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Weekly commentary

BlackRock

October 26, 2026

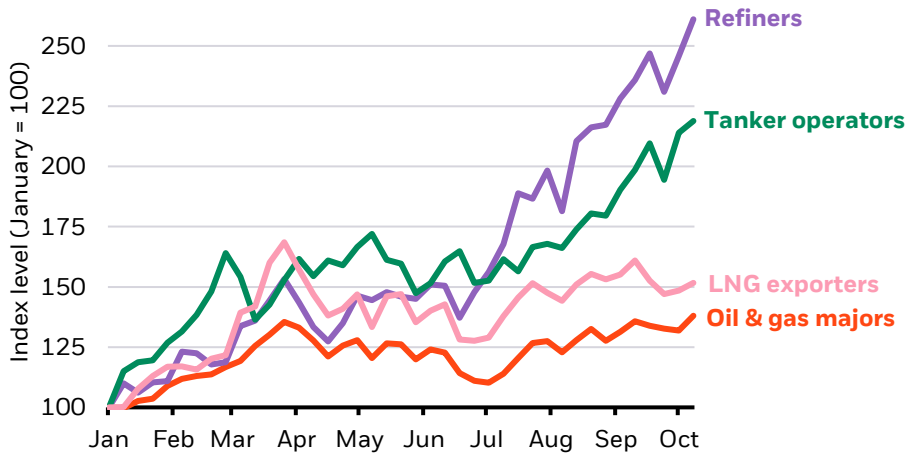
The Mideast energy shock's next phase

- The Middle East conflict is exposing longer-term energy constraints as buffers that absorbed the initial shock weaken. Selectivity is key in this environment.
- The Nasdaq fell nearly 1% last week and U.S. Treasuries rallied as investors sought safety from the tech stock sell-off. Brent crude oil hit a five-month high.
- We eye the Fed's second-to last policy meeting of 2026. We expect another hike by year-end but see market pricing for further tightening as overly hawkish.

The global economy and markets have proved resilient to the Middle East energy shock. Strong AI investment and fiscal spending have cushioned the hit to growth, while supply buffers helped absorb much of the initial shock. Now, renewed attacks targeting energy sites and shipping in the Gulf are testing these buffers just as they're thinning, while supply constraints are moving downstream. Selectivity is key as new vulnerabilities emerge across regions, sectors and asset classes.

Scarcity pays downstream

Selected oil industry sub-sector equity performance, 2026



Past performance is not a reliable indicator of current or future results. Source: BlackRock Investment Institute with data from Bloomberg, October 2026. The chart shows the equal-weighted average equity returns of selected companies across four oil industry sub-sectors, rebased to 100 on Jan. 2, 2026. Returns are based on weekly observations and exclude dividends.

Brent crude oil surged back to around $117 a barrel last week, its highest since April. But oil prices tell only part of the story of how the energy shock has evolved. The initial disruption centered on crude supply, but rerouted shipments, inventories and strategic reserves helped absorb much of the shock. Now scarcity has shifted downstream. Even as crude supplies recover, refining and shipping bottlenecks have pushed the delivered cost of fuel from the Middle East to Asia to more than twice prewar levels. This helps explain why shares of refiners have jumped some 160% this year, while shares of tanker operators have climbed 120%. See the chart. Both have far outpaced the 40% gain in major oil and gas producers, even as energy has become the top-performing sector globally. But after such sharp gains, how much further these stocks can run depends on which bottlenecks persist, even if the conflict ends.



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Global growth has held up thanks to strong AI investment and government spending. Much of the initial inflation shock is already reflected in headline inflation, but higher fuel costs are starting to feed into some core inflation categories. As we've previously noted, the energy shock has uneven effects: We estimate it's reduced GDP by about 0.5% in Europe, compared with just 0.1% in the U.S. Those differences could become even more pronounced. Europe looks particularly vulnerable, with natural gas storage at around 75% – its lowest seasonal level since recordkeeping began in 2011 – while disrupted supplies of liquefied natural gas complicate efforts to rebuild reserves. A colder winter could push European energy prices, already up 170% this year, higher. The U.S. is better insulated as a net energy exporter, while strong tech exports have cushioned Asia from higher import costs. The shock's uneven impacts are accelerating efforts to bolster energy resilience and security.

That is creating new investment opportunities – but at a cost. The geopolitical fragmentation mega force we've long described reinforces this shift, raising the value of infrastructure that protects against future shocks. Energy importers are diversifying both traditional fuel supplies and electrification, underscoring the energy transition and resilience mega force. Exporters, including those in the Middle East, are investing in alternative routes to bypass vulnerable chokepoints. We see this as a structural shift that could outlast the conflict. Yet building these contingencies requires substantial investment, which could intensify competition for capital and put further upward pressure on sovereign bond yields.

We favor opportunities where energy constraints and profit margins look durable and valuations remain attractive. For now, existing energy equity exposures could deliver strong earnings as oil prices and refining margins stay elevated. But after this year's oil rally, we also see opportunities in select U.S. and European utilities hit by rising bond yields. In bonds, higher yields support our recent upgrade to U.S. Treasuries. We prefer short-term bonds for income, as growing energy security investment could increase competition for capital and push longer-term yields higher.

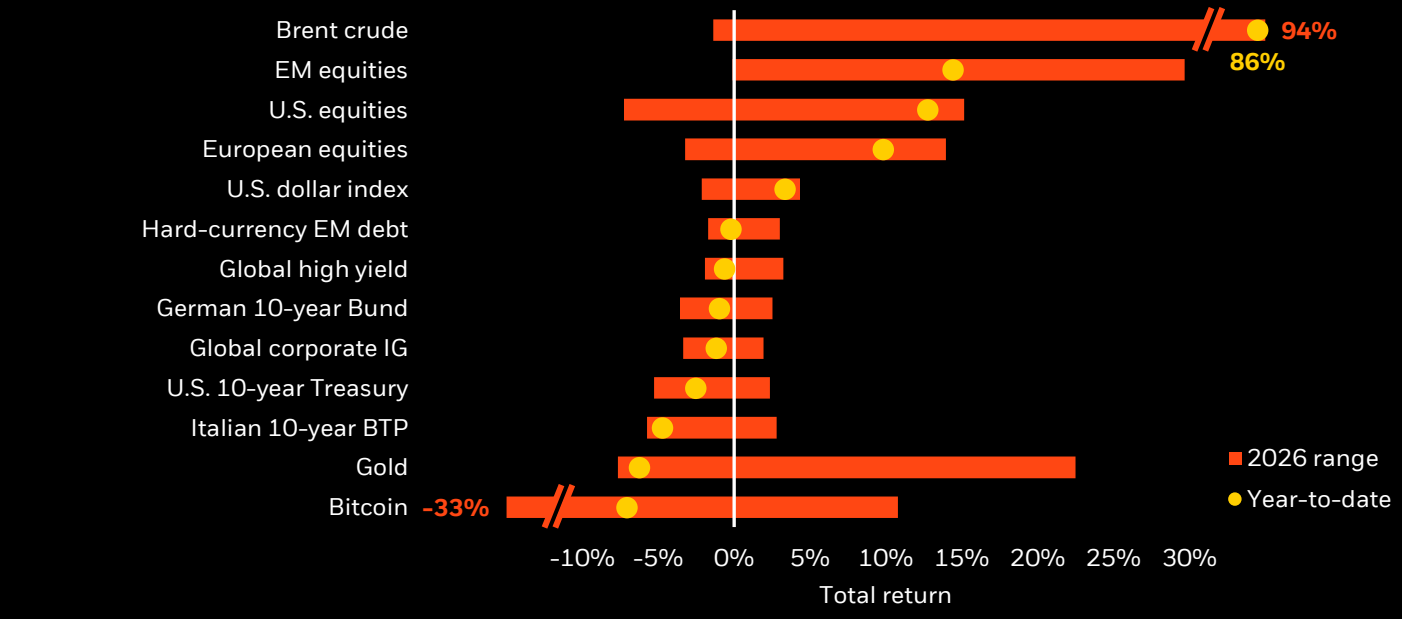
Bottom line: The Mideast energy shock is exposing longer-term constraints that could outlast the conflict. We favor selective exposure to energy infrastructure and short-term income over broad market bets.

Market backdrop

Tech stocks swung sharply last week as investors stepped up scrutiny of the AI trade, pushing the Nasdaq down roughly 1% despite strong earnings from some of the sector's biggest names. The S&P 500 fell 0.4%, with a rotation into defensive sectors helping limit losses. U.S. 10-year Treasury yields slipped below 5% as investors sought refuge from the tech sell-off. Brent crude oil touched a six-month high of $117 a barrel on concerns about further disruption to Middle East energy flows.

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 October 22, 2026. Notes: The two ends of the bars show the lowest and highest returns at any point year to date, and the dots represent current year-to-date returns. Emerging market (EM), high yield and global corporate investment grade (IG) returns are denominated in U.S. dollars, and the rest in local currencies. Indexes or prices used are: spot Brent crude, ICE U.S. Dollar Index (DXY), spot gold, 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.

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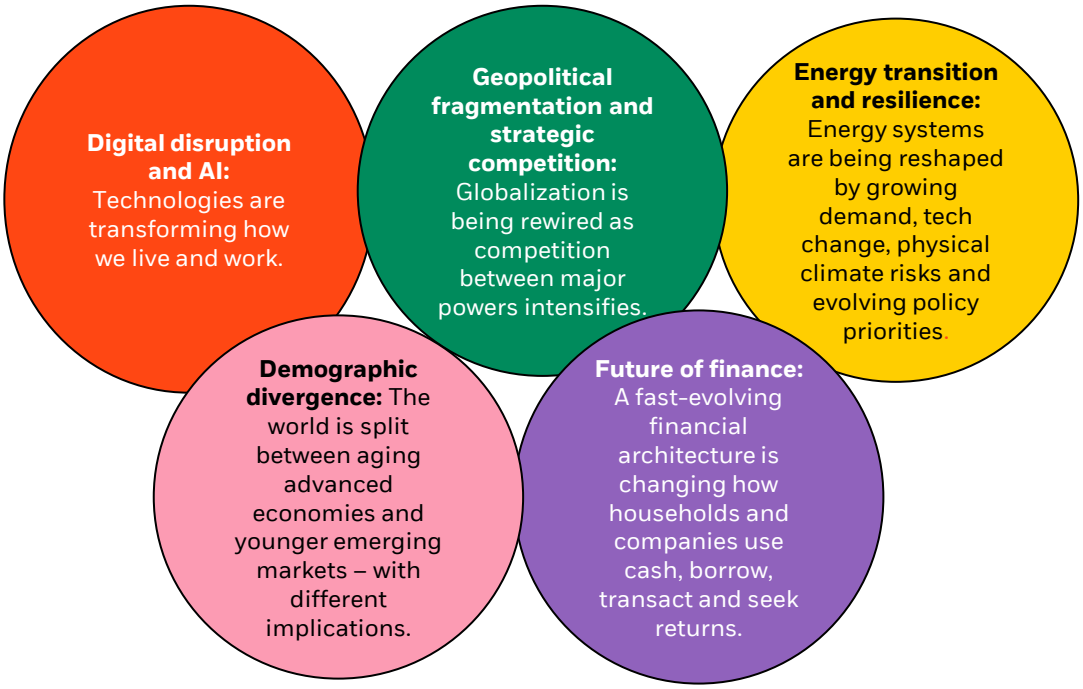
Week ahead

Oct. 27	U.S. consumer confidence; Japan services PPI	**Oct. 29**	U.S. GDP & PCE
Oct. 28	U.S. Fed rate decision	**Oct. 30**	EU flash GDP & unemployment; BoJ rate decision; Japan CPI

The Federal Reserve's interest rate decision takes center stage this week after a hotter-than-expected September CPI print that show price pressures broadening. Even as we expect another hike by year-end, we don't view recent tightening as the start of a new, sustained hiking cycle. Markets have partially scaled back expectations for further hikes since the September meeting, moving closer to our view.

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, October 2026

Driver	What we think	Portfolio expression
Growth and AI scarcity	AI fundamentals are strong, but we eye near-term volatility.	Neutral U.S. equities and overweight EM equities; favor AI- and tech-related opportunities.
Duration and diversification	Higher starting yields improve prospective returns and income.	Overweight short-term U.S. Treasuries for solid income and a cushion against higher rates; neutral long-term Treasuries.
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, October 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.

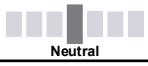
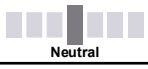
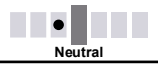
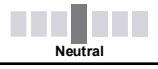
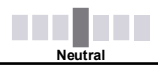
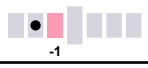
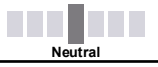
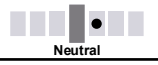
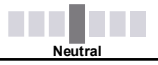
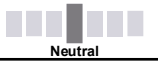
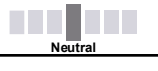
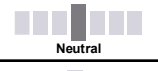
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Asset class implications

Six- to 12-month tactical positioning, October 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		We are neutral. Strong AI fundamentals remain supportive, but policy uncertainty could fuel near-term volatility. We continue to favor AI and tech.
	Europe		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		We are neutral. Valuations remain attractive relative to the U.S., but we see few near-term catalysts to trigger a shift.
	Japan		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		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		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		We are overweight. Much of the repricing we anticipated has occurred, and expectations for further Fed hikes look excessive. We favor the front end for attractive income and a greater breakeven buffer.
	Long U.S. Treasuries		We are neutral. Higher yields offer attractive income and a bigger cushion against further rate increases. We still see room for yields to rise as competition for capital intensifies.
	Global inflation-linked bonds		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		We are neutral on 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		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		We are underweight. The substantial repricing in yields has improved the risk-reward, but further rate hikes and heavy issuance could push yields higher.
	China govt bonds		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		We are neutral and lean into the stable income MBS provide despite tight spreads.
	Short-term IG credit		We are neutral. Spreads are tight due to corporate strength, but attractive overall yields help offset the risk of increased issuance.
	Long-term IG credit		We are underweight. We prefer short-term bonds less exposed to interest rate risk over long-term bonds. But attractive overall yields help offset the risk of increased issuance.
	Global high yield		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		We are neutral. Overall yields are attractive and fundamentals are solid, but spreads are tight.
	Emerging hard currency		We are neutral. Fundamentals have improved, but we see a more attractive risk-reward profile in EM local debt.
	Emerging local currency		We are overweight. We like the yield relative to its volatility and improving fundamentals.

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