Weekly commentary

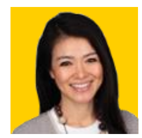
BlackRock.

September 21, 2026

The AI buildout meets the 5% world

- An accelerating AI buildout and heavy government borrowing are intensifying competition for capital. We stay pro-risk and selective in bonds.
- U.S. two- and 10-year Treasury yields rose last week after the Fed raised interest rates. We think markets may be overinterpreting the Fed's hawkish tone.
- We eye flash PMIs for signs business activity is holding up as borrowing costs rise. U.S. resilience would reinforce the case for rates staying higher for longer.

Jean Boivin
Head – BlackRock Investment Institute



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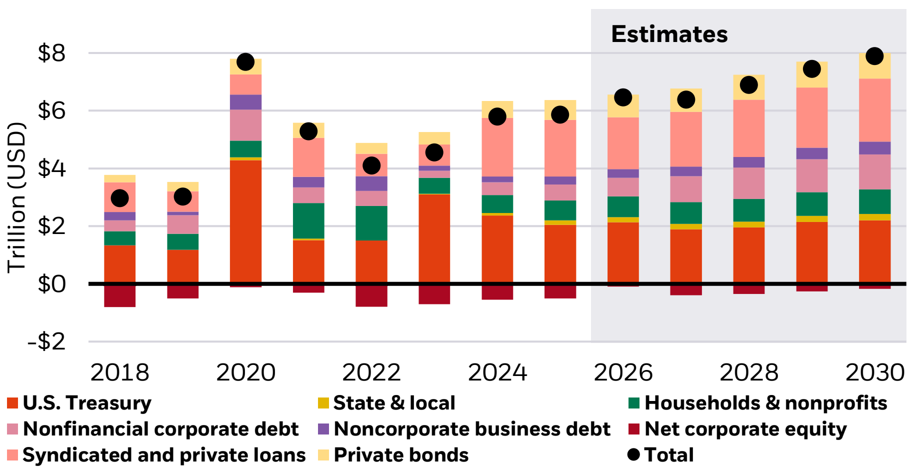
The Federal Reserve raised rates for the first time in three years, easing near-term credibility concerns as the U.S. 10-year Treasury yield crossed 5%. But the hike is unlikely to end this year's sharp rate reset. Intensifying competition for capital remains a key driver, as heavy government borrowing collides with growing AI financing needs. Sticky inflation adds pressure, keeping borrowing costs elevated. What drives yields matters. We stay risk-on and favor select credit for income.

Competing for capital

U.S. financing demand, 2018-30



Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute, U.S. Congressional Budget Office, Federal Reserve, EIA. Note: The bars show the net demand for funding of various entities. The chart follows the Fed's definitions for borrowers. Any AI-related financing is included in nonfinancial corporate debt and net corporate equity.

The numbers show the most intense competition for capital since the great financial crisis and the Covid-19 shock. We estimate annual U.S. financing demand could exceed $7.5 trillion by 2030, driven mainly by the capital needs of the AI buildout. See the chart. The broader AI and data-center bond universe accounts for about 14% of U.S. investment-grade issuance this year, up from 5% in 2025 and 1% over the previous decade. We think this financing wave has room to run. Markets have been rattled by talk of slowing frontier-model development, but we would not equate that with a slower physical AI buildout. For now, demand remains robust: most AI compute is used for inference – running existing models – rather than training new ones. With adoption still in its early stages, inference should keep driving demand for compute even if frontier-model progress slows.

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That persistent demand for capital is one reason we think borrowing costs can stay elevated. But other forces could push them higher still. The Strait of Hormuz remains effectively closed amid the ongoing Middle East conflict. Brent crude has moved back above $100 a barrel, adding to already sticky inflation pressures driven by a world shaped by supply. Higher energy prices do not just lift headline inflation. If the effects spill over to wages and other costs, they can make core inflation more persistent, potentially keeping monetary policy tighter for longer.

That makes what drives yields critical. Central banks shouldn't interfere with growth-driven competition for capital and can't resolve energy shortages, but they can prevent an unnecessary rise in term premium – the extra compensation investors demand to hold long-term bonds – by maintaining credibility. The Fed's rate hike last week helped reestablish that credibility. So far, higher yields have mostly reflected rising real rates and expectations for tighter policy rather than a sharp increase in term premium. Attempts to suppress yields by tolerating more inflation or without addressing underlying fiscal concerns could undermine that confidence and push term premium higher. But after last week, the risk of a credibility-driven surge looks contained. That matters for our investment views: a rise in yields driven by resilient growth, investment demand and central-bank efforts to maintain credibility can coexist with our pro-risk stance. A rise increasingly driven by inflation or concerns about policy credibility would be more concerning.

Who ultimately bears the higher cost of capital will vary. Companies with strong earnings and balance sheets have more room to absorb it, while leveraged borrowers face greater pressure. We stay overweight U.S. equities and AI, where resilient earnings can help absorb higher financing costs. This environment has also created rich opportunities across fixed income, but selectivity is key. We favor short- to medium-term government bonds on a strategic horizon of five years or longer. In credit, higher yields have improved the income on offer, but who investors lend to matters. We prefer attractive coupons away from the two extremes: the weakest borrowers and companies issuing large amounts of debt.

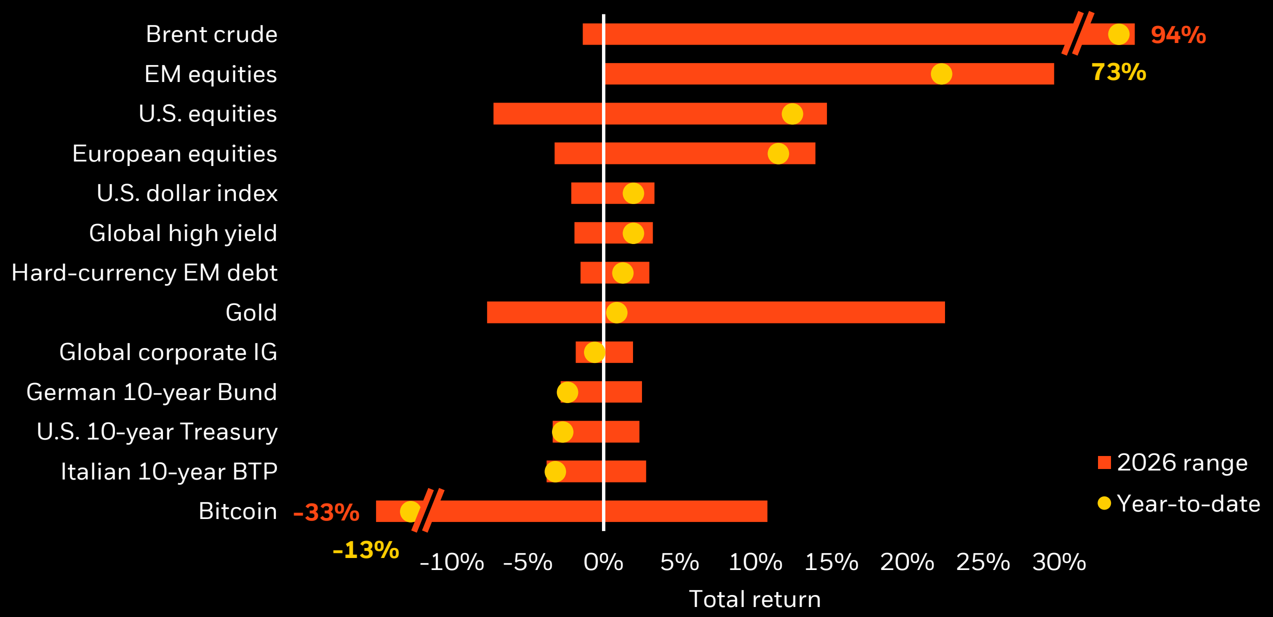
Bottom line: Heavy government borrowing and the AI buildout are intensifying competition for capital. We stay pro-risk and overweight U.S. equities while favoring attractive coupons away from the weakest borrowers and largest debt issuers.

Market backdrop

The S&P 500 was little changed last week and the two- and 10-year U.S. Treasury yields rose, after markets took a hawkish read of Fed Chair Kevin Warsh's post-meeting comments. The 10-year climbed back to 5%, reversing declines seen following the Fed's first rate hike in three years. We think markets risk overinterpreting the hawkish tone of the press conference. A hike that reinforces Fed credibility against a backdrop of strong growth is, on net, good news for risk assets.

Assets in review

Selected asset performance, year-to-date return and range



Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and do not account for fees. It is not possible to invest directly in an index.
Sources: BlackRock Investment Institute, with data from LSEG Datastream as of September 17, 2026. Notes: The two ends of the bars show the lowest and highest res at any point year to date, and the dots represent current year-to-date res. Emerging market (EM), high yield and global corporate investment grade (IG) res are denominated in U.S. dollars, and the rest in local currencies. Indexes or prices used are: spot Brent crude, ICE U.S. Dollar Index (DXY), spot gold, spot bitcoin, MSCI Emerging Markets Index, MSCI Europe Index, LSEG Datastream 10-year benchmark government bond index (U.S., Germany and Italy), Bloomberg Global High Yield Index, J.P. Morgan EMBI Index, Bloomberg Global Corporate Index and MSCI USA Index.

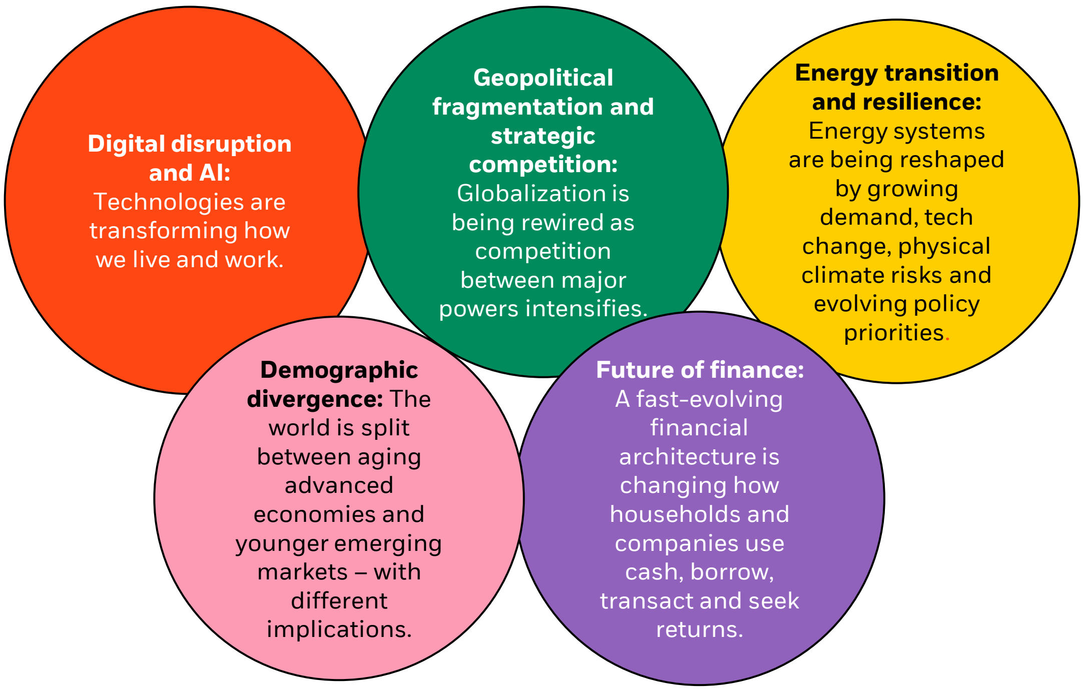
Week ahead

Sept. 22	EU final consumer confidence	**Sept. 24**	Japan flash PMI
Sept. 23	U.S., UK & EU flash PMI	**Sept. 25**	Umich final consumer sentiment

We're watching flash PMIs for signs that business activity across the U.S., UK and Europe is holding up as borrowing costs rise. Further U.S. resilience would reinforce the case for rates staying higher for longer. Final University of Michigan data will show whether September's sharp drop in consumer sentiment and rise in inflation expectations persist – a combination we think would leave the Fed facing a tougher policy trade-off.

Intersecting mega forces

Since we launched our mega forces framework, it has become clearer how their intersection shapes almost all our investment views and opens up alpha opportunities. They cut across asset class labels, spurring a rethink of portfolio construction. Investors need to be deliberate about the economic or thematic exposures they own, the vehicles they use to implement them and their investment horizons.



From drivers to portfolio expressions

Our highest conviction views, September 2026

Driver	What we think	Portfolio expression
Growth and AI scarcity	The AI buildout is speeding up, making bottlenecks binding.	Overweight U.S. and EM equities; focus on AI bottleneck opportunities: power, chips and data centers.
Duration and diversification	Long bonds carry high rate sensitivity and are less reliable diversifiers.	Prefer short- and medium-term government bonds over long bonds for income.
Credit spreads and liquidity	Selectivity is crucial amid tight spreads and uneven fundamentals.	Credit with clear cash flows, lender protections and recovery value; higher-rated high yield.
Inflation and scarcity	Scarcity, secure supply and power demand carry inflation risks.	Infrastructure, energy bottlenecks, EM local debt and real-asset-linked exposures.
Alpha opportunity	Macro outcomes matter again in the new regime.	Macro hedge funds, venture capital, market-neutral strategies, and selected private credit and non-U.S. alpha.

Note: Views are from a U.S. dollar perspective, September 2026. 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.

Asset class implications

Six- to 12-month tactical positioning, September 2026

This shows the implementation of our key investment views from the previous page through an asset class lens.

Underweight | **Neutral** | **Overweight** | ● Previous positioning

	Asset	Positioning	Commentary
Equities	**Developed markets**		
	United States	+1	We are overweight. Strong corporate earnings, fueled by the AI buildout and a favorable macro backdrop, are outpacing higher interest rate expectations.
	Europe	Neutral	We are neutral. We would need to see more business-friendly policy and deeper capital markets for Europe to outperform. We favor financials, infrastructure, and industrials.
	UK	Neutral	We are neutral. Valuations remain attractive relative to the U.S., but we see few near-term catalysts to trigger a shift.
	Japan	Neutral	We are neutral. Strong corporate balance sheets and governance reforms remain supportive. We prefer targeted exposures to physical AI and the buildout's bottlenecks.
	Emerging markets	+1	We are overweight. Strong earnings and cheaper valuations create opportunities. We particularly like different expressions of the AI scarcity theme across Asia and Latin America.
	China	Neutral	We are neutral. We see opportunities in physical AI. Cheap, open-source AI could drive adoption, but that doesn't necessarily translate into AI-provider profitability.
Fixed Income	Short U.S. Treasuries	Neutral	We are neutral. We prefer short- and medium-term Treasuries, given the attractive risk-adjusted income on offer.
	Long U.S. Treasuries	-1	We are underweight. We see investors wanting more compensation for holding long-term bonds amid persistent inflation and high debt loads. Long-duration bonds also are a less reliable portfolio diversifier in the new regime.
	Global inflation-linked bonds	Neutral	We are neutral. We see inflation settling above pre-pandemic levels, but markets may not price this in the near term as economic growth could slow.
	Euro area govt bonds	Neutral	We are neutral short- and medium-term bonds. Current ECB rate pricing looks fairly valued given the balance of risks. Higher energy prices could push rates higher. We prefer to deploy risk elsewhere.
	UK gilts	Neutral	We are neutral. We expect periods of elevated volatility given political uncertainty, longer-term bonds making up a larger market share, and buyers becoming more price-sensitive.
	Japanese govt bonds	-2	We are underweight. Rate hikes, higher global term premium and heavy bond issuance will likely drive yields up further.
	China govt bonds	Neutral	We are neutral. China bonds offer stability and diversification but developed market yields are higher. A shift in investor sentiment toward equities limits upside.
	U.S. agency MBS	+1	We are overweight. Agency MBS offer higher income than Treasuries with similar risk and may offer more diversification amid fiscal and inflationary pressures.
	Short-term IG credit	Neutral	We are neutral. Spreads are tight due to corporate strength; they could widen if issuance increases or risk appetite shifts.
	Long-term IG credit	-1	We are underweight. We prefer short-term bonds less exposed to interest rate risk over long-term bonds.
	Global high yield	Neutral	We are neutral. High yield offers attractive income. We prefer higher-rated U.S. and European high yield over investment grade and see dispersion of returns increasing.
	Asia credit	Neutral	We are neutral. Overall yields are attractive and fundamentals are solid, but spreads are tight.
	Emerging hard currency	Neutral	We are neutral. Fundamentals have improved, but we see a more attractive risk-reward profile in EM local debt.
	Emerging local currency	+1	We are overweight. We like the yield relative to its volatility and improving fundamentals.

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