BNY | INVESTMENTS

Q4

QUARTERLY INVESTMENT OUTLOOK

Intelligence for Your Portfolios

2026

OUR VIEW

Growth weathers Middle East shock

Growth remains resilient, supported by business investment in the U.S. and fiscal spending in Europe.

Trend inflation persists above target

Underlying price pressures remain above target, and a positive output gap adds to inflation.

Central banks deliver

History suggests that the start of a rate hiking cycle rarely ends with one hike.

What's Driving Our View

Oil inventory depletion is a real risk
Despite added production outside the Middle East, oil inventories could hit minimum operating levels, causing shortages if the conflict persists.

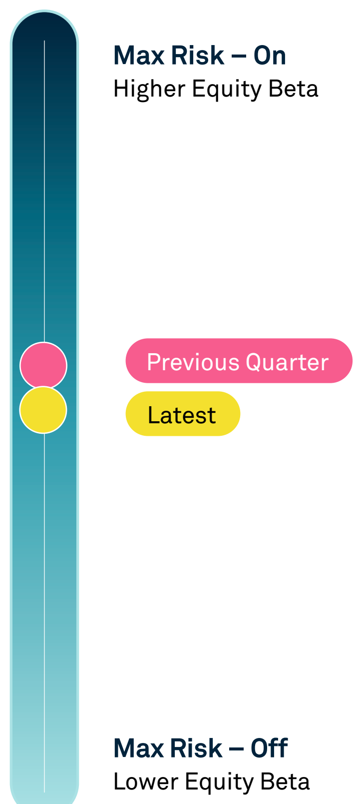
Inflation pass-through
Pass-through from the commodity price shock is likely to peak in early 2027.

Capex and fiscal to be supportive
Artificial intelligence (AI)-related capex in the U.S. and fiscal spending on infrastructure in Germany should be positive for growth.

Portfolio Implications: Defensive

- Stay selective and defensive in equities with a preference for value and income.
- Stay cautious on duration though valuations have become attractive.
- Favor real assets and inflation hedges as portfolio diversifiers.

RISK POSITIONING



OUTLOOK

Base Case

EXPANSION

Global growth firms as the Middle East conflict fades. In the U.S., easing energy prices, AI-led capex, and loose financial conditions outweigh fading fiscal support, pushing growth above potential. Full employment and a positive output gap keep core inflation near 3%; the Federal Reserve (Fed) hikes twice through the third quarter of 2027. German stimulus benefits Europe, while UK's above-potential rebound is delayed to 2028. Eurozone inflation stays bumpy but eases toward target by 2027 as wages stay subdued, keeping the European Central Bank (ECB) vigilant. Japan normalizes monetary policy, and the yen strengthens slightly. China delivers a modest stimulus package, but disinflation lingers. Risk assets stay volatile, with earnings driving returns.

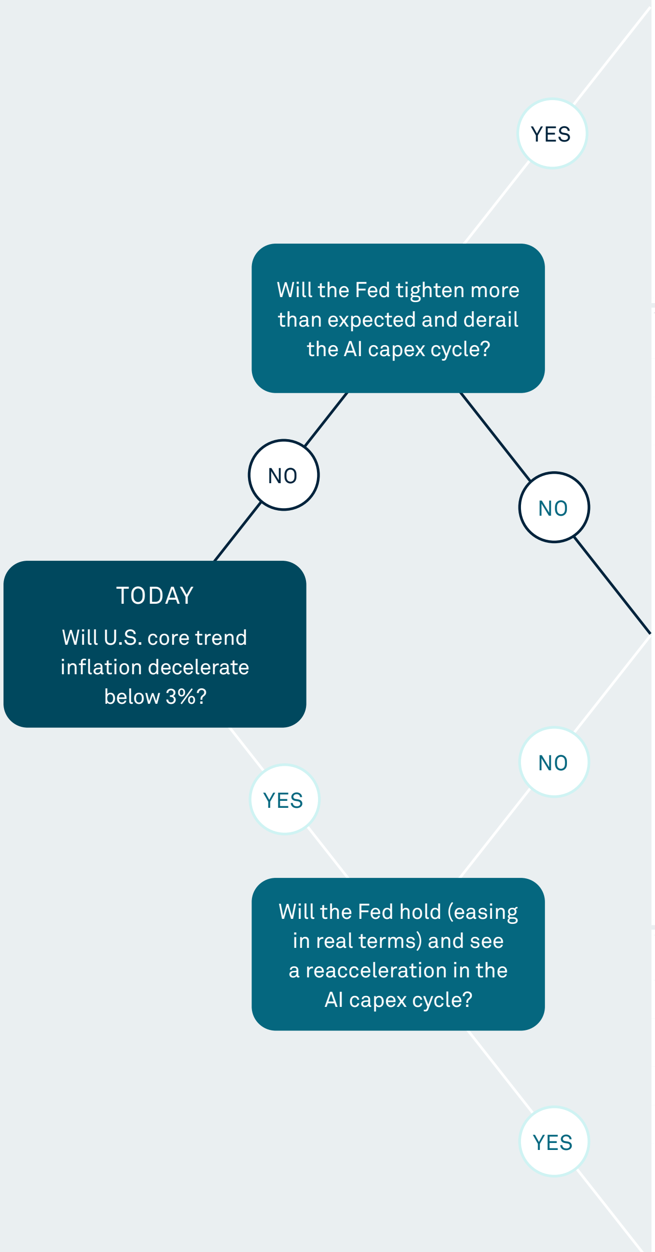
STAGNATION

A prolonged Iran conflict drains global oil reserves to critical levels, spiking commodity prices while trend inflation is already above target. The Fed tightens to around 5% by mid-2027, dampening investment and the AI capex cycle as consumers pull back and earnings weaken. The ECB hikes to contain second-round effects, pushing European growth below trend. The Bank of England (BoE) follows more cautiously as labor slack limits pass-through, but UK growth flirts with recession. Japan slips into a recession on costly oil, delaying Bank of Japan (BoJ) normalization. China's growth falls to around 3% by late 2027. Equities enter a bear market, the U.S. dollar (USD) strengthens, and cash, real assets, and inflation hedges outperform while higher yields weigh on gold.

RECOVERY

Global growth is powered by a reacceleration in the AI capex cycle. In the U.S., a further rise in business investment echoes the late 1990s. AI adoption broadens, the labor market stays at full employment, and a low savings rate sustains spending. Inflation is sticky and above target through 2027, but the Fed holds, keeping financial conditions easy. The UK gains from AI spillovers and grows above potential sooner than expected, while German stimulus and data center buildouts lift Europe, with the ECB on hold. Japan follows, though the BoJ hikes more than the other two scenarios. The global pick-up provides a strong backdrop for China to continue growing around 5% in real terms. Accommodative financial conditions support higher equity multiples and weaken the USD.

SCENARIOS IN BRIEF



STAGNATION

Equities	Sovereigns	Credit	Real Assets	Cash
▼▼	▼	▼▼	▼	▲▲

12-month Outlook	Level
S&P 500	5,900

Macro

- Energy disruptions reach critical levels, causing a sharp spike in commodity prices.
- The Fed tightens. Weaker sentiment, a higher savings rate, and lower earnings curb private investment.

Markets

- Equities fall into bear market territory. The wealth effect weighs on growth and capex.
- Real assets and inflation hedges – value and income equities, short duration, and the USD – hold up; rising yields pressure gold.

EXPANSION

Equities	Sovereigns	Credit	Real Assets	Cash
▲	▼	▲▲	▲	—

12-month Outlook	Level
S&P 500	7,800

Macro

- Global activity strengthens as the shock fades. In the U.S., capex and loose financial conditions keep growth above potential.
- Limited labor supply keeps unemployment low. Core trend inflation stays near 3%. The Fed hikes twice over the next 12 months.

Markets

- Risk assets gain but stay volatile amid inflation uncertainty. Earnings drive growth, capped multiples limit upside. Tight credit spreads offer attractive carry.
- Uncertainty around U.S. Treasury intervention keeps yields volatile.

RECOVERY

Equities	Sovereigns	Credit	Real Assets	Cash
▲▲	▲	▲▲	▲	▼▼

12-month Outlook	Level
S&P 500	8,600

Macro

- Rising business investment lifts U.S. growth above potential, while full employment and low savings support spending and earnings.
- Inflation remains above target through 2027. The Fed holds until late 2027, keeping financial conditions loose.

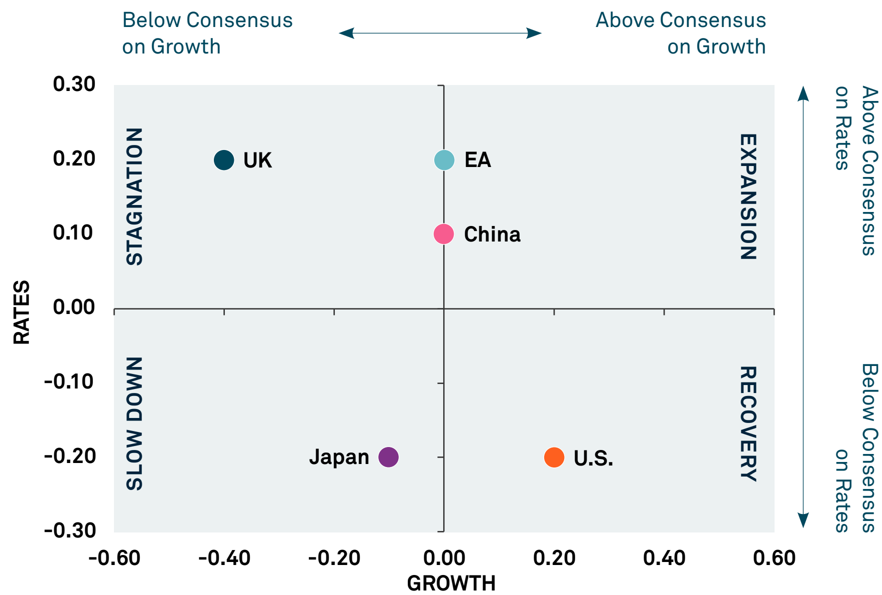
Markets

- Fast nominal growth and easy monetary policy loosen financial conditions and lift equity multiples.
- The USD is stable to modestly weaker on lower rate differentials.

▲▲ Very Favorable
▲ Favorable
— Neutral
▼ Unfavorable
▼▼ Very Unfavorable

Source: BNY Investments as of September 15, 2026.

OUR VIEW VERSUS CONSENSUS



	BASE CASE	KEY RISKS
U.S.	• Easing energy prices, capex and loose financial conditions offset fading fiscal support. • Core trend inflation at 3% forces the Fed to deliver two rate hikes over the next 12 months.	• Downside: Energy shocks trigger second-round impacts and lift core inflation to 4%. • Upside: Business capex and AI adoption rises. Wage growth is contained, and the Fed holds.
EURO AREA (EA)	• German stimulus and AI capex offset energy and Chinese export pressures. • Core inflation stabilizes around 2.5%, prompting the ECB to hike one more time in 2026.	• Downside: Growth weakens as consumers save more or the ECB responds with additional hikes. • Upside: Consumers look through the shock, demand holds up, and no further ECB hikes.
UK	• Tight financial conditions and labor slack delay growth rebound until 2028. • Core inflation remains above target but continues to ease and the BoE remains on hold.	• Downside: Energy shock leads to BoE tightening, but labor market slack limits its scope. • Upside: AI capex and adoption lift growth, while high inflation keeps the BoE hawkish.
JAPAN	• Household demand picks up on rising real wages and supports business investment. • Headline inflation rises despite energy price subsidies; BoJ hikes to 1.75%.	• Downside: Higher energy prices cut purchasing power, weakens the yen, and fuels inflation. • Upside: Growth picks up as demand recovers; the USD stabilizes and yen pressures fade.
CHINA	• Property drags fade, but trade frictions require continued domestic demand support. • Reflation slows as excess capacity offsets energy shocks, prompting further stimulus.	• Downside: Higher savings and a housing slump slow growth. Geopolitical frictions rise. • Upside: Faster domestic demand rebalancing and AI adoption strengthens manufacturing.

Data as of September 15, 2026. Chart is for illustrative purposes.

OUR VIEWS

Where We Are Different

Our Outlook vs. Consensus	Q4 2026	Q/Q Change
Growth We remain more constructive than consensus on U.S. growth, driven by robust business capex and accommodative financial conditions. We are in line with consensus on the EA and China and below consensus on the UK and Japan.	Above	
Inflation We are in line with consensus on headline inflation in the U.S., above in Japan and China, and below in the UK and EA.	Neutral	↓
Policy On an inflation-adjusted basis, we are below consensus in the U.S. and Japan and above consensus in EA, UK, and China.	Neutral	↓

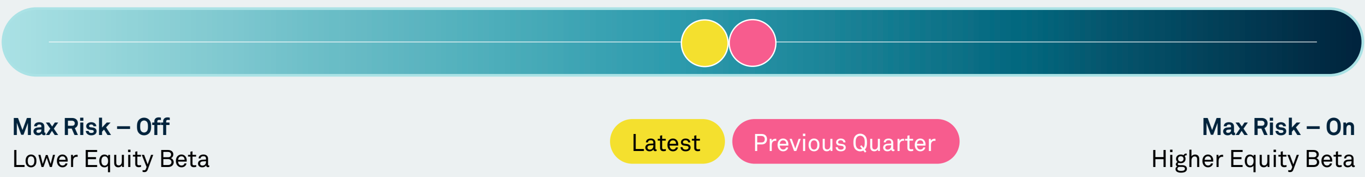
Above, below, and neutral are relative to consensus expectations.

What It Means for Portfolios

Tactical Investment Views	Q4 2026	Q/Q Change
Global Equity We shift to underweight from the prior quarter. Rate hikes challenge equities in the near term, while uncertainty around the political calendar may add to volatility. Within U.S. equities, we favor value and large caps. We are neutral on the UK, Europe ex UK, and emerging markets (EM), and positive on Japan.	Underweight	↓
Sovereign Bonds We remain cautious on rates, though the recent rise in yields means valuations are now more attractive. Macro differentials provide opportunities for relative value. We favor non-U.S. sovereigns over U.S. Treasuries.	Underweight	
Credit We shift to neutral from the prior quarter. We are constructive on credit as risk-adjusted returns are historically attractive in a high nominal growth environment. We prefer shorter duration high yield for income and EM local currency debt over EM USD debt.	Neutral	↑
Real Assets We continue to favor real assets as an important diversifier. We prefer infrastructure and natural resources for its exposure to structural growth themes and inflation-linked revenues.	Overweight	
Cash We move to neutral from the prior quarter. We reallocate cash to increase real asset exposure, shift to neutral on credit, and add some duration exposure while maintaining an underweight stance.	Neutral	↓

Source: BNY Investments as of September 23, 2026.

Risk Positioning



MAJOR ASSET CLASS

	12-Month View
Global Equity The global economy is holding firm, with structural growth drivers intact. However, elevated global capex and equity price multiples could remain volatile. We remain cautious on risk, favoring value, income, AI-linked infrastructure, and natural resources equities.	– ○ ● ○ ○ ○ +
Sovereign Bonds Energy prices have eased, but pressures persist. The resilient U.S. economy and above-target inflation keeps us cautious on duration, though valuations are more attractive. Non-U.S. developed markets face greater supply-side shocks and offer better relative value.	– ○ ● ○ ○ ○ +
Credit Yields remain attractive and carry has historically performed well in a resilient growth environment. Rich spreads warrant selectivity. We favor high yield over investment grade for income and increasing energy exposure.	– ○ ○ ● ○ ○ +
Real Assets Real assets diversify against inflation, geopolitical uncertainty, and a weaker dollar from FX intervention. We like infrastructure, natural resources, and are constructive on real return strategies and precious metals.	– ○ ○ ○ ● ○ +
Cash Fed hikes increase cash's appeal, though front-end yields remain volatile, and a less hawkish Fed tone will likely weaken the USD. Absolute return strategies that may benefit from global policy divergence are attractive.	– ○ ○ ● ○ ○ +

Source: BNY Investments as of September 23, 2026.

EQUITY

	12-Month View
U.S. Equity Most drivers of the U.S. economy, barring housing, remain strong. Our base case and downside scenario point to persistent or rising price pressures and elevated interest rates, leaving rate-sensitive segments such as small caps more vulnerable to repricing. Growth/Value: Concerns about AI hyperscaler overinvestment, market concentration, competition, and IPO-driven volatility reinforce our near-term caution on growth. Higher inflation and real yields should remain supportive for value.	– ○ ● ○ ○ ○ +
UK Equity UK equities could be attractive for income-seeking investors. Income-oriented strategies offer a hedge against structurally higher inflation risks. Sector exposure (e.g., mining, energy, banks) and attractive valuations are additional tailwinds, though macro developments warrant selectivity.	– ○ ○ ● ○ ○ +
Europe ex UK The region has shown resilience from the energy shock, with sentiment improving. The lagged effects of prior policy easing and increased fiscal support remain supportive and seem to be spurring a quicker recovery in business confidence.	– ○ ○ ● ○ ○ +
Japan Equity Higher energy prices are suppressed by price freezes and offset by subsidies. Real wages continue rising and business confidence remains firm. Dividend increases, share buybacks, and a prospective cut in the consumption sales tax cut on food items provide further upside.	– ○ ○ ○ ● ○ +
Emerging Market Equity Robust tech-centered demand from China, resilient software services in India and lingering AI-driven demand across renewables and data centers help limit downside risks for EM equities, though leveraged trades and onshore rate hikes add to volatility.	– ○ ○ ● ○ ○ +
China Equity Resilience to energy price shocks has broadened China's global manufacturing dominance, with continued inroads into high tech sectors. However, despite ongoing reflation, pricing power remains weak, and barring a few select sectors, sluggish earnings prospects cap upside.	– ○ ○ ● ○ ○ +
Emerging Market ex China Equity The strong AI-led global capex cycle has resulted in a surge in semiconductor production and exports from East Asia. AI's longer-term secular trends remain intact and should benefit East Asian equities. But near-term concerns about earnings sustainability, rising interest rates, and elevated volatility warrant caution.	– ○ ○ ● ○ ○ +

Source: BNY Investments as of September 23, 2026.

FIXED INCOME

	12-Month View
U.S. Treasuries Trend inflation remains elevated, and above-potential growth in the U.S. adds further price pressure. The Fed has turned hawkish, reinforcing our cautious duration outlook. That said, valuations are starting to look attractive with real yields above 2%.	– ○ ● ○ ○ ○ +
International Sovereign Debt FX-hedged yields in select developed markets remain attractive, while market pricing in some regions appears overly hawkish. Energy-led inflation could prove stickier, but our base case of weaker growth outside the U.S. should moderate central bank hawkishness and create relative value opportunities.	– ○ ○ ● ○ ○ +
Global Investment Grade Debt Yields are attractive, but spreads look rich, with limited scope for further tightening. Selectivity remains crucial and spread widening from hyperscaler issuance may provide attractive entry points. For now, we prefer to use credit as a funding source for risk opportunities elsewhere.	– ○ ● ○ ○ ○ +
High Yield Debt Carry has supported credit returns and remains attractive in a stronger growth environment. However, historically tight spreads warrant selectivity. Amid heightened equity volatility, we prefer short-duration exposure which offers a better balance of resilience and carry.	– ○ ○ ● ○ ○ +
Emerging Market Local Currency Debt The easing oil price shock should provide some relief by moderating EM inflation pressures and lifting real yields. A weakening USD will lower import costs and result in further disinflation. These developments should boost duration by easing hawkish pricing of EM central bank policies.	– ○ ○ ○ ● ○ +
Emerging Market U.S.-Dollar-Denominated Debt Currency flexibility and improved policy buffers shielded EM USD debt from the oil price shock. Debt metrics generally compare well versus developed markets, but spreads have tightened relative to investment grade and high yield corporate spreads.	– ○ ○ ● ○ ○ +

Source: BNY Investments as of September 23, 2026.

BNY INVESTMENT STRATEGY & RESEARCH

BNY Investment Strategy & Research Group draws upon the breadth and expertise of BNY Investments to generate thoughtful insights on macroeconomic trends, investable markets, and portfolio construction to facilitate higher probabilities of better outcomes for our portfolio managers and our clients.

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IMPORTANT INFORMATION

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

All investments involve risk, including the possible loss of principal. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

RISK CONSIDERATIONS

This report has been provided for informational purposes only and is subject to significant limitations. The views contained herein are not to be taken as advice or a recommendation to buy or sell any investment. The information contains projections or other forwardlooking statements regarding future events, targets or expectations, and is only current as of the date indicated. Targets contained herein are based upon an analysis of historical and current information and assumptions about circumstances and events that may not yet have taken place and may never occur. If any of the assumptions used do not prove to be true, results may vary substantially. Certain information has been obtained from sources believed to be reliable, but not guaranteed. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. If the reader chooses to rely on the information, it is at its own risk. The information is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. We do not undertake to advise you of any change in the information contained in this report. The report does not reflect actual trading and other factors that could impact future returns. Given the inherent limitations of the assumptions, this report does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. The information has been provided without taking into account the investment objective, financial situation or needs of any particular person. Please consult a legal, tax or financial professional in order to determine whether an investment product or service is appropriate for a particular situation.

Equities are subject to market, market sector, market liquidity, issuer, and investment style risks, to varying degrees. **Bonds** are subject to interest-rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. **Commodities** contain heightened risk, including market, political, regulatory, and natural conditions, and may not be appropriate for all investors. **High yield bonds** involve increased credit and liquidity risk than higher-rated bonds and are considered speculative in terms of the issuer's ability to pay interest and repay principal on a timely basis. Investing in **foreign denominated and/or domiciled securities** involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries. **Small and midsized company stocks** tend to be more volatile and less liquid than larger company stocks as these companies are less established and have more volatile earnings histories. **Currencies** are can decline in value relative to a local currency, or, in the case of hedged positions, the local currency will decline relative to the currency being hedged. These risks may increase volatility. **Alternative strategies** may involve a high degree of risk and prospective investors are advised that these strategies are appropriate only for persons of adequate financial means who have no need for liquidity with respect to their investment and who can bear the economic risk, including the possible complete loss, of their investment. The strategies may not be subject to the same regulatory requirements as registered investment vehicles. The strategies may be leveraged and may engage in speculative investment practices that may increase the risk of investment loss. Investors should consult their financial professional prior to making an investment decision.

INDICES & DEFINITIONS

1-year forward swap: the avg. interest rate for 1-mth. in 1-year forward. **GDP:** gross domestic product is the total monetary or market value of all the finished goods and services produced within a country's borders over a given time period. **10Y UK Gilt** – Average yield of a range of UK government bonds all adjusted to the equivalent of a ten-year maturity. The **10Y US Treasuries Average Yield** of a range of Treasury securities all adjusted to the equivalent of a ten-year maturity. **Artificial intelligence (AI):** computer systems that can perform tasks typically requiring human intelligence, such as visual perception, speech recognition, decision-making, and language translation. **Bloomberg US Corporate High Yield:** covers the universe of fixed-rate, non-investment grade corporate debt in the US. **Bloomberg US Corporate Investment Grade:** designed to measure the performance of the investment grade corporate sector in the US 1-mth. **Capital expenditure (capex):** the funds a company spends to acquire, upgrade, or maintain long-term assets that support business operations and future growth. The **CBOE VIX Index (VIX)** is an indicator of the implied volatility of S&P 500 Index as calculated by the Chicago Board Options Exchange (CBOE). **Consumer Prices (CPI) Index** measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rate represents the inflation rate. **Europe STOXX 600 Index** represents the performance of 600 large, mid and small capitalization companies across 18 countries in the European Union. **Expansion:** GDP growth above trend. **Fed funds Rate:** the target interest rate for overnight lending and borrowing between banks. **FX (foreign exchange)** is the financial market where one country's currency is exchanged for another at a specific rate, known as the foreign exchange rate. **Japan (Nikkei 225):** The NIKKEI 225 is an index that tracks the performance of the largest 225 companies traded in the Japanese market. T**he Majors Dollar Index (USD)** measures the value of the US dollar relative to a basket of currencies of the most significant trading partners of the US including the euro, Japanese yen, Canadian dollar, British pound, Swedish krona, and Swiss franc. The **MSCI EM Index (Emerging Markets Equities)** tracks the total return performance of emerging market equities. **Purchasing Managers Index (PMI):** An economic indicator derived from monthly surveys of private sector companies. A level above 50 indicates expansion compared to the prior month and below 50 contraction. Investors cannot invest directly in any index. The **S&P 500 Composite Index (S&P 500)** is designed to track the performance of the largest 500 US companies. **Recovery:** growth recovering towards long-term trend growth. **Stagnation:** a prolonged period of little or no economic growth, often accompanied by high unemployment and minimal improvements in living standards. **Sticky inflation:** type of inflation in which price increases persist and resist falling, even after the original causes of inflation fade.

STATISTICAL TERMS

Skewness in statistics represents an imbalance and an asymmetry from the mean of a data distribution. In a normal data distribution with a symmetrical bell curve, the mean and median are the same. **Probability-weighted mean** is similar to an ordinary arithmetic mean, except that instead of each of the data points contributing equally to the final average, data points are weighted by the statistical probability for a particular scenario outcome. **Duration** is a measure of a bond's interest rate sensitivity, expressed in years. The higher the number, the greater the potential for volatility as interest rates change.

OTHER

QE: quantitative easing. **Fed:** US Federal Reserve. **ECB:** European Central Bank. **BOJ:** Bank of Japan. **BOE:** Bank of England.

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