

Weekly commentary

July 7, 2025

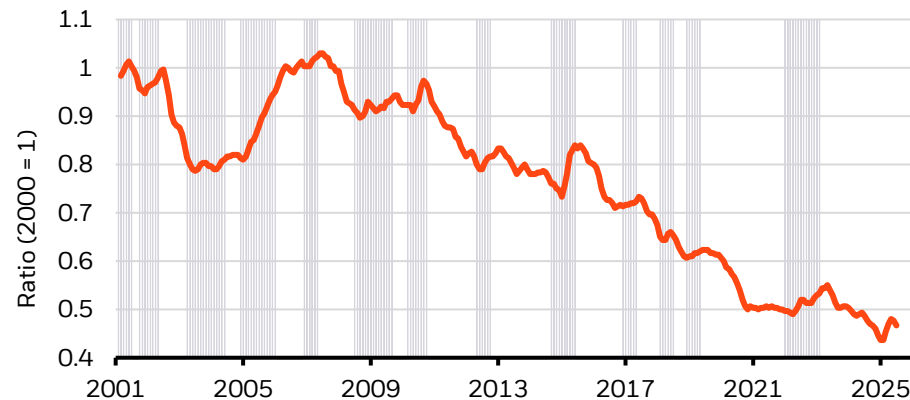
Time to be more tactical

- Immutable economic laws offer more certainty in the near term as long-term macro anchors weaken. That, and mega forces, keep us overweight U.S. equities.
- U.S. stocks edged up to record highs on the AI theme. U.S. 10-year yields edged up as June payrolls data beat expectations, a sign sticky inflation will persist.
- We are monitoring the expiration of the 90-day suspension of U.S. reciprocal tariffs announced on April 2 and watching for any indications of an extension.

Big policy shifts seem to have upended the world this year – but our [2025 Midyear Outlook](#) puts them in perspective. We think immutable economic laws on global trade and U.S. debt limit how quickly the world can change. And while we see long-term macro anchors weakening, we think mega forces like artificial intelligence provide a new anchor. These two core features of this environment keep us risk on and overweight U.S. equities. Watch for more from our Outlook in coming weeks.

Limited rebounds

Ratio of European vs. U.S. equity total returns, 2001–2025



The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Source: BlackRock Investment Institute, with data from LSEG Datastream, July 2025.

Note: The chart shows the ratio of total returns in local currency for the Stoxx 600 over the S&P 500, with shaded areas highlighting when the Stoxx 600 outperformed the S&P 500 by more than 5% over a three- to six-month period.

As unusual as this year has seemed, we think it is a more acute manifestation of the profound transformation underway for a few years now. Long-term macro anchors markets have relied on for decades, like stable inflation and fiscal discipline, have weakened. But that does not mean investors should trim risk taking. Mega forces offer a new anchor for returns. And we see immutable economic laws limiting policy shifts and narrowing near-term outcomes: supply chains can't be rewired overnight and U.S. debt sustainability relies on large foreign funding. So, we're *Investing in the here and now* – and putting more weight on our short-term views. We think today's economic setup still favors U.S. outperformance. European stocks have bested U.S. peers many times since 2000, including early this year, but it's always faded. See the chart. We think Europe needs to advance its structural reforms to change that.



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The recognition that immutable economic laws prevent fast deviation from the status quo allowed us to quickly dial risk back up after the April 2 tariff announcements. And we now see even more cause to stay risk on and overweight U.S. equities. The U.S. is set to enact tax and regulatory reforms that could boost investor sentiment. We see scope for overall corporate earnings to stay solid even if U.S. growth is dented by tariff-induced disruptions and corporate caution.

In fixed income, by contrast, we prefer euro area government bonds and credit over the U.S. Yields are more attractive in Europe than in the U.S. Yes, long-term U.S. Treasury yields may temporarily fall as markets price in rate cuts amid shifting narratives, but we think sticky inflation will keep the Federal Reserve from cutting far. Plus, high fiscal deficits may prompt investors to seek more term premium, or compensation for the risk of holding long-term U.S. debt. We also prefer local currency emerging market (EM) bonds as the U.S. dollar could weaken more and the EM growth outlook is brighter.

In this volatile environment, we think it is important to carefully manage macro risk: set-and-forget portfolios no longer serve investors well. We find other ways of *Taking risk with no macro anchor*. They include relative value – or positioning for prices of different securities to converge or diverge – liquidity, regulation and positioning risk. Another way we inform our risk-taking is by *Finding anchors in mega forces*. We believe they will be durable drivers of returns in both the near and long term.

Across all asset classes, greater dispersion in market and security returns means more opportunity to capture alpha, or above-benchmark returns. Take mega forces as an example. They don't provide a clear handle on the growth and inflation outlook, unlike macro anchors, and don't map into broad return drivers. Instead, we need to track their evolution across and within asset classes, get granular with themes and constantly adapt to what's priced in. Getting active applies across both public and private markets – and we see greater blending of the two within portfolios. Look out for more on just how exceptional this environment is for alpha in coming weeks.

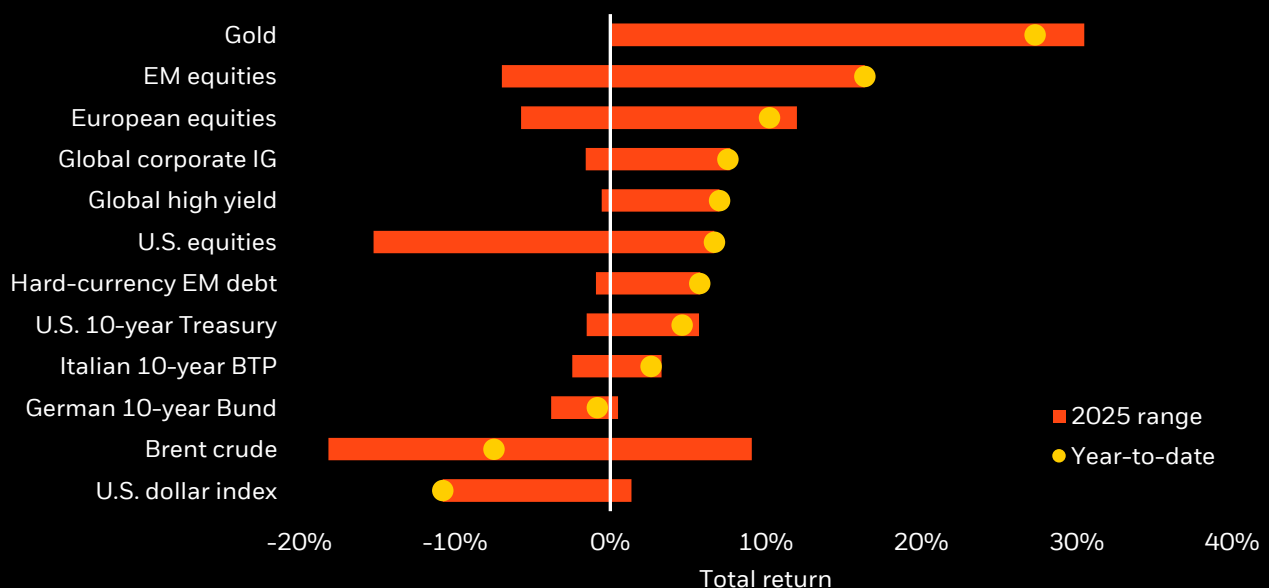
Bottom line: As long-term macro anchors weaken, we find new ones in mega forces and lean more on our short-term views as immutable economic laws limit the pace of change. We stay overweight U.S. stocks and get active across asset classes.

Market backdrop

U.S. stocks edged up to fresh record highs, with the AI theme taking the lead again. The S&P 500 more than fully recovered from its nearly 15% slide after the April 2 U.S. reciprocal tariffs announcement to end up about 11% in Q2 and up 26% from April lows. U.S. 10-year yields edged up to 4.35% after payrolls increased 147,000 in June, beating expectations. We think that highlights how job creation and wage growth would need to slow much more for inflation to settle at the Fed's 2% target.

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 July 2, 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.

Week ahead

July 9	U.S. tariff pause deadline; China CPI
July 10-17	China total social financing

This week, we are monitoring the expiration of the 90-day suspension of U.S. reciprocal tariffs announced on April 2. Negotiators from over a dozen U.S. trading partners are working to finalize an agreement before the deadline. Only the UK and Vietnam have reached a deal so far. Yet an immutable law – supply chains can't be rewired overnight without serious disruption – means we don't anticipate tariffs will return to April 2 highs. We watch to see if the pause gets extended.

Big calls

Our highest conviction views on six- to 12-month (tactical) and over five-year (strategic) horizons, July 2025

Tactical	Reasons
U.S. equities	Policy uncertainty and supply disruptions are weighing on near-term growth, raising the risk of a contraction. Yet we think U.S. equities will regain global leadership as the AI theme keeps providing near-term earnings support and could drive productivity in the long term.
Using FX to enhance income	FX hedging is now a source of income, especially when hedging euro area bonds back into U.S. dollars. For example, 10-year government bonds in France or Spain offer more income when currency hedged than U.S. investment grade credit, with yields above 5%.
Seeking alpha sources	We identify sources of risk taking to be more deliberate in earning alpha. These include the potential impact of regulatory changes on corporate earnings, spotting crowded positions where markets could snap back and opportunities to provide liquidity during periods of stress.
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-term inflation-linked bonds over nominal developed market (DM) government bonds, as U.S. tariffs could push up inflation. Within DM government bonds, we favor UK gilts over other regions.
Equity granularity	We favor emerging over developed markets yet get selective in both. Emerging markets (EM) at the cross current of mega forces – like India – 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, July 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, July 2025

We have lengthened our tactical investment horizon back to six to 12 months. 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.

	Asset	View	Commentary
Equities	Developed markets		
	United States	+1	We are overweight. Policy-driven volatility and supply-side constraints are pressuring growth, but we see AI supporting corporate earnings. U.S. valuations are backed by stronger earnings and profitability relative to other developed markets.
	Europe	Neutral	We are neutral. Greater unity and a pro-growth agenda across Europe could boost activity, yet we are watching how the bloc tackles its structural challenges before turning more optimistic. We note opportunities in financials and industries tied to defense and infrastructure spending.
	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 given the return of inflation and shareholder-friendly corporate reforms. We prefer unhedged exposures as the yen has tended to strengthen during bouts of market stress.
	Emerging markets	Neutral	We are neutral. Valuations and domestic policy are supportive. Yet geopolitical tensions and concerns about global growth keep us sidelined for now.
	China	Neutral	We are neutral. Trade policy uncertainty keeps us cautious, and policy stimulus is still limited. We still see structural challenges to China's growth, including an aging population.
	Short U.S. Treasuries	+1	We are overweight. We view short-term Treasuries as akin to cash in our tactical views. We would still lean against the market pricing of multiple Fed rate cuts over the next year.
	Long U.S. Treasuries	-2	We are underweight. Persistent budget deficits and inflation pressures could drive term premium up over the long term, but we see scope for lower yields near term. We prefer intermediate maturities.
	Global inflation-linked bonds	Neutral	We are neutral. We see higher medium-term inflation, but cooling inflation and growth may matter more near term.
Fixed Income	Euro area govt bonds	Neutral	We are neutral. Yields are attractive, and term premium has risen closer to our expectations relative to U.S. Treasuries. We prefer peripheral bonds such as in Italy and Spain.
	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. We see room for yields to rise further on Bank of Japan rate hikes and a higher global term premium.
	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	+1	We are overweight. We find income in agency MBS compelling and prefer them to U.S. Treasuries for high-quality fixed income exposure.
	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. We favor Europe over the U.S.
	Global high yield	Neutral	We are neutral. Spreads are tight, but corporate fundamentals are solid. The total income makes it more attractive than IG.
	Asia credit	Neutral	We are neutral. We don't find valuations compelling enough to turn more positive.
	Emerging hard currency	-1	We are underweight. Spreads to U.S. Treasuries are near historical averages. Trade uncertainty has eased, but we find local currency EM debt more attractive.
Emerging local currency	Neutral	We are neutral. Debt levels for many EMs have improved, and currencies have held up against trade uncertainty. We prefer countries with higher real interest rates.	

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