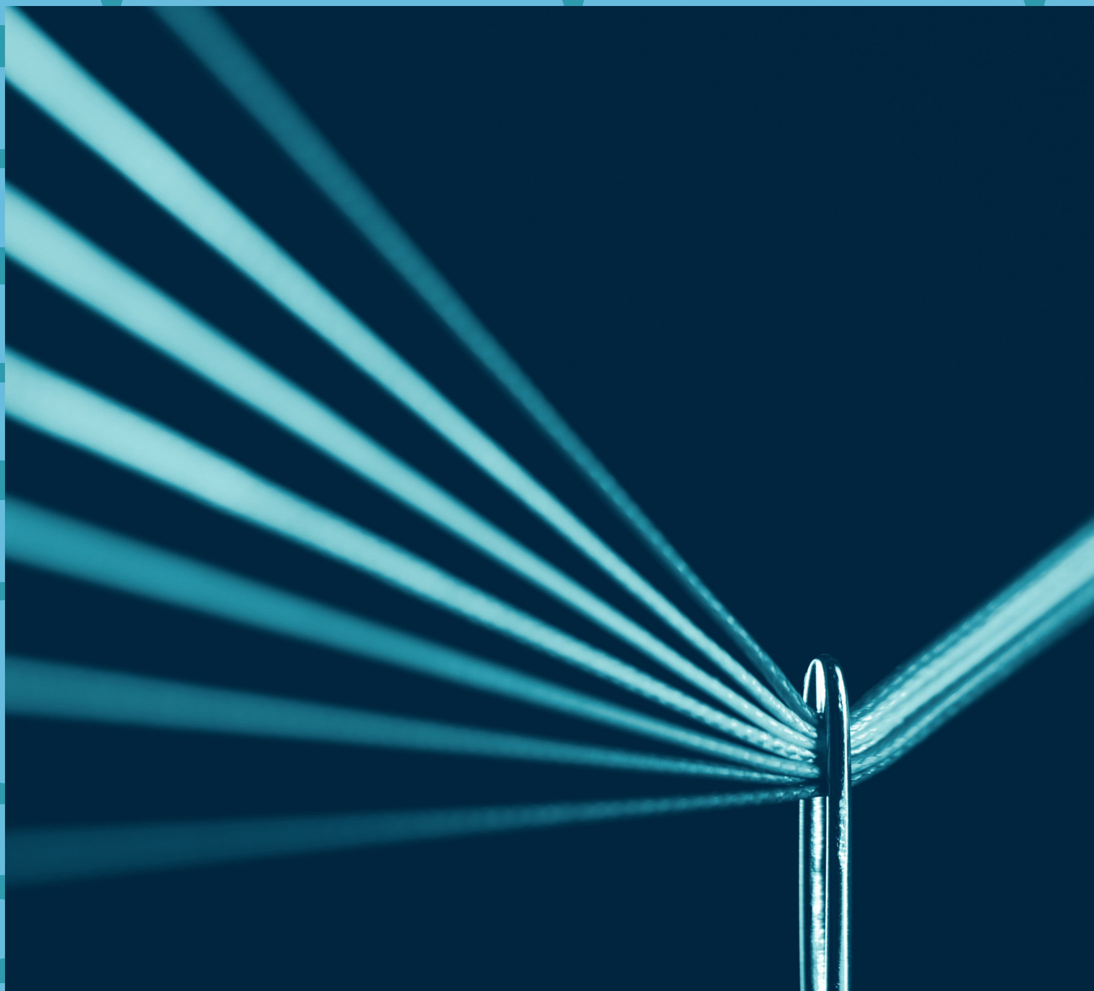


Global Economics & Markets Outlook

VANTAGE POINT

THREADING THE NEEDLE Q4 2025

INVESTMENT INSTITUTE

INTRODUCTION

Welcome to another edition of Vantage Point, the quarterly economic and markets outlook from the BNY Investment Institute*

The U.S. economy is approaching a moment when policy and momentum must work in coordination. The Federal Reserve (Fed) is restarting its cutting cycle as signs of a policy-induced slowdown emerge in the labor market and inflation expectations remain above target. Markets are pricing in a meaningful sequence of cuts through this year and into next, but the Fed faces the challenge of balancing its dual mandate. Too little easing risks cementing the slowdown, while too much risks reigniting inflation. Meanwhile, equity markets continue to climb, reflecting investor confidence in the durability of the expansion. The path forward will be determined by how carefully policy can thread the needle. Growth is slowing, not stalling, and carefully calibrated policy can relieve pressure while keeping the foundation for growth intact.

Our base case, **Slowdown (45%)**, reflects a cautious but constructive outlook. The U.S. economy is slowing, yet the conditions for a recession are not in place. Policy uncertainty persists, and tariffs continue to keep inflation above the Fed's 2% target, though its drag is beginning to fade. Labor demand is weakening, but immigration policy is likely to constrain supply, limiting upward pressure on the unemployment rate. As long as terminations remain contained, downside risks should stay in check. Globally, the effects of tariffs continue to drive an economic slowdown, but rising fiscal spending, the lagged benefits of European Central Bank (ECB) rate cuts, and support from a weaker dollar should counterbalance these effects. These dynamics point to a moderated slowdown rather than contraction, offering room for investors to remain engaged in a more complex environment.

In the remaining two scenarios, risks continue to be skewed to a more positive outlook. In **Recovery (35%)**, growth proves resilient despite tariff shocks, and as trade-related uncertainty fades, the drag on activity diminishes. The Fed responds decisively to labor market weakness with cuts broadly consistent with optimistic market expectations, while underlying growth holds firm. This alignment of accommodative policy and resilient momentum creates a favorable backdrop for equities. Earnings growth remains healthy, and valuations have room to expand as rates move lower. Challenges remain, as tariff costs are gradually passed through to consumers, keeping inflation above target and pushing down on real bond yields. In this scenario, investors face an environment where equities have room to run, but bond markets remain constrained by ongoing inflationary pressures.

The third scenario, **Expansion (20%)**, resembles Recovery, but assumes more measured accommodation from the Fed. The Fed looks to strike a balance between inflation and employment and delivers fewer cuts than markets currently expect — three in 2025 and one in 2026. Fiscal policy provides an additional lift as tax measures filter through to households, reinforcing growth. Equities perform well, though returns are closer to long-term averages, with valuations expanding less aggressively than under Recovery. This scenario reflects a solid economy bolstered by economic momentum and steady growth but moderated by more cautious monetary policy.

As always, we lay out three distinct scenarios and assign probabilities to derive our probability weighted expectation. For the U.S., we expect growth to be modestly above consensus but below the long-term trend, supported by reduced trade uncertainty and a Fed more attentive to labor market dynamics. Europe is also positioned to outperform consensus, while China is expected to largely align with current expectations. On inflation, we see U.S. price pressures remaining above the Fed's 2% target yet below market expectations; inflation in the Eurozone should fall below the ECB's target. We also expect U.S. policy rates to remain above market pricing, reflecting a more balanced approach from the Fed.

Overall, our outlook is constructive amid ongoing uncertainty with the core underpinning that policy has the ability to thread the needle between containing inflation and sustaining growth.

Eric Hundahl, CFA
Head of Investment Institute,
BNY Advisors

BNY Investment Institute consists of our macroeconomic research, asset allocation, manager research and operational due diligence teams.

EXECUTIVE SUMMARY

We base the outlook on the idea that financial market moves largely reflect growth, inflation and monetary policy. Tactical investment opportunities arise when our views significantly differ from market pricing.

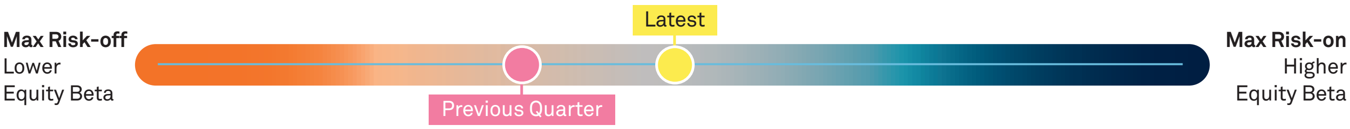


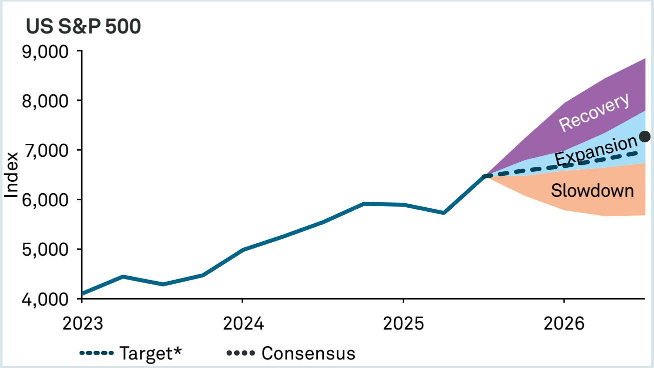
Table 1: Our Outlook vs. Consensus

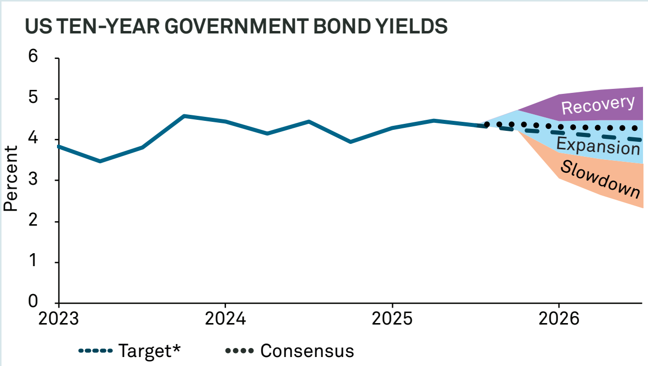
	Q4 2025	Q/Q Change	Takeaway
Growth		↑	Our expectation for growth over the next 12 months is in line to slightly above consensus in the US, slightly above consensus in the Eurozone, and in line with consensus in China. Risks around our base case lie to the upside for all forecasted major regions.
Inflation			Our expectation for inflation over the next 12 months is above target but lower than market expectations for the US and at or slightly below target for the Eurozone. We expect continued deflation in China. Risks around our base case lie to the upside for all forecasted major regions.
Policy			Our expectation for policy rates over the next 12 months is above market pricing in the US and in line with market pricing in the Eurozone. Risks around our base case lie to the downside for the US and to the upside for the Eurozone.

How to read the heatmap. **Blue** indicates much better than expected (relative to the consensus) growth, much lower than expected inflation and significantly greater than expected monetary policy accommodation. **Light blue** indicates better than expected growth, lower than expected inflation and greater than expected policy accommodation. Grey indicates that expectations for economic growth, inflation and policy are broadly in line with the consensus. **Light orange** indicates worse than expected growth, greater than expected inflation and a tighter than expected monetary policy. **Orange** indicates significantly worse than expected growth, much greater than expected inflation and a much tighter than expected monetary policy.

Table 2: Tactical Investment Views

Major Asset Class	Q4 2025	Q/Q Change	Takeaway
Global Equity		↑	Lagged effects of the uncertainty shock could challenge global growth in the near-term, but monetary and fiscal policy loosening and resiliency from the rest of the world is expected to limit downside risks.
Sovereign Bonds		↓	Elevated yields offer attractive entry points and income returns, but we remain cautious on US Treasuries compared to international sovereign bonds due to fiscal concerns and inflation risks.
Credit			We use credit as a funding source given credit spreads remain compressed, offering limited upside from a price return perspective. Credit selection remains key.
Real Assets			We maintain a favorable view on gold given macro volatility and inflation hedging potential.
Cash		↓	Policy loosening will lower cash rates. Higher yields make a better entry point into the belly of the curve. Intermediate duration is relatively attractive.





Source: BNY Investment Institute. Data as of September 12, 2025.
* Target is the expected outcome based on the average of three scenarios weighted by how likely they are to occur. Please see additional disclosures and glossary.

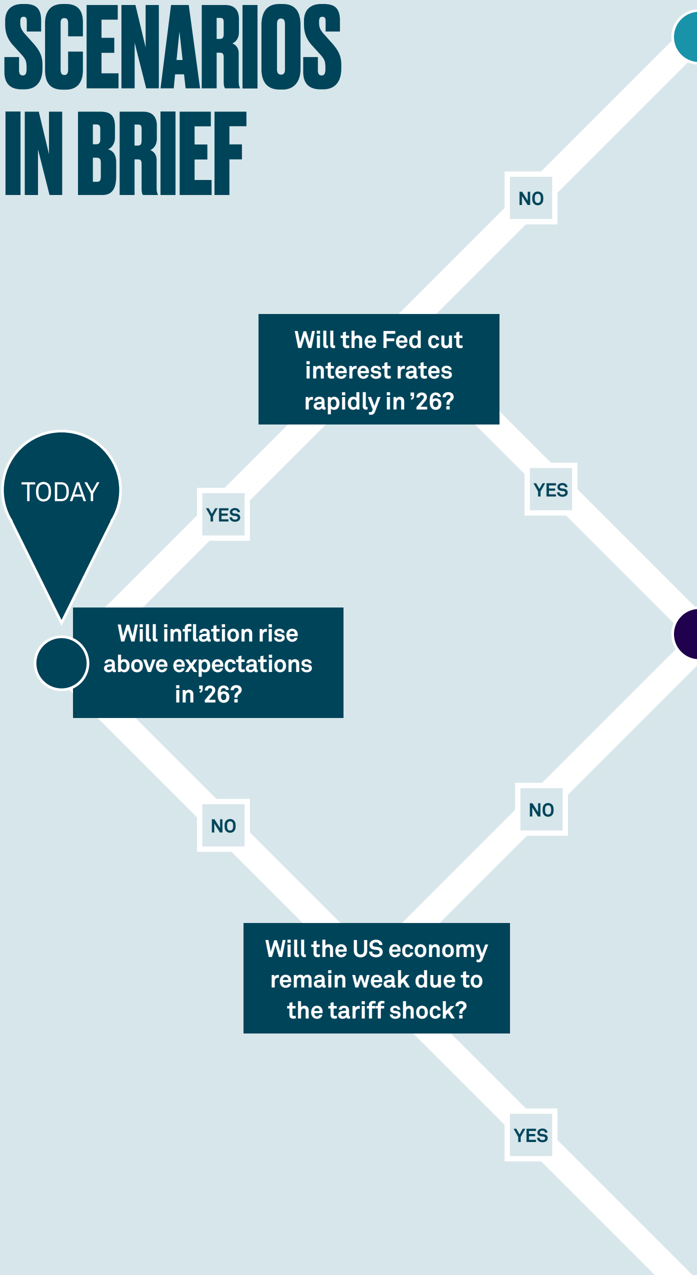
S&P 500		
12-month Outlook	Base Case	Probability Weighted
EPS Estimate	278	283
Earnings Growth	+6%	+8%
Price/Earnings	23	25
Approximate Level	6,450	7,050
Return Estimate	**-2%**	**+7%**

Source: BNY Investment Institute as of September 12, 2025.

10-year US Treasuries		
12-month Outlook	Base Case	Probability Weighted
Fed funds rate	3.0%	3.3%
Yield curve slope	+80bp	+80bp
Approximate Level	3.8%	4.1%
Yield change	-30bp	+10bp
Return Estimate	**+3%**	**-1%**

Source: BNY Investment Institute as of September 12, 2025.

SCENARIOS IN BRIEF



Expansion (20% Probability)

Equities	Sovereigns	Credit	Real assets	Cash
●●●	▼	▲	▲	▲

12-month Outlook	Level/pct.	Return Est.
S&P 500	6,850	+4%
10-year US Treasuries	4.4%	-2%

MACRO
- Growth recovers as consumers and firms smooth through the tariff shock. Fiscal boost provides more support in 2026.
- Rest of the world accelerates. US inflation remains robust and the Fed cuts three times in 2025 and once in 2026.

MARKETS
- Risk assets make gains but no stronger than longer-run averages – risk spreads lower near term. Bonds do less well, as short-term interest rates rise vs expectations.
- USD recoups some of its losses in 2026.

Recovery (35% Probability)

Equities	Sovereigns	Credit	Real assets	Cash
▲▲	▼	▲▲	▲▲	▼

12-month Outlook	Level/pct.	Return Est.
S&P 500	7,900	+20%
10-year US Treasuries	4.5%	-3%

MACRO
- US labor market slowdown leads the Fed to ease rapidly but underlying growth remain robust and fiscal impact in 2026 is strong.
- Inflation remains above target as higher prices are passed through. The Fed cuts three times in 2025 and brings rates to 3%, if not below, in 2026.

MARKETS
- Equity price multiples rise further. Earnings growth remains relatively robust.
- Credit spreads compress further.
- As inflation rises, bonds do not perform well. Real yields fall. USD depreciates significantly. Real assets perform strongly.

Slowdown (45% Probability)

Equities	Sovereigns	Credit	Real assets	Cash
▼	▲▲	▼▼	▼	●●●

12-month Outlook	Level/pct.	Return Est.
S&P 500	6,450	-2%
10-year US Treasuries	3.8%	+3%

MACRO
- Large tariff hikes and economic uncertainty lead US firms and consumer to remain cautious. US labor market weakens further.
- Stimulus in the Eurozone and China is counteracted by cooling global demand.
- Fed cuts three times in 2025 and brings policy rates to 3% in 2026.

MARKETS
- Equities are volatile in the near-term and performance stalls. Returns are sub-average.
- Credit spreads widen beyond long-term averages as recession risks rise. Sovereign bonds outperform on lower rates. USD weakens.

Source: BNY Investment Institute as of September 12, 2025.

GROWTH

Our Outlook vs. Consensus

unfavorable ⟷ favorable

US

Our Outlook vs. Consensus
Our probability weighted forecast for the US economy sees growth remaining below trend (~1.3% on average over the next 6 months), before rebounding from Q2 2026. We are in line, if not slightly above, consensus on growth over the next 12 months (~1.9%). Our mean path for growth is characterized by relatively reduced trade uncertainty and a more transparent Fed reaction function.

Base Case
Our base case remains a cautious one. It sees continued weakness in Q4 2025, as a rebound from reduced policy uncertainty is more than offset by higher inflation and a stalling labor market. This scenario is not characterized by a recession, but risks remain given labor market vulnerabilities.

Risks
Risks around our base case mostly lie to the upside. First, economic activity has so far proven resilient in the face of the tariff shock. In our 'Expansion' scenario, the economy remains in robust health, as both consumers and firms smooth through the tariff shock, the drag from heightened uncertainty gradually fades. Second, a weakening labor market has already prompted a shift in the Fed's reaction function. In the 'Recovery' scenario, the Fed responds swiftly to signs of softening payrolls, delivering multiple rate cuts in early 2026, despite elevated inflation. The economy then rebounds strongly supported by a more expansionary fiscal stance and the loosening in financial conditions.

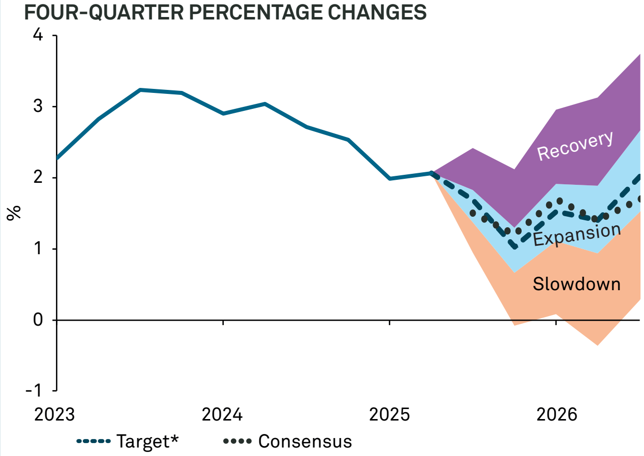
EUROPE AND CHINA

Our Outlook vs. Consensus
Our view on growth prospects outside of the US remains optimistic but not far above consensus. Our probability weighted forecast for Eurozone growth stands at ~1.4% over the next 12 months, a little above consensus. For China, our forecast sees growth slowing to around 4% in line with consensus and softer than the 'around 5%' growth target set for 2025.

Base Case
Our base case for the Eurozone is a 'Slowdown' in the second half of 2025 that sees growth below consensus, as tariffs and policy uncertainty bite. In 2026, however, greater fiscal spending on defense and infrastructure, the lagged effect of ECB rate cuts, and the gravitational pull of growth towards potential, means we see an expansion faster than expected by consensus. China's economy will encounter greater headwinds, but a weaker US dollar and further countercyclical stimulus should boost consumption, more durably, through 2026. The drag from property may stabilize but not become a meaningful contributor to growth. Export penetration of non-U.S. markets may face greater protectionism. Meanwhile, extreme domestic manufacturing competition has fueled economy-wide deflation. We expect growth to slow toward 4% - smoothed by gradually intensifying consumption-oriented stimulus.

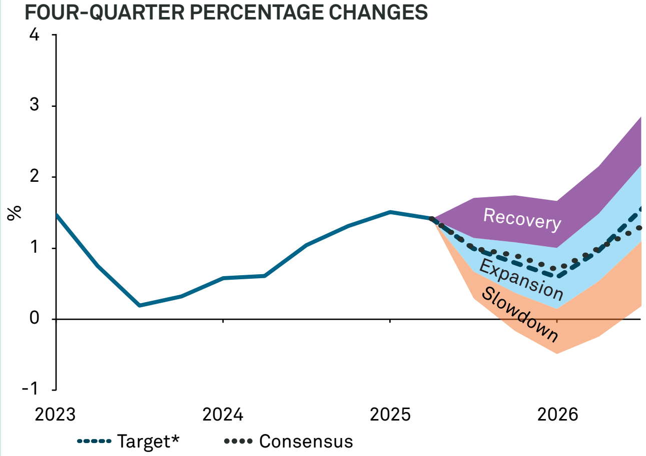
Risks
Outside of the US, risks around our growth base case lie to the upside. The Eurozone and China are reliant on exports and sensitive to a broader worsening of global trade conditions. But 2026 should see positive impacts to growth from greater monetary and fiscal policy stimulus, a weaker US dollar, and reduced uncertainty, leading consumers to be less risk averse and increase spending.

US GDP
FOUR-QUARTER PERCENTAGE CHANGES



Source: BNY Investment Institute. Data as of September 12, 2025.

EUROZONE GDP
FOUR-QUARTER PERCENTAGE CHANGES



Source: BNY Investment Institute. Data as of September 12, 2025.

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INFLATION & POLICY

Our Outlook vs. Consensus

unfavorable ⟷ favorable

US

Our Outlook vs. Consensus
Our probability weighted expectation for US policy rates is slightly higher than market pricing over the next 12 months (3.3% vs 2.9%). We expect inflation to remain above target over the next 12 months (~2.6%), reflecting the increase in tariffs on US imports, but not higher than is priced in by the market (3.4%). In our view, current market pricing of real interest rates is too optimistic (i.e., negative real interest rates 12 months from now). We see real interest rates in positive territory.

Base Case
In our base case, ‘Slowdown’, we see the Fed cutting three times in 2025 and to 3% by end of 2026. Price pressures increase in the near term but moderate more significantly driven by tepid growth. Despite inflation remaining above target by early 2026, the Fed is eager to pre-empt further weakness in the labor market and loosens policy.

Risks
The risks around our base case lie to the downside for US policy rates, and to the upside for US inflation. In ‘Recovery’, our second most likely scenario, rates fall even further, as the Fed rushes into rate cuts that prove misguided, leading inflation to remain far above target. In ‘Expansion’, economic resilience and robust inflationary pressures lead the Fed to adjust its policy stance gradually, with three rate cuts in 2025 and one in 2026.

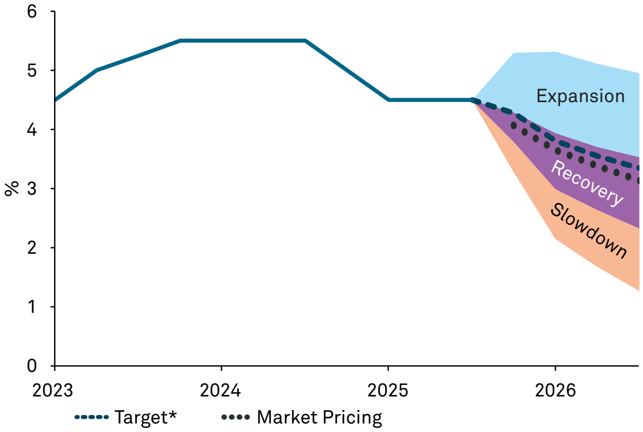
EUROPE AND CHINA

Our Outlook vs. Consensus
Our probability weighted expectation for Eurozone policy rates is a little below market pricing in the near-term (one more cut in the coming months) as growth prospects and inflation stay weak. We see rates moving a little higher in late 2026/early 2027 as inflation recovers. For China, our base case of a slowing (quarterly) growth profile is likely to see more frontloaded fiscal easing geared to boosting consumption. We expect this to also slowly ease deflationary pressure. We think the PBoC eases a bit more and maintain ample liquidity to keep financial conditions buoyant.

Base Case
In our most likely scenario, ‘Slowdown’ we see one additional ECB cut, which is consistent with market expectations, as growth slows in the near-term and inflation falls a little below target. After maintaining considerable reticence, we expect the fiscal stance to ease up in the months ahead in China. Boosting household consumption more durably will become a prominent feature in the upcoming 15th Five-Year Plan. Further USD easing will also provide the PBoC with the space to ease monetary policy a bit more in the months ahead.

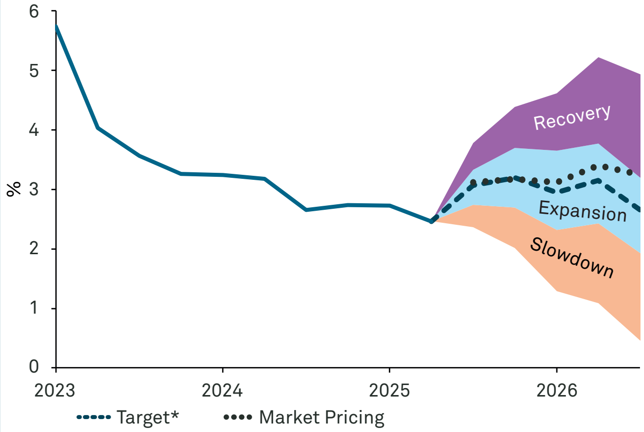
Risks
In the Eurozone, we expect one/two rate hikes in both ‘Recovery’ and ‘Expansion’ in late 2026/early 2027. In China, an activity slowdown is widely expected. The balance of risks could change more notably if policy stimulus pivots more decisively towards meaningful reforms to boost private consumption, further steepening domestic yield curves.

US FEDERAL FUNDS RATE
PERCENT



Source: BNY Investment Institute. Data as of September 12, 2025.

US CPI
FOUR-QUARTER PERCENTAGE CHANGES



Source: BNY Investment Institute. Data as of September 12, 2025.

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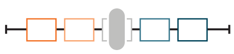
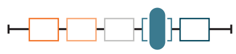
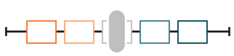
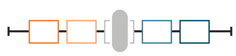
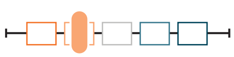
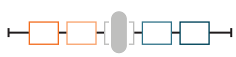
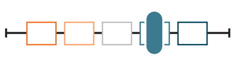
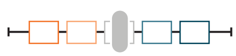
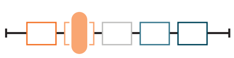
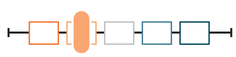
ASSET CLASS VIEWS

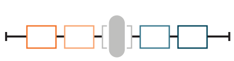
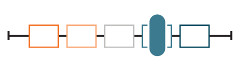
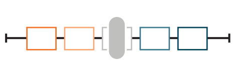
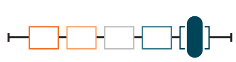
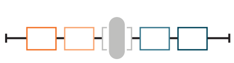
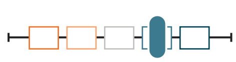
Summary

Over the past quarter, we've gained clarity on several key fronts. One, we've developed a better understanding of how countries are responding to US trade policy, that is, the level of retaliation has been less severe than initially anticipated, lifting somewhat the heavy fog that surrounded the path and trajectory of tariffs. Two, the Fed has become more transparent with its reaction function, a key question that loomed a quarter ago. Risks remain between the dual mandates, but the focus has slowly shifted towards the labor market. The key question this quarter is whether the Fed can thread the needle.

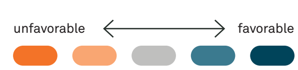
In the US, we expect GDP to grow at below-potential pace in the second half of 2025 but expect growth to rebound toward potential in 2026 as tariff effects fade and monetary policy is loosened. Similarly in the Eurozone, we expect tepid growth in the second half of 2025, but expect a rebound supported by fiscal and the lagged effects of policy loosening. Meanwhile, we expect China to face headwinds and persisting deflation though we expect a weaker US dollar and stimulus to provide support in 2026.

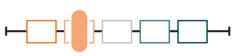
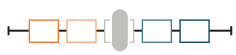
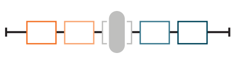
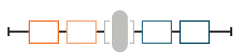
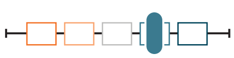
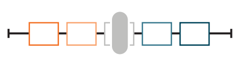
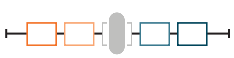
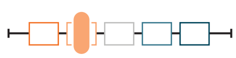
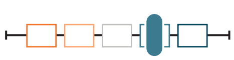
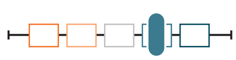
The current macro environment remains noisy. We encourage investors to leverage **Monthly Checkpoints** from the Investment Institute to stay abreast on macro developments and how data are lining up with our forecasts on a month-over-month basis. To review our long-term themes and long-term asset class risk and return forecasts visit our **Capital Market Assumptions**.

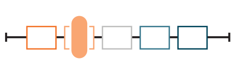
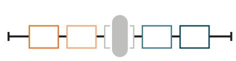
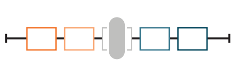
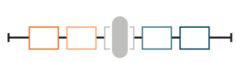
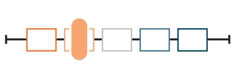
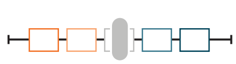
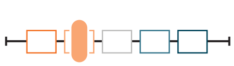
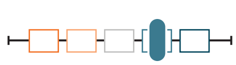
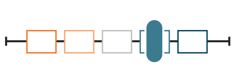
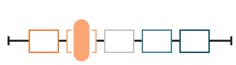
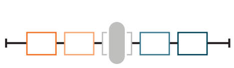
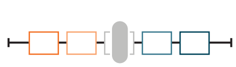
Major asset class	Tactical view	Strategic view	Comments
Global Equity			Downside risks to growth persist in the very near-term, but the global economy is showing resilience. Recession risks are odds against, the US is entering a new phase of policy easing, and previous rate cuts in other regions are expected to further support the ongoing economic cycle.
Sovereign Bonds			Yields have risen, providing a good entry point for investors. We remain underweight US Treasuries vs international sovereign bonds, due to worsening fiscal fundamentals and ongoing US inflation risks. Elevated yields do entrench favorable income returns.
Credit			Spreads remain compressed. There is less upside in credit from the AI theme. Trade volatility and economic uncertainty may weigh on consumption and overall growth. We expect a rotation toward cheaper, safer fixed income assets. We prefer higher quality credits over HY, European credits over US. We favor active credit selection to manage spread risk.
Real Assets			Maintain favorable view on gold given macro volatility and inflation hedging potential.
Cash			Policy loosening will lower cash rates. Higher yields make a better entry point into the belly of the curve. Intermediate duration is relatively attractive.

Equity	Tactical view	Strategic view	Comments
Developed Market Equity			Policy uncertainty remains elevated but is abating. Risks of deterioration in the near-term macro data persists from the lagged effects of the tariff shock but the medium-term outlook is more optimistic from monetary and fiscal loosening. The AI theme is expected to lift long run expected returns, but cyclical considerations may introduce some volatility, which warrants a well diversified approach across geographies.
US Equity			US growth expectations are still at risk of a downgrade in the near-term, but easing of policy will provide support. Abating but still elevated policy uncertainty could see markets sensitive to the macro data in the near-term. Within US equities, we favor large caps over small caps and emphasize exposure to quality. Expectations for AI led productivity gains, and significant AI-related Capex, limit deep downside risks.
UK Equity			UK is less directly exposed to tariff risk, and the economy is expected to rebound as rates are cut gradually. UK equities are attractive for income-seeking US investors given elevated yields.

Source: BNY Investment Institute as of September 23, 2025.



Equity	Tactical view	Strategic view	Comments
Europe ex UK			ECB easing cycle is nearing an end and a renewed slowdown in growth is expected in the second half of 2025 before rebounding in 2026 on the back of fiscal support. We expect to the lagged effects of policy loosening to support the cycle. Broad resilience in the cycle, greater fiscal spending, and de-escalation of the Ukraine-Russia war is a catalyst for performance in 2026.
Japan Equity			We remain neutral as tariff uncertainty dissipates, energy and food prices normalize and as prospective cuts to the sales tax lowers inflation and boosts real incomes. A growth slowdown is underway but increases in real income should provide a boost to activity and earnings through 2026.
EM Equity			Emerging markets to be boosted by a weaker USD and local rate cuts. A US slowdown may exert some pressure, but steady-state trade tariffs are coming into view. China to take more measures to boost its economy. EM equities are cheap and will gain from long-term supply chain rotation.
China Equity			Overall tariff levels are high but stabilizing. Further Sino-US de-coupling to persist (albeit, more gradually). The tech sector is a bright spot, and property is on a better footing. Further stimulus to re-balance the economy and curb deflation is needed and should be forthcoming.
EM ex China			The adverse impact of reciprocal tariffs is proving to be shallower than was widely feared. Electronics-focused and export-oriented EMs to benefit from AI diffusion. Moreover, relative advantages versus China (such as lower tariffs) likely to provide a leg-up, valuations are fair-to-attractive. Country-and-sector correlations are lower.

Fixed Income	Tactical view	Strategic view	Comments
US Treasuries			We see downside risks to growth in the near-term but also a rise in inflation pressures that the Fed will likely look through. Fed rate cut expectations are over-extended. Large deficits remain a risk, but attractive yields and correspondingly favorable income returns keep us engaged. We are cautious on the prospect of limited duration gains and elevated volatility.
Intl. Sovereign Debt			FX hedged income returns in selected DM countries remain attractive in absolute terms and versus US Treasuries. A weakening US dollar makes the asset class attractive on a non-FX hedged basis as well. Tariff-related disinflationary pressures outside of the US may lead to some additional rate cuts in selected DMs ex US.
Global IG			Spreads are rich and may widen on a slowdown in US consumption – fueled by trade uncertainty, higher tariffs and damage to supply chains and corporate margins. Whilst IG may hold up better than HY, risk-adjusted- and relative-returns are not compelling.
High Yield Debt			Spreads are rich. Amid heightened trade and financial volatility, weakening energy and industrial commodity prices and reactive Fed policy easing, we see the likelihood of spreads re-widening on HY corporates' stalling margins and re-financing pressures. We stay underweight.
EM Local Currency Debt			High EM real rates amidst easing inflation and further USD weakness are driving EM monetary easing. This should boost price gains through FX as well as duration channels. Relatively low FX carry is a risk but is offset, for now, by reasonable macro fundamentals and policy management at most major EMs.
EM USD Debt			Our neutral view balances a likely softening of global trade in 2025 against decent policy buffers, flexible currencies and a softer tone in the US dollar. Valuations are less expensive in comparison with global IG and HY credits.

Source: BNY Investment Institute as of September 23, 2025.

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ERIC HUNDAHL, CFA
Head of Investment Institute

SEBASTIAN VISMARA
Head of Economic Research

ANINDA MITRA
Head of Asia Macro &
Investment Strategy

RYAN MILGRIM, CFA
Senior Research Analyst

JONATHAN PARK
Multi-Asset Research Analyst

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OTHER

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

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