Macro Pulse

Walking the tightrope

MAY 2024

New York Life Investments

Global Market Strategy

At New York Life Investments

Our team of market strategists connects macroeconomics to asset allocation. Leveraging proprietary research alongside the breadth and depth of the New York Life Investments platform, we provide actionable insight into market-driving events, structural themes, and portfolio construction to empower investment decision-making.

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Executive summary

The past six months have marked a soft landing in the United States, where steady disinflation, still-strong economic activity, and the promise of Fed rate cuts have sent risk asset valuations higher. The question now is whether this can continue. We believe Q2 marks a ***major inflection point*** for global asset allocation. Will U.S. growth slow, allowing rates to decline and global growth to converge? Or is it re-firming, increasing the likelihood of a more pronounced credit cycle?

The U.S. economic cycle has been "stuck" for over a year. While pandemic-era policy programs are fading, new support – including a consistent pro-cyclical fiscal impulse and looser market financial conditions – have engendered a soft landing.

In our view, soft landings are a stop on the way to recession. Up to now, U.S. business and household balance sheets have remained healthy relative to past economic cycles, making it less likely that a recession is compounded by a major credit event. However, the lagged impact of higher policy rates is beginning to show among small companies, lower-income households, and floating-rate borrowers. The longer rates stay high, the more protracted a future recession is likely to be.

That said, investors should take advantage of market supports while they exist. We wouldn't expect market financial conditions to tighten until unemployment claims move higher and earnings turn negative.

Outside of the U.S., many countries are already seeing the impact of tighter monetary policy – growth is slowing. Looking ahead, a U.S. slowdown would likely contribute to sustained U.S. dollar strength, removing a hoped-for support.

Though uncertainty has been a mainstay of investment strategy in recent years, investors' opportunity set has *broadened*, thanks in large part to higher yields and major shifts in global public and private investment priorities. Our high conviction investment ideas include creative approaches to portfolio risk, diversified exposure to technology and supply chain trends, and managing interest rate and inflation volatility.

This piece is designed to share our holistic global economic, geopolitical, and asset allocation views. Use the links on the table of contents page to explore.

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1 Economic & market outlook

Where are we in the U.S. economic cycle?

Where are we in the global economic cycle?

Where are we in the U.S. economic cycle?

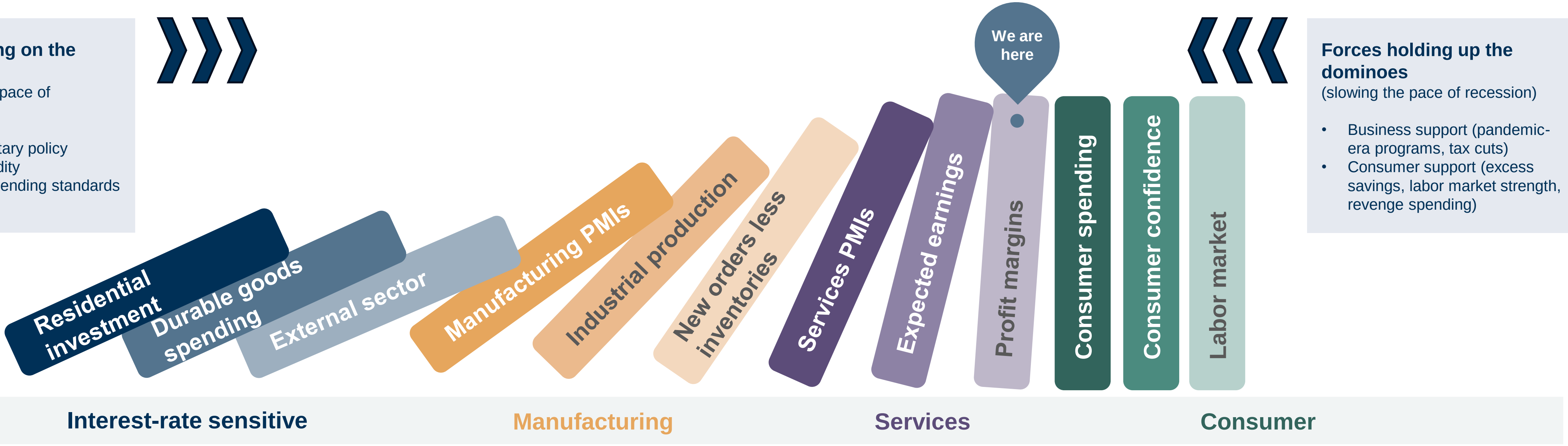
The economic dominoes suggest that a slowdown is still ahead

- Historically, when the Fed raises interest rates, components of the economy slow in a sequential manner, resembling a domino effect (**chart**). Once that process begins, the pace at which recession arrives is driven by the specific conditions of that cycle: the forces pushing down or holding up the economic "dominoes."
- This cycle's economic deceleration has been notably sluggish, partly due to the lingering effects of pandemic-related imbalances impacting various sectors of the economy. However, the pace of this cycle has not been unusual. Historically, it has taken 23 months from the first Fed hike to work its way to the labor market. Today, we are on month 24.
- We do not believe that the absence of a recession to date necessarily means that we will avoid one altogether. Past "soft landings" have been accompanied by modest rises in interest rates, reasonable inflation, and loosening bank lending standards. None of these conditions are present today, informing our view that the economic dominoes are still in the process of toppling.

The "domino effect" of a standard economic slowdown is intact, but atypical forces are affecting the speed of this cycle

Forces pushing on the dominoes
(accelerating the pace of recession)

- Tighter monetary policy
  Draining liquidity
- Tighter bank lending standards
- Political risk



Forces holding up the dominoes
(slowing the pace of recession)

- Business support (pandemic-era programs, tax cuts)
- Consumer support (excess savings, labor market strength, revenge spending)

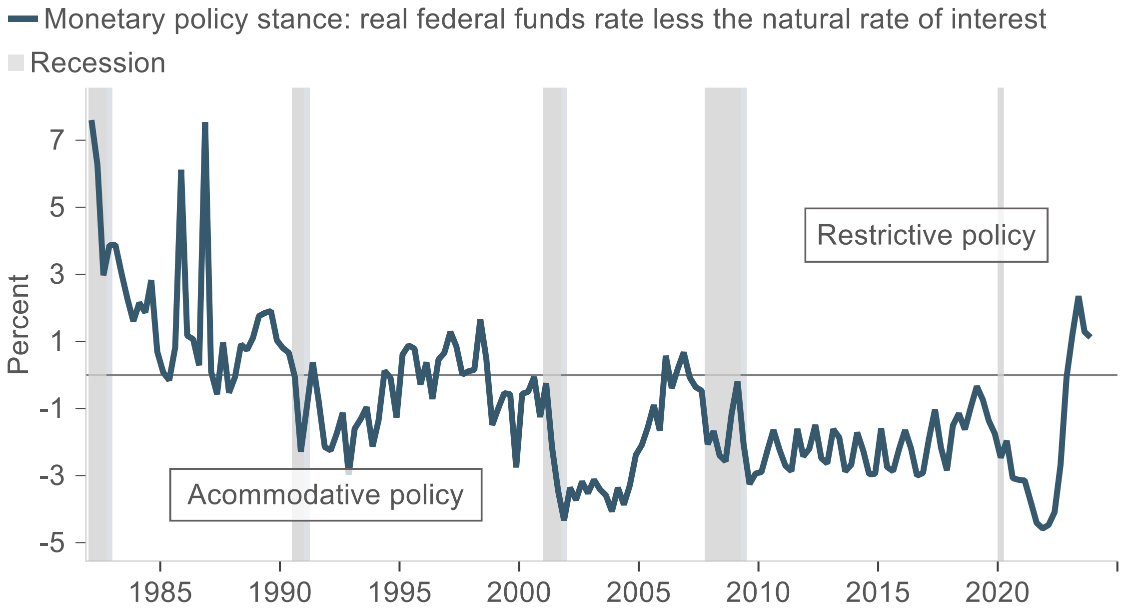
Opinions of New York Life Investments Global Market Strategy, May 2024. For illustrative purposes only.

Factors accelerating the path to recession: tight monetary policy

Policy is now tight, and should tighten further as inflation declines or liquidity drains

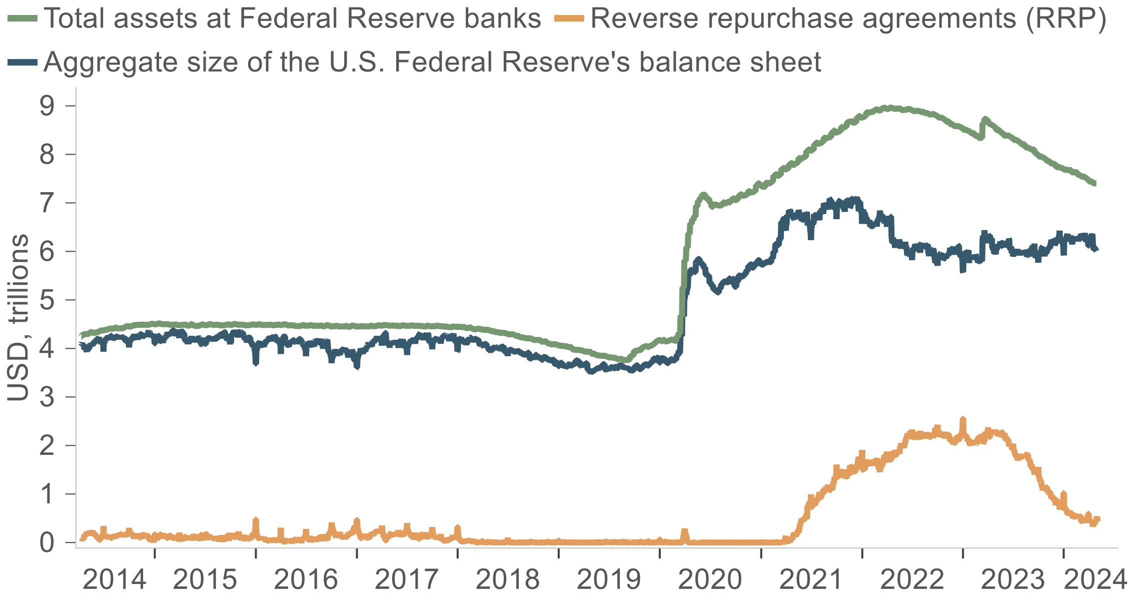
- In 2022 and 2023, the Fed raised interest rates quickly and assertively. Despite the pace of the hiking cycle, its flow through the real economy takes time. It is therefore only in recent quarters that the total monetary policy stance – the policy rate, less inflation and the natural or “steady state” level of interest in the economy – has turned restrictive (**left chart**).
- Meanwhile, the Fed has also been reducing the size of its balance sheet. The impact to market financial conditions, however, has so far been limited. Why? The pace of this reduction has slowed, having been largely offset by declining liabilities; liquidity is ample (**right chart**).
- The lag between interest rate increases and impact to the real economy can be long and variable, but the impacts of tightening are beginning to appear. As long as monetary policy remains restrictive, we are hesitant to overlook its important impact on the economic cycle – a steady downward pressure on the economic “dominoes.”

Monetary policy is now restrictive



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Federal Reserve Bank of Cleveland, Federal Reserve Bank of New York, NBER (National Bureau of Economic Research), Macrobond, May 2024.

The Fed's balance sheet has been declining, but declining liabilities (repo transactions) have slowed the pace of aggregate rolloff

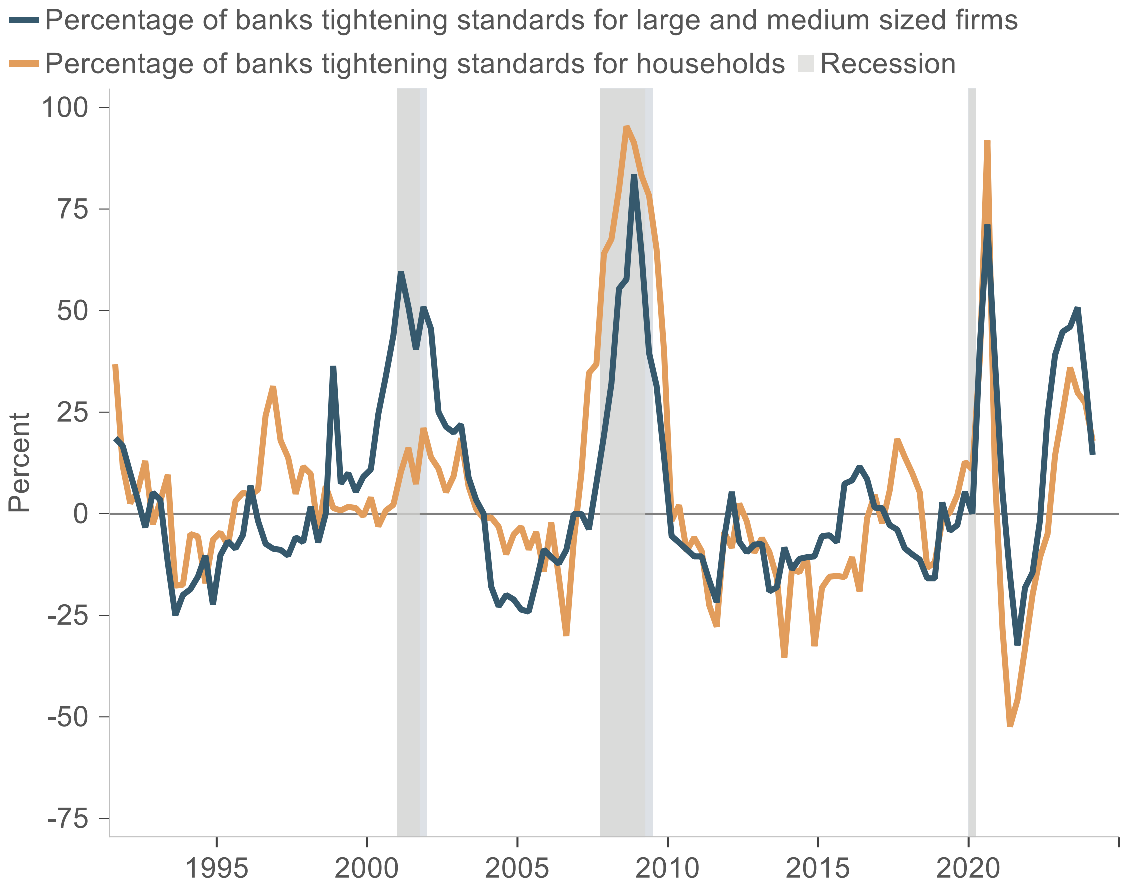


Sources: New York Life Investments Global Market Strategy, Bloomberg, U.S. Federal Reserve, Macrobond, May 2024.

Factors accelerating the path to recession: tight bank lending standards

Stricter credit conditions constrain the real economy, and are unlikely to reverse until the yield curve normalizes

Tight bank lending standards have tended to constrain economic activity



Sources: New York Life Investments Global Market Strategy, U.S. Federal Reserve, Bloomberg, Macrobond, May 2024.

As long as the yield curve is inverted, banks are disincentivized from lending

Sources: New York Life Investments Global Market Strategy, Macrobond, May 2024.

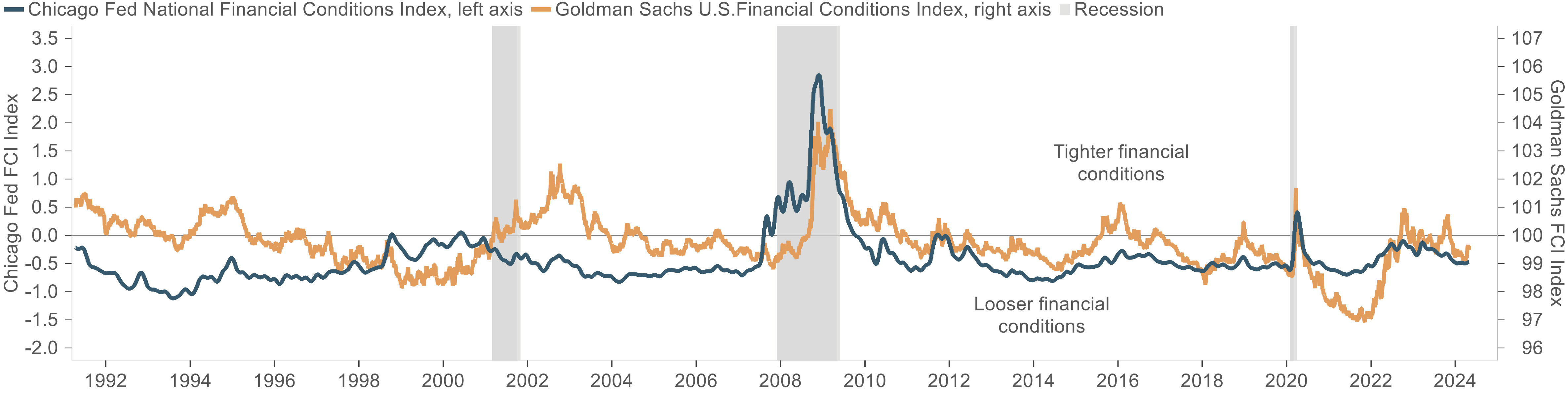
- Though the U.S has the deepest public and private capital markets in the world, most companies rely on bank lending to support their business operations and investment. Banks' willingness to lend, however, depends on capital conditions and perceived risk ahead.
- When risks are rising, tighter bank lending standards have historically constrained economic activity (**left chart**). In this economic cycle, bank lending standards have been tightening since shortly after the Fed began raising interest rates in March 2022. Though the degree to which standards are tightening has abated from its mid-2023 peak, the tightening impulse is still pronounced. As long as the yield curve is inverted (**above chart**), bank lending remains unprofitable and standards are likely to remain tight, constraining the economy.

Data note: market financial conditions are still favorable

Market financial conditions can change on a dime, making them valuable for tactical trading but not as an economic crystal ball

- Investors often speak of financial conditions as a market driver, but financial conditions are made up of three factors: monetary policy conditions, bank lending standards, and market financial conditions. We've already described that monetary and bank lending conditions are tight; these have historically been leading indicators of economic activity.
- Market financial conditions, by contrast, tend to reflect equity and credit market pricing *today*, meaning they are a coincident – not leading – indicator of economic activity. On this front, there is good news: market financial conditions are still favorable (**chart**).
- Loose or favorable market financial conditions are highly important for tactical investment strategy but does little to tell us where the economy or markets are going next. What's more, market financial conditions tend to change very quickly. We believe that any mix of economic, market, or political risks present a risk to market financial conditions.

Market financial conditions have been favorable in recent months, but they tend only to tighten once recession has already arrived



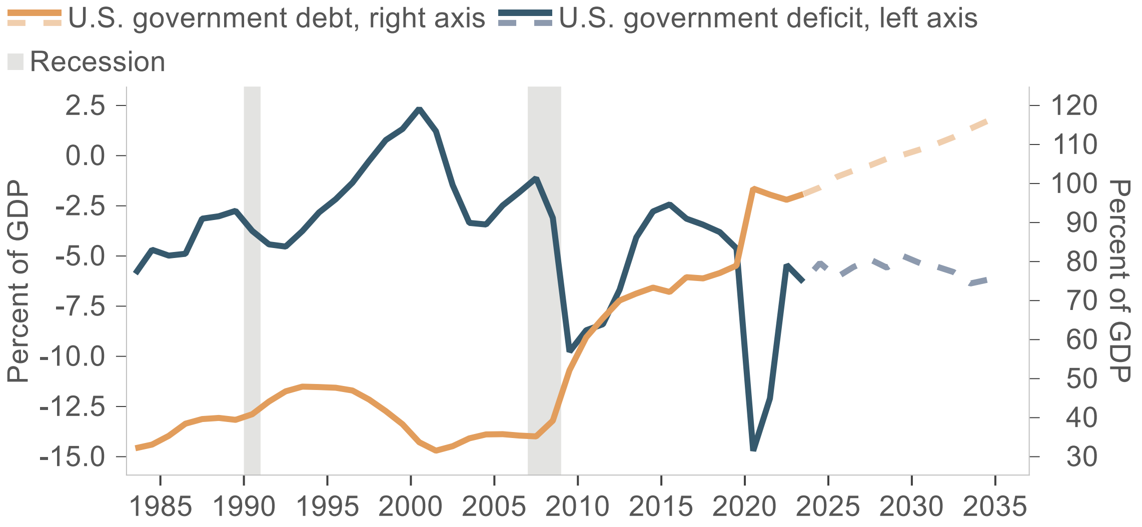
Sources: New York Life Investments Global Market Strategy, Federal Reserve Bank of Chicago, Goldman Sachs, Bloomberg, Macrobond, May 2024. FCI: Financial conditions index.

Factors delaying the path to recession: fiscal support

Fiscal spending has reliably supported the U.S. economy. Will it continue?

- Government support for the U.S. economy, via fiscal spending (**chart**) and support for the banks was, in our view, the single most important factor in avoiding recession in 2023. 2024 may present a similar story; several proposals for increased fiscal spending – or incremental impact from promised spending – could impact the U.S. economy this year.
- Amid an economic backdrop of sticky inflation and a tight labor market, incremental fiscal spending may avoid near-term slowdown, but increases the likelihood of economic overheating.

Even during an economic expansion, U.S. government spending has grown



Sources: New York Life Investments Global Market Strategy, U.S. Congressional Budget Office (CBO), NBER (National Bureau of Economic Research), Macrobond, May 2024.

Potential fiscal support for 2024 and their economic impact

Support	Description
Wyden-Smith tax proposal	Though the proposed child tax credit would likely have a modest impact on the aggregate economy, the proposed $136 billion corporate tax cut is projected to raise GDP by 0.5%, mostly through improvements to corporate profits. Corporate profits are, in our view, the last economic "domino" standing between the economy today and broader layoffs. The passage of this proposal may very well avoid, at least temporarily, broader layoffs.
CHIPS act	The CHIPS Act provides funding to boost the domestic semiconductor manufacturing industry. The rollout of the $53 billion plan has been slow, but it's estimated $7.5 billion in grants could be issued this year.
Inflation reduction act	Tax credits for de-carbonization may impact consumers and businesses on the margin.
Student loan forgiveness	The Biden administration has now cancelled a total of $138 billion in student debt. Earlier in 2024, $1.2 billion in debt relief was provided for nearly 153,000 borrowers. In addition to government spending, debt relief supports higher consumption.
Employment Retention Credit (ERC)	The ERC is tax credit for businesses that retained employees during the pandemic. The plan was paused but if continued could amount to $70 billion in total payments in 2024.
Defense spending	Wars have historically benefited the U.S. military-industrial sector. If a $95 billion defense bill passes the House, after being passed in the Senate, it would result in a 0.3% increase in GDP growth.

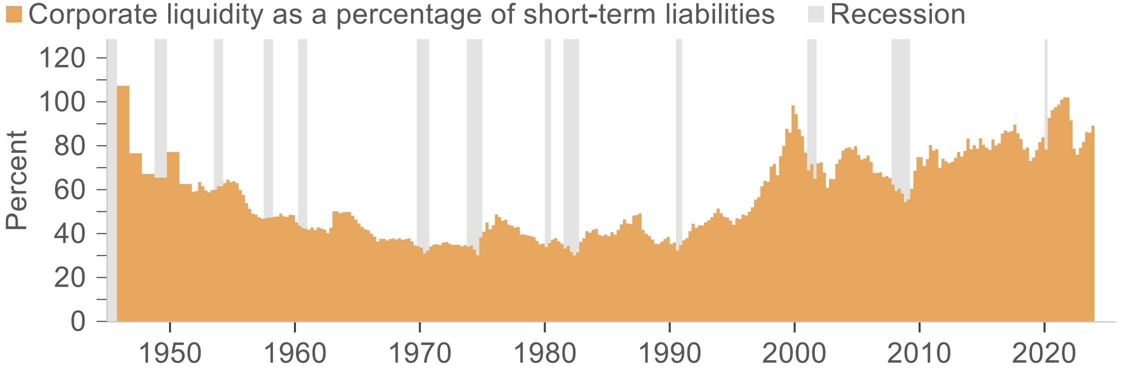
Sources: New York Life Investments Global Market Strategy, May 2024. GDP estimates were derived from work by Strategas and Piper Sandler.

Factors delaying the path to recession: business supports

Businesses have protected profits through good capital management and passing on higher costs. Data suggest that's now more challenging

- Fiscal stimulus (pandemic programs) and monetary stimulus (low interest rates, credit facilities) allowed companies to both build up cash and deleverage throughout the post-pandemic period. As a result, many businesses have protected their bottom lines.
- Large companies with access to public capital markets have maintained strong liquidity (**left chart**), supporting earnings resilience by allowing those companies to invest cheaply-acquired capital in a higher-rate environment. But for much of the market, cracks are beginning to appear. Top-line revenue growth has slowed. Small companies and those relying on floating-rate credit report that it is increasingly challenging to protect profit margins. Indeed, at an aggregate level, corporate profit margins after tax are now deteriorating.
- Also defining business resilience ahead is the cost of labor. Companies have largely maintained their labor footprint, avoiding layoffs, despite still-strong wage growth (**right chart**). However, we are seeing increasing signs that companies are struggling with labor costs. In recent months, companies have been cutting worker hours, historically a sign that layoffs are soon to come.

Large companies with access to public capital markets have maintained strong liquidity, supporting earnings resilience



Sources: New York Life Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, May 2024.

Wage growth has been sticky, dragging on corporate profits

Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), U.S. Bureau of Labor Statistics (BLS), Macrobond, May 2024.

TAKEAWAY: Corporate profit margins are the last economic "domino" standing between today's economic environment and a broader labor market deterioration. Now that profit growth has turned negative, we are closely watching for signs of U.S. labor market weakening.

Factors delaying the path to recession: the labor market

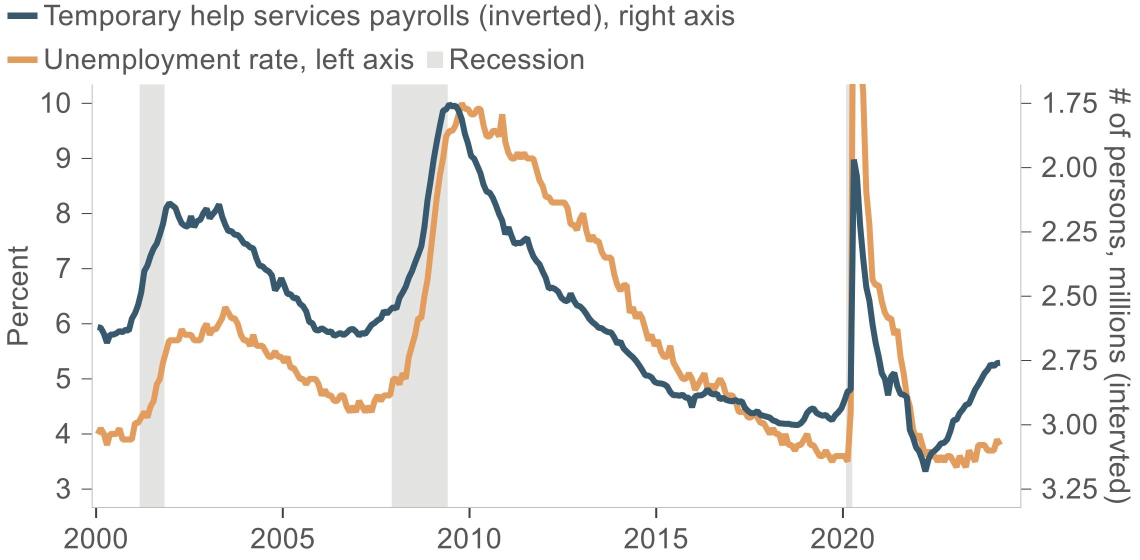
A strong labor market has kept U.S. consumption surprisingly strong, but cracks are beginning to appear

- The labor market is historically the last of the economic "dominoes" to topple, indicating that a recession has already arrived. The average time it has taken interest rate hikes to tighten the labor market is about 23 months. Today, we are on month 24.
- Cracks are beginning to appear in U.S. employment, indicated by deteriorating small business hiring intentions (**left chart**) and in temporary help services payrolls (**right chart**). In addition, companies have been reducing worker hours, typically an attempt to contain labor costs before resorting to layoffs.
- In the short term, modest weakness in the labor market may be "good news" for investor risk appetite, as it signals the Federal Reserve may be closer to rate cuts. However a clearer deterioration, signaled most clearly by new jobless claims, is one of the most important risk-off indicators we watch, particularly when accompanied by deteriorating earnings growth.

Leading indicators of employment are deteriorating

Sources: New York Life Investments Global Market Strategy, National Federation of Independent Business, U.S. Bureau of Labor Statistics (BLS), NBER (National Bureau of Economic Research), Macrobond, May 2024.

A decline in temporary workers typically precedes a rise in unemployment



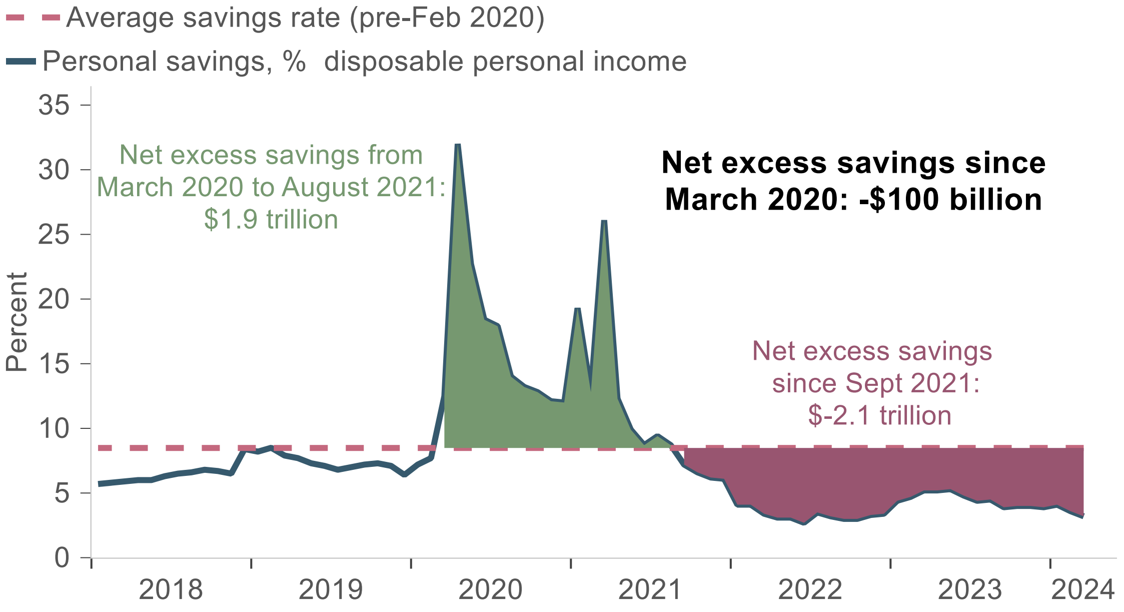
Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), NBER (National Bureau of Economic Research), Macrobond, May 2024.

Factors delaying the path to recession: consumer supports

Pandemic-era consumer supports are largely exhausted, but tighter monetary policy impacts only shorter-term consumer debt

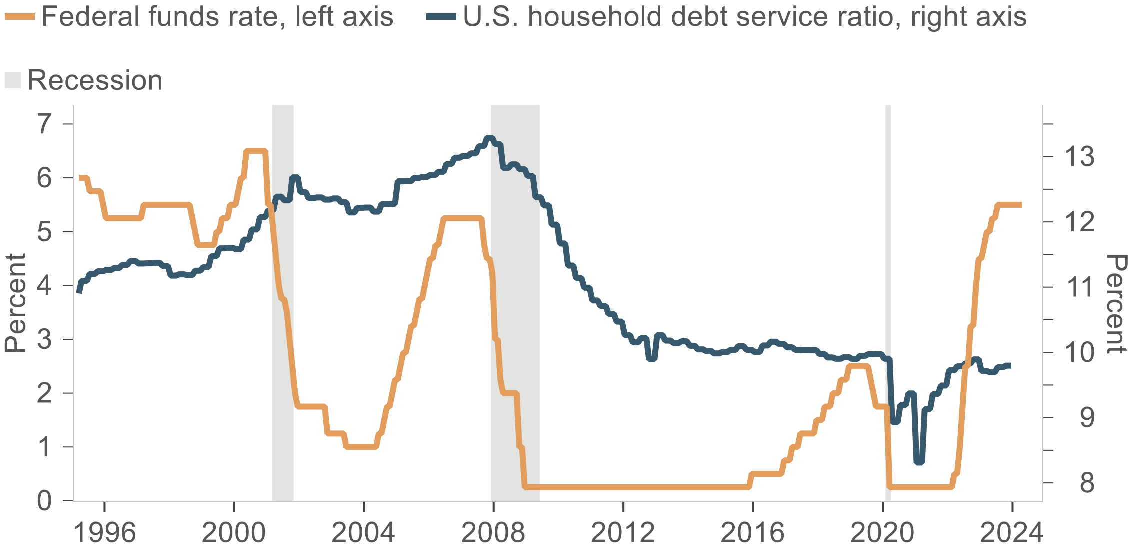
- The combination of fiscal stimulus and lockdowns allowed consumers to accumulate nearly $2 trillion in excess savings during the pandemic. Those consumer supports have now faded (**left chart**).
- There are still important sources of resilience for the U.S. consumer. For example, a large portion of 30-year mortgages fixed-rate, meaning that overall household interest payments have risen slowly. As a result, consumer debt levels and debt service ratios remain reasonable compared to past expansions (**right chart**). A relatively healthy consumer reduces the risk that any economic slowdown would be accompanied by a major financial crisis.
- That said, the largest support to the U.S. consumer is the labor market itself, for which we see growing evidence of cracks (previous page).

Excess savings have been an important support; they're now exhausted



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), Macrobond, May 2024.

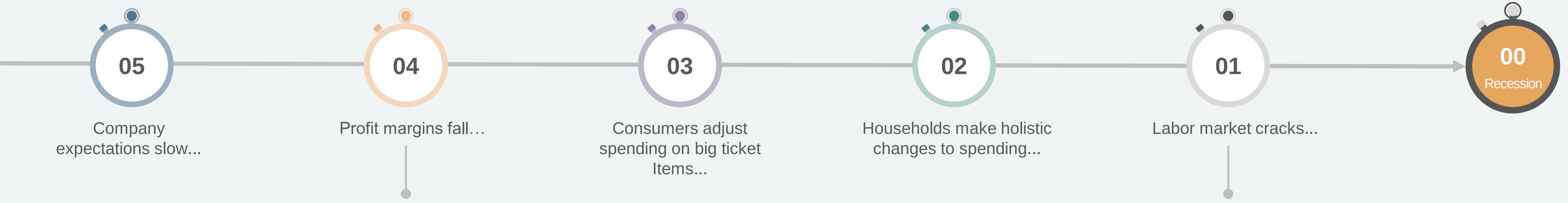
A large proportion of fixed rate consumer debt, such as mortgages, mean that household interest costs are not rising as quickly as the policy rate



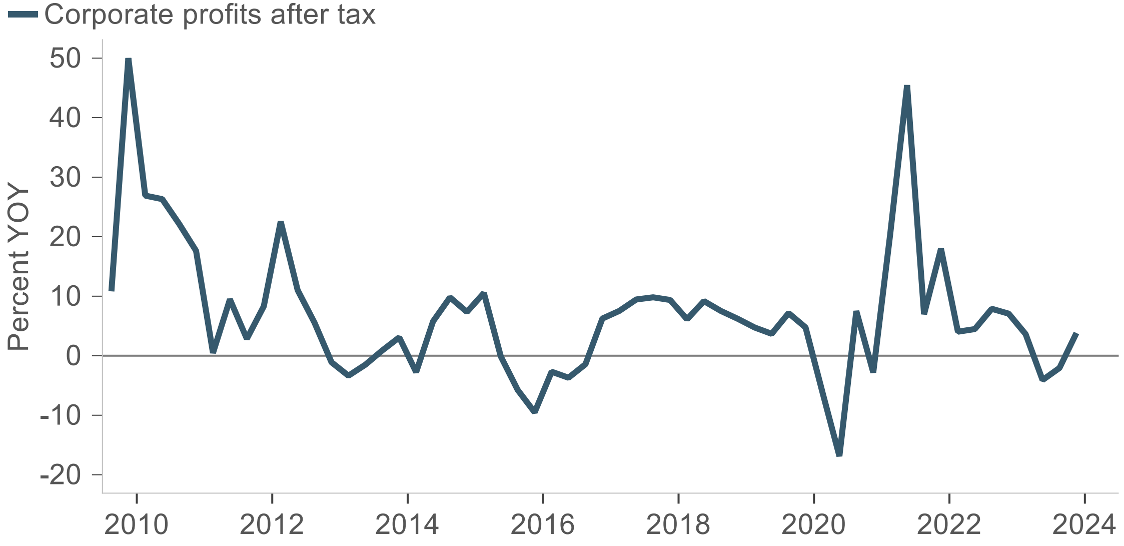
Sources: New York Life Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, May 2024.

What's next?

Until corporate profits durably slow and the labor market weakens, we don't expect serious market concerns about recession



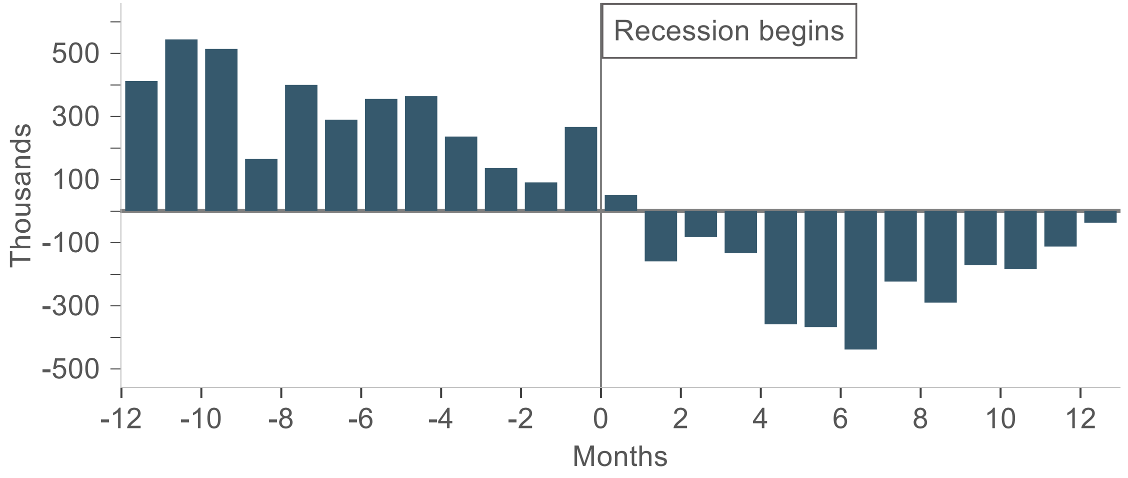
Corporate profit growth is now declining



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), Macrobond, May 2024.

Historically, the U.S. economy adds jobs until the moment recession begins

Average change in nonfarm payrolls around recession onsets, standardized by March 2024 nonfarm payroll level



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, May 2024.

Overheating: the worst-case scenario for the economy and markets?

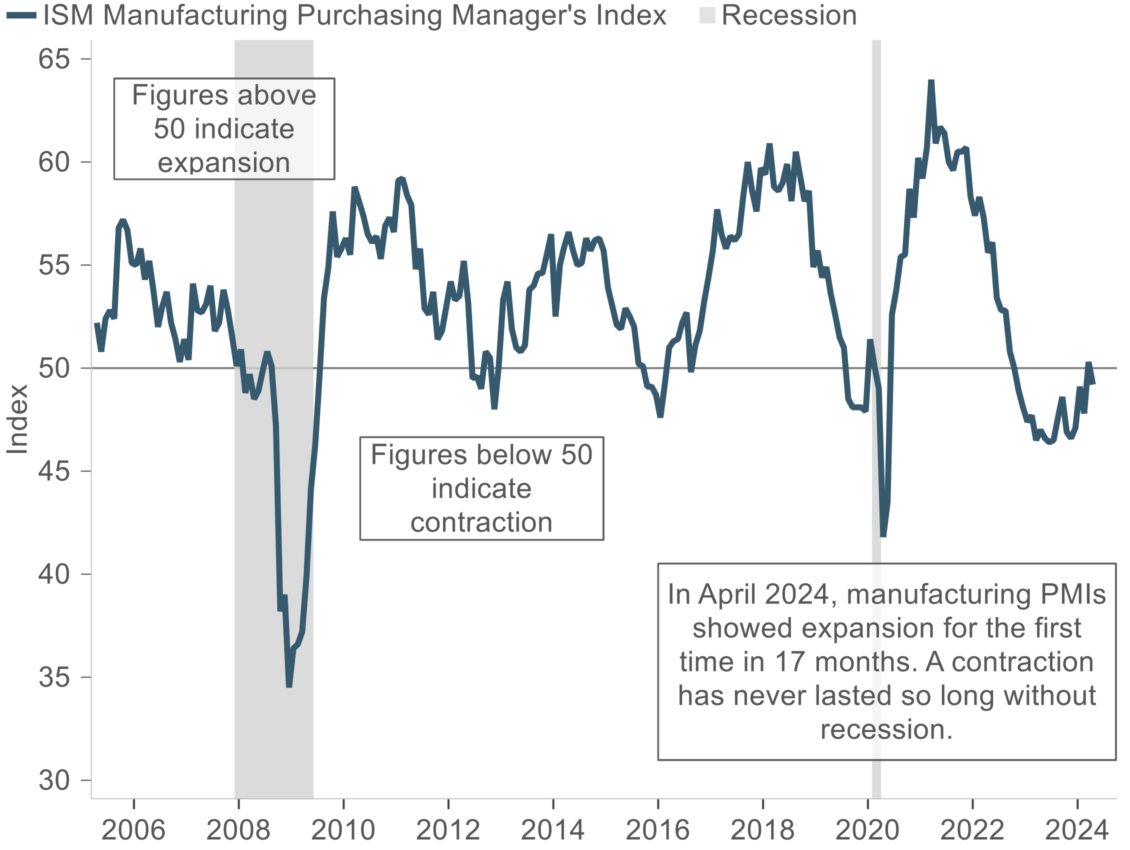
- The sources of U.S. economic resilience are fading or even depleted today. A reversal of this trend, driven by any of the factors described below, could cause the U.S. economy to re-accelerate – the economic "dominoes" could stand back up. Though seemingly positive, we see a U.S. reacceleration as a key global market risk. Durable growth means still-sticky inflation, "higher for longer" rates, and potentially a more challenging credit cycle.

What we're watching:

Indicator	Description
Fiscal impulse strengthens	Amid an economic backdrop of sticky inflation and a tight labor market, incremental fiscal spending may avoid a slowdown in the near term, but increases the likelihood of economic overheating.
Profit margins stabilize or improve	Profit margins are the last stronghold keeping the labor market intact. Now, hours worked are declining – a sign that profit margins may be under increasing pressure. If profit margins were to expand – whether due to an expanding economy or due to the pending tax bill in Congress, this could be an important support for the labor market ahead.
Manufacturing PMIs signal expansion	Manufacturing PMIs have just moved into positive territory, after signaling contraction for 16 months. This leading economic indicator has never been so negative for so long without recession (**chart**). If the manufacturing sector were to continue improving or even re-accelerate, it would be a sign that the economic dominoes could be standing back up.
Bank lending standards begin to loosen	Bank lending standards have been tightening, a major force pushing down the dominoes. As long as the yield curve is inverted, U.S. banks face meaningful pressure on their balance sheets and have to be more careful with lending. If this reversed, we could see more support of economic activity, especially for small businesses.

Opinions of New York Life Investments Global Market Strategy, May 2024.

Manufacturing PMIs show very early signs of potential turnaround



Sources: New York Life Investments Global Market Strategy, Institute for Supply Management (ISM), NBER (National Bureau of Economic Research), Macrobond, May 2024. Purchasing managers' indexes (PMIs) are economic indicators derived from monthly surveys of private sector companies.

When will the Fed cut rates?

Our base case of June rate cuts has likely been pushed back by several months of warm inflation

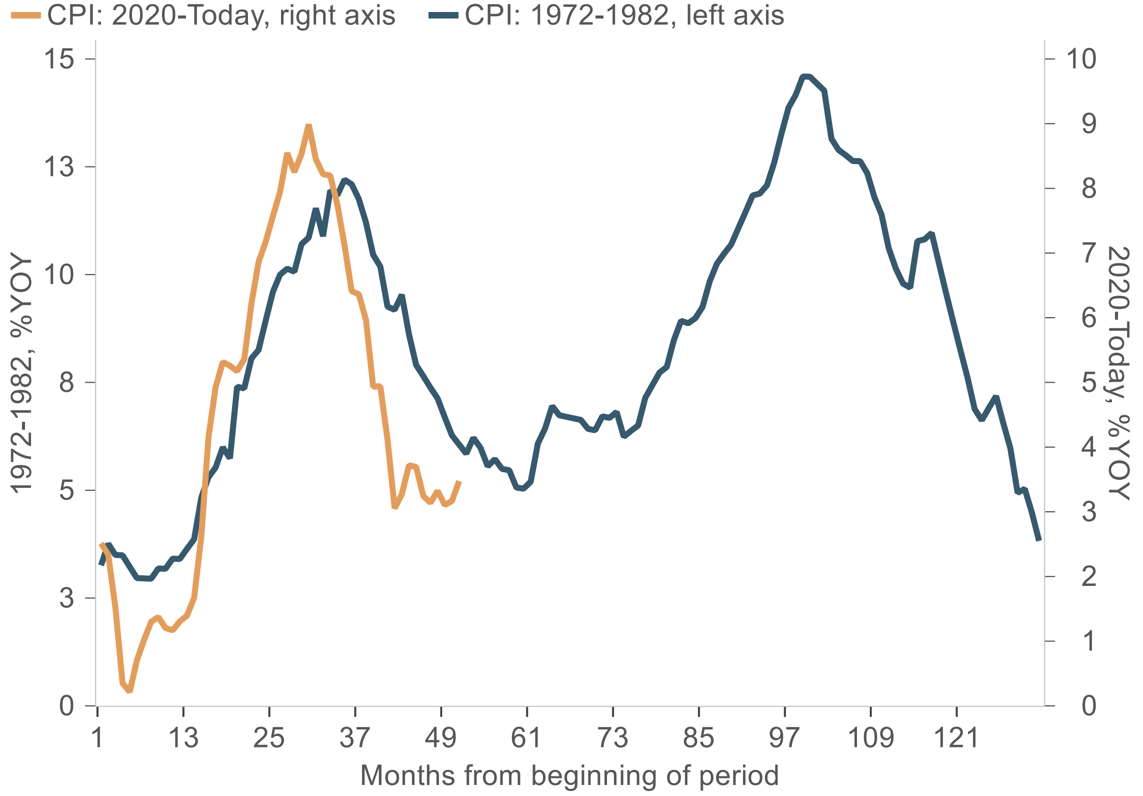
- Inflation has been sticky in Q1 2024, and the Fed does not expect a return to its 2.0% target until 2026. Market expectations have recently anchored around this data, but remain reactive.
- Firmer inflation is balanced by slowing data in other areas, including the labor market. We believe the Fed is eager to cut rates to avoid an overly restrictive policy stance, but warm inflation data is unlikely to allow more than two rate cuts this year.

Our Fed cuts checklist – what does it take to transition back to *neutral* policy?

Condition	Status	Met?
Inflation expectations well anchored	While surveys of inflation expectations have been very stable, market-based indicators have begun to move higher as inflation persists.	✓
Core inflation moving closer to target	After a few months of impressive progress, core inflation stabilized in Q1 2024. We believe the disinflationary process is intact, but each month of price growth above expectations makes some degree of a double peak look increasingly likely (**chart**).	✗
Unemployment rate above 4.0%	While the Fed does not want employment to weaken considerably, it is likely that some labor market slack will be required to cool wages, and therefore the current services-driven upward pressure on inflation.	✗
Wage growth commensurate with stable prices	Wages have been sticky above 4.0%. It is possible that the Fed can begin cutting rates at these levels if inflation moves lower. However, we believe that wage growth closer to 3.5% would make the Fed feel more comfortable cutting towards target.	✗

Opinions of New York Life Investments Global Market Strategy, May 2024.

The key risk of cutting rates too early: a Burns-era double inflation peak



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, May 2024.

TAKEAWAY: In our view, even a single rate cut would be an important source of relief for many asset classes. We believe investment flows from cash and into short duration bonds would increase, as a means of locking in higher interest rates before they decline further. But investor optimism for higher-risk assets may be short lived if faster rate cuts reflect slowing economic activity.

Key debates on Fed policy today

An unusual economic cycle, combined with a changing global economic landscape, is obscuring Fed watchers' view

Will the Fed change their 2.0% target?

- We don't believe this will happen for the foreseeable future. A sudden change in the inflation target could erode the Fed's inflation-fighting credibility. Additionally, an unexpected change in the target could alter expectations, potentially destabilizing financial markets, spending decisions, and wage negotiations. Making such a decision in the middle of a cycle could appear hasty and might increase the risk of policy errors.

Can higher productivity reduce inflation?

- Today's artificial intelligence boom could usher in productivity gains that bring down unit labor costs and allow a "goldilocks" scenario of resilient growth and tamer inflation. However, we expect that those benefits will be reflected in economic reality over the next 2-10 years rather than in today's economic cycle. Recent boosts in productivity may reflect pandemic-era labor market disruptions, including a recent surge in immigration, discussed below, more than the very recent and early-stage changes in artificial intelligence uptake.

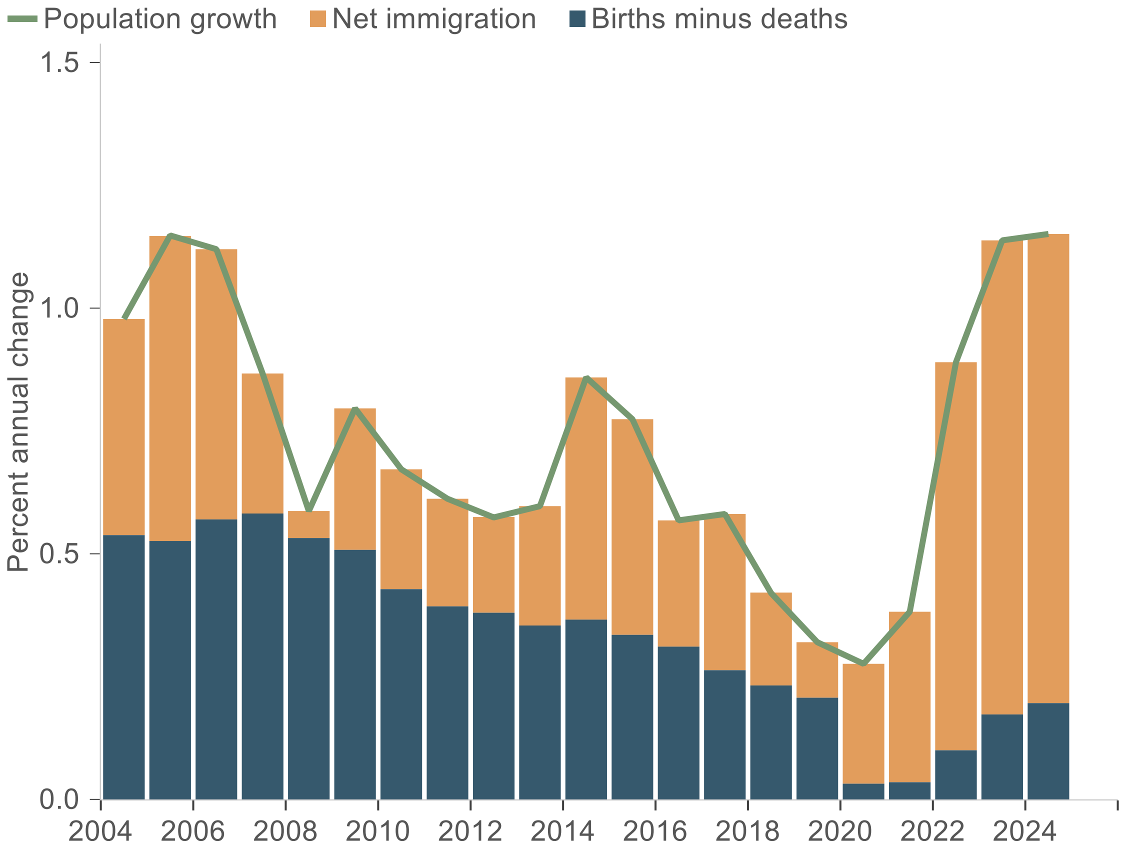
Will immigration reduce labor costs enough to avoid layoffs?

- After a pandemic-driven halt in immigration, the U.S. has seen a large increase in foreign-born workers joining the labor force (**chart**). Early evidence suggests that this has kept wages from overheating, avoiding a reacceleration of inflation and interest rates. The Federal Reserve's own projections may be reflecting an increase in economic potential as a result. It remains to be seen whether immigration or related gains in potential activity persist.

Can rates stay high when government interest costs are rising so quickly?

- Higher inflation and growth could mean "higher for longer" interest rates, all else equal. However, policymakers would also face the prospect of growing government interest costs. This too, is a structural rather than cyclical question in our view. We don't expect the answer to influence the Fed's 2024 policy plans.

Net immigration has fueled a surge in population growth, leading to higher potential economic growth

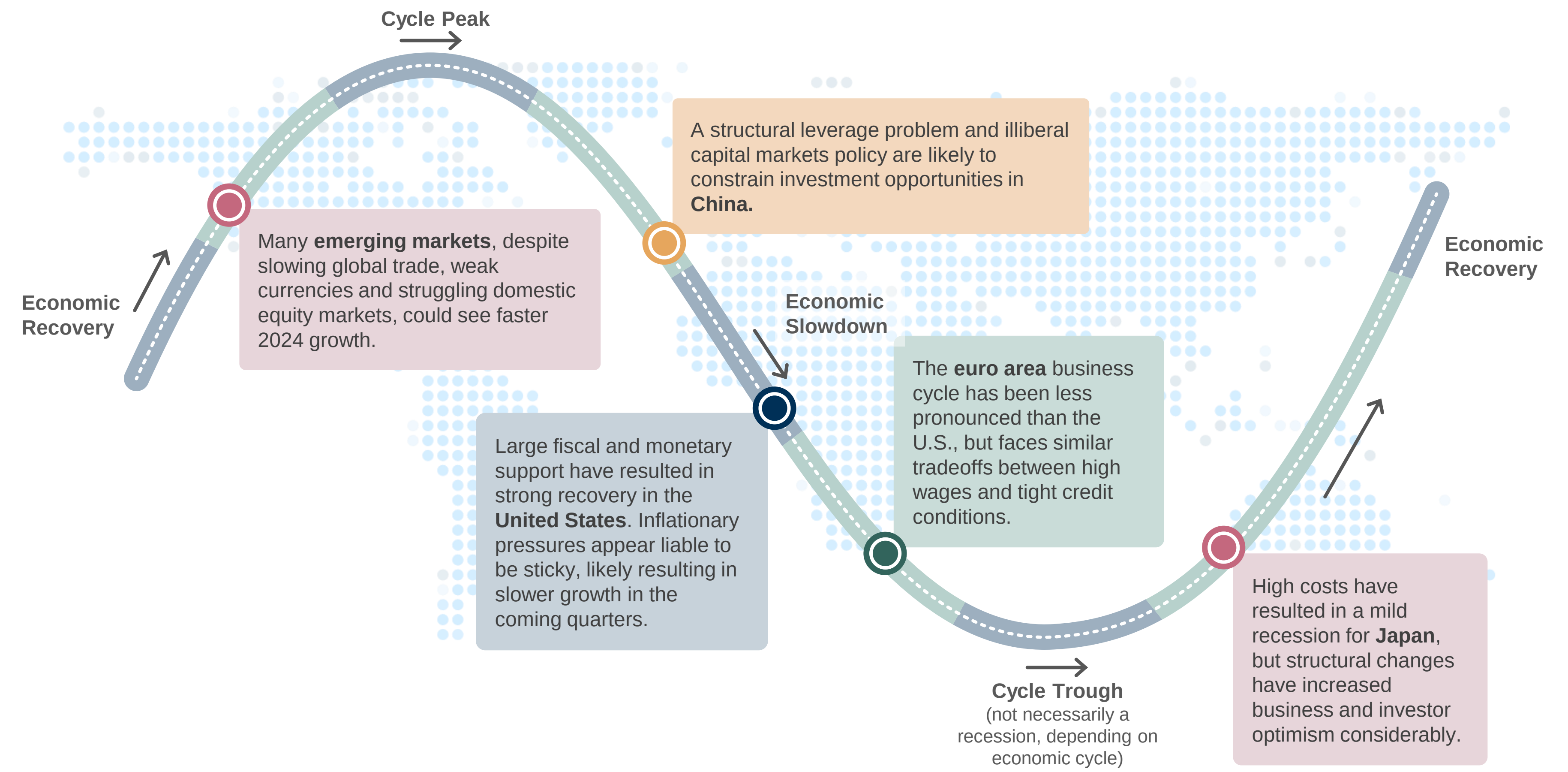


Sources: New York Life Investments Global Market Strategy, Congressional Budget Office (CBO), Macrobond, May 2024.

Where are we in the global economic cycle?

- During the pandemic and recovery in 2020 and 2021, driving economic forces were primarily global in nature. Most major regions faced synchronized economic contraction in 2020, met with meaningful fiscal and monetary policy stimulus.
- Now, the size and extent of that stimulus is generating a less synchronized recovery period (**chart**). Many countries, such as the United States and the euro area, are experiencing similar themes of inflation, tighter central bank policy, and slowing growth – but with differing intensity. Others, such as Japan and China, are adapting to structural changes, which distinguishes their business cycles and investor opportunity sets.
- Globally, the re-shaping and redundancy of supply chains is refocusing in vestment in technology, energy, and financial infrastructure.

Major countries and regions face disharmonious economic growth dynamics and policy approaches



Sources: New York Life Investments Global Market Strategy, May 2024. For illustrative purposes only. "EM" is short for emerging markets. *The trough of an economic cycle is the lowest point in economic growth for a country during an economic cycle- A trough does not necessarily mean that there is a recession, but rather depends on the economic cycle.

Euro area

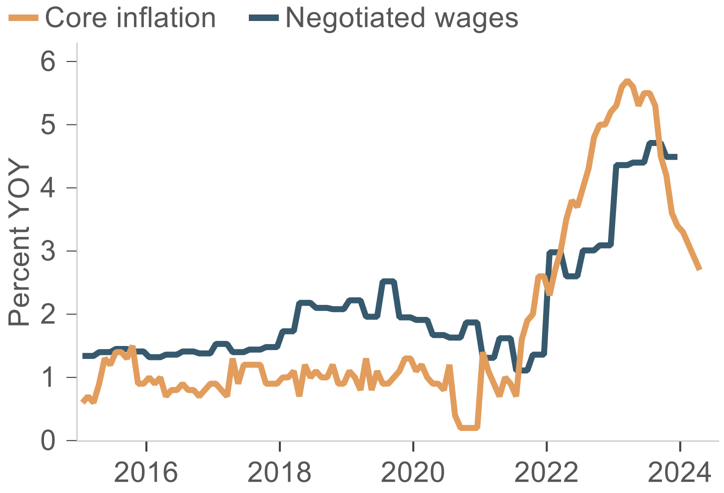
The euro area business cycle has been less pronounced than the U.S., but faces similar tradeoffs between high wages and tight credit conditions

- Since the COVID-19 pandemic, Europe has faced many of the same challenges as the U.S. Supply chain dynamics and labor force disruptions contributed to high inflation. Russia's invasion of Ukraine materially impacted gas prices, adding to inflation and growth concerns.
- Key differences with the U.S., such as a broad return to office work and fiscal support focused on social stabilizers (over stimulus checks) resulted in a more subdued business cycle.
- In the past year, euro area domestic demand has flatlined (**left chart**) and inflation has moved lower (**middle chart**). In response, the ECB signaled in March that a June rate cut is possible.
- Today, credit conditions remain tight and loan demand has been declining (**right chart**). Leading indicators, such as purchasing managers' indices (PMIs), have improved but still signal contraction. Rate cuts may help Europe avoid a recession, but we expect tepid growth.

Domestic demand has flatlined

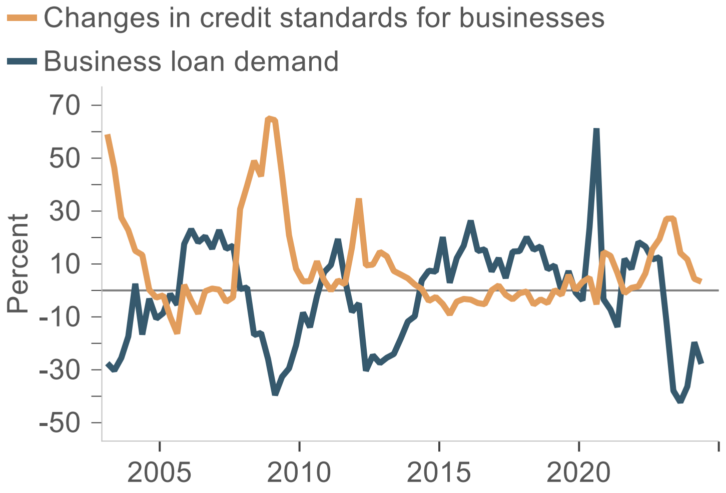
Sources: New York Life Investments Global Market Strategy, ECB (European Central Bank), Macrobond, May 2024.

Euro area core inflation is moving lower, but wages remain sticky



Sources: New York Life Investments Global Market Strategy, ECB (European Central Bank), Eurostat, Macrobond, May 2024.

Credit standards have tightened while demand for loans has fallen



Sources: New York Life Investments Global Market Strategy, ECB (European Central Bank), Macrobond, May 2024.

TAKEAWAY: We expect tepid euro area growth as a result of still-tight credit conditions, timid consumption, and low consumer confidence. A robust labor market and stronger wages have kept a floor under consumption, but also contribute to tighter credit conditions. A European Central Bank (ECB) rate-cutting cycle beginning in June would loosen credit conditions and may help to avoid recession.

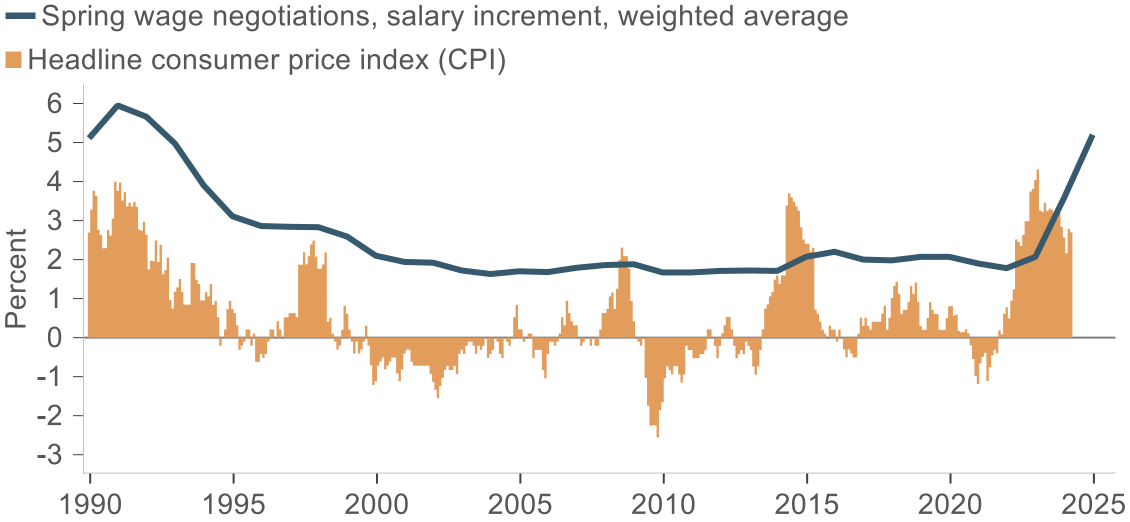
Japan

High costs have resulted in a mild recession, but structural changes have increased business and investor optimism considerably

- While most global central banks have been raising rates, the Bank of Japan has maintained ultra-accommodative monetary policy. The result has been import-price inflation, spurring more assertive labor negotiations and higher wages for the first time in many years (**left chart**). In response, the Bank of Japan gradually loosened yield curve control and ended negative interest rate policy, bringing the policy rate to 0.0% - 0.1% in March (**right chart**).

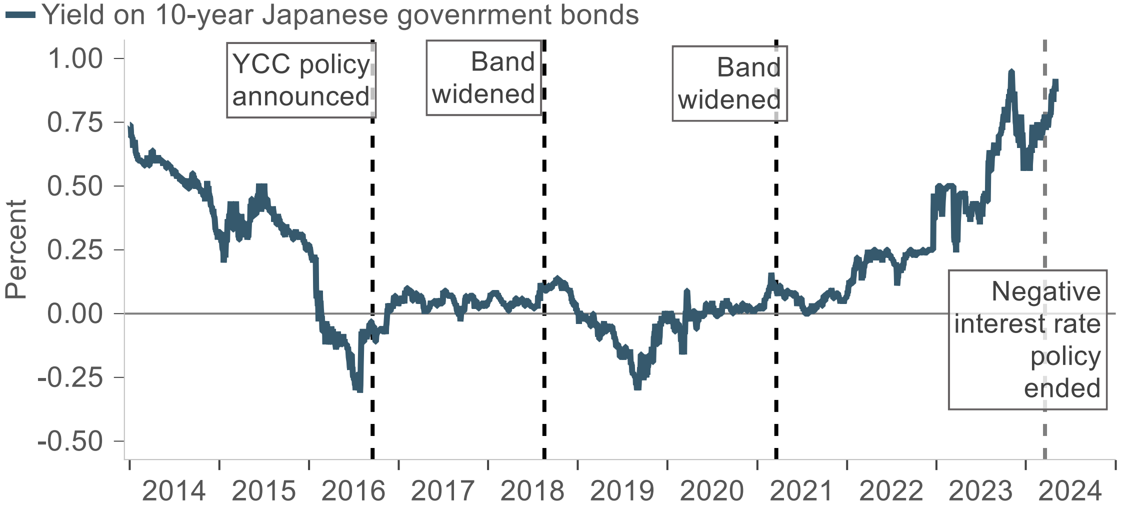
- At the same time, the government and private sector have made meaningful changes to promote competitiveness. Government policies have focused on improving investment and labor conditions. The Tokyo Stock Exchange has compelled companies with low book values to reduce cash (via investment) or explain their choice. The combined result has been a considerable shift in global corporate and investor expectations for Japan's growth.

Negotiations lead to steepest wage increases in 30 years



Sources: New York Life Investments Global Market Strategy, Japanese Trade Union Confederation (RENGO), Japanese Statistics Bureau, Ministry of Internal Affairs & Communications, Macrobond, May 2024.

Higher inflation has led to loosening yield curve control and an end to negative interest rate policy



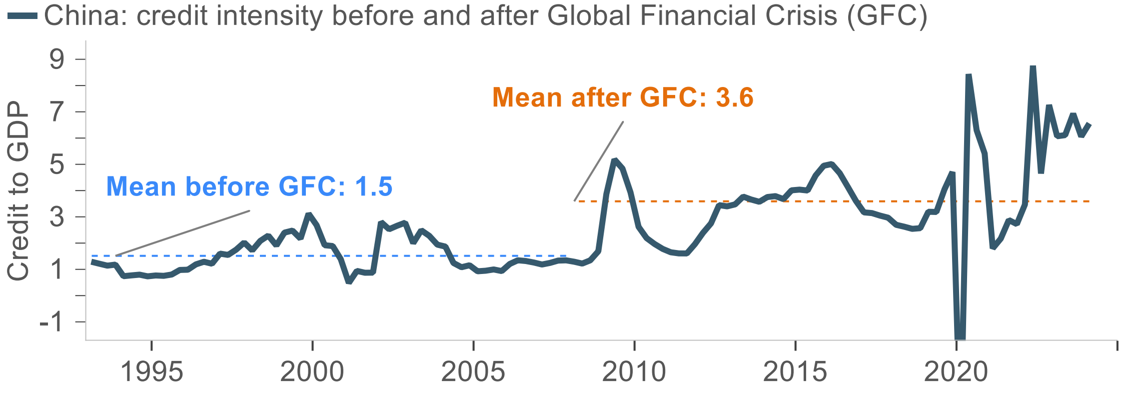
Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Macrobond, May 2024.

TAKEAWAY: Despite Japan's technical recession, we believe the country's re-orientation towards global competitiveness may persist, potentially improving productivity and economic activity. We are closely watching recent developments in the semiconductor supply chain, which could position Japan as an incremental chip manufacturing location, and therefore increase capital investment.

China

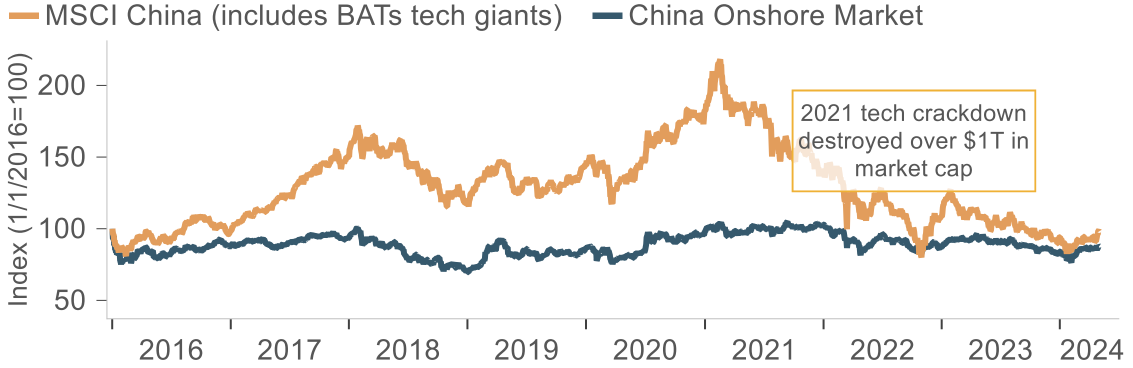
A structural leverage problem and illiberal capital markets policy are likely to constrain investment opportunities

China's decades of high growth have been fueled by high leverage



Sources: New York Life Investments Global Market Strategy, People's Bank of China (PBoC), BIS (The Bank for International Settlements), China National Bureau of Statistics (NBS), Macrobond, May 2024. GDP: Nominal.

China's regulation has hampered value creation in equities



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, MSCI, Macrobond, May 2024. BATs: Chinese tech giants listed outside China's onshore markets: Baidu, Alibaba, Tencent. Onshore markets represented by Shanghai Composite, comprising all A and B shares listed in Shanghai. MSCI China: large and mid-cap represenation across Shanghai and Shenzhen.

- In the past several decades, credit expansion– through formal banking, shadow banking, infrastructure, and real estate – has been utilized to mitigate cyclical slowdowns, with diminishing returns (**left chart**).
- Recent years' policies seem to acknowledge that the high-leverage model is unsustainable: shadow lending had slowed, Chinese real estate giant Evergrande was allowed to fail, and local and central government growth targets have been periodically relaxed.
- But in this cycle, the taps have been turned back on. In 2024 Chinese growth is expected to slow from 5.2% YoY to 4.6% - with pressure from a property crisis and a weakening jobs market alleviated by central government financing.

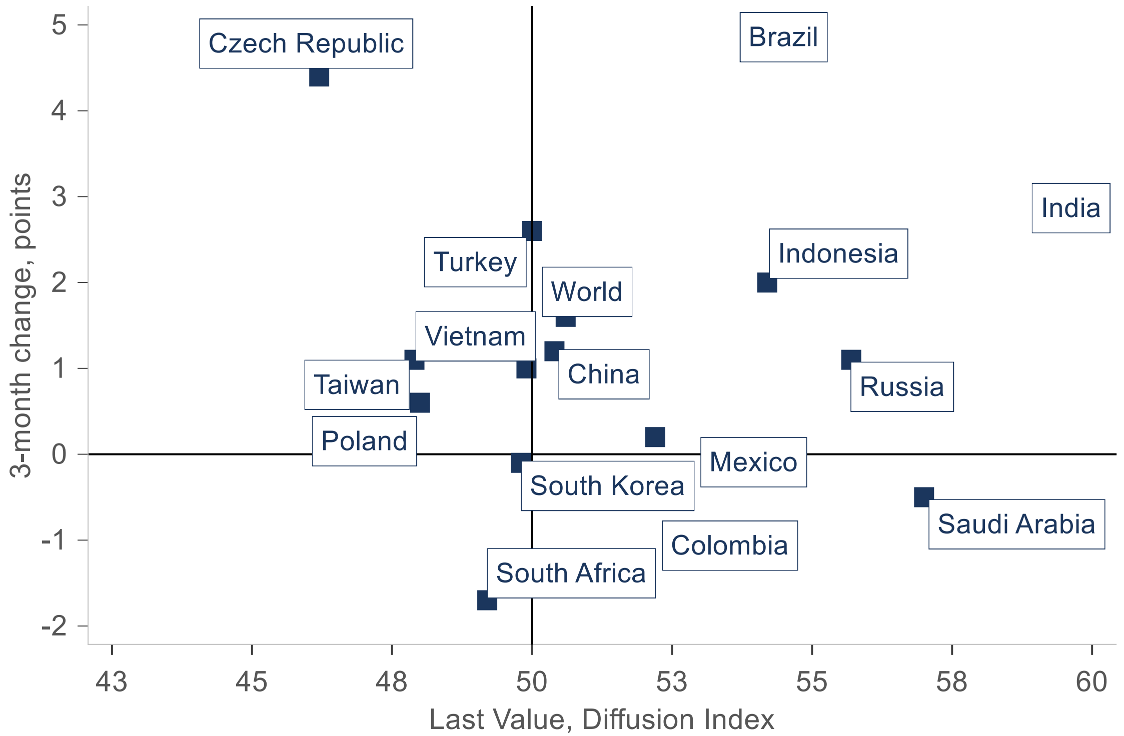
- China's closely regulated onshore equity markets do not include exposure to major tech firms, including the BATs: Baidu, Alibaba, and Tencent, which operate within China but are listed primarily in the U.S. (**right chart**). Lack of onshore exposure to these names enabled China's infamous tech crackdown of 2021, where harsh new regulations and fines against these firms destroyed over $1T in market cap for U.S.-listed China indexes.
- While China made decades of great strides to liberalize its capital markets, recent years have seen a slew of anti-investor regulation that has harmed market confidence in the country.
- Other structural issues on our radar: demographics, productivity, intellectual property protection.

TAKEAWAY: China remains the world's #2 economy and trade power, and in this sense continues to be a "must have" in a diversified international allocation. However, the country's proclivity for avoiding economic growth slowdowns with the use of leverage, paired with wavering investor-friendly policies, make us cautious on the medium-term outlook.

Emerging markets

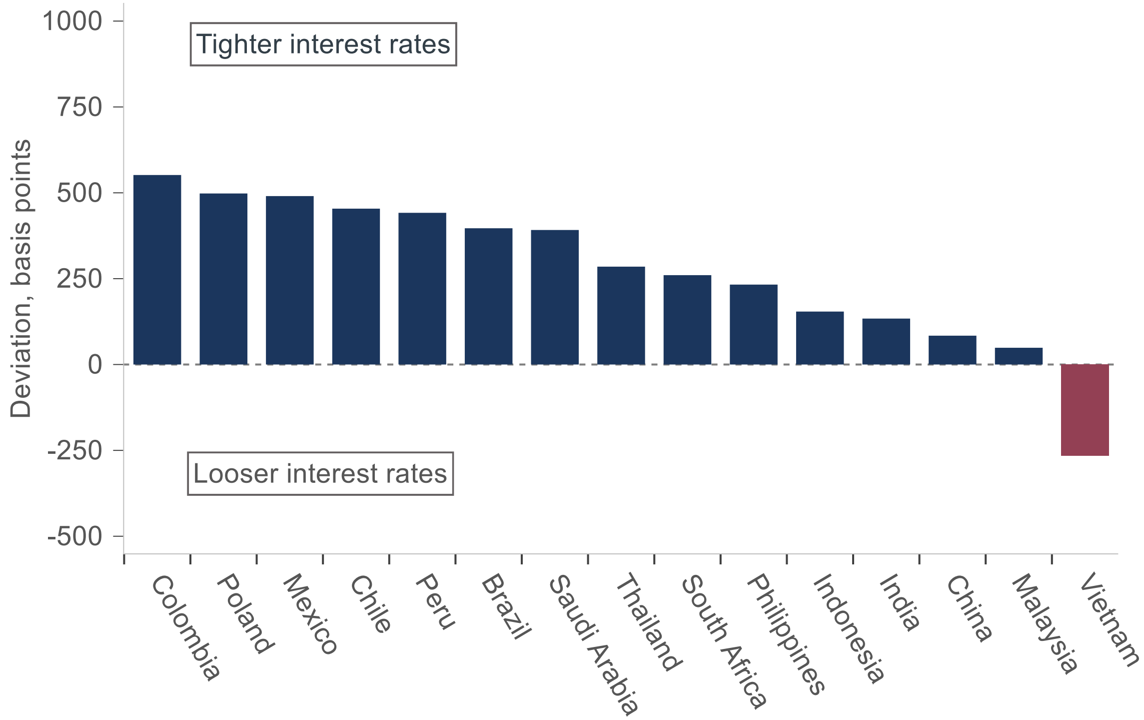
Many EM countries, despite slowing global trade, weak currencies and struggling domestic equity markets, could see faster 2024 growth

Many emerging markets are showing strong economic activity



Sources: New York Life Investments Global Market Strategy, S&P Global, China Federation of Logistics & Purchasing, Taiwan National Development Council, Bureau for Economic Research of South Africa (BER), Macrobond, May 2024.

Monetary policy is still restrictive in response to above-average inflation



Sources: New York Life Investments Global Market Strategy, Central Banks and Central Statistical Offices of: Colombia, Mexico, Peru, Brazil, Poland, Saudi Arabia, Thailand, Philippines, South Africa, Indonesia, India, Malaysia, Chile, China, and Vietnam; Macrobond, May 2024.

TAKEAWAY: Emerging markets are heterogenous, but historically struggle to overcome growth pressures from developed markets. Investors should be sensitive to the earnings and valuation outlooks in each market, or should consider a holistic hedging strategy to counter broad-based EM currency weakness in periods of slowing global growth (for more, see asset class insights).

2 Long-term themes

Long-term interest rates

- Inflation expectations
- Path of the policy rate
- Term premium: supply and demand for Treasuries

U.S. debt sustainability

- Determinants of debt sustainability
- The growing interest burden
- Impact of the 2024 election

Megatrends: (re)globalization

- Tech supply chains
- Energy independence

Dollar dominance

- What it takes to be a reserve currency
- Potential disruptions to the dollar

Long-term interest rates: key drivers of change

Long-term yields are driven by three key factors, impacting behavior in nearly all asset classes

10-Year Yield

Inflation expectations +

Factors biasing yields higher
- Tight labor market
- Insufficient housing supply
- Energy transition
- Supply chain resilience
- Corporate rent-seeking

Factors biasing yields lower
- Tech innovation
- Ageing demographics

TAKEAWAY: Long-term inflation expectations are anchored, but a volatile short-term outlook may be upside risk to rates.

Path of policy rate +

Factors biasing yields higher
- Investment driving potential GDP growth higher, manifesting in a potentially higher neutral rate

Factors biasing yields lower
- The Fed's reaction function (responsiveness) to restrictive rates
- Potential recession

TAKEAWAY: Unless GDP growth potential increases, policy rate expectations are a net neutral for long-term rates.

Term premium (supply and demand)

Factors biasing yields higher
- Debt sustainability concerns
- Political and geopolitical risk
- Investor preferences, including moderate sovereign rates in other major nations
- Higher issuance/supply

Factors biasing yields lower
- Structural demand for global 'safe haven' assets

TAKEAWAY: Structural investment tailwinds are an upward pressure on long-term rates.

Opinions of New York Life Investments Global Market Strategy, May 2024.

Long-term interest rates: inflation expectations

Long-term expectations are well anchored, but volatile short-term expectations may be an upside risk to interest rates

Inflation expectations are stable for the long term; volatile for the short term

Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, May 2024. The breakeven inflation rate is derived from the difference in yields between nominal bonds and inflation-linked bonds of the same maturity.

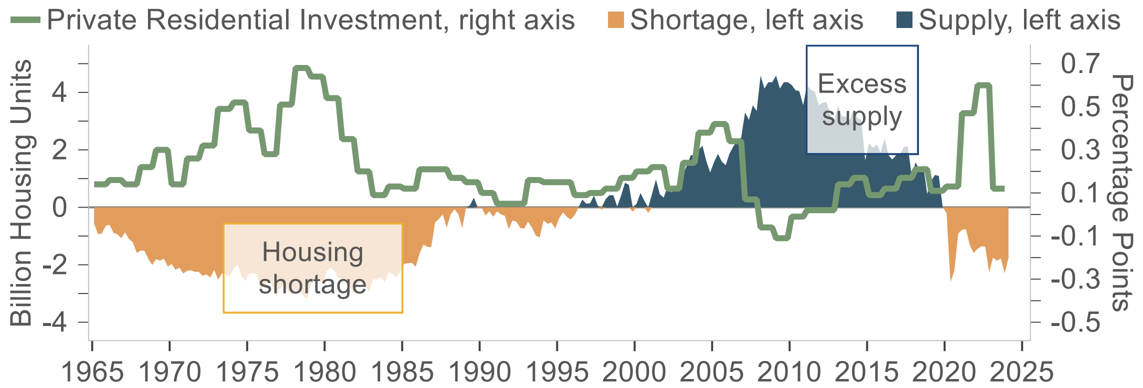
Factors biasing inflation expectations HIGHER:

- Tight labor market: higher wages
- Insufficient housing supply: keeps housing prices elevated (**below chart**)
- Energy transition: higher investment; higher prices
- Supply chain investment: nearshoring
- Corporate rent-seeking

Factors biasing inflation expectations LOWER:

- Technological innovation, potentially including generative artificial intelligence
- Aging demographics: higher dependency ratios may lower consumer spending

The U.S. housing shortage prompts greater spending - and inflation



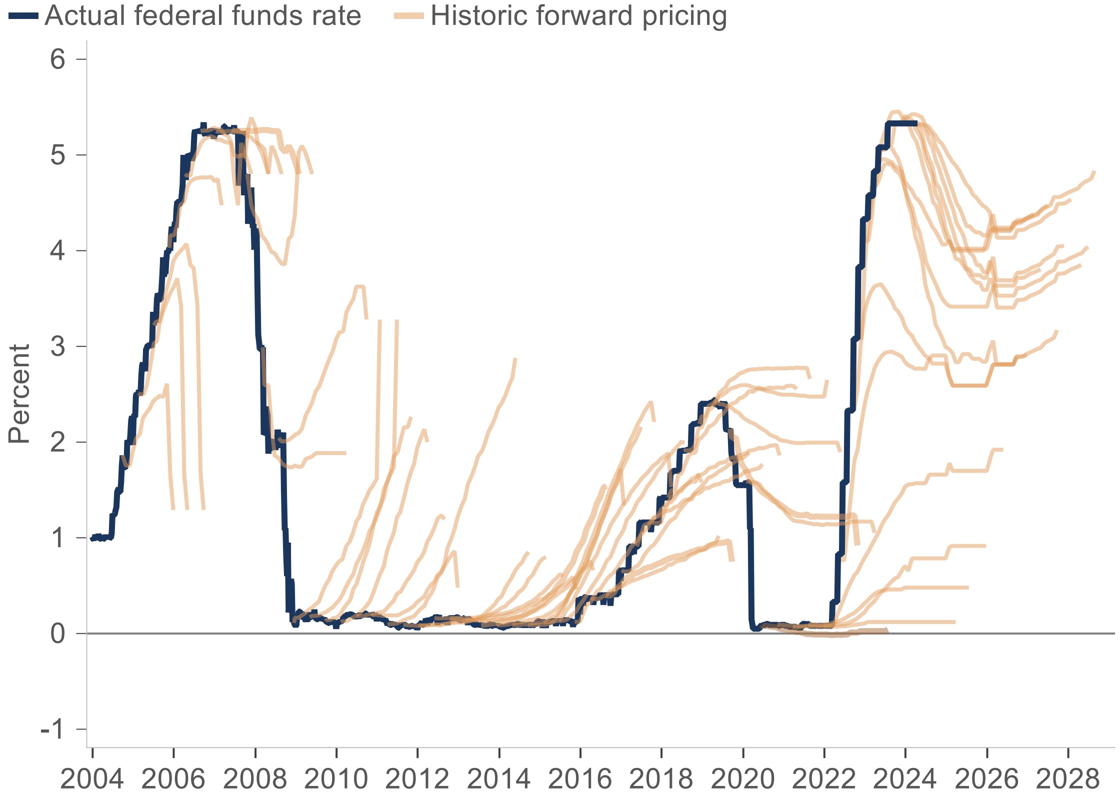
Sources: New York Life Investments Global Market Strategy, U.S. Census Bureau, U.S. Bureau of Economic Analysis (BEA), Macrobond, May 2024. Private residential investment: represents contribution to gross domestic purchase price index.

TAKEAWAY: We see medium-term inflation biased higher by a structural need for housing and infrastructure investment. This creates an upward bias for longer-term rates.

Long-term interest rates: path of the policy rate

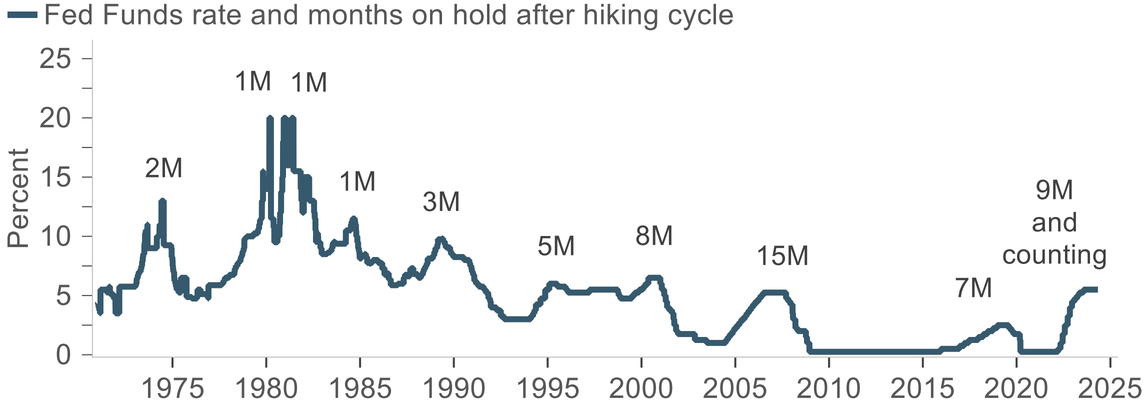
With no structural shifts in the neutral rate or Fed's reaction function, the policy path is a neutral factor for long-term rates

Fed funds futures are poor predictors of the policy path



Sources: New York Life Investments Global Market Strategy, Federal Reserve Bank of New York, CME Group, Macrobond, May 2024.

The Fed's reaction function has become more patient in restrictive territory



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Macrobond, May 2024.

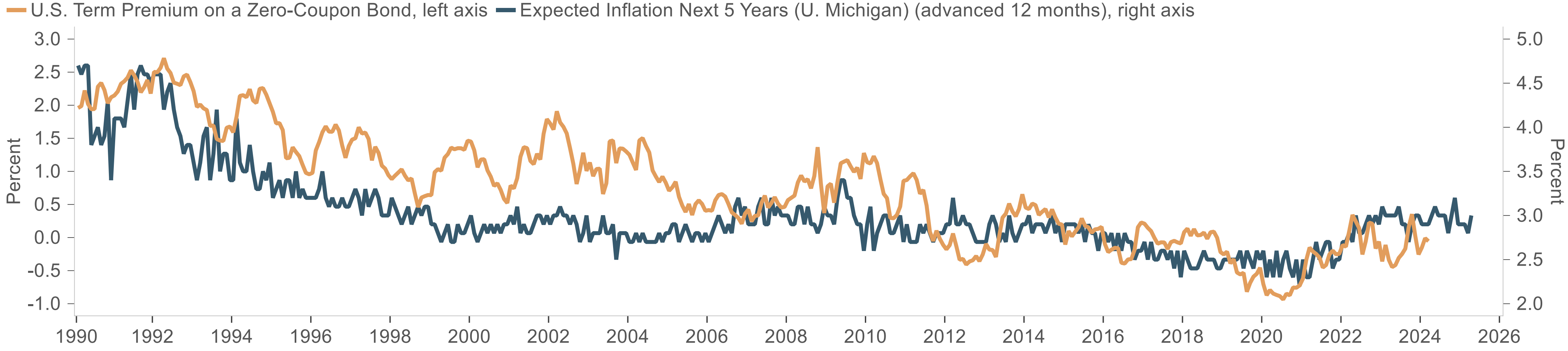
- Fed funds futures, considered market consensus for the Fed's policy path, are notoriously inaccurate and skewed by the latest point of data (**left chart**).
- Instead, we study structural drivers of the policy rate, including the Fed's reaction function. Historically the Fed hiked interest rates right into recession, requiring immediate policy reversal (**above chart**). Since the GFC the Fed has extended periods 'on hold' after hiking, favoring economic stability but conflicting with investor eagerness for policy support.
- We also assess the neutral rate of interest. A higher neutral rate might come from higher investment or productivity – we believe the dawn of generative artificial intelligence could impact the neutral rate and therefore long-term rate expectations, but not for several years.

TAKEAWAY: In the absence of imminent change in the neutral rate and Fed's reaction function, we do not see structural changes in the policy rate path affecting long-term expectations.

Long-term interest rates: the term premium

Encapsulating supply and demand for Treasuries, the term premium is the "wild card" of any vantage point on long-term rates

Term premium rising coincides with still-solid demand and rising inflation expectations



Sources: New York Life Investments Global Market Strategy, Federal Reserve, University of Michigan, Macrobond, May 2024.

The term premium represents supply and demand for Treasuries, determined by:
- Risk (including debt sustainability, geopolitical risk, domestic policy risk)
- Investor preference (usually based on other global sovereign rate behavior)
- Supply (higher issuance driven by higher investment and spending)
- Demand (higher demand when U.S. is seen as a "save haven")

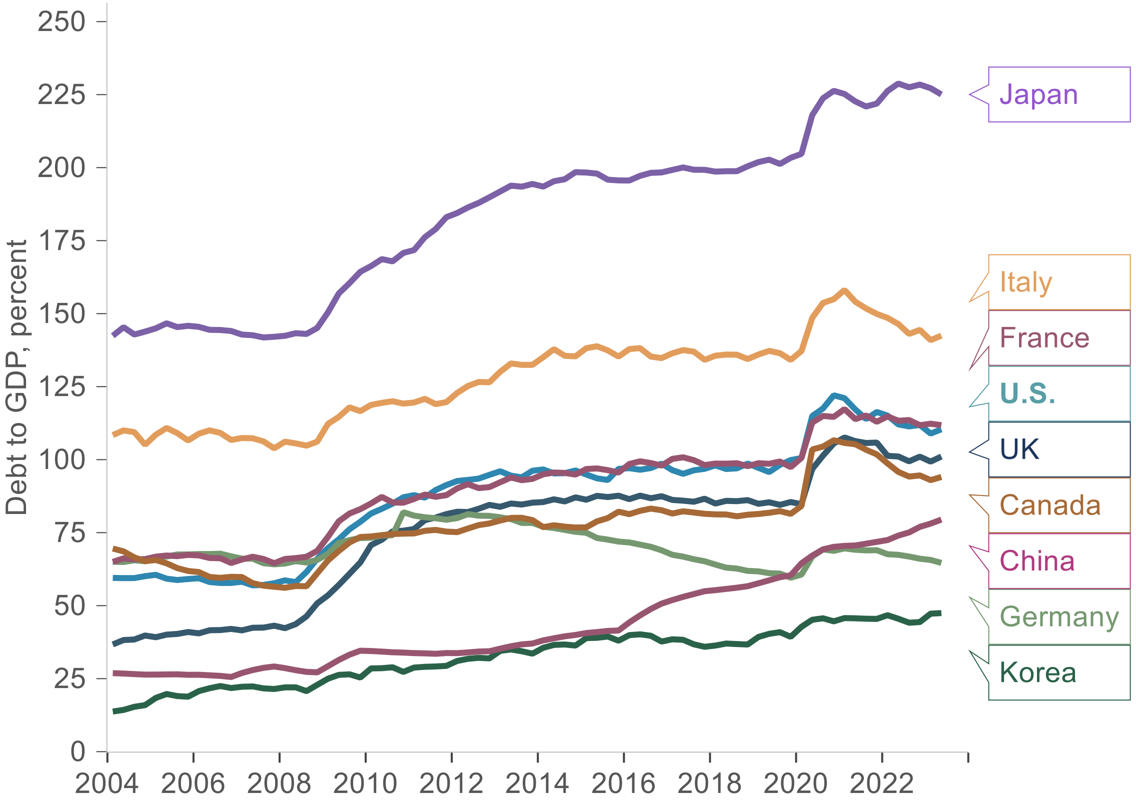
- Since the pandemic, the term premium has moved up but remains moderate vs history (**chart**). Higher pandemic-era issuance increased Treasury supply, but demand is still healthy across tenors as seen in Bid-to-Cover spreads at recent Treasury auctions.
- If higher supply/issuance is driven by productive investment (energy transition, AI investment, supply chain resilience) we anticipate long-term rates would be unaffected, or may move up due to a structural positive impact on economic growth and productivity.

TAKEAWAY: We see long-term fiscal sustainability and the productivity of new issuance as the key swing votes for long-term rates. We're watching the recent weakness in some Treasury auctions, but do **not** see the U.S. heading for its own "Liz Truss moment" in which a lack of confidence in fiscal planning causes a crash in demand for Treasuries.

U.S. debt sustainability: can the U.S. keep its pace of spending?

Higher public debt levels are associated with slower growth, higher interest rates, and higher inflation

The U.S. debt burden is moderate relative to peers



Sources: New York Life Investments Global Market Strategy, International Monetary Fund (IMF), Macrobond, May 2024.

- The United States has as much federal debt as many of its major peers combined, but relative to economic size, its debt burden is in the middle of the pack (**chart**).
- What allows the U.S. to carry so much debt: *exorbitant privilege*. With the U.S. dollar as the world's dominant reserve currency and the world's deepest capital markets, the U.S. can carry more debt that other advanced economies thanks to structural demand for Treasuries and dollar-denominated assets.
- We do not expect a fundamentally driven debt crisis or default in the foreseeable future because of the enormous depth of U.S. capital markets relative to those of other highly indebted countries.

Various considerations affect the sustainability of U.S. federal debt:

- Productivity of spending: investments in health, education and productive infrastructure have a greater economic multiplier than direct household support or tax cuts, which are often used to increase savings rather than spending
- Pace of debt increase: faster debt runup is more likely to be considered risky
- Interest burden (see next page)

We expect the following areas to dominate the next years of U.S. spending:

- Energy: traditional and green
- Digital infrastructure, from electric vehicles to data centers
- Power grid infrastructure to fuel Generative Artificial Intelligence
- Defense, including cyber defense

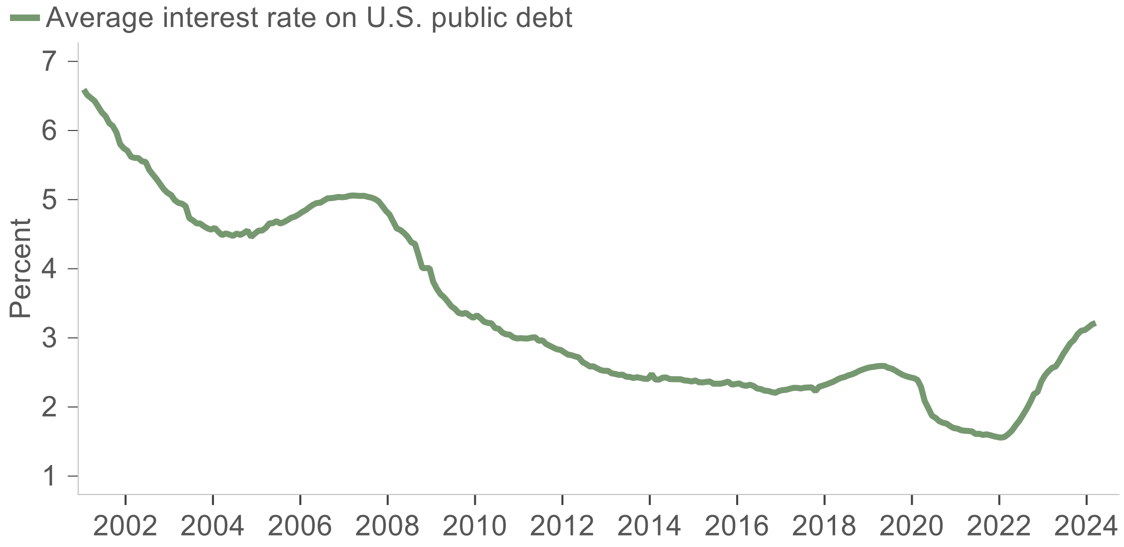
TAKEAWAY: U.S. debt sustainability risks are rising, but we do not see fundamental triggers for a debt crisis or default thanks to the market depth and structural demand for U.S. assets. Irresponsible spending by an administration of either party can certainly harm investor confidence in U.S. assets, namely Treasuries, but we would expect such an impact to be short-lived and contained.

U.S. debt sustainability: the growing interest burden

Ballooning interest payments are the nearest term threat to debt sustainability in our view

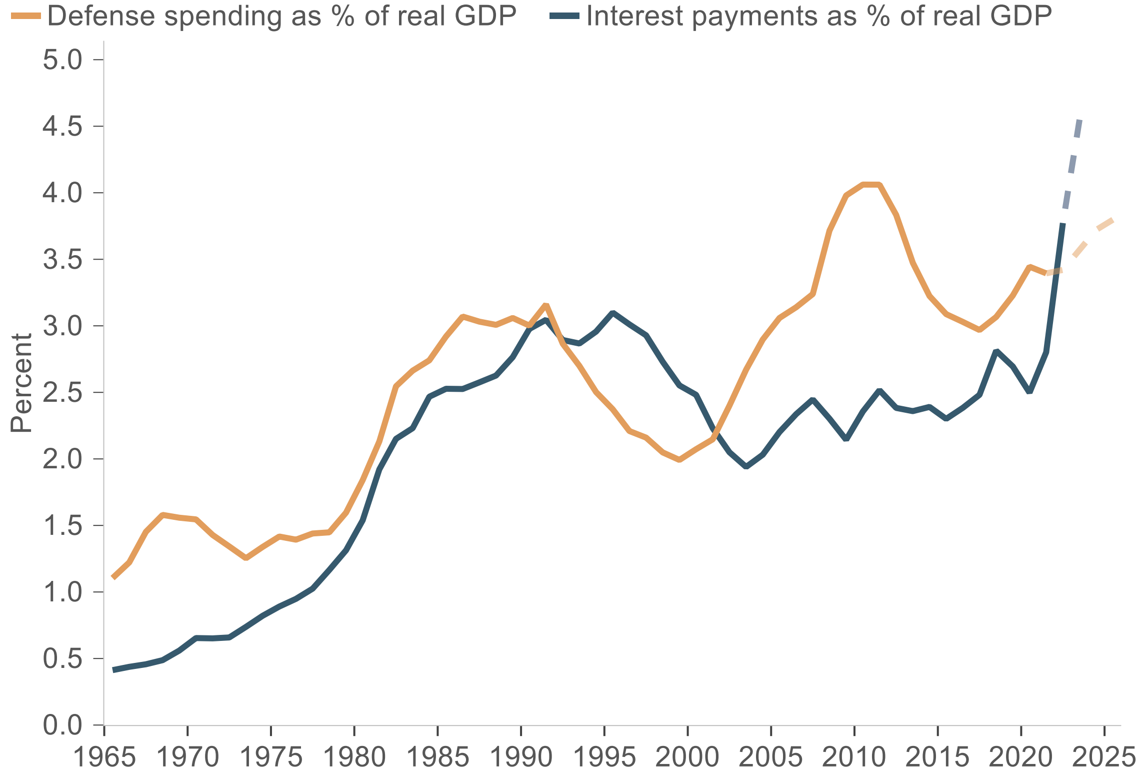
- U.S. Treasury rates may be on a secular exit from the "lower for longer" era (**chart below**).
- Between higher interest rates and growing debt levels, total interest payments have risen rapidly in the past few years and now compare to the amount spent on the largest portion of the U.S. federal budget: defense (**right chart**).
- As interest payments mount, the U.S. may be forced to reduce its spending (fiscal austerity).

U.S. average interest rate on public debt is back on the rise



Sources: New York Life Investments Global Market Strategy, U.S. Department of Treasury, Macrobond, May 2024.

U.S. interest payments on its public debt are outpacing defense spending



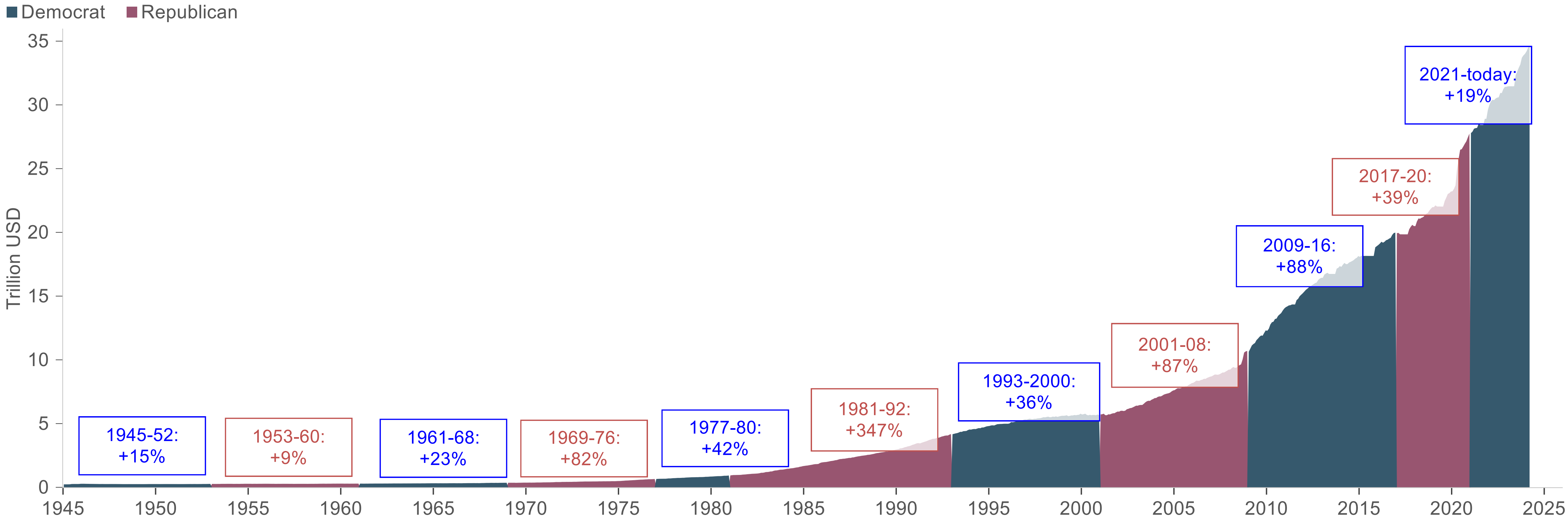
Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), U.S. Congressional Budget Office (CBO), Macrobond, May 2024. Real GDP is a measure of a country's total economic activity adjusted for inflation.

TAKEAWAY: Given that we still see upside risks to U.S. interest rates, we expect interest payments to continue to grow at a rapid pace, pressuring public spending in other areas and raising the stakes of debt ceiling discussions in Congress.

U.S. debt sustainability: fiscal impact of the 2024 election

Both U.S. political parties are big spenders and we don't expect a silver bullet fix from either candidate

Both parties have contributed in similar amounts to the federal debt



Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Federal Reserve Bank of Dallas, Macrobond, May 2024.

TAKEAWAY: Treasuries have lived up to their "safe haven" reputation in past election cycles, even as the level of federal debt and cost to service it have mounted. But for the past year, one of the major sources of market volatility has been the Treasury curve itself. We're keeping a close eye on this market anchor as fiscal risk becomes top-of-mind in the election cycle without a solution in sight.

Megatrends: supply chains are re-globalizing, not de-globalizing

"In the 21st century, no country in isolation can create a strong and sustainable economy for its people." – Janet Yellen

Everyone is talking about de-globalization, and with good reason. After decades of increasing global trade volume and falling barriers between countries, a pause or even rewind of political and economic connectedness looks poised to be a driving force behind industry development, inflation dynamics, and the path of the global economy ahead.

Recent events have spurred the narrative, with deglobalization and expanding security needs going hand in hand. The COVID-19 pandemic, Russia's invasion of Ukraine, U.S.-China competition, and the increasing visibility of climate change have highlighted that the previous global economic model, globalization-driven cost reduction and efficiency, may no longer match countries' primary national interest: security and access to resources.

Proponents of de-globalization say that thew new political and economic world order will look different from that in evidence today. We agree. The U.S.-led economic and financial system will continue to be challenged. Resource scarcity will remain a key focus of government and private sector competition. And in a world where countries' tendency toward cooperation is lessened and competition for scarce resources rises, conflict may be more likely.

But the story doesn't stop there. As we explored the shift toward self-reliance over efficiency, we found that the term "de-globalization" only scratches the surface of a complex trend.

We explored three of the world's most sensitive supply chains and found that a focus on de-globalization may be a knee-jerk reaction rather than a final, investable theme.

Technology

Self-sufficiency in semiconductor production is an impractical and nearly impossible goal for every country. Accordingly, it's not a question of *if* countries cooperate on tech, but *how*.

Energy

As it stands today, there may not be enough raw materials on earth to achieve a green energy transition with current technology. This is why we see energy access, and its primacy to nearly every country's national interest, as a major driver of re-globalization.

Finance

There's plenty of legitimate pushback to a dollar-dominated global financial system. But recent calls for de-dollarization may be missing the point. De-dollarization is accelerated by innovation, not geopolitical change alone.

Opinions of New York Life Investments Global Market Strategy, May 2024.

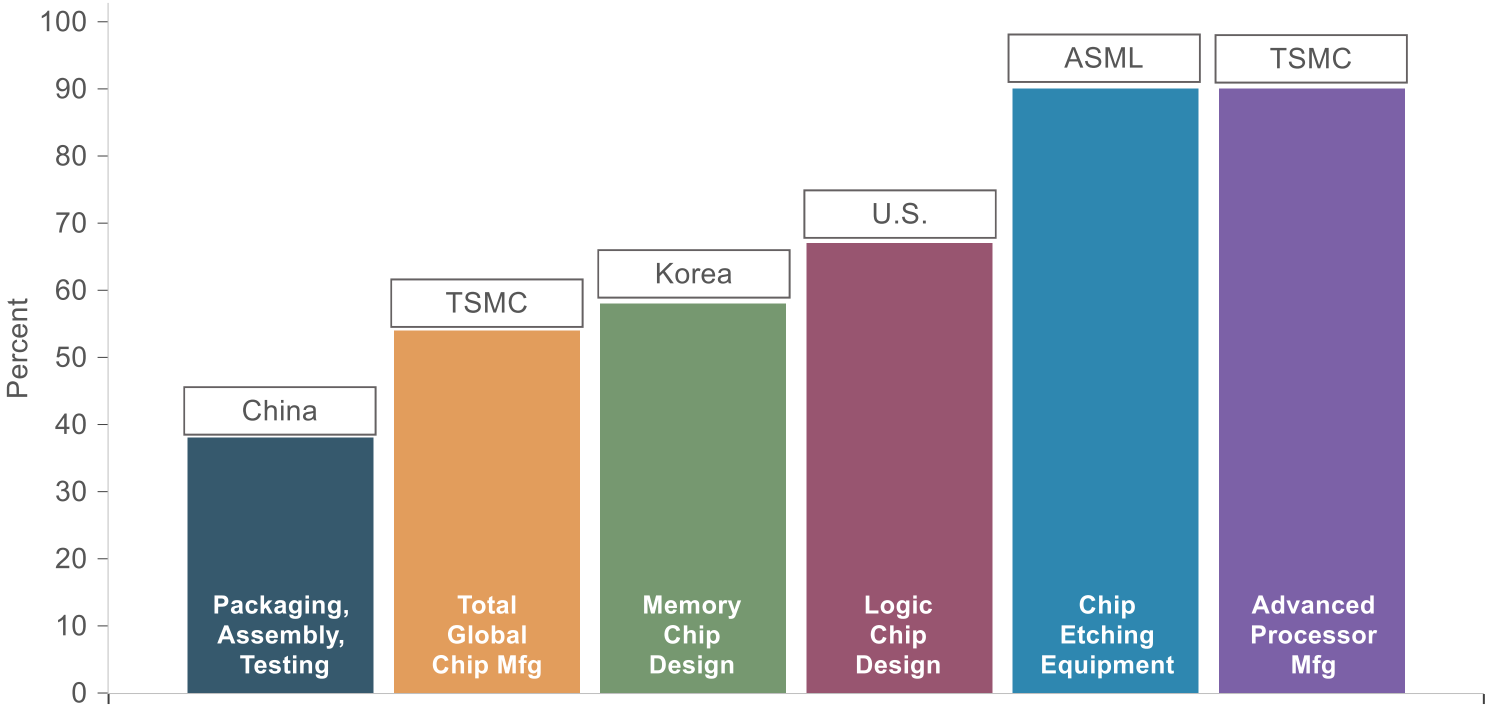
Megatrends: technology re-globalization

Tech independence is an impossible and impractical national goal for any country, including the major tech hubs

- Semiconductors (computer chips), and the technology they fuel, are the key to competitiveness, even survival, in the new economy.
- The world as we know it could not function without the Taiwan Semiconductor Manufacturing Company (TSMC), which produces over 50% of all semiconductors and over 90% of all advanced processing capacity (**chart**). This includes manufacturing the chips designed by other major players, such as NVIDIA.
- The monopolies in global computer chip industry don't stop there. Taiwan dominates in logic processors (which power, among other things, AI); Korea dominates in memory chips; and other countries have cornered portions of the supply chain like design (U.S.), testing and packaging (China) and the equipment that companies use to make the chips (Europe).
- Accordingly, we don't see national self-sufficiency in tech as practical or likely due to the astronomical costs involved.
- Existing tech innovation already is keeping pace with Moore's Law of exponential improvement – but the true tech innovation the world needs in the coming decade is in how tech relationships are managed. We anticipate that out of necessity, global tech supply chain relationships will shift in a way that better reflects the integration and codependency of this supply chain.

Concentrated tech manufacturing requires diversification and cooperation

Share of global production by major players



Sources: New York Life Investments Global Market Strategy, Semiconductor Industry Association, Boston Consulting Group, Seeking Alpha, Time, Visual Capitalist, Macrobond. Data sourced April 2023, ranging from 2020 to 2022. TSMC: Taiwan Semiconductor Manufacturing Co. ASML: Advanced Semiconductor Materials Lithography.

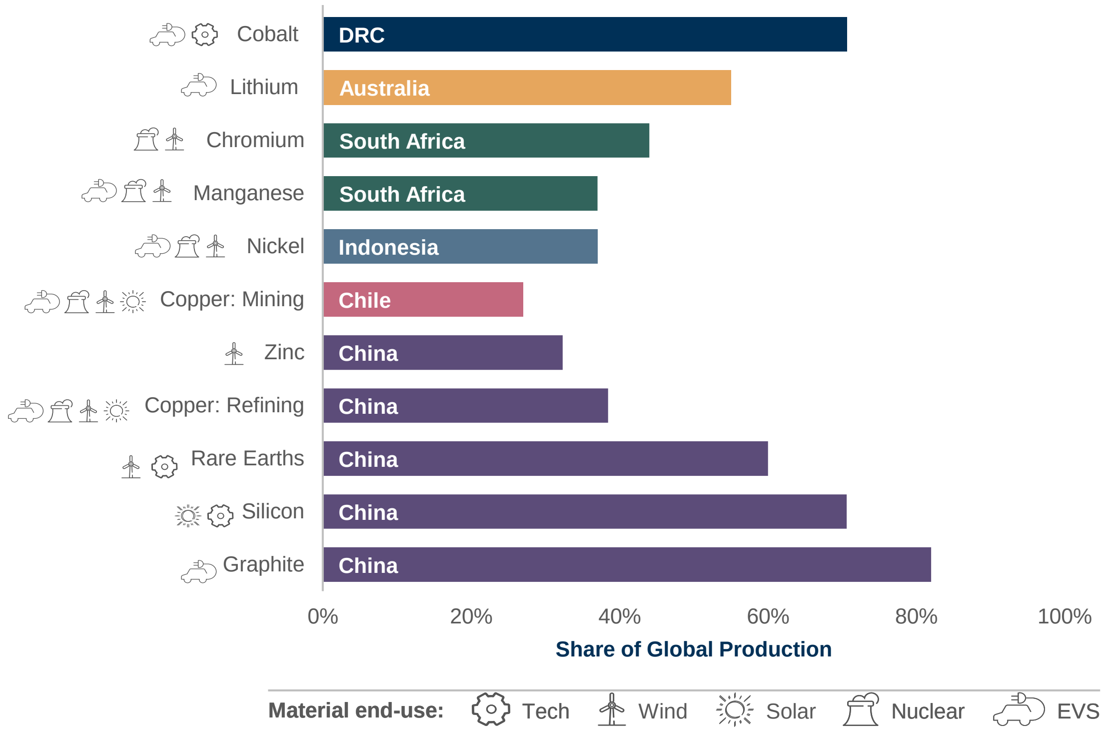
TAKEAWAY: Diversification of tech supply chains is a healthy – though capital intensive – global development. But this progress is just beginning, and tech supply chains are among the most concentrated in the world. In their push for tech independence, we expect countries will bump up against the need to cooperate and trade with other key tech giants and suppliers worldwide.

Megatrends: energy independence

National energy independence is a reasonable goal – if countries are willing to branch out

Global resource production for key technologies is highly concentrated

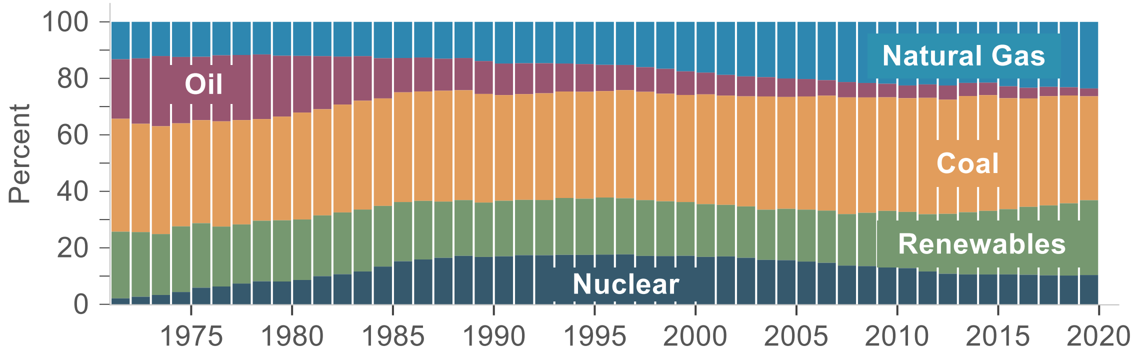
Share of raw materials: top producer for each commodity



Sources: New York Life Investments Global Market Strategy, U.S. Geological Survey, International Energy Agency. Data as of 2021.

The rise in renewables has not offset the decline in nuclear energy

Share of U.S. energy production by source



Sources: New York Life Investments Global Market Strategy, Macrobond, IEA (2019): Nuclear Power in a Clean Energy System, License: CC BY 4.0, May 2024.

- "Energy independence," particularly in light of Russia's invasion of Ukraine and geopolitical risk in the Middle East, is a logical but elusive goal for many Western economies.
- Concentration in the production and processing of key energy-related minerals (**left chart**), lack of investment in nuclear power, and lack of holistic renewable energy approach all hinder the path to energy independence.
- We believe nuclear power will need to play a larger role in U.S. and European energy mixes (**above chart**), given tenuous energy trade relationships and storage capacity, the expanded energy needs of the AI boom, and resource constraints around renewable capacity.

TAKEAWAY: We see an urgent need for innovation across the entirety of the materials and energy supply chains, including relationships governing key raw materials and shared technology regarding nuclear power safety.

Dollar dominance: the U.S. dollar remains chief of all reserve currencies

The Chinese renminbi in particular does not yet meet the criteria for reserve currency status, and is unlikely to pose a threat to dollar dominance

REQUIREMENTS FOR A GLOBAL RESERVE CURRENCY

REQUIREMENT	U.S. DOLLAR	EUROPEAN EURO	JAPANESE YEN	CHINESE RENMINBI
Trust in the central bank *Foreign holding of government debt*	59%	20%	6%	2%
Liquidity *Foreign holding of government debt*	35%	38%	30%	9%
Broad acceptance *Share of foreign currency debt issuance*	64%	24%	3%	1%
Convertibility *FX transaction volume*	45%	16%	9%	4%
Open capital account *Capital controls*	None (Open)	None (Open)	Some (Restrictions)	Tight (Closed)
Floating exchange rate regime *Exchange rate regime*	Floating	Floating	Managed (Yield curve control)	Managed (against a basket of currencies... including the U.S. dollar!)

Sources: New York Life Investments Global Market Strategy, Federal Reserve, Bank for International Settlements, Bloomberg Finance LP. FX refers to foreign exchange. The Chinese currency can be referred to interchangeably as the renminbi or the yuan.

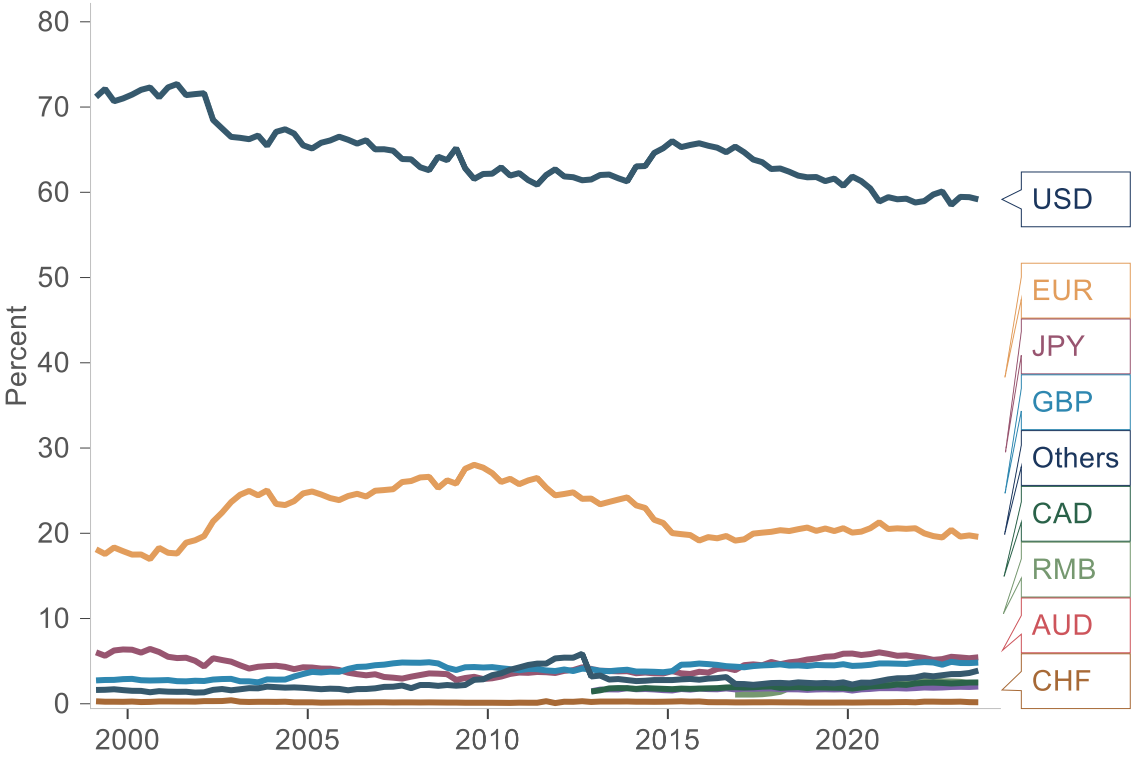
TAKEAWAY: Dominating global reserves, transactions, and global debt, the USD is set to remain the world's primary reserve currency. China's capital controls and lack of global convertibility and transactability make it unlikely for RMB influence to expand beyond select commodity-based trade relationships.

Dollar dominance: only innovation can unseat the USD

Real disruptive potential comes not from competitor currencies, but innovation

The USD still dominates global finance

Share of global currency reserves



Sources: New York Life Investments Global Market Strategy, Macrobond, May 2024.

- What could truly pose a threat to the vast scale of USD dominance (**left chart**)?
- History tells us that a combination of innovation and global conflict have been the catalysts for currency regime change (**table**). It is not a country's rise in importance, but rather then emergency of a new and more efficiency system, that have initiated past currency transitions. Digital currencies could be the next such innovation to disrupt today's currency regime.

DOMINANT CURRENCY	MAINSTREAM VIEW FOR DOMINANCE	INNOVATION CATALYST
Venetian ducat (12th century–16th century)	The Fourth Crusade and other medieval military conflicts	Gold standard, minting and navigation technology
Spanish dollar (16th century–1800)	Spanish Armada's defeat of the English navy in 1588	Mining and transportation technology
British pound (1815–1920)	The Seven Years' War and the Napoleonic Wars	Steamship industry expansion
U.S. dollar (1920–?)	WWI, WWII	Early adoption of telegraph, federal reserve system, development of aviation industry

TAKEAWAY: Though countries like China are increasing in global geopolitical importance, it is not a single country's rise that displaces a currency – at least in historical terms. Instead, we expect the U.S. dollar system would be more likely to be replaced when a more efficient alternative to fiat currencies – such as a global digital currency system – were to emerge.

3 High conviction investment ideas

Assessing market opportunity

- Our top asset allocation picks

Key questions for the market

- How do I invest the U.S. election?
- How do I manage geopolitical risk?
- How does sticky inflation impact investors' allocation?
- Did I miss the boat on generative AI?
- Is commercial real estate (CRE) the next big risk?

High conviction investment ideas

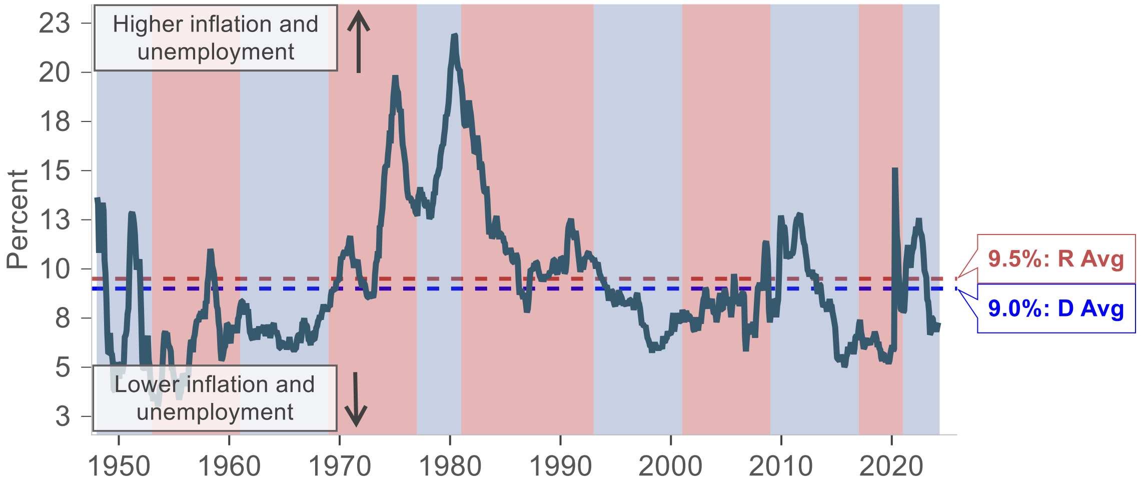
Uncertainty is a feature of post-pandemic investing. Here are our top picks for navigating today's environment

CALL OR CONDITION	INVESTMENT APPROACH
Equity • Equity valuations are high. What's more, earnings growth expectations top 11% for 2024, after 0% growth in 2023 – a target we think it will be very difficult to hit since economic activity has already slowed from last year. This makes earnings quality and free cash flow the most important components of stock picking… until data turn decisively to the downside and risk-off sentiment dominates. • The trend in artificial intelligence is here to stay, but its future state is far from determined. • Many investors are under-invested in international equity. When global growth is de-synchronized, as it is today, investors can gain valuable country and sector diversification by taking international equity exposure. We expect the dollar to remain strong or even strengthen.	**1** Take gains in equity and reapply equity-like risk to high yield credit, where carry is more attractive. **2** Use small and mid cap growth companies, as well as infrastructure equity, to participate in the AI boom with an eye on concentration risk. **3** Add international equity exposure, with a focus on strong return on invested capital and free cash flow. Consider a 50% currency hedge.
Fixed income • Central banks globally point to cuts beginning in midyear. Investors will begin moving out of cash and into short duration credit in order to lock in higher interest rates. • With the yield curve still inverted, duration is not our favorite place to take risk.	**4** Overweight short duration credit exposure (high yield, investment grade, and municipal bonds). **5** Balance short duration credit exposure with longer duration exposure in the municipal bond curve, which is not inverted and therefore better rewarded in our view.
Other • Digitization, electrification, and supply chain re-globalization all point to the need for infrastructure. • Inflation is likely to be higher and more volatile.	**6** Increase allocation to infrastructure equity and taxable municipal bonds (infrastructure bond) as a structural allocation. **7** Consider a structural allocation to commodities and materials. Our research suggests that a structural allocation of 1-7%, sourced from equities, may be appropriate depending on investor risk tolerance.

Key questions: how to invest the 2024 U.S. presidential election?

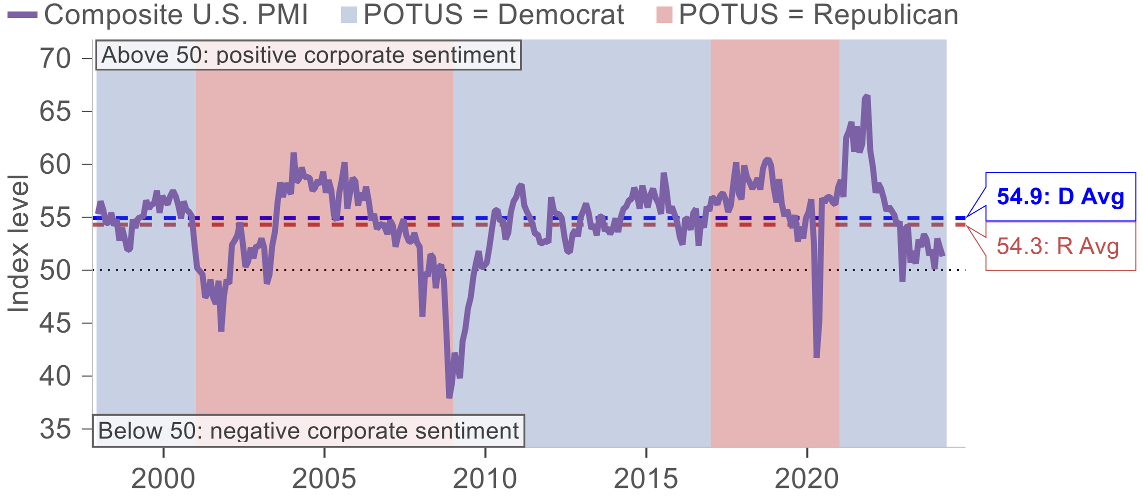
Though we closely monitor candidates' fiscal priorities, the political-economic relationship is looser than investors may realize

Political leadership does not drive consumer outcomes...



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond Financial AB, Macrobond, May 2024.

...nor do politics drive corporate activity



Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Macrobond, May 2024.

Elected officials control only fiscal policy…

TAKEAWAY: Elected officials only control the fiscal side, which is often a result of bipartisan compromise and usually comes with a multi-year lag, smoothing its effects. Congress, not the president alone, holds the purse strings – and split governments often result in greater fiscal compromise.

…not monetary policy…

TAKEAWAY: Monetary policy is intentionally apolitical; though the Federal Reserve Chairman is appointed by a president, its funding comes from its own investments rather than the federal budget. Every Fed chair since Volcker (1979) has served under presidents of both parties.

…or the economic cycle.

TAKEAWAY: The economic cycle is quite independent. Fiscal and monetary policies can create a system of incentives – such as reducing taxes and interest rates to promote economic activity – but these can only encourage, not enforce, certain behaviors for consumers and corporations.

Key questions: how to invest the 2024 U.S. presidential election?

Emerging areas of policy debate could have a meaningful impact on the economy and markets, beyond where the government spends

Government size and priorities

Biden 2.0

Spending:

- Community college
- Student loan forgiveness
- Child care
- Prescription medication coverage

Climate adaptation:

- Renewables investment
- Energy independence

Taxes:

- Likely to preserve 2017 tax cuts with exception of ultra high income brackets

Trump 2.0

Spending:

- Reducing federal employee protections
- Eliminating the Department of Education

Deregulation:

- Affected sectors include banking, energy, big pharma

Law and order:

- Deputization of the National Guard in select circumstances

Taxes:

- Renew and expand the 2017 Tax Cuts

Bipartisan

- Both candidates have ample spending ideas but flimsy proposals to fund this spending

TAKEAWAY: We expect deficits to widen under either candidate.

Global competition

Biden 2.0

- National security approach re: tech and access to chip technology
- Focus on domestic investment in tech infrastructure, possibly with an expansion of the CHIPS Act
- Deepening trade and diplomatic relationships with Europe and other key economic partners
- Energy independence goal supports higher oil production

Trump 2.0

- Protectionist approach with additional tariffs
- Proposed 10% tariff on all foreign goods
- Likely to exit multilateral trade agreements
- Likely to leave or reduce U.S. funding of multilateral defense agreements
- Deregulation likely to support higher oil production

Bipartisan

- "Tough on China" approach to trade and national security
- Increased U.S. oil production: drill, baby, drill

TAKEAWAY: None of these policies are disinflationary. Higher costs may be borne by government or by consumers.

Immigration

Biden 2.0

Policies likely to align with bipartisan border bill passed in the Senate, including:

1. $20B for border security, including 1,500 new border agents and greater ICE funding
2. Asylum reform
3. Address immigration court case backlog
4. Investing in drug trafficking prevention

Trump 2.0

Proposed three-pronged immigration approach:

1. Border security, including closing border wall gaps
2. Deport "millions" of undocumented workers (for reference, ~10M total undocumented workers in the U.S. as of 2023)
3. Expanded travel bans from select countries
4. Cancel select foreign student visas

Bipartisan

- Tighter border security policies involving higher spending

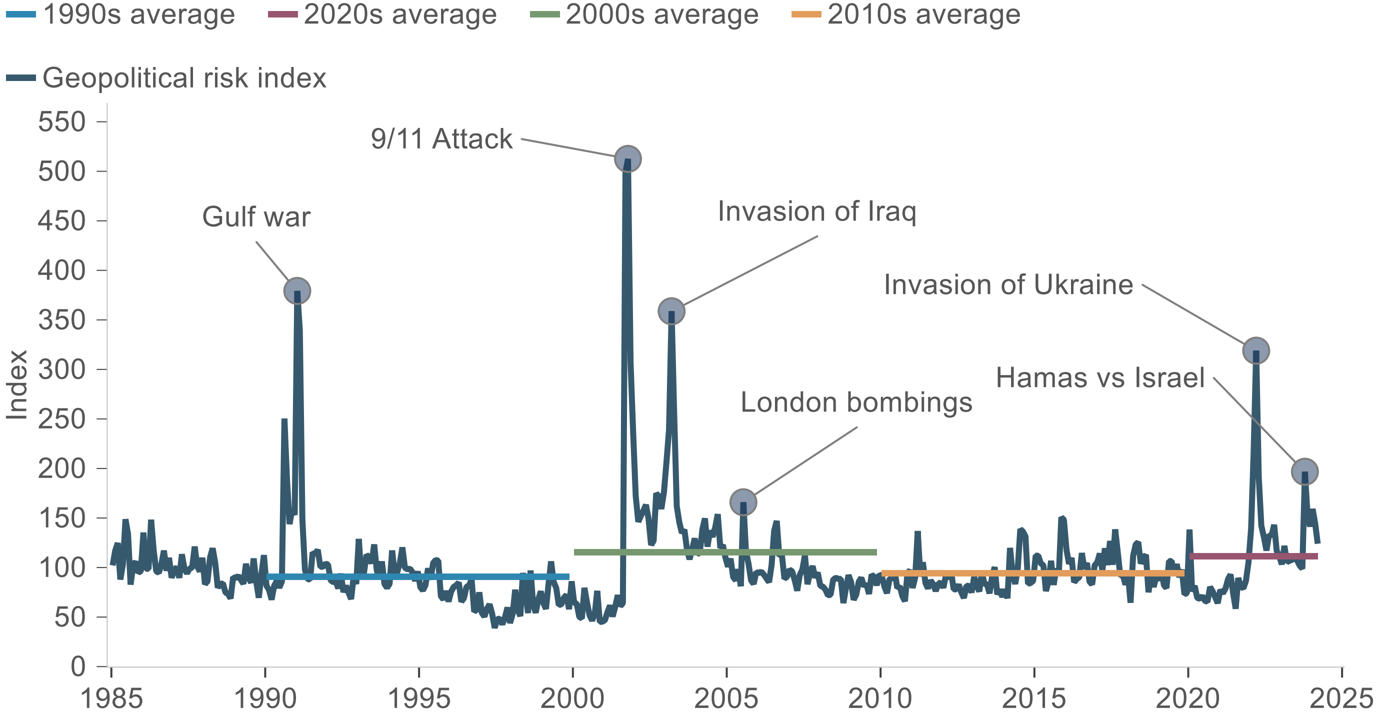
TAKEAWAY: Mass deportations would be a meaningful and potentially recessionary labor market shock.

Key questions: how do I manage geopolitical risk?

Geopolitical risk may increasingly be a fixture of macroeconomic developments and investor allocation

Geopolitical risk is higher today than it was in the 2010s

The Geopolitical Risk Index is an index that measures the occurrence of geopolitical events, threats, and conflicts



Sources: New York Life Investments Global Market Strategy, Economic Policy Uncertainty, Macrobond, May 2024.

How does geopolitical risk manifest?

Risk type	Event risk	Paradigm shift
Description	A one-off incidence; difficult to see (e.g. terrorist attack) or to time (e.g. escalation of known risks in Taiwan, the Middle East); can be calendared (e.g. election)	Sustained impact, often seen as a spread of impact from initial event risk into broader economic factors; impact can be difficult to attribute
Type of Impact	One-off repricing • Volatility • Currency • Macro factors: oil, gold, currencies	Steady-state repricing; durable shift in supply & demand • Inflation • Government bonds • Expected volatility
Size of impact	How expected was the event?	Did the disruptor last? Is it supported or underpinned by other global themes?

Opinions of New York Lie Investments Global Market Strategy, May 2024.

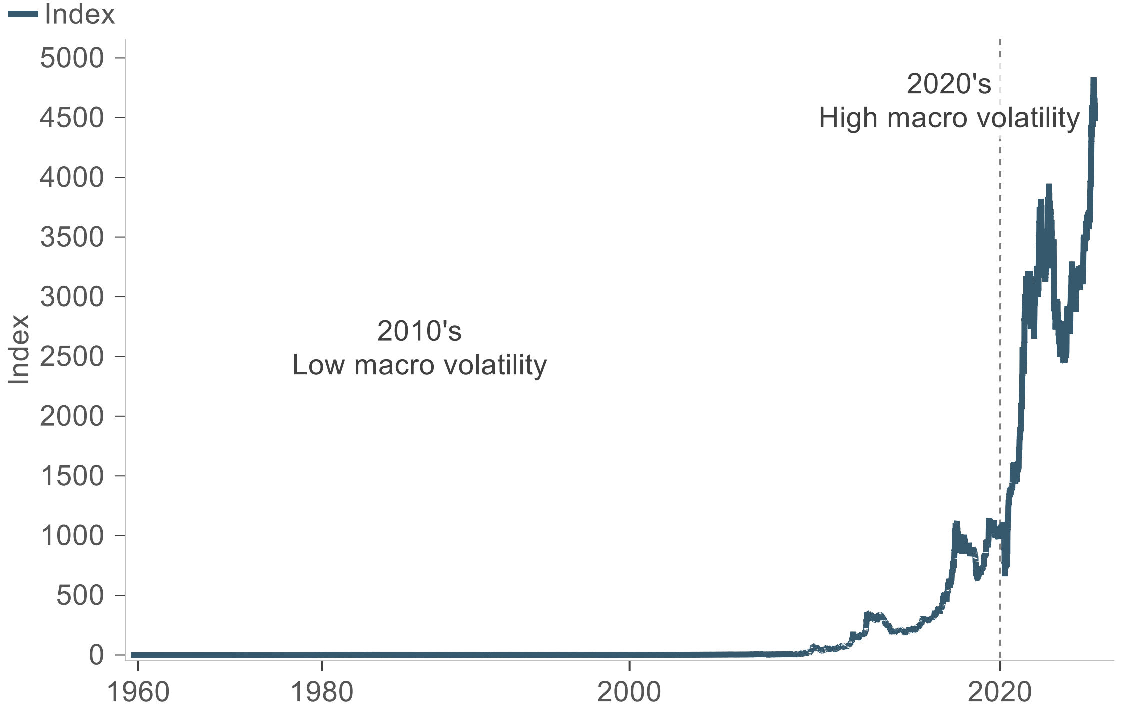
TAKEAWAY: The impact of event risks have tended to fade over time. Investors seeking resilience from these shifts can consider an allocation to macro volatility, discussed on the next page. Paradigm shifts are those event risks that are extended or exacerbated by some broader global economic context. For these, investors should consider the long-term impacts and allocate towards those themes.

Key questions: how do I manage geopolitical risk?

Rising incidence of geopolitical risk may make changes in investor allocation appropriate on a tactical and structural basis

Owning macro volality may be the trade of the 2020s

The macro volatility portfolio is composed of an equal weight of gold, oil, and bitcoin



Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Macrobond, May 2024.

What is a “macro volatility” allocation? Investors can use equal weights of gold, oil, and bitcoin to provide potential resilience against the asset classes most often impacted by un-anticipatable event risks. We apply this allocation as a small satellite exposure sourced from equity.

Potential strategies to address geopolitical risk

Theme		Approach		Investment Idea
Incidence of geopolitical risk appears to be rising	→	Add a macro volatility portfolio	→	Equal parts oil, gold, and bitcoin, implemented as a small satellite exposure sourced from equity
Event risk can impact any country or region	→	Most investors are underweight international exposure	→	Maintain or even increase international exposure
	→	Geopolitical risk manifests via currency volatility	→	50% currency hedged strategy
Exogenous events reinforce pre-existing trends	→	Consider long-term impacts to macroeconomic variables in addition to asset classes	→	Inflation-aware asset classes: infrastructure equity and bonds
Risk management is complex and multi-faceted	→	Careful credit analysis in all asset classes; eye on long-term trends	→	Active management

Opinions of New York Lie Investments Global Market Strategy, May 2024.

Key questions: how does sticky inflation impact investors' allocation?

Higher inflation and inflation volatility may require a more nuanced late-cycle investment strategy

Inflation and inflation volatility are likely to be higher

- We believe higher inflation – and higher inflation volatility – are likely to be staples of the economic environment ahead.
- Public and private sector investment in artificial intelligence, supply chain re-globalization, defense, and the energy transition are surging. Even the Federal Reserve suggests that inflation may not get back to its 2.0% target until 2026.

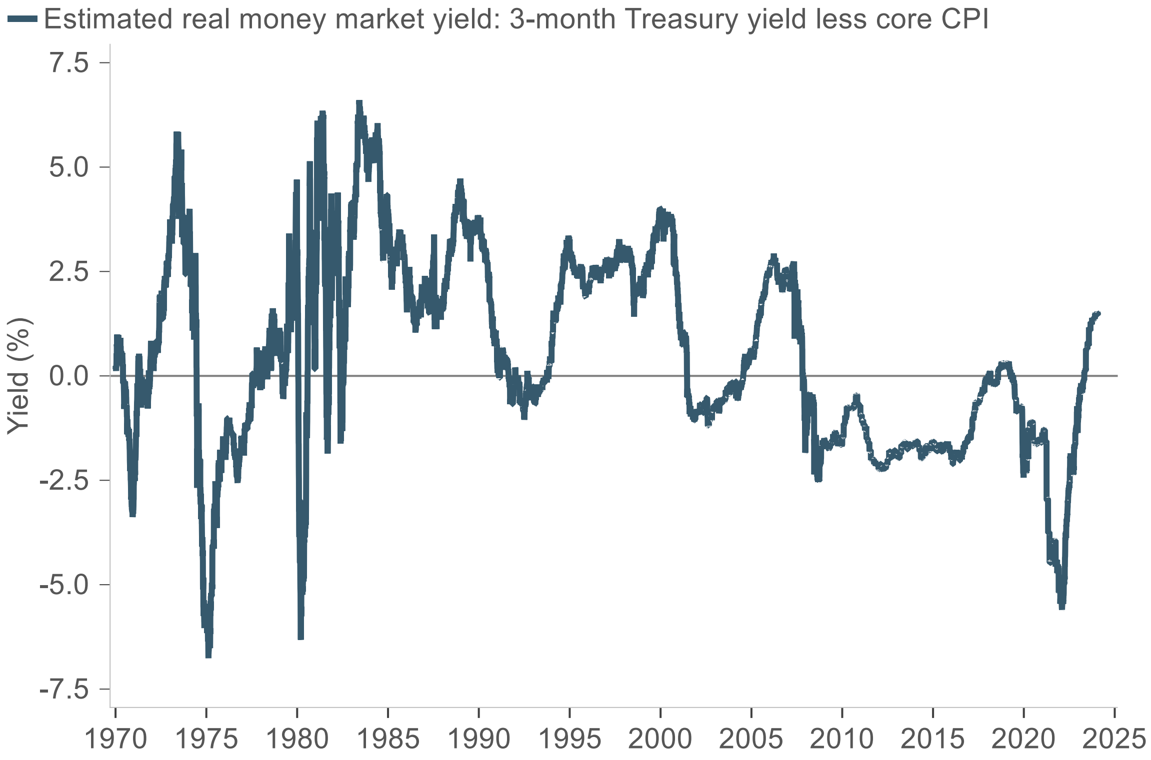
Investor allocations should look different as a result

- For more than a year, we've said that defensive allocations should look different when inflation is material. In other words: "safe" allocations are not, in fact, safe if they do not preserve capital. Consider real, total returns: to what extent does the income profile of an asset class provide a buffer against price movements?
- We believe that the persistence of inflation and potential for inflation surprises calls for a more nuanced late-cycle allocation, including yield-producing assets in credit and real estate, commodities, and TIPS. Investors may also consider using a barbell approach to credit in order to keep duration neutral.

Example of the money market

- The money market provides an interesting case in point. Historically, and until very recently, the money market has not outpaced inflation. With the Fed nearing the end of its hiking cycle, we expect it's time for investors to dip their toes back into bonds. And if the money market doesn't outpace inflation on average, it may not be "safer" than active high yield credit strategies that are managed with a keen eye on credit risk.

The money market is often considered a safe haven, but has destroyed value when adjusted for inflation over 20 years



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, May 2024.

TAKEAWAY: Investors expecting slowing economic activity may typically steer clear of cyclical or inflation-hedging asset classes. This cycle, we expect inflation and inflation volatility to be higher, suggesting a focus on real returns may be prudent. Investors may consider higher allocations to yield-producing assets, commodities, and TIPS, as well as a neutral duration position.

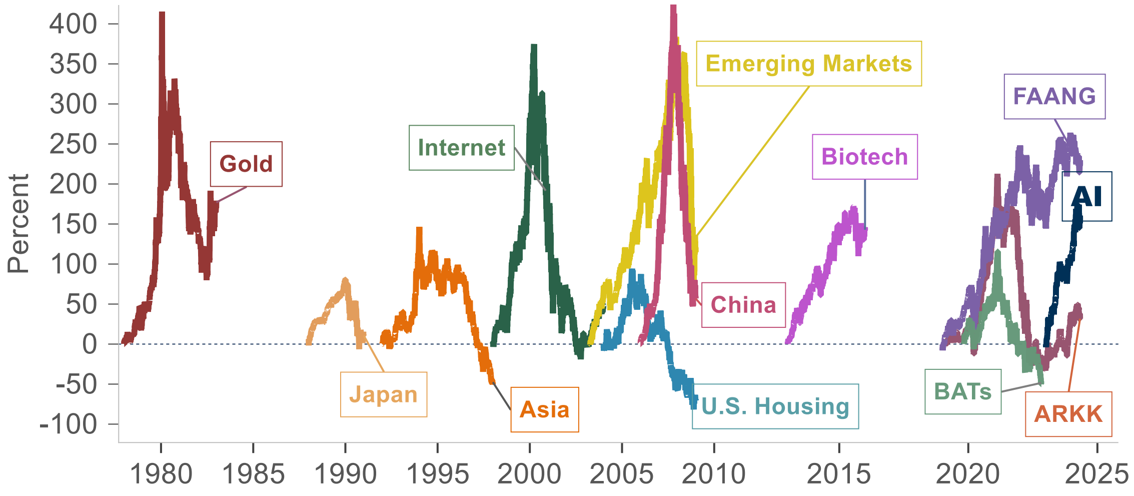
Key questions: did I miss the boat on AI?

We expect investment opportunities in the AI theme to broaden across asset classes over the coming years

- Large-cap tech valuations are lofty, but not extreme relative to historic bubbles (**left chart**).
- What's more, valuation is not a useful market timing signal: risk asset prices can over-shoot or under-shoot estimates of fair value for long periods of time. In today's circumstances, high valuations reflect real revenue growth and the transformative potential of AI, suggesting that valuations are not the single most important market indicator when measuring the AI "bubble".

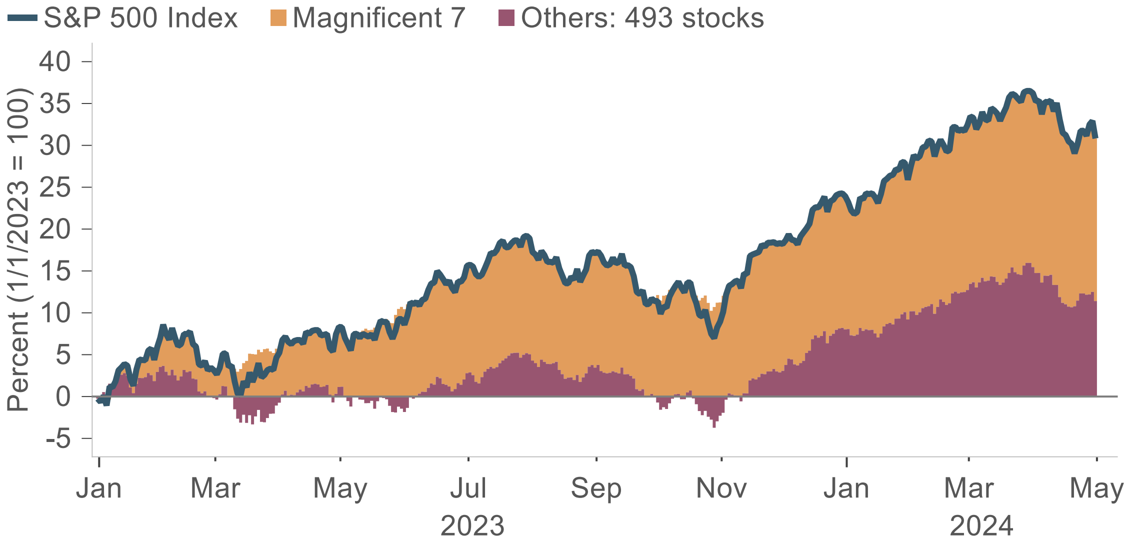
- Market breadth may be more important than valuation in the case of AI. Over 60% of NY-listed companies are trading above their own 200-day moving average, but very few are keeping up with the narrow leadership of the Magnificent 7* (**right chart**).
- We expect to see a broadening in the perceived beneficiaries of AI to include small and mid-cap growth equities, as well as large value companies with the capacity to deploy large-scale investments in AI application.

AI may be a bubble, but we don't expect an immminent burst



Sources: New York Life Investments Global Market Strategy, Stanley Druckenmiller, LBMA (London Bullion Market Association), Nikkei Inc., Thai Stock Exchange, Nasdaq, S&P Global, Shanghai Stock Exchange, Macrobond, May 2024. AI: Artificial Intelligence. "FAANG": Meta [Facebook], Amazon, Apple, Netflix, and Alphabet [Google]. ARKK: innovation/tech ETF. BATs: Chinese firms Baidu, Alibaba, and Tencent.

Market breadth of AI boom has improved, but the Magnificent 7 still dominate



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, May 2024.
**Magnificent 7: Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, Tesla*

TAKEAWAY: Lofty large-cap tech valuations are largely supported by fundamentals. Rather than focus on valuations, we consider other beneficiaries of the broader AI trend, and diversify our exposure. We see opportunity in the digital infrastructure that supports this trend, small and mid-cap growth equities that may benefit from the application layer of its expansion. Investors may also consider that many AI investment opportunities exist in the private and venture spaces – if investors feel they missed the boat on over-allocating to the Mag 7, new opportunities are sure to arise.

Key questions: is commercial real estate the next big risk?

The COVID-19 pandemic and higher interest rates are creating structural changes in commercial real estate, but may not be an imminent risk

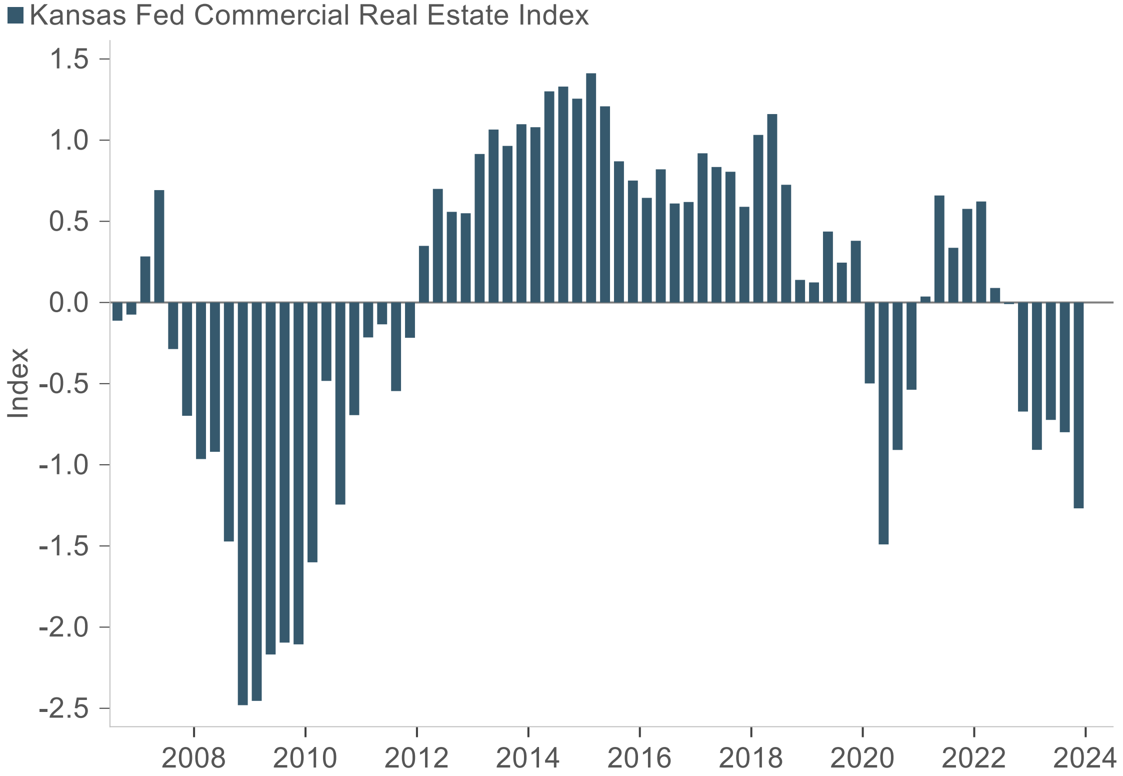
Structural shocks have pressured activity…

- U.S. commercial real estate (CRE) has experienced a one-two punch in recent years. First came the pandemic, which pushed many white-collar jobs to work at home for a time, a trend that has been sticky in the U.S. Then came the interest rate hiking cycle of 2022-2023.
- The extent of now-empty office space gets much of investors' attention. Office values have dropped 35% this cycle, vs -47% in the GFC (Green Street Advisors); Fitch Ratings expects office delinquencies to rise to 9.9% in 2025, surpassing the GFC peak.
- The residential sector saw a once-in-a-generation shift in where and how people live and work.
- The industrial sector coped with a period of meaningful supply chain disruption. Retail space continues to digest the long-standing ecommerce trend.
- These cross-sector shocks have affected activity, earnings, new construction, and valuations across real estate (**right chart**).

… but we see areas of relative resilience

- Shifts in residential demand and potential new uses of office space, both pandemic-era hangovers, have yet to settle out.
- A second source of resilience is the diversity inherent in the listed space, through both property type and geography. Though office is rightfully considered a problem for U.S. REITs, it comprises just 5% of a major listed real estate benchmark. Geography has been both a source of risk and opportunity in the past few years.
- Finally, in areas of concentrated risk, we see hefty and potentially attractive discounts priced into the listed market.

Commercial real estate activity is depressed across segments



Sources: New York Life Investments Global Market Strategy, Federal Reserve Bank of Kansas City, Macrobond, May 2024. The Kansas City Fed CRE Index includes transactions, construction, and other indicators of CRE health in the Tenth District.

TAKEAWAY: Pockets of CRE sector stress are well-known. Shifts in post-pandemic life are likely to create opportunities in addition to the current disruption. We see investment opportunities in areas of high asset quality, reasonable credit terms, and structural tailwinds including energy efficiency, digital, and work-from-home.

Key questions: the commercial real estate-banking nexus

We do not see an imminent CRE-based threat to banking stability, despite meaningful small and medium-size bank exposure

We are not as concerned with banking stability in the near term

- CRE fears bleed into banking concerns, given small and mid-sized ($100M-$10B in assets) banks' outsized exposure to CRE loans (**right chart**).
- Though we do expect to see pressure in portions of the CRE market, particularly under a recession scenario in the coming year, we see this as a symptom in line with broad economic pressure, rather than a trigger of recession through the likes of a major banking crisis.

This view has four prongs:

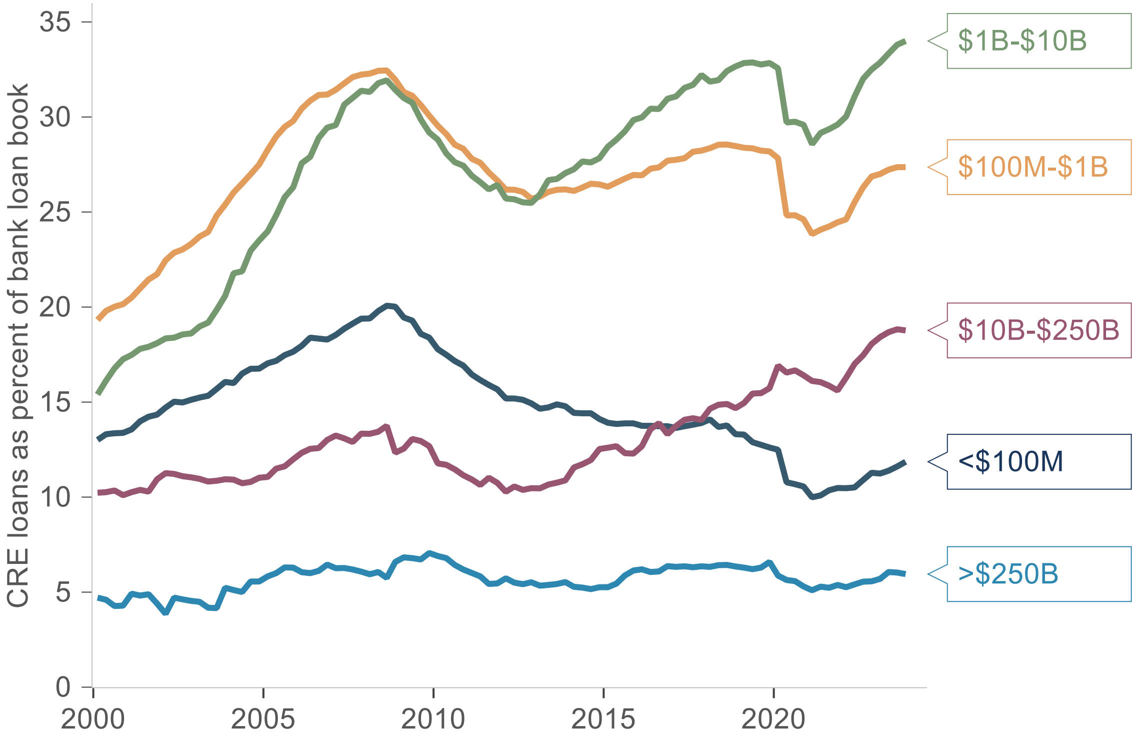
- First, the CRE holdings of SMID U.S. banks – those outside of the 25 largest –are less concentrated than feared. SMID banks hold roughly a third of domestic CRE debt, less than the commonly believed 70%.
- Second, other key CRE holders, including life insurers and government sponsored entities, may have enhanced risk management thanks to their equity capabilities, meaning they can potentially step in as subordinate capital providers where necessary.
- Third, there is still dry powder in institutional portfolios to be put to work – about $280 billion, by New York Life Real Estate Investors' internal estimates as of Q4 2023.
- Fourth, ongoing strength in consumer credit could potentially offset any liquidity strain in CRE, particularly for smaller, regional banks that have relatively small individual CRE loan balances relative to consumer credit.

The real risk of commercial real estate may be in overheating

- We've mentioned that we see economic overheating as a key risk this economic cycle. The regional banking crisis was met by substantial policy action, supporting market liquidity for several quarters. We would expect the same for future banking stress, meaning that the result of banking sector stress could be economic overheating.

Smaller banks' CRE exposure exacerbates property and banking concerns

Commercial real estate exposure, by bank size



Sources: New York Life Investments Global Market Strategy, Federal Deposit Insurance Corporation, Macrobond, May 2024. M: Millions. B: Billions.

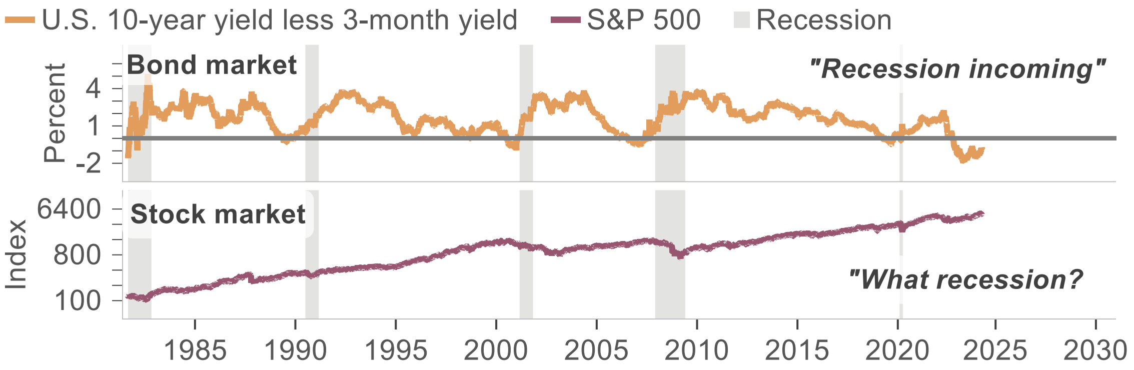
TAKEAWAY: We believe the U.S. banking system's exposure to weakness in select CRE sectors is digestible, particularly with policy support. We do not expect writedowns in CRE valuations to spark a banking sector 'accident'. If a crisis were to occur, policy support may make economic overheating the larger allocation risk.

4 Asset class insights

Equity and bond markets are giving different recession signals

Late in the economic cycle, when growth may slow but interest rates are higher, we favor taking incremental risk in credit

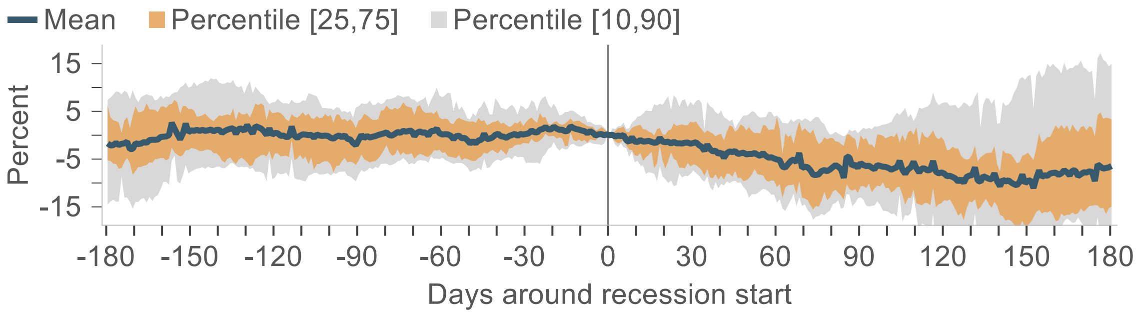
Can equities keep ignoring the yield curve inversion?



Source: New York Life Investments Multi-Asset Solutions, U.S. Treasury, S&P Global, NBER, Macrobond, May 2024. GFC: Great financial crisis. 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. It is not possible to invest in an index. Past performance is not a guarantee of future results.

Don't mistake market performance for economic strength

Performance of the S&P 500 Index before and after recession start based on last 16 recessions



Sources: New York Life Investments Global Market Strategy, S&P Global, NBER (National Bureau of Economic Research), Macrobond, May 2024. Index performance is not a guarantee of future results. It is not possible to invest in an index.

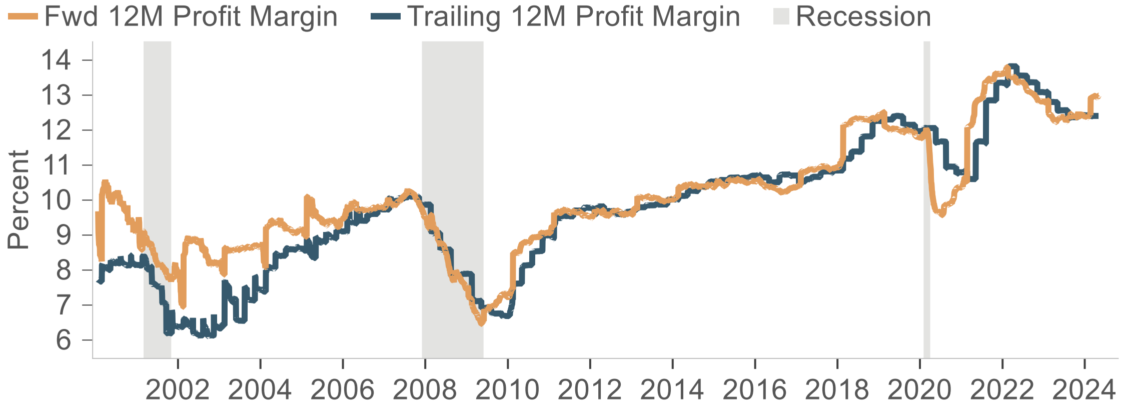
- The equity market does not appear to be concerned about recession (**left chart**). The S&P 500 has been on a historic run, defying forecasters' expectations and ignoring the warning signs of leading economic indicators. The bond market, by contrast, appears more concerned. The yield curve has been inverted since 2022, a well-known recession signal that weighs on credit creation. This points to investors' lack of confidence in the economy's long-term prospects compared to the short-term.
- Differing market signals are common in a late-cycle environment. However, we see meaningful opportunities to stay invested. Given the recent rally in equity markets, potentially slower economic growth ahead, and still-high interest rates, we believe investors could be most compensated by taking incremental risk in credit.
- Equity markets have rarely sold off before recessions and only begin to price in recession once it begins (**right chart**). Typically, we don't see equity market outcomes reach their lowest point until unemployment claims rise and earnings are revised downward, when recession is already upon us. Investors should remember, therefore, that equity market outcomes are not a leading indicator of the economy. Equity markets have, however, tended to lead the economy *out of* recessions – an important reminder to stay invested.

TAKEAWAY: An inverted yield curve and an overly concentrated equity market has created a challenging trading environment for many investors. While we do think the economy is headed towards a slowdown, we don't think investors should sit out altogether. We believe there are compelling investment opportunities, but at this point in the cycle investment selectivity is more important.

Corporate earnings have been resilient, but now coming under threat

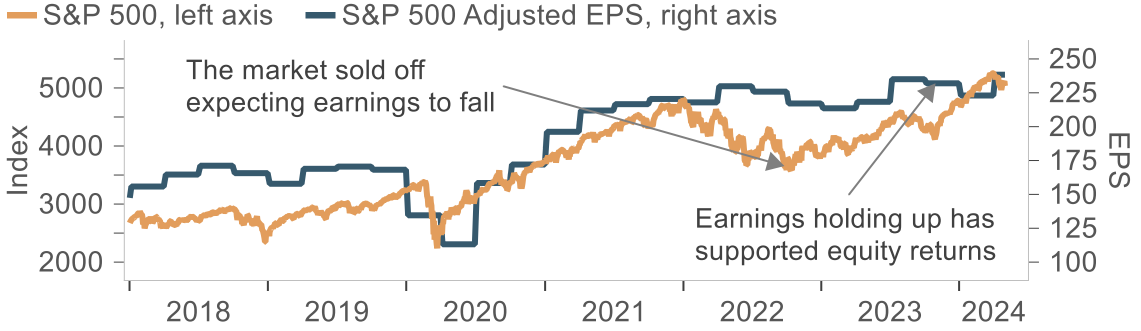
Cooling demand and still-high costs make the market's 11% earnings growth expectation unreasonable in our view

Corporate profit margins are the next domino to fall



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, May 2024.

Corporate earnings have been held up up with the support of fiscal and monetary policy



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, May 2024. EPS: Earnings per share. 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. It is not possible to invest in an index. Past performance is not a guarantee of future results.

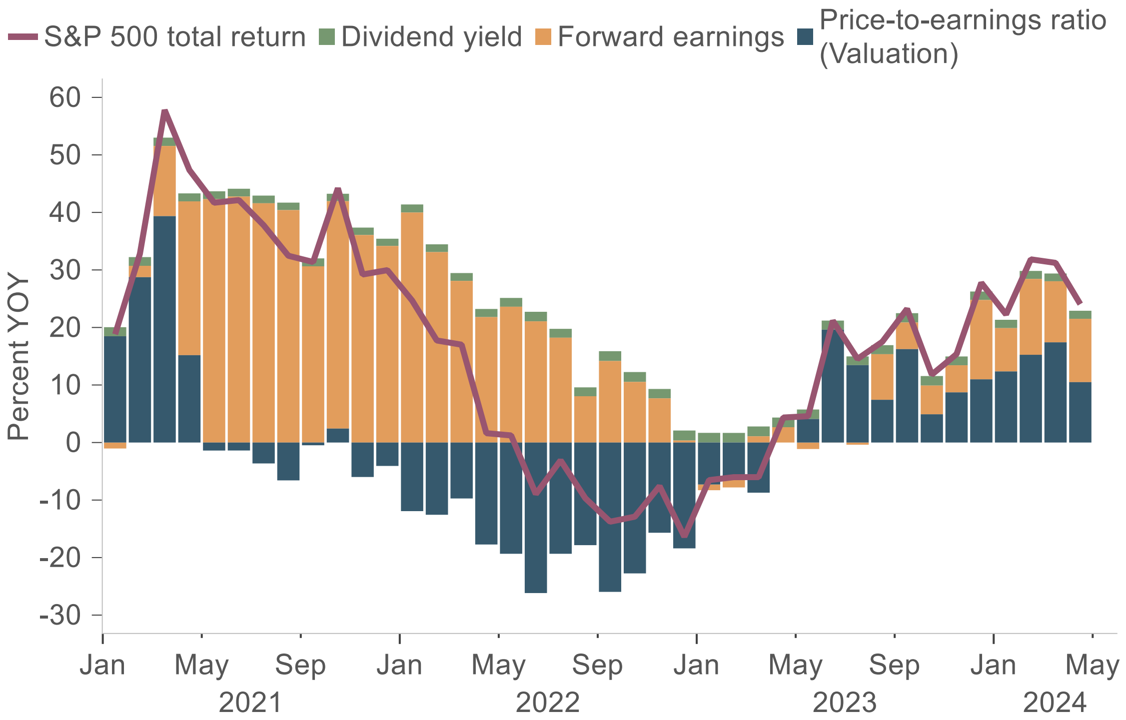
- Equity markets are priced based on earnings and multiple expansion (or contraction), with multiples being influenced by factors such as cost of capital and investor sentiment.
- In our view, earnings are increasingly at risk. Profit margins are coming under pressure as top-line revenue growth falls, and wages and interest expenses remain elevated (**left chart**). Today, the market is still optimistic about earnings growth. Market pricing suggests earnings per share (EPS) are expected to grow by 10% in 2024 and 14% in 2025. For context, EPS nudged up by only 0.5% in 2023 – a period of very strong economic activity – and 5.0% in 2022. From our perspective, achieving a much higher level of earnings growth this year would require economic growth to accelerate meaningfully, a development we don't see as likely or lasting.
- How much of a selloff should investors expect if earnings growth came into question? In a typical earnings-related selloff, based on the past 16 recessions (excluding the Covid recession), the median draw down in real EPS is 21%. In 2022, the S&P 500 experienced an 25% drawdown when investors began to doubt corporate resilience (**right chart**). But in this case, performance rebounded - profits were ultimately boosted by business and wage supports, as well as lower rates locked in from the years of easy monetary policy. If earnings don't expand further from here, investors hoping for higher equity valuations would be left to rely on multiple expansion via falling rates and improving confidence.

TAKEAWAY: Stable corporate earnings has provided support for equity performance; however, inflation and margin compression remain a risk for many of these companies. Investors are pricing in strong earnings growth, but we remain cautious as late cycle dynamics could quickly shift investors' outlooks.

Valuations are stretched, but a poor market timing tool

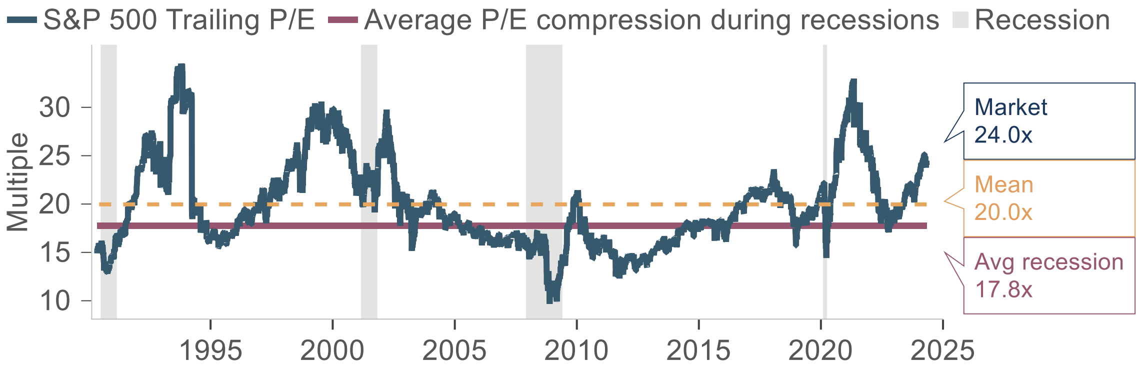
As earnings slow, only multiple expansion can durably push valuations higher. We doubt that lower rates and higher confidence coincide for long

The market is being held up roughly equally by earnings expectations and multiple expansion



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, May 2024. 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. It is not possible to invest in an index. Past performance is not a guarantee of future results.

The S&P 500 is trading above its long-term average



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, May 2024. 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. It is not possible to invest in an index. Past performance is not a guarantee of future results.

- We think equity market valuations, especially mega-cap companies, appear stretched; however, mispricing can persist until sentiment or the data turns
- Price/earnings multiples dragged on equity market returns in 2022 but started to reverse course in 2023. Right now, data shows that the market is being held up roughly equally by forward earnings and multiple expansion (**left chart**).
- The S&P 500 is trading at a P/E multiple above the long-term average of 20x. The average multiple compression in recession is 26% which suggests that should the economy slowdown, multiples could drag on equity performance (**right chart**)

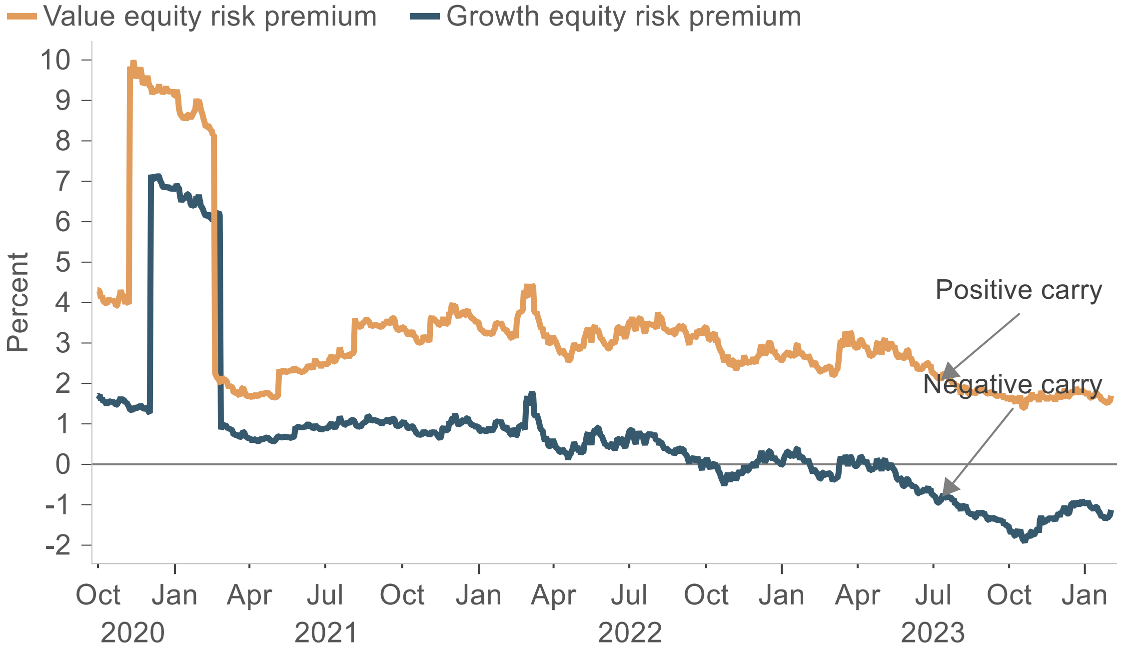
TAKEAWAY: U.S. equity valuations are high by historical standards, but valuations are historically a poor market timing tool. We expect high valuations to persist until investors perceive a clear threat to corporate earnings or to economic growth. Both are rising today. However, unforeseen liquidity injections have been supporting risk appetite (and lower yields). We don't expect corporate earnings to improve this year, but valuations could rise as potential monetary or fiscal liquidity injections lower rates.

Growth equity outperformance continues

Investors should maintain exposure to value and growth as the market narrative can change quickly at the end of a cycle

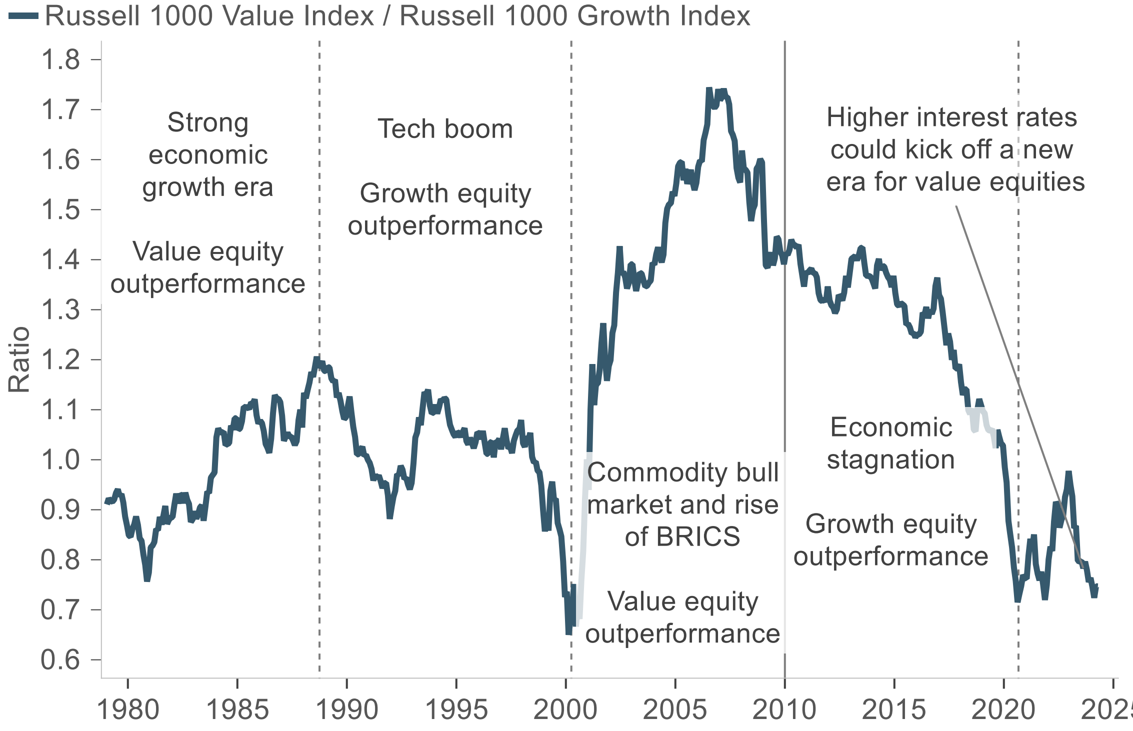
Value equities offer positive carry, growth equities appear overbought

Equity risk premium represents the index's expected earnings yield less the U.S. 10-year Treasury yield.



Source: New York Life Investments Global Market Strategy, U.S. Treasury, Bloomberg, Macrobond, May 2024. Value is represented by the Russell 3000 Value Index, which measures the performance of value-oriented stocks in the U.S. market. Growth is represented by the Russell 3000 Growth Index, which measures the performance of growth-oriented stocks in the U.S. market. Past performance is not a guarantee of future results.

The post-pandemic era hasn't yet proven more supportive of value equities



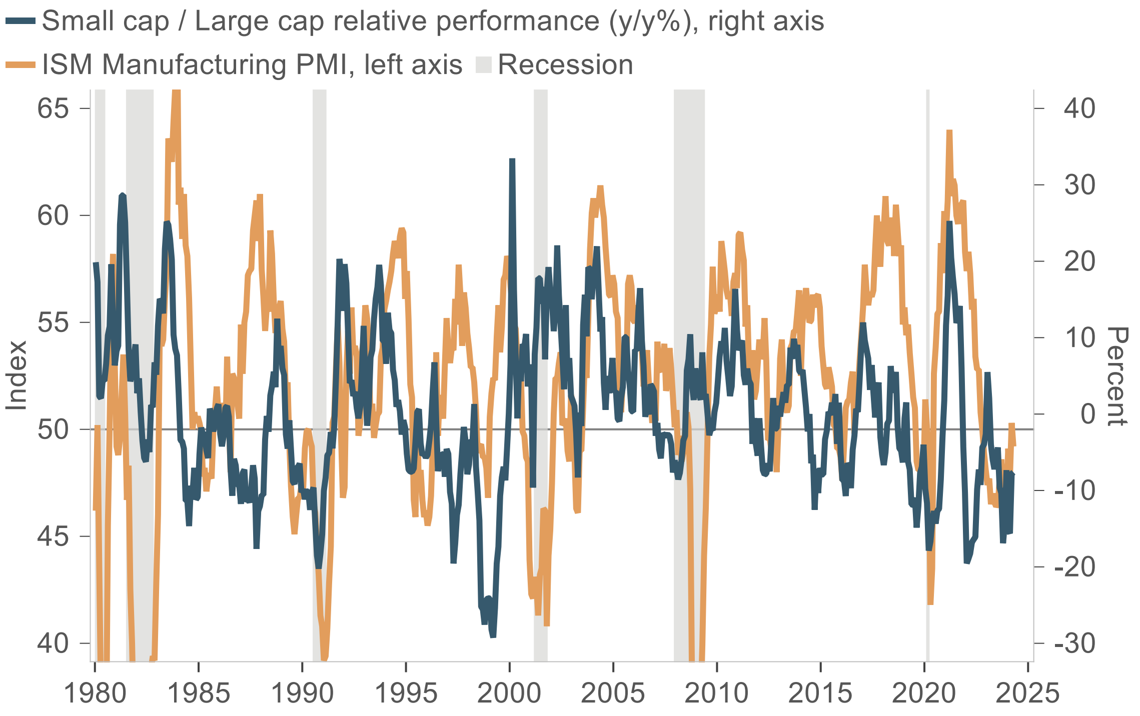
Source: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, May 2024. The Russell 1000 Growth Total Return Index measures the performance of large-cap growth-oriented stocks in the U.S. market. The Russell 1000 Value Total Return Index measures the performance of large-cap value-oriented stocks in the U.S. market. It is not possible to invest in an index. Past performance is not a gaurantee of future results.

TAKEAWAY: Growth equity is likely to maintain its dominance in this late-stage cycle and in the case of recession. Investors can rely on managers who can identify growth-at-a-reasonable price (also known as GARP investing) with strong market positions and healthy financials. Value equity provides a price and carry opportunity, but may not see expansion until the economic cycle re-accelerates.

Large caps are likely to outperform as U.S. economic risks rise

However, we also maintain some small cap exposure, especially where we see structural opportunity linked to artificial intelligence

Small caps have typically outperformed when PMIs signal economic expansion



Sources: New York Life Investments Global Market Strategy, Institute for Supply Management (ISM), Russell Investment Group, S&P Global, NBER (National Bureau of Economic Research), Macrobond, May 2024. Small caps are represented by the Russell 2000. Large caps are represented by the S&P 500. The Russell 2000 is a market index that measures the performance of 2,000 small, public companies in the U.S. 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. Past performance is not a guarantee of future results. It is not possible to invest in an index.

- The equity market recovery from October 2022 has been driven by large cap tech stocks. We expect this to continue as U.S. economic activity slows and investors favor the historical resiliency of large companies.
- Large cap equities tend to hold less floating-rate debt than small caps do, which is why they have outperformed as interest rates have risen.
- We expect large cap outperformance to persist as economic growth slows.

When should I buy small caps?

- It's primarily about the cycle: small cap outperformance typically occurs when the economy is rebounding, unemployment is falling, and corporate earnings growth is strong.
- Small cap outperformance, defined as the small cap/large cap ratio moving up, typically tracks the ISM Manufacturing PMI, a proxy for economic growth (**chart**).
- On the whole, we would only expect small caps to recover if the U.S. economy were to reaccelerate; we watch U.S. economic leading indicators very closely as a result. That said, a re-accelerating economy would bring its own enhanced risks related to inflation and interest rates; outperformance would likely be short lived.

Small caps may offer overlooked growth opportunities

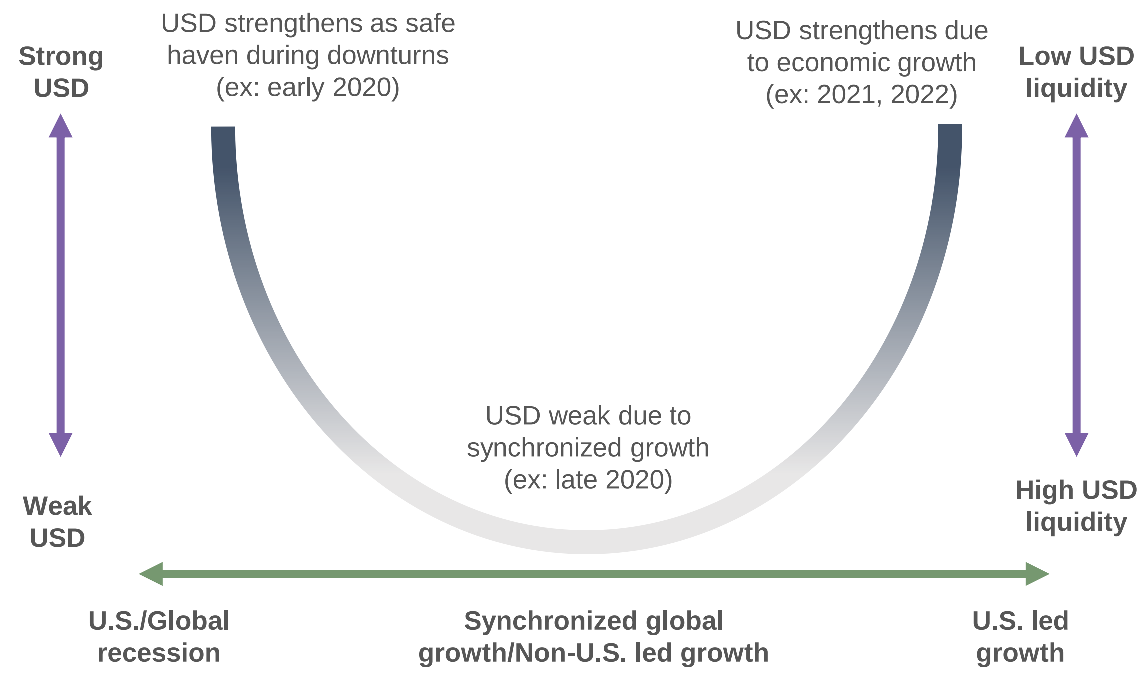
- Within the asset class, we think there are pockets of opportunity where investors can capitalize on structural themes like the building-out of artificial intelligence (AI).
- Small and medium-sized profitable growth companies, for instance, may offer exposure to artificial intelligence development at attractive valuations.

TAKEAWAY: As the market narrative shifts between recession and inflation, the outlook for small caps is dim. Small caps typically underperform during slowdowns and amid rising prices. Therefore, we aren't overly bullish on small caps until the market narrative shifts to one of economic recovery. Nevertheless, we believe the asset class offers overlooked growth potential, especially those companies with exposure to the artificial intelligence boom and profitable technology.

U.S. dollar likely to strengthen as global economies slow

The strength of the U.S. dollar has been bolstered by strong U.S. economic growth; ahead, dollar strength may come more from a flight to safety

We use a "dollar smile" framework to anticipate currency regime



Opinions of New York Life Investments Global Market Strategy, May 2024. For illustrative purposes only

The dollar smile

- We see the strength or weakness of the U.S. dollar as a key source of risk for international exposure. One useful framework for analyzing the dollar is the "dollar smile" (**chart**) In moments of low liquidity (such as a crisis or recession), or when U.S. economic growth outperforms, the dollar is likely to be stronger. When liquidity and global growth are ample, the dollar tends to weaken.

Moving from left to right on the dollar smile curve:

- The dollar strengthened at the start of 2020, when a flight to quality fueled dollar demand.
- Later, the global economy grew as countries recovered from the COVID-19 pandemic. The broad and synchronized expansion led to dollar weakness in the second half of 2020.
- In 2021 and 2022, the dollar strengthened as U.S. economic growth, supported by large fiscal and monetary stimulus, began to far outpace that of other countries.
- The dollar has since settled just above its historical average, and it sits on the right side of the smile. We expect dollar strength to persist if the U.S. economy joins the global slowdown, i.e. move to the left side of the smile.

What would bring U.S. dollar weakness?

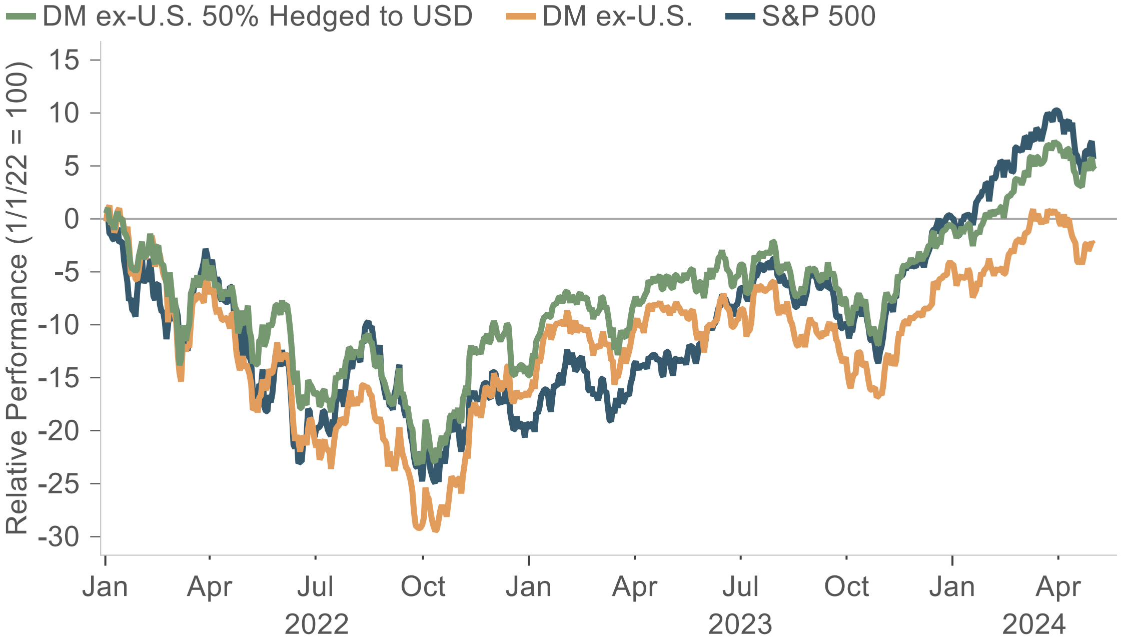
- For the U.S. dollar to weaken (i.e. move towards the bottom of the "dollar smile"), we would likely need to see a robust reacceleration of global growth that overtakes that of the U.S.

TAKEAWAY: Leading indicators point to slowing global economic growth and even recession in many major economies. This supports U.S. dollar stability or even strengthening from here. Investors with global exposure can consider a currency hedged strategy.

U.S. equities leading, but don't forget about international opportunities

Japan was the bright spot of international markets in 2023; Europe's economic prospects are dragging

Hedged international exposure has kept pace with the S&P 500



Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, May 2024. 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.

We expect U.S. equities to continue to outperform but that doesn't mean investors should sleep on international equities.

- The S&P 500 returned 24% in 2023 but Japan and Europe weren't far behind, returning 17% and 20%, respectively (on a local currency basis). Hedged exposure to non-U.S. developed market has kept pace with the S&P 500 (**chart**).

International equities offer investors the opportunity to capture sector and business cycle diversification.

- Sectors: The S&P 500 is overweight the technology and communications sectors. Europe and Japan have more exposure to cyclical sectors like industrials and consumer discretionary. European and Japanese equities have held up against the U.S., and a reacceleration of global growth could give them additional support.
- Cycle: Major European economies, including Germany, are either experiencing a recession or are nearing one. This could imply European equity markets may be closer to monetary support than U.S. markets are.

Positioning

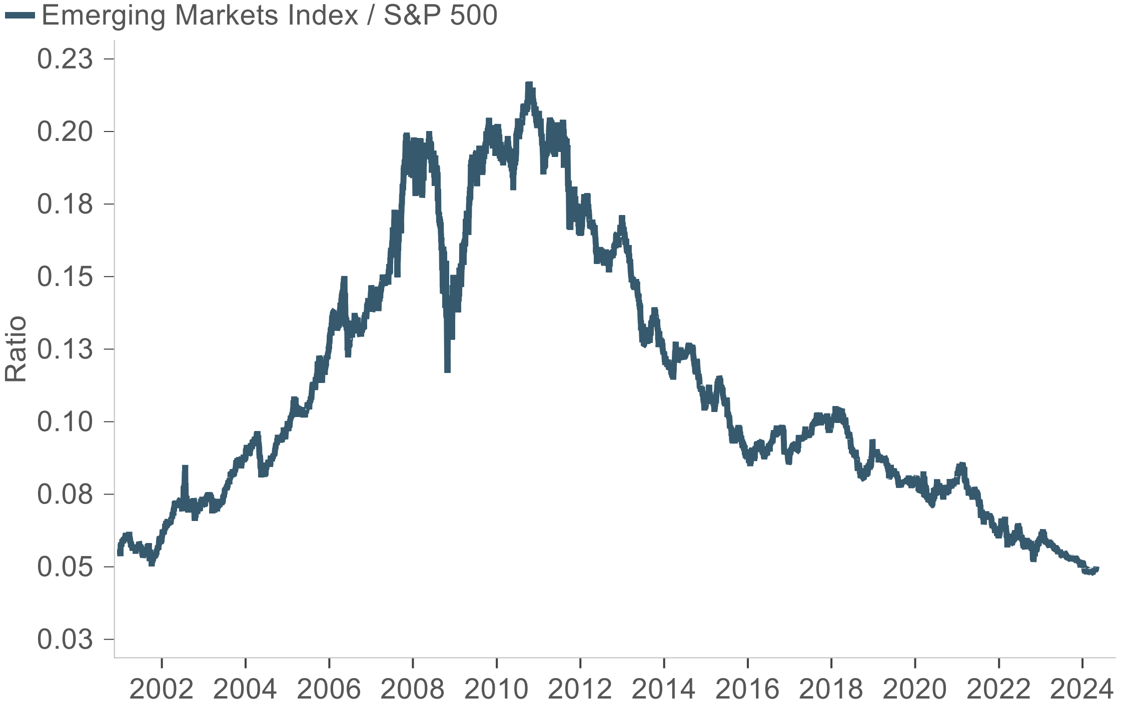
- We think investor portfolios could benefit from diversifying exposure with international equities. Japan is our favorite overseas destination for foreign exposure. Our conviction on European equities is lower due to weaker earnings growth. Nevertheless, we believe investors are under allocated to international equities so a shift could have a significant impact.
- In conventional portfolio allocation, international equities make up roughly one-third of total equity exposure. So, in a standard 60/40 portfolio, comprised of 60% equities and 40% bonds, international equities would constitute 20% of the portfolio.

TAKEAWAY: While U.S. equities have been leading in recent months, we believe that structural exposure to international equity can help investors to capture sector and business cycle diversification. Additionally, both European and Japanese equities are cheap relative to U.S. equity, and Japan's equity market is undergoing structural changes that are attracting new investor interest

Emerging market equities may still struggle against gravity

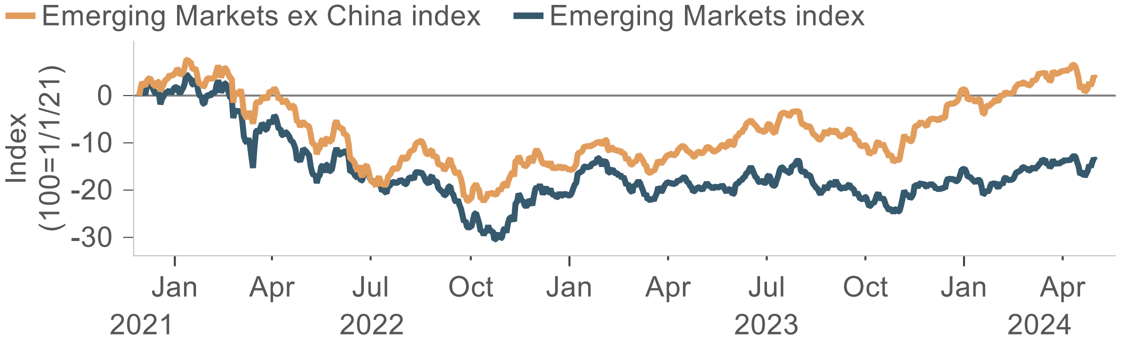
Some markets stand out, but the asset class may have difficulty outperforming as global growth slows

The price ratio of emerging market to U.S. equities is at a 22-year low



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, May 2024. The S&P 500 is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. Emerging Markets index is represente by the MSCI Emerging Markets Index. The MSCI Emerging Markets Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries. It is not possible to invest in an index. Past performance is no guarantee of future results.

EM equity outperformance may be difficult with China weighing down the index



Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, May 2024. Emerging Market index is represented by the MSCI Emerging Markets Index. The MSCI Emerging Markets Index is a free-float weighted equity index that captures large and mid cap companies across EM countries. Emerging Markets ex China index is represented by the MSCI EM ex China which excludes China from the MSCI EM index. It is not possible to invest in an index. Past performance is no guarantee of future results.

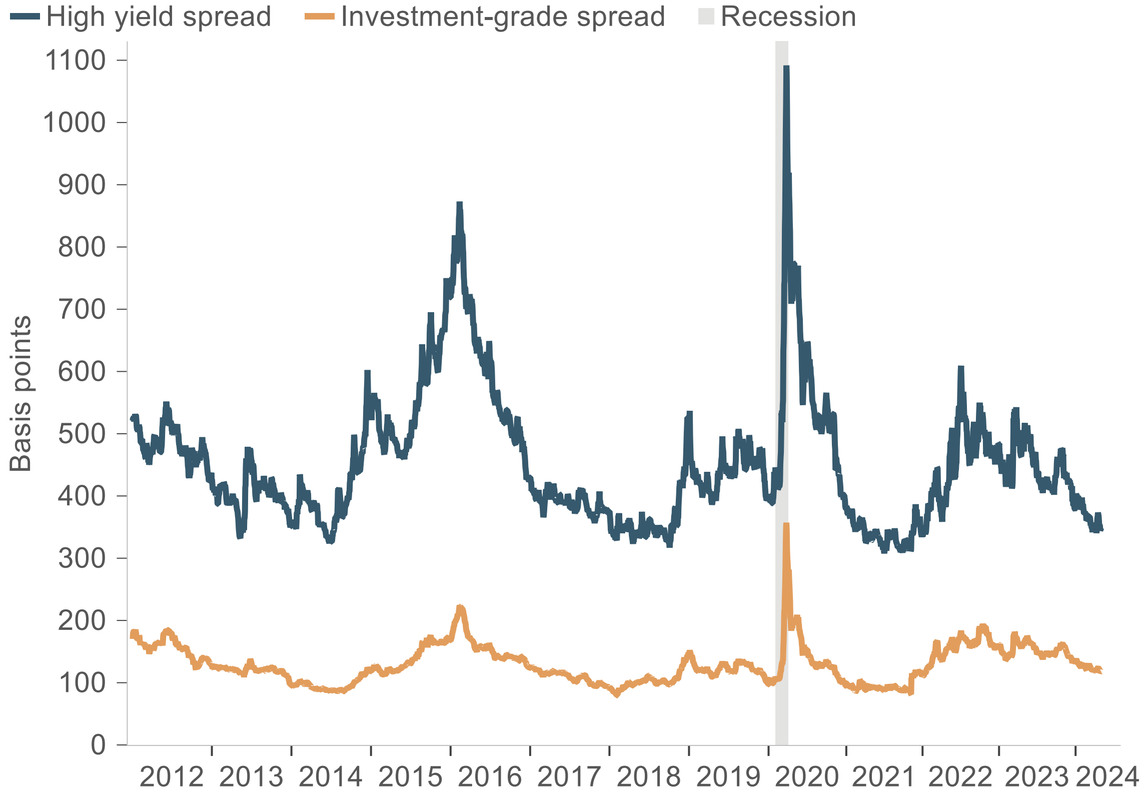
- Emerging market (EM) central banks led the cycle on raising rates and some have now begun an easing cycle suggesting the potential for more monetary support in these markets.
- EM equities have generally underperformed U.S. equities since 2012. We believe investors are under-allocated to EM equities, so a shift in investor sentiment could have a significant impact (**left chart**).
- China's economic performance remains a risk for EMs, at least until we see an end to its cyclical slowdown (**right chart**).

TAKEAWAY: With U.S. interest rates likely peaked, EM equities may see greater interest in 2024; nevertheless, we expect currency hedging and active management are key for success in the asset class

Flows into investment-grade bonds could rise as the economy slows

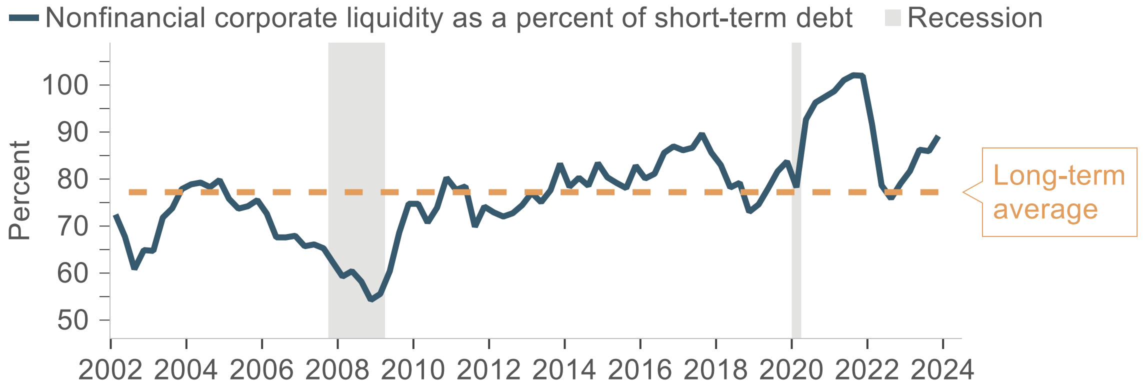
Given our late cycle view of the economy, we do not believe there is room for spreads to tighten, but yields remain attractive

Spreads have remained tight through the Fed's hiking cycle



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, May 2024.

Corporates' financial buffers at a healthy level



Sources: New York Life Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, May 2024.

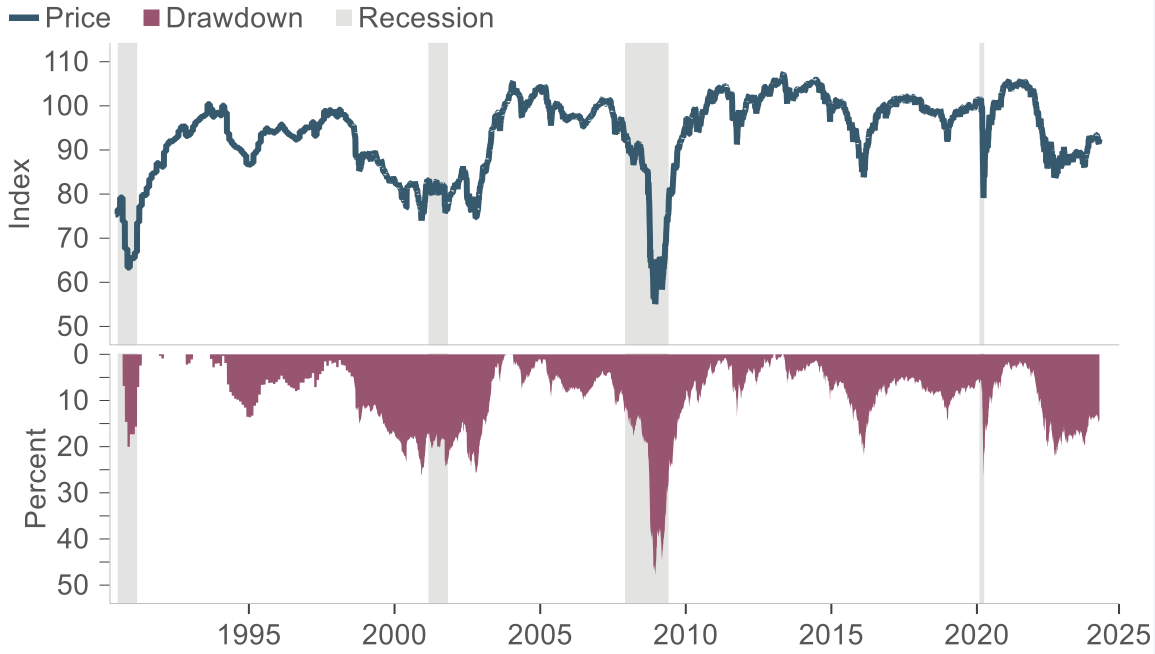
- Credit spreads have remained remarkably tight as the Fed embarked on its rate hiking cycle (**left chart**). The tight spreads could be attributed to (1) a buildup of cash and (2) the concentration of investment grade and high yield issuers is biased towards consumer sectors which have been especially strong this cycle due to fiscal supports.
- Businesses are maintaining a healthy cash balance (**right chart**), which should help firms weather shrinking margins and higher interest expenses
- This economic environment underscores the importance of discerning borrowers' adaptability to slower growth and a prolonged period of high inflation and interest rates, which may require an active and dynamic approach to security selection.

TAKEAWAY: Since the pandemic, companies have increasingly adopted a conservative approach to managing their balance sheets, effectively limiting overall debt growth. This trend has created an attractive backdrop for investment-grade corporate bonds. While we expect credit spreads to widen as the economy weakens and rate volatility rises, given improvements in credit quality, we may not see the same spikes we've seen in past cycles.

U.S. high yield is positioned to add significant investor value in 2024

We maintain a positive outlook on U.S. high yield credit, supported by attractive pricing, quality, and a favorable maturity schedule

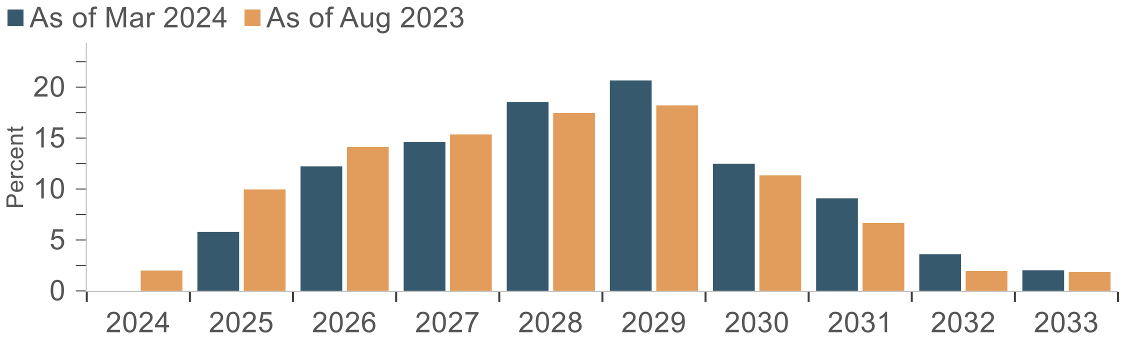
High yield looks attractively priced based on drawdowns through past cycles, particularly considering improved credit quality



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, National Bureau of Economic Research, Macrobond, May 2024. Investment Grade is represented by the Bloomberg U.S. aggregate bond index. High yield is represented by the Bloomberg U.S. corporate high yield bond index. The Bloomberg U.S. Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Spread represents the option adjusted spread or difference betwewen the yield the current U.S. Treasury rates. It is not possible to invest in an index. Past performance is not a guarantee of future results.

The high yield "maturity wall" does not coincide with a 2024 recession scenario

Share of high yield corporate benchmark maturing each year



Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, May 2024. 2033 represents maturities for 2033-2040. Benchmark: Bloomberg U.S. Corporate High Yield Total Return Index. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.

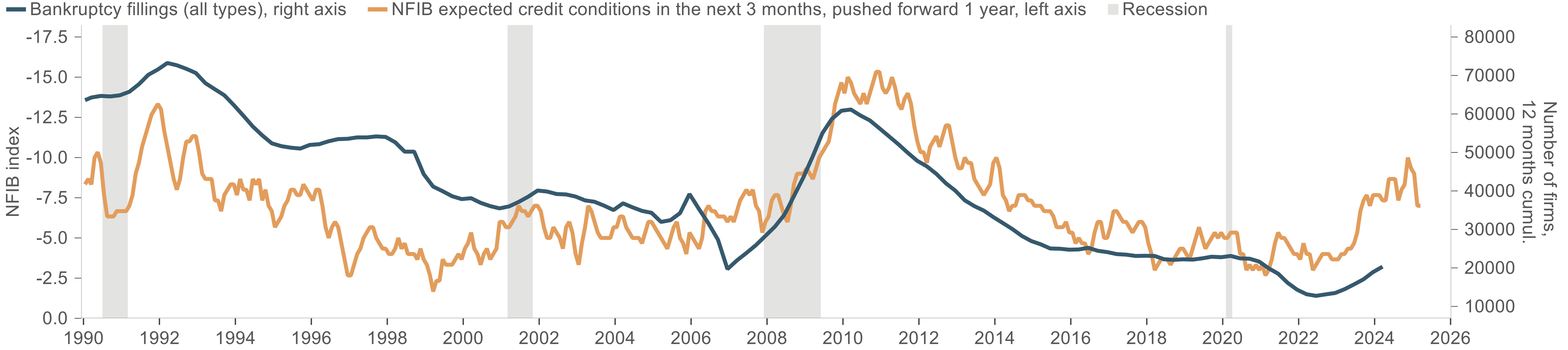
- While equity markets appear to be pricing in a soft landing, high yield credit has already priced in downside risks, considering that the current drawdown aligns with most past recessions (**left chart**), suggesting a potentially attractive entry point for investors.
- 2024 could be a strong year for high yield bonds. A majority of high yield loan maturities do not arrive until 2025 suggesting investors have time before refinancing risk begins to accumulate (**right chart**).
- The U.S. high yield asset class has improved in quality thanks to pandemic-era programs as well as changes in corporate financing structure in the post-financial crisis period.

TAKEAWAY: High yield is not typically an asset class investors hold as economic risks rise, but we believe high quality, high yield borrowers could provide significant value in a portfolio this year. For investors concerned about equity volatility, high yield corporate bonds have a better risk/reward offering compared to equities over the last 12 months.

Bank loans saw a strong 2023, but we doubt a repeat performance

As refinancings pick up, we expect bankruptcies to rise as well

We expect bank loans to struggle as bankruptcies rise



Sources: New York Life Investments Global Market Strategy, National Federation of Independent Business, U.S. Federal Courts, NBER (National Bureau of Economic Research), Macrobond, May 2024.

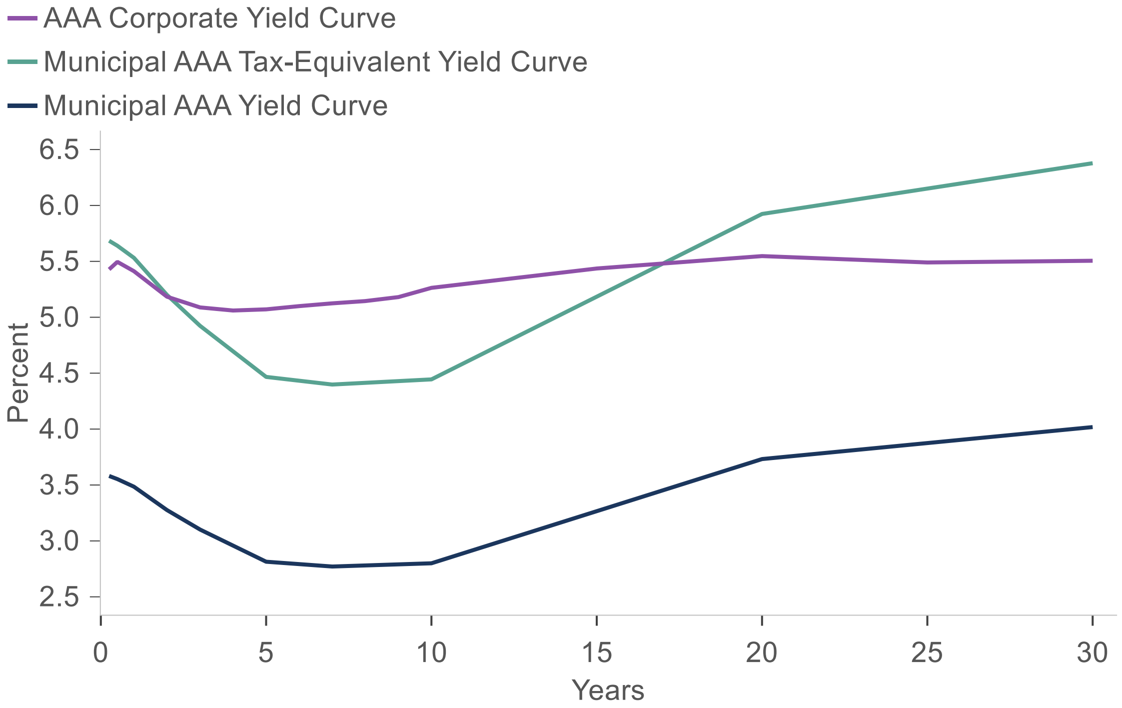
- Floating-rate credit (bank loans) have tended to perform well when interest rates are on the rise. In 2023, bank loans continued to perform well even when the U.S. Federal Reserve stopped hiking interest rates midyear.
- While the asset class saw a strong 2023, we are cautious on bank loans in 2024. Worsening credit conditions (**chart**) seen in the orange line rising are typically followed by a rise in bankruptcy filings (blue line rising).
- We believe bank loans are an important component of diversified global bond exposure. Within the asset class, we prefer portfolios that are overweight senior secured loans with low leverage.

TAKEAWAY: With inflation high, the Fed is likely to hold rates higher for longer, meaning corporate debt payments will likely stay elevated. Though the asset class could see support from interest rate uncertainty, we believe a weakening economy will begin to drag on yields in 2024. Bank loan buyers should play more defense than offense at this point in the cycle.

Munis provide a diversified approach to credit and duration exposure

Strong credit fundamentals, rising tax burden, and higher yields make municipal bonds an attractive credit diversifier in our view

Muni's tax equivalent yields exceeds AAA corporates' at longer durations



Sources: New York Life Investments Global Market Strategy, U.S. Department of Treasury, Macrobond, May 2024. The AAA corporate yield curve is populated with USD denominated senior unsecured fixed rate bonds issued by U.S. companies with a rating of AA+ , AA or AA-. The Municipal AAA yield curve is populated with high quality U.S. municipal bonds with an average rating of AAA from Moody's and S&P. The tax-equivalent yield curve assumes a 37% tax rate. Duration of fixed income securities is a measure of a security's price sensitivity to changes in interest rates, measured in years.

Tailwinds & outlook for municipal bonds

- Like corporate bond issuers, municipalities are also well capitalized with healthy reserve balances. This strong starting point provides a needed cushion should revenues and federal aid decline. This also implies that, due to economic uncertainty, issuance is not expected to pick up in 2024.
- Tax burdens are rising due the increase in federal support to businesses and individuals, combined with a robust housing market driving elevated property tax valuations. Additionally, the expanding federal deficit could result in higher federal tax rates, making tax-exempt income even more attractive. Further, the benefit of tax-exemption is amplified in the current “higher for longer” yield environment.
- Our outlook for the asset class is positive. This year muni investors seem to be recognizing the benefits of locking in tax-exempt income at these rates, while exhibiting less anxiety over inflation, and less confidence in money market/cash yields maintaining their levels.

Tactical view on municipal bond exposure

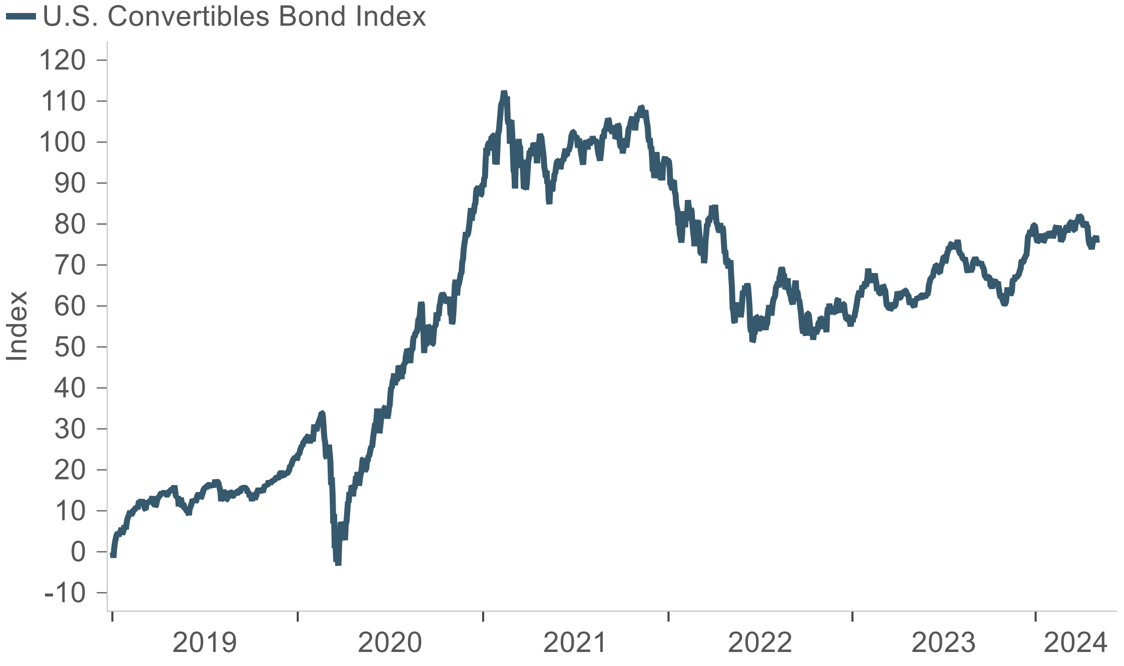
- In our view, a deeply inverted yield curve gives investors little incentive to take excessive risk in duration in U.S. Treasuries; however, not all duration is created equal. The municipal curve remains upward sloping which continues to compensate investors for longer-term risk while the U.S. Treasury curve remains inverted (**chart**). Tax-free municipal bonds can also balance shorter-duration allocations in the money market or high yield corporate bonds.
- We also like *taxable* municipal bonds as a duration-balancing, long-infrastructure play. Higher credit quality and diversified credit exposure provide additional benefits to this portfolio construction technique, in our view.

TAKEAWAY: Instead of adding duration in Treasuries, investors can consider interest rate risk where it pays to like on the municipal bond curve. Additionally, robust fundamentals and a high interest rate environment, plus the risk of higher taxes, create a solid backdrop for municipal bonds.

The tide may be turning in favor of convertible bonds

Convertible bonds are well positioned to hedge downside risk while offering similar upside potential in the event of a broad market rebound

The lack of U.S. mega-cap companies within the convertible bond sector has limited upside. But convertible bonds remain an attractive option for portfolio diversification.



Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, May 2024. Convertible securities index is represented by the Bloomberg U.S. Convertibles Liquid Bond Index. The Bloomberg U.S. Convertibles Liquid Bond Index tracks the performance of the liquid segment of the U.S. convertible bonds market, on a total return basis, without any adjustments for currency hedging.

What makes convertible bonds special?

- Much like equities, convertible bonds offer unlimited upside potential from the embedded call option on the issuer’s common stock, and rate-risk protection from the bond features
- Most convertible bonds have a short duration of approximately 2-3 years, limiting their sensitivity to interest rate fluctuations.
- Over a complete market cycle, convertibles generally participate in about 60-80% of equity market upside and 50% of the downside.

Tactical market outlook:

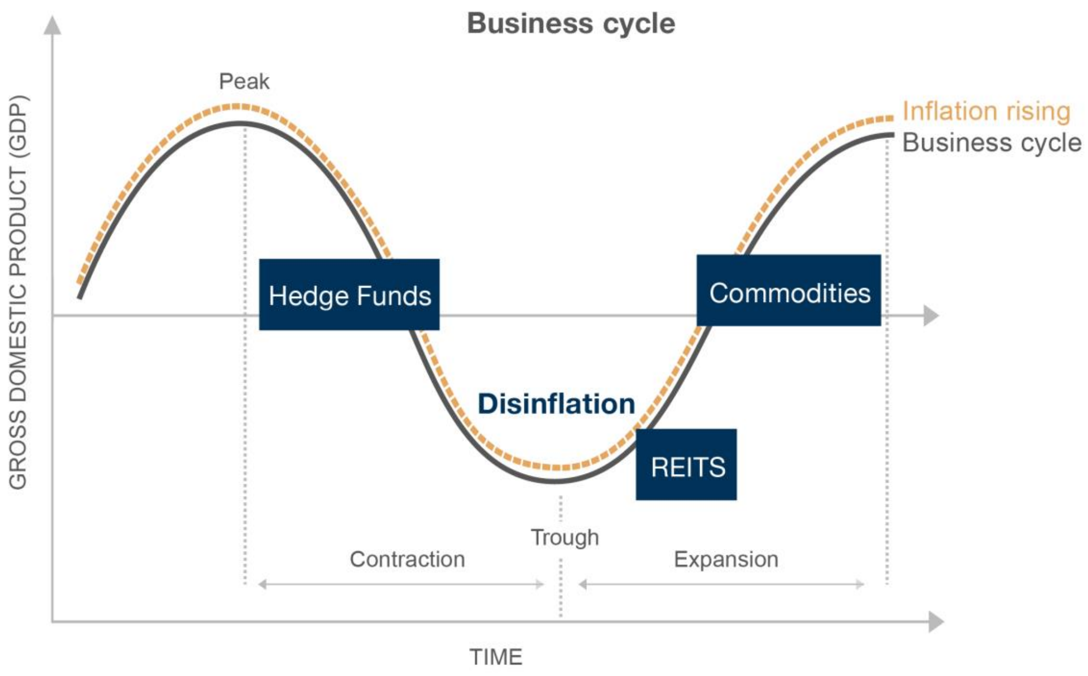
- Issuance: New issues picked up in 2023 and are expected to increase as investment grade companies with debt maturing may be drawn to the convertible market as they can no longer issue bonds yielding 2% to 3%.
- Approximately one-quarter of new convertible issuance last year was investment grade, and we expect that trend to continue as investment grade companies may find better funding opportunities in the convertible market..
- Valuation: The U.S. convertible market is weighted towards mid and small-cap companies which now have significantly lower valuations than large caps
- For investors who believe market gains can broaden but the economy is still slowing, convertible bond exposure could replace small cap exposure which offer potentially similar risk/return opportunities and the defensive bond features.
- The lack of U.S. mega-cap companies within the convertible bond sector has restrained upside, but convertible bonds remain an attractive option for portfolio diversification (**chart**).

TAKEAWAY: Convertible bonds are a well-positioned defensive asset offering yield and low volatility. As real rates rise, the case for convertible bonds becomes compelling, especially as corporate bond issuers are priced out of the investment grade market.

Alternative investments across the business cycle

Plus, asset weighting recommendations based on quantitative portfolio risk/return analysis

How alternative assets might perform at different stages of the economic cycle



Sources: New York Life Investments Global Market Strategy, May 2024. For illustrative purposes only

- Alternative investments offer diversification potential and are some of the least correlated public and private investment opportunities
- Though potentially less liquid than traditional investments, performance is typically less sensitive to the movements of global markets – instead driven by diverse sources of returns.

How much alternatives exposure do I need:

- A suitable range typically falls between 5% and 25% of a portfolio.

Commodities

- Commodities tend to benefit from sticky and rising inflation and have performed well year-to-date. The asset class exhibits very little correlation to both stocks and bonds making it a solid diversifier and inflation hedge.
- Allocating between 1% and 7% can provide diversification and protection against inflation. Equities should be the primary source of funding this allocation.

Hedge Funds

- Not all hedge fund strategies are created equally. With equity markets rising, equity-oriented strategies like long/short and event-driven could be successful in this environment.
- A range of 1% to 12% allows for exposure to skilled fund managers and unique strategies. Typically, this allocation can potentially be sourced from equities.

REITs

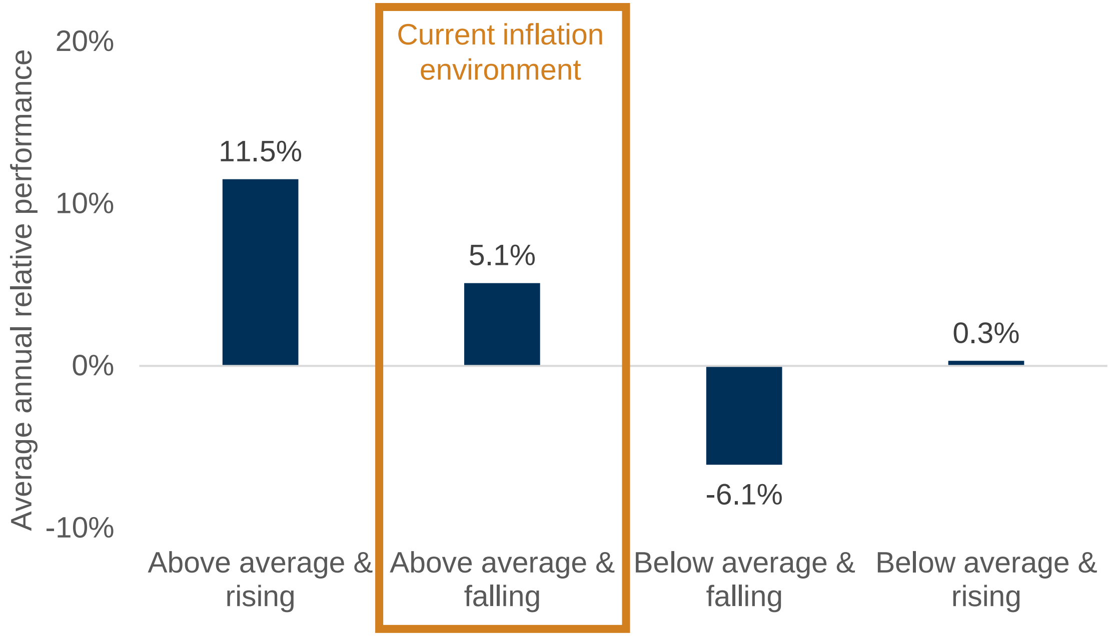
- Concern about commercial real estate has impacted investor sentiment but we think this has the potential to create investment opportunities.
- Allocating between 1% and 15% offers real estate exposure with the potential for income and capital appreciation—and can potentially be sourced primarily from equities.

TAKEAWAY: Given the risk of persistent and rising inflation, we think commodities offer the highest risk-adjusted returns, though investors could benefit by adding exposure across alternatives.

Infrastructure is one of our highest conviction structural themes

Investing in rubber was profitable when the car was invented; digital infrastructure may be the same for the advent of artificial intelligence

Infrastructure equities have tended to outperform in the current inflation environment



Sources: New York Life Investments, CBRE Investment Management, U.S. CPI, UBS Global Infrastructure & Utilities linked to FTSE Global Core Infrastructure 50/50 Index, MSCI World Index as of 9/30/22. Trailing 20-years based on average monthly total returns during inflation regimes, annualized. Inflation Regimes calculated using the year-on-year change in the U.S. CPI, normalizing its history using a z-score, and tracking the 3-month moving average of that z-score. The Inflation Regime is determined by both the level and the change in the indicator, requiring two months in the same cycle in order to confirm a new regime. Information is the opinion of CBRE Investment Management, which is subject to change and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Forecasts and any factors discussed are not a guarantee of future results.

Our view on the secular investment case for infrastructure

- We see infrastructure as a key beneficiary of secular global investment trends. A changing economic landscape (artificial intelligence), geopolitical trends (U.S.-China competition), and a renewed focus on resource access (after the COVID-19 pandemic) has driven a surge in public and private sector investment in infrastructure. We expect this trend to persist.
- We believe that the supply chains experiencing the most change are those which may benefit the most from investment: digital transition and artificial intelligence, green transition and electrification, and supply chain re-globalization. As a result, we have particularly high conviction around global infrastructure investment with a focus on digital infrastructure, green and brown energy, utilities, and communications.
- Infrastructure projects are increasing funded through the sale of taxable municipal bonds.

Portfolio construction benefits in equity

- Global equity infrastructure may close a frequent investor gap in international exposure.
- The asset class offers inflation protection as cash flows are often linked to inflation, and on the cost side, inflation protection is often written into long-term contracts (**chart**).

Portfolio construction benefits in fixed income

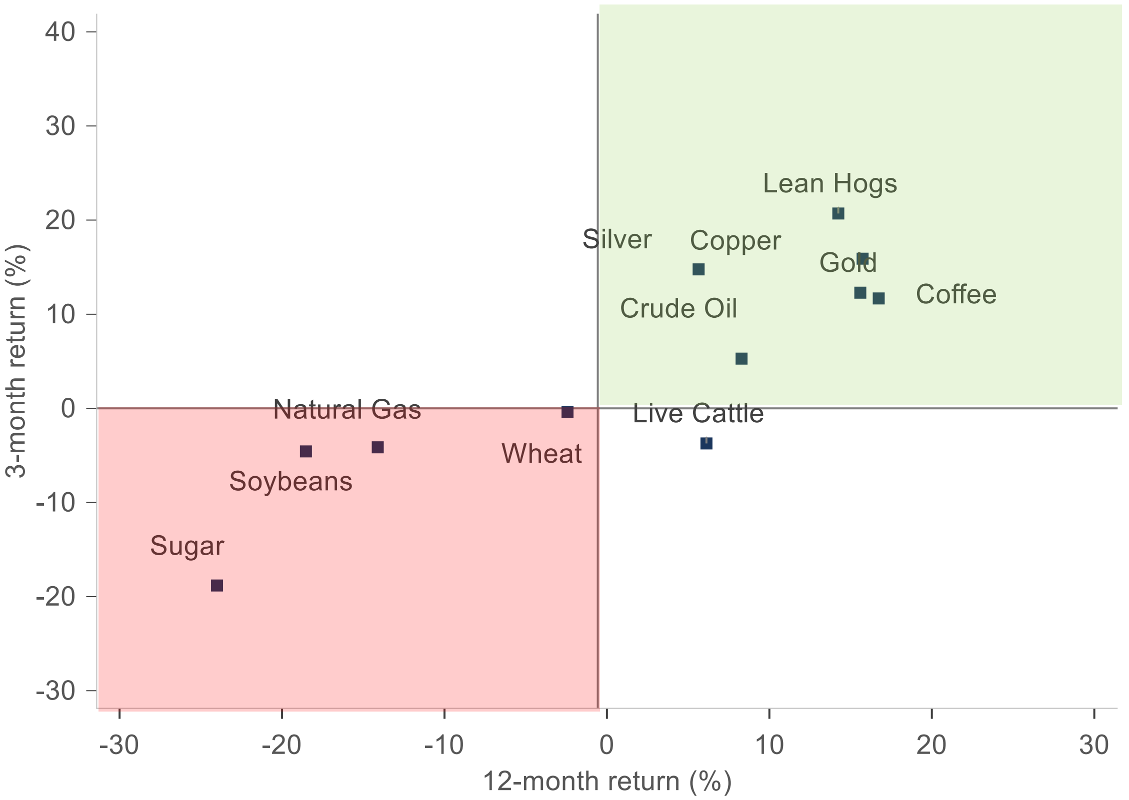
- Issuance of taxable municipal bonds increased in recent years due to the *Tax Cuts & Job Act* of 2017 which limited the issuance of tax-free municipal bonds.
- Investors may be less familiar with taxable municipal bonds, especially outside the U.S. where municipal bonds are less frequently used. We believe this asset class may provide additional means of generating yield, with the benefit of higher quality and diversified credit exposure.
- We also like taxable municipal bonds as a duration-balancing, long-infrastructure play.

TAKEAWAY: The global economy is shifting, and we believe that infrastructure provides a durable opportunity to capture that change. The winners and losers of trends like artificial intelligence, geopolitical shifts, and supply chain reshuffling are yet to play out, but all of their end results require meaningful private and public sector investment: digital infrastructure, electrification, etc. We now perceive infrastructure as a structural allocation in both equity in fixed income, allowing investors access to these trends as well as important portfolio construction benefits.

Higher inflation points to a structural allocation to commodities

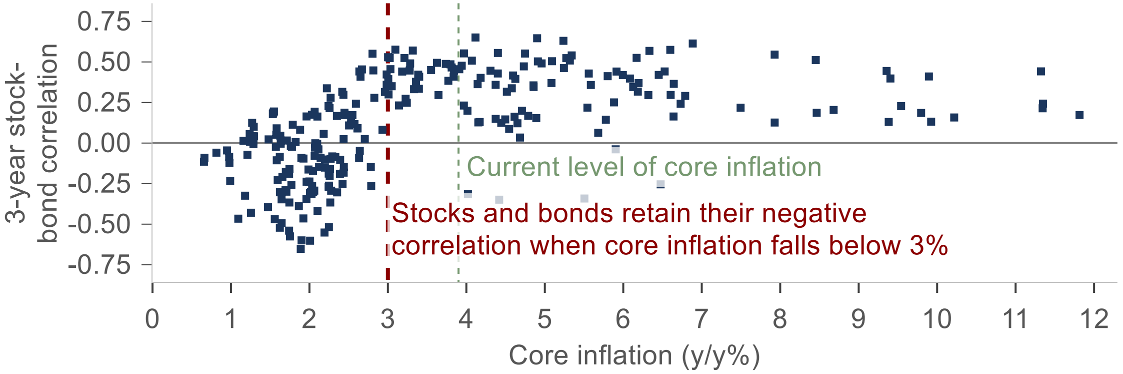
Rising demand for resources amid restructuring supply chains provides a compelling investment backdrop for commodities

Active management is key when choosing a commodity allocation



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, May 2024.

Stock-bond correlation works better when inflation is closer to target



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), S&P Global, U.S. Department of Treasury, Macrobond, May 2024. Stocks are represented by the S&P 500. Bonds are represented by the monthly return on a U.S. 10-year government bond. Core inflation is represented by the Core CPI index. Core CPI is represented by the core Consumer Price Index. CPI is a measure of the average change over time in the prices paid for a market basket of consumer goods and services. Core CPI excludes volatile food and energy prices. 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. It is not possible to invest in an index. Past performance is not a guarantee of future results.

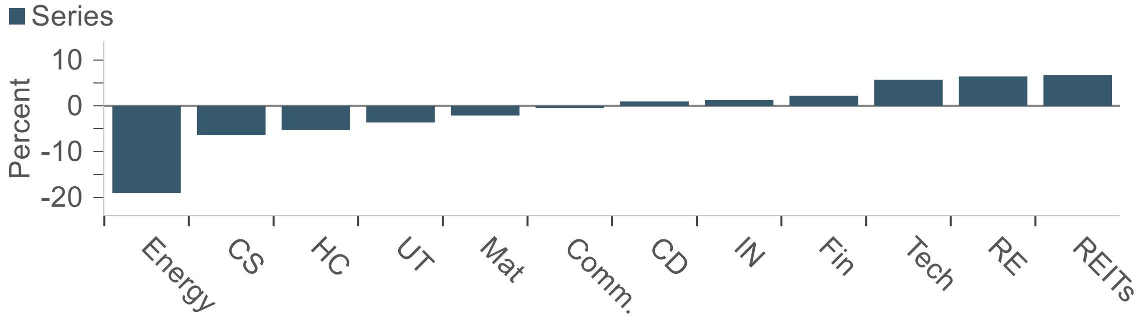
- When inflation is high, stock-bond correlation tends to be lower. Investor portfolios may therefore be less diversified than finance theory would suggest (**right chart**).
- Since the cause of that potentially lower diversification is high inflation, investors could consider increasing their allocation to commodities which may help to manage both risks.
- Not all commodities trade equally (**left chart**); active management can help investors identify commodities with positive momentum (green box) and avoid those with negative momentum (red box)

TAKEAWAY: We think investors should consider adding commodities exposure as a hedge against persistent inflation and in response to global dynamics such as escalating trade tensions and the push for decarbonization.

Structural opportunities are opening in liquid real estate

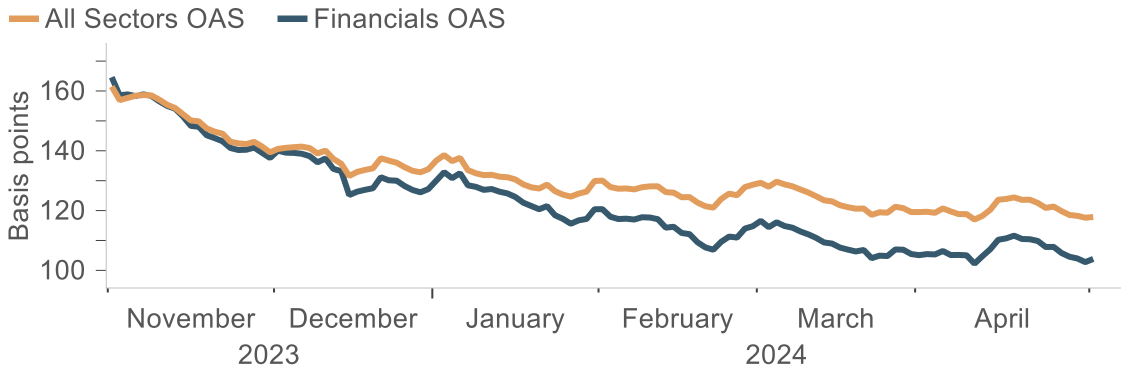
Concern about pockets of commercial real estate, such as office, has impacted investor sentiment, creating potential opportunities

Listed real estate took off when yields fell at the end of last year



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, May 2024. 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. Each sector is represented by the corresponding S&P 500 sector index categorized by GICS level. CS: Consumer staples, CD: Consumer Discretionary, Comm: Communications, RE: Real Estate, IN: Industrials, Fin: Financials, Mat: Materials, UT: Utilities. It is impossible to invest in an index. Past performance is not a guarantee of future results.

Debt markets don't appear overly concerned over commercial real estate stress



Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, May 2024. Investment-grade financials OAS is represented by the option adjusted spread of the Investment Grade Financials (Sr) sector. All sectors OAS is a weighted average of the option adjusted spread of the Investment Grade All Cash Bonds sector.

- U.S. commercial real estate (CRE) experienced a one-two punch in the past several years. First came the pandemic, which pushed many white-collar jobs to work at home for a time, a trend that has been sticky in the U.S. Then came the interest rate hiking cycle of 2022–2023.
- As the risk of recession looms, there are questions about whether write-downs in CRE valuations could prompt a new wave of banking losses, given the outsized exposure of small and mid-cap (SMID) banks to CRE loans.
- Despite a general downturn in the asset class, liquid real estate stood out as the top performer when yields declined at the end of last year. While we're still seeing upward pressure on yields, a reversal could potentially lead to significant gains for REITs (**left chart**).
- A majority of investors, bankers, and regulators are highly focused on CRE risks. That could imply any issue bubbling up would be quickly addressed as it was in March of 2023 and may be why bank bonds are outperforming the broader market (**right chart**).

TAKEAWAY: Liquid real estate could present opportunities for savvy investors. Lately, REITs haven't kept pace with the broader market, partly due to concerns about their exposure to office spaces and other less desirable assets. Yet, it's important to recognize the breadth of the REITs sector and the crucial role of active management. Wise portfolio managers have been focusing on the growing industrial and technological segments within the REITs market. We think it is worth noting liquid real estate stood out as the top performer when yields declined at the end of last year.

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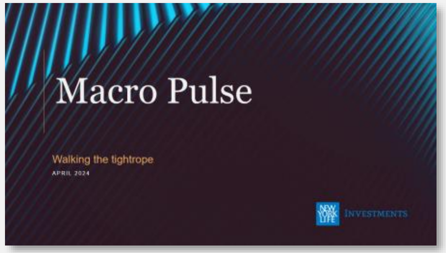

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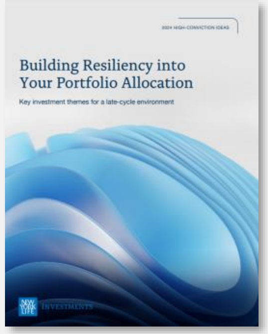
Asset allocation

High-conviction ideas



Asset class insights

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