

Macro Pulse for April 26

- Global markets are bucking geopolitical qualms, and in the U.S. focus has shifted to the early innings of Q1 2026 earnings season. [We recently argued](#) that U.S. growth equities are the hub of earnings quality globally, and were likely to attract investors back toward profitability after an early-year selloff. This thesis is playing out: with 10% of U.S. companies reporting so far, tech leads with nearly 80% earnings growth, driving over 13% price performance among U.S. growth equities over the trailing month, double that of U.S. value equities.
- The U.S. Department of Justice has dropped its criminal investigation into Fed Chair Jerome Powell, clearing the way for Kevin Warsh's nomination to move through Congress. We expect Wednesday's April FOMC – now likely Powell's last as Chair – will reveal whether Powell will stay on in a non-Chair seat, influencing the makeup of [the Fed's key decision making body](#) and policy along with it.

Around the world: the Iran conflict's impact on the global economy

Equity markets are sitting near all-time highs, suggesting that investors are increasingly willing to look through the geopolitical risks associated with the Iran conflict. However, as the conflict persists, we are less convinced that the underlying economic impacts can be ignored.

In economic terms, the war in Iran is best understood as a global shock, with energy and related commodities as the primary transmission channel. While the ultimate impact will depend on the duration of the conflict, particularly any continued restrictions on traffic through the Strait of Hormuz, we are already seeing clear signs of strain across the global economy. These include rising transportation and input costs, increased volatility in financial markets, and growing government intervention to manage energy disruptions.

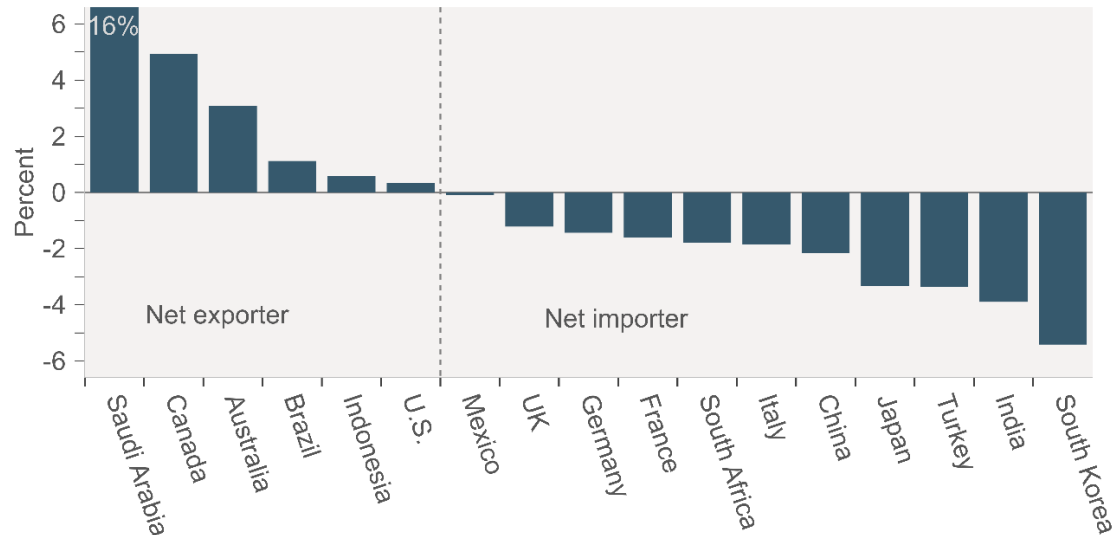
In recent weeks, we have focused on the implications for the United States. Today, we expand our perspective to the global stage, focusing on Europe, Japan, and China.

Higher inflation and weaker growth are weighing on the global economy

The most immediate effect of the conflict has been through higher energy prices, which act as a tax on consumption and production. The International Monetary Fund estimates that a 10% increase in global oil prices may raise global inflation by roughly 0.4 percentage points and lower output by 0.1%–0.2%. As the shock develops, the divergence between winners and losers is becoming more pronounced. The impact is most acute for energy-importing economies, such as Korea and Japan, while exporters like Canada and Brazil stand to benefit.

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

Oil trade balance (% of GDP, 2024)



From a regional perspective, the split is also becoming clearer: China faces near term resilience thanks to large oil reserves, the U.S. faces more of a stagflationary mix, while Europe and Japan are more exposed to outright growth slowdowns:

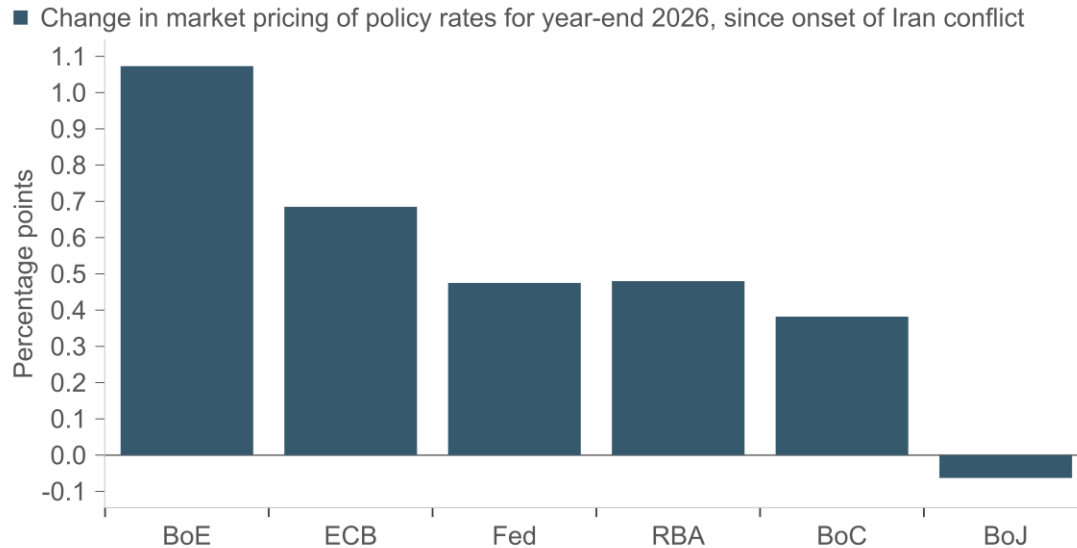
- In the **euro area**, the outlook is weakened by reliance on imported energy. While smaller than the 2022 energy shock, the impact remains meaningful – particularly for manufacturing-heavy economies such as Germany – where higher energy costs are likely to weigh on both industrial activity and consumption.
- **Japan** faces a similar but more acute challenge given its high dependence on imported fuel. Nearly 90% of Japan’s oil imports come from the Middle East, leaving it highly exposed to disruptions in the Strait, **with yen weakness compounding the effect**. Rising oil prices risk reversing recent gains in real wages and consumption.
- In **China**, the impact is likely to be more contained. Large strategic reserves provide a buffer, **positioning China as a marginal beneficiary of the shock**, though only at the margin. Growth is still expected to ease in 2026 amid structural headwinds and more measured policy support.

Across all regions, uncertainty linked to the conflict is likely to weigh on economic activity. Businesses may delay investment decisions, while households become more cautious as they spend a greater share of income on staples, including fuel and food. This strain can mount quickly, placing a strong onus on policymakers to smooth the worst impacts.

Monetary and fiscal policy paths diverge

The Iran conflict raises painful memories of the pandemic-era tradeoff between rising inflation and slowing growth, complicating policy responses globally. Governments have begun to act: the Philippines introduced a four-day workweek; India is prioritizing household over commercial energy demand; and Germany has cut fuel taxes.

Central bank policy paths have been repriced higher across most major economies



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

Markets are moving ahead of policymakers, pricing in higher near-term policy rates. In our view, central banks are more likely to adopt a wait-and-see approach – delaying, not derailing, their pre-conflict policy paths. At the same time, global yield curves have flattened, reflecting a strong near-term focus on inflation risks. Long-end rates, however, are not pricing in more severe downside scenarios from the crisis: an outcome that may be appropriate for now, but reinforces our caution around adding duration.

- In the **euro area**, the ECB faces a tradeoff: higher energy prices are set to lift inflation and may warrant tighter policy, even as the growth outlook softens. Inflation expectations were well anchored heading into the conflict, but market pricing has shifted from anticipating no change in rates to expecting two rate hikes this year.
- In **Japan**, the Bank of Japan is likely to continue its gradual normalization. Markets continue to price two rate hikes for 2026. However, if weaker demand and higher energy import costs weigh on growth, it could slow or stop the pace of tightening.
- The People’s Bank of **China** is expected to maintain a supportive stance, reflecting a focus on growth. With inflation pressures more contained and policy flexibility higher, authorities are likely to prioritize market and currency stability, using targeted easing if conditions weaken.

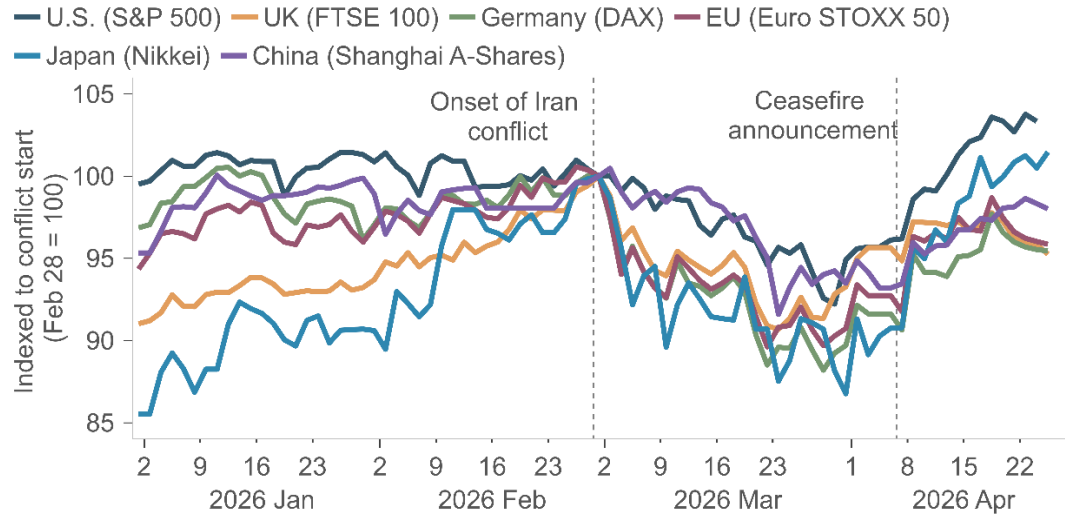
Portfolio strategy

The market story this year has been one of rapid trend transitions. Markets began the year firmly risk-on; shifted abruptly to risk-off flight to safety as the Iran conflict escalated; and have now moved back toward risk-on positioning despite still-elevated geopolitical disruption.

The recovery in equities has been swift, with most major indices now at or near all-time highs. This suggests investors are increasingly willing to look through near-term geopolitical uncertainty and toward more constructive narratives.



Equity markets sold off at onset of the conflict, but have rebounded, recovering their losses



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg, Macrobond, April 2026. Past performance is not a guarantee of future results. It is not possible to invest in an index.

At the start of the year, we expected the U.S. to outperform, supported by stronger tech-led earnings, AI capex, and a favorable policy mix – both monetary policy easing and fiscal policy support. While durable resolution to the Iran conflict could trigger a risk-on rotation away from U.S. assets, we view that as tactical. The drivers of U.S. outperformance remain intact, and we continue to expect it to lead through the year. However, this view still calls for a balanced international allocation to allow for greater business cycle, valuation, and sector diversification.

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