Weekly commentary

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BlackRock

Tariff and tax policy back center stage

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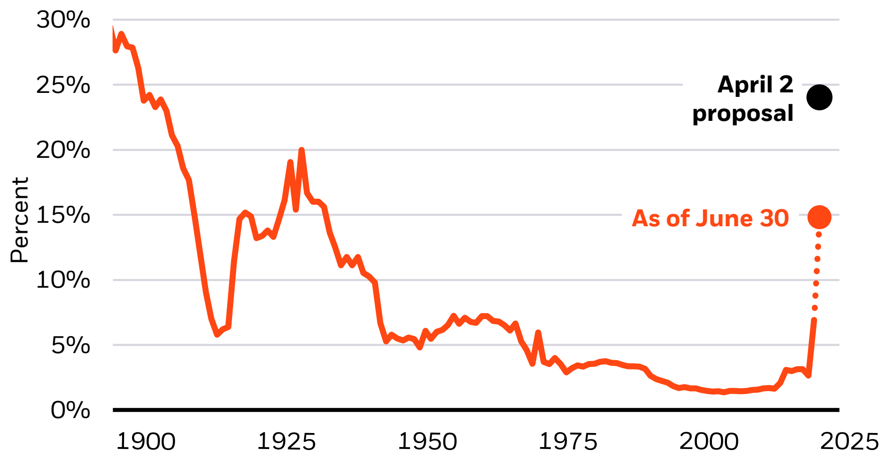
- As U.S. policy reclaims center stage, we think immutable economic laws will limit extremes, while tax cuts and deregulation could boost investor sentiment.
- Stocks hit new highs last week, partly on progress in U.S.-China trade talks. Core inflation ticked up more than expected, with signs of tariffs upping goods prices.
- We watch the U.S. jobs report out this week for any tariff impacts. Companies may be awaiting more policy clarity before making staffing decisions.

U.S. policy developments are coming thick and fast. As the end of the 90-day tariff pause looms, we think immutable economic laws will prevent a return to a maximal stance. We are also seeing movement in U.S. policies that could boost investor sentiment, including tax cuts and regulatory reforms like a federal stablecoin framework. These reforms will take time but support our U.S. equities overweight. We stay underweight long-term Treasuries on sticky inflation and deficit concerns.

Tariffs here to stay

U.S. effective tariff rate, 1900-2025



Source: BlackRock Investment Institute, Census Bureau, Historical Statistics of the United States, with data from Haver Analytics, June 2025. Note: The line shows the historic effective U.S. tariff rate, with two dots for the effective tariff rate including tariffs as of June 30 and what the tariff rate would be if April 2 “reciprocal tariffs” came into effect.

Policymaking has been adding to market volatility – and several major policy developments have taken place in recent days. Consider the ceasefire in the Middle East, a NATO commitment to up defense spending and a G7 tax agreement. The U.S. now looks to be taking a more flexible approach to tariffs. While the current effective tariff rate of 15% is still the highest since the 1930s – see the chart – we’ve repeatedly seen that immutable laws prevent fast deviation from the status quo. One law – supply chains can’t be rewired quickly without grave consequences – likely led to carveouts for some industries and a resumption of U.S.-China trade talks. Another – U.S. debt sustainability relies on foreign investors – was likely a factor in the 90-day pause on tariffs that had spiked yields. We don’t see a return to April’s maximal tariffs and trade uncertainty is now well below April’s highs.

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The administration is also advancing major pro-growth tax and regulatory reforms. On the tax front, the budget bill under review extends and expands the cuts in the 2017 Tax Cuts and Jobs Act, which could boost investor sentiment. Another boost: the exemption of U.S. multinational companies from a set of taxes imposed by G7 nations, granted in exchange for the removal of Section 899 from the budget bill – a provision that would have allowed taxes on foreign investors in U.S. assets.

On the regulatory reform front: The Federal Reserve has proposed revisions to the supplementary leverage ratio (SLR), which would free up capital for banks to hold more Treasuries, potentially offsetting weaker foreign demand. They could also support bank lending to the economy – though perhaps less than in the past, given the growth of private credit alternatives.

We're also tracking regulatory changes that could benefit the artificial intelligence (AI) and future of finance mega forces. The U.S. administration is set to release an action plan to promote competitiveness in the global AI race. State-level deregulation is also advancing. In West Virginia, a new law allows data centers to bypass zoning ordinances and leverage their own power sources rather than local utilities. If reform passes at the federal level – and if tax cuts unleash more capital for companies to invest in the AI buildout – it could fuel economic growth. It could also create opportunities in energy infrastructure, especially in private markets. Lastly, the GENIUS Act could advance the future of finance mega force by giving stablecoins – digital currencies backed by liquid assets like cash and short-term Treasuries – a clear regulatory framework that fosters wider use.

We think these market-friendly policies could fuel animal spirits, supporting our U.S. equity overweight. We still prefer credit over government bonds, and within Treasuries still prefer short- and medium- over long-term. We recognize long-term yields could temporarily fall as markets price in rate cuts amid shifting narratives and as near-term momentum continues. But we think sticky inflation will prevent the Fed from cutting far, and high deficits will mean investors will want more compensation, or term premium, for the risk of holding long-term government debt.

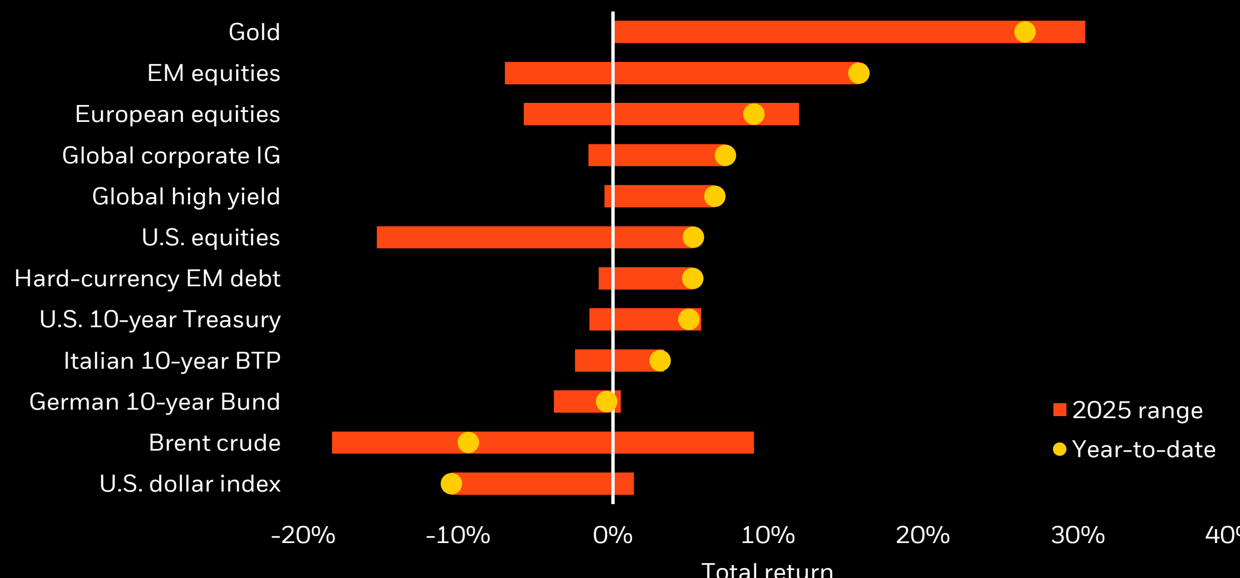
Bottom line: We think immutable laws will prevent tariffs from going back to April 2 highs – and trade uncertainty has come down. As major tax and regulatory reform unfolds, we stay risk on and overweight U.S. equities.

Market backdrop

Last week, U.S. stocks hit all-time highs, partly on progress in U.S.-China trade talks. The S&P 500 gained more than 3% and was up nearly 24% from its April lows, with tech shares outperforming. Crude oil futures dipped to about $65 a barrel, erasing all their gains after Israel's attack on Iran. U.S. 10-year Treasury yields dipped near 4.28%, still about 40 basis points above their intraday April lows. Core PCE inflation ticked up to 2.7% in May as signs of tariffs pushing up goods prices emerged.

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 26, 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

July 1	Japan Tankan business survey; euro area inflation
July 2	Euro area unemployment
July 3	U.S. payrolls

This week, we're watching the U.S. June jobs report for signs of where the labor market stands. The data have yet to show tariff-related impacts – but that doesn't mean the labor market will avoid a hit. Companies may be awaiting more policy clarity before making staffing decisions. Slower immigration post-pandemic and an aging population will also drag on labor supply and push wages up – which could in turn keep inflation above the Fed's 2% target.

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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