

# SHIFTING GEARS

At the Table with BNY Experts

September 2025

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# WELCOME TO THE TABLE

Helping our clients succeed is a core mission for BNY — a mission we have been committed to for more than 240 years. BNY touches approximately one-fifth of the world's investible assets, and our perspective gives us unique insights to help clients in today's uncertain environment. In many ways, investing has never been more challenging and there has never been more opportunity.

As part of BNY's focus on being a thought leader for our clients, we bring together investments and markets leaders from across the firm to debate the key issues shaping markets today with our clients in mind. This group meets quarterly to debate macro trends, challenge assumptions and surface directional views on markets and asset classes. It goes beyond an academic exercise; the research shapes how we position portfolios, identify opportunities, frame risks and communicate our thinking to clients.

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This intentional fostering of intellectual rigor drives holistic perspectives that tap into the global and multi-dimensional capabilities of BNY. The result: more cohesive strategies and actionable insights aligned to our mission of delivering client outcomes.



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Jose Minaya  
Global Head of BNY Investments and Wealth



# CONTENTS

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**01** Gearing Up for  
What's Ahead

---

**02** World in  
Motion

---

**03** The Central Bank  
Switchback

---

**04** In Conversation: Going  
Global in Fixed Income

---

**05** Who Pays  
for Tariffs?

---

**06** Equities Resilient as  
U.S. Exceptionalism Holds

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**07** Meet Our  
Experts



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# 01 GEARING UP FOR WHAT'S AHEAD

Welcome to the first edition of *At the Table*. Every quarter, we bring together some of the brightest minds from across BNY. The goal isn't consensus but deep discussions that illuminate unique insights for our clients. At our inaugural meeting, the group discussed the complexity of the macroeconomic and investing landscape, distilled here to help clients navigate today's complex challenges.

Investors are inundated with inconsistent signals. Ignoring the noise to find meaningful indicators is challenging. Investor concerns range from deglobalization and geopolitical fragmentation to the impact of higher tariffs on growth and inflation. Questions also persist about Fed independence and future interest rate cuts. It's no surprise that investors have questions about the direction of markets and how to protect portfolios.

Policy uncertainty was a dominant theme of the discussions. We see tariffs driving consumer prices higher, and stricter border enforcement could increase labor costs, structurally altering labor market dynamics. These headwinds are likely to weigh on consumer spending and dampen business sentiment. Some policies may counterbalance these challenges. Inflation is moving toward the Fed's 2% target, paving the way for gradual rate cuts and moderately lower borrowing costs. Deregulation and tax reform are supportive of business investment

and profitability, while advancements in technology, particularly artificial intelligence (AI), have the potential to boost productivity. On balance, these policies should support growth, although with some inflationary pressures, and the economy should avoid tipping into a recession.

This report offers you a seat at our table, sharing key discussions shaping our thinking. Our experts take a deeper dive to help clients chart a path in today's markets. BNY Investments Dreyfus & Mellon's Chief Economist Vincent Reinhart shares his views on the current path of Fed policy, and BNY Investments Newton's Ella Hoxha and Insight's Brendan Murphy answer some of our client's top fixed income questions. You'll also find an analysis on the effects of tariffs on global exporters, U.S. importers and, ultimately, consumers in *Who Pays for Tariffs?*, and BNY Wealth's Alicia Levine and BNY Newton's John Porter discuss their case for why U.S. exceptionalism holds despite near-term obstacles.

# 02 WORLD IN MOTION

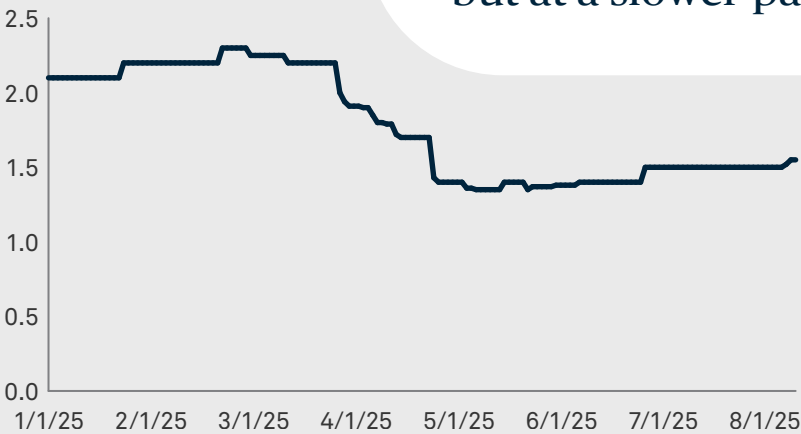
## UNITED STATES

Despite a cooling labor market, the unemployment rate remains stable, a sign of economic resilience. We believe that recession risks will be higher than historical, but contained. Consumer spending remains firm even as tariffs begin to leave their mark on the economy, weighing on growth and consumer prices. The Fed is likely to cut interest rates in September.

Consumer activity continues to hold up.

The economy is projected to expand, but at a slower pace.

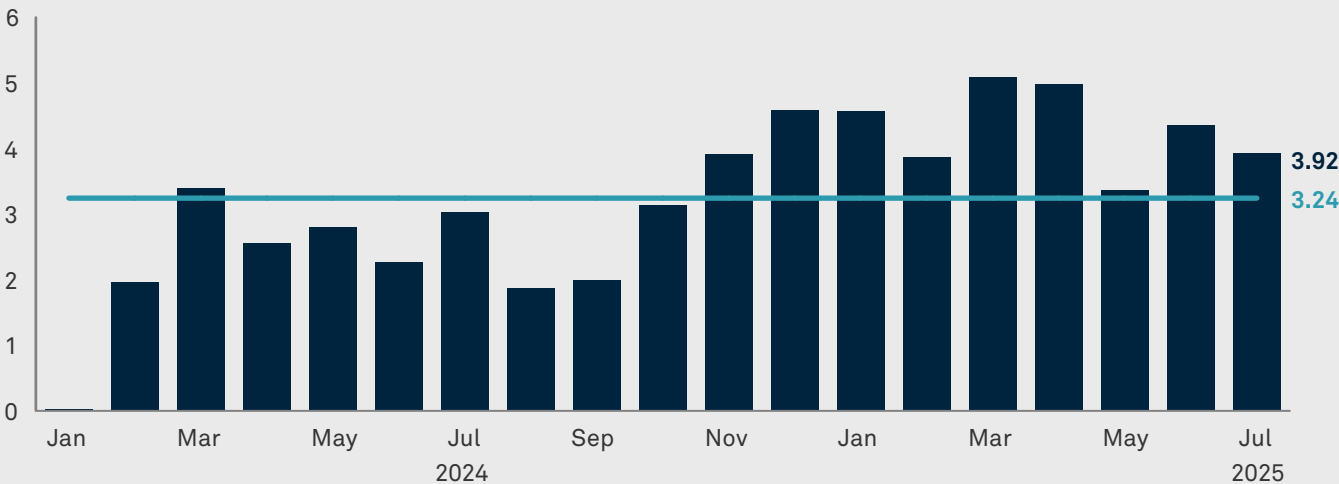
Consensus Growth Forecast, percent



Source: BNY Investment Institute, Macrobond. Data as of 8/1/25.

### U.S. Retail Sales

■ U.S. retail sales, year over year, percent  
— Average since 2024



Source: BNY Investment Institute, Macrobond. Data as of 7/31/25.

## EUROPE

The EU's trade agreement increases new investments in the U.S. Disinflationary pressures may prompt the European Central Bank to lower rates further. Higher NATO defense spending should lead to greater government spending in Europe. Germany's recent fiscal policies and stimulus measures are a bright spot for the region. Despite recent gains, near-term challenges remain.

European governments boost defense spending.

**NATO  
DEFENSE  
SPENDING**

In 2014



**2% OF GDP**

By 2035

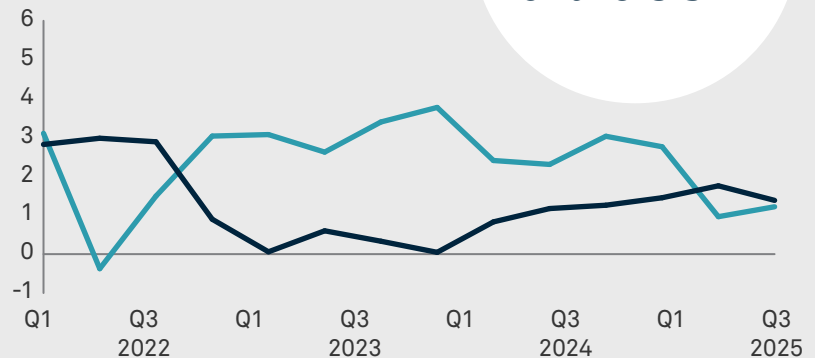


**5% OF GDP**

### GDP

Two-quarter change, percent, annualized

— Euro area  
— U.S.



European growth pulls ahead of the U.S.

Source: BNY Investment Institute, Macrobond. Data as of 8/25/25.

### Japanese Equities



Japanese equities climb higher.

## JAPAN

Japan continues to reflate, resulting in higher-than-target inflation and weaker-than-expected GDP growth. Reduced trade uncertainty, more accommodative fiscal policies and an anticipated pick-up in consumption are likely to support the Bank of Japan's measured approach to policy normalization. Stronger profits for Japanese automakers and a stable yen should boost Japanese equities.

**TRADE DEAL WITH THE U.S.**

**\$550 BN** INVESTMENT IN THE U.S.



**15% TARIFF RATE**



Source: BNY Investment Institute, Macrobond. Japanese equities represented by the Nikkei 225 Index, as of 8/4/25.

# EMERGING MARKETS

A few countries reached a trade agreement with the U.S., lowering their respective tariff rates. Sino-U.S. engagement in ongoing trade negotiations is a positive development. A weaker U.S. dollar is also contributing to more accommodative global financial conditions. While inflation is slowing in most emerging market (EM) countries, China is fighting deflation and will likely need more stimulus to stabilize its economy.

**20%**

Vietnam

**19%**

Indonesia

**15%**

South Korea

**19%**

Philippines

**30%**

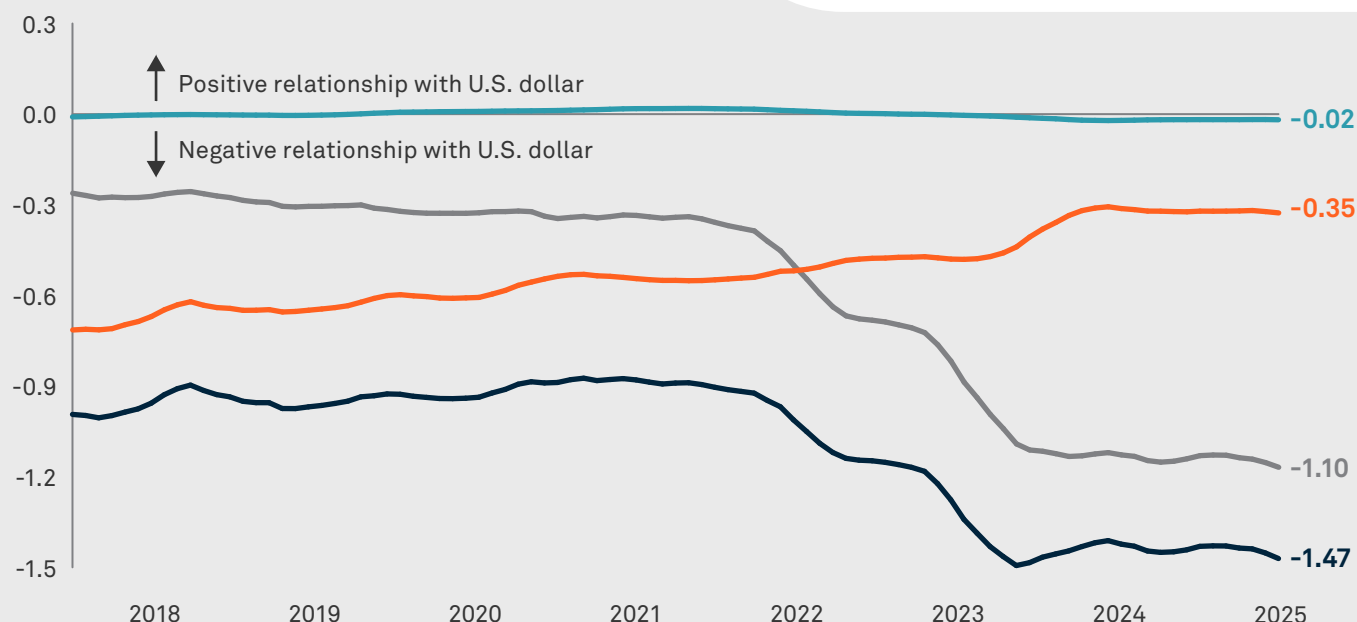
China\*

EM countries with a trade deal.

As of 07/31/25. \* Talks ongoing.

## EM Index Component Sensitivities to the USD

- EM Local Currency Index Return
- EM Local Currency Coupon Return
- EM Local Currency Price Return
- EM Local Currency Currency Return



EM stocks and currencies often move in the opposite direction of the USD.

Source: BNY Investment Institute, Bloomberg. Data as of 08/12/25.

# 03 A CENTRAL BANK SWITCHBACK

VINCENT REINHART, CHIEF ECONOMIST  
BNY INVESTMENTS DREYFUS & MELLON



Central bankers gathered recently at the economic symposium in Jackson Hole, many occupying their free time hiking in the Tetons. One lesson of the trail: going back is sometimes the only way to go forward.

Apparently, the lesson sunk in with Fed officials in their latest “framework” review, which is done every five years and evaluates the monetary policy strategy, tools and communication practices of the Federal Open Market Committee (FOMC). In his remarks at the symposium, Chair Powell effectively announced that they abandoned the monetary policy strategy designed five years ago to go back to basics.

The prior framework, which Powell also unveiled at Jackson Hole in 2020, was permissive of inflation overshooting, interpreted achievement of the 2% inflation goal as a backward average of prior inflation and assessed resource slack in an encompassing manner. The Fed adopted a “make-up” strategy (in which inflation above the 2% goal was appropriate after a period when it was below) that was one-sided toward accommodation (by emphasizing the avoidance of employment “shortfalls”). The design fit the prior twenty years, when secular goods-price deflation offset above-goal service-price inflation, allowing them to test the upper limit of maximum employment and often hug the zero lower bound of the nominal policy rate.

The result of the policy strategy announced in 2020 was what usually happens when the disclaimer “past performance does not necessarily indicate future behavior” goes unheeded. The pandemic pushed up goods prices, the Fed initially tolerated overshooting and high inflation did not prove transitory.

## In the New Framework:

- 1** The Fed downplayed the threat of the lower bound in favor of conducting policy “across a broad range of economic conditions.”
- 2** Eliminated tolerance of inflation overshooting.
- 3** Returned to a balance approach weighing deviations from both maximum employment and stable prices rather than “shortfalls” in the former.





A reasonable base case is that the effects will be relatively short lived — a one-time shift in the price level.”

CHAIR POWELL

Powell immediately broke in the new framework in the mountains of Jackson Hole. Contrary to its standard operating practice of signaling one meeting in advance, the FOMC was silent about future policy in its July statement. Powell used his Jackson Hole remarks to settle matters.

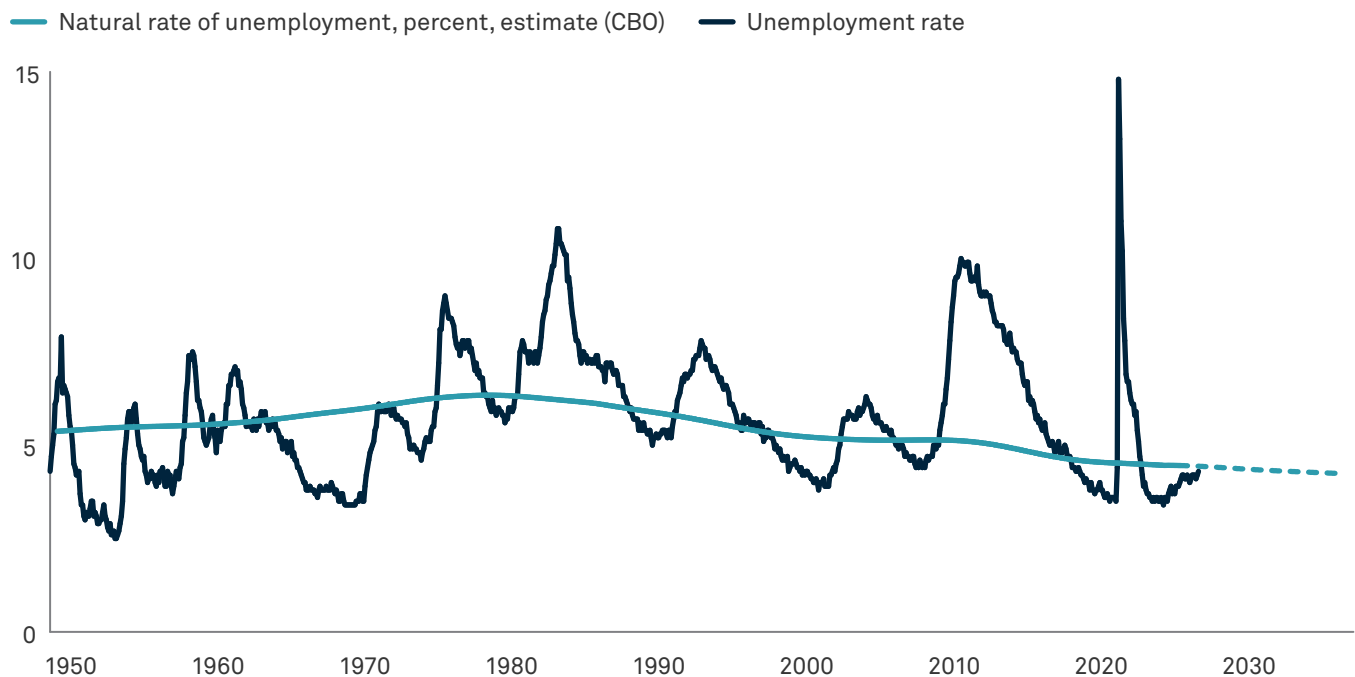
First, the chair acknowledged that the dual mandate was pulled in opposite directions. Labor demand was soft, putting employment growth closer to a stall speed that increased downside risk, and the back-up in consumer price inflation by July erased the progress of the first half of the year. In addition, more impetus from tariffs is coming. However, Powell offered the consolation that, “A reasonable base case is that the effects will be relatively short lived — a one-time shift in the price level.”

In such circumstances, “...risks to inflation are tilted to the upside, and risks to employment to the downside.” He then applied the new framework: “When our goals are in tension like this, our framework calls for us to balance both sides of our dual mandate... with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance.”

That latter signal opens the door to easing policy at the next meeting.

We expect the Fed to cut its policy rate 25 basis points at the September FOMC meeting. They were headed in that direction and concerns about employment tip the balance.

## U.S. UNEMPLOYMENT RATE VS NATURAL RATE



Source: BNY Investment Institute, Macrobond. Data as of 9/5/25. CBO = Congressional Budget Office.

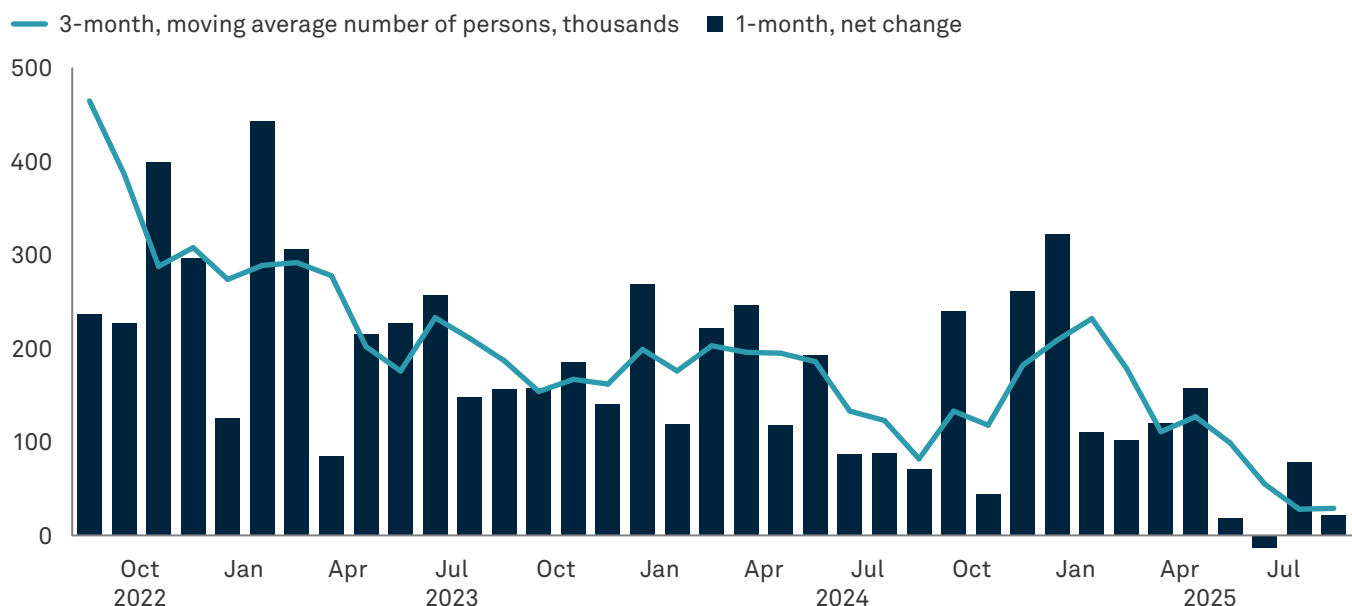
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We expect the Fed to cut its policy rate 25 basis points at the September FOMC meeting.

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## U.S. JOBS

### Total Nonfarm Payrolls



Source: BNY Investment Institute, Macrobond. Data as of 9/5/25.

Indeed, two FOMC voters were concerned enough to dissent at the July meeting before the latest payroll data and that internal pressure could intensify if the Senate acts expeditiously on the nomination of Stephen Miran as governor.

This internal tension probably explains why Powell didn't open the door to a rate cut more explicitly. He has some colleagues who are restive at that prospect, and he offered them the precondition that easing will go forward only absent upside surprises in employment and inflation for August. (We think, however, those surprises would have to be significantly outsized to arrest the momentum rolling

down from the mountains of Jackson Hole.) Moreover, the quarterly publication of their Summary of Economic Projections gives them another mechanism for compromise. We expect them to temper market enthusiasm about future cuts by plotting a shallow descent of the dots in 2026. That is, the September meeting will bring a "hawkish" cut that disappoints some in its size at just 25 basis points and more in the projected modest declines that follow.

# 04 GOING GLOBAL IN FIXED INCOME

We sat down for a Q&A with Ella Hoxha, Head of Fixed Income at Newton, and Brendan Murphy, Head of Fixed Income North America at Insight, to discuss the evolving fixed income landscape, their approach to risk and areas where they see compelling investment opportunities.

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**How are you assessing credit opportunities in this environment, especially amid signs of a slowdown in the U.S. economy?**

**ELLA:** We remain confident in the credit market. There are opportunities across sectors, though valuations aren't cheap everywhere and the investable universe has narrowed. There's a substantial amount of capital being raised in private debt markets that has created supportive supply dynamics, which keeps us constructive on the asset class.

**BRENDAN:** Building on Ella's view, the growth path is key. A scenario where U.S. growth slows but avoids contraction could be beneficial for corporate bonds. Slowing growth is challenging for equities because sustaining earnings becomes harder when the economy is cooling, but in credit, repayment of bonds is what matters. As long as growth remains positive, most companies should be able to repay debt. If the economy contracts, credit risk would increase, though Treasuries should still hold up.

Given this backdrop, pricing risk is an important consideration. Right now, we don't see sufficient compensation for recession risks across the ratings and liquidity spectrum. We currently favor higher-quality, liquid issues so that we can take advantage of potential repricing across longer-dated, investment grade and BB corporate bonds.

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**With yields higher, it seems some investors are focusing more on absolute yields rather than historically tight spreads. How do you think investors are balancing yields versus spreads right now?**

**BRENDAN:** All-in yields are probably the most important factor for most investors. They typically invest in bonds for consistent, reliable income, and total yield is what investors get paid over the long term. Credit spreads and government bond yields often move in opposite directions. This tends to help stabilize total yield over time so waiting to invest at a wider spread does not guarantee a higher overall yield.

That said, some investors, like pension plans, may have more of a reason to think about spreads because they tend to own bonds as a hedge against liabilities. What constitutes "good value" changes for different investors. If you're looking to earn an attractive overall yield, corporate bonds offer a historically attractive yield of approximately 5%. However, if you are sensitive to spreads, corporate bonds look historically rich.

An active approach can help investors find the "sweet spot," while ensuring sufficient dry powder to take advantage of market sell-off opportunities.

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**We've heard from our clients that they are looking for income but with less duration risk. What approaches are you using in your portfolios?**

**ELLA:** Most clients may be using a simple benchmark strategy or a short duration strategy, but this may not be the most effective approach. We are in a higher rate environment that requires more active duration management, so we prefer a total return framework that focuses on absolute returns. This allows us to navigate across various fixed income assets and across the curve so that we can actively manage duration.

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**With inflation elevated above the Fed's target and tariffs possibly slowing its decline, bonds haven't been great for hedging equity risk recently. How do you think the stock-bond correlation will evolve and what can investors do about it now?**

**ELLA:** Trying to predict correlations is a fool's errand, but understanding the dynamics between bonds and equities is valuable. In the last 20 years, bonds have typically acted as a hedge against equities. You could build your traditional portfolio and sleep well at night because declines in equities were offset by gains in bonds.

Today, shorter-term market cycles look different. The first step is to understand where we are in the business cycle so we can assess the exposure and beta for each asset class. The second is to diversify with other components.

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## One of our largest allocations is in emerging markets, where we're seeing positive real rates and currency appreciation.

Over the past three years, the U.S. dollar has played that role, but commodities could take on that function in the next two to five years. Active management, both in interest rates and across the yield curve, is an important tool.

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### How do you see investing in bonds outside the U.S., given the growing differences in central bank policies worldwide? How has the global fixed income landscape changed as we head into 2026?

**ELLA:** Countries, particularly in Asia and Europe, may experience policy-related deflationary pressures as a result of macroeconomic trends. Broadly speaking, these countries could see less inflation in the future, partly due to currency appreciation and partly due to global competition and tariffs, which could, in turn, increase the attractiveness of their bond markets to investors.

There are also markets like New Zealand and Australia where the debt levels are not as high and bond yields are more favorable. The same could also be said for the UK gilt market, which we also find appealing. One of our largest allocations is in emerging markets, where we're seeing positive real rates and currency appreciation. As we head into 2026, fiscal risk might become more dominant, which is also why we think a global approach is most appropriate.

**BRENDAN:** Monetary policy cycles have been increasingly asynchronous since the pandemic, so the best and worst performing bond markets tend to be different year by year. This can protect investors from being exposed to just one central bank and one interest rate cycle.

Performance speaks for itself. Global bonds have consistently delivered superior returns for significantly lower volatility than U.S. bonds on a currency-hedged basis. On top of that, global bonds are a much larger universe and offer a wider range of alpha opportunities.

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### When clients ask about investing outside the U.S., the weakening dollar often comes up. What are your short-term and long-term views on the dollar, and how does that impact investing in non-U.S. bonds?

**ELLA:** Currently, some support for the dollar comes from the U.S. equity market, which has had a positive correlation with the currency. In the short term, the most likely scenario is a stable, sideways trend for the dollar. However, the longer-term trajectory points toward a weakening dollar, which should benefit emerging market currencies. We also see some developed market currencies, such as the yen, doing well in this environment.

**BRENDAN:** Global fixed income strategies can be hedged to a base currency or not, which is often referred to as unhedged. In a hedged strategy, movements in the U.S. dollar have no impact on performance and the cost of hedging is generally negligible. In an unhedged strategy, currency risk is likely to drive most of the portfolio's volatility, possibly undermining its diversification benefits relative to equities. However, over the long term, a depreciating U.S. dollar is beneficial for U.S. investors.

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### What risks do you see in fixed income right now, and what should investors keep in mind when managing their bond allocations?

**ELLA:** Ongoing fiscal deterioration, such as that seen in the U.S. and France, is one of our top risks. There are already indicators that fiscal challenges globally are affecting credit markets. Germany, for example, loosened its fiscal policy this year, which led to a significant repricing in European rates. There was also a major breakout in Japanese bonds. I mention these two countries because they have anchored markets that have kept rates lower globally. Both these countries have experienced extended periods of negative interest rates and are now moving upward, indicating this could be a broad bond market theme. Over the next several years, we will likely see a considerable increase in bond supply. The key question is: At what level will bond investors be willing to finance these debts?

**BRENDAN:** We are clearly in unusual and uncertain times, which brings both traditional and non-traditional risks. On the immediate horizon, growing interest in U.S. sovereign debt has led to increased attention on Treasury issuance patterns. If supply rises when foreign demand weakens, this could lead to performance risk associated with duration exposure. Though not our base case, there is also a possibility of stagflationary risk stemming from tariff-related inflation. Another risk that we're paying attention to is the ongoing recalibration of global trade, which could lead to unexpected side effects on private sector demand.

**ELLA:** Our view is that a diversified bond allocation, especially to global markets, is key. Active management is also very important in managing interest rate and currency risks. It's not just about picking the right jurisdictions and points on the curve but also knowing when to shift the allocation from sovereigns to credits, understanding what currency risk to hedge and how much interest rate sensitivity or duration is appropriate for the portfolio.

**BRENDAN:** Additionally, we believe that adhering to a strict valuation discipline and having dry powder available to act quickly when opportunities arise can be beneficial.

# 05 WHO PAYS FOR TARIFFS?

## KEY TAKEAWAYS

- 1 The effect of tariffs on U.S. growth and inflation depends on who absorbs the cost: foreign exporters, American firms or consumers.
- 2 Inflation hasn't picked up as much as expected because tariffs are still being paid at a lower rate than headline figures suggest, but this may change.
- 3 Evidence shows that firms are starting to pass tariffs on to consumers, leading to price increases in the most tariff-exposed categories.

When the U.S. imposes tariffs, someone foots the bill — but who? The answer isn't obvious, and it matters a lot for future growth, inflation and interest rates.

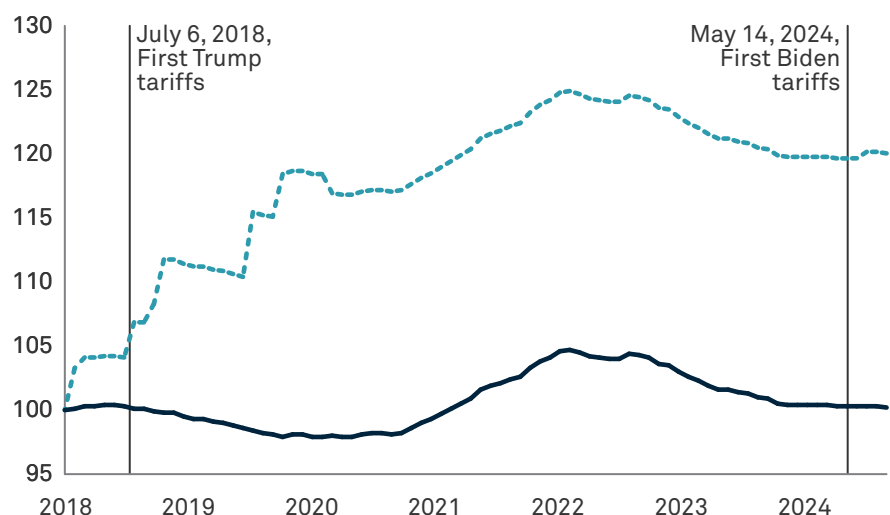
If foreign exporters cut their prices to absorb the tariffs, U.S. growth isn't directly affected — aside from a potential temporary slowdown due to heightened uncertainty — and domestic prices remain broadly stable. Over time, growth (and inflation) could even rise if tariff revenues are recycled through increased fiscal stimulus. This is the narrative promoted by the U.S. administration, which argues that foreign countries are paying the tariffs, while the resulting revenues help fund the new fiscal package.

But if the cost falls on American firms or consumers, tariffs are a tax on the economy, and growth slows. The inflation impact in this case depends on who takes the hit. If firms absorb the cost, margins shrink, and there is no direct effect on consumer prices. If the cost is passed on to consumers, inflationary pressures rise and real income growth falls.

## PRICE OF CHINA EXPORTS TO THE U.S.

Index, USD, January 2018 = 100

— Excluding tariffs  
- - - Including tariffs



Source: BNY Investment Institute, Peterson Institute for International Economics (PIIE), Fathom Consulting. Data ending 12/31/24.



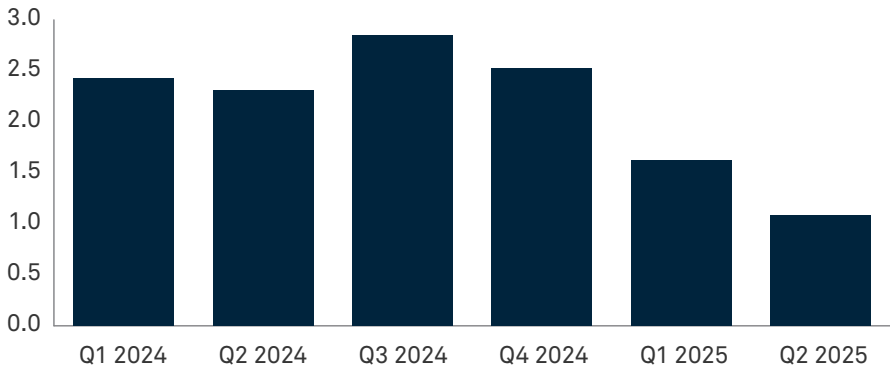
Growth has weakened, but inflation appeared to remain relatively stable, surprising to the downside relative to expectations.

In line with what we observed during the first trade war in 2018 when the U.S. imposed tariffs on Chinese goods, we, as well as most economists and investors, expected tariffs to be borne primarily by U.S. consumers, slowing growth and driving inflation higher. But the evidence has been mixed so far. Growth has weakened, but inflation appeared to remain relatively stable, surprising to the downside relative to expectations.

Part of the reason inflation hasn't picked up as much as expected is that tariffs are still being paid at a lower rate than headline figures suggest. Despite headline announcements suggesting an average effective tariff rate close to 20%, actual tariffs paid have been more consistent with a rate around 10%.

U.S. REAL FINAL SALES TO PRIVATE DOMESTIC PURCHASERS

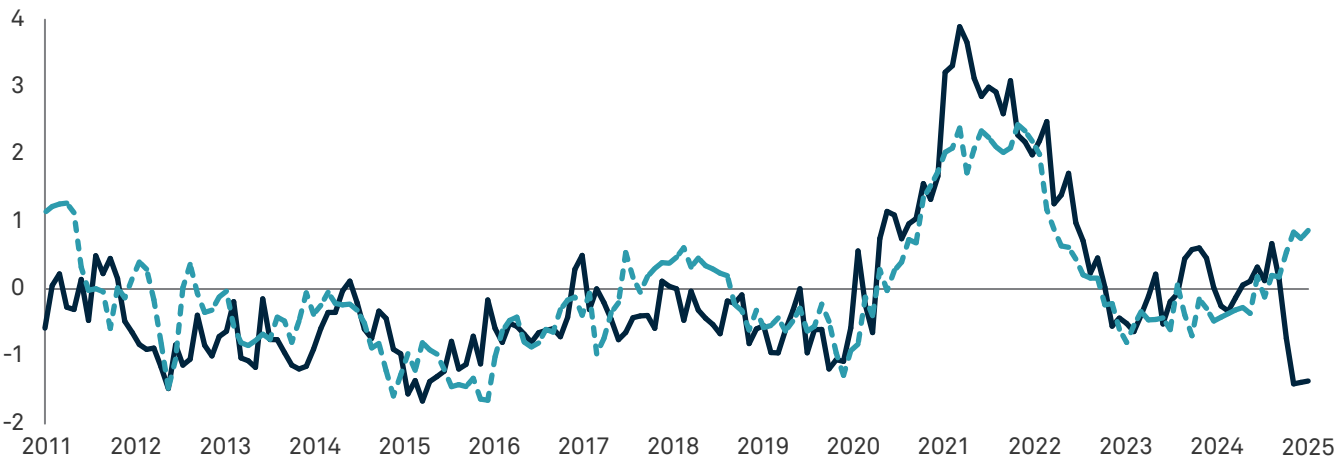
Quarter over quarter, percent, annualized



Source: BNY Investment Institute, Macrobond. Data as of 8/7/25.

ISM PRICE EXPECTATIONS & U.S. INFLATION SURPRISES

— Standard deviation of U.S. Inflation Surprise Index  
- - - Standard deviation of ISM Prices (weighted manufacturing and services components)



Source: BNY Investment Institute, Macrobond. Data as of 8/7/25.

Several factors explain this gap:

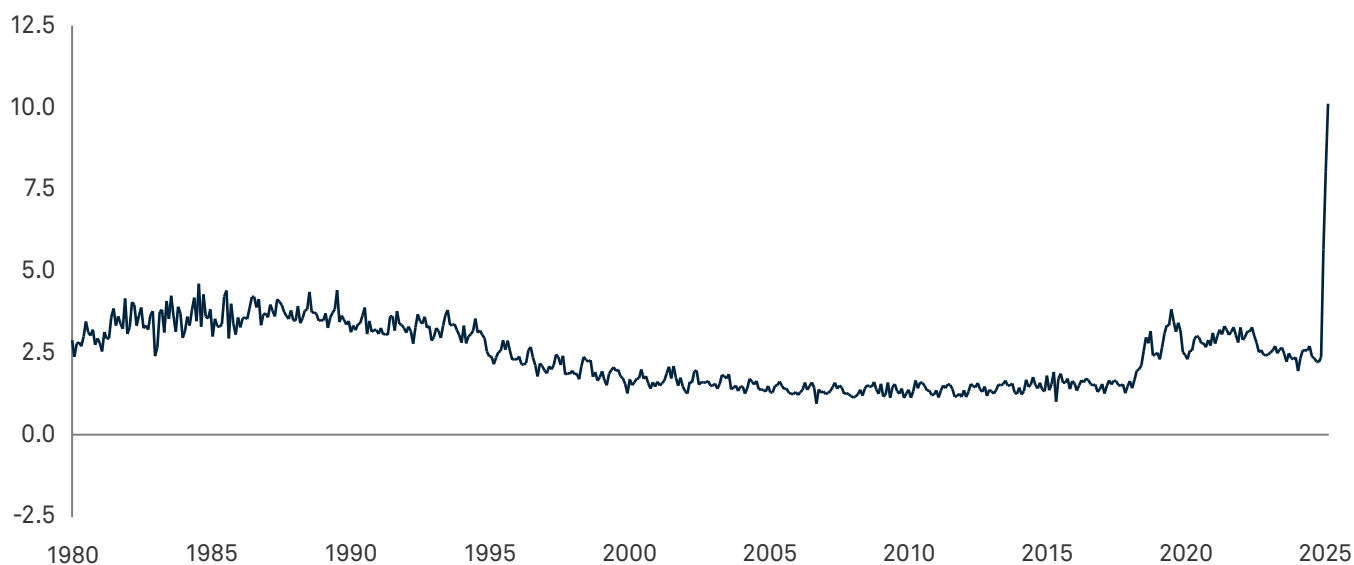
- Timing delays between tariff announcements and implementation.
- Deferred payment schemes, allowing importers to pay duties up to six weeks later.
- Stockpiling in bonded warehouses lying beside ports, in the hope that tariffs will be lowered soon. Goods can be stored tariff-free for up to five years, or until they are released into supply chains, which is now more likely given greater certainty on the tariff regime.
- Small-package exemptions, with shipments under \$800 entering tariff-free (except from China). These account for 7% to 10% of total consumer goods imports and will be subject to full duties from August 29.
- Transit timing, where goods already en-route when tariffs are announced are taxed at the previous rate.

Together, these factors have softened the immediate impact of tariffs on prices — though this will change as exemptions expire and inventories clear.

Even so, who is paying the roughly 10% in tariffs that have been collected so far? Early evidence suggests it's not primarily foreign producers. While there was some initial price adjustment — U.S. import prices from China fell by about 2% between February and May — this effect has been modest and may already be reversing, with prices rising by 0.5% in June. More broadly, U.S. nonfuel import prices have remained largely stable, indicating that foreign exporters have not significantly lowered prices to absorb the tariffs. And more granular analyses suggest that foreign exporters may have only absorbed up to 20% of the costs of tariffs. This points to a growing likelihood that the cost is being passed on domestically and, given the apparent lack of goods price pressures seen in the past months, is currently mostly sitting within firms.

## LIVE EFFECTIVE TARIFF RATE ON GOODS IMPORTS

— Live proxy based on duty receipts, percent



Source: BNY Investment Institute, Macrobond. Data as of 8/7/25.

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## Our view is that tariffs will push growth in headline consumer prices above 3% in the coming months.

It will be some time before we get comprehensive evidence on what happened to domestic firms' margins, since initial estimates of corporate profits are only included in the third estimate of GDP, which comes out three months after the end of the quarter.

That said, there is mounting evidence that even if tariffs were initially absorbed by firms, they have started to be passed through to final consumers. Price increases are beginning to show in the most tariff-exposed categories, which saw a nearly 1% rise in June. More broadly, CPI core goods prices excluding autos, rose by 0.5%, the most for three years.

We think what we've seen so far represents around 20% to 25% of the total impact on inflation over the coming months. Our view is that tariffs will push growth in headline consumer prices above 3% in the coming months, and evidence so far is consistent with our expectation. This complicates monetary policy as it appears that two targets of the Fed's dual mandate — stable prices and maximum employment — will come into tension with one another.

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### U.S. CORE GOODS INFLATION

Year over year, percent



Source: BNY Investment Institute, Macrobond. Data as of 8/13/25.

# 06 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.

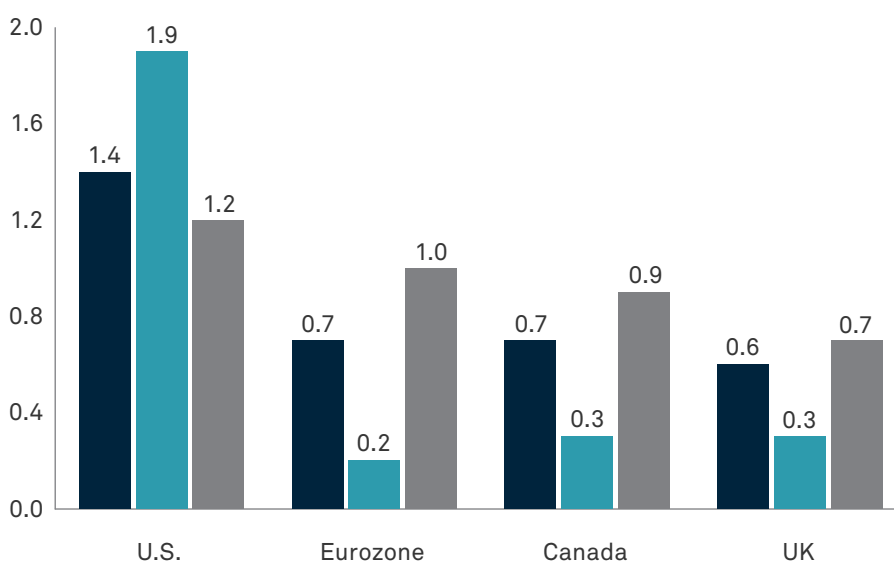
## STAYING POWER

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%.<sup>1</sup> 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.<sup>2</sup> 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.

<sup>1</sup> 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. <sup>2</sup> *ibid.*

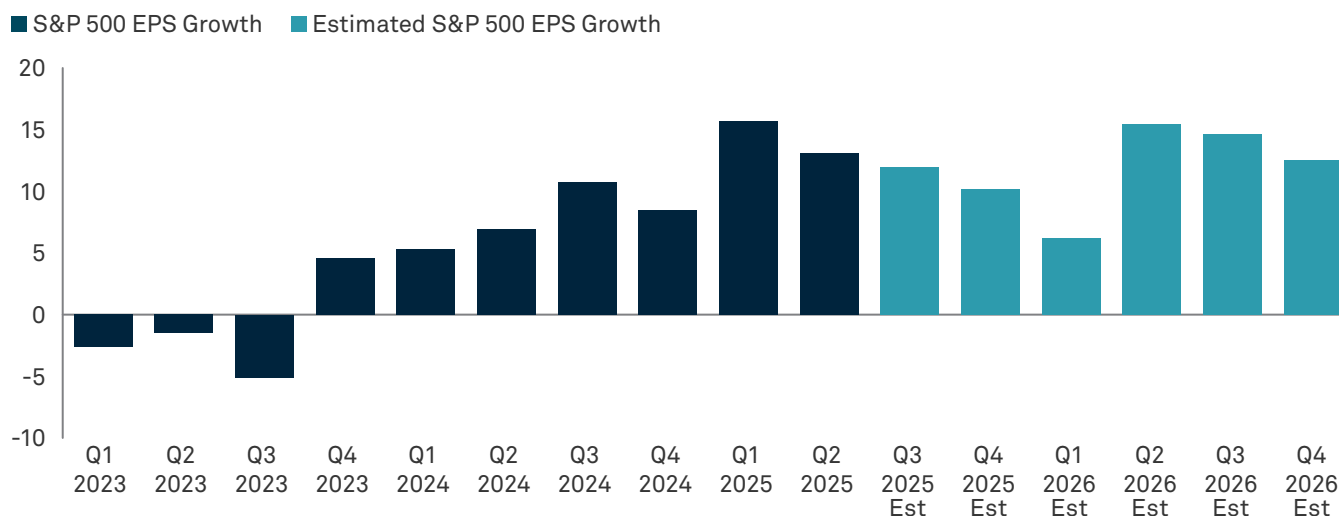
## S&P 500 companies reported stronger-than-expected earnings in the first half of the year and should continue improving.

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.

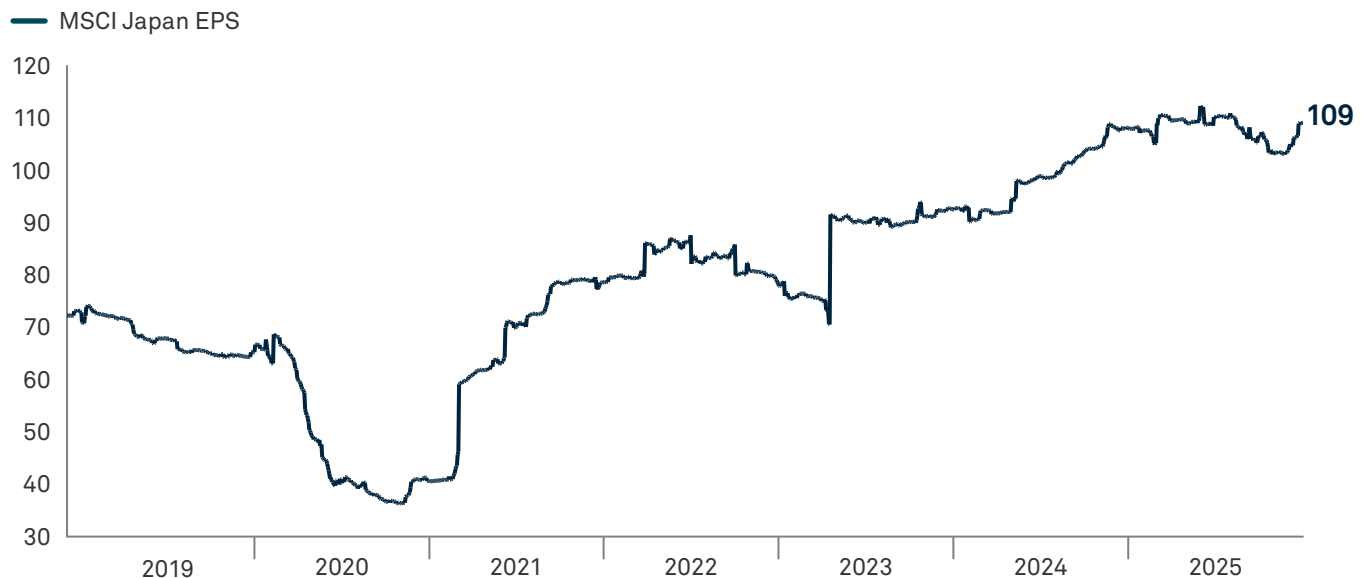


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In Japan, a renewed push toward corporate governance reforms and continued economic growth have led to all-time highs in its equity market.

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## 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.

# 07 MEET OUR EXPERTS



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As of September 2025. <sup>1</sup>BNY Investment Institute consists of BNY Advisors' macroeconomic research, asset allocation, manager research and operational due diligence teams.

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# 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.

**Bloomberg EM Local Currency Government 10% Country Capped Index (BBG EMLC)** is a country-constrained version of the flagship Emerging Markets Local Currency Government Index, which is designed to provide a broad measure of the performance of local currency emerging markets (EM) debt.

**Bonded warehouse** is a storage facility authorized to hold dutiable goods, such as imports or exports, without the immediate payment of customs duties or excise taxes.

**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.

**Consumer price index (CPI)** is an index used to measure inflation, based on the prices in a basket of goods and services, meant to be representative of those we typically spend our money on.

**Dry powder** refers to liquid assets or cash reserves that are readily available for investment or to cover future obligations.

**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.

**Headline inflation** refers to the total inflation rate within an economy, encompassing the change in prices of all goods and services.

**ISM manufacturing index**, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at manufacturing firms nationwide.

**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.

**MSCI Emerging Markets Index** captures large and mid cap representation across 24 emerging markets countries.

**MSCI Japan Index** measures the performance of the large and mid-cap segments of the Japanese market.

**National rate of unemployment** is the level of unemployment that exists in an economy when it is in equilibrium, with all markets clearing.

**Nikkei 225 Stock Average** is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

**S&P 500® Index** is a widely accepted, unmanaged index of U.S. stock market performance. An investor cannot invest directly in any index.

**Standard deviation** is a statistical measure of the degree to which an individual portfolio return tends to vary from the mean, based on the entire population.

**STOXX Europe 600** is a stock index that represents 600 large, mid and small-cap companies across 17 European countries, covering approximately 90% of the free-float market capitalization of the European stock market.

**Unemployment rate** is a measure of labor market strength, but is also a useful indicator and predictor of the broader state of the economy.

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