Weekly commentary

October 27, 2025

BlackRock

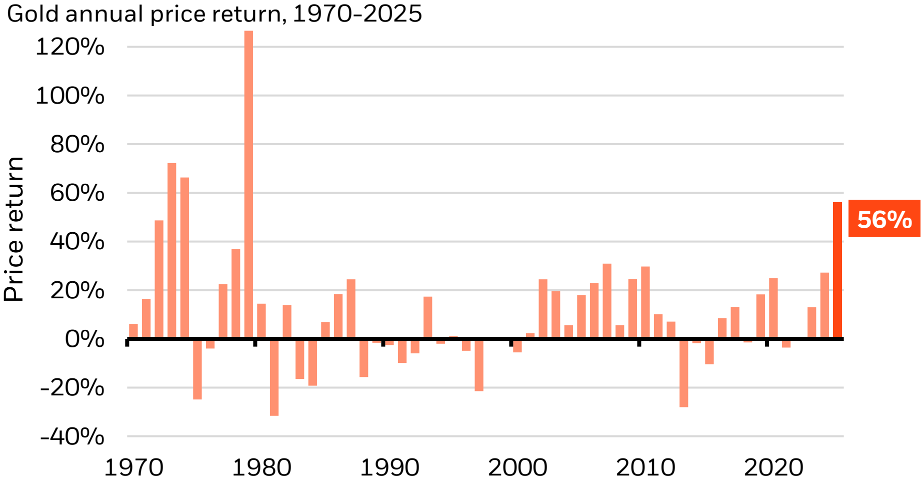
Keeping our macro scenarios fresh

- We refresh our macro scenarios over a tactical horizon while still seeing a softer labor market and Fed rate cuts supporting risk assets and broader risk appetite.
- U.S. stocks rose to fresh highs. We look for updates on AI capital spending plans in a busy week of megacap tech earnings results.
- We eye global central bank meetings and expect the Fed to again cut rates. The U.S. government shutdown means markets will likely lack GDP and PCE data.

A cooling labor market should allow the Federal Reserve to trim interest rates again this week, supporting risk assets. We refresh our macro scenarios used to inform our risk stance – including potential downside scenarios if inflation proves sticky. We think gold's surge this year – and brief selloff – is tied to worries about debt in major economies but also partly due to bullish risk appetite and potential speculative froth. We see gold as a tactical exposure within portfolios.

Historic surge

Gold annual price return, 1970-2025



Past performance is not a reliable indicator of future results. Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute, with data from LSEG Datastream, October 2025. Note: The bars show the annual change in gold's spot price. The bar for 2025 shows the year-to-date return.

Fed rate cuts have boosted risk appetite – and gold has had an unusual surge this year after decades of being relatively dormant. Gold is on track for its biggest annual surge since 1979 – when inflation was rampant – and is still up more than 50% this year. See the chart. What's driving it? Worries about the fiscal outlooks in major economies are one factor as investors seek portfolio diversifiers away from long-term bonds. Central bank buying is still a persistent factor boosting gold. Yet bullish risk appetite is also playing a role, especially with the retail buying binge that took it to new all-time peaks near $4,400 this month. Such a speculative surge means a sudden pullback isn't surprising, in our view. These moves reflect how Fed rate cuts can support risk appetite – and yet we refresh our macro scenarios that could spur a less pro-risk stance. We see gold as a tactical exposure in portfolios.

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Our base case macro scenario assumes that the cooling labor market and current "no-hiring, no-firing" status quo persist for the near future. The September CPI – along with signs of rising jobless claims - reinforces this view and gives the Fed a data-backed path to keep cutting and avoid renewed political tensions from inflation and debt servicing costs, putting questions about its independence and fiscal dominance – when debt sustainability considerations take precedence over managing inflation – on the backburner for now.

Yet we see risks to this view. We refresh our macro scenarios to account for different labor market outcomes – and what that would mean for our risk stance on a tactical horizon over the next six to 12 months. In one scenario, hiring rebounds amid ongoing labor supply constraints – creating a mix of higher inflation and slow growth while reviving questions about the Fed's independence. Stocks would fall while long-term bond yields rise, steepening the yield curve. In another, the AI buildout and the resulting productivity gains lead to a better mix of stronger growth and lower inflation. We could see big stock gains with a limited bond yield rise. And we also consider a recession scenario driving stocks and yields lower.

Beyond the Fed and U.S. labor market, we're watching U.S.-China trade negotiations. U.S. President Donald Trump heads to the region for a summit around which he says he is hoping to strike a series of trade deals – and to potentially do so with Chinese President Xi Jinping. That could drive a potential short-term market reaction, but we don't see trade uncertainty as a sustained market driver now compared with earlier in the year and the volatility sparked after the April 2 tariff announcement. Heading into this U.S.-China meeting, we've seen immutable economic laws – chief among them that supply chains can't be rewired overnight – come back to the fore in limiting how far the U.S. will go on trade policy. That helped stocks bounce back quickly from renewed trade concerns earlier this month.

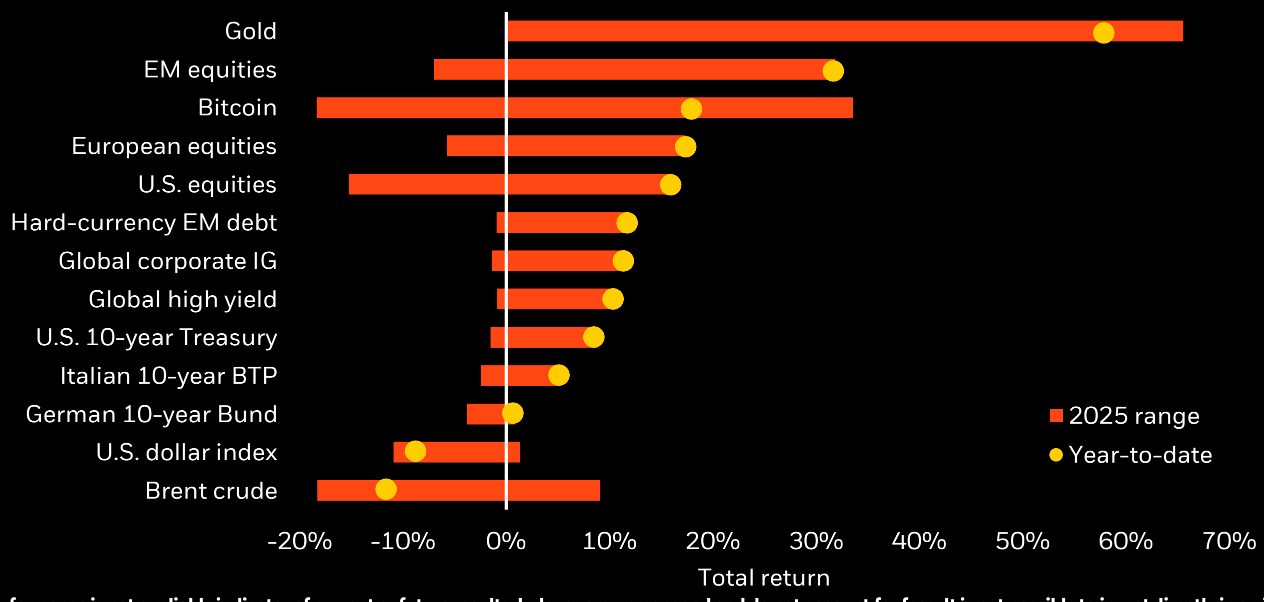
Bottom line: Our base case – a softer labor market allowing Fed rate cuts and supporting risk assets – is playing out. Yet we have refreshed our macro scenarios for assessing our risk stance. Gold's recent surge reflects strong risk appetite, in our view.

Market backdrop

U.S. equities pushed to fresh record highs after the U.S. CPI data helped reinforce expectations that the Fed will cut interest rates at its last two policy meetings this year. Solid earnings have also helped stocks recover from recent wobbles. Next week sees mega cap tech companies reporting, with a focus on AI capital spending plans. U.S. 10-year Treasury yields hovered near six-month lows around 4.00%. Gold hit all-time peaks near $4,400 before sliding, snapping a nine-week winning streak.

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 October 23, 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, spot bitcoin, MSCI Emerging Markets Index, MSCI Europe Index, LSEG Datastream 10-year benchmark government bond index (U.S., Germany and Italy), Bloomberg Global High Yield Index, J.P. Morgan EMBI Index, Bloomberg Global Corporate Index and MSCI USA Index.

Week ahead

Oct. 29	Fed policy decision	**Oct. 31**	U.S. PCE (scheduled)
Oct. 30	BOJ and ECB policy decisions; Euro area GDP; U.S. Q3 GDP (scheduled)		

It's a busy week of global central bank meetings. The Federal Reserve is widely expected to again cut rates, with a focus on how the Fed is viewing the labor market. The European Central Bank may confirm an end to its easing cycle as inflation hovers slightly above target. The Bank of Japan is expected to hold rates steady, but we watch for hints of the timing of a next hike. The U.S. government shutdown likely means more delayed data, including the first reading of Q3 GDP data.

Big calls

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

Tactical	**Reasons**
U.S. equities	A softening labor market gives the Fed space to cut, helping ease political tensions from higher interest rates. We think rate cuts amid a notable slowing of activity without recession should support U.S. stocks and the AI theme.
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 are overweight short-term inflation-linked bonds as U.S. tariffs could push up inflation. Within nominal bonds, we favor developed market (DM) government bonds outside the U.S. over global investment grade credit, given tight spreads.
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, October 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, October 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.

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

	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.
Fixed Income	Short U.S. Treasuries	Neutral	We are neutral. We view short-term Treasuries as akin to cash in our tactical views and we remove this overweight to turn neutral long-term Treasuries.
	Long U.S. Treasuries	Neutral	We are neutral. Yields could fall further as a softening labor market gives the Fed space to cut without its independence being called into question – even if the pressures pushing up yields persist.
	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	Neutral	We are neutral. Yields are attractive, and term premium has risen closer to our expectations relative to U.S. Treasuries. Peripheral bond yields have converged closer to core yields.
	UK gilts	Neutral	We are neutral. Gilt yields are off their highs, but we expect more market attention on long-term yields through the government's November budget, given the difficulty it has had implementing spending cuts.
	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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