Macro Pulse

Pending the pivot

AUGUST 2024

New York Life Investments

Global Market Strategy

At New York Life Investments

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

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Executive summary

The past nine months have already marked a soft landing in the United States. Disinflation, still-strong economic activity, and the promise of Fed rate cuts have sent risk asset valuations higher. **With the start of interest rate cuts now strongly signaled for September, we believe that U.S. markets can muddle through until signs of a slowdown become more widespread.**

For the last year and a half, the U.S. economy has provided moderate economic growth. Though pandemic-era policy programs are fading, new support – including a consistent pro-cyclical fiscal impulse and looser market financial conditions – have fostered a soft landing.

Despite this resilience, the fundamental question regarding the direction of economic growth remains: will U.S. growth slow, allowing rates to decline and global growth to converge? Or is it re-firming, increasing the likelihood of a more pronounced credit cycle?

We have long maintained that this cycle's "soft landing" is a stop on the way to recession. Up to now, U.S. business and household balance sheets have remained healthy relative to past economic cycles, making it less likely that a recession is compounded by a major credit event. However, the lagged impact of higher policy rates is showing for small businesses, lower-income households, and floating-rate borrowers. The longer rates stay high, the more protracted a future recession is likely to be.

That said, we believe investors should take advantage of market supports while they exist. We wouldn't expect market financial conditions to tighten until unemployment claims move higher and earnings turn negative.

Outside of the U.S., many countries are already seeing the impact of tighter monetary policy – growth is slowing. Looking ahead, a U.S. slowdown would likely contribute to sustained U.S. dollar strength, removing a hoped-for support.

Though uncertainty has been a mainstay of investment strategy in recent years, investors' opportunity set has *broadened*, thanks in large part to higher yields and major shifts in global public and private investment priorities. Our high conviction investment ideas include creative approaches to portfolio risk, diversified exposure to technology and supply chain trends, and managing interest rate and inflation volatility.

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

Table of contents

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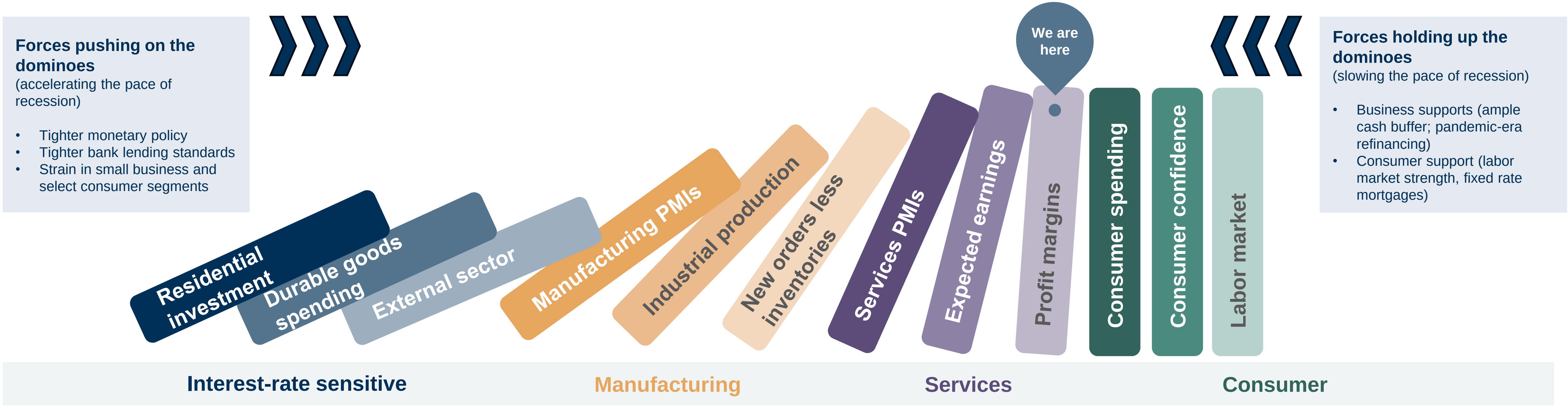
1 Economic & market outlook

Where are we in the U.S. economic cycle?

The economic dominoes suggest that a slowdown is still ahead

- Historically, when the Fed raises interest rates, components of the economy slow in a sequential manner, resembling a domino effect (**chart**). Once that process begins, the pace at which recession arrives is driven by the specific conditions of that cycle: the forces pushing down or holding up the economic "dominoes."
- This cycle's economic deceleration has been notably sluggish, partly due to the lingering effects of pandemic-related imbalances impacting various sectors of the economy. However, the pace of this cycle has not been unusual. As we will elaborate in a later section, it has historically taken an average of 23 months from the First Fed hike to work its way to the labor market. Today we are on month 27.
- We do not believe that the absence of a recession to date necessarily means that we will avoid one altogether. Past "soft landings" have been accompanied by modest rises in interest rates, reasonable inflation, and loosening bank lending standards. None of these conditions are present today, informing our view that the economic dominoes are still in the process of toppling.

The "domino effect" of a standard economic slowdown is intact, but atypical forces are affecting the speed of this cycle



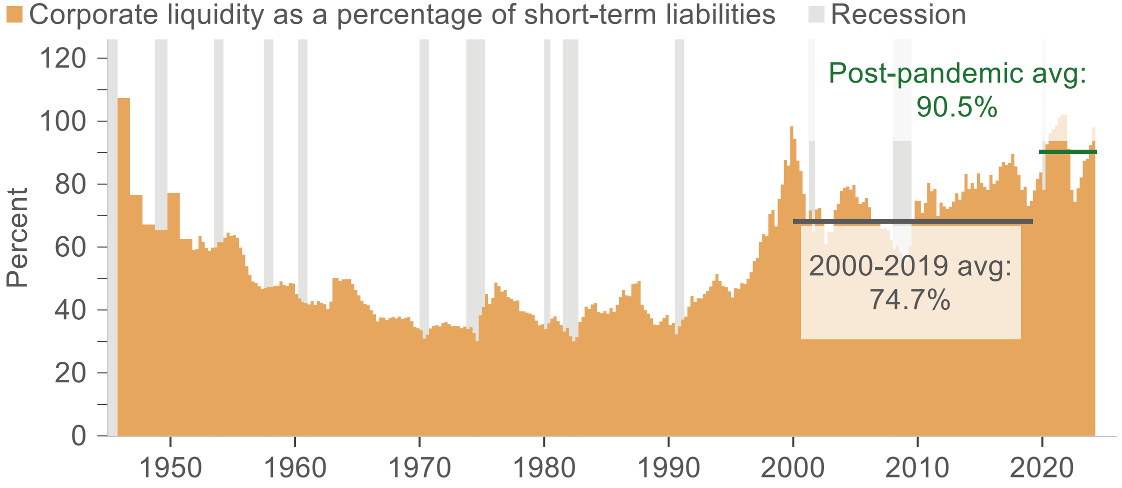
Opinions of New York Life Investments Global Market Strategy, August 2024. For illustrative purposes only.

Why the U.S. economy has held up: business supports

Businesses have protected profits through good capital management, extending the economic cycle

- Fiscal stimulus (pandemic programs) and monetary stimulus (low interest rates, credit facilities) allowed companies to both build up cash and deleverage throughout the post-pandemic period. As a result, many businesses have protected their bottom lines.
- Large companies with access to public capital markets have maintained strong liquidity (**left chart**), supporting earnings resilience by allowing those companies to invest cheaply-acquired capital in a higher-rate environment. But for much of the market, cracks are beginning to appear. Top-line revenue growth has slowed. Small companies and those relying on floating-rate credit report that it is increasingly challenging to protect profit margins. Indeed, at an aggregate level, corporate profit margins after tax are now deteriorating.
- Large firms' muted financing costs, a result of pandemic-era refinancing, have also been a bastion of corporate resilience. Even firms whose debt issuance is classified as high yield do not face an immediate maturity wall (**right chart**). Because neither liquidity nor the accommodative cost of existing capital appears to be running out of steam, we are focused on input costs, spreads, purchasing managers indexes (PMIs), and any improvement or deterioration in the earnings outlook as catalysts for investor sentiment around corporate health.

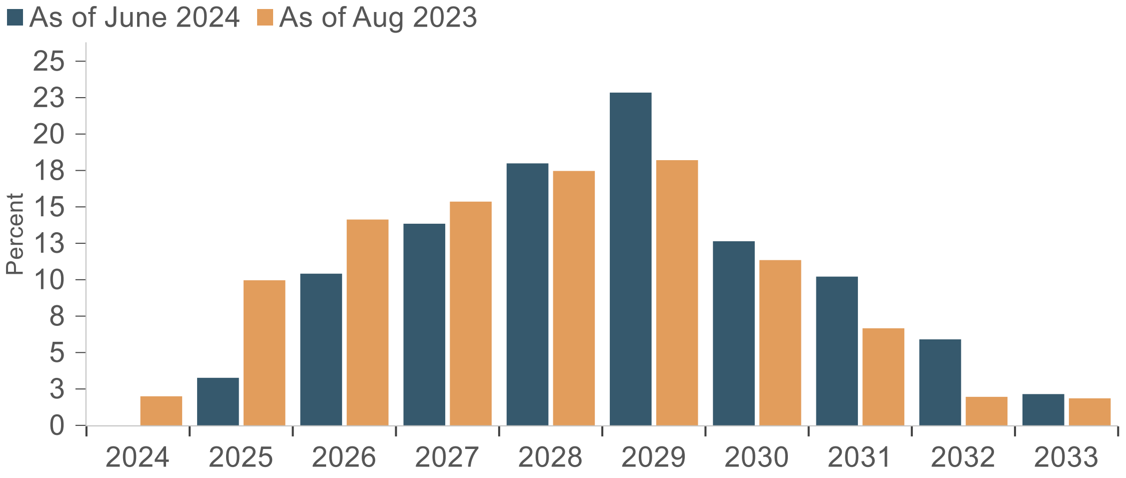
Large companies with access to public capital markets have maintained strong liquidity, supporting earnings resilience



Sources: New York Life Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, August 2024.

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

Share of high yield corporate benchmark maturing each year



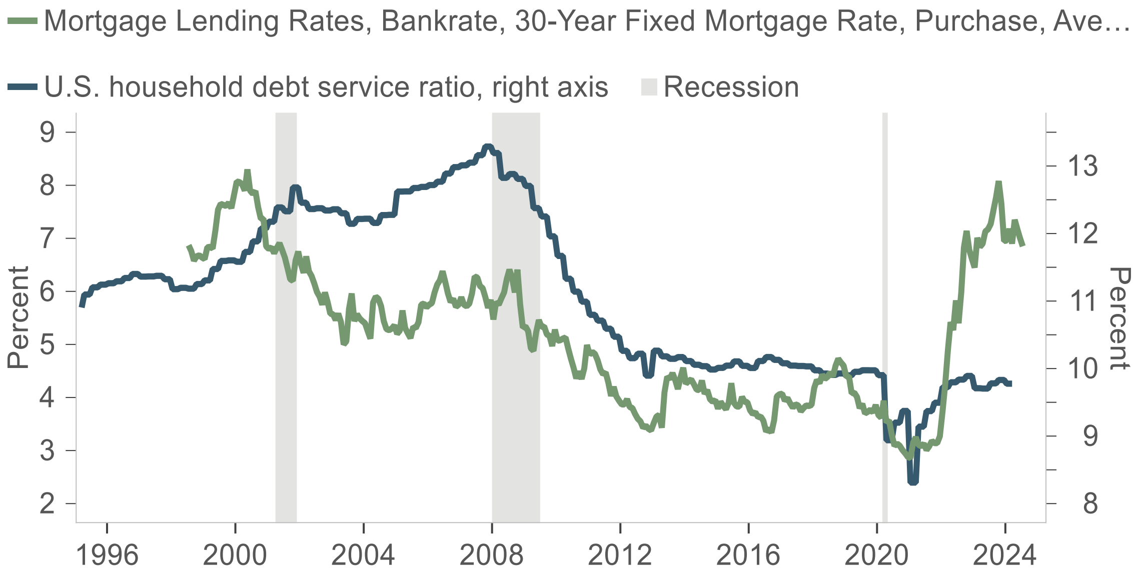
Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, August 2024. 2033 represents maturities for 2033-2040. Benchmark: Bloomberg U.S. Corporate High Yield Total Return Index. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.

Why the U.S. economy has held up: consumer supports

Tighter monetary policy has not hit many U.S. homeowners, enabling greater spending in high-income cohorts

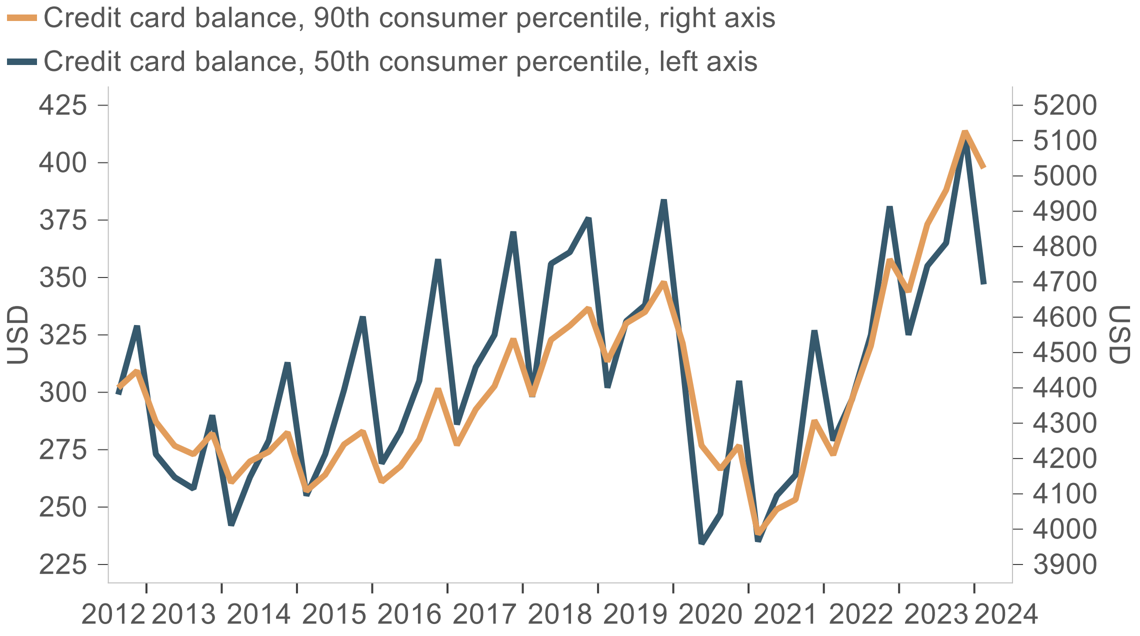
- A relatively healthy consumer reduces the risk that any economic slowdown would be accompanied by a major financial crisis, and we see many sources of resilience for the U.S. consumer today. The vast majority of U.S. 30-year mortgages are fixed-rate and about 40% of homes are owned outright, meaning that overall household interest payments have risen more slowly and to a lesser degree than the policy rate (**left chart**). As a result, consumer debt levels and debt service ratios remain reasonable compared to past expansions.
- With many existing homeowners shielded from tight monetary policy, total consumer spending, particularly among higher-income and wealthier segments, has been robust (**right chart**). Because these segments account for the greatest dollar volume of sales, an active high-income consumer segment supports broad retail sales and consumer data for the economy as a whole.

A large proportion of fixed rate consumer debt, such as mortgages, mean that household interest costs are not rising as quickly as the policy rate



Sources: New York Life Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Bankrate, Macrobond, August 2024.

Richer Americans are still very willing to spend



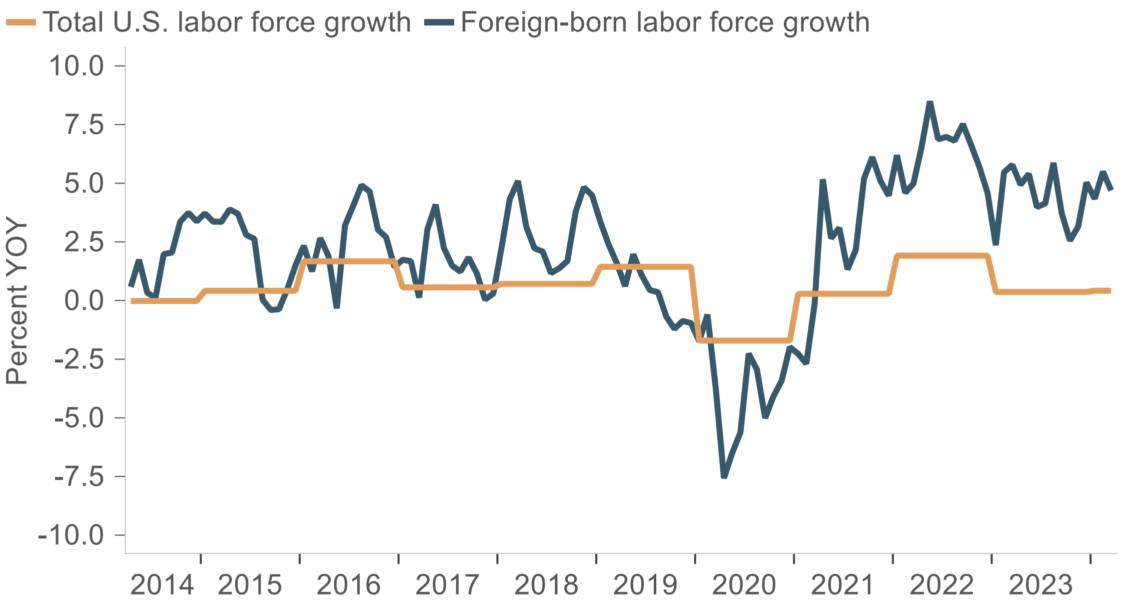
Sources: New York Life Investments Global Market Strategy, Federal Reserve Bank of Philadelphia, Macrobond, August 2024.

Why the U.S. economy has held up: labor supply

A strong supply of labor has kept U.S. consumption surprisingly strong

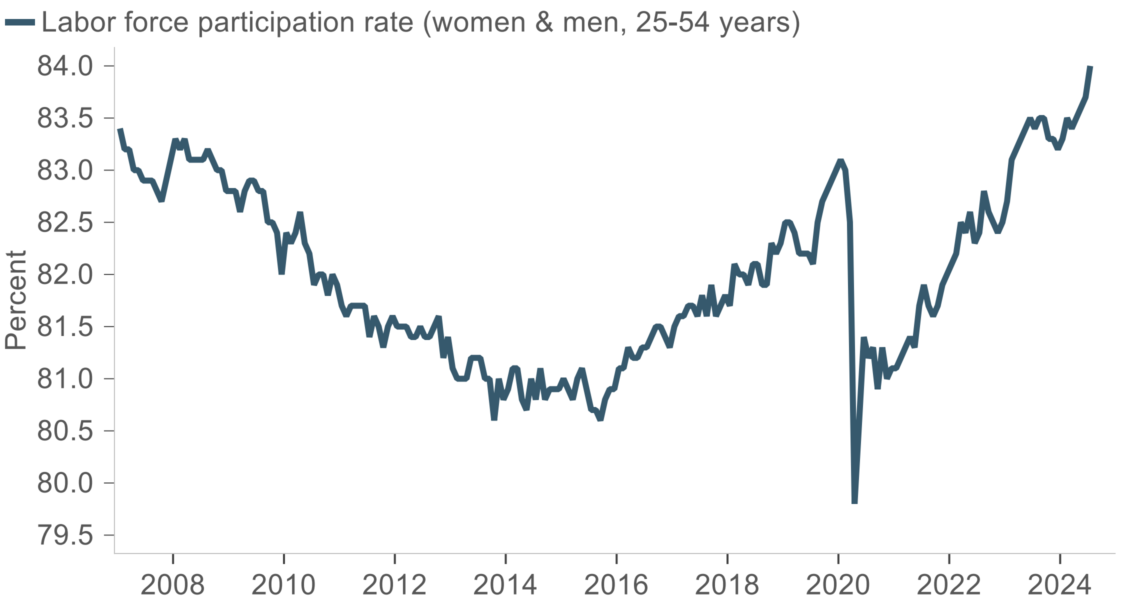
- The labor market is historically the last of the economic "dominoes" to topple, indicating that a recession has already arrived. The average time it has taken interest rate hikes to tighten the labor market is about 23 months. Today, we are on month 27. A recent surge in immigration to the U.S. has added to the labor supply (**left chart**), possibly sparing some sectors and regions from an even tighter labor market; greater worker supply lessens upward pressure on wages.
- The normalization of post-pandemic labor force participation continues. The pandemic prompted a wave of early retirements, which have stuck; the labor force participation of workers 55 and older has not recovered to levels seen prior to Covid. For all but these oldest workers, however, participation has surged in the past several years to highs not seen since the early 2000s (**right chart**).

The American-born labor force growth has been relatively stable, while the foreign-born labor force has surged since the pandemic



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, August 2024.

The labor force participation rate among prime age workers is above pre-pandemic levels



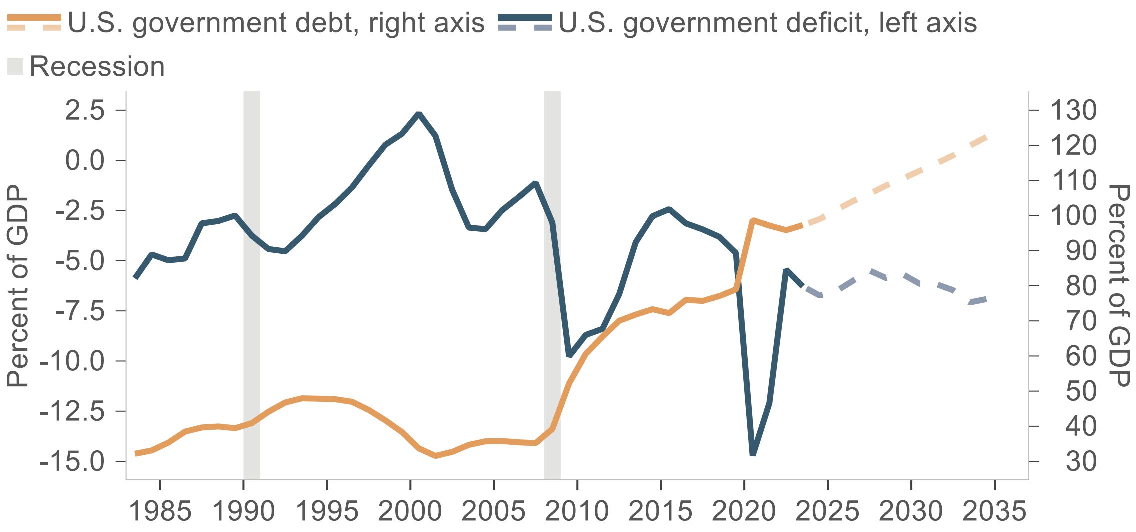
Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, August 2024.

Why the U.S. economy has held up: fiscal support

Fiscal spending has reliably supported the U.S. economy. Will it continue?

- Government support for the U.S. economy, via fiscal spending (**chart**) and support for regional banks was, in our view, the single most important factor in avoiding recession in 2023. 2024 may present a similar story; several proposals for increased fiscal spending – or incremental impact from promised spending – could impact the U.S. economy this year.
- The likelihood of continued fiscal support – and the areas where it would be enacted – is tethered to the result of the upcoming U.S. election. High deficits may reduce appetite for large fiscal packages, but both candidates have shown a previous willingness to spend.

Even during an economic expansion, U.S. government spending has grown



Sources: New York Life Investments Global Market Strategy, U.S. Congressional Budget Office (CBO), NBER (National Bureau of Economic Research), Macrobond, August 2024.

Potential fiscal support for 2024 and their economic impact

Support	Description
CHIPS act	The CHIPS Act provides funding to boost the domestic semiconductor manufacturing industry. The rollout of the $53 billion plan has been slow, but it's estimated $7.5 billion in grants could be issued this year.
Inflation reduction act	Tax credits for de-carbonization may impact consumers and businesses on the margin.
Student loan forgiveness	The Biden administration has now cancelled a total of $138 billion in student debt. Earlier in 2024, $1.2 billion in debt relief was provided for nearly 153,000 borrowers. In addition to government spending, debt relief supports higher consumption.
Employment Retention Credit (ERC)	The ERC is tax credit for businesses that retained employees during the pandemic.$7 billion in payments could be released during the remainder of this year and another $11 billion in FY25. Though future payments were recently revised down, the release of payments in mid-2023 corresponded to a lagged boost to GDP and small business hiring.
Defense spending	Wars have historically benefited the U.S. military-industrial sector. If a $95 billion defense bill passes the House, after being passed in the Senate, it would result in a 0.3% increase in GDP growth.
Wyden-Smith tax proposal	The passage of this bill has stalled in the Senate but remains a possibility. The proposed $136 billion corporate tax cut is projected to raise GDP by 0.5%, mostly through improvements to corporate profits. The passage of this proposal may very well avoid, at least temporarily, broader layoffs.

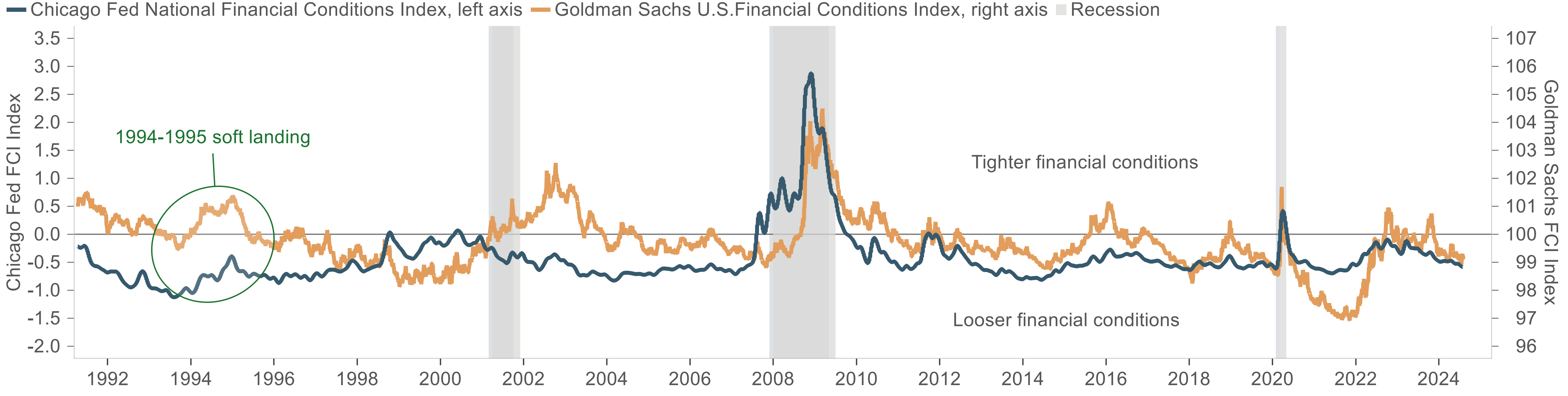
Sources: New York Life Investments Global Market Strategy, August 2024. GDP estimates were derived from work by Strategas and Piper Sandler.

Why the U.S. economy has held up: favorable market financial conditions

Market financial conditions have been accommodative. If they stay that way, it's harder for the Fed to cut quickly

- Investors often speak of financial conditions as a market driver, but financial conditions are made up of three factors: monetary policy conditions, bank lending standards, and market financial conditions.
- Monetary policy conditions and bank lending standards, which we explore in later slides, have historically *led* economic outcomes. Market financial conditions, on the other hand, reflect equity and credit market pricing *today*. Up to now, market financial conditions have been favorable (**chart**). Strong equity market performance, low volatility, and a strong dollar have prevented pronounced tightening. That said, these conditions can change on a dime.
- This dynamic is important because it impacts the pace at which the Fed can cut rates. Looser financial conditions contribute to interest income and a wealth effect for equity owners, supporting economic growth and therefore increasing the risk of an asset bubble or inflation resurgence. Tightening financial conditions, by contrast, raise financial stability concerns and could negatively impact the confidence and spending patterns of higher income consumers.

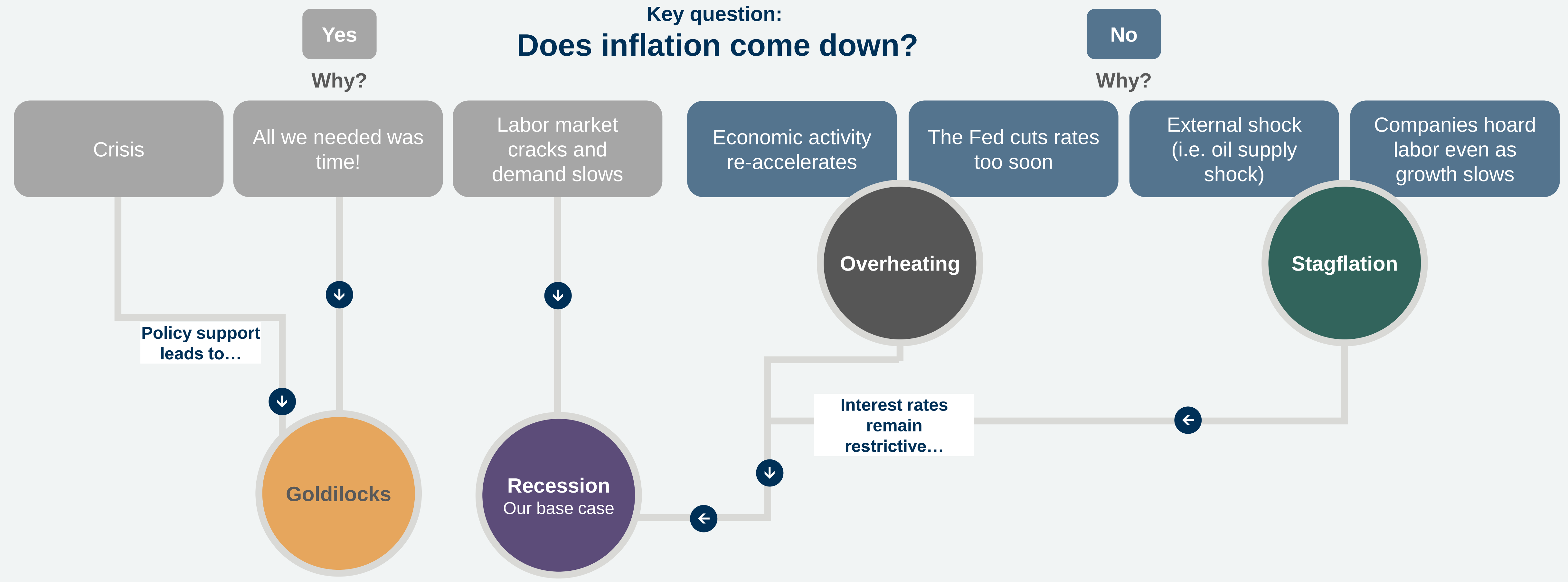
Market financial conditions have been favorable in recent months, but they tend only to tighten once recession has already arrived



Sources: New York Life Investments Global Market Strategy, Federal Reserve Bank of Chicago, Goldman Sachs, Bloomberg, Macrobond, August 2024. FCI: Financial conditions index.

Scenarios for the U.S. economy depend on the path of inflation

Recession remains our team's base case for the coming 12 months



Opinions of New York Life Investments, August 2024. For illustrative purposes only.

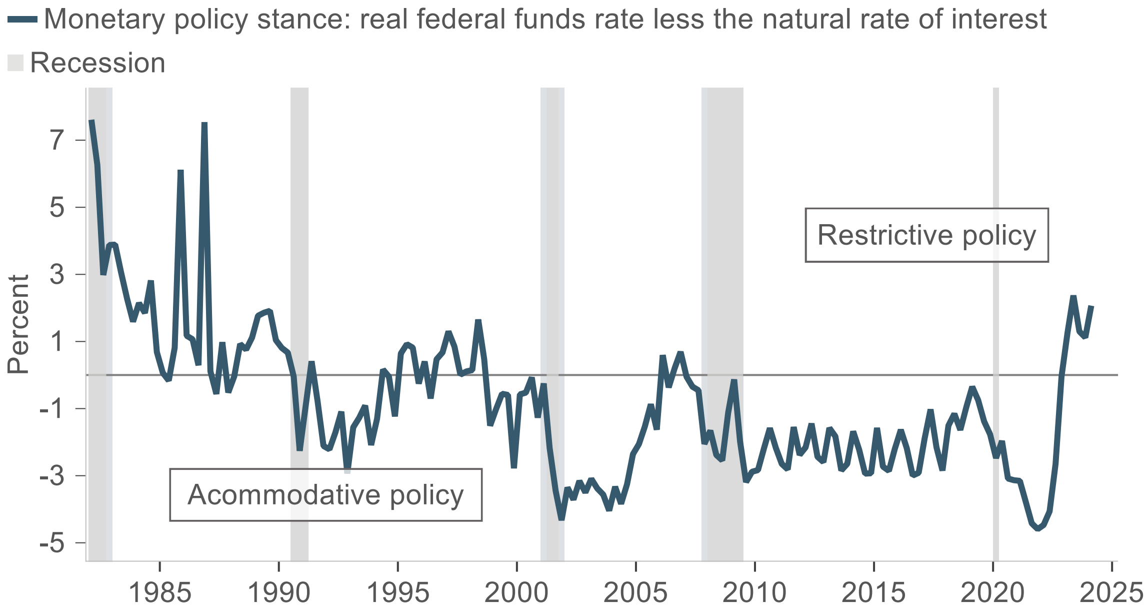
TAKEAWAY: A gradual, bumpy downward path for inflation is likely to result in policy easing that happens later and slower many investors currently expect. With interest rates remaining in restrictive territory for many more months – even several interest rate cuts into the easing cycle – we believe the impacts of tight policy will spread, sparking a visible slowdown within the coming 12 months.

Our base case for recession: tight monetary policy

Policy is tight. As its impact broadens across floating rate and new borrowers, we believe the economy will slow further

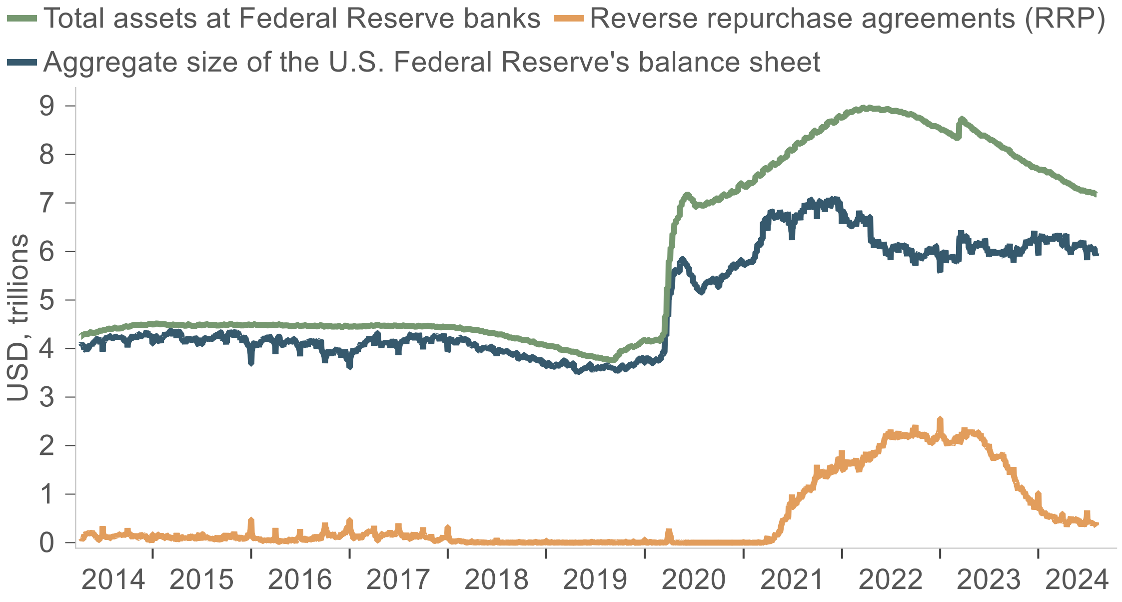
- In 2022 and 2023, the Fed raised interest rates quickly and assertively. Despite the pace of the hiking cycle, its flow through the real economy takes time. It is therefore only in recent quarters that the total monetary policy stance – the policy rate, less inflation and the natural or "steady state" level of interest in the economy – has turned restrictive (**left chart**).
- Meanwhile, the Fed has also been reducing the size of its balance sheet. The impact to market financial conditions, however, has so far been limited. Why? The pace of this reduction has slowed, having been largely offset by declining liabilities; liquidity is ample (**right chart**).
- The lag between interest rate increases and impact to the real economy can be long and variable, but the impacts of tightening are beginning to appear. As long as monetary policy remains restrictive, we are hesitant to overlook its important impact on the economic cycle – a steady downward pressure on the economic "dominoes."

Monetary policy is now restrictive



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, August 2024.

The Fed's balance sheet has been declining, but declining liabilities (repo transactions) have slowed the pace of aggregate rolloff

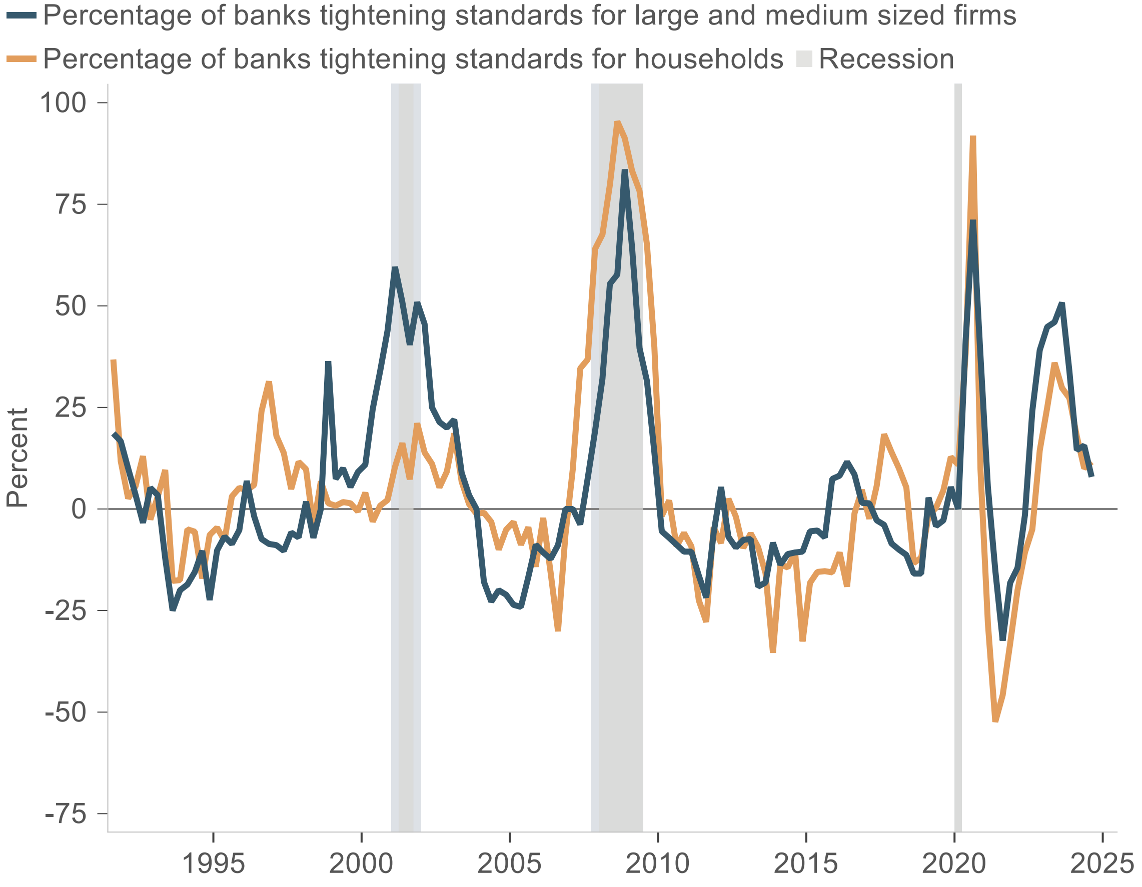


Sources: New York Life Investments Global Market Strategy, Bloomberg, U.S. Federal Reserve, Macrobond, August 2024.

Our base case for recession: strict bank lending standards

Stricter credit conditions constrain the real economy, and are unlikely to reverse until the yield curve normalizes

Tight bank lending standards have tended to constrain economic activity



Sources: New York Life Investments Global Market Strategy, U.S. Federal Reserve, Bloomberg, Macrobond, August 2024.

As long as the yield curve is inverted, banks are disincentivized from lending

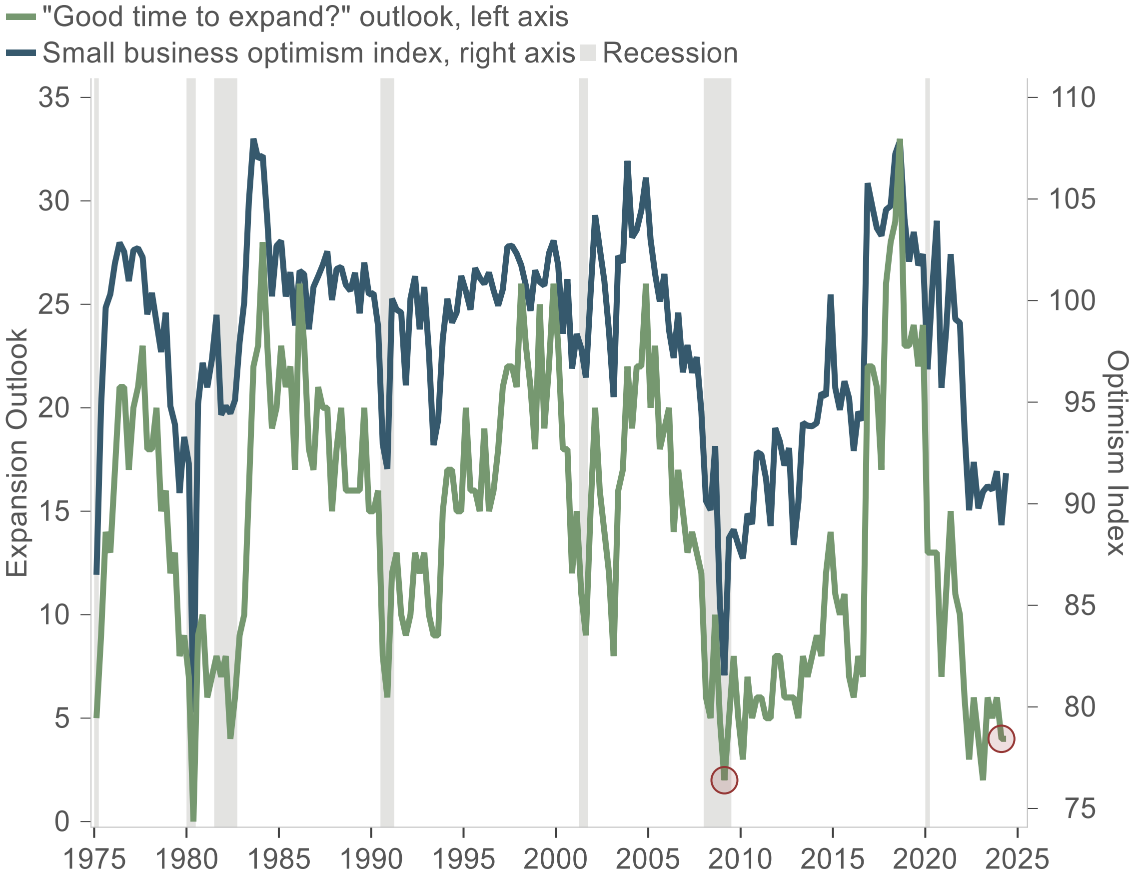
Sources: New York Life Investments Global Market Strategy, Macrobond, August 2024.

- Though the U.S has the deepest public and private capital markets in the world, most companies rely on bank lending to support their business operations and investment. Banks' willingness to lend, however, depends on capital conditions and perceived risk ahead.
- When risks are rising, tighter bank lending standards have historically constrained economic activity (**left chart**). In this economic cycle, bank lending standards have been tightening since shortly after the Fed began raising interest rates in March 2022. Though the degree to which standards are tightening has abated from its mid-2023 peak, the tightening impulse is still pronounced. As long as the yield curve is inverted (**above chart**), bank lending remains unprofitable and standards are likely to remain tight, constraining the economy.

Our base case for recession: struggling small businesses

Small businesses – comprising half of private employment in the U.S. – face a depressed outlook

Small business outlook is at or near GFC levels



Sources: New York Life Investments Global Market Strategy, National Federation of Independent Business, NBER (National Bureau of Economic Research), Macrobond, August 2024.

- Small businesses' optimism and plans for expansion are at depressed levels not seen since the Global Financial Crisis (**left chart**). Higher input costs, higher cost of capital, and cracks in consumer health all contribute.
- 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 fine and expensive to hire and retain (**right chart**).

Small business hiring plans are not recessionary, but have slowed

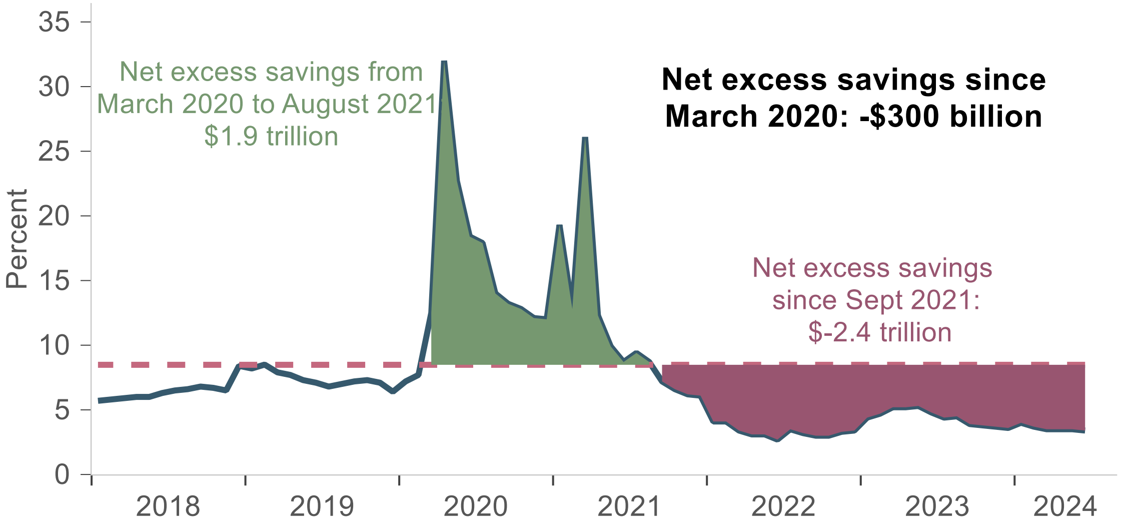
Sources: New York Life Investments Global Market Strategy, National Federation of Independent Business, Macrobond, August 2024.

Our base case for recession: challenges for some consumer segments

Many young and lower-income consumers have been unable to afford the inflationary economy for some time

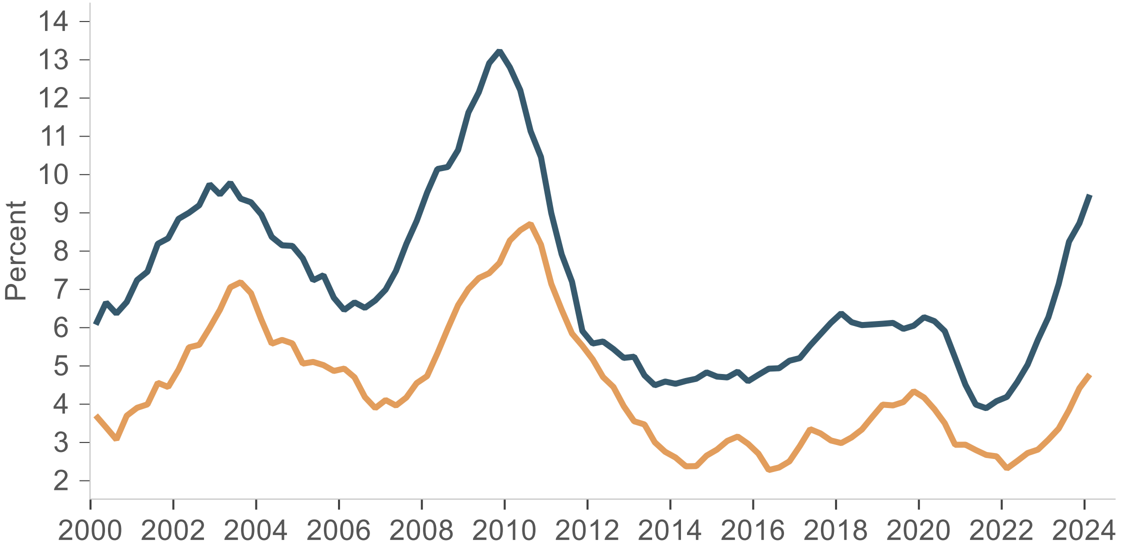
- The combination of fiscal stimulus and lockdowns allowed consumers to accumulate nearly $2 trillion in excess savings during the pandemic. Those consumer supports have now faded (**left chart**).
- The lack of savings buffer is most visible among younger and lower-income consumer segments – the same cohorts that are most broadly affected by home rent inflation (without the buffer of fixed-rate home ownership). Credit card delinquencies are rising fastest among younger consumers (**right chart**); auto delinquencies among lower-income and younger borrowers are also rising.
- These pockets of strain gradually appeared in national retail sales and consumer confidence data throughout the second quarter of 2024, suggesting mounting levels of strain.

Excess savings have been an important support; they're now exhausted



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), Macrobond, August 2024.

Credit card delinquencies are rising, particularly for younger consumers



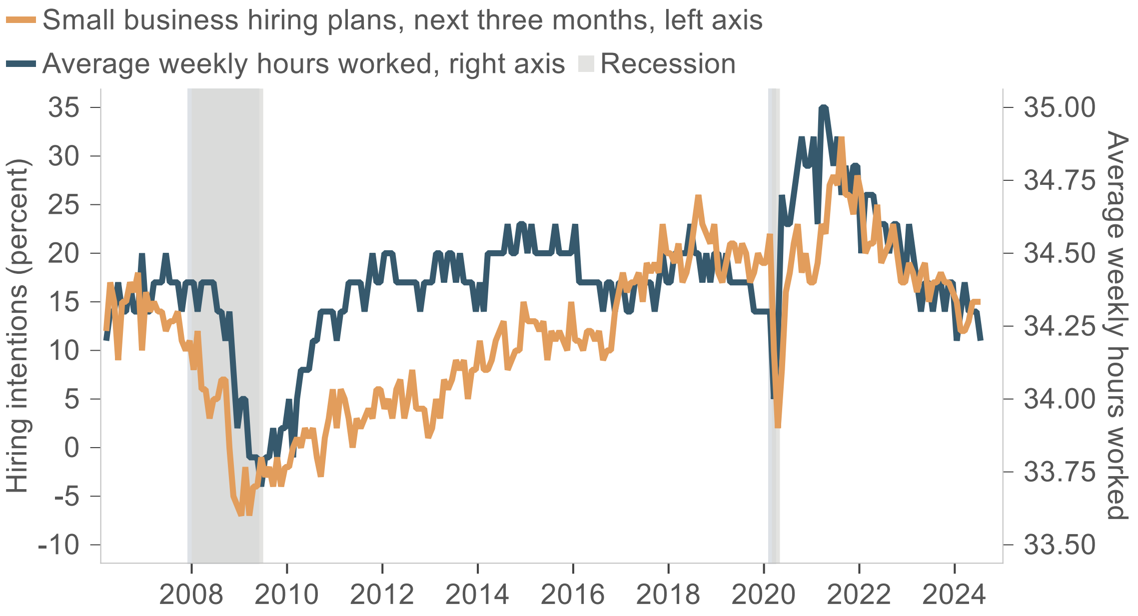
Sources: New York Life Investments Global Market Strategy, Federal Reserve Bank of New York, Macrobond, August 2024.

Our base case for recession: cracks in the labor market

The jobs market is still intact, but cracks are widening

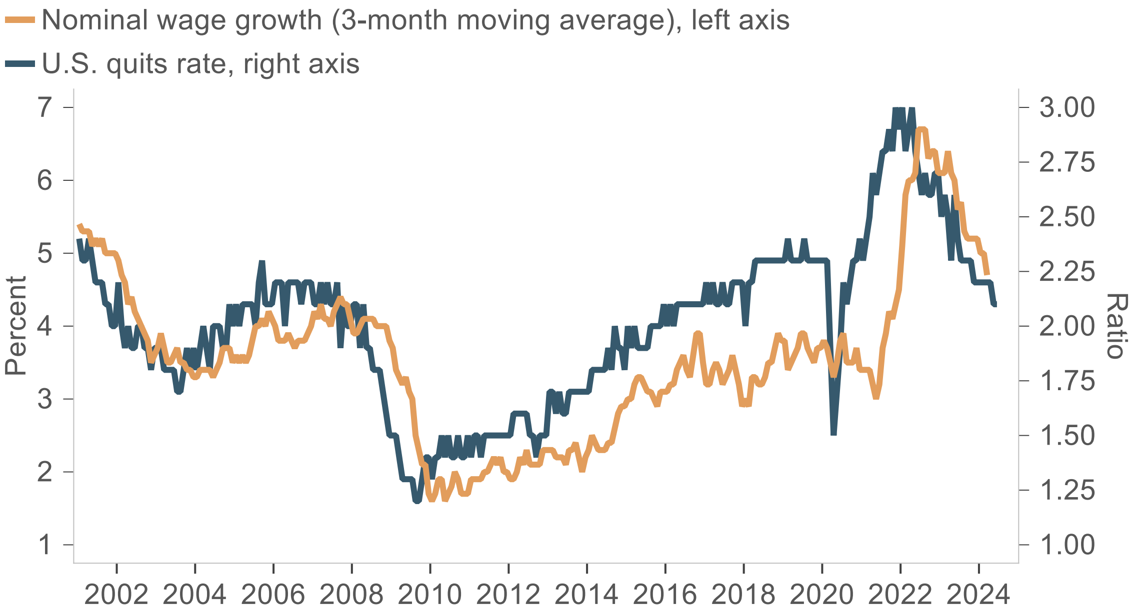
- Cracks are becoming more visible in U.S. employment. For example, small business hiring intentions are deteriorating, and companies have been reducing worker hours, typically an attempt to contain labor costs before resorting to layoffs (**left chart**).
- A powerful indicator of employee confidence is the quits rate; a declining quits rate, which we see today, can signal that workers have less confidence in their ability to find a new job should they voluntarily leave their existing one. This erosion of confidence in the health of the labor market has coincided with a slowing of wage growth (**right chart**), as well as a firming upward trend in both initial and continuing unemployment claims.
- In the short term, modest weakness in the labor market may be "good news" for investor risk appetite, as it enhances the Fed's case for rate cuts. However, a clearer deterioration, signaled most clearly by new jobless claims, is one of the most important risk-off indicators we watch, particularly when accompanied by deteriorating corporate earnings growth.

Leading indicators of employment are deteriorating



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, August 2024.

A decline in the quits rate corresponds with a slowing of wage growth

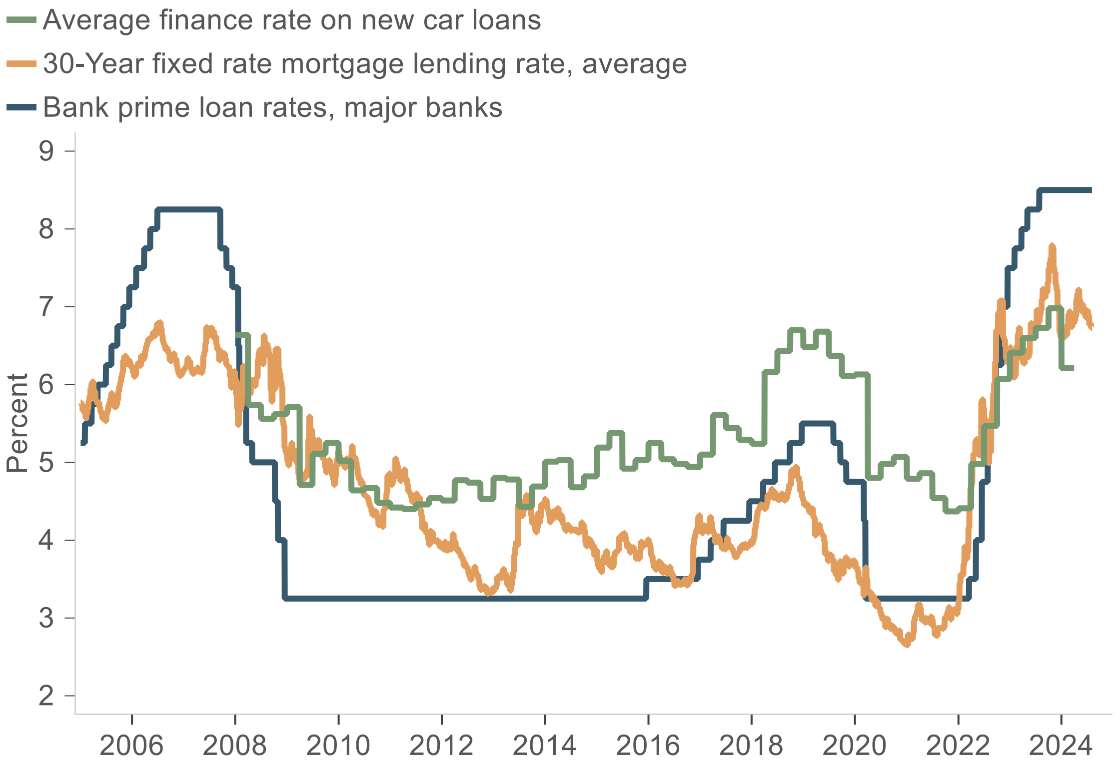


Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Federal Reserve Bank of Atlanta, Macrobond, August 2024.

Our base case for recession: increasing risk of policy mistakes

The more time interest rates are restrictive, the more widespread the impact on portions of the economy

Floating rate and new borrowers face a prohibitively expensive borrowing environment



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Freddie Mac, Macrobond, August 2024.

Historically, the jobs market provides no advance warning of recession

Average change in nonfarm payrolls around recession onsets, standardized by July 2024 nonfarm payroll level

Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, August 2024.

- Borrowers taking out new debt, along with borrowers whose cost of capital fluctuates with market rates, unequivocally face expensive borrowing conditions (**left chart**). This has the effect of slowing marginal economic activity, and has tended to compound the longer interest rates remain at restrictive levels.
- Historically, the U.S. economy creates hundreds of thousands of jobs right up until the moment recession begins (**right chart**), meaning the jobs market is a lagging indicator of economic health and provides the Federal Reserve with no advance signal of recession.

TAKEAWAY: Still-warm inflation and widespread pandemic-era refinancing may mask that borrowing conditions are restrictive. While these conditions do not affect all portions of the economy, pressure on housing, manufacturing, small business, and some consumers is likely to build over time, potentially spilling over in the form of recession.

Overheating: the worst-case scenario for the economy and markets?

A pushback of monetary policy support has become increasingly unlikely, but remains the true "bear case" for the coming 12 months

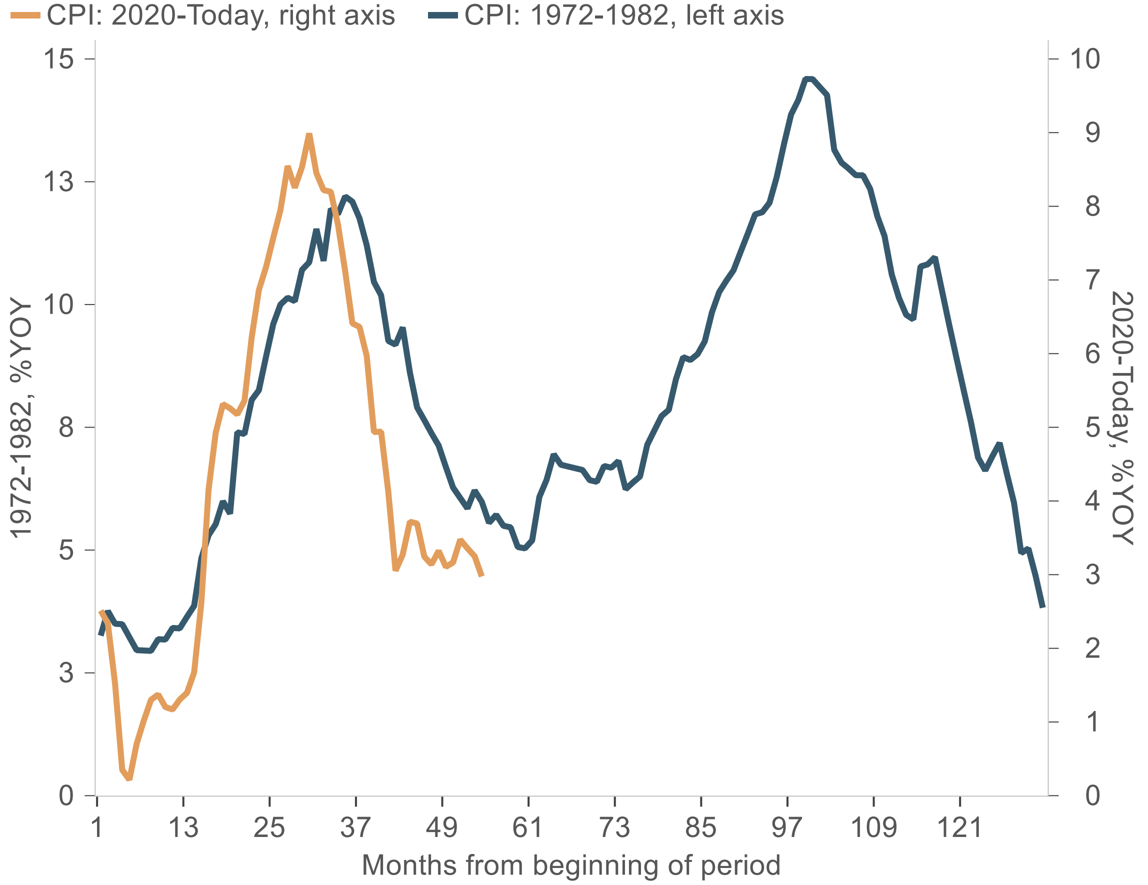
- A reacceleration of economic growth, driven by any of the factors described below, could allow the economic "dominoes" to stand back up. Though seemingly positive, we see a U.S. reacceleration as a key global market risk. Rising economic growth rates could mean that inflation re-accelerates, rates stay "higher for longer", or even a more challenging credit cycle.

What we're watching:

Indicator	Description
The Fed cuts before inflation re-anchors	While the Fed is well attuned to the risk of creating a double peak in inflation by cutting too early (**right chart**), the stubbornness of rent, services, and core inflation suggests more work remains to re-anchor inflation before the Fed gets too deep into the cutting cycle.
Fiscal impulse strengthens	Election-related reacceleration of fiscal spending may avoid a slowdown in the near term but increases the likelihood of economic overheating.
Profit margins stabilize or improve	Profit margins are the last stronghold keeping the labor market intact. Now, hours worked are declining, a sign that profit margins may be under increasing pressure. If profit margins were to expand – whether due to an expanding economy or due to the pending tax bill in Congress – this could be an important support for the labor market ahead.
Bank lending standards begin to loosen	Bank lending standards have been tightening, a major force pushing down the dominoes. As long as the yield curve is inverted, U.S. banks face meaningful pressure on their balance sheets and have to be more careful with lending. If this reversed, we could see more support of economic activity, especially for small businesses.

Opinions of New York Life Investments Global Market Strategy, August 2024.

The key risk of cutting rates too early: a Burns-era double inflation peak



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, August 2024.

The Fed now has a strong case for a September rate cut

Our checklist of conditions for a Fed rate cut are now met, and we see two 25bp interest rate cuts likely this year

- Inflation was sticky in Q1 2024, and the Fed does not expect a return to its 2.0% target until 2026. Market expectations have recently anchored around this data but remain reactive.
- We believe the Fed is eager to cut rates to avoid an overly restrictive policy stance, but warm inflation data had made this impossible until the summer. We believe that at sequential 25bp cuts are likely this year, with a chance for larger cuts if economic data slows more notably.

Is inflation behind us?

- We believe that Chair Powell will use the Jackson Hole symposium in August to signal that their dominant concern is now further broad-based weakness in the labor market, and that inflation is no longer the driver of policy.
- That said, though the risk of inflation reaccelerating is now much lower, we still see it as a primary market risk. Market-driven financial conditions have been accommodative for much of the year. If a further easing in financial conditions contributed to market liquidity, it may present that upside risk to inflation and growth, pressing the Fed into a more hawkish stance.

When will the yield curve normalize?

- The 2Y-10Y yield curve has nearly dis-inverted as interest rate cuts are priced in throughout the midpoint of the Treasury curve. However, the 3M-10Y curve has become *more* inverted; the very front end of the curve will price in cuts only when they occur.
- For investors, this suggests that it is still to early for a wholesale rotation into Treasury duration; assuming a 25bp pace of easing, a slower rotation toward longer duration may be warranted.

Our Fed cuts checklist – what does it take to transition back to *neutral* policy?

Condition	Status	Met?
Inflation expectations well anchored	Long-term inflation expectations remain well anchored, though 1-year forward inflation expectations have seen greater volatility this year.	✓
Core inflation moving closer to target	After a few months of impressive progress, core inflation stabilized in Q1 2024. While we believe it is too early to call total victory on inflation, enough progress has been made to justify the start of interest rate cuts.	✓
Unemployment rate ≥ 4.0%	While the Fed does not want employment to weaken considerably, it is likely that some labor market slack will be required to cool wages, and therefore the current services-driven upward pressure on inflation.	✓
Wage growth commensurate with stable prices	Wage growth closer to 3.5% would make the Fed feel more comfortable cutting towards target; wage growth of 3.6% as of July 2024 meets this requirement.	✓

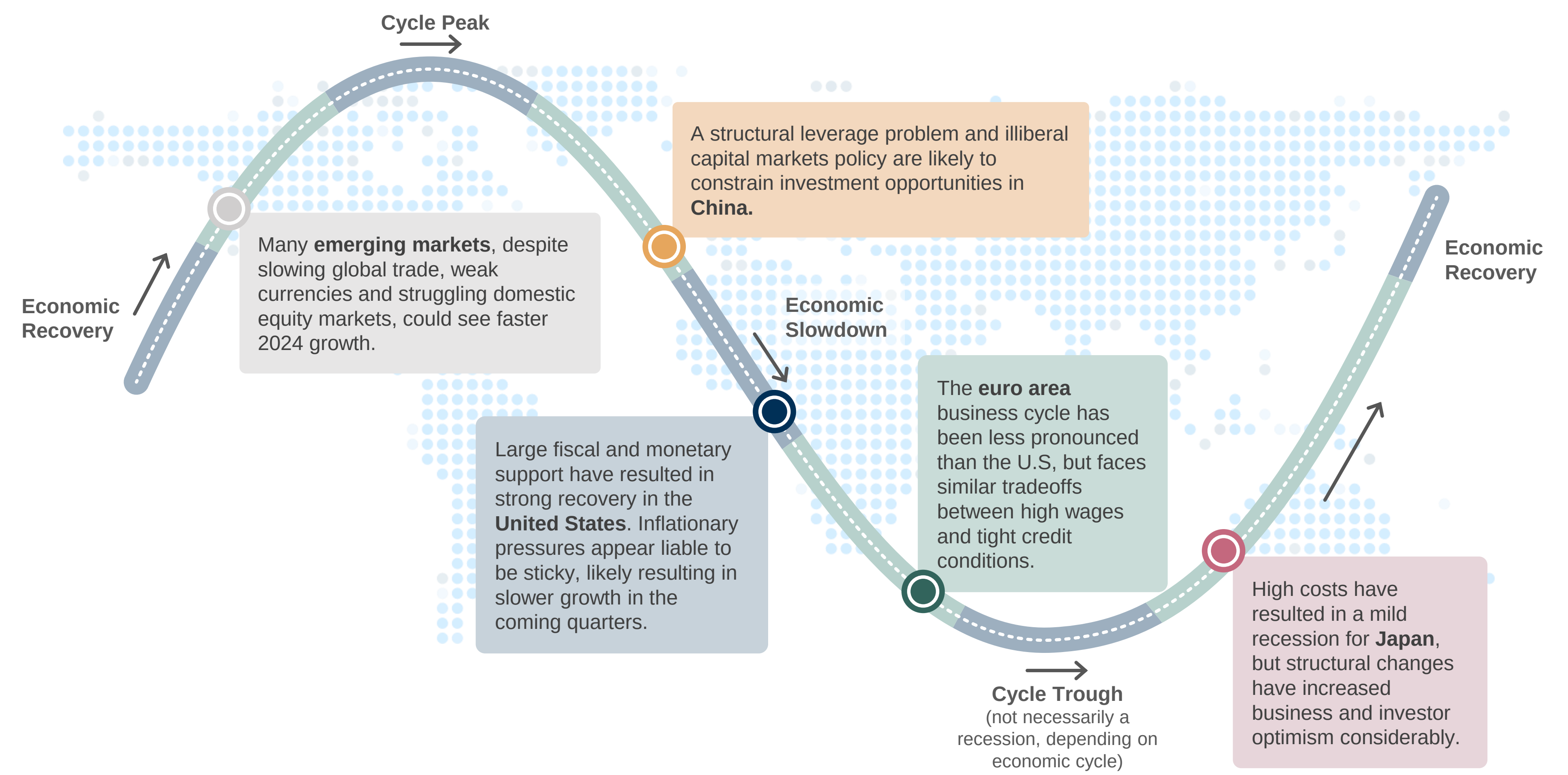
Opinions of New York Life Investments Global Market Strategy, August 2024.

TAKEAWAY: In our view, even a single rate cut will be an important source of relief for many asset classes. We believe investment flows from cash and into short duration bonds would increase, as a means of locking in higher interest rates before they decline further. But investor optimism for higher-risk assets may be short lived if faster rate cuts reflect slowing economic activity.

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



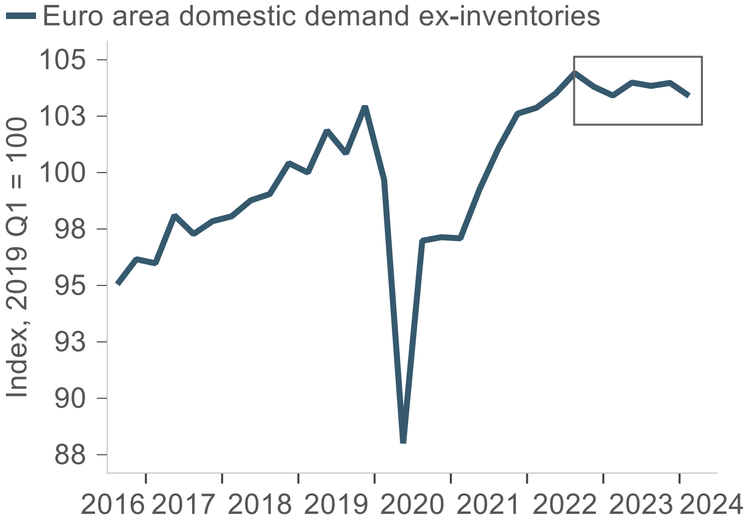
Sources: New York Life Investments Global Market Strategy, August 2024. For illustrative purposes only. "EM" is short for emerging markets. *The trough of an economic cycle is the lowest point in economic growth for a country during an economic cycle- A trough does not necessarily mean that there is a recession, but rather depends on the economic cycle.

Euro area

The euro area business cycle has been less pronounced than the U.S., but faces similar tradeoffs between high wages and tight credit conditions

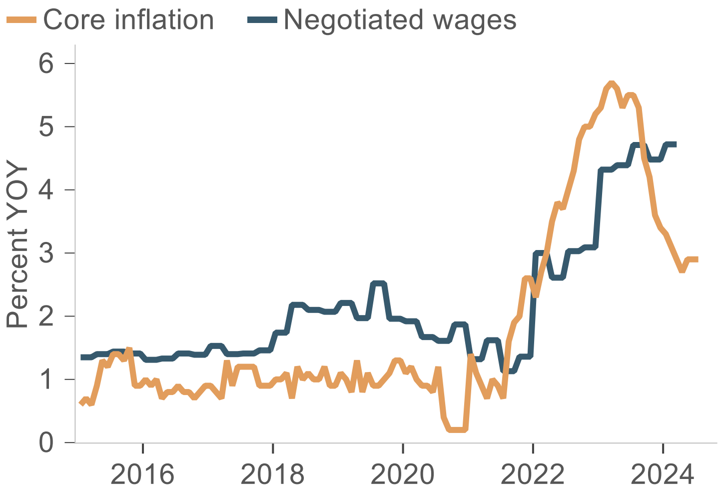
- Since the COVID-19 pandemic, Europe has faced many of the same challenges as the U.S. Supply chain dynamics and labor force disruptions contributed to high inflation. Russia's invasion of Ukraine materially impacted gas prices, adding to inflation and growth concerns.
- Key differences with the U.S., such as a broad return to office work and fiscal support focused on social stabilizers (over stimulus checks) resulted in a more subdued business cycle.
- In the past year, euro area domestic demand has flatlined (**left chart**) and inflation has moved lower (**middle chart**). In response, the ECB cut interest rates from 4.00% to 3.75% in June.
- Today, credit conditions remain tight and loan demand has been declining (**right chart**). Leading indicators, such as purchasing managers' indices (PMIs), have improved but still signal contraction. Rate cuts may help Europe avoid a recession, but we expect tepid growth.

Domestic demand has flatlined



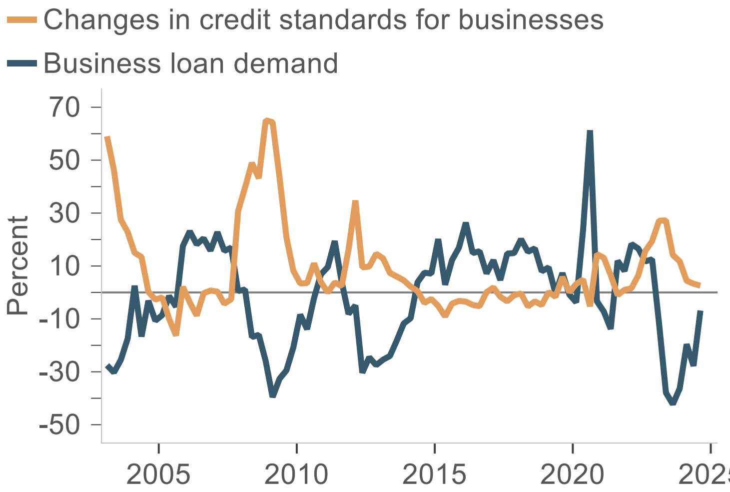
Sources: New York Life Investments Global Market Strategy, ECB (European Central Bank), Macrobond, August 2024.

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, August 2024.

Credit standards have tightened while demand for loans has fallen



Sources: New York Life Investments Global Market Strategy, ECB (European Central Bank), Macrobond, August 2024.

TAKEAWAY: We expect tepid euro area growth as a result of still-tight credit conditions, timid consumption, and low consumer confidence. A robust labor market and stronger wages have kept a floor under consumption, but also contribute to tighter credit conditions. Now that the rate-cutting is underway in Europe, credit conditions may loosen, potentially helping to avoid recession.

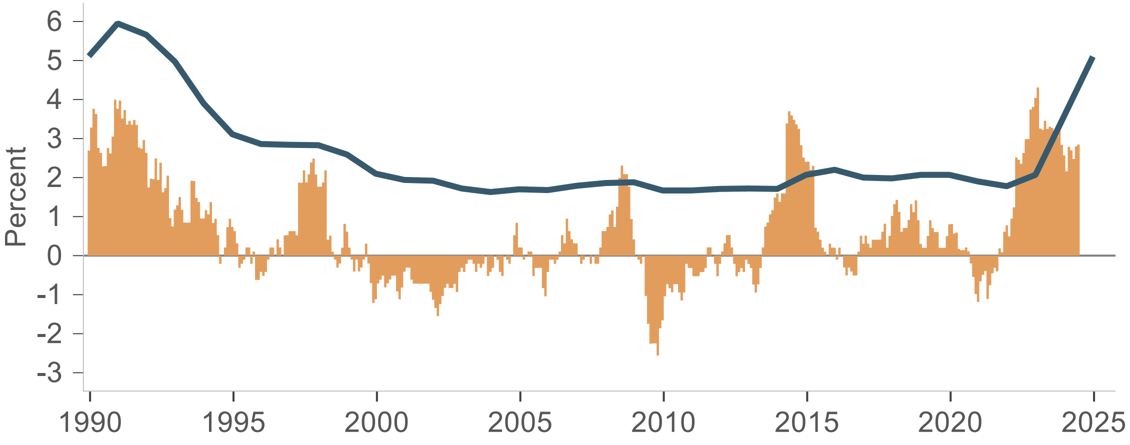
Japan

High costs have resulted in a mild recession, but structural changes have increased business and investor optimism considerably

- While most global central banks were raising rates in the last two years, the Bank of Japan maintained ultra-accommodative monetary policy. This has now reversed. A weaker yen has spurred import-price inflation, contributing to higher wages for the first time in many years (**left chart**). In response, the Bank of Japan loosened yield curve control, then ended negative interest rate policy in March, and has now risen rates to 0.25% in July. Market financial conditions, including equity market valuations, have tightened considerably in response.

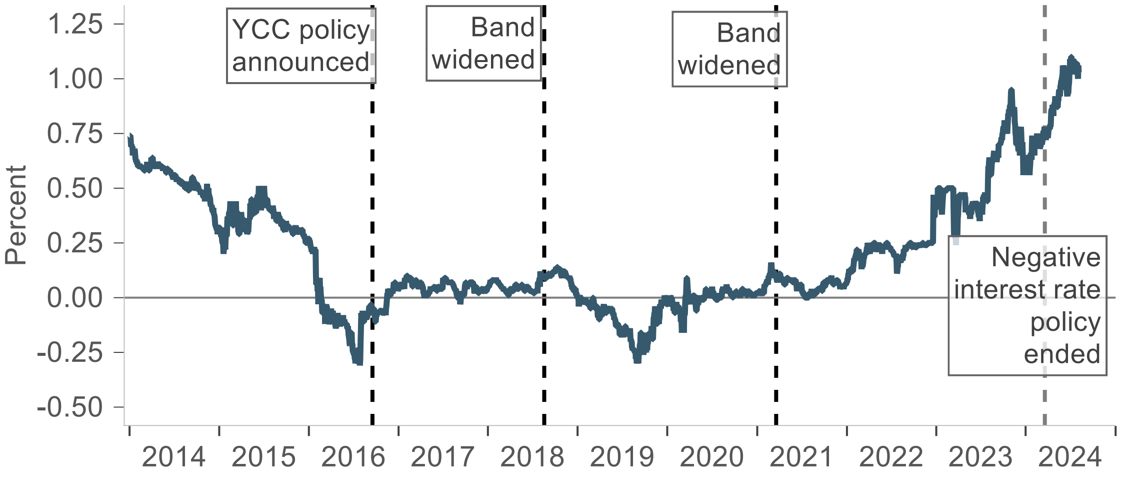
- At the same time, the government and private sector have made meaningful changes to promote competitiveness. Government policies have focused on improving investment and labor conditions. The Tokyo Stock Exchange has compelled companies with low book values to reduce cash (via investment) or explain their choice. The combined result has been a considerable shift in global corporate and investor expectations for Japan's growth.

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, August 2024.

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



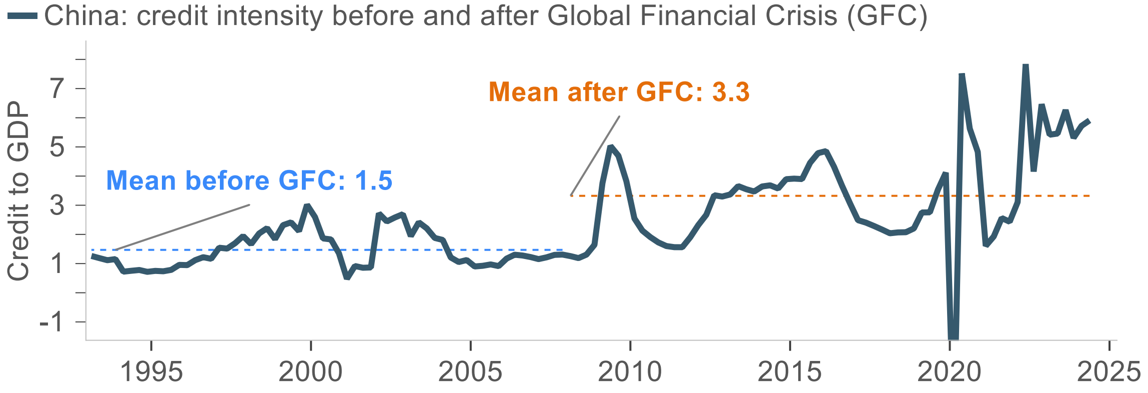
Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Macrobond, August 2024.

TAKEAWAY: Despite Japan's technical recession, we believe the country'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

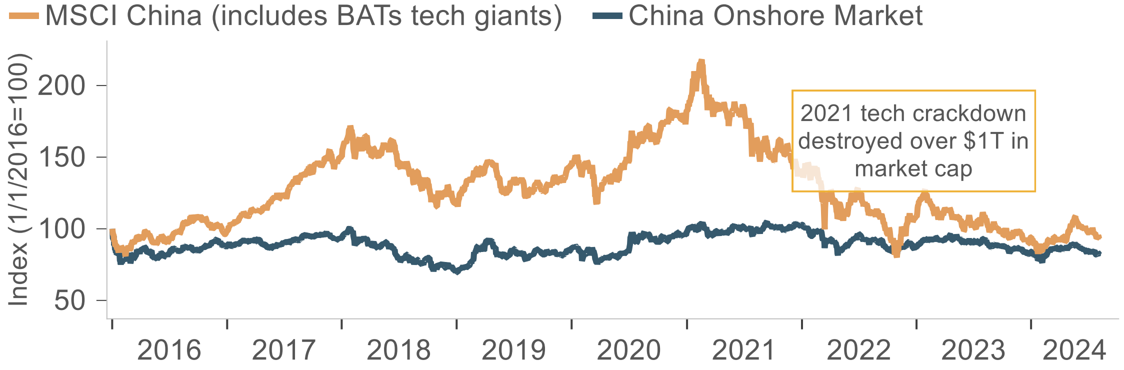
A structural leverage problem and illiberal capital markets policy are likely to constrain investment opportunities

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



Sources: New York Life Investments Global Market Strategy, People's Bank of China (PBoC), BIS (The Bank for International Settlements), China National Bureau of Statistics (NBS), Macrobond, August 2024. GDP: Nominal.

China's regulation has hampered value creation in equities



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, MSCI, Macrobond, August 2024. 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 2024 Chinese growth is expected to slow from 5.2% YoY to 4.6% - with pressure from a property crisis and a weakening jobs market alleviated by central government financing.

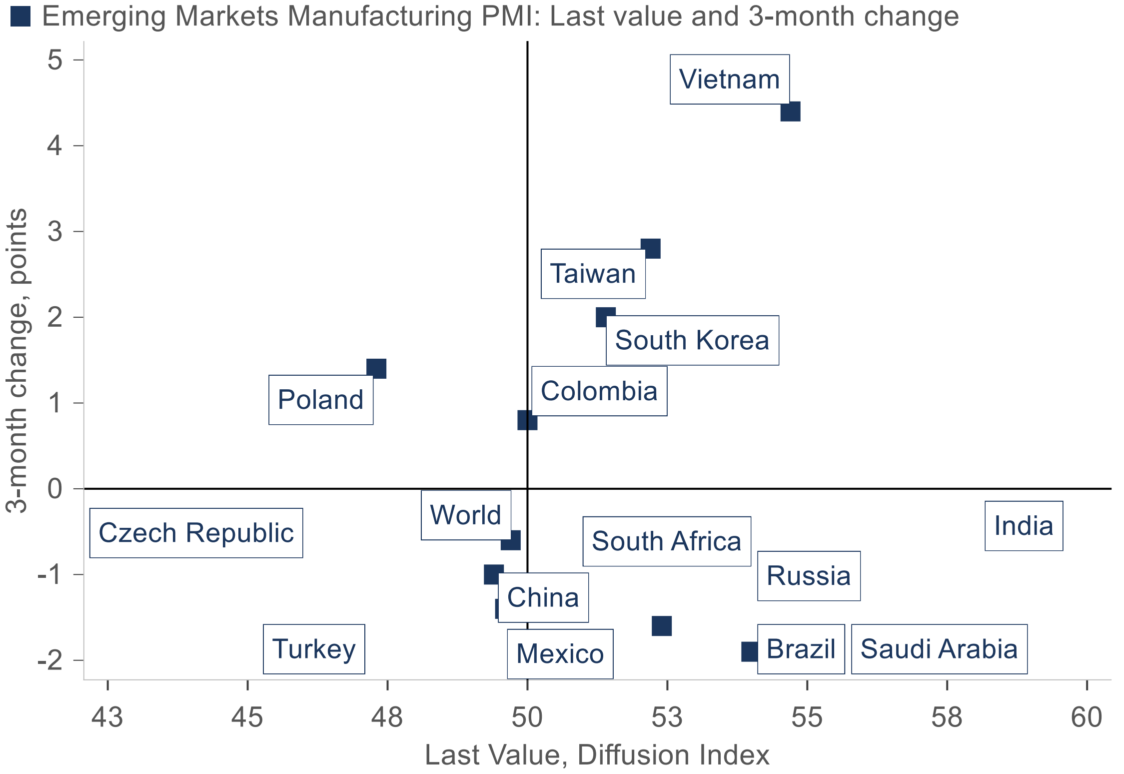
- China's closely regulated onshore equity markets do not include exposure to major tech firms, including the BATs: Baidu, Alibaba, and Tencent, which operate within China but are listed primarily in the U.S. (**right chart**). Lack of onshore exposure to these names enabled China's infamous tech crackdown 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.

Emerging markets

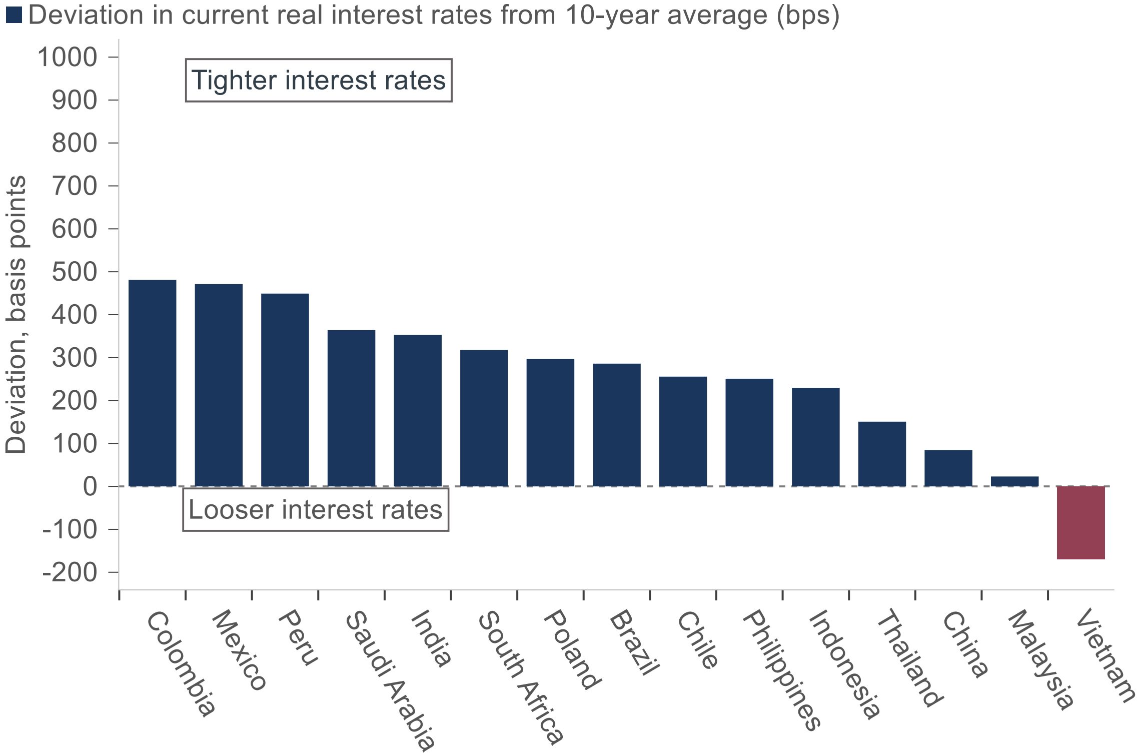
Many EM countries, despite slowing global trade, weak currencies and struggling domestic equity markets, could see faster 2024 growth

Many emerging markets are showing strong economic activity



Sources: New York Life Investments Global Market Strategy, S&P Global, China Federation of Logistics & Purchasing, Taiwan National Development Council, Bureau for Economic Research of South Africa (BER), Macrobond, August 2024.

Monetary policy is still restrictive in response to above-average inflation



Sources: New York Life Investments Global Market Strategy, Central Banks and Central Statistical Offices of: Colombia, Mexico, Peru, Brazil, Poland, Saudi Arabia, Thailand, Philippines, South Africa, Indonesia, India, Malaysia, Chile, China, and Vietnam; Macrobond, August 2024.

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).

2 Long-term themes

Long-term interest rates

- Inflation expectations
- Path of the policy rate
- Term premium: supply and demand for Treasuries

U.S. debt sustainability

- Determinants of debt sustainability
- The growing interest burden
- Impact of the 2024 election

Megatrends

- Artificial Intelligence
- Supply chains

Dollar dominance

- What it takes to be a reserve currency
- Potential disruptions to the dollar

Long-term interest rates: key drivers of change

Long-term yields are driven by three key factors, impacting behavior in nearly all asset classes

10-Year Yield

Inflation expectations

Factors biasing yields higher

- Tight labor market
- Insufficient housing supply
- Energy transition
- Supply chain resilience
- Corporate rent-seeking

Factors biasing yields lower

- Ageing demographics

TAKEAWAY: Long-term inflation expectations are anchored, but a volatile short-term outlook may be upside risk to rates.

+

Path of policy rate

Factors biasing yields higher

- Investment driving potential GDP growth higher, manifesting in a potentially higher neutral rate

Factors biasing yields lower

- The Fed's reaction function (responsiveness) to restrictive rates
- Potential recession

TAKEAWAY: Unless GDP growth potential increases, policy rate expectations are a net neutral for long-term rates.

+

Term premium (supply and demand)

Factors biasing yields higher

- Debt sustainability concerns
- Political and geopolitical risk
- Investor preferences, including moderate sovereign rates in other major nations
- Higher issuance/supply

Factors biasing yields lower

- Structural demand for global 'safe haven' assets

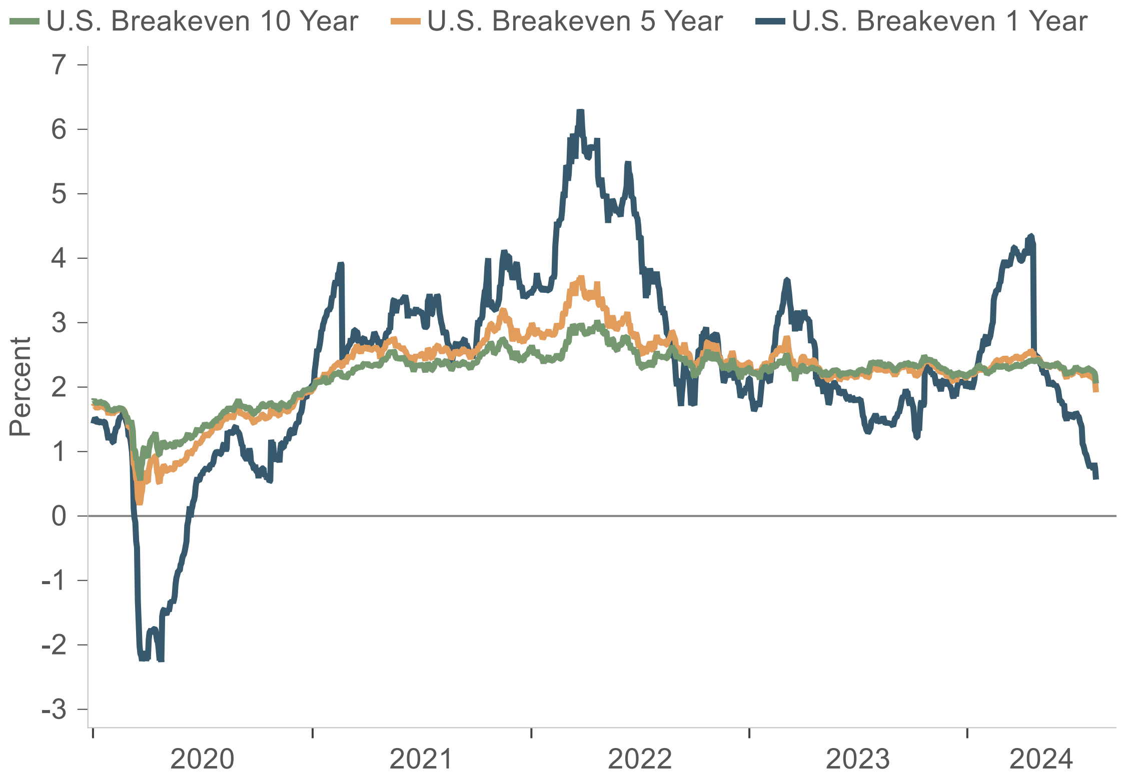
TAKEAWAY: Structural investment tailwinds are an upward pressure on long-term rates.

Opinions of New York Life Investments Global Market Strategy, August 2024.

Long-term interest rates: inflation expectations

Long-term expectations are well anchored, but volatile short-term expectations may be an upside risk to interest rates

Inflation expectations are stable for the long term; volatile for the short term



Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, August 2024. The breakeven inflation rate is derived from the difference in yields between nominal bonds and inflation-linked bonds of the same maturity.

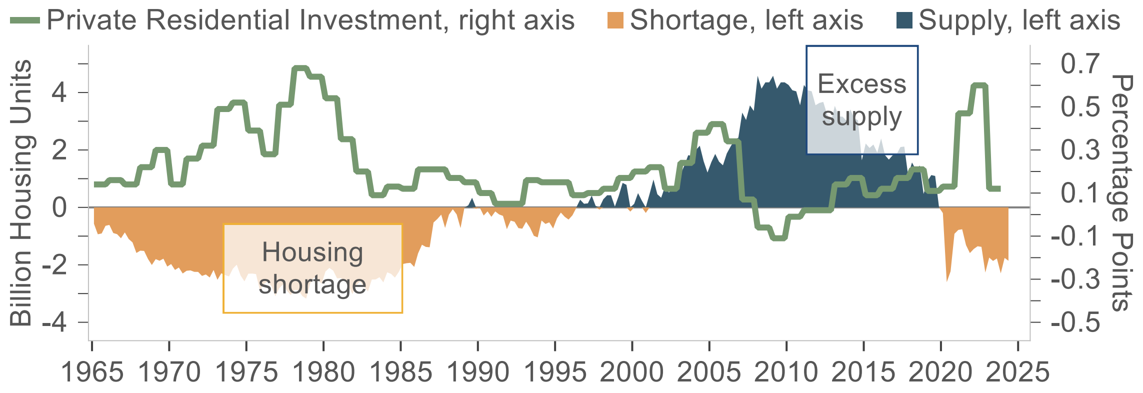
Factors biasing inflation expectations HIGHER:

- Tight labor market: higher wages
- Insufficient housing supply: keeps housing prices elevated (**below chart**)
- Energy transition: higher investment; higher prices
- Supply chain investment: nearshoring
- Corporate rent-seeking

Factors biasing inflation expectations LOWER:

- Technological innovation, potentially including generative artificial intelligence
- Aging demographics: higher dependency ratios may lower consumer spending

The U.S. housing shortage prompts greater spending - and inflation



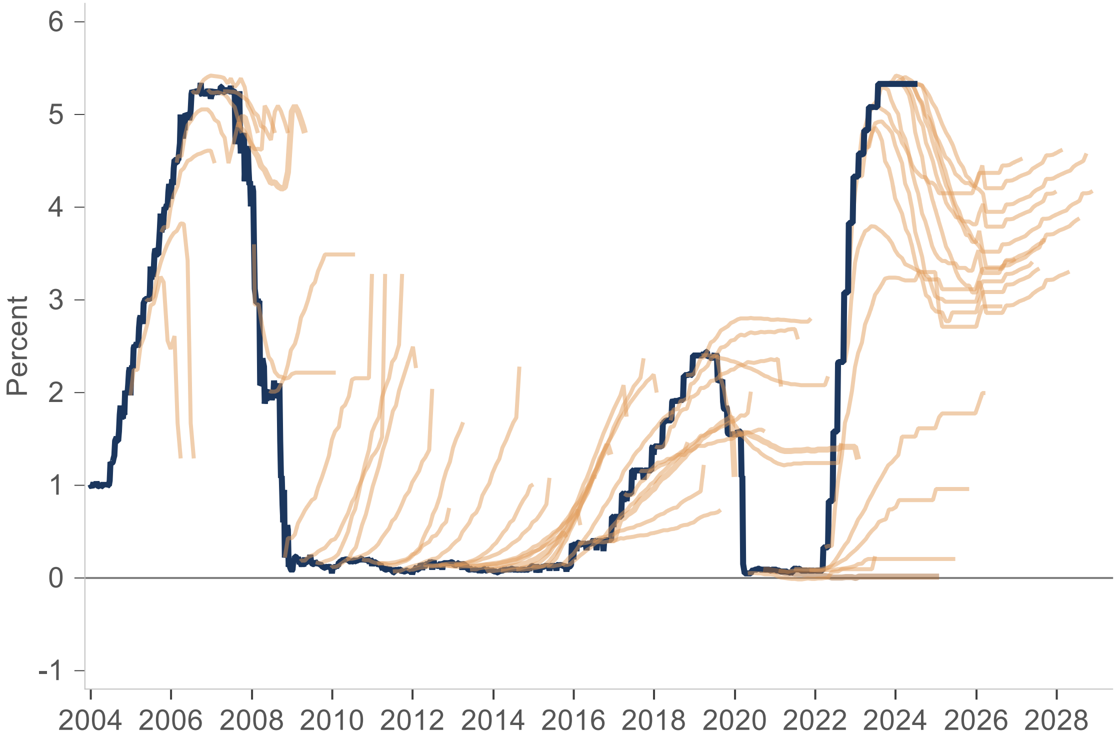
Sources: New York Life Investments Global Market Strategy, U.S. Census Bureau, U.S. Bureau of Economic Analysis (BEA), Macrobond, August 2024. Private residential investment: represents contribution to gross domestic purchase price index.

TAKEAWAY: We see medium-term inflation biased higher by a structural need for housing and infrastructure investment. This creates an upward bias for longer-term rates.

Long-term interest rates: path of the policy rate

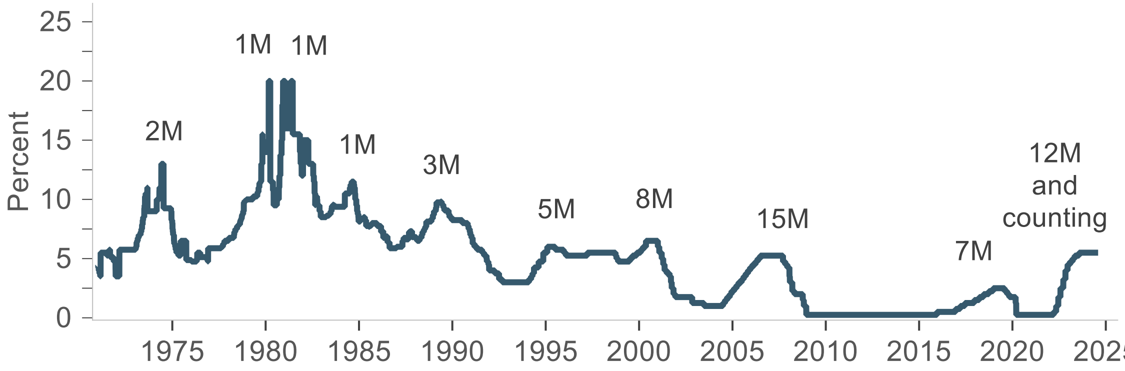
With no structural shifts in the neutral rate or Fed's reaction function, the policy path is a neutral factor for long-term rates

Fed funds futures are poor predictors of the policy path



Sources: New York Life Investments Global Market Strategy, Federal Reserve Bank of New York, CME Group, Macrobond, August 2024.

The Fed's reaction function has become more patient in restrictive territory



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Macrobond, August 2024.

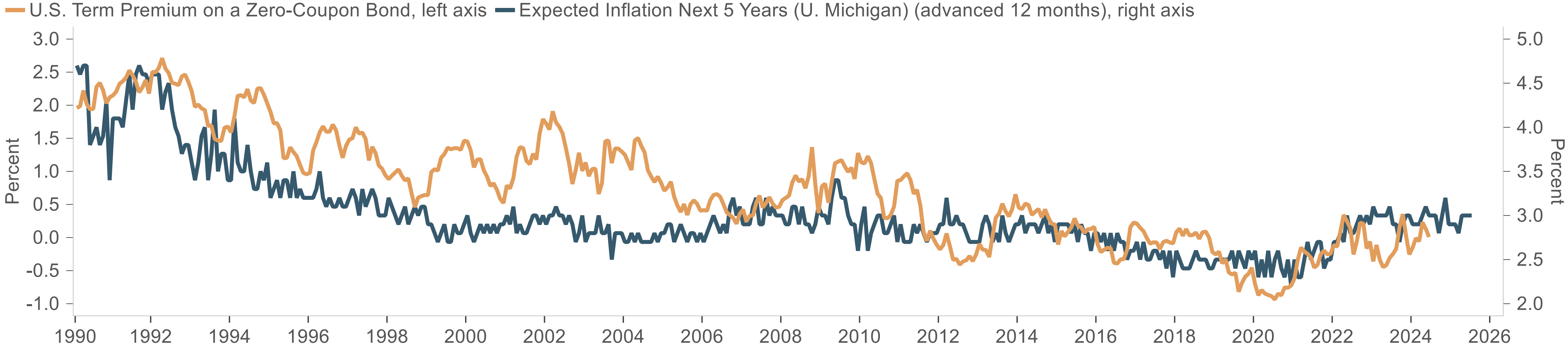
- Fed funds futures, considered market consensus for the Fed's policy path, are notoriously inaccurate and skewed by the latest point of data (**left chart**).
- Instead, we study structural drivers of the policy rate, including the Fed's reaction function. Historically the Fed hiked interest rates right into recession, requiring immediate policy reversal (**above chart**). Since the GFC the Fed has extended periods 'on hold' after hiking, favoring economic stability but conflicting with investor eagerness for policy support.
- We also assess the neutral rate of interest. A higher neutral rate might come from higher investment or productivity – we believe the dawn of generative artificial intelligence could impact the neutral rate and therefore long-term rate expectations, but not for several years.

TAKEAWAY: In the absence of imminent change in the neutral rate and Fed's reaction function, we do not see structural changes in the policy rate path affecting long-term expectations.

Long-term interest rates: the term premium

Encapsulating supply and demand for Treasuries, the term premium is the "wild card" of any vantage point on long-term rates

Term premium rising coincides with still-solid demand and rising inflation expectations



Sources: New York Life Investments Global Market Strategy, Federal Reserve, University of Michigan, Macrobond, August 2024.

The term premium represents supply and demand for Treasuries, determined by:

- Risk (including debt sustainability, geopolitical risk, domestic policy risk)
- Investor preference (usually based on other global sovereign rate behavior)
- Supply (higher issuance driven by higher investment and spending)
- Demand (higher demand when U.S. is seen as a "save haven")

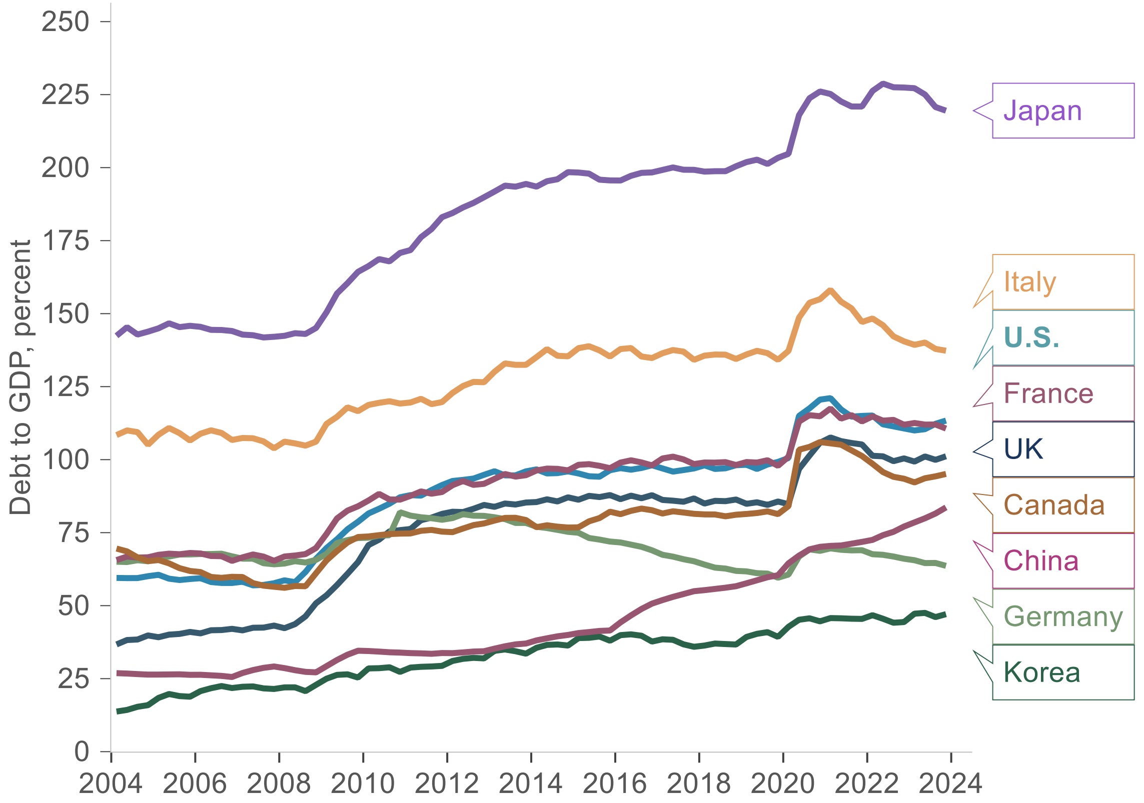
- Since the pandemic, the term premium has moved up but remains moderate vs history (**chart**). Higher pandemic-era issuance increased Treasury supply, but demand is still healthy across tenors as seen in Bid-to-Cover spreads at recent Treasury auctions.
- If higher supply/issuance is driven by productive investment (energy transition, AI investment, supply chain resilience) we anticipate long-term rates would be unaffected, or may move up due to a structural positive impact on economic growth and productivity.

TAKEAWAY: We see long-term fiscal sustainability and the productivity of new issuance as the key swing votes for long-term rates. We're watching the recent weakness in some Treasury auctions, but do **not** see the U.S. heading for its own "Liz Truss moment" in which a lack of confidence in fiscal planning causes a crash in demand for Treasuries.

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, August 2024.

- 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 more debt that other advanced economies thanks to structural demand for Treasuries and dollar-denominated assets.
- We do not expect a fundamentally driven debt crisis or default in the foreseeable future because of the enormous depth of U.S. capital markets relative to those of other highly indebted countries.

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

- Productivity of spending: investments in health, education 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

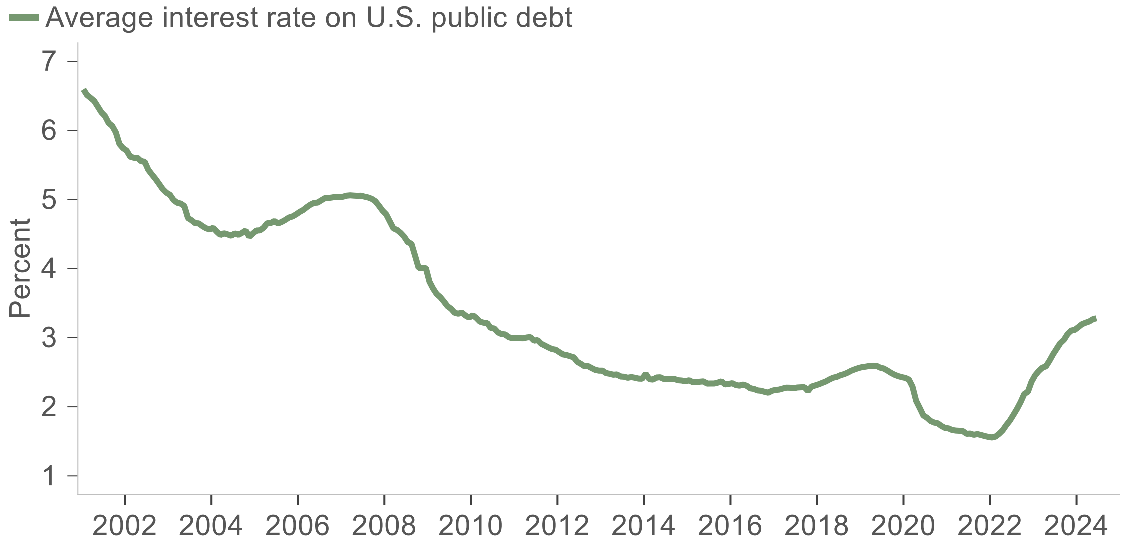
TAKEAWAY: U.S. debt sustainability risks are rising, but we do not see fundamental triggers for a debt crisis or default thanks to the market depth and structural demand for U.S. assets. Irresponsible spending by an administration of either party can certainly harm investor confidence in U.S. assets,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

U.S. debt sustainability: a growing interest burden

Ballooning interest payments are the nearest term threat to debt sustainability in our view

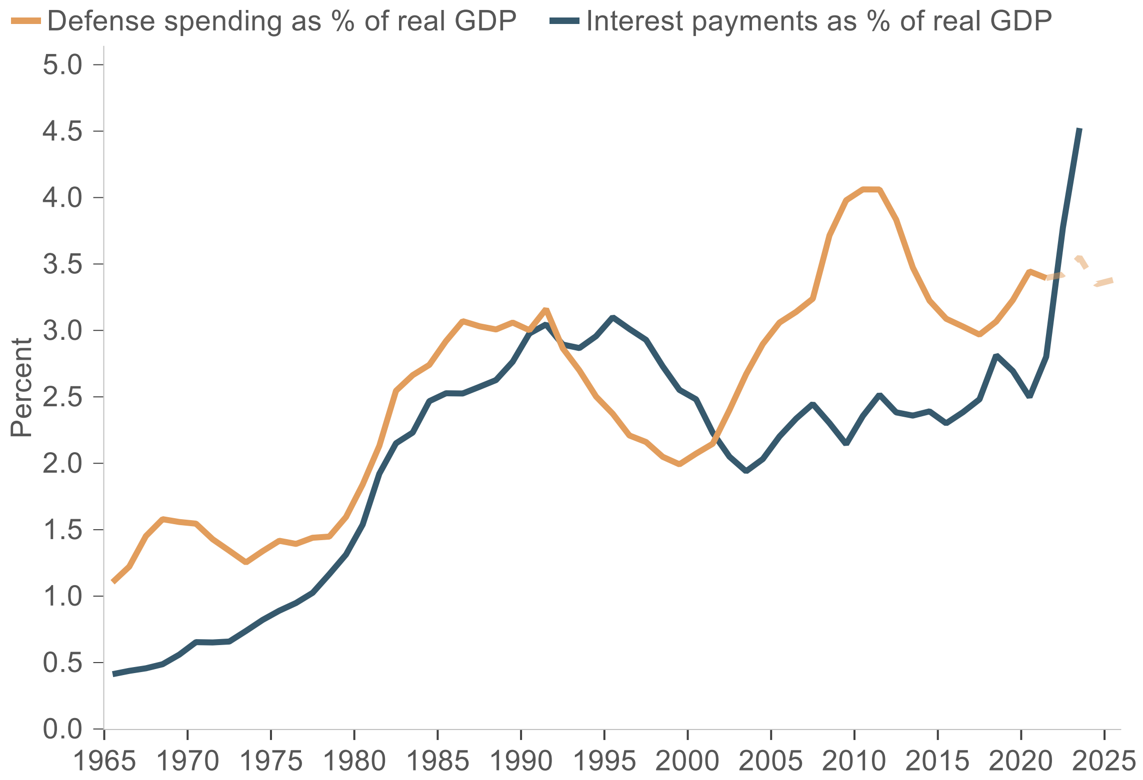
- U.S. Treasury rates may be on a secular exit from the "lower for longer" era (**chart below**).
- Between higher interest rates and growing debt levels, total interest payments have risen rapidly in the past few years and now compare to the amount spent on the largest portion of the U.S. federal budget: defense (**right chart**).
- As interest payments mount, the U.S. may be forced to reduce its spending (fiscal austerity).

U.S. average interest rate on public debt is back on the rise



Sources: New York Life Investments Global Market Strategy, U.S. Department of Treasury, Macrobond, August 2024.

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



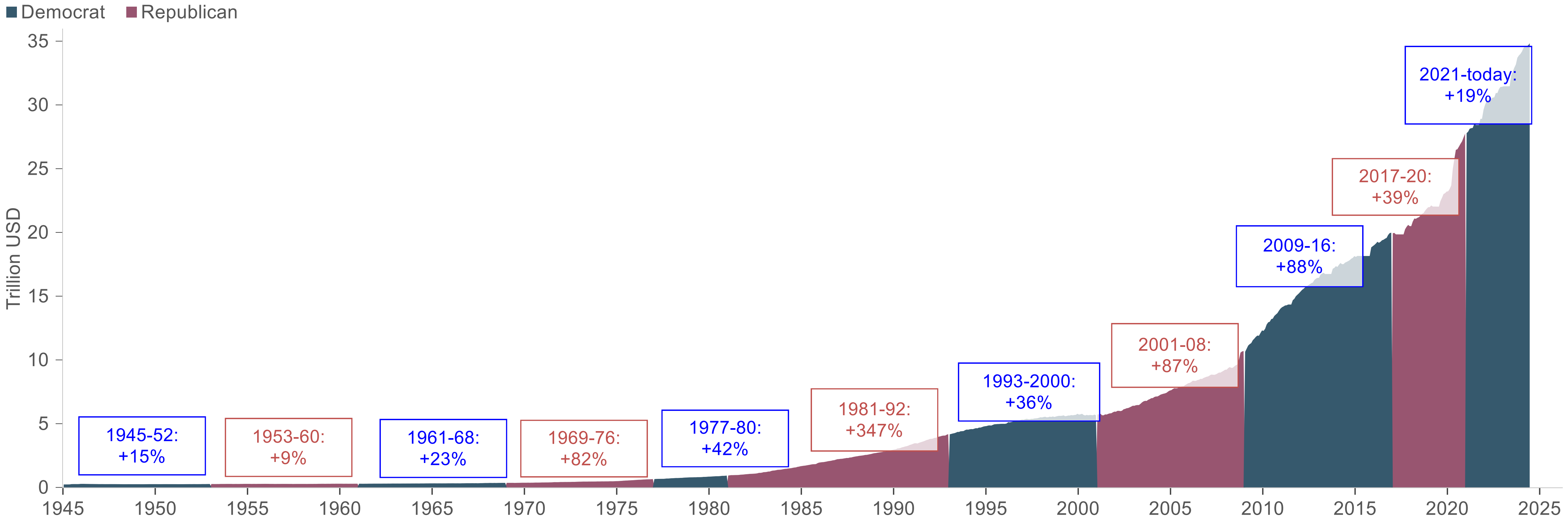
Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), U.S. Congressional Budget Office (CBO), Macrobond, August 2024. Real GDP is a measure of a country's total economic activity adjusted for inflation.

TAKEAWAY: Given that we still see upside risks to U.S. interest rates, we expect interest payments to continue to grow at a rapid pace, pressuring public spending in other areas and raising the stakes of debt ceiling discussions in Congress.

U.S. debt sustainability: fiscal impact of the 2024 election

Both U.S. political parties are big spenders and we don't expect a silver bullet fix from either candidate

Both parties have contributed in similar amounts to the federal debt



Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Federal Reserve Bank of Dallas, Macrobond, August 2024.

TAKEAWAY: Treasuries have lived up to their "safe haven" reputation in past election cycles, even as the level of federal debt and cost to service it have mounted. But for the past year, one of the major sources of market volatility has been the Treasury curve itself. We're keeping a close eye on this market anchor as fiscal risk becomes top-of-mind in the election cycle without a solution in sight.

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 in particular 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 particular 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.

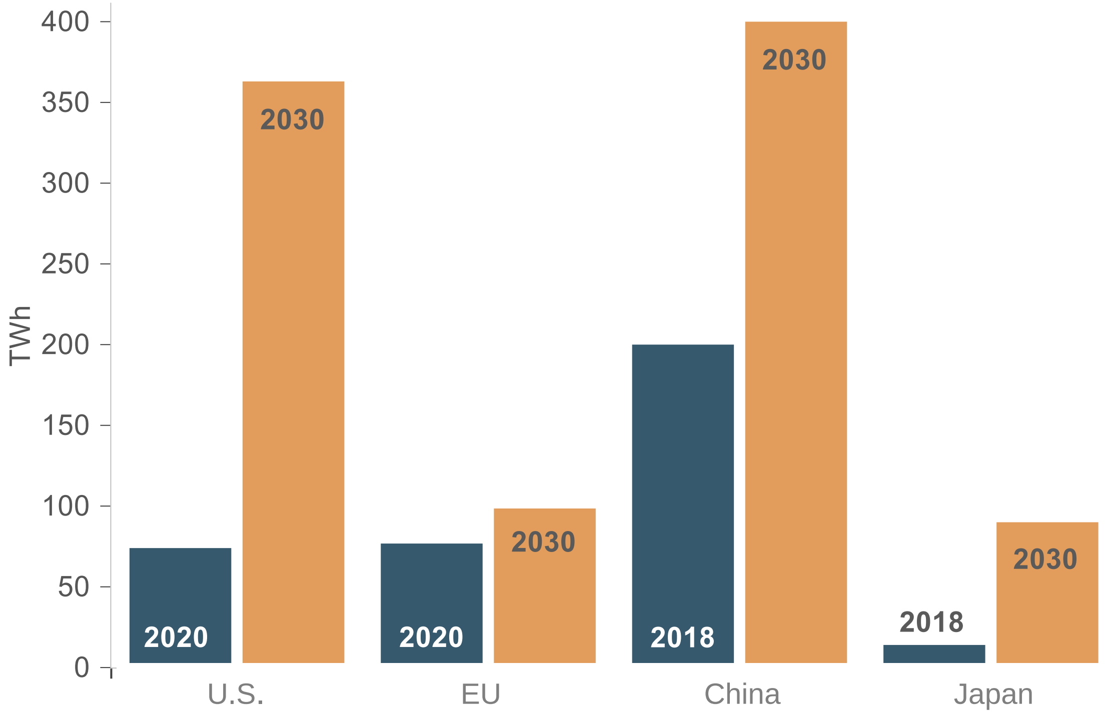
Companies will not only need to allocate capital to AI use cases, but also to buffer against regulatory uncertainty.

Megatrends: AI's power needs may force an infrastructure push

As generative AI use cases broaden, data center and power needs will grow, creating a structural theme around global infrastructure

AI's additional power requirements are concentrated in the U.S. and China

Data center electricity use

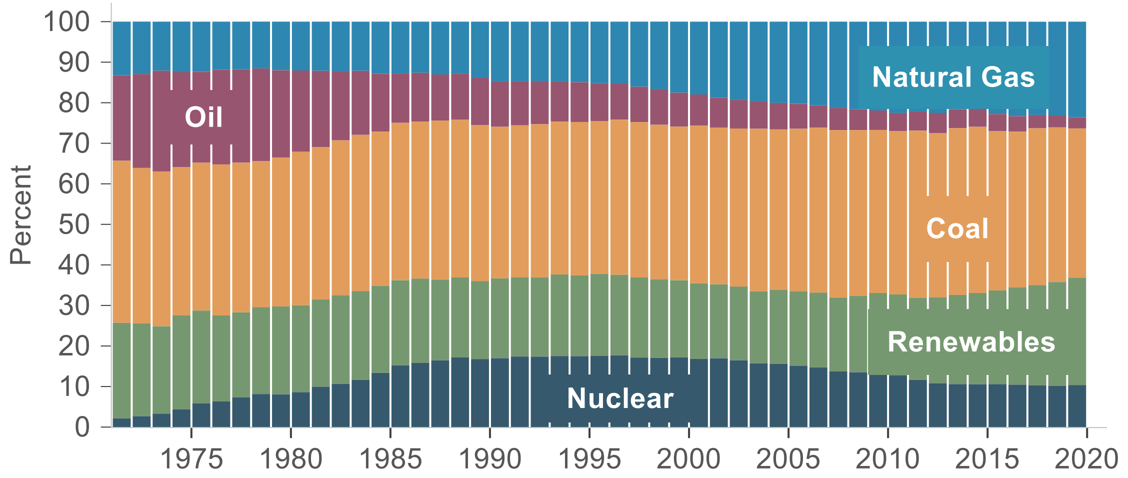


Sources: New York Life Investments Global Market Strategy, Macrobond, International Energy Agency, CBRE Investment Management, European Commission, China's State Council, Japan Science and Technology Agency, S&P Global, U.S. Energy Information Administration, June 2024. TWh = terawatt hours of electricity

- The IEA estimates that AI-related data center electricity demand could result in as much as the equivalent of Germany's annual electricity consumption to be added to the global grid by 2026 – half of this increase could take place in the U.S. and China alone (**left chart**).
- In this scenario, countries will be looking to all their energy resources, likely resulting in increased traditional energy investment for the countries that have it (**below chart**) and higher nuclear and renewables investment for those that do not.

The rise in renewables has not offset the decline in nuclear energy

Share of U.S. energy production by source



Sources: New York Life Investments Global Market Strategy, Macrobond, IEA (2019): Nuclear Power in a Clean Energy System, License: CC BY 4.0, August 2024.

TAKEAWAY: Global infrastructure and real estate are one of the broadest and immediately actionable ways investors can participate in the AI and data theme.

Megatrends: supply chains are re-globalizing, not de-globalizing

"In the 21st century, no country in isolation can create a strong and sustainable economy for its people." – Janet Yellen

Everyone is talking about de-globalization, and with good reason. After decades of increasing global trade volume and falling barriers between countries, a pause or even rewind of political and economic connectedness looks poised to be a driving force behind industry development, inflation dynamics, and the path of the global economy ahead.

Recent events have spurred the narrative, with deglobalization and expanding security needs going hand in hand. The COVID-19 pandemic, Russia's invasion of Ukraine, U.S.-China competition, and the increasing visibility of climate change have highlighted that the previous global economic model, globalization-driven cost reduction and efficiency, may no longer match countries' primary national interest: security and access to resources.

Proponents of de-globalization say that thew new political and economic world order will look different from that in evidence today. We agree. The U.S.-led economic and financial system will continue to be challenged. Resource scarcity will remain a key focus of government and private sector competition. And in a world where countries' tendency toward cooperation is lessened and competition for scarce resources rises, conflict may be more likely.

But the story doesn't stop there. As we explored the shift toward self-reliance over efficiency, we found that the term "de-globalization" only scratches the surface of a complex trend.

We explored three of the world's most sensitive supply chains and found that a focus on de-globalization may be a knee-jerk reaction rather than a final, investable theme.

Technology

Self-sufficiency in semiconductor production is an impractical and nearly impossible goal for every country. Accordingly, it's not a question of *if* countries cooperate on tech, but *how*.

Energy

As it stands today, there may not be enough raw materials on earth to achieve a green energy transition with current technology. This is why we see energy access, and its primacy to nearly every country's national interest, as a major driver of re-globalization.

Finance

There's plenty of legitimate pushback to a dollar-dominated global financial system. But recent calls for de-dollarization may be missing the point. De-dollarization is accelerated by innovation, not geopolitical change alone.

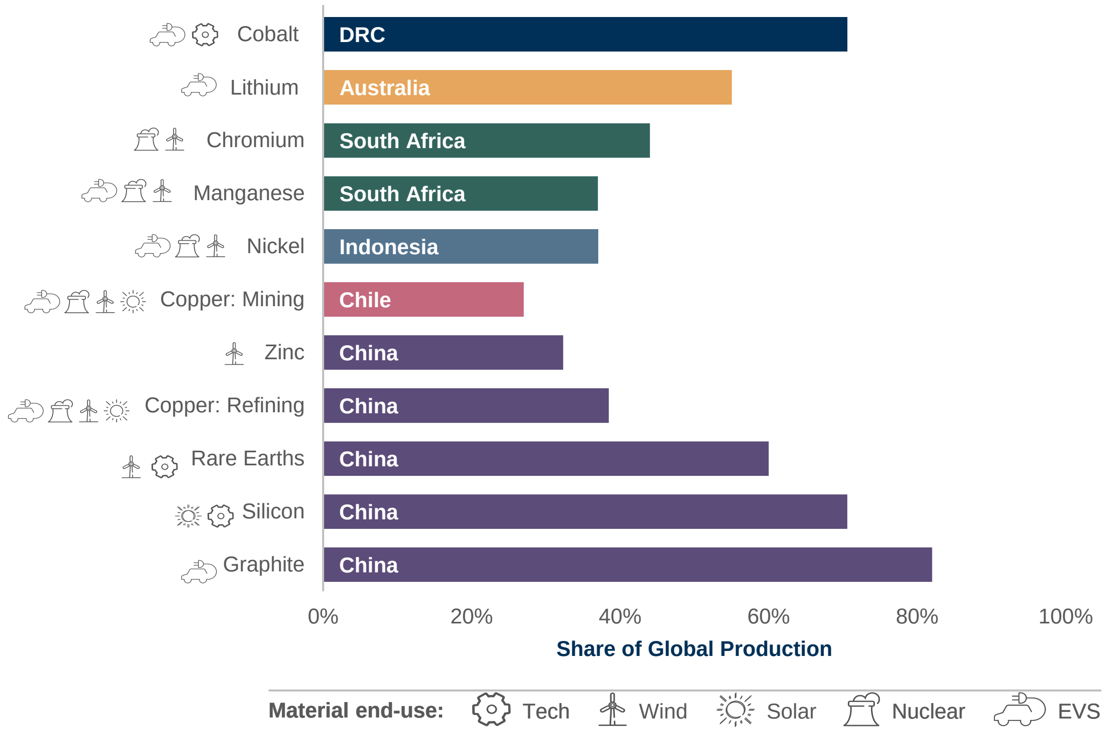
Opinions of New York Life Investments Global Market Strategy, August 2024.

Megatrends: concentration of supply chains necessitates cooperation

To make even moderate progress toward national energy and tech independence goals, countries must step up their partnerships

Global resource production for key technologies is highly concentrated

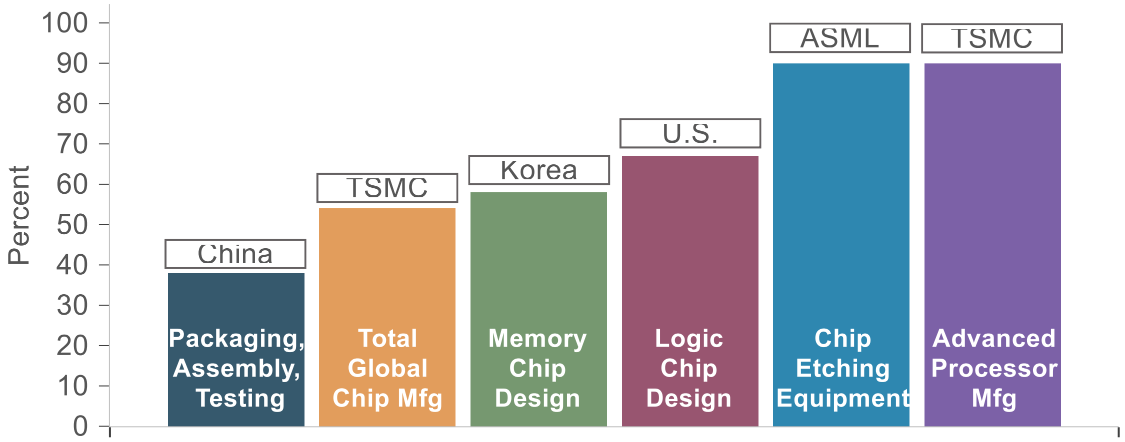
Share of raw materials: top producer for each commodity



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

Concentrated tech manufacturing requires diversification and cooperation

Share of global production by major players



Sources: New York Life Investments Global Market Strategy, Semiconductor Industry Association, Boston Consulting Group, Seeking Alpha, Time, Visual Capitalist, Macrobond. Data sourced April 2023, ranging from 2020 to 2022. TSMC: Taiwan Semiconductor Manufacturing Co. ASML: Advanced Semiconductor Materials Lithography.

- Concentration in the production and processing of key energy-related minerals (**left chart**), lack of investment in nuclear power, and lack of holistic renewable energy approach all hinder the path to both energy and tech independence.
- Stages of the global tech supply chain are dominated by national-level monopolies (**right chart**), meaning that tech independence is not a realistic goal for *any* single country.

TAKEAWAY: We see an urgent need for innovation across the entirety of the materials, energy, and tech supply chains, including relationships governing key raw materials and cooperation on energy and tech policy.

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 *Foreign holding of government debt*	59%	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. FX refers to foreign exchange. The Chinese currency can be referred to interchangeably as the renminbi or the yuan.

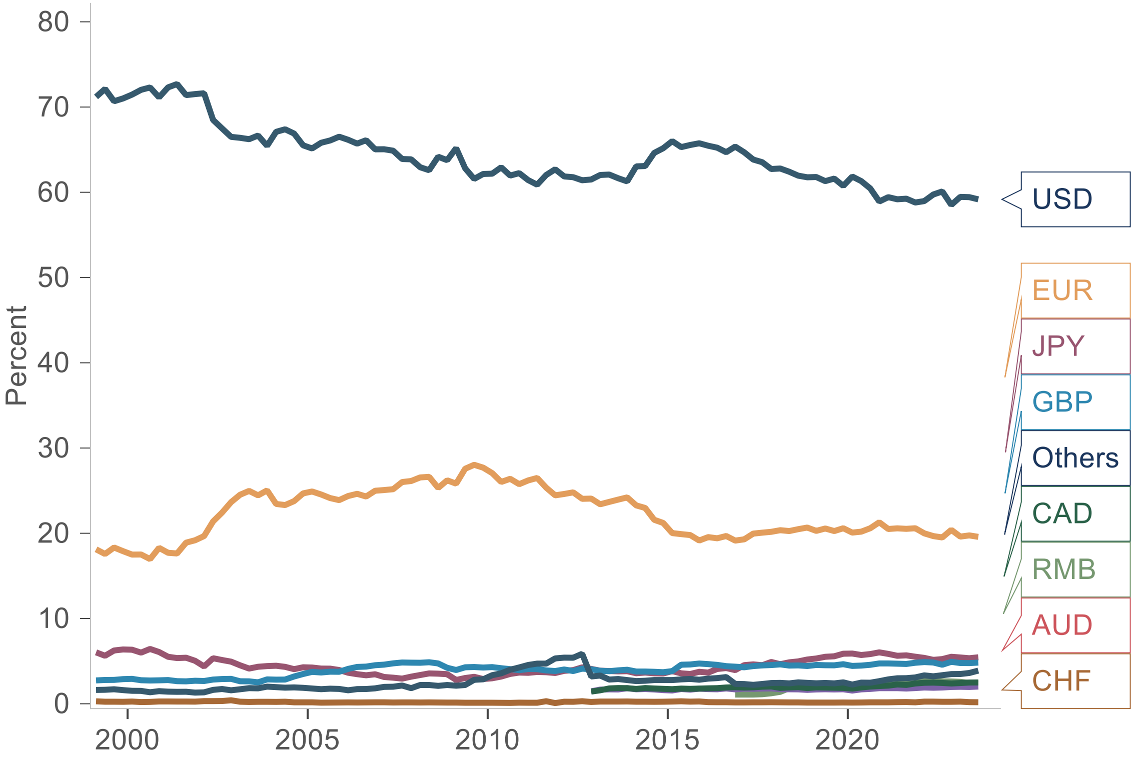
TAKEAWAY: Dominating global reserves, transactions, and global debt, the USD is set to remain the world's primary reserve currency. China's capital controls and lack of global convertibility and transactability make it unlikely for RMB influence to expand beyond select commodity-based trade relationships.

Dollar dominance: only innovation can unseat the USD

Real disruptive potential comes not from competitor currencies, but innovation

The USD still dominates global finance

Share of global currency reserves



Sources: New York Life Investments Global Market Strategy, Macrobond, August 2024.

- 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 then emergency of a new and more efficiency system, that have 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.

3 High conviction investment ideas

Assessing market opportunity

- Our top asset allocation picks

Key questions for the market

- How do I invest the Fed pivot?
- How do I invest the U.S. election?
- Did I miss the boat on generative AI?

High conviction investment ideas

Here are our top picks for navigating today's uncertain macro environment

CALL OR CONDITION		INVESTMENT APPROACH
EQUITY		
• Until an economic slowdown becomes more visible, we believe U.S. equity can muddle through. Interest rate cuts may create tailwinds for risk-on asset classes including small cap and emerging markets equities. However, in the absence of a true cyclical upswing, this upside is tactical. As economic growth slows, earnings quality and free cash flow become the most important components of stock picking.	1	Maintain diversified equity exposure, including to large cap tech. Small cap upside is tactical.
• Equity valuations have been justified by surprisingly resilient earnings growth to date, but price levels remain high. Investors seeking to diversify their equity-like risk can consider turning to high-yield corporate credit.	2	Deploy new equity-like risk to high yield credit, where carry is more attractive.
• Many investors are under-allocated to international equity. When global growth is de-synchronized, as it is today, investors can gain country and sector diversification by taking international equity exposure.	3	Add international equity exposure, with a focus on strong return on invested capital and free cash flow. Consider a 50% currency hedge.
FIXED INCOME		
• The global central bank cutting cycle is underway. Investors have already begun – and we believe they will continue – to move out of cash and into short duration credit in order to lock in higher interest rates.	4	Overweight short duration credit exposure (high yield, investment grade, and municipal bonds).
• With the U.S. yield curve still inverted – which is likely to be true even after several rate cuts – duration is not our favorite place to take risk.	5	Balance short duration credit exposure with longer duration exposure in the municipal bond curve, which is not inverted and therefore better rewarded in our view.
STRUCTURAL		
• Digitization, energy independence, and supply chain re-globalization all point to the need for infrastructure.	6	Increase allocation to infrastructure equity and taxable municipal bonds (infrastructure bond) as a structural allocation.
• Inflation is likely to be higher and more volatile in the coming years.	7	Consider a structural allocation to commodities and materials. Our research suggests that a structural allocation of 1-7%, sourced from equities, may be appropriate depending on investor risk tolerance.
• The visibility of geopolitical risk has increased and may increasingly be a fixture of macroeconomic developments and asset allocation considerations. Investors seeking resilience from event-based risks can consider an allocation to macro volatility. Paradigm shifts, on the other hand, 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.	8	Consider a pro-macro volatility portfolio of equal parts oil, gold, and bitcoin, implemented as a small satellite exposure sourced from equity. Partially hedged international exposure and inflation-aware allocations can also help investors address geopolitical risk.

Key questions: how do I invest the Fed pivot?

The equity rally has room to run during rate cuts, but it is still too early for true cyclical, risk-on asset classes like small caps

- Interest rate cuts can be bullish for the market until the reason for these cuts – a clear economic slowdown – becomes more visible.

What happens when the Fed pivots?

Investors race to lock in higher rates

- While many investors are still over-allocated to cash, the month prior to an expected September rate cut provides a unique opportunity to lock in higher rates. Money market flows have begun to reflect rate cut expectations as of the start of 2024 (**top chart**). We expect this repositioning to accelerate now that the timing of interest rate cuts has solidified.
- Investors can consider pivoting from cash and into short-duration fixed income (high yield, investment grade) and adding duration in the upward-sloping municipal bond curves.

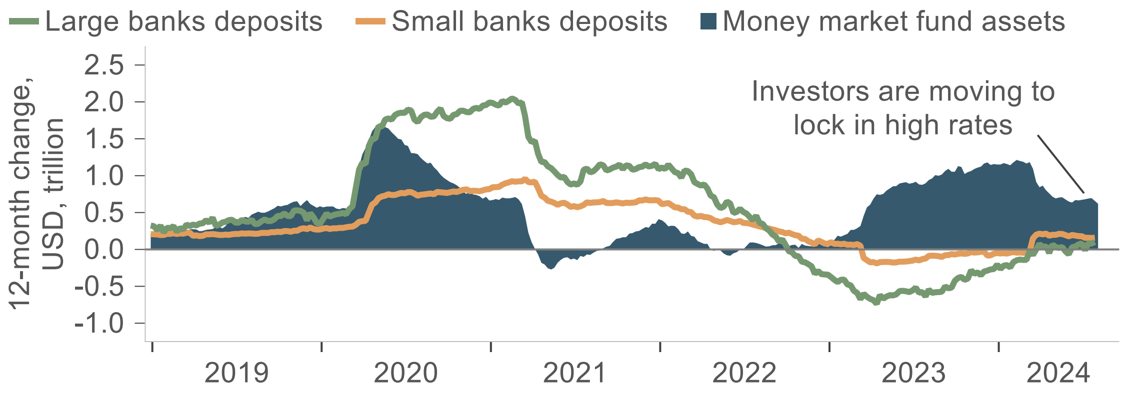
Tactical upside, but still too early for pro-cyclical asset classes

- We believe the broader U.S. equity market can muddle through, especially as interest rates move lower, as long as unemployment claims remain contained and earnings growth is stable. So far, both of these conditions are still met.
- It may be too early for wholesale profit taking, but high valuations mean investors may consider taking equity-like risk in credit, which offers more attractive carry than growth equity.
- Small caps have seen a tailwind from interest rate cut expectations, but this is tactical in the absence of a cyclical upswing (**bottom chart**). See our full small cap view here.

International equities are an option for valuation-sensitive investors

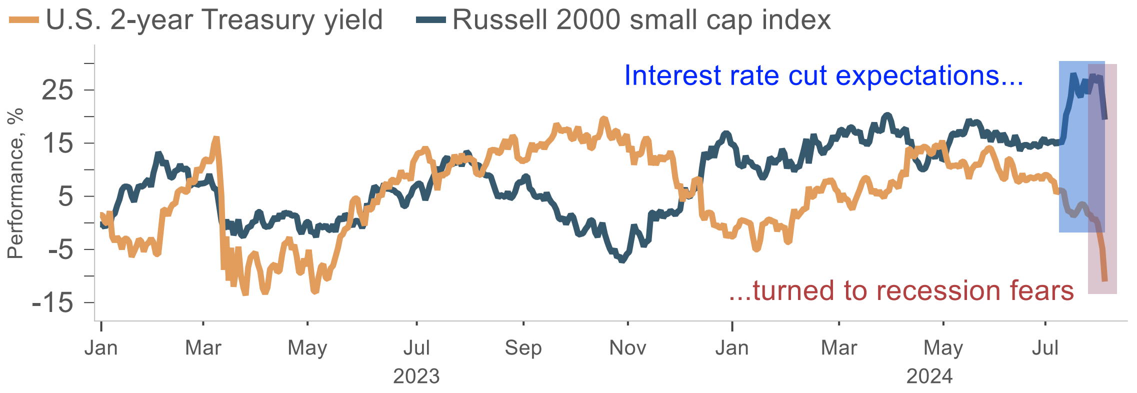
- In global risk-off moments, U.S. equities are the place to be. But with meaningfully lower valuations and differing sector exposures, we believe European and Japanese equities can serve as a diversifying option for investors, particularly those already under-allocated.

Investors have woken up to their cash problem



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Investment Company Institute (ICI), Macrobond, August 2024.

Small caps experienced a tactical rate cut tailwind, but are driven by the cycle

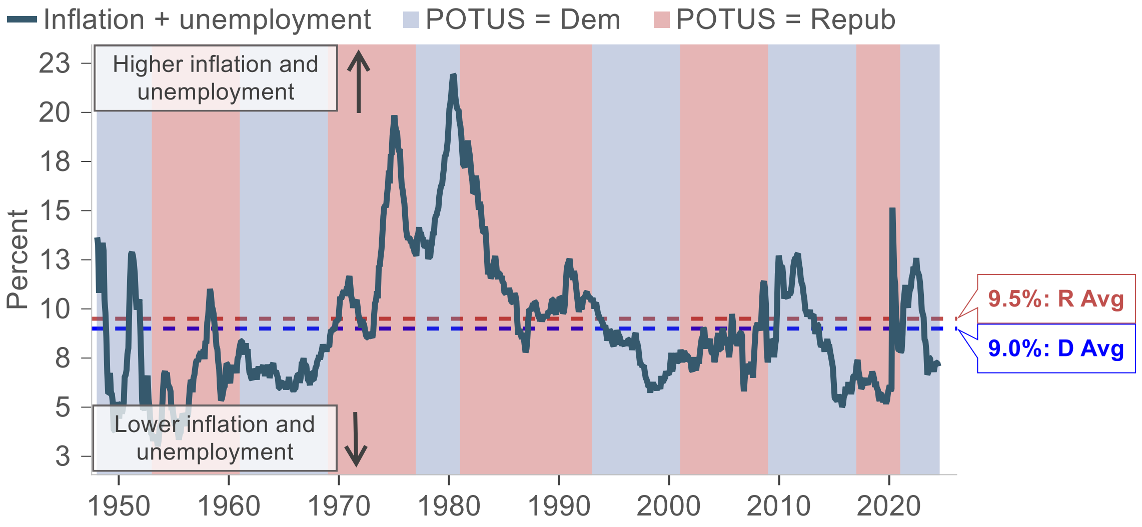


Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, August 2024. Russell 2000 measures performance of small-cap U.S. firms. Past performance is no guarantee of future results. It is not possible to invest directly in an index.

Key questions: how to invest the 2024 U.S. presidential election?

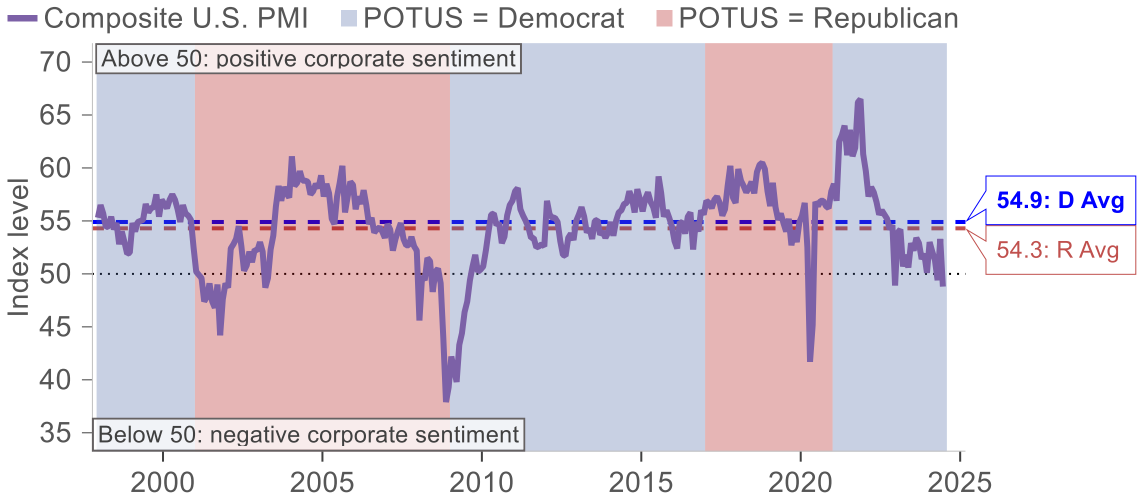
Though we closely monitor candidates' fiscal priorities, the political-economic relationship is looser than investors may realize

Political leadership does not drive consumer outcomes...



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond Financial AB, Macrobond, August 2024.

...nor do politics drive corporate activity



Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Macrobond, August 2024.

Elected officials control only fiscal policy…

TAKEAWAY: Elected officials only control the fiscal side, which is often a result of bipartisan compromise and usually comes with a multi-year lag, smoothing its effects. Congress, not the president alone, holds the purse strings – and split governments often result in greater fiscal compromise.

…not monetary policy…

TAKEAWAY: Monetary policy is intentionally apolitical; though the Federal Reserve Chairman is appointed by a president, its funding comes from its own investments rather than the federal budget. Every Fed chair since Volcker (1979) has served under presidents of both parties.

…or the economic cycle.

TAKEAWAY: The economic cycle is quite independent. Fiscal and monetary policies can create a system of incentives – such as reducing taxes and interest rates to promote economic activity – but these can only encourage, not enforce, certain behaviors for consumers and corporations.

Key questions: how to invest the 2024 U.S. presidential election?

We focus on the areas of real policy change – not politics – that are most likely to impact markets: tax, immigration, trade, and industrial policy

Tax policy

The next president will face the expiration of tax cuts

Positions:

Trump: Allowing businesses to grow unhindered should generate increased tax revenues for the government, ultimately contributing to deficit reduction.

Harris: Address a higher-spending policy approach by raising taxes from higher-income households and corporations.

What matters:

The CBO estimates that Trump's proposed tax plan would double the deficit by 2034. In contrast, the Harris plan aims to increase government revenues and spending. We don't expect either tax plan to meaningfully address the deficit, which we expect would put a floor under U.S. Treasury interest rate levels.

Immigration policy

Voters expect the next president to address issues at the southern border

Positions:

Trump: A return to the restrictive immigration policy of his first term, including a sweeping crackdown on illegal immigration.

Harris: Legislate through Congress for more resources to manage an overwhelmed border and create new legal pathways to immigrate to the U.S.

What matters:

According to the CBO and Fed, immigration has bolstered the U.S. economic recovery by increasing labor supply, supporting growth, and mitigating wage pressures. However, public sentiment on immigration is shifting. We anticipate increased spending from both parties on this issue and potential inflationary pressures if the border remains closed.

Trade policy

So long to the free-trade policies of the past

Positions:

Trump: Reduce trade deficits with other countries by implementing tariffs and renegotiating trade agreements.

Harris: Promote strategic autonomy (protecting U.S. industry), favoring a return to a more rules-based international order, though a notable step away from the free trade policies of the past.

What matters:

Trump's proposed tariff plan is likely to have a highly inflationary effect on the economy. We believe some of the weakness in technology names recently is related to the market pricing in the impact of these tariffs.

Industrial policy

Spending and regulation drive meaningful sector impacts

Positions:

Trump: Laissez-faire policies and deregulation

Harris: Targeted government-led investing

What matters:

The Inflation Reduction Act (IRA) has been a cornerstone of Biden's industrial policy. Should Trump return to office, we do not anticipate significant changes to the IRA because much of the investment is directed towards Republican-held districts. The parties' opposing views on other regulation, like in the financial sector, however, may drive different market outcomes.

Opinions of New York Life Investments Global Market Strategy, August 2024.

Key questions: how to invest the 2024 U.S. presidential election?

Tips for assessing how political promises may – or may not – transition to real policy change

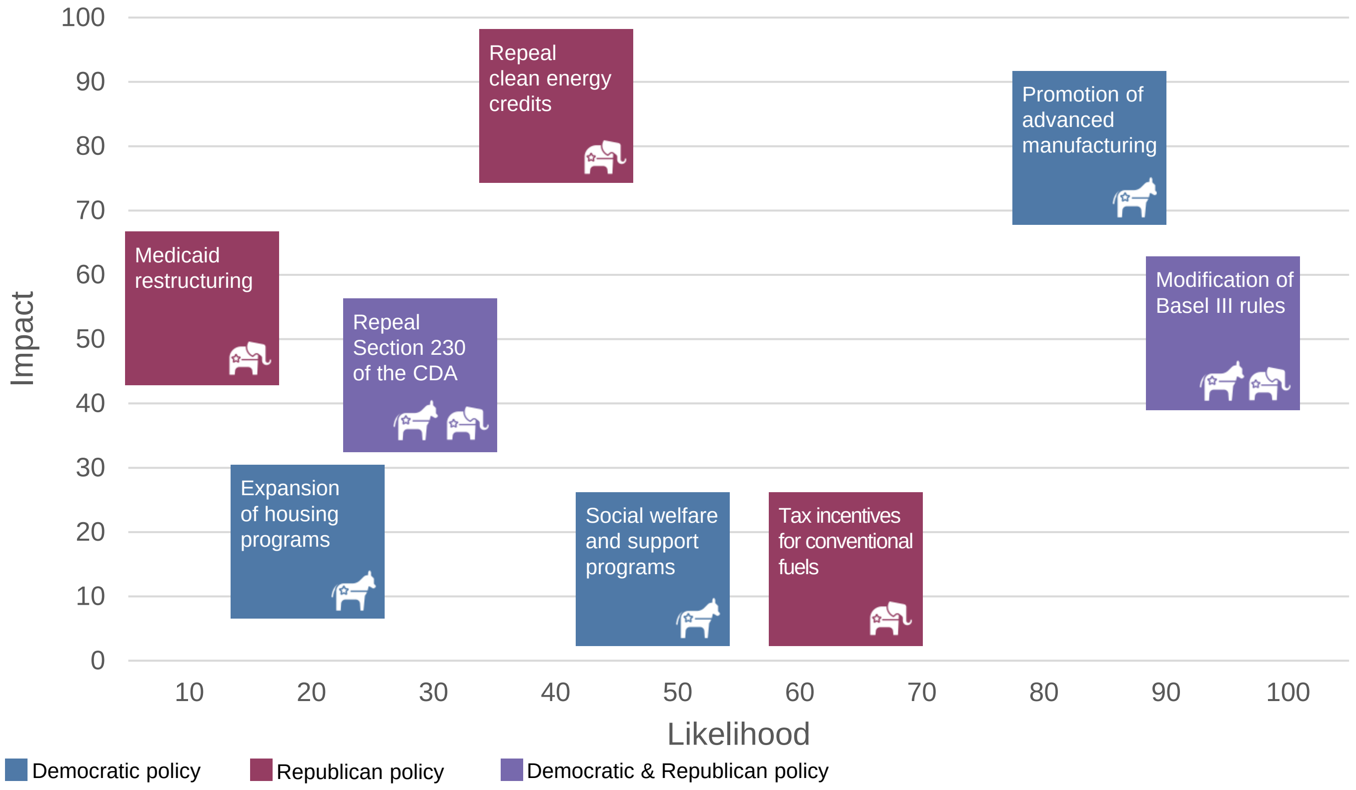
Mind the (lack of) gap	The clearest investment takeaways are where policy is directionally similar. For instance, both parties are likely to continue deficit spending, albeit on different priorities, with limited plans to offset this spending through higher taxes or cuts elsewhere. This higher deficit could result in increased market interest rates as investors demand greater compensation for the associated risks.
Pay attention to presidential discretion	Political stagnation in Congress has increased in recent years. Though a Congressional “sweep” is possible, we believe investors may be most impacted by the policy areas where the president has significant discretion to make changes without Congress. Levying tariffs is one such an example. Raising tariffs, especially in blanket fashion, could weigh on both equity markets and the U.S. dollar.
Beware the sector head fakes	Investors should be wary of sector trades reflecting the traditional split between Republicans and Democrats. Though the two candidates differ in many ways, both parties are proposing policies different from those of the past. Investors should therefore be wary of heuristics and pay close attention to today’s policy divergences. For example, consider the recent volatility in large cap technology company valuations. This volatility has been more pronounced when a “red sweep” victory is more likely. In the past, this outcome may have resulted in less regulation – still possible and likely constructive for tech valuations – but the likelihood of higher tariffs on China are prompting concern.
Elections don’t stand alone	The relationship between the economy and politics is much looser than many investors expect. Though elected officials control fiscal policy, they don’t control monetary policy or the economic cycle. For this reason, for most investors, the most powerful strategy for election years is simple: stay diversified rather than chase tactical bets.

Opinions of New York Life Investments Global Market Strategy, August 2024.

Key questions: how to invest the 2024 U.S. presidential election?

Not all policies impact markets equally. Here is our assessment of different policy proposals and their impact to key asset classes

Potential policy shifts with greatest potential to impact the markets



Sources: The Economist and opinions of the New York Life Investments Global Market Strategy team, August 2024. CDA: Communications Decency Act of 1996.

Market impacts in a Trump or Harris victory

Asset class	Trump	Harris
Interest rates	We see Trump's proposed tariff policy acts as an inflationary tail risk. The market appears to be pricing in higher interest rates in a Trump victory.	Though Democrats appear likely to sustain a budget deficit, fewer tax breaks have the market pricing in lower interest rates in a Democrat win.
Equities	Equity investors appear most concerned with the prospect of Trump's proposed tariff plan. Companies with overseas exposure or production in China could be disproportionately affected.	Biden's policies were most impactful in individual sectors, i.e. semiconductor manufacturing. A corporate tax rate hike could be negative for equities, but Democrats would need majorities in Congress.
U.S. dollar	Some are debating the impacts of higher tariffs on dollar demand, and we believe tariffs could weigh on the dollar's relative strength. Nevertheless, USD strength will ultimately be driven by the global economic cycle, which impacts investors' tendency for "flight to quality" and therefore dollar demand.	

Opinions of New York Life Investments Global Market Strategy, August 2024.

TAKEAWAY: While politics don't always impact the markets, we believe certain policies in this cycle could. Investors should be prepared for higher volatility until the president and the makeup of Congress are determined.

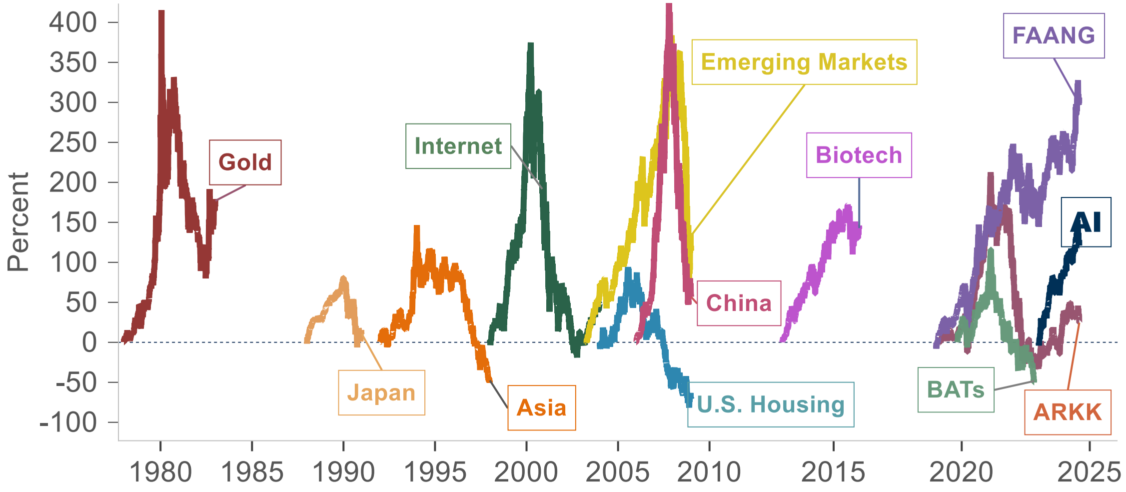
Key questions: did I miss the boat on AI?

AI investment is concentrated in the Magnificent 7 today, but this represents merely the earliest opportunity set.

- Large-cap tech valuations are lofty, but not extreme relative to historic bubbles (**left chart**).
- What's more, valuation is not a useful market timing signal: risk asset prices can over-shoot or under-shoot estimates of fair value for long periods of time. In today's circumstances, high valuations reflect real revenue growth and the transformative potential of AI, suggesting that valuations are not the single most important market indicator when measuring the AI "bubble".

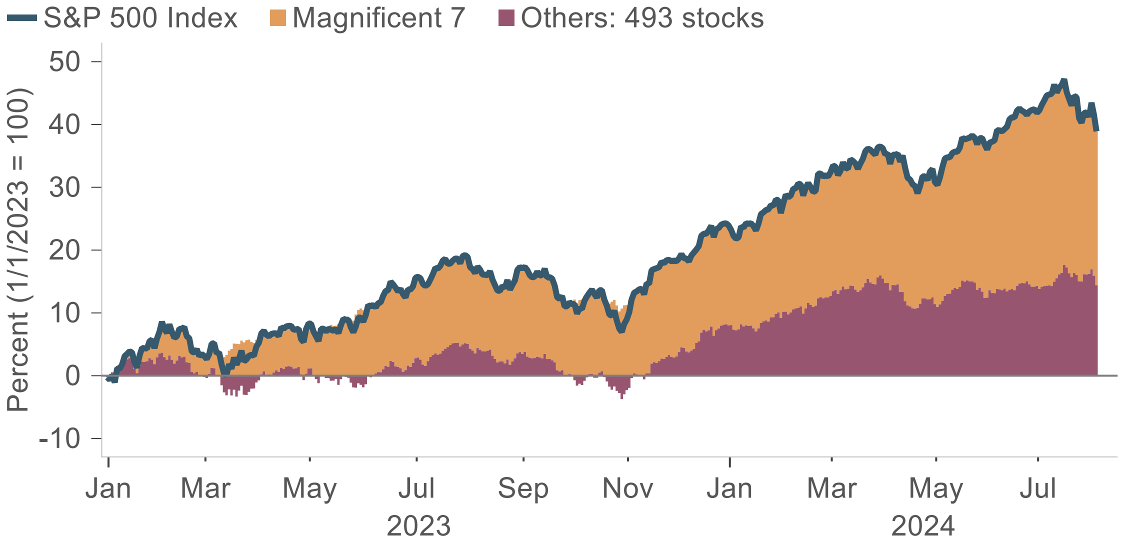
- Market breadth may be more important than valuation in the case of AI. Over 60% of NY-listed companies are trading above their own 200-day moving average, but very few are keeping up with the narrow leadership of the Magnificent 7* (**right chart**).
- We expect to see a broadening in the perceived beneficiaries of AI to include small and mid-cap growth equities, as well as large value companies with the capacity to deploy large-scale investments in AI application.

AI may be a bubble, but we don't expect an immminent burst



Sources: New York Life Investments Global Market Strategy, Stanley Druckenmiller, LBMA (London Bullion Market Association), Nikkei Inc., Thai Stock Exchange, Nasdaq, S&P Global, Shanghai Stock Exchange, Macrobond, August 2024. AI: Artificial Intelligence. "FAANG": Meta [Facebook], Amazon, Apple, Netflix, and Alphabet [Google]. ARKK: innovation/tech ETF. BATs: Chinese firms Baidu, Alibaba, and Tencent.

Market breadth of AI boom has improved, but the Magnificent 7 still dominate



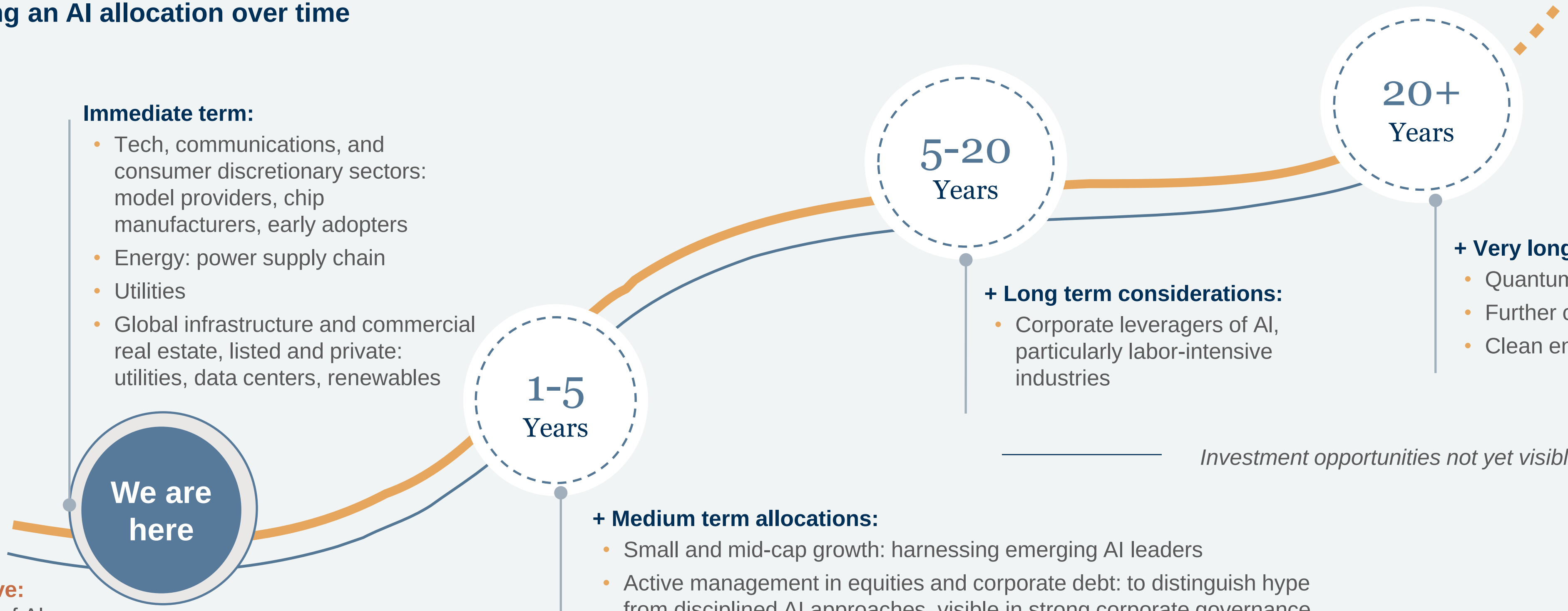
Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, August 2024.
**Magnificent 7: Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, Tesla*

TAKEAWAY: Lofty large-cap tech valuations are largely supported by fundamentals. Rather than focus on valuations, we consider other beneficiaries of the broader AI trend, and diversify our exposure. We see opportunity in the digital infrastructure that supports this trend, small and mid-cap growth equities that may benefit from the application layer of its expansion. Investors may also consider that many AI investment opportunities exist in the private and venture spaces – if investors feel they missed the boat on over-allocating to the Mag 7, new opportunities are sure to arise.

Key questions: did I miss the boat on AI?

Asset class and thematic opportunities are likely to broaden and deepen along with AI adoption. Investors have time to participate.

Building an AI allocation over time



Immediate term:
- Tech, communications, and consumer discretionary sectors: model providers, chip manufacturers, early adopters
- Energy: power supply chain
- Utilities
- Global infrastructure and commercial real estate, listed and private: utilities, data centers, renewables

+ Medium term allocations:
- Small and mid-cap growth: harnessing emerging AI leaders
- Active management in equities and corporate debt: to distinguish hype from disciplined AI approaches, visible in strong corporate governance
- Private debt and equity, including venture

+ Long term considerations:
- Corporate leveragers of AI, particularly labor-intensive industries

+ Very long term possibilities:
- Quantum computing
- Further chip innovation
- Clean energy

Investment opportunities not yet visible

S-curve: Stage of AI adoption over time

Source: New York Life Investments Global Market Strategy, August 2024. For illustrative purposes only.

TAKEAWAY: Investors have not missed the boat on AI. This said, we believe investors will need to develop disciplined approaches to evaluate the impact of AI on their portfolios to distinguish the current hype around this theme from disciplined AI adoption. Active investment approaches that consider the role of AI can help longer term investors maintain this oversight.

4 Asset class insights

Risk

- Risk preference
- Equity risk premium

Equity

- Corporate earnings
- Valuation
- Style
- Size
- Currency risk
- Non-U.S. developed markets
- Emerging markets

Credit

- Investment-grade
- High yield
- Bank loans
- Convertible bonds
- Municipal bonds

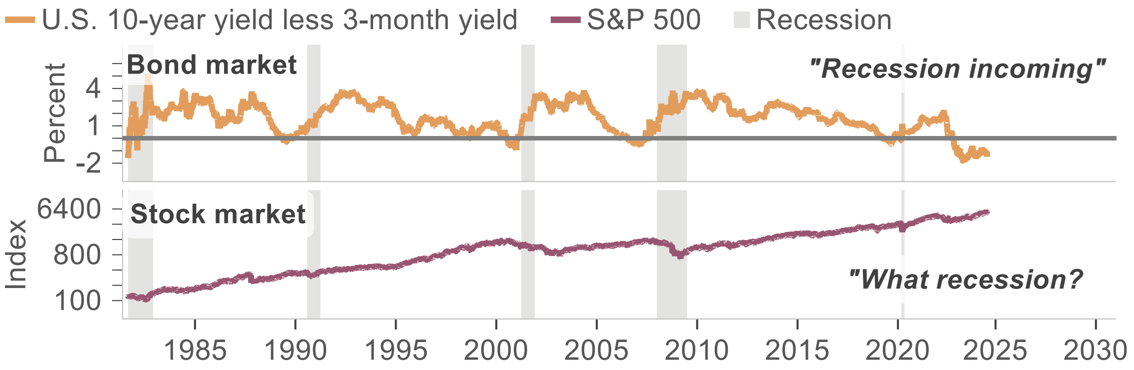
Alts

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

Equity and bond markets are giving different recession signals

Late in the economic cycle, when growth may slow but interest rates are higher, we favor taking incremental risk in credit

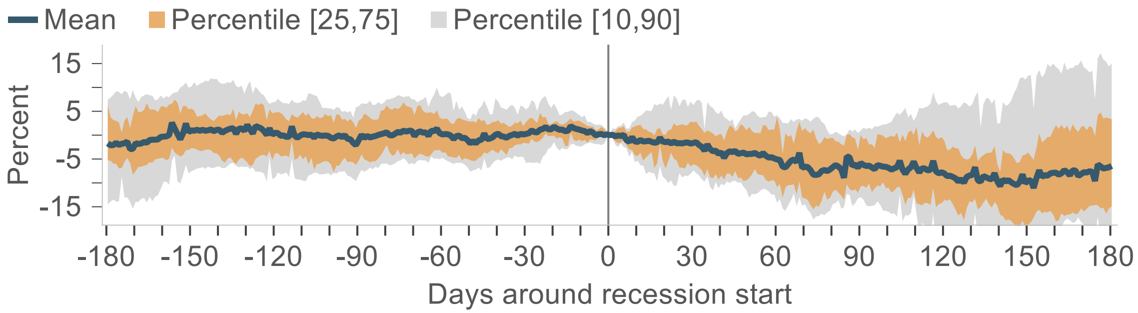
Can equities keep ignoring the yield curve inversion?



Source: New York Life Investments Multi-Asset Solutions, U.S. Treasury, S&P Global, NBER, Macrobond, August 2024. GFC: Great financial crisis. 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.

Don't mistake market performance for economic strength

Performance of the S&P 500 Index before and after recession start based on last 16 recessions



Sources: New York Life Investments Global Market Strategy, S&P Global, NBER (National Bureau of Economic Research), Macrobond, August 2024. Index performance is not a guarantee of future results. It is not possible to invest in an index.

- The equity market appears not to be concerned about recession (**left chart**). The S&P 500 has been on a historic run, defying forecasters' expectations and ignoring the warning signs of leading economic indicators. The bond market, by contrast, appears more concerned. The yield curve has been inverted since 2022, a well-known recession signal that weighs on credit creation. This points to investors’ lack of confidence in the economy’s long-term prospects compared to the short-term.
- Differing market signals are common in a late-cycle environment. However, we see meaningful opportunities to stay invested. Given the recent rally in equity markets, potentially slower economic growth ahead, and still-high interest rates, we believe investors could be most compensated by taking incremental risk in credit.
- Equity markets have rarely sold off before recessions and only begin to price in recession once it begins (**right chart**). Typically, we don’t see equity market outcomes reach their lowest point until unemployment claims rise and earnings are revised downward, when recession is already upon us. Investors should remember, therefore, that equity market outcomes are not a leading indicator of the economy. Equity markets have, however, tended to lead the economy *out of* recessions – an important reminder to stay invested.

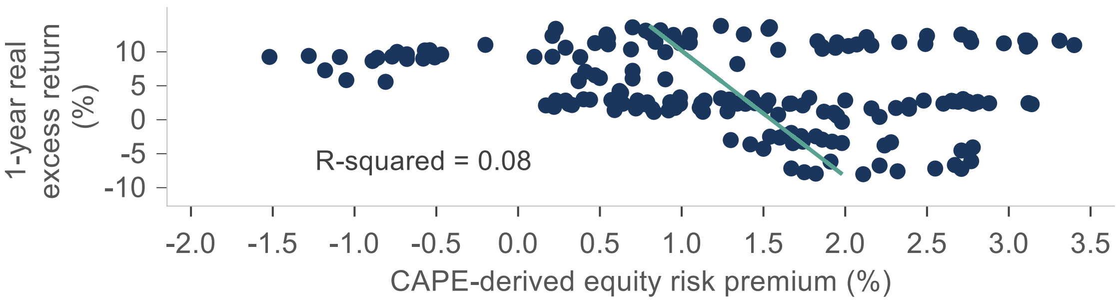
TAKEAWAY: An inverted yield curve and an overly concentrated equity market has created a challenging trading environment for many investors. While we do think the economy is headed towards a slowdown, we don’t think investors should sit out altogether. We believe there are compelling investment opportunities, but at this point in the cycle investment selectivity is more important.

Understanding the equity risk premium as a long-term indicator

Will equities continue to outperform bonds? Today's equity risk premium suggests the answer may be yes

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

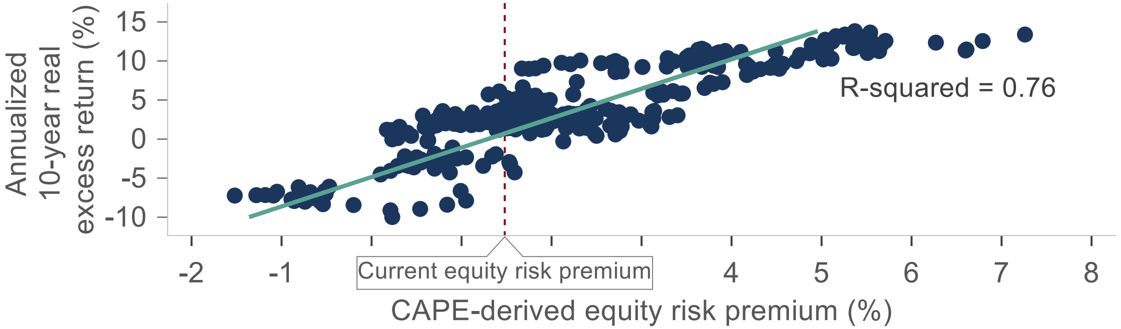
Individual dots represent months, data from 1980



Sources: New York Life Investments Global Market Strategy, Shiller, Macrobond, August 2024. R-squared quantifies how much of the variation in the dependent variable is explained by the independent variables in a regression model. CAPE: cyclically adjusted (for inflation) price-to-earnings ratio.

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

Individual dots represent months, data from 1980



Sources: New York Life Investments Global Market Strategy, Shiller, Macrobond, August 2024. 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.

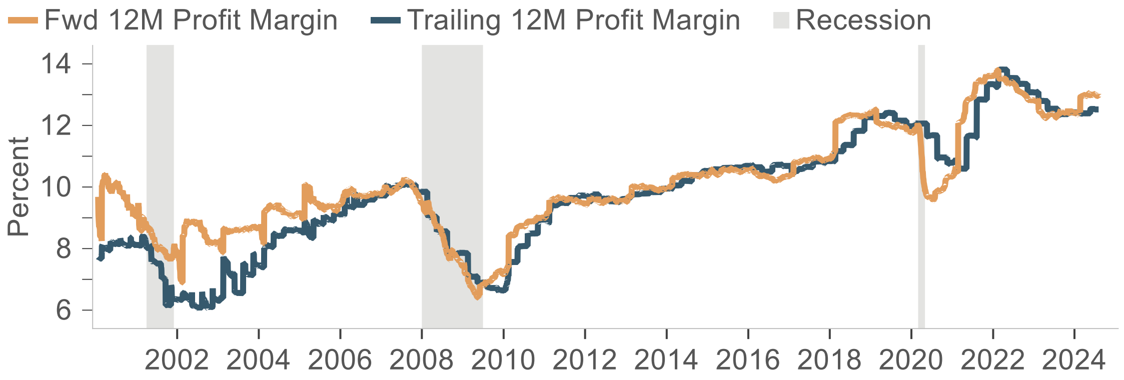
- The equity risk premium measures the difference between the expected return from equities (the earnings yield or inverse of the price-to-earnings ratio) and the risk-free return (typically the U.S. 10-year Treasury yield). A low or negative equity risk premium implies that equities are potentially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

Corporate earnings have been resilient, but now coming under threat

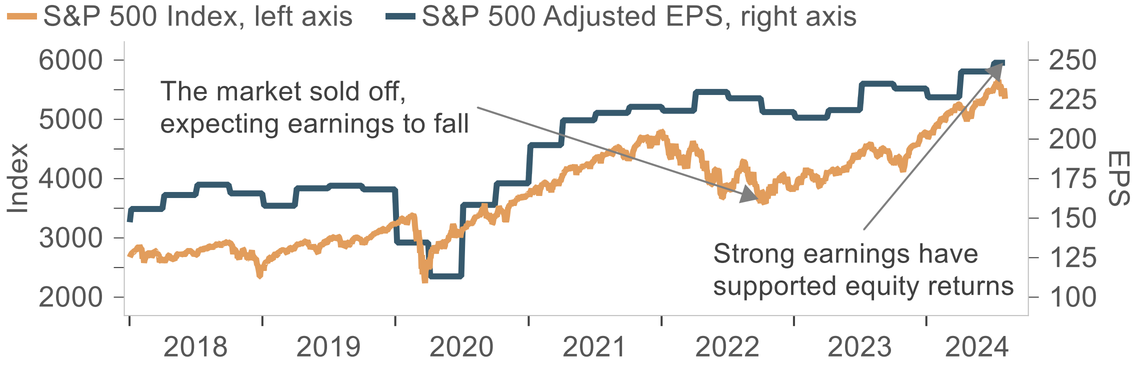
Cooling demand and still-high costs make the market's 11% earnings growth expectation unreasonable in our view

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, August 2024.

Strong earnings have justified lofty valuations and stellar price performance



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, August 2024. 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.

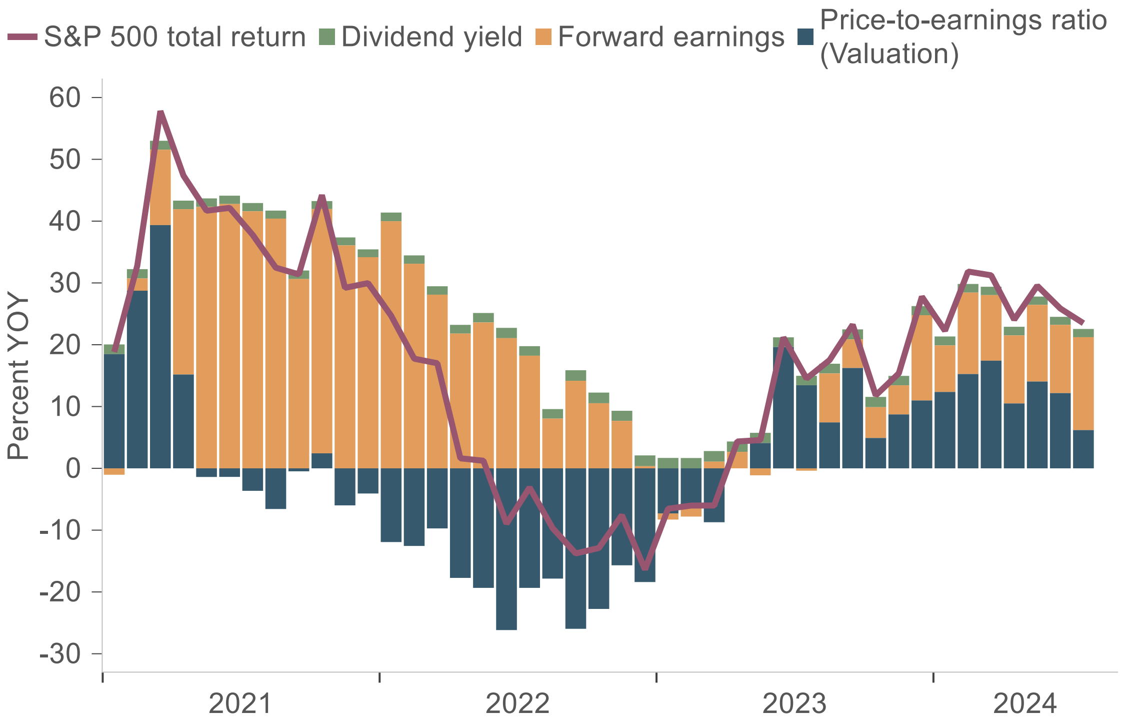
- Equity markets are priced based on earnings and multiple expansion (or contraction), with multiples being influenced by factors such as cost of capital and investor sentiment.
- In our view, earnings are increasingly at risk. Profit margins appear resilient (**left chart**) but there is a wide dispersion 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 2024 and 14% in 2025. For context, EPS nudged up by only 0.5% in 2023 – a period of very strong economic activity – and 5.0% in 2022. From our perspective, achieving a much higher level of earnings growth this year would require economic growth to accelerate meaningfully, 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 has 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.

Valuations are stretched, but a poor market timing tool

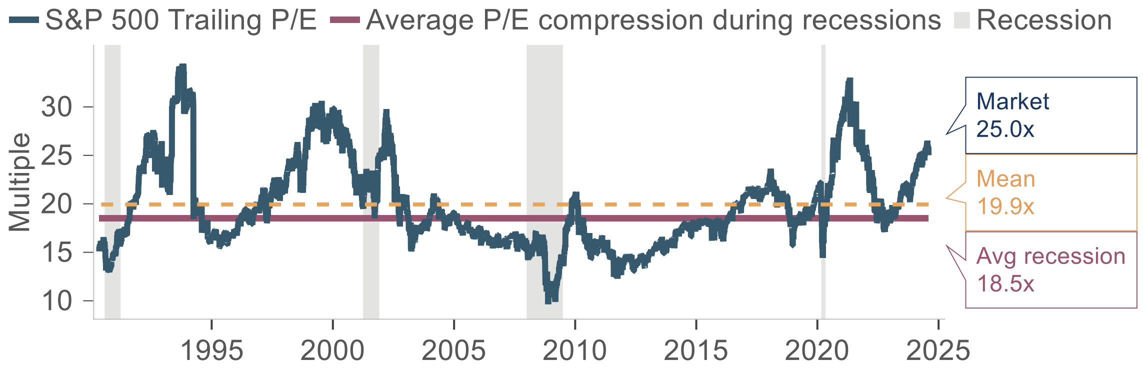
As earnings slow, only multiple expansion can durably push valuations higher. We doubt that lower rates and higher confidence coincide for long

The market is being held up roughly equally by earnings expectations and multiple expansion



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, August 2024. 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, August 2024. 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.

- We think equity market valuations, especially mega-cap companies, appear stretched; however, mispricing can persist until sentiment or the data turns
- Price/earnings multiples dragged on equity market returns in 2022 but started to reverse course in 2023. Right now, data shows that the market is being held up roughly equally by forward earnings and multiple expansion (**left chart**).
- The S&P 500 is trading at a P/E multiple above the long-term average of 20x. The average multiple compression in recession is 26% which suggests that should the economy slowdown, multiples could drag on equity performance (**right chart**)

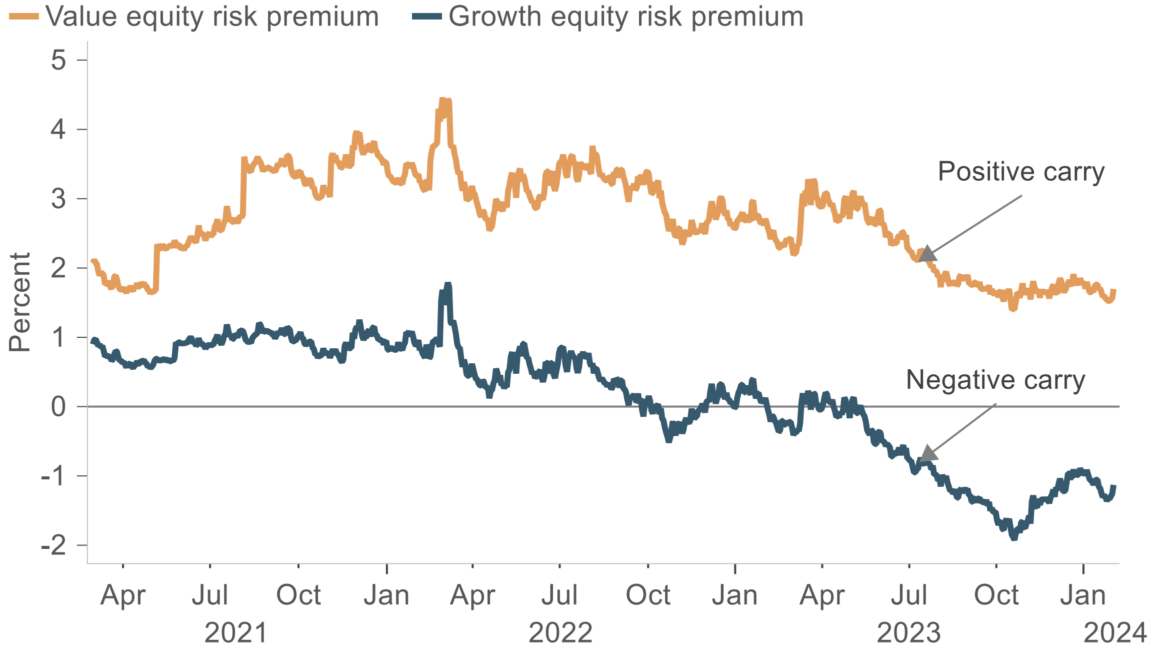
TAKEAWAY: U.S. equity valuations are high by historical standards, but valuations are historically a poor market timing tool. We expect high valuations to persist until investors perceive a clear threat to corporate earnings or to economic growth. Both are rising today. However, unforeseen liquidity injections have been supporting risk appetite (and lower yields). We don't expect corporate earnings to improve this year, but valuations could rise as potential monetary or fiscal liquidity injections lower rates.

Growth equity outperformance continues

Investors should maintain exposure to value and growth as the market narrative can change quickly at the end of a cycle

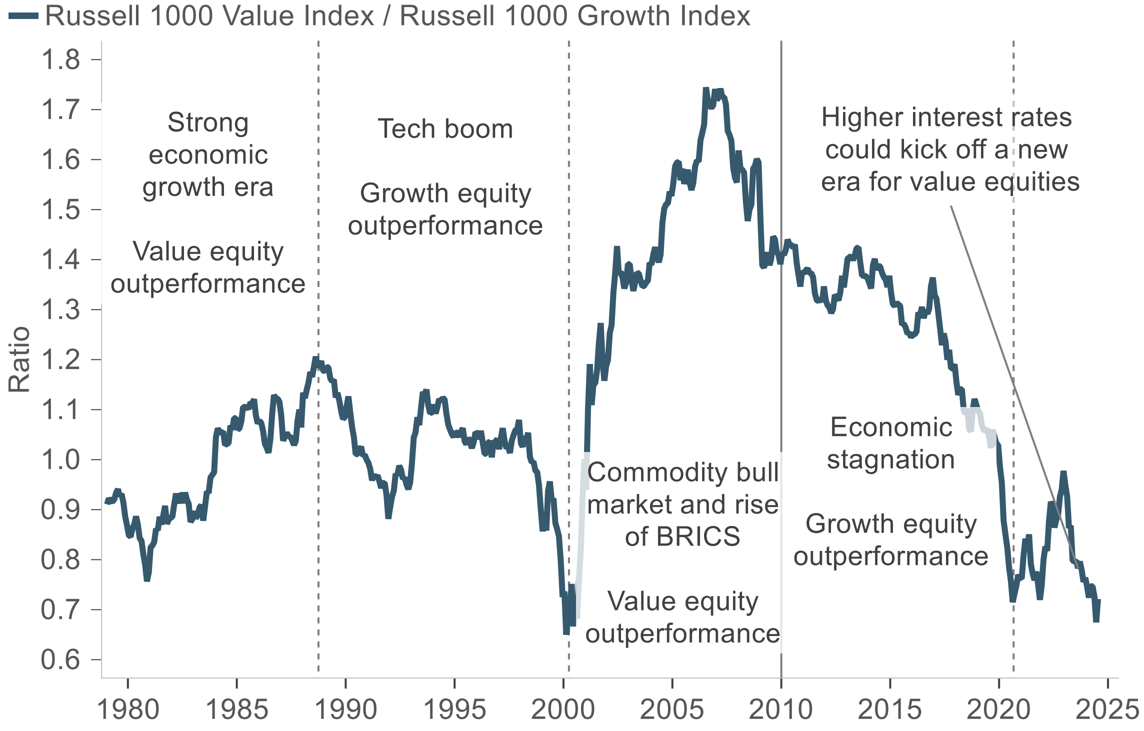
Value equities offer positive carry, growth equities appear overbought

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, August 2024. 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.

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



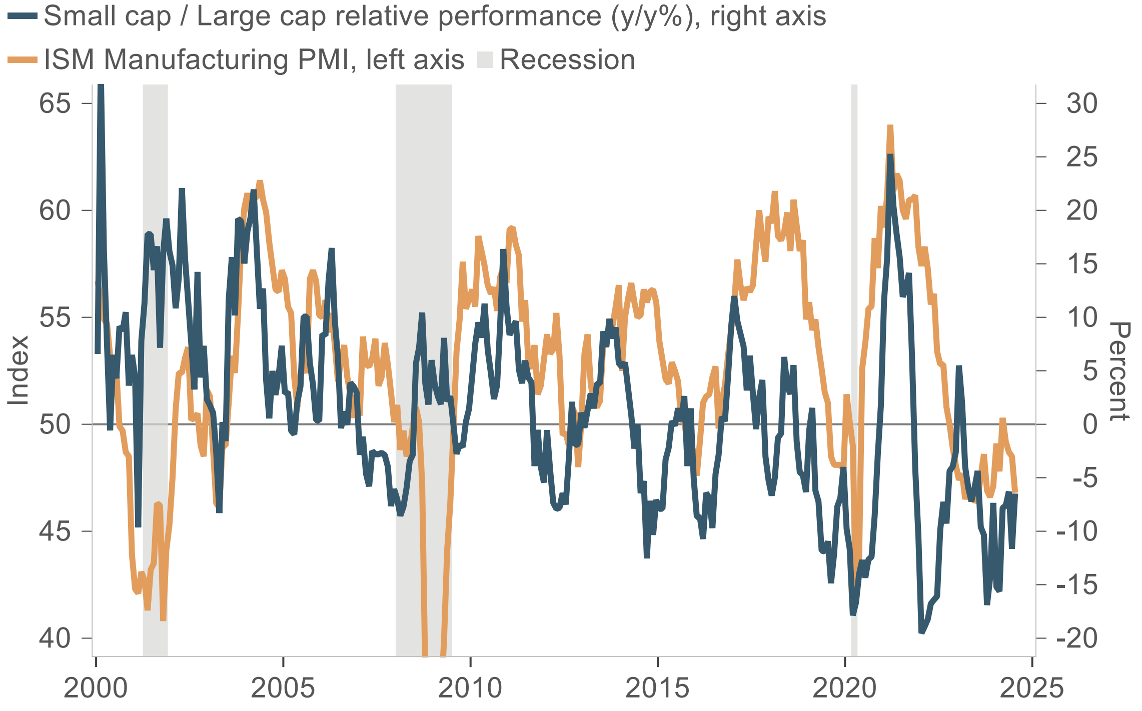
Source: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, August 2024. The Russell 1000 Growth Total Return Index measures the performance of large-cap growth-oriented stocks in the U.S. market. The Russell 1000 Value Total Return Index measures the performance of large-cap value-oriented stocks in the U.S. market. It is not possible to invest in an index. Past performance is not a gaurantee of future results.

TAKEAWAY: Growth equity is likely to maintain its dominance in this late-stage cycle and in the case of recession. Investors can rely on managers who can identify growth-at-a-reasonable price (also known as GARP investing) with strong market positions and healthy financials. Value equity provides a price and carry opportunity, but may not see expansion until the economic cycle re-accelerates.

Large caps are likely to 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 typically outperformed when PMIs signal economic expansion



Sources: New York Life Investments Global Market Strategy, Institute for Supply Management (ISM), Russell Investment Group, S&P Global, NBER (National Bureau of Economic Research), Macrobond, August 2024. 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 October 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.
- Small cap outperformance, defined as the small cap/large cap ratio moving up, typically tracks the ISM Manufacturing PMI, a proxy for economic growth (**chart**).
- On the whole, we would only expect small caps to recover if the U.S. economy were to reaccelerate.
- However, small caps saw a sharp rebound recently following the July inflation release, 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.

Small caps may offer overlooked growth opportunities

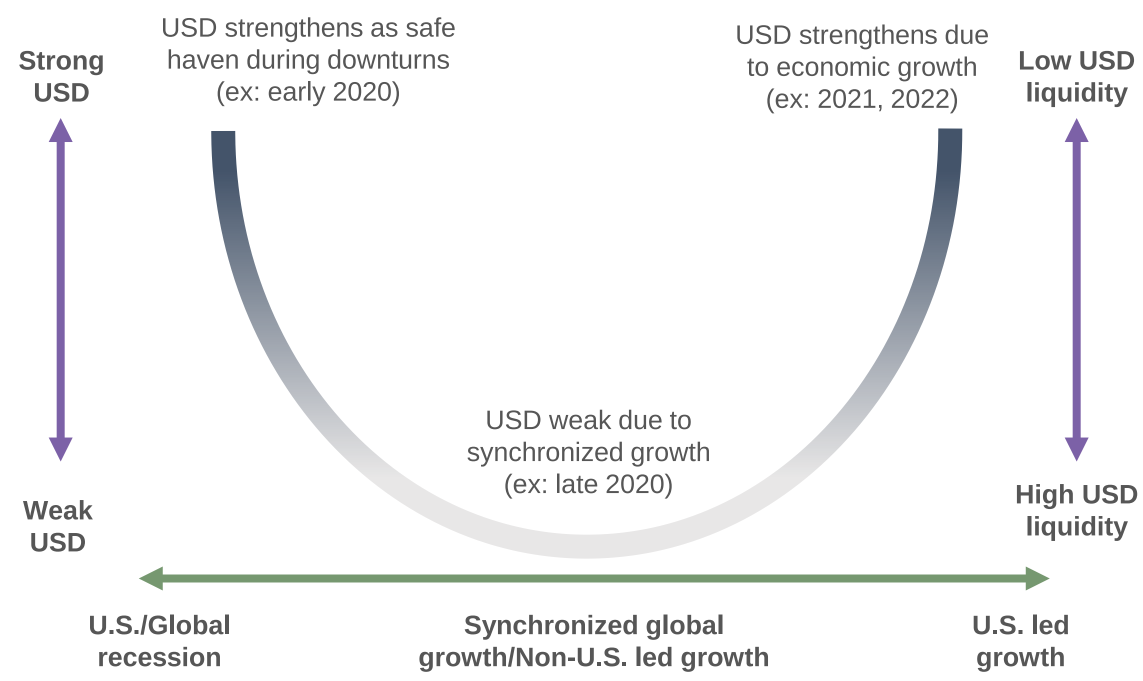
- Within the asset class, we think there are pockets of opportunity where investors can capitalize on structural themes like the building-out of artificial intelligence (AI).
- Small and medium-sized profitable growth companies, for instance, may offer exposure to artificial intelligence development at attractive valuations.

TAKEAWAY: As the market narrative shifts between recession and inflation, the outlook for small caps is dim. Small caps have typically underperformed during slowdowns and amid rising prices. Therefore, we aren't overly bullish on small caps until the market narrative shifts to one of economic recovery. Nevertheless, we believe the asset class offers overlooked growth potential, especially those companies with exposure to the artificial intelligence boom and profitable technology.

U.S. dollar likely to strengthen as global economies slow

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, August 2024. 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?

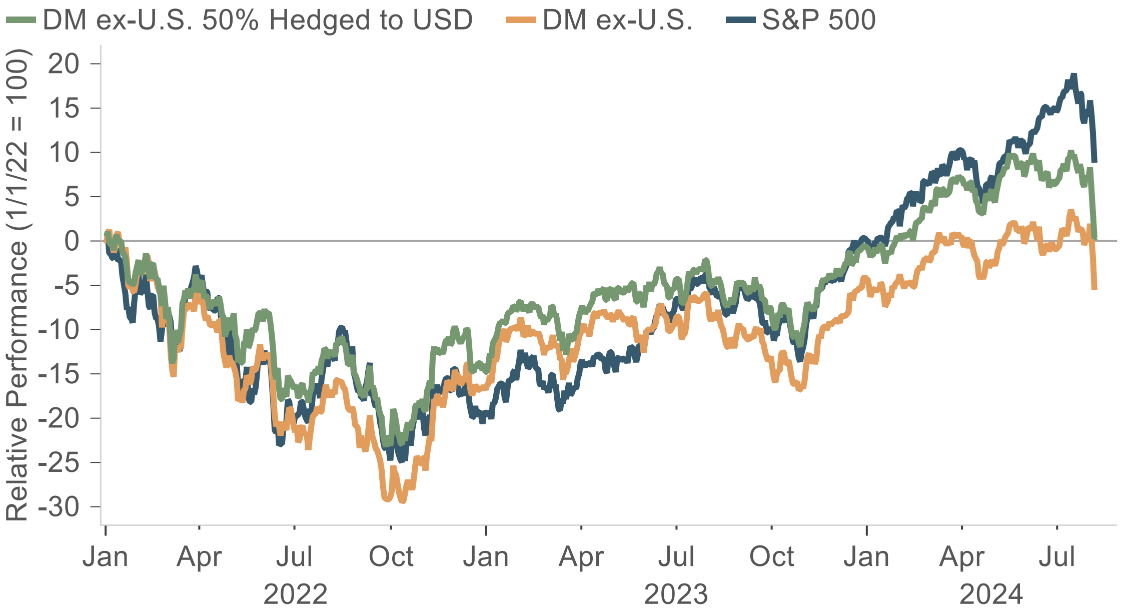
- For the U.S. dollar to weaken (i.e. move towards the bottom of the "dollar smile"), we would likely need to see a robust reacceleration of global growth that overtakes that of the U.S.
- Trump's proposed tariffs (10% flat tariff, 60% on imports from China) could reduce dollar demand, and therefore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

International equities: relative underperformance during risk-off

While an economic deceleration favors U.S. equities relative to international, we are cautious of a structural international underweight

Hedged international exposure has performed better against the S&P 500 compared to unhedged exposure



Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, August 2024. U.S. equities are represented by the S&P 500 Index. 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. DM ex-U.S. equities are represented by the MSCI EAFE Index. DM ex-U.S. 50% Hedged to USD equities are represented by the FTSE Developed ex North America 50% Hedged to USD Index. The MSCI EAFE Index is an equity index which captures large and mid cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. The FTSE Developed ex North America 50% Hedged to USD Index is comprised of large and mid cap Developed ex North American equity securities and is hedged 50% to USD. Past performance is not a guarantee of future results. It is not possible to invest in an index.

A cyclical, not structural underweight during recessions

- Many investors are structurally under allocated to international equities, limiting the potential of this asset class to provide sector and business cycle diversification.
- On a cyclical basis, however, we see headwinds. International equities have historically outperformed in times of strong global economic growth and ample liquidity. Given that we expect a recession in the coming 12 months, risk-off market sentiment is likely to support U.S. outperformance vs. international.
- Idiosyncratic factors also contribute to our slight underweight view for international equities, including political uncertainty keeping investors cautious on European equities, and economic volatility in Japan caused by the normalization of policy – including interest rate hikes.
- For non-U.S. exposure, we prefer currency hedged products which have held up better than non-hedged exposure (**chart**).
- 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.

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

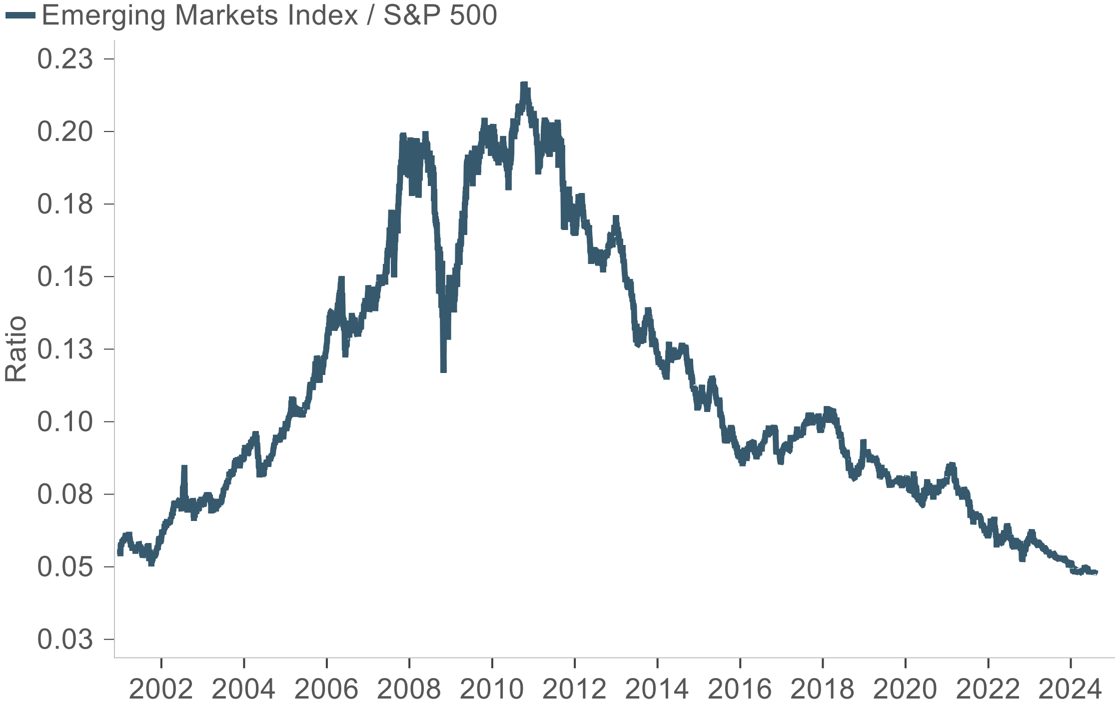
- Sectors: The S&P 500 is overweight the technology and communications sectors. Europe and Japan have more exposure to cyclical sectors like industrials and consumer discretionary. Relative valuations, especially in Europe, remain attractive for bottom-up stock picking.
- Cycle: Because the global economic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

TAKEAWAY: While U.S. equities have been leading in recent months, we believe that structural exposure to international equity can help investors to capture sector and business cycle diversification. Tactically, we remain cautious as the global slowdown will likely see U.S. equities outperform non-U.S. equities.

Emerging market equities may still struggle against gravity

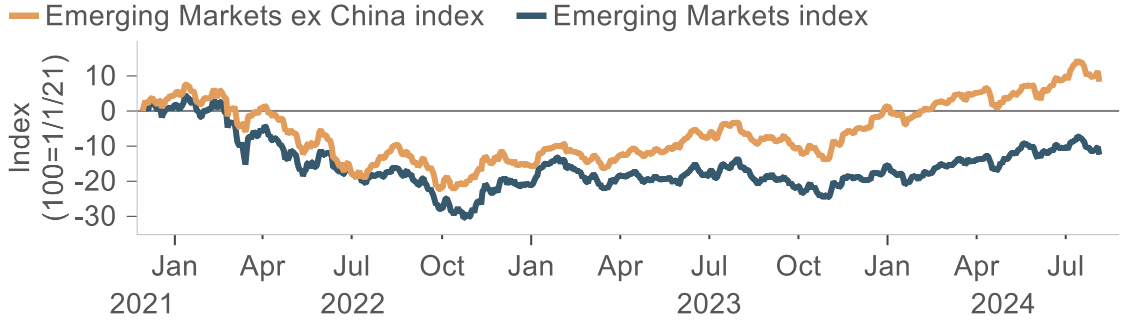
Some markets stand out, but the asset class may have difficulty outperforming as global growth slows

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, August 2024. 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, August 2024. 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.

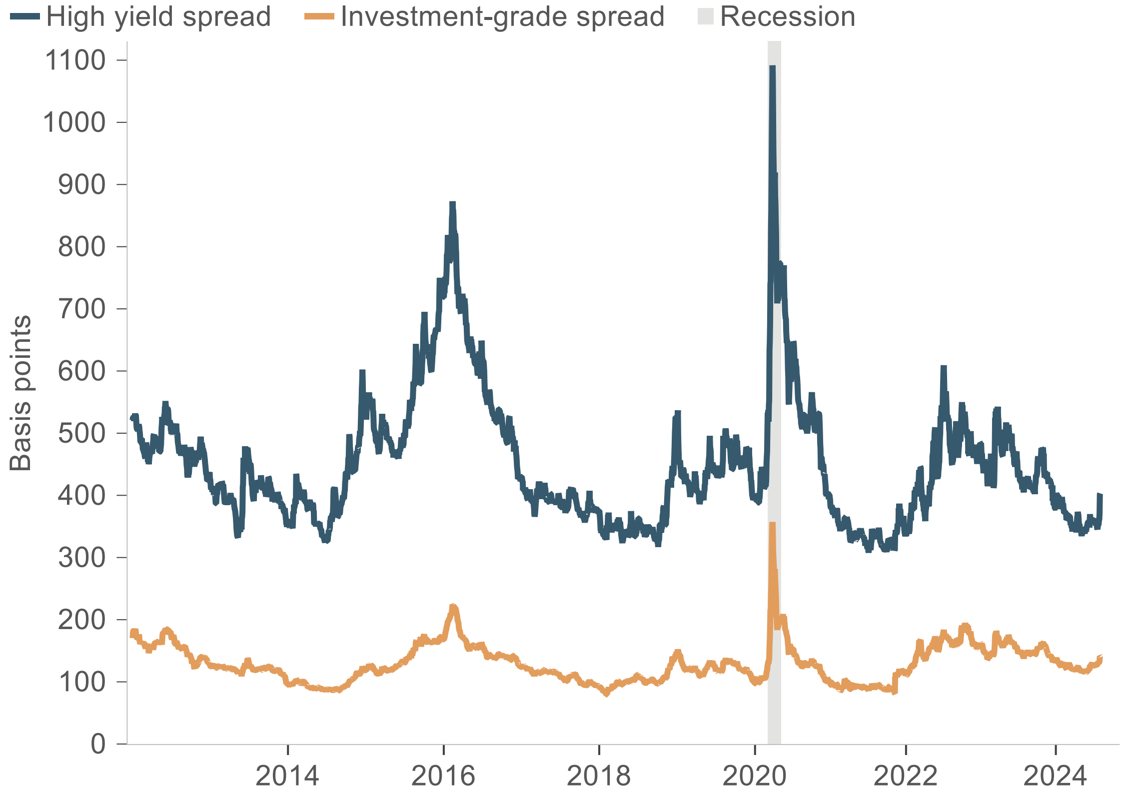
- Emerging market (EM) central banks led the cycle on raising rates and some have now begun an easing cycle suggesting the potential for more monetary support in these markets.
- EM equities have generally underperformed U.S. equities since 2012. We believe investors are under-allocated to EM equities, 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 in 2024; nevertheless, we expect currency hedging and active management are key for success in the asset class

Flows into investment-grade bonds could rise as the economy slows

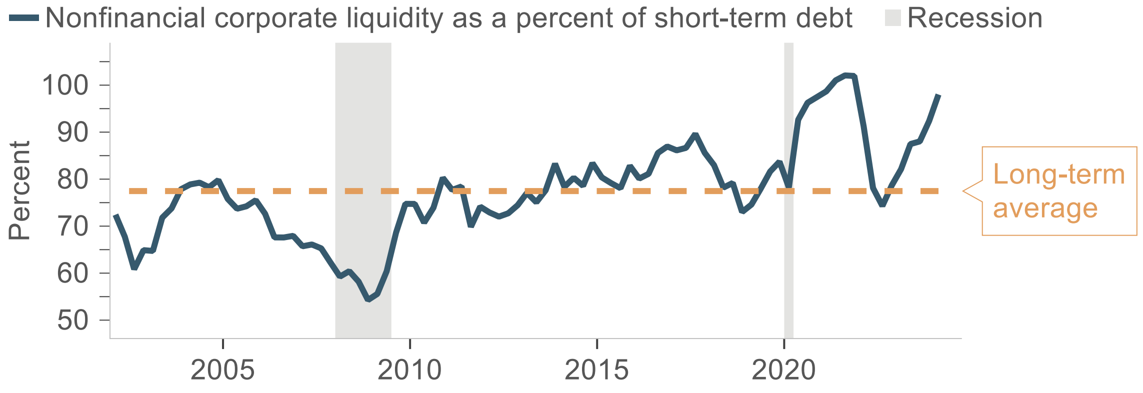
Given our late cycle view of the economy, we do not believe there is room for spreads to tighten, but yields remain attractive

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, August 2024.

Corporates' financial buffers at a healthy level



Sources: New York Life Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, August 2024.

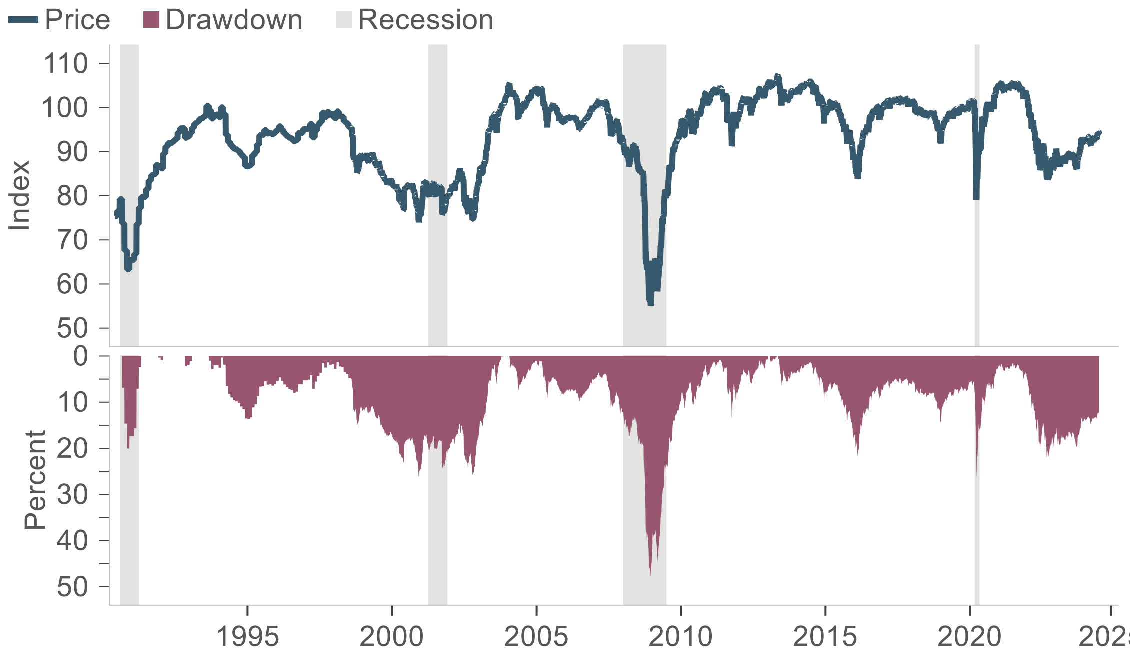
- Credit spreads have remained remarkably tight as the Fed embarked on its rate hiking cycle (**left chart**). The tight spreads could be attributed to (1) a buildup of cash and (2) the concentration of investment grade and high yield issuers is biased towards consumer sectors which have been especially strong this cycle due to fiscal supports.
- Businesses are maintaining a healthy cash balance (**right chart**), which should help firms weather shrinking margins and higher interest expenses
- This economic environment underscores the importance of discerning borrowers' adaptability to slower growth and a prolonged period of 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 investment-grade corporate bonds. While we expect credit spreads to widen as the economy weakens and rate volatility rises, given improvements in credit quality, we may not see the same spikes we've seen in past cycles.

U.S. high yield is positioned to add significant investor value in 2024

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

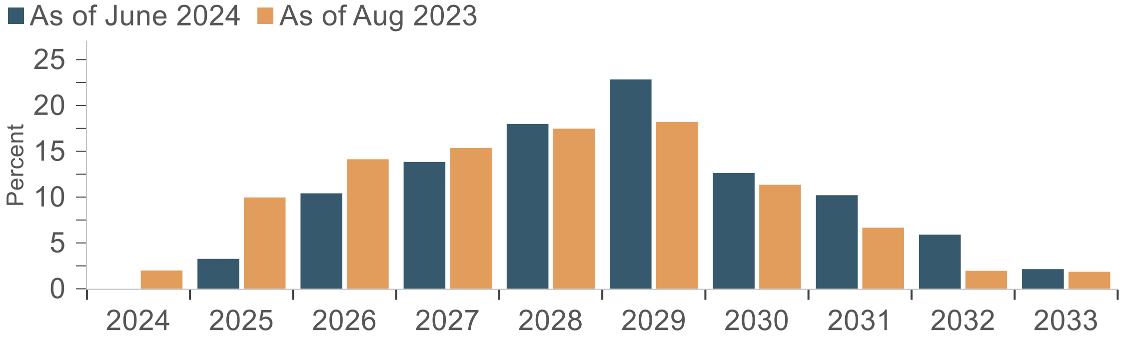
High yield looks attractively priced based on drawdowns through past cycles, particularly considering improved credit quality



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, National Bureau of Economic Research, Macrobond, August 2024. Investment Grade is represented by the Bloomberg U.S. aggregate bond index. High yield is represented by the Bloomberg U.S. corporate high yield bond index. The Bloomberg U.S. Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Spread represents the option adjusted spread or difference betwewen the yield the current U.S. Treasury rates. It is not possible to invest in an index. Past performance is not a guarantee of future results.

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, Macrobond, August 2024. 2033 represents maturities for 2033-2040. 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.

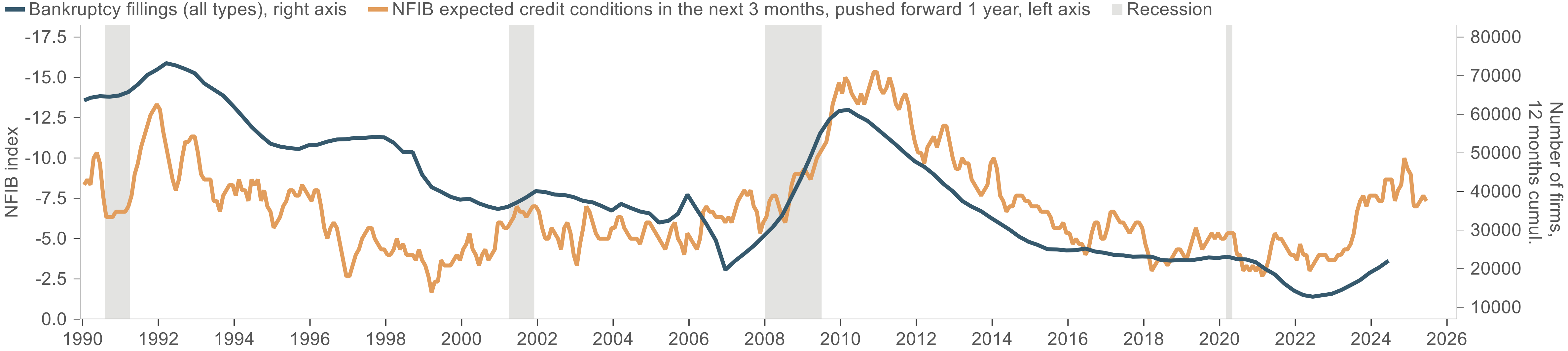
- While equity markets appear to be pricing in a soft landing, high yield credit has already priced in downside risks, considering that the current drawdown aligns with most past recessions (**left chart**), suggesting a potentially attractive entry point for investors.
- 2024 could be a strong year for high yield bonds. A majority of high yield loan maturities do not arrive until 2025 suggesting investors have time before refinancing risk begins to accumulate (**right chart**).
- The U.S. high yield asset class has improved in quality thanks to pandemic-era programs as well as changes in corporate financing structure in the post-financial crisis period.

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 equity volatility, high yield corporate bonds have a better risk/reward offering compared to equities over the last 12 months.

Bank loans saw a strong 2023, but we doubt a repeat performance

As refinancings pick up, we expect bankruptcies to rise as well

We expect bank loans to struggle as bankruptcies rise



Sources: New York Life Investments Global Market Strategy, National Federation of Independent Business, U.S. Federal Courts, NBER (National Bureau of Economic Research), Macrobond, August 2024.

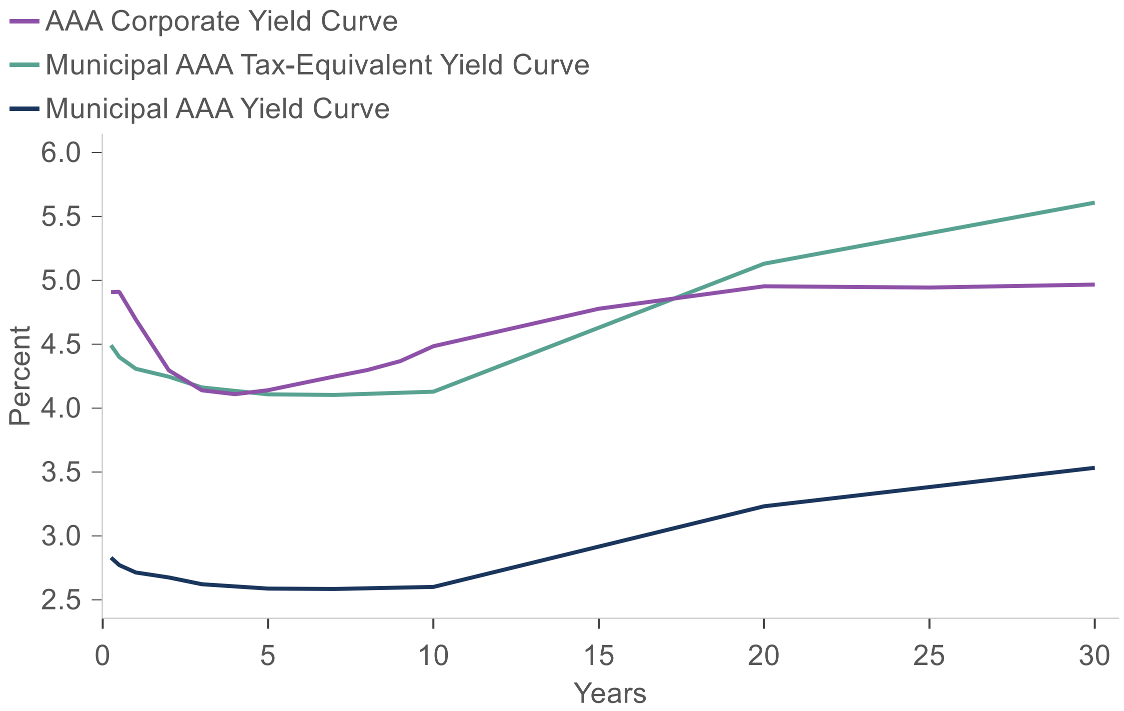
- Floating-rate credit (bank loans) have tended to perform well when interest rates are on the rise. In 2023, bank loans continued to perform well even when the U.S. Federal Reserve stopped hiking interest rates midyear.
- While the asset class saw a strong 2023, we are cautious on bank loans in 2024. Worsening credit conditions (**chart**) seen in the orange line rising are typically followed by a rise in bankruptcy filings (blue line rising).
- 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: With inflation high, the Fed is likely to hold rates higher for longer, meaning corporate debt payments will likely stay elevated. Though the asset class could see support from interest rate uncertainty, we believe a weakening economy will begin to drag on yields in 2024. Bank loan buyers should play more defense than offense at this point in the cycle.

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, August 2024. 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

- 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 2024.
- Tax burdens are rising due the increase in federal support to businesses and individuals, combined with a robust housing market driving elevated property tax valuations. Additionally, the expanding federal deficit could result in higher federal tax rates, making tax-exempt income even more attractive. Further, the benefit of tax-exemption is amplified in the current “higher for longer” yield environment.
- 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 these rates, while exhibiting less anxiety over inflation, and less confidence in money market/cash yields maintaining their levels.

Tactical view on municipal bond exposure

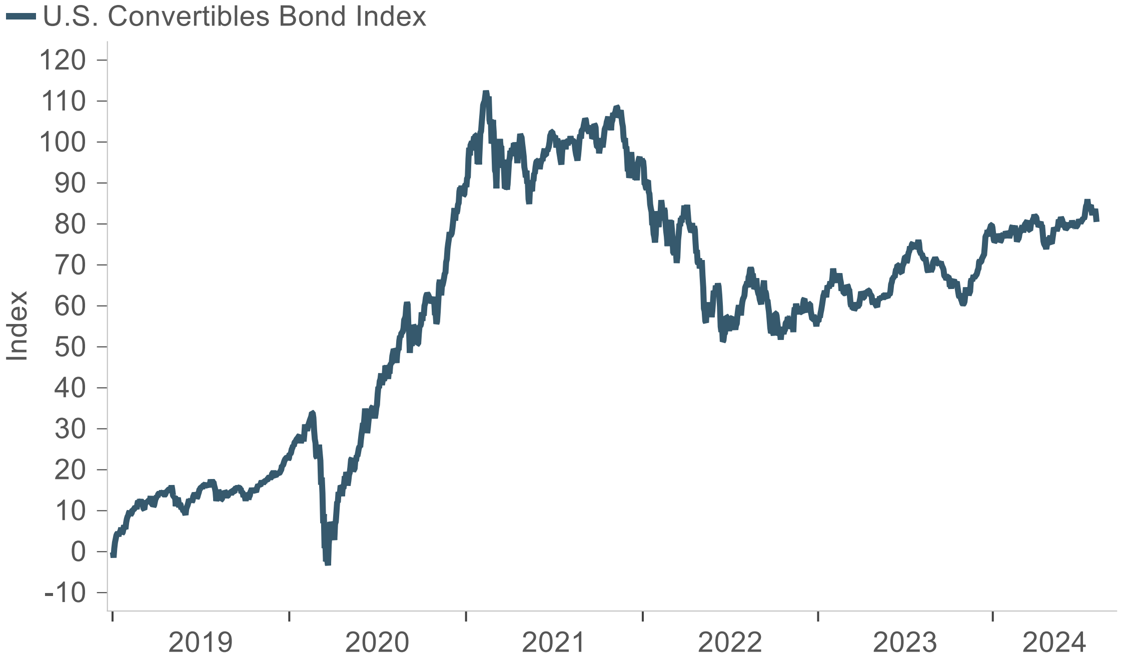
- In our view, a deeply inverted yield curve gives investors little incentive to take excessive risk in duration in U.S. Treasuries; however, not all duration is created equal. The municipal curve remains upward sloping which continues to compensate investors for longer-term risk while the U.S. Treasury curve remains inverted (**chart**). 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 adding interest rate risk where it pays, such as on the municipal bond curve. Additionally, robust fundamentals and a high interest rate environment, plus the risk of higher taxes, create a solid backdrop for municipal bonds.

The tide may be 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

The lack of U.S. mega-cap companies within the convertible bond sector has limited upside. But convertible bonds remain an attractive option for portfolio diversification.



Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, August 2024. Convertible securities index is represented by the Bloomberg U.S. Convertibles Liquid Bond Index. The Bloomberg U.S. Convertibles Liquid Bond Index tracks the performance of the liquid segment of the U.S. convertible bonds market, on a total return basis, without any adjustments for currency hedging.

What makes convertible bonds special?

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

Tactical market outlook:

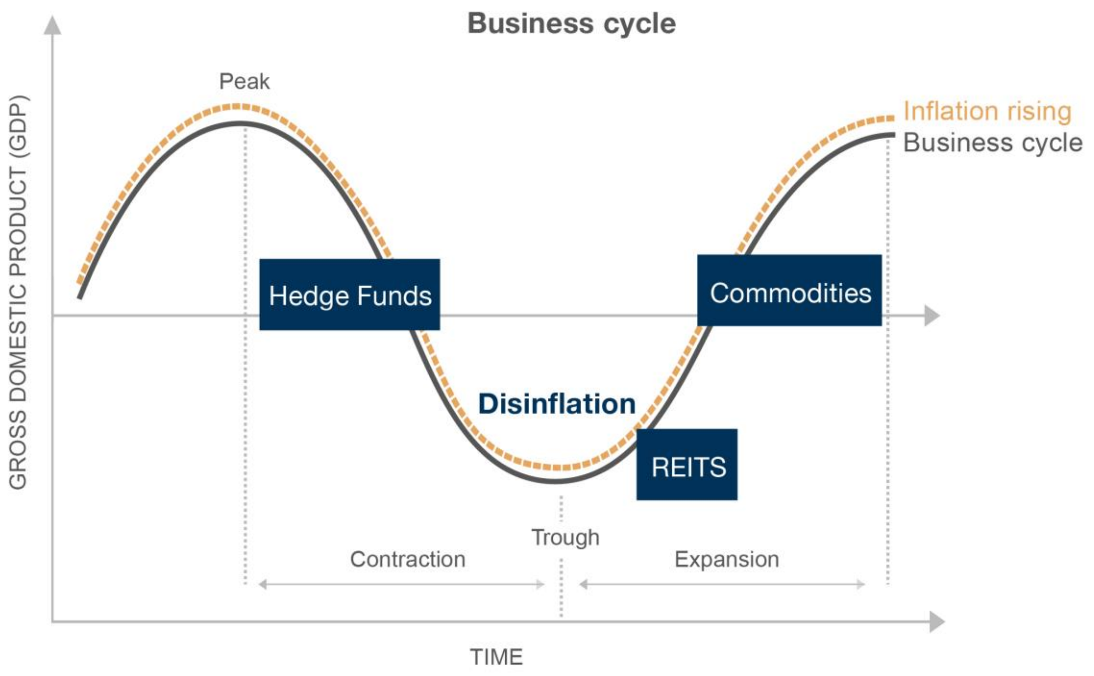
- Issuance: New issues picked up in 2023 and are expected to increase as investment grade companies with debt maturing may be drawn to the convertible market as they can no longer issue bonds yielding 2% to 3%.
- Approximately one-quarter of new convertible issuance last year was investment grade, and we expect that trend to continue as investment grade companies may find better funding opportunities in the convertible market..
- Valuation: The U.S. convertible market is weighted towards mid and small-cap companies which now have significantly lower valuations than large caps
- For investors who believe market gains can broaden but the economy is still slowing, convertible bond exposure could replace small cap exposure which offer potentially similar risk/return opportunities and the defensive bond features.
- The lack of U.S. mega-cap companies within the convertible bond sector has restrained upside, but convertible bonds remain an attractive option for portfolio diversification (**chart**).

TAKEAWAY: Convertible bonds are a well-positioned defensive asset offering yield and low volatility. As real rates rise, the case for convertible bonds becomes compelling, especially as corporate bond issuers are priced out of the investment grade market.

Alternative investments across the business cycle

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

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



Sources: New York Life Investments Global Market Strategy, August 2024. 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

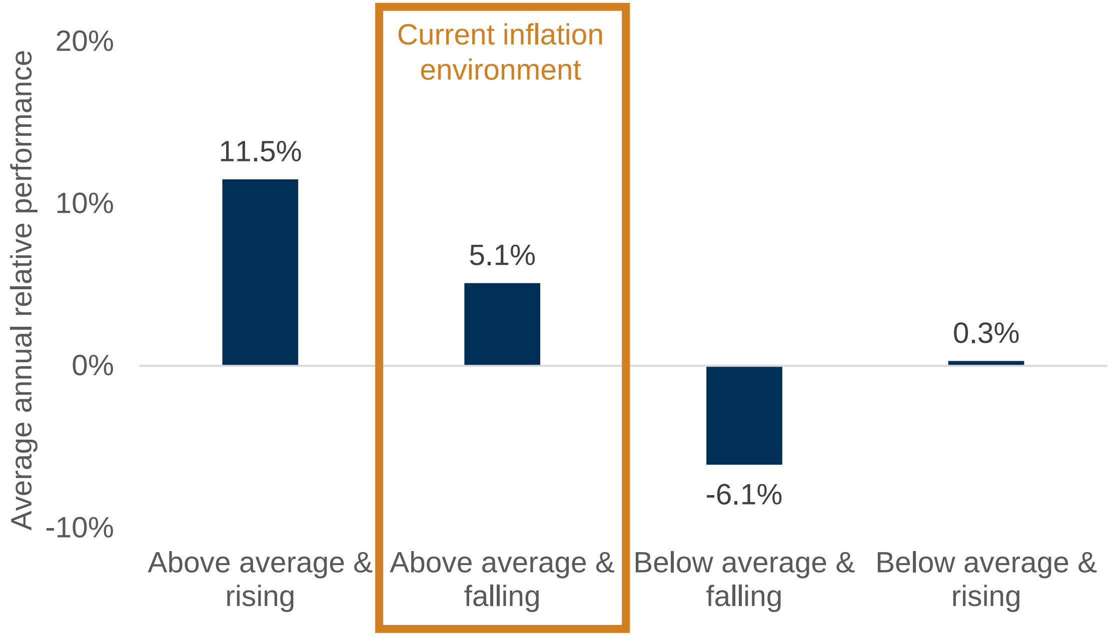
- Concern about commercial real estate has impacted investor sentiment but we think this has the potential to create investment opportunities.
- Allocating between 1% and 15% offers real estate exposure with the potential for income and capital appreciation—and can potentially be sourced primarily from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

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

Infrastructure is one of our highest conviction structural themes

Investing in rubber was profitable when the car was invented; digital infrastructure may be the same for the advent of artificial intelligence

Infrastructure equities have tended to outperform in the current inflation environment



Sources: New York Life Investments, CBRE Investment Management, U.S. CPI, UBS Global Infrastructure & Utilities linked to FTSE Global Core Infrastructure 50/50 Index, MSCI World Index as of 9/30/22. Trailing 20-years based on average monthly total returns during inflation regimes, annualized. Inflation Regimes calculated using the year-on-year change in the U.S. CPI, normalizing its history using a z-score, and tracking the 3-month moving average of that z-score. The Inflation Regime is determined by both the level and the change in the indicator, requiring two months in the same cycle in order to confirm a new regime. Information is the opinion of CBRE Investment Management, which is subject to change and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Forecasts and any factors discussed are not a guarantee of future results.

Our view on the 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 inflation protection 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

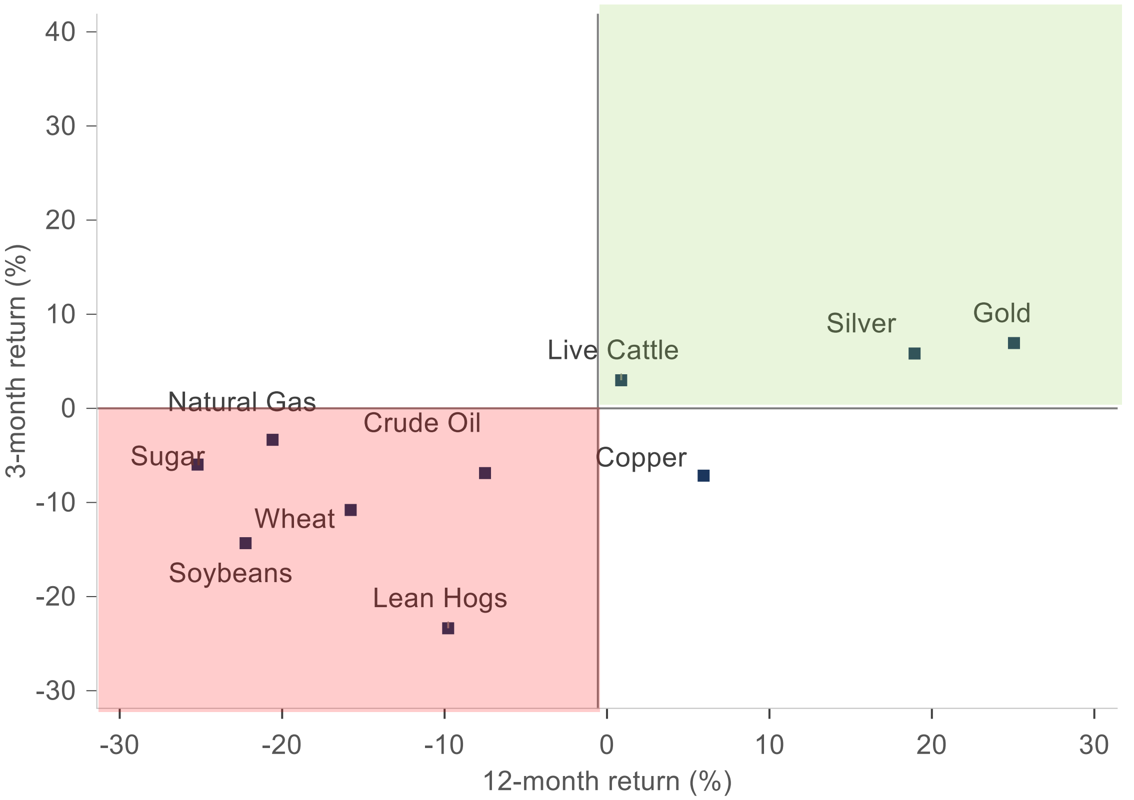
- Issuance of taxable municipal bonds increased in recent years due to the *Tax Cuts & Job Act* of 2017 which limited the issuance of tax-free municipal bonds.
- Investors may be less familiar with taxable municipal bonds, especially outside the U.S. where municipal bonds are less frequently used. We 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. The winners and losers of trends like artificial intelligence, geopolitical shifts, and supply chain reshuffling are yet to play out, but all of their end results require meaningful private and public sector investment: digital infrastructure, electrification, etc. We now 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.

Higher inflation points to a structural allocation to commodities

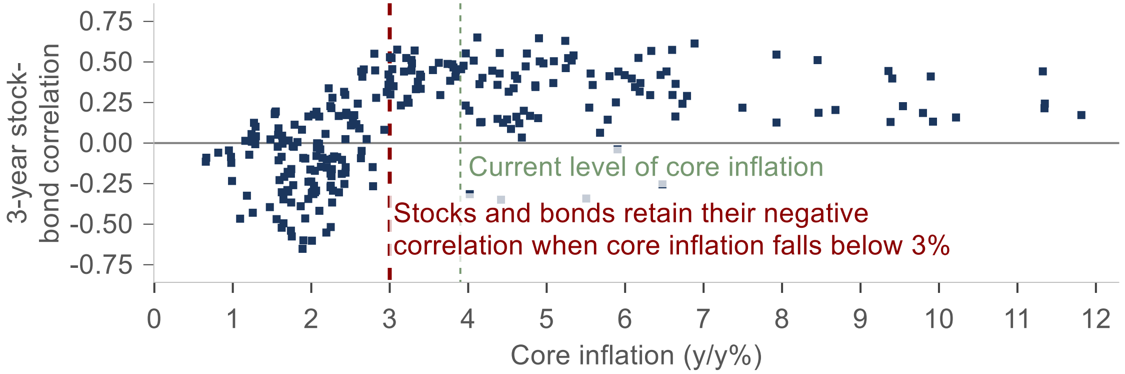
Rising demand for resources amid restructuring supply chains provides a compelling investment backdrop for commodities

Active management is key when choosing a commodity allocation



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, August 2024.

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



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), S&P Global, U.S. Department of Treasury, Macrobond, August 2024. 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.

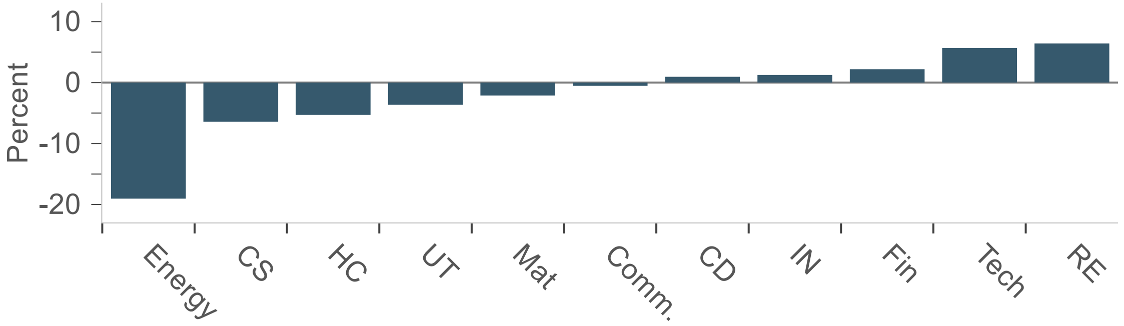
- When inflation is high, stock-bond correlation tends to be lower. Investor portfolios may therefore be less diversified than finance theory would suggest (**right chart**).
- Since the cause of that potentially lower diversification is high inflation, investors could consider increasing their allocation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

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

Structural opportunities are opening in liquid real estate

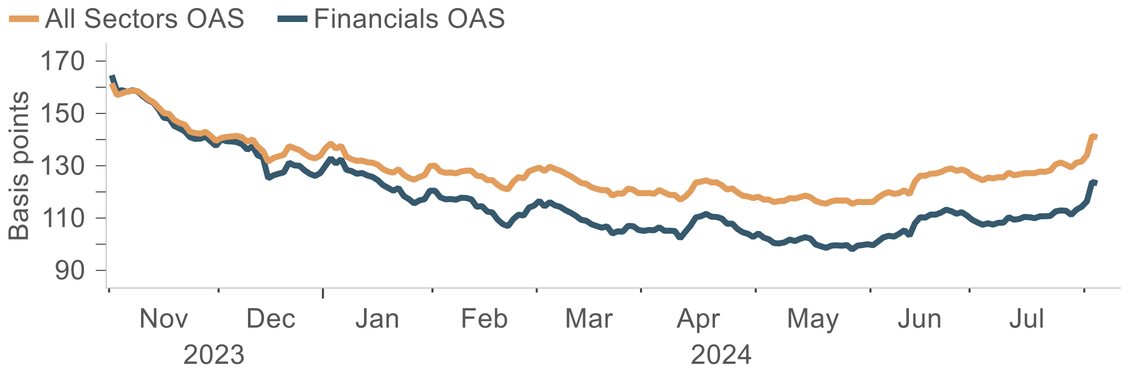
Concern about pockets of commercial real estate, such as office, has impacted investor sentiment, creating potential opportunities

Listed real estate took off when yields fell at the end of last year



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, August 2024. 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. Each sector is represented by the corresponding S&P 500 sector index categorized by GICS level. CS: Consumer staples, CD: Consumer Discretionary, Comm: Communications, RE: Real Estate, IN: Industrials, Fin: Financials, Mat: Materials, UT: Utilities. 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, August 2024. 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 risk of recession looms, there are questions 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.
- Despite a general downturn in the asset class, liquid real estate stood out as the top performer when yields declined at the end of last year. While we're still seeing upward pressure on yields, a reversal could potentially lead to significant gains for REITs (**left chart**).
- 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**).

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.

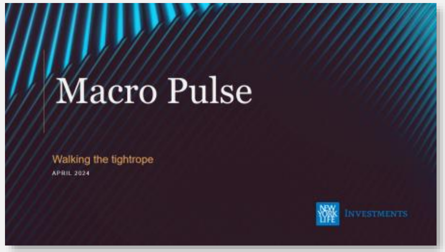
Global Market Strategy insights

Macro Pulse: Economic & market commentary

Weekly market update

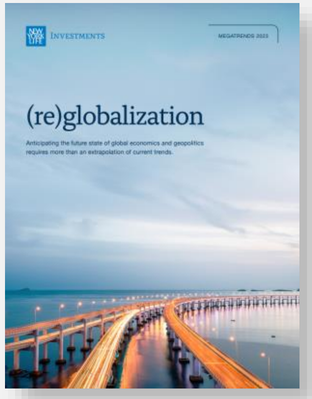
Weekly podcast & bi-weekly video series

Economic and market outlooks (& quarterly webinars)

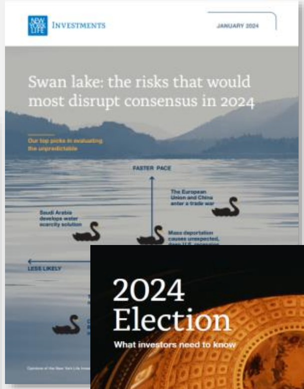


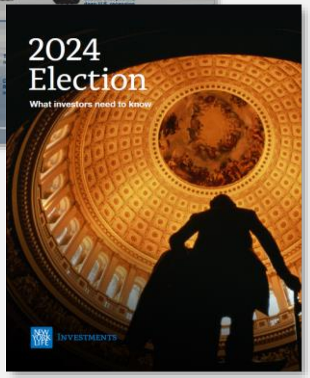
Thought leadership

Megatrends



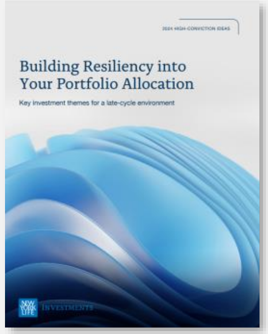
Politics and geopolitics





Asset allocation

High-conviction ideas



Asset class insights

newyorklifeinvestments.com/global-markets

Important disclosures

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