

Macro Pulse for March 15

- Recent scrutiny over private credit quality, in our view, is the latest symptom of a maturing public and private credit cycle marked by tight spreads, rising dispersion, and selective stress. But U.S. corporate fundamentals remain sound, liquidity conditions are supportive, and in private credit, institutional investors remain committed. We expect underwriting discipline, diversification, and deep expertise will increasingly drive performance outcomes, to a greater extent than in the last several years – stay tuned for our more detailed views this week.
- The Federal Reserve and ECB meetings this week meet heightened concerns around the impact of higher oil prices as intervention in Iran continues, curtailing the flow of ~20% of global oil supply through the Strait of Hormuz. The Fed is likely to look through energy-driven price increases in headline inflation, particularly if core services and wage growth remain contained, but the timing of the 1-2 cuts expected this year may be delayed.

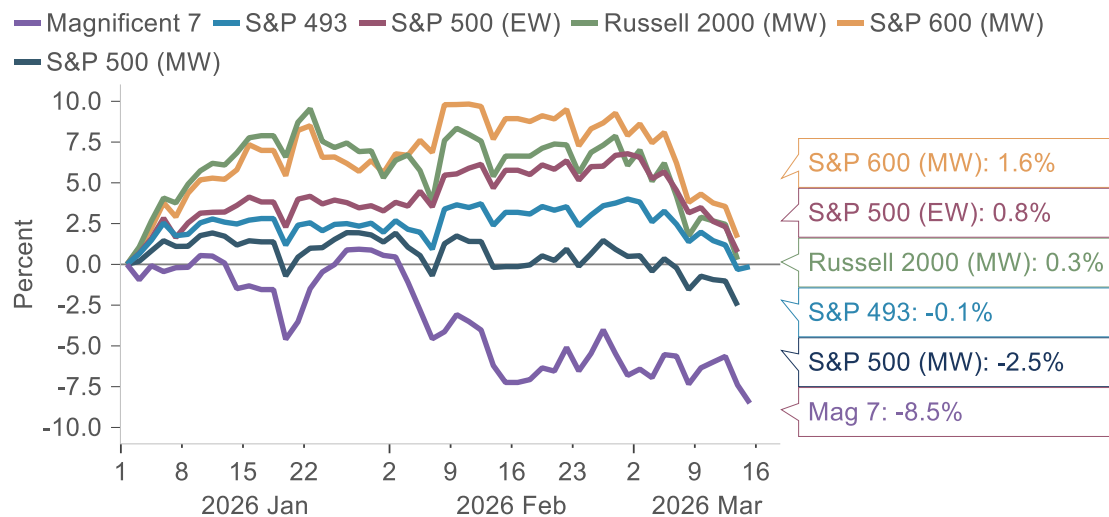
Is broader better?

For over three years, investors have worried that U.S. equity returns have been overly dependent on a handful of large cap growth companies. The concern is intuitive: broad participation feels healthier than concentration, and diversified performance seems less vulnerable to reversal.

Year to date in 2026, investors appear to be getting their wish. The Magnificent 7 is down more than 7%, while the S&P 600 small cap benchmark is up 1.4%. Growth equities have lagged; value equities have led. Momentum has softened, while dividend yield has outperformed.

A broader cohort of equity segments have seen the sun so far in 2026

YTD performance by U.S. equity market index



Sources: New York Life Investments Global Market Strategy, S&P Global, Russell Investment Group, Macrobond, March 2026. MW: Market Weight. EW: Equal Weight.

But does this shift represent a sustained market broadening — and in practice, does broader market performance drive better outcomes for investors?

Why have markets broadened this year?

At the aggregate level, three considerations have favored smaller and value-style companies over large cap growth so far in 2026.

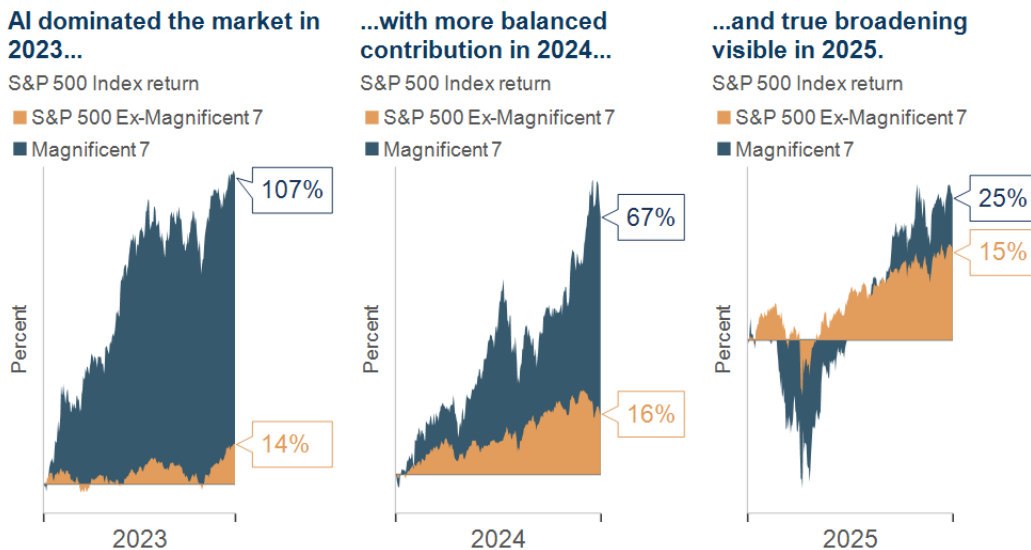
The first is a diversification tradeoff. Investors have needed to accept the risk of allocation concentration in large cap growth, or manage the tax and performance sacrifices that come with more frequent rebalancing to avoid concentration. Both sides of this tradeoff have hindered new allocations to large cap growth – an outcome we agree with, as we’ll cover at the end of this note.

A second factor working against large cap growth is the favorable macro environment, aligned with our own base case for 2026. A constructive economic backdrop has historically supported improving investment outcomes across equity size, sector, and style.

Third, a fresh wave of concerns around AI has amplified the recent rotation. Investor focus has shifted abruptly from celebrating infrastructure investment to demanding near-term monetization of capex. Questions and scenarios relating to AI’s impact on productivity and labor market outcomes have become prolific. In the recent spotlight of these concerns is agentic AI, launched this year, which pulls forward the timeline for AI disruption – and while software is priced as the near-term “victim” of AI disintermediation, it is not the only vulnerable sector. These concerns are important – and we will address them in more detail in the coming weeks – but short-term narrative swings, particularly those pertaining to an unknown future state of AI disruption, may represent a tactical performance deviation from underlying fundamentals.

Market performance has been more broad-based than many investors believe

Equity market broadening has been treated as a sought-after destination for several years. But U.S. equity market performance, profitability, and participation all show that investors seeking improved breadth have already had it – for over two years.



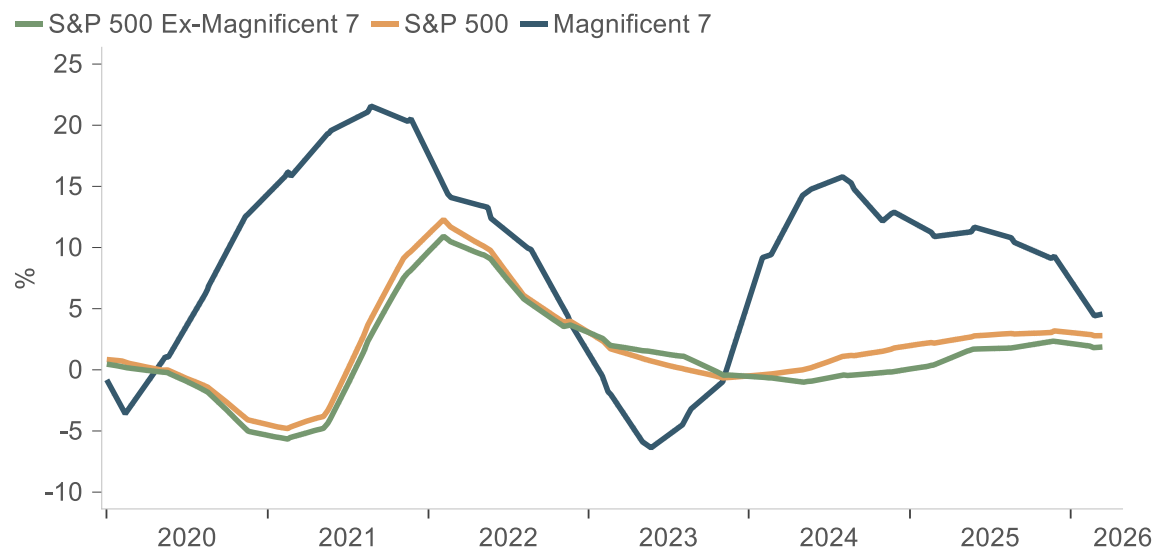
Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Macrobond, March 2026.



Hyperscaler earnings growth has led the index for the past six years. At the same time, the S&P 493 (excluding the Magnificent 7) delivered consistent ~15% annual returns during the AI-dominated years – comfortably above the ~10% long-run nominal average for U.S. equities. Periods of Magnificent 7 bounceback also aligned with improved market breadth, measured by the share of NYSE-listed stocks trading above their 200-day moving average, which consistently ranged in a healthy 50-70% in 2024 and 2025.

AI hyperscalers' earnings growth has had a clear pull on that of the remaining 493

Quarterly earnings growth, smoothed over trailing 3 quarters



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Macrobond, March 2026.

In other words: **we have little evidence that strong Magnificent 7 performance detracted from the rest of the market.** Rather, tech leadership has coexisted with – and supported – broader participation.

This “halo” effect was a powerful counterweight to restrictive monetary policy in 2023 and much of 2024. Large cap tech’s earnings momentum supported equity wealth effects and helped keep financial conditions from tightening more abruptly, reinforcing the virtuous cycle between corporate profitability and consumer resilience.

Our view: broader is not better if it means rotating away from durable profitability.

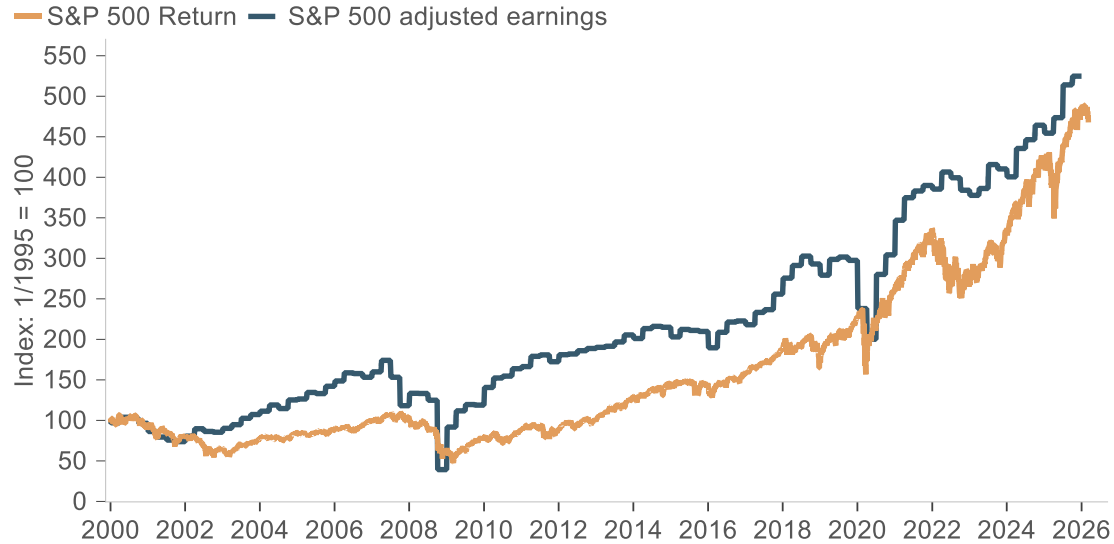
With market leadership shifting, geopolitical risk on the rise, investor sentiment swinging, and volatility trending up across public asset classes, we have several core convictions around market structure.

Historically, equity market performance aligns with earnings growth. Markets can rotate away from profitability leaders for quarters – sometimes even years. Risk-on environments, for example, can prompt periods of speculative risk-taking and “junk” outperformance, including that of lower quality small caps and lower-rated corporate credit (we have seen this behavior sporadically in the last 9 months).

But sustained underperformance of high-return businesses typically requires one of three conditions: profitability proves cyclical rather than structural, valuations detach meaningfully from fundamentals, or a structural regime shift alters the discount rate environment. Absent those forces, durable return on capital tends to reassert itself in relative performance.



Macro and markets are not the same, but fundamental profitability is a core driver of market direction over the long term

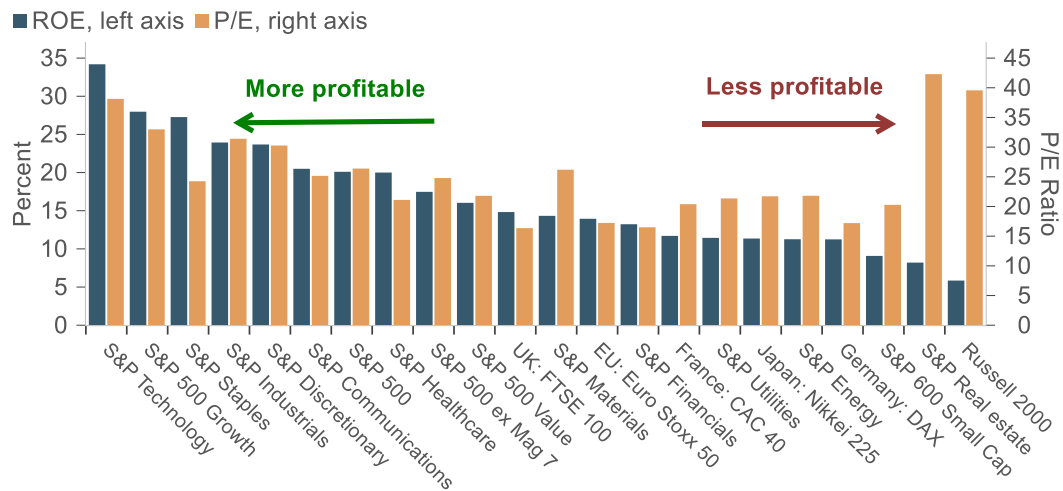


Sources: New York Life Investment Management, Global Market Strategy, S&P Global, Macrobond, March 2026.

We believe large cap tech is likely to continue driving profitability. Whether measured via earnings growth, operating margin, or ROE – as we’ve done below – U.S. small caps and international equities, in particular, have a high bar to clear. Technology led the most recent equity earnings season at 33% growth, double that of the S&P 500 Index at nearly 14%.

U.S. large cap tech's high valuations do not read "expensive" relative to profitability

Public equity ROE and valuation by country, style, sector, and size



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Macrobond, March 2026. Sectors refer to sectors within the S&P 500 Index.

Looking forward, it is important for us to acknowledge key risks to tech profitability from here. Top of mind is the software-hardware tradeoff. Earnings generation could narrow *within* large cap growth, favoring the Magnificent 7 as the source of disruption, while driving value destruction across the rest of tech (software), as well as among tech players



in communications and consumer discretionary sectors. Even if the AI disintermediation timeline is pushed back, hyperscalers and software companies alike are not immune to macro or geopolitical shocks that could spark problems for financing conditions and consumer health.

However, these risks do not stand out as a reason to avoid large cap growth *relative to other market segments*. Strong economic growth and policy support are likely to boost *absolute* profitability across equity market segments, but not *to a greater extent than* tech. Modestly lower interest rates, for example, support interest rate-sensitive, capital-intensive industries – including AI investment, as it has become more leveraged over time.

If tech continues to sell off as its earnings remain strong, the valuation differential between AI hyperscalers and the rest of the market will become negligible.

The valuation differential between tech and the rest of the market is at its narrowest outside of the 2022 and 2025 selloffs

Trailing P/E ratios of U.S. equity market segments



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, March 2026.

All of these considerations settle out here: the strong macro backdrop supports absolute returns across many asset classes and allows for better entry points into different sources of return, supporting broader market performance. But even within this environment, AI retains the strongest profitability backstop for performance. Investors can lean into both market dynamics with one investment discipline: diversification.

Accordingly, we are still comfortable with a market-weight allocation to large cap growth, while leaning into small caps and international equities as diversifying destinations for new capital. We also advocate for a structurally higher allocation to commodities, which are a diversifying way to lean into both AI's capital intensity and upside inflation risks of geopolitical disruption.



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The Magnificent 7 refers to Amazon, Alphabet (Google), Apple, Meta, Microsoft, NVIDIA, and Tesla.

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