

# Macro Pulse

Dog days, data shifts

AUGUST 2025



INVESTMENTS

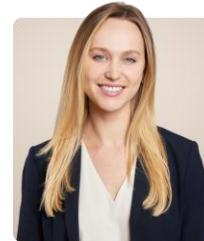
# Demonstrating the depth and breadth of the New York Life Investments platform

## Objective, top-down analysis

*Global Market Strategy at New York Life Investments*



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## Seasoned bottom-up expertise

*Multi-boutique structure*

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# Executive summary

Capital markets have been eager to price out the worst-case scenarios presented by U.S. policy uncertainty and global geopolitical risk. But these risks have not disappeared, and we are wary of their potential to accelerate late-cycle dynamics. We are not overly bearish on the U.S. or global economy, but transitions in the approach to economic policy and diplomacy widen the range of potential outcomes for investor portfolios. We believe this is a critical moment for investors to rethink allocation in light of shifting business, consumer, and geopolitical realities. **The goal isn't to avoid risk, but to take it deliberately**

For the last few months, investors have taken a “wait and see” approach with respect to U.S. policy changes. Liberation Day reactions felt overdone; macro data was stable and global markets fully recovered. Many U.S. companies saw little impact to their demand and margins in Q2.

However, that market balance is coming into question. Equity market performance is increasingly narrow and momentum-driven. Policy risks, including inflation pressures and immigration-related shocks to labor supply are beginning to show up in the data. Policy shifts, including changes to tariff levels, will continue to impact economic activity, costs, and ease of doing business.

We are not overly bearish on the U.S. economy, but our base case scenario is that growth will slow, cracks in employment will widen, and inflation will edge higher. If these expectations materialize, market pricing today is too complacent.

Outside the U.S., the picture is mixed. China's recovery remains uneven as policymakers toggle between stimulus and structural reform. Japan's reflation

experiment appears increasingly fragile. In Europe, growth is soft but stabilizing, with disinflation providing some policy breathing room – even as political risk creeps back into focus.

In public markets, U.S. valuations have completed a full V-shaped recovery, but U.S. tariff policy is still having an impact on investors' asset class and geographic preferences. Traditional relationships between asset classes like gold, oil, the U.S. dollar, and Treasuries appear to be changing, reflecting questions around demand for U.S. assets. In our view, this means investors must think more holistically about diversification, both within and across geographies.

In private markets, policy uncertainty has stalled hoped-for improvements in deal flow. However, other forces for private markets resilience – 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.



# High conviction investment ideas

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

CALL OR CONDITION		INVESTMENT CONSIDERATIONS	
EQUITY	<ul style="list-style-type: none"> <li>Recent data have reflected a “goldilocks” backdrop of moderating inflation and balanced employment. These indicators may not capture the full effects of recent policy changes, including trade and immigration policy changes that can influence growth, costs, and business conditions. We expect market volatility to resume when the economic data reflects these risks, making it essential to focus on earnings quality.</li> <li>As risks to U.S. growth and policy stability are raised, global investors have questioned their enthusiasm for U.S. assets. Traditional relationships between asset classes like gold, oil, the U.S. dollar, and Treasuries are shifting. Investors may seek broader diversification; within equities, this may include attention to geographic and structural changes, such as the increase in defense and infrastructure spending in Europe.</li> <li>Small companies have less buffer against input price rises, and less opportunity to adjust supply chains.</li> <li>The trend in artificial intelligence is here to stay. Digital and energy infrastructure are already benefiting from sustained and diversified investment; we see this as a compelling entry point into the AI theme.</li> </ul>	1	Stay invested, with a focus on earnings quality.
		2	Investors can consider deploying equity-like risk into high yield corporate credit, where fundamentals and yields are attractive, outweighing price risk stemming from tight spreads in our view.
		3	Ex-U.S. outperformance is likely to slow after a strong Q1, but we believe geographic diversification is prudent amid global risks.
		4	We strongly prefer large caps. We believe small caps will continue to underperform until growth is more resilient – unlikely this year.
		5	Diversify equity exposure into broader reflections of the AI theme, including energy, materials, and digital infrastructure.
FIXED INCOME	<ul style="list-style-type: none"> <li>We expect the Fed to stay on hold due to upside inflation and labor supply risks. The Fed Funds Rate may move lower only one time this year, reflecting the central bank's desire to signal its desire to move closer to neutral over time.</li> <li>The combination of sticky interest rates and tight credit spreads have investors wondering whether fixed income allocations are worth the risk. In our view, income generation opportunity is too attractive to let pass.</li> <li>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. Fundamentals in European credit are attractive as well. At the same time, uncertainty around growth and inflation point to more volatile market interest rates. We favor a “buy and hold” short duration credit strategy to maximize these potential benefits.</li> </ul>	6	Staying short duration in credit allocation can solve for both rate volatility and any longer-term credit quality concerns.
		7	Volatility in the Treasury curve prompts our neutral-to-short duration preference. Consider short duration credit (IG, HY, munis) balanced with taxable munis, a high-quality infrastructure play.
		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	<ul style="list-style-type: none"> <li>Incidence of geopolitical risk has moved higher since the COVID-19 pandemic and is gaining proximity to safe-harbor U.S. assets. At the same time, the risk of inflation surprises has increased. Investors may use diversification and inflation-aware exposures to hedge against these risks.</li> <li>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.</li> <li>Private markets allocation is growing and democratizing.</li> </ul>	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.

# 1 Top investment questions

## Top questions

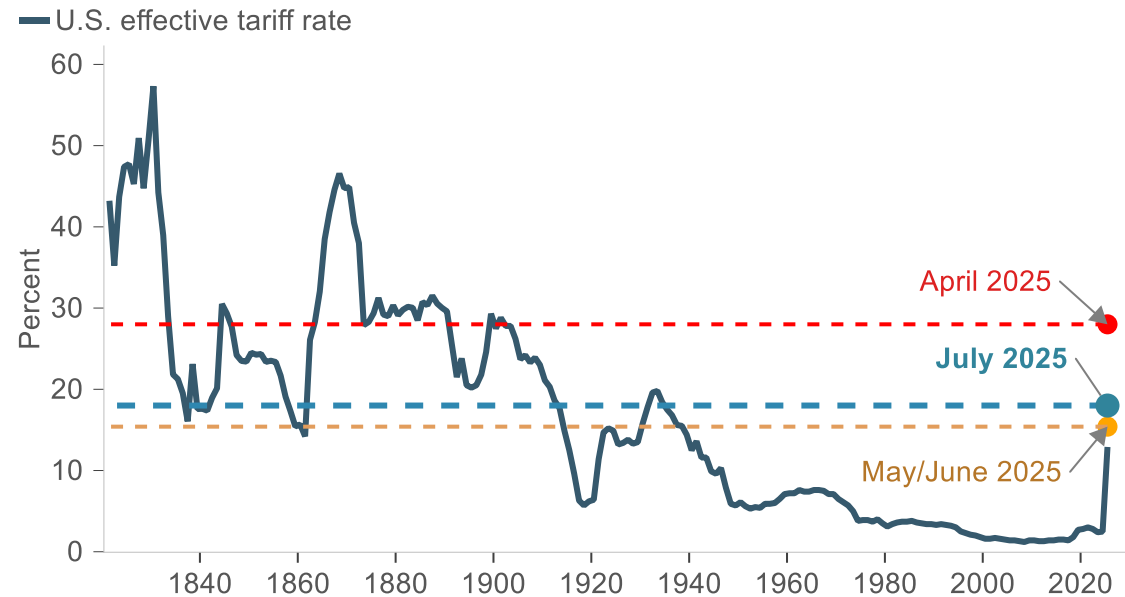
- [What's next for U.S. trade policy?](#)
- [How are tariffs affecting the economy right now?](#)
- [How will the U.S. economy evolve from here?](#)
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# What's next in U.S. trade policy?

The precise path of tariffs is uncertain, but the effective tariff rate on U.S. imports is moving decisively higher.

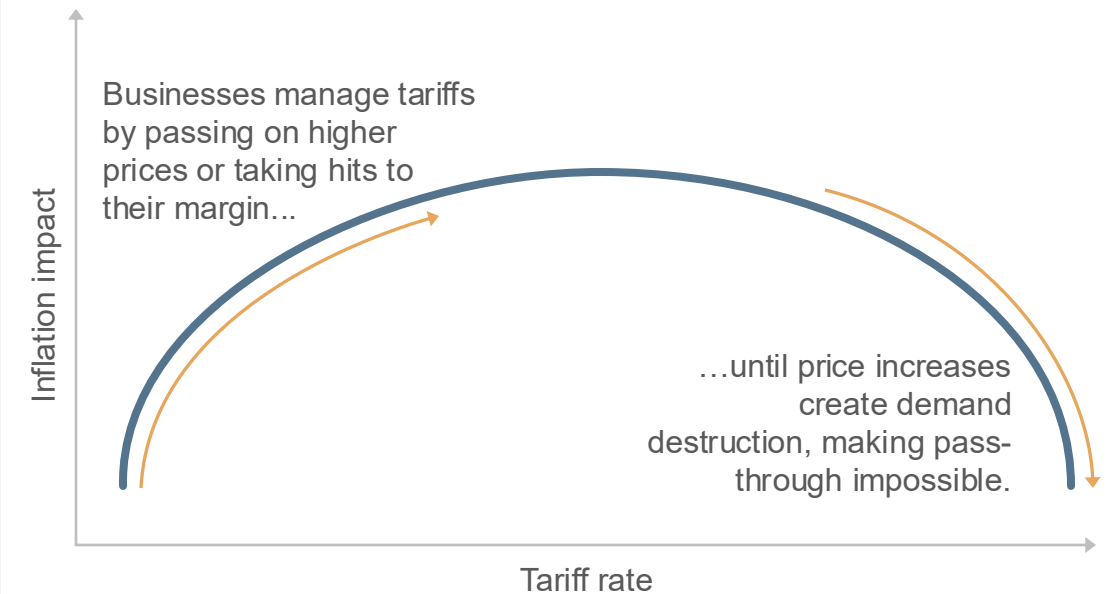
- While the Trump administration's reciprocal tariffs are scheduled to take effect on August 7, U.S. trade policy continues to evolve. Several major trade deals were announced in July, including with Europe, South Korea, and Japan, though key sector-specific tariffs are still under negotiation.
- In our view, tariff policy is unlikely to stabilize before the midterms. The combination of negotiations, announcements, and ongoing legal challenges lead to ad hoc trade policy, creating further uncertainty for businesses. Looking ahead, we expect a regime of "moderate but elevated" tariffs — still the highest seen in nearly a century — accompanied by rolling negotiations and legal risks.
- Moderate tariffs pose a unique inflationary risk. At extreme levels, tariffs tend to destroy demand and weigh on prices. But when businesses and consumers can "muddle through," cost pressures can pass through more cleanly, reinforcing the upside risk to inflation.

## Regardless of negotiations, we expect a materially higher tariff rate on U.S. imports



Sources: New York Life Investments Global Market Strategy, Tax Foundation, The Budget Lab at Yale, Macrobond, August 2025.  
Effective tariff rate calculated through July 10.

## "Lower" tariffs may mean higher price pressures



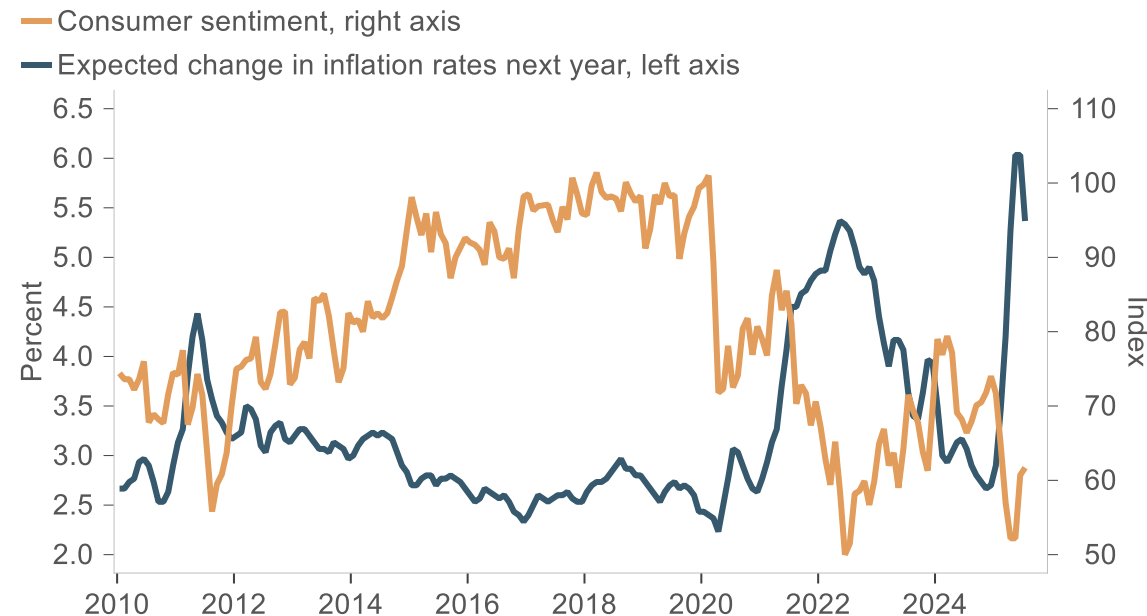
Sources: New York Life Investments Global Market Strategy, 2025. For illustrative purposes only.

# How are tariffs affecting the economy right now?

Tariff-impacted “soft” survey data is starting to be reflected in “hard” data, such as durable good inflation and job growth.

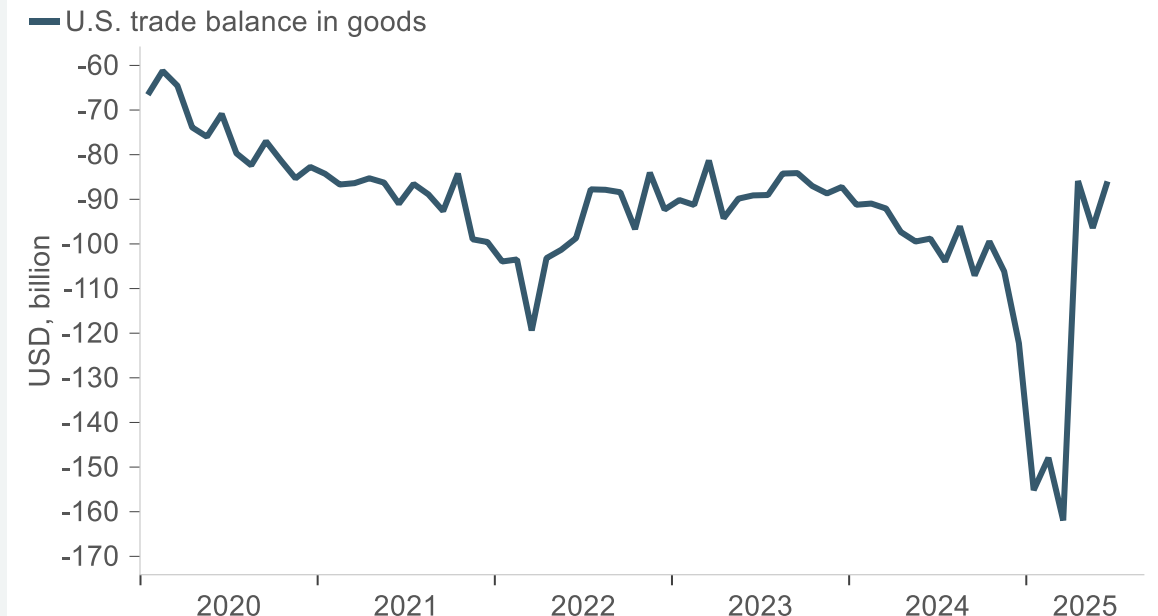
- Business and consumer sentiment fell sharply after the “Liberation Day” tariff announcements. While sentiment has since improved, it remains well below 2024 levels. Surveys show that elevated inflation expectations are weighing on consumer confidence, with the University of Michigan survey showing inflation expectations near 2022 highs.
- Trade data offers the clearest early signal of tariff impact, as businesses and consumers pulled forward purchases to avoid higher costs. This surge in imports — mainly industrial inputs and consumer goods — was a mathematical drag on GDP, contributing to a -0.5% Q/Q contraction in Q1 2025.
- Tariff impacts are now showing up in inflation and labor data. Durable goods inflation is reaccelerating, particularly in household furnishings, consumer staples, and electronics. Recent jobs reports also show a notable slowdown in private-sector hiring in May and June.
- Looking ahead, we expect pressure on inventory management, corporate investment, and consumer outcomes. Credit spreads are likely to react first, followed by corporate earnings.

## Surveys show elevated inflation expectations, while consumer confidence remains below 2024 levels



Sources: New York Life Investments Global Market Strategy, University of Michigan, Macrobond, August 2025.

## The U.S. trade balance in goods has normalized following a surge in industrial and consumer goods imports



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



# How will the U.S. economy evolve from here?

Robust inventory stockpiles and continued uncertainty around tariff levels may push tariff-related reflation into the fourth quarter.

- The stop-and-start tariff announcements and unresolved court cases make it challenging for consumers and businesses to make informed decisions.
- We are beginning to see a clearer impact of policy change on the economy. Though layoffs have not picked up yet, hiring has slowed meaningfully. Consumer spending has deteriorated this year, and goods inflation began to rise. Earnings reports show some companies materially impacted by margin compression, though this may see some offset from tax cuts and deregulation expected later in the year.

- Much is likely still to come in terms of policy impact. For example, we believe that businesses are unlikely to pass along holistic tariff-related price increases until there is (1) greater certainty on tariff levels and (2) tariff-impacted inventory. This could come as late as the fourth quarter once holiday inventories are on the shelves – as late as Q4.
- We will continue watching pricing of consumer electronics, apparel, and consumer staples – all of which are already showing signs of tariff-related price increases – to get a sense of how businesses are passing on the costs to consumers.

**Q3 2025**

**Q4 2025**

**Impacts of inflation** remain modest thanks to stockpiling in advance of tariffs and uncertainty around final tariff levels.

**Business sentiment improves** thanks to the “One Big Beautiful Bill” tax cuts and beginning of government deregulation push.

**Job growth** continues to decelerate from post-pandemic peak as economic growth backdrop slows.

Potential for a **rate cut** at the Fed’s September or October meeting

**Inflation reaccelerates** as tariff-impacted inventories hit the shelves and tariff-related court cases are resolved.

Some **pull forward in business spending** in response to the “One Big Beautiful Bill” and acceleration of government deregulation push.

So far, data suggests companies are **passing along** price increases from tariffs. Looking ahead, some companies may decide to incur higher costs, **reducing margins**, to preserve market share. Modest margin pressure may be partially offset by deregulation and tax cuts.

Timeline	August 7	August 12	October 29	Q4 2025
<b>Policy Timeline</b>	<ul style="list-style-type: none"> <li>• Reciprocal tariffs go into effect</li> </ul>	<ul style="list-style-type: none"> <li>• 90-day pause on China tariffs expires</li> </ul>	<ul style="list-style-type: none"> <li>• 90-day pause on Mexico tariffs expires</li> </ul>	<ul style="list-style-type: none"> <li>• Potential government shutdown risk if FY26 appropriations remain unresolved; we expect brinkmanship but ultimately for this risk to be avoided</li> <li>• Further regulatory oversight shifts in energy, environment, financial services, and tech</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Reciprocal tariff implementation may stop-and-start due to court rulings and appeals on the legality of reciprocal tariffs</b></li> </ul>			

# Can the Fed cut rates more rapidly this fall?

Slowing jobs creation suggests the Fed will cut soon, but investors should not yet expect them to cut often.

- If it weren't for recent policy changes, the Fed might already be cutting rates. In the last few months, inflation and employment have come into better balance, and rates-sensitive sectors of the economy, such as housing and manufacturing, have struggled under the weight of higher interest rates. Importantly, recent data suggests job growth has been much weaker than previously assumed.
- This combination of factors puts a Fed cut on the table this fall, but we caution investors from expecting a faster cutting cycle, absent a material slowdown (**left image**). (1) Signs of renewed price pressure – especially in goods categories sensitive to trade policy – are starting to emerge (**right chart**). (2) Recent changes in immigration policy are resulting in a reduction in labor supply, potentially pushing the unemployment rate *lower* and wage growth *higher* – both of which may push inflation higher in the coming months. (3) On the margin, loose financial conditions – strong equity market outcomes, tight credit spreads, good liquidity in the market – suggest that rates aren't overly restrictive.
- If the market thinks the Fed is political, market interest rates are likely to go higher – reflecting concern about policymaking credibility – even if policy rates go lower.

## The Fed's mandates are facing opposite pressures

### *Biasing the Fed to cut rates*

Housing market slowdown

Cycle slowdown: employment moderating; inflation lower; consumer spending shows early signs of slowdown

### *Biasing the Fed not to cut rates*

Wage pressure from tighter immigration

Goods price pressure from tariffs

Loose financial conditions

Supply side shocks – not much Fed policy can do

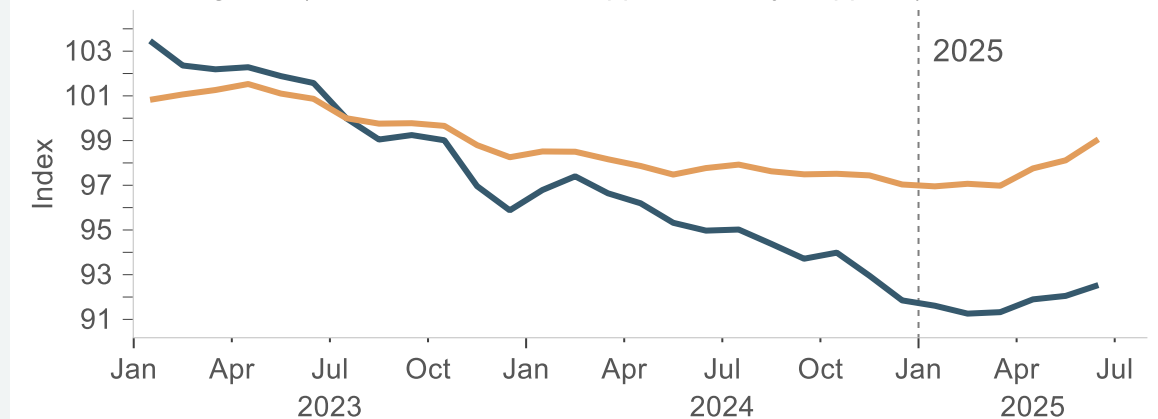
Opinions of New York Life Investments Global Market Strategy, August 2025.

## Consumer sensitive goods are starting to show the impact of tariffs

Index (Jul 2023 = 100)

— Consumer electronics

— Consumer goods (electronics, furniture, appliances, toys, apparel)



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

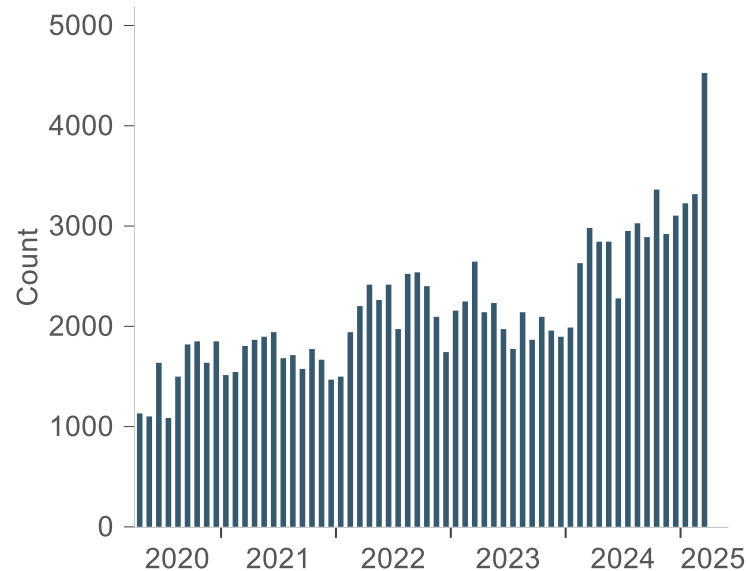
# Why the recent focus on immigration?

We believe investors and the market may be missing an important upside risk to inflation – a shock to labor market *supply*.

- Over the course of 2025, the U.S. labor market has moved closer to balance. After several years of strong labor demand and elevated wage growth, both have moderated in recent months. As major components of GDP—particularly consumption—have also slowed in the first half of the year, many economists and investors are watching the labor market closely for signs of further softening. A weaker labor market would increase downside risk to growth and likely strengthen the case for interest rate cuts. Recent labor market data suggests this softening is happening.
- One emerging factor that could complicate this narrative is U.S. immigration policy. Tighter immigration controls (**left chart**) appear to be placing early pressure on labor supply. While the full economic effects are still developing, the labor market is likely to be the first channel through which these changes are felt. Reduced labor supply could lead to slower job creation (**right chart**), even as the unemployment rate falls and wage pressures re-accelerate. In this scenario, financial conditions could tighten as markets reassess the likelihood of further Fed easing.

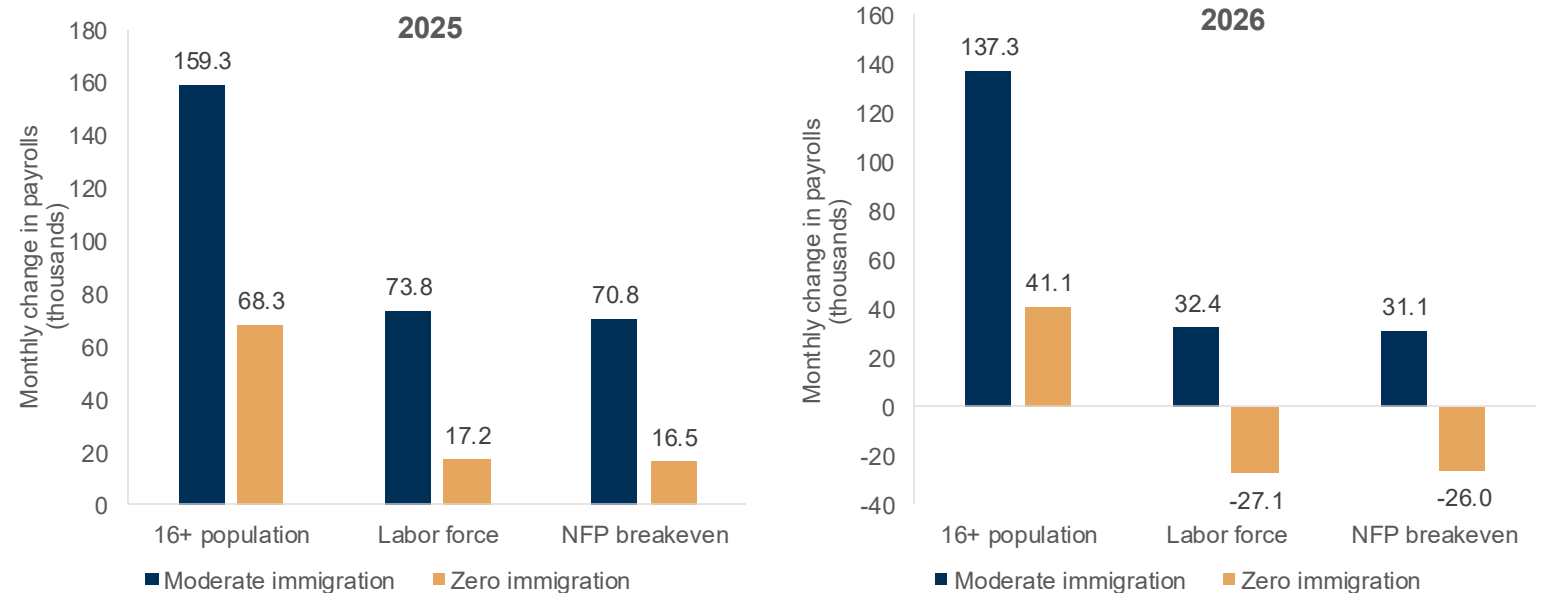
## Immigration prosecutions are on the rise

■ Number of U.S. immigration prosecutions, monthly



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

## Examining the U.S. labor force impact of less immigration



Sources: Candriam (A New York Life Investments Company), August 2025. NFP stands for non-farm payrolls, and the NFP breakeven refers to the monthly job growth number needed to keep the unemployment rate stable, all else equal.

# What's next for the Trump administration?

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

## Taxes

- The One Big Beautiful Bill Act was passed by Congress, meeting President Trump's July 4th deadline.
- The bill extends the tax cuts in the 2017 Tax Cut and Jobs Act, enhances border security funding, reduced Medicaid spending, and rollbacks to the Inflation Reduction Act's clean energy tax credits.
- The bill introduces several new tax breaks, including exempting tips and overtime and raises the SALT cap to \$40,000. It also raises the debt ceiling by \$5 trillion, securing government borrowing capacity through 2028.
- The bill will add \$3.0 trillion to the national debt over the next decade, according to the Yale Budget Lab, while impacting GDP growth modestly – the Tax Foundation estimates that the bill will add 1.2% to GDP over the next 10 years, while the Penn-Wharton Budget Model estimates that the bill will decrease GDP by 0.3% over the same period.

## Tariffs

- U.S. tariff policy remains in flux, but we expect import tariffs to settle near 20% overall.
- As of August 7, new global tariff rates will apply to 70 countries, pending any last-minute deals. Most — including the EU, Japan, South Korea, Vietnam, and Indonesia — have secured placements in the 15–20% range.
- August 12 marks the end of the 90-day pause on China's tariffs. Talks continued last month with discussion of an extension, but no final decision has been made.
- A federal appeals court heard challenges to the program on July 31, after lower-court rulings questioned the reciprocal tariffs. Should U.S. courts rule against the administration, we expect the administration to find other authorities to enact their tariff policies, which will result in universal tariff rates that average between 10% and 20% and tariffs on China around 60%, with the average effective tariff rate remaining materially higher than a few months ago.

## Deregulation

- The Trump administration has launched a broad deregulatory push through new executive orders including requiring agencies to offset each new regulation with at least ten cuts. (The first Trump administration eliminated an average of 5.5 regulations for each new regulation issued.)
- Regulatory rollback activity picked up in June, with notable changes across energy, financial services, labor, and telecom sectors. A new wave of deregulation targeting AI infrastructure is expected in July, including executive actions on data center permitting, federal land access, and Clean Water Act exemptions to fast-track AI-related projects.
- The Department of Government Efficiency (DOGE), originally positioned as a cost-cutting powerhouse, has faced mounting legal setbacks and operational dysfunction. Courts reversed some of its agency takeovers, and DOGE has lost oversight of federal grants due to administrative delays and internal pushback.

## Immigration

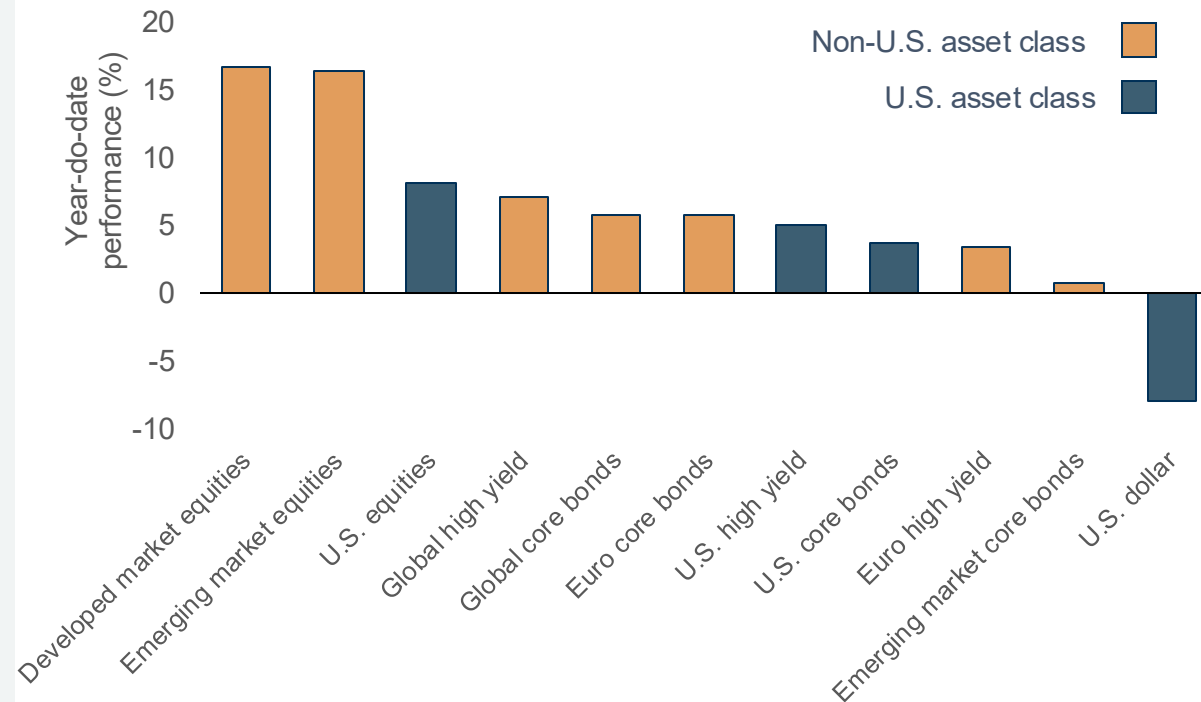
- Immigration is front and center, with a Day 1 executive order declaring a national emergency at the U.S.' southern border. In recent months, immigration enforcement and deportations have accelerated, and economists estimate that net migration to the U.S. will be flat or negative in 2025.
- The most immediate impact on deportation 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.
- Relatedly, reduced labor supply could put upward pressure on wages (increasing inflation), but it may also mean that fewer jobs are needed to keep the unemployment rate stable. A study by AEI and Brookings found that the economy may need to add as few as 10,000 to 40,000 jobs in the second half of 2025 to keep the unemployment rate of 4.2%.



# How is U.S. market preference shifting? (1/2)

Global investors are questioning the role that U.S. assets play in their portfolio.

## Non-U.S. asset class outperformance expected to hold up



## Global investors are reassessing their allocation to U.S. assets

- Policy uncertainty in the U.S. has challenged investor expectations about the U.S. and global economies, market volatility, and even traditional asset class relationships. In response, investors are questioning long-term U.S. economic leadership, and whether U.S. assets play the same “safe haven” role they have in the past.
- Heightened geopolitical entanglements contribute to this concern, leading investors to question the risk-return tradeoff of U.S. exposure.

## Portfolio flows are showing early signs of regional rebalancing

- Investors are expressing renewed enthusiasm about non-U.S. assets amid a modest cyclical upturn and relative political stability.
- Some global allocators are prioritizing alignment with supply chain hubs and strategic industries like defense and technology outside the U.S.

## Can non-U.S. outperformance continue?

- Yes, faster rate cuts abroad have helped normalize yield curves, modestly revive credit creation, and support more rate-sensitive sectors like financials and industrials. We think it's unlikely that ex-U.S. asset maintain the extent of their recent outperformance. But if these fundamental trends hold – especially as U.S. policy risk remains high – non-U.S. assets may keep their edge.

See our [international equity pages](#) for more context.

Sources: New York Life Investments Global Market Strategy, S&P Global, Intercontinental Exchange (ICE), Macrobond, August 2025. DM equities: MSCI EAFE Index: equity index covering DM countries. U.S. core bonds: Bloomberg Aggregate Index: a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. EM equities: MSCI EM index: a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries. EM core bonds: Bloomberg Emerging Markets Aggregate Index: a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt. U.S. equities: S&P 500 index: a stock market index tracking the stock performance of 500 leading companies listed on stock exchanges in the United States. Global core bonds: Bloomberg Aggregate Index: a flagship measure of global investment grade debt from a multitude local currency markets. U.S. dollar: The U.S. Dollar Index: the general int'l value of the USD. U.S. high yield: Bloomberg US Corporate High Yield Bond Index: measures the USD-denominated, high yield, fixed-rate corporate bond market. Euro high yield: Bloomberg Pan-European High Yield Index: measures the market of non-investment grade, fixed-rate corporate bonds across Europe. Global high yield: Bloomberg Global High Yield Index: a multi-currency flagship measure of the global high yield debt market. Euro core bonds: Bloomberg Euro Aggregate Index: a benchmark that measures the investment grade, euro-denominated, fixed-rate bond market, including treasuries, government-related, corporate and securitized issues. It is not possible to invest in an index. Past performance is not a guarantee of future results.

# How is U.S. market preference shifting? (2/2)

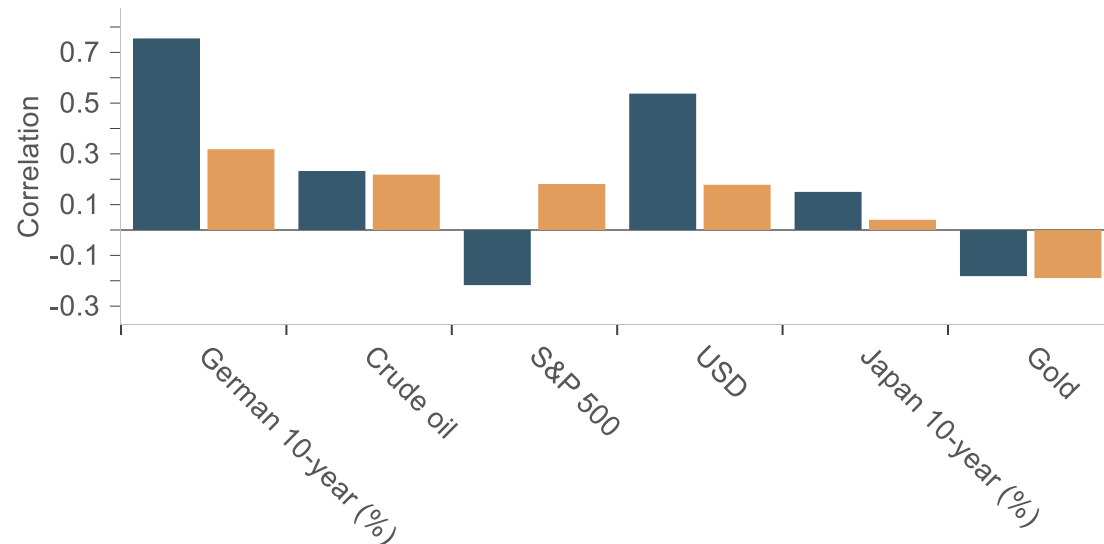
Traditional asset class relationships are breaking down. Investors may have to re-think portfolio construction to maintain proper diversification.

- The historical link between Treasury yields and the U.S. dollar has weakened. Usually, higher bond yields give the U.S. dollar a boost; the higher yield makes Treasuries attractive and so global investors demand U.S. dollars in order to buy them. Today, we see periods where the market is selling both U.S. bonds and U.S. dollars
- It is too early to say that these trends will stick, but the combination of geopolitical and market changes in recent weeks, alongside conversations with clients, suggest to us that markets may be starting to question the safety of U.S. assets in times of stress.

## U.S. 10-year yield relationships have seen significant changes

6-month correlation of daily changes

■ 1-year prior ■ Latest

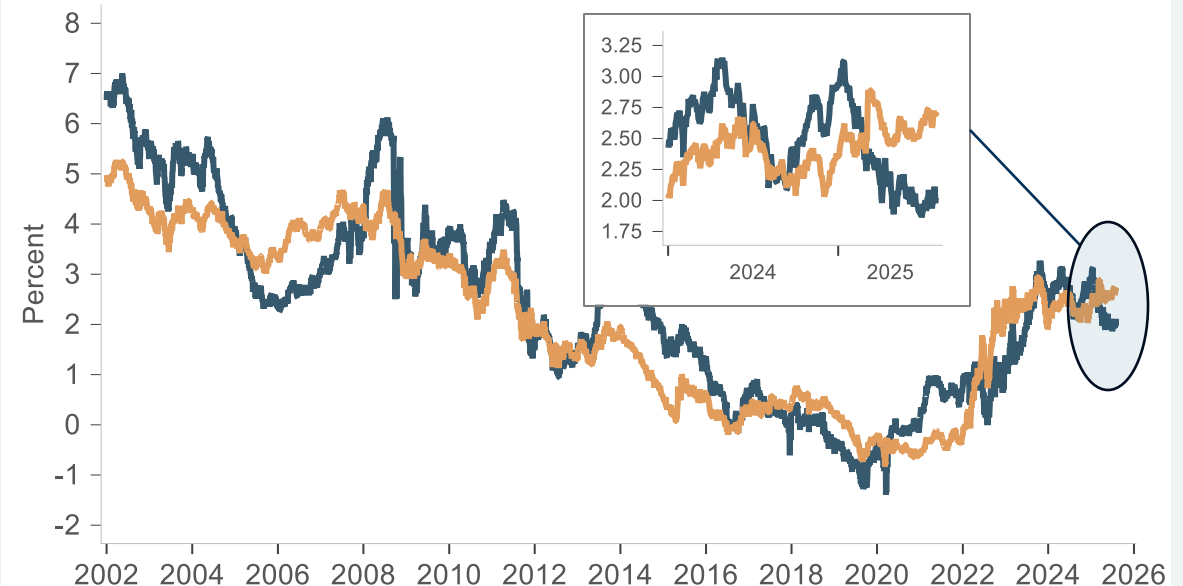


Sources: New York Life Investments Global Market Strategy, U.S. Department of Treasury, S&P Global, Intercontinental Exchange (ICE), Macrobond Financial AB, Macrobond, August 2025.

- In response, investors may need to reconsider their reliance on traditional diversification strategies and rethink how they manage risk in portfolios. Put simply: diversification may require a broader toolkit. We are seeing gold and other real assets gaining favor as inflation hedges; lower currency hedging costs making international bonds more attractive (below), and a weaker dollar driving up commodity prices – offering an entry point for commodity exposure. Geographic diversification and leveraging secular investment trends are additional ways investors can adapt.

## Bund yields are more attractive than hedged Treasuries for European investors

— German 10-year yield — U.S. 10-year yield + euro hedging cost



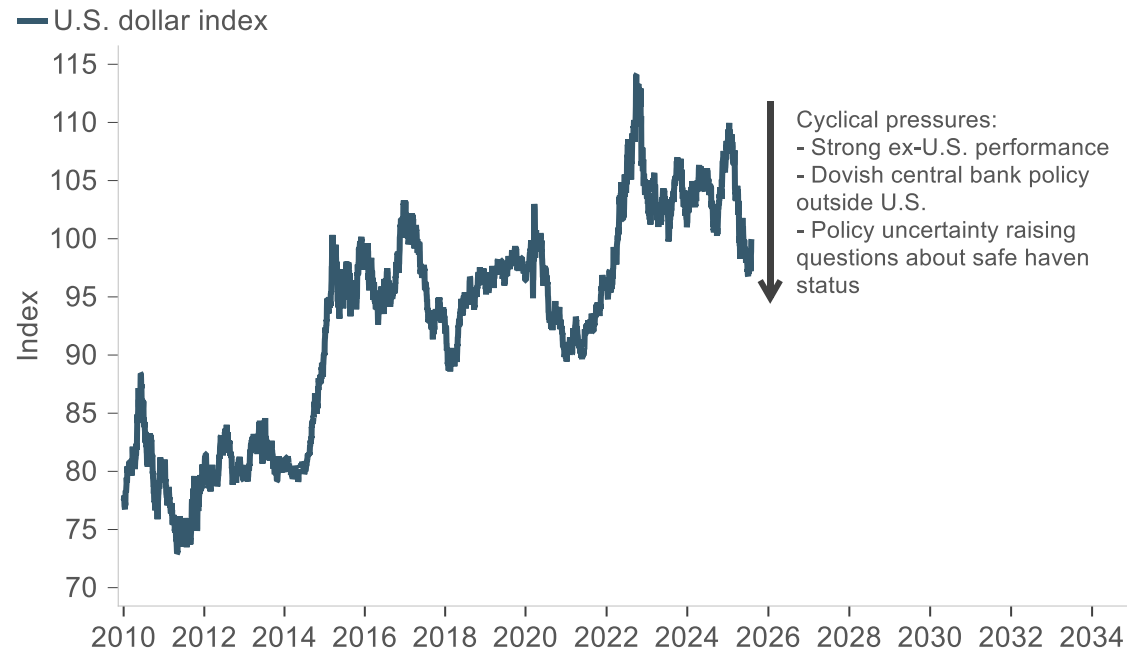
Sources: New York Life Investments Global Market Strategy, U.S. Department of Treasury, Macrobond Financial AB, Bloomberg, Macrobond, August 2025.

# What's driving U.S. dollar dynamics? (1/2)

Strong global capital markets performance and marginal questions around U.S. policy credibility are pressuring the dollar weaker.

- Stickier Fed policy rates should be supporting dollar strength, not weakness.
- Though the factors driving currency volatility are complex, we believe the largest drivers of change are stemming from policy uncertainty: central banks are rebalancing reserves, and investors are rebalancing their portfolios. Even on the margin, these changes can have meaningful implications for allocation.

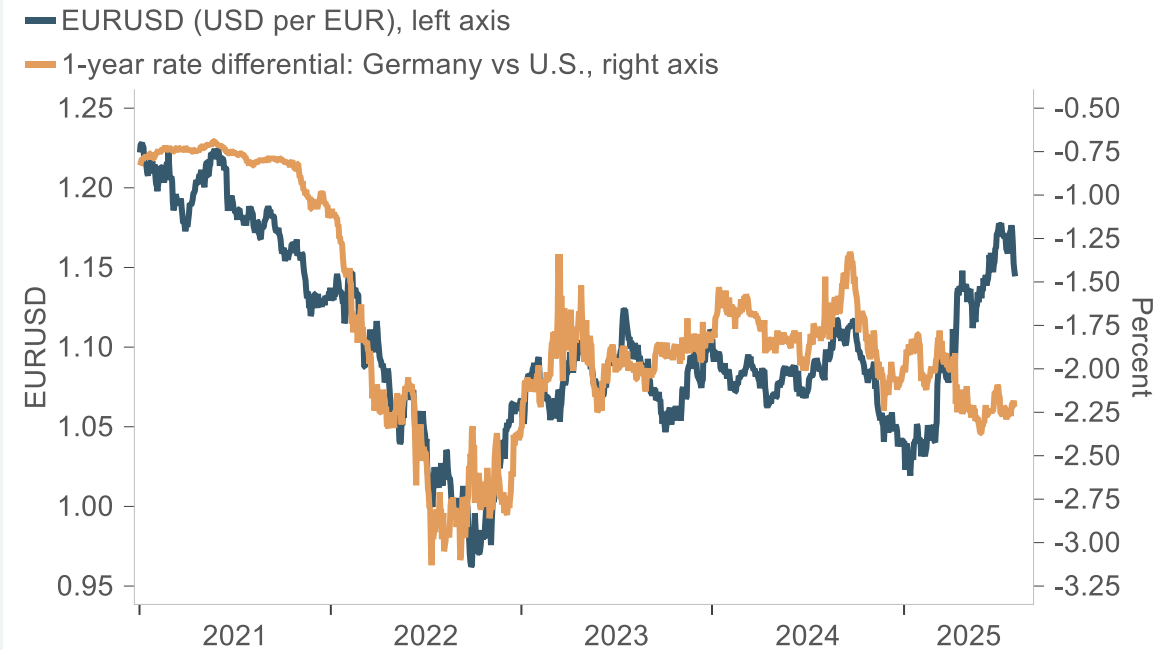
## Forces on the U.S. dollar



Sources: New York Life Investments Global Market Strategy, Intercontinental Exchange (ICE), Macrobond, August 2025.

- The divergence is clearest in how EUR/USD trades. EUR/USD tracks rate differentials during New York hours, but in London and Asia sessions, the dollar faces steady selling – signaling that foreign investors aren't chasing carry.
- Instead, they're de-risking or hedging USD exposure. Whether driven by geopolitics, diversification, or reserve shifts, capital is moving out of the dollar despite its high yields.

## Dollar dynamics – it's not about rates



Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, U.S. Department of Treasury, Bloomberg, Macrobond, August 2025.

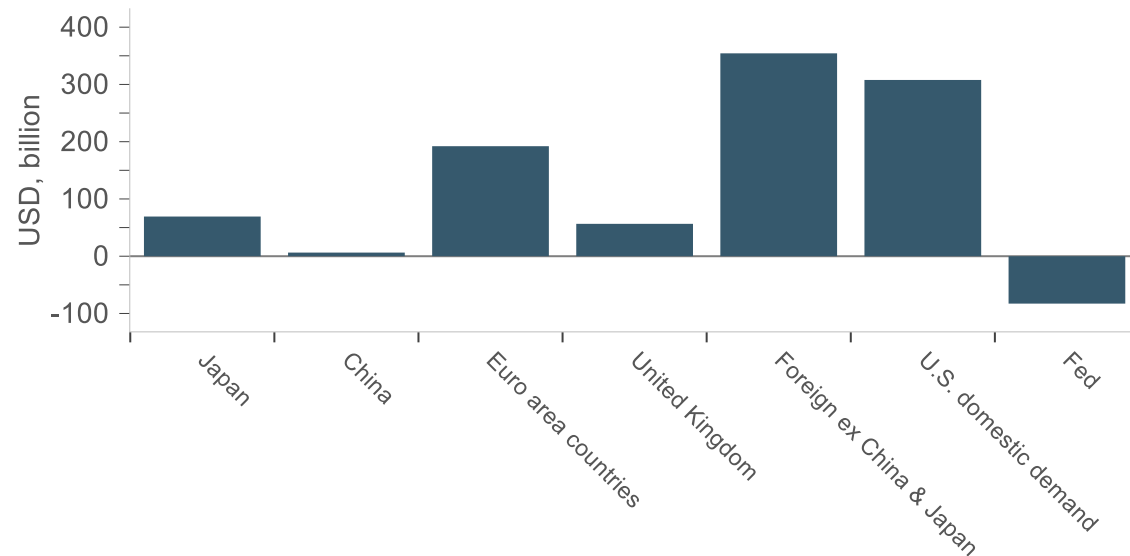
# What's driving U.S. dollar dynamics? (2/2)

Strong global capital markets performance and marginal questions around U.S. policy credibility are pressuring the dollar weaker.

- We track a large set of economic, market, and cross-asset indicators to understand the sources and extent of change in U.S. dollar demand. Auctions of Treasury securities have not raised any red flags. Additionally, we find that foreign investors have remained net buyers of Treasuries this year. This suggests that selling pressure on the USD has come from sales of other U.S. assets – unlikely given high valuations – or from direct sales of U.S. dollars from central banks.

## A breakdown of Q1 2025 Treasury demand

Net purchases of U.S. Treasuries: Net foreign buying of U.S. Treasuries continues while the Fed shrinks its balance sheet

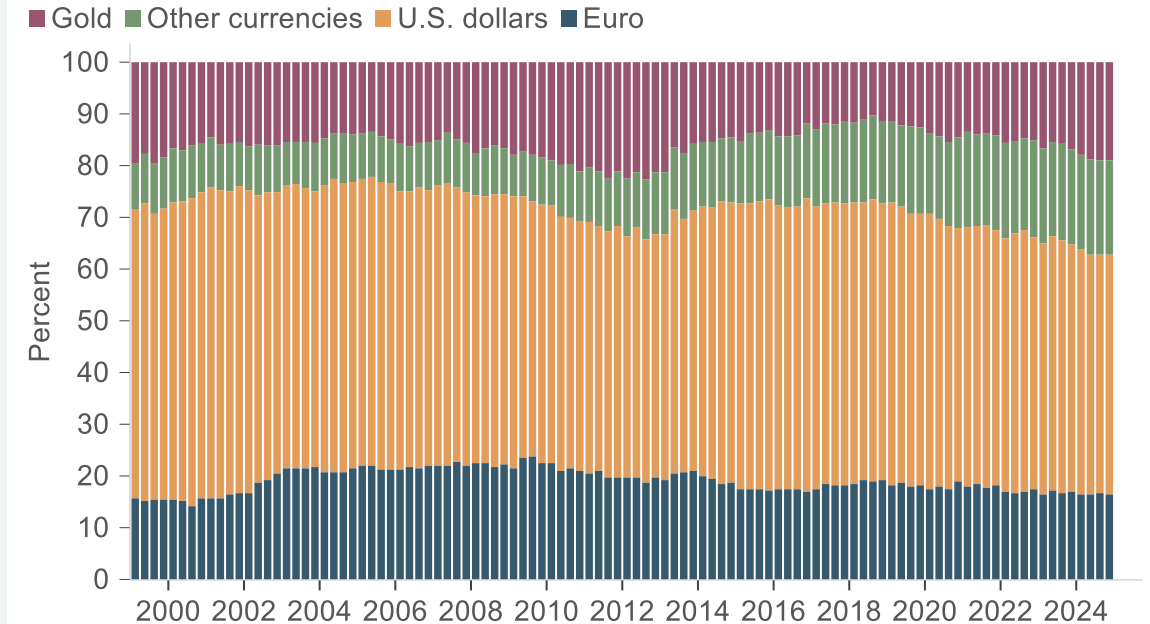


Sources: New York Life Investments Global Market Strategy, U.S. Department of Treasury, Federal Reserve, Macrobond, August 2025. Foreign purchases ascribed to each country include purchases by central banks, financial institutions, institutional investors, mutual funds, and households.

- Central bank reserve portfolios are adapting to a more fragmented and uncertain global order. Many have continued de-dollarizing, with gold playing an increasingly important role.
- Despite these important changes, our expectation is that U.S. assets – and the connection to U.S. sources of growth, innovation, and return potential – remain dominant in global allocation. There is simply no alternative to the depth and liquidity of U.S. capital markets today. However, even changes on the margin can have an impact on ex-U.S. valuations.

## Gold surpasses euro as second-largest reserve asset

Composition of global reserve assets



Sources: New York Life Investments Global Market Strategy, ECB, Macrobond, August 2025.



# 2 U.S. economic & market outlook

## U.S. economic cycle

- [Status of economic cycle](#)

## Monetary policy & financial conditions

- [Fed outlook](#)
- [Fed balance sheet](#)
- [Long-term interest rates](#)
- [Yield curve and bank lending](#)
- [Market-based financial conditions](#)

## Economic indicators

- [Inflation](#)
- [Labor market](#)
- [Consumer](#)
- [Housing](#)
- [Business](#)

## Fiscal policy

- [Fiscal outlook](#)

# Resilient U.S. activity faces risks from a late-cycle economy and policy uncertainty

the U.S. economy is coming from a strong starting point, but risks of higher inflation and slowing growth loom.

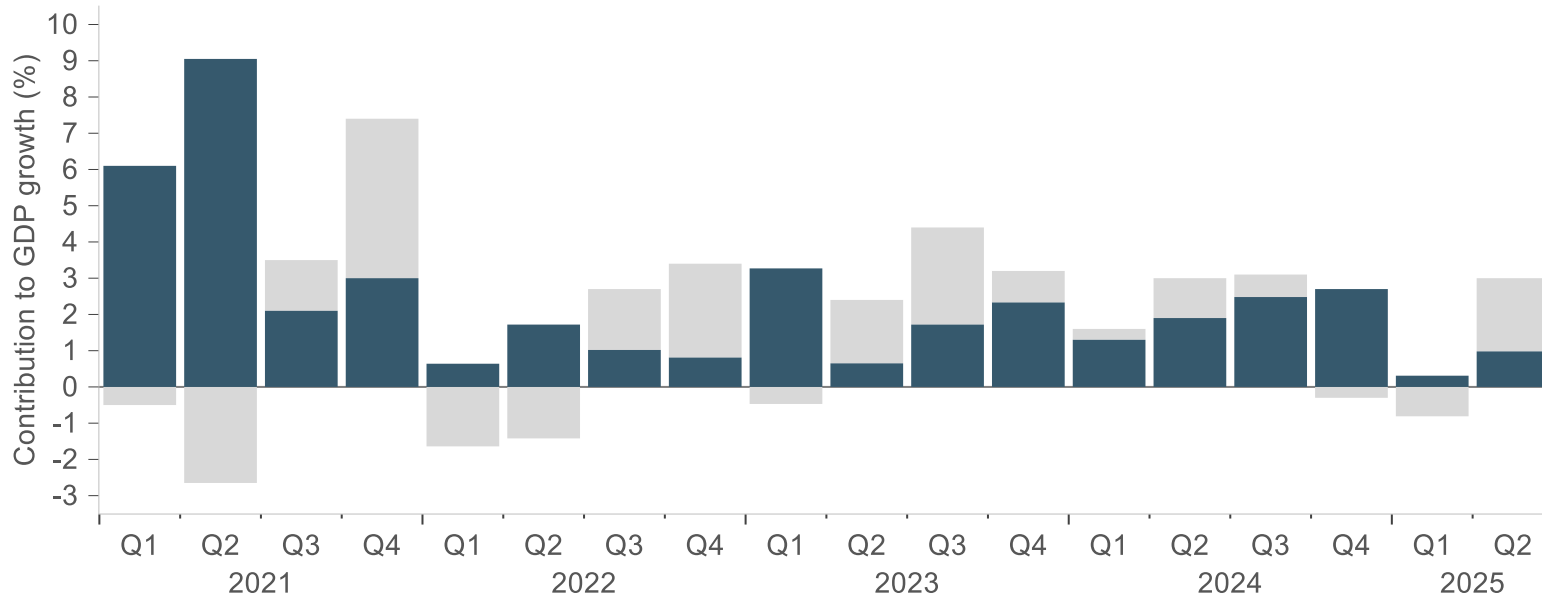
- U.S. GDP growth in the post-pandemic period stabilized above its trend pace of 2.0-2.5%, driven largely by strong consumer activity, which comprises about two-thirds of U.S. economic activity. Consumers have been boosted by a well-balanced labor market, with both income and wealth effects supporting high-income segments in particular.
- We believe U.S. economic growth is likely to moderate in the coming 12 months, as a

broad range of policy changes transition to higher prices for households and uncertainty hiring and investment outlooks for businesses.

- We are focused on consumption and investment to give us a sense of the underlying growth impulse of the economy; we expect continued distortions from net exports and inventories as a result of tariff uncertainty.

## Consumer spending is showing signs of softening which may signal the early stages of an economic slowdown

■ Consumer spending ■ Other GDP categories



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

## ...but the trade balance has normalized, reducing technical pressure on Q2 2025 GDP

— U.S. trade balance in goods



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

# The Federal Reserve will try to do as little as possible for as long as possible

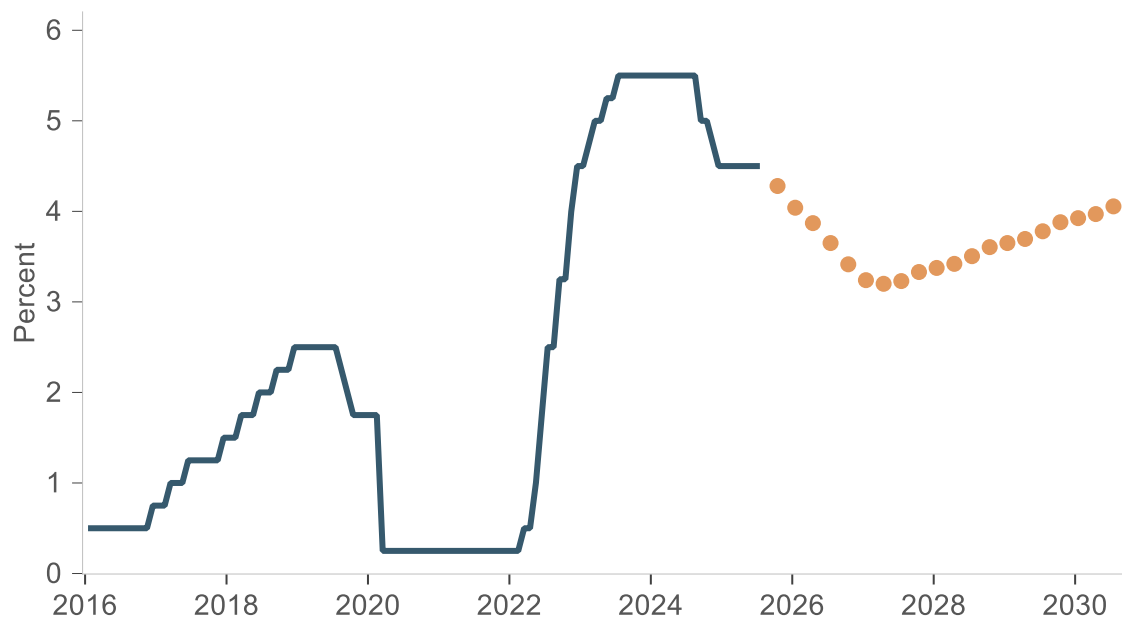
We expected inflation pressure to keep the Fed biased hawkishly this year, though ongoing policy uncertainty may swing the balance of risks.

- Policy uncertainty pressures the Fed's mandates in opposite directions: upside risk to inflation, and downside risk to growth. Recent data emphasize both points: consumption and job creation are deteriorating, but wage growth and goods prices are sticky.
- Until and unless growth expectations deteriorate meaningfully, we believe the Fed move slowly in any rate cutting cycle. Inflation risk is still present, and supply-side changes

- related to tariffs and labor supply cannot be addressed with monetary policy changes.
- We expect one or two 25-basis point policy rate cuts this year, largely a means to signal the Fed is still on its path back to neutral.
- Financial conditions create a swing vote in Fed policy. A 20% or greater deterioration in equity valuations 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, August 2025.

## Our Fed cuts checklist: conditions met, but policy change risk reversal

Condition	Status	View
<b>Inflation expectations well anchored</b>	Long-term inflation expectations remain well anchored.	✓
<b>Core inflation moving closer to target</b>	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.	—
<b>Unemployment rate <math>\geq 4.0\%</math></b>	The labor market has come into better balance this year, but immigration policy changes mean labor supply is falling, which may push the unemployment rate <i>lower</i> – increasing wage risk.	—
<b>Wage growth commensurate with stable prices</b>	Wage growth has neared the 3.5% year-on-year figure that we believe would make the Fed comfortable with maintaining a rate cutting cycle. Stickier wages would mean stickier rates.	—
<b>Financial conditions still well behaved</b>	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. Using 2018's "insurance" cuts as a guideline, we expect that an equity market selloff of 20%+ would be required to prompt Fed action.	—

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

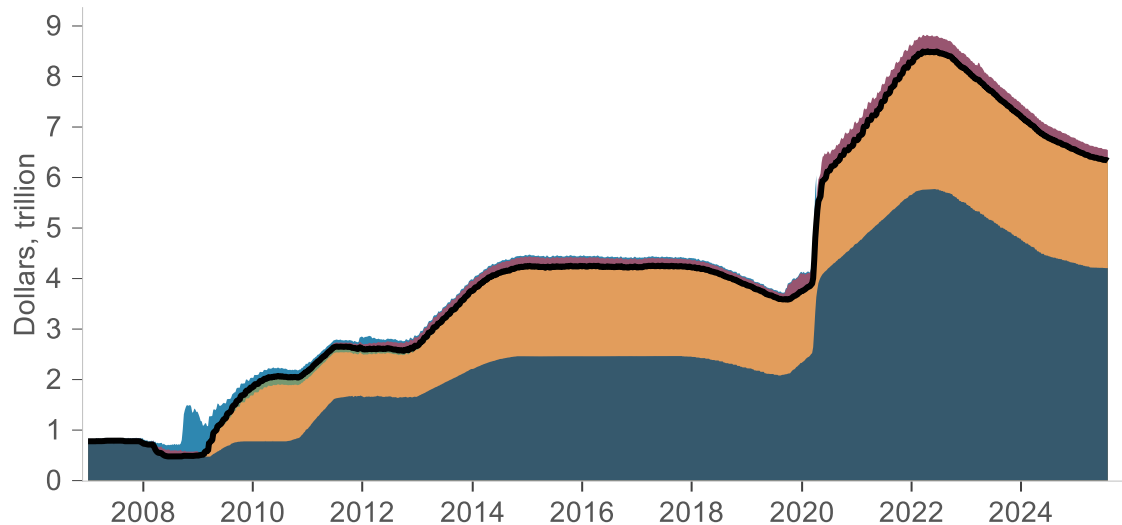
# Fed balance sheet tightening is its end

Quantitative tightening (QT) was slowed in March 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 reduces its assets via QT – having shaved off \$2T in assets since 2022 – it must also reduce its liabilities.
- Fed liabilities include bank reserves (blue area, right chart), currency in circulation (green area), and vehicles for liquidity support such as its reverse repo facility (orange area).

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

— Fed assets held outright ■ Other ■ Repos, premiums/discounts ■ Agencies ■ MBS ■ Treasuries

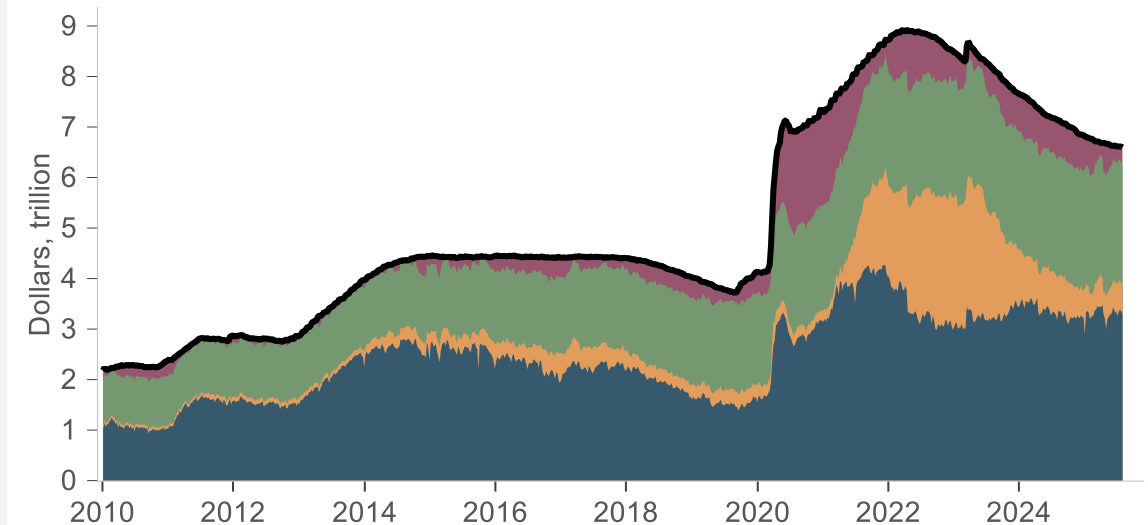


Sources: New York Life Investments Global Market Strategy, Federal Reserve, Macrobond, August 2025. MBS: Mortgage-backed securities. Agencies: Agency-backed securities. Repos: repurchase agreements, used to adjust systemic liquidity. Other: misc assets amassed during GFC, including Term Asset-Backed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

- 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 toward “ample” levels; the Fed has also considered shifting the duration profile of its balance sheet to provide policy flexibility.
- 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.

## Liability side of balance sheet: from “abundant” to “ample” reserves

— Total Federal Reserve Liabilities ■ Other liabilities ■ Currency in circulation ■ Reverse repurchase agreements ■ Bank reserves



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



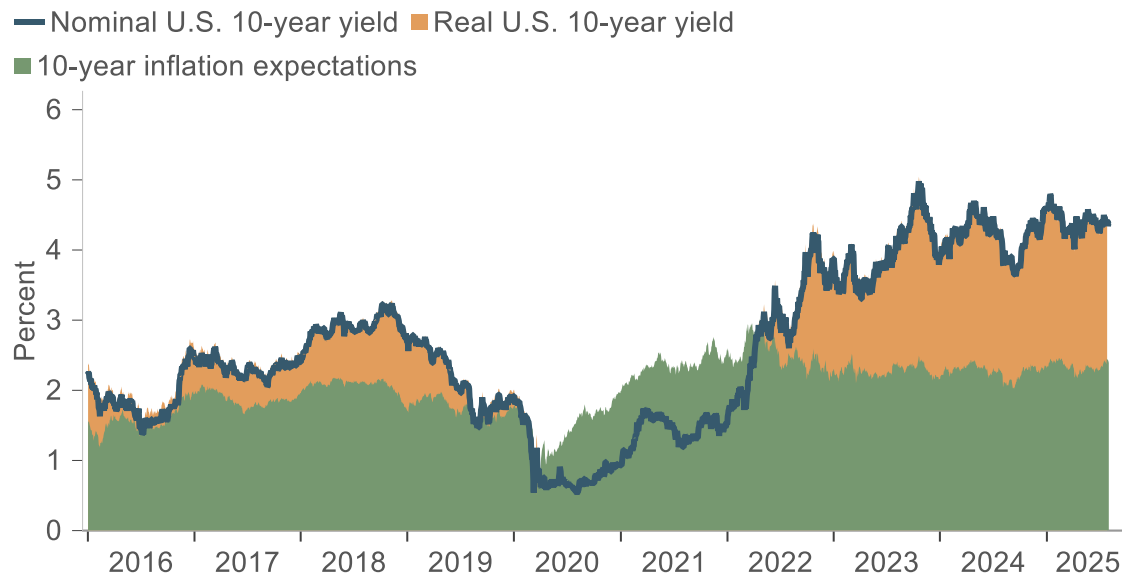
# Market rates are likely to be rangebound and volatile in our view

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 policy rate path, and the term premium, which encompasses expected supply and demand for Treasuries.
- Higher long rates today reflect rising near-term inflation expectations, a belief that the policy rate will not revert to previous lows this cycle, and the possibility of higher Treasury issuance relative to demand, as reflected in a rising term premium.

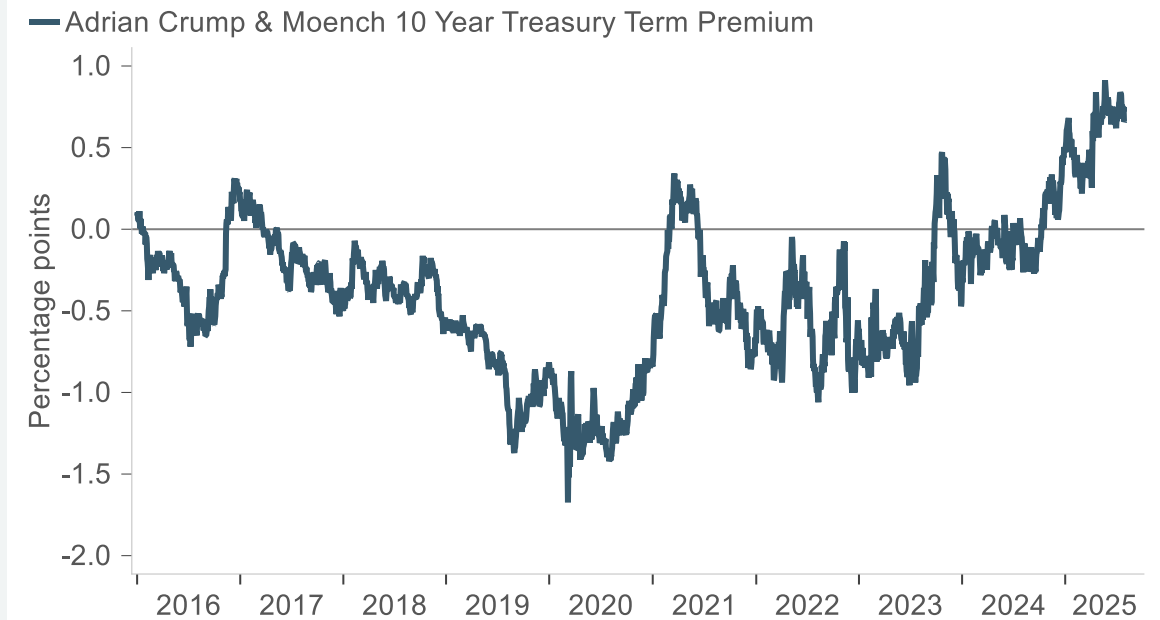
- The 10Y remains torn between the administration's stated focus on bringing down the 10Y yield and mounting questions around long-term supply and demand for Treasuries.
- From here, we have a very wide range of expectations for the 10Y as markets balance inflation and growth risks: 4.0-5.0% over the next 6 months. 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, 8/1/2025. 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, August 2025.

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

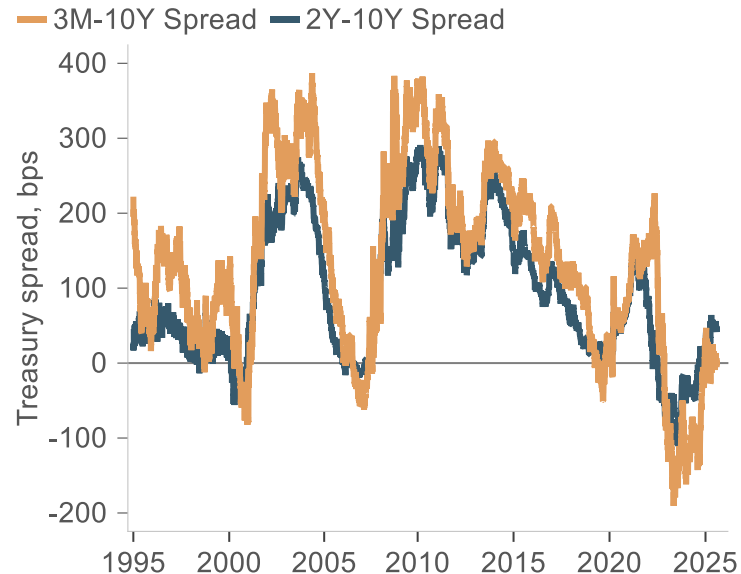
Both supply and demand of loans to businesses and households had moved from depressed levels to neutral, but we see risks to both.

While the 2Y-10Y spread has normalized, the 3M-10Y spread is hovering near zero. This is driven by a shallower-than-expected easing cycle on the front end and volatility in the 10Y. It is likely that growth expectations and policy uncertainty, not the state of normalization of the yield curve, 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 slightly tightening for businesses but loosening for households.

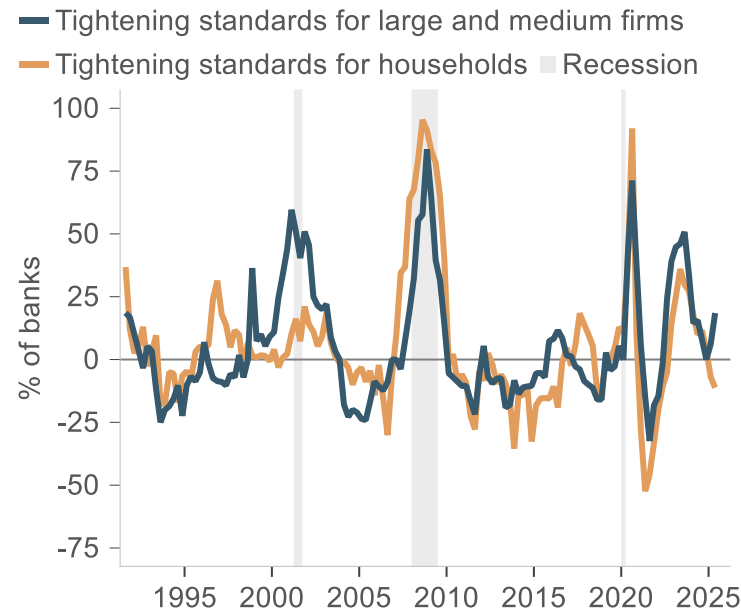
On the demand side: late in 2024, both households and businesses were exiting an era of depressed demand for bank loans. Looking ahead, policy uncertainty is likely to push out major borrowing decisions by both corporations and households.

## The Treasury yield curve has finally normalized across tenors



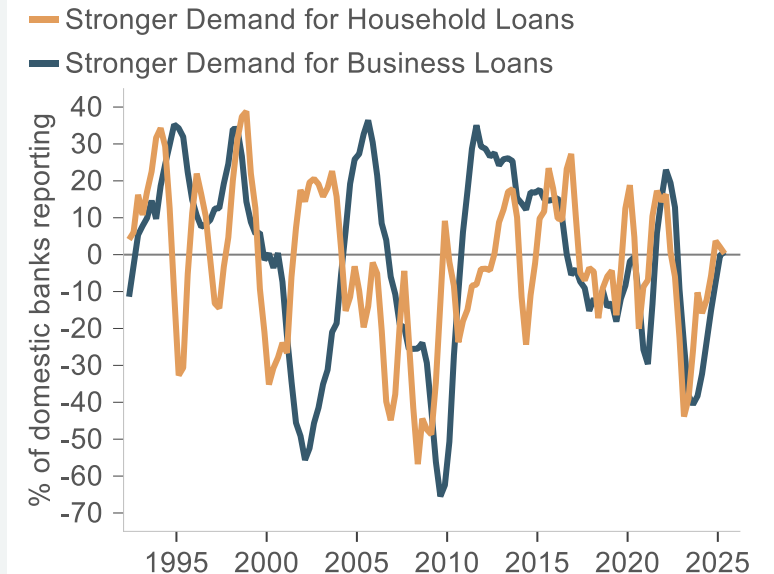
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, August 2025.

## Bank lending standards have moved to neutral



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

## Loan demand has improved to neutral for both businesses and households



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

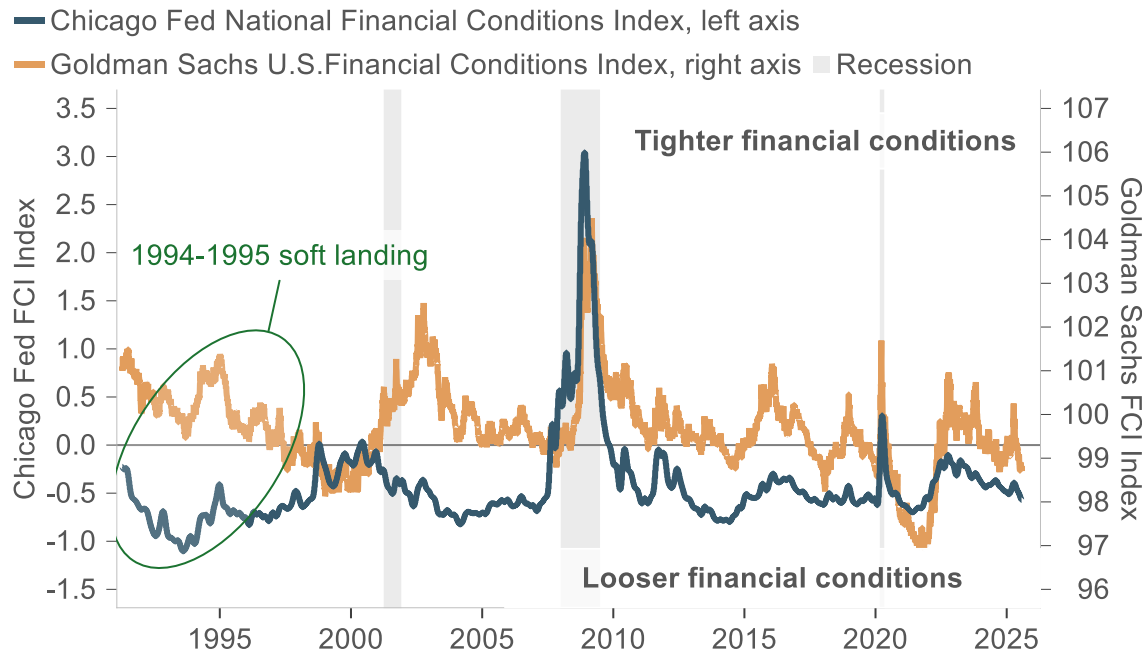
# Market-determined financial conditions are very loose today

The recent rally in risk assets has priced out policy risks. We are watching closely.

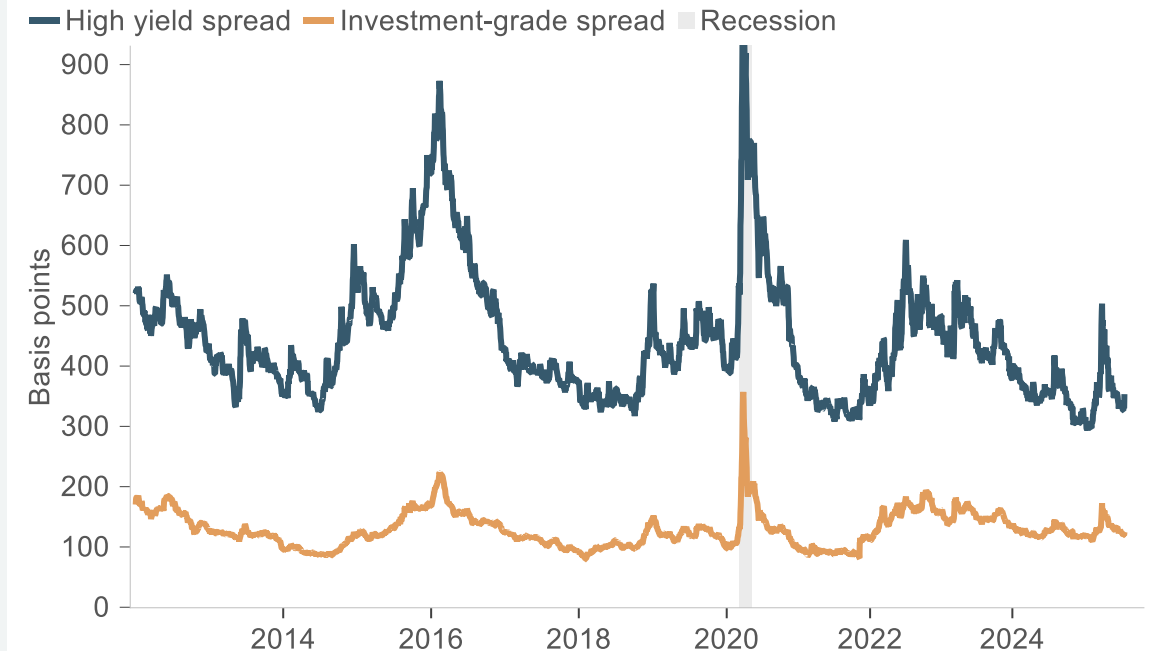
- Market-determined financial conditions are not meaningfully tight (**left chart**), as equity valuations remain above long-term averages and credit spreads have not blown out (**right chart**).
- In our view, current financial conditions – driven in large part by market valuations - do not reflect the reality of policy uncertainty that the real economy faces.

- While we expect some spread widening, we remain constructive on credit quality in the near term. Even amid tariffs, post-pandemic programs and improved cash management support confidence in corporates' ability to repay over the next 2–3 years. A sharp downturn could lift default rates broadly, but high-quality issuers are less likely to be affected.

## Market financial conditions are not tight, but can change on a dime



## Spreads are near historic lows for high yield credit



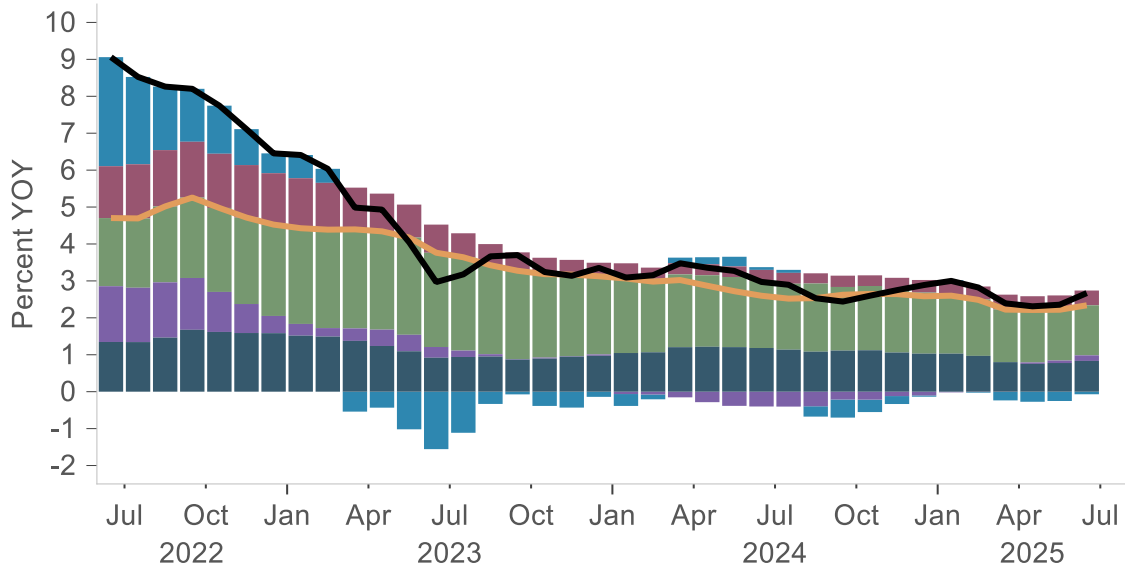
# Inflation has moderated significantly from post-pandemic highs

Inflation is inching closer to the Fed's 2% target, but we believe prices will be moving higher again by the end of the year.

- U.S. inflation has moderated from its peak in mid-2022 but remains modestly above the Fed's 2% target.
- While core services inflation has moderated and energy prices have declined in recent months, shelter inflation remains the largest contributor to monthly inflation, with housing prices still rising above their pre-pandemic trend.

## Shelter inflation proving the stickiest

— Headline CPI — Core CPI — Energy — Food — Shelter — Core Goods  
■ Core Services

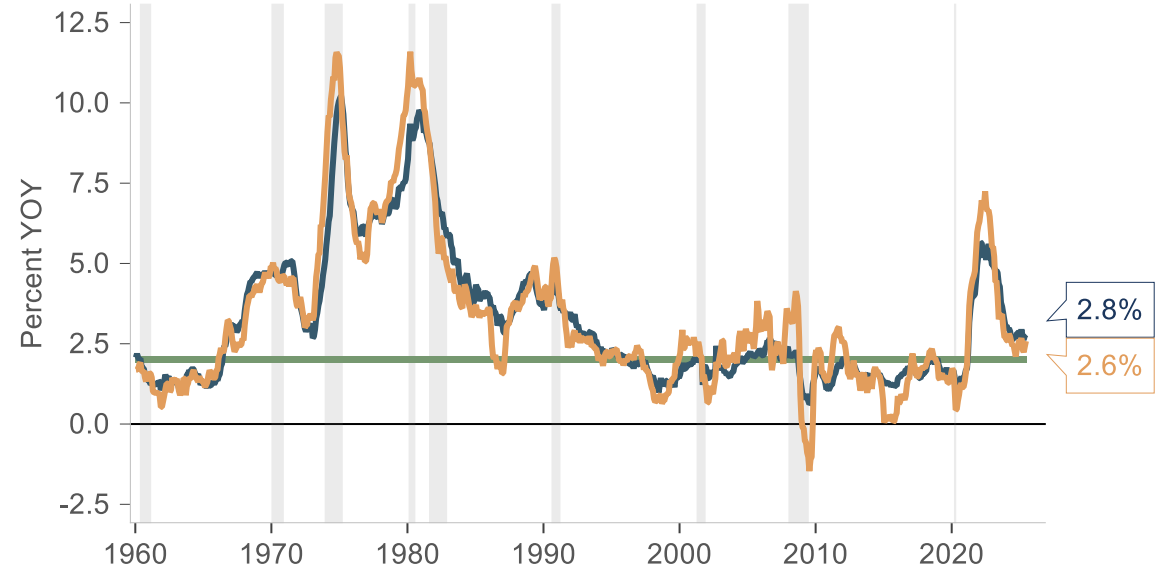


Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, August 2025.

- Upside risks to inflation persist as tariffs work their way through sentiment and markets, and tariff-impacted inventories hit the shelves.
- We believe it is likely that tariffs will drive a reacceleration of inflation by the fourth quarter of this year. We will be keeping a close eye on prices of consumer electronics, apparel, and consumer staples to determine the full impact of tariffs on inflation.

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

— Headline PCE — Core PCE — Fed target: 2% — Recession



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, August 2025. PCE: Personal Consumption Expenditure, the Fed's targeted inflation measure

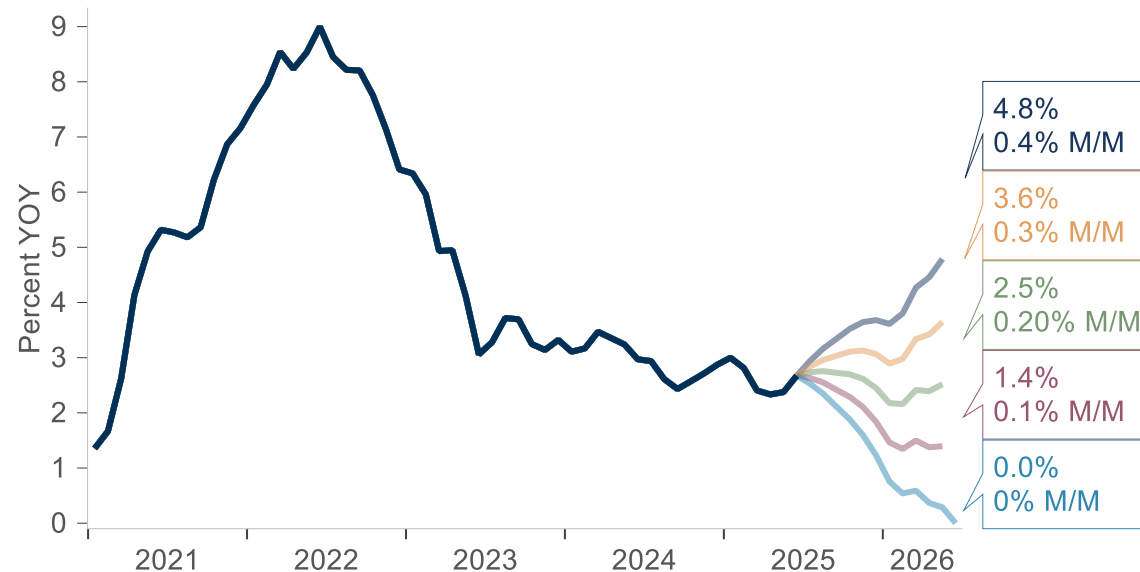
# Upside risks to inflation stem from shocks to supply chains, tariffs, and labor supply

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: monthly increases greater than 0.2% in inflation will likely keep the Fed on hold.
- Two supply-side shocks – tariffs and a tightening of labor supply through immigration changes – are worrying for Fed policy – which impacts the demand side of the economy.
- Interest rate policy is unlikely to be effective in taming these supply-side shocks.

## Incremental monthly increases could easily create a reacceleration trend in CPI

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

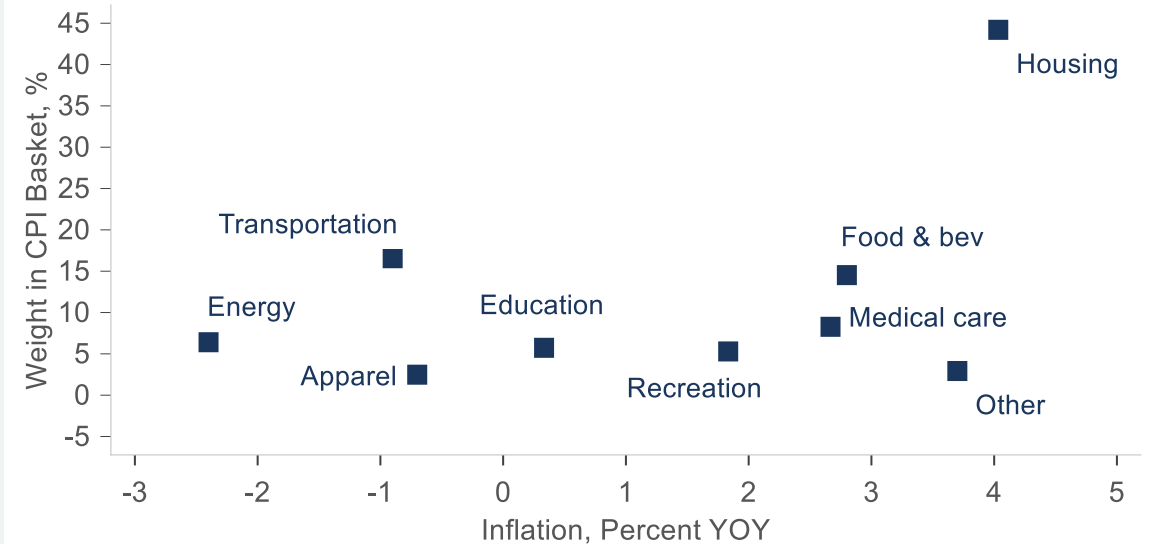


Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, August 2025. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

- Aside from tariff impact, shelter inflation has been a key price pressure. It remains stubborn due to tight supply and resilient demand. A decade of underbuilding and locked-in low mortgage rates keep inventory constrained, while demographic trends sustain demand.
- Meanwhile, higher labor, materials, and insurance costs also keep maintenance costs high. These costs impact both owners and renters in the CPI basket.

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

■ Component's weight in CPI basket vs latest pace of inflation (trailing 6-month average)



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



# Inflation expectations also point to upside risk for prices

Elevated inflation expectations reflect greater policy uncertainty, and expectations can drive inflation itself.

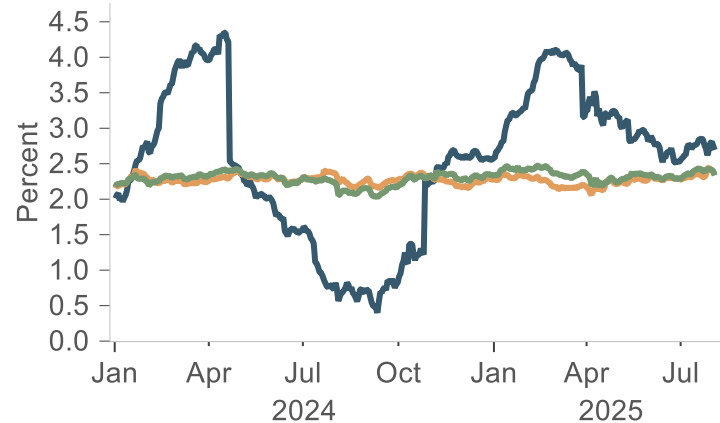
Near-term inflation expectations tend to be more volatile than longer-term expectations, as long as the market believes the Fed can hold to its 2.0% target. Near-term TIPS breakevens have recovered the most from their tariff-related increases earlier this year, though broader asset allocation choices may be playing a role here.

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

Consumer surveys are naturally noisy, but the recent spike in inflation expectations shows consumers are extremely worried about prices – specifically, a tariff-led reacceleration in inflation. Expectations for 1-year forward inflation in the U Mich survey are near 40-year highs and 5-year expectations are near their highest levels since the '90s.

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

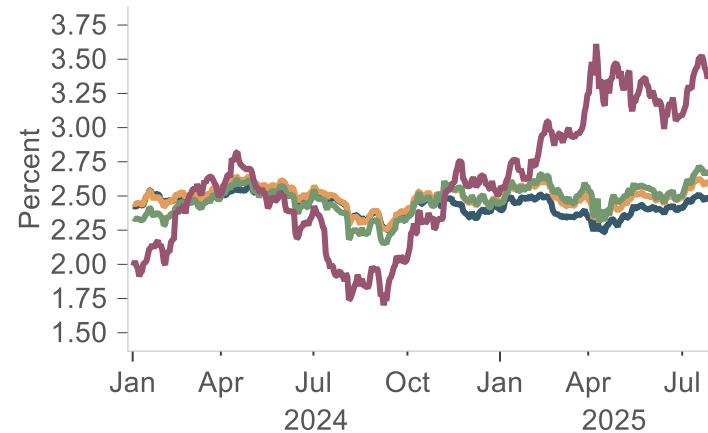
— US Breakeven 10 Year  
— U.S. Breakeven, 5yr/5yr Forward  
— US Breakeven 1 Year



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, August 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

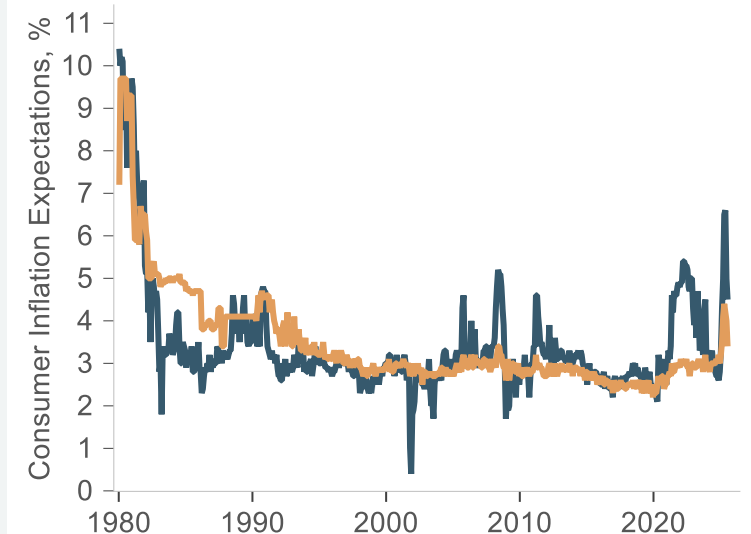
— 1-Year Swap — 5-Year Swap — 10-Year Swap  
— 30-Year Swap



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, August 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

— U Michigan Survey, Inflation 5 Years Ahead  
— U Michigan Survey, Inflation In Next Year



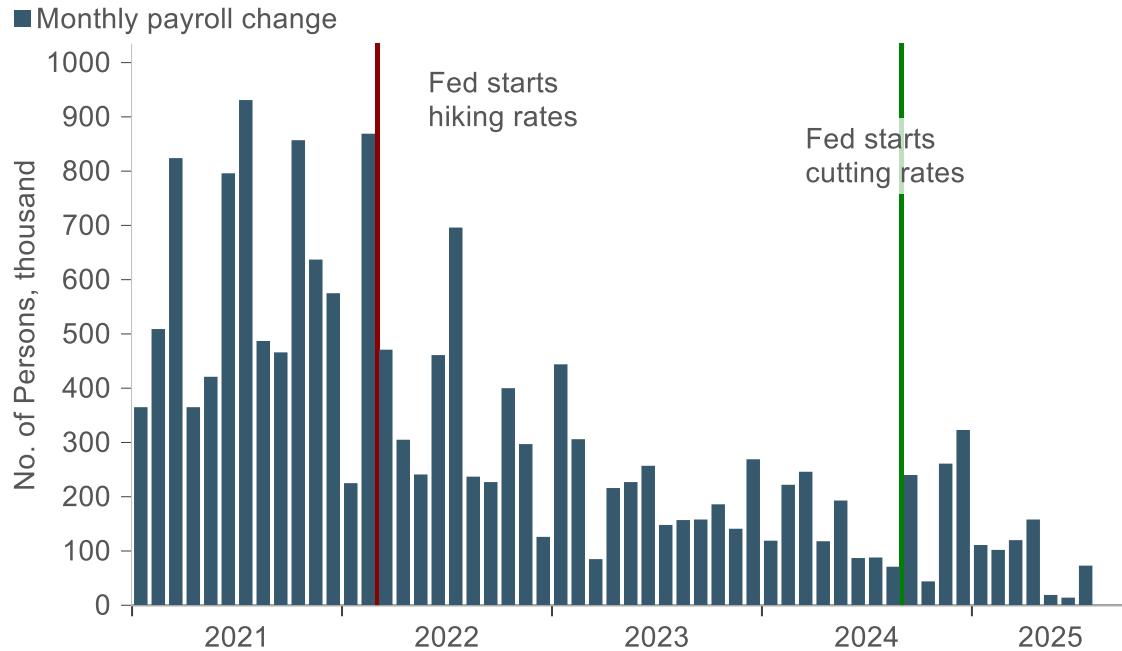
Sources: New York Life Investments Global Market Strategy, University of Michigan, Federal Reserve Bank of New York, Macrobond, August 2025.

# Labor market strength has been a vital source of stability...

The labor market has come into better balance. Households have maintained broad employment, and wage growth has normalized.

- 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.

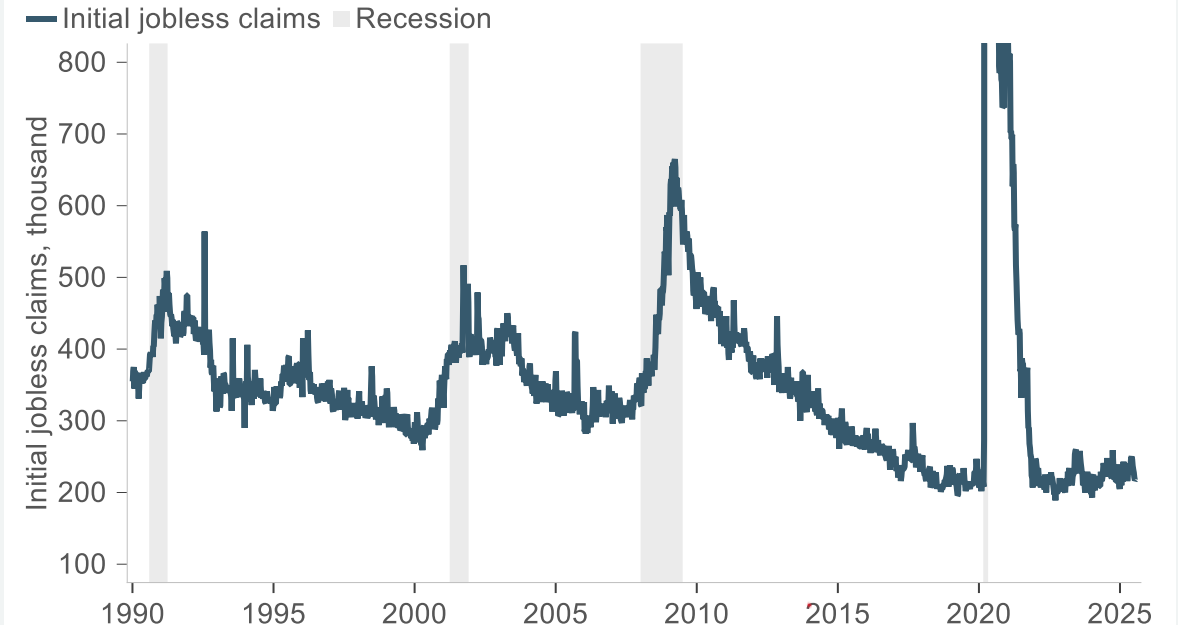
## Job growth gradually decelerated during rate hikes to normalized levels



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

- 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 227k, signaling continued strength. We see 250k to 275k as the key threshold where investors should be wary of a labor market downturn.

## Jobless claims should provide an early signal of labor market weakness



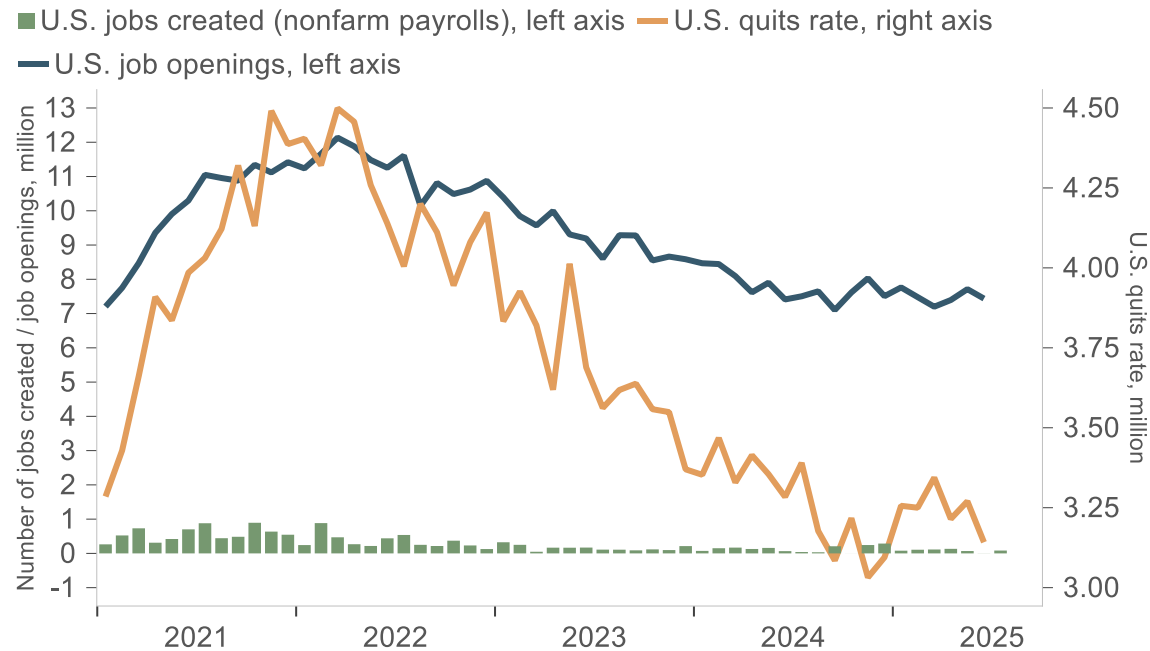
Sources: New York Life Investments Global Market Strategy, U.S. Department of Labor, NBER (National Bureau of Economic Research), Macrobond, August 2025. High risk level reflects opinions of the Global Market Strategy team.

# ... but both demand-side and supply-side cracks are emerging

Hiring and wage growth were slowing as the labor market came into better balance. Changes in immigration supply may reverse recent trends.

- Regarding labor demand: over the last several quarters, the labor market has moved from an overheating level into better balance.
- Though alarm bells are not ringing yet, a slowing quits rate, fewer job openings, and fewer jobs created each month suggest that labor demand is weakening on the margin.

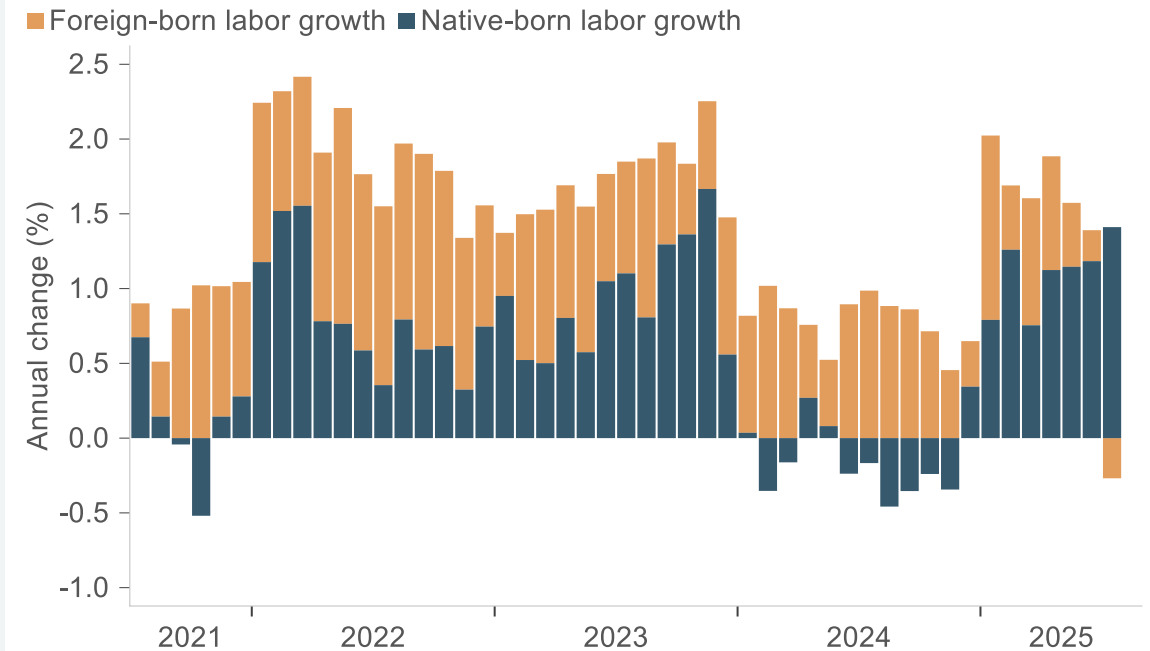
## Labor demand has come into better balance



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

- Regarding labor supply: deportations could influence jobs data moving forward, potentially reversing recent labor market softening. With a smaller workforce, the U.S. economy may be able to add fewer jobs without a spike in the unemployment rate. In a more extreme scenario, the unemployment rate may move *lower*, which could create wage pressures.

## Labor supply could be constrained by deportation efforts



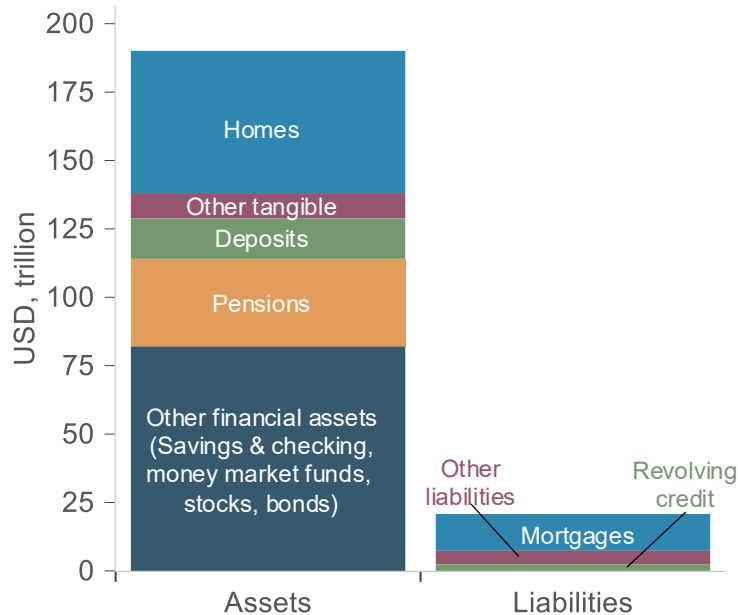
Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, August 2025.

# 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.

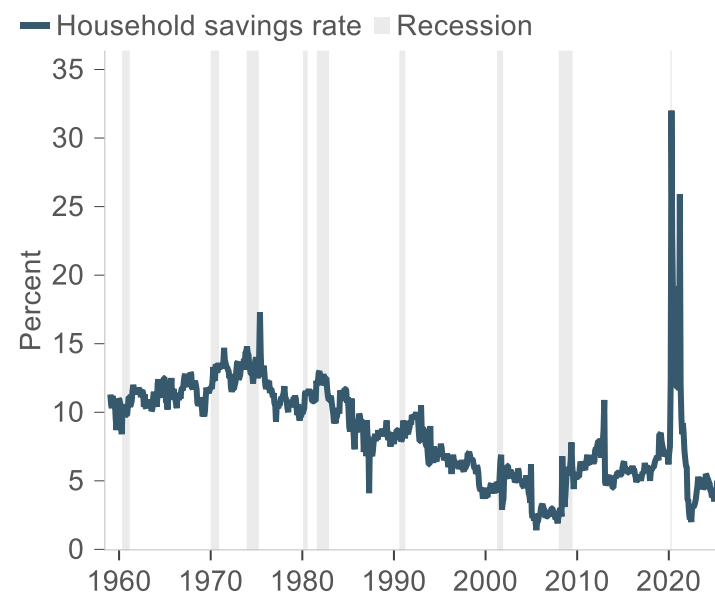
- U.S. homeowners were almost entirely shielded from the Fed's hiking cycle. Homeowners' equity is still near the highest level on record and financial assets have been bolstered by strong capital markets performance. This positive wealth effect has supported higher-income household consumption, seen in rising credit card balances (without rising default rates).
- High-income consumers make up a large portion of consumer spending. Equity market pressure remains a risk in that it 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, August 2025.

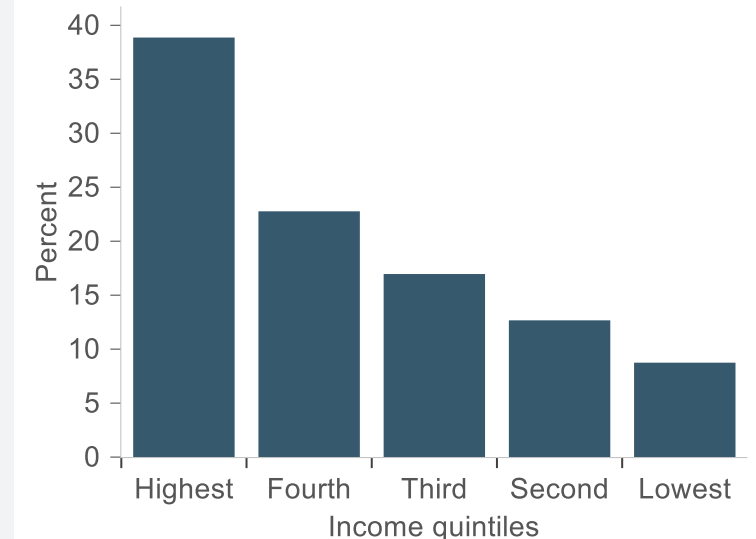
## ...but savings are being drawn down



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, August 2025.

## High-income earnings generate the majority of consumer spending

2024 consumer spending by income quartile



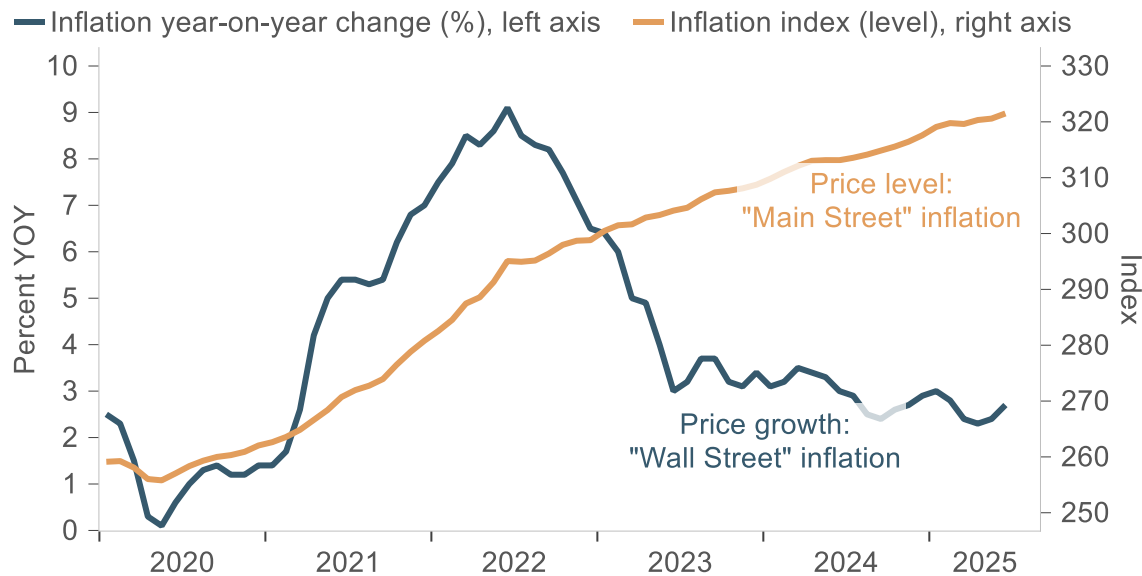
Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, August 2025.

# ...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 the *pace* of inflation has cooled, price *levels* haven't fallen, 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.

## 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, August 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.

- 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, stokes precautionary savings, and harms consumer demand. These conditions are not overly apparent, suggesting this key source of consumer support is intact.

## Job loss anxiety is on the rise after a period of stability

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, August 2025.



# Consumer credit faces risks from an aggregate healthy position

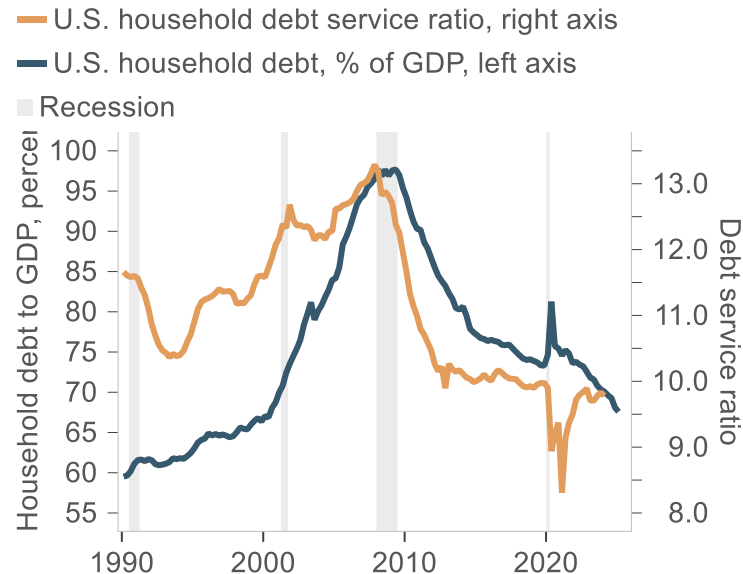
Though lower-income and younger households are struggling, we see no *systemic* signs of consumer overleverage or credit quality concerns.

American consumers are not over-leveraged. Mortgage debt service (orange line) is near 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.

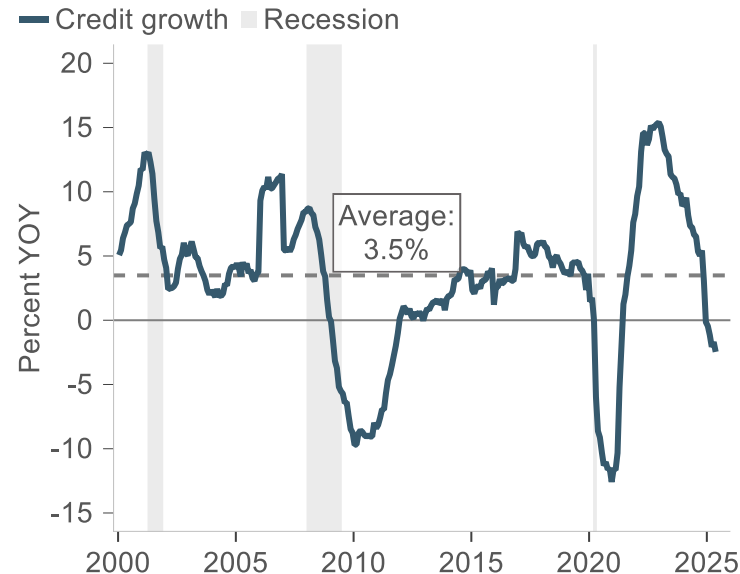
Pockets of stress, namely among younger and lower-income segments that lack a savings backstop, are likely to worsen as growth slows and inflation reaccelerates. In these groups, we see higher credit card balances and rising delinquencies in credit cards and auto loans.

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



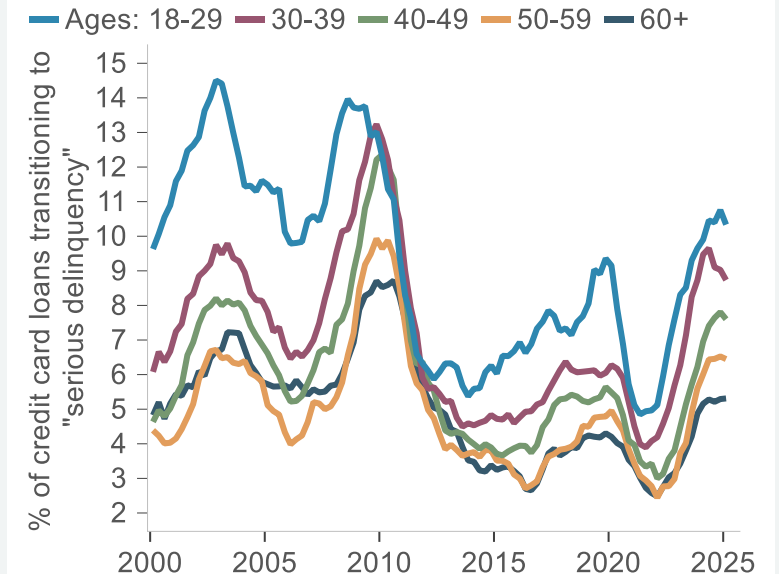
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Federal Reserve, Macrobond, August 2025.

## 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, August 2025.

## Credit quality issues are concentrated, not broad based



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

# Housing supply and affordability issues are unlikely to budge

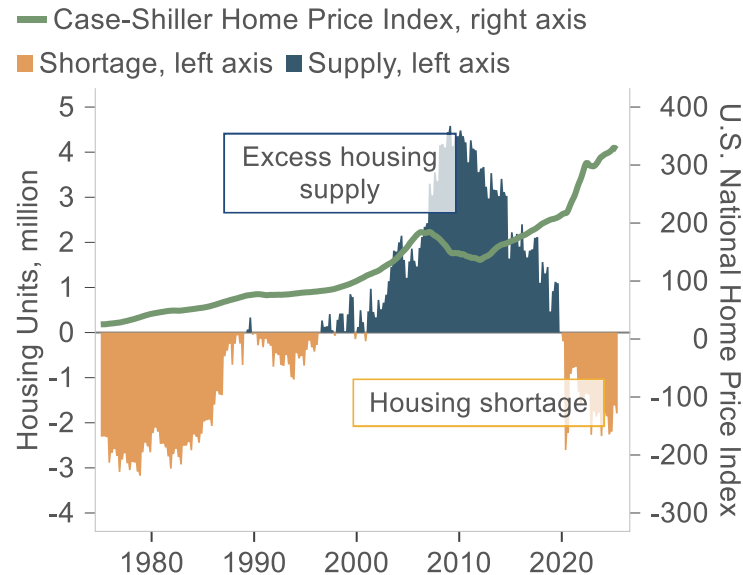
Home prices have a strong floor for the medium term – even with expectations for more volatile mortgage rates and pressure on growth.

Housing supply has become a “tale of two markets.” Record housing construction in the past few years has resulted in price moderation in the sun belt, while constrained supply on the coasts remains a challenge. And, though 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



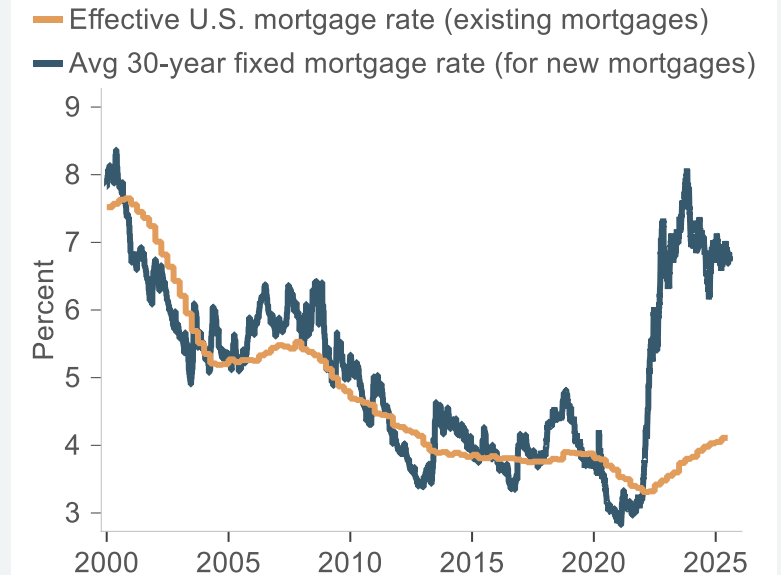
Sources: New York Life Investments Global Market Strategy, U.S. Census Bureau, U.S. Bureau of Economic Analysis (BEA), S&P Global, Macrobond, August 2025.

## 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, August 2025.

## Mortgage rates would need to plummet to incentivize housing turnover



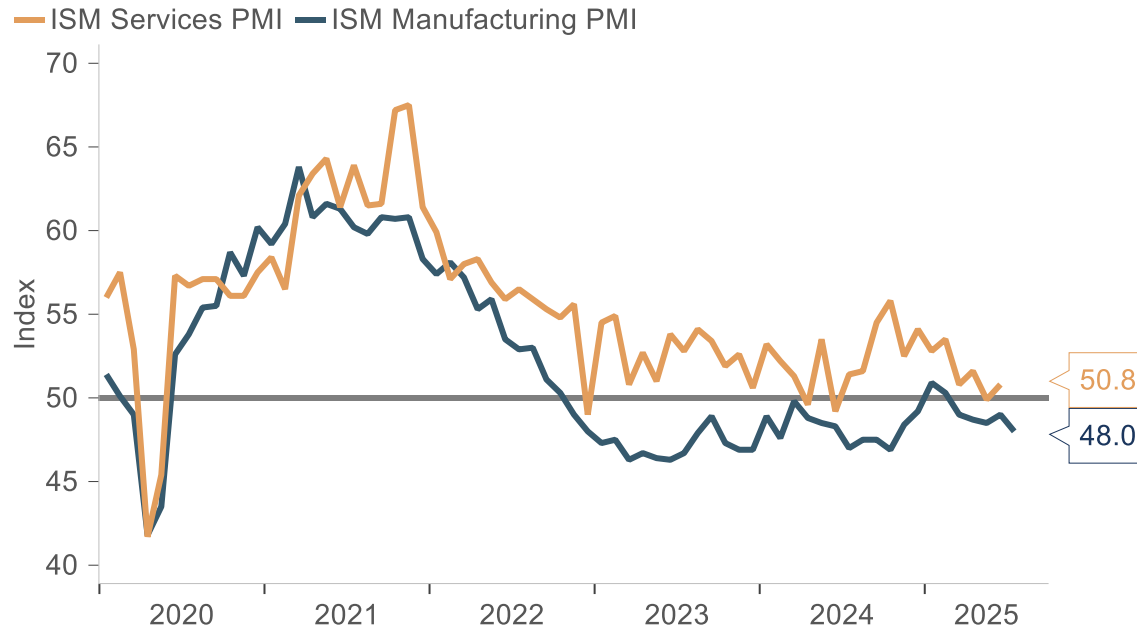
Sources: New York Life Investments Global Market Strategy, Bankrate, Macrobond, August 2025.

# Business sentiment remains tepid

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

- Services and manufacturing sector sentiment has been on the decline since the beginning of the year, suggesting weakening economic activity in both segments.
- We expect large business sentiment to deteriorate further as input costs rise and capex-related uncertainty increases.

## Services and manufacturing PMI has declined in recent months

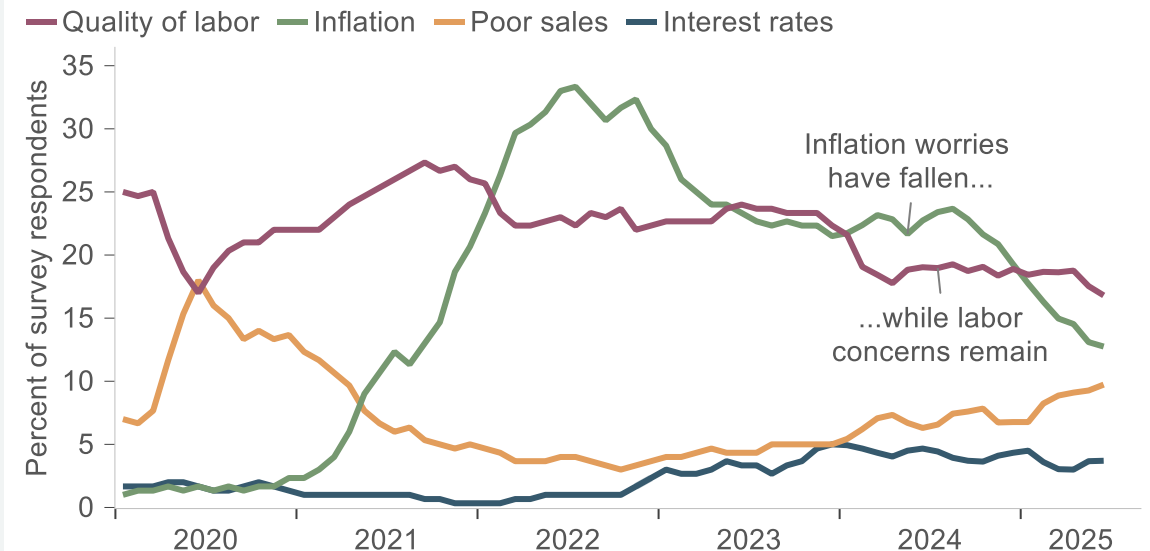


Sources: New York Life Investments Global Market Strategy, Institute for Supply Management (ISM), Macrobond, August 2025. PMI: Purchasing Managers Index, a survey-based sentiment indicator.

- 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 – inflation and labor market challenges were more important. However, we note the increase in concern about lower sales on the list – an early indication of potential slowdown.

## Small business optimism remains elevated, 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, August 2025. Data presented as 3-month moving averages.

# Businesses' healthy profit levels may be 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 re: investment and hiring outlooks, we expect profit growth to decelerate.

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

■ Corporate profit growth ■ Recession



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

- Companies have been maintaining healthy margins. Today, S&P 500 operating margins are well above 12.5%, the level at which 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.

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

— S&P 500 operating margin — Risk level ■ Recession



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

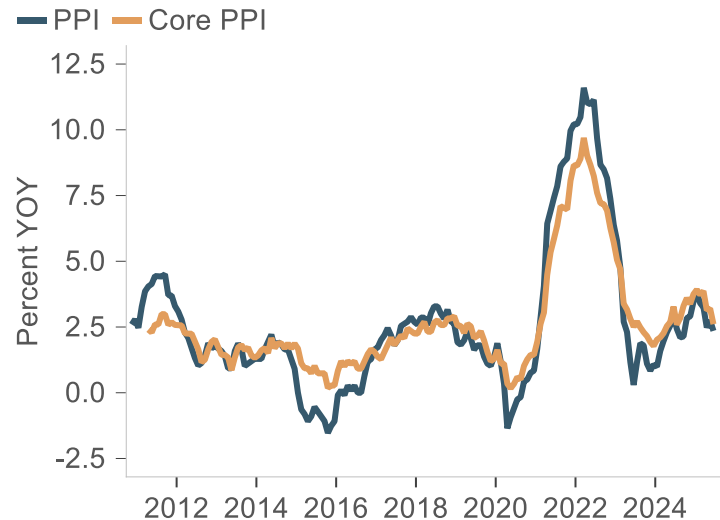
Employment costs are falling, but sticky input prices – even before tariffs – make it unlikely businesses will be lowering prices for their customers.

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. 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 have seen the Employment Cost Index fall, reflecting less competition for talent and weakening bargaining power of employees. We are monitoring for signs of tightening labor supply given recent immigration changes.

Energy prices, reflected in the broad producer price index (PPI) visualized below, are historically volatile. In addition to demand-side disruptions from the pandemic, supply-side disruptions from conflicts in Europe and the Middle East have driven 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



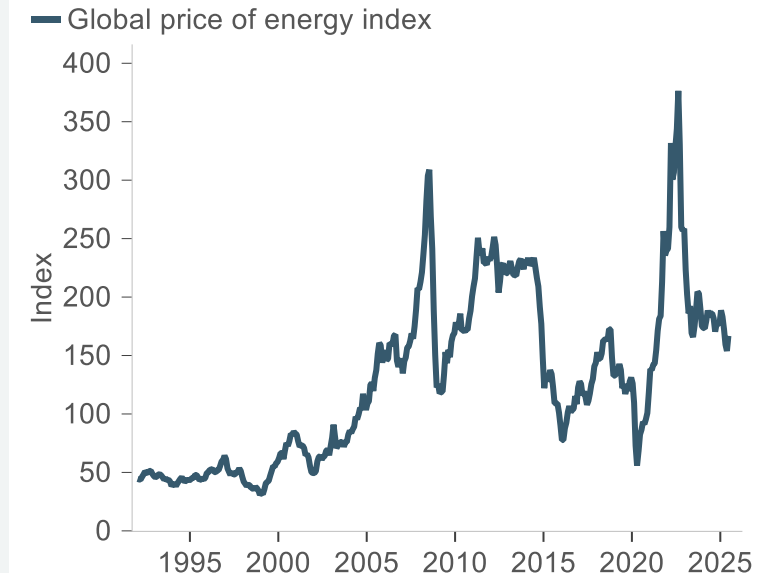
Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, August 2025. Core Producer Price Index (PPI): total less food and energy.

## 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, August 2025.

## Energy costs have normalized after reaching new highs



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



# Business investment reflects a ‘tale of two economies’

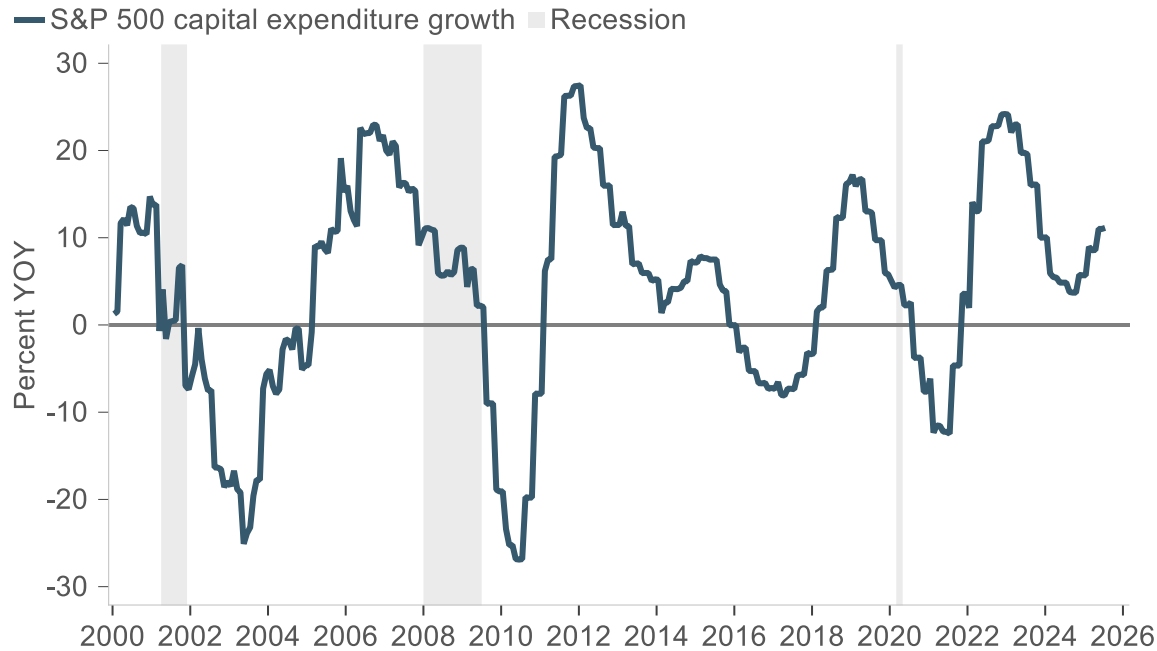
Capex trends are solid, but mask meaningful sector differences.

- Tariffs have turned our outlook for capital expenditures into a ‘tale of two economies.’ At an economy-wide level, capex continues to be solid and even accelerating (**left chart**), but this masks meaningful sector differences.
- Most companies are pausing or reconsidering new capex plans as they navigate a complicated business cost and planning environment. Sectors including energy,

materials, consumer staples, and industrials have seen slower capex this year.

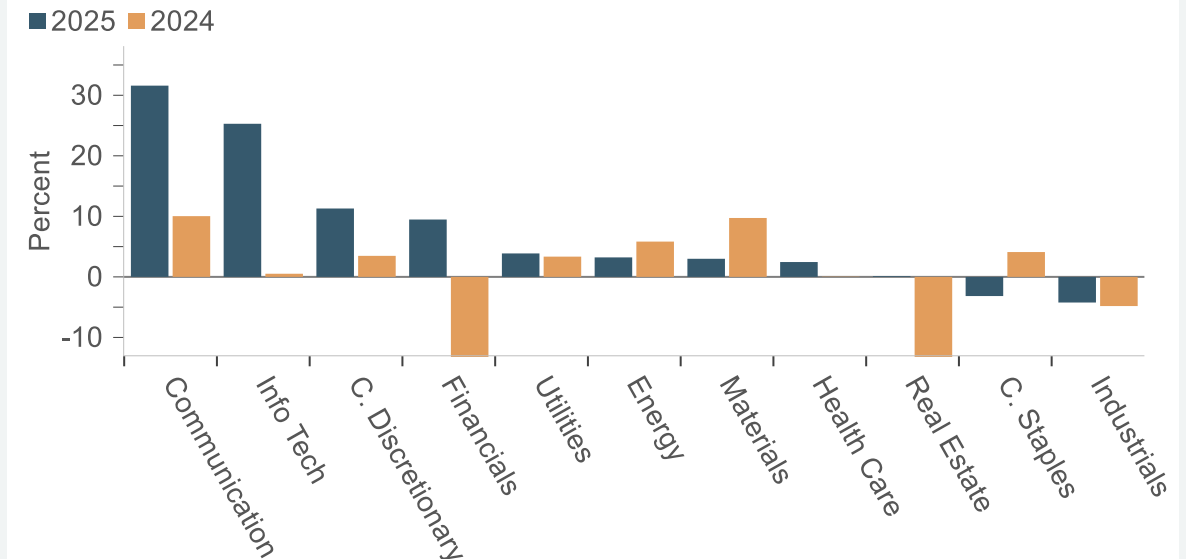
- Conversely, global changes appear to be boosting investment in areas that had already seen strong momentum, including AI and digital infrastructure. The combination of domestic government spending in the semiconductor supply chain, plus strong corporate and consumer interest in AI, creates a solid foundation for sustained growth.

## Capex appears to have recovered...



## ... but masks sector divergence that strongly favors AI and digital infrastructure

Percent change in capital expenditures over the first 7 months of the year

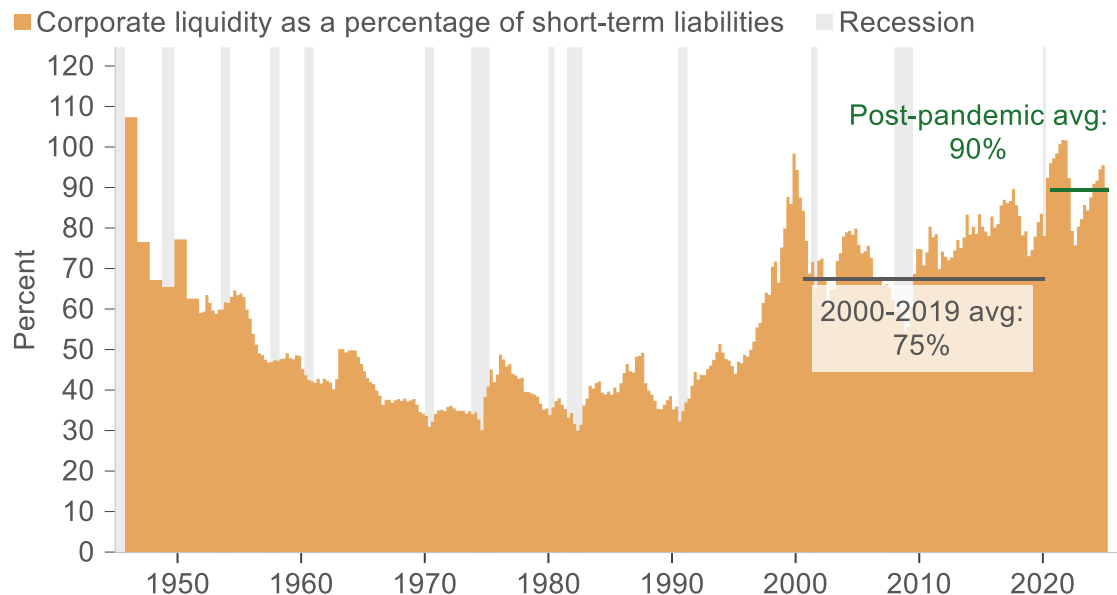


# Business debt levels and debt service show no cause for concern

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.

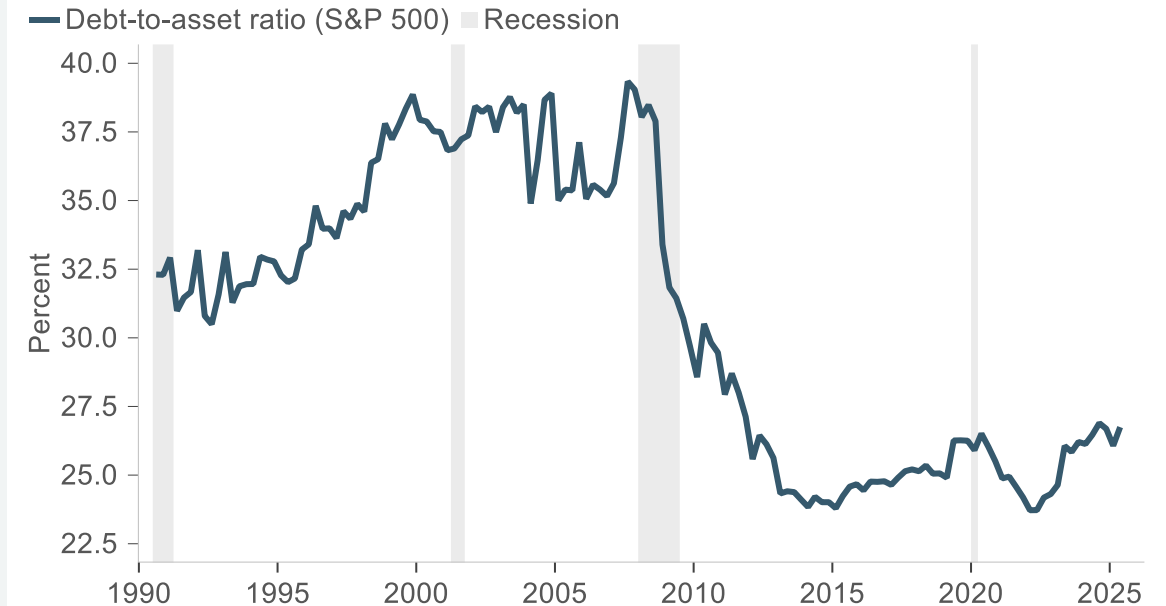
## Large companies with access to public capital markets have maintained strong short-term liability coverage



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

- Corporate debt-to-asset levels are back on the rise, but still 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. Here, too, we see no reason for immediate concern.

## We see no structural debt imbalance amongst listed corporations



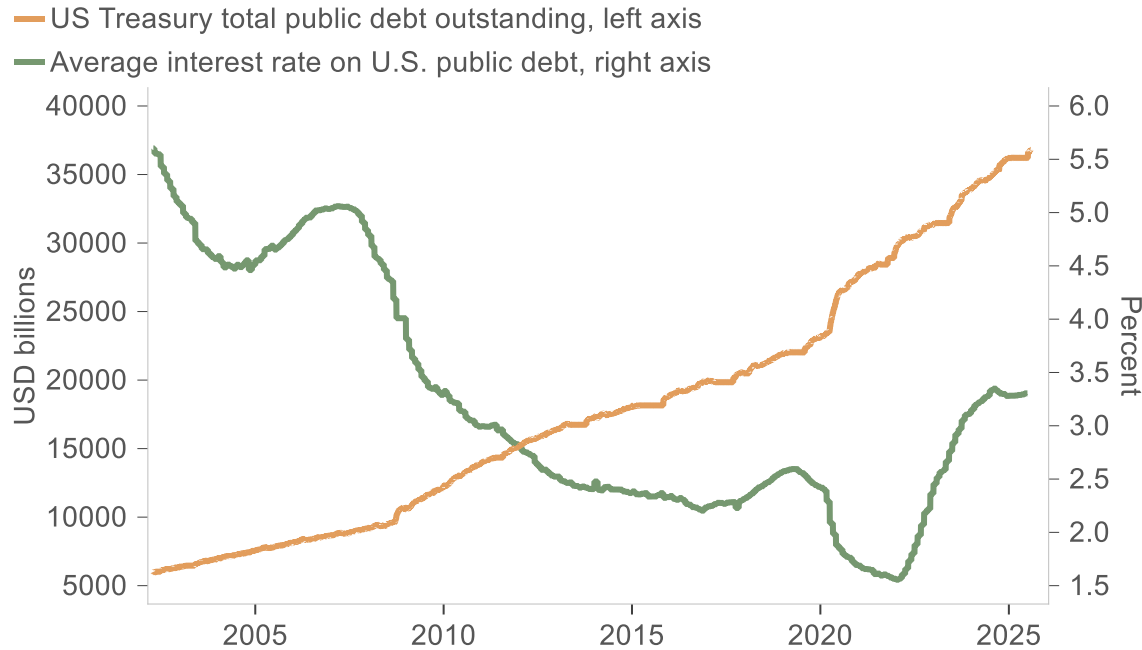
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Standard and Poor's, Macrobond, August 2025. The S&P 500 Index tracks the performance of 500 large cap U.S. companies. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

# 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 a decade high, all while U.S. government spending has ballooned. Treasury rates, which are set by the market, are impacted by the supply and demand for Treasuries. This means that higher U.S. government issuance – including issuance required to finance existing debt – impacts rates, all else equal.

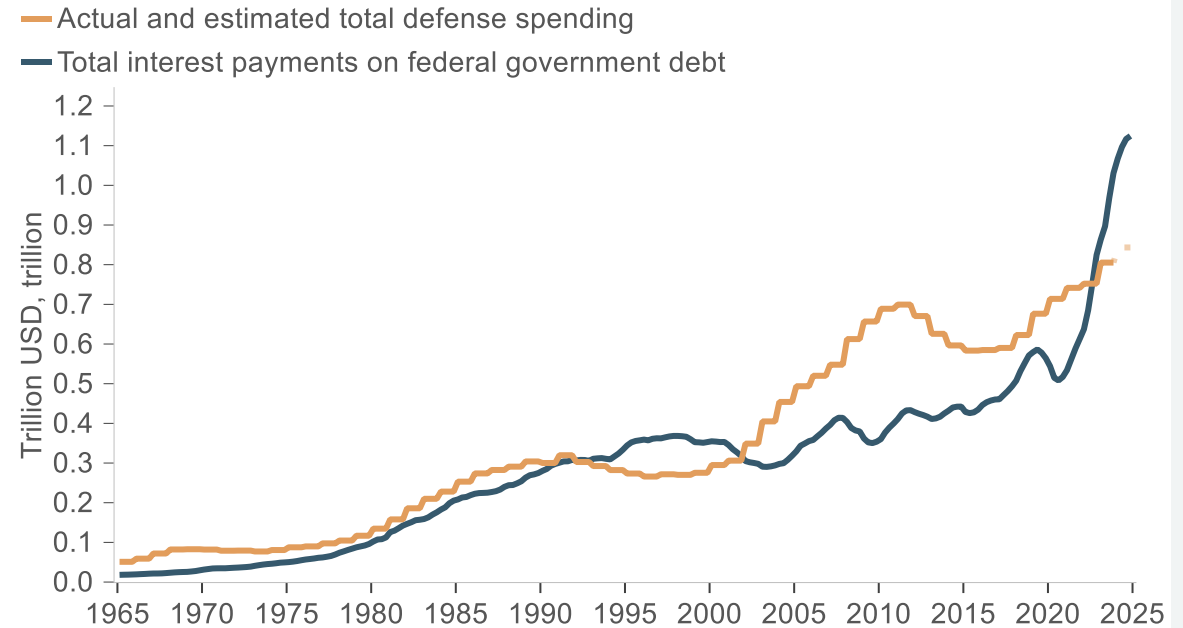
## U.S. debt levels - and the average price paid on that debt - are on the rise



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

- Between higher interest rates and growing debt levels, total interest payments have risen rapidly 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 pursue higher growth (and higher inflation) policies to reduce debt burden in real terms.

## 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, August 2025.

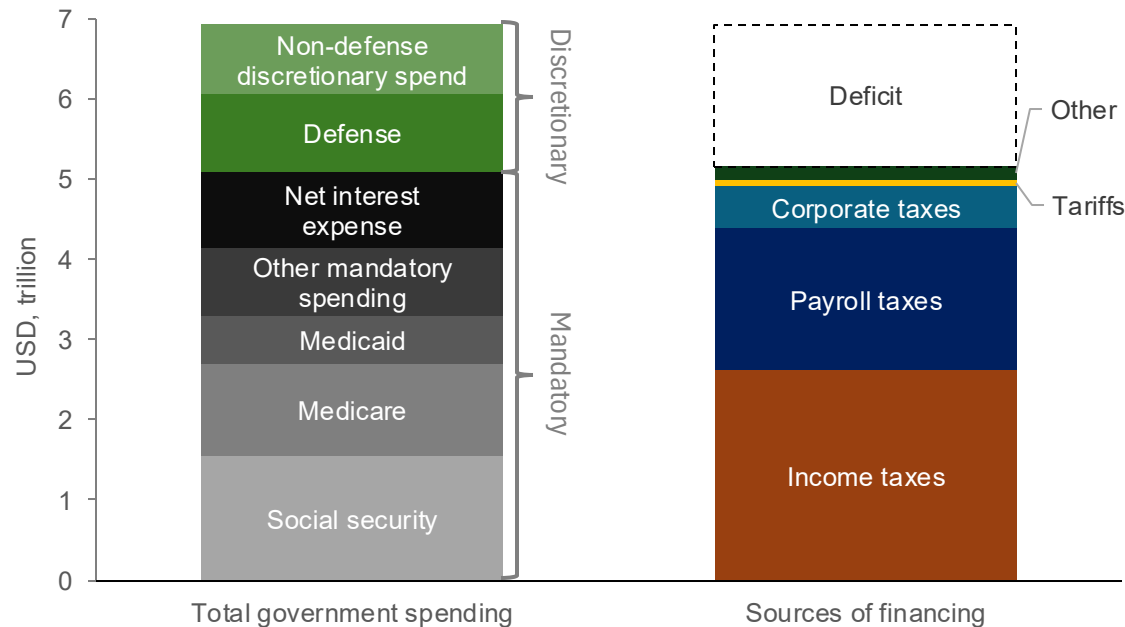
# The growing budget deficit could pull debt sustainability concerns forward

Though household and corporate balance sheets are stable, 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.

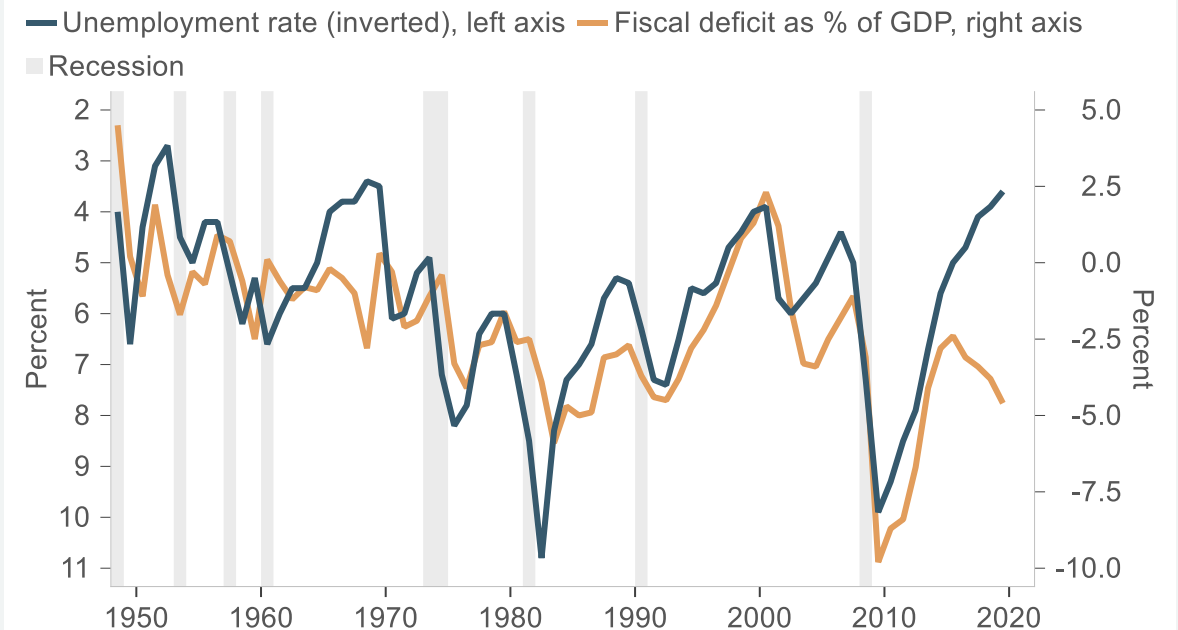
- In a typical cycle, the deficit increases alongside an increase in the unemployment rate. This is because U.S. fiscal spending is typically countercyclical, meaning that as the economy slows, the government spends more to support both households and businesses. Pandemic-related spending widened the deficit significantly. It's possible the level of federal deficits will constrain Trump's policy agenda in the coming years.

## The 2025 budget is expected to extend the deficit



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

# 3 International economic & market outlook

## Global cycle

- [De-synchronized global growth](#)
- [Euro area](#)
- [Japan](#)
- [China](#)
- [Emerging markets ex-China](#)

## Commodities & alternative currencies

- [Energy](#)
- [Metals and agriculture](#)
- [Gold and Bitcoin](#)

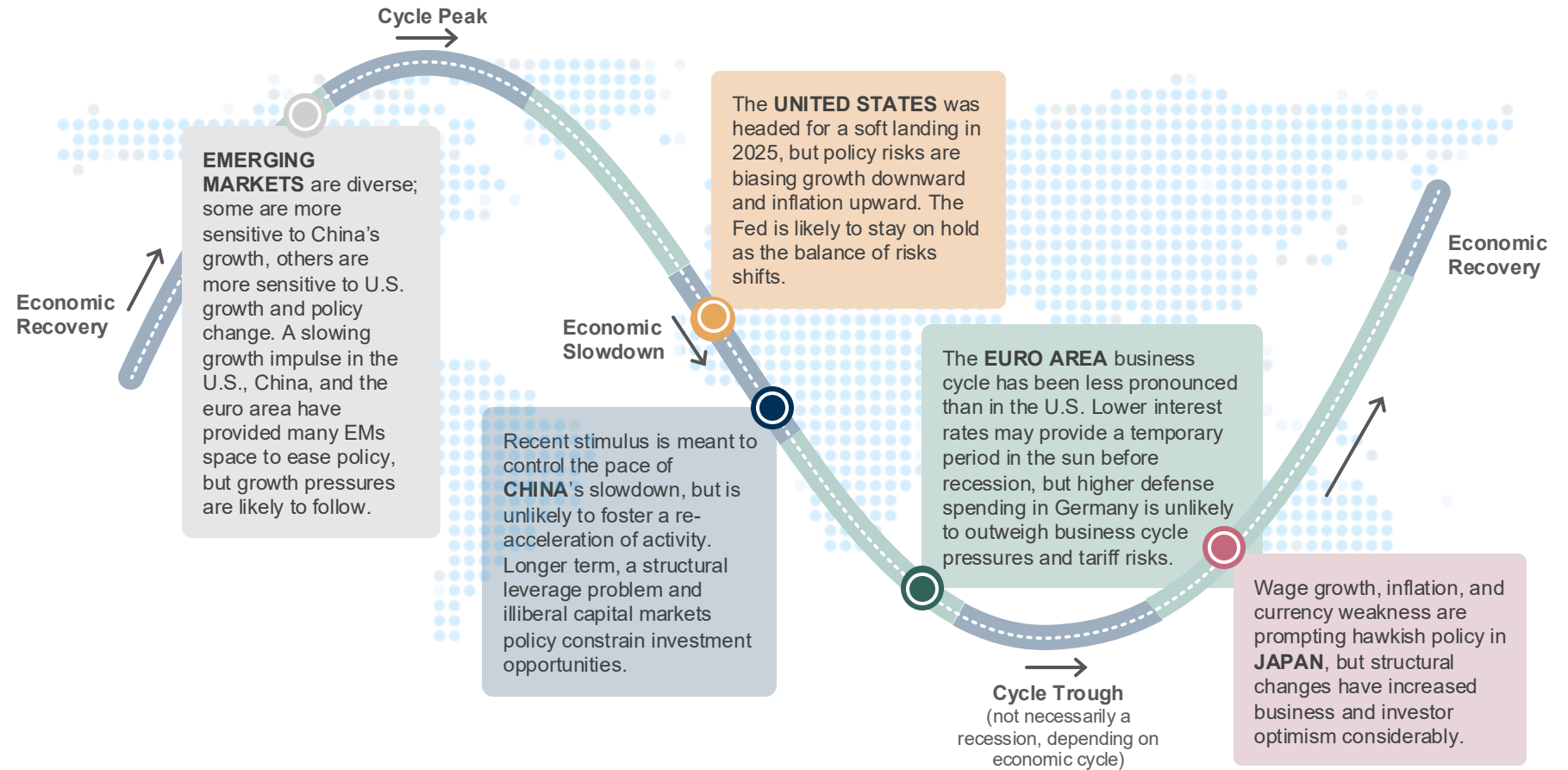
## U.S. dollar

- ["Dollar Smile": tactical dollar view](#)
- [What it takes to be a reserve currency](#)

# Where are major economies in their economic cycles?

- After years of synchronized global stimulus in the post-pandemic period, growth across major economies is now diverging.
- In the U.S., shifting policy is likely to drive a 6–12 month adjustment period for both the economy and markets. In Europe, increased German defense spending has supported sentiment but is unlikely to change the near-term credit outlook. Meanwhile, Japan and China are managing structural changes that will shape their growth and investment prospects.
- Rising trade barriers pose a risk to global growth – especially in the U.S., where they could also push inflation higher. If similar policies are adopted by key trading partners, these pressures could become more widespread. We're also watching for signs that policy-driven changes in U.S. consumer behavior could slow global demand.

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



Sources: New York Life Investments Global Market Strategy, August 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.



# Euro area

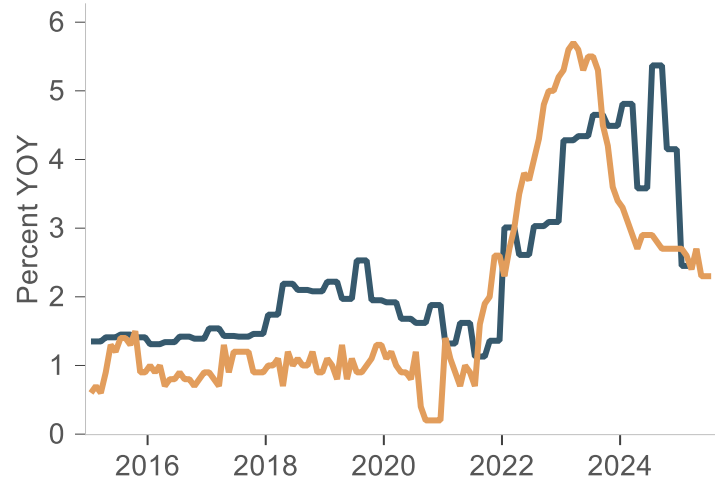
Europe's growth is susceptible to U.S. trade risks or a global slowdown. But investor appetite for ex-U.S. assets is rising; Europe may benefit.

- In the past year, easing inflation and wages (**left chart**) have contributed to a consistent ECB rate-cutting cycle. Improving credit conditions (**middle chart**) and recovering domestic demand (**right chart**) have led to resilient outcomes.
- These domestic conditions are being disrupted by U.S. tariff policy. Key concerns include Europe's vulnerability to a global slowdown and the impact that a U.S.-China escalation may have; the U.S. and China are Europe's two largest markets.

- Before the tariffs, we expected growth to slow to near 1.0% in the euro area. Now, rising uncertainty may lead European businesses to postpone their investment and hiring plans.
- Other geopolitical developments, such as resolution in the Russia-Ukraine war, stabler energy prices, and pressure to spend more on defense and infrastructure may create opportunities for the European economy. Already, we see investors considering higher exposure to European assets as a means of geographic diversification against U.S. policy uncertainty.

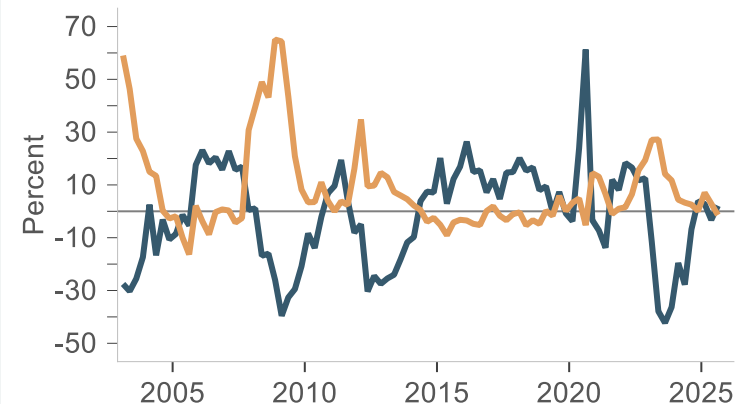
## Inflation and wage growth continue to ease

— Core inflation — Negotiated wages



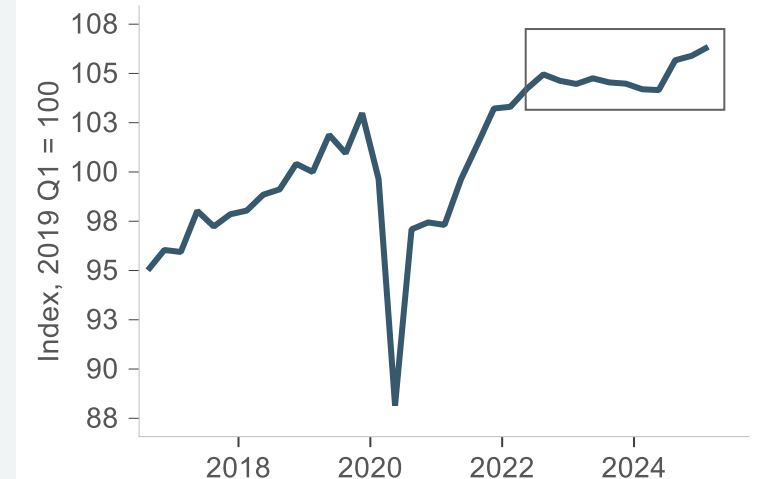
## Normalizing policy rates have contributed to improving credit standards and loan demand

— Changes in credit standards for businesses — Business loan demand



## Domestic demand improved as rates moved lower

— Euro Area 19, Eurostat, ESA 2010, Main GDP Agg...



**TAKEAWAY:** A consistent interest rate cutting cycle have contributed to cyclical improvements in credit availability and consumer demand. At the same time, U.S. policy uncertainty has contributed to higher appetite for European assets on the margin. The business backdrop is more cautious; U.S. tariff uncertainty and competition from China loom large.

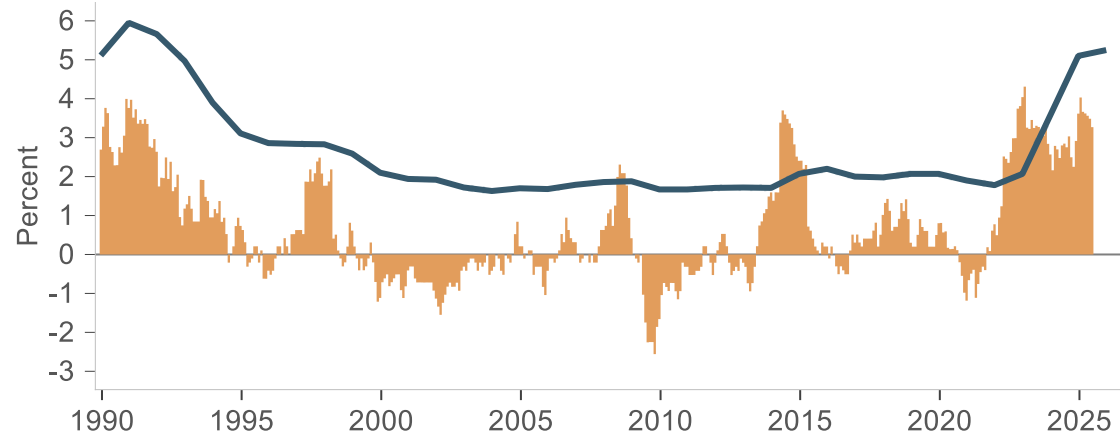
# Japan

Trade disruptions likely put the Bank of Japan on pause for the rest of this year.

- While most global central banks were raising rates from 2022-2024, 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 hiked rates to 0.5% in Jan 2025 (**right chart**). Market financial conditions, including equity market valuations, have tightened considerably in response.

## Negotiations lead to steepest wage increases in 30 years

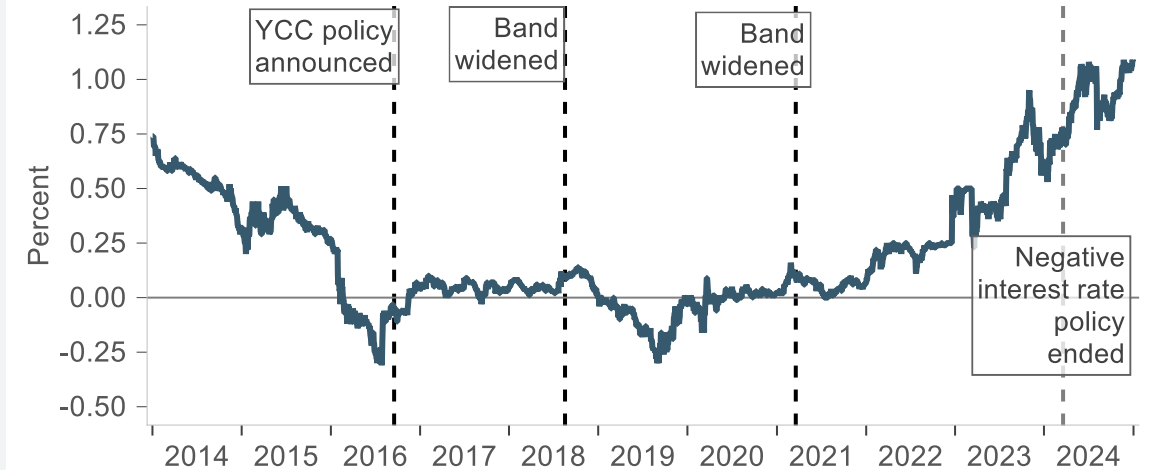
- Spring wage negotiations, salary increment, weighted average
- Headline consumer price index (CPI)



Sources: New York Life Investments Global Market Strategy, Japanese Trade Union Confederation (RENGO), Japanese Statistics Bureau, Ministry of Internal Affairs & Communications, Macrobond, August 2025.

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

- Yield on 10-year Japanese government bonds



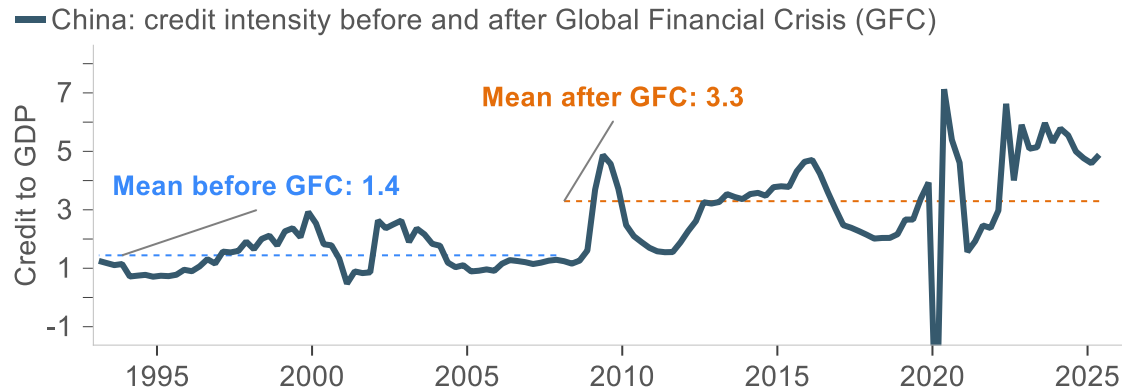
Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Bank of Japan (BOJ), Macrobond, August 2025.

**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: a structural deceleration in growth

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

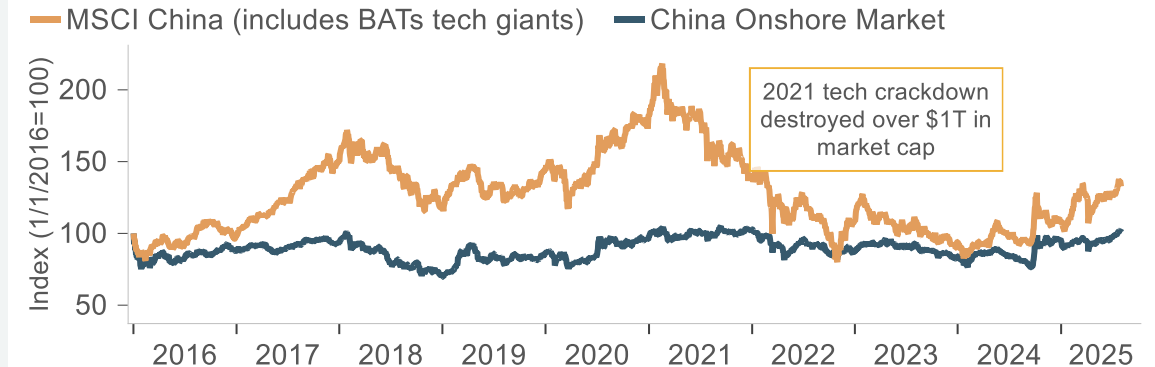
## China's decades of high growth have been fueled by high leverage



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, August 2025. GDP: Nominal.

- 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.
- On a structural basis China also needs to cope with its export-led growth model and has signaled its intent to foster greater domestic consumption. Foreign portfolio inflows could ease this transition away from export-led inflows, but we see little impulse to liberalize markets.

## China's regulation has hampered value creation in equities



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, MSCI, Macrobond, August 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 representation across Shanghai and Shenzhen.

- 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 internal and external pressures

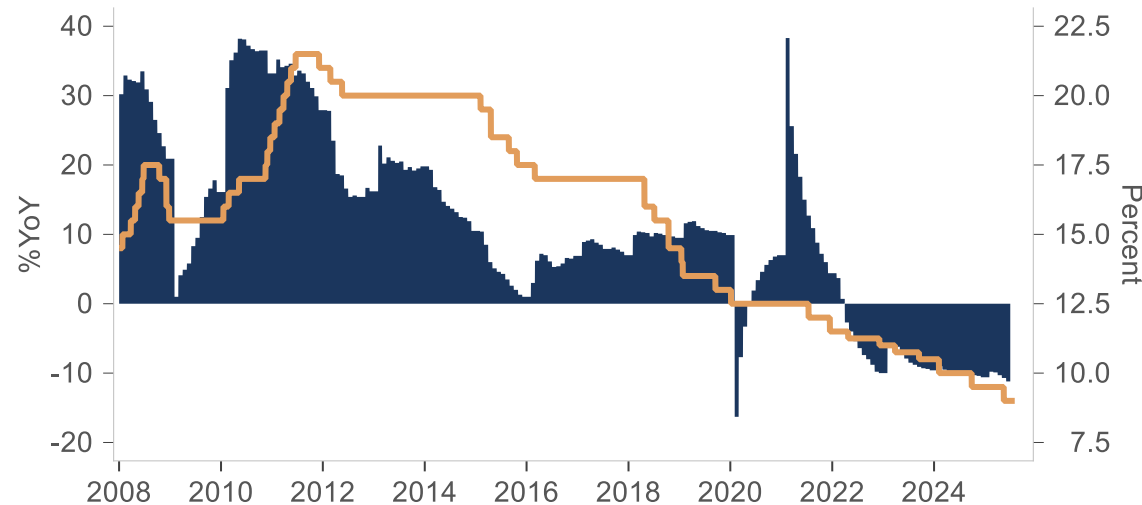
China's stimulus is not meant to spark an economic acceleration, possibly to the detriment of key emerging markets trading partners.

- 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. In 2025, Chinese growth is expected to slow from 5.0% YoY to 4.5%.

## China is countering the real estate crash with easier monetary policy

— Reserve requirement ratio, large banks, right axis

■ Completed investment in real estate, left axis

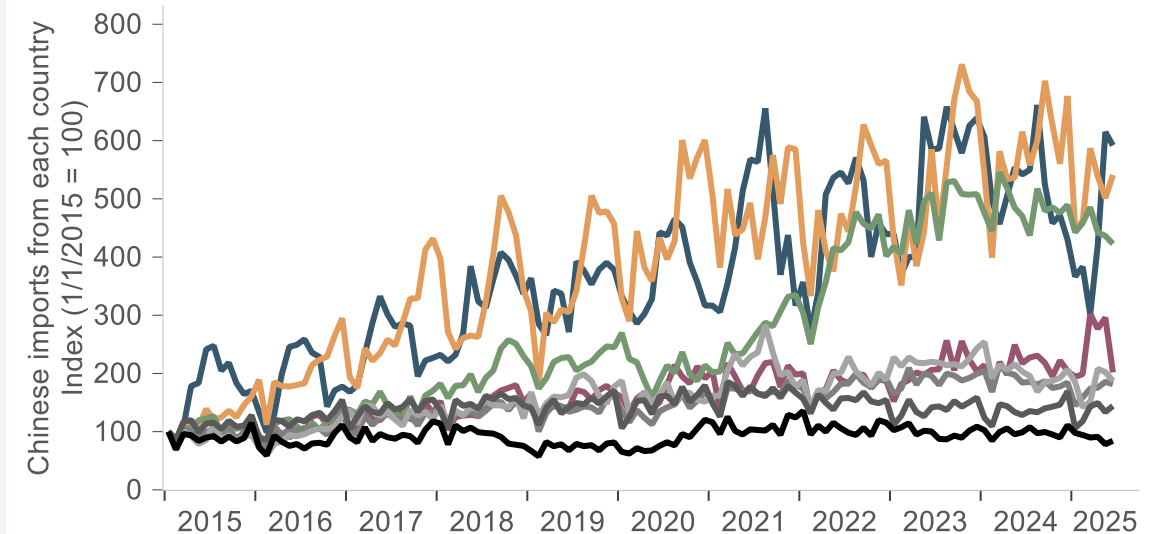


Sources: New York Life Investments Global Market Strategy, China National Bureau of Statistics (NBS), People's Bank of China (PBoC), Macrobond, August 2025. Lower reserve requirement ratio indicates that banks are required to hold fewer reserves, incentivizing them to lend; this is a form of monetary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

- Now, China must also contend with trade tension with the U.S. Reduced foreign inflows from exports are likely to pressure China's GDP growth to some degree; tariff work-arounds remain to be seen, but it is constructive that the worst-case prohibitively high tariffs are off the table.
- We may not see this direct impact for several quarters still, but are monitoring how shifting trade relationships affect China's trade relationships with Brazil, Mexico, and others (**right chart**).

## We are monitoring a wide variety of Chinese trade relationships to capture tariff impact

— U.S. — Japan — Australia — Europe — Russia — Mexico — Vietnam — Brazil



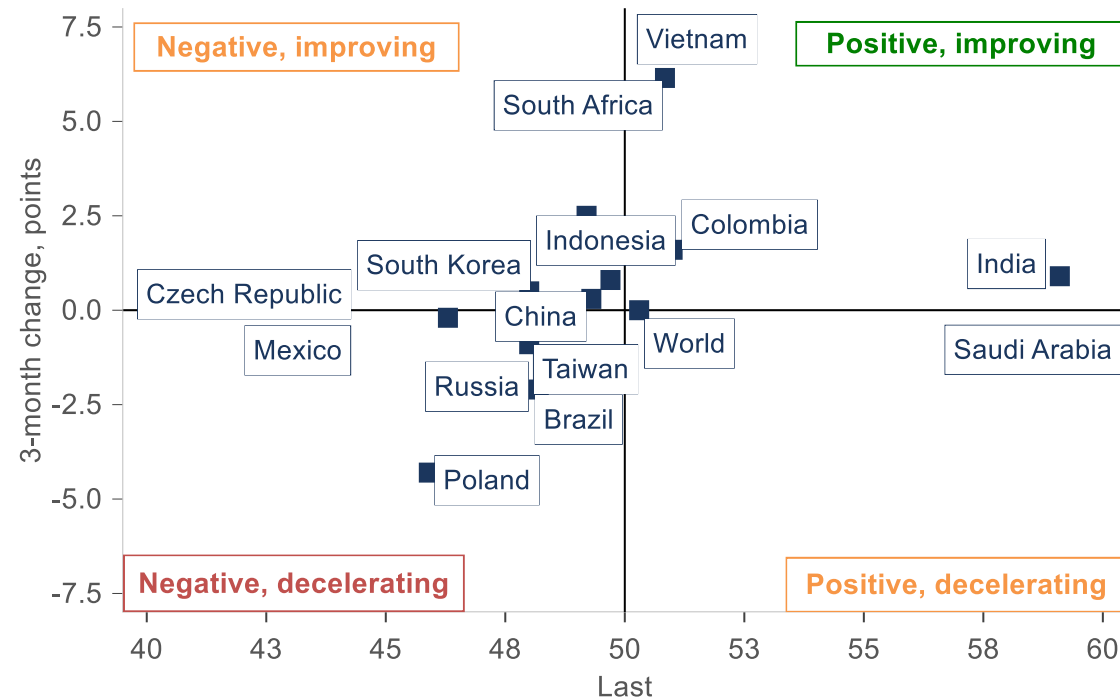
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Customs General Administration of the People's Republic of China, Macrobond, August 2025.

# Emerging markets

Emerging markets are benefitting from the move toward global diversification and a weaker dollar but likely face trade-related growth risks.

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

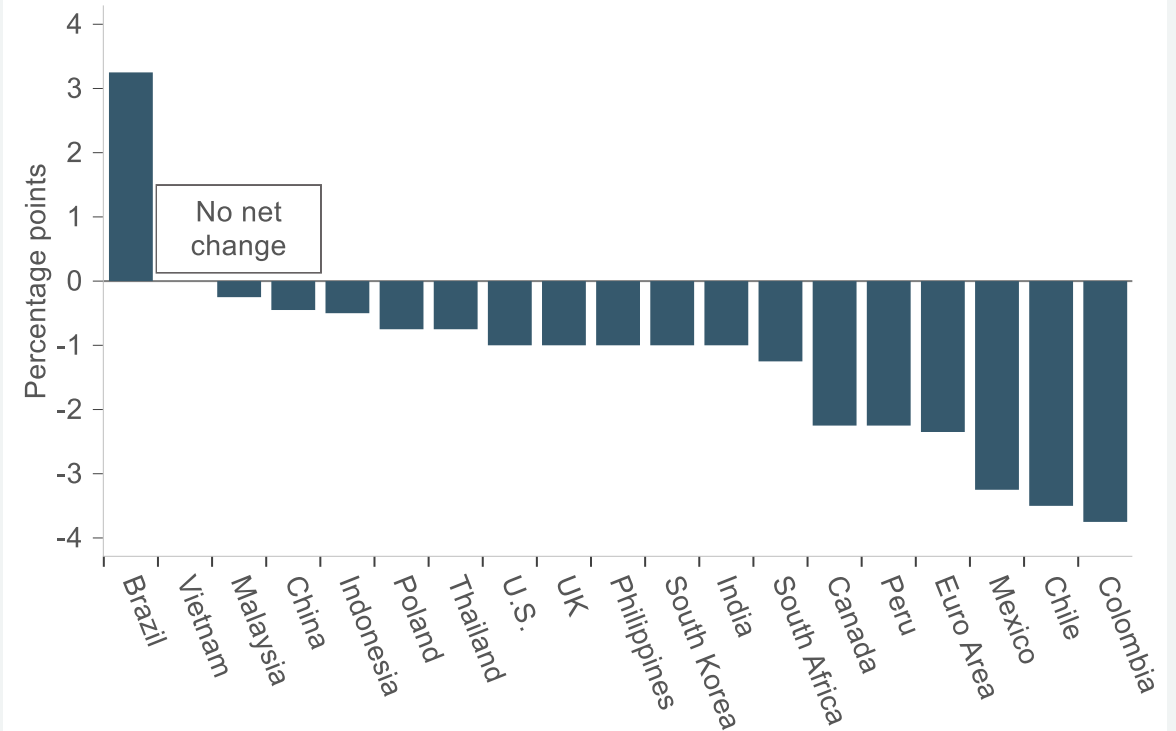
■ Emerging Markets Manufacturing PMI: Last value and 3-month change



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, August 2025.

## A weaker dollar helps Emerging Markets keep policy accommodative

■ Percentage point change in policy rate since Jan 2024



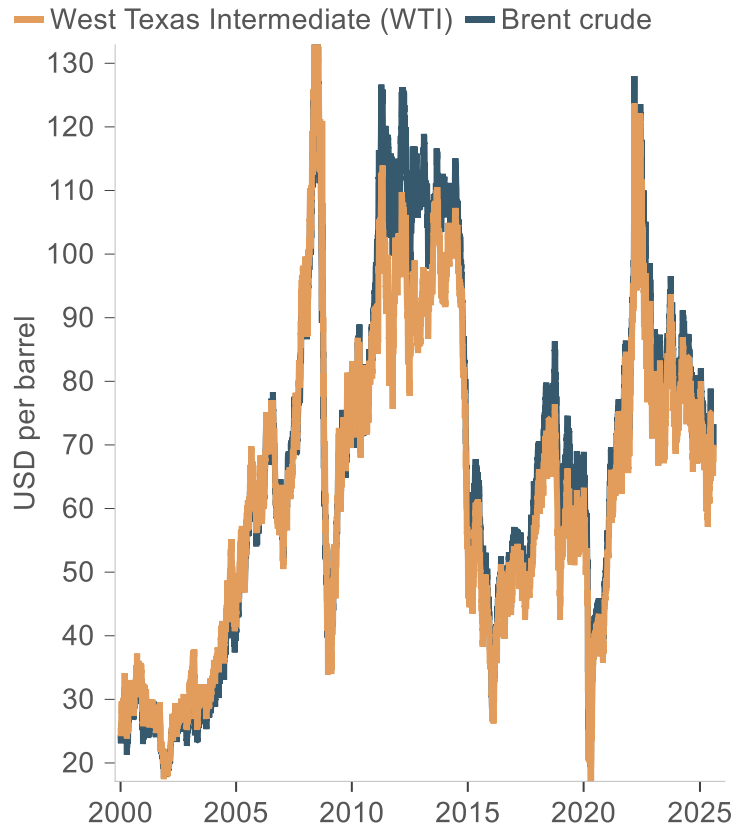
Sources: New York Life Investments Global Market Strategy, Federal Reserve, ECB (European Central Bank), Macrobond, August 2025.

**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](#)).

# Global energy costs have largely normalized, but upside risks remain

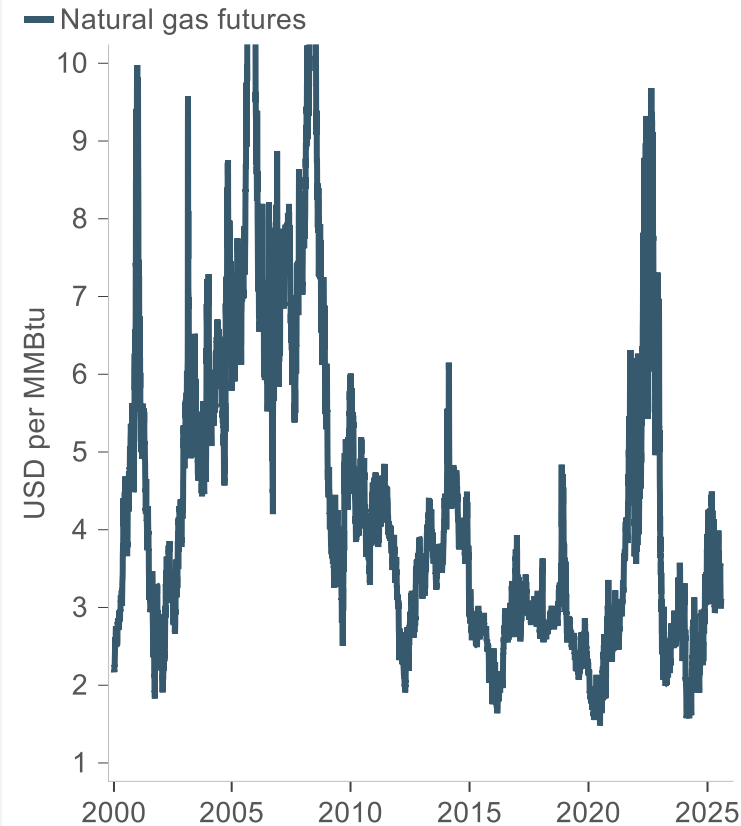
Shocks related to the pandemic and invasion of Ukraine have settled, leaving global energy prices broadly balanced.

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



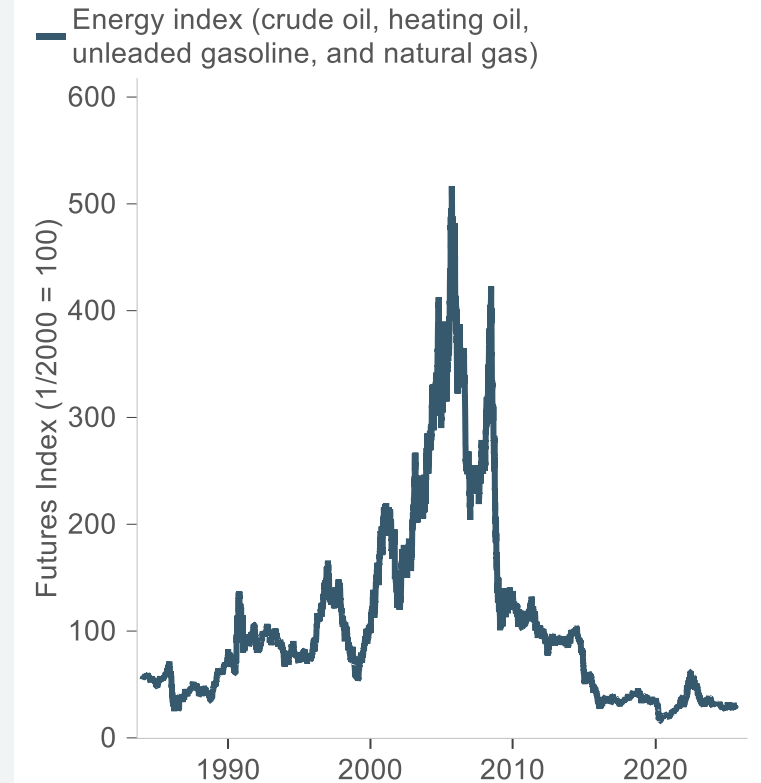
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, August 2025.

## Natural gas has similarly normalized from its 2022 spike



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



# 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

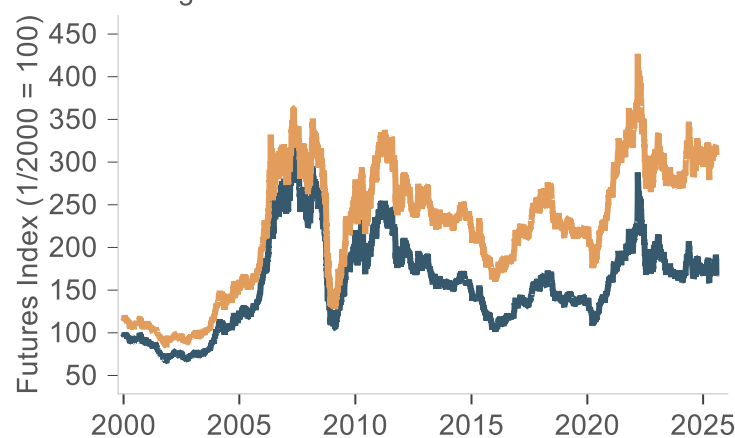
— Bloomberg Precious Metals Subindex: gold and silver futures



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, August 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

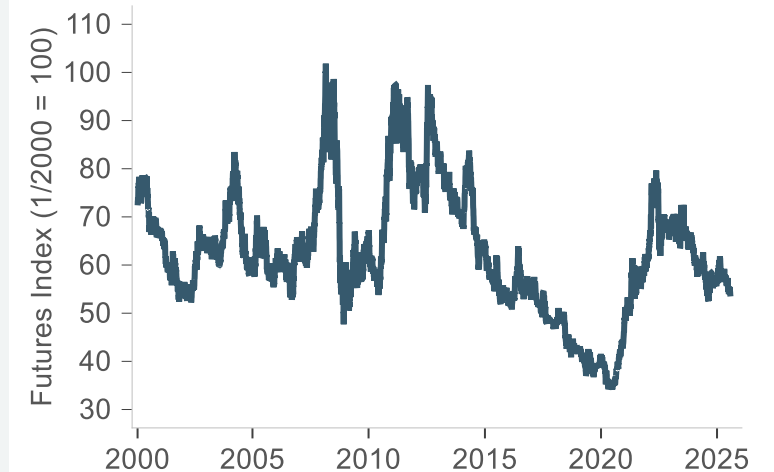
— S&P GSCI Industrial Metals Spot Index  
— Bloomberg Industrial Metals Subindex



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, August 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 aluminium, 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

— Bloomberg Agriculture Subindex



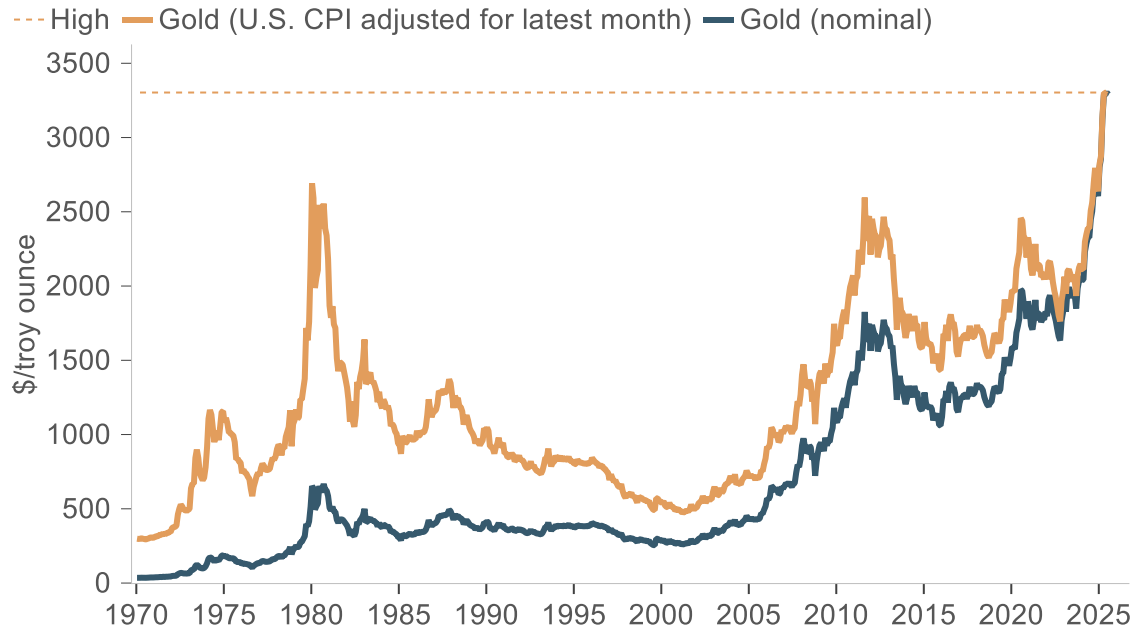
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, August 2025. Past performance is not indicative of future results. It is not possible to invest directly in an index. Bloomberg Agriculture Subindex composed of futures contracts on coffee, corn, cotton, soybeans,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

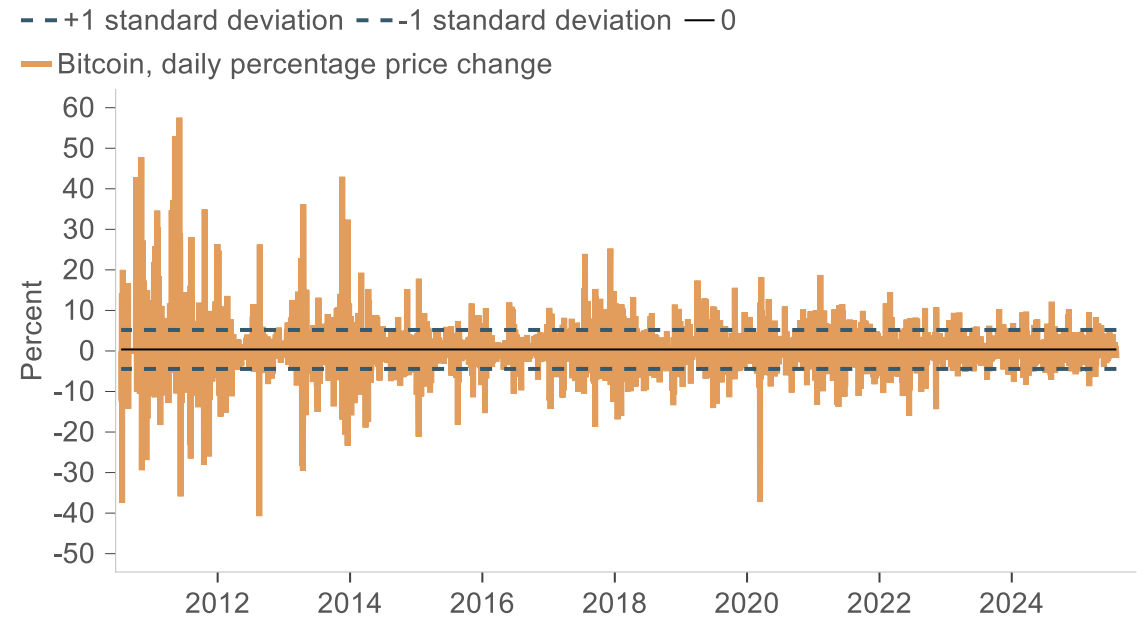
## Gold is a proven inflation hedge over the very long term



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

- 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.

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

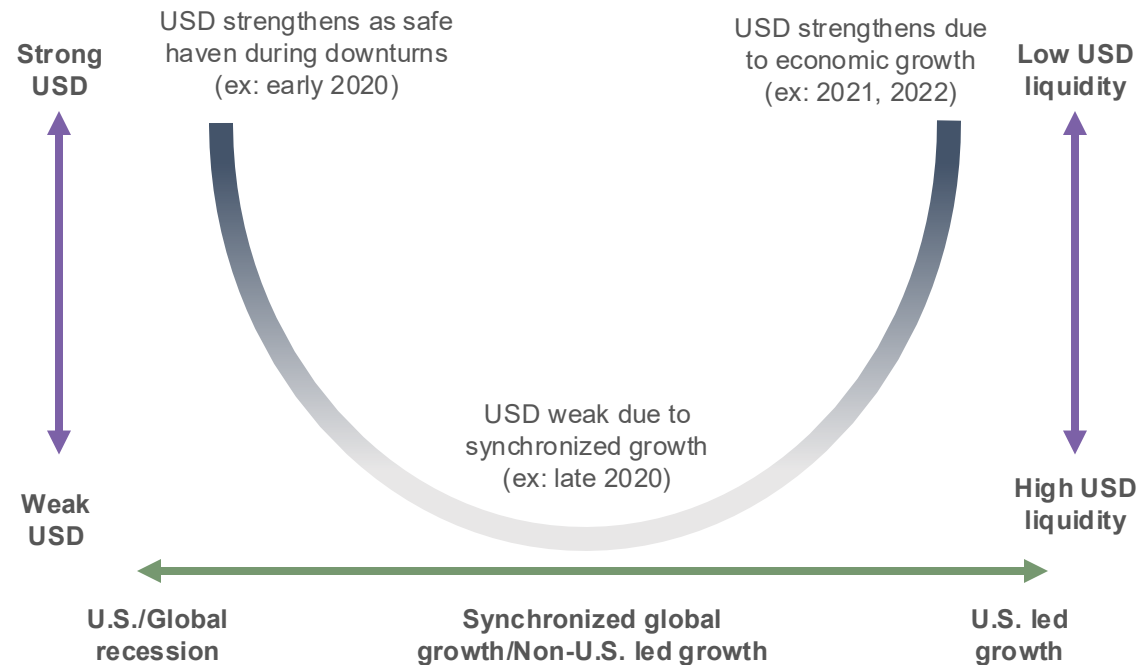


Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Macrobond, August 2025.

# 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, may 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.

# 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
<b>Trust in the central bank</b> <i>Share of global FX reserves</i>	57%	20%	6%	2%
<b>Liquidity</b> <i>Foreign holding of government debt</i>	35%	38%	30%	9%
<b>Broad acceptance</b> <i>Share of foreign currency debt issuance</i>	64%	24%	3%	1%
<b>Convertibility</b> <i>FX transaction volume</i>	45%	16%	9%	4%
<b>Open capital account</b> <i>Capital controls</i>	None (Open)	None (Open)	Some (Restrictions)	Tight (Closed)
<b>Floating exchange rate regime</b> <i>Exchange rate regime</i>	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.

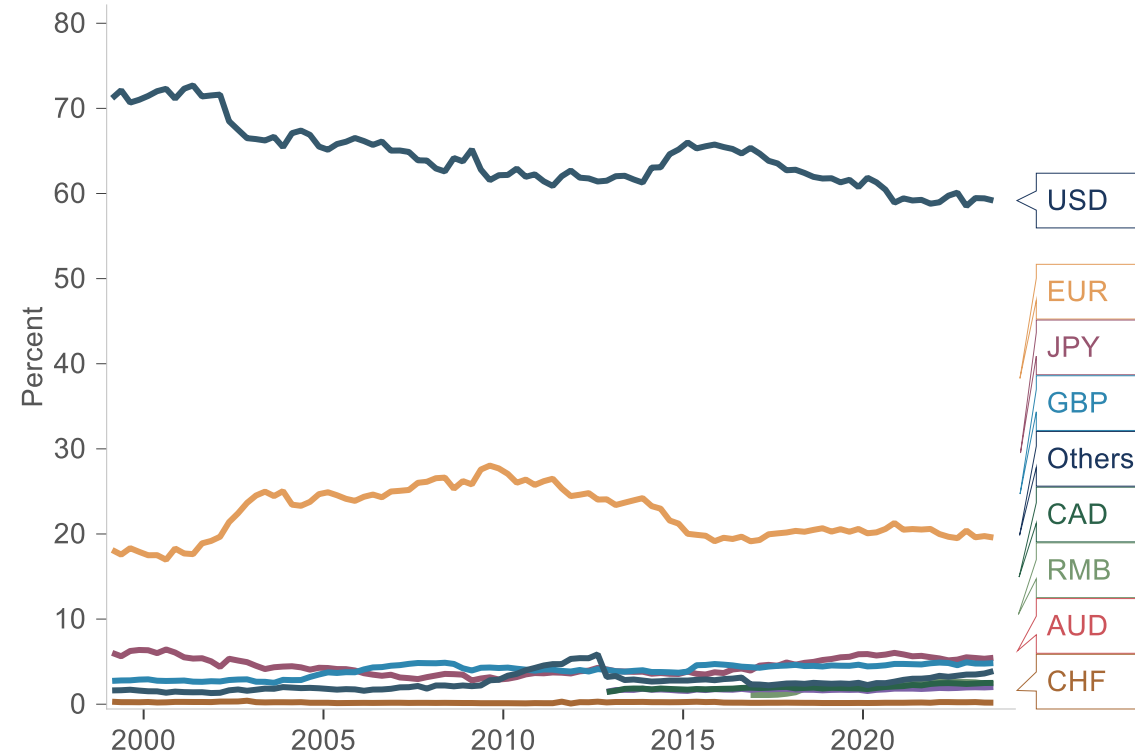
**TAKEAWAY:** Dominating global reserves, transactions, and global debt, the USD is set to remain the world's primary reserve currency. China's capital controls and lack of global convertibility and transactability make it unlikely for RMB influence to expand beyond select commodity-based trade relationships.

# 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, August 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
<b>Venetian ducat (12th century–16th century)</b>	The Fourth Crusade and other medieval military conflicts	Gold standard, minting and navigation technology
<b>Spanish dollar (16th century–1800)</b>	Spanish Armada's defeat of the English navy in 1588	Mining and transportation technology
<b>British pound (1815–1920)</b>	The Seven Years' War and the Napoleonic Wars	Steamship industry expansion
<b>U.S. dollar (1920–?)</b>	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.

# 4 Long-term themes

## Insights

- [Long-term interest rates](#)
- [Sovereign debt sustainability](#)

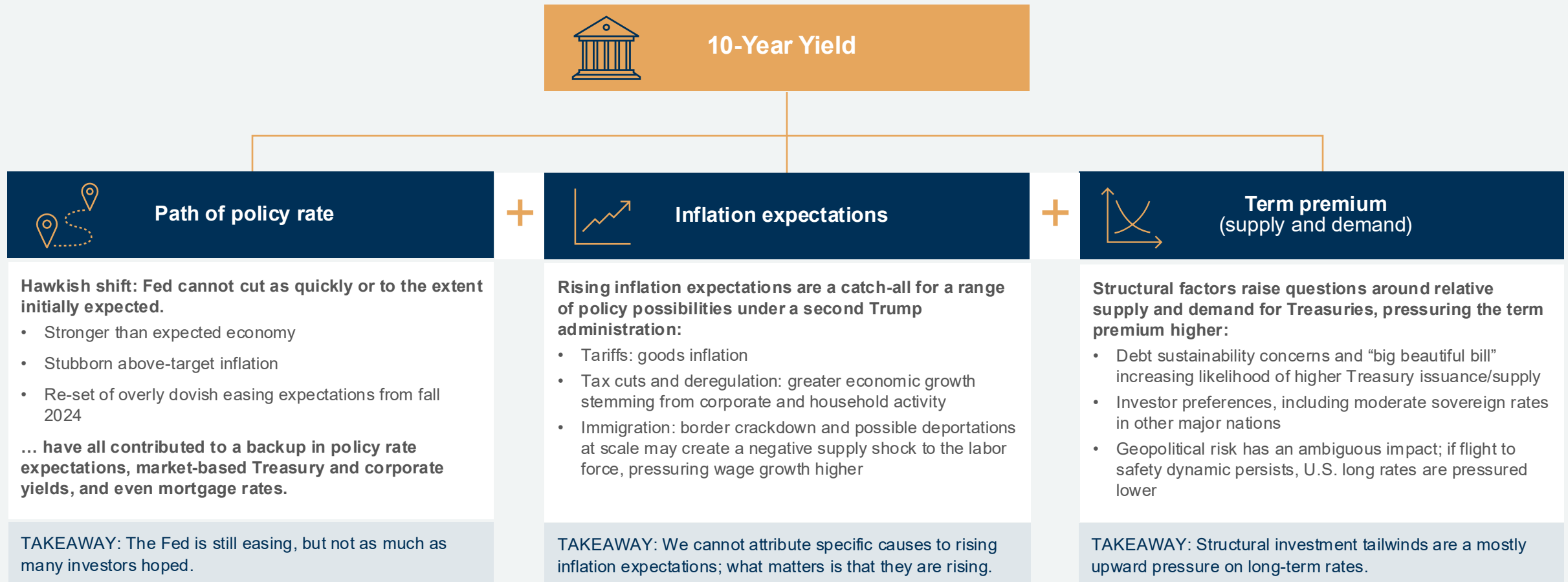
## Global megatrends

- [Geopolitical risk](#)
- [Supply chains and capital intensity](#)
- [Artificial intelligence and digital infrastructure](#)



# What is driving volatility in long rates?

The “Trump trade” and structural factors are pressuring long rates higher, while questions around the growth outlook pressure them down.

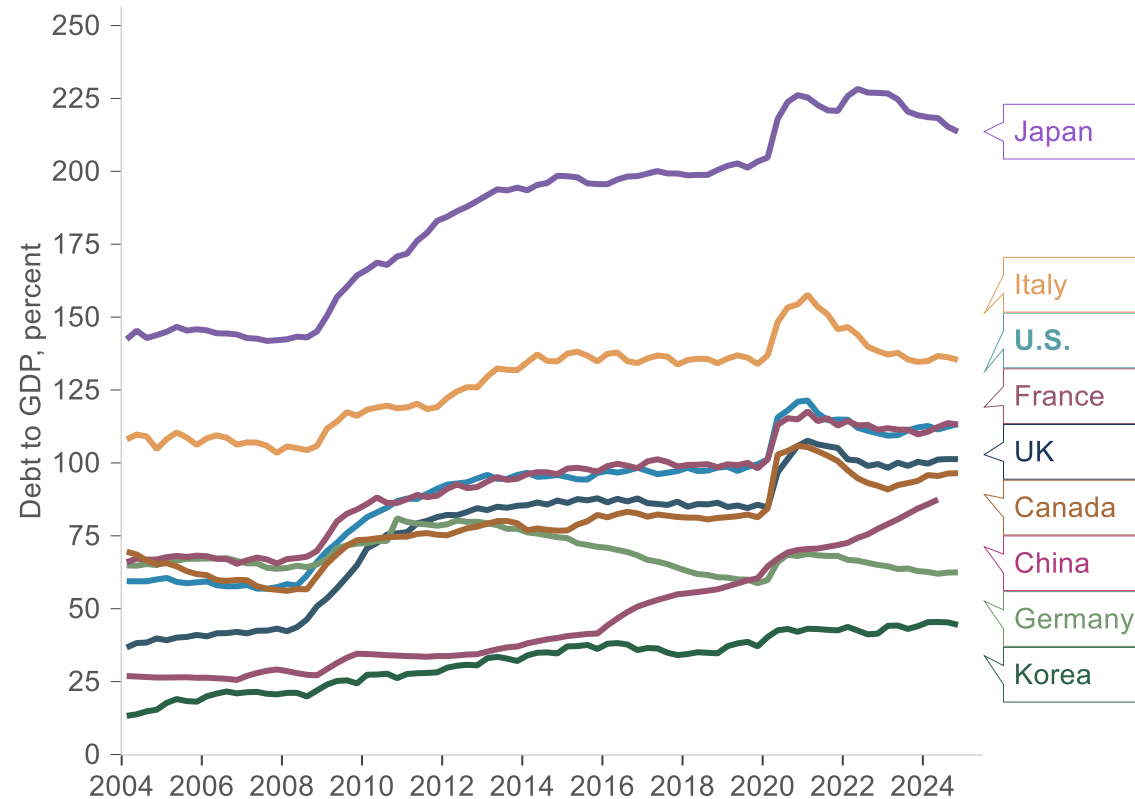


Opinions of New York Life Investments Global Market Strategy, August 2025.

# Global debt sustainability: sovereign spending can increasingly influence allocation

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

## Many developed economies feature a troubling sovereign debt trajectory



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

- In the post-war era, demand for sovereign debt has generally been strong and sovereign defaults have been increasingly rare – a dynamic all the more notable given ever-rising global debt levels, periods of very high interest rates, and seismic political-economic shifts throughout this time period,
- Underpinning debt sustainability is a symbiotic relationship between the federal debt of the United States and global savings: U.S. Treasuries offer a moderate, risk-free yield that has become a sink for the excess savings of other countries. In the last 20 years in particular, the relationship between Treasuries and savings has enabled and benefited from globalization: as the world has integrated, demand for the reserve currency has broadened.

## Debt management choices can drive allocation decisions

- Of the traditional paths an economy can take to manage sovereign debt, outside of default and assistance from multilateral institutions, we see four with the clearest impacts on country-level allocation and, by extension, relative geographic investor preference:
- Austerity: less government spending can create a risk-off market environment, with pressure on growth, interest rates, and inflation.
- Pro-growth spending: greater government spending can be a boon to an economy if spending is productive, pushing the growth rate above the rate of interest owed on debt. This can promote a risk-on market environment; selection in private markets is key if the growth backdrop supports public asset class returns.
- Financial repression: the debt management period common to the U.S. and UK post-WWII, financial repressions allows inflation to run hot, eroding the real (inflation-adjusted) value of debt. Inflation hedges, from gold to real assets, become critical in such an environment.
- Financial engineering: central bank and finance ministry/Treasury department intervention compresses interest rates, prompting an investor focus on income generation.

**TAKEAWAY:** We see more opportunities for sovereign debt management to influence long-term asset allocation decisions. Globally, we see an increasing tolerance of higher debt and moderately higher inflation and interest rates, all in the name of supporting economic growth. Examples of U.S. and European debt sustainability are explored in the following pages.

# U.S. sovereign debt requires some near-term solutions, but is structurally robust

The U.S. must address its acute interest burden problem, but other determinants of debt sustainability are healthier than many investors realize.

- What allows the U.S. to carry an over 100% debt-to-GDP ratio: *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.

## Applying our sovereign debt sustainability framework

- U.S. debt sustainability has two Achilles heels. First, interest expense on the national debt is rapidly becoming unaffordable, growing exponentially due to both higher financing costs and a larger stock of debt. Second is a recent, dramatic deterioration in **policy credibility**. Both threaten U.S. exorbitant privilege.
- However, the other pillars of U.S. debt sustainability look healthy. Its **capital markets** remain the deepest and most liquid in the world. It has a **healthy mix of foreign and domestic ownership of its debt**, and its **central bank** provides a selective rather than sustained demand backstop. **Private sector investment** is robust; today's policy uncertainty notwithstanding.

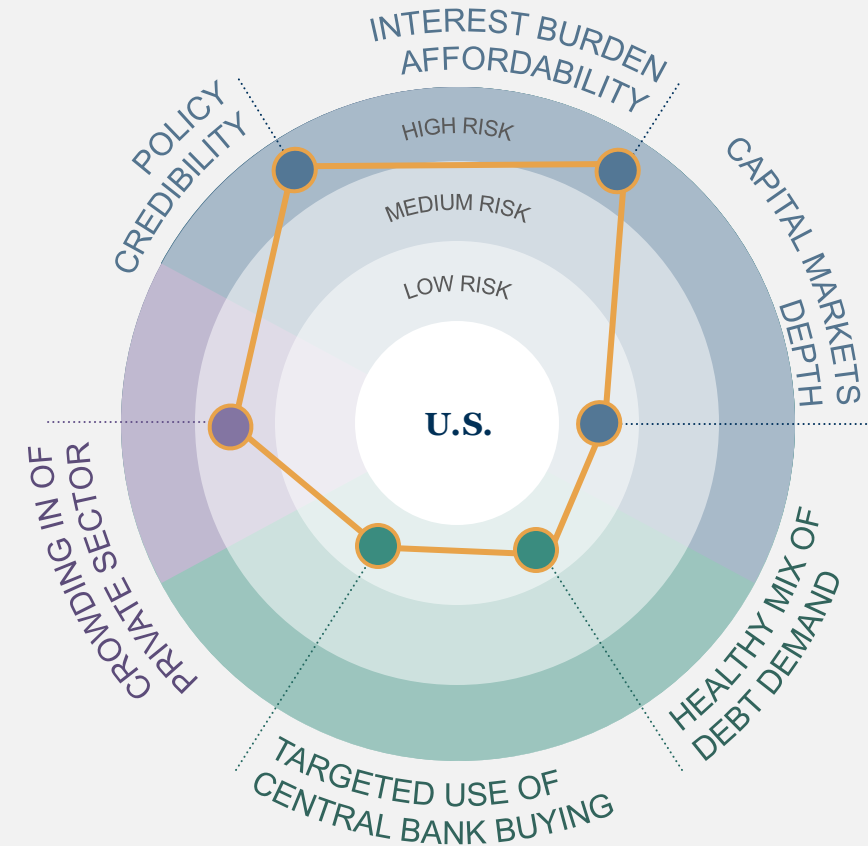
## The path forward

- 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.
- We do not believe austerity is politically feasible in the U.S.; we see greater inclination for the government to invest *more* in structural spending areas (below), in the aim of supporting a growth rate that exceeds the interest burden.

## 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
- Health, including on an aging population

## U.S. debt sustainability framework



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

# European debt sustainability dynamics may shift as the continent invests in itself

Recent tolerance of greater debt to finance domestic investment is promising, but fragmented capital markets may cap this progress.

- Though its individual members have taken heterogeneous approaches to debt management, Europe as a whole has the most fiscal space of the major economies – and is starting to show a willingness to use it.
- Germany's recent move to relax fiscal rules in favor of greater infrastructure and defense investment may, in hindsight, be recognized as a sea-change in Europe's attitude toward fiscal austerity, domestic investment, and tolerance of inflation.

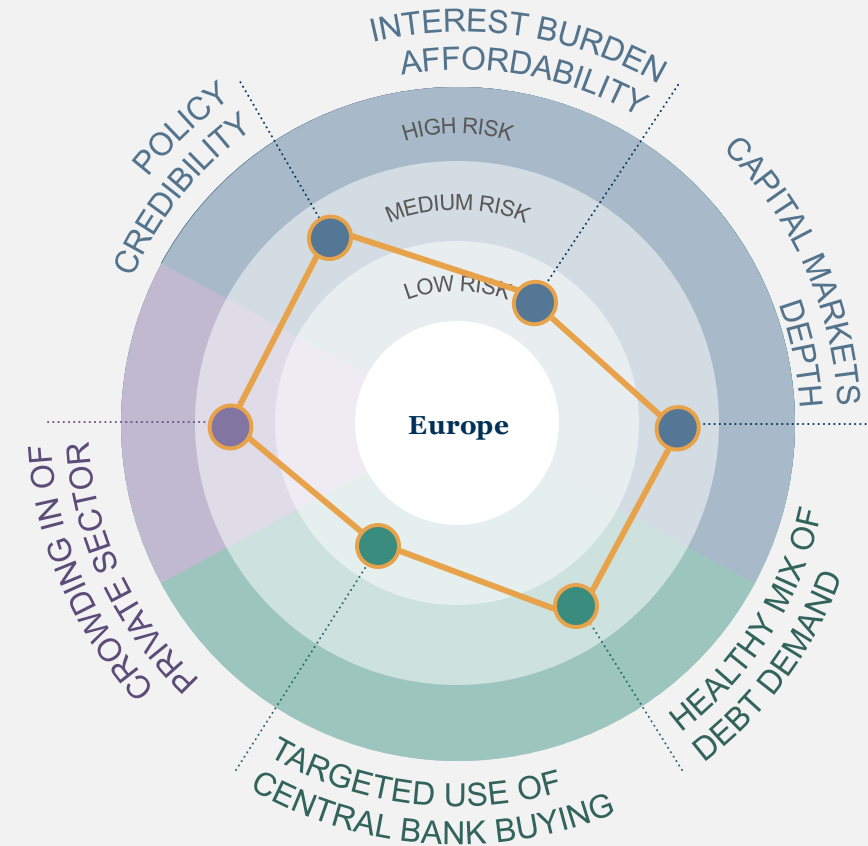
## Applying our sovereign debt sustainability framework

- Use of austerity to manage debt crises in Europe has been effective – overall debt levels are manageable; **interest burdens** are affordable; and the countries affected by the 2011 crises now see some of the fastest growth in the region.
- However, austerity has had the painful side effects of lower economic growth and chronic underinvestment. We expect to see a continued, gradual shift toward greater infrastructure, defense, and technology spending, requiring a greater tolerance for inflation.
- Europe faces one obstacle that detracts from its **policy credibility**, **capital markets depth and liquidity**, **demand mix** for its sovereign debt, and **private sector productivity**: the incredible legal, financial, and political difficulty of integrating its capital markets.
- This fragmentation has contributed to crises of confidence that have been resolved by strong **central bank** leadership (Mario Draghi's "whatever it takes" moment) and severe policy adjustments (the Greek economy shrunk by a quarter amid post-2011 austerity).

## The path forward

- Like the U.S., we see European countries inclined to accelerate their pace of spending in a growth-supportive manner, departing from the region's legacy of austerity.

## Europe's debt sustainability framework



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

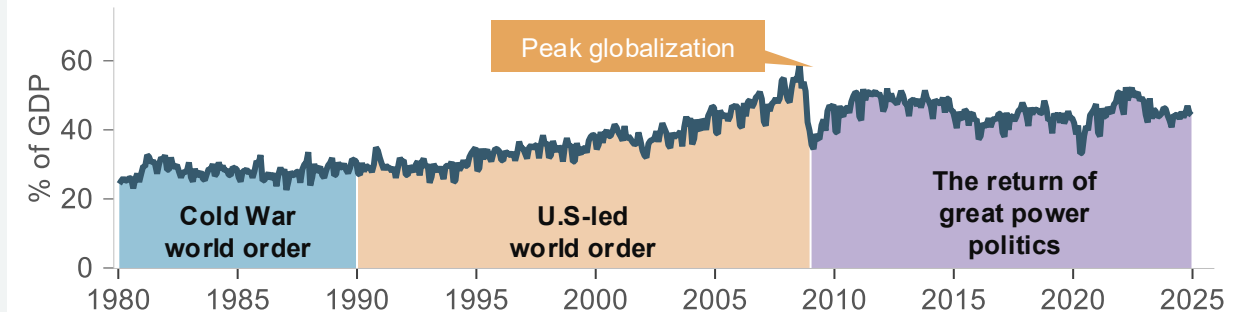
# Navigating the new geopolitical order

The end of U.S.-led globalization is reshaping markets and strategy.

- We believe the U.S.-led world order, which took hold in the early 1990s and peaked around 2010, has been gradually giving way to a return of great power politics (**right chart**) defined by economic nationalism, strategic industrial policy, onshoring, and the weaponization of trade, technology, and financial systems. This regime change has far-reaching implications for capital flows, inflation, and portfolio construction.
- The end of the Cold War world order was abrupt, driven by the collapse of the Soviet Union. The rise of great power politics has been more gradual, shaped by economic competition, shifting alliances, and regional rivalries.
- Though recent U.S. policy positions may have accelerated this regime change, the broader trend is about more than one country or one administration. The global economic landscape has shifted in stages: as free trade and open markets became more entrenched; as the beneficiaries of those economic ideas ebbed and flowed; and as policymakers' tools and preferences changed.

## Globalization peaked alongside the U.S.-led world order

Trade openness: sum of global exports and imports as a percent of world GDP



Sources: New York Life Investments Global Market Strategy, International Monetary Fund (IMF), United Nations Trade & Development, Macrobond, August 2025.

### The principles of the U.S.-led world order are giving way to...

### ...the principles of great power politics

Globalization



Economic nationalism

Free trade



Weaponization of trade and finance

Market liberalization



Preference for bilateral relations over multilateral institutions

Multilateral institutions



Strategic competition; emphasis on industrial policy

Efficiency over resilience



Resilience over efficiency

### Results

Countries increasingly pursue onshoring, reshoring, strengthening their own domestic industries.

Sanctions, tariffs, and financial restrictions are deployed more frequently as instruments of geopolitical pressure, especially by the United States.

Governments move away from multilateral agreements and institutions – such as the Trans-Pacific Partnership and the WTO – in favor of bilateral negotiations that prioritize national interests.

Governments direct investment into strategic sectors to bolster industrial capacity and national competitiveness.

Countries reconfigure supply chains to emphasize resilience and redundancy, marking a shift away from cost-optimized globalization.

# How can investors account for geopolitical risk?

Investors can consider a range of investment approaches for the return of great power politics.

- Regime change from a U.S.-led world order to great power politics carries significant implications for global economic organization and policy decision-making.
- In an era defined by great power politics, investors should focus on protecting portfolios from inflation and political volatility by prioritizing real assets, commodities, infrastructure, and resilient (or beneficiary) sectors.

Theme	Approach	Investment idea
Incidence of geopolitical risk appears to be rising	→ Add a macro volatility satellite to portfolio	→ Equal parts oil, gold, and bitcoin, implemented as a small satellite exposure sourced from equity
Event risk can impact any country or region	→ Diversify country exposure	→ The benefits of diversifying country exposure are likely to grow as globalization weakens and national economic trajectories diverge
	→ Manage currency risk	→ Consider a 50% currency hedge as currency volatility is likely to be higher
Regime change / Event risks are more likely to become paradigm shifts	→ New world order is likely to push prices and rates higher	→ <i>Manage duration</i> : we prefer short duration exposure or, when extending duration, keeping a close eye on income generation per unit of interest rate volatility <i>Add inflation-aware asset classes</i> : TIPS, real assets <i>Build income across asset classes</i> : Dividend-paying equities; high-yield corporate bonds
		→ <i>Private assets</i> : Focus on areas of real value creation. We favor the lower middle market as an area more resilient to global changes and capital markets trends, especially as dry powder has been captured upmarket
	→ Economic nationalism is becoming more evident	→ <i>Overweight domestic champions and beneficiary sectors</i> : industrials, energy, semiconductors, cybersecurity, and defense
		→ <i>Capture global megatrends</i> : Digital and energy infrastructure may benefit from the confluence of geopolitical trends and global economic needs (e.g. artificial intelligence).
	→ Market risk is more politically-driven and non-economic	→ Active management tends to outperform during periods of higher volatility. Investors should consider actively managed funds to better target quality opportunities in equities and credit.

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



# Global megatrends: creating persistent demand for capital

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

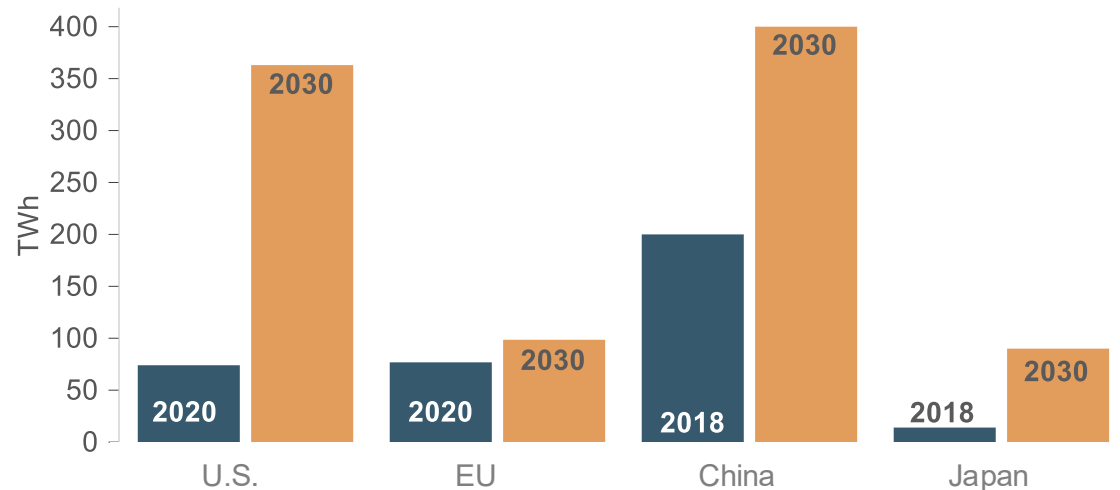
- A powerful combination of global economic and geopolitical events – the COVID-19 pandemic, the resulting inflation wave, the increasing visibility of climate change, Russia's invasion of Ukraine, the rapid rise in computing power of semiconductors — has rapidly changed the global economic model. Efficiency 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

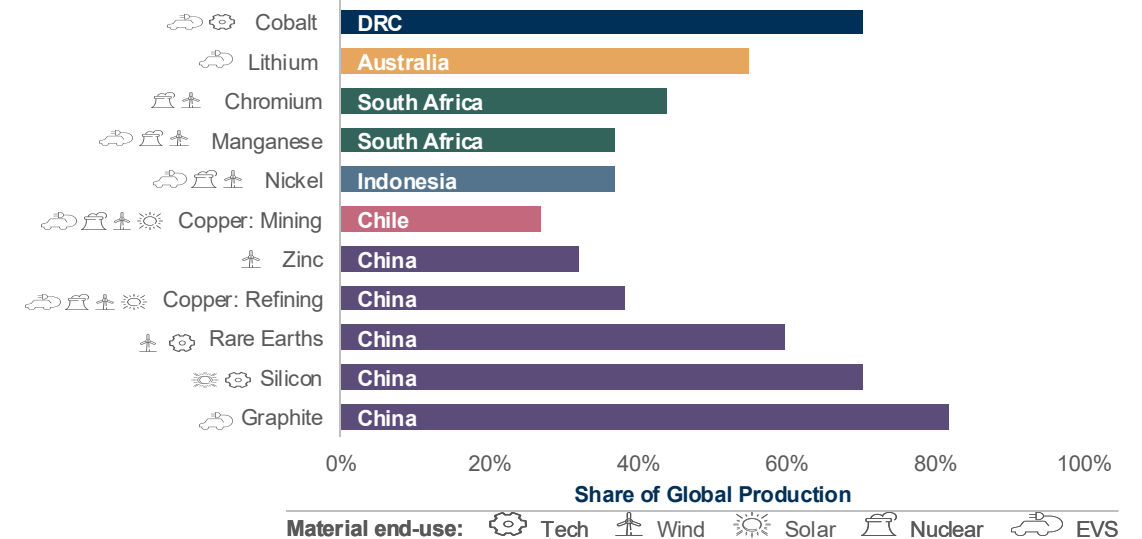
Data center electricity use



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 sparking sustained capital reallocation

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

## Digital 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

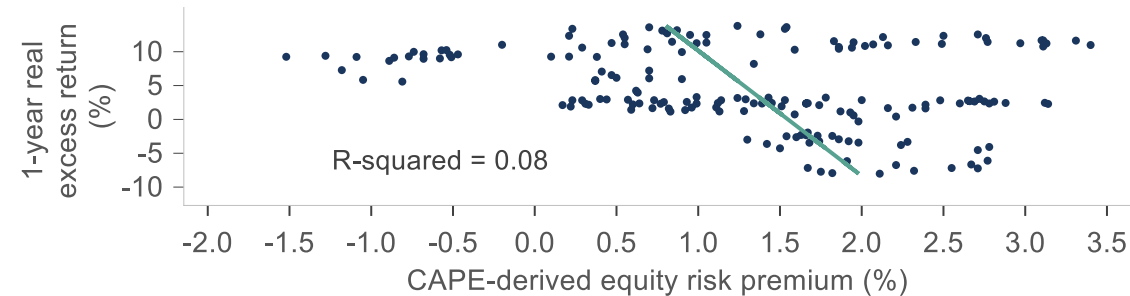
- [Equity risk premium](#)
- [Valuation](#)
- [Corporate earnings](#)
- [Style](#)
- [Dividends](#)
- [Size](#)
- [Non-U.S. developed markets](#)
- [Emerging markets](#)

# 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...

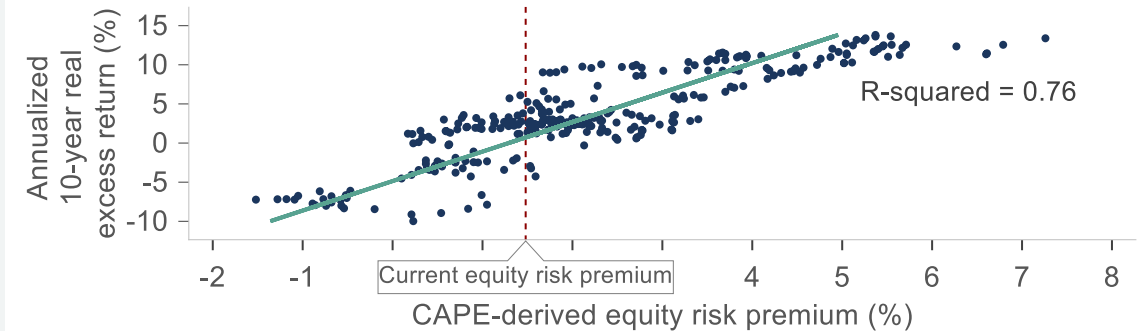
Individual dots represent months, data from 1980



Sources: New York Life Investments Global Market Strategy, Shiller, Macrobond, August 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, August 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.

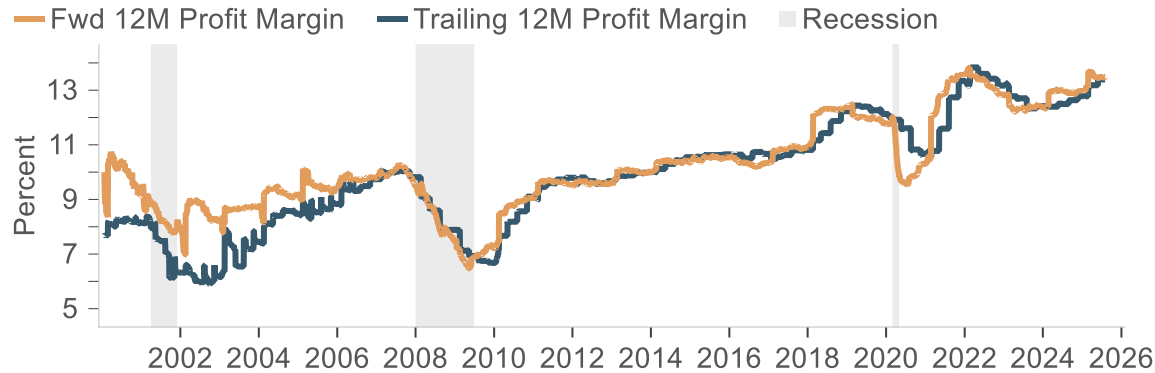
- The equity risk premium measures the difference between the expected return from equities (the earnings yield or inverse of the price-to-earnings ratio) and the risk-free return (typically the U.S. 10-year Treasury yield). A low or negative equity risk premium implies that equities are potentially 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

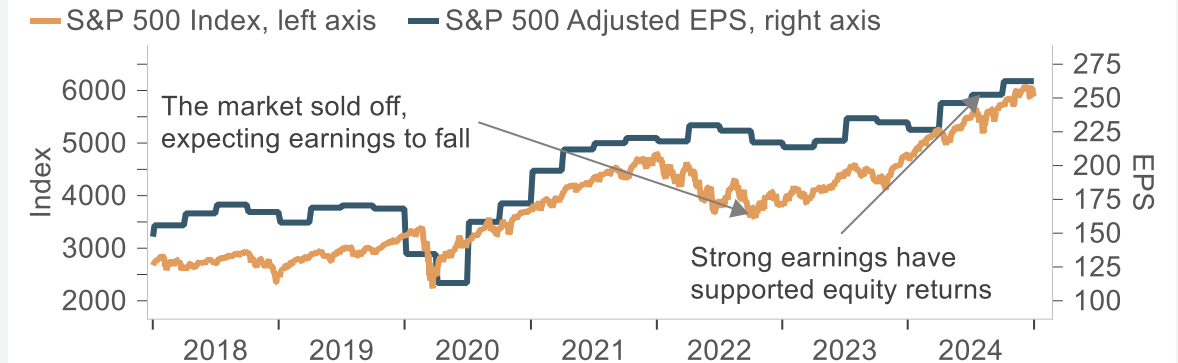
Earnings growth has held up, but cooling demand and policy uncertainty raise risks.

## 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, August 2025.

## Strong earnings have justified lofty valuations and stellar price performance



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

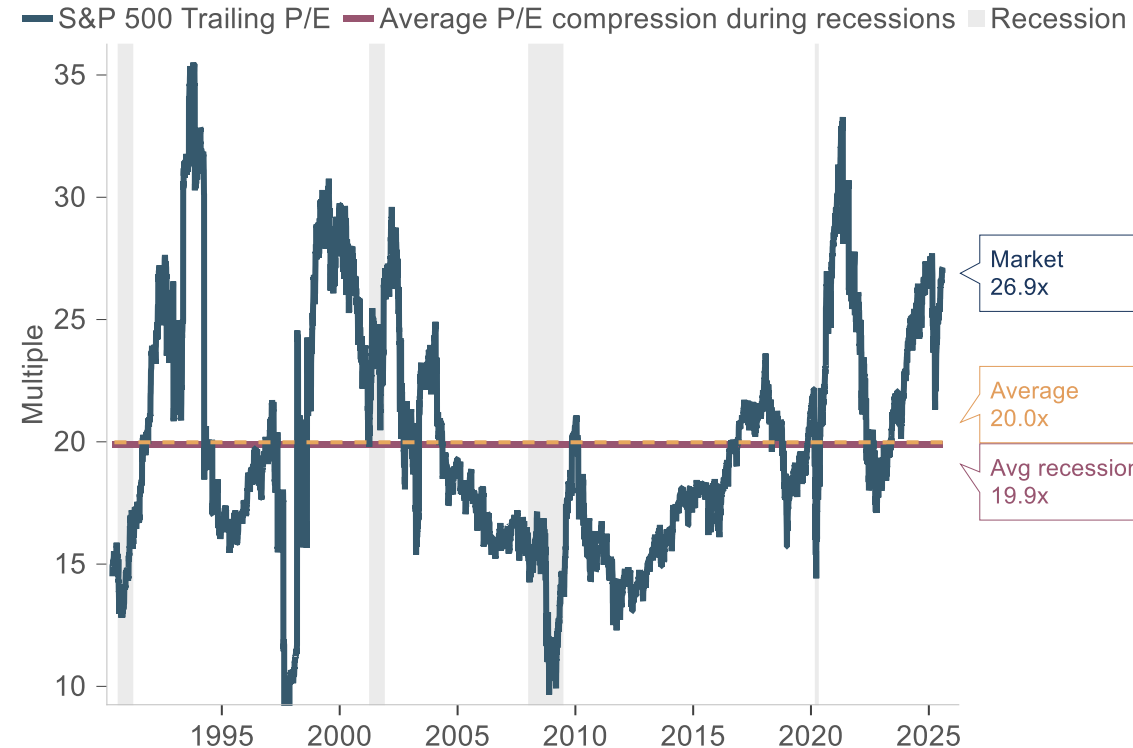
- Equity markets are priced based on earnings and multiple expansion (or contraction), with multiples being influenced by factors such as cost of capital and investor sentiment.
- Corporate earnings have remained resilient in the face of increasing risks. Profit margins appear resilient (**left chart**) 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 9% in 2025 and 14% 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. While risks remain, we believe the market could achieve its 9% earnings growth expectation, provided the economic backdrop doesn't materially deteriorate.
- 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 companies prepare for a volatile trade and policy environment.

# Equity valuations: no bargains yet

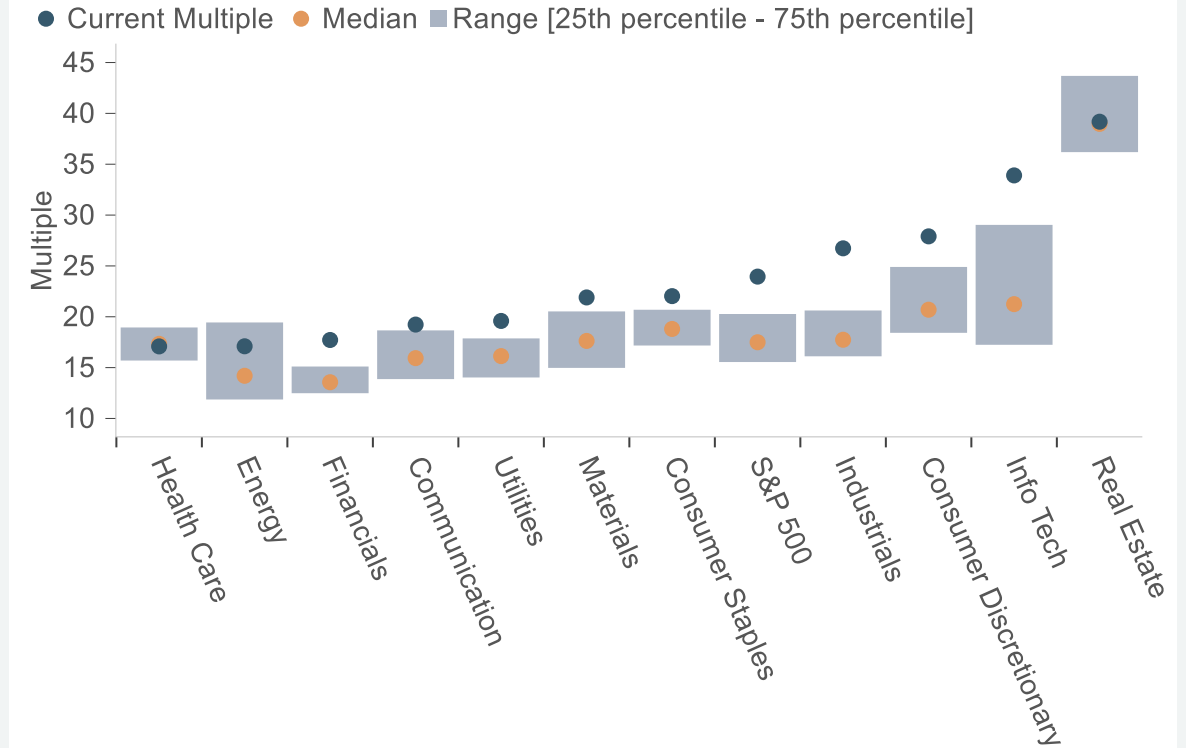
Recent market volatility, driven by geopolitical tensions and trade policy uncertainties, has impacted equity valuations but the market isn't cheap.

## 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, August 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, August 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.

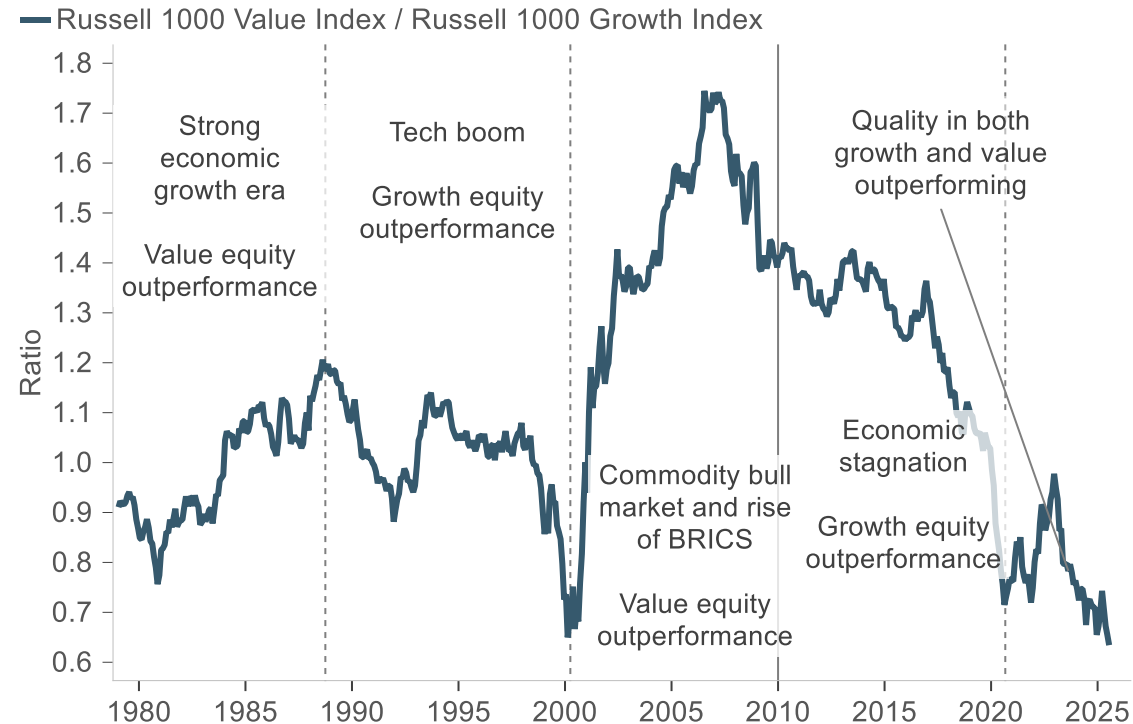
**TAKEAWAY:** After the market rally that has priced out most policy risk, U.S. equity valuations remain above their long-term averages. We expect valuation multiples to see increased volatility as the macro environment remains uncertain.



# Value equities have held up better than growth stocks during the market selloff

Value indexes are also less concentrated than growth indexes suggesting a greater level of resilience amidst policy uncertainty.

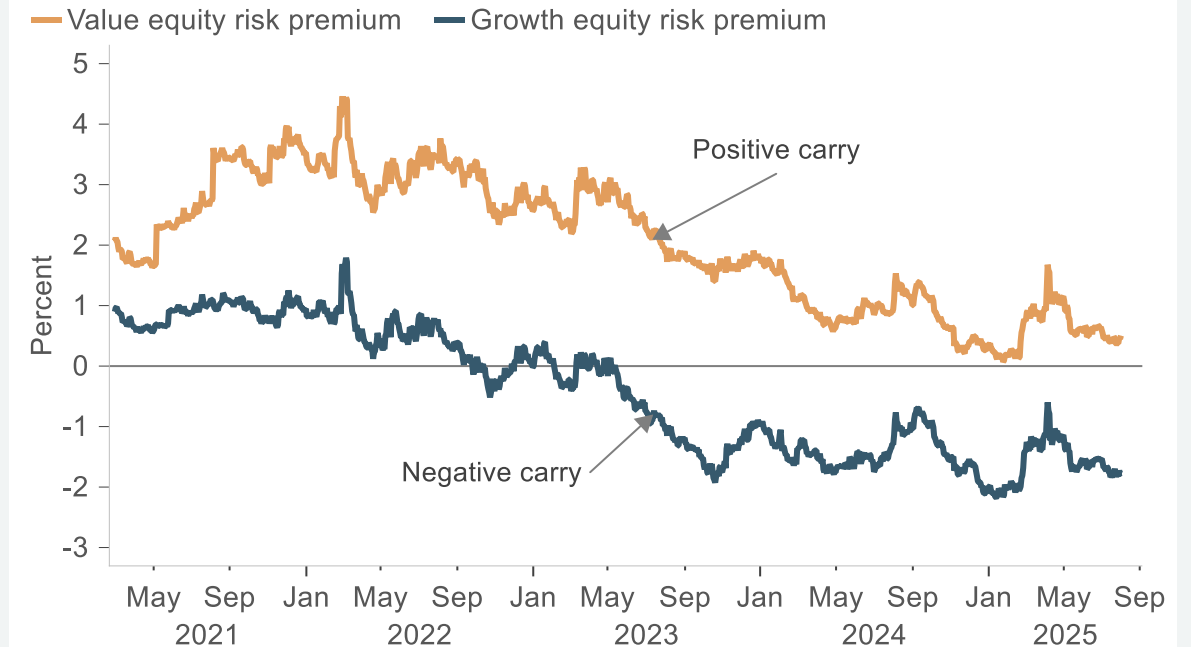
## The post-pandemic era hasn't yet proven more supportive of value equities



Source: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, August 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 guarantee 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, August 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:** Value stocks are trading at a wide discount to growth equities, offering attractive entry points. Still, with growth outperforming in 14 of the past 20 years, we're not dropping growth equities altogether and believe a balanced approach remains key.

# Using dividend stocks to boost equity-based income generation potential

Volatile markets call for sources of stability; upside inflation risks call for diversified income generation potential within portfolios.

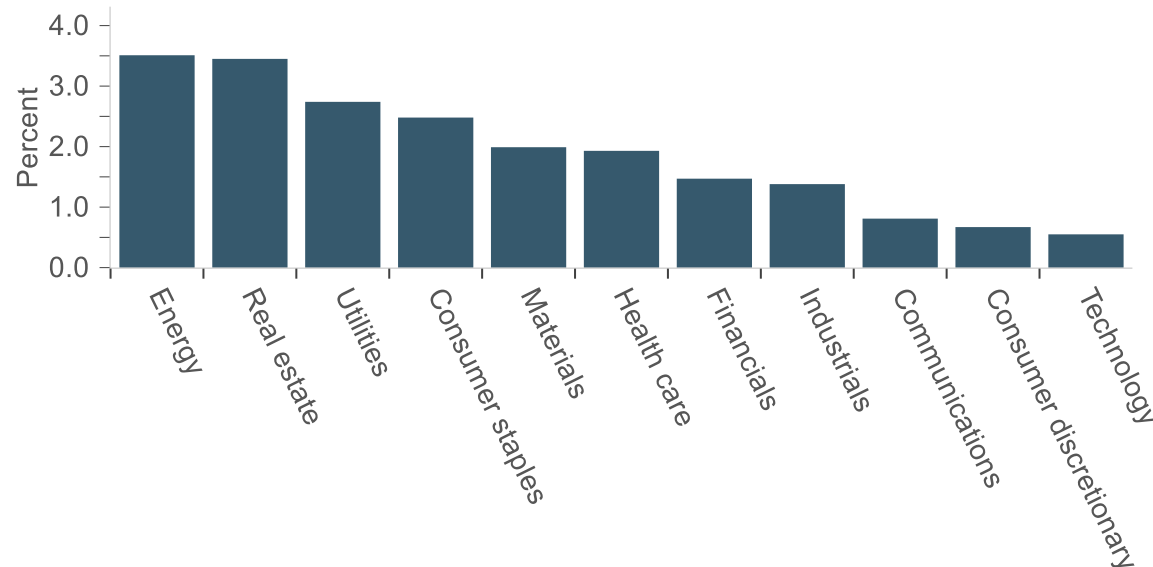
- For investors concerned about U.S. equity market performance, we suggest considering dividend stocks for new allocations. Dividend yielders combine characteristics of high quality and income generation that fit well into our broader market outlook. These companies also tend to be value companies, a diversifier for many growth-heavy U.S. portfolios.
- Dividend-paying equities reduce portfolio duration by delivering a greater share of their total return in the form of near-term cash flows rather than long-term capital appreciation. In effect,

they function like shorter-duration assets, with more of their value realized upfront. This is particularly attractive in a high-rate environment, where long-duration assets – those with cash flows further out – are more heavily discounted and thus more sensitive to rising yields.

- By tilting toward dividend payers, investors can reduce interest rate risk, improve cash flow resilience, and maintain equity exposure without taking on the full brunt of duration-driven volatility.

## Where to find durable income in equities?

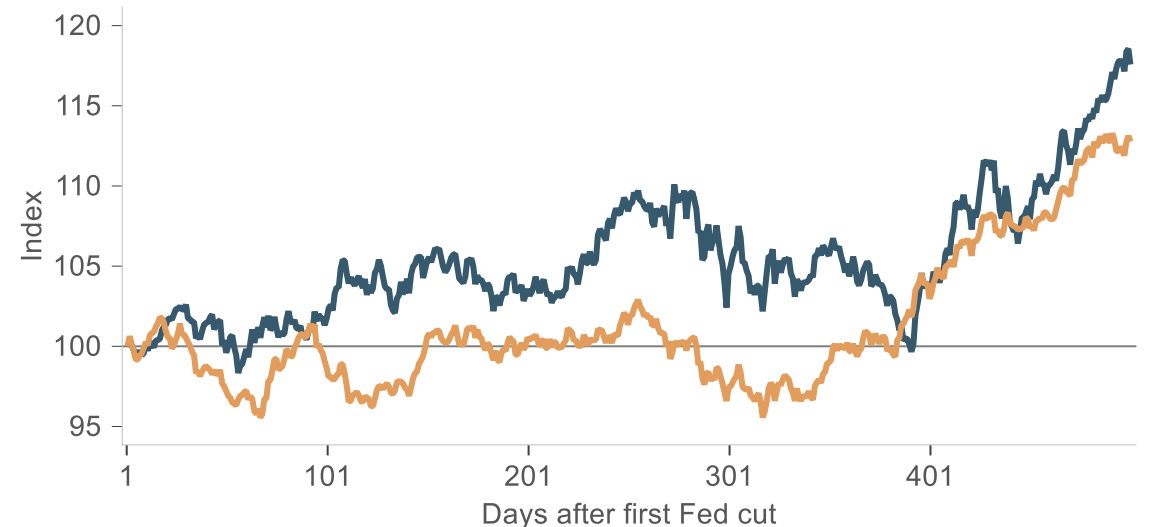
Dividend yield by S&P 500 sector



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

## Dividend paying companies tend to see stronger returns after the Fed cuts rates

— S&P 500 — Dividend aristocrats

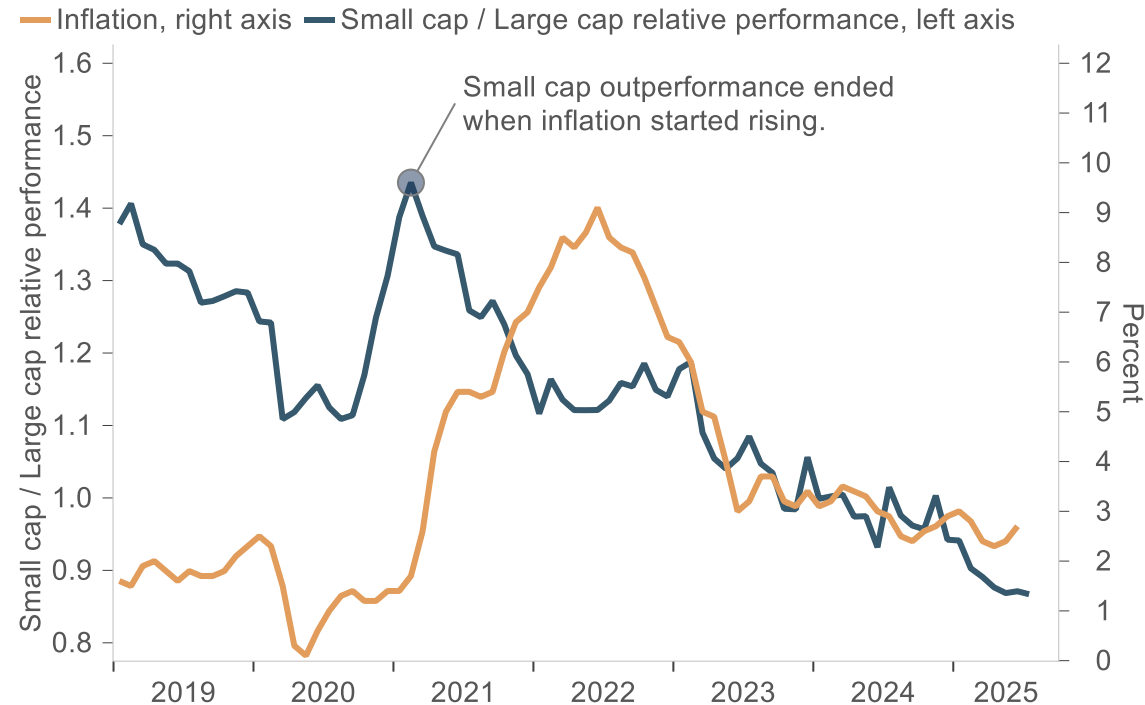


Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, August 2025. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. The S&P 500 Dividend Aristocrats index is designed to measure the performance of S&P 500 index constituents that have followed a policy of consistently increasing dividends every year for at least 25 consecutive years. It is not possible to invest in an index. Past performance is not a guarantee of future results.

# 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, August 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.

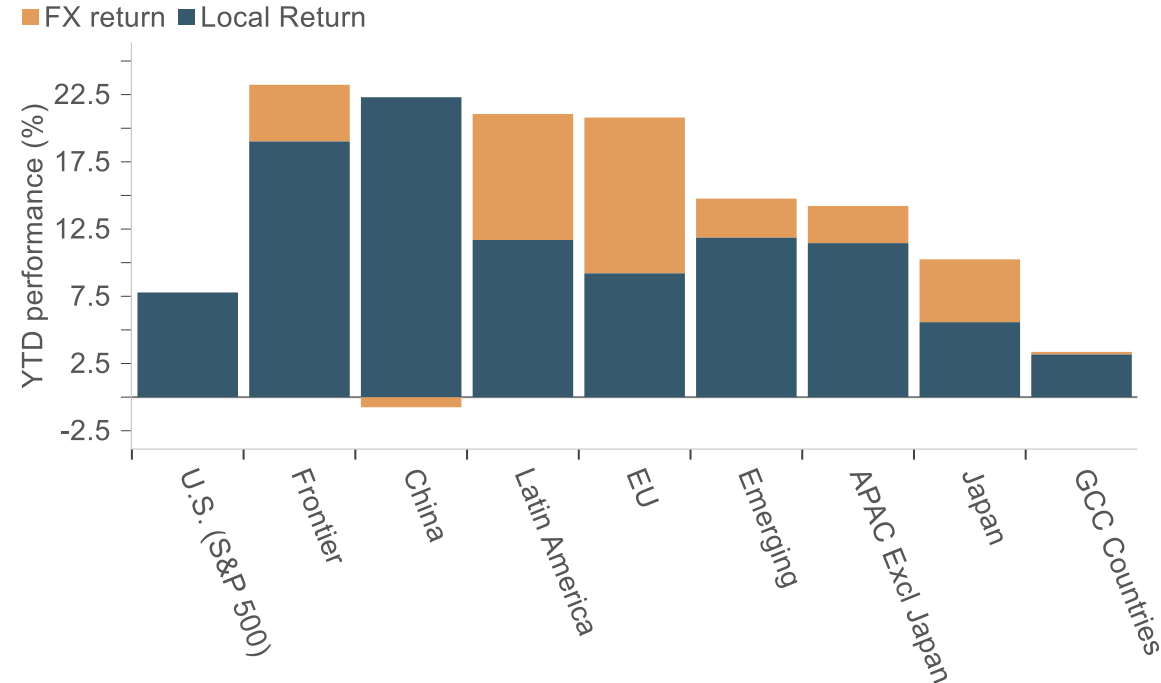
**TAKEAWAY:** At this phase of the cycle, where growth is moderate but likely slowing, large caps could outperform. Small caps may have brief moments in the sun, particularly when market rates move lower, but we aren't overly bullish on small caps until growth can re-accelerate. That said, we believe 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, August 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.
- Europe's outperformance, for instance, is notable in both local and USD terms (**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.

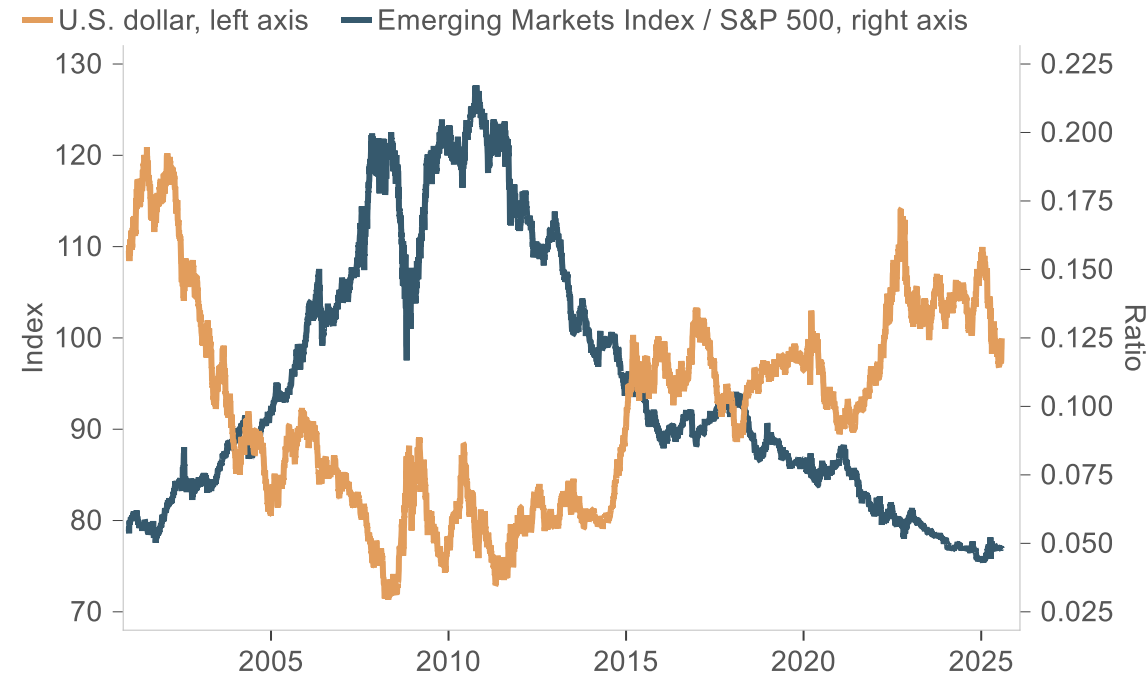
See our [high conviction question](#) on this topic for more context.

**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 have potential to outperform but still face headwinds

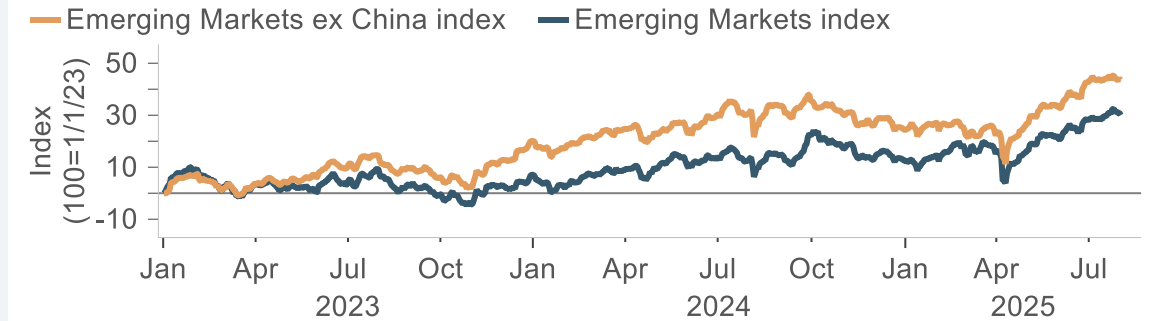
Some markets stand out, but the asset class may have difficulty outperforming as global growth slows.

## A weaker dollar is likely to support EM central bank cutting and equity performance



Sources: New York Life Investments Global Market Strategy, S&P Global, Intercontinental Exchange (ICE), Macrobond, August 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 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 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, August 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 interest rates; many are now more advanced in their easing cycles. A weaker dollar reduces currency risk on USD-denominated debt (**left chart**), providing EM central banks room to cut rates and support their economies amid shocks to global trade.
- Many investors are under-allocated to EM equities, and so a shift in investor sentiment could have a significant impact on flows and therefore prices.
- China's economic performance remains a key risk for EM equity (**right chart**). Fiscal stimulus may step in to support the trade-related slowdown, but China's structural challenges remain.

**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

- [Credit overview](#)
- [Investment grade](#)
- [High yield](#)
- [Bank loans](#)
- [Convertible bonds](#)
- [Municipal bonds](#)



# Today's macro backdrop supports high conviction in credit allocation

We are sensitive to tight credit spreads, but strong total return potential and potential pressures on economic activity support fixed income allocation.

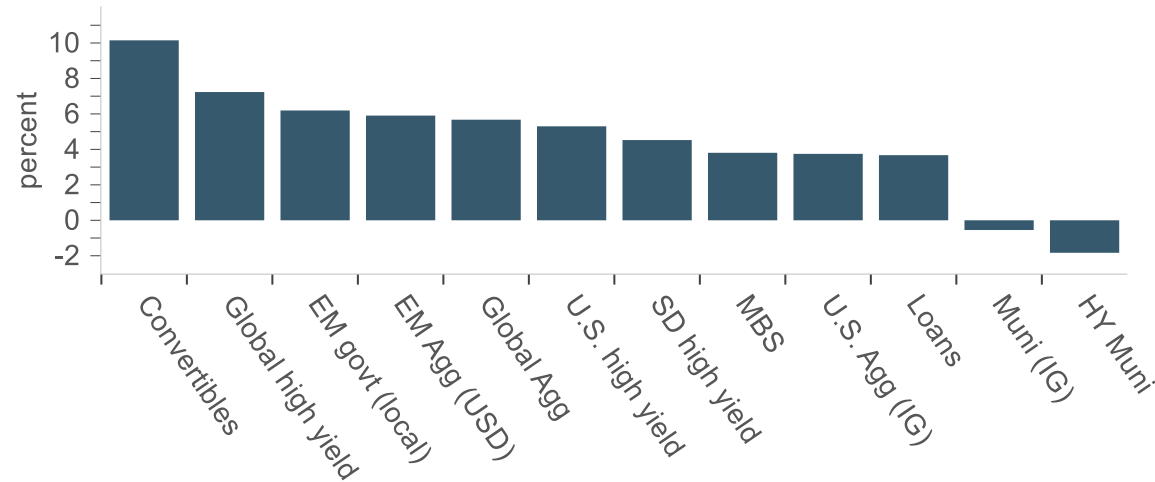
- Policy has widened the potential for yield volatility and created new fears about credit quality in an economy that is expected to slow. Our “solve” for both of these concerns is to stay short duration across credit types in the U.S.: investment grade, high yield, and municipal bonds.
- Spreads are tight, creating significant price risk for U.S. corporate credit. However, 1) corporate credit provides equity-like risk, and equities also have strong valuations. 2) The backdrop of credit quality has improved over time, and still-strong income generation potential make us confident in credit allocation. Should spreads re-widen due to continued volatility in

the Treasury curve or additional risk priced into corporate credit yields, this can increase investor value and create entry points. Even through a period of policy-induced slower growth, we are not concerned about systemic credit quality.

- If Treasury yields approach the high end of our 10Y range (4.0-5.0%), duration can be added as a tactical bet, but it is not our favorite place to take risk. We prefer to balance short duration Treasuries, convertibles, and corporate credit exposure with longer duration in securitized credit and taxable municipal bonds.

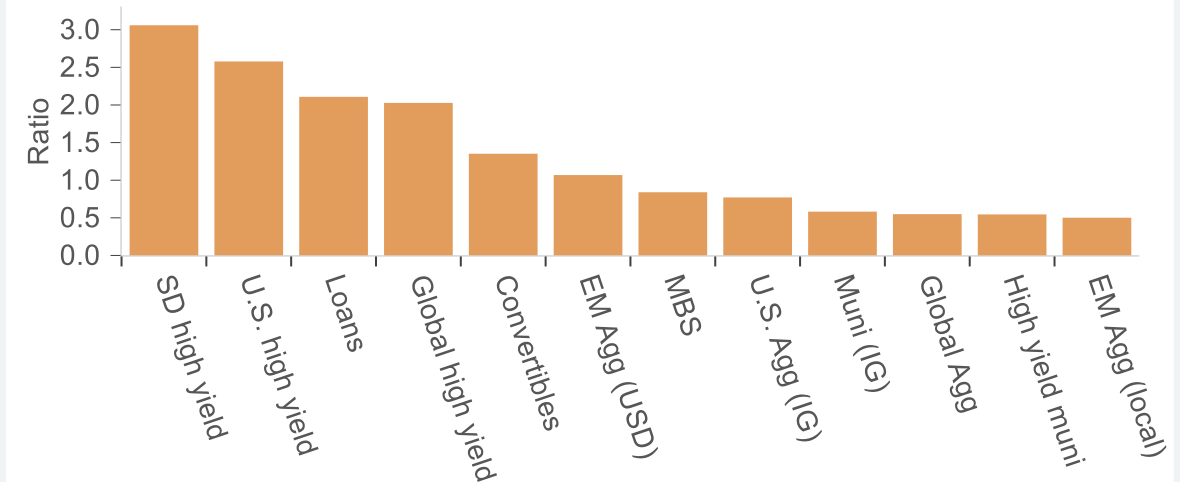
## Ex-U.S. fixed income has outperformed in 2025

Returns from January 2025



## When credit quality questions rise, we prefer maximizing yield per duration

Yield per duration (prior 30-day average)

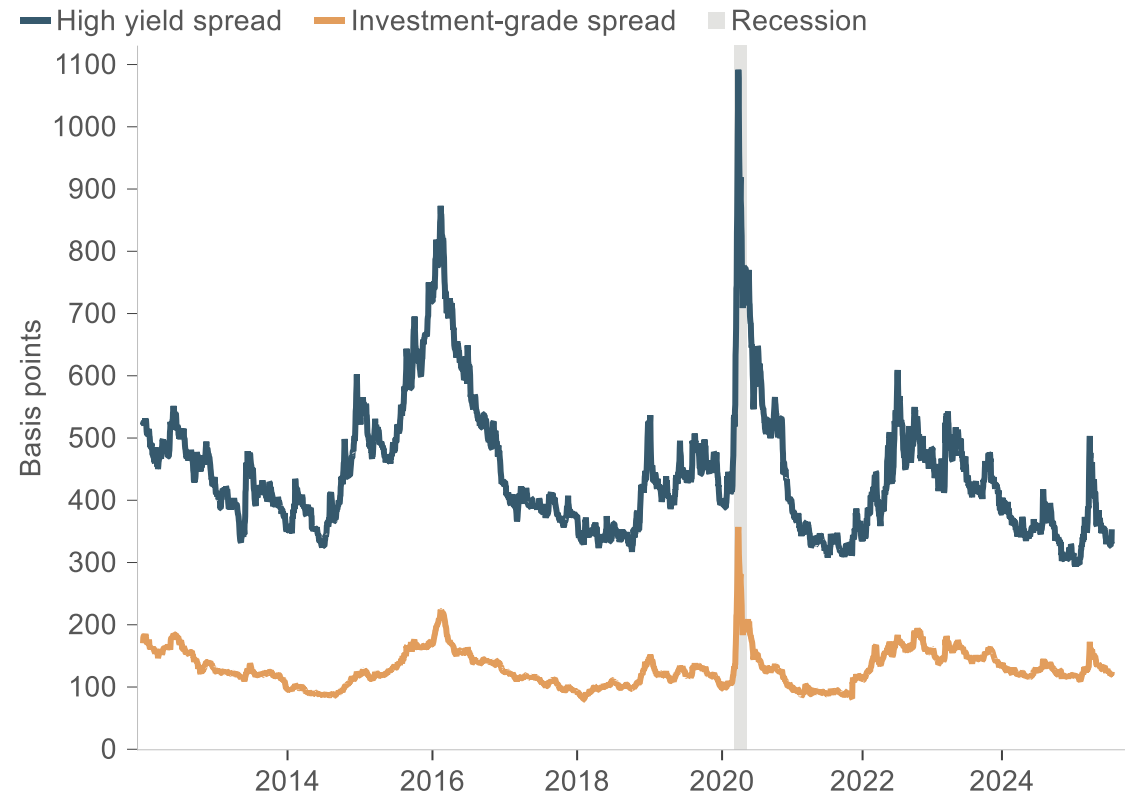


Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, August 2025. Convertibles represents the Bloomberg U.S. Convertibles Liquid Bond Index. EM Agg represents the Bloomberg Emerging Markets (EM) Hard Currency Aggregate Index- a flagship hard currency EM debt benchmark. EM 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

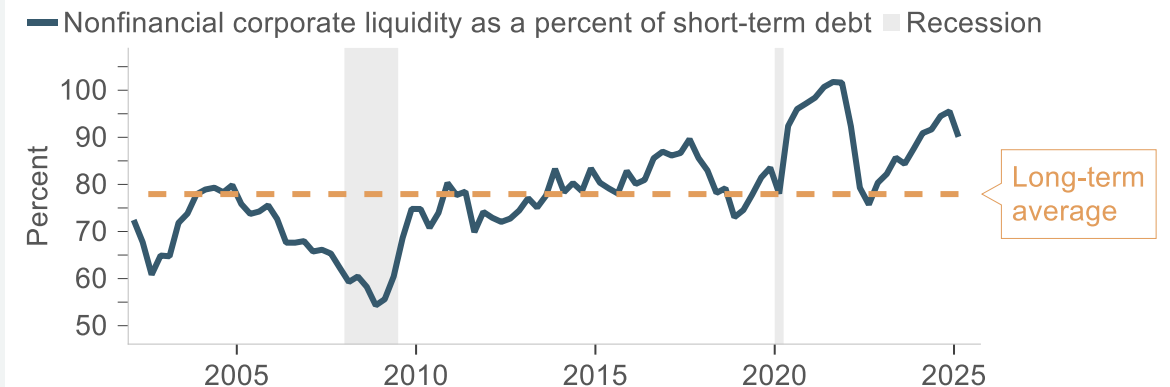
We expect credit quality to remain resilient; compressed spreads provide limited yield pickup, but any spread widening can create entry points.

## 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, August 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, August 2025.

- Credit spreads have returned to remarkably tight levels relative to history (**left chart**). Tight spreads are attributed to (1) a buildup of corporate cash, (2) strong credit quality, 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 quality 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.

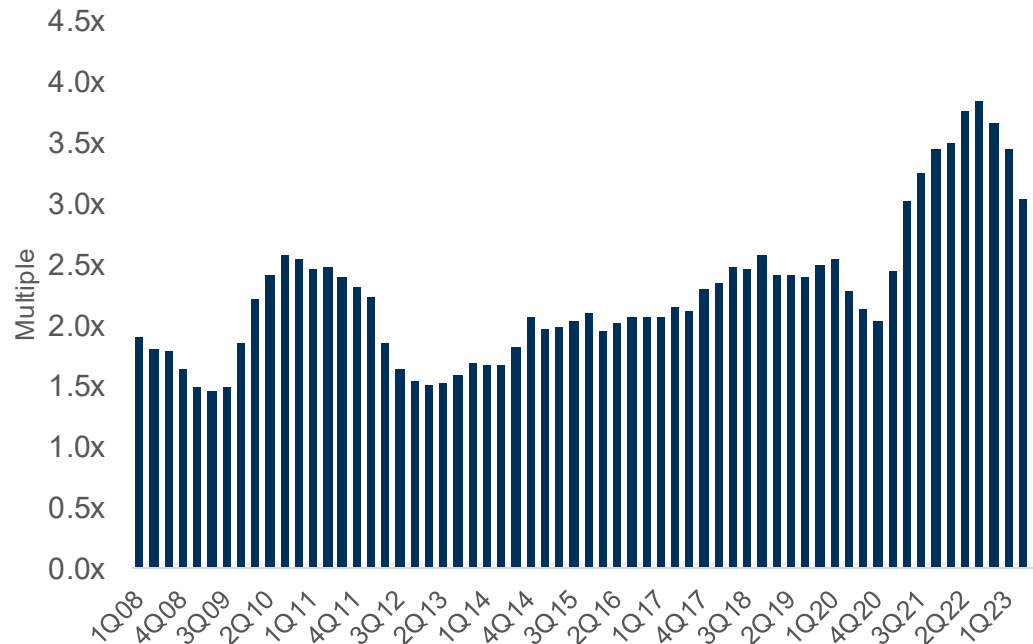
**TAKEAWAY:** Since the pandemic, companies have increasingly adopted a conservative approach to managing their balance sheets, effectively limiting overall debt growth. This trend has created an attractive backdrop for both investment grade and high yield corporate bonds. While we expect credit spreads 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

Even amid mounting economic uncertainty and extremely compressed spreads, we maintain a positive outlook on U.S. high yield credit.

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

High yield interest coverage: EBITDA-CapEx/Interest expense

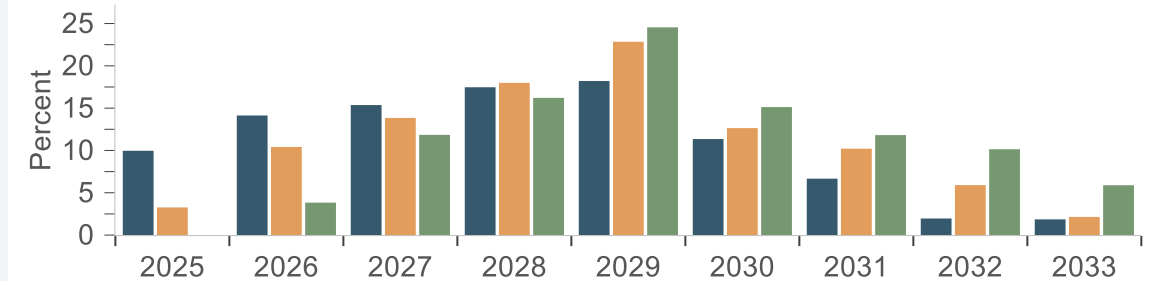


Sources: New York Life Investments Global Market Strategy, JP Morgan. April 2025. Data as of April 2025. EBITDA: earnings before interest, taxes, depreciation, amortization; CapEx: capital expenditures.

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

Share of high yield corporate benchmark maturing each year

■ As of Aug 2023 ■ As of June 2024 ■ As of June 2025



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

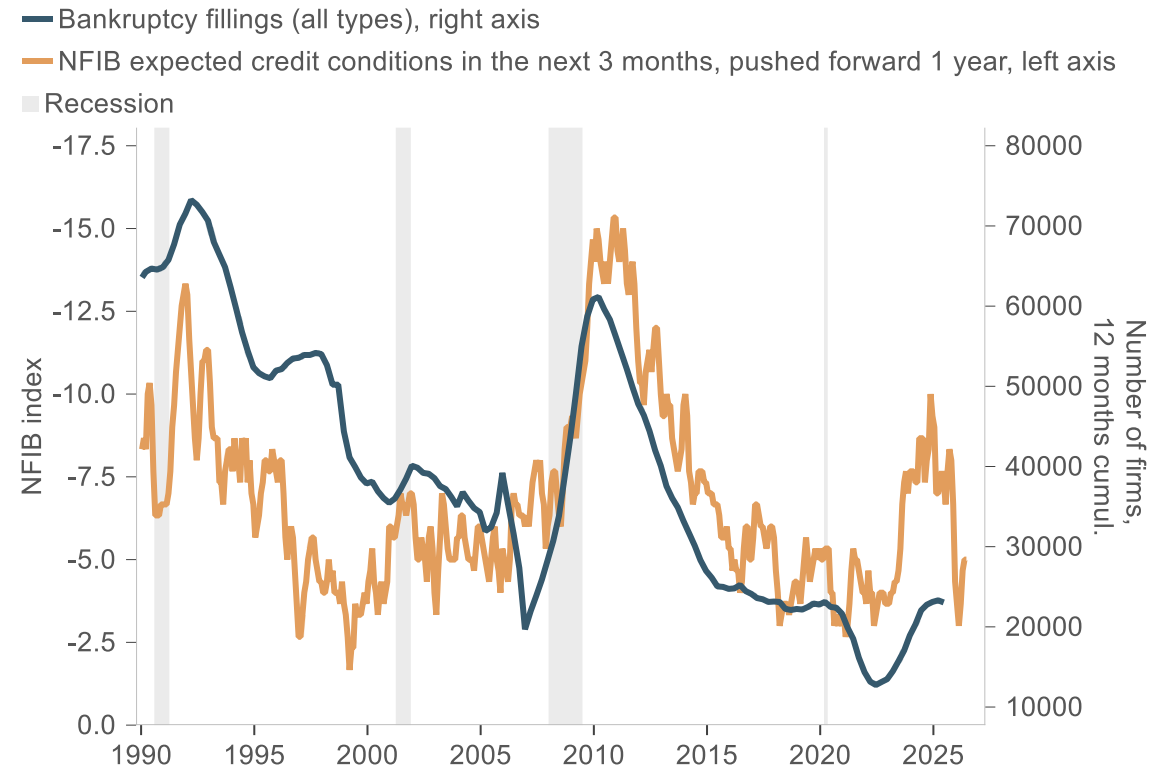
- The U.S. high yield asset class has improved in quality thanks to changes in corporate financing structure since the financial crisis, and thanks to pandemic-era support programs.
- Cyclically, leverage and interest expense levels in high yield are healthy (**left chart**). We have high conviction that fundamentals remain strong, but as general macro risks rise, issuer selectivity becomes even more critical.
- 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**).
- In the event that spreads widen in U.S. HY, we see this as a value creation opportunity.

**TAKEAWAY:** High yield is not typically an asset class investors hold as economic risks rise, but we believe the higher 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, August 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 caps, 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

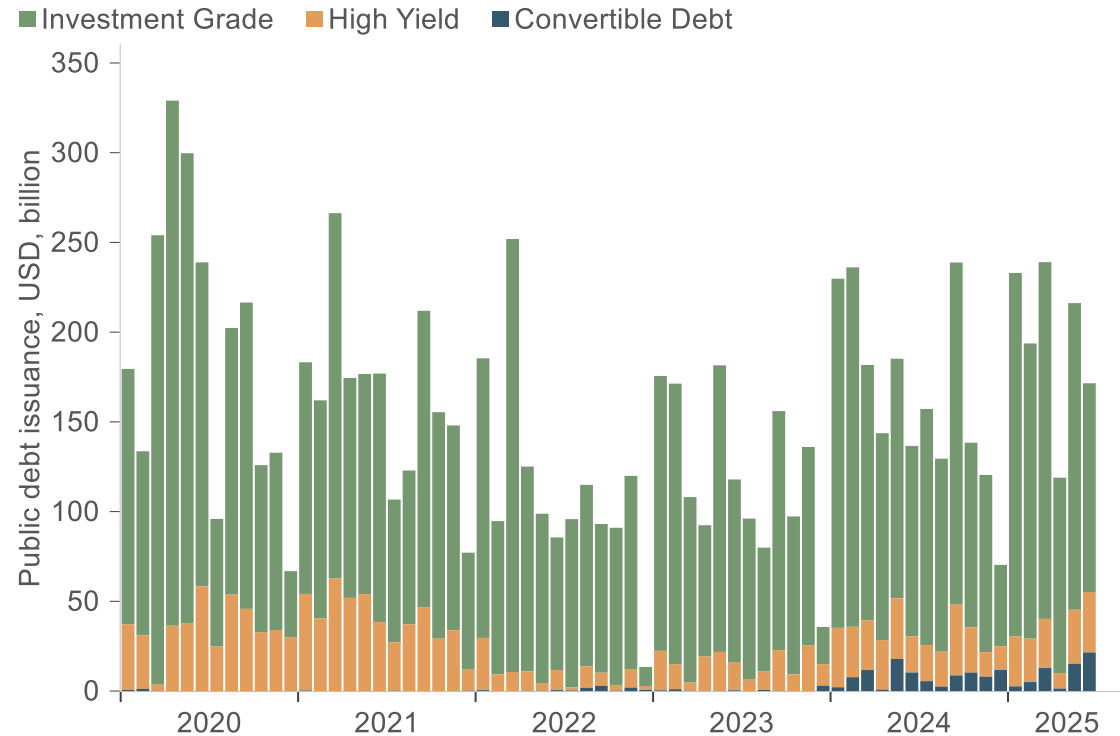
- We believe bank loans can be an important component of diversified global bond exposure. Because of their relatively lower credit quality, security selection and credit quality analysis is paramount when operating in this asset class in an unfavorable macro environment. Within floating rate bank loans,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

**TAKEAWAY:** In line with our view that economic risks are rising, floating rate bank loans are one of the first asset classes where we expect to see credit quality slippage. Yields are higher than they were expected to be at this point and have compensated investors for credit quality risks, but this dynamic has lost steam. Selection is paramount.

# Convertible bonds look compelling, from both issuer and investor perspectives

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, August 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.
- Converts are naturally short-duration instruments: most convertible bonds have a duration of approximately 2-3 years, limiting their sensitivity to interest rate fluctuations.

## Tactical market outlook:

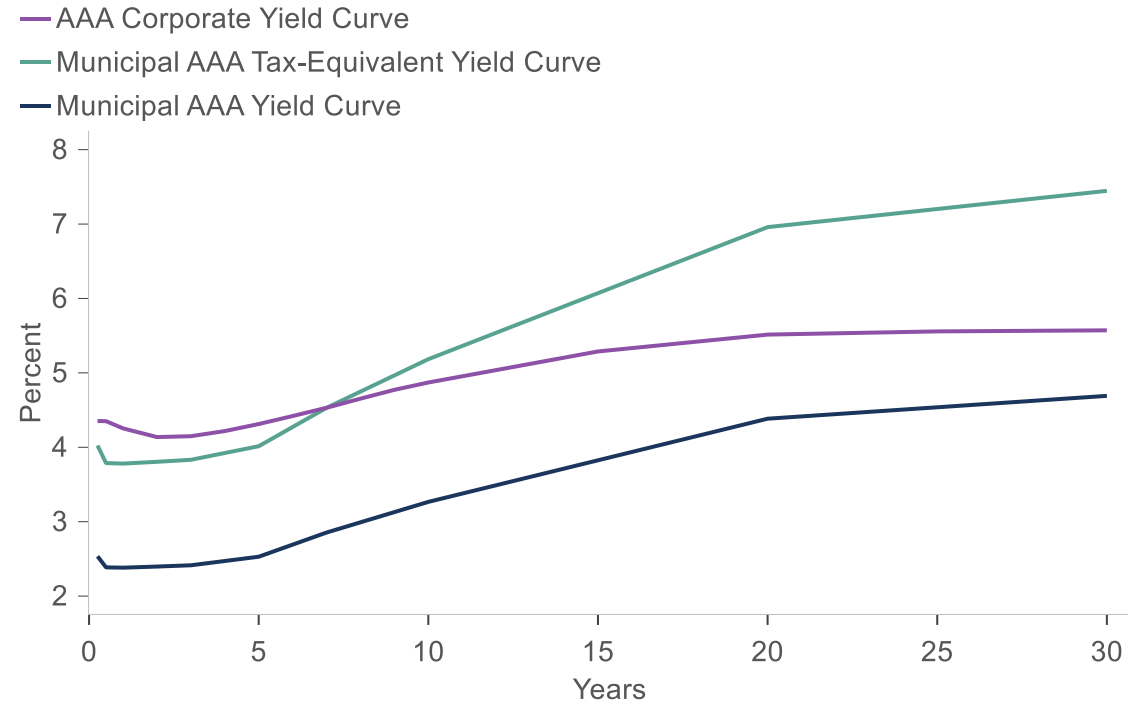
- Issuance: Issuance was strong in 2024, suggesting lower interest rates for issuers are balancing well with investor demand for upside participation in the equity features of convertibles. The market saw \$45B of new issuance through August 2024 compared to \$33B over the same period last year. Approximately 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 class, offering yield potential 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 make municipal bonds an attractive credit diversifier in our view, but we are wary of flows amid macro uncertainty.

## 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, August 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

- We have a positive fundamental outlook for municipal bonds. Muni investors seem to be recognizing the benefits of locking in tax-exempt income at higher-than-expected rates. Yield curve volatility makes this decision more compelling as money market yields (cash yields) face increasing Fed policy uncertainty. 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.

## This said, municipal bonds rely heavily on volatile retail flows.

- When yield curve volatility causes wild swings in how municipal bond funds trade relative to NAV, munis have fallen victim to their skittish investor base.
- Munis may see relative demand improve due to quality; 13 states now have higher Moody's credit ratings than the U.S. sovereign.

## Munis as a critical component of our duration view

- In our view, a 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.



# 7 Alternatives

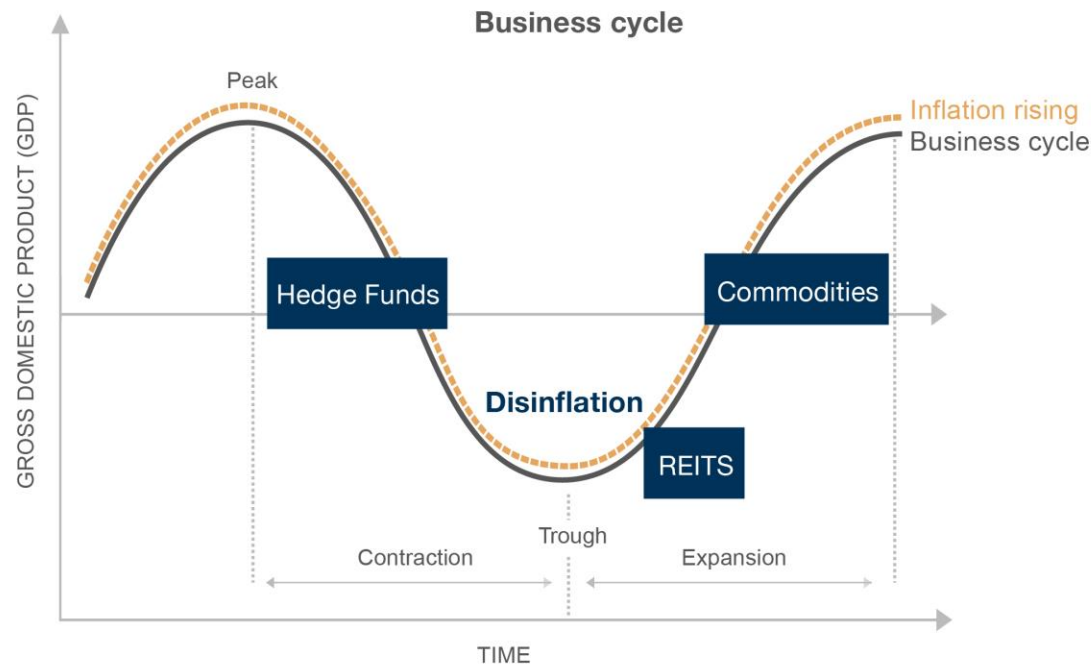
## Insights

- [Alternatives through the cycle](#)
- [Infrastructure](#)
- [Commodities](#)
- [Liquid real estate](#)

# 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, August 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 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 qualified investors could benefit by adding exposure across alternatives.

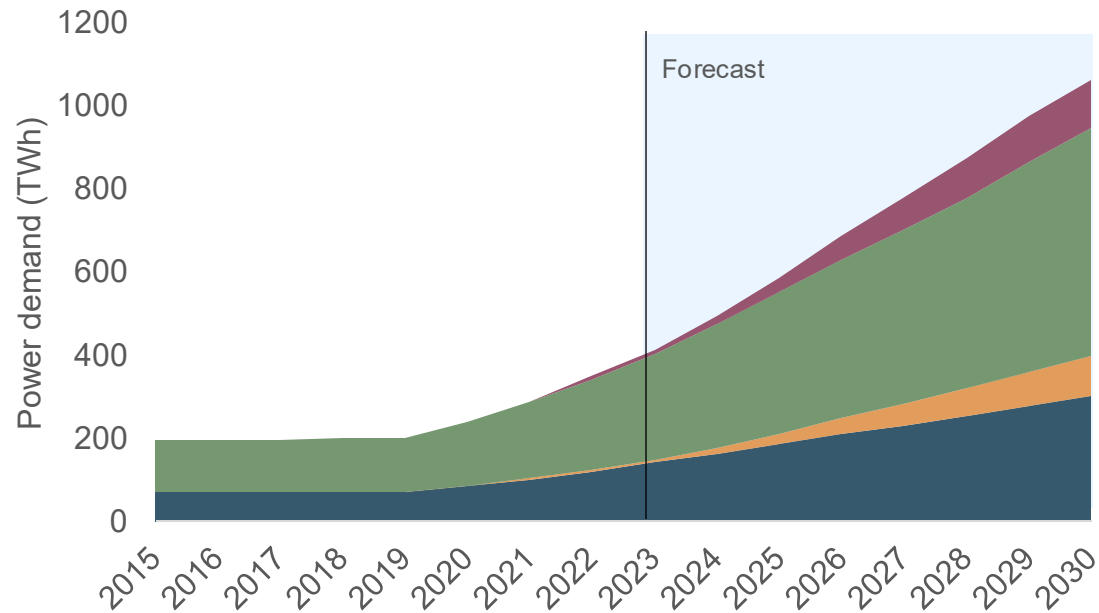
# Infrastructure is one of our highest conviction structural themes

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

■ U.S. ex-AI ■ U.S. AI ■ Rest of world ex-AI ■ Rest of world AI



Sources: New York Life Investments Global Market Strategy, IEA, Goldman Sachs Research, August 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 energy independence, and supply chain re-globalization. As a result, we have particularly high conviction around global infrastructure investment with a focus on digital infrastructure (**chart**), green and brown energy, utilities, and communications.
- Infrastructure projects are increasingly 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.

## Portfolio construction benefits in fixed income

- Issuance of taxable municipal bonds increased in recent years due to the *Tax Cuts & Jobs Act* of 2017 which limited the issuance of tax-free municipal bonds. The current fiscal package moving through Congress appears to preserve the tax-exempt status of munis.
- 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.

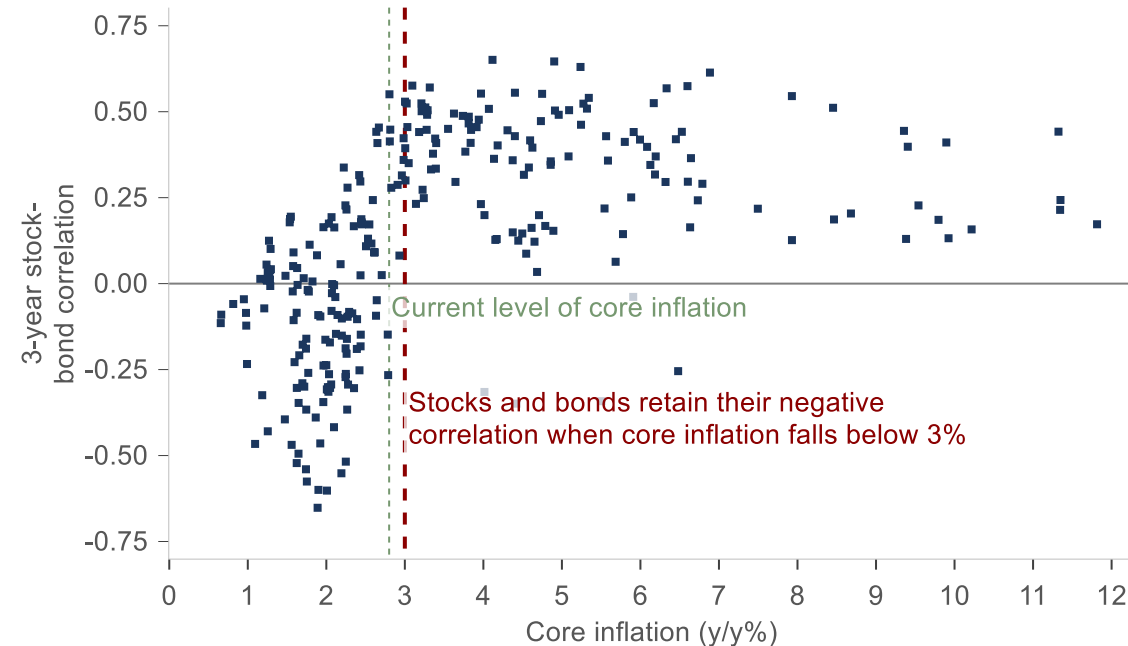
**TAKEAWAY:** The global economy is shifting, and we believe that infrastructure provides a durable opportunity to capture that change. We perceive infrastructure as a structural allocation in both equity in fixed income, allowing investors access to these trends as well as important portfolio construction 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 cyclical firepower to an already strong structural case in our view.

# Higher inflation points to a medium-term allocation to commodities

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

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

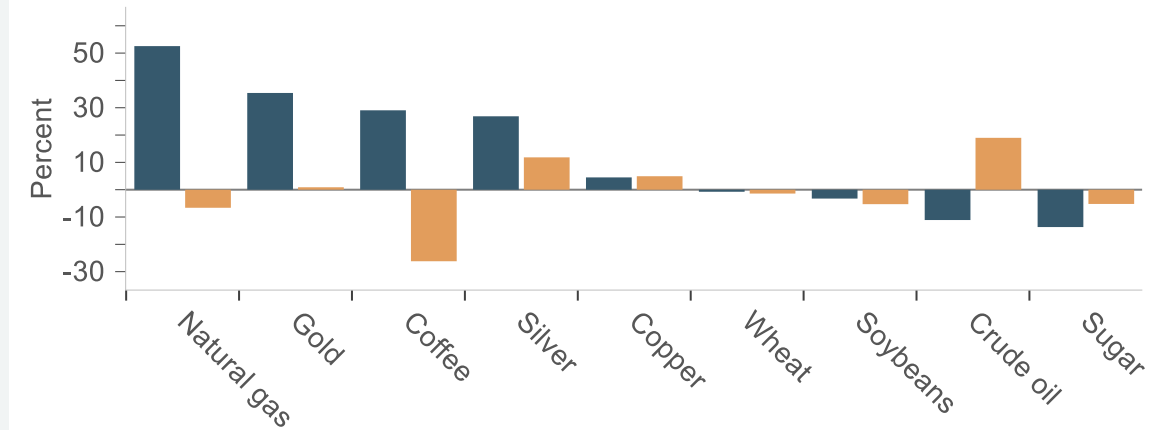
Stock-bond correlation works better when inflation is closer to target



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), S&P Global, U.S. Department of Treasury, Macrobond, August 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

■ 12-month return ■ 3-month return



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, August 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 (positive 3-month and 12-month returns) and avoid those with negative momentum (negative 3-month and 12-month returns).

**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 critical resource access.

# Structural opportunities are opening in liquid real estate

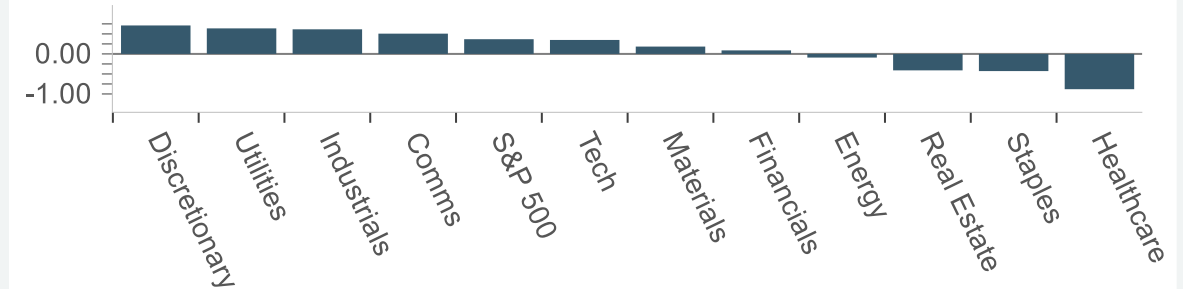
Concern about pockets of commercial real estate, such as office, has impacted investor sentiment, creating potential opportunities.

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



## 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



- 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 (**left 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 (**right chart**).

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

# 8 Private markets

## Insights

- [Capital markets backdrop](#)
- [Allocation to private markets is growing and democratizing](#)
- [Key takeaways per asset class](#)
- [A global case for the lower middle market \(LMM\)](#)



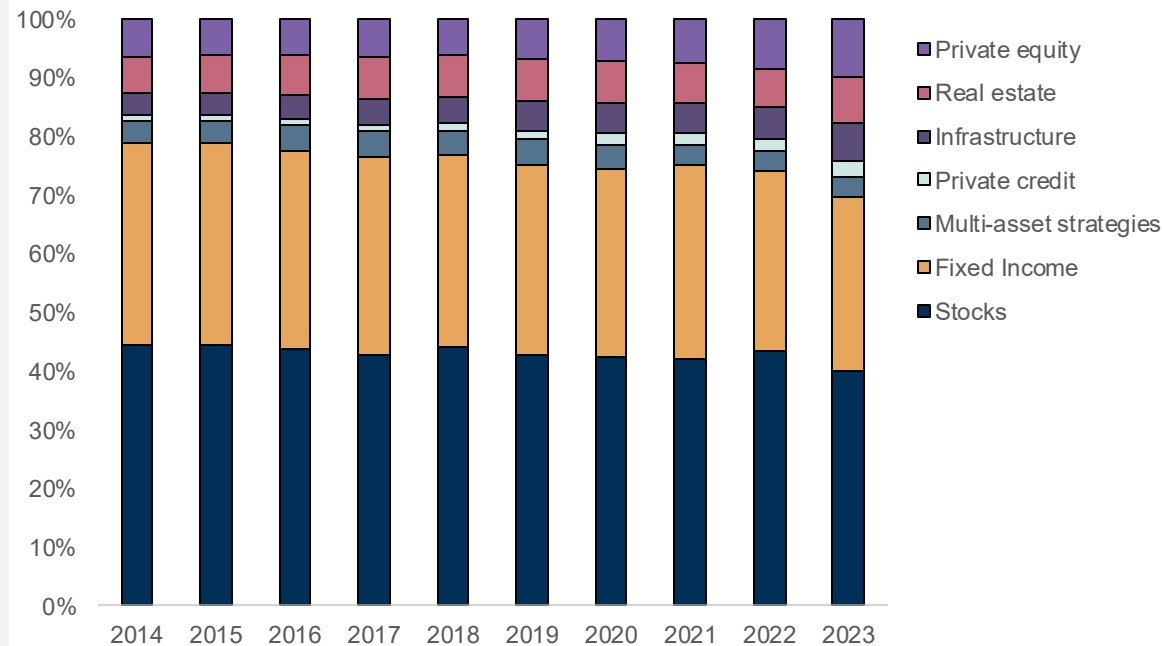
# Qualified investor allocation to private markets has continued to increase...

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 investors have more appreciation of the diversifying benefits of private markets (**left chart**).
- The evolution of investment products and technologies are opening up private markets to a broader range of investors. Individual investors have emerged as one of the fastest growing segments in private markets, fueled by evergreen fund structures and technological advancements that have streamlined the purchasing of private assets (**right chart**), and the potential for supportive policy change.

## Institutional investors have steadily increased their allocations to private markets

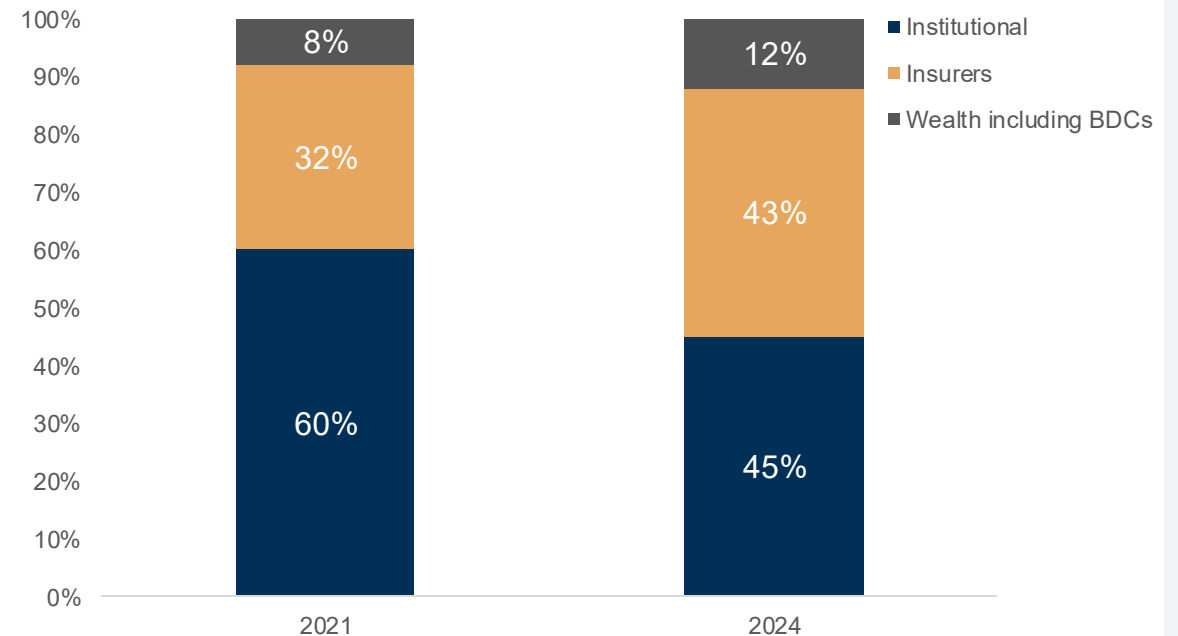
Institutional investor asset allocations, 2014 - 2024



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

## Wealth investors' share of private credit has and is expected to increase

Estimated AUM in credit for the largest seven private markets firms by client segment



Sources: Oliver Wyman, 2025.

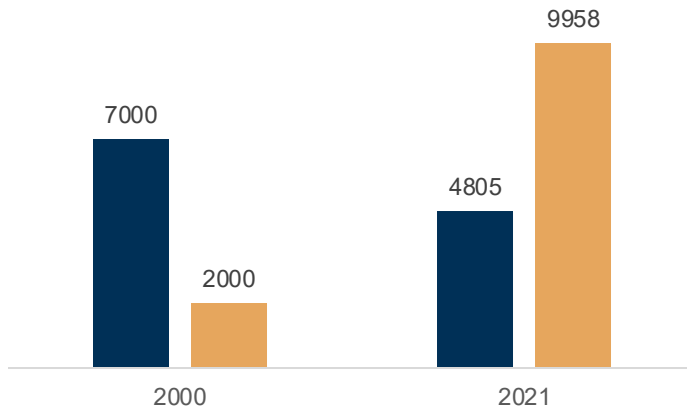
# ... desire for access is driving democratization of private markets, too

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 high-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.
- 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

■ U.S. public companies ■ U.S. private companies



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

## U.S. market capitalization dominates global market capitalization

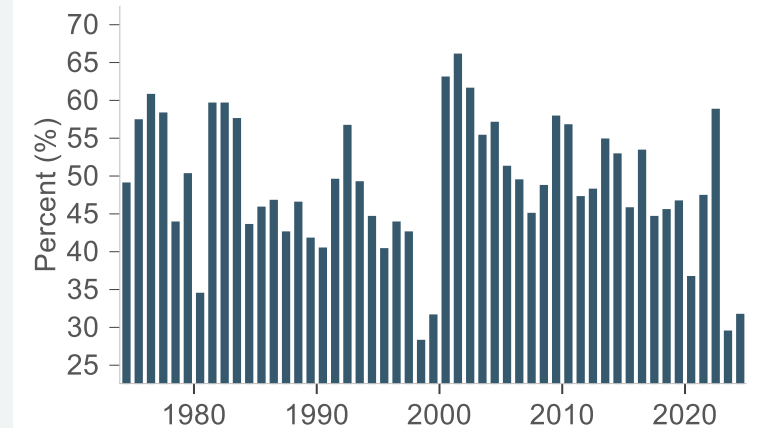
— U.S. market cap / world market cap



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

## 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, August 2025.

# 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	Private credit	Real estate	Real assets
<ul style="list-style-type: none"> <li>Exits modestly improved in the first half of 2025, despite higher rates and tariff uncertainty. The surge in activity that many anticipated in 2025 has not materialized. That said, we expect exit activity to improve moderately in the coming months as investors gain greater clarity.</li> <li>Fundraising has been concentrated in large and mega funds, creating an opportunity for middle market and lower-middle market managers to sell upmarket.</li> <li>Moderate interest rate levels and higher volatility mean that private equity funds will need to implement effective value-creation initiatives to grow company profits.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>While interest rates have moved lower across many global economies, lower interest rates are not low by historical standards, preserving yield generation for potential investors. In the U.S., the higher interest rate regime may put pressure on lower-quality credits.</li> <li>In the event of a more significant economic slowdown, the direct relationship between borrowers and lenders in private credit allows funds to navigate risks more fluidly. This appears to be even more the case for the middle market. Historically, default rates for middle-market private companies have been lower and recovery rates have been higher when compared to similar asset classes.</li> </ul>	<ul style="list-style-type: none"> <li>Differences in market interest rates, and the impacts of tariffs and immigration policy in the U.S., are contributing to a divergence between U.S. and European real estate markets.</li> <li>Europe has seen more price discovery already, with the recovery cycle underway. While in the U.S., disparate valuations reflect price discovery still to come. In the U.S., we believe the bottom is in for many sector valuations, and there are early signs that deal flow is improving.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>In our view, global transitions towards digitization, electrification, and supply chain re-globalization are likely to increase demand for real assets.</li> <li>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.</li> <li>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.</li> </ul>
<p>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 with policy uncertainty. Focus on markets with supply-demand dynamics that enable high investment selectivity.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>

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; the 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 in this segment 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
<b>Competitive resiliency</b>	<ul style="list-style-type: none"> <li>• The lower middle market offers an attractive supply-demand imbalance, with a large number of potential target companies and lower fundraising volume.</li> <li>• Historically, the supply-demand imbalance for companies / assets has resulted in attractive entry valuations, with smaller companies trading at a discount to larger companies.</li> <li>• 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.</li> <li>• The cyclical nature and variability of bank loan volume create the need for private financing in credit markets.</li> </ul>
<b>Economic resiliency</b>	<ul style="list-style-type: none"> <li>• Lower middle market funds have historically outperformed larger segments over the long term, including in high interest rate and high inflation environments.</li> <li>• 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.</li> </ul>
<b>Portfolio resiliency</b>	<ul style="list-style-type: none"> <li>• Lower middle market, middle market, and large &amp; mega funds can offer diversification benefits and complementary exposure when paired together.</li> </ul>

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

# Global Market Strategy: our resources

## Macro Pulse: Economic & market commentary

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



Comprehensive outlook (& quarterly webinars)



Weekly market update

From the desk...  
(timely response to market movement, policy, data, etc. )



Weekly podcast & bi-weekly videos

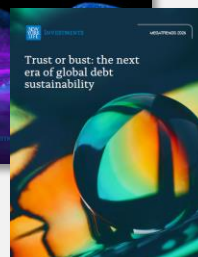


## Thought leadership

(thematic reports, portfolio construction, podcast series, etc.)

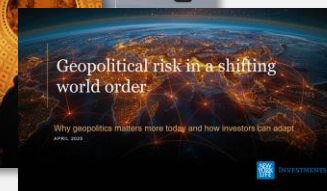
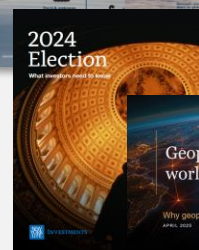
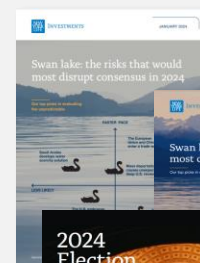
### Megatrends

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



### Politics and geopolitics

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



### Private markets

- Global market outlook



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### 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.

Prospective investors should be aware that investments in private funds or alternative investment strategies are suitable only qualified investors who do not require liquidity and who can bear the economic risk, including the potential for a complete loss, of their investment. A Qualified Investor, also known as an accredited investor, is an individual or entity that is legally permitted to invest in hedge funds, venture capital funds, private equity offerings, and other private placements. This qualification is typically based on the investor's income and net worth.

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.

Currency hedging seeks to reduce exposure to foreign exchange fluctuations but may not fully eliminate risk. Hedging can limit gains from favorable currency movements and may involve costs, counterparty risk, and operational complexity. Instruments used (e.g., forwards, options) may be illiquid or ineffective in volatile markets. Investors should understand that hedging strategies may impact portfolio performance and carry inherent risks.

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