

RECALCULATING ROUTE

At the Table with BNY

October 2025

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01 DEBATES AT OUR TABLE

BNY has been at the center of global finance for more than 240 years. Since our founding, we've put our expertise and breadth to work in helping clients succeed. Today, as markets evolve amid shifting policy, technological transformation and structural realignment, our mission remains the same: deliver actionable insights and lasting outcomes.

Our commitment to insight and perspectives comes to life through our investment and market leaders who gather quarterly to debate the key issues shaping markets today. We draw on the firm's global reach and intellectual depth to produce forward-looking perspectives that help investors navigate complexity with confidence.

This quarter, conversations centered on fixed income. We dissected how resilient growth, shifting rate expectations, and diverging global monetary policies are reshaping opportunities across credit and sovereign markets. In particular, the Federal Reserve's (Fed's) recent rate cuts — seen more as insurance than stimulus — fueled debate on whether easing can extend the cycle without reigniting inflation.

We also looked at the global economy and how it continues to balance growth with policy recalibration. In the U.S., most of the uncertainty from tariffs has likely passed, but residual effects remain, partly offset by lower corporate tax rates. The Fed will follow the direction of travel signaled at its October meeting by easing policy further. Globally, policy easing is expected to support a reacceleration into 2026.

In markets, we expect corporate profitability to remain strong as companies continue to find success managing margins. The sustainability of the growth in artificial intelligence (AI) continues to be a central topic of discussion. We think cash flow strength in the tech sector sets this cycle apart from the dot-com era. Earnings growth is also broadening beyond big tech and rate relief should aid smaller, more levered companies. Meanwhile, the housing market remains constrained, but lower rates should ease the imbalance and early signs of a rebound are becoming more visible. Still, with fiscal dynamics taking greater precedence and inflation likely to remain above target, return of capital — not just a return on capital — remains a central theme.

Through this report, we offer you a seat at our table where clarity comes from disciplined analysis and diverse perspectives. We offer insights across asset classes, regions and policy regimes, turning global complexity into actionable opportunity.



Eric Hundahl

Head of BNY Investment Institute¹
BNY Advisors

¹BNY Investment Institute consists of BNY Advisors' macroeconomic research, asset allocation, manager research and operational due diligence teams.

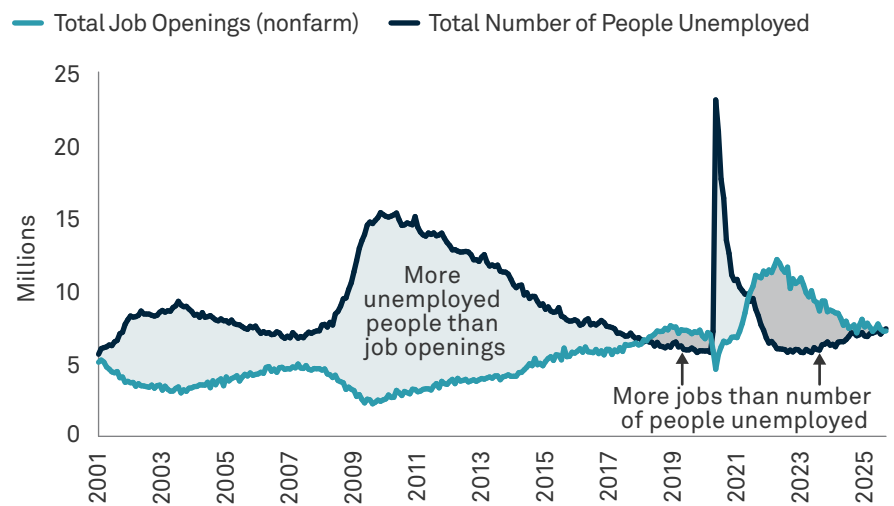
02 WORLD IN MOTION

Economic momentum is shifting across regions, revealing an uneven but active global landscape. We examine leading indicators of growth and economic health in major markets around the world.

UNITED STATES

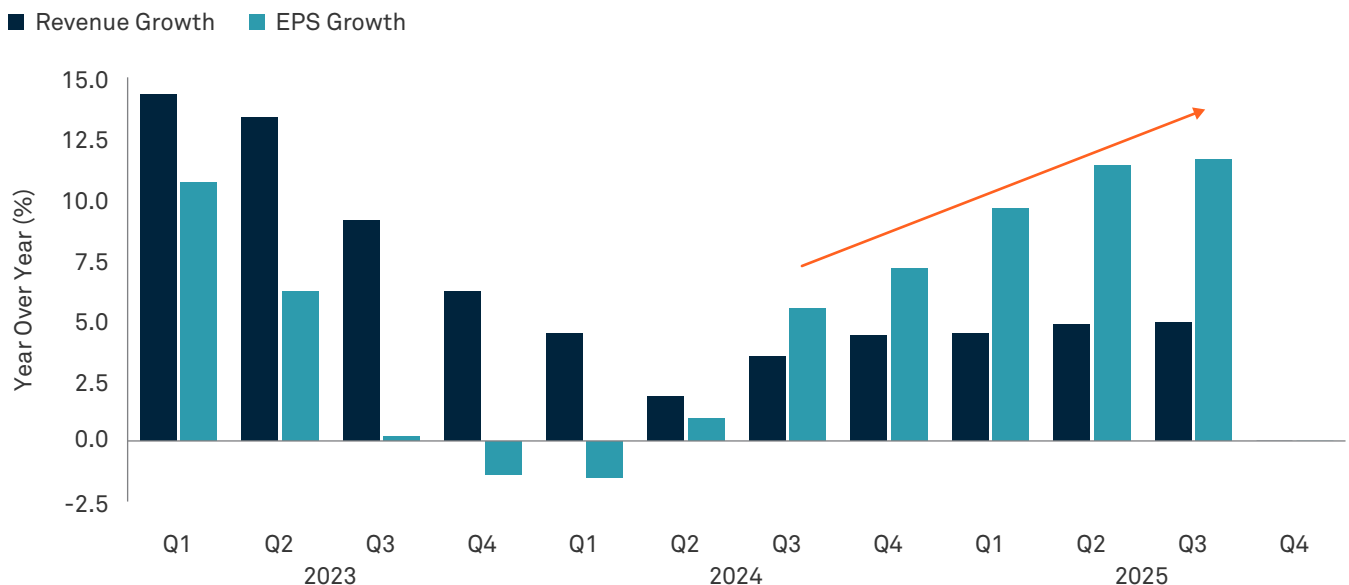
We expect U.S. growth to rebound toward trend in 2026, with the Fed cutting rates again at its last meeting of the year and leaning toward further accommodation thereafter. We view low job growth numbers as a sign of hiring caution amid tariff uncertainty rather than widespread layoffs. Importantly, firms continue to save costs and improve earnings — without reducing headcount. Abating uncertainty, monetary policy loosening and resilient corporate profits are catalysts for a more optimistic 2026.

Job Openings and Number of People Unemployed



Sources: BNY Investment Institute, Macrobond. Data as of 10/9/25.

S&P 500 ex-Financials: Revenue Growth vs. Earnings per Share (EPS) Growth



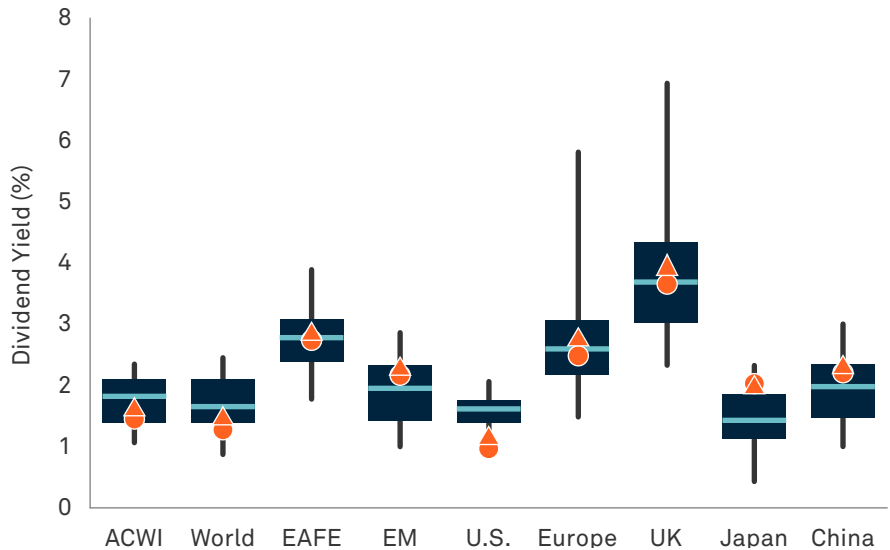
Sources: BNY Investment Institute, Bloomberg, Macrobond. Data as of 10/9/25.

UNITED KINGDOM

Although the UK is less directly exposed to trade compared to major export-dependent economies, the impact to global demand from shocks, sluggish domestic activity and fragile business confidence should add to disinflationary pressures. However, strong wage growth and sticky domestic inflation prove challenging, limiting any further loosening in monetary policy in the near term. Dividend income and higher yields provide relatively attractive income.

Dividend Yield Across Regions

● Current ▲ 12 Months Ago ■ Median
 ■ Interquartile Range — 5th–95th Percentile



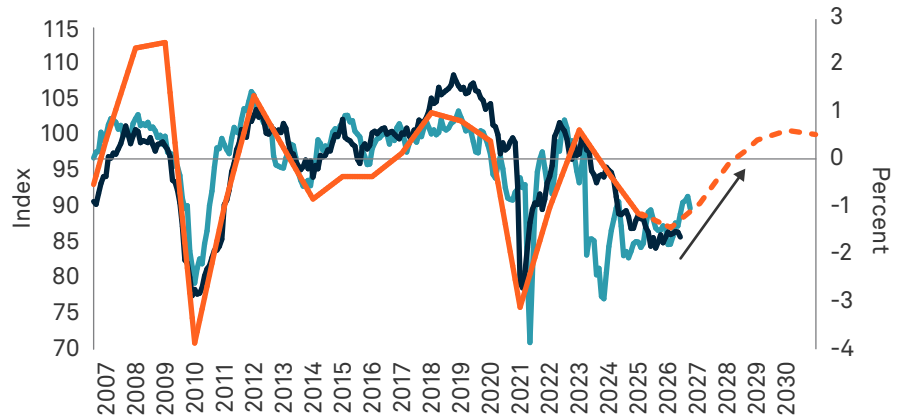
Sources: BNY Investment Institute, Bloomberg, Macrobond. Data as of 10/9/25.

EUROPE

Tariffs and policy uncertainty have created a short-term drag on growth, but with output near potential, we expect expansion to accelerate in 2026, supported by higher fiscal spending on defense and infrastructure, and the lagged impact of European Central Bank (ECB) rate cuts. Euro area inflation has already returned to target. Potential increased imports from China as the country seeks new markets amid U.S. tariffs, plus exchange rate appreciation, may reduce the risk of renewed inflation pressures. While the ECB may remain on hold for an extended period, there is still a meaningful chance of a small additional rate cut.

Germany: Leading Indicators

— Assessment of the Business Situation (LHS)
 — Expectations with Regard to Business Development in the Next 6 Months (LHS)
 - - - IMF Output Gap (RHS)*



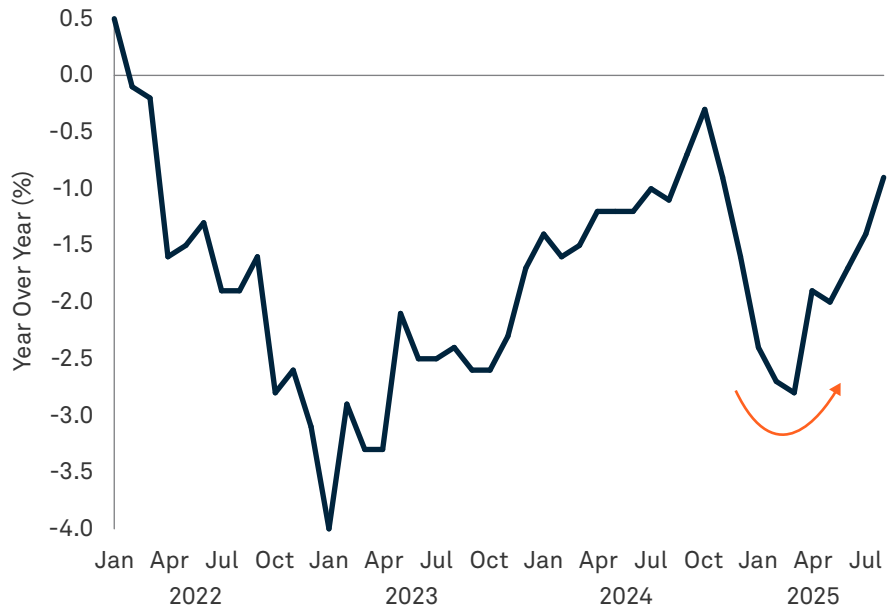
* The IMF's recorded or forecasted deviation from the amount of goods and services an economy can turn out at full efficiency. A positive gap indicates above capacity, while negative indicates below.

Sources: BNY Investment Institute, Macrobond. Data as of 10/9/25.

JAPAN

In 2026, we anticipate inflation to decelerate toward the Bank of Japan's (BOJ's) target, driven by easing food prices and normalizing policy rates. Real incomes should strengthen from a combination of steady nominal wage growth and lower inflation to drive consumption alongside rising defense and tech-focused capital expenditures. Growth risks are tilted to the upside on a dovish bias in fiscal policy and the scope for upside surprises in business investment.

Japan: Real Wage Growth

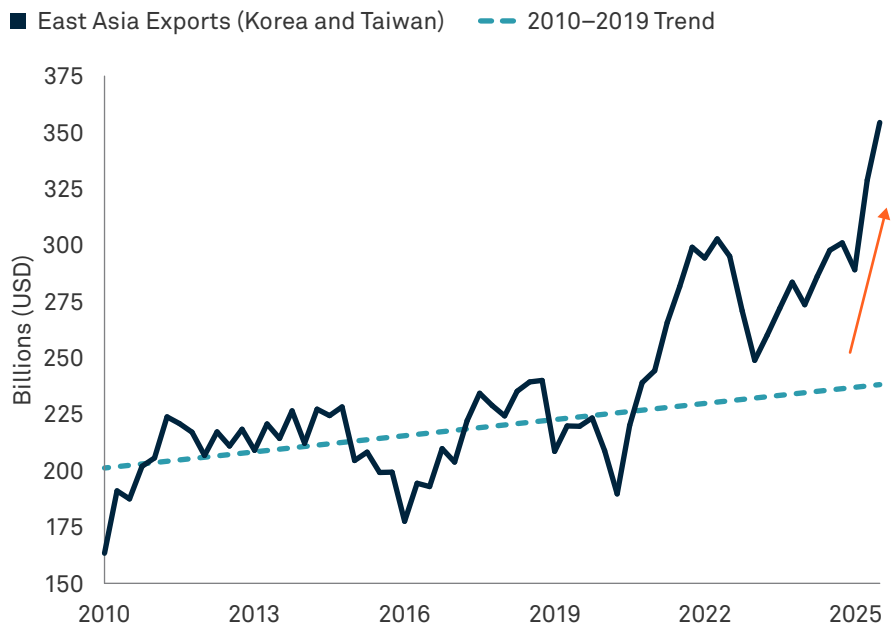


Sources: BNY Investment Institute, Macrobond. Data as of 10/9/25.

ASIA PACIFIC

In the Asia-Pacific region, AI-led electronics exports remain strong on tight inventories and firm manufacturing PMIs. Global AI demand and trade policy will be crucial for the region's chip-export momentum as the U.S. and China, the largest stakeholders for Asia's electronic sectors, both aim to lead in global AI innovation. Differing approaches from the U.S. and China increase the risk of bifurcated supply chains.

Growth in Exports of Korea and Taiwan

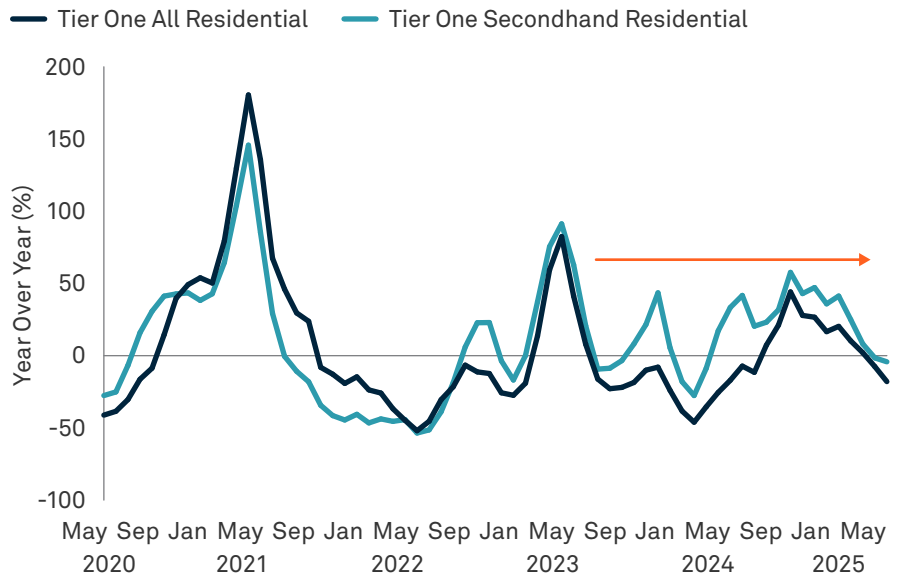


Sources: BNY Investment Institute, Macrobond. Data as of 10/9/25.

CHINA

Despite its tech breakthrough and export diversification, China continues to face challenges as the tailwinds from front-loaded exports to the U.S. fade and property sector stabilization remains fragile amid still-weak housing starts and prices. Economy-wide deflation remains problematic, and structural reforms to rebalance the economy will take longer to play out. However, a larger or quicker fiscal policy boost geared toward strengthening household consumption and domestic demand may brighten the fundamental macro-equity outlook.

China Real Estate Transaction Volume in Tier One Cities 3-month moving average, yearly percent change

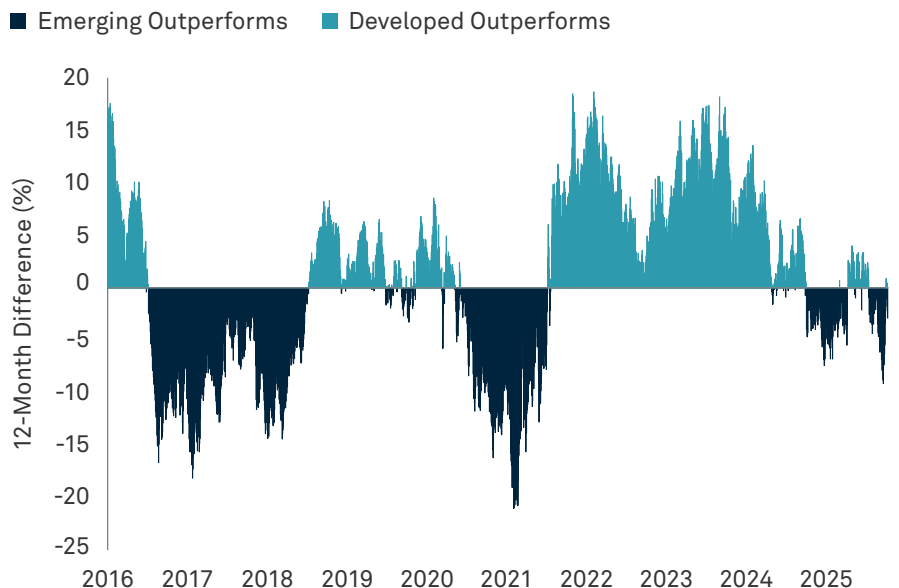


Sources: BNY Investment Institute, Macrobond. Data as of 10/9/25.

EMERGING MARKETS

The macroeconomic backdrop for emerging markets (EMs) remains supportive, as most major EMs gained from export front-loading to the U.S. ahead of tariff deadlines and the payback has been softer than expected even as the U.S. economy has begun slowing. While U.S. trade tensions with certain countries persist, uncertainty for most others has likely peaked. The Fed's easing cycle will likely give EM central banks more room to lower rates.

Developed vs. Emerging Market Equities Rolling 12 months



Sources: BNY Investment Institute, Macrobond. Data as of 10/9/25.

03 WHERE NEXT FOR CENTRAL BANKS?

We sat down with Jason Granet, Chief Investment Officer at BNY, Vincent Reinhart, Chief Economist and Macro Strategist at BNY Investments Dreyfus and Mellon, and John Velis, FX and Macro Strategist for the Americas at BNY Markets, to discuss the direction of the U.S. economy, global central bank policy and the outlook for asset prices.

Where is the U.S. economy heading?

JASON: We came into the year with a strong economy; the labor market was in good shape, corporate earnings were resilient and balance sheets were healthy. Through the year, however, the economy had to absorb a series of challenges in the form of tariff shocks, persistent inflation, a weakening dollar and, most recently, the government shutdown. The economy's ability to withstand these challenges thus far is due to the strong footing from the start of the year. But looking ahead, it feels like the probability of hitting potholes is higher, given the speed of policy shifts and changing market dynamics.

JOHN: We see growth continuing but slowing down. There are two dynamics propping up the economy. First, AI-related investing has increased significantly over the last couple of quarters and is likely to continue. Second, consumption remains strong. But it's worth noting that consumption is highly concentrated in the top income sectors, and more of it is funded via credit, which is typical late-cycle consumption behavior. So, while we may not be in for a recession, I think we're heading toward an economy with weakening growth in a quarter or two.

Looking ahead, it feels like the probability of hitting potholes is higher, given the speed of policy shifts and changing market dynamics.

What is the Fed going to do?

VINCENT: My forecast for 2026 and 2027 isn't as much about the macro economy as the political economy. Personnel is policy, and personnel at the Fed is changing. There will be more monetary policy easing in 2026 and into 2027 because there will be more governors aligned to the policy approach of the White House. Some of the financial accommodation now is in anticipation of significant Fed easing in 2026 and beyond.

JOHN: The government shutdown means there has been limited economic data. Lack of data could mean those Fed members concerned about the labor market and willing to look past the sticky inflation data will have a stronger hand. Therefore, the Fed may err on the side of supporting economic activity.

What are other central banks likely to do?

JOHN: We don't think the easing story is necessarily finished in most European economies, nor for the BOJ. While we still expect a rate hike in December from the BOJ, the country's new prime minister is dovish, so a lot could yet unfold in terms of monetary policy.

VINCENT: I think the Fed is going to be easing more, potentially leaving it on a contrary path to some other central banks. The ECB perhaps has the advantage over the Fed of not reporting to any one government about the conduct of its policy. Without coordinated political pressure, the ECB has more leeway to pursue its single goal of price stability, which is why its policy rate won't go down as far as the Fed's. In the U.S., the Fed is under pressure because the White House and a lot of Congress are on one side.

The core issue is whether labor demand is slowing to “stall speed,” making the economy vulnerable to adverse shocks.

What worries you?

VINCENT: A lot of Fed policy accommodation has made the wealthy wealthier, so the upper echelons are driving spending. If financial accommodation remains, this segment could continue to drive spending.

The core issue is whether labor demand is slowing to “stall speed,” making the economy vulnerable to adverse shocks. Picture an airplane flying slower and closer to the ground — a pilot would say this makes the plane vulnerable to non-linear events, like an abrupt shift in winds. An economist would say a non-linear economic event is a shock that tips you into a recession.

We should worry about stall speed, given how slow job gains have to be to keep the labor market in balance given the slowing in labor supply — something on the order of 50,000 jobs created on net per month. It doesn't take much for that number to turn negative, which would result in those worrying non-linearities: jobs declining, people without income, businesses closing — those all lead to irreparable damage. We're close to stall speed and that's a shock risk.

JOHN: As far as we can tell, there's not a lot of hiring going on, but there's not a lot of firing either. That is often a first step in starting to see layoffs. When you start producing fewer than 100,000, 75,000 or 50,000 private-sector jobs for several months in a row, then you're at stall speed. As Vincent pointed out, stall speed can quickly become “hard-landing speed” if the policy response and/or the market response isn't sufficient or timely enough.

What is your outlook on asset prices in the current environment?

JASON: The economic headwinds that we've discussed — tariff uncertainty, sticky inflation, the weakening U.S. dollar and the government shutdown — are all likely to be reflected in the market through steeper yield curves. Also, at some point, inflation will have to be addressed, and markets will have to reconcile the costs of higher prices. If we get an easier central bank up front, and we run the economy hotter, the yield curve is likely to steepen over time as markets begin to question the system's longer-term credibility.

The dollar's weakness makes the U.S. more investable relative to places with their own frustrations. From an asset allocation standpoint, it could pay to be ready by considering downside protection or long rates — but carry will remain attractive, and the dollar-weakness trend feels like a feature, not a bug, for U.S. aggregate demand.

JOHN: The U.S. dollar has picked up from its lows in mid-September. And with the Fed easing and some other central banks potentially following suit, interest rate differentials are unlikely to remain extremely wide in the short term. In a low-volatility environment, that dynamic encourages investors to pursue carry and yield-enhancing strategies, which can amplify risk-taking and fuel market exuberance.



Jason Granet
Chief Investment Officer
BNY



Vincent Reinhart
Chief Economist
BNY Investments Dreyfus
& Mellon



John Velis
Americas Macro Strategist
BNY Markets

04 INVESTORS IN MOTION

Global investor sentiment over the summer was largely neutral, with limited directional positioning across trend and carry trades. We saw an extension of buying in U.S. equity markets, mixed signals on U.S. bonds and ongoing FX hedging.

FALLING DEMAND FOR U.S. ASSETS

After the Fed rate cut in September, U.S. asset holdings abroad fell notably, a dynamic that continued with the U.S. government shutdown in October.

The global retreat from U.S. assets reflects a view that U.S. valuations are rich and U.S. bonds are not offering sufficient risk premium.

U.S. Assets Demand Index



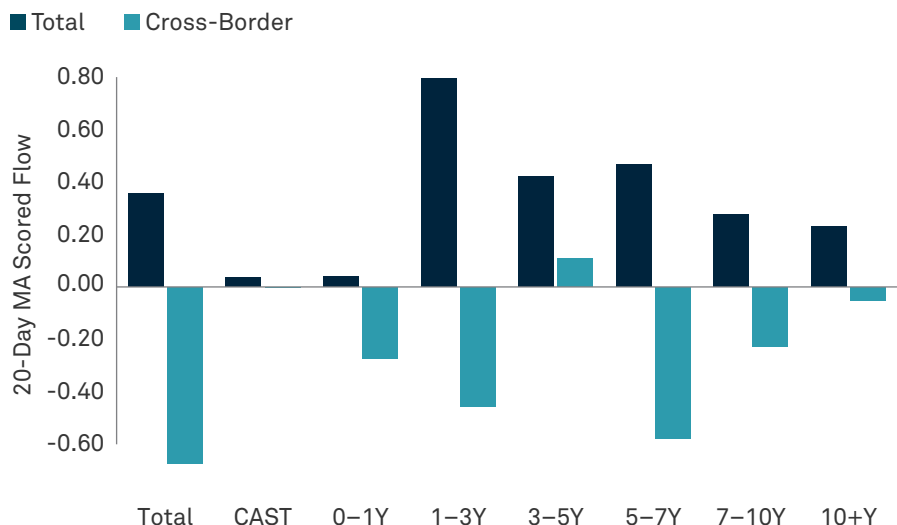
Source: BNY iFlow. Data as of 10/3/25.

FIXED INCOME & EQUITIES

Many investors expect Fed rate cuts will lead to a soft landing for the U.S. in 2026, while the rest of the world sees a sharper rebound in growth, partially explaining the recent U.S. equity retrenchment.

The view on U.S. debt markets is mixed, with holdings in U.S. bonds shifting sharply lower, leading to notable selling of U.S. government debt.

Term Structure of UST Flows



Sources: BNY iFlow, WM/Refinitiv, Bloomberg. Data as of 10/6/25.

We are seeing investors search for alternatives to traditional currencies, such as gold and cryptocurrencies.

CURRENCIES

U.S. dollar holdings are short across our investors, reflecting an ongoing bias to hedge dollar investments.

We believe there is room for more dollar selling in the fourth quarter should investors see lower hedging costs or further market volatility.

Weakness in the euro and yen reflects investor sentiment that several developed markets face challenges. French political turmoil is casting a shadow on the euro. Leadership changes and fiscal pressures are impacting the yen.

We are seeing investors search for alternatives to traditional currencies, such as gold and cryptocurrencies.

Based on our analysis, cross-border positioning is not back to the lows seen during the fourth quarter of 2023 and remains close to its three-year average.

USD Hedging and USD Index Performance



* RHS Y-axis shows USD hedging within 80% bond/20% equities portfolios in iFlow holdings. Values above zero mean investors are adding hedges, while values below zero indicate reduction in hedges.

Sources: BNY iFlow, Bloomberg. Data as of 10/6/25.

BNY iFlow

BNY iFlow provides a window into global investment behavior by analyzing anonymized, aggregated data from BNY's \$57.8 trillion in assets under custody.¹ Data captured includes cross-asset flows, holdings, positioning and shorts across fixed income, equities and currencies. Unlike traditional desk flow products, BNY iFlow leverages custody-based data to reveal investor trends and help clients interpret market dynamics. iFlow intelligence is available through regular publications delivered to subscribers' inboxes or via the BNY iFlow self-service platform.

¹ Assets under custody reflect BNY's 3Q 2025 earnings.

05 TREASURY ROAD TRIP



Nathaniel Wuerffel
Head of Market Structure
& Global Collateral Product Lead

At \$30 trillion outstanding, on its way to \$52 trillion over the next decade,¹ the U.S. Treasury market is the deepest, most liquid government bond market in the world. However, the interaction of fiscal and monetary policy, regulatory changes and evolving market infrastructure is reshaping market dynamics and straining Treasury market liquidity. BNY highlighted these trends last year in our report *The Importance of Safety and Liquidity in the U.S. Treasury Market*. We share a summary of these driving forces, plus the signals that investors should watch for.

A CHANGING ROAD

As you would expect, the U.S. Department of the Treasury plays a significant role in affecting liquidity in the Treasury market through its issuance and cash management policies. To fund increased government spending and restore its cash buffers after the debt ceiling was suspended in June 2023, the Treasury Department significantly ramped up Treasury bill (T-bill) issuance in recent months.

Since July 2025, when the debt ceiling was raised, net bill issuance has exceeded \$600 billion, which permitted the Treasury Department to rebuild its cash holdings with its fiscal agent, the Federal Reserve (Fed). Increases in the Treasury General Account (TGA) cash balance, which is used to help ensure the Treasury has sufficient cash to make payments in the event it loses access to funding markets, have grown to nearly \$900 billion. Increases in the TGA, a liability on the Fed's balance sheet, are offset by reductions from the Fed's other main liability, bank reserves, which are effectively bank deposits at the Fed. Consequently, as reserves decline, liquidity is drained from the banking system.

Although the Treasury Department can influence market liquidity temporarily through changes in the TGA cash balance, the Fed ultimately manages the overall level of banking system reserves and liquidity in short-term funding markets through its balance sheet and monetary policy tools. Since June 2022, the Fed has been reducing its holdings of Treasury and agency securities by letting maturing securities roll off without reinvestment, a process known as quantitative tightening (QT). As assets on the balance sheet decline so do reserves, on the liability side. The shrinking balance sheet has been gradually pulling reserves and liquidity out of the banking system, tightening short-term funding conditions.

Under its operating framework, the Fed aims to maintain an “ample” level of banking system reserves. To manage overnight interest rates, the Fed pays interest on reserve balances (IORB) and uses other tools like the Standing Repo Facility (SRF) with the objective of keeping short-term interest rates trading near the level of interest paid on reserves.

¹Source: Congressional Budget Office accessed at <https://www.cbo.gov/data/budget-economic-data#3>.

Due to the growth in the TGA and ongoing QT, reserves recently dipped below \$3 trillion for the first time since early 2023, off roughly 14.5% from their April 2025 peak.² As reserves have fallen, repo and other funding rates have begun to climb relative to IORB and market participants have begun to tap the SRF more frequently to satisfy their need for overnight liquidity. In response, at the October Federal Open Market Committee (FOMC) meeting, the Fed announced it would be stopping QT at the start of December, a move that should help stabilize the level of reserves and could help avoid a funding market contraction like that seen in September of 2019.

Although the supply of liquidity may be more stable, the demand for it has increased. Post-financial crisis regulatory reforms have focused on making the financial system safer by imposing capital and liquidity requirements, such as the supplementary leverage ratio (SLR) and liquidity

coverage ratio (LCR) for banks and dealers. While effective in reducing risk by requiring banks to hold capital against Treasury positions, the impact of these regulations can inadvertently constrain dealer balance sheet capacity, limiting their ability to intermediate large Treasury volumes and absorb shocks.

Market structure change is adding to the demand for liquidity. The SEC's new mandate for central clearing of Treasury market transactions will improve counterparty risk management but will increase liquidity demand because market participants must post margin, which fluctuates with market volatility. The additional daily clearing volume is large, estimated at \$4 trillion. The associated margin could raise baseline liquidity needs in normal times and could amplify demand during stressed episodes, converting what was credit risk into liquidity risk and cost.

CURVES AHEAD

With the supply of liquidity in the market having declined and the demand growing, funding markets could be subject to unexpected shocks. We think economic expansion has some road ahead, but potential potholes are possible. Given we are late cycle, the economy is more vulnerable to volatility, like that seen on Liberation Day. Such shocks could have an outsize impact on market liquidity — simultaneously impairing return expectations and increasing volatility (functionally driving Sharpe ratios to zero).

In gauging what's ahead, we believe investors should keep an eye out for some key signs.

1 Fed Balance Sheet

We think investors should begin watching Fed purchases. As announced, starting in December, the Fed will stop shrinking its balance sheet through QT and reinvest principal paydowns from its holdings of agency securities into Treasury bills. Those reinvestments will hold the overall size of the Fed's balance sheet steady. But over time, the Fed will also have to conduct outright purchases

in order to offset structural growth in the currency in circulation and other liabilities on its balance sheet. The tenor of these purchases could affect prices of government bonds, T-bills and agency debt, along with the shape of the yield curve. Some Fed policymakers have also suggested that the Fed could pursue sales of its agency mortgage-backed securities (MBS) portfolio, even while growing the balance sheet.

2 Funding Market Stability

A sudden shortfall in funding market liquidity, like that seen in 2019, could reverberate through financial markets. Volatility in funding markets could spill over into asset prices, as positions become more costly to fund or if leverage is unwound, affecting everything from corporate funding to basis trading. Although the Fed has announced it will be stopping QT, we think investors should continue to watch funding markets for early indicators of strain and develop funding and liquidity management strategies that can be deployed in the event of market stress.

²BNY Markets, Federal Reserve Board of Governors, U.S. Treasury.

3 Management of Duration

With bill issuance higher and Fed reinvestments favoring the purchase of T-bills, the fulcrum of demand for duration could shift shorter. Further, more price-sensitive investors with shorter-duration liabilities, such as hedge funds and money market funds, are now driving U.S. Treasury demand alongside longer-term investors, like pension funds and insurance plans. If demand for longer-dated Treasury bonds weakens, driven by rising federal deficits or persistent inflation, we could see more volatility in longer tenors. In our view, investors should manage duration thoughtfully given this confluence of factors.

Potential Signs of Liquidity Stress

- Elevated repo and overnight funding rates, especially if persistently above the Fed's IORB rate
- Widening bid-ask spreads and reduced market depth in Treasury securities trading
- Sharply increased use of the Fed's Standing Repo Facility, signaling a sudden need for sourcing liquidity from the Fed given the cost of funding in private markets
- Volatility or declines in Treasury auction coverage ratios, including bills, signaling challenges absorbing new issuance

There may be twists and turns ahead on this Treasury market road trip. The Treasury market is being reshaped through structural and market factors, and given it is the epicenter of financial markets, those changes could impact asset prices and volatility broadly. We think investors may be able to better navigate bumps along the way by understanding these forces and looking out for these signs.

06 MEET OUR EXPERTS



Alicia Levine
Head of Investment
Strategy & Equities
BNY Wealth



Vincent Reinhart
Chief Economist
*BNY Investments Dreyfus
& Mellon*



Jason Granet
Chief Investment Officer
BNY



Jason Vitale
Head of Global
Markets Trading
BNY Markets



Bob Savage
Head of Markets
Macro Strategy
BNY Markets



John Velis
Americas Macro Strategist
BNY Markets



Chris Vella
Chief Investment Officer
BNY Advisors



Eric Hundahl
Head of BNY
Investment Institute¹
BNY Advisors



Sebastian Vismara
Head of Economic
Research
BNY Advisors



John Flahive
Head of Fixed Income
BNY Wealth



John Porter
Chief Investment Officer
BNY Investments Newton



Ella Hoxha
Head of Fixed Income
BNY Investments Newton



Brendan Murphy
Head of Fixed Income,
North America
Insight Investment



Francesca Fornasari
Head of Currency Solutions
Insight Investment

As of September 2025. ¹ BNY Investment Institute consists of BNY Advisors' macroeconomic research, asset allocation, manager research and operational due diligence teams.

GLOSSARY

A non-linear economic event refers to an event in which a small change or trigger produces a disproportionately large, or unexpectedly small, effect on the economy.

Artificial intelligence (AI) refers to computer systems that can perform tasks typically requiring human intelligence, such as visual perception, speech recognition, decision-making and language translation.

Bifurcated supply chains are supply networks that have been deliberately split into two separate, parallel streams — often by region or supplier — to reduce risk, manage differing regulatory or geopolitical requirements, and ensure continuity if one leg is disrupted.

Big tech refers to the handful of very large, market-leading technology companies that wield outsized influence over digital infrastructure, consumer habits and data.

Earnings per share (EPS) is a commonly used measure of a company's profitability. It indicates how much profit each outstanding share of common stock has earned.

FX hedging (foreign-exchange hedging) is the practice of protecting against adverse currency-rate movements by locking in exchange rates or using derivatives to mitigate potential gains or losses from changes in foreign exchange rates.

Interest on reserve balances (IORB) rate refers to the interest rate the Federal Reserve pays banks and other depository institutions on the balances they hold in their reserve accounts at the Fed. It serves as a key tool for setting and floor-pricing short-term market interest rates.

Liquidity coverage ratio (LCR) is a regulatory requirement that makes banks hold enough high-quality liquid assets — like cash, government bonds or other easily sold securities — to cover their net cash outflows over a 30-day stress period. It ensures an institution can meet short-term obligations even under severe funding strains.

Purchasing managers' indexes (PMIs) are monthly, survey-based indicators that gauge overall business activity (e.g., new orders, production, employment) in a given sector. A reading above 50 signals expansion, while below 50 indicates contraction.

Quantitative tightening (QT) is a central-bank monetary policy in which the bank shrinks its balance sheet — by letting bonds mature without reinvesting the proceeds or by actively selling assets — thereby withdrawing liquidity from the financial system and tightening financial conditions.

Real wage growth is the percentage increase in workers' pay after adjusting for inflation, showing how much their purchasing power has changed over time.

S&P 500 Index ex-Financials is a variant of the standard S&P 500 that removes all financial sector companies, so it tracks the market cap weighted performance of the remaining non-financial constituents. An investor cannot invest directly in any index.

S&P 500® Index is a widely accepted, unmanaged index of U.S. stock market performance. An investor cannot invest directly in any index.

SEC (Securities and Exchange Commission) is the U.S. federal agency that oversees and enforces the country's securities laws — regulating stock exchanges, broker-dealers, investment advisers and mutual funds — to protect investors, maintain fair, orderly markets and facilitate capital formation.

Sharpe ratio refers to a measure of an investment's risk-adjusted return, calculated by dividing its excess return over a risk-free rate by the standard deviation (volatility) of those returns.

Sticky inflation refers to price increases that remain persistent and slow to come down — even when demand cools or policy tightens — often because of factors like long-term wage contracts, menu-setting costs or entrenched price-setting behavior.

Supplementary leverage ratio (SLR) is a regulatory metric that compares a bank's core capital (Tier 1) to its total leverage exposure (including both on- and off-balance-sheet items). It ensures banks hold a minimum amount of high-quality capital relative to their overall size to guard against excessive borrowing.

Treasury General Account (TGA) is the U.S. Department of the Treasury's main operating account held at the Federal Reserve. It serves as the government's "checking account," into which tax receipts flow and from which spending, debt service and other federal payments are made.

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