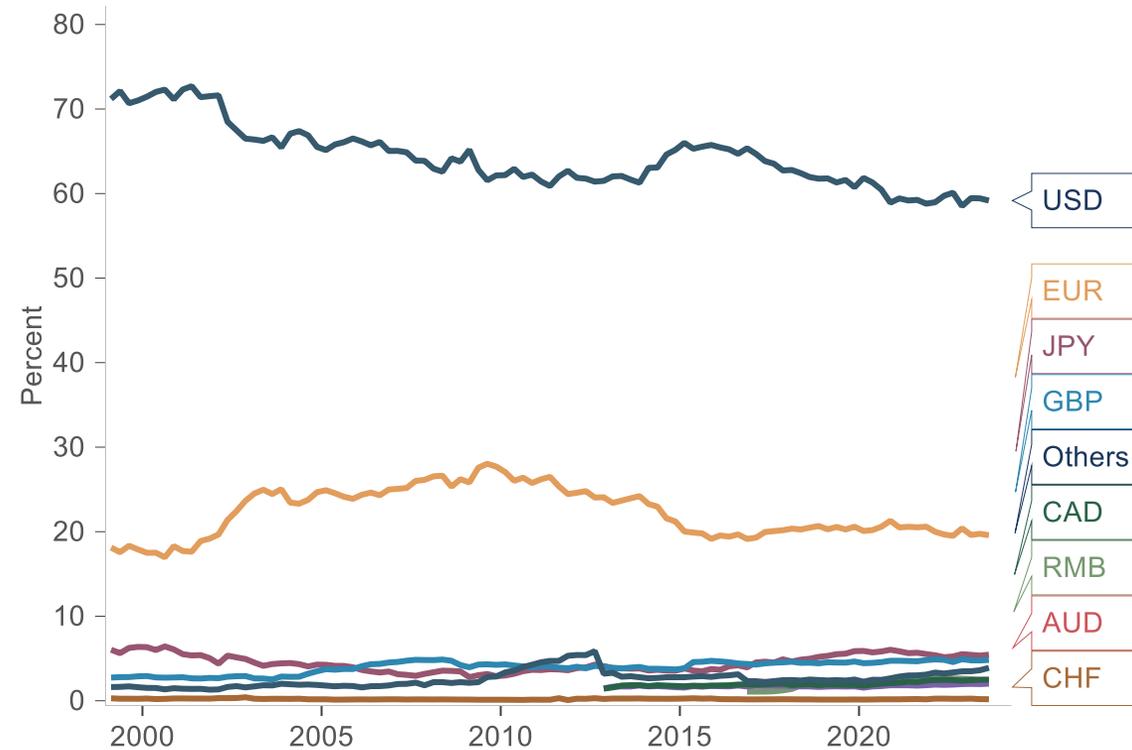
**TAKEAWAY:** Dominating global reserves, transactions, and global debt, the USD is set to remain the world's primary reserve currency. China's capital controls and lack of global convertibility and transactability make it unlikely for RMB influence to expand beyond select commodity-based relationships. 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 Investments Global Market Strategy, Macrobond, December 2025.

- 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 (**table**). 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 volatility in long rates?

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

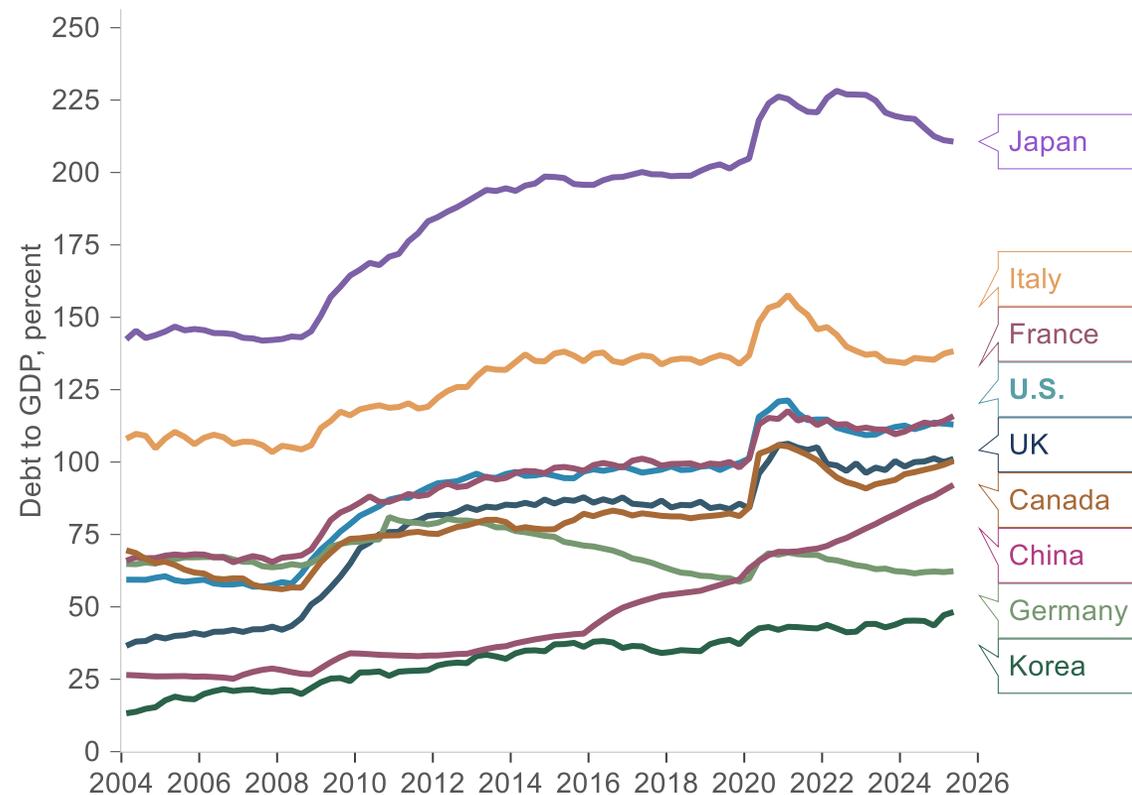


Opinions of New York Life Investments Global Market Strategy, December 2025.

# 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 Investments Global Market Strategy, International Monetary Fund (IMF), Macrobond, December 2025.

- 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.

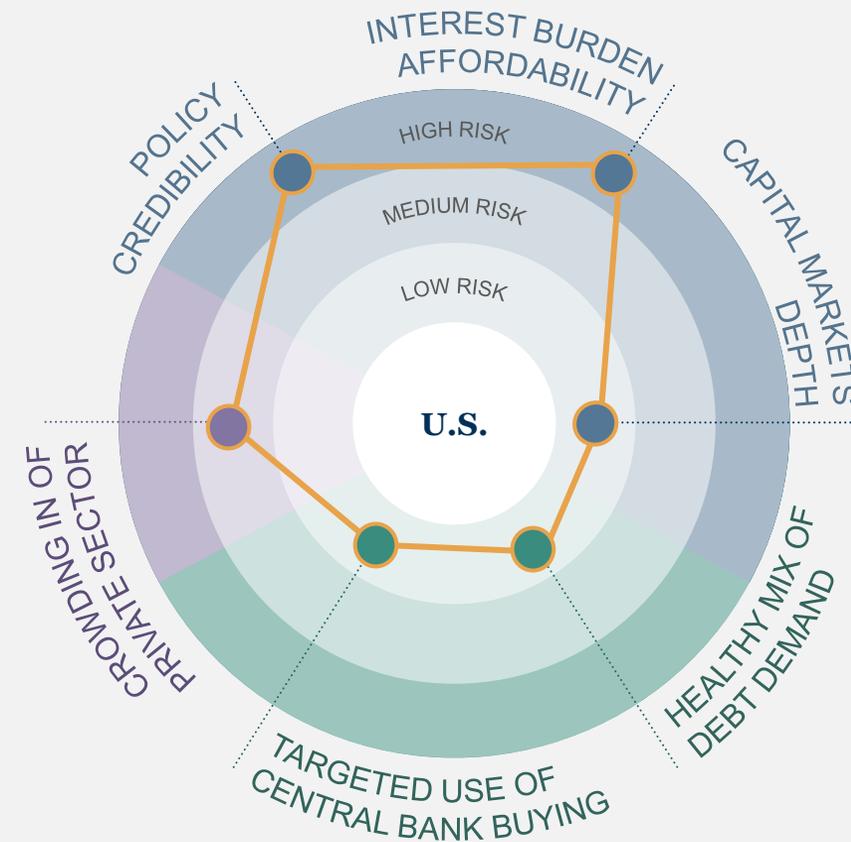
## The path forward

- 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 Investments Global Market Strategy, December 2025. 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.

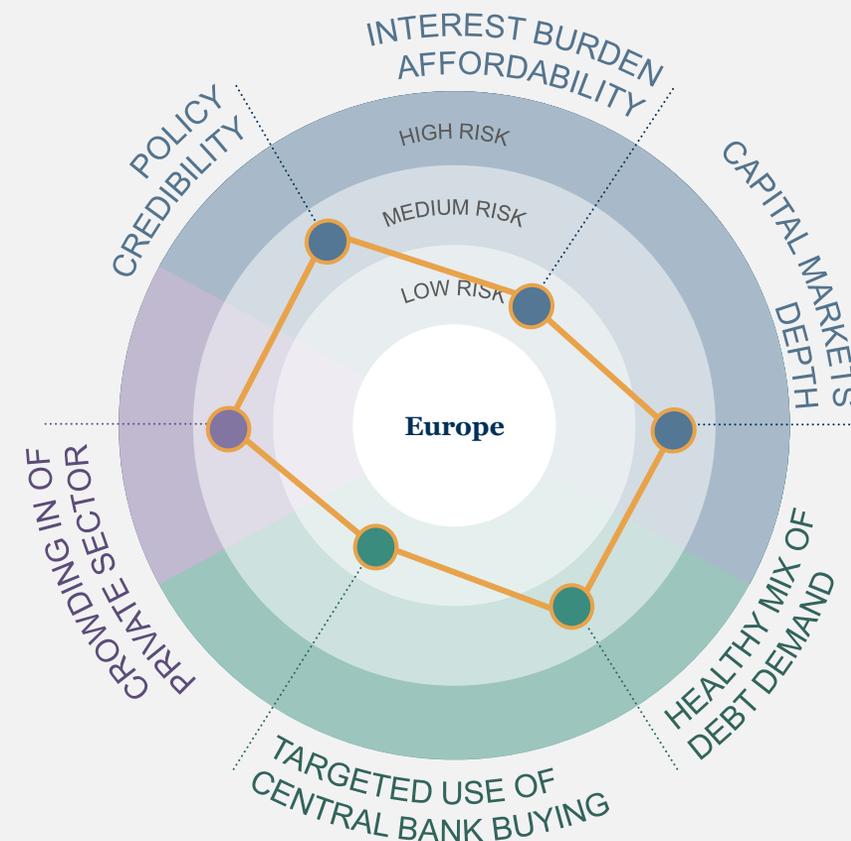
## Applying our sovereign debt sustainability framework

- 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 Investments Global Market Strategy, December 2025. For illustrative purposes only.

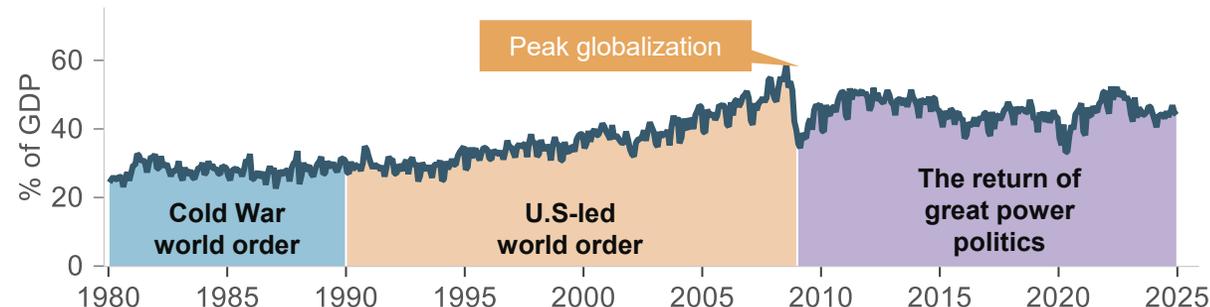
# Navigating the new geopolitical order

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 (**right 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 Investments Global Market Strategy, International Monetary Fund (IMF), United Nations Trade & Development, Macrobond, December 2025.

The principles of the U.S.-led world order are giving way to...		...the principles of great power politics	Results
Globalization	➔	Economic nationalism	Countries increasingly pursue onshoring, reshoring, strengthening their own domestic industries.
Free trade	➔	Weaponization of trade and finance	Sanctions, tariffs, and financial restrictions are deployed more frequently as instruments of geopolitical pressure, especially by the United States.
Market liberalization	➔	Preference for bilateral relations over multilateral institutions	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.
Multilateral institutions	➔	Strategic competition; emphasis on industrial policy	Governments direct investment into strategic sectors to bolster industrial capacity and national competitiveness.
Efficiency over resilience	➔	Resilience over efficiency	Countries reconfigure supply chains to emphasize resilience and redundancy, marking a shift away from cost-optimized globalization.

# 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 protecting portfolios from inflation and political volatility by prioritizing real assets, commodities, infrastructure, and resilient (or beneficiary) sectors.

Theme	Approach	Investment idea
Incidence of geopolitical risk appears to be rising	→ Add a macro volatility satellite to portfolio	→ Equal parts oil, gold, and bitcoin, implemented as a small satellite exposure sourced from equity
Event risk can impact any country or region	→ Diversify country exposure	→ The benefits of diversifying country exposure are likely to grow as globalization weakens and national economic trajectories diverge
	→ Manage currency risk	→ Consider a 50% currency hedge as currency volatility is likely to be higher
Regime change / Event risks are more likely to become paradigm shifts	→ New world order is likely to push prices and rates higher	→ <i>Manage duration</i> : we prefer short duration exposure or, when extending duration, keeping a close eye on income generation per unit of interest rate volatility <i>Add inflation-aware asset classes</i> : TIPS, real assets <i>Build income across asset classes</i> : Dividend-paying equities; high-yield corporate bonds
		→ <i>Private assets</i> : Focus on areas of real value creation. We favor the lower middle market as an area more resilient to global changes and capital markets trends, especially as dry powder has been captured upmarket
	→ Economic nationalism is becoming more evident	→ <i>Overweight domestic champions and beneficiary sectors</i> : industrials, energy, semiconductors, cybersecurity, and defense
		→ <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).
→ Market risk is more politically-driven and non-economic	→ Active management tends to outperform during periods of higher volatility. Investors should consider actively managed funds to better target quality opportunities in equities and credit.	

Opinions of New York Life Investments Global Market Strategy, December 2025.

# Global megatrends: creating persistent demand for capital

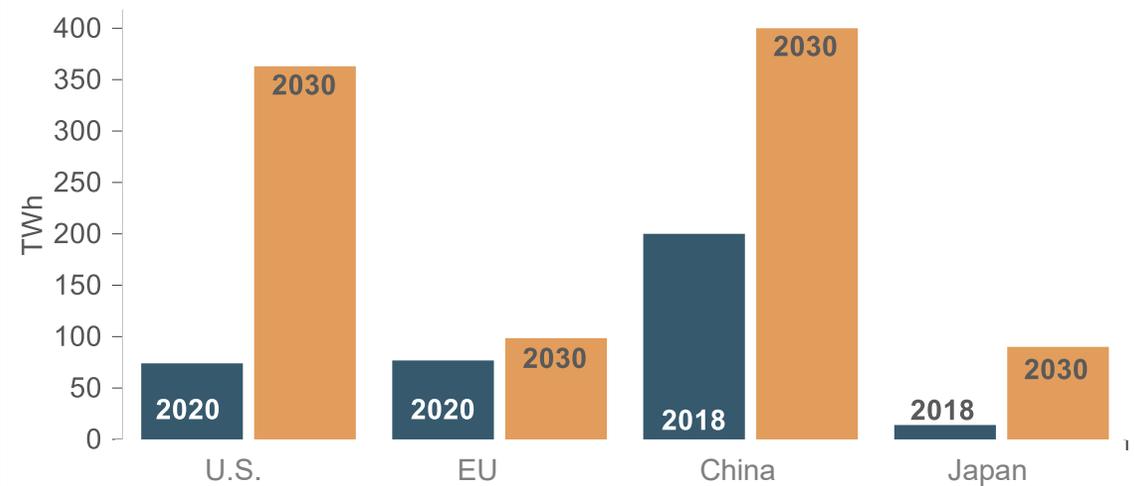
Innovation in geopolitics, energy needs, and innovation are fueling real economic activity, driving investment opportunity.

- 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

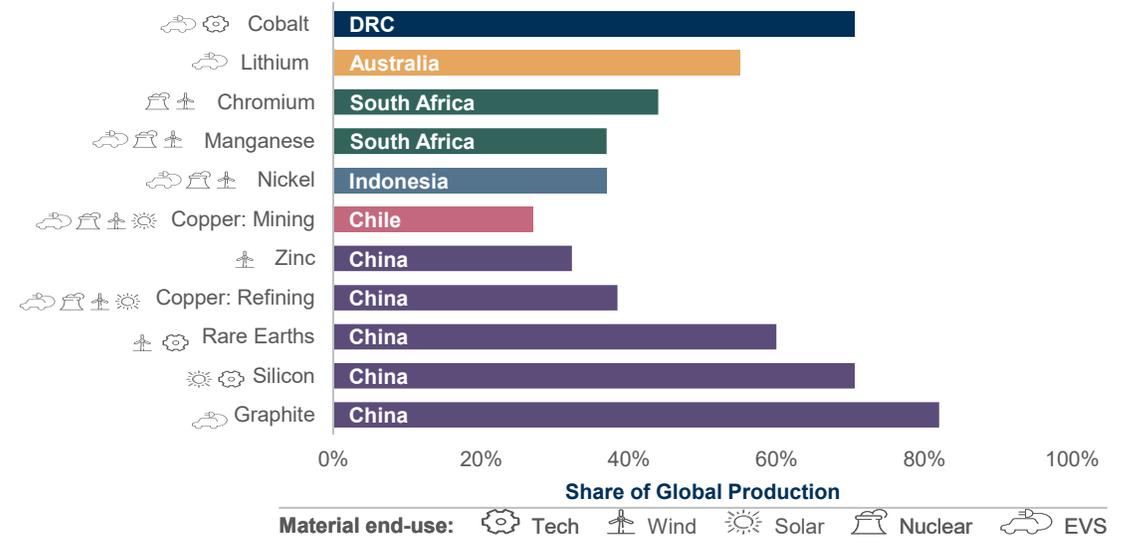
Data center electricity use



Sources: New York Life Investments 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 Investments 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 \$300B 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 100M 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, and 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

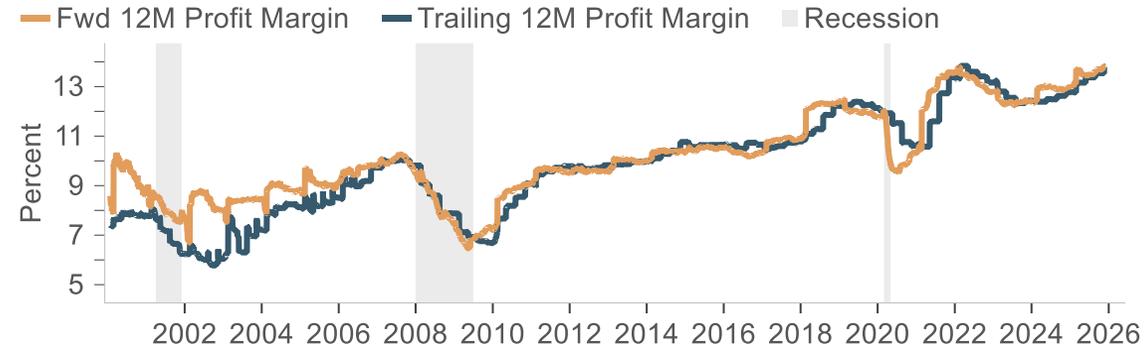
## Insights

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

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

Earnings remain resilient, but margin pressures and policy risks could test that strength in 2026.

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



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, December 2025.

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



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, December 2025. 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 in 2026.
- It is worth mentioning that there is a wide dispersion between sectors, with tech seeing the most 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.

**TAKEAWAY:** Stable corporate earnings have provided support for equity performance, driven by resilient margins and productivity gains. We expect earnings growth to hold up into 2026, supported by AI-driven efficiencies and steady consumer demand, even as companies navigate policy and trade uncertainty.

# Equity valuations: no bargains yet

Most sectors trade rich to history and recent market volatility hasn't created any bargains.

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



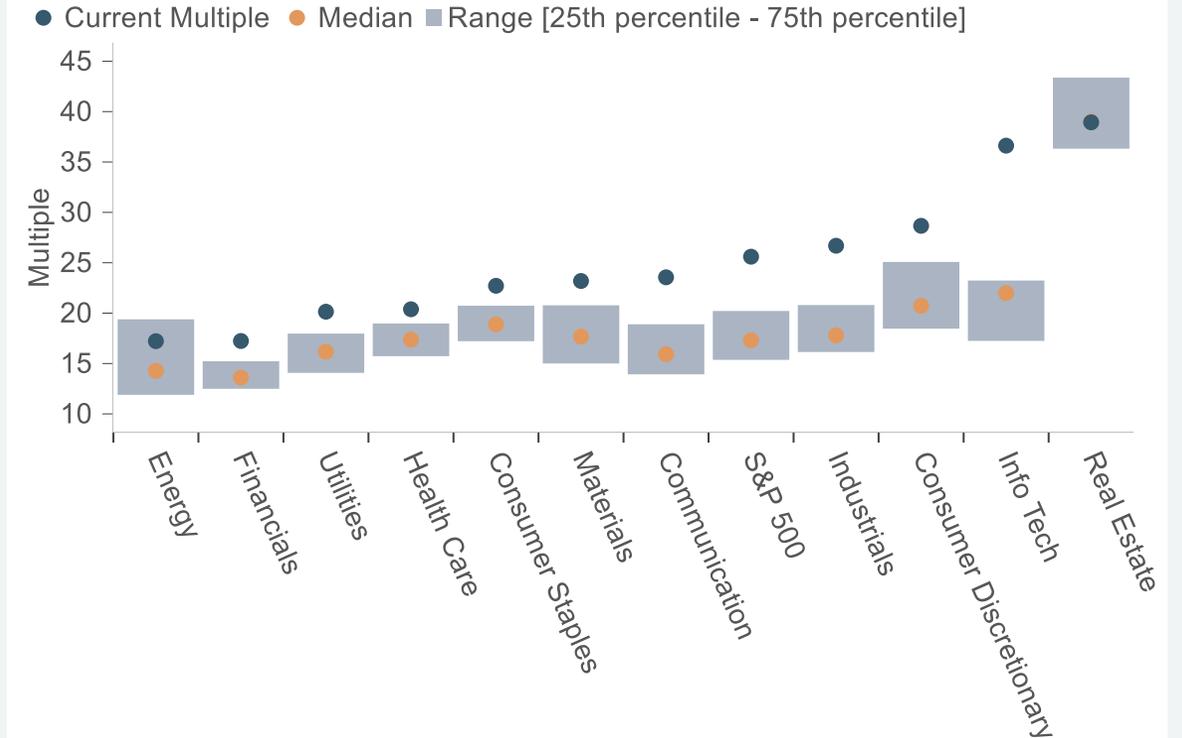
Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, December 2025.

As investors look to 2026 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.
- Valuations may be misleading: the S&P 500 ex-Mag 7 (the other 493 stocks) trades at 16x 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



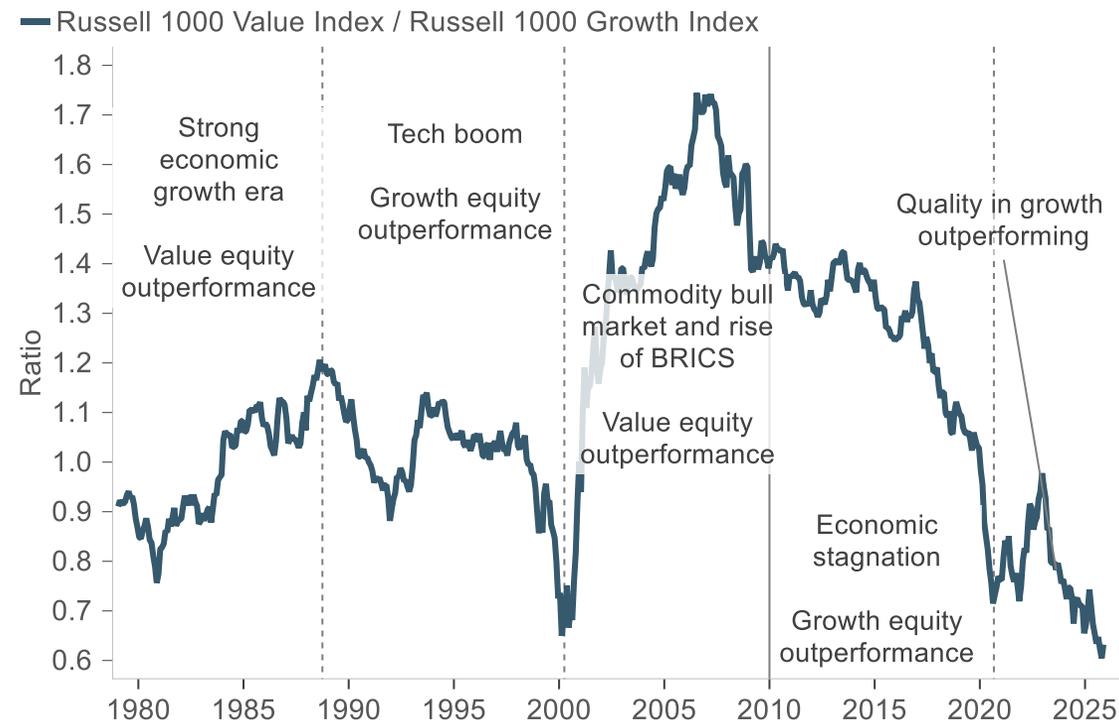
Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, December 2025. It is not possible to invest in an index. Past performance is not a guarantee of future results. Each sector index comprises those companies included in the S&P 500 that are classified by the GICS® Level 1 sector of the same name.

**TAKEAWAY:** Rising valuations signal the market has priced out most policy risk as U.S. equity valuations remain above their long-term averages. Valuations can remain at these levels for some time yet, particularly as the Fed eases rates.

# Growth is outperforming again in the U.S.; value dominates elsewhere

Diversification remains essential; ex-U.S. value equities can balance exposure to fundamentally strong but high-priced U.S. tech stocks.

## The post-pandemic era hasn't yet proven more supportive of value equities



Source: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, December 2025. The Russell 1000 Growth Total Return Index measures the performance of large-cap growth-oriented stocks in the U.S. market. The Russell 1000 Value Total Return Index measures the performance of large-cap value-oriented stocks in the U.S. market. 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



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, December 2025. 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.

- Growth stocks extended their outperformance over value stocks in the U.S. last year, driven by the AI revolution (**left chart**).
- In Europe, value stocks led due to index composition (**right chart**), but upcoming central bank cuts and falling bond yields favor growth and suggest a more balanced outlook ahead.
- 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, the case for value is not about abandoning tech. It's about broadening the outlook.

**TAKEAWAY:** Value stocks are trading at a wide discount to growth equities, offering attractive entry points. Still, patience may be required as AI-driven growth trends continue to dominate.

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

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

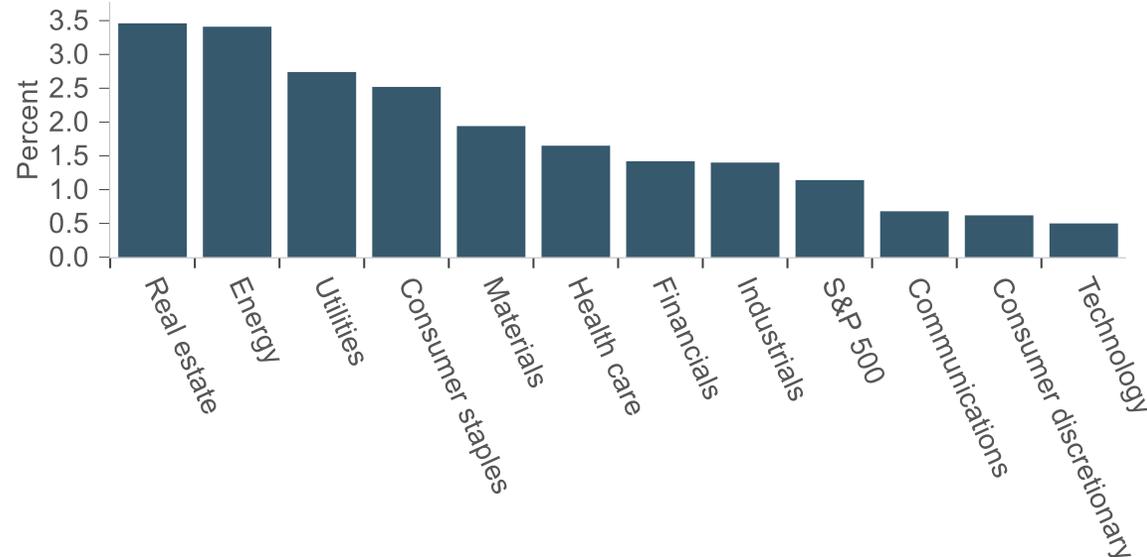
- For investors concerned about U.S. equity market performance, we suggest considering dividend stocks for new allocations. Dividend yielders combine characteristics of high quality and income generation that fit well into our broader market outlook. These companies also tend to be value companies, a diversifier for many growth-heavy U.S. portfolios (**left chart**).
- 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.

- 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?

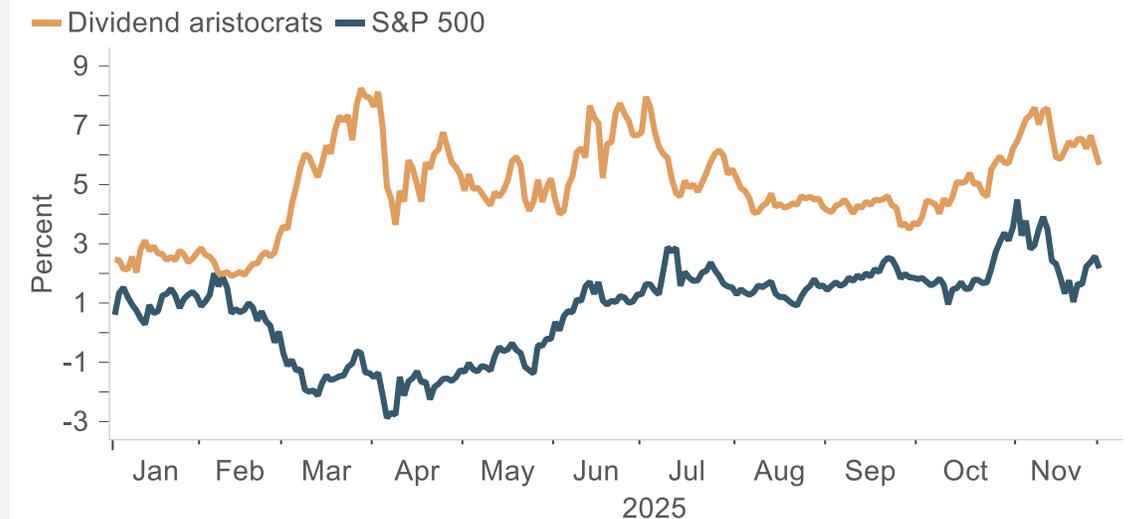
Dividend yield by S&P 500 sector



Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, December 2025. 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 Investments Global Market Strategy, S&P Global, Macrobond, December 2025. 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.

# We have upgraded our small cap view from underweight to neutral

We are moderately more constructive on small cap equities due to our conviction that policy support will fuel at-or-above trend growth.

## Small cap tech is waking up



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, December 2025.

- 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 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 do not believe we are in a true cyclical upswing. Instead, unemployment is likely to gradually rise.

### 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

- In Q2 and Q3 2025, the lower-quality Russell 2000 small cap benchmark 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: rebalancing global allocations

The ex-U.S. market leadership we saw in H1 2025 is unlikely to continue, but international equities provide a valuable sector and style diversifier.

## After lagging early in 2025, U.S. equities have caught up with global peers

— S&P 500 / Ex-U.S. developed markets equities



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, December 2025. 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.

- Earlier in 2025, ex-U.S. developed markets outperformed (**chart**) as policy easing (e.g., in Europe), resilient growth, and a softer dollar lifted earnings expectations for several countries.
- By late summer, U.S. stocks caught up as AI leaders re-accelerated and the dollar firmed, bringing relative regional performance back in line.
- Into 2026, leadership likely hinges on the dollar path, earnings breadth outside the U.S., and the pace of ECB, BoE, and BoJ easing relative to the Fed. Because we expect policy support to be more robust in the U.S. than in other developed economies, we may see stronger U.S. equity performance, countered with modest pressure on the dollar.

## 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 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 to capture sector and business cycle diversification. Tactically, policy changes may necessitate rebalancing – increasing allocations to economies benefiting from government spending while reducing exposure to those tightening budgets.

# Emerging market equities may benefit from Fed easing, but still face headwinds

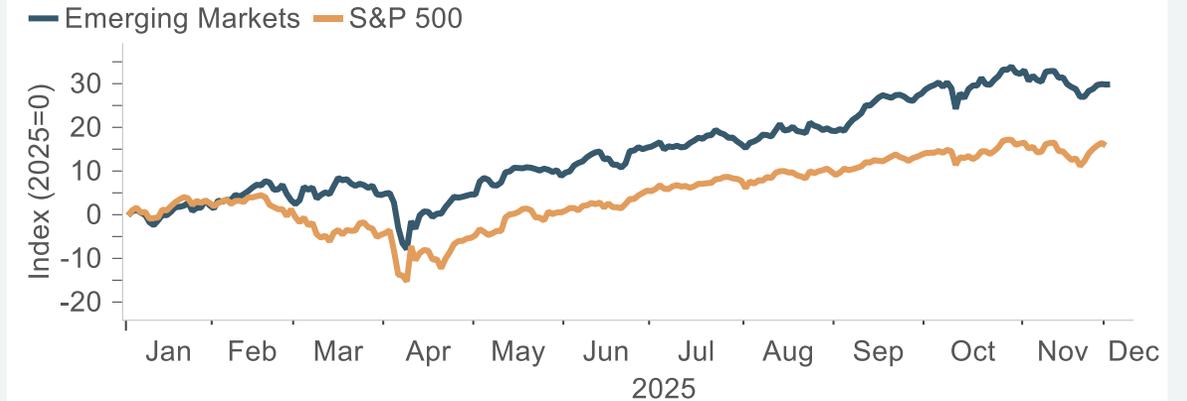
EM assets tend to benefit from easier U.S. policy, but selection remains critical.

## A weaker dollar is likely to support EM central bank cutting and equity performance



Sources: New York Life Investments Global Market Strategy, S&P Global, Intercontinental Exchange (ICE), Macrobond, December 2025. The S&P 500 is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. Emerging Markets index is represented by the MSCI Emerging Markets Index. The MSCI Emerging Markets Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries. It is not possible to invest in an index. Past performance is no guarantee of future results.

## Emerging markets had a stellar 2025



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, December 2025.

- Emerging market (EM) central banks led the cycle on raising interest rates; many are now more advanced in their easing cycles. A weaker dollar reduces currency risk on USD-denominated debt (**left chart**) and provides room for EMs to ease policy without risking currency depreciation, supporting local economic activity and expected equity returns.
- As a result, emerging market equities had a very strong year relative to U.S. equities in 2025 (**right chart**).
- Within the asset class, attractive starting valuations and business cycle timing offer diversification, though leadership will remain uneven. We believe investors should favor quality and policy credibility at both the country and company level.

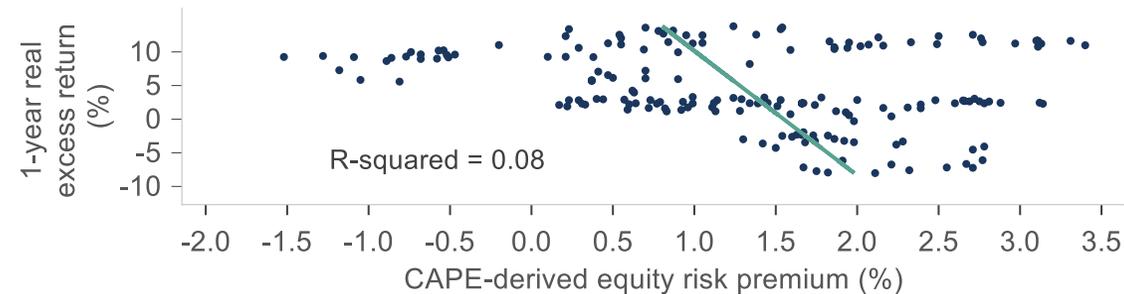
**TAKEAWAY:** With U.S. interest rates likely peaked, EM equities saw greater interest in 2025; nevertheless, currency management and active selection are key for success in the asset class.

# 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...

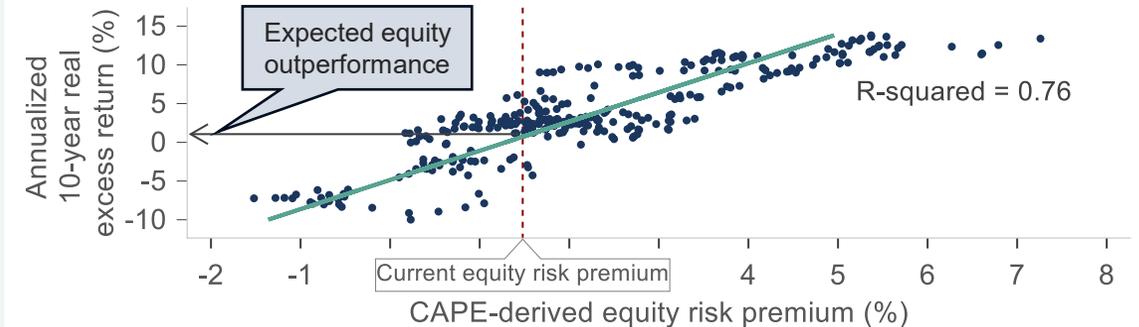
Individual dots represent months, data from 1980



Sources: New York Life Investments Global Market Strategy, Shiller, Macrobond, December 2025. 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 strong predictor over a 10-year horizon

Individual dots represent months, data from 1980



Sources: New York Life Investments Global Market Strategy, Shiller, Macrobond, December 2025. 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](#)

# Today's macro backdrop supports high conviction in credit allocation

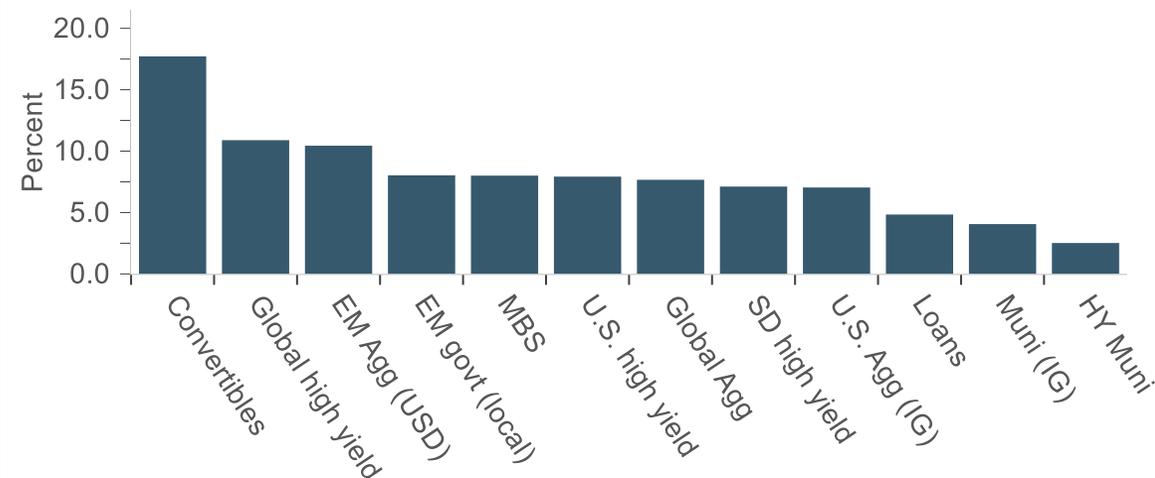
Cash has lost potency, driving a clear incentive toward buy-and-hold total return opportunities in credit.

- The credit cycle is healthy today, but leverage is likely to build in the coming years. In addition, we expect ongoing yield curve volatility. Our “solve” for both of these concerns is to stay short duration across credit types in the U.S.: investment grade, high yield, and municipal bonds.
- Spreads are tight, creating significant price risk for U.S. corporate credit. However, 1) resumed Fed easing makes the total return potential of corporate credit more compelling. 2) Corporate credit provides equity-like risk, and equities also have strong valuations. 3) The backdrop of credit quality has improved over time. Even if growth slows, we are not concerned

- about systemic credit quality. 4) Spreads may tighten further from here if long Treasury rates begin to price in longer-term risks, including to Fed independence and fiscal health.
- Though the Fed is easing, 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.

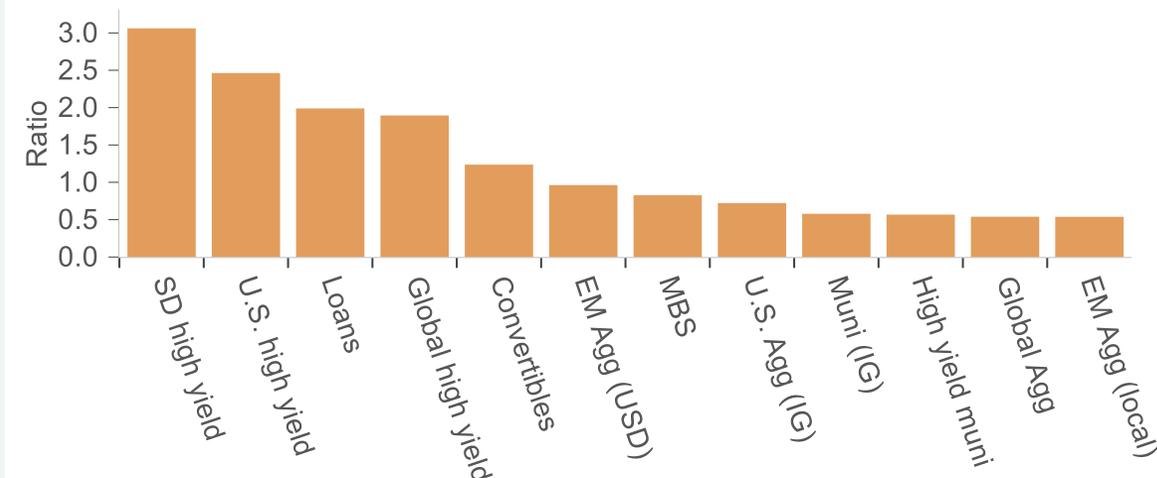
## Ex-U.S. credit outperformed in 2025

Returns from January 2025



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

Yield per duration (prior 30-day average)

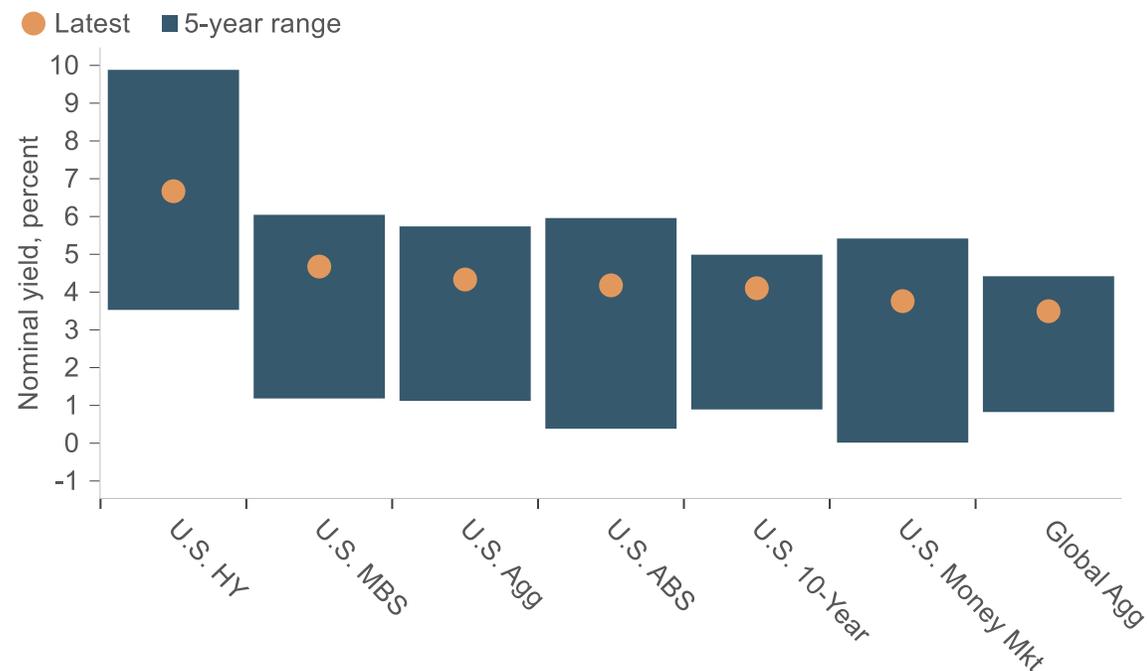


Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, December 2025. Convertibles represents the Bloomberg U.S. Convertibles Liquid Bond Index. EM Agg represents the Bloomberg Emerging Markets (EM) Hard Currency Aggregate Index- a flagship hard currency EM debt benchmark. EM 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

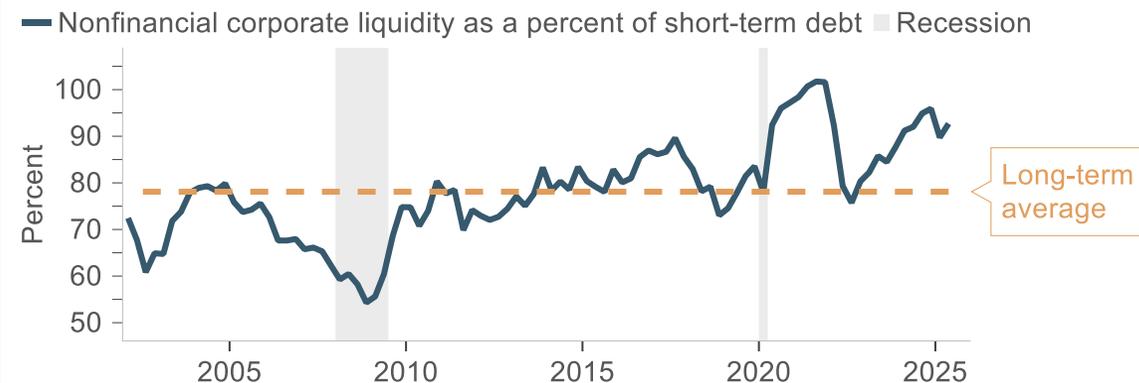
As the credit cycle matures, we favor quality and believe selectivity will be more accretive to returns than in past years.

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



Sources: New York Life Investments Multi Asset Solutions, Bloomberg Finance LP, Standard and Poor's, Barclays, MSCI, Macrobond, December 2025. \*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 Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, December 2025.

- **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

Even in light of extremely compressed spreads, we maintain a positive outlook on U.S. high yield credit.

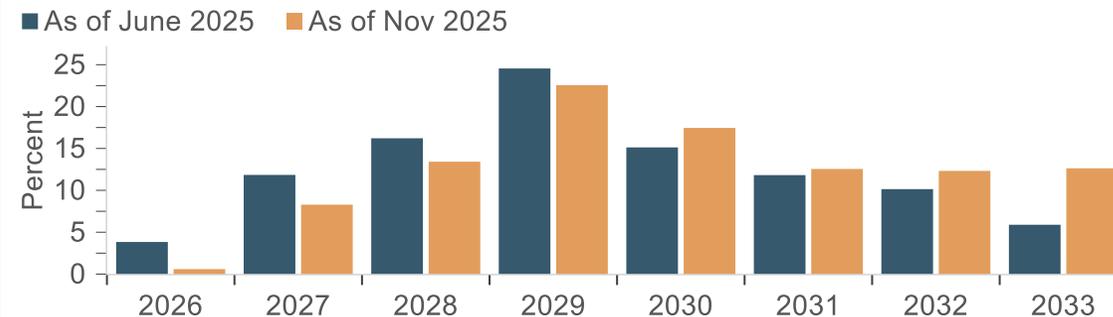
## Spreads are sitting near historic tights



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, December 2025.

## 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 Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, December 2025. 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, supporting tight spreads (**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**).
- In the event that spreads widen in U.S. HY, we see this as a value creation opportunity. Keeping HY exposure short duration – and short maturity – can cushion against rates vol.

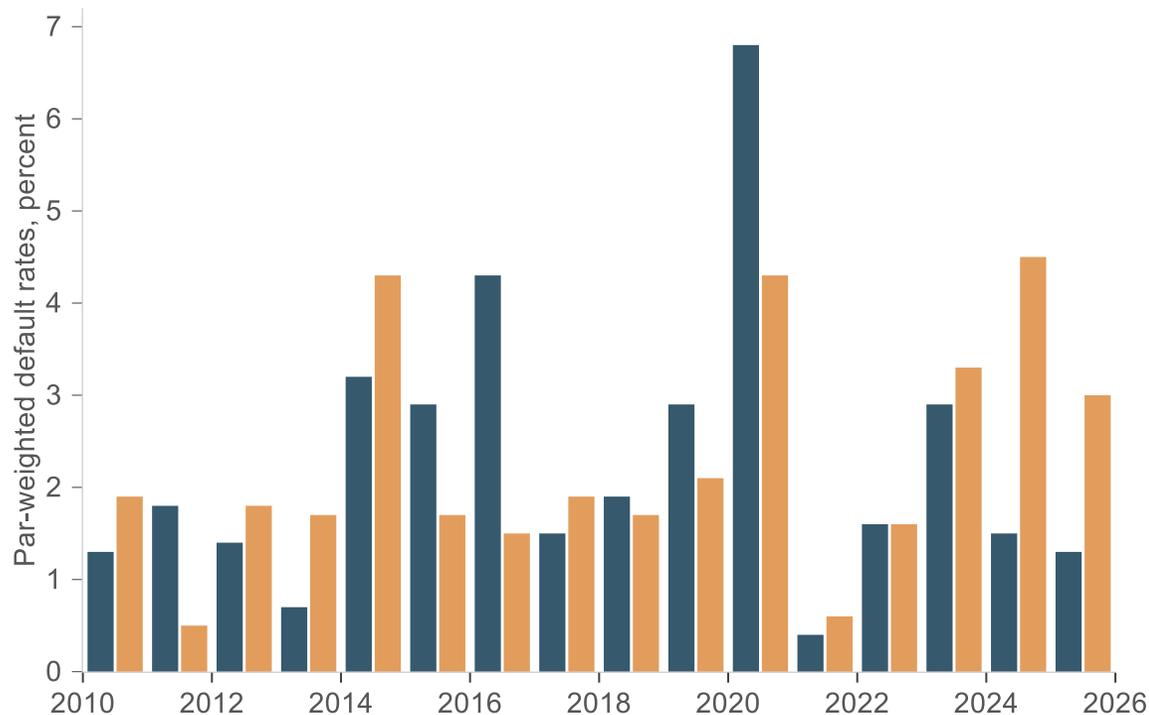
**TAKEAWAY:** Valuations create tactical investment risk in high yield, but we believe the higher quality high yield borrowers could provide significant value in a portfolio this year – thanks to strong credit fundamentals. For investors concerned about credit quality, macro volatility, or policy uncertainty, 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 and declining interest rates, 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 Investments Global Market Strategy, J.P. Morgan, Macrobond, December 2025.

## 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 our modestly 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 the credit cycle is maturing?

- 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 (**left chart**).

## Portfolio strategy

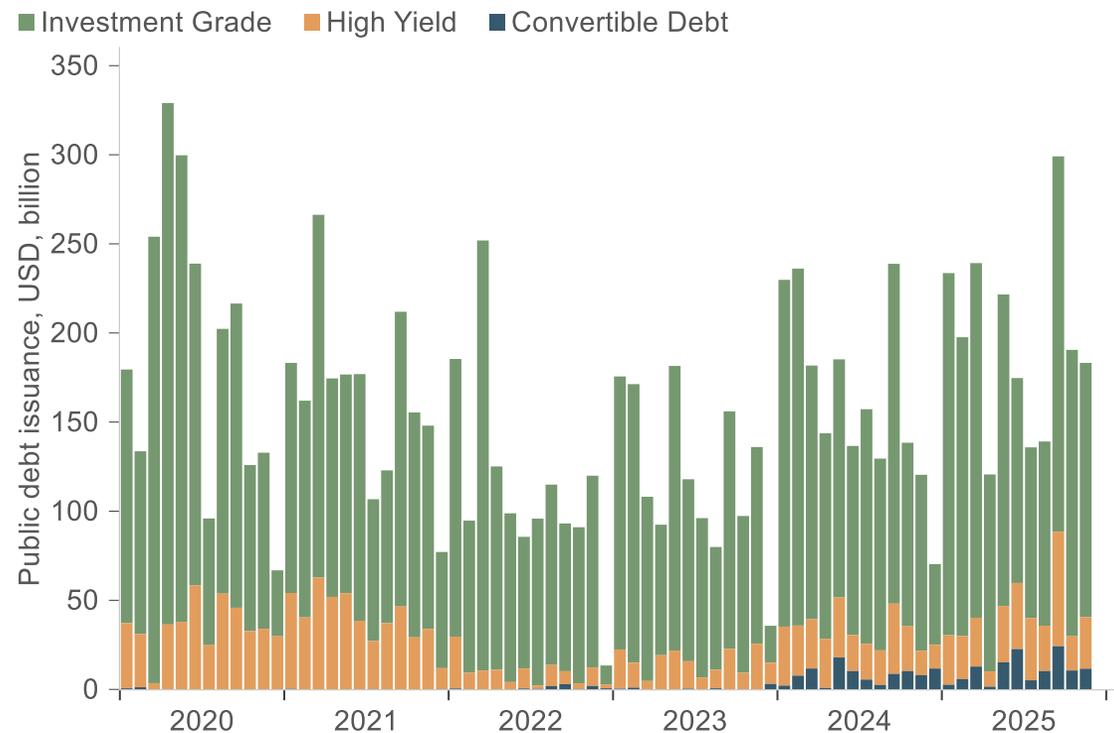
- We believe bank loans can be an important component of diversified global bond exposure. Because of their relatively lower credit quality, security selection and credit quality analysis is paramount when operating in this asset class in an unfavorable macro environment. Within floating rate bank loans, 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; set to continue in 2026

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

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



Sources: New York Life Investments Global Market Strategy, SIFMA (Securities Industry & Financial Markets Association), Macrobond, December 2025.

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 offer downside protection.
- Over a complete market cycle, convertibles 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:

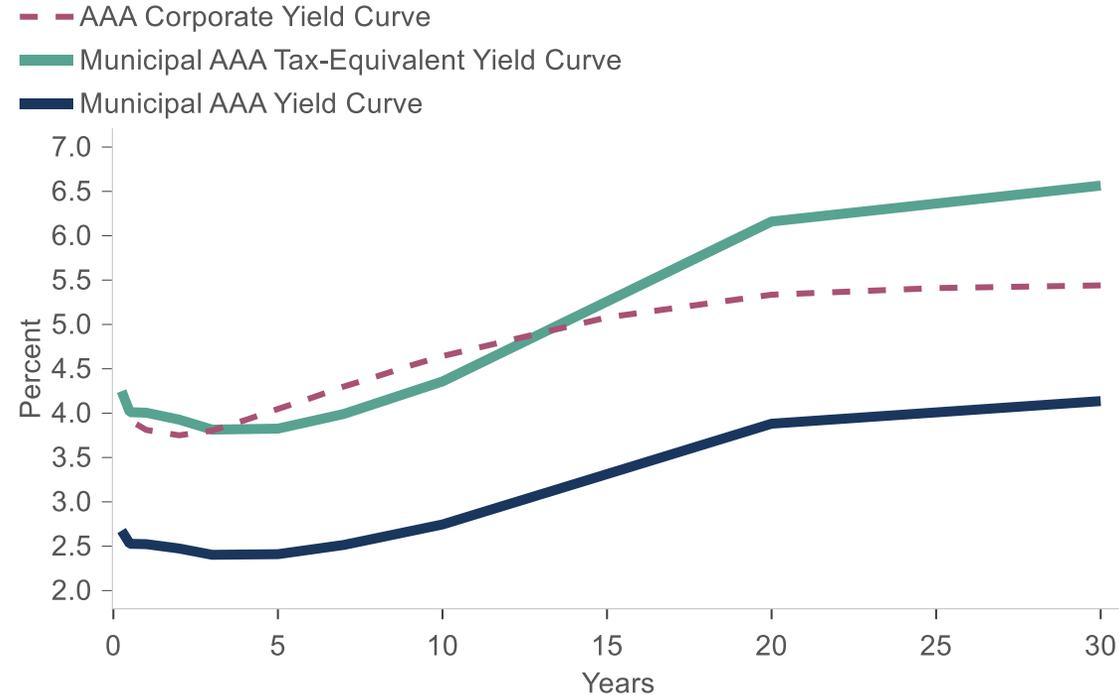
- Issuance: Issuance was strong in 2024 and 2025, with \$49 billion across 58 deals in H1 2025. Strong issuance suggests lower interest rates for issuers are balancing well with investor demand for upside participation in the equity features of convertibles. Issuance is expected to increase as investment 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 Investments Global Market Strategy, U.S. Department of Treasury, Macrobond, December 2025. 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 the U.S. sovereign.

## 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.

## Munis 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 2025 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

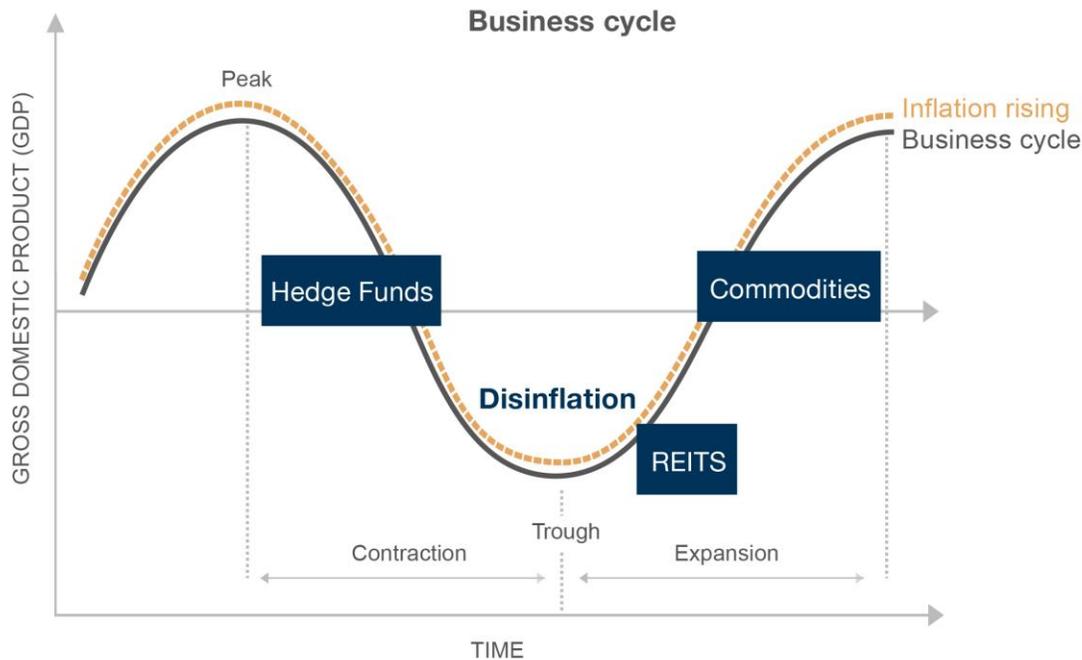
## Insights

- [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 Investments Global Market Strategy, December 2025. For illustrative purposes only

- Alternative investments offer diversification potential and are some of the least correlated public and private investment opportunities.
- 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 protection against 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

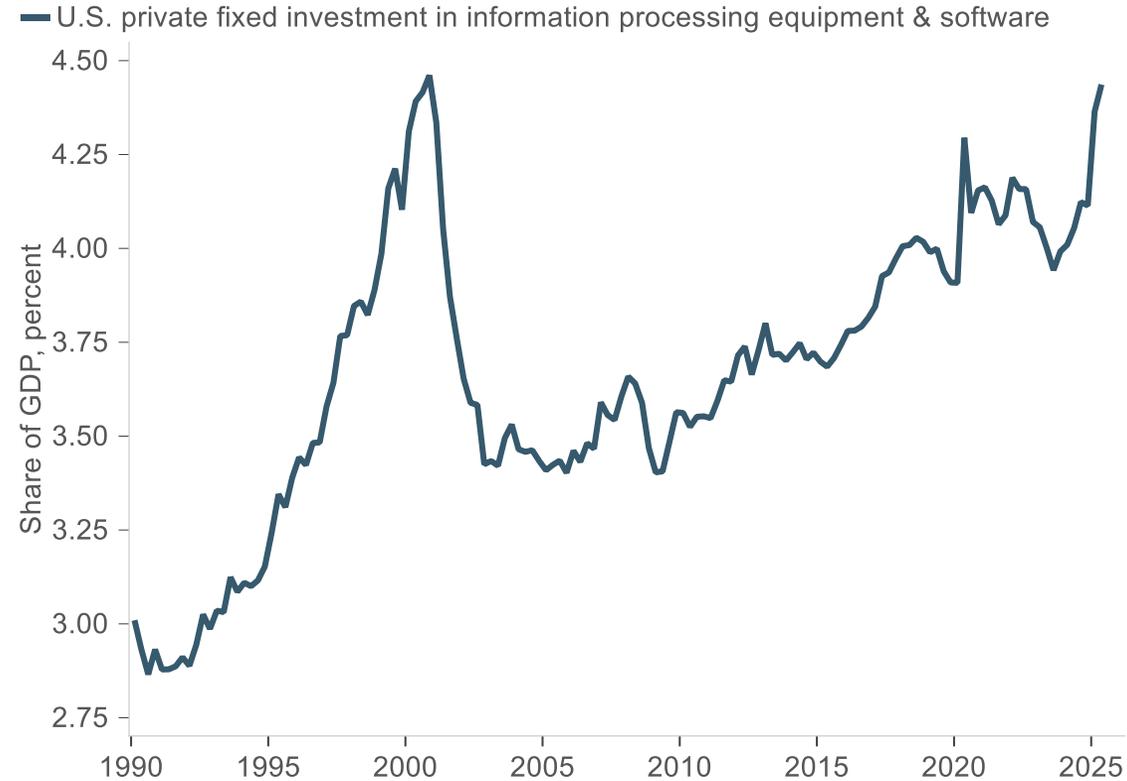
- Concern about commercial real estate has impacted investor sentiment but we think this has the potential to create investment opportunities.
- Allocating between 1% and 15% offers real estate exposure with the potential for income and capital appreciation – and can potentially be sourced primarily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

**TAKEAWAY:** Investors may benefit from adding exposure across alternatives. Given sticky inflation, and the risk of reacceleration, we think commodities could offer the highest 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 compares to dot-com in the scale and recent pace of tech capex



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), Macrobond, December 2025.

## 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) has 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.

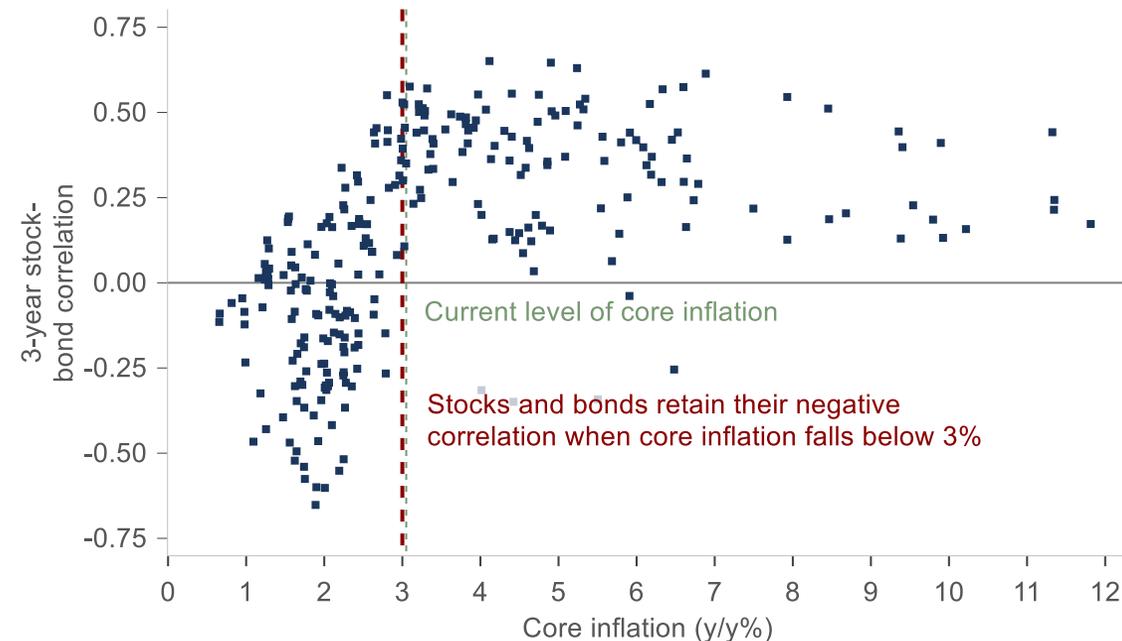
**TAKEAWAY:** The global economy is shifting, and we believe that infrastructure provides a durable opportunity to capture that change. We perceive infrastructure as a structural allocation in both equity in fixed income, allowing investors access to these trends as well as important portfolio construction 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.

## Commodities play a more important role in portfolio allocation when inflation is high

Stock-bond correlation works better when inflation is closer to target



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), S&P Global, U.S. Department of Treasury, Macrobond, December 2025. Stocks are represented by the S&P 500. Bonds are represented by the monthly return on a U.S. 10-year government bond. Core inflation is represented by the Core CPI index. Core CPI is represented by the core Consumer Price Index. CPI is a measure of the average change over time in the prices paid for a market basket of consumer goods and services. Core CPI excludes volatile food and energy prices. 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.

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.

### 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 (**chart**).
- 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

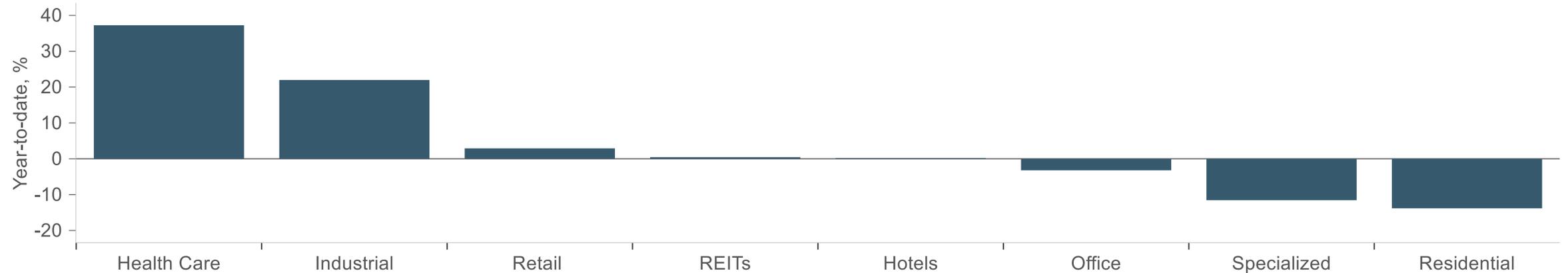
- Historically, commodities, as a whole, outperform stocks and bonds when growth and inflation *surprise to the upside*, or miss expectations. This jolts have tended to see investors rush to into commodities.
- However, in this new regime, marked by economic nationalism, national security priorities, 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. 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 face continue to face headwinds.

## REITs sector performance reflects secular forces



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, December 2025.

- U.S. commercial real estate (CRE) experienced a one-two punch in the past several years. First came the pandemic, which pushed many white-collar jobs to work at home for a time, a trend that has been sticky in the U.S. Then came the interest rate hiking cycle of 2022–2023. Additionally, REITs have lost competitiveness as a portfolio asset. Higher rates have meant that a larger selection of investment opportunities, including public and private credit funds, have offered comparable yield with lower historical volatility.
- 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 \(LMM\)](#)

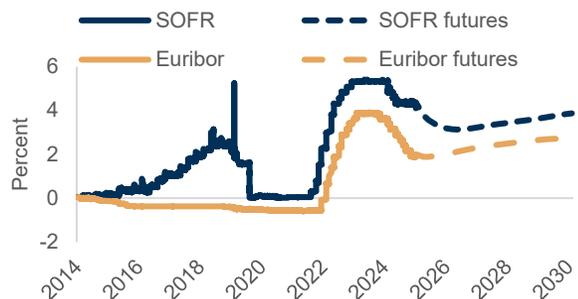
# Macroeconomic forces impacting private markets

Lower rates and structural shifts are driving a recalibration in private markets, even amid policy uncertainty.

Cyclical forces

## Global rates are moving lower

Higher interest rates are being priced into markets <sup>1</sup>

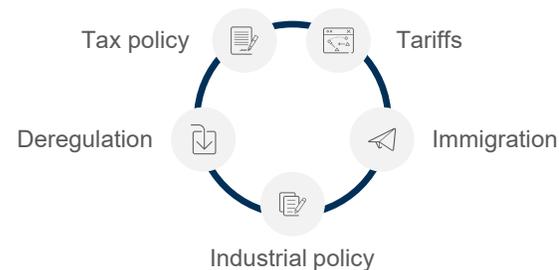


- Rates have eased just enough to support investor confidence and borrower conditions – even in the U.S. where rates are stickier – while staying high enough to provide strong income generation potential.

*Diversify across geographies and asset classes to access different stages of rate cutting and credit creation cycles.*

## Policy impacts are materializing

U.S. policy changes will likely impact global growth



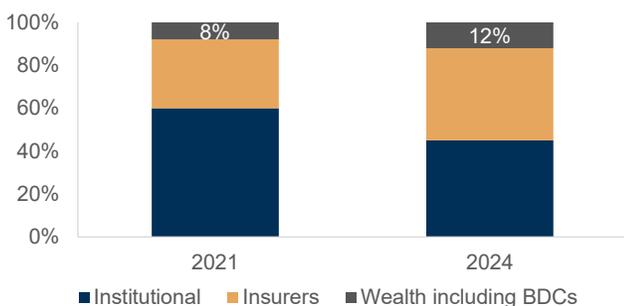
- The global macro landscape has shifted, with policy changes reshaping business conditions and investor expectations.

*Selectivity will be increasingly important. Investors should lean into areas of stronger competitive advantage.*

Structural forces

## Private markets allocation is growing and democratizing

Wealth investors' share of private credit is set to grow <sup>2</sup>

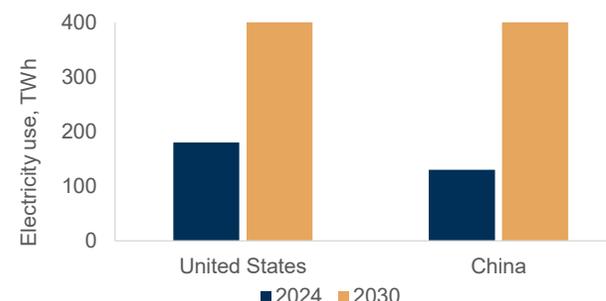


- Institutional allocations to private markets continue to grow.
- The potential for supportive policy change adds to our view that further democratization of private assets is forthcoming.

*New sources of capital will contribute to shifting competitive dynamics, again favoring selectivity.*

## Global megatrends are driving capital-intensive investments

Data center electricity use will grow substantially <sup>3</sup>



- Global megatrends related to supply chain re-globalization, electrification, and digitization are driving a capital-intensive period of activity, creating sector and diversification opportunities.

*Seek sectors that benefit from transition-oriented themes, where rising tides are likely to raise all boats.*

Sources: Opinions of New York Life Investments, December 2025. 1. Federal Reserve, European Central Bank (ECB), Bloomberg, Macrobond, December 2025. 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. Sources provided below on later slides. 3. International Energy Agency, CBRE Investment Management, China's State Council, S&P Global, U.S. Energy Information Administration, December 2025, with data available through May 2025. TWh = terawatt hours of electricity.

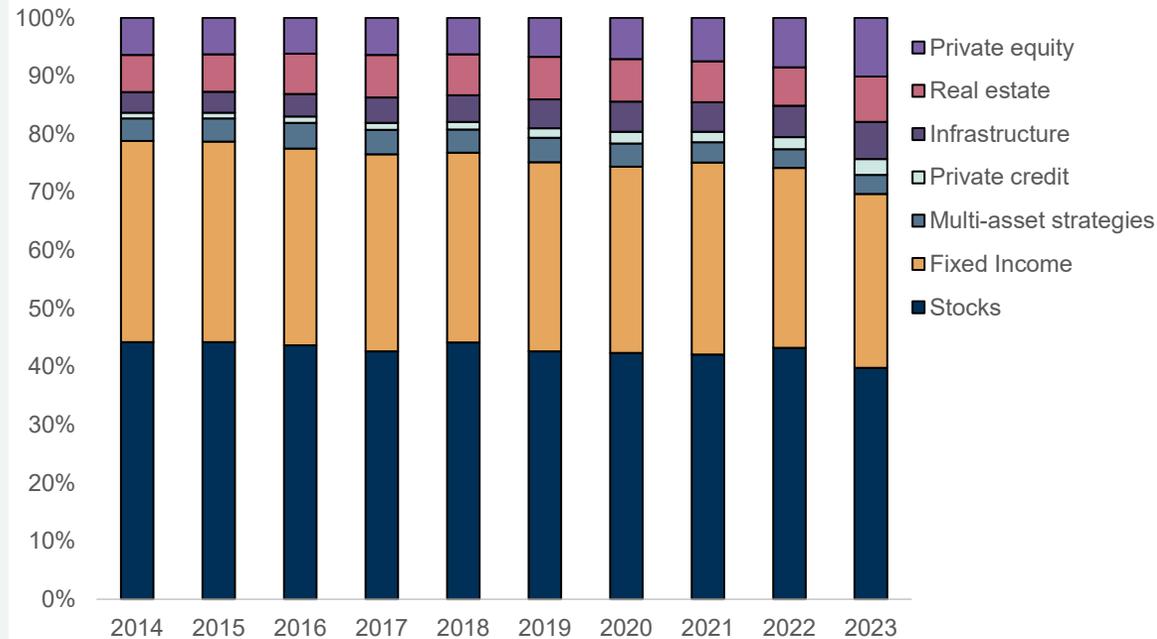
# Investor allocation to private markets continues to increase...

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

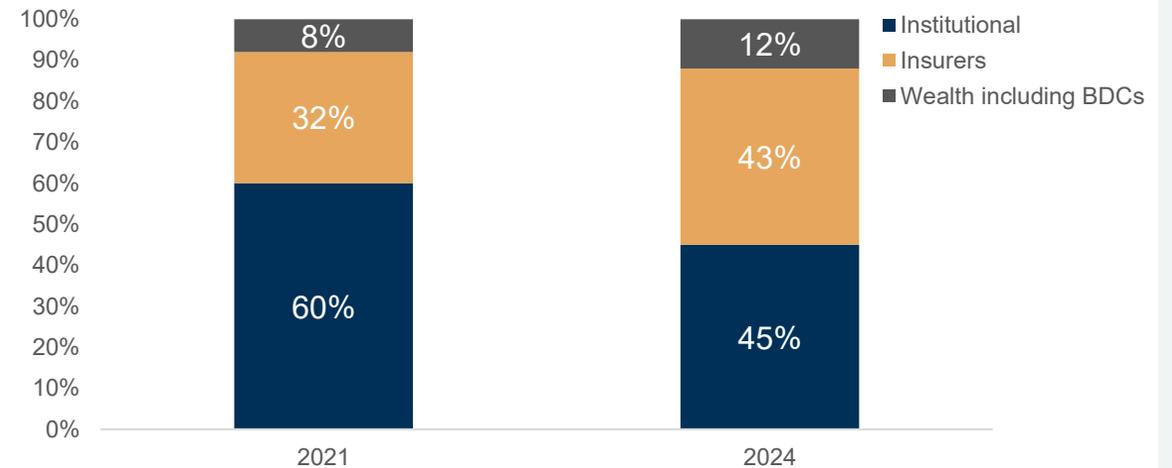
Institutional investor asset allocations, 2014 - 2023



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. December 2025 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.

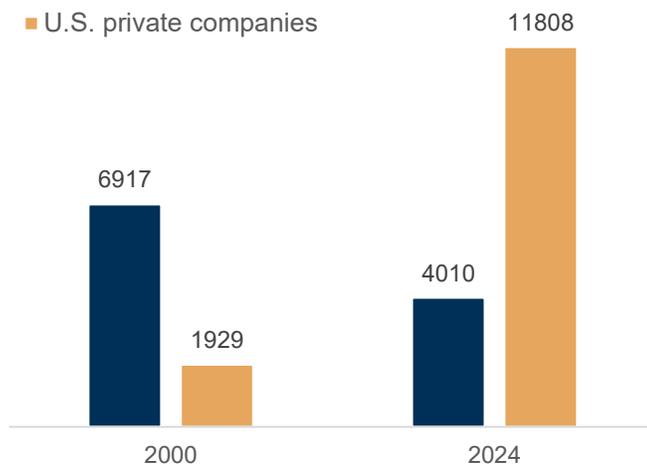
# ... desire for access is driving democratization of private markets, too

Public equity market concentration and the proliferation of private markets knowledge creates 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

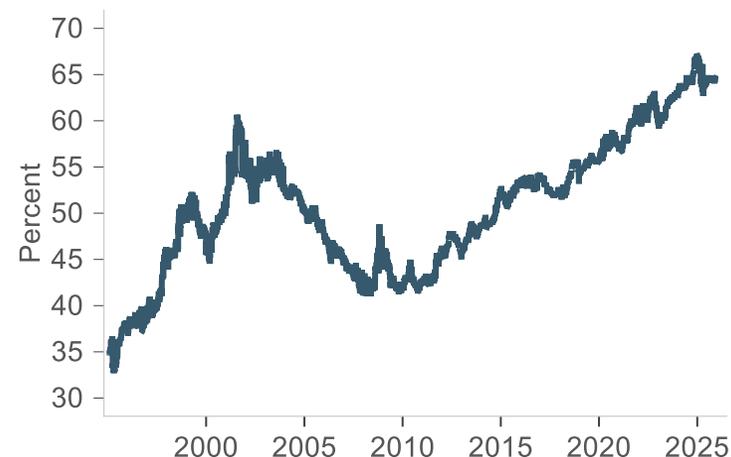
- U.S. public companies
- U.S. private companies



Sources: New York Life Investments Global Market Strategy, PitchBook, World Federation of Exchanges, World Bank, December 2025.

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

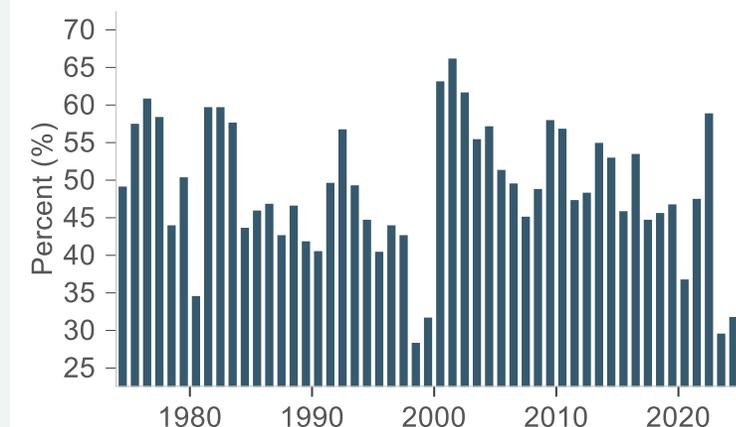
- U.S. market cap / world market cap



Sources: New York Life Investments Global Market Strategy, , Macrobond, December 2025.

## 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, December 2025.

# 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

- 2025 has yet to deliver the rebound in deal activity and fundraising that many investors anticipated. While exit volumes have shown modest improvement, managers remain reluctant to sell below target valuations – stalling the private equity flywheel of exits, distributions, and reinvestments.
- As deal flow expands, activity is likely to move down the quality spectrum, putting pressure on overall valuations.
- Even in a slower environment, private equity remains a vital component of a multi-asset portfolio – offering the potential for outsized returns, meaningful diversification, and growing liquidity access.
- Importantly, today's macro environment has tipped the balance of power in favor of limited partners, creating more favorable terms and broader opportunities for liquidity generation.

**Investor approach:** Private equity still provides outsized return and diversification potential in our view – stay invested. We favor the middle and lower middle market for its strong returns and tendency to outperform amid risk.

## Private credit

- Despite headline risk, private credit growth continues, and risk-return dynamics remain positive for the asset class.
- Selectivity is essential, not because we expect stress, but because resilience is best built before it is tested.
- In Europe, structural tailwinds and bank pullback support opportunity, but increased competition requires a focus on smaller, sponsor-less deals.
- 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.
- The appeal of private credit remains underpinned by defensive structures and long-term relationships, offering portfolio stability and stronger recovery characteristics in the event of economic deterioration.

**Investor approach:** Focus on resilient segments like middle market direct lending, with disciplined manager selection and attention to competitive dynamics across regions.

## Real estate

- Differences in market interest rates, and policy changes in the U.S., are contributing to a divergence between U.S. and European real estate markets.
- In Europe, the rate-cutting cycle has allowed long-term yields to fall, reducing pressure on valuations and allowing price discovery. The recovery cycle is well underway.
- In the U.S., investors are still adjusting to higher-for-longer rates; but in many sectors, valuations have likely already bottomed.
- Demographic shifts and internal migration are reshaping local supply and demand dynamics, both within and across regions.
- Foundational structural trends, such as re-globalization, digitization, and the continued rise of e-commerce, are also driving capital formation.

**Investor approach:** Leverage country and 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.
- This demand may emerge through two channels. First, there is a physical need for commodities and materials to build the infrastructure supporting these megatrends. Second, the capital-intensive nature of this shift may lead to higher inflation and interest rate volatility – environments in which real assets have historically outperformed.
- Despite higher valuations in the foundational layer of megatrends like AI, valuations for the inputs to these investment processes have not seen as much uplift. We believe that attractively priced assets with cash-flow-generating properties may provide return generation and diversification 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 Investments, 2025.

# 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.

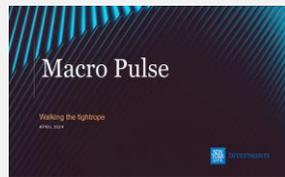
Benefit	Description
<b>Competitive resiliency</b>	<ul style="list-style-type: none"> <li>• The lower middle market offers an attractive supply-demand imbalance, with a large number of potential target companies and lower fundraising volume.</li> <li>• Historically, the supply-demand imbalance for companies / 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 Investments, December 2025. 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



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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.

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