

Weekly commentary

August 11, 2025

BlackRock

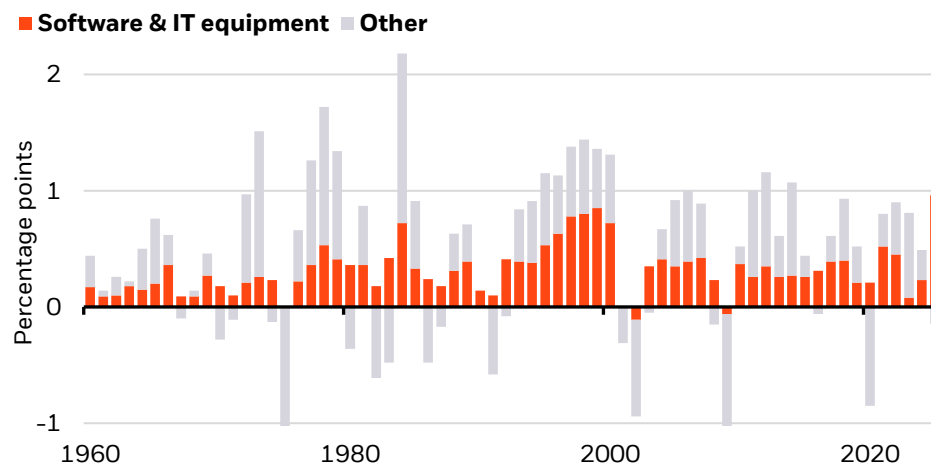
Mega forces the new long-term anchor

- We use multiple scenarios in our strategic views to help us adapt portfolios fast as today's economic transformation unfolds. We like private markets across all.
- U.S. stocks climbed back near all-time highs as Q2 earnings keep beating expectations. European stocks outperformed on hopes for a Ukraine ceasefire.
- We watch U.S. CPI for tariff impacts broadening out and any signs of slowing growth easing services inflation.

Mega forces are shaping an economic transformation with an unknown end. We won't have answers for some time to big questions about the future shape of the world, making long-term investing more challenging. That's why we've evolved our approach to now assess scenarios instead of one base case. Our starting point scenario is broadly the status quo: immutable economic laws mean the world can't change quickly. We see private markets as a core allocation across scenarios.

Tech leading the way

Contribution of non-residential investment to annual U.S. GDP, 1960-2025



Source: BlackRock Investment Institute, U.S. Bureau of Economic Analysis, with data from Haver Analytics, July 2025.
Note: The bars show the contribution of non-residential investment to annual U.S. GDP growth. The bar for 2025 shows the contribution through the first half of 2025 on an annualized basis.

The global transformation shaped by artificial intelligence (AI) and other mega forces raises some big questions about strategic asset allocation. Will fiscal worries spur investors to demand more compensation to hold long-term government bonds? Will the U.S. dollar stay a haven? We may not be able to answer all of these for a while. But two things we know that can inform our strategic views today: immutable laws – like supply chains can't rewire overnight – mean the world can't change quickly, and mega forces are now the key anchor shaping returns now and long term given the many unknowns of the macro outlook. An example? Big tech companies are boosting their AI investment even as tariffs threaten growth. The surge in tech and software spending in U.S. Q2 GDP – even larger than during the 1990s tech boom – highlights the AI theme's growing macro impact. See the chart.



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This all feeds into the new way in which we now think about strategic investing on horizons of five years and beyond. Transformation means long-term macro anchors like stable growth and low inflation no longer hold. Strategic outcomes are now less predictable because investors can no longer assume returns will converge to historical averages. Given the range of vastly different potential outcomes, we think determining strategic views on a base case – one that is tweaked over time – is no longer sufficient. Instead, we have developed multiple sets of long-run capital market assumptions (for professional investors) to help us adjust quickly as the future comes into view.

One scenario is an AI upside: faster-than-expected AI adoption spurs a broad productivity boost, unlocking higher growth and softer inflation. We'd expect strong performance in equities, with U.S. outperformance thanks to its AI leadership and the resulting corporate earnings strength. Another scenario: a downside due to geopolitical reordering where tariff negotiations fail, trust in U.S. institutions declines and investors demand more compensation for their risk in financing U.S. corporates.

Yet we still need a best guess of what the world will look like in five years to build portfolios now. Immutable laws limit how fast the global financial structure can change, so our current strategic views are informed by our starting point scenario that largely reflects today's world. In this scenario, U.S. assets stay core to portfolios; inflation stays above central bank targets; global growth dips below pre-pandemic trend; and investors want more term premium to hold long-term government bonds. We go underweight global investment grade credit in favor of non-U.S. government bonds due to tighter credit spreads. We like emerging market equities, particularly India, which sits at the crosscurrent of several mega forces. We've long liked private markets to capture mega forces, especially private credit as part of the future of finance and infrastructure. We see them as a cornerstone – not an add-on – in all scenarios, but the mix varies. Private markets are not suitable for all investors.

Bottom line: Mega forces are driving a transformation with an unknown end – changing strategic investing. We consider scenarios to help us adapt quickly but see private markets helping investors benefit from mega forces across outcomes.

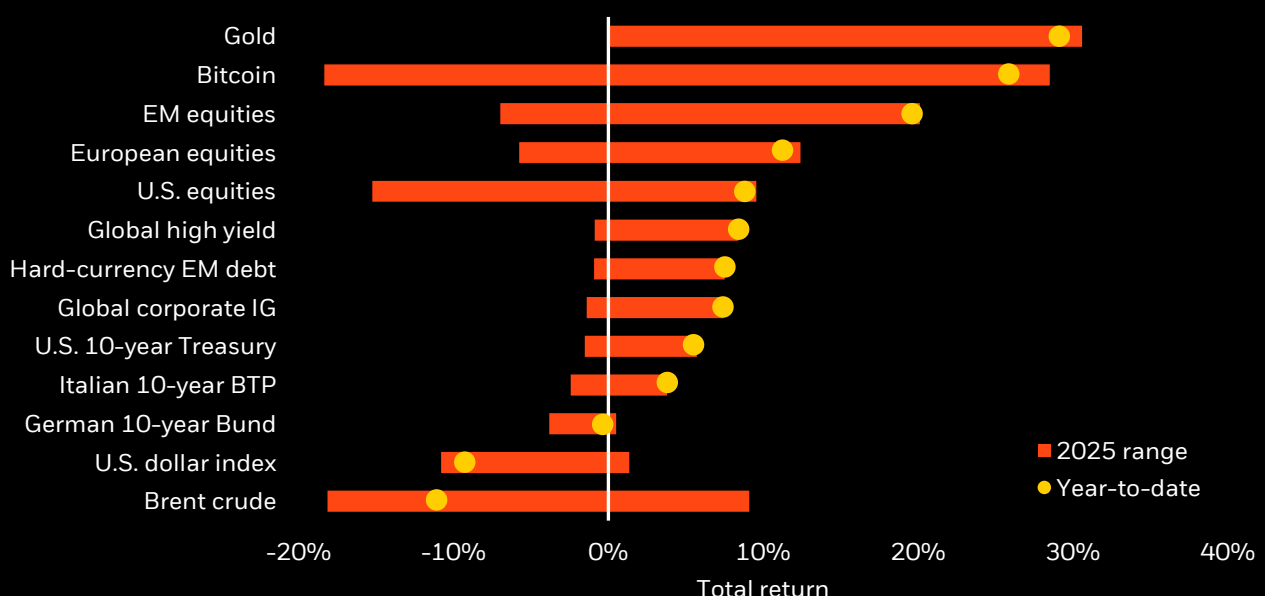
Note: The Global weekly commentary will resume on Tuesday, Sept. 2.

Market backdrop

U.S. stocks pushed back toward all-time highs, with the S&P 500 gaining about 2% on the week and tech shares outperforming. A solid Q2 earnings season has provided investors some relief: about 80% of companies have beat expectations, according to LSEG data. European stocks outperformed on hopes for a ceasefire in Ukraine. U.S. Treasury yields edged up over the week. Markets are mostly pricing in a quarter-point Federal Reserve rate cut at its September meeting.

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 August 7, 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, spot bitcoin, 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

Aug. 12	U.S. CPI, UK unemployment	Aug. 15	US retail sales, Japan GDP
Aug. 14	UK GDP	Aug. 8-15	China July CPI

This week, we’re watching U.S. core goods CPI to see if tariffs – already nudging prices up in some sectors – are starting to raise prices across a wider set of goods. More broadly, we watch for any signs that slower growth – as reflected in the latest U.S. payrolls data – is easing core services inflation.

Big calls

Our highest conviction views on six- to 12-month (tactical) and over five-year (strategic) horizons, August 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 are overweight short-term inflation-linked bonds as U.S. tariffs could push up inflation. Within nominal bonds, we favor developed market (DM) government bonds outside the U.S. over global investment grade credit, given tight spreads.
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, August 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.

- Demographic divergence:** The world is split between aging advanced economies and younger emerging markets – with different implications.
- Digital disruption and artificial intelligence (AI):** Technologies are transforming how we live and work.
- Geopolitical fragmentation and economic competition:** Globalization is being rewired as the world splits into competing blocs.
- Future of finance:** A fast-evolving financial architecture is changing how households and companies use cash, borrow, transact and seek returns.
- 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, August 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	
					●	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.
Fixed Income	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.
	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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