

Q3 2023: The market's mixed messages

Broad equities: Risk underappreciated?

- This year's equity market rally is characterized by narrow market breadth and significant earnings divergences.
- Although investors may be eager to move beyond recession fears, there is still widespread uncertainty around the lagged impacts of monetary policy and credit conditions.
- Hard macro data has held up well, but leading economic indicators like PMIs paint a more pessimistic picture.
- iShares Investment Strategy is concerned that expectations may exceed reality and downside risks are underappreciated. As such, the near-term upside for US equities may be limited. An uncertain future calls for more balanced pricing of risk.






Quality: Fundamentals take the stage

- Equity valuations do not reflect even a modest recession: 12-month forward earnings expectations for the S&P 500 Index sit at nearly 7% from just 3% at the end of Q1.¹
- High-quality stocks may be positioned to weather market uncertainty while maintaining margins and cash flow. Investors who expect further market upside may want to consider quality for resilience.

Minimum volatility: Seek reduced risk

- Bears bracing for a sharper downturn can target resilience with minimum volatility, which has historically exhibited downside capture ratios of less than 100%.
- Bulls should note that minimum volatility has not typically matched the upside performance of the broad market during rallies, seen during the rally year-to-date.

U.S. factors outlook: 6- to 12-month tactical views

Factor	Views	Commentary
 Quality	Supportive	Quality stocks have historically showed resilience in periods of slowing growth, as investors can favor their high profitability, low leverage, and margin stability. Investors who desire a neutral beta to the broad market may find quality to be an attractive approach to resilience.
 Minimum Volatility	Supportive	Min vol has historically offered downside hardiness, making it an attractive form of portfolio ballast. Bearish investors can use min vol to stay invested in equities.
 Value	Neutral	Slower expectations for growth and tighter financial conditions are less supportive for value, which have historically led markets during periods of elevated inflation and rates. We continue to avoid speculative growth stocks.
 Momentum	Less Supportive	Momentum rebalanced at the end of May, closing out sector overweights to healthcare and energy for a more sector-neutral allocation vs. the broad market. The wide range of possible outcomes over the coming quarters, however, could potentially whipsaw momentum.
 Low Size	Less Supportive	Smaller companies tend to have a high beta to economic growth and shifts in business/consumer sentiment. Although they may benefit if U.S. macro surprises to the upside, the susceptibility of these names to market volatility could prove a challenge.

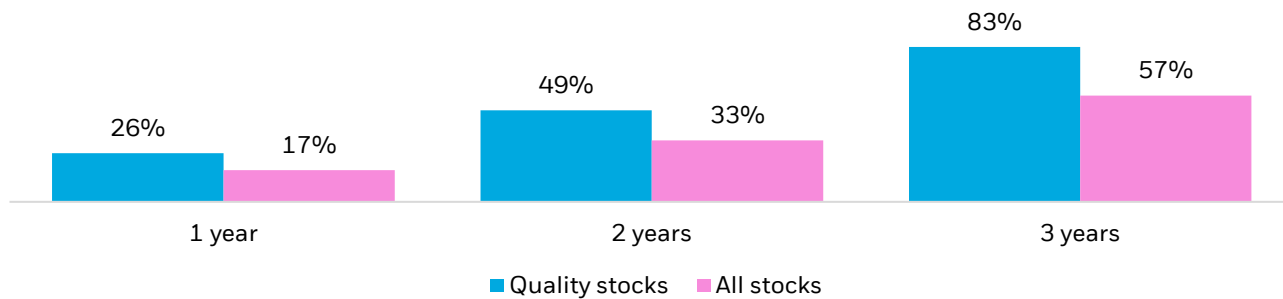
¹Source: Reuters as of 6/20/2023.

Key: Less supportive → Neutral → Supportive

U.S. Factor Views Q3 2023

Figure 1: Quality has outperformed when the Fed stops hiking¹

Avg. cumulative returns after Fed hiking cycle ends (1984-2019)



Factor-specific insights

Figure 2: iShares factor ETF total return performance²

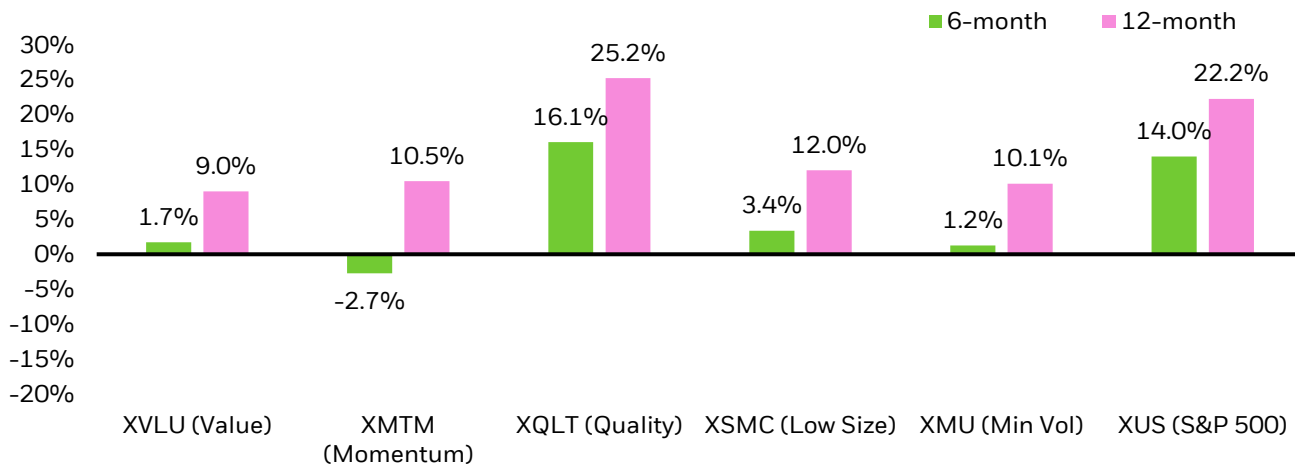
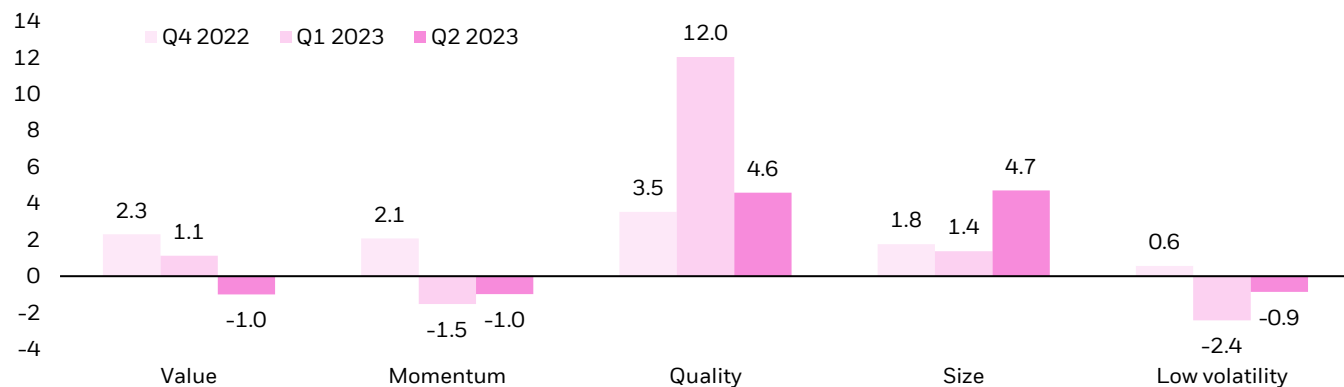


Figure 3: U.S.-listed factor ETF flows (USD \$bn)³



¹Source: BlackRock, Bloomberg, with data from the Board of Governors of the Federal Reserve System as of 6/30/2023. "All stocks" represented by the Russell 1000 Index. "Quality stocks" defined as the top quintile of stocks ranked in the Russell 1000 Index using a proprietary research screen. Returns are calculated from the month when the Fed stopped raising rates for six hiking cycles from 1984 to 2019. Past performance does not guarantee future results. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an index. ²Source: BlackRock, Morningstar as of 6/30/2023. Performance data represents past performance and does not guarantee future results. Investment return and principal value will fluctuate with market conditions and may be lower or higher when you sell your shares. Current performance may differ from the performance shown. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. ³Source: BlackRock Global Business Intelligence as of 6/30/2023. Includes US-listed ETFs classified as smart beta with a US geographic focus by iShares GBI. Size includes size factor and equal weight ETFs.

U.S. Factor Views Q3 2023

Figure 4: ETF Price to forward earnings premium/discount vs. S&P 500 Index⁴

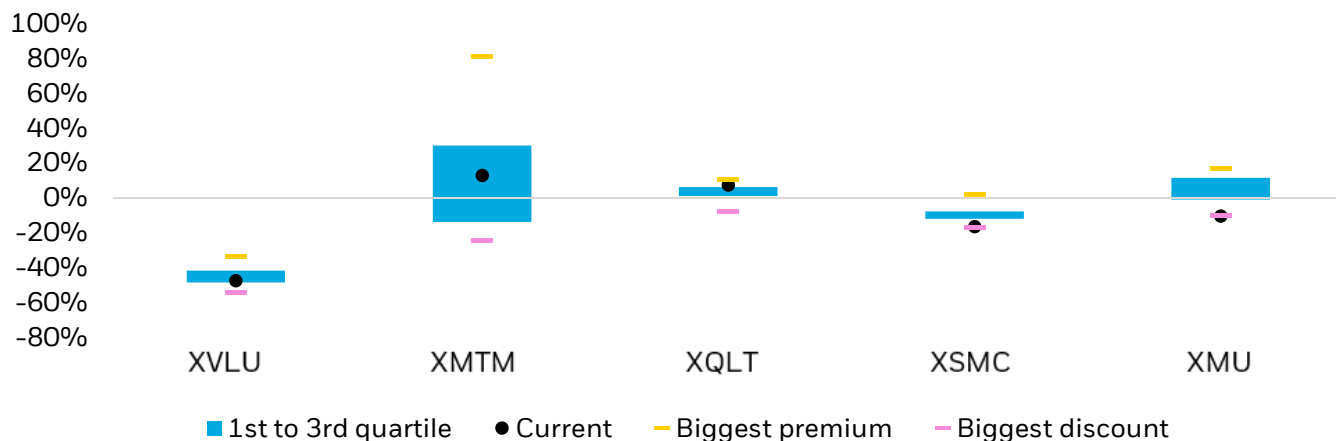
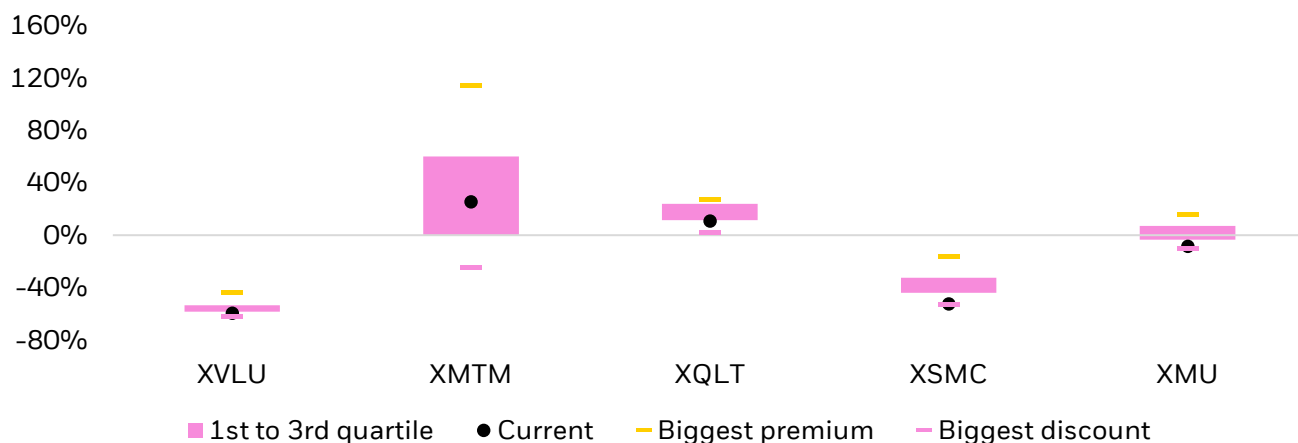
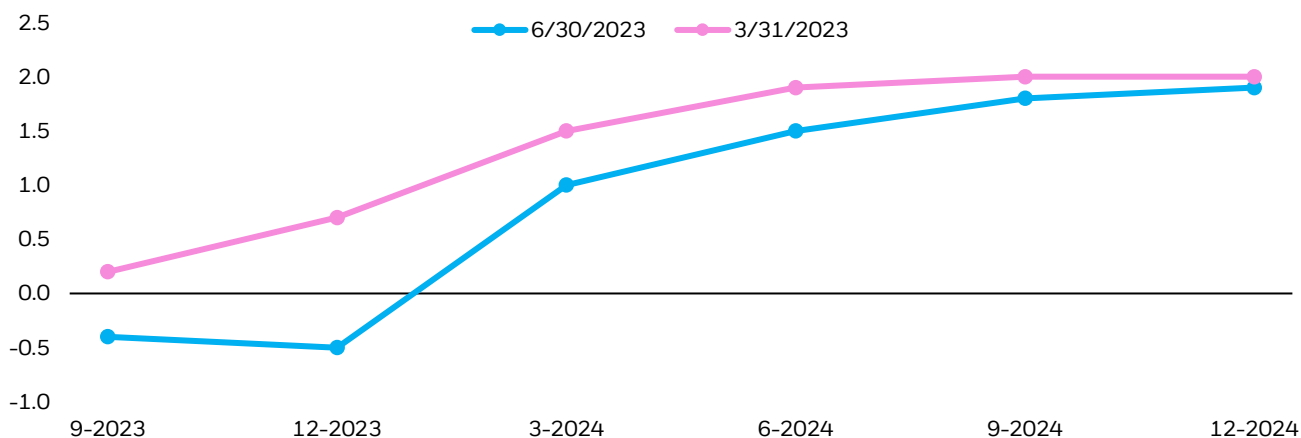


Figure 5: ETF Price to CFO premium/discount vs. S&P 500 Index⁴



Economic insights

Figure 6: Consensus economist US GDP forecasts (QoQ, ann. %) ⁵



⁴ Source: BlackRock, FactSet as of 6/30/2023. Quartile analysis uses 5 years of monthly data from 7/2018-6/2023. ⁵ Source: BlackRock Investment Institute, Refinitiv Datastream as of 6/3/2023. Reuters economist poll, median response. Forward-looking estimates may not come to pass.

U.S. Factor Views Q3 2023

Figure 7: US Core PCE and unemployment rate (8/2020-6/2023)⁶

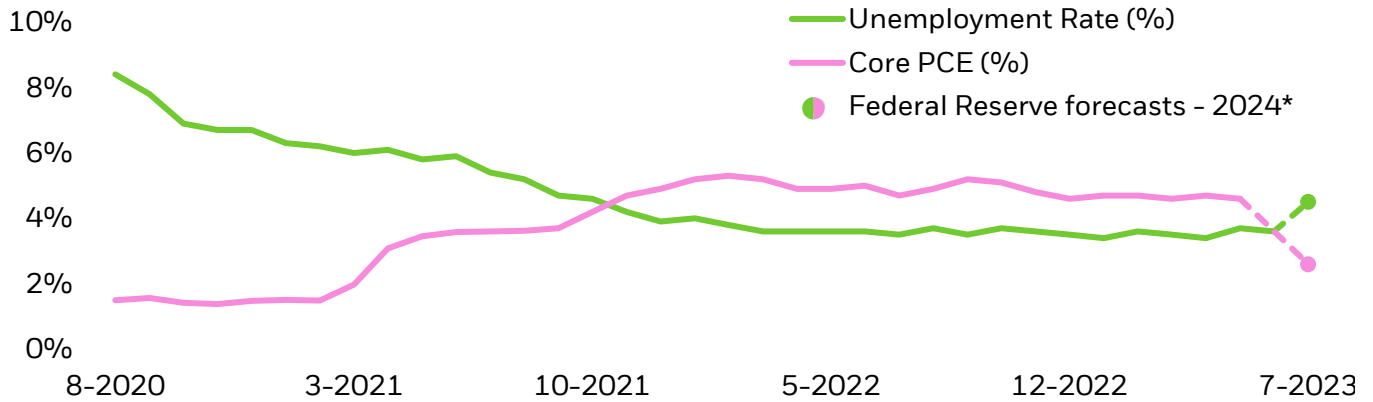


Figure 8: BlackRock Risk Tolerance Indicator (1/2019-6/2023)⁷

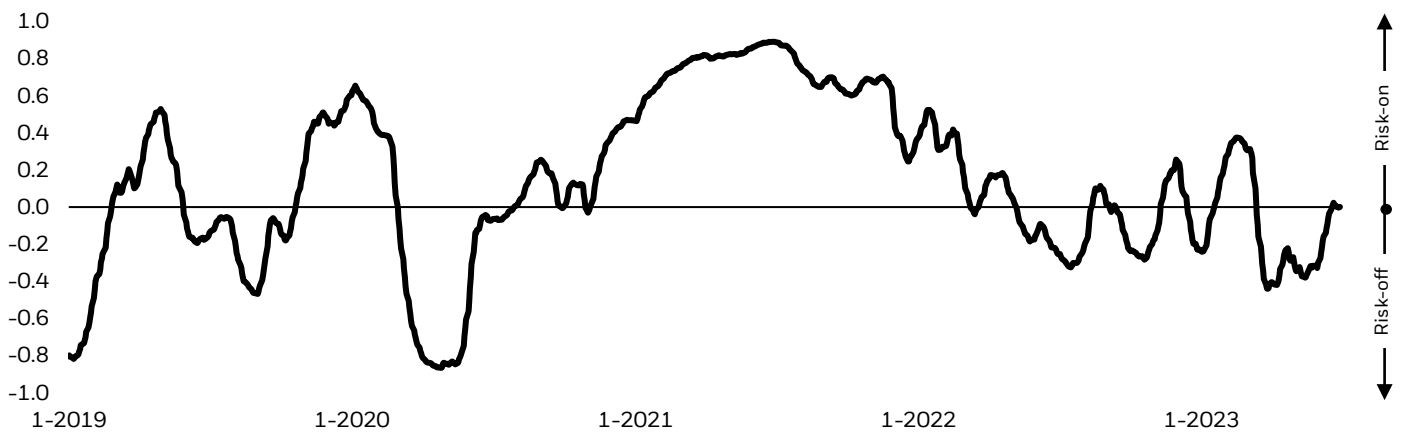
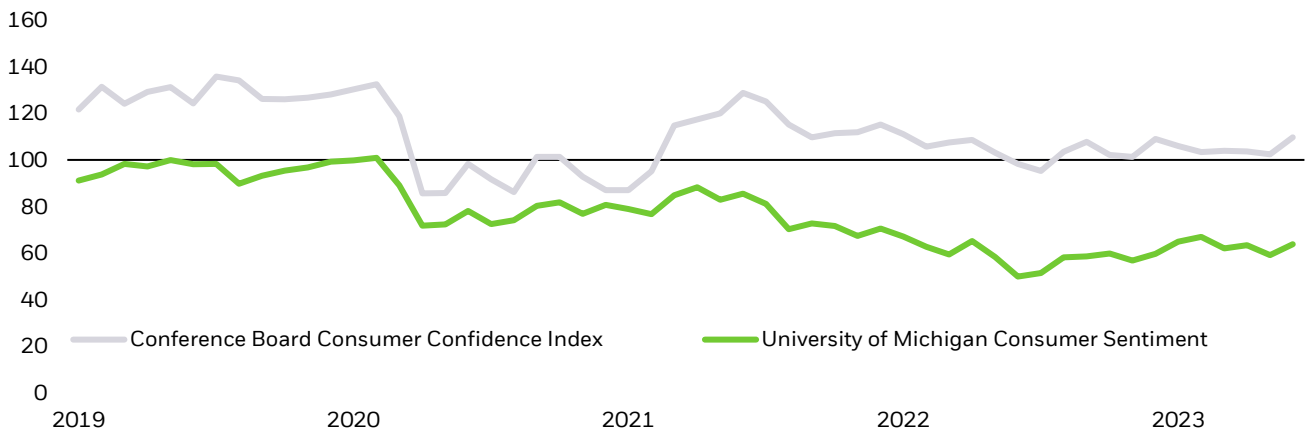


Figure 9: US Consumer confidence & sentiment indexes (1/2019-6/2023)⁸



⁶ Source: U.S. Bureau of Labor Statistics as of 6/30/2023. Bureau of Economic Analysis as of 5/31/2023. ⁷ Source: BlackRock proprietary models as of 6/30/2022. [The Risk Tolerance Indicator](#) is a proprietary measure of investor sentiment. High investor risk appetite is indicated by a score of 1, while -1 suggests high investor risk aversion. ⁸ Source: BlackRock, Refinitiv Datastream as of 6/30/2023. *Federal Reserve Summary of Economic Projections as of 6/14/2023.

U.S. Factor Views Q3 2023

Figure 10: ETF total returns as of June 30, 2023

Ticker	Fund Name	MER (%)	Inception Date	YTD (%)	1Y (%)	3Y Ann. (%)	5Y Ann. (%)	10Y Ann. (%)	Incept Ann. (%)
XVLU	iShares MSCI USA Value Factor Index ETF	0.32	Sep 4, 2019	1.70	9.01	10.38	-	-	6.73
XMTM	iShares MSCI USA Momentum Factor Index ETF	0.32	Sep 4, 2019	-2.74	10.47	3.19	-	-	5.45
XQLT	iShares MSCI USA Quality Factor Index ETF	0.32	Sep 4, 2019	16.06	25.20	12.12	-	-	11.89
XSMC	iShares S&P U.S. Small-Cap Index ETF	0.22	Sep 4, 2019	3.37	11.99	13.57	-	-	8.79
XSMH	iShares S&P U.S. Small-Cap Index ETF (CAD-Hedged)	0.22	Sep 4, 2019	5.42	7.83	13.66	-	-	7.39
XMU	iShares MSCI Min Vol USA Index ETF	0.33	Jul 24, 2012	1.24	10.10	7.23	8.50	12.71	13.36
XMU.U	iShares MSCI Min Vol USA Index ETF	0.33	Oct 22, 2019	3.67	7.34	8.27	-	-	5.69
XMS	iShares MSCI Min Vol USA Index ETF (CAD-Hedged)	0.33	Apr 5, 2016	3.41	6.51	7.57	7.17	-	8.08
XUS	iShares Core S&P 500 Index ETF	-*	Apr 10, 2013	13.97	22.24	13.13	12.02	15.02	15.26

Management expense ratio (MER) as reported in the most recent management report of fund performance. *The fund's MER in its most recent management report of fund performance (MRFP) was 0.10% - which does not reflect the management fee reduction from 0.09% to 0.08% effective January 12, 2023 - and would have been 0.09% had the reduced management fee been in place for the entire reporting period of the MRFP.

Authors



Andrew Ang
Head of Factor Based Strategies, BlackRock



Gargi Chaudhuri
Head of iShares Investment Strategy, BlackRock



Bob Hum, CAIA
U.S. Head of Factor ETFs, BlackRock



Abby Woodham
Senior Factor Strategist, BlackRock

Publication date: July 28, 2023

iShares® ETFs are managed by BlackRock Asset Management Canada Limited. Commissions, trailing commissions, management fees and expenses all may be associated with investing in iShares ETFs. Please read the relevant prospectus before investing. The funds are not guaranteed, their values change frequently, and past performance may not be repeated. Tax, investment and all other decisions should be made, as appropriate, only with guidance from a qualified professional.

The iShares ETFs are not connected, sponsored, endorsed, issued, sold or promoted by Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services, Limited ("Bloomberg"), Cohen & Steers Capital Management Inc., London Stock Exchange Group plc and its group undertakings ("LSE Group", ICE Data Indices, LLC., ICE Benchmark Administration Limited, Jantzi Research Inc., Markit Indices Limited, Morningstar, Inc., MSCI Inc., MSCI ESG Research and Bloomberg, NASDAQ OMX Group Inc. or S&P Dow Jones Indices LLC. ("S&P"). None of these companies make any representation regarding the advisability of investing in the iShares ETFs. BlackRock Asset Management Canada Limited is not affiliated with the companies listed above.

The Prospectus contains a more detailed description of the limited relationship the companies have with BlackRock Asset Management Canada Limited and any related ETFs.

© 2023 BlackRock Asset Management Canada Limited. All rights reserved. iSHARES and BLACKROCK are registered trademarks of BlackRock, Inc., or its subsidiaries in the United States and elsewhere. Used with permission. All other trademarks service marks or registered trademarks are the property of their respective owners.