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Weekly commentary

BlackRock

April 7, 2025

Reducing risk as uncertainty bites

- We see more pressure on risk assets in the near term given the major escalation in global trade tensions. We trim our short-term tactical horizon and reduce risk.
- Last week saw a risk asset rout akin to major shocks like the pandemic. U.S. stocks plunged. U.S. 10-year Treasury yields fell, and two-year yields rebounded.
- We eye U.S. CPI this week to see how inflation is evolving before new tariffs take effect. Core inflation is running too hot to fall back to the Fed's 2% target.

Jean Boivin
Head – BlackRock Investment Institute

Wei Li
Global Chief Investment Strategist – BlackRock Investment Institute

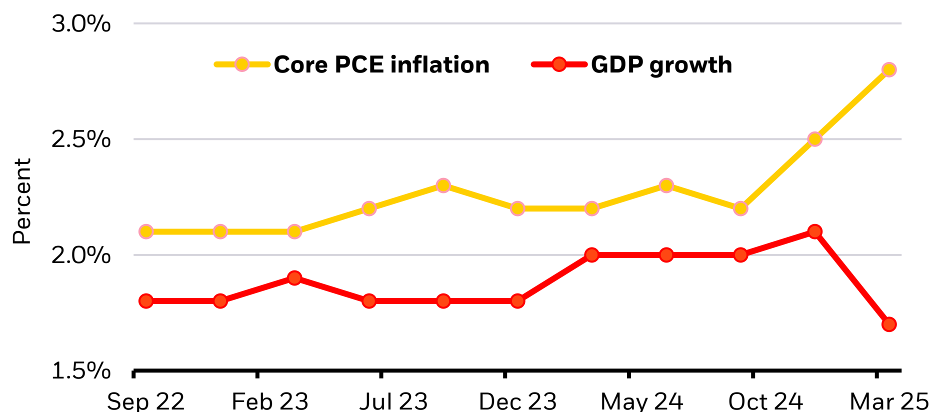
Glenn Purves
Global Head of Macro – BlackRock Investment Institute

Raffaele Savi
Global Head of Systematic — BlackRock

The sharp escalation in global trade tensions and extreme trade policy uncertainty has triggered a broad risk asset selloff. It is less clear if uncertainty will cloud the outlook for a little or a lot longer, so we reduce our tactical horizon to three months. That means giving more weight to our early view that risk assets could face more near-term pressure. We reduce equity exposure for now and allocate more to short-term U.S. Treasuries that could benefit as investors seek refuge from volatility.

A stagflation scenario

Fed projections of GDP growth and inflation for end-2025, Sept. 2022-March 2025



Forward looking estimates may not come to pass. Source: BlackRock Investment Institute and Federal Reserve, with data from Haver Analytics, April 2025. Note: The chart shows the Federal Reserve's projections of GDP growth and core PCE inflation for the calendar year ending in Q4 2025.

The escalating trade conflict sparked the worst one-week selloff in the S&P 500 and U.S. high yield bonds since the 2020 pandemic shock – even as U.S. economic conditions remain solid, as seen in strong U.S. jobs data. We expected risk assets would remain under pressure until uncertainty starts to dissipate – and it's now less clear over how long or short a period policy uncertainty could cloud the outlook. We now see a bigger growth drag and inflation boost. The Federal Reserve also expects a bigger impact than it did in March. See the chart. Many countries are preparing responses to U.S. tariffs. China has kicked off with 34% tariffs and other measures. Yet the full set of international responses and country-specific negotiations with the U.S. will take time, making it hard to have visibility on when and how this will settle. Major wealth destruction could hurt sentiment and consumer spending.

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We still believe U.S. stocks will eventually reclaim global leadership due to mega forces – like the buildout and adoption of artificial intelligence. But for now, we shorten our tactical horizon to three months and reduce risk. A shorter tactical horizon means giving more weight to our early view that risk assets could stay under near-term pressure until uncertainty starts to dissipate. That's why we reduce equity exposure, including to U.S. and Chinese stocks, and allocate more to short-term U.S. Treasuries that could benefit as investors seek refuge from volatility. If clarity comes quickly, we would up risk-taking again.

While we are more cautious about broad benchmarks, sharp selloffs are creating opportunities for security selection. U.S. policy shifts are spurring fiscal spending globally. In Europe, Germany's €1 trillion package for defense and infrastructure investment is creating opportunities in the defense sector. We don't think the growth and earnings outlook yet supports sustained European equity outperformance but a broader macro opportunity could emerge if the European Union finds a way to jointly issue bonds to fund investment across the bloc, as it did in the pandemic.

Overall, we think plans for a new wave of U.S. tariffs and responses from other countries reinforce that we will be in a world where interest rates – and long-term bond yields – stay higher than pre-pandemic. Tariffs and looser fiscal policy in some parts of the world will likely push up on inflation. We lean against market pricing of four to five quarter-point rate cuts by the Fed this year: U.S. core inflation is tracking well above the Fed's 2% target, even before the impact of new tariffs.

We stay underweight long-term Treasuries given persistent U.S. deficits and sticky core inflation. We expect investors to demand more term premium, or compensation for holding long-term bonds given sticky inflation, higher-for-longer interest rates and a tough fiscal outlook. That could put upward pressure on long-term U.S. Treasury yields. We think gold can serve as a better return diversifier in this environment.

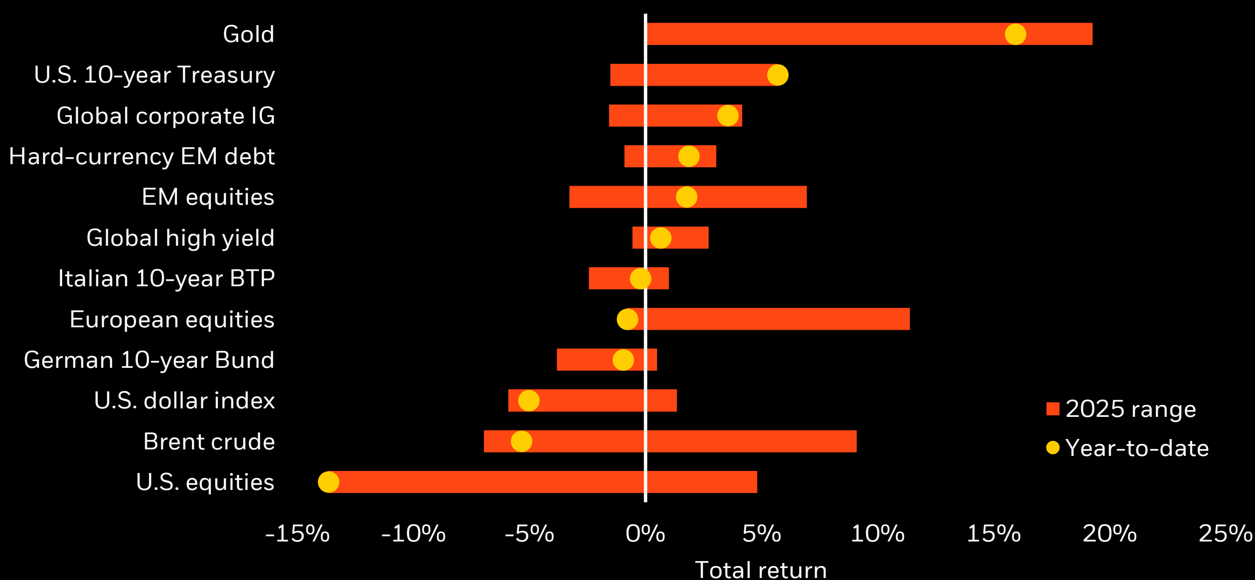
Bottom line: Trade tensions have triggered a risk asset selloff. We see volatility persisting for some time, so we shorten our tactical horizon to three months and reduce risk-taking, turning neutral on U.S. equities and preferring short-term Treasuries.

Market backdrop

The S&P 500 slid 9% last week and shed 10.5% in just two days – the sharpest such move since the pandemic hit in 2020 – after the news of broad U.S. tariffs on global imports. Europe's Stoxx 600 closed down more than 8%, taking the index into negative territory for the year. U.S. 10-year Treasury yields fell to 4.00% but bounced from a six-month low of 3.86%, partly after Fed Chair Jerome Powell ruled out any near-term rate cuts. Two-year yields rose to 3.65% from a low of 3.47%.

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 April 4, 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

April 7	Germany industrial production	**April 11**	University of Michigan sentiment survey; UK GDP
April 10	U.S. CPI; China CPI		

U.S. CPI data for March will be the center of attention for further clues on how inflation is evolving before the new wave of tariffs and other U.S. policy changes take hold. Recent inflation data have been noisy and backward looking, not yet reflecting the impact of tariffs and other policy shifts. Core services inflation, excluding housing, is still running too high to be consistent with core inflation falling back to the Federal Reserve's 2% target, in our view.

Big calls

Our highest conviction views on three-month (tactical) and over five-year (strategic) horizons, April 2025

Tactical	Reasons
U.S. equities	Policy uncertainty may weigh on growth and stocks in the near term – and the longer elevated uncertainty persists, the more damage it can do. We turn cautious on a shorter, three-month tactical horizon. We think U.S. equities can regain their global leadership, led by mega forces such as AI.
Japanese equities	We are neutral, reflecting our short-term caution on global stocks. Ongoing shareholder-friendly corporate reforms remain a positive. We prefer unhedged exposures given the yen's potential strength during bouts of market stress.
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 acrossan 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, April 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

Three-month views on selected assets vs. broad global asset classes by level of conviction, April 2025

We have shortened our tactical investment horizon to three months given the historically higher uncertainty of the moment, emphasizing our caution near term and thus reduced risk taking. The table below reflects this and, importantly, leaves aside the opportunity for alpha, or the potential to generate above-benchmark returns – especially at a time of heightened volatility.

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

	Asset	View	Commentary
Equities	**Developed markets**		
	United States	Neutral (previous view: +2)	Policy uncertainty may weigh on growth and stocks in the near term – and the longer elevated uncertainty persists, the more damage it can do. We turn cautious on a shorter, three-month tactical horizon. We think U.S. equities can regain their global leadership, led by mega forces such as AI.
	Europe	Neutral	We are neutral. 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	Neutral (previous view: +1)	We are neutral, in line with our cautious stance on stocks globally. Where we do take exposure, we prefer it unhedged as the yen has tended to strengthen during bouts of market stress.
	Emerging markets	Neutral	We are neutral. The growth and earnings outlook is mixed.
	China	Neutral (previous view: +1)	We are neutral. The uncertainty of tariffs and trade barriers makes us more cautious. Structural challenges to China's growth and tariff risks also weigh on our outlook.
Fixed Income	Short U.S. Treasuries	+3 (previous view: Neutral)	We are overweight. We view short-term Treasuries as akin to cash in our tactical views. We also like medium-maturities to lean against the market pricing of multiple Fed rate cuts this year.
	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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