March 2024

2024 Global outlook – Q2 update

BlackRock Investment Institute

BIIM0424U/M-3498706-1/21

2024 Outlook themes

1. Managing macro risk

What matters in the new regime: Sticky inflation and structurally higher interest rates. Markets are still adjusting to this environment – and that's why context is key in managing macro risk.

2. Steering portfolio outcomes

We think investors need to grab the investment wheel and take a more dynamic approach to their portfolios with both indexing and alpha-seeking strategies while staying selective.

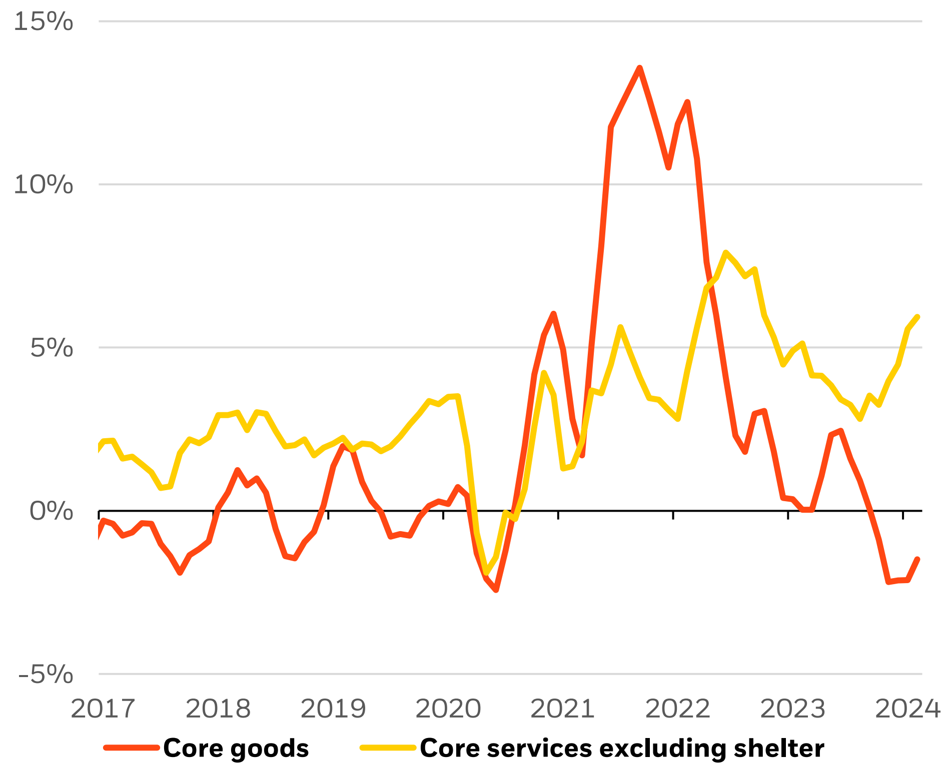
3. Harnessing mega forces

Mega forces are another way to steer portfolios – and think about portfolio building blocks that transcend traditional asset classes, in our view.

Upbeat market sentiment has room to run

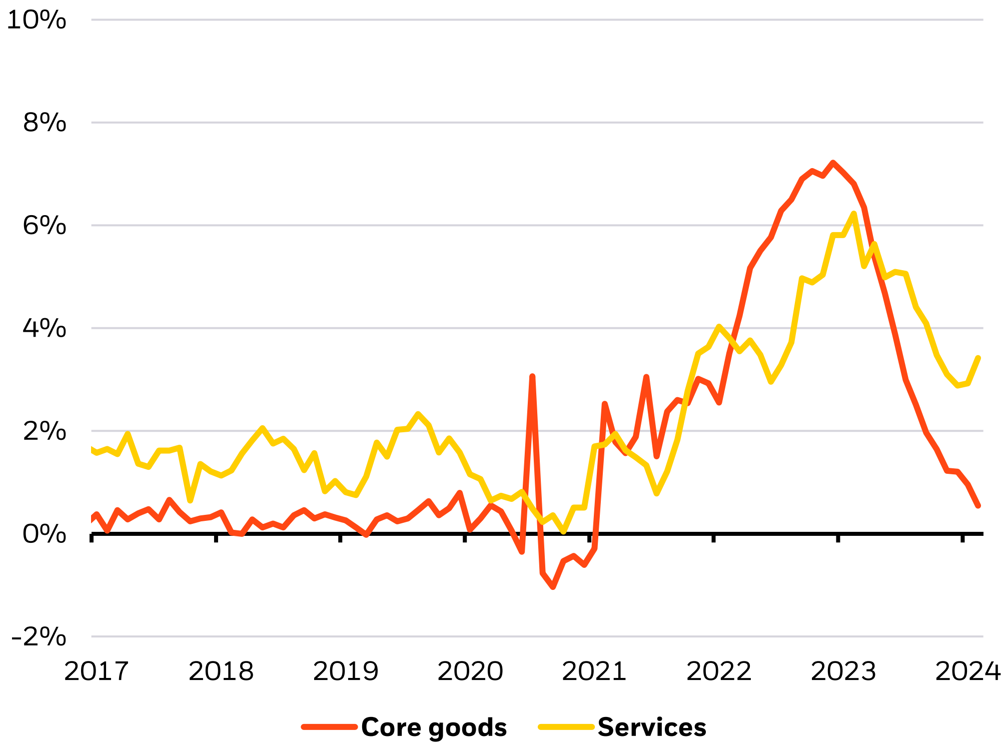
We see little in the near term to disrupt the market's perception that inflation is slowing, growth is holding up and rate cuts are coming. We think the risk of resurgent inflation could eventually dent the mood.

U.S. core inflation, 2017-2024



Source: BlackRock Investment Institute, U.S. Bureau of Labor Statistics, with data from Haver Analytics, March 2024. Note: The chart shows core goods and services inflation measured by the change over six months at an annualised rate. Core goods inflation covers all goods excluding energy and food costs; core services inflation covers all services excluding energy and shelter costs.

Euro area core inflation, 2017-2024

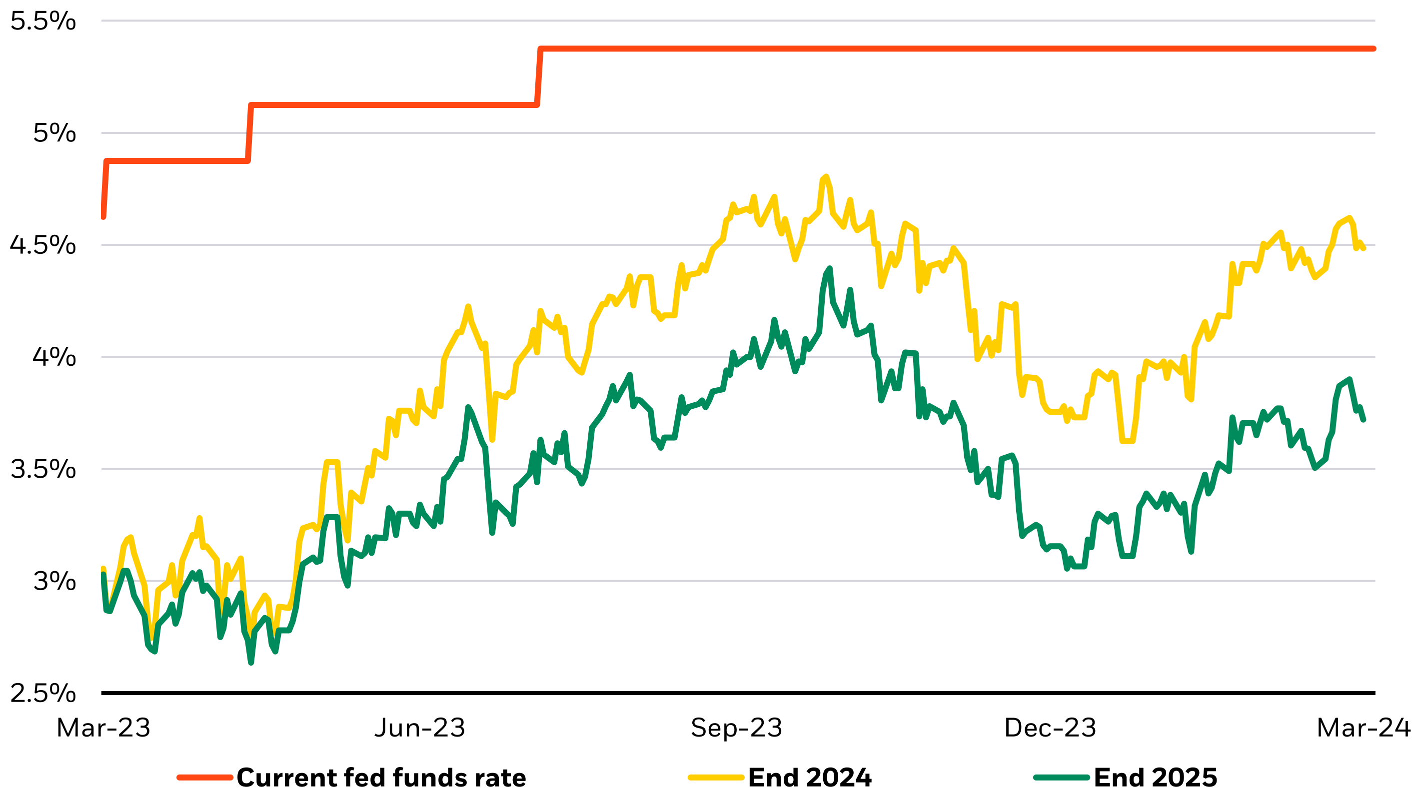


Source: BlackRock Investment Institute, Eurostat, with data from Haver Analytics, March 2024. Note: The chart shows core goods and services inflation measured by the change over six months at an annualised rate. Core goods inflation covers all goods excluding energy and food costs; Services inflation covers all services

Deliberately navigating macro risks remains key

Market pricing of Fed rate cuts has been dialed back in line with our view thanks to a persistently tight labor market and sticky services inflation. We still think markets are hoping for deeper rate cuts than are likely in the long term.

Market pricing of future Fed policy rate, 2023–2024

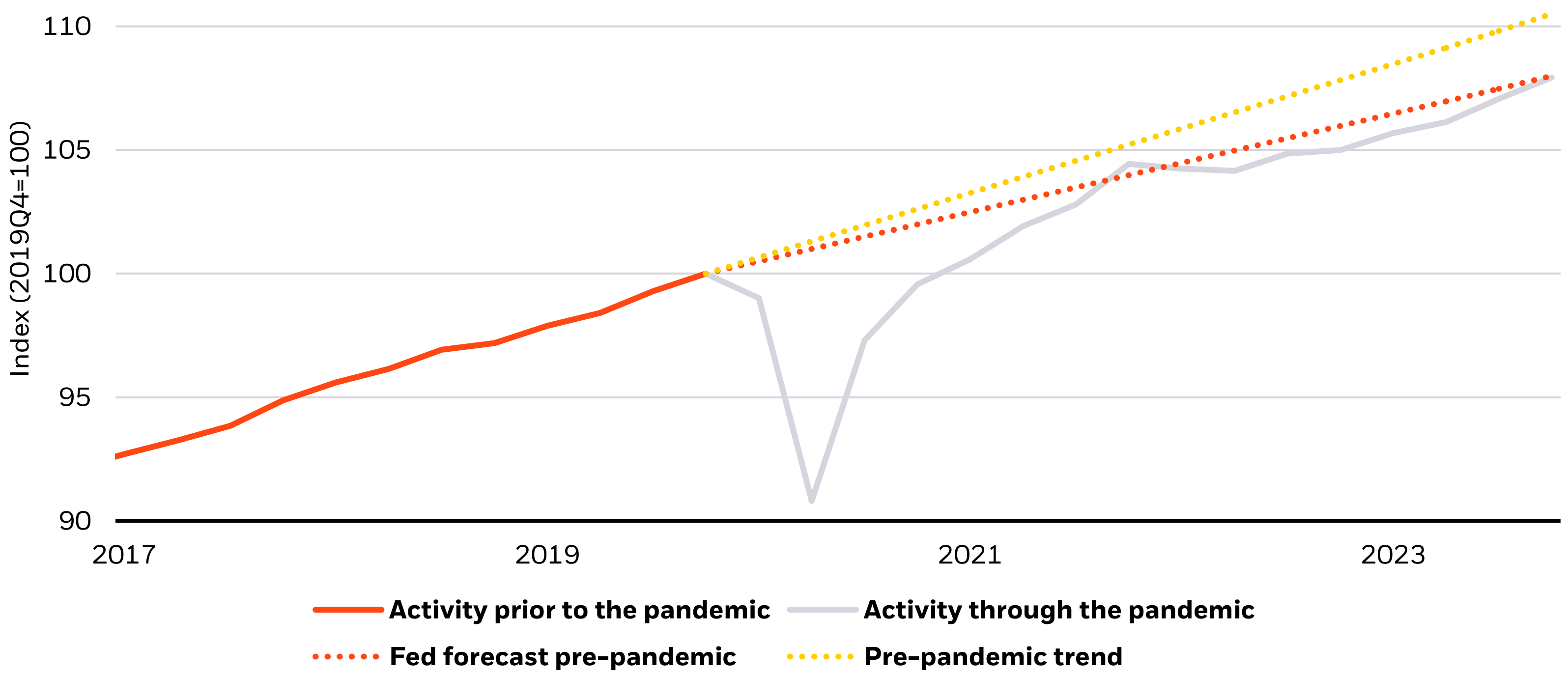


Forward looking estimates may not come to pass. Source: BlackRock Investment Institute, with data from LSEG Datastream, March 2024. Notes: The chart shows the current fed funds policy rate and market expectations of the fed funds rate via SOFR futures pricing. The fed funds rate shown is the midpoint of the Federal Reserve's target range.

Context is everything

Our core view has been that in a world shaped by supply, economic activity would be on a lower growth trend. Even with the U.S. economy's resilience through 2023, activity remains below its pre-Covid trend growth rate.

U.S. output, 2017-2023

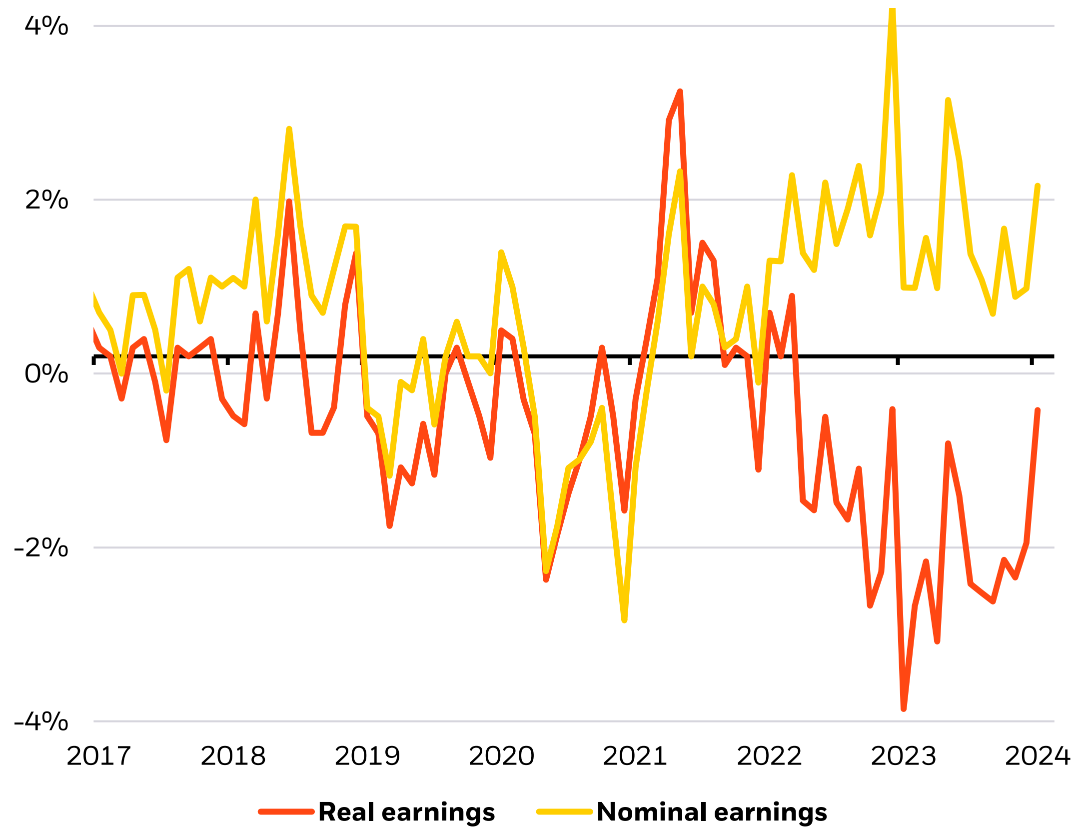


Forward looking estimates may not come to pass. Source: BlackRock Investment Institute, U.S. Bureau of Economic Analysis, with data from Haver Analytics, March 2024. Notes: The chart shows the level of real U.S. output, measured as the average of real gross domestic product (GDP) and gross domestic income (GDI). For GDI we assume that the historical series gets upwardly revised in line with our estimates and that it grows in line with GDP in Q4 of 2023. The GDI estimates incorporate likely revisions to past data indicated by recent data on interest payments and corporate profits from the Bureau of Economic Analysis The red line shows GDP before the pandemic and the yellow line assumes GDP kept growing at the same pace. The dotted red line shows the Federal Reserve's projections as of December 2019. The grey line shows actual activity through and since the pandemic.

Japan's macro backdrop an outlier within DMs

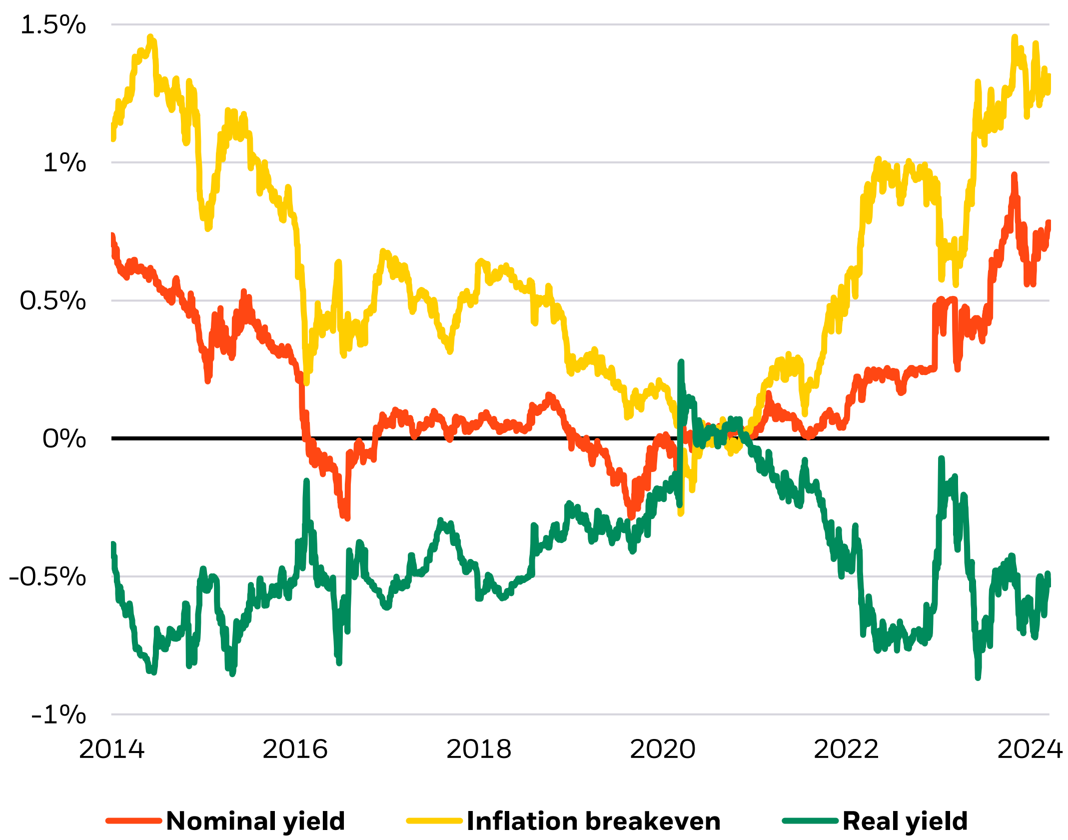
A recovery in wages and mild inflation after decades of sluggish progress has spurred a cautious Bank of Japan policy pivot. We see monetary policy staying easy, keeping real yields negative and supportive of risk.

Annual wage growth, 2017-2024



Source: BlackRock Investment Institute with data from Haver, March 2024. Notes: The chart shows the annual growth rate of nominal earnings and real earnings (the level of earnings after accounting for inflation).

Japan 10-year yield breakdown, 2014-2024



Past performance is no guarantee of future results. Source: BlackRock Investment Institute with data from LSEG Datastream, March 2024. Notes: The chart shows the breakdown for 10-year Japanese government bond yields

Our key calls

Our highest conviction views on tactical (6-12 month) and strategic (long-term) horizons, March 2024

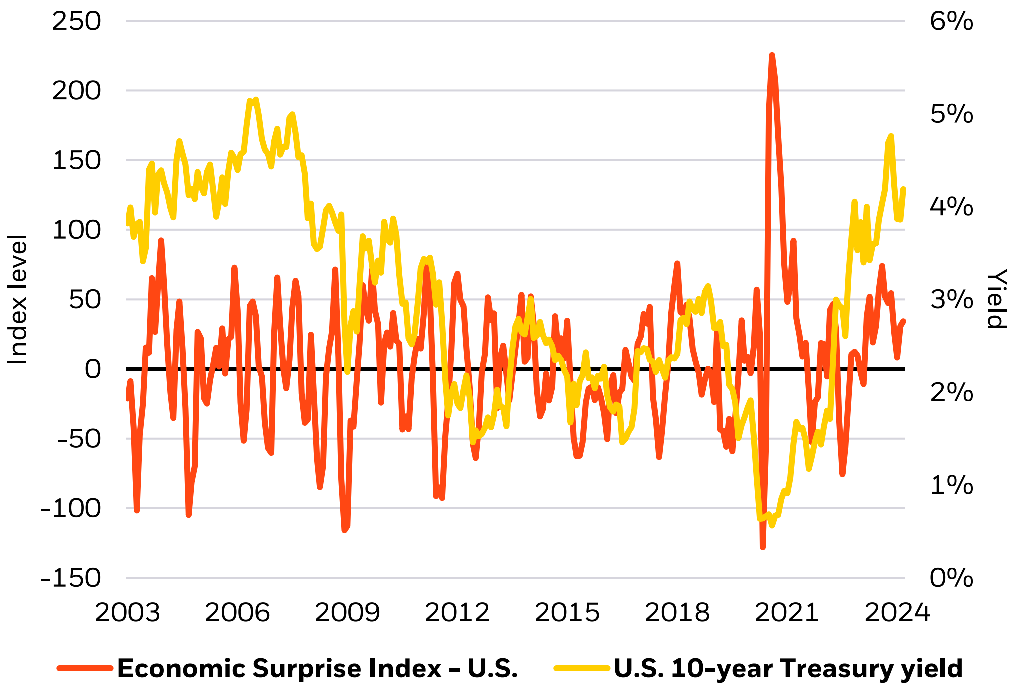
Tactical	Reasons
U.S. & Japan: a tale of two overweights	• We favor Japan equities on mild inflation, strong earnings growth and shareholder-friendly reforms. We are overweight U.S. stocks thanks to the AI theme and its potential to generate above-benchmark returns, or alpha.
Income in fixed income	• The income cushion bonds provide has increased across the board in a higher rate environment. We like short-term bonds and are now neutral long-term U.S. Treasuries as we see two-way risks ahead.
Geographic granularity	• We favor getting granular by geography. Within EM, we like India and Mexico as potential beneficiaries of mega forces even as relative valuations appear rich.
Strategic	**Reasons**
Private credit	• We think private credit is could potentially earn lending share as banks retreat – and at attractive returns relative to public credit risk.
Inflation-linked bonds	• We see inflation staying around 2.5-3% as structural supply constraints persist on a strategic horizon.
Short- and medium-term bonds	• We overall prefer short-term bonds over the long term. That's due to more uncertain and volatile inflation, heightened bond market volatility and weaker investor demand.

Note: Views are from a U.S. dollar perspective, March 2024. 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.

Macro uncertainty is still driving outsized market moves

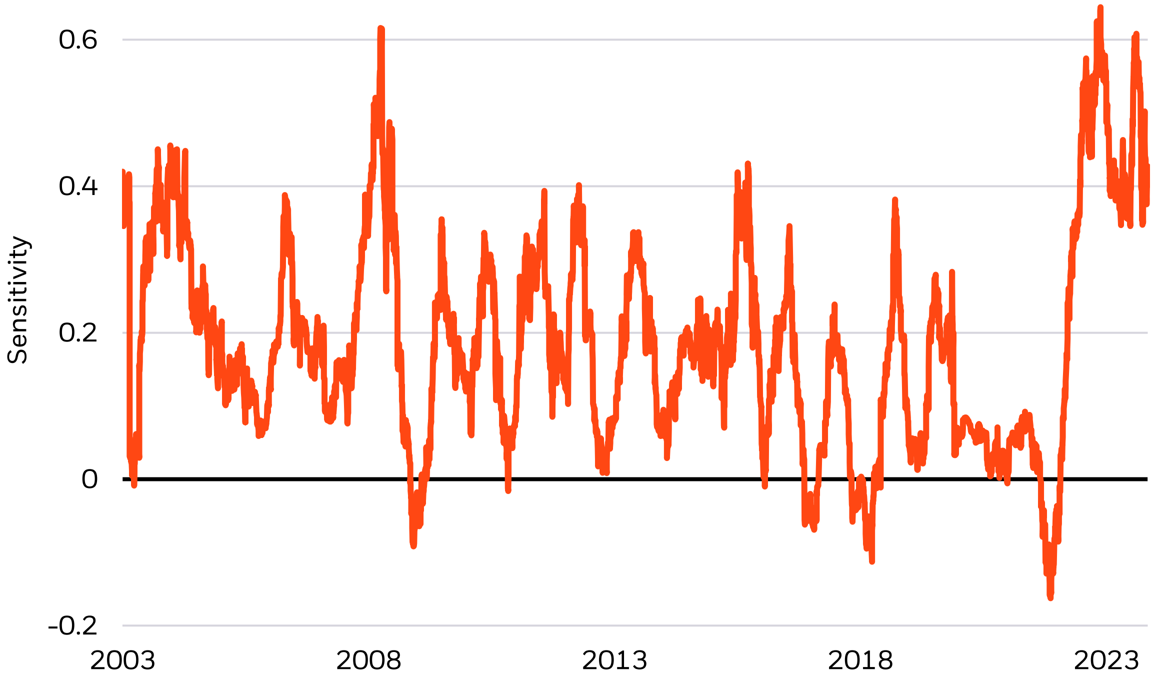
U.S. 10-year Treasury yields are the most sensitive to economic surprises than they ever have been post global financial crisis. We think that's a sign macro uncertainty is still driving markets.

U.S. economic surprise index & 10-year yields



Past performance is no guarantee of future results. Index returns do not account for fees. It is not possible to invest directly in an index. Source: BlackRock Investment Institute, with data from LSEG Datastream, March 2024. Notes: The chart shows the Citi Economic Surprise Index for the U.S. and U.S. 10-year Treasury yields. The Citi Economic Surprise Index represents the sum of the difference between official economic results and forecasts.

Sensitivity of U.S. 10-year yield to economic surprises

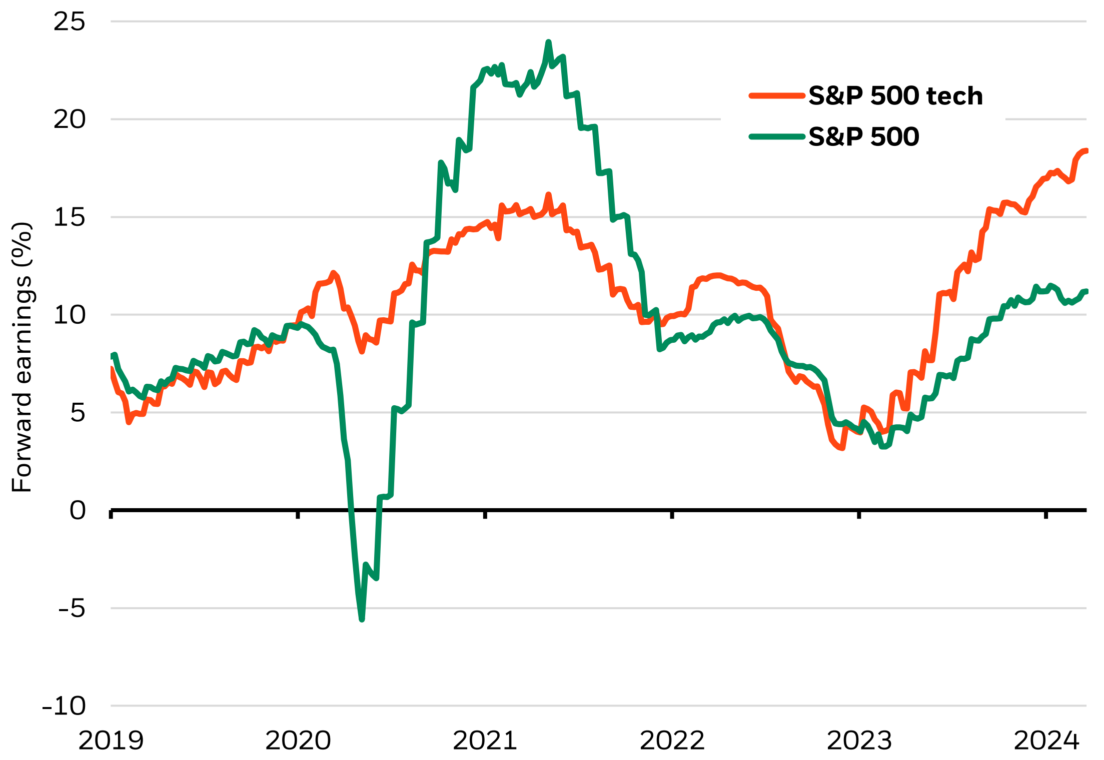


Source: BlackRock Investment Institute, with data from LSEG Datastream, March 2024. Notes: The chart shows how sensitive the U.S. 10-year Treasury yield is to economic surprises. This is calculated by using regression analysis to estimate the relationship between U.S. 10-year Treasury yields and the Citi Economics Surprise Index over a rolling six-month window. The sensitivity is measured by how closely movements of the U.S. 10-year Treasury yield align with fluctuations in the Citi Economics Surprise Index, relative to how much the Surprise index itself varies. This analysis is only an estimate of the relationship between the 10-year Treasury yield and economic surprises. Past performance is no guarantee of future results.

We stay overweight U.S. equities and keep leaning into AI

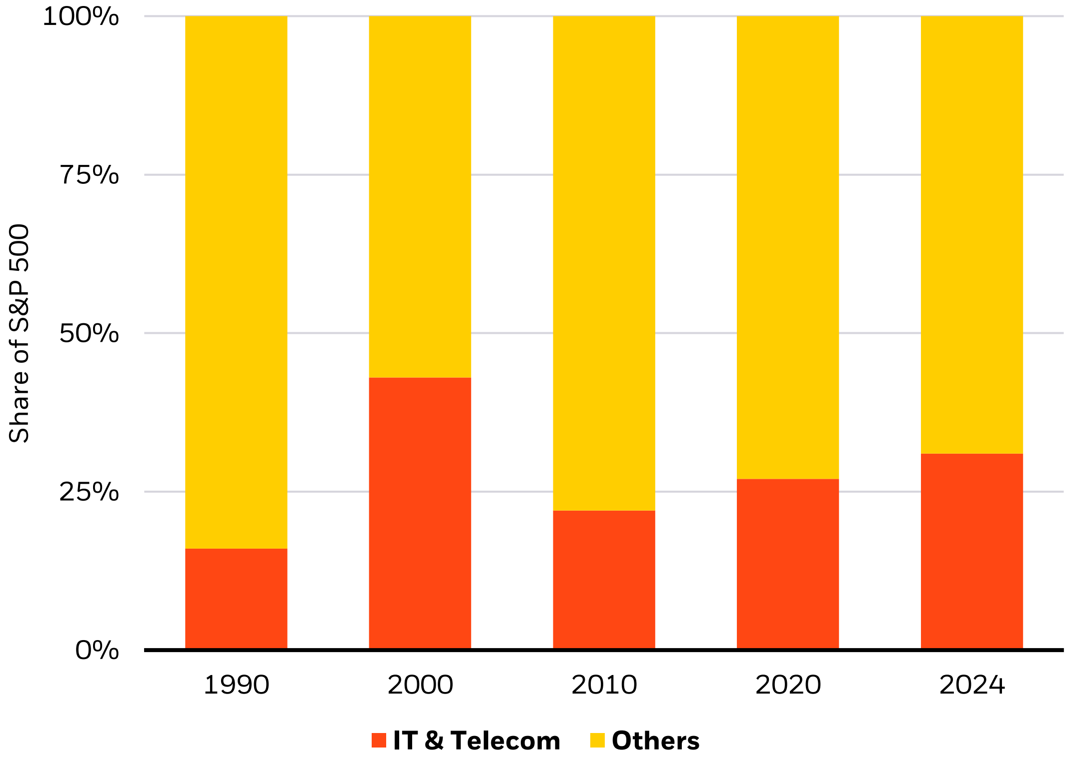
The growing heft of sectors with high-quality earnings and AI-exposed names in the S&P 500 – notably tech and telecommunications – is helping stocks overcome the drag of higher interest rates.

S&P 500 forward earnings expectations, 2019-2024



Forward looking estimates may not come to pass. Index returns do not account for fees. It is not possible to invest directly in an index. Past performance is no guarantee of future Source: BlackRock Investment Institute, with data from LSEG Datastream, March 2024. Notes: The chart shows 12-month forward earnings expectations for the overall S&P 500 index and S&P 500 information technology stocks.

S&P 500 index sector composition, March 1990-2024

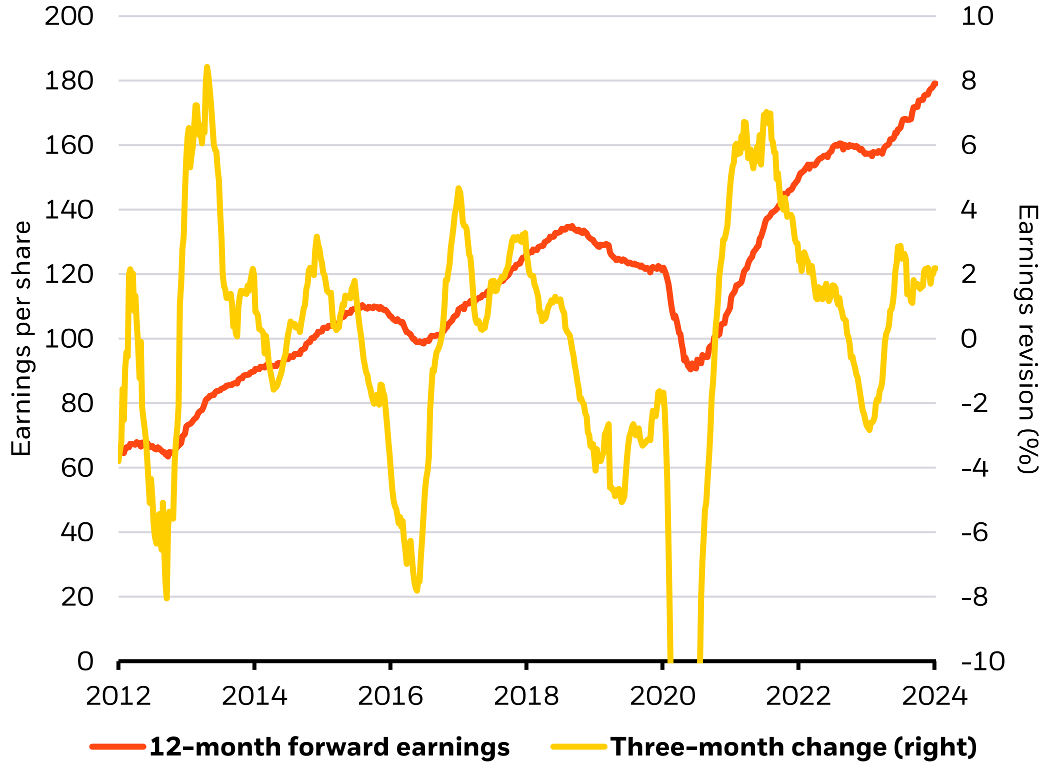


Index returns do not account for fees. It is not possible to invest directly in an index. Source: BlackRock Investment Institute, with data from LSEG Datastream, March 2024. Notes: The chart shows the market value of the IT & Telecom S&P 500 sector relative to the overall market value of the S&P 500 index at March end of each year shown.

We up our overweight to Japanese equities

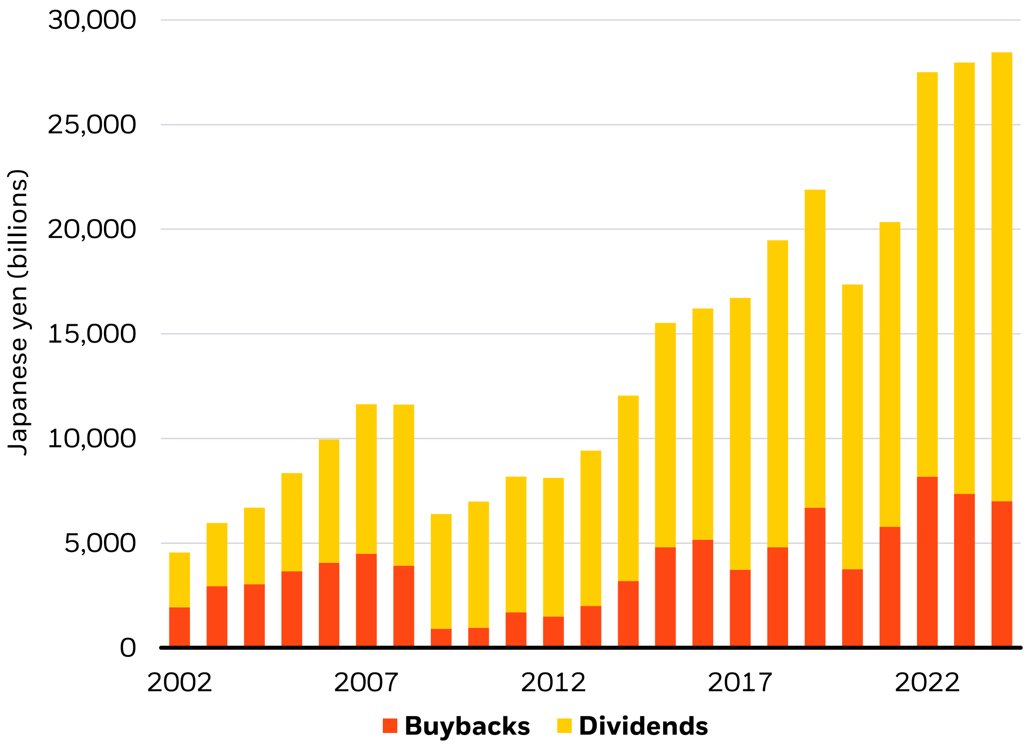
Solid corporate earnings and shareholder-friendly reforms at Japanese companies are playing out. We add to our overweight as we think the Bank of Japan's policy stance is supportive of local markets.

Topix earnings estimates and revisions, 2012-2024



Index returns do not account for fees. It is not possible to invest directly in an index. Forward looking estimates may not come to pass. Source: BlackRock Investment Institute with data from Haver Analytics, March 2024. Notes: The chart shows the 12-month forward earnings estimates for the TOPIX index and the three-month change in those earnings estimates.

Dividends and buybacks, 2002-2024

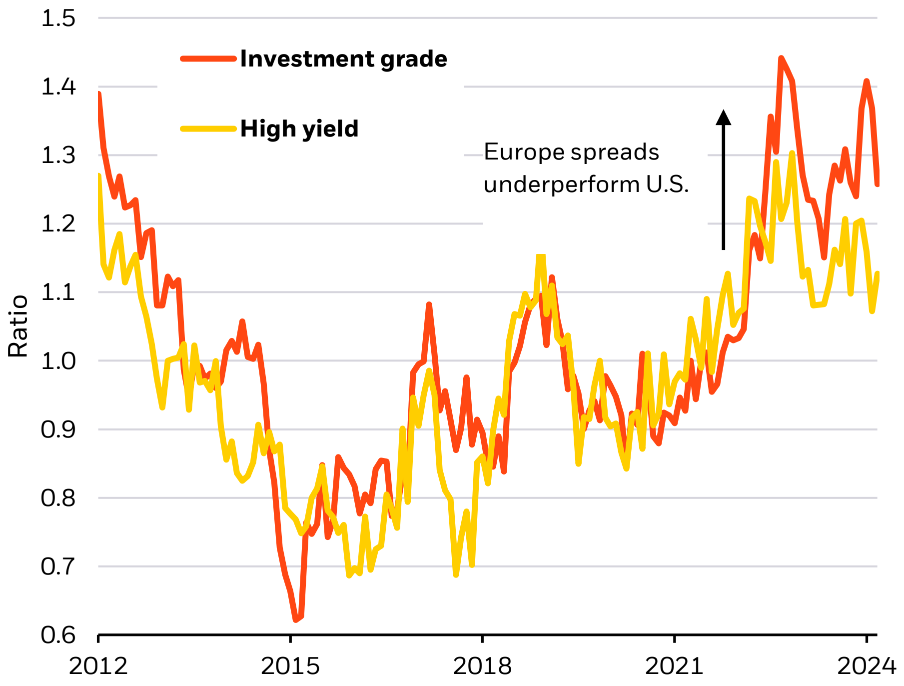


Source: BlackRock Investment Institute, Nikkei NEEDS, Bloomberg, AlphaSense, Morgan Stanley, March 2024. Notes: The charts shows the amount of executed buybacks and dividends paid out by Japanese companies in yen.

We stay selective in fixed income

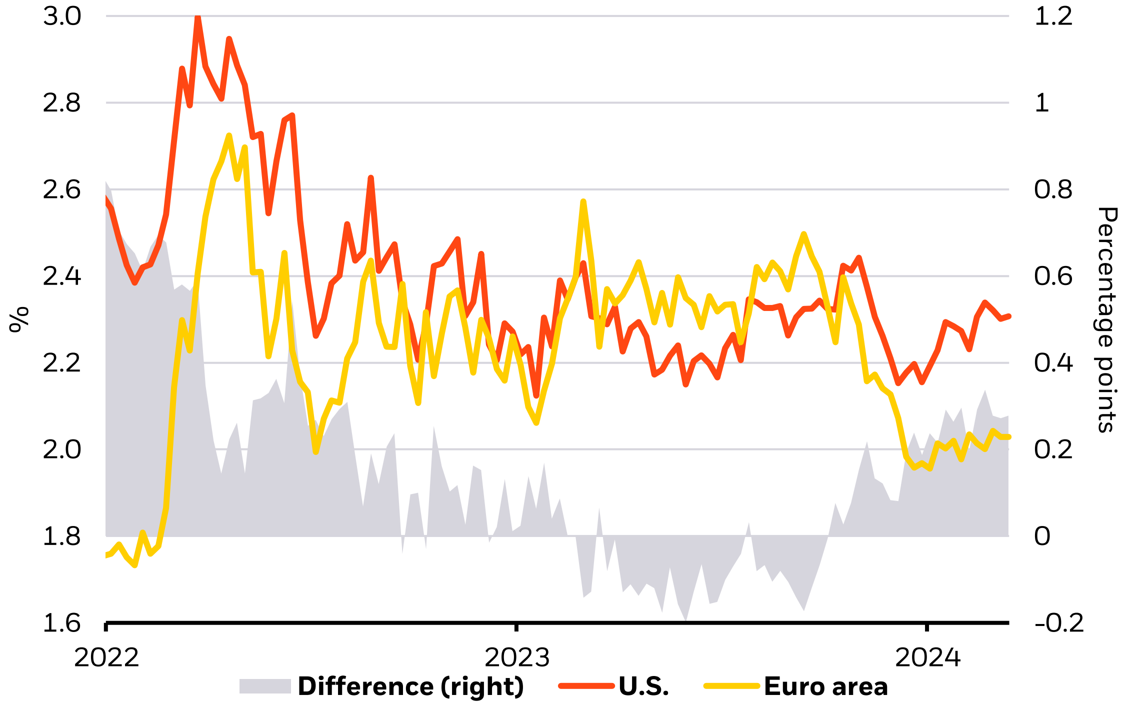
We are underweight investment grade credit and prefer taking risk in equities, with maturities posing a risk to spreads. We close our underweight to European inflation-linked bonds as breakevens have repriced towards our view.

European spreads vs. U.S. counterparts, 2012-2024



Past performance is no guarantee of future results. It is not possible to invest directly in an index. Index returns do not account for fees. Source: BlackRock Investment Institute, with data from LSEG Refinitiv, March 2024. Notes: The chart shows the spreads for European credit relative to U.S. credit as a ratio. The orange line shows European investment grade (IG) relative to U.S. IG. The yellow line shows European high yield (HY) relative to U.S. HY. The black arrow represents a rising ratio, which means that European credit spreads are underperforming relative to U.S. spreads. Index proxies used are the following Bloomberg indexes: U.S. Corporate Investment Grade, U.S. Corporate High Yield, Euro-Aggregate: Corporates USD and Pan-European High Yield USD

10-year breakeven inflation rates, U.S. & euro area

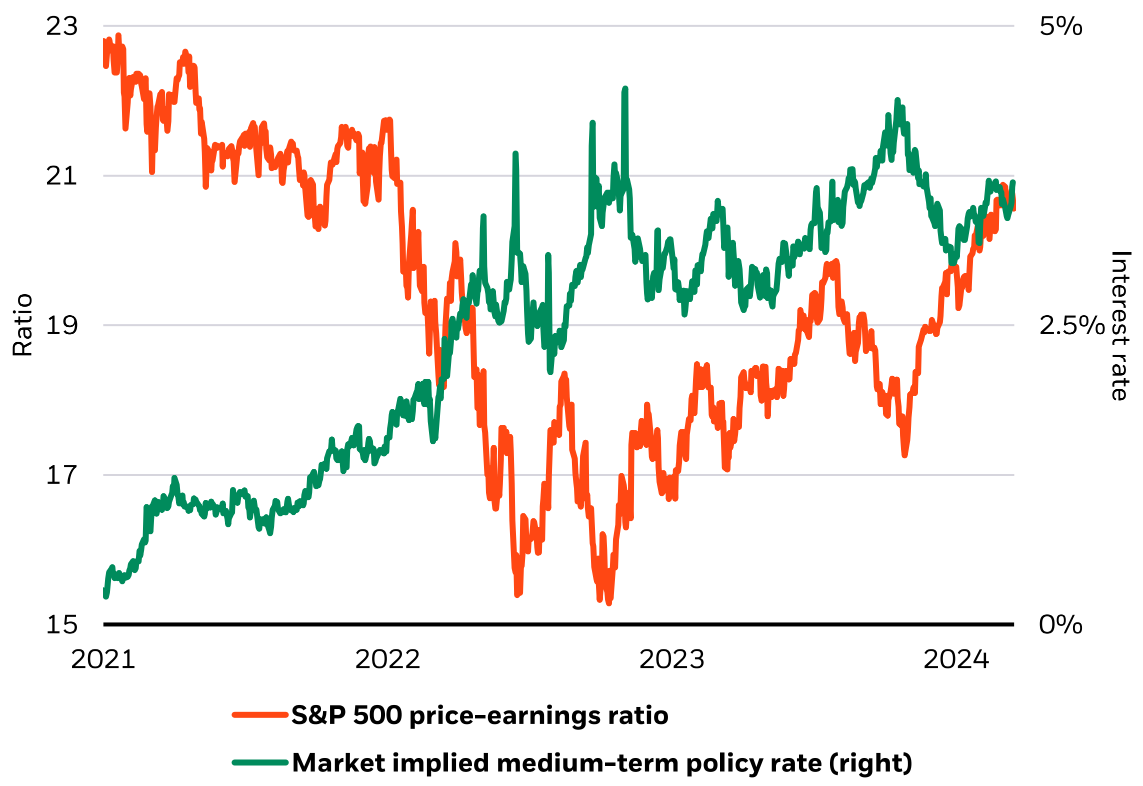


Source: BlackRock Investment Institute, with data from LSEG Datastream, March 2024. Notes: The chart shows the 10-year breakeven inflation rates – the difference between nominal and real government bond yields – for the U.S. and the euro area.

Signposts: Softening earnings growth and rates staying higher

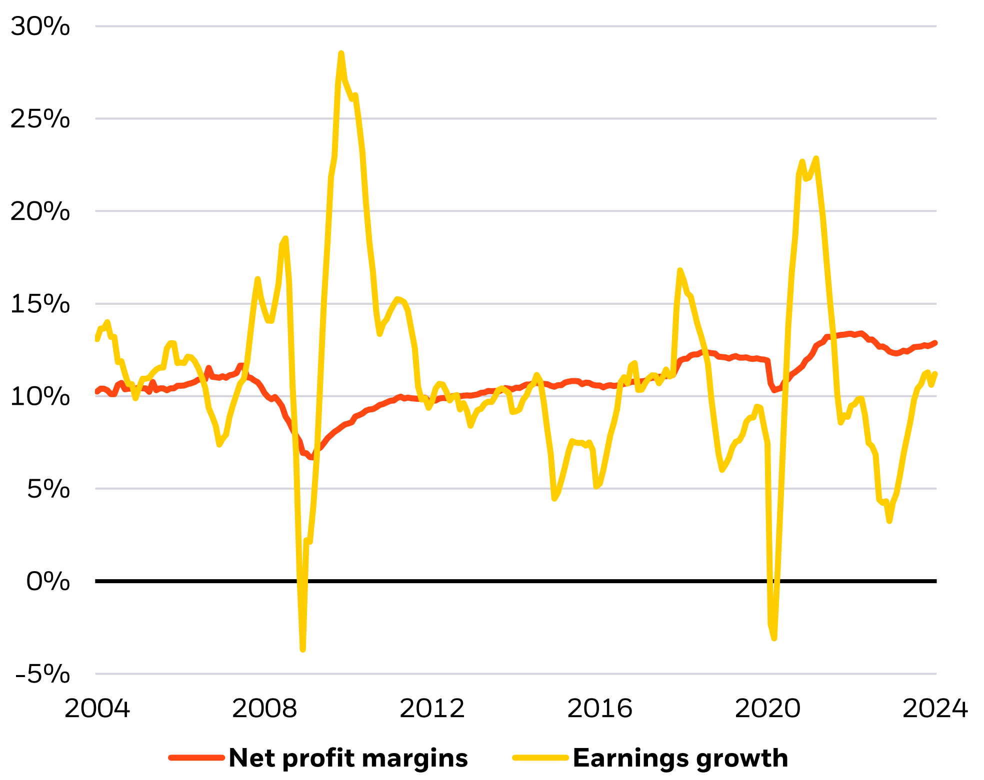
Strong earnings growth has supported upbeat sentiment even as markets price out rate cuts. Softer earnings growth, or markets readjusting further to structurally higher long-term interest rates, could challenge risk assets from here.

S&P 500 valuations and interest rate expectations



Forward looking estimates may not come to pass. Index returns do not account for fees. It is not possible to invest directly in an index. Source: BlackRock Investment Institute, with data from LSEG Datastream, March 2024. Notes: The chart shows the forward price-earnings ratio for the S&P 500 and the market pricing of the fed funds rate in three years, based on SOFR futures.

S&P 500 12-month forward estimates, 2004-2024

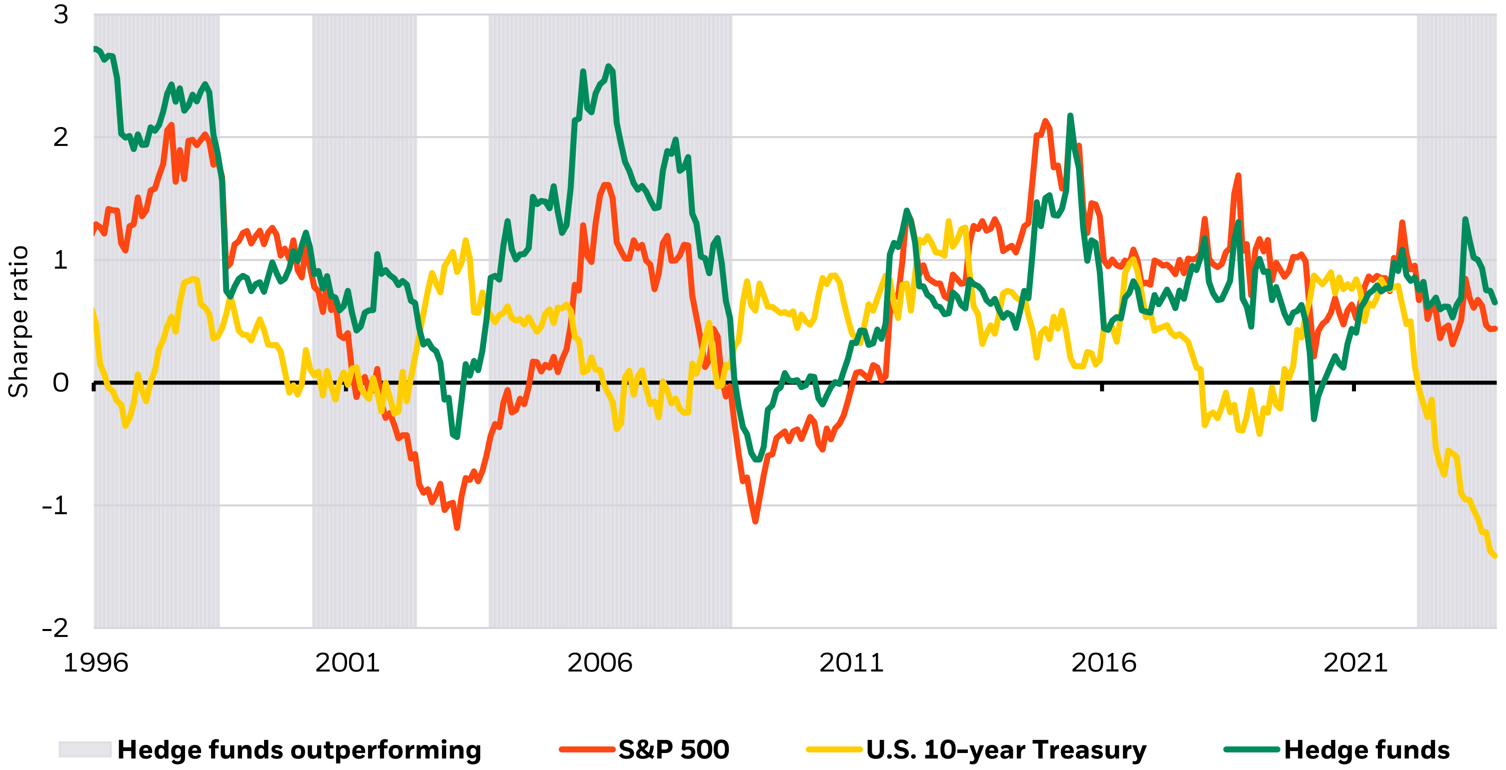


Forward looking estimates may not come to pass. Index returns do not account for fees. It is not possible to invest directly in an index. Source: BlackRock Investment Institute, with data from LSEG Datastream, March 2024. Notes: The chart shows 12-month forward earnings growth and net profit margin estimates for the S&P 500.

Active strategies may benefit from greater dispersion

More macro volatility has seen greater dispersion between and within asset classes. We see this environment as more conducive for active strategies looking to beat market benchmark returns such as those employed by hedge funds.

Sharpe ratios for equities, bonds and hedge funds

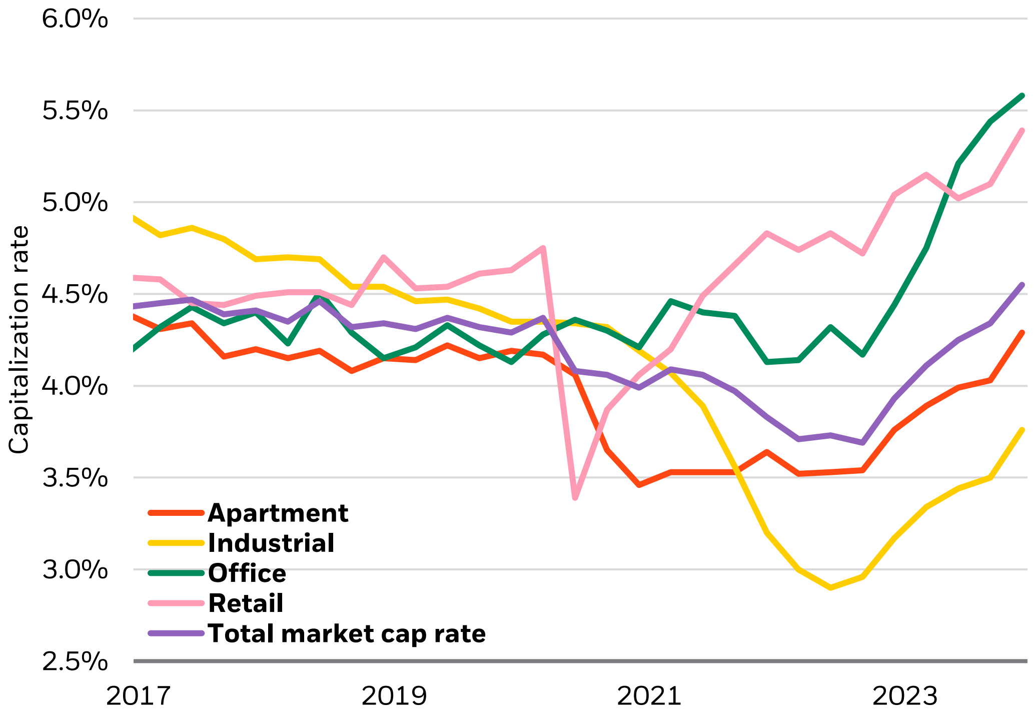


Past performance is not a reliable indicator of future performance. Index returns do not account for fees. It is not possible to invest directly in an index. This information should not be relied upon by the reader as research or investment advice regarding any funds, strategy or security in particular. Source: BlackRock Investment Institute, HFRI with data from LSEG Datastream, December 2023. Notes: The chart shows the Sharpe ratios for the S&P 500, U.S. 10-year Treasury and hedge funds. The index proxy used for hedge funds is the HFRI Weighted index. The Sharpe ratio measures an asset's risk-adjusted returns. It is calculated by dividing the asset's excess returns (typically over cash) by its standard deviation, which represents its risk.

Repricing in private real assets lags public market adjustment

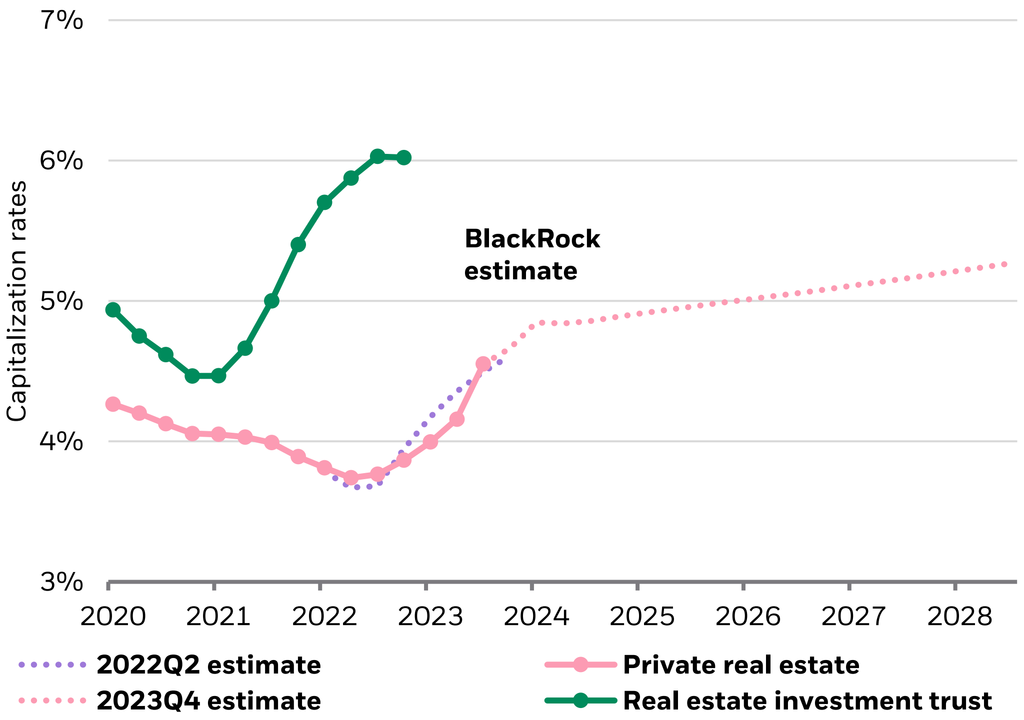
Real estate investment trusts (REITs) valuations have plunged further than private core real estate prices have. We believe they'll be more resilient to potential economic slowdown given they're exposed to less cyclical sectors.

Real estate sector capitalization (cap) rates



Source: BlackRock Investment Institute, February 2024, with data from NCREIF. Notes: The chart shows capitalization rates for all properties and individual core sectors: apartment, industrial, office, and retail.

U.S. real estate cap rates, 2017-2023

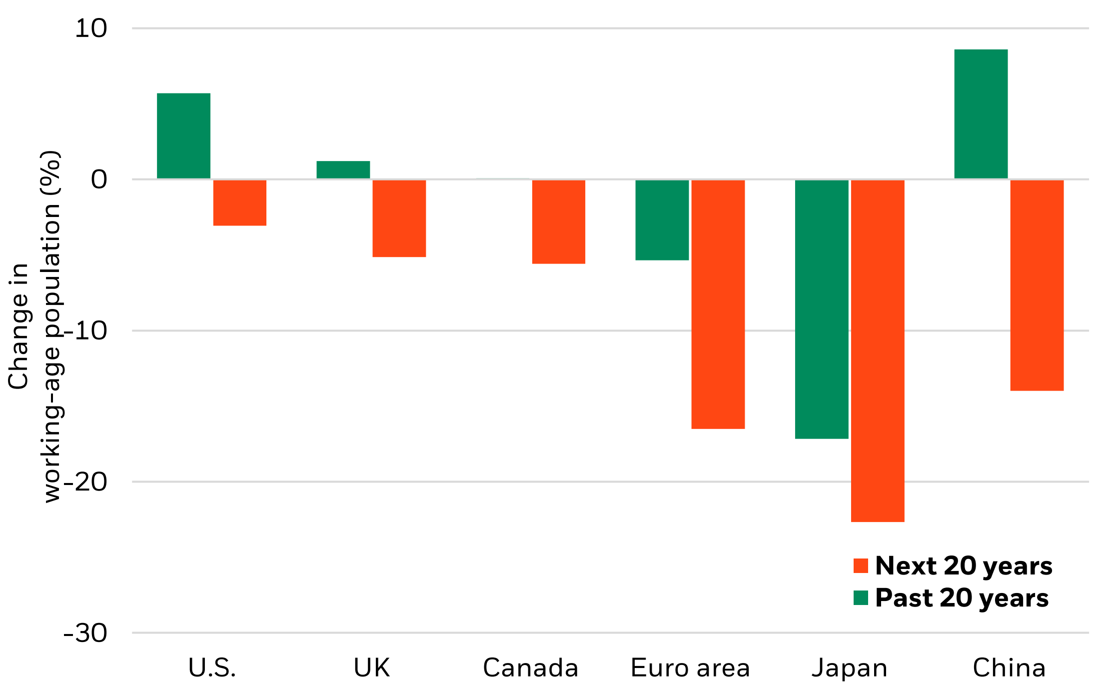


Forward looking estimates may not come to pass Source: BlackRock Investment Institute with data from NCREIF, August 2023. Notes: The chart shows capitalization rates for private real estate and real estate investment trusts (REITs). Our cap rate estimates are based on our analysis of the historical relationship between 10-year real Treasury bond yields, investment grade credit spreads and a real estate premium (the additional compensation investors require for investing in real estate). This analysis is only an estimate of the relationship and may not fully reflect the true relationship between these factors.

Markets are slow to price well-anticipated demographic shifts

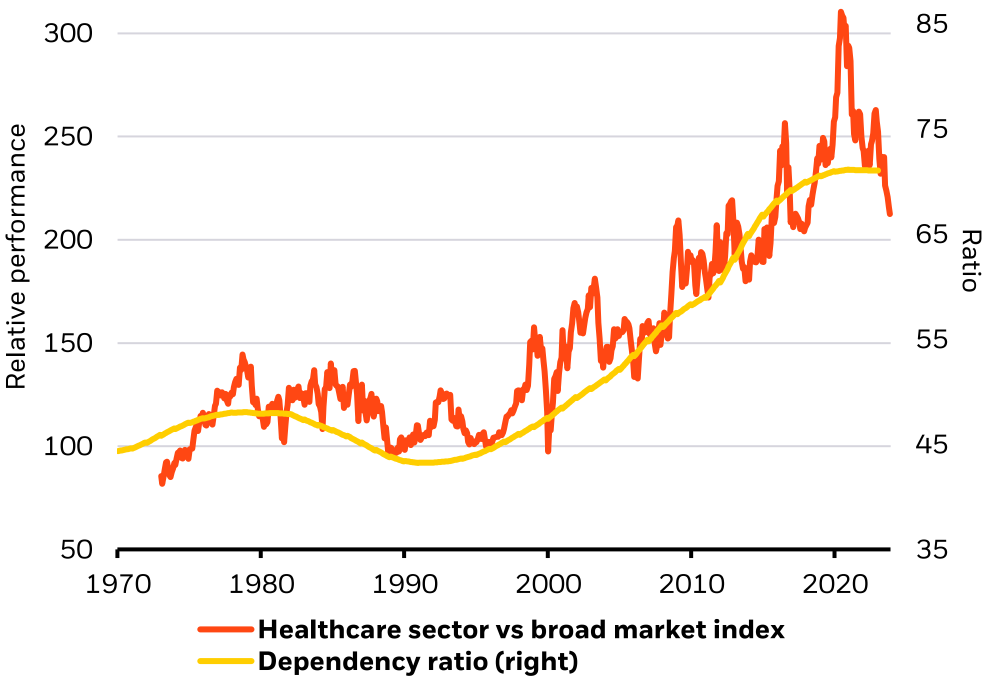
The working age population is set to shrink in several major economies over the coming decades – most working age people in that time will have been born already. But aging populations aren't necessarily negative for stocks, we think.

Change in domestic working age population



Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute, United Nations, with data from Haver Analytics, March 2024. Notes: The chart shows the percentage change in the domestic working-age population, defined in economic literature as those aged 15-64. The domestic working-age population is calculated by subtracting the UN's migration projections from the UN's population projections that include migration, assuming that migration does not change the overall age structure. The next 20 years refers to 2024-2044 and previous 20 years to 2003-2023.

Japan healthcare performance vs. dependency ratio

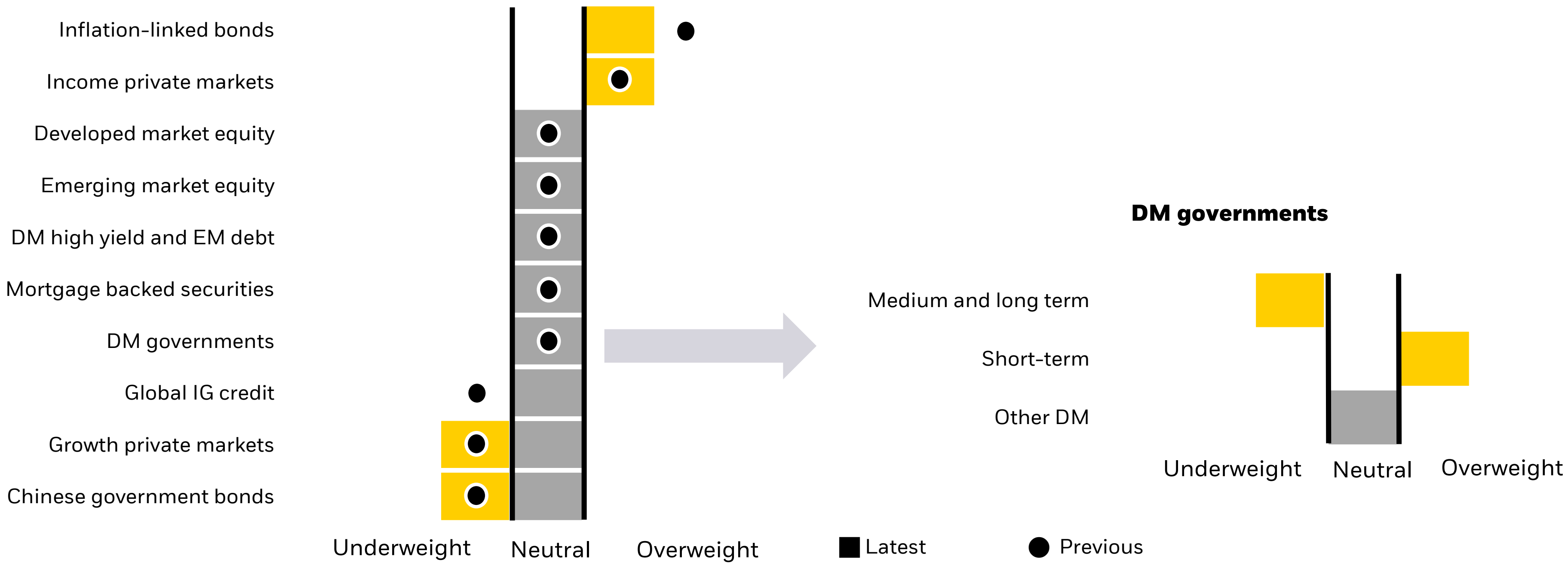


Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and do not account for fees. It is not possible to invest directly in an index. Source: BlackRock Investment Institute, United Nations, Reuters, with data from LSEG Datastream, March 2024. Notes: The red line shows the ratio of the performance of Japan's healthcare equity sector vs. the overall market index, indexed to 1990. We use total market indices provided by Datastream.

Our latest strategic views

We trim our preference to inflation-linked bonds, yet our expectation for inflation to ultimately settle at a level higher than markets expect keeps us overweight. A valuation drag from higher-for-longer rates keeps us neutral on equities.

Hypothetical U.S. dollar 10-year strategic views vs equilibrium, February 2024



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 29 December 2023. Notes: The chart shows our asset views on a 10-year view from an unconstrained U.S. dollar perspective against a long-term equilibrium allocation. Global government bonds and EM equity allocations comprise respective China assets. Income private markets comprise infrastructure debt, direct lending, real estate mezzanine debt and U.S. core real estate. Growth private markets comprise global private equity buyouts and infrastructure equity. The allocation shown is hypothetical and does not represent a real portfolio. It is intended for information purposes only and does not constitute investment advice. Index proxies: Bloomberg US Government Inflation-Linked Bond Index for inflation-linked bonds, MSCI World US$ for developed market equity, MSCI EM for emerging market equity. A combination of the Bloomberg US High Yield, Bloomberg Euro High Yield and JP Morgan EMBI Global Diversified indexes for DM high yield and EM debt, Bloomberg US MBS Index for mortgage-backed securities, a combination of Bloomberg Treasury 1-10 Year Index, Bloomberg US Long Treasury Index, Bloomberg Euro Treasury 1-15 Year index, Bloomberg Euro Aggregate Treasury 15 Year+ Index, Bloomberg Sterling Aggregate: Gilts 1-10 Year Index, Bloomberg Sterling Aggregate: Gilts 10+ Year Index and Bloomberg Asia Pacific Japan Treasury Index for DM government bonds. The "Other DM" breakout includes the UK and Japanese government bond indexes., a combination of Bloomberg US Credit, Bloomberg Euro Corporate Credit, Bloomberg UK Corporate Credit indexes for Global IG credit, Bloomberg China Treasury + Policy Bank Total Return Index for Chinese government bonds. We use BlackRock proxies for growth and income private market assets due to 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. The hypothetical portfolio may differ from those in other jurisdictions, is intended for information purposes only and does not constitute investment advice.

Tactical granular views: equities

Six- to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, March 2024

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 potential alpha.**

Equities		View	Commentary
Developed markets			
U.S.	Benchmark	Neutral	We are neutral in our largest portfolio allocation. We believe falling inflation and coming Fed rate cuts can underpin the rally's momentum. We are ready to pivot once the market narrative shifts.
	Overall	+1	We are overweight overall when incorporating our U.S.-centric positive view on artificial intelligence (AI). We think AI beneficiaries can still gain while earnings growth looks robust.
Europe		-1	We are underweight. While valuations look fair to us, we think the near-term growth and earnings outlook remain less attractive than in the U.S. and Japan – our preferred markets.
UK		Neutral	We are neutral. We find attractive valuations better reflect the weak growth outlook and the Bank of England's sharp rate hikes to fight sticky inflation.
Japan		+2	We are overweight. Mild inflation, strong earnings growth and shareholder-friendly reforms are all positives. We see the BOJ policy shift as a normalization, not a shift to tightening.
Emerging markets		Neutral	We are neutral. We see growth on a weaker trajectory and see only limited policy stimulus from China. We prefer EM debt over equity.
China		Neutral	We are neutral. Modest policy stimulus may help stabilize activity, and valuations have come down. Structural challenges such as an aging population and geopolitical risks persist.

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

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.

Tactical granular views: fixed income

Six- to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, March 2024

Fixed income	View	Commentary
Short U.S. Treasuries	+1	We are overweight. We prefer short-term government bonds for income as interest rates stay higher for longer.
Long U.S. Treasuries	Neutral	We are neutral. The yield surge driven by expected policy rates has likely peaked. We now see about equal odds that long-term yields swing in either direction.
U.S. 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 inflation-linked bonds	Neutral	We are neutral. Market expectations for persistent inflation in the euro area have come down.
Euro area govt bonds	Neutral	We are neutral. Market pricing reflects policy rates in line with our expectations and 10-year yields are off their highs. Widening peripheral bond spreads remain a risk.
UK gilts	Neutral	We are neutral. Gilt yields have compressed relative to U.S. Treasuries. Markets are pricing in Bank of England policy rates closer to our expectations.
Japanese govt bonds	-2	We are underweight. We find more attractive returns in equities. We see some of the least attractive returns in Japanese government bonds, so we use them as a funding source.
China govt bonds	Neutral	We are neutral. Bonds are supported by looser policy. Yet we find yields more attractive in short-term DM paper.
Global IG credit	-1	We are underweight. Tight spreads don't compensate for the expected hit to corporate balance sheets from rate hikes, in our view. We prefer Europe over the U.S.
U.S. agency MBS	Neutral	We are neutral. We see agency MBS as a high-quality exposure in a diversified bond allocation and prefer it to IG.
Global high yield	Neutral	We are neutral. Spreads are tight, but we like its high total yield and potential near-term rallies. We prefer Europe.
Asia credit	Neutral	We are neutral. We don't find valuations compelling enough to turn more positive.
EM hard currency	+1	We are overweight. We prefer emerging hard currency debt due to higher yields. It is also cushioned from weakening local currencies as EM central banks cut policy rates.
EM local currency	Neutral	We are neutral. Yields have fallen closer to U.S. Treasury yields. Central bank rate cuts could hurt EM currencies, dragging on potential returns.

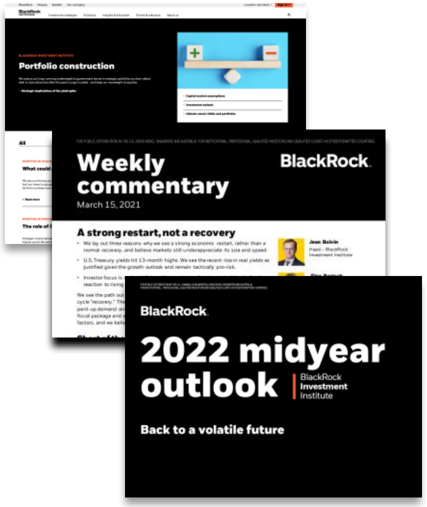
Underweight | Neutral | Overweight | ● Previous view

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

“
To build robust portfolios, you need to connect the dots between economics, markets, return drivers, policy and geopolitics.
”

Jean Boivin
Head – BlackRock Investment Institute



We generate macro, market and portfolio research to help our portfolio managers and clients navigate markets and build robust portfolios We share our insights through publications on:

- Macro and market framing
- Portfolio design and return expectations for institutional and professional investors
- Policy and politics

We are the connective tissue for BlackRock's portfolio managers and experts, setting up debates on market topics and structural trends via:

- **Daily global meeting**
  - Global experts share market views and debate a weekly question
- **Global Outlook Forum**
  - BlackRock's top 100 market experts gather twice a year to discuss the macro and market outlook

We have impact: We reached 283,000 clients across some 600 events in 2022, and had over 1 million webpage views. We also share our insights across media and social platforms.

Get BlackRock Investment Institute content:

blackrock.com/BII

Social content for a U.S. audience:

- BLKInsights app
- @blackrock
- The Bid podcast

BlackRock Investment Institute

The BlackRock Investment Institute (BII) leverages the firm's expertise to provide insights on the global economy, markets, geopolitics and long-term asset allocation – all to help our clients and portfolio managers navigate financial markets. BII offers strategic and tactical market views, publications and digital tools that are underpinned by proprietary research.