BLACKROCK INVESTMENT INSTITUTE

Richard Turnill
Global Chief Investment Strategist

Richard Turnill is BlackRock's Global Chief Investment Strategist. He was previously Chief Investment Strategist for BlackRock's fixed income and active equity businesses, and has also led the Global Equity investment team. Richard started his career at the Bank of England.

Share your feedback at ***BlackRockInvestmentInstitute@blackrock.com***

Isabelle Mateos y Lago
Chief Multi-Asset Strategist
BlackRock Investment Institute

Kate Moore
Chief Equity Strategist
BlackRock Investment Institute

Scott Thiel
Chief Fixed Income Strategist
BlackRock Investment Institute

BLACKROCK®

WEEKLY COMMENTARY • MARCH 25, 2019

Key points

1. We see disruption as a driver of tech companies' performance. The differing impacts on individual companies warrant a selective approach.
2. The Federal Reserve signaled it may leave interest rates on hold through year-end. The 10-year U.S. Treasury yield fell to a 14-month low.
3. U.S.-China trade talks resume this week. We could see an agreement to address the bilateral trade deficit and Chinese market access.

1 Tectonic shifts support tech

Innovation has long supported tech companies' performance. This year is no exception, we believe. Yet meaningful shifts in technology are creating uneven benefits (and drawbacks) within the sector and beyond. As a result, we advocate a selective approach to tech investing, especially after the recent rally.

Chart of the week
Key measures of tech sector vs. global stocks, 2014-2019

Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index. Sources: BlackRock Investment Institute, with data from Thomson Reuters, IBES and Bloomberg, March 2019. Notes: We use the MSCI ACWI Index to represent global stocks broadly, and the MSCI ACWI Information Technology Index to represent global tech stocks. The numbers are five-year averages. Profit margin refers to operating income, calculated by dividing operating income by net sales, on a trailing 12-month basis. Valuation refers to the 12-month forward price-to-earnings ratio. Debt coverage refers to the EBITDA-debt ratio.

Disruptive innovations have fueled strong demand for tech companies' products and services – underpinning the sector's sustained outperformance. Tech companies have posted higher profit margins and stronger sales growth than the broader market over the past five years, with vastly lower corporate leverage. See the chart above. Yet they trade on average at only a modest valuation premium. More tech disruptions are on the way, powered by fifth generation (5G) wireless technology and artificial intelligence (AI). These technologies are still in their early days, but the race among companies across industries to tap their potential should underpin future tech revenues and earnings. We see current tech sector valuations as fair on average. The tech sector is now trading at a 5% premium to its five-year average, measured by forward price-to-earnings ratios, well below the 20% premium seen in June 2017.

5G, AI and beyond

High-speed 5G mobile technology is a step-change from the previous four generations. Greater bandwidths and faster Internet speeds are just the start. The key attributes of 5G – massive data capacity and ultra-fast speeds – could empower and accelerate the application of AI across industries, enabling advances in areas from driverless cars to smart cities and telemedicine. 5G trials have started, but wider deployment is unlikely until the early 2020s. Wireless carriers looking to gain a first-mover advantage are already deploying the pricey infrastructure backbone, to achieve a boost to existing 4G offerings while setting up to transition to 5G.

Semiconductor suppliers are potential early winners from this ongoing shift. They are set to benefit from a significant increase in demand for the data and infrastructure required to handle the network traffic. Fiber and testing companies also stand to benefit as 5G infrastructure is built out and new 5G applications are tested. The implications of tech innovation go beyond the narrowly defined tech sector. Think of the potential for autonomous and electric vehicles to disrupt the auto sector and related supply chains over time. Self-driving vehicles combined with greater prevalence of ride sharing could translate to fewer cars on the road. Such a scenario could also hurt the value of businesses such as parking infrastructure.

Within tech, we like semiconductor firms, thanks to a potential earnings turnaround this quarter. We prefer exposure to both U.S. and Chinese tech. The two countries are ramping up efforts to be the first to deploy 5G and set global standards, as part of their competition for global technological leadership. The tech sector faces its share of risks. A downturn in economic activity could temporarily hurt demand for technology products. Data privacy rules and anti-trust measures pose risks to popular tech companies that are now in the communication and consumer sectors. And we are mindful of crowded positioning as investors chase scarce areas of growth. Bottom line: We do not expect the strong first-quarter performance of tech shares to be sustained, but see selected opportunities in the sector as disruptive innovations create growth opportunities.

2 Week in review

- The Fed's policy meeting delivered a more dovish outcome than expected. The "dot plot" suggested the median policymaker now expects no rate hikes in 2019, down from two. The Fed also announced it would halt the runoff of its balance sheet by September. Ten-year U.S. government bond yields fell to a 14-month low below 2.5%. Bank shares sold off.
- Weak manufacturing data fueled growth worries. Factory activity shrank for a third straight month in Germany in March – and at the fastest pace in nearly six years in the eurozone. Stocks sold off late in the week, but defensive sectors such as utilities and consumer staples held on to gains. The 10-year German government bond yield fell below zero for the first time since October 2016.
- The UK government and European Union agreed on a short delay to Brexit, reducing the risk of a disorderly exit and raising the likelihood of a softer Brexit.

Global snapshot

Weekly and 12-month performance of selected assets

Equities	Week	YTD	12 Months	Div. Yield
U.S. Large Caps	-0.8%	12.3%	8.1%	2.0%
U.S. Small Caps	-3.0%	12.0%	-1.1%	1.6%
Non-U.S. World	-0.2%	10.4%	-4.4%	3.2%
Non-U.S. Developed	-0.3%	10.2%	-3.4%	3.4%
Japan	2.5%	8.3%	-7.0%	2.4%
Emerging	0.2%	10.0%	-8.9%	2.7%
Asia ex-Japan	1.0%	11.5%	-7.0%	2.5%

Bonds	Week	YTD	12 Months	Yield
U.S. Treasuries	0.9%	1.7%	4.4%	2.5%
U.S. TIPS	0.9%	3.1%	3.2%	2.6%
U.S. Investment Grade	1.1%	4.6%	5.2%	3.7%
U.S. High Yield	0.3%	6.9%	5.6%	6.5%
U.S. Municipals	0.7%	2.5%	5.2%	2.4%
Non-U.S. Developed	1.0%	2.0%	-3.8%	0.8%
EM $ Bonds	0.7%	6.6%	4.5%	6.0%

Commodities	Week	YTD	12 Months	Level
Brent Crude Oil	-0.2%	24.6%	-2.7%	$67.03
Gold	0.9%	2.4%	-1.2%	$1,313
Copper	-1.9%	5.8%	-5.7%	$6,312

Currencies	Week	YTD	12 Months	Level
Euro/USD	-0.1%	-1.4%	-8.0%	1.13
USD/Yen	-1.4%	0.3%	4.4%	109.93
Pound/USD	-0.6%	3.5%	-6.3%	1.32

Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index. Source: Thomson Reuters. As of March 22, 2019. Notes: Weekly data through Friday. Equity and bond performance are measured in total index returns in U.S. dollars. U.S. large caps are represented by the S&P 500 Index; U.S. small caps are represented by the Russell 2000 Index; Non-U.S. world equity by the MSCI ACWI ex U.S.; non-U.S. developed equity by the MSCI EAFE Index; Japan, Emerging and Asia ex-Japan by their respective MSCI Indexes; U.S. Treasuries by the Bloomberg Barclays U.S. Treasury Index; U.S. TIPS by the U.S. Treasury Inflation Notes Total Return Index; U.S. investment grade by the Bloomberg Barclays U.S. Corporate Index; U.S. high yield by the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index; U.S. municipals by the Bloomberg Barclays Municipal Bond Index; non-U.S. developed bonds by the Bloomberg Barclays Global Aggregate ex USD; and emerging market $ bonds by the JP Morgan EMBI Global Diversified Index. Brent crude oil prices are in U.S. dollars per barrel, gold prices are in U.S. dollar per troy ounce and copper prices are in U.S. dollar per metric ton. The Euro/USD level is represented by U.S. dollar per euro, USD/JPY by yen per U.S. dollar and Pound/USD by U.S. dollar per pound.

3 Week ahead

March 26 U.S. consumer confidence

March 28 Eurozone Economic Sentiment Indicator and Business Climate Indicator

March 29 U.S. personal income; original date for the UK's departure from the European Union

March 31 China Purchasing Managers' Index (PMI)

U.S.-China trade talks are set to resume this week. U.S. Trade Representative Robert Lighthizer and Treasury Secretary Steve Mnuchin are scheduled to travel to China, before Chinese Vice Premier Liu He visits the U.S. in the following week. An agreement that includes a commitment from China to purchase more U.S. goods and to improve access to domestic markets could well be reached in the near term, in our view. Yet we expect the overall relationship to remain highly competitive, with tensions broadening to include technological, ideological and military dimensions..

Asset class views

Views from a U.S. dollar perspective over a three-month horizon

Asset class		View	Comments
Equities	U.S.	▲	Solid corporate earnings and ongoing economic expansion underpin our positive view. We have a growing preference for quality companies with strong balance sheets as the 2019 macro and earnings outlooks become more uncertain. Health care is among our favored sectors.
	Europe	▼	Weak economic momentum and political risks are challenges to earnings growth. A value bias makes Europe less attractive without a clear catalyst for value outperformance. We prefer higher-quality, globally-oriented names.
	Japan	—	We see solid corporate fundamentals and cheap valuations as supportive, but the market lacks a clear catalyst for sustained outperformance. Other positives include shareholder-friendly corporate behavior, central bank stock buying and political stability.
	EM	▲	Attractive valuations, coupled with a backdrop of economic reforms and policy stimulus, support the case for EM stocks. We view financial contagion risks as low. Uncertainty around trade is likely to persist, though much has been priced in. We see the greatest opportunities in EM Asia.
	Asia ex-Japan	▲	The economic backdrop is encouraging, with near-term resilience in China and solid corporate earnings. We like selected Southeast Asian markets but recognize a worse-than-expected Chinese slowdown or disruptions in global trade would pose risks to the entire region.
Fixed income	U.S. government bonds	—	A negative correlation with risk assets makes Treasuries attractive portfolio diversifiers. We see modestly soft economic news, positive fixed income flows and a first-half pause in Fed rate hikes as supportive. The front end has the most appealing risk-adjusted income, but we favor going out on the curve on any material backup in yields. We see the risk/reward balance tilted toward inflation-protected securities.
	U.S. municipals	—	We prefer long-intermediate maturities for their attractive carry amid a steeper yield curve. We see supply-demand dynamics supporting the asset class in the near term as we expect new issuance to lag the total amount of debt that is called, refunded or matures.
	U.S. credit	—	Solid fundamentals are supportive, but late-cycle economic concerns pose a risk to valuations. We favor BBB-rated bonds in the investment grade space and emphasize credit selection. We generally see healthy fundamentals, supportive supply-demand and valuations in high yield, and prefer bonds over loans.
	European sovereigns	▼	We steer away from most euro peripheral debt amid rising political risks, slowing economic momentum and fewer policy levers to counter any downturn. We see a no-deal Brexit as unlikely, but expect a bumpy road. We favor the British pound and underweight UK gilts in the medium term as a result.
	European credit	—	We are overall cautious on euro investment grade credit — but see attractive relative value and income potential in the BBB segment. Yields compare favorably when hedged back to the U.S. dollar. We are neutral on European high yield but note significantly wider credit spreads versus equivalent U.S. peers.
	EM debt	—	Valuations are attractive despite the recent rally, and limited issuance in recent months is supportive. A pause in U.S. monetary policy tightening and U.S. dollar strength remove a key drag on performance. Clear risks include deteriorating U.S.-China relations and slower global growth.
	Asia fixed income	—	Easing U.S.-China trade tensions would increase the appeal of the Chinese yuan. A focus on quality is prudent in credit. We favor investment grade in India, China and parts of the Middle East, and high yield in Indonesia and in Chinese real estate.
Other	Commodities and currencies	*	We see oil prices underpinned by the effort of major oil-producing countries to eliminate global oil oversupply. Any relaxation in trade tensions could signal upside to industrial metal prices. We see the U.S. dollar's outlook as balanced. We prefer the dollar among developed market peers and could see it weakening further against high-yielding EM currencies.

▲ Overweight — Neutral ▼ Underweight *Given the breadth of this category, we do not offer a consolidated view.

BlackRock Investment Institute

The BlackRock Investment Institute (BII) provides connectivity between BlackRock's portfolio managers; originates economic, markets and portfolio construction research; and publishes investment insights. Our goals are to help our portfolio managers become even better investors and to produce thought-provoking investment content for clients and policymakers.

General Disclosure: *This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of March 25, 2019, and may change. The information and opinions are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by BlackRock, its officers, employees or agents. This material may contain 'forward looking' information that is not purely historical in nature. Such information may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.*

In the U.S., this material is intended for public distribution. **In Canada**, this material is intended for permitted clients only. **In the UK and outside the EEA**: This material is for distribution to professional clients (as defined by the Financial Conduct Authority or MiFID Rules) and qualified investors only and should not be relied upon by any other persons. Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: 020 7743 3000. Registered in England No. 2020394. BlackRock is a trading name of BlackRock Investment Management (UK) Limited. **In the EEA**, it is issued by BlackRock (Netherlands) BV: Amstelplein 1, 1096 HA, Amsterdam, Tel: 020 – 549 5200, Trade Register No. 17068311. BlackRock is a trading name of BlackRock (Netherlands) B.V. **For qualified investors in Switzerland**, this material shall be exclusively made available to, and directed at, qualified investors as defined in the Swiss Collective Investment Schemes Act of 23 June 2006, as amended. **In South Africa**, please be advised that BlackRock Investment Management (UK) Limited is an authorised financial services provider with the South African Financial Services Board, FSP No. 43288. **In DIFC**: This information 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) and is only directed at 'Professional Clients' and no other person should rely upon the information contained within it. Neither the DFSA or any other authority or regulator located in the GCC or MENA region has approved this information. This information and associated materials have been provided for your exclusive use. This document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution would be unlawful under the securities laws of such. Any distribution, by whatever means, of this document and related material to persons other than those referred to above is strictly prohibited. **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 Singapore,** this is issued by BlackRock (Singapore) Limited (Co. registration no. 200010143N). **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 Professional Investors only (Professional Investor is defined in Financial Instruments and Exchange Act). **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 China,** this material may not be distributed to individuals resident in the People's Republic of China ("PRC", for such purposes, excluding 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) and does not constitute investment advice or an offer or solicitation to purchase or sell in any securities, BlackRock funds or any investment strategy nor shall any securities be offered or sold to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction. **In Latin America**, for institutional investors and financial intermediaries only (not for public distribution). This material is for educational purposes only and does not constitute investment advice or an offer or solicitation to sell or a solicitation of an offer to buy any shares of any fund or security. If any funds are mentioned or inferred in this material, such funds may not been registered with the securities regulators of any Latin American country and thus, may not be publicly offered in any such countries. The provision of investment management and investment advisory services is a regulated activity in Mexico thus is subject to strict rules. No securities regulator within Latin America has confirmed the accuracy of any information contained herein.

The information provided here is neither tax nor legal advice. Investors should speak to their tax professional for specific information regarding their tax situation. Investment involves risk including possible loss of principal. International investing involves risks, including risks related to foreign currency, limited liquidity, less government regulation, and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are often heightened for investments in emerging/developing markets or smaller capital markets.

© 2019 BlackRock, Inc. All Rights Reserved. BLACKROCK, is a registered trademark of BlackRock, Inc., or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.

Not FDIC Insured • May Lose Value • No Bank Guarantee

BLACKROCK®