EQUITIES RESILIENT AS U.S. EXCEPTIONALISM HOLDS

Global equities have staged a strong rally in 2025, despite trade tensions, policy shifts and geopolitical uncertainty.

In our view, U.S. exceptionalism remains a compelling investment case, driven by productivity, innovation and earnings momentum. However, elevated volatility underscores the importance of diversification. We see opportunities to selectively broaden investments into international markets to strengthen portfolios in the current environment.

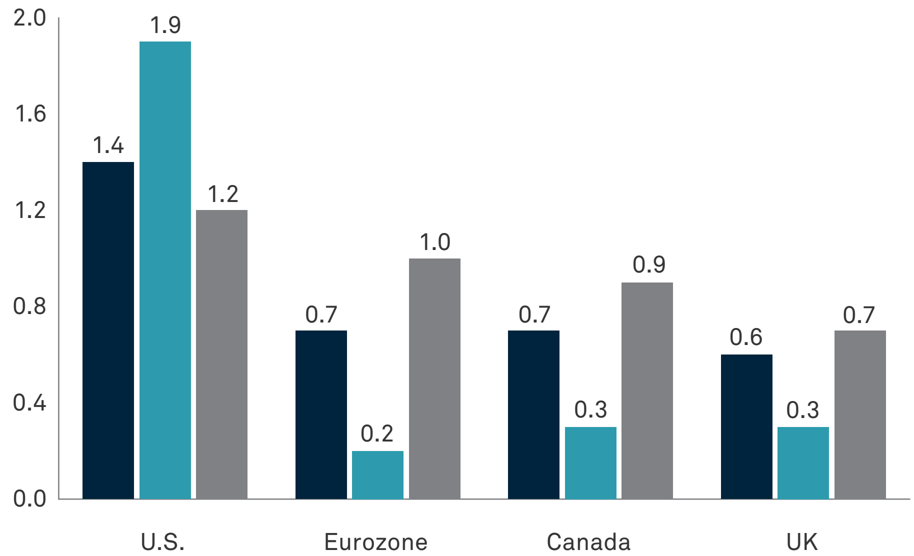
STAYING POWER

Global equities have advanced with broad-based gains. International equities and emerging markets are up around 20%, while the U.S. has gained almost 10%.[1] Though U.S. equities have underperformed relative to the rest of the world, the performance gap has narrowed from about -17% in April to -10% by mid-August.[2] We believe this gap will continue to narrow as the U.S. benefits from growth tailwinds. Structural advantages in labor markets, productivity, innovation and AI leadership have translated into bullish equity markets and strong GDP growth. Since 2010, U.S. productivity has grown twice as fast as Europe, with the disparity widening since Covid.

U.S. PRODUCTIVITY LEAD EXPECTED TO CONTINUE WIDENING

Annualized productivity growth, percent

- 2010–2024
- 2020–2024
- 2010–2019



Source: Factset, Bloomberg, as of 12/31/24.

[1] Bloomberg. International equities represented by the MSCI EAFE Index, Emerging Markets represented by the MSCI Emerging Markets Index, U.S. equities represented by the S&P 500 Index. As of 8/18/25. [2] ibid.

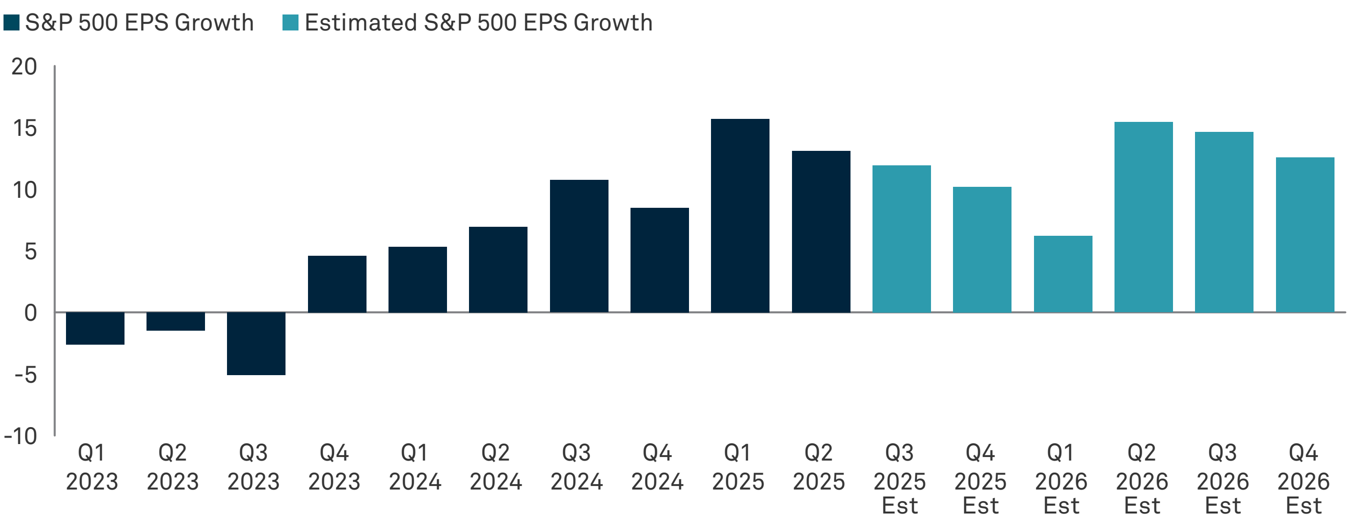
S&P 500 companies reported stronger-than-expected earnings in the first half of the year and should continue improving.

Earnings expectations also reinforce our view. S&P 500 companies reported stronger-than-expected earnings in the first half of the year and should continue improving, supported by favorable policies and solid fundamentals. AI adoption is fueling semiconductor demand and capital spending, and the One Big Beautiful Bill (OBBB) provides incentives for domestic chip production to expand capacity and strengthen supply chains.

Against this backdrop of supportive policy and AI momentum, we see a favorable environment for certain sectors. Financials are positioned to benefit from Fed rate cuts, a steeper yield curve that improves lending and capital markets activity and easing regulatory pressures. Communication services are gaining from stronger digital advertising revenues, with AI increasing engagement and pricing. Cyclical industries, including industrials, energy and materials, are supported by infrastructure spending, reshoring and rising electricity demand from data centers, with OBBB tax credits and immediate tax deductions for research and development reducing manufacturing costs.

ANTICIPATED REBOUND IN EARNINGS

Year-over-year S&P 500 EPS growth, percent



Source: Bloomberg, BNY Investment Institute, as of 8/29/25.

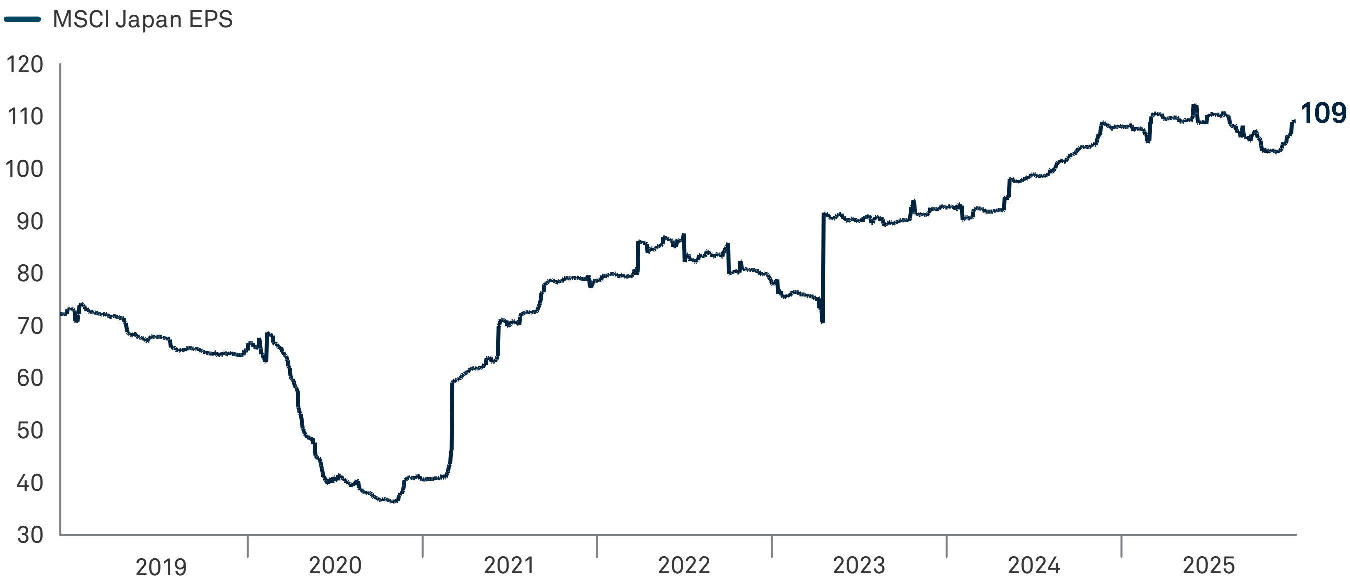
INTERNATIONAL & EMERGING MARKET OPPORTUNITIES

While we think U.S. exceptionalism will continue, we also see compelling opportunities in certain international markets and emerging markets (EM) ex-China. In Europe, there's potential upside in industrials, particularly aerospace and defense, bolstered by higher government spending on defense, infrastructure and energy. In Japan, a renewed push toward corporate governance reforms and continued economic growth have led to all-time highs in its equity market. Reduced trade uncertainty, improving corporate profitability and a possible pick up in wages and consumption are positive long-term drivers for Japanese equities.

We are also constructive on EM ex-China markets as Fed easing typically leads to more accommodating global financial conditions, which are generally supportive of EM equities.

In Japan, a renewed push toward corporate governance reforms and continued economic growth have led to all-time highs in its equity market.

IMPROVING CORPORATE PROFITS FOR JAPANESE COMPANIES



Source: BNY Advisors, Macrobond. Data as of 8/26/25.

LOOKING AHEAD

While equities are posting year-to-date gains, economic data appear to have hit a soft patch. Risk-on market sentiment, particularly around AI, is driving market performance. We expect U.S. growth to continue as consensus estimates have started to improve. Capital expenditure expectations and business sentiment have turned up, and earnings estimates are moving higher.

However, on the economic front, the labor market is showing potential signs of strain, which could lead to slower growth. While consumer prices are rising, spending so far has held up. Spending could slow, depending on the impact of tariffs and immigration policy on the job market.

Geopolitical risks also linger and have the potential to disrupt supply chains. Continued mixed economic data may weigh on investor sentiment, which has improved from April.

Looking ahead over the next 6 to 12 months, we maintain our conviction that equities, and particularly the U.S. market, will continue to deliver gains. But against a backdrop of shifting trends, adding geographic diversification, such as exposure to Japan and selected EM, may help mitigate risk and broaden growth exposure.

GLOSSARY

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

Capital expenditures (CapEx) refers to the funds used by a company to acquire, upgrade and maintain physical assets such as property, plants, buildings, technology or equipment.

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

Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

MSCI EAFE Index is an equity index which captures large and mid cap representation across 21 developed markets countries around the world, excluding the U.S. and Canada. An investor cannot invest directly in any index.

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