

Weekly commentary

February 10, 2025

BlackRock

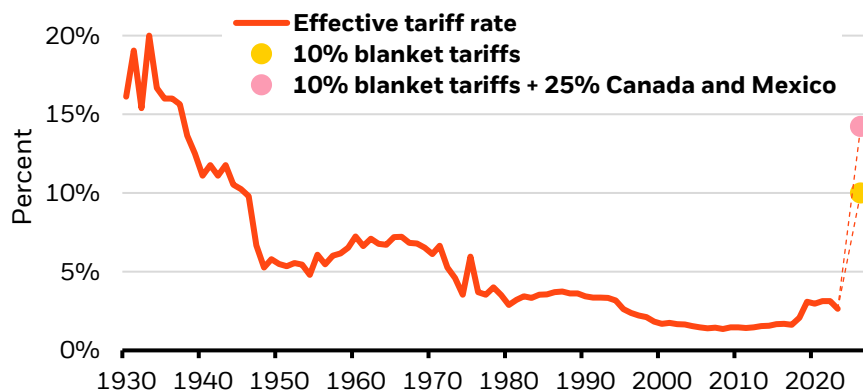
Tweaking our views yet staying risk on

- Shifting U.S. policy and the evolving artificial intelligence (AI) story highlight the risks markets face in 2025. We stay risk on and keep our U.S. equity overweight.
- U.S. stocks were flat last week. Stocks recovered from the tariff-driven volatility thanks to solid Q4 corporate earnings, led by tech. U.S. bond yields dipped.
- The January U.S. CPI is due this week. Wage growth remains above the level that would allow inflation to fall back to the Federal Reserve's 2% target, we think.

U.S. policy shifts and AI advances have driven sharp market volatility so far this year. This volatility underscores the fact we are in a new macro environment, with a wider range of outcomes possible. We stick to our core risk-on framework yet fine-tune our views. We stay overweight U.S. equities on a solid macro outlook and the AI mega force – a big, structural shift. We go overweight government bonds in the euro area, where the potential growth hit from tariffs should reinforce rate cuts.

A potentially historic shift

U.S. effective tariff rate, actual and potential, 1930-2025



Forward looking estimates may not come to pass. Source: BlackRock Investment Institute, U.S. Bureau of Economic Analysis, with data from Haver Analytics, February 2025. Note: The chart shows the effective rate of tariffs on U.S. imports. The yellow dot shows our estimate of the effective tariff rate if the U.S. implemented a 10% tariff on all imports. The pink dot estimate adds the impact of a 25% tariff on imports from Canada and Mexico, on top of a blanket 10% tariff on all imports.

We entered 2025 expecting the unexpected and for policy to add volatility. That has played out. Bond yields spiked on fiscal concerns, then fell on growth fears and the U.S. Treasury's pledge to lower them. China startup DeepSeek's seeming AI breakthrough and U.S. tariff news have also stoked volatility. We think tariffs will be a key U.S. policy tool. The U.S. could pursue universal tariffs as a tax this week, with reports suggesting they could come as reciprocal tariffs matching those placed by other countries. We eye potential universal tariffs on a reciprocal basis or at a flat rate, such as 10%, with tariff levels of 25% serving as a negotiating tool. That could push the U.S. effective tariff rate near 1930s levels. See the chart. The macro impact of tariffs depends on their level, scope, duration and any retaliation. The risk of higher inflation and lower growth likely keeps the Federal Reserve on hold for now.



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U.S. equities have proved resilient this year, though escalating trade tensions could keep the pressure on in coming months. We think they can keep doing so, even with rolling tariff headlines and the potential for 10% blanket tariffs – provided growth holds up and inflation stays in check. Resilient growth, solid corporate earnings, potential deregulation and the AI theme keep us upbeat. Q4 earnings growth has broadened as we expected, with S&P 500 earnings excluding the “magnificent 7” stocks up about 5% from a year ago and the consensus eyeing a 10% rise this year, LSEG Datastream data show. We keep our tactical U.S. equity overweight yet watch for triggers for a change, such as earnings losing steam. We stay underweight long-term Treasuries. Even with the U.S. Treasury saying it aims to lower long-term yields, we see them rising anew as large fiscal deficits and persistent inflation cause investors to demand more compensation for the risk of holding bonds.

Tariff risks reinforce our preference for euro area government bonds, so we go tactically overweight. U.S. President Donald Trump has signaled potential tariffs on Europe. Europe’s reliance on the U.S. as an export destination means tariffs – and any retaliation – would hurt euro area growth more than it boosts inflation, in our view. In the UK, we cut our gilt allocation to neutral. We had expected more Bank of England rate cuts than markets were pricing. Recent volatility, especially revived fiscal concerns, pushed yields to 17-year highs. Yields have since retreated as we expected, providing a better exit point. Markets have moved closer to our view on BOE policy rates – and we think concerns about the UK fiscal outlook will linger.

Emerging markets are especially vulnerable to the growth hit from tariffs and any worsening in global risk sentiment, we think. Mexico, with its heightened exposure to tariff impacts, is a key constituent in emerging market bond local currency indexes. We prefer to express heightened risks through fixed income, where we go underweight emerging market local currency debt. Tariff uncertainty could also drive volatility in currency markets and hurt returns in local currency EM debt.

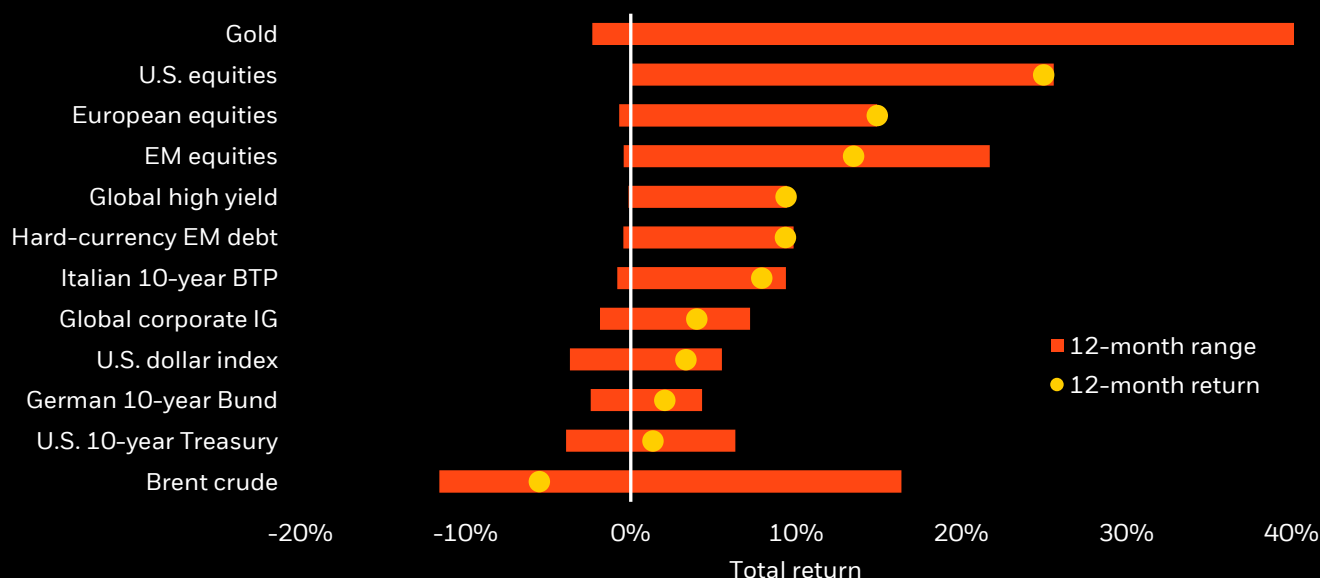
Bottom line: We stay overweight U.S. equities on a solid macro backdrop and the AI theme. We upgrade euro area government bonds, trim UK gilts to neutral and go underweight emerging market local currency debt.

Market backdrop

U.S. stocks were flat last week. Risk assets slid after the U.S. tariff plans before recovering by week’s end. Solid Q4 corporate earnings helped risk sentiment, with U.S. big tech companies reporting solid results and increasing their AI buildout spending. U.S. 10-year Treasury yields touched seven-week lows before settling near 4.50%. The U.S. jobs data showed a strong economy is keeping demand for workers high and leading to a renewed rise in wage pressures.

Assets in review

Selected asset performance, 12-month 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 Feb. 6, 2025. Notes: The two ends of the bars show the lowest and highest returns at any point in the past 12 months, and the dots represent current 12-month 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

Feb. 12

U.S. CPI

Feb. 10-17

China total social financing

Feb. 13

UK GDP

We get U.S. CPI for January this week. Even as December's CPI report showed signs of inflation pressures easing, wage growth remains above the level that would allow inflation to recede back to the Federal Reserve's 2% target, in our view. We see persistent services inflation forcing the Fed to keep rates higher for longer.

Big calls

Our highest conviction views on tactical (6-12 month) and strategic (long-term) horizons, February 2025

Tactical	Reasons
U.S. equities	We see the AI buildout and adoption creating opportunities across sectors. We tap into beneficiaries outside the tech sector. Robust economic growth, broad earnings growth and a quality tilt underpin our conviction and overweight in U.S. stocks versus other regions. We see valuations for big tech backed by strong earnings, and less lofty valuations for other sectors.
Japanese equities	A brighter outlook for Japan's economy and corporate reforms are driving improved earnings and shareholder returns. Yet the potential drag on earnings from a stronger yen is a risk.
Selective in fixed income	Persistent deficits and sticky inflation in the U.S. make us more positive on fixed income elsewhere, notably Europe. We are underweight long-term U.S. Treasuries and like euro area government bonds instead. We also prefer European credit – both investment grade and high yield – over the U.S. on more attractive spreads.
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 prefer short- and medium-term investment grade credit, which offers similar yields with less interest rate risk than long-dated credit. We also like short-term government bonds in the U.S. and euro area, and UK gilts overall.
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 the outlook.

Note: Views are from a U.S. dollar perspective, February 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, February 2025

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	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> <div>+2</div>			We are overweight as the AI theme and earnings growth broaden. Valuations for AI beneficiaries are supported by tech companies delivering on earnings. Resilient growth and Fed rate cuts support sentiment. Risks include any long-term yield surges or escalating trade protectionism.		
	Europe	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> <div>-1</div>			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	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> <div>Neutral</div>			We are neutral. Political stability could improve investor sentiment. Yet an increase in the corporate tax burden could hurt profit margins near term.		
	Japan	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> <div>+1</div>			We are overweight. A brighter outlook for Japan’s economy and corporate reforms are driving improved earnings and shareholder returns. Yet a stronger yen dragging on earnings is a risk.		
Fixed Income	Emerging markets						
	China	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> <div>+1</div>			We are modestly overweight. China’s fiscal stimulus is not yet enough to address the drags on growth and tariff risks could hurt sentiment. But we see stocks as attractively valued versus DMs. We stand ready to pivot. We are cautious long term given structural challenges.		
	Short U.S. Treasuries	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> <div>Neutral</div>			We are neutral. Markets are pricing in fewer Federal Reserve rate cuts and their policy rate expectations are now roughly in line with our views.		
	Long U.S. Treasuries	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> <div>-1</div>			We are underweight. Persistent budget deficits and geopolitical fragmentation could drive term premium up over the near term. We prefer intermediate maturities less vulnerable to investors demanding more term premium.		
	Global inflation-linked bonds	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> <div>Neutral</div>			We are neutral. We see higher medium-term inflation, but cooling inflation and growth may matter more near term.		
	Euro area govt bonds	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> <div>● +1</div>			We are overweight. Trade uncertainty may hurt euro area growth more than it boosts inflation, potentially allowing the European Central Bank to cut rates more. Political uncertainty remains a risk to fiscal sustainability.		
	UK gilts	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> <div>● Neutral</div>			We are neutral. Gilt yields are off their highs, but the risk of higher U.S. yields having a knock-on impact and reducing the UK’s fiscal space has risen. We are monitoring the UK fiscal situation.		
	Japanese govt bonds	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> <div>-2</div>			We are underweight. Stock returns look more attractive to us. We see some of the least attractive returns in JGBs.		
	China govt bonds	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> <div>Neutral</div>			We are neutral. Bonds are supported by looser policy. Yet we find yields more attractive in short-term DM paper.		
	U.S. agency MBS	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> <div>Neutral</div>			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	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> <div>+1</div>			We are overweight. Short-term bonds better compensate for interest rate risk.		
	Long-term IG credit	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> <div>-1</div>			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	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> <div>Neutral</div>			We are neutral. Spreads are tight, but the total income makes it more attractive than IG. We prefer Europe.		
	Asia credit	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> <div>Neutral</div>			We are neutral. We don’t find valuations compelling enough to turn more positive.		
	Emerging hard currency	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> <div>Neutral</div>			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	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div> <div>● -1</div>			We are underweight. We see emerging market currencies as especially sensitive to trade uncertainty and global risk sentiment.		

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