Investment Management

2027 Outlook

Macro Pulse

The sweet spot vs. the swing factors



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

Objective, top-down analysis

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Executive summary

Our outlook for 2027 is constructive, with markets in a "sweet spot" characterized by resilient economic growth and interest rates that, while restrictive, have yet to materially weigh on corporate earnings. While market performance has been strong, the range of potential outcomes is wide amid ongoing uncertainty surrounding the Iran conflict, global elections, and central bank policy. We believe investors should use this period to build resilience, favoring quality, shorter-duration credit, and diversifiers while maintaining exposure to U.S. market leadership.

Lessons from 2026

Elevated yields and energy prices did not weigh meaningfully on markets in 2026 but did put pressure on consumers. Three themes shape our approach to 2027.

Elevated yields and energy prices have pressured consumers, but resilience dominates. Higher borrowing costs and energy prices have weighed on household finances globally, yet consumers have remained resilient and corporate earnings growth remains strong. S&P 500 earnings growth is still on track to exceed 25% for a third straight quarter.

AI investment accelerated despite higher rates. Elevated financing costs did little to slow the AI buildout, with investment supporting economic growth. The key questions ahead are whether spending can sustain its momentum and when investments will begin to generate meaningful returns.

Elevated interest rates renewed focus on government deficits. Rising global yields have brought fiscal sustainability concerns into sharper focus, prompting historic measures such as the U.S. Treasury's buyback program aimed at containing long-end yields. We expect upward pressure on global market-determined interest rates to persist as long as macro growth and inflation remain firm.

Anchors of the 2027 outlook

Elevated rates, continued AI investment, and U.S. market leadership form the foundation of our 2027 outlook.

Interest rates remain elevated. Persistent inflation, higher energy costs, and elevated government debt issuance are likely to continue to put upward pressure on long-end yields globally. We expect monetary policy to remain biased towards further tightening, keeping policy rates elevated across global markets.

The AI expansion continues, now with greater nuance. While we expect AI investment to continue, we expect both tighter rates and policy pushback to raise costs and hurdles to AI infrastructure. We expect markets to reward hyperscalers that continue to deliver positive free cash flow.

U.S. exceptionalism remains intact. Stronger economic growth, energy independence, and greater exposure to AI are likely to sustain U.S. outperformance relative to developed market peers. Higher U.S. yields should continue to attract capital and support the dollar, although they may also weigh on equity valuations. Meanwhile, markets outside the U.S. remain more vulnerable to higher energy costs and policy uncertainty.

Swing factors

Several swing factors introduce greater uncertainty and could challenge the anchors of our 2027 outlook.

Iran conflict and energy. Outcomes range from a negotiated reopening of the Strait of Hormuz to renewed escalation. Our base case assumes a prolonged stalemate, with oil flows increasingly redirected through alternative routes and energy prices remaining elevated.

Global policy uncertainty. A lame-duck U.S. administration, France's April presidential election among other European elections, and leadership changes at the European Central Bank are likely to contribute to elevated policy uncertainty in 2027.

U.S. fiscal thrust. We expect U.S. fiscal policy to remain expansionary, but fiscal thrust may slow relative to 2026 as the impact of consumer and corporate tax incentives of the One Big Beautiful Bill Act fade, and as tariff refunds slow.

U.S. debt ceiling. The debt limit is likely to be breached in 1H 2027, with the debt ceiling likely raised by Q3. Outcomes range from routine resolution to a standoff that could disrupt the Treasury market.

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

Our asset class views favor quality and resilience as the range of outcomes widens.

SELECT ASSET CLASSES		ASSET CLASS VIEWS	GMS PORTFOLIO CONSTRUCTION VIEWS
		Underweight ← Neutral → Overweight	
Equity	U.S. large cap		• **Modestly overweight U.S. large cap equities**, favoring companies with strong earnings quality. We expect AI-related companies with strong free cash flow to merit premium valuations; we are wary of hyperscalers with investment consistently pressuring free cash flow. • **Neutral U.S. small cap,** favoring companies with strong profitability. • **Neutral ex-U.S. developed equities:** overweight Japan due to ROI-improving reforms; underweight Europe due to election uncertainty. • **For new equity exposure**, favor materials, digital infrastructure, and high-quality small caps.
	U.S. small cap		
	Europe		
	Japan		
	Emerging markets		
Fixed income	Core bonds		• **Cautious on core bonds**; volatility in long rates creates buying opportunities for duration above a ~4.7% 10Y Treasury yield. • Keeping **credit exposure (IG / HY) shorter maturity** to manage rate volatility and credit risk. Balancing short duration credit exposure with **longer duration in infrastructure debt**, leaning into the steeper municipal curves. • **Upgrading exposure to floating rate** bank loans, biasing toward the highest-quality as rising rates pair with a still-resilient macro backdrop.
	High yield bonds		
	Loans		
	Municipal bonds		
	Convertibles		
Alternatives	Infrastructure		• Considering gold and commodities as potential diversifiers during periods of inflation and geopolitical uncertainty. Considering **gold/precious metals/industrial metals** as a 5-20% satellite sourced from equity. • Liquid real estate less favored in an elevated rate environment.
	Commodities		
	Liquid real estate		
Private assets	Private equity	• For qualified investors, favor lower middle market opportunities across private equity and private credit, where we see greater resilience.	
	Private credit		

1 Top investment convictions

Anchors

- Global markets contend with a restrictive rates environment
- U.S. yields likely to remain elevated
- Resilient AI investment as markets become more discerning
- U.S. exceptionalism remains intact

Swing factors

- Iran conflict and energy costs
- Global policy uncertainty
- U.S. fiscal thrust
- U.S. debt ceiling path

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.

2027 outlook: Anchored convictions, wider tails

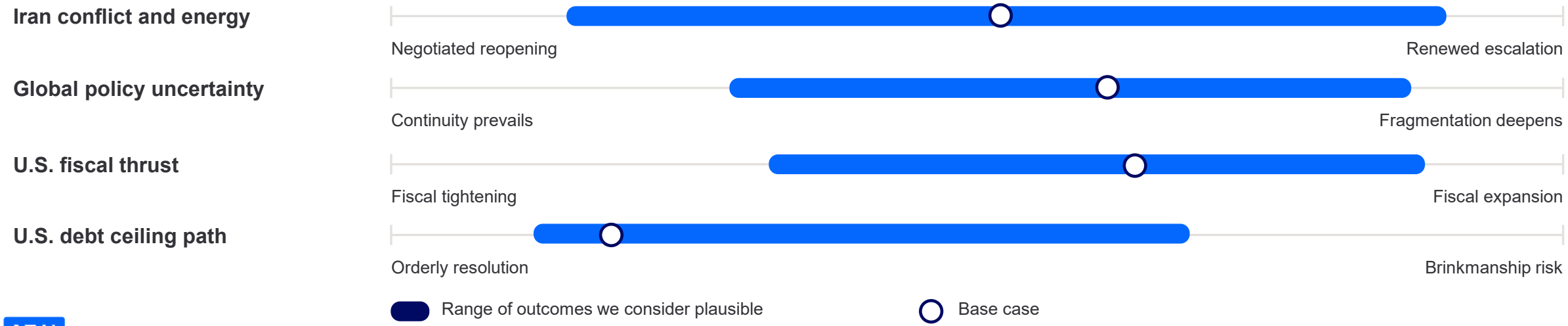
Our pillars are unchanged; what has widened is the range of outcomes around them

Each bar shows the span of outcomes we consider plausible for 2027. The marker is our current central case. The end labels are the tails – outcomes we would not rule out, but do not expect.

Anchors – high conviction, narrow range



Swing factors – wide range, outcome-dependent



2027 outlook anchor: Elevated global rates reflect a delicate balancing act

Our 2027 view

Less restrictive — **Base case** — More restrictive

Global sovereign curves face a tenuous balancing act in 2027: to regain control of inflation, central banks may need to raise interest rates enough to trigger cyclical growth slowdowns. Central banks that take their foot off the inflation brake too early, however, risk renewed upward pressure on long rates.

Central bank policy paths have repriced hawkishly across the board

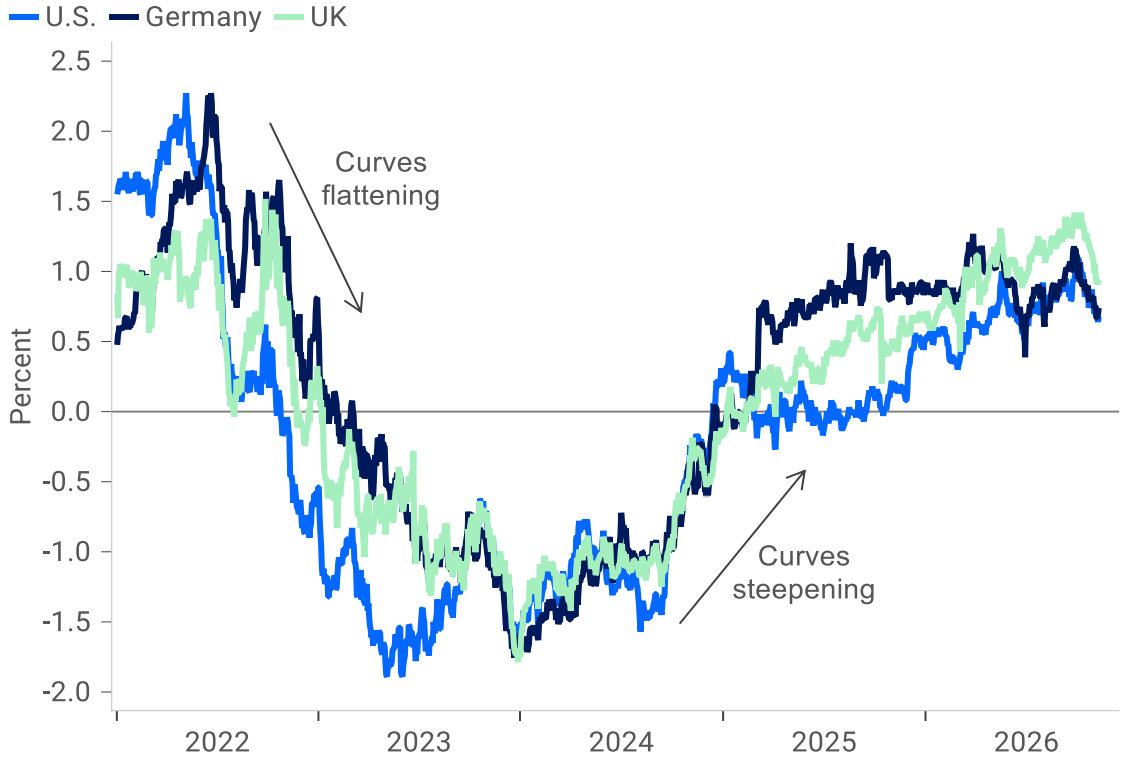
- Most developed markets are in the midst of a hiking cycle, balancing growth concerns with persistently above-target inflation, driven by supply-side shocks, most recently from higher energy costs.
- Broadly, we expect central bank policy to fall short of the market's most hawkish expectations as higher rates and energy prices weigh on economic activity. Most developed markets were already in the later stages of their economic cycles before facing unexpected pressure to hike rates in 2026.
- Importantly, the Fed is one of the only central banks with a dual mandate to balance growth and inflation risks; other major central banks primarily focus on price stability. As a result, we would expect a slightly shallower hiking cycle in the U.S. relative to peers.
- **We expect the Fed to hike by 25bps in December 2026. We expect the Fed to have a hiking bias in 2027, delivering anywhere from zero to two hikes depending on economic conditions and the key swing factors we've identified.**

We see more sustained upward pressure on long rates. The combination of more hawkish central bank policy; persistent inflation pressures; and fiscal and policy risk (measured by term premia) all point to continued upside risks. In particular, we believe risks of greater fiscal spending in the U.S. under Democratic leadership; policy risk related to France's April 2027 presidential elections; and yen weakness in Japan all have the potential to pull long rates higher.

- **We believe 4.5-5.5% is a credible range for the U.S. 10Y Treasury in 1H 2027.**
- **We believe any curve steepening from here would be most likely driven by another wave of Treasury selling pressure.**

The global surge in long rates reflects a combination of risk premium, rising inflation expectations, and more hawkish policy expectations

3-month/10-year sovereign spreads



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

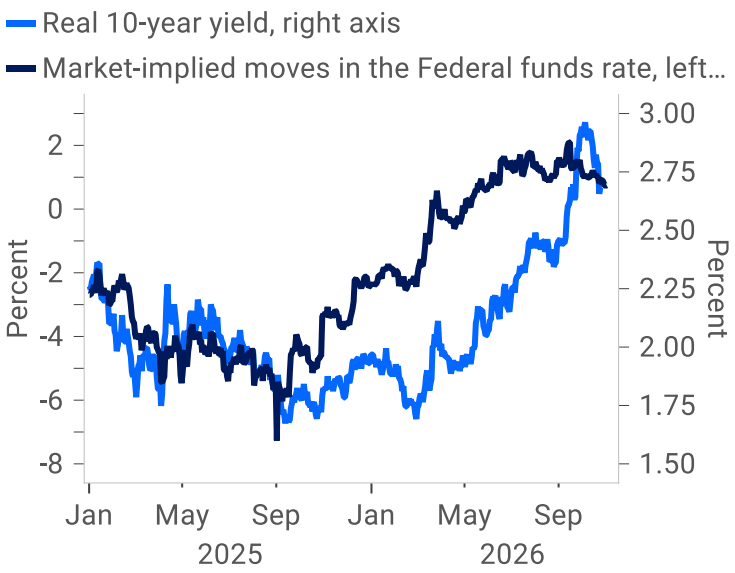
2027 outlook anchor: U.S. long rates face further upside risks

Our 2027 view

Less restrictive — **Base case** — More restrictive

- Long-term Treasury yields have three components: the path of the policy rate (**left chart**), inflation expectations (**middle chart**) and term premium, which captures supply and demand dynamics (**right chart**).
- While all three factors contributed to the Q4 Treasury selloff, particularly the hawkish repricing of the policy path, none of these factors are currently at extremes.
- While upside risks remain to both Fed hawkishness and inflation expectations, we believe primary source of continued upside risk to long rates – driving our cautious view on duration – is the term premium. Not only does it capture ongoing fiscal risk, particularly as a Democratic Congress negotiates with a Republican president, but it also captures uncertainty around inflation pressures and the path of policy.

Long-term yields rose as rate expectations shifted higher



Sources: New York Life Investment Management Global Market Strategy, Federal Reserve, Macrobond Financial AB, U.S. Department of Treasury, Macrobond, November 2026.

Inflation expectations explain only a small portion of the increase in long-term yields



Sources: New York Life Investment Management Global Market Strategy, Federal Reserve, Macrobond Financial AB, U.S. Department of Treasury, Macrobond, November 2026.

Term premium is on the rise alongside long-term yields



Sources: New York Life Investment Management Global Market Strategy, Federal Reserve, Macrobond Financial AB, U.S. Department of Treasury, Macrobond, November 2026.

2027 outlook anchor: Resilient AI investment as markets become more discerning

Our 2027 view

Leadership broadens — **Base case** — AI investing dominates growth

AI was a powerful driver of economic and market performance in 2026, particularly for semiconductor companies. We expect AI investment to prove resilient in 2027, while scrutiny of investment returns drives greater differentiation across the AI ecosystem.

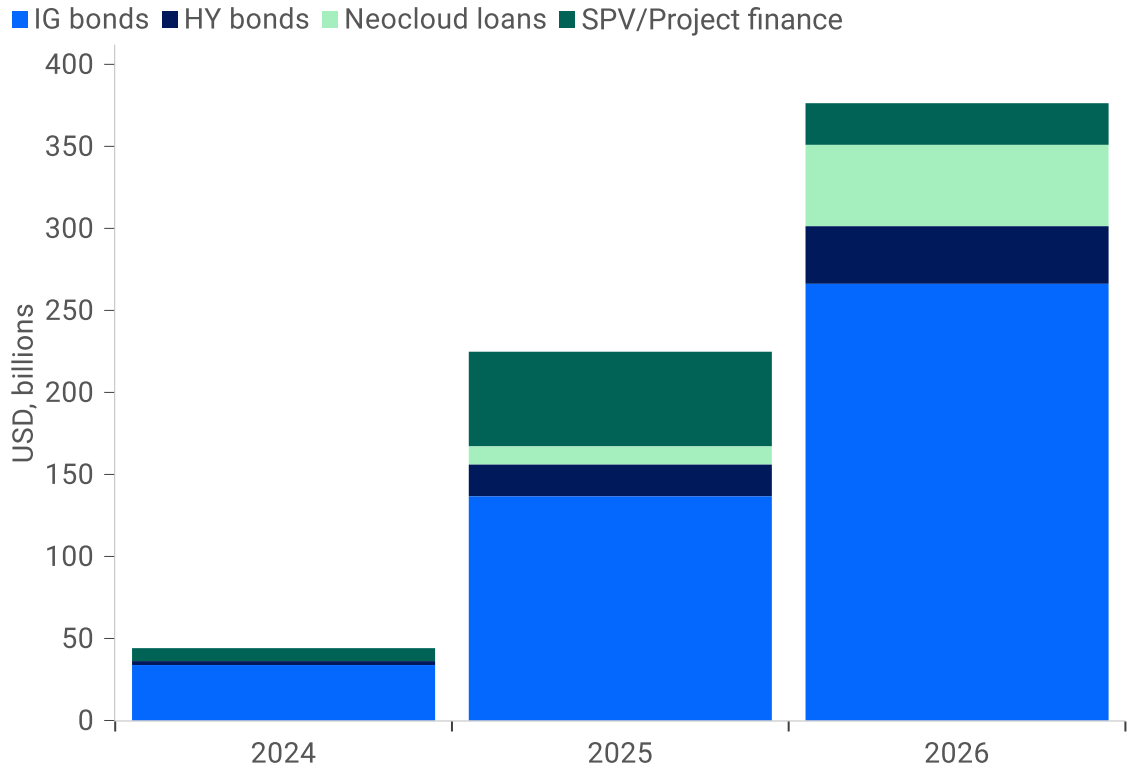
Our base case
- We expect AI investment to remain resilient in 2027, though growing political resistance to data center expansion could slow the pace of the buildout and increase development costs. Power, equipment, and construction constraints may further prolong investment timelines.
- Semiconductor companies led AI-related market performance through much of 2026, supported by exceptional demand and pricing power. However, the sharp post-election selloff reinforces our concerns about elevated valuations, historical cyclicality, and the sustainability of semiconductor-led market leadership.

AI investment outlook
- The AI financing cycle is already expanding beyond hyperscaler cash flows into public and private credit, structured finance, and real assets. We expect this trend to continue as the scale of the AI buildout drives demand for external capital.
- As more capital flows into the AI ecosystem, investors are likely to increasingly scrutinize returns. Rising cloud revenues and contracted backlogs provide evidence of demand, but the lag between investment and monetization could keep returns on capital under pressure.

Market implications
- We expect greater market differentiation as investors increasingly focus on translating AI spending into sustainable earnings, cash flows, and investment returns.
- Within equities, we favor high-quality hyperscalers with positive free cash flow, strong cloud revenues, and diversified financing. We also see opportunities in senior secured lending and asset-backed structures, which can help mitigate downside risk.
- We remain cautious on memory-led semiconductor leadership and highly leveraged AI borrowers, where elevated financing costs and a slower AI buildout could amplify volatility.

The AI financing cycle expands across public and private markets

AI-related debt issuance by category



Sources: New York Life Investment Management Global Market Strategy, Bloomberg, Macrobond, November 2026. HY includes CoreWeave, Iron Mountain, Zayo, and miner public issuance. Neocloud loans and SPV/project finance includes disclosed deals only and should be viewed as a floor, not a comprehensive total. 2026 figures are year-to-date.

2027 outlook anchor: U.S. exceptionalism remains intact

Our 2027 view

Advantage erodes — **Base case** — Advantage widens

We define "U.S. exceptionalism" as the country's ability to deliver consistently strong macroeconomic growth and market returns, due to:

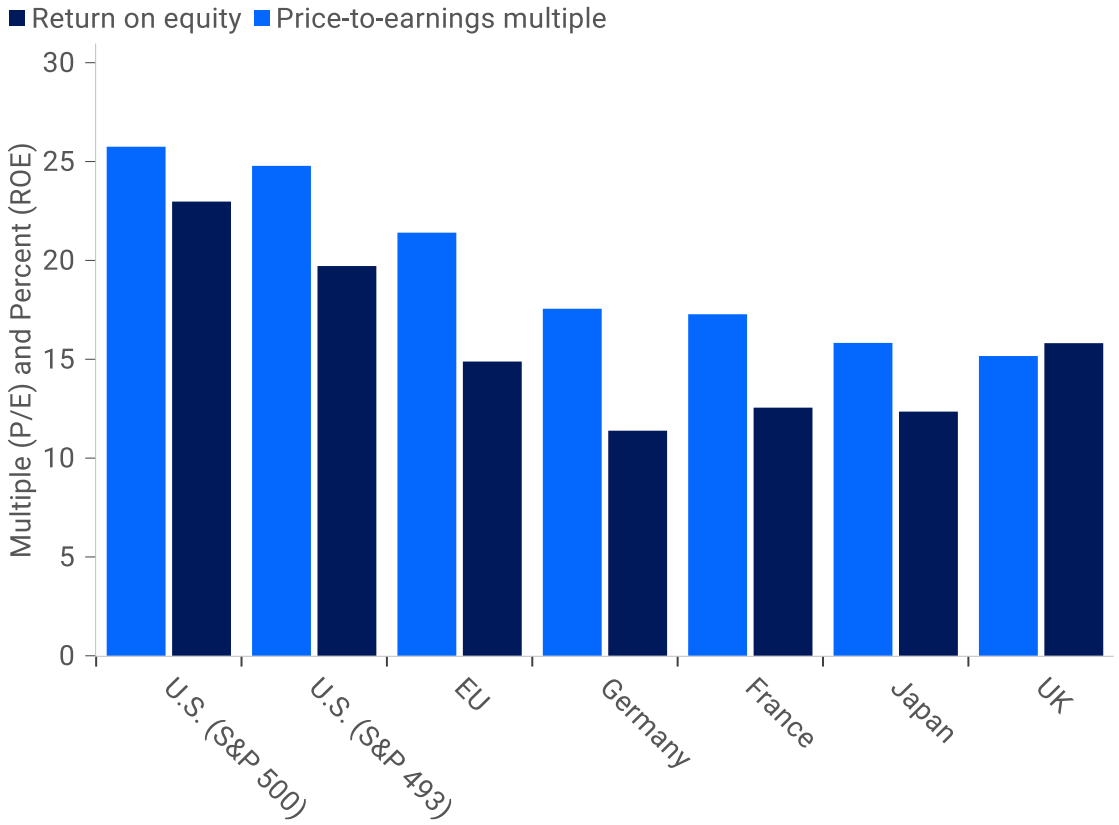
- Stronger potential growth than developed market peers;
- Exceptionally deep and liquid capital markets, which supports higher returns on equity for shareholders;
- Strong demand for U.S. Treasuries, supported by their safe-haven appeal and ability to attract investors during periods of market stress;
- Greater energy independence than developed market peers; and
- Greater exposure to AI investment than developed market peers.

We expect U.S. exceptionalism to persist in 2027, despite maturing macro and credit cycles and the potential for slower global growth amid central bank tightening. A policy-induced reversal in the AI trade (see our view here) presents the greatest U.S.-specific risk, given AI investment's contribution to U.S. outperformance. However, the structural advantages outlined above should leave the U.S. better positioned than its peers to weather broader risks, including an escalation of the Iran conflict or renewed global sovereign bond selling.

This does not mean we expect every U.S. asset to outperform every non-U.S. asset; rather, we expect the U.S. to continue delivering growth at or above historical average in 2027. **We advocate for a neutral allocation to non-U.S. developed markets, blending**:

- **Underweight European equities:** While bank lending remains a bright spot in Europe, sweeping elections in 2027, particularly France's presidential election in April, raise policy and interest rate risk.
- **Overweight Japanese equities:** We expect Japan to continue to benefit from pro-growth policies, ongoing corporate reform, and interest rate normalization. We expect the yen to remain weak and recommend currency hedging for USD-based investors.
- **Neutral EM equities:** We see greater performance divergence across emerging markets, as elevated interest rates, inflation, and oil prices widen the gap between winners and losers.

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



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

2027 swing factor: Three paths for Iran, high stakes for markets

Our 2027 view

Negotiated reopening — Renewed escalation

The Iran conflict enters 2027 with no clear resolution and significant consequences for the global economy. While markets have adapted to months of disrupted energy flows, elevated shipping costs and tight refined fuel supplies show that the economic damage is still accumulating.

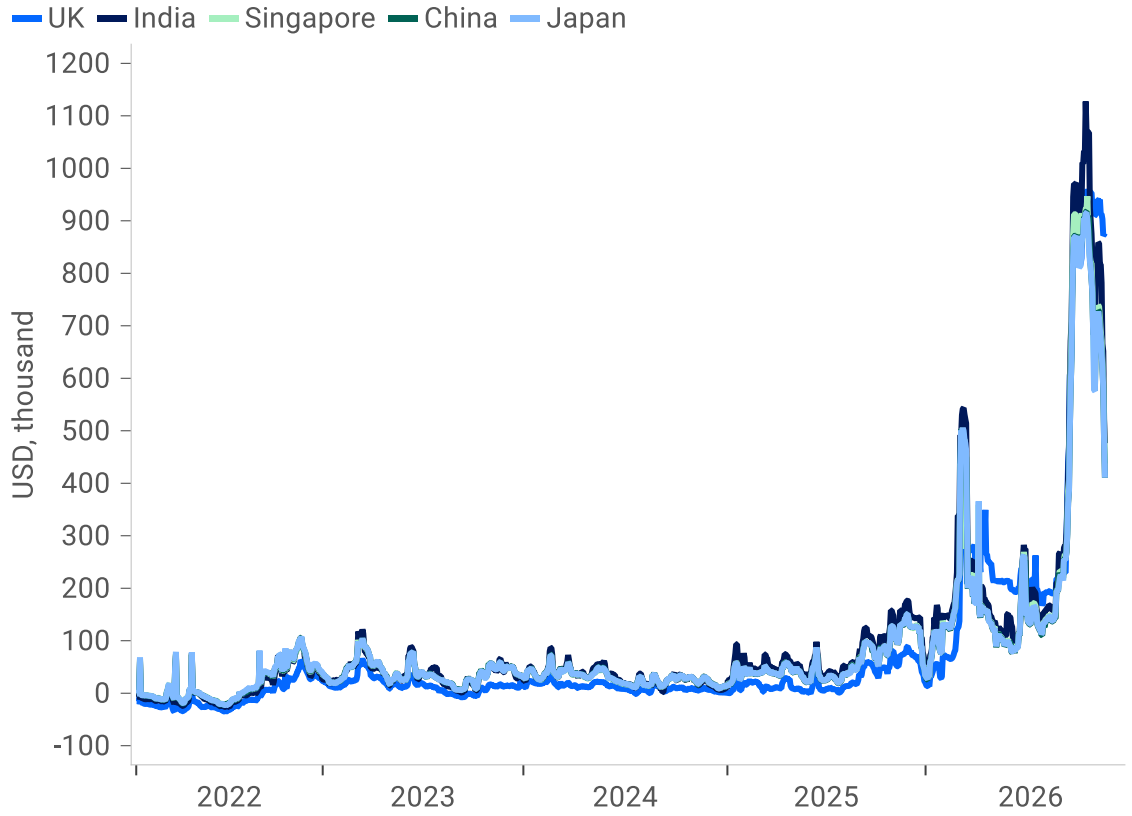
Our base case
- We expect a prolonged stalemate, with Hormuz largely impaired as limited shipping continues through the Strait and alternative routes.
- Negotiations may continue, but restoring normal traffic requires an agreement that gives shippers and insurers confidence in safe passage.
- Outcomes remain unusually wide with a negotiated reopening and renewed escalation both possible.

Energy outlook
- Disrupted shipping, damaged infrastructure, and depleted inventories are likely to keep energy prices elevated. Even a negotiated reopening would take time to restore normal fuel flows.
- Elevated diesel and freight costs could sustain inflation pressures well into 2027, particularly through transportation, food, and other consumer prices.

Market implications
- The biggest risk for 2027 is that a prolonged energy shock keeps inflation elevated even as economic growth slows. Higher fuel and transportation costs could further squeeze consumer purchasing power and corporate margins, while limiting the Fed's ability to ease policy.
- In a renewed escalation scenario, another leg higher in energy prices could strengthen expectations for additional Fed hikes, pushing Treasury yields higher and weighing on rate-sensitive and cyclical assets. Conversely, a negotiated reopening could ease inflation pressure, improve the consumer outlook, and support a broad market recovery.

Shipping costs show the economic strain of an extended Hormuz disruption

Shipping rates (per day, per vessel) from the Middle Eastern Gulf to:



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

New York Life Investment Management

2027 swing factor: Global policy uncertainty

Our 2027 view



A dense 2027 calendar of elections and leadership transitions is likely to keep policy uncertainty elevated across global markets.

What we are watching

- **U.S. administration's final two years**: With President Trump entering his final two years in office, fewer political constraints widen the range of possible actions on trade, energy, and foreign policy.
- **French presidential election**: France votes in April with a possible runoff in May. A win for the far-right National Rally may raise questions about government spending and France's relationship with the EU, which may push French government bond yields higher.
- **European Central Bank leadership turnover**: The ECB president and several senior officials are expected to leave in the first half of 2027, bringing a new group to euro-area rate decisions.
- **U.S. tariff authority**: Significant uncertainty remains around the level of tariffs and the administration's approach to trade policy, with implications for inflation and business costs.
- **Bank of Japan normalization**: Continued interest rate hikes in Japan may put upward pressure on global bond yields.

Outlook

- Our base case is that policy uncertainty remains elevated in 2027 but does not cause a major disruption to the global economy. However, overlapping political and monetary policy developments could increase market volatility and keep risk premiums elevated.
- U.S. foreign policy decisions, France's presidential election, and changes in central bank leadership could create additional market uncertainty. Meanwhile, continued monetary tightening in Japan could put further upward pressure on global yields, adding to U.S. borrowing costs.
- For investors, this environment favors high-quality assets and a selective approach to duration, with portfolios positioned to withstand policy-driven volatility.

A crowded 2027 calendar keeps policy uncertainty elevated

Timing	Event
January	U.S.-China trade truce expires
February	Lagarde's ECB term ends
February – July	U.S. debt ceiling reached
March	China's National People's Congress
April/May	French presidential election/runoff
May	ECB chief economist's term ends
July	USMCA annual joint review begins
August	Spain general election
November	Poland parliamentary elections

2027 swing factor: U.S. fiscal stimulus meets tariff uncertainty

Our 2027 view

Fiscal tightening — Fiscal expansion

The One Big Beautiful Bill Act (OBBBA) is expected to support growth in 2027, but the net fiscal impulse remains uncertain. The Democratic sweep in the midterms increases the potential for bipartisan spending agreements, while tariff policy remains a key swing factor.

Our base case

- We expect fiscal policy to remain meaningfully expansionary in 2027, supported by OBBBA tax provisions and potentially additional government spending, even as the overall fiscal impulse moderates from 2026.
- Tariff refunds following the Supreme Court's ruling against some of the Liberation Day tariffs provided a temporary boost to businesses in 2026, unlikely to be repeated in 2027.
- The Democratic congressional majority may create opportunities for bipartisan agreements or "compromise spending," particularly around healthcare, social programs, and defense.

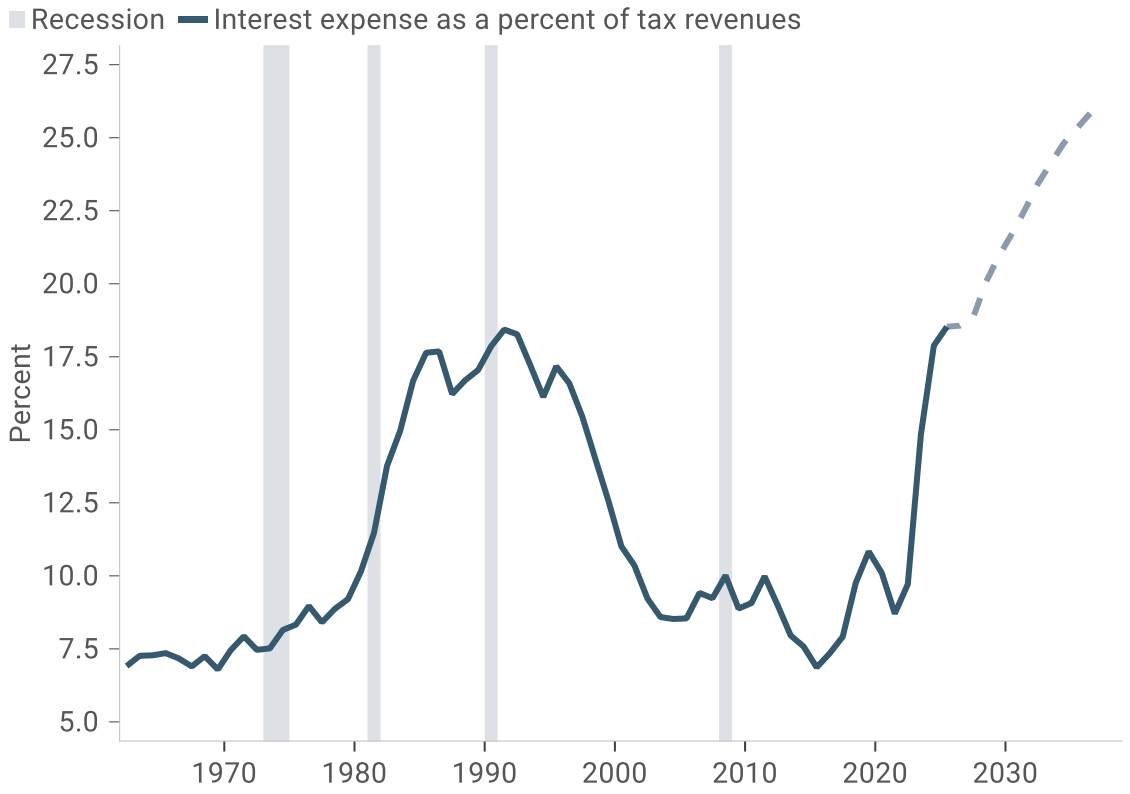
Fiscal policy outlook

- The OBBBA is expected to support economic activity as tax relief flows through to households and businesses. The Yale Budget Lab estimates that the legislation may lift the level of GDP by 0.7% in 2027.
- The midterm elections have increased the potential for additional government spending. Democrats may seek restoration of ACA tax credits, Medicaid cuts, or SNAP benefits. Such agreements could partially offset the fading fiscal impulse from 2026.
- Higher tariffs remain a key downside risk. Democrats are likely to challenge tariff policy, but meaningful rollbacks would require veto-proof Republican support and remain unlikely.

Market implications

- Compromise spending may support consumption and corporate earnings but may widen deficits and add to rising government interest costs. Persistent fiscal pressures could push the term premium higher, reinforcing our expectation that Treasury yields will remain elevated.
- Higher tariffs may offset fiscal stimulus by raising consumer prices and business costs, weakening growth while complicating the Fed's inflation outlook.

Rising government interest expense adds to fiscal pressures



Sources: New York Life Investment Management Global Market Strategy, U.S. Congressional Budget Office (CBO), NBER (National Bureau of Economic Research), Macrobond, November 2026.

2027 swing factor: U.S. debt ceiling negotiations put fiscal risks in focus

Our 2027 view

Orderly resolution — Brinkmanship risk

We expect the U.S. debt ceiling to be a source of market uncertainty in 2027. While the U.S. is projected to reach its debt limit in early 2027, extraordinary measures could push the "X-date" into late 2027. Strong single-party margins in Congress have reduced the risk of a prolonged budget battle, but negotiations could still increase Treasury market volatility and fiscal sustainability concerns, putting upward pressure on yields.

Our base case

- The U.S. is projected to reach its $41 trillion debt limit in the first half of 2027, although Treasury "extraordinary measures" could push the X-date, when Treasury exhausts its available resources to meet obligations, into late 2027 or even early 2028.
- With Democrats controlling Congress, debt ceiling negotiations could become a key source of leverage in broader fiscal discussions.
- Overall, we expect an agreement before a payment default, but political brinkmanship could generate periods of elevated Treasury market volatility.

Debt ceiling outlook

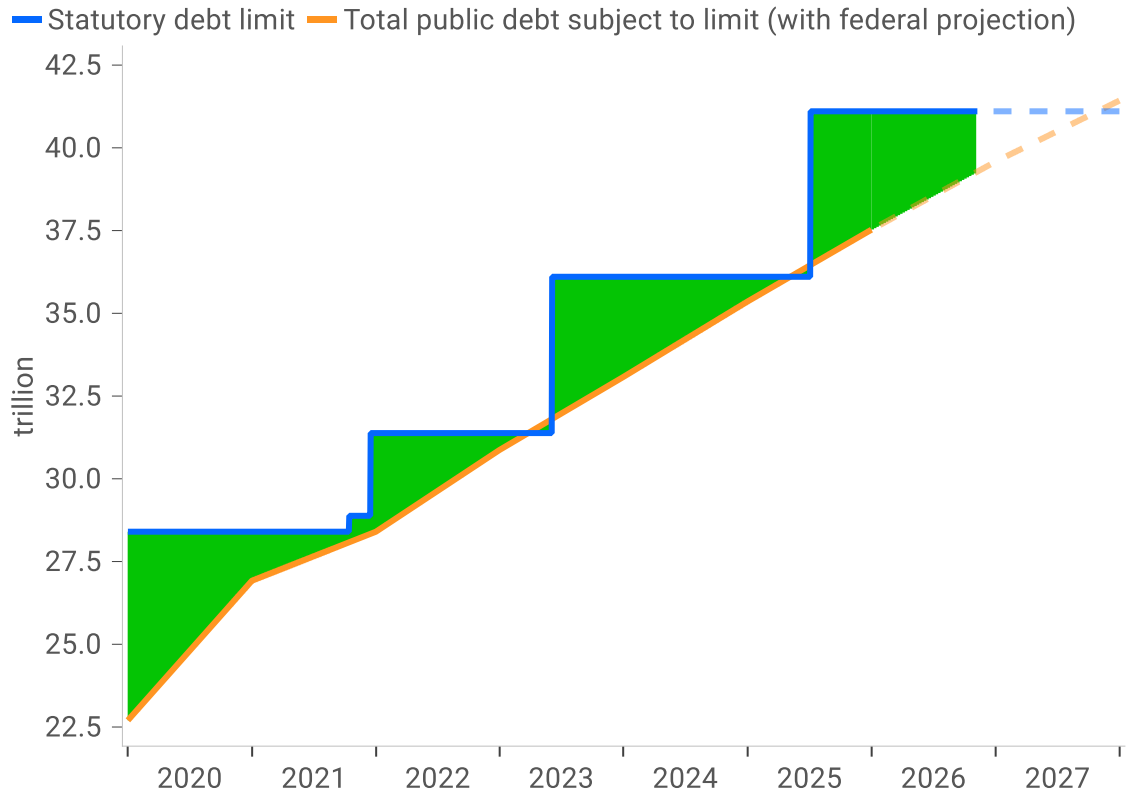
- Previous debt ceiling standoffs have increased borrowing costs, particularly for Treasury bills maturing near the X-date, as investors demand compensation for potential payment delays.
- Rating agencies will closely monitor the negotiations. Further fiscal deterioration or prolonged political dysfunction could increase the risk of additional negative rating actions.

Market implications

- We expect the bond market to remain a live arbiter of U.S. fiscal health.
- Treasury securities maturing near the projected X-date could trade at a discount as investors demand higher yields to compensate for payment uncertainty.
- A prolonged impasse could trigger broader risk aversion and market volatility, even without an actual default, keeping upward pressure on the term premium and Treasury yields. A timely resolution would help contain near-term disruption.

U.S. debt is on track to hit the $41T ceiling in H1 2027

Debt ceiling and current debt level



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

2 U.S. economic & market outlook

U.S. economic outlook

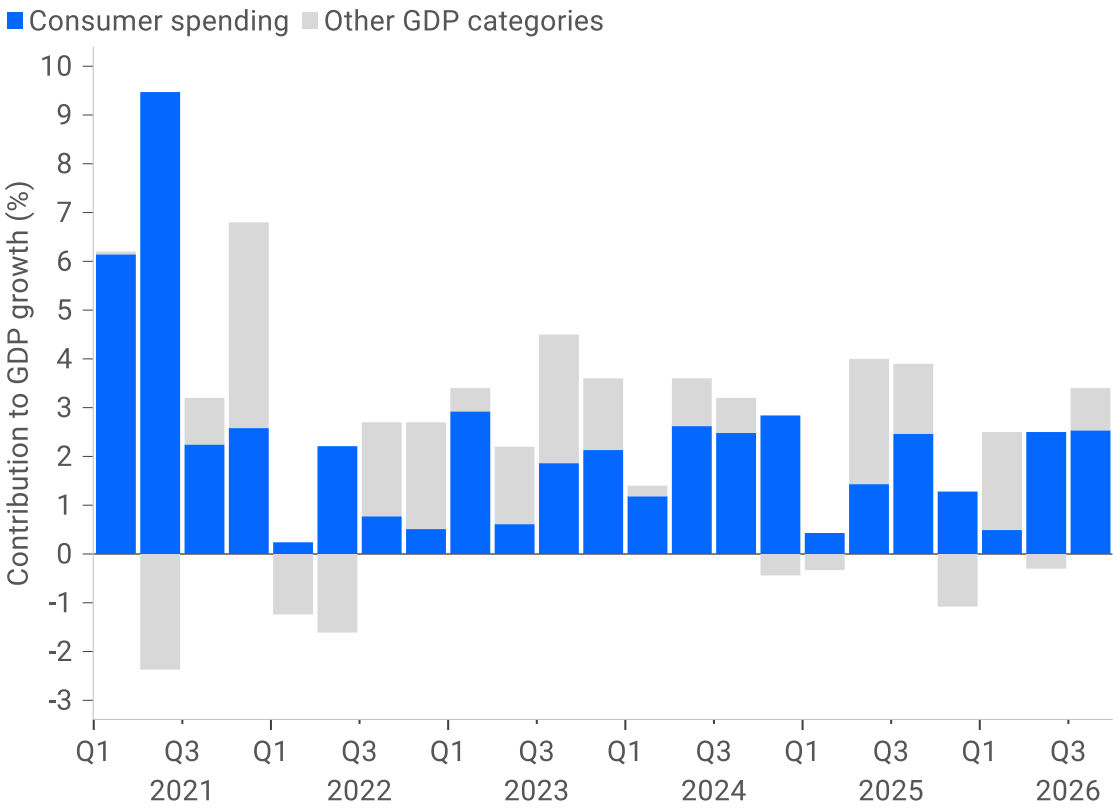
- Status of economic cycle
- Federal Reserve
- Market conditions
- Inflation
- Labor
- Consumer
- Housing
- Corporate outlook
- Business conditions
- Fiscal outlook

Status of economic cycle: We expect resilient economic activity as the cycle extends

The expansion remains intact, supported by consumption and investment, but higher rates leave less room for error.

Consumption remains a key driver of U.S. economic growth

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, November 2026.

GMS economic outlook

- U.S. GDP growth in the post-pandemic period has 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. Consumption's contribution to growth slowed in early 2026 but has since rebounded, while fixed investment, driven largely by artificial intelligence, has emerged as a second source of growth.
- Q3 2026 GDP grew at a 3.4% annualized pace, according to the advance estimate, demonstrating resilience despite higher energy costs and interest rates. Growth was supported by business investment and consumer spending, while net exports weighted on the headline figure.
- 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 continue to struggle with inflation, while higher-income consumers benefit from strong wealth and income effects from elevated asset prices. The key risk is whether slower hiring develops into a broader layoff cycle that changes household behavior.
- Beyond consumer spending, government policy should continue to support growth, although its impact may weaken in 2027 as temporary benefits, such as larger tax refunds, fade and the Fed tightens monetary policy. Fiscal support and relatively favorable financial conditions reinforce our view that growth can slow without the economy falling 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

The Fed has signaled that inflation risks are now its primary concern, prompting us to revise our outlook to include one additional rate hike by year-end 2026.

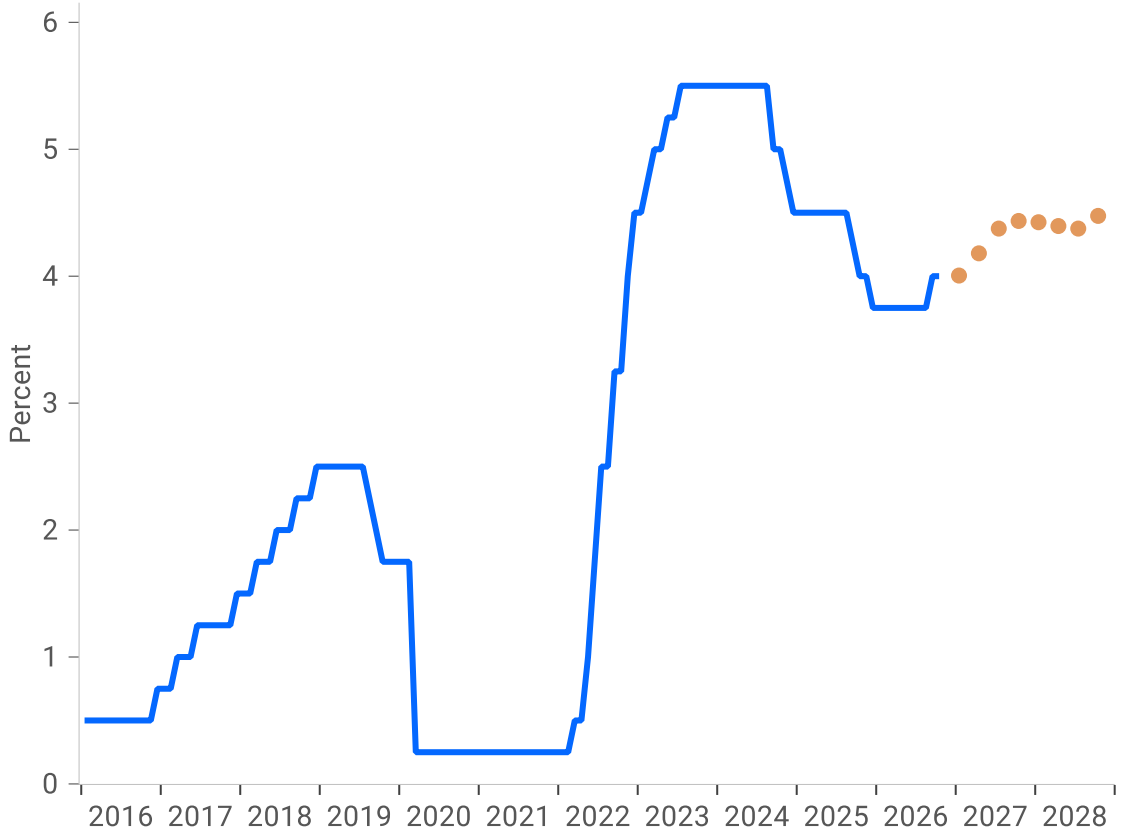
	Background	GMS views
Policy rate	The two sides of the Fed's mandate – price stability and maximum employment – remain in tension. Before the Iran war, the Fed was most focused on preventing labor softness from turning into a more meaningful deterioration. Today, however, energy and related downstream costs have accelerated inflation, constraining the Fed.	We continue to expect one additional Fed rate hike before year-end 2026, following September's 25bp increase and October's hold. Beyond December, the outlook is less certain. While inflation risks remain the Fed's primary concern, a broadly balanced labor market and the economic drag from higher energy costs and interest rates may limit the need for further tightening in 2027.
Decision-making framework	Chair Warsh established a task force, one of five, to review the Fed's inflation targeting, suggesting the potential end of its flexible average inflation targeting regime. He has emphasized that the 2% inflation target is a "firm, fixed target." He has also announced that one meeting (of eight) in 2027 and two in 2028 will focus on strategy, with no rate decision. Long-term inflation expectations are anchored, but core inflation remains persistently above target.	Before reversing its policy stance, the Fed would likely need to see clearer labor market deterioration or a sustained decline in core inflation. Persistent above-target inflation keeps the bias toward further tightening. Warsh's leadership does not change that reaction function, but his framework review, fewer rate-setting meetings, and his aversion to forward guidance add to uncertainty around how the Committee may respond over time.
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 continues to reinvest maturing securities, but reserve management purchases ($10B/mo) have been paused. Chair Warsh has long favored a smaller balance sheet, and the Fed has reportedly begun reviewing its reserve management program.	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. With reserve management purchases paused, the balance sheet impulse is closer to neutral than supportive for now.
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 periodic 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. 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

Rates are expected to remain elevated in the medium term

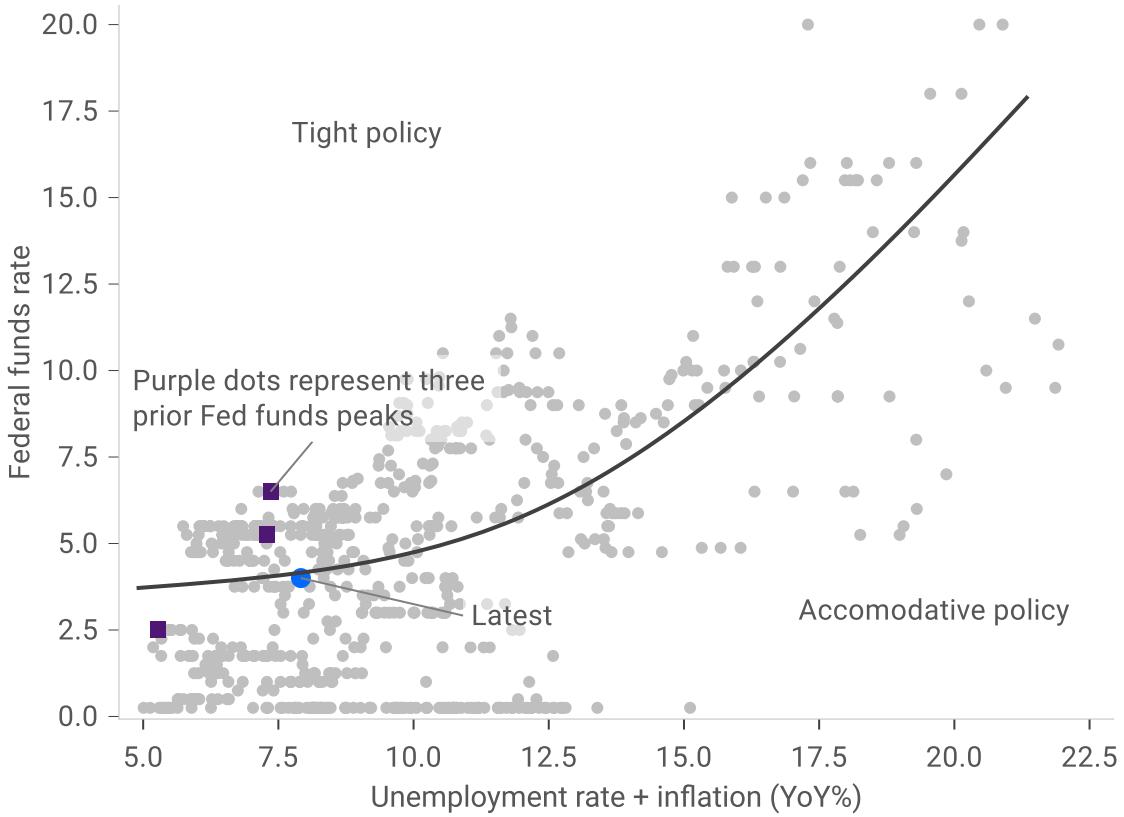
Federal funds rate and implied Fed funds futures curve



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

Fed policy looks appropriate given unemployment and inflation

Federal funds rate vs unemployment rate + inflation (YoY%)



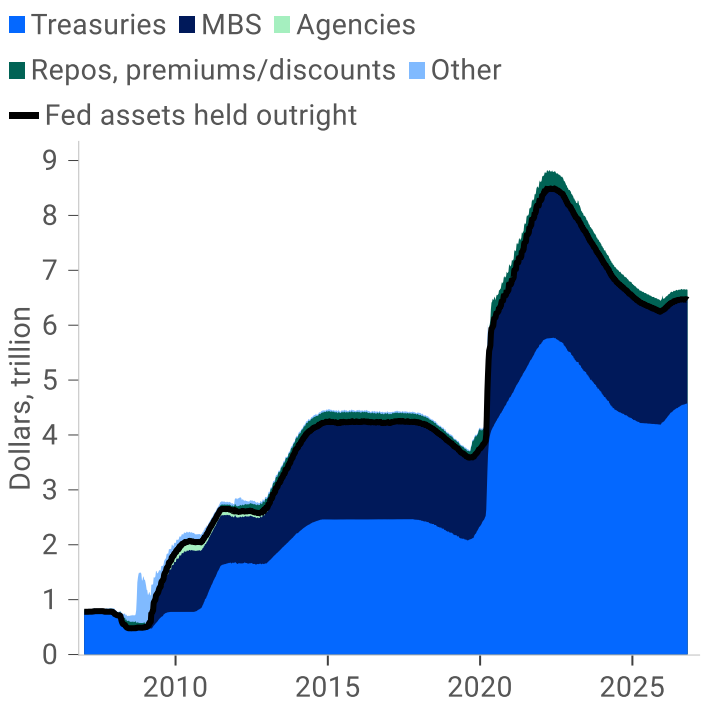
Sources: New York Life Investment Management Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Federal Reserve, Macrobond, November 2026.

The Federal Reserve

Balance sheet & liquidity support

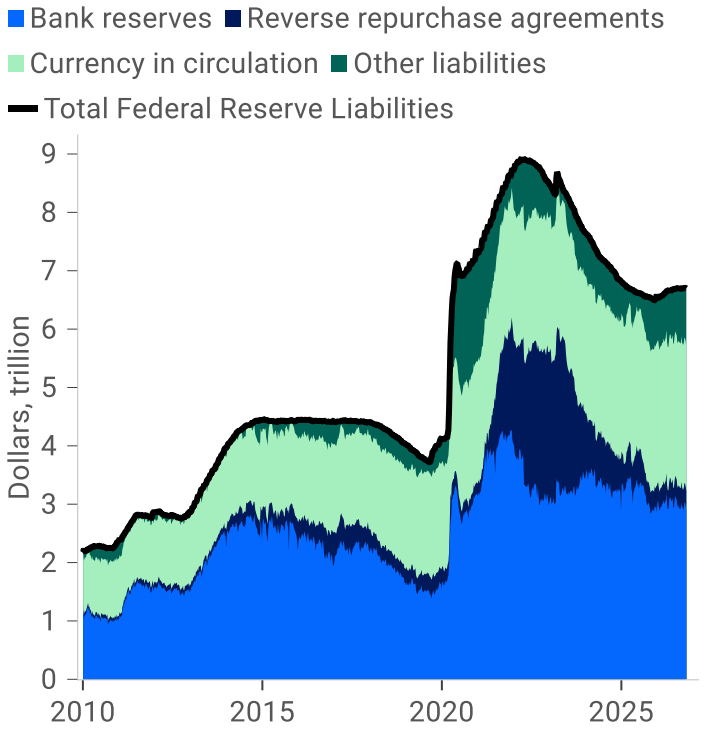
QT is over and the balance sheet is no longer draining liquidity

Federal Reserve balance sheet assets



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

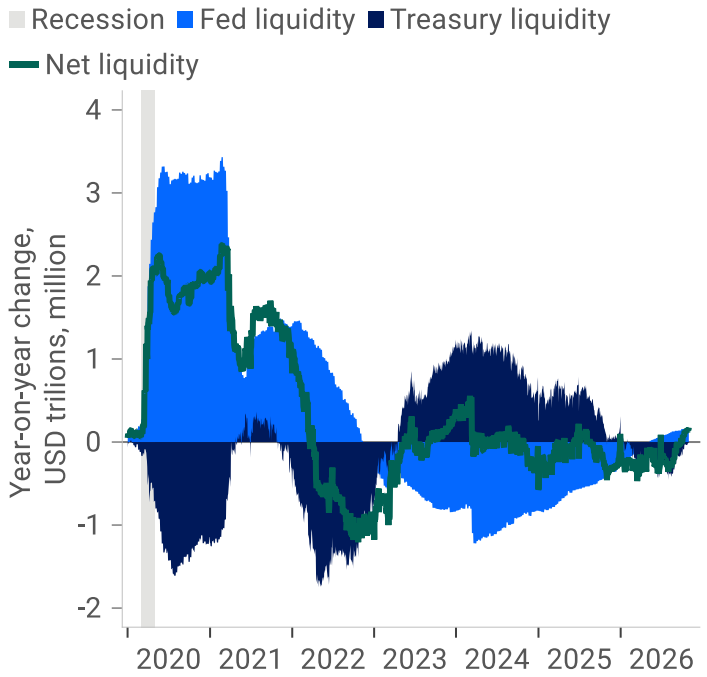
Liability side of balance sheet: from "abundant" to "ample" reserves, plus marginal liquidity support where needed



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

Liquidity conditions remain neutral

Fed liquidity represents changes in the size of the Fed's balance sheet
Treasury liquidity represents changes in bank reserves and the RRP in response to Treasury auctions



Sources: New York Life Investment Management, Global Market Strategy, NBER (National Bureau of Economic Research), U.S. Bureau of Labor Statistics (BLS), Macrobond, November 2026. RRP: reverse repurchase agreements.

The risks to Fed independence

The Warsh-led Fed has started off with a hawkish tone. Questions around Fed independence remain "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?

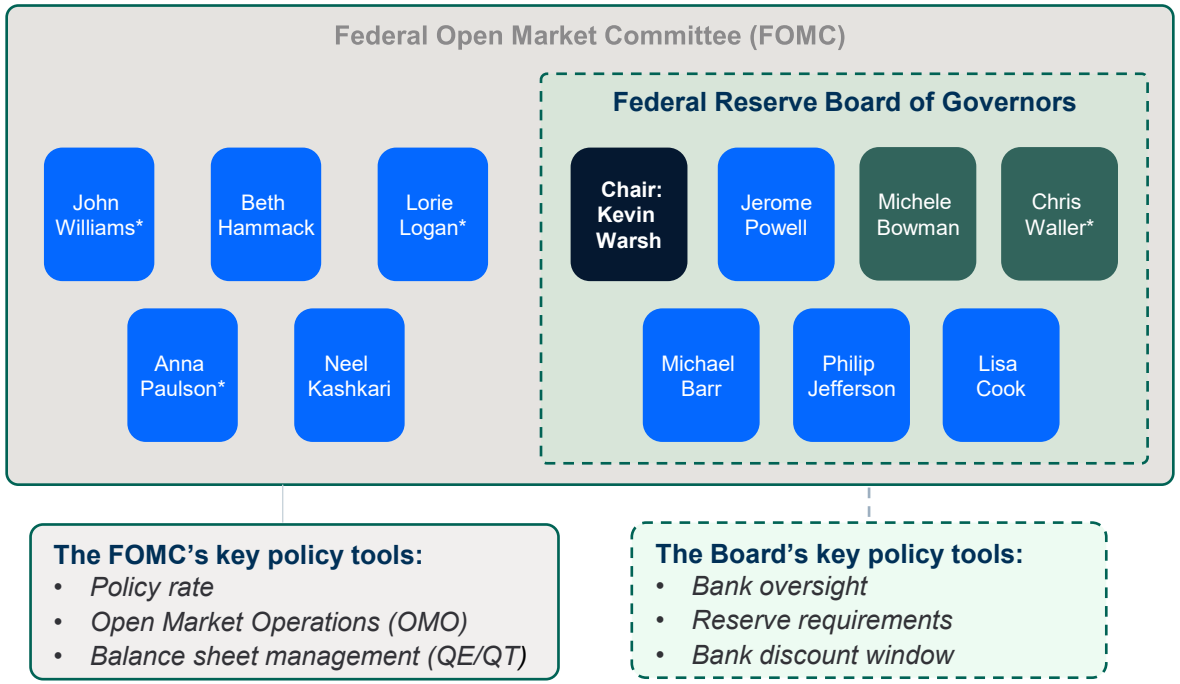
- We are relatively more concerned about the independence of the Board of Governors over the coming years. With Powell and Lisa Cook retaining their Board seats for the time being, this independence comes down to whether existing Board members previously appointed by President Trump – Michele Bowman 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, in effect as of 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

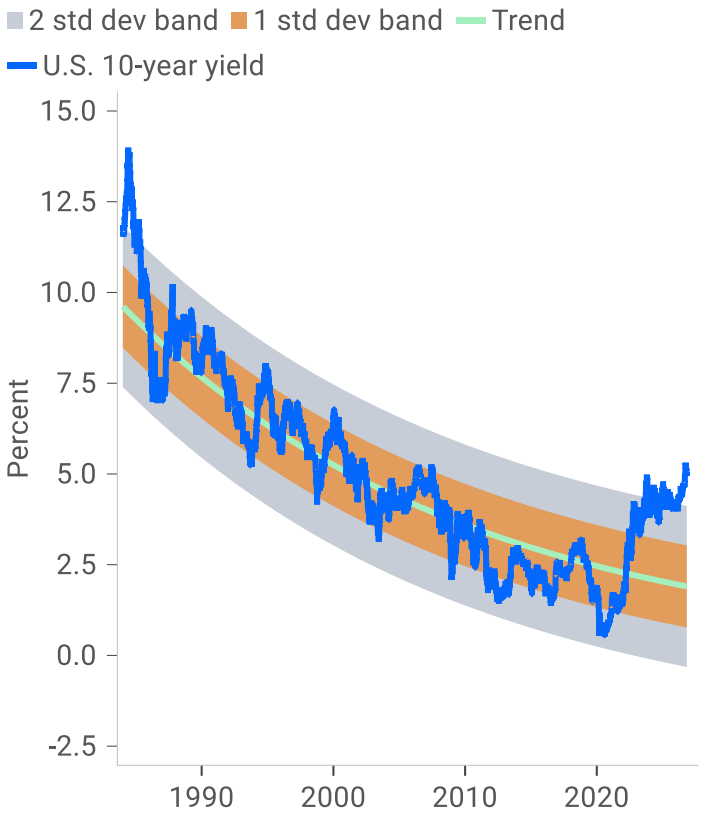
Near-term market conditions remain supportive, but long rates leave little room for disappointment.

	Background	GMS views
Market rates and the Treasury curve	The Treasury curve has shifted unevenly in 2026. The Iran conflict initially drove front-end yields higher, flattening the 2Y-10Y curve as markets priced in additional Fed tightening. More recently, the curve has steepened, with further steepening possible as persistent deficits, heavy Treasury issuance and uncertainty around global demand for Treasuries put upward pressure on longer-term yields.	We consider 4.50-5.50% a credible range for the 10Y Treasury yield over the next 6 months. For investors, higher yields are creating more attractive income opportunities, but we would not treat today's levels as an all-clear to pile into duration. Rates are likely to remain volatile, arguing for adding duration selectively rather than all at once.
Financial conditions	Market-determined financial conditions remain relatively loose, though higher rates and some deterioration in lower-quality credit point to modest tightening at the margin. Overall, conditions still do not fully reflect the risks of an extended Iran conflict or a broader deterioration in credit quality.	Relatively loose financial conditions continue to reflect strong corporate profit margins and resilience in consumer spending, supporting a constructive near-term credit outlook. However, risks are rising as interest rates and oil prices remain elevated, while a maturing credit cycle puts a greater premium on selectivity and underwriting.
Credit availability & bank lending	Bank lending conditions have improved from depressed levels, and loan demand has picked up modestly. However, the recent rise in yields raises borrowing costs again, which could slow the pace of improvement even as a more normal yield curve supports lending incentives.	We see the lending outlook as only modestly positive. A more normal yield curve should help bank lending over time, but higher long rates and policy uncertainty are likely to keep loan demand from accelerating sharply.

Market conditions

Market rates and the Treasury curve

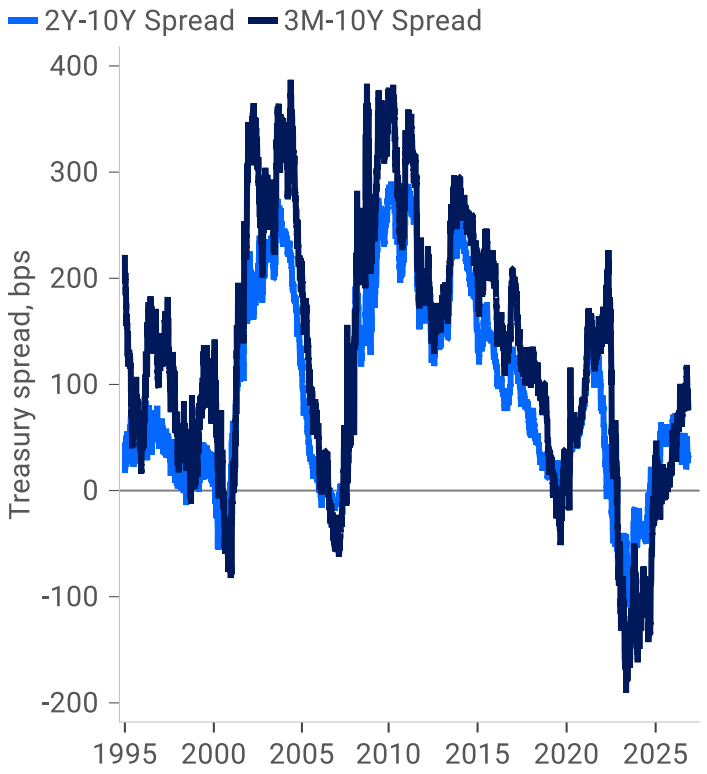
The 10-year yield is at its highest level since 2007 and breaking out of its long-term trend



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

The Treasury yield curve has normalized across tenors

U.S. Treasury curve spreads



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

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

10-year treasury term premium (Kim & Wright model)



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

Market conditions

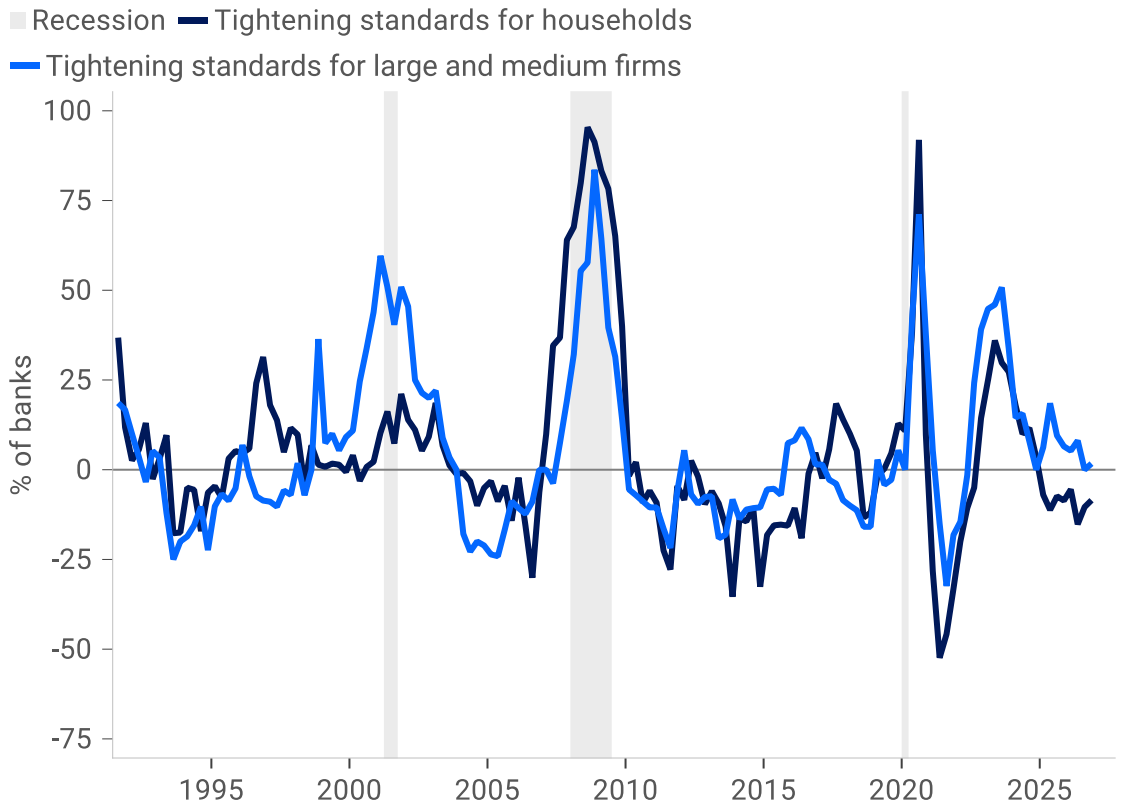
Financial conditions & bank lending

Market financial conditions have remained loose even amid the Iran crisis and rising rates



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

Bank lending standards are near neutral



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

Inflation

Inflation is the main reason we expect rates to stay restrictive. Energy has pushed headline inflation higher, and early signs of pass-through into goods and services raise the risk that it proves stickier than expected.

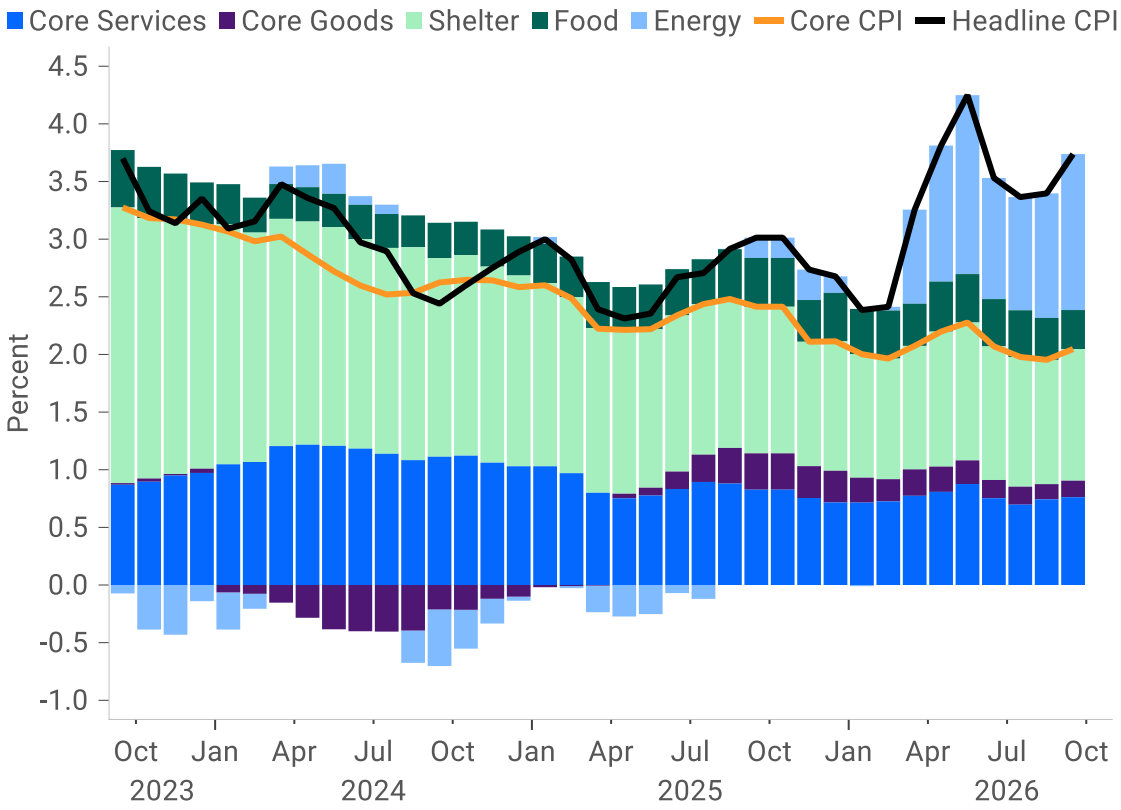
	Background	GMS views
Goods	Durable goods prices have started to firm again, particularly in more import-exposed categories such as household furnishings, consumer staples, and electronics. Food prices are also becoming a renewed risk, as fertilizer shortages, shipping and energy costs, and El Niño threaten to push agricultural costs higher into 2027.	Goods inflation remains vulnerable to further upside surprises. Tariffs were already pressuring prices before the Iran conflict, and higher shipping, energy, and fertilizer 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. Elevated mortgage rates make it less likely that homeowners are going 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 offset rising energy costs.
Inflation expectations	Near-term inflation expectations remain volatile, reflecting geopolitically-driven energy price risks. Longer-term expectations remain anchored, suggesting that markets broadly believe the Fed can hold the line on its inflation target.	We view the recent volatility 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. That makes it harder for the Fed to look through an energy-driven rise in headline inflation.

Inflation

Goods

The Iran conflict has reversed nearly three years of disinflation

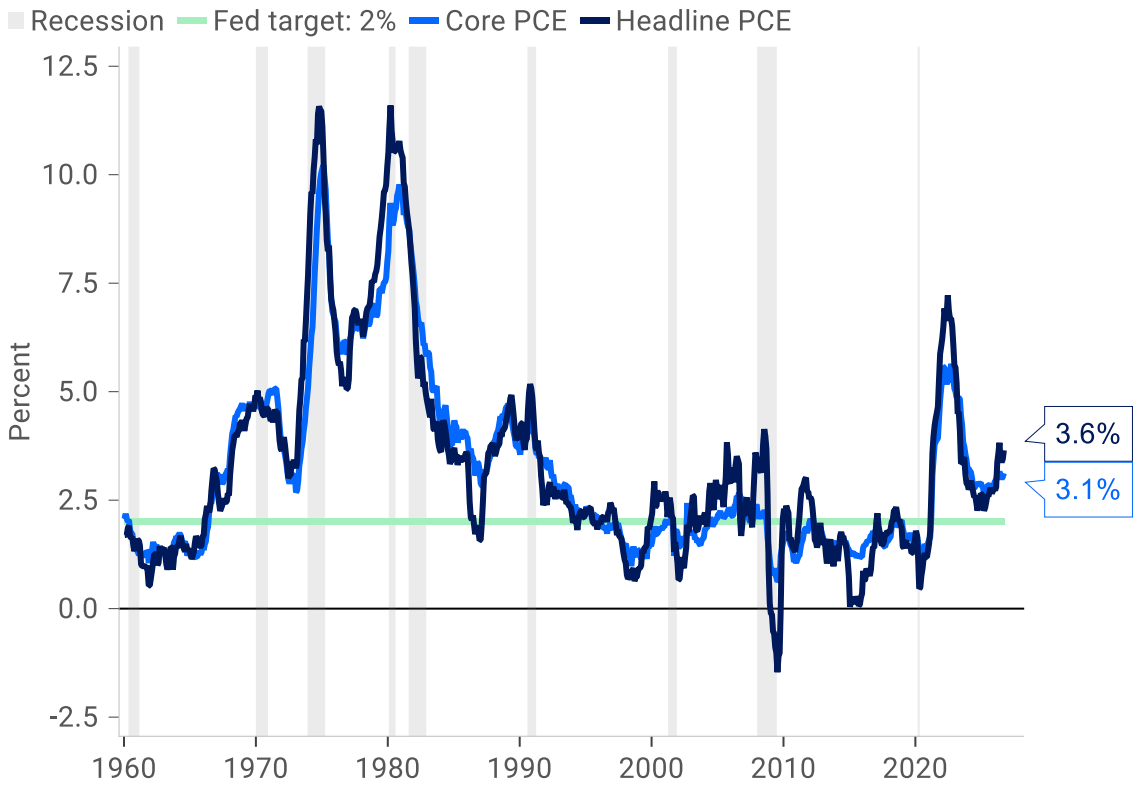
U.S. CPI breakdown (YoY%)



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

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

U.S. PCE (YoY%)



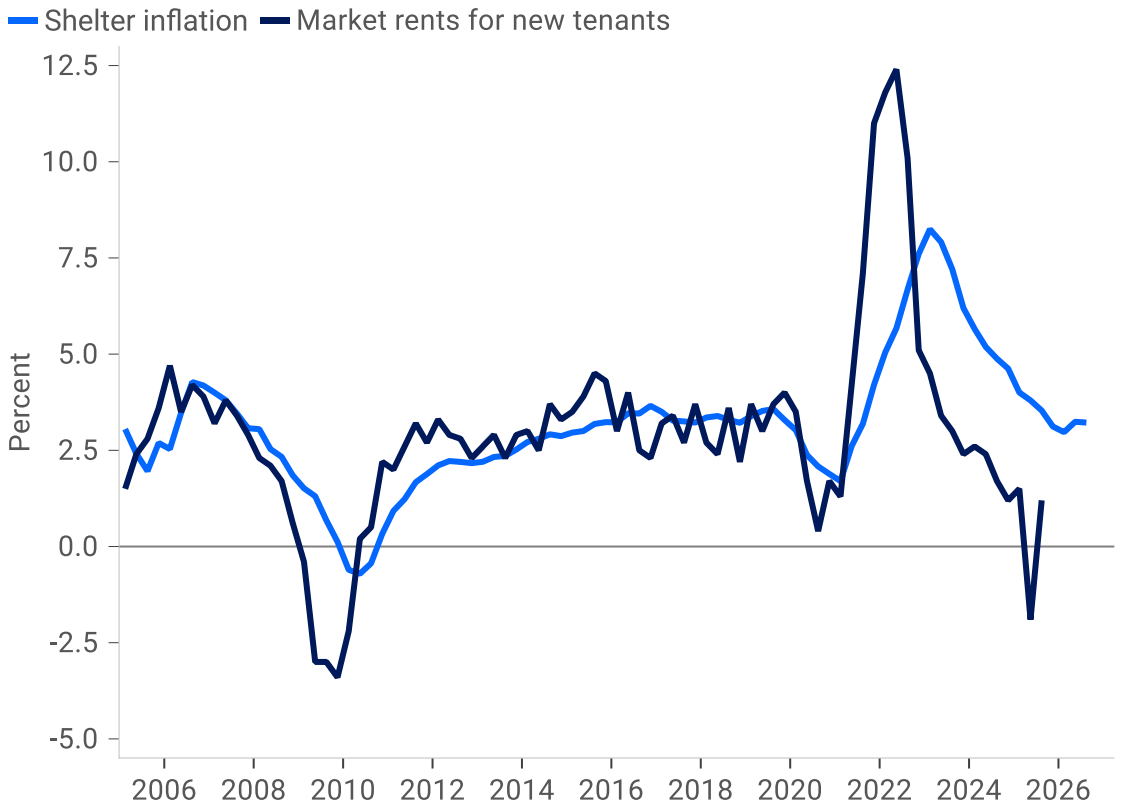
Sources: New York Life Investment Management, Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), NBER (National Bureau of Economic Research), Federal Reserve, Federal Reserve Bank of New York, Macrobond, November 2026. PCE: Personal Consumption Expenditure, the Fed's targeted inflation measure

Inflation

Shelter & supercore (services ex-shelter)

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

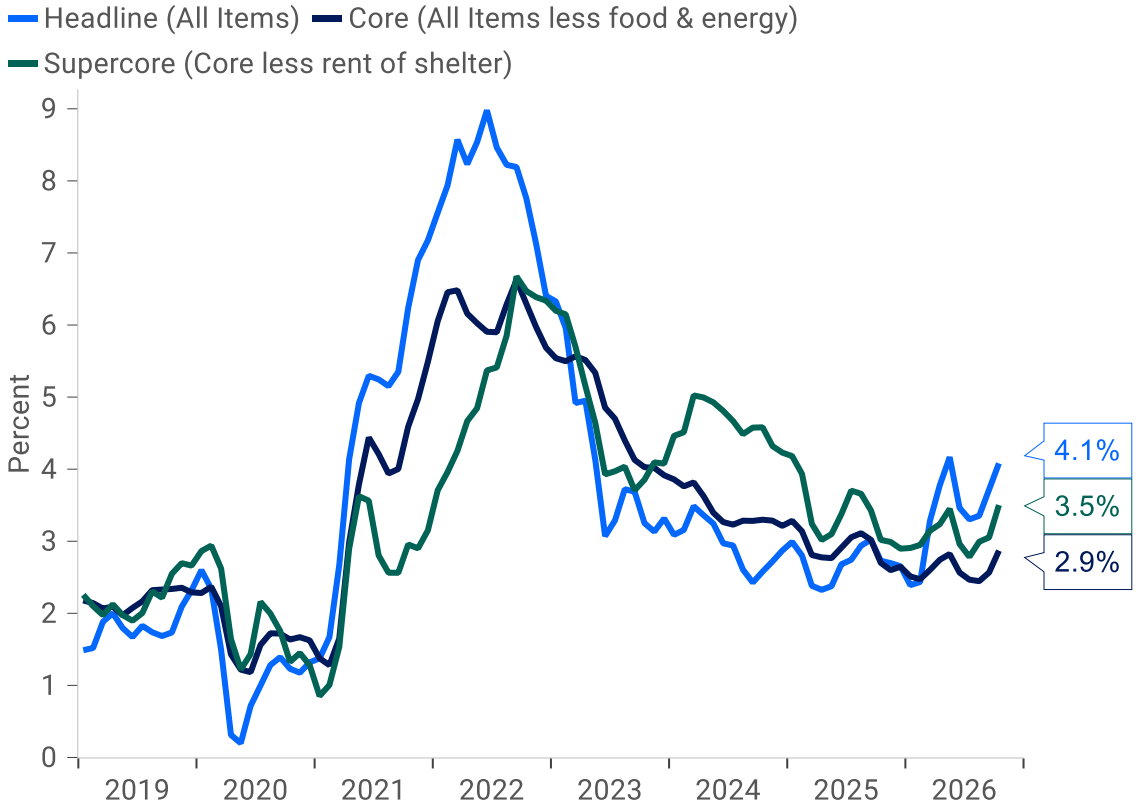
Shelter inflation vs rents (YoY%)



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

Inflation is reaccelerating across headline, core, and supercore

Inflation: supercore vs core vs headline (YoY%)



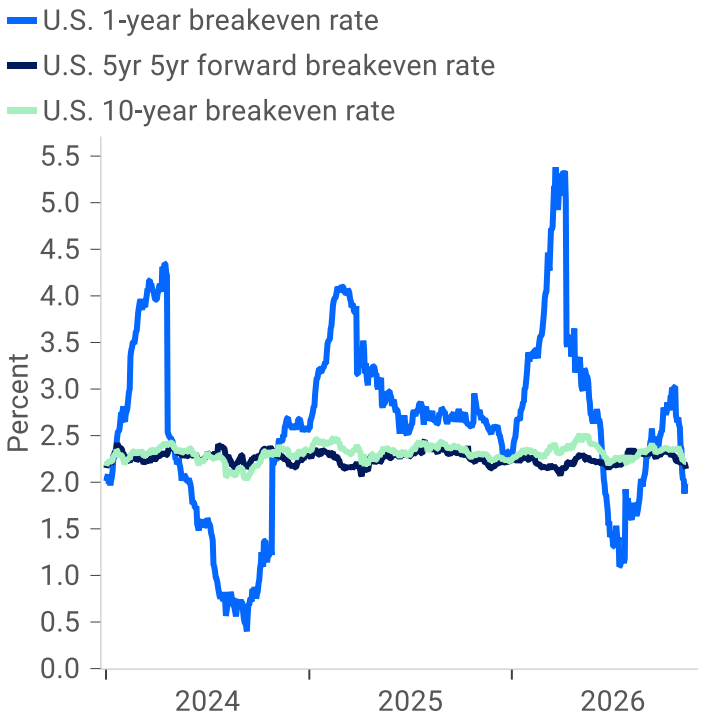
Sources: New York Life Investment Management Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, November 2026.

Inflation

Expectations

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

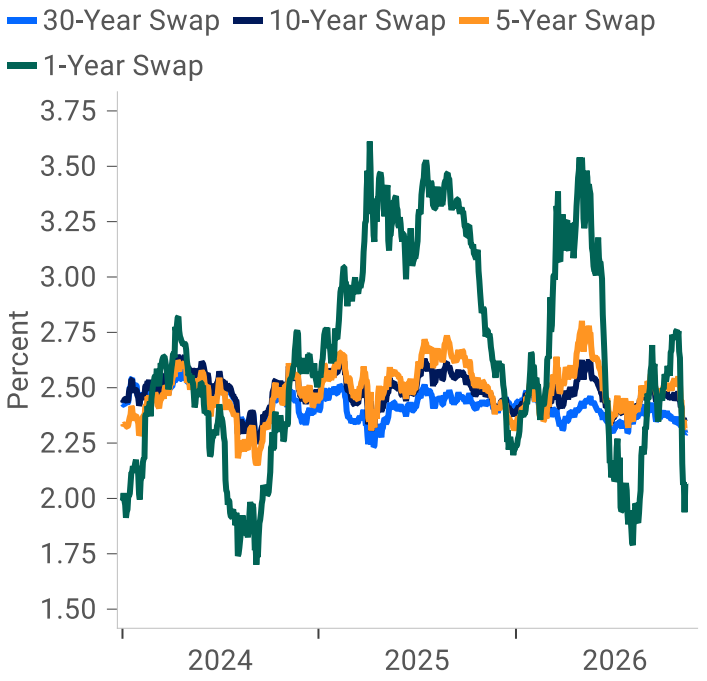
Inflation expectations: breakeven rates



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Macrobond, November 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

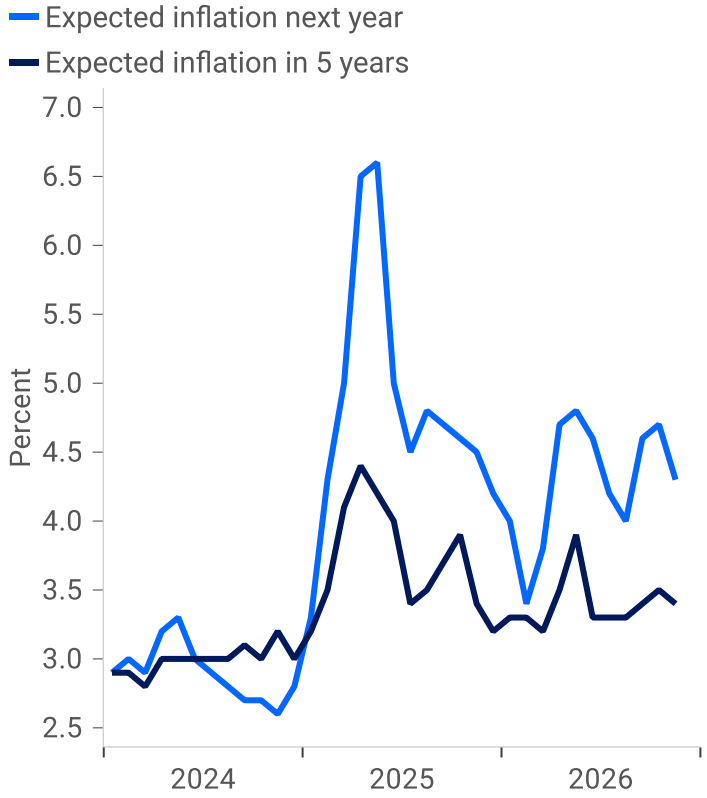
Inflation expectations: inflation swap rates



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Macrobond, November 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



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

Labor

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

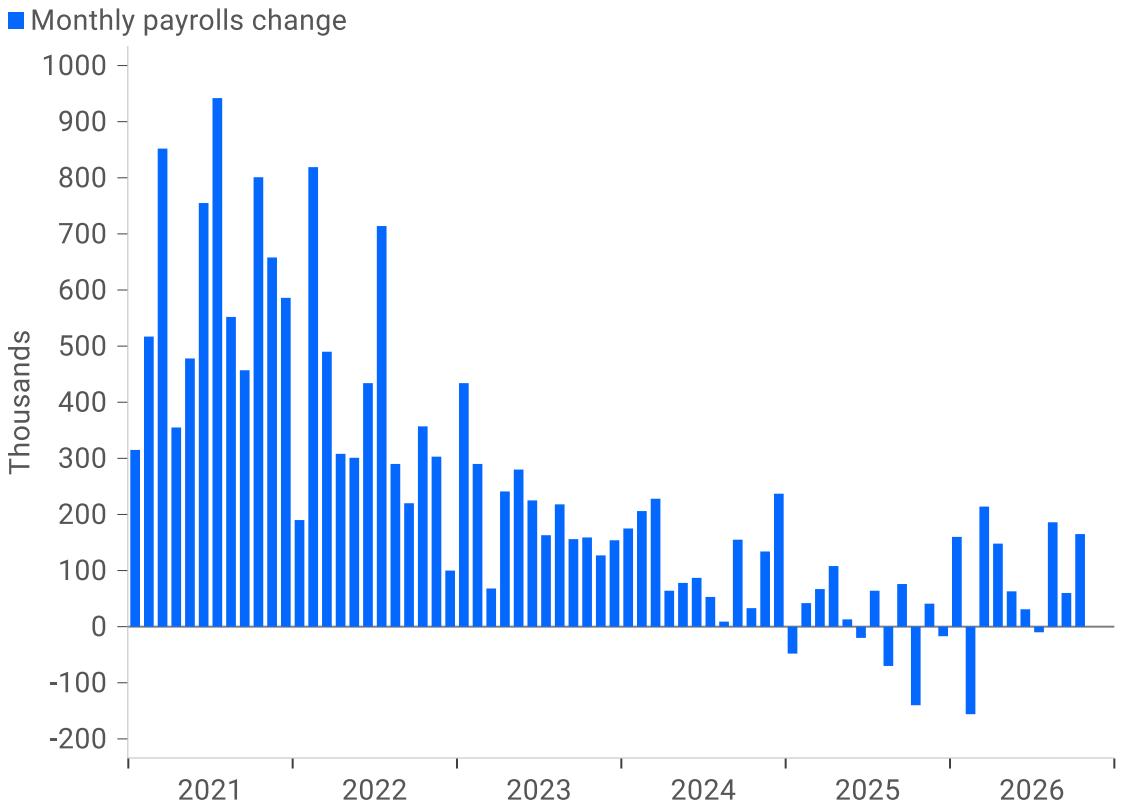
	Background	GMS views
Hiring	Payroll growth has slowed from the post-pandemic pace and is consistent with a labor market that is balanced rather than breaking. Additionally, layoffs remain contained and claims have not yet signaled broad labor market stress.	The labor market is still “low fire, low hire.” 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 210k 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; falling 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

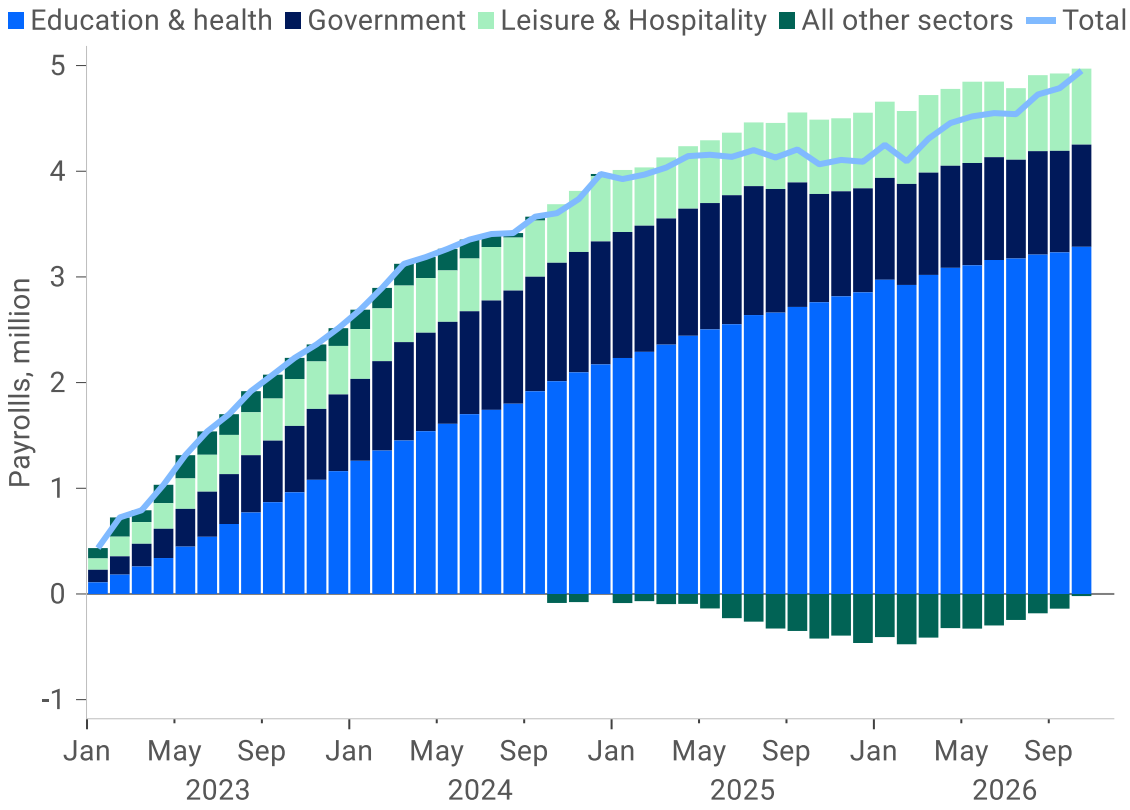
Monthly payrolls change



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

The majority of job gains seen in less cyclical sectors

Payroll growth by segment since 2023



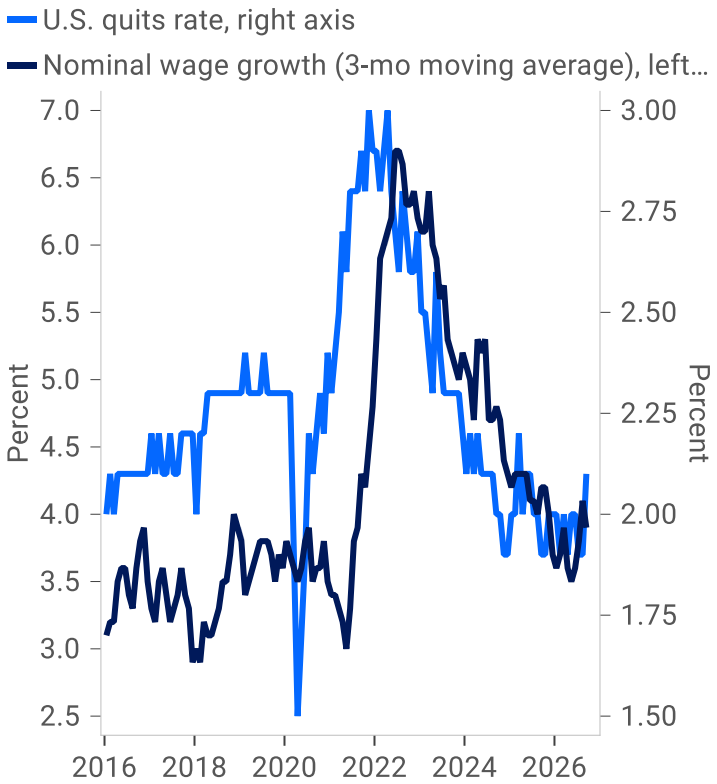
Sources: New York Life Investment Management Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, November 2026.

Labor

Layoffs & jobless claims, wages, and labor supply

Wage growth and quits have picked up modestly

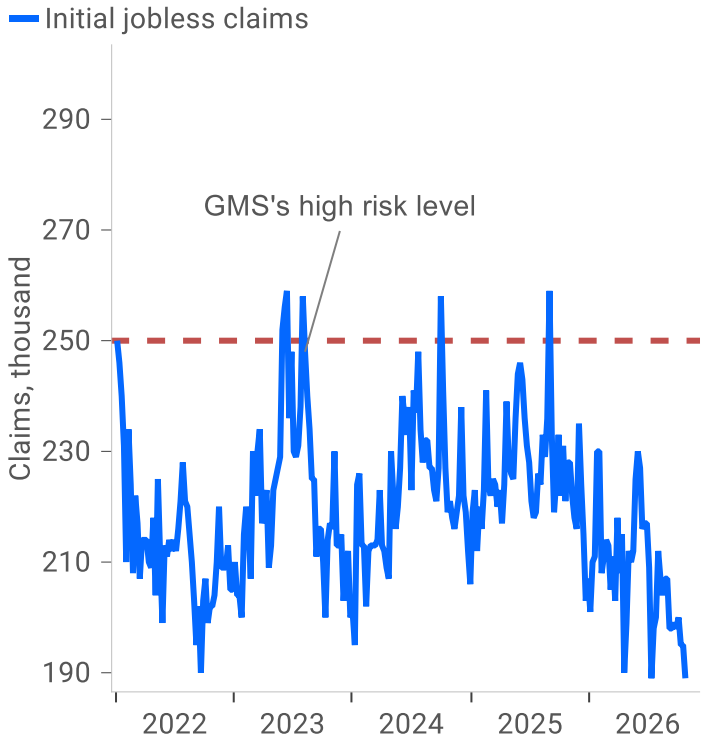
Wage growth (YoY%) vs quits rate



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

Jobless claims should provide an early signal of labor market weakness

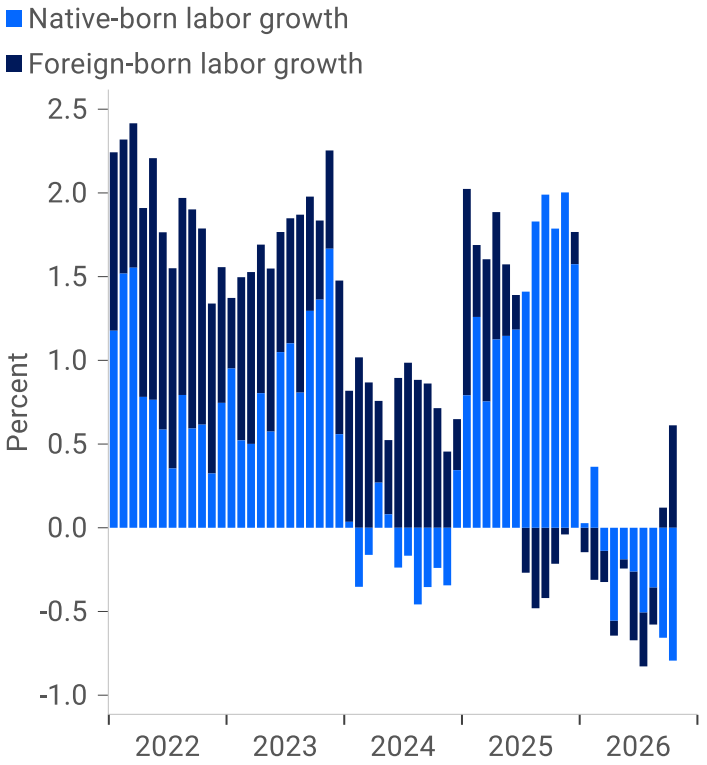
Initial jobless claims



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

A smaller labor force is changing how labor weakness shows up

Native-born vs foreign-born labor growth



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

Consumer

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

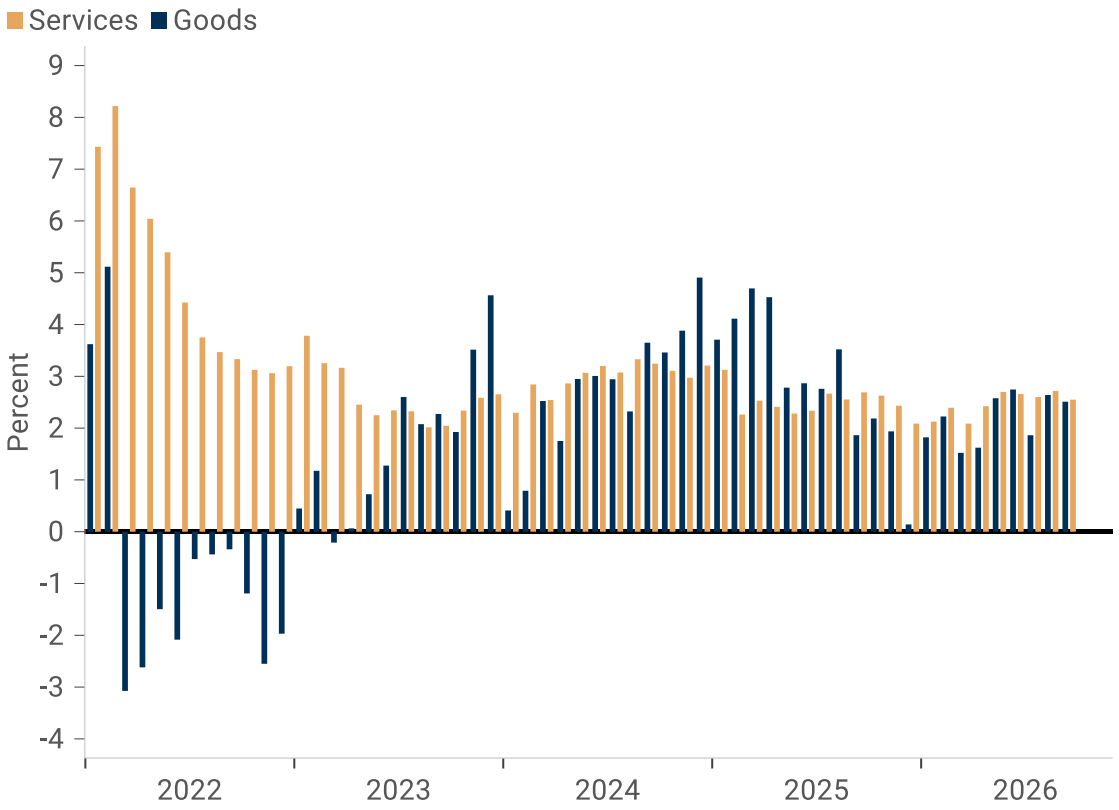
	Background	GMS views
Spending	Headline consumer spending has held up well, supported disproportionately by higher-income households. Strong asset prices, home equity, and investment income have helped sustain demand even as lower-income cohorts face greater affordability pressure.	We continue to see consumer spending as supportive of near-term growth, though AI-driven investment is a larger share of growth. Higher-income households account for so much of consumption that headline spending can stay firm even as price-sensitive households pull back. Spending by political parties ahead of the midterms also counts as consumer spending and may be inflating current figures, so growth could moderate in 2027.
Credit & delinquencies	Consumer credit growth normalized in 2026 after slowing in 2024 and 2025. 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 the Fed's rate hike and the prospect of elevated policy rates will not provide 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 still-low 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

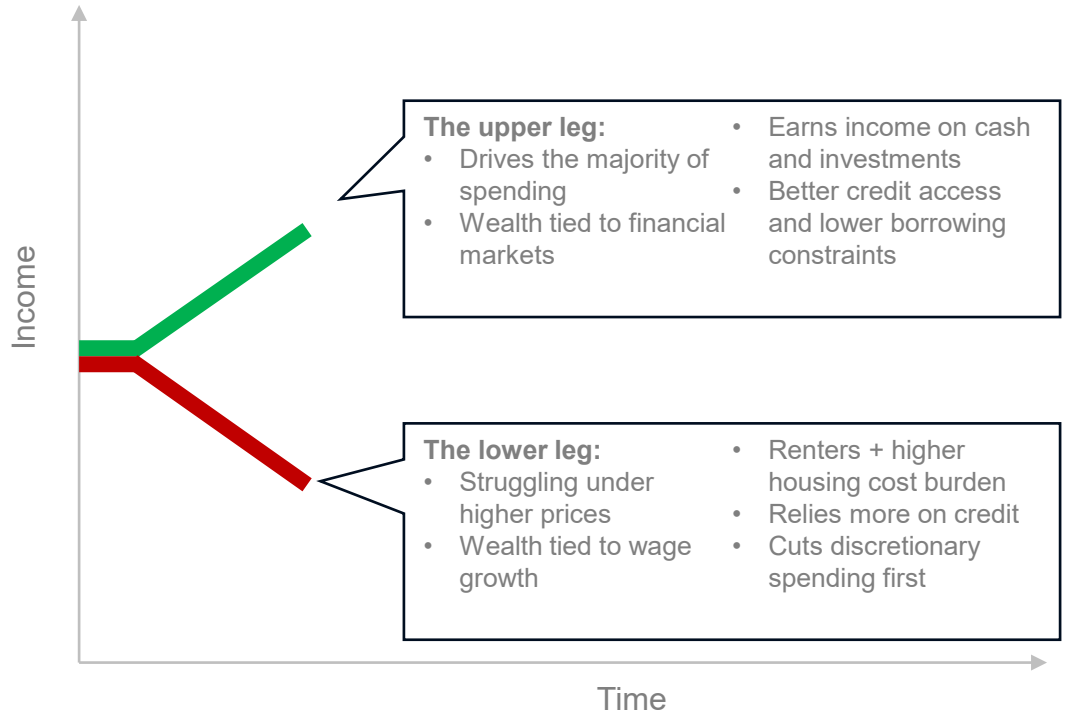
Goods vs services spending (YoY%)



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

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

A visualization of a K-shaped economy

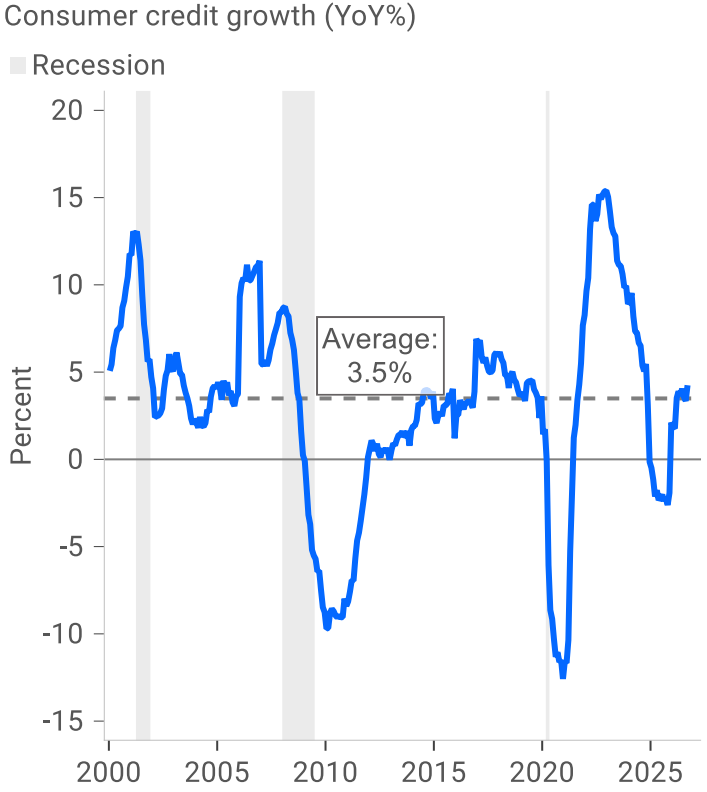


Opinions of New York Life Investment Management, Global Market Strategy, November 2026.

Consumer

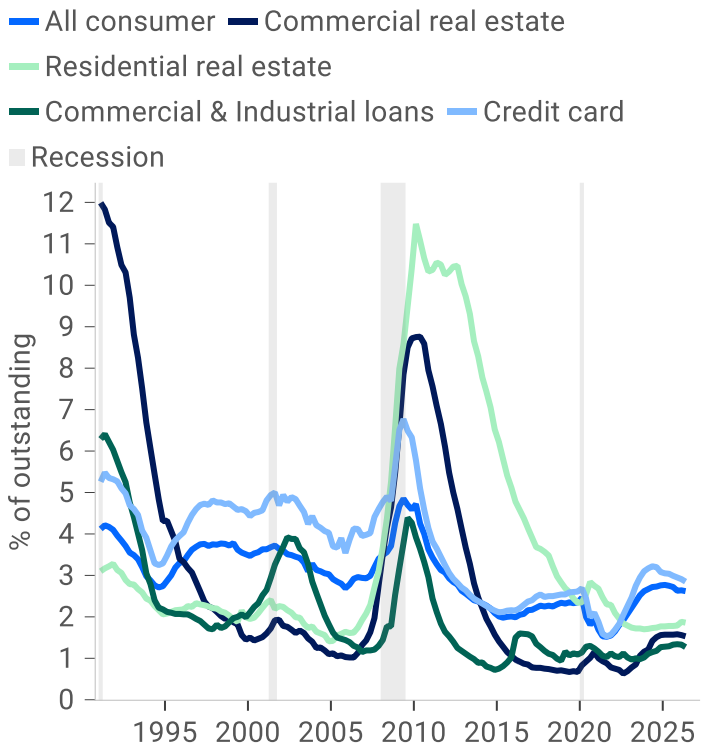
Credit & delinquencies

Consumer credit growth has returned to its long-term average



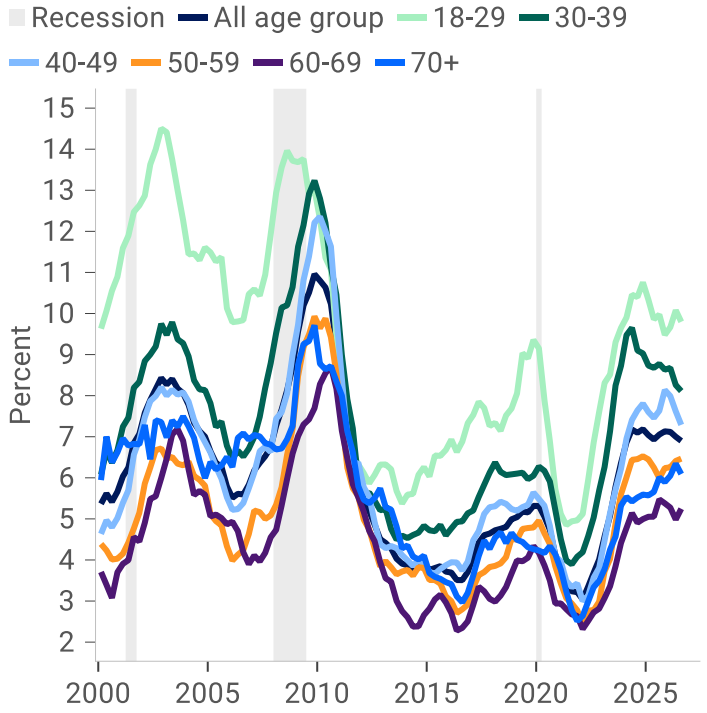
Sources: New York Life Investment Management Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, November 2026.

Delinquency levels are elevated but are not yet concerning



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

Pockets of stress are building across borrowers of all ages



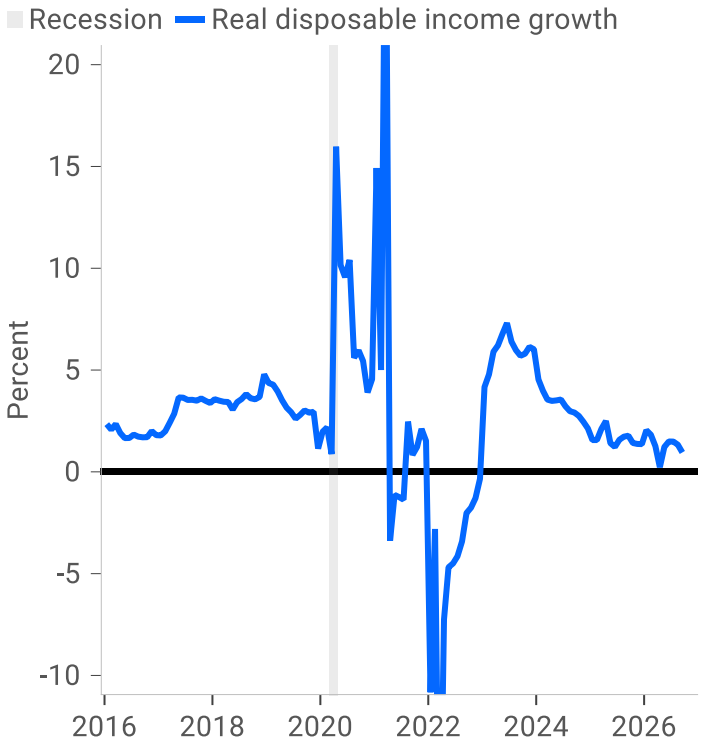
Sources: New York Life Investment Management Global Market Strategy, Federal Reserve Bank of New York, NBER (National Bureau of Economic Research), Macrobond, November 2026.

Consumer

Income & wealth

Real disposable income has flattened, squeezing consumers as energy costs rise

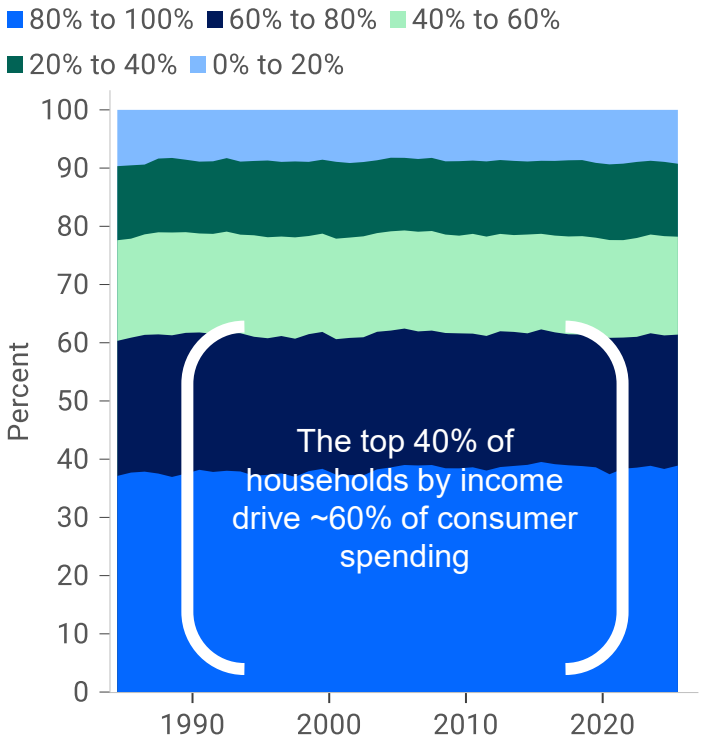
Disposable Income (YoY%)



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

Top-income households have driven most consumer spending for decades

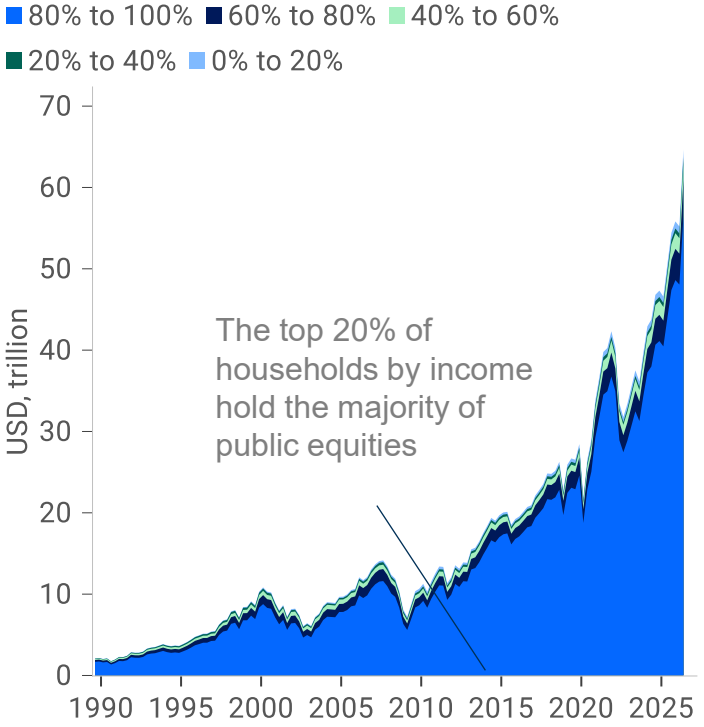
Consumer spending by income quintile



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

Equity ownership is concentrated at the top income percentile

Corporate equities and mutual fund shares by income percentile



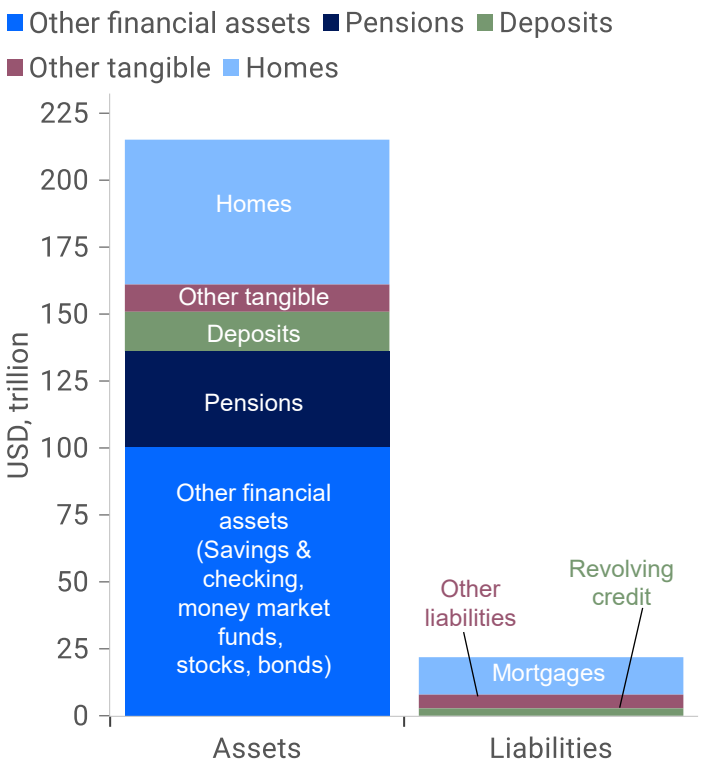
Sources: New York Life Investment Management Global Market Strategy, Federal Reserve, Macrobond, November 2026.

Consumer

Savings & balance sheet

On aggregate, consumer balance sheets are healthy

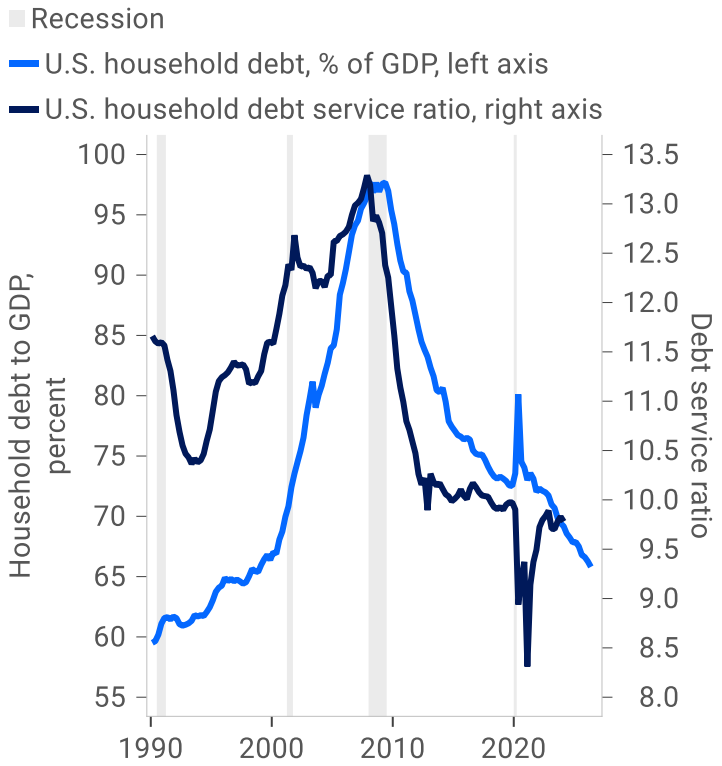
U.S. consumers' balance sheet



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

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

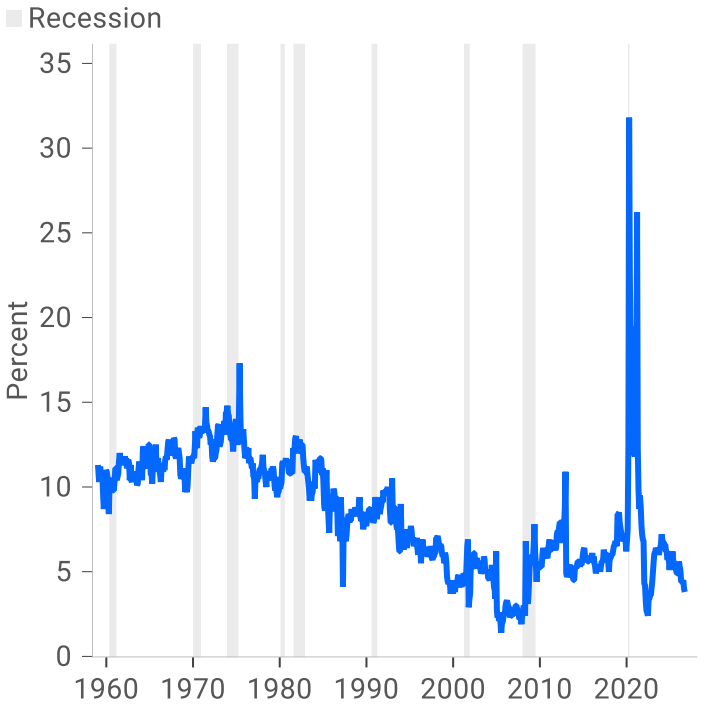
Household debt



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

The U.S. savings rate is dwindling, and alongside increasing credit growth, could signal early signs of consumer stress

Household savings rate



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

Housing

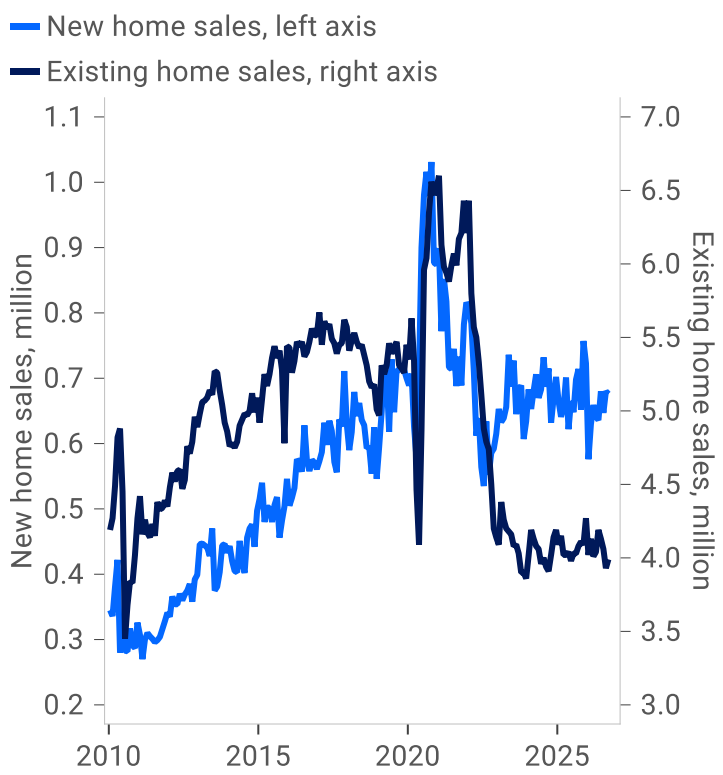
Elevated mortgage rates continue to hamper affordability, and home prices have a strong supply-constrained floor in the medium term.

	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 larger 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 in the Northeast.	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.	Elevated mortgage rates continue to hamper affordability. Meaningful improvement will likely require time for existing and new mortgage rates to converge.
Policy	In July 2026, 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

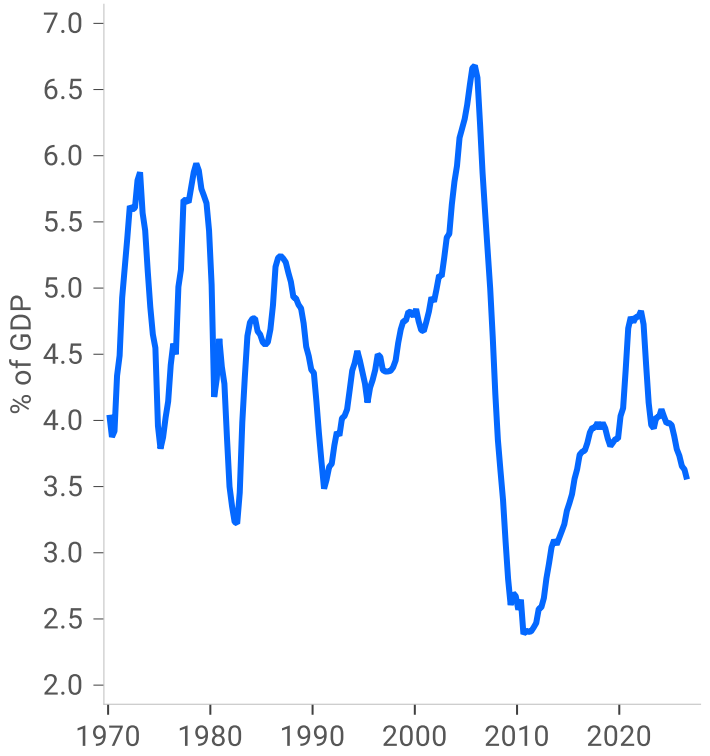
Activity & supply

Existing homeowners are unwilling to give up their low mortgage rates



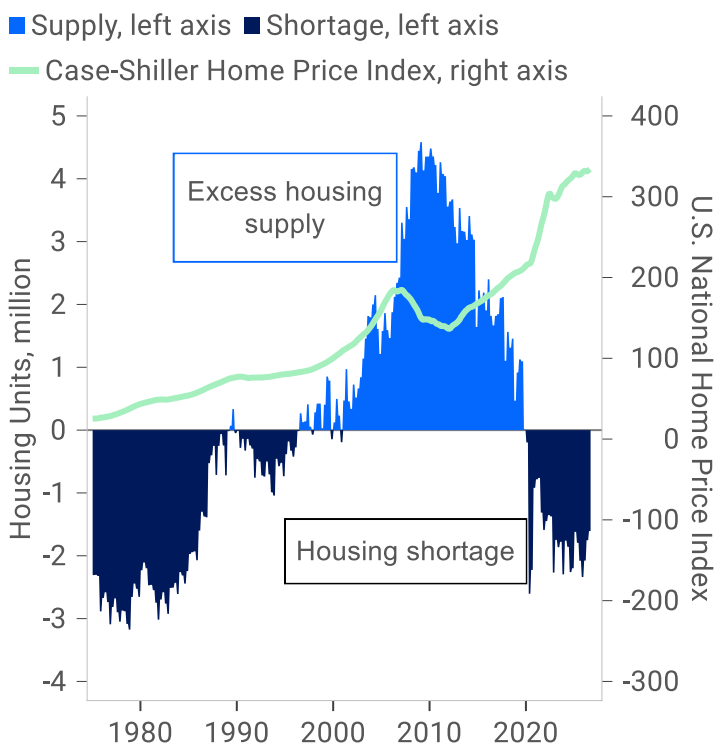
Sources: New York Life Investment Management Global Market Strategy, U.S. Census Bureau, National Association of Realtors (NAR), Macrobond, November 2026.

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



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

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



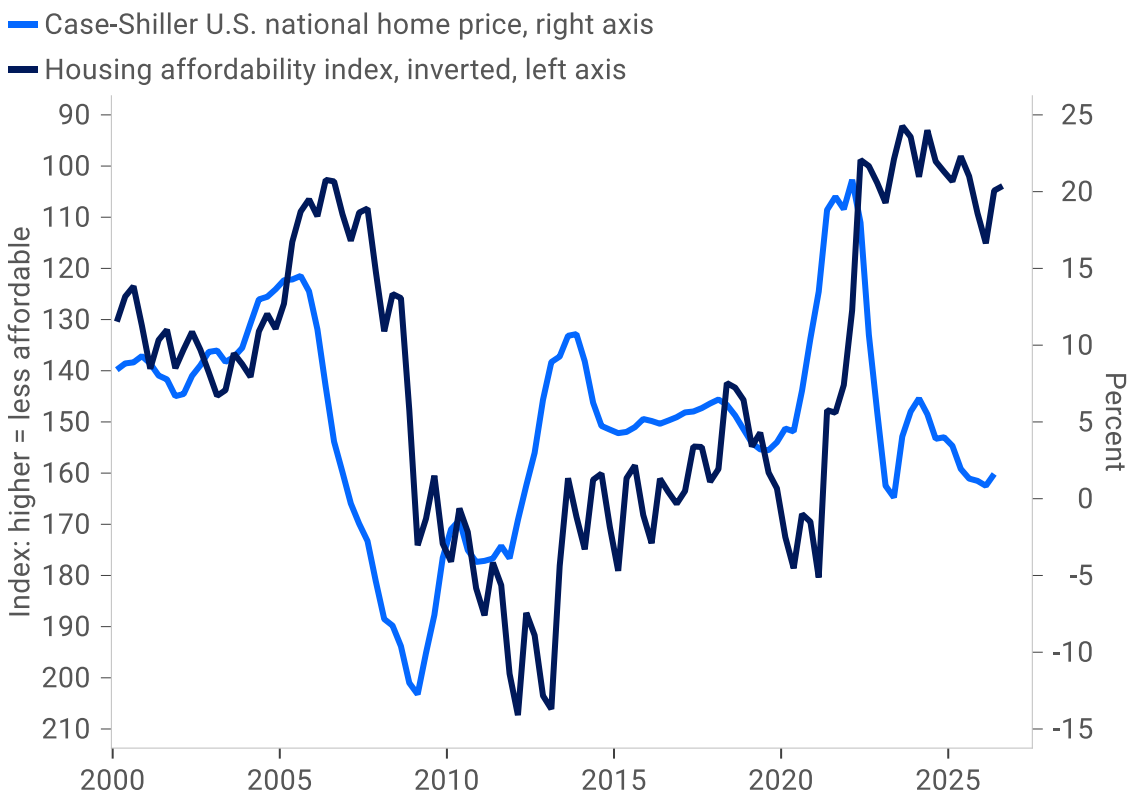
Sources: New York Life Investment Management Global Market Strategy, U.S. Census Bureau, U.S. Bureau of Economic Analysis (BEA), S&P Global, Macrobond, November 2026.

Housing

Affordability & policy

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

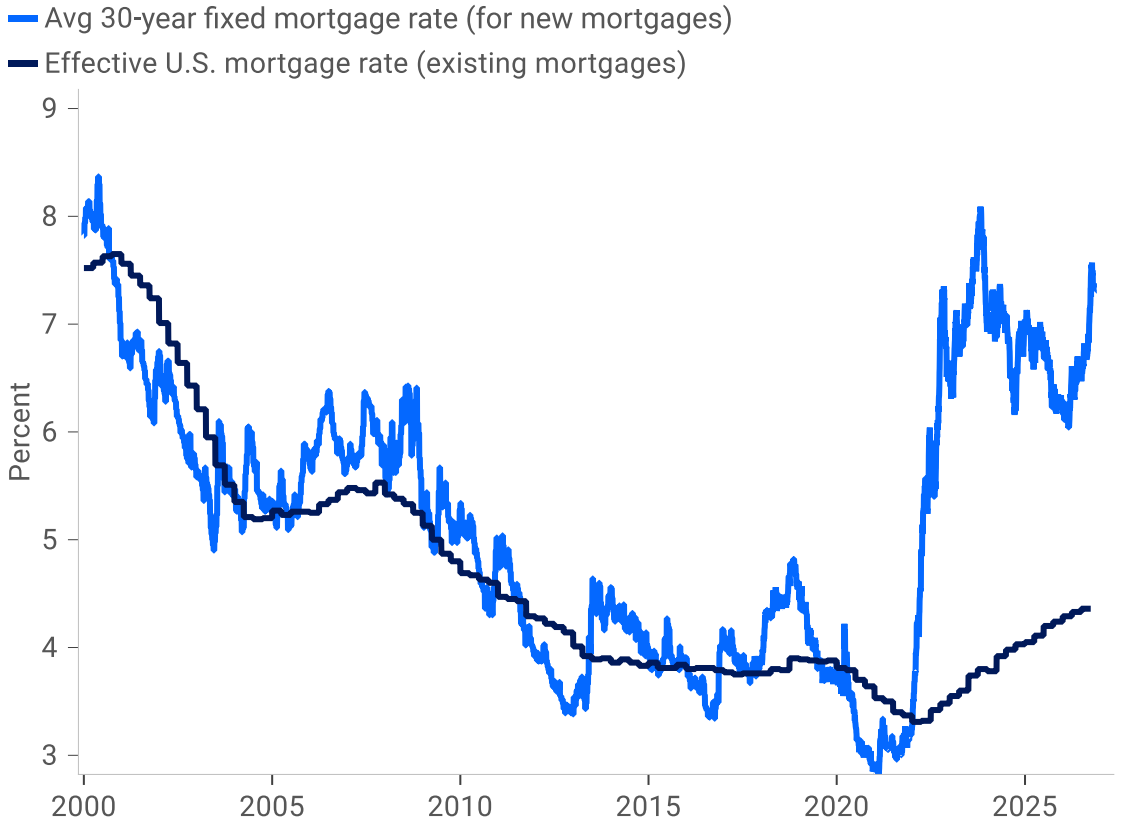
Housing affordability vs home price growth (YoY%)



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

Mortgage rates would need to plummet to incentivize housing turnover

Mortgage rates, %



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

Corporate outlook

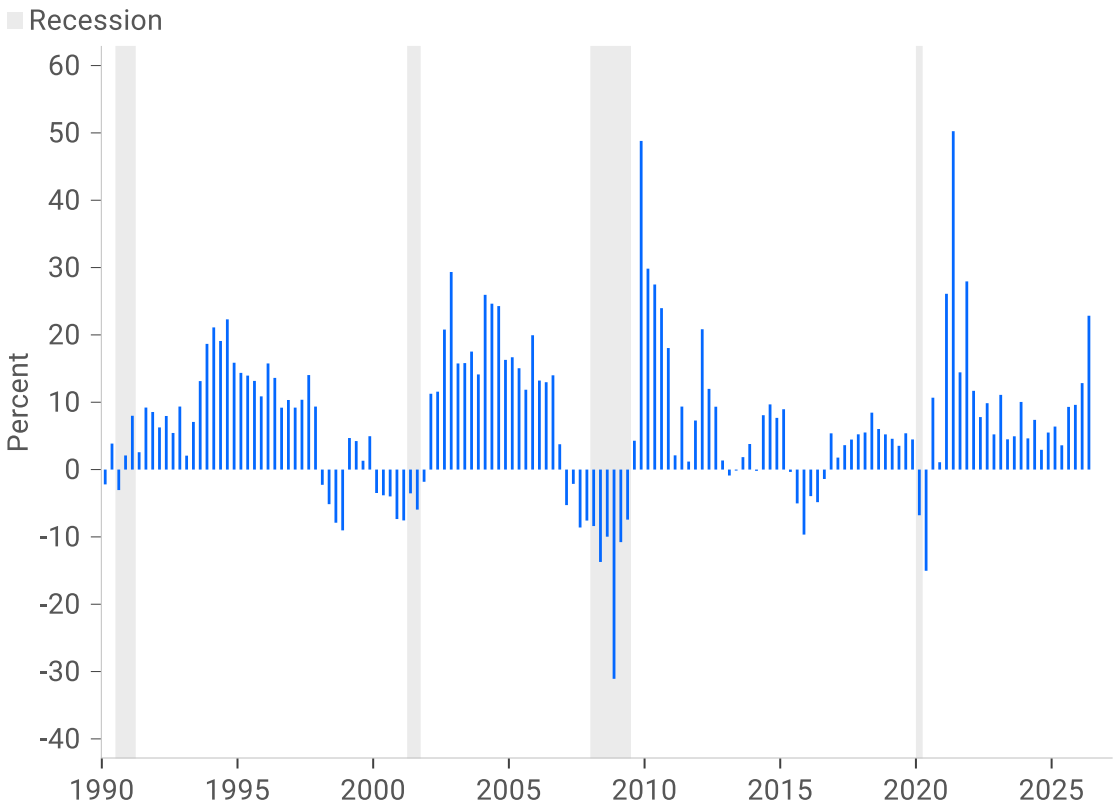
Resilient corporate profits provide a strong base for employment; inflation and higher rates present key risks to how companies manage margins.

	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. Strong cash buffers and stable credit markets provide a refinancing cushion even as policy rates and long-end yields have risen. As the credit cycle matures and more AI spending is financed with debt, 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 2027, 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



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

Operating margins were resilient to policy risk in 2026; inflation is a risk in 2027



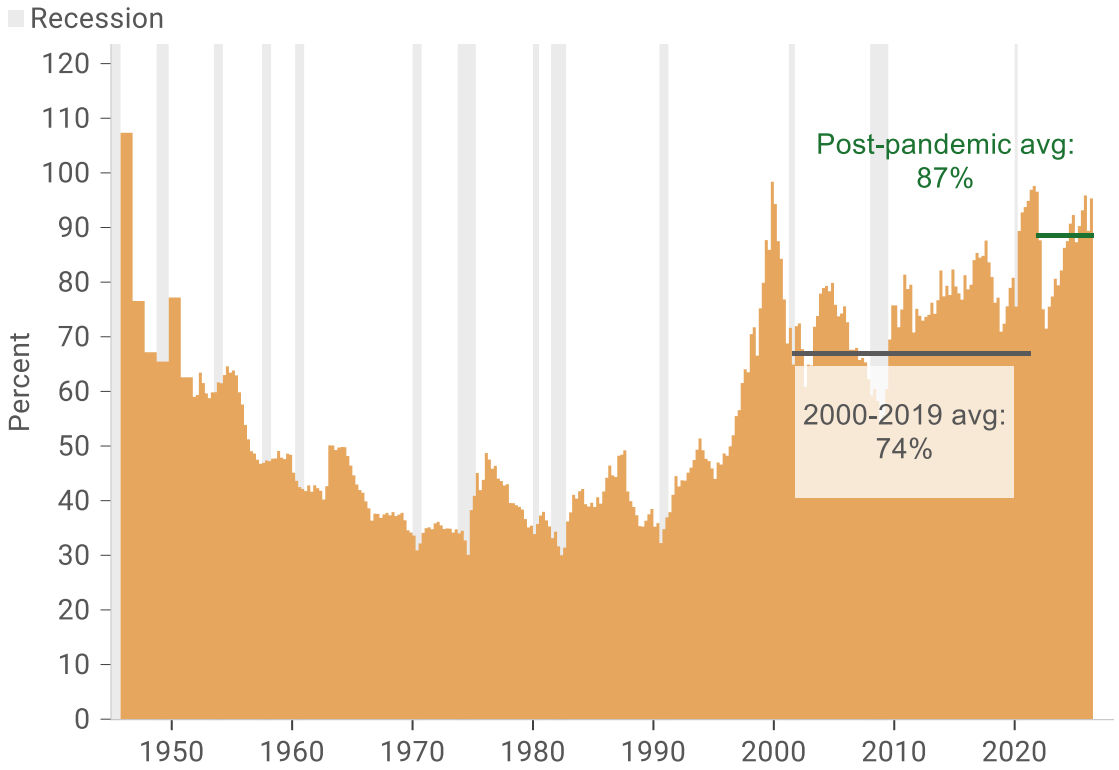
Sources: New York Life Investment Management, Global Market Strategy, NBER (National Bureau of Economic Research), Bloomberg, Macrobond, November 2026. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. Past performance 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

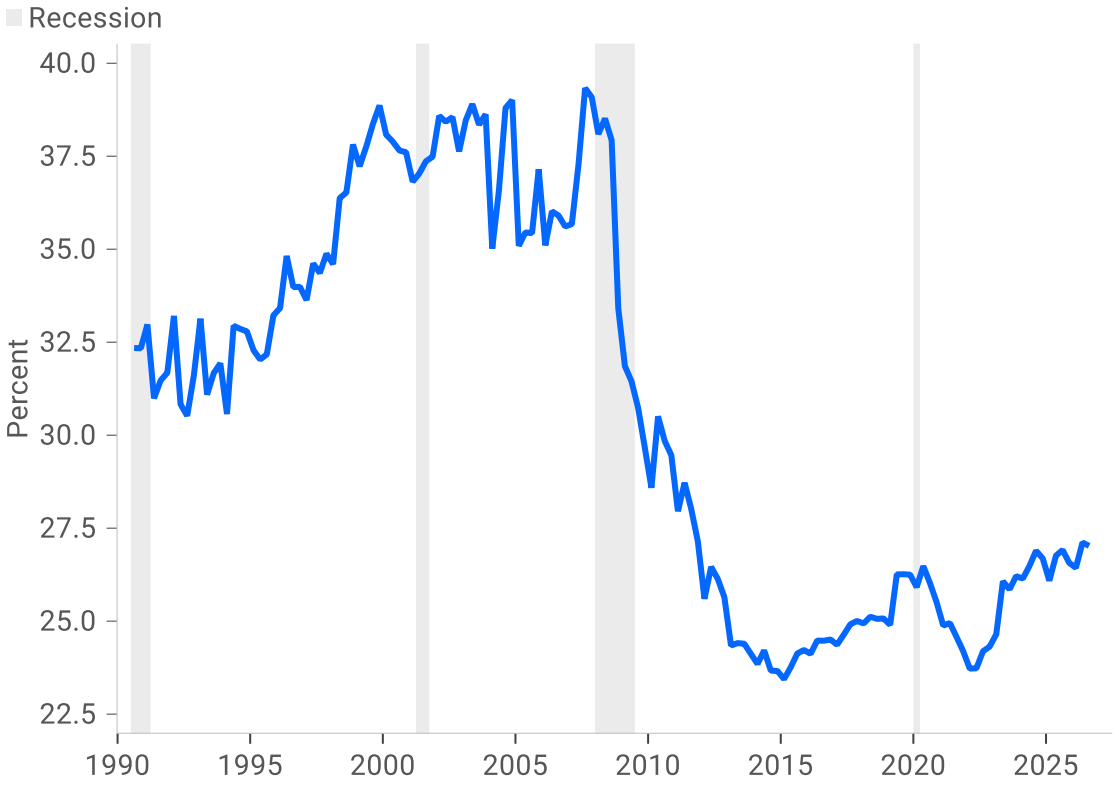
Corporate liquidity as a percentage of short-term liabilities



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

We see no structural debt imbalance amongst listed corporations

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



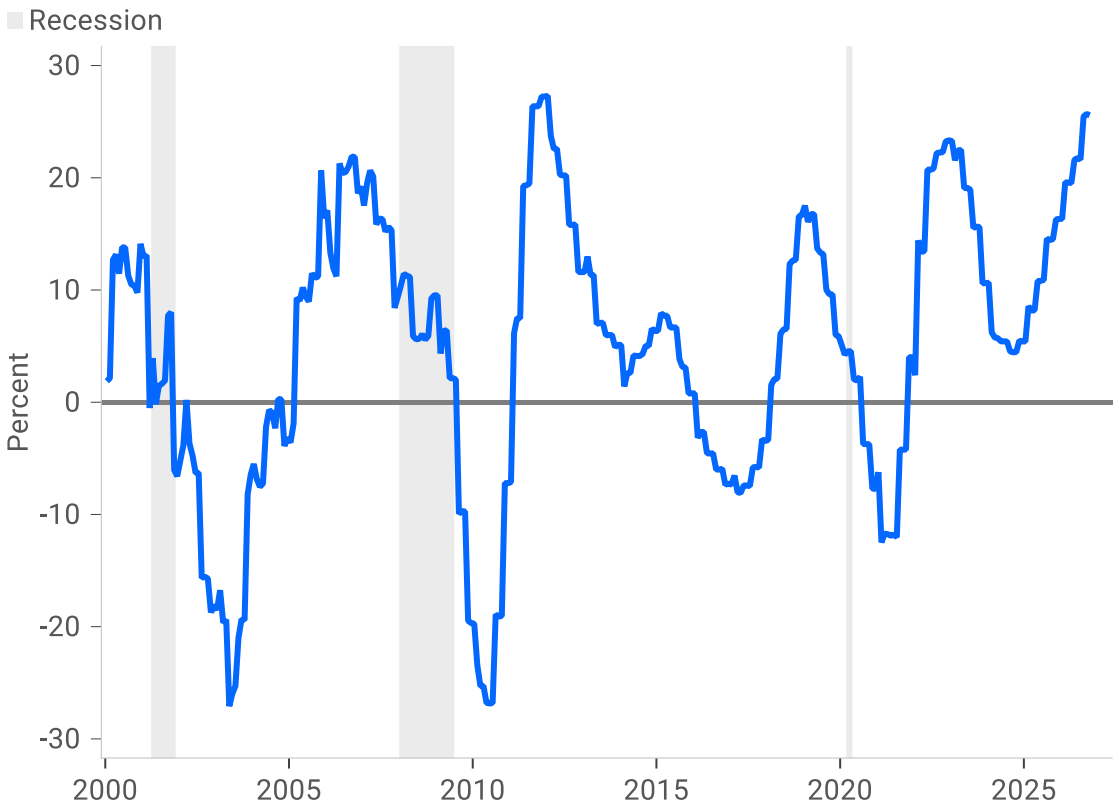
Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Standard and Poor's, Macrobond, November 2026. The S&P 500 Index tracks the performance of 500 large cap U.S. companies. It is not possible to invest directly in an index. Past performance is no guarantee of future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

Corporate outlook

Investment & capex

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

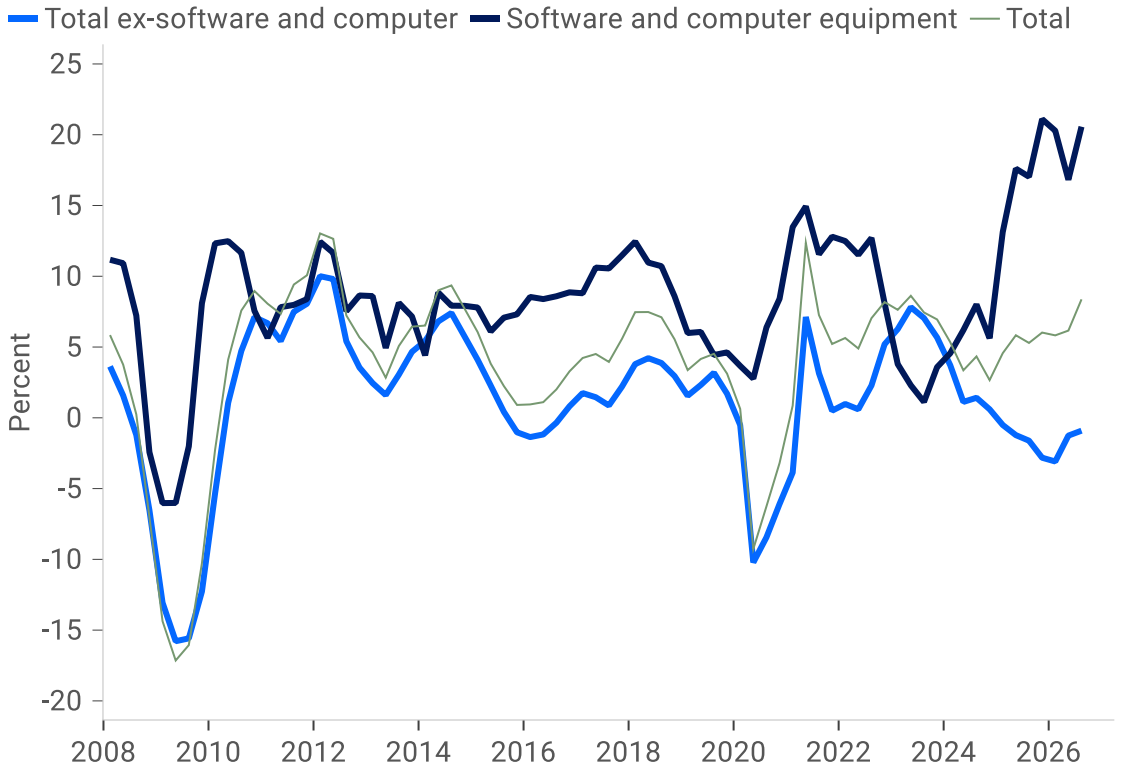
S&P 500 capital expenditure growth (YoY%)



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

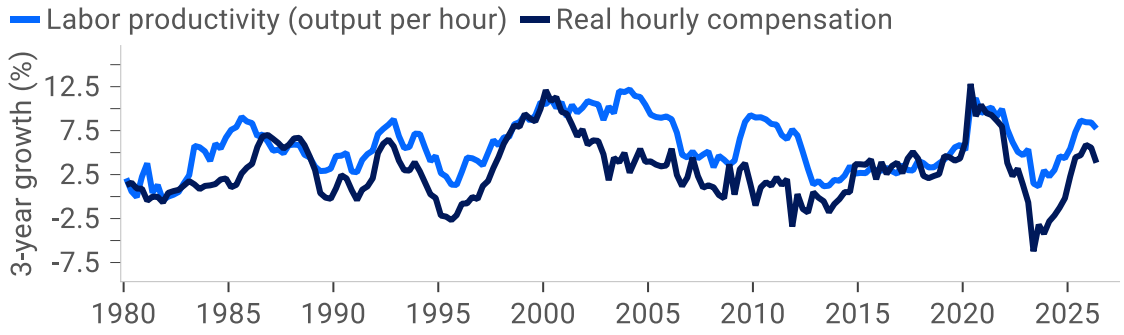
Wages have lagged so far, even as productivity improves

- 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 softened 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



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

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



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

Business conditions

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

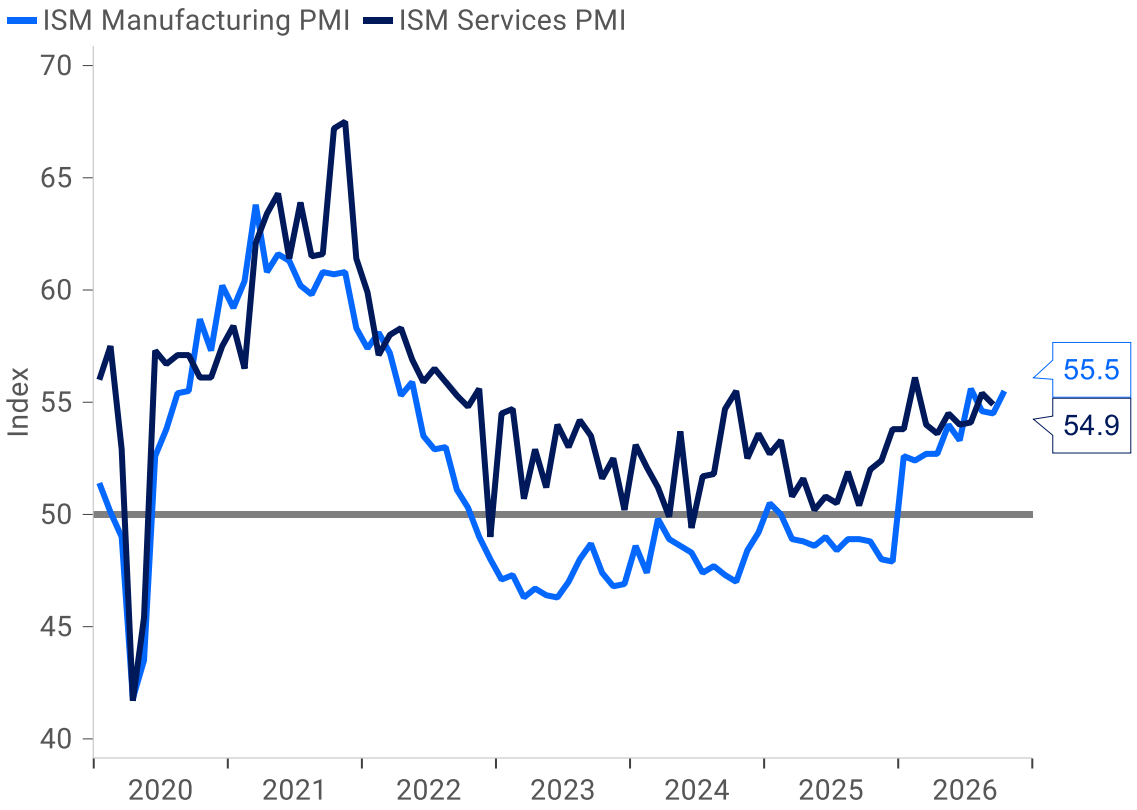
	Background	GMS views
Activity	Manufacturing and services sentiment remain mixed but are on the rise. Both PMIs are still in expansion territory after improving from last year's soft patch. Business activity is expanding at a healthy pace, though the surveys also show input prices rising, which can be the main caveat to the strength.	We see business activity as consistent with a solid expansion. The key question is whether policy support and capex can sustain it as input costs rise and rates stay restrictive.
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

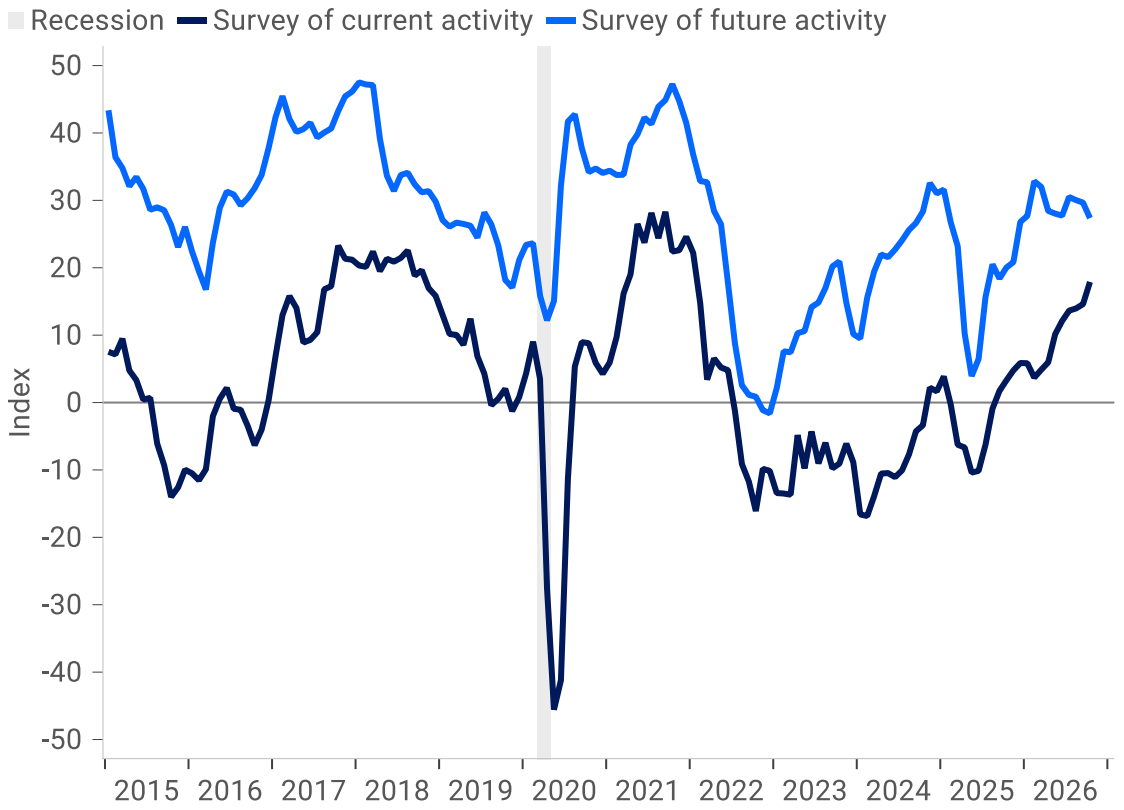
Business activity



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

Manufacturing sentiment is moving higher

Federal Reserve Empire State Manufacturing survey



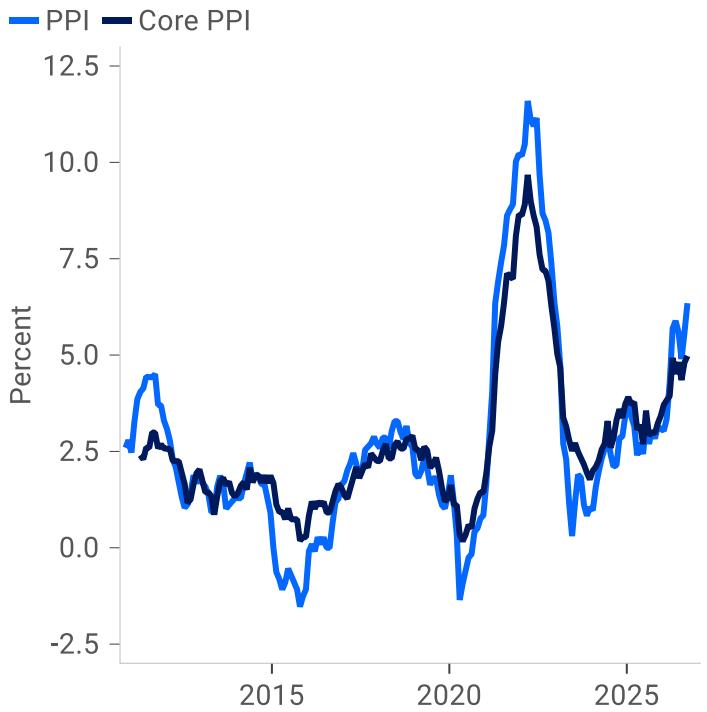
Sources: New York Life Investment Management Global Market Strategy, Federal Reserve Bank of New York, NBER (National Bureau of Economic Research), Macrobond, November 2026.

Business conditions

Input costs & sentiment

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

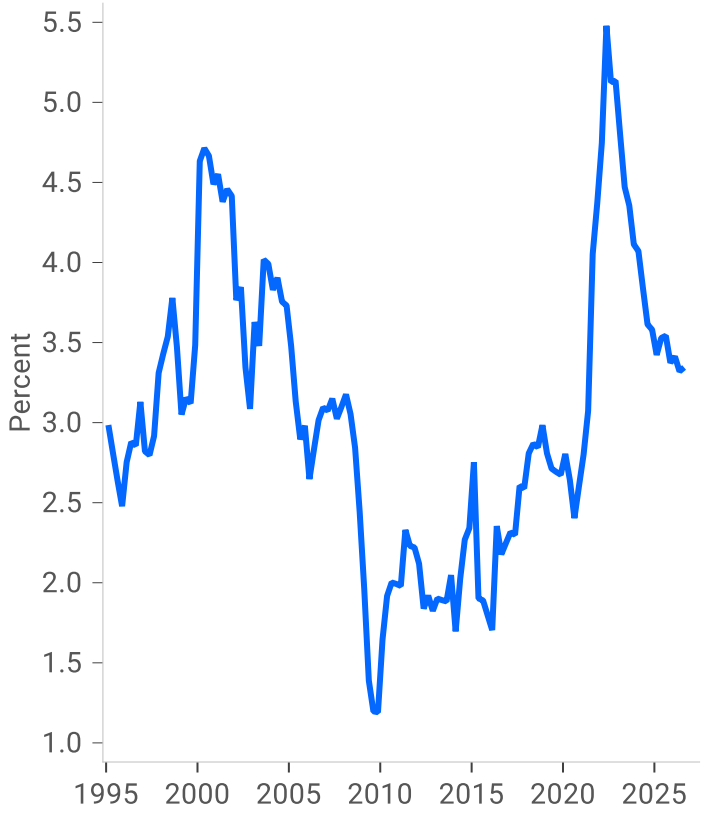
Producer price index (YoY%)



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

Businesses' employment costs face a crossroads

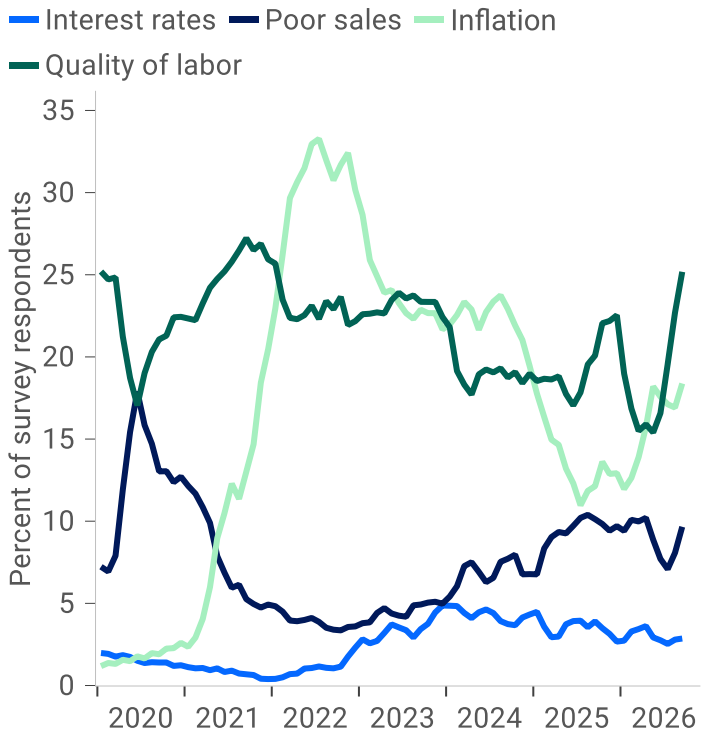
Employment Cost Index (ECI) (YoY%)



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

Inflation and labor shortages are back in focus for small businesses

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



Sources: New York Life Investment Management Global Market Strategy, National Federation of Independent Business, Macrobond, November 2026.

Fiscal outlook

Fiscal policy remains supportive in 2027, but fading fiscal momentum and rising debt costs pose challenges.

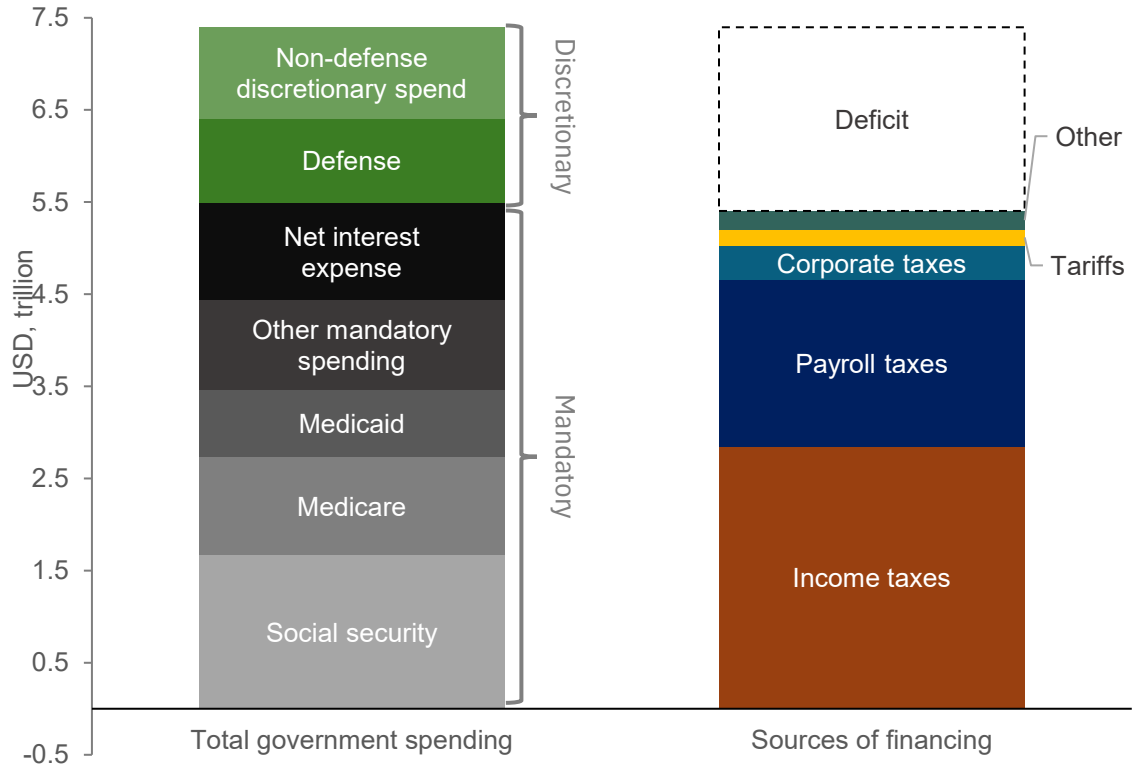
	Background	GMS views
Revenues	Federal revenues remain heavily dependent on income and payroll taxes, with tariffs providing an additional source of revenue. The OBBBA's tax provisions are expected to support households and businesses in 2027, while tariff policy remains uncertain.	We expect fiscal policy to remain meaningfully expansionary in 2027, although fiscal thrust is likely to turn negative as the substantial boost from 2026 fades. Tariff refunds provided a temporary boost to businesses in 2026 that is unlikely to be repeated.
Outlays & spending	Mandatory spending, including Social Security and Medicare, accounts for most federal outlays. The Democratic congressional majority creates opportunities for bipartisan spending agreements, particularly around healthcare, social programs and defense.	We see limited appetite for fiscal restraint. Potential compromise spending, including extensions of ACA tax credits or restoration of Medicaid and SNAP benefits in exchange for higher defense spending, could offset some of the fading fiscal impulse.
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.	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 2026 budget (Oct 2025 to Sep 2026) is expected to extend the deficit

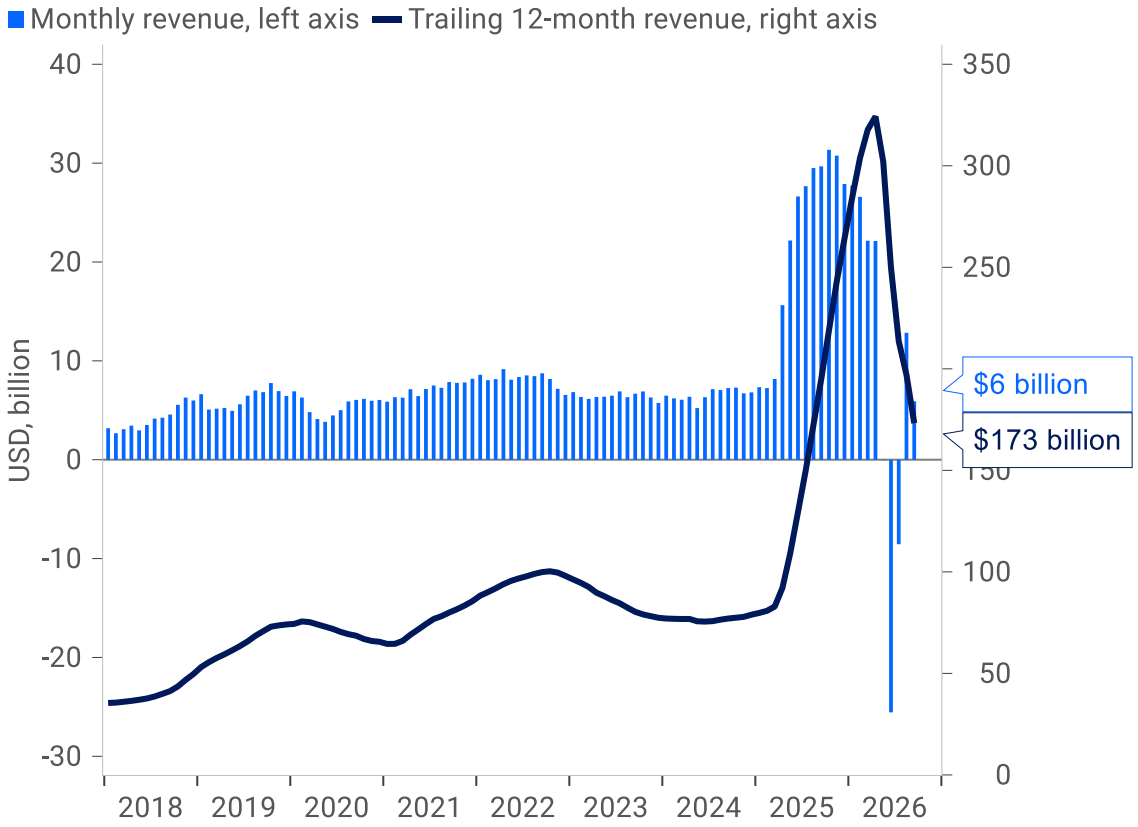
U.S. Federal budget



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

Tariff refunds cloud the revenue picture while cushioning importers

Collected tariff revenues



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

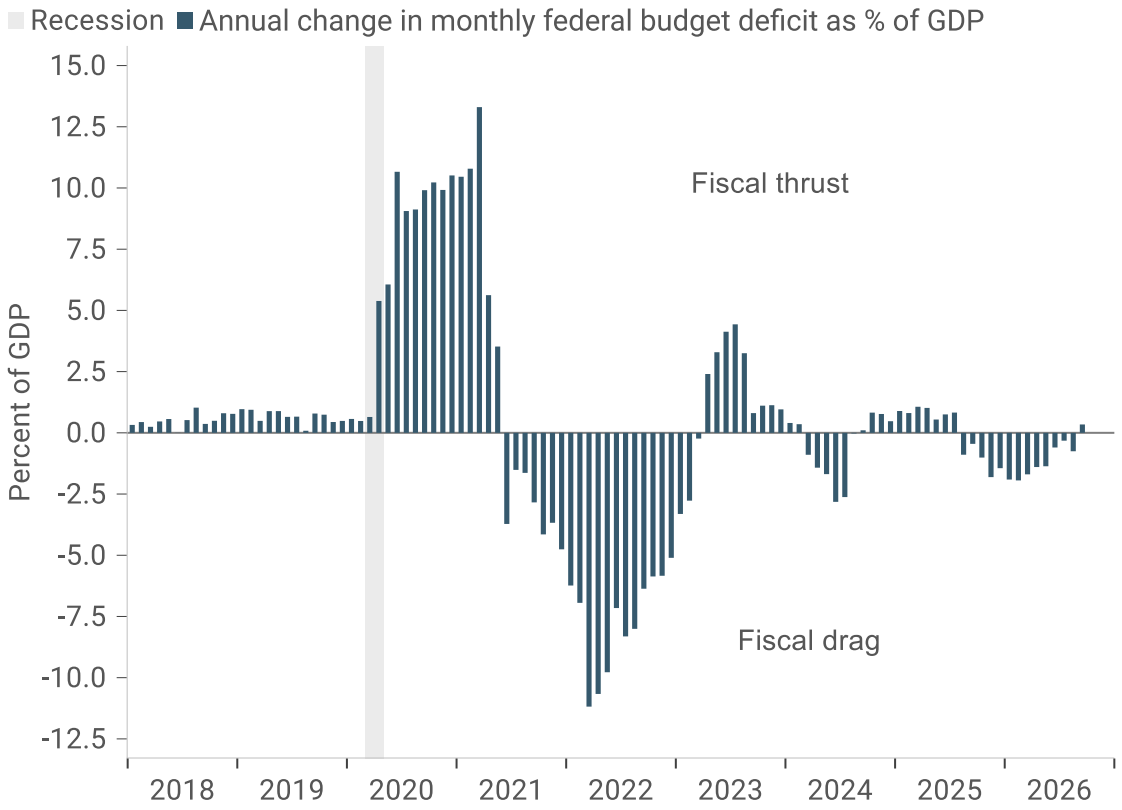
New York Life Investment Management

Fiscal outlook

Outlays & spending

The fiscal impulse is stabilizing, but the deficit backdrop is not

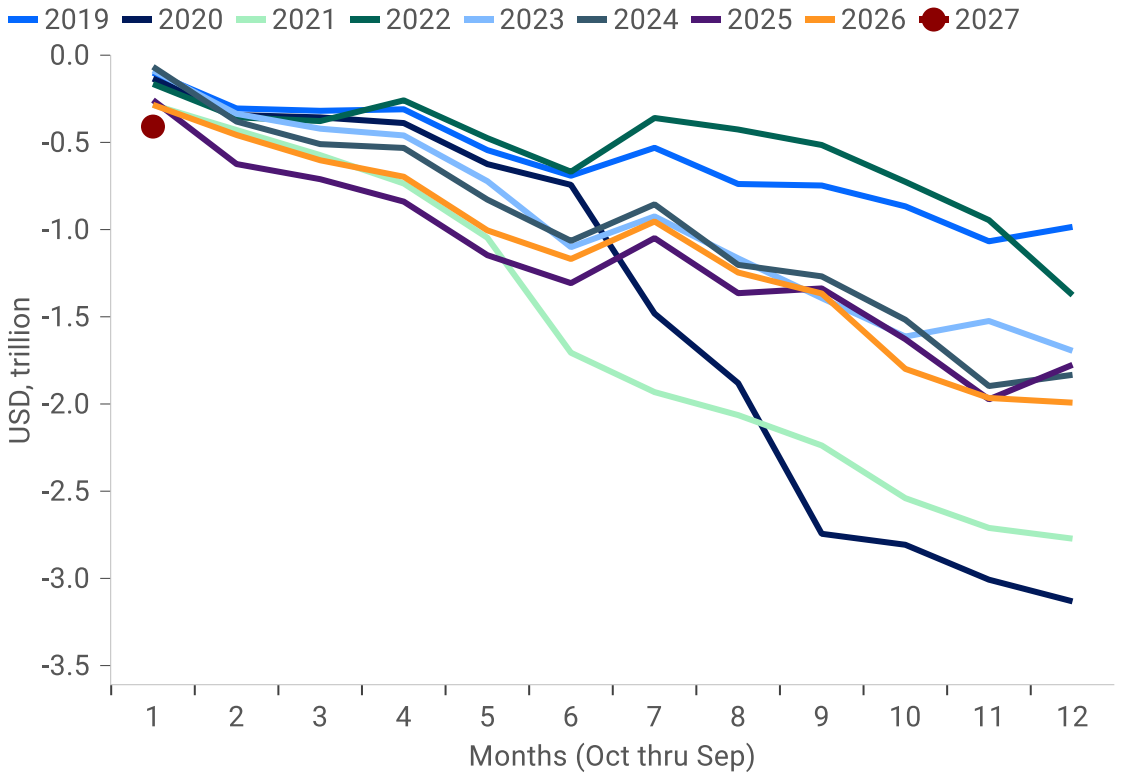
Fiscal thrust and drag



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

Another year of a widening deficit

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

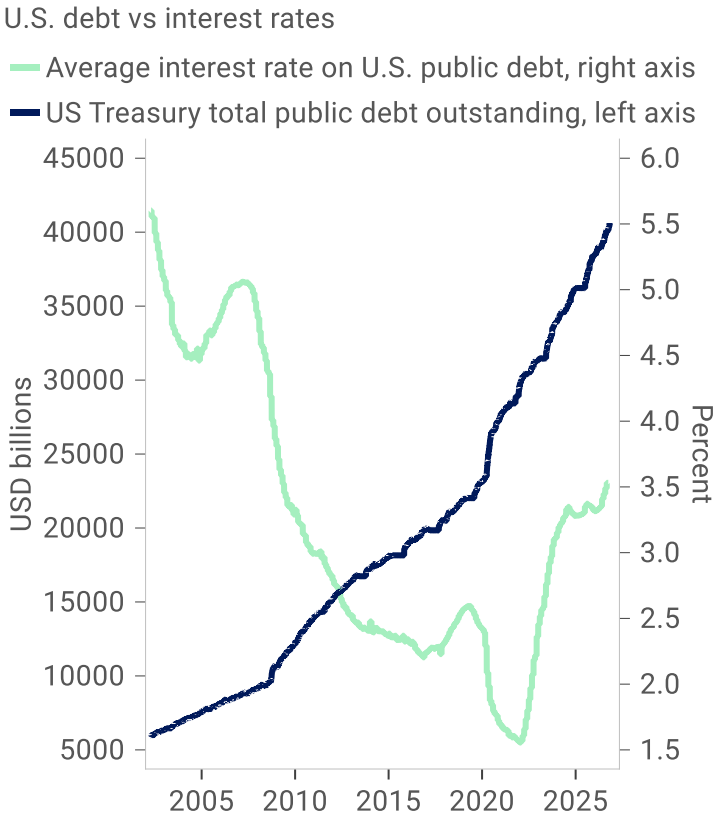


Sources: New York Life Investment Management Global Market Strategy, U.S. Congressional Budget Office (CBO), Macrobond, November 2026.

Fiscal outlook

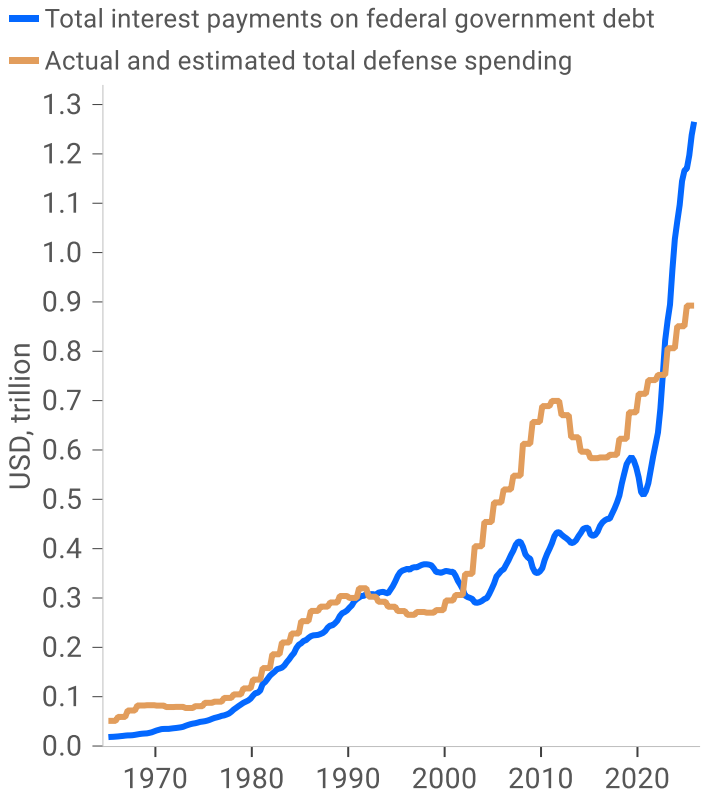
Deficit & debt sustainability

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



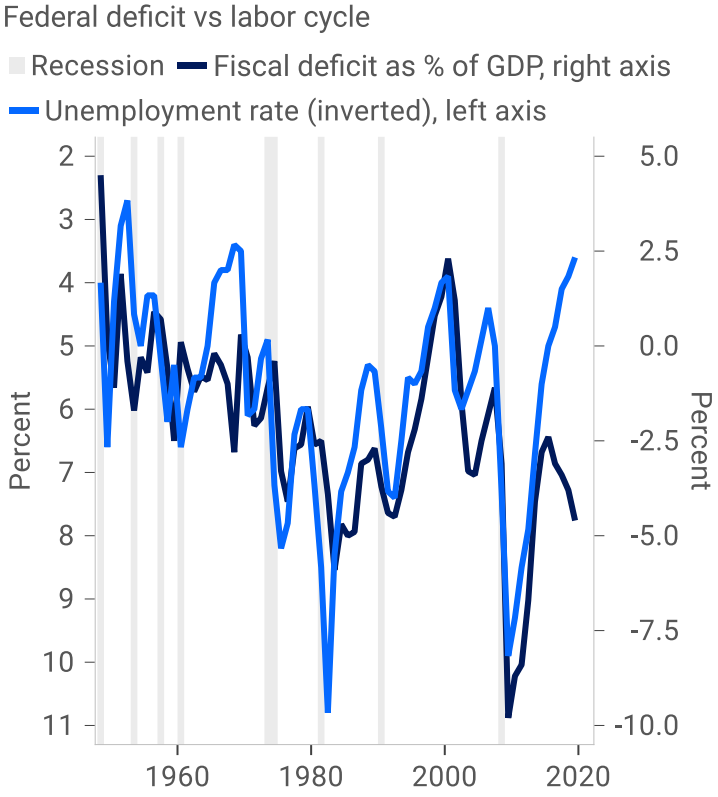
Sources: New York Life Investment Management Global Market Strategy, U.S. Department of Treasury, Macrobond, November 2026.

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



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

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



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

Treasury intervention will do little to contain long end yields

U.S. Treasury efforts to contain long end yields are unlikely to prove durable and may instead shift pressure to the dollar.

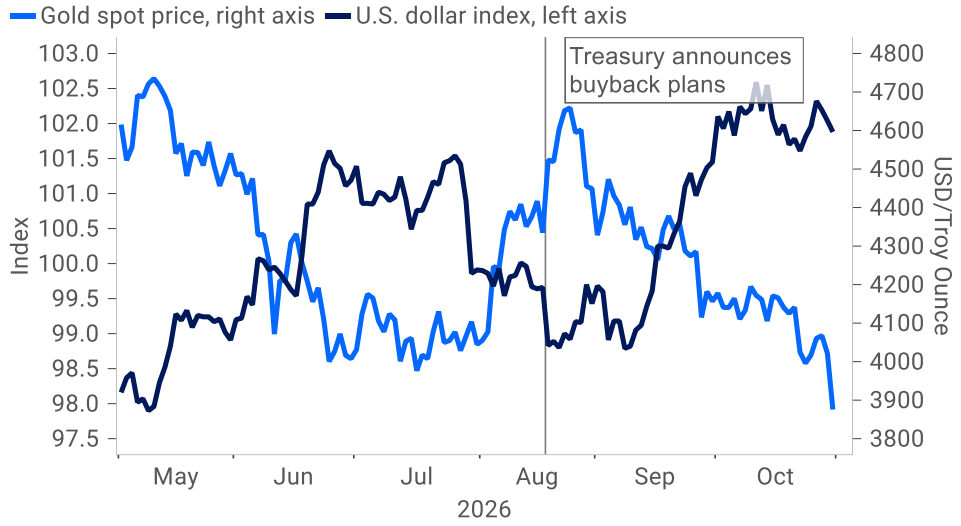
- The U.S. Treasury has taken a number of unusual, and in some cases unprecedented, actions that appear aimed at containing long-end yields, from intervention in the yen market to an increase in Treasury buybacks outside of the normal Treasury quarterly refunding process. While these measures can affect pricing at the margin, recent buyback announcements illustrate their limitations: long end yields fell on the news, but the impact was short-lived.
- Since 2023, Treasury has been leaning on increased bill issuance, with little evidence that doing so sustainably suppresses long end yields. The Treasury Borrowing Advisory Committee (TBAC) historically recommended keeping T-bills at 15%-20% of marketable debt, yet since 2024, the bill share has exceeded this recommended range.
- The fundamental problem behind rising yields is that investors are requiring greater compensation for duration. With U.S. debt above 100% of GDP and public and private borrowers increasingly competing for capital, investors are demanding a higher term premium.
- Efforts to suppress long end yields may ultimately shift the adjustment elsewhere, particularly the U.S. dollar. Following the buyback announcement, the dollar weakened while gold rallied, consistent with markets viewing more active Treasury intervention in support of currency debasement or de-dollarization.

A shift toward T-bills has not contained long end yields



Sources: New York Life Investment Management, Global Market Strategy, SIFMA (Securities Industry & Financial Markets Association), Macrobond, November 2026. TBAC: Treasury Borrowing Advisory Committee.

The Treasury buyback announcement reignited the dollar debasement trade



Sources: New York Life Investment Management Global Market Strategy, Macrobond Financial AB, Intercontinental Exchange (ICE), Macrobond, November 2026.

3 International economic & market outlook

Global cycle

- The global picture
- Euro area
- Japan
- China
- Emerging markets

Commodities & alternative currencies

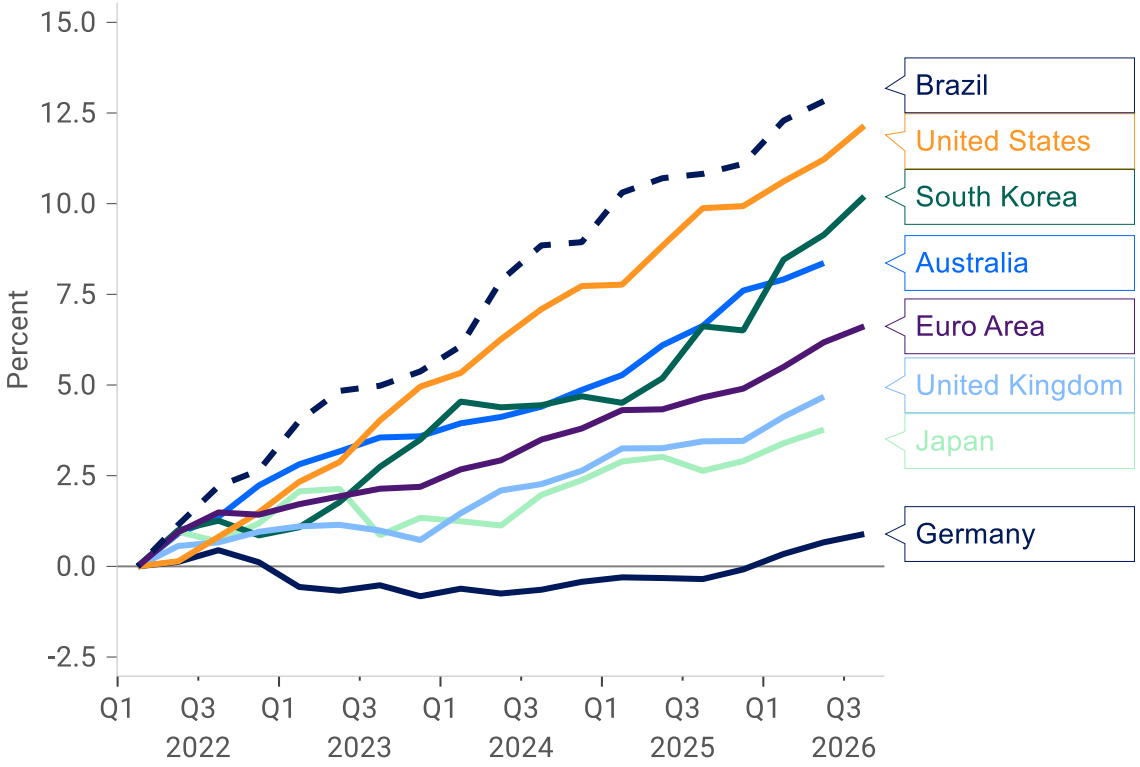
- “Dollar Smile”: tactical dollar view
- Gold
- Digital assets

The global picture: Growth is holding up better than feared

Global growth is holding up, but resilience varies by region, policy flexibility, and energy exposure.

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, November 2026.

- Global growth has held up better than feared. The OECD raised its 2026 forecast to 2.9% but trimmed 2027 to 3.0% as the energy shock proves more persistent, while the IMF's October forecast shows 3.1% and 3.4%. The issue is not a synchronized downturn, but whether resilient activity can persist as inflation and rate pressure linger.
- The energy shock has become more of a risk filter than a growth killer. Higher oil and gas prices are still lifting inflation and complicating central bank policy, but the global economy has absorbed the shock better than expected through reserve drawdowns, alternative energy supply, and lower demand. That leaves growth intact, but with more differentiation by energy exposure, policy flexibility, and AI participation.
- The composition of growth drivers has shifted. The expansion is still intact, but more of the upside is coming from investment, productivity themes, and policy support rather than a broad-based acceleration in household demand.
- The **U.S.** remains relatively resilient but faces a more inflationary mix in the case of a protracted oil shock. Stronger activity and sticky prices have pushed the Fed back into tightening mode. **Europe and Japan** are more exposed to outright growth slowdowns due to energy import dependence. **China** appears better buffered in the near term given large oil reserves, though growth may still moderate.
- For markets, this looks less like global weakness and more like uneven strength. Broad global exposure still provides diversification, but country and sector selection matter more as AI beneficiaries, energy exporters, and economies with policy flexibility are better positioned than energy importers facing tighter inflation tradeoffs.

The global picture: Growth resilience is reviving inflation risk

	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	3.1	3.4	3.9	4.7	3.3	5.7	-	-	-	10.8 (USD)	Global growth has held up better than feared. The expansion is still intact, but inflation is higher, trade is more uncertain, and policy support is less synchronized across major economies.
U.S.	2.3	2.0	2.8	3.6	2.7	4.5	4.0	3.75	4.5	12.3	The U.S. remains relatively advantaged, supported by profit leadership, AI investment, and greater energy self-sufficiency, though policy flexibility has narrowed as the Fed has returned to tightening. The main risk is that sticky inflation and higher long rates make growth more rate-sensitive
EU	1.1	1.4	2.0	3.1	2.3	4.8	2.65	2.15	3.15	25.5	Europe's growth backdrop has improved, but the recovery remains uneven amid policy uncertainty, softer trade, and higher input costs. • With inflation pressure arguing for more ECB hiking while moderate growth limits how far it can go, leadership turnover in early 2027 adds uncertainty. • In Germany, while fiscal support may help at the margins, industrial weakness and energy sensitivity weigh on the outlook. • France's April 2027 presidential election poses significant policy risk; budget tumult in the interim has already pressured rates higher.
Germany	1.3	0.4	0.7	2.7	1.9	4.0	2.65	2.15	3.15	3.9	
Japan	0.7	0.5	0.8	2.0	2.1	2.4	1.25	0.75	0.25	17.9	Japan's reflation story remains intact, but record yen intervention shows currency pressure has become a policy constraint. Further BoJ tightening may support the yen, but higher yields could narrow equity leadership.
China	4.5	4.6	4.9	1.3	0.7	0.6	3	3	3.1	-6.7	China's export engine and policy support are offsetting weak domestic demand but not driving a broad recovery. Property stress, soft consumption, and trade friction keep growth dependent on manufacturing and targeted stimulus.

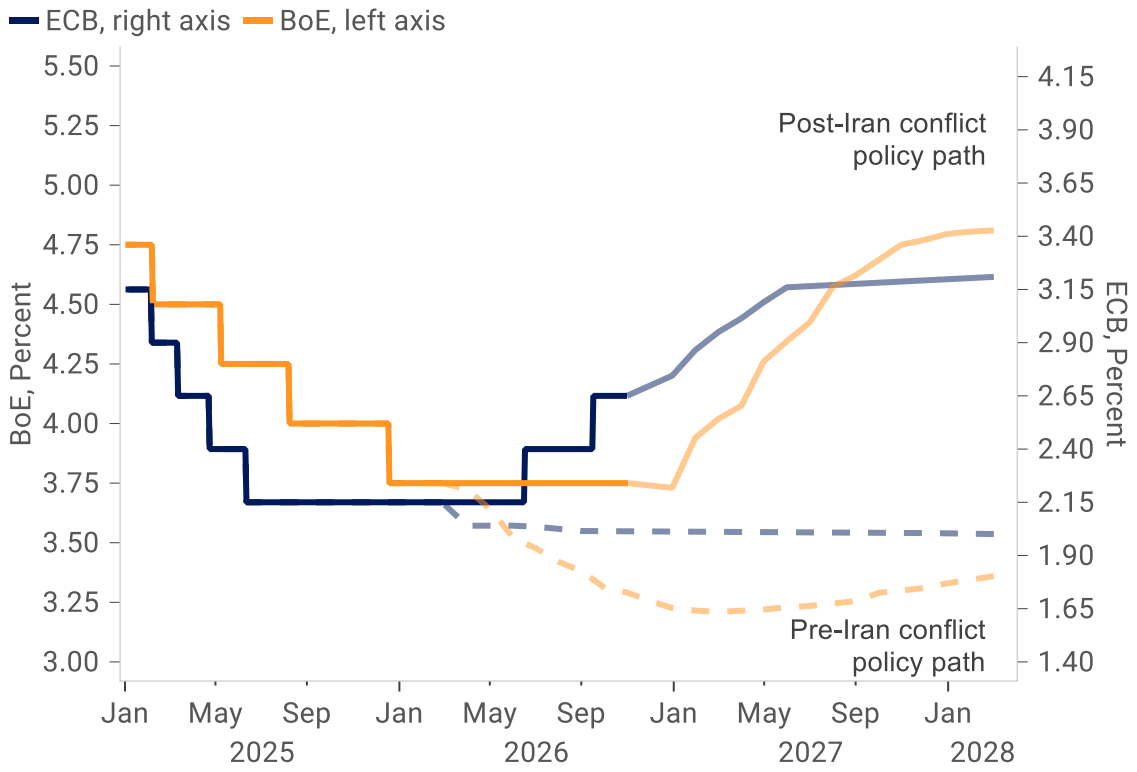
Sources: New York Life Investment Management, Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), Japanese Cabinet Office (CAO), Brazilian Institute of Geography & Statistics (IBGE), Eurostat, German Federal Statistical Office (Statistisches Bundesamt), China National Bureau of Statistics (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, November 2026.

Euro area: Europe has momentum, but not much policy room

Growth has surprised to the upside, while imported energy inflation keeps the ECB focused on credibility over support.

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, November 2026.

European growth is proving more resilient than expected, but inflation risk has returned before the recovery fully broadened.

Domestic backdrop

- Euro area GDP grew 0.4% quarter on quarter in Q3 2026, again firmer than expected, extending the pickup from earlier in the year. Employment also continued to grow, giving the recovery a sturdier base.
- The recovery is still uneven, with household demand less convincing than headline GDP and business investment supported by prior easing and fiscal plans.

Policy backdrop

- The ECB hiked in September and held in October, and markets still price another hike in December. Inflation rose again in October on energy, which keeps policy focused on credibility even as growth remains moderate.
- Fiscal support, including Germany's defense and infrastructure plans, may offset some of the energy drag, though implementation has been gradual.

Risks to watch

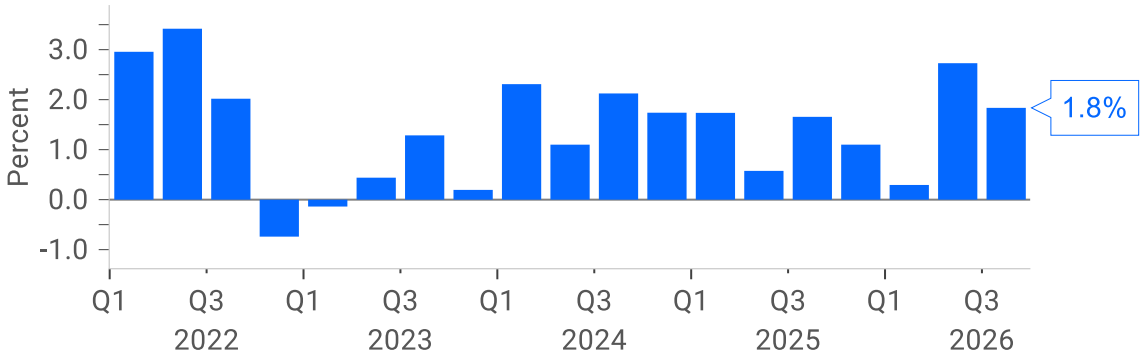
- A prolonged energy shock could further erode purchasing power. Limited policy flexibility on both monetary and fiscal sides mean responses are constrained if conditions deteriorate.
- External demand remains a vulnerability, with trade headwinds from China and tariffs weighing on momentum.
- Event risk rises into 2027. ECB leadership turns over in early 2027 and France holds its presidential election in April, which together could add volatility to European rates and sovereign spreads.

Our view: Europe looks better than it did a few months ago, but the recovery still has a policy ceiling. Growth resilience and cheaper valuations are positives, but imported inflation and a constrained ECB limit the case for broad upside in European equities.

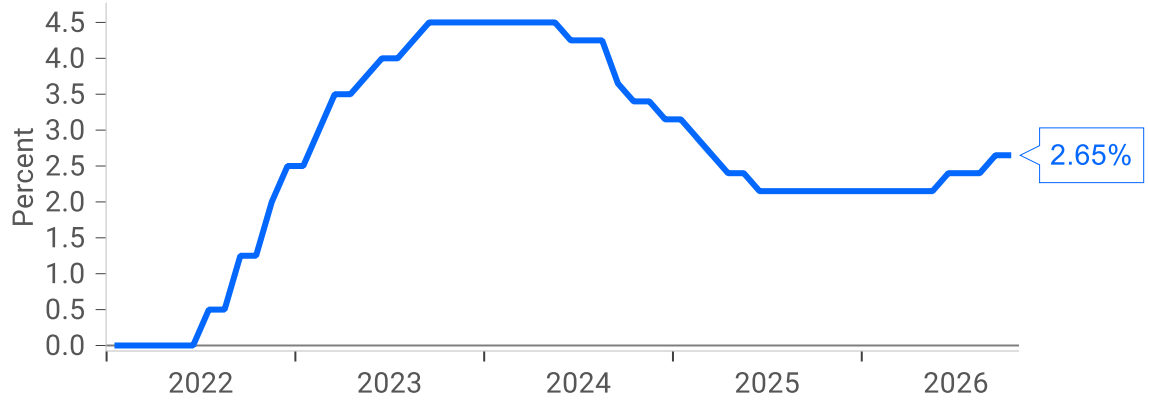
Euro area

GDP

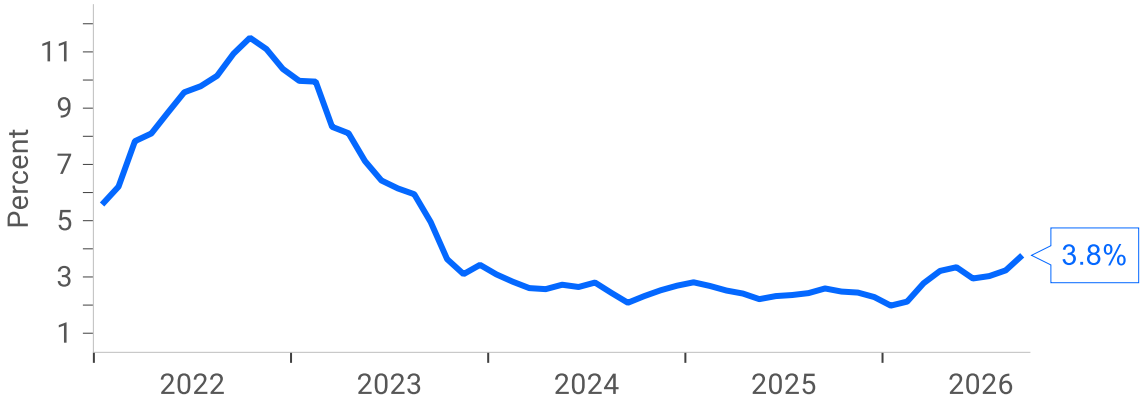
Quarter-on-quarter, annualized



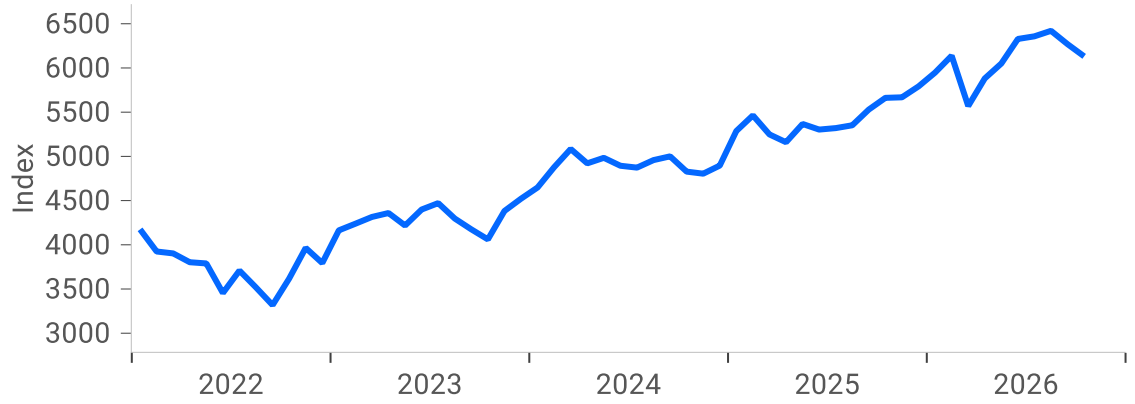
Policy rate: Main Refinancing Operations Rate



Inflation: Harmonised Index of Consumer Prices (HICP)



Market performance: Euro STOXX 50



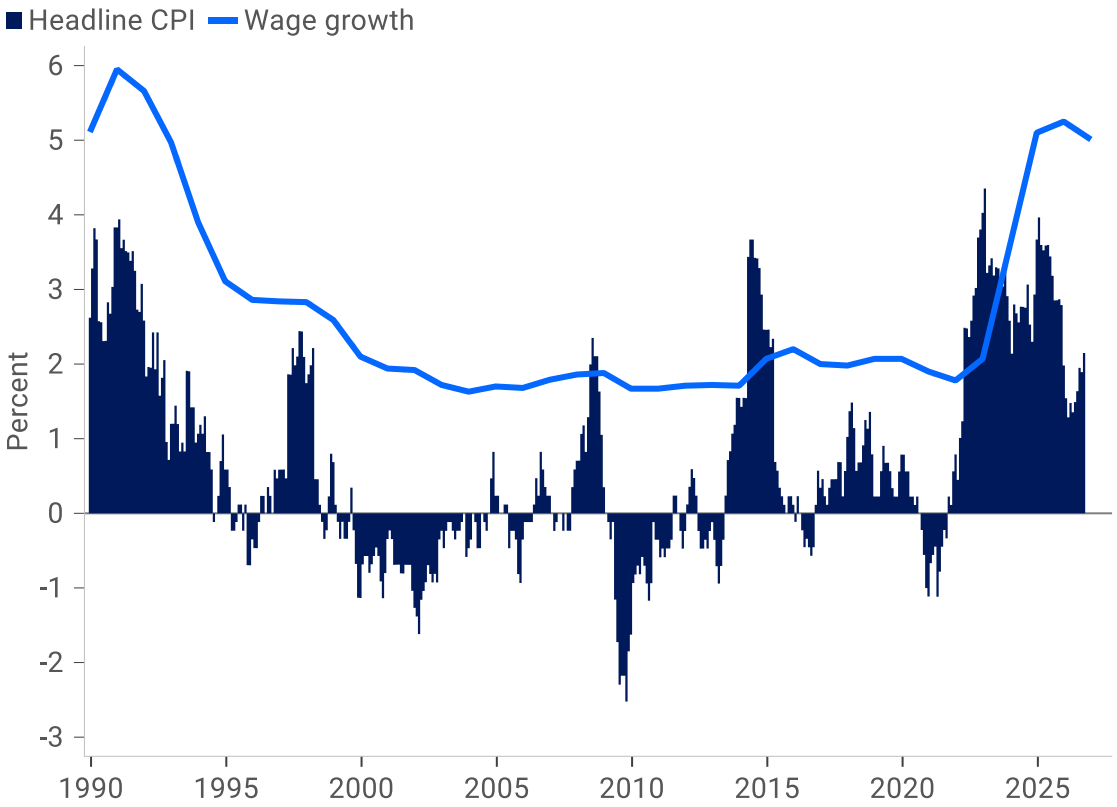
Sources: New York Life Investment Management, Global Market Strategy, Eurostat, ECB (European Central Bank), STOXX, Macrobond, November 2026.

Japan: A weak yen forces a policy response

Japan’s reflation story remains intact, but a BoJ hike and record yen intervention have not fully relieved currency pressure.

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, November 2026.

Japan’s reflation story remains intact, but currency pressure remains a policy constraint even after record yen intervention and another BoJ rate hike.

Domestic backdrop

- Domestic demand remains a support, helped by positive real wages, steady capex, and corporate cash flow. But yen weakness is now cutting both ways: it supports exporters, while raising import costs and squeezing household purchasing power.
- Software, AI investment, and corporate reform still support Japan’s equity story, but the market is becoming more sensitive to currency moves and higher JGB yields.

Policy backdrop

- After the July U.S.-Japan intervention bought only temporary yen relief, the BoJ raised rates to 1.25% in September, the highest level in 31 years, and held in October while signaling further hikes toward neutral. Currency weakness and inflation pressure are forcing Japan further into policy normalization.
- The yen has stayed weak because the pace of tightening remains gradual and upside risks to U.S. rates are still live. Intervention can slow disorderly currency moves, but sustained stabilization likely requires either a narrower U.S.-Japan rate gap or clearer BoJ follow-through.

Risks to watch

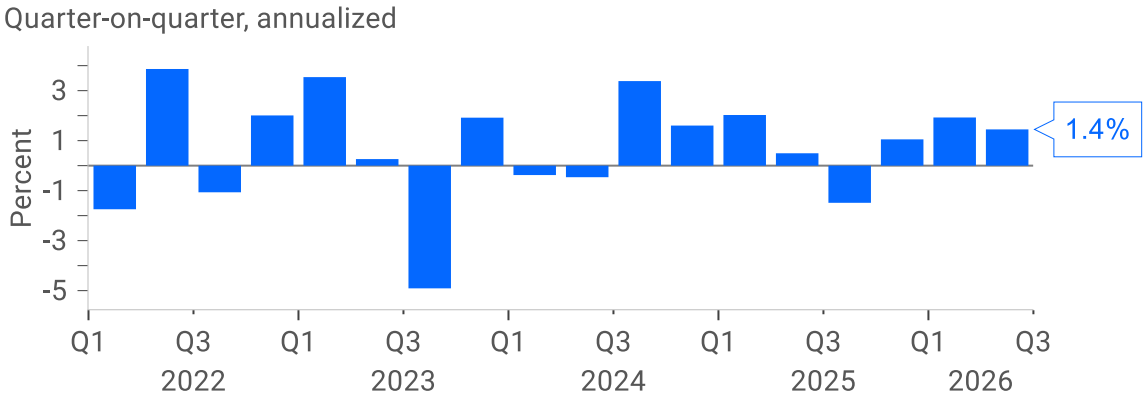
- Japan’s government debt exceeds 200% of GDP, and higher BoJ rates raise sensitivity to changes in investor confidence, JGB yields, and fiscal policy.
- Trade exposure also remains a key risk, particularly if demand from China softens.

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.

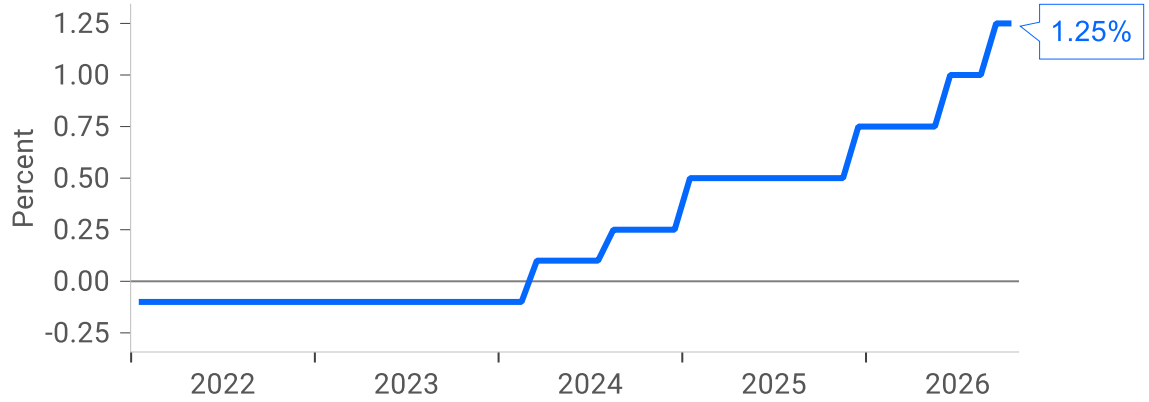
Japan

GDP

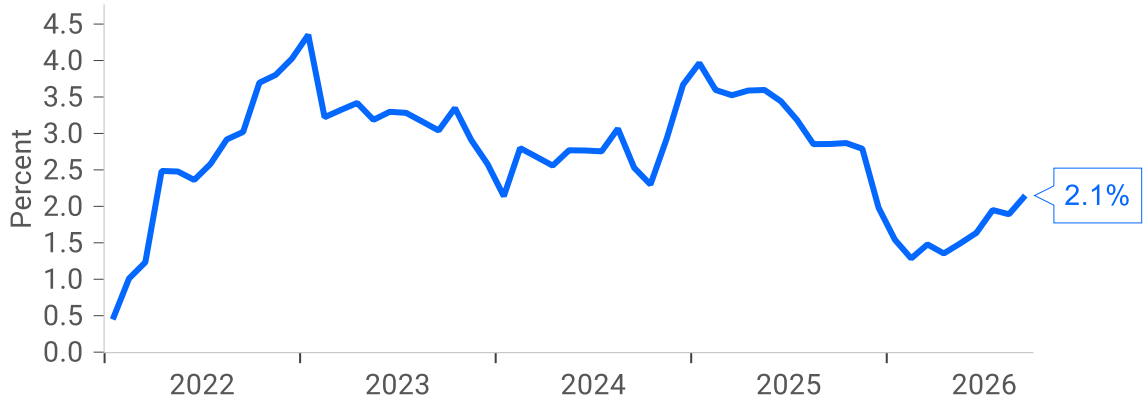
Quarter-on-quarter, annualized



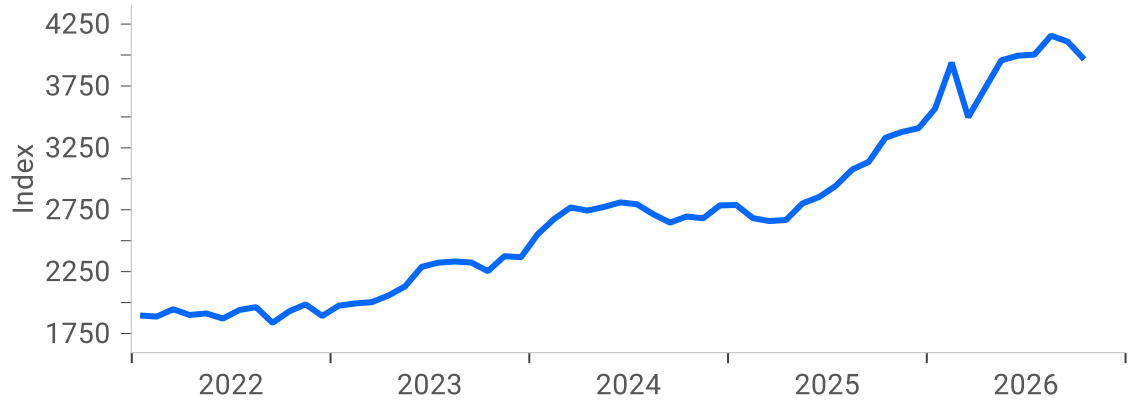
Policy rate: BoJ Interest on Excess Reserves Rate



Inflation: Consumer Price Index



Market performance: Tokyo Stock Exchange Index (TOPIX)



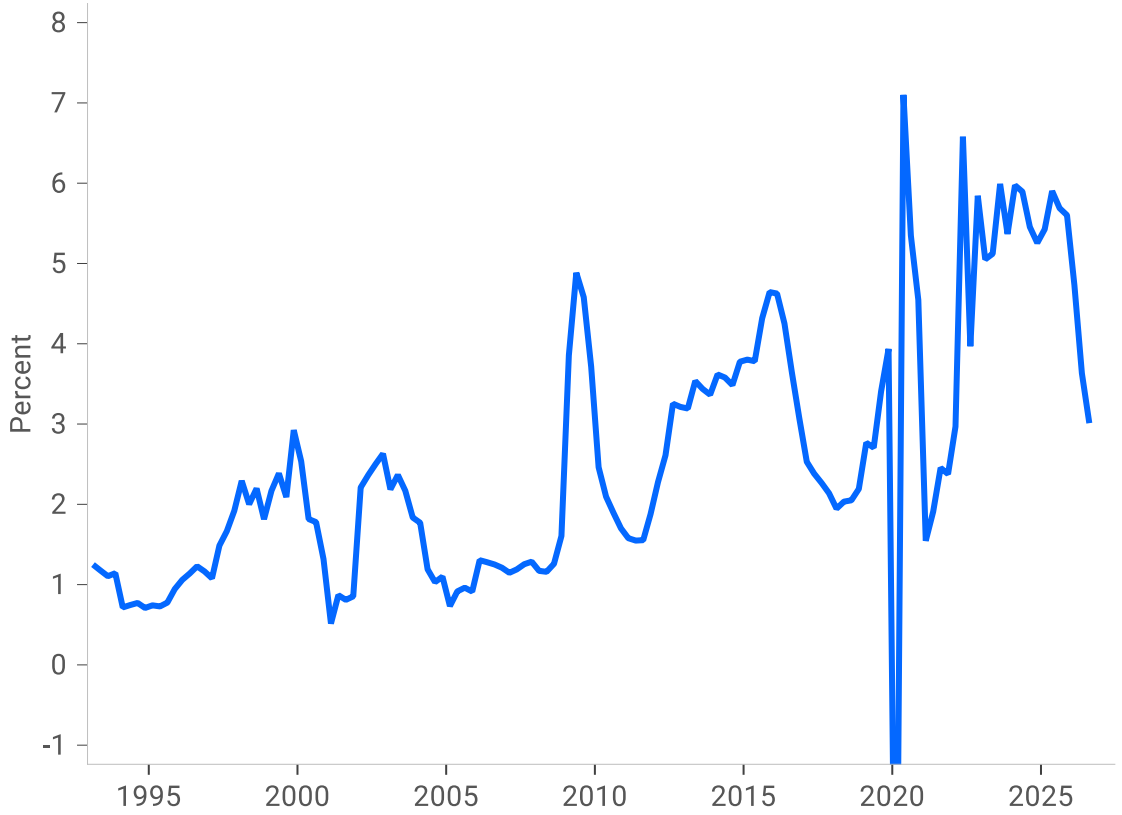
Sources: New York Life Investment Management, Global Market Strategy, Japanese Statistics Bureau, Ministry of Internal Affairs & Communications, Bank of Japan (BOJ), Japanese Cabinet Office (CAO), Tokyo Stock Exchange, Macrobond, November 2026.

China: The export engine offsets weak domestic demand

Exports, industrial production, and policy support are keeping growth stable, while weak consumption and investment limit the upside.

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, November 2026.

China's economy remains more resilient than domestic demand suggests, with exports, policy support, and advanced manufacturing doing most of the heavy lifting.

Domestic backdrop

- China's domestic data remain uneven. Third-quarter growth came in better than expected, with industrial activity holding up better than household demand and services.
- Exports and high-tech manufacturing remain bright spots, helped by AI-related demand, EVs, batteries, and semiconductors. But property stress, weak consumption, and subdued services continue to cap the pace of recovery.

Policy backdrop

- Policy support remains targeted rather than forceful. China kept benchmark lending rates unchanged in October for a 17th straight month, and stronger third-quarter growth reduced the urgency for broad easing while credit demand remains weak.
- Officials have pledged additional fiscal measures, but the focus remains on stabilizing growth rather than driving a broad reflation.

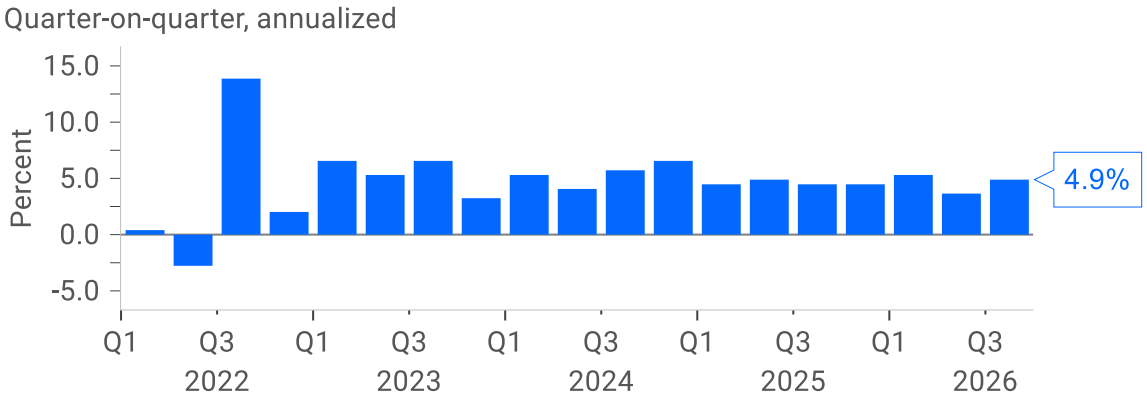
Risks to watch

- The U.S.-China trade truce was extended only to January 10, 2027, with no progress on tariffs or rare earths, and continued property weakness remains a key reason why policy support may stabilize growth without producing a broad market rerating.
- The main domestic risk is that policy support stabilizes activity without repairing household confidence, leaving growth dependent on exports, manufacturing, and targeted stimulus.

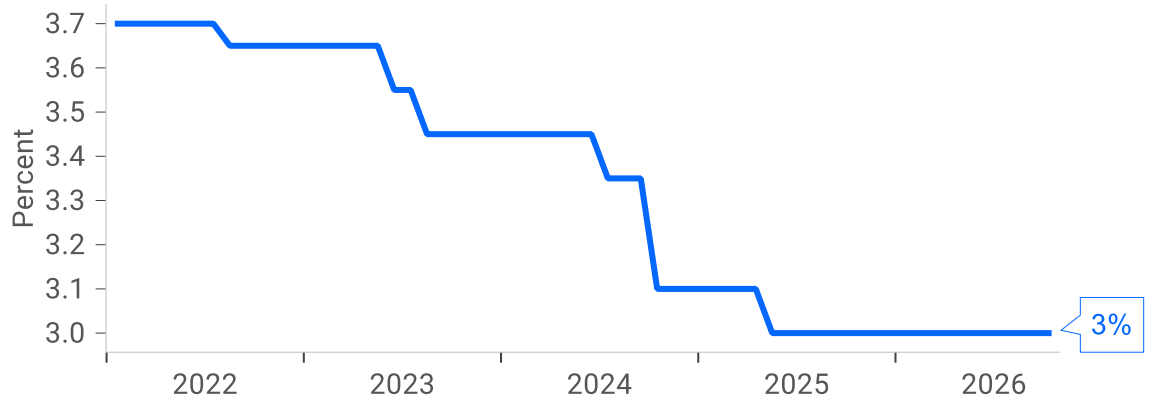
Our view: China is not reaccelerating, but it is also not breaking. Policy support, exports, and advanced manufacturing can keep growth stable, while weak consumption and property stress limit the upside. For markets, that argues for selective exposure to policy-backed and industrial upgrading themes rather than a broad China recovery trade.

China

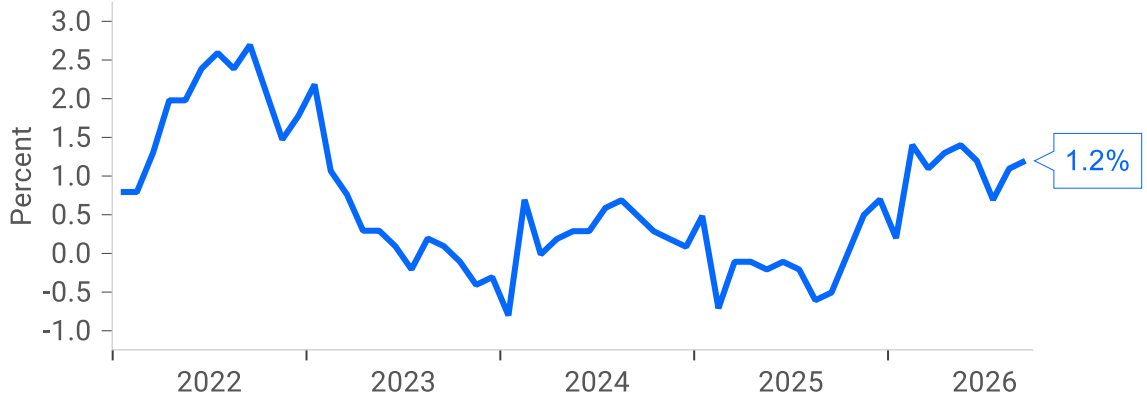
GDP



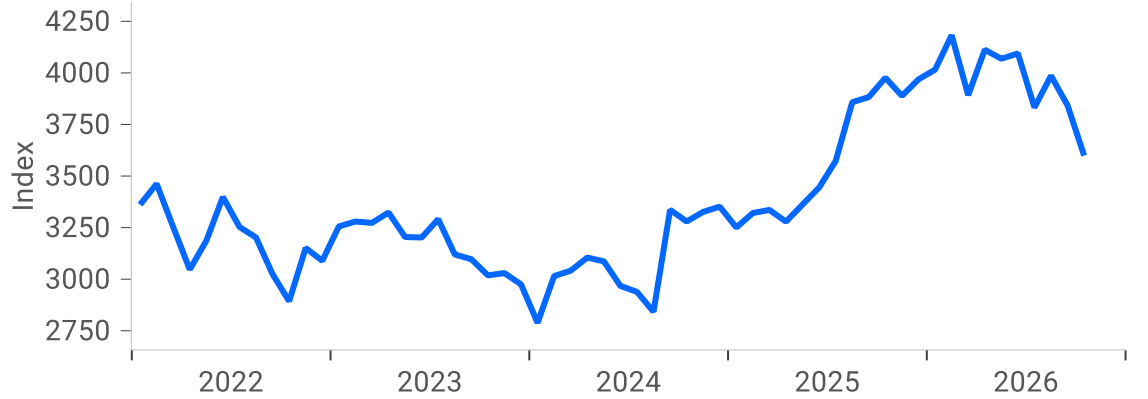
Policy rate: PBoC Prime Loan Rate



Inflation: Consumer Price Index



Market performance: Shanghai Stock Exchange



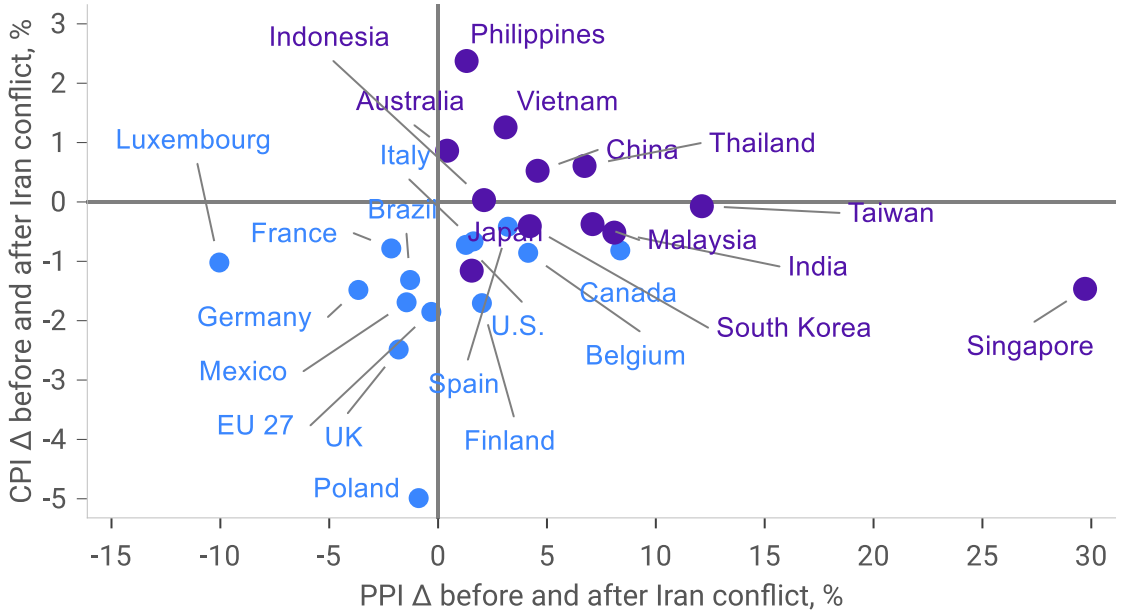
Sources: New York Life Investment Management, Global Market Strategy, China National Bureau of Statistics (NBS), People's Bank of China (PBoC), Shanghai Stock Exchange, Macrobond, November 2026.

Emerging markets: one asset class, very different stories

Higher oil prices, Fed hike risk, and trade friction are widening the gap between EM winners and vulnerable importers.

Higher oil prices are hitting Asian producer margins hardest

PPI & CPI changes before and after the Iran conflict



Sources: New York Life Investment Management Global Market Strategy, Indian Ministry of Commerce & Industry, Statistics Indonesia (Badan Pusat Statistik, BPS), Department of Statistics Malaysia (DOSM), Philippine Statistics Authority, Thailand Bureau of Trade & Economic Indices, Vietnamese National Statistics Office, U.S. Bureau of Labor Statistics (BLS), U.K. Office for National Statistics (ONS), Taiwan Directorate-General of Budget, Accounting & Statistics, Bank of Korea (BOK), Spanish National Statistics Institute (INE), Singapore Department of Statistics (SingStat), Polish Central Statistical Office (GUS), Mexican National Institute of Geography & Statistics, Luxembourg National Institute of Statistics & Economic Studies (STATEC), Bank of Japan (BOJ), Italian National Institute of Statistics (Istat), Central Bank of Germany (Deutsche Bundesbank), French National Institute of Statistics & Economic Studies (INSEE), Statistics Finland, Eurostat, China National Bureau of Statistics (NBS), Statistics Canada, Brazilian Institute of Geography & Statistics (IBGE), Statistics Belgium, Australian Bureau of Statistics, Indian Ministry of Statistics & Programme Implementation (MoS&PI), Korea Ministry of Data & Statistics - KoSIS, Japanese Statistics Bureau, Ministry of Internal Affairs & Communications, Macrobond, November 2026.

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

Backdrop

- EM growth has been resilient, but leadership remains narrow. Commodity exporters and AI-linked exporters have held up better, while oil importers remain more exposed to inflation, currency pressure, and higher funding costs.
- Fed hike risk has become a bigger headwind. EM currencies and stocks came under pressure in late September as higher oil prices and expectations for additional Fed hikes pushed yields and the dollar higher. 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

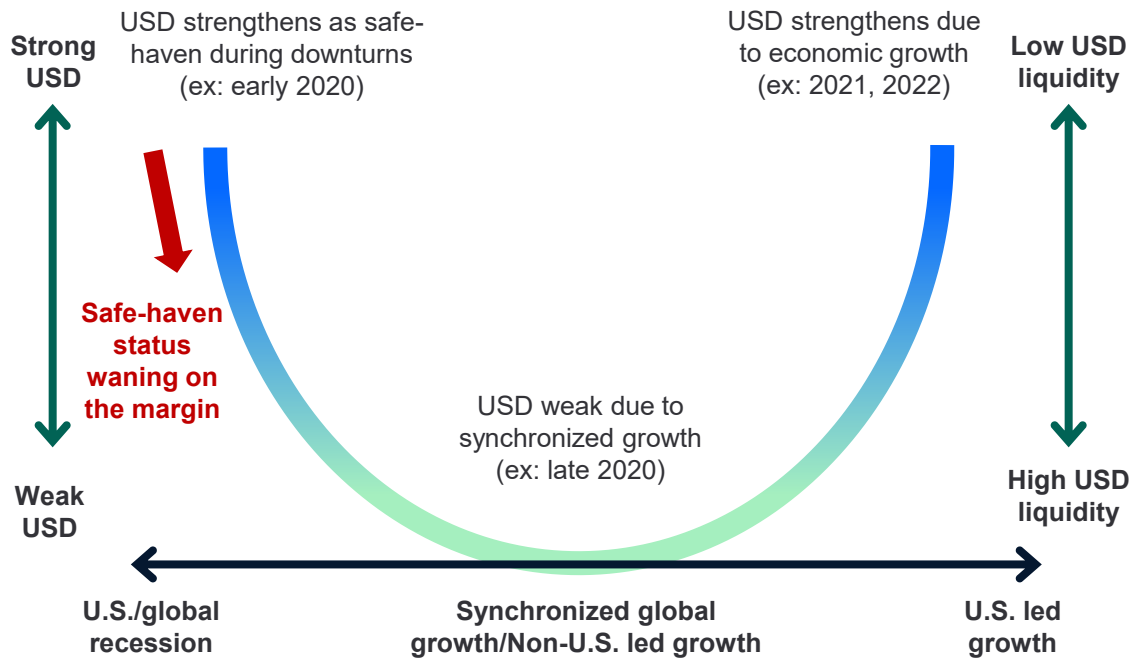
- A renewed rise in oil alongside a more hawkish Fed would be the toughest mix for EM importers, pressuring inflation, current accounts, currencies, and local policy flexibility.
- Trade risk is also rising as China's export-led strategy draws more pushback from the U.S. and other major economies, creating new pressure on EM supply chains.

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.

Our framework for thinking about U.S. dollar moves

Fed hikes and resilient U.S. growth are putting upward pressure on the dollar, though policy credibility concerns may limit the upside.

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.

USD volatility in 2026

- The dollar began the year weak, hitting a cycle low in late January as markets priced faster Fed easing, then reversed. The Iran conflict revived safe-haven demand and the Fed's shift to tightening widened the yield advantage.
- The joint U.S.-Japan yen intervention in July briefly weighed on the dollar, but the effect faded as rate differentials reasserted themselves.

Our U.S. dollar view for 2027

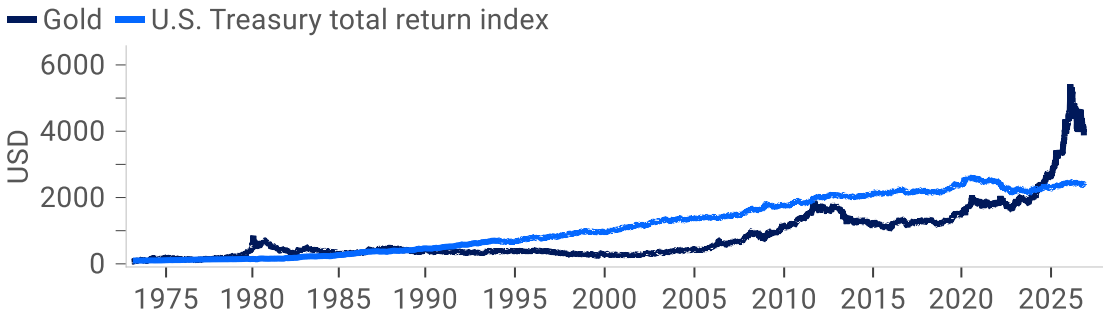
- Our base case calls for continued U.S. outperformance and restrictive Fed policy (dollar bullish), balanced against narrowing rate gaps as the ECB and BoJ tighten and concerns about U.S. policy stability, debt, and the 2027 debt ceiling (dollar bearish). An unresolved Iran conflict should keep a safe-haven bid in place.
- On balance, we expect a rangebound and volatile dollar index (DXY), with a moderate safe-haven bid pressuring the dollar stronger in periods of stress. A negotiated Iran reopening or faster tightening abroad are the main risks to a weaker dollar.

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

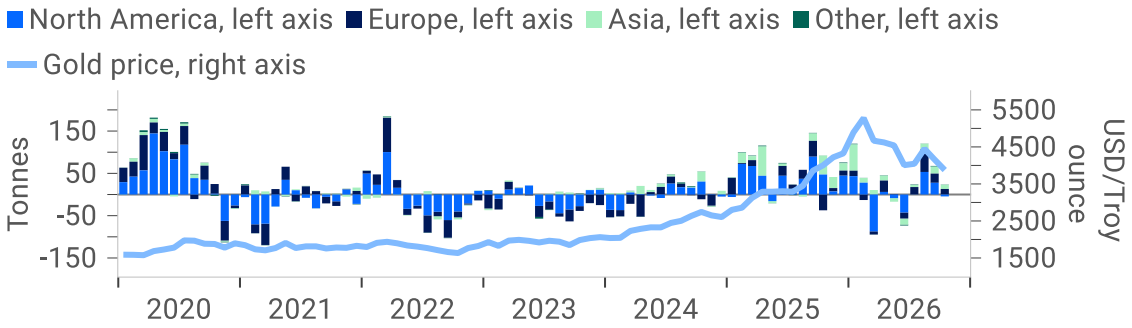
We are structurally bullish on gold, but are wary of investors seeking outperformance, rather than diversification, from gold exposure.

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, November 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, Macrobond Financial AB, Macrobond, November 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.
    - Gold has now overtaken U.S. Treasuries as a share of global central bank reserves for the first time in nearly 30 years, a concrete signal that reserve diversification away from the dollar is no longer just a talking point.
- 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.
    - Gold rallied the day the Treasury announced expanded long-bond buybacks to cap rising yields, underscoring the debasement dynamic.
- Beyond central banks, a large share of marginal demand is coming from investors diversifying their portfolios. Physically-backed ETFs are particularly benefiting, meaning flows from retail and institutional buyers are having an outsized impact (**bottom chart**).

Gold's correlation with the 60/40 portfolio

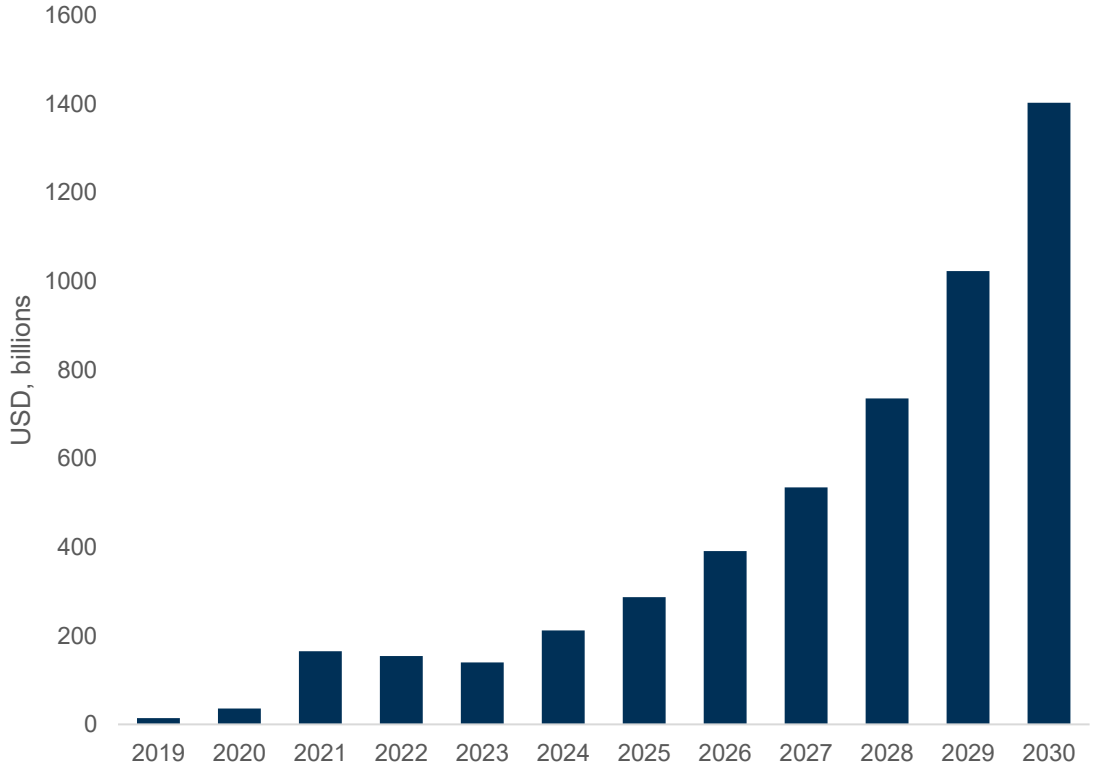
- When stocks and bonds are negatively correlated, a 60/40 portfolio is already somewhat hedged, and gold's additional diversification benefit is less impactful. When stocks and bonds become positively correlated – as tends to happen in inflationary scenarios – the 60/40 portfolio can suffer concurrent 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.

The growing digital asset market: an accelerating theme for 2027

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, November 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.



10-Year Yield



Path of policy rate

Policy rates are back on the rise, setting a floor under market-determined interest rates.

- The economy remains resilient, contributing to a renewed global hiking cycle
- Ongoing upside inflation risks persist, including to oil prices; tolerance for a re-firming of inflation is likely to be lower after 5 years of above-target inflation, biasing rates higher

TAKEAWAY: The Fed may be able to keep its hiking cycle modest, but rates will not reach the lows of prior cycles.

+



Inflation expectations

Long-term inflation expectations are well anchored. We see upward pressure on *near*-term inflation expectations, driven by:

- Oil: supply side shock driven by regional conflict
- Questions around how the Fed will adhere to its inflation target
- Cyclical pressures: greater economic growth spurred by fiscal spending on top of resilient consumer and corporate activity

TAKEAWAY: A number of shocks continue to cause near-term inflation expectations to rise.

+



Term premium (supply and demand)

Structural factors raise questions around relative supply and demand for Treasuries, pressuring the term premium higher:

- Debt sustainability concerns and changes to Treasury's "regular and predictable" issuance
- Investor preferences, including moderate sovereign rates in other major nations
- Geopolitical risk has an ambiguous impact; if flight to safety dynamic persists, U.S. long rates are pressured lower

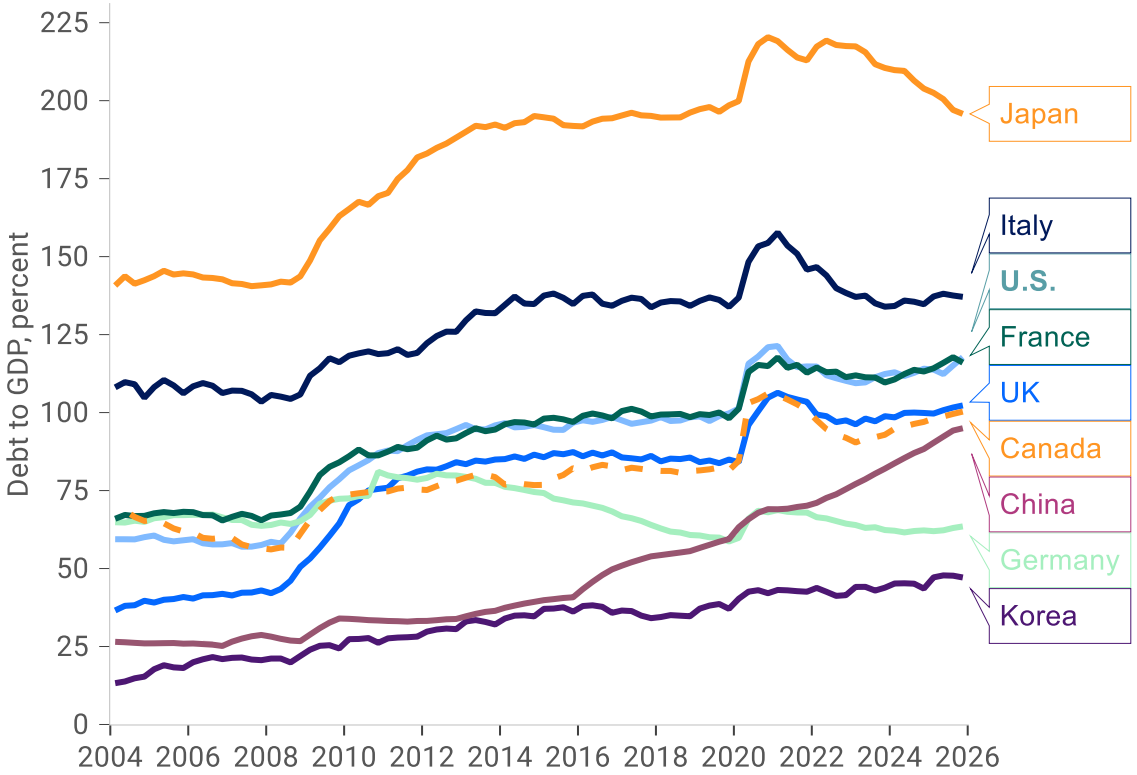
TAKEAWAY: Structural investment tailwinds are a mostly upward pressure on long-term rates.

Opinions of New York Life Investment Management Global Market Strategy, November 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, November 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 repression 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.

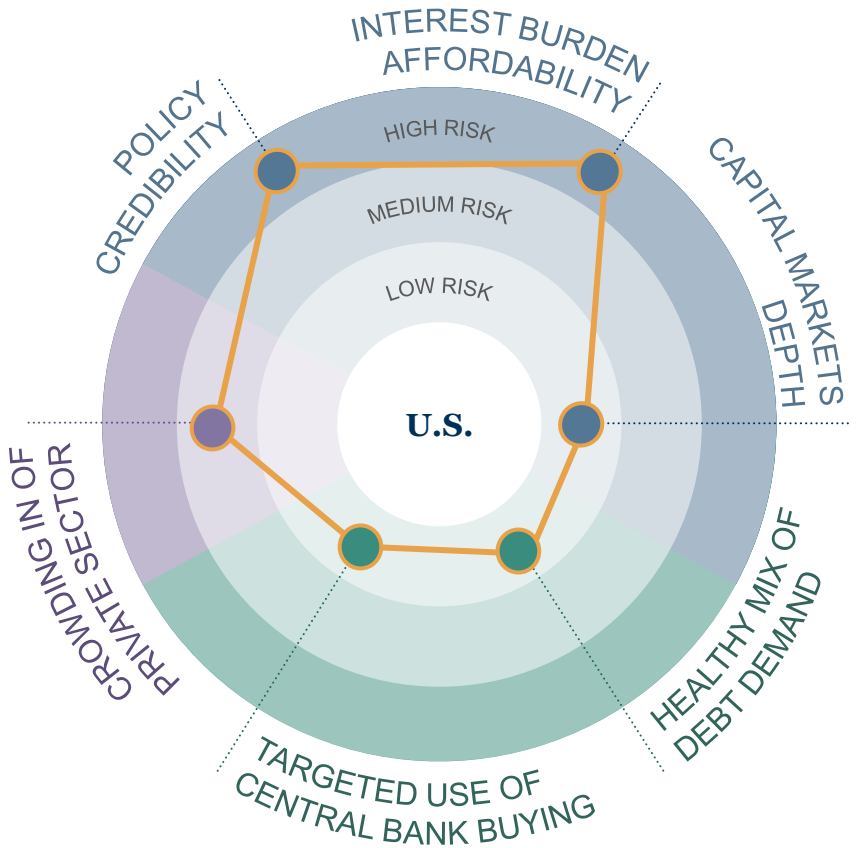
The path forward

- 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, November 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.

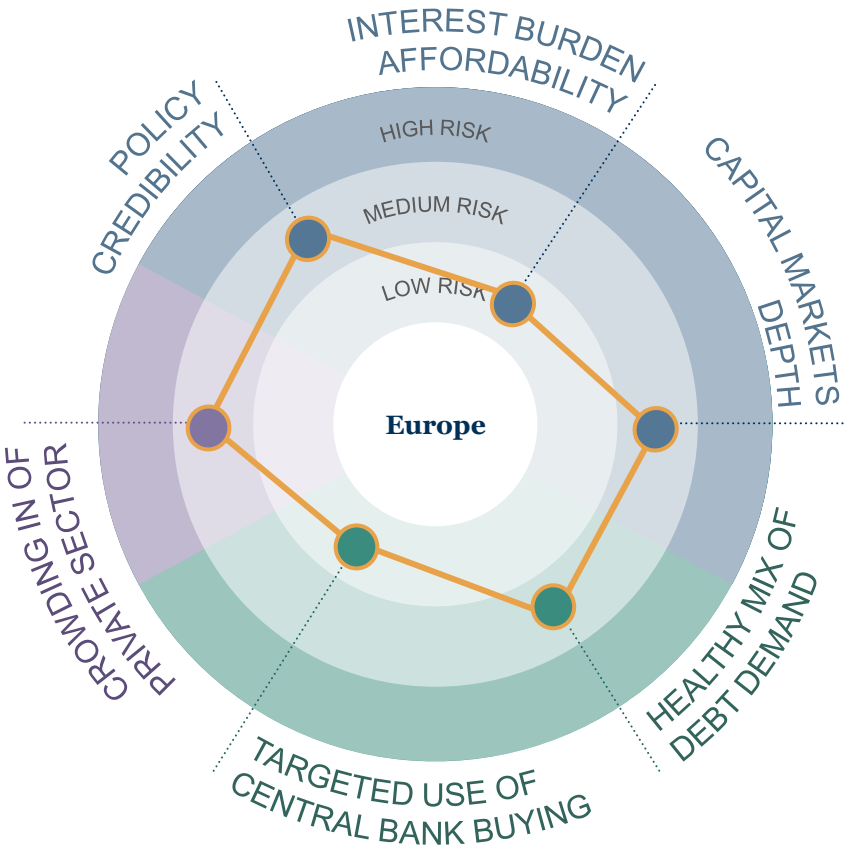
Applying our sovereign debt sustainability framework

- 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, November 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 *Share of global FX reserves*	57%	21%	5%	2%
Liquidity *Foreign holding of government debt*	35%	38%	30%	9%
Broad acceptance *Share of foreign currency debt issuance*	64%	24%	3%	1%
Convertibility *FX transaction volume*	45%	14%	8%	4%
Open capital account *Capital controls*	**None** (Open)	**None** (Open)	**Some** (Restrictions)	**Tight** (Closed)
Floating exchange rate regime *Exchange rate regime*	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, November 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. 2025.

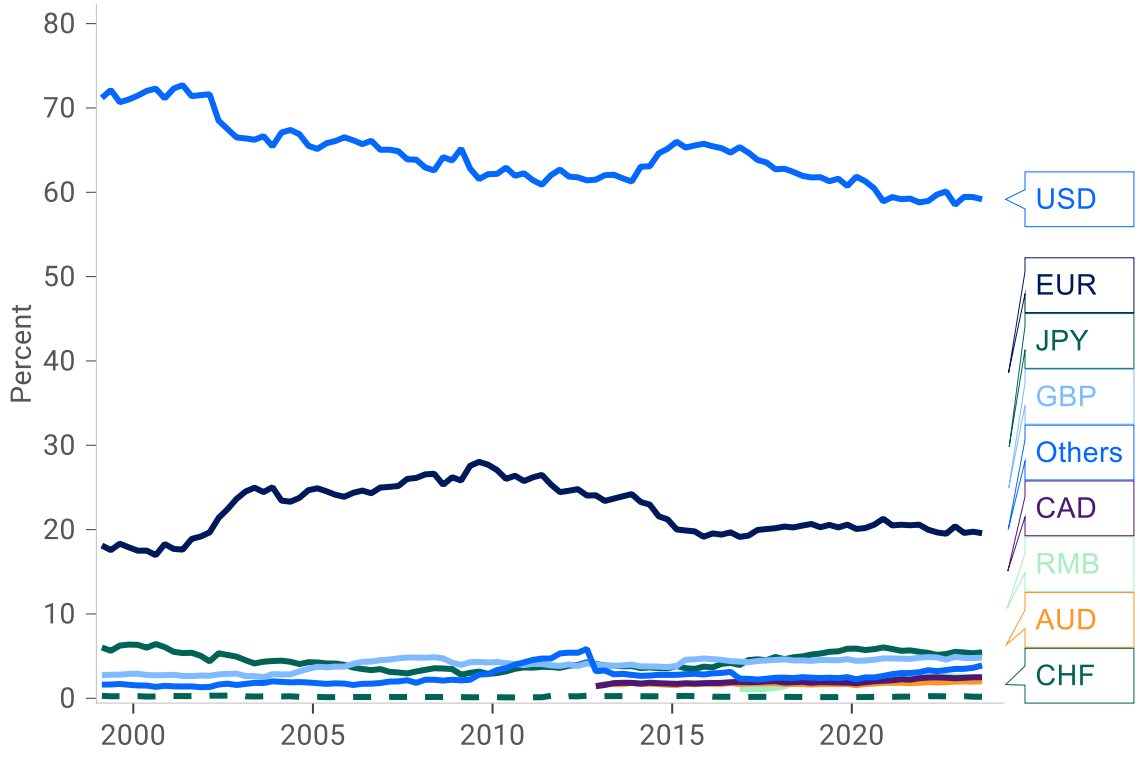
TAKEAWAY: Dominating global reserves, transactions, and global debt, the USD is set to remain the world's primary reserve currency. China's capital controls and lack of global convertibility and transactability make it unlikely for RMB influence to expand beyond select commodity-based relationships.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

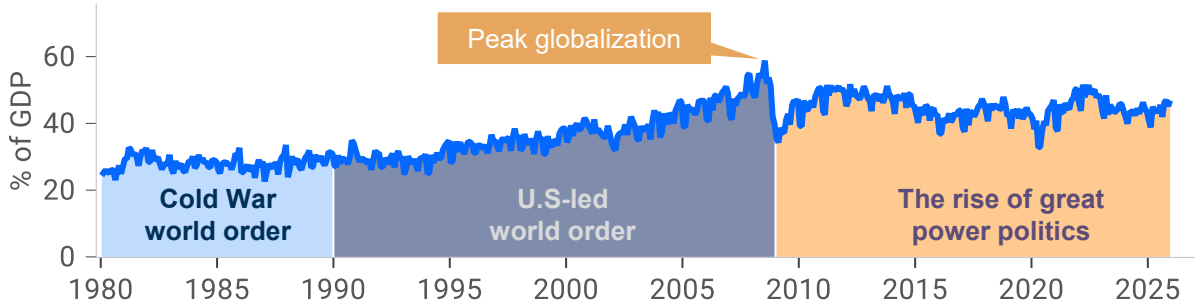
We believe the U.S.-led world order, which took hold in the early 1990s and peaked around 2010, has been gradually giving way to a return of great power politics (**chart**) defined by economic nationalism, strategic industrial policy, onshoring, and the weaponization of trade, technology, and financial 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, November 2026.

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

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

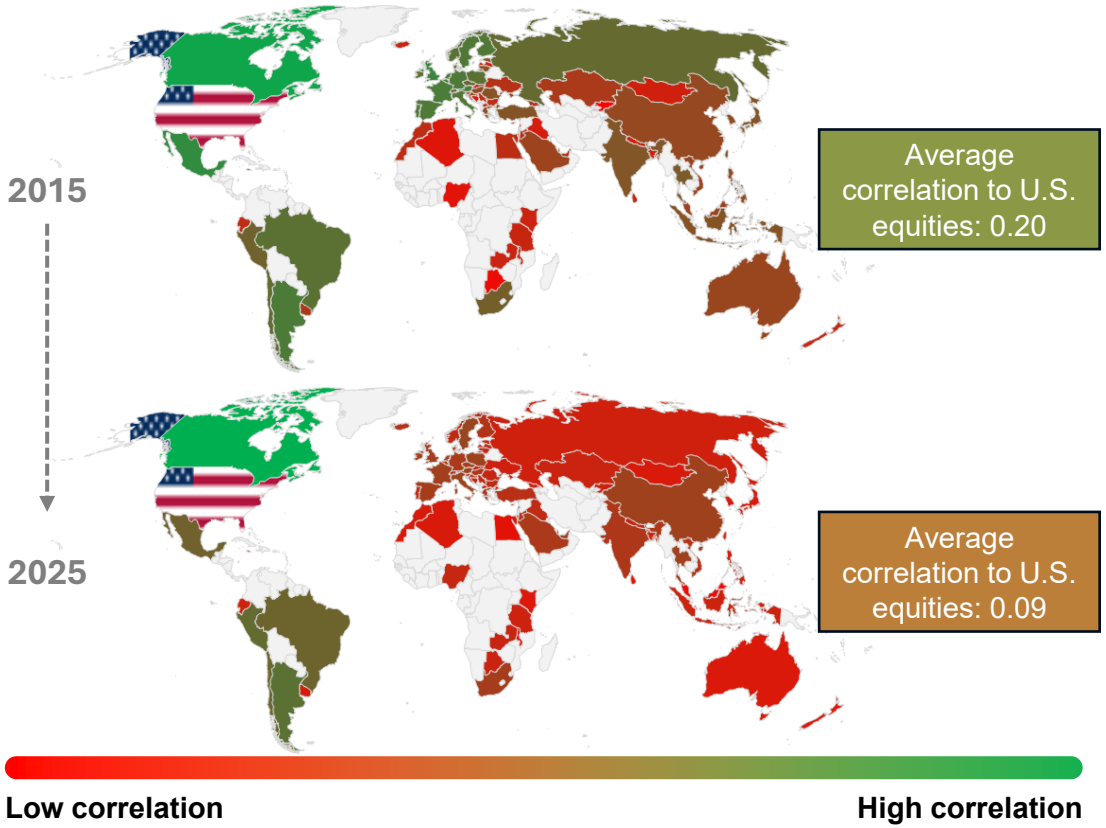
- When national security (rather than economic or social issues) is countries' chief organizing principle, policy approaches like tariffs, export controls, procurement, and investment restrictions become recurring tools, not occasional headlines. That raises the odds that geopolitics shows up as real-world 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, November 2026. For illustrative purposes only.

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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**	• *Add inflation-aware asset classes*: TIPS, real assets • *Build income across asset classes*: Dividend-paying equities; high-yield corporate bonds
Autocracy risk premium rising	**Buy the macro volatility portfolio**	• *Satellite exposure*: equal parts oil, gold, and bitcoin, implemented as a small satellite exposure sourced from equity • *Diversify country exposure*: 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**	• *Favor markets aligned with the U.S. bloc*, i.e. Mexico, Taiwan, South Korea, India • *Manage currency risk*: 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**	• *Overweight domestic champions and beneficiary sectors*: Industrials, energy, semiconductors, cybersecurity, and defense • *Capture global megatrends*: 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**	• *Lean into active management*: Dispersion is rising, so selection matters more than beta. • *Remember the "old economy" toolkit*: Metals, minerals, and the industrial and energy supply chains behind them matter again.

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

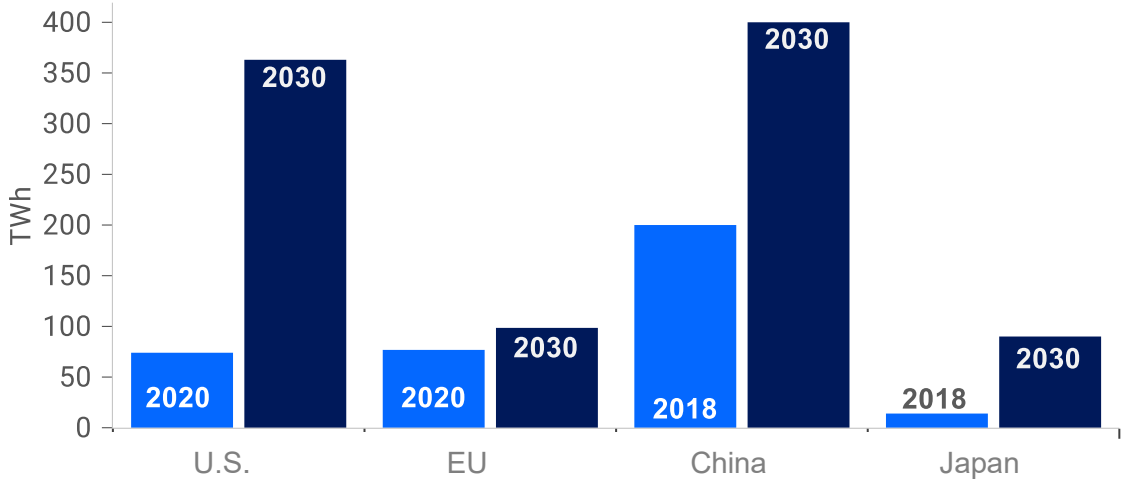
Global megatrends: Creating persistent demand for capital

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

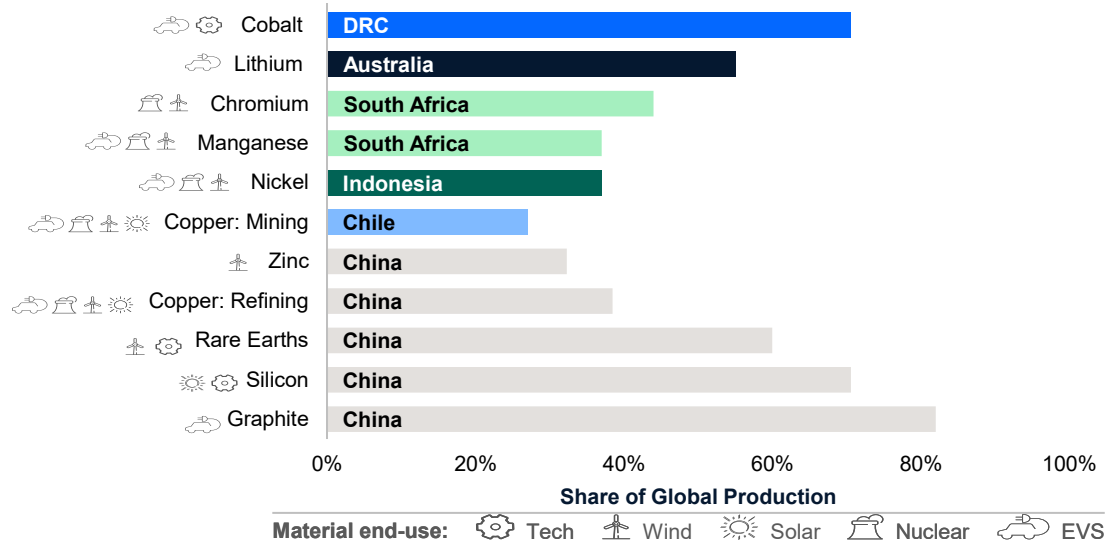
Data center electricity use



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.

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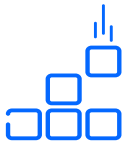
Global megatrends: AI is sparking sustained capital reallocation

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

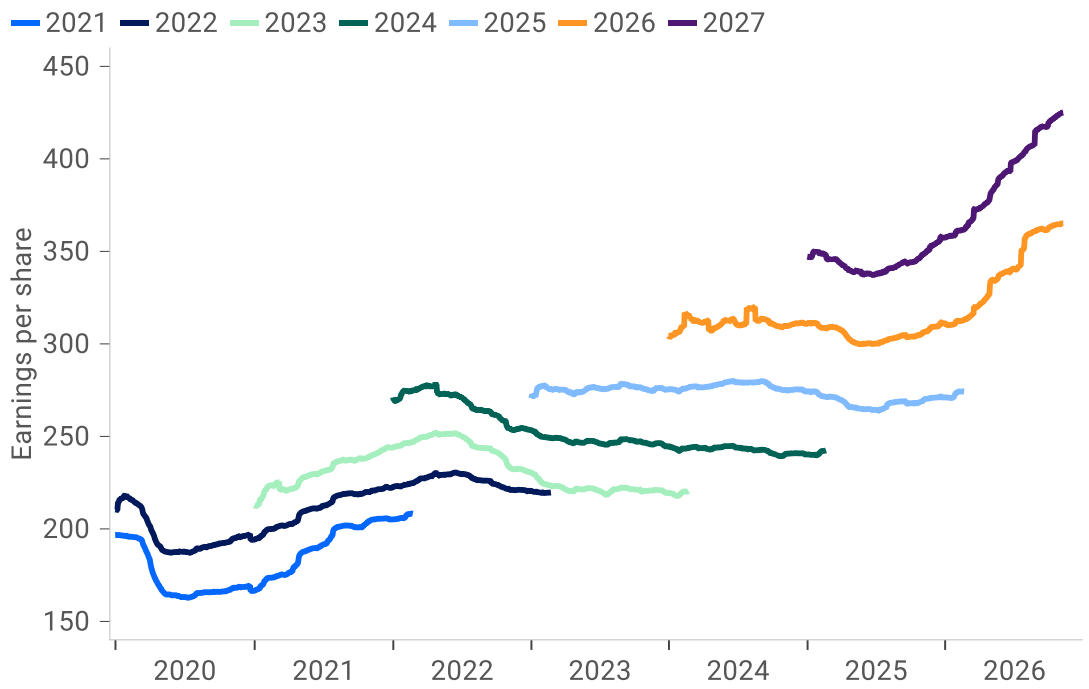
- Corporate earnings
- Valuation
- Style
- Size
- The AI trade
- Dividends
- Non-U.S. developed markets
- Equity risk premium

The outlook for corporate earnings continues to improve

Earnings expectations continue to rise, giving equities a fundamental tailwind even as AI, profit margin, and policy risks expand.

- 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.
- U.S. earnings momentum has improved through the year (**chart**), with 2026 EPS expectations accelerating – rather than fading as the cycle matures. This is unusual at this stage of an earnings cycle and suggests analysts are still upgrading the profit outlook rather than simply waiting for growth to accelerate. Analysts currently expect earnings growth to moderate to the mid-teens in 2027, a slower but still solid pace.
- The strength is being supported by resilient margins, steady demand, and AI-related investment, but it is not risk-free. Higher input costs, a more hawkish Fed, and policy uncertainty (particularly related to the AI boom) could still test how much of today's earnings optimism can flow through to realized profits.
- The S&P 500 in Q3 delivered earnings growth above 30%, with more than 80% of companies beating estimates. The heart of these earnings was the tech sector, reflecting both core profits and an increasing contribution from AI-related cloud services.
- Our constructive economic view supports further earnings momentum into 2027. 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.

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



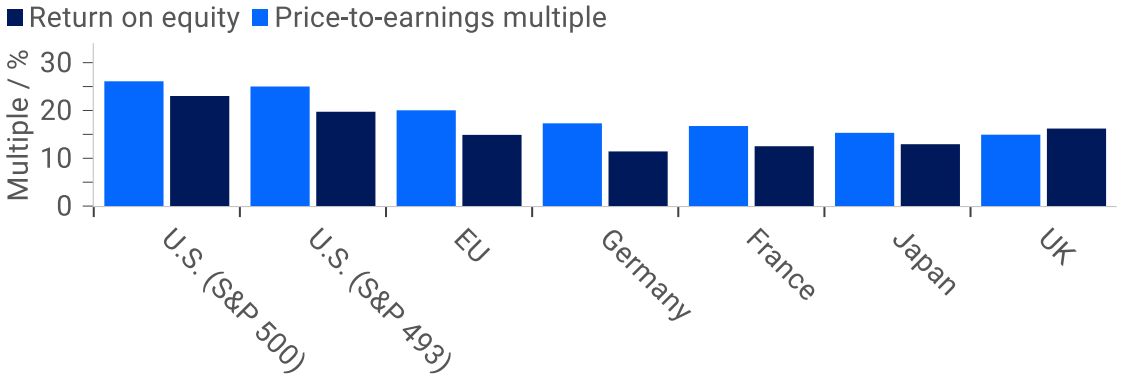
Sources: New York Life Investment Management, Global Market Strategy, FactSet, Macrobond, November 2026.

TAKEAWAY: Strong corporate earnings have provided support for equity performance, driven by resilient margins and productivity gains. We expect earnings growth to hold up in 2027, supported by AI-driven efficiencies and steady consumer demand, even as companies navigate a rising input cost environment.

Equity valuations: rates-driven valuation pressure amid growing risks

Valuations have compressed, with a hawkish Fed creating potential buying opportunities.

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



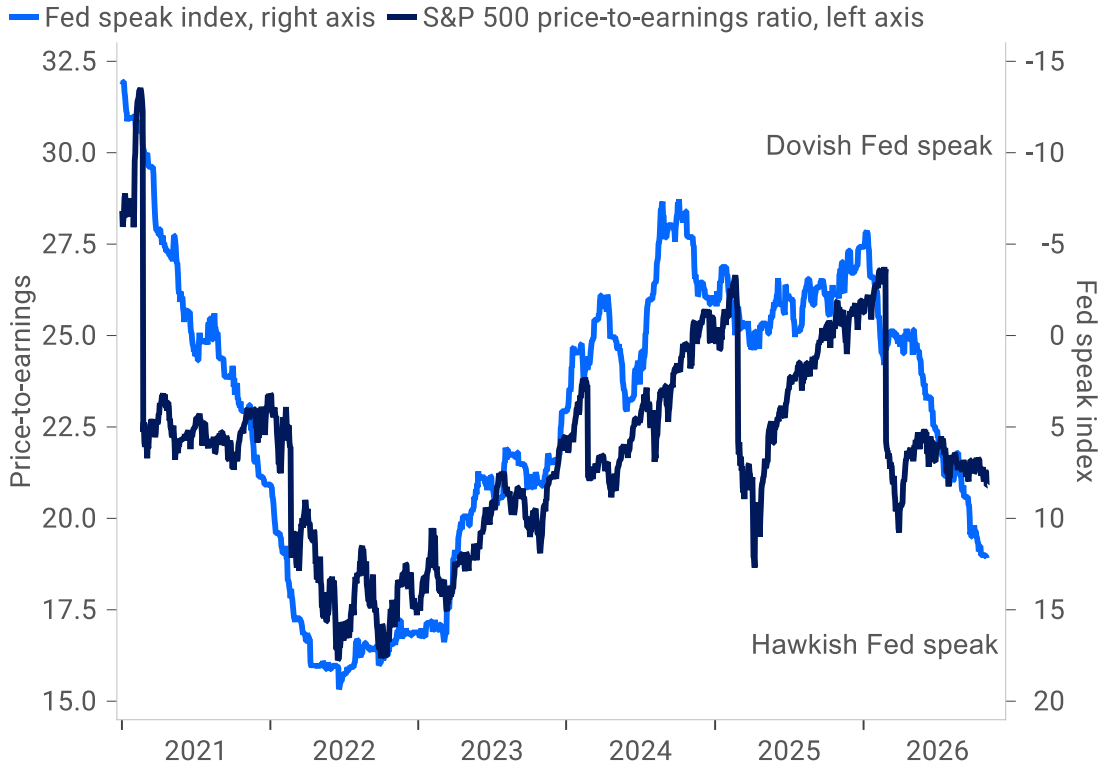
Sources: New York Life Investment Management, Global Market Strategy, Bloomberg, Macrobond, November 2026.

To the extent that 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.
- Headline valuations may be misleading: the S&P 500 ex-Mag 7 (the other 493 stocks) trades at 19x forward earnings, in line with historical averages.

A more hawkish Fed backdrop has already weighed on equity multiples (**right chart**), suggesting limited room for further multiple expansion unless rates fall or earnings expectations move higher.

A more hawkish Fed has weighed on equity valuations



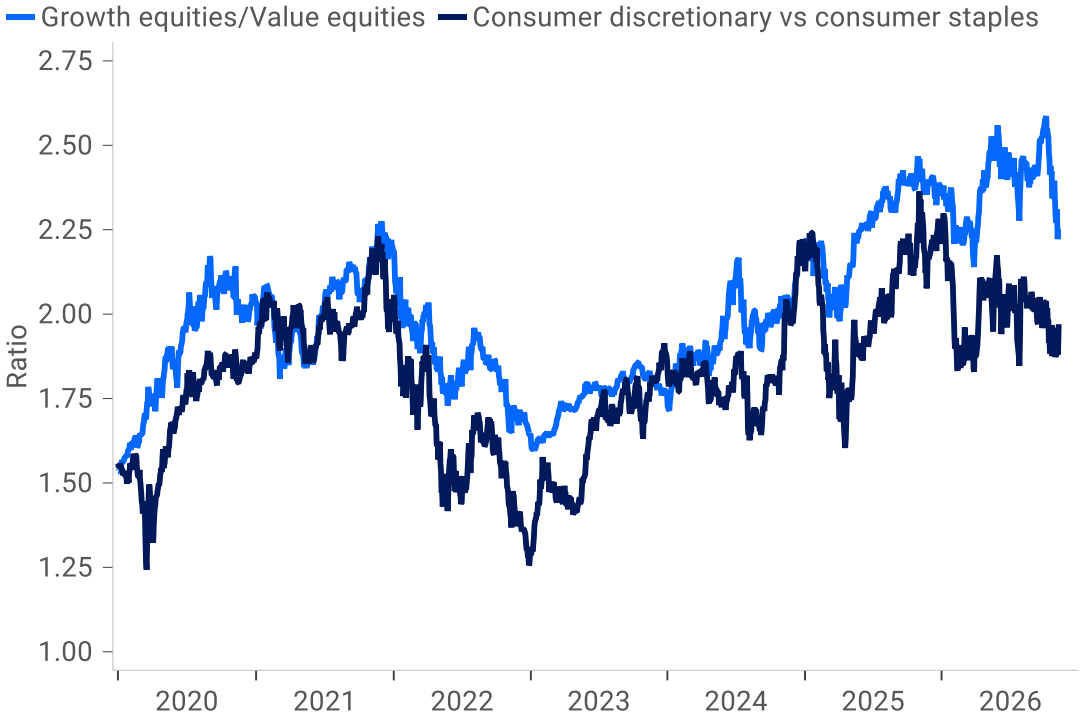
Sources: New York Life Investment Management Global Market Strategy, , Macrobond, November 2026.

TAKEAWAY: U.S. equity valuations can return and 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

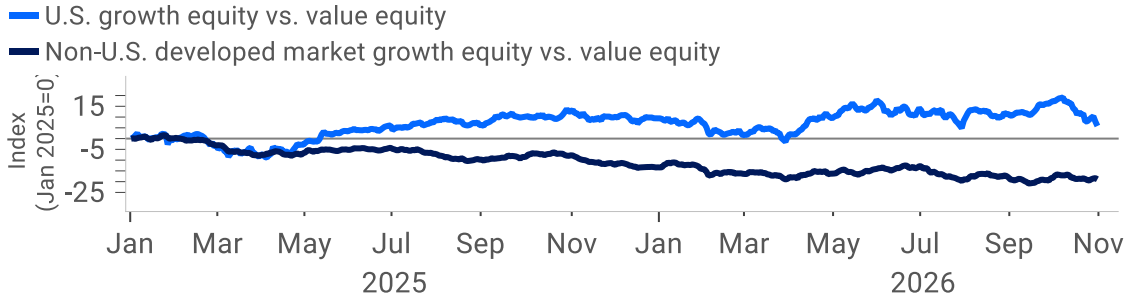
Sharper rotations argue for a balanced factor stance.

Factor rotations reinforce the case for diversification



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg, Macrobond, November 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



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

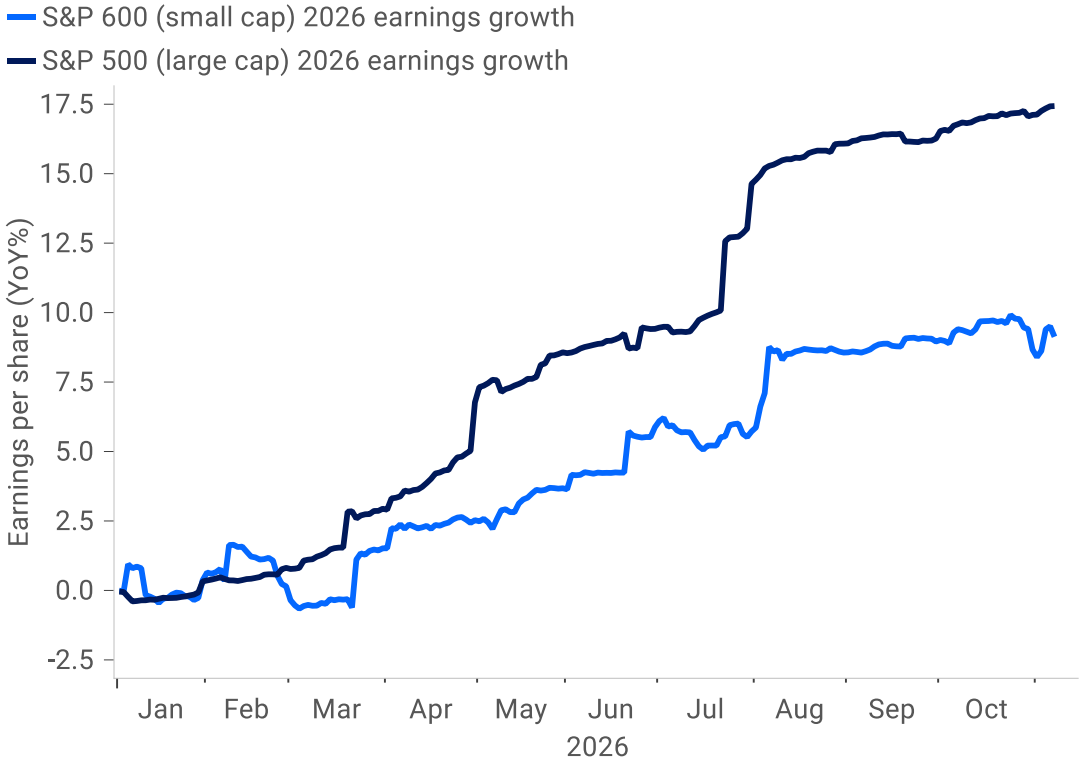
- U.S. growth stocks outperformed value for most of the year after an early rotation, but a sharp tech-led pullback in recent weeks has reversed much of that gain (**left chart**).
- In Europe, value stocks lead due to index composition (**right chart**), and a more hawkish central bank backdrop and higher-for-longer yields could keep the relative case for value intact.
- We believe the AI infrastructure buildout and policy support are likely to unlock opportunities in traditional value sectors such as industrials, materials, and energy.
- Ultimately, U.S. tech is the hub of profitability amongst global geographies and sectors. We believe investors are unlikely to turn away from this durable profitability for a prolonged period of time; policy risks may drive volatility and choppiness.

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 into 2027.

AI leadership dampens small caps' diversification potential

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

Small cap earnings are improving, but still lagging large caps



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

We are neutral on small caps, in line with our constructive economic and capital markets outlook. Small caps led for much of 2026 on cheap valuations, but that lead faded as the Fed turned to tightening and large cap leadership returned.

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. Some of those elements exist in the market today pointing to a rebound in small caps. Still, small cap participation remains narrow, and the earnings gap versus large caps (**chart**) keeps our view neutral rather than overweight.

Small cap-specific growth opportunities balance with lesser diversification

Small and medium-sized profitable growth companies may offer exposure to AI development at more attractive valuations, but we are wary that tech leadership in small caps reduces the diversification potential of adds to small caps

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.

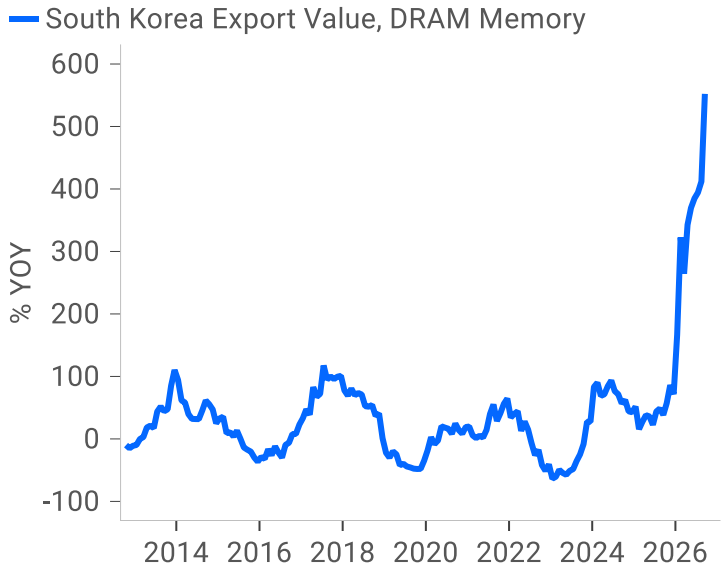
TAKEAWAY: Large caps remain our core overweight given resilient profits and a moderating growth backdrop. Small caps may lag in a higher-than-expected-rate environment, yet select areas, particularly those tied to technology and artificial intelligence, show renewed strength. A diversified approach across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

Spotlight on the AI trade

We continue to call for caution around semiconductor leadership and hyperscalers veering toward negative free cash flow.

- In some ways, “chipflation” has strong fundamentals behind it: memory chips are now subject to longer-term contracts, helping to drive a historic surge in pricing. Both logic and memory chips are in short supply as demand expands.
- However, memory equities in particular have been a high-volatility segment of the tech trade, and this volatility manifested in 2026, particularly as investors leaned into levered positions in memory chip stocks.
- Throughout the year, we have been cautious on semiconductor and memory leadership due to this volatility, and because it is unclear that today’s pricing power can stick.

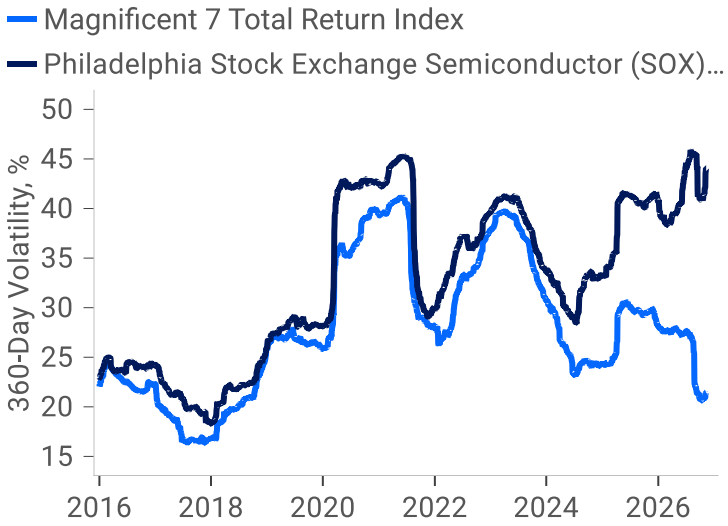
Today's memory moonshot marks a departure from its traditional cycle



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

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

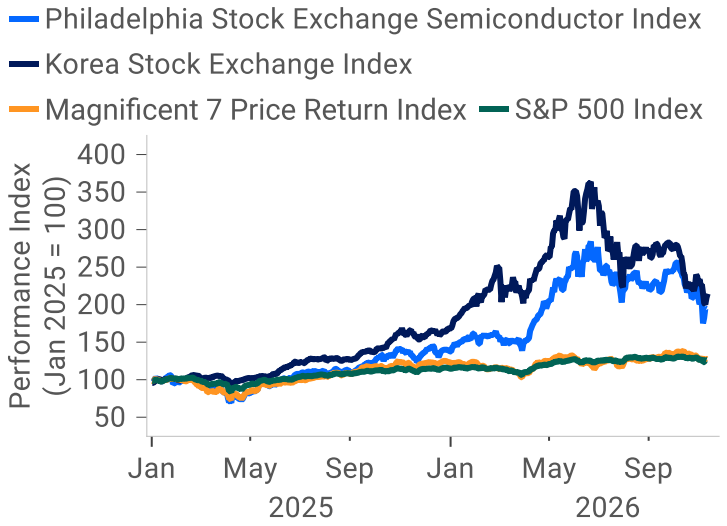
360-day volatility of tech equity indices



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

Volatile semiconductor leadership is reflected in 2026 returns

Price performance of major tech indices



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

TAKEAWAY: We remain cautious on memory-led semiconductor leadership and highly leveraged AI borrowers, where elevated financing costs and a slower AI buildout could amplify volatility. Accordingly, we see semiconductors – primarily memory players – as a tactical approach to the AI trade that may not suit longer-term investors.

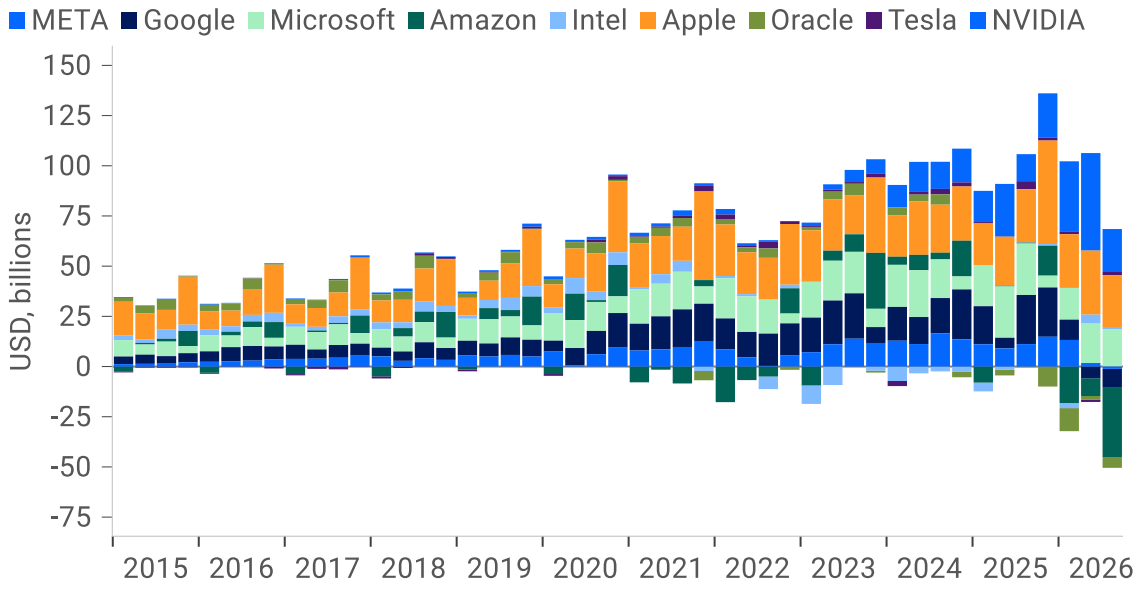
Spotlight on the AI trade

We continue to call for caution around semiconductor leadership and hyperscalers veering toward negative free cash flow.

- High-quality hyperscalers remain our preferred way to own the AI buildout, combining AI exposure with diversified cash flows, strong cloud revenue, and the balance sheet capacity to fund capex. Increasingly, quality revolves around positive free cash flow as capex rises.
- We expect hyperscalers that move toward negative free cash flow will face valuation discounts, while those funding the buildout from operating cash flow and diversified sources of financing will be better positioned.
- We have an eye toward other uses of operating cash flow beyond capex, which notably include dividend payments and share buybacks. We prefer companies that are able to maintain a balance between all three uses of cash.

AI capex cannot come at the cost of free cash flow

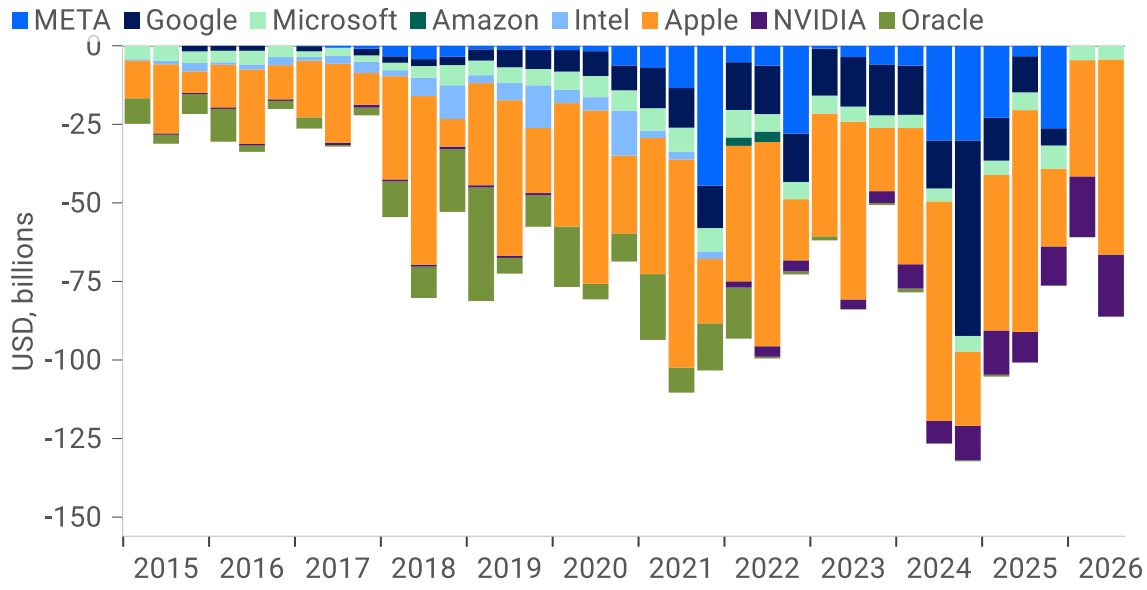
Free cash flow of AI hyperscalers



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

Lower share repurchases signal greater cash flow toward capex

Share repurchases



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

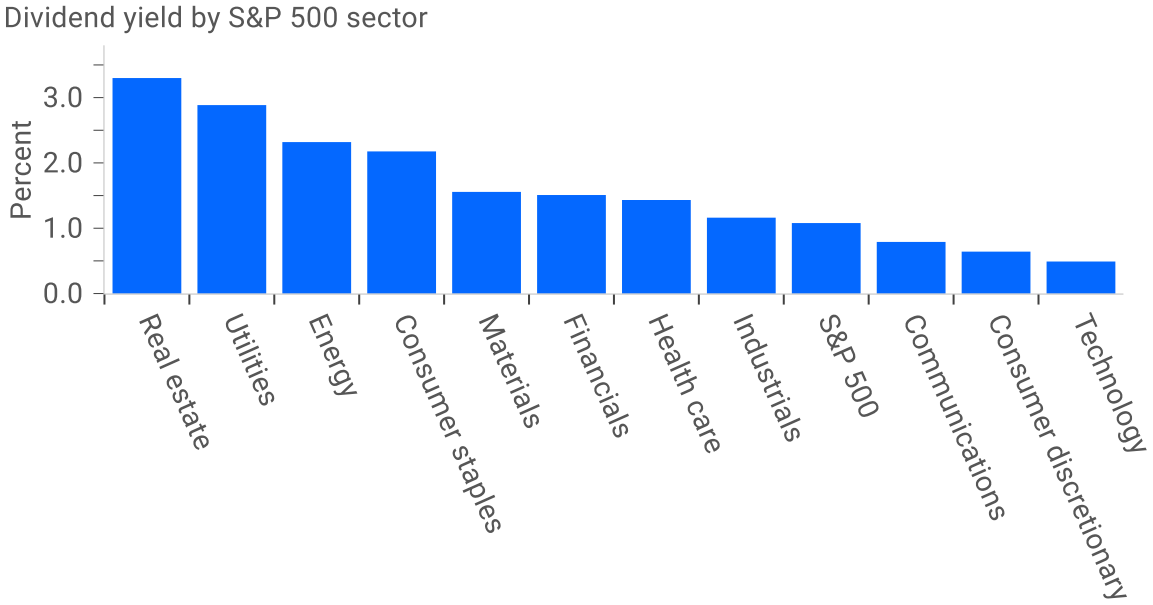
TAKEAWAY: Within equities, we favor high-quality hyperscalers with positive free cash flow, strong cloud revenues, and diversified financing.

Dividend-paying stocks are not the strongest place for income potential

Dividend stocks can help diversify income, but higher bond yields have raised the bar for equity-income strategies.

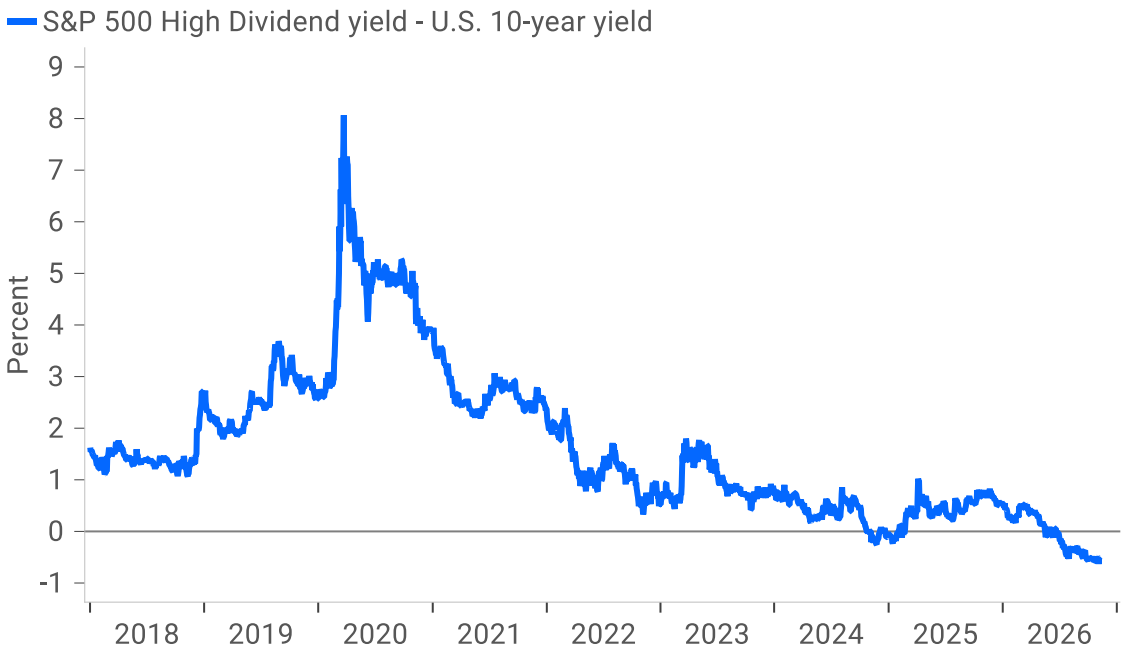
- For investors concerned about U.S. equity market performance, dividend stocks can enhance income generation potential from equity sleeves. Dividend yielders combine characteristics of high quality and income generation that fit well into our broader market outlook. These companies also tend to be value 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**).
- However, from a total-portfolio approach to income, dividend strategies are no longer competing against a zero-rate backdrop. With the yield advantage over Treasuries now gone (**right chart**), the case for dividend-paying stocks depends less on headline yield alone and more on quality, dividend durability, and the potential for income growth over time.

Where to find durable income in equities?



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

Dividends aren't paying dividends in a higher yield environment



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

NEW YORK LIFE Investment Management

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Non-U.S. developed market 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, November 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.

From here, 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

Our neutral call on international equities balances an underweight call on European equities, due to extensive election risk on the continent in 2027, with an overweight call on tech- and reform-heavy Japan.

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.

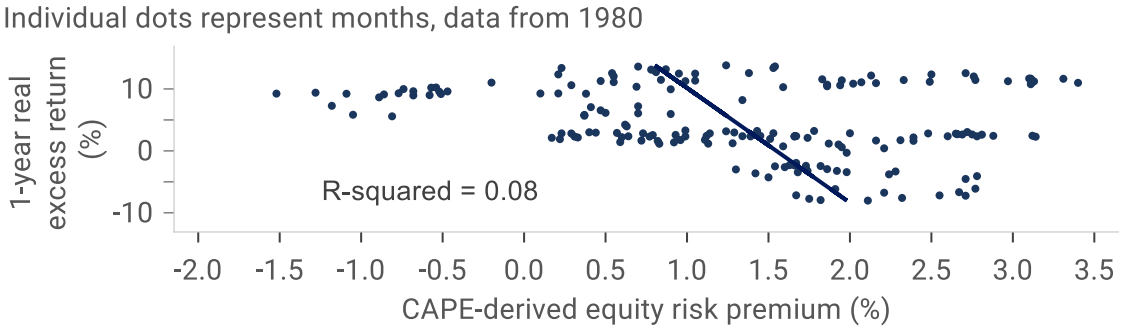
A stronger dollar environment can quickly erode ex-U.S. returns for USD-based investors. We favor partially hedging ex-U.S. exposure in today's flight to safety environment.

TAKEAWAY: Balancing an underweight call to European equities with an overweight to Japanese equities, we also advocate for a partial hedge to ex-U.S. developed market exposure for USD-based investors.

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

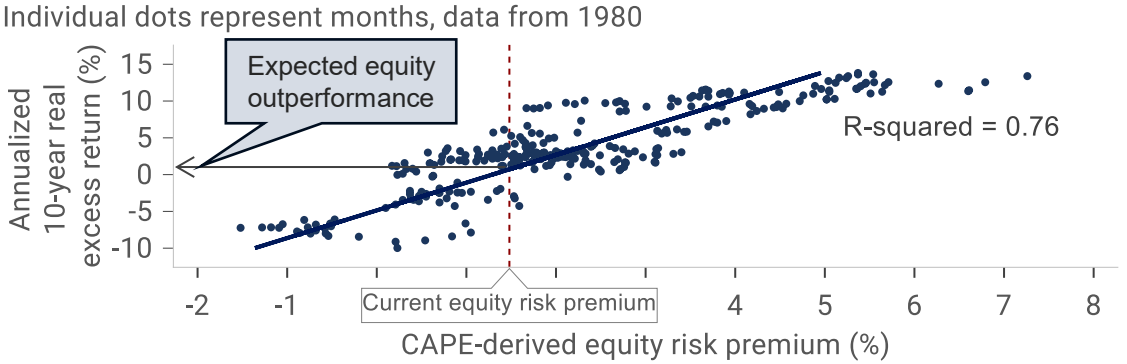
Today's equity risk premium suggests bonds may outperform stocks in the long run.

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



Sources: New York Life Investment Management, Global Market Strategy, Shiller, Macrobond, November 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



Sources: New York Life Investment Management, Global Market Strategy, Shiller, Macrobond, November 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

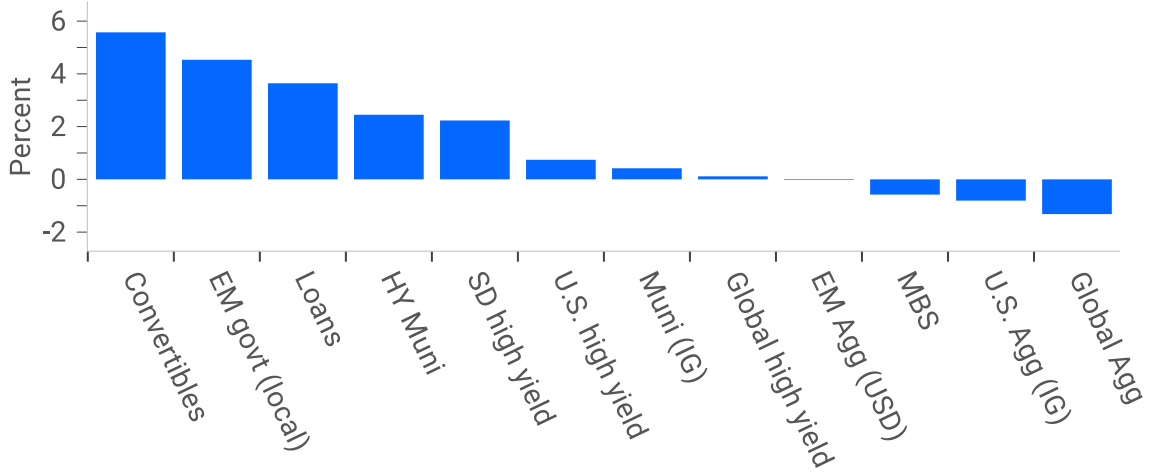
Today's rising rates environment calls for selection in credit

We continue to see compelling buy-and-hold total return opportunities in short-maturity credit, even as spreads remain tight.

- The credit cycle is healthy today, but both rates and rates volatility have risen; meanwhile, the credit cycle continues to mature. Our "solve" for both concerns is to favor buy-and-hold opportunities in short maturity and short duration credit in the U.S.: investment grade, high yield, and floating rate bank loans.
- Though spreads remain relatively tight, any spread widening from here likely represents a value creation opportunity in many fixed income asset classes, particularly if driven by a rebound in Treasuries.
- Upside risks to long rates remain: we see buying opportunities above a ~4.7% threshold on the 10Y yield. We prefer to balance short-duration Treasuries, convertibles, floating rate, 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 consistently better rewarded.

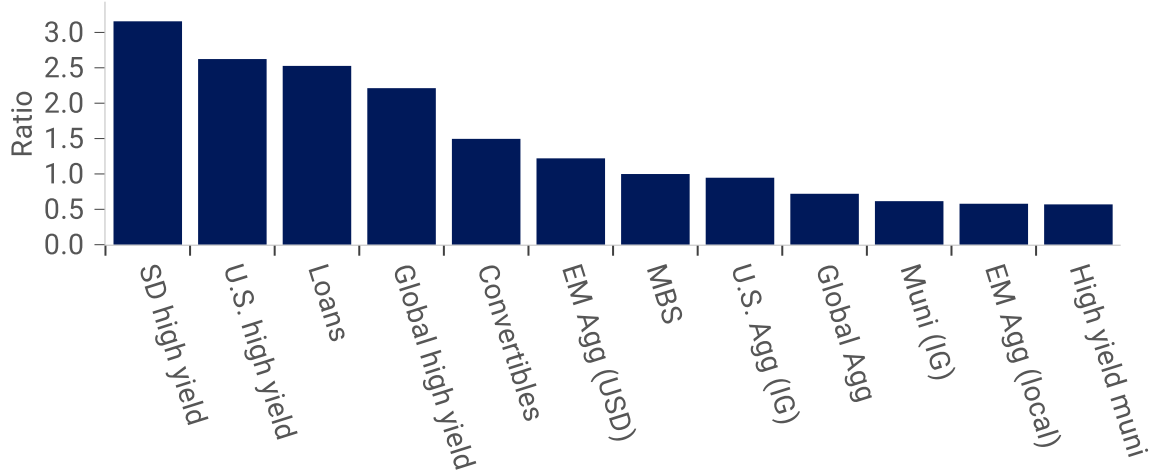
Risk-on fixed income outperformed in 2026

Returns from January 2026



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

Yield per duration (prior 30-day average)

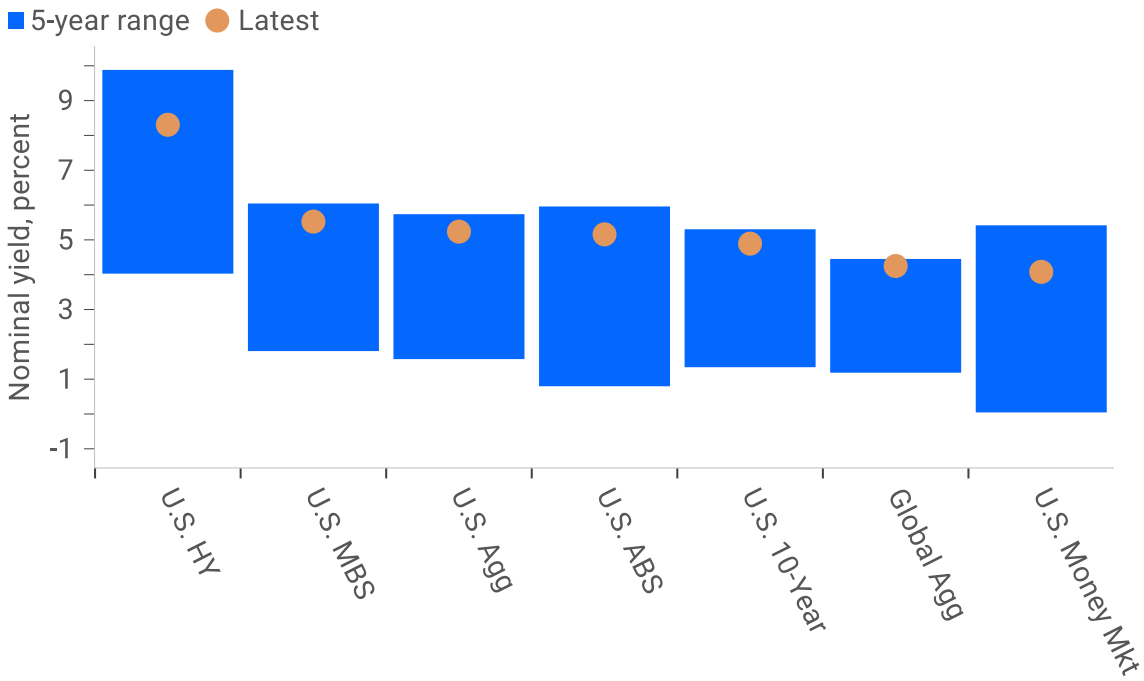


Sources: New York Life Investment Management, Global Market Strategy, Bloomberg, Macrobond, November 2026. Convertibles represents the Bloomberg U.S. Convertibles Liquid Bond Index. EM Agg represents the Bloomberg Emerging Markets (EM) Hard Currency Aggregate Index- a flagship hard currency EM debt benchmark. 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

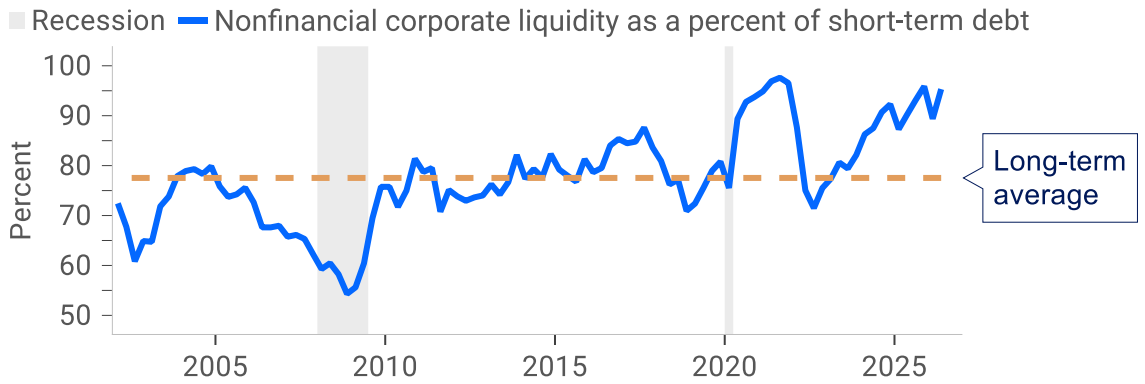
As the credit cycle matures, we favor quality and believe selectivity will be more accretive to returns than in past years.

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, November 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 Hi gh 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, November 2026.

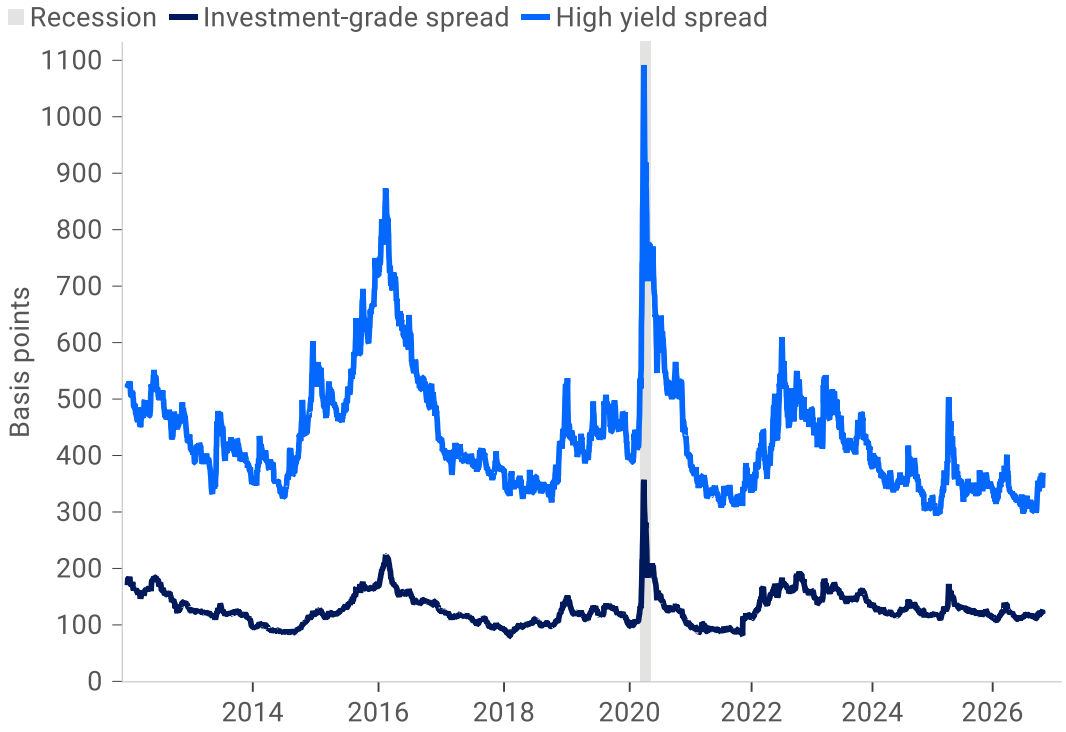
- Income: When focusing on total return, IG credit has less income generation opportunity relative to other credit tranches. For the risk-averse investor IG can represent a constructive move away from cash, but we favor securitized credit within a core bond sleeve and short duration HY credit (next slide) 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.

We remain constructive on higher-rated pockets of U.S. high yield

Though spreads are likely to be bumpy amid the Treasury selloff, we maintain a positive outlook on U.S. high yield credit.

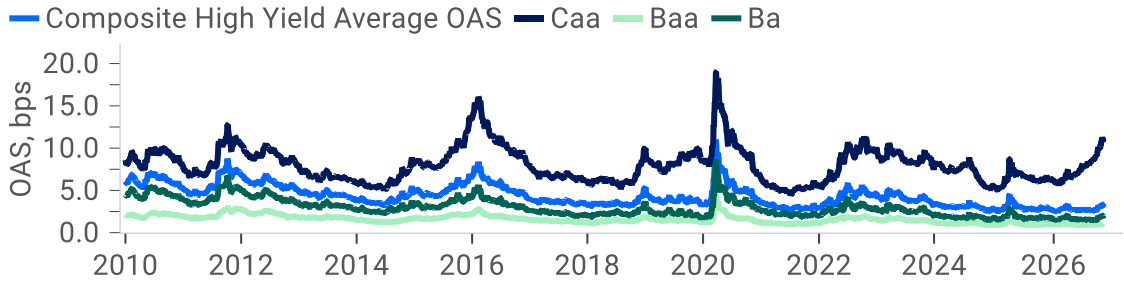
Spreads are widening off historic lows



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

Within high yield, spreads are widening most notably in lower credit quality

Option-adjusted spreads (OAS)



Sources: New York Life Investment Management Global Market Strategy, Bloomberg Finance LP, Macrobond, November 2026. OAS is the yield differential between a risky bond and its Treasury counterpart of the same tenor.

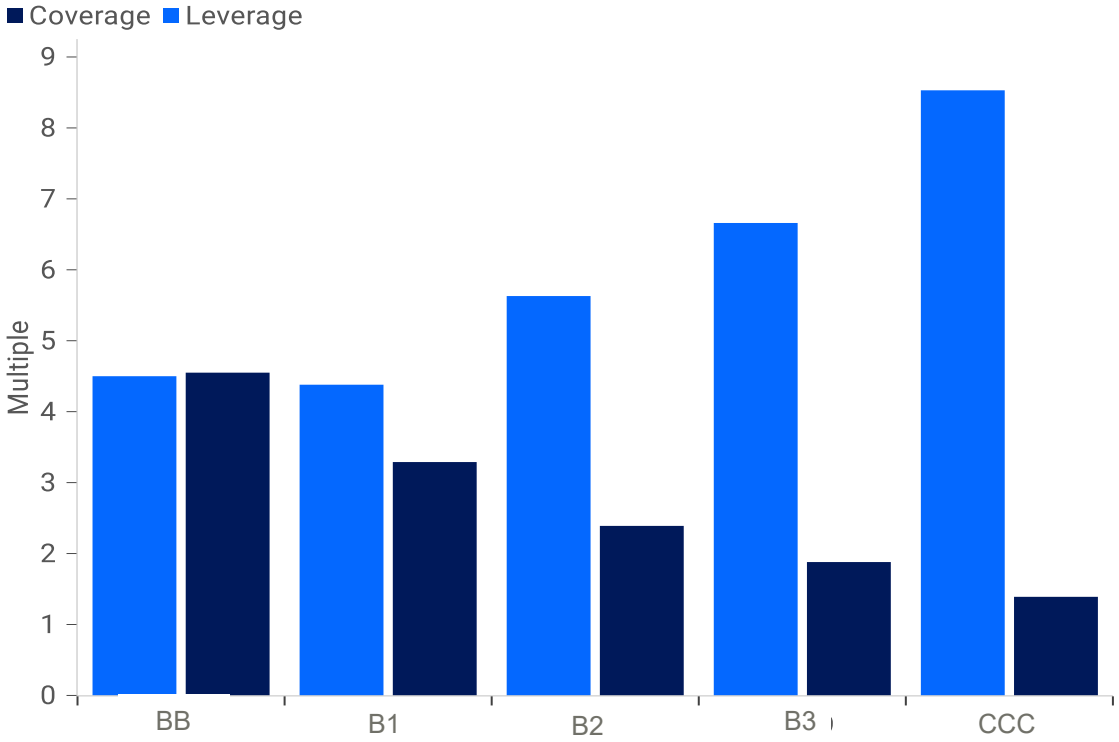
- The U.S. high yield asset class has improved in quality thanks to changes in corporate financing structure since the financial crisis, and thanks to pandemic-era support programs. Over half of major HY benchmark weight is now rated BB or higher. We see this quality at work in the maturity wall: high yield issuers in the U.S. have been incredibly successful at pushing out their obligations.
- Cyclically, leverage and interest expense levels in high yield are healthy. We see this environment favoring buy-and-hold opportunities in shorter maturity credit. The Treasury selloff, combined with questions around how tighter financing conditions will affect credit quality, may create a bumpy environment for spreads – but total income potential looks appealing (**charts**). While spread widening in lower quality credit may tempt investors to buy, we see those opportunities as highly tactical; we do not expect junk to outperform in 2027.

TAKEAWAY: Spread widening in HY may create value in the highest quality segments. The rising rate environment enhances total return potential, particularly for buy-and-hold opportunities in short-maturity credit, but we prefer higher-quality within the asset class as we watch how tighter financing conditions impact credit quality.

The macro environment has turned more favorable for floating rate

Bank loans now benefit from the right combination of resilient growth and rising rates, but selection is still paramount as the macro backdrop shifts.

Leveraged loans call for careful quality selection, as coverage ratios decline precipitously at lower ratings



Sources: New York Life Investment Management Global Market Strategy, J.P. Morgan, Bloomberg Finance LP, Macrobond, November 2026.

We maintain our high-conviction upgrade of floating rate loans to overweight.

Now that the Fed is in a hiking cycle, floating rate loans are more attractive at the asset class level

Bank loans defied expectations for total return – delivering a higher yield than expected, for longer than expected, while the Fed was on hold – and now we expect a rising rate environment to enhance total return potential for floating rate loans.

Macro risk persists, placing a firm emphasis on selection

For the time being, the U.S. economy is in something of a macro "sweet spot" in which rates create an attractive income opportunity for investors but have not yet been high enough for long enough to impact credit quality. Floating rate loans are primed to benefit from this environment.

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, calls for strong selectivity and likely more high-quality exposure within floating rate (**chart**).

Portfolio strategy

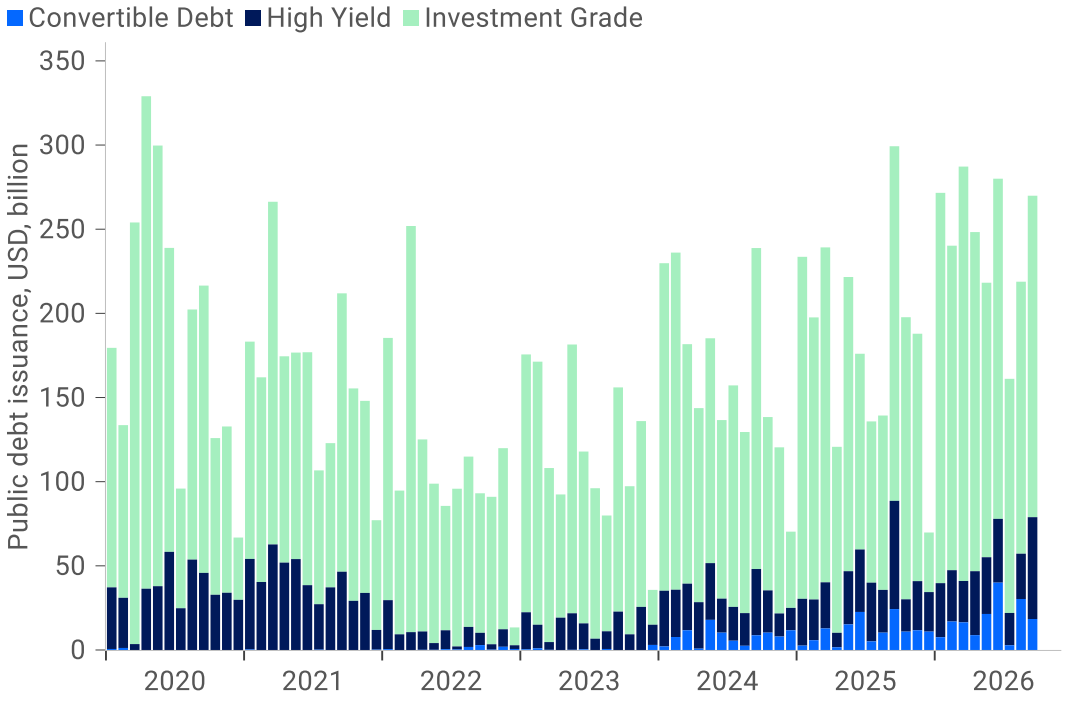
We believe bank loans can be an important component of diversified global bond exposure and in Q4 2026 **upgraded our view from underweight to overweight**. Within floating rate bank loans, we prefer portfolios that are overweight senior secured loans with low leverage. We are closely monitoring for signs of credit quality slippage.

TAKEAWAY: A rising rate environment is likely to compensate investors for the higher credit quality risks found in floating rate, but selection is paramount.

Convertible bonds' convexity delivered in 2025 and 2026; continuing in 2027

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, November 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 *and* 2026. We remain constructive for 2027.

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 picked up considerably between 2024 and 2026. 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 2-3%.

Quality: With issuance focused within the tech sector and larger companies making first-time issuances, quality looks strong, supported by well-capitalized large borrowers.

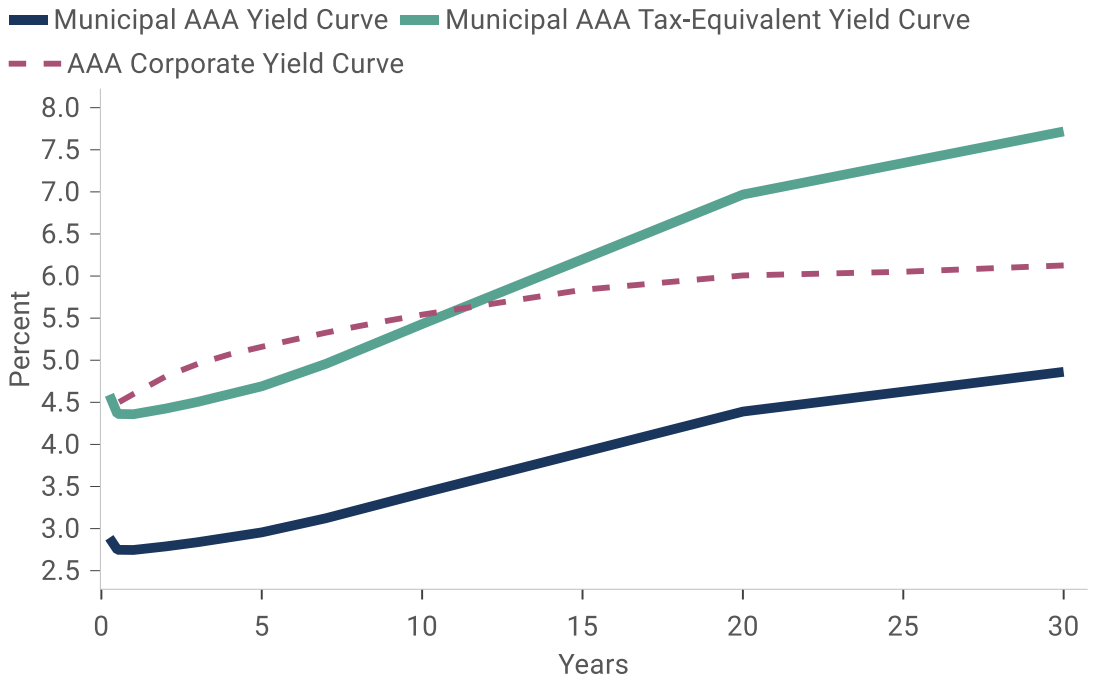
Valuation: The U.S. convertible market is weighted towards mid and small-cap companies which have significantly lower valuations than large caps. While we are neutral on the SMID cap space in our equity view, we find the value proposition of converts to be focused on their blended equity/bond characteristics 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, November 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.

The end of tax-loss harvesting pressure: we have already seen muni flows improve as tax losses have now been harvested and funds have been redeployed.

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 flatter 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

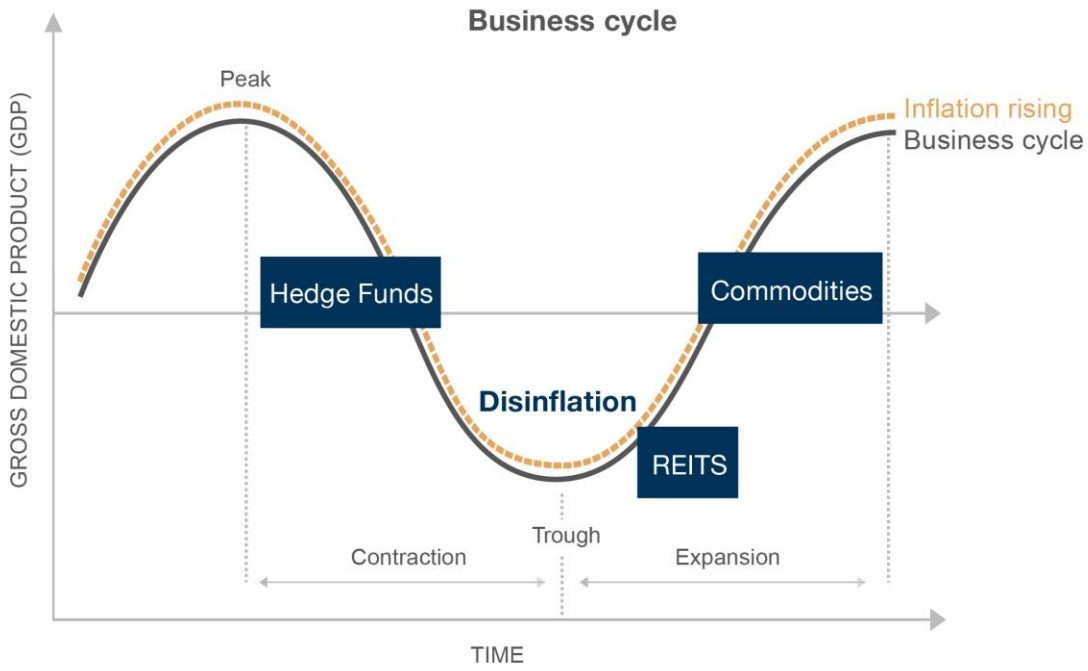
Insights

- 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, November 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 equal. With equity market benchmarks delivering strong performance, 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.

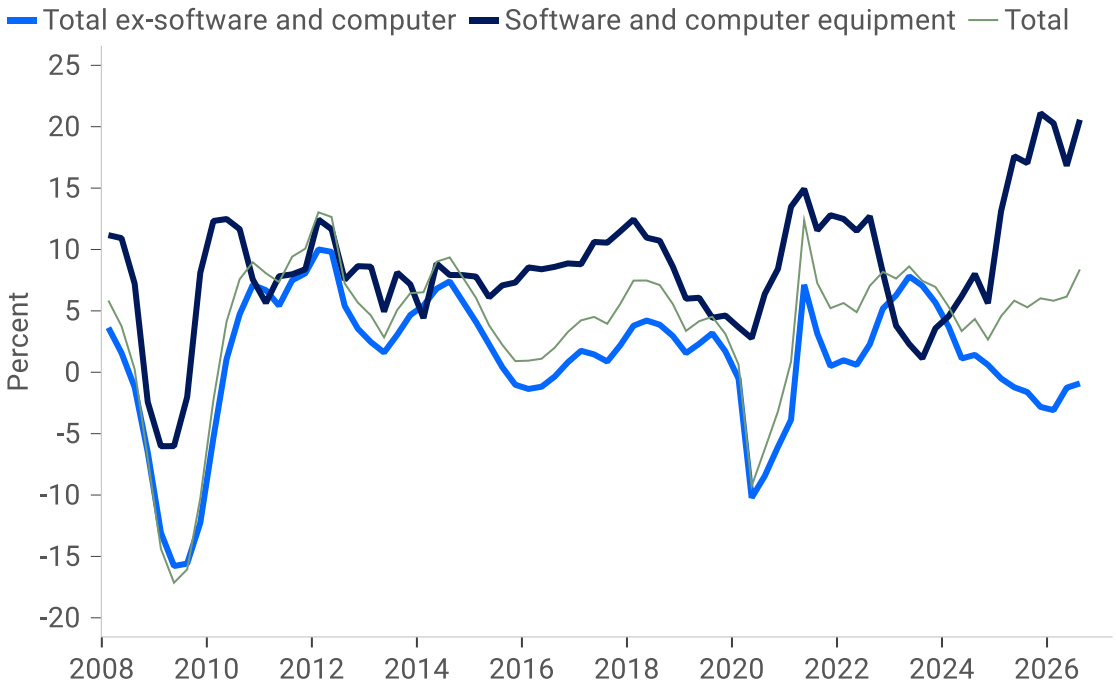
TAKEAWAY: Investors may benefit from adding exposure across alternatives. Given sticky inflation, and the risk of reacceleration, we think commodities could offer compelling risk-adjusted returns at this stage of the cycle.

Infrastructure remains a structural theme for portfolios

Infrastructure remains a high-conviction structural theme, but higher rates and AI policy headwinds make selectivity more important.

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, November 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.

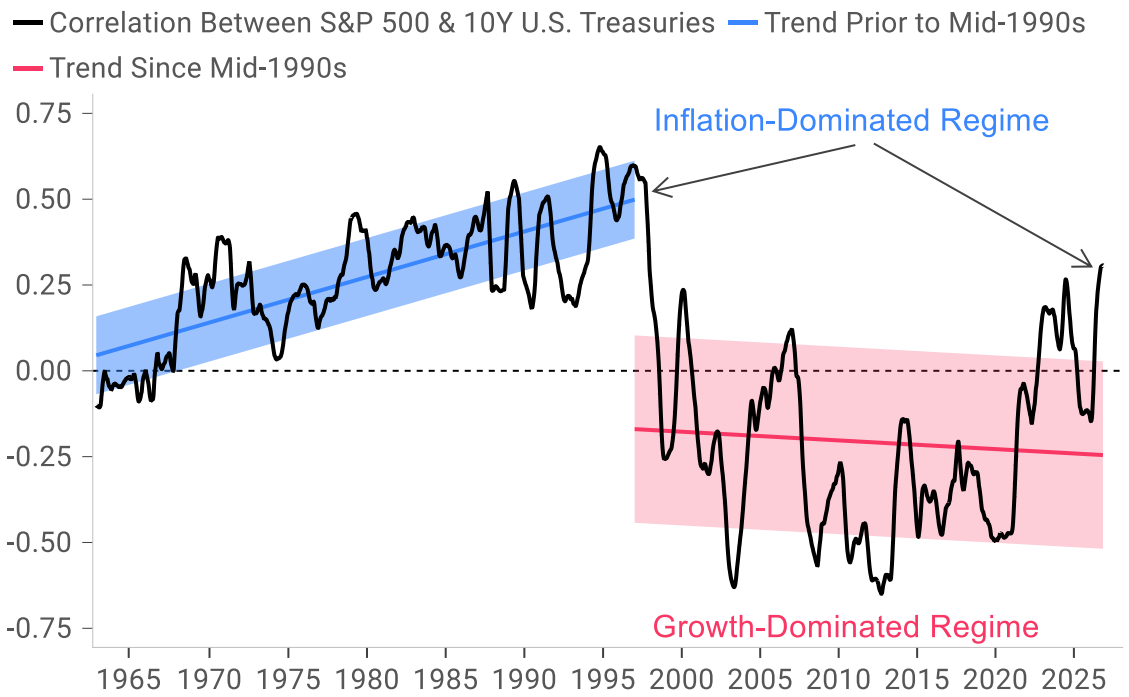
TAKEAWAY: The global economy is shifting, and we believe that infrastructure provides a durable opportunity to capture that change. We perceive infrastructure as a structural allocation in both equity and fixed income, allowing investors access to these trends as well as important portfolio construction benefits. However, infrastructure is not currently benefitting from the cyclical firepower of an interest rate cutting cycle, which has historically supported sectors such as utilities and energy that tend to make up important portions of the infrastructure asset class. We believe the headwinds of both a higher rates environment and potential policy pushback to the AI buildout temper the infrastructure case, but do not derail it.

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.

Rising stock-bond correlation strengthens the case for commodities as a diversifier

Historical correlation between U.S. equities & treasury bonds



Sources: New York Life Investment Management Global Market Strategy, U.S. Department of Treasury, S&P Global, Macrobond, November 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.

A tactical approach to commodity investing

- When inflation is surprising to the upside, stock-bond correlations tend to be higher (**chart**). 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

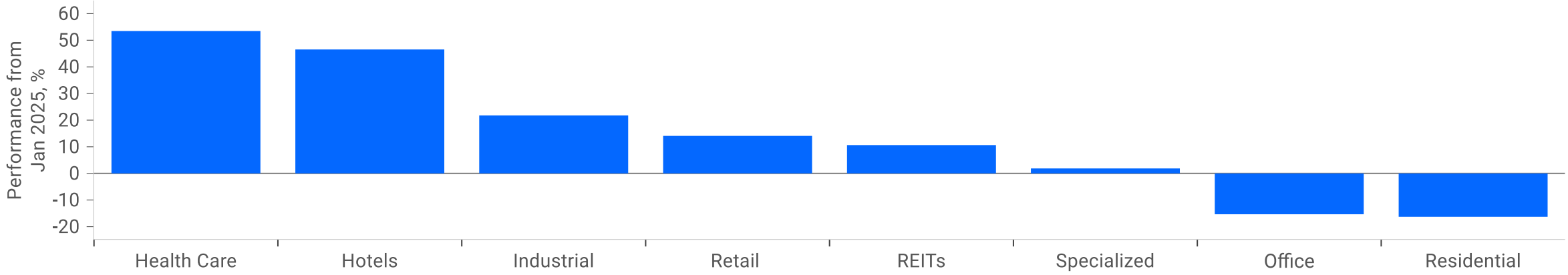
- Historically, commodities outperform stocks and bonds when growth and inflation *surprise to the upside* or miss expectations. These jolts have tended to see investors rush into commodities.
- In addition to the upside inflation surprises of the 2020s, in this new regime, marked by economic nationalism, 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 an uneven 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, November 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. With rates rising again, the case for REITs depends less on multiple expansion and more on property-level fundamentals. REIT fundamentals have held up to higher rates, supported by stronger operating fundamentals, fixed-rate balance sheets, and wide performance dispersion across property types.
- Looking ahead, the case for REITs depends as much on rate relief as on property-level fundamentals. Health care, data centers, hotels, and industrial assets have benefited from stronger demand, while office and parts of residential remain more exposed to financing costs and weak tenant demand.
- 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. Data centers are benefiting from the AI revolution's surge in demand, and industrial assets from stronger demand for logistics space.

TAKEAWAY: Liquid real estate presents opportunities, but targeted exposure matters. With rates rising, a broad REIT rally likely requires stronger fundamentals rather than multiple expansion. We are focused on sectors where secular demand is already visible, including health care, data centers, and industrial real estate.

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
- A global case for the lower middle market (LMM)

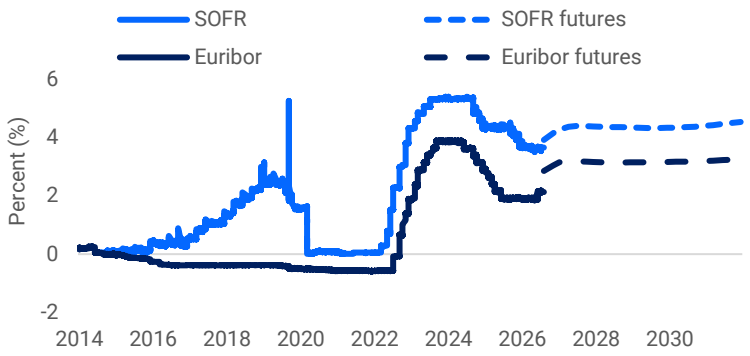
Macroeconomic forces impacting private markets

Private markets have shown resilience, but the path to outperformance is narrowing.

Financial conditions remain supportive, but elevated rates demand greater selectivity

2026 delivered higher rates than most expected. Even so, financial conditions remain broadly supportive and more accommodative than they were during the height of the 2022-2023 tightening cycle. This creates a constructive, but more selective, environment for private markets.

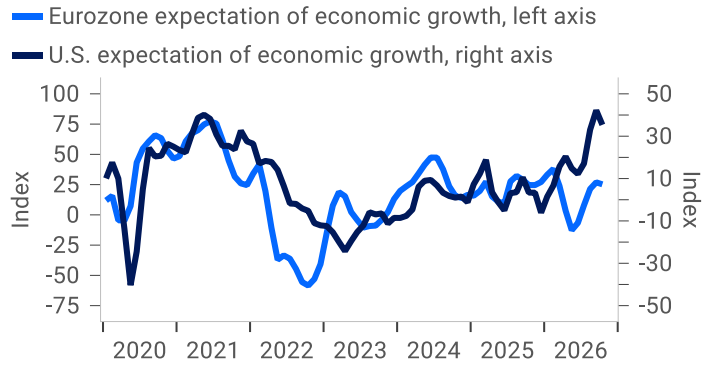
Rates are below 2022-2023 levels but remain elevated[1]



Private markets reflect the real economy and corporate fundamentals remain sound

Private markets play an increasingly important role in financing the real economy, making their health more closely tied to that of the broader economy and corporate sector. Against this backdrop, the U.S. and European economies have demonstrated remarkable resilience, with corporate balance sheets remaining healthy.

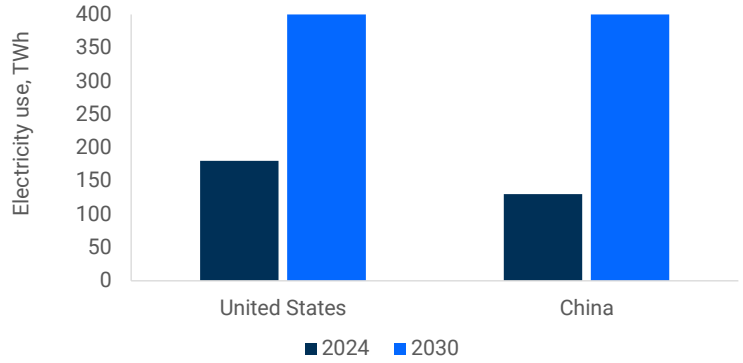
The economic outlook is holding up in Europe and U.S.



Global megatrends are driving capital-intensive investments

Geopolitical developments reinforce our conviction that global megatrends related to supply chain resilience, national self-sufficiency in key industries, and AI are powerful drivers of capital-intensive investments, creating sector and diversification opportunities.

Data center electricity use is expected to grow substantially[2]



Key takeaway: Private markets remain an important source of diversification and long-term return potential, but implementation has become increasingly important. We believe success in the next phase of the cycle will depend increasingly on selectivity, thoughtful liquidity management, and disciplined execution.

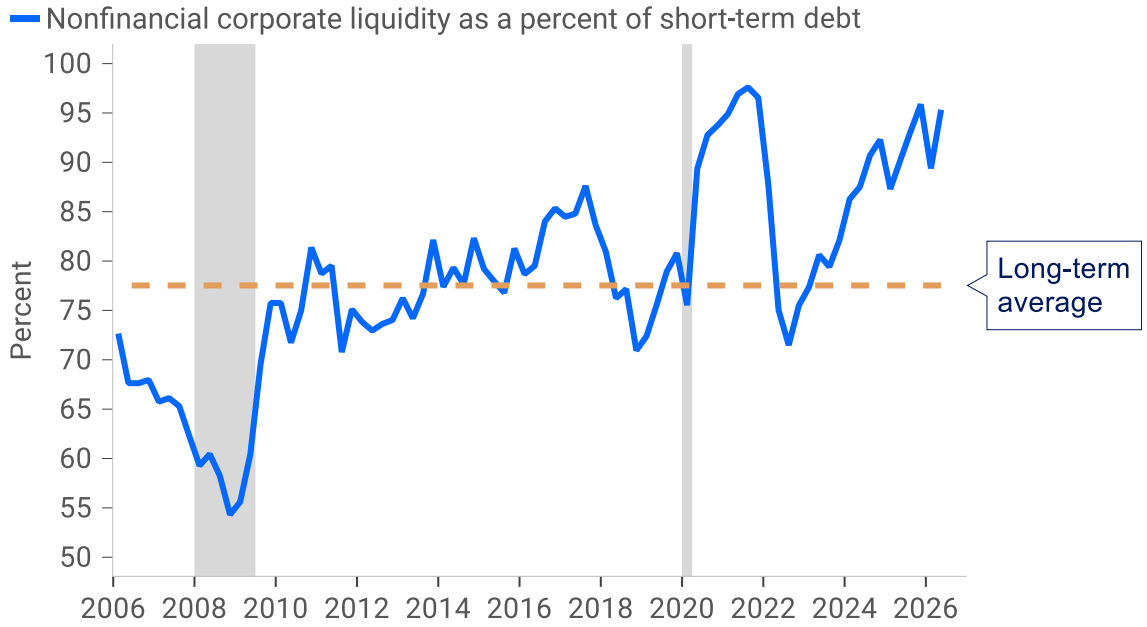
Sources: Opinions of New York Life Investment Management, Federal Reserve, European Central Bank (ECB), ZEW Eurozone Expectations of Economic Growth, Philadelphia Fed, Bloomberg, Macrobond, November 2026. 1. The Secured Overnight Financing Rate (SOFR) is a broad measure of the cost of borrowing cash 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, November 2026, with data available through May 2025. TWh = terawatt hours of electricity.

Private credit fundamentals remain resilient as the credit cycle matures

Early-year stress has largely subsided, but rising performance dispersion reinforces the importance of selectivity.

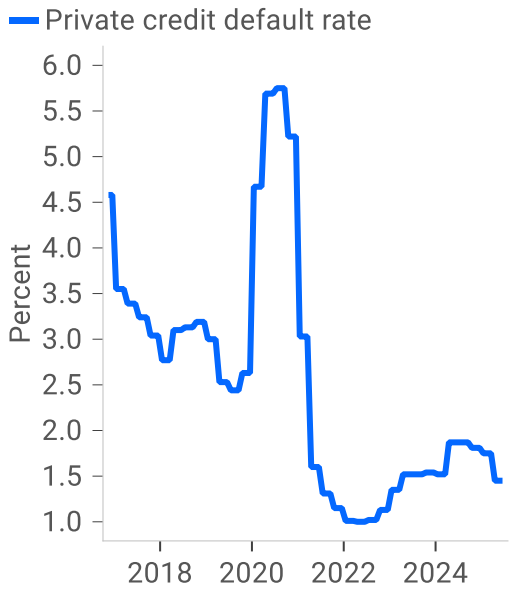
- Private credit markets experienced a period of heightened scrutiny in early 2026, driven by high-profile bankruptcies, valuation adjustments, concentration concerns, and redemption activity at select BDCs. These pressures have since largely subsided, easing concerns about broader systemic stress. However, given the lack of publicly available data, private credit remains, and will likely continue to be, prone to headline risk.
- Fundamentals remain supportive. The U.S. economy continues to demonstrate resilience, corporate earnings growth remains positive, and liquidity buffers are well above historical averages (left chart). Private credit default rates are low, suggesting that underlying credit conditions remain broadly healthy. However, payment-in-kind (PIK) remain elevated relative to pre-pandemic levels, pointing to the potential for greater differentiation across credits (right chart).
- We advocate for remaining fully invested in credit, but portfolio construction matters more as liquidity tailwinds fade. We continue to believe in selectivity, strong underwriting, and disciplined exposure as performance dispersion rises.

Corporates' financial buffers are still at healthy levels

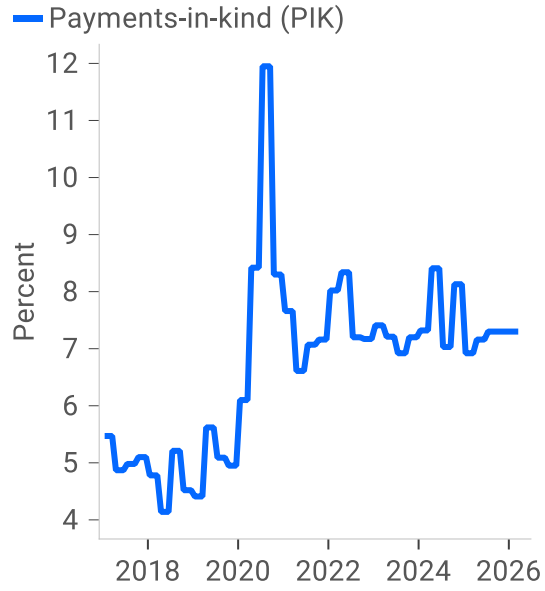


Sources: New York Life Investment Management Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, November 2026.

Private credit default rates remain low...



...but payments-in-kind remain elevated post-pandemic



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

NEW YORK LIFE Investment Management

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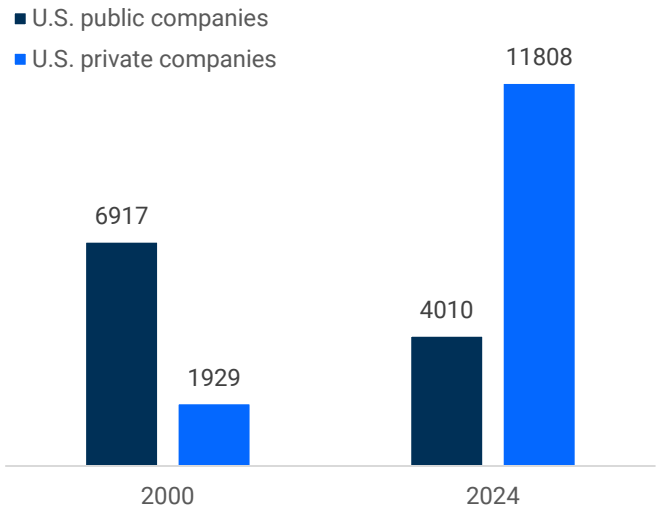
Access to and demand for private markets continue to broaden

Product innovation and a shrinking public investment universe are broadening private market participation.

- Investor allocations to private markets continue to grow, even amid higher interest rates. Data on investor allocations suggest that investors have more appreciation of the diversifying benefits of private markets. At the same time, product innovation, including evergreen fund structures, is expanding access to private markets among wealth investors. The potential for supportive U.S. policy change, such as the allowance of private assets in retirement portfolio offerings, adds to our view that further democratization of private assets is ongoing.
- Structural changes in public markets are reinforcing this trend. The number of publicly listed U.S. companies has declined significantly, while the universe of privately held companies has expanded (**left chart**). At the same time, U.S. equities account for a growing share of global market capitalization (**middle chart**), and returns have become increasingly concentrated in a relatively small number of stocks (**right chart**).
- Together, these trends are driving greater investor interest in private markets as a way to diversify portfolios and access a broader set of investment opportunities, including middle-market companies and businesses earlier in their growth trajectories.

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, November 2026.

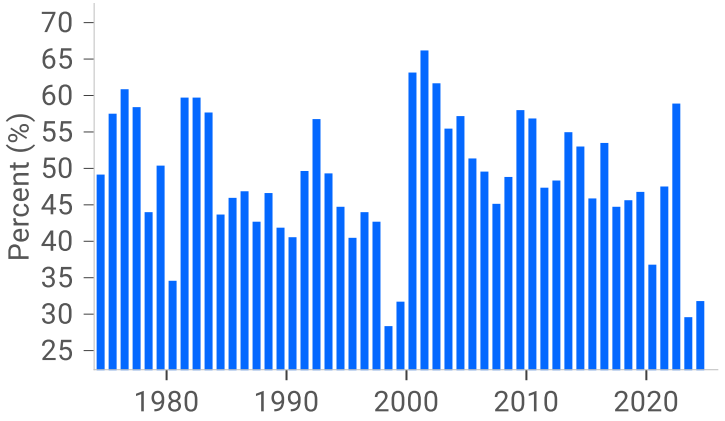
U.S. equity market capitalization dominates global market capitalization



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

Few stocks have outperformed 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, November 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 grown to approximately $17 trillion across asset classes, yet still represent just 4% of the total investable market. Investor interest continues to grow as qualified investors seek diversification, return potential, and access to a broader range of investment opportunities.
- We believe qualified investors should focus on less efficient areas of private markets, particularly where return characteristics are difficult to replicate in public markets. The lower middle market (LMM) in private equity and private credit presents such an opportunity, especially at the potential capital markets turning point investors face 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, November 2026. For illustrative purposes only.

Global Market Strategy
Our resources

Macro Pulse

Economic and market commentary



Comprehensive outlook (& quarterly webinars)



Weekly market update

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



Weekly podcast & bi-weekly videos

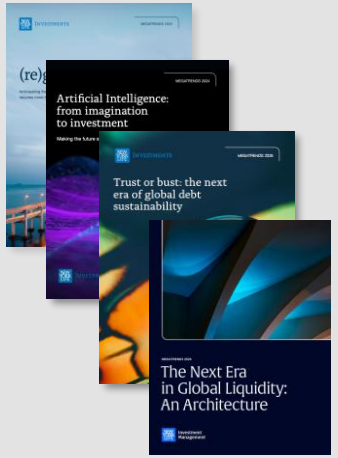


Thought leadership

Thematic reports, portfolio construction, podcast series, etc.

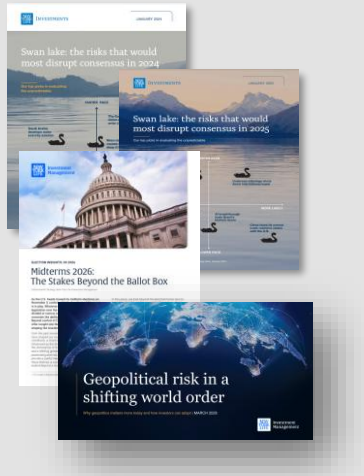
Megatrends

- Liquidity
- Debt sustainability
- Artificial intelligence
- Globalization



Politics and geopolitics

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



Private markets

- Global market outlook



Important disclosures

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

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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