

INVEST



2026 OUTLOOK

Innovation Drives *Opportunities*

INVEST

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CLIENTS AND FRIENDS,

As 2025 draws to a close and we review the key milestones of the year, I'm reminded of the movie *Everything Everywhere All At Once*. From tariff and geopolitical uncertainty to artificial intelligence (AI) breakthroughs and resilient global growth, it has been a momentous year. And yet, at the time of writing, equities around the globe have powered higher, with most markets up more than 10% on the year.

I am excited to introduce our *2026 Outlook: Innovation Drives Opportunities*. The U.S. has been unparalleled throughout history in nurturing innovation, a critical competitive advantage supporting U.S. economic leadership. The economy's ability to funnel investment capital toward new frontiers in all industries not only leads to scientific and technological breakthroughs but also creates exciting opportunities for investors.

As your wealth manager, we challenge ourselves to identify the compelling investment opportunities within the megatrends that will impact portfolios and our lives for decades to come. The AI revolution is only in its early innings and is already reshaping energy and infrastructure demands in addition to changing how we work. AI-driven innovations also abound in manufacturing, biotech and retail. In such a rapidly evolving environment, the due diligence we undertake becomes even more essential, as with every evolution there are investments that soar and those that lose out.

We are privileged that you place your trust in us every day to sustain and grow your family wealth across generations. From all of us at BNY Wealth, we wish you and your families health and happiness in the new year.



SINEAD COLTON GRANT

Chief Investment Officer, BNY Wealth

KEY HIGHLIGHTS

01

GLOBAL GROWTH REMAINS RESILIENT

U.S. economic leadership is still intact.

Technological innovation, rising productivity and supportive policies solidify a U.S. economic advantage.

02

BONDS REASSERT THEIR VALUE

Bonds resume their traditional role of providing portfolio stability, income and diversification.

Be active in bonds to navigate interest rate volatility and uncover attractive opportunities across fixed income sectors.

03

BROADENING EARNINGS POWER EQUITIES

Earnings broaden due to rising profit margins, monetary easing and beneficial government policy.

Prioritize U.S. large cap equities, where we maintain an overweight. Watch Information Technology, Industrials and Financials for potential upside.

04

AI MEGATRENDS ATTRACT ATTENTION

Artificial intelligence (AI) continues to attract new capital.

Harness the power of AI through private markets, including venture capital, infrastructure and energy opportunities.

05

DIGITAL ASSETS GAIN TRACTION

From crypto to tokenization, digital assets are becoming more prominent as growing regulatory clarity provides a tailwind.

Explore ways to gain select digital asset exposure through private equity and venture capital.

ON THE HORIZON IN 2026

2025 began with uncertainty. Tariff announcements early in the year sparked volatility across markets, raising concerns about growth and inflation. Yet, despite these headwinds, the U.S. economy and markets demonstrated remarkable resilience.

We anticipated that growth would remain steady in 2025, supported by solid consumer spending and a “good enough” job market. Inflation struggled to reach the Federal Reserve’s (Fed’s) 2% target, but signs of softening in the labor market allowed the central bank to restart the easing cycle it began in 2024. Equity markets stabilized as earnings improved and began broadening beyond big technology names.

As we turn the page to 2026, we expect range-bound inflation, lower interest rates and AI-driven earnings growth. Corporations should benefit from Fed easing, pro-growth policy provisions and improved profit margins. Meanwhile, consumers will benefit from increased stimulus as a result of the One Big Beautiful Bill Act (OBBBA) and lowered borrowing costs as the Fed continues to reduce rates.

Although our outlook is not without risks, this backdrop makes us generally optimistic about the new year. Given AI’s productivity gains and increased adoption, we believe innovation is the cornerstone to some of the most attractive opportunities we see on the horizon.

01

GLOBAL GROWTH REMAINS RESILIENT

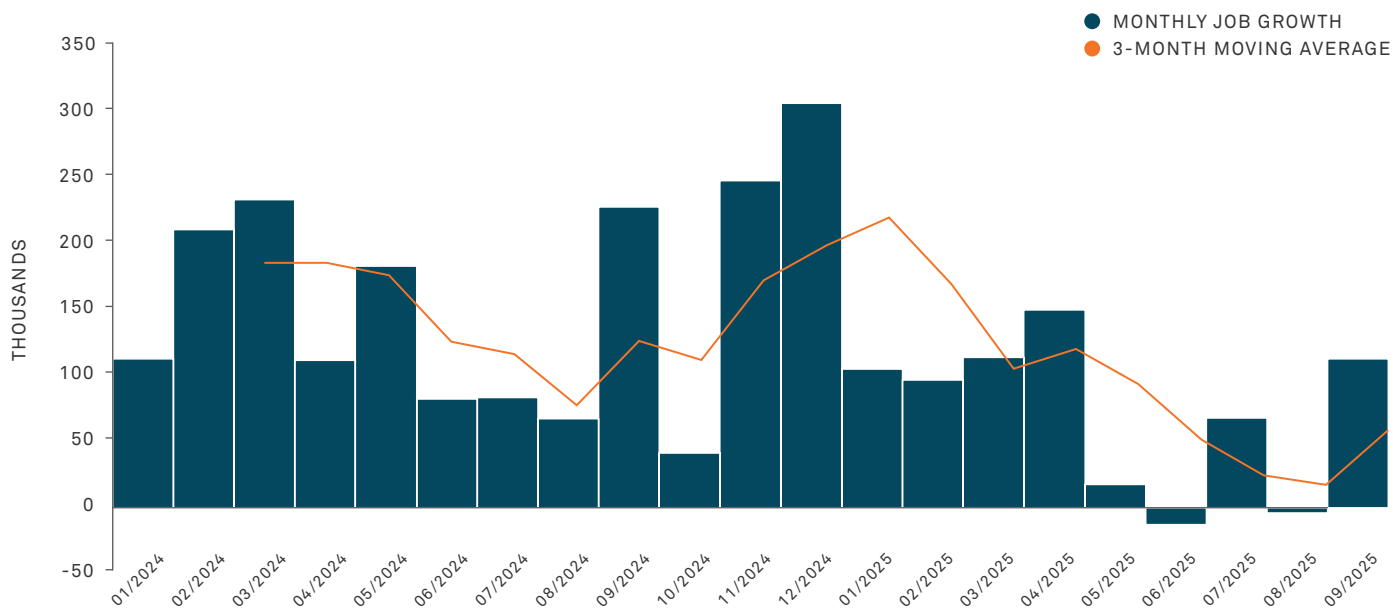
U.S. CONTINUES TO LEAD

In 2026, we expect U.S. economic leadership to endure, driven by productivity gains, a resilient consumer base and pro-growth fiscal policy. These factors should allow the economy to deliver modest growth of 1.7–2.3%, surpassing that of other developed countries.

SHIFTING LABOR DYNAMIC

In the past year, structural and cyclical forces have changed the labor market dynamic. Aging demographics and immigration policy have reduced the labor supply, while tariff uncertainty and the adoption of AI have softened the near-term demand for labor. As a result, job growth has slowed sharply with the three-month average falling to 62,000. Other data suggests that layoffs are beginning to rise; we will need to see whether this turns into a trend and affects the unemployment rate, thereby impacting growth.

THE DOWNSHIFT IN JOB GROWTH



Source: Bloomberg. Data as of September 30, 2025.

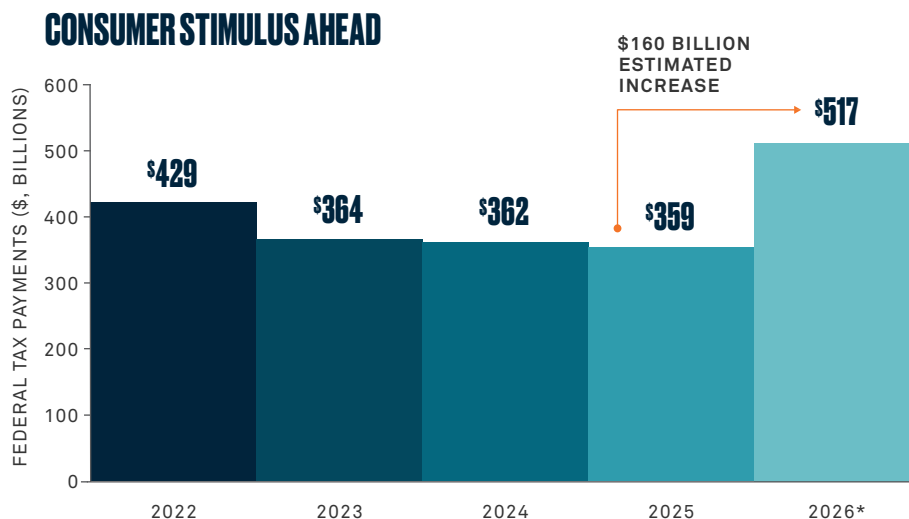
However, adoption of AI is expected to increase productivity through automation, data-driven decision-making and workflow optimization. After two decades of below-average U.S. productivity, the measure is on the rise, up 1.7% on an annualized basis over the last 10 years, and we expect it to continue to increase as AI adoption accelerates. Generative AI could boost annual productivity up to 0.6% through 2040.¹ This translates to additional GDP growth of 0.5-1% per year.

CONSUMER STRENGTH

Accounting for 70% of GDP, consumption remains a critical part of the growth story. Rising asset values (stocks and housing), known as the wealth effect, have continued to strengthen household balance sheets. According to the Fed, since 2020, household net worth has increased from \$116 trillion to \$176 trillion today, while household leverage is the lowest it has been in over 50 years.

Aggregate consumer spending has remained robust, especially among the high-income cohorts. However, signs of strain are now starting to appear among lower-income consumers, as evidenced by a rise in delinquency rates on credit card and auto loans. Due to the tax provisions in the OBBBA, such as deductions on tips, overtime pay and child credits, households could see some relief in early 2026. It's estimated that federal tax refunds will increase by \$160 billion, which equates to 0.5% of GDP. We believe the combination of strong consumer balance sheets, fiscal relief and lower borrowing costs should keep consumers spending at a level needed to deliver modest economic growth.

Strong consumer balance sheets, fiscal relief and lower borrowing costs should keep consumers spending.



*2026 is estimated.

Source: Strategas. Data as of October 1, 2025.

¹McKinsey and MIT.

PRO-GROWTH POLICY SUPPORT

Another positive tailwind of the OBBBA is the capital expenditure provision that allows companies to receive immediate tax benefits for qualifying research and development expenditures. These provisions will help to stimulate investment, innovation and domestic production.

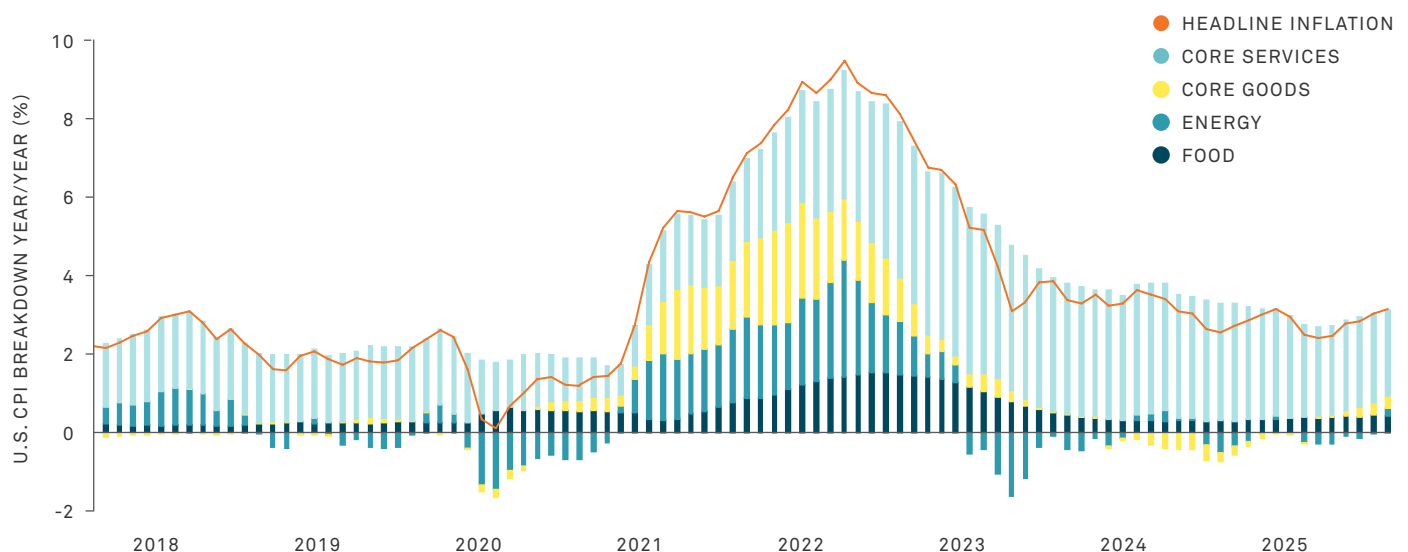
INFLATION LINGERS

During the course of 2025, the headline Consumer Price Index (CPI) has ranged between 2.3-3% year over year, in line with our expectations.

Beyond volatile food and energy prices, the services sector continues to drive most of today's inflation. However, we have seen progress on the sticky component of shelter, which accounts for 35% of CPI, as it has fallen from an annual rate of 4.9% to 3.6% over the past year. Since shelter lags actual housing prices, which have continued to see slowing growth, shelter inflation should continue moving lower. After trending lower, core goods inflation has increased as some tariffs are being passed on to the consumer.

While we have not yet seen the full effects of tariffs, we believe they will amount to a one-time impact on inflation. Our range for headline inflation remains 2.6-3.3% year over year in 2026.

INFLATION BREAKDOWN



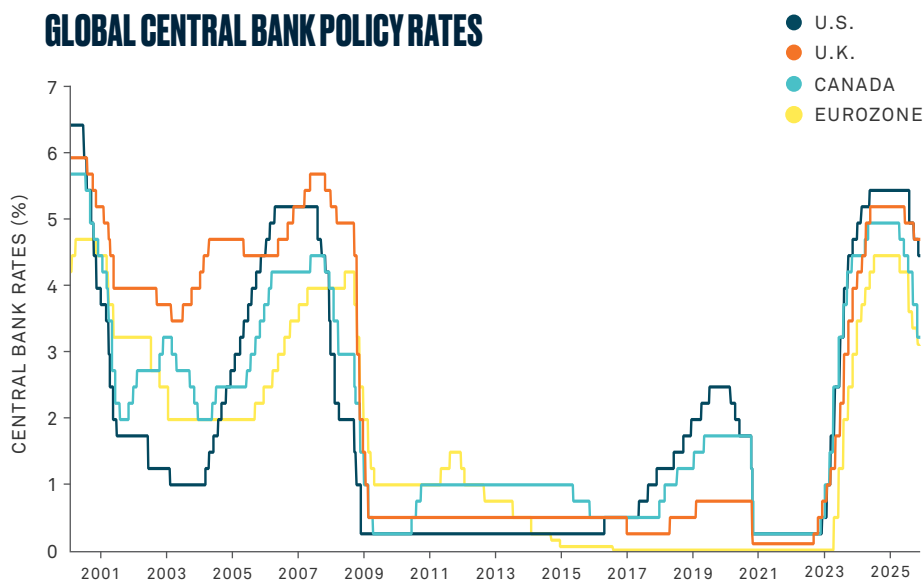
FED BALANCING ACT

The Fed has a dual mandate of ensuring full employment and price stability. Given that inflation is above its 2% target and the labor market is cooling, the central bank faces a challenging balancing act.

The Fed resumed its easing cycle in 2025 and we expect the central bank to continue on its path toward a federal funds rate of 3%. However, in May, a new chair will replace current Fed Chair Jerome Powell, and that person may be more supportive of the administration's desire to ease further.

Compared to the Fed, other central banks have been more aggressive in their monetary easing. Several developed economies may soon be approaching the end of their easing cycles as inflation nears target.

GLOBAL CENTRAL BANK POLICY RATES



Source: Bloomberg. Data as of November 21, 2025.

DOLLAR DEPRECIATES

The U.S. dollar fell nearly 10% year to date through the end of November as measured against a basket of currencies known as the U.S. Dollar Index.² Concerns about persistently elevated inflation, tariff-related economic uncertainty and high U.S. government debt levels weighed on the greenback.

²The U.S. Majors Dollar Index (USDIX) has fixed weights for six major currencies: Euro (57.6%), Japanese Yen (13.6%), British Pound Sterling (11.9%), Canadian Dollar (9.1%), Swedish Krona (4.2%), and Swiss Franc (3.6%).

In recent months, the dollar regained its footing as U.S. growth remained resilient. We believe the worst of the dollar's descent may be behind us for several reasons. First, there is still demand for U.S. Treasuries and the U.S. dollar's status as the world's reserve currency remains firmly in place. Second, we also believe the peak of policy uncertainty is likely in the rearview mirror. And third, our forecast for improving economic growth suggests the dollar can stabilize from here.

EUROPE: A PATCHWORK QUILT

We expect the Eurozone economy to deliver growth of around 1.3% in 2026³ due to stable consumer demand, increased defense spending and easier financial conditions. However, the single currency bloc faces several challenges, including sluggish growth in major economies like France and Germany, softer U.S. demand for Eurozone exports, political instability, tighter regulation, and an ongoing energy crisis. The European Central Bank may ease slightly next year as a result.

CHINA: CONFLICTING FORCES

For China, we expect economic growth to slow to 4.0% in 2026⁴ from 4.8% in 2025. The economy is grappling with excessive debt, deflation and a rapidly aging population as it continues to rely on exports to support growth. China's stimulus measures have produced mixed results, providing some short-term boosts to financial markets while fundamentally failing to address structural economic weaknesses, such as the real estate crisis or damage to consumer confidence.

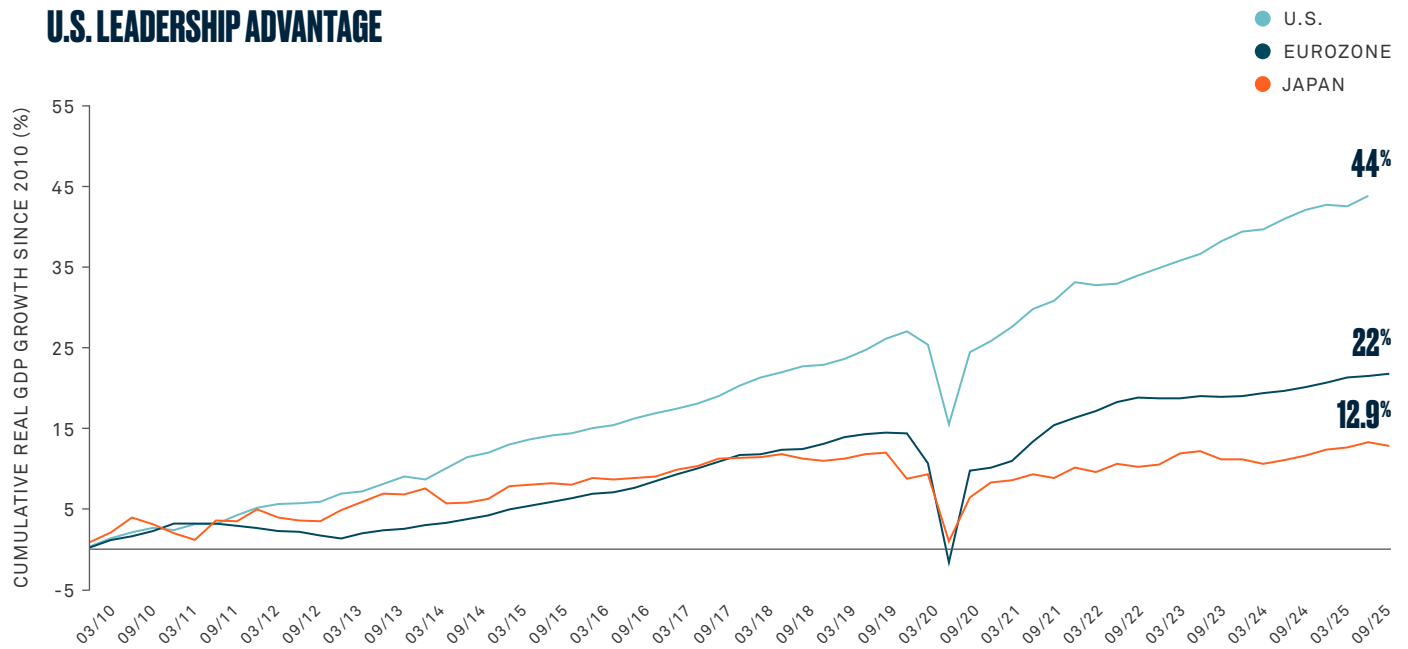
JAPAN: TEETERING

Since Prime Minister Sanae Takaichi's election victory in October 2025, the Bank of Japan (BoJ) has held interest rates steady, a decision that, combined with Takaichi's strong preference for loose monetary policy, has contributed to currency depreciation. Consequently, the BoJ's policy outlook has become more complicated as a weaker yen can worsen inflation, which now sits above its target at 3%. In 2026, we expect the Japanese economy to grow approximately 0.8%⁵ as strong domestic demand should offset the shortfall caused by trade tensions.



^{3,4,5} BNY Investment Institute as of October 2025.

U.S. LEADERSHIP ADVANTAGE



Source: Bloomberg. Data as of September 30, 2025.

INVESTOR TAKEAWAY

Technological innovation, rising productivity and supportive policies solidify a U.S. economic advantage.

02

BONDS REASSERT THEIR VALUE

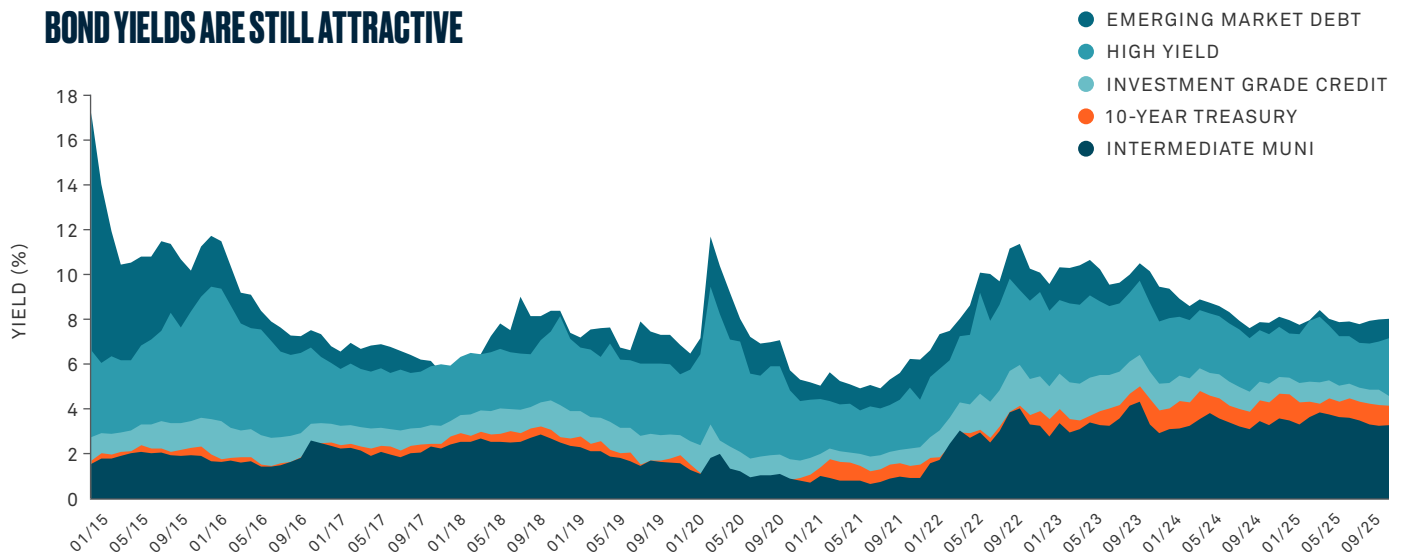
The combination of attractive yields and lower interest rates should allow bonds to deliver positive returns again in 2026.

As we look at the opportunities in bonds, it is important to remember that total returns are made up of two components: interest payments set at the time a bond is issued and changes in the price of the bond. Relatively high current yields and price appreciation potential as the Fed continues its easing cycle give us confidence that bonds can continue to play their traditional role as a source of stability, income and diversification in portfolios.

ATTRACTIVE ENTRY POINT

Although bond yields have come down from their recent highs, they continue to look attractive relative to those of the previous decade. Taxable yields range from 4-7.8%. Meanwhile, high-quality, intermediate municipal bonds are yielding near 5.5% on a tax-equivalent basis. For individuals living in a high-income tax state, such as New York, Massachusetts or California, that's about 6.5% on a tax-equivalent basis for an investor in the top tax bracket. This is important because the initial yield at which you invest is typically a good proxy for expected long-term returns.

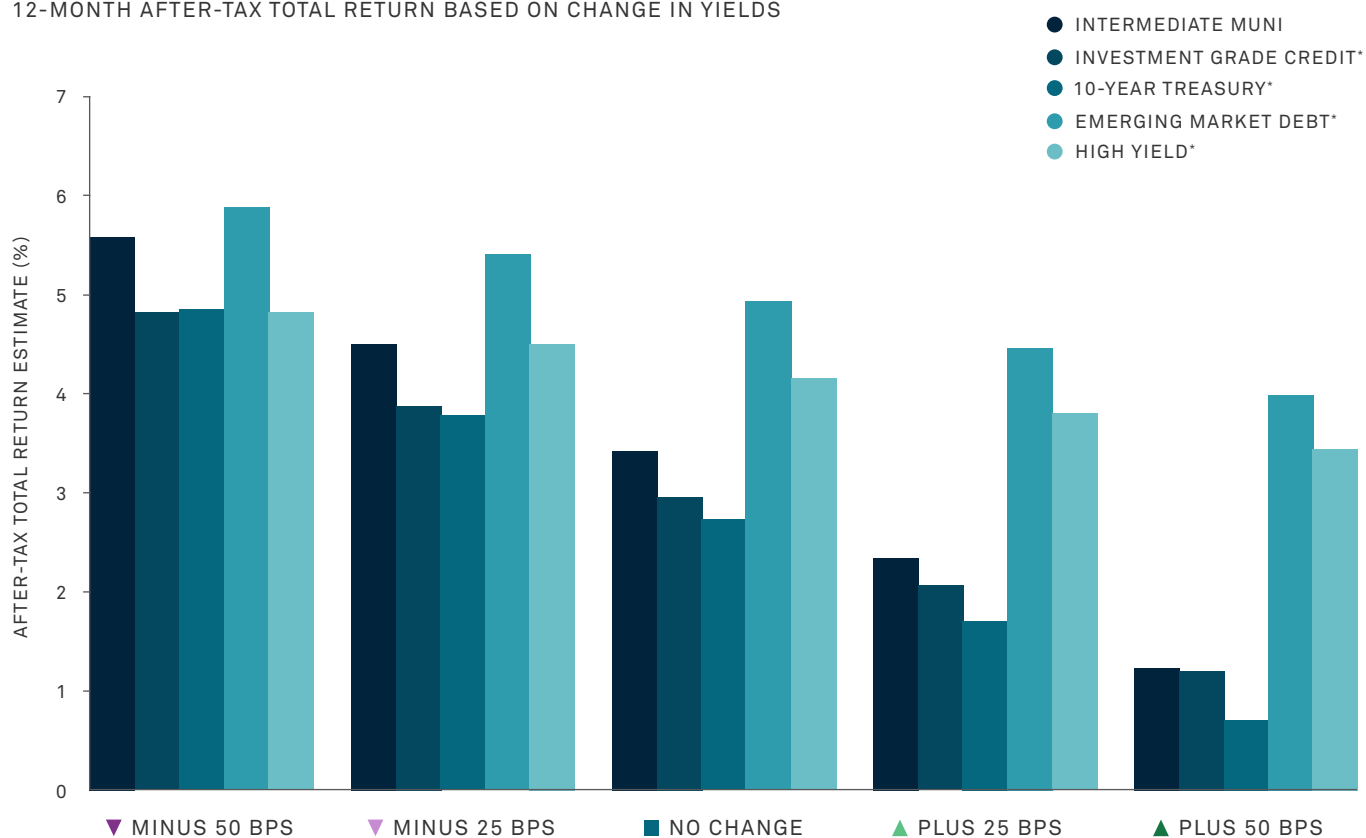
BOND YIELDS ARE STILL ATTRACTIVE



Higher starting yields also provide an important buffer against price fluctuations. As seen below, if yields decline as we expect, fixed income should deliver positive mid-single digit total returns. However, key risk factors such as sticky inflation and the high level of government debt could push yields higher, particularly for longer-dated maturities. Even so, the cushion of higher starting yields will help to deliver positive returns.

BOND YIELDS BUFFER AGAINST VOLATILITY

12-MONTH AFTER-TAX TOTAL RETURN BASED ON CHANGE IN YIELDS



*Based on a 40.8% federal tax rate. The simulation assumes a parallel shift across the entire yield curve.
Source: Bloomberg. Data as of November 21, 2025.

We expect Treasury yields to move lower across the curve, led by shorter-dated maturities, which will result in a steeper yield curve. As the economy strengthens in the latter part of 2026, we see the 10-year Treasury note yield ending the year between 4-4.5%, slightly above where it sits today.

AN ACTIVE APPROACH

While we are positive on fixed income next year, investors should still be prepared for periods of volatility. That's why it is critical to take an active approach to capitalize on interest rate movements, actively harvest losses to minimize the impact of taxes, assess the credit quality of bond issuers and exploit dislocations. All these active decisions add value to the portfolio.

For tax-sensitive investors, we recommend a diversified portfolio of predominately high-quality, intermediate municipal bonds. We are still upbeat about corporate profitability, but credit spreads across both investment grade and high yield are near historic lows relative to Treasuries, suggesting that most of these returns will stem from yield. Emerging market debt solutions provide an opportunity to add potential return and additional diversification within your overall fixed income holdings, and typically perform strongly when the Fed is cutting interest rates. Heightened geopolitical risk and potential currency volatility should provide an attractive landscape to add value within the emerging market space.

We see opportunities in high-quality, intermediate-to long-term municipal bonds, high yield bonds and emerging market debt.

INVESTOR TAKEAWAY

Be active in bonds to navigate interest rate volatility and uncover attractive opportunities across fixed income sectors.



03

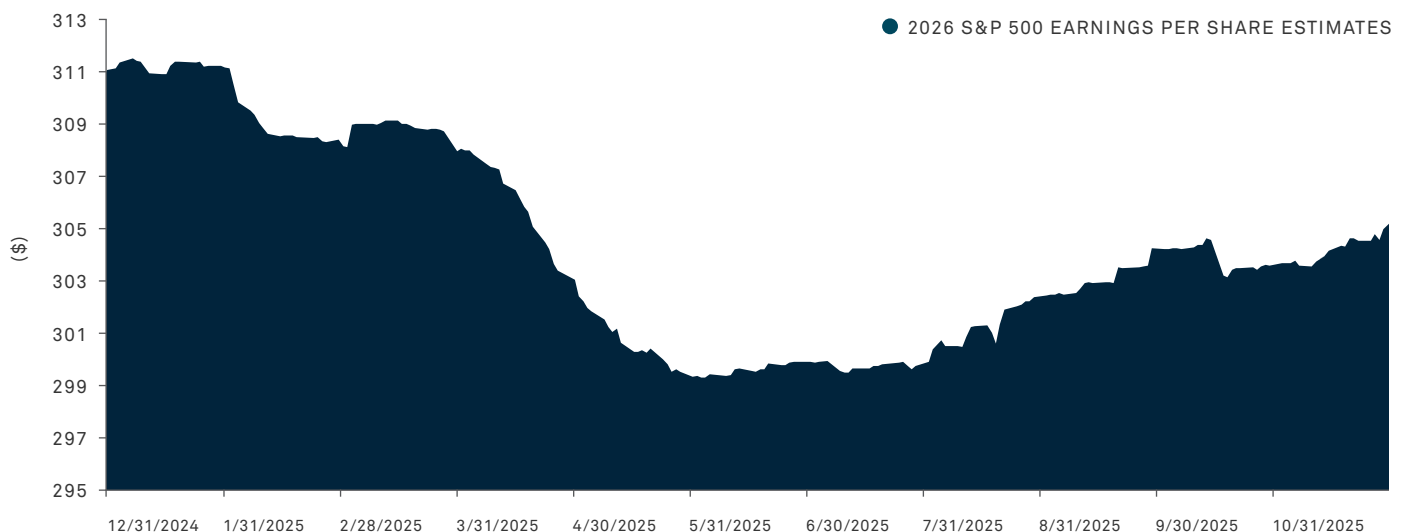
BROADENING EARNINGS POWER EQUITIES

POSITIVE EARNINGS CATALYST

This year will mark the third consecutive year of 10% or greater S&P 500 returns, which have been driven by solid earnings growth. We expect S&P 500 earnings to grow 10-15% in 2026, bringing our year-end target for the index to 7,200-7,600.

We believe the bull market has more room to run, as earnings growth is expected to broaden beyond big tech. Improving productivity and profitability due to AI technology, expected Fed rate cuts and business-friendly regulatory and policy provisions set by the OBBBA should support positive earnings momentum. From a historical perspective, when the Fed has cut rates into an expanding economy and positive earnings growth, stocks have gained 16.5% in the 12 months following the first cut of an easing cycle. The number ticks up to 44.5% over the first 24 months. While the Fed's easing arguably started in the fall of 2024, we view the latest cuts and future expectations as a new cycle.

EARNINGS MOVING HIGHER



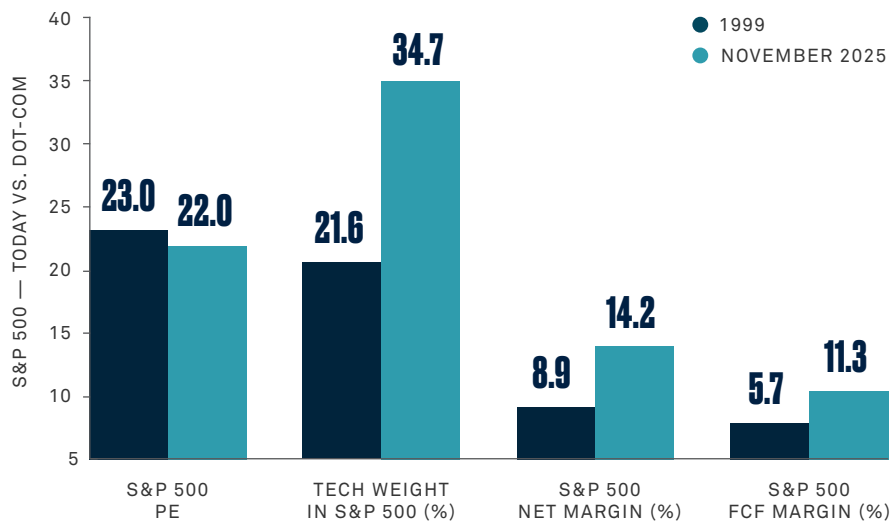
Source: FactSet. Data as of November 19, 2025.

EXPENSIVE BUT JUSTIFIED

During 2025, investors were concerned that the S&P 500 was overvalued and compared the market to the dot-com era. While the current earnings multiple sits above the long-term average at 22x, we believe this market can support higher multiples. These are our reasons:

- **With the technology sector now accounting for 35% of the S&P 500's capitalization**, its higher valuation is lifting the overall multiple of the index.
- **The S&P 500 is more profitable today** with net margins 1.6x higher at 14% compared to the dot-com era.
- **Another marker of profitability** is the index's higher free cash flow (FCF) margins at 11.3% compared to 5.7% 25 years ago. (FCF margins measure operational efficiency and cash generating capabilities; they are key when valuing a company.)

THIS MARKET IS DIFFERENT



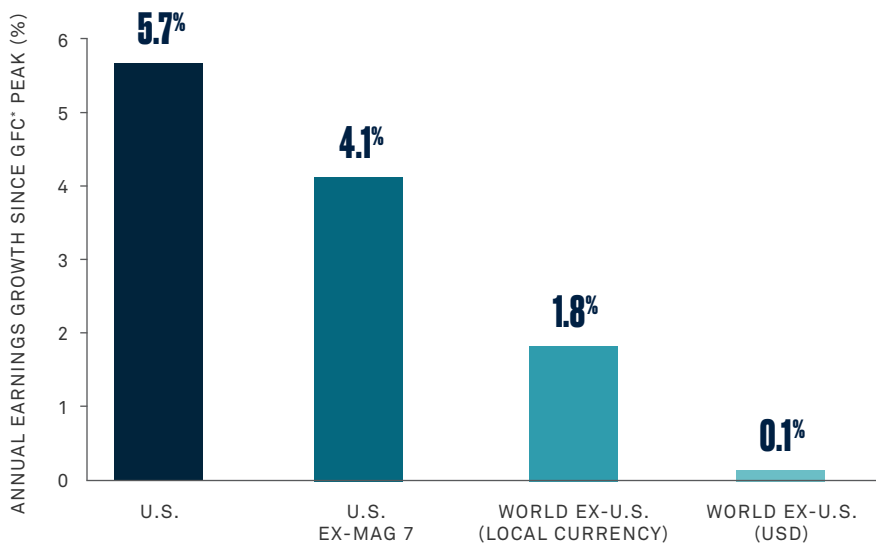
Source: FactSet. Data as of November 25, 2025.
 PE: 12-month forward price-to-earnings ratio. FCF: free cash flow.

U.S. HOME-FIELD ADVANTAGE

In 2025, U.S. equities underperformed the rest of the world due to elevated uncertainty surrounding U.S. trade policy, fiscal stability and a weaker U.S. dollar, which resulted in a temporary shift away from the U.S. market. Yet, the performance gap between the U.S. and the rest of the world has narrowed throughout the year as relative U.S. equity performance gained momentum.

We continue to favor U.S. equities — and large cap stocks in particular — over non-U.S. stocks. Earnings growth has been higher in the U.S. since the Global Financial Crisis, and we expect the trend to persist. Additionally, the U.S. has a more favorable regulatory environment and deeper capital markets that will continue to give it an advantage over other regions.

EARNINGS GROWTH DRIVES U.S. OUTPERFORMANCE



*Global Financial Crisis.

Source: Bloomberg. Data as of September 30, 2025.

EQUITY IDEAS

We are focused on opportunities emerging across three sectors in 2026: Information Technology, Industrials and Financials. We believe they are poised to reap the benefits of various developments, including AI, Fed easing and pro-growth policies.

FACTORS SUPPORTING SECTORS

	INFORMATION TECHNOLOGY	INDUSTRIALS	FINANCIALS
ARTIFICIAL INTELLIGENCE	×	×	
STEEPER YIELD CURVE	×	×	×
TRADE DEALS	×	×	
GROWTH PROVISIONS OF OBBBA	×	×	×

Source: BNY Wealth.

1. INFORMATION TECHNOLOGY

Information Technology is on track to be the best performing sector in 2025, up nearly 24% through the end of November. AI-led innovation and growing adoption have driven the majority of these gains. We expect this trend to continue into 2026, creating more demand for AI, a greater need for capacity and continued capital expenditure investment.

We expect this sector to enjoy earnings growth of 25% in 2026.

2. INDUSTRIALS

After years of manufacturing contraction, interest-rate sensitive areas, such as construction activity and capital goods purchases that often require financing, should benefit from the Fed's easing cycle currently underway.

While tariffs were a headwind to the sector in 2025, they are largely designed to encourage U.S. companies to bring manufacturing back to the U.S. Other recent trade deals and the OBBBA tax provisions should be positive for many areas of the sector, including U.S. energy, aircraft and defense equipment, all of which will require increased machinery, equipment and facilities. Lastly, the buildout of data centers to support AI requires significant electrical and HVAC equipment to sustain its high energy requirements.

We expect this will lead to 20% earnings growth in the Industrials sector in 2026.

3. FINANCIALS

The interest rate outlook is becoming increasingly positive for Financials with short-term rates declining and the yield curve steepening. Banks tend to benefit when this happens because the difference between the interest rate they pay on deposits and the interest rate they earn on loans tends to widen. Lower short-term rates can also help consumers and businesses with financing needs, and that stimulates economic activity. We also anticipate profitability improving via deregulation. Tailwinds from heightened M&A activity are another positive, whether within the financial sector or in the economy more broadly.

We expect these trends will lead to 7% earnings growth in Financials in 2026.

INVESTOR TAKEAWAY

Prioritize U.S. large cap equities, where we maintain an overweight. Watch Information Technology, Industrials and Financials for potential upside.

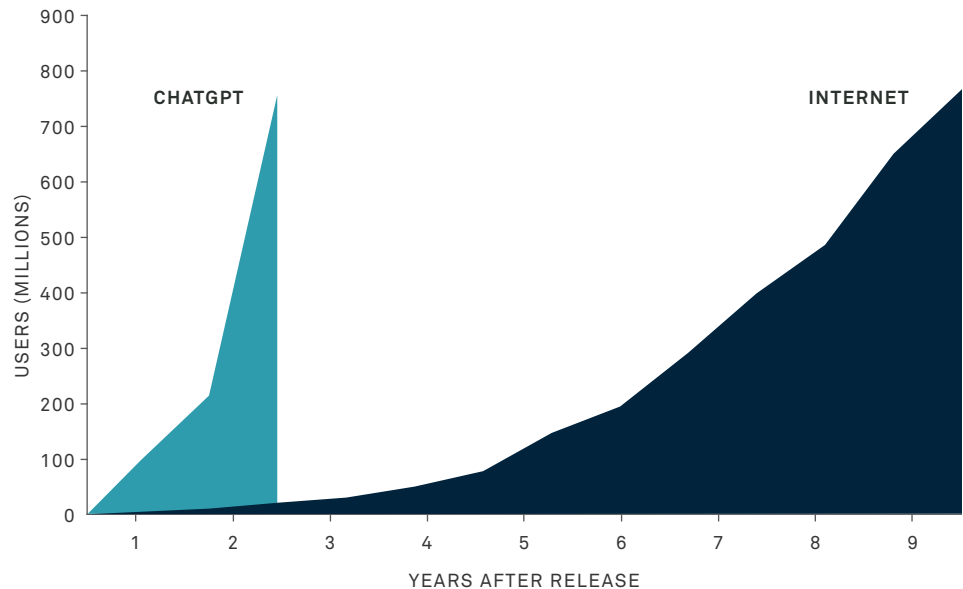
04

AI MEGATRENDS ATTRACT ATTENTION

Throughout the ages, technology has always been a disruptive force, but never more so than today when AI is poised to surpass past innovations in reach and impact.

For example, internet adoption took six times as long as AI to reach about 800 million users, with the internet taking 13 years and ChatGPT just under three years. Today, AI permeates every corner of our lives, from consumer applications to industrial processes. The investment opportunities arising from its rapid adoption, broad use cases and early monetization have never been more compelling.

AI ADOPTION IS OUTPACING INTERNET ADOPTION

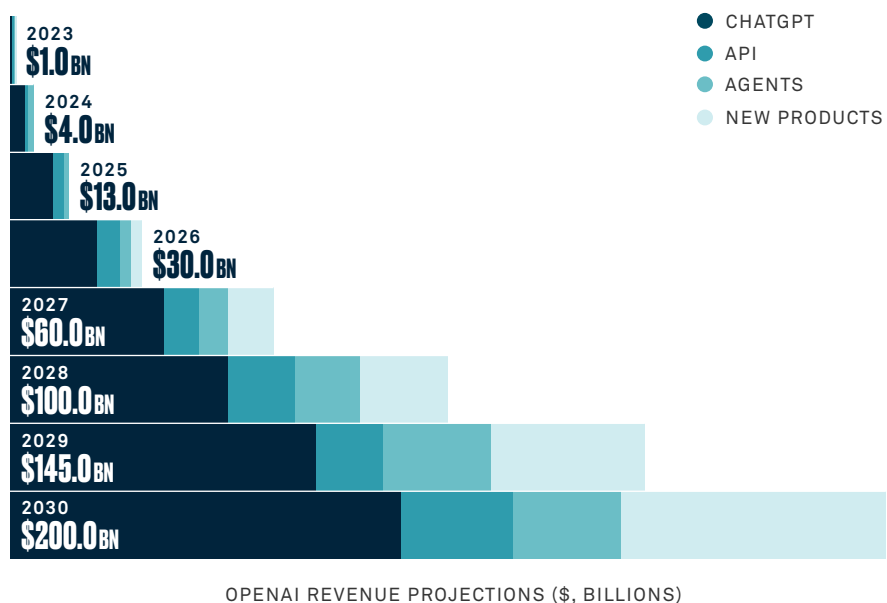


Source: OpenAI, World Bank. As of October 9, 2025.

Today, AI deployments have already led to notable monetization. OpenAI, the market leader among AI models, shared revenue projections through 2030 and suggested they could achieve \$100 billion in revenue by 2028.

It is important to acknowledge this is a projection and has significant risks, including AI adoption, competition, pricing and potential regulation, but these projections are particularly impressive when we compare them to some of today's most dominant companies. If OpenAI is able to execute, it would reach \$100 billion in revenue in five to six years, which is 2x faster or more than some of today's largest, most dominant technology companies.

MONETIZATION IS HAPPENING



Source: The Information.

The U.S. appears to be leading the world when it comes to enterprise adoption of AI models. Enterprises are leaning into AI adoption to create competitive differentiation and improve productivity. U.S. business leaders are prioritizing AI in their spending plans, signaling a widespread commitment to this technology. In fact, the Magnificent Seven have indicated they are estimated to spend nearly \$400 billion in capital expenditures in 2025, an increase of 56% compared to 2024 levels.

CAPITALIZE ON AI THROUGH VENTURE CAPITAL

There are various ways to gain exposure to AI adoption. One way is through the public market, where we see companies benefitting from building the AI infrastructure that is critical to adoption and model advancements. There are many opportunities in the semiconductor space, primarily concentrated in companies at the forefront of AI infrastructure and applications.

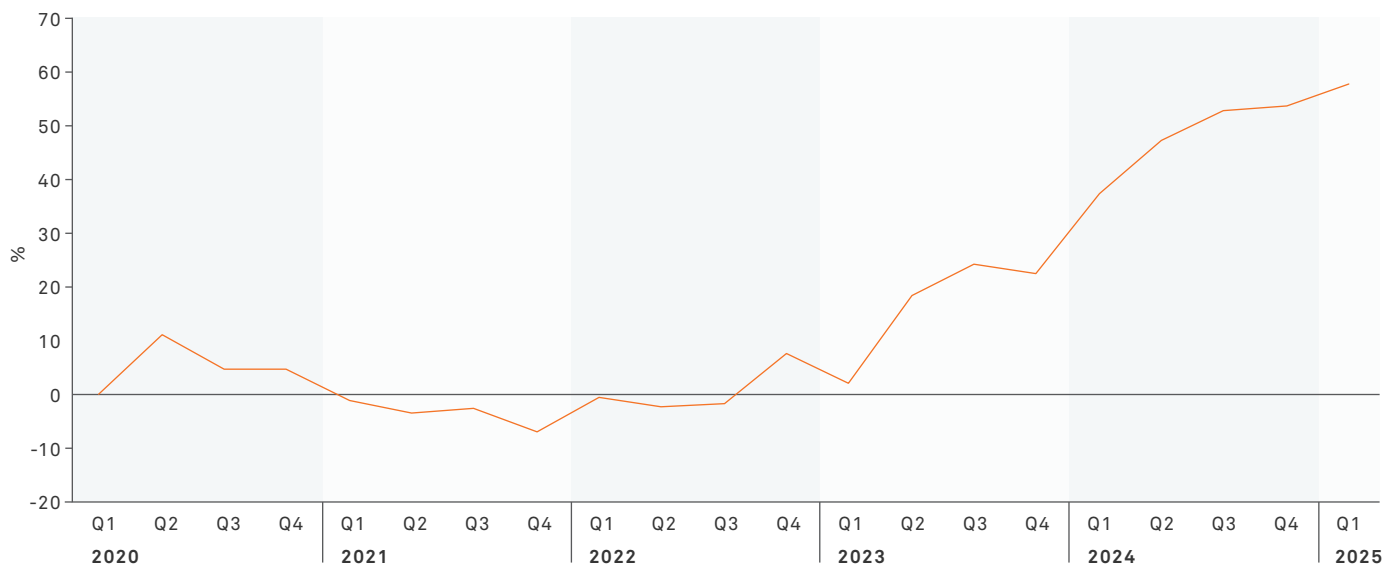
In addition, venture capital (VC) has been at the forefront of funding AI start-ups, which, through their agility and innovation, develop cutting-edge language models and novel applications before they scale. In 2024, global VC funding for AI start-ups surged to \$131.5 billion, a 52% increase from the prior year. Amazingly, 74% of these investments were based in the U.S. Moreover, many large technology companies are dipping into the start-up space through partnerships and acquisitions to improve their research and development capabilities in AI.

BNY Investments' private equity funds, which are available to qualified investors, have been investing in AI for over a decade, establishing a deep presence across the entire AI value chain. Our portfolio spans infrastructure and tooling, model development and applied AI platforms — ensuring strategic full-stack exposure as AI adoption accelerates. Today, these funds hold stakes in more than half of the *Forbes Top 50* AI companies, positioning us ahead of the curve as each layer of the technology stack evolves. Through our manager relationships, we have partnered with five of the top 10 VC firms in terms of successful IPOs over the last decade.

We believe that through early, targeted investments, we will continue to build broad exposure to the most transformative innovations shaping the AI revolution.

EXPOSURE TO AI THROUGH VC

● CHANGE IN PROPORTION OF VC DEALS WITH EXPOSURE TO AI



Since Q1 2020.

Source: Preqin. Data as of April 2025.

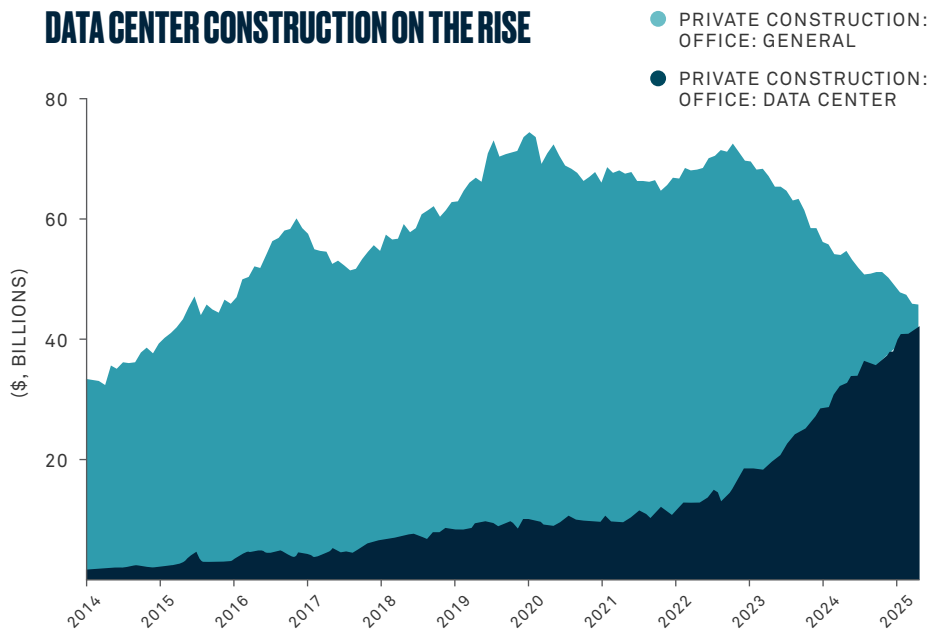
INFRASTRUCTURE AND ENERGY MEGATRENDS

As AI continues to ramp up, it is fueling unprecedented demand for computing power and the physical infrastructure that supports it. VC flowing into AI start-ups is creating knock-on opportunities for data centers and semiconductor fabrication:

• Data Centers

Hyperscalers, cloud platforms and colocation facilities are racing to expand capacity. Since 2024, data center construction has risen over 65%.

DATA CENTER CONSTRUCTION ON THE RISE



Source: Strategas. Data as of October 31, 2025.

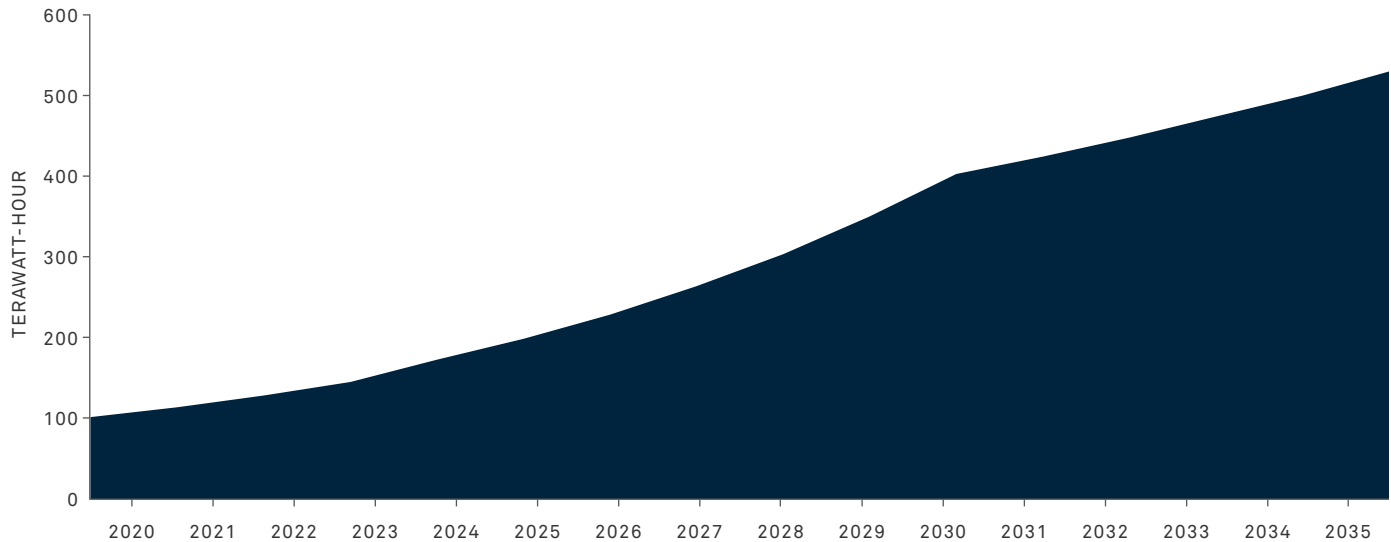
• Semiconductor Fabrication

Next-generation AI chips require advanced nodes and specialized packaging, driving investment in new components and equipment.

As compute loads surge, so does electricity consumption. U.S. data centers used 183 terawatt-hours (TWh) of power in 2024 (or ~4% of total) and forecasts show consumption could climb to 426 TWh by 2030, amounting to roughly 8-10% of total U.S. electricity consumption.

U.S. ELECTRICITY GENERATION FOR DATA CENTERS

● ELECTRICITY GENERATION FOR U.S. DATA CENTERS



Source: International Energy Agency: World Energy Outlook Special Report - Energy and AI. Data as of April 2025.

Meeting this explosive energy demand isn't just an engineering challenge — it's an investment opportunity. Private capital is flowing into power generation and delivery projects, including:

- **Natural gas pipelines and gas-fired power plants** to provide reliable baseload power.
- **Equipment manufacturers** of modular power-generation units.
- **Renewable energy projects** — solar, wind and battery storage that offer scalable, lower-carbon capacity.
- **Nuclear energy opportunities** in conventional large-scale plants, advanced small modular reactors and the nuclear fuel supply chain.

Investors can tap into these megatrends through real-asset funds — pooled investment vehicles that allocate capital to tangible, income-producing assets such as real estate, infrastructure and natural resources. These vehicles can offer investors stable cash flows, inflation protection and low correlation to public markets.

They typically employ long-term, active management strategies to enhance asset value, require multi-year investment commitments and often entail leverage and illiquidity. Real-asset funds, with their long-term investment horizon and project-finance expertise, are uniquely positioned to underwrite the build-out of both the physical infrastructure (data centers, fiber networks) and the energy required to power AI's growth.

Investors must be mindful of the risks associated with AI, including the need to balance the disruption it creates, the capital intensity of the infrastructure build and the power constraints that need to be addressed. Yet, if AI follows other technological advancements, there will be opportunities for investors to participate in significant value creation. However, valuation discipline and rigorous competitive analysis remain essential in assessing the true winners and losers in AI.

INVESTOR TAKEAWAY

Harness the power of AI through private markets, including venture capital, infrastructure and energy opportunities.

05

DIGITAL ASSETS GAIN TRACTION

OUR COMMITMENT

BNY has long been at the forefront of connecting institutional finance with the fast-evolving world of digital assets.

In 2022, we launched our Digital Asset Custody (DAC) platform for institutional investors, recognizing their growing interest in holding and trading digital assets. Since then, blockchain-based, real-time processes have continued to modernize the industry's infrastructure, drive operational efficiencies and lower costs. The BNY Digital Assets Business has evolved alongside the technology in order to drive the future of finance.

In addition to DAC, we are also involved in tokenization to unlock fractional ownership to a much broader range of investors. In partnership with Goldman Sachs, in 2025 we launched a tokenized money-market fund that leverages distributed-ledger technology (DLT) to record and transfer client ownership interests instantly and transparently.

The digital asset ecosystem is rapidly gaining momentum as investors flock to innovative technologies, drawn by expanding real world use cases and the promise of transformative long-term growth. Digital assets, such as cryptocurrencies, rely on blockchain to execute, verify and record transactions without an intermediary. Blockchain, the most well-known form of DLT, is a shared digital ledger that records transactions in "blocks," with each block cryptographically linked to the one before it. The technology offers transparency, security, decentralization, efficiency and traceability.⁶

We have long recommended that clients gain exposure to the underlying blockchain technology through our private equity funds, which include VC vehicles. For more than a decade, these funds have held high single-digit percentage allocations to Web3 and blockchain innovators across multiple vintage years.⁷ Over that time, we have been monitoring several aspects of cryptocurrency:

- **Store of value**
- **Long-term diversification characteristics**
- **Adoption rate**
- **Regulatory environment**

There are thousands of cryptocurrencies and Bitcoin is the largest. Developed in 2009 as an alternative currency, it is accepted as payment by some vendors and many “digital natives” view it as a long-term investment due to its limited supply and increasing demand. Given its finite supply of only 21 million coins,⁸ Bitcoin may offer a unique store of value as well as diversification benefits because of its historically low correlation to equities, bonds and even gold.

The structure of the Bitcoin market is changing. With policymakers providing clearer regulatory frameworks, access through pooled vehicles, such as ETFs, is broadening investor adoption. While these factors are positive for the asset class, they could result in increased volatility. Elements contributing to the recent sell-off include year-end tax selling pressures, expanded leverage to crypto and momentum trading through ETFs. These periods of decreased prices, also known as “crypto winters,” can last several months or longer.

The recent price movement is a reminder that Bitcoin is volatile. As the regulatory landscape evolves, we continue to evaluate the investment merits and risks associated with investing directly in this asset class.

PRICE HISTORY OF BITCOIN



Source: Bloomberg. Data as of November 25, 2025.

INVESTOR TAKEAWAY

Explore ways to gain select digital asset exposure through private equity and venture capital.

⁶The Digital Revolution: Transforming Financial Market Infrastructure, by BNY as of November 2025.

⁷BNY Investments as of November 2025.

⁸Bitcoin Council as of November 2025.

RISKS ON THE RADAR

While our outlook for 2026 is constructive, there are potential economic ripples we are closely monitoring.

FED FUMBLES

The Fed's delicate balancing act between its dual mandate of full employment and price stability leaves room for a policy mistake. On one hand, the Fed could be underestimating weakness in the labor market and its potential impact on the consumer by not easing fast enough; in this case, recession becomes more likely. Alternatively, if companies pass on a greater portion of tariff costs and inflation proves stickier than expected, the Fed could pause or even reverse course, disrupting markets.

CONSUMER COLLAPSES

Thus far, the consumer has remained strong enough to support economic growth, with both lower-income and higher-income households continuing to spend. However, there is clear evidence of a K-shaped economy; that is, one where spending habits between different income groups diverge.

Tax abatements and rate cuts should benefit lower-income households, but recent evidence reveals that the percent of consumer loans that are more than 90 days delinquent is at its highest level since 2009. If spending weakness then spreads to the high-end consumer, aggregate spending could weaken and lead to slower or negative growth.

On a more positive note, the proliferation of the gig economy, which comprises short-term and freelance workers, appears to be helping to cushion lower-income workers for the moment.

NOT ALL CONSUMERS ARE DOING OK



Source: Bloomberg. Data as of October 1, 2025.

FISCAL LIABILITIES

U.S. national debt and deficit levels are elevated and could cause several economic setbacks. They could increase inflation and result in higher interest rates that dampen economic growth, crowd out private investment and limit the government's flexibility to respond to future crises.

Still, we believe these risks are manageable in the near to intermediate term. The U.S. Treasury market is the largest and most actively traded market in the world, and thus, continues to be viewed as a safe haven. Recently there has been ample demand, both domestically and abroad, for U.S. debt to absorb the elevated supply. Although the percent of the federal budget needed to pay interest cost on outstanding debt equates to what the country spends on its defense, our expectation for lower interest rates should help lower these costs.

Additionally, tariff revenue and the pro-growth provisions of the OBBBA should stimulate economic growth and help to offset deficits by increasing revenue.

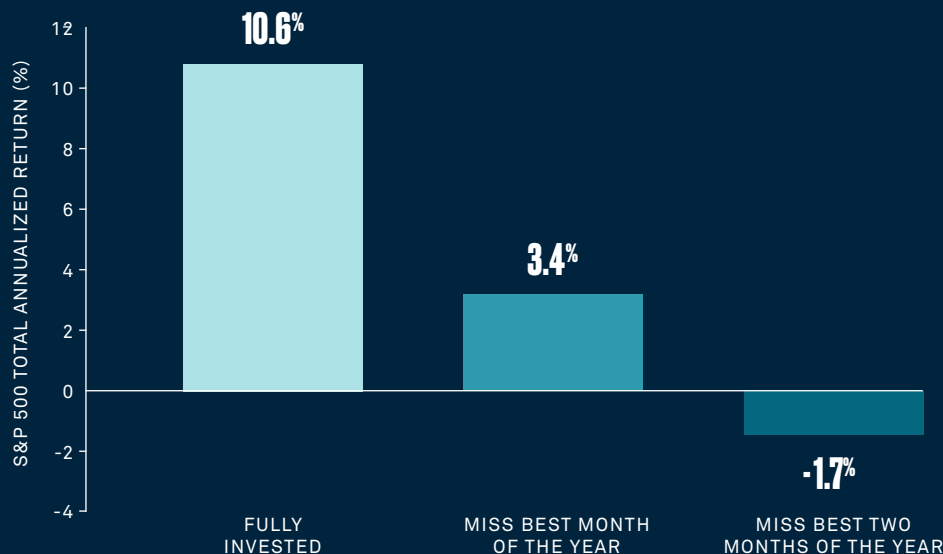
CLOSING THOUGHTS

2025 proved to be a rewarding year for investors, but it also served as a reminder that market volatility is ever-present, and structuring a portfolio that is resilient and aligned with your risk tolerance is critical.

For those who focused on the headlines, there were many reasons to worry, including tariff uncertainty, economic growth concerns, geopolitical tensions, and stretched valuations. While these developments could have kept investors on the sidelines, that decision would have proved costly.

At the height of tariff volatility, the S&P 500 was down nearly 20%, but those who stayed invested and weathered the downside were rewarded when the market recovered. This is a reminder for investors to avoid timing the market, which the figure below also illustrates. Since 1990, an investor who remained fully invested would have earned 7% more on an annualized basis compared to an investor who missed the best performing month of the year. The outperformance gap widens further the longer an investor stays on the sidelines. It's important to note that on average, the best month of the year follows the worst one, underscoring the point that it pays to stay invested.

THE COST OF STAYING ON THE SIDELINES



Source: Bloomberg. Data as of December 31, 2024.

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Past performance is no guarantee of future results.