Macro Pulse

Staying grounded when sands shift

APRIL 2025

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

Amid rampant global policy uncertainty, it can be difficult for investors to be forward-looking. It's true that higher volatility in risk asset prices, inflation, and interest rates create challenges for investment strategy. But let's focus on the through lines. Now is a time when investors can leverage frameworks over point forecasts to chart the course ahead. In that context, a shifting global economic landscape is promoting capital-intensive investment across asset classes and geographies. Private markets allocation is growing and democratizing. As market valuations adapt to new business and consumer realities, **investor portfolios may require significant change**.

Policy uncertainty in general, and U.S. trade policy in particular, have disrupted investor expectations for 2025. In the U.S., consumer and business confidence is declining. In Europe, a reconsideration of defense and infrastructure spending is underway. Key global exporters, such as Canada, Mexico, and China, are considering their next steps. Market volatility has been rampant as a result.

We have written in the past that market volatility will not clear until policy uncertainty does. Recent announcements outlining the tenets of U.S. trade policy have exacerbated uncertainty, not resolved it. Investors remain uncertain of how key U.S. trade partners will retaliate; there are still other sources of policy uncertainty on the table regarding regulation, fiscal policy, and immigration.

Our base case scenario for the U.S. economy has been – and remains – that U.S. growth will slow to below its 2.0% trend this year. But today's policy uncertainty has reduced the likelihood of that scenario from 70% to 50%. We have increased the chance of recessionary growth conditions to 50%, with 35% chance of recessionary stagflation and a 15% chance of outright, inflation-conquering recession.

Ultimately, which scenario takes effect is a function of the unknowable: if, how much, and how quickly any tariffs will be negotiated away or rolled back. We assume a modest degree of tariff reduction but expect the average effective tariff rate on U.S. imports to remain elevated. If tariffs remain in place as-is, the odds of recession increase materially.

Though U.S. tariffs will impact U.S. companies and households most directly, slowing U.S. demand and greater trade barriers are likely to weigh on global growth. We expect the Q1 pace of global equity outperformance over the U.S. to slow, but advocate for geographic diversification amid so many global shifts.

As for risk assets: we would not expect fiscal or monetary policymakers to change tack until equity market drawdowns exceed 20% or the U.S. 10-year yield exceeds 5%. This means there may be some volatility yet to come. We still expect positive equity market returns this year, but results in the low single digits will feel like a trudge relative to the last few years' outsized returns. Investors may look to income generation opportunities across assets to build resilience.

In private markets, policy uncertainty has stalled hoped-for improvements in deal flow. However other forces for improvement – strong credit quality, sponsor pressure, democratization of access, lower interest rates – remain.

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

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High conviction investment ideas

Markets may be paralyzed by uncertainty, but investors don't have to be.

	CALL OR CONDITION		INVESTMENT APPROACH CONSIDERATIONS
EQUITY	• We believe we are at the point of maximum policy uncertainty, but with no clear visibility as to the timing and extent of impact on earnings quality, corporate investment, and demand. Accordingly, greater equity market volatility can depress investor confidence, but as long as earnings quality remains resilient, downside pressure can provide relief from rich valuations and present a buying opportunity. • As the balance of risks moves toward lower growth and higher inflation in the U.S., enthusiasm for U.S. assets is fading. We look to structural changes, such as the increase in defense and infrastructure spending in Europe, as well as cyclical benefits, such as a quicker interest rate cutting cycle in many developed markets, to bolster return. • The trend in artificial intelligence is here to stay. Digital and energy infrastructure are already benefitting from sustained and diversified investment; we see this as a compelling entry point into the AI theme.	**1**	Stay invested, with a focus on earnings quality.
		2	Investors concerned about volatility can deploy equity-like risk into high yield corporate credit, where fundamentals and yields are attractive, and spread widening can increase value.
		3	Ex-U.S. outperformance is likely to slow after strong Q1 results, but we believe geographic diversification is prudent amid global shocks
		4	Small caps will continue to underperform until interest rates move lower and growth is more resilient – unlikely this year.
		5	Diversify equity exposure into broader reflections of the AI theme, including energy and digital infrastructure.
FIXED INCOME	• Policy rates have moved lower and downside risks to growth are growing: Investors can counter reinvestment risk by deploying cash. We expect the Fed to stay on hold as long as possible due to upside inflation risks. • Uncertainty around growth and inflation point to higher and more volatile *market* interest rates. We do not feel comfortable calling a near-term peak *or trough* in Treasury rates; duration is an unreliable source of returns. • We expect U.S. public credit quality (interest coverage, maturity timeline) to remain very strong by historical standards, supported by still-resilient economic activity levels.	**6**	As long as short duration corporate and municipal credit quality remains robust, we have high conviction in credit allocation.
		7	Volatility in the Treasury curve prompts our neutral-to-short duration preference. This position can be built with short duration credit (IG, HY, munis) and balanced with structured product and taxable munis.
		8	Strong fundamentals create an attractive opportunity in structured credit and convertible bonds. In floating rate loans, only the strongest portions of credit quality are likely to hold water.
OTHER	• Incidence of geopolitical risk has moved higher since the COVID-19 pandemic and is gaining proximity to safe-harbor U.S. assets. Investor may use diversification and inflation-aware exposures to hedge against event risk. • Though the endgame of U.S. trade policy is uncertain, the global trends towards re-globalization, digitization (AI), and energy independence point to capital intensity, infrastructure investment, and stickier inflation. • Private markets allocation is growing and democratizing.	**9**	Consider a geopolitical risk hedge of equal parts oil, gold, and bitcoin as a satellite sourced from equity.
		10	Inflation-aware asset classes such as commodities, materials, and real estate may benefit from the macroeconomic backdrop.
		11	Qualified investors seeking diversification into the private markets may consider the less correlated lower middle market.

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1 Top investment questions

Top questions

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What's next in U.S. trade policy?

The aggregate impact of trade policy is unknowable. But long-developing realities in global supply chains give investors actionable recourse.

The impact of U.S. tariffs depends on how its trading partners react

	Negotiating points	X-factors
China	Trade deficit National security	Raw materials production USD and CNY strength Taiwan Influence over Russia Influence over Iran Influence over North Korea
Mexico	Trade deficit Immigration cooperation Drug trade cooperation	New USCMA negotiating partners Rising anti-U.S. sentiment
Europe	Trade deficit NATO defense spending	New right-wing European parliament Rising anti-U.S. sentiment

Source: New York Life Investments Global Market Strategy, April 2025. For illustrative purposes only.

Are tariffs here to stay? Or just a negotiating tactic to achieve other ends?

- Both. For some countries, the Trump administration has highlighted clear areas where it would like to see policy change (select examples in left table). However, even before his first term, President Trump expressed a clear preference for reducing the U.S. trade deficit overall. Unfairness in global trade, as well as a weakening in U.S. manufacturing capabilities, contribute to this policy preference.
- Some investors have hoped that concessions from key U.S. trade partners would mean that the increase in tariffs globally is relatively limited. We do not agree, and expect the average effective tariff rate in goods and services coming to the U.S. to rise considerably even as targeted concession or negotiations are completed.

What's next for trade policy?

- The honest answer: no one knows. The end game of tariffs depends not only on U.S. policy announcements but also in how its trading partners respond. Even when final tariff rates settle, their impact on business behavior is uncertain. As an illustrative example, a Japanese automobile company manufacturing cars in the U.S. with U.S. workers may still have parts and processes that see Canada and Mexico multiple times in their production process.
- What we know now is that the U.S. "opening position" on April 2 included a baseline tariff of 10% globally, and an average effective tariff that exceeds levels seen even in the run-up to the Great Depression. That rate will likely fall, but is unclear how quickly or by how much.

How should investors navigate this uncertainty?

- The scope and duration of tariffs will drive both economic and market scenarios, including whether the U.S. and global economies are likely to topple into recession (see next page).
- Trends relating to supply-chain re-globalization – including the fortification and redundancy of energy and semiconductor supply chains – are well under way regardless of U.S. trade policy.
- Investors may benefit from actionable through-lines of this global development, including inflation resilience, infrastructure buildout, and cyber and physical defense.

What are our updated economic scenarios for the U.S.?

Peak policy uncertainty has forced us to split the difference between stagflation and recession risks.

What was our base case to start the year?

- We assigned a 70% probability of a gradual pace of deceleration to below-trend – below 2% growth. At the time, this was a more cautious view than consensus.
- We expected inflation to be sticky above target, leveling out in a 2.5–3.5% YOY range.

What are our scenarios now?

- Our base case has changed to a 50% chance of a stagflation-lite scenario, in which growth slows well below trend and inflation re-firms.
- We have increased the chance of recessionary growth conditions (below 0%) to 50%, with 35% chance of recessionary growth + reaccelerating inflation (full-blown stagflation) and 15% chance of outright recession (where demand destruction is strong enough to bring inflation lower).
- Ultimately, which scenario takes effect is a function of the unknowable: if, how much, and how quickly any tariffs will be negotiated away or rolled back. We assume a modest-to-moderate degree of tariff reduction but expect the average effective tariff rate on U.S. imports to remain elevated. If tariffs remain in place as-is, the odds of recession increase materially.

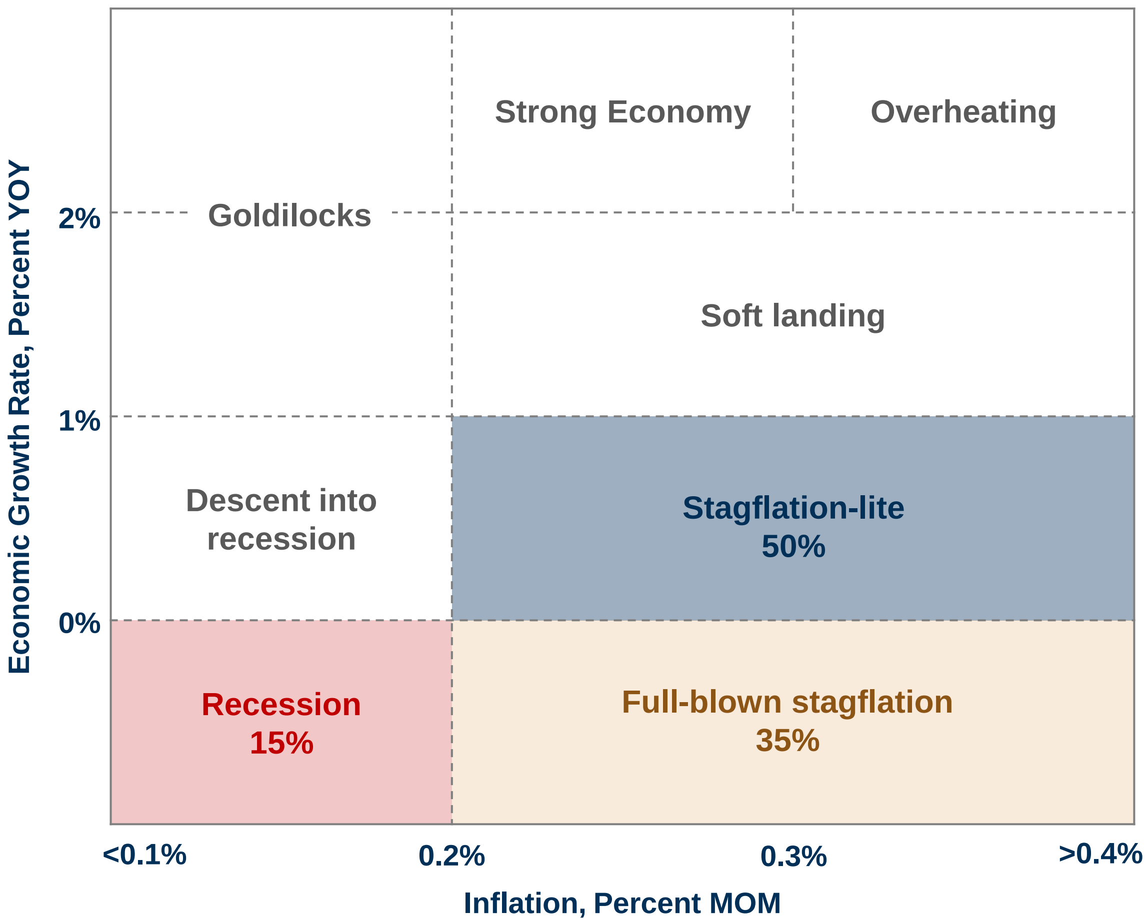
An 85% combined probability of stagflation-lite or full stagflation scenarios means inflation is likely to reaccelerate, regardless of the growth path

- The upside risk to inflation stemming from the Apr 2 reciprocal tariffs is significant. A reacceleration in inflation is likely to disproportionately affect younger and lower income consumers already struggling under current prices, but on aggregate, we expect most consumers and businesses to cope with higher prices.

In a full-blown recession scenario, demand destruction outweighs inflation

- Though we believe that tariffs are most likely to reaccelerate inflation, this scenario acknowledges that the impact could be temporary. U.S. consumers, already burdened by years of price growth, may buckle if a negative wealth effect takes hold. Together, these could reduce demand, outweighing the initial inflationary impact of tariffs.
- At the same time, we could see a halt in private sector investment and hiring. We are also likely to see profit margin compression as companies discern how to pass along higher input costs. These factors may exacerbate the demand destruction trend and weigh on GDP.

Updated scenarios for growth and inflation in the U.S.



Views of the New York Life Investments Global Market Strategy team, 2025.

How can our updated scenarios affect market indicators and allocation?

An investment and capital markets playbook for scenarios can help investors weigh their options.

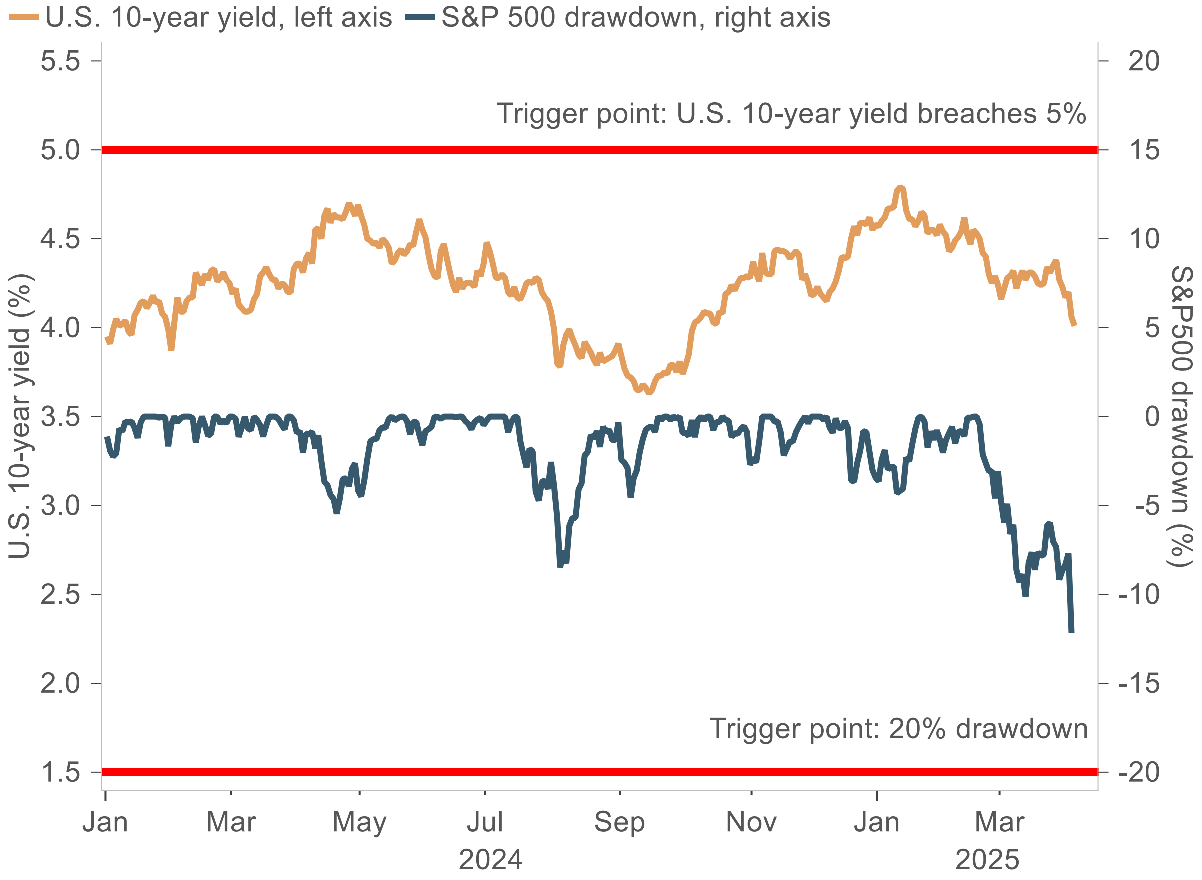
<table>
<tr><th></th><th>Stagflation-lite</th><th>Full-blown stagflation</th><th>Recession</th></tr>
<tr><td>Probability</td><td>50%</td><td>35%</td><td>15%</td></tr>
<tr><td>Yield Curve</td><td>• Fed biased hawkishly to manage inflation unless growth severely disappoints (e.g. full stagflation scenario)
• 10Y range: 3.5–5.0%</td><td>• Wider range of possibilities on both front and long end of curve as policy and markets are torn between downside growth and upside inflation
• Fed more likely to step in as growth truly stagnates
• 10Y range: 3.0-5.0%</td><td>• Fed can support growth as inflation falls
• 10Y range: 2.5–3.5%
• Add duration as long-term market interest rates move lower</td></tr>
<tr><td>Dollar</td><td colspan="2">• Dollar dependent on Fed policy: If growth stagnates more than inflation rebounds, Fed cutting could prompt the dollar lower. If interest rate differentials remain large between U.S. and Europe, Euro likely to be relatively stronger</td><td>• Dollar dependent on global growth: if recession is global, flight to “safe haven” assets can support a strong dollar. If U.S. underperforms, dollar is likely weaker.</td></tr>
<tr><td>Equities</td><td colspan="2">U.S. equities: stay invested, but rebalance towards resilient themes
• Stay large cap
• Quality companies with pricing power across both growth and value styles
• Dividend-yielding equities can harness both quality and income generation potential to offset upside inflation surprises
• Defensive positioning can be used as a hedge against further downside risks to growth; in full-blown stagflation, defensive positioning likely to outperform
International exposure dependent on relative economic growth. A 50% currency hedge can remove undue currency exposure</td><td>U.S. equities: policy is more likely to support growth
• Profitable growth in large caps
• Defensive sectors: consumer staples, utilities, health care, real estate
• Infrastructure equity
Relative growth is likely to drive relative equity market performance: U.S. equities may underperform if major DMs avoid recession, but be ready to harness a rapid policy-led recovery</td></tr>
<tr><td>Credit</td><td>Spread widening will depend on corporate pricing power
• Convertibles
• Barbell IG and HY credit</td><td>• Spread widening likely to occur regardless of fundamental corporate health; this may represent a buying opportunity
• Steer toward higher quality credit and away from bank loans</td><td>Spread widening driven by contracting growth
Quality:
• IG credit
• Taxable Munis (infrastructure bond)</td></tr>
<tr><td>Private markets and alts</td><td>• Private markets: publicly traded large & mega funds will be most impacted by volatility; focus on real levers of value creation; real assets
• Precious metals
• Real estate equity if interest rates fall
• Commodity sleeve as a hedge for upside inflation risks</td><td>• Private fundraising environment likely challenged; we favor the historical resilience of the lower middle market where the impact of trade and other global factors is less felt
• Real assets
• Gold
• Commodities likely to outperform</td><td>• Careful credit analysis and security selection is paramount as default rates rise; we favor the highest quality segments of private credit and the historical economic resilience of smaller funds
• Gold</td></tr>
</table>

Opinions of New York Life Investments Global Market Strategy, April 2025. Scenarios are for illustrative purposes only.

What will it take for policy to change tack?

Financial market performance will act as a constraint on the Trump administration, but the bar for a change in approach is high.

Trump's market: a broader drawdown could force a policy pivot



Sources: New York Life Investments Global Market Strategy, S&P Global, U.S. Department of Treasury, Macrobond, April 2025.

What would make the administration change its tune?

- While political noise and polling may shift rhetoric, it's not likely to force a shift in the administration's thinking. We believe sustained financial market stress will prompt a meaningful policy rethink.

Cabinet reshuffles could be an early sign of discontent

- If trade policy is perceived to be backfiring, trade officials could be removed.

The S&P 500 is one pressure point to watch

- A material and persistent decline in equity markets (bear market; <-20% drawdown) would likely catalyze a policy pivot.

10-year yields are the other pressure point to keep an eye on

- Rising yields and tighter financial conditions will be tolerated up to a point – especially if equity markets hold up. But stagflation narratives (high yields + poor equity returns) are politically toxic and harder to ignore.
- The U.S. 10-year yield breaching 5% would likely force a change in policy as high Treasury yields can stifle economic growth.

What other policy changes could we see in response?

- Should market weakness persist, we could see stronger pressure on the Fed, or stronger momentum behind fiscal stimulus, including tax cuts or even manufacturing-focused infrastructure spending as a means to support growth.

What about the Fed? What would make them step in?

- As we describe in our Fed-focused pages, sticky inflation and strong upside inflation risks mean the Fed is likely to avoid action until growth visibly deteriorates.

Where are we already seeing the economy shift?

"Soft" survey data points to a marked deterioration in consumer and business sentiment – and will flow into "hard" data over time.

- Though tariffs are a recent development, policy uncertainty is decidedly shaping sentiment. University of Michigan, Conference Board, NFIB (small business) and PMI (larger manufacturing and services) surveys show that businesses and consumers are increasingly concerned about uncertainty, worsening future economic conditions, and rising near-term inflation.

- So far, trade data is the best "hard" data indicator we have that tariffs are affecting behavior: a surge in imports shows that businesses and consumers are pulling forward their purchases to avoid tariffs. Higher imports, driven by industrial inputs and consumer goods, are a mathematical drag on GDP, pulling down GDP growth expectations for Q1 2025.
- Going forward we expect to see policy impact not just trade, but inventory management, corporate investment, and consumer outcomes. Credit spreads are likely to reflect these developments first, followed by corporate earnings.

Surveys show higher inflation expectations across the board

Sources: New York Life Investments Global Market Strategy, Conference Board, University of Michigan, Institute for Supply Management - ISM Houston, Macrobond, April 2025.

The U.S. trade balance in goods has plummeted, driven by surges in industrial supply and consumer goods imports

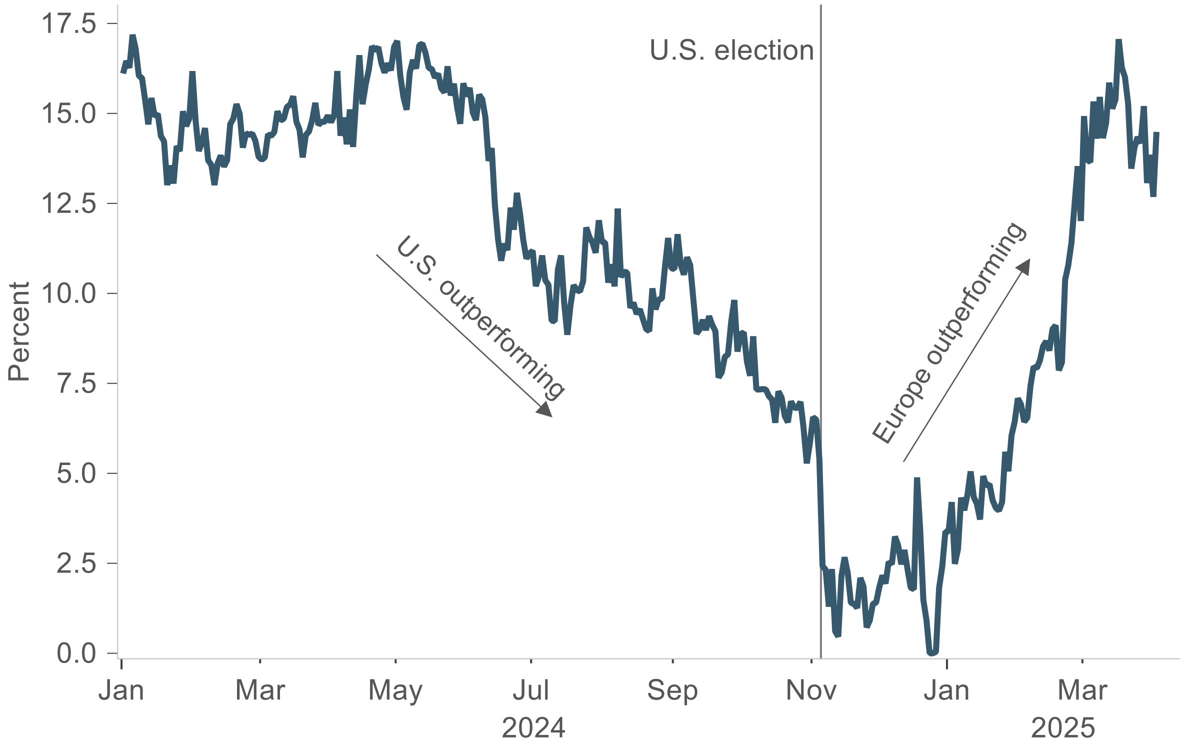
Sources: New York Life Investments Global Market Strategy, U.S. Census Bureau, Macrobond, April 2025. SA: Seasonally adjusted.

Is U.S. equity market dominance shifting?

Ex-U.S. equities have outperformed since the U.S. election. Will this geographic divergence continue?

Contrary to popular narratives, European equities have outperformed since the U.S. election

Europe STOXX 600 less S&P 500 returns (0 = 12/24/2024)



Sources: New York Life Investments Global Market Strategy, S&P Global, STOXX, Macrobond, John Authers, April 2025. The Europe STOXX 600 represents large, mid and small capitalization companies across 17 countries of the European region. 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.

Why have U.S. equities underperformed?

- For much of the last few months, ex-U.S. equity outperformance has come down to interest rates. Where higher growth expectations (thanks to hopes for deregulation and tax cuts) and higher inflation expectations (thanks to growth and tariffs) have kept U.S. rates sticky, many developed and emerging markets have been more consistent in their rate-cutting cycles. In response, their yield curves has normalized more quickly, credit creation has improved modestly, and cyclical equity sectors such as financials and industrials have benefited.

What impact will changes in Europe's geopolitical and defense backdrop make?

- If the war in Ukraine ends: Europe has seen higher energy costs and lower confidence as a result of the war. We are concerned that reconstruction efforts might be less of a boon than investors suggest, but ending the war would likely cause some near-term benefit.
- If the U.S. reduces military support: U.S. presidents have been insisting that Europe take on more of its defense spending for more than two decades now. If anything, higher defense ($860 billion out of the European Commission) and infrastructure spending ($530 billion from Germany already promised) may benefit European equities.

What about emerging markets?

- Though emerging markets equities have also benefited from a quicker and more pronounced rate-cutting cycle, we are concerned about the future of EM outperformance. Many emerging markets use exports as a key part of their growth model; changes in U.S. trade policy may result in more volatility for those countries.

All things considered: can ex-U.S. equity outperformance continue?

- The scale of ex-U.S. equity outperformance is unlikely to continue as countries near the end of their rate cutting cycles. However, many investors have underweights to ex-U.S. equities. We suggest closing those underweights as a buffer to broader cyclical (rates) and geopolitical developments.

See our international equity pages for more context.

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What's next for the Trump administration?

Policy areas most likely to see material changes include: taxes, tariffs, regulation, and immigration.

Taxes

- A significant focus in Congress this year will be addressing the expiring 2017 Tax Cuts and Jobs Act. Trump has promised to extend individual tax cuts.
- If the tax changes become permanent, the CBO estimates the federal deficit could double over the next 10 years, creating a real risk for debt sustainability. The U.S. is already paying more in interest expense than on any other budget item, including defense.
- Cutting the corporate tax rate is also on the agenda, though we believe corporate tax cuts become less likely if rates markets express concerns about a higher deficit.
- Extending the TCJA may not garner the same market impact as its initial passing, because the provisions are already in place (in other words: no new tailwind). In addition, an extension may not have the same economic impact because personal income tax cuts do not stimulate as much economic growth as a permanent cut to the corporate tax rate.

Tariffs

- In early April, the Trump administration announced its opening position on tariffs: 25% tariffs on Canada and Mexico, 25% tariffs on foreign-made automobiles, and reciprocal tariffs on all other countries starting at 10% and rising based on tariff and non-tariff barriers imposed on the U.S. Put together, these tariff rates are higher than even those seen in the run-up to the Great Depression.
- Though some tariffs may be negotiated lower as companies respond, tariffs are not only a negotiating tactic. Even before his first term, President Trump expressed a clear preference for reducing the U.S. trade deficit overall.
- Some countries are already retaliating against U.S. tariffs with counter-tariffs, limiting U.S. purchase of critical manufacturing inputs, and company-controls.

Deregulation & DOGE

- We expect the second Trump administration to roll back many existing regulations. Impacted industries likely include financial services, healthcare, and the traditional oil & gas sector. In his inaugural address, Trump declared, "Drill, baby, drill."
- Another Day 1 executive order established the Department of Government Efficiency (DOGE). We anticipate DOGE will be able to some material spending cuts though reaching its targeted $1 trillion in cuts is likely optimistic. It's important to remember that the executive branch has little ability to cut spending itself; any significant spending cuts will have to go through Congress.
- Though impacts to regulation have so far been delayed, companies are hopeful that an eventual deregulatory effort will improve mergers & acquisitions activity and ease the cost of doing business.

Immigration

- Immigration is already front and center for the new administration. One of Trump's Day 1 executive orders was again declaring a national emergency at the southern border.
- Inflation impacts are likely to be mixed. Reduced labor supply could put upward pressure on wages. On the other hand, that slower immigration could reduce inflation in areas such as shelter, resulting in inflation impacts that are more ambiguous overall.
- The most immediate impact on deportation or detainment efforts is likely to be on growth – immigrants begin consuming (food, shelter) as soon as they enter a country, increasing demand in their area. Interestingly, the CBO found that migration actually reduces the deficit because undocumented immigrants are not eligible for federal benefits but can still pay federal taxes.
- Small business still cites quality of labor and inflation as their greatest operating concerns.

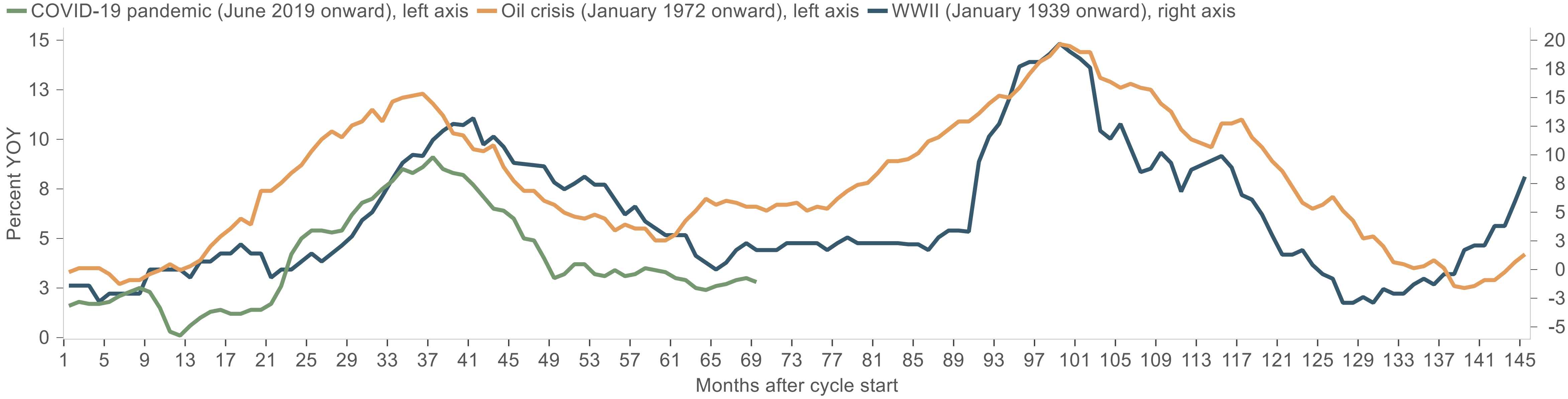
Opinions of New York Life Investments Global Market Strategy, April 2025.

What happens if the Trump administration interferes with Fed policy?

Interference with policy rates may prompt the market to become even more concerned about inflation, pushing market yields *higher*, not lower.

- President Trump has stated a strong preference for lower policy interest rates.
- In the last 100 years, there have been two clear examples of a double-peak in inflation (**chart**). Their common elements include supply-demand disruptions in goods and labor, and political pressure that kept policy rates artificially low. Accordingly, we believe credible political pressure on the Fed would push market yields *higher*, reflecting concerns of higher inflation.
- Treasury Secretary Bessent suggested that the administration could focus on keeping market yields (the 10Y Treasury) low instead of the Fed's policy rate. Here, there are more levers to pull: containing government spending, changing regulations to impact supply and demand for Treasuries, issuing shorter-term Treasuries. However, the U.S. has the largest and most liquid government bond markets in the world; the impact of such policies may be short lived.
- In all: though the Trump Administration faces little political limitation on its actions, market reactions may prove more constraining. While we have not yet entered an era of outright "bond vigilantism," we expect the Treasury market to provide the most rapid pricing of risks relating to inflation, policy rate interference, and Treasury issuance (affecting long-term rates).

We are not yet "out of the woods" in avoiding inflation waves of past cycles; political pressure on the Fed would be a red flag



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, April 2025.

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2 U.S. economic & market outlook

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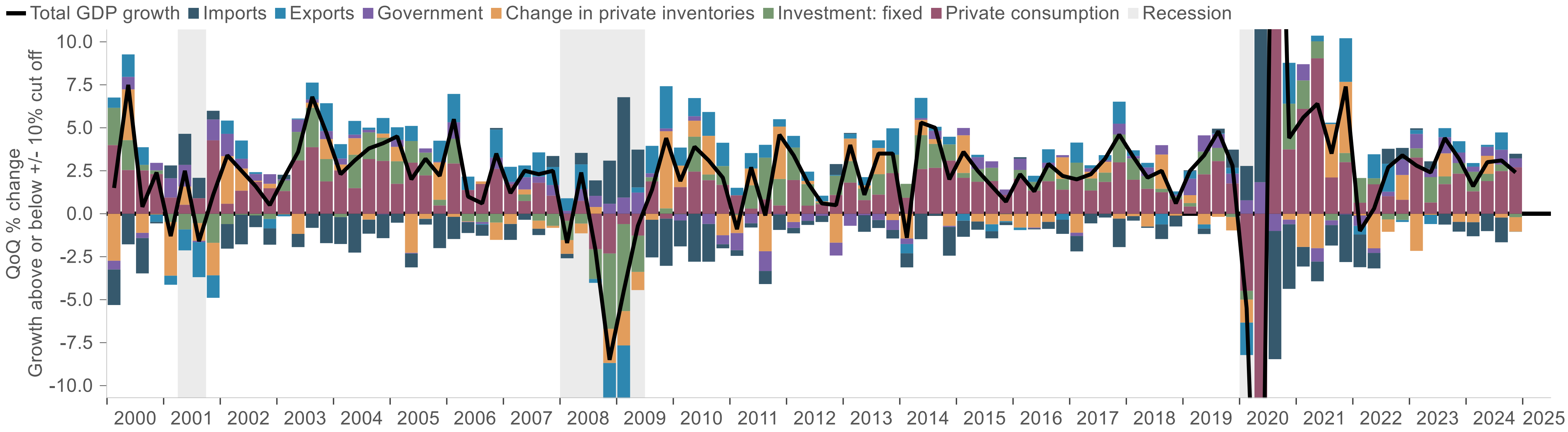
A long-term look at U.S. economic growth

The U.S. economy has arguably the most constructive possible backdrop with which to face risks of stagflation and recession.

- GDP growth in the post-pandemic period stabilized above its trend pace of 2.0-2.5%, driven largely by strong consumer activity (about two-third of GDP).
- Consumers have been boosted by a well-balanced labor market, and both income and wealth effects supporting high-income segments in particular.
- We now believe the U.S. economy has a 50% probability of moving into recession in the coming 6 months, responding to new tariff measures and broader policy uncertainty as households face higher prices and companies pause hiring and investment plans.
- Regardless of how near-term economic activity plays out, policy risks are likely to impact export-import and inventory balances. Accordingly, GDP itself is likely to be skewed in 1H 2025; we will be focused on consumption figures as the key indicator of activity.

Consumption structurally drives the U.S. economy, with an increasing share in the past 4 quarters



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), NBER (National Bureau of Economic Research), Macrobond, April 2025. Grey fill areas represent recessions.

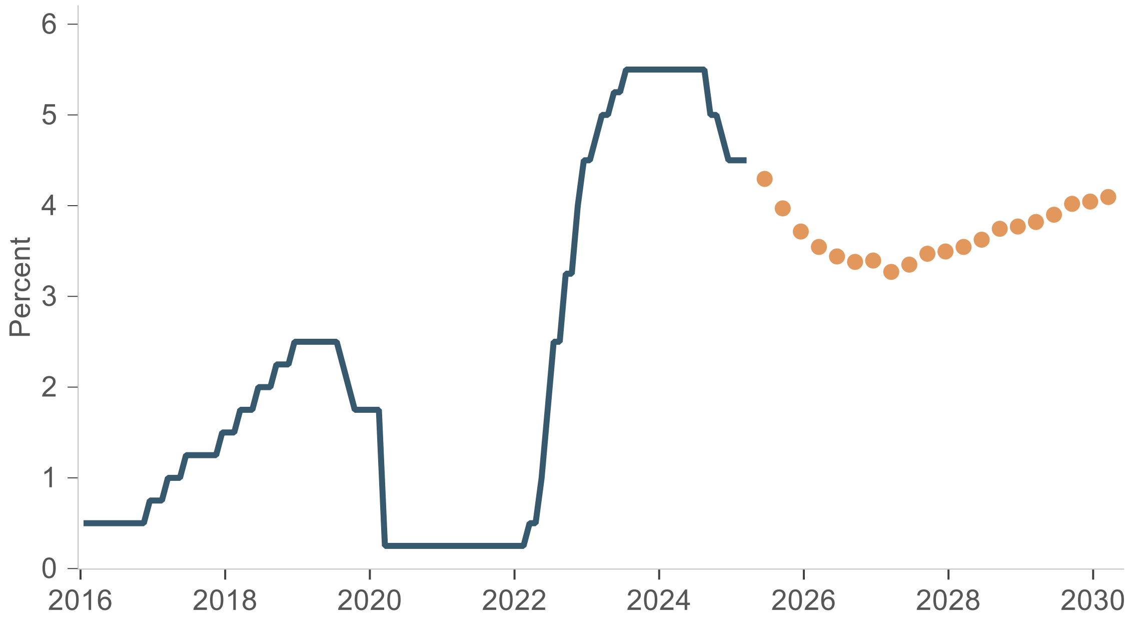
The Federal Reserve will avoid action until growth visibly deteriorates

We expected inflation pressure to keep the Fed biased hawkishly this year. Even with major updates to our economic outlook, this view sticks.

- After the Fed began its cutting cycle in September 2024, stronger than expected economic activity drove a hawkish shift in easing expectations. We expect only one 25-basis point policy rate cut this year, largely a means to signal the Fed is still on its path back to neutral (our best estimate is around 3.0 – 3.5% in nominal terms).
- Now, policy uncertainty pressures the Fed's mandates in opposite directions: upside risk to inflation, and downside risk to growth. Until/unless growth expectations truly plummet, we believe the Fed understands that tariff-led inflation upside and growth downside cannot be effectively addressed with monetary policy changes.
- Financial conditions create a swing vote in Fed policy. A 20% or greater deterioration could signal outsized risk to the real economy, prompting quicker cuts.

The market is expecting interest rates to remain structurally higher

Federal funds rate and implied Fed funds futures curve



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Bloomberg, Macrobond, April 2025.

Our Fed cuts checklist: conditions met, but we are sleeping with one eye open

Condition	Status	Met?
Inflation expectations well anchored	Long-term inflation expectations remain well anchored.	
Core inflation moving closer to target	Core inflation is still above the Fed's target but has made significant progress over the last year. Policy risk amid resilient growth may re-firm inflation, which would slow the Fed's pace of cuts all else equal.	
Unemployment rate ≥ 4.0%	The unemployment rate sits around 4.0%, and the Fed has said that it does not want employment to weaken more.	
Wage growth commensurate with stable prices	Wage growth is higher than the 3.5% year-on-year figure that we believe would make the Fed comfortable with maintaining a rate cutting cycle. Stickiness in wages may require a slower pace of rate cuts.	
Financial conditions still well behaved	The Fed would need to see a strong deterioration in financial conditions – and therefore a visible risk to the economic outlook – before pre-emptively easing with inflation so strong. Using 2018's "insurance" cuts as a guideline, we would expect that an equity market selloff of 20% or more would be required to push the Fed to act.	

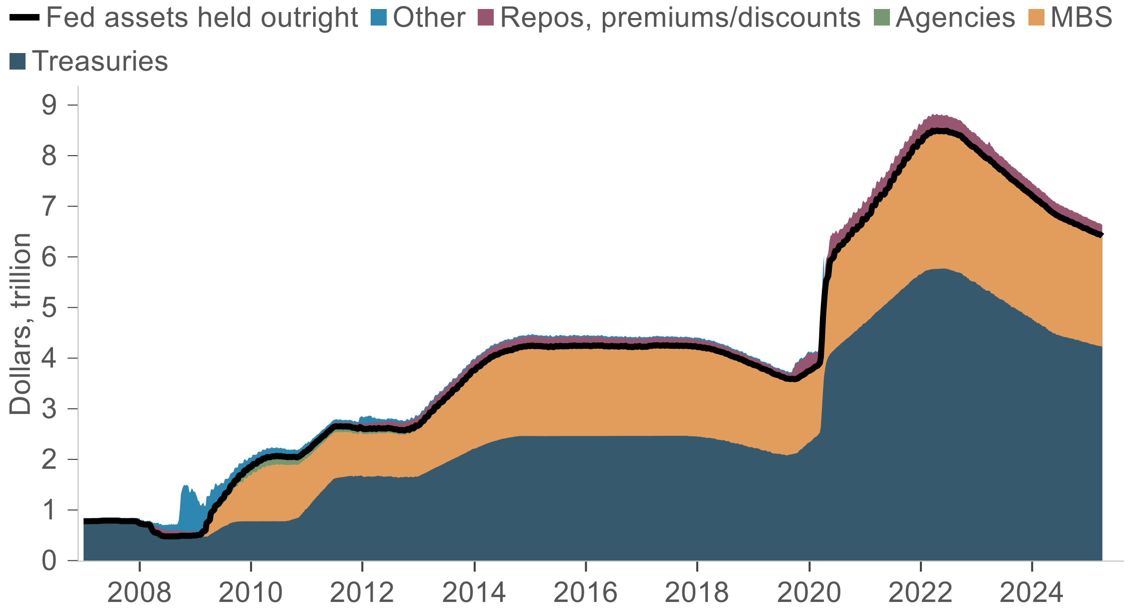
Opinions of New York Life Investments Global Market Strategy, April 2025.

Fed balance sheet tightening is nearing an end - particularly if recession hits

Quantitative tightening (QT) was slowed in February, and is likely to end this year as the Fed achieves its reserve management goals.

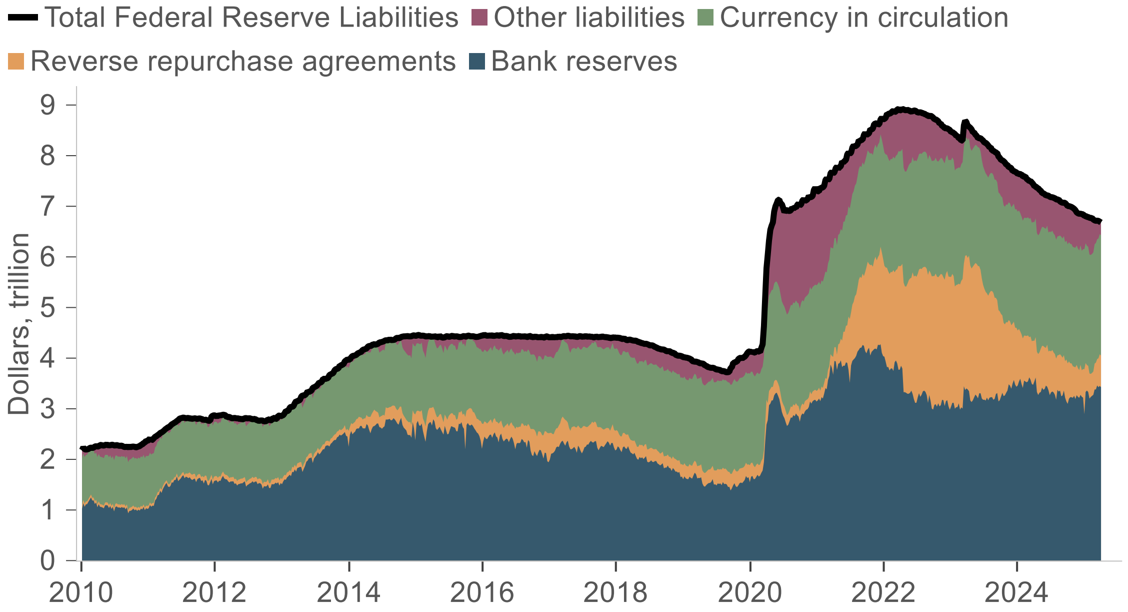
- The Fed's balance sheet, as any balance sheet, is made up of assets (**left chart**) and liabilities (**right chart**). As the Fed's reduces its assets via QT – having shaved off nearly $2T in assets since 2022 – it must also reduce its liabilities. Fed liabilities include bank reserves, currency in circulation, and vehicles for liquidity support such as its reverse repo facility (orange area, right chart).
- Post-pandemic, the Fed kept reserve levels abnormally "abundant" to ensure maximum flexibility in supporting liquidity and bank functioning. Needs for liquidity support are lower today, allowing the Fed to reduce reserves to "ample" levels safely, but recession presents a risk that the Fed may need to re-grow its balance sheet.
- The optimal level of Fed assets at which the Fed should halt its QT is hotly debated among practitioners and is a subjective estimate, even for the Fed itself.

Asset side of balance sheet: Fed has tapered nearly all its pandemic purchases



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Macrobond, April 2025. MBS: Mortgage-backed securities. Agencies: Agency-backed securities. Repos: repurchase agreements, used to adjust systemic liquidity. Other: misc assets amassed during GFC, including Term Asset-Backed Securities Loan Facility, used to create asset backed securities of consumer loans.

Liability side of balance sheet: from "abundant" to "ample" reserves



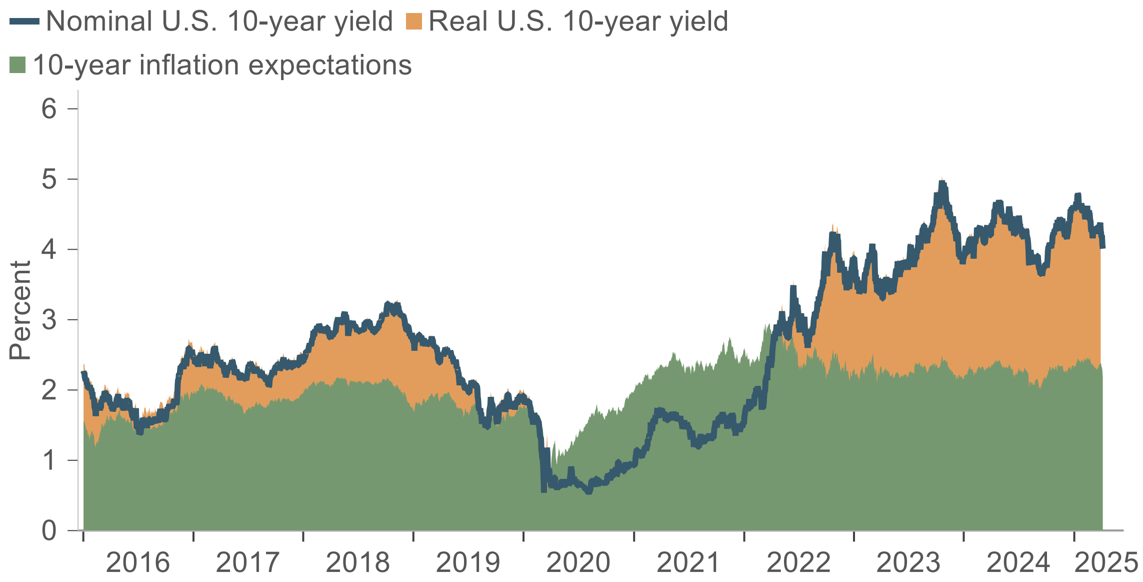
Sources: New York Life Investments Global Market Strategy, Federal Reserve, Macrobond, April 2025. Reverse Repurchase Agreements area a facility used by the Fed to support bank liquidity. Other liabilities include non-reserve deposits held by the Federal Reserve.

Market rates are likely to be higher and more volatile in our view

Long-term rates will be torn between upside inflation risks and downside growth risks. Investors should expect more rates volatility in response.

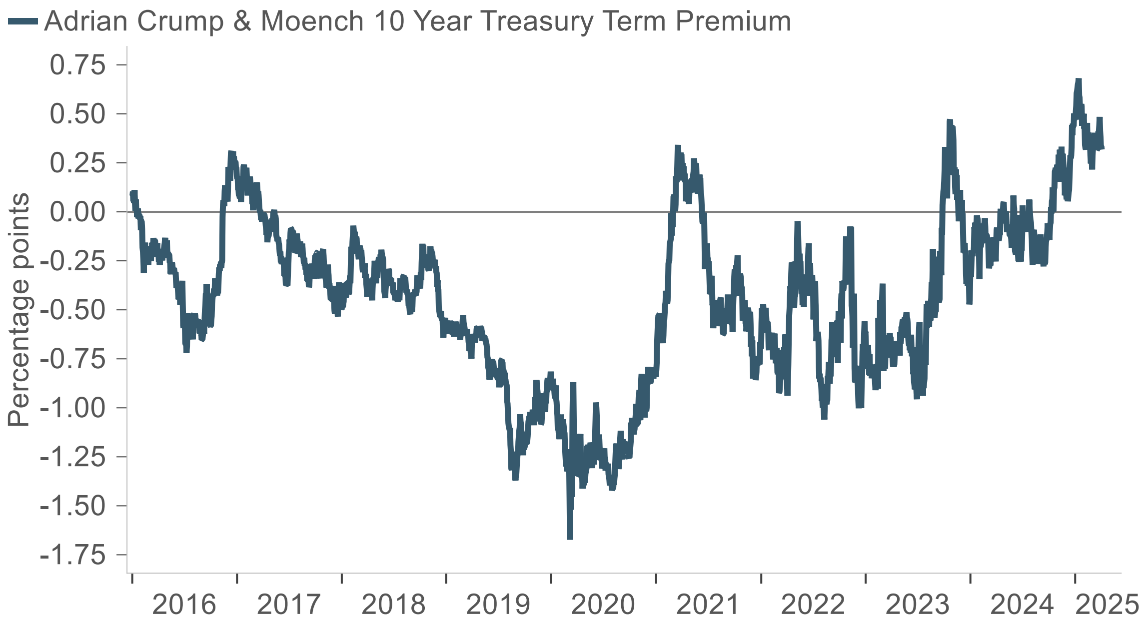
- Long-term interest rates are driven by expectations for inflation, the path of the policy rate, and the term premium, which encompasses expected supply and demand for Treasuries.
- Higher long rates reflect rising inflation expectations, a belief that the policy rate will not revert to previous lows this cycle, and the possibility of higher Treasury issuance as reflected in a rising term premium.
- The administration's stated focus on bringing down the 10Y won out during Q1. From here, we have a very wide range of expectations for the 10Y as markets balance inflation and growth risks. The resulting volatility increases our conviction that duration is not where we prefer to take risk.

Composition of the 10-year Treasury yield: real rates have led nominal yields higher



Source: New York Life Investments Multi-Asset Solutions, Federal Reserve, U.S. Department of Treasury, Macrobond Financial AB, Macrobond, 4/4/2025. Figures may not sum due to rounding. The nominal yield is the stated yield on an investment, before adjusting for inflation. The real yield is the yield adjusted for inflation. Past performance is not a guarantee of future results.

The rising term premium reflects expectations for greater Treasury supply (issuance) relative to demand



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, April 2025.

Rates volatility raises questions for the yield curve, and for bank lending

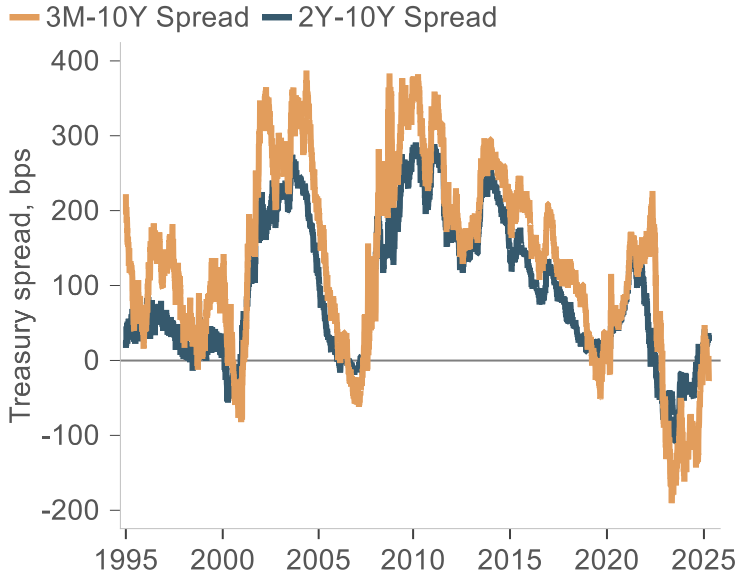
Both supply and demand of loans to businesses and households had moved from depressed levels to neutral, but we see risks to both.

While the 2Y-10Y spread has normalized, the 3M-10Y spread has re-inverted. This is driven by a shallower-than-expected easing cycle on the front end and new downward pressures on the 10Y. It is likely that growth expectations and policy uncertainty, and not the state of normalization of the yield curve, that will drive near-term loan demand.

Tight lending standards typically precede economic contractions, but the most recent era of restrictive conditions did not produce a recession. The Senior Loan Officer Opinion Survey (SLOOS) now points to lending conditions neither tightening nor loosening, which aligns with today's more normalized but increasingly volatile market yields.

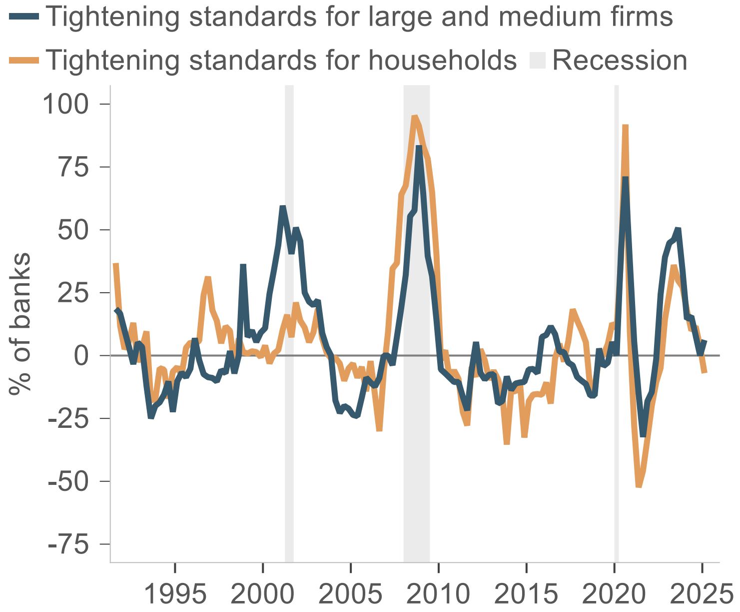
On the demand side: late in 2024, both households and businesses were exiting an era of depressed demand for bank loans. Looking ahead, policy uncertainty is likely to push out major borrowing decisions by both corporations and households.

The Treasury yield curve has finally normalized across tenors



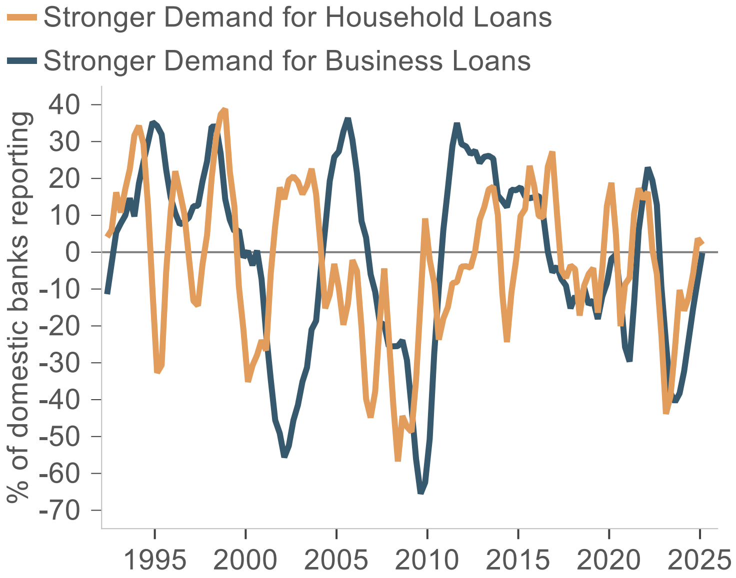
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, April 2025.

Bank lending standards have moved to neutral



Sources: New York Life Investments Global Market Strategy, U.S. Federal Reserve, Bloomberg, Macrobond, April 2025.

Loan demand is picking up for both businesses and households



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Macrobond, April 2025.

New York Life Investments

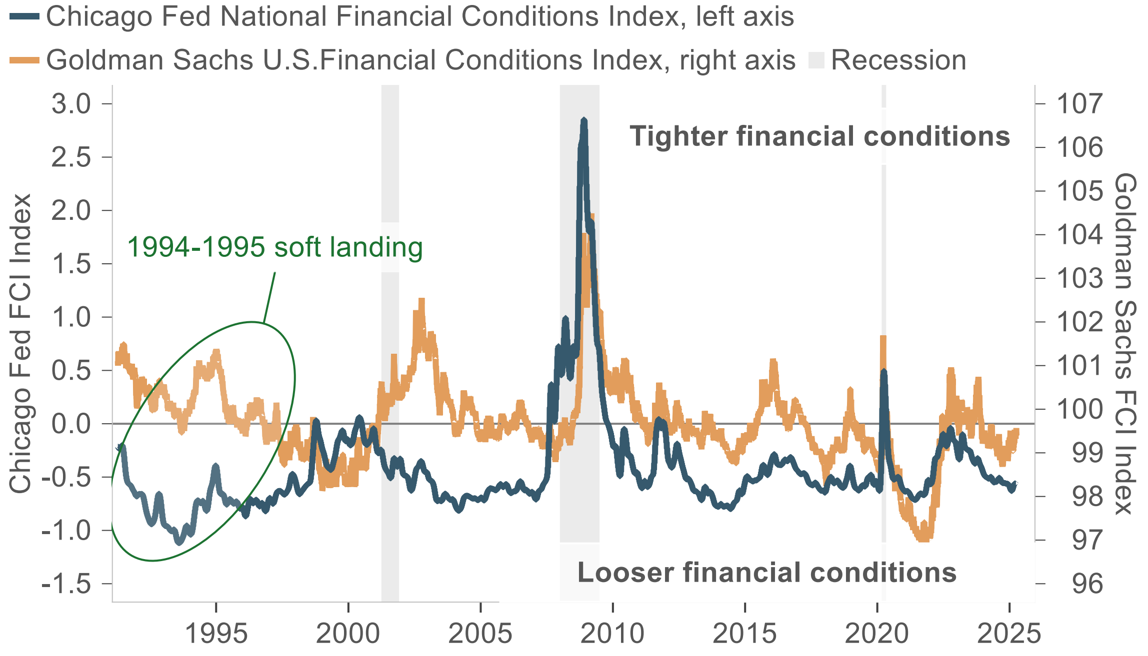
Market-determined financial conditions are likely to tighten

In this moment of peak policy uncertainty, pressure on equity valuations and credit spreads are likely to push financial conditions tighter.

- Vis a vis the longer term, market-determined financial conditions are still loose (**left chart**) because equities have seen strong price performance and relatively low volatility; credit spreads are tight (**right chart**); and the U.S. dollar is strong. However, the recent market volatility has brought equities well off their highs and put widening pressure on spreads, suggesting financial conditions will tighten, perhaps considerably, from here.

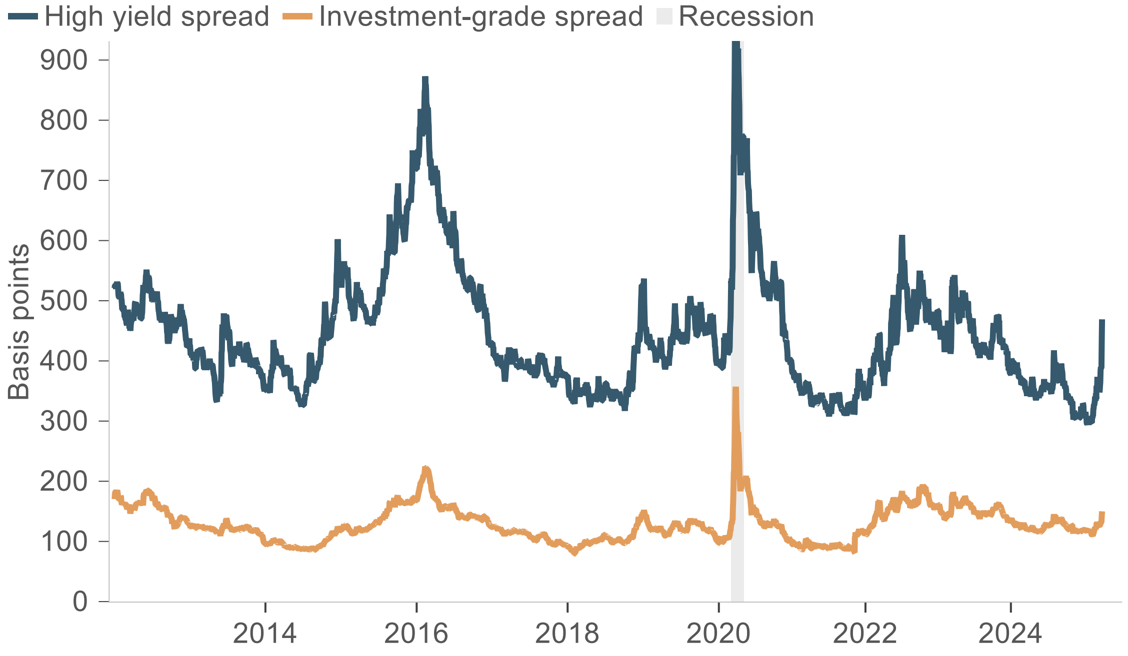
- Though we expect credit spreads to widen, we are still constructive on credit quality for near term. Even amid tariffs, post-pandemic programs and cash management give us confidence in corporates' ability to repay their loans over the next 2-3 years. A pronounced economic and market drawdown may increase default rates overall, but this is unlikely to be the case among high quality issuers.

Market financial conditions are already loose, but can change on a dime



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, April 2025.

Spreads are at historic lows for high yield credit



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, April 2025.

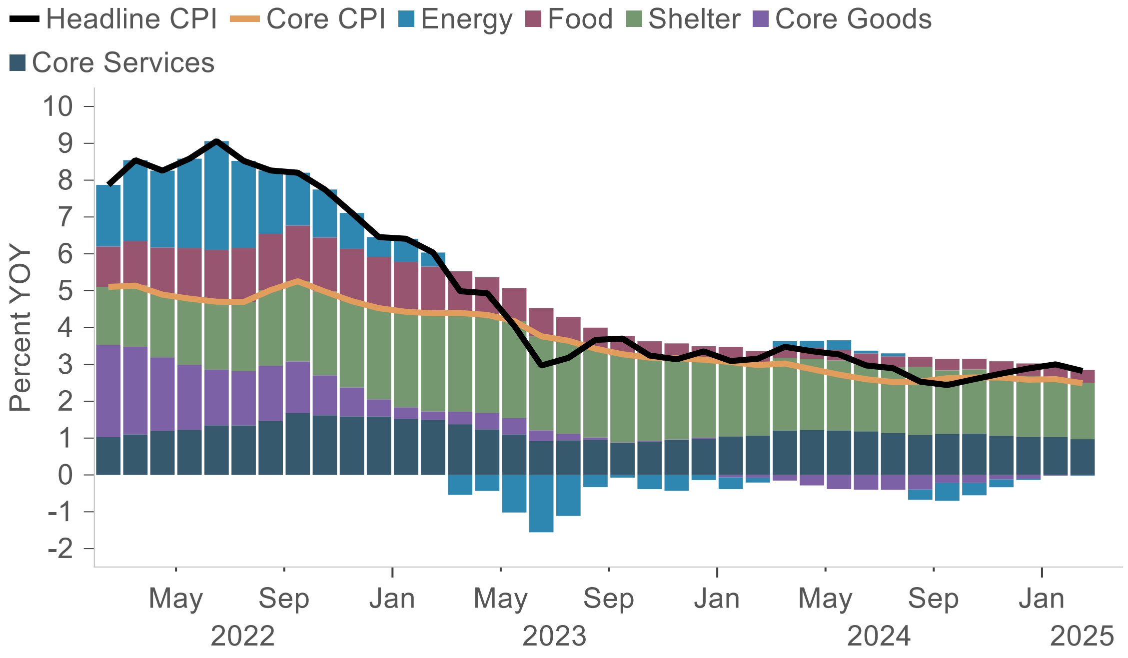
The economy is still facing the fastest inflation surge since the 1970s

Without a true "landing" from the previous cycle and with policy risk to the upside, inflation cannot re-anchor.

- U.S. inflation has moderated from its peak in mid-2022 but remains above the Federal Reserve's 2% target.
- A solid jobs market, strong yield generation and equity price performance have led to above-trend economic growth and a resilient consumer, primarily among high-income households.

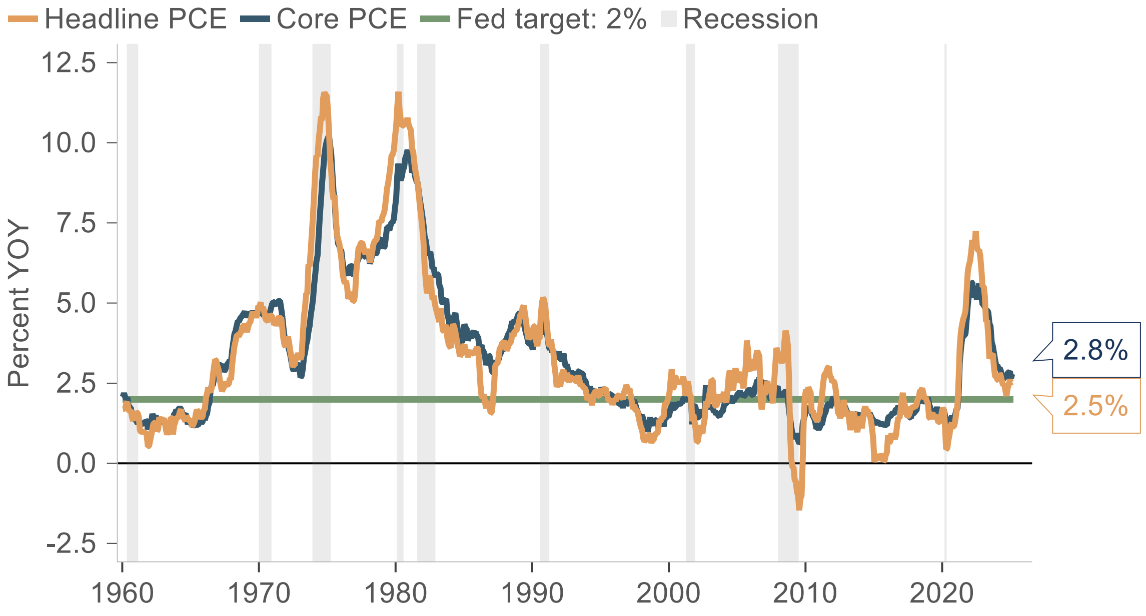
- For much of Q4 2024 and Q1 2025, the balance of growth, employment, inflation, and rates looked like Goldilocks. However, upside risks to inflation are firming as tariffs work their way through sentiment and the markets.

Shelter inflation proving the stickiest



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, April 2025.

PCE inflation is far from peak, but progress toward target is slowing



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), NBER (National Bureau of Economic Research), Federal Reserve, Federal Reserve Bank of New York, Macrobond, April 2025. PCE: Personal Consumption Expenditure, the Fed's targeted inflation measure

Inflation's progress toward the Fed's target had slowed even before the new tariffs

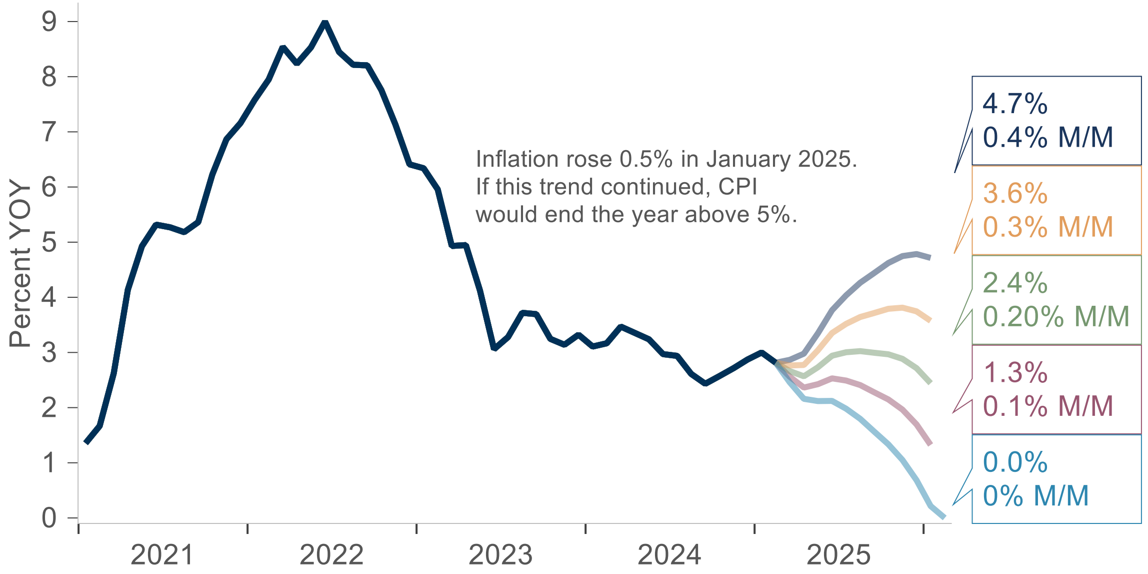
It takes only incremental monthly increases, particularly in the largest components of the inflation basket, to create a double peak in inflation.

- Inflation reacceleration risk is top of mind for the Fed: monthly increases greater than 0.2% in inflation will likely keep the Fed on hold.
- Tariff-led inflation is particularly worrying for Fed policy, as policy affects the demand side of the economy, not supply, and higher interest rates are unlikely to be directly effective in taming tariff-led price increases.

- Housing inflation remains stubborn due to tight supply, resilient demand, and rising maintenance costs. A decade of underbuilding and locked-in low mortgage rates keep inventory constrained, while demographic trends sustain demand; in sum, these factors keep house prices high. Meanwhile, higher labor, material, and insurance costs also keep maintenance costs high. These costs impact both owners and renters in the CPI basket.

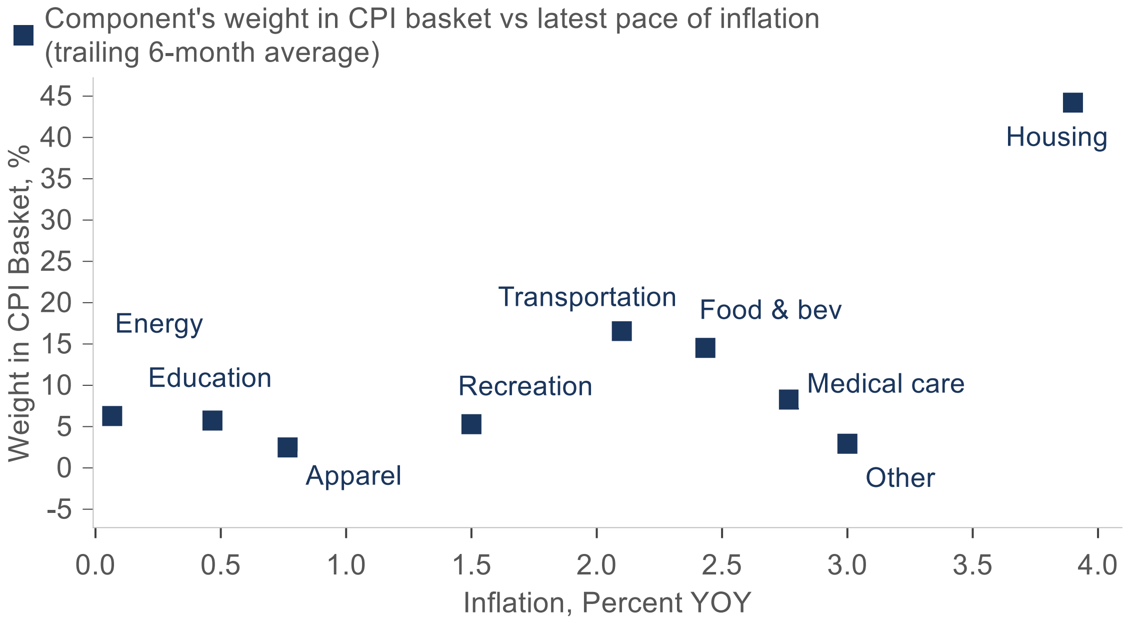
Incremental monthly increases could easily create a reacceleration trend in CPI

12-month ahead CPI evolution based on M/M scenarios



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, April 2025. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The largest components of the inflation basket are also seeing fastest pace of price growth



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, April 2025.

Inflation expectations also point to upside risk for prices

Rising inflation expectations for the next year reflect greater policy uncertainty, and expectations can drive inflation itself.

Near-term inflation expectations tend to be more volatile than longer-term expectations, as long as the market believes the Fed can hold to its 2.0% target. In recent months, near-term breakevens have moved materially higher, while long-term breakevens reflect downward growth pressure.

Inflation swaps have a more compressed range, but point to the same trend as breakevens: near-term inflation expectations have fully de-anchored, while long-term inflation expectations are compressed by concerns about the new structural growth outlook.

Consumer surveys are naturally noisy, but the recent spike in next-year inflation expectations shows consumers are extremely worried about prices – specifically, a tariff-led reacceleration in inflation. Notably, expectations for 5-year forward inflation in the U Mich survey are at their highest since the 1990s.

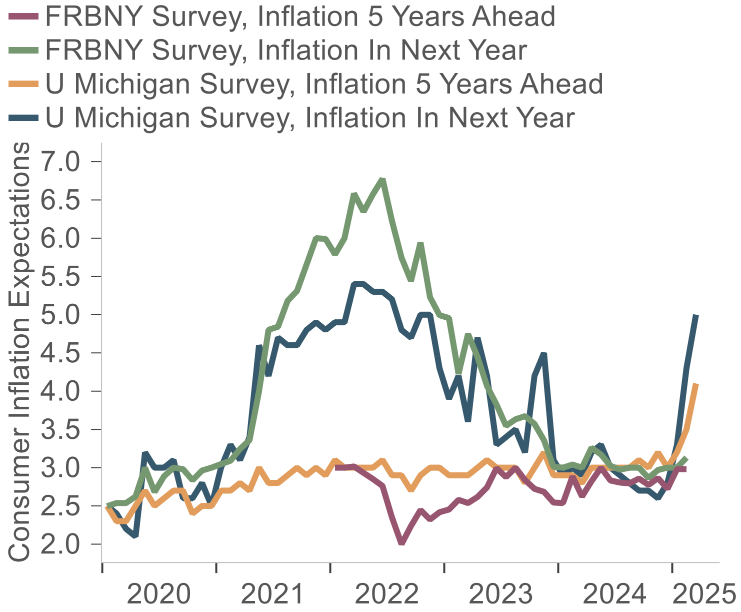
Long-term TIPS-derived inflation breakevens are well anchored; near-term remains volatile

Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, April 2025. Inflation breakevens are the implied rate of inflation implied by the pricing of TIPS, Treasury Inflation Protected Securities. The 5yr 5yr breakeven: expected inflation in 5 years, for the following 5 years.

Zero-coupon inflation swaps also point to a more volatile near-term inflation outlook

Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, April 2025. A derivative used to transfer inflation risk from one party to another through an exchange of cash flows. In a zero coupon inflation swap, only one payment is done at maturity where one party pays a fixed rate on a notional principal amount, while the other party pays a floating rate linked to an inflation index.

Consumer inflation expectations are rising again



Sources: New York Life Investments Global Market Strategy, University of Michigan, Federal Reserve Bank of New York, Macrobond, April 2025.

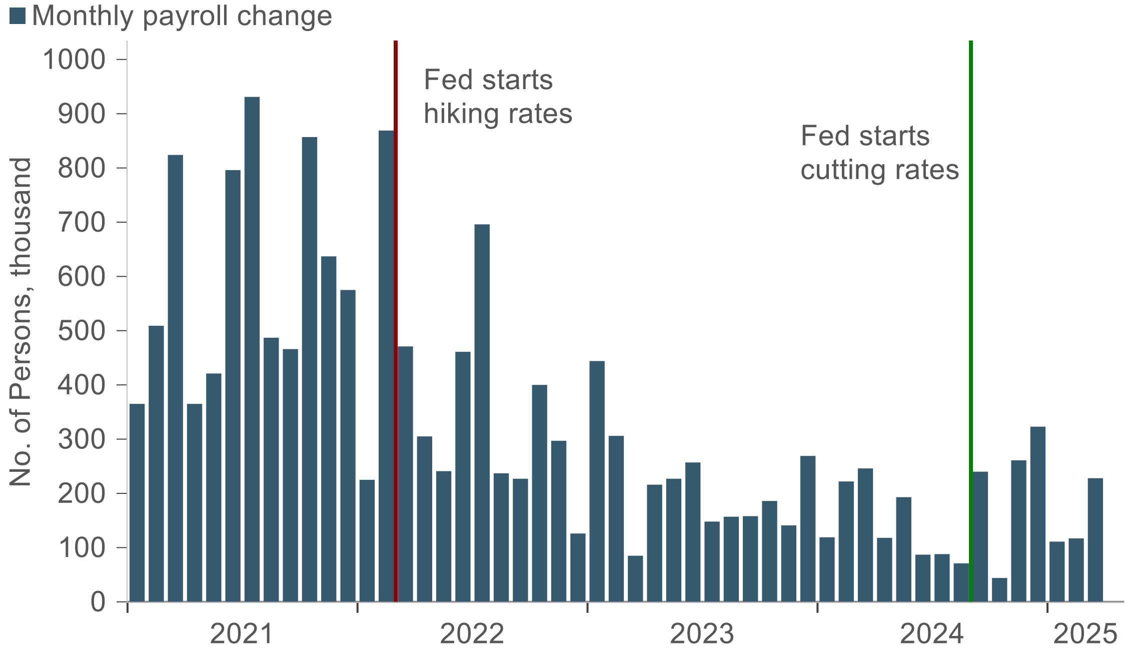
Labor market strength has been a vital source of stability, but risks are rising

Historically, Fed cuts help stabilize the labor market but do not drive strong waves of hiring.

- Labor market stability has been paramount to our economic view; strong wages and job availability have carried consumers through an inflationary environment. Now, we see mounting risks that companies will simply pause hiring plans, possibly prompting a more marked deterioration in the labor market than would otherwise be expected in a standard easing cycle.

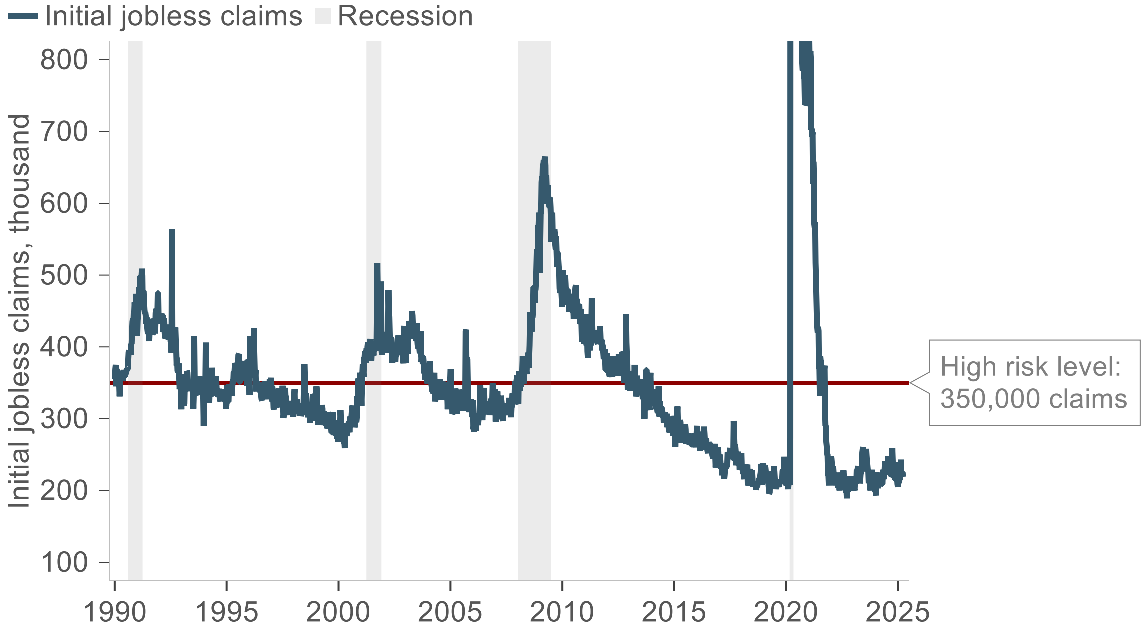
- Jobless claims serve as an early warning for labor market weakness, yet they have remained low throughout the Fed's hiking and cutting cycle. So far this year, weekly claims have averaged 222,000, signaling continued strength. We see 350,000 as the key threshold where investors should be wary of a labor market downturn.

Job growth gradually decelerated during rate hikes to normalized levels



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, April 2025.

Jobless claims should provide an early signal of labor market weakness



Sources: New York Life Investments Global Market Strategy, U.S. Department of Labor, NBER (National Bureau of Economic Research), Macrobond, April 2025. High risk level reflects opinions of the Global Market Strategy team.

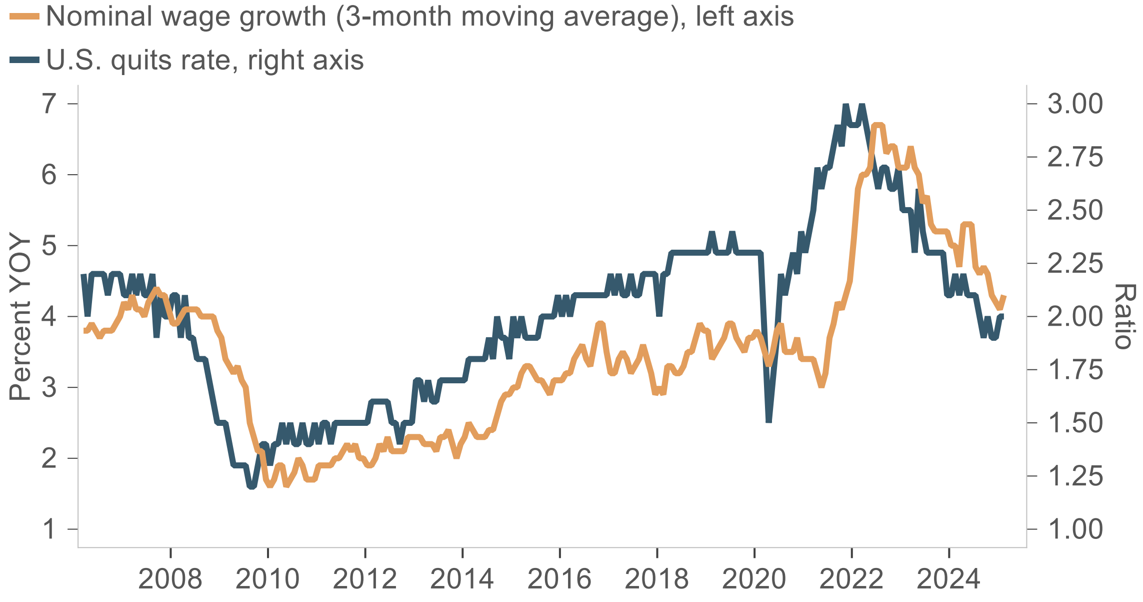
The labor market had moved into better balance in recent quarters

Hiring and wage growth were already slowing. Government layoffs and expected pressure on hiring are likely to test the current labor balance.

- Over the last several quarters, the labor market has moved from an overheating level into more balance. A slowing quits rate back to pre-pandemic levels suggests 1) employee confidence is waning and 2) wage growth may continue to moderate, reducing inflationary pressure. Policy uncertainty is now very likely to weigh on hiring plans, but may not spark immediate mass layoffs as companies navigate their new operating environment.

- Small businesses comprise over 46% of private employment in the U.S. Small business hiring plans are not yet at recessionary levels, but reflect that talent is difficult to find and expensive to hire and retain.
- A decline in weekly hours worked may be an early indicator that companies are cutting back on hours to avoid layoffs.

A declining quits rate signals a labor market moving toward better equilibrium, as fewer workers feel confident enough to switch jobs for higher pay



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Federal Reserve Bank of Atlanta, Macrobond, April 2025.

Survey data also suggets labor market activity is moderating

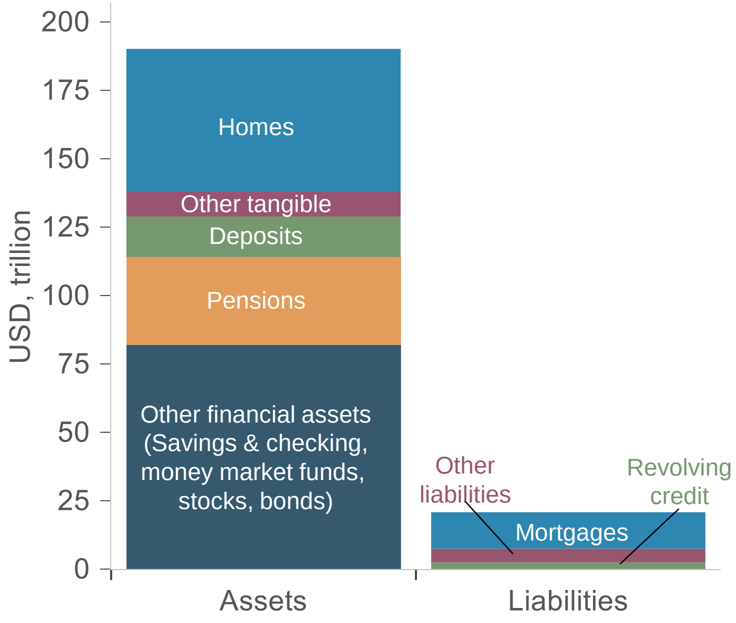
Sources: New York Life Investments Global Market Strategy, National Federation of Independent Business, U.S. Bureau of Labor Statistics (BLS), NBER (National Bureau of Economic Research), Macrobond, April 2025.

The U.S. consumer remains remarkably resilient…

Consumer spending, primarily by high-income households, makes up the lion's share of U.S. economic growth.

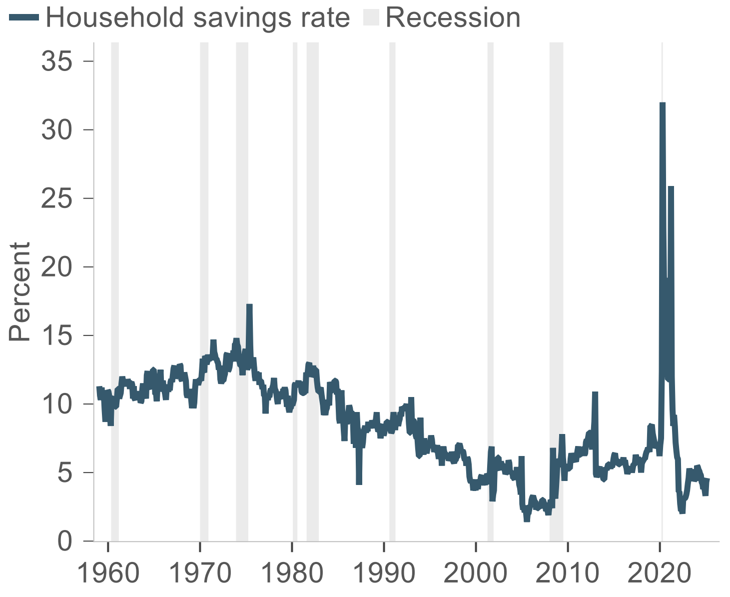
- U.S. homeowners have been almost entirely shielded from the Fed's hiking cycle. Homeowners' equity is at the highest level on record and financial assets have been bolstered by strong capital markets performance. This positive wealth effect has supported higher-income household consumption, seen in rising credit card balances (without rising default rates).
- High-income consumers make up a large portion of consumer spending. Equity market pressure may be enough to cause these consumers' confidence to wane, weighing on overall consumer activity.
- Consumers no longer have a savings backstop; "excess savings" have long been drawn down. A lower savings rate is likely a point of vulnerability in a rising inflation scenario.

Consumer balance sheets are healthy...



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Macrobond, April 2025.

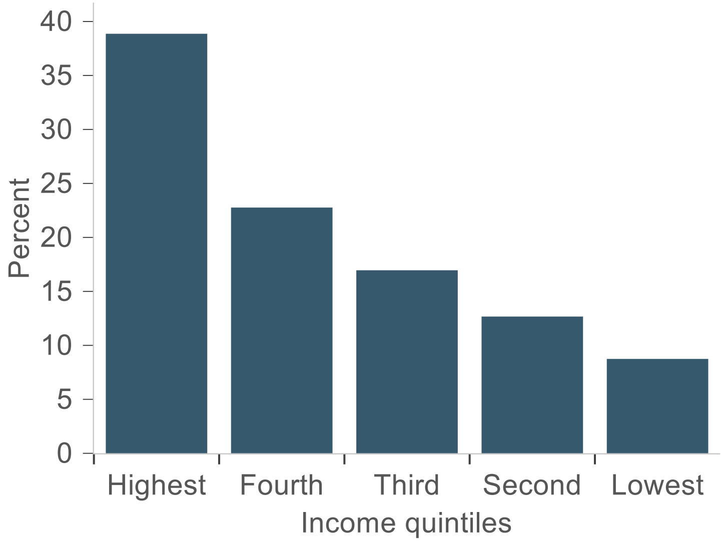
...but savings are being drawn down



Sources: New York Life Investments Global Market Strategy, National Association for Business Economics, NBER (National Bureau of Economic Research), U.S. Bureau of Economic Analysis (BEA), Macrobond, April 2025.

High-income earnings generate the majority of consumer spending

2024 consumer spending by income quartile



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, April 2025.

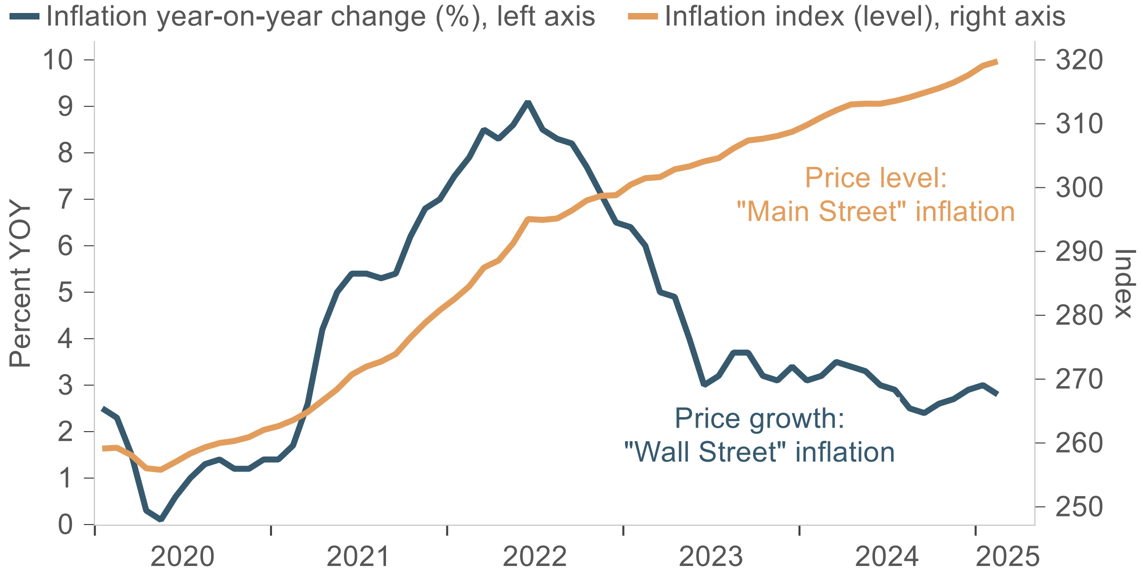
…but Americans have seen no price relief in four years

"Main street" inflation is squeezing consumers and likely to squeeze further, particularly younger and lower-income segments.

- Wall Street focuses on inflation's rate of change, but Main Street lives with permanently higher prices. Even though inflation growth has cooled, prices haven't fallen – they've just stopped rising as fast, keeping household budgets under strain. For consumers, it's not about "how fast" prices are rising anymore – it's that the new price plateau is significantly higher than before.

- Historically, consumer spending holds up until layoffs become widespread. Behavioral economics research confirms that spending patterns shift when people witness job losses within their social or professional networks. Fear of being the next person laid off erodes confidence, stoke precautionary savings, and erode consumer demand. These conditions are nowhere to be found today, suggesting this key source of consumer support is intact.

Price levels continue to inflate, which matters more than inflation pace for consumers



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Bank of America, Macrobond, April 2025. Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Core CPI excludes food and energy prices.

Low job loss anxiety has supported consumer spending

Survey of consumer expectations: Job separation expectations (How worried are you about losing your job?)

Sources: New York Life Investments Global Market Strategy, Federal Reserve Bank of New York, NBER (National Bureau of Economic Research), U.S. Bureau of Labor Statistics (BLS), Macrobond, April 2025.

Consumer credit faces risks from an otherwise healthy position on average

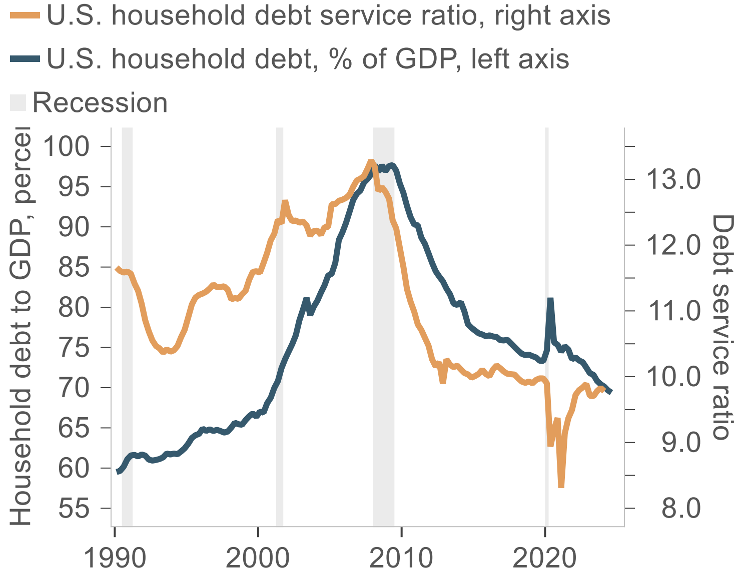
Though lower-income and younger households are struggling, we see no *systemic* signs of consumer overleverage or credit quality concerns.

American consumers are not over-leveraged. Mortgage debt service is at its easiest point on record, keeping overall debt service comfortable on aggregate.

Consumer credit growth plummeted to just below zero in January 2025, but off a historically strong base of credit growth. We are monitoring consumer credit closely: requiring credit to finance normal spending is not healthy, but nor do we want to see a collapse in consumer loan demand.

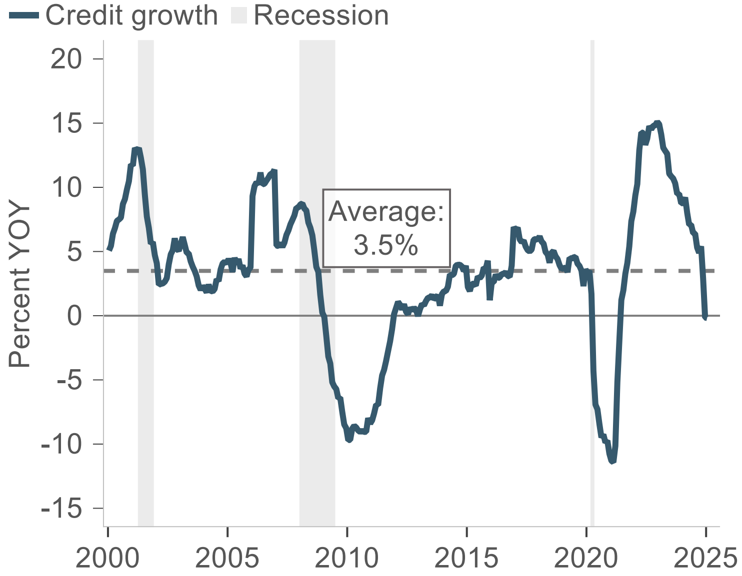
Pockets of stress, namely among younger and lower-income segments that lack a savings backstop, are likely to worsen as growth slows and inflation reaccelerates. In these groups we see higher credit card balances and rising delinquencies in credit cards and auto loans.

The household debt imbalance that preceded the GFC is nowhere to be found



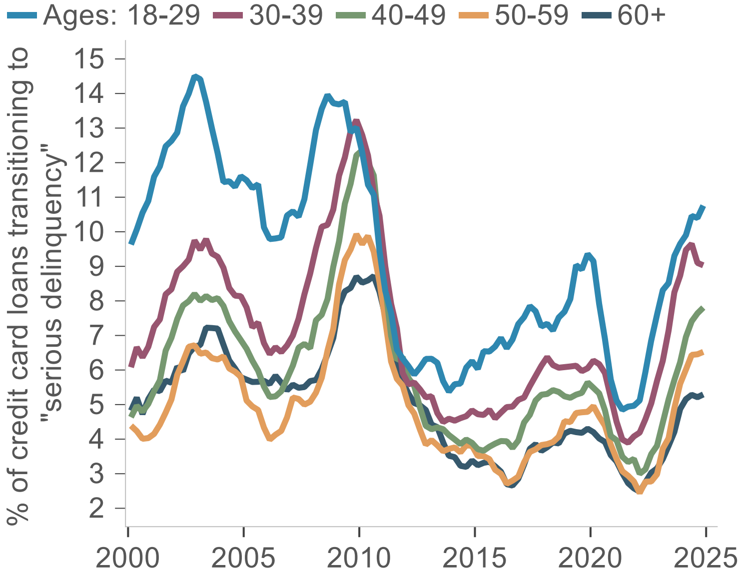
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Federal Reserve, Bloomberg, Macrobond, April 2025.

Consumer credit growth has notably slowed off a strong base



Sources: New York Life Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, April 2025.

Credit quality issues are concentrated, not broad based



Sources: New York Life Investments Global Market Strategy, Federal Reserve Bank of New York, Macrobond, April 2025.

Housing supply and affordability issues are unlikely to budge

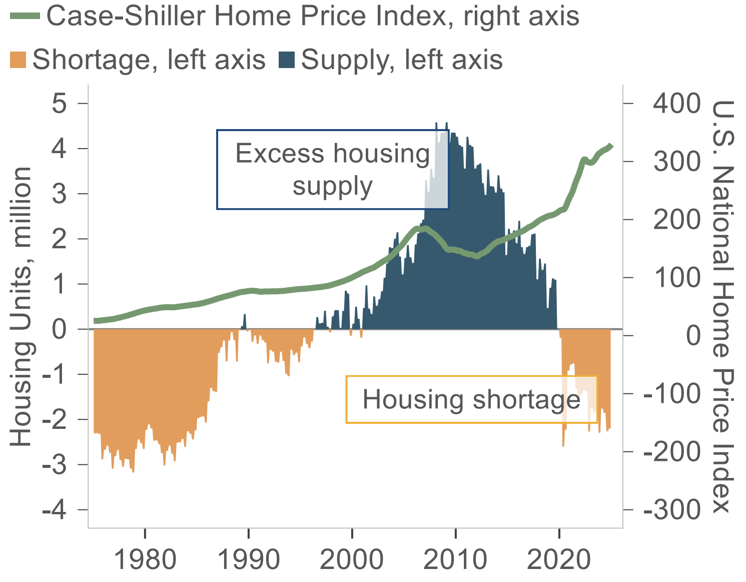
Home prices have a strong floor for the medium term – even with expectations for more volatile mortgage rates and pressure on growth.

Structural challenges in housing supply are a key reason that U.S. housing is unaffordable. Record housing construction in the past few years has not removed this backlog; we expect the shortage to continue into the medium term, putting a floor on home prices. While affordability is a structural issue for younger segments, home equity has been a boon to owners.

Accordingly, housing sales volumes are depressed. Existing homeowners are unwilling to give up a paid-off home or low mortgage rate in favor of a more expensive mortgage. Transactions are concentrated in newly built homes, where new supply exists and low maintenance costs attract new homeowners who are stretched with high mortgage rates.

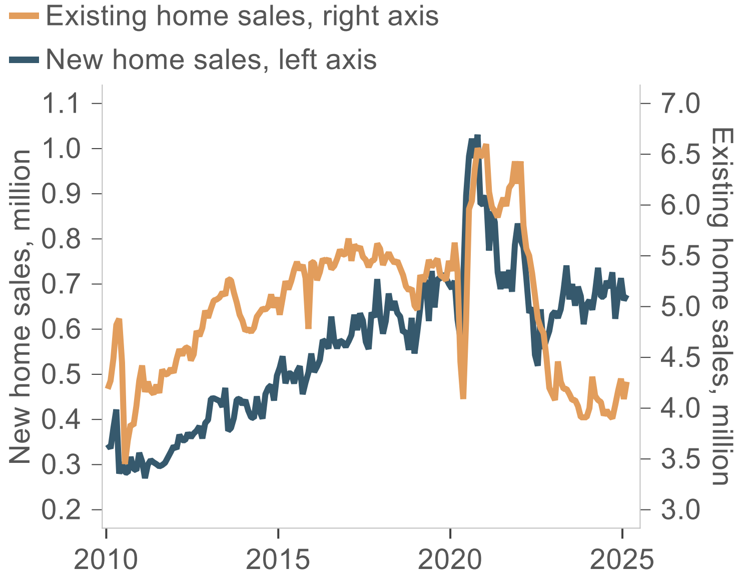
It would take meaningful market shifts – greater housing supply, and/or meaningfully lower mortgage rates – for these dynamics to improve. The average effective mortgage rate is 4.0%; 75% of homes already have a mortgage rate under 5.0%. Accordingly, modest mortgage rate relief is not enough to change the incentive to buy or move homes.

The U.S. housing shortage has put a floor under prices



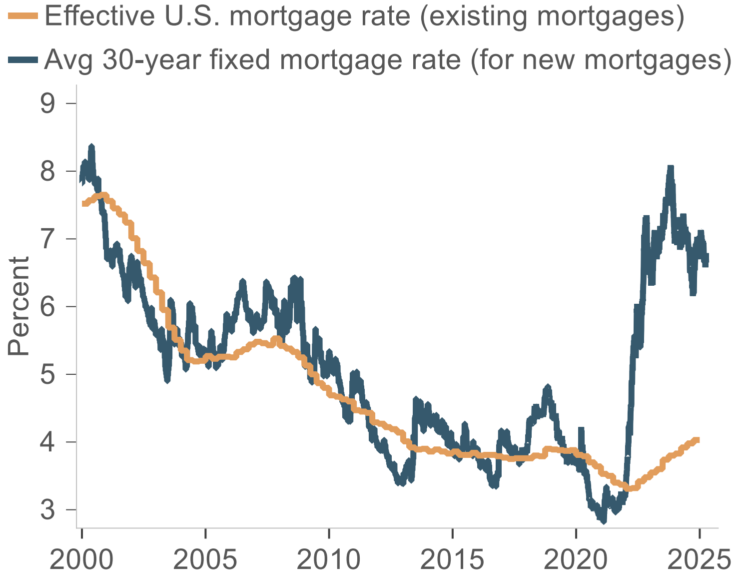
Sources: New York Life Investments Global Market Strategy, U.S. Census Bureau, U.S. Bureau of Economic Analysis (BEA), S&P Global, Macrobond, April 2025.

Existing homeowners are unwilling to give up their low mortgage rates



Sources: New York Life Investments Global Market Strategy, U.S. Census Bureau, National Association of Realtors (NAR), Macrobond, April 2025.

Mortgage rates would need to plummet to incentivize housing turnover



Sources: New York Life Investments Global Market Strategy, Bankrate, Macrobond, April 2025.

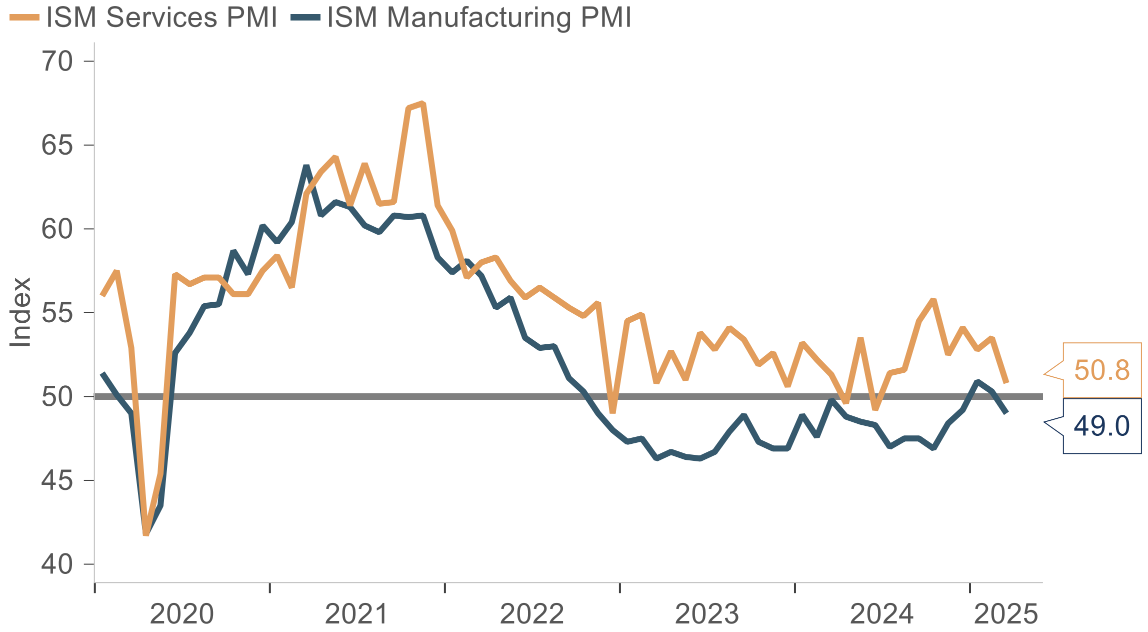
Business sentiment has been shaky even after a prolonged manufacturing slowdown

We will be monitoring both large and small business sentiment for impacts of tariffs, immigration policy shifts, and deregulation.

- Services sector sentiment appears to have achieved a soft landing, but it is now clear a manufacturing recession occurred in 2022-2024 as higher interest rates hit this capital-intensive sector.
- We expect sentiment in both segments to deteriorate as input costs rise and capex-related uncertainty increases.

- Small business sentiment dramatically improved post-election and historically corresponds to consumer sentiment among Republican party supporters.
- Restrictive interest rates were not small businesses' largest problem this cycle. Interest rate cuts may not be a tailwind for sentiment, as they do not solve existing labor quality concerns and may contribute to ongoing stickiness in inflation.

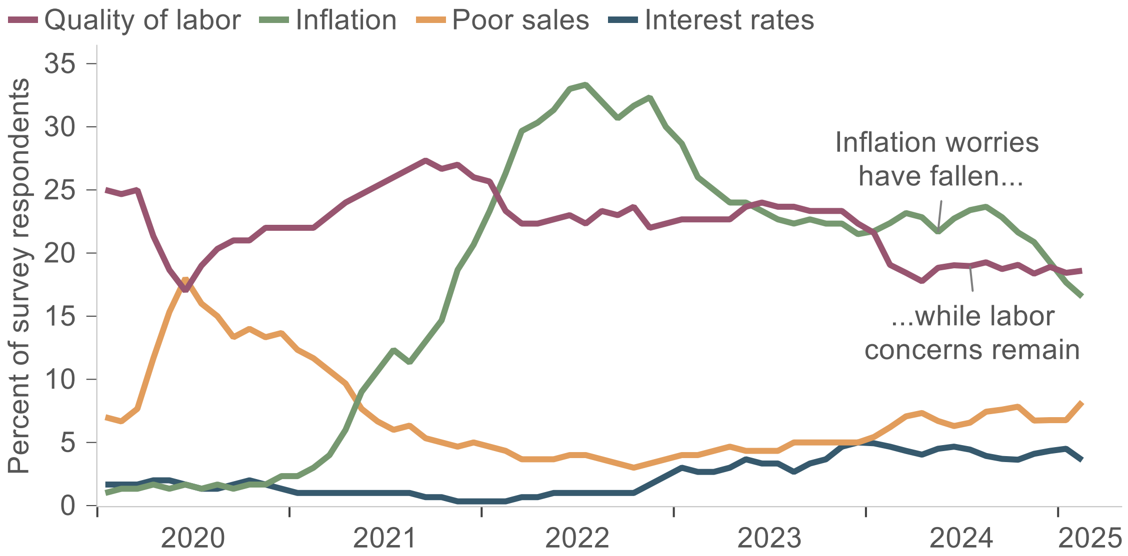
PMI sentiment suggests we are exiting a manufacturing recession



Sources: New York Life Investments Global Market Strategy, Institute for Supply Management (ISM), Macrobond, April 2025. PMI: Purchasing Managers Index, a survey-based sentiment indicator.

Small business optimism has improved, but interest rate cuts do not solve their top problems

Survey of small businesses' "single most important problem":



Sources: New York Life Investments Global Market Strategy, National Federation of Independent Business, Macrobond, April 2025. Data presented as 3-month moving averages.

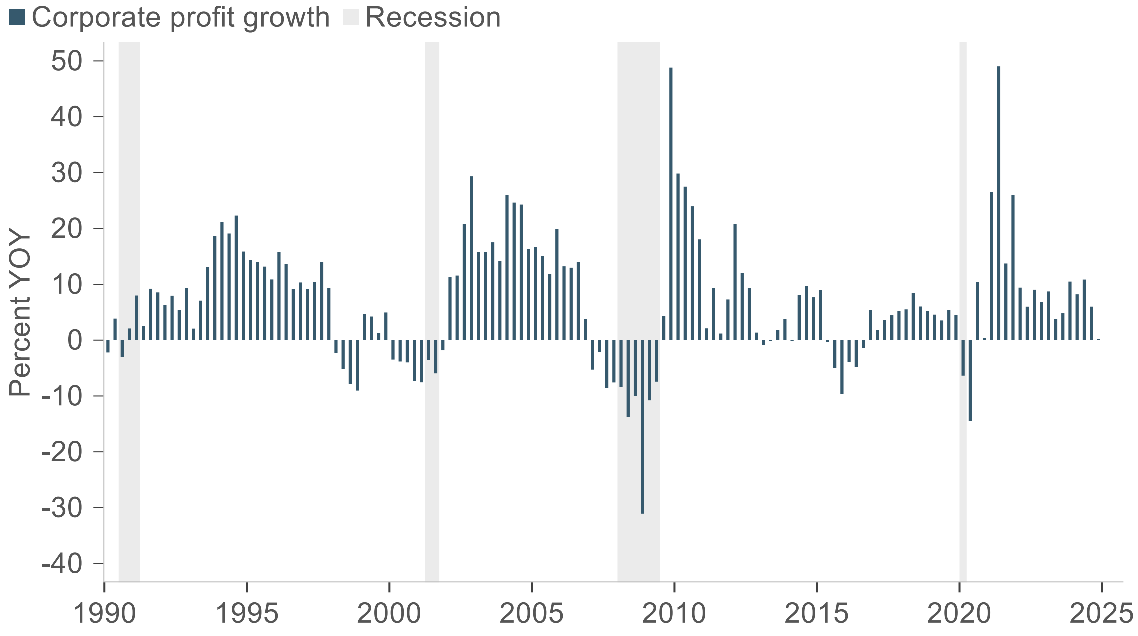
Businesses' healthy profit levels are likely now at risk

Hardy corporate profits provide a strong base, but we expect a deterioration as policy uncertainty, lower growth, and higher inflation hit margins.

- Today's corporate profit margins have been largely resilient, making near-term mass layoffs unlikely.
- However, as higher input costs and lower growth pressure margins, and as uncertainty affects business confidence in its investment and hiring outlooks, we expect profit growth to decelerate.

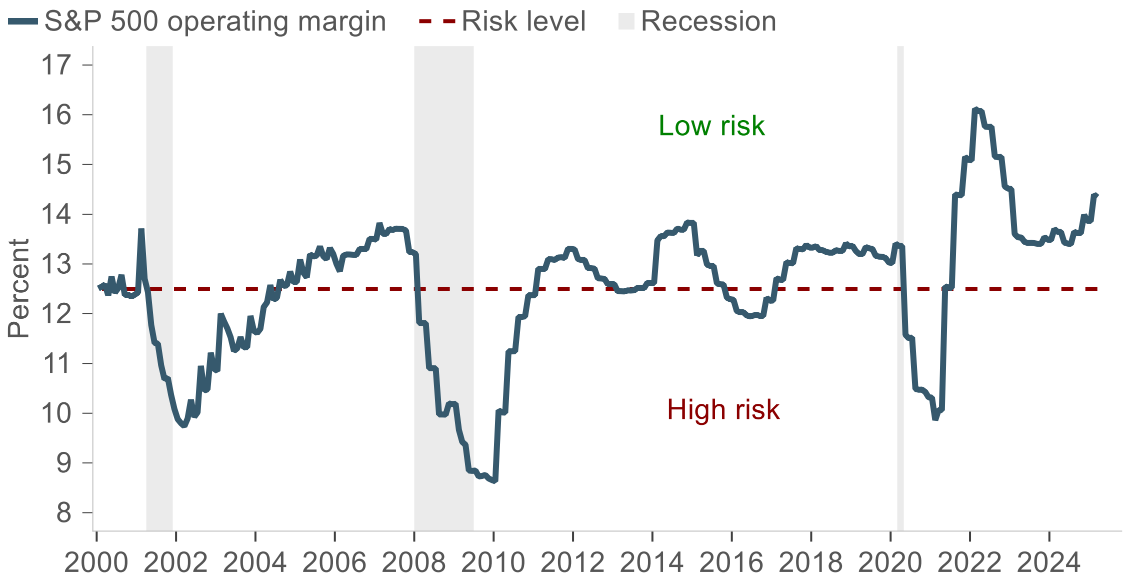
- Companies have been maintaining healthy margins. Today, S&P 500 operating margins are hovering near 13.7%, still above the level of around 12.5% where falling margins have historically become a concern. Technology-driven productivity improvements could support margin expansion in the medium term, but we believe consumer spending and inflation are likely to dominate the near-term story.

Hardy corporate profit growth is a clear sign of overall business health



Sources: New York Life Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, April 2025.

Despite slowing growth and high interest rates, companies have been maintaining stable margins



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Bloomberg, Macrobond, April 2025. 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.

Business input costs are not out of the woods

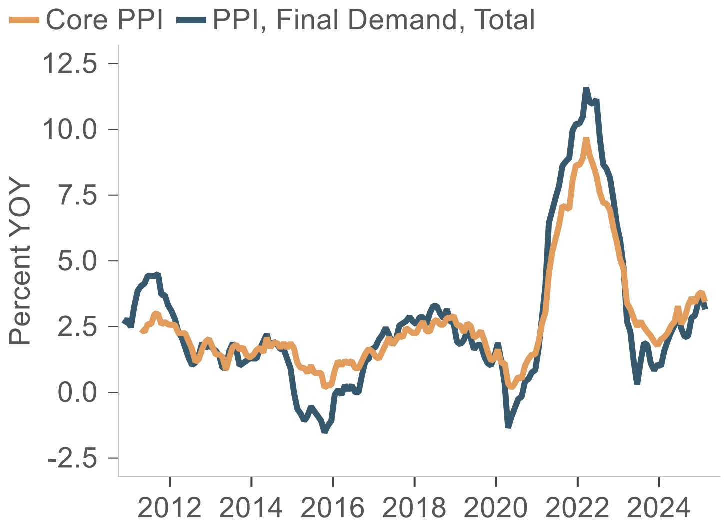
Employment costs are falling, but sticky input prices – even before tariffs – make it unlikely businesses will be lowering prices for their customers.

Producer prices rose sharply during the pandemic, which U.S. corporations successfully passed onto customers. Now, after some relief, input prices are moving higher again, driven by services costs such as traveler accommodation, transport costs, and retailing costs. We expect this trend to accelerate, driven by tariffs.

The cost to hire and retain employees has normalized from the historically-high levels seen in response to the pandemic. As wage growth slows, we see the Employment Cost Index come down, reflecting less competition for talent and weakening bargaining power of employees.

Energy prices, reflected in the broad producer price index (PPI) visualized to the left, are historically volatile. In addition to demand-side disruptions from the pandemic, supply-side disruptions from the war in Ukraine have driven high volatility. A path to peace in Ukraine could sustain recent stability.

Producer Price Index points to a gradual reacceleration in input costs, now likely to accelerate

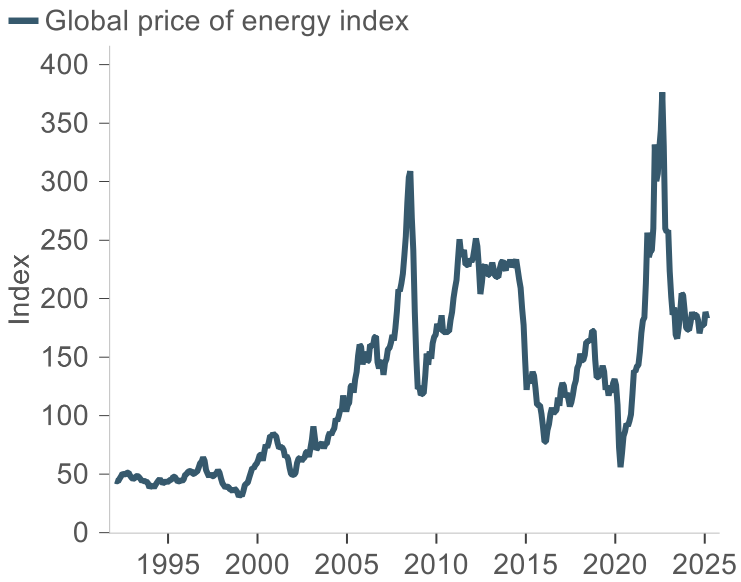


Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, April 2025. Core Producer Price Index (PPI): total less food and energy.

The decline in businesses' employment costs corresponds to slowing real wages

Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, April 2025.

Energy costs have normalized after reaching new highs



Sources: New York Life Investments Global Market Strategy, International Monetary Fund (IMF), Macrobond, April 2025.

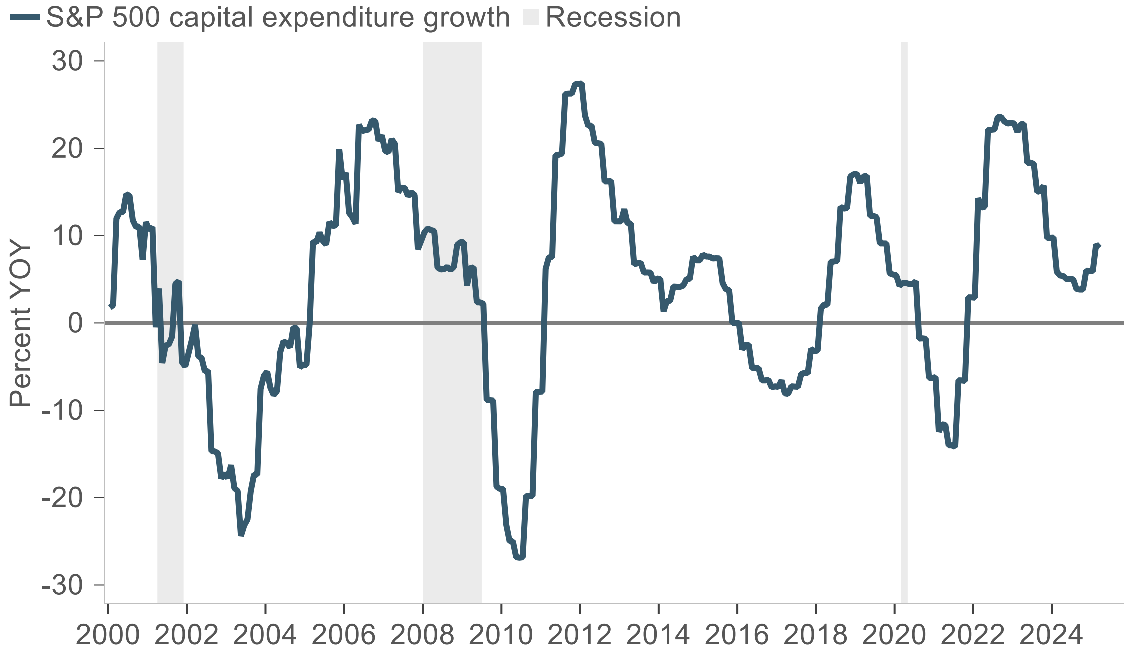
The business investment environment faces major headwinds

Tariff-driven uncertainty is likely to prompt a pause in investment decisions – replacing the AI-led investment euphoria of the post-pandemic era.

- Tariffs have turned our outlook for capital expenditures on their head. Where investments in AI infrastructure by the technology, communications, and utilities sectors had boosted our outlook, we now expect most companies to at least pause new capex plans as they navigate the input cost, interest rate, and general investment environment.

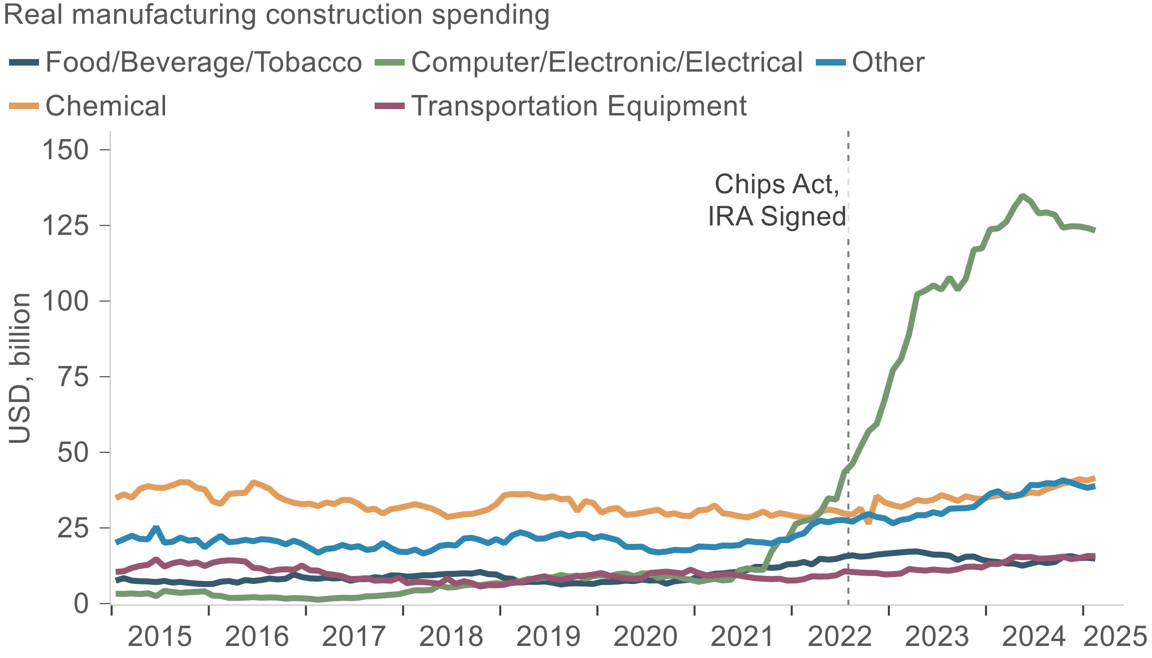
- The bright spot we'll be watching: tariffs may foster investment in areas that had already seen strong momentum, including digital infrastructure. combination of government spending in the semiconductor supply chain, coupled with strong corporate and consumer interest in AI, creates a solid foundation for sustained growth even as CHIPS Act allocations wind down.

A solid capex outlook has now been replaced by systemic uncertainty



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, April 2025.

Manufacturing construction is expected to drive manufacturing activity



Sources: New York Life Investments Global Market Strategy, U.S. Census Bureau, Macrobond, April 2025. IRA: Inflation Reduction Act.

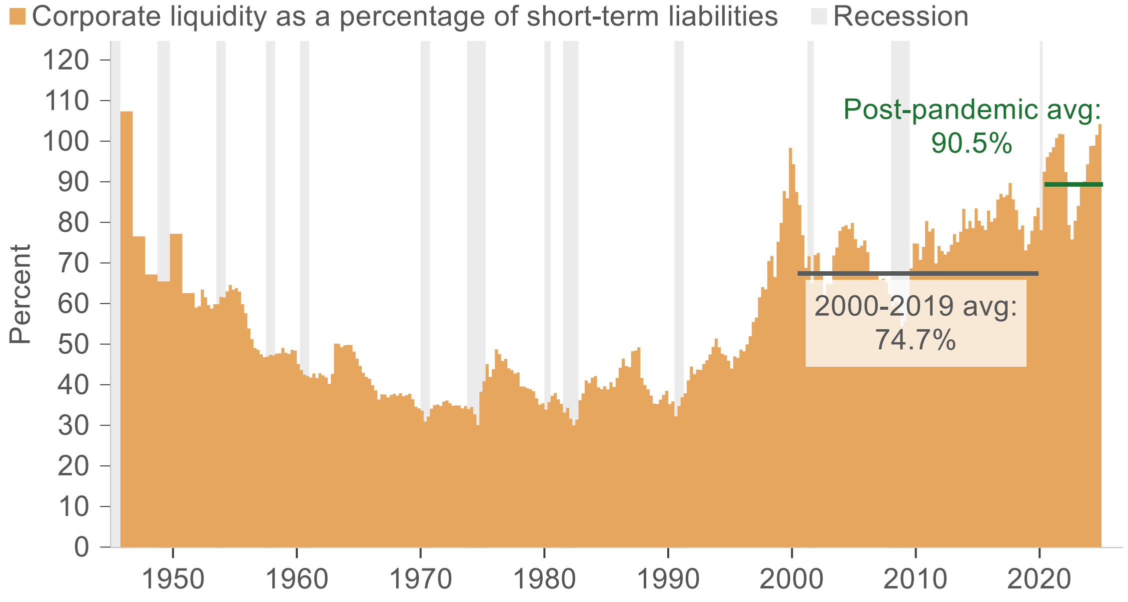
Business debt levels and debt service show no cause for concern

Even as ultra-cheap pandemic era financing rolls off, corporate capital structures look healthy.

- Large U.S. corporations are very well capitalized, able to cover over 90% of their short-term liabilities with cash. This cash buffer was initially built with the help of very cheap financing in the pandemic era, but companies have been able to maintain this buffer even as financing costs rose.

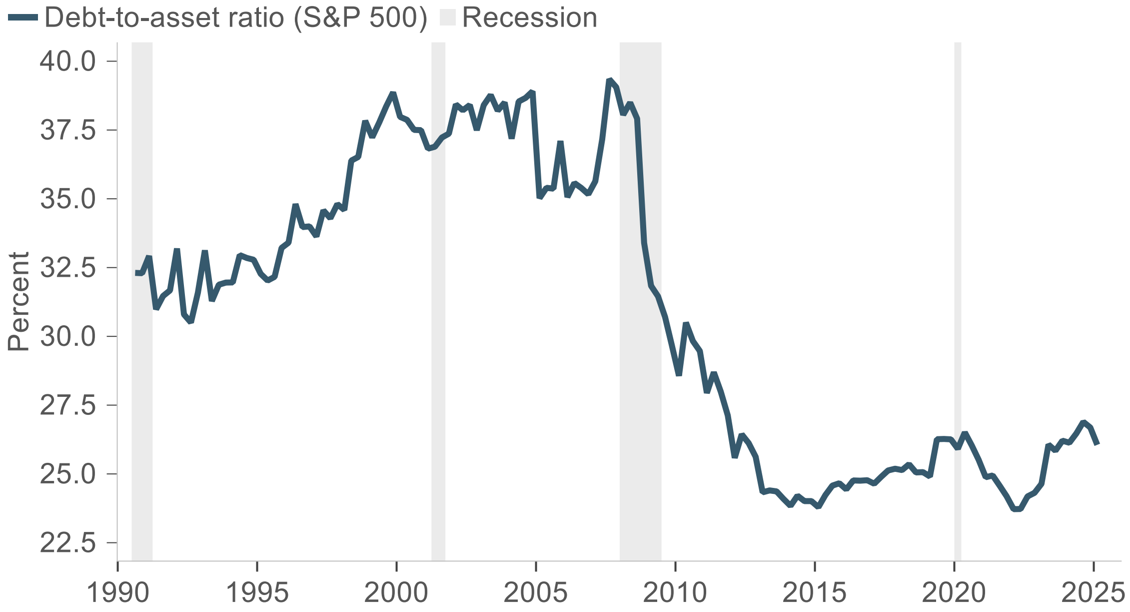
- Overall corporate debt-to-asset levels are near 30-year lows. Rather than accrue debt to get through the pandemic, U.S. companies benefitted from an easy financing environment and passed through inflation to consumers, allowing these firms to emerge from the pandemic with an improved capital structure.

Large companies with access to public capital markets have maintained strong short-term liability coverage



Sources: New York Life Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, April 2025.

We see no structural debt imbalance amongst listed corporations



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Standard and Poor's, Macrobond, April 2025. The S&P 500 Index tracks the performance of 500 large cap U.S. companies. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

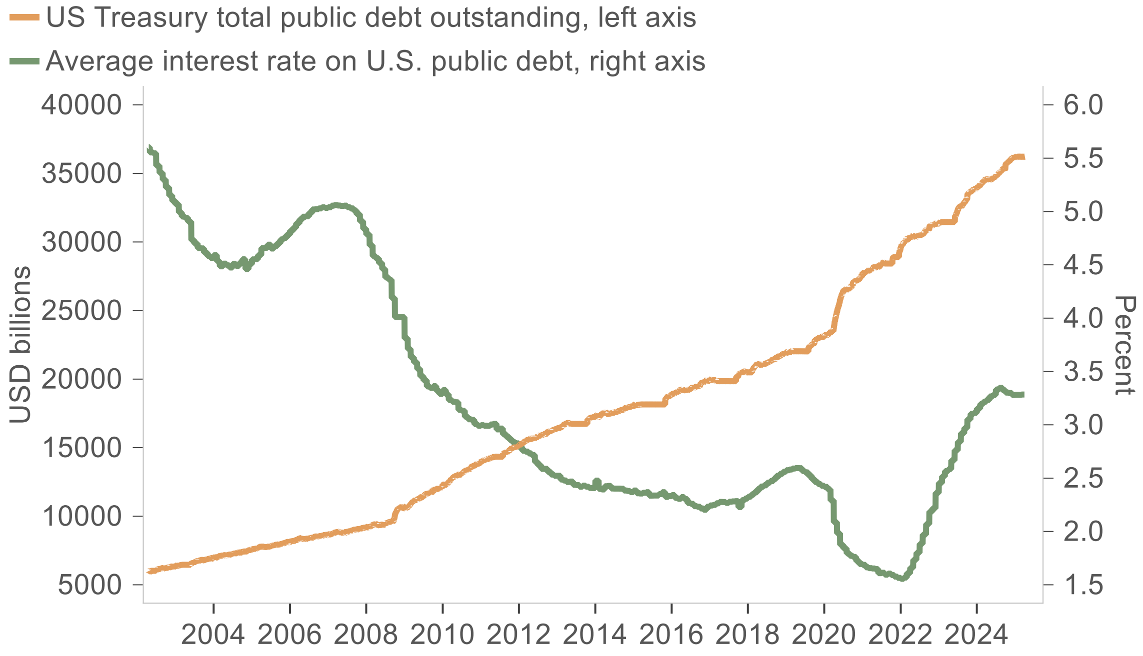
The fiscal outlook remains challenging

The combination of higher spending rates and higher interest rates have created a greater interest burden on federal spending.

- The average interest rate on U.S. public debt has risen to decade highs, at the same time that U.S. government spending has ballooned. Treasury rates are set by the market – including supply and demand for Treasuries themselves. This means that higher U.S. government bond issuance – including issuance required to finance debts – impacts rates, all else equal.

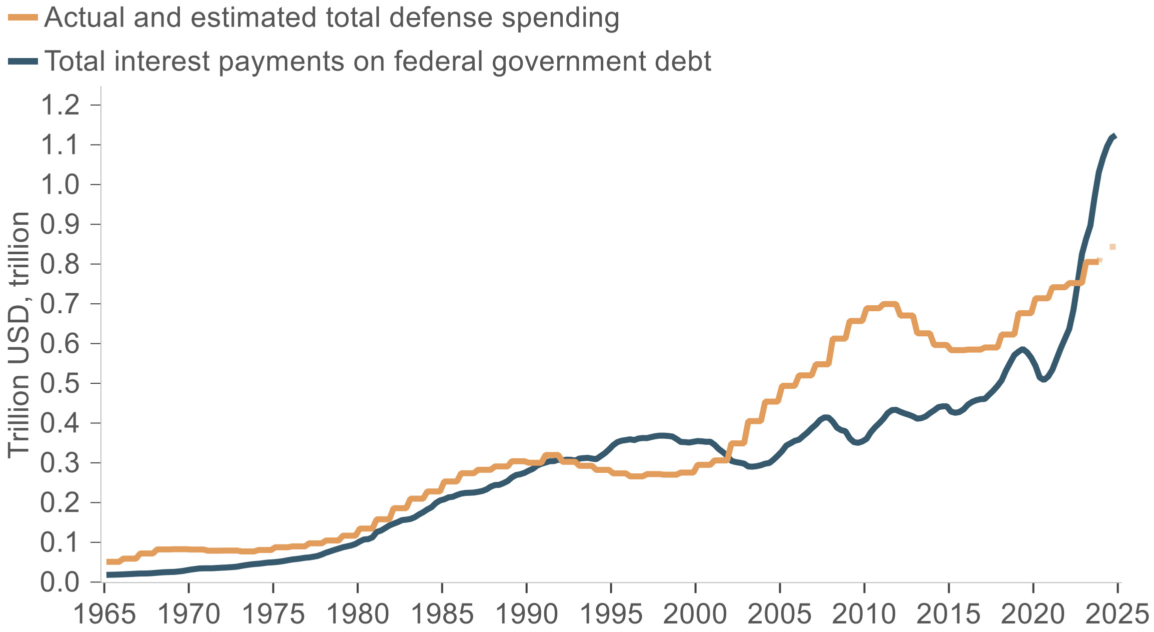
- Between higher interest rates and growing debt levels, total interest payments have risen rapidly in the past few years and now exceed the amount spent on the (previously) largest portion of the U.S. federal budget: defense. As interest payments mount, the U.S. may be forced to reduce its spending (fiscal austerity) or raise revenue (taxes) to pay down debt, or to pursue higher growth (and higher inflation) policies to reduce debt burden in real terms.

U.S. debt levels - and the average price paid on that debt - are on the rise



Sources: New York Life Investments Global Market Strategy, U.S. Department of Treasury, Macrobond, April 2025.

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, April 2025.

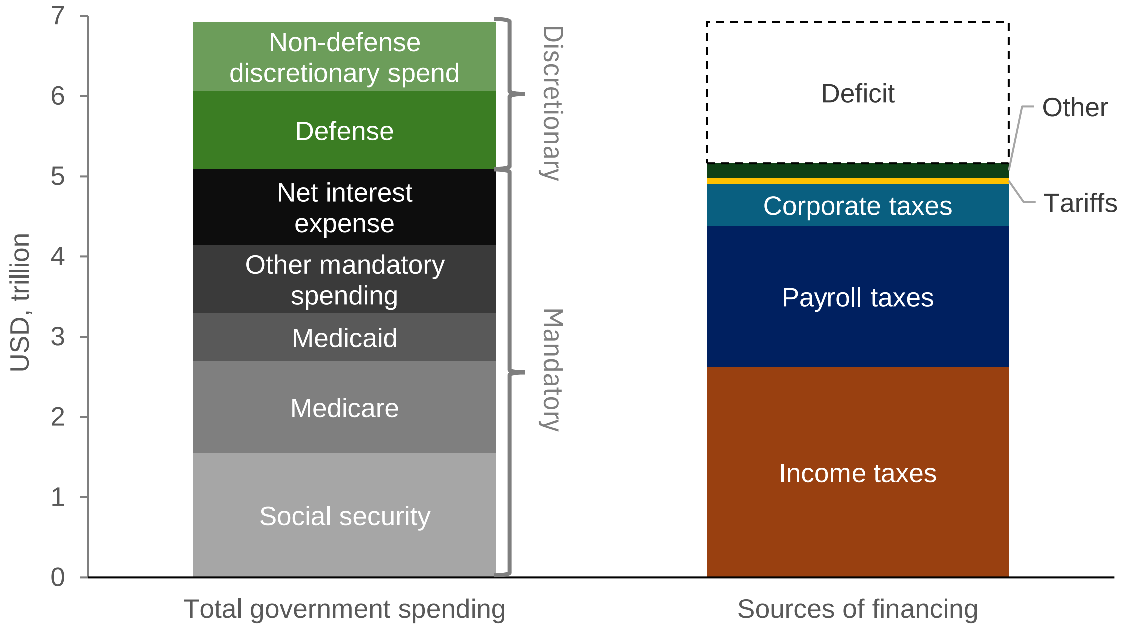
The growing budget deficit could pull debt sustainability concerns forward

Though household and corporate balance sheets are reasonable, the U.S. government balance sheet shows a severe imbalance.

- The U.S. budget deficit is the difference between how much money the government makes and how much it spends. The U.S. Treasury makes up the difference by issuing Treasury bills and bonds in the open market to raise the necessary cash. Mandatory spending (vs discretionary) accounts for most of government spending, while income and payroll taxes serve as the primary source of federal revenue.

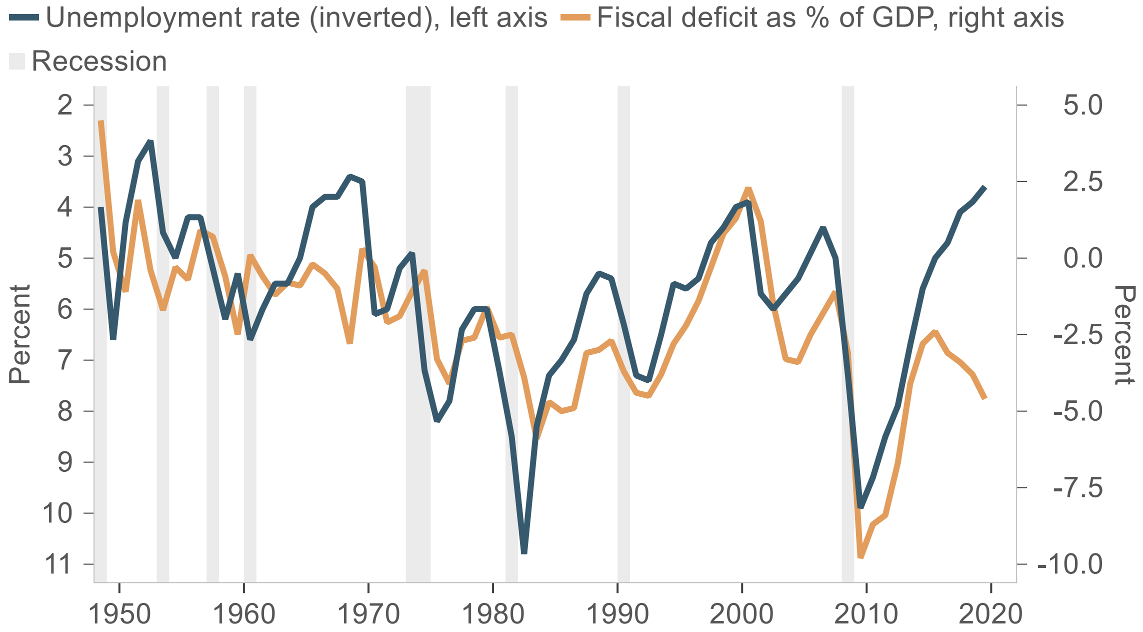
- In a typical cycle, the deficit increases alongside an increase in the unemployment rate. This is because U.S. fiscal spending is typically countercyclical, meaning as the economy slows and people lose their jobs, the government spends more to support both households and businesses. However, pandemic-related spending widened the deficit even with a strong labor market. It's possible the federal deficit constrains Trump's policy agenda this term.

The 2025 budget is expected to extend the deficit



Sources: New York Life Investments Global Market Strategy, U.S. Congressional Budget Office (CBO), Macrobond, April 2025.

Aggressive fiscal expansion at this point in the business cycle is unusual



Sources: New York Life Investments Global Market Strategy, U.S. Office of Management & Budget, U.S. Bureau of Labor Statistics (BLS), NBER (National Bureau of Economic Research), Macrobond, April 2025.

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3 International economic & market outlook

Readers may click on any item to jump to that section.

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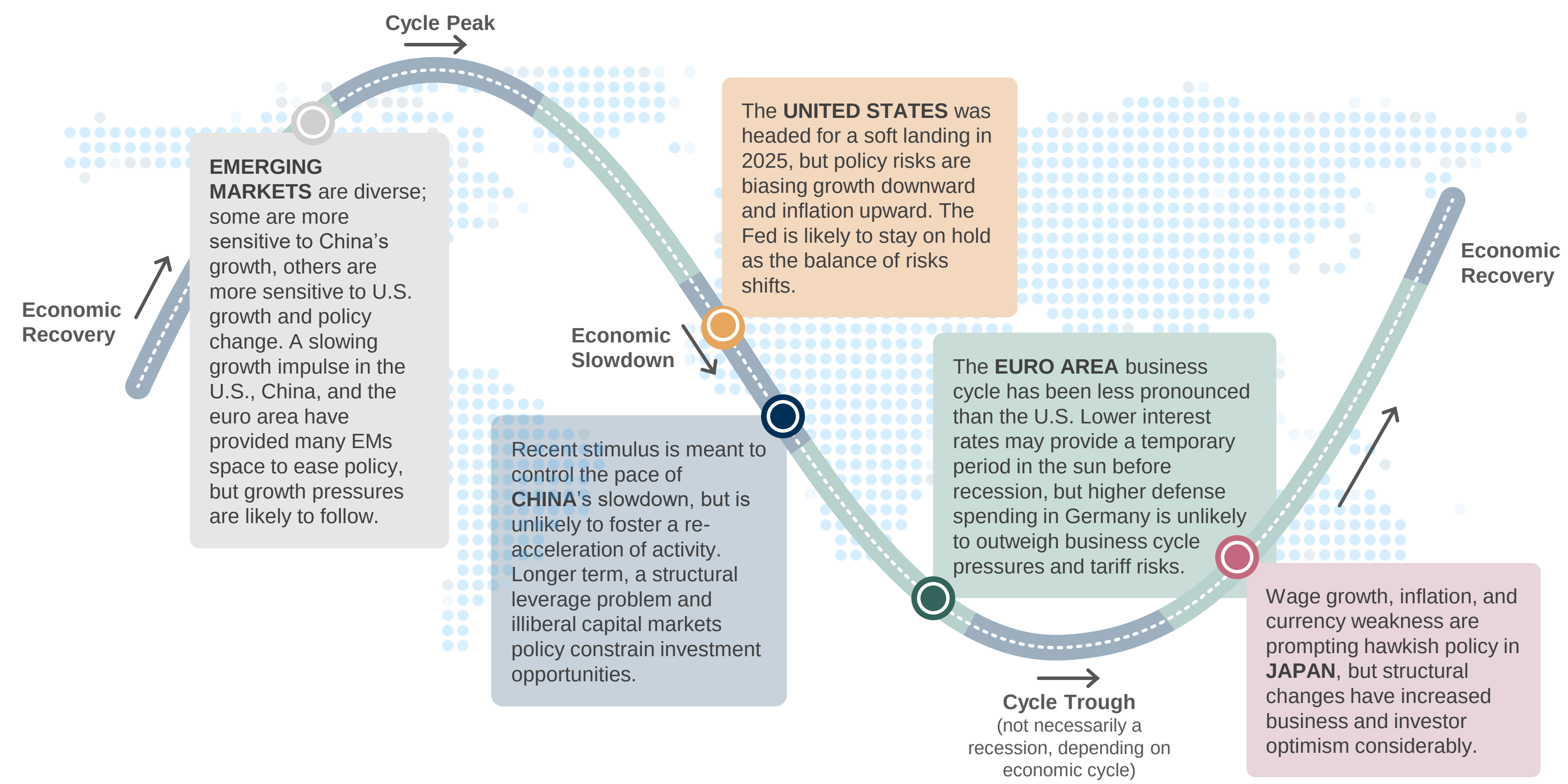
Where are major economies in their economic cycles?

- Exiting the immediate post-pandemic years of synchronized and overwhelming levels of stimulus, global growth has now de-synchronized.
- The U.S. is likely to face a 6-12 month shakeout as policy change impacts the economic and monetary outlook. In Europe, higher German defense spending has helped to boost sentiment, but is unlikely to alter the near-term credit cycle. Japan and China are each coping with structural shifts affecting both the growth outlook and investment opportunities.
- Trade barriers present downside risks to growth and upside risks to inflation particularly in the U.S., but if tighter trade policy carries over to major trade partners, these risks will extend globally. We are also minding the potential for a policy-led contraction in U.S. consumption behavior to present a drag on global growth.

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



Sources: New York Life Investments Global Market Strategy, April 2025. 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.

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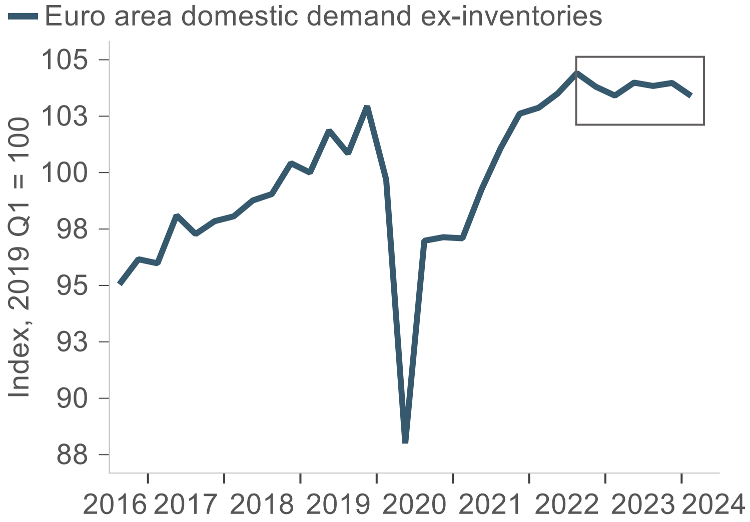
Euro area

While European economic fundamentals are weaker than in the U.S., interest rates and peace in Ukraine could change the near-term outlook.

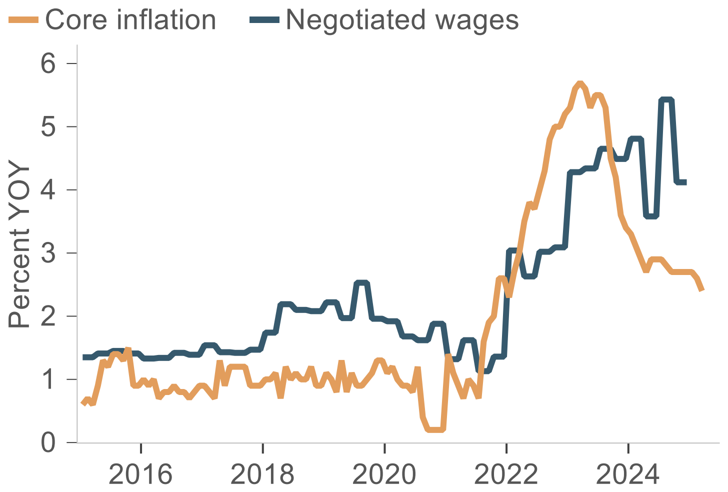
- In the past year, euro area domestic demand has flatlined (**left chart**) and inflation has moved lower (**middle chart**). In response, the ECB began steadily cutting interest rates in 2024. As a result, credit conditions improved, and business loan demand moved higher (**right chart**).
- We expect growth to slow closer to just below 1.0% in the euro area. Slower growth has contributed to a weaker euro, but remains close to the long-term potential growth rate for the region. Falling interest rates – without recession – have supported risk asset performance.
- Geopolitical change creates critical questions for Europe. Russia's invasion of Ukraine materially impacted the region's energy security, adding to inflation and growth concerns; peace could result in stabler energy prices. At the same time. U.S. pressure for Europe to increase its defense spending may create political risk alongside investment opportunities.

Domestic demand has flatlined



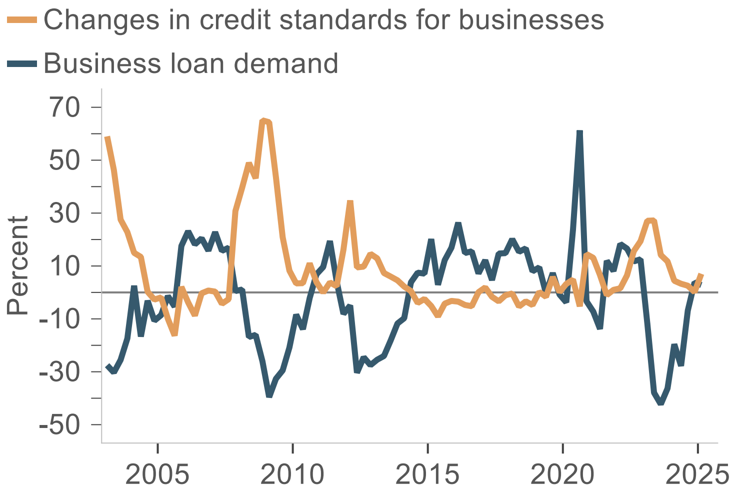
Sources: New York Life Investments Global Market Strategy, ECB (European Central Bank), Macrobond, April 2025.

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, April 2025.

Normalizing policy rates have contributed to improving credit standards and loan demand



Sources: New York Life Investments Global Market Strategy, ECB (European Central Bank), Macrobond, April 2025.

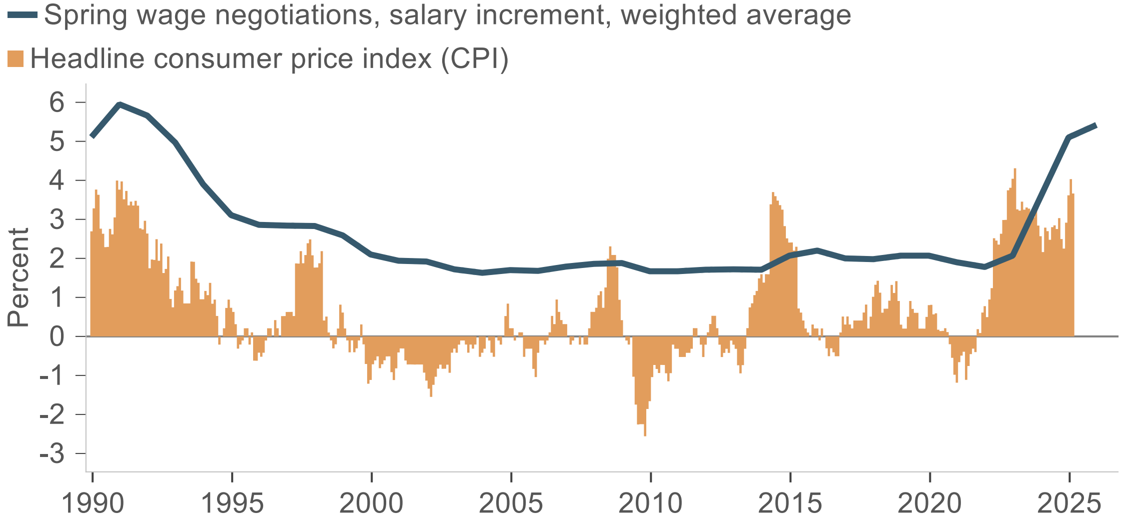
TAKEAWAY: We expect tepid euro area growth because of timid consumption, low consumer confidence, and increasing challenges related to global trade and investment. That said, a consistent interest rate cutting cycle has contributed to stronger cyclical performance and may create a tactical investment opportunity.

Japan

Interest rates are on the rise for the first time in decades, creating near term challenges to otherwise positive structural policy change.

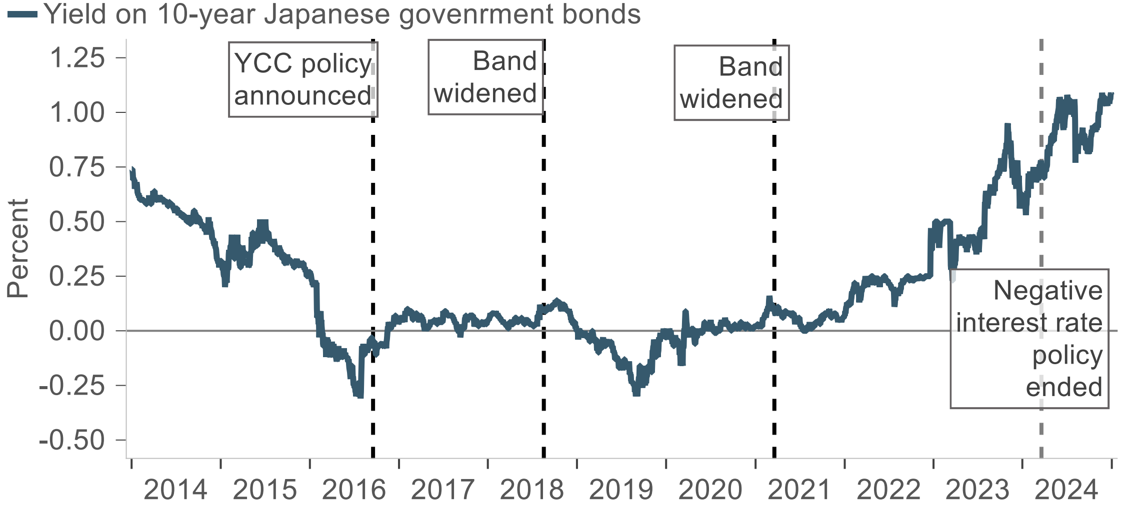
- While most global central banks were raising rates in the last two years, the Bank of Japan maintained accommodative monetary policy. This has now reversed. A weaker yen spurred import-price inflation, contributing to higher wages for the first time in many years (**left chart**).
- In response, the Bank of Japan (BOJ) loosened yield curve control, ended negative interest rate policy in April 2024, and has now hiked rates to 0.5% in Jan 2025. Market financial conditions, including equity market valuations, have tightened considerably in response.
- We believe the BOJ is targeting a stronger yen in the medium term, likely around 135-145 Yen per USD. Another rate hike is likely in the next few months, pending any broader global market disruption.
- Meanwhile, the government and private sector have made meaningful changes to promote competitiveness, improving global corporate and investor expectations for Japan's long-term growth and investment attractiveness.

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, April 2025.

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



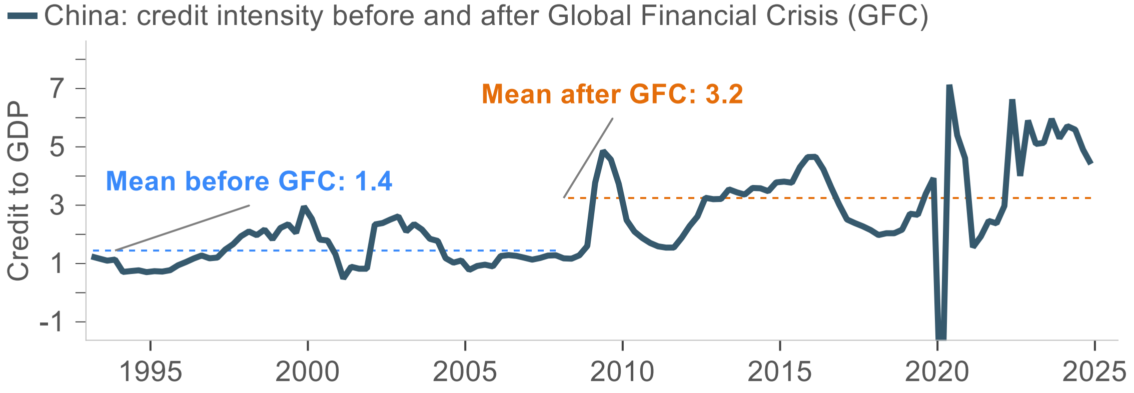
Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Macrobond, April 2025.

TAKEAWAY: We believe Japan'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's structural story: an ongoing balance sheet recession

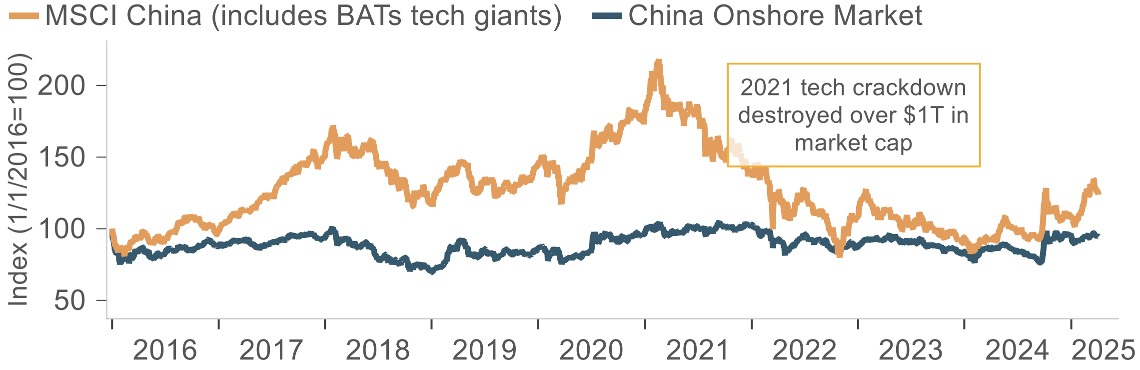
A deleveraging problem and illiberal capital markets policy are likely to constrain investment opportunities over the medium term.

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, April 2025. GDP: Nominal.

China's regulation has hampered value creation in equities



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, MSCI, Macrobond, April 2025. 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 2025 Chinese growth is expected to slow from 5.2% YoY to 4.8% - 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.

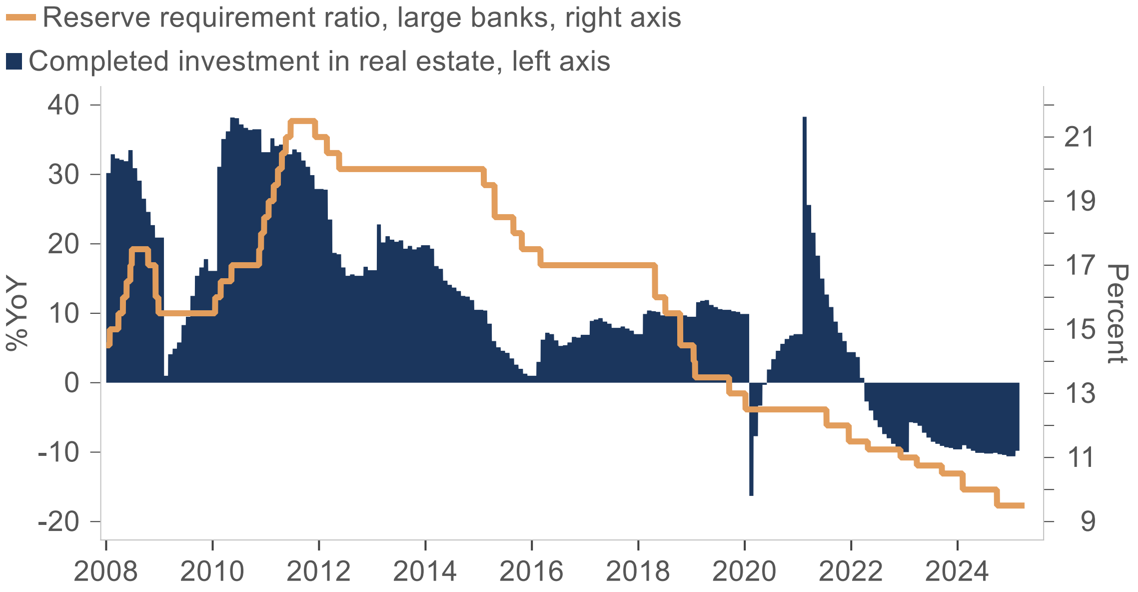
TAKEAWAY: China remains the world's #2 economy and trade power, and in this sense continues to be a "must have" in a diversified international allocation. However, the country's proclivity for avoiding economic growth slowdowns with the use of leverage, paired with wavering investor-friendly policies,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

China's cyclical story: managing the extent of the slowdown

China's stimulus is not meant to spark an economic acceleration, possibly to the detriment of key emerging markets trading partners.

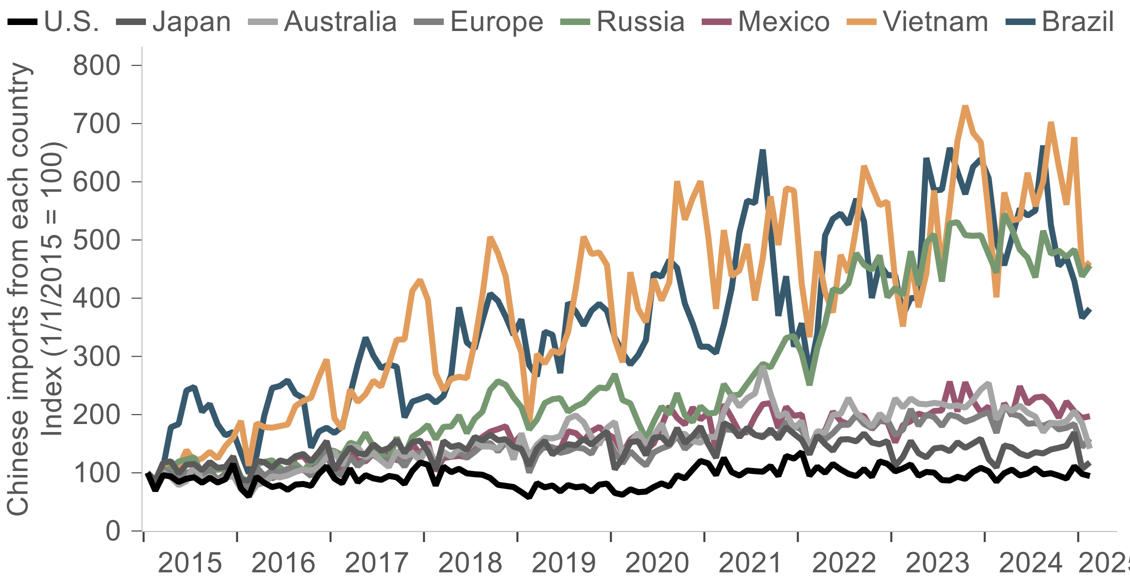
- China's 2024 stimulus is nothing new relative to its history and is not a bazooka capable of re-accelerating the economy. This cycle and on a structural basis, China uses monetary policy to counterbalance the real estate market, in part by reducing required reserve holdings by banks to encourage lending when real estate is in contraction (**left chart**). Given the extent of real estate recession in China, we believe this stimulus is meant to control the extent of total economic slowdown rather than foster an outright economic acceleration.
- China's import power over many emerging markets (EMs, **right chart**) means that if China is slowing, EMs will feel the pressure via slower demand for their exports. We expect China's deceleration – both cyclical and structural – to add to global growth pressures already emanating from the U.S. and Europe.
- There is anecdotal evidence suggesting that even when China is slowing, its commodity demand remains resilient, potentially putting a structural "floor" under industrial metals and gold prices.

China is countering the real estate crash with easier monetary policy



Sources: New York Life Investments Global Market Strategy, China National Bureau of Statistics (NBS), People's Bank of China (PBoC), Macrobond, April 2025. Lower reserve requirement ratio indicates that banks are required to hold fewer reserves, incentivizing them to lend; this is a form of monetary policy stimulus.

Chinese imports have carved out influence over emerging market economic activity

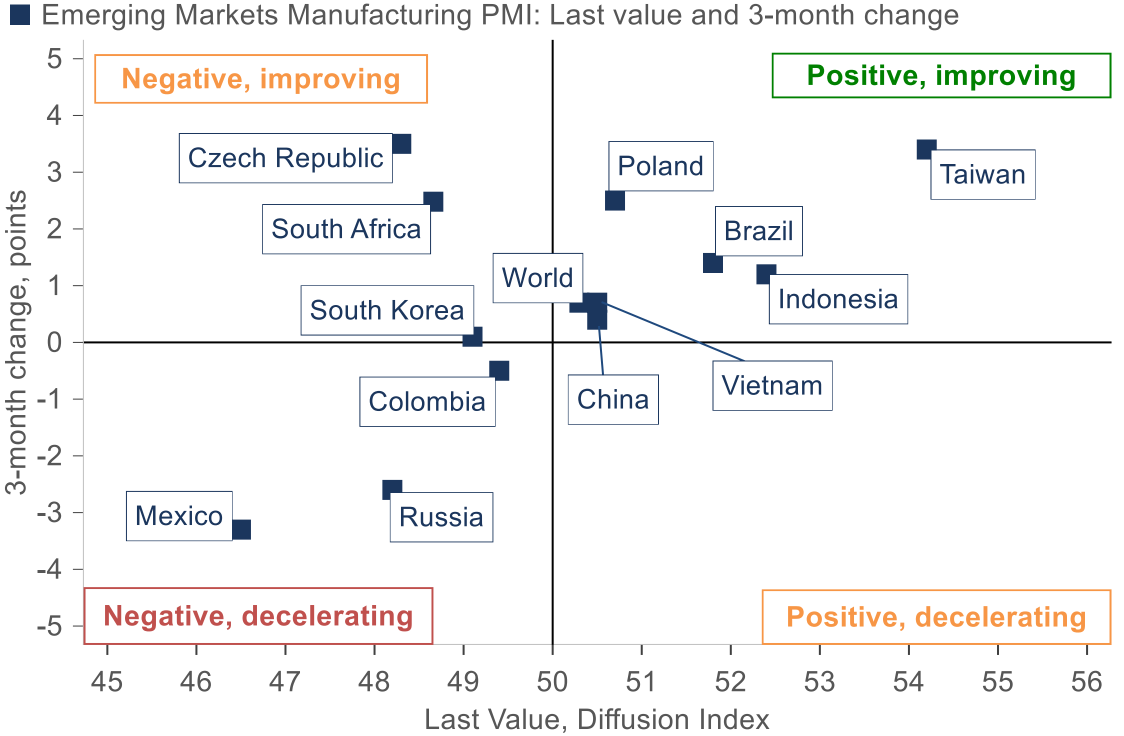


Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Customs General Administration of the People's Republic of China, , Macrobond, April 2025.

Emerging markets

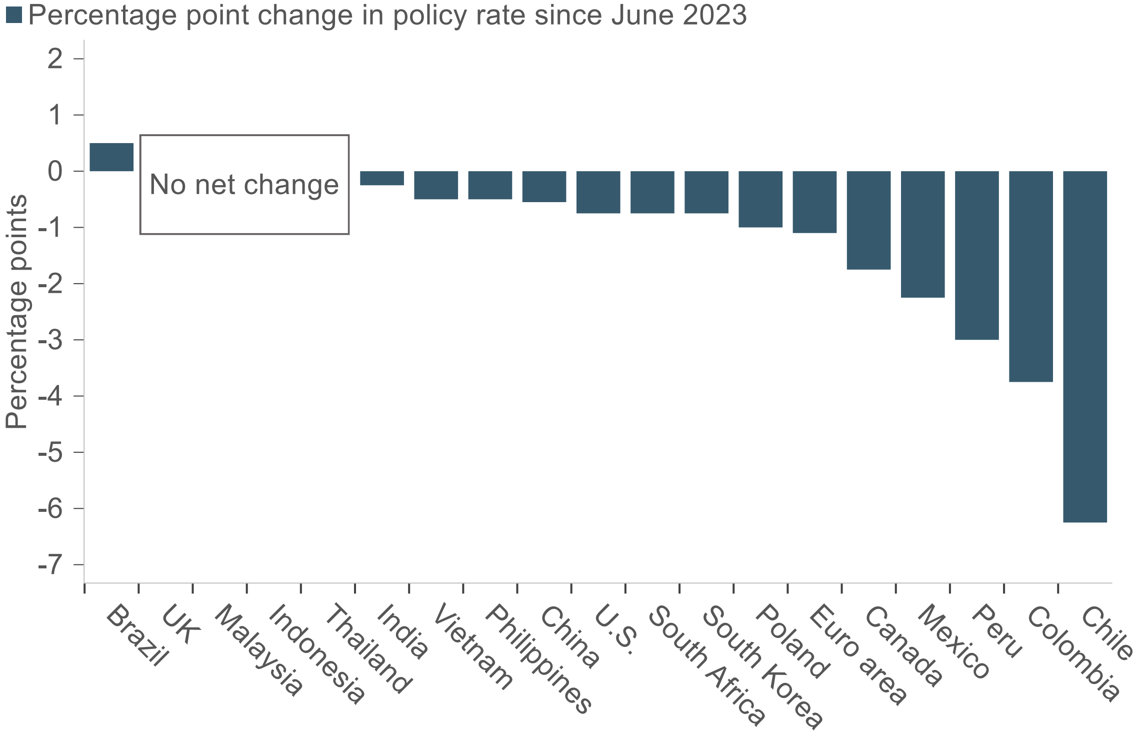
Emerging markets have seen resilient economic activity overall, but are likely to be caught up in trade restriction risks.

Emerging market economic activity remains solid overall, but cycles are heterogenous



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, April 2025.

Emerging markets led the global easing cycle, but now face similar inflation pressures as DMs



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Federal Reserve, ECB (European Central Bank), Macrobond, April 2025.

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).

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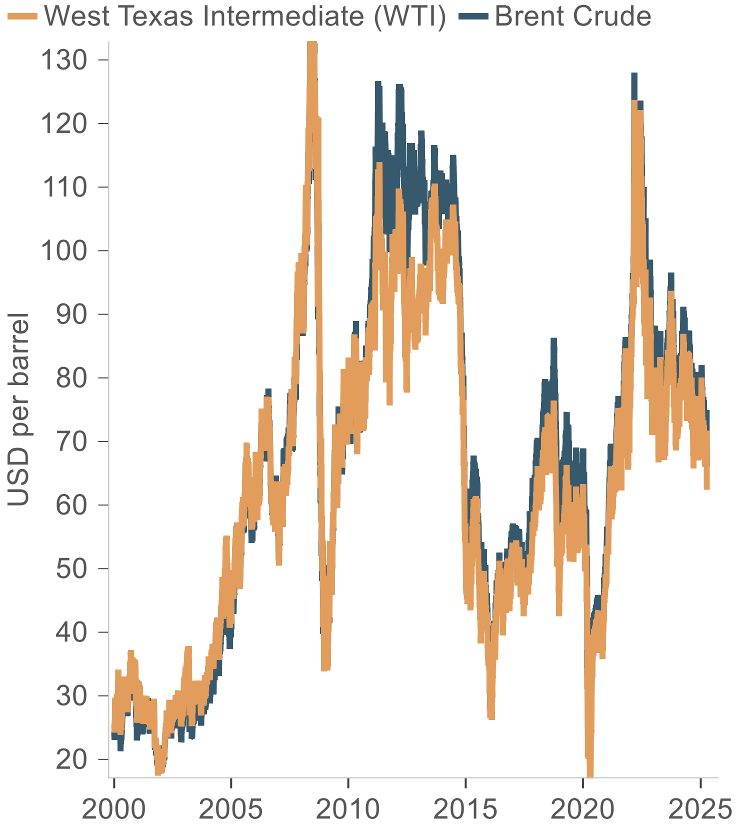
Global energy costs have largely normalized, but upside risks remain

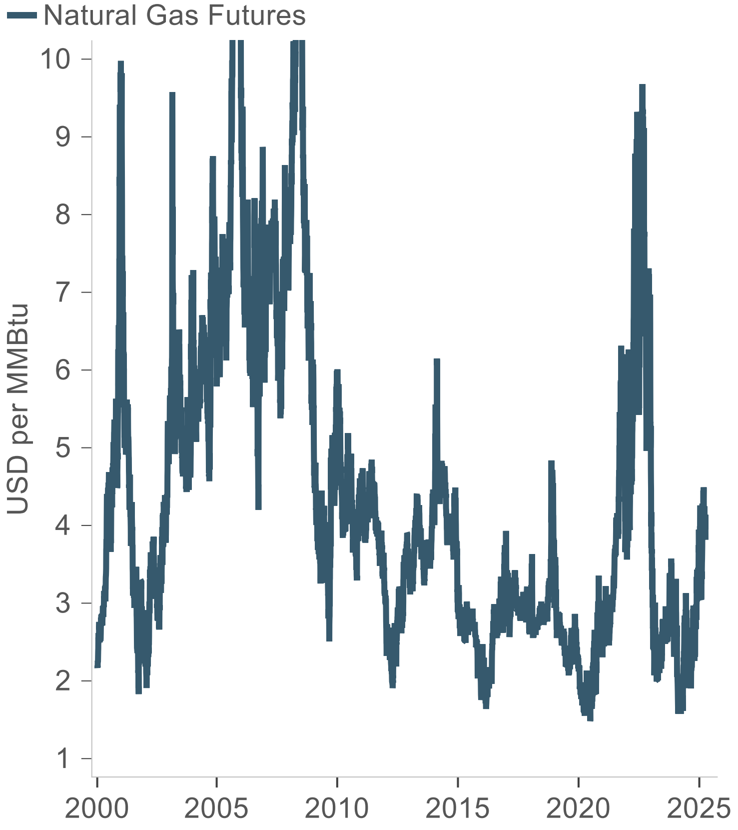
Shocks related to the pandemic and invasion of Ukraine have settled, leaving global energy prices broadly balanced.

Oil prices have normalized after the post-pandemic period and invasion of Ukraine



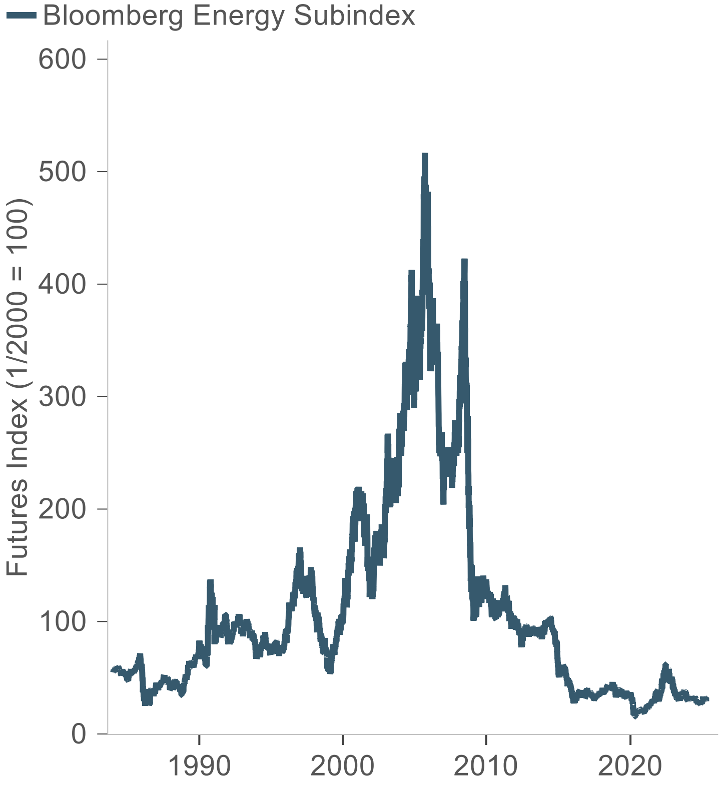
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, April 2025.

Natural gas has similarly normalized from its 2022 spike



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, April 2025. MMBtu: million metric British thermal units

Overall energy futures are at their lowest point in over 30 years



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, April 2025. Past performance is not indicative of future results. It is not possible to invest directly in an index. Bloomberg Energy Subindex is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas.

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Other commodities have unique drivers

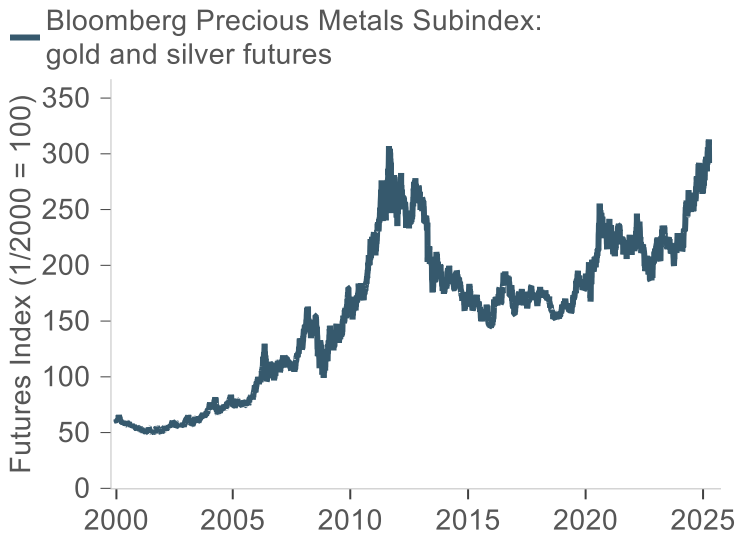
Geopolitical factors from central bank gold-buying to war-related disruptions are prompting major commodities to adjust to "new normal" levels.

Gold has led precious metals strength, benefitting from both commercial uses as well as a structural wave of central bank buying as actors such as Russia, China, and Iran built up greater gold reserves.

Industrial metals have benefitted from long-term investment themes, including infrastructure supporting energy independence and the digitization (AI) boom.

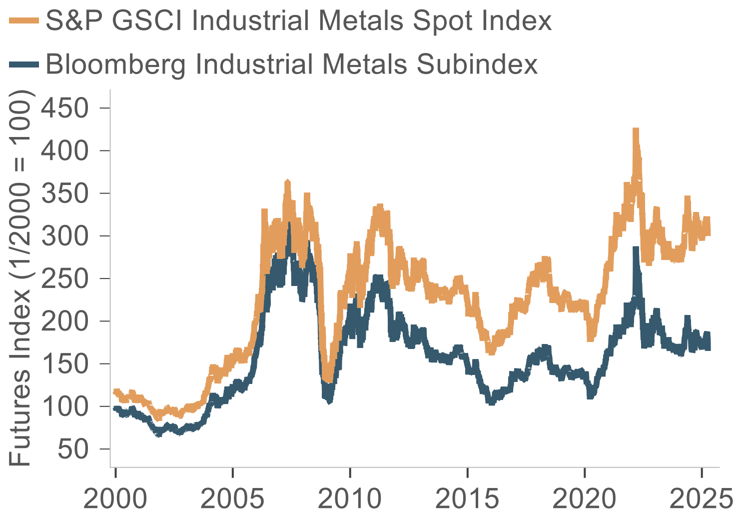
Agriculture futures were driven by higher grain prices after the invasion of Ukraine (Ukraine is one of the world's largest producers of wheat and corn). Ukrainian grain exports are down today relative to their pre-war levels, but they have not ceased outright, supporting normalization in the agricultural commodities price index.

Precious metals futures, driven by strong gold demand, sit at historic highs



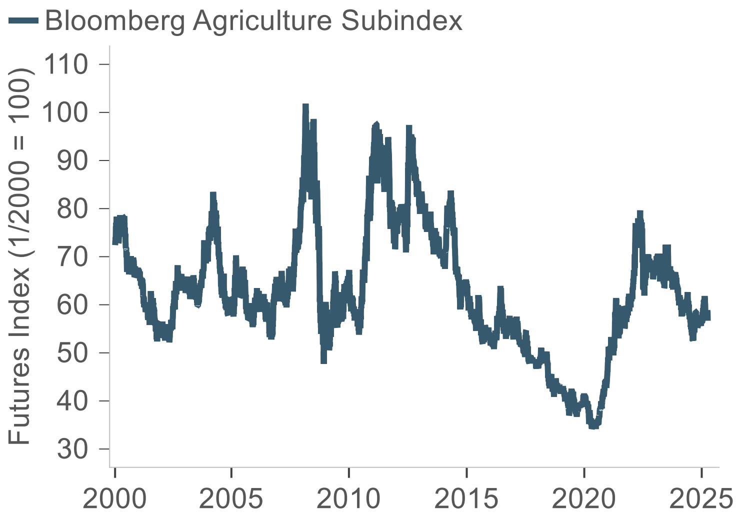
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, April 2025. Past performance is not indicative of future results. It is not possible to invest directly in an index. The Bloomberg Precious Metals Subindex is composed of futures contracts on gold and silver.

Industrial metals futures sit at the high end of historic range



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, April 2025. Past performance is not indicative of future results. It is not possible to invest directly in an index. S&P GSCI Industrial Metals Index is comprised of alumunium, copper, nickel, lead, zinc. The Bloomberg Industrial Metals Subindex is comprised of the same, excluding lead.

Agriculture futures, however, have been compressed by greater production



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, April 2025. Past performance is not indicative of future results. It is not possible to invest directly in an index. Bloomberg Agriculture Subindex composed of futures contracts on coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar and wheat.

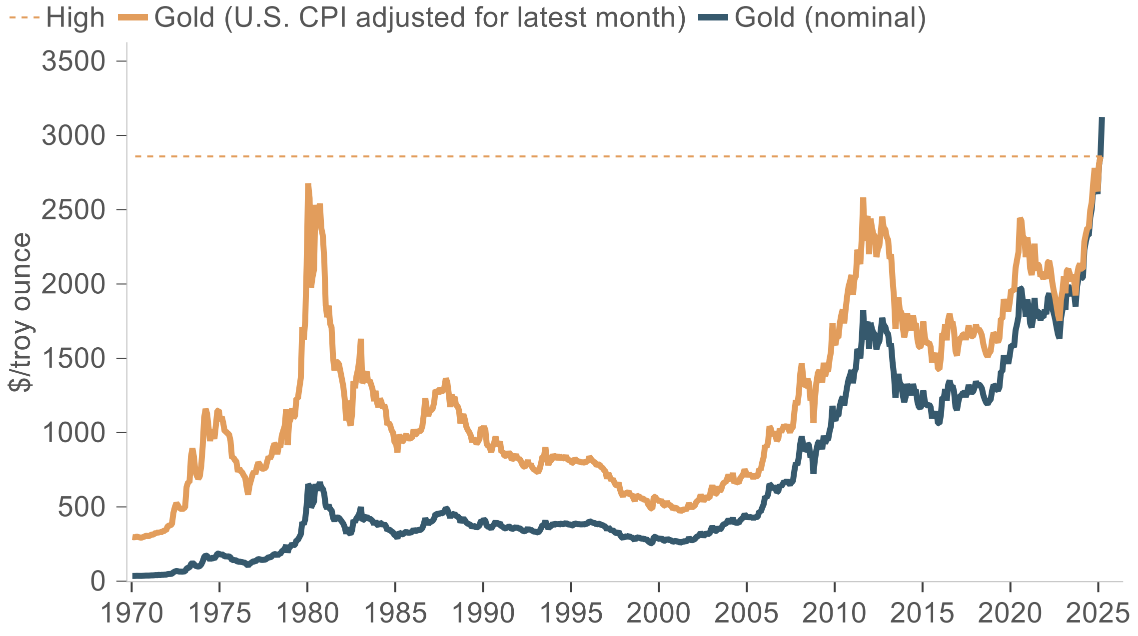
“Currencies” beyond the U.S. dollar

Gold and Bitcoin represent disparate approaches for how investors can consider diversifying outside the traditional public capital markets.

- We see gold as a “risk-off” diversifier. In addition to successfully hedging inflation over the long term, gold is benefitting from global central bank purchases and industrial uses.

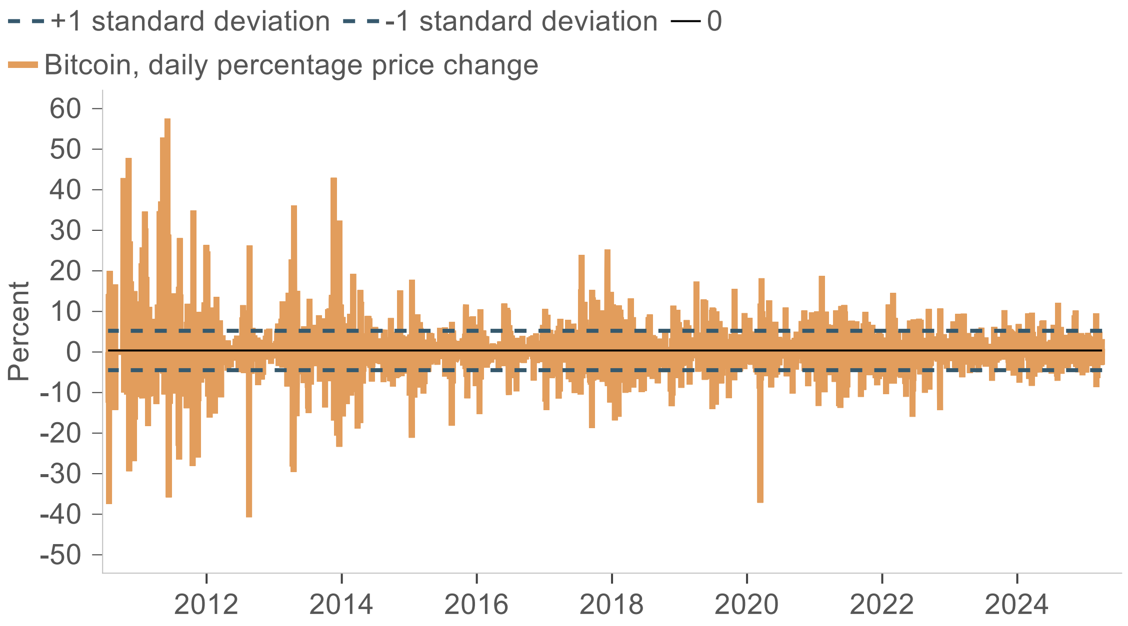
- Bitcoin, by contrast, is a “risk-on” diversifier; cryptocurrency is a risk asset with volatility to match. Bitcoin has seen stellar price performance post-pandemic, benefitting from broader retail participation in the wake of cryptocurrency ETF creation and pro-cryptocurrency policies from the Trump administration. However it is highly sensitive to changes in liquidity and market momentum.

Gold is a proven inflation hedge over the very long term



Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, U.S. Bureau of Labor Statistics (BLS), Macrobond, April 2025.

Bitcoin's daily volatility has calmed as investor participation broadens, but is still incredibly high



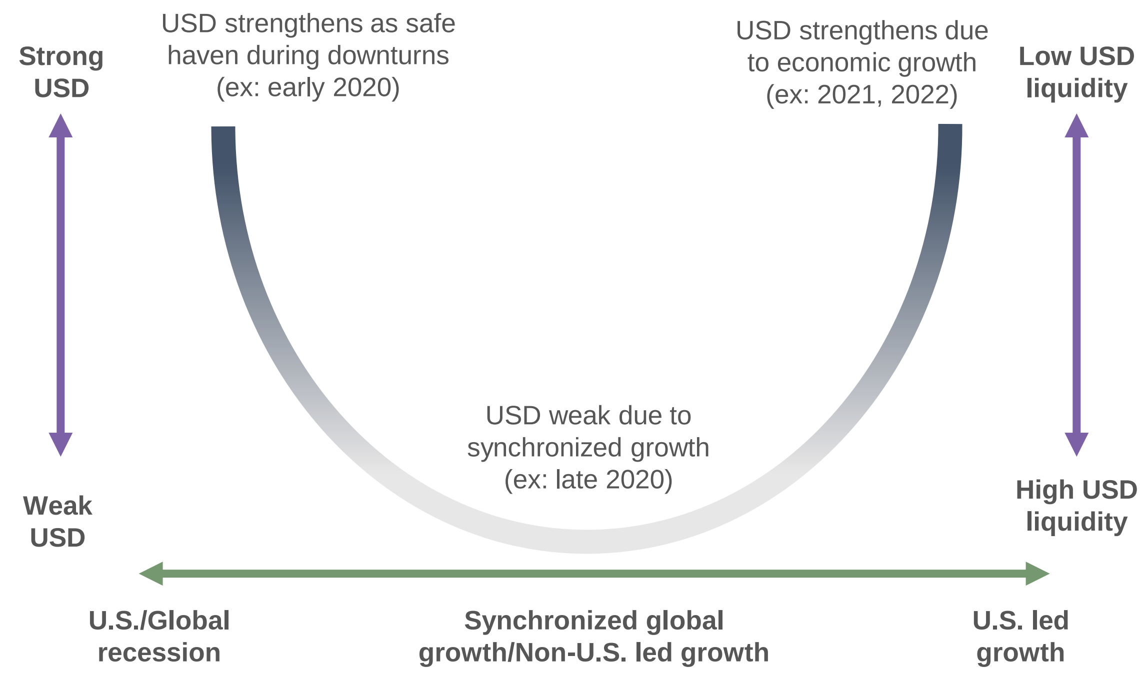
Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Macrobond, April 2025.

Investments

Our framework for thinking about U.S. dollar moves

Relative global growth and relative global monetary policy create a high degree of uncertainty for the near-term direction of the U.S. dollar.

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



Opinions of New York Life Investments Global Market Strategy, April 2025. 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.
- As the market prices in lower U.S. growth, its also repricing U.S. dollar strength. The dollar is currently trading around its 3-year average, and we see risks to the U.S. dollar as broadly balanced today.

What's next for the U.S. dollar?

- In a phrase: rangebound and volatile.
- Tariffs, on their own, increase the relative strength of the dollar, however, capital flows out of the U.S. have placed downward pressure on dollar strength.
- For the dollar to weaken from here, we would likely need to see clearer signs of slowing growth in the U.S. Upside growth surprises would support dollar strength, in our view.
- Rate cuts from the Fed may also reduce the USD's attractiveness relative to other currencies in the short term, though rate differentials still favor the USD.

TAKEAWAY: The dollar has weakened, but we see risks as roughly balanced for now. Still, strong opposing forces – tariffs pushing up and growth concerns pulling down – point to continued volatility. Investors with global exposure can consider a currency hedged strategy.

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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 *Share of global FX reserves*	57%	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. January 2025, International Monetary Fund, Q3 2024. FX refers to foreign exchange. The Chinese currency can be referred to interchangeably as the renminbi or the yuan.

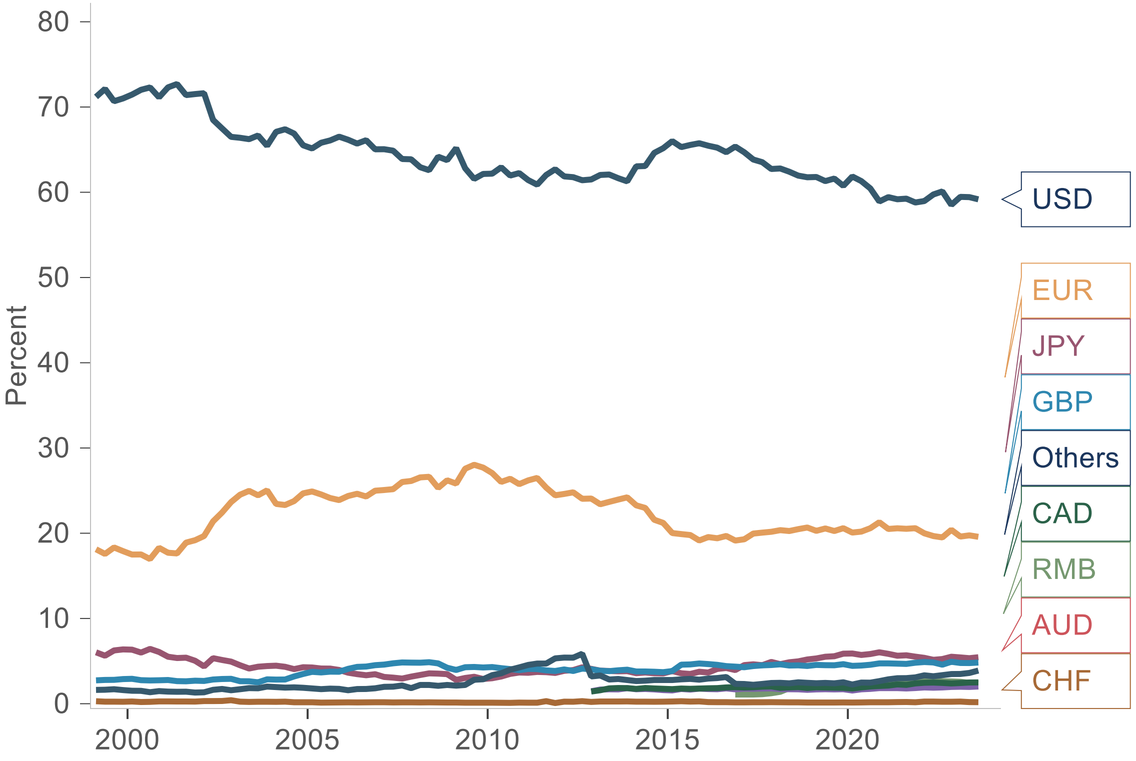
TAKEAWAY: Dominating global reserves, transactions, and global debt, the USD is set to remain the world's primary reserve currency. China's capital controls and lack of global convertibility and transactability make it unlikely for RMB influence to expand beyond select commodity-based trade relationships.

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, April 2025.

- 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 the emergence of a new and more efficient system, that has 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.

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4 Long-term themes

Insights

Readers may click on any item to jump to that section.

Why are long rates rising when the Fed is easing?

Both the "Trump trade" and structural factors are pressuring long rates higher.

10-Year Yield

Path of policy rate

Hawkish shift: Fed cannot cut as quickly or to the extent initially expected.

- Stronger than expected economy
- Stubborn above-target inflation
- Re-set of overly dovish easing expectations from fall 2024

… have all contributed to a backup in policy rate expectations, market-based Treasury and corporate yields, and even mortgage rates.

TAKEAWAY: The Fed is still easing, but not as much as many investors hoped.

+

Inflation expectations

Rising inflation expectations are a catch-all for a range of policy possibilities under a second Trump administration:

- Tariffs: goods inflation
- Tax cuts and deregulation: greater economic growth stemming from corporate and household activity
- Immigration: border crackdown and possible deportations at scale may create a negative supply shock to the labor force, pressuring wage growth higher

TAKEAWAY: We cannot attribute specific causes to rising inflation expectations; what matters is that they are rising.

+

Term premium (supply and demand)

"Red Wave" outcome has exacerbated existing factors biasing long yields higher:

- Debt sustainability concerns increasing likelihood of higher Treasury issuance/supply
- Political and geopolitical risk
- Investor preferences, including moderate sovereign rates in other major nations

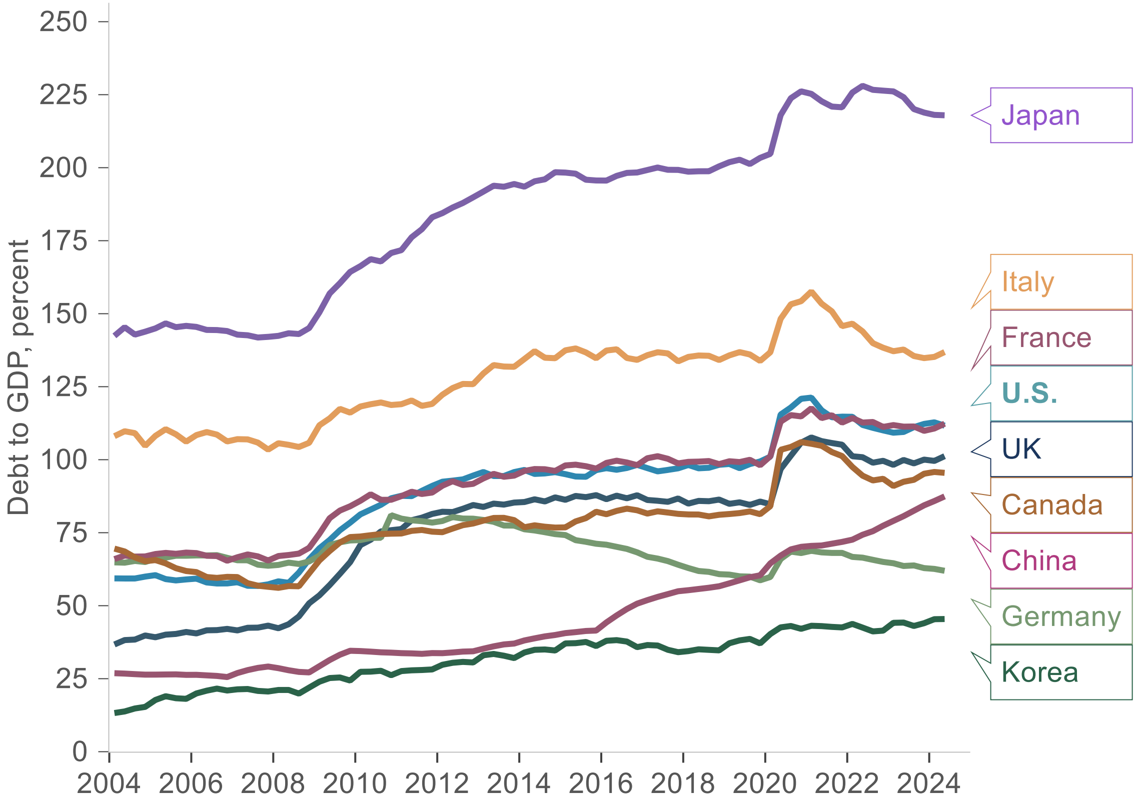
TAKEAWAY: Structural investment tailwinds are an upward pressure on long-term rates.

Opinions of New York Life Investments Global Market Strategy, April 2025.

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, April 2025.

- 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 and finance more debt than other advanced economies thanks to structural demand for Treasuries and dollar-denominated assets.
- We do not expect a U.S. sovereign default in the foreseeable future because of the enormous depth of U.S. capital markets relative to those of other highly indebted countries.
- Now that the interest burden has become more acute (see next page) and $1 trillion in new public debt is accrued every ~100 days, we see increased potential for market and political pushback on further spending plans and debt ceiling negotiations.

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

- Productivity of spending: investments in health, education, competitiveness, 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

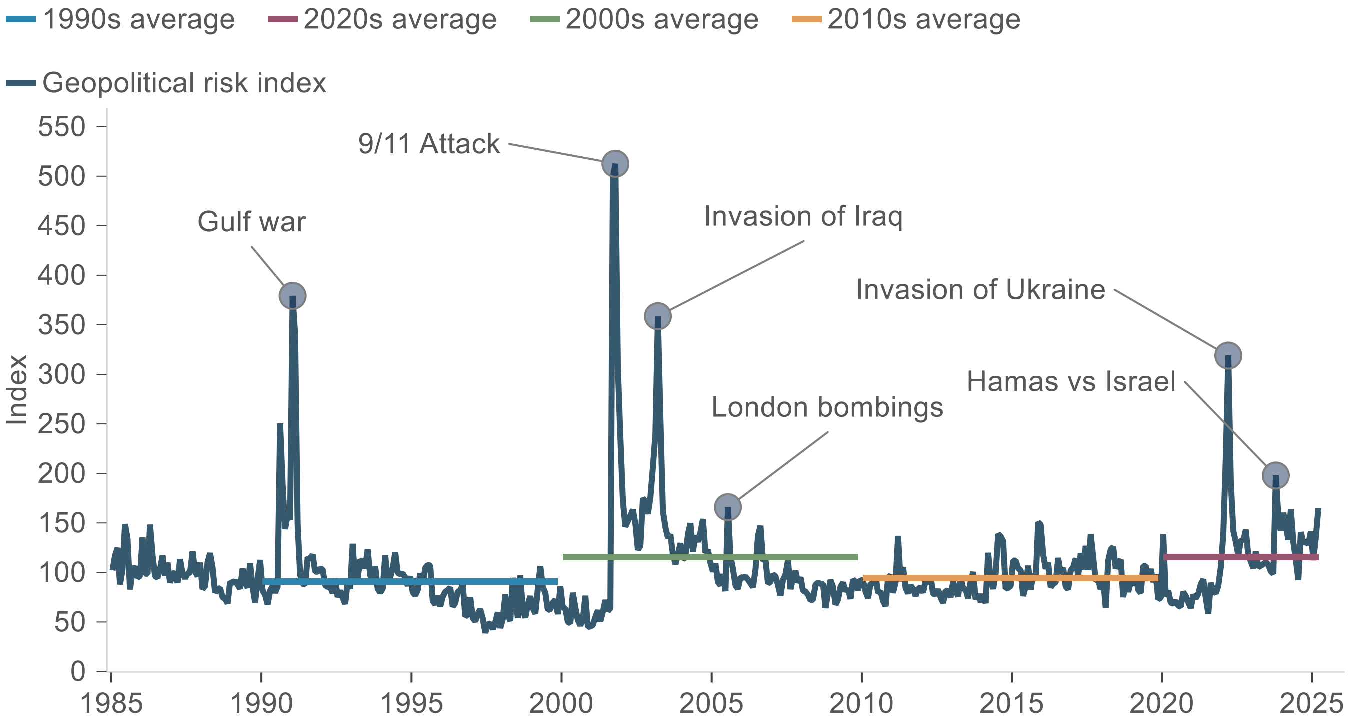
TAKEAWAY: U.S. debt sustainability risks are rising, but we do not see fundamental triggers for a debt crisis or default thanks to the market depth and structural demand for U.S. assets. Irresponsible spending by an administration of either party can certainly harm investor confidence in U.S. assets,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

How can I account for geopolitical risk? (1/2)

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, Matteo Iacoviello, Macrobond, April 2025.

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, April 2025.

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.

How can I account for geopolitical risk? (2/2)

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, April 2025.

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, April 2025.

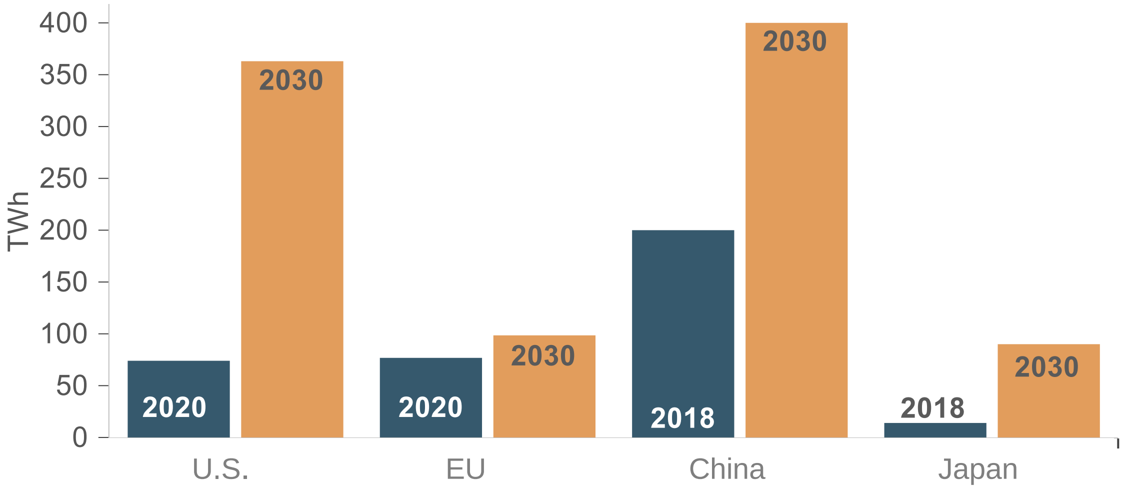
Global megatrends: creating persistent demand for capital

Innovation in geopolitics, energy needs, and innovation are fueling real economic activity, driving investment opportunity.

- A powerful combination of global economic and geopolitical events – the COVID-19 pandemic, the resulting inflation wave, the increasing visibility of climate change, Russia's invasion of Ukraine, the rapid rise in computing power of semiconductors — has rapidly changed the global economic model. Efficiency of supply chains is no longer as important as the security of, and persistent access to, key materials.
- We believe that the combination of national interest (public funding), corporate leadership (capital expenditure), and universal application (household interest) in these trends will result in durable investment.
- For the next few years, these transitions are likely to be highly capital intensive. More materials will be required, promoting potentially higher prices for those materials, and contributing to our conviction that inflation and interest rates are likely to be higher and more volatile.
- These transitions may also drive policy changes. Stickier inflation, alongside a strategic demand for capital investment, may encourage central banks to re-consider their inflation targets.

AI's additional power requirements are extensive

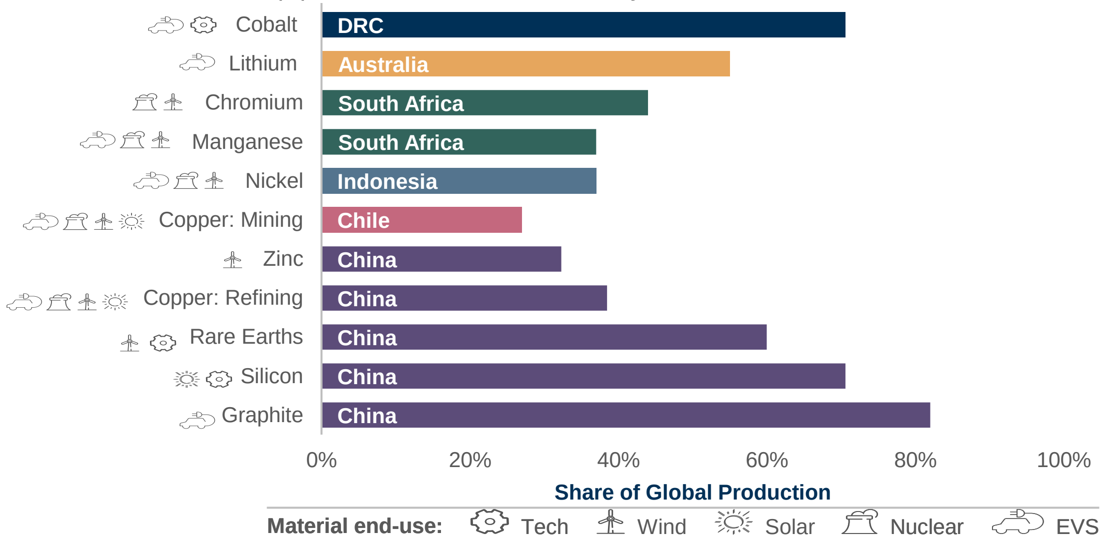
Data center electricity use



Sources: New York Life Investments Global Market Strategy, Macrobond, International Energy Agency, CBRE Investment Management, European Commission, China's State Council, Japan Science and Technology Agency, S&P Global, U.S. Energy Information Administration, June 2024. TWh = terawatt hours of electricity

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.

Global megatrends: AI is likely to spark sustained capital reallocation

Investment opportunities are likely to be concentrated in three underpinning layers of AI.

Infrastructure

Chips, data centers, power

- Data centers' computation and cooling needs are expected to drive astonishing increases in electricity demand.
- Some past innovation waves, such as electric vehicles, did not see a timely infrastructure buildout. We believe AI has three critical ingredients for a successful infrastructure timeline:
  - Public funding: the $300B U.S. CHIPS Act is just one national initiative to support tech infrastructure, mirrored by many other countries.
  - Corporate leadership: Magnificent 7 firms are footing the bill for development of GenAI models and proprietary infrastructure.
  - Universal application: with over 100M weekly users, ChatGPT alone shows the enthusiasm behind GenAI that is necessary to support allocation of resources toward this innovation.

AI has daunting infrastructure requirements, but we believe they will be achieved.

Foundational models

Data, model creators, cloud

- Up to this point, investment hype around AI has been concentrated around the major AI model providers. GenAI models are expensive and onerous to create, requiring high-quality data, time to train models, and a specialized talent pipeline.
- As AI adoption and use-cases broaden, we see competition reaching foundational model providers. This competition may come from new entrants creating large models, or from large corporations creating in-house models.
- Greater competition among model providers should lower costs for corporate users of AI, in turn fostering even broader adoption.

As AI use-cases expand, expect more competition among GenAI model providers to lower costs for AI users.

Corporate application

Software, services, use case exploration

- Companies looking to leverage AI face classic cost and corporate strategy tradeoffs, but there are areas of uncertainty in the early days of AI that will require specific attention and capital allocation:
- Ethical AI: we believe companies willing to leverage strong corporate governance toward a robust responsible AI framework will see a return on that investment.
- Regulation: regulation has not yet caught up with AI in the U.S., creating a cheaper but more uncertain operating environment.
- Competition: at the corporate and national level, and AI arms race may foster both rivalry and cooperation.
- Labor policy: we see AI creating a net upskilling effect for the labor force rather than mass unemployment, as jobs move from execution to monitoring and compliance.

Companies will not only need to allocate capital to AI use cases, but also to buffer against regulatory uncertainty.

5 Equity

Insights

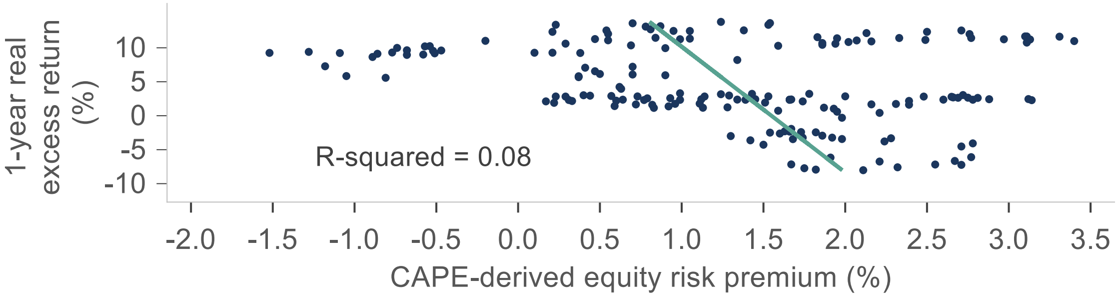
Readers may click on any item to jump to that section.

Today’s equity risk premium suggests bonds may outperform stocks in the long run

Understanding the equity risk premium as a long-term indicator of equity outperformance.

The U.S. equity risk premium is a weak indicator of one year excess performance of stocks over bonds...

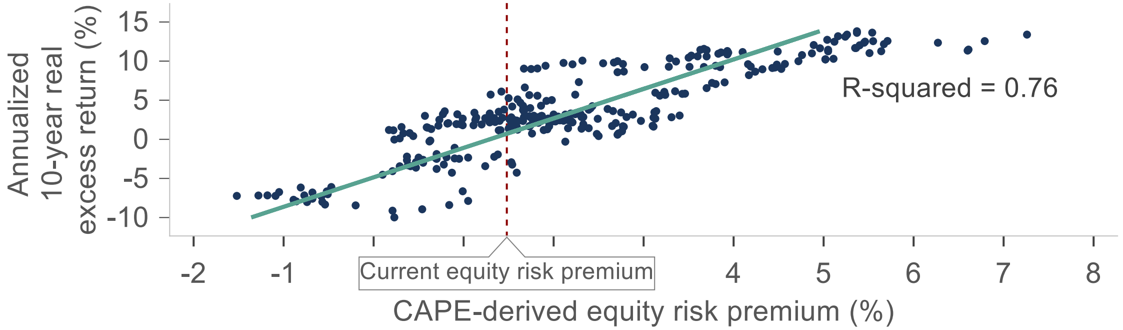
Individual dots represent months, data from 1980



Sources: New York Life Investments Global Market Strategy, Shiller, Macrobond, April 2025. R-squared quantifies how much of the variation in the dependent variable is explained by the independent variables in a regression model. CAPE: cyclically adjusted (for inflation) price-to-earnings ratio.

...but a much strong predictor over a 10-year horizon

Individual dots represent months, data from 1980



Sources: New York Life Investments Global Market Strategy, Shiller, Macrobond, April 2025. R-squared quantifies how much of the variation in the dependent variable is explained by the independent variables in a regression model. CAPE: cyclically adjusted (for inflation) price-to-earnings ratio.

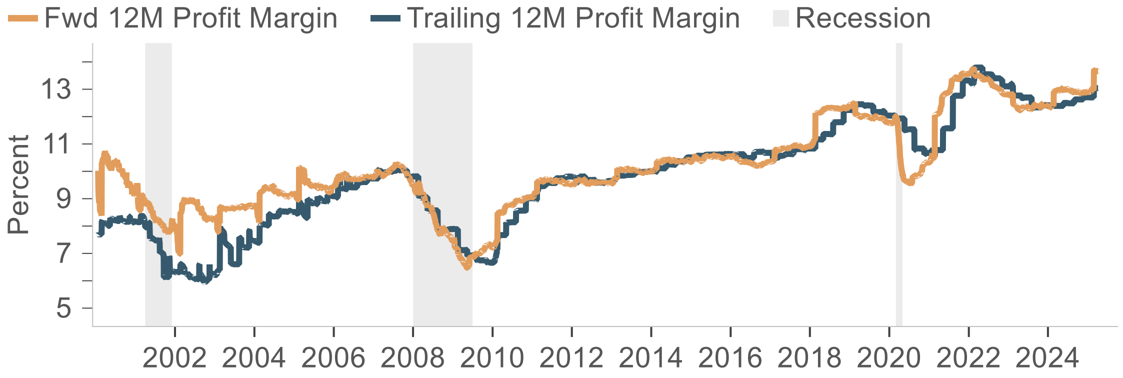
- The equity risk premium measures the difference between the expected return from equities (the earnings yield or inverse of the price-to-earnings ratio) and the risk-free return (typically the U.S. 10-year Treasury yield). A low or negative equity risk premium implies that equities are potentially overvalued relative to bonds, suggesting a lower likelihood of equities outperforming bonds.
- As a predictor, the equity risk premium has historically done a weaker job on a short-term time horizon. There is virtually no relationship between the equity risk premium and one-year ahead returns suggesting equity risk premium is a weak predictor of year ahead returns (**left chart**).
- However, over a 10-year horizon, the equity risk premium has historically been a much better predictor of future returns (**right chart)**. Based on historical experience, today’s equity risk premium would point to an annualized 10-year real outperformance of stocks over bonds of roughly 1.5%. This says to us that there is more risk to buying equities at these levels and outperformance of stocks over bonds is challenging in this environment.

TAKEAWAY: Based on current market valuations and interest rate levels, expecting stocks to significantly outperform bonds over the next decade might be overly optimistic.

The outlook for corporate earnings is still positive in the face of growing risks

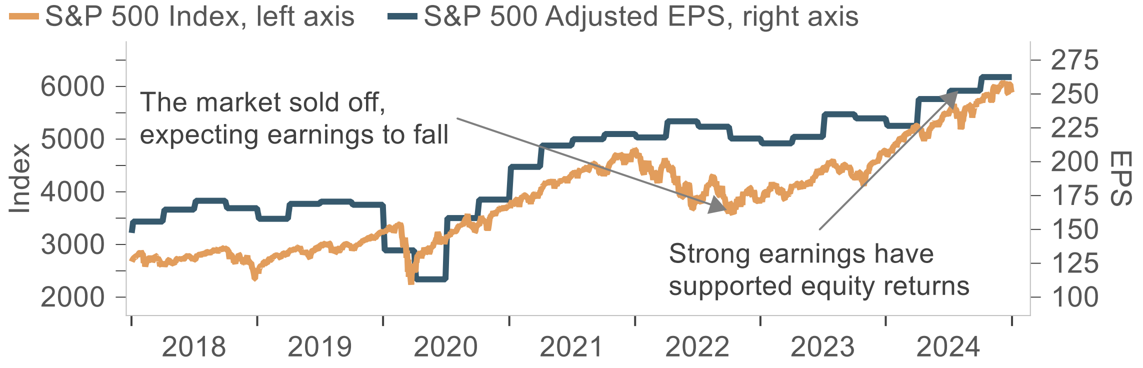
Earnings growth has held up, but cooling demand and still-high costs make the market's 11% earnings growth expectation challenging in our view.

Corporate profit margins are the next domino to fall: they may appear resilient but there is a wide dispersion between sectors



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, April 2025.

Strong earnings have justified lofty valuations and stellar price performance



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, April 2025. 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.

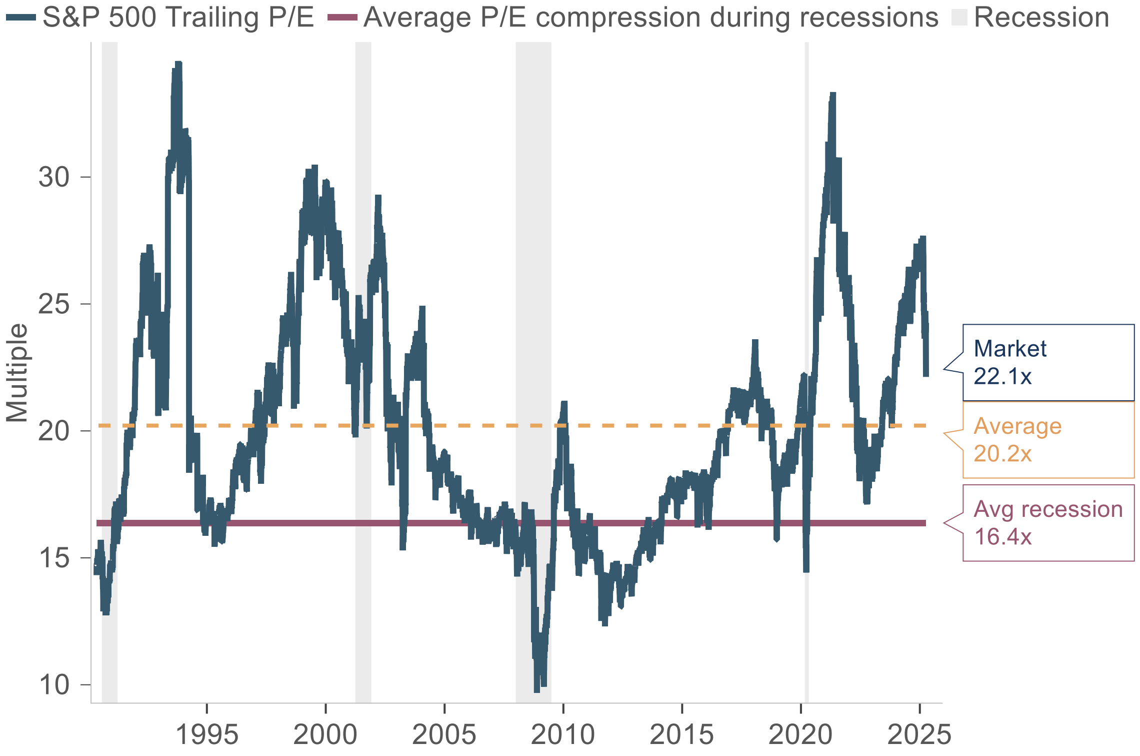
- Equity markets are priced based on earnings and multiple expansion (or contraction), with multiples being influenced by factors such as cost of capital and investor sentiment.
- Corporate earnings have remained resilient in the face of increasing risks. Profit margins appear resilient (**left chart**) but there is a wide dispersion between sectors with tech seeing the most strength. Today, the market is still optimistic about earnings growth. Market pricing suggests earnings per share (EPS) are expected to grow by 11% in 2025 and 7% in 2026. For context, EPS rose by 13% in 2024 and nudged up by only 0.5% in 2023, which was also a period of very strong economic activity. From our perspective, achieving a much higher level of earnings growth this year would require economic growth to accelerate – not just stabilize – 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 have 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.

Sky-high equity valuations: a tough market for buyers

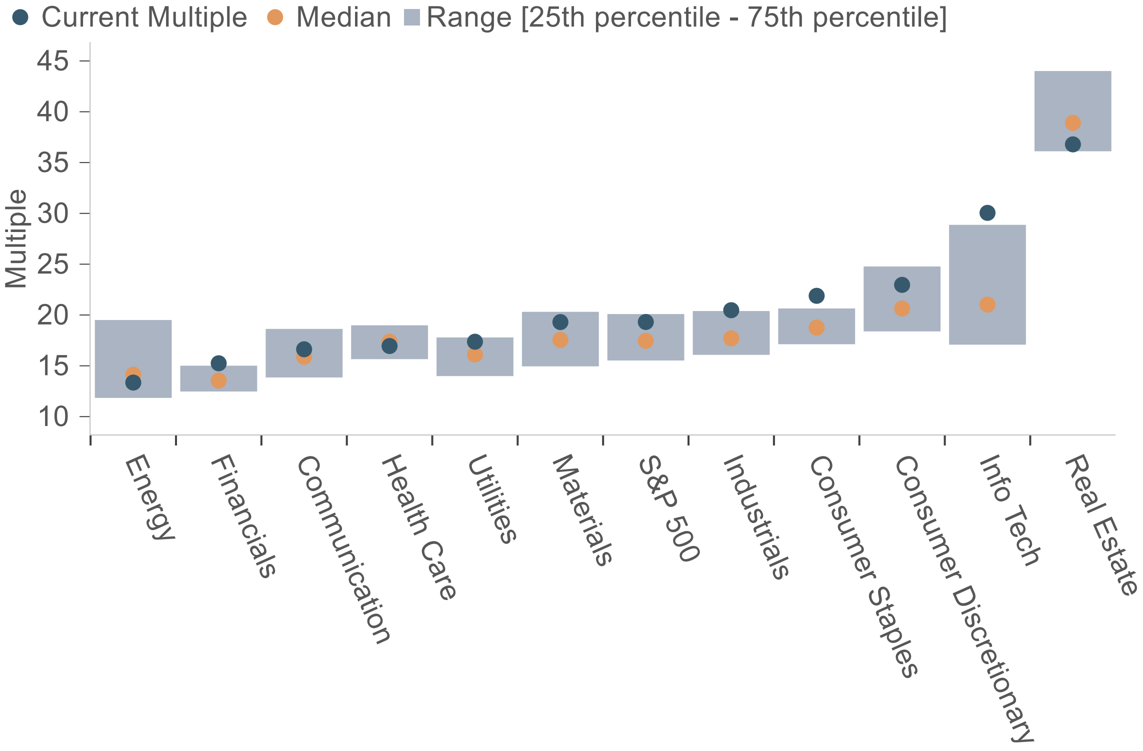
Historically, valuations are not a useful market timing tool. But high valuations may still limit the scope of upside opportunity for investors.

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, April 2025. 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.

Most S&P 500 sectors are trading above their long-term medians



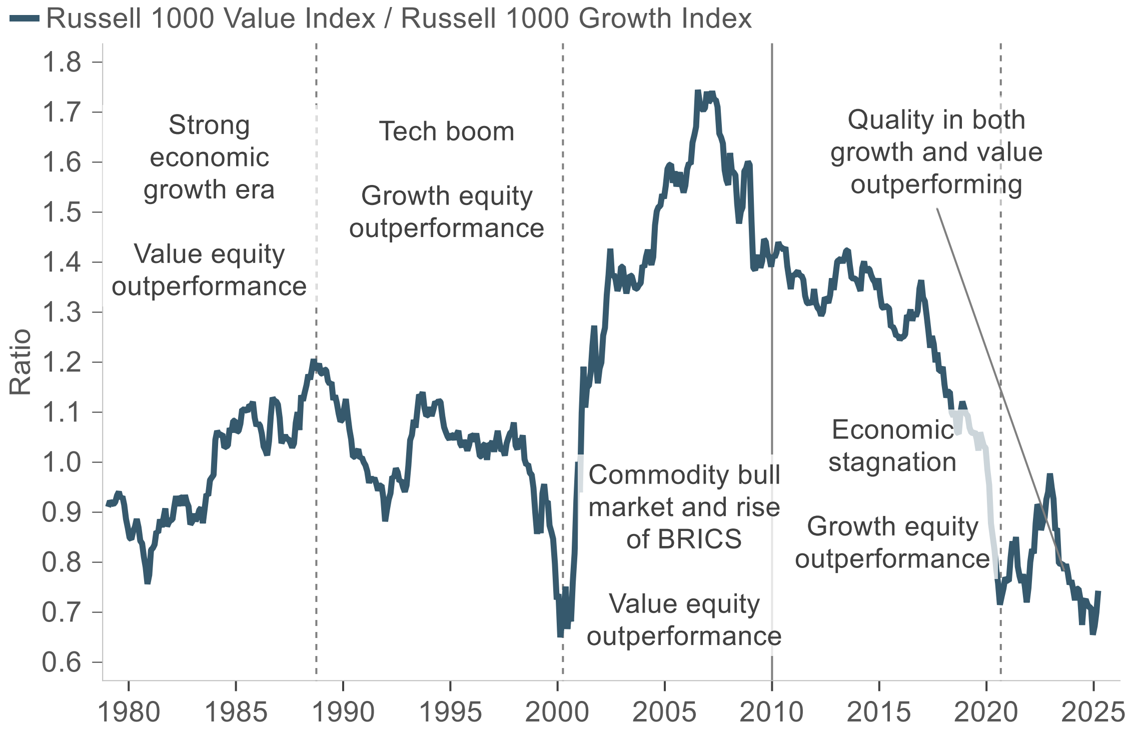
Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, April 2025. It is not possible to invest in an index. Past performance is not a guarantee of future results. Each sector index comprises those companies included in the S&P 500 that are classified by the GICS® Level 1 sector of the same name.

TAKEAWAY: U.S. equity valuations remain at the top of historical ranges, even across sectors, making for a challenging buying environment. However, factors like size, quality, and momentum have played a key role in supporting high-multiple technology and communications companies.

Growth equity outperformance has continued but remains the "pain trade"

A fear of missing out appears to be driving growth outperformance despite more compelling fundamentals in value equities.

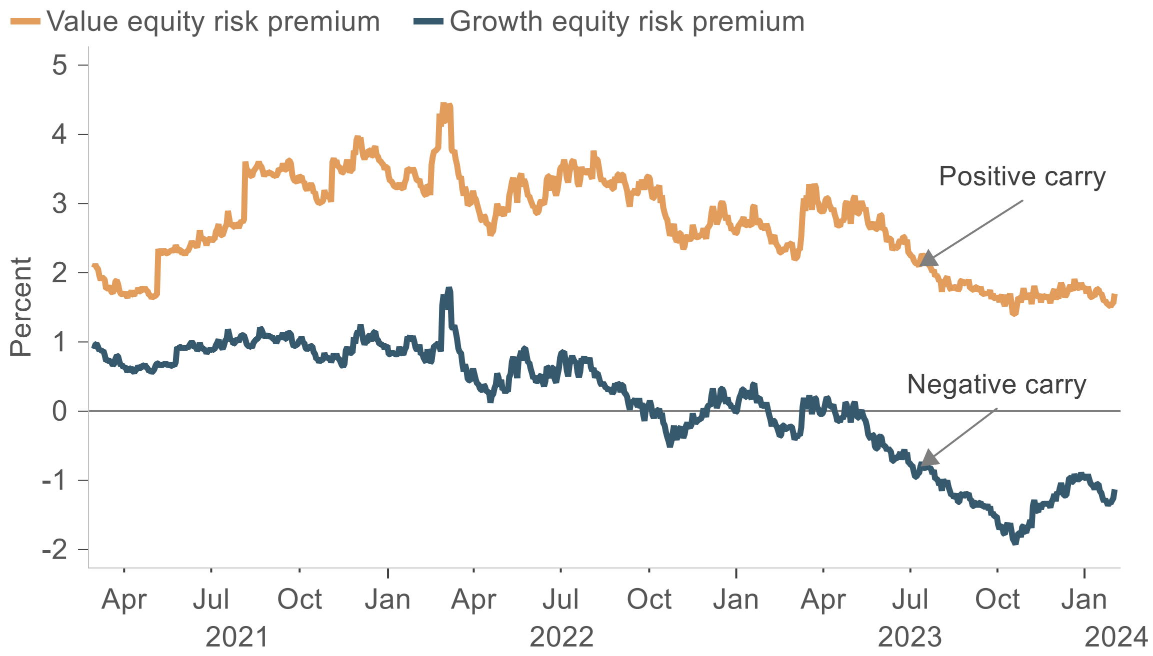
The post-pandemic era hasn't yet proven more supportive of value equities



Source: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, April 2025. 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.

Value equities have offered 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, April 2025. 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.

TAKEAWAY: The valuation gap between growth equity and value equity is near it's widest with value equities offering attractive entry points. However, we expect growth equity to maintain its dominance while economic growth remains at or above trend.

Large caps could 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 been hit hardest by inflation and higher rates

Sources: New York Life Investments Global Market Strategy, Russell Investment Group, S&P Global, Federal Reserve, U.S. Bureau of Labor Statistics (BLS), Macrobond, April 2025. 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 April 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.

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.
- This cycle, higher rates have weighed on small-cap performance. With persistent upward pressure on long-term Treasury yields, refinancing risks are likely to remain elevated, further constraining small-cap valuations.
- However, small caps saw a sharp rebound recently following the July inflation release last year, demonstrating the potential benefits of diversification. Though we believe the market's "soft landing" assumptions are liable to shift, the path is always bumpy, and some diversification can be valuable.

The small cap complex 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.

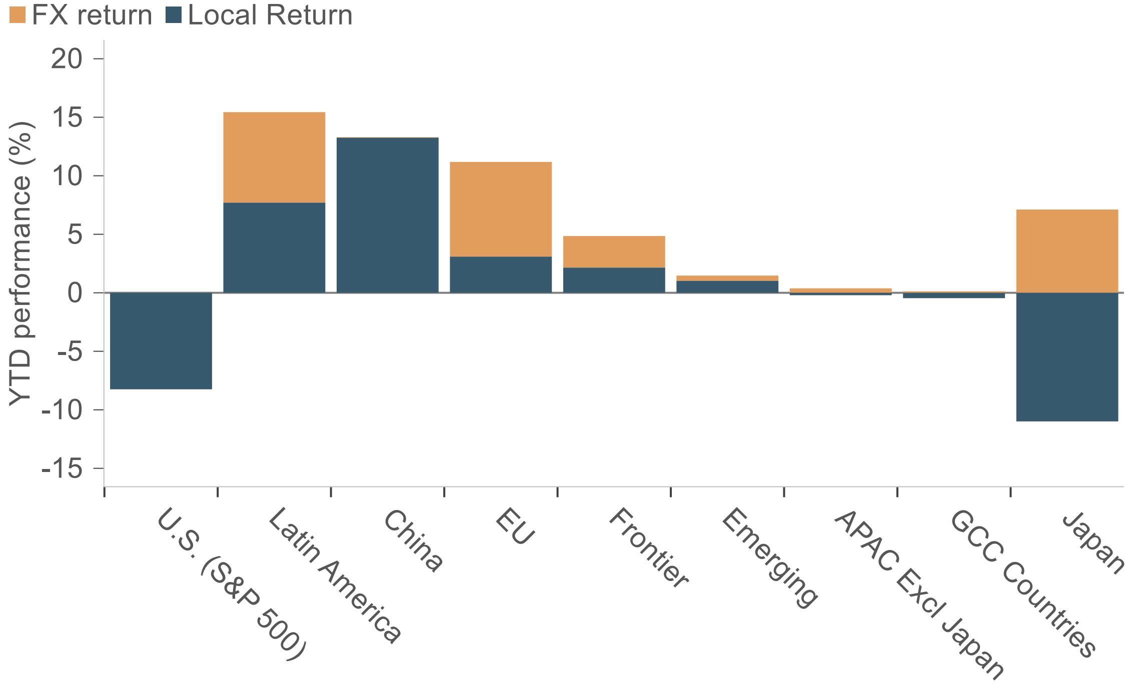
TAKEAWAY: At this phase of the cycle, where growth is moderate but likely slowing, large caps could outperform. Small caps may have brief moments in the sun, particularly when market rates move lower, but we aren't overly bullish on small caps until growth can re-accelerate. That said, we believe small caps offer overlooked growth potential, especially those companies with exposure to the artificial intelligence boom and profitable technology.

International equities: reassessing global allocations amid U.S. policy changes

Will international markets thrive or struggle if the U.S. turns inward?

U.S. markets have started 2025 lagging international peers

Equity market performance for a USD based investor



Sources: New York Life Investments Global Market Strategy, MSCI, S&P Global, Macrobond, April 2025. Each country, except for the U.S., is represented by the MSCI index covering the equity market of that country. The U.S. is represented by the S&P 500. 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.

Rebalancing the U.S. / non-U.S. equity allocation

- The extent of fiscal and deficit spending has been a key driver of U.S. equity returns, and the U.S. has consistently outspent its peers. If the U.S. starts to rein in spending while others ramp up, a more balanced U.S./non-U.S. allocation could make sense.
- For Europe, this is the strongest relative start to a year since 2000 (**chart**). Investors may be pricing in a "peace dividend" on the prospect the Russia-Ukraine war comes to an end. The reconstruction effort is also likely to generate significant economic activity.

Across cycles, 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. Relative valuations, especially in Europe, remain attractive for bottom-up stock picking.
- Cycle: Because the global economic cycle is desynchronized, a diversified international exposure can help investors capture recovery cycles globally.

Portfolio strategy

- Many investors are structurally under allocated to international equities, limiting the potential of this asset class to provide sector and business cycle diversification.
- 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.

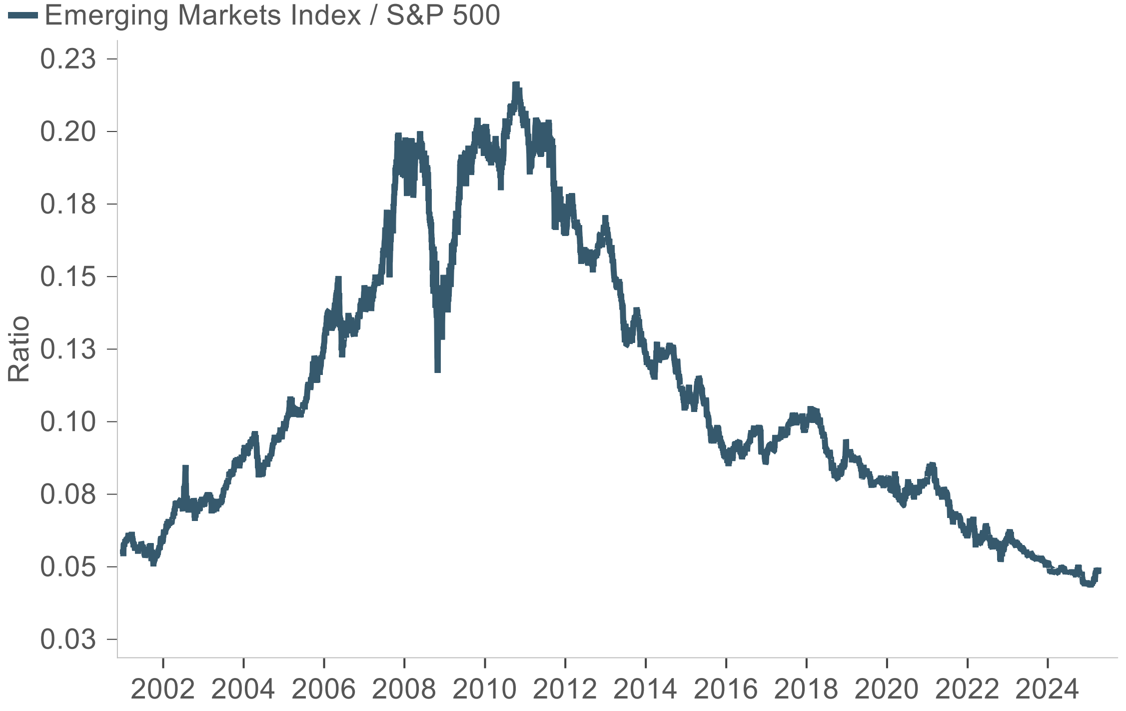
See our high conviction question on this topic for more context.

TAKEAWAY: We believe that structural exposure to international equity can help investors to capture sector and business cycle diversification. Tactically, policy changes may necessitate rebalancing – increasing allocations to economies benefiting from government spending while reducing exposure to those facing cutbacks.

Emerging market equities may still struggle against gravity

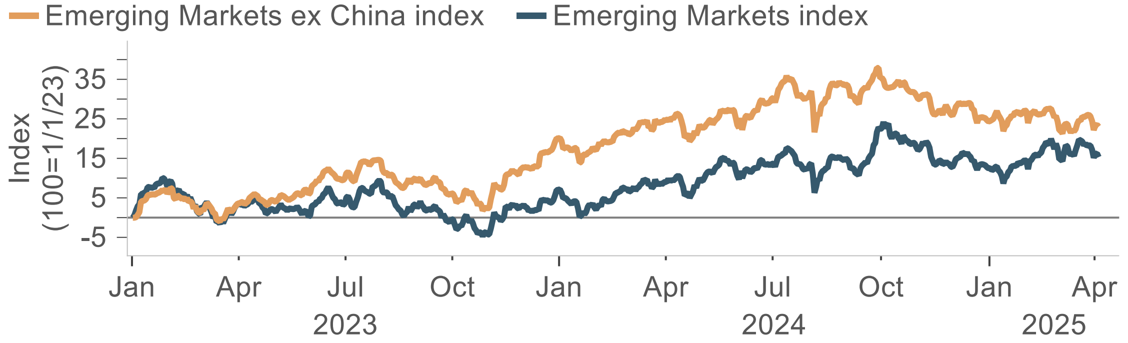
Some markets stand out, but the asset class may have difficulty outperforming as global growth slows.

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, April 2025. 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, April 2025. 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 throughout the year; nevertheless, we expect currency hedging and active management are key for success in the asset class

6 Fixed income

Insights

Readers may click on any item to jump to that section.

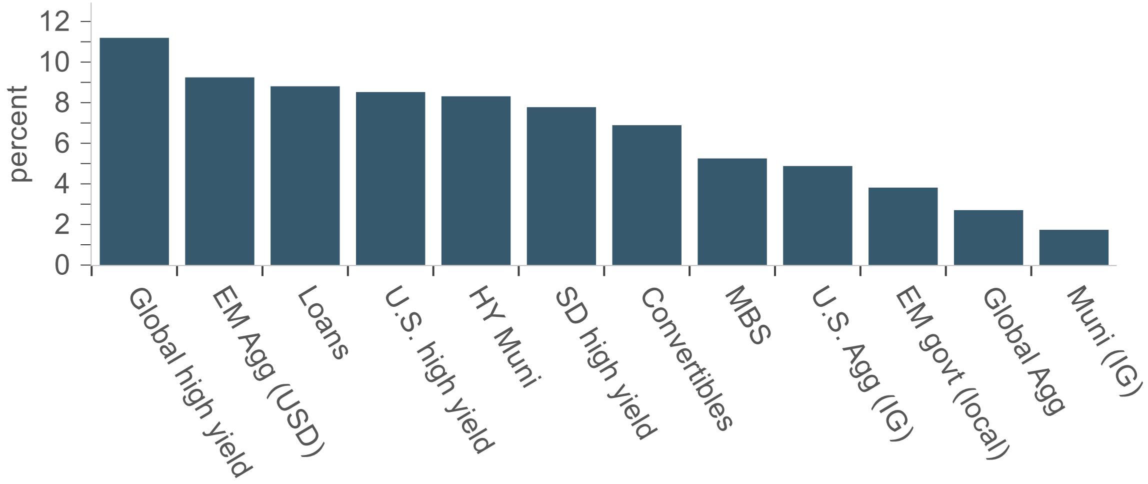
Today's macro backdrop supports high conviction in credit allocation

Policy rates have moved lower, extending the cycle and improving borrower health; but rates are still not low, creating income generation opportunity.

- Policy has widened the potential for yield volatility. However, short duration credit has a strong setup: slightly lower rates improve borrower conditions without sacrificing strong income generation potential.
- What about spreads? A sharp policy easing in response to a growth downturn or weaker labor market would likely drive further spread widening. However, structurally stronger credit quality and still-strong income generation potential make us confident in credit allocation. Even through a period of policy-induced slower growth, we are not concerned about systemic credit quality.
- Given a widening potential range for Treasury yields (3.5-5.0%), Treasury duration is not our favorite place to take risk. We prefer short duration Treasury and corporate credit exposure, including high yield and floating rate loans, balanced with longer duration exposure in core, core-plus, and taxable municipal bonds.

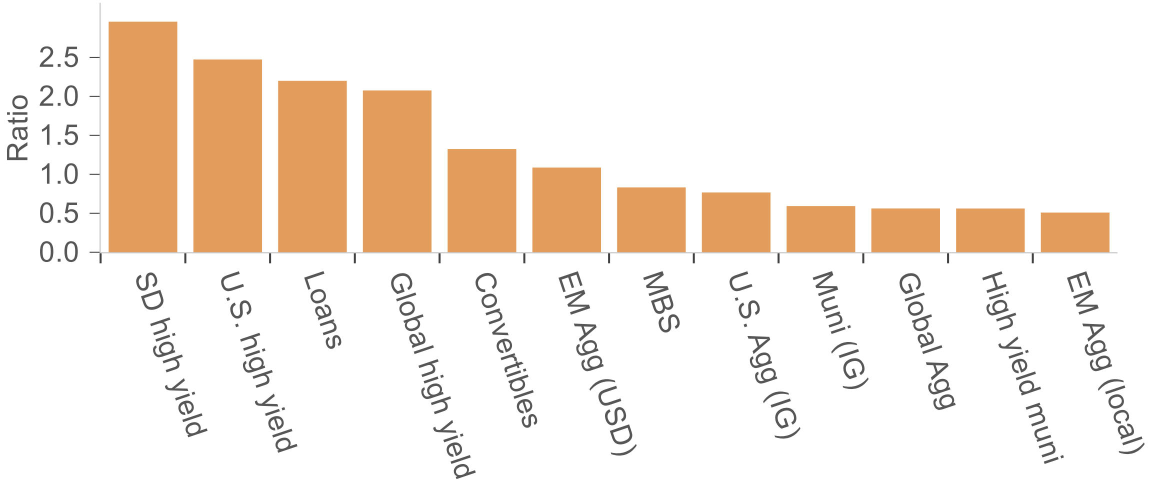
Risk-on credit investors have so far outperformed this year

Returns from January 2024



Riskier credit asset classes are offering better risk-adjusted yields

Yield per duration (prior 30-day average)

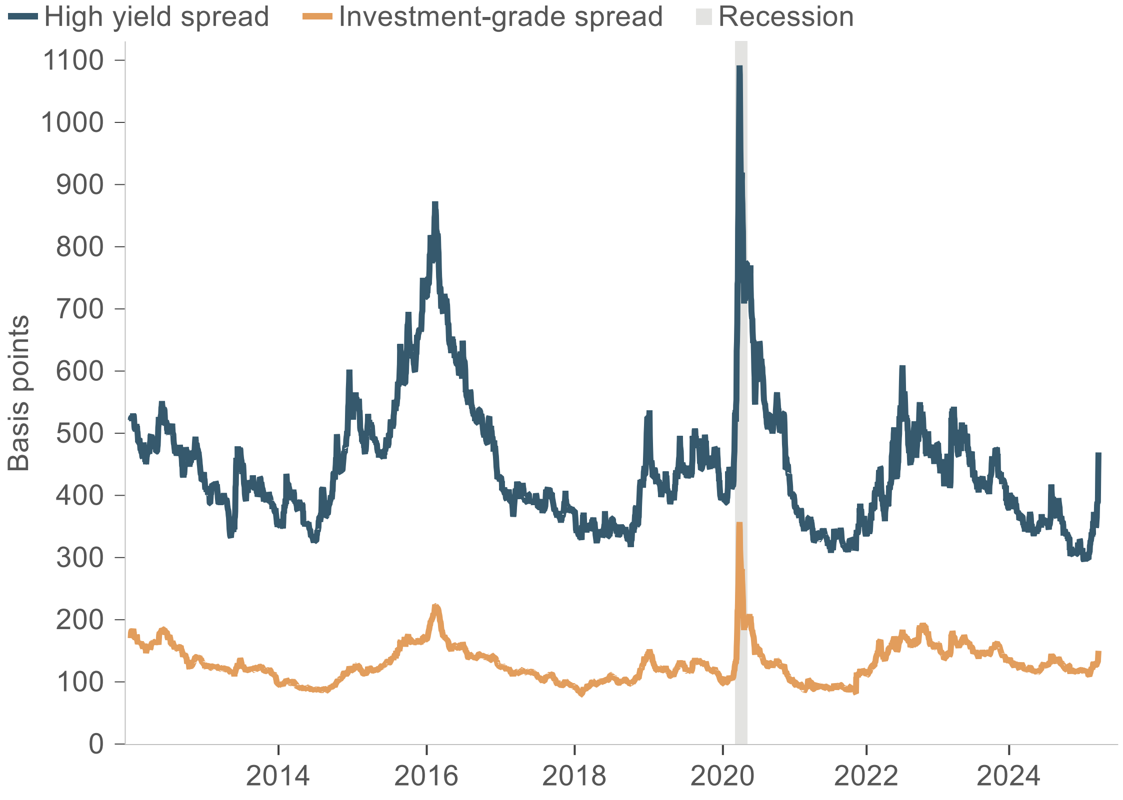


Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, April 2025. Convertibles represents the Bloomberg U.S. Convertibles Liquid Bond Index. EM Agg represents the Bloomberg Emerging Markets (EM) Hard Currency Aggregate Index- a flagship hard currency EM debt benchmark. EM govt represents the Bloomberg Emerging Markets Local Currency Government Index-a flagship index that measures the performance of local currency Emerging Markets (EM) debt. Global Agg represents the Bloomberg Global Aggregate Index- a flagship measure of global investment grade debt. Global high yield represents the Bloomberg Global High Yield Index-a measure of the global high yield debt market. Loans represents the Bloomberg US Leveraged Loan Index-measures the institutional leveraged loan market. Muni represents the Bloomberg U.S. Municipal Index-covers the long-term tax-exempt bond market. U.S. Agg represents the Bloomberg US Aggregate Index-a broad-based benchmark that measures the investment grade bond market. U.S. high yield represents the iBoxx USD Liquid High Yield Total Return Index-measures the sub-investment grade, corporate bond market. U.S. MBS represents the Bloomberg US Mortgage Backed Securities (MBS) Index-tracks agency mortgage backed pass-through securities. U.S. high yield muni represents the Bloomberg Muni High Yield Total Return Index. Short duration (SD) high yield represents the Bloomberg US High Yield Ba/B 1% Cap 1-5 Year TR Index. It is not possible to invest in an index. Past performance is not a guarantee of future results.

Investment grade bonds are a compelling place to stay invested

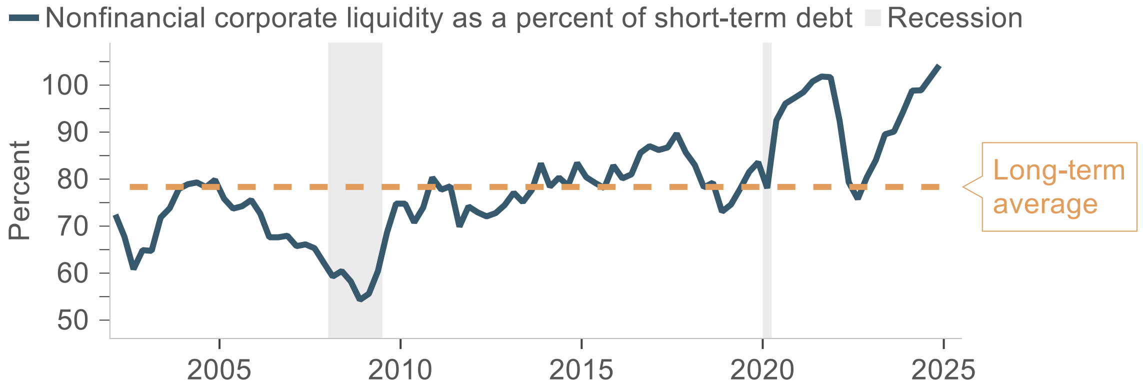
Given our late cycle view of the economy, we expect spreads to widen from here, but for credit quality to remain resilient.

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, April 2025.

Corporates' financial buffers are at a healthy level



Sources: New York Life Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, April 2025.

- Credit spreads have remained remarkably tight relative to history (**left chart**). Tight spreads are attributed to (1) a buildup of corporate cash, (2) strong credit quality supported by a resilient economy, and (3) the concentration of investment grade and high yield issuers in consumer sectors, which have been especially strong this cycle. While we expect economic growth to slow, we don't expect spread widening to be driven by an inability of IG companies to pay their debts. Businesses are maintaining a healthy cash balance (**right chart**), which should help firms weather pressure on margins and operating environment uncertainty.
- This economic environment underscores the importance of discerning borrowers' adaptability to decelerating growth and a prolonged period of higher inflation and interest rate volatility, which may require an active and dynamic approach to security selection.

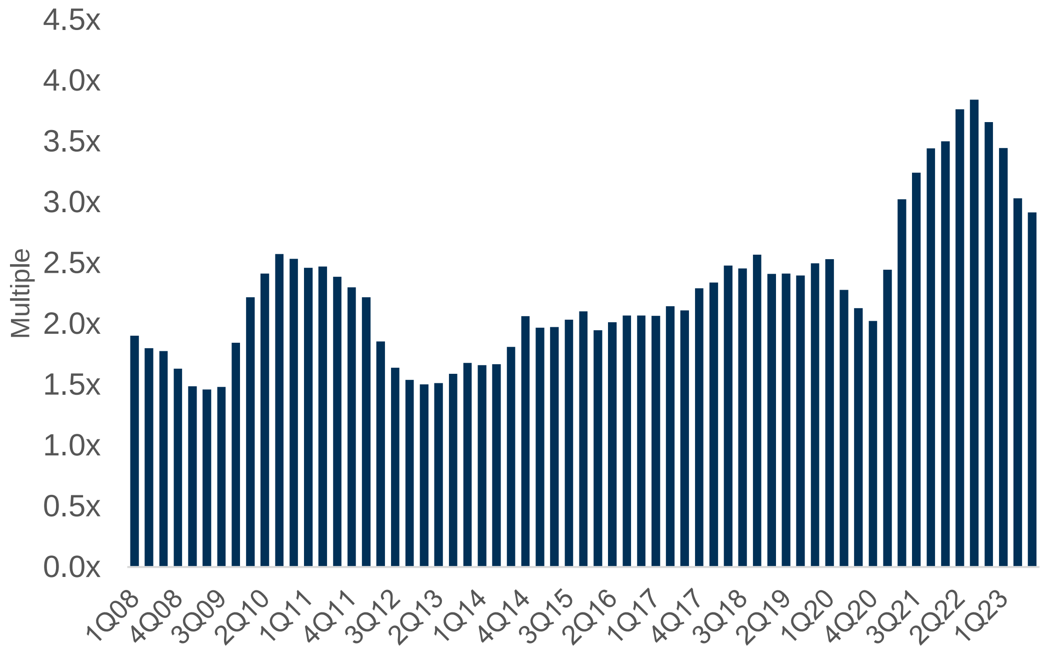
TAKEAWAY: Since the pandemic, companies have increasingly adopted a conservative approach to managing their balance sheets, effectively limiting overall debt growth. This trend has created an attractive backdrop for both investment grade and high yield corporate bonds. While we expect credit spreads to widen as the economy decelerates and rate volatility rises, strong credit quality helps us see past any temporary rate spikes, focusing on strong total return potential.

U.S. high yield remains one of our highest conviction ideas

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

Strong interest coverage multiples suggest high yield credit could see further outperformance

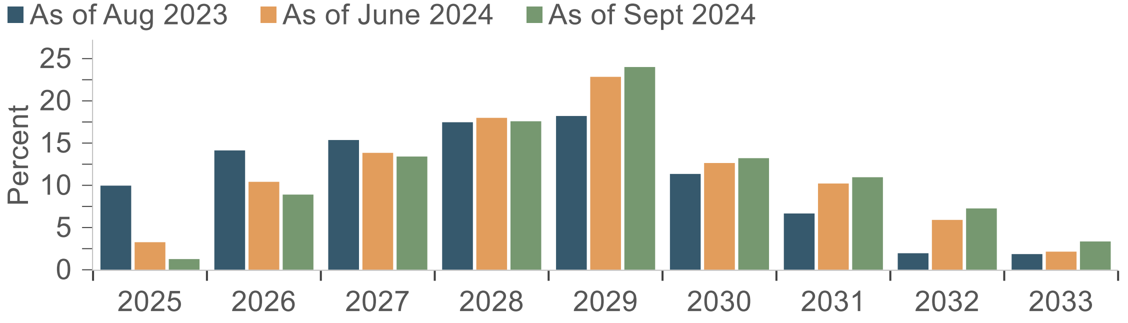
High yield interest coverage: EBITDA-CapEx/Interest expense



Sources: New York Life Investments Global Market Strategy, JP Morgan. April 2025. Data as of April 2025. EBITDA: earnings before interest, taxes, depreciation, amortization; CapEx: capital expenditures.

The high yield "maturity wall" is far from an imminent threat to corporate health

Share of high yield corporate benchmark maturing each year



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, April 2025. 2033+ represents maturities for 2033-2050. 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.

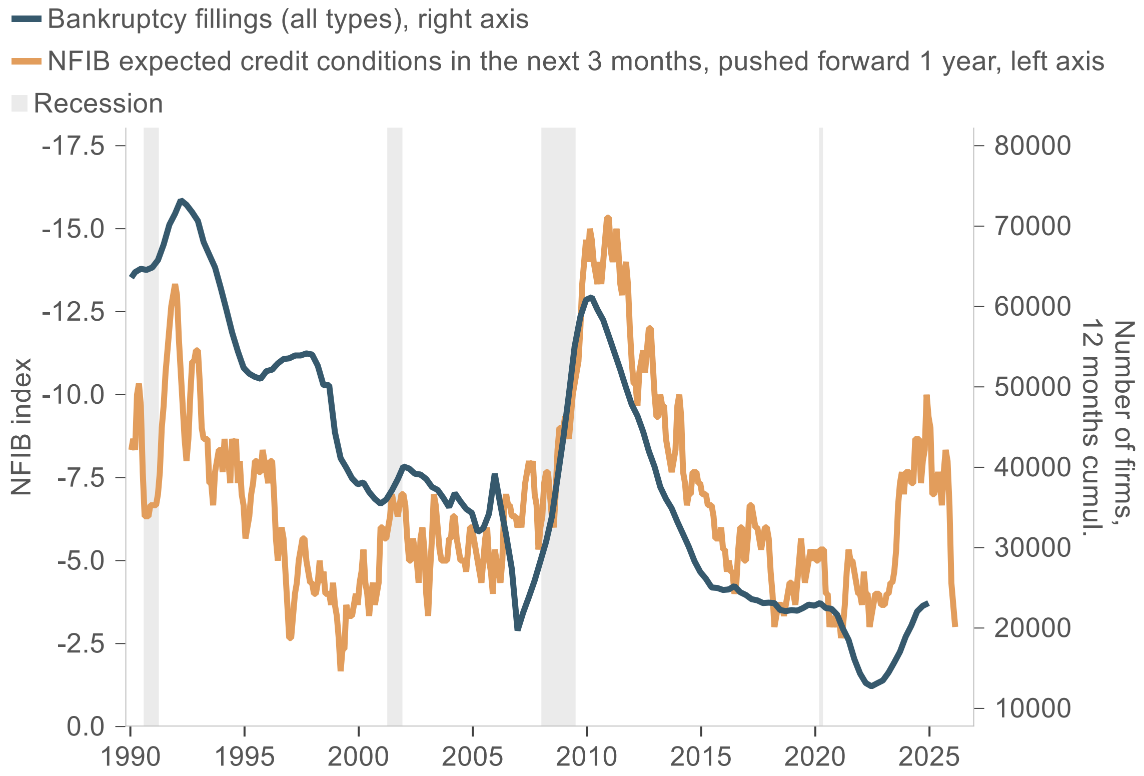
- The U.S. high yield asset class has improved in quality thanks to changes in corporate financing structure since the financial crisis, and thanks to pandemic-era support programs.
- Cyclically, leverage and interest expense levels in high yield are healthy (**left chart**). An extended economic cycle gives us high conviction in credit exposure this year, but issuer selectivity remains key.
- Over half of major HY benchmark weight is now rated BB or higher. We see this quality at work in the maturity wall: high yield issuers in the U.S. have been incredibly successful at pushing out their obligations (**right chart**).

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 credit quality, macro volatility, or policy uncertainty, the relatively short-duration exposure of high yield credit is a compelling option.

Bank loans may be out of room to run

Bank loans are often the asset class that reveals credit quality concerns first. Our bias toward relative credit quality makes selection paramount.

We expect bank loans to struggle if 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, April 2025.

Are floating-rate bank loans the place to be when economic risks are rising?

- Currently, overall yields appear to compensate investors for the greater degree of credit quality risk in the asset class, which stems from smaller companies with less of a balance sheet buffer against economic pressures.
- But in line with our view that large cap equities are likely to outperform small cap, and that higher credit quality is likely to outperform, bank loans may be out of room to run. We expect a slowing economic environment to be paired with accelerating inflation, meaning that floating rate borrowers may be crunched from both sides: slowing demand paired with more-expensive-than-expected borrowing costs.

Portfolio strategy

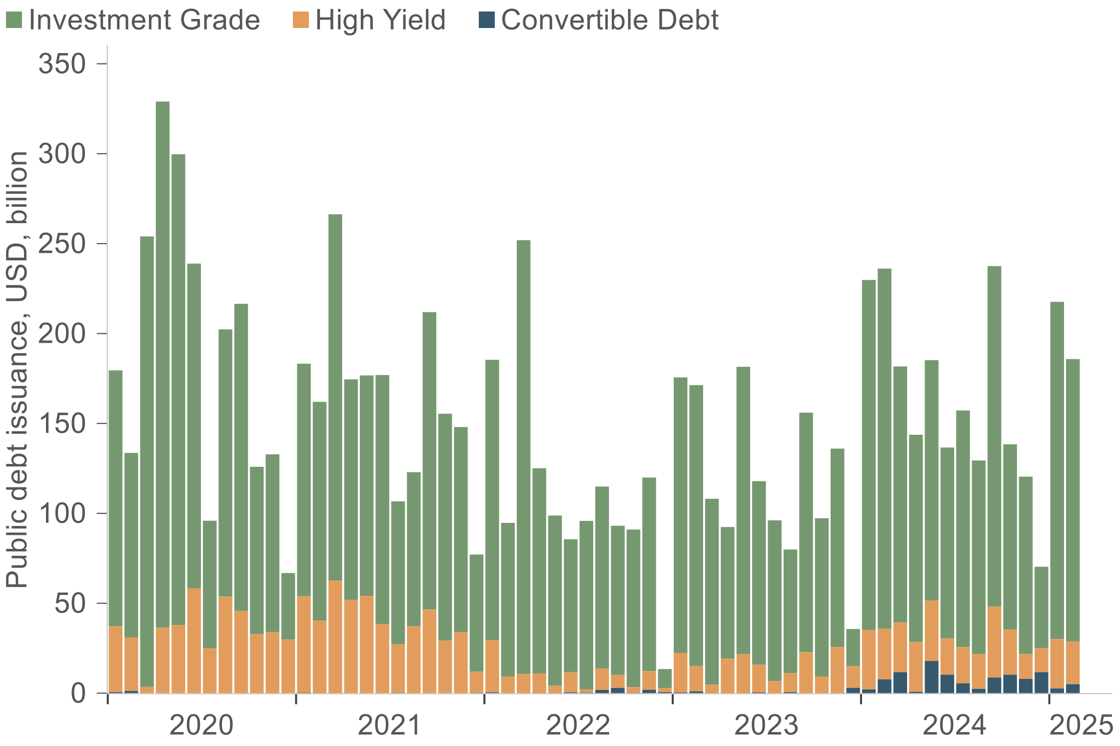
- We believe bank loans can be an important component of diversified global bond exposure. Because of their relatively lower credit quality, security selection and credit quality analysis is paramount when operating in this asset class in an unfavorable macro environment. Within floating rate bank loans, we prefer portfolios that are overweight senior secured loans with low leverage. We are closely monitoring for signs of credit quality slippage.

TAKEAWAY: At this stage in the cycle, Fed rate cuts paired with a strong macro backdrop are favorable for the asset class, particularly given the yield spread relative to other bond types. However, this supportive environment is growing increasingly tactical: we are monitoring closely for signs of credit quality slippage.

The tide is 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.

Convertibles have seen renewed issuance, corresponding with stronger performance



Sources: New York Life Investments Global Market Strategy, SIFMA (Securities Industry & Financial Markets Association), Macrobond, April 2025.

What makes convertible bonds special?

- In many ways, convertible bonds offer the best of both worlds. Like equities, convertible bonds offer unlimited upside potential from the embedded call option on the issuer's common stock. Like bonds, converts offer downside protection.
- Over a complete market cycle, convertibles generally participate in about 60-80% of equity market upside and 50% of the downside.
- Most convertible bonds have a short duration of approximately 2-3 years, limiting their sensitivity to interest rate fluctuations.

Tactical market outlook:

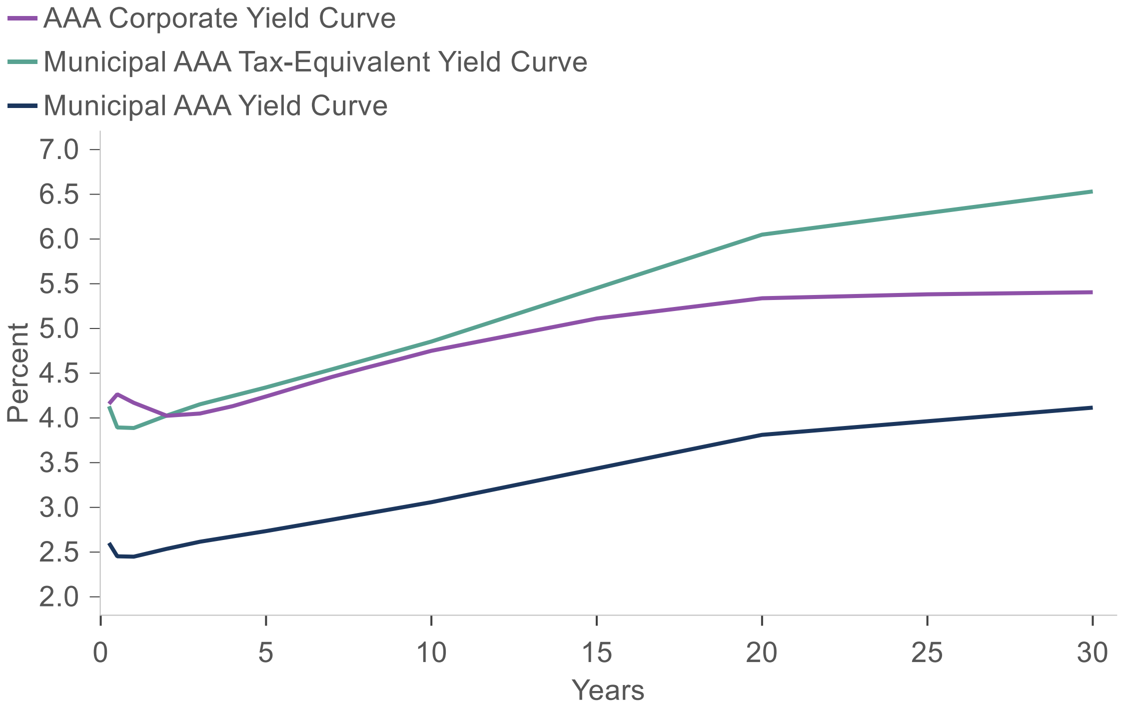
- Issuance: Issuance was strong in 2024, suggesting lower interest rates for issuers are balancing well with investor demand for upside participation in the equity features of convertibles. The market saw $45B of new issuance through August compared to $33B over the same period last year. Approximately one-quarter of new convertible issuance last year had an investment grade rating. Issuance is 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%.
- Valuation: The U.S. convertible market is weighted towards mid and small-cap companies which now have significantly lower valuations than large caps. While we are not overweight the SMID cap space in our equity view, we find the value proposition of converts to be focused on their blended equity/bond characteristics rather than SMID cap focus.
- For investors who believe market gains can broaden but the economy may slow, convertible bond exposure could replace small- and mid-cap exposure, offering potentially similar risk/return opportunities plus the defensive bond features.

TAKEAWAY: Convertible bonds are a well-positioned defensive asset offering yield and low volatility. As some corporate bond issuers are priced out of the investment grade and high yield markets, we expect to see strong issuance that is both less expensive for issuers while offering a compelling risk-return dynamic for investors.

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, April 2025. 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

- 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 higher-than-expected rates. An easing bias from the Fed makes this decision more compelling as money market yields (cash yields) fall. 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 2025.
- The benefit of tax-exemption is amplified in the current “higher for longer” yield environment. There have been some calls for the removal of the muni tax exemption, but our teams do not find this proposal to be a credible threat.

Munis as a critical component of our duration view

- In our view, an inverted or flat yield curve gives investors little incentive to take excessive duration risk in duration in U.S. Treasuries; however, not all duration is created equal.
- The vast majority of issuance in the municipal curves remains upward sloping, which continues to compensate investors for longer-term risk. 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: on the municipal bond curve. While federal policy uncertainty is likely to affect the muni environment in 2025 along with all other asset classes, we do not see this as a reason to avoid the tax benefits and/or relative quality of the asset class.

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7 Alternatives

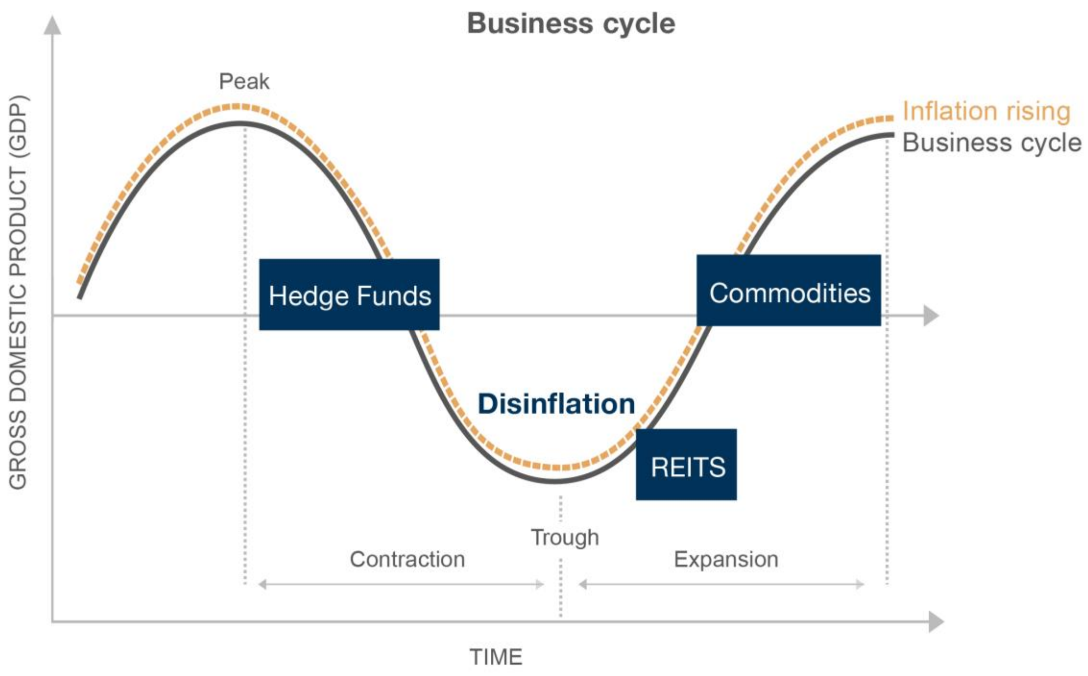
Insights

Readers may click on any item to jump to that section.

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, April 2025. 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.

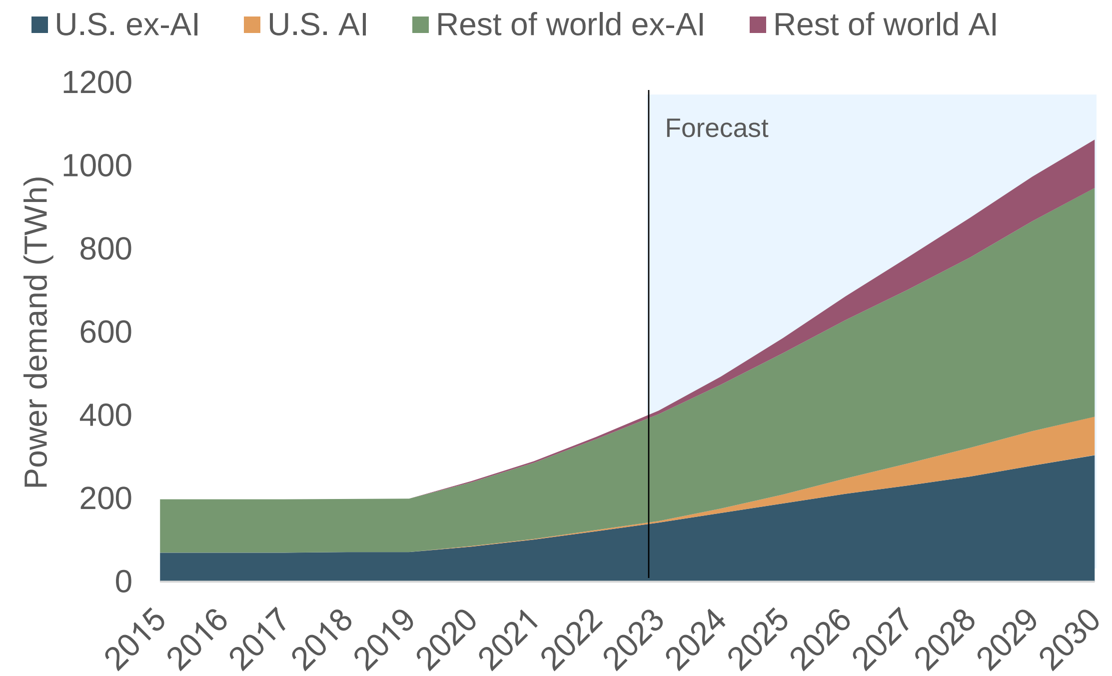
TAKEAWAY: Given the risk of persistent and rising inflation, we think commodities could offer the highest risk-adjusted returns, though investors could benefit by adding exposure across alternatives.

Infrastructure is one of our highest conviction structural themes

The structural case for infrastructure is expanding just as the cyclical case (lower rates) begins to support the asset class.

AI is expected to boost data center power demand by 160% and with it, the need for more digital infrastructure

Data center power demand



Sources: New York Life Investments Global Market Strategy, IEA, Goldman Sachs Research, April 2025. TWh = terawatt hours of electricity

A 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 a potential inflation hedge 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.

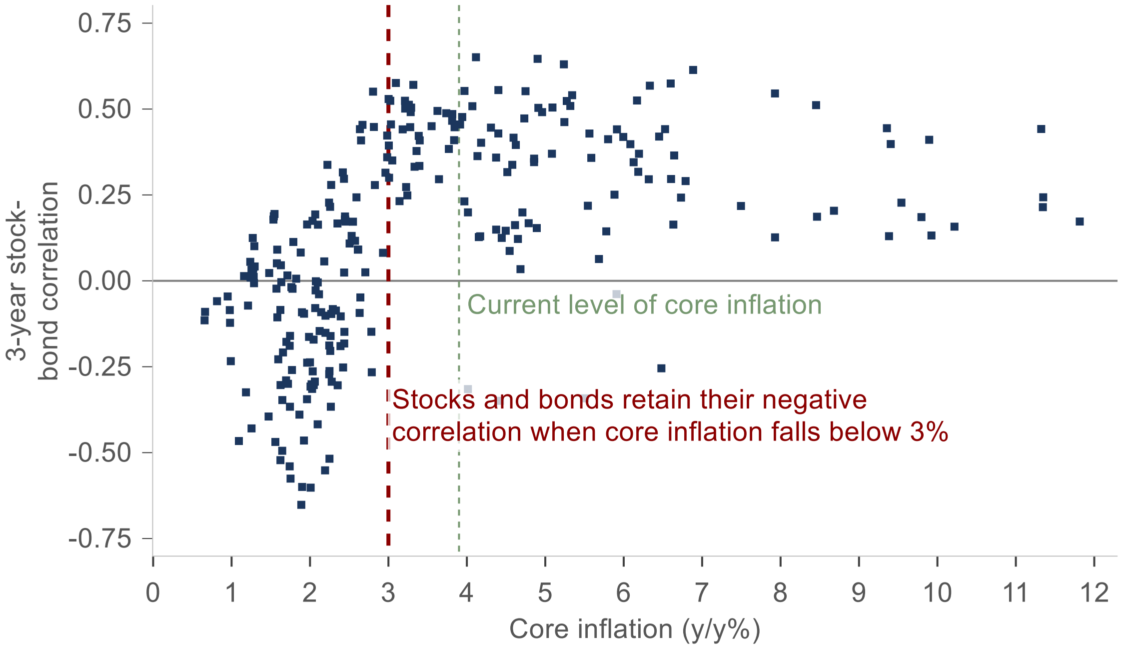
TAKEAWAY: The global economy is shifting, and we believe that infrastructure provides a durable opportunity to capture that change. We perceive infrastructure as a structural allocation in both equity in fixed income, allowing investors access to these trends as well as important portfolio construction benefits. Importantly, an interest rate cutting cycle has historically supported sectors such as utilities and energy that tend to make up important portions of the infrastructure asset class, adding potential cyclical firepower to an already strong structural case in our view.

Higher inflation points to a structural allocation to commodities

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

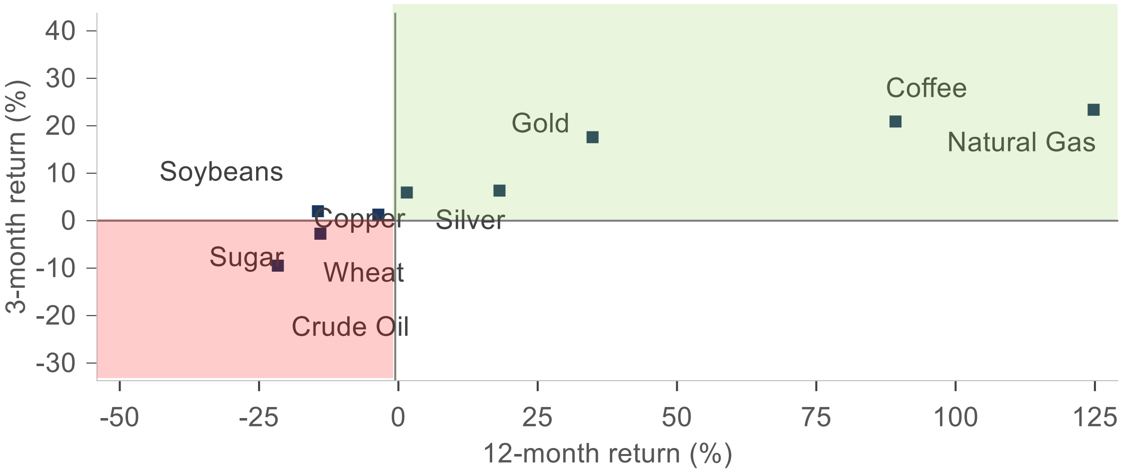
Commoditites play a more important role in portfolio allocation when inflation is high

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, April 2025. 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.

Active management is key when choosing a commodity allocation



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, April 2025.

- When inflation is high, stock-bond correlation tends to be higher. Investor portfolios may therefore be less diversified than finance theory would suggest (**left 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 (**right chart**); active management can help investors identify commodities with positive momentum (green box) and avoid those with negative momentum (red box).

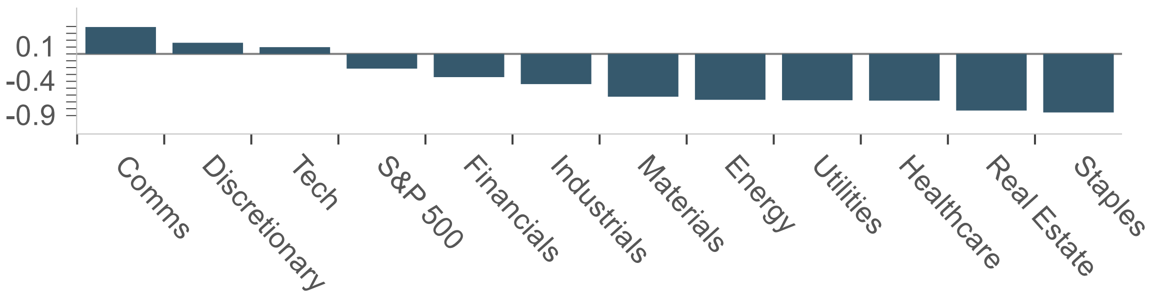
TAKEAWAY: We think investors should consider adding commodities exposure as a hedge against persistent inflation and in response to global dynamics such as escalating trade tensions and the push for decarbonization.

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.

Real estate equities have the lowest correlation with a change in rates - the asset class should outperform as rates come down

6-month correlation of 1-month changes



Sources: New York Life Investments Global Market Strategy, S&P Global, U.S. Department of Treasury, Macrobond, April 2025. 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 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, April 2025. 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 economy slowed, questions were raised 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.
- 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 April of 2023 and may be why bank bonds are outperforming the broader market (**right chart**).
- Despite a general downturn in the asset class, liquid real estate stood out as the top performer when yields declined at the end of 2023. Notably, the sector has one of the lowest correlations with changes in yields. We expect further cuts from the Fed could benefit the asset class (**left 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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8 Private markets

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Capital markets themes impacting the private markets

After two years of a slow-motion credit crunch in some areas of the private markets, we see four major transitions underway.

Global rates are moving lower

- Many central banks are cutting interest rates. Lower rates have improved investor confidence and borrower conditions, but rate levels are still high enough to provide attractive income generation potential.
- U.S. rates are stickier than those in other countries, but the bar for rate hikes from here is high.
- Rates volatility will be a feature of 2025 investing, but inflation and the labor market have mostly normalized for business operation.

Debt and equity can perform well at the same time. Allocating across geographies can provide access to different stages of the rate cutting and credit creation cycles.

Deal flow is returning

- Sponsor pressure for liquidity, sustained for the last several years, is finally driving improvements in exit activity.
- Policy uncertainty is currently masking hope for lighter regulations and less red tape in the market. This delay is expected to be temporary.
- Bid-ask spreads for high-quality assets have been reasonable. For lower-quality assets, bid-asks spreads show early signs of improving.

The slow-motion credit crunch in private markets is over. 2025 should be a strong vintage for new capital entering the market.

Private markets allocation is growing and democratizing

- Institutional allocations to private markets have grown even as interest rates have risen in recent years.
- Public equity concentration has reduced the average investor's overall portfolio diversification.
- Investors of all kinds want access to the early stages of value creation, and the "main street" engines of economic growth.

Competition and performance dispersion may increase. We believe there is an opportunity to diversify into smaller fund sizes, where market dynamics are less efficient and value creation opportunities can be more readily accessed.

Global megatrends are driving capital-intensive investments

- Global megatrends related to supply chain re-globalization, electrification, and digitization are changing the global economic model. Efficiency is no longer as important as access to and security of key resources.
- These transitions are driving a capital-intensive period of activity, creating sector and diversification opportunities.

Qualified Investors may benefit from a stronger medium-term economic backdrop. Demand for certain sectors and resources is likely to increase. Volatility in inflation, interest rates, and general macroeconomic conditions may be higher.

Opinions of New York Life Investments, 2025.

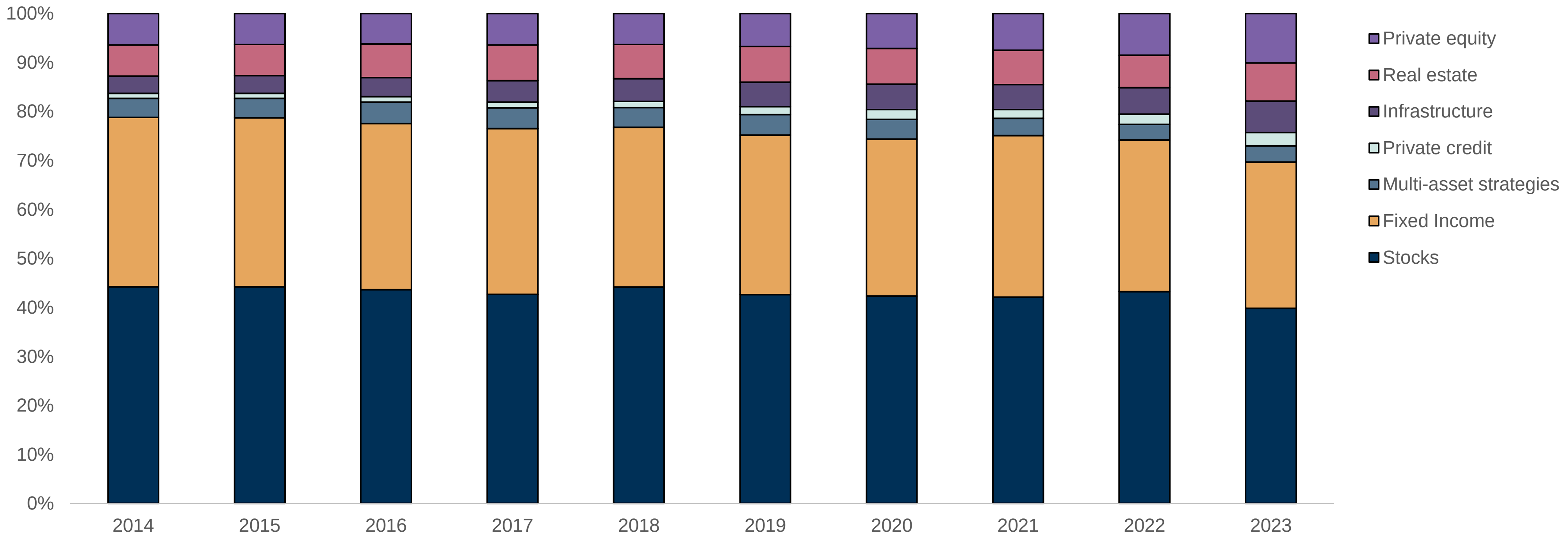
Qualified investor allocation to private markets has continued to increase…

In the past, lower-for-longer interest rates drove investor attention to private markets. Now, even amid higher rates, allocation has grown.

- After the global financial crisis, lower rates forced institutional investors to seek yield and higher returns from private markets. In the current environment, interest rates are higher, but allocations continue to grow. Data on investor allocations suggests that qualified investors have more appreciation of the diversifying benefits of the allocation.

Institutional investors have steadily increased their allocations to private markets…

Institutional investor asset allocations, 2014 - 2023



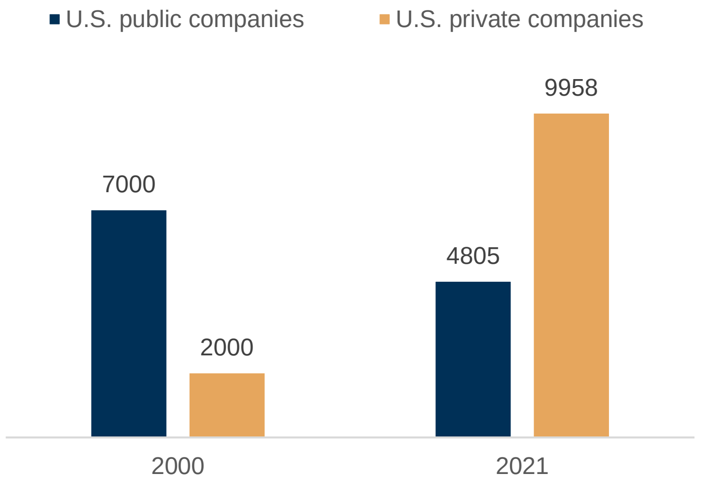
Sources: McKinsey, CEM Benchmarking, 2024. Data for 2024 is not yet available.

… desire for access is driving democratization of private markets, too

Public equity market concentration and the proliferation of private markets knowledge creates interest among more qualified investor types.

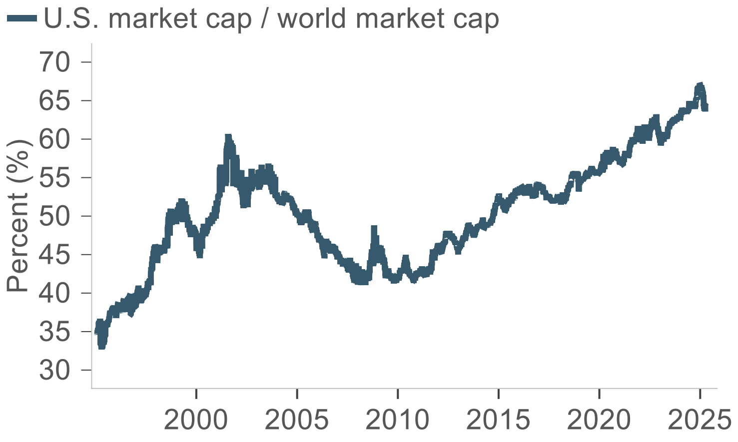
- Product innovation in the private markets space has created opportunities for qualified investors to fundraise among a larger set of investors, including night-net-worth investors. Interest in private markets strategies among these investors has grown in part due to its historically higher return and low volatility profile (though infrequent mark-to-market policies contribute to this expectation).
- However, several trends in public markets have also contributed to this dynamic. In equity, for example, fewer and fewer companies are listed for public shareholding (**left chart**). In recent years, as large-cap technology stocks have outperformed the index, equity market concentration – both geographically (**middle chart**) and strategically (**right chart**) – has increased. These dynamics give investors the perception that the public markets do not provide as diverse an opportunity as they used to, nor do they provide efficient access to the “main street” or early-stage opportunities. A
- As a result, we have seen an increase in qualified investor curiosity about and allocation to the private markets as an opportunity to diversify their equity holdings. This includes access to the “main street” opportunities for value creation that the middle market and lower middle market provide.

Company ownership has moved steadily from public to private markets



Sources: New York Life Investments Global Market Strategy, PitchBook, Amundi, CREATE Research, January 2025.

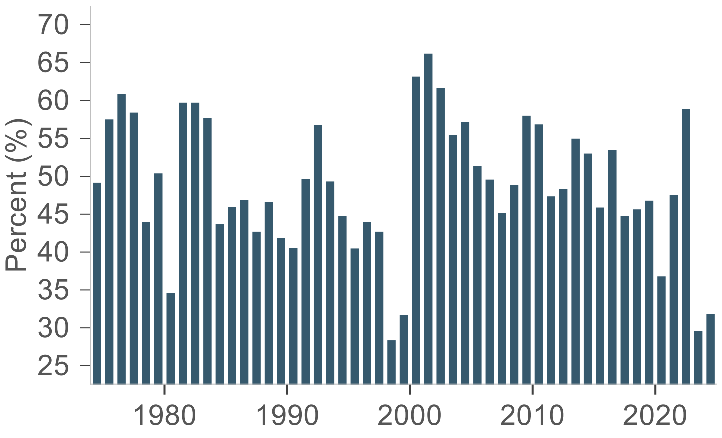
U.S. market capitalization dominates global market capitalization



Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, April 2025. U.S. market cap is represented by the capitalzation of the The MSCI USA Index — a free-float weighted U.S. equity index. Global market cap is represented by the capitalization of the MSCI ACWI — a free-float weighted global equity index. Past performance is not a guarantee of future results.

Few stocks outperform the S&P 500 index in recent years

Percent of S&P 500 stocks outperforming the index over the calendar year



Sources: New York Life Investments Global Market Strategy, NDR, Bloomberg, Macrobond, April 2025.

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Our key takeaways per private markets asset class

Private and illiquid strategies may not suit all qualified investors; those with access can consider these high conviction themes.

Private equity

- After improving in the second half of 2024, exits slowed in Q1 2025. Uncertainty around demand, cost of goods and capital, and the impact of policy changes makes it difficult to price risk. That said, sponsor pressure makes it likely that deal activity will resume when there is more clarity, even if policy change (.e.g. tariffs) has been imposed.
- Fundraising has been concentrated in large and mega funds, creating an opportunity for middle market and lower-middle market managers to sell upmarket.
- Moderate interest rate levels and higher volatility mean that private equity funds will need to implement effective value-creation initiatives to grow company profits.
- New sources of liquidity have emerged over the last few years that we believe provide private equity investors with diversified opportunities to generate liquidity, creating more stability for the space.

Investor approach: We typically discourage trying to time the market, but 2025 and 2026 are likely to provide strong vintages for private equity investors – even as policy uncertainty slows deal flow. Focus on markets with supply-demand dynamics that enable high investment selectivity.

Private credit

- During a turbulent time, private credit has been a relative bright spot, topping private asset classes in terms of fundraising growth, increases in assets under management, and performance. The impact of potential policy or economic headwinds is difficult to predict, but the sector has so far shown resilience.
- A strong economic starting point and modestly lower interest rates support confidence in credit performance for 2025. Leverage may rise as the economic cycle extends, driving our focus on credit quality.
- In the event of a more significant economic slowdown, the direct relationship between borrowers and lenders in private credit may allow funds in this space to navigate risks more fluidly. This appears to be even more the case for the middle market. Historically speaking, default rates for middle-market private companies have been lower and recovery rates have been higher when compared to similar asset classes.

Investor approach: Capture the benefits of higher yield in both U.S. and European direct lending. We favor the middle market and lower-middle market due to their historical relative safety.

Real estate

- The early phase of countries' rate-cutting cycles may kickstart a generational opportunity in real estate allocation. A normalizing yield curve tends to signal the largest range in debt and equity opportunities for private investors.
- Europe has seen more price discovery already. While the U.S. may see more volatility, especially in office space, we believe the bottom is in for many sector valuations. In our view, this means a market timing opportunity in equity may be arising.
- Investors have often focused on disruptions to office space related to work-at-home adjustments. But similar disruptions are driving higher rents in other sectors. Environmental improvements, better amenities, and strong demand related to secular changes (e.g. demand for data centers warehousing, and logistics) create opportunities in our view.

Investor approach: Qualified Investors who can play across the capital stack, risk spectrum, and geographies can potentially capitalize on market disruption. Focus on sectors experiencing secular demand.

Real assets

- In our view, global transitions towards digitization, electrification, and supply chain re-globalization are likely to increase demand for real assets.
- We believe this demand may come through at least two channels. The first is a physical need for commodities and materials to build the infrastructure required to fuel these global megatrends. The second is that this capital-intensive stage in the global economic environment may lead to higher inflation and interest rate volatility. Historically, real assets have outperformed during periods of higher inflation and interest rate volatility.
- Despite higher valuations in the foundational layer of megatrends like AI, valuations for the inputs to these investment processes have not seen as much uplift. We believe that attractively priced assets with cash-flow-generating properties may provide return generation and diversification potential.

Investor approach: Opportunities related to global transitions (digitization, electrification, supply chain re-globalization) have become clear. Diversify a private portfolio by considering the natural resources inputs to that process.

Opinions of New York Life Investments, 2025.

We believe the lower middle market presents a global private opportunity

Qualified investors may benefit from focusing on less efficient parts of the market; this lower middle market is one such opportunity in our view.

- Private markets have reached a considerable $14.5 trillion in size across asset classes. Still, they remain a small portion – just 4% – of the total investable market. At the same time, company financing trends have shifted. The number of listed companies has fallen from 7000 to 4800 since 2000, and equity market capitalization has become increasingly focused in the United States.
- In response, more types of qualified investors are shifting their focus to private markets, seeking return potential and diversification. We believe qualified investors should focus on areas of the market that are less efficient, or where return characteristics cannot be as easily achieved in public markets. We see the lower middle market (LMM) of private equity and private credit to be one such opportunity – and one that is particularly attractive at the capital markets turning point investors may be facing today.

Our case for the lower middle market

What is the lower middle market (LMM)?

- The lower middle market is typically defined as companies with less than $250 million in enterprise value, or private equity funds with less than $1 billion in assets under management. The middle market is typically larger, with up to $500 million in enterprise value. Large companies are typically those with $1 billion or more in enterprise value.
- The number of companies is much larger than it is for large companies, providing a deeper pool of acquisition opportunities.
- Companies tend to be family or founder owned, so investment is typically the first institutional capital applied to the company's business.
- Qualified investors can focus more holistically on value creation through business building, rather than focusing on financial engineering as is typical in larger parts of the market.

Benefit	Description
Competitive resiliency	• The lower middle market offers an attractive supply-demand imbalance, with a large number of potential target companies and lower fundraising volume. • Historically, the supply-demand imbalance for companies / assets has resulted in attractive entry valuations, with smaller companies trading at a discount to larger companies. • Deep pools of capital available to potential acquirers, such as corporate strategic acquirers and large/mega private equity funds, can result in consistent exit opportunities. • The cyclical nature and variability of bank loan volume create the need for private financing in credit markets.
Economic resiliency	• Lower middle market funds have historically outperformed larger segments over the long term, including in high interest rate and high inflation environments. • Contrary to common belief, company size explains only 6% of default frequency, whereas higher leverage, which is a key characteristic of larger funds, is the largest factor explaining expected default frequency.
Portfolio resiliency	• Lower middle market, middle market, and large & mega funds can offer diversification benefits and complementary exposure when paired together.

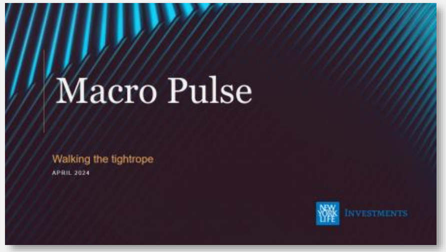
Opinions of New York Life Investments, January 2025. For illustrative purposes only.

Global Market Strategy insights

Macro Pulse: Economic & market commentary

Weekly market update

Economic and market outlooks (& quarterly webinars)

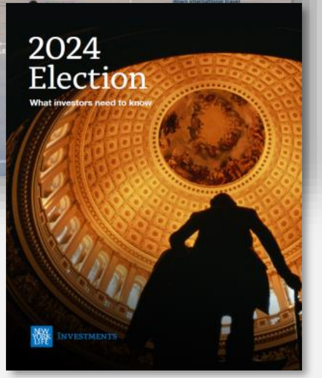


Weekly podcast & bi-weekly video series

Thought leadership

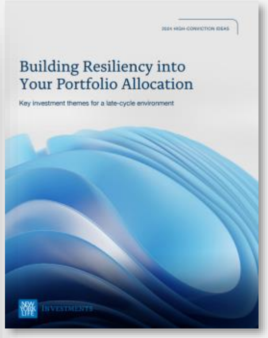
Megatrends

Politics and geopolitics



Asset allocation

High-conviction ideas



Asset class insights

newyorklifeinvestments.com/global-markets

New York Life Investments

Important disclosures

The commodities industry can be significantly affected by commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions. The precious metals market can be significantly affected by international monetary and political developments such as currency devaluations or revaluations, central bank movements, economic and social conditions within a country, trade imbalances, or trade or currency restrictions between countries. Fluctuations in the price of precious metals often dramatically affect the profitability of companies in the precious metals sector. The precious metals market is extremely volatile, and investing directly in physical precious metals may not be appropriate for most investors.

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All investments are subject to market risk, including possible loss of principal. Diversification cannot assure a profit or protect against loss in a declining market. Active management typically involves higher fees than passive management.

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