Weekly commentary

June 16, 2025

BlackRock

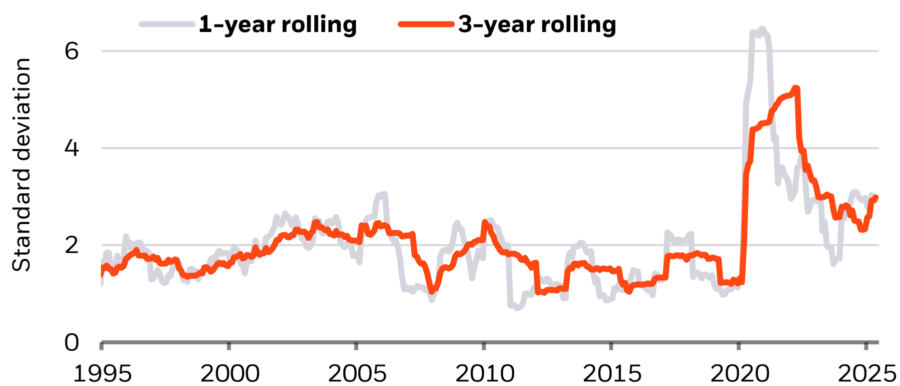
Watching for tariff impacts to kick in

- Recent swings in U.S. inflation highlight the volatile economic backdrop, even before the full tariff impact. We tap into mega forces that keep driving returns.
- Global stocks slid last week, led by Europe, after Israel launched an attack on Iran's nuclear infrastructure. Oil future prices jumped more than 11%.
- We are keeping an eye on any escalation between Israel and Iran. We think the Fed will hold rates steady again this week as it waits to see the impact of tariffs.

Swings in U.S. CPI data reflect the elevated macro uncertainty we've long flagged. Inflation data don't yet reflect the full tariff impact. Together with renewed conflict in the Middle East, that signals more volatility ahead. We think the Federal Reserve will sit tight this week as it waits for clarity. And ongoing inflation pressures from a tight labor market will limit how much it can cut rates. Looking through the noise, we still see mega forces like AI driving returns, keeping us overweight U.S. stocks.

More volatility ahead

Inflation volatility gauged in standard deviation, 1995-2025



Source: BlackRock Investment Institute, Bureau of Labor Statistics with data from Haver Analytics, June 2025. Notes: The chart shows the rolling standard deviation of month-on-month annualized core services CPI inflation excluding shelter, calculated over one-year and three-year intervals. Standard deviation measures the dispersion of data points from their average, with a higher value indicating more volatility.

The May U.S. CPI rose less than expected last week, yet monthly data has been volatile since the pandemic. See the chart. Noisy economic data reflect the volatile new regime we've long noted. We expect this to persist. Wage pressures remain too high for inflation to settle at the Fed's 2% target, with the gap between core and wage inflation near its widest in four years. The data showed signs of tariffs starting to lift consumer prices, like for appliances, but the full impact is still to come. Surveys by the National Federation of Independent Business suggest companies are ready to hike prices in response to tariffs, but they may delay that and workforce changes as they await clarity on tariffs. Longer term, we see ongoing inflation pressure from mega forces like the AI buildout, aging populations and geopolitical fragmentation. Latest example: the Israel-Iran conflict and potential oil price rises.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U.S. growth hasn't been immune to volatility, with quarterly data going from holding up to contracting in the past year. Evolving U.S. trade policy is one source of uncertainty, yet hard economic rules – like how supply chains cannot be rewired quickly without disruption – act as a constraint, as we've seen in U.S.-China trade talks and other tariff rollbacks. That's why we keep our risk-on stance and an overweight to U.S. stocks on a tactical six- to 12- month horizon, supported by mega forces like AI. The S&P 500 is back near its February record high as trade tensions cool, LSEG data show. We brace for more policy-driven volatility as the U.S. floats plans for setting tariffs unilaterally before the 90-day pause ends on July 9.

We see uncertainty around the economic impact of tariffs and inflation volatility keeping the Fed on hold for now – including at this week's meeting. Longer term, persistent inflation pressures from tariffs and a tight labor market will likely limit how far the Fed can cut, even if tariff-driven supply disruptions dent growth. We think long-term U.S. bonds yields can rise, keeping us underweight. We prefer inflation-linked bonds, even if they are yet to reflect long-term inflation pressures, in our view. On a strategic horizon of five years and longer, we like private credit as returns for debt with floating interest rates have risen with rates. We favor infrastructure equity, like stakes in airports and data centers: its returns are buffered from inflation and it outperforms amid supply constraints and high inflation. Private markets are complex and not suitable for all investors.

We think tariffs and any sustained oil price rises from the Israel-Iran conflict could leave other central banks facing weaker global growth. Should the conflict affect the security of critical trade routes, supply disruptions could add to inflation pressures. The European Central Bank (ECB) cut rates this month but signaled a pause ahead, even after lowering its 2025 growth projections. Greater fiscal spending could boost growth in time, but execution is key. We think the ECB has more room to cut as wage pressures and energy prices cool, and tariffs likely aren't inflationary for Europe. We still prefer European to U.S. investment grade and high-yield credit. That preference has served us well, but we keep an eye on relative valuations.

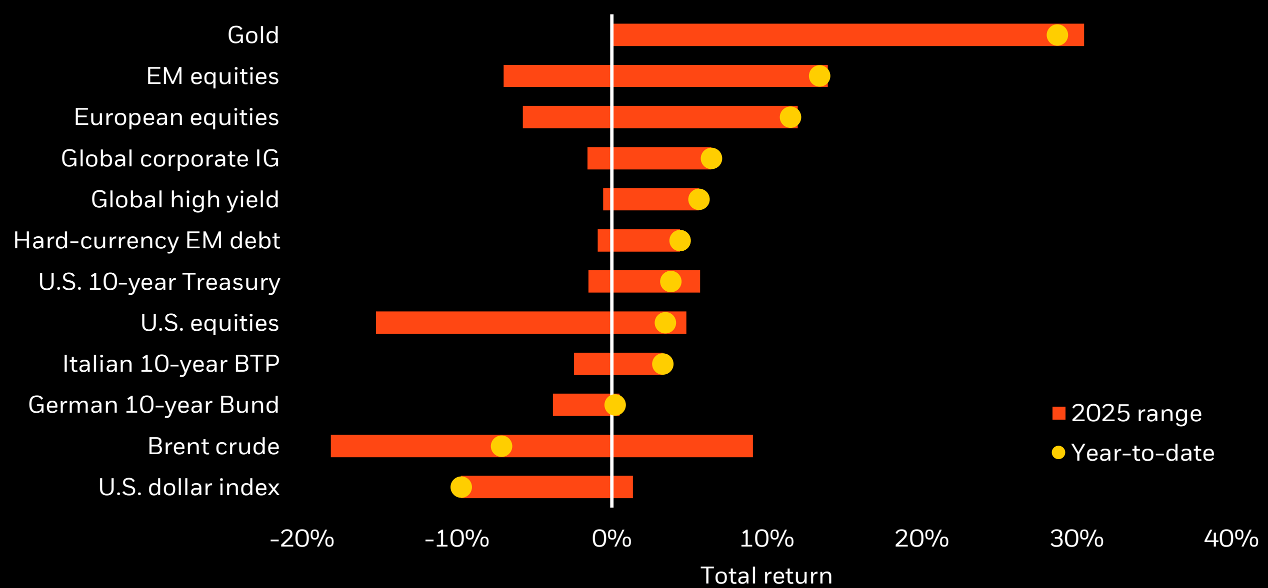
Bottom line: Volatile economic data, like the CPI, is reinforcing our view that we are in a regime of greater macro volatility. We think the Fed will keep rates steady as it waits for tariff impacts to materialize. Mega forces keep us overweight U.S. stocks.

Market backdrop

Global stocks slid last week after Israel launched a large-scale attack on Iran's nuclear and missile infrastructure, as well as its military and scientific command. Europe's Stoxx 600 fell 1.7%, while the S&P 500 and Japan's Topix index retreated about 0.5%. Crude oil futures surged over 11% last week, briefly hitting a five-month high after news of the attack broke. U.S. 10-year Treasury yields slid about 10 basis points over the week to 4.41% but remain 50 basis points above their April lows.

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 12, 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 17	Bank of Japan policy decision	**June 19**	Bank of England policy decision
June 18	Federal Reserve policy decision; UK CPI	**June 20**	Japan CPI

All eyes are on global central bank meetings this week – but we don't expect any policy rate changes. We think tariff uncertainty and inflation pressures from labor supply constraints will keep the Federal Reserve on hold. We are watching for comments from the Bank of England on the weak growth outlook. And any escalation in the Middle East will be key to track as potential disruptions to energy supplies or infrastructure could have a bigger market impact.

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**		
Equities	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.
Equities	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.
Equities	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.
Equities	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.
Equities	**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.
Equities	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.
Fixed Income	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.
Fixed Income	Global inflation-linked bonds	Neutral	We are neutral. We see higher medium-term inflation, but cooling inflation and growth may matter more near term.
Fixed Income	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.
Fixed Income	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.
Fixed Income	Japanese govt bonds	-1	We are underweight. Yields have surged, yet stock returns still look more attractive to us.
Fixed Income	China govt bonds	Neutral	We are neutral. Bonds are supported by looser policy. Yet we find yields more attractive in short-term DM paper.
Fixed Income	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.
Fixed Income	Short-term IG credit	+1	We are overweight. Short-term bonds better compensate for interest rate risk.
Fixed Income	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.
Fixed Income	Global high yield	Neutral	We are neutral. Spreads are tight, but the total income makes it more attractive than IG. We prefer Europe.
Fixed Income	Asia credit	Neutral	We are neutral. We don't find valuations compelling enough to turn more positive.
Fixed Income	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.
Fixed Income	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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