

# 2026 midyear update: tech delivers, diplomacy wavers

## MACRO PULSE | The geopolitical headwind to markets grows day by day, leaving the path more volatile and headline-driven.

The U.S. and Iran are operating under a fragile ceasefire. As talks toward a broader deal progress, investors are still waiting for evidence that diplomacy will restore energy flows and shipping through the Strait of Hormuz. In the meantime, investors are anchoring in strong fundamentals: an earnings growth-led renaissance of positive investor sentiment around the AI trade, including a surge in chip demand, is powering some equity markets to new highs. Our view remains that supportive policy and liquidity conditions, along with strong earnings fundamentals, should continue to underpin markets and investment conditions – most visibly in the U.S.

### 1 Recent developments Higher yields and uneven global impact

- **Ceasefire has reduced immediate tail risk**, but a durable U.S.-Iran agreement is still needed before confidence, energy flows, and pricing normalize.
- **Global yields have broken higher**, with curves repricing inflation persistence, term premium, and fiscal risk.
- **U.S. macro data remain firmer than feared**, supported by stable labor markets, improved business activity, and resilient tech earnings.
- **Damage is clearer outside the U.S.**, where Europe and Asia face higher energy costs and weaker activity.

### 2 Base case U.S. leadership remains intact

- **Even if the conflict resolves soon**, U.S. leadership should continue over the next 6–12 months, supported by policy mix and structural growth drivers.
- **The U.S. base case remains constructive**, helped by energy self-sufficiency, stable labor markets, and supportive earnings.
- **Inflation risks have broadened**, clouding the corporate and consumer outlook and complicating fiscal and monetary policy.
- **Non-U.S. economies remain more exposed**, especially Europe and Asia, where energy costs and shipping disruptions weigh more heavily.

### 3 Risks to the base case Longer oil shock, clearer divergence

- **A fragile ceasefire or delayed reopening of the Strait** could leave the U.S. more exposed to stagflation dynamics.
- **Persistently elevated oil and transit costs** could raise gasoline, freight, and input costs, pressure margins, and keep the Fed on hold longer.
- **Non-U.S. recession risk remains higher**, especially for net energy importers facing inflation pressure and weaker demand.
- **Prolonged energy disruption** could erode buffers in Europe, Japan, and China and increase downside risks to growth.

# High conviction investment ideas

## MARKET CONVICTIONS

### EQUITY

- Year to date, markets have moved through sharp shifts in positioning. At minimum, higher oil prices may delay policy easing, while equity market performance is increasingly concentrated in tech and AI-related earnings strength.
- AI is likely to remain a key equity market driver, with investors unlikely to turn away from tech's sustained profitability for a prolonged period.
- At the same time, valuations are reigniting concentration risk. We see opportunities for diversifying additions in U.S. large cap value and high quality small cap equities, and short duration credit for its equity-like risk characteristics.
- Global preference for U.S. assets is likely to remain strong amid geopolitical risks and tech outperformance, which will weigh more heavily on oil importers, including parts of Europe and Asia. This dynamic supports continued U.S. outperformance alongside a balanced allocation to ex-U.S. equities.

### FIXED INCOME

- The U.S. public and private credit cycle is maturing. Overall credit quality is – and we expect it to remain – robust, but lower-quality segments (such as CCCs within HY credit and more concentrated areas of private credit) look more vulnerable. We expect strong underwriting to pay off this year.
- Recent rate volatility, wider credit spreads, and higher yields have renewed questions about the risks to fixed income. In our view, the income generation opportunity has improved, with higher all-in yields providing a cushion against uncertainty as fundamental quality remains robust.
- A still-resilient economic backdrop supports credit fundamentals (interest coverage, maturity timeline) over the medium term, though stress in parts of the credit market warrants greater selectivity.
- We favor a “buy and hold” short duration corporate credit approach, which has the potential to maximize the benefits of quality while reducing exposure to volatile market-determined interest rates.

### PRIVATE MARKETS

- Private markets allocations continue to grow, increasing competition for high-quality assets, especially in large deals; selectivity remains key as performance dispersion is likely to increase.
- Deal activity has improved, but macro uncertainty and private credit stress may temper opportunities.

### ALTS

- Historically, commodities and gold have served as effective diversifiers in eras of upside inflation surprise; recent geopolitical events reinforce this role. While we do not yet expect a double-peak in inflation, pressures from tariffs, oil, and structural factors – supply chain reglobalization and AI infrastructure spending – are likely to keep inflation sticky.
- Geopolitical shocks have become more frequent, influencing even traditionally “safe haven” U.S. assets.

## PORTFOLIO CONSTRUCTION

- 1 Fully invested (market weight) in U.S. large cap equities; prioritizing strong earnings quality
- 2 U.S. small-cap exposure and ex-U.S. developed market equity allocations now neutral; focusing on quality names benefiting from AI and policy tailwinds
- 3 For new equity deployments, diversifying equity exposure into (1) materials and digital infrastructure tied to the AI theme and (2) high quality small caps
- 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 Within credit, maintaining an underweight position to floating rate bank loans, barring highest quality selection within the asset class
- 7 Using resilient mid-market private credit and equity for qualified investor portfolios
- 8 Hedging inflation and geopolitical risk with both gold and commodities allocations. Considering gold and broader materials as a 5-20% satellite sourced from equity.

# Global Market Strategy

## At New York Life Investment Management

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



**Michael LoGalbo, CFA**

Global Market Strategist  
[linkedin.com/in/michaellogalbo](https://www.linkedin.com/in/michaellogalbo)



**Julia Hermann, CFA**

Global Market Strategist  
[linkedin.com/in/julia-c-hermann](https://www.linkedin.com/in/julia-c-hermann)



**Sarah Hirsch**

Global Market Strategist  
[linkedin.com/in/sarahhirsch](https://www.linkedin.com/in/sarahhirsch)

Get the full report



This material represents an assessment of the market environment as of a specific date and is subject to change and is not intended to be a forecast of future events or a guarantee of future results. It should not be relied upon as research or investment advice regarding any investment product or any issuer or security in particular. The strategies discussed are strictly for illustrative and educational purposes and are not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. There is no guarantee that any strategies discussed will be effective.

The commodities industry can be significantly affected by commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions.

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.

"New York Life Investment Management" is the brand name and service mark used to represent a group of affiliated investment advisors of New York Life Insurance Company, including New York Life Investment Management LLC, a registered investment advisor.

INV045-26

INV-00045-06/26 SMRU: 8796247