Weekly commentary

July 21, 2025

BlackRock

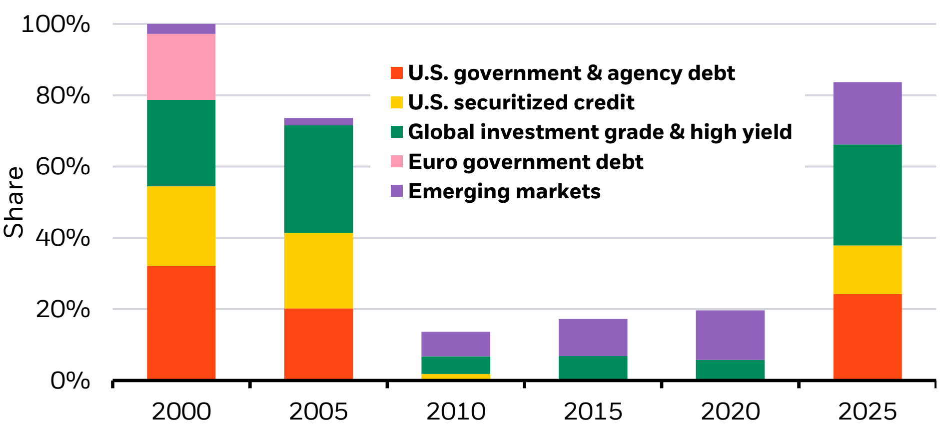
A new regime for income in portfolios

- Higher-for-longer interest rates offer solid income sources. We favor short- and medium-term government bonds, mortgage-backed securities and select credit.
- U.S. stocks hit fresh record highs last week, helped by strong economic data. U.S. corporate earnings season kicked off with big tech companies reporting.
- This week, we watch the European Central Bank policy decision. We expect it will hold rates steady but monitor for signs of potential easing later in the year.

Higher-for-longer policy rates have made this the best backdrop for earning income in bonds in two decades – without taking more interest rate or credit risk. We favor a mix of income sources. We like short-term government bonds: the U.S. budget bill passed last month highlighted a lack of fiscal discipline, while sticky inflation limits rate cuts, keeping us tactically cautious on long-term bonds. In credit, resilient growth has kept corporate balance sheets solid even with tariffs.

Income is back

Fixed income assets with yields of 4% of larger, 2000-2025



Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index. Indexes are unmanaged and performance does not account for fees. Source: BlackRock Investment Institute, with data from LSEG Datastream, July 2025. Notes: The bars shows the market share of assets with an average annual yield over 4% in a select universe that represents about 70% of the Bloomberg Multiverse Bond Index. Euro Government Debt is based on government bond indices for Germany, France, Italy, Spain and Ireland. Emerging markets combine external and local currency debt. Data for 2025 is not averaged and reflects month-end yield for June.

After the global financial crisis (GFC), bond yields slid as central banks slashed policy rates to near zero or below and bought bonds. That left investors starved of income unless they took risk in long-term bonds. In a stark switch-up, some 80% of global fixed income assets now offer yields above 4% as interest rates have settled above pre-pandemic levels. See the chart. That's made assets like credit, mortgage-backed securities and emerging market debt more attractive. We have seen notable bond market developments this year. Credit spreads have been relatively steady even with sharp equity volatility. And investors are demanding more compensation for the risk of holding long-term bonds, leading to a steepening of global yield curves. The curve between five and 30-year U.S. Treasury yields has more than doubled this year to its steepest levels since 2021, according to LSEG data.

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BlackRock **Investment** Institute

We see abundant opportunities to earn income. We prefer short- and medium-term government bonds given yields near 4%. Markets are pricing in multiple Federal Reserve rate cuts over the next year. Yet we see sticky inflation limiting rate cuts – even as renewed rate hikes are unlikely. Our preference is partly driven by our caution on long-term bonds due to the lack of U.S. fiscal discipline and sticky inflation – though we could see occasional sharp rallies. The U.S. is issuing nearly $500 billion of debt weekly to fund its persistent budget deficits, per Haver Analytics. And the Congressional Budget Office expects the One Big Beautiful Bill to only add to deficits in the near term. Trade tensions could cool foreign demand at a time when sustaining U.S. debt relies on their ongoing buying – as we noted in our 2025 Midyear Outlook. We're watching the market's ability to absorb heavy Treasury issuance. Fiscal sustainability is not just a U.S. story: In Japan, 30-year yields hit a record high last week as policymakers floated tax cuts before Sunday's upper house election.

Higher U.S. policy rates mean interest rate differentials between the U.S. and other countries stay wide, revealing an array of global fixed income opportunities. That's because hedging foreign bonds back into U.S. dollars boosts the income they offer. Some euro area bonds, like Spain, offer yields above 5% with such hedging – higher than U.S. equivalents. Credit has become a clear choice for quality. Spreads are historically tight, yet credit income remains attractive as balance sheets have held up alongside growth, even with tariff uncertainty. Default rates for U.S. high yield credit remain about half the 25-year average, according to J.P. Morgan data. We prefer European fixed income over the U.S. given a more stable fiscal outlook, especially European bank debt given strong financial earnings and insulation from tariff impacts.

We get selective across and within regions. We went overweight U.S. agency mortgage-backed securities (MBS): spreads are wider than historical averages and we could see some investors switch from long-term Treasuries. We upped local currency emerging market (EM) debt to neutral this month: it has weathered U.S. trade policy shifts, and debt levels have improved.

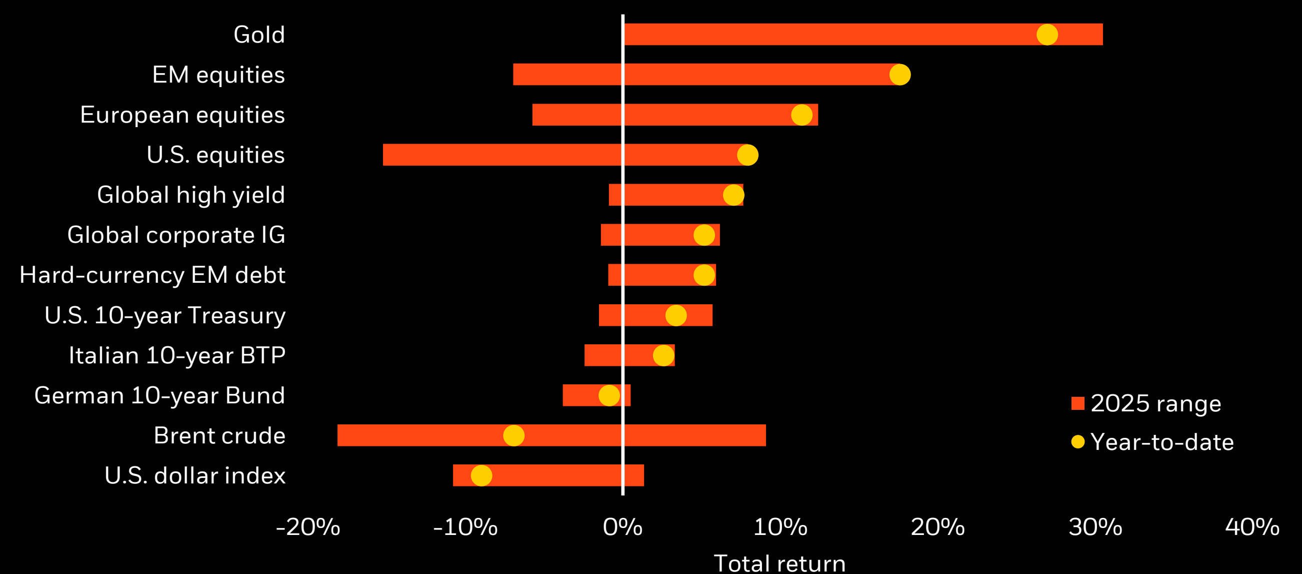
Bottom line: We like a mix of income opportunities but stay selective due to fiscal sustainability risks. We favor short- and medium-term government bonds, U.S. agency MBS, currency hedged international bonds and local currency EM debt.

Market backdrop

The S&P 500 hit new record highs last week, helped by signs of U.S. economic resilience in strong U.S. retail sales data. U.S. corporate earnings season kicked off with some big tech companies, putting renewed focus on artificial intelligence and capital spending. The index quickly recovered from reports that U.S. President Donald Trump discussed removing Fed Chair Jerome Powell, which Trump denied. Thirty-year Treasury yields ended the week steady at 4.99%, near May's two-year high.

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 July 17, 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), Bloomberg Global High Yield Index, J.P. Morgan EMBI Index, Bloomberg Global Corporate Index and MSCI USA Index.

Week ahead

July 23	Euro area consumer confidence	**July 24**	European Central Bank policy decision; global flash PMIs

This week, we're watching the European Central Bank's (ECB) policy decision. We expect it to hold rates steady until September. The central bank now sees policy rates within a neutral range that neither stimulates nor restricts economic activity, inflation remains around its 2% target, and euro area growth shows little change. We watch for signals on whether the ECB will stay cautious or begin laying the groundwork for easing later this year.

Big calls

Our highest conviction views on six- to 12-month (tactical) and over five-year (strategic) horizons, July 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.
Using FX to enhance income	FX hedging is now a source of income, especially when hedging euro area bonds back into U.S. dollars. For example, 10-year government bonds in France or Spain offer more income when currency hedged than U.S. investment grade credit, with yields above 5%.
Seeking alpha sources	We identify sources of risk taking to be more deliberate in earning alpha. These include the potential impact of regulatory changes on corporate earnings, spotting crowded positions where markets could snap back and opportunities to provide liquidity during periods of stress.
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, July 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, July 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. U.S. valuations are backed by stronger earnings and profitability relative to other developed markets.
	Europe	Neutral	We are neutral. Greater unity and a pro-growth agenda across Europe could boost activity, yet we are watching how the bloc tackles its structural challenges before turning more optimistic. We note opportunities in financials and industries tied to defense and infrastructure spending.
	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 exposures as the yen has tended to strengthen during bouts of market stress.
	Emerging markets	Neutral	We are neutral. Valuations and domestic policy are supportive. Yet geopolitical tensions and concerns about global growth keep us sidelined for now.
	China	Neutral	We are neutral. Trade policy uncertainty keeps us cautious, and policy stimulus is still limited. We still see structural challenges to China's growth, including an aging population.
Fixed Income	Short U.S. Treasuries	+1	We are overweight. We view short-term Treasuries as akin to cash in our tactical views. We would still lean against the market pricing of multiple Fed rate cuts over the next year.
	Long U.S. Treasuries	-2	We are underweight. Persistent budget deficits and inflation pressures could drive term premium up over the long term, but we see scope for lower yields near term. We prefer intermediate maturities.
	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	Neutral	We are neutral. Yields are attractive, and term premium has risen closer to our expectations relative to U.S. Treasuries. We prefer peripheral bonds such as in Italy and Spain.
	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. We see room for yields to rise further on Bank of Japan rate hikes and a higher global term premium.
	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	+1	We are overweight. We find income in agency MBS compelling and prefer them to U.S. Treasuries for high-quality fixed income exposure.
	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. We favor Europe over the U.S.
	Global high yield	Neutral	We are neutral. Spreads are tight, but corporate fundamentals are solid. The total income makes it more attractive than IG.
	Asia credit	Neutral	We are neutral. We don't find valuations compelling enough to turn more positive.
	Emerging hard currency	-1	We are underweight. Spreads to U.S. Treasuries are near historical averages. Trade uncertainty has eased, but we find local currency EM debt more attractive.
	Emerging local currency	Neutral	We are neutral. Debt levels for many EMs have improved, and currencies have held up against trade uncertainty. We prefer countries with higher real interest rates.

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