

2026 OUTLOOK

6 FOR 2026

Essential Questions
for Investors

As 2026 approaches, one thing is clear:

Investors are navigating a market that feels both familiar and fundamentally different. Growth is uneven but still has room to run. Technology is transforming productivity, yet its impact on profits and portfolios is still being tested. Meanwhile, rates across the globe are moving in different directions.

In our 2026 outlook, investment and market leaders from across BNY tackle six key questions that often surface in conversations — topics that we also debate among ourselves.

These are practical questions that we expect will shape the investment and market landscape in 2026. Our goal is to provide clarity and perspective to help guide investors through an evolving, tug-of-war market.

In uncertain times, asking good questions that are grounded in data matters as much as good answers.

- 01 Can the global economy maintain its delicate balance through 2026?
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- 05 Are U.S. equity valuations too rich?
- 06 Who are the long-term winners of AI?

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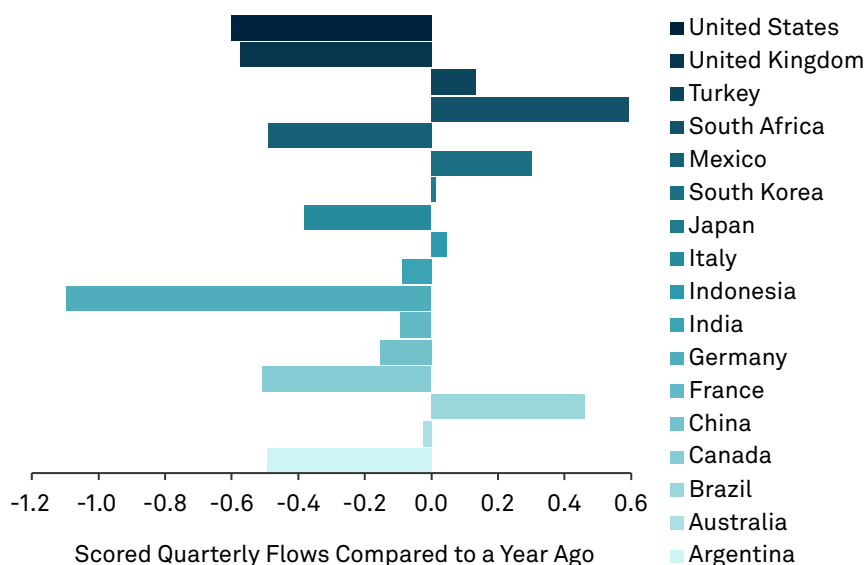
2025 INVESTOR FLOWS

2025 growth has been uneven, yet resilient. Notably, after two consecutive years of +20% annual equity returns, U.S. large caps continued their strong trajectory. Meanwhile, bond yields signaled market unease over government spending. Global bond markets saw yield curves steepen between 10- and 30-year bonds, as investors weighed the impacts of large fiscal packages and heavier debt issuance.

Equity Flows

Since summer, global investors adopted a defensive stance in their asset allocations, and most decreased allocations to equities in the second half of the year.

That said, commodity-linked countries such as Brazil and South Africa saw equity inflows.

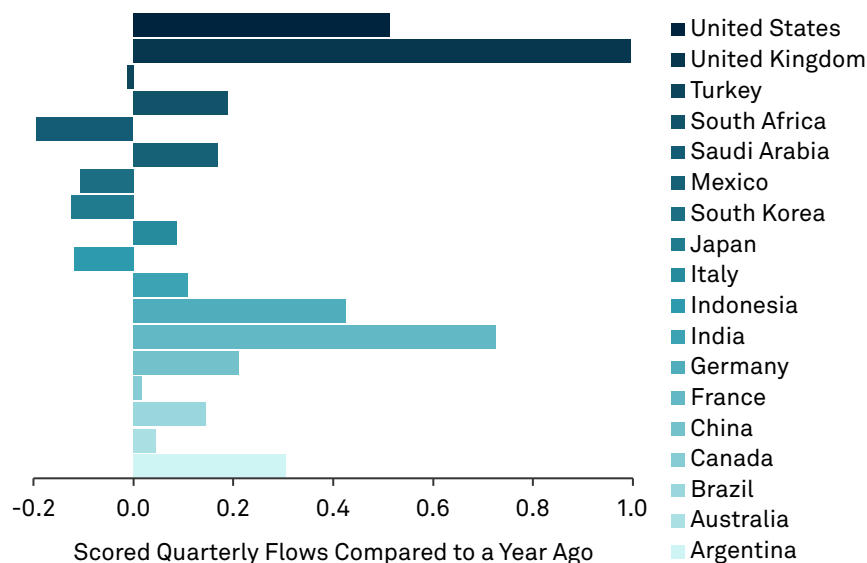


Source: BNY data from July 15 to October 14, 2025.

Fixed Income Flows

As part of their defensive posture, most global investors increased exposure to fixed income assets.

We saw demand for safe haven markets like the U.S. and UK over the summer. However, holdings remained flat relative to history.



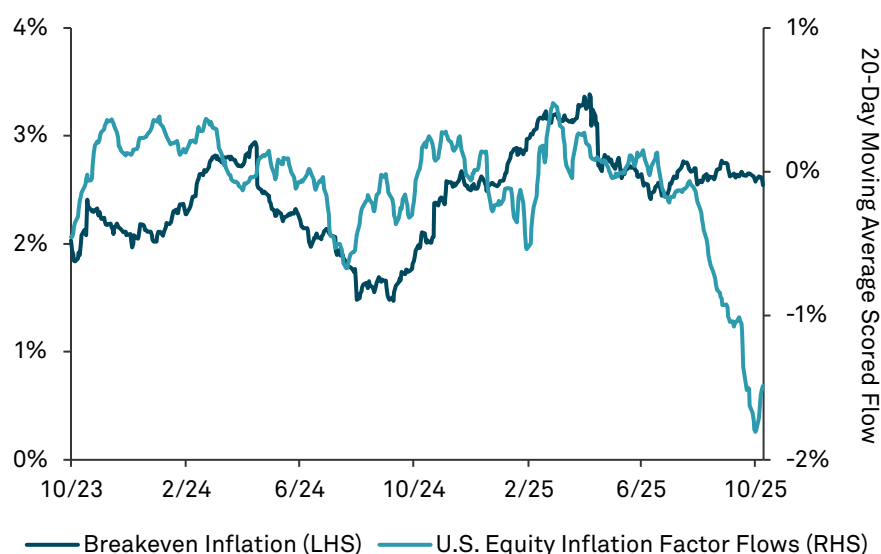
Source: BNY data from July 15 to October 14, 2025.

2025 INVESTOR FLOWS

U.S. Equity Inflation-Related Flows

Investors rotated away from assets and equity sectors that tend to outperform when inflation rises, such as energy, materials and industrials.

This decline in inflation-related factor flows indicated waning fears that higher prices would weigh on stocks, despite the lagged effects of tariffs.

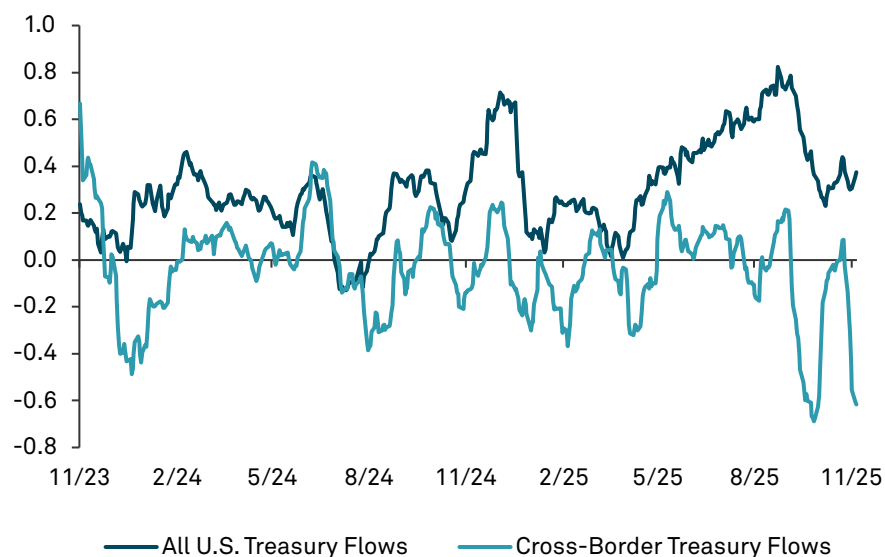


Source: BNY, as of October 10, 2025.

U.S. Treasury Flows

Interest in Treasuries from non-U.S. investors has been mixed, linked to relative spreads and inflation outlooks.

A drop in U.S. Treasury yields sent flows down in 2025.



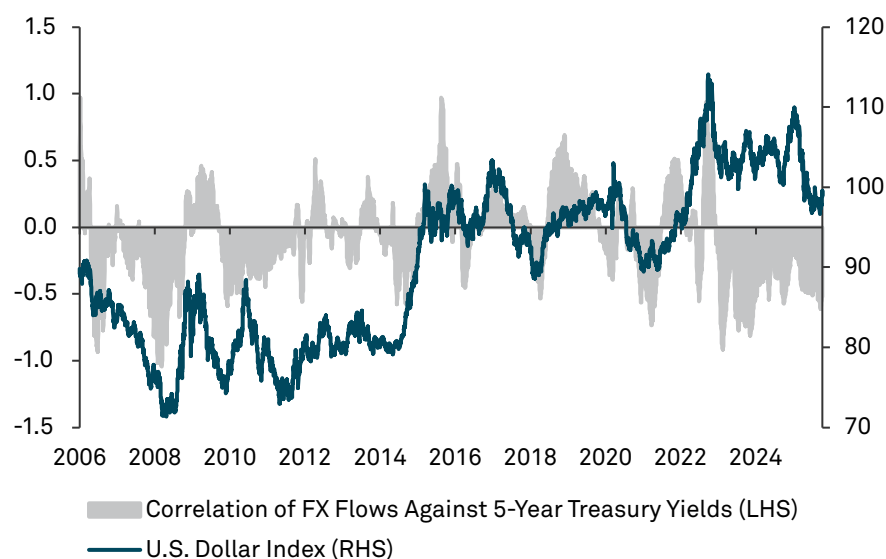
Source: BNY, as of November 11, 2025.

2025 INVESTOR FLOWS

U.S. Dollar

U.S. dollar selling was notable in 2025 due to trade policy uncertainty, the growing U.S. fiscal deficit, and Federal Reserve (Fed) interest rate cut expectations.

We expect selling to continue into 2026 as investors hedge their U.S. asset exposure over fears around volatility and rate cuts.



Source: BNY, as of October 10, 2025.

BNY iFLOW

The above analysis on investor flows is from BNY iFlow, which provides a window into global investment behavior by analyzing anonymized and aggregated data from BNY's \$57.8 trillion in assets under custody.¹ Data captured include 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.

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01

Can the global economy maintain its delicate balance through 2026?



Eric Hundahl
Head of BNY Investment Institute²
BNY Advisors

Dissecting the global economy is not an easy task — myriads of economic forces are at play, from sentiment and labor markets to monetary and fiscal policies. Like a cube, each facet can show something different. On one side, global growth is resilient and accelerating. From another angle, inflation is sticky, and on a different side, concerning signs in labor markets have emerged. Turn the cube again, AI is changing competitive dynamics and fueling increases in productivity. Each face can seem complex and lead to differing conclusions when viewed in isolation.

Our 2026 outlook embraces this multi-dimensional view. Overall, we see forces balancing toward growth re-acceleration, with support from fiscal and monetary policies. Robust consumer spending, easing financial conditions, targeted fiscal support, reduced uncertainty and a balanced labor market broaden the story. This multi-dimensionality will define 2026, and taken together, it provides clarity.



John Velis
Americas Macro Strategist
BNY Markets

The Facets of U.S. Growth

The U.S. is on track to close 2025 with GDP growth close to 1.6% before stabilizing near 1.9% in 2026. While below the long-term trend, that's a good showing in a world buffeted by trade shocks, tighter labor supply, and geopolitical friction. Economic headwinds are likely to lessen in 2026, as tariff ambiguity fades and fiscal policy, such as tax incentives and deregulation, and Fed easing become increasingly influential.

We also expect an increase in home sales and mortgage refinancing activity as mortgage rates move lower due to Fed policy and broader improvement in financial conditions. Consumer spending will be another key driver of growth, supported by strong real disposable income and higher tax refunds from the One Big Beautiful Bill Act (OBBBA).

The Euro Angle

While the euro area managed tariff ambiguity relatively well, we anticipate only gradual growth in the region for 2026. We estimate GDP expansion of roughly 1.3%, driven by fiscal stimulus from Germany and stronger private consumption from real income gains. However, capacity constraints in construction and defense procurement and risks of delays or underspending will continue to affect growth. Political uncertainties in France add another potential headwind. Inflation has approached the European Central Bank's (ECB's) 2% target, which is likely where it will end 2026.

Contours of China's Growth

Advances in AI technology and export diversification bolstered performance in 2025. However, growth from accelerated pre-tariff exports and the modest property-sector rebound are waning, and broad-based deflation persists. Data indicate room for additional fiscal stimulus to achieve full-year 2026 growth near official targets, which could come through increased infrastructure investment and local government

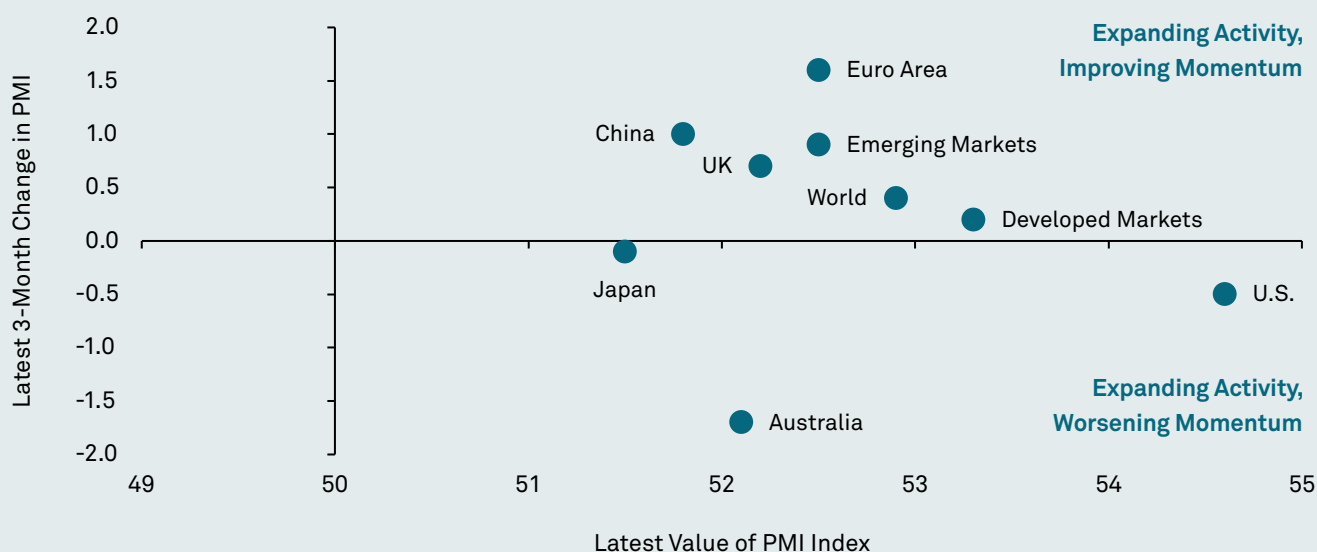
support, though it will take time. We expect these fiscal measures to materialize in the first half of 2026, with the People's Bank of China (PBOC) maintaining an accommodative stance and capping borrowing costs to mitigate real estate sector risks.

Clarity in a Multi-Dimensional World

The economic backdrop is firmer, but it continues to shift. Monetary policy will provide stability, but fiscal maneuvers will largely shape outcomes. Investments in AI should sustain U.S. growth, yet further consumer spending and stronger gains in homebuilding will be required to push the economy to the next level. Fortunately, there are policy tools that can help bridge that gap, and markets will be watching their design and execution closely. Overall, the economy looks primed for a steady advance, but investors should not forget that, when the picture is multi-dimensional, subtle changes can alter the view. We remain optimistic and will closely watch the evolving signals.

Global Composite PMI Momentum

Latest PMI value relative to latest 3-month change



Sources: BNY Investments, Macrobond, as of November 12, 2025. The Purchasing Managers' Index (PMI) is a monthly economic indicator that measures the health of the manufacturing and services sectors, based on surveys of purchasing managers. A score above 50 indicates economic expansion, while a score below 50 signifies contraction, and 50 represents no change.

02

What's next for central banks?



Vincent Reinhart
Chief Economist
BNY Investments Dreyfus & Mellon

The Fed is already in motion; the Federal Open Market Committee (FOMC) has recommenced its rate-cutting cycle and announced the end of quantitative tightening in December. On the back of new immigration policies and government-shutdown-driven changes to data releases and federal workforce planning, we expect the Fed to remain mindful of employment going into 2026.

With inflation projected to be modestly above target, its relative weight in the Fed's objective function shifts compared to 2022 through 2024, when inflation was unacceptably high. The Fed will emphasize supporting employment and growth, continuing its path to a neutral stance of around 3% in the longer run, though upcoming board changes could affect the size and speed of rate cuts.

Changes Ahead

We expect the Fed to have a stronger bias toward monetary easing. A new board majority can reshape the policymaking group relatively quickly. For instance, they may reset policy directly by changing an administered rate under its control, such as the interest on reserve balances.

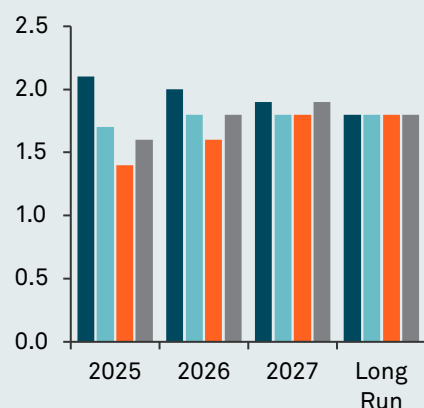
The Fed will keep cutting policy rates in 2026 until the economy and financial markets stop it, bringing the lower bound of the range to 2.5% by 2027, in our view. If the momentum of aggregate demand in our baseline forecast is sustained, such policy accommodation will boost inflation and lead to higher longer-term Treasury yields.

Summary of Economic Projections

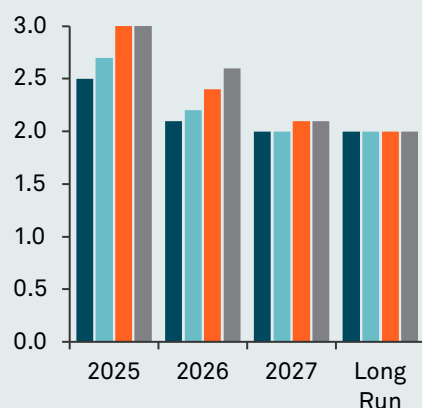
Median response, sampled at various quarters, percent

■ Dec-24 ■ Mar-25 ■ Jun-25 ■ Sep-25

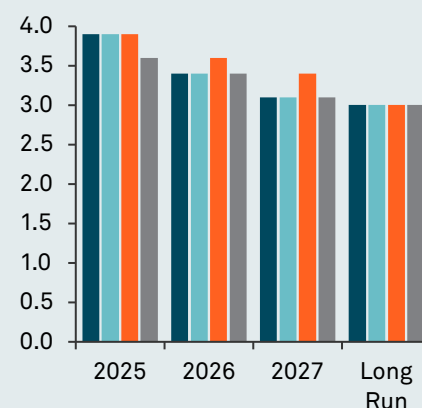
Real GDP Growth



Personal Consumption Expenditure Price Inflation



Appropriate Fed Funds Rate



Source: Federal Reserve, Summary of Economic Projections, at <https://www.federalreserve.gov/monetarypolicy.htm>. Firm analysis, October 24, 2025.

GLOBAL IMPLICATIONS

A Fed with greater alignment to the current administration's policy agenda will be an outlier among central banks in advanced economies, and the dollar is likely to come under renewed pressure. Drags on demand from our trading partners, resulting from the appreciation of their currencies, could add to the effect of the global slowdown in trade volumes.

The ECB, given Europe's tepid economic growth, may ease slightly. However, that is likely to be limited, as we expect some net fiscal stimulus associated with the European commitment to strengthen its defense sector. While the German government has lifted its debt "brake" to spend more, many other euro area members are dealing with high public debt levels, shrinking their fiscal space.

Restrictions on trade, weak energy prices, and concern about the exchange rate will likely force the Bank of Canada to follow the Fed down, but reluctantly and incompletely. In contrast, the Bank of Japan is likely to firm its policy rate, as the government negotiates a complicated transition that leaves it open to domestic political pressure. Safe-haven alternatives to U.S. dollar assets will look especially attractive.

03

How are diverging rate paths shaping fixed income in the U.S., Europe and EM?



Brendan Murphy
Head of Fixed Income,
North America
Insight Investment



Ella Hoxha
Head of Fixed Income
BNY Investments Newton

After years of synchronization, global monetary and fiscal policies are now moving in different directions, reflecting varying growth dynamics, inflation pressures and policy priorities. Therefore, yield differentials, curve shapes and credit spreads are becoming more dispersed, creating new avenues for returns but potentially making it harder to spot the opportunities.

Local fundamentals, fiscal dynamics and policy sequencing increasingly drive outcomes. In this environment, an approach that differentiates short-term shifts, structural changes, and economic conditions, combined with weighing relative value across markets and maturities, is key.

United States

We think the U.S. economic expansion has room to run, but given the late cycle environment, the economy is more vulnerable to volatility.

- The Fed's rate cuts are likely to benefit Treasury securities at the front of the yield curve. We also see risks at the long end of the curve, given continued concerns around U.S. deficits.
- We see value in U.S. credit considering relatively high overall yields. However, with a tight spread environment, there is more opportunity among higher-quality issues until wider spreads materialize.
- Off-benchmark sectors like esoteric structured credit, such as deals backed by data centers, digital infrastructure, and whole business securitizations, may offer a compelling "complexity premium" above corporate credit.

Europe

Across Europe, monetary conditions are fragmented. The ECB faces uneven growth and fiscal strain, especially in France where widening deficits and political gridlock over budgets make a resolution difficult. After rate cuts in March and June, markets are not currently pricing in further ECB action over the next year, although if trade data were to worsen then the risk case is for more cuts.

Meanwhile, after lowering rates five times since August 2024, the Bank of England is navigating stubborn inflation and wage growth, so it may take a more cautious approach. Markets anticipate two rate cuts over the next year.

- Country-level dynamics continue to drive relative valuations. French duration currently appears relatively expensive amid evolving sovereign debt pressures. Spanish and German yields reflect more balanced fundamentals; notably, Spain continues to benefit from an impressive post-pandemic recovery. Italy, Ireland and Norway also stand out for their comparatively attractive duration premia.
- In euro-denominated credit, the yield premium over the U.S. has narrowed but remains supported by strong global demand and a broadly constructive macro backdrop. At the same time, historically tight credit spreads warrant a measured approach to duration.

Emerging Markets

Most countries in Latin America and Asia are in the process of cutting rates while retaining policy flexibility in case growth momentum slows. Many of these countries also appear to be entering a period of measured fiscal consolidation. EM GDP growth looks generally healthy, potentially supporting high yield corporates.

- Inflows have picked up given increased expectations of U.S. dollar weakness, which may benefit unhedged local currency EM debt.
- From a rates perspective, there is opportunity in Brazil, Colombia and Peru, which have high correlations to U.S. Treasuries.
- We also see potential in Argentina and Turkey, where bonds may benefit from government deflation measures.

Opportunities are becoming more idiosyncratic, and investors who stay nimble and selective across regions, duration and credit quality may be well positioned to capture them.

Interest Rate Expectations

Expectations of rate cuts over the next 12 months



Sources: BNY Investments, Macrobond. Data as of October 28, 2025. Central banks are U.S. Federal Reserve (Fed), Bank of England (BOE), Reserve Bank of Australia (RBA), Bank of Canada (BOC), Swiss National Bank (SNB), European Central Bank (ECB), Sveriges Riskbank (Riksbank), Bank of Japan (BOJ).

BALANCE IN THE CREDIT CYCLE

The balancing act behind the global economy is also present in the credit cycle. Fundamentals remain strong, yet market consensus appears to agree we're in a late cycle environment. Credit spreads also align to historical late-cycle patterns. Global growth and monetary policy trends could help extend this phase, possibly creating opportunities for discerning fixed income investors.

Based on our iFlow data, BNY clients have been underweight credit throughout 2025. In our view, fixed income investors are carefully balancing the anticipated growth rebound with concerns that credit spreads may not accurately reflect risks.

However, we remain constructive on global fixed income due to robust underlying fundamentals. Investment grade leverage remains stable, interest coverage ratios have improved with lower rates, and EBITDA margins, an indicator of operating profitability, are at record highs.

Liquidity is ample, supporting robust free cash flow and ongoing issuance. Rising mergers and acquisitions (M&A) activity may modestly pressure credit metrics into 2026, though equity-heavy deal structures imply limited new debt issuance.

A Nod to Private Credit

While several high-profile private credit defaults marked the fourth quarter, we remain constructive. Pockets of stress are likely, but the combination of elevated nominal growth and floating-rate collateral should see asset quality generally remain high. The risks lie in the unknowns, including the observability of collateral performance. Idiosyncratic stress can quickly metastasize into systematic risk. While not our base case, we believe any dislocation in the sector would represent an opportunity to build positions in the asset class.

The Credit Lens: Bloomberg U.S. Corporate Bond Index

+15%

THIRD-QUARTER EARNINGS GROWTH

Within the Bloomberg U.S. Corporate Bond Index, 81.2% of companies beat expectations and only 15.1% reported negative surprises.

+23%

YEAR-OVER-YEAR CAPITAL EXPENDITURES GROWTH

Primarily driven by AI investment, technology and utilities sectors issued more debt to fund growth. However, share buybacks rose just 0.4% year over year, the slowest pace since 2023.

STEADY

LEVERAGE RATIOS

Company leverage ratios were flat quarter over quarter and improved slightly year over year. There has only been a slight uptick in leverage for higher-quality single-A -rated issuers to fund M&A.

Sources: Bloomberg. The Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes U.S.-dollar-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers. Data as of November 18, 2025.

04

Is 2026 a turning point for the U.S. dollar?



Bob Savage
Head of Markets Macro Strategy
BNY Markets

A combination of stretched fiscal positions, geopolitical tensions, and diverging monetary policy paths will shape global currency markets in 2026. Global economic activity has been resilient in 2025, a trend we expect will strengthen in 2026. In our view, the world will continue to shift toward a multi-polar balance of power, and global political and economic relationships will become more complex. For currency markets, this means multiple reserve currencies will be used for trade finance, payments, and store of value. Additionally, fiscal vulnerabilities across developed economies will weigh on the major currencies, including the U.S. dollar, euro, Japanese yen, and British pound.

Fundamental Pressure

With this backdrop, the U.S. dollar's safe haven status is on softer footing. Some investors are turning to gold over traditional developed market currencies. Notably, global central banks hold nearly the same amount of gold as they did in 1965 — when the U.S. dollar was still fully convertible into the precious metal.

There is increasing concern about the structural challenges facing the U.S. dollar, primarily around fiscal position, monetary policy and valuation. U.S. debt has climbed from 55% of GDP in 2001 to 125%, and the OBBBA will add roughly \$3 trillion over the next decade. While growth, carry and asset performance have been able to offset these fiscal concerns, rising Treasury term premiums and Moody's downgrade highlight a shift in investor sentiment.

Additionally, while the Fed's expected direction of travel is to lower rates, it is faced with challenges on both sides of its dual mandate. Even after declining in 2025, the U.S. dollar still appears overvalued relative to a basket of major currencies, indicating it may have farther to fall.



Francesca Fornasari
Head of Currency Solutions
Insight Investment

With overseas investors holding approximately \$30 trillion in U.S. assets, any shift in sentiment could have far-reaching implications.

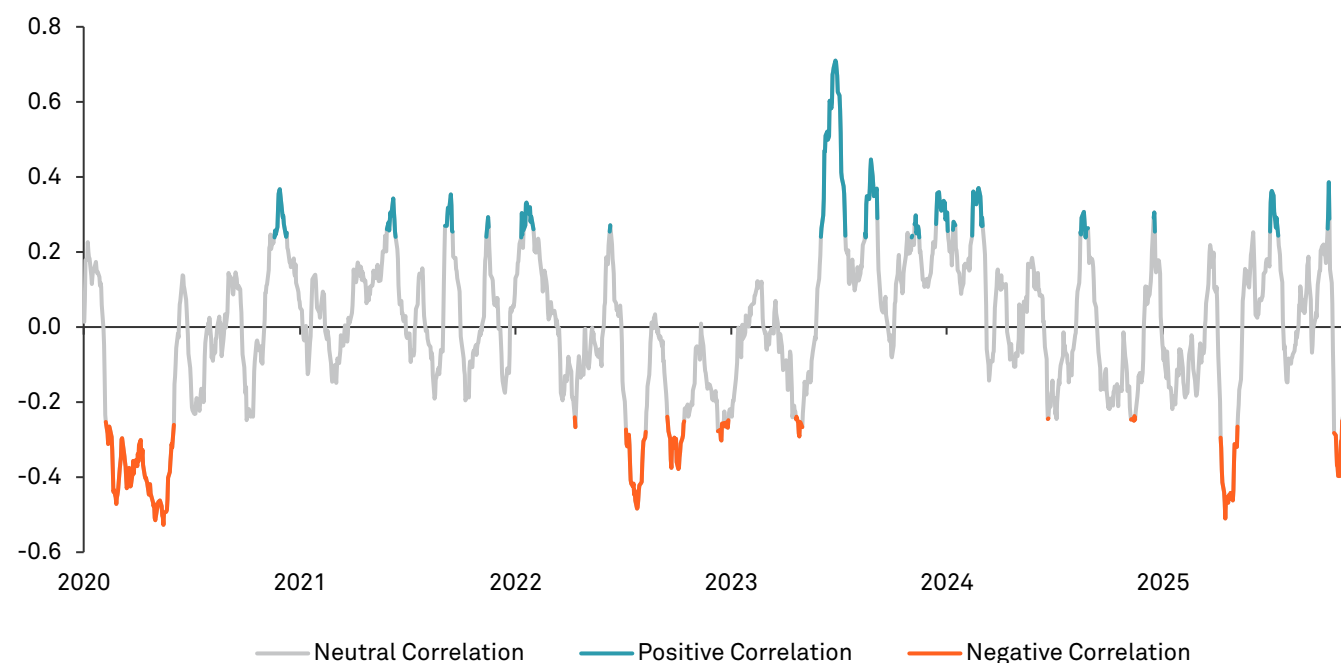
Hedging Dynamics

We think investors will increasingly hedge their U.S.-dollar exposure. In addition to volatility, the interest rate differentials between the U.S. and the currencies of overseas investors primarily determine hedging costs. A faster pace of U.S. rate cuts narrows interest rate differentials and adds momentum-driven pressure to the U.S. dollar, increasing dollar hedging. With overseas investors holding approximately \$30 trillion in U.S. assets, any shift in sentiment could have far-reaching implications.

It's likely to be a volatile ride. Any changes to strategic asset allocations or hedge ratios are likely to be both slow to unfold and lumpy in nature. Should the U.S. economy demonstrate greater-than-expected resilience in 2026 or if global supply-side shocks, such as a spike in oil prices, materialize, U.S. dollar depreciation could be delayed or even reverse.

Demand for U.S. assets will also matter. Overseas investors are generally underweight the U.S., and given our view for U.S.-led growth in 2026, it is likely they may increase their exposure to U.S. assets while actively managing their currency exposure.

Correlation of Currency Flows and Holdings with the Carry Trade



Sources: BNY, WM/Refinitiv. Data as of October 14, 2025.

05

Are U.S. equity valuations too rich?



Alicia Levine
Head of Investment Strategy
& Equities
BNY Wealth

With the S&P 500® hitting new highs, investors question if fundamentals or hype is fueling the rally. Despite uncertainty, the S&P 500 has delivered strong performance year to date. Its price-to-earnings (PE) ratio now sits at 22x above the nearly 17x long-term average.³ To some, that screams “overvalued,” but context matters.

While historically elevated, we see today’s valuations as part of a higher-multiple environment supported by stronger profitability and a larger index weight to tech. Economic and earnings growth remain resilient, with global earnings revisions trending higher and profitability broadening beyond big tech. Rising productivity and ongoing AI adoption should further reinforce record-level margins and long-term earnings growth. In our view, higher valuations reflect stronger fundamentals.

Strength in Numbers

Profitability across U.S. companies is strong with the S&P 500’s operating margin⁴ hovering near a record high of 19%. Nowhere is that strength more visible than in tech, with sector margins nearly twice those of the broader index. In fact, technology’s weight in the S&P 500 has nearly doubled since 2010 to 36%. Tech also carries a higher PE ratio when compared to the overall index, naturally lifting the index’s multiple. We believe this reflects a structural shift toward more efficient, high-margin business models driven by innovation, scale and automation. Investors are rewarding companies not just for growth but for durable profitability.

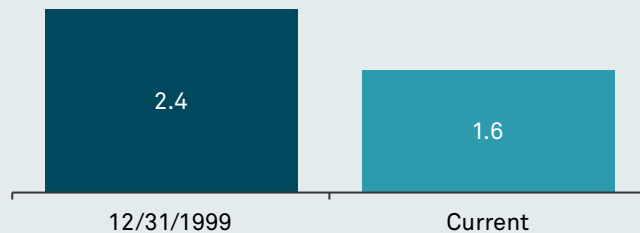
We believe tech valuations are reasonable on a relative and fundamental basis. During the dot-com era, tech traded at a premium of 2.4x the S&P 500’s PE ratio; today the premium is about 1.6x — a much narrower gap. Profitability also tells a similar story. Information technology’s free-cash-flow margins are about 11% above the S&P 500, versus only 2% in 1999, while communication services margins are now 6% higher versus -1.5%.



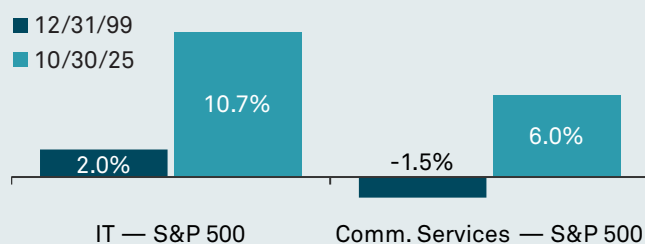
John Porter
Chief Investment Officer
BNY Investments Newton

FUNDAMENTALS MATTER

Relative Valuation

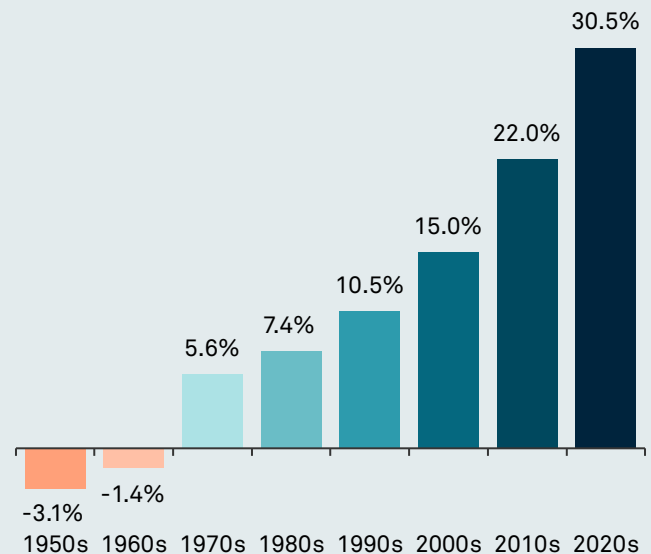


Relative Free-Cash-Flow Margins by Decade



Margins by Decade

Largest 10 stocks in S&P 500



Sources: Bloomberg and FactSet. Data as of October 30, 2025.

A Multi-Dimensional Story

While tech is a big part of the equation, we are now seeing earnings growth broadening across sectors and regions. Overall S&P 500 earnings are forecast to rise more than 10% by the end of 2025 and more than 13% in 2026. Operating margin estimates for the average S&P 500 stock have increased to 13.7%, the highest in a year. Given current levels, multiples are unlikely to expand much further and gains will be coming from earnings growth, which we expect to continue after a better-than-expected 2025.

Globally, the share of firms with upward earnings revisions has reached year-to-date highs across the S&P 500, MSCI EAFE, and MSCI EM indices. From a global perspective, rising defense and infrastructure spending in Europe, reform in Japan, and the impact of Fed easing across emerging markets present opportunities as global growth broadens.

With the tailwind of Fed easing, small caps are also starting to re-emerge, trading at their lowest relative valuations since 2001. With earnings expected to outpace large cap earnings in 2026, market foundations are becoming more balanced, with more inclusive growth.

Moving forward, investors should pay attention to monetary and fiscal policy as their interaction could impact debt sustainability and financial conditions for most developed economies. A slower-than-anticipated cyclical rebound may weigh on near-term earnings, and any moderation in U.S. earnings growth, economic expansion, or productivity could undermine the case for structurally higher valuations. Overall, while risks remain, there is opportunity in staying invested and diversified.

06

Who are the long-term winners of AI?

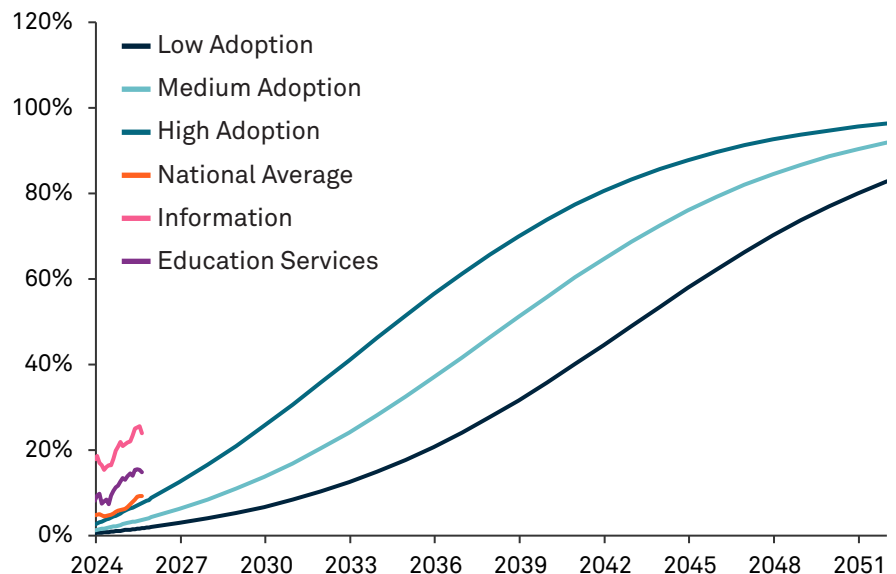


Sebastian Vismara
Head of Economic Research
BNY Advisors

AI has rapidly advanced from novelty to an integral part of workflows and daily life. Adoption is already surpassing many of the expectations from a few years ago. As usage accelerates, we look beyond productivity gains to see which firms can turn technological advantage into lasting market power.

Similar to the early days of past technological revolutions, market performance has so far centered on the builders and enablers of the innovation. But as adoption expands, the technology's impact on productivity and competitive dynamics will become more visible. We expect the market to shift focus from who is using AI to who can truly capture value from AI.

U.S. Rate of Generative AI Adoption % of firms adopting AI



Sources: Oxford Economics and BNY Investments. As of August 31, 2025.

Productivity is Not the Only Factor

A common assumption is that companies and sectors benefiting from AI-driven productivity gains will see the greatest increase in profits. The logic is straightforward: As productivity rises, costs fall, and corporate profits should rise accordingly.

Productivity gains are a useful starting point, but higher productivity growth alone is rarely enough to deliver sustained increases in profitability. For many sectors, competition often turns productivity gains into lower prices and/or higher wages. Capacity expansion and new entrants to highly profitable areas also tend to erode returns on capital. The ability of a firm to capture AI-driven productivity gains will depend in large part on its market power. Companies in less competitive markets are the ones most likely to keep a meaningful share of productivity gains as profits.

Evolving Competitive Dynamics

AI lowers the cost of accessing and transforming information, reducing the scarcity that underpins information-based competitive advantages.

Sectors whose advantages stem from physical assets, regulatory barriers or network effects may find their advantages preserved, and AI-related productivity gains in these sectors could more likely accrue to shareholders.

Sectors that rely heavily on information processing, such as software, search engines and healthcare diagnostics, could see competitive dynamics intensify as AI levels the playing field. Several large, public companies have already faced market concerns over how generative AI may negatively affect their existing business models.

Tapping Unmet Demand

AI-driven shifts in profit margins are only part of the story; another part of the story lies in demand. As prices fall, demand for a given good or service typically rises. This can often unlock new markets and bring previously out-of-reach products or services within reach of more consumers. Even sectors facing margin and price compression due to AI may still see an increase in overall profits — if the rise in demand outweighs the decline in prices.

Over time, as AI boosts productivity and lowers prices, aggregate real incomes could rise — potentially driving further outsized demand in some sectors. Healthcare, for example, is a sector with significant unmet demand. Most people want good healthcare, but many can't afford it. Lower-cost diagnostics and treatments would likely drive volume growth, potentially boosting overall profits.

Careful Selection is Essential

The biggest beneficiaries of AI adoption won't simply be the fastest adopters. Winning firms will likely leverage two advantages: strong productivity gains even after widespread adoption and the ability to capture unmet demand where lower prices translate into higher volumes. Sectors that pair these two dynamics together can become important plays in the AI theme. While information technology remains a favored sector under this framework, it also faces significant disruption with wide dispersion between winners and laggards, making careful selection essential.

Retained Productivity Gain vs. Demand Elasticity

		Demand Related to Price & Income Sensitivity	
		Low	High
Retained Productivity Gain	High	Financials Industrials Comm. Svcs.	Tech
	Low	Utilities Energy Materials	Healthcare

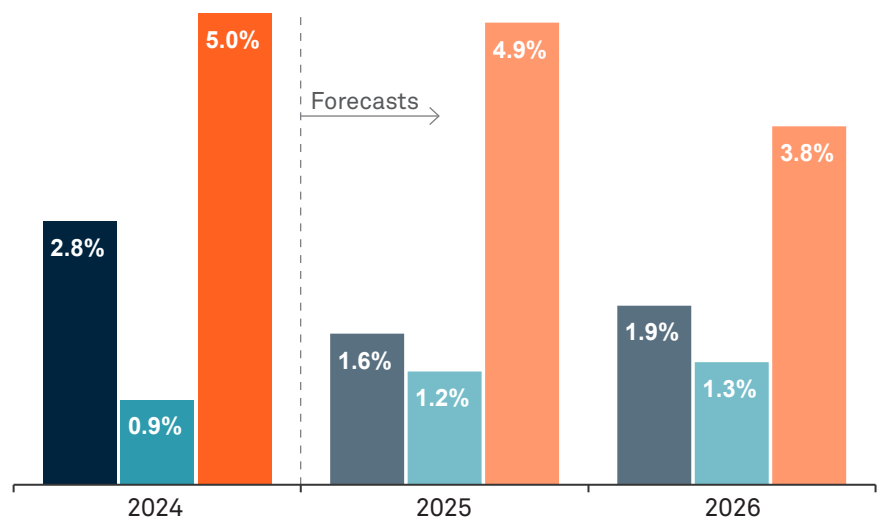
Source: BNY Investments.

ALLOCATING FOR A MULTI-DIMENSIONAL WORLD

Investors are facing the unexpected in 2026, so broad diversification is a leading theme. Overall, robust balance sheets, supportive macro conditions and accommodative monetary policies provide ample support for the global economy to continue to grow and for risk assets to perform. In our view, opportunities come from both leaning into U.S. market strength while identifying emerging opportunities across sectors, regions, and asset classes.

Evolving fiscal dynamics, divergent monetary policies and currency headwinds remain drivers of risk. The risks are real, but so are the opportunities. We believe markets are positioned for growth in a supportive, but increasingly multi-dimensional, environment.

BNY Growth Forecast
Calendar Year



Source: BNY Investments.
As of October 9, 2025.

U.S.

We expect U.S. growth to continue below trend through year-end before rebounding toward trend in 2026. Lower rates and fiscal lift will help rekindle the cycle, and ongoing AI and data center buildouts may drive a meaningful uptick in capital expenditure. We expect earnings growth to remain resilient and broaden beyond tech. Recession risks persist, primarily due to signs of labor market softening, but remain modest overall.

	2025	2026
GDP	1.6%	1.9%
CPI Inflation	3.2%	2.5%
Policy Rate	3.75%	3.0%

Eurozone

We expect the eurozone to grow toward potential on the back of greater fiscal spending on defense and infrastructure. Rate-sensitive sectors such as housing and manufacturing have been responding positively to the ECB's rate cuts, and we expect this momentum to continue into 2026. Key downside risks include continued weakness in manufacturing, ongoing competitive pressure from Chinese exports, and partial or delayed implementation of anticipated fiscal stimulus.

	2025	2026
GDP	1.2%	1.3%
CPI Inflation	2.0%	2.0%
Policy Rate	2.0%	1.75%

China

Despite tech breakthroughs and export diversification, we expect growth headwinds because of fading tailwinds from front-loading U.S. exports and a fragile stabilization of the property sector. Meanwhile, economy-wide deflation remains problematic. Structural reforms to rebalance the economy will take longer to play out, but a larger or quicker fiscal policy boost geared to durably shore up household consumption and domestic demand may brighten the fundamental outlook.

	2025	2026
GDP	4.8%	4.0%
CPI Inflation	0.5%	0.8%
Policy Rate	1.2%	1.0%

Japan

The domestic political transition under a minority government is likely to elevate near-term economic uncertainty. We expect steady nominal wage growth and lower inflation to improve real incomes, which we view as a key driver of 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 positive surprises in business investment.

	2025	2026
GDP	1.2%	0.8%
CPI Inflation	3.0%	2.0%
Policy Rate	0.75%	1.0%

Source: BNY Investments, as of October 17, 2025. GDP is for the calendar year; CPI inflation represents year-over-year inflation; policy rates are estimated as of year-end.

KEY TAKEAWAYS

01

We expect the U.S. economy and markets to continue setting the tempo for the rest of the world. Rate cuts and lower corporate tax rates should support an extension of economic growth.

02

Globally, shifting monetary policies across regions present opportunities for selective duration and country allocation, including opportunities to diversify rate exposure and generate quality income outside the U.S.

03

Global fixed income fundamentals remain strong. Stable U.S. credit spreads create potential opportunities for shorter-duration Treasuries and investment grade credit. In Europe, country-level dynamics continue to drive relative valuations.

04

EM assets appear ready for a notable role in 2026, particularly with many EM central banks poised to ease, China likely to stimulate growth, and U.S. dollar pressure continuing.

05

U.S. earnings momentum is expanding beyond mega-cap names. Europe benefits from fiscal spending and policy easing, while Japan's transition is driving progress on inflation and consumption.

06

Companies beyond tech that can capture AI-supported competitive advantages seem well positioned. The intersection of “fiscal-plus-AI” could become a structural accelerator, supporting growth in infrastructure, energy and metals.

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As of November 2025.

Endnotes

1. Assets under custody and/or administration as reported in BNY's 3Q 2025 earnings.
2. BNY Investment Institute consists of BNY Advisors' macroeconomic research, asset allocation, manager research and operational due diligence teams.
3. Average since 1996.
4. Operating margin based on 12-month forward earnings before interest and taxes (EBIT) margin estimate per FactSet.

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