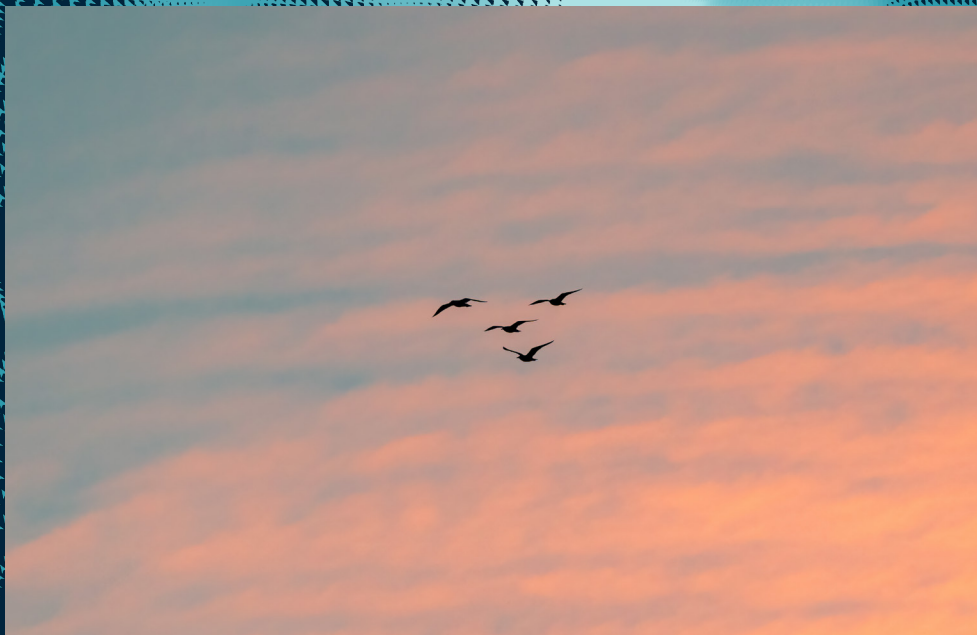


Composure in the Crosswinds: At the Table with BNY Experts



Debates at our Table



Eric Hundahl

Head of Investment Strategy and
Model Portfolios, BNY Investments

Key Takeaways

Geopolitical Blockades and Inflation Risk:

A significant disruption to global energy flows is pushing oil toward a prolonged \$100 per barrel scenario. This is starting to be reflected in household and firm inflation expectations, signaling that upward price pressures may prove to be robust and increasingly interconnected with energy costs.

The AI Productivity Offset:

The economic drag from rising oil prices will be broadly neutralized by the growth impulse of AI-related investment. That offset, however, is unlikely to be evenly distributed across regions. Tech- and semiconductor-linked economies in parts of Asia, along with commodity exporters leveraged to power, infrastructure, and data center demand, may prove more resilient than energy-importing economies facing a sharper inflation shock.

Opportunities Remain in the Front-End:

While long-term U.S. bonds are challenged due to fiscal dominance, the front-end of the curve offers an attractive opportunity to earn carry while waiting for the Fed's next move. Globally, asynchronous policy cycles, uneven disinflation, and differing fiscal dynamics argue for a selective approach to duration.

This quarter, discussions among BNY's macro and markets experts focused on unpacking a widening array of emerging crosswinds shaping a volatile macroeconomic environment. Geopolitical tensions, including disruptions to energy exports from the Middle East, continue to exert upward pressure on energy prices and inflation expectations. At the same time, ongoing investments into artificial intelligence (AI) are supporting capital expenditure, productivity gains, and broader economic resilience. Our conversations dug deep into uncertainties created by these opposing forces, the investor reaction across various asset classes, global growth prospects, and our outlook for central bank policy.

We believe the U.S. economy is navigating this period of heightened uncertainty from a position of relative strength. Corporate profit buffers remain supportive, bolstering U.S. equity performance, and consumers, despite pressure on real incomes, continue to be supported by elevated net worth. Even so, the path forward remains narrow as inflation expectations stay sensitive to supply-side shocks and the broader policy environment. Globally, we view the growth backdrop as more uneven and exposed to external shocks. While global activity has remained broadly resilient, regional conditions are diverging as higher energy prices, geopolitical tensions, and persistent inflation weigh more heavily on some economies than others.

We anticipate a period of event-driven volatility until diplomatic frameworks to end the Middle East conflict and re-open the Strait of Hormuz are agreed upon and implemented. In the meantime, central banks are likely to remain reactive, with policy decisions shaped by the extent to which higher energy prices begin to feed through to broader inflation. The Fed may still have scope for cautious easing if those pressures moderate, while some peers may need to keep policy tighter for longer. Geopolitical uncertainty is likely to remain elevated, with markets adjusting to persistent volatility rather than a return to stability. In this environment, investors may continue to favor liquidity, selective cyclical exposure to commodities and AI, and a cautious approach to risk.

World in Motion

United States

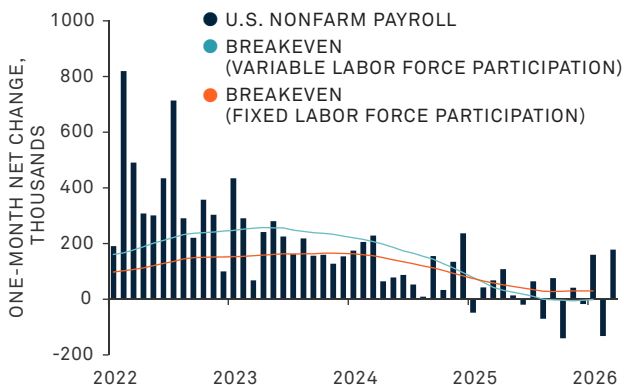
Growth

Business investment, looser fiscal policy, and steady consumer spending are bolstering growth. The unemployment rate has remained stable as the breakeven pace for employment growth is lower. This has kept the labor market broadly balanced, though it partly reflects moderating labor demand alongside softer labor force participation. A brief shock from the Middle East conflict would likely mean higher prices and weaker confidence, while a prolonged conflict could tighten financial conditions, raise saving, and weigh on investment.

Inflation & Policy

Headline CPI inflation has seen a sharp energy-driven rise. Core goods inflation continues to run below target, but domestic inflation has retained the strength that was evident prior to the conflict. The Fed is on hold and data dependent, balancing persistent price pressures against a soft but stable labor market, but continually higher energy prices would skew the rate trajectory to the upside.

U.S. NONFARM PAYROLLS & BREAKEVENS



Source: BNY Investment Strategy & Research Group, Federal Reserve Bank of Dallas. Data as of 4/16/26.

United Kingdom

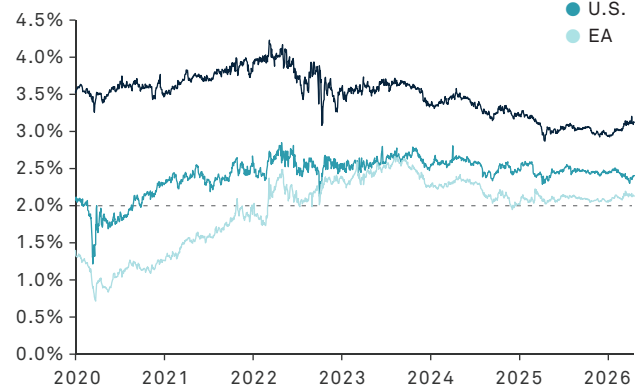
Growth

First-quarter growth picked up strongly on seasonal effects, but rising input and borrowing costs may have the opposite effect for the rest of the year. The UK remains exposed to a prolonged Middle East conflict, given its dependence on imported energy. Additionally, lingering concerns emanating from years of soft job market conditions have kept the savings rate elevated, demand for credit subdued, and expectations for tightening high.

Inflation & Policy

Inflation remains above target, especially in services, where price pressures remain persistent. Pay growth has been resilient, with little sign of moderation ahead. Although the Bank of England held rates steady in March and could look through the energy shock, depending on easing inflation persistence and anchoring of inflation expectations, risks remain tilted toward further tightening.

LONG-TERM INFLATION EXPECTATIONS



Source: Macrobond, BNY Institute. Data as of 4/16/26.

Euro Area

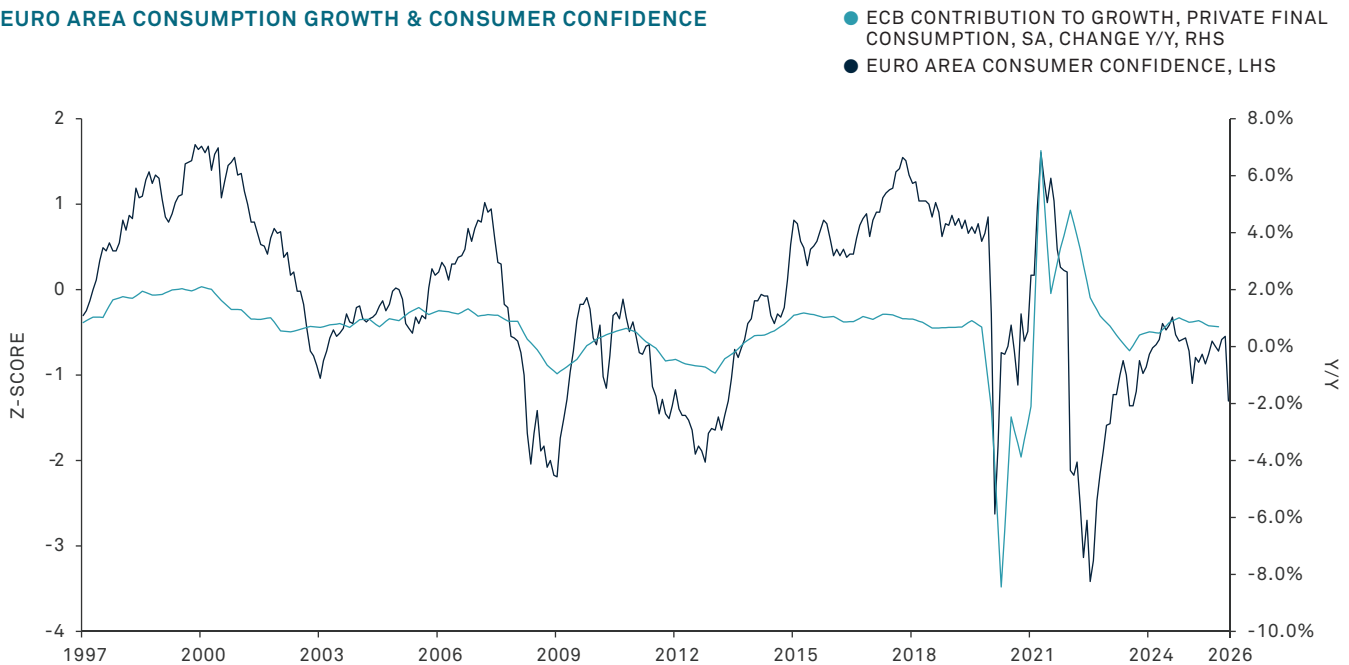
Growth

2026 began with strong growth momentum, but the Middle East conflict has clouded the near-term outlook. Falling consumer and business sentiment points to rising downside risks, especially if the conflict persists. Structural export challenges remain, but record-low unemployment and fiscal support, particularly from German infrastructure and defense spending, should help cushion the impact.

Inflation & Policy

Energy supply disruptions quickly pushed up prices, with March energy inflation rising at its fastest pace since the 2022 to 2023 energy crisis. Central bank communication remains hawkish, reflecting efforts to keep inflation expectations anchored.

EURO AREA CONSUMPTION GROWTH & CONSUMER CONFIDENCE



Source: Macrobond, BNY Institute. Data as of 4/16/26.

Japan

Growth

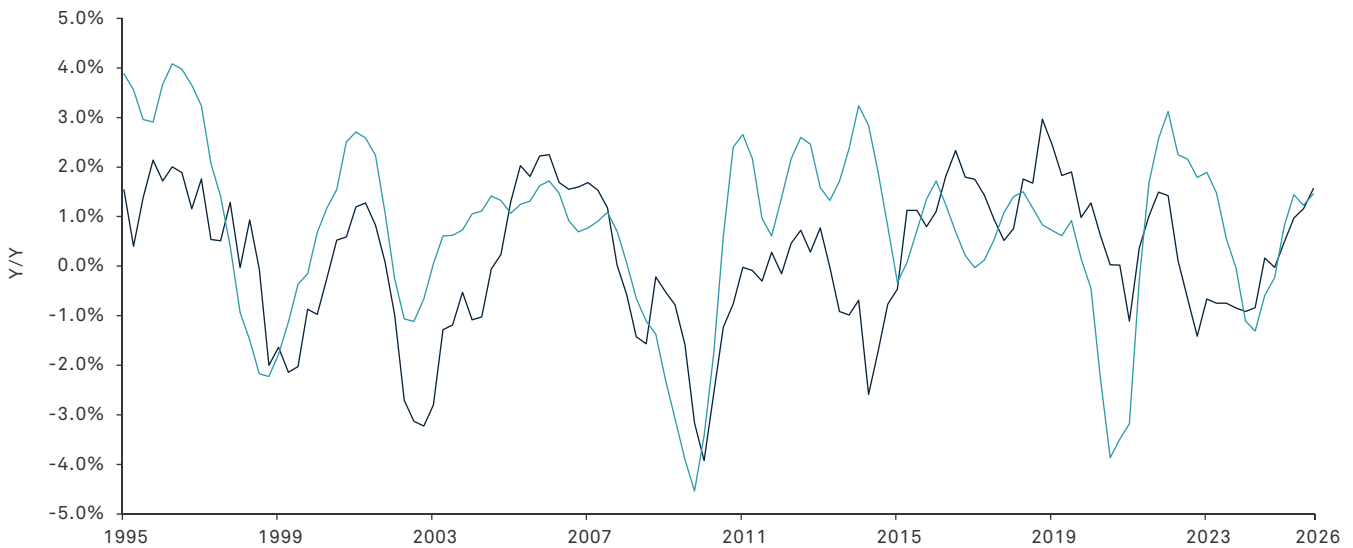
Japan's economy remains on a moderate expansion path, supported by strong business investment, modest export growth, and looser fiscal policy. Improving real wages are helping to cushion households from near-term cost-of-living pressures. Medium-term resilience should also improve on abundant AI and defense sector investment. Ample strategic petroleum reserves and the restart of nuclear power should help limit energy disruptions.

Inflation & Policy

Headline inflation has eased, but core inflation remains slightly above the Bank of Japan's (BOJ) 2% target and expectations for future price gains have risen. A weaker yen could also push inflation higher and prompt earlier action, though policy normalization and modest fiscal support should help stabilize the currency.

JAPAN REAL WAGE GROWTH & DOMESTIC DEMAND

● REAL WAGE GROWTH, Y/Y %
● DOMESTIC DEMAND, Y/Y %



Source: Macrobond, BNY Institute. Data as of 4/16/26.

Asia Pacific

Growth

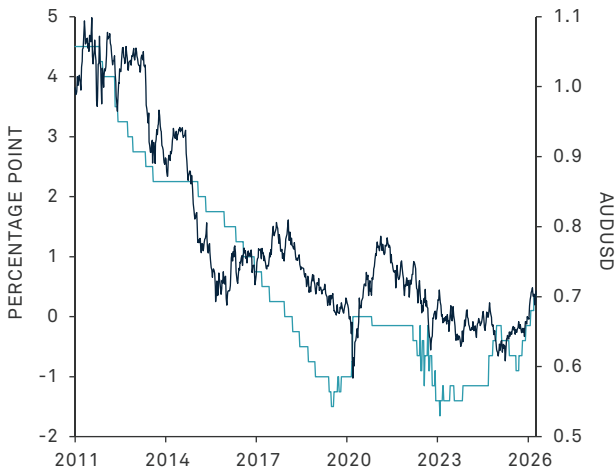
Growth across APAC (ex-Japan, ex-China) remains resilient but is moderating. India, ASEAN economies, and parts of Southeast Asia continue to benefit from strong consumption, while export-driven markets such as Korea, Taiwan, and parts of Southeast Asia are supported by semiconductor and AI demand. Australia ended 2025 with its fastest annual growth pace in nearly three years.

Inflation & Policy

Inflation has fallen significantly, allowing many regional central banks to shift toward gradual easing prior to the recent energy shock. However, several central banks have paused because food and energy make up a large share of inflation baskets in this region, leaving them exposed to Middle East risks. In Australia, above target inflation led to a hike prior to the Middle East shock and another in March. However, given increasing downside risks to growth, the Reserve Bank of Australia's stance may be near peak hawkishness.

RBA CASH RATE, FED FUNDS RATE & AUD EXCHANGE RATE

- AUDUSD, RHS
- RBA CASH RATE MINUS FED FUNDS RATE, LHS



Source: Macrobond, BNY Institute. Data as of 4/16/26.

China

Growth

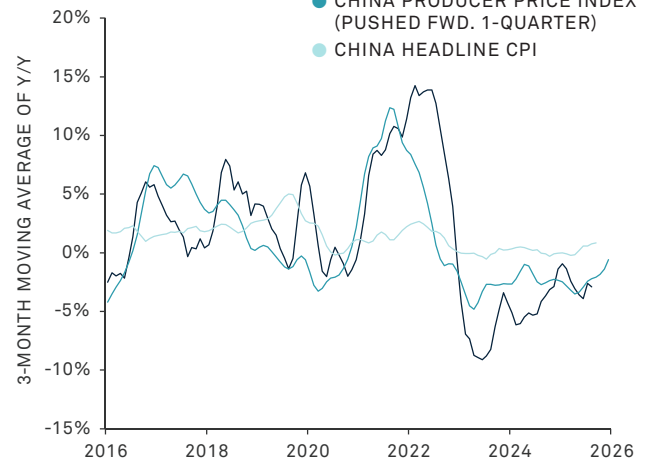
China is emerging from prolonged deflation, helped by higher energy prices, stronger-than-expected exports, infrastructure support, and rising investment in high-tech manufacturing. First-quarter GDP growth provided a solid start toward the 4.5% to 5.0% target. However, imbalances remain: manufacturing is outpacing retail sales, real estate recovery is weak, consumption is subdued, and export dependence remains high, though strength in manufacturing and renewables offers some support.

Inflation & Policy

We do not expect policy tightening soon, and broader structural reforms, such as higher wages, stronger safety nets, and balance sheet repair for local governments and property developers, also appear unlikely in the near-term. A managed appreciation of the renminbi is more likely, raising Chinese export prices and adding to global goods inflation.

CHINA CONSUMER, PRODUCER & EXPORT PRICE INDICES

- CHINA EXPORT PRICE
- CHINA PRODUCER PRICE INDEX (PUSHED FWD. 1-QUARTER)
- CHINA HEADLINE CPI



Source: Macrobond, BNY Institute. Data as of 4/16/26.

Emerging Markets (ex-China)

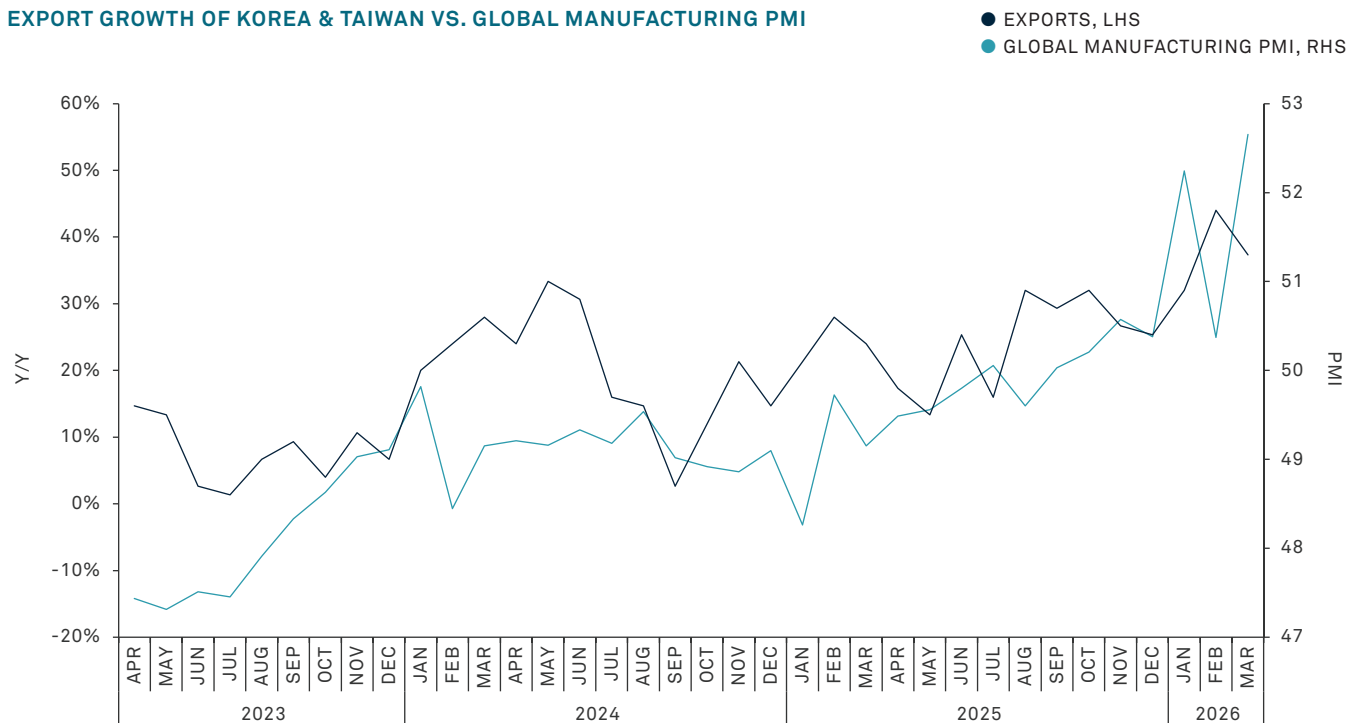
Growth

Higher energy prices are pressuring emerging markets, but activity has held up relatively well. Early post-tariff momentum was concentrated in East Asian economies benefiting from the AI-driven semiconductor and electronics cycle. Then, growth broadened to commodity exporters in LatAm and EMEA as demand rose for data centers, power, infrastructure, and critical minerals. Energy-dependent, domestically driven economies face greater headwinds.

Inflation & Policy

Emerging market inflation was near central bank targets, but given the higher weight of energy and food in CPI baskets, inflation is likely to rise. Rate cut expectations are being priced out in most Asian EMs where the exposure to Middle East oil is highest. In Latin America and a few Central European economies, potential rate cuts are likely to be scaled back or pushed out.

EXPORT GROWTH OF KOREA & TAIWAN VS. GLOBAL MANUFACTURING PMI



Source: Macrobond, BNY Institute. Data as of 4/16/26.

In Conversation: The Great Debate of Global Growth



Ella Gude

Head of Fixed Income,
BNY Investments Newton

The emergence of heightened geopolitical tension and technological innovation, among other catalysts, inform our perspective that current growth trends cannot be interpreted through a single, synchronized lens. While global economic expansion has continued, tectonic forces often moving in opposite directions will test its durability—making the central question not simply whether growth will slow or persist, but which forces will prove most decisive in shaping the path ahead. Ella Gude, Vincent Reinhart, and John Velis debate these forces below, bringing their own perspectives from different vantage points.



Vincent Reinhart

Chief Economist, BNY Investments
Dreyfus and Mellon

Q: With energy markets once again in focus, how vulnerable is the global expansion to a more meaningful loss of momentum?

John: In its recent World Economic Outlook, the International Monetary Fund downgraded its forecast for World GDP growth from 3.3% to 3.1% due to the effects of the energy shock. In an adverse scenario that incorporates a potentially longer Middle East conflict, further geopolitical fragmentation, and additional trade barriers, global growth could slow to 2.5%, which would be equivalent to a recession. Regional divergence is likely, with tech-heavy exporters in Asia somewhat shielded. The length of the conflict is the key unknown for global growth, in our view.



John Velis

Americas Macro Strategist,
BNY Markets

Q: Which other forces are most likely to determine whether growth proves resilient or begins to weaken more materially?

Ella: The potential for higher inflation would eat into consumers' discretionary capital as well as corporate margins. It can push borrowing costs higher across the board, which causes us to be more cautious on interest rate risk.

John: In the U.S., the labor market is a risk, with effectively zero jobs growth over the last several years. Central bank policy pivots can also introduce risk, particularly if they result in too much tightening or, conversely, allowing inflation to move persistently higher.

Q: How much of today's inflation reflects higher energy costs, and how much points to broader underlying price pressures?

John: U.S. inflation is still feeling the effects of tariffs, independent from the energy shock. Furthermore, core services (ex-housing) continue to weigh on inflation, which are not conflict related.

Vincent: The macroeconomic effects of an energy shock depend on the starting position of the economy when it hits. What will make the Fed's job difficult is that higher oil prices are pushing up consumer prices at a time when inflation is still above its long-run goal. The added boost from energy prices makes the Fed's problem more acute by threatening to dislodge inflation expectations.

Q: Is there a general trajectory forming among global central bank policy and will the U.S. participate or diverge?

Vincent: Policy will diverge, as the macroeconomic position and objectives of major central banks are not necessarily aligned. The U.S. is a net energy exporter, but the other major economies rely much more on foreign source. For the latter, higher oil prices imply large net income transfers abroad, a drag on domestic aggregate demand, as consumer price pressures mount. Their central banks also put more weight on the goal of price stability. Given the Fed's dual mandate of price stability and maximum employment, I believe the Fed is more inclined to ease as it leans more toward supporting economic activity. Many of its peers will pursue firmer policy, so as to open up interest rate spreads.

Q: To what extent can advances in AI and other technologies help counterbalance the pressures now weighing on growth and monetary policy?

Vincent: AI is key for productivity gains at individual firms and industrial sectors, particularly for the U.S. Limits to resource and competitive pressures, however, imply that the aggregate effect on national output is more limited. We believe the path of potential output in the U.S. has tilted up modestly, which raises the path of aggregate supply and the level of the longer-run neutral short rate. The anticipation of this new trend has already boosted aggregate demand, as reflected in equity prices and higher capital spending. The Fed's policy position reflects this and will likely ease in reflection of increasing aggregate supply over time.

John: Traditional empirical and theoretical analysis suggests that periods of rapid technological innovation are often associated with higher interest rates. Demand for capital rises, leading to a higher cost for funding and higher reference rates. Furthermore, rising incomes due to higher returns from technology can create excess demand during the late adoption phase, requiring tighter policy.

Ella: Globally, AI can improve productivity and lower costs for corporations and society as a whole. Conversely, fears are that it can lead to lower employment and consumption and create deflationary risks. It's hard to say which side of the equation wins, but history tells you that technological innovations tend to ultimately create economic value and jobs. Productivity has shown positive signs thus far, but more evidence will be required.

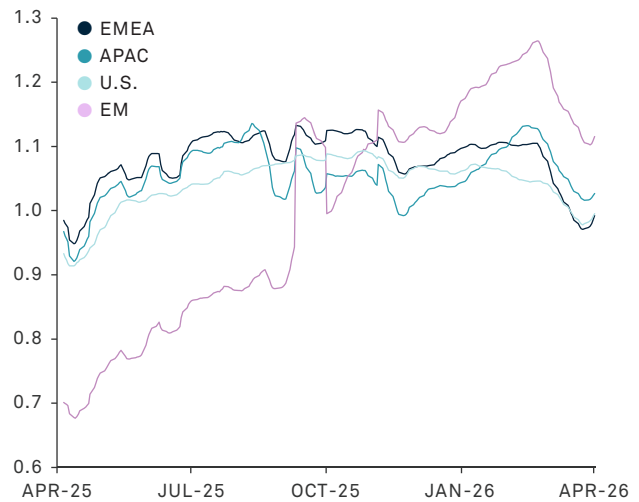
Investors in Motion

iFlow Equity Holdings

Between Liberation Day in April 2025 and March 2026, U.S. equity holdings were 4.5% lower than average, while holdings of EM, EMEA, and APAC equities were 12%, 8%, and 3% below average, respectively.

EM holdings surged strongly into 2026 but that pattern reversed sharply from February, with investors retreating in the wake of the Middle East conflict.

iFLOW EQUITY HOLDINGS

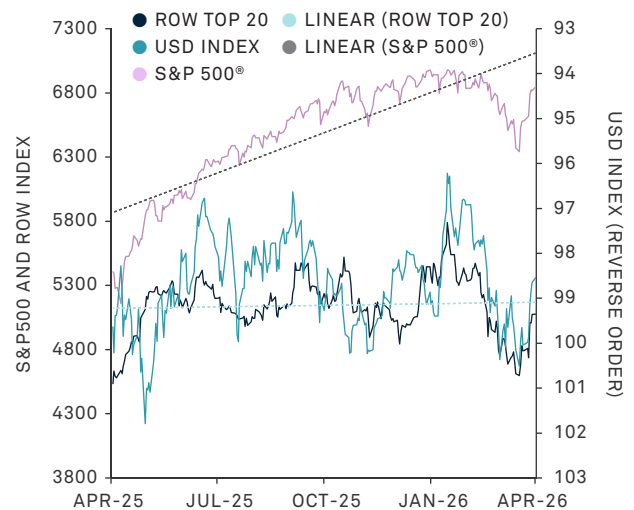


Source: BNY. Data as of April 2026.

U.S. Equity Dominance

While the S&P 500® Index has retained a clear uptrend, shares of the top 20 firms across the rest of the world have tracked the movements of the U.S. dollar closely throughout most of 2026. However, that trajectory was roughly flat, exhibiting strong relative performance for U.S. equities.

S&P 500®, ROW INDEX, USD INDEX

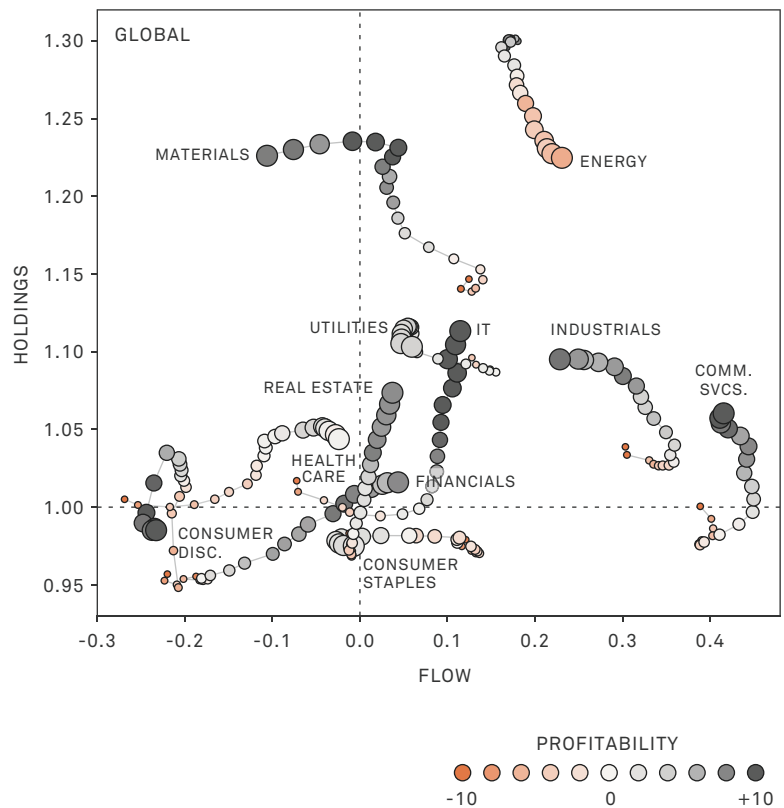


Source: BNY. Data as of April 2026.

Global Sectors

Holdings of energy and materials shares exhibited the largest inflows throughout mid-April as a result of strong underlying commodity pricing spurred by the Middle East conflict. We have also continued to see an uptick in holdings of utilities and industrials amid optimism surrounding AI adoption and its implications for electricity consumption and data center construction. By contrast, financials broadly experienced outflows as concerns about borrower creditworthiness and private credit contagion swirled. Holdings of consumer discretionary and staples shares declined the most with investors likely worried about cost-induced margin compression from the surge in energy prices.

20D FLOWS, HOLDINGS, AND 20D RETURNS

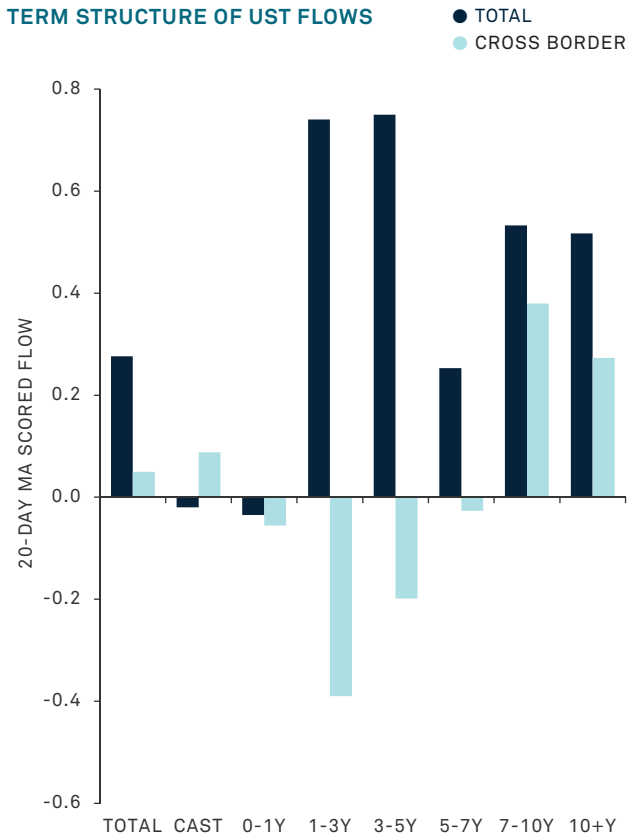


Source: BNY, MSCI. Data as of 4/27/26.

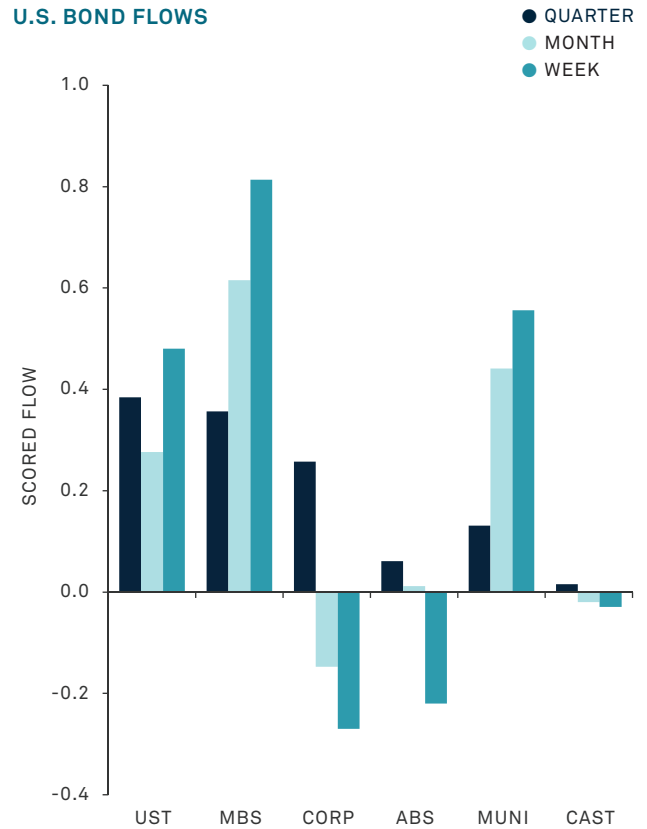
Fixed Income

Purchasing of U.S. Treasuries ticked up, exhibiting the largest quarterly inflow among U.S. bond flows, driven by strong U.S. flows among maturities greater than one year. Cross-border flows were relatively weak, representing less than one-fifth of total inflows.

All categories of fixed income saw inflows so far in the quarter period (65 days) to April 27, but MBS and municipal bonds saw the best flow throughout the month.



Source: BNY, WM/Refinitiv, Bloomberg. Data as of 4/27/26.



Source: BNY, WM/Refinitiv, Bloomberg. Data as of 4/27/26.

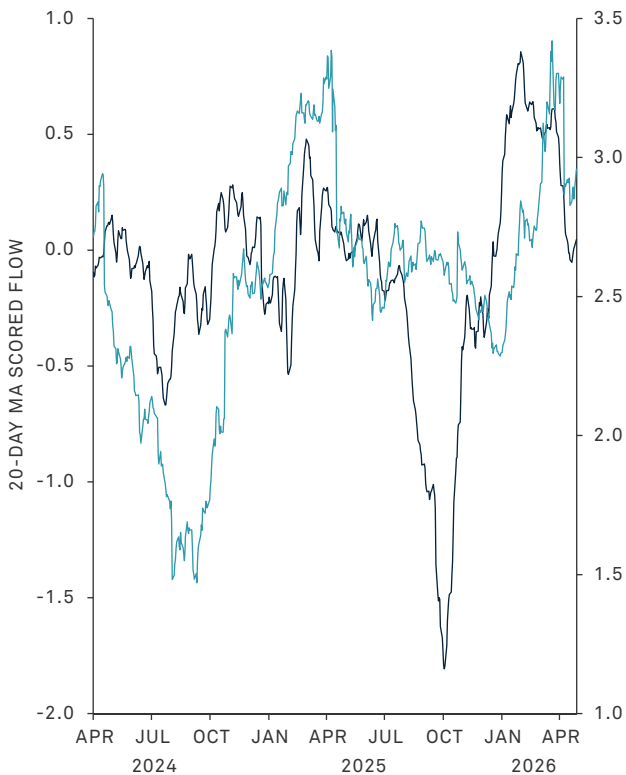
iFlow Mood

Easing breakeven inflation coincided with a reversal of strong first-quarter inflation-related flows through April, suggesting equity investors' inflation fears can shift quickly to the upside or downside, subject to developments in energy prices and other factors.

BNY's iFlow Mood Index, capturing the "mood" for risk by measuring the difference in investor flows into developed market equities and short-dated government debt, leaned back toward a risk-on sentiment after briefly falling into risk-off territory.

U.S. EQUITY STYLES: INFLATION

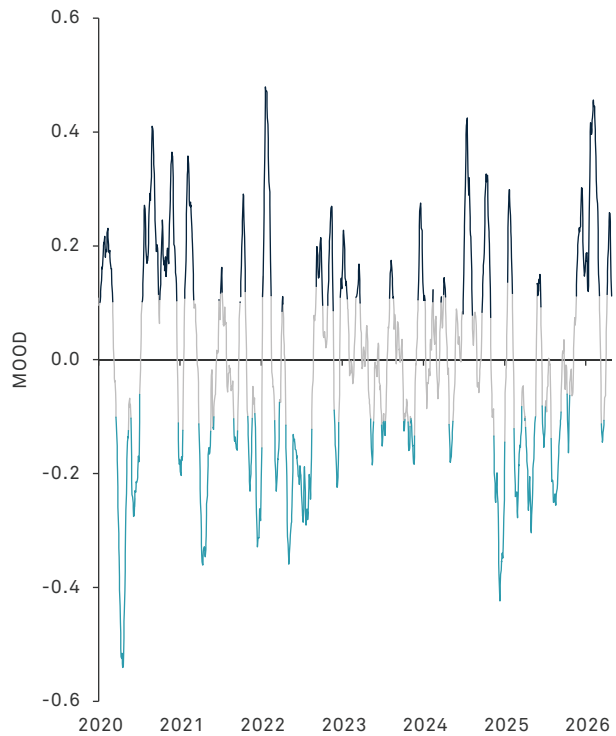
- INFLATION RELATED FLOW, LHS
- BREAKEVEN INFLATION, RHS



Source: BNY, Bloomberg, MSCI. Data as of 4/27/26.

iFLOW MOOD

- RISK ON
- RISK NEUTRAL
- RISK OFF



Source: BNY, WM/Refinitiv, MSCI. Data as of 4/27/26.

Exchange-Traded Funds as the Instrument of Choice When Volatility Strikes

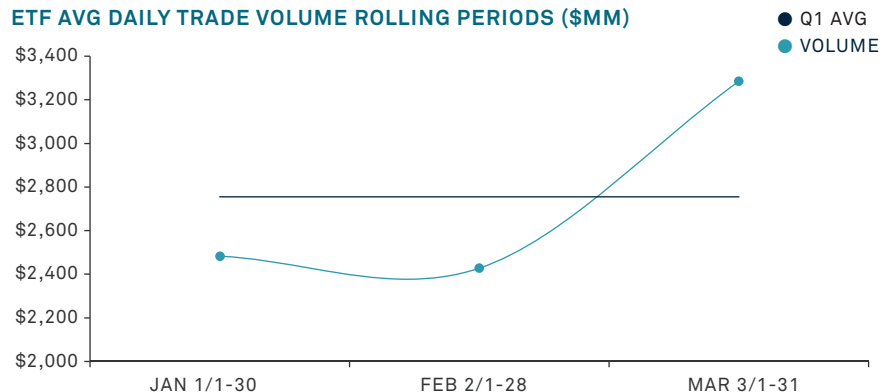


Ben Slavin
Managing Director, ETF Global
Industry Lead, BNY

In early March 2026, the VIX¹, a real-time market index measuring expected near-term stock market movement, soared as high as 31. That was the highest level in nearly a year and a doubling from roughly 15 at the start of 2026. When markets experience stress and volatility, Exchange-Traded Funds (ETFs) often see a surge in trading volume; they become instruments of choice because of their structural and operational advantages. Their strength lies in providing liquidity, execution flexibility, and real-time pricing, especially when underlying markets are harder to trade.

The correlation between increased volatility and ETF trading volume is well established and continues to strengthen alongside their growing popularity. In fact, in the first quarter of this year, Bloomberg data shows that ETFs set a quarterly record with \$22 trillion in notional trading volume. March 2026 also marked the highest monthly volume on record at \$7.8 trillion, and the market is on track to surpass the previous annual record set in 2025 of \$77 trillion by more than 50%. Data from BNY Pershing's wealth and advisory platform showed a similar pattern of elevated liquidity across all ETF programs. In March 2026, total U.S. ETF average daily trading volume reached \$3.3 billion, up 35% from February and 19% above the daily average for the first quarter of 2026. Fixed income ETFs accounted for 35% of first-quarter net inflows, as investors reallocated toward ultra-short and intermediate government strategies amid heightened uncertainty.

ETF AVG DAILY TRADE VOLUME ROLLING PERIODS (\$MM)



Source: BNY, Bloomberg.

ETFs can be effective tools in volatile markets because they offer intraday liquidity, fast implementation, and portfolio-level risk management. Since they trade throughout the day on exchange, investors can rebalance in real time rather than wait for end-of-day net asset value (NAV) calculations. This can help financial advisors adjust client portfolios efficiently across accounts and allow institutional investors to shift beta, duration, sector, or regional exposures quickly. ETFs also enable investors to change exposures with a single trade instead of transacting in many individual securities, which can improve speed and reduce operational complexity during periods of market stress. In addition, ETFs can contribute to price discovery, particularly in fixed income and other less frequently traded markets, where ETF prices may reflect current executable levels faster than the underlying securities.

At the same time, investors should recognize that these advantages come with important considerations. Trading costs and spreads can widen during volatility, particularly in less liquid ETFs or asset classes where the underlying securities are harder to price, source, or hedge. ETF prices may also trade at premiums or discounts to NAV, especially in fixed income, bank loans, municipals, and international markets. While this can make ETFs appear more volatile, it often reflects the fact that ETFs adjust continuously to real-time pricing of the underlying securities, whereas other vehicles priced once daily may mask that volatility. And, although ETFs can enhance tradability, they do not eliminate the liquidity constraints of the underlying market. In more stressed conditions, as hedging costs rise and balance sheet capacity tightens, contributing to wider deviations between ETF prices and NAV.

Overall, What Can We Learn from ETF Markets Right Now?

ETF volume spikes signal intent. When ETF volume surges above the broader market, it reveals where investors are positioning and managing risk in real time.

ETFs as a liquidity source. In turbulent markets ETFs provide liquidity, enabling large, fast exposure shifts at transparent prices.

ETF product choice is critical. Not all ETFs behave the same. Equity ETFs' prices tend to be corrected quickly, while fixed income ETFs can see wider, more persistent NAV dislocations.

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¹ The CBOE Volatility Index (VIX) is derived from the prices of S&P 500 index options and quoted in percentage points of annualized expected volatility. Readings around 15 are relatively calm, 20–30 signal elevated uncertainty, and levels above 30 are typically associated with acute market stress.

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