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

Macro Pulse for August 2

- The U.S. Treasury curve steepened considerably following the July FOMC, with the U.S. 30-year Treasury yield breaching 5.2%, its highest level since 2007. Long yields rose even as expectations for near-term rate hikes eased, reflecting concern about inflation and fiscal risk further out the curve. We maintain our call for the Fed to remain on hold through year-end: sustained yield curve steepening can tighten financial conditions on behalf of the Fed, even without rate hikes.
- Tech earnings remain uneven for Q2, as investors are torn between high revenue in select hyperscalers and chip producers, while strong capex and supply shortages are pressuring some key players' free cash flow outlooks. We've been highlighting that narrow market leadership in chip producers is at odds with a tighter rates environment and continue to expect volatility in U.S. equities.
- Second-quarter GDP grew at a 1.5% annualized pace, below the 2% expected, but the underlying details were firmer than the headline. Consumer spending and business investment both increased, while rising imports and falling inventories weighed on growth. The report reinforces our constructive view on the U.S. economy, with underlying resilience expected to support continued growth despite recent geopolitical headwinds. We expect similar resilience in the July jobs report to be released Friday: with layoffs still low but hiring momentum softer, we expect a modest rebound from June's weak payroll gain.

Finding opportunities amid global uncertainty

Compelling opportunities continue to emerge across international markets, even as trade tensions and geopolitical risks return to the headlines. Policy support, rising capital investment, and the global technology cycle are creating attractive opportunities across Europe and Asia. This week, we discuss where we see the greatest opportunities internationally and why a partial currency hedge may help U.S.-based investors manage dollar volatility.

Trade and geopolitical risks remain elevated

Trade policy uncertainty is rising again. After the Supreme Court struck down the administration's broad IEEPA tariffs in February, the Trump administration has rebuilt its trade agenda through alternative legal authorities, culminating in last week's announcement of new Section 301 tariffs tied to forced labor. Additional tariff announcements, like the Section 338 tariffs targeting key trading partners (taking effect this month), mean tariffs may still become a more permanent feature of the global trade landscape, with implications for inflation, global growth, and supply chains.

At the same time, the conflict with Iran has reemerged as a key geopolitical risk, lifting energy prices and increasing the risk that inflation and interest rates move higher. As we've noted previously, a prolonged period of elevated oil prices would likely be more challenging for energy-importing regions, such as Europe and Japan, than for the U.S. – which benefits from greater energy independence, stronger structural growth, and more policy flexibility. But despite the risks, we continue to see compelling opportunities internationally.

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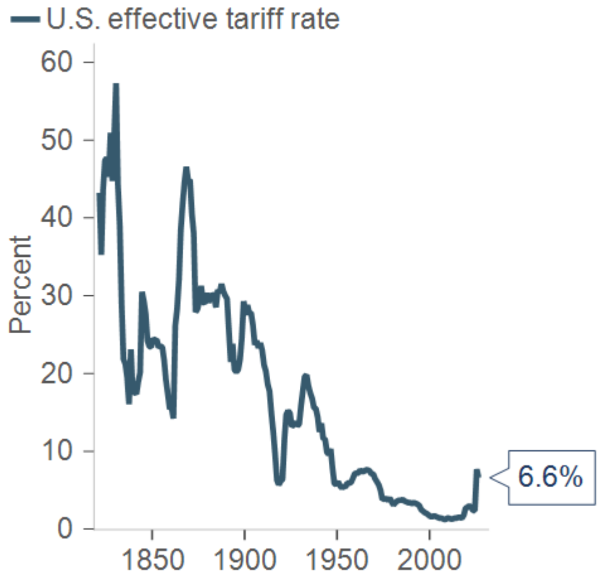
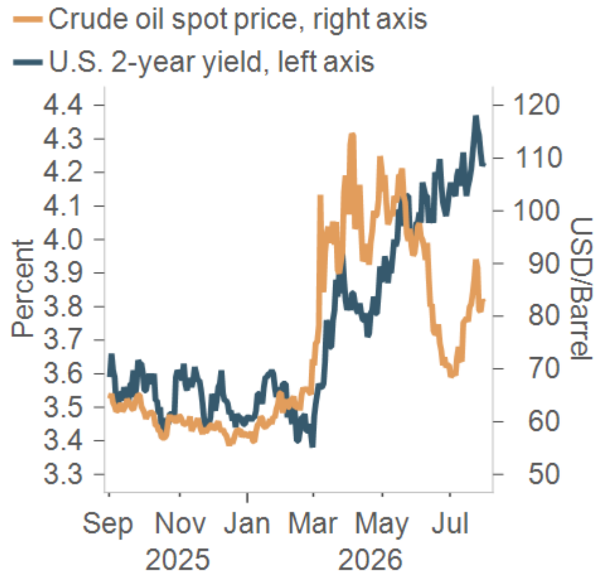
The effective tariff rate could move higher again



Sources: New York Life Investments Global Market Strategy, Tax Foundation, The Budget Lab at Yale, Macrobond, July 2026.

With oil price volatility, rates remain elevated



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

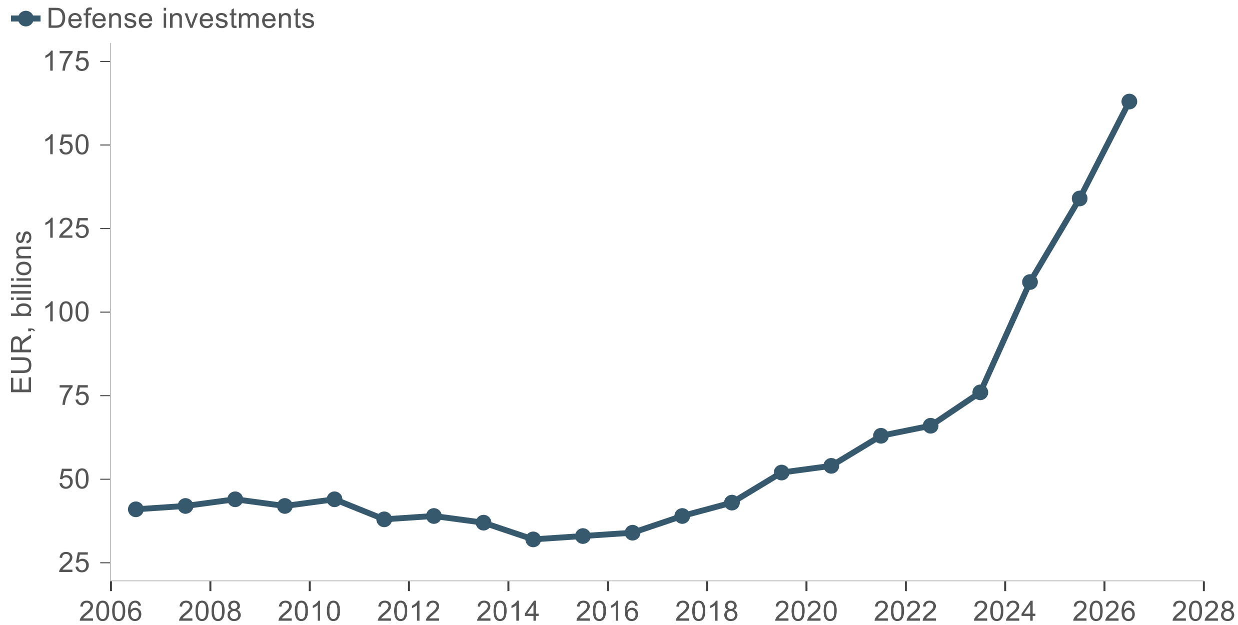
Themes driving global conviction

Rising risks complicate the global outlook, but they do not eliminate the case for international exposure. Our highest-conviction opportunities are where policy support, capital spending, and earnings are moving together.

Europe’s investment backdrop is becoming more supportive, with fiscal policy emerging as a meaningful growth driver. Germany has led a broader shift toward higher spending on defense, infrastructure, and energy, creating tailwinds that extend well beyond the companies directly receiving government contracts. Public investment is helping “crowd in” private capital, reflected in resilient bank lending despite the ECB’s tightening cycle, providing additional support for European financials.

These trends are creating compelling opportunities in sectors aligned with Europe’s fiscal priorities. EU defense spending is projected to reach €454 billion in 2026, with investment increasingly directed toward equipment, research, and industrial capacity. In Germany, infrastructure and fiscal programs are lifting business sentiment, which rose for a third consecutive month in July. We continue to favor sectors positioned to benefit from these tailwinds, including financials, defense, industrials, and infrastructure.

Europe is backing its security priorities with capital



Sources: New York Life Investment Management, Global Market Strategy, European Council, Macrobond, July 2026.

In **Japan**, structural reforms over the past decade have strengthened the investment case. Corporate governance reforms have improved capital efficiency, driving higher returns through increased share buybacks, higher dividends, and more active balance sheet management. Combined with an increasingly normalized inflation and rate environment, these reforms are creating a supportive backdrop for domestically oriented companies, while a weak yen improves export competitiveness.

In **Korea**, the AI hardware cycle continues to benefit semiconductor exporters. While concentration of equity market performance in chip-related names may increase volatility, we have acknowledged that the chip "moonshot" may have several more quarters to run as demand for both logic and memory chips matures across the AI supply chain. NVIDIA's recent $500 billion agreement to secure memory chip supply from Korean producer SK Hynix exemplifies how chip demand *may* become less cyclical moving forward as contracts extend over longer time horizons.

The dollar is likely to remain volatile

The U.S. dollar has strengthened this year, as rising geopolitical risks trigger a flight to safety. While the dollar – like all other currencies – responds to relative growth, interest rate differentials, and global liquidity, periods of heightened uncertainty tend to drive investors toward dollar-denominated assets, supporting the currency even as trade risk and policy uncertainty increase.

Looking ahead, we expect the dollar to remain volatile, with a moderate "flight to safety" bid, as these competing forces evolve. Shifts in trade policy, geopolitical developments, repricing of monetary policy expectations, and global growth expectations could all drive meaningful currency moves. For U.S.-based investors with international exposure, this reinforces the importance of actively managing currency risk.

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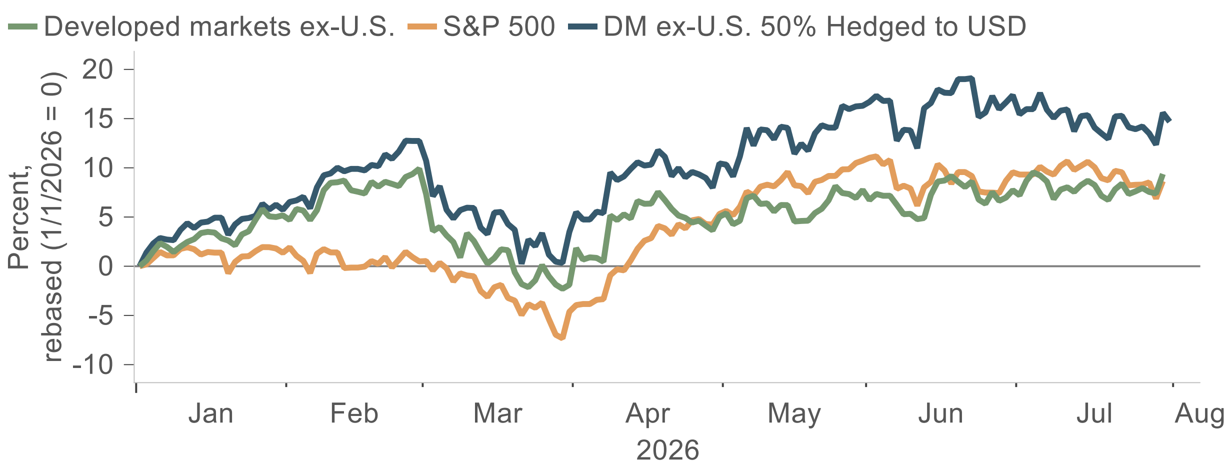
Portfolio strategy

The case for overseas diversification is strengthening. Fiscal spending in Europe, corporate reforms in Japan, and the global AI investment cycle are creating differentiated sources of earnings growth beyond the increasingly concentrated U.S. market. These structural themes provide investors with opportunities that complement, rather than compete with, the U.S. mega-cap technology story.

For U.S.-based investors, internationally sourced diversification is an increasingly important asset allocation tool. How investors access those opportunities, however, is equally important: strong ex-U.S. conviction can easily be eroded by a strong dollar environment. A partial currency hedge can help strike the right balance by reducing drag from renewed dollar strength, while reducing volatility across currency leadership regimes.

A partial currency hedge can reduce volatility of international allocations

Relative Performance



Sources: New York Life Investment Management, Global Market Strategy, S&P Global, Macrobond, July 2026. U.S. equities are represented by the S&P 500 Index. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. DM ex-U.S. equities are represented by the MSCI EAFE Index. DM ex-U.S. 50% Hedged to USD equities are represented by the FTSE Developed ex North America 50% Hedged to USD Index. The MSCI EAFE Index is an equity index which captures large and mid cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. The FTSE Developed ex North America 50% Hedged to USD Index is comprised of large and mid cap Developed ex North American equity securities and is hedged 50% to USD. Past performance is not a guarantee of future results. It is not possible to invest in an index.

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