Weekly commentary

BlackRock

October 20, 2025

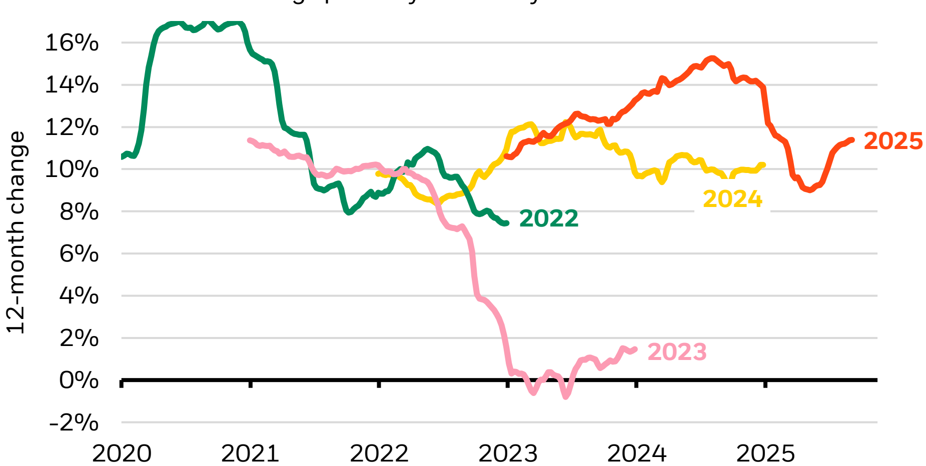
U.S. earnings: resilience is key

- Solid growth and the AI buildout should buoy U.S. earnings. That and immutable economic laws keep us overweight U.S. stocks. We prefer select sectors.
- U.S. stocks rose last week even after regional bank concerns sparked a brief drop. Gold surged to new highs. U.S. bond yields hit six-month lows.
- The release of the postponed U.S. CPI will give data-starved investors an update on whether core inflation is staying sticky before the next Fed meeting.

U.S. stocks recovered after tough talk on U.S.-China trade began to look more like each side testing leverage before the planned meeting of their presidents. This aligns with what we've long said: immutable economic laws limit policy extremes and keep us overweight U.S. stocks. We think the strong start to the U.S. third quarter earnings season validates this, as resilient growth, Fed rate cuts and the AI theme buoy stocks. Yet we get granular, tracking AI spend and tariff impacts.

Reaccelerating expectations

S&P 500 estimated earnings paths by calendar year



Past performance is not a reliable indicator of future results. Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute, with data from LSEG Datastream, October 2025. Note: The lines show the analyst estimates of the 12-month change in earnings for the S&P 500 through time for each calendar year.

We think U.S.-China trade tensions are again bumping into immutable economic laws: supply chains can't be rewired overnight. We saw this in April: U.S. stocks slid after the April 2 tariff announcement, but we believed such laws would keep tariffs from reaching the proposed levels – and we re-upped risk taking as a result. That paid off: the S&P 500 has since surged 40% from the April lows. We saw a similar scenario on a smaller scale. U.S. stocks suffered their sharpest one-day drop since April after the U.S. president floated a 100% tariff on China but recovered as a path emerged to strike a deal. Auto tariffs are also set to be eased. We think immutable laws will enable trade de-escalation and support sentiment as Q3 corporate earnings season kicks off. Analysts have revised up expected earnings to almost 11% for 2025 overall from just under 9% in Q2. See the chart.

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As we look at the third quarter earnings season, we believe three factors will fuel broad U.S. earnings growth. First: resilient U.S. economic growth. GDP is expected to grow 1.5% this year – below trend but far from recession. Second: policy easing. Weaker labor market data gave the Fed room to cut rates and indicate more ahead, and put questions about its independence on the backburner for now. Third: AI-related spending. LSEG data show expected year-over-year Q3 earnings growth for the “magnificent seven” tech titans is 14%. But performance is broadening out, with estimated growth of 7.8% for the other S&P 500 companies, a much narrower gap than in recent quarters.

Yet we still think it’s important to get granular, as we see several themes driving dispersion even as earnings improvements broaden. Markets have cheered mega cap tech’s rapid AI-related investment, but we eye the revenues from that spending and potential AI productivity gains across sectors. We also watch how deregulation will support financials, with leading banks already reporting strong earnings and 16% expected earnings growth for the sector, LSEG data show. U.S. regional banks dipped last week on credit issues that appear limited to two banks. Even as U.S. companies look to have withstood tariffs – likely from passing costs onto consumers and running down inventory – certain sectors will feel the pinch more. For example, producers of often-imported goods like appliances and smaller companies with less flexibility and pricing power.

Beyond the U.S., lagging earnings in Europe keep us neutral the region’s stocks. A stronger euro and tariff-related dents in demand have cut earnings growth expectations for 2025 overall to 0.5% from near 3% on July 1. European stocks had a spell of outperformance over U.S. peers earlier this year, but we did not think the two conditions needed to sustain a rally in Europe would be met: namely, growth surprising more positively than in the U.S. and stronger relative earnings growth. That is why we kept our relative preference for U.S. stocks – a call that paid off.

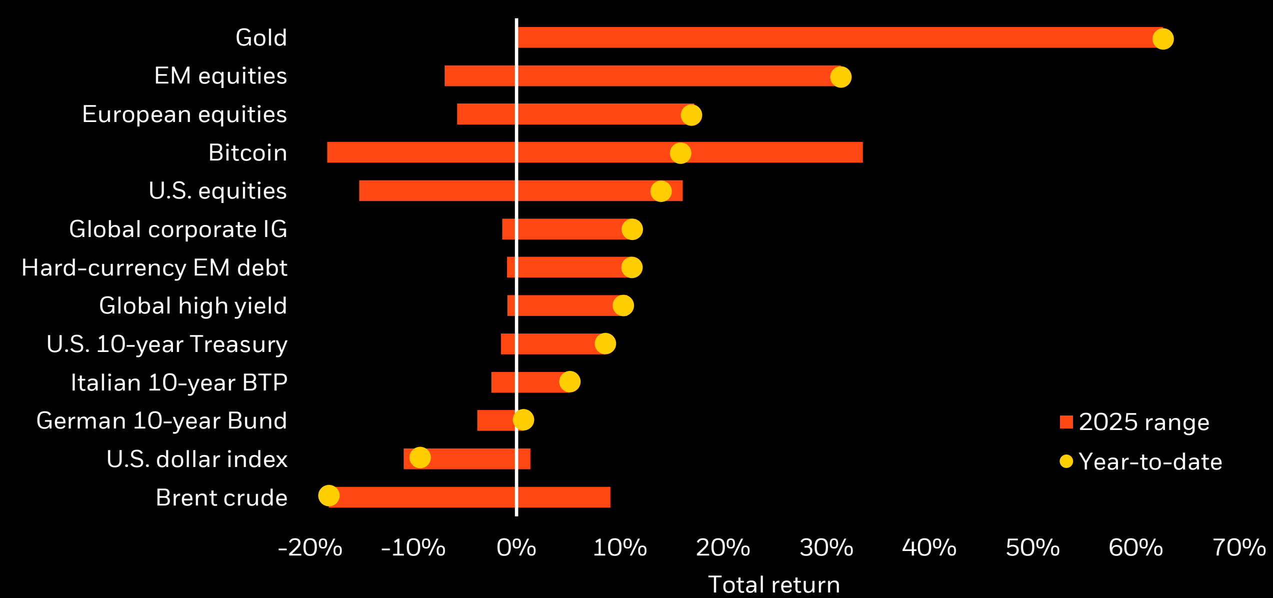
Bottom line: We think immutable economic laws will limit trade policy extremes and, together with resilient growth, lower rates and the AI theme, support U.S. stocks, which we prefer to Europe’s. Yet we stay selective on tariff impacts and AI spend.

Market backdrop

U.S. stocks were higher on the week but trimmed gains on the pullback in financial shares, sparked by credit concerns about some U.S. regional banks. The market quickly settled down after it was clear these concerns were specific to two banks and did not look like a replay of the 2023 turmoil. Gold soared to new record highs and was up more than 60% this year. U.S. 10- and 30-year Treasury yields hit six-month lows as the market awaits the resumption of U.S. economic data.

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 October 16 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

Oct. 23	Euro area consumer confidence	**Oct. 24**	U.S. CPI, Global flash PMIs

We are eying the delayed U.S. CPI for September, the first major economic indicator to be released during the government shutdown now heading into its third week. We're watching for any sign of tariffs passing through to core goods prices and evidence of core services excluding shelter costs staying stubbornly high. Otherwise, private surveys such as global flash PMIs are key for understanding activity trends until the U.S. data resumes.

Big calls

Our highest conviction views on six- to 12-month (tactical) and over five-year (strategic) horizons, October 2025

Tactical	**Reasons**
U.S. equities	A softening labor market gives the Fed space to cut, helping ease 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.
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, October 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, October 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. 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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