New York Life Investments'
Global Market Strategy team
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Macro Pulse for January 25

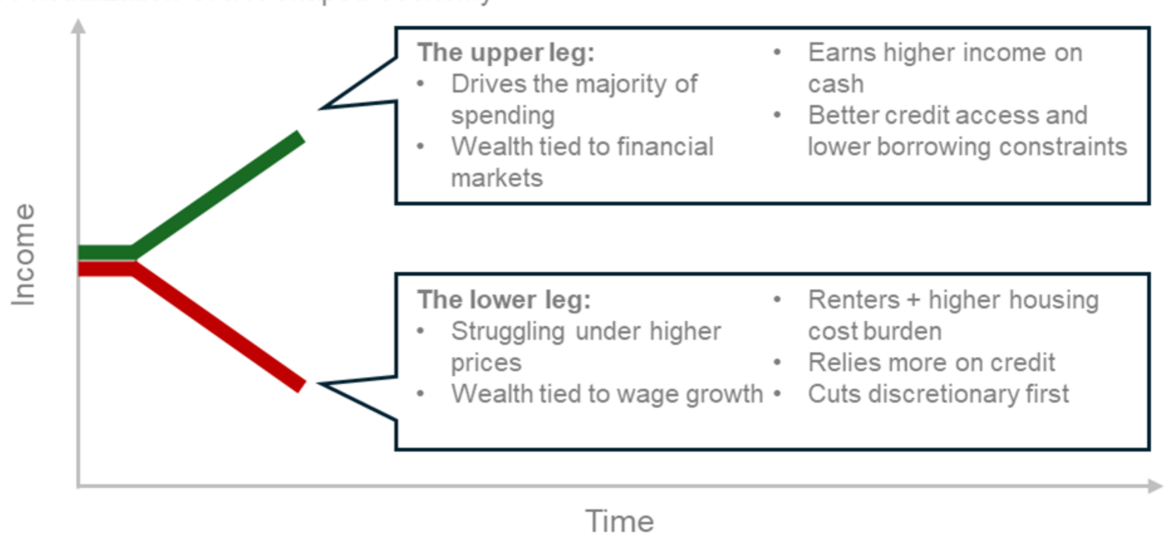
- The World Economic Forum at Davos featured heavy geopolitical rhetoric surrounding Greenland and the potential next leg of U.S. tariff policy. As we note in our geopolitics work, economic nationalism and more transactional diplomacy are symptomatic of a larger geopolitical transition from U.S. dominance to competition between great powers.
- Japan's bond market selloff was spurred by the new government's decision to call for snap parliamentary elections, consolidating support for new fiscal spending. The tradeoff Japan faces between near-term stimulus and long-term debt sustainability is shared with the U.S., France, and the UK among others; upward risks to long rates inform our high-conviction view to keep duration balanced in 2026.
- January 28th will mark the first Fed meeting of 2026. We expect the Fed to remain on hold: hiring is still weak, but the pace of the downtrend has softened. We'll be paying most attention to the press conference, in which Chair Powell will field his first live questions around the criminal investigation he faces. For our comprehensive view on Fed independence, listen to our latest Market Matters podcast.

Two economies, one headline: the implications of a K-shaped economy

The U.S. economy is growing, but it's not growing evenly, and the lived experience – high-income vs. low-income consumers – is increasingly uneven. That's the real meaning of a "K-shaped" economy right now: one part of the economy looks sturdy – spending is holding up, balance sheets look fine, and confidence is intact – while the other part is still absorbing the inflation shock and behaving more defensively. When those two realities coexist, headline growth can look durable even with genuine strain underneath it.

The U.S. economy has long experienced inequality, but the 2020's has widened the K-shaped divide

A visualization of a K-shaped economy



Opinions of the New York Life Investments Global Market Strategy team, February 2026.

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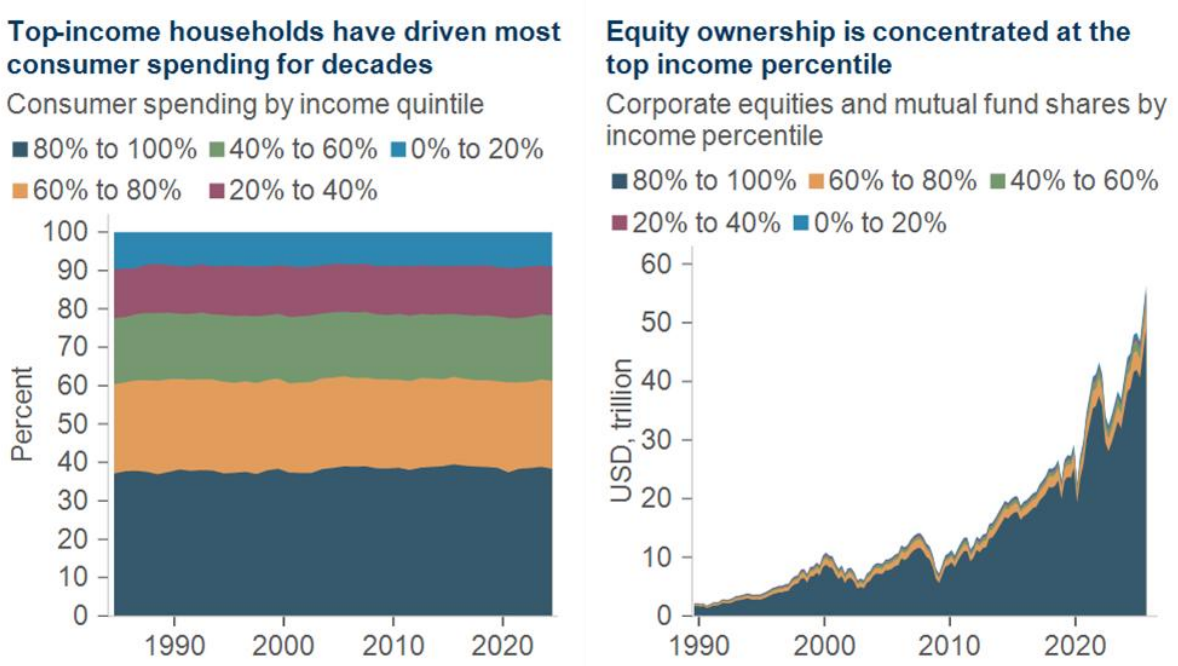
Who drives economic growth?

The K-shaped economy matters because consumption is the main driver of economic growth in the U.S., and consumption is increasingly concentrated. Currently the top 40% of households by income, or the top of the "K", make up 60% of all consumer spending. But as the chart below shows, this distribution has not changed meaningfully for decades.

Even more important: ownership of risk assets is highly concentrated among the top 20% of households by income. The spending habits of these consumers depend more on the wealth effect, which is closely tied to the stock market, rather than wage growth. And when a smaller slice of households drives a bigger share of spending, the wealth effect becomes more than a footnote, it becomes a transmission mechanism for economic strength or weakness. In that world, markets don't just reflect the economy; they feed back into it. Ever-rising asset prices can help to extend the cycle by supporting confidence and spending among the households doing most of the spending. On the other hand, falling asset prices can reverse that dynamic quickly.



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics, National Bureau of Economic Research, Federal Reserve, Macrobond, January 2026.

If these imbalances have been around for decades, why are we talking about it today?

Simply put: the pandemic accelerated this bifurcation and has made inequality more tangible. While inequality in the U.S. economy has been rising for decades, the pandemic then created two forces that widened the gap. First came stimulus checks – which appeared to address inequality by extending income to households struggling with under or unemployment. Next, though, came the inflation shock, which behaved like a regressive tax by hitting households that spend most of their income on essentials first and hardest. At the same time, the post-pandemic market cycle rewarded households that already owned assets, such as equities, housing, and other wealth-linked exposures, which helped soften the blow at the top. Asset prices rose, but consumer sentiment soured.

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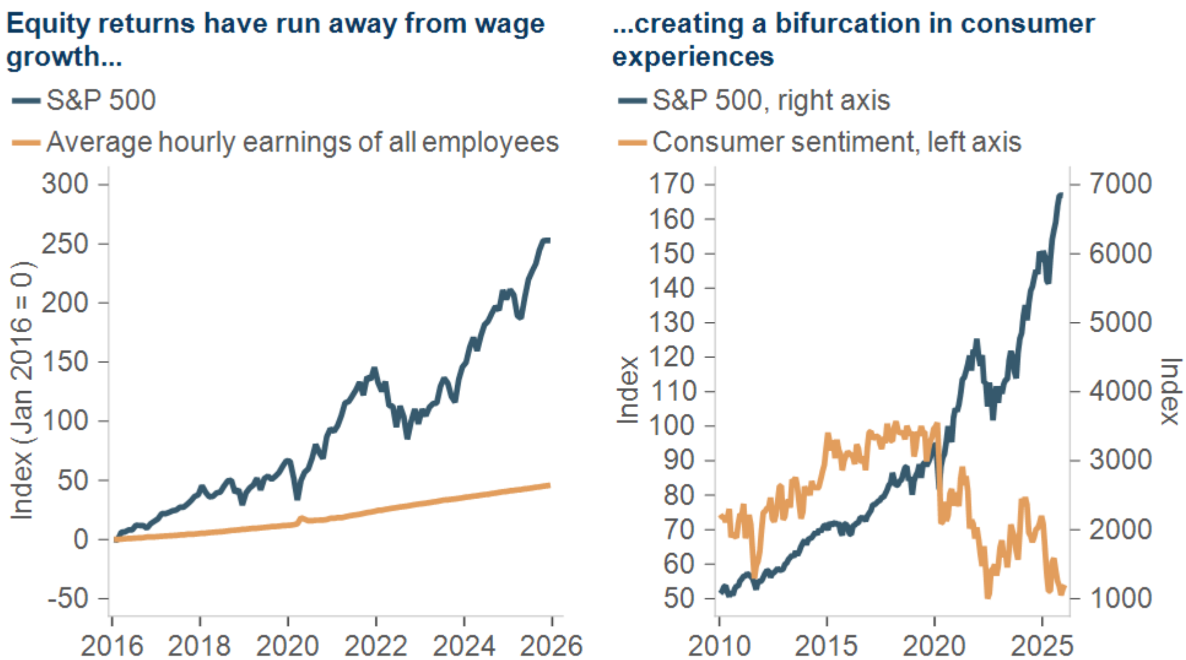

Sources: New York Life Investments Global Market Strategy, Federal Reserve, U.S. Bureau of Economic Analysis, Macrobond, January 2026.

A policy headache

A persistent K-shaped economy creates a real challenge for both the Fed and Washington because it sends conflicting signals about what policy actions are most appropriate. Stronger parts of the economy can look like they need tighter policy to prevent overheating or asset bubbles, while weaker parts call for easier policy to support employment and income growth. The risk is an economy that's effectively running at two speeds, overheating in some areas and sluggish in others.

That tension can also create more volatility in both fiscal and monetary policy, as each end of the "K" pushes for a different kind of support. And the longer-run implications are harder to dismiss. If a large share of households can't build wealth, people are less able to move for a better job, go back to school or pay for training, start a business, or take other steps that drive a dynamic labor market. Over time, that can make productivity growth harder to sustain (optimism around AI notwithstanding).

Portfolio strategy

The investable takeaway isn't that the K-shaped economy is a single trade. It's that in today's economy **market moves themselves can become a source of economic risk**. That's a shift from the adage that "markets aren't the economy." When a relatively small cohort drives an outsized share of spending, and that group's confidence is closely tied to asset prices, market moves can feed back into growth more quickly than in past cycles.

What keeps this balance from breaking is employment. Our base case calls for a stable labor backdrop, supported by corporate profitability, that looks more like "low fire, low hire" than a classic downturn with widespread layoffs. If jobs hold, lower-income households can sustain essential spending and delinquency pressures should stay contained, while higher-income households can continue to support aggregate demand

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through the wealth effect. That balance, however, may be incredibly fragile if either leg begins to weaken; recessionary risks could accelerate quickly.

Overlaying this economic backdrop is a political dimension that investors cannot ignore. A persistent affordability crisis is already contributing to greater political polarization and more frequent policy swings as elections become more competitive. The result is a higher policy uncertainty premium and wider dispersion across sectors and styles – reinforcing the need for selectivity, diversification, and risk management in portfolio construction.