# Weekly commentary

BlackRock

September 15, 2025

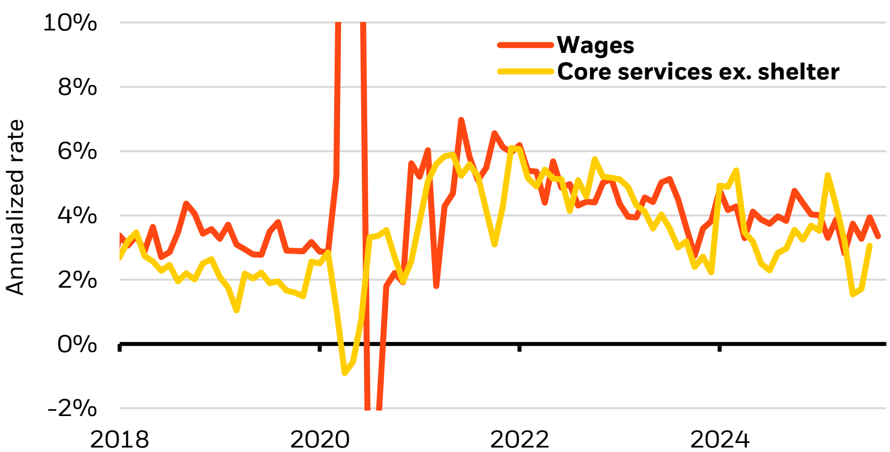
## Staying risk-on as macro tensions ease

- We stay risk-on heading into Fed rate cuts as growth slows but holds up and corporate earnings remain solid. We up long-term U.S. Treasuries to neutral.
- U.S. stocks surged to new all-time highs on the AI theme. U.S. bond yields dipped to five-month lows. The U.S. CPI showed core inflation is proving sticky.
- We look for a widely expected Federal Reserve rate cut this week amid a murky macro backdrop. We also watch central bank meetings in Japan and the UK.

We stay risk-on as the Federal Reserve likely resumes cutting policy rates this week. A softening labor market gives the Fed space to cut, helping ease brewing political tensions from higher interest rates. We think rate cuts amid a notable slowing of activity without recession should support U.S. stocks and the AI theme. We turn neutral long-term U.S. bonds: yields could fall further near term even if the structural pressures driving them up, including loose fiscal policy globally, persist.

### Inflation puzzle

U.S. core services and wage inflation, 2018-2025




Source: BlackRock Investment Institute, U.S. Bureau of Labor Statistics, and U.S. Bureau of Economic Analysis, with data from Haver Analytics, September 2025. Note: The chart shows the three-month average change in U.S. average hourly earnings the core services PCE price index excluding housing on an annualized basis.

We stay risk-on as a much softer U.S. labor market should ease inflation pressures and give the Fed justification to resume easing policy. Until recently, we saw sticky inflation as complicating the Fed cutting rates. Inflation has fallen this year even as U.S. tariffs halted a decades-long spell of goods deflation. This was possible due to surprisingly weak services inflation – a puzzle given a strong labor market. Then job gains stalled in recent months, suggesting an ongoing cooling of services inflation. See the chart. We see risks to that view, partly because it's unclear why the labor market is soft. We may be in an unusual "no hiring, no firing" state: Fed rate cuts could boost confidence and spark hiring again just as inflation is still far above the Fed's target. This could reignite political tensions between inflation and debt servicing costs – leading to a steeper U.S. yield curve and more cautious risk stance.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We stay risk-on as we have been since the policy-driven volatility in April. U.S. equities are among the best-performing markets since then: U.S. stocks are up 31% since April 8 versus 24% for overall developed markets, according to LSEG data. The lesson? Immutable economic laws – supply chains can't be rewired overnight without major disruption – limit rapid policy change. This framing allowed us to lean against markets extrapolating big calls – and quickly deploy risk. Yet the market environment has changed a lot. The drivers have shifted from tariffs and policy uncertainty – which sparked questions about the appeal and haven status of U.S. assets – to the tensions between inflation, growth and government debt.

We stick with the AI theme. The AI theme keeps driving U.S. equity performance, with the tech sector accounting for over 40% of total return and a similar share of earnings growth, LSEG data show. We think this can persist. Yes, these companies are generating less free cash flow, but only modestly. We think elevated valuations can be justified if they keep delivering on expected 15% to 20% future earnings growth. Their credit spreads – a sign of balance sheet health – have also held steady near historic lows but we watch them as a potential warning sign of market concerns.

We need to be ready for a few very different macro scenarios in coming months. Our base case: A soft labor market allows the Fed to cut rates, a positive for equities. This could spark broader equity gains and support long-term bonds. On a six- to 12-month tactical horizon, we go neutral long-term U.S. Treasuries after having long been underweight. We also flip neutral on short-term Treasuries from overweight. Yet if the labor market were to weaken much more, Fed rate cuts won't be enough to offset the pressure on risk assets, in our view – and we would be ready to reduce risk. On the flipside, a hiring rebound could stoke inflation pressures and put the spotlight on Fed independence again, prompting investors to seek more compensation for the risk of holding long-term bonds We prefer real, or inflation adjusted, yields to lock in income. On a strategic horizon, we stay underweight long-term government bonds and prefer inflation-linked bonds. We stand ready to pivot in all scenarios.

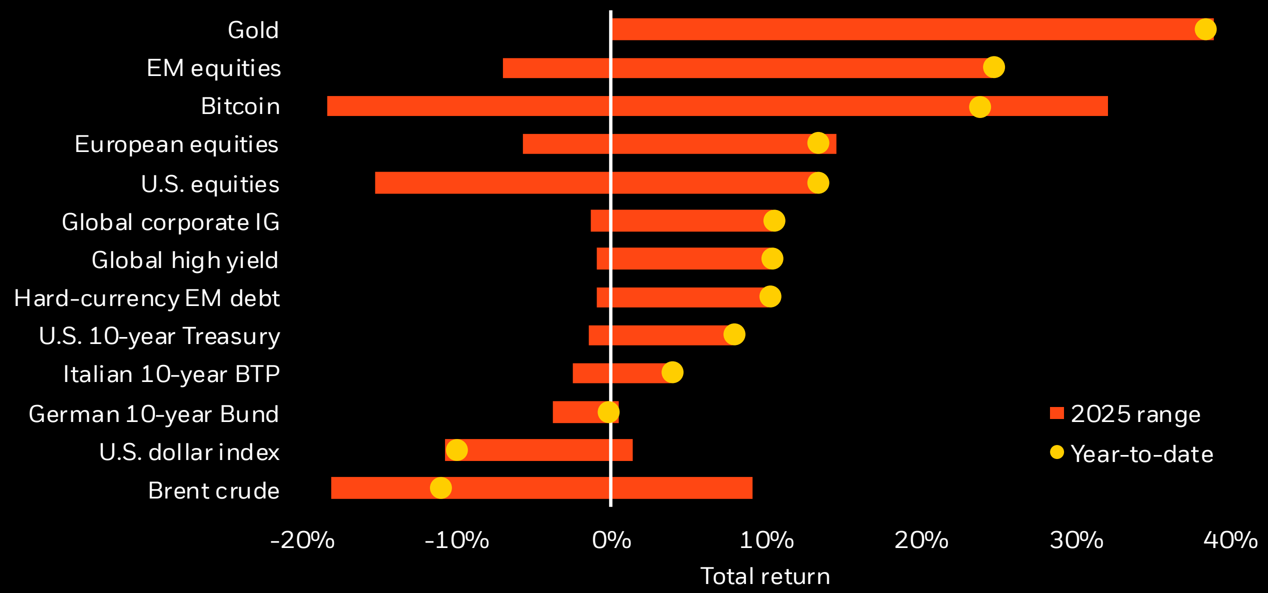
**Bottom line**: A softer labor market and slowing growth pave the way for the Fed to cut rates. We think this will benefit U.S. stocks and stay overweight. We close our long-term U.S. Treasuries underweight but see pressures for higher yields staying.

# Market backdrop

U.S. pushed to new record highs, with the S&P 500 rising about 2% on the week to take its gains for the year to 12%. Tech stocks outperformed on the AI theme, with shares of Oracle surging on major cloud demand from AI customers. Ten-year U.S. Treasury yields were mostly steady near 4.00% but dipped to a five-month low. The U.S. CPI data for August showed core inflation is proving sticky even as the Fed readies to resume rate cuts this week given a softening jobs market and economy.

## 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 11, 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. 17** | Federal Reserve policy meeting | **Sep. 19** | Japan CPI |
| **Sep. 18** | Bank of Japan policy meeting; Bank of England policy meeting | | |

The Fed is poised to resume cutting interest rates this week. A softer labor market gives the Fed room to cut without raising questions about its independence. Yet core inflation remains sticky, and we see this moment as an important fork in the road for the macro outlook depending on labor market developments. Both the Bank of Japan and Bank of England are expected to keep policy rates on hold next week.

# 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 | Neutral | We are neutral. We view short-term Treasuries as akin to cash in our tactical views and we remove this overweight to turn neutral long-term Treasuries. |
| | Long U.S. Treasuries | Neutral | We are neutral. Yields could fall further as a softening labor market gives the Fed space to cut without its independence being called into question – even if the pressures pushing up yields persist. |
| | 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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