2025 MEGATRENDS

Trust or bust:

the next era of global debt sustainability

Debt is sustainable at any level if investors maintain demand for the debt at **interest rates the borrower can afford.**

We believe major economies, including the U.S., Europe, Japan, and China, are each grappling with an inflection point in their economic path, and therefore their debt management. The options countries have in managing their debt load ahead **have dramatically different consequences for global asset allocation.**

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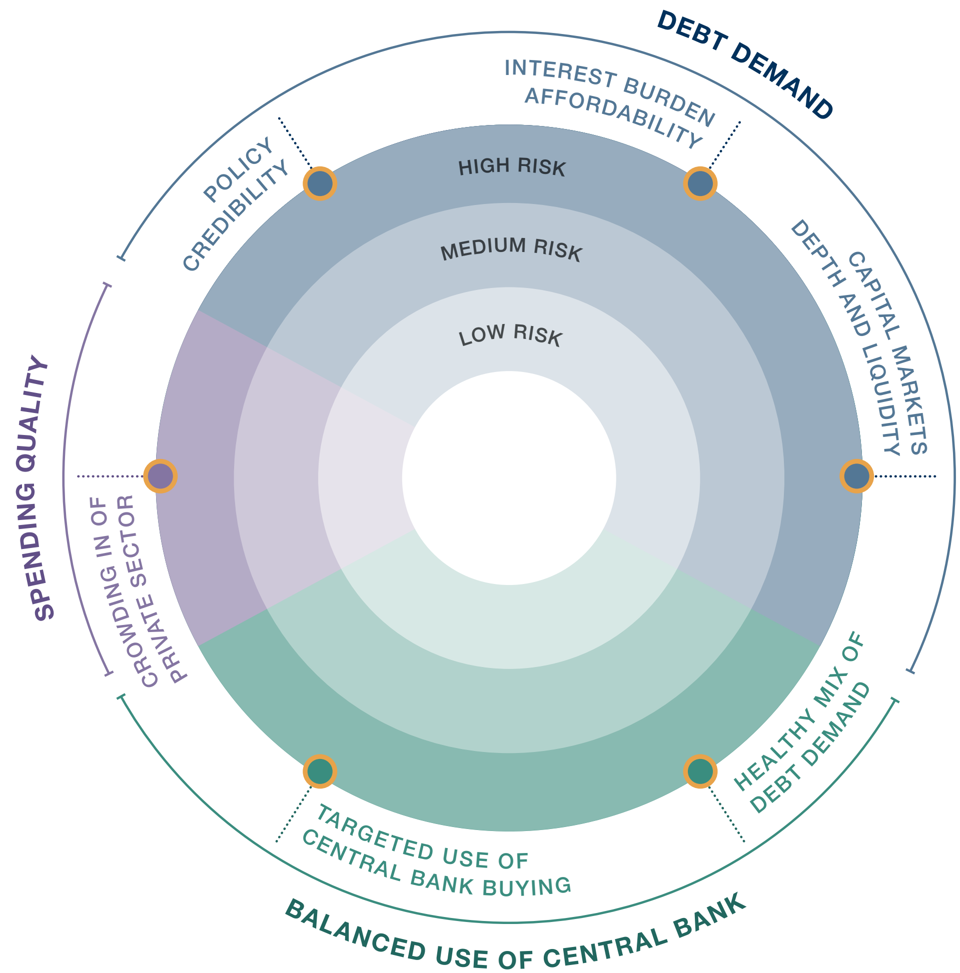
Bend or break: a global debt sustainability framework

Our debt sustainability framework evaluates a country's fiscal health, and potential disruptions to it, by analyzing three key pillars: demand for a country's debt (exorbitant privilege, for the U.S.), quality of government spending, and how a country uses its central bank backstop. These pillars interact to either *reinforce stability or expose vulnerabilities*.



We apply this framework to four major economies in the full report.
Visit www.newyorklifeinvestments.com/insights/2025-megatrends.

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Bull or bear: long-term investment implications of debt management choices

Austerity

Cutting government spending

Austerity focuses on sustained, broad-based spending cuts—not just trimming deficits (flow), but driving down overall government debt (stock).

Capital markets implications

- Growth slows; economy may shrink outright
- Disinflation or deflation
- Lower interest rates from both reduced fiscal risk and weak growth
- Earnings pressure favors value and defensive equities
- Strong high-quality bond valuations
- Strong opportunities in asset classes, notably private markets, that can deliver a-cyclical growth

Growth

Driving productivity to reduce debt

Growth-led strategies use investment and reforms to expand GDP faster than debt, improving sustainability.

Capital markets implications

- Stable or accelerating growth
- Moderate inflation; ability of market to digest higher inflation depends on productivity of spending
- Interest rates rise; market reaction also dependent on productivity
- Boost to earnings growth: growth equities shine; small caps benefit from cyclical upswings
- Total return in bonds stays flat as higher income potential offsets lower valuations; lower-quality credit outperforms
- Private markets must deliver on illiquidity premium to justify allocations in a strong return environment

Financial repression

Inflating debt away

Financial repression combines warm inflation with interest rate suppression—often via both regulatory and financial engineering.

Capital markets implications

- Moderate growth
- High inflation
- Artificially low interest rates
- Negative real yields suppress returns across asset classes, particularly cash. Staying invested is critical. Higher risk-taking is likely as a way to find growth in a lower return environment
- Secular bear market conditions for bonds as prices stay flat but inflation erodes real return
- Private markets can benefit from low interest rates and potentially generate returns exceeding inflation
- Gold, commodities, and real assets serve as key inflation hedge

Financial engineering

Tinkering with financial conditions

Financial engineering refers to the artificial control of interest rates and debt instruments to shape financial conditions and keep debt service manageable.

Capital markets implications

- Growth is biased to the upside given lower interest rates
- Ambiguous inflation impact
- Lower interest rates
- Lower rates support bond valuations, but income generation potential suffers
- Inflation risk steers investors toward growth and dividend-yielding equities
- Private markets and real assets serve as diversifiers

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Global Market Strategy

At New York Life Investments

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In an ever-changing landscape, understanding the trajectory of macrotrends and economic forecasts is critical to making informed investment decisions.

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(& quarterly webinars)

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(timely response to market movement)

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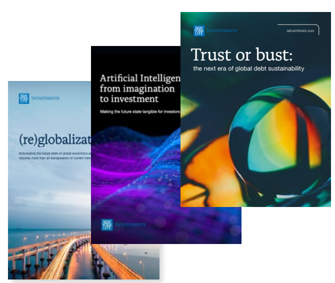
THOUGHT LEADERSHIP: Thematic reports, portfolio construction, etc.

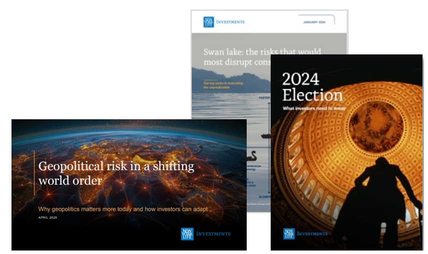
Megatrends

- Trust or bust: the next era of global debt sustainability
- Artificial intelligence: from imagination to investment
- (re)globalization



Politics and geopolitics

- Geopolitical risk in a shifting world order
- Swan Lake: the risks that would most disrupt consensus in 2025



Private markets

- Global market outlook

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