

Weekly commentary

September 9, 2024

BlackRock

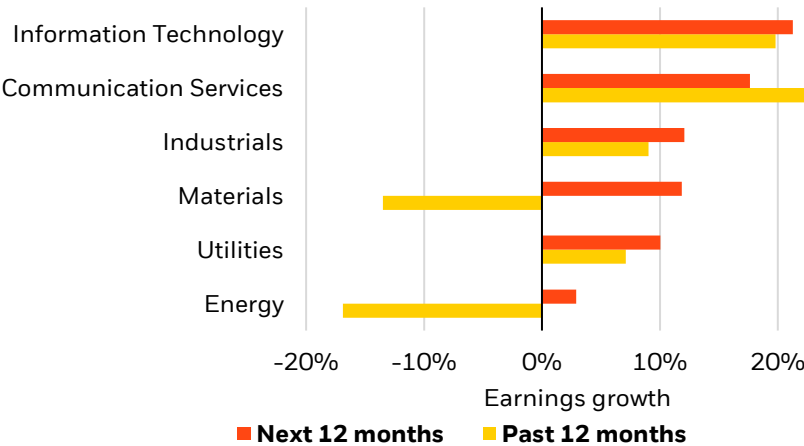
Why U.S. equity gains can broaden

- We get selective in artificial intelligence names, moving toward beneficiaries outside the tech sector. We look for quality in bonds after a sharp yield drop.
- U.S. stocks fell last week as recession fears and other factors shook markets. U.S. Treasury yields slid as markets priced in sharp Federal Reserve rate cuts.
- The U.S. CPI data this week will show whether services inflation is still cooling. We think the jobs data show market expectations for Fed rate cuts are overdone.

U.S. recession fears and other factors have jolted markets. We could see more volatility flare-ups ahead of the U.S. presidential election. We move from a U.S. tech focus within our equity overweight, leaning further into a wider set of winners from the artificial intelligence (AI) buildout. We don't see the Federal Reserve cutting policy rates as sharply as markets expect and go underweight U.S. short-dated Treasuries. We prefer medium-term Treasuries and quality credit.

Earnings broadening out

U.S. sector earnings, past vs. next 12 months, September 2024



Past performance is not a reliable indicator of current or future results. Source: BlackRock Investment Institute, with data from MSCI and LSEG Datastream, September 2024. Notes: The chart shows the change in aggregate analyst earnings forecasts for U.S. sectors.

We see multiple factors driving market volatility: resurgent recession fears due to some softer economic data, pre-U.S. election jitters and profit-taking as investors make room for new stock issues. Yet U.S. corporate earnings have proved resilient. All sectors beat expectations for Q2 earnings, driving broad improvement in profit margins. Overall S&P 500 earnings growth was 13% in Q2, beating the 10% consensus expectation, LSEG data shows. Analysts are forecasting broad-based earnings growth over the next 12 months – especially for sectors tied to the AI theme. See the chart. We see a narrowing gap in earnings growth between U.S. tech companies and the rest of the market – even if tech still leads the way – suggesting U.S. equity returns can broaden. We favor high-quality companies delivering consistent earnings growth and free cash flow in case volatility persists.



Jean Boivin
Head – BlackRock Investment Institute



Wei Li
Global Chief Investment Strategist – BlackRock Investment Institute



Natalie Gill
Portfolio Strategist – BlackRock Investment Institute



Beata Gamharter
Senior Investment Strategist – BlackRock Investment Institute

Visit [BlackRock Investment Institute](#) for insights on the global economy, markets and geopolitics.

BlackRock Investment Institute

We still favor the AI theme yet fine-tune our exposure. In the first phase of AI now underway, investors are questioning the magnitude of AI capital spending by major tech companies and whether AI adoption can pick up. While we eye signposts to change our view, we think patience is needed as the AI buildout still has far to go. Yet we believe the sentiment shift against these companies could weigh on valuations. So we turn to first-phase beneficiaries in energy and utilities providing key AI inputs – and real estate and resource companies tied to the buildout. Outside the U.S., we trim our overweight to Japanese equities. The drag on corporate earnings from a stronger yen and some mixed policy signals from the Bank of Japan following hotter-than-expected inflation make us less positive. But we expect corporate reforms to keep improving shareholder returns.

U.S. earnings growth broadening beyond early AI winners is a sign the economy is more resilient than markets are pricing. Growth is moderating as expected. Yet we view extreme market reactions to softening economic data as overdone. Activity is holding up versus what some sentiment data would imply. The unemployment rate has ticked up due to higher labor supply stemming from an unexpected rise in immigration, not lower demand. In the medium term, we see a shrinking labor force, large U.S. fiscal deficits and mega forces, or structural shifts, like geopolitical fragmentation all underpinning sticky inflation.

Even as inflation is falling toward the Fed’s target in the near term, higher inflation over the medium term will limit how far the Fed can cut rates, we think. Growth jitters and cooling inflation have driven 10-year yields to 15-month lows as investors have priced in more than 100 basis points of cuts by year-end and about 240 basis points of cuts over the next 12 months – implying a Fed response to a recession. That would take policy rates below our view of the neutral interest rate – the rate at which policy neither stimulates nor holds back growth. We go underweight short-dated U.S. Treasuries, looking for income elsewhere in developed markets such as short-dated euro area bonds and credit.

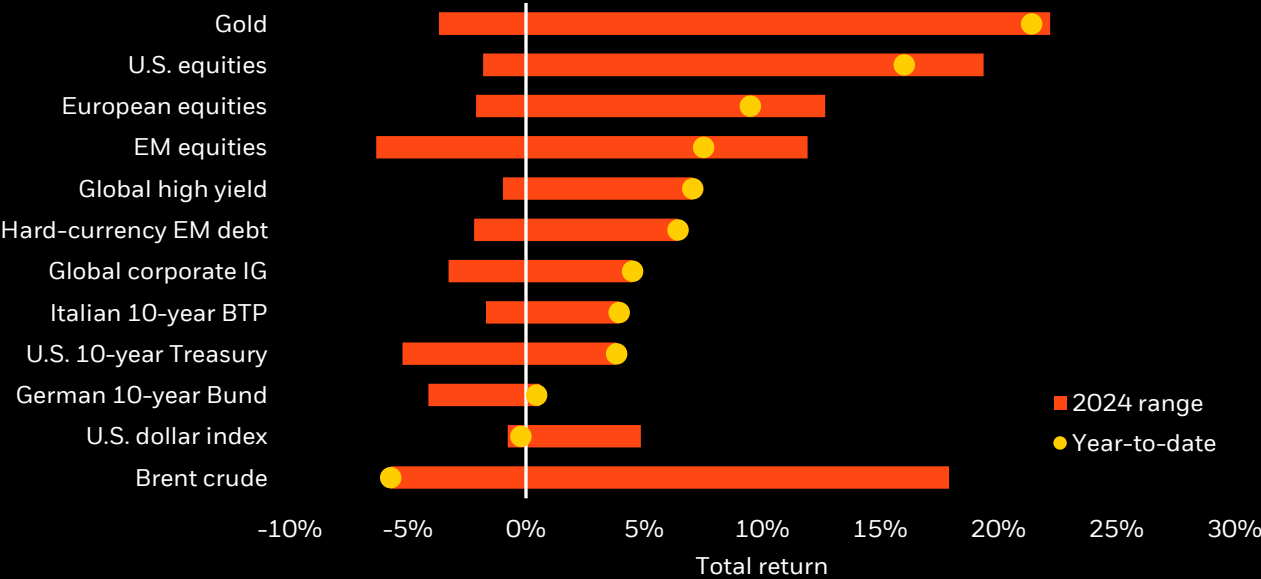
Bottom line: We expand from a U.S. tech focus, leaning into a wider set of winners from the AI buildout. We trim our Japanese equity overweight. We go underweight U.S. short-dated Treasuries, preferring medium-term maturities and quality credit.

Market backdrop

U.S. stocks tumbled as recession fears and other factors shook markets. The S&P 500 suffered its largest weekly drop in 18 months. Two- and 10-year U.S. Treasury yields slid to around 3.70% as markets priced in sharp Fed rate cuts in the next 12 months. We think these recession fears are overblown, as last week’s U.S. jobs data confirmed. Job growth is slowing but is far from the layoffs that typically signal recession. Wage gains don’t suggest inflation will cool to the Fed’s 2% target, in 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 Sept. 5, 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

Sept. 9	China CPI and PPI	Sept. 12	U.S. PPI; European Central Bank (ECB) policy decision
Sept. 11	U.S. CPI	Sept. 10-17	China total social financing

In the U.S., August CPI data is the main release this week. Services inflation has fallen in recent months as wage inflation has eased some thanks to a surge in immigration. Whether that labor supply shock persists will influence how much the Fed can cut interest rates, but we think market pricing of cuts is overdone, with wage inflation still too high to be consistent with overall inflation returning to 2%. We, like markets, expect the ECB to cut rates this week.

Big calls

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

Tactical	Reasons
AI and U.S. equities	<ul style="list-style-type: none">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	<ul style="list-style-type: none">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	<ul style="list-style-type: none">The income cushion bonds provide has increased across the board in a higher rate environment. We like quality income in short-term credit. We’re neutral long-term U.S. Treasuries.
Strategic	Reasons
Private credit	<ul style="list-style-type: none">We think private credit is going to earn lending share as banks retreat – and at attractive returns relative to public credit risk.
Fixed income granularity	<ul style="list-style-type: none">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	<ul style="list-style-type: none">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, September 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.





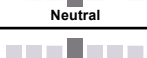









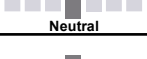
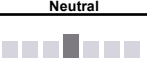
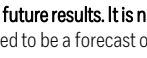

- 1. Demographic divergence:** The world is split between aging advanced economies and younger emerging markets – with different implications.
- 2. Digital disruption and artificial intelligence (AI):** Technologies are transforming how we live and work.
- 3. Geopolitical fragmentation and economic competition:** 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, September 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		
	United States		We are overweight given our positive view on the AI theme. Valuations for AI beneficiaries are supported as tech companies keep beating high earnings expectations. We think upbeat sentiment can broaden out. Falling inflation is easing pressure on corporate profit margins.
	Europe		We are underweight relative to the U.S., Japan and the UK – our preferred markets. Valuations are fair. A growth pickup and European Central Bank rate cuts support a modest earnings recovery. Yet political uncertainty could keep investors cautious.
	UK		We are overweight. Political stability and a growth pickup could improve investor sentiment, lifting the UK's low valuation relative to other DM stock markets.
	Japan		We are overweight. 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.
Fixed Income	Emerging markets		We are neutral. The growth and earnings outlook is mixed. We see valuations for India and Taiwan looking high.
	China		We are neutral. We see risks from weak consumer spending, even with measured policy support. An aging population and geopolitical risks are structural challenges.
	Short U.S. Treasuries		We are underweight. We don't think the Fed will cut rates as sharply as markets expect. An aging workforce, persistent budget deficits and the impact of structural shifts like geopolitical fragmentation should keep inflation and policy rates higher over the medium term.
	Long U.S. Treasuries		We are neutral. Markets have priced back in sharp Fed rate cuts and term premium is close to zero. We think yields will keep swinging in both directions on new economic data.
	Global inflation-linked bonds		We are neutral. We see higher medium-term inflation, but cooling inflation and growth may matter more near term.
	Euro area govt bonds		We are neutral. Market pricing reflects policy rates in line with our expectations and 10-year yields are off their highs. Political uncertainty remains a risk to fiscal sustainability.
	UK gilts		We are neutral. Gilt yields have tightened to U.S. Treasuries and market pricing of future yields is in line with our view.
	Japanese govt bonds		We are underweight. Stock returns look more attractive to us. We see some of the least attractive returns in JGBs.
	China govt bonds		We are neutral. Bonds are supported by looser policy. Yet we find yields more attractive in short-term DM paper.
	U.S. agency MBS		We are neutral. We see agency MBS as a high-quality exposure in a diversified bond allocation and prefer it to IG.
	Short-term IG credit		We are overweight. Short-term bonds better compensate for interest rate risk. We prefer Europe over the U.S.
	Long-term IG credit		We are underweight. Spreads are tight, so we prefer taking risk in equities from a whole portfolio perspective. We prefer Europe over the U.S.
	Global high yield		We are neutral. Spreads are tight, but the total income makes it more attractive than IG. We prefer Europe.
	Asia credit		We are neutral. We don't find valuations compelling enough to turn more positive.
	Emerging hard currency		We are neutral. The asset class has performed well due to its quality, attractive yields and EM central bank rate cuts. We think those rate cuts may soon be paused.
	Emerging local currency		We are neutral. Yields have fallen closer to U.S. Treasury yields, and EM central banks look to be turning more cautious after cutting policy rates sharply.

Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index. Note: Views are from a U.S. dollar perspective. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast or guarantee of future results. This information should not be relied upon as investment advice regarding any particular fund, strategy or security.

BlackRock Investment Institute

The BlackRock Investment Institute (BII) leverages the firm's expertise and generates proprietary research to provide insights on macroeconomics, sustainable investing, geopolitics and portfolio construction to help BlackRock's portfolio managers and clients navigate financial markets. BII offers strategic and tactical market views, publications and digital tools that are underpinned by proprietary research.

General disclosure: This material is intended for information purposes only, and does not constitute investment advice, a recommendation or an offer or solicitation to purchase or sell any securities to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction. The opinions expressed are as of Sept. 9, 2024, and are subject to change without notice. Reliance upon information in this material is at the sole discretion of the reader. Investing involves risks. This information is not intended to be complete or exhaustive and no representations or warranties, either express or implied, are made regarding the accuracy or completeness of the information contained herein. This material may contain estimates and forward-looking statements, which may include forecasts and do not represent a guarantee of future performance.

In the **U.S. and Canada**, this material is intended for public distribution. In **EMEA**, in the UK and Non-European Economic Area (EEA) countries: this is Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: + 44 (0)20 7743 3000. Registered in England and Wales No. 02020394. For your protection telephone calls are usually recorded. Please refer to the Financial Conduct Authority website for a list of authorised activities conducted by BlackRock. In the **European Economic Area (EEA)**: this is Issued by BlackRock (Netherlands) B.V. is authorised and regulated by the Netherlands Authority for the Financial Markets. Registered office Amstelplein 1, 1096 HA, Amsterdam, Tel: 020 – 549 5200, Tel: 31-20-549-5200. Trade Register No. 17068311 For your protection telephone calls are usually recorded. In **Italy**, for information on investor rights and how to raise complaints please go to <https://www.blackrock.com/corporate/compliance/investor-right> available in Italian. In **Switzerland**, for qualified investors in Switzerland: This document is marketing material. Until 31 December 2021, this document shall be exclusively made available to, and directed at, qualified investors as defined in the Swiss Collective Investment Schemes Act of 23 June 2006 ("CISA"), as amended. From 1 January 2022, this document shall be exclusively made available to, and directed at, qualified investors as defined in Article 10 (3) of the CISA of 23 June 2006, as amended, at the exclusion of qualified investors with an opting-out pursuant to Art. 5 (1) of the Swiss Federal Act on Financial Services ("FinSA"). For information on art. 8 / 9 Financial Services Act (FinSA) and on your client segmentation under art. 4 FinSA, please see the following website: www.blackrock.com/finisa. For investors in **Israel**: BlackRock Investment Management (UK) Limited is not licensed under Israel's Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 5755-1995 (the "Advice Law"), nor does it carry insurance thereunder. In **South Africa**, please be advised that BlackRock Investment Management (UK) Limited is an authorized financial services provider with the South African Financial Services Board, FSP No. 43288. In the **DIFC** this material can be distributed in and from the Dubai International Financial Centre (DIFC) by BlackRock Advisors (UK) Limited – Dubai Branch which is regulated by the Dubai Financial Services Authority (DFSA). This material is only directed at 'Professional Clients' and no other person should rely upon the information contained within it. BlackRock Advisors (UK) Limited - Dubai Branch is a DIFC Foreign Recognised Company registered with the DIFC Registrar of Companies (DIFC Registered Number 546), with its office at Unit 06/07, Level 1, Al Fattan Currency House, DIFC, PO Box 506661, Dubai, UAE, and is regulated by the DFSA to engage in the regulated activities of 'Advising on Financial Products' and 'Arranging Deals in Investments' in or from the DIFC, both of which are limited to units in a collective investment fund (DFSA Reference Number F000738). In the **Kingdom of Saudi Arabia**, issued in the Kingdom of Saudi Arabia (KSA) by BlackRock Saudi Arabia (BSA), authorised and regulated by the Capital Market Authority (CMA), License No. 18-192-30. Registered under the laws of KSA. Registered office: 7976 Salim Ibn Abi Bakr Shaikan St, 2223 West Umm Al Hamam District Riyadh, 12329 Riyadh, Kingdom of Saudi Arabia, Tel: +966 11 838 3600. CR No, 1010479419. The information contained within is intended strictly for Sophisticated Investors as defined in the CMA Implementing Regulations. Neither the CMA or any other authority or regulator located in KSA has approved this information. In the **United Arab Emirates** this material is only intended for -natural Qualified Investor as defined by the Securities and Commodities Authority (SCA) Chairman Decision No. 3/R.M. of 2017 concerning Promoting and Introducing Regulations. Neither the DFSA or any other authority or regulator located in the GCC or MENA region has approved this information. In the **State of Kuwait**, those who meet the description of a Professional Client as defined under the Kuwait Capital Markets Law and its Executive Bylaws. In the **Sultanate of Oman**, to sophisticated institutions who have experience in investing in local and international securities, are financially solvent and have knowledge of the risks associated with investing in securities. In **Qatar**, for distribution with pre-selected institutional investors or high net worth investors. In the **Kingdom of Bahrain**, to Central Bank of Bahrain (CBB) Category 1 or Category 2 licensed investment firms, CBB licensed banks or those who would meet the description of an Expert Investor or Accredited Investors as defined in the CBB Rulebook. The information contained in this document, does not constitute and should not be construed as an offer of, invitation, inducement or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. In **Singapore**, this is issued by BlackRock (Singapore) Limited (Co. registration no. 200010143N). This advertisement or publication has not been reviewed by the Monetary Authority of Singapore. In **Hong Kong**, this material is issued by BlackRock Asset Management North Asia Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong. In **South Korea**, this material is for distribution to the Qualified Professional Investors (as defined in the Financial Investment Services and Capital Market Act and its sub-regulations). In **Taiwan**, independently operated by BlackRock Investment Management (Taiwan) Limited. Address: 28F., No. 100, Songren Rd., Xinyi Dist., Taipei City 110, Taiwan. Tel: (02)23261600. In **Japan**, this is issued by BlackRock Japan. Co., Ltd. (Financial Instruments Business Operator: The Kanto Regional Financial Bureau. License No375, Association Memberships: Japan Investment Advisers Association, the Investment Trusts Association, Japan, Japan Securities Dealers Association, Type II Financial Instruments Firms Association.) For Professional Investors only (Professional Investor is defined in Financial Instruments and Exchange Act). In **Australia**, issued by BlackRock Investment Management (Australia) Limited ABN 13 006 165 975 AFSL 230 523 (BIMAL). The material provides general information only and does not take into account your individual objectives, financial situation, needs or circumstances. In **New Zealand**, issued by BlackRock Investment Management (Australia) Limited ABN 13 006 165 975, AFSL 230 523 (BIMAL) for the exclusive use of the recipient, who warrants by receipt of this material that they are a wholesale client as defined under the New Zealand Financial Advisers Act 2008. In **China**, this material may not be distributed to individuals resident in the People's Republic of China ("PRC", for such purposes, not applicable to Hong Kong, Macau and Taiwan) or entities registered in the PRC unless such parties have received all the required PRC government approvals to participate in any investment or receive any investment advisory or investment management services. For **Other APAC Countries**, this material is issued for Institutional Investors only (or professional/sophisticated /qualified investors, as such term may apply in local jurisdictions). In **Latin America**, no securities regulator within Latin America has confirmed the accuracy of any information contained herein. The provision of investment management and investment advisory services is a regulated activity in Mexico thus is subject to strict rules. For more information on the Investment Advisory Services offered by BlackRock Mexico please refer to the Investment Services Guide available at www.blackrock.com/mx.

©2024 BlackRock, Inc. All Rights Reserved. **BLACKROCK** is a trademark of BlackRock, Inc., or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.

BlackRock

Not FDIC Insured • May Lose Value • No Bank Guarantee