Weekly commentary

BlackRock

March 31, 2025

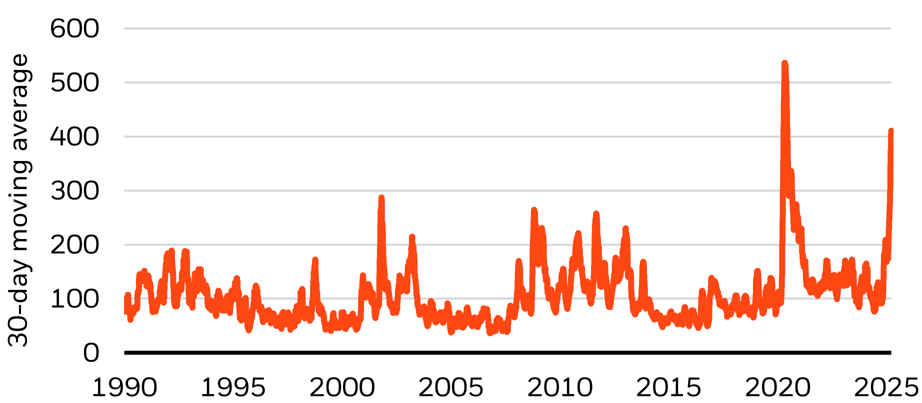
Doing the math on U.S. policy shifts

- Major U.S. policy changes have upped uncertainty in a world of structural shifts. We see a path where growth holds up and stay tactically overweight U.S. stocks.
- Global stocks slid last week after U.S. auto tariffs were announced and ahead of additional tariff details on April 2. U.S. 10-year yields were flat at 4.25%.
- The U.S. administration is due to release details on "reciprocal" tariffs this week. We think the average U.S. effective tariff rate will ultimately settle near 10%.

Major U.S. policy shifts are exacerbating uncertainty and spurring policy responses globally, especially in Europe and Canada. It's hard to gauge the ultimate macro and market impact given the various moving parts – with reciprocal tariffs a case in point this week. Yet when assessing possible impacts across policies, we see a path where artificial intelligence investment and potential deregulation could help boost economic growth. We stay overweight U.S. stocks over six to 12 months.

Broadening uncertainty

U.S. economic policy uncertainty index, 1990-2025



Source: BlackRock Investment Institute, with data from Economic Policy Uncertainty/Haver Analytics, March 2025. Note: The economic policy uncertainty index combines automated text searches of newspaper archives (measuring the frequency of policy-related uncertainty articles), the number of federal tax code provisions set to expire and disagreement among professional economic forecasters. The index is normalized with higher values indicating greater uncertainty. See https://www.policyuncertainty.com/methodology.html for more

Long-standing global trade and foreign policy frameworks are being upended as the U.S. has raised tariff rates and catalyzed big policy responses elsewhere. Current levies on steel and aluminum, auto import tariffs revealed last week and details on "reciprocal" tariffs due April 2 are in focus now. We think the average U.S. effective tariff rate will settle near 10% – but it could take months to get there. Until then, we expect multiple changes to the mix of tariff rates. Investors have not faced this kind of trade uncertainty for decades and it has morphed into elevated economic uncertainty. See the chart. Unusually high policy uncertainty is driving a wedge between data based on sentiment surveys and data based on actual activity: U.S. consumer confidence hit a four-year low in March, even as activity holds up.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We think policy uncertainty will ease over the next year. Yet prolonged uncertainty increases the risk weakening sentiment hurts growth. At this stage, it's hard to forecast the policy outcomes with any confidence given many moving parts and competing objectives. We think it's more useful to assess the orders of magnitudes across different policy outcomes and how they could be reconciled: We assess growth, inflation and deficit impacts across trade, fiscal and immigration policy using a range of external estimates. On trade, we think tariffs are set to be a permanent feature of U.S. trade policy and a tool to raise revenue. While some external estimates see $300 billion in annual revenue from tariffs, they will likely push up on inflation and weigh on growth. The government is also aiming to cut costs to save around $1 trillion per year but nearing that would mean deep cuts to major federal programs. External estimates project only up to $300 billion of savings each year.

Yet those revenue gains could be offset by proposed policies that imply lower government revenues. The U.S. administration has proposed a continuation of the 2017 Tax Cut and Jobs Act that set out tax cuts for individuals and businesses and is due to expire in 2026. A continuation would widen the fiscal deficit by up to $450 billion, the Congressional Budget Office and Joint Taxation Committee project, while also providing a small boost to growth and inflation. The administration has also made it a priority to reduce net immigration. If immigration slows back to pre-pandemic levels, currently elevated wage pressures would likely persist, GDP growth would slow slightly, and tax revenues would fall a little.

We expect this policy mix to reinforce persistent inflation pressures and higher long-term yields – and leave the fiscal deficit above 5% looking out to 2030. What matters for risk assets amid higher rates: whether growth can hold up. We see a path where it could if the AI growth boost of the past two years persists and if deregulation spurs an additional boost. We think U.S. stocks can resume their global leadership due to resilient growth and mega forces – like AI. We stay underweight long-term U.S. Treasuries, favoring short- and medium-term bonds.

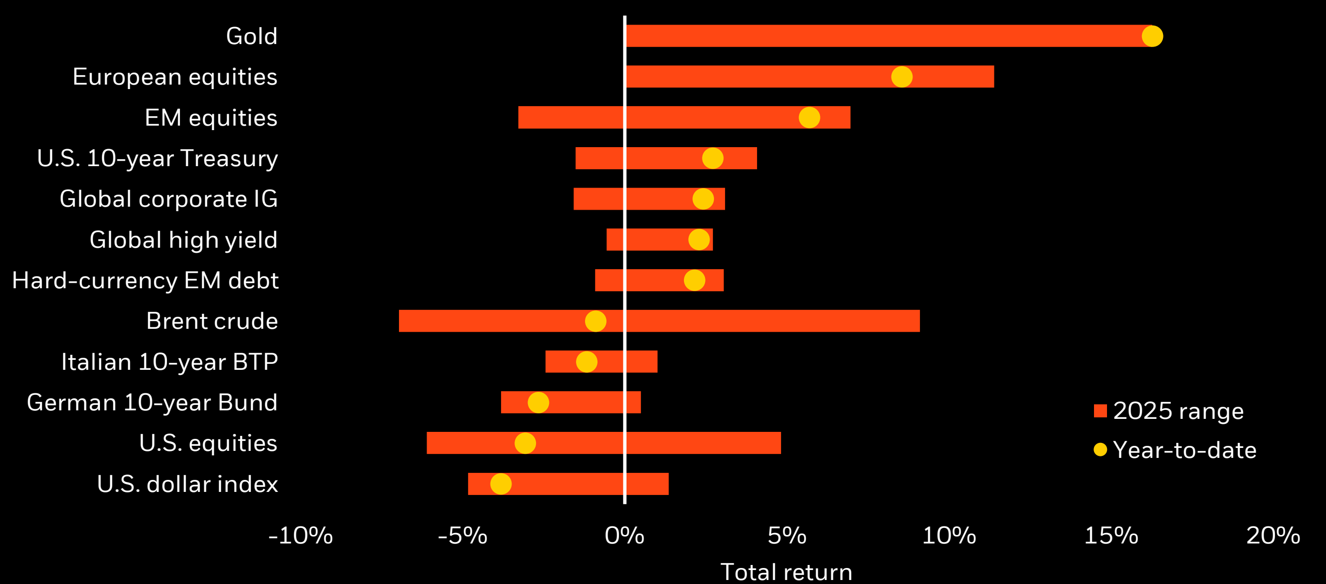
Bottom line: U.S. policy shifts have conflicting economic impacts. We see a path for resilient growth and mega forces to support U.S. equities, keeping us overweight tactically. We stay underweight long-term bonds, preferring shorter-term bonds.

Market backdrop

The S&P 500 slid 1.5% last week before the April 2 U.S. tariff announcement. Europe's Stoxx 600 fell more than 1% last week, in part reflecting the news of U.S. tariffs being levied on global auto imports. But Europe is still outperforming this year, with gains of nearly 7% compared with the S&P 500's 5% drop. U.S. 10-year Treasury yields ended the week flat at 4.25%, falling back from one-month highs after soft U.S. consumer spending data for February.

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 March 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

April 1	Japan Tankan business condition survey; euro area flash inflation	**April 3**	China Caixin services PMI; U.S. trade data
April 2	Additional U.S. tariff details	**April 4**	U.S. payrolls data

This week all eyes are on the U.S. administration's planned April 2 date to release more details about "reciprocal" U.S. tariffs that match many of those imposed on U.S. products by other countries. The much higher rates currently planned for Mexican and Canadian imports and on autos globally could be cut after negotiations, while new ones could be introduced elsewhere. We think the average U.S. effective tariff rate will ultimately settle near 10%, the highest since the 1940s.

Big calls

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

Tactical	Reasons
U.S. equities	Policy uncertainty may weigh on growth and stocks in the near term. Yet we remain overweight as we see the AI buildout and adoption creating opportunities across sectors and driving equity strength over our tactical horizon. We tap into beneficiaries outside the tech sector. 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 underweight long-term U.S. Treasuries. 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 acrossan 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	+2	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	Neutral	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	Neutral	We are neutral. Political stability could improve investor sentiment. Yet an increase in the corporate tax burden could hurt profit margins near term.
	Japan	+1	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	Neutral	We are neutral. The growth and earnings outlook is mixed. We see valuations for India and Taiwan looking high.
	China	+1	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.
Fixed Income	Short U.S. Treasuries	Neutral	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	-2	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	Neutral	We are neutral. We see higher medium-term inflation, but cooling inflation and growth may matter more near term.
	Euro area govt bonds	-1	We are underweight. We see room for yields to climb more as Europe moves to ramp up defense and infrastructure spending. The European Central Bank is also nearing the end of rate cuts.
	UK gilts	Neutral	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	-1	We are underweight. Yields have surged, yet stock returns still look more attractive to us.
	China govt bonds	Neutral	We are neutral. Bonds are supported by looser policy. Yet we find yields more attractive in short-term DM paper.
	U.S. agency MBS	Neutral	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	+1	We are overweight. Short-term bonds better compensate for interest rate risk.
	Long-term IG credit	-1	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	Neutral	We are neutral. Spreads are tight, but the total income makes it more attractive than IG. We prefer Europe.
	Asia credit	Neutral	We are neutral. We don't find valuations compelling enough to turn more positive.
	Emerging hard currency	Neutral	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	-1	We are underweight. We see emerging market currencies as especially sensitive to trade uncertainty and global risk sentiment.

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