BlackRock

Investment Directions: The road ahead

This is a roadmap for navigating 2026. It pairs our macroeconomic outlook with strategies to help build resilient portfolios and realize growth, income, and diversification in the year ahead.

Recalculating routes

Investors are approaching the road ahead with optimism, but detours are to be expected. Tariff deals are taking shape, yet supply chains remain vulnerable. Global monetary policies are easing, yet the end is in sight. China's new five-year plan is in place and AI's transformative power is accelerating globally, yet underlying economic momentum remains uneven.

With investment goals in mind – accessing growth, generating income, and ensuring diversification - we believe investors will need to chart new routes to build resilient and opportunistic portfolios for 2026 and beyond.

Setting the course

Roads to Growth

Stay active in the US. Be precise in AI exposures. Look to Asia for opportunities.

- US Flexible Equity
- AI Innovation
- Asia ex Japan Equity Enhanced

Roads to Income

Expand your investable universe. Target 'plus' sectors, Asia bonds, and high-income equity.

- Global Bond Income
- Asian Bond
- Global Equity High Income

Roads to Diversification

Build resilience by blending liquid alternatives.

- Systematic Equity Long/Short range
- Multi-Alternatives
- World Gold Miners

Source: BlackRock, as of 31 December 2025.

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Our latest client polling

Clients are looking to diversify their sources of return.

Our latest client polling reveals competing forces amid a complex backdrop

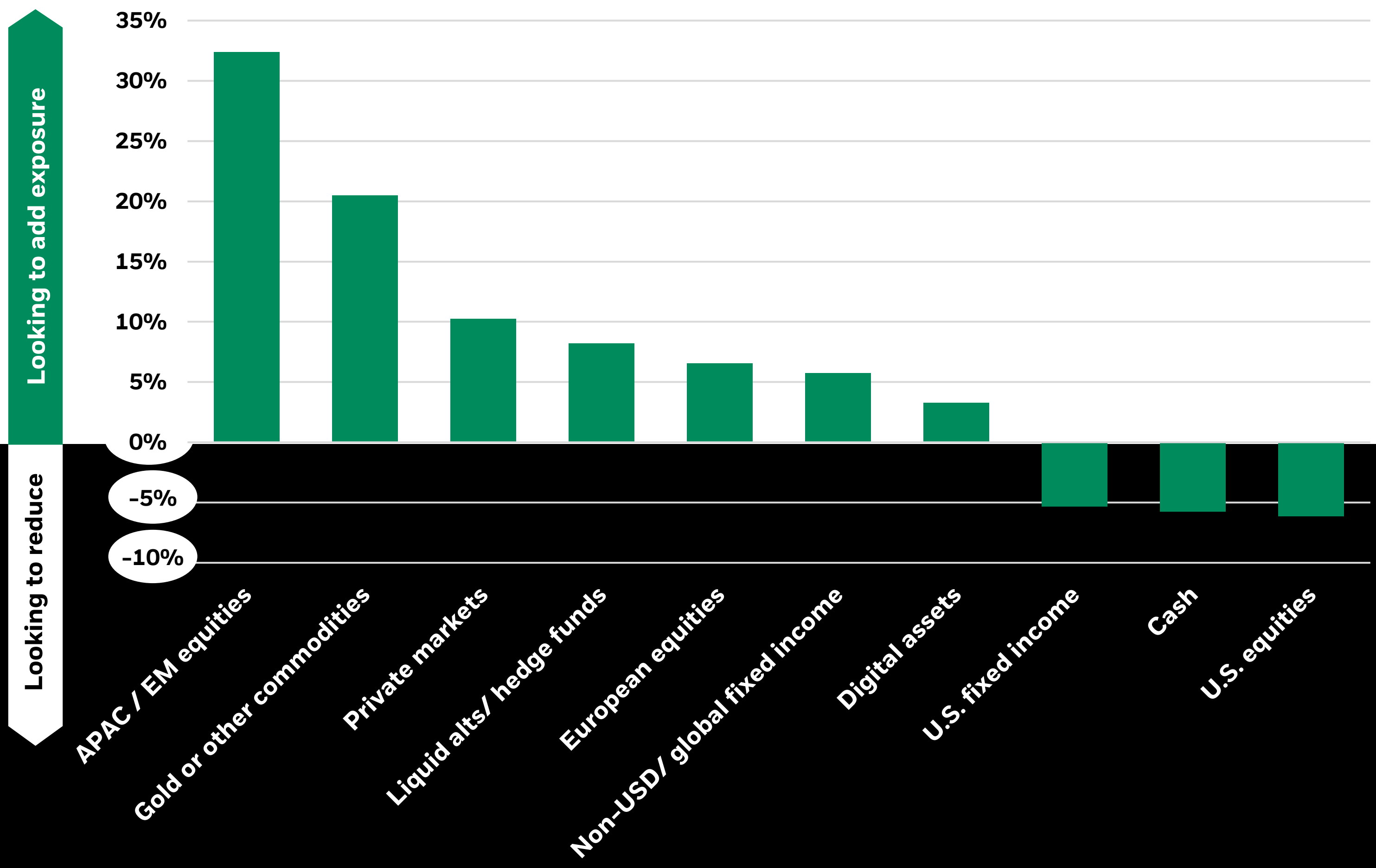
- **Asian equities:** clients are looking to add Asian equities and emerging markets at large, while reducing exposures to the US. This is a clear sign of anxiety around US equity concentration.
- **Alternatives:** feature prominently in asset allocation plans, with gold/commodities, private markets, and liquid alternatives key areas investors are looking to for diversification.
- **Fixed income:** conviction in US fixed income is low. Investors are looking for differentiated income sources amid rate volatility and questions around fixed income's role in a portfolio.

"Clients tell us they intend to put cash to work but are increasingly looking to bolster portfolios with Asia exposures and new portfolio diversifiers."

- Alex Brazier, Global Head of Investment & Portfolio Solutions

Seeking diversified sources of return

Poll question: Are you looking to add or reduce exposure to the following asset classes?



Source: BlackRock. Results based on 244 survey submissions from BlackRock APAC clients, via webinar. Respondents were able to select multiple answers. As of 24 November 2025.

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Roads to Growth

Stay active in the US. Be precise in AI exposures.

Look to Asia for opportunities.

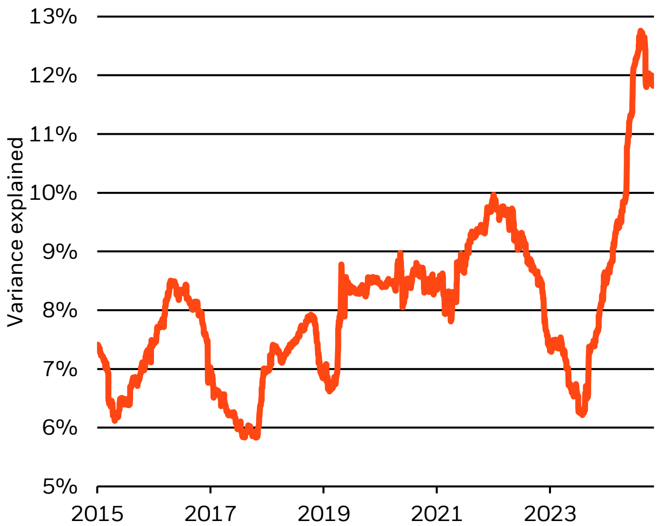
Keep the US in focus

The US remains the anchor for global portfolios, driven by its central role in capital markets and leadership in AI investment. US assets continue to dominate the investable universe across equities and bonds even as investors rethink allocations. Furthermore, massive capital spending on AI is reshaping the economy and reinforcing the US central position in global markets. This scale of investment creates concentration risks, making broad index exposures less neutral than in the past and reemphasizes the importance of risk management (see Figure 1).

US equities make up **~65% of global equity benchmarks;** US sovereign debt accounts for **35% of global public debt.**[1]

AI-related capital investment is projected to reach upwards of **US $571bn in 2026.**[2]

Figure 1. A powerful common engine
Variance in S&P 500 returns explained by a dominant underlying factor



The figure shown relates 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 Bloomberg, December 2025. Note: The line shows the variance of daily S&P 500 stock returns explained by a common driver after accounting for factors like stock value, size and momentum. This was calculated using first principal component (PC1) of a principal component analysis (PCA) over a rolling 252-day window. PC1 attempts to determine the common driver in a set of numbers that change often – like stock returns for example.

Capture broader U.S. equity potential

Opportunities in US equities extend beyond AI, supported by improving earnings breadth and a resilient macro backdrop.

- **Supportive backdrop:** Earnings strength, together with moderating inflation and trade uncertainty that has moved past its peak, create a healthy foundation.
- **Capture factor-driven opportunities:** Amid a broadening landscape, systematic strategies can efficiently harvest factor-driven opportunities.
- **Dynamic approach as opportunities evolve:** High-conviction strategies can flexibly adjust allocations as macro conditions and single-stock opportunities evolve.

Strategy in Focus
US Flexible Equity
- Flexible strategy provides a more diversified exposure across different market caps.

US Equity Multi-Factor Rotation

[1] MSCI, International Monetary Fund World Economic Outlook. Global equity benchmark data as of 28 November 2025. US sovereign debt as of April 2025.
[2] UBS Chief Investment Office. As of 4 November 2025.

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Roads to Growth

Stay active in the US. Be precise in AI exposures.

Look to Asia for opportunities.

Uneven AI returns require active precision

Targeted exposure to the AI theme requires active management to capture the most compelling opportunities.

- **Broadening ecosystem:** Beyond mega-tech firms, the AI theme is broadening across semiconductors, data infrastructure, software enablers and industrial applications.
- **Dispersion and differentiation:** Earnings trajectories and competitive dynamics will meaningfully differ across companies tied to the AI buildout.
- **Smart approach:** Active management can identify where the pace of AI monetization is strongest, rotate across segments as the theme evolves, and avoid areas where expectations have become untethered from fundamentals.

Strategy in Focus
AI Innovation

- Concentrated, best ideas AI exposure across the entire ecosystem, including adopters, software, foundational models, hardware, and enabling technologies.

Asia's central role in the AI buildout

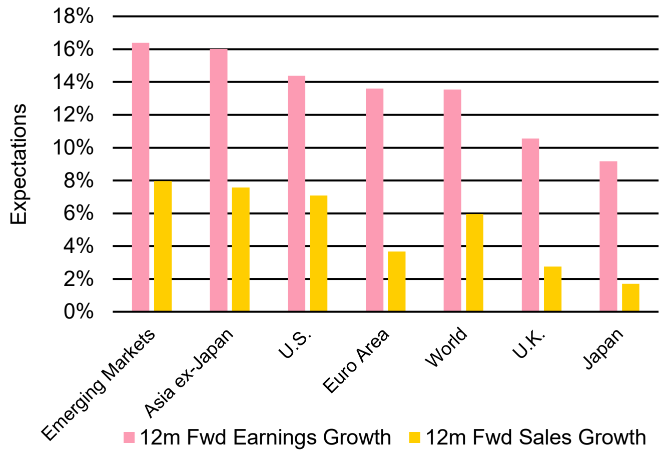
Our survey results show investors looking to add meaningfully to Asian equities, reflecting rising conviction in the region's role as a growth engine.

- **Global AI buildout:** Asia is critical in the supply chain – from essential inputs to infrastructure and manufacturing capacity.
- **Key markets:** The deep structural role is driving strong earnings expectations and strong capital inflows (see Figure 2).
- **Portfolio benefit:** Access regional diversification and AI-driven growth potential, while building resilience and reducing reliance on US-centric positioning.

Asia ex Japan Equity Enhanced

Figure 2. Moving closer to home for inputs and impact

Nominal earnings growth expectations across regions and countries in 2026



Source:: BlackRock, LSEG. As of 12 December 2025. There is no guarantee that any expectations made will come to pass.

61% of global rare earth elements mining is in China, including 91% of global refining capacity.[3]

75%+ of global foundry revenue accounted for by Taiwan; 16% by South Korea and China.[4]

54% of global outsourced chip assembly/ test revenue from Taiwan; 29% from China.[5]

[3]International Energy Agency (IEA). Global Critical Mineral Outlook 2025. As of 21 May 2025.
[4]TrendForce. Press Release "Q2 '25 Foundry Revenue." As of 01 September 2025.
[5]TrendForce. Press Release "Top 10 OSAT Companies." As of 13 May 2025.

Roads to Growth

Stay active in the US. Be precise in AI exposures.

Look to Asia for opportunities.

Complement your growth exposures

Managing concentration risk should add balance, not erode opportunity. Taking down exposure to technology names may mean missing out on higher returns. However, investors can still look for sectors and country exposures that balance relative performance and volatility while minimizing the opportunity cost.

We look to sectors and regions with tactical and structural tailwinds.

- **Healthcare:** Defensive in nature with consistent earnings, earnings recovery underway.
- **Financials:** Resilient sector, supported by capital markets activity and lower interest rates.
- **India:** Little outright exposure to AI with a multi-year structural growth story powered by demographics and digitalization.

World Financials

World Healthscience

India Equity

Figure 3. Sector stresses

Scenario test of a 20% drawdown in the Nasdaq index, showing a statistical estimate of sector performance during a hypothetical market event.

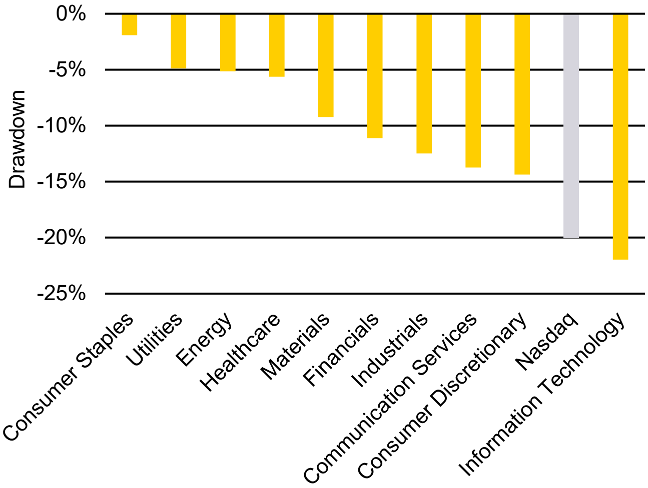
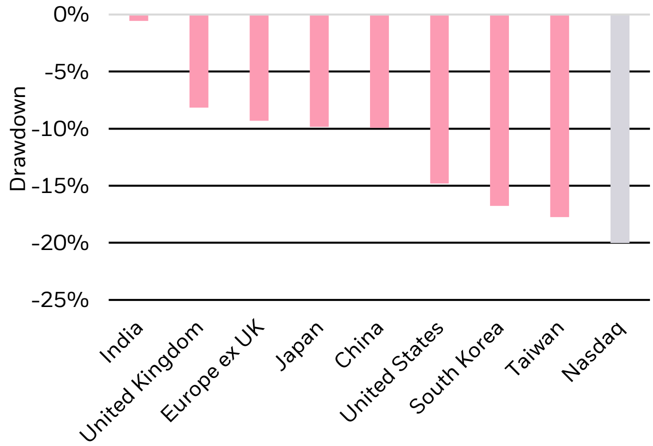


Figure 4. Country stresses



Source: BlackRock, Morningstar. Scenario test of a 20% drawdown in the Nasdaq 100 Index, showing a statistical estimate of sector and country index performance during a hypothetical market event. MSCI indices shown. As of 28 November 2025.

Routes to Growth

- US Flexible Equity
- US Equity Multi-Factor Rotation
- AI Innovation
- Asia ex Japan Equity Enhanced
- World Financials
- World Healthscience
- India Equity

Roads to Income

Expand your investable universe.

Target 'plus' sectors, Asia bonds, and high-income equity.

Traditional benchmarks fall short

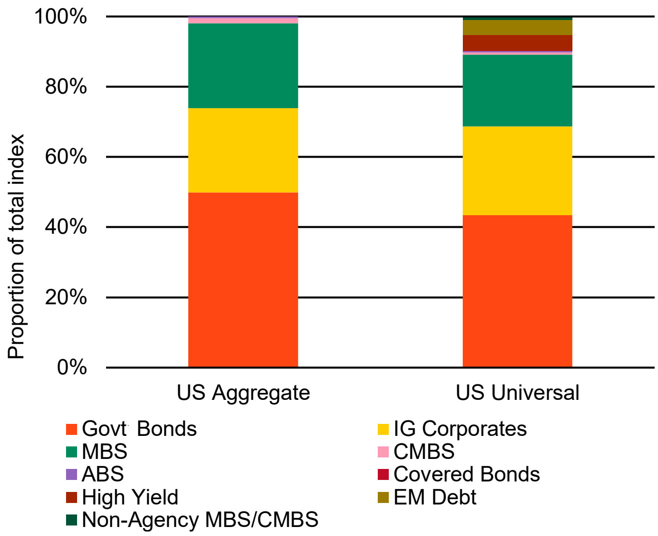
Investors, particularly in Asia, continue to secure income streams, capitalizing on the still-attractive headline yields before rate shifts. But traditional fixed income benchmarks present two issues heading into 2026:

- **High US duration risk:** We see better risk-reward at the belly of the curve given the risks of reflation, fiscal slippage and institutional independence. The long-end is likely to remain choppy in 2026, with the evolution of the Federal Open Market Committee (FOMC), Fed asset purchases and US Treasury (UST) issuance mix, making them less effective as a portfolio hedge. Many multi-asset investors are underweight duration[6]; international treasuries are gaining favor among our clients.
- **Tight credit spreads:** Core fixed income benchmarks lean heavily on Investment Grade (IG) corporate bonds with record-low spreads.

US 3-7 Year Treasury Bond

Figure 5. Greater breadth with US Universal

Fixed income index breakdown by asset class reveals greater exposure to 'plus' sectors with the US Universal benchmark



Source: Bloomberg, BlackRock, as of 9 December 2025.

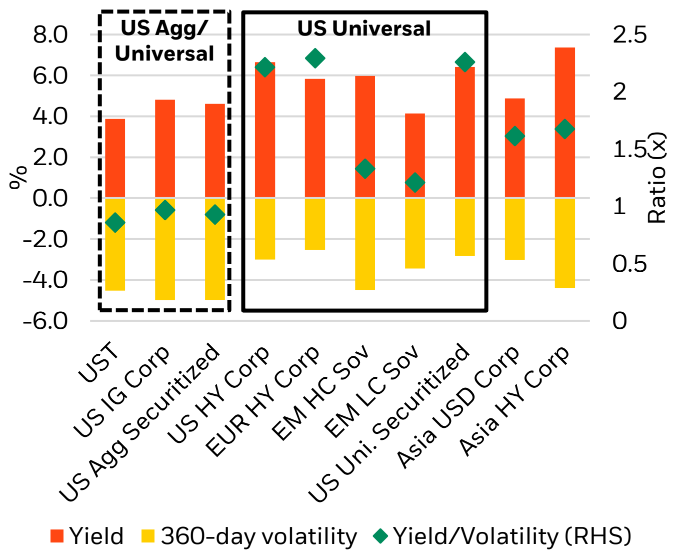
Expand your fixed income universe

- **Go beyond the traditional:** Universal indices add greater breadth than traditional aggregate indices, through non-core 'plus' sectors like high yield (HY) credit, emerging market debt and non-agency securitized assets. Multi-asset portfolio managers typically draw from a wider fixed income universe[7].
- **Better risk-return dynamics:** Our analytics show that shifting from aggregate to universal indices can help boost yields and returns while reducing duration risk.
- **Stay agile:** Unconstrained active management enables dynamic duration and credit positioning to capture opportunities in a dispersed market.

Global Bond Income

Figure 6. 'Plus' sectors broadly offer higher yield and lower volatility than core sectors

'Plus' vs. core sectors across yield and volatility metrics



Source: Bloomberg, BlackRock, as of 10 December 2025. Note: volatility is shown as a negative value solely for visual symmetry and does not imply negative volatility.

[6, 7] BlackRock Investment and Portfolio Solutions APAC, BlackRock Aladdin, Morningstar, as of 30 September 2025.

Roads to Income

Expand your investable universe.

Target ‘plus’ sectors, Asia bonds, and high-income equity.

Asian bonds: where carry meets quality

- **Extra income:** About 70bps[8] more than US IG corporates.
- **Strong quality:** 85% IG-rated, with over half government-related issuers[9].
- **Duration alignment:** Benchmark duration near 4.6 years fits well with our duration stance[10].
- **Valuation edge:** Favor Asian HY over IG – cheaper valuations allow room for spread compression, while IG faces supply pressure amid stronger growth and lower USD funding costs.
- **Selective currency-hedged plays**: With tighter spread than before, some FX-hedged local currency bonds offer better relative valuations.

Strategy in Focus
Asian Bond

- Look for a broader opportunity set than the benchmark to enhance risk-adjusted returns

BGF Asian High Yield Fund

[8]Bloomberg, BlackRock, as of 19 December 2025. [9]JP Morgan, as of 30 November 2025. [10]Bloomberg, BlackRock, as of 19 December 2025.

Diversify with high-income equity

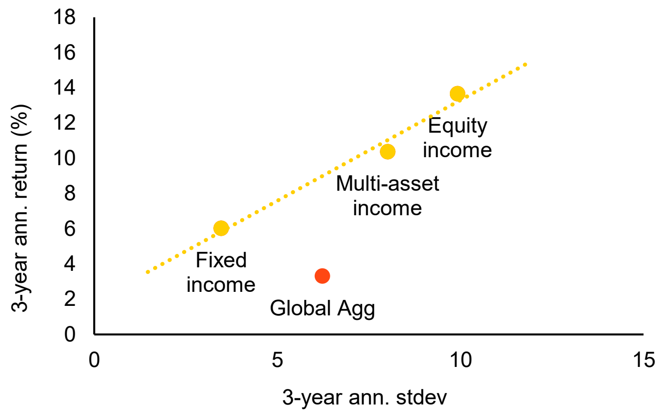
Adding high-income equity strategies help to bolster risk-adjusted income potential, with the following benefits:

- **Quality tilt:** Dividend equities tend to be higher quality, lower volatility, and lower beta – adding downside cushion.
- **Option overlays:** Call-overwriting strategies may generate incremental income, especially in volatile markets.
- **Multi-asset synergy:** Combine unconstrained active fixed income and high-income equity for optimized equity-bond allocation and risk-adjusted returns.

Global Equity High Income

Figure 7. Achieve a higher efficient frontier with income strategies

3-year risk-return metrics of global aggregate index and various income strategies



Source: Bloomberg, BlackRock, as of 10 December 2025. Note: Fixed income: BGF Global Bond Income Fund, Multi-asset income: BGF Dynamic High Income Fund, Equity income: BGF Systematic Global Equity High Income Fund.

Routes to Income

- ✚ US 3-7 Year Treasury Bond
- ✚ Global Bond Income
- ✚ USD Flexible Income
- ✚ Asian Bond
- ✚ Asian High Yield
- ✚ Global Equity High Income
- ✚ US Equity High Income
- ✚ Global Allocation
- ✚ Flexible High Income

Roads to Diversification

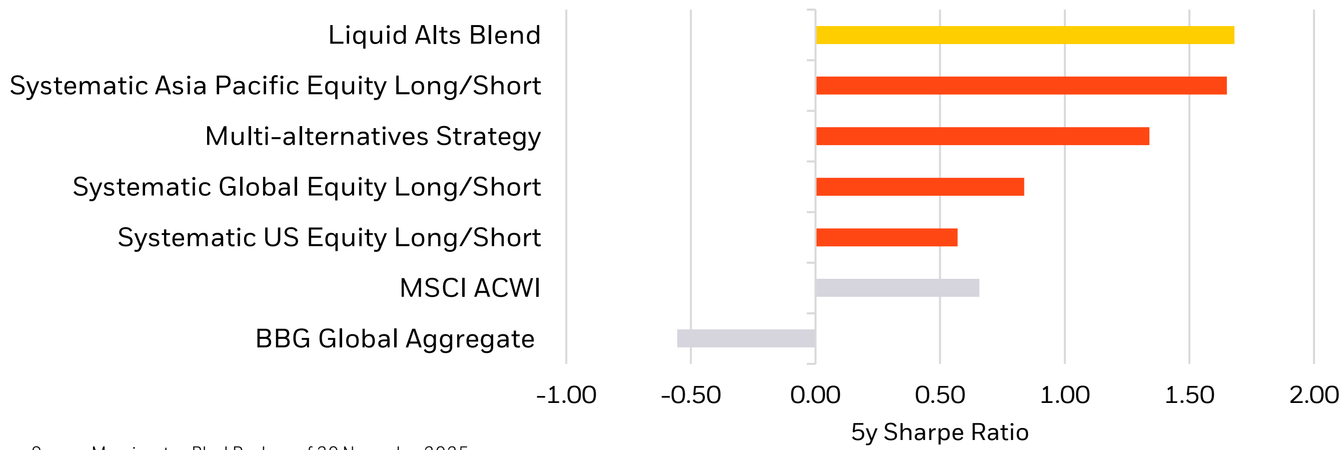
Build resilience by blending liquid alternatives.

Build resilience by blending alternatives

In today's rapidly evolving market landscape, traditional diversifiers (namely, long-duration bonds and USD exposures) struggle to provide the ballast they once did. Equity and fixed income often move together, leaving portfolios exposed when volatility spikes. Investors need a new approach to diversification – one that goes beyond adding a single hedge and instead combines strategies deliberately.

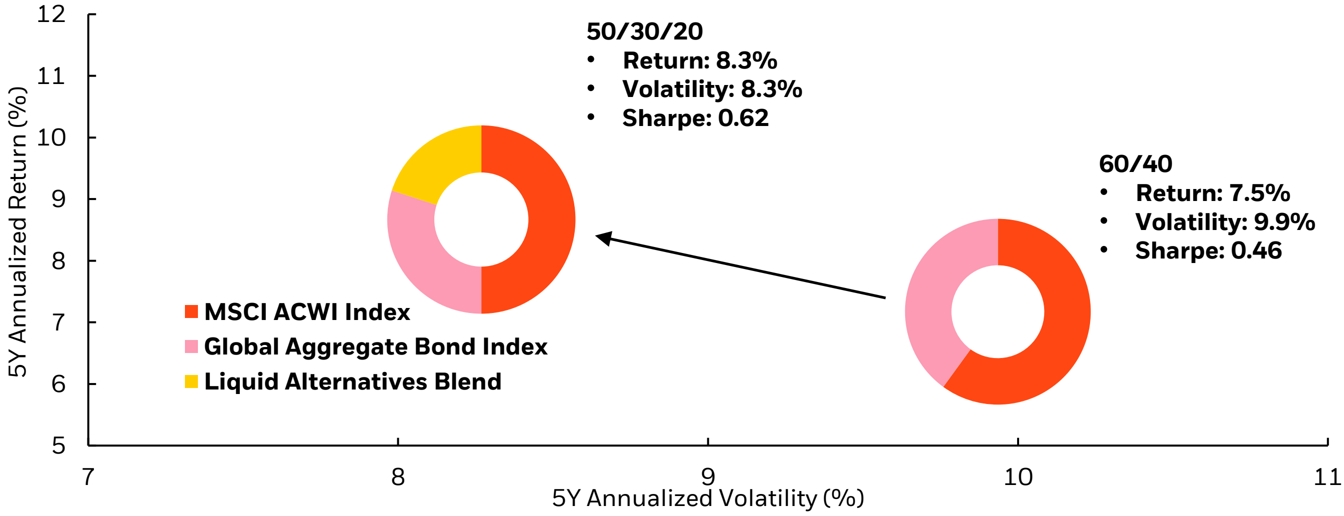
What are liquid alternatives?
Investment strategies that aim to deliver diversification and uncorrelated returns through alternative approaches – such as market-neutral – with tactical flexibility and daily liquidity.

1. Stronger together: While these strategies work well individually, blending liquid alternatives provides better risk/return characteristics than any single fund.



Source: Morningstar, BlackRock, as of 30 November 2025.

2. Enhancing portfolio: Including these blends of liquid alternatives actively improves portfolio efficiency, proving it to be a key building block in driving better risk-adjusted outcomes.



Source: Morningstar, BlackRock, as of 30 November 2025. Diversification may not fully protect you from market risk.

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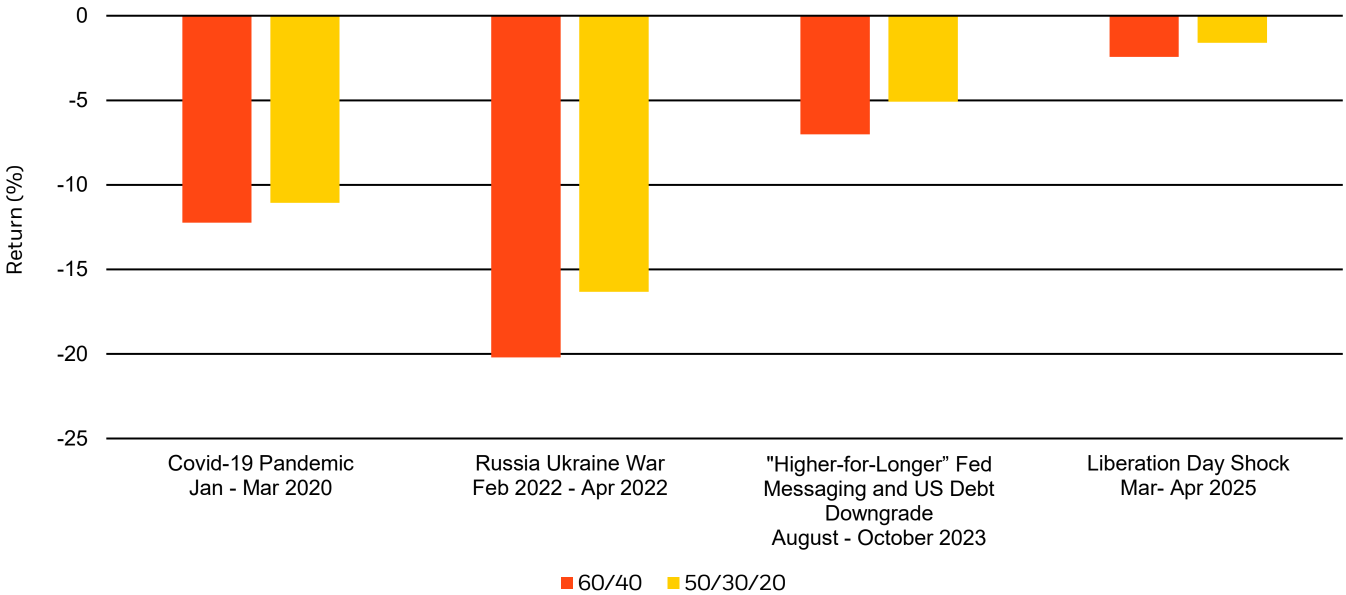
Roads to Diversification

Build resilience by blending liquid alternatives.

3. Proven in stress tests: Portfolios incorporating a blend of liquid alternatives consistently outperform traditional 60/40 allocations during volatility shocks.



Source: Morningstar, BlackRock, as of 30 November 2025.

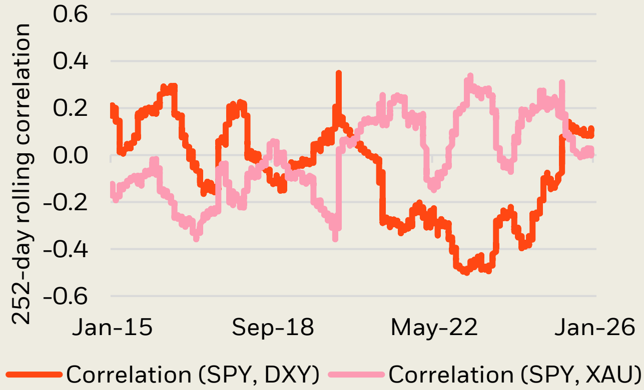
Gold: A strategic mainstay

Gold's drivers remain intact heading into 2026:

- **Portfolio appeal:** The yellow metal offered zero correlation to US equities in the past year; USD is positively correlated to US equities.
- **Supportive backdrop:** Fed easing, weaker USD, renewed inflation pressures, geopolitical risks, and rising deficits.
- **Broader participation:** Beyond central banks, institutional and retail investors are adding gold – institutions increasingly for strategic allocation. Gold sits second in the list of asset classes our clients are looking to add to (see page 2).
- **Gold miners:** Appealing on stabilizing all-in supply costs, disciplined capital management, and still-cheap valuations.

Figure 8. Gold still offers better diversification than USD

Correlation of US equities with USD and Gold



Source: Bloomberg, BlackRock, as of 19 December 2025.

Routes to Diversification

- Systematic Equity Long/Short range
- World Gold Miners
- Multi-Alternatives
- Physical Gold

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