July 7, 2020

BlackRock.

2020 midyear outlook

BlackRock **Investment** Institute

The future is running at us

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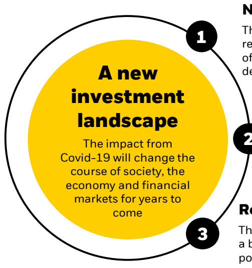


1. New norms of economic activity
This is not about a business cycle recession and recovery – but a long adjustment to new norms of economic activity that mean investment decisions should be linked to the real economy.

2. Supercharged structural trends
The shift to sustainability, deglobalization and geopolitical fragmentation, and the joint monetary-fiscal policy revolution are being accelerated.

3. Real resilience for the whole portfolio
This goes beyond using financial resilience to build a better blend of returns – it's about ensuring the portfolio is well positioned at a more granular level to underlying themes, including sustainability.

Strategic allocation decisions should be reassessed *now* to make portfolios resilient to this new landscape

2020 midyear investment themes

Activity restart – Economies are slowly restarting but at differing paces. We are tracking three signposts: how successful economies are at restarting activity while controlling the virus spread; whether stimulus is still sufficient and reaching households and businesses; and whether any signs of financial vulnerabilities or permanent scarring of productive capacity are emerging. The longer it takes for activity to restart, the more cracks might appear in the financial system.

Strategic implication: We are moderately pro-risk, and express it in an overweight on credit.
Tactical implication: We are closing our underweights in cyclical assets, with a preference for Europe.

Policy revolution – The policy revolution was needed to cushion the devastating and deflationary impact of the virus shock. In the medium term, however, the blurring of monetary and fiscal policy could bring about upside inflation risks.

Strategic implication: We are underweight nominal government bonds and like inflation-linked bonds.
Tactical implication: We like credit, partly on central bank purchases. U.S. stocks are at risk of fading fiscal stimulus.

Real resilience – Supercharged structural trends will change the nature of portfolio diversification. We believe countries, sectors and companies will make a comeback as diversifiers in a more fragmented world, in our view, offering resilience to real economy trends.

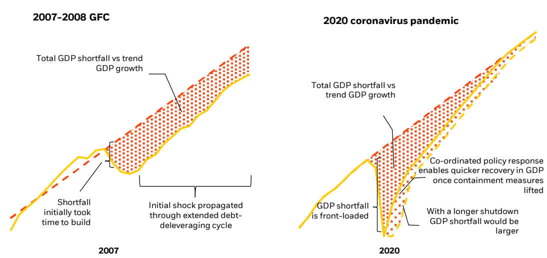
Strategic implication: We favor sustainable assets, private markets and deliberate country diversification.
Tactical implication: We have increased our overweight in the quality factor and prefer assets with policy backstops.

The opinions expressed are as of July 2020 and are subject to change at any time due to changes in market or economic conditions. Strategic implications refer to long-term views, tactical implications refer to asset views on a 6-12 month horizon.

Gauging the shock

Global economic activity did not simply contract – it was deliberately frozen. Yet the cumulative economic impact over time – the key for asset prices – will be likely less this time than after 2008.

Hypothetical hit to U.S. trend GDP in coming years compared with the GFC experience

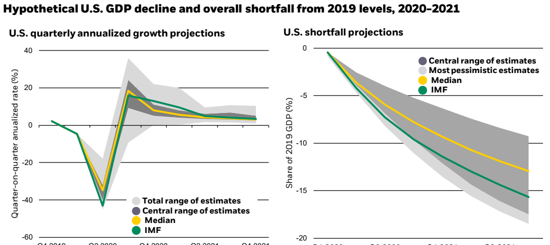


Sources: BlackRock Investment Institute, with data from Haver Analytics, July 2020. Notes: These stylized charts show how GDP can evolve relative to trend after a shock. The dotted lines show what trend GDP would have looked if there had been no shock. We compare the 2007-2008 global financial crisis to the current coronavirus shock. In 2007-2008, the initial shock – 2.3% of GDP from Q3 2008 to Q1 2009 – was not as large as the current one we expect. The GFC shock propagated through debt deleveraging that served as a longer-term drag on pre-trend potential growth. The chart on the right shows that the GDP shortfall from this shock is front-loaded, and if containment measures are lifted there can be a quicker recovery with limited permanent damage to the pre-shock growth trend. For illustrative purposes only. There is no guarantee that any forecasts made will come to pass. The hypothetical scenario is subject to signification limitations, in particular that this is an evolving situation and we are still trying to understand the potential for more extensive activity shutdowns due to the virus.

Understanding the shock and GDP shortfall

We are likely to confirm that the depth of the shock was in April as economies reopened. We expect the overall shortfall in activity to be much smaller compared with the global financial crisis.

Hypothetical U.S. GDP decline and overall shortfall from 2019 levels, 2020-2021

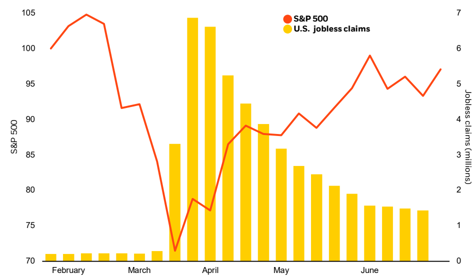


Source: BlackRock Investment Institute, Reuters News and IMF, July 2020. Notes: These charts show hypothetical U.S. GDP quarterly annualized changes through Q4 2021 and the total shortfall of U.S. GDP relative to 2019 levels over the next two years based on a Reuters poll of economists. We use the Reuters poll of economists published on 22 June 2020 but trim the overall sample by taking the estimates within the 20th and 80th percentiles to reduce extreme outliers or stale forecasts (dark grey shaded band). We derive our range of estimates and median from an adjusted sample of 46 forecasts for which we have complete forecasts. The light-grey shaded area on the left-hand growth chart illustrates the full range of estimates from the 46 forecasts, while the most pessimistic estimate in the right-hand charts shows the lower quintile of forecasts to help us gauge the size of the policy response needed to the shock. The IMF forecasts are based on its June 2020 update to the World Economic Outlook. For illustrative purposes only. There is no guarantee that any forecasts made will come to pass. The hypothetical scenario is subject to signification limitations, in particular that this is an evolving situation and we are still trying to understand the potential for more extensive activity shutdowns due to the virus.

The virus shock is different from the normal business cycle

The unprecedented policy response has helped risk assets bounce firmly off their March lows. The visibility of the shock – and the "known unknowns" ahead – has helped drive the rebound.

S&P 500 Index vs. U.S. initial jobless claims, 2020

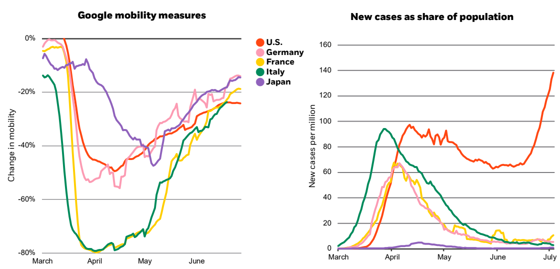


Source: BlackRock Investment Institute, with data from Refinitiv Datastream, July 2020. Notes: The yellow bars show initial claims for U.S. unemployment insurance. The S&P 500 is indexed to 100 at Jan. 31. **Past performance is no guarantee of future results.** Indexes are unmanaged and are not subject to fees. It is not possible to invest directly in an index.

Tracking the virus' progress remains a key market focus

Major economies have started reopening, as reflected in mobility data. The euro area's quicker lockdowns have checked the virus' spread, paving the way for a swift rebound in activity.

Mobility metrics and trajectory of the virus spread, 2020

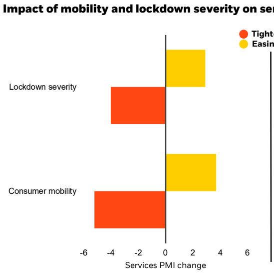


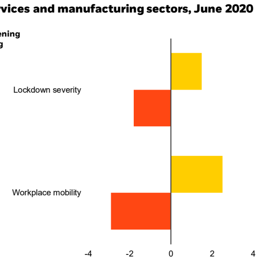
Sources: BlackRock Investment Institute, with data from the University of Oxford's Covid-19 government response tracker and Google. Data as of 3 July 2020. Notes: The chart on the left maps Google mobility data based on the average of the retail and recreation, workplace and transit categories. The chart on the right tracks the 7-day rolling average of new confirmed cases as a share of population.

Tracking mobility is key to assess the restart in activity

Mobility has a stronger impact on services and manufacturing than strictness of lockdown measures. Services suffered a worse hit than manufacturing and are likely to restart slower than they collapsed.

Impact of mobility and lockdown severity on services and manufacturing sectors, June 2020



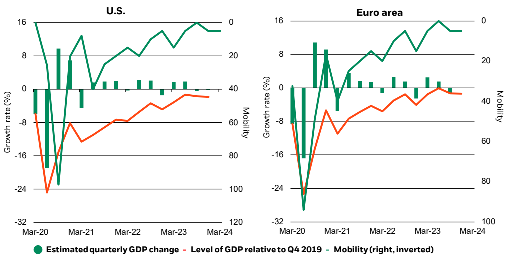


Sources: BlackRock Investment Institute, Oxford University, Google and Haver Analytics, July 2020. Note: The charts show the impact that a 10 point move up or down in consumer or workplace mobility data and stringency measures have on the service and manufacturing sectors respectively of the U.S., Japan, France, UK, Canada, Spain, Italy, Germany and Sweden. We use Google data on retail and recreation mobility for the consumer mobility score, data on workplaces and transit stations for workplace mobility, and Oxford data on lockdown stringency. "Tightening" means increased lockdown severity and reduced mobility. We use a panel regression technique that combines country and time dimensions to measure the marginal effect of mobility on activity, and how this differs between tightening and easing phases.

Euro area poised to recover faster as lockdowns ease

The relatively more favorable virus dynamics in the euro area relative to the U.S. suggest the recovery in GDP implied by changes in social distancing measures will likely be quicker.

Simulation of GDP impact of lockdowns in the U.S. and Euro area, 2020–2023

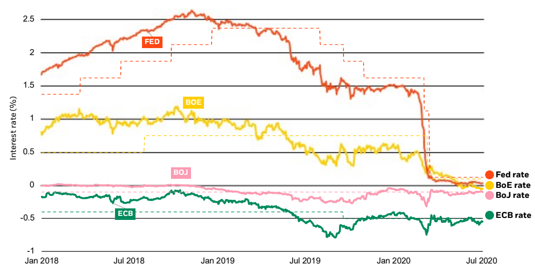


Sources: BlackRock Investment Institute, Oxford University, Google and Haver Analytics, July 2020. Note: The charts show illustrative paths of GDP under a given projection of mobility (as a measure of social distancing), using an estimate of the impact of easing social distancing measures on GDP. The estimate impact is calculated using a simple regression model. The estimated paths are simulations considering only one factor – mobility – and do not take into account the impact of the policy response. There is no guarantee that any forecasts made will come to pass.

Policy rates pushed near their lower bounds

Major central banks have pushed policy rates near zero or below – and current market pricing shows they are expected to stay there for some time, helping keep long-term yields pinned lower.

Central bank policy rates and market expectations, 2018–2020

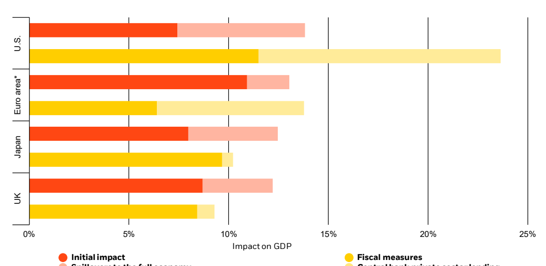


Sources: BlackRock Investment Institute, with data from Refinitiv Datastream as of 3 July 2020. Notes: The solid lines show the market pricing of policy rates in overnight index swaps on a one-year horizon starting in one year's time. Dotted lines show policy rates for each region; we use the midpoint of the fed funds target range for the U.S.

The policy revolution has cushioned the coronavirus shock

The combined monetary-fiscal policy response is helping fill the activity shock. Policy fatigue is a risk in the U.S. as policymakers face a series of "fiscal cliffs" and may cut fiscal relief prematurely.

Estimated virus hit to GDP vs. offsetting policy measures, 2020

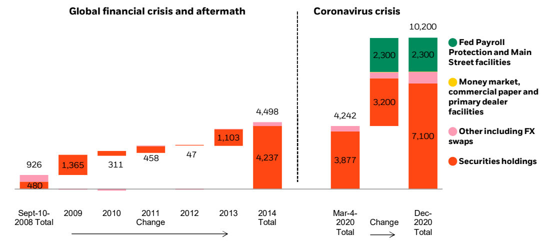


* The euro area is represented by averages of Germany, France, Italy and Spain. Sources: BlackRock Investment Institute, with data from the Federal Reserve, ECB, BOJ, BOE and Haver Analytics, July 2020. Notes: The chart shows the magnitude of the negative shock (red) and the associated positive policy response (yellow) as percentages of GDP. We use estimated 2020 targets for the U.S. and euro area central bank purchases and lending programs. The euro area includes the ECB's Targeted Longer-Term Refinancing Operations, and the UK includes central bank support for the Term Funding Scheme.

Fed has used its full range of tools – and created new ones

Central banks – especially the Fed – have deployed their full range of tools and invented new ones in a far shorter timeframe than in 2008. The Fed's actions will dwarf those taken during and after the GFC.

Contributors to Federal Reserve balance sheet changes in billions USD, 2008-2014 and 2020

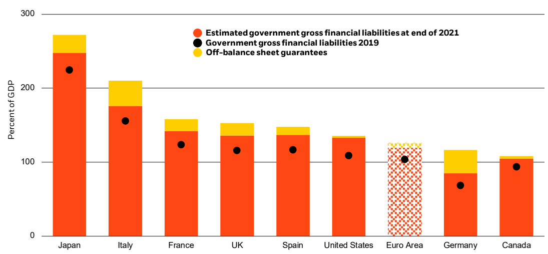


Source: BlackRock Investment Institute and Federal Reserve, with data from Haver Analytics, July 2020. Notes: The chart shows what the Fed's balance sheet could look like by the end of 2020 with the new facilities launched in the past two months compared with March 4 – just before it began its interventions. The balance sheet at the end of 2020 is based on estimates made by BlackRock's Global Fixed Income economics team. We assume that the Fed may have to increase its planned support for its Payroll Protection Program loan facility, and potentially expand its support for states and municipalities, together by several hundred billion dollars compared with the initial announcements. By comparison, the Federal Reserve pledged as much as $2.3 trillion in loans to support the economy in its April 9 announcement. (See here: https://www.federalreserve.gov/newsevents/pressreleases/monetary20200409a.htm). Estimates of the expected increase and December 2020 totals are rounded. The funding facilities in the green area are funded with credit loss protection provided by the U.S. Treasury and lending by the Federal Reserve. These programs also include the Term Asset-Backed Securities Loan Program and Municipal Liquidity Facility. Forward looking estimates may not come to pass.

Funding the fiscal support

The sheer size of the fiscal support measures in the U.S. and Europe has major implications for debt trajectories, interest rates and also excess global savings – especially if guaranteed loans sour.

Estimates of government gross financial liabilities and off-balance sheet guarantees, June 2020

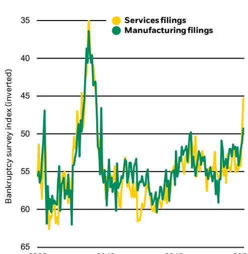


Sources: BlackRock Investment Institute, with data from the OECD and the IMF, July 2020. Notes: This chart shows estimates of government gross financial liabilities using national accounts definitions of government debt. The estimates are from the OECD economic outlook and underlying data is available here. The OECD's 2021 estimate is based on an assumption that a second wave of coronavirus infections is avoided. The OECD's economic activity assumptions for its economic scenario are outlined here. There is no data for 2007 for South Korea. The off-balance sheet guarantees are based on IMF data on off-budget financial aid to the corporate sector such as equity injections, asset purchases, loans, debt assumptions, including through extra-budgetary funds. The euro area figures are a GDP-weighted average of the four largest economies: Germany, France, Italy and Spain.

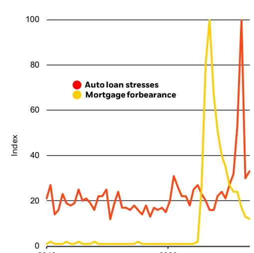
Financial vulnerabilities should not create a crisis

We are watching to see if income disruptions could turn into systemic financial stress. We see only a small chance of this happening – but some signs of consumer and corporate stress are emerging.

U.S. bankruptcy indicators, 2005-2020



Consumer stress web searches, 2019-2020

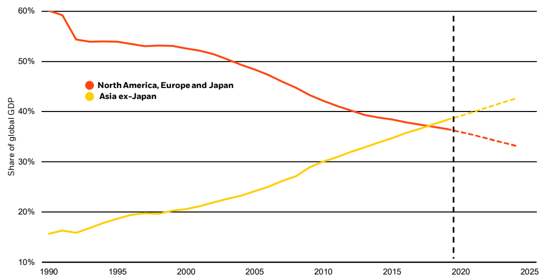


Sources: BlackRock Investment Institute, National Association of Credit Management (NACM), Bloomberg and Google, with data from Haver Analytics, July 2020. Note: The yellow and green lines in the left chart show bankruptcy filings in the service and manufacturing sectors as measured by the NACM survey. A lower number means filings for bankruptcies increased (the right-hand scale is inverted). The Bloomberg bankruptcy measure (orange line) is a monthly total of U.S. corporate bankruptcy filings reported by Bloomberg. The right chart shows Google search trends. Auto loan stresses are captured by searches for "Bankruptcy" within the Autos and Vehicles category. The mortgage forbearance line shows searches for "mortgage forbearance." Both indices are normalized so that the peak search level equals 100.

Pandemic likely to heighten geopolitical fragmentation

The world looks increasingly fragmented, with the U.S. and China at opposite poles.
Investors should consider gaining exposure to both spheres, as global growth gravitates toward Asia.

Regional share of global GDP, 1990-2024

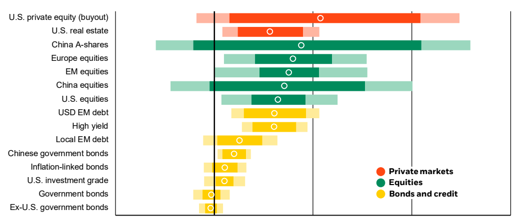


Sources: BlackRock Investment Institute, with data from IMF, Refinitiv, July 2020. Notes: The lines how each region's combined share of global GDP on a purchasing power parity (PPP) basis. The dotted lines show the forecast period based on IMF projections to 2024.

Our CMAs reflect a very different future

Expected government bond returns are now negative across developed markets, keeping us underweight on a strategic horizon. We see better opportunities in private markets and credit.

Asset return expectations and uncertainty in U.S. dollars on a five-year horizon

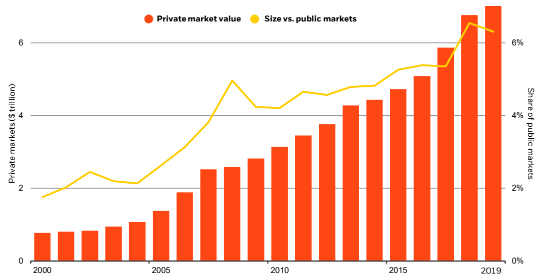


This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise - or even estimate - of future performance.
Source: BlackRock Investment Institute, data as of 13 April 2020. Notes: Return assumptions are total nominal returns. U.S. dollar return expectations for all asset classes are shown in hedged terms, with the exception of regional equity markets, Chinese government bonds, local-currency EM debt and private markets other than hedge funds. Our CMAs generate market, or beta, geometric return expectations. Asset return expectations are gross of fees. For a list of indices used see Appendix. Visit our Capital market assumptions website at blackrock.com/institutions/en-zz/insights/charts/capital-market-assumptions and click on the information icon in the *Asset class return and volatility expectations* table for further details. We use BlackRock proxies for selected private markets because of lack of sufficient data. These proxies represent the mix of risk factor exposures that we believe represents the economic sensitivity of the given asset class. There are two sets of bands around our mean return expectation. The darker bands show our estimates of uncertainty in our mean return estimates. The lighter bands are based on the 25th and 75th percentile of expected return outcomes – the interquartile range for more detail read Portfolio perspectives. Indices are unmanaged and used for illustrative purposes only. They are not intended to be indicative of any fund or strategy's performance. It is not possible to invest directly in an index.

Real resilience requires looking beyond past correlations

Non-traditional return streams have the potential to add value and diversification. Many institutional investors remain underinvested in private markets as they overestimate liquidity risks, in our view.

Growth in private market assets and share of public markets, 2000-2019



Sources: BlackRock Investment Institute, with data from Preqin, July 2020. Notes: The bars represent the sum of net asset value of closed-end funds as well as dry powder of funds in these asset classes: private equity and venture capital, real estate, private debt, infrastructure and natural resources. The line shows the size of private markets relative to that of public markets.

Directional views

Major asset class views on strategic (long-term) and tactical (6-12 month) horizons, June 2020

Asset	Strategic view	Tactical view	
Equities	Neutral	Neutral	We have turned neutral on equities on a strategic horizon given the challenging backdrop for earnings and dividend payouts. We trim our modest overweight in EM and maintain our DM exposure at neutral. Tactically, we are also neutral on equities. We like the quality factor for its resilience and favor Europe among cyclical exposures.
Credit	+1	+1	We have moved to a strategic overweight on credit after being underweight for the past year. Sizeable spread widening compensates for the risks of defaults and downgrades, in our view. On a tactical horizon, extraordinary measures by central banks – including purchases of corporate debt – are supportive. Risks of a temporary liquidity crunch remain, but coupon income is crucial in a world starved for yield.
Govt bonds	-1	Neutral	The strategic case for holding nominal government bonds has materially diminished with yields closer to perceived lower bounds. The "even-lower-for-even-longer" outlook for rates is compromising the asset class' ability to act as ballast against equity market selloffs in the long run. On a tactical basis, we keep duration at neutral as unprecedented policy accommodation skews yields to the downside.
Cash		Neutral	We remain neutral on cash for risk mitigation and are using it to support our view on credit. Some cash makes sense as a buffer against negative supply shocks that could drive stocks and bonds lower together.
Private markets	Neutral		Non-traditional return streams, including private credit, have the potential to add value and diversification. Many institutional investors remain underinvested in private markets as they overestimate liquidity risks, in our view. Private assets reflect a diverse array of exposures–but valuations and greater inherent uncertainties of some private assets keep us neutral overall.

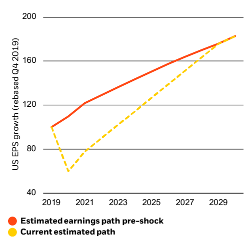
Note: Views are from a U.S. dollar perspective as of July 2020. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any particular funds, strategy or security.

STRATEGIC VIEW

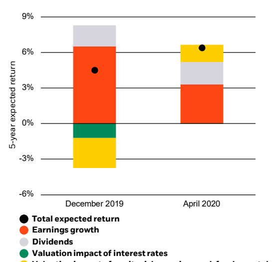
The longer-term impact on earnings matters for equities

For long-term equity returns, what matters is the time taken for earnings and dividends to recover to the level of expected before the shock and also the wider deterioration in corporate fundamentals.

Estimated path of U.S. earnings, 2019-2030



Breakdown of expected equity returns, 2020



This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise - or even estimate - of future performance.

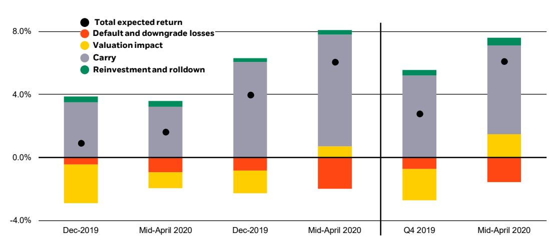
Source: BlackRock Investment Institute, data as of 14 April 2020. Notes: Left chart shows projected EPS growth for MSCI USA index as at 31 December 2019 and as at 14 April 2020. Right chart shows a decomposition of 5-year annualised expected return for MSCI USA index, as at 31 Dec 2019 and as at 14 April 2020. Full details of our methodology are available on our capital market assumptions website. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index. There can be no guarantee that any forecasts made will come to pass. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index. There can be no guarantee that any forecasts made will come to pass.

STRATEGIC VIEW

We upgrade credit as potential returns offset default risk

Our expected returns for credit have risen due to the sizeable widening in spreads. The spread widening outweighs the anticipated increase in losses due to defaults and downgrades.

Breakdown of expected credit returns by sub-sector, Q1 2020 vs Q4 2019



This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise - or even estimate - of future performance.

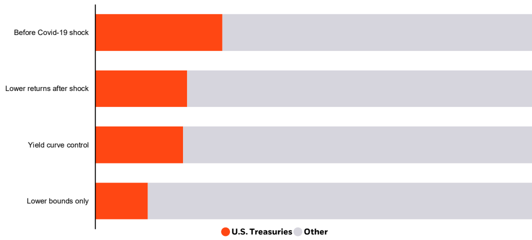
Source: BlackRock Investment Institute, data as of 14 April 2020. Notes: Chart shows 5-year expected returns for credit asset classes as at 31 Dec 2019 (Q4 2019) and as at 14 April 2020 (Q1 2020). The total expected return is broken down in to expected loss due to default and downgrades and expected returns due to carry, valuation and rolldown or reinvestments of coupon income. Indexes used: Bloomberg Barclays U.S. Investment Grade Credit index, Bloomberg Barclays U.S. High Yield Index and the JP Morgan EMBI Global Diversified Index. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index. There can be no guarantee that any forecasts made will come to pass.

STRATEGIC VIEW

Future path of nominal yields key for strategic portfolios

Lower spot yields, presence of lower bounds and the resulting reduced ballast properties of nominal bonds materially reduces their attractiveness. Yield curve control could limit downside for bonds.

Illustrative U.S. Treasuries allocations in various scenarios, June 2020



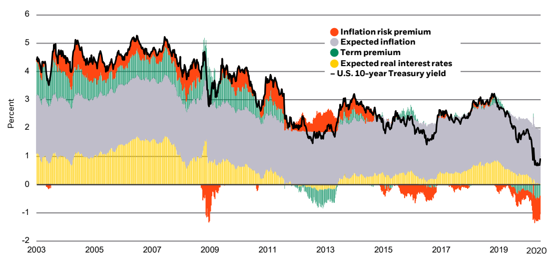
Source: BlackRock Investment Institute, July 2020. Notes: The chart shows the allocation to nominal U.S. Treasuries in an illustrative multi-asset U.S. dollar portfolio with a conservative risk target of 6%, investing on a 10-year horizon. For the "lower returns after shock" scenario we use our latest capital market assumptions as of April 13, 2020. For allocations under the "yield curve control" scenario, we assume the Federal Reserve is explicitly capping yields at 1.5% and providing a floor of 0% for them. For the "lower bound" allocation we assume an effective lower bound of 0% for the Bloomberg Barclays U.S. government bond index.

STRATEGIC VIEW

Risks of higher inflation in the long run are not priced in

We believe the inflation risk premium will not be as compressed going forward. Supply shocks, deficit spending, deglobalization trends and greater central bank tolerance for inflation point to upside risks.

Estimated decomposition of the U.S. 10-year Treasury yield, 2003-2020



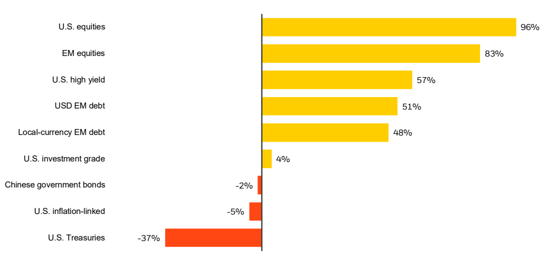
This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise - or even estimate - of future performance.
Source: BlackRock Investment Institute, with data from Refinitiv Datastream, July 2020. Notes: The chart shows the decomposition of the 10-year U.S. Treasury yield into expected real rates, expected inflation, inflation risk premium and term premium components. The estimation is based on the New York Fed's ACM term premium methodology.

STRATEGIC VIEW

Achieving resilience goes beyond financial resilience

Real resilience means relying less on past asset correlations. Geopolitical fragmentation and a potential shift to a higher inflation regime are among the reasons for finding new ways to diversify.

Historical 20-year asset correlations with global equities, June 2020



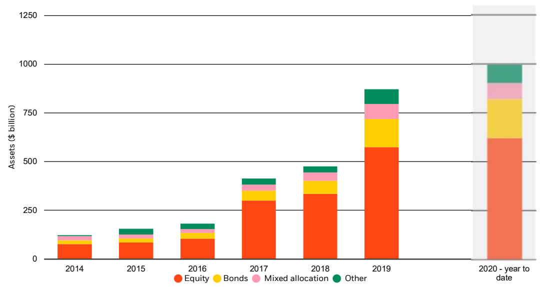
This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise or even estimate of future performance. Source: BlackRock Investment Institute, July 2020. Notes: The chart shows the historical 20-year correlation of weekly returns with global equities. Indexes used: MSCI USA, MSCI Emerging Markets, Bloomberg Barclays U.S High Yield, JP Morgan EMBI Diversified, JP Morgan GBI-EM, Bloomberg Barclays U.S. Credit, Bloomberg Barclays Aggregate China, U.S. Inflation-Linked and U.S. Treasuries. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index. There can be no guarantee that any forecasts made will come to pass.

STRATEGIC VIEW

Tectonic shift to sustainable investing

We see funds flowing into sustainable assets for decades, rewarding sustainable investing strategies. The Covid shock has supercharged the sustainability wave.

Assets under management at ESG-mandated funds, 2014–2020 YTD



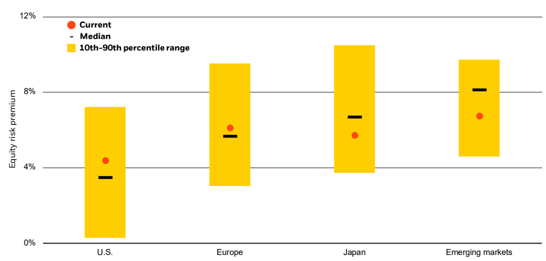
Sources: BlackRock Investment Institute with data from EPFR, July 2020. Notes: The chart shows the global total assets under management in ESG mandated funds. The "Other" category includes money-market and alternatives funds. Data for 2020 through May 31, 2020.

TACTICAL VIEW

We prefer Europe over EM for cyclical exposure

Relative success in tamping the virus' spread and a ramped up policy response boost the prospects for euro area equities. Policy fatigue and election risks cloud the outlook for the U.S.

Equity risk premium ranges vs. current levels for major regions, June 2020



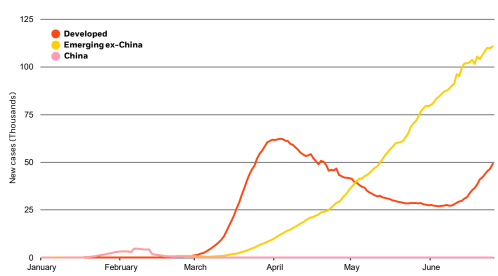
Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index. There can be no guarantee that any forecasts made will come to pass. Sources: BlackRock Investment Institute, data as of 17 June 2020. Notes: We calculate the equity risk premium based on our expectations for nominal interest rates and the earnings yields for respective equity markets. We use MSCI indices as the proxy for the markets shown. We use our expectations for interest rates so the estimate is not influenced by the term premium in long-term bond yields

TACTICAL VIEW

EMs has suffered a generational shock due to the pandemic

Long-standing pillars of EM investing – strong growth, strong balance sheets and fiscal discipline are under threat. The size of the shock – and the ability to withstand it – varies greatly across EM.

New Covid-19 cases in developed and emerging markets, 2020



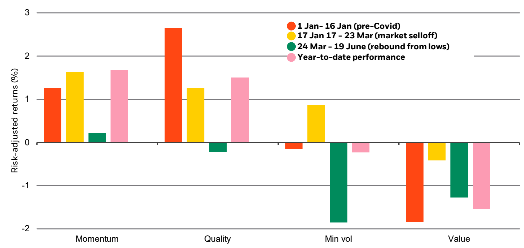
Source: BlackRock Investment Institute, with data from Oxford Covid-19 Government Response Tracker, July 2020. Notes: The chart shows the rolling 7-day average of new confirmed cases. DM countries are based on those in the MSCI World index; EM is based on countries in the MSCI Emerging Market index and MSCI Frontier Market index.

TACTICAL VIEW

We add to our overweight on the quality factor

We still favor the quality factor for its resiliency against a range of economic outcomes. Stretched positioning and dominance of richly valued tech and defensive stocks leave the momentum factor vulnerable to reversals.

Risk-adjusted returns for style factors, 2019-2020



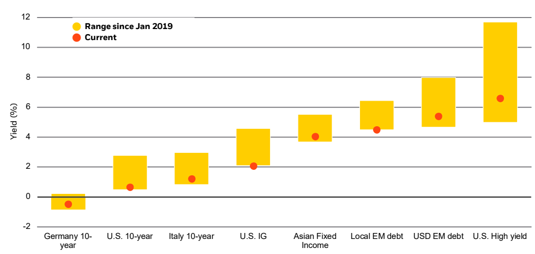
Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. You cannot invest directly in an index.
Sources: BlackRock Investment Institute, with data from Refinitiv Datastream, July 2020. Notes: The bars show risk-adjusted returns of MSCI World Momentum, Quality, Minimum volatility and Value indexes from 1 Jan 2020 to 19 June 2020. This is split as: 1 Jan to 16 January (Pre-Covid), 17 Jan to 23 March (Covid-19 Market selloff), 24 Mar to 19 June (rebound from the lows). We use the MSCI World Index as the benchmark in this analysis. The risk-adjusted returns are calculated by subtracting a factor index's return for a given period from the total return of the benchmark, then dividing that result by the tracking error, or the standard deviation of the difference between individual index and benchmark returns.

TACTICAL VIEW

Still in search of income

We keep our preference for credit, based on renewed asset purchases by central banks, a stable interest rate backdrop and relatively attractive yields in a world where income is hard to come by.

Fixed income yields for select sub-sectors, June 2020



Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index. Sources: BlackRock Investment Institute, with data from Refinitiv, July 2020. Notes: The bars show the range in yields for each index from the start of January 2019. Indexes used: Refinitiv benchmark 10-year government bond indexes for Germany, U.S. and Italy, U.S. Bloomberg Barclays Investment Grade index, Bloomberg Barclays Asian aggregate bond index, J.P. Morgan GBI-Emerging Market Index, EMBI-Global Diversified Index and Bloomberg Barclays U.S. High Yield.

Tactical granular views

Six to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, July 2020

Change in view: Previous → New

	Asset	Underweight	Overweight	
Equities	United States			We downgrade U.S. equities to neutral. Risks of fading fiscal stimulus and an extended epidemic are threatening to derail the market's strong run. Renewed U.S.-China tensions and a divisive election also weigh.
	Europe			We upgrade European equities to overweight. The region is exposed to a cyclical upside as the economy restarts, against a backdrop of solid public health measures and a galvanizing policy response.
	Japan			We upgrade Japanese equities to neutral. We see strong fiscal policy and public health measures allowing for rapid normalization.
	Emerging markets			We downgrade emerging market equities to underweight. We are concerned about the pandemic's spread and see less room or willingness for policy measures to cushion the impact in many – but not all – countries.
	Asia ex-Japan			We downgrade Asia ex-Japan equities to neutral. Renewed U.S.-China tension is a risk. China's goal to balance growth with financial stability has led to relatively muted policy measures to cushion the virus fallout.
	Momentum			We keep momentum at neutral. The factor is now dominated by tech stocks on the one hand and defensives on the other, giving investors exposure to growth companies and some potential ballast.
	Value			We upgrade value to neutral. We see the ongoing restart of economies likely benefiting cyclical assets and potentially helping value stage a rebound after a long stretch of underperformance.
	Minimum volatility			We downgrade min vol to neutral. The restart of economies is likely to benefit cyclical assets and reduce the need for defensive exposures.
	Quality			We increase our overweight in quality. We see it as the most resilient exposure against a range of outcomes in terms of developments in the pandemic and economy.
Fixed income	U.S. Treasuries			We like U.S. Treasuries. Long-term yields are likely to fall further than other developed market peers, even as low rates reduce their ability to cushion against risk asset selloffs.
	Treasury Inflation-Protected Securities			We are neutral on TIPS. A huge decline in rates makes the entry point less attractive. We still see potential for higher inflation over time and like TIPS in strategic allocations.
	German bunds			We remain underweight bunds as current yield levels provide little cushion against major risk events. Also, potential issuance related to the proposed EU recovery fund could compete with bunds for investment.
	Euro area peripherals			We overweight euro area peripheral government bonds despite recent outperformance. We see further rate compression due to stepped-up quantitative easing by the European Central Bank and other policy actions.
	Global investment grade			We overweight global investment grade credit even as valuations have risen. Asset purchases by central banks and a broadly stable rates backdrop support the sector.
	Global high yield			We stay overweight high yield as a source of income despite recent underperformance. We avoid energy as lower oil prices challenge the ability of issuers to refinance near-term maturities.
	Emerging market – hard currency			We have downgraded hard-currency EM debt due to the pandemic's spread, heavy exposure to energy exporters and limited policy space in some emerging economies. Default risks may be underpriced.
	Emerging market – local currency			We remain neutral on local-currency EM debt for its attractive coupon income. Currencies have adjusted and valuations have cheapened. A risk of further currency declines remains amid monetary and fiscal easing.
	Asia fixed income			We have turned neutral on Asia fixed income. The pandemic's containment in many countries and low energy exposure are positives. Renewed U.S.-China tensions and China's relatively muted policy fallout are risks.

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.

Appendix

Indexes

Global government bonds = Bloomberg Barclays Global Treasury index
Japan government bonds = Bloomberg Barclays Global Treasury Japan Index
Euro area credit = ICE BofA Merrill Lynch 10+ Year Euro Corporate Index
Global high yield = ICE BofA Merrill Lynch Global High Yield Index
Euro area government bonds = Bloomberg Barclays Euro Aggregate Treasury Index
U.S. credit = Bloomberg Barclays U.S. Credit Index
Global IG credit = Bloomberg Barclays Global Aggregate - Corporate
Inflation-linked bonds = ICE BofA Merrill Lynch Global Inflation-Linked Government Index
Euro area inflation-linked bonds = ICE BofA ML EMU Direct Government Inflation Linked Index
U.S. TIPS = Bloomberg Barclays US Government Inflation-Linked Bond Index
EM debt, local = JP Morgan GBI-EM Index
EM debt, hard = JP Morgan EMBI Global Diversified Index
Japan equities = MSCI Japan index
European equities = MSCI Europe index
DM equities = MSCI World index
EM equity = MSCI Emerging Markets Index
Onshore Chinese equities = MSCI China A Inclusion NET Index
Private equity = BlackRock proxy
U.S. Real estate = BlackRock proxy

We use BlackRock proxies for selected private markets because of lack of sufficient data. These proxies represent the mix of risk factor exposures that we believe represents the economic sensitivity of the given asset class.

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