Weekly commentary

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BlackRock

Finding opportunities in uncertainty

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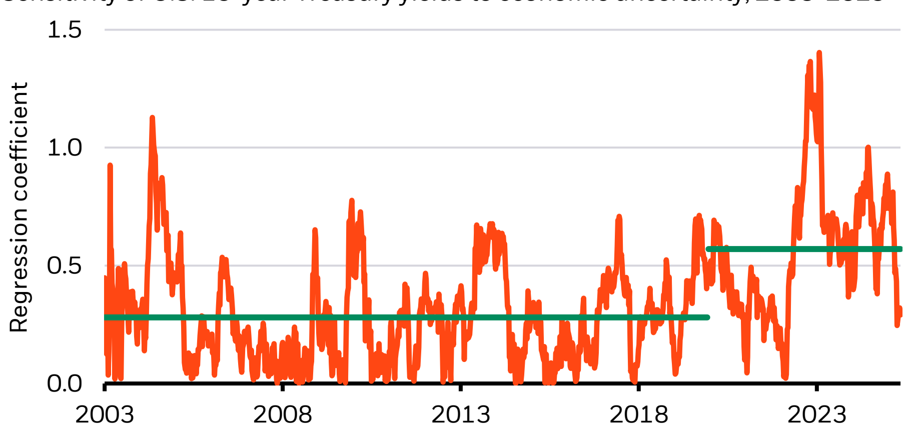
- At our internal Midyear Forum, our portfolio managers were laser focused on how and where to capture opportunities, even as uncertainty abounds.
- U.S. stocks rose last week on news of fresh U.S.-China trade talks and a solid U.S. jobs report – but it's too soon to tell if tariffs are hurting the labor market.
- We're looking at U.S. CPI to see if tariffs are starting to push inflation up and see persistent inflation pressure limiting how far the Fed can cut rates this year.

BlackRock's senior portfolio managers came together at our Midyear Forum last week. What was striking was the sharp focus on opportunities even as uncertainty abounds and as policymaking disrupts, rather than stabilizes, markets. They saw a plethora and shared techniques for spotting them. Their takeaways: look through near-term noise; be deliberate about the kinds of risk you're taking; leverage AI; and watch for biases. More to come in our Midyear Outlook, out on July 1!

Extra sensitive

Sensitivity of U.S. 10-year Treasury yields to economic uncertainty, 2003-2025



Past performance is no guarantee of future results. Source: BlackRock Investment Institute, with data from LSEG Datastream, June 2025. Notes: The red line shows the regression coefficient (a numerical measure of the linear relationship) between the U.S. 10-year Treasury yield and economic surprises and trade uncertainty, namely that of Treasury yields to the Citi Economics Surprise Index and the Trade Policy Uncertainty index. The line is only an estimate of this relationship. Green lines are averages over 2003-19 and 2020-25. The actual relationship may differ.

A key takeaway from our end-2024 Forum was that policymaking would become a source of disruption rather than stability. That has played out this year. In the U.S., inflation is stickier and public debt and fiscal deficits have swelled since the pandemic. With rates structurally higher now, governments and central banks face sharper trade-offs between aiding growth and curbing inflation. This reduced room to maneuver – and the global economic impact of mega forces like geopolitical fragmentation and AI – makes the macro outlook less predictable. As a result, long-term assets like 10-year U.S. Treasuries are more sensitive to incoming data, a stark departure from the pre-pandemic era. See the chart. Today, policy interventions are more likely to amplify than dampen market volatility. Yet at our Midyear Forum, our managers focused on the many opportunities, not the uncertainty.

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One way our portfolio managers are finding opportunities in this environment? Looking through the near-term noise and focusing on the big picture. For all the ups and downs in markets since the start of the year, they agreed that the drivers of the best-performing companies' equity gains have not actually changed much. They exchanged views on specific opportunities they see weathering or benefiting from the volatility. That included a shared conviction in the AI mega force driving further returns, pointing to Nvidia's recent earnings beat despite tariff-related drags on earnings – but noted medium-term regulatory risk and the potential for slower deployment. They also like energy, again pointing to the AI mega force as one key driver of rising global energy demand that calls for more production of all kinds of energy. They noted how governments' prioritization of homegrown, reliable power has opened up opportunities in select regions and industries.

Another key to finding opportunities? Taking risk differently. Our portfolio managers are refining their frameworks for taking risk, identifying multiple distinct types like macro, mega forces and relative value. One example: they are increasingly looking for pockets of relative value – such as that created by the dispersion we're seeing in the government bond market. They are finding it across different bond maturities, especially as long-term bond yields are marching steadily upwards across developed markets. They are also finding it across countries as central banks take different approaches to managing the tougher trade-off between growth and inflation. Euro area bonds, for instance, are increasingly less correlated to swings in U.S. Treasuries and stand to benefit from recent rate cuts to support growth in the region.

Our portfolio managers discussed several other techniques for spotting opportunities. They are leveraging AI to discern the signal from the noise, as well as tracking patterns and sentiment shifts in their own discussions. They also discussed the importance of being aware of and managing behavioral biases, recognizing that people are less likely to take risk when uncertainty is higher. Look out for our Midyear Outlook – coming on July 1 – which will discuss these themes in more depth.

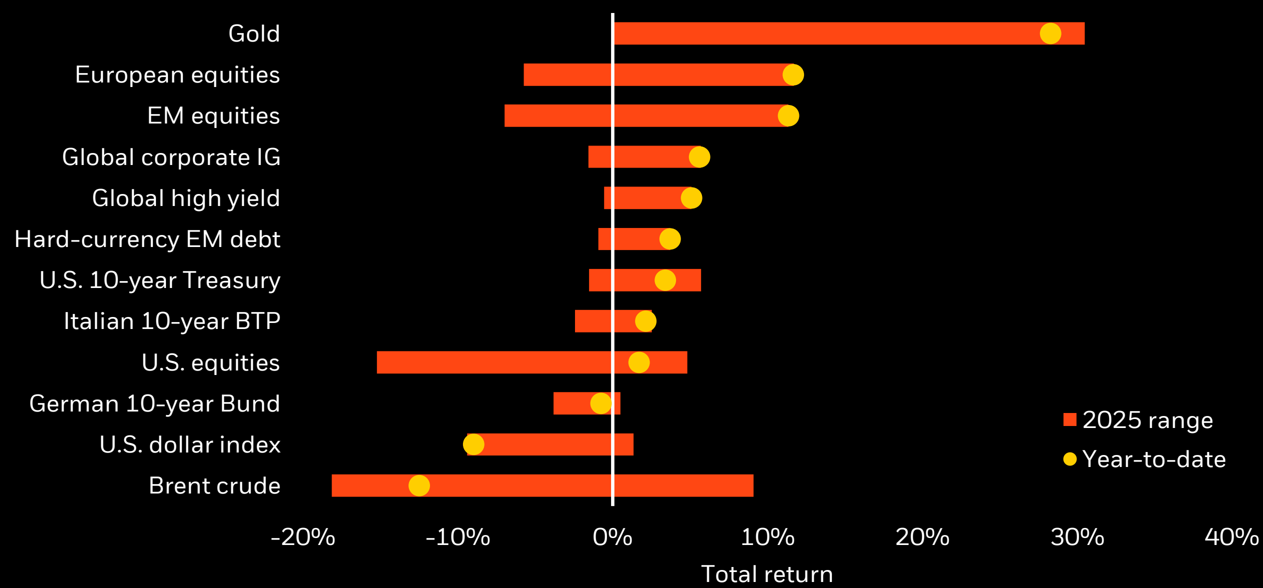
Bottom line: Our portfolio managers are laser focused on opportunities even as policymaking adds to volatility. They're finding opportunities by looking through near-term noise and taking risk differently. Watch for more in our Midyear Outlook.

Market backdrop

The S&P 500 rose 1.5% last week after news emerged about fresh U.S.-China trade talks and the U.S. May jobs report showed solid job growth. Policy uncertainty is likely slowing company decision-making, so any tariff impact on the labor market may only come later. A mid-week dip in 10-year U.S. Treasury yields was short-lived: they ended the week up slightly at 4.5% and 60 basis points above April lows. Europe's Stoxx 600 rose 1%.

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 June 5, 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

June 9	China CPI	**June 13**	University of Michigan May sentiment survey
June 11	U.S. CPI		

We're monitoring the U.S. CPI report for signs that tariffs are starting to feed through into consumer prices. Inflation has cooled in recent data, but we don't see this as a good guide to the future: we see tariff pressures building in coming months and expect a tight labor market to push up on services inflation. That will likely limit how far the Fed cuts policy rates.

Big calls

Our highest conviction views on six- to 12-month (tactical) and over five-year (strategic) horizons, June 2025

Tactical	Reasons
U.S. equities	Policy uncertainty and supply disruptions are weighing on near-term growth, raising the risk of a contraction. Yet we think U.S. equities will regain global leadership as the AI theme keeps providing near-term earnings support and could drive productivity in the long term.
Japanese equities	We are overweight. Ongoing shareholder-friendly corporate reforms remain a positive. We prefer unhedged exposures given the yen's potential strength during bouts of market stress.
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 short-term inflation-linked bonds over nominal developed market (DM) government bonds, as U.S. tariffs could push up inflation. Within DM government bonds, we favor UK gilts over other regions.
Equity granularity	We favor emerging over developed markets yet get selective in both. Emerging markets (EM) at the cross current of mega forces – like India – 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, June 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, June 2025

We have lengthened our tactical investment horizon back to six to 12 months. The table below reflects this and, importantly, leaves aside the opportunity for alpha, or the potential to generate above-benchmark returns – especially at a time of heightened volatility.

Underweight | **Neutral** | **Overweight** | ● Previous view

	Asset	View	Commentary
Equities	**Developed markets**		
	United States	+1	We are overweight. Policy-driven volatility and supply-side constraints are pressuring growth, but we see AI supporting corporate earnings in the near term and driving productivity over the long run.
	Europe	Neutral	We are neutral, preferring the U.S. and Japan. We see structural growth concerns and uncertainty over the impacts of rising defense spending, fiscal loosening and de-escalation in Ukraine. Yet room for more European Central Bank rate cuts can support an earnings recovery.
	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 given the return of inflation and shareholder-friendly corporate reforms. We prefer unhedged exposure as the yen has tended to strengthen during bouts of market stress.
	Emerging markets	Neutral	We are neutral. U.S. tariffs and trade tensions are likely to drag on growth in China and emerging markets more broadly, even with potential policy support.
	China	Neutral	We are neutral. The uncertainty of trade barriers makes us more cautious, with potential policy stimulus only partly offsetting the drag. We still see structural challenges to China's growth.
Fixed Income	Short U.S. Treasuries	+1	We are overweight. We view short-term Treasuries as akin to cash in our tactical views – but we would still lean against the market pricing of multiple Fed rate cuts this year.
	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. Growth and inflation risks are balanced. Trade uncertainty may hurt growth more than it boosts inflation, allowing the ECB to cut rates more. Greater defense and infrastructure spending will support growth in the medium term but might boost term premia.
	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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