New York Life Investment Management
Global Market Strategy team
Julia Hermann · Sarah Hirsch · Michael LoGalbo

Macro Pulse for July 19 | Midyear outlook: the narrowing path

The first half of 2026 tested the durability of the market's strongest themes. Despite rising geopolitical and policy uncertainty, global growth and earnings held up, led by the U.S. AI-related investment continued to expand, and markets remained broadly resilient. But market leadership has narrowed, inflation has edged higher – driven by energy prices – and markets are now contending with a less supportive monetary policy environment than at the start of the year. Our outlook for the second half of the year remains constructive, but the path forward has narrowed.

Oil and rates remain in focus for the second half

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

Looking ahead to the end of the year

The second half will depend on whether the economy and markets can continue to demonstrate the resilience that has characterized the year so far. Three core convictions anchor our view.

1. **U.S. exceptionalism remains intact**
   We expect the U.S. to remain at the leading end of global returns over the coming quarters. Stronger structural growth, greater energy independence, more flexible policy options, deeper capital markets, and a more resilient earnings backdrop leave the U.S. better positioned than most developed market peers.

   The narrowing path: Our outlook assumes that moderately higher oil prices and tighter financial conditions weigh on U.S. growth, but do not derail the expansion. The U.S. has more capacity than most of its peers to absorb these pressures (see our Fed view below), but that gap could narrow if geopolitical risks move to extremes of de- or re-escalation.

2. **AI remains the clearest growth engine**
   The AI investment cycle is likely to remain a powerful source of earnings growth, market performance, and capital expenditure through the second half of the year. Demand for computing power, digital infrastructure, energy, and advanced materials continues to support activity across a growing part of the economy.

The narrowing path: AI-driven market leadership has become increasingly concentrated in semiconductors, raising the potential for greater volatility. A growing pipeline of AI-related debt and equity issuance could broaden investment opportunities, but will draw even more capital into a concentrated group of AI-related companies.

3. **Monetary policy support will remain limited**

   The global monetary policy backdrop is less supportive than investors expected at the start of the year. Higher inflation has led to a hawkish repricing of policy rates across the globe, even as growth remains vulnerable.

   In the U.S., we've updated our **out-of-consensus Fed view**: we expect the Fed to remain on hold this year. The bar for cuts remains high while inflation is elevated and growth remains resilient; in our view, the bar for hikes also remains high, with the labor market in a near-equilibrium. Outside the U.S., the combination of weaker growth and imported energy inflation leaves policymakers with even less flexibility.

   The narrowing path: Our outlook assumes inflation pass-through to goods and services remains limited, and assumes that rates do not move high enough to cause a deterioration in financial conditions. A more persistent rise in inflation could lead to more hawkish policy.

Portfolio strategy

Our asset allocation views remain constructive but increasingly selective. We continue to favor U.S. assets, supported by resilient economic growth and durable earnings, while emphasizing companies with strong balance sheets and those supported by secular growth trends. As markets become increasingly concentrated, new capital can be used to broaden exposure into AI infrastructure, high-quality small caps, and selective value opportunities.

In fixed income, selectivity matters more than reaching for yield. Credit fundamentals remain healthy, but tighter spreads and elevated interest rate volatility argue for a focus on high-quality, shorter-duration credit so that investors can buy and hold. At the same time, higher long-term yields may create opportunities to selectively extend duration, particularly in municipal bonds and infrastructure-related debt.

Alternatives can play a large role in diversification. Commodities, gold, and industrial metals can help offset inflation and geopolitical risks that traditional stock-bond portfolios may not fully absorb. In private markets, opportunities remain compelling, but greater competition and questions around loan quality and concentration risk reinforce the importance of manager selection and disciplined underwriting.

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