

Weekly commentary

September 22, 2025

BlackRock

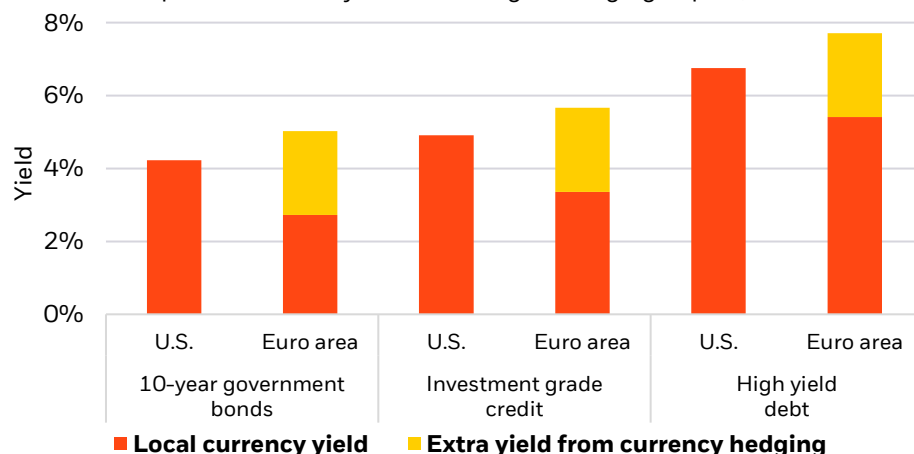
Sticking with granular views in Europe

- Our U.S. equity overweight has played out this year – and so have other preferences in Europe that we stick with, including credit and financial stocks.
- U.S. stocks surged to all-time highs and U.S. 10-year Treasury yields edged up after the Federal Reserve resumed rate cuts. Gold also surged to new highs.
- We eye U.S. PCE inflation data. Cooling services inflation contributed to the Fed's decision to cut rates. We look to see if it persists or picks back up.

The Federal Reserve's restart of policy rate cuts supports our tactical upgrade to long-term U.S. Treasuries and risk-on stance. Yet opportunities abound outside the U.S. A weaker U.S. dollar has been a boon to international markets, and we eye opportunities in Europe for dollar-based investors. We still prefer euro area credit over the U.S. but close our preference for peripheral over core government bonds. We also still favor financials and industrials stocks, and Spain at the country level.

Hedging helps

U.S. and Europe fixed income yields including FX hedging impact, 2025



Source: BlackRock Investment Institute, with data from Datastream, September 2025. Note: Euro area yields are U.S. dollar hedged returns. The index proxies are Bloomberg's Euro High Yield, US Corp High Yield 2% Issuer Capped, Sterling Aggregate Corporate Bond Index, Euro Aggregate Corporate and US Credit. The hedging component is calculated as the difference between the U.S. and euro area three-month treasury yield.

Our core risk stance has leaned on U.S. equities and the AI theme. Yet a weaker U.S. dollar has unlocked international opportunities for dollar-based investors – both in emerging markets and in Europe. Higher U.S. policy rates keep the gap with euro area rates wide, even after the Fed resumed rate cuts. The European Central Bank is set to hold rates at 2%, well below the Fed's 4.00–4.25% even if it cuts more. That large interest rate differential benefits U.S. investors. Why? Hedging foreign bonds back into U.S. dollars captures this differential and boosts the income they offer. That raises the income on offer in Europe even above the U.S. – euro investment grade credit yields are near 6% – and contributed to our relative preference for fixed income in Europe. See the chart. Yet granularity is key. We stay neutral euro area government bonds overall and keep favoring credit and select equity sectors.



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We close our long-held relative preference for peripheral euro area government bonds over the core. Stronger growth in Spain and Greece and relative political stability in Italy had driven yields down relative to French and German yields more than a decade after the region's debt crisis. But yields and spreads now reflect that stability, in our view. France is facing political gridlock stymying efforts to trim debt, while Germany has embraced looser fiscal policy this year. But we think a lot of the risks in French bonds are priced in with its 10-year yields above those in Spain by the most since the euro was launched.

We prefer credit to government bonds globally and Europe over the U.S.. Globally, the corporate sector has demonstrated greater creditworthiness than the public sector. Yes, defaults have increased since the pandemic, but the stress is concentrated among smaller issuers rather than larger companies, according to Moody's. Wider spreads meant European credit offered investors better compensation for risk than U.S. credit. That view has since paid off: spreads in Europe have tightened sharply relative to the U.S. European high yield credit outperformed European government bonds by almost 3% year-to-date, whereas U.S. high-yield credit has outperformed U.S. Treasuries by less than 2%, Bloomberg data show.

In equities, Europe's outperformance over the U.S. peaked in late March – but we still see granular opportunities we have liked since the start of 2025. Selectivity is essential. We favored three European sectors that have outperformed the U.S.: industrials (21% return, LSEG data show), utilities (19%) and financials (32%). European financials still benefit from healthy balance sheets, a stronger fee business and improving profitability. Industrials are getting a boost from Europe's focus on defense, Germany's infrastructure push and the AI buildout. By country, we prefer Spanish equities where these sectors are well represented. Another plus? Spanish equities have greater exposure to emerging markets, especially Latin America, that can benefit from easier Fed policy and potential further U.S. dollar weakness. We think relative valuations still do not reflect the country's stronger economic growth and earnings compared with the rest of Europe – and see further upside.

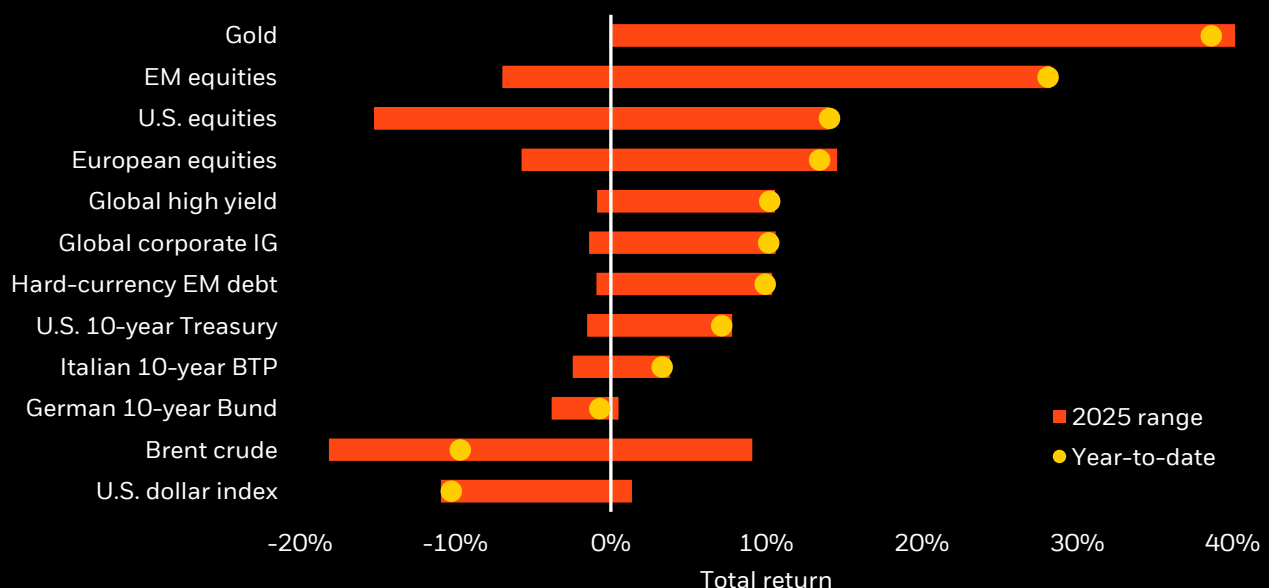
Bottom line: U.S. rate cuts support our risk-on stance, but we see ample – if select – opportunity in Europe. We favor EU credit and the income boost from currency hedging, as well as equity sectors including financials, industrials and utilities.

Market backdrop

U.S. stocks pushed to new all-time highs last week, with tech shares again leading the way and taking the S&P 500's gains to 13% for the year. Gold prices also hit record peaks to take gains to 40% this year. U.S. 10-year Treasury yields edged up to around 4.15% after the Fed resumed rate cuts but signaled fewer cuts ahead than the market is pricing in. We think a further softening of the labor market will be key for the Fed to keep cutting rates.

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 18, 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. 23

Global flash PMIs

Sep. 26

U.S. PCE

Sep. 25

U.S. durable goods

We're tracking U.S. August PCE this week after headline CPI inflation met expectations and jobless claims ticked higher. Tariffs are reviving goods inflation just as services inflation is proving sticky. But the recent easing in core services inflation could be more than temporary if the labor market cools further. That makes understanding the drivers of a weaker labor market and future productivity key to gauging the outlook for inflation and Federal Reserve policy.

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.

- 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, 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.
	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.
Fixed Income	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. Peripheral bond yields have converged closer to core yields.
	UK gilts		Neutral			We are neutral. Gilt yields are off their highs, but we expect more market attention on long-term yields through the government's November budget, given the difficulty it has had implementing spending cuts.
	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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