Investment Management

2026 midyear outlook: the narrowing path

MACRO PULSE | Our outlook for the remainder of 2026 remains constructive, but the path forward has narrowed.

The first half of 2026 tested the durability of the market's strongest themes. Despite rising geopolitical and policy uncertainty, U.S. growth and earnings held up, AI-related investment continued to expand and markets remained resilient. But market leadership has narrowed, inflation has edged higher driven by energy prices, and markets are contending with a less supportive monetary policy environment. Looking ahead, we do not expect a clean reset in growth, inflation, or policy. Instead, the second-half of the year will depend on whether the economy and markets can continue to demonstrate the resilience that has characterized the year so far. Three themes anchor our view.

1 U.S. exceptionalism remains intact

- We expect the U.S. to continue leading global returns over the coming quarters. Stronger structural growth, greater energy independence, deeper capital markets, and a more resilient earnings backdrop leave the U.S. better positioned than most developed-market peers.
- **What we're watching:** Our outlook assumes higher oil prices and tighter financial conditions weigh on U.S. growth, but do not derail the expansion. The U.S. has more capacity than most of its peers to absorb these pressures, but that gap could narrow if geopolitical risks recede.

2 AI remains the clearest growth engine

- The AI investment continues to drive earnings growth, market performance, and capital expenditure through the second half of the year. Demand for computing power, digital infrastructure, energy, and advanced materials continues to support activity across a growing part of the economy.
- **What we're watching:** AI-driven market leadership has become increasingly concentrated in semiconductors, raising the potential for greater volatility. A growing pipeline of AI-related debt and equity issuance could broaden investment opportunities or draw even more capital into a concentrated group of AI-related companies.

3 Monetary policy support will remain limited

- Although our Fed outlook is dovish relative to consensus, the global monetary policy outlook is more restrictive than expected at the start of the year. We believe global yields are still compatible with ongoing macro and market expansion, with upside risks.
- **What we're watching:** Our outlook assumes inflation pass-through remains contained and financial conditions do not deteriorate. A more persistent rise in inflation could lead to move hawkish policy.

High conviction investment ideas*

MARKET CONVICTIONS		PORTFOLIO CONSTRUCTION	
EQUITY	• U.S. equities remain supported by resilient earnings, AI-driven investment, and stronger fundamentals, even as a cautious Fed keeps policy restrictive. • AI remains a key market driver, though we expected investor interest to retrench in quality, broadening leadership beyond semiconductors and toward companies delivering durable earnings growth. • Concentration risk is rising again, reinforcing the case for selective diversification through U.S. large cap value and high-quality small caps. Investors can consider satellite exposures to diversifying, high-quality sectors such as financials. • Non-U.S. equities may benefit as geopolitical risks recede, but many markets remain more vulnerable to higher energy costs and restrictive monetary policy.	1 2 3	Market weight U.S. large cap equities, prioritizing companies with strong earnings quality. Neutral U.S. small cap and ex-U.S. developed equities, with a quality bias and exposure to AI and policy tailwinds. For new equity exposure, favor AI infrastructure, materials, digital infrastructure, and high-quality small caps.
FIXED INCOME	• The U.S. public and private credit cycle is maturing. Credit fundamentals remain strong, and we expect overall quality to stay resilient, but lower-quality segments, such as CCC-rated high yield and more concentrated areas of private credit, appear increasingly vulnerable. • Higher all-in yields have improved the income opportunity, though recent rate volatility reinforces the need for more active duration management. • We continue to favor high-quality credit and short-duration corporates, while using longer-duration exposure selectively where yields are more attractive and the yield curve offers better value.	4 5 6	Keeping credit exposure (IG / HY) shorter duration to manage rate volatility and credit risk. Volatility in long rates creates buying opportunities for duration above a ~4.7% 10Y Treasury yield. Balancing short duration credit exposure with longer duration in infrastructure debt, leaning into the steeper municipal curves Maintain an underweight to floating-rate bank loans, except for highest-quality selection.
PRIVATE MARKETS	• Private market allocations continue to grow, but increased competition and signs of credit stress make selectivity more important. • Deal activity has improved, but macro uncertainty and private credit stress may temper opportunities.	7	Using resilient mid-market private credit and equity for qualified investor portfolios
ALTS	• Historically, commodities and gold have served as effective diversifiers in eras of upside inflation surprise; recent geopolitical events reinforce this role. • Geopolitical shocks have become more frequent, influencing even traditionally "safe haven" U.S. assets.	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.

Global Market Strategy

At New York Life Investment Management

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

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