

BlackRock

2021 midyear outlook

 BlackRock
Investment
Institute

**Looking beyond
the restart**



Philipp Hildebrand

Vice Chairman –
BlackRock



Jean Boivin

Head – BlackRock
Investment Institute



Wei Li

Global Chief Investment Strategist –
BlackRock Investment Institute



Vivek Paul

Senior Portfolio Strategist –
BlackRock Investment Institute



Elga Bartsch

Head of Macro Research –
BlackRock Investment Institute



Scott Thiel

Chief Fixed Income Strategist –
BlackRock Investment Institute

The restart of economic activity is real – and we remain pro-risk as it broadens. The more consequential question: What lies beyond? This juncture could be as critical as the shift to the neoliberal consensus in the 1980s. The post-global financial crisis (GFC) playbook won't work, in our view, as the historic monetary-fiscal collaboration to bridge the pandemic should lead to a higher inflation regime. This means we don't expect another decade-long bull market in stocks and bonds.

The powerful restart of economic activity after the Covid-19 shock is broadening. A restart is not a traditional business cycle recovery. You can only turn the lights back on once, so to speak. Fiscal stimulus and easy monetary policy have provided a bridge through the pandemic. We have estimated the U.S. has seen more than four times the stimulus of the GFC for less than one-quarter the economic shock. We see a wide range of macro outcomes as a result.

More relaxed attitudes toward debt and deficits are a major shift from the neoliberal consensus that ushered in a four-decade period of falling inflation and rates. New policy paradigms mean many central banks are now attempting to overshoot inflation targets to make up for past misses. Yet markets have not yet bought the narrative and are pricing in a more rapid lift-off in rates than what the Federal Reserve's new policy framework implies. This mismatch and resulting uncertainty could stoke volatility.

We expect a higher inflation regime in the medium term – as a result of a more muted monetary response than in the past. We see any bond yield rises driven by inflation, rather than policy hikes, making the unique environment that we have called **the new nominal** constructive for equities.

We are moderately pro-risk and look for opportunities from any turbulence to increase risk: Negative real, or inflation-adjusted, bond yields should support equities. We see potential for cyclical shares and regions to benefit from a broadening restart. We are turning positive on European equities and upgrading Japanese equities to neutral – and cut U.S. equities to neutral. Even if yields remain low, the direction of travel is up – and we remain underweight developed market (DM) government bonds.

Our second theme is **China stands out**. Chinese assets play a key role in our strategic views in an increasingly bifurcated U.S.-China world. For the first time, we break out Chinese assets from emerging markets (EM) as distinct tactical allocations. We believe Beijing's focus on quality growth should bear fruit, keeping us tactically neutral on Chinese equities but heavily overweight strategically.

Our third theme is the **journey to net zero**. The path to net-zero carbon emissions has a starting point and potential destination – but there is no clear roadmap yet for getting there. Some of the coming changes may be abrupt – and add to supply and demand disruptions among commodities. We see opportunities along the way, with private market financing playing a key role.

Contents

First words	2-4	Forum focus	8-10
Summary	2	Infrastructure	8
Introduction	3	Profit margins	9
Macro landscape	4	Geopolitics	10
Themes	5-7	Asset allocation	11-15
The new nominal	5	Strategic	11-12
China stands out	6	Directional	13
Journey to net zero	7	Tactical	14-15

Looking beyond the restart

BlackRock investment professionals gathered (mostly) virtually again in June at our Midyear Outlook Investment Forum to debate what the macro and market landscape would look like beyond the economic restart. We recognized upfront that we are at a consequential juncture. There are many potential outcomes as vaccinations spread and countries gradually normalize activity.

We see the post-pandemic world as a very different one compared with the post-GFC landscape of deleveraging, sluggish growth, low inflation and constant policy support. That support helped herald a decade-long bull market in both risk assets and bonds. By contrast, fiscal and monetary support is ample now – and we believe U.S. growth should be back above its pre Covid-19 trend by the end of the year. This comes as the Fed is now implementing its new policy framework – and stoking market uncertainty. A mildly higher inflation regime in the medium term should support risk assets, in our view – but we see the potential for even higher inflation among a wide range of outcomes (page 4 and page 11).

Climate change and the journey toward a world of net-zero carbon emissions ran through many of our discussions (pages 7–8). Cheap and abundant energy has underpinned global growth for more than a century. Weaning economies off fossil fuels is going to be hard – and the process is only just beginning.

The investment needs for achieving net zero have important implications for certain commodities. We think it's important to distinguish between the near-term drivers of commodity prices – notably the economic restart – and the long-term green transition that likely will boost demand for certain commodities but not necessarily lead to an extended period of broad price gains – or a so-called “supercycle.”

This year we launched our [climate-aware return assumptions](#) and strategic asset allocations for institutional investors to help clients prepare their portfolios now for the net-zero shift (page 12). We see twists and turns in the journey to a more sustainable world. If we get there, we expect an improved outlook for growth and risk assets versus a do-nothing scenario. The transition will affect the risk premia of *all* assets, in our view.

The new nominal

The powerful economic restart is broadening, with Europe and other major economies catching up with the U.S. We expect a higher inflation regime in the medium term – with a more muted monetary response than in the past.

Tactical implication: We go overweight European equities and inflation-linked bonds. We cut U.S. equities to neutral.

Strategic implication: We remain underweight DM government bonds and prefer equities over credit.

China stands out

Growth in China is starting to slow at the same time the policy stance is relatively tight. The regulatory crackdown on dominant companies is ongoing. We see these as key aspects of China's efforts to improve the quality of growth.

Tactical implication: We break out China from EM with a neutral stance on equities and an overweight to debt.

Strategic implication: Our neutral allocation to Chinese assets is multiples larger than typical benchmark weights.

Journey to net zero

There is no roadmap for getting to net zero, and we believe markets underappreciate the profound changes coming. The path is unlikely to be a smooth one – and we see this creating opportunities across investment horizons.

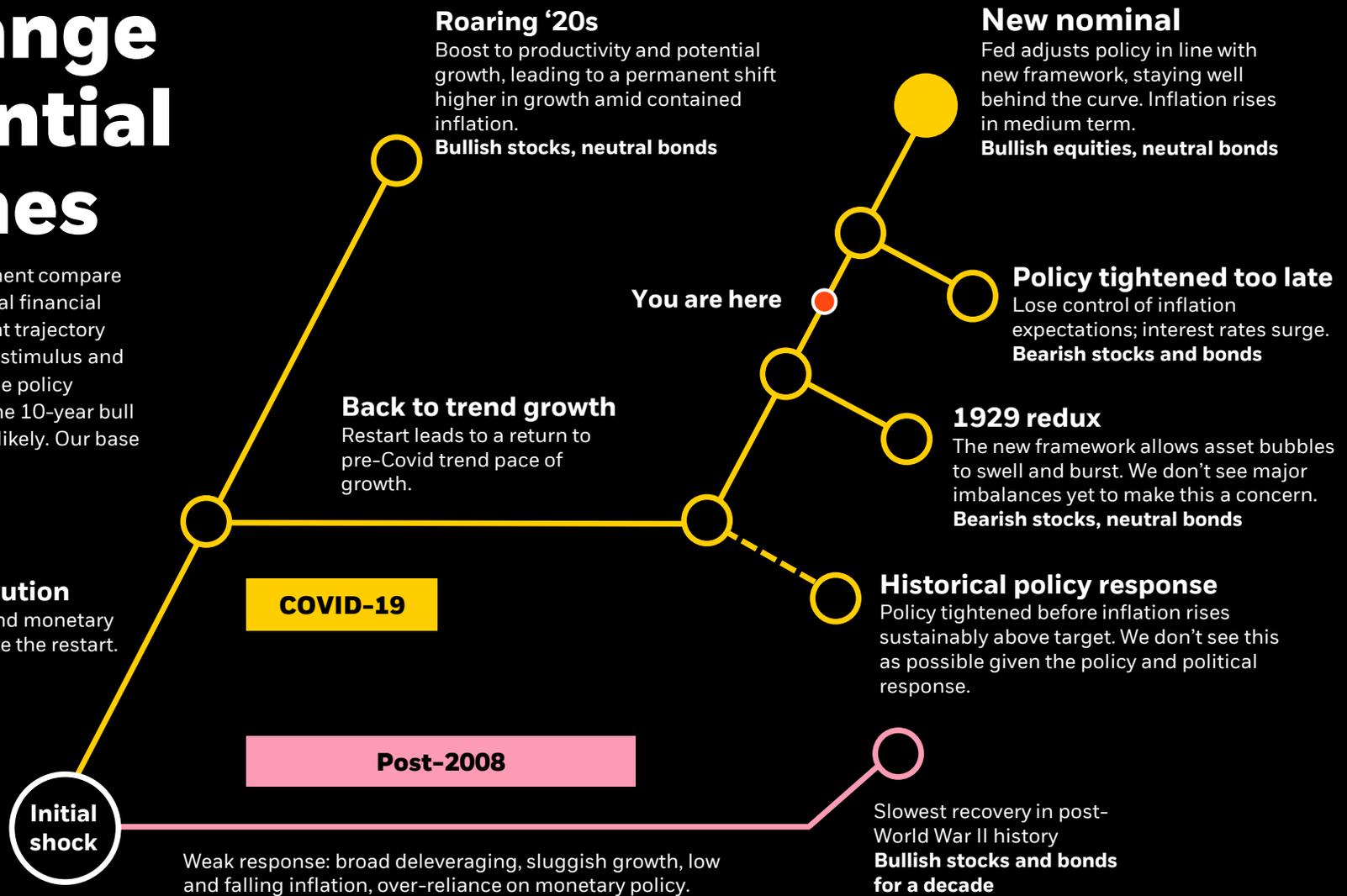
Tactical implication: We are overweight the tech sector as we believe it is better positioned for the green transition.

Strategic implication: We like DM equity and the tech sector as a way to play the climate transition.

Macro landscape

Wide range of potential outcomes

How does the current environment compare with the recovery after the global financial crisis? We are on a very different trajectory now, in our view. Historic fiscal stimulus and innovative monetary policy – the policy revolution – make a repeat of the 10-year bull market in stocks and bonds unlikely. Our base case: the *new nominal*.



Sources: BlackRock Investment Institute, July 2021. Notes: The schematic shows hypothetical macro and policy outcomes now compared with the sluggish outcome following the GFC. These are our views on the implications for equities and government bonds as of July 2021. For illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

Theme 1

The new nominal

We have seen our *new nominal* theme play out through the vaccine-led economic restart this year – a restart that is now broadening globally.

The *new nominal* is about government bond yields being less sensitive than in the past to higher inflation expectations and actual inflation, keeping nominal long-term yields low and real yields negative. Despite being questioned, this narrative has largely unfolded in 2021: the rise in long-term yields has been mainly driven by higher market pricing of inflation, with real yields remaining pinned well in negative territory.

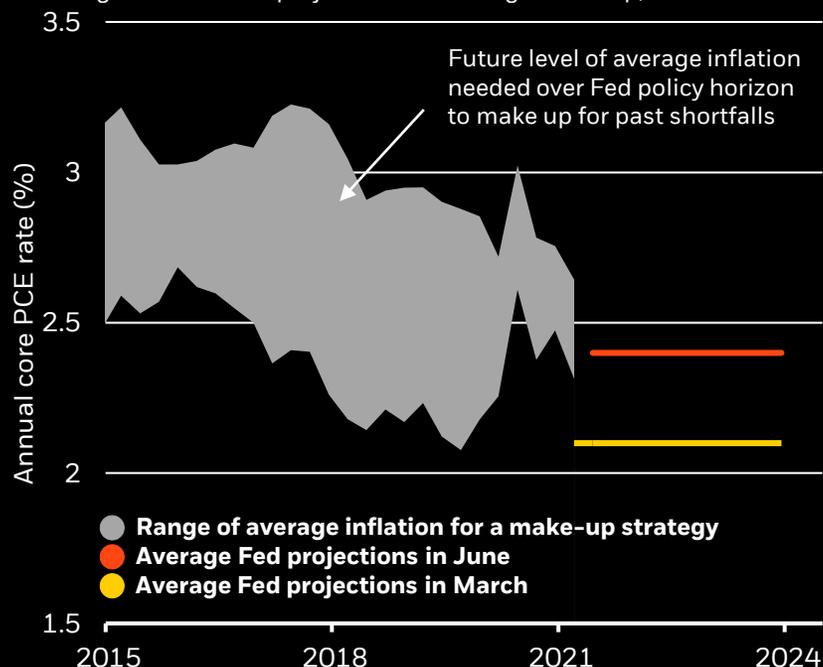
The Fed's new policy framework is a key reason why. The *Only getting into the inflation zone* chart shows how much work the central bank has to do to achieve its new goal of letting inflation run above target to make up for past shortfalls. The shaded region shows how high the Fed would need to let average inflation over the next two years run to make up for previous shortfalls. This level of inflation is higher than even recent-decade highs reflected in market pricing.

What matters for risk assets is the expected path of policy rates. We believe the market has been too eager to read hawkish intent into the Fed's statements where there is none. We expect the Fed to start normalizing policy rates in 2023, a much slower pace than market pricing for lift-off in 2022 indicates. The market's lack of confidence in the Fed's commitment to its new framework poses a risk of tighter financial conditions in the near term. We would anticipate this uncertainty to dissipate over time – assuming the central bank regains control of its narrative – paving the way for us to lean even more tactically pro-risk.

Importantly, this year's rise in long-term yields has not been about expectations for a higher policy rate path. It has been partly driven by a revival of investors demanding a premium for the risk of holding long-term government bonds, known as the term premium. See page 11. Surging public debt levels to fund the policy revolution have created a fragile equilibrium, in our view: the *new nominal* cannot last forever – and we don't see a repeat of the decade-long, post-GFC bull market.

Only getting into the inflation zone

Average Fed inflation projections vs. average make-up, 2015–2023



Sources: BlackRock Investment Institute, with data from the U.S. Bureau of Economic Analysis and Federal Reserve, June 2021. Notes: The chart shows the range of future PCE inflation levels over the Fed's policy horizon, which we set at two years, that would be needed on average to make up for past inflation undershoots of the Fed's 2% target. The undershoot is calculated as the average actual core PCE inflation over the previous two to five years. The red and yellow lines show the average of Fed forecasts of annual core personal consumption expenditure inflation in Q4 2021, Q4 2022 and Q4 2023 from its quarterly Summary of Economic Projections.

We have seen the *new nominal* play out this year but believe it is only just getting started given the shift in monetary policy frameworks to foster higher inflation.

Theme 2

China stands out

China is already a distinct pole of global growth. We believe it is time to also treat it as an investment destination separate from EM and DM. China's economy has come through the Covid-19 shock stronger than global peers, just as it did after the GFC. China quickly bounced above its pre-pandemic growth trend, and policymakers have shifted to tighten policy and refocus on stabilizing leverage, with growth now slowing.

This stands in contrast to the DM policy revolution where historic fiscal and monetary policy has meant a surge in debt to record levels. China is pursuing a more orthodox policy, partly to reduce risks in the financial system but also to make itself a more attractive investment destination. So far it's working. China has seen a surge of inward investment that began last year, partly due to investors seeking positive real yields not available in the DM world. This is what we call China's quality revolution – prioritizing the *quality* of growth over quantity – and it ties in directly with its ambitions to reach net-zero emissions by 2060.

China also stands in sharp contrast to large EM countries. Chinese policymakers are taking a hawkish stance because of the focus on long-term objectives.

We could see times when markets become concerned that China's policy setting might be excessively tight. That points to downside risks in the short term. The story could not be more different in many other EMs. The debt hangover from the Covid-19 policy response is likely to further hamper growth. Any tightening of financial conditions would make financing this debt for EM tougher. A period of austerity is likely to ensue, exacerbating political divides and stoking populism.

We break out Chinese equities and government debt as a standalone part of our tactical views. China is pushing through reforms that could weigh on the quantity of growth in the near term but potentially improve the *quality* in the long run. This why we are tactically cautious on equities but positive on a strategic basis. We like Chinese government bonds on both a tactical and strategic basis for their relatively attractive yields.

China cools from sharp bounce back

China industrial production and exports, 2019–2021



Sources: BlackRock Investment Institute, China National Bureau of Statistics and China Customs, with data from Haver Analytics, July 2021. Note: The chart shows seasonally adjusted Chinese industrial production and exports rebased to 100 at January 2019.

China's economy has come through the Covid-19 shock stronger than global peers, just as it did after the global financial crisis – and is prioritizing the quality of growth over quantity.

Theme 3

Journey to net zero

The journey to net zero on carbon emissions has a clear starting point and potential destination – but there is no clear roadmap, and we see many turns along the way.

Certain commodities, such as copper (electric vehicles and charging stations) and lithium (batteries), will see increased demand from the drive to net zero.

Yet we think it's important to distinguish between the near-term drivers of commodity prices – notably the economic restart – and the long-term transition that will likely drive some of these prices.

Crude oil prices are a case in point. Recovering demand, coupled with a lack of investment in new supply, is pushing up prices. This may be short-lived as the transition to net zero leads to peak demand. There will likely be a longer-lasting need for metals such as copper. The *Commodity divergence* chart shows a gap opening between the two, unlike the near lockstep rise in the 2000s – which is why a commodity “supercycle” is not how we'd view it.

For all the talk of a green transition and the ambitions for the next few decades, it is only just starting – and the infrastructure needs are huge (page 8). Some of the coming changes may be abrupt – and add to supply and demand disruptions among commodities. That's why it now matters on a tactical, not just strategic, horizon.

Our climate-aware return assumptions (see page 12) assume net zero to be achieved. Yet knowing the desired endpoint is not sufficient. We don't think the green transition will be a smooth one – and that will create opportunities along the journey.

“

Net zero is not about tinkering around the edges. The pace of capital stock turnover required is unprecedented.”



Paul Bodnar
Global Head of Sustainable Investing,
BlackRock

Commodity divergence

Brent crude oil and copper spot price, 2000–2021



Sources: BlackRock Investment Institute, with data from Refinitiv Datastream, July 2021. Note: chart shows the spot price of London Metal Exchange (LME) copper and Brent crude oil rebased to 100 at the start of 2000.

There is no clear roadmap for the transition to a net-zero carbon emissions world. We know the starting point and desired endpoint – but we don't think the journey will be smooth.

Forum focus

Infrastructure

A rebuild of global infrastructure will be critical to achieving a net-zero carbon world in coming decades. The Paris climate accord underscores global efforts – both public and private – to reorient investments and put this new or refitted infrastructure in place.

The Biden administration has proposed major infrastructure investments, not only to fund the green transition but also to make up for years of underinvestment in traditional infrastructure such as roads, bridges, rail and ports.

The switch to renewable energy will require multiples more of wind turbines and solar panels. The anticipated growth in electric vehicles is reliant on investment in the distribution grid and charging stations. Widespread adoption of smart meters requires metering infrastructure. And centralized heating systems for homes and buildings will require an overhaul of boiler systems. With stretched public finances and an estimated \$15 trillion global funding gap, according to the 2018 G-20 [Global Infrastructure Outlook](#), we see private capital playing a key role.

We see significant opportunities over the coming years, not only in DMs but in China and Asia-Pacific more broadly. In renewable energy, capital is mostly flowing to operating assets in countries more advanced in building capacity, such as the UK. That opens up opportunities across both public and private markets at the growth end of new renewable energy buildouts, such as Asia.

Infrastructure has become a crowded place, pushing up valuations. Greater government support could relieve some of that pressure. Private markets in this area may offer potential to add value and diversification. Yet they can be complex and are not suitable for all investors. A lack of historical data also warrants caution.

“

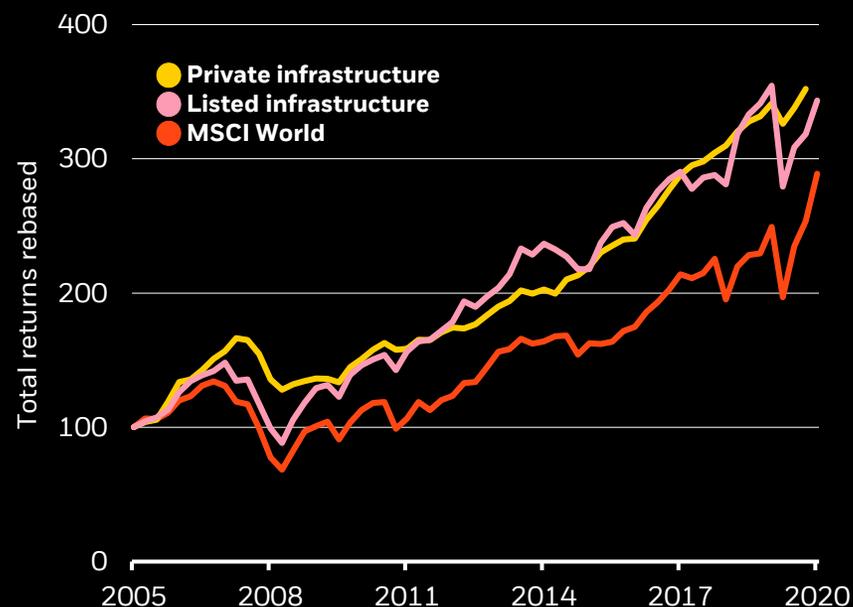
The energy transition is driven by four Ds: decarbonization, decentralization, digitalization and demographics.”



Anne Valentine Andrews
Global Head of Real Assets, BlackRock Alternative Investors

Infrastructure returns

Infrastructure returns vs MSCI World, 2005-2020



Past performance is not a reliable indicator of current or future results. Sources: BlackRock Investment Institute, with data from Bloomberg, December 2020. Notes: The chart shows total returns rebased to 2005. Private infrastructure returns are represented by the Cambridge Private Market Infrastructure Index. Listed infrastructure returns are represented by the FTSE Developed Core Infrastructure 50/50 Index. Indexes are unmanaged. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest in an index.

Achieving net-zero will require massive investments in global infrastructure in the coming decades.

Forum focus

Corporate margins

Markets are expecting a sharp global rebound in corporate profit margins as the economic restart gathers pace. Consensus estimates from Refinitiv data point to net corporate margins hitting their highest level in over two decades in the U.S. and returning to pre-GFC levels in Europe and Asia. See the *Margin recovery* chart. There may even be upside to these estimates as operational leverage boosts bottom lines, in our view. Yet the outlook looks more challenging beyond the next couple of quarters.

The big drivers of rising profit margins in recent years – stagnant input and labor costs, decreasing interest expense and historically low tax rates – look at risk of going into reverse. Input and labor costs are on the rise amid rising inflation and supply shortages in many sectors. Financing costs are rising again, albeit from low levels. And corporate tax hikes are on the table in the U.S., as well as a coordinated push for a global minimum tax that would reduce the ability of multinationals to shift profits to low-tax jurisdictions.

We remain overweight equities on a strategic basis, as we see valuations as reasonable after taking into account the expected path of interest rates. But we believe a backdrop of rising cost pressures makes it key to differentiate across regions, sectors and companies.

Tech companies, pharma and luxury goods makers are among those that look well positioned to pass on higher costs and maintain or even expand their relatively high margins. Labor-intensive industries, such as retail and leisure, are likely to face margin pressures on the back of rising wages, in our view.

“

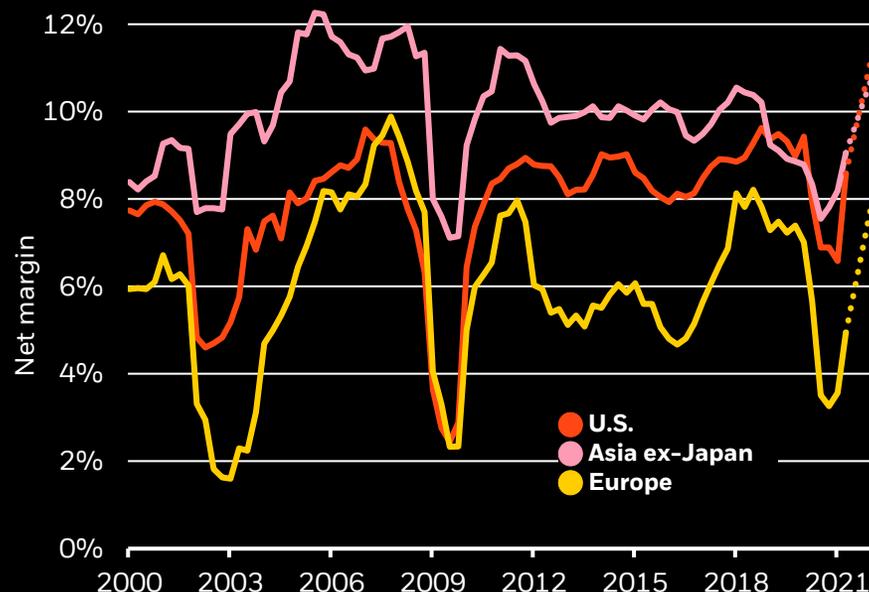
For margins to keep grinding higher, we'll need revenue growth to more than offset rising cost pressures.”



Kate Moore
Head of Thematic Strategy, Global Allocation

Margin recovery

Net profit margins and 12-month forward estimates, 2000-2022



Past performance is no guarantee of 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 Refinitiv, June 2021. Notes: The chart shows the trailing net profit margins for Datastream Global U.S., Europe and Asia ex-Japan equity indexes. Dotted lines show 12-month forward aggregate analyst estimates. Forward looking estimates may not come to pass.

The forces that have buoyed margins over the past 15 years – declining input costs, debt servicing costs and tax rates – could be on the cusp of reversal in the medium term.

Forum focus

Geopolitics

Market concern about geopolitical risk has eased significantly since the change in U.S. administration. This is reflected in our BlackRock geopolitical risk indicator (BGRI) – which monitors market attention to the top-10 risks we track – sitting around four-year lows. See the *Fading attention* chart and our revamped [Geopolitical risk dashboard](#) for more.

Geopolitical risks have faded as a market driver with intense focus on the economic restart and inflation dynamics – yet we believe it’s worth tracking specific geopolitical risks as any flareups could catch investors off guard, particularly when market attention is low.

U.S.–China relations are at the front of our radar, and reflected in two of our top-10 risks: *Global technology decoupling* and *U.S.–China strategic competition*. The pandemic has exacerbated tensions across nearly every dimension of the U.S.–China relationship. Among the potential flashpoints is Taiwan. We do not see a military showdown as an imminent threat, but believe the risk will increase as the decade wears on.

The pandemic has also accelerated a decoupling of the global tech sector as countries seek to address supply chain vulnerabilities and heightened reliance on critical technologies. The U.S. and China are both focused on reducing tech interdependence – even as financial integration deepens. This is why we see a need for dedicated exposures to both poles of global growth.

Cyber security is another risk markets may underappreciate. Attacks on critical infrastructure are increasing in scope, scale and sophistication, and the U.S. is facing an epidemic of “ransomware.” Repeated attacks could cause significant damage and sustained disruption, spilling over to financial markets and the real economy.

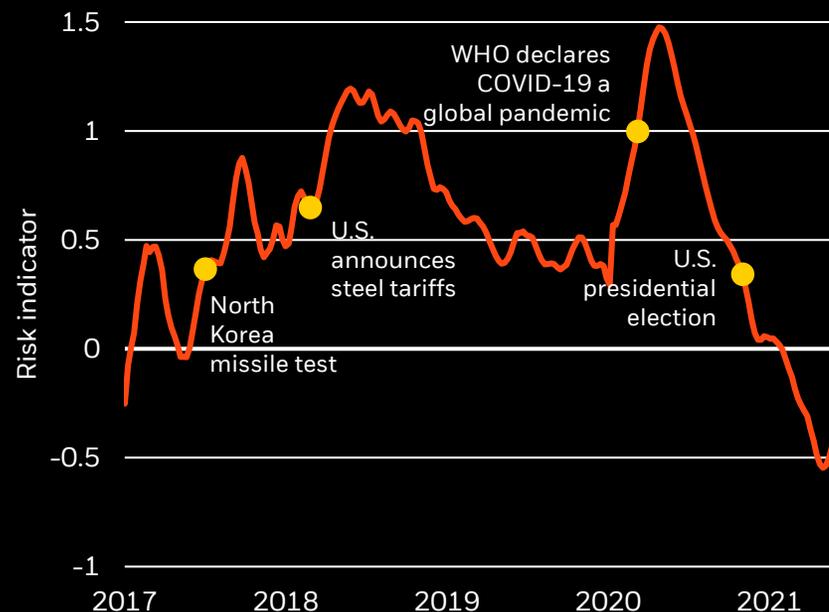
“Cyber has reached an inflection point; it’s not just a national security risk now, but a business and economic one.”



Tom Donilon
Chairman – BlackRock
Investment Institute

Fading attention

BlackRock Geopolitical Risk Indicator, 2017–2021



Source: BlackRock Investment Institute, with data from Refinitiv, July 2021. Notes: We identify specific words related to geopolitical risk in general and to our top risks. We then use text analysis to calculate the frequency of their appearance in the Refinitiv Broker Report and Dow Jones Global Newswire databases. We then adjust for whether the language reflects positive or negative sentiment, and assign a score. A zero score represents the average BGRI level over its history. A score of one means the BGRI level is one standard deviation above the five-year average. We weigh recent readings more heavily in calculating the average.

Geopolitical risks have faded as a market driver with focus on the economic restart and inflation dynamics – but specific risks are worth monitoring: any flareups could catch investors off guard.

Strategic views

Playing the new nominal

We prefer tilting toward equities over credit and government bonds on a strategic basis, even after the strong rebound seen since the equity market’s lows of March 2020. A key reason for staying the course on our strategic asset views: we see our *new nominal* investment theme – that calls for a more muted response of interest rates to higher inflation than in the past.

The *new nominal* has been key to our pro-risk tactical investment views. Yet taken alongside the powerful, joint monetary-fiscal policy revolution that has dominated the Covid-19 response, it has significant implications for our strategic views as well.

We see the equity risk premium – our preferred gauge of equity valuations that accounts for changes in interest rates – as in-line with historical averages. This suggests the asset class is not overvalued. By contrast, credit spreads are near historically tight levels, as shown on the *Equities over credit* chart.

Do higher long-term yields signal bad news for equities? We don’t agree with this narrative. Rising yields should not matter for equity valuations if they are due to the return of term premia – the compensation investors demand for holding riskier longer-term bonds – rather than expectations of a higher policy rate path. We believe higher term premia in a backdrop of a strong economic restart do not challenge equity valuations.

The *new nominal* also impacts private assets. Historical comparisons do not take into account a prolonged period of low interest rates. We see valuations supported in such an environment.

“Even after the recent Fed shift, we’re still in a very different policy and rates regime. That’s a reason we still like equities.”



Rupert Harrison
Head of Research,
Diversified Strategies,
BlackRock Multi-Asset
Strategies and Solutions

Equities over credit

Equity risk premium and credit spreads, current vs historical



Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. You cannot invest directly in an index. Source: BlackRock Investment Institute, with data from Refinitiv Datastream, May 2021. The chart shows the equity risk premium and historical ranges since 1995 for major equity regions based on MSCI indices and the credit spreads for the U.S. Investment Grade and High Yield markets based on Bloomberg Barclays indices. We calculate the equity risk premium based on our expectations for nominal interest rates and the implied cost of capital for respective equity markets. Credit spreads are calculated by taking the difference between the credit market yields and the corresponding government bond yields.

The interaction of monetary and fiscal policy is critical. We see a strong incentive for policymakers to keep interest costs low to manage surging debt burdens that were necessary to cushion the impact of the Covid shock.

Strategic views

Preparing for the green transition

Climate risk is investment risk, and we see it as a historic investment opportunity at the same time. Our capital market assumptions (CMAs) – the long-run return expectations that form the core input to building portfolios – reflect the impact of climate change on the investment landscape. This is one of a [set of actions](#) we are taking to prepare investors for the transition to a net-zero emissions economy by 2050 or sooner.

We do not believe tackling climate change comes at a net loss to global economic activity. In fact, we see the physical damages that may result if nothing is done to combat climate change as detrimental to global growth. We see a green transition to a low-carbon economy improving the outlook for growth and risk assets relative to a no-action scenario.

Understanding the implications for strategic portfolios warrants taking a more granular view than ever. We now use sectors as the relevant unit of investment analysis.

We don't believe market prices yet reflect the coming changes. This suggests that assets positioned to benefit from the transition may have higher returns during the transition. We also see climate change issues impacting corporate fundamentals by reshaping business models.

The impact of misjudging the climate transition could be as high as a 7% annualized return differential over five years between the technology and energy sectors – those most likely to be affected by the transition, in our view. See the *Seeing green* chart. This is a significant difference in a world of low expected returns.

“

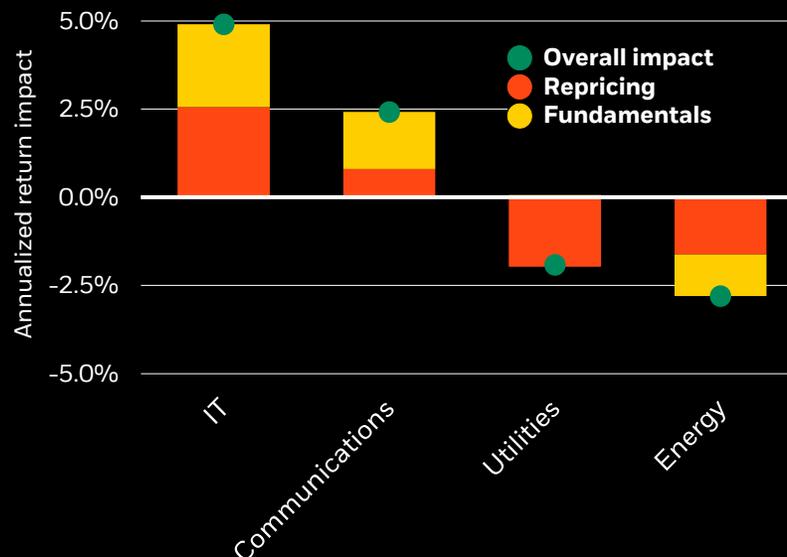
The green transition will play out at the industry and sector level, warranting a granular asset allocation.



Natalie Gill
Portfolio Strategist,
BlackRock Investment
Institute

Seeing green

Five-year expected return differential in green transition vs no-action



This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise – or even estimate – of future performance. Sources: BlackRock Investment Institute, with data from Refinitiv Datastream and Bloomberg, July 2021. Notes: The chart shows the estimated difference in U.S. dollar expected returns over the next five years from April 2021 for four sectors of the MSCI USA Index in our base case of a “green” transition (policies and actions taken to mitigate climate change and damages, and to limit temperature rises to no more than 2 degrees Celsius by 2100) vs. a no-climate-action scenario. The estimated sectoral impact is based on expected differences in economic growth, corporate earnings and asset valuations across the two scenarios. See here for our paper on [climate-aware long-term asset return expectations](#).

The debate about sustainable investing has broadened. Rather than talking about the downsides, we are focused on return potential and alpha.

Directional views

Strategic (long-term) and tactical (6-12 month) views on broad asset classes, July 2021

Asset	Strategic view	Tactical view
Equities	+1	+1 We keep our overweight equities on a strategic horizon. We see a better outlook for earnings amid moderate valuations. Incorporating climate change in our expected returns brightens the appeal of developed market equities given the large weights of sectors such as tech and healthcare in benchmark indices. Tactically, we stay overweight equities as we expect the restart to re-accelerate and interest rates to stay low. We tilt toward cyclical and maintain a quality bias.
Credit	-1	Neutral We stay underweight credit on a strategic basis as valuations are rich and we prefer to take risk in equities. On a tactical horizon, we are neutral credit following the tightening in spreads in investment grade and high yield.
Govt Bonds	-1	-1 We are strategically underweight nominal government bonds given their diminished ability to act as portfolio ballast with yields near lower bounds. Rising debt levels may eventually pose risks to the low-rate regime. This is part of why we underweight government debt strategically. We prefer inflation-linked bonds – particularly in the U.S. relative to the euro area on valuations. We add to our underweight on U.S. Treasuries on expectations of gradually rising yields.
Cash		Neutral We are moderately pro-risk and keep some cash to potentially further add to risk assets on any market turbulence.
Private Markets	Neutral	Neutral We believe non-traditional return streams, including private credit, have the potential to add value and diversification. Our neutral view is based on a starting allocation that is much larger than what most qualified investors hold. Many institutional investors remain underinvested in private markets as they overestimate liquidity risks, in our view. Private markets are a complex asset class and not suitable for all investors.

Underweight **Neutral** **Overweight** ● Previous view

Note: Views are from a U.S. dollar perspective, July 2021. 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.

Directional views

Staying pro-risk

The broadening economic restart, coupled with global central banks' resolve to maintain easy financial conditions, keeps us moderately pro-risk. We favor equities over credit and government bonds on both a strategic and tactical investment horizon. In our tactical views, we lean further into cyclical and favor sectors with the potential to deliver consistent earnings growth. In fixed income, we add to our underweight in U.S. Treasuries, primarily on valuations, and prefer TIPS instead, where the recent pullback presents an opportunity to add exposure. We see the higher yields on Chinese government bonds relative to DM peers as appealing. We cut high yield to neutral following the asset class' strong performance.

On a strategic horizon, we prefer equities over credit and government bonds. We like DM and China within equities, helped in part by the impact of incorporating climate change in our return expectations. We prefer inflation-linked bonds to DM nominal government bonds as portfolio ballast. The lower-for-longer environment boosts the appeal of private markets for eligible investors, in our view. We maintain a higher allocation to equities than we would through typical periods of rising inflation as we believe the policy revolution has diminished the risk of a sharp rise in discount rates hitting valuations across asset classes.

Tactical views

Getting cyclical

We have upgraded our stance on European and Japanese equities to overweight and neutral, respectively. The chart shows how cyclical sectors in Europe such as technology and financials – that comprise about a fourth of the overall benchmark index in terms of market capitalization – have lagged U.S. peers since last March. We believe these sectors could be well positioned to play catch up as the restart broadens beyond the U.S.

The same has been true for the EM world. Yet we are more cautious on EM equities and local currency debt on a tactical horizon, and have downgraded both to neutral. The reasons: U.S. dollar volatility amid greater uncertainty around Fed policy, and the risk of slower growth in China.

In the near term, we see U.S. large cap equities as exposed to risks of higher taxes and tighter regulations – and trim our overall view on U.S. equities to neutral. We see potential in small- and mid-cap U.S. companies amid a vaccine-led domestic rebound in activity.

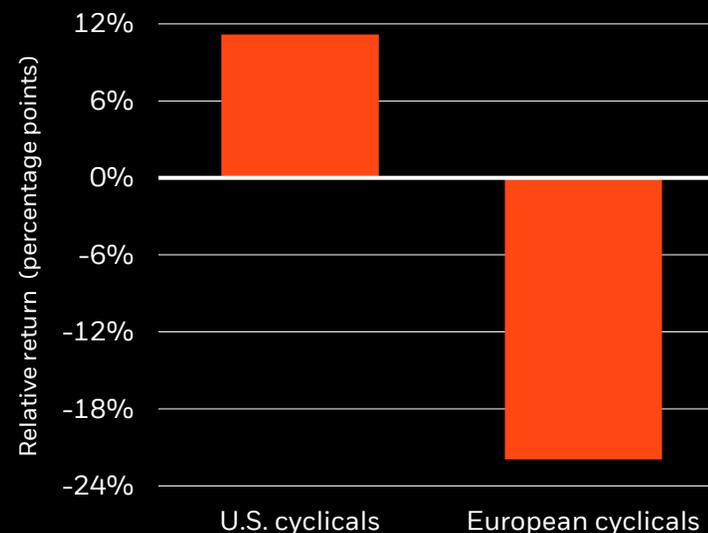
We see China warranting a standalone view distinct from broader EMs. We introduce an overweight stance on Chinese government bonds due to attractive yields, and a neutral on Chinese equities. We overweight the asset class on a strategic basis, but see near-term risks amid a regulatory crackdown on dominant companies and slower growth due to tighter policy.

We are taking advantage of the pullback in U.S. inflation breakevens to return to an overweight on Treasury Inflation-Protected Securities (TIPS). We find TIPS particularly attractive relative to inflation bets in the euro area where the outlook for inflation remains sluggish.

We also like other inflation-linked exposures, such as commodities and real assets. We prefer TIPS to nominal U.S. Treasuries, where we increase our underweight by one notch. We see the rally in U.S. Treasuries, which has taken yields below 1.5% as of late June, as overdone. This sets the scene for yields to climb gradually higher from current levels, in our view.

Switching exposures

Relative returns of U.S. and European cyclical sectors since March 2020

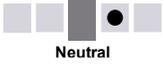
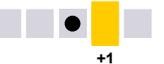
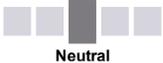
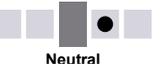
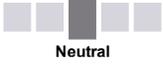
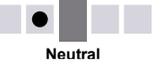
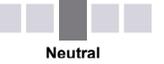
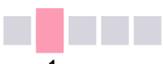
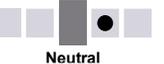
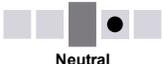
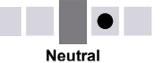
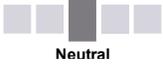


Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. You cannot invest directly in an index. Sources: BlackRock Investment Institute and MSCI, with data from Refinitiv Datastream, July 2021. Notes: The chart shows the average relative returns of high-beta sectors within the MSCI USA and MSCI Europe indexes vs. the MSCI World index since the March 2020 equity market trough. A beta of 1 indicates that the sector moves in line with the broader MSCI World. We consider sectors with a beta significantly greater than 1 to show the ones with the greatest sensitivity to cyclical activity. The index proxies and betas of the sectors shown are as follows: MSCI USA Materials (1.16), MSCI USA Financials (1.11), MSCI USA IT (1.25), MSCI Europe IT (1.23) and MSCI Europe Financials (1.21).

We lean further into cyclicality to capture potential upside as the broadening pickup in economic activity boosts corporate earnings expectations.

Tactical granular views

Six to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, July 2021

Equities	View	Commentary	Fixed income	View	Commentary
United States	 Neutral	We turn neutral U.S. equities. We see U.S. growth momentum peaking and expect other regions to be attractive ways to play the next leg of the restart as it broadens to other regions, notably Europe and Japan.	U.S. Treasuries	 -2	We add to our underweight on U.S. Treasuries, primarily on valuations. We see the balance of risks tilting toward gradually higher yields as markets continue to price in the economic restart, especially given the pullback in yields in recent months.
U.S. small caps	 +1	We stay overweight U.S. small-caps. We see potential in this segment of the U.S. equity market to benefit from the cyclical rebound in domestic activity brought about an accelerated vaccination rollout.	Treasury Inflation-Protected Securities	 +1	We turn overweight U.S. TIPS. We believe the recent pullback in the asset class presents an attractive opportunity, particularly on a relative basis against European inflation breakevens as the outlook for euro area inflation remains sluggish.
Europe	 +1	We upgrade European equities to overweight on the back of the broadening restart. We see a sizeable pickup in activity helped by accelerating vaccinations. Valuations remain attractive relative to history and investor inflows into the region are only just starting to pick up.	German bunds	 Neutral	We are neutral on bunds. Although the ECB may begin tapering this year given inflation dynamics, we see little room for a substantive change in policy in the near term.
UK	 Neutral	We turn neutral UK equities following their strong performance. We see the market as fairly valued and prefer European equities.	Euro area peripherals	 Neutral	We are neutral euro area peripheral government bonds despite recent outperformance given stability in ECB policy, low volatility in peripherals and better value elsewhere.
Japan	 Neutral	We upgrade Japanese equities to neutral. We see a global cyclical rebound helping boost earnings growth in the second-half of the year. The country's virus dynamics are also improving.	China government bonds	 +1	We initiate a view on Chinese government bonds with an overweight. We see the relatively stability of interest rates and the carry on offer as brightening their appeal.
China	 Neutral	While overweight on a strategic basis, we see near-term risks. Growth is slowing at the same time as policy stance is tight – and may not respond in a timely way as authorities focus on the quality of growth. The anti-monopoly clampdown is ongoing.	Global investment grade	 -1	We remain underweight investment grade credit. We see little room for further yield spread compression and favor more cyclical exposures such as Asian fixed income.
Emerging markets	 Neutral	We downgrade EM equities to neutral. We see more uncertainty on the U.S. dollar outlook due to a risk premium from Fed communication. Many EMs have started tightening policy, showing less policy support and a greater risk of scarring.	Global high yield	 Neutral	We downgrade high yield to neutral after the asset class' strong performance. Spreads are now below where we see high yield as attractively valued. We prefer to take risk in equities.
Asia ex-Japan	 Neutral	We downgrade Asia ex-Japan equities to neutral. The anti-monopoly clampdown in the heavyweight Chinese tech sector and broader geopolitical risks dampen the outlook, in our view.	Emerging market – hard currency	 Neutral	We are neutral hard-currency EM debt. We expect it to gain support from the vaccine-led global restart and more predictable U.S. trade policies.
			Emerging market – local currency	 Neutral	We downgrade to neutral and see more uncertainty on the U.S. dollar outlook due to a risk premium from Fed communication. Many EMs have started tightening policy, showing less policy support and a greater risk of scarring, in our view.
			Asia fixed income	 +1	We are overweight Asia fixed income. Outside of China, we like Asia sovereigns and credit for their yield and income given the region's fundamental outlook.

Underweight

Neutral

Overweight

● Previous view

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 to provide insights on the global economy, markets, geopolitics and long-term asset allocation – all to help our clients and portfolio managers 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 not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of July 2021 and may change. The information and opinions are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by BlackRock, its officers, employees or agents. This material may contain 'forward looking' information that is not purely historical in nature. Such information may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

In the **U.S. and Canada**, this material is intended for public distribution. In **EMEA** Until 31 December 2020, 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. 2020394, has issued this document for access by Professional Clients only and no other person should rely upon the information contained within it. 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. From 1 January 2021, in the event the United Kingdom and the European Union do not enter into an arrangement which permits United Kingdom firms to offer and provide financial services into the European Union, the issuer of this material is:(i) BlackRock Investment Management (UK) Limited for all outside of the European Union; and(ii) BlackRock (Netherlands) B.V. for in the European Union, 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 **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 FO00738). 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: 29th floor, Olaya Towers – Tower B, 3074 Prince Mohammed bin Abdulaziz St., Olaya District, Riyadh 12213 – 8022, KSA, Tel: +966 11 838 3600. 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. The information contained within, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Any distribution, by whatever means, of the information within and related material to persons other than those referred to above is strictly prohibited. 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 **China**, this material may not be distributed to individuals resident in the People's Republic of China ("PRC", for such purposes, excluding 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**, for institutional investors and financial intermediaries only (not for public distribution). 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

The information provided here is neither tax nor legal advice. Investors should speak to their tax professional for specific information regarding their tax situation. Investment involves risk including possible loss of principal. International investing involves risks, including risks related to foreign currency, limited liquidity, less government regulation, and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are often heightened for investments in emerging/developing markets or smaller capital markets.

©2021 BlackRock, Inc. All Rights Reserved. BlackRock is a registered trademark of BlackRock, Inc., or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.