

Weekly commentary

March 3, 2025

BlackRock

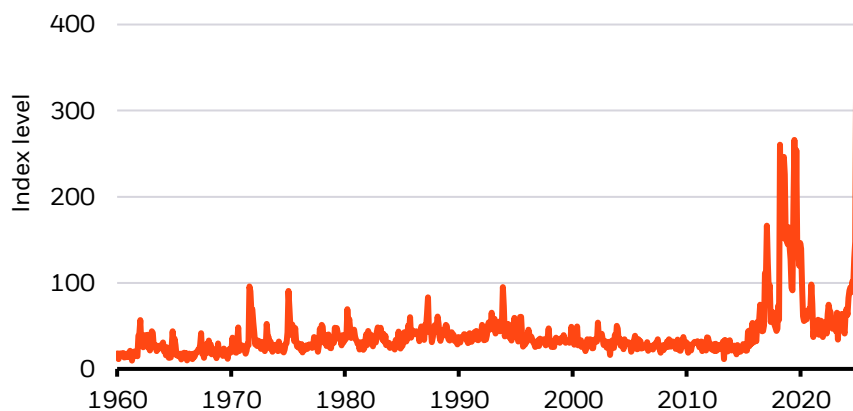
Leaning on the tactical in our views

- This unusually uncertain policy environment requires different views across horizons, in our view. We like U.S. stocks now and private markets medium term.
- U.S. stocks fell about 1% last week, with the S&P 500 trimming its gains for the year to 1.5%. Ten-year U.S. Treasury yields fell sharply to two-month lows.
- We expect the European Central Bank to cut interest rates this week, then proceed with caution. We track ongoing wage pressures in the U.S. jobs data.

A fundamental shift in macro and foreign policy has driven recent market volatility. That comes on top of mega forces – structural shifts like artificial intelligence (AI) – that are shaping the outlook and can lead to varied outcomes over the medium term. We think that calls for emphasizing tactical views. We still see AI driving corporate earnings strength, but this scenario is becoming more uncertain. We stand ready to pivot – and see private markets playing a key role across horizons.

Navigating historic uncertainty

U.S. trade policy uncertainty index, 1960–2025



Source: BlackRock Investment Institute, with data from Matteo Iacoviello/Haver Analytics, February 2025. Note: The Trade Policy Uncertainty (TPU) Index is based on automated text searches of the electronic archives of seven newspapers. The measure is calculated by counting the monthly frequency of articles discussing trade policy uncertainty (as a share of the total number of news articles) for each newspaper. The index is normalized to a value of 100 for a 1% article share.

We see a mega forces-driven economic transformation that could keep shifting the long-term trend. That limits conviction in long-term valuation signals because it's difficult to determine what's a fair valuation during an economic transformation, in our view. That long-term uncertainty is being compounded this year by near-term policy uncertainty: Trade policy uncertainty has soared to its highest in at least 65 years, reflecting U.S. tariff headlines. See the chart. How to respond? We allocate a greater share of portfolio risk to our six- to 12-month tactical views, allowing us to be nimble. Our scenarios for positive and negative economic and market outcomes help us shift our views as some policy uncertainty abates. Our baseline scenario: U.S. corporate profits stay strong and broaden alongside AI beneficiaries. Yet we're ready to pivot – especially as we get more policy implementation details.



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Over the medium term, we spread out our conviction across asset classes as economies undergo a transformation driven by mega forces such as AI. We think some of the most attractive opportunities are in private markets. While private market assets are not immune from the long-term uncertainty, we see many benefitting from the mega forces. Infrastructure equity, such as stakes in data centers, sits at the intersection of several mega forces, including today's AI-driven investment boom. Private equity funds have struggled more than in the past due to higher interest rates. Yet as valuations have fallen, current or future funds could benefit. Private markets are complex, with high risk and volatility, and not suitable for all investors.

The AI theme and strong earnings give us more tactical conviction in U.S. stocks. That's the case even as the run-up of U.S. stocks to record highs has shined a spotlight on historically rich valuations by most gauges. Valuations, especially for tech, look as lofty as in the dot-com bubble or the 1920s peak based on some metrics, like the cyclically adjusted ratio of share price to 10-year average of corporate earnings, we find. Yet it's harder to know what a reasonable valuation is during a time of transformation. Take concentration in the tech sector, where valuations tend to be higher, as investors chase the AI theme. Strong earnings growth could also back valuations. We're seeing that firsthand: Nvidia's revenue has surged roughly sixfold in just two years, and still its valuation dipped as earnings growth outpaced the share surge, LSEG Datastream data show.

While U.S. corporate strength is our base case for now, we have seen the outlook evolve suddenly in recent years. We stand ready to pivot given uncertainty because of the economic transformation and U.S. policy now. We created our scenarios last year to help us navigate this volatile environment. While some of the incoming information on U.S. policy has been noisy, we expect that to become a concrete signal to adapt to. How to build a portfolio that factors in unusually uncertain long-term signals and a volatile near-term environment? U.S. equities would still be the largest portfolio allocation, in our view. Yet the overall allocation to U.S. stocks would be less than benchmark public market exposures to make room for private markets.

Bottom line: The AI theme and strong earnings keep us overweight U.S. stocks tactically, even with high policy uncertainty. Over the long term, we see attractive opportunities in private markets that will be key to financing the transformation.

Market backdrop

U.S. stocks lost steam last week, led by the tech sector. The S&P 500 slid about 1% to trim the year's gains to 1.5%, partly on concerns about U.S. tariffs. Nvidia's shares fell sharply after its earnings results. AI-related shares have come under pressure from lingering investor worries about whether AI investment will pay off. Yet we think this is still the early phase of AI adoption and see room for the buildout winners to do well. Ten-year U.S. Treasury yields fell sharply to two-month lows near 4.20%.

Assets in review

Selected asset performance, year-to-date return and range



Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and do not account for fees. It is not possible to invest directly in an index.

Sources: BlackRock Investment Institute, with data from LSEG Datastream as of Feb. 27, 2025. Notes: The two ends of the bars show the lowest and highest returns at any point year to date, and the dots represent current year-to-date returns. Emerging market (EM), high yield and global corporate investment grade (IG) returns are denominated in U.S. dollars, and the rest in local currencies. Indexes or prices used are: spot Brent crude, ICE U.S. Dollar Index (DXY), spot gold, MSCI Emerging Markets Index, MSCI Europe Index, LSEG Datastream 10-year benchmark government bond index (U.S., Germany and Italy), Bank of America Merrill Lynch Global High Yield Index, J.P. Morgan EMBI Index, Bank of America Merrill Lynch Global Broad Corporate Index and MSCI USA Index.

Week ahead

March 3

Euro area flash inflation

March 6

European Central Bank policy decision; U.S. trade data

March 5

China Caixin services PMI

March 7

U.S. payrolls report

We expect the European Central Bank (ECB) to cut interest rates this week. Weak economic growth and moderating inflation allow the ECB to cut rates closer to a neutral level that neither restricts or stimulates activity. Risks remain that could push inflation in either direction, so we see the ECB proceeding with caution after the March meeting. In the U.S., we watch labor data for February for signs of ongoing high wage pressures.

Big calls

Our highest conviction views on tactical (6-12 month) and strategic (long-term) horizons, March 2025

Tactical	Reasons
U.S. equities	We see the AI buildout and adoption creating opportunities across sectors. We tap into beneficiaries outside the tech sector. Robust economic growth, broad earnings growth and a quality tilt underpin our conviction and overweight in U.S. stocks versus other regions. We see valuations for big tech backed by strong earnings, and less lofty valuations for other sectors.
Japanese equities	A brighter outlook for Japan's economy and corporate reforms are driving improved earnings and shareholder returns. Yet the potential drag on earnings from a stronger yen is a risk.
Selective in fixed income	Persistent deficits and sticky inflation in the U.S. make us more positive on fixed income elsewhere, notably Europe. We are underweight long-term U.S. Treasuries and like euro area government bonds instead. We also prefer European credit – both investment grade and high yield – over the U.S. on more attractive spreads.
Strategic	Reasons
Infrastructure equity and private credit	We see opportunities in infrastructure equity due to attractive relative valuations and mega forces. We think private credit will earn lending share as banks retreat – and at attractive returns.
Fixed income granularity	We prefer DM government bonds over investment grade credit given tight spreads. Within DM government bonds, we favor short- and medium-term maturities in the U.S., and UK gilts across maturities.
Equity granularity	We favor emerging over developed markets yet get selective in both. EMs at the cross current of mega forces – like India and Saudi Arabia – offer opportunities. In DM, we like Japan as the return of inflation and corporate reforms brighten the outlook.

Note: Views are from a U.S. dollar perspective, March 2025. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any particular funds, strategy or security.

Tracking five mega forces

Mega forces are big, structural changes that affect investing now – and far in the future. As key drivers of the new regime of greater macroeconomic and market volatility, they change the long-term growth and inflation outlook and are poised to create big shifts in profitability across economies and sectors. This creates major opportunities – and risks – for investors. See our [web hub](#) for our research and related content on each mega force.

- 1. Demographic divergence:** The world is split between aging advanced economies and younger emerging markets – with different implications.
- 2. Digital disruption and artificial intelligence (AI):** Technologies are transforming how we live and work.
- 3. Geopolitical fragmentation and economic competition:** Globalization is being rewired as the world splits into competing blocs.
- 4. Future of finance:** A fast-evolving financial architecture is changing how households and companies use cash, borrow, transact and seek returns.
- 5. Transition to a low-carbon economy:** The transition is set to spur a massive capital reallocation as energy systems are rewired.

Granular views

Six- to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, March 2025

Our approach is to first determine asset allocations based on our macro outlook – and what’s in the price. **The table below reflects this and, importantly, leaves aside the opportunity for alpha, or the potential to generate above-benchmark returns.** The new regime is not conducive to static exposures to broad asset classes, in our view, but is creating more space for alpha.

		Underweight	Neutral	Overweight	Previous view
Asset	View	Commentary			
Equities	Developed markets				
	United States	We are overweight as the AI theme and earnings growth broaden. Valuations for AI beneficiaries are supported by tech companies delivering on earnings. Resilient growth and Fed rate cuts support sentiment. Risks include any long-term yield surges or escalating trade protectionism.			
	Europe	We are neutral, preferring the U.S. and Japan. We see room for more European Central Bank rate cuts, supporting an earnings recovery. Rising defense spending, as well as potential fiscal loosening and de-escalation in the Ukraine war are other positives.			
	UK	We are neutral. Political stability could improve investor sentiment. Yet an increase in the corporate tax burden could hurt profit margins near term.			
	Japan	We are overweight. A brighter outlook for Japan’s economy and corporate reforms are driving improved earnings and shareholder returns. Yet a stronger yen dragging on earnings is a risk.			
	Emerging markets	We are neutral. The growth and earnings outlook is mixed. We see valuations for India and Taiwan looking high.			
Fixed Income	China	We are modestly overweight. We think AI and tech excitement could keep driving returns, potentially reducing the odds of much-anticipated government stimulus. We stand ready to pivot. We remain cautious given structural challenges to China’s growth and tariff risks.			
	Short U.S. Treasuries	We are neutral. Markets are pricing in fewer Federal Reserve rate cuts and their policy rate expectations are now roughly in line with our views.			
	Long U.S. Treasuries	We are underweight. Persistent budget deficits and geopolitical fragmentation could drive term premium up over the near term. We prefer intermediate maturities less vulnerable to investors demanding more term premium.			
	Global inflation-linked bonds	We are neutral. We see higher medium-term inflation, but cooling inflation and growth may matter more near term.			
	Euro area govt bonds	We are overweight. Trade uncertainty may hurt euro area growth more than it boosts inflation, potentially allowing the European Central Bank to cut rates more. Political uncertainty remains a risk to fiscal sustainability.			
	UK gilts	We are neutral. Gilt yields are off their highs, but the risk of higher U.S. yields having a knock-on impact and reducing the UK’s fiscal space has risen. We are monitoring the UK fiscal situation.			
	Japanese govt bonds	We are underweight. Stock returns look more attractive to us. We see some of the least attractive returns in JGBs.			
	China govt bonds	We are neutral. Bonds are supported by looser policy. Yet we find yields more attractive in short-term DM paper.			
	U.S. agency MBS	We are neutral. We see agency MBS as a high-quality exposure in a diversified bond allocation and prefer it to IG.			
	Short-term IG credit	We are overweight. Short-term bonds better compensate for interest rate risk.			
	Long-term IG credit	We are underweight. Spreads are tight, so we prefer taking risk in equities from a whole portfolio perspective. We prefer Europe over the U.S.			
	Global high yield	We are neutral. Spreads are tight, but the total income makes it more attractive than IG. We prefer Europe.			
	Asia credit	We are neutral. We don’t find valuations compelling enough to turn more positive.			
	Emerging hard currency	We are neutral. The asset class has performed well due to its quality, attractive yields and EM central bank rate cuts. We think those rate cuts may soon be paused.			
	Emerging local currency	We are underweight. We see emerging market currencies as especially sensitive to trade uncertainty and global risk sentiment.			

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