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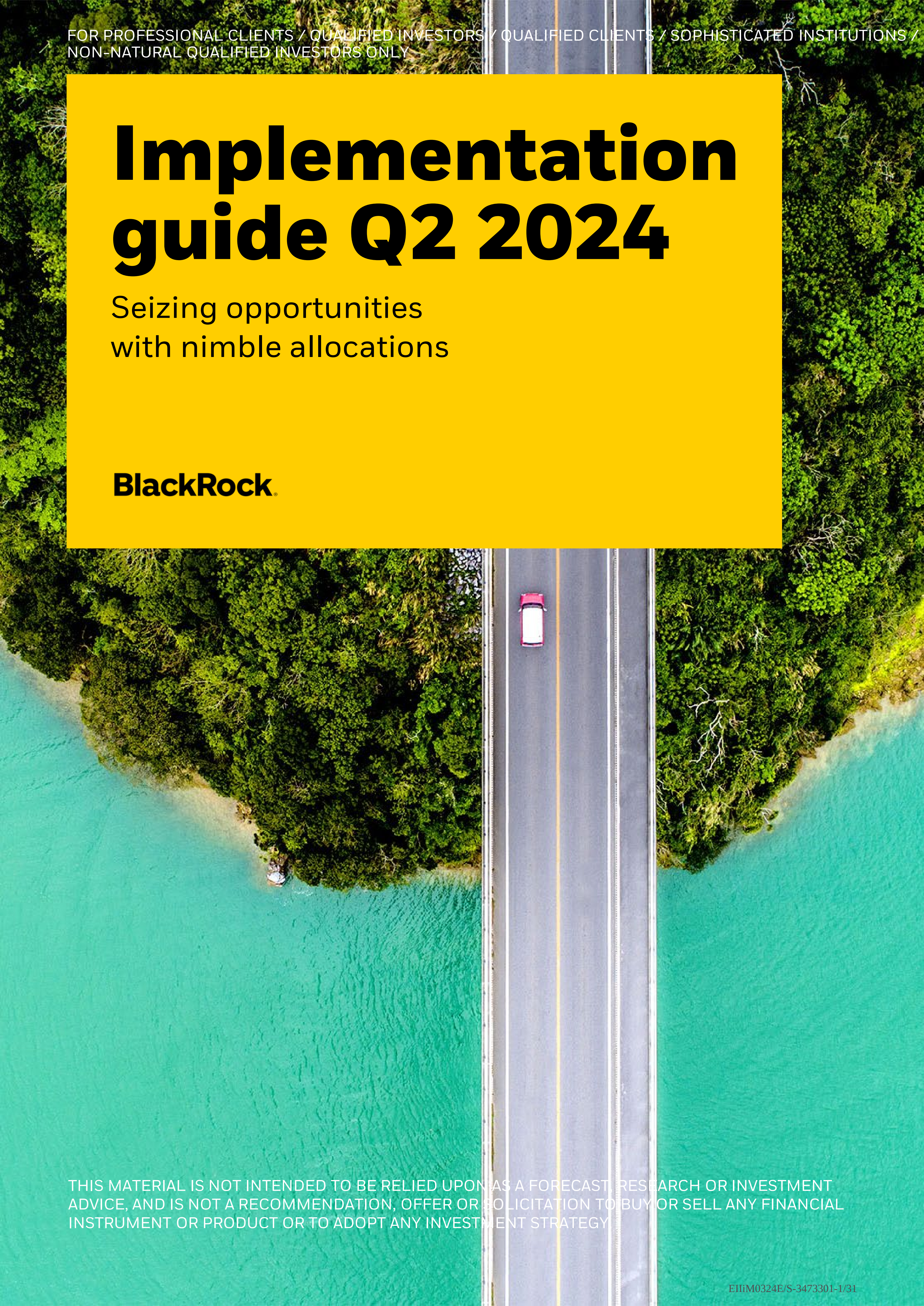

Implementation guide Q2 2024

Seizing opportunities with nimble allocations

BlackRock

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Spring forward.

We see further room to run for market optimism in Q2, as inflation cools and developed market (DM) central banks move towards cutting rates, but we stay nimble and selective in the new regime of greater macro volatility. This environment is not conducive to static exposures across broad asset classes, in our view, as instead it is creating more space for alpha opportunities. Greater volatility and dispersion of returns in the new regime increase the reward for deliberate, well-timed allocations, we think.

Macro insight is also likely to be more rewarded in the new regime, in our view – yet there is a need to be alert to risks such as upside inflation surprises, escalating geopolitical uncertainty and the potential for sudden and protracted growth slowdowns. Against this backdrop, we keep quality exposures at the core of portfolios, but look to selectively add to risk to seize the opportunities on offer.

Over the following pages, we explore the key investment themes laid out in the BlackRock Investment Institute's Global Outlook, with implementation ideas across index, alpha-seeking, private market, and money market funds.

In this environment, we're *managing macro risk* to build resilient portfolios with quality at the core, in a lower growth, higher interest rate environment. We're *steering portfolio outcomes* to put money to work and capture opportunities through a more dynamic approach to investing. We think one way to do this is by *harnessing mega forces*, the big structural drivers that affect investing now – and far in the future.

Our investment themes for Q2 2024

1.

Managing macro risk

What matters in the new regime: sticky inflation and structurally higher interest rates. Markets are still adjusting to this environment – and that's why context is key in managing macro risk.

2.

Steering portfolio outcomes

We think investors need to grab the investment wheel and take a more dynamic approach to their portfolios with both indexing and alpha-seeking strategies while staying selective.

3.

Harnessing mega forces

Mega forces are another way to steer portfolios – and think about portfolio building blocks that transcend traditional asset classes, in our view.

Any opinions and/or forecasts represent an assessment of the market environment at a specific time and are not intended to be a forecast of future events or a guarantee of future results. There is no guarantee that any forecasts made will come to pass.

All figures are in US dollars, unless stated otherwise.

Managing macro risk

What matters in the new regime: sticky inflation and structurally higher interest rates. Markets are still adjusting to this environment – and that's why context is key in managing macro risk.

Heightened economic uncertainty leaves DM central bankers with the difficult task of removing restrictive monetary policy while balancing inflation risks. Market participants have pared back easing bets this year as policymakers push back on early rate cuts, recalibrating expectations towards a higher-for-longer rate backdrop. Yet the US Federal Reserve (Fed) and European Central Bank (ECB) appear set to cut rates by mid-2024, with other DM peers like the BoE poised to follow by year-end.

Risks remain as sticky price pressures are accompanying uncertain and diverging growth outlooks – the US economy continues to show signs of resilience, while activity across the UK and eurozone struggles under the weight of restrictive monetary policy. Divergence is also dominating across emerging market (EM) outlooks, with several central banks already embarking on easing cycles – while stubbornly high inflation across core DM gauges raises doubts on the extent of policy easing ahead. This backdrop makes the macro outlook inherently more uncertain – a feature of the new regime, in our view.

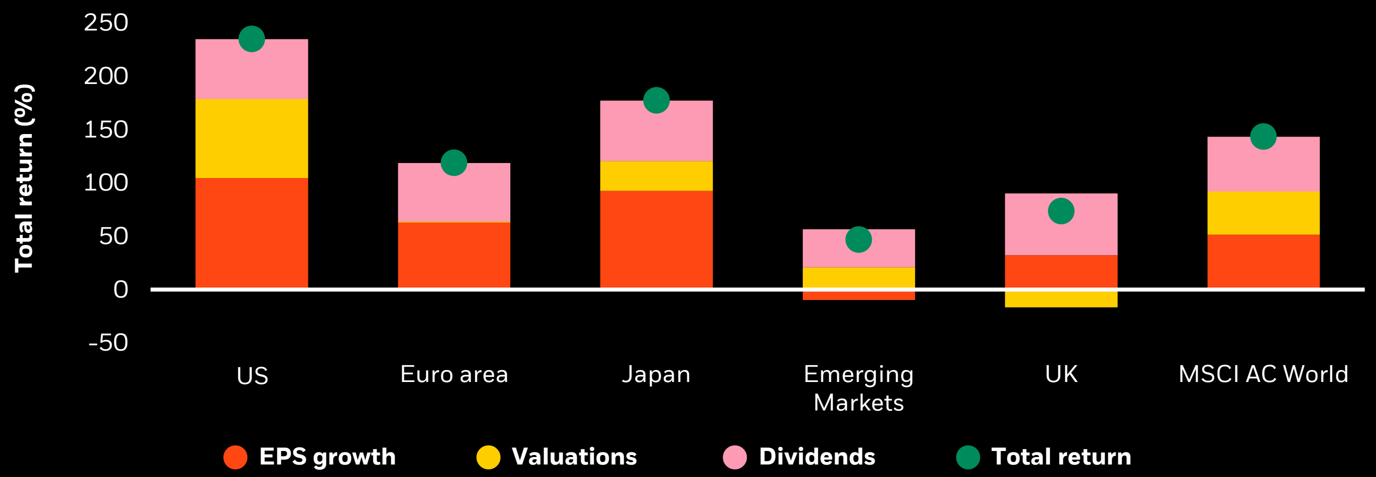
Financial markets are gradually adjusting to structurally higher inflation and policy rates, but it is an uneven process. Yields on 10Y US Treasuries (USTs) surged to 16-year highs around 5% in 2023 before tumbling back below 4% through year-end and trading in a relatively tight range so far in 2024.[1] Yet overall aggregate equity earnings yields have yet to adjust higher to the elevated yield backdrop in most DMs, keeping us cautious about broad, imprecise exposures given scope for further repricing ahead.

Structurally lower growth and higher rates pose a challenge for ballooning US government debt. If borrowing costs remain near 4-5% over the medium term, as we expect, the US government could be spending more on interest payments than on Medicare in a few years. This further increases the long-run risk of higher inflation as central banks become less hawkish. We also see it leading to a rise in term premium, or the compensation investors demand for the risk of holding long-term bonds.

The bottom line: we seek to manage macro risk and uncertainty by building portfolios with quality at the core across asset classes, and boost resilience through exposure to alternatives.

Earnings as a long-term driver of returns point us up in quality

Sources of return, March 2014 to March 2024



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: LSEG Datastream, MSCI, as of 14 March 2024. Based on the following indices: US = MSCI USA Net Return USD; euro area = MSCI EMU Net Return USD; Japan = MSCI Japan Net Return USD; EM = MSCI Emerging Markets Net Return USD; UK = MSCI United Kingdom Net Return USD; MSCI AC World Net Return USD

1 Source: Bloomberg, as of 7 March 2024.

Quality at the core

2024 to date has supported our view that we're in a new regime of greater macro volatility, underpinning our constructive stance on high-quality equities. We look to put quality at the core of portfolios, while taking selective cyclical risks – see p. 14. We like the quality factor for its tilt to profitability, low earnings volatility and high efficiency. In global ETP flows, quality remains the most popular factor allocation YTD, with $11.5B added.[2]

Read our full range of factors views in Precision Insights: Factors.

Earnings tend to be the key driver for equity markets over the long term, supporting our preference for quality across regions. As the chart on p. 4 shows, EPS growth has driven returns over the last 10 years across most major equity markets – dominating emphatically in Europe.[3] We prefer quality exposure in European equities: bottoming economic activity coupled with ECB rate cuts in the pipeline mean we're warming up to Europe in Q2 – but selectivity will be important this cycle, given the two-speed recovery taking place. Quality tends to benefit when the odds of either an EPS recovery or an earnings slowdown remain low with EPS instead expected to remain stable. In Europe, the broad equity market is expected to post 3.4% EPS growth this year – well below the five-year average of 9.8%.[4] This suggests a broad EPS recovery is still some ways away. While valuations for quality remain high, we see this as justified, due to the higher profitability tilt and efficiency versus the broad market.[5]

We also look to go up in quality through exposure to unconstrained equities. Unconstrained equity strategies aim to deliver alpha across economic cycles by employing a benchmark-agnostic approach. These strategies apply bottom-up analysis to construct high-conviction portfolios of superior companies exhibiting quality characteristics and hold them over the long term as their earnings growth compounds. They are designed to look through market volatility, rather than chasing short-term performance, and can serve as a way for investors to enhance portfolio resilience.

Diversification may not fully protect you from market risk.

2 Source: BlackRock and Markit, as of 22 March 2023. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product. See appendix for 5Y data.** All figures are in US dollars, unless stated otherwise.

3, 4 Source: LSEG Datastream, as of 7 March 2024.

5 Source: BlackRock, as of 22 March 2024.

Quality income

We also look up in quality in equity income. With interest rates expected to fall, we look to diversify quality income exposure beyond government bonds, taking a whole-portfolio approach that can help to reduce exposure to rates volatility in a year when central bank policy is likely to remain a key driver. We see three key benefits of integrating equity income in portfolios: capital appreciation, potential to boost portfolio resilience, and a consistent income stream. Quality income strategies target well-established companies with strong balance sheets, consistent earnings growth, and a history of paying regular dividends. These companies tend to be less volatile than the broader equity market, providing a defensive tilt to increase portfolio diversification and resilience.

The fundamental picture also looks attractive, with valuations for dividend stocks currently significantly depressed versus their own history and the broader market.[6]

We believe an active approach can help in constructing an equity income portfolio that maintains high yields, while reducing style and sector bias inherent in income stocks. Systematic equity income strategies – including those wrapped in ETFs – take an innovative and differentiated approach to generating income by combining human insight, big data and AI/machine learning to modernise the way we invest and provide new sources of diversification. By focusing on companies able to generate sustainable and growing free cash flow, quality income strategies may also be well-positioned to navigate times of market stress.

Diversification may not fully protect you from market risk.

We think it's time for the next generation of ETFs in Europe. As changing business models in Europe catalyse the need for a 'whole portfolio' approach, our clients require a more comprehensive set of tools across index and active strategies, including the wrappers they're delivered in, to enable them to help their clients achieve specific goals.

Jane Sloan
Head of Global Product Solutions, EMEA

6 Source: BlackRock and Bloomberg, as of 23 February 2024. Based on forward P/E ratio of top decile of dividend-paying stocks in MSCI World Index, rebalancing monthly.

Sovereigns

With developed market central banks set to start cutting rates later this year, we expect sluggish growth, falling inflation and, eventually, easier DM policy to underpin a drift lower for yields in 2024. Even so, we have tempered our overweight position in European government bonds (EGBs) to neutral as market pricing already broadly reflects the policy path we anticipate for the ECB, with roughly four rate cuts (or 100bps worth) priced by markets by year-end.[7] Widening peripheral bond spreads remain a risk, however – especially given upcoming quantitative tightening dynamics and EU parliamentary elections.

In the US, the yield surge of 2023 driven by expected policy rates has likely peaked, in our view, yet we think term premium – the additional compensation investors demand for bearing the risk that interest rates may change over the life of the bond – remains too low. We stay overweight front-end US Treasuries and look for opportunities to extend duration into the belly of the curve as we gain more clarity on the likely Fed policy path. Policymakers' data-dependence in determining that path has been a key driver of rates repricing so far this year, and we expect this to keep the rates environment volatile.

Overall, investors have shown a preference for longer duration US rates exposure in recent months: long duration ETPs have registered five consecutive months of global inflows (totalling $23.0B), while the opposite has been true for short duration ETPs, with five consecutive months of outflows through March (-$13.7B). European investors, however, have shown a preference for front end USTs – in contrast to the global trend.[8] We think this could open an opportunity for European investors to start extending duration in USTs as we head into the cutting cycle.

In Europe, we expect the sluggish growth backdrop could mean that rate cuts are larger than in the US – activity data still points to a weak environment for growth, while the robust policy transmission and drop in energy prices have also contributed to falling eurozone inflation.[9] As a result, we see value in peripheral bonds, with more stable spread volatility leading some investors to look at peripheral bonds for carry. In the ETP flows space globally, investors preferred broad and core EGB exposures in January and February; March is on track to be the highest inflow month for German bund ETPs since August 2023, with $0.2B added – though it is worth noting that the limited number of peripheral bond ETPs on offer may impact the overall flow picture.[10]

7, 9 Source: Bloomberg, as of 7 March 2024.

8, 10 Source: BlackRock and Markit, as of 22 March 2024. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product. See appendix for 5Y data.** All figures are in US dollars, unless stated otherwise.

Fixed maturity bonds

For investors who have had to look elsewhere for income over the past decade, the great yield reset has transformed the strategic opportunity in fixed income. With DM rate cuts now on the horizon, we look to lock in yields at their current highs.

A blend of index and alpha-seeking exposures can offer investors transparency and the opportunity to be nimble in their fixed income allocation. Bond ETFs are made for these times, we think, enabling investors to make rapid tactical asset allocation changes, improve operational efficiency and enhance the liquidity of fixed income portfolios.

Cash and short duration solutions

The current interest rate climate poses opportunities as well as challenges for cash investors. It's important to understand how to optimise cash allocations based on liquidity demands, intended investment horizons and appetite for flexing the risk-return profile of cash investments. We see an opportunity from a cash portfolio management perspective to stay ahead of cash alternatives for investors and seek attractive yields while mitigating market loss in an environment still rife with economic risks and uncertainty.

For clients looking to optimise their cash allocation, we suggest a segmented approach, broadening the use of different strategies when considering liquidity solutions. This involves sizing cash allocations appropriately.

Investors seeking higher yields and willing to tolerate slightly higher risk may want to put cash to work through ultrashort bond funds – one option should they want to manage the risk of volatility that may arise when venturing further out into fixed income products.

Diversification may not fully protect you from market risk.

All figures are in US dollars, unless stated otherwise.

Infrastructure

We see infrastructure as a key asset class to address different portfolio requirements in 2024 and beyond. From a tactical view, we continue to favour infrastructure as an inflation hedge: infrastructure contracts tend to be inflation-linked, spanning decades. This offers investors the possibility to build inflation protection in portfolios, especially as we see inflation remaining on a bumpy path back to central bank targets. Risks remain – the cheap financing from previous years is unlikely to be seen again any time soon, and the macro backdrop could translate into a slower year of funding. Overall, however, we see this as an attractive environment for investors to build infrastructure exposure.

On a strategic horizon, infrastructure is well-positioned to benefit from mega forces such as the low-carbon transition, changing demographics, geopolitical fragmentation and digital disruption – see theme 3. Infrastructure is set to play a key role in increased digitisation: as the world's data needs grow, so too will demand for high-quality infrastructure such as fibre cables, wireless towers and data centres. Strategic competition and supply chain challenges are increasing attention on reshoring as well, which requires continued investment in domestic industrial infrastructure, providing further tailwinds for the asset class.

Alternatives

In an environment of greater macro uncertainty, we see a strong case for allocating to alternatives as a tool for diversification and managing volatility and inflation exposure, and as a potential source of income and returns.

Over recent months, we have seen some investors shift their liquid alternatives allocation in favour of fixed income. However, we believe that dynamic liquid alternatives can complement diversified portfolios, with the potential to provide strong risk-adjusted returns. Macro trading strategies, which can invest across regions and asset classes, are well-positioned to capitalise on broader themes such as inflation and interest rate volatility and have a positive outlook in the face of ongoing volatility. Additionally, strategies that target niche market segments have a strong outlook, in our view, due to their ability to generate durable alpha and an idiosyncratic return profile.

In addition to liquid alternatives, private markets are increasingly being incorporated as a core component of investors' strategic asset allocation, due to the unique investment opportunities available in this space. Technological and regulatory advancements have fuelled a rise in individual investors' exposure to private markets, with some estimates suggesting an increase of up to 20% over the coming years.[11] With early signs suggesting an improving fundraising environment, we believe this trend will continue, with opportunities for individual investors to expand their allocations to private equity.

Diversification may not fully protect you from market risk.

11 Source: BlackRock, Bloomberg News, as of 9 March 2023.

Unconstrained fixed income

Unconstrained fixed income strategies are well-suited for uncertain market conditions, in our view, as they aim to provide consistent returns across market cycles with low correlation to traditional assets. These strategies offer flexibility in portfolio composition while maintaining the characteristics of a core fixed income allocation, allowing investors to manage their exposures in any environment. The return drivers can be dynamically adjusted to capture investment opportunities and limit drawdowns. These strategies typically target a cash-plus return, meaning that return expectations fluctuate with the prevailing level of interest rates.

Our unconstrained alpha platform offers a dynamic approach to portfolio asset allocation, with a range of credit, aggregate and EMD exposures. Our EMD capabilities have been a key differentiator in the market this year. In the current environment, we favour flexible, dynamic strategies that aim to limit drawdowns, capture a significant portion of the beta upside, and exhibit lower annualised volatility than the benchmark index.

Multi-asset solutions

Heightened macro uncertainty over the past year has meant that investors have had to work harder to diversify their portfolios for all-weather situations. Yet markets are interconnected, and new information can impact more than one asset class – especially with mega forces at play. Fluctuations in economic activity and investor sentiment may not have an equal impact across various segments that can comprise an asset class, so portfolio resilience is key.

Multi-asset strategies can help investors achieve precision within investment outcomes, while managing both upside and downside risk and navigating a wide set of opportunities. A multi-asset strategy may enable investors to take a more holistic, long-term approach to their investments, while seeking to achieve both sustainable outcomes and potential market returns.

Diversification may not fully protect you from market risk.

Steering portfolio outcomes

We think investors need to grab the investment wheel and take a more dynamic approach to their portfolios with both indexing and alpha-seeking strategies while staying selective.

Financial markets are adjusting to the new regime of greater volatility, heightened uncertainty and divergence in market performance. Several assets had begun to reprice to a structurally higher rates regime through 2023, yet not all valuations have adjusted as pockets of opportunities remain.[12] For example, some equity allocations appear to be discounting a pessimistic degree of economic damage while others appear positioned for too much optimism amid the uncertainty.

Either way, these conditions underpin greater market volatility and call for a more dynamic portfolio approach that acts on insight and expertise more frequently. Static asset allocations – or set-and-forget portfolios – are a reasonable starting point but we don't think they will deliver as they have in the past. The era of ultra-low interest rates is behind us and future expected returns look less attractive. We believe excess returns over cash will be much lower for static exposures as a result. Getting the asset mix right matters much more now.

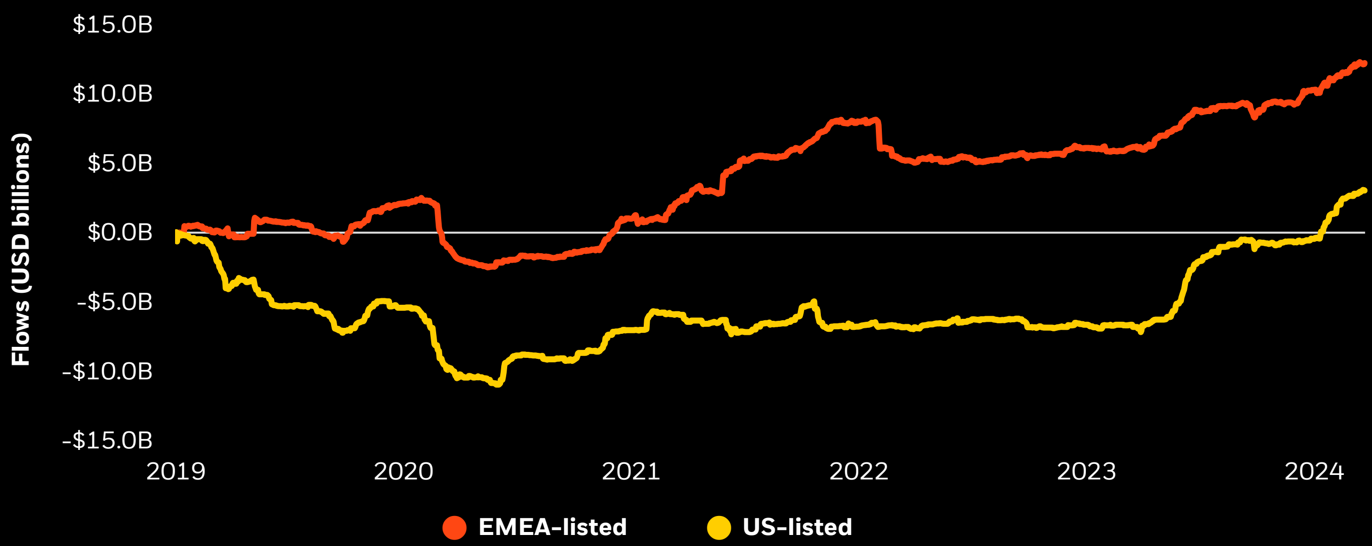
Deep insights into shifting underlying drivers of market moves – and the ability to act on them in a timely manner – are needed. Active returns can be generated in different ways. We think investors with the resources and skills to find top-performing managers could pivot portfolios towards active strategies and away from static broad market exposure, sometimes called beta. Being dynamic with index strategies is also a source of active returns. An active approach to indexing would allow investors to exploit their skill in timing markets and their ability to consistently pick exposure to the right sectors, regions and styles.

Investors can also thrive in the new regime by getting granular with portfolio allocations. Dispersion of returns has been greater in the new regime. This means security selection and appropriately sizing equity allocations are likely to be more impactful.

The bottom line: we look to add to risk through selective allocations in DM and EM assets as well as credit. In DM, we look to the US and Japan, and in EM, we favour LatAm equities. In credit, we see a tactical opportunity in both investment grade and high yield exposures.

International investors turn back to Japan

Cumulative flows into EMEA and US-listed Japanese equity ETPs, 2019 to 2024 YTD



Source: BlackRock and Markit, as of 22 March 2024. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product. See appendix for 5Y data.**

12 Source: Bloomberg, as of 19 March 2024.

Developed market equities

We have high conviction in US and Japanese equities : we maintain our overweight, having recently upgraded the US amid cooling inflation and looming rate cuts. Our US view reflects a neutral index-level view and our AI overweight – see p. 19.

In the US, we expect market concentration to broaden out this year, following the Big Tech-led rally in 2023. This is already playing out: compared to last year, when 56% of S&P 500 returns were driven by Big Tech, so far this year they have contributed to just 41% of returns.[13] The breadth of corporate earnings can expand beyond tech and AI, in our view. The inventory destocking cycle should flip from being a headwind in 2023 to a tailwind this year: a common theme among industrial-tilted companies in the semiconductor, manufacturing and chemical spaces is the need to replenish order books after inventories troughed in Q4. Capex – which has largely been tech-centric – is expected to increase in magnitude and scope. The latest reading of Bank of America's capex tracker shows 55% of companies guiding for higher expenditure in 2024 – while not yet large in magnitude, this is an example of expanding breadth, which should pick up as the cost of capital comes down in H2.[14] US equities have also been leading regional ETP flows, with $116.8B added globally YTD.[15]

Turning to DM Asia, foreign investors have been returning to Japanese equity ETPs with conviction this year: flows gathered by EMEA ($1.9B) and US-listed ETPs ($3.5B) in Q1 have already reached 50% of overall inflows in 2023.[16] While it's true that Japanese stocks face the prospect of a firmer JPY as the Bank of Japan (BoJ) extends its rate hiking cycle, what's important to recognise is that the BoJ – unlike its DM counterparts – is on a path of policy normalisation rather than tightening. Having exited negative interest rates at its March meeting via a dovish hike, we expect the journey back to neutral to be gradual. The inflation renaissance in Japan has prompted a change both in the mindset of firms towards passing on higher costs to consumers and in their pricing strategies – pricing power is back. This is reflected in the BoJ's latest quarterly Tankan survey, which shows that while the diffusion index (DI) for input prices is trending downwards, output prices remain high for both the actual result and the forecast.[17] We think progress – and increasing conviction – on the Tokyo Stock Exchange's structural changes on shareholder reforms will justify a higher valuation premium for Japanese equities. For more on Japan, look out for further research from the team over Q2.

13 Source: BlackRock and Bloomberg, as of 5 March 2024.

14 Source: BlackRock and Bank of America, as of 4 March 2024

15, 16 Source: BlackRock and Markit, as of 22 March 2024. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product. See appendix for 5Y data.** All figures are in US dollars, unless stated otherwise.

17 Source: BlackRock and Bank of Japan, as of 8 March 2024.

SPOTLIGHT

Getting 'active' in portfolios

We believe the new regime of heightened uncertainly and performance dispersion will accelerate the evolution of portfolio construction practices. Investors seeking to take advantage of the investment regime to deliver long-term alpha may consider getting more 'active' in portfolios by:

1. **Adopting** a more dynamic approach to long-term portfolio construction. This includes more granular, nimble asset allocation, blending index and active and public and private market strategies, coupled with frequent risk monitoring and stress testing.
2. **Aiming** to be more active with index strategies and deliver alpha, and acting on insights, through flexible use of index building blocks.
3. **Allocating** more to highly skilled active managers – investors who have confidence in their ability to pick good managers may be able to capture additional long-term alpha opportunities.

The chart below offers a hypothetical example, illustrating how varying risk levels and the inclusion of active strategies could impact the estimated real returns of a multi-asset portfolio. We show the estimated annualised returns in excess of estimated inflation for three hypothetical portfolios over five years, based on our latest capital market assumptions.[18] The first portfolio, 'steady risk', represents a risk target of 8% allocating to index products only. If an investor sought to boost real return by c.1% with this portfolio today, they could either:

- **Remain fully indexed** and increase the portfolio risk budget by changing the asset class mix to boost the real beta return estimate. In our example, that means allocating 15% more to DM equities at the expense of fixed income, taking 2.5% more risk (portfolio 2).
- **Increase allocation to carefully selected, top-quartile active managers**, introducing 1% active risk, while keeping broad beta risk unchanged to help fill the gap in excess returns. Here, we allocate to top-performing active strategies in the eVestment database on top of index-only products, preserving the overall hypothetical portfolio risk target at 8% (portfolio 3).

In the current environment, if we want to stick to lower levels of portfolio beta risk while targeting higher levels of real return, we see a greater role for active managers in the portfolio. Yet there are several considerations to highlight:

- **The role of beta.** Broad macro and style factor exposure continues to be a key driver of portfolio outcomes. It's important to separate this source of return from any alpha manager's excess return relative to a benchmark. Investors need to ensure that factor exposures are deliberate, diversified and scaled though ongoing risk monitoring and stress testing across different market scenarios.
- **Active managers impact the whole portfolio** and could have implications on strategic allocations. This means our asset allocation preferences could shift based on our views on index and alpha: if we have very high conviction on individual alpha managers in an asset class, they could be overweight in the portfolio.
- **Costs matter.** For example, product fees cut into returns and can reduce or even eliminate the alpha an investor receives. Investors should fully account for fees in portfolio construction. Manager selection and monitoring could incur significant governance costs.

Risk management cannot fully eliminate the risk of investment loss. There is no guarantee that stress testing will eliminate the risk of investing.

Take more risk with indexing, or blend with more top-quartile active strategies

There is no guarantee that any forecasts made will come to pass. 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, January 2024. This visual representation is for illustrative purposes only and do not represent an actual portfolio. Regression analysis is backwards-looking with the benefit of hindsight and complex – it may not reliably predict the future relationship between manager performance and market conditions. We assume the following median fees: 0.6% for equities, 0.225% for government bonds, and investment grade credit, 0.45% for sub investment grade credit and 2.75% for private markets. Expert judgement from a manager research team on an individual fund managers could bring better clarity on how they performed. In-depth and practical manager research can improve on econometric techniques and analysis, like regressions, to build a better picture of how a fund manager might perform in the future. **18** See appendix for Capital Market Assumptions disclosures & methodology.

“

The new regime calls for a profound rethink of portfolio construction and asset allocation practices, in our view. We think we’ve entered a phase of portfolios’ alpha being delivered through more dynamic, granular asset allocation choices. The bar has been reset, and it’s much higher – calling for transformative innovation.

Ursula Marchioni
Head of Investment and Portfolio Solutions, EMEA

Selective cyclicality

While we hold quality equities at the core of our portfolio approach, we incorporate cyclicality where it makes sense. We look to add to the global financials sector, which provides diversified exposure to payments companies as well as large-cap banks, with a strong US tilt. Our base case of three-four rate cuts this year from the Fed, starting mid-2024, would likely allow for deposit costs to fall more than asset yields, especially for those banks with higher amounts of fixed rate loans – namely, US versus European banks. It also may mean some loan and deposit growth takes place in H2.

Read our full range of views across GICS Level 1 sectors in Precision Insights: Sectors.

The continued relative resilience of the US labour market has kept default rates capped, with recent data beginning to normalise from a low base. In Q4 2023, 30+ day delinquencies on credit cards returned to normal levels as expected; meanwhile, net charge-offs (which were historically low in 2021 and 2022) started to normalise, picking up further in H1 before stabilising in H2.[19] Fundamentals also remain well-supported, in our view, with operating margins forecast to sequentially pick up from 14.6 currently to 20.3 and 21 in FY24 and FY25, respectively.[20]

Positioning remains light: after strong buying of global financials ETPs in 2021 ($48B), the sector recorded outflows in 2022 (-$15.5B), followed by only muted buying in 2023 ($3.8B) and 2024 YTD ($0.4B).[21]

19 Source: BlackRock, as of 5 March 2024.
20 Source: BlackRock and Bloomberg, as of 8 March 2024.
21 Source: BlackRock and Markit, as of 22 March 2024. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product. See appendix for 5Y data.**
All figures are in US dollars, unless stated otherwise.

SPOTLIGHT

Small caps: too cheap to ignore?

Small caps appear cheap, and we believe we could see a snapback in performance on a technical basis. This has led us to close our underweight to the size factor, based on valuations. However, the uncertain macro backdrop remains unsupportive, in our view. Some investors have shown an appetite to take advantage of such opportunities, with $6.6B added to small cap ETPs globally in February.[22] We expect these flows could be highly dependent on broad investor sentiment – should it remain strong, we would expect more interest in small caps to follow. However, any bumps on the road could see small cap flows suffer first, as doubts on economic growth are compounded by relatively weaker fundamentals.

From a top-down macro perspective, the outlook remains challenging. While a US recession may not be our base case, growth is moving sideways. This dynamic isn't supportive for a more growth-exposed set of companies like small (or mid) caps. The growth outlook also remains challenging in Europe, as highlighted by weak activity indicators such as PMIs.[23]

In the US, small caps have seen some periods of improving sentiment. However, fundamentals have not yet improved, with low interest coverage ratios and leverage concerns amplifying sensitivity to rates.[24] We also see the higher profitability of large cap equities as more attractive.

In Europe, we remain selective on small cap exposure. The region's growth and activity outlook lead us to look up in quality. European small caps are, on average, higher quality than their US peers, as measured by profitability: only 10% of European small caps operate at losses, compared to over 30% in the US.[25] However, they are typically more economically sensitive than large caps, and are sensitive to real yields, with a higher degree of floating rate and nearer-term debt.

Valuations may be cheap: US small caps trade at a 13.7% discount to their five-year average valuations, with European small caps registering a 23.6% discount. This contrasts with the respective large cap measures, which trade currently at a 4.2% premium to their five-year average valuations for the US, and a 7.3% discount for European large caps.[26] Yet looking at the broader picture, we see an unfavourable environment in Q2 for highly cyclical exposures such as small caps.

Cheap for a reason?

Spread between the S&P 500 and Russell 2000 indices, January 2010 – 2024 to date

Source: BlackRock and Bloomberg, as of 25 March 2024.

22 Source: BlackRock and Markit, as of 7 March 2023. P**ast flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product. See appendix for 5Y data.** All figures are in US dollars, unless stated otherwise.

23, 24, 25 Source: Bloomberg, as of 22 January 2024.

26 Source: LSEG Datastream and MSCI, as of 29 February 2024.

Credit

Getting granular and more nimble in allocations is key to seizing opportunities in a new macro regime marked by greater volatility, we think. EUR investment grade (IG) credit has been resilient in the face of this year's backup in yields, with hopes of a US soft landing superseding headwinds, and yield-seeking inflows offering additional support. After January's bumper flows into global IG ETPs ($14.6B), momentum slowed in February ($3.2B) but has picked up month-on-month to $3.8B in March.[27] However, we continue to see pockets of value in EUR IG, with wider spreads versus USD IG. EUR IG also looks attractive from a global perspective, with spreads meaningfully wider than post-financial crisis tights, currently sitting 52bps above early-2018 levels. In contrast, USD IG spreads are just 6bps above the tights set in February.[28]

We also look to relative value trades within European credit, as valuations of EUR high yield (HY) and covered bonds screen as attractive. HY presents particularly strong income for owning beta risk, with yields at 6.4%, bolstered by its shorter duration profile relative to history.[29] We prefer broad EUR HY exposure, which offers potential diversification benefits, higher credit quality, and a favourable tilt to European banks. Covered bonds also offer an attractive risk-return profile, given a default rate of 0%, and the option-adjusted spread differential between EUR IG at the lowest level in over a year.[30]

27 Source: BlackRock and Markit, as of 22 March 2024. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product. See appendix for 5Y data.** All figures are in US dollars, unless stated otherwise.

28, 29, 30 Source: Bloomberg, as of 7 March 2024.

Emerging market assets

We continue to like EM assets in Q2, supported by buoyant risk sentiment and mega forces – including geopolitical fragmentation, demographic divergence and the low-carbon transition.

Read our full range of granular views across EM equity and debt in Precision Insights: Emerging markets.

Dispersion within EM equities in 2023 highlighted the importance of selectivity in the space. While we acknowledge the attractive valuations on offer in Chinese equities (the 12-month forward P/E ratios of the MSCI China and CSI 300 indices are 8.6x and 10.8x, respectively),[31] elevated volatility in the region and still-lacklustre policies to shore up growth prompt us to take above-benchmark risk elsewhere. We prefer a building block approach to EM equities, which allows investors to stay invested in emerging markets through EM ex-China exposure, while tactically dialling exposure to China – and other single regions – up or down in line with conviction.

Geopolitical fragmentation is one of five mega forces we see playing out now, as competing geopolitical and economic blocs harden – see p. 21. Multi aligned or 'connector' countries like Mexico are increasingly acting as intermediate trading partners between blocs. The near-shoring theme is already starting to play out: in 2023, the US imported more goods from Mexico than from China for the first time since the early 2000s.[32] Broadly, we favour LatAm equities for their tilt to commodity exporters, although elections this year – including in Mexico – introduce a layer of uncertainty. Brazil remains one of our highest-conviction calls within EM, given its easing monetary policy backdrop and diversified commodity exporter-tilted economy. Beyond LatAm, we see opportunity in Indian equities: while we maintain a mixed view, we favour India within Asia as a diversifier in EM allocations.

The case for India is clearer in the debt space, where we introduce a preference for Indian government bonds (IGBs). Index inclusion could provide key tailwinds for growth and foreign investment for IGBs in the next 12 months. Bloomberg has announced the inclusion of IGBs in its Bloomberg Emerging Market Local Currency Government Index, effective January 2025; this follows JP Morgan's announcement last year that IGBs would be included in its benchmark indices – with an expected 10% weighting in the local currency index – effective June 2024. Aside from the c.7% income available on the 10Y tenor,[33] India's low foreign ownership means that there are diversification prospects when incorporating IGBs into portfolios. Indian government bonds are negatively correlated with Indian equities, global and EM equities, and broad bond indices, including the Bloomberg Global Aggregate Bond Index and broad EM debt.[34]

Diversification may not fully protect you from market risk.

31, 33 Source: Bloomberg, as of 13 March 2024.

32 Source: BlackRock, as of 8 March 2024.

34 Source: BlackRock and Bloomberg, as of 8 March 2024.

Harnessing mega forces

Mega forces are another way to steer portfolios – and think about portfolio building blocks that transcend traditional asset classes, in our view.

We believe mega forces offer another way to steer portfolios – and to think about building blocks that transcend traditional asset classes. They stand out as drivers of corporate profits on their own, in our view, and so can offer opportunities that may be uncorrelated to macro cycles. Over time, we think mega forces are set to make inflation more volatile – and we expect it to be on a rollercoaster journey, falling this year before resurging in 2025. Forecasters are less certain about what lies ahead – such is the uncertainty of the new regime.

These forces are already reshaping markets. Take **digital disruption and artificial intelligence** (AI). While the rally has started to broaden out, tech has continued to drive equity markets this year, leading the S&P 500 to hit consecutive record highs. We think this reflects how quickly markets can embrace fundamental shifts in the outlook, even if they may be slower to fully price in their consequences. Incorporating this mega force into our return expectations brings our overall stance on US equities up to overweight, although we remain neutral at the benchmark level – see p. 12.

That's just one example of why we think harnessing mega forces will enable investors to outperform simple, static allocations. The far-reaching consequences of mega forces create new investment opportunities – and markets can be slow to price them in.

For example, capital pressures on banks are opening a path for private credit and non-banks to fill the lending void – part of the **future of finance**. Private credit can be an illiquid asset class not suitable for all investors.

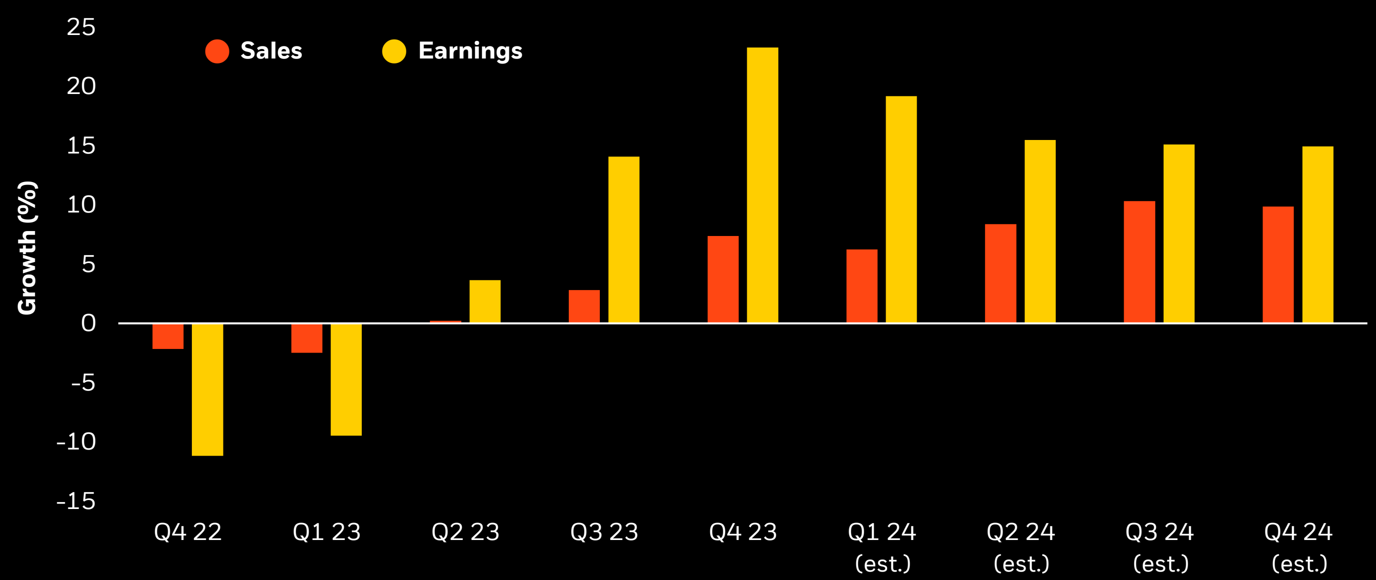
Ageing populations in major economies are poised to limit how much countries can produce and grow – depending on how they adapt in **demographic divergence**.

Climate resilience is emerging as a new investment theme within the **low-carbon transition**, in our view. As climate damages mount, we are seeing increased demand for solutions that help economies prepare for, adapt to and withstand climate hazards, and rebuild after damages. See our low-carbon transition implementation guide for more. We see **geopolitical fragmentation and economic competition** driving a surge of investment in strategic sectors like tech, energy and defence.

The bottom line: we're harnessing mega forces to drive portfolio outcomes on a tactical and strategic horizon. We see further room to run in the AI trade, and look to US exposures that may benefit in an election year to position for geopolitical fragmentation and uncertainty.

Tech fundamentals support continued optimism, we think

S&P 500 tech sector earnings and sales growth, Q4 2022 – Q4 2024 (estimated)



There is no guarantee that any forecasts made will come to pass.
Source: Bloomberg, as of 14 March 2024.

Digital disruption and AI

We maintain our overweight view on the digital disruption and AI mega force. Despite steep valuations for technology firms, with the P/E ratio for the global sector up 18.4% in the last six months and 46.9% in the last 12,[35] we think adoption is likely to accelerate as demand expands beyond early AI adopters, supporting earnings momentum. Despite AI being mentioned in over a third of US earnings calls in Q4, the five largest AI technologies – automated vehicles, machine learning, machine vision, expert systems and natural language processing – have been employed by fewer than 6% of US firms, concentrated in large caps.[36] We see this as a likely driver of global dispersion, skewed towards larger companies and substantially capitalised sectors in the near term, but providing uplift to broad equities as adoption accelerates.

The momentum behind AI and innovative tech remains strong, with global tech outpacing global equities over Q1, driven by software and semiconductor names.[37] This has been backed by robust fundamentals, particularly in US tech, which saw earnings growth of 23.5% in Q4 2023 as a significant majority of companies continued to beat already-buoyant EPS estimates.[38] We're also seeing signs of rising penetration across industries, with the share of US companies mentioning AI on earnings calls rising from 31% in Q3 to 36% in Q4.[39] The degree to which this guidance will materialise is heavily contested – as noted above, actual adoption remains far lower – but demand segments and revenue drivers for big tech underpin our conviction that the trade has room to run, over both tactical and strategic horizons.

Earnings have been a significant driver of US tech returns over the past year and we expect this to continue as second differential revenue points to an acceleration in demand. Sales per share and the book value of US tech have increased 9.9% and 7.8%, respectively, in the last six months, compared to 3.7% and 4.4% for US equities ex-tech.[40] Big tech is the largest consumer segment for semiconductors and AI, highlighting the self-sustaining nature of the sector. We view this as a tailwind, given strong forward guidance on reinvestment in the Q4 earnings season, particularly from mega cap names. AI-exposed equities have also been supported by early-adopter industries, including biotechnology.

Distinguishing between likely 'winners' and 'losers' in the opening stages of a strategic mega force poses challenges. However, key components of the AI tech stack can help to provide a roadmap. We continue to see the most compelling opportunities at the foundation of the stack – namely, processing chips and global semiconductors, where global industry sales totalled $47.6B in January 2024, an increase of 15.2% YoY.[41] Over time, we believe the entire AI ecosystem stands to benefit: as we move further into the second year of the AI boom, we're also starting to look up the stack to cloud infrastructure providers, as well as firms that own – or store – the vast data sets that AI tools employ.

35, 36, 38, 39 Source: Bloomberg, as of 6 March 2024.

37 Source: Reuters, as of 15 February 2024.

40 Source: JP Morgan, as of 26 January 2024.

41 Source: Semiconductor Industry Association, as of 4 March 2024. All figures are in US dollars, unless stated otherwise.

SPOTLIGHT

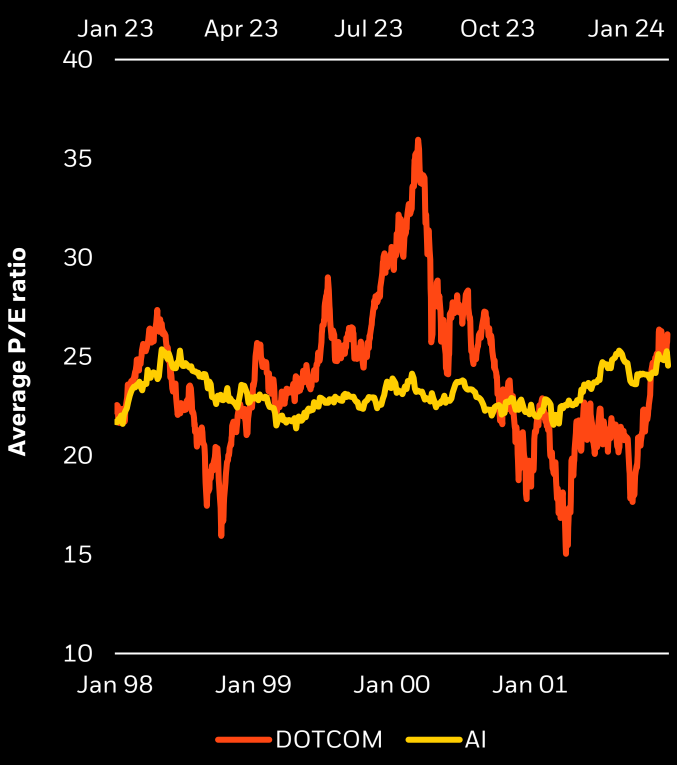
No dot-com redux: why we see room to run for tech

Tech stocks ushered in a strong close to 2023 as the seven largest tech names in the S&P 500 Index logged an impressive average return of 111%. Despite strong performance and consistently high returns among AI companies, this tech-driven stock rally still invites its share of sceptics, who have drawn comparisons to the dot-com bubble of the late 1990s.

To gain better perspective on any similarities between these two tech-driven periods, our Systematic investment team contrasted the features of the recent AI boom with the late '90s dot-com bubble to better calibrate current AI valuations. A comparison reveals significant differences between these two technology waves. The nature of companies that are gaining exposure to AI today differ from the speculative valuations during the dot-com bubble – see chart 1 below. In 1999-2000, declining earnings were paired with extraordinarily high valuations and high levels of volatility. In comparison, AI beneficiaries today are characterised by steadier cash flows and higher quality earnings associated. In addition, current AI leaders tend to be a smaller and more concentrated set of established tech corporations, as opposed to the new IPOs that drove the dot-com bubble.

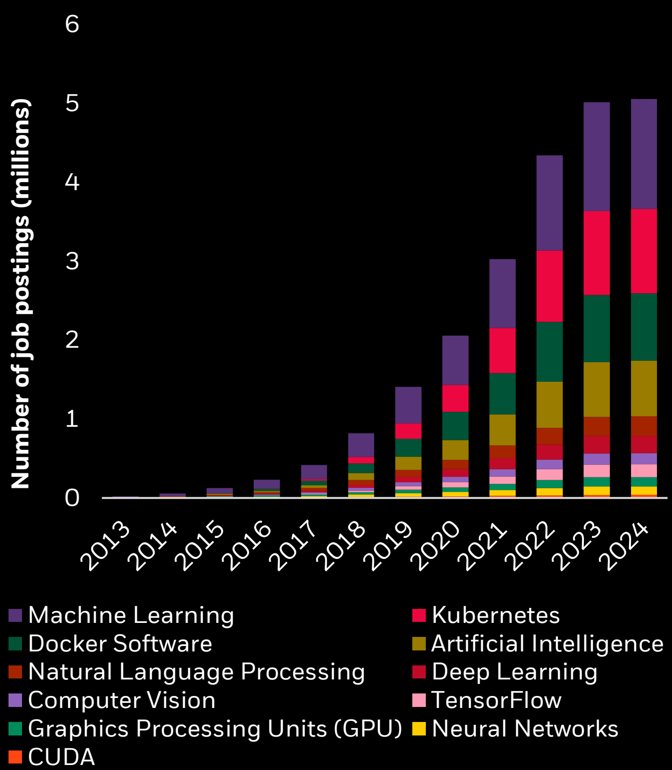
Other key aspects we take into consideration when evaluating AI investment opportunities are labour markets and hiring trends. Fears have mounted around AI's potential to gradually replace labour since its inception, but our data tells a different story – see chart 2. While AI has been cited for a marginal amount of job cuts since May 2023, it has created roughly 3.5 million job postings since 2020, and nearly 5 million job postings since 2013.[42] AI skills are quickly becoming highly sought after across a range of industries. This marks a significant turning point in labour markets, where our future workforce will demand a base-level of skills necessary to keep pace with rapid shifts in technology.

Chart 1: Average P/E ratio in systematic active equities US tech universe



Source: BlackRock Systematic, as of February 2024. This chart shows the average P/E ratio across investible AI stocks in comparison to the leading stocks of the dot-com bubble. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

Total cumulative job postings for AI skills in dataset, 2013-2024



Source: BlackRock Systematic, as of February 2024. This chart measures the demand for a variety of AI skills based on job postings from 2013-2024.

42 Source: BlackRock Systematic, as of 13 March 2024.

Geopolitical fragmentation & economic competition

More than half of the global population, spanning 76 countries, heads to the ballot box in 2024, including the three largest democracies – India, Indonesia and the US. This introduces an unprecedented level of policy uncertainty, against a backdrop of structurally elevated geopolitical risk. For investors, the US elections in November are particularly in focus. The outcome could have profound implications for the global economy and geopolitics – including the trajectory of economic competition across emerging blocs.

In a typical US election year, we would start positioning for the vote in Q3, as clarity emerged around the candidates and their policy positions. Yet 2024 is not a typical year – and we think history may be less instructive. We know both presumptive candidates – President Joe Biden and former President Donald Trump – much earlier than in the past, and both have presidential track records, giving us greater insight into their likely priorities, though this may evolve over time. This opens the door to positioning earlier in the election cycle, we think.

In past election years, investors have often missed out on potential returns by chasing trades closer to the election date. For those positioning for the first leg of the election trade, selectivity is key. The range of S&P 500 returns in the first half of an election year (from 2004-2020) is c.19%, rising to as high as 55% for the energy sector (skewed by the Covid-disrupted H1 2020), with an average of 27.7% across GICS L1 sectors.[43] This supports our view that the past may not reflect the future, but we think the frequency with which some sectors have led or lagged the broad market merits consideration. From 2004 to 2020, energy has come in first or last among sectors in four out of five elections; the same is true for tech for three elections, and communications services twice.[44] We think dispersion could be greatest in these sectors again in 2024.

For Q2, we have the highest conviction in US banks, particularly large caps. This isn't just an election-driven trade, but that backdrop is a key factor. The sector looks cheap (c.15x P/E versus 20x for the broad S&P 500);[45] the valuation gap to European banks has narrowed, thanks to the latter appreciating; and the financials sector delivered above-trend 6% EPS growth in Q4 earnings.[46] While rate cuts will affect net interest income, we don't expect cuts until the end of the trade's lifecycle, given relatively solid US growth data YTD. In our framework, which analyses returns and volatility back to 1988, financials score highly on both an absolute and volatility-adjusted basis in election years.[47] Positioning also remains light, as gauged by global ETP flows.[48]

We maintain our conviction in US energy in the first half of 2024: the sector can act as a potential inflation hedge, and currently looks both cheap and under-owned, with $1.5B of outflows from US energy sector ETPs globally YTD, following $9.7B out in 2023.[49] The upcoming election, in our view, adds to the tactical investment case.

Stepping back, with heightened concerns around elections and cyber risks – particularly given the rise of consumer-friendly AI tools – we also see opportunity to build exposure to digital security providers this year.

Past performance is not a reliable indicator of current or future results.

43, 44, 45, 47 Source: Bloomberg and BlackRock, as of 29 February 2024.

46 Source: JP Morgan, as of 1 March 2024.

48, 49 Source: BlackRock and Markit, as of 22 March 2024. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product. See appendix for 5Y data.**
All figures are in US dollars, unless stated otherwise.

Commodities

Mega forces – particularly geopolitical fragmentation and the transition to a low-carbon economy – continue to impact commodities, shaping both supply and demand as countries look to build more resilient supply chains, especially in areas such as critical minerals and energy. We continue to see a role for commodities and commodity equities in portfolios, as an inflation hedge, a diversifier, and a source of potential returns. Despite structurally higher geopolitical tensions off the back of conflicts in the Middle East and Ukraine, we have seen relatively limited disruption to commodity supply so far in 2024 – though this could change. We think commodity equities represent one way to hedge against this risk in portfolios.

In the materials space, we favour copper. Copper prices hit 12-month highs in late Q1,[50] amid tightening supply dynamics. While demand for copper is expected to increase, constraints to supply growth could prove an attractive backdrop for copper miners. Mine supply is expected to peak this year.[51] By the early 2030s, demand could outstrip the current supply by more than six million tonnes per year for three key reasons:[52] geographic concentration risk, with over one-third of global production located in Chile and Peru alone;[53] long lead times from copper discovery to production;[54] and looming production peaks for existing mines.[55] The limited global copper supply and the declining quality of existing copper deposits have prompted companies to seek acquisitions as a mean of securing future production. M&A activity allows companies to achieve economies of scale, optimise production processes and capitalise on synergies. Out of 18 deals specifically focused on copper in 2022, 10 were aimed at assets in the reserves-development stage.[56] This indicates that the acquisitions made by buyers are driven by long-term strategies rather than seeking immediate production boosts.

Another key theme this year, in our view, will be the growing importance of fiscal stimulus in spurring global economic growth, as inflationary pressures limit the extent to which central banks can cut interest rates. While debt burdens make new stimulus unlikely, in our view, we should see the impulse from previously announced, highly commodity-intensive infrastructure packages around the world come online, driving demand for a range of commodities for decades to come.

50 Source: Bloomberg, as of 20 March 2024.
51 Source: Macquarie, April 2023.
52 Source: BloombergNEF, Sep 2022, ‘Surging copper demand will complicate the clean energy boom’.
53 Source: US Geological Survey Data, April 2023.
54 Source: S&P Global Market Intelligence, “Copper discoveries – Declining trend continues” May 2022.
55 Source: IEA, May 2021. Period covered: 2010-2019.
56 Source: S&P Global Market Intelligence, “Mining M&A in 2022 - Copper targets favored over gold”, March 2023.

SPOTLIGHT

Rethinking haven assets

The traditional relationship between gold and the US dollar (USD) has decoupled of late, and we think investors may need to shift their perspective on safe-haven assets as a result. Gold and the USD have played a key role in asset allocation in recent years – notably following Russia's invasion of Ukraine in early 2022, during 2023's banking crisis, and amid rolling volatility since the Covid-19 pandemic. Gold has been used as a currency stabilising mechanism for centuries, and its ability to act as a store of value has helped to mitigate risk during times of market volatility and economic uncertainty, as a diversifier and a portfolio hedge. The US dollar is the world's primary reserve currency and is widely used for purposes of international trade and financing operations. During recent bouts of market volatility, investors sought refuge in the dollar alongside gold allocations over other traditional sources of portfolio ballast, such as rates.

Gold and the US dollar have historically shared an inverse correlation.[57] When the value of the dollar increases relative to G10 currencies, the price of gold tends to fall in USD terms. However, this correlation has notably decoupled in recent years – and 2024 to date, with the dollar up 1.5% YTD[58] – as the US soft-landing narrative and move in US real rates becomes less of a driver of gold prices.[59]

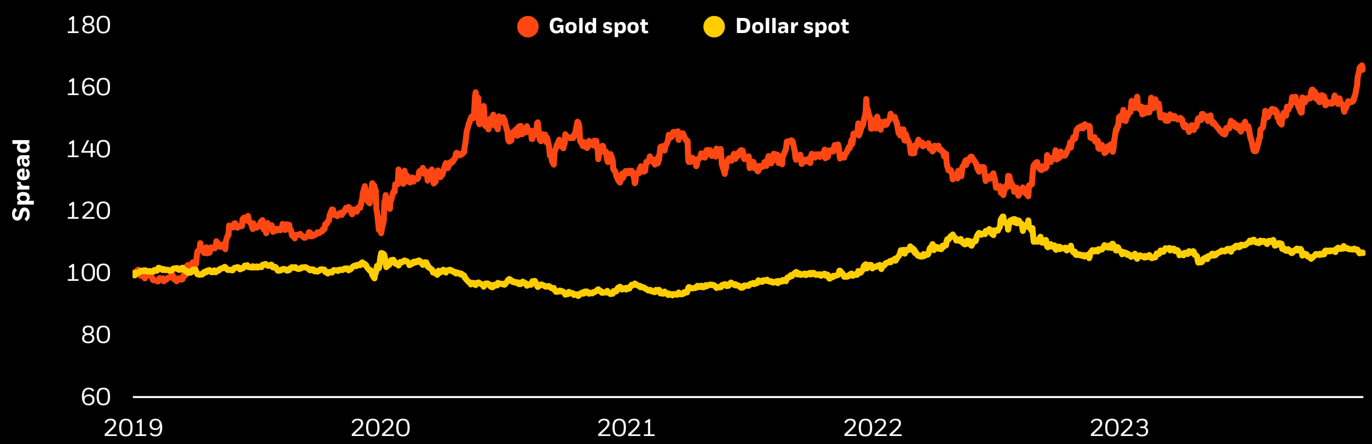
Net outflows from gold ETPs have mounted to $6.1B YTD, on top of 2023's net selling of $13.5B, suggesting that investors are rotating out of the haven asset as risk sentiment picks up.[60] Although investors have been selling gold, physical demand for the commodity has been sustained by central bank purchases and strong EM retail demand. Over 2022-23, central bank demand rose to an average of 1,060 tonnes (versus 509 tonnes over 2016-2019). This increase has been driven by steady purchases from China, Poland and Turkey as they diversify reserves away from the US dollar and deploy active reserve management strategies.[61] We think this is likely to sustain rising gold prices in the medium term, particularly amid persistent geopolitical tensions and strong retail demand from China, where property woes continue to dampen investor sentiment. Rising gold prices have also brought silver into focus: gold and silver tend to trade in tandem, but the spread between the two has been widening, with the five-year spread now at an all-time high. If the gold/silver ratio converges to historic averages, this could imply a tailwind for silver.

We expect modest USD depreciation in Q2. 10Y Treasury yields could run higher before attracting sufficient capital and the US looks unlikely to sustain its current growth path ahead of Fed rate cuts. As buying momentum for gold is sustained, we anticipate further decoupling between gold and traditional safe-haven currencies like the USD and Swiss Franc, signalling a nuanced shift in market dynamics and support for EM assets.

Diversification may not fully protect you from market risk.

A weakening correlation

Gold/US dollar spread over the last five years



Source: Bloomberg, as of 8 March 2024. Gold spot represented by XAU gold spot rate, and dollar spot by DXY US dollar spot index.

57, 58, 59, 61 Source: Bloomberg, as of 8 March 2024.

60 Source: BlackRock and Markit, as of 22 March 2023. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product. See appendix for 5Y data.** All figures are in US dollars, unless stated otherwise.

Demographic divergence

Economies globally are grappling with ageing populations, with the working-age population set to shrink over the next 20 years across many DMs and China. While strategies such as increased labour force participation (for example, among women or older workers) and migration can help offset declining domestic populations, they may not be enough to stop workforces from shrinking overall.[62] The global labour force also faces constraints on productivity due to reduced supply post-pandemic, impacting government finances as spending on retirement-related benefits rises while per-capita income tax revenue falls.

The demographic divergence mega force transcends the core issue of ageing populations. Declining populations within developed countries, stemming from urban shrinkage, carry far-reaching implications for economic activity and future infrastructure development. Urban shrinkage results in vacant properties, deteriorating infrastructure and a shrinking tax base, collectively posing challenges for local governments, businesses and residents. This has weighed on commercial real estate: in the US, the national office vacancy rate reached highs of 19.2% in Q3 2023 with $1.2 trillion of US commercial real estate debt "potentially troubled" due to the slump in prices.[63]

Overall, we view this mega force as inflationary, and expect it to weigh on economic growth. Yet it also presents opportunities. Automation and robotics can help narrow the gap in labour force supply, increase worker safety and allow companies to reallocate resources. This is playing an increasing role in sectors like manufacturing and financial services; advances in AI could lead to further productivity gains, including in services-based industries. We also look to sectors catering to ageing populations, such as healthcare, with demand for healthcare and retirement-related services set to rise – alongside projected spending. These types of demographic-driven spending shifts are not always priced by markets, even if they can be anticipated years in advance: for example, over the past three decades, the value of Japanese healthcare stocks has risen broadly in line with the growth of its retired population.[64] Efforts to address urban shrinkage could involve strategies to revitalise and repurpose vacant or underutilised spaces, expanding avenues for selective investment in real assets.

Forward-looking estimates may not come to pass.

62 Source: BlackRock Investment Institute, OECD, United Nations, with data from Haver, March 2024.

63 Source: JP Morgan, Moody's as of 26 January 2024. All figures are in US dollars, unless stated otherwise.

64 Source: BlackRock Investment Institute, United Nations, Reuters, with data from LSEG Datastream, March 2024.

APPENDIX

Annual flows into global ETPs by exposure type, 2019 – 2024 to date

	2019	2020	2021	2022	2023	2024 YTD
Quality factor	$11.2B	$6.8B	$7.7B	$14.0B	$36B	$10.7B
German rates (bunds)	-$1.8B	-$0.1B	-$0.2B	$1.0B	$1.2B	$160m
Eurozone rates	$21.7B	$7.6B	$12B	$15.5B	$29.9B	$6.1B
US rates - short	$10.3B	$15.4B	$12.9B	$58B	$43.5B	-$4.8B
US rates - long	$14.6B	$2.5B	$13.3B	$42.4B	$64.8B	$8.5B
Investment grade	$60.5B	$64.2B	$30.4B	$46.2B	$46.8B	$21.7B
Financials sector	$1.2B	$10.7B	$48.1B	-$15.5B	$3.8B	-$3m
US energy sector	-$3.6B	$12.6B	$12.2B	-$1.25B	-$9.7B	-$1.5B
Technology sector	$13.2B	$58.3B	$57.8B	$26.0B	$52.1B	$14.9B
Small cap equities	$7B	$20.5B	$50.5B	$14.7B	$39.7B	$9.7B
Gold	$19B	$45.5B	-$9.7B	-$3.3B	-$13.5B	-$6.2B
US equity	$162B	$200B	$578B	$342B	$361B	$118B
Japanese equity	$30.5B	$64.5B	$31.0B	$1.5B	$16.5B	$9.5B

Source: BlackRock and Markit, as of 21 March 2024. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**

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