

Macro Pulse for May 1

- As headlines around a peace deal between the U.S. and Iran evolve, markets have largely looked past geopolitical risk and focused on the strong Q1 2026 equity earnings season, which has delivered over 20% earnings growth so far in the U.S. We will cover earnings season in next week's note.
- Last week, a court struck down the Trump administration's Section 122 tariff, which imposed a 10% across-the-board tariff on imports. While an appeal is likely, the administration is expected to lean more heavily on alternative authorities, such as Sections 301 and 232, keeping the overall direction of trade policy intact.
- April payrolls rose by 115k, exceeding estimates of 65k and continuing a choppy uptrend in job gains. Job growth was led by health care, transportation, and retail, suggesting some gradual broadening in private sector hiring. Overall, the resilience of the labor market is likely to support the Fed remaining on hold in the near term.
- The Senate may vote to confirm Kevin Warsh as Fed Chair this week, bringing a new voice into an already divided Fed. At the same time, markets will be closely watching the April CPI release, and whether energy pressures from March begin to pass through into core inflation, which would signal more persistent underlying price pressures.

100%: Living with triple-digit debt-to-GDP

The U.S. has officially breached 100% debt-to-GDP. As of March 31 data, released in late April, the country's publicly held debt was \$31.27 trillion, while GDP over the preceding year was \$31.22 trillion. While this threshold was briefly crossed when economic activity collapsed during the pandemic, this marks the first "true" breach since WW2.

At the same time, many global sovereign curves have flattened, as a focus on energy-led inflation risks in the near term prompts a disproportionate repricing of both central bank policy rate paths and short-term market rates.

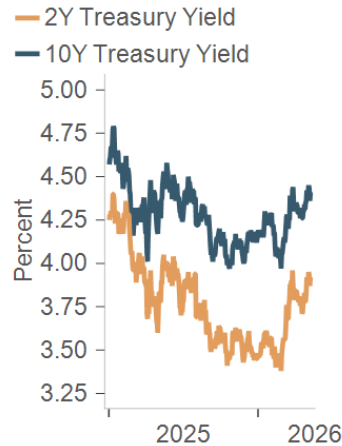
While there is no magic number at which debt levels become a "problem" for markets, we believe current market pricing shows an imbalanced focus on near-term inflation and looks through mounting long-end pressures. In this week's note, we'll make our case by connecting our near-term view on movements in the Treasury curve with our long-term debt sustainability views from last year's [Megatrends](#) research.

The front end: a myopic focus on inflation

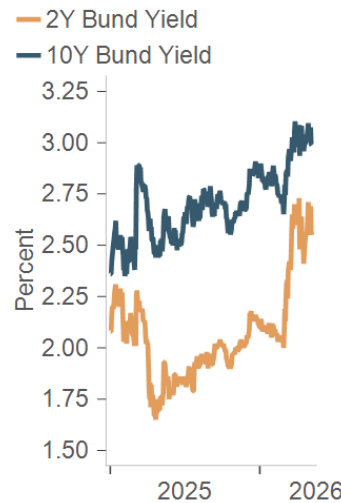
Since the onset of the Iran conflict, rates have moved higher across the curve – but with a "bear flattener" effect predominant, driven by repricing of near-term policy expectations and higher short-term market rates, both reflecting a near-myopic focus on the upside inflation risks associated with the oil shock.



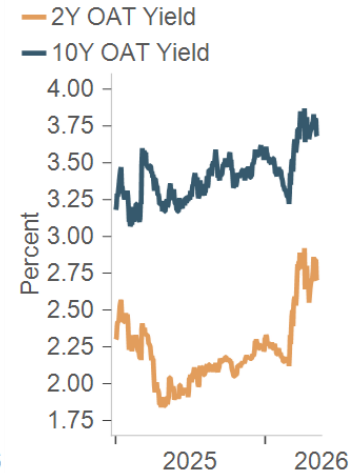
Short rates have seen outsized repricing relative to long rates in the U.S. ...



... in German Bunds ...



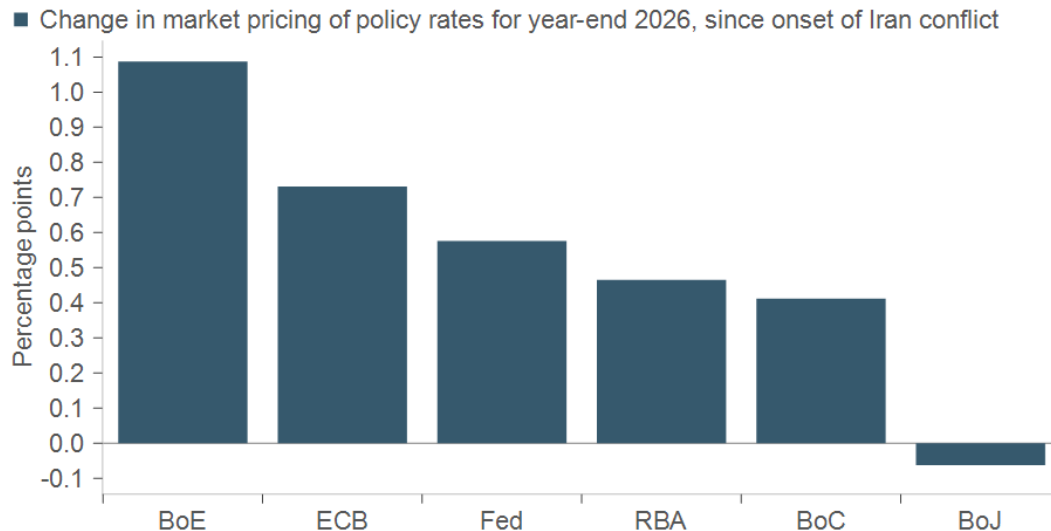
... and in the French OATs curve.



Sources: New York Life Investment Management, Global Market Strategy, U.S. Department of Treasury, Macrobond, May 2026. OATs: Obligations assimilables du Trésor.

And while the futures market has moved ahead of policymakers, central bank messaging has largely agreed with these pricing shifts. For example, consensus currently expects 2.5 hikes by the European Central Bank (ECB) this year, and its most recent meeting showed clear deliberation over a near-term hike.

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



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

Fed Funds Futures have similarly repriced the policy path in the U.S. by around 50bps – markets have priced away the ~2 rate cuts expected at the start of the year. But because the U.S. started the year with more dovish policy expectations relative to its peers, **the Fed stands out as one of the only major developed market central banks not expected to pivot to rate hikes this year.**



Our own team’s view now appears dovish relative to consensus: we believe 1-2 rate cuts remain on the table in the next year. This view rests on a balanced approach to risk: any inflation upswing from a prolonged oil shock would likely cause demand destruction amongst consumers, compress profit margins, and maintain the case for cuts.

Taking this view global, we believe central banks are more likely to take a wait-and-see approach, delaying rather than materially altering their policy trajectory, suggesting a disconnect between market pricing and likely policy action. If the conflict is resolved in the coming weeks, these central banks may opt to pause rather than move aggressively toward tightening.

The term premium rears its head

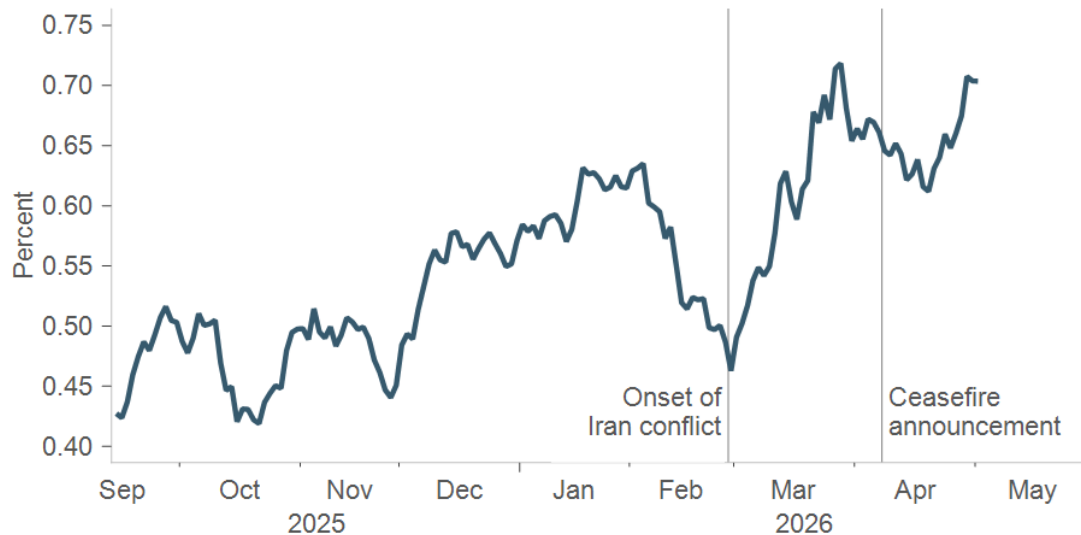
If short rates are solely focused on inflation, long rates are only modestly baking in a broader swath of risks.

We entered the year expecting the 10-year Treasury yield to trade in a relatively wide range of 3.75% to 4.50%. However, the Iran conflict and the resulting shift in inflation and policy expectations have narrowed that range, with yields now more likely to remain between 4.0% and 4.5% – compatible with our view that 1-2 potential rate cuts will be delayed. Treasury yields continue to face opposing pressures: slower growth and the potential for policy easing may cap rates, while rising fiscal deficits and increased Treasury issuance provide a floor.

Part of the recent increase in long-end yields reflects a rise in term premium – the additional compensation investors demand for holding longer-duration bonds. Greater uncertainty around inflation, fiscal policy, and geopolitical risk has contributed to this shift.

Term premium has risen, but remains below historical extremes

Kim and Wright term premium on a 10-year zero coupon bond

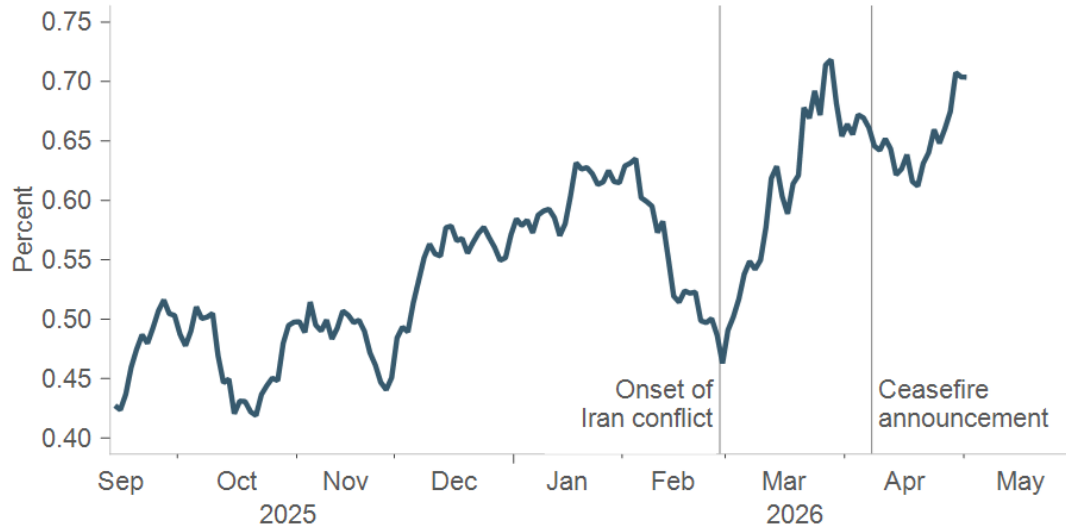


Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Macrobond, May 2026.



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Connecting to the longer-term view

As we discussed in our [Megatrends](#) research, nearly every major economy faces the same fiscal tradeoffs: how much fiscal spending can support growth in the near term, relative to mounting debt sustainability concerns over the medium and long term.

One of our report's conclusions is that most major economies are unlikely to spend less (via fiscal austerity) in the foreseeable future, reflecting a clear shift toward investment in more self-sufficient and secure supply chains in energy, health, defense, tech, and more.

Elevated spending means that the interest rates paid on this debt become increasingly important to keeping debt service affordable. And while we do not expect a return to WW2-era financial repression, in which the U.S. and UK explicitly allowed inflation to run hot while suppressing interest rates, we do believe that pressure for lower short-term rates will continue – likely with greater fiscal risk reflected in gradually higher long rates over time.

Portfolio strategy

We expect to see some form of curve steepening over the coming months. Whether the dominant effect is a bear or bull steepener, and why, has key implications for portfolio construction.

The bull steepener + risk-on rotation: In the case of near-term normalization of the Strait of Hormuz, we expect that most global central banks can still resume their pre-conflict path. This effect would disproportionately benefit countries who were staring down rate hikes, and likely prompt a global risk-on rotation favoring ex-U.S. assets and currencies.

The bull steepener + risk-off flight to safety: If rate cuts come back into the picture because Hormuz has not normalized and downside risks to economic activity mount, this bull steepener effect would likely be met with a



defensive rotation favoring quality and profitability. This flight to safety would likely include a bid for U.S. assets and the U.S. dollar.

The bear steepener: Looking ahead, a more prolonged energy shock could push the curve toward a bear steepening dynamic, with long-end yields moving higher as concerns around fiscal spending build. In this environment, we favor maintaining a modestly short duration stance overall, while selectively adding longer-duration exposure where compensation is more attractive, such as in municipal bonds.

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