

Weekly commentary

November 18, 2024

BlackRock

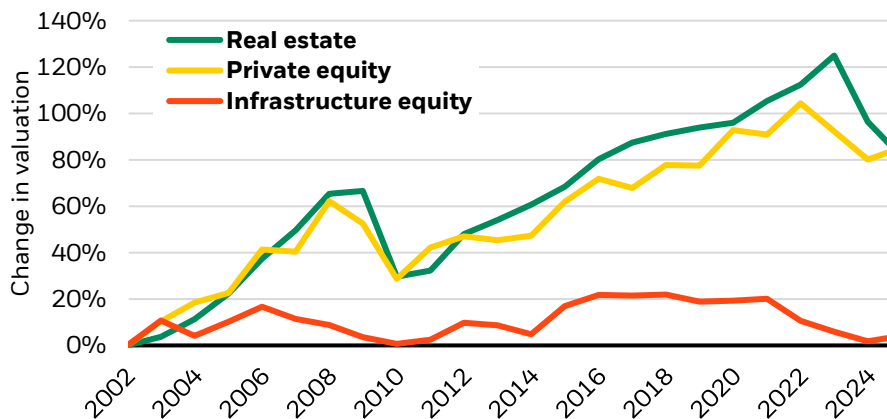
High-for-longer shapes strategic view

- The U.S. election result reinforces our expectation for persistent inflation pressures and high-for-longer interest rates. We evolve our strategic views.
- U.S. stocks slipped last week from all-time highs as the post-election surge ran out of steam. U.S. 10-year Treasury yields hit six-month highs.
- Global flash PMIs for November will give clues on the current state of uneven global growth. Markets watch UK CPI after a second Bank of England rate cut.

We see a world shaped by supply, with structural forces set to keep inflation pressures persistent and interest rates high for longer. We favor infrastructure equity, like stakes in airports and data centers, in our strategic views as it could benefit from such forces. The impact of policy changes after the U.S. election could reinforce geopolitical fragmentation and ongoing budget deficits. We stay cautious on long-term U.S. Treasuries and expect yields to rise long term.

Infrastructure stands out

Change in private market valuations, 2001-2024



Past performance is not a reliable indicator of current or future results. Source: BlackRock Investment Institute, October 2024, with data from NCREIF, EDHEC and LCD. Note: The chart shows the cumulative change in the standard measure of valuations across infrastructure equity, private equity and real estate. Infrastructure equity and private equity valuations are represented as enterprise value/EBITDA, and real estate valuation is represented as market value/net operating income.

The divergence in how private markets have reacted to higher interest rates has shaped our views on a strategic horizon of five years and longer. We had been overweight income private markets, like private credit, relative to growth assets for about two years. We expected higher rates and financing costs to boost returns for investors in private debt with floating interest rates. Now we go neutral income assets as spreads tighten, yet private markets stay a sizeable part of our strategic portfolios. Within equity-like growth private markets, private equity and real estate valuations have peaked after decades of falling financing costs. See the chart. We upgrade growth assets to neutral as valuations cool from financing costs rising with rates. We still like infrastructure equity as we see fewer signs of lofty valuations (orange line) and it looks set to benefit from mega forces, or structural shifts.



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Mega forces are playing a bigger role in shaping markets and economies – and driving returns now and in the future. Some of President-elect Donald Trump’s proposed policies, such as large-scale tariffs, reinforce why we see persistent inflation in the medium term and interest rates staying above pre-pandemic levels. If implemented, those policies could reinforce geopolitical fragmentation and economic competition. Plans to reduce legal immigration could impact the labor market. And we expect persistent budget deficits – one factor we see pushing up long-term U.S. Treasury yields.

As mega forces collide, we get more dynamic – even in our strategic views. In addition to our evolving views on private markets in Q3, we stay positive on direct lending, or directly negotiated loans to small- and mid-sized firms, as the future of finance unfolds. Demand for private credit could rise as banks limit lending. But private markets are complex and not suitable for all investors. Valuations matter more over a strategic horizon. That’s why we prefer attractive valuations in emerging market (EM) stocks over developed markets (DMs). We favor EMs like India that sit at the crosscurrent of mega forces. We still like Japan within DM stocks and are neutral on DM overall given richer valuations. Our preference for short-term bonds and UK gilts keeps us overweight DM government bonds. We stay underweight long-term U.S. Treasuries on a strategic horizon as we expect yields to rise over time. We see investors demanding more term premium, or compensation for the risk of holding them, given sticky inflation, persistent fiscal deficits and greater bond market volatility.

While the long-term outlook is uncertain, we’re more pro-risk on a six- to 12-month tactical horizon. That’s supported by a more favorable macro backdrop and upbeat investor sentiment given post-election clarity and hopes for deregulation. We think the energy, financial and tech sectors can benefit. We stay overweight U.S. stocks and think the artificial intelligence theme can expand beyond the tech sector.

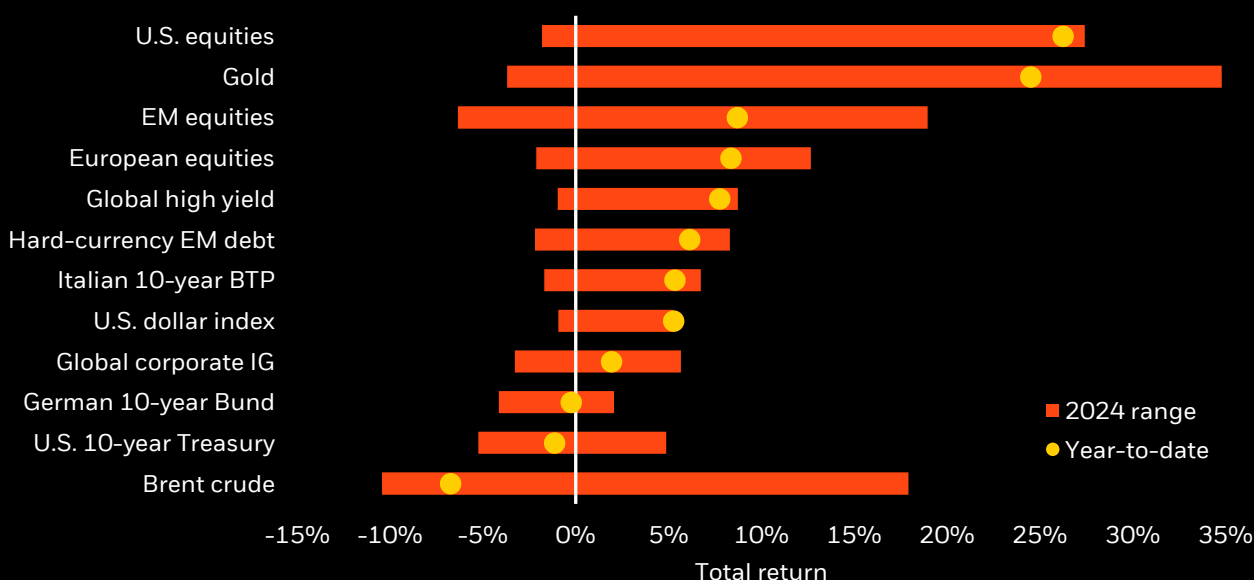
Bottom line: We are in a world shaped by supply and mega forces. The U.S. election result reinforces that view. We see infrastructure equity benefiting from mega forces as we update our strategic views (for professional investors).

Market backdrop

U.S. stocks slipped last week after reaching new all-time highs, with tech shares leading the retreat. The S&P 500 is still up 23% this year and 1% since Donald Trump won the U.S. presidential election. U.S. 10-year Treasury yields climbed, notching new six-month highs above 4.5%. Federal Reserve Chair Jerome Powell indicated the central bank is in no hurry to cut interest rates given the economy’s strength. Market pricing of Fed rate cuts is now more in line with our view.

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 Nov. 14, 2024. 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, MSCI Emerging Markets Index, MSCI Europe Index, LSEG Datastream 10-year benchmark government bond index (U.S., Germany and Italy), Bank of America Merrill Lynch Global High Yield Index, J.P. Morgan EMBI Index, Bank of America Merrill Lynch Global Broad Corporate Index and MSCI USA Index.

Week ahead

Nov. 20

UK CPI; Japan trade data

Nov. 22

Global flash PMIs; Japan CPI

Nov. 21

U.S. Philly Fed business index

Global flash PMIs for November will give clues on the current state of uneven global growth, how the robust U.S. economy is faring in Q4 and whether the euro area is showing more signs of life after stronger-than-expected Q3 GDP. Markets will also be watching UK CPI out this week. The Bank of England recently cut its policy rate for the second time this year on sharply slowing inflation and some concerns over the growth outlook.

Big calls

Our highest conviction views on tactical (6-12 month) and strategic (long-term) horizons, November 2024

Tactical	Reasons
AI and U.S. equities	We see the AI buildout and adoption creating opportunities across sectors. We get selective, moving toward beneficiaries outside the tech sector. Broad-based earnings growth and a quality tilt make us overweight U.S. stocks overall.
Japanese equities	A brighter outlook for Japan's economy and corporate reforms are driving improved earnings and shareholder returns. Yet the drag on earnings from a stronger yen and some mixed policy signals from the Bank of Japan are risks.
Income in fixed income	The income cushion bonds provide has increased across the board in a higher interest rate environment. We like quality income in short-term credit. We're neutral long-term U.S. Treasuries.
Strategic	Reasons
Private markets	We see opportunities in infrastructure equity due to attractive relative valuations and mega forces. For income, we prefer direct lending given more attractive yields than in public credit.
Fixed income granularity	We prefer intermediate credit, which offers similar yields with less interest rate risk than long-dated credit. We also like short-term government bonds, and UK long-term bonds.
Equity granularity	We favor emerging over developed markets yet get selective in both. EMs at the cross current of mega forces – like India and Saudi Arabia – offer opportunities. In DM, we like Japan as the return of inflation and corporate reforms brighten our outlook.

Note: Views are from a U.S. dollar perspective, November 2024. 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 2024

Our approach is to first determine asset allocations based on our macro outlook – and what’s in the price. **The table below reflects this and, importantly, leaves aside the opportunity for alpha, or the potential to generate above-benchmark returns.** The new regime is not conducive to static exposures to broad asset classes, in our view, but is creating more space for alpha.

Underweight		Neutral		Overweight		● Previous view		
Asset		View		Commentary				
Equities	Developed markets							
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