Weekly commentary

September 8, 2025

BlackRock

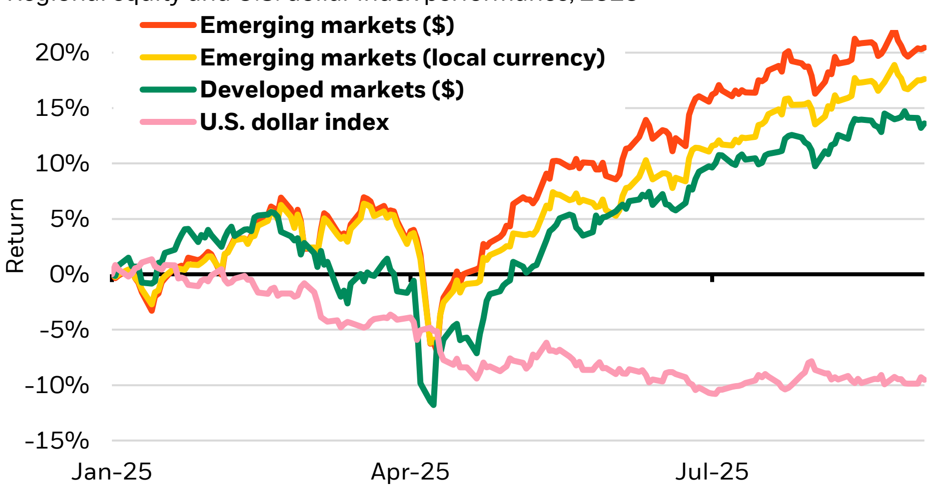
Three drivers for emerging markets

- We see a weaker U.S. dollar, a steady macro backdrop and mega forces as core drivers of EMs this year – yet selectivity across countries and sectors is key.
- U.S. stocks ended the week flat and U.S. Treasury yields slid after Friday's jobs report showed further slowing, undershooting consensus expectations again.
- This week's U.S. CPI is the last key data before the next Fed meeting. We look for the impact of tariffs on goods prices and weaker jobs growth on services prices.

Emerging market (EM) assets have performed well this year. We see three drivers creating opportunities, but selectivity across countries and sectors remains key. First: a weaker U.S. dollar. Second: a broadly stable macro backdrop, with rate cuts and strong growth in some countries. Third: mega forces like artificial intelligence and geopolitical fragmentation driving dispersion. We stay neutral broad EM equities, seeking bright spots, and prefer local-currency to hard-currency EM debt.

Weaker dollar boosts EM returns

Regional equity and U.S. dollar index performance, 2025



The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Source: BlackRock Investment Institute, MSCI, with data from LSEG Datastream, September 2025. Note: Index proxies used are MSCI EM U$, MSCI EM, MSCI World and the U.S. dollar DXY index.

Emerging markets have had a stellar year so far. In fixed income, global emerging debt has returned nearly 9%, versus the 4.5% of U.S. Treasuries. In equities, the MSCI EM Index is up 20%, well above the 14% rise in the developed market index MSCI World. See the red and green lines on the chart. Yet that masks considerable dispersion: MSCI China is up 29%, Poland over 50% and South Korea over 40%, according to LSEG data. In China, tariff de-escalation and government efforts to revive consumption and investor confidence have boosted near-term sentiment. Elsewhere, country drivers often tie back to longer-term forces: Korea has gained from cheap valuations and its role in the AI and chip supply chain; Vietnam from its position in rewired supply chains; Poland from easing geopolitical risk. This shows why a granular approach is key as mega forces shape EM returns in different ways.

Jean Boivin
Head – BlackRock Investment Institute

Wei Li
Global Chief Investment Strategist – BlackRock Investment Institute

Ben Powell
Chief Investment Strategist for the Middle East and APAC — BlackRock Investment Institute

Axel Christensen
Chief Investment Strategist for Latin America — BlackRock Investment Institute

Dollar weakness has helped drive EM returns this year. Many EM currencies are up against a dollar that has fallen about 10% this year against major currencies, LSEG data show. Weaker dollar periods have typically coincided with stronger relative EM performance, including equities, as repayment of dollar-denominated debt becomes cheaper, supporting earnings. It also amplifies EM returns for dollar-based investors by boosting the value of local-currency gains when converted back to dollars.

Another driver for EMs is an improved macro backdrop. The IMF projects the EM-DM growth gap narrowing in 2025 from the 2010-2019 average – but that masks structural changes in several countries that we think bode well for durable growth. For example, India and Vietnam are making strides developing their services and manufacturing industries, respectively; Mexico and Brazil are exhibiting monetary discipline; and Chile's strong financial institutions add stability. Inflation is already back below pre-pandemic levels in several EMs and rate cuts are well underway. Mexico, for example, has cut five times this year, Indonesia four times and Poland three. Pending Federal Reserve rate cuts – though likely modest in our view – would give EM central banks more room to ease, as following the Fed reduces the risk of local currency depreciation. We see opportunities to lock in yields in local-currency bonds in Hungary, the Czech Republic, South Africa, Brazil, Mexico and Colombia.

The third driver is mega forces. As we've long said, mega forces – not macro factors – are the new drivers of returns, and their impact is uneven across EMs. That's why we seek out bright spots, while staying neutral broad emerging equities in the near term. The rewiring of supply chains is benefiting countries like Mexico, Brazil and Vietnam, in our view. Taiwan and South Korea are major players in developing the semiconductors needed for the AI buildout, and China is advancing its own AI technology. South American countries like Chile and Peru are benefitting from demand for critical materials needed for the low-carbon transition. On a longer-term horizon, we think India can leverage its younger population and growing digitization to scale into a cutting-edge digital economy. India's promise is one reason we hold a long-term, strategic overweight to EMs.

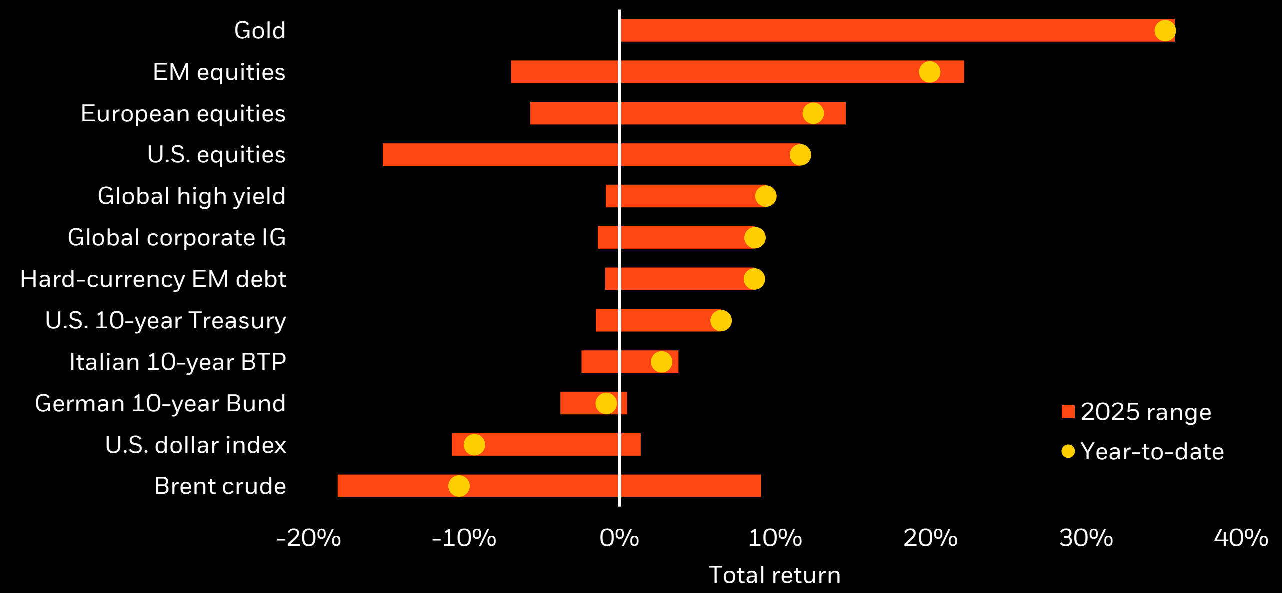
Bottom line: Dollar weakness, resilient economies and mega forces are shaping EM performance. Dispersion reinforces our selective stance. We stay neutral on broad EM equities, seeking bright spots, and prefer local-currency EM debt.

Market backdrop

The S&P 500 hit another all-time high on Friday before ending the week little changed. Government bonds globally began the week under pressure, with the 30-year Treasury yield briefly topping 5.00%. The U.S. two-year Treasury yield then fell to 3.51% and the 30-year to 4.76% after the August jobs report showed job growth slowing sharply. Yet layoffs have not greatly increased and wage growth is still too high for inflation to hit the Fed's 2% target. We expect a quarter-point cut next week.

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 September 4, 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

Sep. 7	Japan trade balance; China trade balance	**Sep. 11**	U.S. CPI, ECB policy rate decision
Sep. 9	China CPI	**Sep. 10-17**	China total social financing

This week, U.S. CPI data may shed more light on the impact of tariffs. Tariffs are already pushing up prices in appliances and furniture. But last week's weak U.S. jobs report and slowing wage growth means the Fed is highly likely to cut rates next week. In Europe, we expect the European Central Bank (ECB) to leave interest rates unchanged as policymakers wait to see the impact of U.S. tariffs on euro area activity.

Big calls

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

Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index. Note: Views are from a U.S. dollar perspective. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast or guarantee of future results. This information should not be relied upon as investment advice regarding any particular fund, strategy or security.

BlackRock Investment Institute

The BlackRock Investment Institute (BII) leverages the firm's expertise and generates proprietary research to provide insights on macroeconomics, sustainable investing, geopolitics and portfolio construction to help BlackRock's portfolio managers and clients navigate financial markets. BII offers strategic and tactical market views, publications and digital tools that are underpinned by proprietary research.

BlackRock.

Not FDIC Insured • May Lose Value • No Bank Guarantee