

Macro Pulse

- Reports of a tentative 60-day ceasefire extension between the U.S. and Iran boosted risk sentiment, lifting equities and pushing oil prices to six-week lows. A finalized agreement would likely further support risk assets, though a gradual ramp-up in Strait of Hormuz traffic and downstream production could keep oil prices elevated for some time.
- Last week's economic data releases suggest some cooling in consumer fundamentals, with Q1 real GDP growth revised lower, personal income flat, and the consumer savings rate falling to a multi-year low. While consumer spending remained positive, increasing reliance on savings supports our view that downside growth risks may ultimately outweigh inflation concerns, leaving room for one Fed rate cut later this year.
- Attention next week will turn to the May jobs report, with investors looking to see whether the labor market can maintain the stronger pace of hiring seen over the past two months.

Key Note

This week, we are exploring an emerging trend in financial market structure: the growth of tokenization and digital assets.

While digital assets are often associated with cryptocurrencies, the conversation today is increasingly focused on the tokenization of traditional financial assets (Real World Assets or RWAs), including bonds, private credit, real estate, investment funds, and more. At its simplest, tokenization refers to converting ownership rights into digital tokens that can be recorded and transferred on a blockchain or distributed ledger.

While adoption is still developing, it is an area worth exploring because **financial market structure matters**. Changes to market infrastructure can influence liquidity conditions, transaction costs, and the way risk moves through the financial system. Later this summer, the GMS team will be publishing research into market liquidity dynamics as part of our Megatrends Program.

To help us unpack the opportunities and the risks, we sat down with Tom Sy, Head of NYLIM's Multi-Asset Solutions business.

Q: What exactly is tokenization of RWAs in the context of investing?

TS: Think of tokenization as the digital packaging of ownership. Instead of recording ownership through traditional systems and intermediaries, a tokenized asset exists on a blockchain and can represent a stake in almost any financial instrument.

That instrument could be a Treasury bond, a private equity fund, or even fractional ownership in real estate. The underlying asset does not necessarily change, but the infrastructure around how ownership is tracked, transferred, and settled becomes digital and potentially more efficient.

For example, today, when you buy a bond, ownership is recorded in a chain of custodial ledgers – your broker, your custodian, a central depository. That chain involves multiple intermediaries, takes a few days to settle, requires incremental fees, and operates only during market hours. Tokenized RWAs collapse that chain onto a single shared ledger, where ownership transfers are instant and transparent.

The way I describe it to colleagues is this: **we're not changing what we own; we're changing the rails those assets travel on.** And better rails – faster, programmable, always-on – change what's possible in terms of how we manage those assets.

Q: Why has tokenization become such a major topic recently?

TS: A few developments are converging.

First, regulators globally are beginning to provide more clarity around digital assets and blockchain infrastructure – from stablecoin legislation in the U.S. to emerging frameworks in the UK, EU, and Singapore. That does not mean the regulatory picture is complete, but it does create a more constructive environment for innovation.

Second, large financial institutions are increasingly testing not just tokenized products, but blockchain-based systems, looking to increase efficiency, reduce operational friction, and broaden market access. The real 'unlock' for ETFs was when brokerages could seamlessly hold, price, and settle ETFs like any other stock. Same investment product, better rails.

For now, the near-term impact is less about a new asset class and more about market plumbing – the faster and potentially more efficient movement of money, collateral, and securities.

Q: What are some of the biggest potential benefits of tokenization for investors?

TS: I'd organize the near benefits for investors into three buckets.

The first is cost savings driven by lower costs due to operational efficiency: faster settlement, lower operational costs, and better real-time visibility into ownership positions. For asset managers, the operational burden of running complex mandates across thousands of client accounts (from back office costs to rebalancing) is substantial. A common programmable ledger creates a single source of truth for positions across the entire book, automates routine processing, and reduces reconciliation across positions. More automated infrastructure, such as a programmable ledger, could help reduce that friction.

Second, asset management products carry significant idle cash buffers to meet rebalancing needs, margin requirements, and client redemptions. That cash earns less than it could. Tokenized money market instruments and on-chain repo markets let you deploy that cash intraday and recall it instantly. Across a large asset base, even modest improvements in cash efficiency can meaningfully enhance client outcomes.

The third bucket, and what I am most focused on given my role leading our Multi-Asset Solutions team, is product capability. Programmable assets could eventually enable more customized investment solutions. For example, digital portfolios could automatically rebalance based on individual client-defined rules or market conditions. Tokenization could also expand access to a wider range of investment opportunities. For example, it could expand access to private markets by reducing investment minimums. This broadens the investable universe, enhances diversification, enables more precise risk factor targeting, and provides access to sources of return that have historically been difficult to access.

Customization could increasingly be embedded within the digital asset itself, rather than relying on operational overlays around it.

Q: What risks or challenges should investors keep in mind?

TS: The opportunities are significant, but the risks are real too.

Regulation and legal enforceability remain some of the biggest questions. The rules governing digital assets and tokenized securities are still evolving, and regulatory inconsistency across jurisdictions – despite recent progress – could slow adoption.

The second risk is what I'd call the liquidity illusion. Tokenized assets can have better transferability, but it does not change the liquidity of the underlying asset. A tokenized piece of private real estate is still illiquid private real estate – it just has better plumbing. Investors should be careful not to confuse operational efficiency with market liquidity.

The third risk is smart contract and operational risk. Programmable assets introduce new failure modes, such as bugs in contract code or governance changes post-issuance. Traditional instruments fail in ways that markets generally understand and have legal remedies for. On-chain instruments may introduce new risks that firms need to build new risk frameworks for.

Like many innovations in finance, the long-term impact may ultimately depend less on the technology itself and more on how effectively it integrates into existing market structures.

Q: Where could tokenization have the greatest impact over the next several years?

TS: I want to look beyond asset management. In the distant future, I believe most financial activities will be conducted on-chain. The lines between asset management, investment banking, traditional banking, payments, custody, clearing, and more will be blurred.

Over the next three to five years, I see three areas where tokenization could have the biggest impact:

The first is payments and cross-border settlement. Today's cross-border payment system is slow, opaque, and expensive. A payment from New York to Singapore takes three days and loses 2-3% to fees and FX spreads. Stablecoins could reduce that to minutes at a fraction of the cost, improving the speed and efficiency of moving money globally.

The second is collateral and repo markets, where tokenized repo is already beginning to scale. Repos are short-duration, high-velocity instruments where near real-time settlement and 24/7 availability are unambiguously better than what exists today. When collateral can move globally in real time, the entire architecture of how banks and asset managers fund their balance sheets becomes more efficient.

The third is private markets. Today, private equity, private credit, infrastructure, and real estate are not accessible to most. Tokenization could eventually support broader secondary market development and improve access to traditionally less liquid private asset classes.

We are still in the early innings, but the direction of travel is becoming clearer: capital markets are gradually becoming more digital and more automated.

Bottom Line

Digital assets' role as a market structure theme may increasingly influence how investors consider everything from systemic liquidity to cross-border operations. In these early days, investors should separate long-term market infrastructure potential from near-term hype.

While digital assets still face regulatory, operational, and adoption hurdles, the broader push toward digitization and automation in financial markets appears unlikely to reverse. The opportunity is a more efficient financial system; the risk is a more complex and interconnected one.

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