

Weekly commentary

November 3, 2025

BlackRock

Mega forces playing out in real time

- The U.S.-China trade truce and last week's tech earnings highlight why mega forces are a key lens today. We stay overweight U.S. stocks on the AI theme.
- U.S. stocks pushed to new all-time highs on solid tech earnings. The Fed played down rate cut expectations for December, but we think it will likely cut again.
- We await the release of U.S. trade data for signs of tariff impacts before the U.S.-China trade truce, and look to China trade data to see how exports held up.

The U.S.-China trade truce plus mega cap tech earnings last week underscore why mega forces – or big structural changes – are key for near-term returns, not just the long term. The trade agreement highlights how immutable economic laws limit policy extremes even amid ongoing geopolitical fragmentation. Earnings updates from mega cap tech companies show how the AI buildout remains a key equity driver. We stay overweight U.S. stocks, supported by Federal Reserve rate cuts.

Biggest lift from net exports since pandemic

Value of China's exports, 2015-2025



Source: LSEG DataStream, China Customs, chart by BlackRock Investment Institute, November 2025. Note: Values are the sum, i.e. the yearly volume of the 12-month moving average, based on monthly data.

Last week's big developments – the U.S. and China reaching a trade truce and mega cap tech companies upping planned AI buildout spending – highlight how mega forces are playing out in real time. The truce shows how immutable economic laws – supply chains can't be rewired overnight – can limit policy outcomes even as strategic competition between the U.S. and China deepens. Yet even with all the tariffs and threats this year, China's export engine has stayed remarkably strong – partially due to countries front-loading imports earlier this year before tariffs took effect. See the chart. Exports have served as a key growth driver for China's sluggish economy. The net export contribution to GDP growth this year is on track to be the largest since 2020 when demand for its goods soared during the pandemic – and excluding that, the largest in two decades, according to Haver Analytics data.



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China has suspended export controls on rare earths – a vital input across several technologies including AI infrastructure – for a year in return for the U.S. reducing tariffs and easing measures on ports and shipbuilding. We think this should bring some near-term stability to U.S.-China relations even amid the ongoing competition and broader geopolitical fragmentation rewiring supply chains. With its new five-year economic plan unveiled this week, Beijing is focusing on “self-reliance” in developing its economy and achieving independence from the U.S. and rest of world – especially on technological developments such as quantum computing and nuclear fusion. China’s economy is still struggling with a weak housing market, low consumer confidence and structural challenges, notably a fast-aging workforce. That’s why we stay neutral on Chinese stocks overall but favor selective exposures such as the AI theme that has helped Hong Kong-listed Chinese shares – concentrated in tech – surge 28% this year, outperforming the U.S. so far.

Last week also reinforced the AI mega force is a key driver of stocks. Alphabet, Microsoft, and Meta together spent about \$60 billion on capex last quarter – a major step-up – and all flagged higher spending ahead as they pour money into chips and data centers, according to earnings reports. Yet we are seeing more differentiated share performance and investor focus on how companies are earning revenues tied to this investment – and how they are financing it as these companies become more capital-intensive, highlighted by Meta’s upsized \$30 billion bond sale. We stay overweight U.S. equities on the AI theme.

We’ve seen the AI theme broaden to a wider array of markets this year. Case in point: South Korean shares have surged 70% in local currency terms, especially with its chipmakers signing up for deals with OpenAI, while Taiwan’s local index has gained 23%. Copper has jumped nearly 30% to all-time highs as a key input to the wiring across mega forces, with power grids needing upgrades or expansion to drive AI data centers amid constrained copper supply. Private markets including infrastructure – which are complex and not suitable to all investors – are increasingly core to financing the AI buildout.

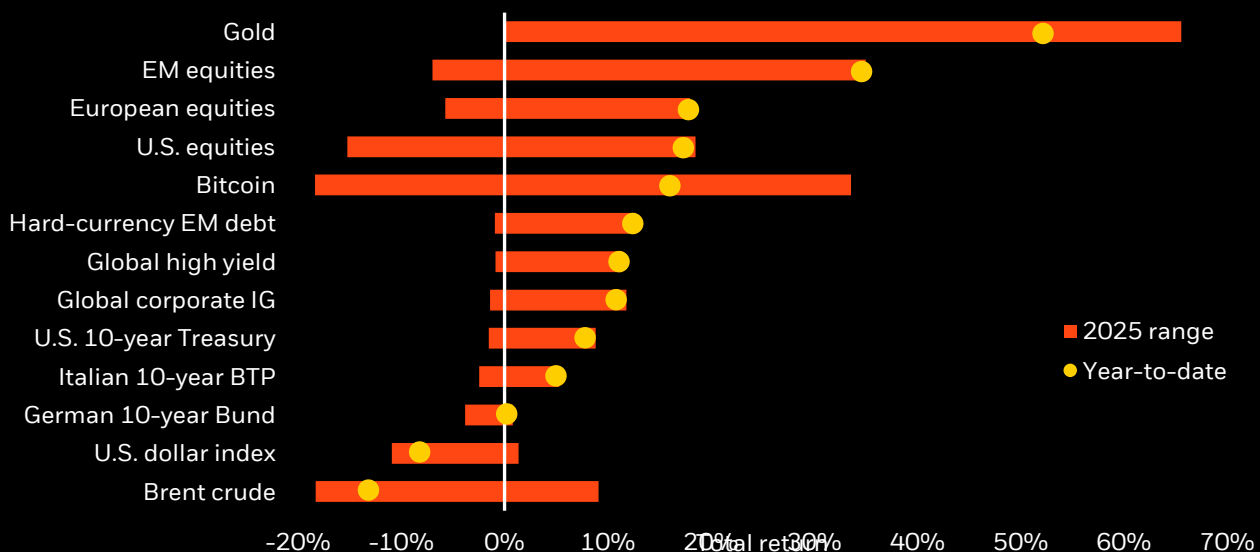
Bottom line: Mega forces – notably geopolitical fragmentation and AI – are a key investment lens for the short-term, not just the long term. We stay overweight U.S. stocks on the broadening AI theme, with risk appetite supported by Fed rate cuts.

Market backdrop

The S&P 500 climbed 3%, supported by strong tech earnings in a bumpy October and is set to notch its longest run of monthly gains since 2021. U.S. 10-year Treasury yields rose to near 4.10% after the Federal Reserve cooled expectations for a December rate cut. We think the Fed will cut in December given that the central bank signaled as much in September – but the shift highlights committee divisions. Gold rebounded to around \$4,000 after sliding from all-time highs.

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 30, 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

Nov. 4	U.S. trade data (scheduled)	Nov. 8	China CPI and PPI
Nov. 6	BOE policy decision; China trade data		

The ongoing U.S. government shutdown – now the second-longest in history – will likely delay September trade data. That leaves markets without a key indicator of tariff impacts before the U.S. and China struck a truce on trade. China trade will give a snapshot on how its exports have held up heading into the truce. China inflation data will show whether Beijing's stimulus efforts are helping pull the economy out of deflation. The Bank of England is expected to keep rates on hold.

Big calls

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