

2026 Midyear Global Outlook

Scarcity vs. abundance

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Canada has had a sluggish start to 2026. U.S. tariffs have weighed on business activity and non-commodity exports, while the Middle East conflict has pushed oil prices higher, lifting headline inflation even as Canada's role as a net energy exporter has cushioned the hit to growth. We expect the Bank of Canada to keep rates on hold as it balances soft activity, oil-driven inflation and trade uncertainty. We stay neutral on Canadian equities: the U.S. still offers stronger exposure to AI-led earnings growth, but Canada's exposure to energy, materials and industrials is increasingly aligned with a world of scarcity, AI-driven capital spending and demand for strategic resources.

Canada's GDP contracted slightly in the first quarter of the year, its second straight quarterly decline. Employment growth has been flat this year, and unemployment is 6.6%, above pre-pandemic levels but broadly steady. Inflation is moving in two directions: oil has lifted headline inflation, while core measures have continued to ease and are at or below the midpoint of the Bank of Canada's (BoC) 1-3% target range.

Trade policy and the Middle East conflict are playing out in different ways. U.S. tariffs are still a drag on business activity, though recent BoC surveys suggest exporters are adapting and U.S. customers are less hesitant to source from Canada. We still expect non-commodity exports to recover only gradually as firms reconfigure supply chains and look for new end markets.

Oil is both a support and a constraint. Canada is the world's fourth-largest oil producer and a net energy exporter, so higher prices have boosted energy exports and investment, helping offset the hit to household spending power. But it is lifting inflation while activity is soft. The BoC estimates the oil shock will add 0.7 to 0.9 percentage points to headline inflation through 2026.

Oil's pass-through to inflation is larger than in prior years because the Canadian dollar has moved sideways, rather than appreciating, since the Middle East conflict began. This mix points to a BoC on hold. It has cut rates more than developed-market peers since 2024, then paused at 2.25%, the lower end of its estimated neutral range. Markets are pricing about half a 25-basis-point hike by year-end. We expect the BoC to stay on hold as it balances soft activity, oil-driven inflation and USMCA uncertainty.

Longer term, Canada's opportunity is less in frontier AI than in the scarce inputs it requires: electricity, data centers and critical minerals. Canada is unlikely to lead in frontier AI models, but it can supply key inputs for AI's expansion. Abundant energy, critical mineral reserves and a stable investment backdrop could support AI-related capital spending, even if the innovation happens elsewhere. Resource-rich Alberta looks well placed. Geopolitical fragmentation reinforces the case: governments and companies are prioritizing resilience, secure supply and domestic capacity, making Canada a valuable developed-market supplier of strategic inputs.

Canadian assets have been resilient in 2026. Equity and fixed income benchmarks have outperformed peers year to date, and the MSCI Canada index is up 11% versus 7% for developed-market equities, according to Bloomberg data. Sector mix has helped: energy and materials account for 18% and 16% of the Canadian index, respectively, giving it more exposure to scarce resources than many other developed market benchmarks.

That sector mix supports the case for Canada, but not an overweight. We stay neutral broader Canadian equities given lingering trade uncertainty and a soft macro backdrop. The market trades at a sizeable valuation discount to the U.S., yet we think the U.S. still offers the strongest exposure to AI-led earnings growth, while Canada offers more indirect exposure through energy, critical minerals and infrastructure tied to AI-related capital spending. That's why we have a relative preference for the materials and industrials sectors in Canada. Exposure to materials – which includes a sizeable share of gold producers – could tactically provide diversification under a scenario of renewed geopolitical risk or rising inflation uncertainty. One risk: sustained declines in the price of gold could dent sentiment around the materials sector.

In fixed income, the flattening in government bond yield curves – triggered by the war in the Middle East – was much less pronounced in Canada than in the U.S. and Europe. This has left the spread between yields on two- and 10-year government bonds about 35 basis points steeper in Canada than in the U.S., according to LSEG data. We see this as an opportunity to add to Canadian duration relative to the U.S.

Canada's fiscal outlook has deteriorated over the past year, but the deficit remains well below that of the U.S. and is expected to stay that way over the medium term, per IMF projections. Bank of Canada research has shown the term premium on 10-year Canadian bonds – or the additional compensation investors demand to hold long-term debt – has risen in tandem with other advanced economies in recent years. We see less room for term premium to rise in Canada compared to the U.S. In credit markets, record issuance by foreign technology companies in the Canadian dollar bond market this year highlights the depth of investor demand for Canadian fixed-income assets, as issuers seek to finance the global AI buildout.

Introduction

Twice a year, BlackRock's senior portfolio managers and investment executives gather for two days to debate the outlook for the global economy and markets – and its implications for portfolios. This 2026 Midyear Global Outlook, *scarcity vs. abundance*, captures those discussions at our June 2-3 Forum. The world's current state is marked by scarcity: constrained labor, energy and fiscal space. The big question: Can AI innovation push U.S. growth above its long-run 2% annual trend to abundance? This tension is embedded in a series of macro calls with very different outcomes – and should spur a portfolio rethink.

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Contents

Introduction	4
Summary	5
Setting the scene	6-9
Scarcity now, abundance later?	6
Big, unavoidable macro calls	7
Polyfurcated outcomes	8
Portfolio rethink needed	9
Themes	10-12
AI scarcity	10
Durable income	11
Beyond labels	12
Forum focus	13-16
Credit: What backs the debt?	13
Geopolitics and energy scarcity	14
Sci-fi vs. sci-fact	15
Beyond the U.S.	16
Investment views	17-18
Key views	17
Asset-class implementation	18

We're in a world of scarcity. Strengthening mega forces are putting increasing pressure on labor, energy, infrastructure, capital and materials. These supply-side constraints are shaping growth, inflation and market pricing. AI raises the prospect of a permanent growth breakout by accelerating innovation itself. Yet the route to abundance, if we get there, runs through scarcity. A similar tension is playing out across other investment themes – and reshaping portfolios.

The world of scarcity is visible in resource constraints, tight labor markets and sticky inflation. A key feature is upward pressure on interest rates. Scarcity drives that through inflation and competition for capital. A growth breakout to abundance requires a huge AI buildout first, creating the same pressures.

Investors face big macro calls in this new regime. We focus on six: AI-led growth, AI cost, interest rates, debt, geopolitical chokepoints and U.S. leadership. Each call contains competing narratives, and the calls themselves are tightly linked. Investors should understand which calls are embedded in their portfolios, size them deliberately and consider portfolio solutions that neutralize unwanted macro exposure.

Big macro calls mean polyfurcated outcomes: multiple plausible paths with very different macro and market implications. A world of scarcity looks nothing like abundance. Polyfurcation means uncertainty across incompatible regimes, not around a base case. Markets struggle to price this. They may reflect one scenario, then adjust sharply once evidence starts to point elsewhere.

The new regime has left investors with no long-term macro anchor, making static portfolios less effective; made traditional diversification harder to source; and increased market concentration as mega forces cut across asset classes. Surging interest in total portfolio approaches is a symptom of these pressures.

Our first theme is *AI scarcity*. The buildout is accelerating, bringing binding constraints forward. Three questions remain unresolved: is AI becoming a bubble, how costly will it be, and who will capture the value? We stay overweight U.S. equities and focus on bottleneck opportunities to participate in AI growth without picking model winners: power, grids, memory, chips and data centers. Physical AI — robots, autonomous systems and manufacturing — is the next frontier.

Our second theme is *durable income*. Higher yields have revived income as a portfolio anchor, but the source of that income matters. We prefer earning income in short-term maturities, especially euro area government bonds, over relying on long bonds with high duration, or sensitivity to rate moves. We like public and private credit with clear cash flows, lender protections and recovery values.

Our third theme is *beyond labels*. Asset-class buckets are a less useful starting point in the new regime. Infrastructure shows why: Its exposure to AI demand, energy security and fragmentation runs across markets and asset classes. Investors should start with the investable universe, then choose the themes and risks they want to own and finally pick the appropriate implementation vehicle. The new regime creates greater scope for active investing because macro outcomes matter again. Hedge funds and private markets can help express those views.

Scarcity now, abundance later?

We have long said we're in world shaped by supply: A regime where constraints on capacity — labor, energy, capital, infrastructure and materials — drive growth, inflation and market pricing. What began as conjecture in 2021 is now reality. Inflation has stayed sticky, long-term yields have reset higher and mega forces are shaping and accelerating the transformation.

We see a tension between scarcity and abundance playing out in this new regime. Today's starting point is scarcity. The pandemic, Ukraine war and Middle East conflict exposed fragile supply chains. Governments and companies are prioritizing security, resilience and sovereignty across energy, defense and technology. See page 14. This search for resilience comes at a cost: Duplication and rerouting make production pricier.

At the same time, demand for AI is skyrocketing — and capacity can't keep up. The massive AI buildout needs power, data centers, chips, memory, skilled labor, capital and critical materials.

AI also raises the prospect of abundance. It could enable a breakout from the long-run U.S. 2% growth trend that has held over a 150 years of human ingenuity. See the chart. Neither electrification nor the internet permanently lifted U.S. trend growth. Could AI be different? It's conceivable.

AI raises hopes of abundance because it could accelerate the process of innovation itself. AI could generate, test and improve new ideas on its own, creating a self-reinforcing learning loop. Optimists see this accelerating scientific discovery, speeding medical breakthroughs and deploying robots that transform everyday life. This could ultimately lift global growth above its historical trend.

The investment question: Can AI expand productive capacity fast enough to offset the scarcity caused by the combination of the search for resilience and its own buildout? One path is abundance. The other is prolonged scarcity. This is the biggest of six macro calls investors have to contend with today.

Growth breakout ahead?

U.S. real GDP per capita, 1870-2050

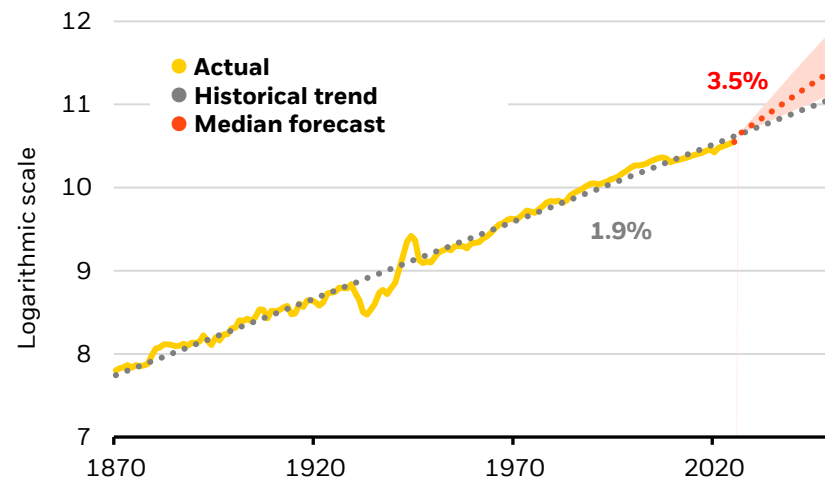


Chart takeaway: Hopes are rising AI enables an unprecedented breakout from the U.S. long-run 1.9%-a-year trend growth by accelerating the process of innovation itself.

Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute and Macrohistory Database, June 2026. Notes: Historical data compiled by Óscar Jordà, Moritz Schularick, and Alan M. Taylor (2017). Forecast range includes economist, policy-institution and research-based estimates of AI's impact on GDP, productivity and TFP growth; CEO estimates and qualitative assessments are excluded. Estimates are normalized into implied annual real GDP growth rates from a common 1.9% baseline, with all GDP paths indexed to 2026=100. The gray dotted line shows the historical 1.9% annual growth trend. The orange dotted line shows the median forecast of AI-related growth outcomes, with the shaded area showing the range of external estimates. Forecast period begins in 2026. Real GDP per capita is shown on a log scale.

The reality for now is scarcity: constraints on power, labor, capital and critical materials. The growth prize is abundance: AI accelerating the process of innovation itself.

Big, unavoidable macro calls

AI scarcity vs. abundance is a big macro call that investors are facing. We see at least five more that are embedded in benchmarks, credit risk and regional allocations. The macro calls are interrelated – and have competing narratives that cannot all be true at once.

The second call is related to the first: the cost of AI. One narrative says falling token prices and competition will make AI cheap enough to diffuse rapidly. The other side: AI may become costlier as production costs balloon, providers gain pricing power and tasks grow more complex.

The third call is interest rates. Some believe they will fall as AI productivity gains dampen inflation. Others see rates rising due to constrained supplies and competition for capital. The Fed's move to scrap forward guidance reinforces this is a key call.

The fourth call is debt. A growth breakout could make it easier to absorb elevated debt issuance and service mounting debt loads.

The alternative is growth staying near its historical trend rather than breaking out. That would leave investors wanting more compensation for holding long-term bonds, squeezing leveraged firms and indebted governments.

The fifth call is geopolitical chokepoints. Markets could keep looking through shocks such as the Middle East war. The competing narrative says the closure of a key chokepoint like the Strait of Hormuz could trigger a historic supply shock.

The sixth call is U.S. market leadership. This could persist due to the depth of capital markets, energy independence, the U.S. dollar's reserve currency status, strong institutions and AI dominance. The other side: Other countries erode the U.S. advantage.

What are investors to do? They should understand which calls are embedded in their portfolios, size them deliberately and consider portfolio solutions that aim to neutralize unwanted macro exposure.

What do you believe?

Competing narratives behind big macro calls

Abundance narrative

Growth breakout



Cheap AI aids adoption



Productivity gains



Growth makes debt manageable



Shocks are temporary



U.S. leadership persists



Growth

Cost of AI

Interest rates

Debt

Geopol chokepoints

U.S. vs. the rest

Scarcity narrative

Growth constrained



AI too expensive



Competition for capital



High rates cause debt stress



Shocks cause lasting damage



Other regions take the lead



Chart takeaway: The big calls have competing narratives that cannot all be true at the same time. The portfolio task is to know which calls are already embedded – and size them deliberately.

For illustrative purposes only. Source: BlackRock Investment Institute, June 2026.

Investors need to understand and deliberately size the macro calls already embedded in their portfolios. We like to use market-neutral strategies to neutralize unwanted ones.

Polyfurcated outcomes

The macro calls create polyfurcated outcomes: multiple plausible paths that lead to very different worlds. This creates uncertainty across incompatible regimes, not just the usual uncertainty around a base case.

In a world of abundance, AI lifts productivity, U.S. growth rises permanently above its historical 1.9% trend, and scientific, health-care and industry breakthroughs overwhelm the buildout's costs. In a scarcity world, growth is stuck at trend, the AI buildout keeps competing for resources, and debt sustainability becomes pressing.

Markets struggle to price such polyfurcated outcomes. This means near-term market performance is not proof that a particular scenario is becoming more likely. It may only show investors are still comfortable owning the dominant narrative. That can change abruptly as evidence of an alternative scenario accumulates. Investors need to track alternative scenarios and update portfolios as evidence shifts.

A key example is how the scarcity vs. abundance tension plays out in rates, our third macro call. One view says abundance will lead to lower rates thanks to lower inflation. The other says rates could rise because the buildout intensifies competition for capital and scarce resources. The opposing views in this debate would imply a world of either 3% or 5% long-term yields — not even in the same postal code for portfolios.

We see resource constraints and capital demand dominating for now. Investment needs to come before any AI productivity payoff. That keeps upward pressure on rates, even if AI eventually leads to abundance. This is why we see higher rates for longer.

Global bond yields have reset higher since the pandemic amid supply constraints, as the chart shows. Supply shocks mean long-dated bonds no longer provide the same cushion against equity sell-offs that they did when demand shocks dominated and inflation stayed low. These days, stocks and bond prices often move in the same direction.

Global bond reset

Selected 10-year government bond yields, 1970-2026

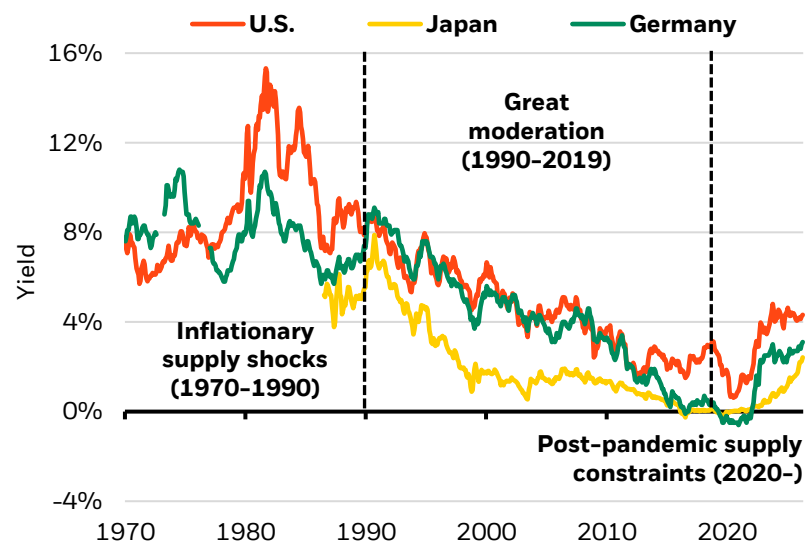


Chart takeaway: Global yields are resetting higher as post-pandemic supply constraints have replaced the disinflationary globalization regime of the great moderation.

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Source: BlackRock Investment Institute, with data from Haver Analytics, June 2026. Notes: Regime labels and period definitions are for illustrative purposes and represent BlackRock Investment Institute's characterization of the prevailing macroeconomic environment.

“Polyfurcation” means portfolios face multiple, far-apart scenarios, not just uncertainty around a base case. The risk is sharp market adjustments if evidence starts pointing to another scenario.

Portfolio rethink needed

The new market dynamics are challenging the standard portfolio approach. First, big macro calls and polyfurcated outcomes mean there is no single long-term anchor for portfolios. Investors need to continuously reassess their exposures and cannot rely on static allocations. Second, diversification is harder to source when bonds no longer offset stock selloffs because persistent supply constraints raise inflation pressures.

Third, mega forces are changing the makeup of asset classes, leading to increased market concentration. The tech sector's share of the MSCI U.S. and MSCI EM indexes has doubled since the launch of ChatGPT in 2022. The chart shows why the relevant unit of investment analysis increasingly sits below the asset-class level. Expressing an economic growth view using a granular, sectoral lens would have generated a bigger potential return pickup than simply raising broad equities exposure—and the advantage is much larger in the new regime.

Surging interest in a total portfolio approach is a symptom of all these pressures. A static asset-class lens cannot fully capture the interactions across individual securities, themes and risks. And it can't easily accommodate a fast-evolving financial architecture. Tokenization and other new market structures offer exposures that do not fit neatly into asset classes — from compute demand to binary events such as elections.

Investors should think beyond asset-class labels. A diversified exposure to the entire investable universe is a natural starting point for many portfolios. From there, investors can express views through deliberate exposures to themes and risks that cut across traditional asset classes. The final step is choosing the implementation vehicle, whether through active strategies, broad market indexes or subsets thereof, public or private markets, debt or equity, or other structures. We apply this beyond-labels approach to infrastructure on page 12.

Granular approach raises potential payoff

Additional return with 20% more growth exposure than a 60/40 portfolio

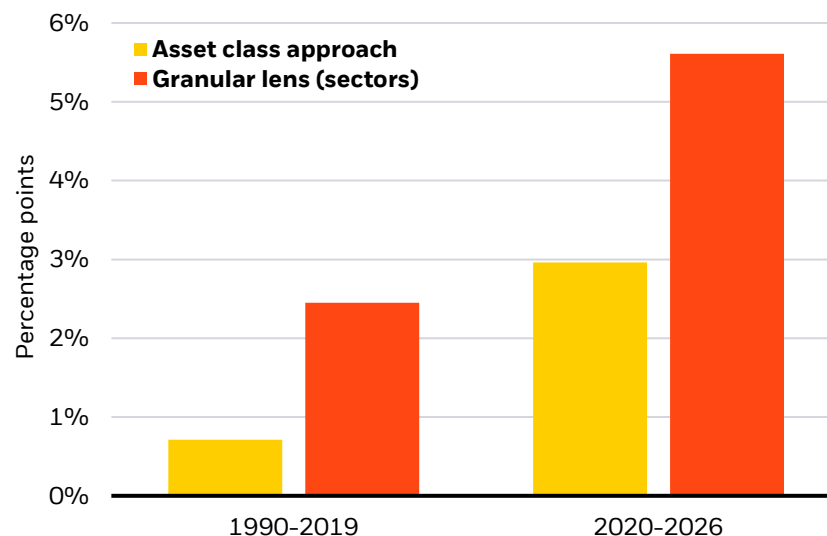


Chart takeaway: Investors can get greater potential rewards for identifying granular investment exposures as markets become more mega-force driven and concentrated.

These do not represent actual portfolios and do not constitute investment advice. The figures shown relate to simulated performance. Index returns do not reflect management fees, transaction costs or expenses. One cannot invest directly in an index. Source: BlackRock Investment Institute with data from LSEG Datastream, June 2026. Note: The chart illustrates the hypothetical pickup in annualized returns from increasing a hypothetical 60/40 portfolio's exposure to economic growth by 20% either by: upping allocation to U.S. equities by 20%, and getting that exposure by allocating to sectors with perfect foresight. Index proxies used are: MSCI USA for U.S. equities, Bloomberg US Treasury Index for U.S. bonds and S&P 500 Information Technology, Consumer Discretionary, Communication Services, Material, Financials, Health Care, Consumer Staples, Utilities, Industrials and Energy indexes for sectors. This analysis is done with the benefit of hindsight.

We believe future portfolios should start with the investable universe, then identify the themes and risks they want to own, and finally choose the appropriate implementation vehicle.

AI scarcity

The AI buildout is accelerating, bringing three unresolved questions into focus. First, is AI becoming a bubble? Outsized gains leave little room for disappointment, making earnings and margin delivery critical for U.S. equities. Second, how costly will AI be? Models may become cheaper and speed up adoption, yet we still do not have enough compute to meet demand. Third, who will capture the value? Model builders, cloud and chip providers, power and data-center owners may all capture part of the economics. AI could also create new pools of revenue beyond the technology sector, and we don't yet know where those will accrue.

The answers to these questions depend in large part on the constraints that will shape AI costs, adoption and value capture.

Physical constraints are creating some of the clearest opportunities. Power remains the key constraint in the West. China, by contrast, has cheap power and control over critical materials. That is an advantage as physical AI gains importance. See page 15. Political risk is becoming a bigger part of the return equation.

Export controls, model-access restrictions and permitting constraints can slow adoption or change who captures value. Like other examples of geopolitical fragmentation, they can force duplication of AI systems across regions, requiring more investment in compute and data centers.

Different answers could lead to very different outcomes for growth, inflation and markets. We don't know the answers, but they shape how we implement our investment views.

We seek broad AI exposure through U.S. tech, leading us to overweight U.S. equities. Even if the ultimate winners are unclear, many are likely to be found there. Second, we turn to active investing because early insight into these unanswered questions can identify the winners and losers. Returns are already diverging across the AI value chain. See the chart. Some opportunities sit outside the U.S., including EM and small caps. Third, we focus on AI scarcity. We do not need to know which AI model wins to know AI requires power, memory, chips and data-center infrastructure.

Dispersion across the AI value chain

Total return ranges and averages in AI value-chain layers, 2023-26

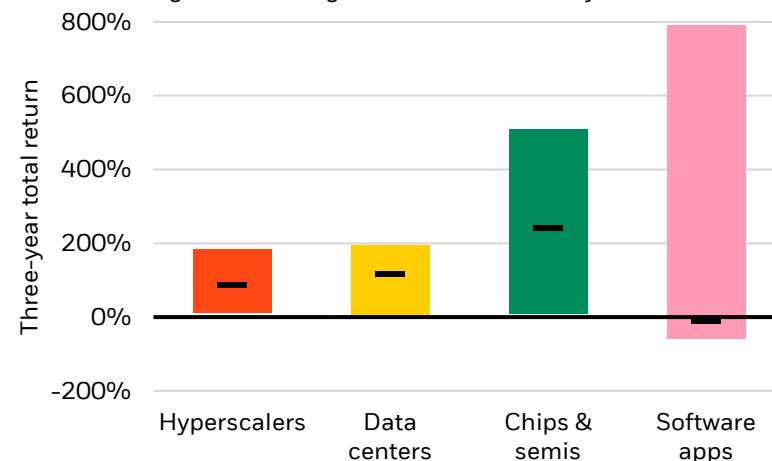


Chart takeaway: Investment returns across the AI value chain are increasingly dispersed, making selectivity key. Software applications have shown the widest variations, whereas the tide has so far lifted all boats among hyperscalers and chip/semiconductor producers.

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Source: BlackRock Investment Institute with data from Bloomberg, June 2026. Notes: Bars show the range between the highest and lowest three-year total returns within each AI value-chain layer; black markers show the average return. Hyperscalers are represented by Amazon, Alphabet, Meta and Microsoft. Data centres include data-centre operators, REITs and related service providers. Chips & semis include semiconductor companies only and exclude equipment manufacturers and design software firms. Software apps include enterprise AI software and AI productivity companies.

Investment implications

- We express our AI views through U.S. equities, active investing and bottleneck opportunities. Infrastructure is also a way to capitalize on AI demand without having to pick model winners.

Durable income

Yields have steadily reset higher around the world, making income an opportunity again. The key is how investors earn it: which maturities they own, which borrowers they lend to and when they accept illiquidity, or limited ability to sell. We prefer pocketing income in shorter maturities over relying on long-term bonds, whose higher duration makes them more sensitive to rate moves.

We see higher interest rates as a defining feature of the new regime. Scarcity keeps inflation pressure sticky, both in the long and short term. Markets have moved away from the rate-cut expectations that prevailed earlier this year. We see inflation pressure persisting due to tight labor markets and demand for scarce resources. That makes the Fed less likely to cut rates soon.

Long bonds face an additional challenge. Heavy debt issuance and mounting debt loads mean investors are likely to demand a higher term premium — the extra yield for holding long-term bonds. They can still rally when stocks drop on concerns about the strength of consumption or bubble risk.

But they no longer carry the ballast investors came to expect because of sticky inflation from supply shocks. This makes long bonds a risk that needs to be sized deliberately rather than treated as a default hedge.

All this creates an opportunity in short- and medium-term Treasuries. They carry a much higher yield relative to volatility, as the chart shows. Investors can earn solid income without reaching too far out the curve. We also like local EM debt, short-maturity euro area bonds, mortgage-backed securities, higher-rated high yield and strategies that use derivatives to earn premiums while managing risk.

We focus on credit where income is supported by clear cash flows, lender protections and recovery values across public and private markets. See page 13. Infrastructure also belongs in the income toolkit as it offers regulated or contracted cash flows, often linked to inflation. See page 12. We focus on whether cash-flow visibility, inflation linkage and yield compensate for any rate sensitivity.

Pick your spot for income

Risk-adjusted yields of selected fixed income, 2004–2026

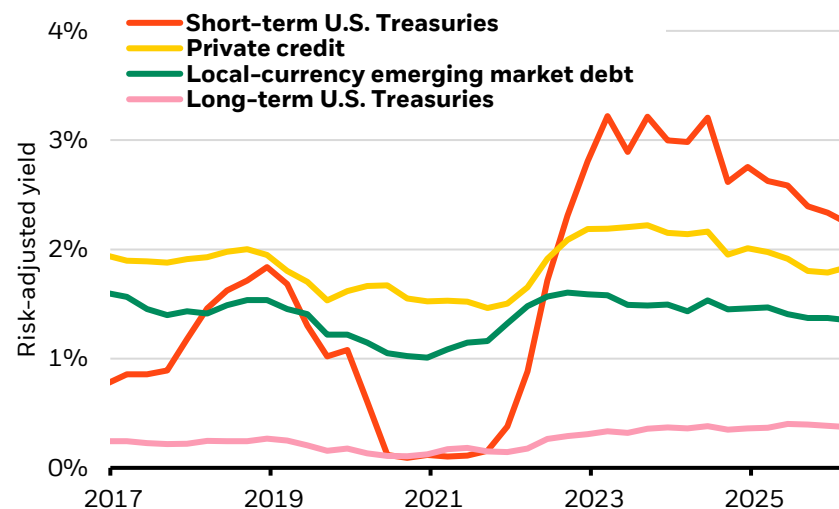


Chart takeaway: Short-term U.S. Treasuries, private credit and EM local debt offer more income relative to volatility than long-term Treasuries. This is where we find durable income.

The figure shown relates to past performance. Past performance is not a reliable indicator of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Source: BlackRock Investment Institute with data from LSEG Datastream and Lincoln, June 2026. Note: Yield per unit of volatility is calculated as yield divided by the full-sample annualized standard deviation of monthly total returns for public market bonds and quarterly for private credit. Index proxies used: Bloomberg U.S. Treasury 1–3 Year Index for short-term U.S. Treasuries, Bloomberg U.S. Treasury Non-Callable 10+ Year Index for Long-term U.S. Treasuries, JPMorgan GBI-EM Diversified for local-currency emerging market debt, and Lincoln Senior Debt for private credit.

Investment implications

- We look for durable income in short-term bonds, selected credit and local EM debt.
- We avoid long-term government bonds amid persistent inflation and a rising term premium

Beyond labels

In a world of scarcity, investors need to go beyond labels to get the exposures they want. Infrastructure is the clearest proof point: It sits at the intersection of AI demand, energy constraints and inflation-linked cash flows. AI is increasing demand for data centers, power and grids. Geopolitical fragmentation is raising the value of domestic capacity such as ports. The energy transition requires new generation, storage and networks. Infrastructure offers exposure to scarce capacity, inflation-linked income and multiple mega forces simultaneously.

The problem: These thematic exposures don't fit neatly into traditional portfolio buckets. The same exposure can appear across public and private markets and across debt and equity. Once the unit of analysis becomes the theme, the choice of vehicle becomes part of the investment decision, rather than a constraint. Public markets can offer liquidity, private markets can offer access and control, and credit can offer income tied to essential assets such as power, grids, transport and utilities.

The chart illustrates how implicit and deliberate infrastructure exposures are spread across a portfolio. Investors with a higher tolerance for illiquidity can raise their overall exposure. Choosing the exposure is only the start. The new regime creates greater scope for alpha, or excess returns, because investors need to take deliberate views on competing macro and mega-force outcomes. Wider return dispersion creates more opportunity to express those views through active investing.

In infrastructure, value capture and implementation are key. We focus on contract quality, regulatory position, financing terms and counterparty strength — and whether the asset captures durable cash flows.

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Infrastructure gives you exposure to AI demand. You don't have to pick tech winners.”



Will Brilliant
Partner at Global Infrastructure Partners, a part of BlackRock

Raising infrastructure exposure

Hypothetical portfolio allocations to infrastructure

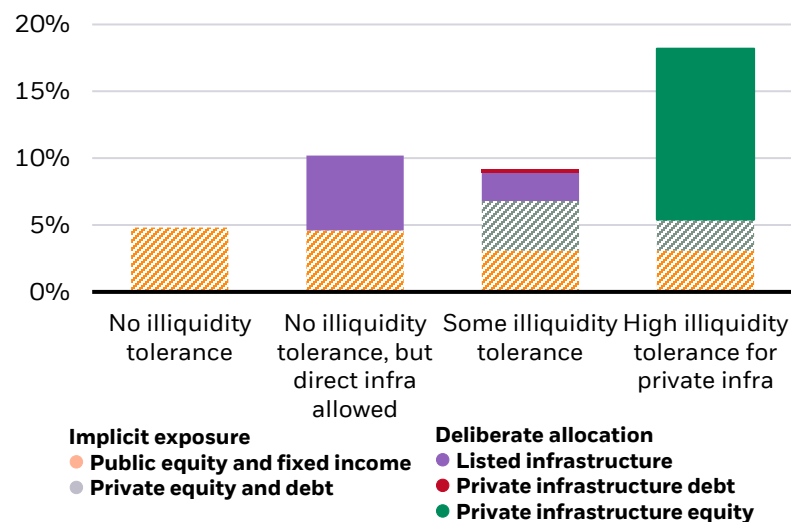


Chart takeaway: *Investors with a higher tolerance for illiquidity can up infrastructure exposure through private markets, while others can express the same theme via public equities and debt, and indirect exposures.*

For illustrative purposes only. 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, Preqin, Bloomberg. January 2026. Note: The chart shows what recommended portfolio allocations to infrastructure could look like under various scenarios, with the two main variables being (1) the general level of illiquidity tolerance and therefore appetite for private assets, and (2) the willingness to take on deliberate infrastructure exposure over and above what is implicitly baked-in major asset classes.

Investment implications

- We look beyond asset class labels toward thematic exposures such as infrastructure.
- We use hedge funds and private markets to express macro and mega force views.

Credit: What backs the debt?

Credit is another proof point for the beyond-labels theme. A public bond, leveraged loan, direct loan, asset-backed debt or infrastructure financing can finance similar underlying assets or risks. The label changes liquidity, reporting and legal rights; the underwriting test is the same: recurring cash flow, maturity profile, collateral, documentation, creditor protections and recovery value.

Credit markets show few signs of a system-wide break. Defaults are contained, and recoveries are still meaningful. Yield levels offer solid income, but tight spreads leave little room for error if cash flows weaken, refinancing windows narrow or liquidity dries up. Broad credit data — spreads and indexes — can look placid even if risk builds under the hood. Stress can show up before defaults rise — via borrowers waiting on private equity exits and insurers responding to rating cuts. Perceptions of liquidity mismatches and weaker sentiment have limited the supply of capital for semi-liquid funds at an industry level, though not uniformly.

Investors should look past the label — public bond, loan or direct lending— and focus on what backs the debt: cash flow, collateral, creditor protections, recovery value, maturity schedule and liquidity.

The chart shows why this matters now. Private infrastructure data-center deals have surged since ChatGPT launched. A tech-company bond, data-center loan and infrastructure financing can sit in different parts of a portfolio while relying on similar assumptions of demand, power availability, utilization, collateral value and refinancing. We favor credit where income is backed by fundamentals — and where investors are paid for liquidity and recovery risks.

“

Asset class labels are becoming less important than their underlying economic risks.”



Jeffrey Cucunato
Multi-Strategy Debt
Solutions, BlackRock

Data centre boom

Global private infrastructure data center deals, 2020-2025

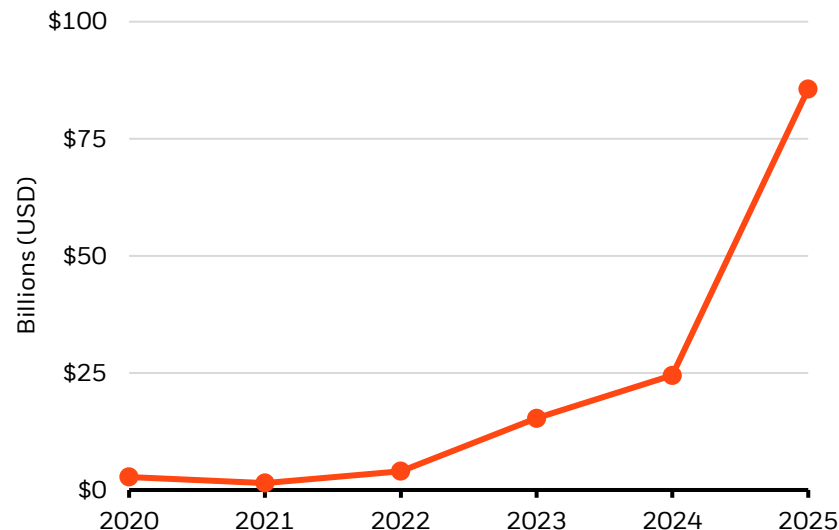


Chart takeaway: Private infrastructure deals for data centers have boomed since ChatGPT launched. Funding has come through different structures and markets, showing why AI-related credit should be mapped by underlying asset, cash flow, repayment source and liquidity.

Source: BlackRock Investment Institute, Preqin, with data from Preqin's *Sector in Focus: Data centers*, Data as of February 2026. Notes: Values are based on disclosed transaction amounts and exclude deals with no recorded value in Preqin Pro.

Investment implications

- Look through credit labels to the underlying cash flow, collateral and lender protections.
- We favor credit where income pays for refinancing, liquidity and recovery risk.

Geopolitics and energy scarcity

Accelerating geopolitical fragmentation is raising the cost of securing strategic inputs. Economies need to grow. Strategic competition, conflict and self-sufficiency initiatives are exposing supply risks just as AI lifts power demand from already constrained systems. They are also pushing defense spending to new highs. Markets are rewarding secure supply and infrastructure, but opportunities depend on region, energy type and bottleneck.

Many governments and companies are prioritizing resilience as supply chains become instruments of national power. U.S.-China competition sits at the center, cutting across trade, technology, energy and defense as both sides seek greater control over key inputs. The Covid-19 pandemic exposed the fragility of long, complex and dispersed supply chains; wars in Ukraine and the Middle East reinforced it. That is raising the value of secure access. Energy is the most visible expression of this secure-supply and resilience investment theme.

Countries are racing to secure fuel supply today and build power systems for the future amid heightened strategic competition. The opportunities run well beyond oil and gas, from fuels and critical materials to power equipment and storage — and that's increasingly reflected in market pricing. Case in point: Companies positioned to benefit from rising electricity demand have outperformed in the past year, as the chart shows.

The opportunity is not in broad energy, but in exposures to secure supply, infrastructure and power-system bottlenecks across public and private markets. We evolve our mega force to “energy transition and resilience” to reflect this.

“

We have seen a shift to a new era defined by protectionism and rewired trade relationships.”



Tom Donilon
Vice Chairman,
BlackRock

Search for secure supply drives returns

Performance of selected equity sectors vs MSCI World, 2025-2026

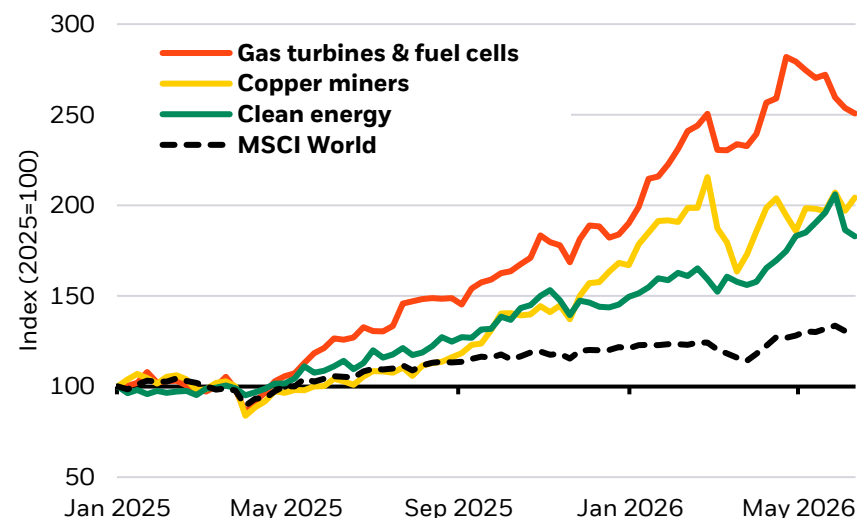


Chart takeaway: *Geopolitical fragmentation and AI demand have ignited a global search for resilient energy and power supply. This is benefiting companies in the electrification supply chain.*

Past performance is not a guarantee of future returns. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Source: BlackRock Investment Institute, with data from Bloomberg, June 2026. Notes: Gas turbines and fuel cells: Mitsubishi Heavy Industries, GE Vernova and Siemens Energy; Copper miners: STOXX Global Copper Miners Index; Clean energy: iShares Global Clean Energy ETF; Non-Straight of Hormuz LNG exporters: Cheniere Energy, Woodside Energy, Venture Global and Santos. Custom indices are equal weighted and rebased to 100 on Jan. 1, 2025.

Investment implications

- Assets tied to secure supply and power-system flexibility are benefiting from rising scarcity.
- These include power equipment, critical materials, grids, storage and batteries.

Sci-fi vs. sci-fact

Science fiction is becoming science fact in markets. Reviving extinct animals, drone delivery, reusable rockets and brain science have moved from imagination into labs and capital markets. AI is moving beyond the digital world, from drug discovery and biology to robotics, making the future feel closer.

A technology can be real and still disappoint investors if timing, cost, safety, regulation or value accrual lag. The investment task is to separate scientific possibility from investable reality. We look for measurable waypoints. Venture funding, ETF flows and IPO pipelines help point the way.

Physical AI is among the most heavily funded technologies, as the chart shows. We see physical AI as the next AI frontier: the move from models that process text, code and images to systems that sense, decide and act in the physical world. Think robots, automation, drones and autonomous vehicles. The inputs shift from language to 3D sensor data; the outputs include action and video.

That creates a different enabling layer: hardware, testing and safety validation, power and capital.

Space and quantum show promise. Reusable rockets, satellite connectivity, orbital services and geospatial analytics are moving toward sci-fact. Space mining, orbital data centers and commercial quantum applications still need clearer waypoints.

The endpoint opportunities of frontier technologies could be large. We see most value today in the picks and shovels that enable deployment and remove constraints where pricing has not outrun fundamentals, including power, compute and sensing infrastructure.

“

It's what Science Street can teach Wall Street.”



Simona Paravani-Mellinghoff, Global CIO, Solutions, Multi-Asset Strategies and Solutions, BlackRock

The future is becoming investable

Relative performance vs. MSCI World, 2022-2026

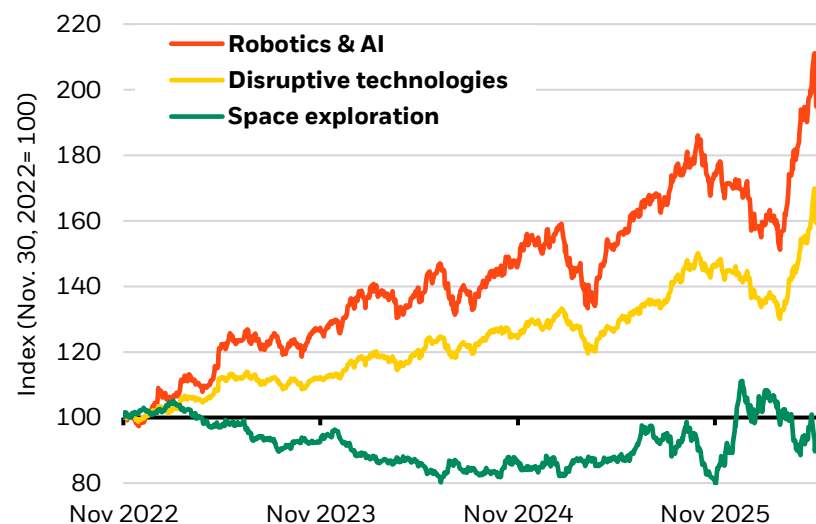


Chart takeaway: *Scientific advances do not always translate immediately into investment returns. Public markets have favored some frontier technologies over others, highlighting the importance of timing, execution and value capture.*

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Source: BlackRock Investment Institute with data from LSEG Datastream, June 2026. Notes: Relative performance of MSCI ACWI Robotics & AI, MSCI ACWI Disruptive Technology and MSCI ACWI Space Exploration (did not include SpaceX at publication time) versus MSCI World. Indices rebased to 100 at 30 November 2022. Values over 100 indicate outperformance.

Investment implications

- We see physical AI as the next AI frontier, with opportunities in the enabling layer.
- We prefer picks and shovels where pricing has not outrun fundamentals, including sensors.

Beyond the U.S.

The U.S. dominates AI, capital markets and corporate earnings power. This obscures real opportunities to invest in mega force value chains and find diversification elsewhere.

First, AI is less dominant outside the U.S., creating a broader set of return drivers. Europe is one example. See the chart. Yet more levers to generated alpha does not mean larger alpha – potential payoffs to broader exposures may be smaller than the disruption-driven AI-drivers. Second, investment themes and supply chains cut across borders. That's reflected in countries like South Korea have become proxies for the AI mega force.

Geographic diversification does not reduce concentration risk when multiple markets are tied to the same value chain. Investors should watch country-level concentration risk. Case in point: Taiwan and South Korea equities are plays on the chips value chain, with equity markets that are large relative to GDP and heavily exposed to a handful of AI-linked companies.

Such concentration risks cause us to downgrade broad EM equities to neutral after strong performance while keeping a preference for Latin America. We prefer physical AI and AI bottleneck opportunities in Japan. We remain neutral on European stocks, focusing on financials, infrastructure, industrials and materials.

We also stay neutral on Chinese stocks, focusing on physical AI there. Cheap, open-source Chinese AI could drive adoption beyond China. That does not automatically make Chinese AI providers attractive. Cheaper AI can mean lower profits. Investors also have to contend with policy uncertainty, geopolitical tensions and trade restrictions.

“

Global portfolios aren't overweight the U.S. per se. They are overweight AI.”



Helen Jewell
International CIO for
Fundamental
Equities, BlackRock

Europe: Broader but smaller opportunities

Independent drivers of excess returns in Europe and U.S., 2017-2026

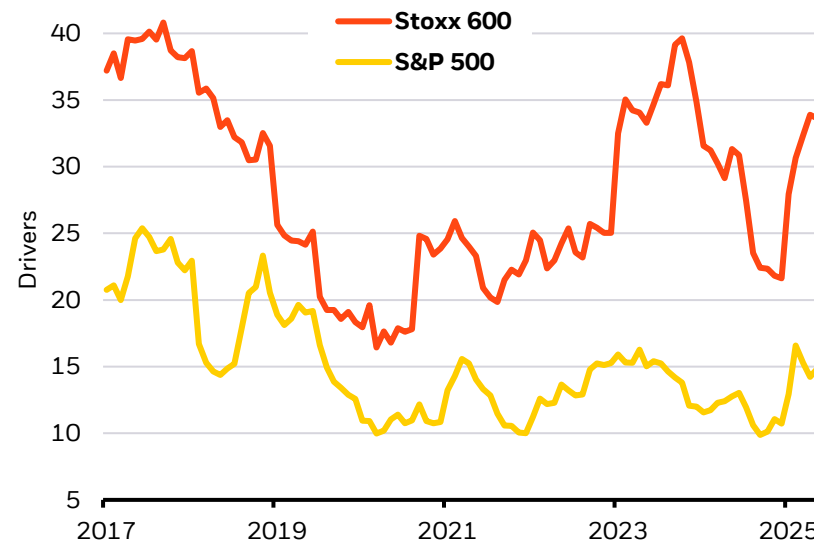


Chart takeaway: *Europe's individual stock returns are influenced by a broader mix of return drivers than U.S. equities, from energy and defense to geopolitics – creating broader if smaller opportunities for active investors..*

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Note: Breadth measures how many independent drivers influence stock returns. We estimate it using principal component analysis (PCA) on rolling stock returns in excess of their indexes. Source: BlackRock Investment Institute with data from Bloomberg, June 2026.

Investment implications

- Investment themes are increasingly cutting across geographic boundaries and markets.
- Markets beyond the U.S. tend to be less crowded, offering broader but perhaps smaller excess return opportunities.

Key investment views

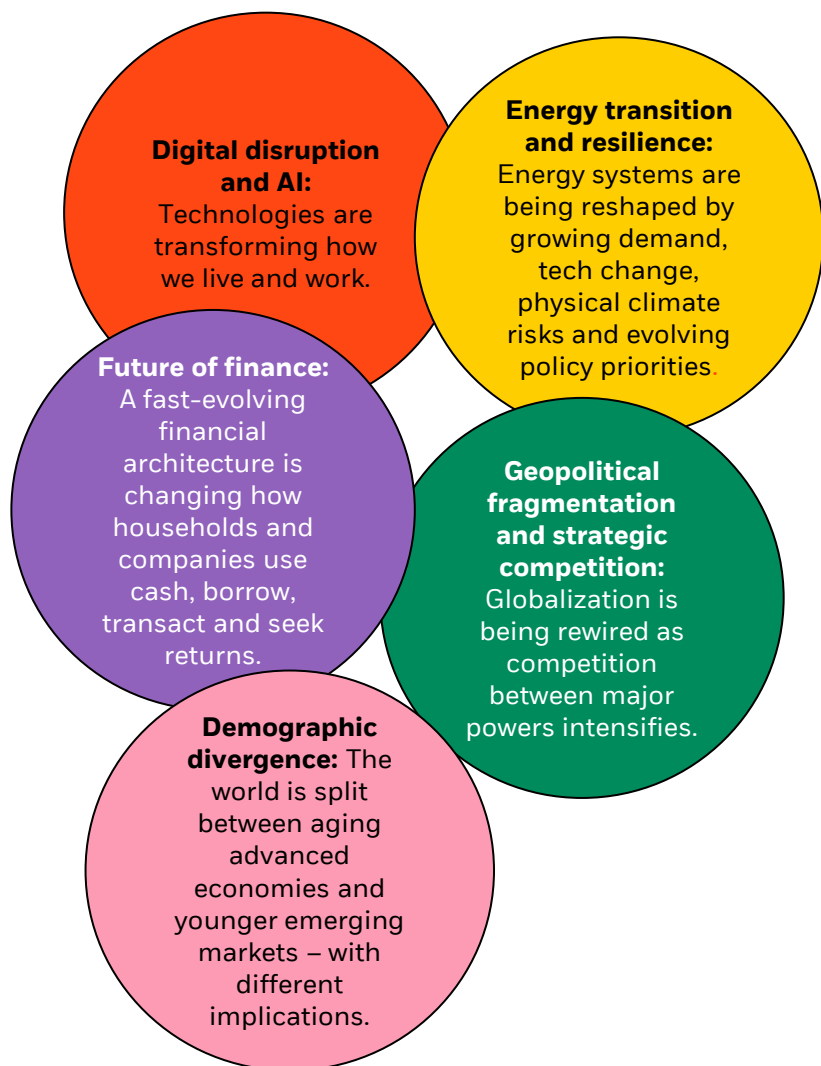
We launched our mega forces framework a few years ago – and since then it has become clearer how the intersection of mega forces shapes almost all our investment views and opens up alpha opportunities. They cut across asset class labels, spurring a rethink of portfolio construction. Investors need to 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, June 2026

Driver	What we think	Portfolio expression
Growth and AI scarcity	The AI buildout is speeding up, making bottlenecks binding.	Overweight U.S. 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, June 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, June 2026

This shows the implementation of our key investment views from the previous page through an asset class lens.		
Underweight Neutral Overweight ● Previous positioning		
Equities	Positioning	Commentary
United States		We are overweight. Strong corporate earnings, fueled by the AI buildout and a favorable macro backdrop, are outpacing higher interest rate expectations.
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 neutral. We see opportunities where the AI buildout drives demand for infrastructure, particularly in 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.

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.

Fixed income	Positioning	Commentary
Short U.S. Treasuries		We are neutral. We prefer short- and medium-term Treasuries, given the attractive risk-adjusted income on offer.
Long U.S. Treasuries		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		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 overweight short- and medium-term bonds. Markets are pricing restrictive policy rates of about 3% for several years. We think that's overdone.
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. Rate hikes, higher global term premium and heavy bond issuance will likely drive yields up further.
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 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		We are neutral. Spreads are tight due to corporate strength; they could widen if issuance increases or risk appetite shifts.
Long-term IG credit		We are underweight. We prefer short-term bonds less exposed to interest rate risk over long-term bonds.
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.
EM hard currency		We are neutral. Fundamentals have improved, but we see a more attractive risk-reward profile in EM local debt.
EM local currency		We are overweight. We like the yield relative to its volatility and improving fundamentals.

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