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FOR INSTITUTIONAL, PROFESSIONAL, QUALIFIED INVESTORS/CLIENTS IN OTHER PERMITTED COUNTRIES.

Weekly commentary

BlackRock

March 24, 2025

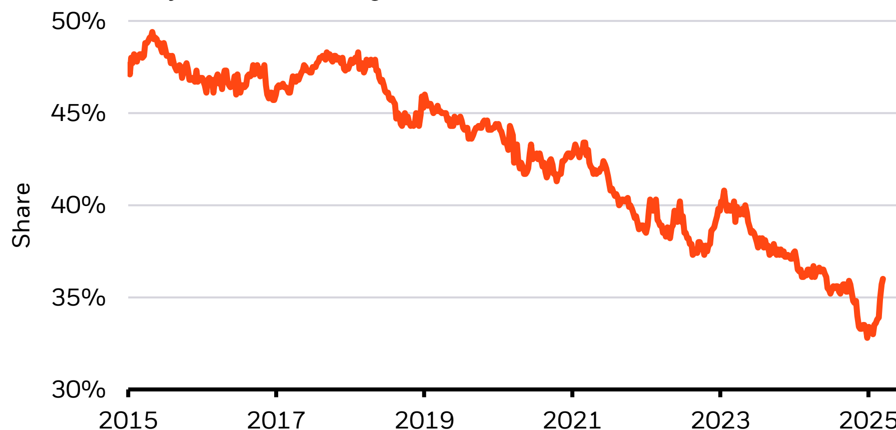
Bright spots in global stocks

- The U.S. equity pullback has narrowed the performance gap with the rest of the world. We see bright spots in global markets benefiting from structural shifts.
- U.S. stocks steadied after a four-week losing streak last week. Global stocks rose, with Japan the standout. U.S. 10-year Treasury yields ticked down to 4.25%.
- Global PMI data could indicate any damage from U.S. policy uncertainty. We expect U.S. PCE data to keep showing that inflation is likely to settle above 2%.

The U.S. equity pullback has put a dent in U.S. outperformance over the rest of the world. We stay overweight U.S. stocks and see opportunities across global stocks. Europe's fiscal boost may benefit some sectors. In Asia, corporate reforms have lifted Japanese stocks, while some Latin American countries tap into mega forces. Stronger currencies may boost the appeal of emerging local currency debt. Yet we think prolonged U.S. policy uncertainty could dim some of these bright spots.

Not the only game in town

Non-U.S. equity market share of global market capitalization, 2015-2025



Past performance is not a reliable indicator of current or future results. It is not possible to invest in an index. Indexes are unmanaged and performance does not account for fees. Source: BlackRock Investment Institute, with data from LSEG Datastream, March 2025. Note: The chart shows the market value of the MSCI All-Country World excluding the U.S. index as a share of the MSCI All-Country World index.

The weight of non-U.S. equities in global equity indexes has been on the rise since the end of January. See the chart. What's driving that? In the near term, policy uncertainty has shaken investor conviction in U.S. growth and equity strength. That's pulled the S&P 500 down more than 3%. The selloff has been exacerbated by investors rapidly pulling out of popular trades – like the tech-heavy momentum equity style factor and cyclical trades that were betting on a boost from growth from potential U.S. deregulation and tax cuts. Meanwhile, country-specific developments are boosting the appeal of global stocks, such as Germany's big fiscal spending, Japan's corporate reforms and Mexico's role in rewiring supply chains. We think U.S. stocks can ultimately keep leading as the artificial intelligence (AI) theme broadens. Yet prolonged uncertainty poses a risk to both U.S. and global risk assets.

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Germany's defense and infrastructure spending plans were approved faster and with a greater scope than expected last week, not long after the federal election in February. Europe's fiscal boost could lift revenues at aerospace and defense companies. Profit margins for the financial sector, our year-long preference, look set to grow as policy rates likely stay above pre-pandemic levels. Capital spending on electrification, energy efficiency and data centers could fuel growth for industrials. We're selective as it will take time to see fiscal spending filter into the economy given the constraints in quickly boosting defense and infrastructure investment, on top of the limited fiscal room in most of Europe. European equity valuations still look attractive even as the discount versus U.S. stocks has narrowed from the 40% extremes seen last year, LSEG data show.

In Asia, structural shifts are spurring divides even within markets – reinforcing the need to be selective. A flood of apparently more efficient Chinese AI models has driven the Hang Seng index of mainland shares, full of big China tech companies, up 20% this year. That contrasts with the onshore benchmark CSI 300, roughly flat this year, showing how the AI theme in China has been centered in tech as it initially was in the U.S. Japan's ongoing corporate reforms and mild inflation have driven long-lagging corporate return on equity, or profitability, to four-decade highs, LSEG data show – keeping us overweight stocks.

Latin America offers other bright spots. Mexico's stocks have jumped nearly 8% year to date as the impact of U.S. tariffs has been less severe than expected. The Bank of Mexico's cautious rate cuts have also helped stabilize the peso, up 4% against the U.S. dollar this year. While the impact of U.S. policy remains uncertain, Mexico is increasingly an intermediate trading partner between competing economic and geopolitical blocs. Chile's equities have jumped 12% this year and its currency is up 8% against the dollar – given resilient economic growth and expected private investment in minerals key to the energy transition. More broadly, stronger EM currencies – if sustained – could brighten the appeal of EM debt issued in local currencies. We eye any temporary weakness due to trade uncertainty as an opportunity to upgrade the asset class to neutral.

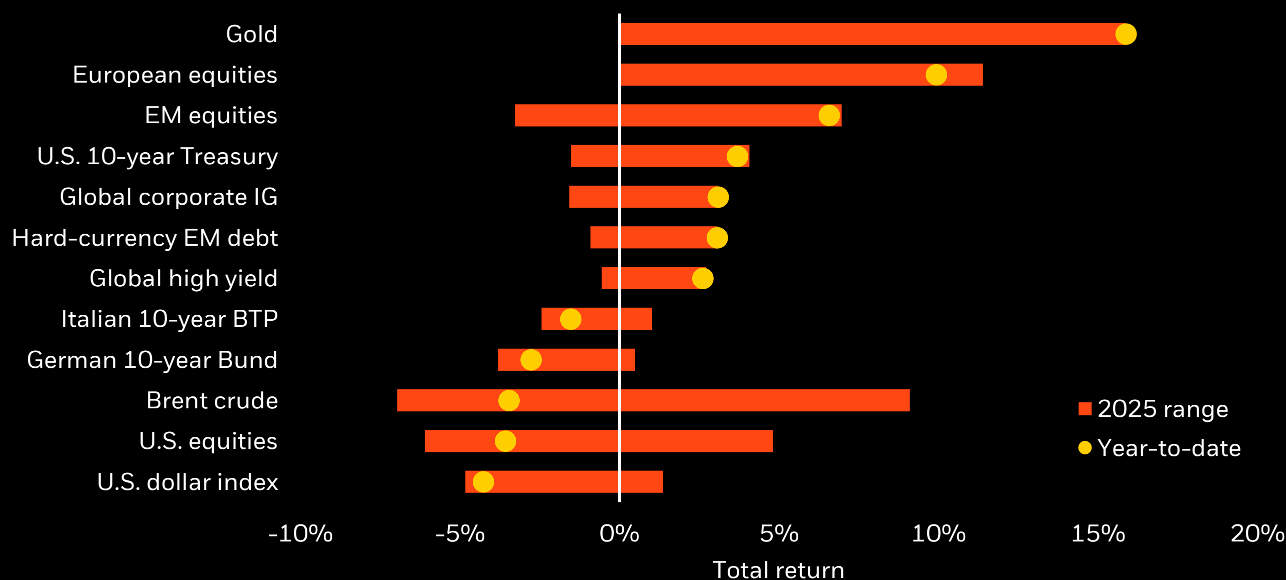
Bottom line: Country-level shifts and events are creating bright spots in global stocks, so we get selective. We stay overweight U.S. stocks on a six- to 12-month tactical horizon. Yet prolonged uncertainty could hurt both U.S. and global risk assets.

Market backdrop

U.S. stocks steadied after a four-week streak of losses. European stocks rose 0.5% last week, while Japan's Topix was the standout, rising 3.3%. U.S. 10-year Treasury yields fell 6 basis points to 4.25%. We think the slide in U.S. equities was overdone as economic conditions don't point to recession and corporate earnings hold up. But the longer uncertainty goes on, the more growth may suffer. We eye the "reciprocal" U.S. tariffs due to be announced on or before April 2 – and any fallout.

Assets in review

Selected asset performance, year-to-date return and range



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Sources: BlackRock Investment Institute, with data from LSEG Datastream as of March 20, 2025. Notes: The two ends of the bars show the lowest and highest returns at any point year to date, and the dots represent current year-to-date returns. Emerging market (EM), high yield and global corporate investment grade (IG) returns are denominated in U.S. dollars, and the rest in local currencies. Indexes or prices used are: spot Brent crude, ICE U.S. Dollar Index (DXY), spot gold, 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.

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Week ahead

March 24	Global flash PMIs	**March 26**	U.S. durable goods; UK CPI
March 25	U.S. consumer confidence	**March 28**	U.S. PCE

Global manufacturing and services survey results for March out this week could indicate how uncertainty from U.S. tariff policy is affecting economic sentiment around the world. We expect the U.S. PCE inflation data – the Fed's preferred metric – to keep suggesting that inflation will settle above the Fed's 2% target given still-elevated wage gains.

Big calls

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

Tactical	**Reasons**
U.S. equities	Policy uncertainty may weigh on growth and stocks in the near term. Yet we remain overweight as we see the AI buildout and adoption creating opportunities across sectors and driving equity strength over our tactical horizon. We tap into beneficiaries outside the tech sector. 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 underweight long-term U.S. Treasuries. 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 DM government bonds over investment grade credit given tight spreads. Within DM government bonds, we favor short- and medium-term maturities in the U.S., and UK gilts across maturities.
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, March 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.

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Granular views

Six- to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, March 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	+2	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	Neutral	We are neutral, preferring the U.S. and Japan. We see room for more European Central Bank rate cuts, supporting an earnings recovery. Rising defense spending, as well as potential fiscal loosening and de-escalation in the Ukraine war are other positives.
	UK	Neutral	We are neutral. Political stability could improve investor sentiment. Yet an increase in the corporate tax burden could hurt profit margins near term.
	Japan	+1	We are overweight. 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.
	Emerging markets	Neutral	We are neutral. The growth and earnings outlook is mixed. We see valuations for India and Taiwan looking high.
	China	+1	We are modestly overweight. We think AI and tech excitement could keep driving returns, potentially reducing the odds of much-anticipated government stimulus. We stand ready to pivot. We remain cautious given structural challenges to China's growth and tariff risks.
Fixed Income	Short U.S. Treasuries	Neutral	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	-2	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	Neutral	We are neutral. We see higher medium-term inflation, but cooling inflation and growth may matter more near term.
	Euro area govt bonds	-1	We are underweight. We see room for yields to climb more as Europe moves to ramp up defense and infrastructure spending. The European Central Bank is also nearing the end of rate cuts.
	UK gilts	Neutral	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	-1	We are underweight. Yields have surged, yet stock returns still look more attractive to us.
	China govt bonds	Neutral	We are neutral. Bonds are supported by looser policy. Yet we find yields more attractive in short-term DM paper.
	U.S. agency MBS	Neutral	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	+1	We are overweight. Short-term bonds better compensate for interest rate risk.
	Long-term IG credit	-1	We are underweight. Spreads are tight, so we prefer taking risk in equities from a whole portfolio perspective. We prefer Europe over the U.S.
	Global high yield	Neutral	We are neutral. Spreads are tight, but the total income makes it more attractive than IG. We prefer Europe.
	Asia credit	Neutral	We are neutral. We don't find valuations compelling enough to turn more positive.
	Emerging hard currency	Neutral	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	-1	We are underweight. We see emerging market currencies as especially sensitive to trade uncertainty and global risk sentiment.

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