

Quarterly Money Market

CREDIT TRENDS BY SECTOR

July 2026

The credit environment for high-grade money market issuers was resilient and stable across sectors in the first quarter of 2026. Sound fundamentals were supported by strong capital and liquidity, disciplined expense management, robust earnings capacity, and generally conservative financial policies. While the macroeconomic backdrop remains constructive, risks have become more complex, as rate normalization, tariff uncertainty, geopolitical tensions, and commodity price volatility drive greater dispersion by region, sector, and issuer. High-grade issuers continue to maintain solid balance sheets, diversified revenue streams, and ample liquidity, providing meaningful buffers against potential economic stress, funding market volatility, and uneven end-market demand.

Credit fundamentals are generally sturdy but increasingly differentiated by sector, region, and issuer. Global banks continue to benefit from strong capital, liquidity, diversified earnings, and sound asset quality, though performance varies by regional rate paths, commercial real estate exposure, trade uncertainty, and market activity. Insurers remain well capitalized overall, with life and property and casualty carriers supported by investment income and underwriting discipline, while health insurers face greater margin pressure from elevated medical costs and government program challenges. Corporate trends are also mixed, with pharmaceuticals and technology, media, and telecom (TMT) bolstered by innovation, artificial intelligence (AI), cloud, and new product cycles. Conversely, industrials, consumer, energy, and automotive issuers continue to be more sensitive to tariffs, commodity volatility, geopolitical risk, end-market demand, and elevated investment needs.

Current credit conditions make prudent credit selection essential to reducing risk. The evolving macroeconomic, policy, and geopolitical landscape requires continued vigilance and disciplined risk assessment. Our credit research process emphasizes rigorous fundamental analysis, forward-looking surveillance, and proactive monitoring to identify issuers with durable liquidity, conservative balance sheets, and resilient cash flow. This approach enables us to potentially balance yield opportunities with principal preservation and liquidity objectives.

GLOBAL BANKS

Across global banks, key themes include resilient earnings, sound asset quality, strong capital and liquidity, and continued benefits from diversified fee income. Rate normalization, macroeconomic uncertainty, and geopolitical tensions are contributing to greater regional dispersion. U.S. banks show the strongest overall momentum, supported by improving net interest income (NII), capital markets activity, and scale-driven

diversification. Canadian banks remain highly resilient but more exposed to housing, consumer credit, and trade-related uncertainty. European banks continue to perform well, reinforced by strong capital and cost discipline countering rate sensitivity, geopolitical risks, and uneven regional growth. Australian banks retain sound credit fundamentals and balance-sheet strength, although earnings momentum is constrained by mortgage competition and margin pressure. Japanese banks are improving, as domestic rate normalization supports NII, but the outlook remains dependent on the Bank of Japan's rate path and global corporate exposures. Singaporean banks continue to stand out for conservative underwriting, strong capital and liquidity, and diversified fee income; however, lower rates are pressuring net interest margins (NIM).

U.S. Banks

Results for large U.S. banks and leading regionals support a sector view of stable-to-modestly improving fundamentals, with earnings resilience continuing as the dominant theme in the first quarter of 2026. Profitability was supported by steadier-to-improving NII, strong fee income – particularly from trading, investment banking, treasury services, card services, and wealth management – and expense discipline, producing solid operating leverage across much of the group. Money center banks continue to show the strongest credit profiles due to superior deposit franchises, liquidity, and business diversification. Capital markets-focused banks posted the strongest near-term earnings momentum, driven by robust client activity, and regional banks showed improving stability in funding and margin trends but remain more exposed to commercial real estate, deposit-mix pressure, and uneven loan growth.

Despite normalization in card losses and continued pressure in commercial real estate, select multifamily portfolios, and weaker commercial borrower segments, asset quality remained broadly sound, upheld by manageable credit costs and favorable reserve trends. Constructive management commentary continued, focusing on resilient consumer fundamentals and strong client activity while noting that tariffs, trade, and geopolitical uncertainty could weigh on confidence, loan demand, and the pace of credit normalization. Funding and liquidity trends were robust, with broadly stable-to-growing deposits, easing deposit-pricing pressure, and strong liquidity positions. Capital remains a clear strength, and Basel III Endgame developments appear increasingly manageable relative to earlier proposals.

Canadian Banks

Canada's large banks delivered another resilient quarter, with earnings generally exceeding expectations despite a more uncertain macroeconomic backdrop. Profitability endured due to diversified revenue streams – particularly wealth management and capital markets – and softer NII reflected modest loan growth and margin pressure from lower rates, partially offset by improved deposit pricing. Lower operating expenses also contributed to earnings, reflecting fewer days in the quarter and easier comparisons against prior-period restructuring costs.

Asset-quality trends were broadly stable, though management commentary remained appropriately cautious. Total provisions declined sequentially as impaired provisions eased and new problem-loan formation improved; however, performing provisions increased as banks retained conservative macro overlays amid trade and tariff uncertainty, upcoming Canada-United States-Mexico Agreement negotiations, and geopolitical tensions. Stress remains concentrated in unsecured consumer credit and selected tariff- or rate-sensitive segments, while residential mortgage portfolios continued to perform well.

Insured mortgages outperformed, and uninsured portfolios remained manageable, given substantial borrower equity. Renewal risk and payment shock continue to be key watchpoints, particularly in Ontario and British Columbia. Funding and liquidity remained core strengths, reinforced by solid deposit franchises, easing deposit competition, and liquidity metrics comfortably above regulatory requirements. Common Equity Tier 1 (CET1) capital ratios persisted well above Office of the Superintendent of Financial Institutions minimums, providing significant loss-absorbing capacity and flexibility for dividends, share repurchases, and business investment. Overall, Canada's large banks enter the second half of 2026 from a position of strength, with solid earnings capacity, resilient balance sheets, and conservative underwriting bolstering the sector's credit profile.

European Banks

European banks delivered solid earnings, maintaining profitability despite normalizing rates. Revenue was resilient, as margin-driven pressure on NII was largely offset by strength in fee income, trading, investment banking, and wealth management activity. Cost discipline supported operating leverage.

Asset quality continued steadily, with credit costs still low by historical standards, although provisioning increased modestly as banks retained macro overlays for geopolitical, energy, and inflation risks. Retail credit trends were solid, while commercial real estate, small and medium-sized enterprise, cyclical corporate exposures, and selected unsecured consumer portfolios still warranted monitoring. Balance-sheet trends improved modestly, supported by a recovery in customer lending and broadly stable deposits. Funding and liquidity held strong across the sector, and capital positions stayed comfortably above regulatory requirements, giving management teams flexibility on distributions while maintaining a cautious outlook.

Regionally, Nordic banks' defensive profiles remained intact, despite earlier NII pressure than international peers, supported by strong profitability, robust asset quality, and leading capital and liquidity profiles. In Germany, weak domestic growth and soft lending demand continued to impede momentum, while commercial real estate and cyclical corporate exposures remain a focal point. For the United Kingdom, profitability was broadly solid in the face of top-up provisions related to the Motor Finance settlement and was upheld by structural hedge income and sound asset quality. French bank performance was stable, boosted by diversified business models.

Across Europe, management outlooks remain cautious on growth, given the geopolitical environment, high energy prices, and renewed inflation risks. Most banks appear to be holding fiscal year 2026 guidance largely unchanged despite solid first-quarter results, preferring to wait for greater visibility through the first half of the year.

Australian Banks

Australia's largest banks reported solid earnings in the first half of 2026, supported by higher lending volumes, solid business and institutional banking activity, healthy fee income, and disciplined cost management. Profitability was impeded by intense mortgage competition and continued pressure on NIM.

Asset quality remained a key strength, with arrears and impairment charges increasing only modestly from historically low levels and higher collective provisions reflecting a more uncertain macroeconomic and geopolitical environment rather than meaningful deterioration in borrower fundamentals. Funding and liquidity were robust, backed by healthy deposit growth, favorable wholesale funding access, and strong liquidity positions. CET1 capital ratios continued to provide comfortable buffers above regulatory minimums.

Management commentary was cautiously constructive, with expectations for moderate loan growth, sound credit quality, and disciplined expense management, though competitive pricing, technology investment, and macroeconomic uncertainty are expected to temper earnings momentum. Regardless of a more challenging environment, the banks remain well positioned, reinforced by buoyant balance sheets, strong capital and liquidity, and sound borrower fundamentals.

Japanese Banks

Japanese banks posted record full-year earnings for fiscal year 2025, which ended in March 2026, supported by higher NII from rising loan yields and firm corporate loan demand, along with gains on sales of strategic shareholdings and solid fee and markets income. NIM widened as the Bank of Japan continued to raise its policy rate to multi-decade highs, with further improvement expected as normalization continues. Credit costs rose due to larger provisions against overseas and global corporate exposures in the face of trade-policy and geopolitical uncertainty, though asset quality remained sound with low, manageable non-performing loans and solid reserve coverage. Risk appetite continued to build through international expansion and larger, more complex financing transactions. Capital positions stood strong, and liquidity profiles were supported by stable deposit bases, even as balance-sheet growth, regulatory changes, and shareholder distributions created moderate capital pressure.

Banks also continued to reposition securities portfolios, reduce legacy equity holdings, and invest in strategic and digital growth initiatives. Japanese banks remain well positioned to benefit from further rate normalization and economic recovery, upheld by strong profitability, prudent risk management, stable funding, and resilient credit fundamentals.

Singaporean Banks

Singapore's leading banks reported steady first-quarter results, with earnings backed by continued strength in noninterest income even as lower rates weighed on margins. Fee-based businesses, including wealth management, treasury-related activity, and customer flows, helped offset softer NII as asset yields declined and funding costs adjusted. Loan growth remained measured, and profitability continued to reflect diversified business models and solid pre-provision earnings. Asset quality stayed sound, with low and broadly stable non-performing loans, while provisioning remained prudent amid an uncertain external environment. Capital and liquidity positions continued to support credit profiles, leaving the sector well placed to navigate a less supportive rate backdrop. Looking ahead, macroeconomic uncertainty, external demand weakness, and market volatility remain key risks, but strong balance sheets, conservative underwriting, and diversified earnings should help preserve sector resilience.

INSURANCE

The insurance sector reported solid first-quarter results, with strength in life and property and casualty insurance supported by healthy investment income, favorable underwriting performance, and disciplined growth. Health insurers continued to face margin pressure from elevated medical costs and government program challenges, prompting a more cautious approach to pricing and capital management. Overall, insurers maintain solid balance sheets and liquidity, positioning them to absorb geopolitical and financial market volatility despite sector-specific challenges.

Life Insurance

Life insurers reported strong underlying profitability in the first quarter, as most carriers posted higher adjusted operating earnings on broad-based growth, higher fees, and lower mortality in group and individual life segments. Net investment income was grounded in elevated new money and reinvestment yields, although alternative investment results were below expectations due to equity market weakness. Life insurance sales were robust, led by indexed universal life, while total annuity sales held roughly level year over year, as strong registered index-linked and traditional variable annuity demand offset softer fixed-rate deferred and fixed indexed sales. Quarterly challenges included weaker group disability results driven by higher long-term disability severity.

Credit focus remains centered on exposure to private credit, commercial real estate, and other less-liquid investments. Management teams continued to emphasize disciplined capital deployment, risk-adjusted growth, and earnings quality while maintaining a measured approach to shareholder distributions. Capitalization stayed strong, with healthy statutory capital generation, solid risk-based capital levels, ample holding company liquidity, and generally conservative leverage supporting balance-sheet strength.

Health Insurance

Health insurers posted a first-quarter earnings recovery, with large managed-care companies broadly beating estimates and several raising full-year guidance. Margins improved largely through aggressive repricing, benefit redesign, and tighter utilization management rather than easing medical cost trends. Despite improvement in reported medical-loss ratios, management commentary indicated that underlying cost pressures from elevated utilization and rising unit costs persisted. First-quarter results also benefited from a mild flu season, favorable reserve development, and the usual claims-processing lag. Membership continued to contract across Medicare Advantage, Medicaid, and Marketplace amid repricing, product exits, and funding cuts, with Marketplace enrollment down sharply as commercial enrollment remained relatively stable. Balance sheets for most investment-grade issuers remain sound, but the sector will continue to face more ratings pressure than other insurance segments until medical cost trends moderate and earnings visibility improves.

Property and Casualty Insurance

Property and casualty insurers delivered strong first-quarter results, boosted by favorable underwriting performance, lower catastrophe losses, and continued reserve releases. Personal lines profitability remained strong, with auto and homeowners benefiting from improved loss ratios and prior pricing actions. Commercial lines were profitable, although premium growth and pricing momentum moderated as competition increased and carriers focused more on balancing growth with underwriting discipline. Net investment income continued to drive earnings, backed by higher reinvestment yields and conservatively positioned, high-quality portfolios. Key risks include macroeconomic uncertainty, rising economic and social inflation, and severe weather, but sector fundamentals are still supportive, and the outlook appears stable. Balance sheets remained strong, with solid capital buffers, healthy liquidity, sound reserve adequacy, and conservative leverage reinforcing stable ratings.

CORPORATES

Across corporate sectors, first-quarter results showed generally reliable credit fundamentals braced by disciplined cost management, solid liquidity, and broadly manageable leverage. Performance was increasingly differentiated by end-market demand, tariff exposure, geopolitical risk, and investment requirements.

Pharmaceuticals and TMT remained the clearest growth-oriented outperformers, supported by innovation, new products, AI, cloud, and telecom momentum. However, both face execution risks from acquisitions, patent cliffs, or elevated AI-related capital spending. Industrials and consumer issuers were more mixed, with strength in infrastructure, aerospace, defense, data centers, value retail, and staples offset by weaker agricultural, housing, discretionary, and premium categories. Energy and automotive issuers had greater exposure to external volatility, with energy driven by commodity prices and Middle East supply risk. Autos continued to manage tariffs, regional competitive pressure, electric vehicle (EV) investment resets, and uneven demand. Overall, high-grade corporate credit quality remains stable, but sector selection is important, as companies weigh resilient balance sheets against more complex cost, policy, and geopolitical hurdles.

Pharmaceuticals

Large pharmaceutical companies reported steady first-quarter results, aided by continued strength in newer-growth franchises across oncology, immunology, cardiovascular, and metabolic therapies, which helped offset revenue pressure from products facing loss of exclusivity and biosimilar competition. U.S. pricing and policy uncertainty were an important overhang, with companies balancing Medicare drug pricing changes, tariff and supply-chain concerns, and commitments to domestic investment. Business development was active while companies addressed future patent-expiration exposure through acquisitions, licensing, and pipeline expansion, reinforcing growth prospects while increasing execution risk and, in some cases, leverage pressure. Sector credit fundamentals are solid, supported by strong margins, healthy cash generation, and overall conservative balance sheets. Financial discipline, successful integration of acquired assets, and the ability to replenish revenue as patent roadblocks build over the medium term remain key credit considerations.

Industrials

Investment-grade industrial issuers reported mixed results in the first quarter. Large global companies exposed to electrification, grid equipment, aerospace and defense, and AI-related data center infrastructure generally reported stronger organic growth, healthy order activity, and favorable backlog trends due to continued robust spending on power distribution, thermal management, and critical infrastructure. More cyclical end markets – including agriculture, residential construction, and parts of short-cycle factory automation – remained subdued.

Customers stayed selective on capital spending, and inventory replenishment remained uneven in certain channels. Regional trends were also mixed, as North America and selected infrastructure-related markets outperformed, while China showed only modest improvement and remained an area of cautious commentary for many multinationals. Pricing and productivity actions partially offset cost inflation, although margins still

compressed year over year at several machinery and multi-industry manufacturers due to materially increasing tariff costs. Foreign exchange and input-cost pressures escalated.

The conflict in the Middle East that began late in the quarter closed the Strait of Hormuz and drove the largest oil-supply disruption on record, lifting the prices of energy, industrial metal, and fertilizer (the spike in which compounded existing weakness in agricultural end markets). Despite these challenges, most large industrial issuers remained well capitalized, with solid liquidity, manageable leverage, and ample flexibility to fund capital spending, acquisitions, and shareholder returns.

Energy

Major integrated energy companies reported mixed first-quarter results, with performance differing based on business model. Producers with limited trading exposure posted sharp year-over-year earnings declines, while peers with large trading and marketing operations converted price volatility into significant gains. Headline declines reflected a softer crude environment throughout much of the quarter and mark-to-market dragged on derivative positions as prices spiked late, rather than weakness in the underlying business. These pressures were partly offset by solid upstream volumes, resilient trading and marketing contributions, firmer refining margins, and continued cost discipline.

Cash-flow generation remained strong, supporting balanced capital allocation, shareholder distributions, and balance sheet resilience, although buyback pacing was more measured in some cases as companies prioritized financial flexibility. Capital spending remained disciplined, focused on high-return upstream projects, liquefied natural gas, and other strategic developments rather than broad-based expansion. The conflict in the Middle East disrupted regional supply and shipping and caused a spike in crude prices, making geopolitical risk and commodity price volatility the dominant swing factors for the sector and potential earnings support in the second quarter. Even so, the credit impact on oil majors should remain manageable, supported by strong liquidity, low leverage, and diversified global operations.

Consumer

First-quarter 2026 consumer earnings reflected a steady but differentiated sector. Defensive, value-oriented, and high-frequency businesses continued to perform relatively well, while discretionary, premium, and coffee- and spirits-exposed companies faced more pressure. In staples, the quarter marked an encouraging shift from pricing-led to volume-led growth, as pricing normalized to low single digits and companies met demand through innovation, promotions, advertising, and value-focused pack sizes. Volume trends improved, even as margins remained pressured by tariffs and higher commodity- and energy-related costs. In general, retail outperformed, bolstered by strong value execution, while beverage companies also performed well due to improved pricing power.

Tariffs are now a more meaningful cost, although potential International Emergency Economic Powers Act refunds could provide an additional benefit not yet reflected in guidance. The U.S. consumer remains stable overall, with higher-income spending still supportive even as lower-income consumers remain more value-conscious. Most companies continue to view the environment as manageable and are maintaining guidance and investing behind brands and innovation, boosting share gains and resilience in core categories. The sector remains broadly stable and defensive, with solid execution helping offset a more complex cost backdrop.

Automotive

In the first quarter of 2026, global auto original equipment manufacturer (OEM) earnings showed early signs of stabilization, supported by one-time U.S. tariff refunds and resilient underlying performance from U.S. automakers. U.S. OEMs were the clear outperformers, buoyed by strong product mix, disciplined pricing, and improved full-year outlooks. European and Japanese OEMs faced greater margin pressure from tariffs, regulatory and energy costs, and weaker competitiveness, particularly in China, although European automakers delivered encouraging volume growth driven by new model launches and a stronger EV mix. Foreign OEMs remained pressured in China, but many are adapting through deeper localization, partnerships, and greater export flexibility.

Across the industry, restructuring and EV capacity adjustments reflect a more disciplined approach to aligning investment with demand, while long-term commitment to electrification remains intact. Overall, the quarter's performance seemed to suggest that the sector is progressing through the reset phase with greater operational focus and improving strategic clarity, despite ongoing trade and geopolitical challenges.

Technology, Media & Telecom (TMT)

In the first quarter, the TMT sector posted strong overall performance, driven by accelerating AI demand and record hyperscaler infrastructure spending that is expected to reach roughly \$800 billion in 2026. Cloud and enterprise software remained solid, networking regained momentum, and telecom delivered its strongest fundamentals in years. Cable continued to face broadband subscriber losses, although streaming trends remained generally resilient.

Profitability was mixed, as hyperscalers faced near-term free-cash-flow pressure and modest margin compression from elevated AI capital expenditures and graphics processing unit costs. Tariff exposure remained concentrated in hardware and devices. AI monetization continued to expand across subsectors, supported by evolving pricing models, custom chip development, and new funding structures; however, risks around energy availability, grid constraints, and parts of the AI financing ecosystem are becoming more prominent.

Disclosure

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