

Macro Pulse for April 19

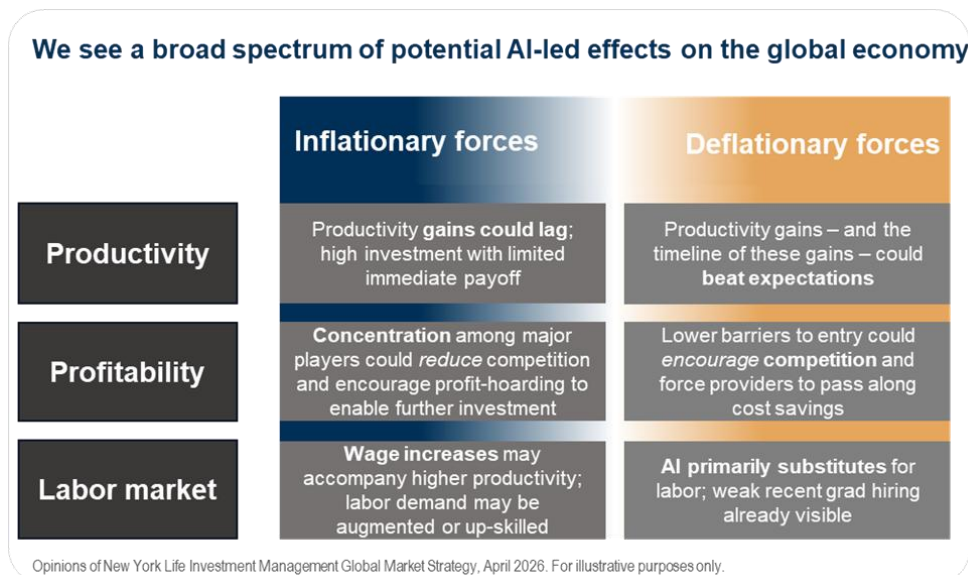
- When it comes to the Strait of Hormuz, both risks and hopes for resolution are heightened. Friday’s ten-day ceasefire announcement between Israel and Hezbollah, along with progress on U.S.-Iran peace talks, initially prompted traffic through the Strait to begin partially normalizing. But over the weekend, Iran’s re-closure and strikes on ships within the Strait raised fresh worries about the state of peace talks, probability of any near-term resolution, and the fate of key trade flows in the interim.
- Even if hostilities cease from here and the Strait reopens, we remain of the view that oil prices will be elevated for several more months as the supply shock works its way through downstream markets. This means pressures on corporate input costs and consumer spending will not dissipate immediately, but if peace holds, global monetary still has the potential to return to its pre-conflict path.

A framework for AI’s macro impact

As we’ve noted in recent weeks, global markets are adjusting to three distinct disruptions to early-year optimism: the Iran-driven oil shock, renewed credit concerns, and shifting sentiment around AI. This week, we focus on the last of these - specifically, how AI may impact the real economy – and how our team’s view squares with recent market price action.

Artificial intelligence and its applications are still in early stages, allowing for a wide range of scenarios. As we laid out in our [Megatrends view on AI in 2024](#), we believe the near-term impact of AI is likely to lean inflationary. But as timelines for AI-led disruption shift rapidly, in part due to the rise in agentic AI, we take a “frameworks over forecasts” approach to the macro impact.

We are most focused on how **productivity, profitability, and labor market dynamics** will affect how the gains associated with AI are distributed. And while we frame the resulting macro effects in terms of inflationary impacts, contributing factors may not all work in the same direction. This means inflationary and deflationary macro forces can remain in competition, influencing policymaking, market price action, profit margins, and household outcomes along the way.



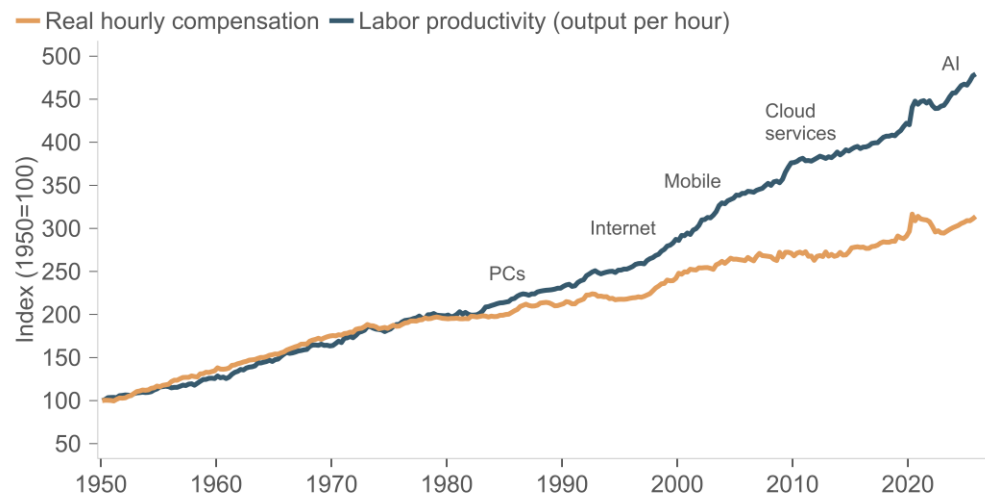
Productivity: early gains, but not yet macro-relevant

The big question in AI today is: “will all this investment drive productivity?” AI hyperscalers are investing hundreds of billions annually in physical capacity. The anecdotal evidence suggests productivity improvements where AI is deployed. However, there is not yet clear evidence that AI is lifting economy-wide productivity in a sustainable way.

At the firm level, AI can enhance individual productivity, but fully reworking business processes around it is a higher bar. As a result, while gains may be visible at the micro level, there is still little evidence of a durable shift in trend productivity.

This suggests a timing mismatch: heavy near-term investment with slower realization of efficiency gains. In the near term, that dynamic is modestly inflationary. Over time, if productivity accelerates meaningfully, the effect could become disinflationary.

Will all this investment in AI meaningfully translate into increased worker productivity? And wage growth?



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

Profitability: concentrated gains, limited competition (for now)

AI adoption – and the benefits that come with it – remain concentrated in a small group of firms with the capital, data, high-skilled labor, and infrastructure to deploy it effectively. At the same time, the ability of these hyperscalers to monetize these capabilities is still in early days.

This combination may support elevated margins among AI leaders, as limited competition allows firms to retain gains rather than pass them through via lower prices. Over time, however, broader adoption could lower barriers to entry and increase competition, compressing margins and contributing to disinflation.

Labor: uneven transmissions to wages and employment



Technology has often disrupted parts of the labor market, but over time it has tended to *reshape* labor demand more than reduce it outright. The late-1990s tech boom, for example, mattered not just because productivity improved, but because wage growth eventually followed, helping turn a technology story into a broader demand story.

AI, however, feels more destabilizing because the pace of adoption has been so fast. AI may already be helping some firms produce more with the same labor input (higher firm-level productivity), but just as we have yet to see a true upward shift in productivity trend, those gains have not yet shown up in wage growth.

One segment of the labor force may be on the front lines of this impact. Entry-level white-collar roles appear more exposed to disruption as AI's capabilities improve, making it harder for younger workers to gain a foothold, even if the broader labor market remains stable. We cannot fully attribute this impact solely to AI – pandemic effects likely contribute, and the labor market for recent college graduates has been softening since 2018. Instead, our primary takeaway from entry-level labor market weakness is that AI may not show up as a broad rise in unemployment, but as a more selective drag on sector-level hiring and early-career job opportunities.

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



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

The government's role: countercyclical policy, with a catch

The government is already helping fund the AI buildout through industrial policy and direct investment – the 2022 U.S. CHIPS and Science Act, providing \$300 billion in fiscal support, is just one example. This support can keep AI-related demand elevated in the near term by reinforcing spending across chips, data centers, and the broader supply chain.

But if AI starts to weaken labor demand in a more visible way, the fiscal policy focus may shift away from investment, toward social policy – including tax structure changes, income support, job training programs, or other measures aimed at cushioning households and stabilizing consumption.

In theory, policy is meant to be countercyclical, offsetting the impacts of AI adoption. But both these fiscal policy paths are *pro-growth*. The government's willingness to fund AI investment from a tight budget, in a time of economic expansion, reflects a global theme in fiscal policy [we've highlighted](#) over the past year: paring back government spending outright (austerity) is increasingly unlikely.

We expect that monetary policy will provide a more reliable counter-balancing effect than fiscal policy, but AI could make the Fed's job harder. AI's potential to influence macro-level productivity affects the supply side of the economy. Monetary policy primarily influences demand but must often cope with supply side shifts – as seen clearly during the pandemic and ongoing oil price shock. If AI improves productivity while labor markets soften, traditional relationships between unemployment and inflation may weaken, complicating the balance between the Fed's inflation and employment mandates.

So, will AI be inflationary or disinflationary?

AI's effect on inflation will depend largely on timing: how quickly productivity gains spread; how firms deploy and price those gains; and how labor market effects filter through the broader economy.

In the near term, we believe the balance leans modestly inflationary. Investment is accelerating, while productivity gains remain unclear at scale. Firms may retain early gains rather than pass them along via lower prices, reinforcing margins or enabling further AI-related investment.

Over the medium term, productivity clearly has the potential to drive other macro outcomes. But perhaps more important is how policy reacts to AI-driven macro effects, with the ability to create a powerful counterbalance to the more extreme scenarios associated with broad AI adoption.

Portfolio strategy

In the near term, the market impact still looks strongest where AI spending is most visible: semiconductors, compute, power, data infrastructure, and firms that can turn AI into measurable margin improvement. We maintain high conviction that market-weight exposure to AI hyperscalers remains appropriate. We see utilities, materials, energy, and infrastructure as ways to lean into both AI's resource intensity and evolving geopolitical risks.

For now, AI remains more a story of concentrated investment than a fully diffused economic expansion. Over time, a broader AI productivity cycle could support multi-sector profitability. But in the interim, we are cautious of market movements that aim to capture the winners and losers – including the broad selloff in software equities and pressure on credit exposed to the software sector. We believe diversified exposure to the AI theme in both equity and credit allows investors to bolster portfolios for a broader range of AI-driven outcomes.



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