

# Weekly commentary

January 13, 2025

BlackRock

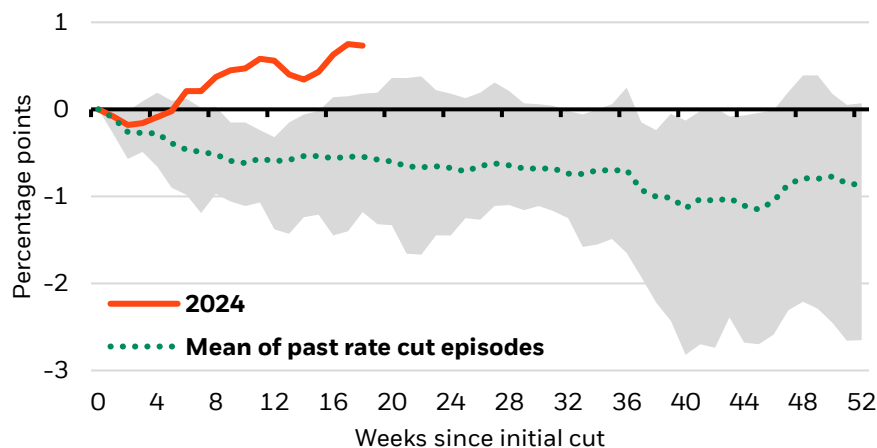
## Triggers to change our pro-risk view

- We are pro-risk to start 2025. Yet we're ready to evolve our view if policy shifts, corporate earnings and financial market cracks spell a deteriorating outlook.
- U.S. stocks slid and 10-year U.S. Treasury yields climbed near 4.80% last week after a strong U.S. jobs report. UK gilt yields jumped on fiscal outlook concerns.
- We get U.S. CPI this week. Robust wage growth and sticky core services inflation should keep broad inflation from falling to the Federal Reserve's target, we think.

We are pro-risk, with the biggest overweight in U.S. stocks, yet eye three areas that could spur a view change. First, we're watching policy, notably how U.S. tariffs and fiscal policy shape up. Second, we watch whether investor risk appetite will sour due to corporate earnings and lofty tech valuations amid the artificial intelligence (AI) buildout. Third, we look for elevated vulnerabilities, like surging bond yields as markets price out rate cuts and corporate debt refinancing at higher interest rates.

## Going up

Change in U.S. 10-year Treasury yields through rate cutting episodes, 1984-2024



Past performance is not a reliable indicator of current or future results. Source: BlackRock Investment Institute, with data from Haver Analytics, January 2025. Note: The chart shows the change in 10-year Treasury yields through periods when the Federal Reserve cut interest rates. The shaded area shows the range of those changes since 1984 and the dotted green line shows the average. The orange line shows the change in yields since the Fed's cut in September 2024.

We upped our U.S. equities overweight in December as we expected AI beneficiaries to broaden beyond tech given resilient growth and Fed rate cuts. We think U.S. equity gains could roll on. Yet an economic transformation and global policy shifts could push markets and economies into a new scenario from our [2025 Outlook](#). We look through near-term noise but outline triggers for adjusting our views, by either dialing down risk or shifting our preferences. First, we're tracking the impacts of global policy – especially U.S. trade, fiscal and regulatory policy. Second, we gauge whether risk appetite will stay upbeat as earnings results for AI beneficiaries come in and given high tech valuations. Third, vulnerabilities like a sudden jump in bond yields could also shift our view. The unusual yield jump since the Fed started cutting rates underscores this is a very different environment. See the chart.



**Jean Boivin**

Head – BlackRock Investment Institute



**Wei Li**

Global Chief Investment Strategist – BlackRock Investment Institute



**Glenn Purves**

Global Head of Macro Research – BlackRock Investment Institute



**Bruno Rovelli**

Chief Investment Strategist for Italy – BlackRock Investment Institute

Visit [BlackRock Investment Institute](#) for insights on the global economy, markets and geopolitics.

BlackRock Investment Institute

The first trigger to change our view is whether or not President-elect Donald Trump takes a market-friendly approach to achieve goals like improving growth and reducing budget deficits. In a market-friendly approach, rolling back financial regulation and cutting government spending could boost economic growth and risk assets. That, plus efforts to rebalance global trade and expand fiscal stimulus in countries where investment and consumer spending have lagged the U.S., may help address trade deficit worries. In a less market-friendly approach, plans to extend tax cuts alongside large-scale tariffs could deepen deficits and stoke inflation. More broad-based tariffs could strengthen the U.S. dollar, fuel inflation and call for high-for-longer interest rates. This plan would clash with Trump’s calls for a weaker dollar to boost U.S. manufacturing and his push for rate cuts. We look through noisy headlines around policy and focus on how policy changes take shape this year.

The second trigger: deteriorating investor sentiment due to earnings misses or lofty tech valuations. The “magnificent seven” of mostly tech companies are still expected to drive earnings this year as they lead the AI buildout. Their lead should narrow as resilient consumer spending and potential deregulation support earnings beyond tech. While earnings might surprise to the upside, any misses could renew investor concern over whether big AI capital spending will pay off and if high valuations are justified – even if we think valuations can’t be viewed through a historical lens as an economic transformation unfolds.

In our third trigger, we’re watching for elevated vulnerabilities in financial markets – including an already jittery bond market. We expect bond yields to climb further as investors demand more term premium for the risk of holding bonds. Term premium is rising from negative levels and is at its highest in a decade, LSEG Datastream data show. The surge in UK gilt yields shows how concerns about fiscal policy can drive term premium – and bond yields – higher. The refinancing of corporate debt at higher interest rates is another risk. It could challenge the business models of companies that assumed interest rates would remain low. But many companies have refinanced debt without defaulting since the pandemic given strong balance sheets.

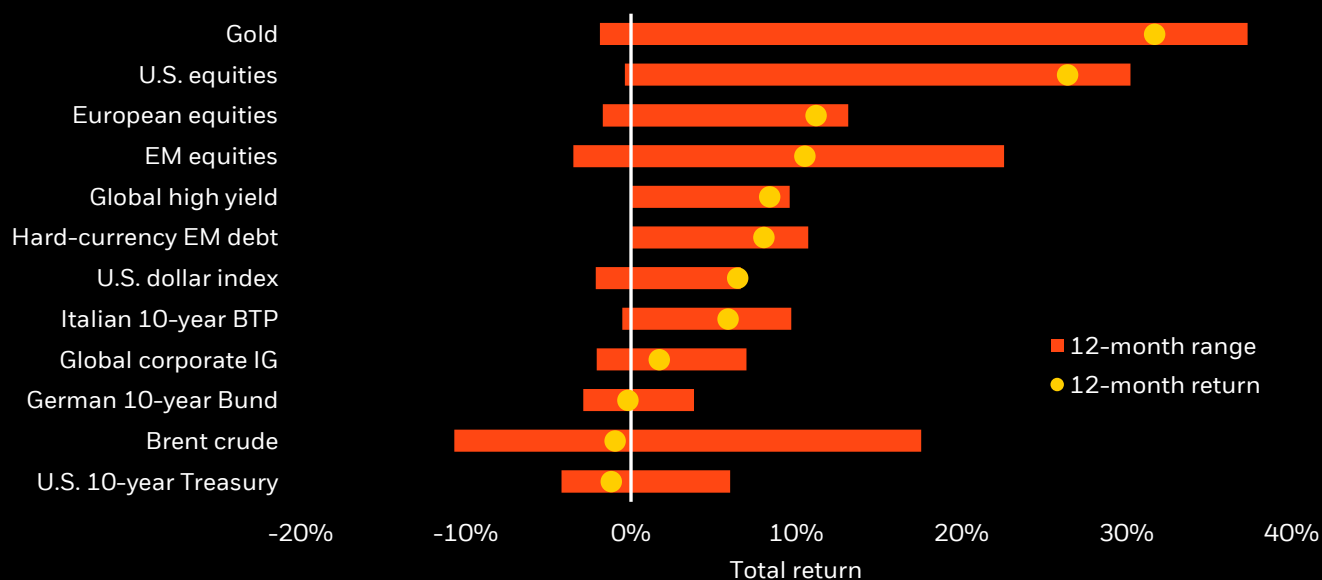
Bottom line: We see U.S. equity gains cooling from their highs this year but staying strong, while U.S. Treasury yields climb. We stay overweight U.S. stocks and underweight long-term Treasuries, yet we’re watching triggers to change our views.

## Market backdrop

U.S. stocks fell more than 1% last week. Ten-year U.S. Treasury yields climbed near 4.80%, to a 14-month high and near their 2023 peak partly due to a surprisingly strong U.S. jobs report. The data suggest immigration is still making it possible to sustain larger job gains without adding to wage pressures. Yet wage gains are still strong enough for the Fed to keep policy rates higher for longer. UK 30-year gilts yields hit their highest in almost three decades on concerns about the UK fiscal path.

## Assets in review

Selected asset performance, 12-month 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 Jan. 9, 2025. Notes: The two ends of the bars show the lowest and highest returns at any point in the past 12 months, and the dots represent current 12-month 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

Jan. 13

China trade data

Jan. 16

UK GDP

Jan. 15

U.S. CPI; UK CPI

Jan. 10-17

China total social financing

U.S. CPI is in store this week. We watch for whether inflation stays sticky in line with the recent trend. Wage growth and core services inflation remain at a level inconsistent with overall inflation falling back to the Federal Reserve's 2% target, in our view. Longer term, we think labor supply constraints like population aging should keep inflation sticky, preventing the Fed from cutting policy rates much below 4% – much higher than pre-pandemic levels.

## Big calls

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

Tactical	Reasons
U.S. equities	We see the AI buildout and adoption creating opportunities across sectors. We tap into beneficiaries outside the tech sector. Robust economic growth, broad earnings growth and a quality tilt underpin our conviction and overweight in U.S. stocks versus other regions. 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 more positive on fixed income elsewhere, notably Europe. We are underweight long-term U.S. Treasuries and like UK gilts instead. We also prefer European credit – both investment grade and high yield – over the U.S. on cheaper valuations.
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- and medium-term investment grade credit, which offers similar yields with less interest rate risk than long-dated credit. We also like short-term government bonds in the U.S. and euro area and UK gilts overall.
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, January 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, January 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	
<b>Equities</b>	<b>Developed markets</b>					
	United States				●	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				●	We are underweight relative to the U.S., Japan and the UK – our preferred markets. Valuations are fair. A growth pickup and European Central Bank rate cuts support a modest earnings recovery. Yet political uncertainty could keep investors cautious.
	UK				●	We are neutral. Political stability could improve investor sentiment. Yet an increase in the corporate tax burden could hurt profit margins near term.
	Japan				●	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.
<b>Fixed Income</b>	<b>Emerging markets</b>					
	China				●	We are modestly overweight. China’s fiscal stimulus is not yet enough to address the drags on economic growth, but we think stocks are at attractive valuations to DM shares. We stand ready to pivot. We are cautious long term given China’s structural challenges.
	Short U.S. Treasuries				●	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				●	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				●	We are neutral. We see higher medium-term inflation, but cooling inflation and growth may matter more near term.
	Euro area govt bonds				●	We are neutral. Market pricing reflects policy rates in line with our expectations and 10-year yields are off their highs. Political uncertainty remains a risk to fiscal sustainability.
	UK gilts				●	We are overweight. Gilt yields offer attractive income, and we think the Bank of England will cut rates more than the market is pricing given a soft economy. But we are monitoring any government response to the recent fiscal concerns.
	Japanese govt bonds				●	We are underweight. Stock returns look more attractive to us. We see some of the least attractive returns in JGBs.
	China govt bonds				●	We are neutral. Bonds are supported by looser policy. Yet we find yields more attractive in short-term DM paper.
	U.S. agency MBS				●	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				●	We are overweight. Short-term bonds better compensate for interest rate risk.
	Long-term IG credit				●	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				●	We are neutral. Spreads are tight, but the total income makes it more attractive than IG. We prefer Europe.
	Asia credit				●	We are neutral. We don’t find valuations compelling enough to turn more positive.
	Emerging hard currency				●	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				●	We are neutral. Yields have fallen closer to U.S. Treasury yields, and EM central banks look to be turning more cautious after cutting policy rates sharply.	

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 and generates proprietary research to provide insights on macroeconomics, sustainable investing, geopolitics and portfolio construction to help BlackRock's portfolio managers and clients 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 intended for information purposes only, and does not constitute investment advice, a recommendation or an offer or solicitation to purchase or sell any securities to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction. The opinions expressed are as of Jan. 13, 2025, and are subject to change without notice. Reliance upon information in this material is at the sole discretion of the reader. Investing involves risks. This information is not intended to be complete or exhaustive and no representations or warranties, either express or implied, are made regarding the accuracy or completeness of the information contained herein. This material may contain estimates and forward-looking statements, which may include forecasts and do not represent a guarantee of future performance.

In the **U.S. and Canada**, this material is intended for public distribution. In **EMEA**, in the UK and Non-European Economic Area (EEA) countries: this is 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. 02020394. 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. In the **European Economic Area (EEA)**: this is Issued by 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 **Italy**, for information on investor rights and how to raise complaints please go to <https://www.blackrock.com/corporate/compliance/investor-right> available in Italian. 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](http://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 F000738). 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: 7976 Salim Ibn Abi Bakr Shaikhan St, 2223 West Umm Al Hamam District Riyadh, 12329 Riyadh, Kingdom of Saudi Arabia, Tel: +966 11 838 3600. CR No, 1010479419. 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. 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 Institutional Investors only. All strategies or products BLK Japan offer through the discretionary investment contracts or through investment trust funds do not guarantee the principal amount invested. The risks and costs of each strategy or product we offer cannot be indicated here because the financial instruments in which they are invested vary each strategy or product. 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 **New Zealand**, issued by BlackRock Investment Management (Australia) Limited ABN 13 006 165 975, AFSL 230 523 (BIMAL) for the exclusive use of the recipient, who warrants by receipt of this material that they are a wholesale client as defined under the New Zealand Financial Advisers Act 2008. Refer to BIMAL's Financial Services Guide on its website for more information. BIMAL is not licensed by a New Zealand regulator to provide 'Financial Advice Service' 'Investment manager under an FMC offer' or 'Keeping, investing, administering, or managing money, securities, or investment portfolios on behalf of other persons'. BIMAL's registration on the New Zealand register of financial service providers does not mean that BIMAL is subject to active regulation or oversight by a New Zealand regulator. In **China**, this material may not be distributed to individuals resident in the People's Republic of China ("PRC", for such purposes, not applicable to 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**, 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](http://www.blackrock.com/mx).

©2025 BlackRock, Inc. All Rights Reserved. BLACKROCK is a trademark of BlackRock, Inc., or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.

**BlackRock**

Not FDIC Insured • May Lose Value • No Bank Guarantee