Global Economics & Markets Outlook

VANTAGE POINT

RESILIENCE AT THE RUBICON Q3 2025

INVESTMENT INSTITUTE

INTRODUCTION

Welcome to another edition of Vantage Point, the quarterly economic and markets outlook from the BNY Investment Institute*

There are moments in history when forward motion becomes irreversible—when the path ahead, though uncertain, must be taken. In 49 BC, Julius Caesar's fateful crossing of the Rubicon, a direct violation of Roman law prohibiting generals from leading legions into Italy, marked one such turning point and signalled the beginning of civil war. His decision became a lasting symbol of irrevocable choice, the moment when caution yields to conviction. Today, the global economy finds itself in a similarly consequential period, on the bank of the Rubicon where policy determines how the economy navigates the narrow passage between resilience and retreat.

As we assess the macroeconomic landscape in mid-2025, we believe the world stands at a metaphorical Rubicon. Having absorbed successive shocks, from pandemic-induced distortions to inflation, a historic tightening cycle, and large increases to tariffs, the system continues to show surprising durability. Yet signs of fatigue are building. Growth is moderating across regions, labor markets are gradually loosening, and the cumulative effects of restrictive policy are becoming more apparent. As the delayed effects of past policy become more evident and the need for new policy take hold, we expect the coming quarters to challenge the resilience of economies and the durability of markets.

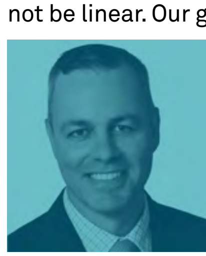
Our base case scenario, and the foundation of our current positioning, is a moderate economic **Slowdown** (50% probability), largely driven by rising policy uncertainty. In this scenario, the U.S. economy slows to below-trend growth as consumer spending eases and corporate investment weakens, much like the environment following tariff increases in 2018. Price pressures reaccelerate, resulting in a cautious Fed that is forced to the sidelines longer than currently expected.

Outside the U.S., we've raised our growth outlook modestly. Our view on Eurozone activity is in line to slightly above consensus, while China's growth remains in line with expectations, albeit still below the official 5% target. Importantly, this scenario is not a recession, but a slowdown driven by policy uncertainty before the economy can move forward on more sustainable footing. In this scenario, equity markets are supported by steady earnings growth, while valuation multiples remain volatile, and bond markets improve as more clarity on inflation emerges.

But Rubicon's are not crossed without risk. We see two alternative scenarios that could meaningfully shift the investment landscape. In our **Stagnation** scenario (30% probability), growth slows more abruptly as the lagged effects of policy tightening begin to override domestic demand. Earnings weaken, unemployment rises, and the U.S. economy contracts toward year-end. The labor market softening is enough to prompt the Fed to cut rates twice, despite lingering inflation. Global demand falters, compelling the Eurozone, China, and other export-reliant economies to respond with policy stimulus. In this environment, high-quality and long-duration assets could rally, but risk markets would likely face a more significant repricing. Like Caesar, this scenario would test the economy's resilience and require policymaker to manage a retreat without broader disruption.

If our projections for a slowing US economy are incorrect, there is a greater likelihood of an upside growth surprise. In the **Recovery** scenario (20% probability), U.S. growth proves more robust than expected and the strong momentum prior to "Liberation Day" proves strong enough to carry us across the Rubicon. Underpinned by resilient consumer demand, low unemployment, progress on trade negotiations, and the passage of fiscal support reduce uncertainty and revive demand. Inflation remains contained, giving markets greater confidence in the growth outlook. Equity multiples expand, risk spreads tighten, and, in contrast to the other two scenarios, the dollar recovers some ground. In this scenario, the rest of the world also benefits, with Europe and China experiencing renewed momentum as earlier rebounds and fiscal tailwinds translate into firmer growth.

Like Caesar's irreversible step, captured in the phrase "*alea iacta est*" – "*the die is cast*" – there's no turning back. But investors must also recognize that the path ahead will not be linear. Our goal is not to predict with precision, but to position with purpose: to cross deliberately, eyes open, prepared for whatever lies beyond the Rubicon.



Eric Hundahl, CFA
Head of Investment Institute,
BNY Advisors

BNY Investment Institute consists of our macroeconomic research, asset allocation, manager research and operational due diligence teams.

EXECUTIVE SUMMARY

We base the outlook on the idea that financial market moves largely reflect growth, inflation and monetary policy. Tactical investment opportunities arise when our views significantly differ from market pricing.

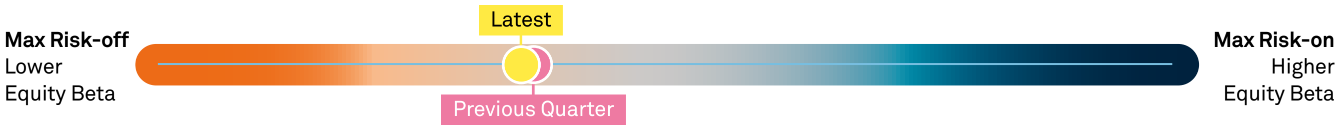


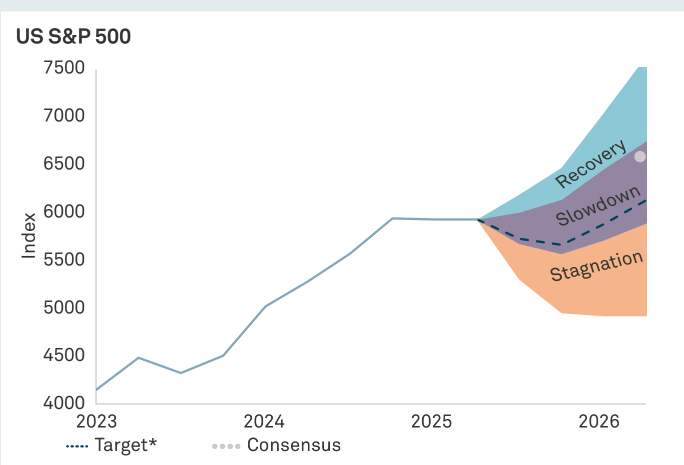
Table 1: Our Outlook vs. Consensus

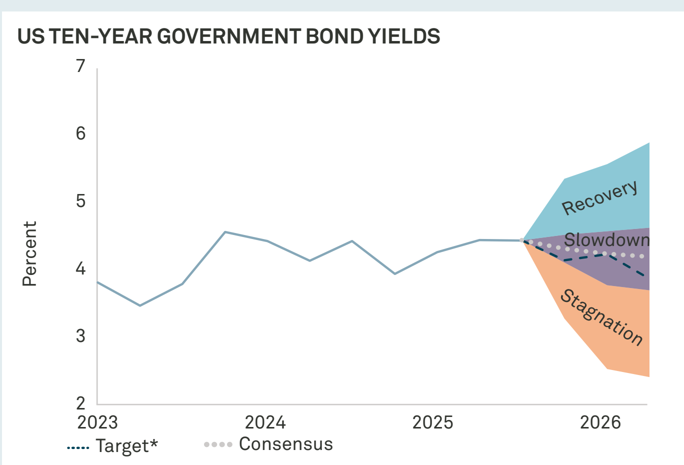
	Q3 2025	Takeaway
Growth		US growth expectations are below consensus for 2025. Eurozone and China growth are in line with consensus for 2025.
Inflation		US Inflation is expected to exceed market expectations in 2025.
Policy		Fed policy is gradually loosened in line with market expectations in 2025.

How to read the heatmap. **Blue** indicates much better than expected (relative to the consensus) growth, much lower than expected inflation and significantly greater than expected monetary policy accommodation. **Light blue** indicates better than expected growth, lower than expected inflation and greater than expected policy accommodation. Grey indicates that expectations for economic growth, inflation and policy are broadly in line with the consensus. **Light orange** indicates worse than expected growth, greater than expected inflation and a tighter than expected monetary policy. **Orange** indicates significantly worse than expected growth, much greater than expected inflation and a much tighter than expected monetary policy.

Table 2: Tactical Investment Views

Major Asset Class	Q3 2025	Q/Q Change	Takeaway
Global Equity			We see the tariff induced drag on growth will pick up in the months ahead, while the market has priced out some of the near term risks.
Sovereign Bonds		↑	Elevated yields and correspondingly favorable income returns remain present.
Credit			Spreads are tight, trade volatility and economic uncertainty to weigh on consumption and overall growth.
Real Assets			Favorable on assets that hedge against volatility, inflation, and geopolitical uncertainty.
Cash		↓	A better entry point in long-term interest rates make duration relatively more attractive.





Source: BNY Investment Institute. Data as of June 9, 2025.
* Target is the expected outcome based on the average of three scenarios weighted by how likely they are to occur. Please see additional disclosures and glossary.

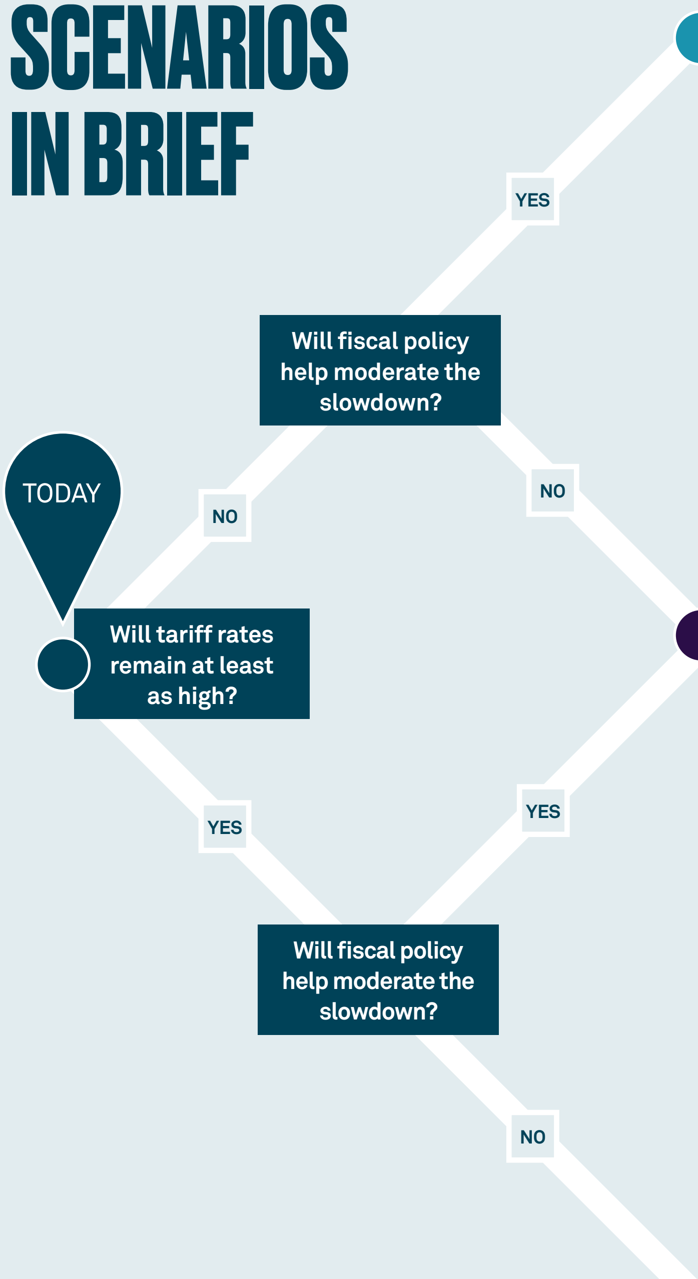
S&P 500		
12-month Outlook	Base Case	Probability Weighted
EPS Estimate	277	274
Earnings Growth	+9%	+8%
Price/Earnings	23	22
Approximate Level	6,370	6,100
Return Estimate	**+6%**	**+2%**

Source: BNY Investment Institute as of June 9, 2025.

10-year US Treasuries		
12-month Outlook	Base Case	Probability Weighted
Fed funds rate	3.5%	3.5%
Yield curve slope	+1.0%	+0.6%
Approximate Level	4.5%	4.1%
Yield change	+0bp	-40bp
Return Estimate	**+0%**	**+3%**

Source: BNY Investment Institute as of June 9, 2025.

SCENARIOS IN BRIEF



Recovery (20% Probability)

Equities	Sovereigns	Credit	Real assets	Cash
▲▲	●●●	▲	●●●	▼

12-month Outlook	Level/pct.	Return Est.
S&P 500	6,770	+13%
10-year US Treasuries	4.6%	-1%

MACRO

- Growth recovers as uncertainty around tariffs unwind. Fiscal boost is small in 2025 but a more modest support in 2026, revives demand.
- Rest of the world benefits. US inflation remain contained allowing the Fed to cut twice in 2025.

MARKETS

- Most positive for risk assets – pushing equity multiples higher, risk spreads lower near-term. USD recoups some of its losses in 2026.
- Bonds do less well, and the UST yield curve steepens.

Slowdown (50% Probability)

Equities	Sovereigns	Credit	Real assets	Cash
▼	▲	▼	▲	●●●

12-month Outlook	Level/pct.	Return Est.
S&P 500	6,370	+6%
10-year US Treasuries	4.5%	+0%

MACRO

- US slows below trend on tariff rate hikes (c. 18% effective rate) and the impact of uncertainty. Albeit small, fiscal boost is positive in 2025 but is overshadowed by tariffs.
- Inflation rises above 3% as higher prices are passed through. The Fed remains cautious in 2025 but loosens more in 2026.

MARKETS

- Equity price multiples stay volatile but begin recovering towards the end of 2025. Earnings growth remain relatively stable.
- Credit spreads widen toward longer-term averages.
- Bonds do better with growth concerns, although price pressures limit policy cuts in the US. Real yields fall. USD eases but at a slower pace.

Stagnation (30% Probability)

Equities	Sovereigns	Credit	Real assets	Cash
▼▼	▲▲	▼▼	▲	▲

12-month Outlook	Level/pct.	Return Est.
S&P 500	5,230	-13%
10-year US Treasuries	3.2%	+10%

MACRO

- Large tariff hikes (effective at 20% or more) induces a large inflation spike and high uncertainty which overwhelm US domestic demand.
- Euro Area and China mount policy stimulus, but global demand plummets.
- Fed cuts twice in 2025 despite higher inflation due to labor market deterioration with further cuts in 2026.

MARKETS

- Bad outcome for equites. Equity market slumps, troughing by the second half of 2026.
- Credit spreads widen beyond long-term averages. But sovereign bonds outperform on lower rates. USD weakens more notably.

Source: Investment Institute as of June 9, 2025.

GROWTH

Our Outlook vs. Consensus

unfavorable ⟷ favorable

US

Our Outlook vs. Consensus

Our probability weighted forecast for the US economy sees growth slow to below trend (1.4% and 1.2%) in 2025 and 2026. We are below the consensus (1.4% in ’25 and 1.5% in ‘26) among other forecasters.

Base Case

Our base case remains a cautious one. It sees a growth slowdown in 2025, dragged by significant policy uncertainty. This reduces both firms’ and households’ confidence to spend and invest, similar to what observed in 2018 during the first trade war. We also see a hit to (inflation-adjusted) incomes due tariff-induced to price increases.

Risks

Risks around our base case now lie to the downside. If we are wrong about the slowdown in US economic activity, we are more likely to see growth disappointing further. In ‘Stagnation’, a dramatic fracturing of trade relationships driven by lack of progress on trade deals and retaliatory tariffs, paired with little near term monetary policy support due to rising inflation, leads to an outright contraction in the US economy towards the end of 2025, albeit a shallow one. In our more optimistic scenario, ‘Recovery’, US fiscal stimulus is larger than we see as most likely, tariffs end up at lower levels than announced so far as trade deals are struck and have a small effect on growth. On balance, our judgement is that the odds of a US recession remain above average by historic standards.

EUROPE AND CHINA

Our Outlook vs. Consensus

We have upgraded our view on growth prospects outside of the US. Our probability weighted forecast for Eurozone growth stands at 1% for 2025 and 1.1% for 2026, in line to slightly above consensus. For China, our forecast sees growth in line with consensus (around 4.5%) but a bit lower than China’s 5% growth target.

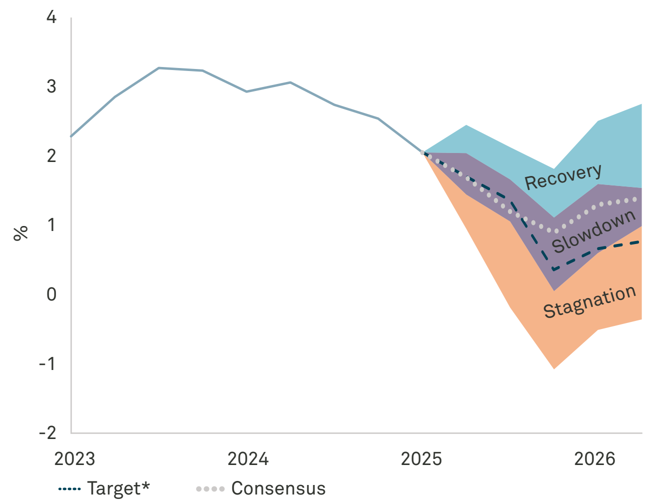
Base Case

Our base case for the Eurozone is a ‘Slowdown’ in the second half of the year, as tariffs and policy uncertainty bite. In 2026, however, greater fiscal spending on defense and infrastructure, and the gravitational pull of growth towards potential, means we see a faster expansion than expected by consensus. Chinese GDP growth exceeded expectations in 1H’25 on rising exports (ahead of tariff deadlines), stabilizing property and a pick-up in services activity. But export dependency has risen. and external headwinds are set to worsen. Fiscal easing and advances in high-tech manufacturing should provide some buffer. But sequential GDP growth set to soften in the coming two quarters and a structural slowdown is still likely. Economy-wide deflation is set to persist, and nominal GDP will likely remain stuck around 4.5% annual rate.

Risks

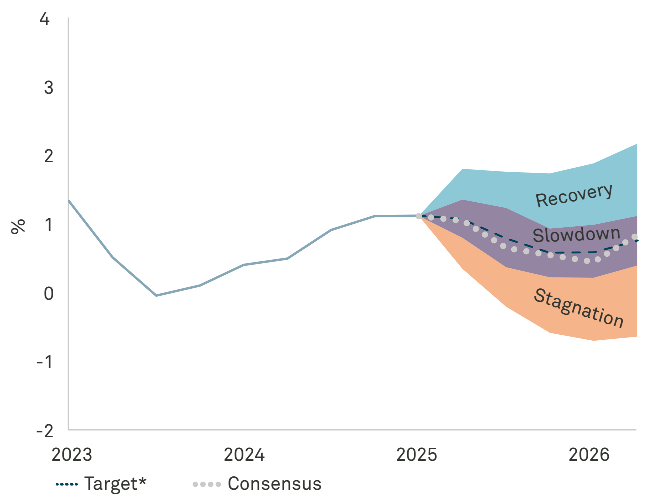
Outside of the US, the risk around our growth base case also lie to the downside. The Eurozone and China are reliant on exports and sensitive to a broader worsening of global trade conditions. That said, activity was rebounding coming into this shock, and fiscal stimulus has been significant, which would boost growth if we are wrong about the impact of tariffs.

US GDP
FOUR-QUARTER PERCENTAGE CHANGES



Source: BNY Investment Institute. Data as of June 9, 2025.

EUROZONE GDP
FOUR-QUARTER PERCENTAGE CHANGES



Source: BNY Investment Institute. Data as of June 9, 2025.

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INFLATION & POLICY

Our Outlook vs. Consensus

US

Our Outlook vs. Consensus

Our probability weighted expectation for US policy rates is in line with market pricing (4% vs 4%). Despite slower growth, we see US inflation coming in marginally higher than implied by the market and above economist consensus (3.2% vs 3.1/3.0%). A good part of the expected pick-up in US inflation reflects the increase in tariffs on US imports. We expect US inflation to resume its downward trend in early 2026, allowing a faster pace of rate cuts that broadly in line with market pricing.

Base Case

Our base case for US policy rates in 'Slowdown' sees the Fed cautiously waiting to move until year end and delivering just one cut. Price pressures re-accelerates and the economy holds up in this scenario, and with inflation still above target, the Fed is eager to avoid rushing into rate cuts that risk proving misguided. That said, with tariff increases representing a one-off shift in the price level rather than a sustained pick-up in inflation, we do not expect policy makers to embark on a tightening of policy.

Risks

The risks around our base case lie to the downside for US policy rates, and to the upside for US inflation. In 'Stagnation', our second most likely scenario, rates go to at 4%, but the economic slowdown is stronger and leads to faster cuts in '26. In 'Recovery', lower tariff rates lead to a smaller inflation pick up in 2025, allowing two rate cuts by year end and two more in 2026.

EUROPE AND CHINA

Our Outlook vs. Consensus

Our probability weighted expectation for Eurozone policy rates is in line with market pricing of between 1.75-1.5% for YE 2025. We see one or two interest rate hikes in 2026 as growth prospects and inflation recover. In China, better than expected growth in 1H25 reduces some of the urgency of policy easing. But upside growth surprises have failed to lift prices out of deflation. This goes to highlight China's excess capacity and its supply-side challenges.

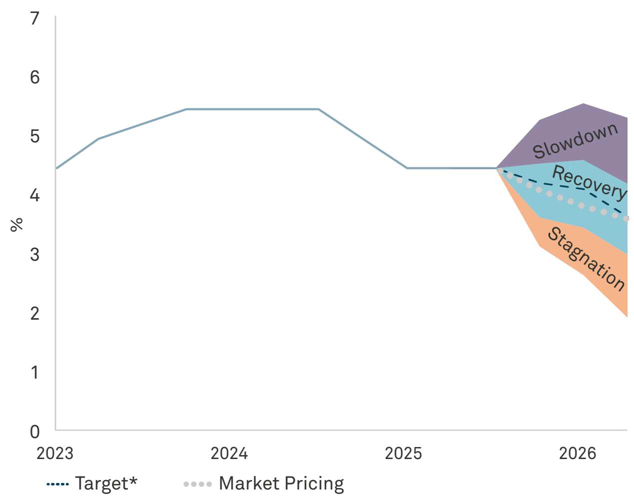
Base Case

In our most likely scenario, 'Slowdown' our expectation for two additional ECB cuts is consistent with market expectations, as growth remains slow and inflation falls a little below target. In China, we anticipate a reactive and modest easing in fiscal policy. But policymakers have also grown more cautious about rising local government debt and quasi-fiscal risks. Further USD weakening should provide the PBOC with the space to ease monetary policy a bit more in the months ahead.

Risks

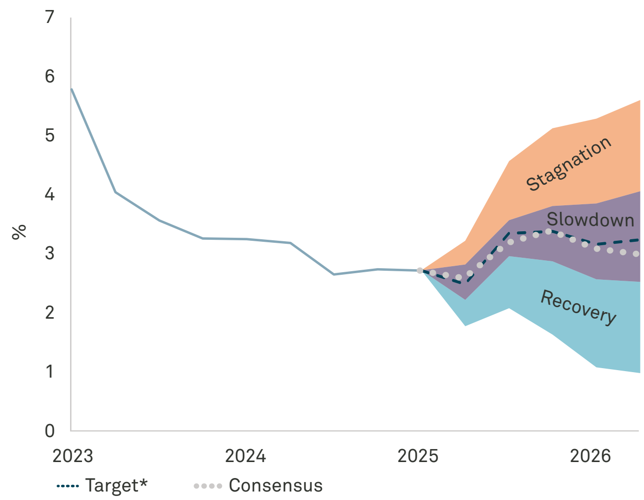
The path for rates in the Eurozone in our different scenarios diverges more meaningfully in 2026, with a few rate hikes in both the central and upside scenarios, and no rates change in the downside scenario. In China, an activity slowdown in 2H'25 is now widely expected. The balance of risks could change more notably if policy stimulus pivots more decisively towards reforms to boost private consumption.

US FEDERAL FUNDS RATE
PERCENT



Source: BNY Investment Institute. Data as of June 9, 2025.

US CPI
FOUR-QUARTER PERCENTAGE CHANGES



Source: BNY Investment Institute. Data as of June 9, 2025.

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ASSET CLASS VIEWS

Summary

The path of US protectionist policy remains unclear, and while the full impact hasn't yet materialized, the prolonged uncertainty will likely dampen confidence and activity. In the US, this uncertainty will likely weigh on growth, especially as the limited fiscal impulse is effectively more than offset by the effects of tariffs. China will also likely face a modest slowdown, driven by structural challenges and weak external demand. The Euro area is similarly set to soften in 2025, though unlike the US or China, it is expected to receive some fiscal support in 2026. As a result, we see US growth falling below consensus, while China and the Euro Area are more likely to track in line with expectations. In this environment – where policy choices feel increasingly consequential – we see resilience being tested at a critical juncture. We remain cautious on risk assets and favor sovereign debt and real assts as more resilient exposures in portfolios.

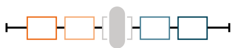
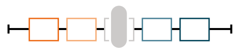
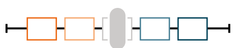
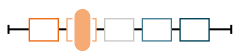
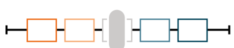
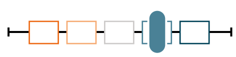
The current macro environment is marked by numerous tail risks. We encourage investors to leverage **Monthly Checkpoints** from the Investment Institute to stay abreast with how macro developments are lining up with our forecasts on a month-over-month basis. For a longer-term perspective, we recommend reviewing our **Capital Market Assumptions**, which outline our strategic asset allocation views, long-term themes, and underlying assumptions.

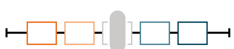
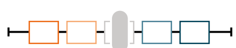
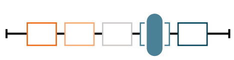
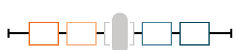
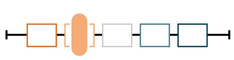
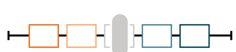
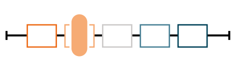
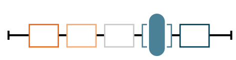
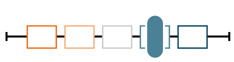
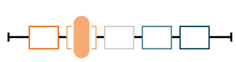
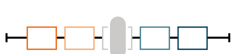
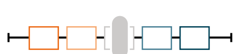
Major asset class	Tactical view	Strategic view	Comments
Global Equity			We remain cautious on the tactical outlook for equities, given remaining downside risks to US growth expectations and elevated sentiment. Policy uncertainty has already damaged near term growth, and we see this growth drag to pick up in the months ahead.
Sovereign Bonds			Yields have risen, providing a good entry point for investors. We remain underweight US Treasuries vs International Sovereign bonds, due to near-term risk of a greater than expected US government deficit and ongoing US inflation risks. Elevated yields and correspondingly favorable income returns remain present.
Credit			Spreads are tight, trade volatility and economic uncertainty to weigh on consumption and overall growth. We expect spread widening and a rotation toward cheaper, safer fixed income assets. We prefer higher quality credits over HY, European credits over US.
Real Assets			Maintain favorable view on gold given volatility and inflation hedging potential. We also favor infrastructure given equity exposure but greater stability and income benefits.
Cash			Cash attractiveness is supported by elevated volatility, but a better entry point in long-term interest rates make duration relatively more attractive.

Equity	Tactical view	Strategic view	Comments
Developed Market Equity			Unfavorable, driven by an expected deterioration in the macro data, a riskier global environment, and tariff related risks. The AI theme can still run in the background and lift long run expected returns, but cyclical considerations prevail in the near term. Elevated global uncertainty warrants a well diversified approach across indices.
US Equity			US growth expectations are still at risk of a downgrade. Easing of policy cannot provide much offset given rising inflation risks. And policy uncertainty creates significant volatility. We put emphasis on exposure to quality and higher yielding equities.
UK Equity			UK is less directly exposed to tariff risk but is vulnerable to a slowdown in the euro area. FX-hedged UK equities are attractive for income-seeking US investors given elevated yields. Exposure to energy sector is attractive on a tactical basis given recent oil price movements.
Europe ex UK			Near-term improvement in the cyclical data and would make us optimistic on Europe ex UK equities, but tariffs remain a large risk. Slowdown in growth is expected in the second half of 2025 before rebounding towards the end of 2026 on the back of fiscal support.
Japan Equity			We stay unfavorable on account of the weakening global outlook, likelihood of auto sector tariffs, gradual BOJ normalization and strengthening trend in the yen. These will weaken corporate profits or delay corporate capex. Reflation and rising real wages reflect ongoing improvements, but consumption has yet to pick-up meaningfully.

Source: BNY Investment Institute. Data as of June 18, 2025.

unfavorable ⟷ favorable

Equity	Tactical view	Strategic view	Comments
EM Equity			We stay neutral. Emerging markets to be boosted by a weaker USD but also pressured by trade and economic policy uncertainty and a US slowdown. EM equities are cheap, with a sizable weight for China (where domestic macro conditions are stabilizing), and will gain from long-term supply chain rotation.
China Equity			Our neutral view incorporates bigger than expected tariff cuts but also a more tepid policy stimulus. Even after recent cuts, overall tariff levels are very high. Further Sino-US de-coupling to persist (albeit, more gradually). The tech sector is a bright spot, and property has stabilized. In view of recent developments, expected policy support likely to be shallower, and deflation to linger for longer.
EM ex China			Trade policy uncertainty and potentially disruptive sector-specific or reciprocal tariffs are inhibiting factors. Relative advantages versus China (such as lower tariffs) likely to provide a leg-up, valuations are fair-to-attractive. Country-and-sector correlations are lower.

Fixed Income	Tactical view	Strategic view	Comments
US Treasuries			We see a deterioration in growth as likely but also a rise in inflation pressures that will keep Fed cautious in cutting rates. Larger than expected deficits are also a near-term risk. Attractive yields and correspondingly favorable income returns keep us engaged. We are cautious on the prospect of limited duration gains and elevated volatility.
Intl. Sovereign Debt			FX hedged income returns remain attractive in absolute terms and versus US Treasuries. A weakening US dollar makes the asset class attractive on a non-FX hedged basis as well. Demand slowdown and disinflationary pressures outside of the US should lead to additional rate cuts in DMs ex US.
Global IG			Spreads are rich and poised to widen on a slowdown in US consumption – fueled by trade uncertainty, higher tariffs and damage to supply chains and corporate margins. Whilst IG may hold up better than HY, risk-adjusted- and relative-returns are not compelling.
High Yield Debt			Spreads have become too rich. Amid heightened trade and financial volatility, weakening energy and industrial commodity prices and reactive Fed policy easing, we expect spreads to re-widen on HY corporates' stalling margins and re-financing pressures. We stay underweight.
EM Local Currency Debt			Relatively low FX carry (adjusted for FX underlying volatility) is likely to be offset by high EM real rates and further USD weakness – which will drive further EM monetary easing and price gains through FX as well as duration channels. We shift to 'favorable'.
EM USD Debt			Our neutral view balances a likely softening of global trade in 2025 against decent policy buffers, flexible currencies and a softer tone in the US dollar. Valuations are less expensive in comparison with global IG and HY credits.

Source: BNY Investment Institute. Data as of June 18, 2025.

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Investors should consult their financial professional prior to making an investment decision.

INDICES AND DEFINITIONS

Japan (Nikkei 225): The NIKKEI 225 is an index that tracks the performance of the largest 225 companies traded in the Japanese market. **10Y UK Gilt** – Average yield of a range of UK government bonds all adjusted to the equivalent of a ten-year maturity. **Phillips Curve:** An economic theory that inflation and unemployment have a stable and inverse relationship. US **Consumer Prices (CPI) Index** measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rate represents the inflation rate. The **10Y US Treasuries Average Yield** of a range of Treasury securities all adjusted to the equivalent of a ten-year maturity. The **CBOE VIX Index (VIX)** is an indicator of the implied volatility of S&P 500 Index as calculated by the Chicago Board Options Exchange (CBOE). The **Majors Dollar Index (USD)** measures the value of the US dollar relative to a basket of currencies of the most significant trading partners of the US including the euro, Japanese yen, Canadian dollar, British pound, Swedish krona, and Swiss franc. The **MSCI EM Index (Emerging Markets Equities)** tracks the total return performance of emerging market equities. The **S&P 500 Composite Index (S&P 500)** is designed to track the performance of the largest 500 US companies. **Europe STOXX 600** Index represents the performance of 600 large, mid and small capitalization companies across 18 countries in the European Union. **Bloomberg US Corporate High Yield:** covers the universe of fixed-rate, non-investment grade corporate debt in the US. **Bloomberg US Corporate Investment Grade:** designed to measure the performance of the investment grade corporate sector in the US **1-mth. 1-year forward swap:** the avg. interest rate for 1-mth. in 1-year forward. **GDP:** gross domestic product is the total monetary or market value of all the finished goods and services produced within a country's borders over a given time period. **Fed funds Rate:** the target interest rate for overnight lending and borrowing between banks. **Purchasing Managers Index (PMI):** An economic indicator derived from monthly surveys of private sector companies. A level above 50 indicates expansion compared to the prior month and below 50 contraction. Investors cannot invest directly in any index. **Slowdown:** GDP growth slowing below trend. **Global Financial Crisis:** The severe economic downturn that began in 2007-2008, characterized by widespread banking failures, a collapse in housing markets, and subsequent global recession. **Stagnation:** a state of weak or no economic growth. **Recovery:** growth recovering towards long-term trend growth. **Neutral Rate of Interest** (r-star or r*) is the short-term interest rate that would prevail when the economy is at full employment and stable inflation. A rate at which monetary policy is neither contractionary nor expansionary.

STATISTICAL TERMS

Skewness in statistics represents an imbalance and an asymmetry from the mean of a data distribution. In a normal data distribution with a symmetrical bell curve, the mean and median are the same. **Probability-weighted mean** is similar to an ordinary arithmetic mean, except that instead of each of the data points contributing equally to the final average, data points are weighted by the statistical probability for a particular scenario outcome. **Duration** is a measure of a bond's interest-rate sensitivity, expressed in years. The higher the number, the greater the potential for volatility as interest rates change.

OTHER

QE: quantitative easing. **Fed:** US Federal Reserve. **ECB:** European Central Bank. **BOJ:** Bank of Japan. **BOE:** Bank of England.

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