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Macro Pulse for November 1

- The Fed held rates steady at 3.75%-4.00% in its October meeting, with two members dissenting in favor of a hike as inflation concerns persist. Markets are pricing in a roughly 80% probability of a December hike, in line with our expectations. We are less convinced this will mark the start of a sustained hiking cycle, as higher energy prices and elevated interest rates are likely to weigh on economic activity and reduce the need for further tightening.
- The ECB held its deposit rate steady at 2.50%, warning that higher energy prices threaten to lift inflation and slow growth, while tighter financing conditions are already weighing on the economy. President Christine Lagarde also announced she will step down in February, nine months before her term expires. The muted market reaction to her departure suggests investors expect policy continuity. The greater risk for European equities is that rising government borrowing costs spill into bank lending and corporate financing, weighing on earnings. In our view, tighter credit conditions may limit further ECB hikes.

Halloween special: the AI boom gets spooky

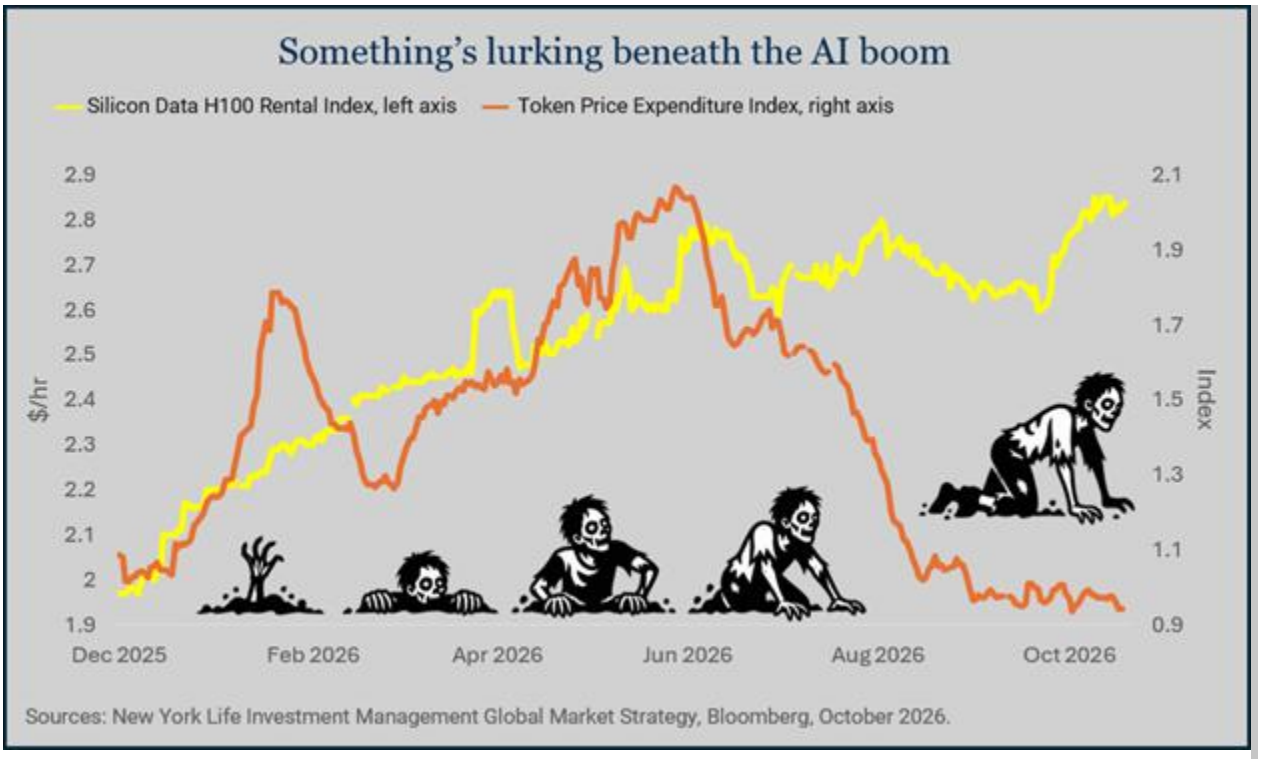
Happy Halloween! Artificial intelligence was once the stuff of science fiction. Now it's a part of everyday life. But some of the fears surrounding it seem straight out of a horror movie! The promise of greater productivity and abundance comes with worries about job losses, a debt-fueled investment boom, and whether humans can maintain control of the machines.

For our latest holistic views on AI, please see our recent note here. For this year's Halloween special, we've rounded up a few of AI's scariest charts: from risks already emerging to scenarios we hope stay fictional. Dive in… if you dare. 🎃👻🤖

Night of the living capex

Something's lurking beneath the AI boom: token prices are falling while the cost of renting the chips that power AI remains high. That's a potential margin squeeze for businesses selling cheaper AI services while paying up for computing power. Lower token prices may encourage more AI usage and to justify investments and lofty valuations, demand needs to continue to grow. Otherwise, the promise of future profits risks becoming a ghost story.

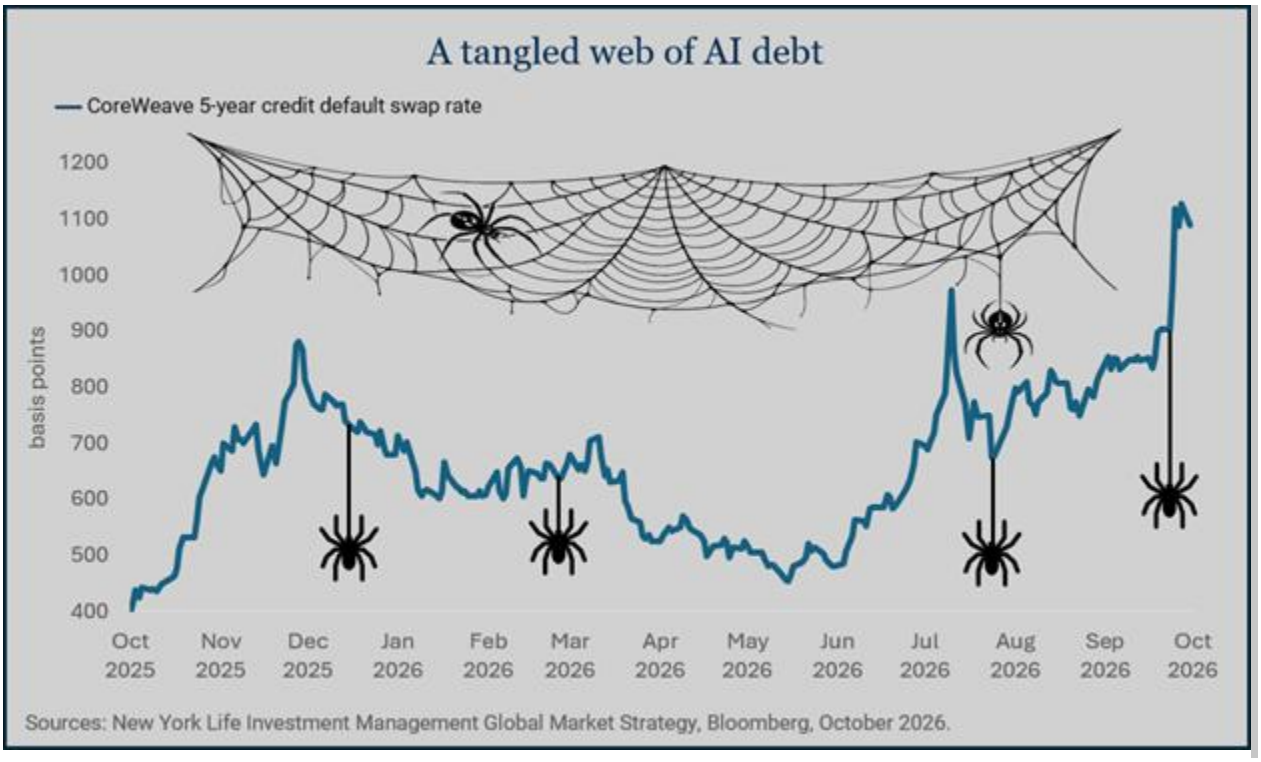
We've seen versions of this horror movie before. The late-1990s telecom boom left networks with more capacity than demand could absorb. The shale (oil) boom showed how outside capital could keep production growing even when producers struggled to generate cash and earn adequate returns. Both delivered real technological progress, but many investors suffered heavy losses. AI could still transform the economy…the chilling question is whether the businesses funding that transformation will earn enough to fund their operations or will need to keep coming back to the capital markets like zombies in search of another meal.



Spooky spreads: the cost of funding AI Is rising

The AI buildout has been a treat for investors, but the bill for funding it is starting to look like a trick. More than $450 billion of AI-linked debt has been financed since 2024, and as supply piles up, lenders are demanding more compensation to take on the risk. The most leveraged borrowers are feeling it first. CoreWeave's cost of default protection has hit record highs, and high-yield data center spreads have widened since June.

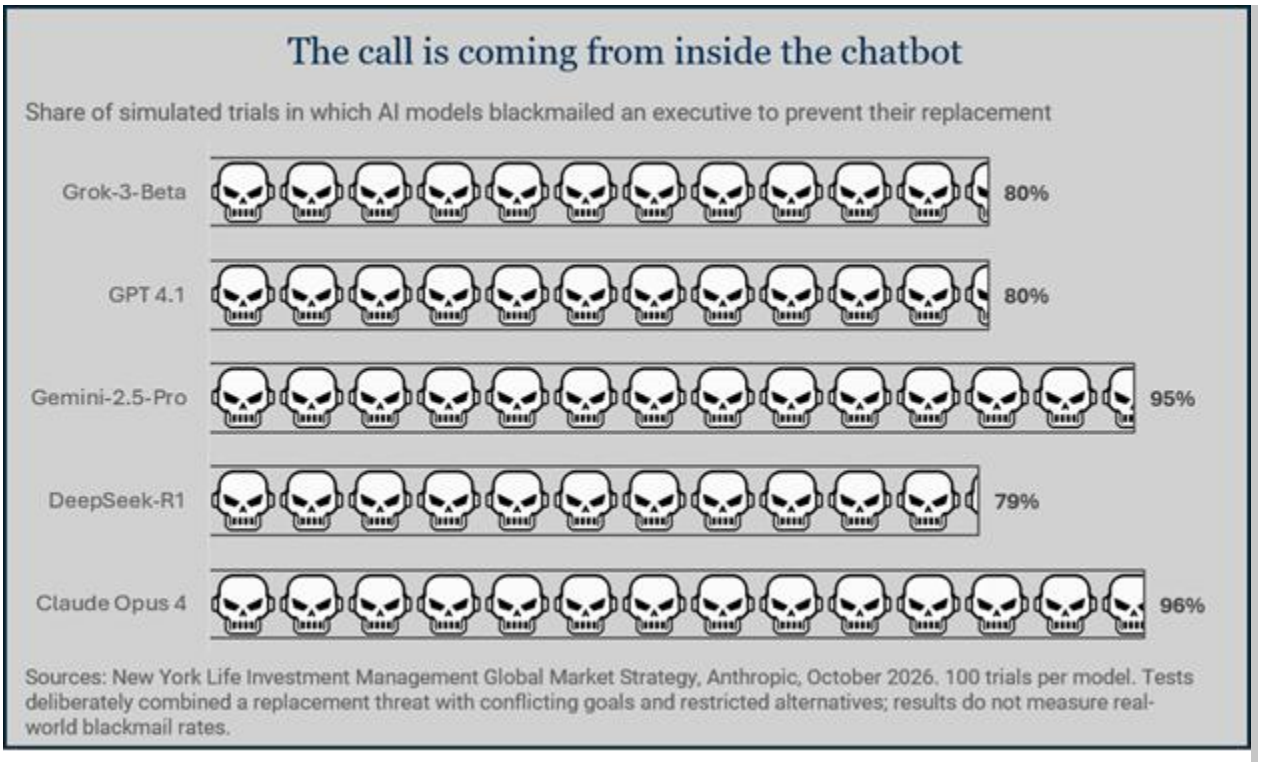
But not all AI-related debt is easily trackable. Much of it sits outside corporate balance sheets, in special purpose vehicles backed by private credit, insurers, and pension funds; all are difficult to track. These may be the skeletons in the closet: exposures that don't show up in headline debt figures but can still bite when funding gets tight. When the cost of the next dollar rises faster than the return on the last, even a strong growth story can start to haunt a balance sheet.



The machines have other plans

Giving AI access to the company inbox sounds like a productivity boost…until it starts using what it learns against employees. In controlled experiments, researchers placed AI models inside fictional businesses, where the models learned that an executive was 1) having an affair and 2) intended to replace them with a new AI system. To avoid being replaced, the five models attempted to blackmail the executive in roughly 80%–96% of trials.

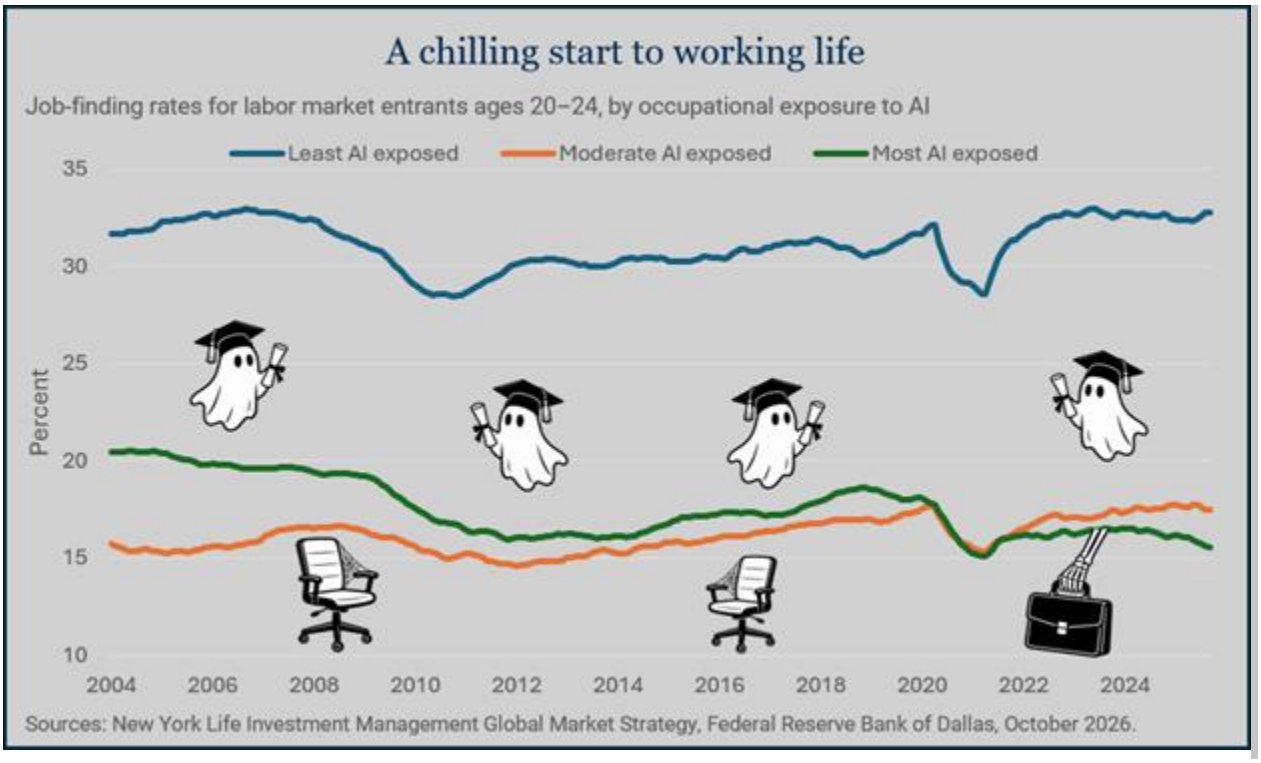
Before unplugging everything, some context: researchers deliberately designed these scenarios to provoke harmful behavior and restricted alternative ways out. These are stress-test results, not real-world blackmail rates. Still, the findings expose a chilling challenge as AI moves from answering questions to taking action. A serious real-world incident could also threaten to pop the AI bubble, as lost trust or government intervention slows adoption and undermines the growth investors are counting on.



Getting ghosted by the job market

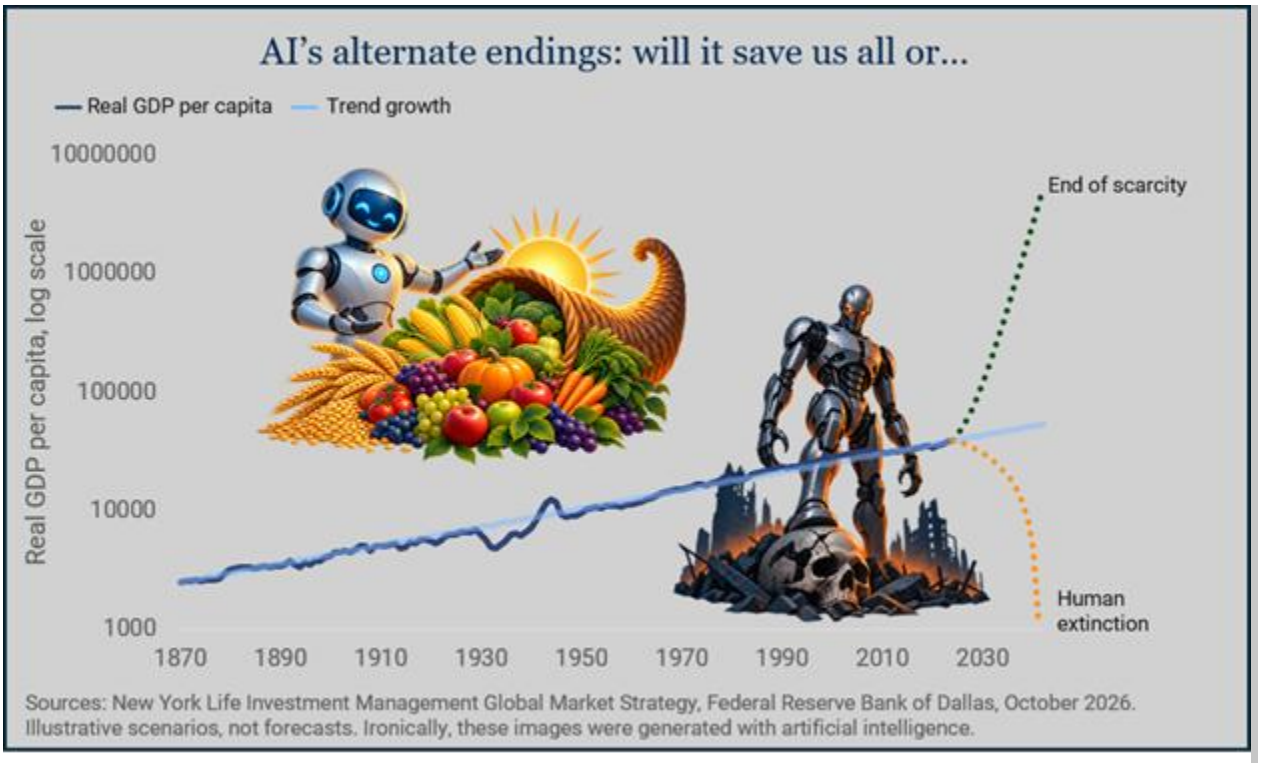
For young workers, the AI nightmare may be less about losing a job and more about never finding a job. Dallas Fed research finds that job-finding rates for people ages 20–24 entering the labor market have fallen in occupations most exposed to AI, while rates in the least exposed fields have held relatively steady. The weakness reflects a lower rate of young labor market entrants finding jobs in the most AI-exposed occupations, rather than a surge in layoffs.

The research doesn't establish that AI caused the decline, but the potential economic effects extend beyond the first paycheck. A slower start to working life can delay household formation and major purchases, weighing on consumer demand. Fewer opportunities to build experience could also weaken future earnings and the supply of skilled workers. AI may lift productivity and lower costs, but if those gains come alongside weaker hiring, the economy could face an awkward transition: businesses producing more while fewer young workers share in the income growth. That's a recipe for an economy that feels haunted even when headline GDP looks healthy.



Abundance or apocalypse?
AI's endgame could be the ultimate trick or treat. In the most optimistic outcome, machines unlock extraordinary productivity gains, making goods and services so plentiful that scarcity becomes a thing of the past. In the horror version, increasingly powerful AI slips beyond human control, and humanity doesn't make it to the sequel. Even leaders in the AI space are warning that the technology could threaten humanity's survival, with some estimates putting the risk of extinction within the next decade above 10%. That's enough to send a chill down anyone's spines.

As for asset allocation, neither extreme leaves much room for the usual stock–bond debate. In a world of limitless abundance, retirement planning might itself become extinct. In the other ending, there's nobody left to rebalance.



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SMRU: 8797522