



TEXPERS

Global Macro Economic Outlook

April 2026

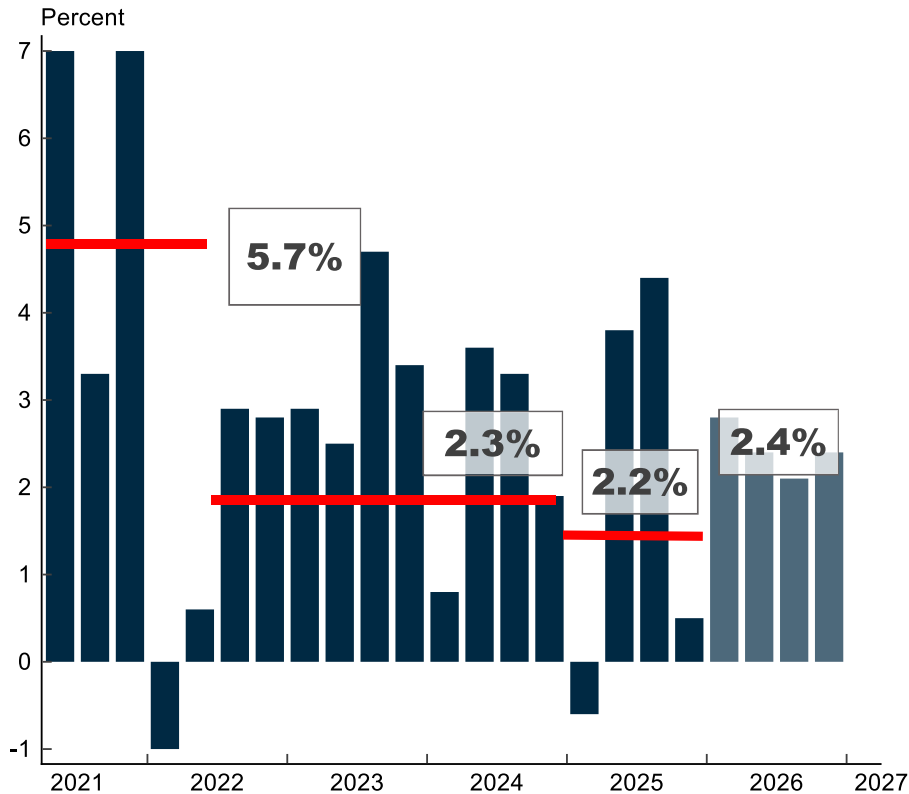
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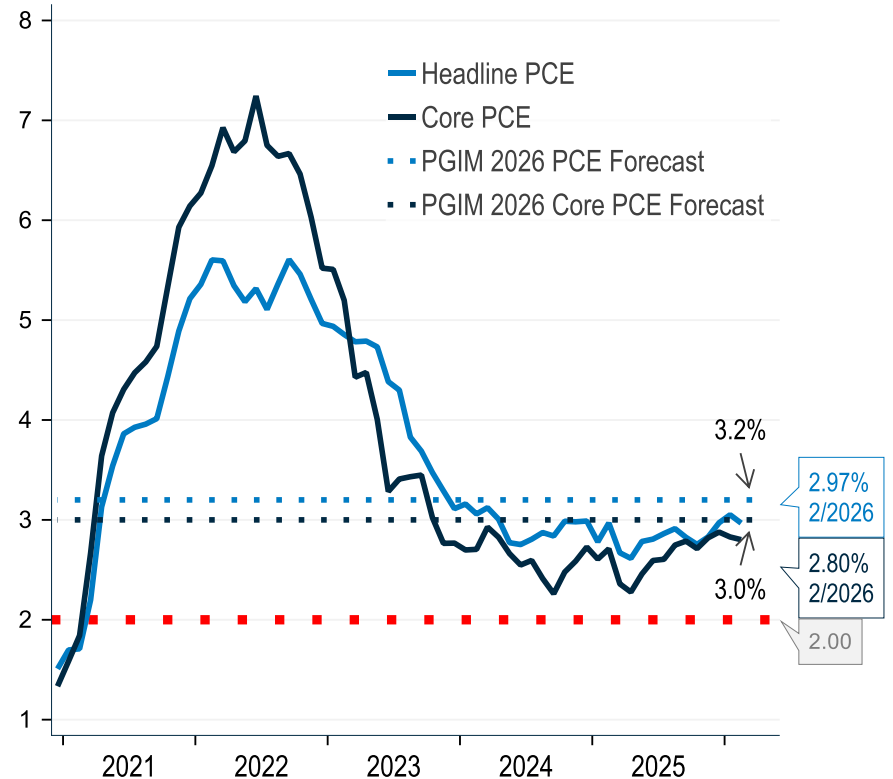
Despite a series of shocks, the US economy looks poised to deliver another nominal GDP boom (6%+ growth) in 2026

US Real GDP, Q/Q SAAR %



Last Updated: April 21, 2026

U.S. Headline and Core PCE Inflation Y/Y



Last Updated: April 21, 2026

Supply shocks
 (-) Higher tariffs
 (-) Smaller labor force
 (-) Policy uncertainty
 (+) AI-related capex
 (+) Deregulation



Demand shocks
 (-) Lower purchasing power
 (-) Less hiring
 (+) Tax cuts
 (+) Wealth effects

Why Is the U.S. Economy so Resilient to Shocks?

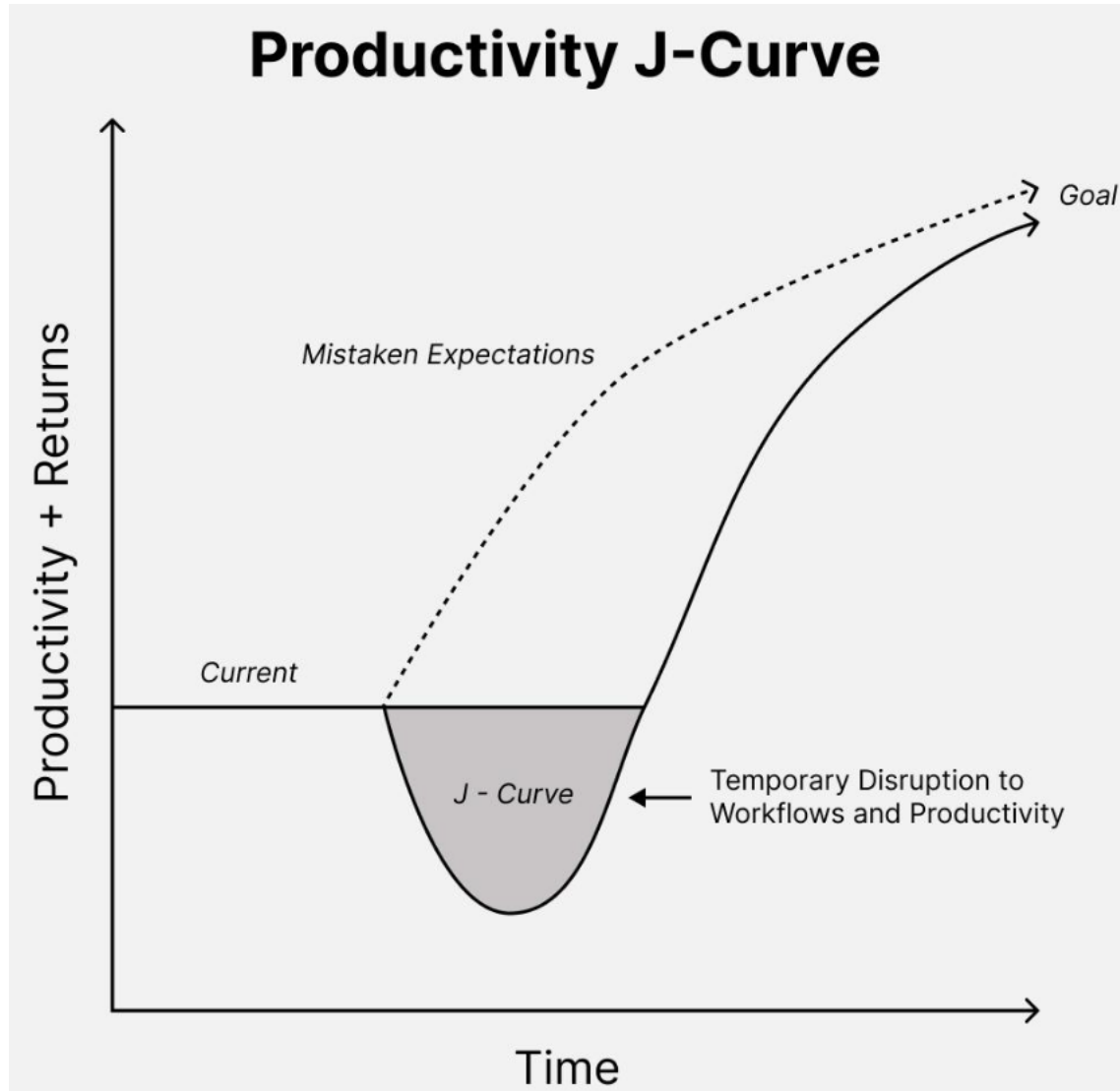
Positives	Negatives
Tax cuts (fiscal policy)	Tax hikes (tariff policy)
Cheaper energy	Slower global growth
Weaker dollar	Global diversification
Strong private balance sheets	Weak public balance sheet
Accumulated wealth	Reduced purchasing power
De-regulation	Frothy valuations & bubble risk
Tailwinds from AI/tech	Headwinds from geopolitical fragmentation
Lower front-end rates	Higher term premium

...because there's a long list of cyclical and structural buffers

The Scale of the AI Infrastructure Buildout Already Rivals - and May Soon Surpass - the Largest Capex Spending Booms in Financial History

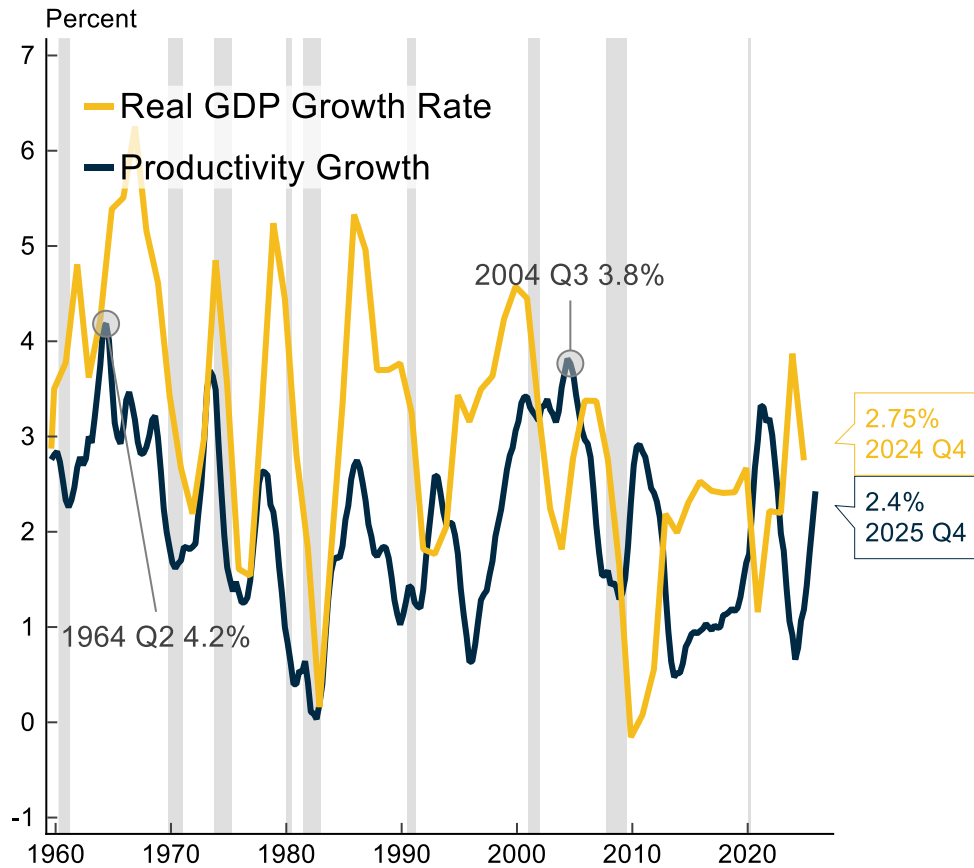
Episode	Time Period	Cumulative Capex	Peak Annual Spend	% of GDP at Peak (Global / U.S.)	Outcome
AI Infrastructure	2023–2030 (projected)	≈ \$6-7T global by 2030	≈ \$700B global peak in 2026, (projected)	0.5–0.6% Global / 1.0–1.5% U.S.	Largest private investment wave; potential overbuild if demand lags
Fiber-Optic Buildout (Dot-Com)	1996–2001	>\$500B (incl. M&A ≈ \$800B)	≈ \$120B (2000 \$) ≈ \$200-225B today	≈1.2% U.S.	Overbuild & crash; long-term payoff
U.S. Shale	2010–2014 peak	Hundreds of billions (U.S.)	≈ \$200B (2014)	≈1.1% U.S.	Cyclical boom/bust; lasting productivity gains
China's Belt & Road Initiative	2013–2023	≈ \$1.0-1.25T total	Tens of billions per year	<1% China GDP / multi-country	Mixed ROI; strategic gains (soft power)
Apollo Program	1960–1973	\$25B nominal (≈ \$250B today)	NASA peak in 1966	≈0.5–0.7% U.S.	Historic success; massive tech spillovers
U.S. Interstate Highway System	1956–1992	\$128.9B (1991\$) > \$500B today	Varied across decades	≈0.3–0.5% U.S.	Transformative infrastructure; maintenance burden
New Deal	1933–1939	Tens of billions (nominal)	Several % of GDP (combined programs)	>3% U.S.	Critical for macro stabilization; limited productivity benefit
U.S. Railroads	1830s–1890s	≈ \$10-12B (\$350B today)	≈ \$0.5B/year in early 1870s (≈\$15B today)	≈3-6% U.S. (1870s peak)	Massive productivity boost alongside speculative bust

Will It Translate Into A Productivity Boom In 2026? Hopes May Rise, But Too Early To Realize



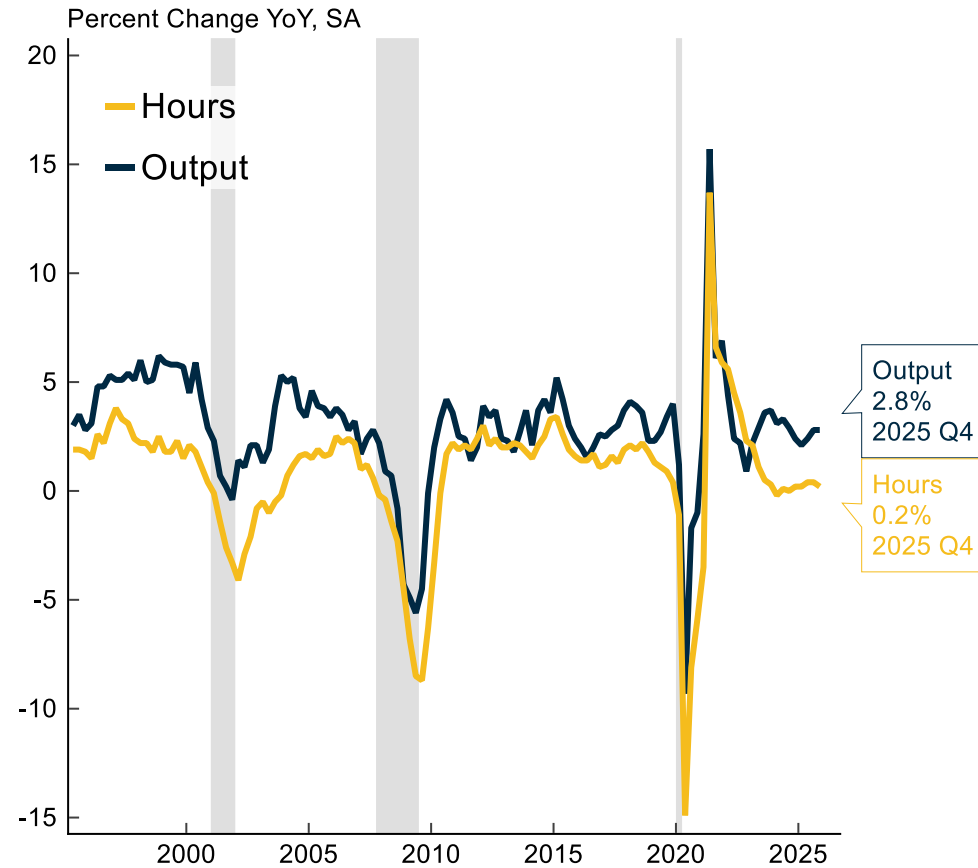
Productivity growth tends to move in long waves, led by an increase in hours worked

Growth in Productivity & GDP, Y/Y (12Q MA)



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Components of Productivity



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The Biggest Near-Term Risk for Growth is a Pullback in AI Capex...

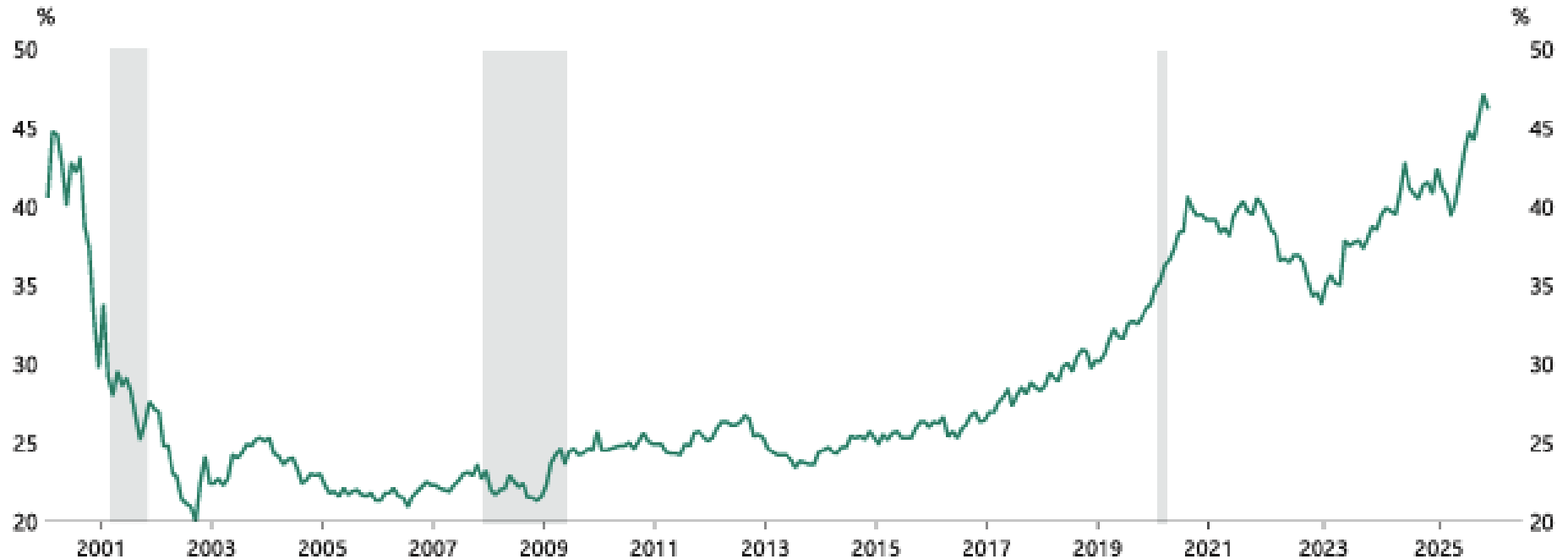
Capex Segment	Estimated 2026 Capex	Key Players	Capex Risk	Response
Non-Discretionary Core	\$450B	Microsoft, AWS	Low	Viewed as a "utility" for cloud contracts; must build to protect market share.
Speculative Tier	\$100–\$120B	CoreWeave, Lambda, AI Startups	High	Reliant on equity/debt markets; financing shortfall = canceled GPU orders.
Discretionary Bet	\$70–\$90B	Google, Meta	Moderate	Pivot to "capital discipline". Hardware purchase cycles stretched (e.g., keep H200s for longer).

- Assume \$190bn reduction in capex (new total = \$485bn)
 - New capex growth rate = 14% (not 60%)
 - New share of GDP = 1.6%
 - New gross contribution = 0.23pp
 - Adjusted for imports and growth multiplier = 0.16pp
- ~80bp reduction in projected 2026 real GDP growth**

Sources: RPS, Current Population Survey, Bureau of Labor Statistics, and Federal Reserve Bank of St. Louis. As of August 2025

...Especially If Exacerbated by a Sustained Correction to the Valuation of AI Ecosystem

S&P Technology, Media and Telecom share of S&P 500 market cap

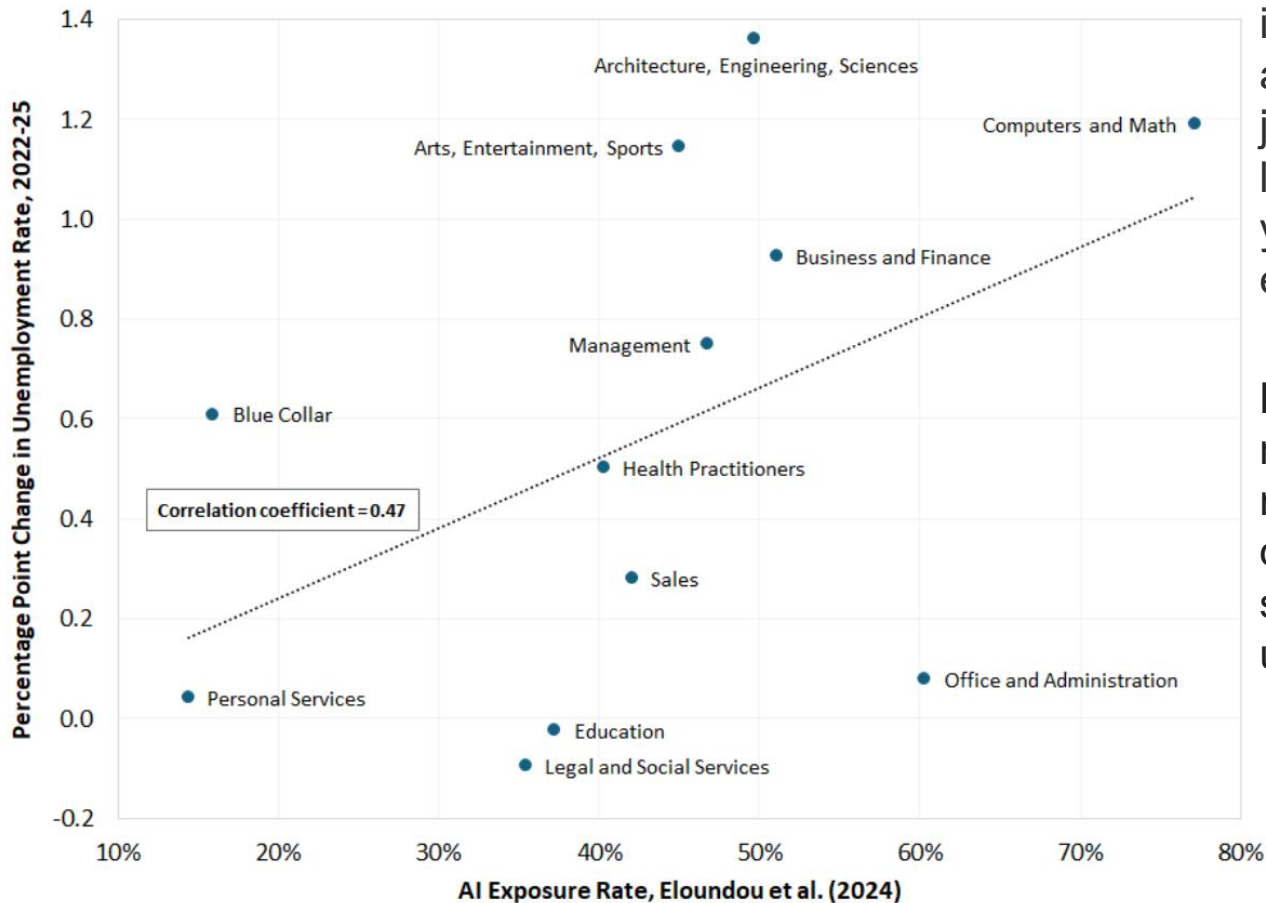


- S&P 500 market cap = \$60 trillion; AI ecosystem = \$30 trillion; US residents own ~ 70% (\$21 trillion)
- 20% sustained correction = \$21 trillion * 20% = \$4.2 trillion loss of wealth
- Assume wealth effect of 0.05 (this is higher than historical average) = \$210 billion
- \$210bn / \$30 trillion GDP = 0.7%; 50% of this drag realized in 2026 = ~35 bps on real GDP growth

Longer Term, the Key Risk for AI is a Political Backlash as we Approach 2028

THE POLITICS OF NIMBY & LABOR FORCE DISPLACEMENT COULD BE A MAJOR BRAKE ON AI DIFFUSION, ESP AHEAD OF 2028

AI Exposure and Change in Unemployment across Occupations



Steve Bannon: "I don't think anyone is taking into consideration how administrative, managerial and tech jobs for people under 30 — entry-level jobs that are so important in your 20s — are going to be eviscerated," he said.

Bernie Sanders: "AI, automation and robotics could replace nearly 100 million jobs in America over the next decade... And as bad as that may seem, I am afraid it may be an underestimate."

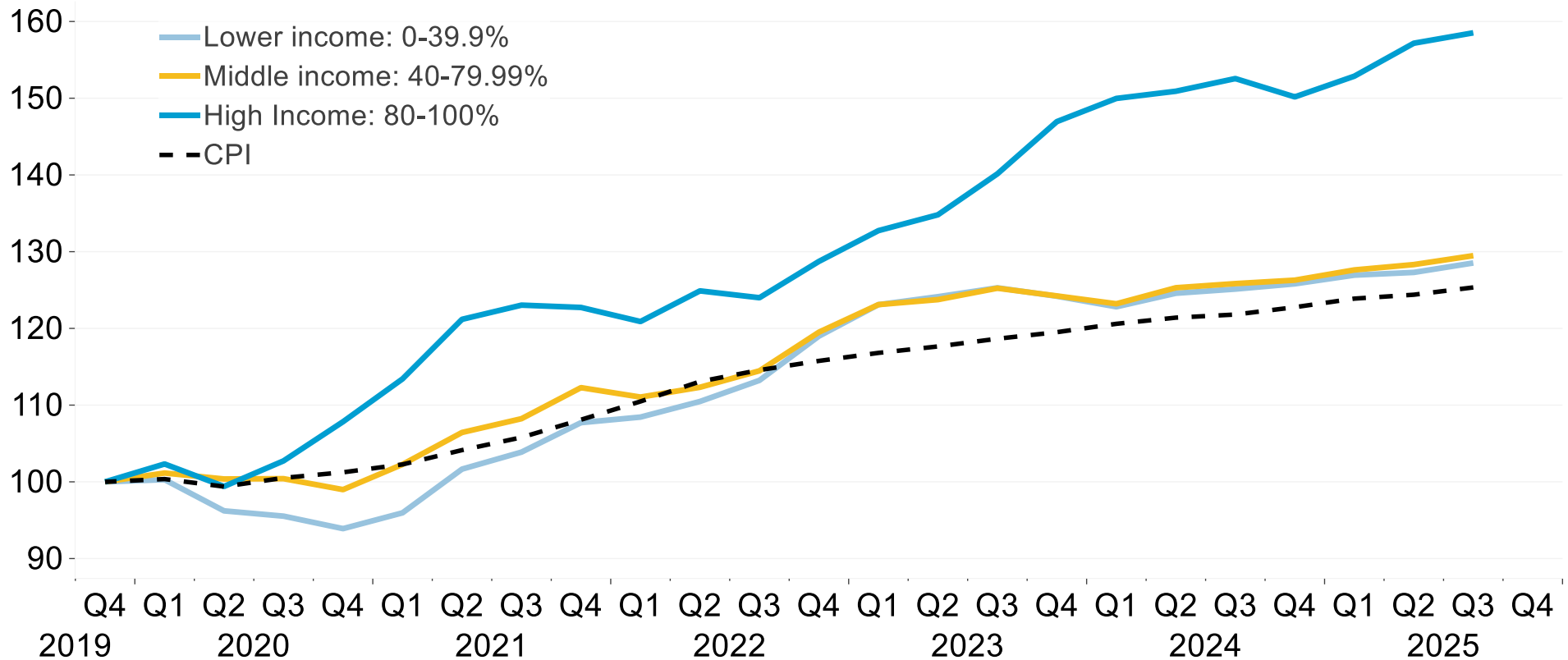
■ FEDERAL RESERVE BANK OF ST. LOUIS

Sources: RPS, Current Population Survey, Bureau of Labor Statistics, and Federal Reserve Bank of St. Louis. As of August 2025

The Second Key Tailwind in the U.S. Is Consumption...Which Has Been Almost Entirely Driven by the Rich Since the Pandemic

Personal Outlays by Income Group

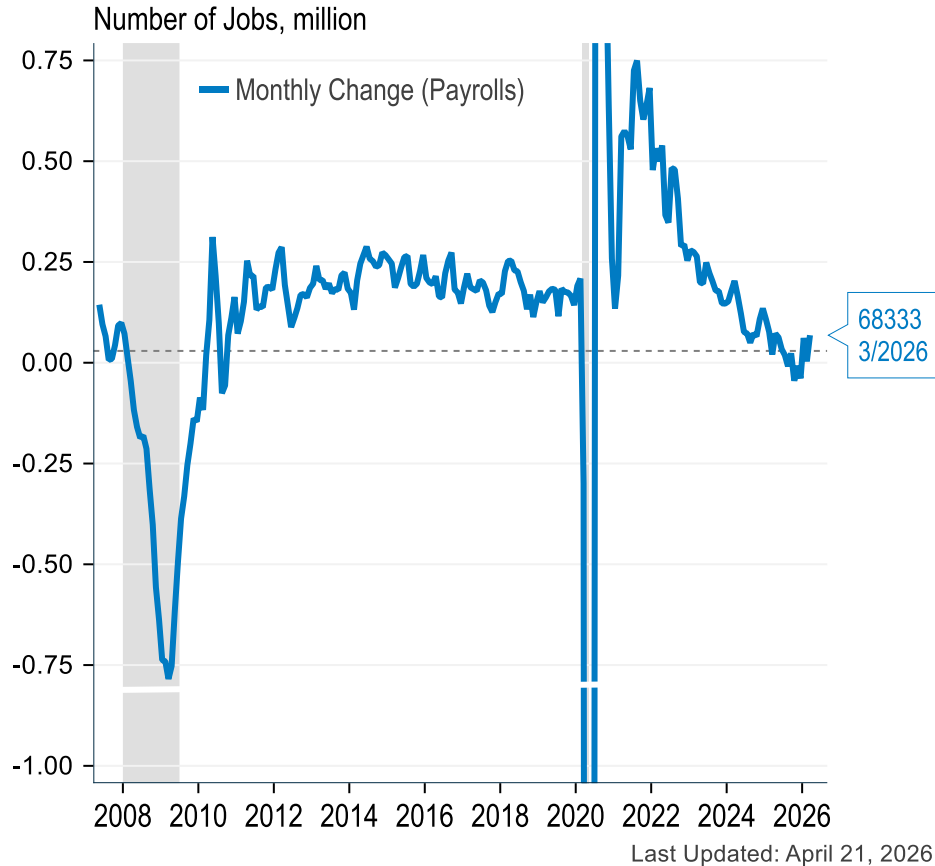
2019Q4 = 100



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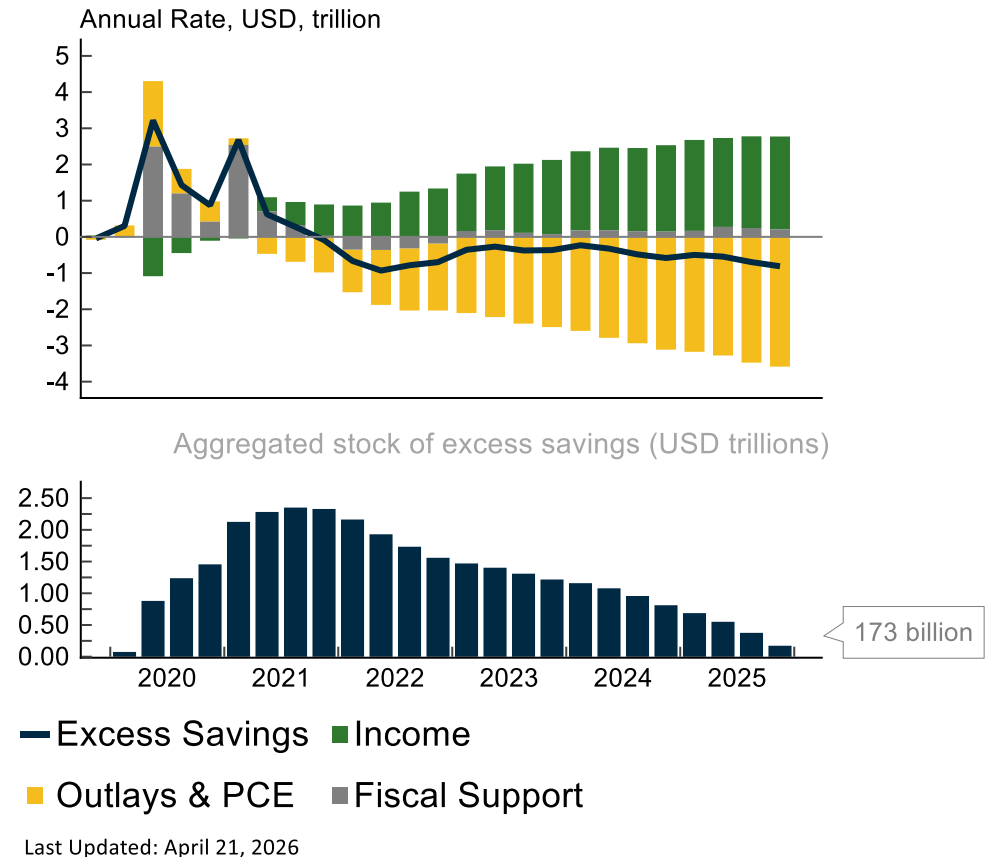
But With Job Gains Flatlining and Excess Savings Now Depleted, the Warsh Fed Will Likely Be Inclined to Take Out Insurance Against Downside Risks

Monthly Job Gains (3mma)



Excess Savings

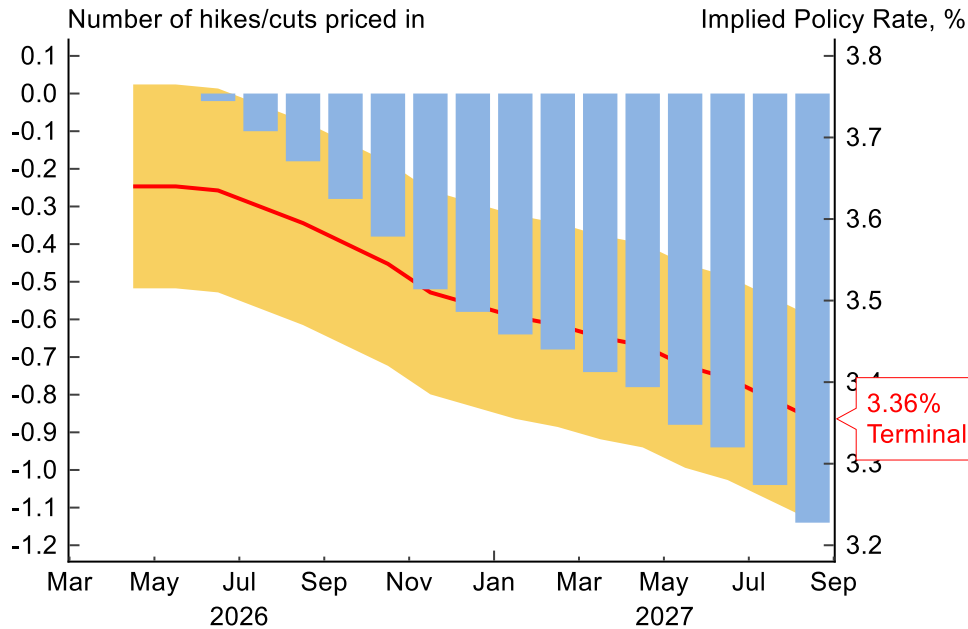
Source: U.S. Bureau of Economic Analysis (BEA)



We Anticipate 2026 Will be a Tale of Two Feds: An Extended Pause Under Powell (3.5-3.75%), and then Cuts Towards 3% Under Warsh in Q4 & beyond

Implied number of hikes/cuts from Fed

Assuming uniform 0.25 ppt hikes/cuts

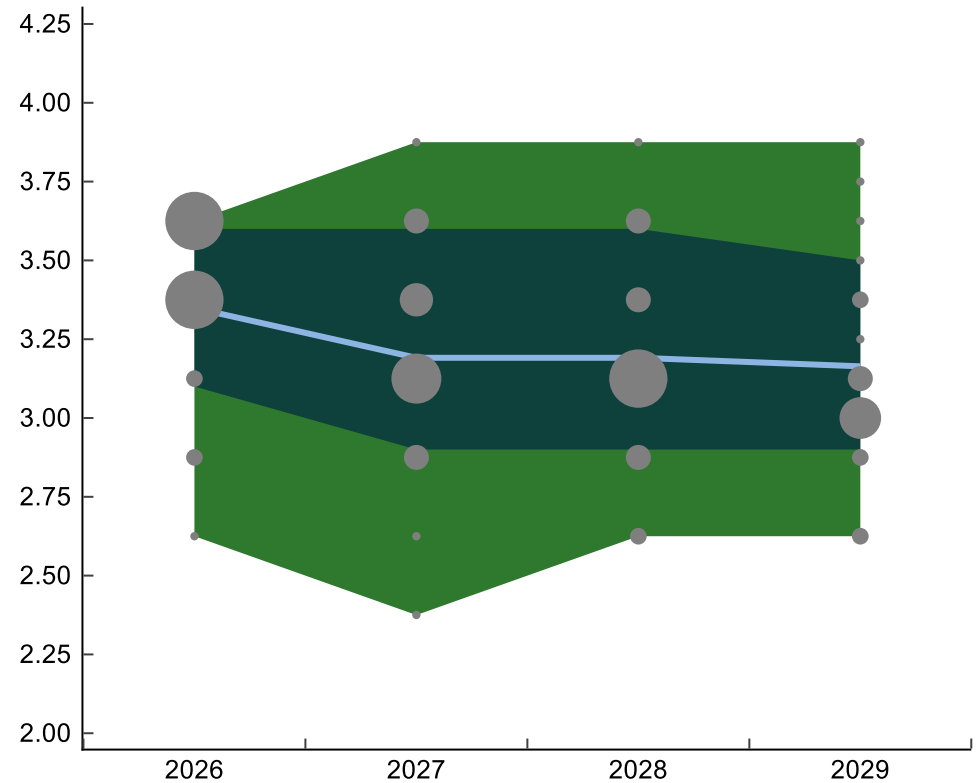


- Number of implied hikes/cuts (LHS)
- Implied effective fed funds rate (RHS)
- Range band +/- 0.125 ppt (RHS)

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FOMC Policy Dot Plot

As of March 2026
Current Policy Rate 3.63 (Mid)



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Sources: Chart of the left: Macrobond Table on the right: Federal Reserve (as of June 2025)

U.S. Economic Outlook 12 Months Out – Potential Scenarios

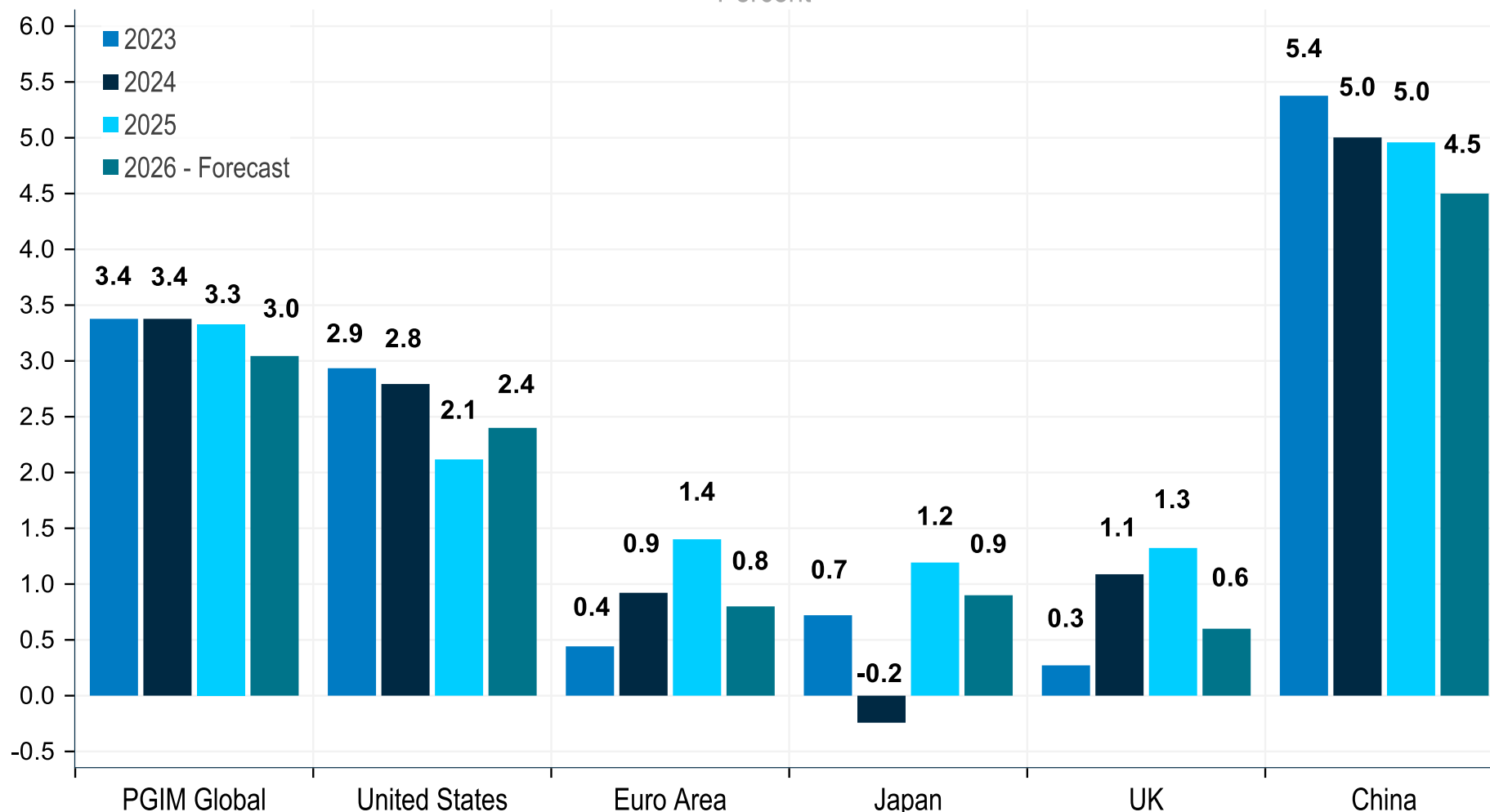
Scenario	Description	Probability (%)
Overheating (Base Case)	<ul style="list-style-type: none"> Growth reaccelerates to levels that are materially above trend (>2.5%+), while inflation climbs to 3.0%+ as fiscal expansion and easy monetary policy cause the economy to overshoot. Risky assets may outperform initially as projected nominal earnings rise with nominal GDP, though the de-anchoring of inflation expectations and concerns about the erosion of institutional norms eventually triggers a reassessment. Rates march higher in a bear steepening, along with a significantly weaker dollar and lower risky asset valuations. 	40%
Recession	<ul style="list-style-type: none"> The labor market runs out of steam, denting income and spending further. Growth contracts, unemployment rises appreciably, and inflation falls below target, leading to a substantial Fed easing cycle that lowers the policy rate quickly into an accommodative stance (~2.0%). Alternatively, the economy could be thrust into recession from a reversal of AI capex and related consumption, or an endogenous financial stability event. 	10%
Mild Stagflation	<ul style="list-style-type: none"> Real GDP growth drops below 0.5% while inflation rises above 3%. Prolonged price increases result from persistent supply disruption to oil, natural gas, and other commodities due to a longer-than-anticipated Middle East conflict. Increased energy costs and lingering trade tariffs force companies to increase prices to sustain margins. Additional inflation pressure and growth weakness results from labor force shortages (reduced immigration). AI-related capex plateaus, while wealthy consumers exercise caution as risky asset prices correct. The Fed has no choice but to keep rates in restrictive territory. 	10%
Productivity Boost	<ul style="list-style-type: none"> U.S. growth accelerates above trend, supported by rapid productivity growth due to tech-related investments and the diffusion of AI into business processes. Inflation recedes as these positive supply shocks take hold, while labor supply recovers as workers come off the sidelines in a high growth economy. The Fed keeps rates c.3.75% as the neutral rate moves higher. 	20%
Muddle Through	<ul style="list-style-type: none"> Growth eases toward trend (1.7%) supported by AI-related capex and resilient higher income/higher wealth consumers. Spending remains weak for those more reliant on labor income. The Fed charts a patient path to neutral rates (~3.0-3.25%) as the labor market cools while inflation remains stubbornly in the 2.5-3% range due to the effects of tariffs, labor supply, and fiscal expansion. Credit spreads stay tight. UST curve steepens modestly. 	20%

As of March 2026. Source: PGIM and Bloomberg. Please see Notice for important disclosures. The forecasts presented herein are for informational purposes. There can be no assurance that these forecasts will be achieved.

GDP Growth in Advanced Economies is Slowing Outside the US, Whereas EM is Growing ~3x Faster, Anchored by China

Global GDP Growth

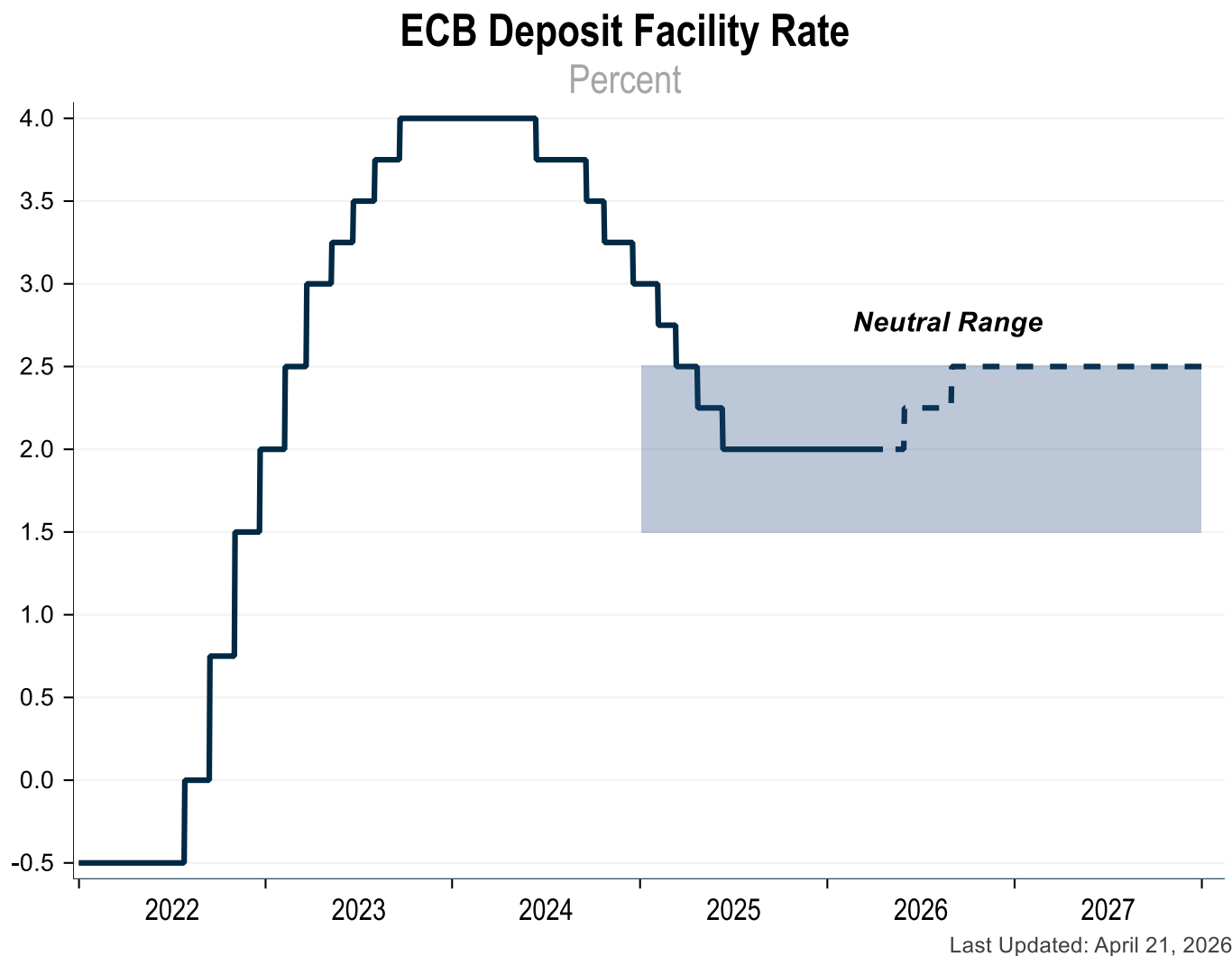
Percent



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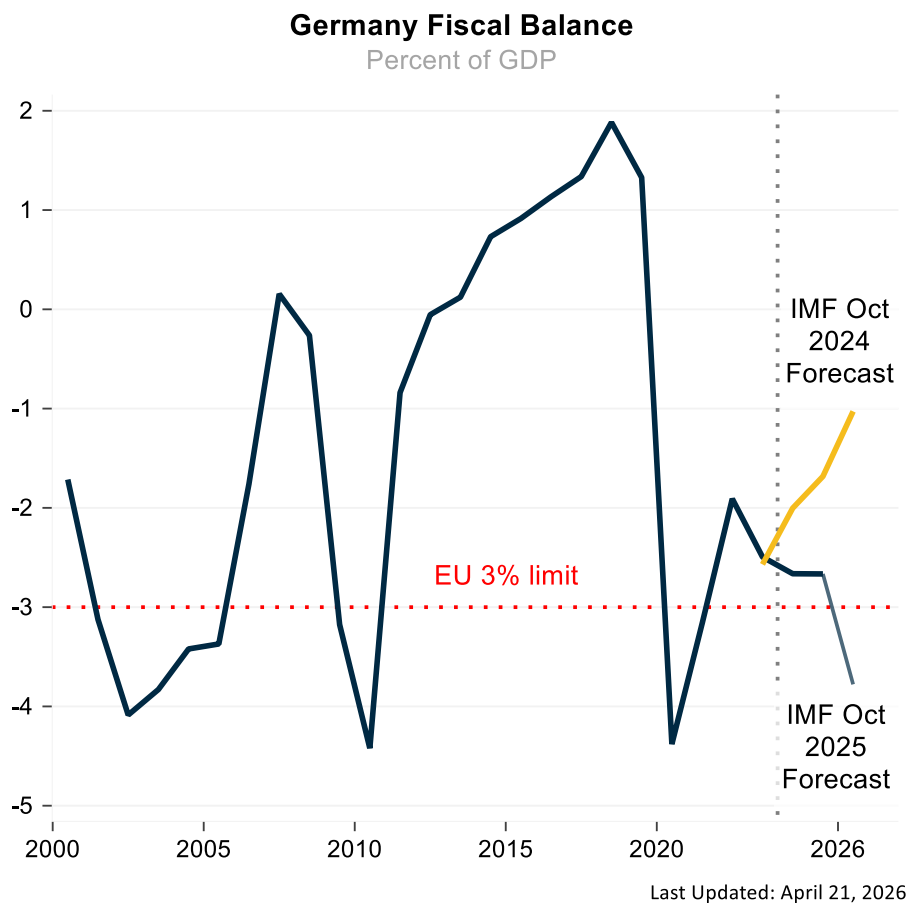
Source: PGIM, Macrobond and Bloomberg. Past performance is not a guarantee or a reliable indicator of future results. Please see Notice for important disclosures. The forecasts presented herein are for informational purposes. There can be no assurance that these forecasts will be achieved. Consensus forecasts for global and regional aggregates based on PGIM aggregation with PPP weights.

Owing to the Recent Energy Shock, We Believe the ECB Will Hike In June and September, Taking the Policy Rate Into Mildly Contractionary Territory (2.5%)



Source: Macrobond. Forecasts are not guaranteed and may not be reliable indicator of future results.

Fiscal Ambitions in Germany Are Encouraging for Demand, but Implementation of Supply-Side Reforms Has Underwhelmed



Draghi Observatory & Implementation Index September 2025 Audit

Executive Summary

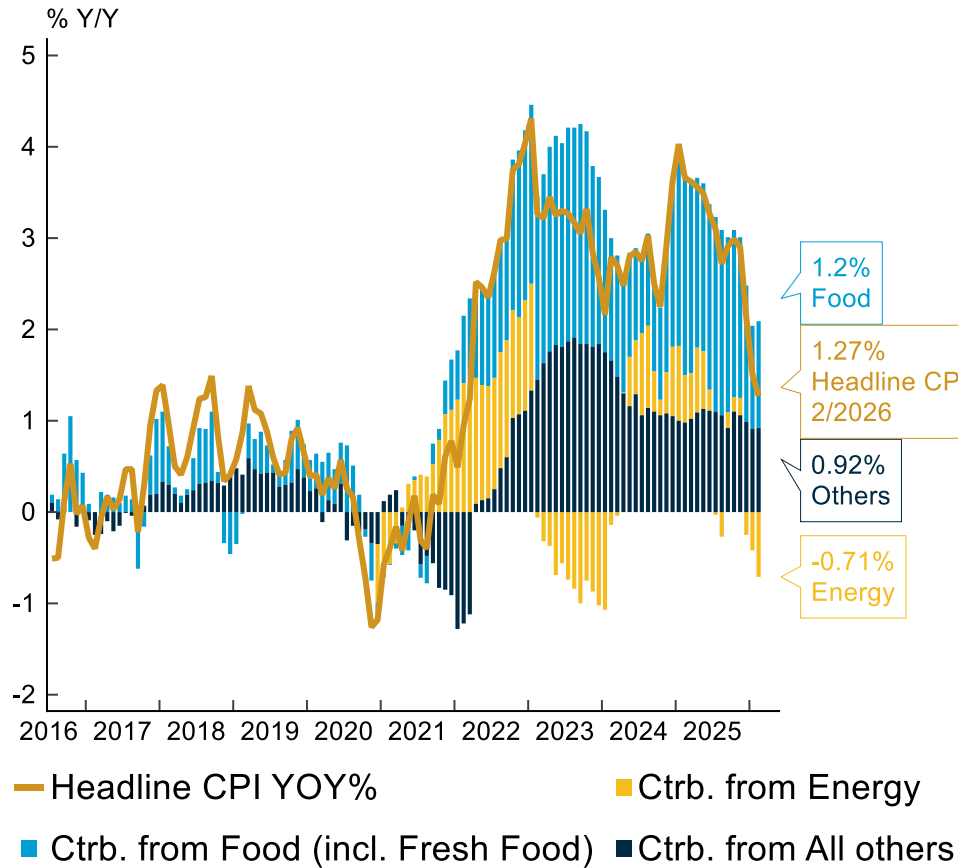
The first full audit of the Draghi Report recommendations reveals an EU that is **busy but unfinished**. Out of **383 recommendations**, only **11.2% have been delivered**, 31.4% if partials are included. Most are still in progress.

Results by Sector

Sector	Implem.	Part. Impl.	In Progr.	Not Impl.	Total	Strict (%)	Strict+Partial (%)
Automotive	0 (0.0%)	11 (45.8%)	6 (25.0%)	7 (29.2%)	24	0.0%	45.8%
Clean tech	1 (2.6%)	12 (30.8%)	16 (41.0%)	10 (25.6%)	39	2.6%	33.3%
CRM	19 (33.3%)	2 (3.5%)	21 (36.8%)	15 (26.3%)	57	33.3%	36.8%
Defence	0 (0.0%)	5 (35.7%)	5 (35.7%)	4 (28.6%)	14	0.0%	35.7%
Digitalisation & tech	5 (10.6%)	6 (12.8%)	25 (53.2%)	11 (23.4%)	47	10.6%	23.4%
Energy	0 (0.0%)	13 (15.7%)	55 (66.3%)	15 (18.1%)	83	0.0%	15.7%
Ells	7 (16.7%)	10 (23.8%)	16 (38.1%)	9 (21.4%)	42	16.7%	40.5%
Pharma	0 (0.0%)	5 (27.8%)	10 (55.6%)	3 (16.7%)	18	0.0%	27.8%
Space	0 (0.0%)	5 (27.8%)	8 (44.4%)	5 (27.8%)	18	0.0%	27.8%
Transport	11 (26.8%)	8 (19.5%)	14 (34.1%)	8 (19.5%)	41	26.8%	46.3%
Total	43 (11.2%)	77 (20.1%)	176 (46.0%)	87 (22.7%)	383	11.2%	31.4%

The BoJ Will Likely Hike Another 50 bps in H2 26 to Help Stabilize the Yen, Reduce Imported Inflation, Improve Purchasing Power, and Underpin Domestic Demand

Japan's Headline CPI and Major Drivers



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JPY: Real Effective Exchange Rate

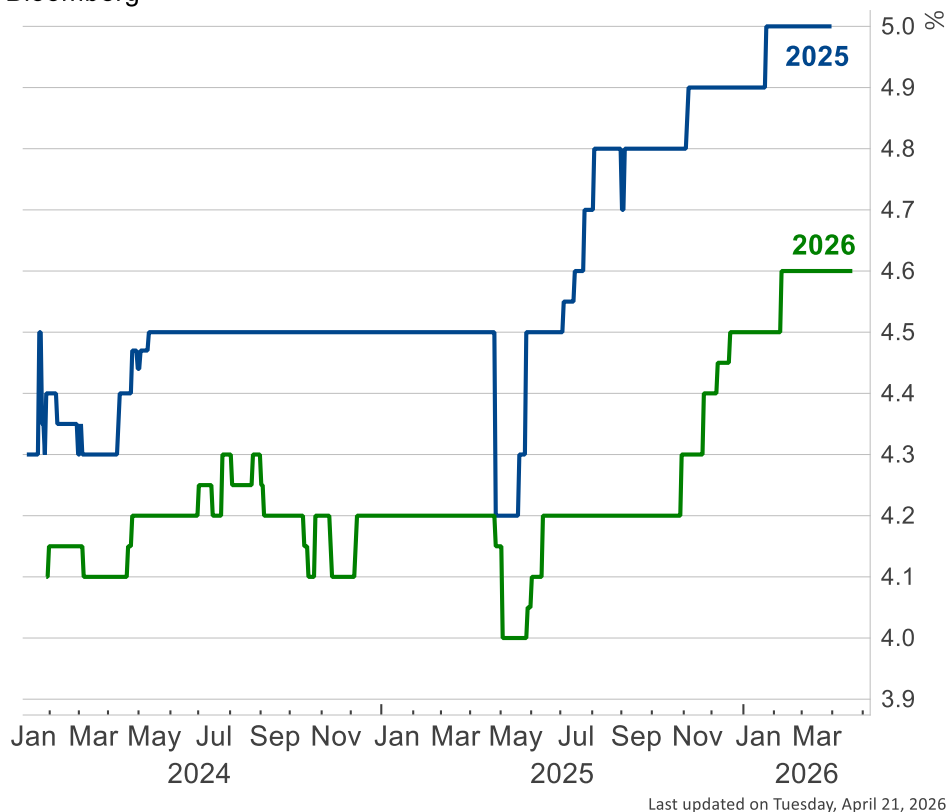


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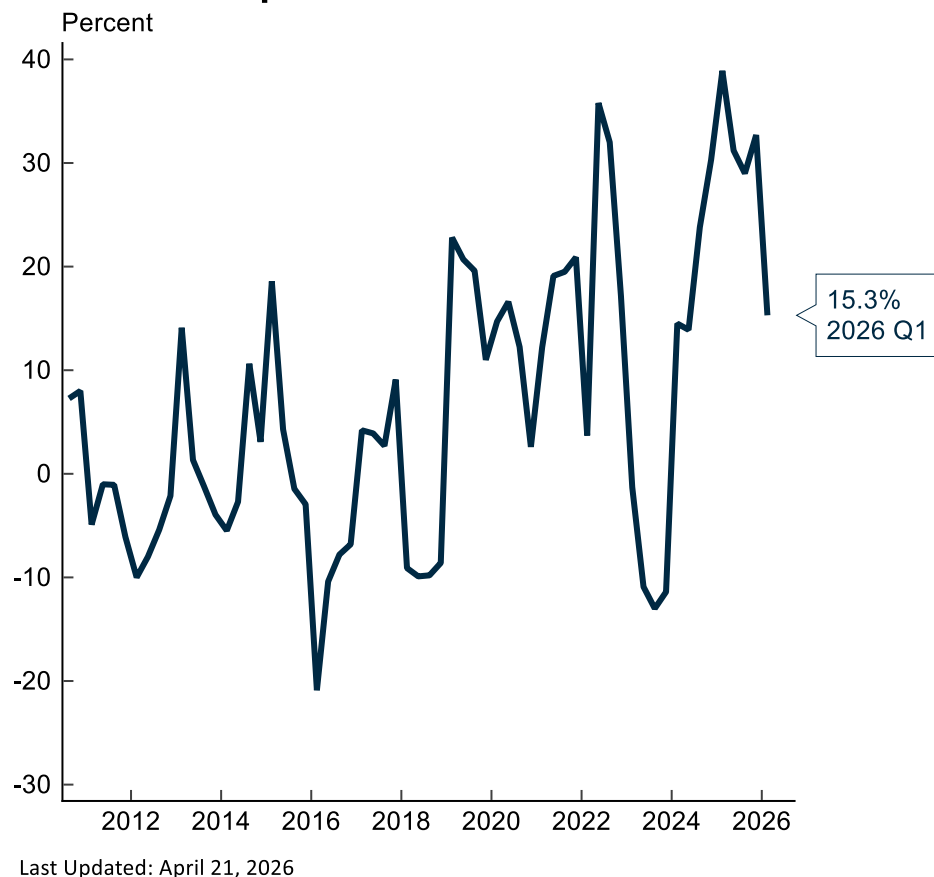
China is Having a Relatively Good Trade War with the U.S. – It Has Sustained GDP Growth Expectations Above 4% by Doubling Down on Its Export Machine

Median Forecasts for China GDP Growth

Bloomberg

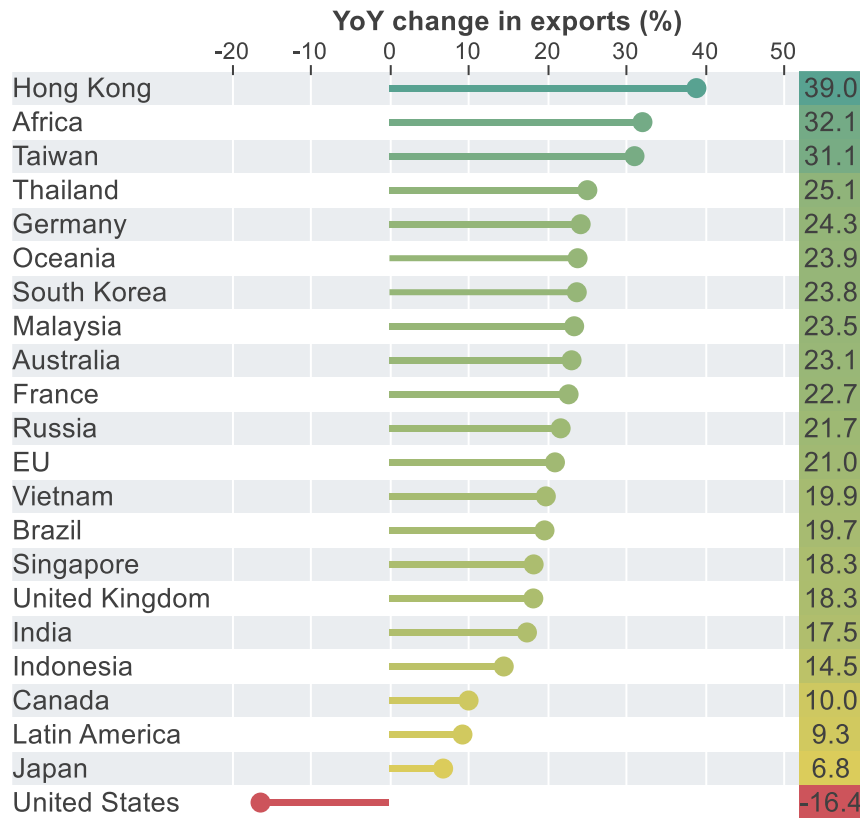


China Net Exports: Share of Real GDP Growth



Exports Have Been Largely Reoriented to Europe, the Global South, and ASEAN – A Key Conduit for Transshipment to the U.S.

Chinese Exports by Destination

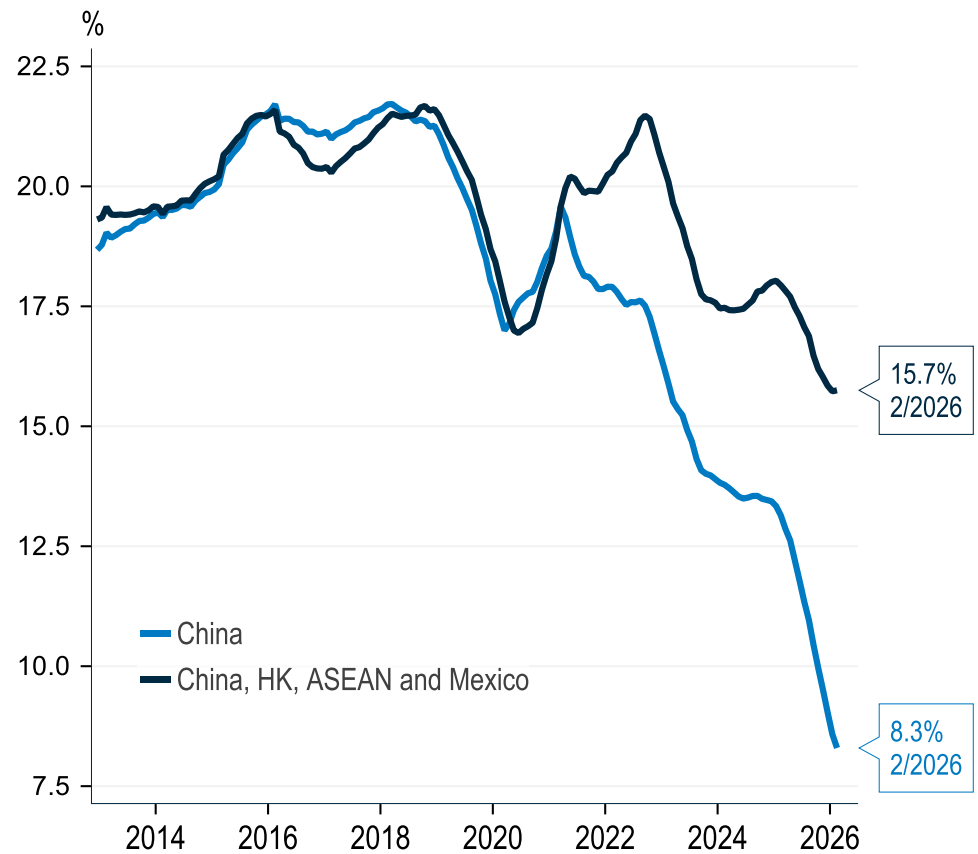


Source: China General Administration of Customs (GAC)

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China Share of US imports (including transshipments)

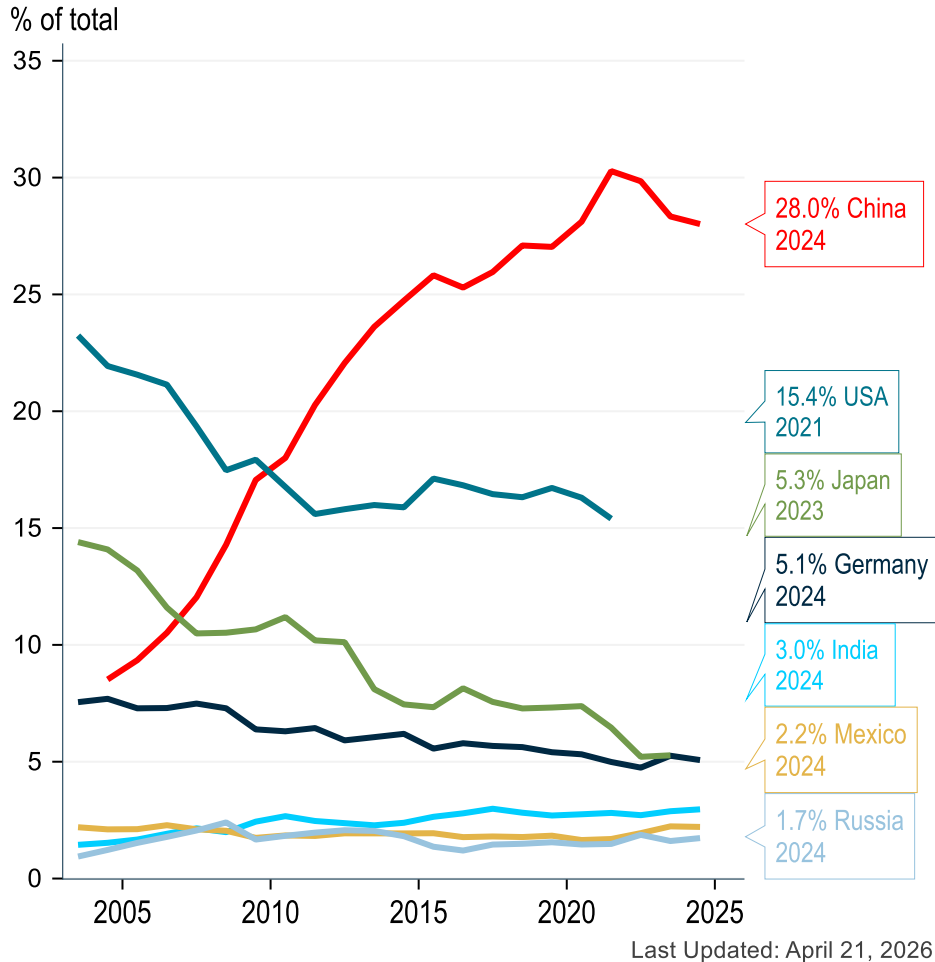
U.S. Census Bureau



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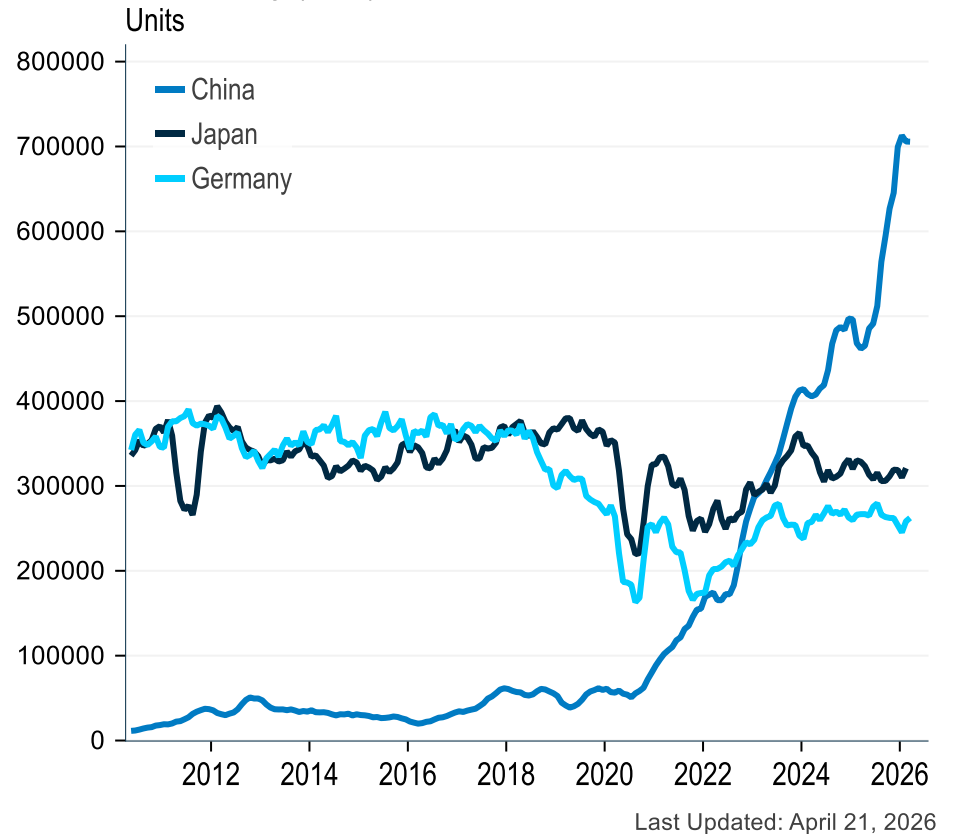
For the Foreseeable Future, the PRC Will Remain the World's Dominant Manufacturing Superpower, Creating Strategic Leverage Across Industrial Sectors

Global Share of Manufacturing Value Added



Auto Exports

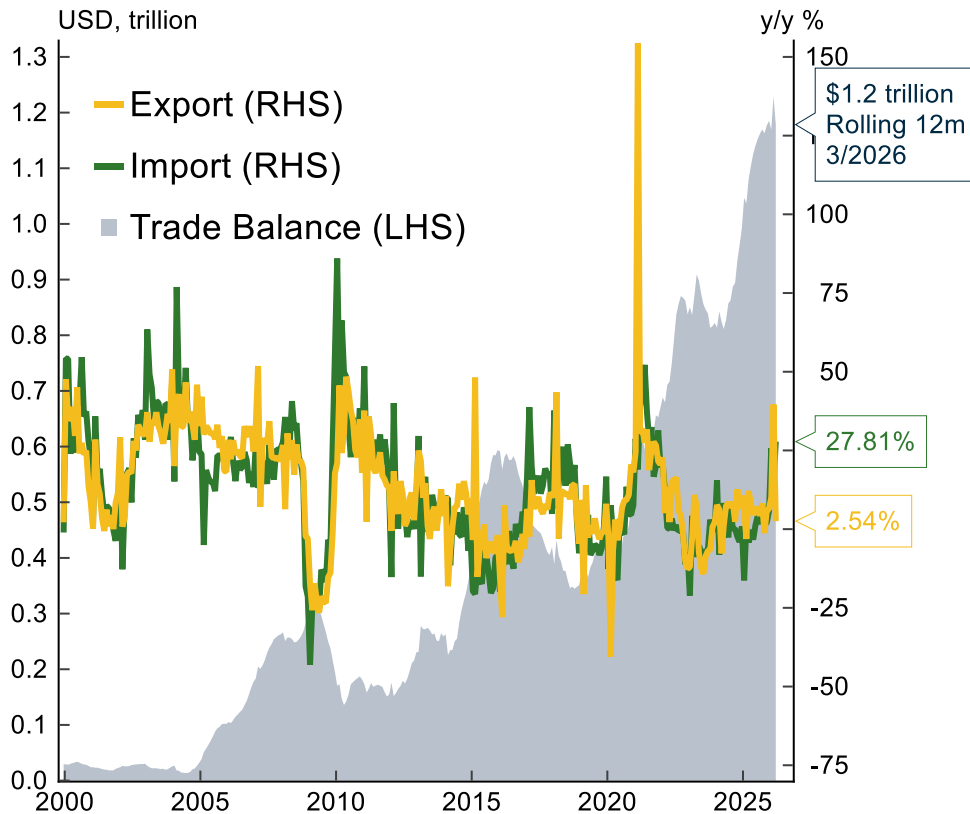
China General Administration of Customs (GAC), Japan Automobile Manufacturers Association (JAMA), German Association of the Automotive Industry (VDA)



Will China Continue to Have a “Good Trade War” in 2026? Probably, But Watch Taiwan (especially after the events in Venezuela and Iran)

China trade balance at historic highs

China General Administration of Customs (GAC)



Last Updated: April 21, 2026

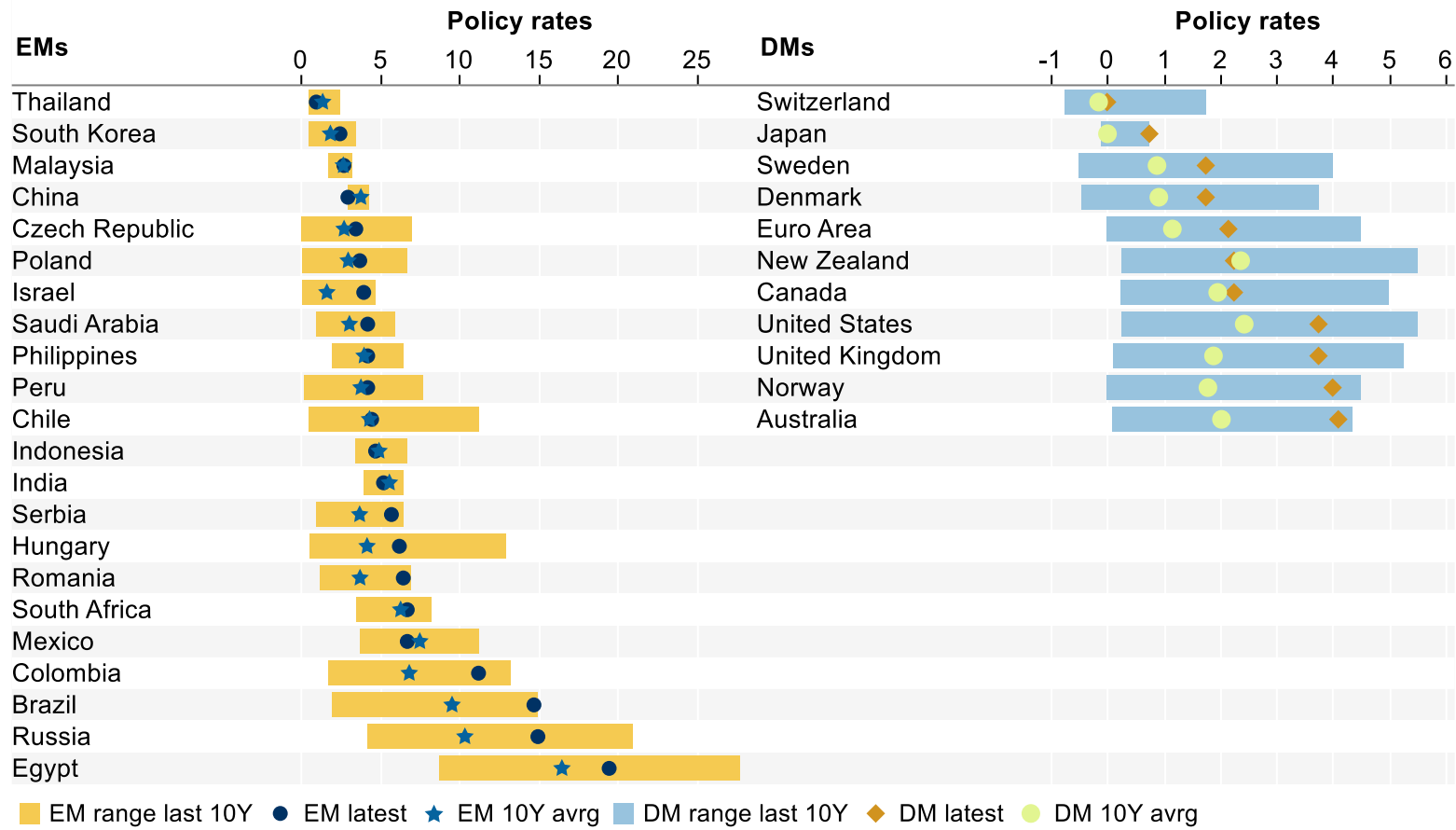
Taiwan Risk Scenarios for 2026

Scenario	Tactic	Impact	Objective
Blackout	Chinese vessels sever undersea data cables; cyber attacks on grid.	Digital Isolation	Sever Taiwan from the global financial system and demoralize the public to force concessions
Quarantine	China Coast Guard boards merchant vessels to "inspect for weapons"	Targeted inspections of LNG tankers or chemical supplies for chip fabs	Forces global shipping companies to acknowledge Beijing's jurisdiction
Limited Seizure	Amphibious seizure of outlying islands	Rapid takeover of a small, indefensible island to test US resolve	Prove the US will not risk WWII to defend Taiwan, shattering the credibility of US security umbrella

Source: Macrobond, PGIM. This is based on the opinion of PGIM and forecasts are not guaranteed and may not be a reliable indicator of future results.

More Generally Across EM, There Is Upside or Geopolitical Swing States that Are Differentiated by Strong Fundamentals, Policy Space, and Domestic Demand

Nominal policy rates in EM and DM countries



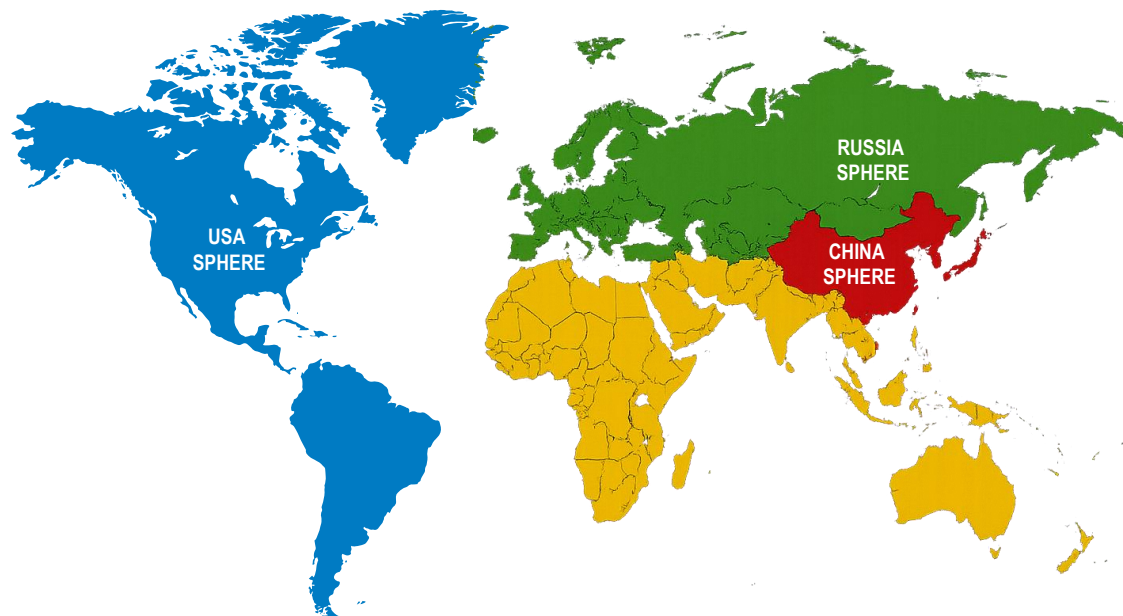
Last updated: Tuesday, April 21, 2026

LONG-RUN OUTLOOK

We Are Living Through a Period of Profound Structural Shifts that Will Likely Loosen the Anchors on Growth, Inflation, and Risk Premia

Structural Trend		Implications
1	Intensified Great Power Competition	<ul style="list-style-type: none"> a) More frequent conflict and use of economic weaponry b) More active use of fiscal policy (defense, industrial policy) c) Less cross-border cooperation to manage global risks
2	Unprecedented Political Polarization	<ul style="list-style-type: none"> a) Erosion of political center b) More heterodox policy → less policy credibility c) Loss of institutional integrity & independence
3	Chronic Energy Imbalances	<ul style="list-style-type: none"> a) Energy demand (AI, electricity) > energy supply (bottlenecks) b) Larger fiscal transfers to cushion worst off c) Winners (producers) & losers (consumers) → BoP volatility
4	Supply Chain De-Risking	<ul style="list-style-type: none"> a) Supply chain efficiency is out; scale & resilience are in b) More public investment & layers of redundancy c) Smaller markets → lower econ of scale → higher costs
5	Rival Technological Ecosystems	<ul style="list-style-type: none"> a) Global race to develop & dominate cutting-edge techn, BUT... b) “Small yard, higher fence” → less tech diffusion across borders c) New forms of hybrid warfare using AI, biotech, quantum, etc

The Transition from the Post Cold War Unipolar Order towards Spheres of Influence



POSITIVES	NEGATIVES
<p>Prevents great power conflict: demarcates turf; nuclear powers avoid direct collisions</p>	<p>Precipitates great power conflict: great powers inevitably attempt to expand their spheres of influence</p>
<p>Recognizes reality: we are already in this world; pretending otherwise is delusion that leads to overextension</p>	<p>Ignores history: there has never been a sustained period of peace and prosperity amid great power competition</p>
<p>Reduces “free riding“: US no longer has to subsidize the security of distant nations</p>	<p>Increases frictions: Splitting the world into blocs reduces the size of markets, reduces efficiency, and dulls innovation</p>

What's Next in Iran? Forward Scenarios

Probability-Weighted Paths as of April 12, 2026

<p>20% prob.</p>	<p>Negotiated Settlement <i>Long term framework agreed; enrichment + sanctions sequenced</i> MACRO: Oil retraces to \$70–80; inflation cools H2; Fed resumes cuts Q3 2026</p>
<p>50% prob.</p>	<p>Fragile Ceasefire Extended Repeatedly <i>Gradual convergence on enrichment, sanctions, sovereignty: SoH gradually reopens</i> MACRO: Oil stays \$90–105; stagflationary impulse begins fading in H2; Fed cuts twice in Q4</p>
<p>25% prob.</p>	<p>Re-Escalation <i>Blockage backfires; Lebanon ops breach Iran red lines; Hormuz mostly re-closed</i> MACRO: Oil \$100–130; recession risk in Europe; EM crisis conditions</p>
<p>5% prob.</p>	<p>Severe Escalation <i>Nuclear dimension; broader regional war; Bab el-Mandeb also closed</i> MACRO: Oil \$130–200+; demand destruction, global recession; financial stability risk</p>

Sources: PGIM Global Macro (proprietary). Oil ranges: Goldman Sachs GIR 2026Q4 scenarios; IEA OMR; IMF Apr 2026 WEO. ICE futures as of Apr 11, 2026.

Along the continuum of economic interdependence, neither extreme is optimal; the global economy will likely settle somewhere in the middle



- **Autarky:** Every country aims for self-sufficiency; less integration reduces the costs of conflict & therefore makes it more likely. Shrinks markets; reduces competition; dulls incentive for innovation; reduces resilience to shocks.
- **Hyperglobalization (1990-2016):** Maximizes global efficiency and minimizes cost but also leads to the accumulation of chokepoints and dependencies; distributional effects within countries can be politically costly.
- **Rival Economic Blocs:** The global economy orients around 2-3 main economic blocs, with varying degrees of connectivity between blocs and non-aligned countries.
- **Sectoral Economic Zones:** Even without a global economic architecture – backed by Bretton Woods institutions – countries strike plurilateral agreements to allow relatively free flow of trade, capital, and technology in strategic sectors.

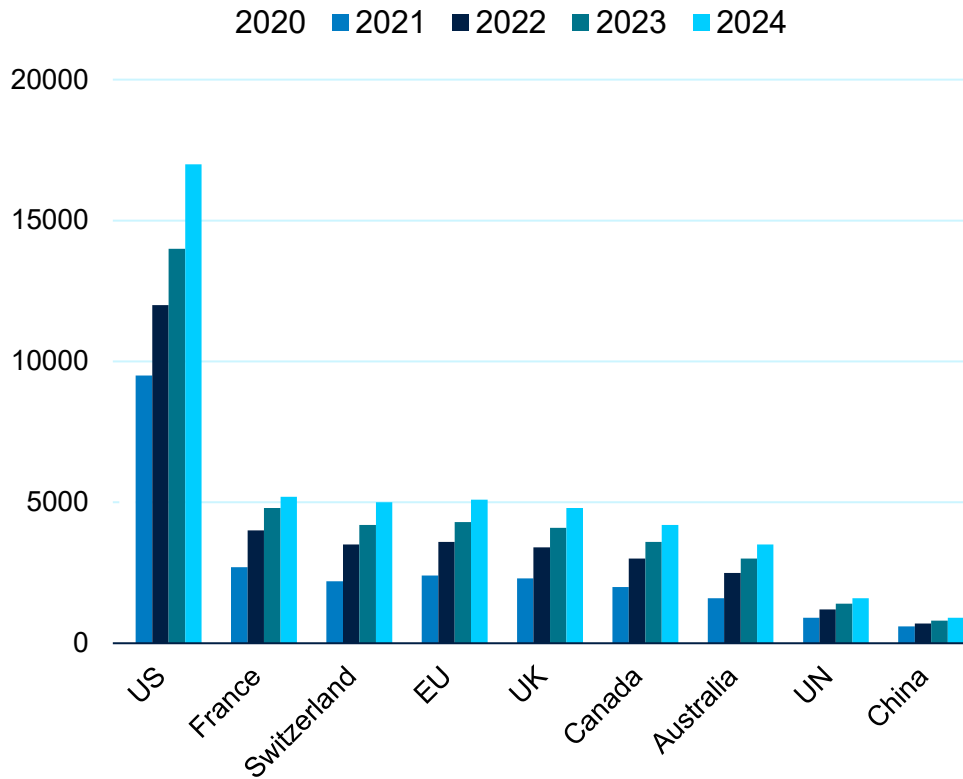
Section 122 Tariffs will Likely Bridge to Tariffs using Sections 301 and 232

- Section 301 = country specific; Section 232 = product-specific (global)

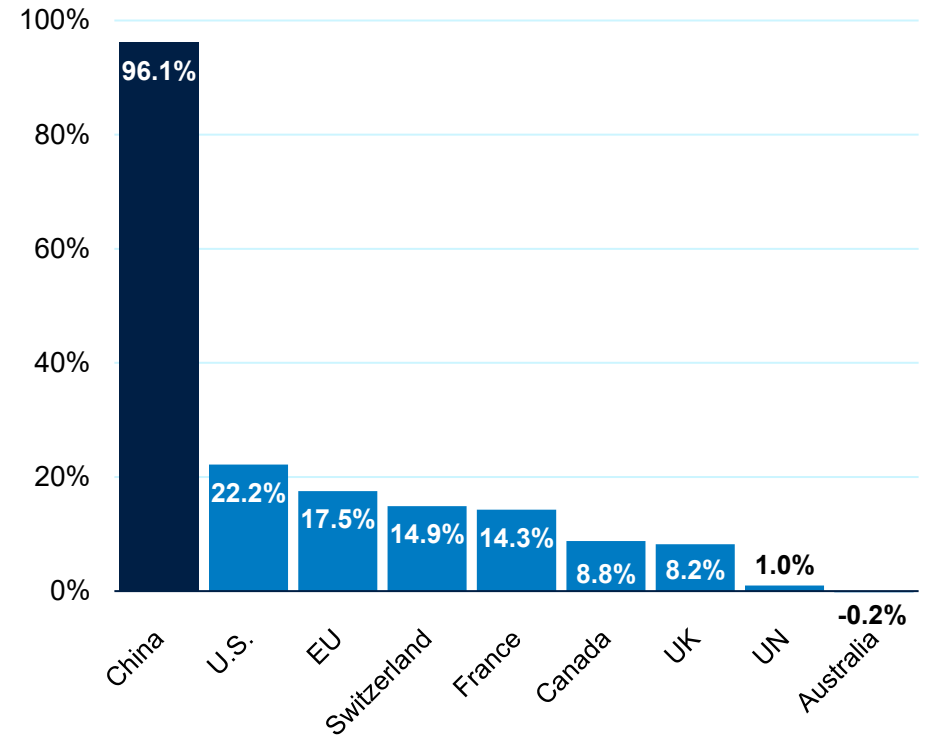
Statute	Trigger	Duration	Process	Use	Other
International Emergency Economic Powers Act (IEEPA, 1977)	“Unusual and extraordinary threat” from abroad.	No statutory limit; duration tied to emergency.	Presidential finding of emergency; minimal review.	Universal or reciprocal tariffs. Sanctions.	Broadest authority
Section 232 (Trade Expansion Act of 1962)	Imports that threaten to impair national security.	No fixed tariff cap or time limit.	Commerce Dept. inquiry (≤ 270 days) → President decision (90 days) → action (15 days).	Steel, aluminum, autos, critical minerals.	Requires security justification.
Section 301 (Trade Act of 1974)	Foreign practices that are unjustifiable, unreasonable, or discriminatory	Measures end after 4 years unless renewed.	USTR inquiry (≤ 12 months) and determination. possible WTO consultation.	China tariffs (2018 – present).	Must identify a specific unfair practice
Section 201 (Trade Act of 1974)	Domestic industry seriously injured by import surges.	Temporary; typically ≤ 4 years, extendable to 8.	USITC investigation and injury finding → President action.	Solar panels, washing machines (2018).	Product-specific; must be liberalized over time;
Section 122 (Trade Act of 1974)	Large and serious U.S. BoP deficits or risk of dollar depreciation.	≤ 15 %, ≤ 150 days unless extended by Congress.	Presidential determination; no investigation required.	Never used.	Short-term “bridge” authority; limited scope and duration.
Section 338 (Tariff Act of 1930)	Foreign discrimination against U.S. commerce.	Flexible (President may increase or restrict tariffs as retaliation).	USITC “ascertains” discrimination → Presidential proclamation.	Rarely invoked (1930s origins).	Dormant but legally viable; retaliation-focused.

Conflict has been channeled into the arenas of economics, technology, and energy – where confrontation isn't existential

Total Sanctions by Issuing Jurisdiction since 2020



2024: The Year China Learned to Love Sanctions

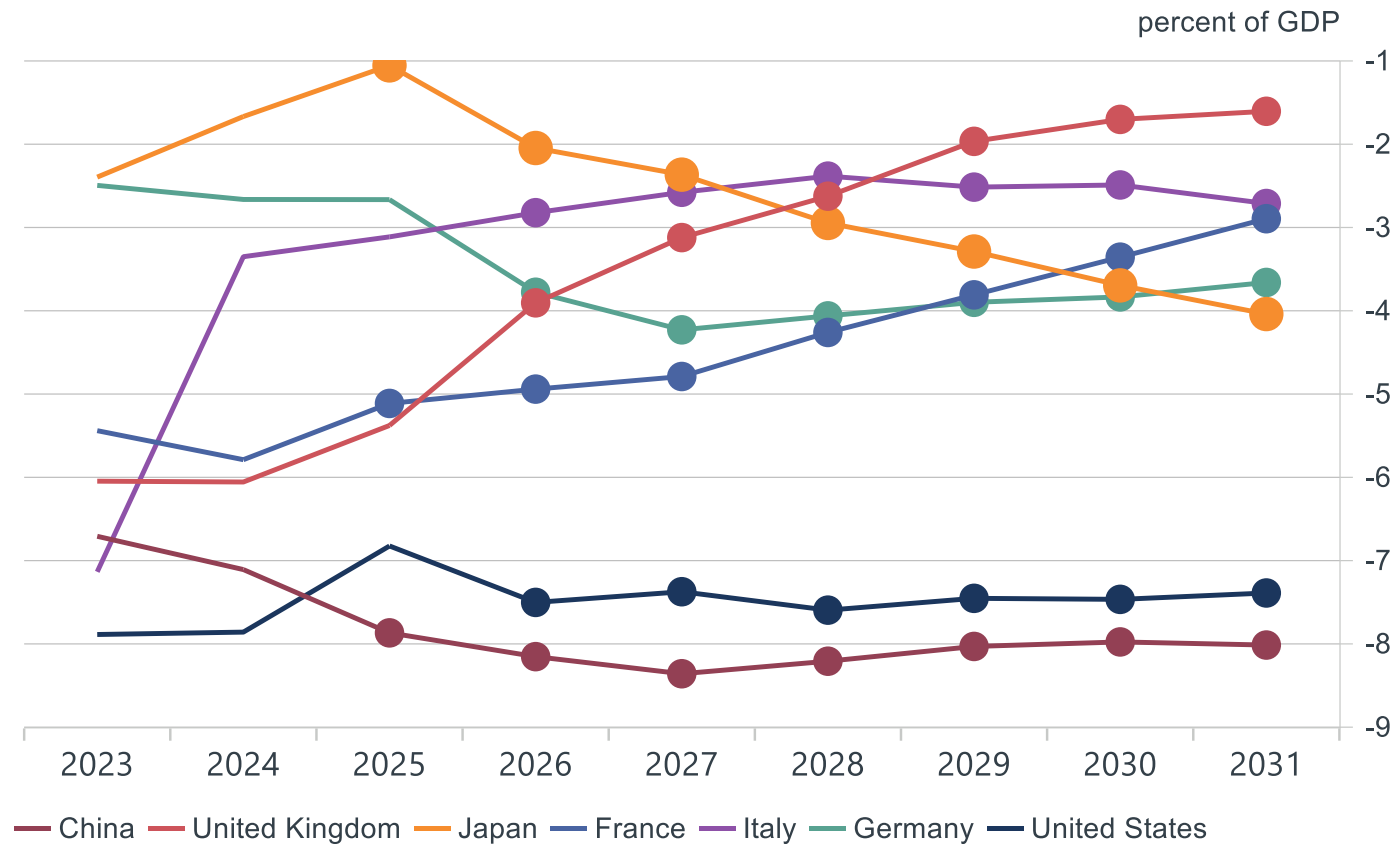


Source: Castellum AI as of December 2025. This is a work derived by PGIM from Castellum, AI material and PGIM is solely liable and responsible for this derived work. The derived work is not endorsed by the Castellum, AI in any manner

Major Economies Are Forecast To Run Historically Large Deficits Through 2030

IMF Forecasts for Budget Deficits in the 2020s

Last Revision: April 2026

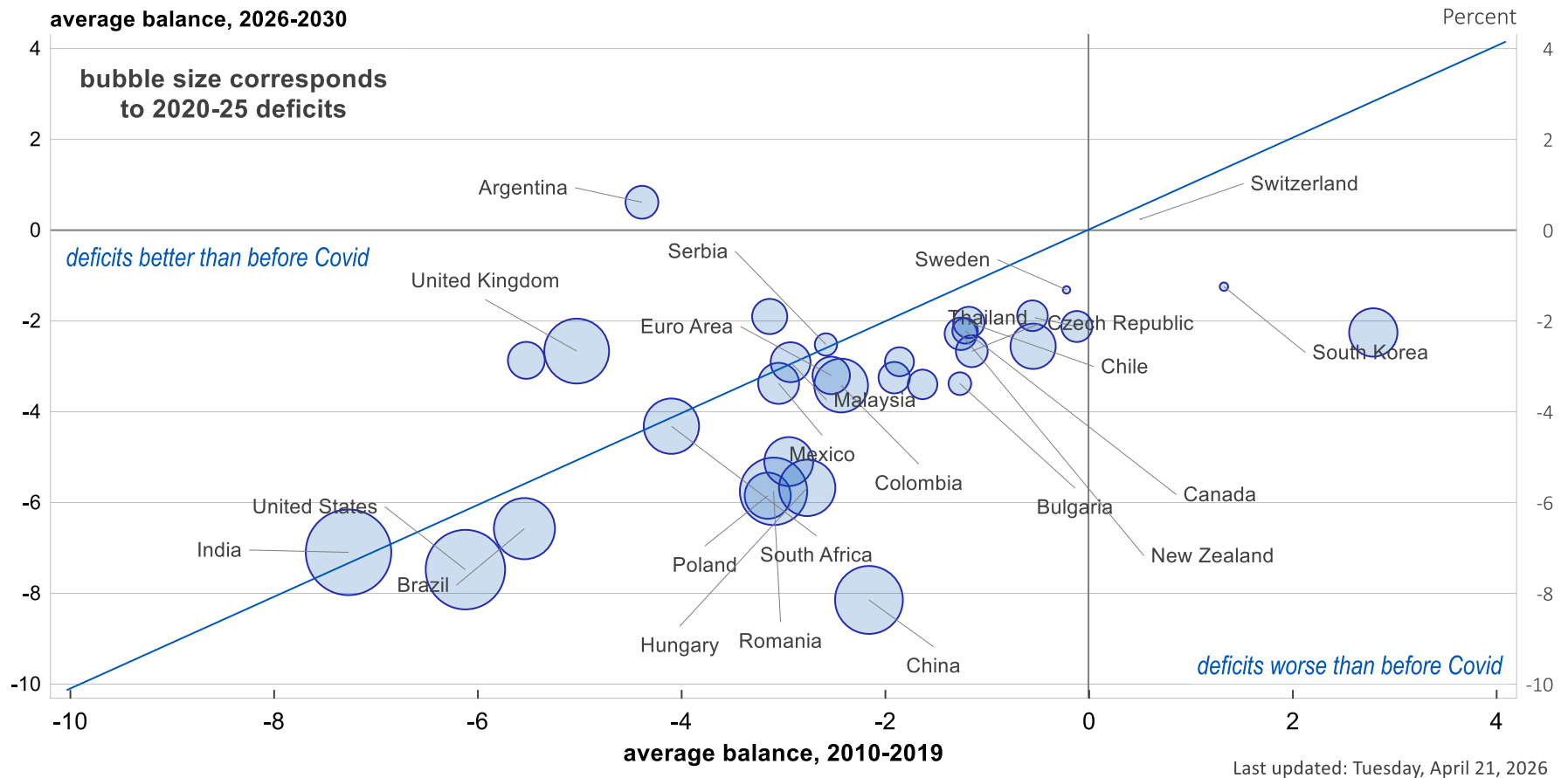


Source: Macrobond, IMF. Forecasts are not guaranteed and may not be reliable indicator of future results.

Less Scope for Fiscal Policy after Covid and 2022 Shocks, and Higher Defense Spending In Some Countries (EU)

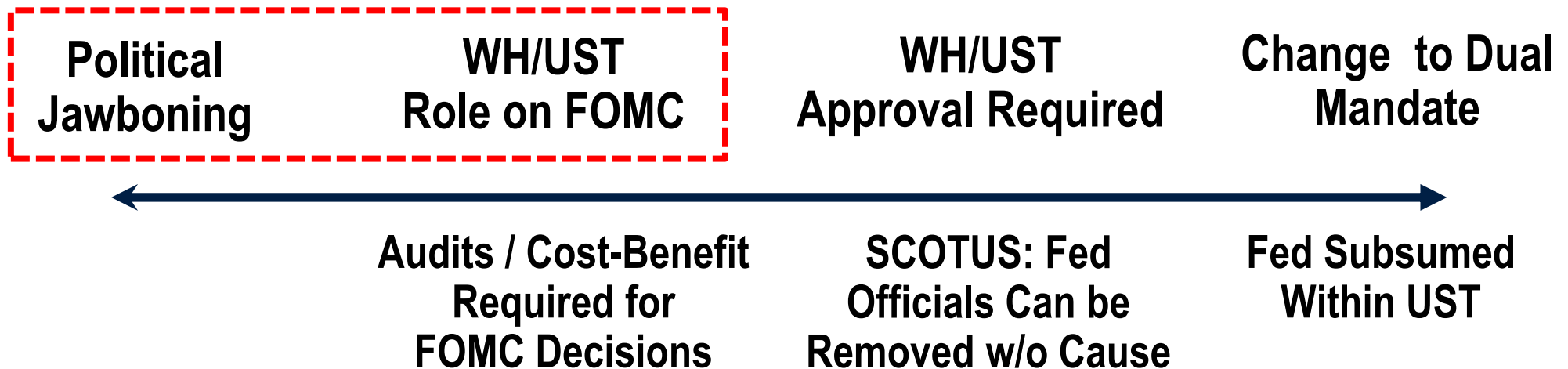
General Government Balances, Major EMs and G10

IMF WEO Forecasts, April 2026



Source: Macrobond, IMF Forecasts are not guaranteed and may not be reliable indicator of future results.

Central Bank Independence isn't a Binary Concept – It's a Continuum



Is this crazy to imagine?

The Federal Reserve Act has been amended or affected by over 200 subsequent laws passed by Congress, with significant changes including the Banking Act of 1933, the Federal Reserve Reform Act of 1977, and the Dodd-Frank Act of 2010.

Connecting the dots between geopolitics, economics, and markets

- The return of a more fragmented and contested world
- Looser anchors on growth, inflation, and risk premia
- Higher interest rates & steeper curves
- Reduced USD “overweight” but USD primacy intact
- Long, grinding bull markets, punctuated by sudden stops

REFERENCE

Presenter Biographies

Daleep Singh is Vice Chair and Chief Global Economist for Public and Private Fixed Income at PGIM. In this capacity, Mr. Singh oversees the Firm's Global Macroeconomic Research team, leading the formulation of the outlook across developed and emerging economies, analyzing key structural shifts, and synthesizing the implications for financial markets. He is also a member of the senior investment team and provides thought leadership on global policy and macroeconomic trends. Mr. Singh previously served as PGIM Fixed Income's Chief Global Economist and Head of Global Macroeconomic Research from June 2022 through February 2024, before he was called upon to serve at the White House. Singh served as Deputy National Security Advisor for international economics and Deputy Director of the National Economic Council for the Biden Administration. In this capacity, he led the Administration's policymaking process for a range of issues at the intersection of economic policy and national security, including economic statecraft, supply chain resilience, innovation policy, infrastructure finance, digital assets, and energy security. As the U.S. Sherpa to the G7, G20, and APEC, he also represented the President in major international fora. Previously, Mr. Singh was an Executive Vice President and Head of the Markets Group at the New York Federal Reserve, where he led the implementation for most of the Fed's emergency facilities launched during the COVID-19 pandemic. Earlier in his career, Singh served as an Assistant Secretary for financial markets and debt management at the Treasury Department, as well as a Deputy Assistant Secretary for international affairs. Before and after his time in government roles, Mr. Singh held positions in the private sector and academia, including when he taught a popular graduate course on geoeconomic strategy. Mr. Singh earned a BA from Duke University and graduate degrees from MIT and Harvard University, with a focus on international economics. In 2022, he was named as one of the Bloomberg 50, an annual list of innovators, entrepreneurs, and leaders who have changed the global business landscape.

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