Macro Pulse

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MARCH 2025

New York Life Investments

Global Market Strategy

At New York Life Investments

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

Lauren Goodwin, CFA
Chief Market Strategist

Julia Hermann, CFA
Global Market Strategist

Michael LoGalbo, CFA
Global Market Strategist

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Executive summary

Amid rampant global policy uncertainty, it can be difficult for investors to be forward-looking. It's true that a slower interest rate transition – at least in the United States – volatility, and high valuations create challenges for investment strategy. But let's focus on the through lines. Global interest rates are moving lower, spurring activity and credit growth in public and private markets. A changing global economic landscape is promoting capital-intensive investment across asset classes and geographies. Taken at face value, this is an environment that is highly constructive for investor opportunity but may require **significant portfolio change**.

For the last two years, the U.S. economy has defied gravity, creating above-trend economic growth. Now, the labor market and inflation have come into better balance. Cracks have emerged, particularly among lower-income households and lower-quality floating-rate borrowers, but aggregate results are resilient.

Our base case scenario is that U.S. growth slows to near or just below trend over the course of 2025, and that recession risk is low. But a few powerful factors – policy change and persistently painful shelter prices – make it likely that inflation and interest rates are higher and more volatile than historical periods of "average" growth.

Higher U.S. growth, interest rates, and innovation have led investors to flock to U.S. assets, but there are reasons not to let the pendulum swing too far. Many developed markets are cutting interest rates more quickly than the U.S. Federal Reserve, which is hamstrung by sticky inflation and tariff risks. Faster-normalizing yield curves are improving credit growth and borrower health, boosting corporate performance in regions like Europe.

As for risk assets: as long as employment and earnings remain resilient, we believe the U.S. equity market has room to run. That run, however, may feel more like a trudge; we expect modest gains and sustained volatility compared to the last few years' outsized returns.

Average equity market returns, alongside stickier U.S. policy rates and volatile market yields, make an attractive case for allocating new capital to diversified opportunities, including fixed income. Economic resilience supports credit quality. Interest rates appear to be in a sweet spot, where lower rates improve borrower health but remain attractive for investors' income generation.

Vital for global asset allocation is the direction of the dollar. We expect the greenback will be rangebound – bolstered by stronger U.S. growth but kept from overreach by policy risks.

In private markets, four key transitions – lower interest rates, improving deal flow, global capital investment, and democratization of access – are re-energizing investors. We believe 2025 will be a strong vintage.

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

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High conviction investment ideas

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

CALL OR CONDITION		INVESTMENT APPROACH CONSIDERATIONS
EQUITY		
• High valuations are not a market timing tool, but they do limit the scope of investment opportunity. We are constructive on the U.S. equity market, but the combination of high valuations and market concentration have us allocating new capital toward a more diversified set of themes. • U.S. economic activity is outperforming the rest of the world, driving risk asset prices and the U.S. dollar higher. That said, a quicker interest rate cutting cycle, slowing but reasonable growth, and potential upside risks in international markets may result in better ex-U.S. performance than many investors are assuming. • The trend in artificial intelligence is here to stay. Looking ahead, the foundational layer of AI will face more competition, while digital and energy infrastructure will likely require more capital. The application layer is only just being explored.	1	Stay invested, with a focus on earnings quality.
	2	Investors concerned about high valuations can deploy gains into high yield credit, where carry is more attractive.
	3	We see tactical upside in ex-U.S. equity markets. Consider a 50% currency hedge.
	4	Small caps are unlikely to outperform durably unless interest rates move lower while growth is resilient - unlikely this year.
	5	Diversify equity exposure into broader reflections of the AI theme, including energy and digital infrastructure.
FIXED INCOME		
• A balanced labor market with upside inflation risk keeps the Fed on hold until at least mid year, in our view. Still, policy rates have moved lower, and investors should counter reinvestment risk by deploying cash. • Uncertainty around growth and inflation point to higher and more volatile *market* interest rates. We do not feel comfortable calling a near-term peak in Treasury rates, and that duration is an unreliable source of returns. • We expect U.S. public credit quality (interest coverage, maturity timeline) to remain very strong by historical standards, supported by a resilient economy.	6	Now is an attractive opportunity to deploy into bonds: corporate and municipal credit quality is good, and cash rates are lower.
	7	Treasury duration is not our favorite place to take risk. We like a neutral-to-short duration position, built with short duration credit (IG, HY, munis) and balanced with structured product and taxable munis.
	8	Strong fundamentals create an attractive opportunity in structured credit and convertible bonds.
OTHER		
• Incidence of geopolitical risk has moved higher since the COVID-19 pandemic. Investor may use diversification and inflation-aware exposures to hedge against event risk. • Though the endgame of U.S. trade policy is uncertain, the global trends towards re-globalization, digitization (AI), and energy independence point to capital intensity, infrastructure investment, and stickier inflation. • Private markets allocation is growing and democratizing.	9	Consider a geopolitical risk hedge of equal parts oil, gold, and bitcoin as a satellite sourced from equity.
	10	Inflation-aware asset classes such as commodities, materials, and real estate may benefit from the macroeconomic backdrop.
	11	Qualified Investors seeking diversification into the private markets may consider the less correlated lower middle market.

1 Top investment questions

Top questions

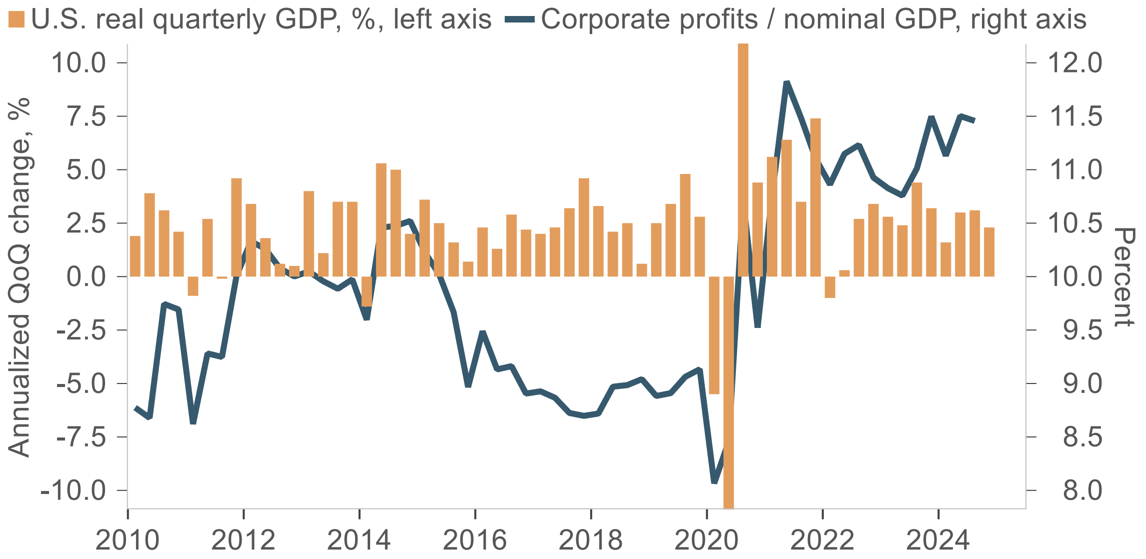
Readers may click on any item to jump to that section.

Why has the market been resilient amid so many potential disruptions?

A balanced economy supports resilient markets. Decision paralysis due to policy uncertainty is also likely at play.

- There has been no shortage of potential market disruptions year to date. DeepSeek reminded investors that the barriers to entry in AI are high but not permanent, putting sky-high tech expectations at risk. Early policy shifts in the first 100 days of the Trump administration, including tariff announcements, impact expectations for year-ahead inflation and growth.
- The market has mostly looked through these disruptions. Why? For starters, the present-day reality of a robust U.S. economic and earnings backdrop (**left chart**) is superseding what could occur in the future. Second, investors likely perceive policy risks as in balance for now. Potential disruptions related to trade, foreign policy, and immigration are neutralized by potential benefits of de-regulation and lower government spending.
- Just because the market is paralyzed by policy uncertainty doesn't mean that investors need to be. Though the end result of policy change is unknown, the next year is likely to include more volatility in inflation, rates, and markets. We remain fully invested, but believe now is a good time for investors to reconsider their balance between stocks, bonds, and alternatives, as well as U.S. and international opportunities, to build more robust diversification.

U.S. economic activity is steady and corporate profits have outperformed



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

Market pricing suggests that investors see the policy endgame as uncertain, and that risks are roughly balanced

Market concerns

- Tariffs increase inflation and reduce growth
- Constrained immigration, amid a tight labor market, may push labor costs and inflation higher

Market hopes

- Government spending cuts would reduce pressure on long-term interest rates
- De-regulation could improve energy supply, corporate M&A, and credit creation

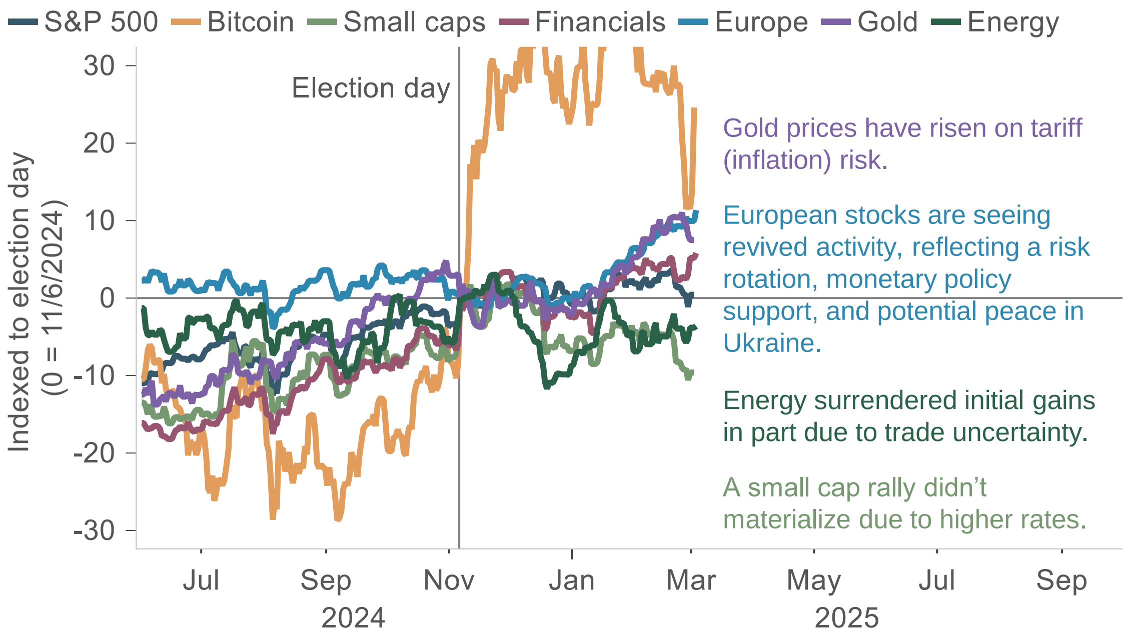
Views of the New York Life Investments Global Market Strategy team, 2025. Examples given here are for illustrative purposes only and are not comprehensive of all current policy proposals.

Should investors fade or follow the "Trump" trades?

We "fade" highly partisan market moves and "follow" performance where policy change under the new administration may bolster existing trends.

- Immediately after the "red wave" in the U.S. election, positive expectations (animal spirits) surged, fueled by expectations of deregulation and pro-growth policies. Now, the risks and rewards of policy change appear to be more balanced as tariff risks, trade tensions, and policy unpredictability create uncertainty, weighing on investor confidence.

Impact of Trump's election victory on select asset class performance



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond Financial AB, Russell Investment Group, Macrobond, March 2025.

Trades to Fade

Small caps capture risk-on sentiment

- Economic growth is good, but not reaccelerating in our view. Higher and more volatile rates constrain performance. Any outperformance in small caps is likely to be tactical.

Trades to Follow

U.S. 10-year yield moves higher

- As fiscal risk dynamics unfold, inflation and interest rates will likely move higher with volatility along the way. Overweight short duration; do not favor extending duration.

Gold remains a proven hedge for inflation

- Gold has overcome the pressure it experienced in the lead-up to the election. As policy, deficit, and inflation concerns persist, overweight gold.

Trades to Monitor

International exposure

- We expect U.S. growth is expected to remain strong compared to many global peers. However, foreign investors may start to repatriate capital given policy uncertainty. Modestly reduce U.S. overweight and consider use of currency hedges.

Technology balances threats from competition (DeepSeek) and tariffs; benefits from antitrust

- Deregulation benefits can be dampened by tariff pressures along the supply chain. Limited upside drivers on existing earnings strength. Stay invested at market weight.

Bitcoin

- Extremely strong performance after the election but remain mindful of the historical volatility and risk-on nature of the asset class. Small allocation can serve as diversifier.

Financials

- Slight overweight to financials. Deregulation may not be a tailwind for regional banks which previously had ineffective oversight. A normalizing yield curve helps more.

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What impact will the new U.S. administration have?

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

Taxes

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

Tariffs

- The impact of tariffs on growth and inflation hinges on several factors we have yet to see: 1) the scope of the tariffs, 2) any exclusions for specific products, 3) the timing – whether they are implemented all at once or gradually, and 4) how other countries react, whether through retaliatory tariffs or currency adjustments.
- We believe that these factors differ by region. The size of U.S. trade deficit, immigration debates, defense spending, and national security are likely to influence policy.
- Questions about the timing of tariffs – including the potential for a phased rollout, as suggested by the initial additional 10% tariff levied on goods from China – are a more recent development, and one that's important for general macroeconomic factors like inflation and interest rates. Fed officials have recently highlighted that they can potentially look through tariffs as a one-off price level increase rather than a steady source of inflation. Consistent or rolling tariffs might have to be treated differently.

Deregulation & DOGE

- We expect the second Trump administration to roll back many existing regulations. Impacted industries likely include financial services, healthcare, and the traditional oil & gas sector. In his inaugural address, Trump declared, "Drill, baby, drill."
- Another Day 1 executive order established the Department of Government Efficiency (DOGE). We anticipate DOGE will be able to some material spending cuts though reaching its targeted $1 trillion in cuts is likely optimistic. It's important to remember that the executive branch has little ability to cut spending itself; any significant spending cuts will have to go through Congress.
- The deregulatory effort is likely driving a modest growth tailwind from reduced policy uncertainty as well as improved animal spirits.

Immigration

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

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

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What challenges will the new U.S. administration face? (1/2)

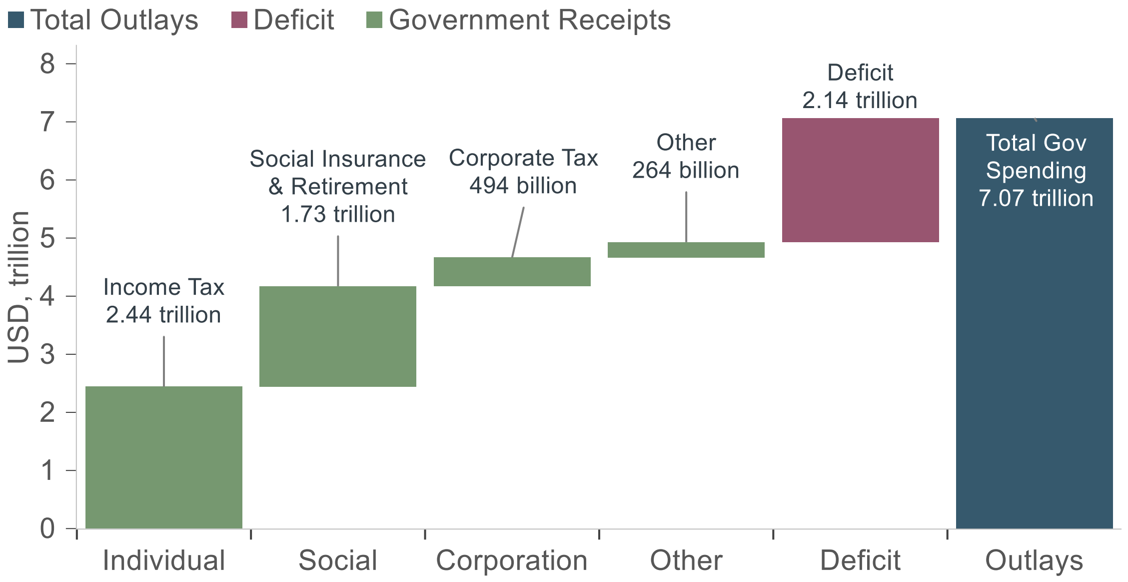
The administration will likely face trade-offs between taxes, tariffs, and the deficit.

- Trump campaigned on extending the 2017 Tax Cuts and Jobs Act, specifically the income tax rate cuts. Lower government revenue will increase the deficit, all else equal. Lawmakers – and the rates markets – have started to raise concerns about the growing deficit. A higher term premium – reflecting concerns about higher Treasury supply or lower demand – could push market interest rates higher and constrain the policy agenda.

- Trump has levied new tariffs, but the extent of changes to trade policy is still uncertain; some U.S. trade partners have significant leverage over the U.S. economy. But on aggregate, tariffs are poised to move higher. Tariffs are likely to raise consumer prices as they increase the price of imported goods. Trump's trade goal is to reduce trade deficits, targeting countries with the largest goods trade surplus to the U.S.

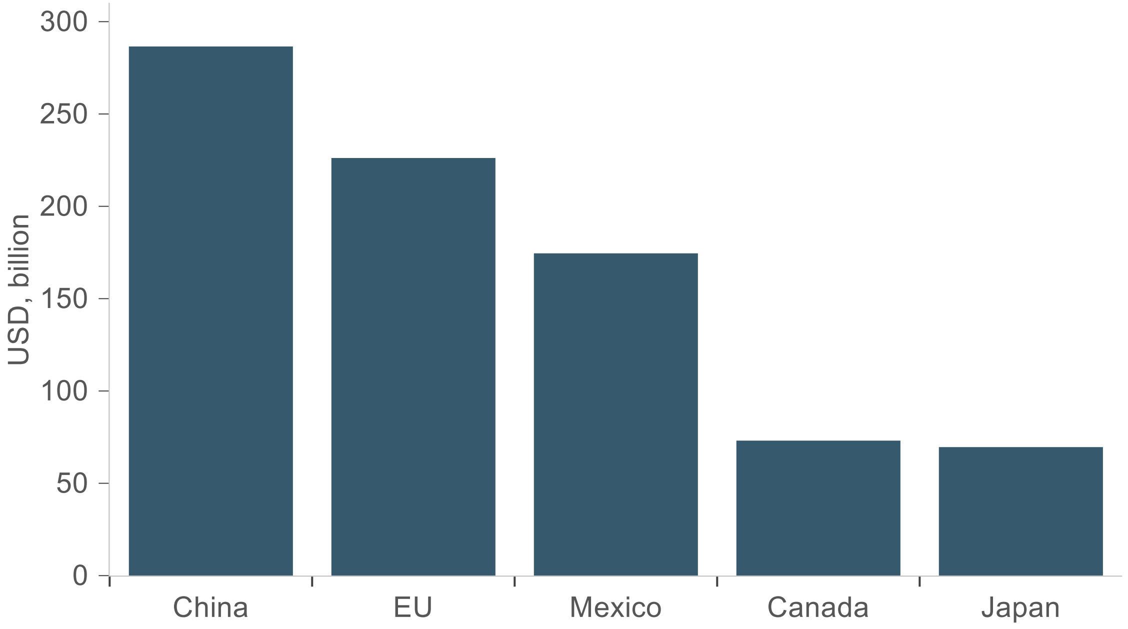
Cutting taxes is likely to raise the deficit

U.S. government receipts vs outlays (past 12 months)
Annual statistics calculated on 12 month rolling sum basis



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

Countries with the greatest goods trade surplus with the U.S. are most at risk of Trump tariffs



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

What challenges will the new U.S. administration face? (2/2)

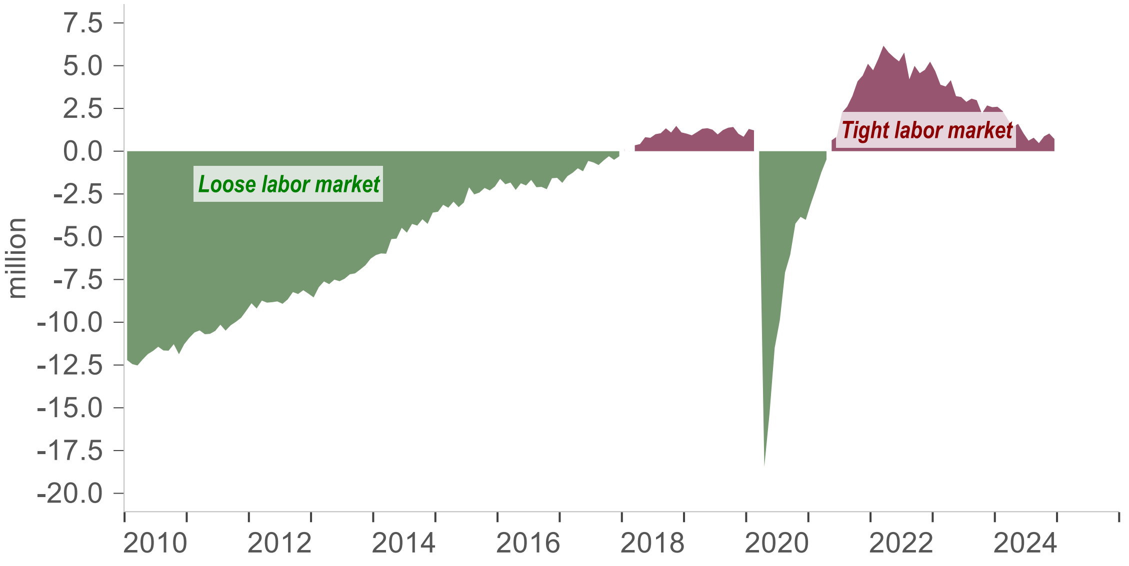
The administration will likely face trade-offs between immigration policies and economic growth.

- Whether through stricter border control, changes to skilled labor permissions (H1B visas) or deportation-focused immigration policies, the Trump administration's approach to foreign labor is likely to impact labor supply. Reducing labor supply in a tight labor market risks reaccelerating wage growth and inflation.

- The majority of recent hiring has been of foreign-born workers. In the tight labor market of recent years, more available workers has helped to keep wage growth reasonable – an important factor in avoiding recession according to the Fed and CBO.
- The labor market is better balanced now, but still tight. Constraints on immigration under these circumstances may push wages higher while reducing local spending.

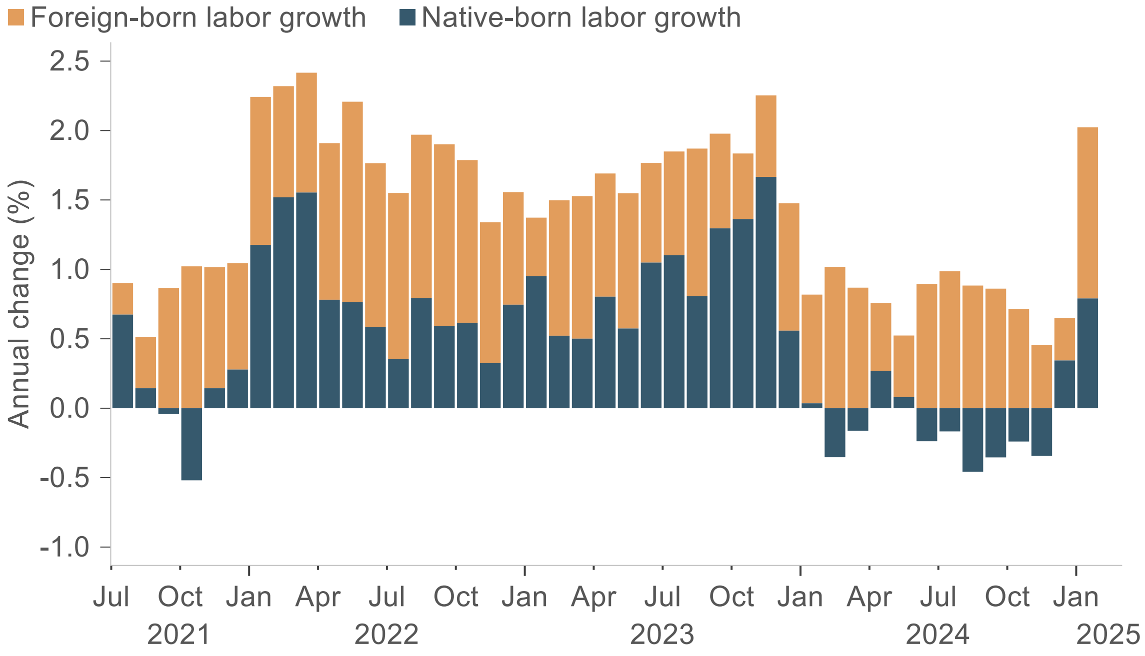
Restrictive immigration policies may have greater impact in a tight labor market

Difference between the labor force and the sum of persons employed and open positions



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

The labor market could look a lot different after a deportation effort



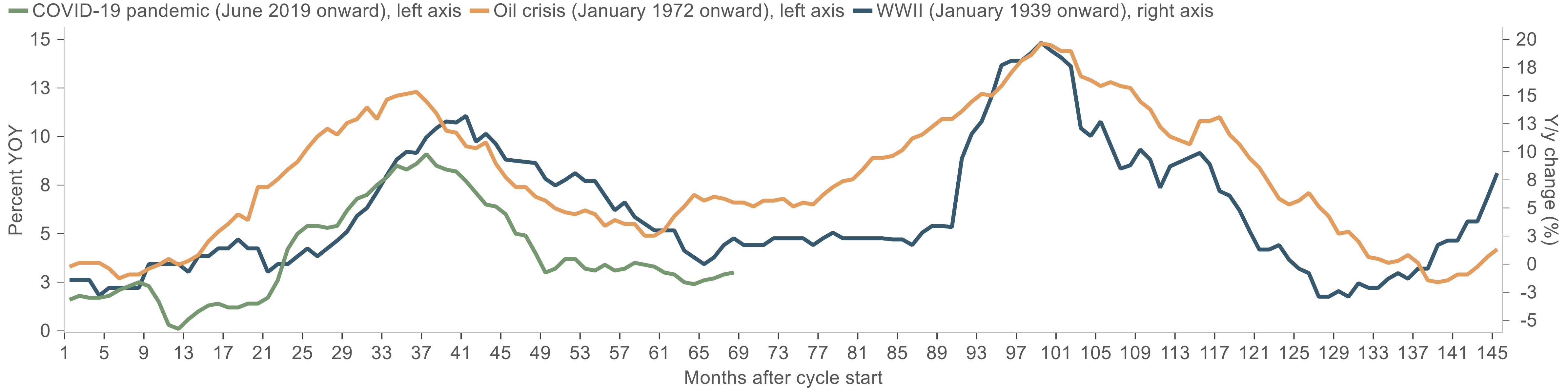
Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, March 2025.

What happens if the Trump administration interferes with Fed policy?

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

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

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



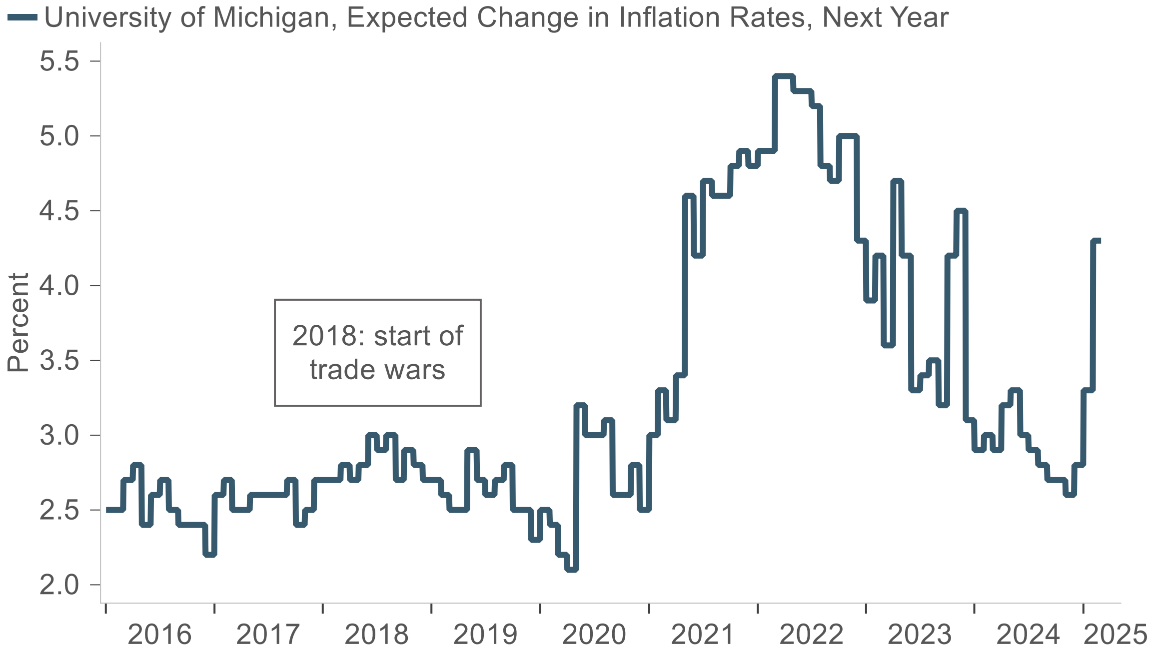
Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, March 2025.

How worried should we be about stagflation?

It is too early to dust off the stagflation playbook, because growth is resilient. Concerned investors can reach for inflation-aware portfolio tools.

- We believe stagflation is still a low-probability scenario, though the risk has been rising. Changes in trade policy (e.g. tariffs) have driven fears that growth may slow and inflation may rise (**left chart**). We agree with this directional impact of tariffs. However the level of growth and inflation today are not in, or indeed near, stagflation territory.
- That said, we would expect signs of slower growth or faster inflation to signal that the economy is no longer in balance, and therefore prompt volatility.
- A stagflation scenario would be challenging for the Fed, as it represents competition between its two mandates: stable prices and full employment. We believe the bar for the Fed to hike interest rates is high, as inflation fears may prompt market financial conditions to tighten on their own, reducing the need for tighter policy rates.

This isn't 2018: consumer inflation expectations are more sensitive today



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

Key allocation anchors for different macro regimes

	Growth: strong	Growth: weak
Inflation: strong	• Inflation hedges: TIPS, commodities, energy, real estate equity • Neutral duration **Overheating**	• Quality companies with pricing power • Convertibles • Barbell IG and HY credit • Precious metals • Private equity and credit **Stagflation**
Inflation: weak	**Goldilocks** • Small caps • Cyclicals • Floating rate, HY credit • Real estate equity • Private credit	**Recession** • Large caps • Defensive sectors • Infrastructure equity • Add duration • IG credit

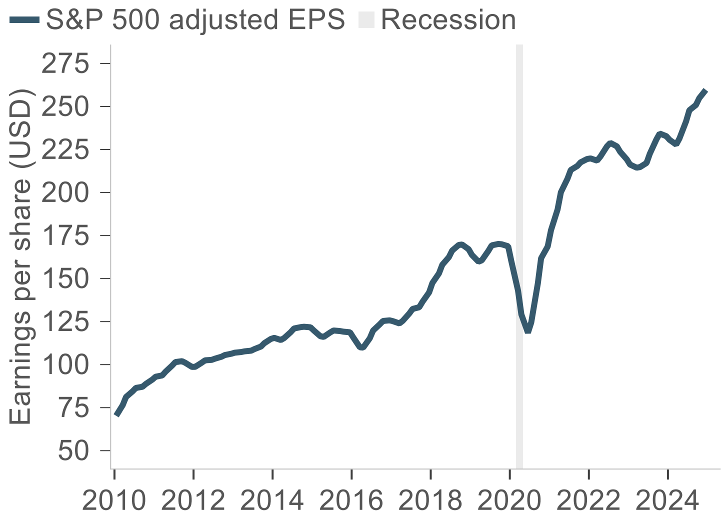
Views of the New York Life Investments Global Market Strategy team, 2025.

Are sky-high U.S. equity valuations a reason to take profits?

Valuations are not a good market timing tool, but potentially limited upside favors deploying *new* capital into a diversified opportunity set.

- Equity prices reflect a combination of corporate earnings, valuation multiples, and dividend yield. We expect earnings growth to remain positive, supported by strong economic growth, balance sheet management, and ongoing investment. Dividend yields have come down over time but remain a key way to preserve total equity return.
- However, valuations remain at the high end of historical ranges. This presents a challenging environment for buyers, but we believe valuations represent the scope of an opportunity, not the timing.
- In other words: high valuations don't signal an imminent crash on their own; we remain fully invested. Still, with the earnings yield (the inverse of the price-to-earnings ratio) trailing the U.S. 10-year yield, bonds may currently offer a more attractive risk-return potential relative to equities in the near-term. Our high conviction investment views favor deploying new capital into a broader risk asset opportunity set.

Earnings growth has remained strong in the face of growing risks



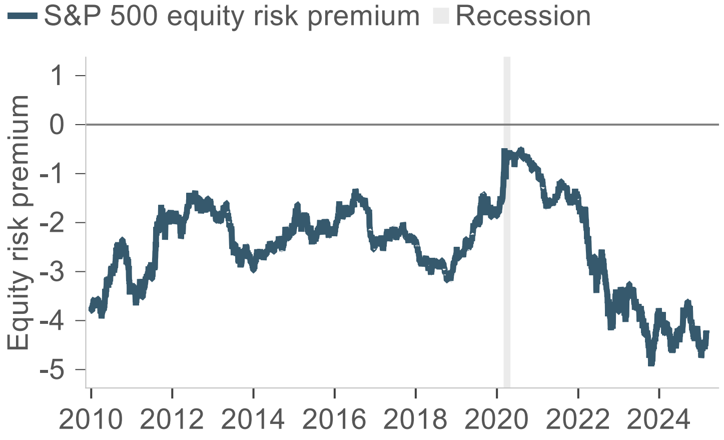
Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, March 2025. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. It is not possible to invest in an index. Past performance is not a guarantee of future results.

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, March 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.

The equity risk premium suggests bonds could outperform stocks at these levels

Equity risk premium: S&P 500 earnings yield less the U.S. 10-year yield



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New York Life Investments

2 U.S. economic & market outlook

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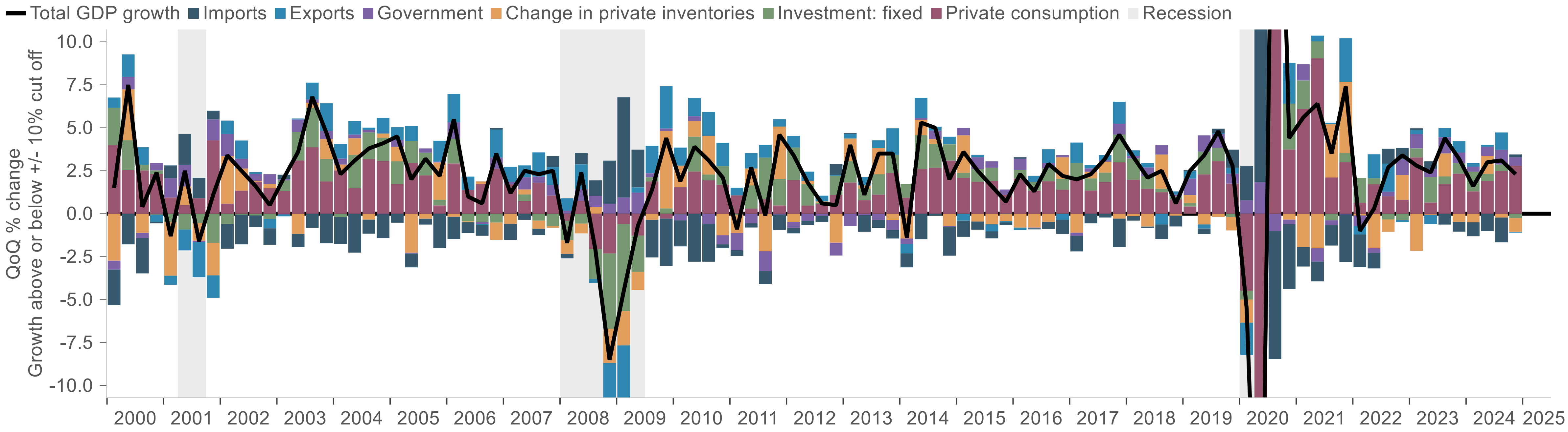
A long-term look at U.S. economic growth

U.S. economic activity is running at an above-trend pace; our base case calls for a modest growth slowdown to just-below trend, around 2.0%.

- GDP growth in the post-pandemic period has stabilized above its trend pace of 2.0-2.5%, driven largely by strong consumer activity (about two-third of GDP). Our outlook is constructive: a very gradual deceleration will likely take place in 2025.
- Resilience is bolstered by the continued strong health of the corporate sector, a well-balanced labor market, and both income and wealth effects supporting consumers. These factors are mutually reinforcing.
- Policy uncertainty represents potential upside and downside risks to growth. Growth-negative risks include more restrictive trade and immigration policy; growth-positive risks include deregulation and tax relief.
- Our base case expectation is that growth slows to just below 2.0% this year, with the caveat that policy risks may impact export-import and inventory balances.

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



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

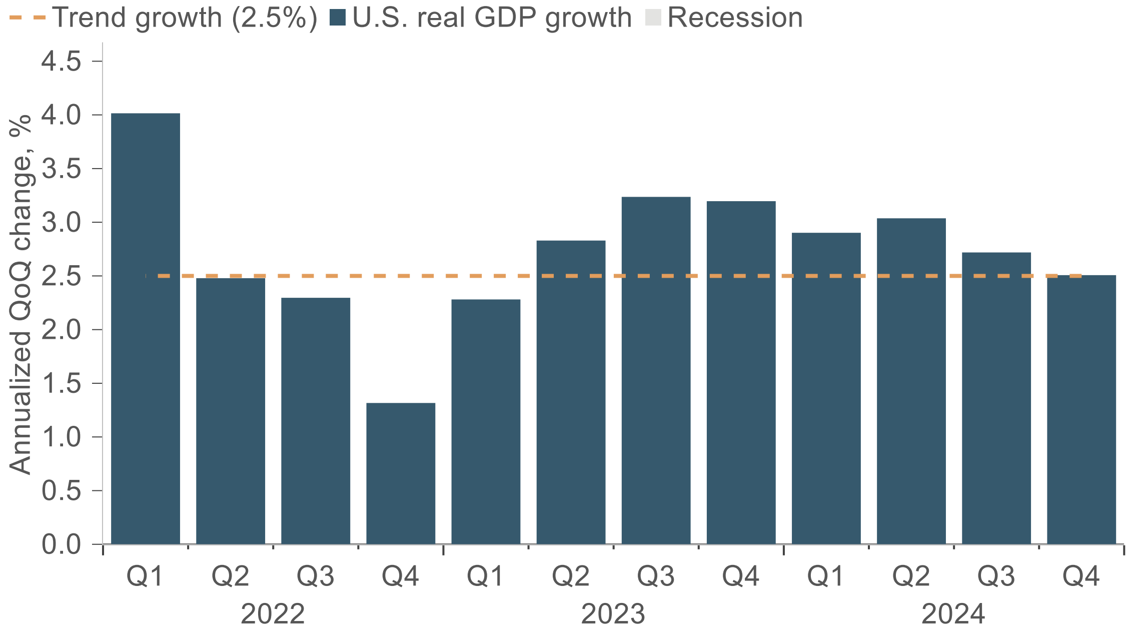
Where are we in the economic cycle today?

The last two years have already represented a soft landing. Slowing growth from here is still represents a constructive economic view.

- We do not believe the current economic slowdown is a harbinger of recession to come. We see the chance of an endogenously-caused recession in 2025 as very low, barring policy and geopolitical risk. This cycle does not feature the household or corporate debt imbalances of prior cycles, lowering the likelihood of a durable economic or financial disruption.

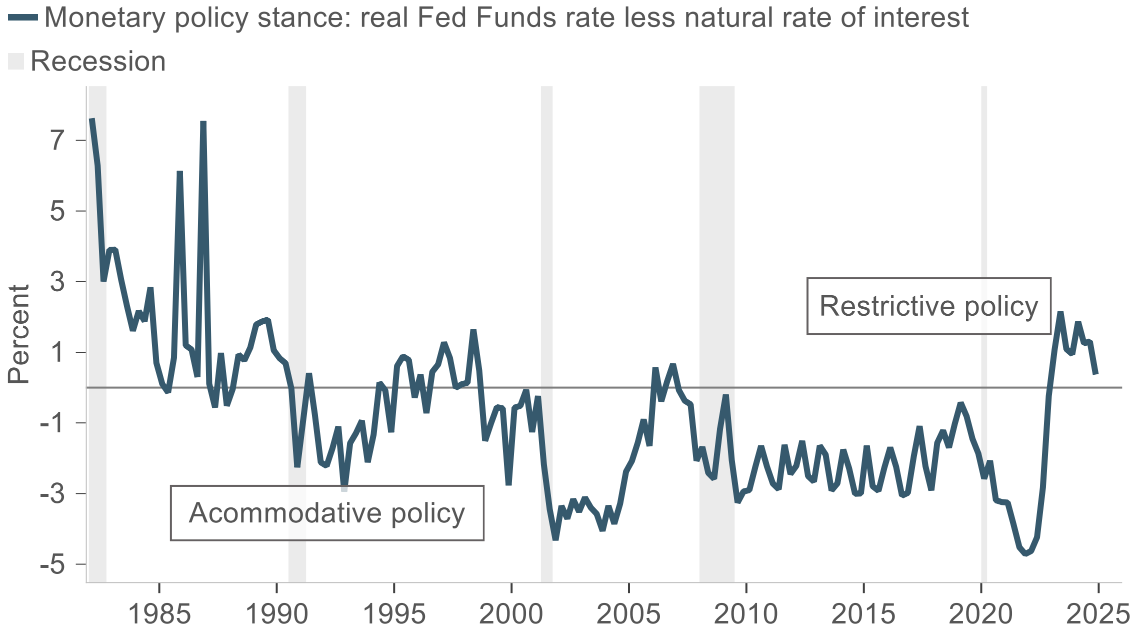
- Even with 100bps of easing in 2024, the Fed believes it is restrictive. At least in some segments of the economy – such as housing – we agree, and these pockets of still-restrictive rates support our perspective that growth will ease modestly over the course of this year. That said, resilient growth in other sectors, plus sticky inflation economy-wide, support the Fed moving only slowly to a neutral policy stance, and likely not beyond.

U.S. economic growth is slowing but resilient



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

Fed believes it is restrictive, cutting to "neutral" rather than "accomodative"



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

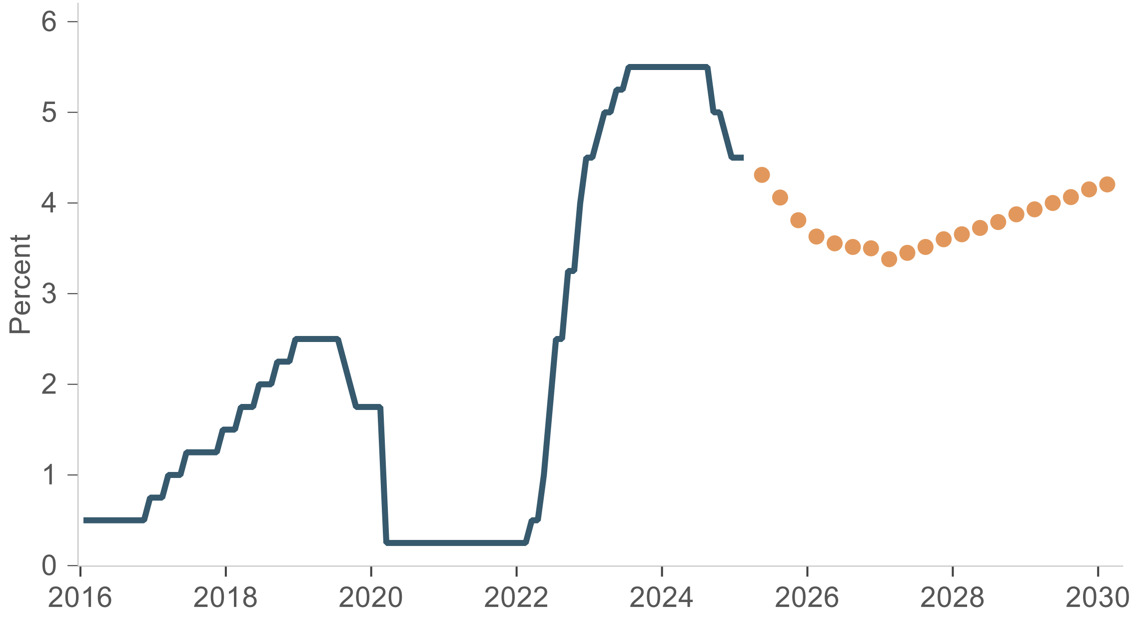
The Federal Reserve is not easing as fast, or as much, as initially expected

In our view, stronger-than-expected recent growth and sticky inflation points to a prolonged Fed pause, and no near-term policy rate cut.

- Since the Fed began its cutting cycle in September 2024, stronger than expected economic activity and election-related animal spirits have driven a hawkish shift in easing expectations. We expect only one 25-basis point policy rate cut this year.
- Sticky inflation remains a risk for the Fed's path back to neutral (our best estimate is around 3.0-3.5% in nominal terms). Though inflation is on a downward trend, easing financial conditions or policy changes could prompt inflation to re-firm.
- With the labor market broadly in balance, we believe the Fed will need to see significant progress towards disinflation before being willing to cut. These conditions are unlikely to be present before the summer.

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, March 2025.

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

Condition	Status	Met?
Inflation expectations well anchored	Long-term inflation expectations remain well anchored.	✓
Core inflation moving closer to target	Core inflation is still above the Fed's target but has made significant progress over the last year. Upside risks to growth may re-firm inflation, which would slow the Fed's pace of cuts all else equal.	✓
Unemployment rate ≥ 4.0%	The unemployment rate sits around 4.0%, and the Fed has said that it does not want employment to weaken more.	✓
Wage growth commensurate with stable prices	Wage growth is higher than the 3.5% year-on-year figure that we believe would make the Fed comfortable with maintaining a rate cutting cycle. Stickiness in wages may require a slower pace of rate cuts.	✓

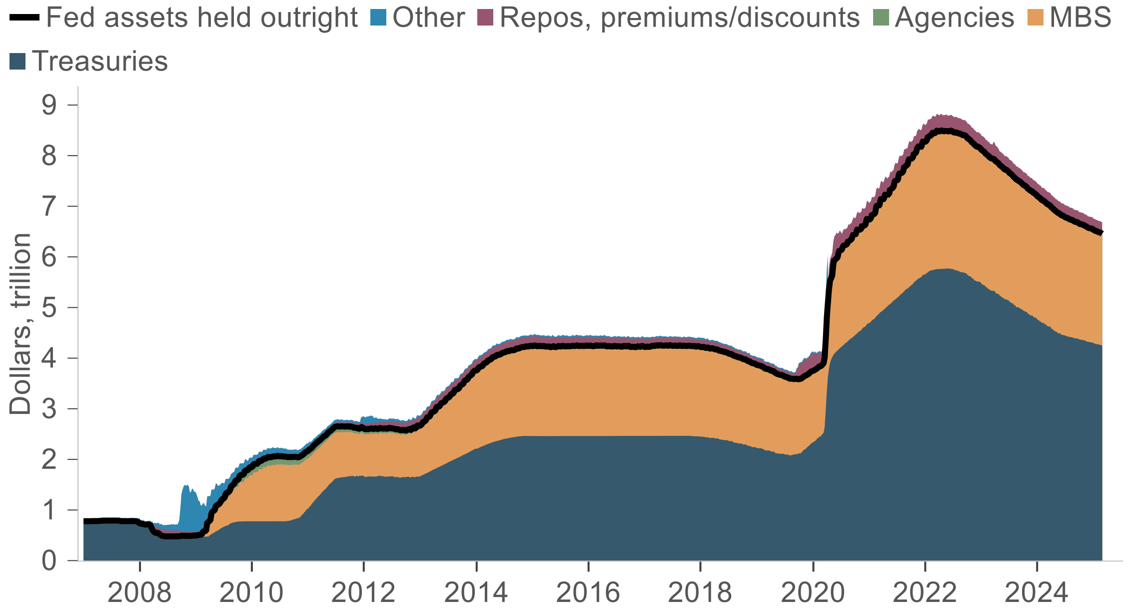
Opinions of New York Life Investments Global Market Strategy, March 2025.

Fed balance sheet tightening is nearing an end

Quantitative tightening (QT) is likely to end this year as the Fed achieves its reserve management goals – while avoiding a liquidity crunch.

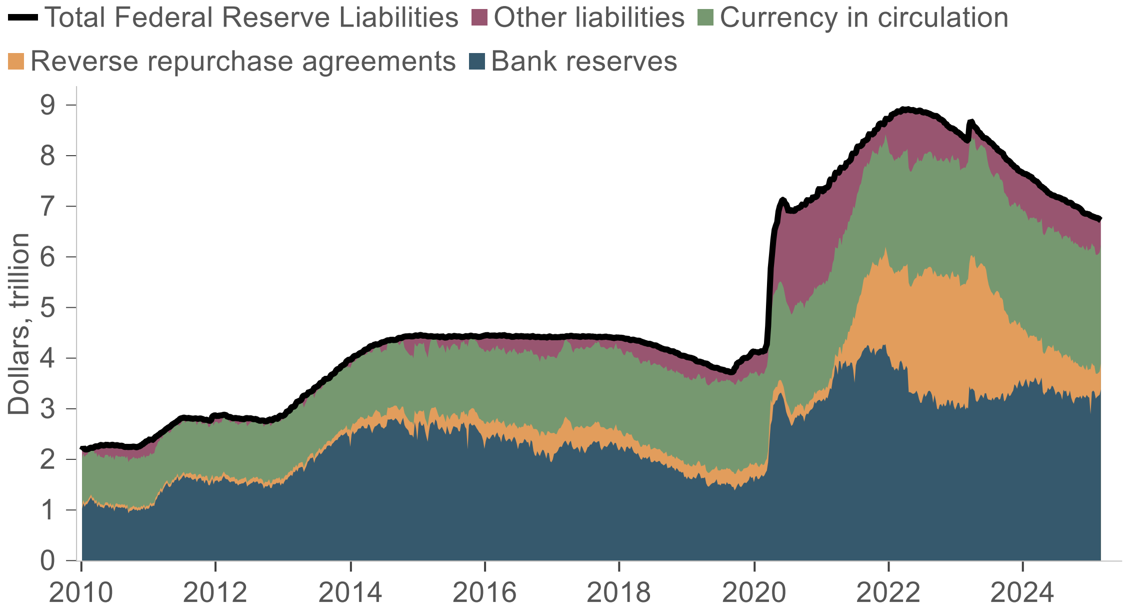
- The Fed's balance sheet, as any balance sheet, is made up of assets (**left chart**) and liabilities (**right chart**). As the Fed's reduces its assets via QT – having shaved off nearly $2T in assets since 2022 – it must also reduce its liabilities. Fed liabilities include bank reserves, currency in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

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



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

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



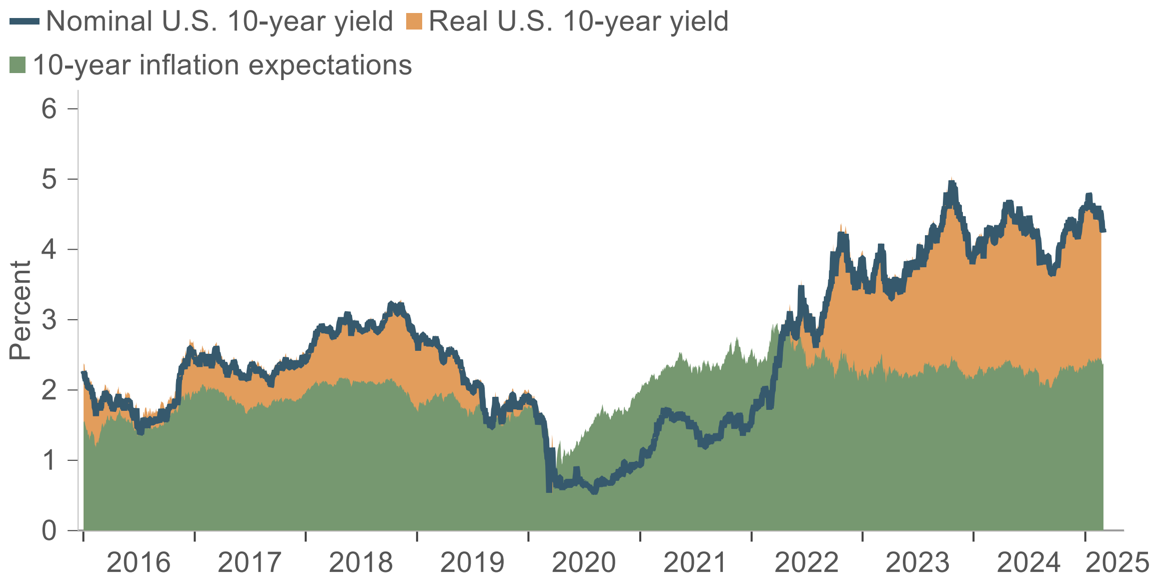
Sources: New York Life Investments Global Market Strategy, Federal Reserve, Macrobond, March 2025. Reverse Repurchase Agreements area a facility used by the Fed to support bank liquidity. Other liabilities include non-reserve deposits held by the Federal Reserve.

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

Long-term market interest rates have moved higher in response to stronger growth, higher inflation , and supply-demand risk for Treasuries.

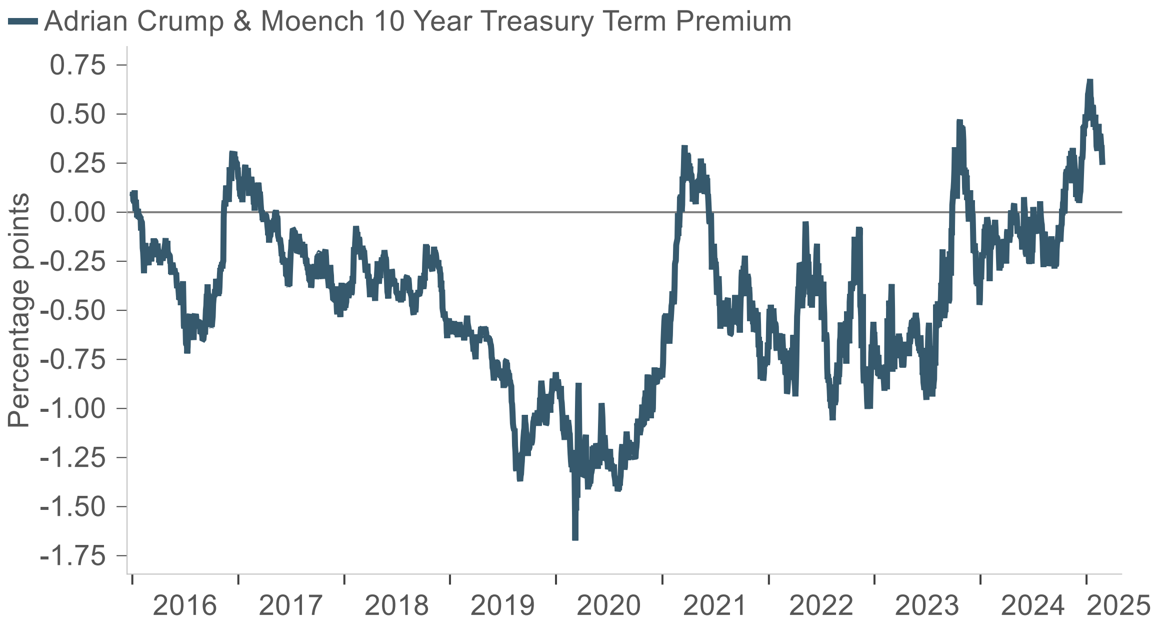
- Long-term interest rates are driven by expectations for inflation, the path of the policy rate, and the term premium, which encompasses expected supply and demand for Treasuries.
- Higher long rates reflect rising inflation expectations, a belief that the policy rate will not revert to previous lows this cycle, and the possibility of higher Treasury issuance as reflected in a rising term premium.
- The term premium's steady trudge higher has been driven by both near-term policy uncertainty and expectations for structurally higher public spending: greater interest expense, high defense spending, and high mandatory spending.

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, 3/3/2025. 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, March 2025.

As the yield curve normalizes, bank lending is becoming less restrictive

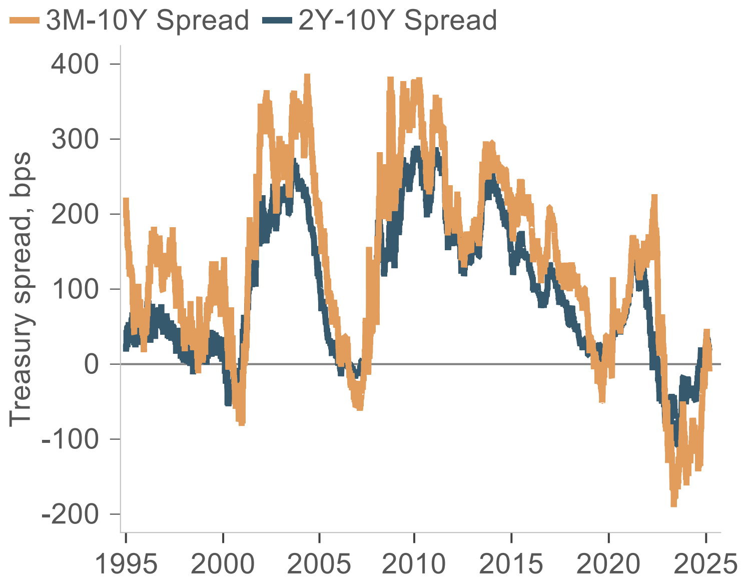
Both supply and demand of loans to businesses and households have moved from depressed levels to neutral.

Treasury curve slope has finally normalized across tenors, supporting a normalization of loan growth. The short end of the curve has come down by 100bps so far, but this easing cycle is dramatically shallower than initially expected. Accordingly, rising long rates have been the critical factor in durable yield curve normalization this cycle.

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

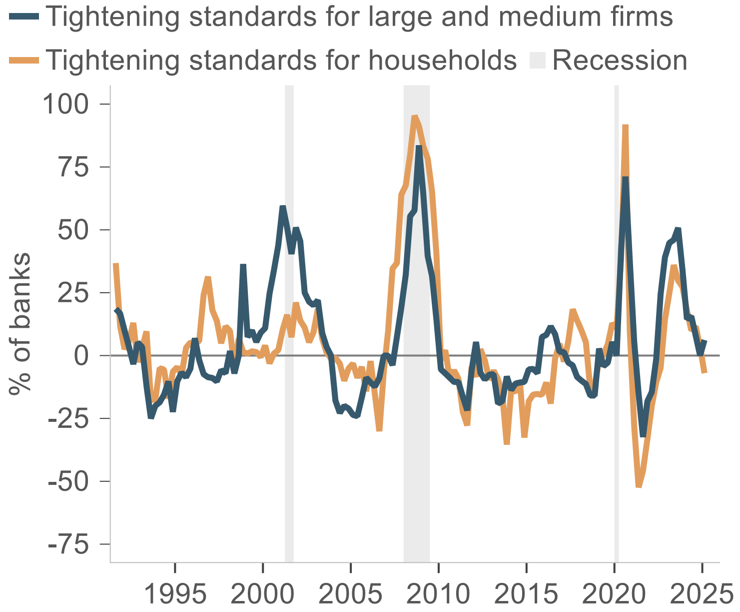
On the demand side, both households and businesses are exiting an era of depressed demand for bank loans. Looking ahead, we would expect the combination of resilient economic activity and easier financing costs to continue supporting loan growth.

The Treasury yield curve has finally normalized across tenors



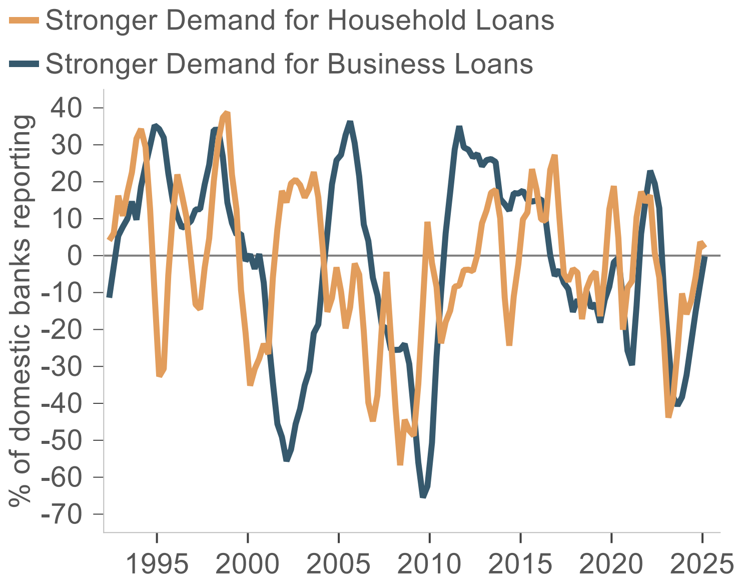
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, March 2025.

Bank lending standards have moved to neutral



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

Loan demand is picking up for both businesses and households



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

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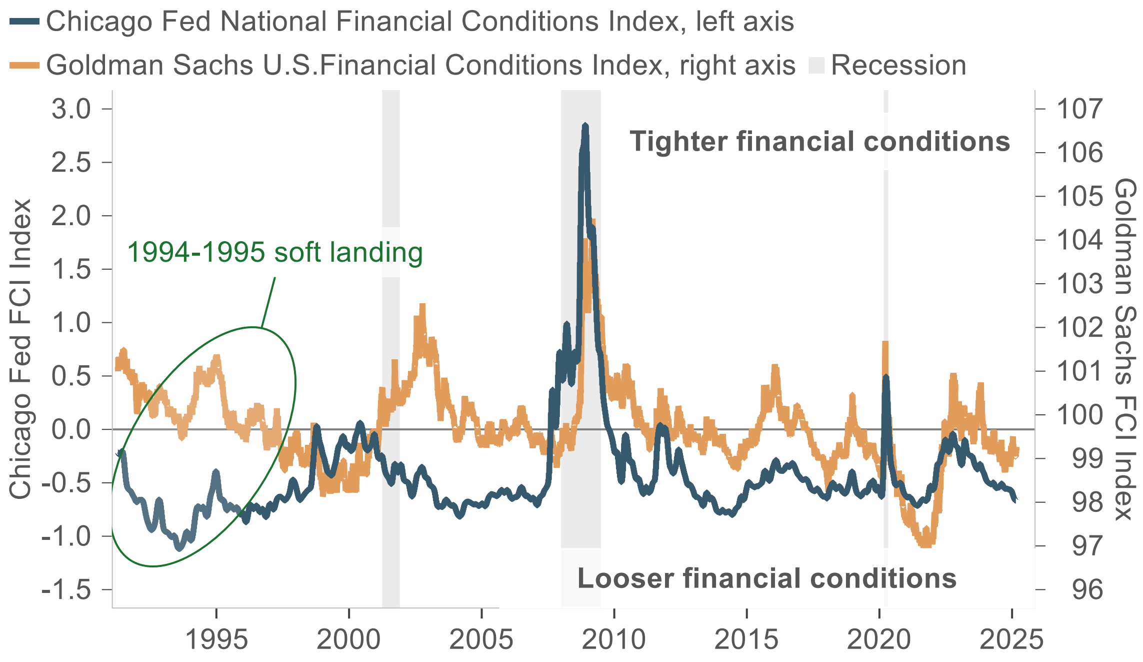
Market-determined financial conditions are loose

Equity price appreciation and tight credit spreads contribute to accommodative market financial conditions; improvement from here is limited.

- Market-determined financial conditions are loose (**left chart**) because equities have seen strong price performance and relatively low volatility; credit spreads are tight (**right chart**); and the U.S. dollar is strong. But given that equities continue to flirt with all-time highs and credit spreads are at or near historic tights, investors should not expect the trend toward ever-looser financial conditions to continue.

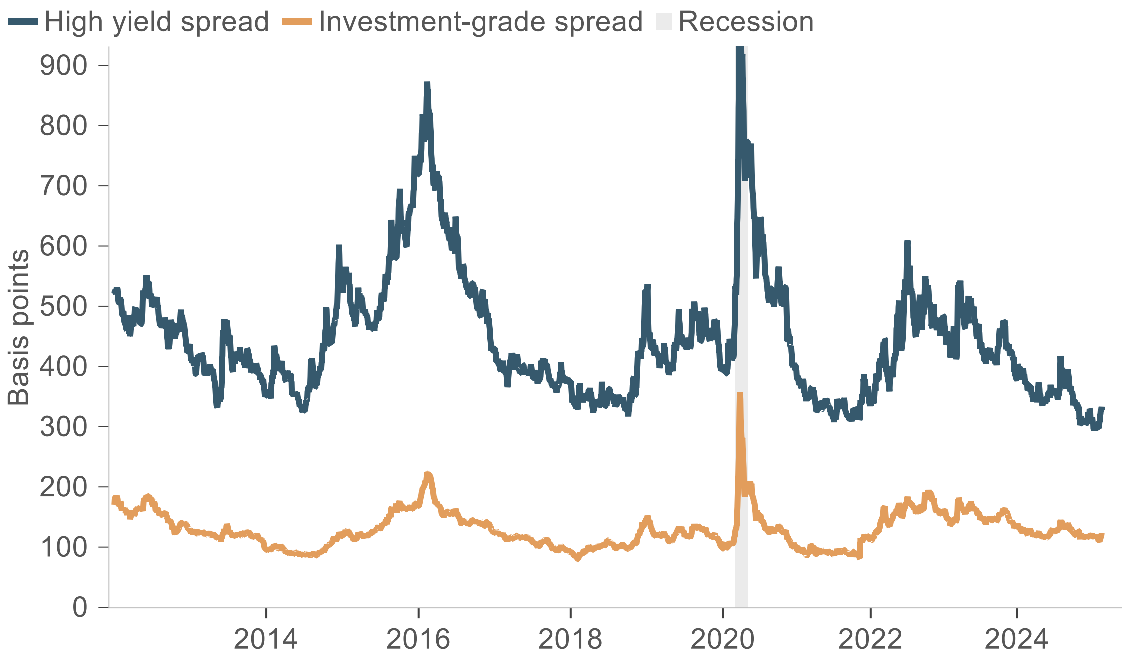
- Though we have high conviction in credit in the near term, we are not as optimistic on price performance. With higher rand more volatile Treasury yields likely in our view, and with corporate fundamentals looking healthy (downward corporate yield pressure), it is unlikely spreads get even tighter from here. We are monitoring any gradual reversal of these conditions should equity performance falter and spreads widen.

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



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

Spreads are at historic lows for high yield credit



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

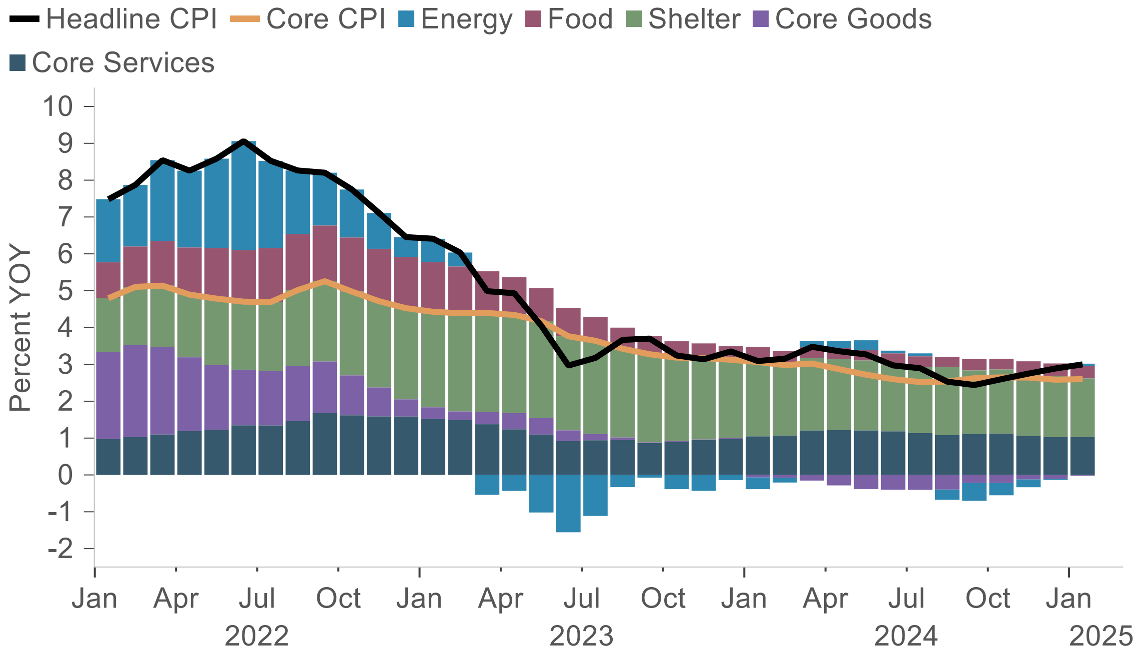
The economy is still facing the fastest inflation surge since the 1970s

With resilient economic growth, structural economic changes, and policy risk to the upside, inflation cannot re-anchor.

- For much of Q4 2024 and Q1 2025, the balance of growth, employment, inflation, and rates looked like Goldilocks. However, we are approaching "too hot" territory with inflation – not just with the individual January CPI report, but a burgeoning four-month reacceleration trend in core consumer price growth.

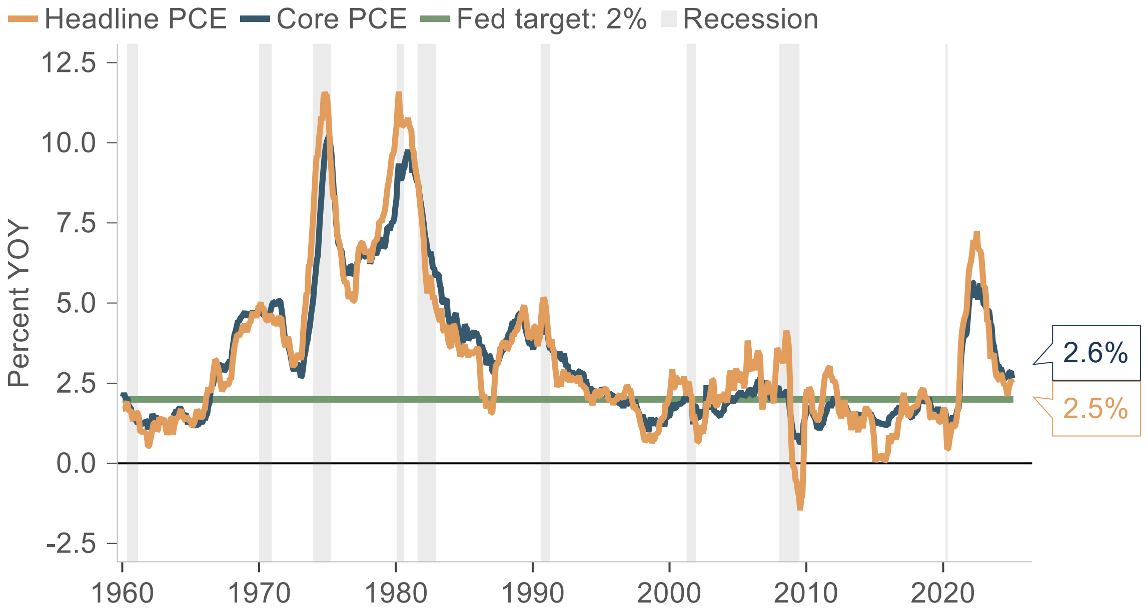
- U.S. inflation has moderated from its peak in mid-2022 but remains above the Federal Reserve's 2% target.
- A solid jobs market, strong yield generation and equity price performance have led to above-trend economic growth and a resilient consumer, primarily among high-income households.

Shelter inflation proving the stickiest



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

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



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

Inflation's progress toward the Fed's target has slowed

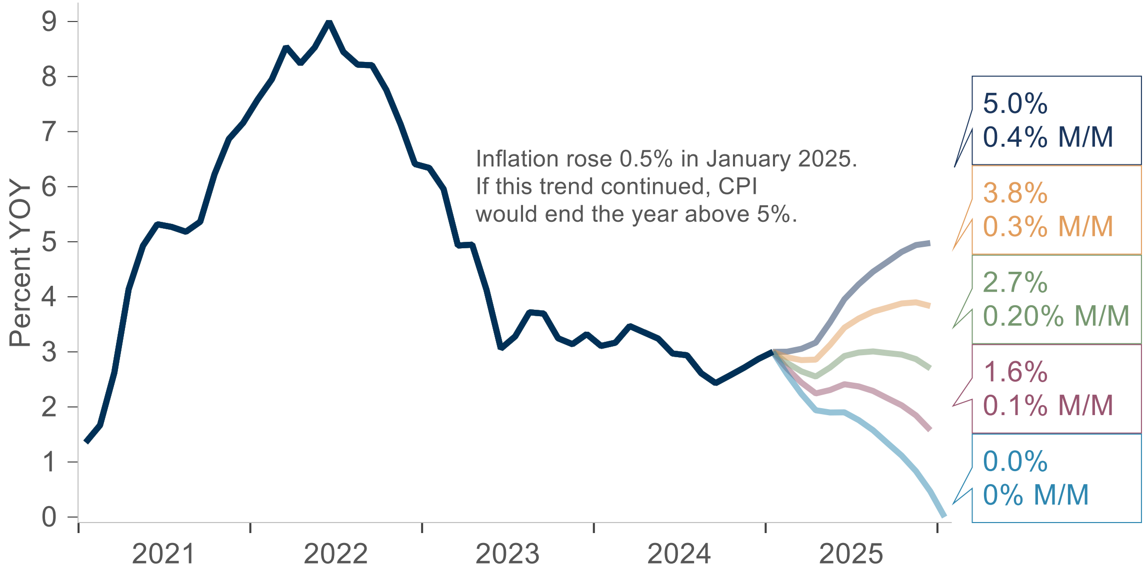
It takes only incremental monthly increases, particularly in the largest components of the inflation basket, to create a double peak in inflation.

- It has been our view that well-behaved inflation reports have been a key market underpinning, allowing equities to climb and yields to avoid disruptive spikes even as economic data has come in strong and policy uncertainty mounts.
- Accordingly, inflation reacceleration risk is top of mind for the Fed: monthly increases greater than 0.2% in inflation will likely keep the Fed on hold.

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

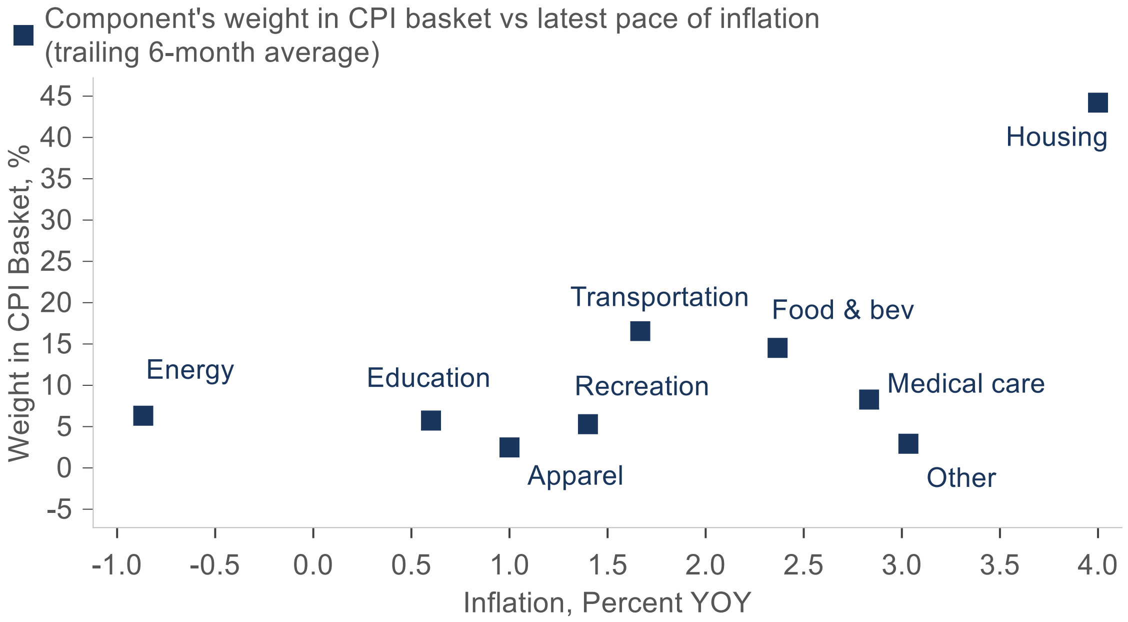
Incremental monthly increases could easily create a reacceleration trend in CPI

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



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

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



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

Inflation expectations also point to upside risk for prices

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

Near-term inflation expectations tend to be more volatile than longer-term expectations, as long as the market believes the Fed can hold to its 2.0% target. In recent months, near-term breakevens have moved materially higher, though long-term breakeavens are still relatively well-behaved.

Inflation swaps have a more compressed range, but point to the same trend as breakevens. Long-term inflation swaps are around 2.5%, creeping above breakevens. As inflation expectations can affect consumer and business behavior and become self-fulfilling, we are watching these closely.

Consumer surveys are naturally noisy, but the recent spike in next-year inflation expectations shows consumers are worried about prices. Though we can't ascertain the specific source of fears, the spike occurred in January, seemingly a response to policy change such as tariffs.

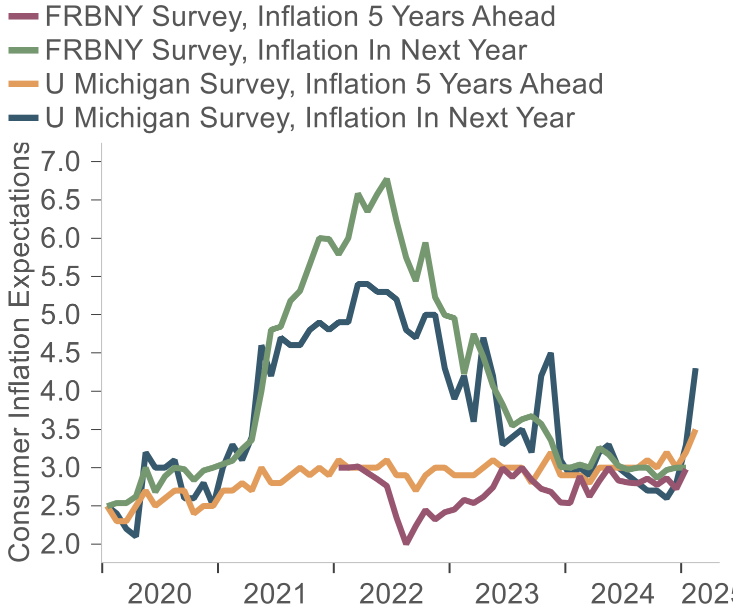
Long-term TIPS-derived inflation breakevens are well anchored; near-term remains volatile

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

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

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

Consumer inflation expectations are rising again



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

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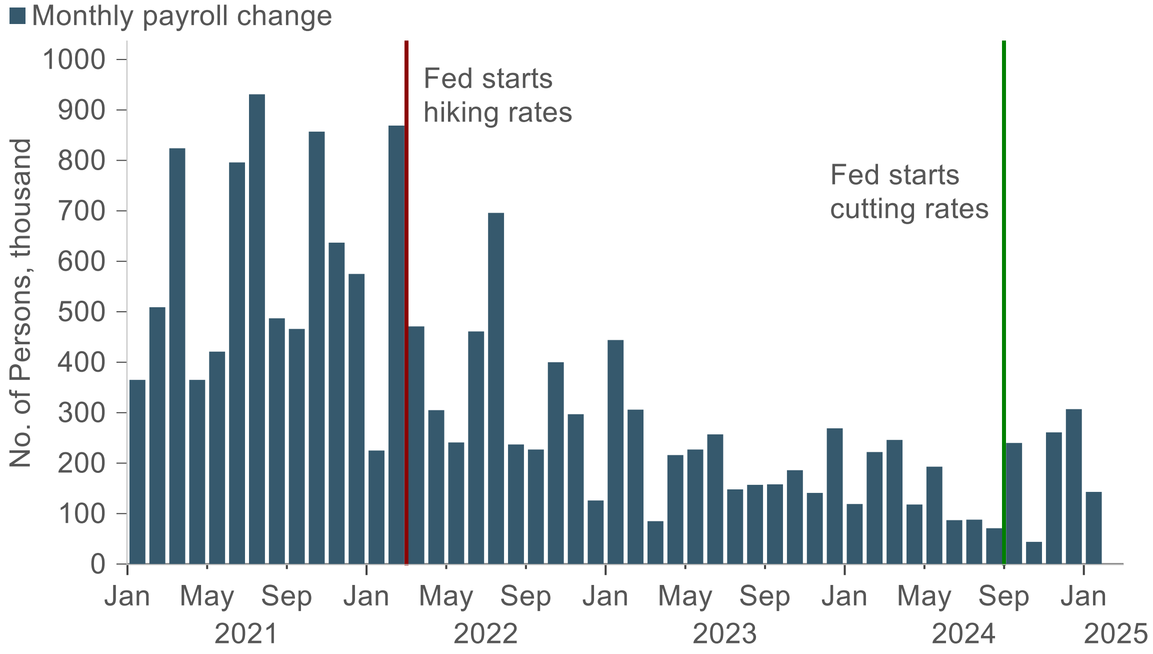
Labor market strength has been a vital source of market stability

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

- Labor market stability is paramount to our economic view; strong wages and job availability have carried consumers through an inflationary environment. Major threats to employment or a new wave of hiring can be catalysts for consumer behavior, and therefore for market behavior. Our research suggests that the current Fed easing cycle should add buoyancy to the labor market, fostering stability for consumers. A strong wave of hiring is unlikely.

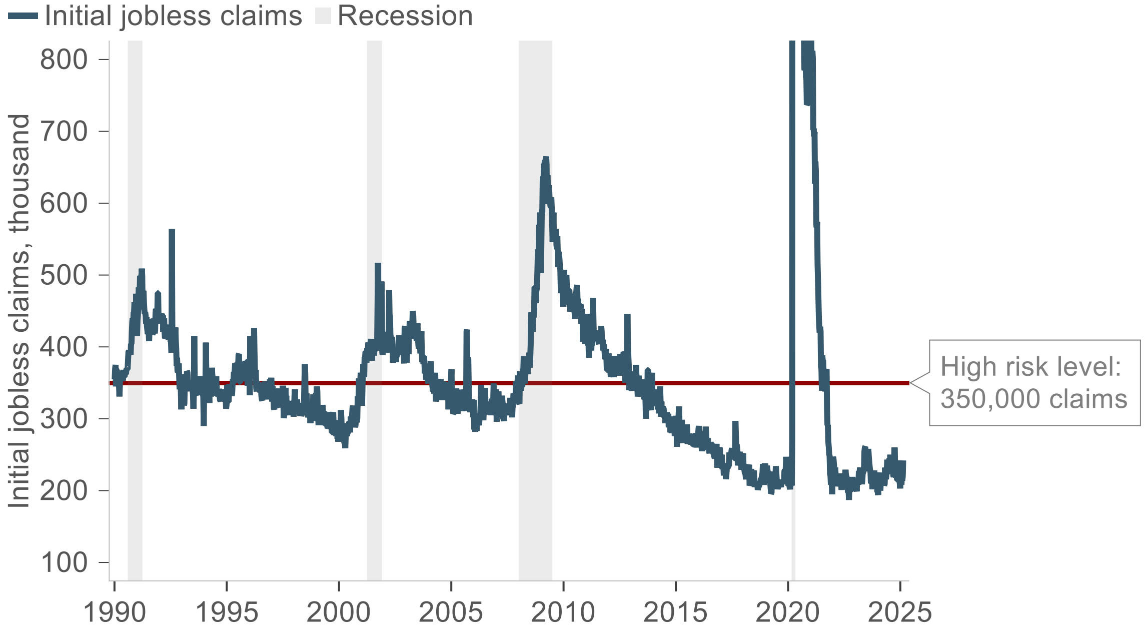
- Jobless claims serve as an early warning for labor market weakness, yet they have remained low throughout the Fed's hiking and cutting cycle. So far this year, weekly claims have averaged 222,000, signaling continued strength. We see 350,000 as the key threshold where investors should be wary of a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

Job growth gradually decelerated during rate hikes to normalized levels



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

Jobless claims should provide an early signal of labor market weakness



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

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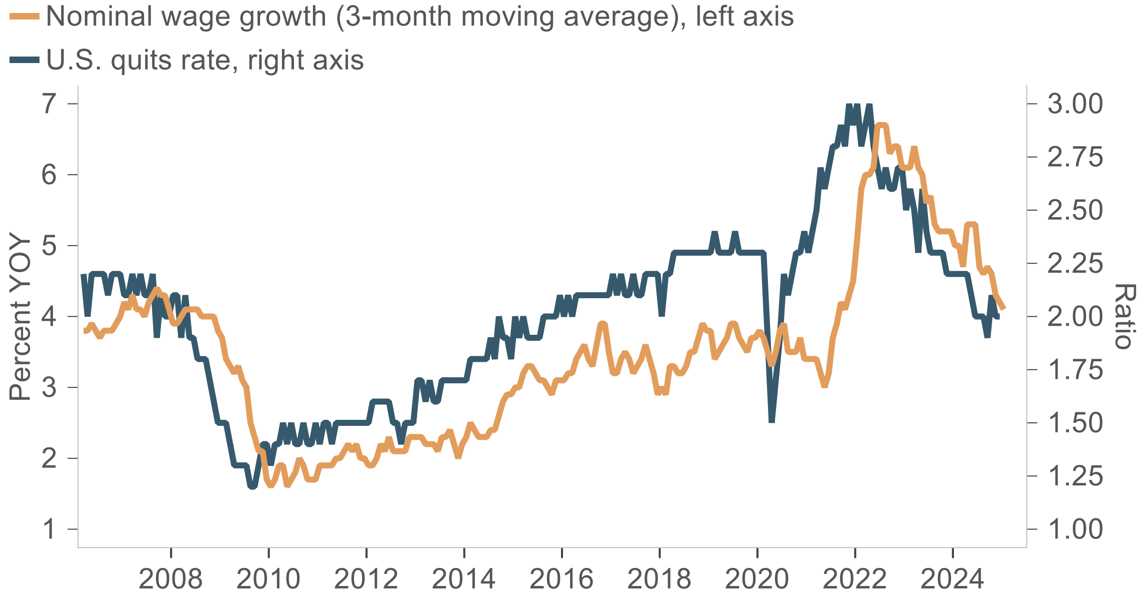
The labor market has moved into better balance in recent quarters

Hiring and wage growth are slowing, but a healthy corporate sector suggests mass layoffs are not likely this year.

- Over the last several quarters, the labor market has moved from an overheating level into more balance. A slowing quits rate back to pre-pandemic levels suggests 1) employee confidence is waning and 2) wage growth may continue to moderate, reducing inflationary pressure.

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

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



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

Survey data also suggets labor market activity is moderating

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

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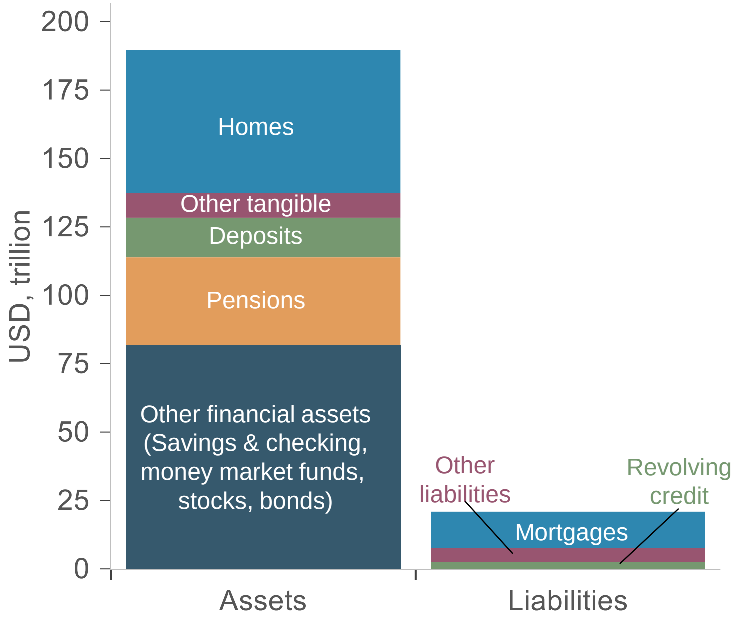
The U.S. consumer remains remarkably strong…

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

- U.S. homeowners have been almost entirely shielded from the Fed's hiking cycle. Homeowners' equity is at the highest level on record and financial assets have been bolstered by strong capital markets performance. This positive wealth effect has supported higher-income household consumption, seen in rising credit card balances (without rising default rates).

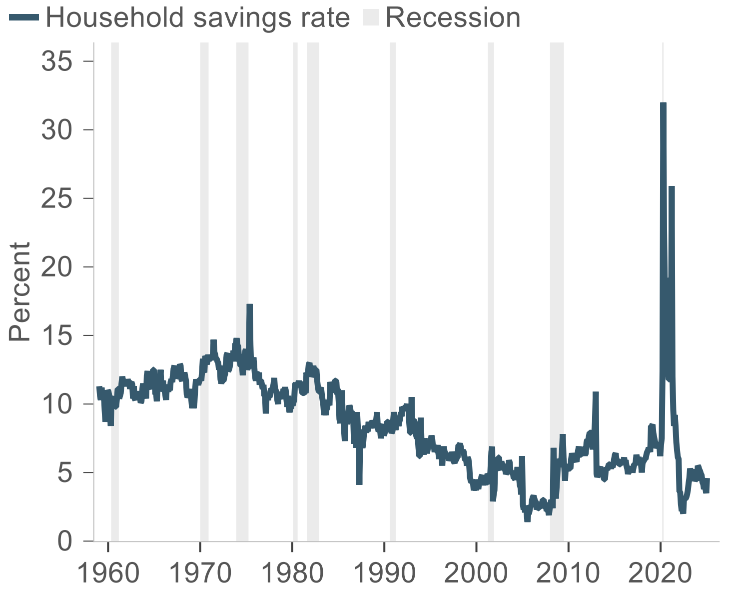
- Consumers no longer have a savings backstop; "excess savings" have long been drawn down. A lower savings rate may signal healthy consumer spending but can also create an area of vulnerability for low-income and younger consumers.
- High-income consumers make up a large portion of consumer spending; any risk to recent wealth gains (e.g. equity market loss) would likely impact overall economic data.

Consumer balance sheets are healthy...



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

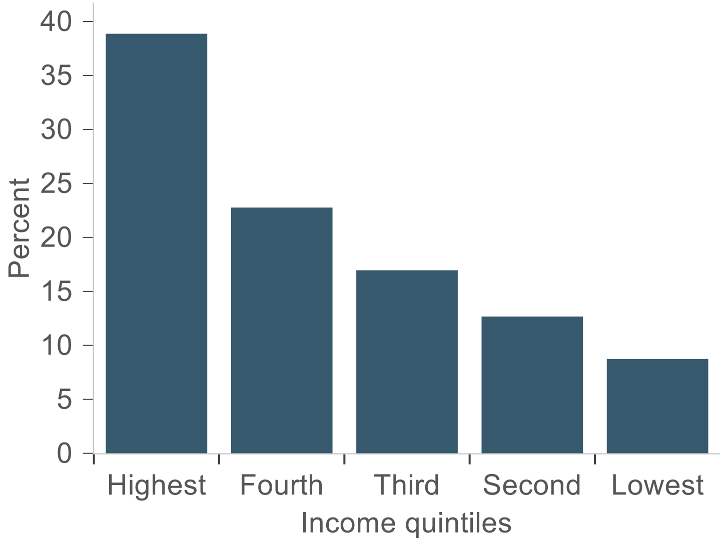
...but savings are being drawn down



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, March 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, March 2025.

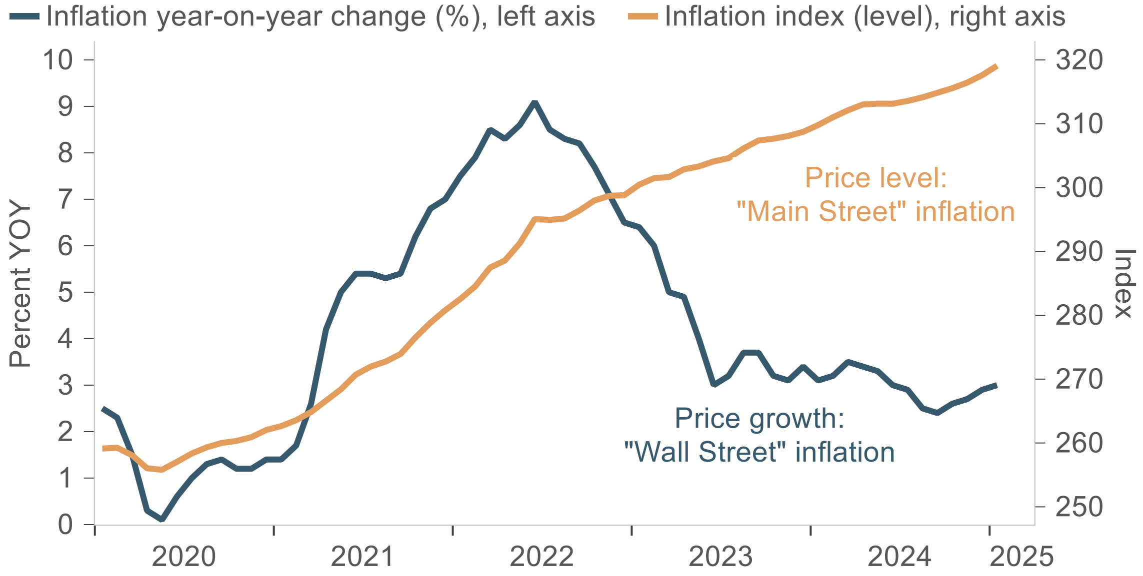
...but Americans have seen no price relief in four years

"Main street" inflation is still squeezing consumers, particularly younger and lower-income segments.

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

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

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



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

Low job loss anxiety has supported consumer spending

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

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

Consumer credit looks healthy overall, with select pockets of stress

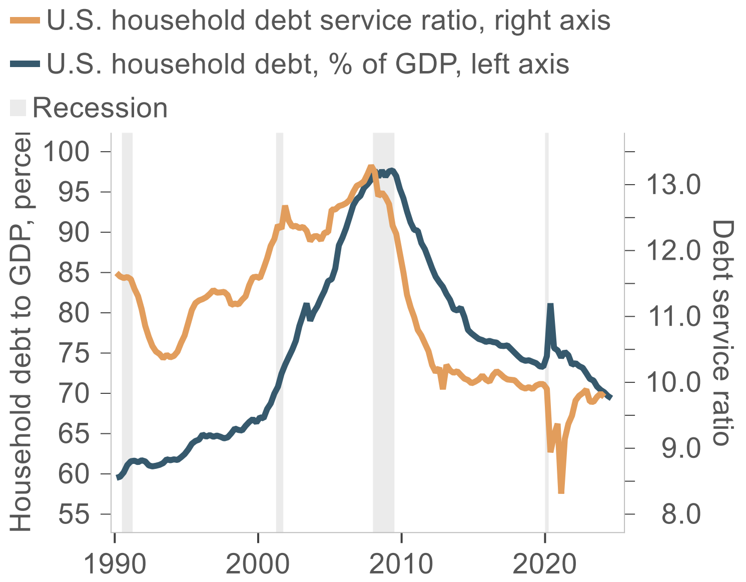
We see no systemic signs of consumer overleverage or credit quality concerns.

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

Consumer credit growth is coming off its fastest pace in 30 years. This is likely good news. When credit growth is too strong, as was the case in recent years, it can signal that households must borrow to finance normal expenditures. That credit growth has normalized amid a challenging inflationary period is likely good news.

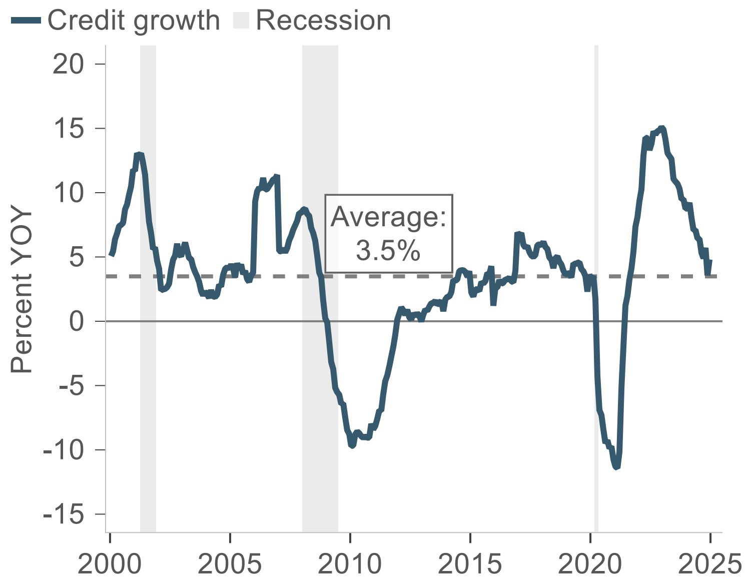
Still, inflation has created pockets of stress, namely among younger and lower-income segments that lack a savings backstop. In these groups we see higher credit card balances and rising delinquencies in credit cards and auto loans. Older Americans have benefitted from strong home equity and financial asset performance and are not seeing credit stress.

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



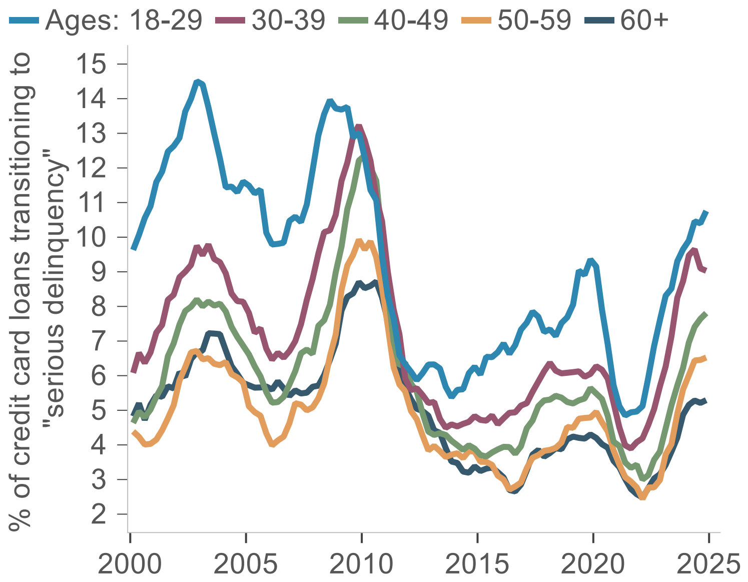
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Federal Reserve, Bloomberg, Macrobond, March 2025.

Consumer credit growth is normalizing to its historic pace...



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

... and credit quality issues are concentrated, not broad based



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

Housing supply and affordability issues are unlikely to budge

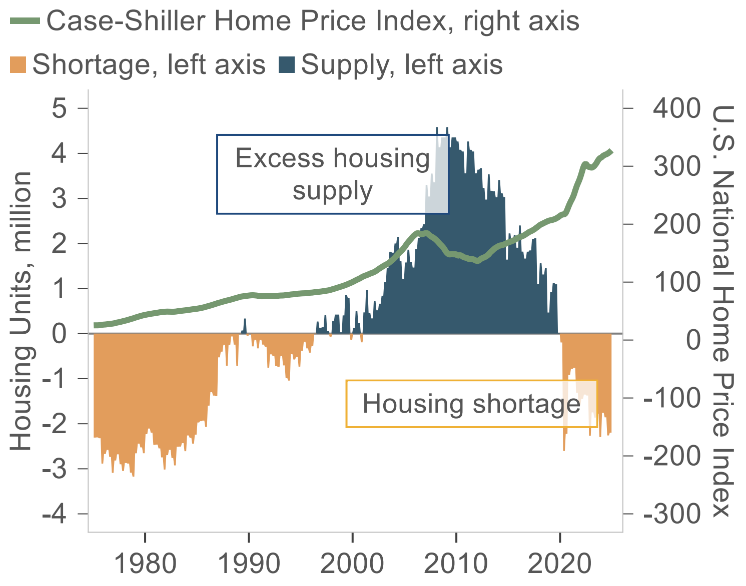
Barring a surge in housing construction and/or a dramatic fall in mortgage rates, home prices have a strong floor for the medium term.

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

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

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

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

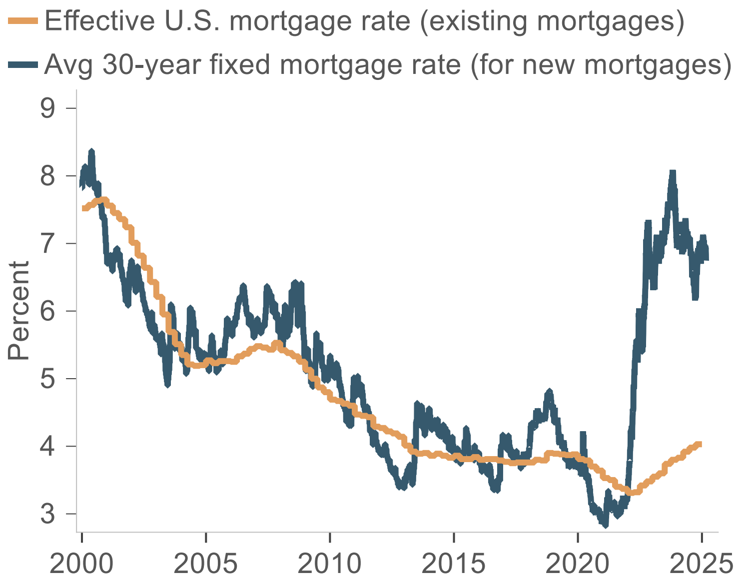


Sources: New York Life Investments Global Market Strategy, U.S. Census Bureau, U.S. Bureau of Economic Analysis (BEA), S&P Global, Macrobond, March 2025.

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, March 2025.

Mortgage rates would need to plummet to incentivize housing turnover



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

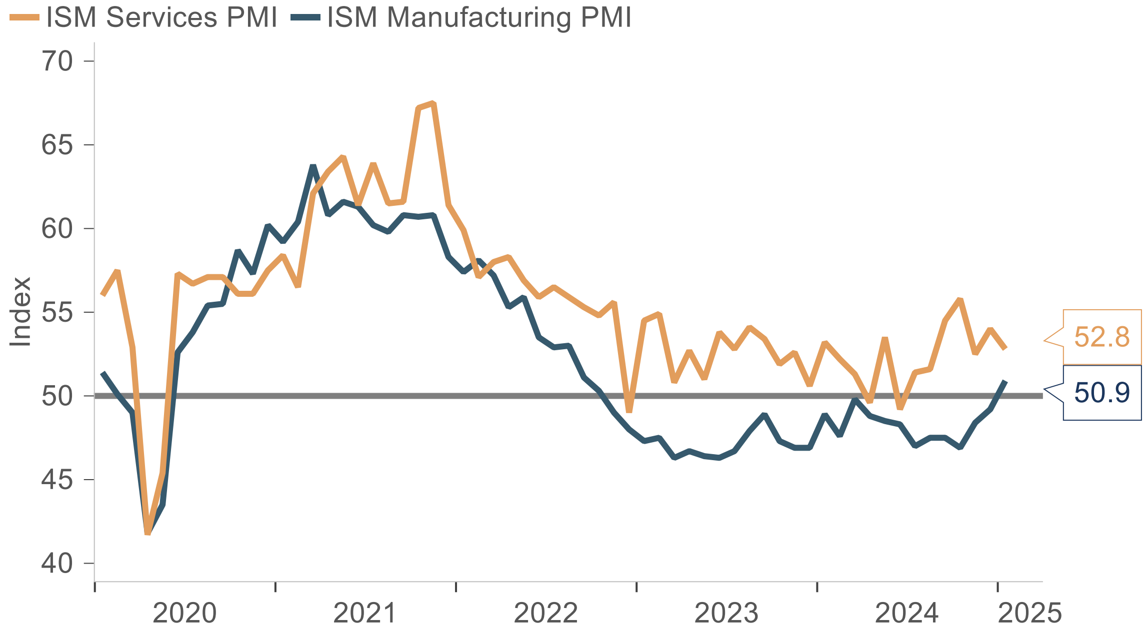
Business sentiment has recovered after a manufacturing recession

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

- Services sector sentiment appears to have achieved a soft landing, but it is now clear a manufacturing recession occurred in 2022-2024 as higher interest rates hit this capital-intensive sector. Interest rate relief appears to be working fast in turning manufacturing sentiment around, now back into positive territory.

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

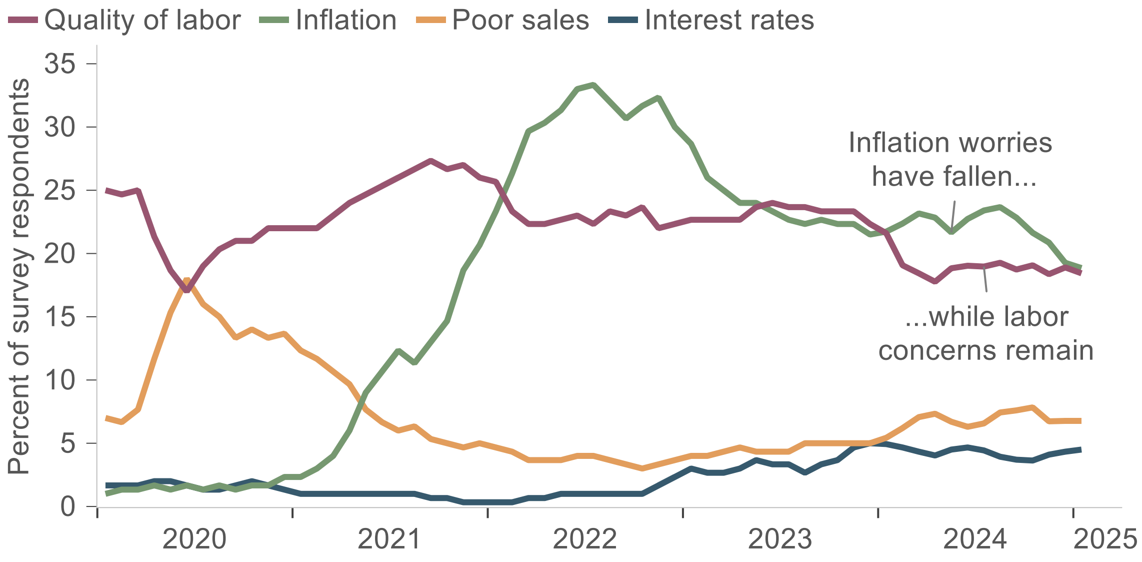
PMI sentiment suggests we are exiting a manufacturing recession



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

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

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



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

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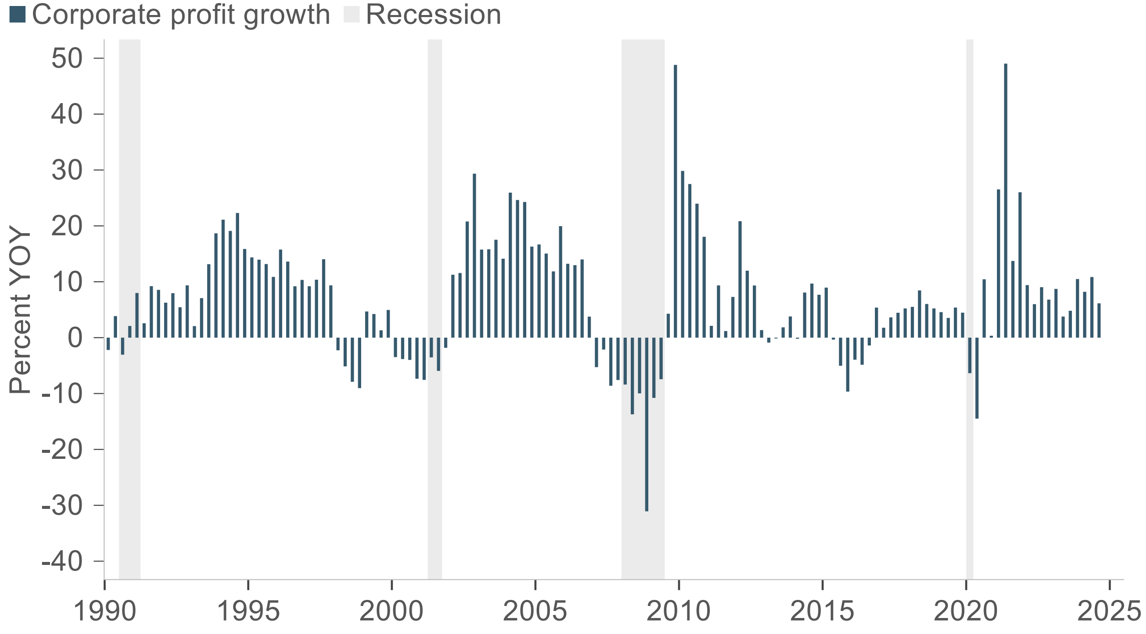
Businesses are maintaining healthy profit levels

Hardy corporate profits make a rapid slowdown in economic activity unlikely.

- Today's corporate profit margins have been largely resilient, making mass layoffs unlikely. Corporate profits are primarily driven by the business cycle and are less directly impacted by interest rate cuts from the Fed. If the Fed is cutting due to recessionary conditions, profits tend to trend lower even amid rate cuts. If the Fed is cutting to normalize the rate environment, like it is today, corporate profits tend to benefit from economic resilience.

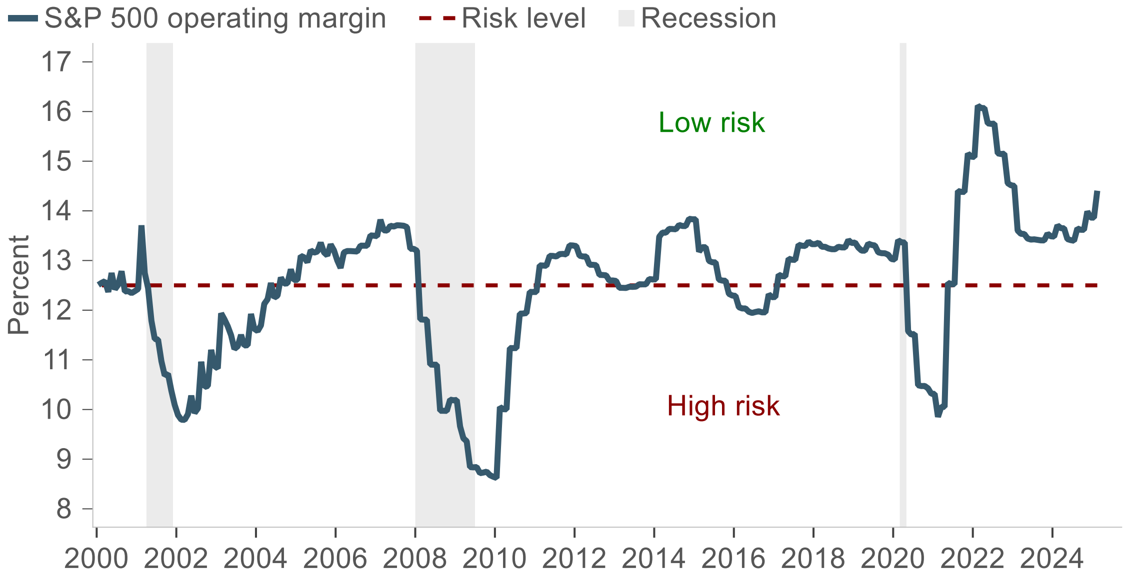
- Companies have been maintaining healthy margins. Today, S&P 500 operating margins are hovering near 13.7%, still above the level of around 12.5% where falling margins have historically become a concern. Technology-driven productivity improvements could support margin expansion in the medium term, but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

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



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

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



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Bloomberg, Macrobond, March 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 have improved, but are not out of the woods

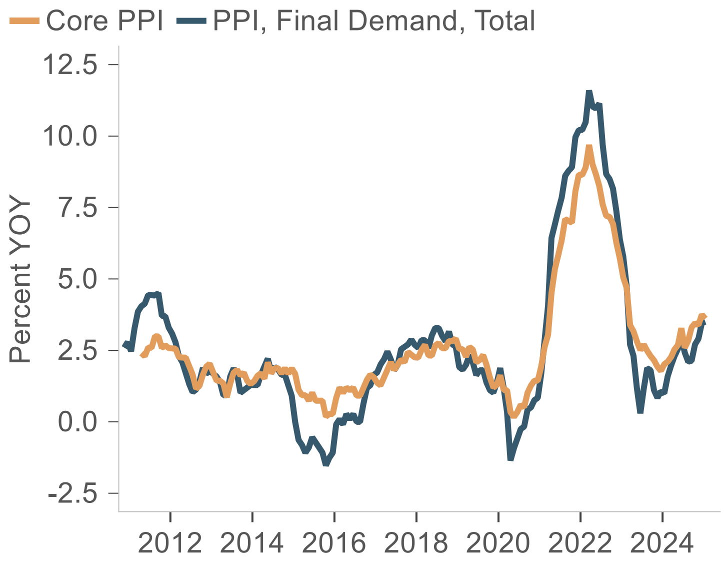
Employment costs are falling, but otherwise sticky input prices make it unlikely businesses will be lowering prices for their customers.

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

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

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

Producer Price Index points to a gradual reacceleration in input costs

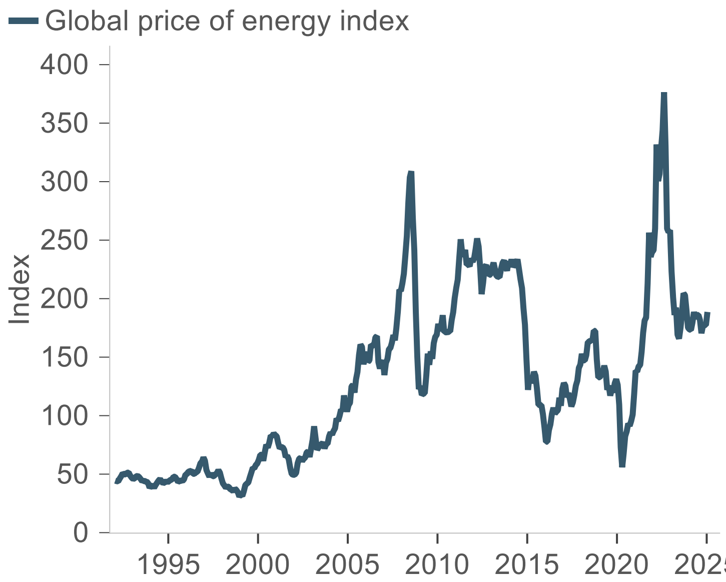


Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, March 2025. Core Producer Price Index (PPI): total less food and energy.

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, March 2025.

Energy costs have normalized after reaching new highs



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

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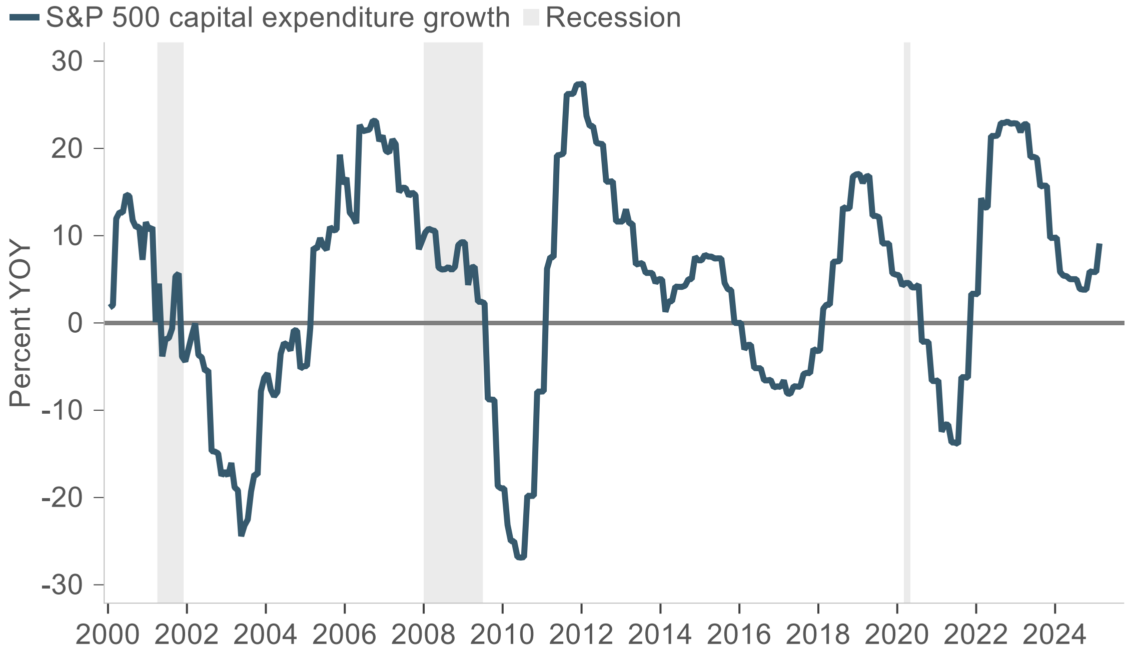
Business investment is high, improving the overall economic outlook

The race for AI capabilities has fueled capital expenditures, a trend that is poised to continue.

- Capital expenditures are likely to remain high, even in the face of higher rates, driven mostly by investments in AI infrastructure by the technology, communications, and utilities sectors.
- This spending reflects a secular demand for AI capabilities and the long-term productivity gains AI is expected to deliver.

- The combination of government spending in the semiconductor supply chain, coupled with strong corporate and consumer interest in AI, creates a solid foundation for sustained growth. The CHIPS Act of 2022 boosted U.S. semiconductor manufacturing with a goal of reducing reliance on foreign production. Spending from the CHIPS Act has also contributed to a surge in construction and digital infrastructure spending.

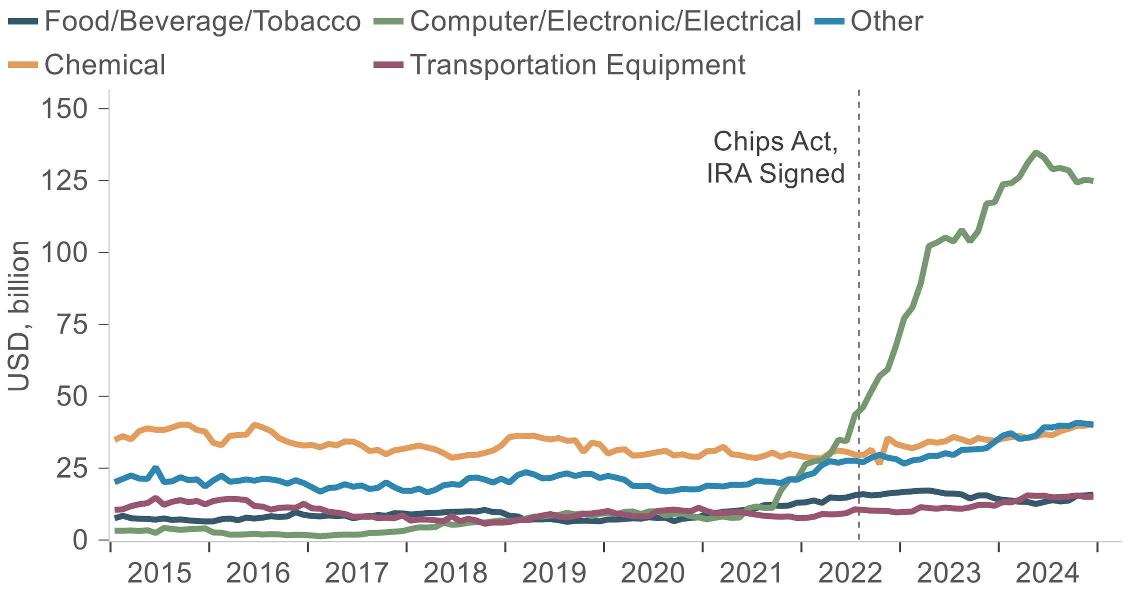
Increasing capital expenditures suggests a solid outlook in the business sector



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

Manufacturing construction is expected to drive manufacturing activity

Real manufacturing construction spending



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

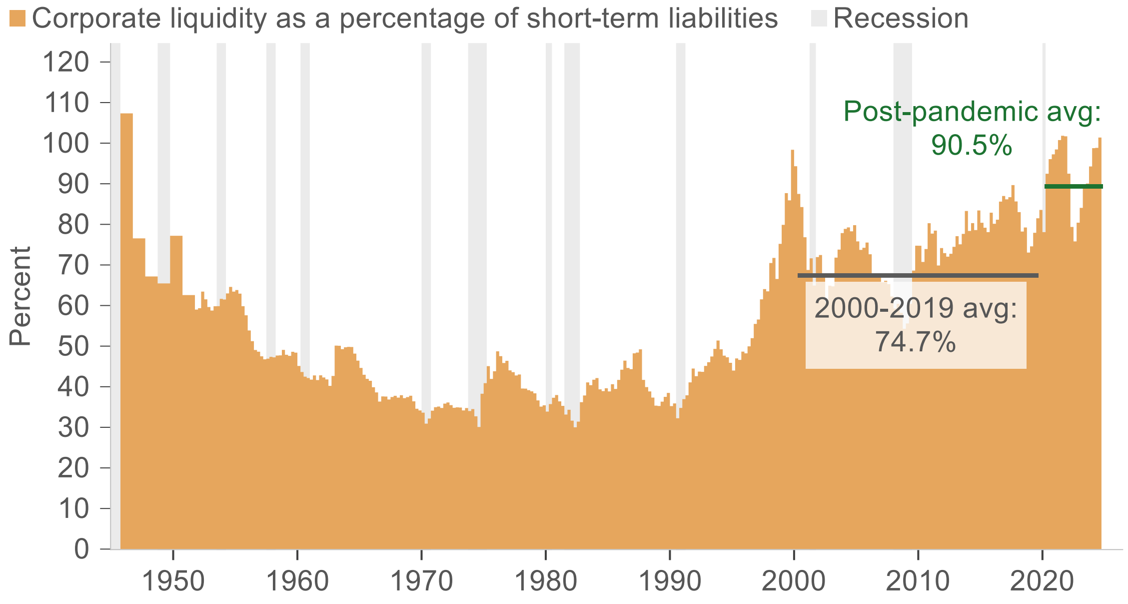
Business debt levels and debt service show no cause for concern

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

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

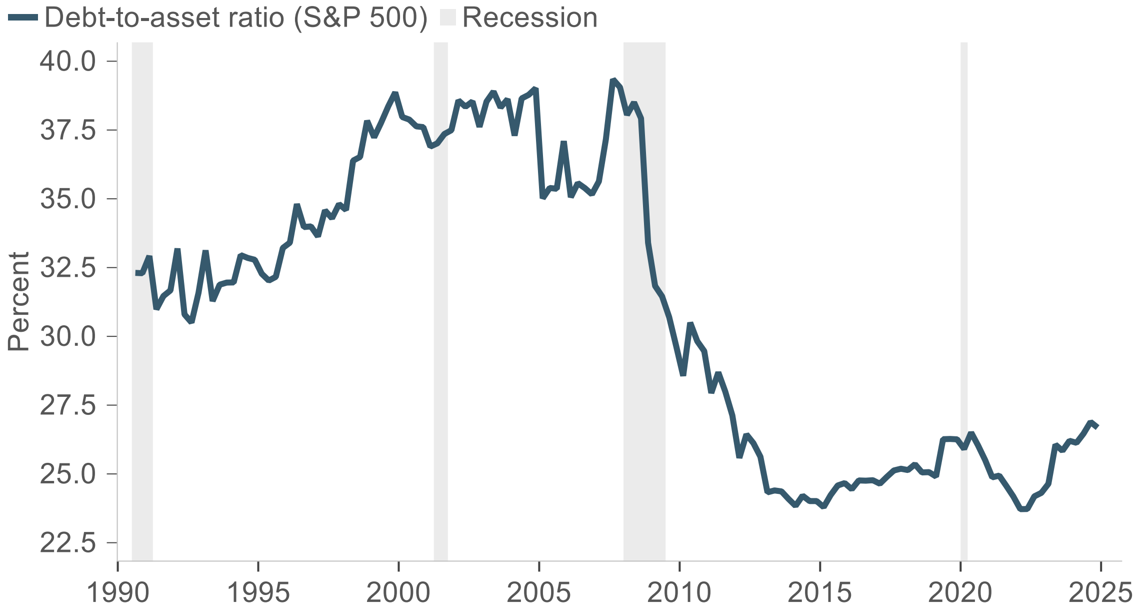
- Overall corporate debt-to-asset levels are near 30-year lows. Rather than accrue debt to get through the pandemic, U.S. companies benefitted from an easy financing environment and passed through inflation to consumers, allowing these firms to emerge from the pandemic with an improved capital structure.

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



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

We see no structural debt imbalance amongst listed corporations



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

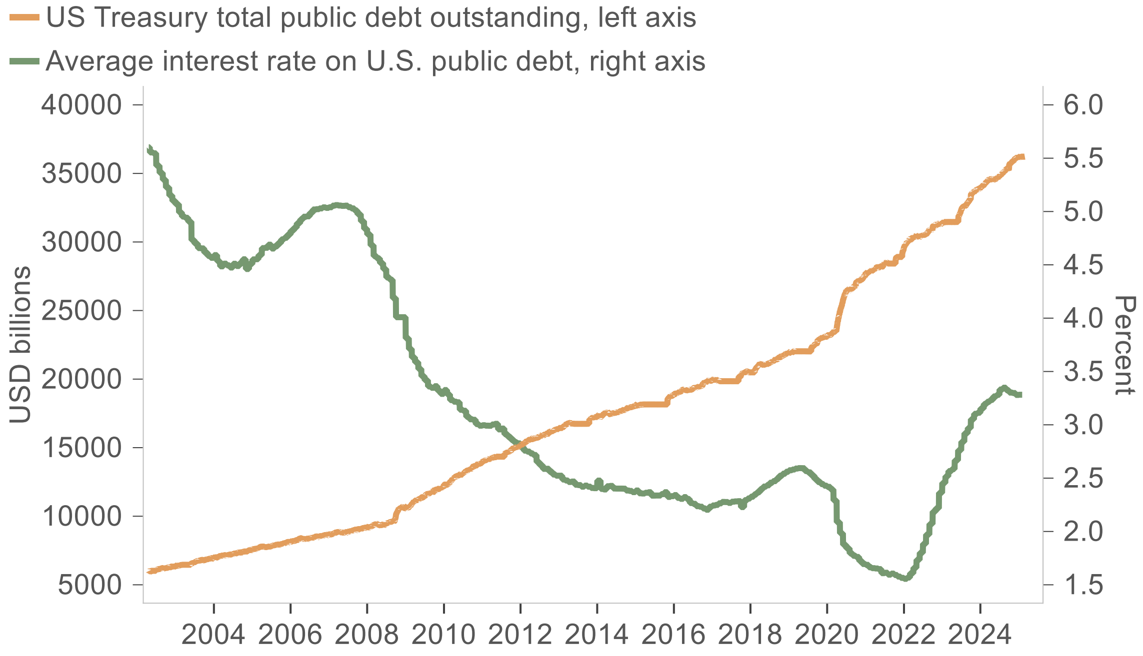
The fiscal outlook remains challenging

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

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

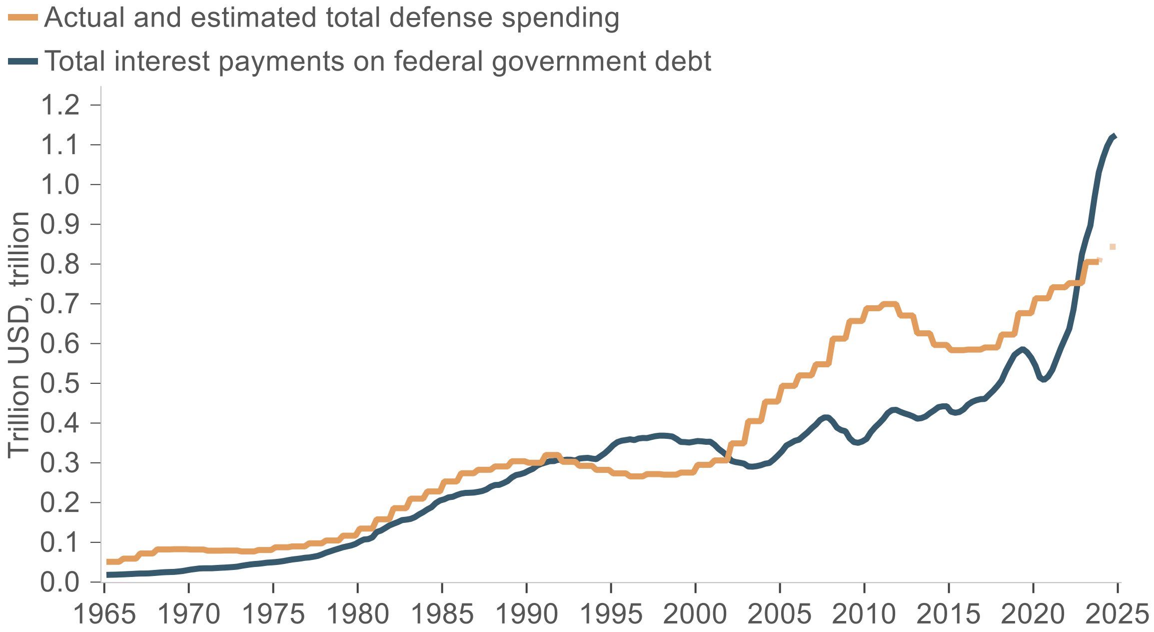
- Between higher interest rates and growing debt levels, total interest payments have risen rapidly in the past few years and now exceed the amount spent on the (previously) largest portion of the U.S. federal budget: defense. As interest payments mount, the U.S. may be forced to reduce its spending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

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



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

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



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), U.S. Congressional Budget Office (CBO), Macrobond, March 2025.

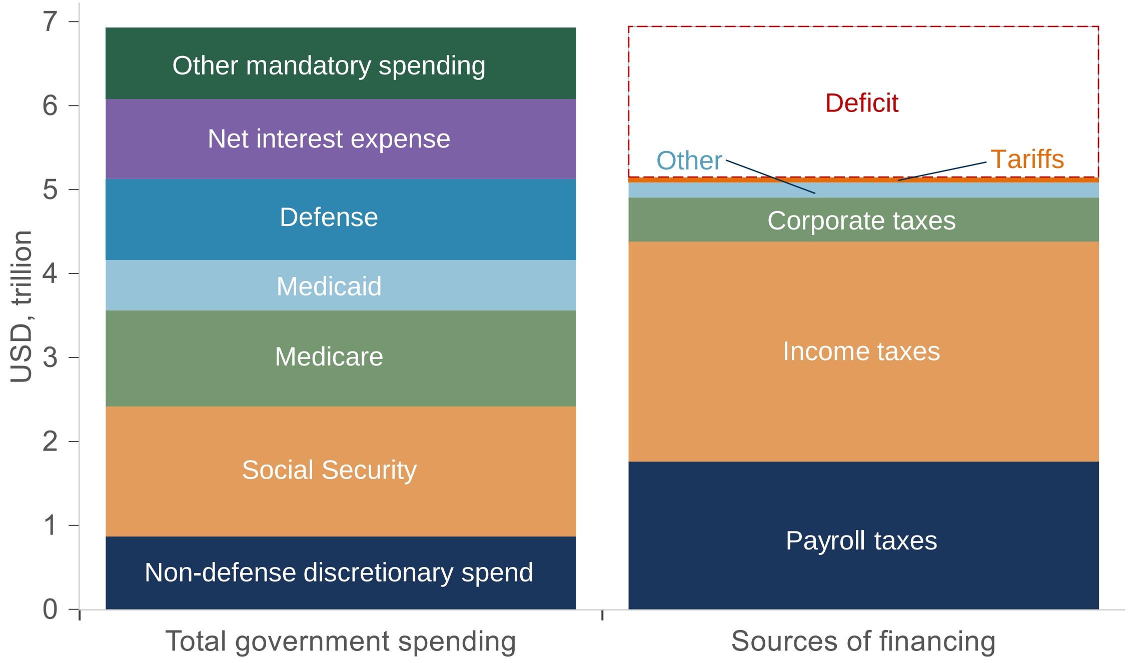
The growing budget deficit could pull debt sustainability concerns forward

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

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

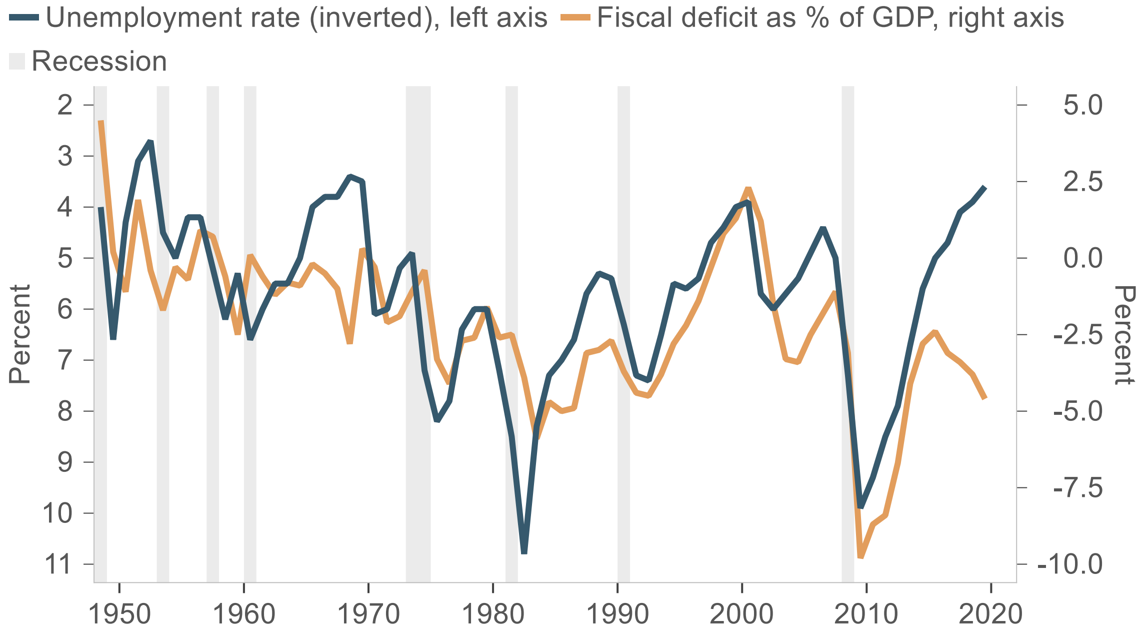
- In a typical cycle, the deficit increases alongside an increase in the unemployment rate. This is because U.S. fiscal spending is typically countercyclical, meaning as the economy slows and people lose their jobs, the government spends more to support both households and businesses. However, pandemic-related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

The 2025 budget is expected to extend the deficit



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

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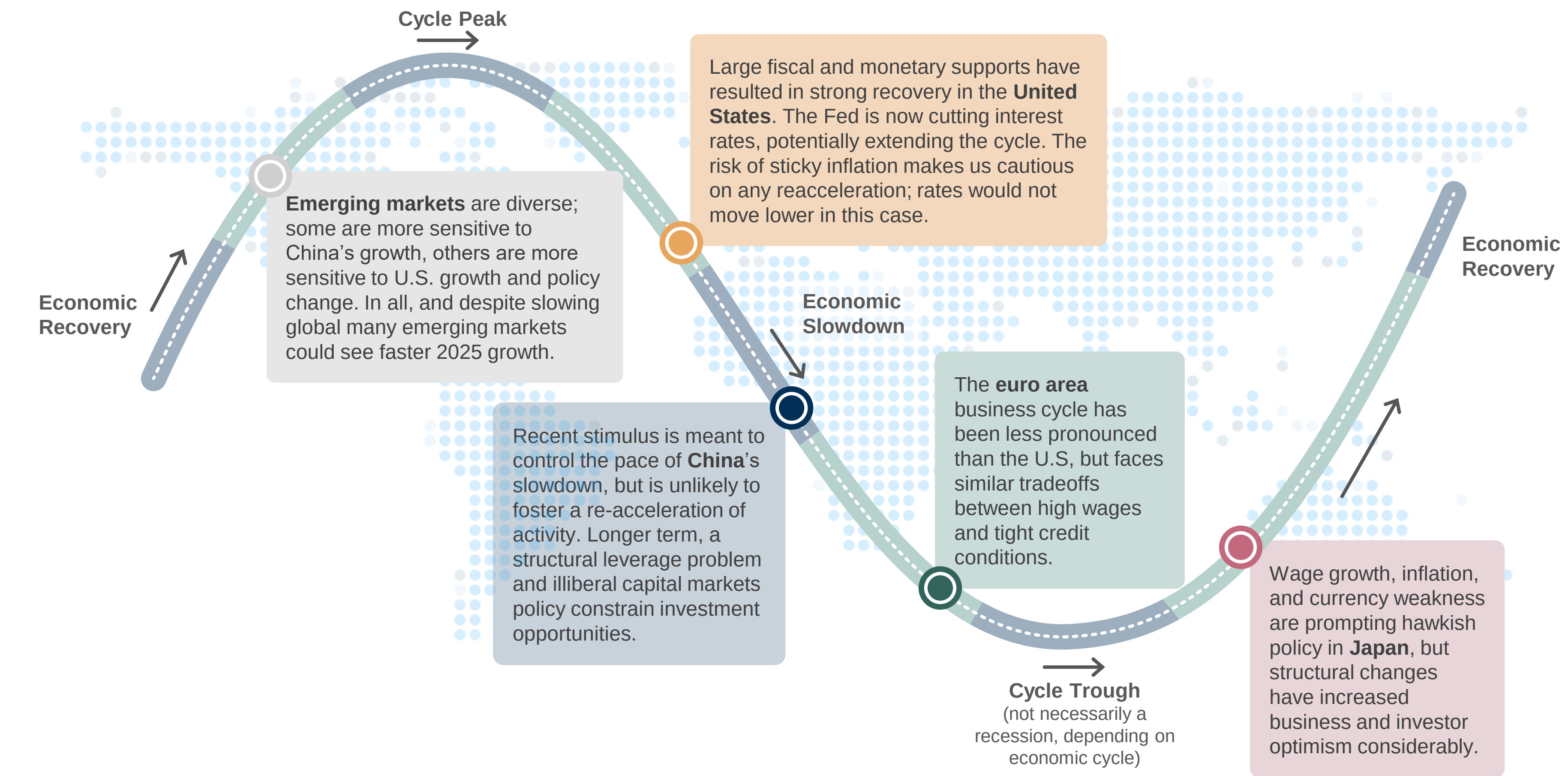
3 International economic & market outlook

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

Where are we in the global economic cycle?

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

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



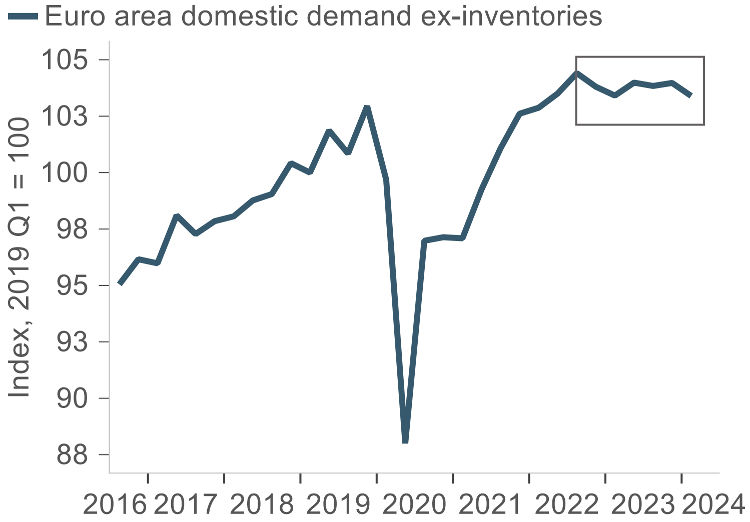
Sources: New York Life Investments Global Market Strategy, March 2025. For illustrative purposes only. "EM" is short for emerging markets. *The trough of an economic cycle is the lowest point in economic growth for a country during an economic cycle- A trough does not necessarily mean that there is a recession, but rather depends on the economic cycle.

Euro area

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

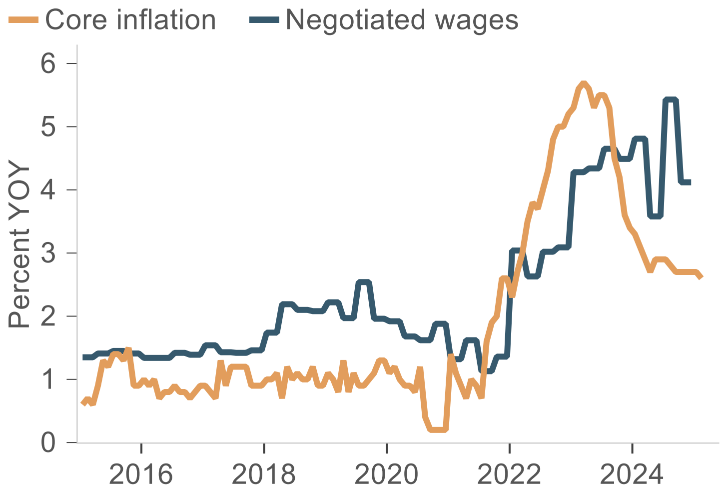
- In the past year, euro area domestic demand has flatlined (**left chart**) and inflation has moved lower (**middle chart**). In response, the ECB began steadily cutting interest rates in 2024. As a result, credit conditions improved, and business loan demand moved higher (**right chart**).
- We expect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

Domestic demand has flatlined



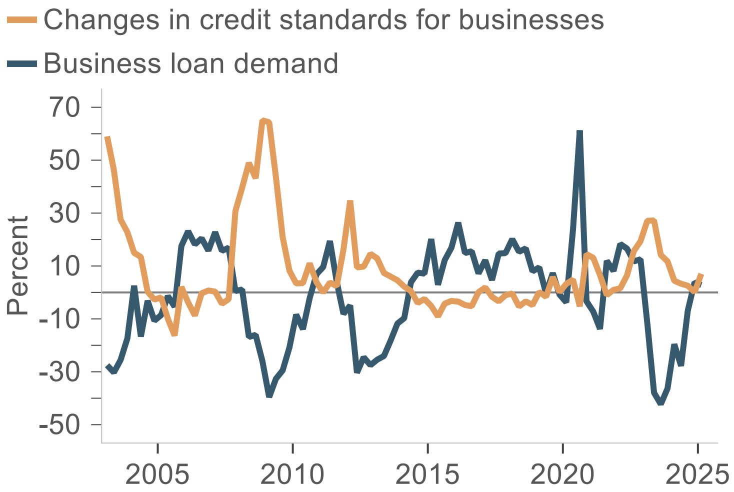
Sources: New York Life Investments Global Market Strategy, ECB (European Central Bank), Macrobond, March 2025.

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



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

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



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

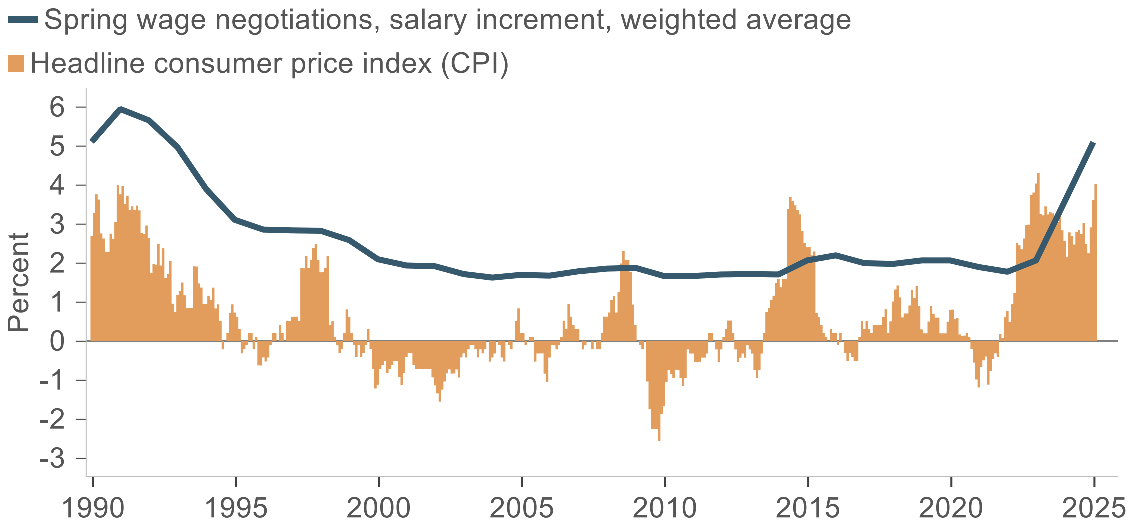
TAKEAWAY: We expect tepid euro area growth because of timid consumption, low consumer confidence, and increasing challenges related to global trade and investment. That said, a consistent interest rate cutting cycle has contributed to stronger cyclical performance and may create a tactical investment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

Japan

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

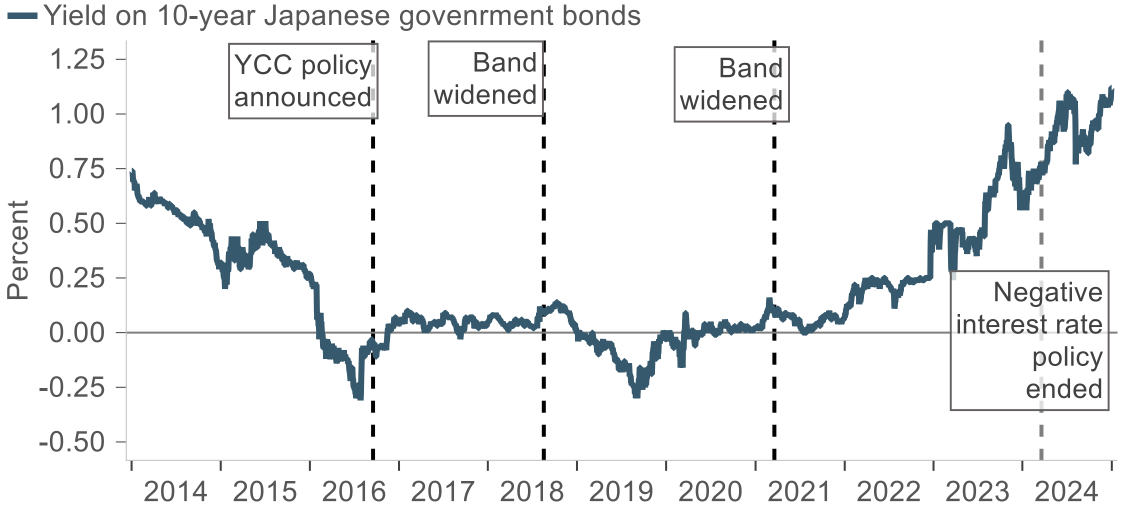
- While most global central banks were raising rates in the last two years, the Bank of Japan maintained accommodative monetary policy. This has now reversed. A weaker yen spurred import-price inflation, contributing to higher wages for the first time in many years (**left chart**).
- In response, the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

Negotiations lead to steepest wage increases in 30 years



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

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



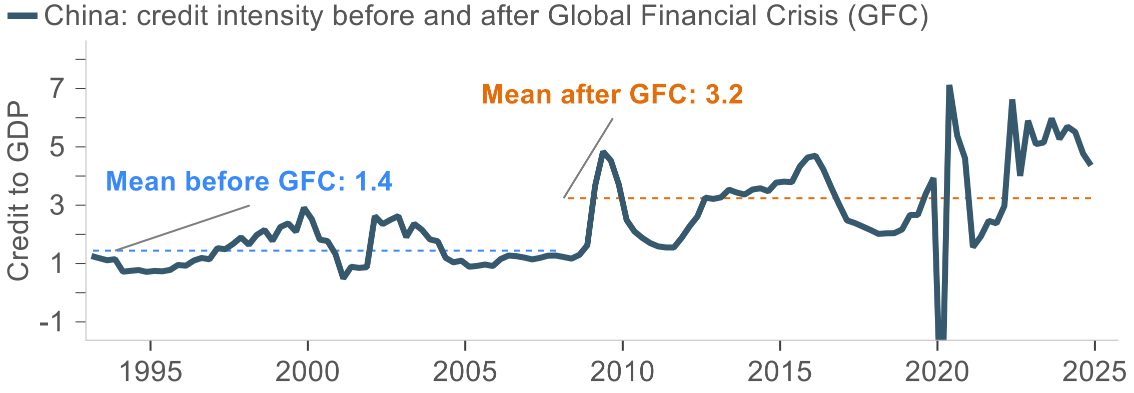
Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Macrobond, March 2025.

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

China's structural story: an ongoing balance sheet recession

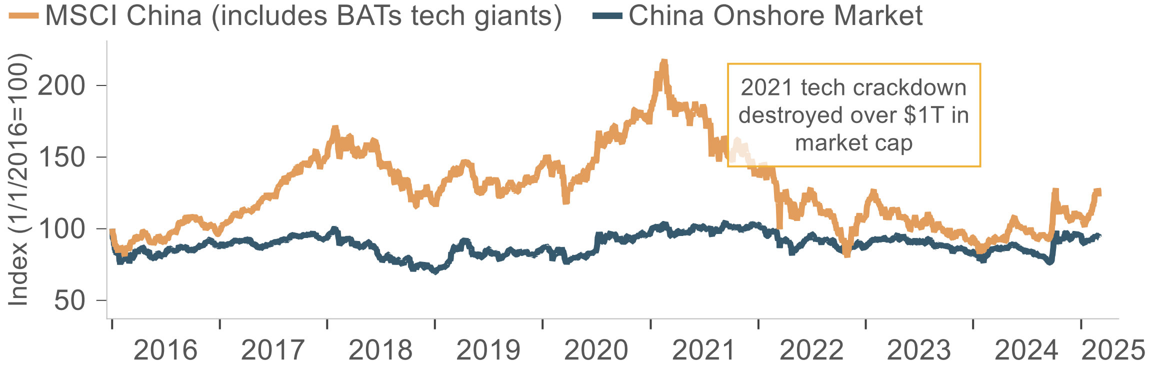
A deleveraging problem and illiberal capital markets policy are likely to constrain investment opportunities over the medium term.

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



Sources: New York Life Investments Global Market Strategy, People's Bank of China (PBoC), BIS (The Bank for International Settlements), China National Bureau of Statistics (NBS), Macrobond, March 2025. GDP: Nominal.

China's regulation has hampered value creation in equities



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, MSCI, Macrobond, March 2025. BATs: Chinese tech giants listed outside China's onshore markets: Baidu, Alibaba, Tencent. Onshore markets represented by Shanghai Composite, comprising all A and B shares listed in Shanghai. MSCI China: large and mid-cap represenation across Shanghai and Shenzhen.

- In the past several decades, credit expansion– through formal banking, shadow banking, infrastructure, and real estate – has been utilized to mitigate cyclical slowdowns, with diminishing returns (**left chart**).
- Recent years' policies seem to acknowledge that the high-leverage model is unsustainable: shadow lending had slowed, Chinese real estate giant Evergrande was allowed to fail, and local and central government growth targets have been periodically relaxed.
- But in this cycle, the taps have been turned back on. In 2025 Chinese growth is expected to slow from 5.2% YoY to 4.8% - with pressure from a property crisis and a weakening jobs market alleviated by central government financing.

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

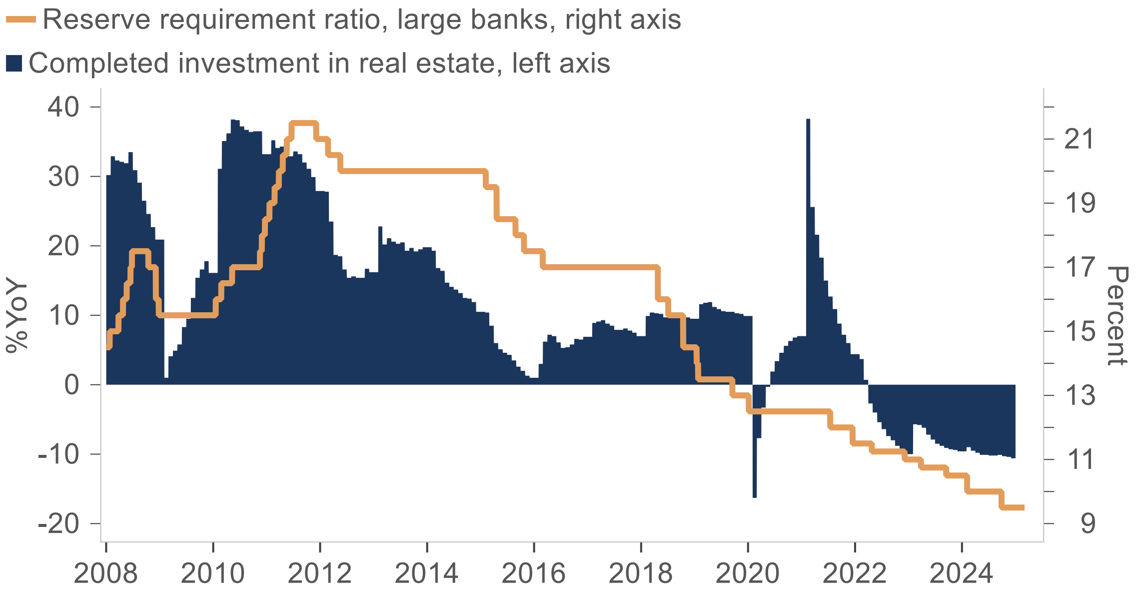
TAKEAWAY: China remains the world's #2 economy and trade power, and in this sense continues to be a "must have" in a diversified international allocation. However, the country's proclivity for avoiding economic growth slowdowns with the use of leverage, paired with wavering investor-friendly policies,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

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

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

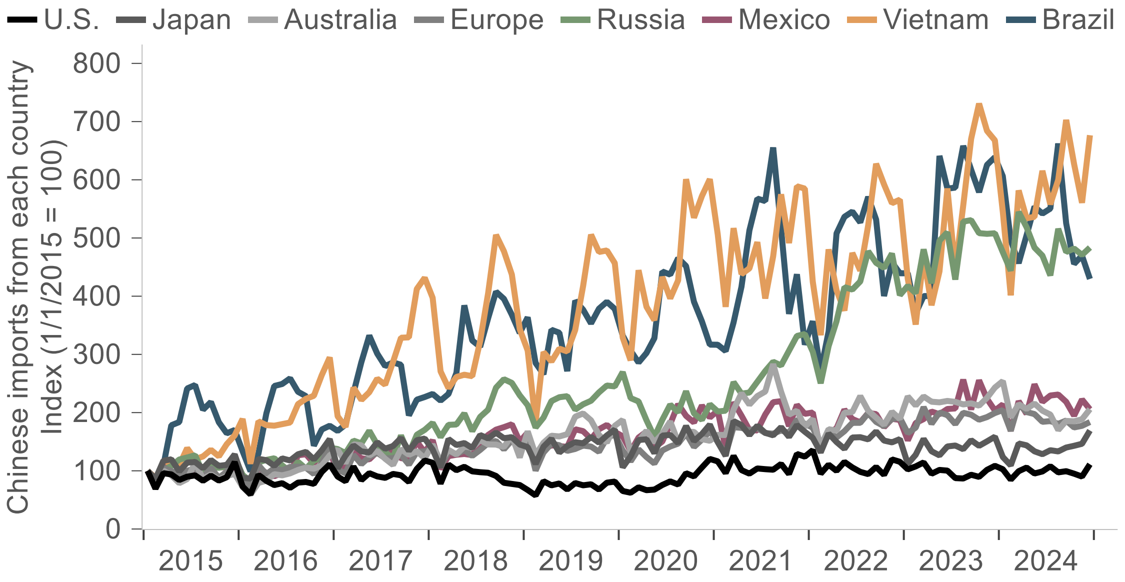
- China's 2024 stimulus is nothing new relative to its history and is not a bazooka capable of re-accelerating the economy. This cycle and on a structural basis, China uses monetary policy to counterbalance the real estate market, in part by reducing required reserve holdings by banks to encourage lending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

China is countering the real estate crash with easier monetary policy



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

Chinese imports have carved out influence over emerging market economic activity

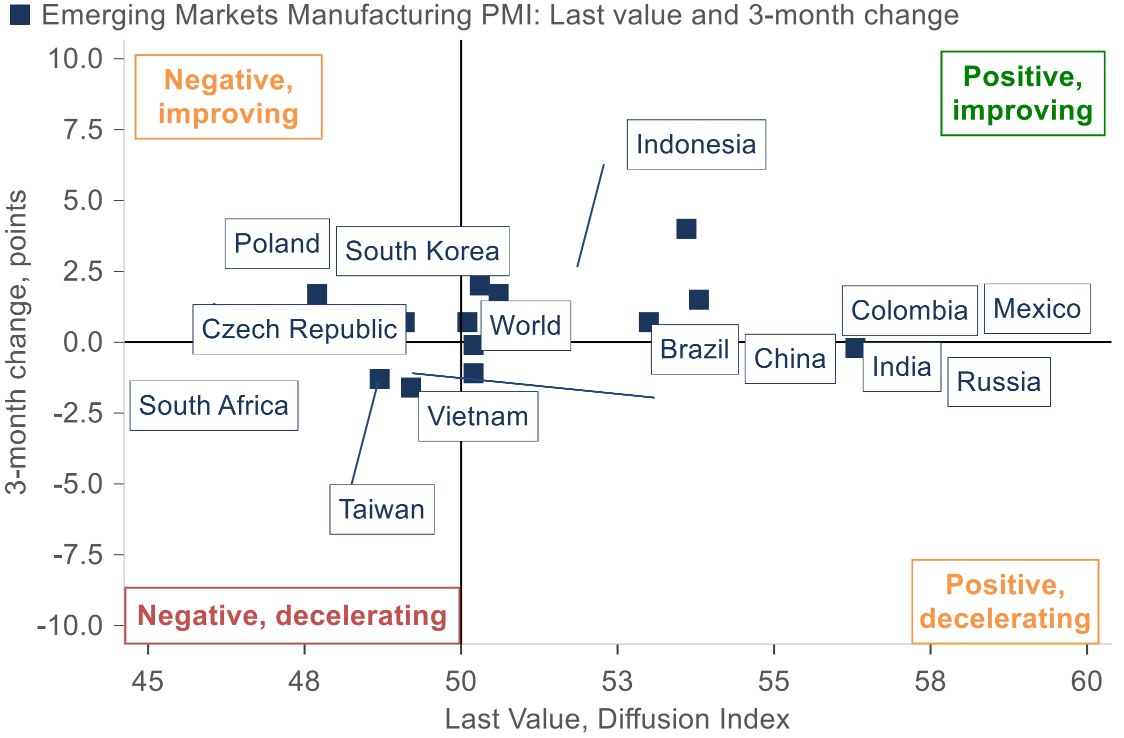


Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Customs General Administration of the People's Republic of China, , Macrobond, March 2025.

Emerging markets

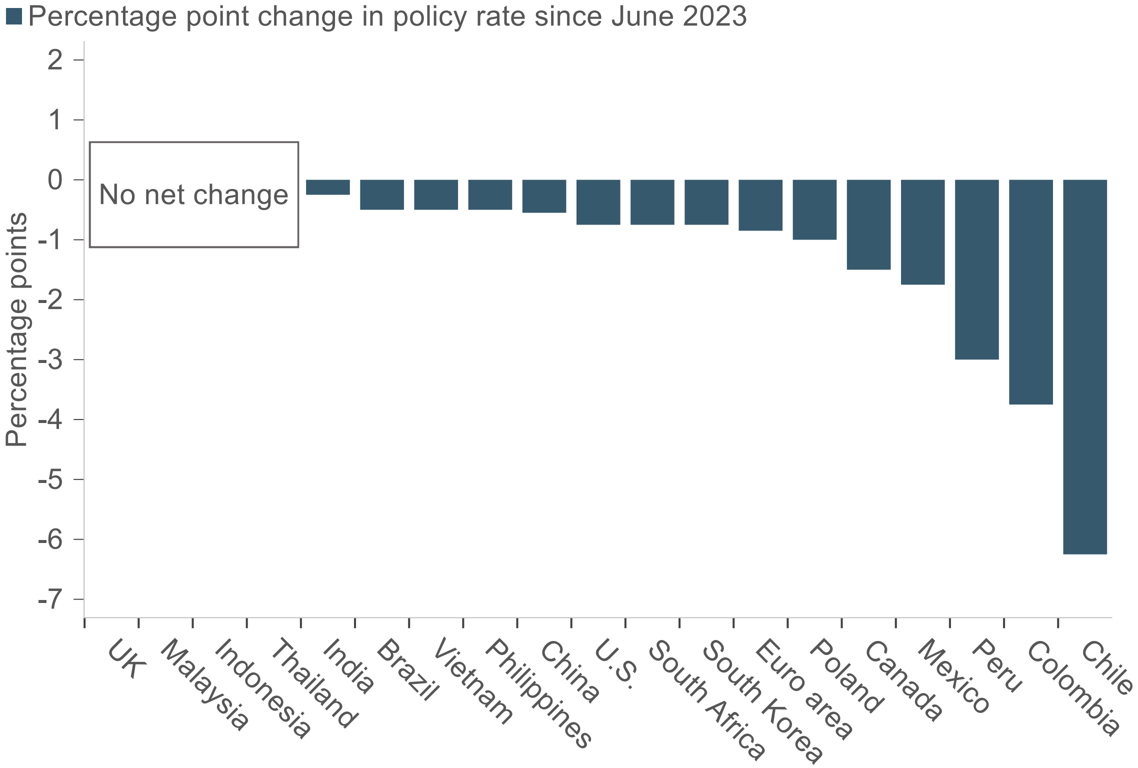
As with the global cycle, emerging markets have had vastly different experiences with inflation, driving today's interest rates and activity levels.

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



Sources: New York Life Investments Global Market Strategy, S&P Global, China Federation of Logistics & Purchasing, Taiwan National Development Council, Bureau for Economic Research of South Africa (BER), Macrobond, March 2025.

Emerging markets are leading the global easing cycle



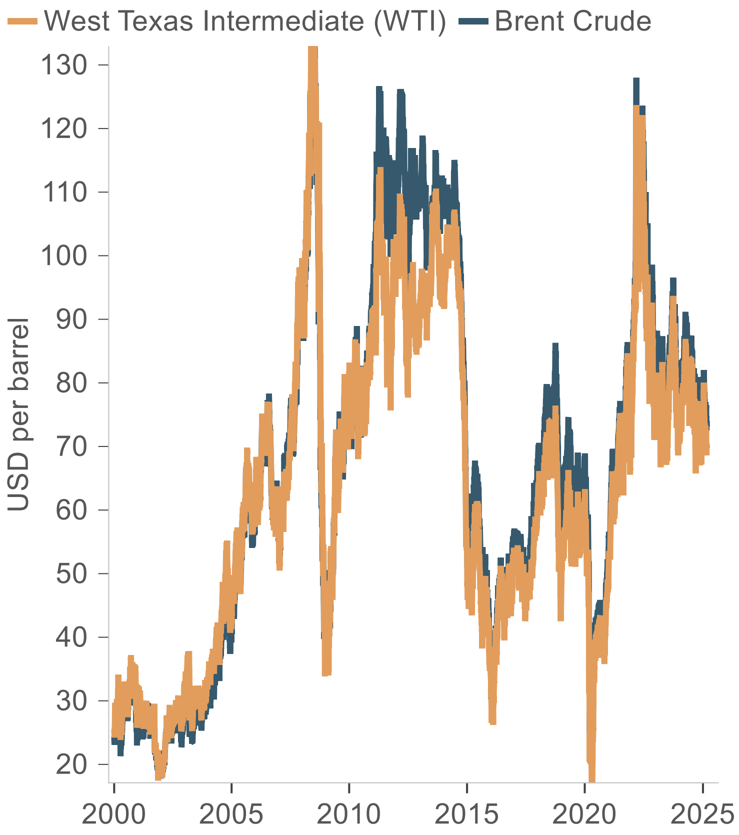
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Federal Reserve, ECB (European Central Bank), Macrobond, March 2025.

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

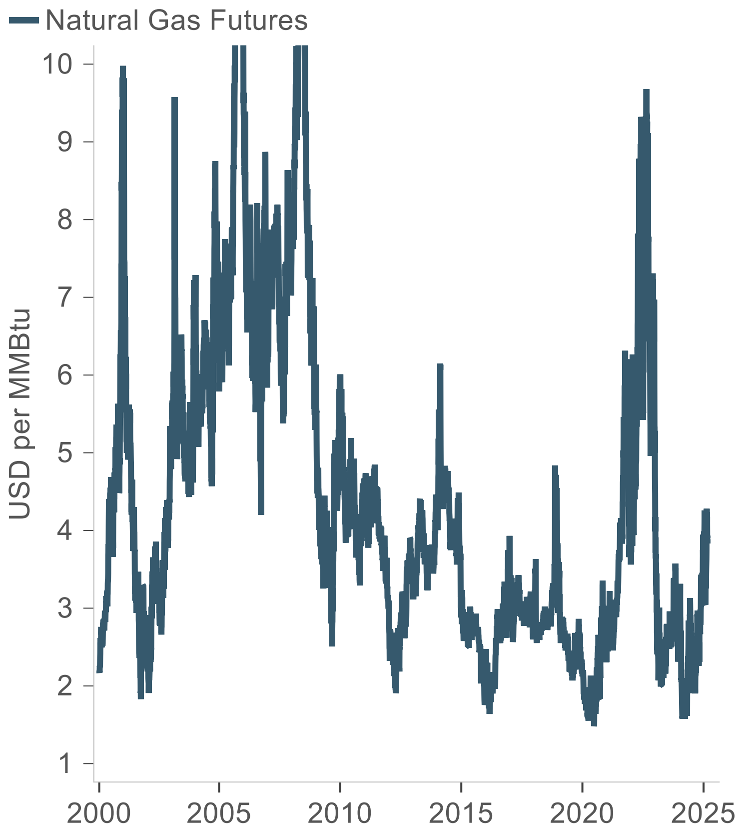
Shocks related to the pandemic and invasion of Ukraine have settled, leaving global energy prices broadly balanced.

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



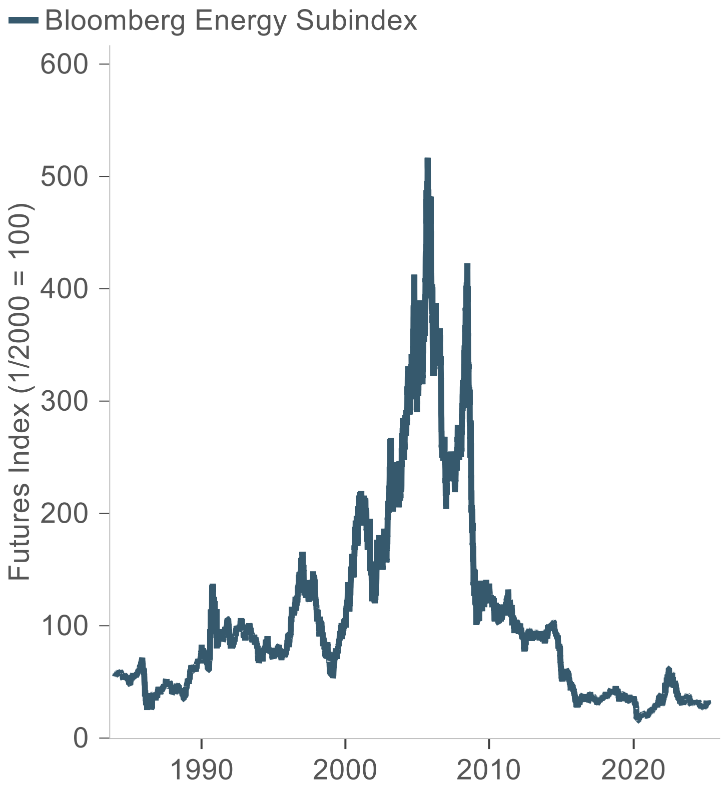
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, March 2025.

Natural gas has similarly normalized from its 2022 spike



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

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Other commodities have unique drivers

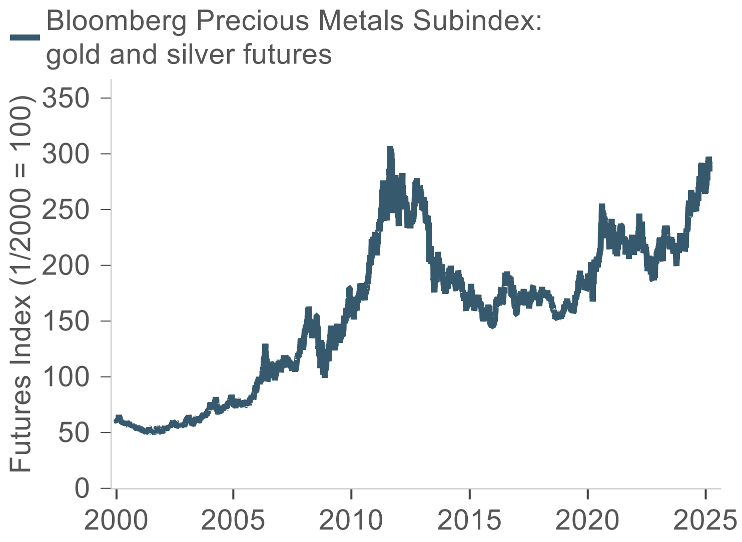
Geopolitical factors from central bank gold-buying to war-related disruptions are prompting major commodities to adjust to "new normal" levels.

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

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

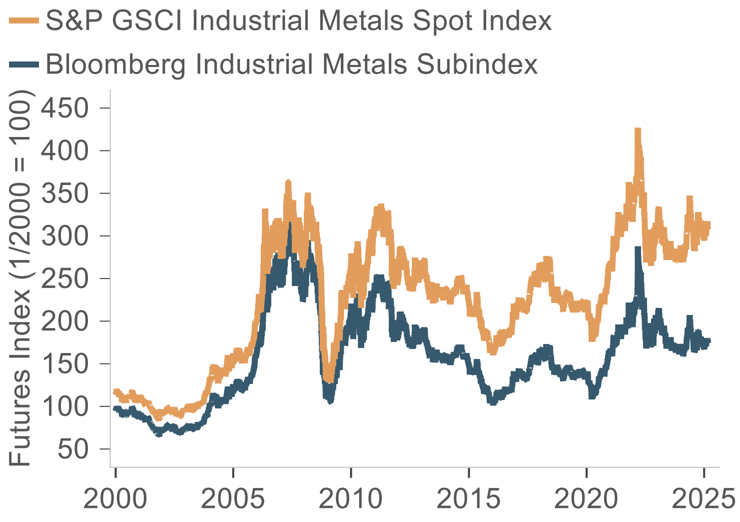
Agriculture futures were driven by higher grain prices after the invasion of Ukraine (Ukraine is one of the world's largest producers of wheat and corn). Ukrainian grain exports are down today relative to their pre-war levels, but they have not ceased outright, supporting normalization in the agricultural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

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



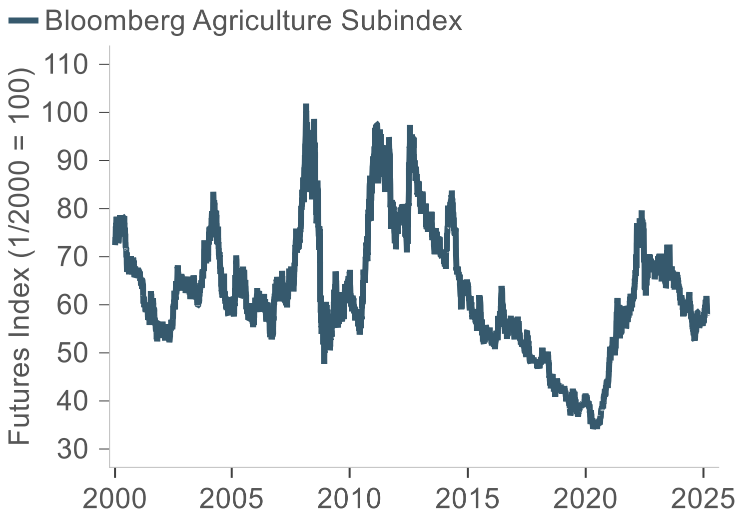
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, March 2025. Past performance is not indicative of future results. It is not possible to invest directly in an index. The Bloomberg Precious Metals Subindex is composed of futures contracts on gold and silver.

Industrial metals futures sit at the high end of historic range



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

Agriculture futures, however, have been compressed by greater production



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

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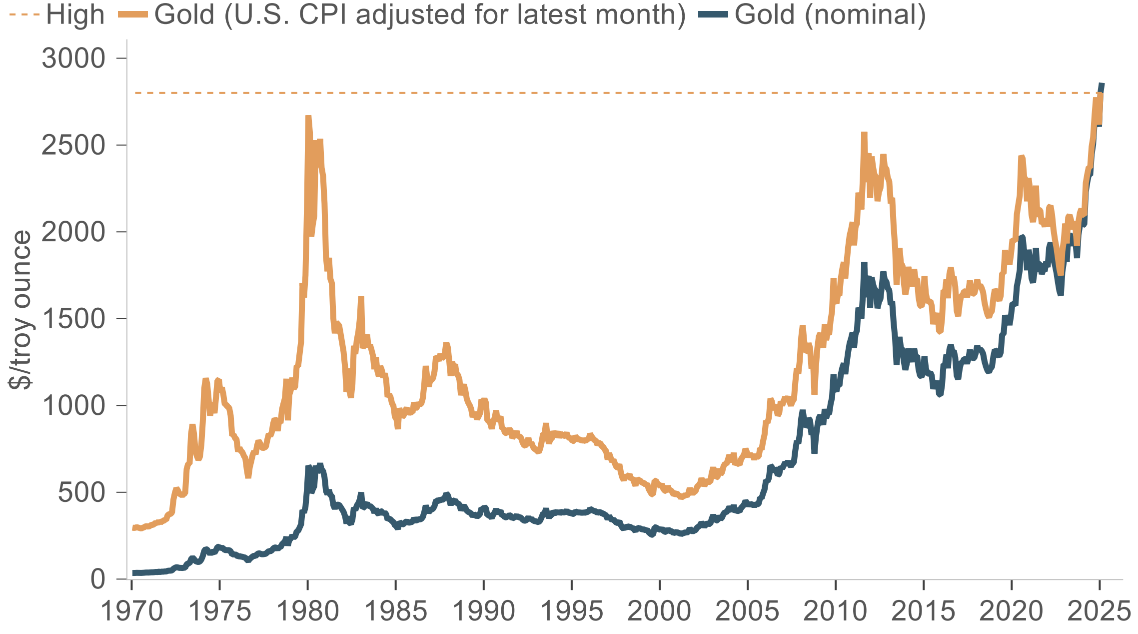
"Currencies" beyond the U.S. dollar

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

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

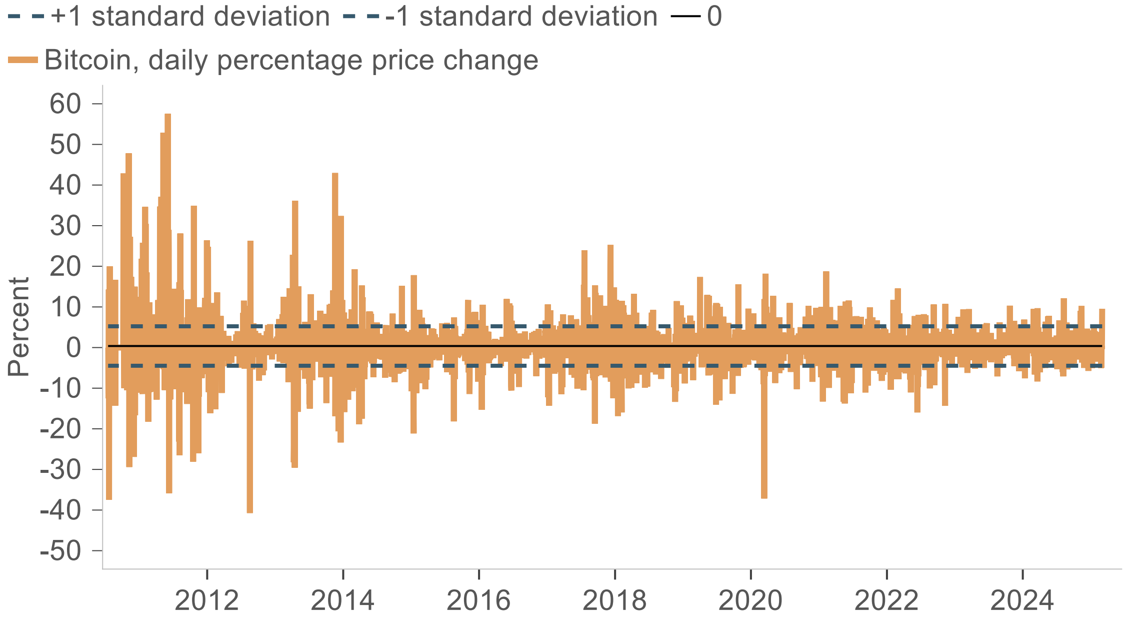
- Bitcoin, by contrast, is a "risk-on" diversifier; cryptocurrency is a risk asset with volatility to match. Bitcoin has seen stellar price performance post-pandemic, benefitting from broader retail participation in the wake of cryptocurrency ETF creation and pro-cryptocurrency policies from the Trump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

Gold is a proven inflation hedge over the very long term



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

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



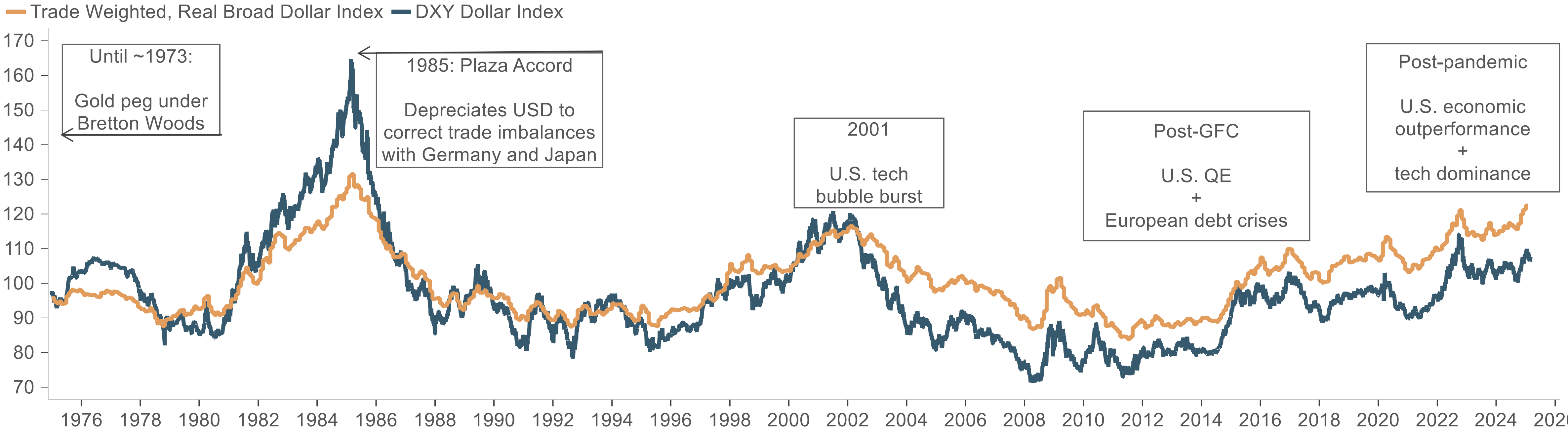
Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Macrobond, March 2025.

U.S. dollar likely to be rangebound at strong levels

The U.S. dollar weakens when ex-U.S. growth outperforms, which we see as unlikely this year. This has costs for global business and investors.

- The case for continued strength in the dollar has both structural and near-term drivers. Cyclically, U.S. outperformance and widening rates differentials support demand for dollar assets. Structurally, other global reserve currencies (EUR, GBP, JPY, CHF) do not measure up to the dollar in terms of global reach and stability. We see risks to the U.S. dollar as broadly balanced today.
- Dollar strength has costs to global business and investment. A strong dollar means U.S. multinationals earn less in repatriated profits and U.S. exports become more expensive, perhaps uncompetitively so. When trading in dollars and hedging against dollar strength, become prohibitively expensive, other countries are incentivized to build up reserves in gold or other currencies and price trade contracts in other currencies.

The U.S. dollar has been on a secular strengthening trend since the Global Financial Crisis (GFC)

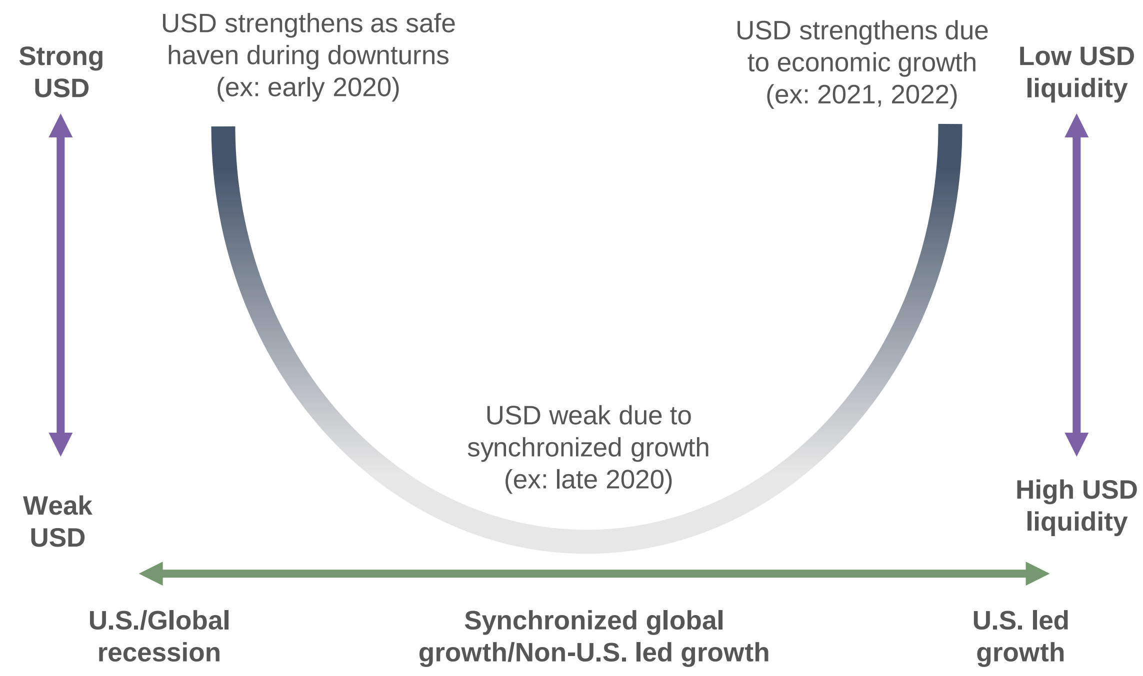


Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Federal Reserve, Macrobond, March 2025.

Our framework for thinking about U.S. dollar moves

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

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



Opinions of New York Life Investments Global Market Strategy, January 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.
- The dollar has since settled just above its historical average, and it sits on the right side of the smile. We expect dollar strength to persist if the U.S. economy joins the global slowdown, i.e. move to the left side of the smile.

What would bring U.S. dollar weakness?

- For the U.S. dollar to weaken (i.e. move towards the bottom of the "dollar smile"), we would likely need to see a robust reacceleration of global growth that overtakes that of the U.S.
- 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.
- Trump's proposed tariffs (10% flat tariff, 60% on imports from China) could reduce dollar demand, and therefore see the dollar weaken on a relative basis.

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

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

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

REQUIREMENTS FOR A GLOBAL RESERVE CURRENCY

REQUIREMENT	U.S. DOLLAR	EUROPEAN EURO	JAPANESE YEN	CHINESE RENMINBI
Trust in the central bank *Share of global FX reserves*	57%	20%	6%	2%
Liquidity *Foreign holding of government debt*	35%	38%	30%	9%
Broad acceptance *Share of foreign currency debt issuance*	64%	24%	3%	1%
Convertibility *FX transaction volume*	45%	16%	9%	4%
Open capital account *Capital controls*	**None** (Open)	**None** (Open)	**Some** (Restrictions)	**Tight** (Closed)
Floating exchange rate regime *Exchange rate regime*	Floating	Floating	**Managed** (Yield curve control)	**Managed** (against a basket of currencies... including the U.S. dollar!)

Sources: New York Life Investments Global Market Strategy, Federal Reserve, Bank for International Settlements, Bloomberg Finance LP. January 2025, International Monetary Fund, Q3 2024. FX refers to foreign exchange. The Chinese currency can be referred to interchangeably as the renminbi or the yuan.

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

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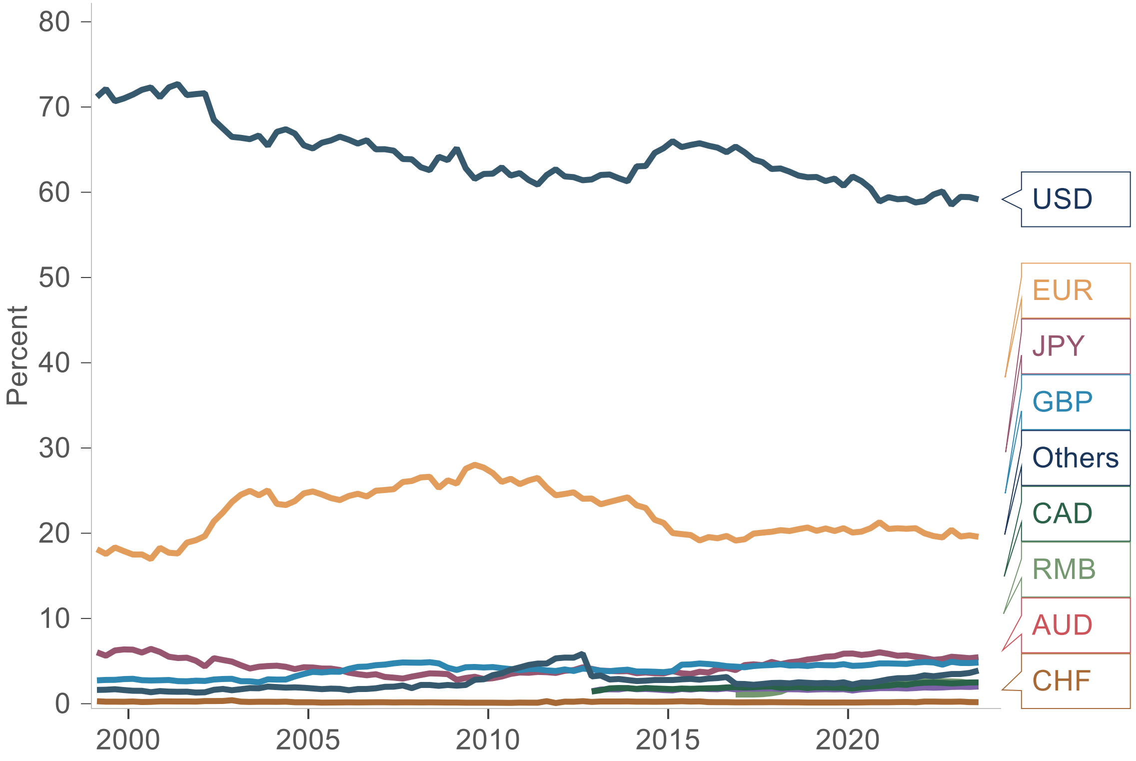
Dollar dominance: only innovation can unseat the USD

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, March 2025.

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

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

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

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4 Long-term themes

Insights

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Why are long rates rising when the Fed is easing?

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

10-Year Yield

Path of policy rate

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

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

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

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

+

Inflation expectations

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

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

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

+

Term premium (supply and demand)

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

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

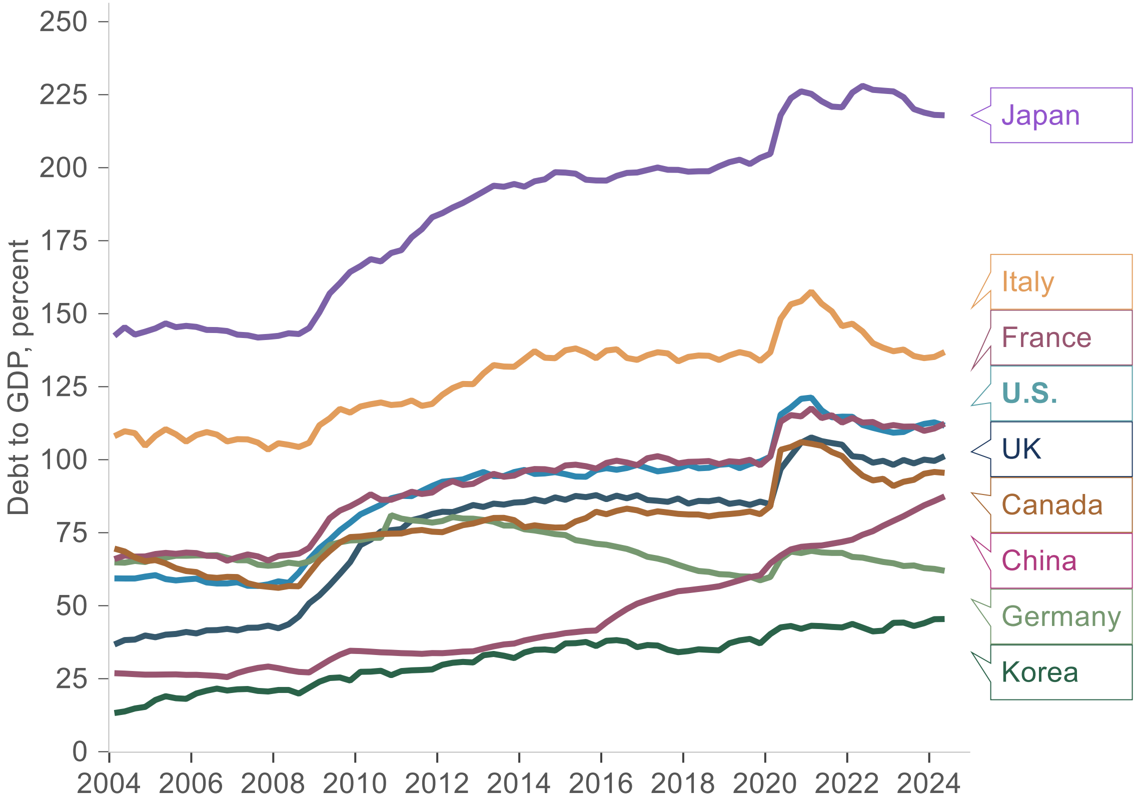
TAKEAWAY: Structural investment tailwinds are an upward pressure on long-term rates.

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

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

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

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



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

- The United States has as much federal debt as many of its major peers combined, but relative to economic size, its debt burden is in the middle of the pack (**chart**).
- What allows the U.S. to carry so much debt: *exorbitant privilege*. With the U.S. dollar as the world's dominant reserve currency and the world's deepest capital markets, the U.S. can carry and finance more debt than other advanced economies thanks to structural demand for Treasuries and dollar-denominated assets.
- We do not expect a U.S. sovereign default in the foreseeable future because of the enormous depth of U.S. capital markets relative to those of other highly indebted countries.
- Now that the interest burden has become more acute (see next page) and $1 trillion in new public debt is accrued every ~100 days, we see increased potential for market and political pushback on further spending plans and debt ceiling negotiations.

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

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

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

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

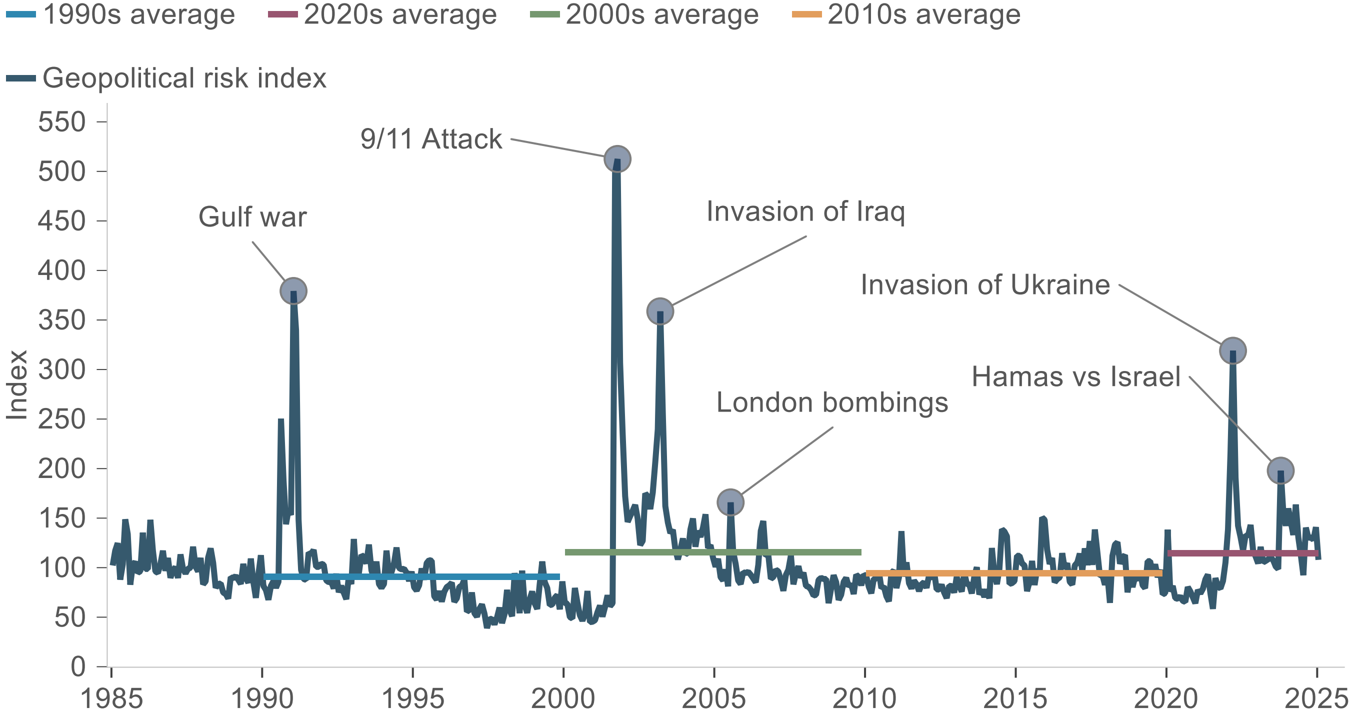
TAKEAWAY: U.S. debt sustainability risks are rising, but we do not see fundamental triggers for a debt crisis or default thanks to the market depth and structural demand for U.S. assets. Irresponsible spending by an administration of either party can certainly harm investor confidence in U.S. assets,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

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

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

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

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



Sources: New York Life Investments Global Market Strategy, Matteo Iacoviello, Macrobond, March 2025.

How does geopolitical risk manifest?

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

Opinions of New York Lie Investments Global Market Strategy, March 2025.

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

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

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

Owning macro volality may be the trade of the 2020s

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

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

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

Potential strategies to address geopolitical risk

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

Opinions of New York Lie Investments Global Market Strategy, March 2025.

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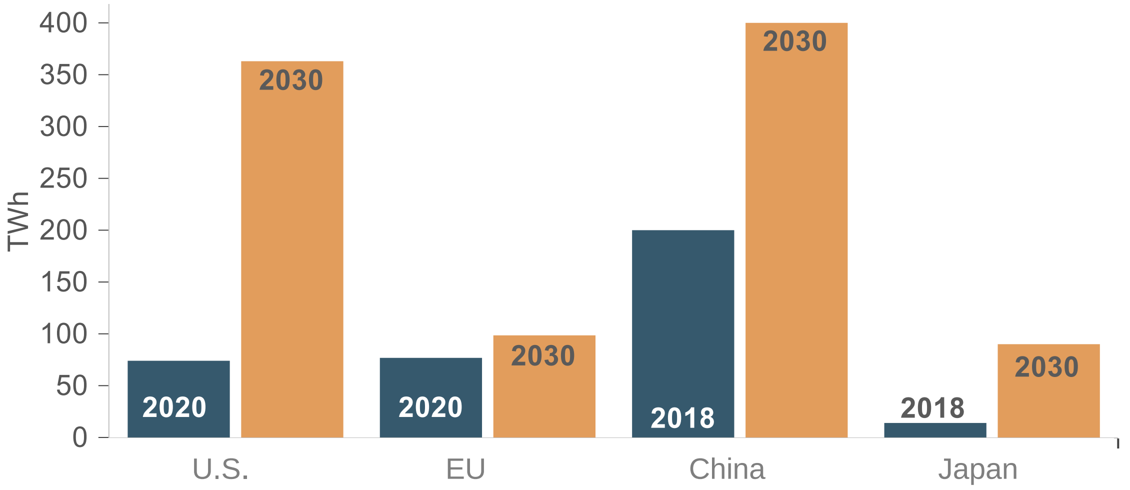
Global megatrends: creating persistent demand for capital

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

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

AI's additional power requirements are extensive

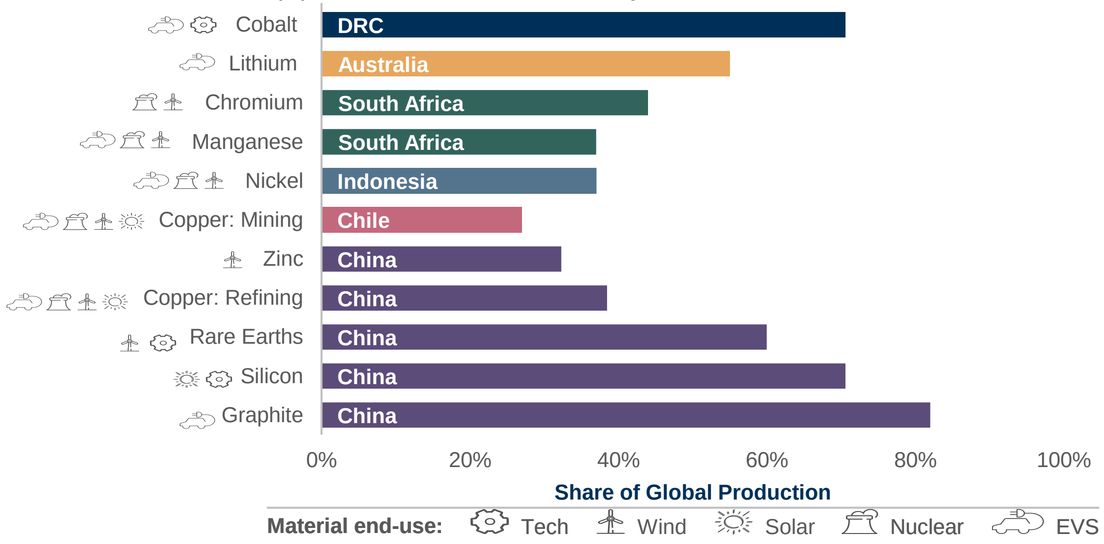
Data center electricity use



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

Global resource production for key technologies is highly concentrated

Share of raw materials: top producer for each commodity



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

Global megatrends: AI is likely to spark sustained capital reallocation

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

Infrastructure

Chips, data centers, power

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

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

Foundational models

Data, model creators, cloud

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

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

Corporate application

Software, services, use case exploration

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

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

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5 Equity

Insights

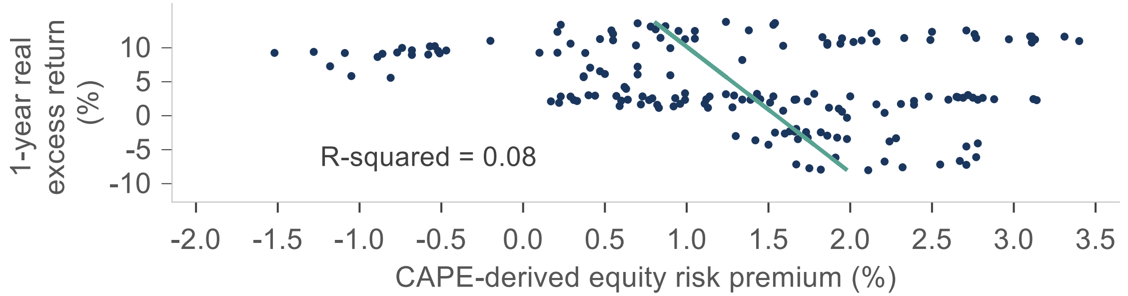
Readers may click on any item to jump to that section.

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

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

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

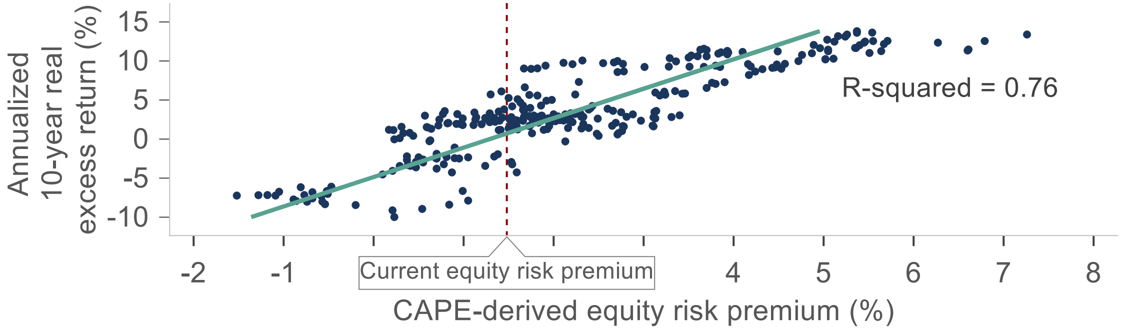
Individual dots represent months, data from 1980



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

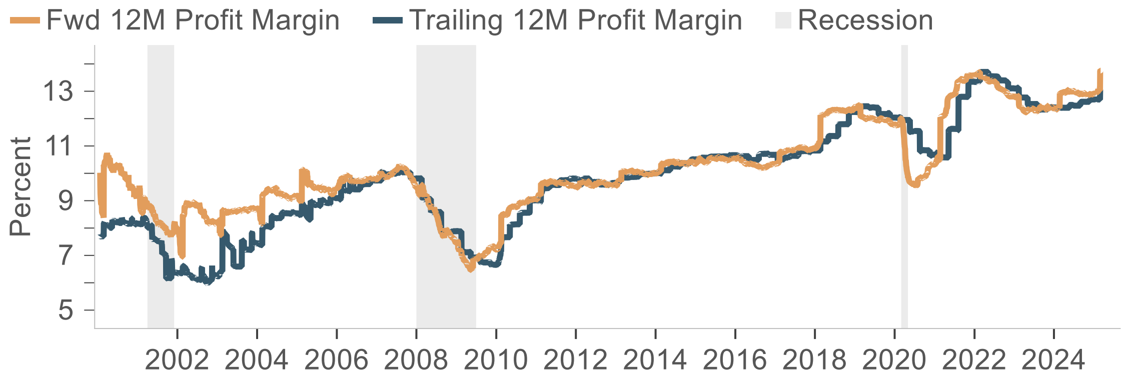
- The equity risk premium measures the difference between the expected return from equities (the earnings yield or inverse of the price-to-earnings ratio) and the risk-free return (typically the U.S. 10-year Treasury yield). A low or negative equity risk premium implies that equities are potentially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

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

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

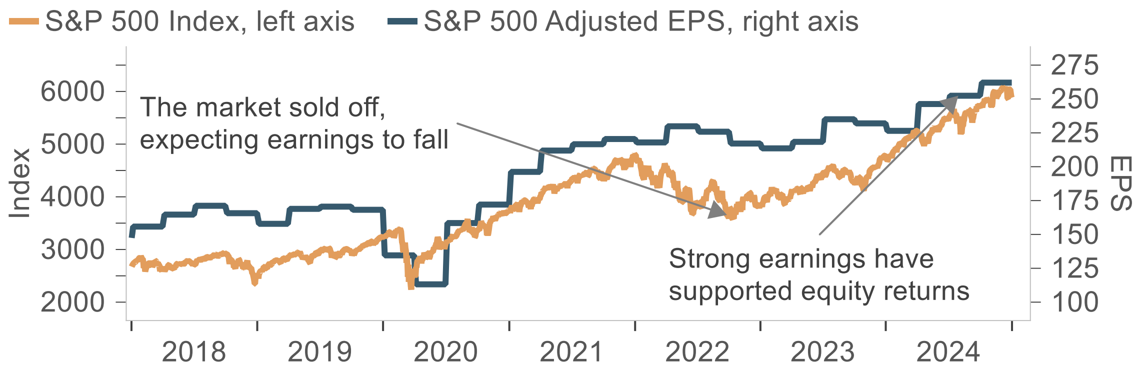
Earnings growth has held up, but cooling demand and still-high costs make the market's 11% earnings growth expectation challenging in our view.

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



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

Strong earnings have justified lofty valuations and stellar price performance



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, March 2025. EPS: Earnings per share. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. It is not possible to invest in an index. Past performance is not a guarantee of future results.

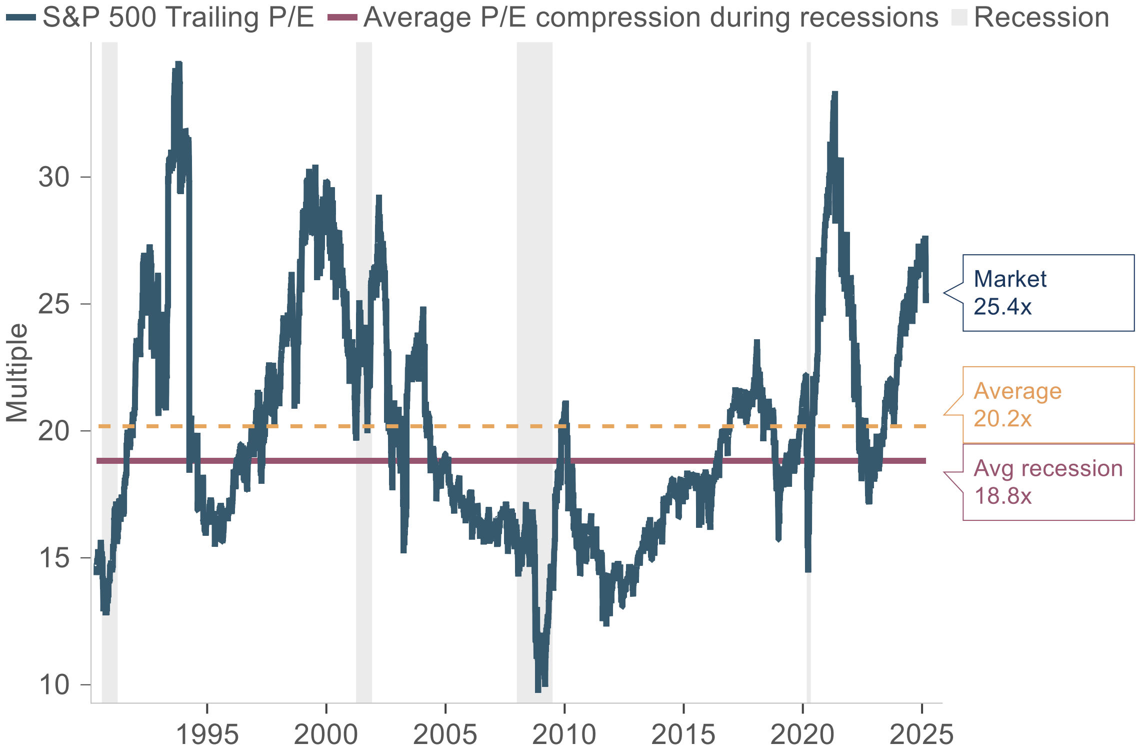
- Equity markets are priced based on earnings and multiple expansion (or contraction), with multiples being influenced by factors such as cost of capital and investor sentiment.
- Corporate earnings have remained resilient in the face of increasing risks. Profit margins appear resilient (**left chart**) but there is a wide dispersion between sectors with tech seeing the most strength. Today, the market is still optimistic about earnings growth. Market pricing suggests earnings per share (EPS) are expected to grow by 11% in 2025 and 7% in 2026. For context, EPS rose by 13% in 2024 and nudged up by only 0.5% in 2023, which was also a period of very strong economic activity. From our perspective, achieving a much higher level of earnings growth this year would require economic growth to accelerate – not just stabilize – a development we don't see as likely or lasting.
- How much of a selloff should investors expect if earnings growth came into question? In a typical earnings-related selloff, based on the past 16 recessions (excluding the Covid recession), the median draw down in real EPS is 21%. In 2022, the S&P 500 experienced an 25% drawdown when investors began to doubt corporate resilience (**right chart**). But in this case, performance rebounded - profits were ultimately boosted by business and wage supports, as well as lower rates locked in from the years of easy monetary policy. If earnings don't expand further from here, investors hoping for higher equity valuations would be left to rely on multiple expansion via falling rates and improving confidence.

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

Sky-high equity valuations: a tough market for buyers

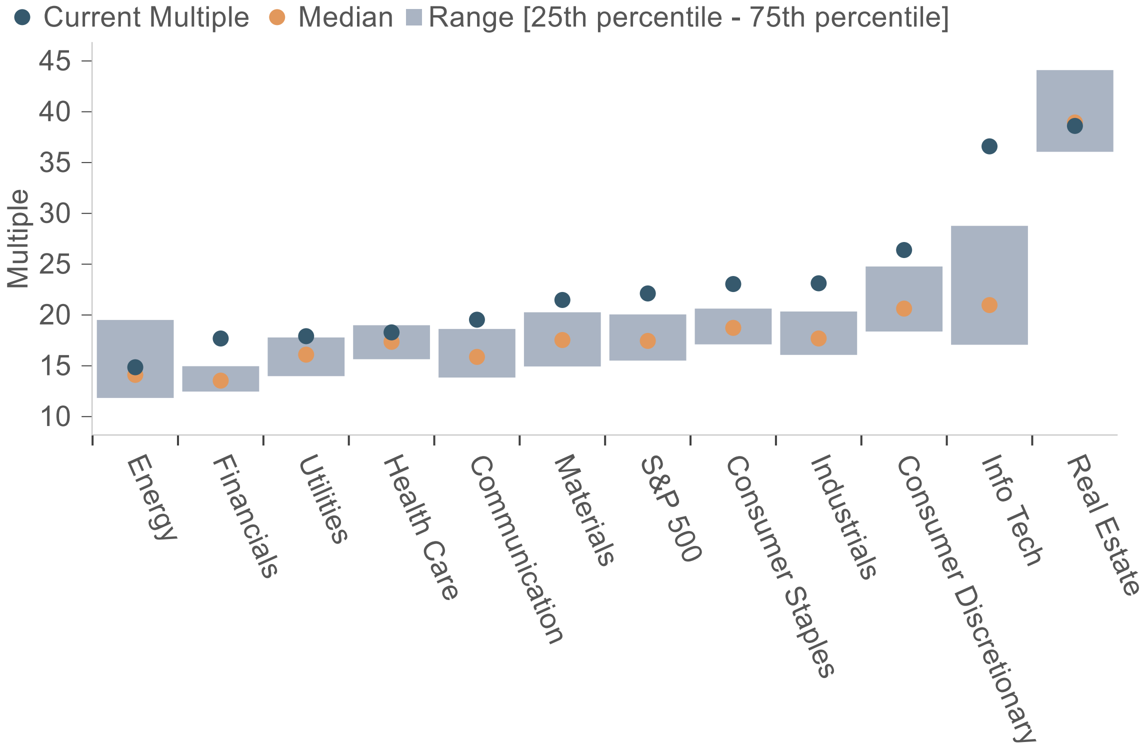
Historically, valuations are not a useful market timing tool. But high valuations may still limit the scope of upside opportunity for investors.

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



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

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

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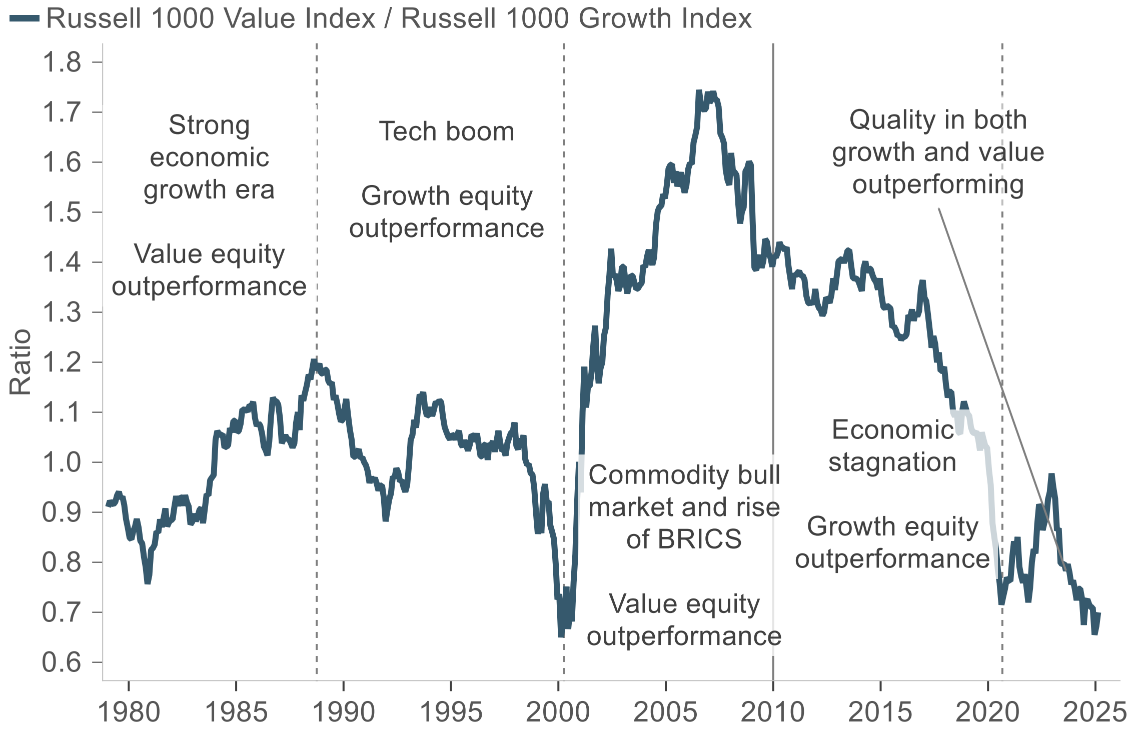
Growth equity outperformance has continued but remains the "pain trade"

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

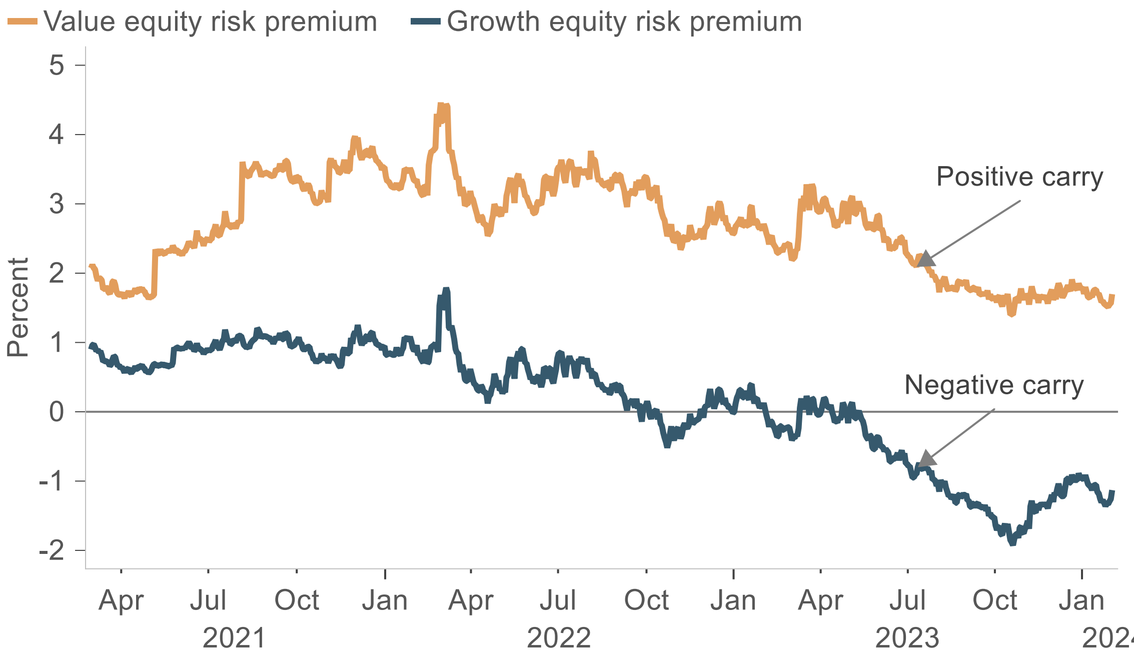
The post-pandemic era hasn't yet proven more supportive of value equities



Source: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, March 2025. The Russell 1000 Growth Total Return Index measures the performance of large-cap growth-oriented stocks in the U.S. market. The Russell 1000 Value Total Return Index measures the performance of large-cap value-oriented stocks in the U.S. market. It is not possible to invest in an index. Past performance is not a gaurantee of future results.

Value equities offer positive carry, growth equities appear overbought

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



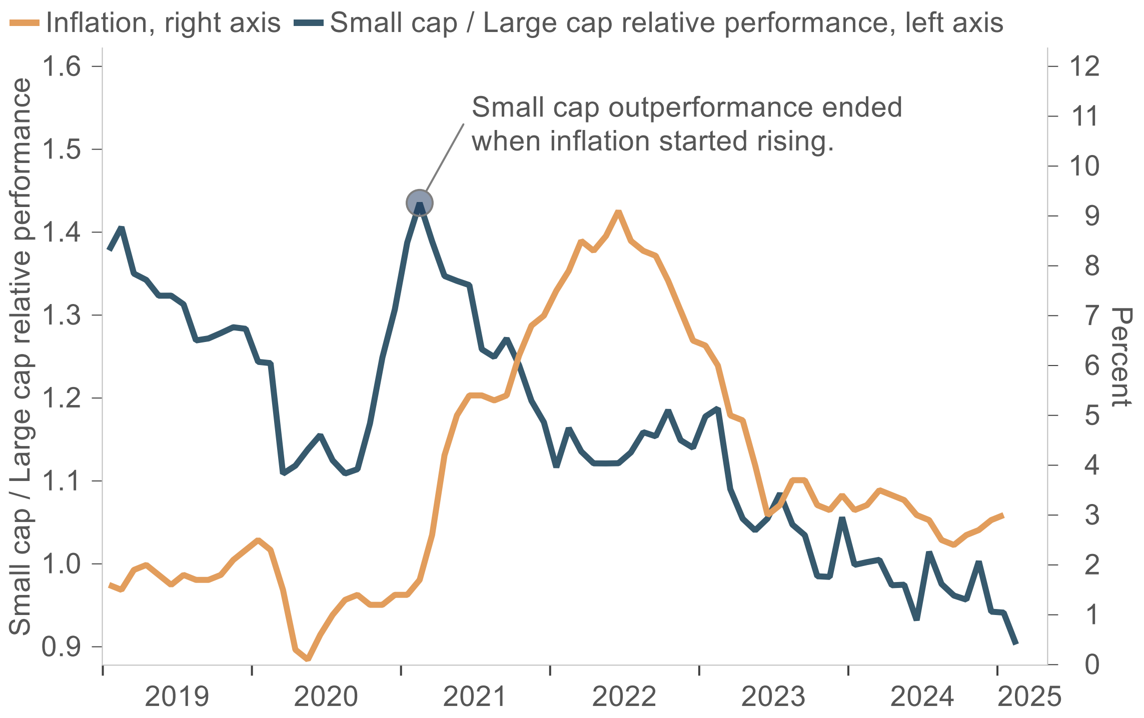
Source: New York Life Investments Global Market Strategy, U.S. Treasury, Bloomberg, Macrobond, March 2025. Value is represented by the Russell 3000 Value Index, which measures the performance of value-oriented stocks in the U.S. market. Growth is represented by the Russell 3000 Growth Index, which measures the performance of growth-oriented stocks in the U.S. market. Past performance is not a guarantee of future results.

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

Large caps could outperform as U.S. economic risks rise

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

Small caps have been hit hardest by inflation and higher rates



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

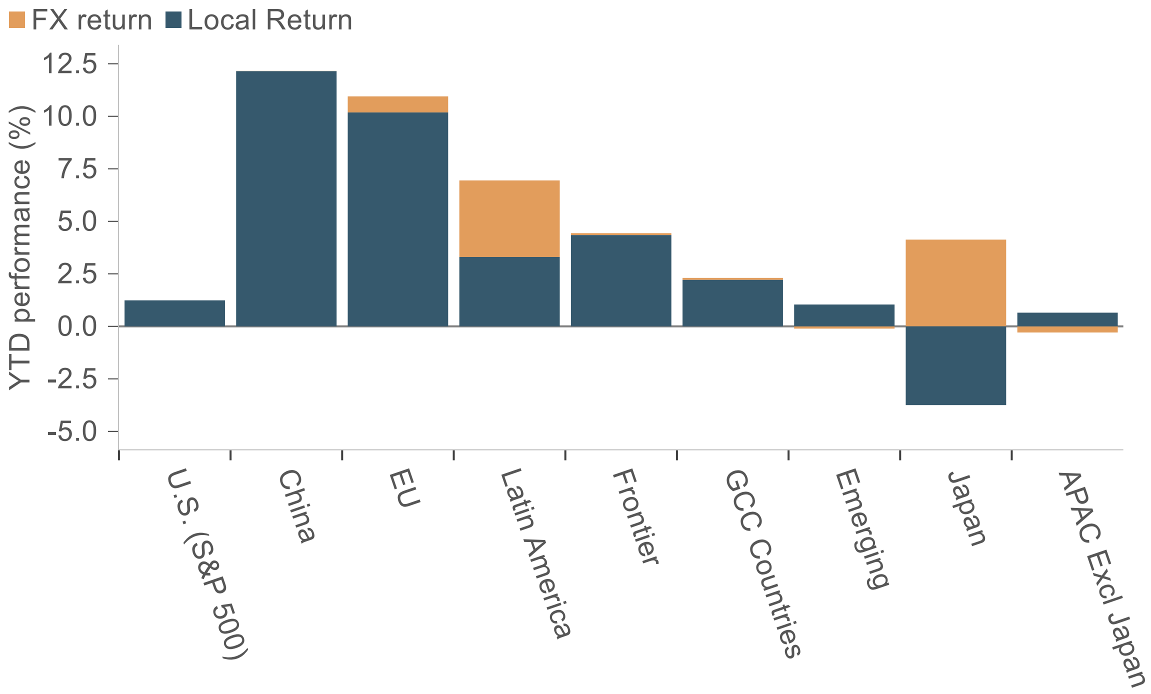
TAKEAWAY: At this phase of the cycle, where growth is moderate but likely slowing, large caps could outperform. Small caps may have brief moments in the sun, particularly when market rates move lower, but we aren't overly bullish on small caps until growth can re-accelerate. That said, we believe small 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, March 2025. Each country, except for the U.S., is represented by the MSCI index covering the equity market of that country. The U.S. is represented by the S&P 500. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. It is not possible to invest in an index. Past performance is not a guarantee of future results.

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

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

Across cycles, international equities offer investors the opportunity to capture sector and business cycle diversification

- Sectors: The S&P 500 is overweight the technology and communications sectors. Europe and Japan have more exposure to cyclical sectors like industrials and consumer discretionary. Relative valuations, especially in Europe, remain attractive for bottom-up stock picking.
- Cycle: Because the global economic cycle is desynchronized, a diversified international exposure can help investors capture recovery cycles globally.

Portfolio strategy

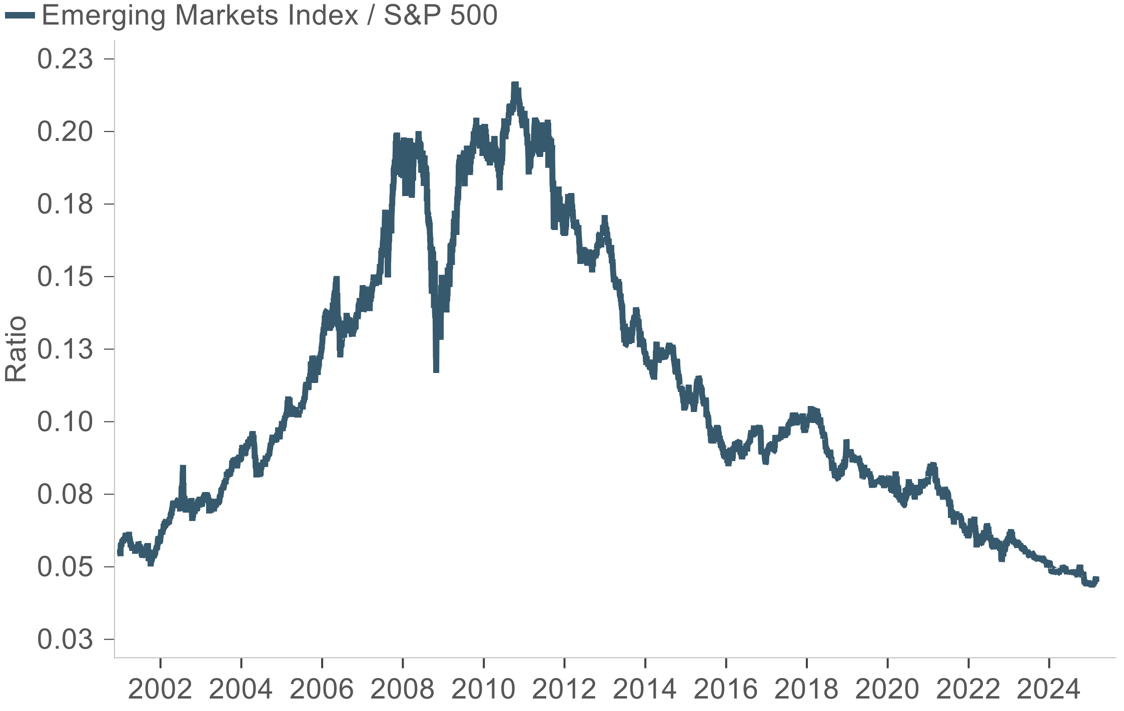
- Many investors are structurally under allocated to international equities, limiting the potential of this asset class to provide sector and business cycle diversification.
- In conventional portfolio allocation, international equities make up roughly one-third of total equity exposure. So, in a standard 60/40 portfolio comprised of 60% equities and 40% bonds, international equities would constitute 20% of the portfolio.

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

Emerging market equities may still struggle against gravity

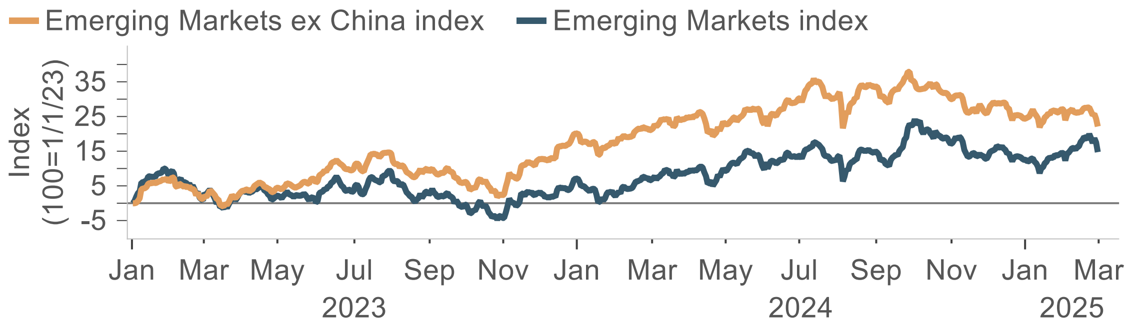
Some markets stand out, but the asset class may have difficulty outperforming as global growth slows.

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



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, March 2025. The S&P 500 is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. Emerging Markets index is represente by the MSCI Emerging Markets Index. The MSCI Emerging Markets Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries. It is not possible to invest in an index. Past performance is no guarantee of future results.

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



Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, March 2025. Emerging Market index is represented by the MSCI Emerging Markets Index. The MSCI Emerging Markets Index is a free-float weighted equity index that captures large and mid cap companies across EM countries. Emerging Markets ex China index is represented by the MSCI EM ex China which excludes China from the MSCI EM index. It is not possible to invest in an index. Past performance is no guarantee of future results.

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

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

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6 Fixed income

Insights

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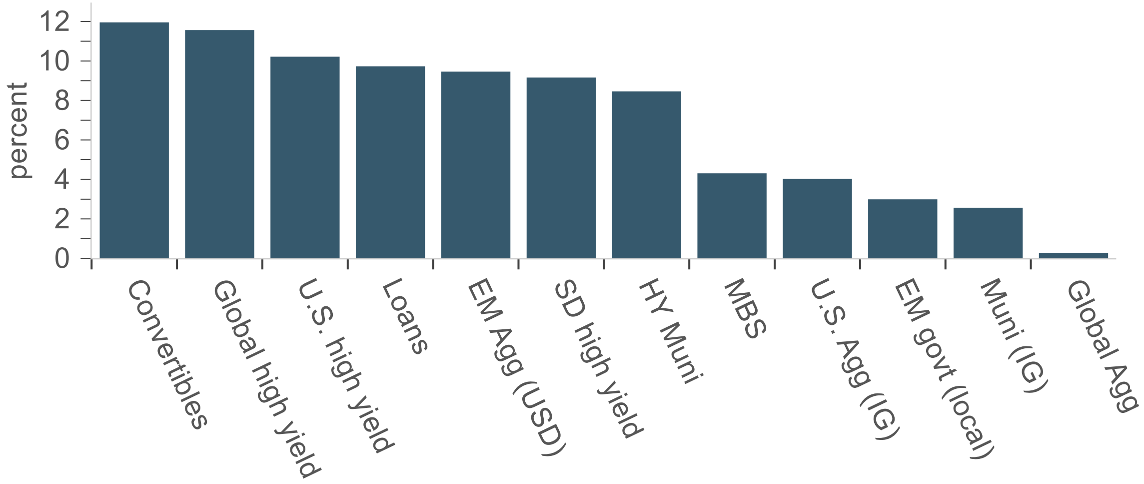
Today's macro backdrop provides a sweet spot for credit allocation in our view

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

- Resilient growth and moderating inflation have prompted yield curve normalization after its two-year inversion. This historically drives a supportive environment for credit assets. Our credit managers point to a potentially "goldilocks" scenario in which slightly lower rates improve borrower conditions without sacrificing strong income generation potential.
- What about spreads? A sharp policy easing in response to a growth downturn or weaker labor market would likely drive spread widening. However, structurally stronger credit quality, a favorable economic backdrop, and still-strong income generation potential make us confident in credit allocation.
- Given ongoing upside risk to Treasury yields, Treasury duration is not our favorite place to take risk. We prefer short duration Treasury and corporate credit exposure, including high yield and floating rate loans, balanced with longer duration exposure in core, core-plus, and taxable municipal bonds.

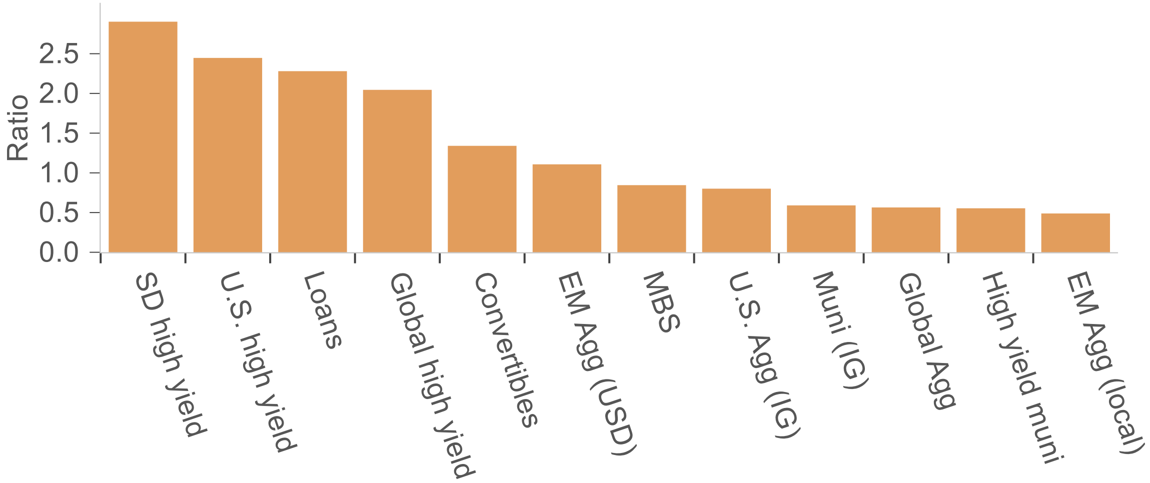
Risk-on credit investors have so far outperformed this year

Returns from January 2024



Riskier credit asset classes are offering better risk-adjusted yields

Yield per duration (prior 30-day average)

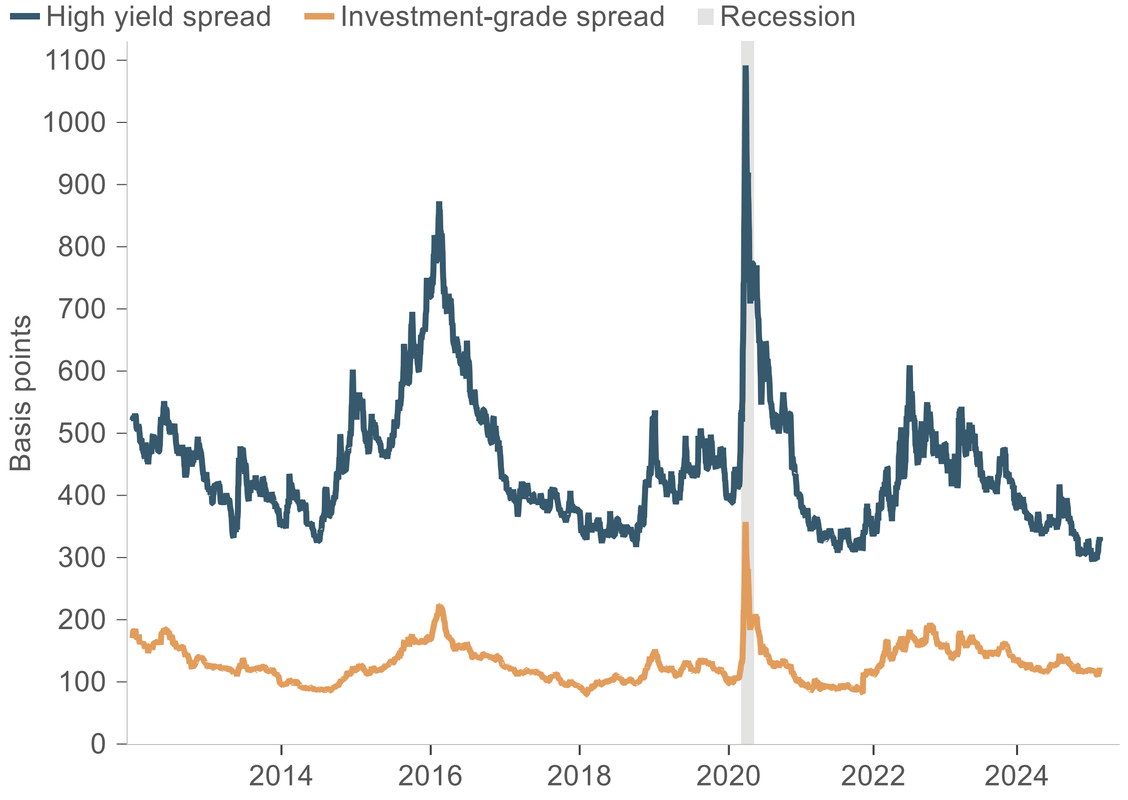


Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, March 2025. Convertibles represents the Bloomberg U.S. Convertibles Liquid Bond Index. EM Agg represents the Bloomberg Emerging Markets (EM) Hard Currency Aggregate Index- a flagship hard currency EM debt benchmark. EM govt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

Investment grade bonds are a compelling place to stay invested

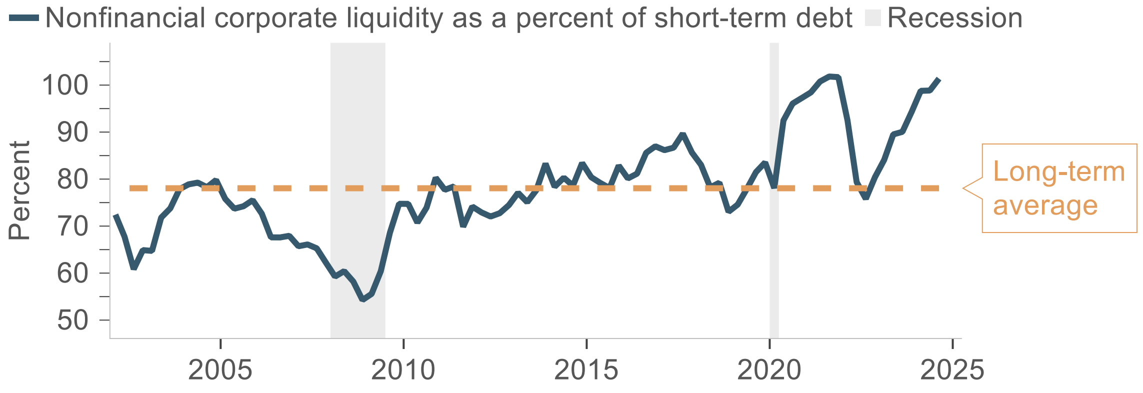
Given our late cycle view of the economy, we do not expect spreads to tighten materially from here, but yields remain attractive.

Spreads have remained tight through the Fed's hiking cycle



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

- Credit spreads have remained remarkably tight as the Fed transitioned from hiking to easing (**left chart**). Tight spreads are attributed to (1) a buildup of corporate cash, (2) strong credit quality supported by a resilient economy, and (3) the concentration of investment grade and high yield issuers in consumer sectors, which have been especially strong this cycle.
- Businesses are maintaining a healthy cash balance (**right chart**), which should help firms weather any pressure on margins and ongoing higher interest expenses.
- This economic environment underscores the importance of discerning borrowers' adaptability to decelerating growth and a prolonged period of moderately high inflation and interest rates, which may require an active and dynamic approach to security selection.

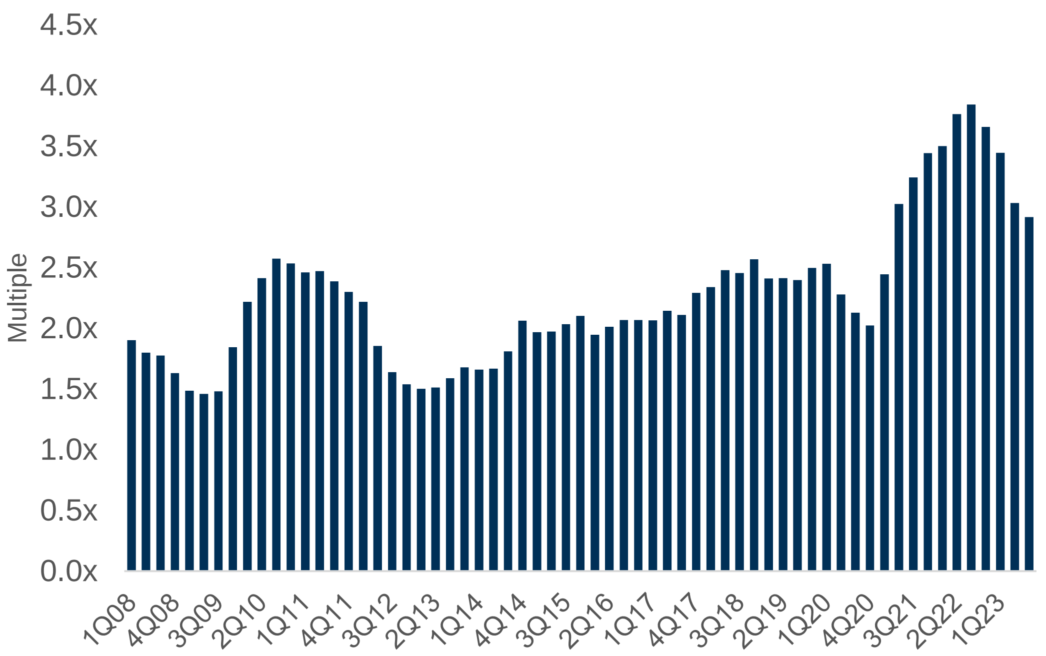
TAKEAWAY: Since the pandemic, companies have increasingly adopted a conservative approach to managing their balance sheets, effectively limiting overall debt growth. This trend has created an attractive backdrop for both investment grade and high yield corporate bonds. While we expect credit spreads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

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

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

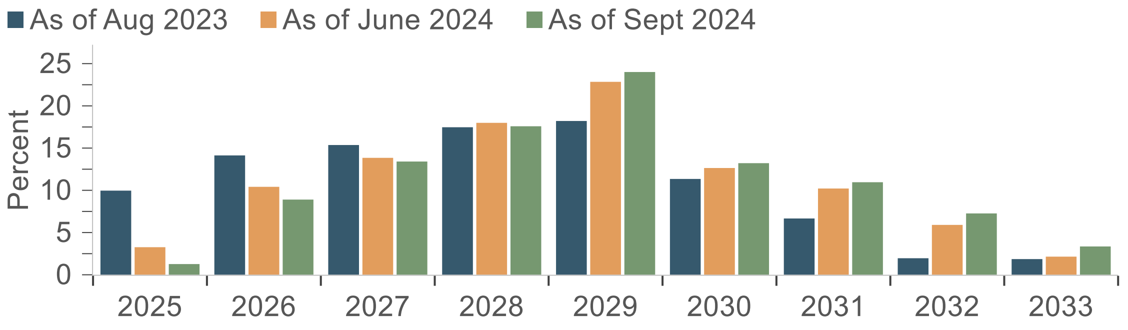
High yield interest coverage: EBITDA-CapEx/Interest expense



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

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

Share of high yield corporate benchmark maturing each year



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, March 2025. 2033+ represents maturities for 2033-2050. Benchmark: Bloomberg U.S. Corporate High Yield Total Return Index. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.

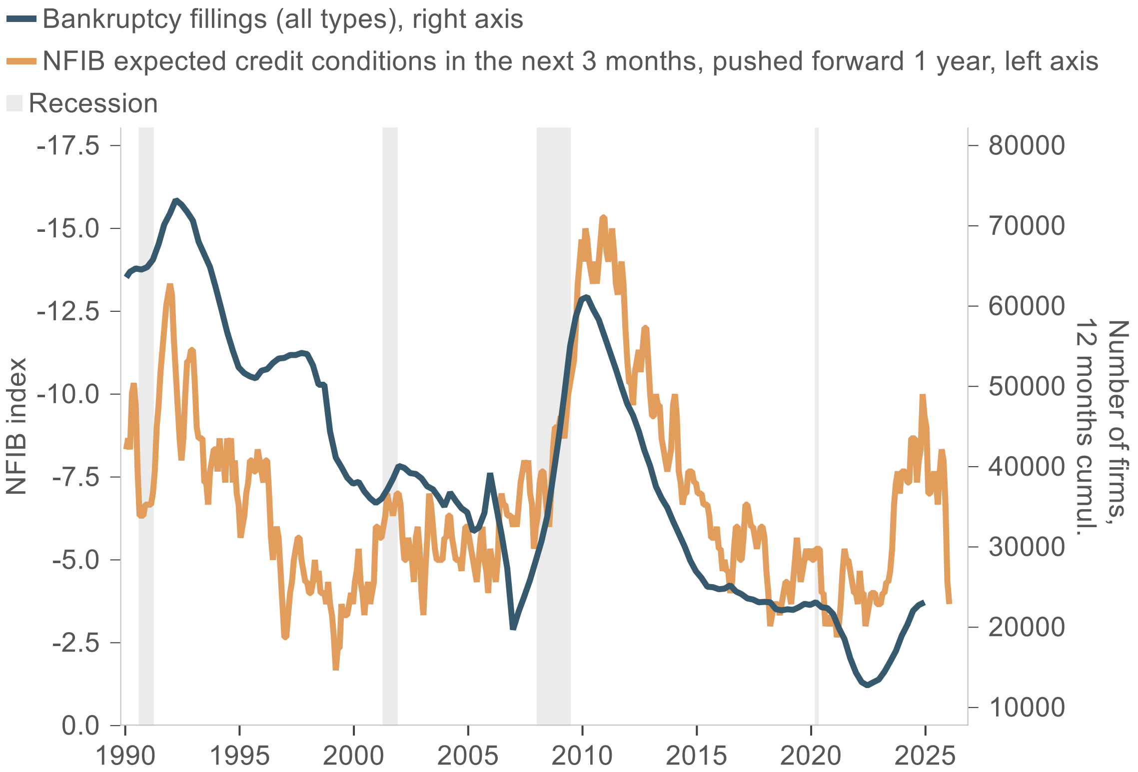
- The U.S. high yield asset class has improved in quality thanks to changes in corporate financing structure since the financial crisis, and thanks to pandemic-era support programs.
- Cyclically, leverage and interest expense levels in high yield are healthy (left chart). An extended economic cycle gives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

TAKEAWAY: High yield is not typically an asset class investors hold as economic risks rise, but we believe high quality, high yield borrowers could provide significant value in a portfolio this year. For investors concerned about credit quality, macro volatility, or policy uncertainty, the relatively short-duration exposure of high yield credit is a compelling option.

Bank loans may still have more room to run

Bank loans are often the asset class that reveals credit quality concerns first, but a strong economic backdrop is supportive for the near term.

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, March 2025.

Are floating-rate bank loans compelling when the Fed is cutting?

- Typically, investors prioritize floating rate asset classes when rates are moving *higher*. However we believe rate cuts can be constructive for bank loans in today's cycle: they ease pressure on borrowers, which supports fundamentals and stable CLO demand.
- While the asset class saw a strong 2024, decelerating growth presents a potential risk. We are monitoring closely to see if expectations for improved credit conditions (orange line falling) as the Fed eases can stave off a rise in bankruptcy filings (blue line rising).
- Even more constructive is Fed easing amid a very gradually decelerating economic backdrop; we are not concerned about systemic credit quality concerns in the near term.
- Bank loans could have a good 6 months or so from an allocation perspective. Overall yields appear to compensate investors for the greater degree of credit quality risk in the asset class.

Solid fundamentals

- Leveraged loans currently have better carry relative to bonds. Issuance (~$130bn through Sep 2024), a proxy for loan demand, remains supportive of loan technicals.
- S&P Global Ratings expects the leveraged loan index default rate to hover around 1.5% through June 2025, providing a strong backdrop for the asset class.

Portfolio strategy

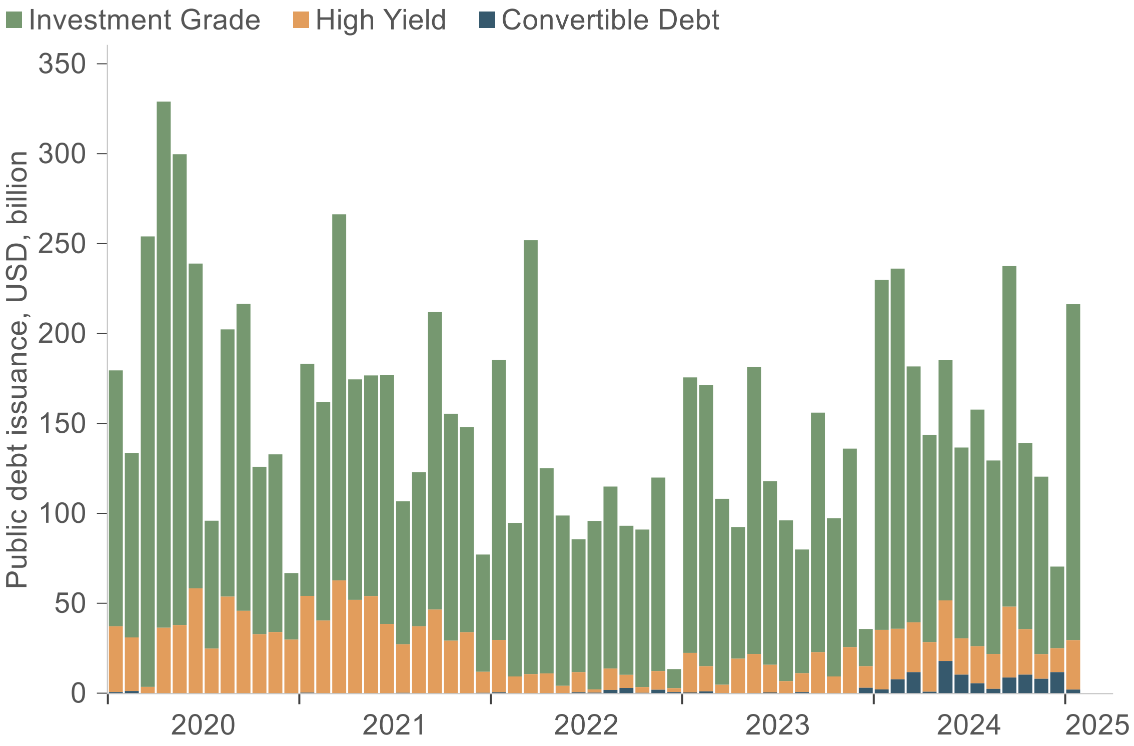
- We believe bank loans are an important component of diversified global bond exposure. Within the asset class, we prefer portfolios that are overweight senior secured loans with low leverage.

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

The tide is turning in favor of convertible bonds

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

Convertibles have seen renewed issuance, corresponding with stronger performance



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

What makes convertible bonds special?

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

Tactical market outlook:

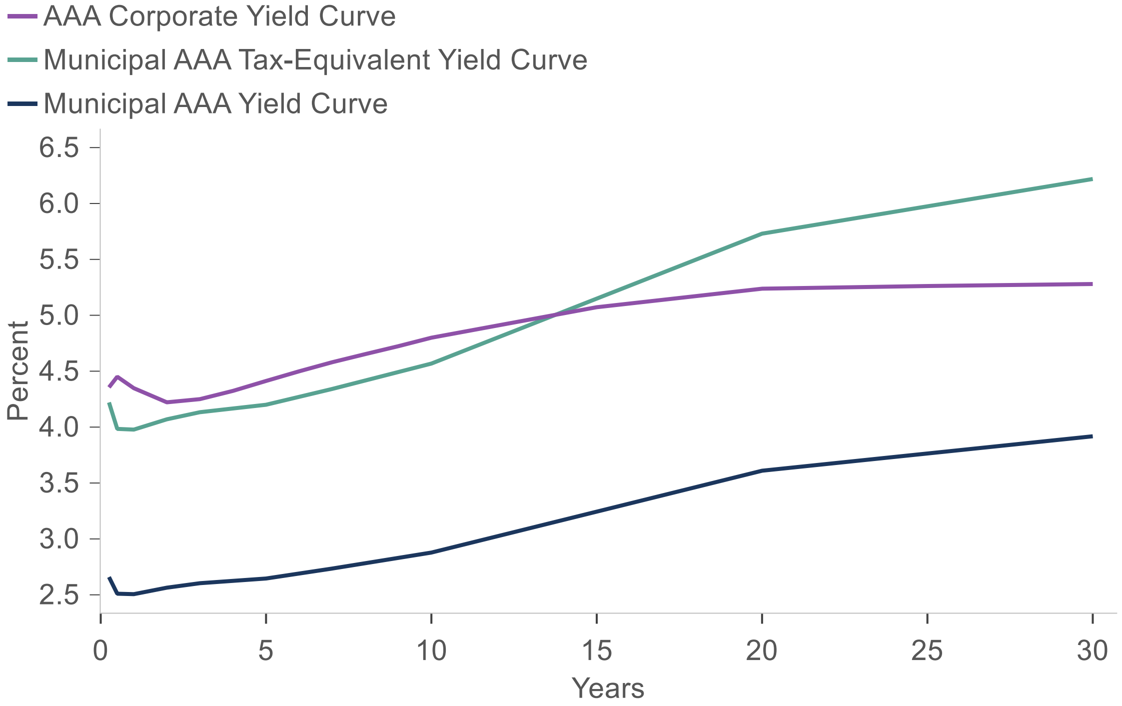
- Issuance: Issuance was strong in 2024, suggesting lower interest rates for issuers are balancing well with investor demand for upside participation in the equity features of convertibles. The market saw $45B of new issuance through August compared to $33B over the same period last year. Approximately one-quarter of new convertible issuance last year had an investment grade rating. Issuance is expected to increase as investment grade companies with debt maturing may be drawn to the convertible market, as they can no longer issue bonds yielding 2% to 3%.
- Valuation: The U.S. convertible market is weighted towards mid and small-cap companies which now have significantly lower valuations than large caps. While we are not overweight the SMID cap space in our equity view, we find the value proposition of converts to be focused on their blended equity/bond characteristics rather than SMID cap focus.
- For investors who believe market gains can broaden but the economy may slow, convertible bond exposure could replace small- and mid-cap exposure, offering potentially similar risk/return opportunities plus the defensive bond features.

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

Munis provide a diversified approach to credit and duration exposure

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

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



Sources: New York Life Investments Global Market Strategy, U.S. Department of Treasury, Macrobond, March 2025. The AAA corporate yield curve is populated with USD denominated senior unsecured fixed rate bonds issued by U.S. companies with a rating of AA+ , AA or AA-. The Municipal AAA yield curve is populated with high quality U.S. municipal bonds with an average rating of AAA from Moody's and S&P. The tax-equivalent yield curve assumes a 37% tax rate. Duration of fixed income securities is a measure of a security's price sensitivity to changes in interest rates, measured in years.

Tailwinds & outlook for municipal bonds

- Our outlook for the asset class is positive. This year muni investors seem to be recognizing the benefits of locking in tax-exempt income at higher-than-expected rates. An easing bias from the Fed makes this decision more compelling as money market yields (cash yields) fall. Like corporate bond issuers, municipalities are also well capitalized with healthy reserve balances. This strong starting point provides a needed cushion should revenues and federal aid decline. This also implies that, due to economic uncertainty, issuance is not expected to pick up in 2025.
- The benefit of tax-exemption is amplified in the current “higher for longer” yield environment. There have been some calls for the removal of the muni tax exemption, but our teams do not find this proposal to be a credible threat.

Munis as a critical component of our duration view

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

TAKEAWAY: Instead of adding duration in Treasuries, investors can consider interest rate risk where it pays: on the municipal bond curve. The solid backdrop for municipal bonds continues, including strong fiscal fundamentals and strong tax receipts. While federal policy uncertainty may affect the muni environment in 2025, we do not see this as a reason to avoid the asset class.

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7 Alternatives

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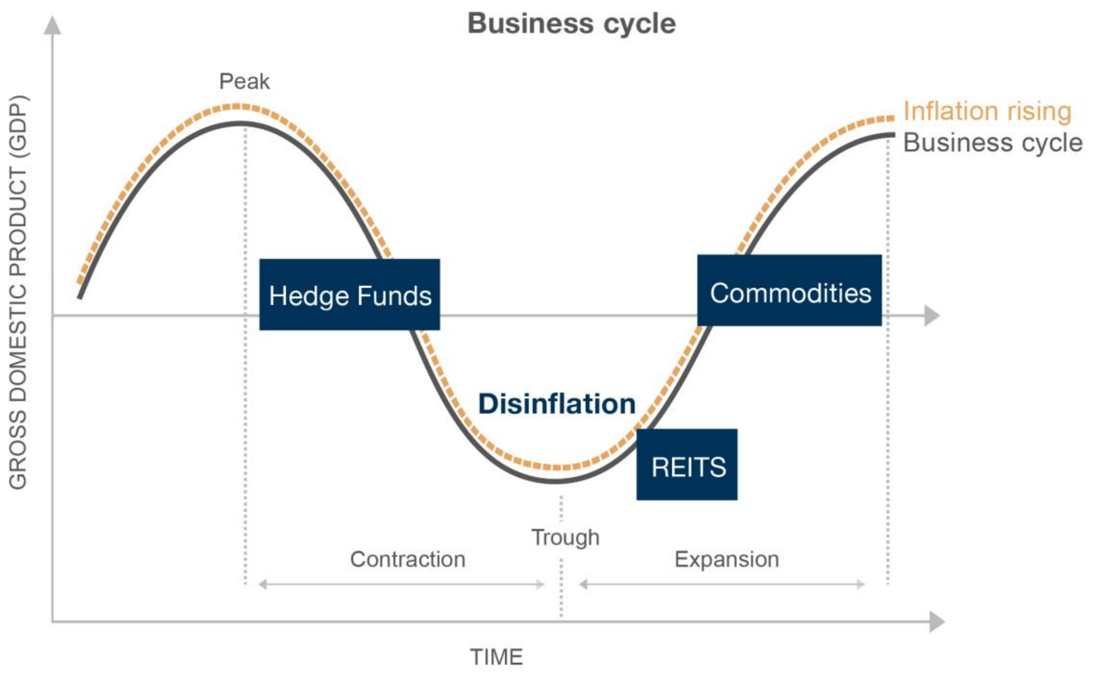
- Alternatives through the cycle
- Infrastructure
- Commodities
- Liquid real estate

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

Alternative investments across the business cycle

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

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



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

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

How much alternatives exposure do I need:

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

Commodities

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

Hedge Funds

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

REITs

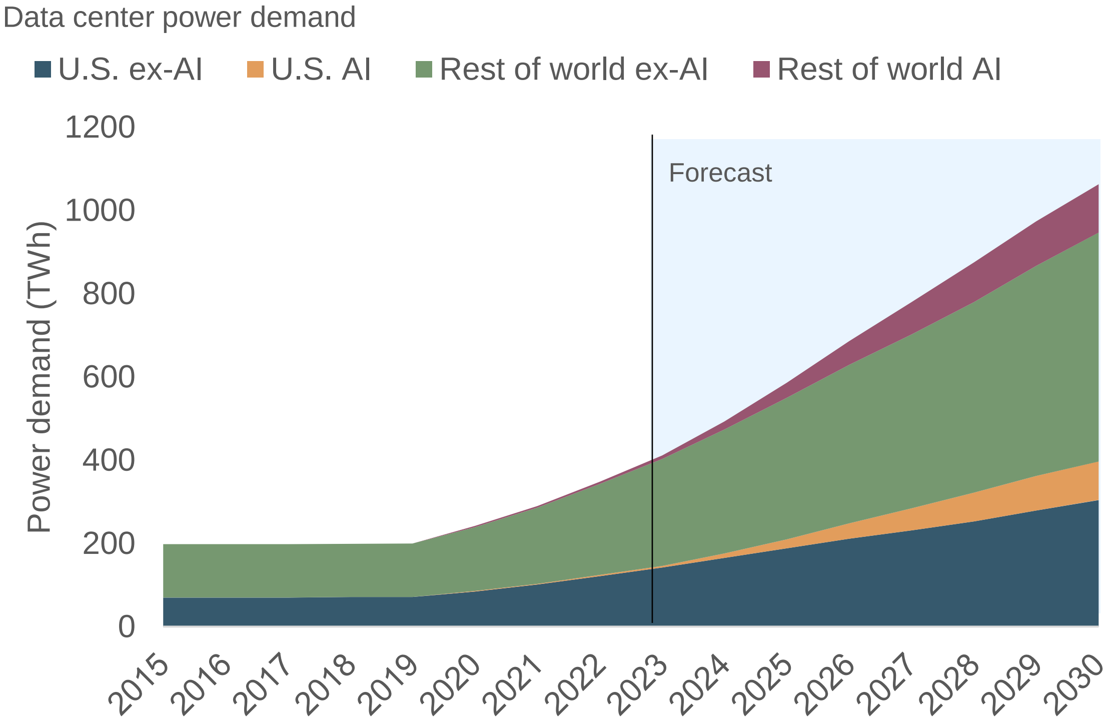
- Concern about commercial real estate has impacted investor sentiment but we think this has the potential to create investment opportunities.
- Allocating between 1% and 15% offers real estate exposure with the potential for income and capital appreciation—and can potentially be sourced primarily from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

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

Infrastructure is one of our highest conviction structural themes

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

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



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

A secular investment case for infrastructure

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

Portfolio construction benefits in equity

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

Portfolio construction benefits in fixed income

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

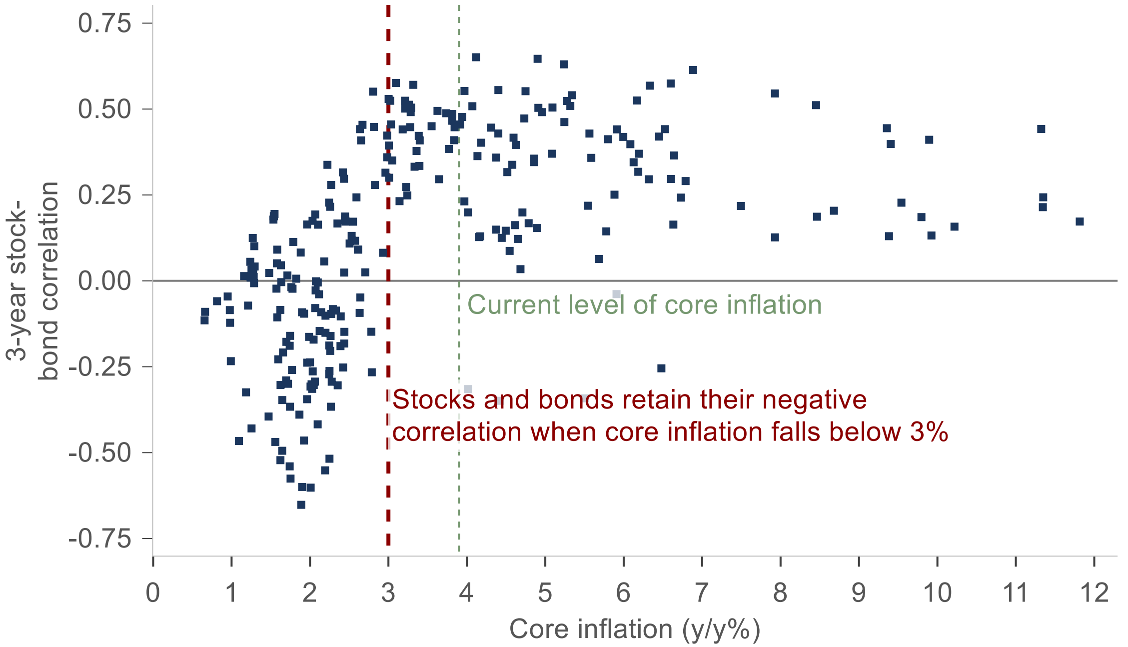
TAKEAWAY: The global economy is shifting, and we believe that infrastructure provides a durable opportunity to capture that change. We perceive infrastructure as a structural allocation in both equity in fixed income, allowing investors access to these trends as well as important portfolio construction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

Higher inflation points to a structural allocation to commodities

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

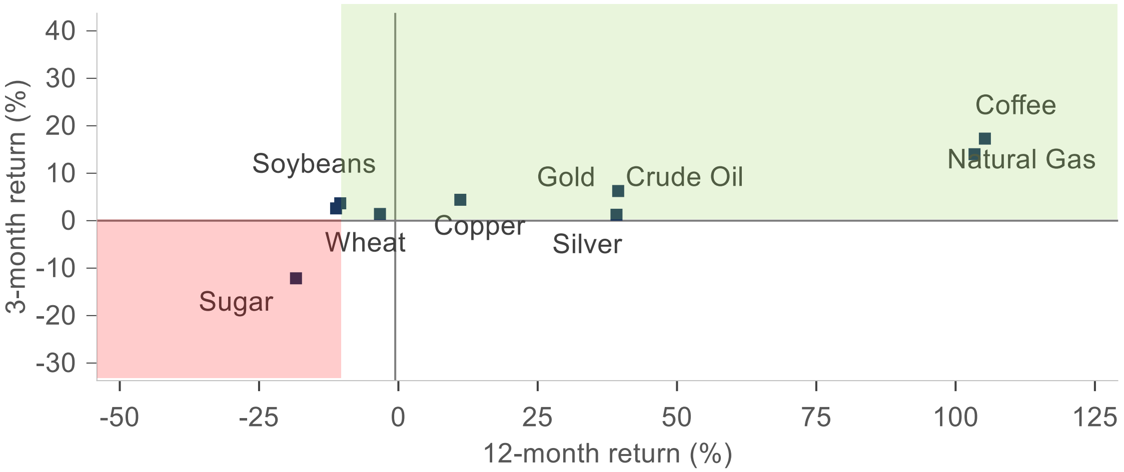
Commoditites play a more important role in portfolio allocation when inflation is high

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



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), S&P Global, U.S. Department of Treasury, Macrobond, March 2025. Stocks are represented by the S&P 500. Bonds are represented by the monthly return on a U.S. 10-year government bond. Core inflation is represented by the Core CPI index. Core CPI is represented by the core Consumer Price Index. CPI is a measure of the average change over time in the prices paid for a market basket of consumer goods and services. Core CPI excludes volatile food and energy prices. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. It is not possible to invest in an index. Past performance is not a guarantee of future results.

Active management is key when choosing a commodity allocation



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

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

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

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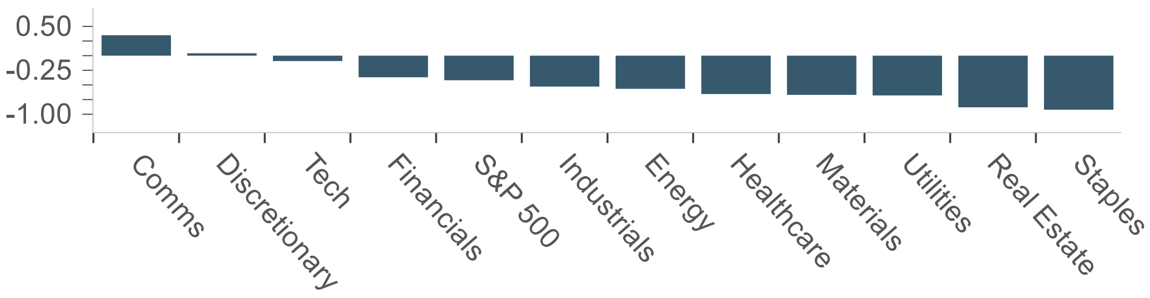
Structural opportunities are opening in liquid real estate

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

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

6-month correlation of 1-month changes



Sources: New York Life Investments Global Market Strategy, S&P Global, U.S. Department of Treasury, Macrobond, March 2025. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. It is impossible to invest in an index. Past performance is not a guarantee of future results.

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

Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, March 2025. Investment-grade financials OAS is represented by the option adjusted spread of the Investment Grade Financials (Sr) sector. All sectors OAS is a weighted average of the option adjusted spread of the Investment Grade All Cash Bonds sector.

- U.S. commercial real estate (CRE) experienced a one-two punch in the past several years. First came the pandemic, which pushed many white-collar jobs to work at home for a time, a trend that has been sticky in the U.S. Then came the interest rate hiking cycle of 2022–2023.
- As the economy slowed, questions were raised about whether write-downs in CRE valuations could prompt a new wave of banking losses, given the outsized exposure of small and mid-cap (SMID) banks to CRE loans.
- A majority of investors, bankers, and regulators are highly focused on CRE risks. That could imply any issue bubbling up would be quickly addressed as it was in March of 2023 and may be why bank bonds are outperforming the broader market (**right chart**).
- Despite a general downturn in the asset class, liquid real estate stood out as the top performer when yields declined at the end of 2023. Notably, the sector has the lowest correlation with changes in yields. We expect further cuts from the Fed could benefit the asset class (**left chart**).

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

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8 Private markets

Insights

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

Capital markets themes impacting the private markets

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

Global rates are moving lower

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

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

Deal flow is returning

- Sponsor pressure for liquidity, sustained for the last several years, is finally driving improvements in exit activity.
- Post-U.S. election “animal spirits” drive hope for lighter regulations and less red tape in the market.
- Bid-ask spreads for high-quality assets have been reasonable. For lower-quality assets, bid-asks spreads show early signs of improving.

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

Private markets allocation is growing and democratizing

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

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

Global megatrends are driving capital-intensive investments

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

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

Opinions of New York Life Investments, 2025.

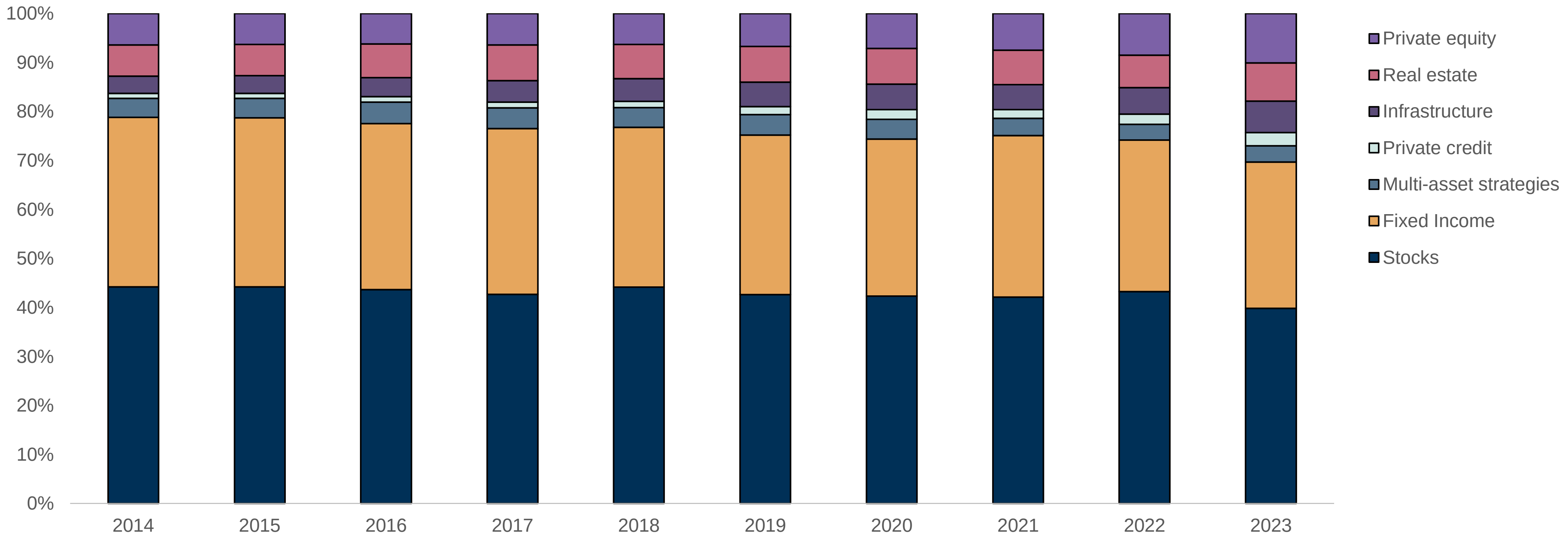
Qualified investor allocation to private markets has continued to increase…

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

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

Institutional investors have steadily increased their allocations to private markets…

Institutional investor asset allocations, 2014 - 2023



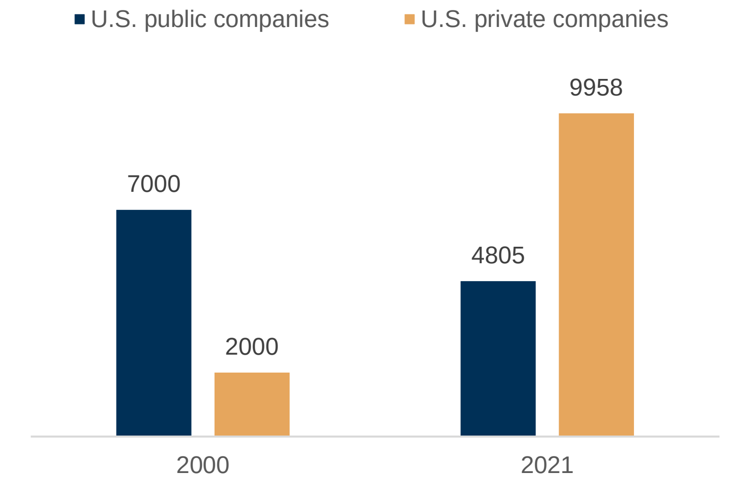
Sources: McKinsey, CEM Benchmarking, 2024. Data for 2024 is not yet available.

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

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

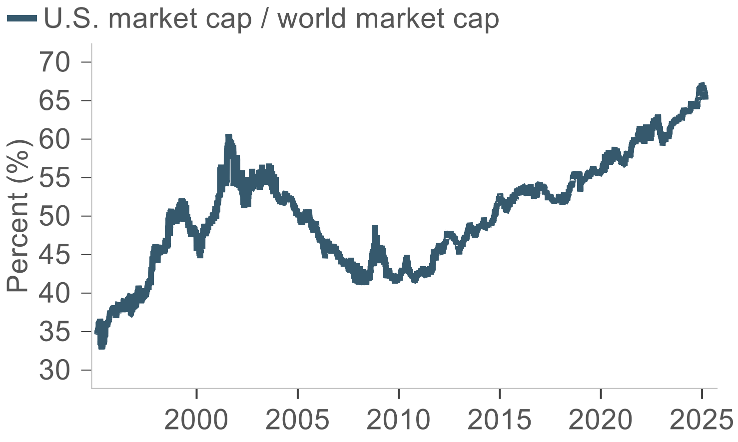
- Product innovation in the private markets space has created opportunities for qualified investors to fundraise among a larger set of investors, including night-net-worth investors. Interest in private markets strategies among these investors has grown in part due to its historically higher return and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

Company ownership has moved steadily from public to private markets



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

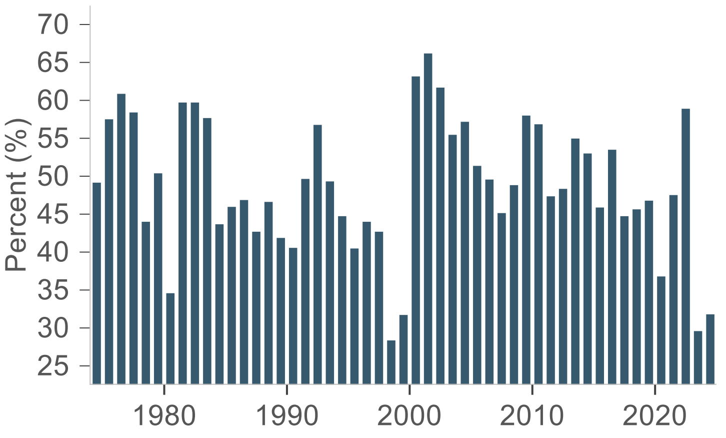
U.S. market capitalization dominates global market capitalization



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

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

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



Sources: New York Life Investments Global Market Strategy, NDR, Bloomberg, Macrobond, March 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

- We believe that 2025 will bring a major turning point for U.S. private equity. Buy-side activity is finally rebounding after two years of anemic fundraising and distributions. Exits improved strongly in the second half of 2024, kickstarting the process to bring investors liquidity and enable reinvestment.
- Fundraising has been concentrated in large and mega funds, creating an opportunity for middle market and lower-middle market managers to sell upmarket.
- Moderate interest rate levels and higher expected macroeconomic volatility likely mean that private equity funds will need to implement effective value-creation initiatives to grow company profits.
- New sources of liquidity have emerged over the last few years that we believe provide private equity investors with diversified opportunities to generate liquidity, creating more stability for the space.

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

Private credit

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

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

Real estate

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

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

Real assets

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

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

Opinions of New York Life Investments, 2025.

We believe the lower middle market presents a global private opportunity

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

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

Our case for the lower middle market

What is the lower middle market (LMM)?

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

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

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

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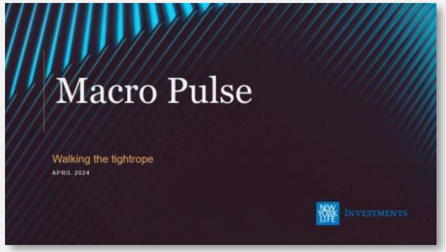

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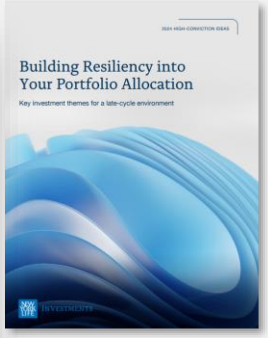

Asset class insights

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