

Macro Pulse

Midyear outlook: the narrowing path

JULY 2026

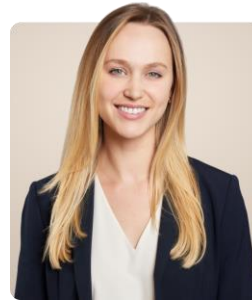


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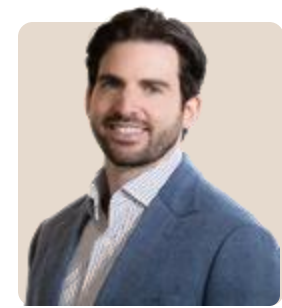
Global Market Strategy at New York Life Investment Management



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Executive summary

Our outlook for the remainder of 2026 remains constructive, but the path forward has narrowed. **We expect the U.S. to continue leading global returns**, supported by stronger trend growth, resilient earnings, greater policy flexibility, energy independence, and deeper exposure to AI-driven investment. **But this is not a clean risk-on environment.** Risks to peace between the U.S. and Iran, along with oil supply and pricing, persist. U.S. market leadership has become narrower and more prone to volatility, while inflation remains elevated enough to keep the global monetary policy outlook significantly tighter than was expected at the start of the year. **This narrowing path is likely to keep volatility in the forefront, elevate financing costs across global curves, and create a premium on segments of the market offering high-quality fundamentals.**

U.S. exceptionalism remains intact

Stronger fundamentals, energy independence, and exposure to secular growth trends, particularly AI investment, should keep the U.S. ahead of most developed-market peers. We are watching the pass through of oil prices into inflation, particularly as risks around the Iran conflict persist.

AI continues as a powerful catalyst

The AI investment cycle continues to drive earnings growth and market performance, though leadership has narrowed to semiconductor giants, generating greater volatility and concentration risk. We favor durable earnings growth within AI, where sustained investment should support long-term growth.

Markets contend with a less supportive policy environment

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.

Positioning: constructive but selective

- Staying **overweight U.S. assets**, with a **focus on quality companies** benefiting from resilient earnings and secular trends. We remain **neutral large cap growth equity** and **neutral ex-U.S. developed market equity**.
- Prioritizing **quality and selective diversification** within equities, using new capital deployments to add exposure **to AI infrastructure, materials, and high-quality small caps**.
- Favoring **income with discipline, shorter-duration credit** while **selectively extending duration** in steep yield curves, including municipal bonds.
- Using **alternatives strategically**, prioritizing manager selection in **private markets** and allocations to **commodities** to diversify against inflation and geopolitical risks.

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	- 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	Market weight U.S. large cap equities , prioritizing companies with strong earnings quality.
		2	Neutral U.S. small cap and ex-U.S. developed equities , with a quality bias and exposure to AI and policy tailwinds.
		3	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	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.
		5	Balancing short duration credit exposure with longer duration in infrastructure debt , leaning into the steeper municipal curves
		6	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.

1 Top investment convictions

Base case outlook

- [U.S. exceptionalism remains intact](#)
- [AI continues as a powerful catalyst](#)
- [Markets contend with a less supportive policy environment](#)

Top investment convictions

- [Iran conflict: Hormuz traffic remains stop-and-go](#)
- [The U.S. Federal Reserve is likely to remain on hold through year-end](#)
- [Pro-growth fiscal policy act as a buffer against higher oil prices](#)
- [Midterm elections likely to deliver a divided government](#)
- [Record supply is met by record demand in tech](#)

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.

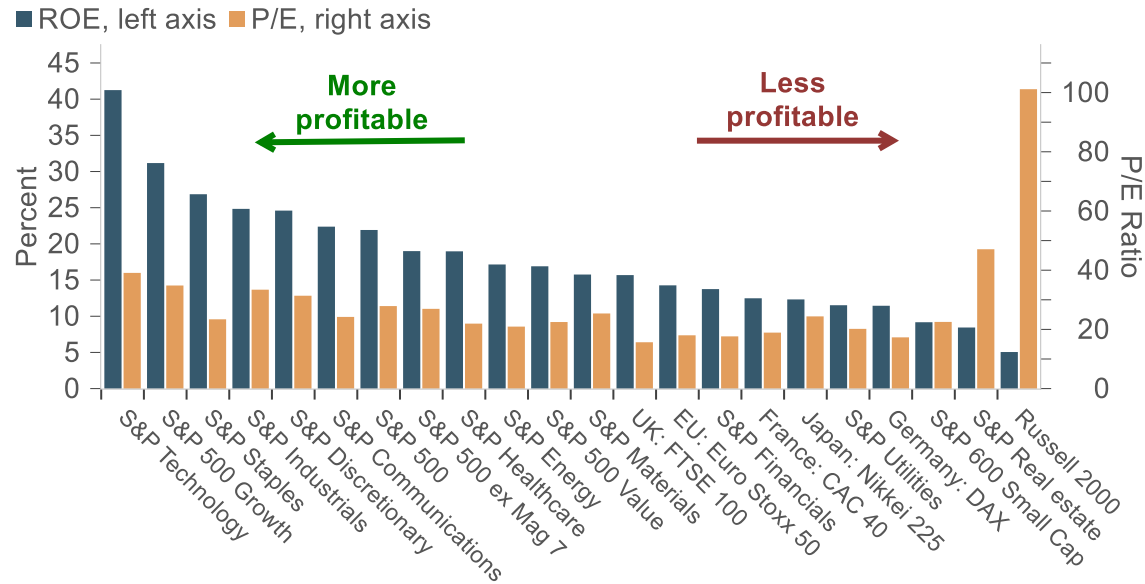
Outlook: U.S. exceptionalism remains intact

The U.S. delivers on profit leadership, policy flexibility, energy independence, and exposure to AI as an investment driver.

- We expect the U.S. to be on the leading edge of developed market returns for the second half of the year, driven by both strong macro fundamentals and continued risks to the oil outlook, which drive a flight-to-safety dynamic favoring U.S. assets.
- Even in the case of a durable peace scenario between the U.S. and Iran, we believe a risk-on global rotation would be tactical in nature. We favor a neutral allocation to ex-U.S. equities to account for a wide confidence interval on the peace process, oil pricing, and relative global growth.
- The U.S. is the consistent hub of global equity profitability, including but not limited to its tech

The U.S. leads on valuation, but also on profitability

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



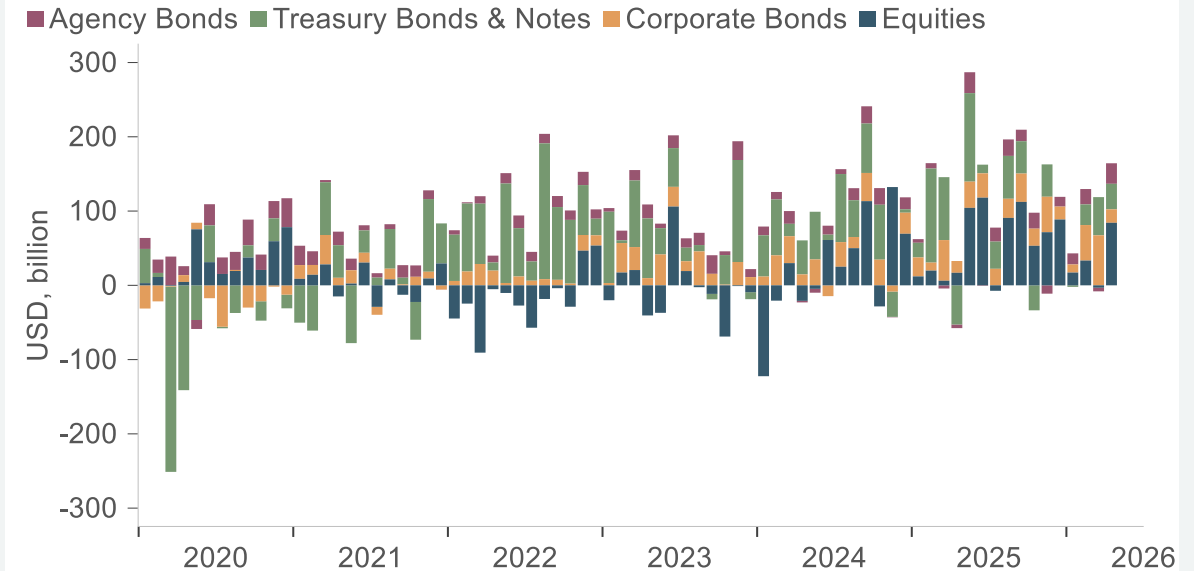
Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Macrobond, July 2026. Sectors refer to sectors within the S&P 500 Index.

sector. The U.S. is also home to greater policy flexibility (avoiding a hawkish hiking cycle) and energy independence than its developed market peers. Finally, the U.S. has greater exposure to AI-driven investment, contributing to a growing share of economic growth.

- U.S. exceptionalism is visible in asset flows. Private foreign investors have been consistent buyers of U.S. assets – from Treasuries to public equity – in the post-pandemic period. The exception to U.S. exceptionalism is in gradual trimming of Treasury positions by foreign central banks and governments – a trend that started following Russia's invasion of Crimea in 2014 and has since slowed.

Private foreign investors continue flocking to U.S. assets

Foreign purchases of U.S. securities by private investors: investment funds, corporations, individuals



Sources: New York Life Investments Global Market Strategy, U.S. Department of Treasury, Macrobond, July 2026.

Outlook: AI continues to be a powerful macro and market catalyst

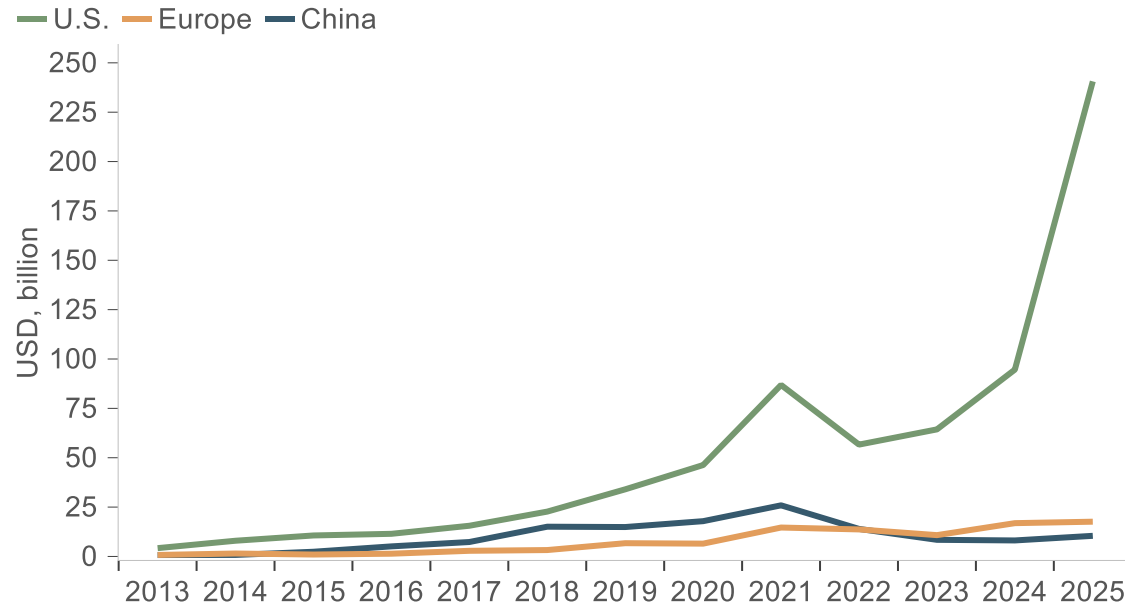
Physical investment in AI remains a positive force in our macro outlook, but greater volatility is likely in this semiconductor-led market.

- AI investment plays both macro and market roles in the U.S.: supporting capex-led growth and maintaining loose financial conditions. We remain high conviction on the outlook for AI capex; but we believe today's market leadership in semiconductors is a recipe for volatility.
- Earnings growth remains the key driver of AI performance. Hyperscalers continue to recycle cash flow from profitable business lines into AI, creating a virtuous cycle between earnings, cash flow, and capex. The use of cash is disciplined, generating enough to fund buybacks, dividends, and AI capex – roughly 60% of operating cash flow on average – all at once.
- In market leadership, demand for high-bandwidth memory chips to store the data generated by

- AI models has surged. South Korea's exported memory value is growing at 370% YOY, a far cry from historical cyclical peaks of ~100% YOY growth.
- On 90-, 180-, and 360-day tenors, the major semiconductor indices show higher volatility than the Magnificent 7 over the past decade. This volatility reflects greater cyclicality, commoditization of memory capacity, and concentrated industry structures.
- Accordingly, we see increased risks around a memory-led market. Despite ongoing questions around capex and input costs, hyperscalers continue to deliver world-class earnings growth and strong cash-flow generation that fuels ongoing physical investment rates.

The U.S. leads private investment in artificial intelligence

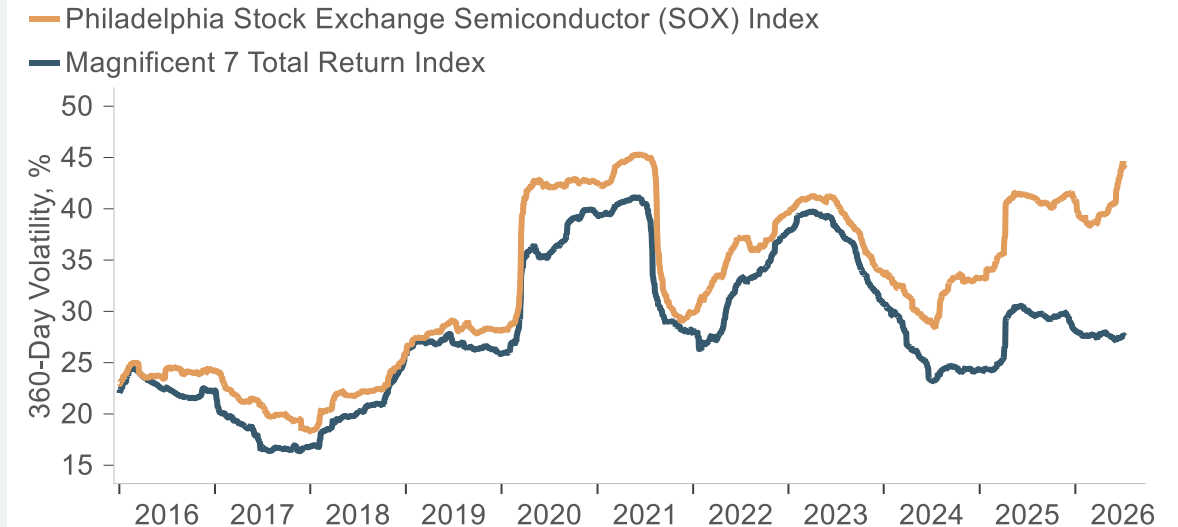
Stanford University Artificial Intelligence Index calculations of private AI investment



Sources: New York Life Investment Management, Global Market Strategy, Stanford HAI's 2026 AI Index, Macrobond, July 2026.

Semiconductors are a consistently higher-volatility segment of tech than the AI hyperscalers

360-day volatility of tech equity indices



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Macrobond, July 2026. The 360-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price, expressed as a percentage. It is not possible to invest directly in an index. Past performance is no guarantee of future returns.

Outlook: Markets contend with a less supportive policy environment

The second half of 2026 is likely to feature more hawkish monetary policy than was expected at the start of the year, influencing allocation.

- At the start of the year, most central banks were expected to hold rates steady, while the Fed was expected to deliver 2-3 rate cuts. During the Iran conflict, these outlooks repriced hawkishly by roughly 50bps on average, generating expectations for rate hikes in Europe and a hold in the U.S.
- Following the initial peace MOU between the U.S. and Iran, only the most hawkish scenarios were priced away – and in the U.S., an inflation-focused June FOMC spurred greater expectations for a hiking cycle.

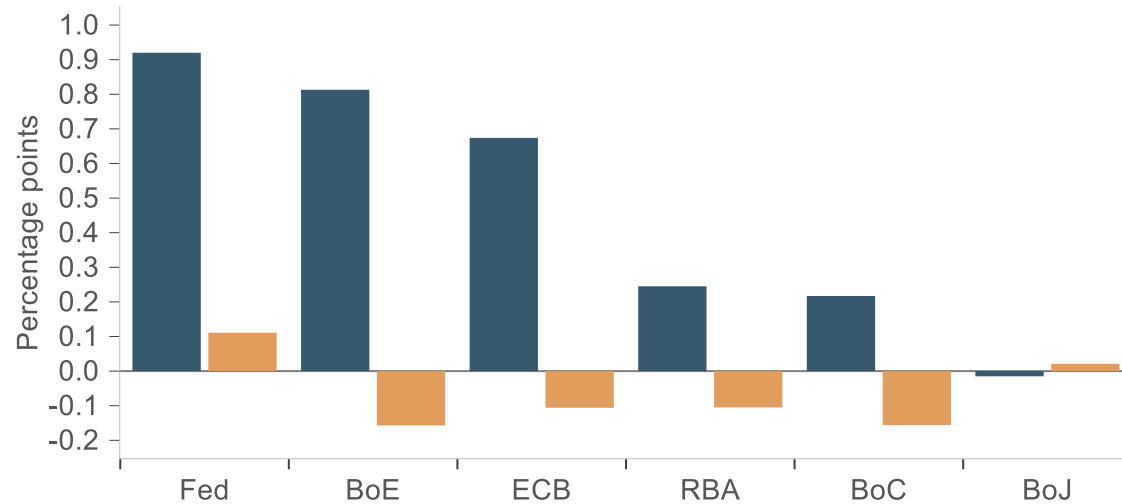
- Though our out-of-consensus expectation is for the Fed to remain on hold, we are contending with a more hawkish global monetary policy environment than we and consensus expected, despite bumpy relief in oil prices.
- A moderately “higher for longer” environment reinforces our cautious view on duration, softens our outlook for corporate profits and consumer activity at the margin, and enhances our conviction that countries with greater policy flexibility, including the U.S., will be relative beneficiaries as peers (such as the Eurozone) embark on more clear hiking cycles.

U.S.-Iran peace agreement only partially softened hawkish monetary outlooks

Change in market pricing of policy rates for year-end 2026 since:

■ Onset of Iran conflict (28 February)

■ Start of peace talks (8 June)



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg, Macrobond, July 2026. BoE: Bank of England, ECB: European Central Bank, Fed: U.S. Federal Reserve, RBA: Reserve Bank of Australia, BoC: Bank of Canada, BoJ: Bank of Japan.

Oil relief has not translated into rate relief

— Crude oil spot price, right axis — U.S. 2-year yield, left axis



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

Top convictions: Hormuz traffic remains stop-and-go

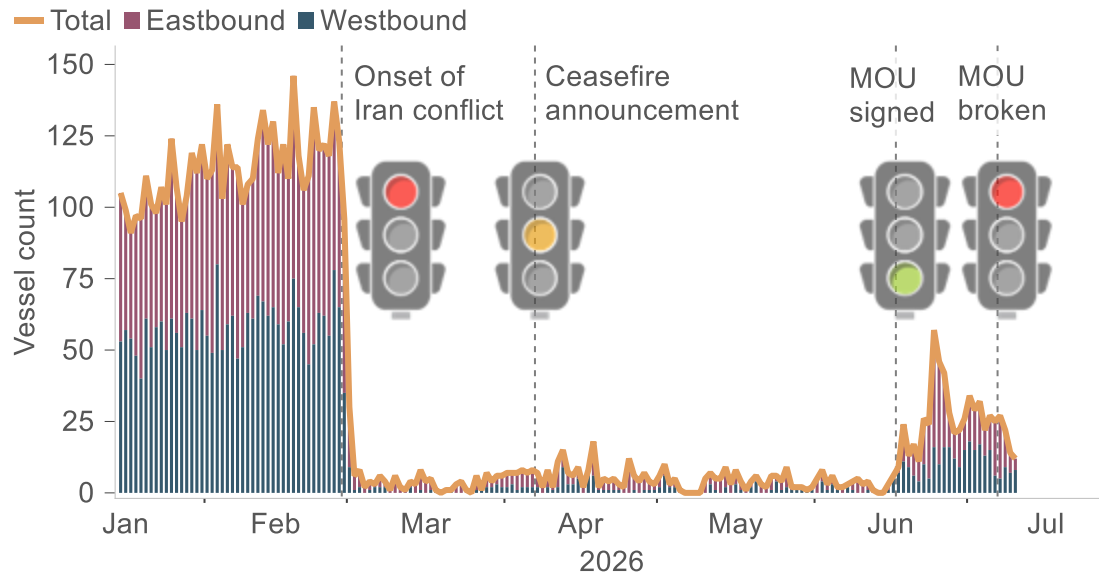
A peace MOU briefly rebuilt shipping confidence, but its quick breakdown shows why energy, inflation, and Fed risk remain harder to price.

- The Strait of Hormuz remains the key chokepoint in the Iran conflict. Before the war, it handled roughly 20% of global oil and LNG flows, so partial disruptions continue to feed quickly into energy prices, inflation expectations, and Fed pricing.
- The July memorandum of understanding (MOU) was the first real attempt to rebuild shipping confidence. The agreement called for safe passage of commercial vessels and a gradual reopening of the Strait, giving operators a reason to test the corridor again.
- While traffic improved from the post-conflict lows, the recovery did not reach full normalization. Roughly three weeks later, renewed attacks broke the ceasefire.

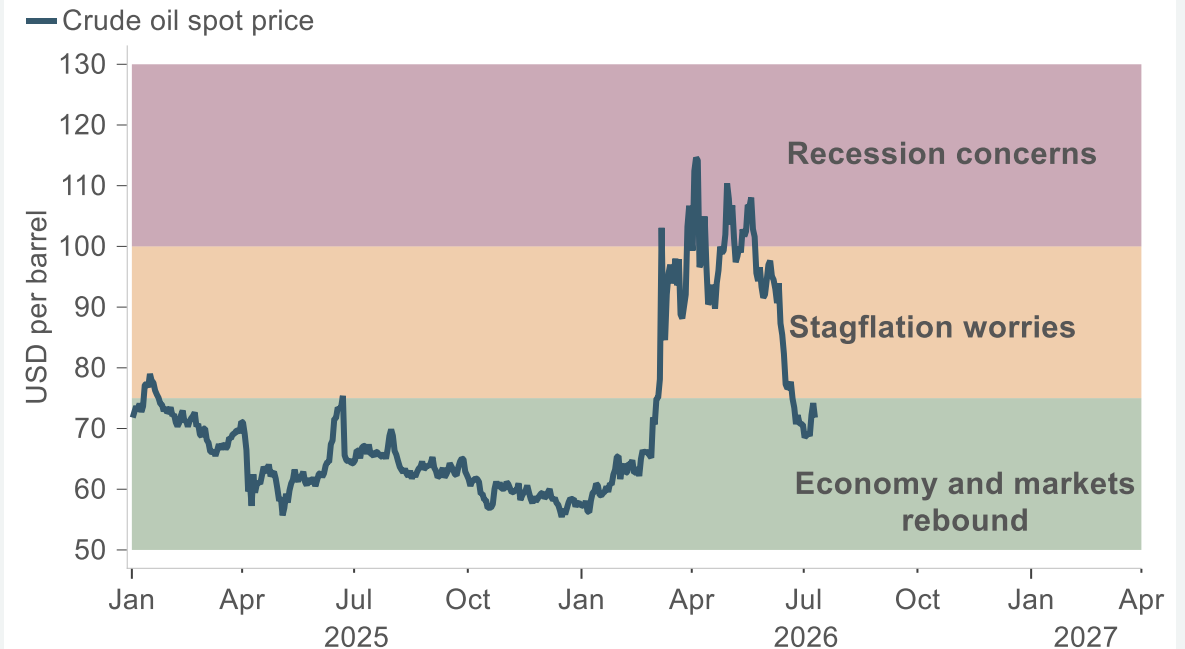
- In our view, where crude settles, and for how long, will determine whether investors can return to the early-year playbook or need to prepare for a more persistent stagflation or recession risk.
- The investment implication: the conflict has reinforced the market's move back toward U.S. assets. Earlier-year rebalancing toward ex-U.S. markets has become harder to sustain as energy importers face a tougher mix of higher input costs, weaker real incomes, and less policy flexibility.

The state of the Strait of Hormuz remains in flux

Total commercial vessel crossings through the Strait of Hormuz



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



Top convictions: The Fed is likely to remain on hold through year-end

Elevated inflation has shifted the Fed's focus toward price stability, but downside risks to growth argue for keeping policy on hold in the near-term.

- The Fed continues to balance its dual mandate of price stability and full employment, but inflation remains the clear near-term priority. In his first press conference as Fed Chair, Kevin Warsh struck a decidedly hawkish tone, noting that inflation has remained above the Fed's target for five years. The FOMC's June Summary of Economic Projections reinforced that message, with the median "dot" showing one rate hike in 2026 and two cuts in 2027, with FOMC participants divided on the appropriate path for policy.
- **We believe the Fed will remain on hold through the end of the year**, a dovish view relative to consensus pricing of one to two rate hikes over the next 12 months. Given uncertainty

around the Strait of Hormuz, it remains unclear how much higher energy prices will ultimately pass through to core inflation. Moreover, while the labor market has remained resilient, neither wage growth nor the unemployment rate suggests inflation pressures are accelerating.

- Importantly, even if policy remains on hold, the Fed maintains a modestly *dovish* stance due to its reinvestment of proceeds into the Treasury curve, providing a modest liquidity drip.
- Kevin Warsh's first press conference and the Supreme Court's recent ruling allowing Governor Lisa Cook to remain in-seat reinforce our view that the Fed will remain independent despite heightened political scrutiny. We discuss that risk [here](#).

Solid growth and inflation pressures are likely to keep the Fed on hold

Biasing the Fed to cut rates

Downside risks to consumer activity and business margins under higher inflation

Slowing wage growth

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

Housing market weakness

Biasing the Fed to hike rates

Robust economic growth

Five years of above-target inflation

Ongoing supply-side inflation risks: oil, tariffs

Recovering hiring dynamics

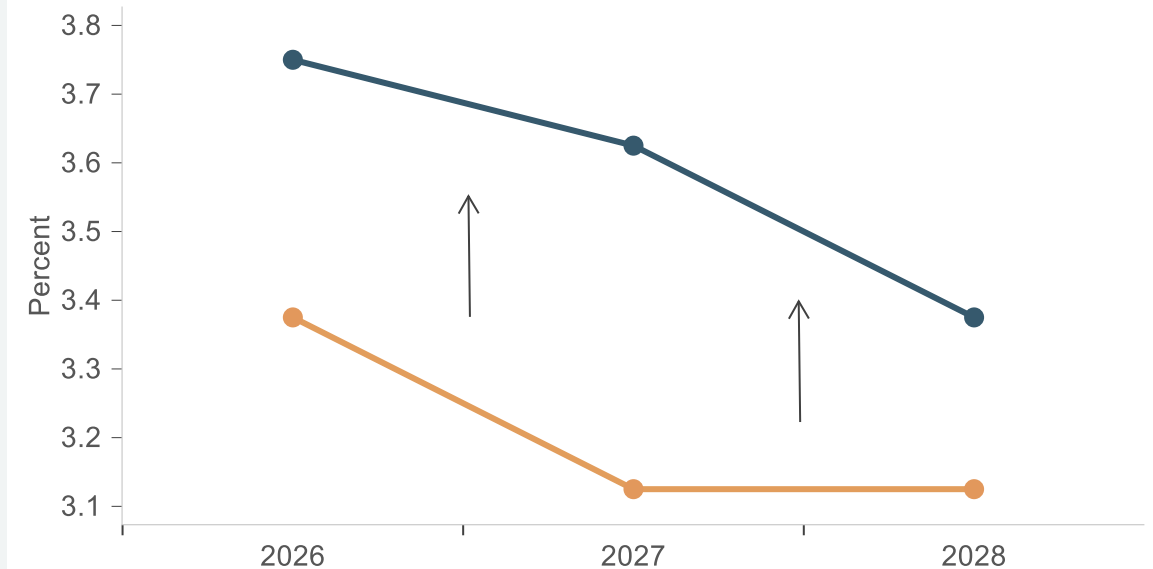


Opinions of New York Life Investment Management, Global Market Strategy, July 2026.

Inflation pressures have shifted the Fed's rate path higher

FOMC median rate projections

● June 2026 projection ● March 2026 projection



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

Top convictions: Pro-growth fiscal policy in max thrust for 2026

The One Big Beautiful Bill Act and tariff refunds are providing a meaningful tailwind to growth, helping offset higher oil prices.

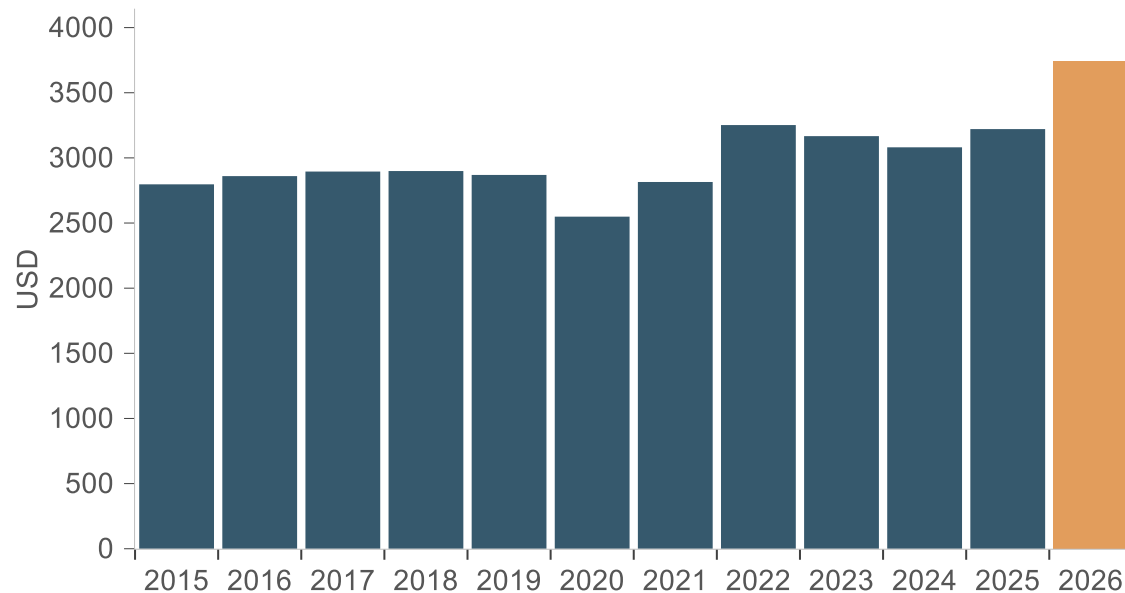
- The tax cuts in the One Big Beautiful Bill Act are expected to deliver a significant boost to both consumers and businesses, injecting between \$200 and \$300 billion in additional stimulus in 2026. Average tax refunds for 2026 are running 11% above 2025 levels.
- On the corporate side, the bill introduces generous tax incentives – including 100% depreciation for capital expenditure and immediate expensing for R&D – which may spur business activity and pull forward investment.
- In addition, the Supreme Court's ruling on tariffs could provide up to \$166 billion in tariff refunds, with over \$100 billion in tariff refunds already in process. While tariff rates remain

elevated and are still likely to exceed the value of refunds, the net drag from tariffs should be more limited this year.

- Over the coming years, deregulation is expected to provide an incremental boost to growth, although these benefits will take time to materialize. Financial sector deregulation currently under consideration could support stronger loan growth, share buybacks, and increased dividends. The largest 13 U.S. banks currently hold an estimated \$200 billion of excess capital above existing regulatory requirements, illustrating the potential magnitude of this tailwind.

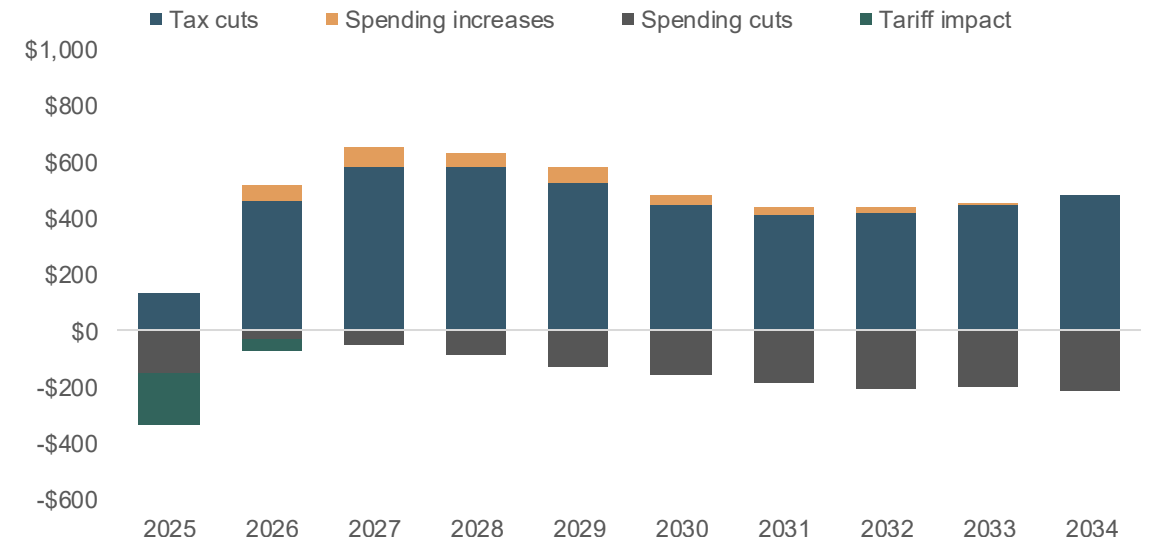
Annual tax refunds provide additional stimulus to consumers

■ Forecasted 2026 average tax refund ■ IRS average tax refunds



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

While fiscal policy was a drag on growth in 2025, the One Big Beautiful Bill Act and tariff refunds will support growth throughout 2026



Sources: New York Life Investments Global Market Strategy, Congressional Budget Office, Joint Committee on Taxation, Yale Budget Lab, July 2026. Tariff impact is just included for 2025 and 2026, with 2026 an estimate. Future tariff impacts are not included in this chart.

Top convictions: A divided government post-midterm elections raises fiscal risk

A divided Congress would likely limit major legislative action, while increasing political brinkmanship and oversight.

- The midterm elections in November may deliver a divided government. The nonpartisan Cook Political Report projections show a path for Democratic Party control of the House. The Senate is more likely to remain under Republican control. Democrats would need a net gain of four seats to win a majority in the Senate.
- A divided Congress would likely mean legislative gridlock. Major tax and regulatory initiatives would be difficult to enact, shifting policymaking increasingly towards executive actions and the courts. Spending initiatives are more in flux in a divided government scenario: greater

- spending born out of compromise is possible.
- Political brinkmanship could increase. Budget negotiations, government funding deadlines, and the debt ceiling – which will likely require congressional action in mid-to-late 2027 – could become recurring sources of uncertainty. Notably, the longest government shutdown in U.S. history occurred in 2025, despite unified Republican control of the White House and Congress.
- Democrats in the House will likely prioritize oversight over legislation. Committee hearings, investigations, and executive branch oversight could become a central focus.

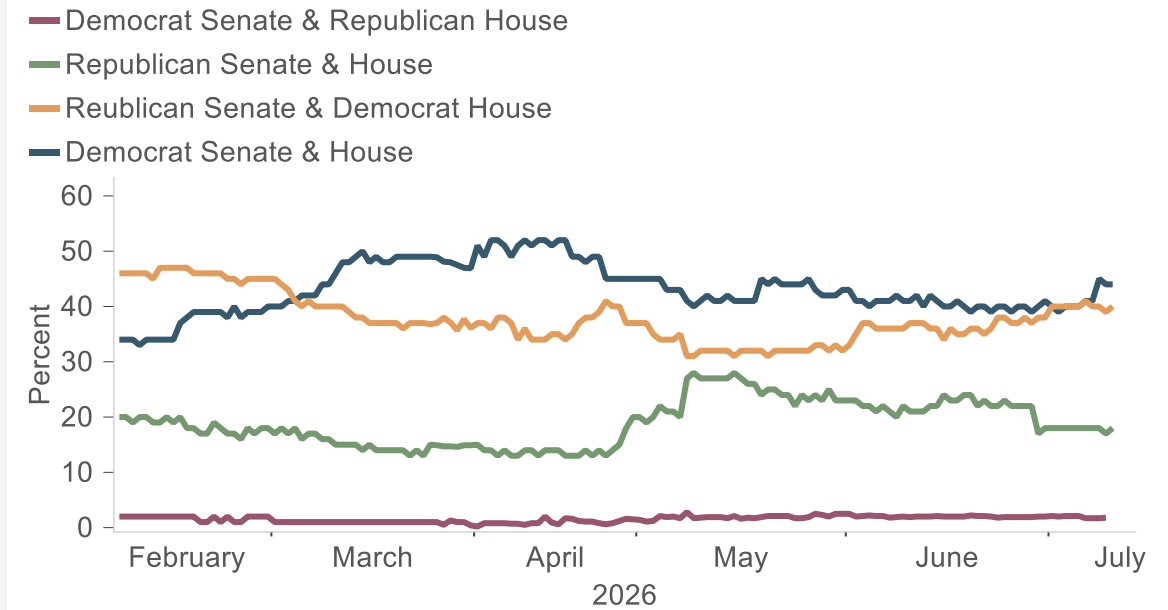
Midterms have rarely been kind to incumbents

Midterm elections	Party in Control Before Election	House Seats Lost	Senate Seats Lost	Chamber Lost	Unemployment Rate	CPI (YoY)	U. of Michigan Consumer Sentiment
2006	Republicans (G.W. Bush)	30	6	House & Senate	4.5%	2.0%	92
2010	Democrats (Obama)	63	6	House	9.8%	1.1%	72
2014	Democrats (Obama)	13	9	Senate	5.8%	1.3%	89
2018	Republicans (Trump)	41	+2	House	3.8%	2.2%	98
2022	Democrats (Biden)	9	+1	House	3.6%	7.1%	57
2026 (Current)	Republicans (Trump)				4.2%	4.2%	~50

Sources: New York Life Investments Global Market Strategy, Bureau of Labor Statistics, University of Michigan, July 2026.

Betting markets are pricing a Democrat House and a tight race for the Senate

Betting market odds



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

Top convictions: Demand can continue meeting record AI debt and equity supply

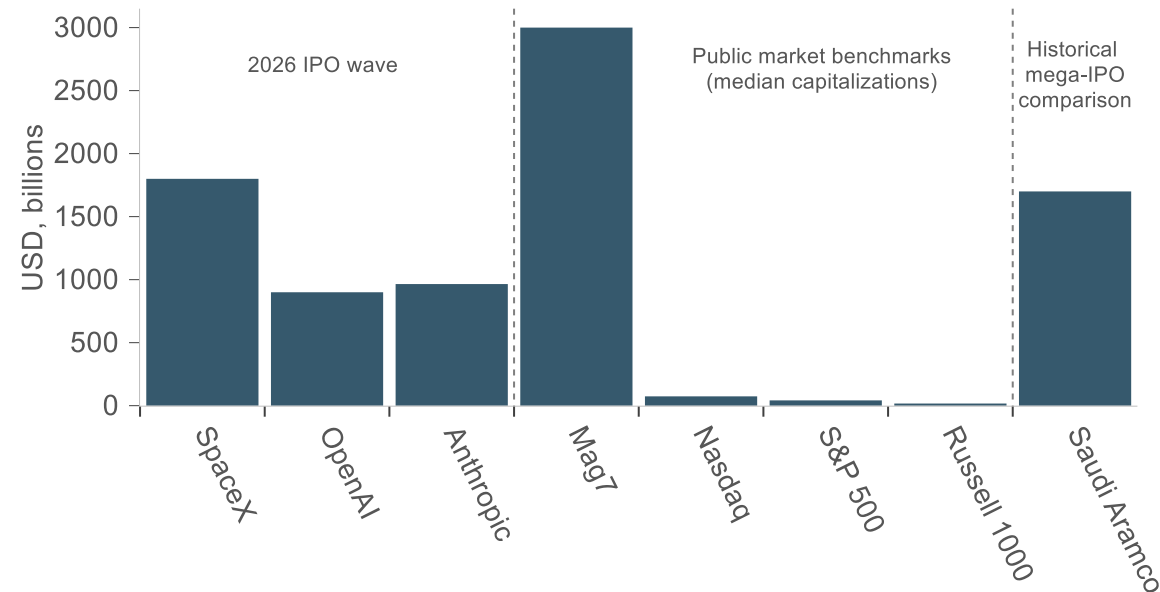
Mega-IPOs and debt issuance bring more AI-linked value into public markets, but also more concentration, index pressure, and liquidity risk.

- The current IPO wave is moving some of the private market's most important AI and infrastructure companies into public benchmarks. SpaceX, OpenAI, and Anthropic may bring \$3T+ of market value and \$200–300B of float into public equity markets.
- Index inclusion is the bigger market event than the IPO moment. As these companies gradually enter major benchmarks, passive funds will need to make room, likely creating mechanical selling pressure in existing large-cap growth and communication services holdings. For a company like SpaceX, the impact is likely to build over time as benchmark eligibility expands.

- Similarly to equities, record supply has been met with record demand in public debt markets. Record AI-linked debt issuance is being absorbed without major spread disruption, even as the pace of debt issuance in 1H2026 nearly doubled that for full-year 2025.
- But if new debt and equity supply draws from the same capital pool already driving large-cap growth, the market may become even more concentrated. We also see a conviction-testing environment forming as activity centers around cash flow-negative companies in new equity supply, and as debt plays a greater role in hyperscaler financing. We remain constructive on the AI theme, but focused on quality, cash flow, and diversification via infrastructure plays.

Private giants are coming for public markets

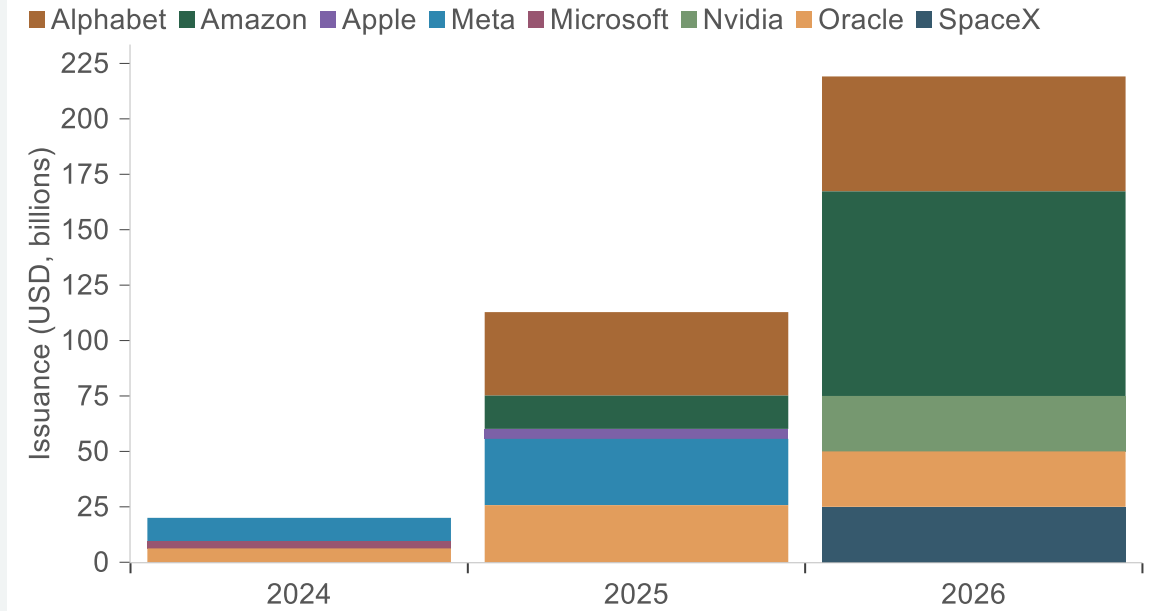
Market capitalization estimates



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg, Macrobond, July 2026. Mag7 = the Magnificent Seven stocks: Nvidia, Apple, Microsoft, Amazon, Alphabet, Meta, Tesla

AI funding needs are moving into public markets

Public debt issuance by major AI and hyperscaler firms



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

2 U.S. economic & market outlook

U.S. economic outlook

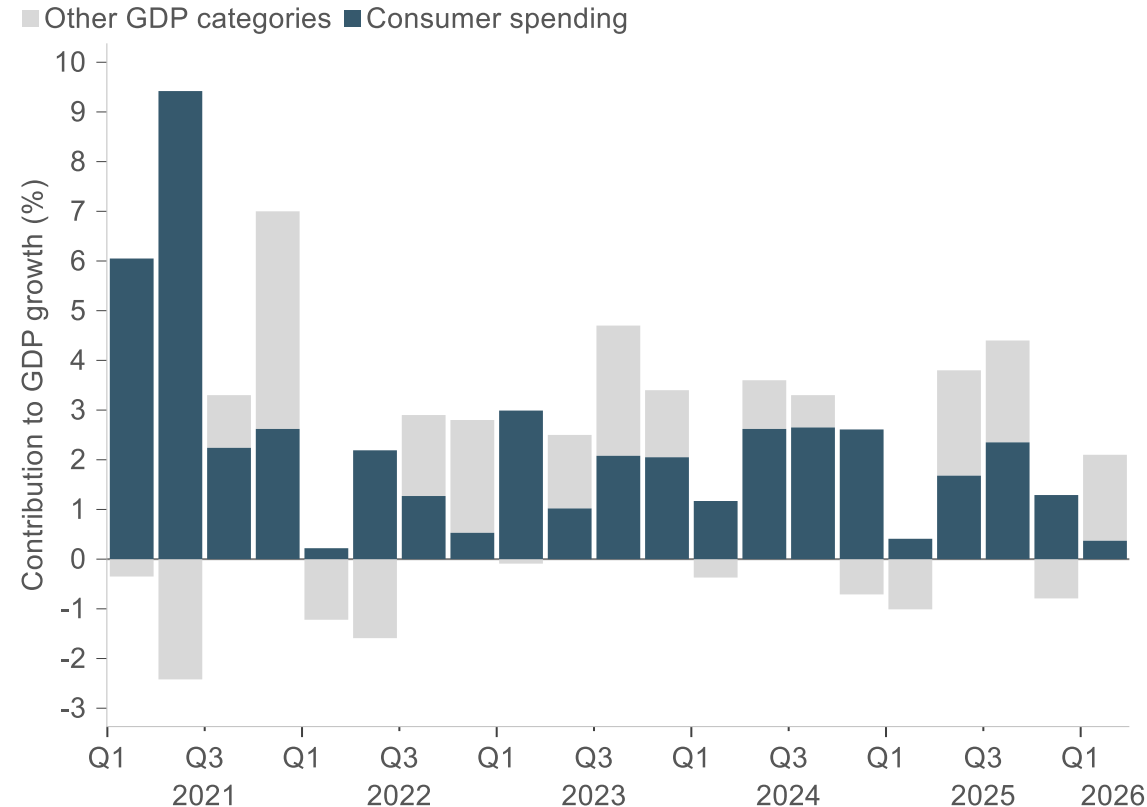
- [Status of economic cycle](#)
- [Federal Reserve](#)
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Status of economic cycle: we expect resilient economic activity as the cycle extends

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

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

U.S. GDP growth



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

GMS economic outlook

- 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 historically comprises about two-thirds of U.S. GDP. The contribution of consumption to overall activity slowed in 2026, compensated for by greater fixed investment, largely stemming from artificial intelligence.
- The Q2 2026 GDP Nowcast is running at 1.3% annualized growth – a softer but still positive starting point as the economy absorbs higher energy costs.
- Consumer activity – and the economy with it – has become more deeply “K” shaped: the majority of consumption is driven by the highest-income earners. Lower-income cohorts struggle with inflation but are sustained by a balanced labor market, including resilient wage growth; higher-income consumers have been fueled by strong wealth and income effects from elevated asset prices. Weak hiring by itself does not usually break consumer activity; what tends to matter more is whether slower hiring turns into a broader layoff cycle that changes household behavior.
- Beyond the consumer, supportive policy should continue to cushion the cycle. Pro-growth fiscal policy and still-loose financial conditions together support our view that growth can slow without necessarily tipping into contraction.
- Corporate profitability is another key buffer. As long as profits remain healthy, companies are less likely to respond to slower growth with widespread layoffs, which helps extend the cycle even in a noisier macro backdrop.

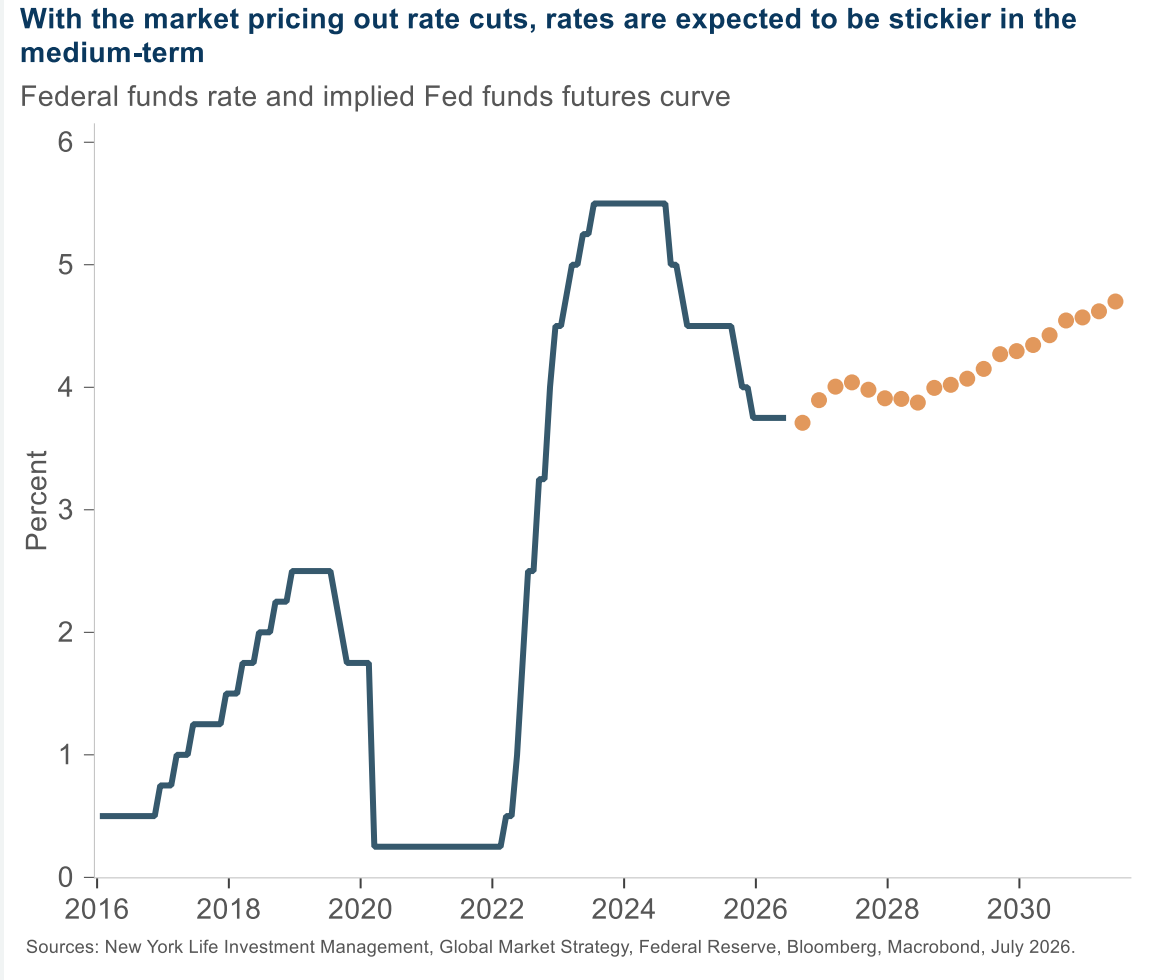
The Federal Reserve

We expect the Fed to remain on hold in the coming 12 months. But even with policy rates steady, the Fed's modest liquidity drip creates a supportive policy backdrop.

	Background	GMS views
Policy rate	The two sides of the Fed's mandate – price stability and maximum employment – remain in tension. Before the Iran war, the Fed was most focused on preventing labor softness from turning into a more meaningful deterioration. Today, however, energy and related downstream costs have accelerated inflation, constraining the Fed.	We now expect the Fed to remain on hold in the coming 12 months: an out-of-consensus view as the market has priced in 1-2 rate hikes by the end of the year. While we acknowledge upside inflation risks, the labor market is in balance, and the housing market remains under pressure.
Decision-making framework	Chair Warsh established a task force – one of five – to review the Fed's inflation targeting, suggesting the potential end of the Fed's flexible average inflation targeting regime. Long-term inflation expectations are anchored, but core inflation remains above target. In June, the FOMC committed in its statement to delivering price stability, striking a decidedly hawkish tone.	The bar for both significant cuts or hikes remains high. In our view, the Fed would respond more forcefully to a deterioration in labor markets or financial conditions (via cuts) than to slow supply-side inflation (via hikes). Warsh as Fed chair does not necessarily change this reaction function, as he is one of 12 FOMC votes, but expands the confidence interval for how his working group approach may influence the reaction function.
Balance sheet	The Fed used QT to shrink its balance sheet by roughly \$2T between July 2022 and December 2025, draining liquidity as assets and liabilities declined together. Now that QT has ended, the Fed is reinvesting into the short end of the Treasury curve at ~\$10B/month, providing marginal liquidity support without returning to QE.	The end of QT closes a multi-year liquidity drain and should help stabilize market functioning at the margin. We do not view this as a major policy pivot, but it does mean that even without Fed cuts this year, the Fed maintains a marginally supportive stance.
Liquidity support	Systemic banking liquidity is no longer abundant, but it does not appear scarce either. The decline in reverse repo usage shows excess liquidity has been absorbed, while recent use of facilities such as the SRF points to occasional pockets of funding stress rather than broad dysfunction.	We expect the Fed to continue smoothing liquidity bumps if and as they arise. The Fed is providing enough support to keep the banking system functioning well, and if stress were to intensify, the Fed still has the tools to respond through balance sheet operations and standing liquidity facilities.

The Federal Reserve

Policy rate & decision-making framework



Our Fed cuts checklist: conditions support a Fed on hold

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

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

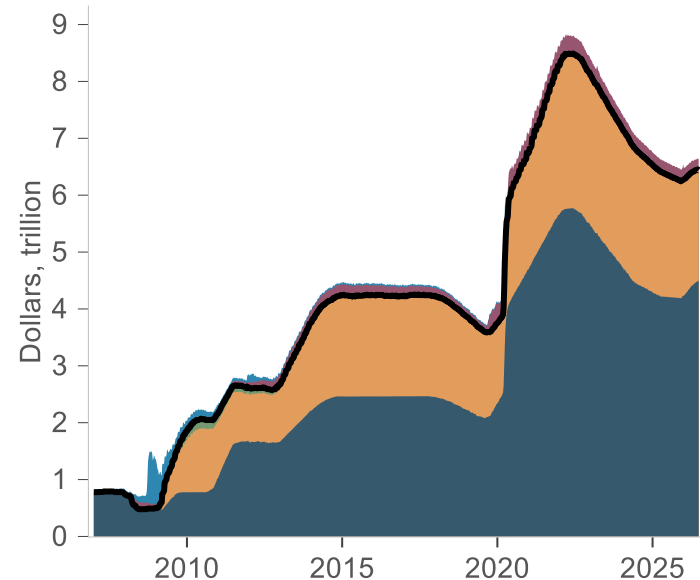
The Federal Reserve

Balance sheet & liquidity support

QT is over and the balance sheet is no longer draining liquidity

Federal Reserve balance sheet assets

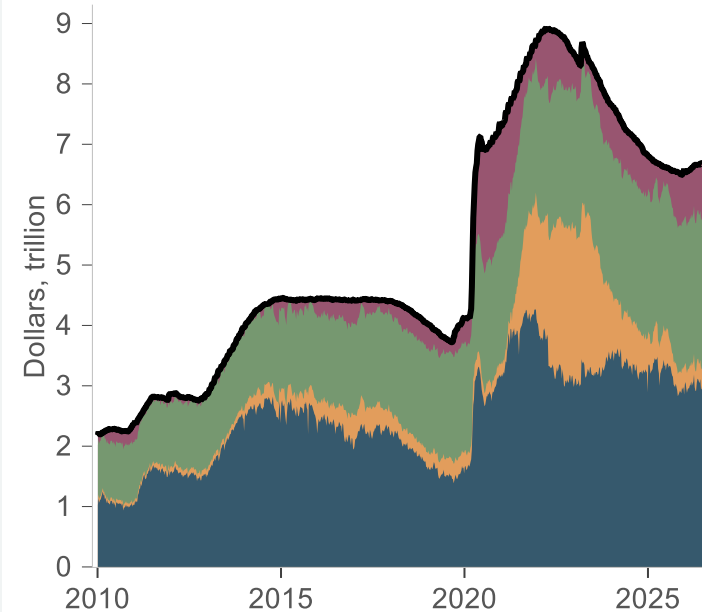
— Fed assets held outright ■ Other
■ Repos, premiums/discounts ■ Agencies ■ MBS
■ Treasuries



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

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

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

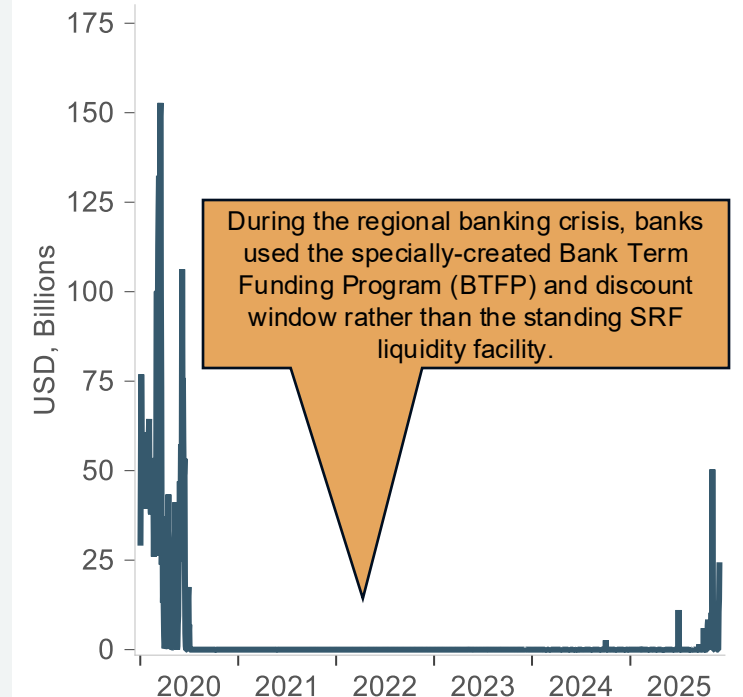


Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve, Macrobond, July 2026. Reverse Repurchase Agreements are a facility used by the Fed to support bank liquidity. Other liabilities include non-reserve deposits held by the Federal Reserve.

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

New York Fed standing repo operations

— Total drawdown on repo facility



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

The risks to Fed independence

The Warsh-led Fed has started off with a hawkish tone, but Fed independence questions are “live” and pertain to Fed communication, Fed staffing, and how the Fed interacts with both its mandates.

Why does the Fed need to be independent from politics?

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

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

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

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

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

Where is there vulnerability in the Fed’s independence?

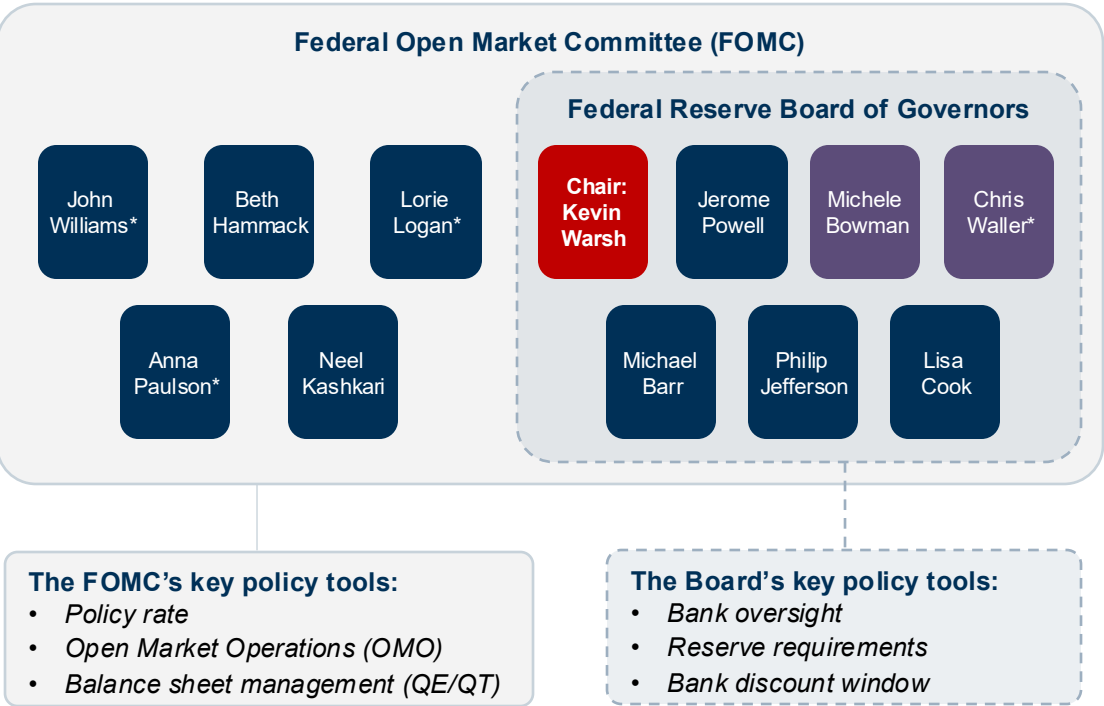
- We are relatively more concerned about the independence of the Board of Governors over the coming years. With Powell and Lisa Cook retaining their Board seats for the time being, this independence comes down to whether existing Board members previously appointed by President Trump – Michele Bowman and Chris Waller – change their assessments of monetary policy as a result of political pressure. *Notably, these governors have not been as dovish as former governor Stephen Miran in past meetings, suggesting they may maintain a traditional policy approach.*

How would a loss of Fed independence impact the economy?

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

Fed independence comes down to the independence of its governors

Structure of the Fed’s two key decision-making bodies, FOMC and Board of Governors, and the policy tools each controls, likely to be in effect on May 15, 2026



Blue: Likely to follow traditional policy.
Red: Appointed by President Trump.
Purple: Appointed by President Trump; policy preference uncertain. Bowman and Waller: previously appointed by President Trump; have supported traditional policy thus far.
*Long time Federal Reserve staff.
For illustrative purposes only. Opinions of New York Life Investment Management, Global Market Strategy, June 2026.

Market conditions

Near-term market conditions remain supportive, but long rates leave little room for disappointment.

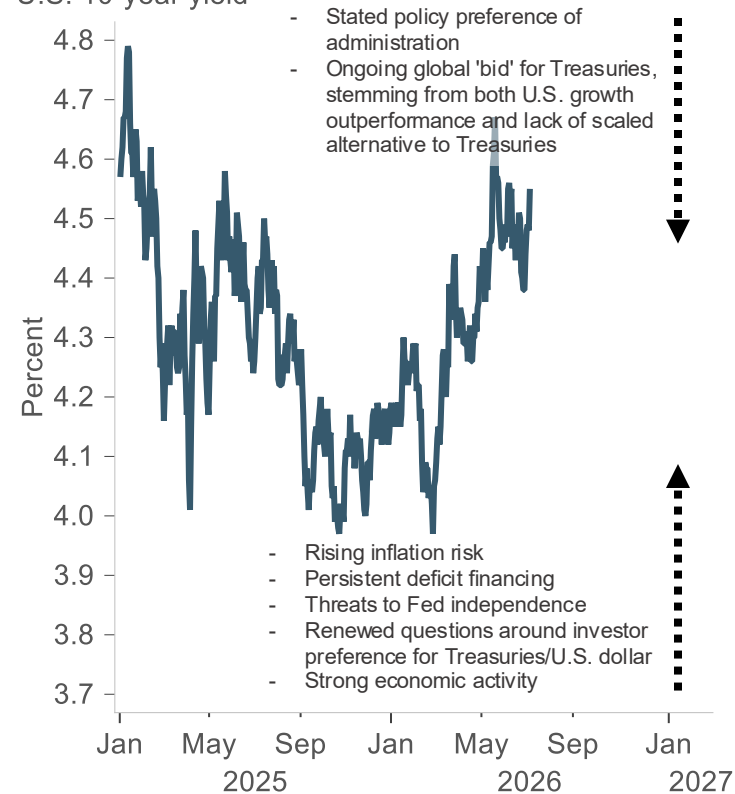
	Background	GMS views
Market rates and the Treasury curve	Along 2Y-10Y tenors, the Treasury curve has flattened: similar behavior is seen in developed-market peer curves as the Iran conflict has broadened the inflation outlook. Persistent deficits, heavy Treasury issuance, and questions around global Treasury demand and Fed credibility have kept upward pressure on the long end, even as the Fed has eased.	We consider 4.25-4.75% a credible range for the 10Y Treasury yield over the next 6 months. Above ~4.60% we see value, but longer-term yields remain vulnerable to fiscal pressures, persistent inflation, and concerns around Fed independence. While safe-haven demand around the Iran conflict may help contain yields in the near term, higher oil prices and increased defense spending could reinforce longer-term fiscal risks.
Financial conditions	Market-determined financial conditions remain at loose levels, as equity valuations and corporate credit spreads buck geopolitical risk. These conditions do not fully reflect an extended Iran conflict or a broader deterioration in credit quality.	Loose financial conditions should reinforce and reflect strong consumer activity and healthy profit margins in the near term; both concentration in the tech theme and the Iran-related oil shock present ongoing risks to this dynamic. We remain constructive on near-term credit quality, though a maturing credit cycle means selectivity and underwriting matter more from here.
Credit availability & bank lending	Bank lending conditions have improved from depressed levels. Loan demand has picked up modestly, household credit is easing somewhat, and despite volatility across the curve, a broadly normalized yield curve shape can support lending activity.	Barring a protracted oil shock, we see the lending outlook as marginally positive. Modestly lower rates and a more normal curve should support gradual improvement in loan demand, but policy uncertainty is still likely to restrain a sharper pickup, especially for businesses.

Market conditions

Market rates and the Treasury curve

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

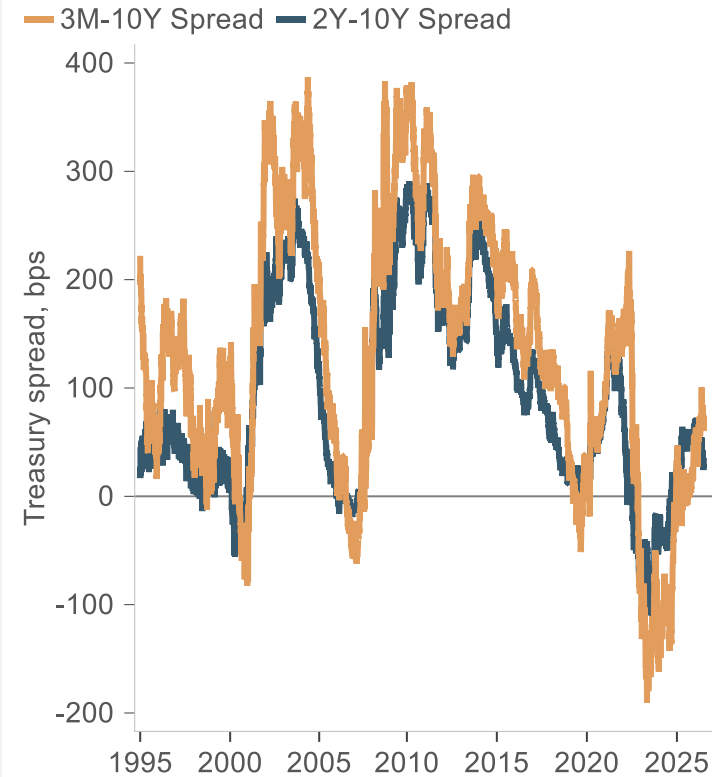
U.S. 10-year yield



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

The Treasury yield curve has finally normalized across tenors

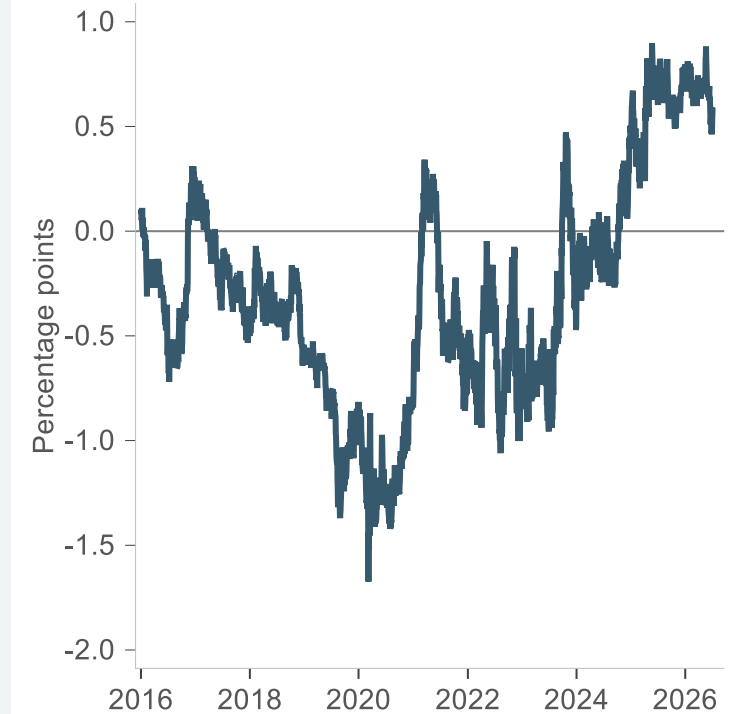
U.S. Treasury curve spreads



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

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

10-year treasury term premium (Adrian Crump & Moench model)



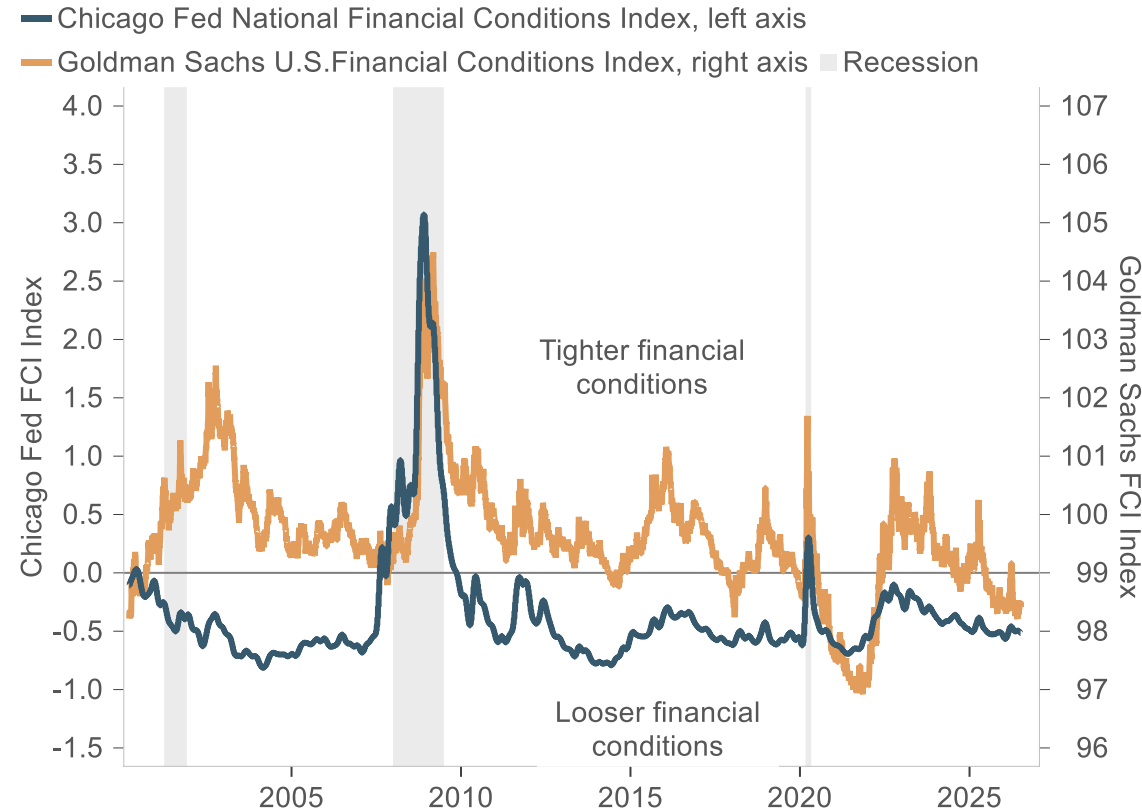
Sources: New York Life Investment Management, Global Market Strategy, Bloomberg, Macrobond, July 2026.

Market conditions

Financial conditions & bank lending

Market financial conditions are likely to tighten amidst the Iran crisis

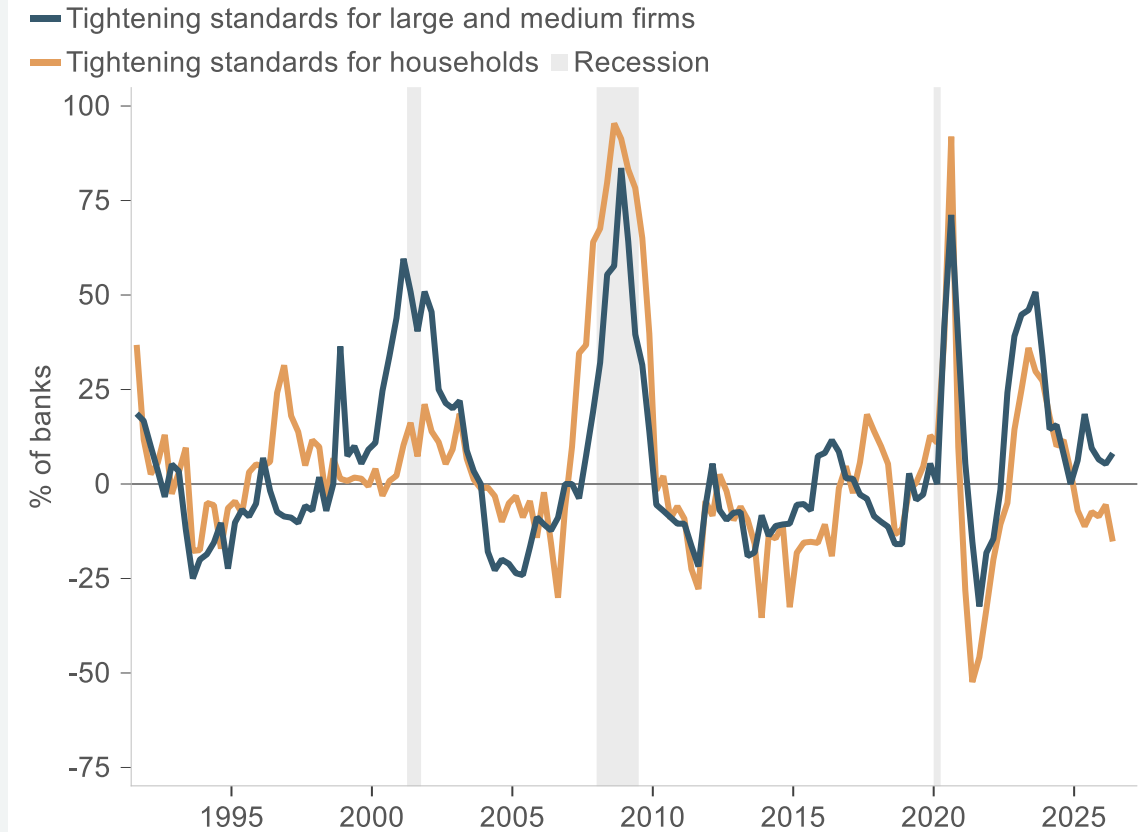
Financial conditions



Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve Bank of Chicago, Goldman Sachs, Bloomberg, Macrobond, July 2026. FCI: Financial conditions index.

Bank lending standards have moved to neutral

Bank lending standards



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

Inflation

Inflation was the primary risk we saw to the constructive outlook at the start of the year. Now, the U.S.-Iran conflict adds a more immediate upside risk to inflation through energy, food, freight, and downstream input costs.

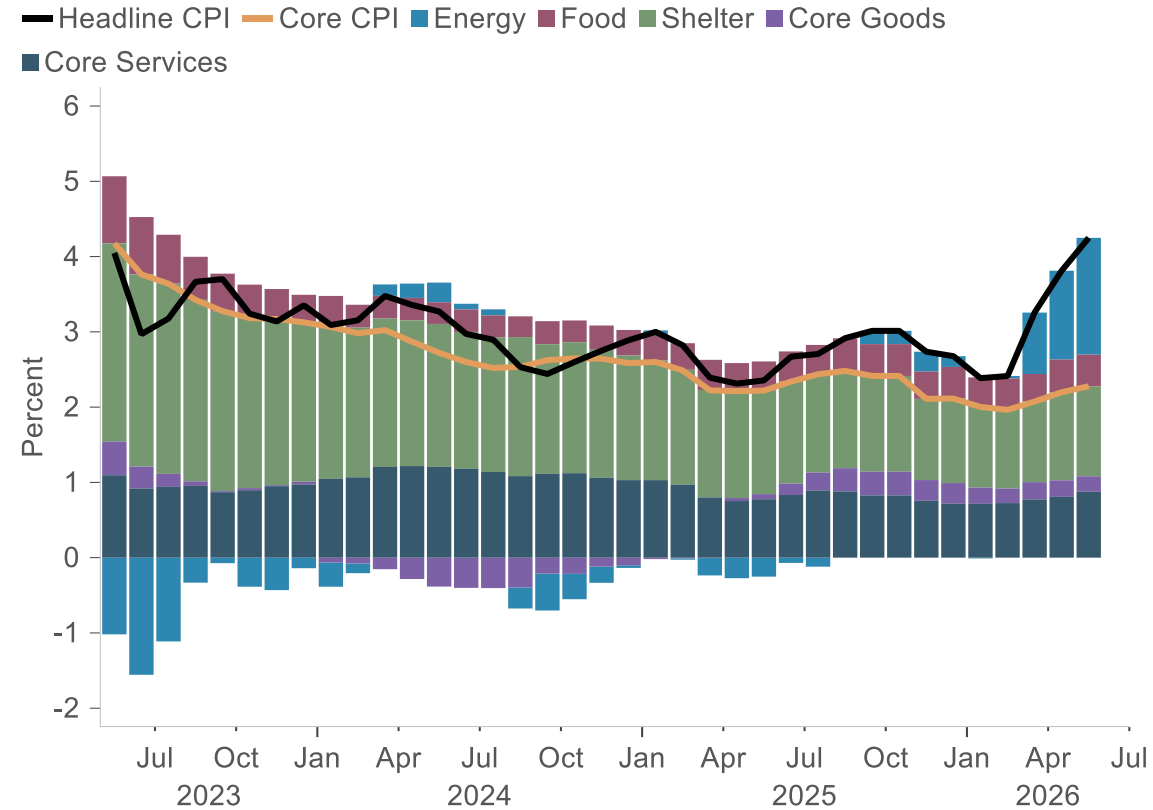
	Background	GMS views
Goods	Goods inflation is no longer providing the same relief it did earlier in the cycle. Durable goods prices have started to firm again, particularly in more import-exposed categories such as household furnishings, consumer staples, and electronics.	Goods inflation remains vulnerable to further upside surprises. Tariffs were already pressuring prices before the Iran conflict, and higher shipping and energy costs raise the risk that goods disinflation stalls or reverses in more trade-exposed categories.
Shelter	Shelter pressures should remain sticky, even though rent inflation has slowed. Housing affordability has deteriorated sharply, mortgage rates have stayed high, and supply constraints, construction costs, zoning frictions, and mortgage lock-in continue to limit inventory and support elevated home prices.	In our view, shelter disinflation is likely to be gradual. Modestly lower mortgage rates are not enough to change incentives for homeowners to move, so the underlying supply-demand imbalance should keep a floor under housing costs and prevent shelter from becoming a major source of disinflation in the near term.
Supercore (services ex-shelter)	Services inflation is being pressured by higher transportation and logistics costs, while tighter immigration policy is constraining labor supply and creating upside wage risk. With demand still resilient, these factors point to ongoing stickiness in labor-intensive service categories.	We frame core services ex-housing inflation as sticky: not accelerating uncontrollably but not cooling fast enough for comfort either. As long as wage growth is only gradually moderating and labor supply remains constrained, core services inflation is unlikely to fade quickly enough to detract from rising energy costs.
Inflation expectations	Near-term inflation expectations are firming off recent lows, reflecting geopolitically-driven energy price risks. Longer-term expectations remain well anchored, suggesting that markets broadly believe the Fed can hold the line on its inflation target.	We view the recent re-firming in near-term inflation expectations as a key risk to the outlook, driven by oil (Iran conflict), tariffs, tighter labor supply, and resilient demand. Most importantly, inflation sensitivity is higher than historically normal, following several years of above-target inflation.

Inflation

Goods

The Iran conflict has reversed nearly two years of disinflation

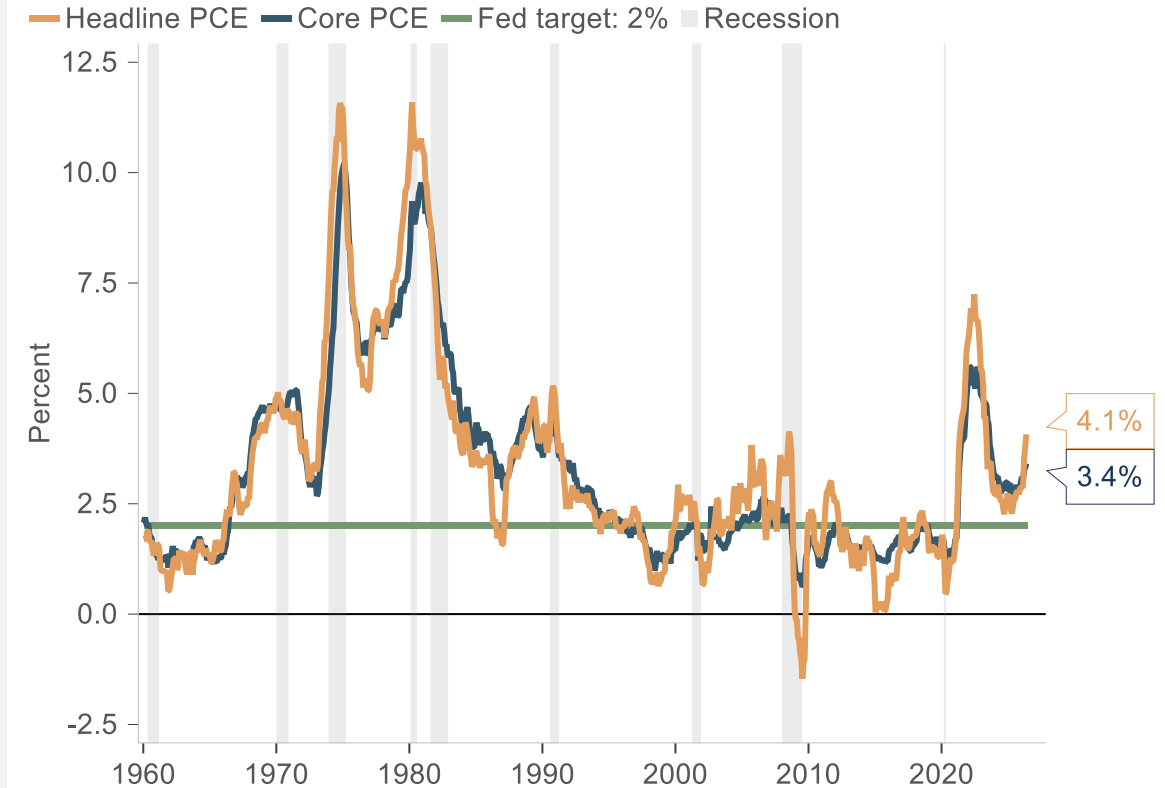
U.S. CPI breakdown (YoY%)



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

PCE inflation is re-accelerating, and the gap to target is widening again

U.S. PCE (YoY%)



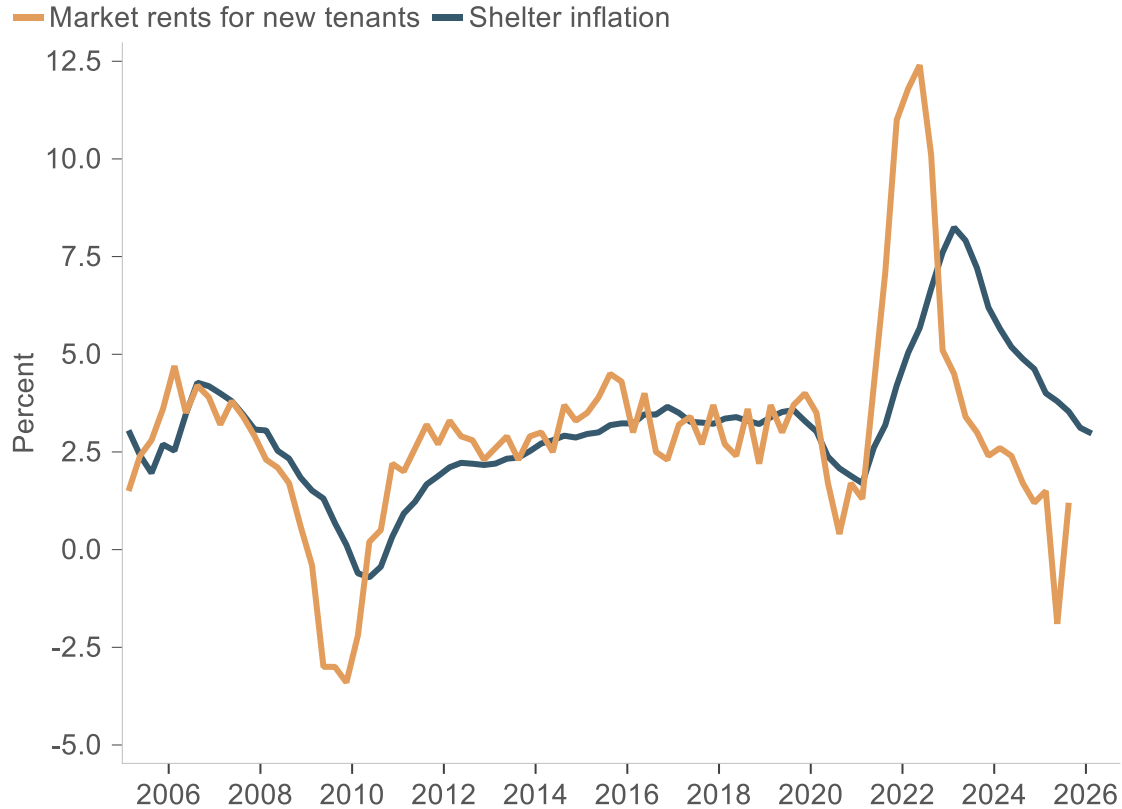
Sources: New York Life Investment Management, Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), NBER (National Bureau of Economic Research), Federal Reserve, Federal Reserve Bank of New York, Macrobond, July 2026. PCE: Personal Consumption Expenditure, the Fed's targeted inflation measure

Inflation

Shelter & supercore (services ex-shelter)

Shelter disinflation still has room to run, but the path is likely gradual

Shelter inflation vs rents (YoY%)



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

Sticky core inflation pressure is likely to keep the Fed patient

Inflation: supercore vs core vs headline (YoY%)



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

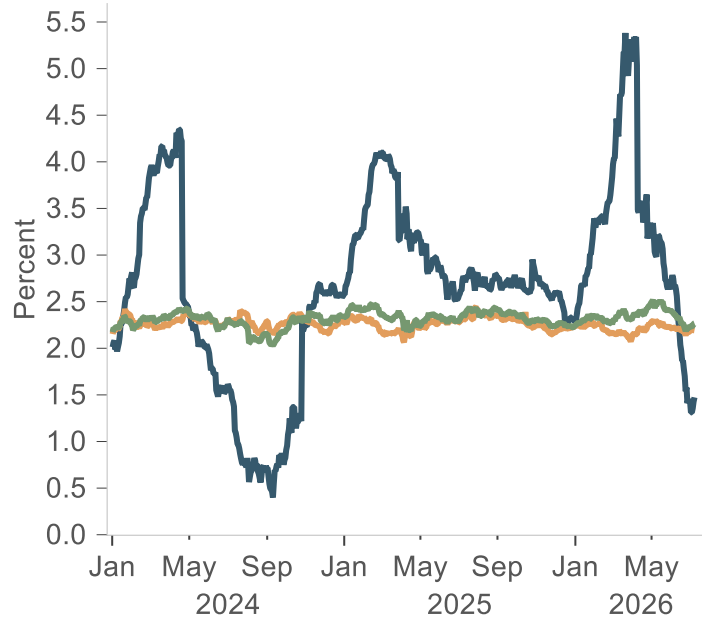
Inflation

Expectations

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

Inflation expectations: breakeven rates

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

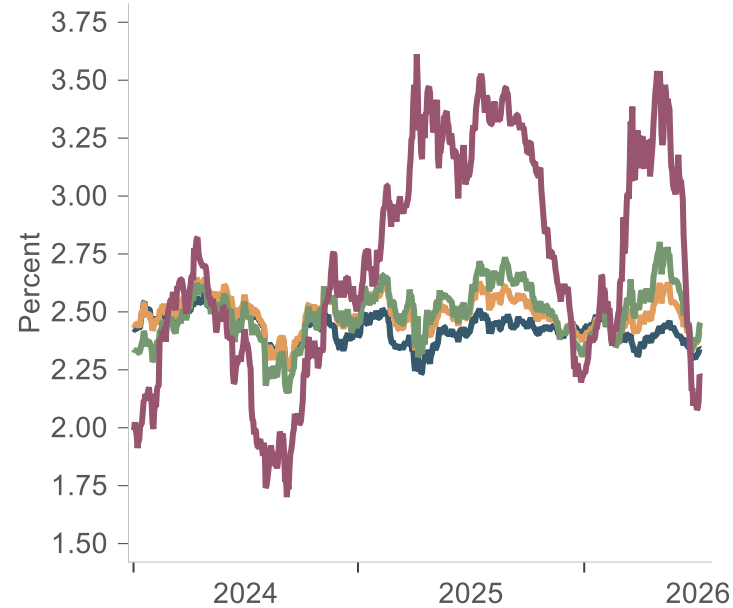


Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Macrobond, July 2026. Inflation breakevens are the implied rate of inflation implied by the pricing of TIPS, Treasury Inflation Protected Securities. The 5yr 5yr breakeven: expected inflation in 5 years, for the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

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

Inflation expectations: inflation swap rates

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

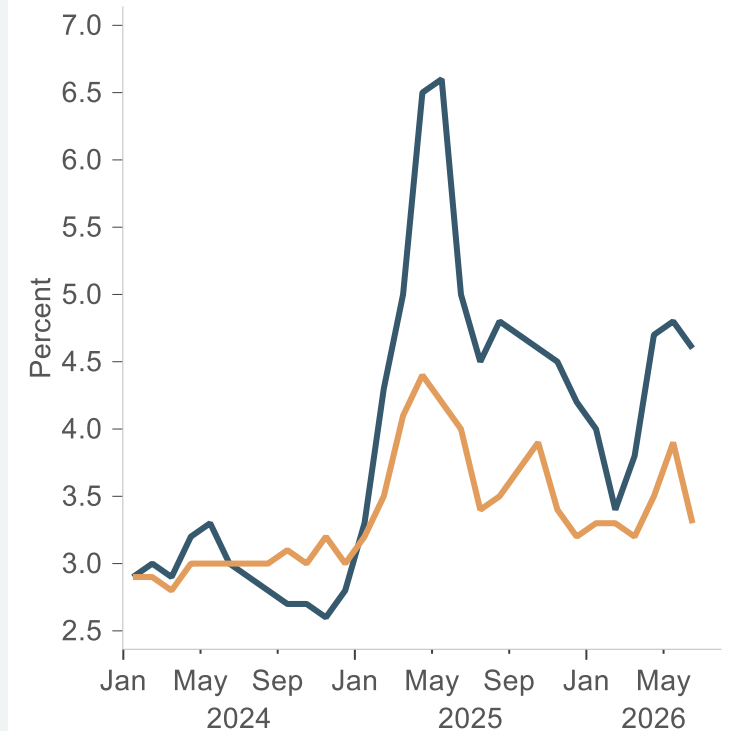


Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Macrobond, July 2026. A derivative used to transfer inflation risk from one party to another through an exchange of cash flows. In a zero coupon inflation swap, only one payment is done at maturity where one party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

Consumer inflation expectations remain elevated

Inflation expectations: consumer surveys

- Expected inflation next year
- Expected inflation in 5 years



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

Labor

We expect the labor market to remain in balance, with both hiring and wage growth moderating.

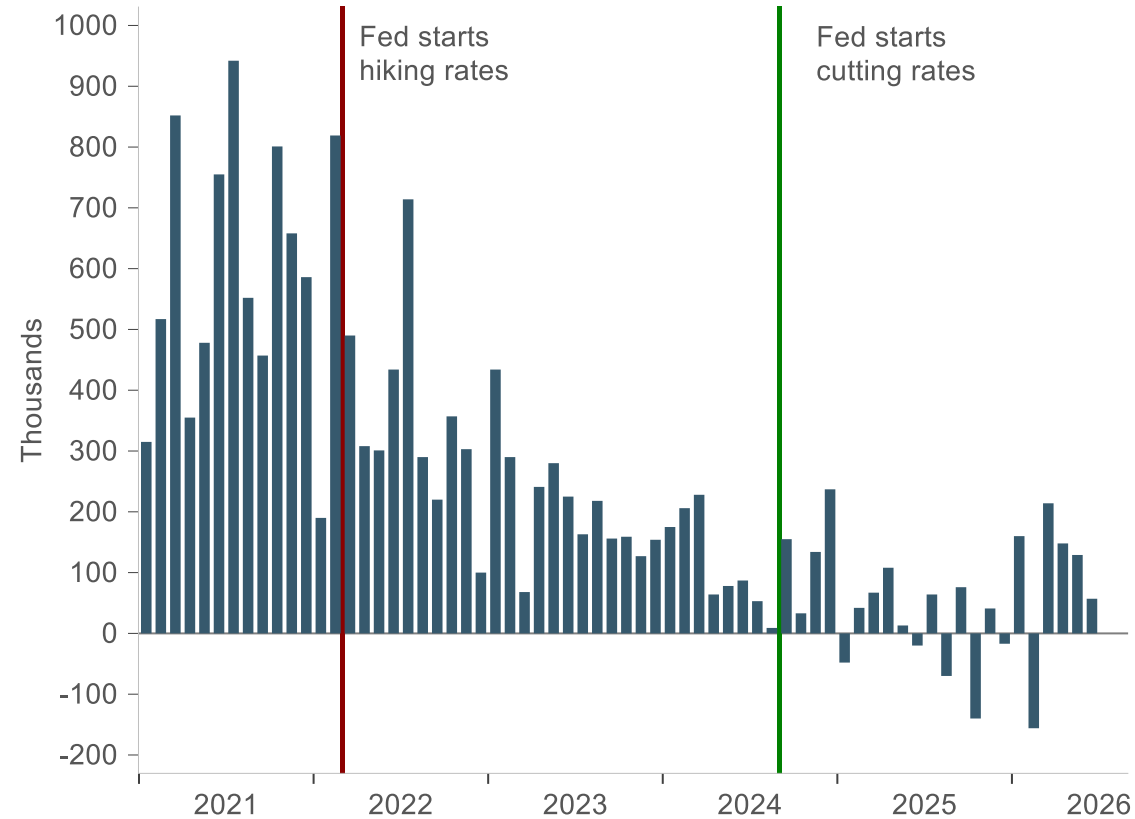
	Background	GMS views
Hiring	Payroll growth has slowed materially from the post-pandemic pace, and revisions show hiring was weaker than initially reported over the past two years. Even so, layoffs remain contained and claims have not yet signaled broad labor market stress.	The labor market is still “low fire, low hire.” Weak hiring alone is not enough to upend the outlook. It would take a more meaningful rise in layoffs to create the kind of negative feedback loop that would threaten consumer spending and broader growth.
Layoffs & jobless claims	Alarm bells are not ringing on layoffs. Fewer job openings and fewer jobs created each month point to weaker labor demand, but labor supply has softened as well – keeping the unemployment rate contained. Weekly unemployment claims have averaged about 213k so far this year, still consistent with a labor market that is softening rather than breaking.	The labor market is rebalancing, but in an unusual way: both demand and supply are easing. That means labor conditions can look softer without necessarily producing a recession signal right away. We view roughly 250k–275k initial unemployment claims as the zone where investors should become more concerned about a more material labor downturn.
Wages	Wage growth has slowed from its peak, in line with a softer labor market and a lower quits rate. Workers are less confident about switching jobs, but wage growth remains firm enough to support household income.	Cooling wage growth toward a sustainable 3.5% is consistent with a labor market that is normalizing off breakneck pandemic-era wage growth. Even so, slowing labor force growth could keep wage growth from falling quickly, which matters for both inflation and the Fed’s decision making: rapid wage growth supports inflation; weakening wage growth weakens the case for hikes.
Labor supply	More restrictive immigration policy is constraining labor supply. With a smaller workforce, the economy can add fewer jobs without pushing unemployment higher, which helps explain why the unemployment rate may stay relatively low even in a weaker hiring environment.	A smaller labor force changes how labor weakness shows up. In a more constrained supply environment, softness may appear less through a higher unemployment rate and more through slower hiring, reduced job openings, and firmer wages than the demand backdrop alone would suggest.

Labor

Hiring

Job growth has slowed over the past four years

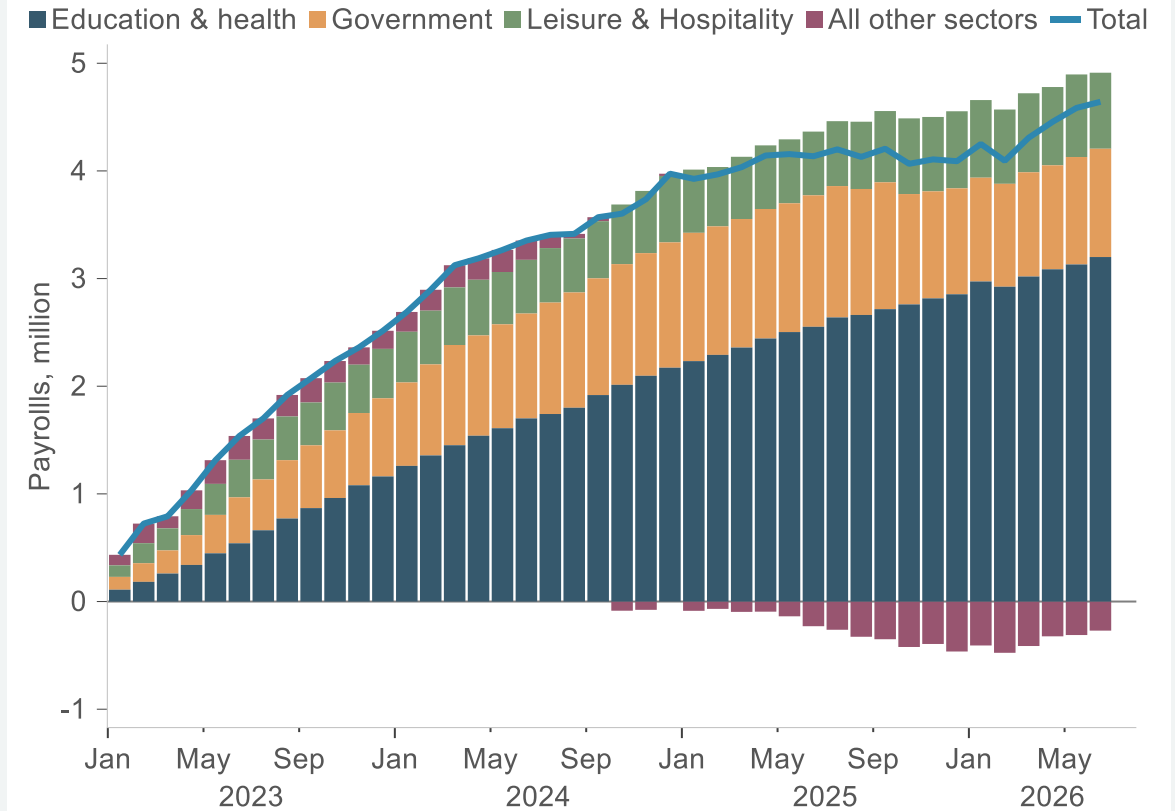
Monthly payrolls change



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

The majority of job gains seen in less cyclical sectors

Payroll growth by segment since 2023



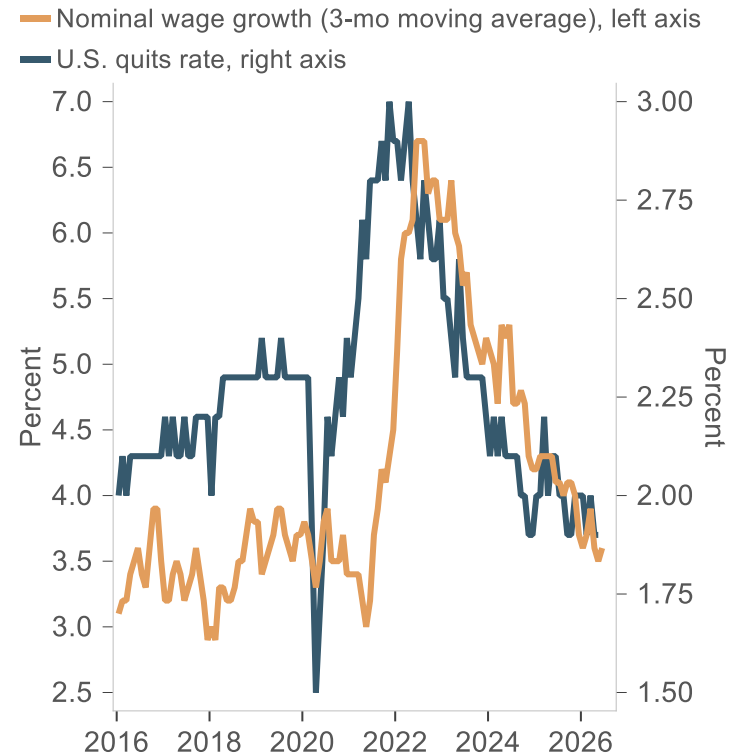
Sources: New York Life Investment Management, Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, July 2026.

Labor

Layoffs & jobless claims, wages, and labor supply

Slowing wage growth and fewer quits point to cracks on the surface

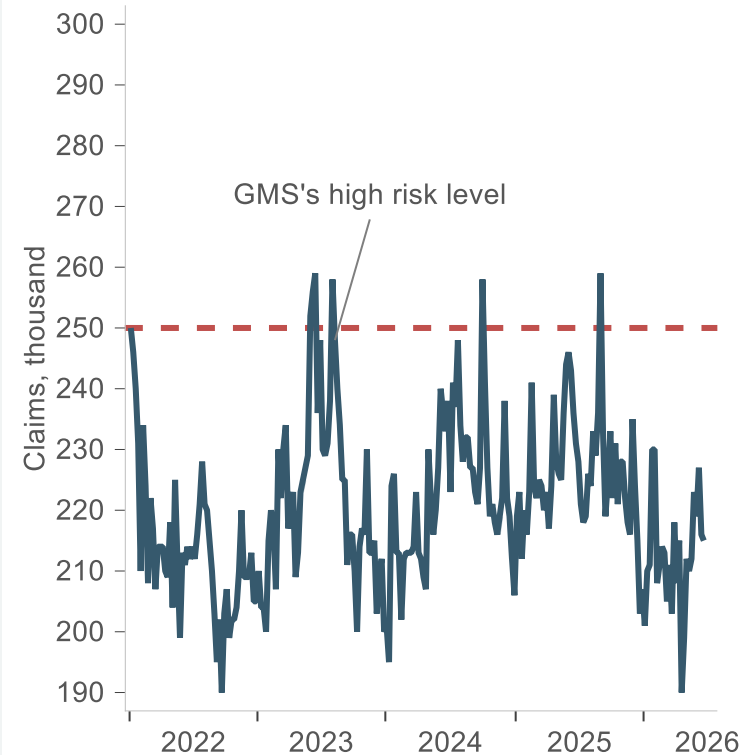
Wage growth (YoY%) vs quits rate



Sources: New York Life Investment Management, Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Federal Reserve Bank of Atlanta, Macrobond, July 2026.

Jobless claims should provide an early signal of labor market weakness

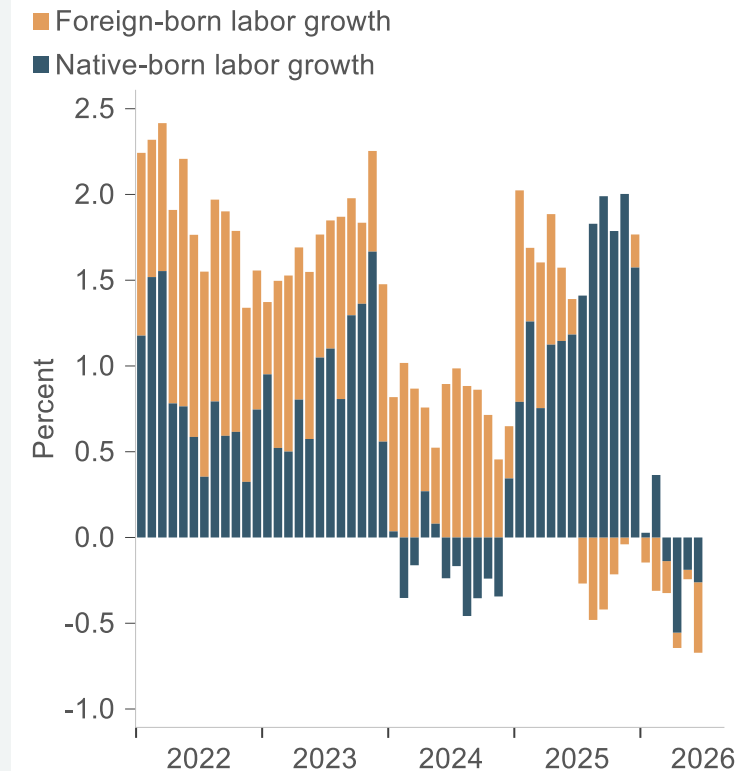
Initial jobless claims



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

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

Native-born vs foreign-born labor growth



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

Consumer

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

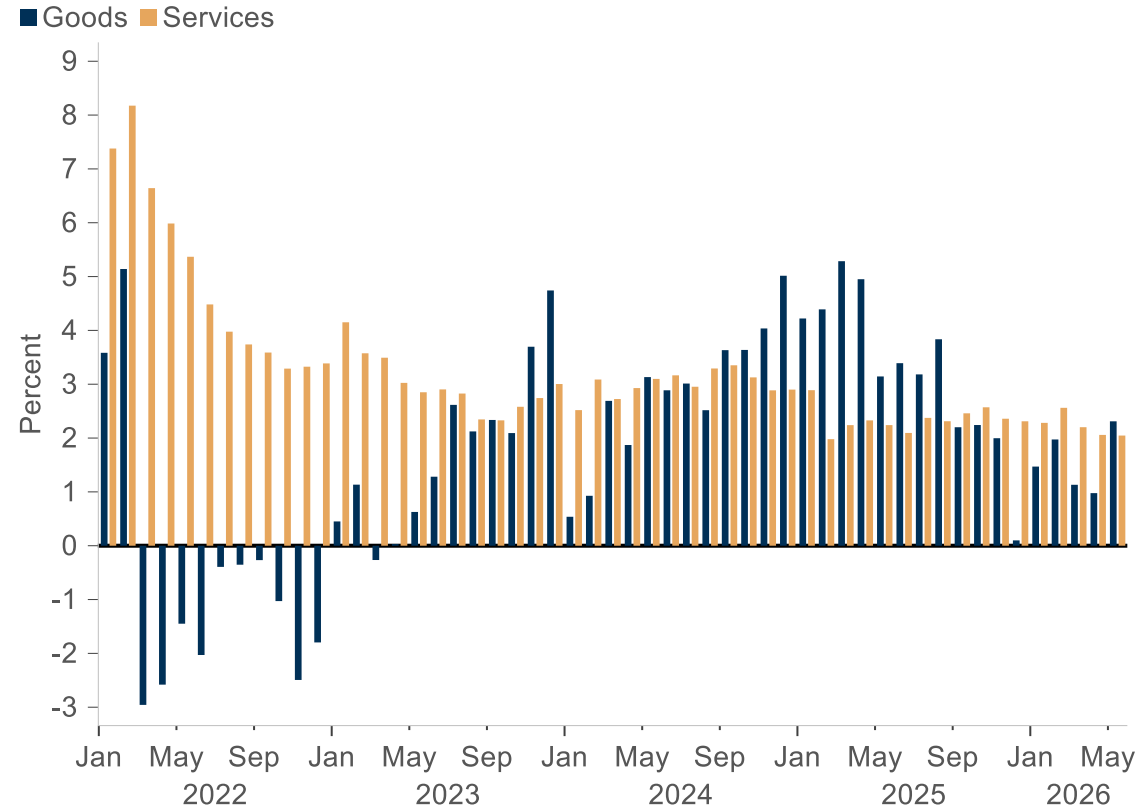
	Background	GMS views
Spending	Headline consumer spending has held up well, supported disproportionately by higher-income households. Strong asset prices, home equity, and investment income have helped sustain demand even as lower-income cohorts face greater affordability pressure.	We continue to see consumer spending as supportive of near-term growth, mindful that private investment (mainly AI) is comprising a greater share of growth relative to consumption. Because higher-income households account for such a large share of total consumption, headline spending can remain firm even if demand weakens across more price-sensitive households.
Credit & delinquencies	Consumer credit growth slowed in 2024 and 2025, but from a historically strong base. Pockets of stress are building among younger and lower-income households, where higher credit card balances and rising delinquencies in cards and auto loans suggest greater reliance on credit to absorb affordability pressure.	We do not see systemic signs of consumer overleverage or a broad credit quality event. But policy rates are unlikely to provide meaningful relief for revolving credit affordability, so pockets of stress among more vulnerable households are likely to persist.
Income & wealth	The consumer expansion remains K-shaped. Higher-income households are driving a disproportionate share of spending, while lower-income households are more exposed to inflation, rent burdens, and rising delinquencies.	The K-shaped consumer helps explain why headline growth has stayed firm despite signs of strain beneath the surface. Higher-income spending is still being supported by a powerful wealth effect, fueled by equity gains, elevated home prices, and investment income. Lower-income households have less of that cushion and remain more exposed to inflation and affordability pressure.
Savings/balance sheet	Household balance sheets remain healthy in aggregate, particularly for higher income and older households. Savings buffers have thinned for lower-income consumers, but overall debt service remains manageable, helped by fixed-rate mortgage structures and still-solid income growth.	The aggregate consumer balance sheet remains a source of resilience. That said, the cushion is unevenly distributed, which means macro stability can coexist with rising financial strain in select parts of the household sector. Additionally, increasing credit growth alongside a falling savings rate suggests consumers are spending through the energy squeeze, a dynamic that is unlikely to be sustainable if prices remain elevated.

Consumer

Spending

Consumer spending remains robust

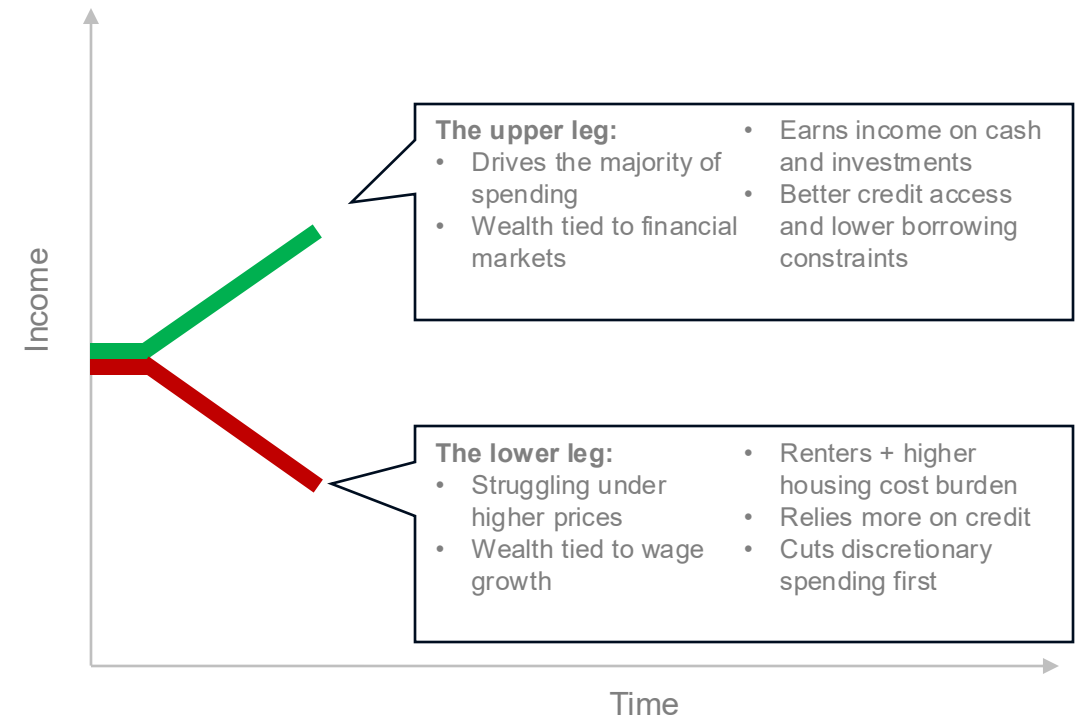
Goods vs services spending (YoY%)



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

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

A visualization of a K-shaped economy



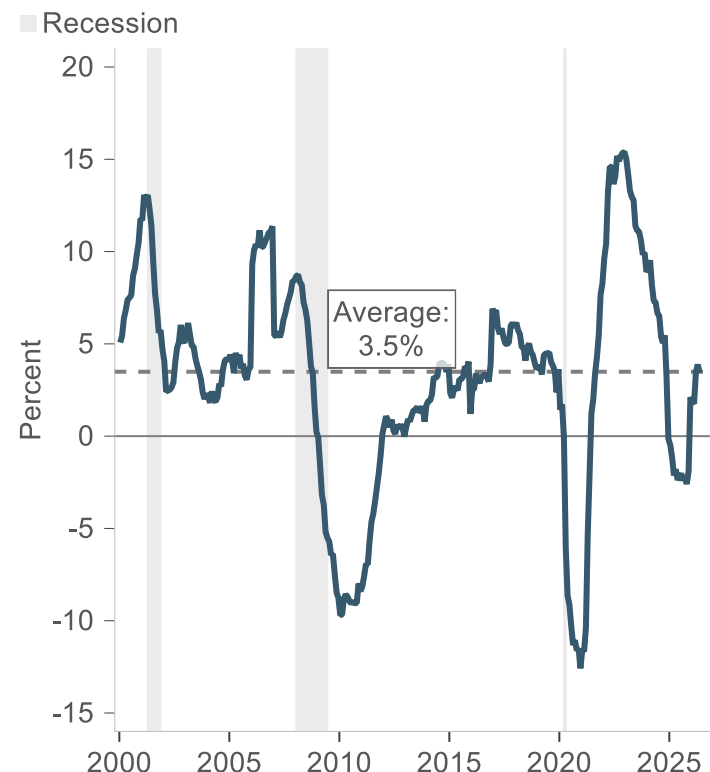
Opinions of New York Life Investment Management, Global Market Strategy, July 2026.

Consumer

Credit & delinquencies

Consumer credit growth has returned to its long-term average

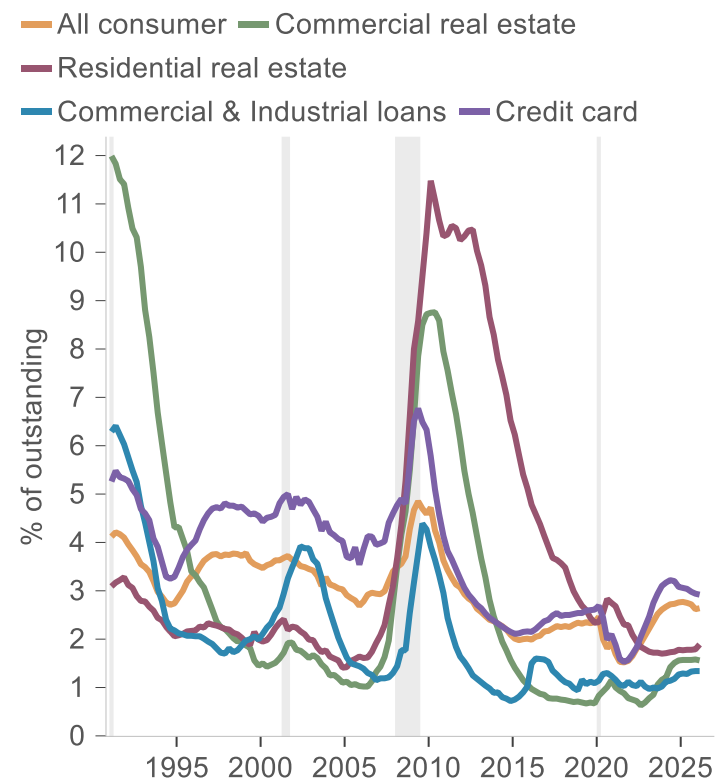
Consumer credit growth (YoY%)



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

Delinquency levels rising but not to concerning levels

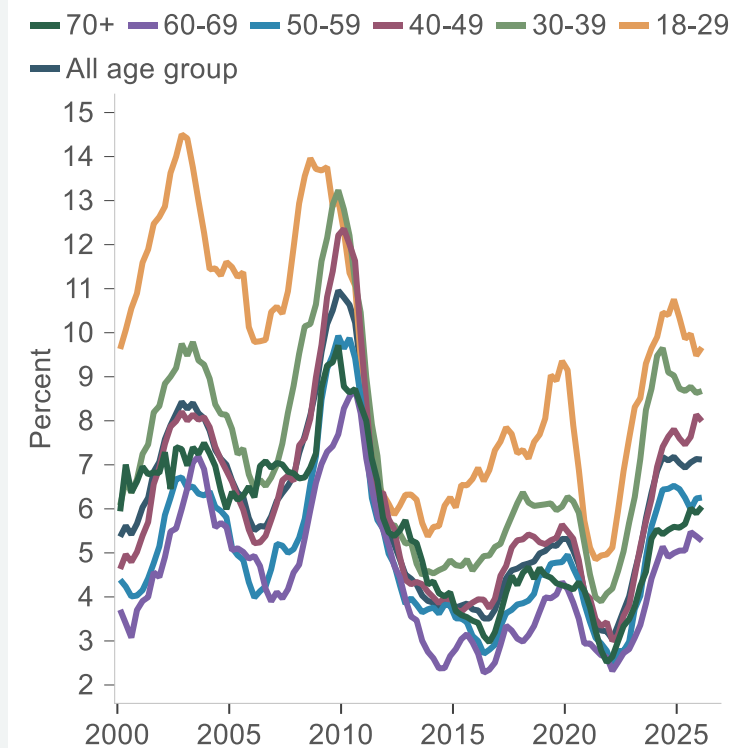
Delinquency rates by asset



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

Pockets of stress are building across borrowers of all ages

Credit card delinquency: % share transitioning to "serious delinquency"



Sources: New York Life Investments Global Market Strategy, Federal Reserve Bank of New York, Macrobond, July 2026.

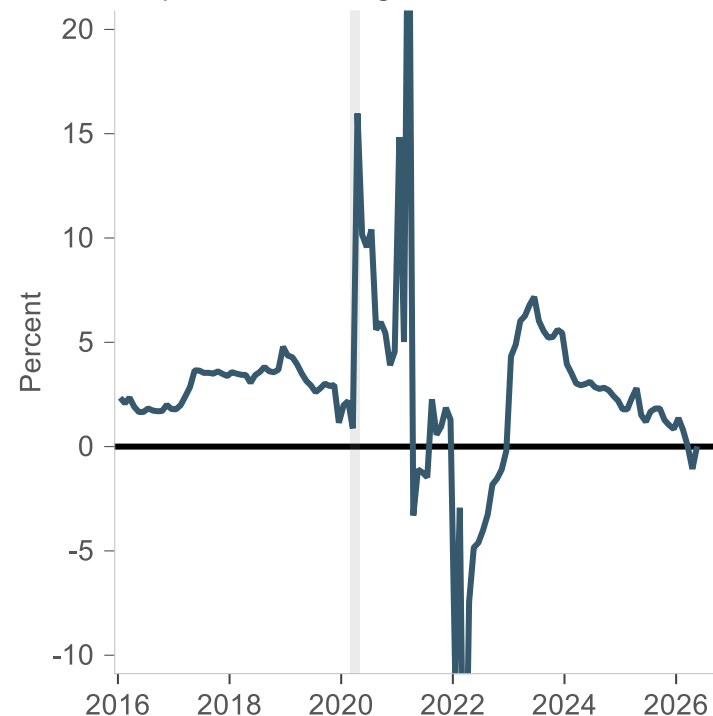
Consumer

Income & wealth

Real disposable income has turned negative, squeezing consumers as energy costs rise

Disposable Income (YoY%)

— Real disposable income growth — Recession

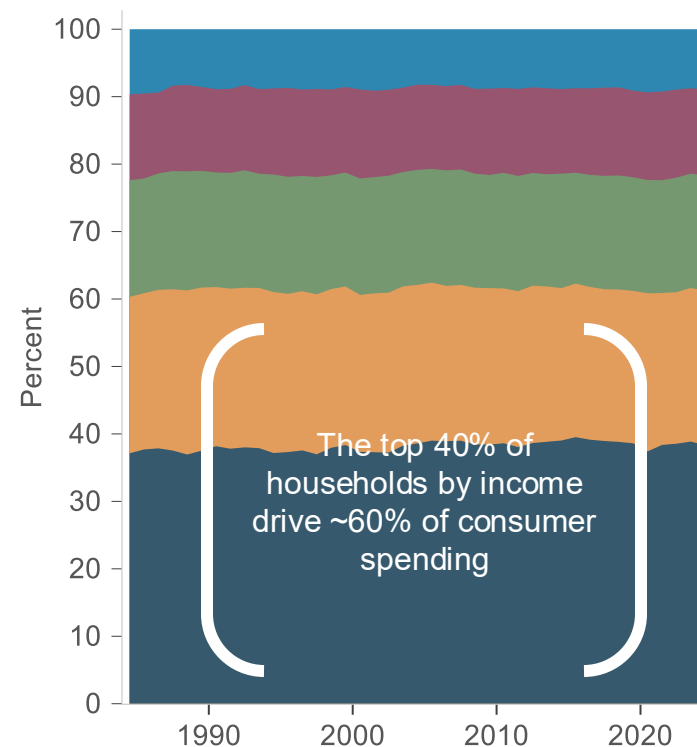


Sources: New York Life Investment Management, Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), NBER (National Bureau of Economic Research), Macrobond, July 2026.

Top-income households have driven most consumer spending for decades

Consumer spending by income quintile

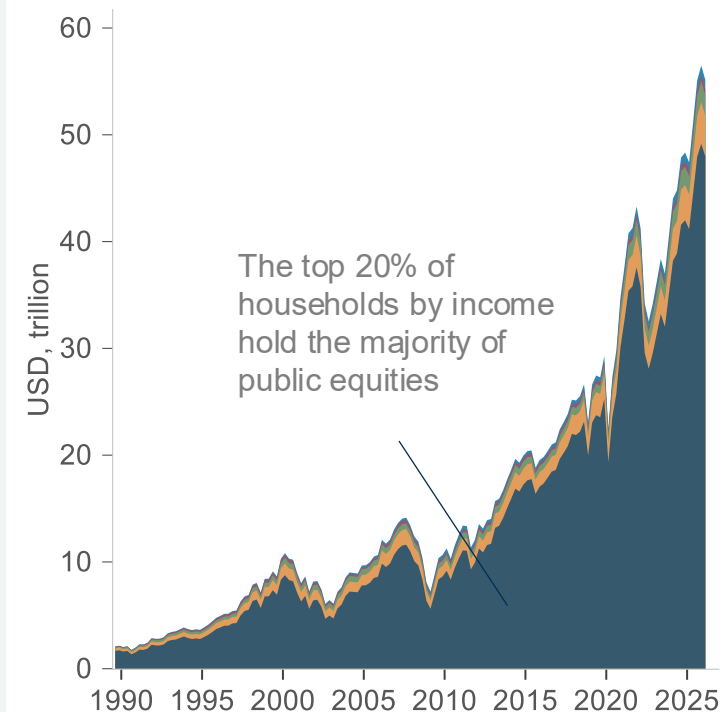
■ 80% to 100% ■ 40% to 60% ■ 0% to 20%
■ 60% to 80% ■ 20% to 40%



Equity ownership is concentrated at the top income percentile

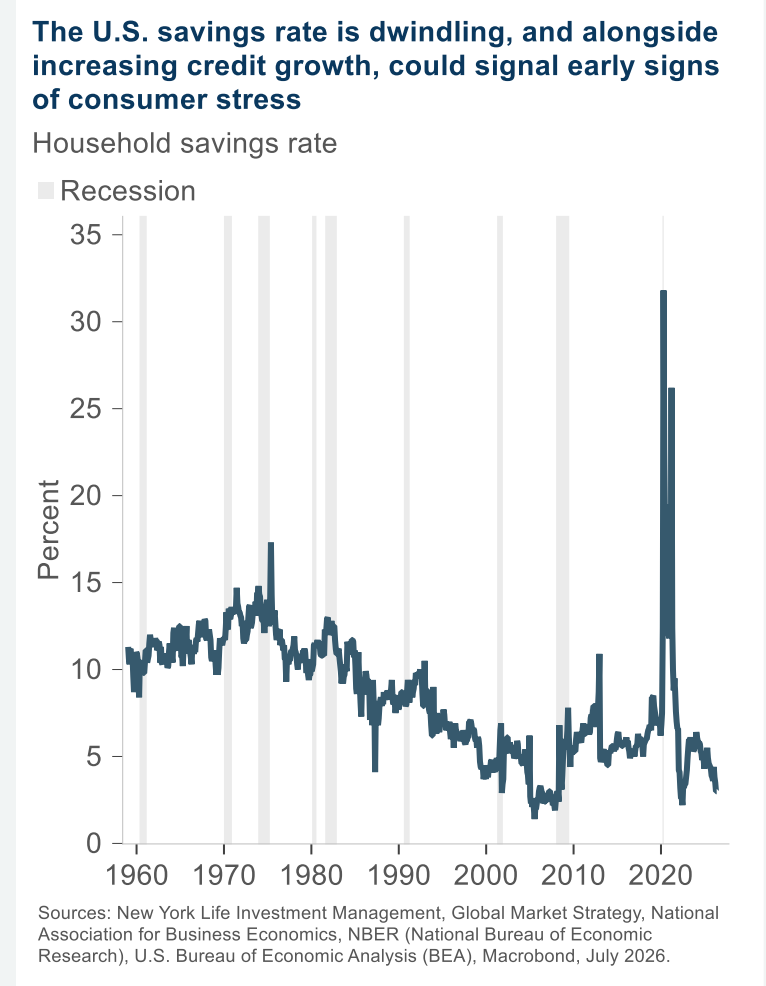
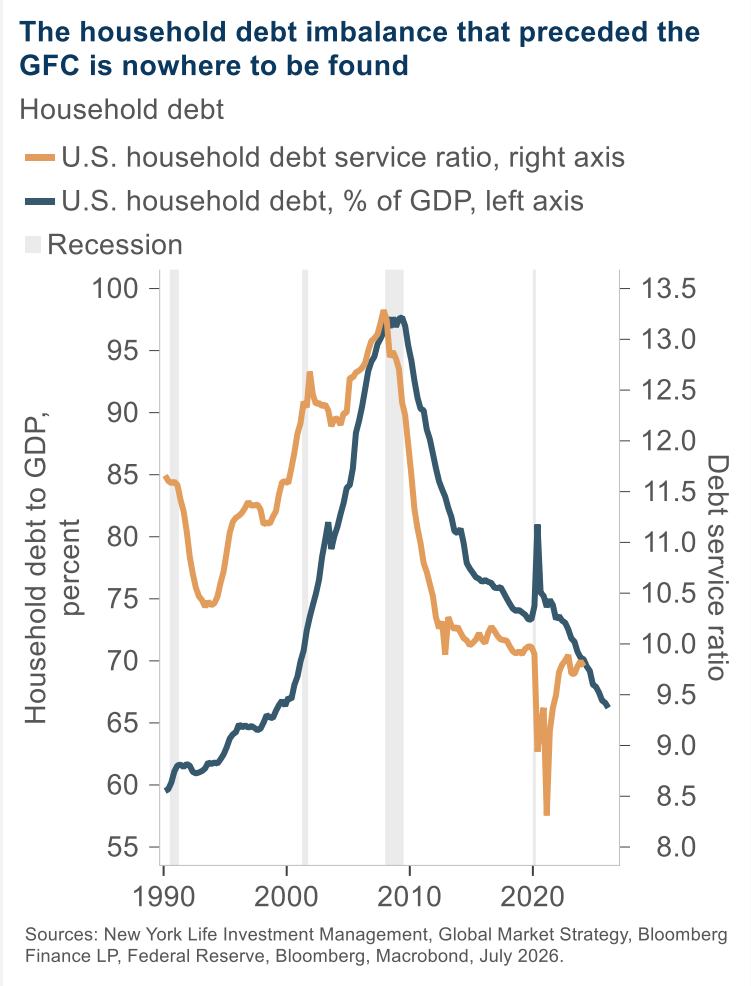
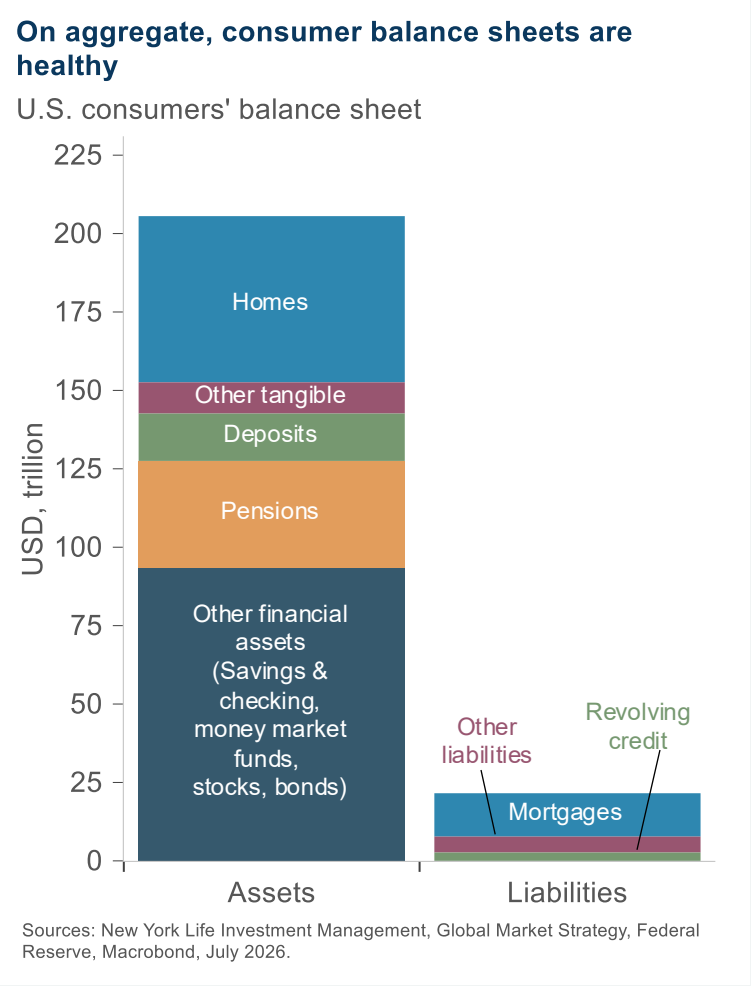
Corporate equities and mutual fund shares by income percentile

■ 80% to 100% ■ 60% to 80% ■ 40% to 60%
■ 20% to 40% ■ 0% to 20%



Consumer

Savings & balance sheet



Housing

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

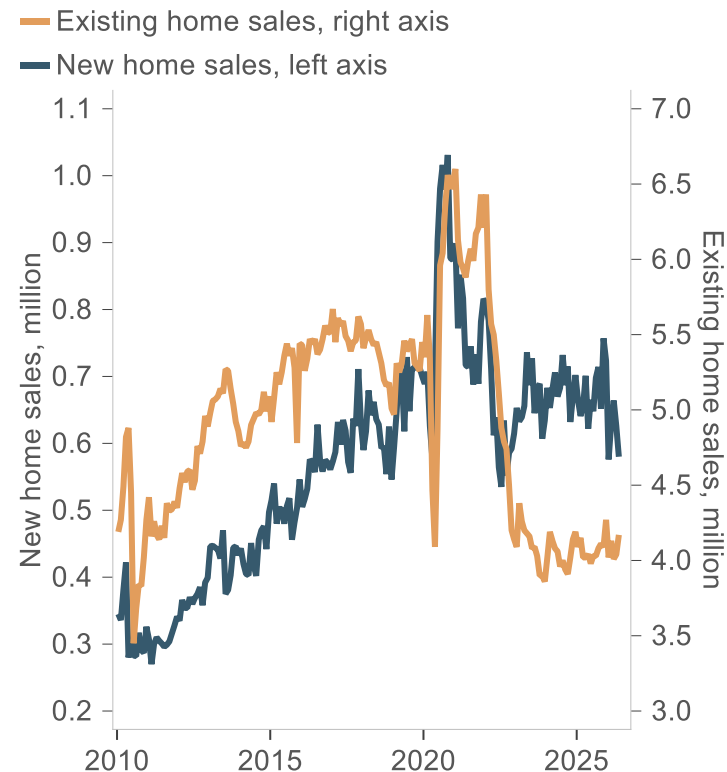
	Background	GMS views
Activity	Housing activity remains subdued, especially in existing home sales. A larger share of activity has shifted toward newly built homes, where inventory is more available and builders can use incentives and price concessions to attract buyers already stretched by high mortgage rates.	We continue to see housing as a volume-constrained market rather than one facing a broad price reset. Without meaningfully lower mortgage rates or a larger improvement in supply, sales activity is unlikely to recover meaningfully.
Supply	Housing supply remains constrained by years of underbuilding, high construction costs, restrictive zoning, and mortgage lock-in among existing homeowners. At the same time, supply has become a tale of two markets, with more price moderation in parts of the Sun Belt and tighter conditions on the coasts.	Supply remains too tight to allow for a broad easing in housing conditions. In our view, constrained resale inventory should continue to support home prices even if activity stays weak, though new-home supply and parts of the Sun Belt remain more vulnerable to price moderation.
Affordability	Housing affordability has deteriorated sharply since the pandemic, with home prices up more than 30% and mortgage rates sustained above 6%. The age of the first-time homebuyer has climbed to 40 as worsening supply-demand imbalances and high financing costs keep entry difficult.	Modestly lower mortgage rates are not enough to materially improve affordability. Meaningful improvement will likely require time for existing and new mortgage rates to converge.
Policy	In July, the bipartisan Road to Housing Act became law. The legislation addresses both supply and demand constraints on housing, banning institutional investors from purchasing single-family homes, encouraging state-level zoning and permitting reform, and streamlining environmental reviews.	The Road to Housing Act includes several provisions that have the potential to improve housing affordability on the margin. In our view, efforts to encourage reform at the local level, which the legislation includes, may be the most impactful for expanding housing supply and improving affordability over time.

Housing

Activity & supply

Existing homeowners are unwilling to give up their low mortgage rates

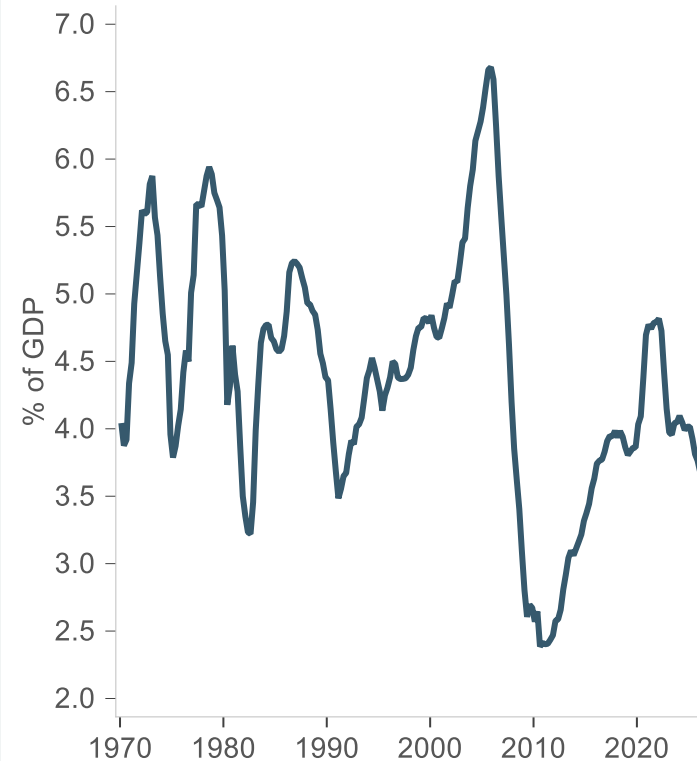
Home sales



Sources: New York Life Investment Management, Global Market Strategy, U.S. Census Bureau, National Association of Realtors (NAR), Macrobond, July 2026.

It is difficult to sustain the economic cycle without a recovery in residential investment

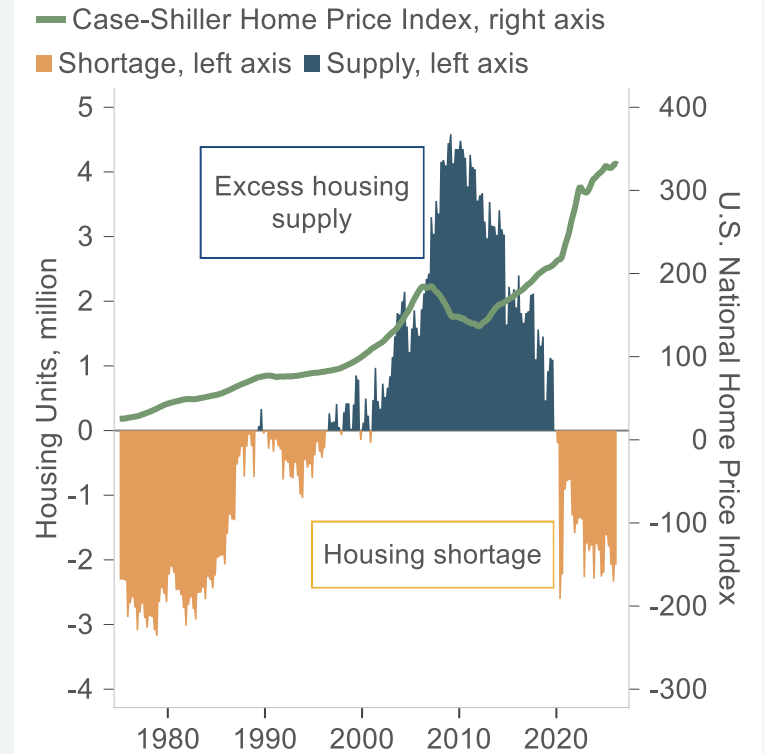
Residential investment as % of GDP



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

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

Housing supply vs price



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

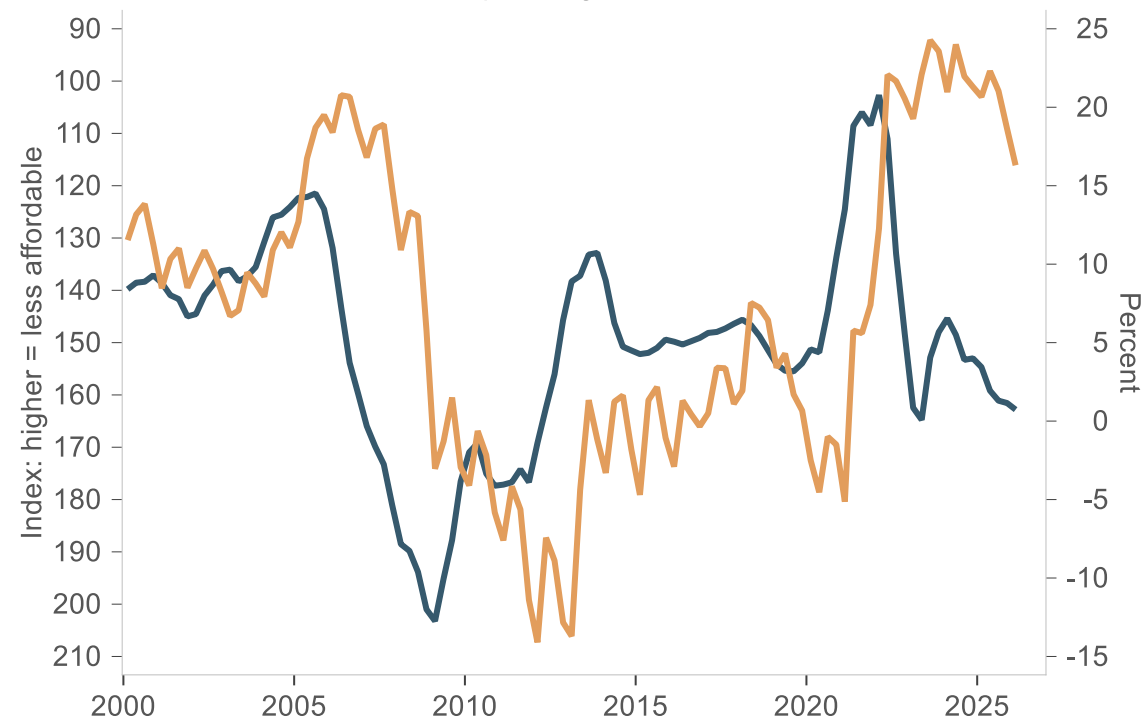
Housing

Affordability & policy

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

Housing affordability vs home price growth (YoY%)

- Housing affordability index, inverted, left axis
- Case-Shiller U.S. national home price, right axis



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

Mortgage rates would need to plummet to incentivize housing turnover

Mortgage rates, %

- Effective U.S. mortgage rate (existing mortgages)
- Avg 30-year fixed mortgage rate (for new mortgages)



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

Corporate outlook

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

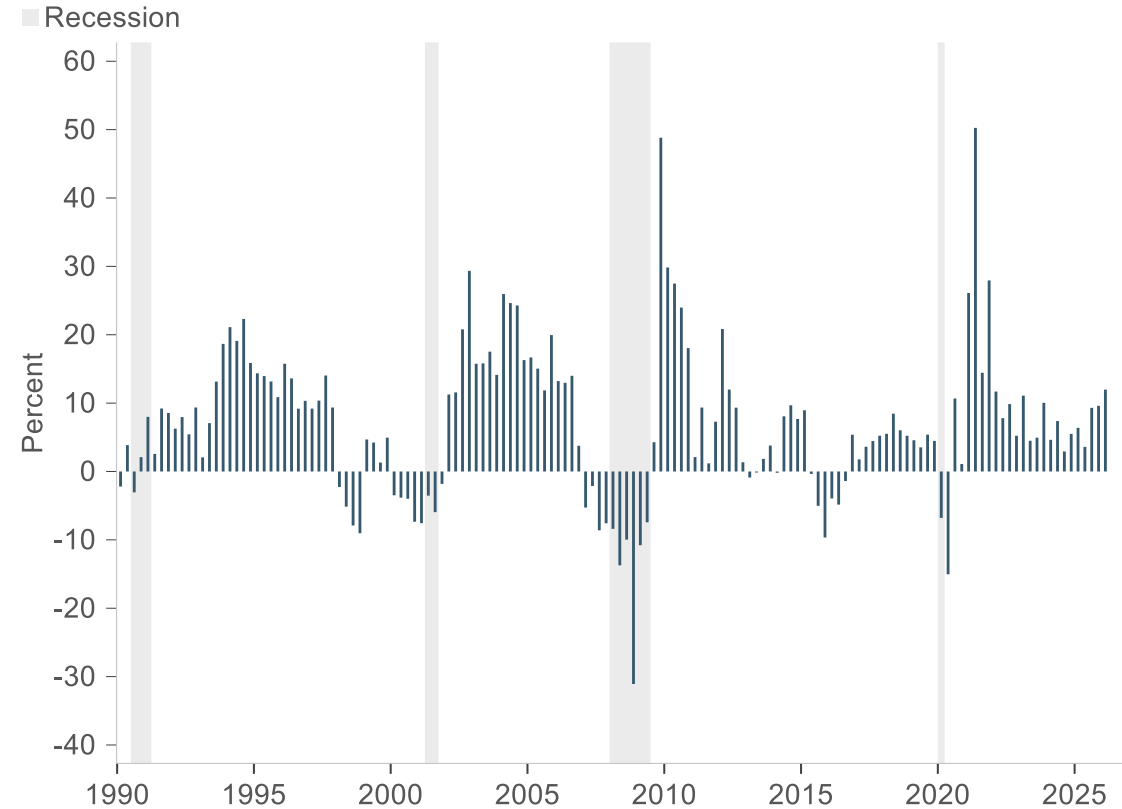
	Background	GMS views
Profits	Corporate profit margins have remained resilient and are still well above levels historically associated with recession risk. Strong pricing power, steady demand, and recent productivity support have helped firms protect margins even as costs remain elevated.	Healthy profits reduce the odds of a broad layoff cycle in the near term. The key risk is not weak margins today, but that inflation, energy, tariffs, or other input cost pressures make it harder for companies to preserve margins from here.
Balance sheet	Corporate capital structures remain healthy. Debt-to-asset levels are still low by historical standards, and large U.S. companies continue to hold strong cash buffers even as pandemic-era cheap financing gradually rolls off.	We do not see corporate balance sheets as a source of near-term macro stress. Lower policy rates to date and stable credit markets provide some refinancing cushion, but as the credit cycle matures, we would still emphasize selectivity since resilience is stronger for higher-quality firms than for the broad corporate universe.
Investment / capex	Capex remains in an uptrend, though it has been driven disproportionately by AI and digital infrastructure. The return of 100% capex depreciation should be directionally supportive of broader investment intentions in 2026, despite geopolitical and policy uncertainty.	We expect business investment to remain supported in a gradual broadening, with scope for capex to broaden beyond the narrow AI buildout. This capex has not yet resulted in economy-wide productivity gains driven by AI .

Corporate outlook

Profits

Hardy corporate profit growth remains a sign of overall business health

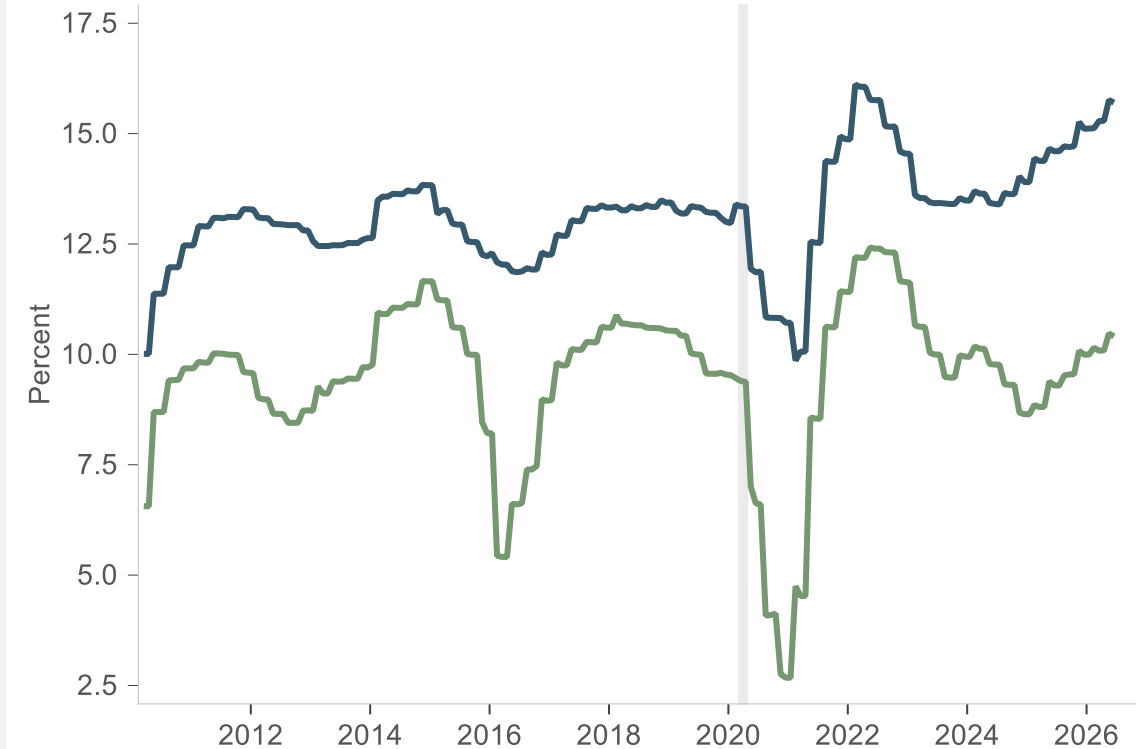
Corporate profit growth (YoY%)



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

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

— S&P 500 operating margin (equal weight)
— S&P 500 operating margin (market-weighted) ■ Recession



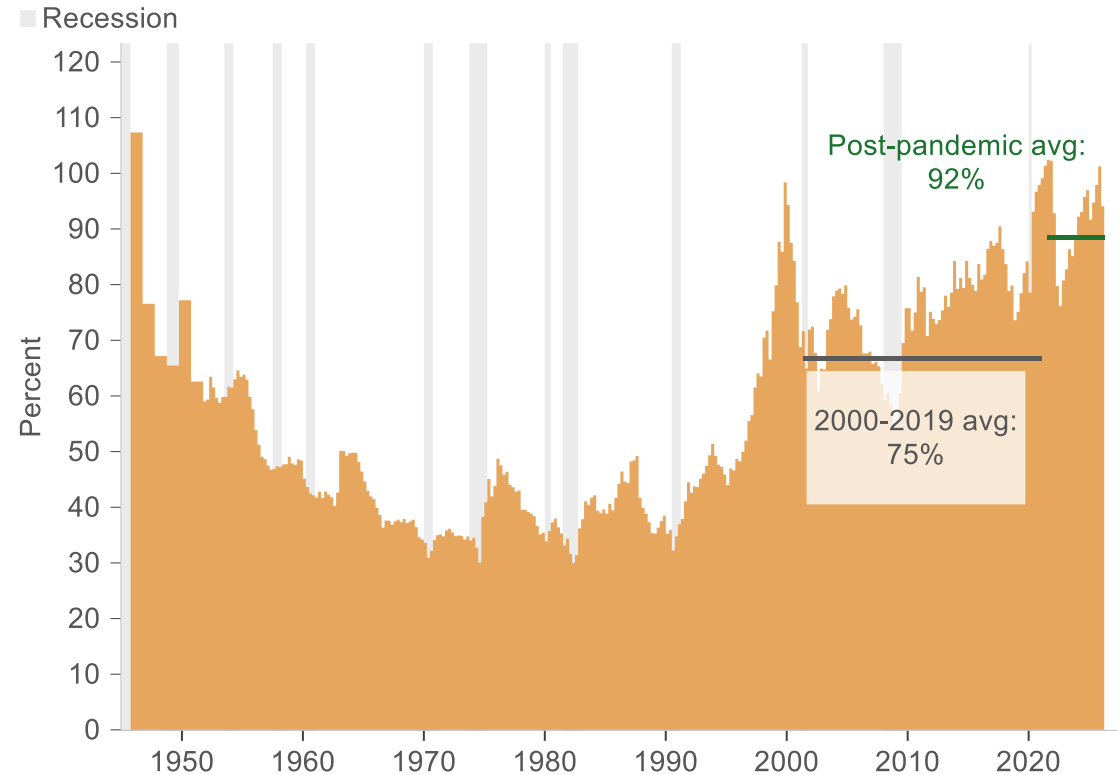
Sources: New York Life Investment Management, Global Market Strategy, NBER (National Bureau of Economic Research), Bloomberg, Macrobond, July 2026. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. Past performance is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

Corporate outlook

Balance sheet

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

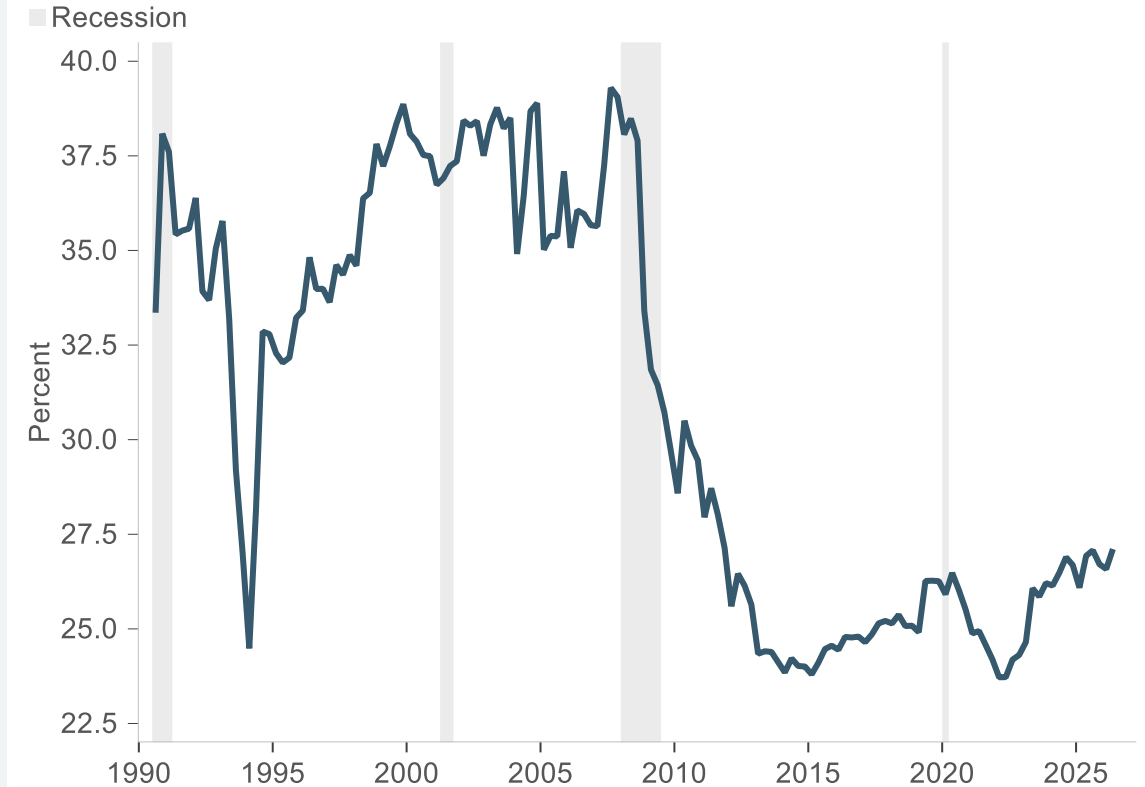
Corporate liquidity as a percentage of short-term liabilities



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

We see no structural debt imbalance amongst listed corporations

Debt-to-asset ratio (S&P 500)



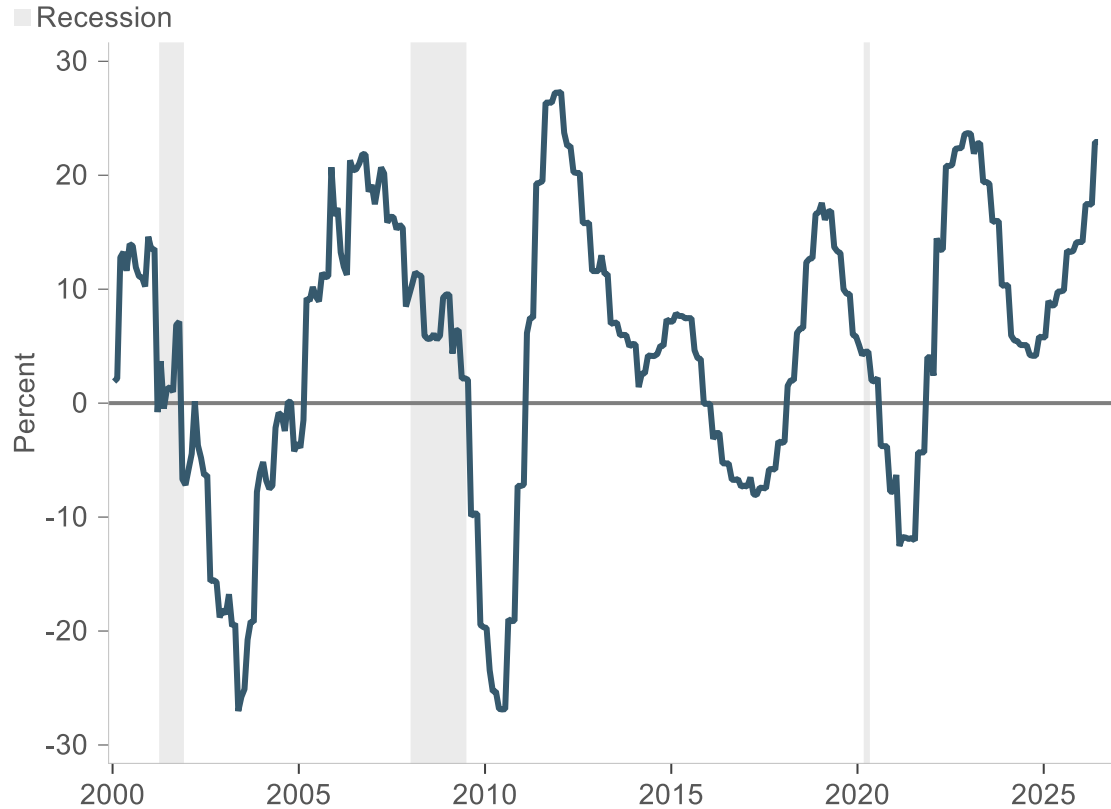
Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Standard and Poor's, Macrobond, July 2026. The S&P 500 Index tracks the performance of 500 large cap U.S. companies. It is not possible to invest directly in an index. Past performance is no guarantee of future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

Corporate outlook

Investment & capex

Capex growth is soaring on the back of an AI-driven investment boom

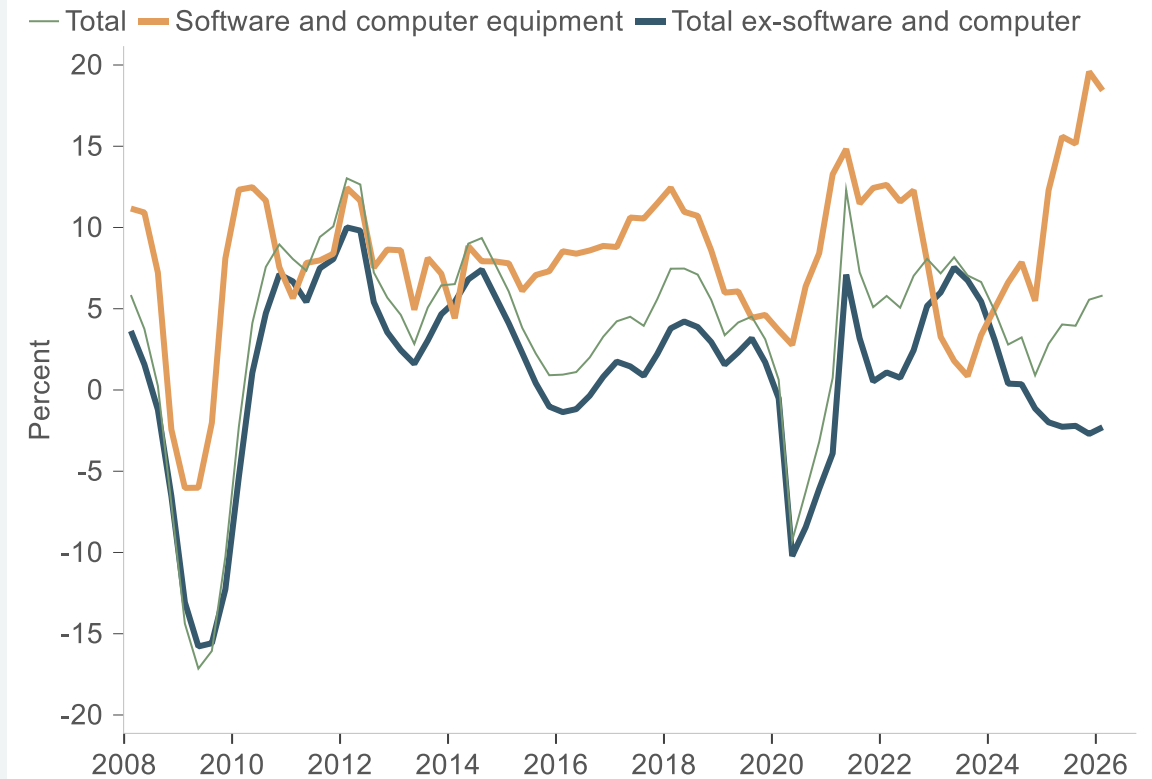
S&P 500 capital expenditure growth (YoY%)



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

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

Private fixed investment across sectors (YoY%)



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

AI may lift labor productivity, but broad gains remain unproven

Early workplace evidence points to meaningful efficiency gains, but broad productivity diffusion and wage pass-through will likely lag.

AI is already raising output in parts of the economy, but history suggests it can take years for broad wage gains to follow.

Are we seeing the impacts of AI in the macro data?

- AI efficiencies are believed to have driven productivity gains in some sectors and roles, but the case is not yet confirmed in broad macro data. In any period, productivity gains are difficult to attribute; labor supply changes due to the pandemic and immigration policy play a role.
- Expected AI-driven productivity gains may be helping anchor inflation expectations, offsetting the demand impulse from strong spending and AI-related investment.

Early evidence shows AI can lift worker output where it is deployed

- Data show that companies undergoing large workplace deployments of AI tools see meaningful improvement in output per hour, with the biggest gains often among less experienced workers.
- The near-term effect looks more like augmentation than replacement, helping workers complete tasks faster and with fewer errors.

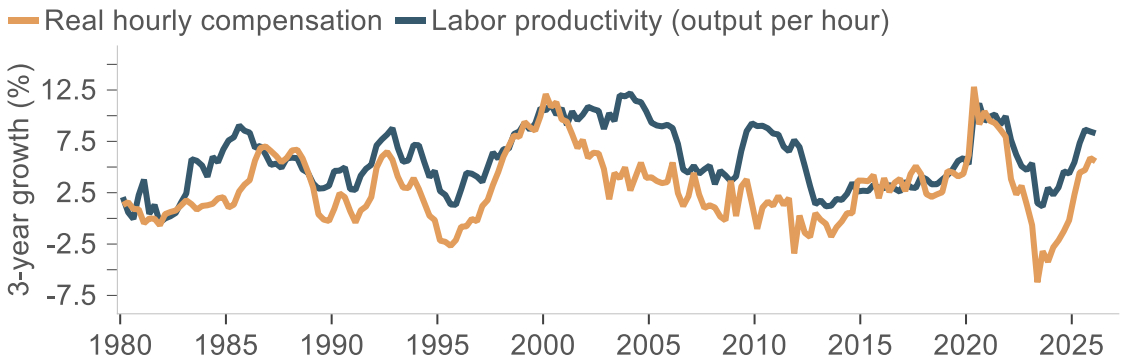
Wages have lagged so far, even as productivity improves

- Early labor market evidence finds limited average earnings effects to date, consistent with gains being captured first by profits and a narrower set of workers (**top chart**).
- Historically, wage catch-up tends to come later in the diffusion cycle, and the AI transition is still in its early phase.

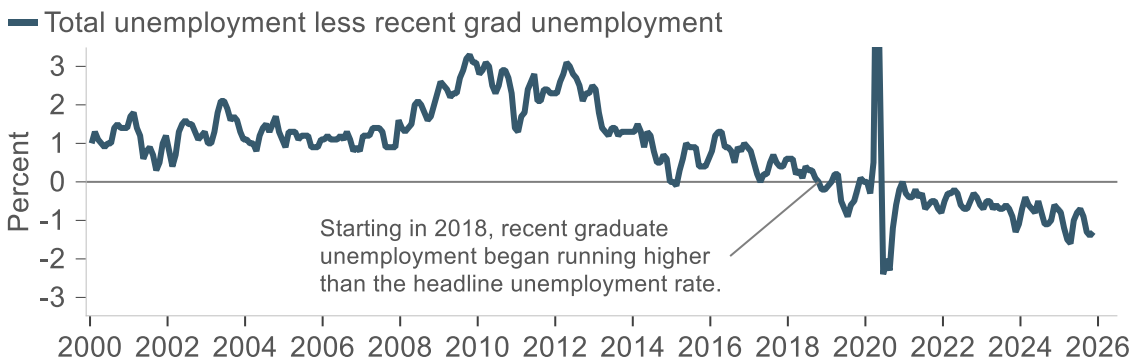
Key downside risk: early labor displacement, especially in exposed sectors

- Entry-level hiring has stalled in AI-exposed industries, and employment trends in tech have lagged the rest of the economy since 2022.
- New graduate hiring, more broadly, has been softening since around 2018 (**bottom chart**), and AI may now be reinforcing that trend, especially across entry-level white-collar roles.
- With roughly one-third of tasks potentially addressable by today's LLMs, even modest displacement could translate into a meaningful rise in unemployment.

Productivity gains can precede wage gains, but AI wage pass-through remains unproven



AI may be reinforcing a slowdown in recent grad hiring, but the trend started before LLMs were rolled out



Business conditions

Business conditions are holding up, but the energy shock and persistent cost pressures are testing the resilience of the expansion.

	Background	GMS views
Activity	Manufacturing and services sentiment remains mixed, but both PMIs are still in expansion territory after improving from last year's soft patch. Business activity is still expanding, but from a soft base, and the recent pickup has not yet translated into a clear broad-based reacceleration.	We see business activity as consistent with continued expansion, not boom conditions. The key question is whether policy support and capex can sustain this recent improvement despite ongoing trade and policy uncertainty.
Business sentiment	Business sentiment remains mixed. Small business confidence is roughly neutral, uncertainty is elevated, and hiring plans have stagnated, while larger firms are balancing improving capex conditions against persistent policy uncertainty and rising geopolitical risk.	We do not see sentiment as weak enough to signal contraction, but it is not strong enough to point to a broad surge in activity either. In our view, sentiment is likely to remain constrained by policy uncertainty even as tax incentives, liquidity support, and deregulation offer some support.
Input costs	Input costs remain a live issue for businesses. Sticky input prices, including employment costs, were already a challenge before tariffs and the Iran shock. Higher energy costs now add to the risk that businesses face renewed pressure on margins. Labor costs have normalized from post-pandemic highs, but restricted labor supply could keep some wage pressure in place.	The energy shock has turned input costs into a live risk for corporate margins. What began as an oil price spike is now transmitting into services and transport costs, and with tariffs and tight labor supply adding further pressure, firms may have little room to absorb costs or lower prices from here.

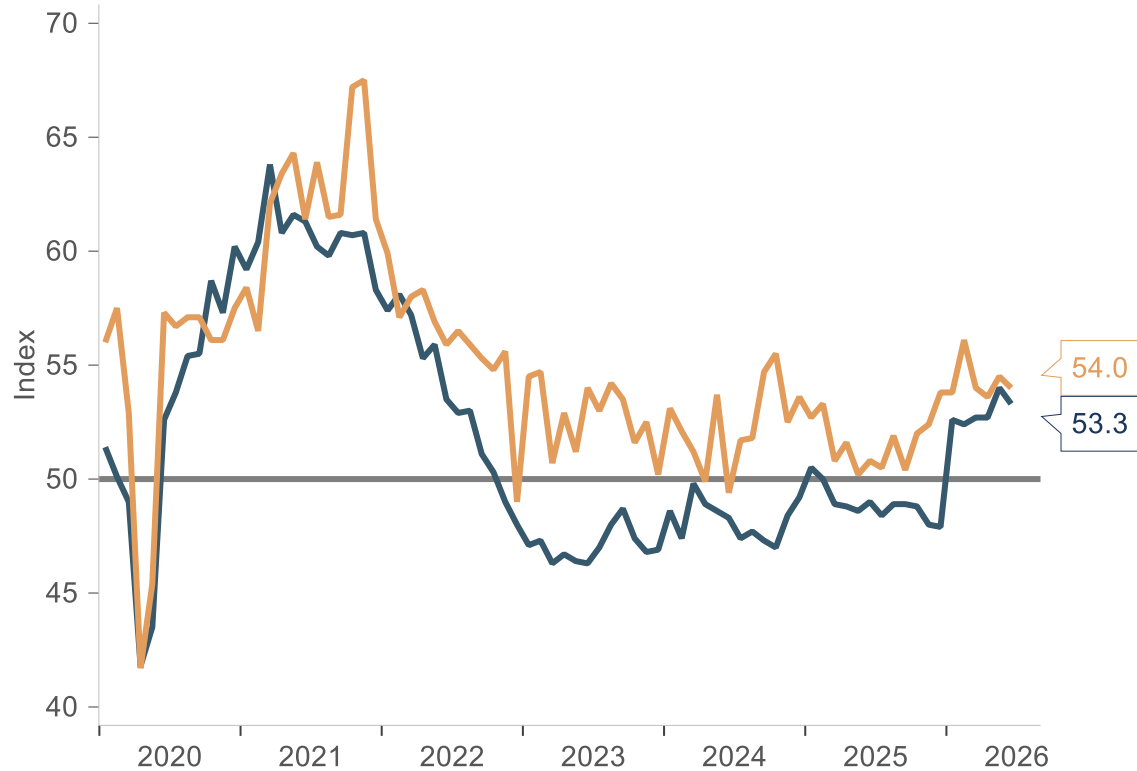
Business conditions

Activity

Manufacturing and services PMIs are seeing increasing activity off a tepid base

Business activity

— ISM Services PMI — ISM Manufacturing PMI

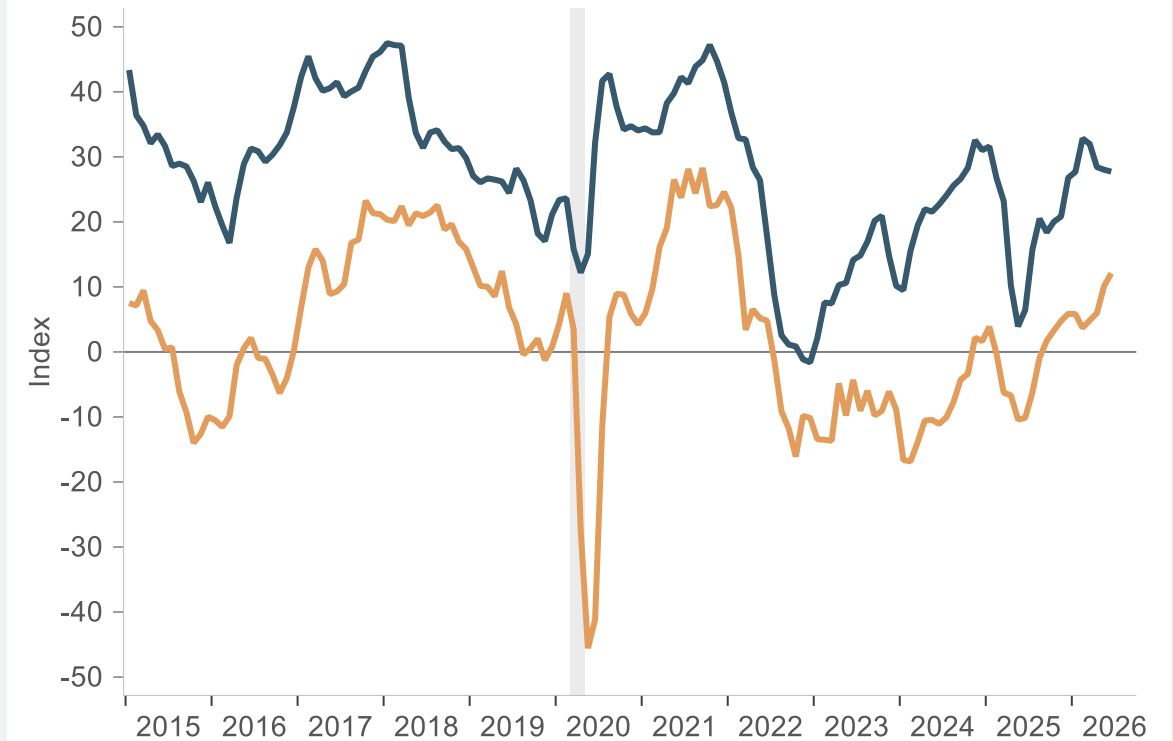


Sources: New York Life Investments Global Market Strategy, Institute for Supply Management (ISM), Macrobond, July 2026. PMI: Purchasing Managers Index, a survey-based sentiment indicator.

Expectations of future activity may have rolled over but current activity remains resilient

Federal Reserve Empire State Manufacturing survey

— Survey of future activity — Survey of current activity — Recession



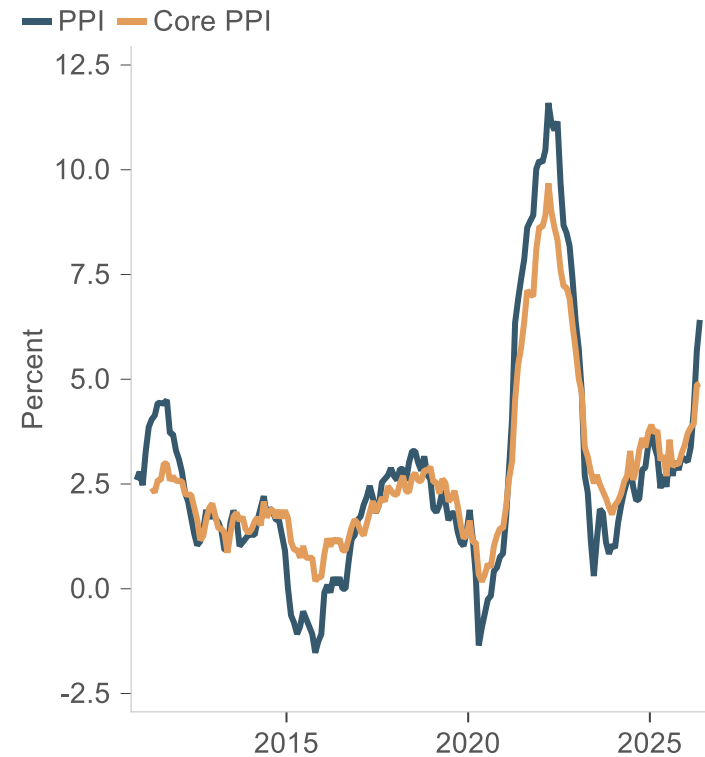
Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve Bank of New York, NBER (National Bureau of Economic Research), Macrobond, July 2026.

Business conditions

Input costs & sentiment

The Iran conflict has reignited input cost pressures and the shock is spreading beyond energy

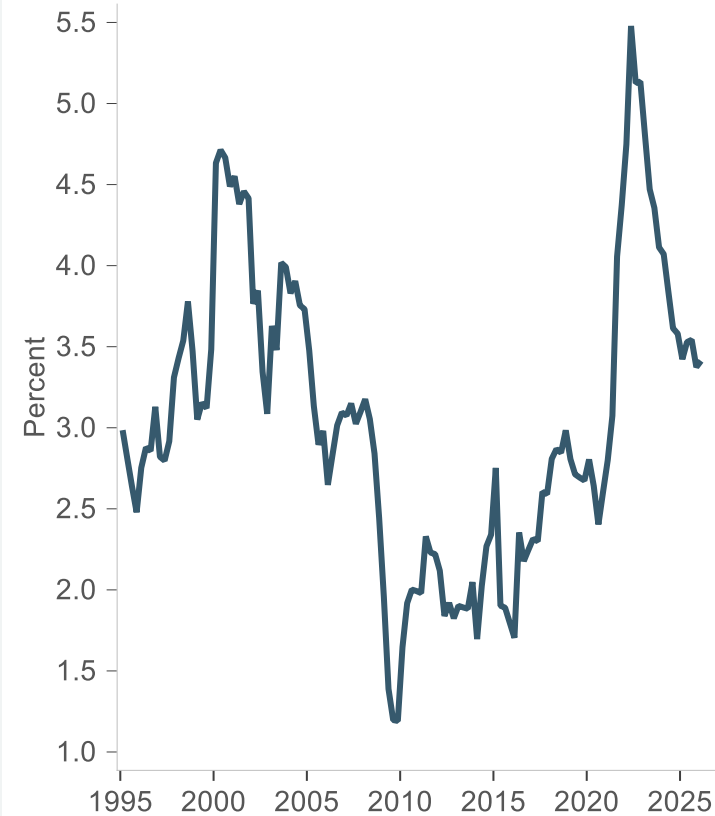
Producer price index (YoY%)



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

Businesses' employment costs face a crossroads

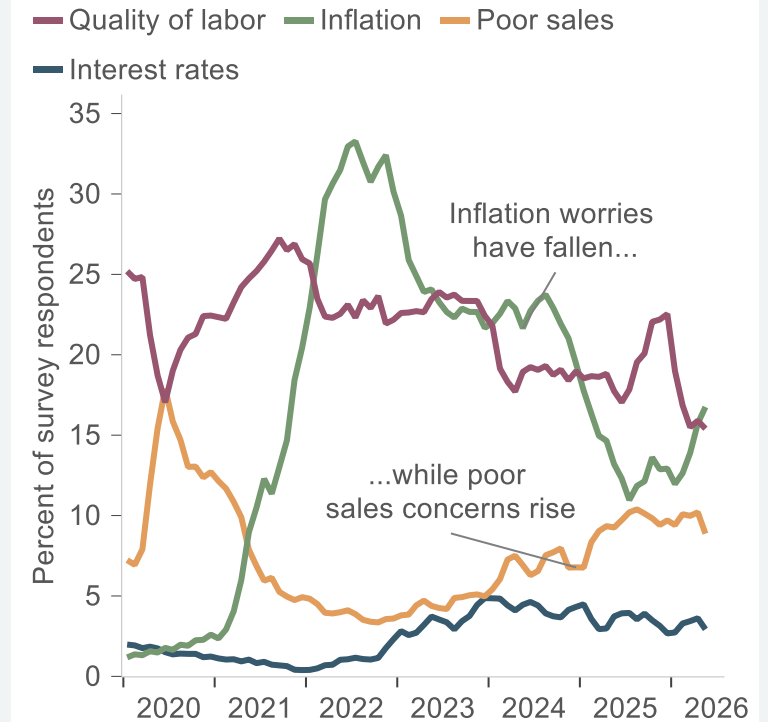
Employment Cost Index (ECI) (YoY%)



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

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

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



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

Fiscal outlook

New sources of revenue, such as tariffs, do not change a deteriorating fiscal picture in the U.S.

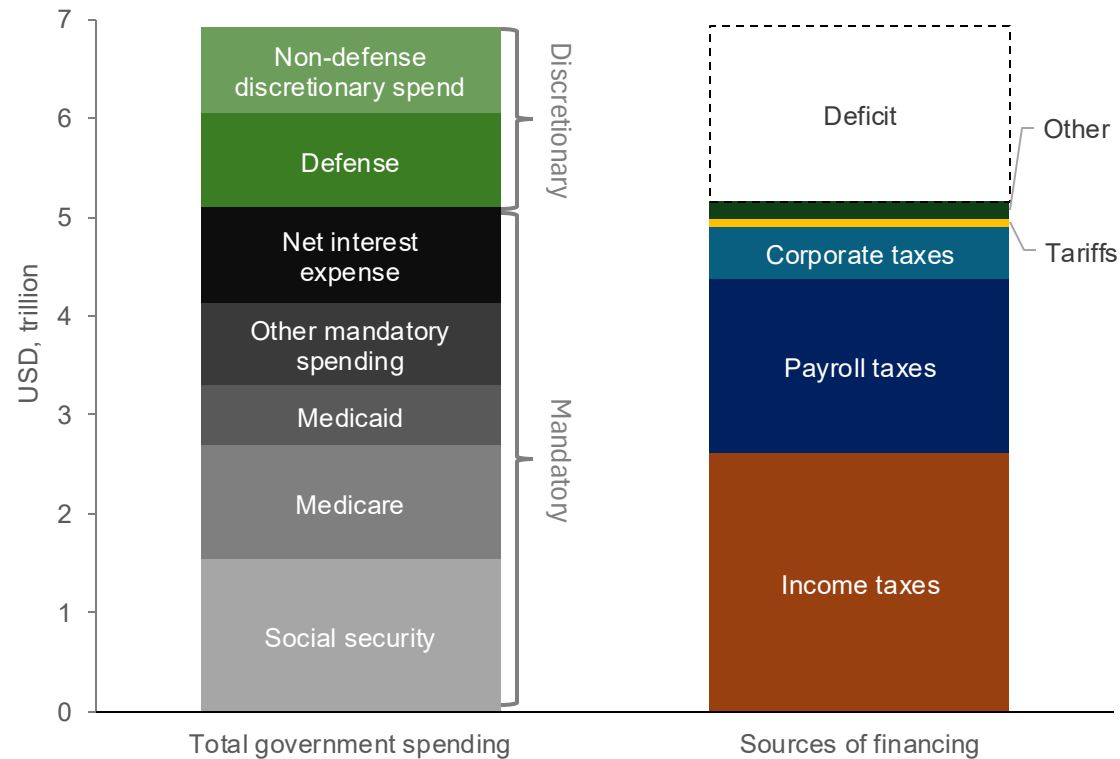
	Background	GMS views
Revenues	Federal revenue depends mainly on income and payroll taxes, while the Trump administration is also leaning on supplemental sources such as tariffs, export royalties, and equity participation in national champion industries as other unconventional revenue-sharing measures.	New revenue sources may modestly cushion the deficit path, but not enough to change the broader fiscal picture. Tariff refunds are in progress, clouding the outlook for less conventional revenue generation approaches and increasing fiscal thrust for 2026.
Outlays & spending	Mandatory spending (Social Security, Medicare) continues to account for most federal outlays, while discretionary spending (including defense) is a smaller share of the budget mix. Near-term risks to spending include the possibility of higher defense outlays associated with the Iran conflict, as well as measures to smooth higher gas prices for consumers if the energy shock persists.	We do not see the spending mix becoming materially more restrained in the near term. In our view, the political bias still leans pro-growth rather than austerity, which means fiscal policy may continue to support activity even as it worsens longer-term debt dynamics.
Deficit & debt sustainability	Higher debt levels and higher interest rates have pushed federal interest expense sharply higher. Total interest payments have risen rapidly and now exceed defense spending, while heavy Treasury issuance keeps pressure on financing needs and the average interest rate on outstanding debt remains elevated even after earlier Fed easing.	We see fiscal dynamics as a key upside risk to U.S. long rates. Markets can absorb deficits for now, but persistently high spending and debt issuance, elevated debt-service costs, and policy credibility concerns argue for continued caution on duration. We explore this theme in more detail in our Megatrends research into sovereign debt sustainability.

Fiscal outlook

Revenues

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

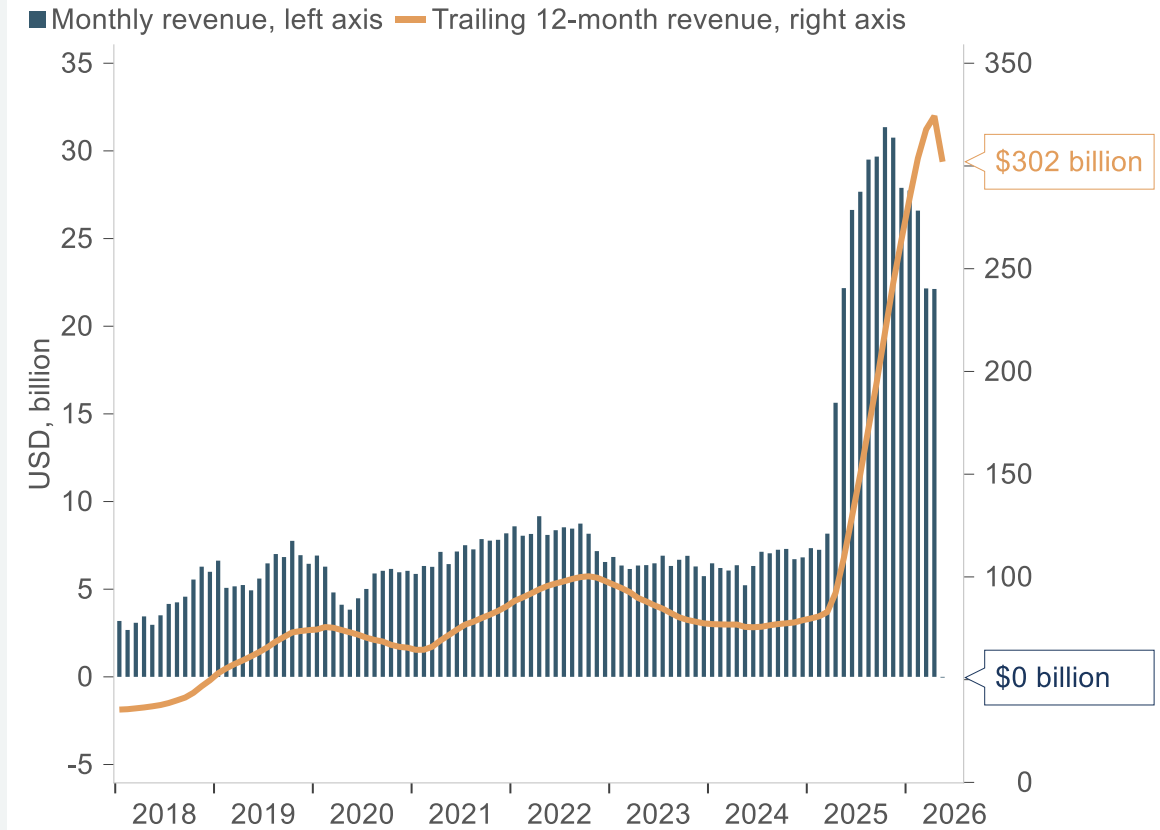
U.S. Federal budget



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

U.S. tariff revenue is on the rise

Collected tariff revenues



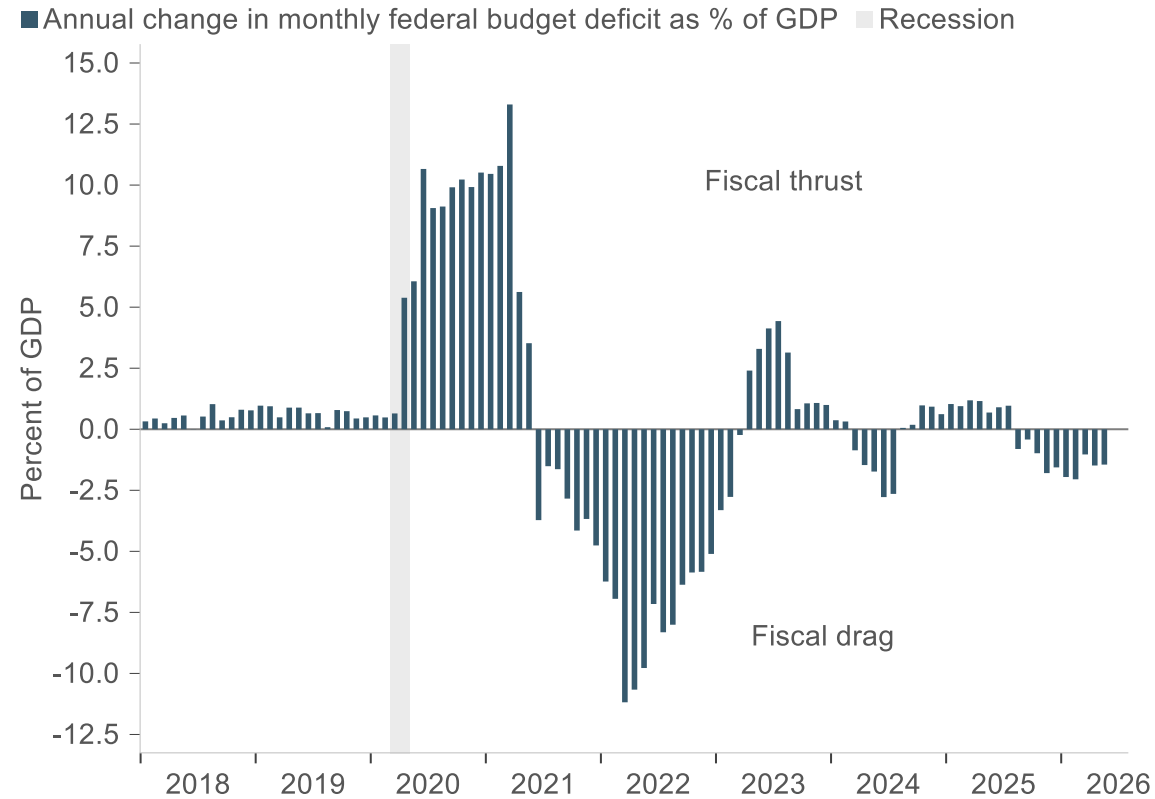
Sources: New York Life Investment Management, Global Market Strategy, U.S. Department of Treasury, Macrobond, July 2026.

Fiscal outlook

Outlays & spending

Incremental fiscal spending may avoid a slowdown in the near term but increases the likelihood of economic overheating

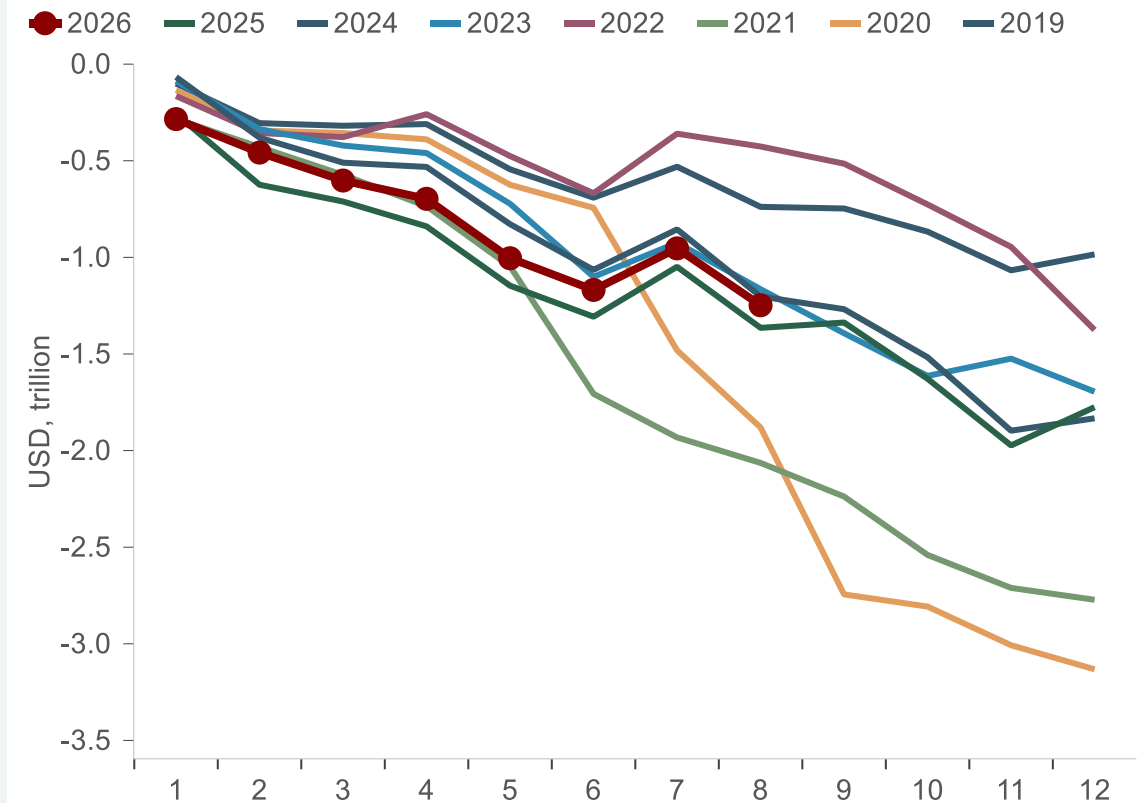
Fiscal thrust and drag



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

Another year of a widening deficit

Annual progression of the U.S. Treasury Federal deficit/surplus (cumulative fiscal year-to-date)



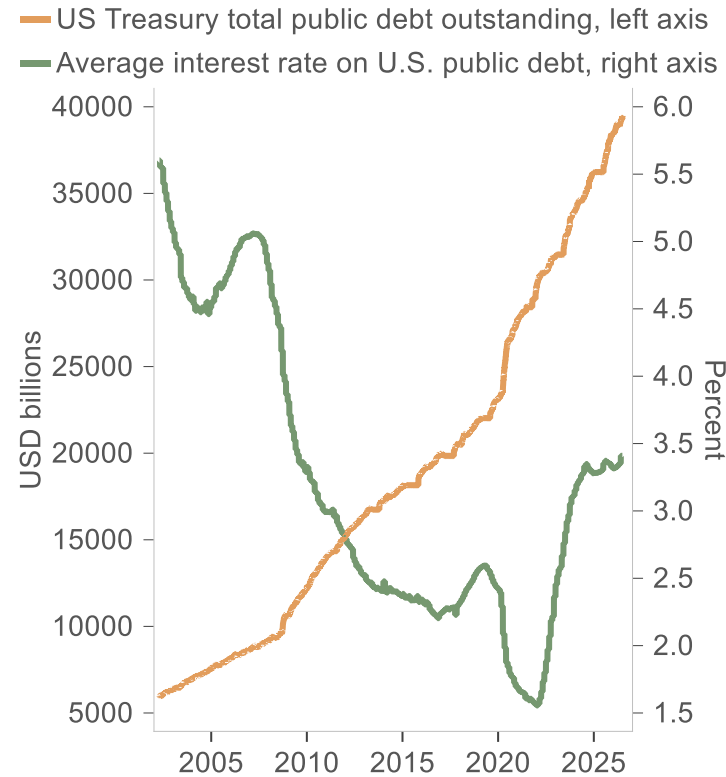
Sources: New York Life Investments Global Market Strategy, U.S. Congressional Budget Office (CBO), Macrobond, July 2026.

Fiscal outlook

Deficit & debt sustainability

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

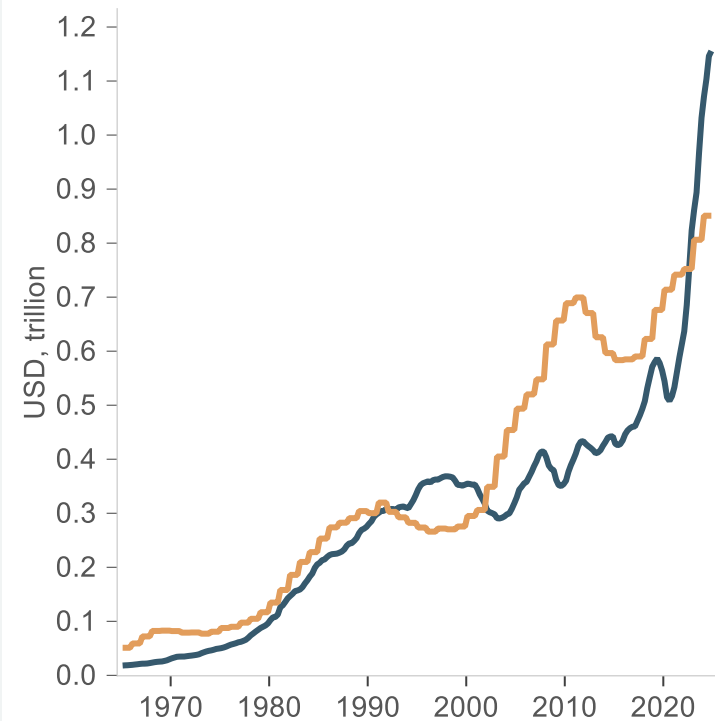
U.S. debt vs interest rates



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

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

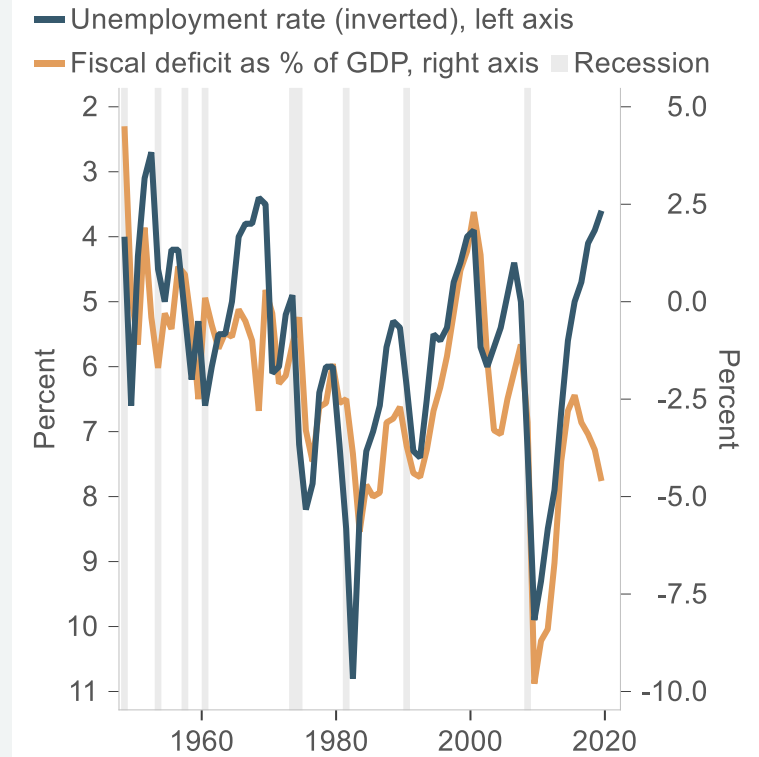
— Actual and estimated total defense spending
— Total interest payments on federal government debt



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

Aggressive fiscal expansion at this point in the business cycle is highly unusual

Federal deficit vs labor cycle



Sources: New York Life Investments Global Market Strategy, U.S. Office of Management & Budget, U.S. Bureau of Labor Statistics (BLS), NBER (National Bureau of Economic Research), Macrobond, July 2026.

3 | International economic & market outlook

Global cycle

- [The global picture](#)
- [Euro area](#)
- [Japan](#)
- [China](#)
- [Emerging markets](#)

Commodities & alternative currencies

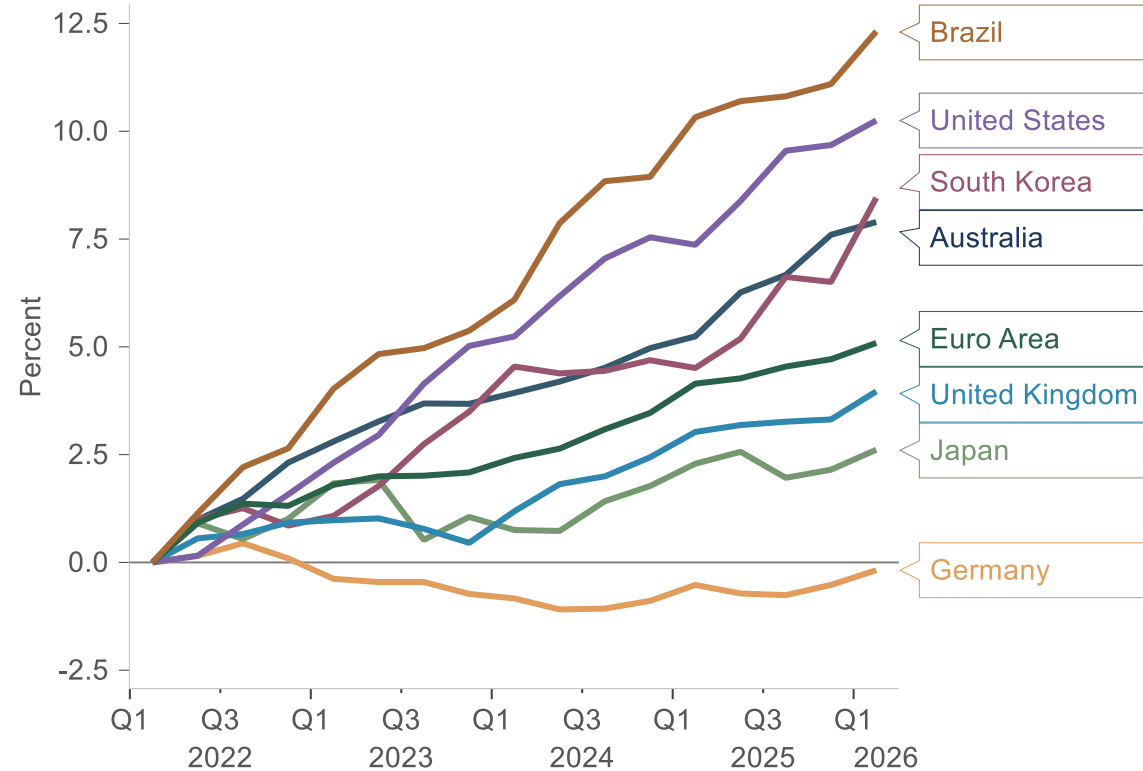
- [“Dollar Smile”: tactical dollar view](#)
- [Gold](#)
- [Digital assets](#)

The global picture: global growth is diverging; the Iran conflict may widen the gap

The Iran conflict-led energy shock is already weighing on global growth, lifting inflation, and clouding the outlook.

Following the pandemic, economic growth has varied across countries

GDP growth indexed to January 2022



Sources: New York Life Investment Management, Global Market Strategy, Australian Bureau of Statistics, China National Bureau of Statistics (NBS), French National Institute of Statistics & Economic Studies (INSEE), German Federal Statistical Office (Statistisches Bundesamt), Japanese Cabinet Office (CAO), Bank of Korea (BOK), U.K. Office for National Statistics (ONS), U.S. Bureau of Economic Analysis (BEA), Eurostat, Brazilian Institute of Geography & Statistics (IBGE), Macrobond, July 2026.

- Global growth is slowing in response to the Iran conflict. The global economy entered 2026 on solid footing, but the IMF now expects world growth of 3.0% in 2026, down from its January forecast, as the energy shock interrupts the disinflation trend and adds a new layer of uncertainty to the outlook.
- The primary transmission channel is energy markets. Higher oil and gas prices are lifting inflation and complicating central bank policy paths.
- What matters most now is not just slower growth but **widening divergence across countries' economic outcomes**. Energy importers are more exposed, while exporters and economies with stronger energy buffers, such as petroleum reserves, are better positioned.
- The **U.S.** remains relatively resilient but faces a more stagflationary mix in the case of a protracted oil shock. **Europe and Japan** are more exposed to outright growth slowdowns due to energy import dependence. **China** appears more buffered in the near term given large oil reserves, though growth may still moderate.
- For markets, today's balance of risks looks less likely to manifest as a synchronized global downturn and more like a period of rising dispersion. The phase of synchronized global upside is behind us, and broad international exposure now requires greater country and sector selectivity.

The global picture: global growth is diverging, the Iran conflict may widen the gap

	GDP (%)			Inflation (%)			Policy rate (%)			Markets	GMS views
	2026E	2025 (Full year)	5Y avg	2026E	2025 (Year-end)	5Y avg	Latest	2025 (Year-end)	2024 (Year-end)	YTD local return (%)	
World	3.0	3.4	3.9	4.4	3.3	5.7	-	-	-	9.5 (USD)	Global growth expectations are moving lower as higher energy costs and trade frictions weigh on economic activity, reinforcing a slower and more uneven expansion.
U.S.	2.3	2.0	2.8	2.8	2.7	4.5	3.75	3.75	4.5	10.2	Stronger policy support and greater energy independence keep the U.S. relatively advantaged, though a prolonged oil shock would increase stagflation risks.
EU	1.2	1.4	2.0	3.1	2.3	4.8	2.15	2.15	3.15	18.2	- Europe's growth backdrop is softening amid policy uncertainty, weaker trade, and higher input costs. - The ECB's policy path is increasingly complicated, as markets price in tighter policy, even as growth softens, as energy pressures persist. - In Germany, while fiscal support may help at the margins, industrial weakness and energy sensitivity weigh on the outlook.
Germany	0.7	0.4	0.7	2.6	1.9	4.0	2.15	2.15	3.15	6.2	
Japan	0.6	0.5	0.8	2.7	2.1	2.4	0.75	0.75	0.25	18.3	Japan's normalization story remains intact, but higher energy costs and yen weakness are creating a more challenging backdrop.
China	4.6	4.6	4.9	1.3	0.7	0.6	3	3	3.1	0.7	China's oil reserves leave it better able to absorb the shock than most major importers, but resilience is not the same as broad reacceleration.

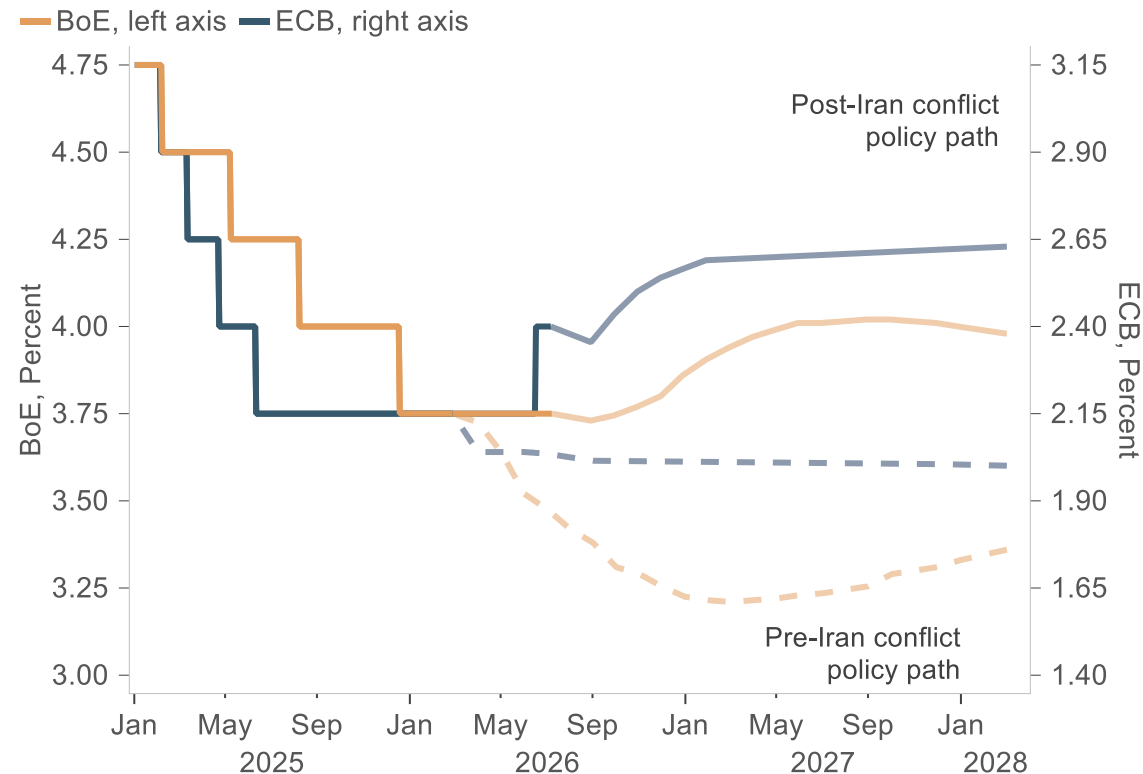
Sources: New York Life Investment Management, Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), Japanese Cabinet Office (CAO), Brazilian Institute of Geography & Statistics (IBGE), Eurostat, German Federal Statistical Office (Statistisches Bundesamt), China National Bureau of Statistics (NBS), Japanese Statistics Bureau, Ministry of Internal Affairs & Communications, U.S. Bureau of Labor Statistics (BLS), Central Bank of Germany (Deutsche Bundesbank), People's Bank of China (PBoC), ECB (European Central Bank), Bank of Japan (BOJ), Federal Reserve, S&P Global, STOXX, Deutsche Boerse, Shanghai Stock Exchange, Tokyo Stock Exchange, International Monetary Fund (IMF), Bloomberg, Macrobond, April 2026.

Euro area: ongoing pressure from energy, no help from the ECB

Europe's moderate growth outlook is increasingly challenged by its dependence on imported energy and the ECB's inflation-targeting mandate.

Markets have shifted from pricing cuts prior to the Iran conflict, to a higher-for-longer path

Euro area and UK: policy path repricing



Sources: New York Life Investment Management, Global Market Strategy, ECB (European Central Bank), Eurex Exchange, Bank of England, Intercontinental Exchange (ICE), Macrobond, July 2026.

The Iran conflict impact is amplified in Europe given its higher exposure to energy imports, weighing on growth and increasing inflation uncertainty.

Domestic backdrop

- Though growth remains modest and consumption has been lackluster, domestic investment had been supported by prior ECB easing and a still-stable labor market.
- Reliance on imported energy and low inventories leaves Europe more exposed; natural gas dependence remains a key vulnerability, with price pressures already feeding into inflation.

Policy backdrop

- After a period of easing inflation and rate cuts, the consensus is now pricing 1-2 additional hikes by the ECB this year. The ECB has a sole mandate to focus on inflationary risks, though hikes present clear downside risks to economic activity.
- Fiscal support, including Germany's defense and infrastructure plans and broader EU programs, may provide some offset to higher energy prices, though implementation has been gradual and the magnitude uncertain.

Risks to watch

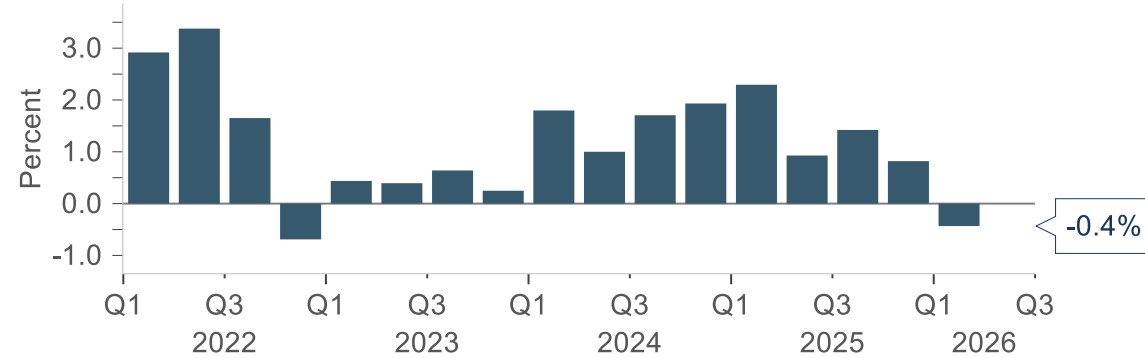
- A prolonged energy shock could further erode purchasing power. Limited policy flexibility on both monetary and fiscal sides mean responses are constrained if conditions deteriorate.
- External demand remains a vulnerability, with trade headwinds from China and tariffs weighing on momentum.

Our view: Europe faces moderate growth but heightened vulnerability to external shocks. While domestic demand and fiscal support offer some cushion, energy dependence and a constrained policy backdrop reinforce a slower and more uneven outlook. While European equities look inexpensive relative to the U.S., outsized energy impacts and potential for tighter policy risk capping gains.

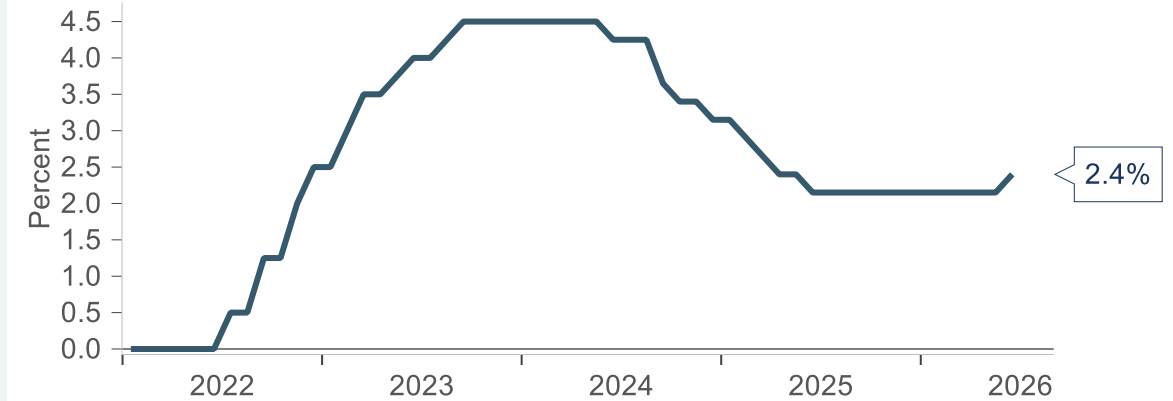
Euro area

GDP

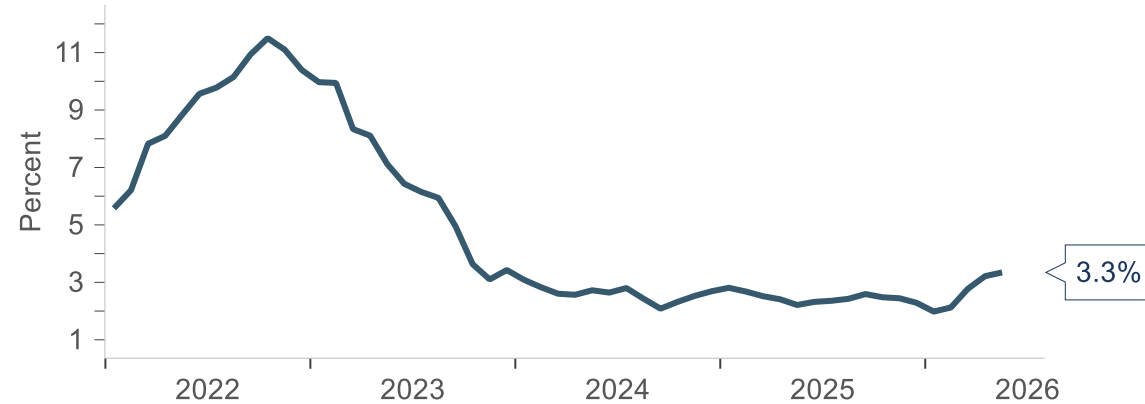
Quarter-on-quarter, annualized



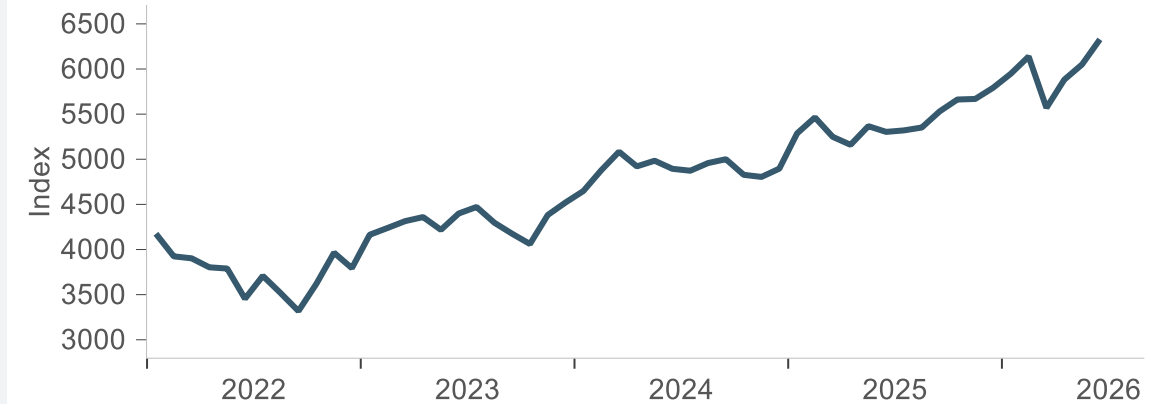
Policy rate: Main Refinancing Operations Rate



Inflation: Harmonised Index of Consumer Prices (HICP)



Market performance: Euro STOXX 50



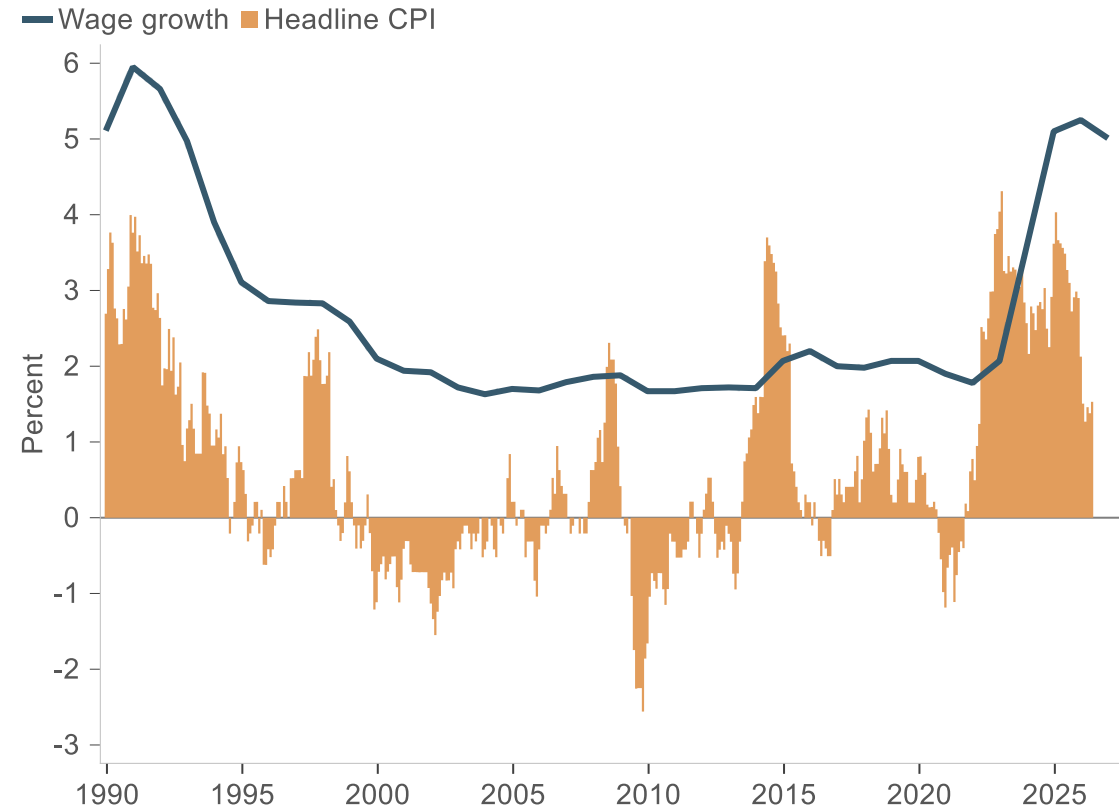
Sources: New York Life Investment Management, Global Market Strategy, Eurostat, ECB (European Central Bank), STOXX, Macrobond, July 2026.

Japan: reflation meets currency pressure

Japan's domestic reflation story remains intact, helped by a weaker Yen – but currency weakness and volatility are reaching extremes.

Stronger real wages help anchor Japan's domestic story

Wage growth vs. inflation, YoY%



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

Japan's otherwise improving domestic backdrop is complicated by extreme Yen weakness, keeping possible Bank of Japan intervention squarely on the table.

Domestic backdrop

- Domestic demand should remain the core support for Japan in 2026, with improving real wages, steady consumption, and resilient capex helping offset a softer external backdrop.
- Software and AI investment and still-solid corporate cash flow should keep the investment cycle going even as exports become more uneven.

Policy backdrop

- While most central banks tightened from 2022-2024, the BoJ remained accommodative but has since shifted toward normalization. A weaker yen has supported exports, lifted import prices and supported wage growth, prompting the BoJ to end negative rates and raise rates to 1.00% in July 2026.
- Ongoing pressure on the Yen, which is at historically weak levels (above 160/USD), creates a case for tighter monetary policy – counter to the wishes of the pro-growth government under PM Takaichi-san, who passed a record budget this year.

Risks to watch

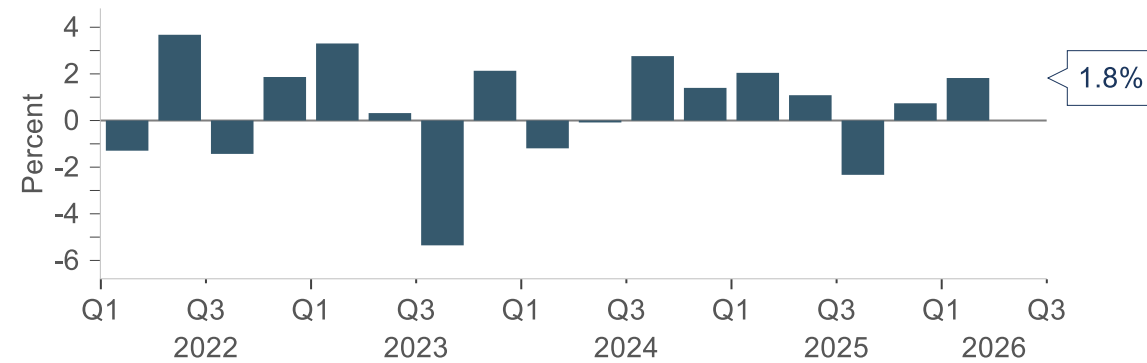
- Japan's government debt exceeds 200% of GDP. While near-term risks remain contained, elevated debt levels increase sensitivity to changes in investor sentiment.
- Trade exposure also remains a key risk, particularly if demand from China softens.

Our view: Japan's domestic recovery remains intact, supported by wages and investment, but striking a balance in Yen volatility may spark tighter monetary policy. Japan's equity story is supported by reflation and domestic investment, but leadership may narrow, especially with yields near record highs and likely to remain elevated.

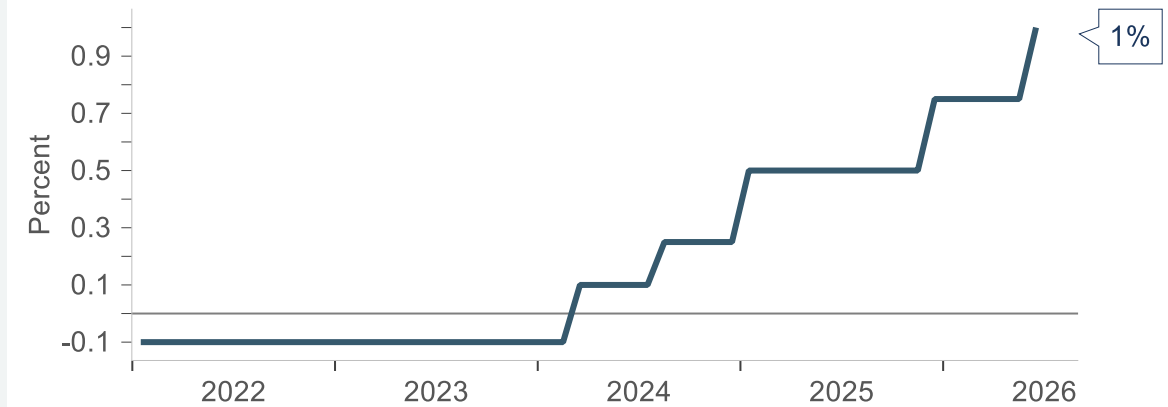
Japan

GDP

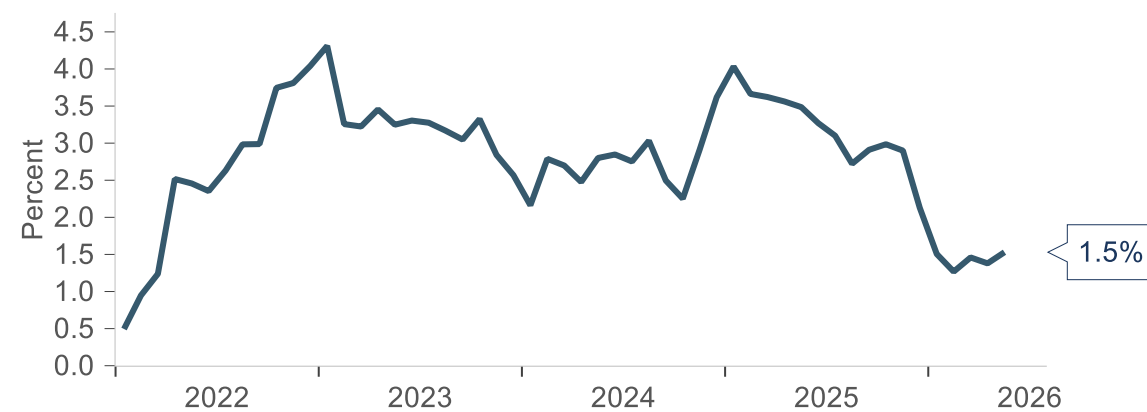
Quarter-on-quarter, annualized



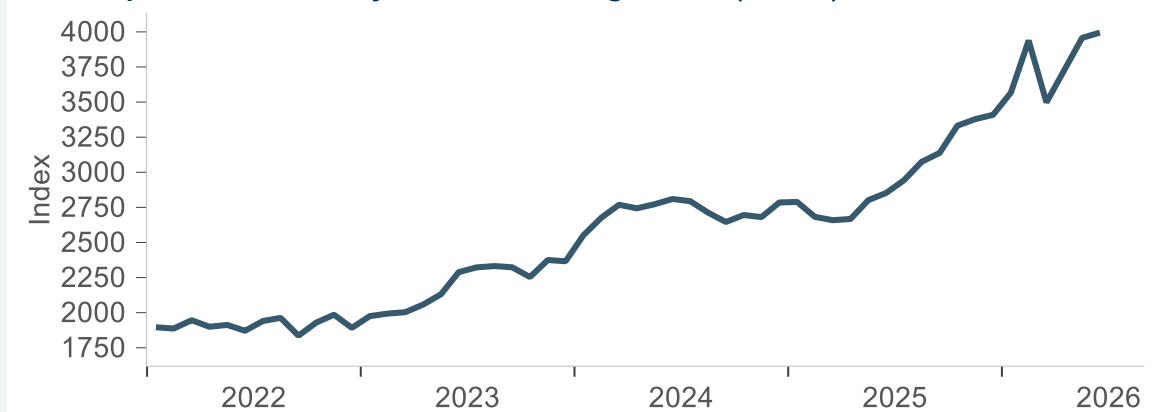
Policy rate: BoJ Interest on Excess Reserves Rate



Inflation: Consumer Price Index



Market performance: Tokyo Stock Exchange Index (TOPIX)



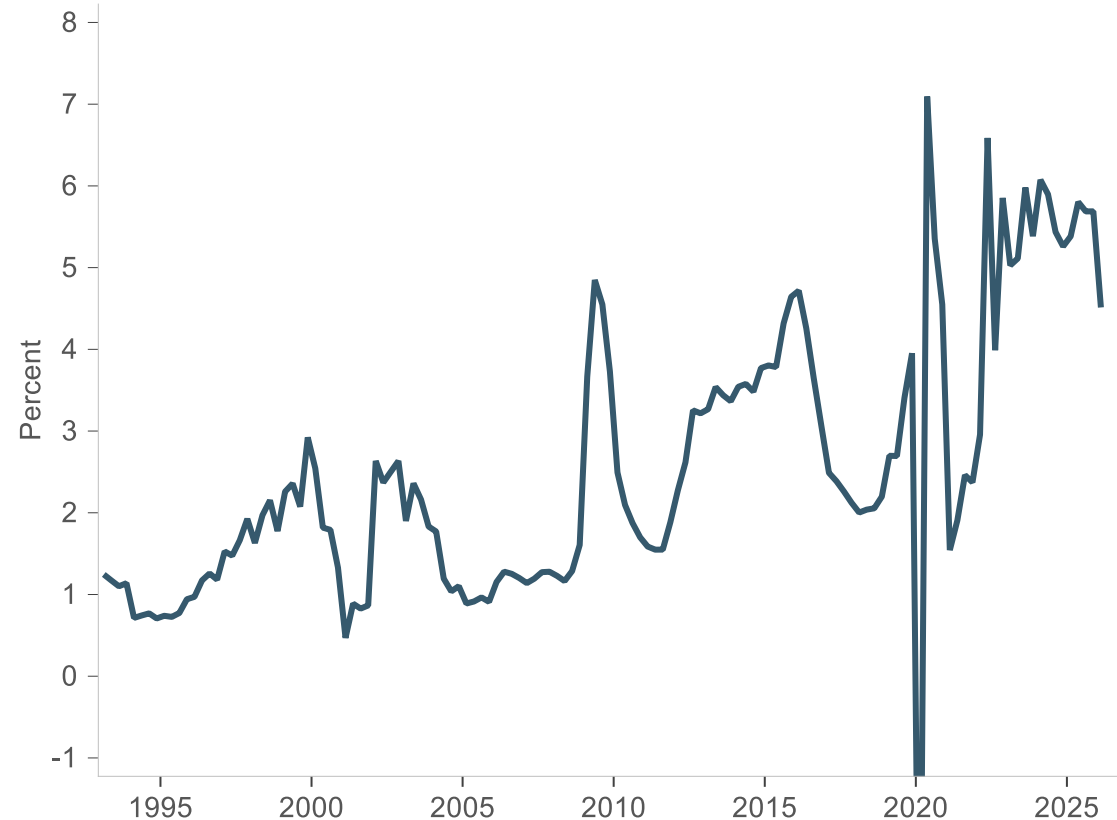
Sources: New York Life Investment Management, Global Market Strategy, Japanese Statistics Bureau, Ministry of Internal Affairs & Communications, Bank of Japan (BOJ), Japanese Cabinet Office (CAO), Tokyo Stock Exchange, Macrobond, July 2026.

China: more room to absorb the energy shock

China is well positioned to absorb a near-term energy shock but is already struggling with structurally weak domestic demand.

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

Credit intensity (credit to GDP)



Sources: New York Life Investment Management, Global Market Strategy, People's Bank of China (PBoC), BIS (The Bank for International Settlements), China National Bureau of Statistics (NBS), Macrobond, July 2026. GDP: Nominal.

China appears relatively resilient to the energy shock, supported by policy flexibility and large strategic oil reserves, but this does not imply a reacceleration in growth.

Domestic backdrop

- Growth is expected to slow this year, with exports and manufacturing holding up better than property and household demand.
- Structural headwinds remain, including weak consumption, a prolonged property downturn, and a subdued labor market, which continue to cap the pace of recovery.

Policy backdrop

- China retains more room than most major economies to ease policy, given low inflation and fewer constraints from price pressures.
- Monetary policy continues to offset real estate weakness, while recent fiscal expansion is aimed at limiting the slowdown rather than driving a broad recovery.

Risks to watch

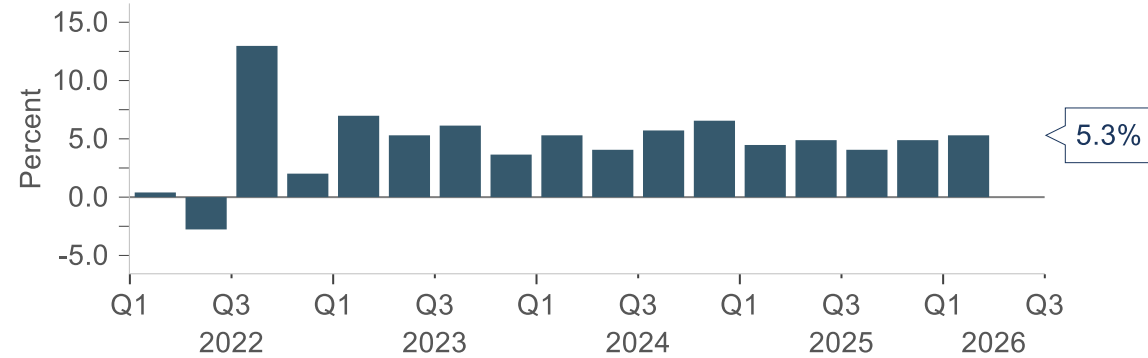
- A prolonged oil shock would still raise the stakes for China by squeezing margins, weighing on real incomes, and increasing pressure on already-soft domestic demand.
- Trade tensions with the U.S. and continued property weakness remain key reasons why policy support may stabilize growth without producing a broad market rerating.

Our view: China is better positioned than Europe or Japan to absorb a near-term energy shock, but only on the margin. Policy support could stabilize growth, though structural headwinds limit the upside. Equities remain supported by policy and structural themes like innovation and industrial upgrading, but gains are likely to narrow. If energy prices stay elevated, performance is likely to favor upstream sectors, such as energy and materials, over a broad-based recovery.

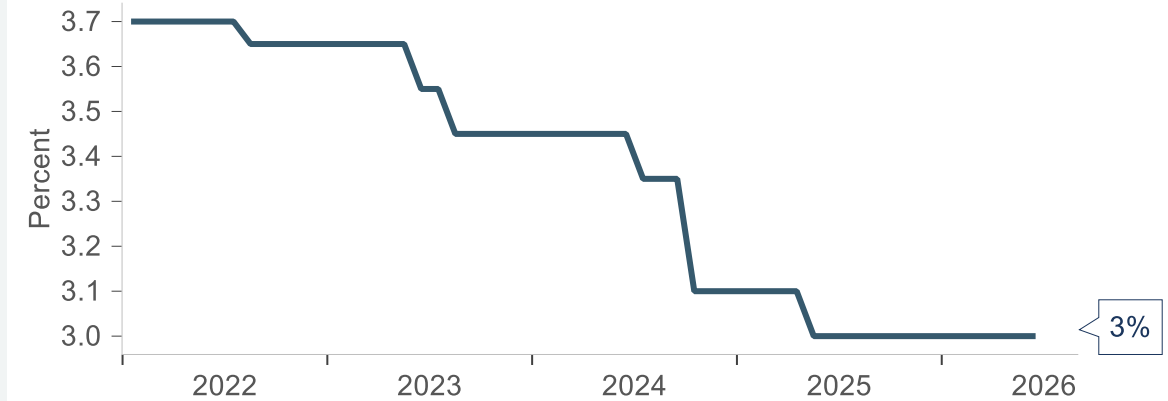
China

GDP

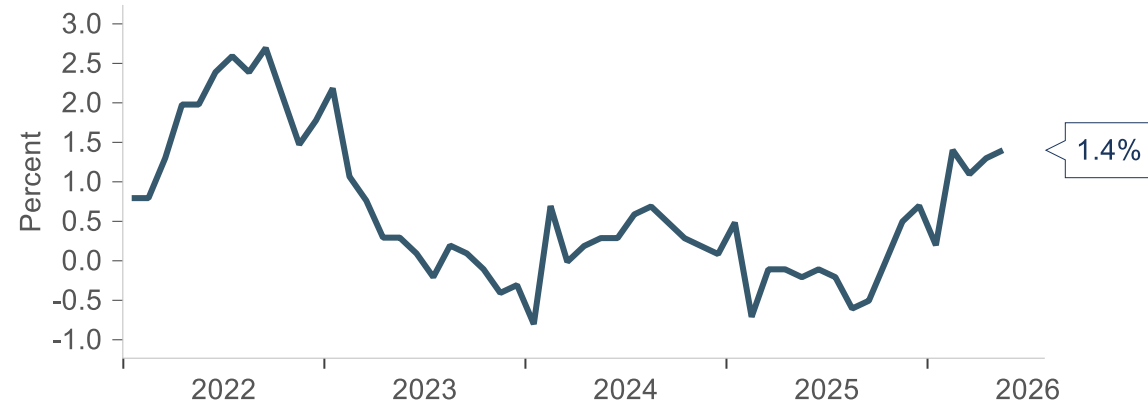
Quarter-on-quarter, annualized



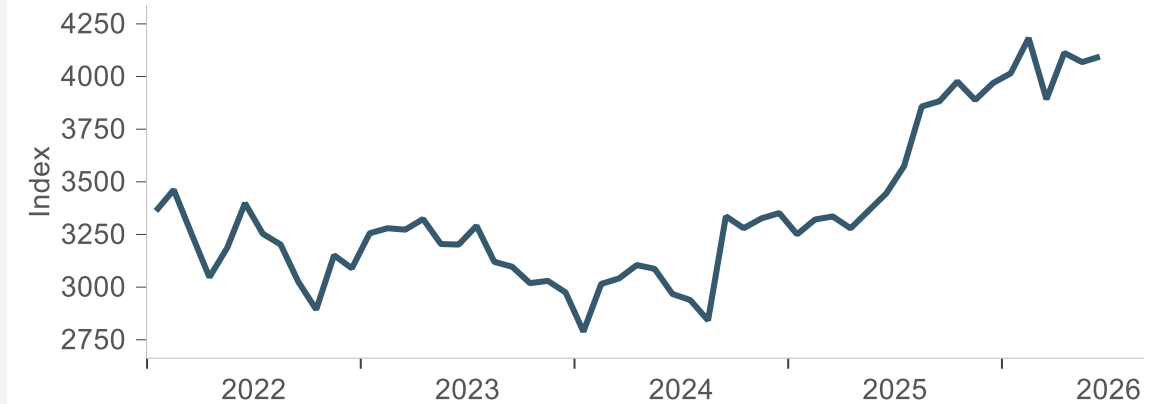
Policy rate: PBoC Prime Loan Rate



Inflation: Consumer Price Index



Market performance: Shanghai Stock Exchange



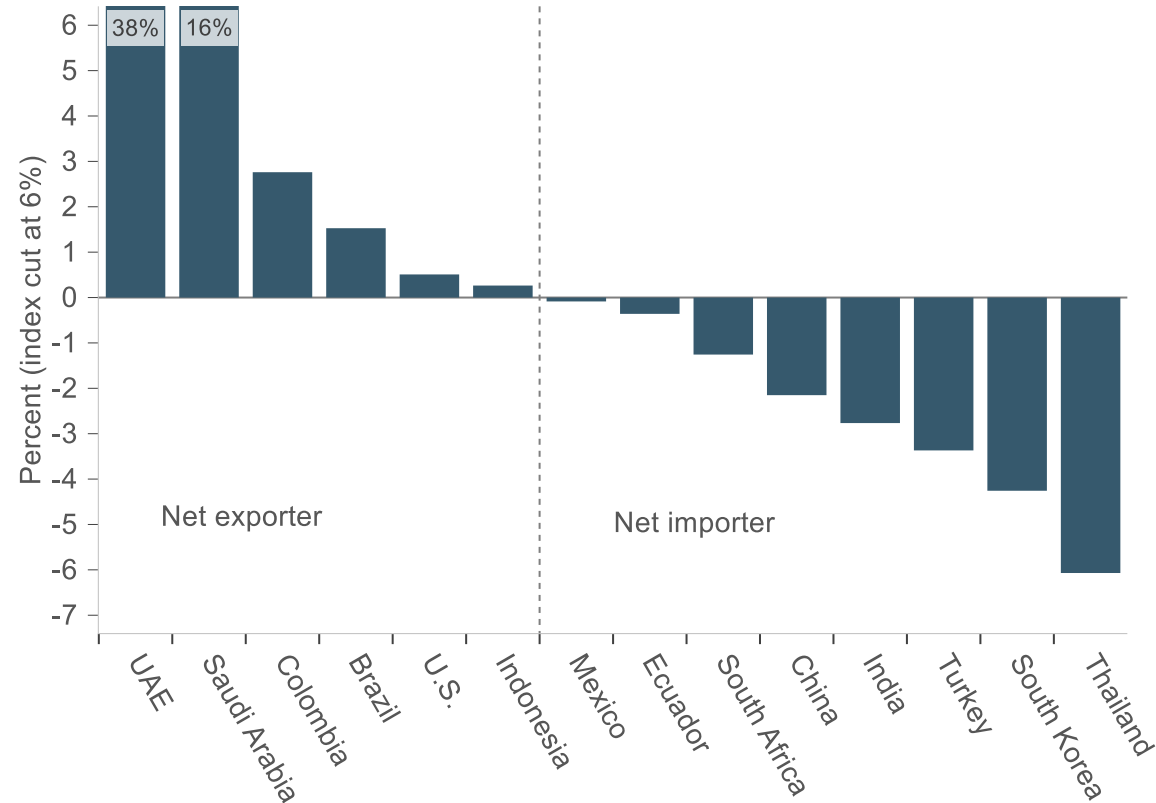
Sources: New York Life Investment Management, Global Market Strategy, China National Bureau of Statistics (NBS), People's Bank of China (PBoC), Shanghai Stock Exchange, Macrobond, July 2026.

Emerging markets: one asset class, very different stories

Higher energy costs and a stronger dollar are widening the gap between more resilient markets and vulnerable importers.

The economic impact of the Iran conflict is likely to fall most heavily on net oil-importing economies

Oil trade balance (% of GDP, 2024)



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

Emerging markets (EMs) are diverging, with the energy shock and stronger dollar reinforcing differences rather than lifting the group as a whole.

Backdrop

- Growth in EMs was expected to be uneven in 2026, with growth outside of China largely holding steady.
- Higher oil, a stronger dollar, and volatile global rates are likely to widen dispersion, with commodity exporters outperforming more vulnerable importers and Gulf countries which are directly impacted by conflict. In this environment, we argue that **country mix is more important than broad benchmark exposure**.

Policy backdrop

- Policy flexibility varies widely. Countries with strong external balances and credible frameworks are better positioned, while many oil importers are likely to face tough tradeoffs between inflation, growth, and currency stability.

Risks to watch

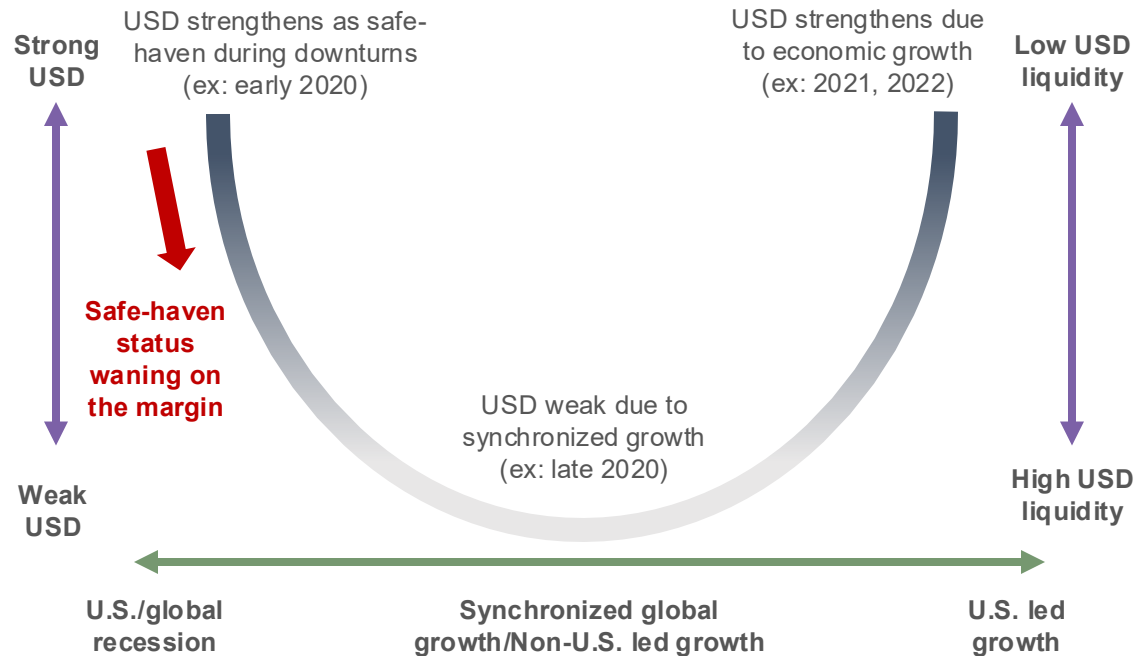
- A sustained rise in oil prices could weigh on growth, lift inflation, and increase currency pressure in import-dependent economies.
- Policy slippage – through spending to smooth the consumer impact of higher oil, or through a de-anchoring of inflation expectations – would further weaken vulnerable markets.

Our view: EMs are a classic high-beta play on global growth and risk, and have shown remarkable resilience to higher geopolitical risk. Investors should consider maintaining selective exposure to emerging markets, with less emphasis on broad market exposure. For example, South Korea stands out as a cyclical winner, with AI-driven memory demand supporting exports and earnings; though energy costs could pose a risk. Brazil may also benefit from the current environment with higher oil prices supporting exports.

Our framework for thinking about U.S. dollar moves

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

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



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

The dollar smile

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

The dollar smile in 2025

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

Our U.S. dollar view for 2H 2026

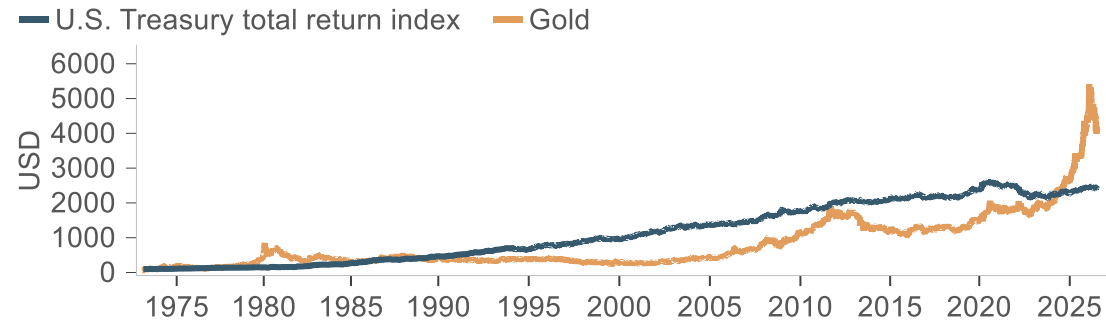
- Our base case calls for U.S. economic outperformance in 2H 2026 (dollar bullish), balanced with global investors' concerns about U.S. policy stability, U.S. debt, and high U.S. dollar liquidity (dollar bearish). Period of heightened geopolitical uncertainty, such as the Iran conflict, may continue to support the dollar in the near-term through safe-haven demand.
- On balance, we believe these opposing forces will result in a rangebound and volatile dollar index (DXY) with a moderate flight to safety bid pressuring the dollar stronger.

TAKEAWAY: The dollar strengthened following the Iran conflict, 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.

Gold has lost some luster, but remains a key beneficiary of diversification

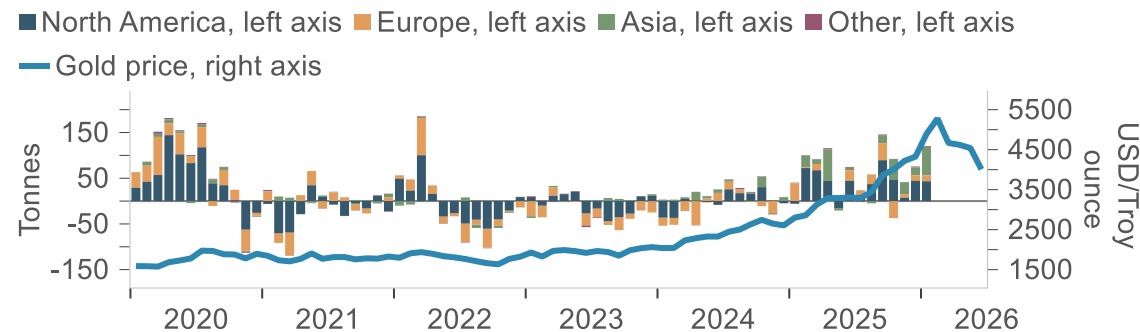
We are structurally bullish on gold, but are wary of investors seeking outperformance, rather than diversification, from gold exposure.

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



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

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



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

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

Today's gold price drivers

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

Gold's correlation with the 60/40 portfolio

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

Potential mega-catalyst

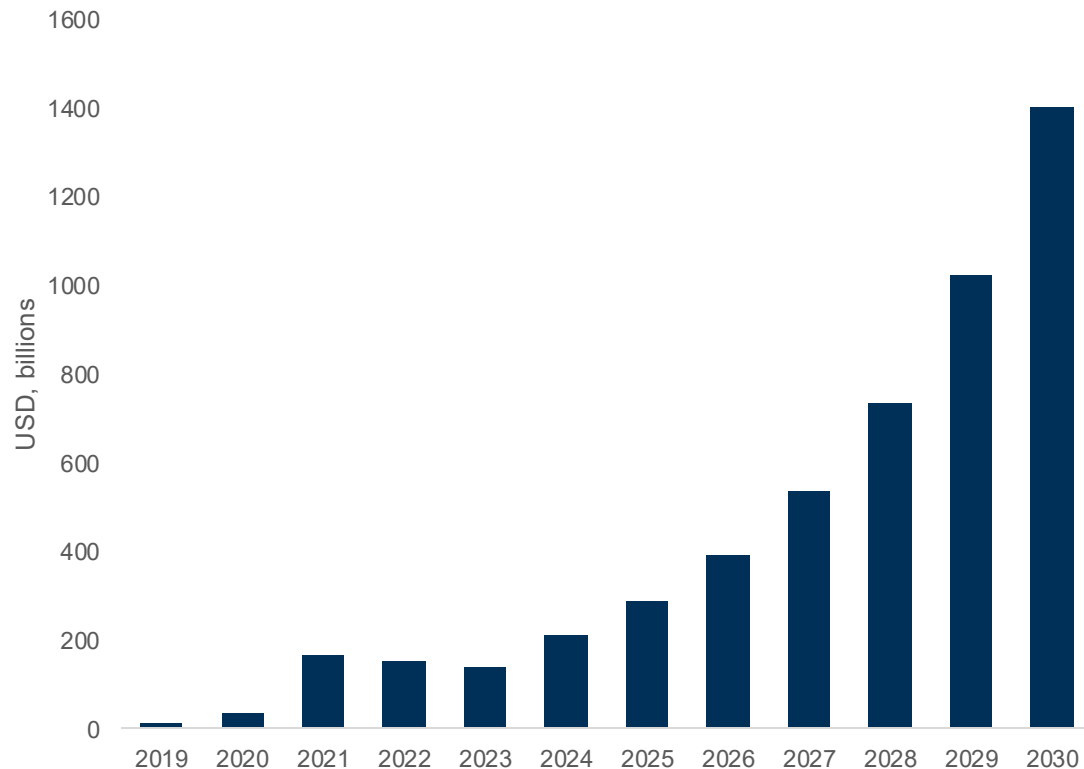
- Potential regulatory changes that reclassify gold as a High-Quality Liquid Asset (HQLA) under Basel III could create a massive demand shock. Both the London Bullion Market Association and the World Gold Council are actively advocating for gold's inclusion as an HQLA.

The growing digital asset market: an accelerating theme for 2026

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

Stablecoin adoption is expected to increase with further support from Washington

Forecast of stablecoin supply (– 2030)



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

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

Bitcoin

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

Stablecoins

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

Tokenization

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

4 Long-term themes

Insights

- [Long-term interest rates](#)
- [Sovereign debt sustainability](#)
- [U.S. dollar dominance](#)

Global megatrends

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

What is driving long rates?

We find that long rates are pricing in greater threats of fiscal profligacy, inflation, and questions around Fed independence.

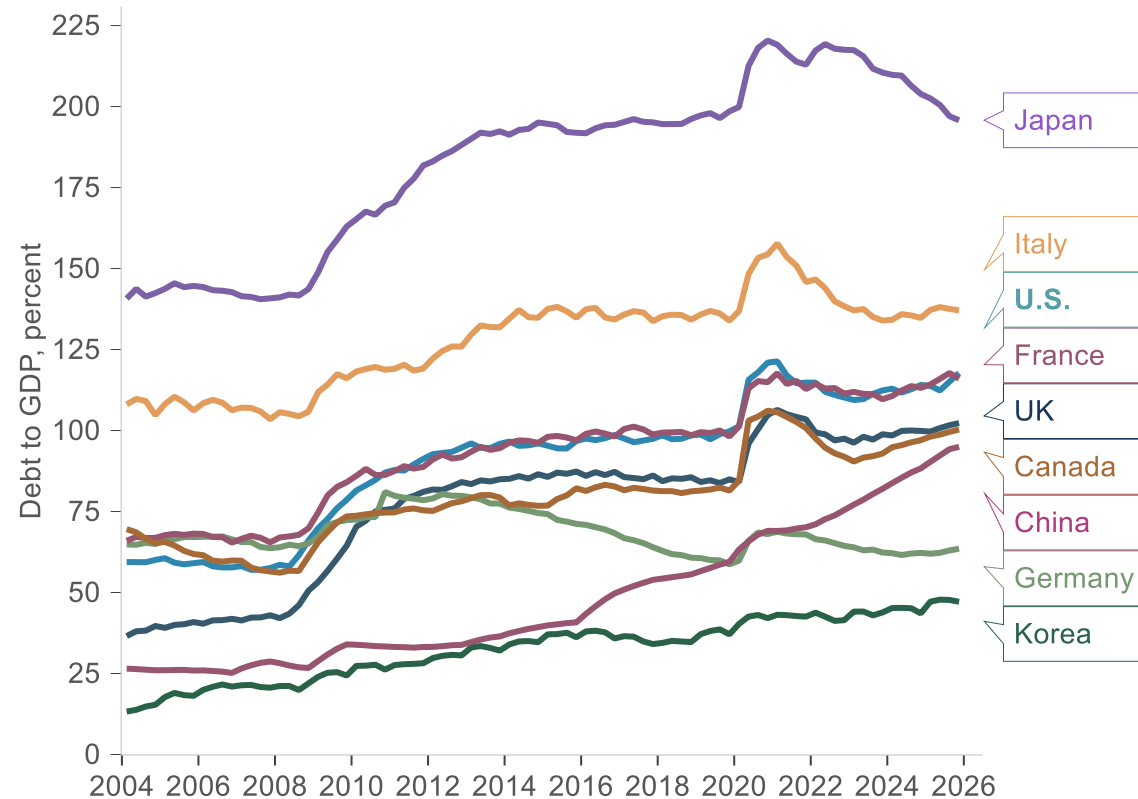


Opinions of New York Life Investment Management Global Market Strategy, July 2026.

Global debt sustainability: sovereign spending can increasingly influence allocation

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

Many developed economies feature a troubling sovereign debt trajectory



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

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

Debt management choices can drive allocation decisions

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

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

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

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

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

Applying our sovereign debt sustainability framework

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

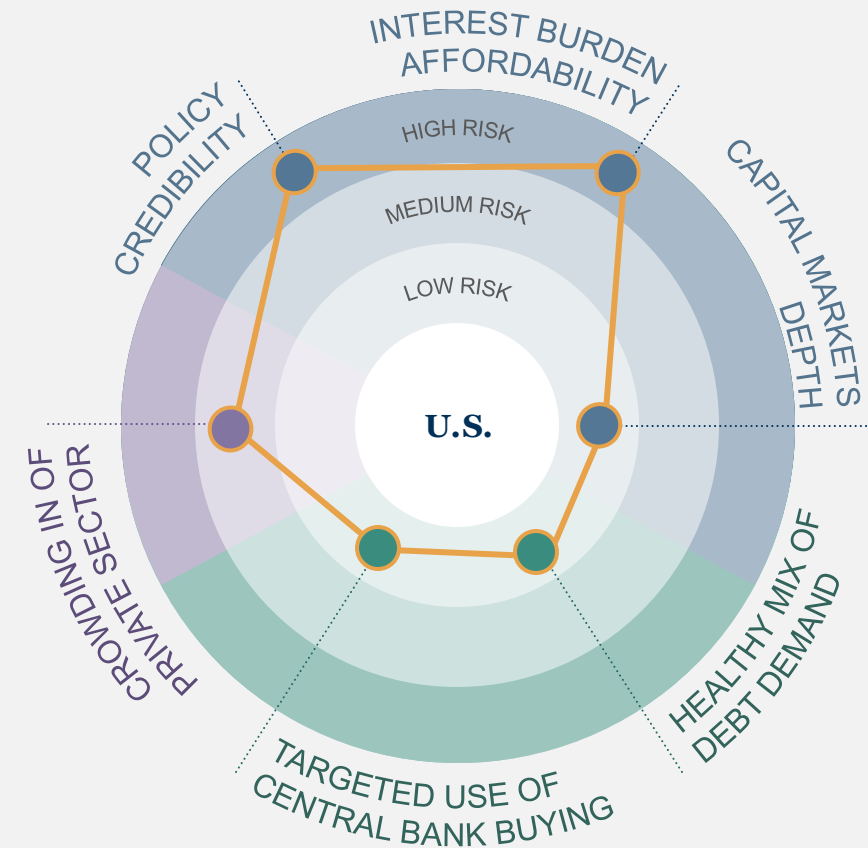
The path forward

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

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

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

U.S. debt sustainability framework



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

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

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

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

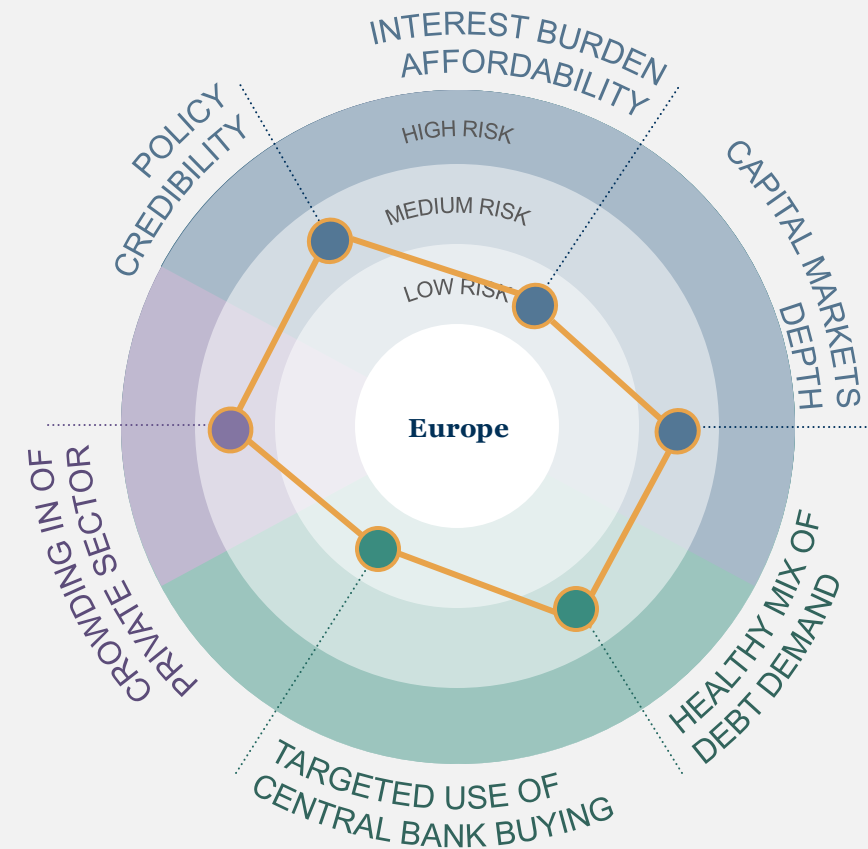
Applying our sovereign debt sustainability framework

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

The path forward

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

Europe's debt sustainability framework



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

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

Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve, Bank for International Settlements (BIS), International Monetary Fund, July 2026. FX refers to foreign exchange. The Chinese currency can be referred to interchangeably as the renminbi or the yuan. BIS data: Drehmann, Mathias, and Vladyslav Sushko. "The Global Foreign Exchange Market in a Higher Volatility Environment." BIS Quarterly Review, Bank for International Settlements, Dec. 2022.

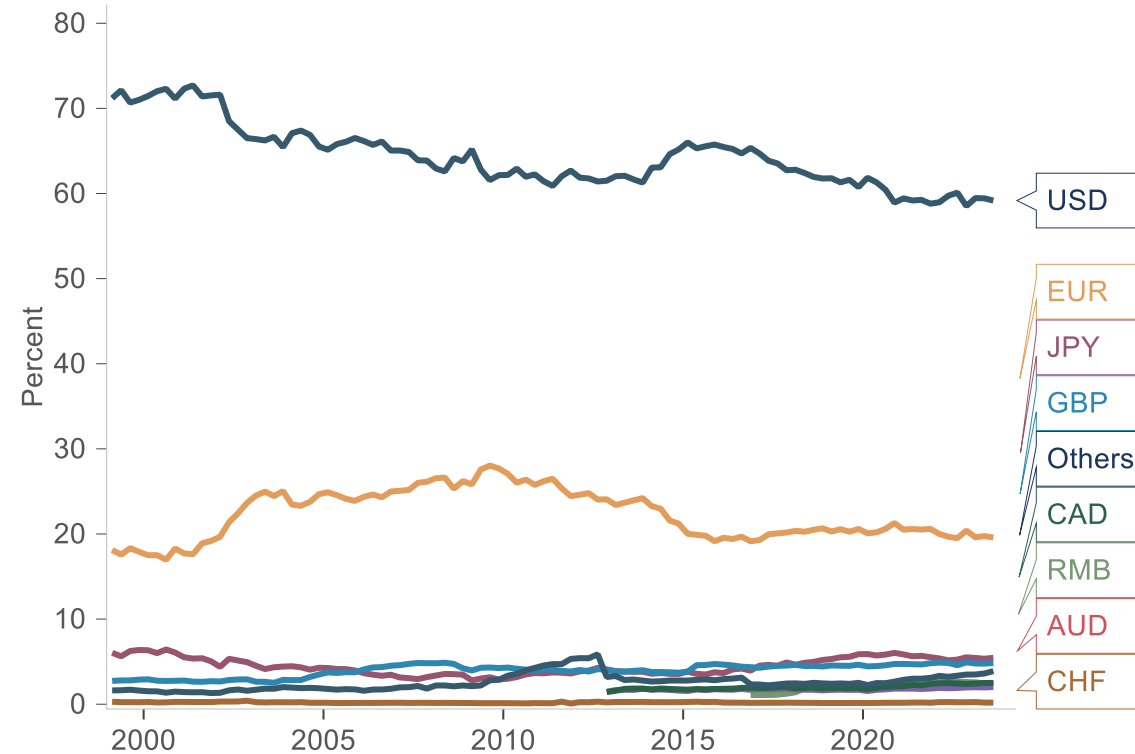
TAKEAWAY: Dominating global reserves, transactions, and global debt, the USD is set to remain the world's primary reserve currency. China's capital controls and lack of global convertibility and transactability make it unlikely for RMB influence to expand beyond select commodity-based relationships.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

Dollar dominance: only innovation can unseat the USD

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

The USD still dominates global finance

Share of global currency reserves



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

- What could truly pose a threat to the vast scale of USD dominance (**left chart**)?
- History tells us that a combination of innovation and global conflict have been the catalysts for currency regime change (**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
Venetian ducat (12th century–16th century)	The Fourth Crusade and other medieval military conflicts	Gold standard, minting and navigation technology
Spanish dollar (16th century–1800)	Spanish Armada's defeat of the English navy in 1588	Mining and transportation technology
British pound (1815–1920)	The Seven Years' War and the Napoleonic Wars	Steamship industry expansion
U.S. dollar (1920–?)	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.

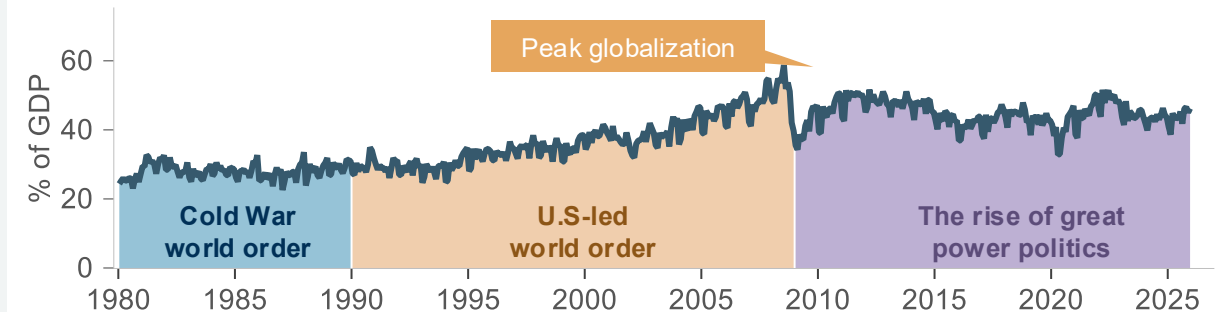
Navigating the new geopolitical order

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

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

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

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



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

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

...the principles of great power politics

Globalization



Economic nationalism

Free trade



Weaponization of trade and finance

Market liberalization



Preference for bilateral relations over multilateral institutions

Multilateral institutions



Strategic competition; emphasis on industrial policy

Efficiency over resilience



Resilience over efficiency

Results

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

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

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

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

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

Geopolitical regime change is reshaping investor expectations

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

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

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

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

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

Why geopolitical risk feels more tangible in markets now

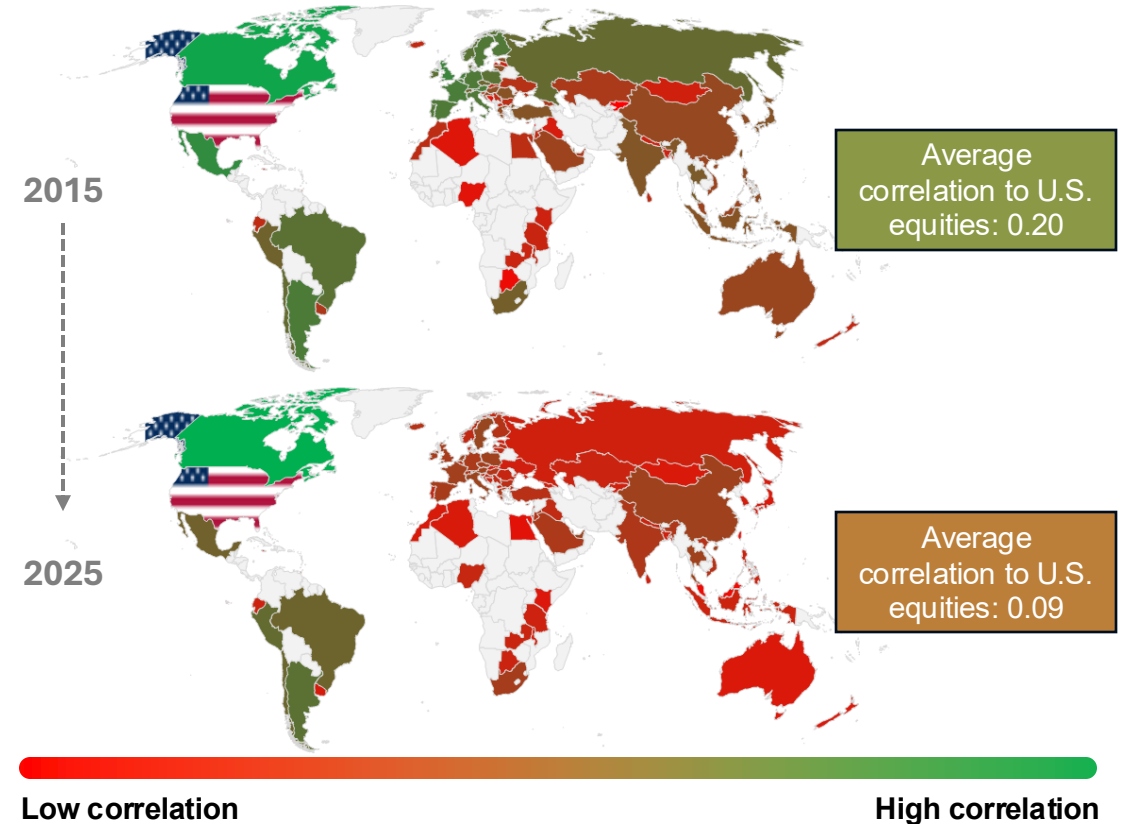
- When national security (rather than economic or social issues) is countries' chief organizing principle, policy approaches like tariffs, export controls, procurement, and investment restrictions become recurring tools, not occasional headlines. That raises the odds that geopolitics shows up as real-world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

Geopolitical risk is a live input in portfolio construction

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

Diversification delivers more value in this new regime

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



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

How can investors account for geopolitical risk?

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

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

Theme		Approach		Portfolio shift
Long U.S. resilience, short global interdependence	→	Position for domestic reindustrialization and higher prices	→	• <i>Add inflation-aware asset classes:</i> TIPS, real assets • <i>Build income across asset classes:</i> Dividend-paying equities; high-yield corporate bonds
Autocracy risk premium rising	→	Buy the macro volatility portfolio	→	• <i>Satellite exposure:</i> equal parts oil, gold, and bitcoin, implemented as a small satellite exposure sourced from equity • <i>Diversify country exposure:</i> The benefits of diversifying country exposure are likely to grow as globalization weakens and national economic trajectories diverge
Declining appeal of multilateralism	→	Lean into the U.S.-economic bloc; hedge currency volatility	→	• <i>Favor markets aligned with the U.S. bloc,</i> i.e. Mexico, Taiwan, South Korea, India • <i>Manage currency risk:</i> Consider a 50% currency hedge as currency volatility is likely to be higher as national trajectories diverge.
New Cold War fiscal impulse	→	National security is becoming a justification for industrial policy and large-scale public investment	→	• <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).
Fortress America is investable	→	Adapt to new drivers of economic growth	→	• <i>Lean into active management:</i> Dispersion is rising, so selection matters more than beta. • <i>Remember the “old economy” toolkit:</i> Metals, minerals, and the industrial and energy supply chains behind them matter again.

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

Global megatrends: creating persistent demand for capital

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

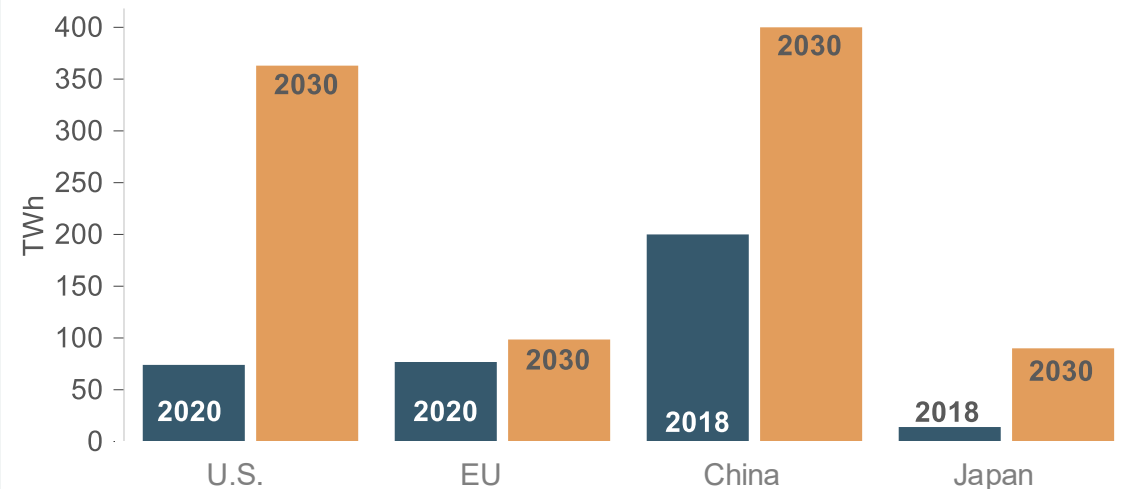
- A powerful combination of global economic and geopolitical events – the COVID-19 pandemic, the resulting inflation wave, the increasing visibility of climate change, Russia's invasion of Ukraine, the rapid rise in computing power of semiconductors — has rapidly changed the global economic model. Efficiency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

in durable investment.

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

AI's additional power requirements are extensive

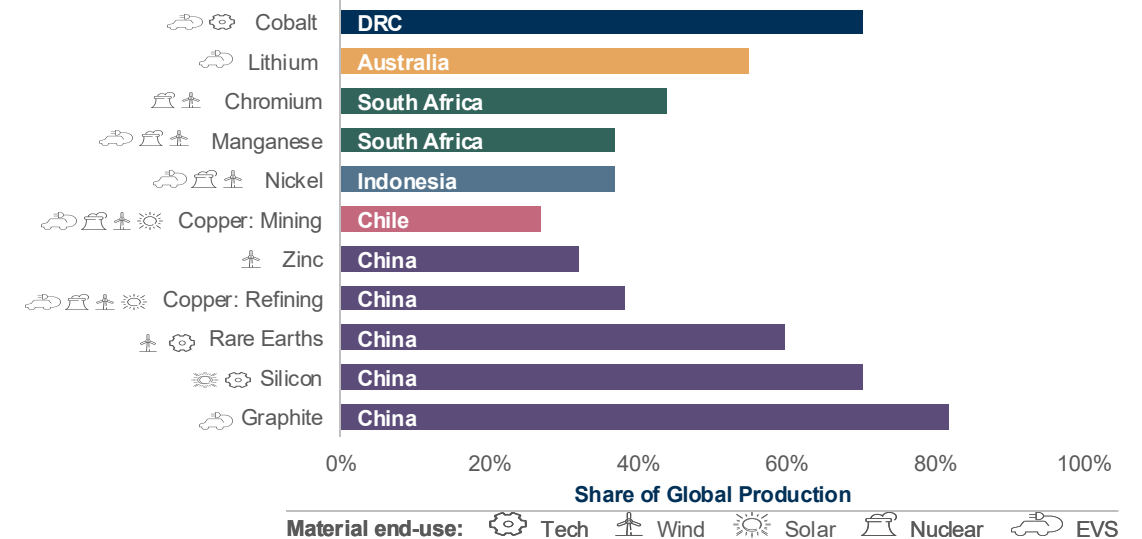
Data center electricity use



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

Global resource production for key technologies is highly concentrated

Share of raw materials: top producer for each commodity



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

Global megatrends: AI is sparking sustained capital reallocation

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

Digital infrastructure



Chips, data centers, power

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

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

Foundational models



Data, model creators, cloud

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

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

Corporate application



Software, services, use case exploration

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

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

5 Equity

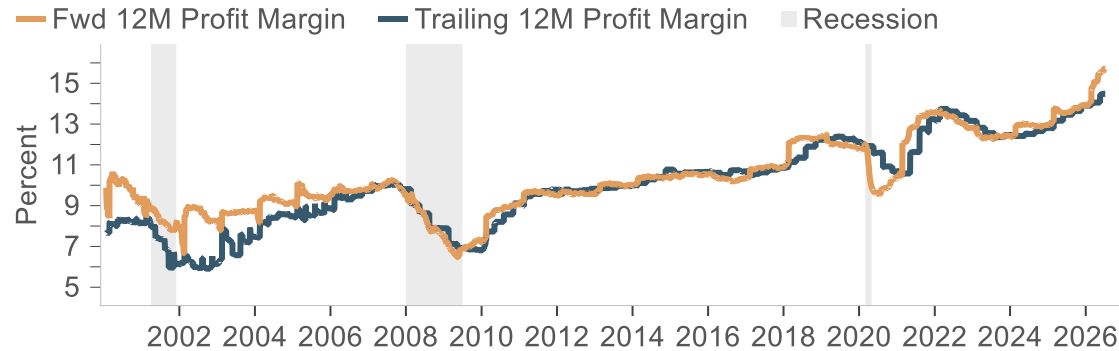
Insights

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

The outlook for corporate earnings is still positive – to a point

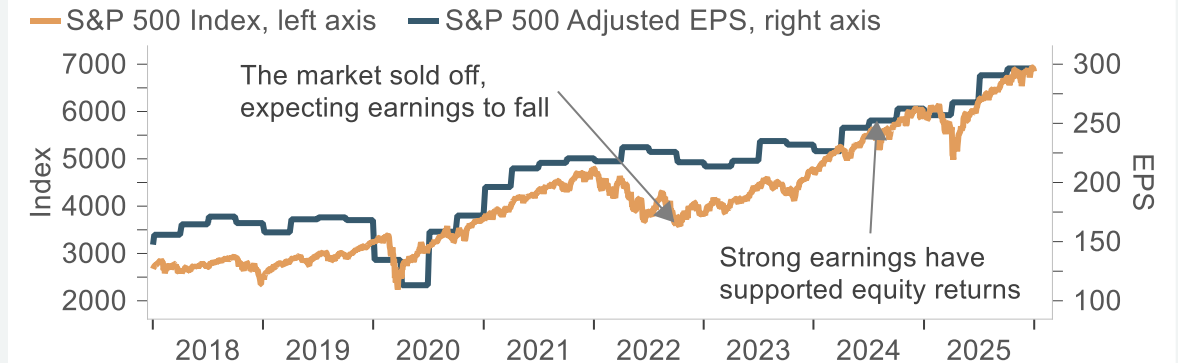
Q1 earnings were exceptionally strong, and the next leg will depend on energy-related margin pressures and policy risks.

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



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

Strong earnings have justified lofty valuations and stellar price performance



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

- Equity markets are priced based on earnings and multiple expansion (or contraction), with multiples influenced by factors such as cost of capital and investor sentiment.
- Profit margins appear resilient (**left chart**), thanks to resilient economic activity and impressive business agility in the face of rising input costs. Earnings growth is running at double-digit levels, and estimated revisions across sectors have accelerated upwards.
- Q1 2026 earnings season (**right chart**) for U.S. equities showed a level of strength normally seen in an immediate post-recession recovery. The S&P 500 index delivered over 25% earnings growth with over 80% of companies beating estimates; the broader U.S. equity market delivered earnings growth of over 20%. But the heart of these earnings was the tech sector, whose 50%+ earnings growth reflected both core profits and an increasing contribution from AI-related cloud services.
- Our constructive economic view supports further earnings momentum this year. However, it is worth mentioning that there is a wide dispersion between sector-level profitability, with tech seeing the most earnings strength. We believe we are likely to see continued sector dispersion as tech and communication services lead revisions, industrials improve on capex and reshoring, and financials hinge on yield curve dynamics and credit quality.

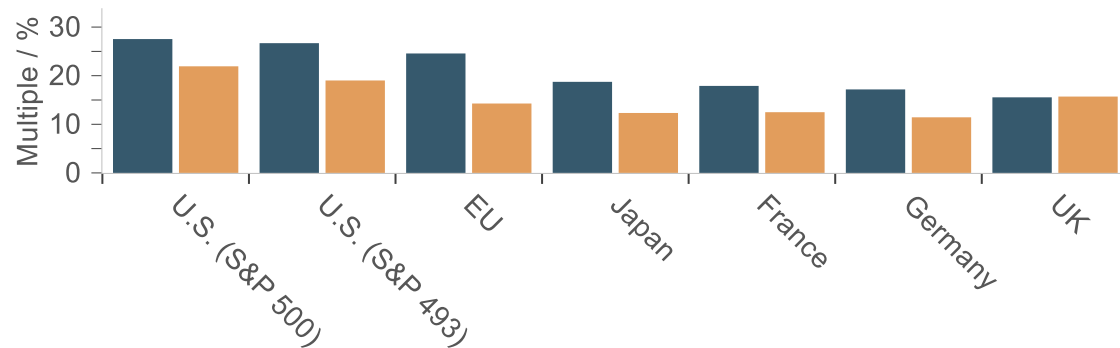
TAKEAWAY: Strong corporate earnings have provided support for equity performance, driven by resilient margins and productivity gains. We expect earnings growth to hold up, supported by AI-driven efficiencies and steady consumer demand, even as companies navigate a rising input cost environment.

Equity valuations: little relief amid growing risks

Most sectors are still trading rich relative to history; recent market volatility hasn't created any holistic bargains.

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

■ Price-to-earnings multiple ■ Return on equity



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

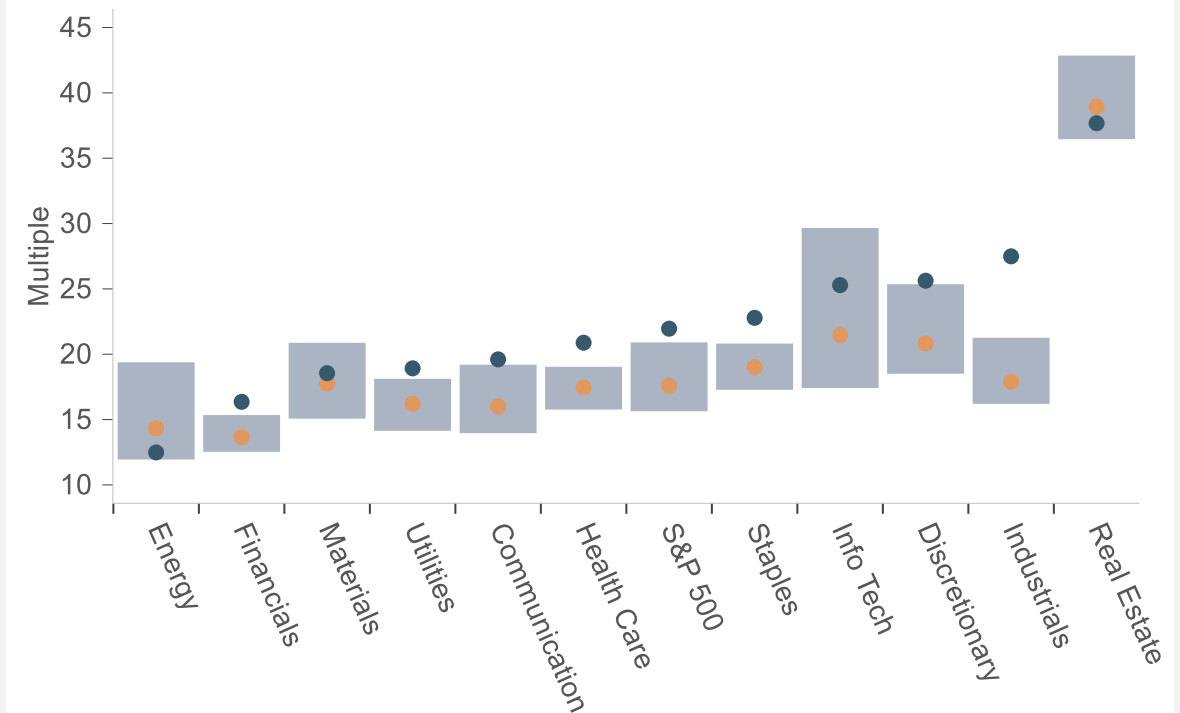
As investors remain worried about the S&P 500's high valuations, consider:

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

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

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

● Current Multiple ● Median ■ Range [25th percentile - 75th percentile]



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

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

Growth equity vs. value equity leadership has gotten choppier

Sharper rotations argue for a balanced factor stance.

Factor rotations reinforce the case for diversification

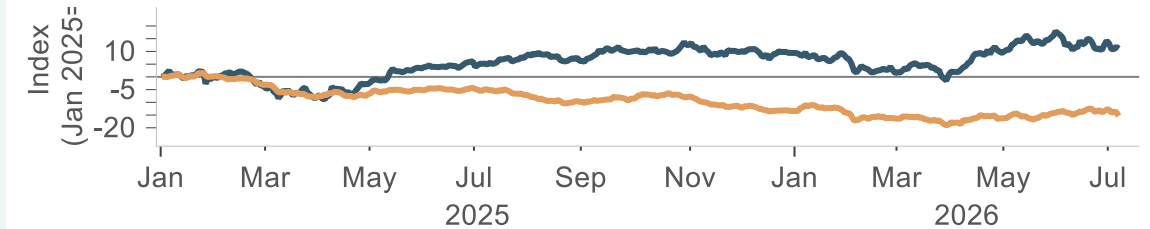
- Consumer discretionary vs consumer staples
- Growth equities/Value equities



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

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

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



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

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

TAKEAWAY: Value equities still trade at a meaningful discount to growth. Leadership can remain choppy, and the opportunity set is widening beyond mega cap growth, but we believe tech's profitability leadership should prevent a sustained rotation away from growth equities this year.

Dividend-paying stocks boost equity-based income generation potential

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

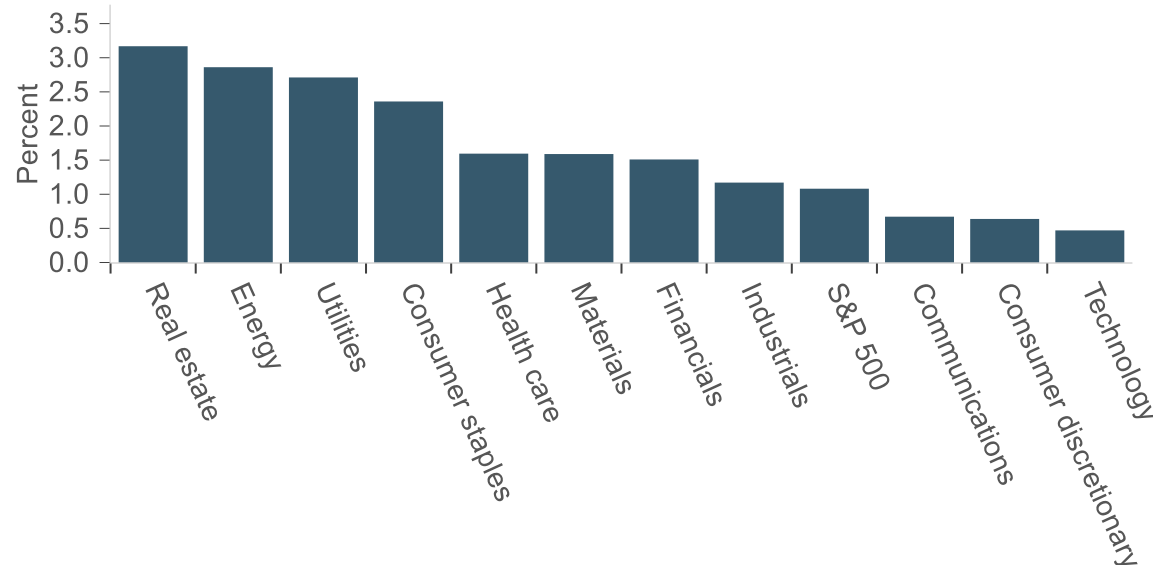
- For investors concerned about U.S. equity market performance, we suggest considering dividend stocks for new allocations. Dividend yielders combine characteristics of high quality and income generation that fit well into our broader market outlook. These companies also tend to be value companies, a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

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

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

Where to find durable income in equities?

Dividend yield by S&P 500 sector



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

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

3-month rolling Sharpe ratio

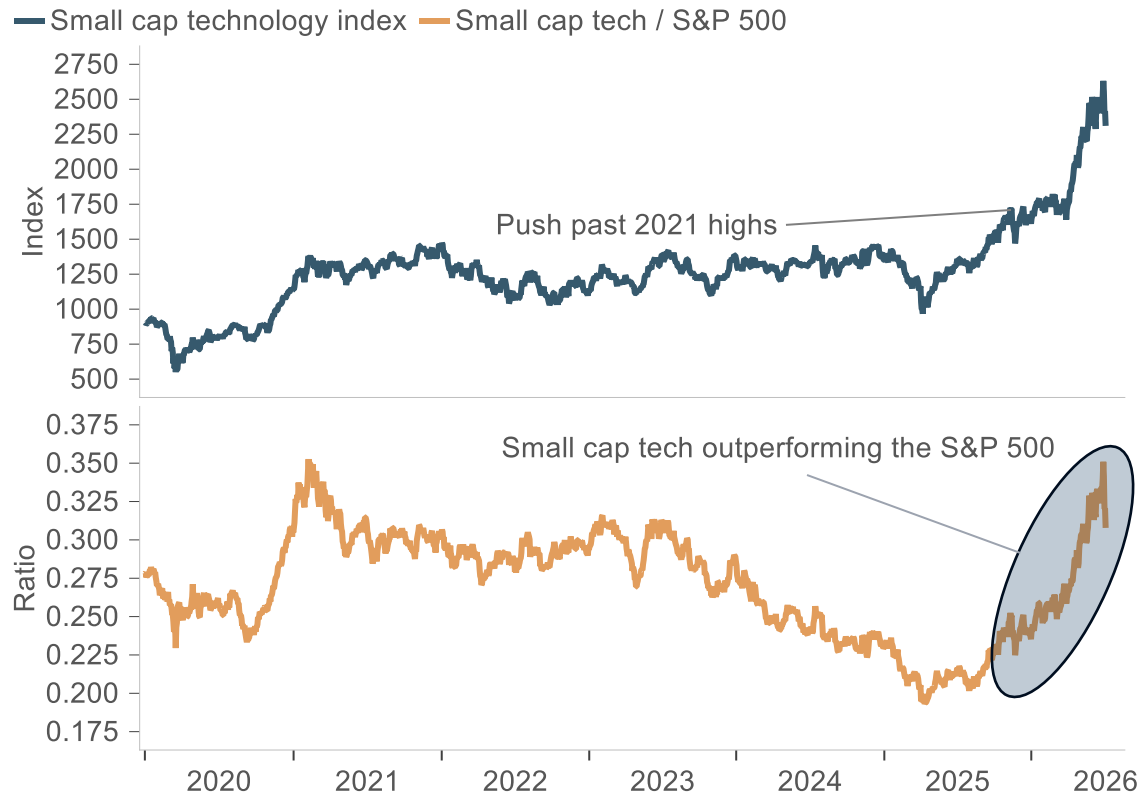


Sources: New York Life Investment Management, Global Market Strategy, S&P Global, Macrobond, July 2026. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. The S&P 500 Dividend Aristocrats index is designed to measure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

AI leadership dampens small caps' diversification potential

We are neutral small cap equities: tech leadership can offer opportunities, but also lessen diversification power of going down the size spectrum.

Small cap tech is waking up



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

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

Does the cycle support buying small caps?

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

Small cap-specific growth opportunities balance with lesser diversification

- Small and medium-sized profitable growth companies may offer exposure to artificial intelligence development at more attractive valuations, but we are wary that tech leadership in small caps reduces the diversification potential of adds to small caps. Small cap tech started outperforming the S&P 500 in mid 2025 (**chart**).

We still place a premium on high quality

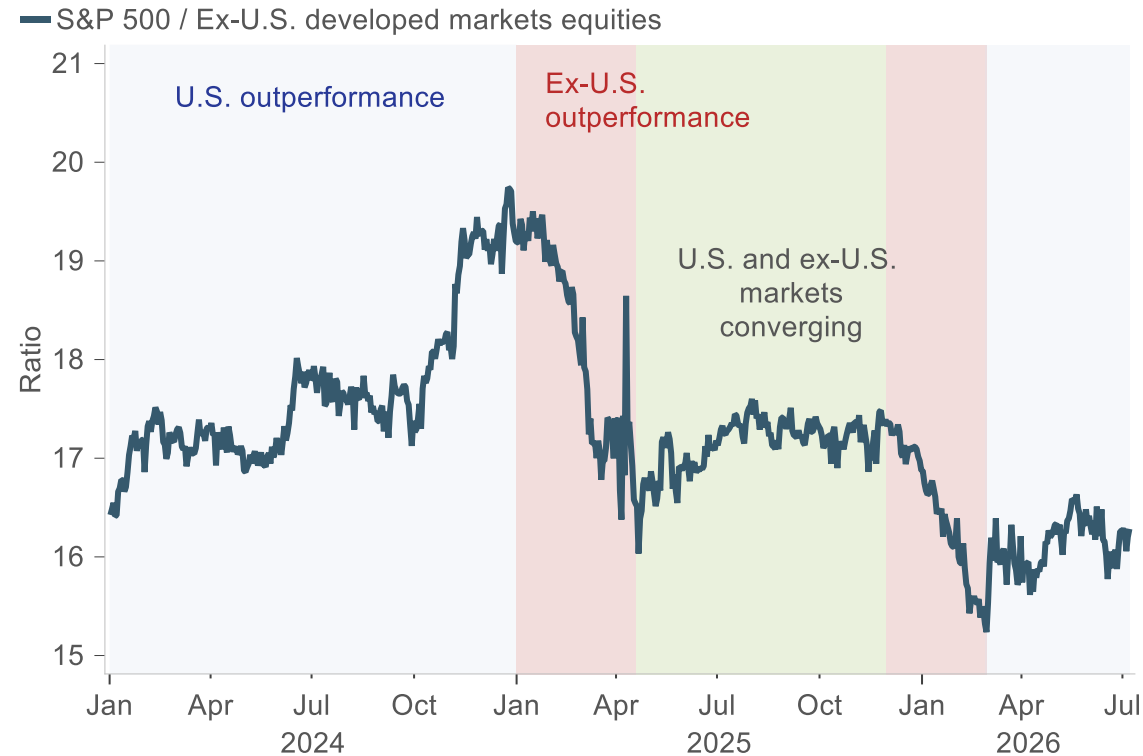
- Since Liberation Day (2025), the lower-quality Russell 2000 small cap benchmark has outperformed the higher-quality S&P 600 benchmark. While healthy liquidity and policy support could support moments of “junk” outperformance, high-quality small cap exposure already represents a step down the risk spectrum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

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

International equities: considering global allocations amid a shock

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

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



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

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

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

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

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

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

- In conventional portfolio allocation, international equities make up roughly one-third of total equity exposure. In a standard 60/40 portfolio comprised of 60% equities and 40% bonds, international equities would constitute 20% of the portfolio.
- A stronger dollar environment can quickly erode ex-U.S. returns for USD-based investors. We favor partially hedging ex-U.S. exposure in today's flight to safety environment.

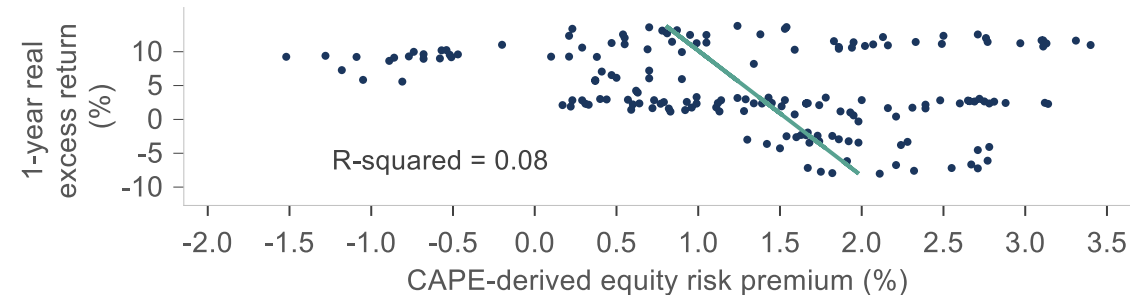
TAKEAWAY: We believe that structural exposure to international equity can help investors capture sector and business cycle diversification. Tactically, geopolitical risks may necessitate rebalancing – increasing allocations to economies with less oil import exposure.

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

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

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

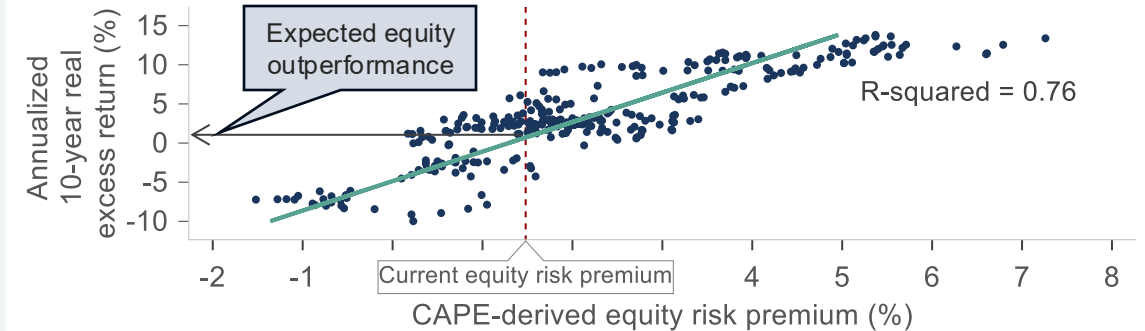
Individual dots represent months, data from 1980



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

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

Individual dots represent months, data from 1980



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

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

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

6 Fixed income

Insights

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

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

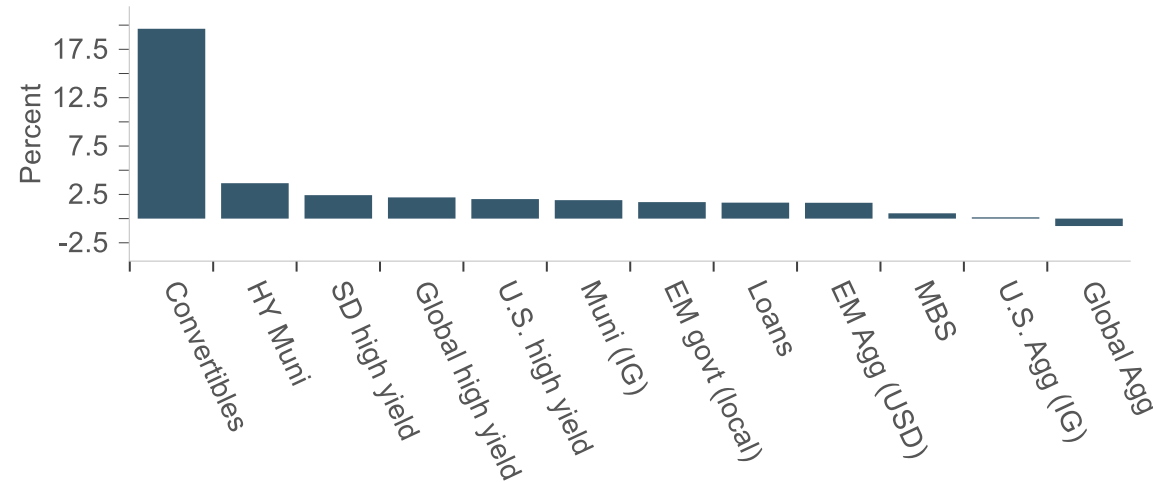
Cash has lost yield potency, driving a clear incentive toward buy-and-hold total return opportunities in credit.

- The credit cycle is healthy today, but macro risks have risen and the credit cycle has matured. We also expect ongoing yield curve volatility. Our “solve” for both concerns is to stay short duration across credit types in the U.S.: investment grade, high yield, and municipal bonds.
- Bumpy spread widening is a value creation opportunity in many fixed income asset classes, as it reflects sentiment shifts rather than a deterioration in holistic credit quality.

- Upside risks to long rates remain: we are staying on the short side of neutral in duration, seeing buying opportunities above a ~4.6% threshold on the 10Y yield. 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.

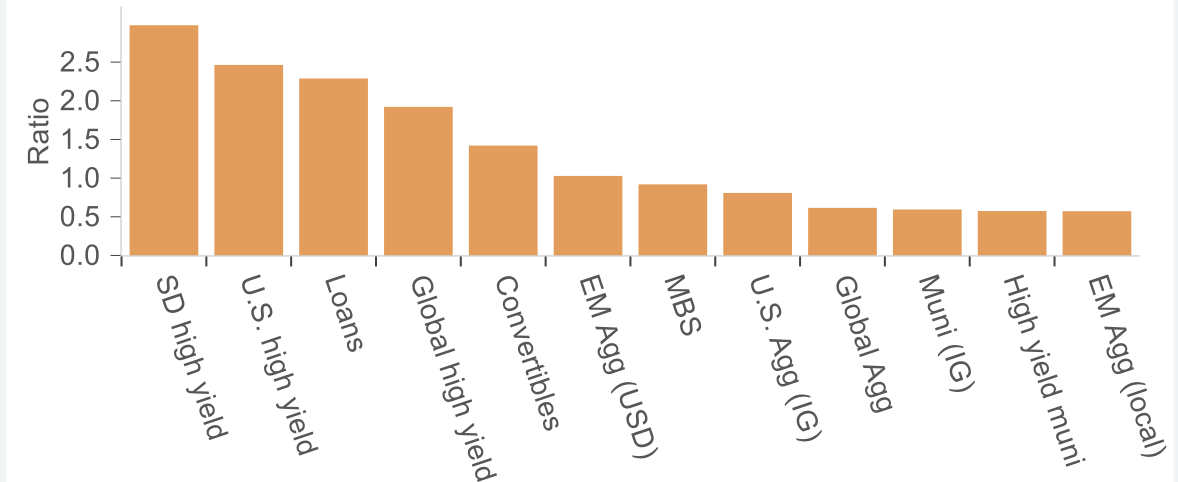
Risk-on fixed income has outperformed YTD in 2026

Returns from January 2026



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

Yield per duration (prior 30-day average)

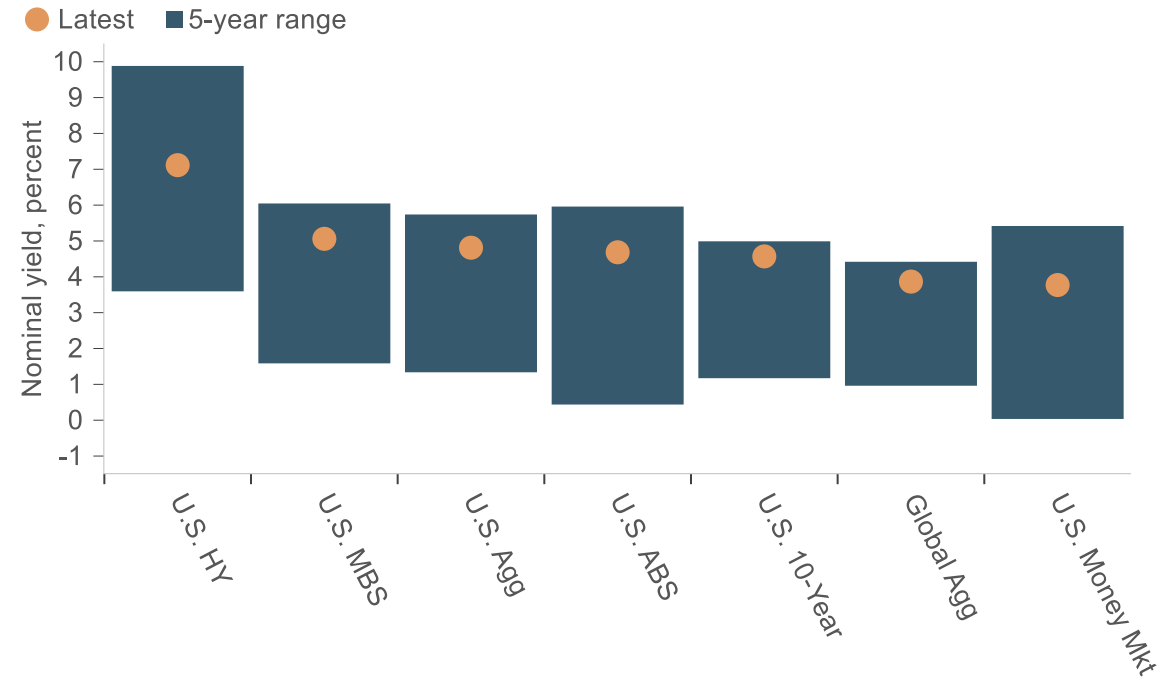


Sources: New York Life Investment Management, Global Market Strategy, Bloomberg, Macrobond, July 2026. Convertibles represents the Bloomberg U.S. Convertibles Liquid Bond Index. EM Agg represents the Bloomberg Emerging Markets (EM) Hard Currency Aggregate Index- a flagship hard currency EM debt benchmark.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

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

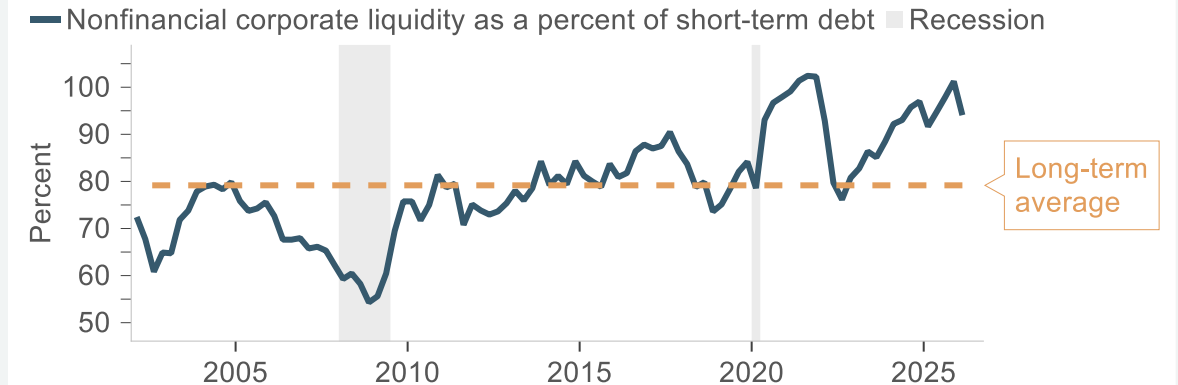
As the credit cycle matures, we favor quality and believe selectivity will be more accretive to returns than in past years.

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



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

Corporates' financial buffers are at a healthy level



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

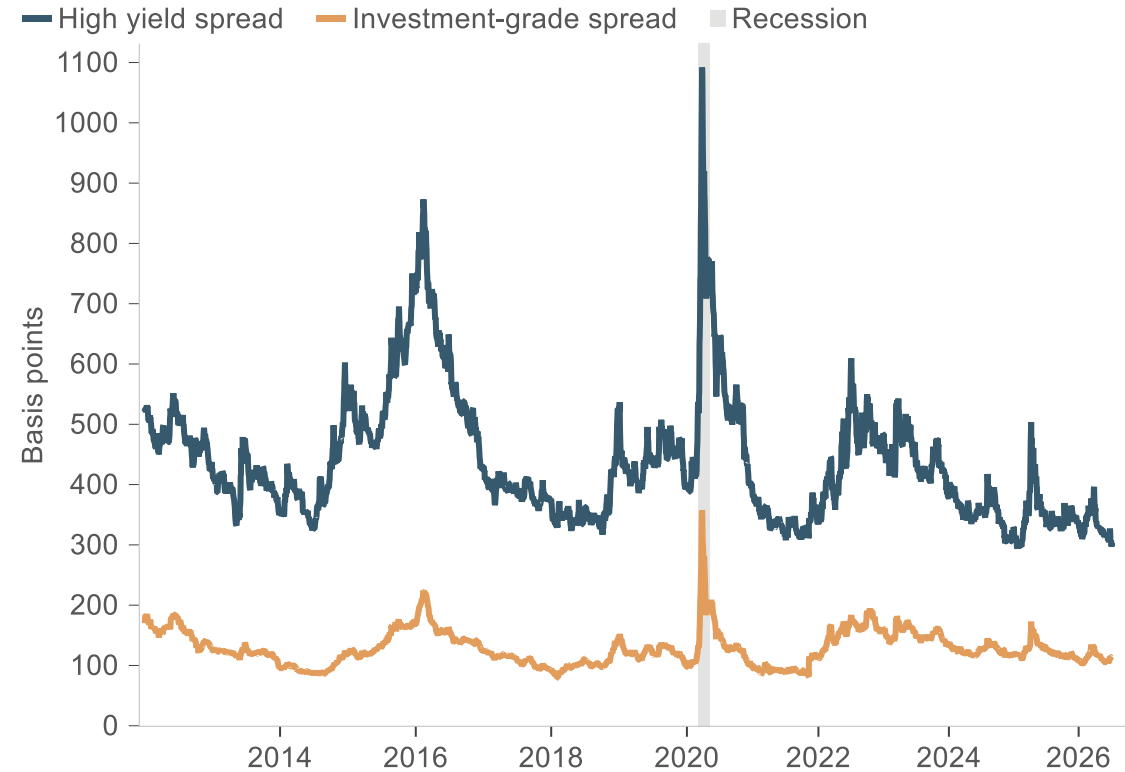
- **Income:** When focusing on total return, IG credit has less income generation opportunity relative to other credit tranches. For the risk-averse investor IG can represent a constructive move away from cash, but we favor securitized credit within a core bond sleeve and short duration HY credit (next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

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

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

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

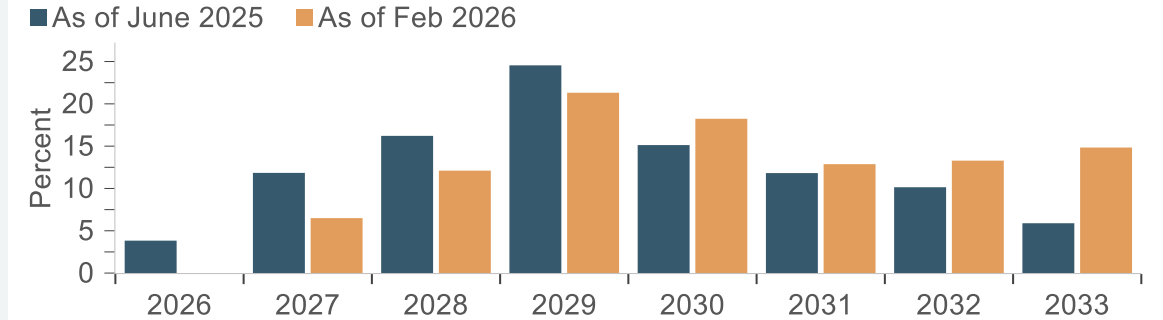
Spreads are widening off historic lows



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

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

Share of high yield corporate benchmark maturing each year



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

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

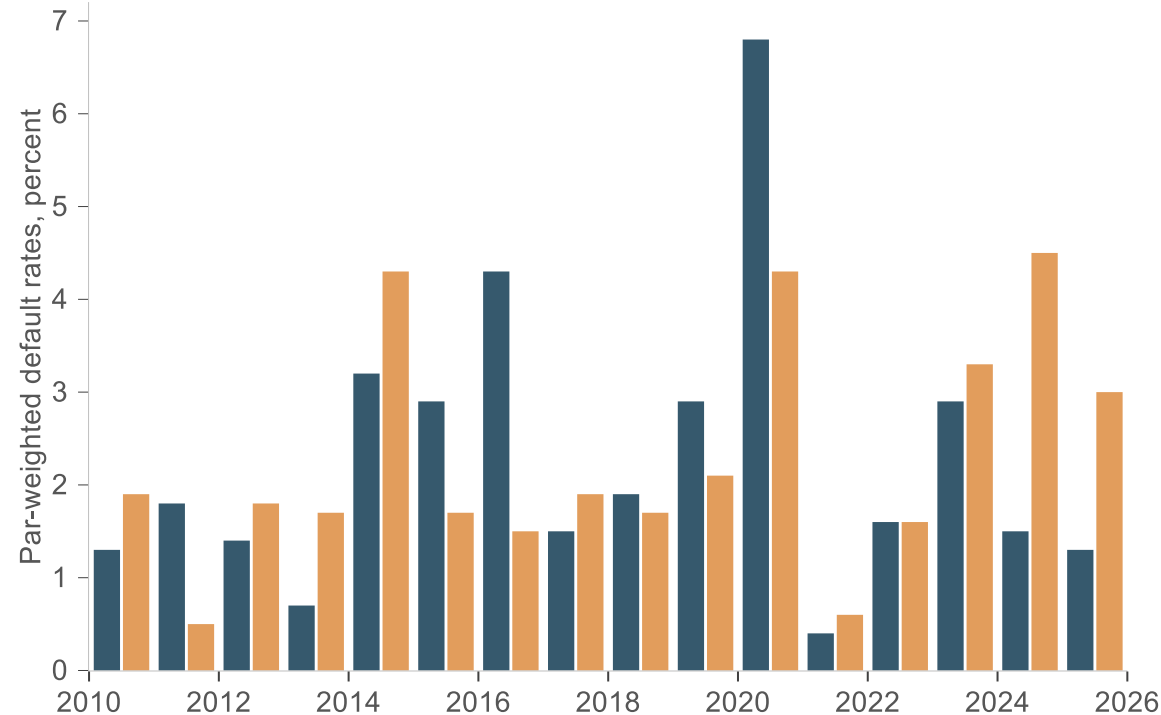
TAKEAWAY: We believe the higher quality high yield borrowers could provide significant value in a portfolio this year – thanks to strong credit fundamentals. For investors concerned about credit quality, macro volatility, or policy uncertainty, the relatively short-duration exposure of high yield credit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

Bank loans, pressured by macro conditions, call for careful selection

Under our Fed view, bank loans have a difficult combination of default risk and total return. Selection can offset this asset class-level risk.

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

■ HY Default Rate ■ Loan Default Rate



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

Are floating-rate bank loans the place to be when the Fed is on hold?

- Though bank loans have defied expectations for total return – delivering a higher yield than expected, for longer than expected – a Fed on hold does not enhance total return expectations for bank loans. Notably, even with the market moving toward more hawkish expectations for Fed easing this cycle, we expect lower policy rates to erode total returns in floating rate loans.

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

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

Portfolio strategy

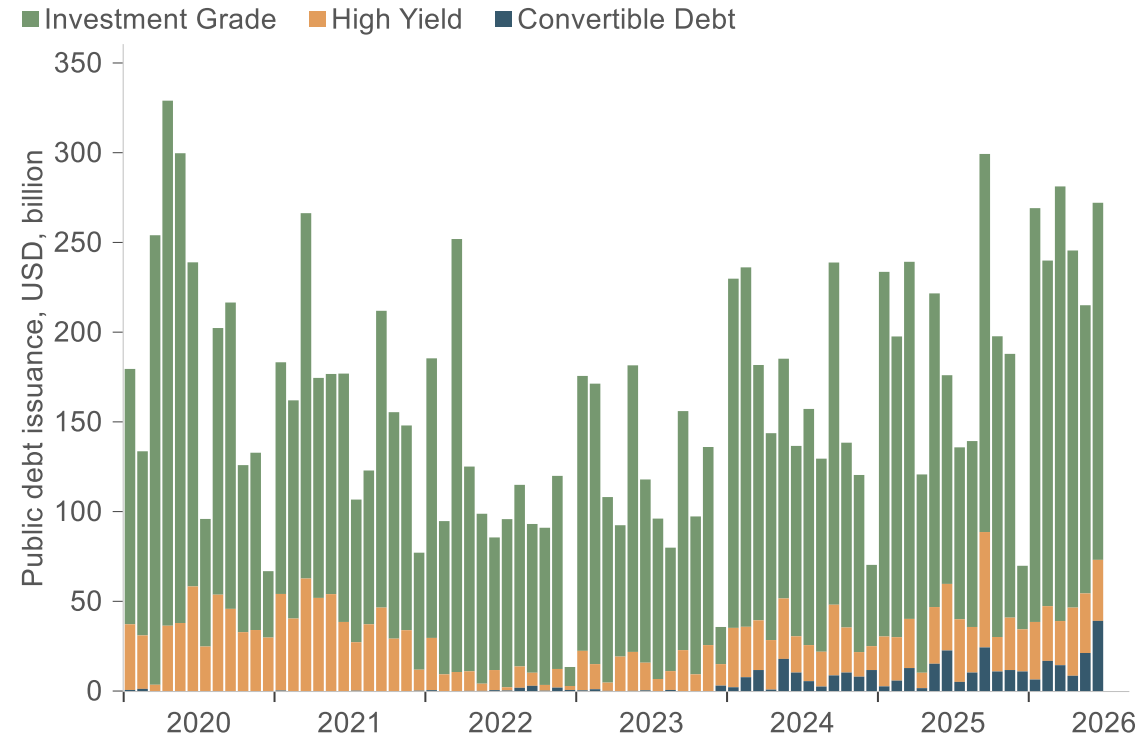
- We believe bank loans can be an important component of diversified global bond exposure. Because of their relatively lower credit quality, security selection and credit quality analysis is paramount when operating in this asset class in an unfavorable macro environment. Within floating rate bank loans,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

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

Convertible bonds' convexity delivered in 2025; continuing in 2026

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

Convertibles have seen renewed issuance, corresponding with stronger performance



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

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

What makes convertible bonds special?

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

Tactical market outlook:

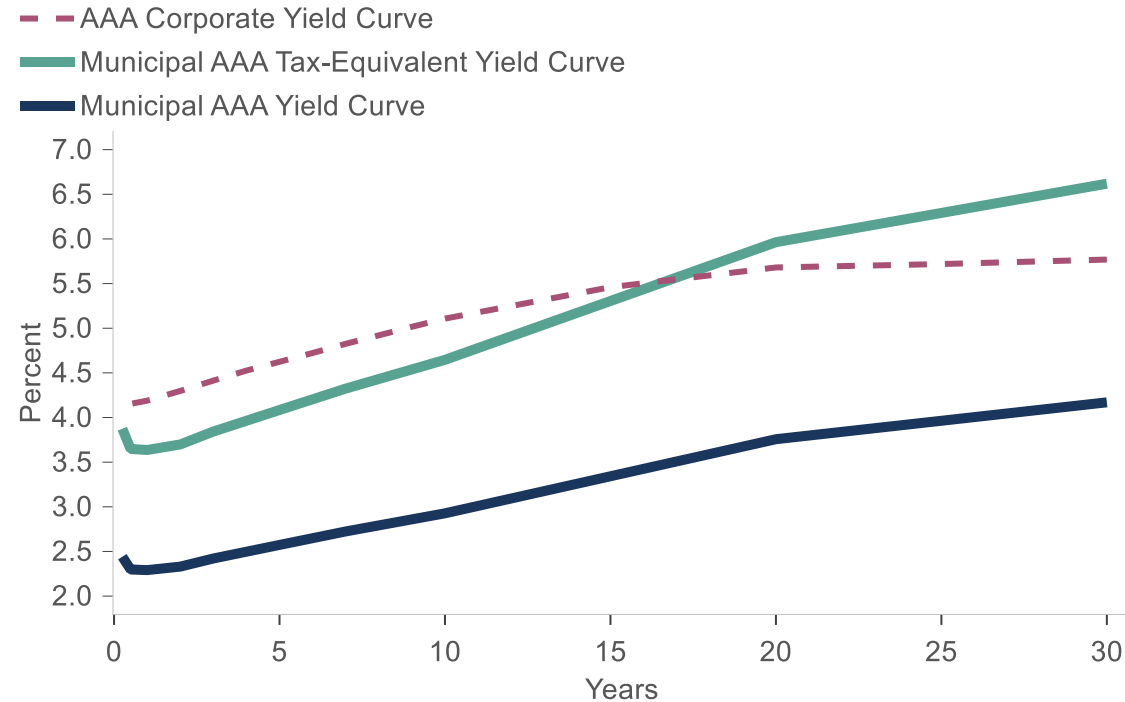
- Issuance: Issuance was strong in 2024 and 2025, with \$49 billion across 58 deals in H1 2025. Strong issuance suggests lower interest rates for issuers are balancing well with investor demand for upside participation in the equity features of convertibles. Issuance is expected to increase as investment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

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

Municipal bonds provide a diversified approach to credit and duration exposure

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

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



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

Tailwinds & outlook for municipal bonds

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

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

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

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 2026 along with all other asset classes, we do not see this as a reason to avoid the tax benefits and/or relative quality of the asset class.

7 Alternatives

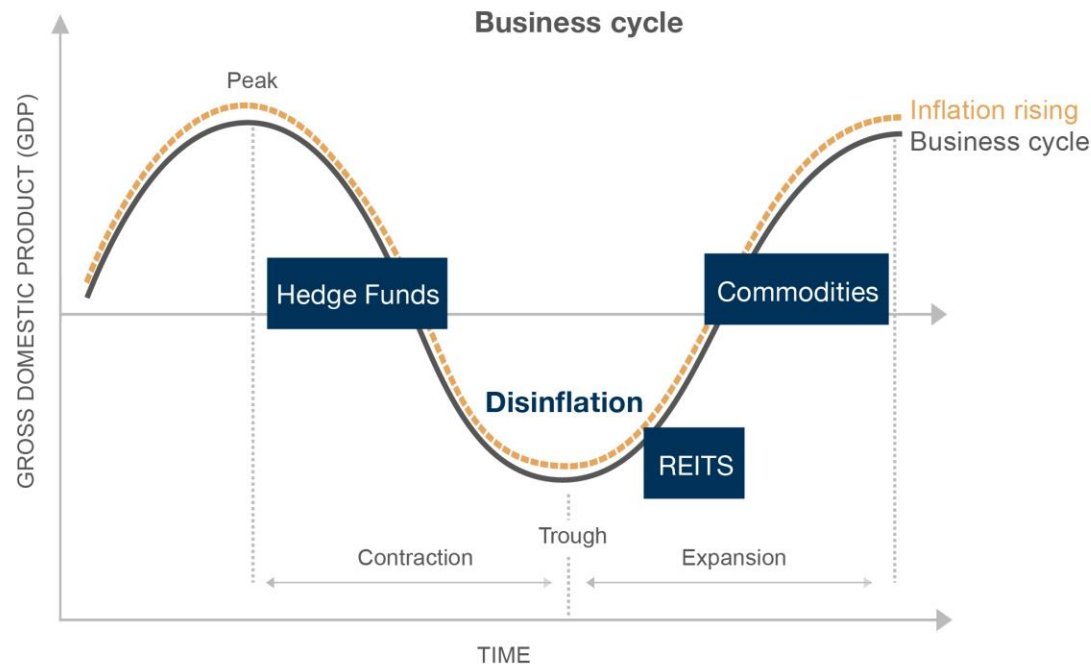
Insights

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

Alternative investments across the business cycle

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

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



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

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

How much alternatives exposure do I need?

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

Commodities

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

Hedge Funds

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

REITs

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

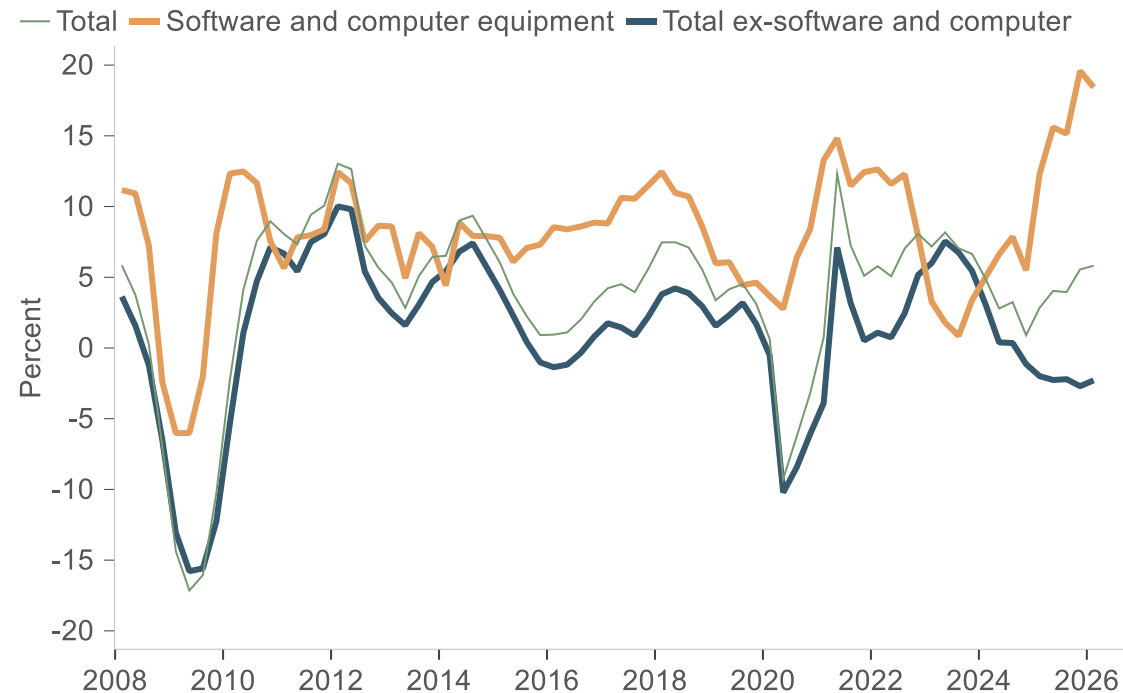
TAKEAWAY: Investors may benefit from adding exposure across alternatives. Given sticky inflation, and the risk of reacceleration, we think commodities could offer compelling risk-adjusted returns at this stage of the cycle.

Infrastructure is one of our highest conviction structural themes

The structural case for infrastructure is expanding as the cyclical case (lower rates) supports the asset class.

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

Private fixed investment across sectors (YoY%)



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

A secular investment case for infrastructure

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

Portfolio construction benefits in fixed income

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

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

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

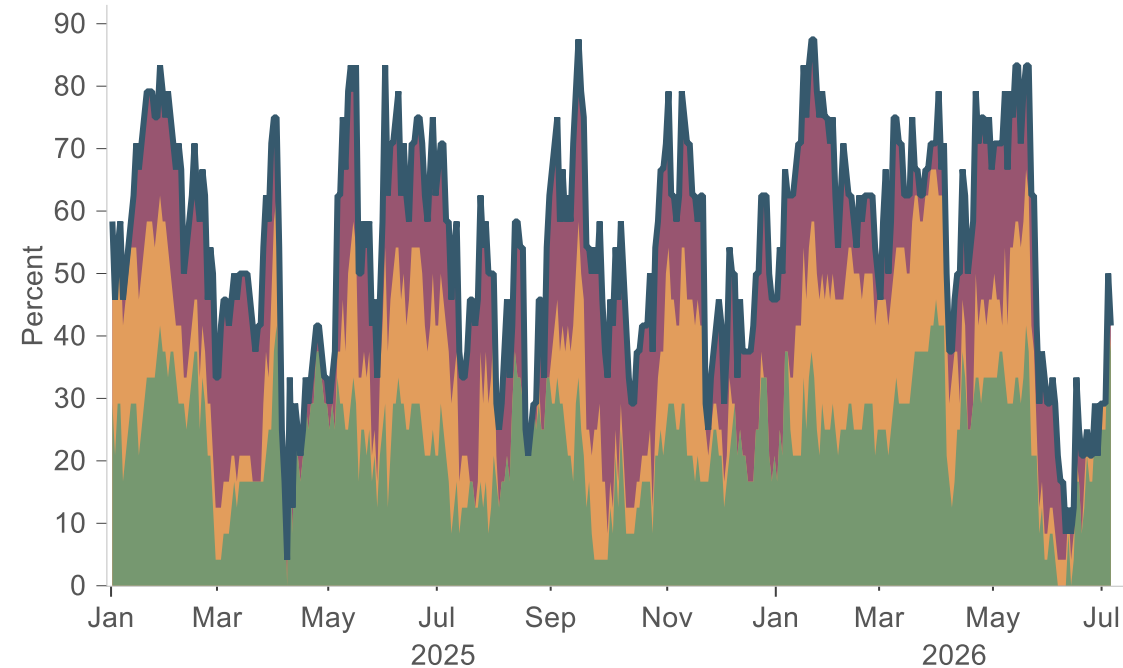
Rising demand for resources amid restructuring supply chains provides a compelling investment backdrop for commodities.

Demand is rising while supply remains tight across commodities

Share of commodities with positive monthly returns

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

■ Agriculture & Livestock



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

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

A tactical approach to commodity investing

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

A strategic approach to commodity investing

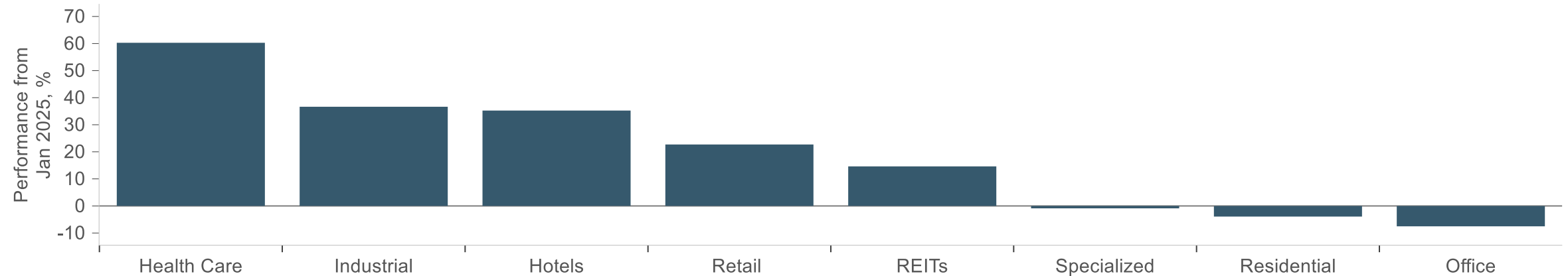
- Historically, commodities outperform stocks and bonds when growth and inflation *surprise to the upside* or miss expectations. These jolts have tended to see investors rush to into commodities.
- However, in this new regime, marked by economic nationalism, national security priorities, and trade protectionism,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

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

Secular trends are shaping returns in a struggling REITs sector

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

REITs sector performance reflects secular forces



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

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

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

8 Private markets

Insights

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

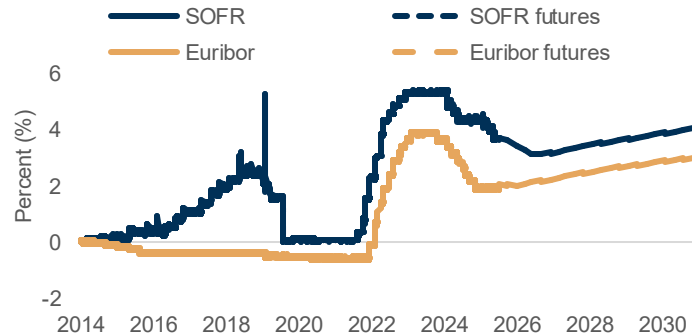
Macroeconomic forces impacting private markets

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

Financial conditions continue to support activity

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

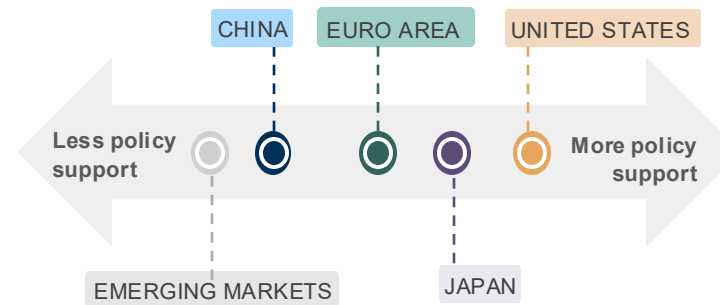
Rates have moved lower, but remain elevated¹



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

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

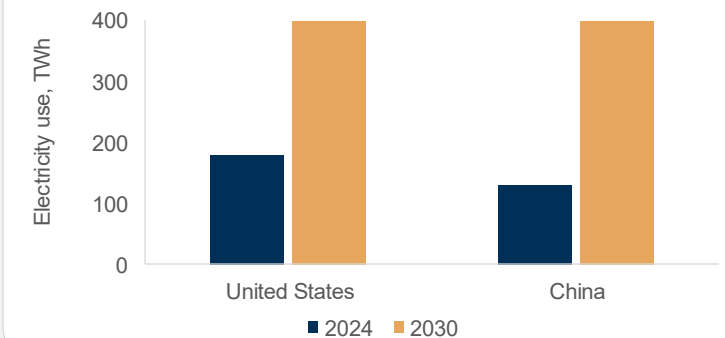
Countries are facing differing degrees of policy support



Global megatrends are driving capital-intensive investments

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

Data center electricity use is expected to grow substantially²



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

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

Private credit stress signal a maturing credit cycle, but fundamentals remain sound

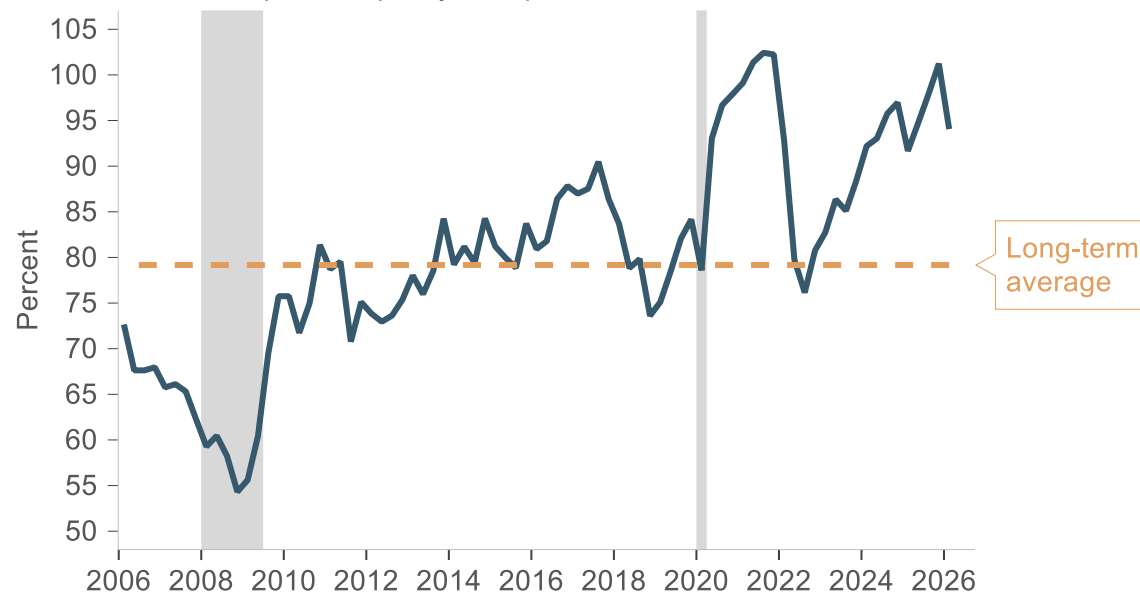
The next phase of the credit cycle is likely to be defined less by broad beta and more by performance dispersion.

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

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

Corporates' financial buffers are still at healthy levels

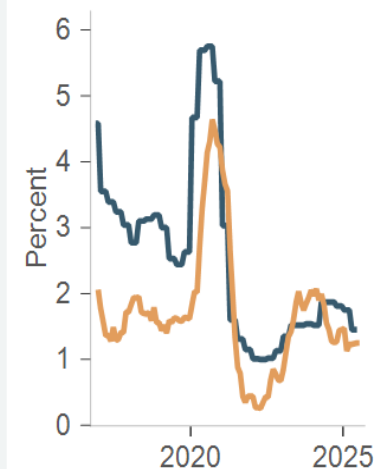
— Nonfinancial corporate liquidity as a percent of short-term debt



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

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

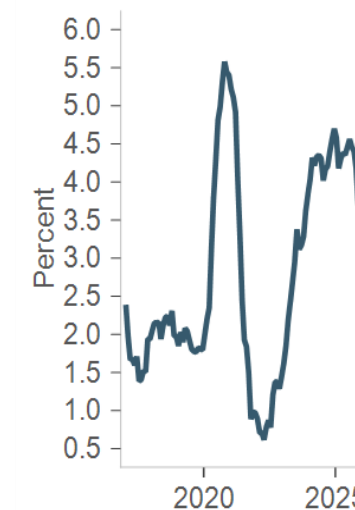
— Leveraged loans default rate
— Private credit default rate



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

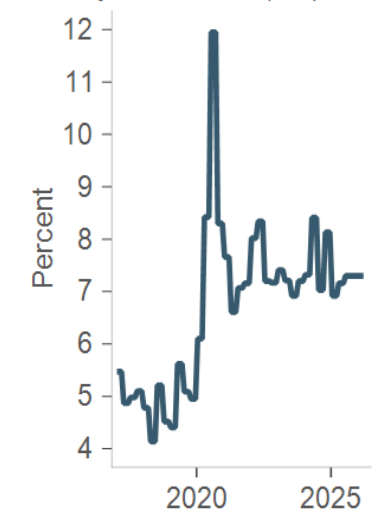
...while leveraged loan default exchanges...

— Default and DE rate



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

— Payments-in-kind (PIK)



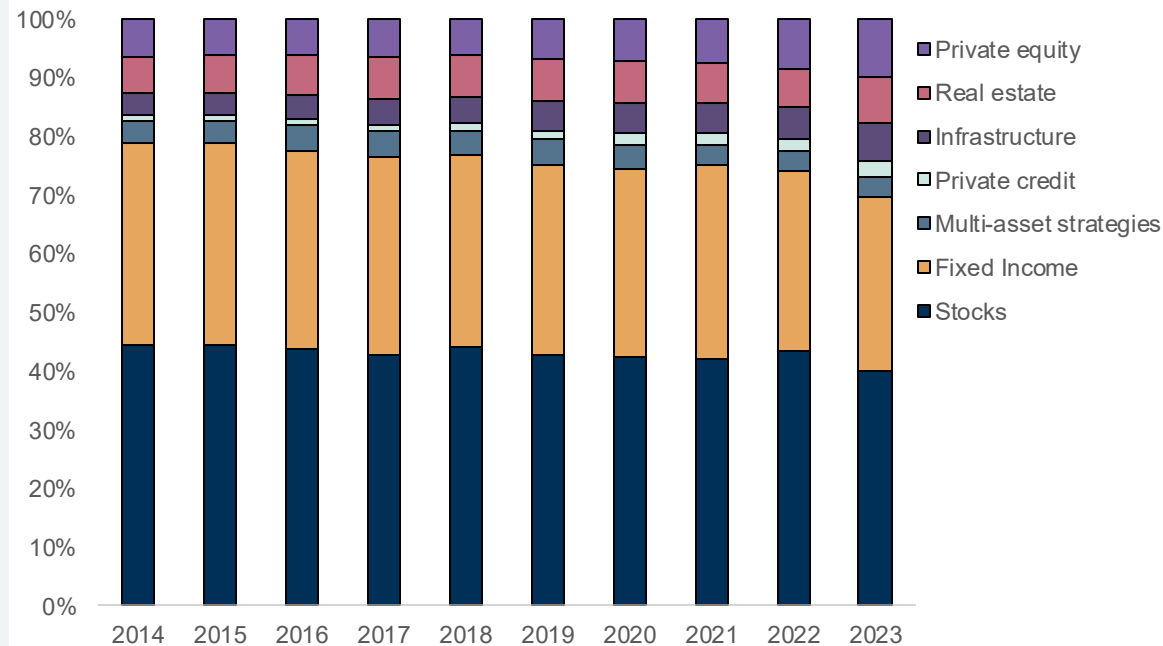
Investor allocation to private markets continues to increase...

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

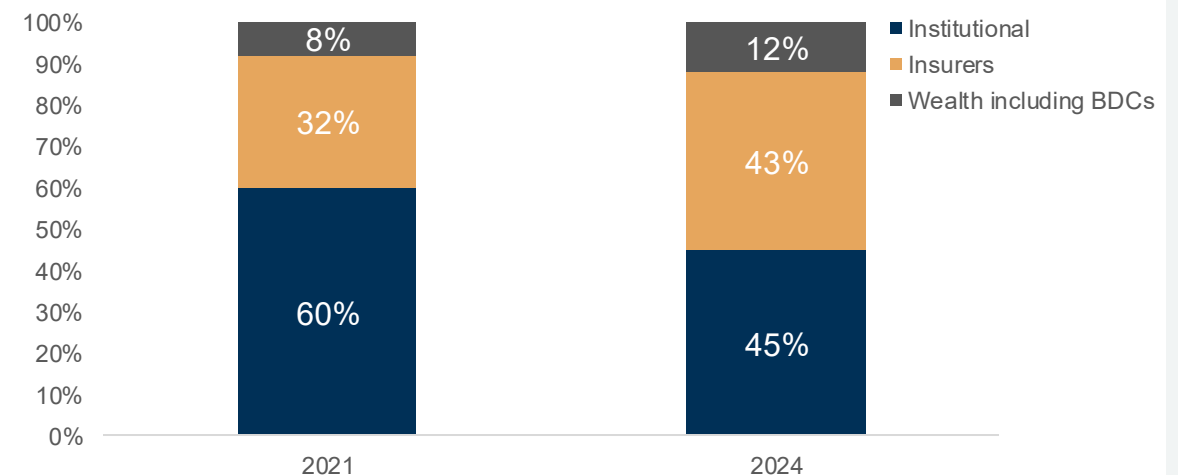
Institutional investor asset allocations, 2014 - 2023



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



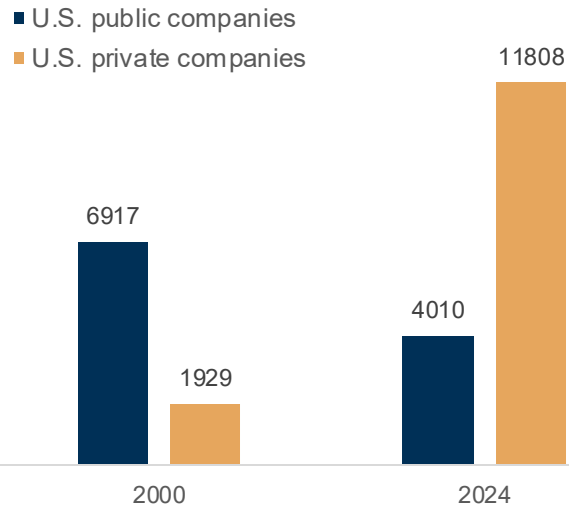
Sources: Oliver Wyman estimates based on company disclosures, filings, and earnings calls. July 2026 with data available through July 31, 2025. Client segments as defined by each individual firm. Note that there may be some differences in perimeter definitions across firms, although efforts have been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

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

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

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

Company ownership has moved steadily from public to private markets



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

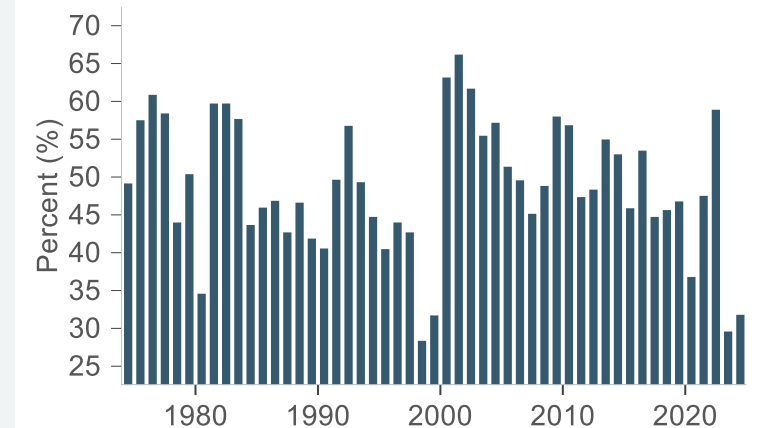
U.S. equity market capitalization dominates global market capitalization



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

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

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



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

Our key takeaways per private markets asset class

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

Private equity	Private credit	Real estate	Real assets
• Momentum in private equity deal activity continued to build through 2025, setting the stage for a stronger recovery in 2026. Improved financial conditions and greater confidence accelerated deal flow and exits – helping to re-energize the private equity flywheel. • While traditional fundraising remains more constrained, alternative sources of liquidity have strengthened the ecosystem beyond exits and fundraising. • Looking ahead, private equity remains well positioned, supported by substantial dry powder, increasing activity by corporate buyers, and an evolving secondary market. • As deal flow accelerates into 2026, opportunity sets are expanding beyond the highest-quality assets, creating attractive entry points.	• As the credit cycle matures, private credit fundamentals remain resilient, supported by strong corporate liquidity, defensive structures, and long-term relationship-based lending. • Selectivity is essential as investors lean increasingly into complexity and structure to help build resilience before it is tested. • In Europe, structural tailwinds and continued bank selectivity support opportunity, while increased competition points to the benefits of a focus on smaller, sponsor-less deals in our view. • Resilience is strongest in the middle and lower middle market, where credit quality remains high, competition is lower, and relative value is compelling in our view.	• Differences in pace and persistence of rate normalization are driving uneven price discovery across U.S. and European real estate. • In Europe, rate normalization has enabled price discovery to advance, with early signs that valuations have bottomed and recovery becoming increasingly cash-flow led. • In the U.S., higher rates slowed the price discovery process, though further easing and growing refinancing pressure are creating selective equity and credit opportunities. • Demographic shifts and internal migration are reshaping local supply and demand dynamics, both within and across regions. • Structural trends, such as re-globalization, digitization, and the continued rise of e-commerce, are also driving capital formation.	• Recent geopolitical developments have strengthened our conviction that global transitions – digitization, electrification, and supply chain re-globalization – will drive increased demand for real assets. • These transitions are highly capital intensive, requiring sustained investment in energy, materials, and infrastructure to support AI adoption and industrial reshoring. • While valuations have risen in parts of the AI and infrastructure ecosystem, inputs such as energy and materials have seen more limited valuation expansion, creating attractive relative value opportunities. • In an environment of higher inflation and interest rate volatility, real assets may offer diversification benefits and durable cash-flow generation potential.
Investor approach: Private equity momentum is building. We favor the middle and lower middle market for its attractive entry points, lower competition, and resilient fundamentals	Investor approach: As the credit cycle matures, focus on resilient segments like middle and lower middle market direct lending, with disciplined manager selection and attention to competitive dynamics.	Investor approach: Leverage regional differences to capture cyclical opportunity. Focus on sectors with durable demand growth, such as those driven by foundational changes in demographics and global megatrends.	Investor approach: Opportunities related to global transitions (digitization, electrification, supply chain re-globalization) have become clear. Diversify a private portfolio by considering the natural resources inputs to that process

Opinions of New York Life Investment Management, 2026.

We believe the lower middle market presents a global private opportunity

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

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

Our case for the lower middle market

What is the lower middle market (LMM)?

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

Benefit	Description
Competitive resiliency	• The lower middle market offers an attractive supply-demand imbalance, with a large number of potential target companies and lower fundraising volume. • Historically, the supply-demand imbalance for companies / assets has resulted in attractive entry valuations, with smaller companies trading at a discount to larger companies. • 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. • The cyclical nature and variability of bank loan volume create the need for private financing in credit markets.
Economic resiliency	• Lower middle market funds have historically outperformed larger segments over the long term, including in high interest rate and high inflation environments. • 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.
Portfolio resiliency	• Lower middle market, middle market, and large & mega funds can offer diversification benefits and complementary exposure when paired together.

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

Global Market Strategy: our resources

Macro Pulse: Economic & market commentary

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



Comprehensive outlook (& quarterly webinars)



Weekly market update

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



Weekly podcast & bi-weekly videos



Thought leadership

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

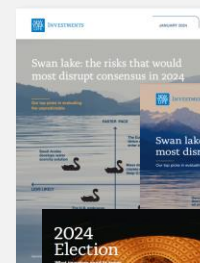
Megatrends

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



Politics and geopolitics

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



Private markets

- Global market outlook



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Important disclosures

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Digital assets, including cryptocurrencies, are speculative investments that involve significant volatility, regulatory uncertainty, cybersecurity, liquidity, and operational risks. Investors may lose all or a substantial portion of their investment. Equity investments are subject to market risk. Investments in small- and mid-cap companies, international and emerging markets, and growth-oriented sectors may involve greater volatility and additional risks. Fixed income investments are subject to interest rate, credit, liquidity, inflation, and prepayment risks. High yield securities involve greater credit and default risk than investment-grade securities. Convertible securities and bank loans are subject to both equity and credit risks. Investments in REITs and infrastructure are subject to real estate, interest rate, regulatory, operational, and market risks. Foreign investing and currency: International investments involve additional risks, including political, economic, and currency fluctuations. Currency hedging may reduce, but cannot eliminate, exchange rate risk. Indexes are unmanaged, cannot be invested in directly, and do not reflect fees, expenses, or taxes. Past index performance does not guarantee future results. Tax information is general in nature, is subject to change, and should not be construed as tax or legal advice. Investors should consult their own tax advisors regarding their individual circumstances. Asset allocation, diversification, and portfolio construction strategies do not guarantee a profit or protect against loss in declining markets.

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

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

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