Institutional Outlook

July 2026

BlackRock

In3

Institutional Investor Insights

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What changed this month?

A sharper focus on scarcity and selectivity

The key debate is whether AI ultimately creates productivity-led abundance or first intensifies scarcity in power, capital, labor, and materials. The platform remains constructive, supported by resilient U.S. growth, earnings momentum and AI-led investment. The main shift is away from broad beta and toward targeted exposures. We prefer U.S. large-cap growth, AI beneficiaries, momentum, energy hedges, selective credit, and private/alternative assets.

01 More constructive U.S. equity tone into July

Seasonality, quarter-start flows, buybacks, retail demand, low volatility and light positioning support the setup into Q2 earnings.

02 Rotation over de-risking

The momentum unwind is viewed as an opportunity to rotate into laggards, cyclicals and high-quality mega-cap tech, rather than a broad risk-off signal.

03 AI exposure has broadened to bottlenecks

Focus is shifting from headline AI winners to power, grids, data centers, memory, chips, utilities, infrastructure and Asian supply chains.

04 Style and benchmark risk matter more

The Russell reconstitution meaningfully reshapes growth and value indexes, increasing the need for active management of style, factor and concentration risks.

05 Trimming duration

Higher inflation risk and unstable/ unreliable performance of duration as a hedge lead us to a modest reduction in duration

06 Credit remains constructive, but selective

The platform remains pro-risk but favors higher-quality credit as spreads stay tight, with less enthusiasm for broad high-yield upside..

07 Securitized assets attractive on yield and diversification

Tight corporate spreads are pushing the platform toward securitized credit for differentiated yield

08 Macro framing has shifted to AI scarcity vs. abundance

AI may lift productivity and growth over time, but it first intensifies demand for power, grids, chips, data centers, labor and capital, keeping scarcity and rate pressure in focus.

09 Private markets and portfolio construction are more selective

The platform is increasingly emphasizing dispersion, liquidity constraints, exit selectivity, AI/software disruption risk and more disciplined use of infrastructure, private credit and alternatives.

The BlackRock platform view

Equities

Constructive overall on equities, led by U.S. and AI

- U.S. equities remain supported by resilient growth, strong earnings revision breadth, buybacks, retail demand, low volatility into Q2 earnings.
- Preference remains for large-cap U.S. growth and high-quality mega-cap tech.

AI theme is broadening from winners to bottlenecks

- Exposure is moving beyond hyperscalers and semis toward power, grids, data centers, memory, utilities, infrastructure and Asian supply chains.
- EMs (Taiwan and Korea) remain central to AI supply chain but are more sensitive to USD strength and energy costs.

More emphasis on active and idiosyncratic exposure

- Active opportunities favored to capture AI and space opportunities.
- Russell reconstitution raises style, factor and concentration risks, reinforcing the need for active risk management.

Fixed income

Carry is the core opportunity

- Yields are attractive across fixed income, making "clip income and be patient" the dominant strategy.
- Spread-driven total return is likely to be more limited.

Favor short duration and selective credit exposure

- Preference for the front end of the curve and cautious stance on long duration given inflation and supply pressures.
- Within credit, focus on securitized assets and selective opportunities rather than broad index exposure.

Be dynamic and diversified

- Opportunities exist in securitized credit, EM debt, and volatility strategies.
- Emphasize diversification and security selection as spreads are relatively tight and dispersion is rising.

Private markets

No systemic risk, but rising stress

- Private credit is under pressure (defaults, redemptions, valuation concerns).
- Structural features like low leverage, locked-up capital, and limited bank exposure mean a broader financial crisis is unlikely.

Near-term headwinds, long-term intact

- Retail flows and sentiment may weaken and dispersion will rise, but private credit likely to continue growing structurally.
- Capital shifting toward stronger managers and institutional strategies.

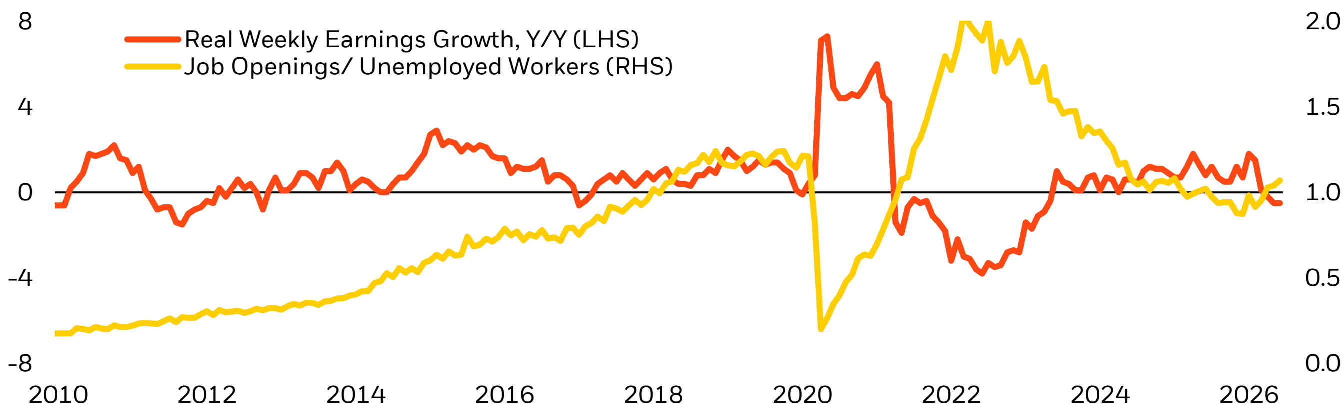
Impact of software exposure is more nuanced than headlines

- Portfolio composition rather than absolute software exposure is the relevant factor.
- Private equity returns are driven by realized terminal value multiples and exit multiples.

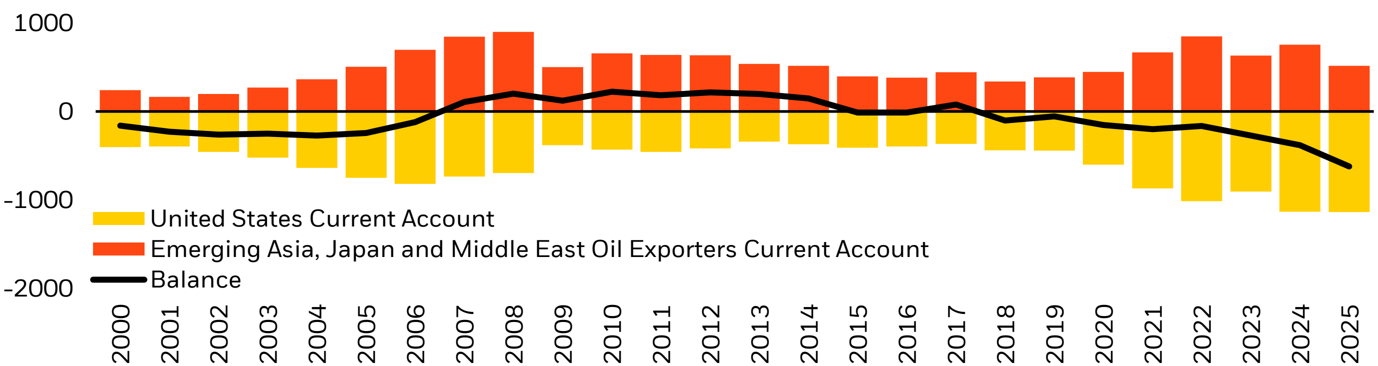
Macro

AI-fueled growth appears resilient even as US interest rates tick higher

The labor market is far from overheating



The "savings glut" from Asian and Middle Eastern reserve managers recycling current account surpluses into US Treasuries is no longer enough to cap US rates



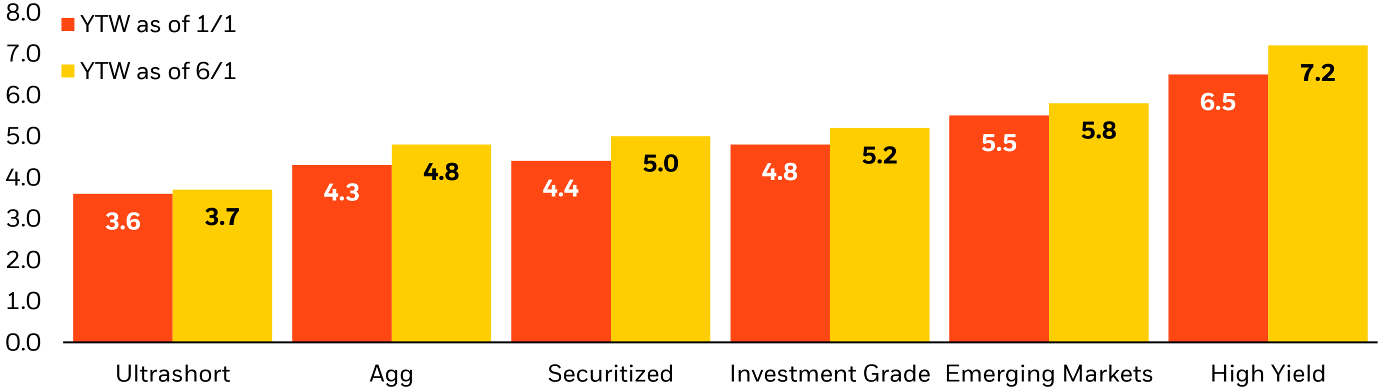
- **Macro regime is scarcity now, abundance later.** AI could eventually lift U.S. growth above its long-run ~2% trend, but the buildout first strains power, labor, infrastructure, materials and capital.
- **AI creates conflicting rate implications.** Productivity gains could be disinflationary over time, but massive capex demand may keep real rates higher first. AI capex is running at about $748bn vs. a 12-month average of $411bn.[1]
- **Outcomes are polyfurcated, not just uncertain**. Markets are balancing multiple incompatible regimes, so evidence of a different path could trigger abrupt repricing.
- **Fed constrained by inflation, not jobs.** Zero real wage growth and mediocre hiring argue against aggressive tightening, but the Fed likely needs clearer evidence that tariff and energy shocks are fading before turning dovish.
- **Portfolios need a more granular lens.** Mega forces cut across asset classes, so the focus is shifting toward themes and bottlenecks like infrastructure, power, AI supply chains, quality credit, real yields, and active implementation.

(Top) Bureau of Labor Statistics. (Bottom) Source: IMF. "Emerging Asia" refers to the 30 nations classified as "Emerging and Development Asia in the IMF World Economic Outlook. "Middle East Oil Exporters" refers to Bahrain, Iran, Iraq, Kuwait, Libya, Qatar, Saudi Arabia and UAE. 1. Source: BlackRock. "Multi-Asset Income Model Portfolios June 2026 Trade Update" AI Capex represents consensus hyperscaler capex estimates for the current year (2026) vs. prior year (2025). 2. Bureau of Labor Statistics, U.S. CPI YoY Urban Consumers NSA, as of June 10, 2026. 3 Sources: Federal Reserve Bank of Atlanta as of June 2, 2026. The GDPNow model provides a "nowcast" of the official quarterly GDP estimate prior to its release by estimating GDP growth using a methodology similar to the one used by the US Bureau of Economic Analysis. 4. Bank of America, as of June 1, 2026. 5. BlackRock Investment Strategy estimate, forward looking estimates may not come to pass. Front-end yields represented by USGG2yr as of June 15, 2026

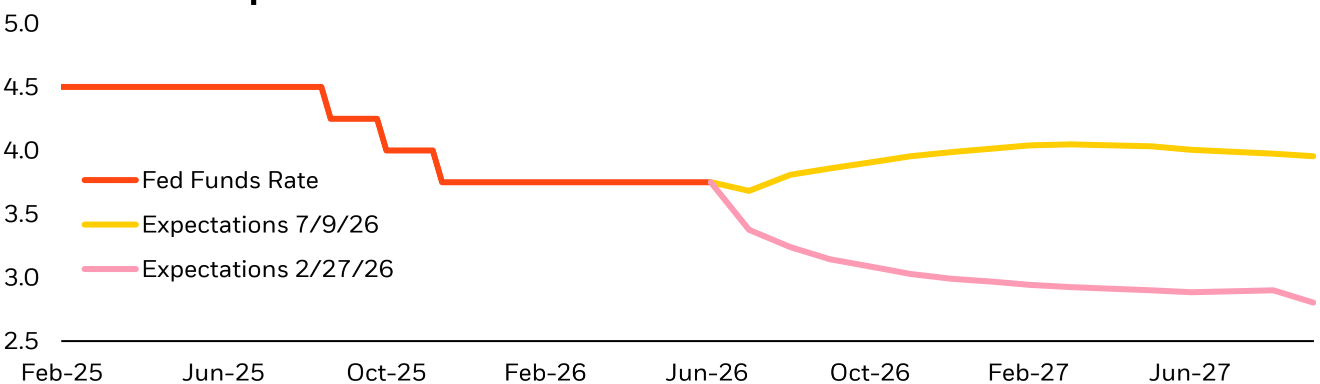
Public USD fixed income

We expect another year where carry dominates capital appreciation

Yields have risen YTD, and are attractive compared to cash and core bonds



Since the start of the Iran conflict, market expectations for the path of policy rates have evolved from deep cuts to modest hikes.



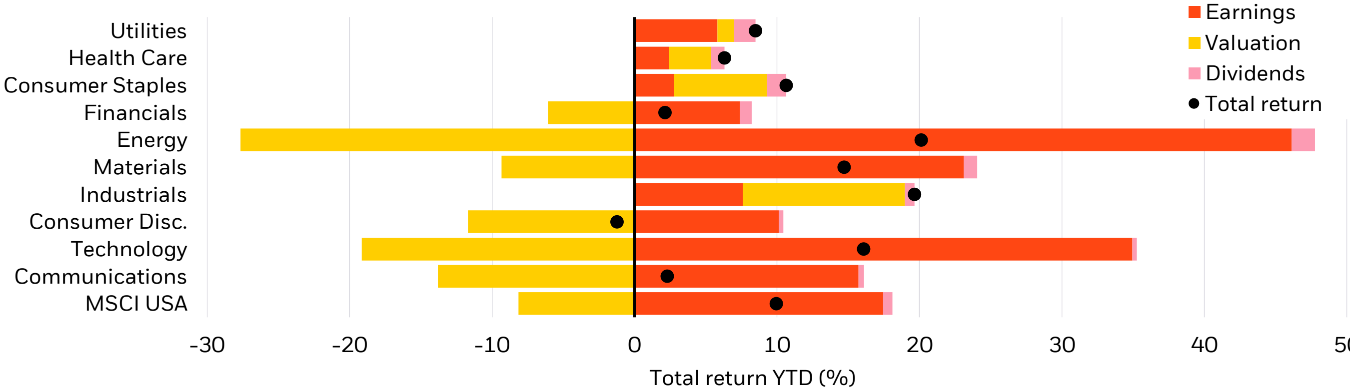
- **Rates have reset higher, but Fed cuts look delayed rather than derailed.** The labor market is "OK" rather than overheated, but inflation, tariffs and energy keep the Fed constrained. With December 2026 Fed funds futures +86 bps YTD, policy risk remains hawkish until inflation relief is clearer.[1]
- **Favor active duration and curve positioning over directional rate bets.** Conviction on the policy path remains low, especially as mixed labor data and sticky inflation send conflicting signals. This supports flexible management of duration, curve and real-rate exposure rather than a large static Treasury overweight.[2]
- **Credit remains attractive on an up-in-quality, relative-value basis.** Spreads are tight — U.S. high yield around 272 bps — so expected excess returns are more constrained. This favors higher-quality credit, systematic IG exposure and disciplined underwriting over broad spread beta.[3]
- **Heavy Assets, Low Obsolescence sectors (e.g., securitized, real asset-backed credit) offer resilient cash flows and reduced exposure to AI-driven disruption.** They offer portfolio resilience in a higher-for-longer, more volatile macro regime.

(Top) Source: Bloomberg, BlackRock as of 7/1/2026. Ultrashort refers to the Bloomberg US Treasury Bills 0-3 Months Index, Agg refers to the Bloomberg US Aggregate Bond index, Securitized refers tp the Bloomberg U.S. Securitized index, Investment Grade refers to the Bloomberg US Corporate TR Index, Emerging Markets refers to the Bloomberg Emerging Markets Hard Currency Aggregate Index, and High Yield refers to the Bloomberg US Corporate High Yield Index (Bottom) Source: Data from Bloomberg as of July 9th, 2026. Expected rates represent the implied rates on Fed Fund futures. 1. Bloomberg, December 2026 Fed Funds futures contract as of July 7th, 2026. 2. BlackRock calculations based on Bloomberg data as of 6/1/26. 3 ICE BofA US High Yield Index as of 7/6/26.

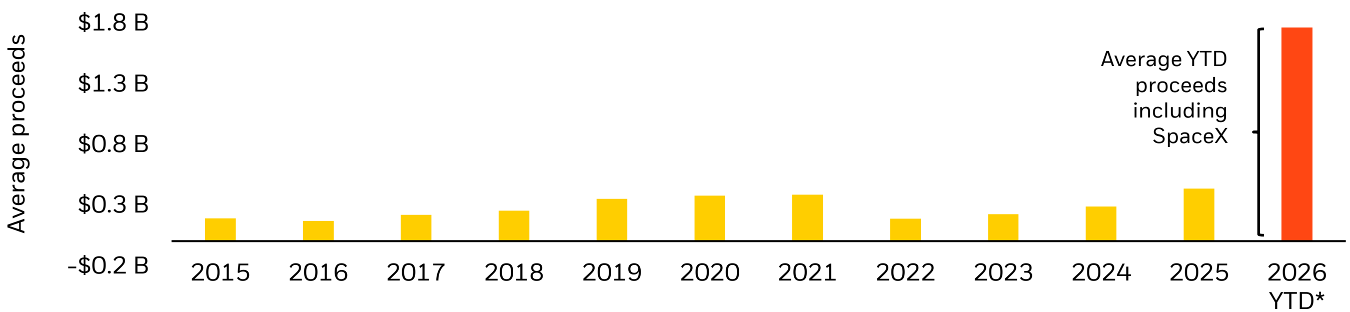
Public U.S. equities

AI investment and earnings resilience continue to underpin U.S. equity leadership.

Energy, Materials and Tech are YTD earnings champions, but Tech has cheapened substantially and its earnings are more durable



Average IPO deal sizes have surged in 2026, driven by a wave of large technology and AI related listings



(Top) Source: LSEG Datastream, as of July 3, 2026. All sectors based on respective GICS Level 1 indexes. (Bottom) Source: SEC, IPOs: Number and Proceeds (average IPO proceeds by calendar year, 2015–2025); Bloomberg, *2026 year-to-date IPO proceeds data, including SpaceX. Average proceeds calculated as total IPO proceeds divided by number of IPOs. Data as of June 9, 2026. [1]Bloomberg, as of June 16, 2026. AI 33 includes MSFT, ORCL, GOOGL, AMZN, CRWV, CEG, SMCI, IBM, META, EQIX, UBER, CDNS, GEV, NOW, QCOM, DLR, PANW, CRWD, NXPI, VRT, DELL, LITE, AVGO, COHR, PLTR, HPE, ANET, NVDA, TSLA, AMD, MU, INTC and AAPL. YTD return contribution to the S&P 500: AI 33 +12.0% vs. Rest of S&P 500 -2.3%. [2]BlackRock Investment Institute, *2026 Midyear Global Outlook: Scarcity vs. Abundance*, June 2026. BlackRock Fixed Income Office of the CIO, *It's Summertime! A Time to Get More Serious*, June 18, 2026. [3]BCG, "The Widening AI Value Gap", 09/30/2025. [4]BlackRock, *AI mega-IPOs are coming: What investors should know in 2026*. iShares Insights, published July 2026.

Constructive on U.S. equities, but more selective

- AI-driven earnings continue to support the market, but expectations are high. The AI-related basket contributed +12.0% to S&P 500 YTD returns, while the rest of the index detracted -2.3%, highlighting increasingly narrow leadership.[1]
- With equity leadership concentrated and valuations elevated, active security selection is becoming more important as investors look beyond the mega-cap winners to AI infrastructure, power, data centers, and semiconductor beneficiaries.[2]

Mega IPOs reflect demand for capital needed to fund the AI build out

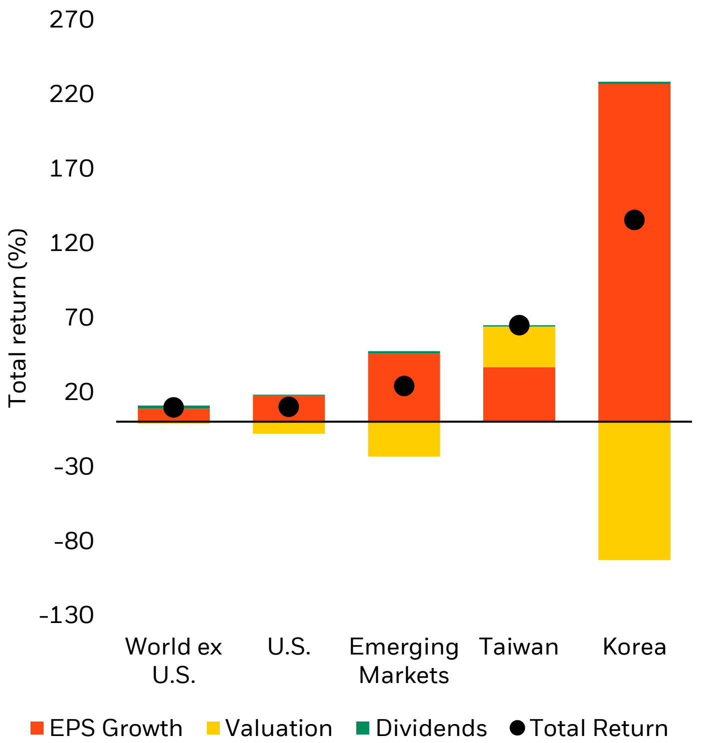
- Initial Public Offering (IPO) activity is expected to be the largest on record in 2026
- 35% of companies are scaling AI and beginning to generate value [3]
- Average IPO valuations in 2026 are 3x larger than last year and nearly 10x the average deal size in 2022.[4]
- Even the largest AI IPOs are expected to receive only modest initial index weights because inclusion is based on free float, not total market capitalization.

Public international equities

International equity leadership has become more selective, with Korea and Taiwan benefiting from AI-driven demand. Yet stronger earnings growth and structural tailwinds continue to support the longer-term outlook.

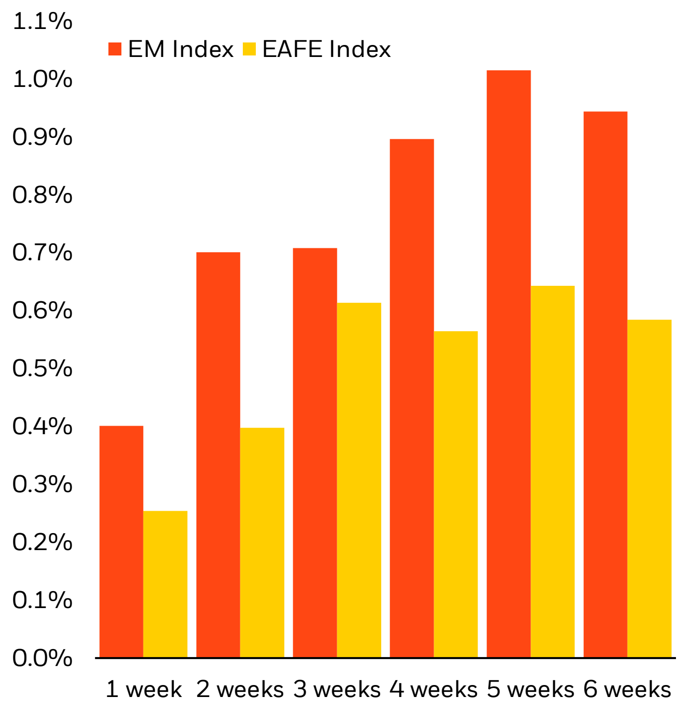
Fundamentals continue to underpin performance

Decomposition of YTD performance



EM typically rebounds most as geopolitical risks ease

Avg. forward return following days when the Geopolitical Risk Index fell ≥50 points vs. the prior day[1]



South Korea and Taiwan are deeply embedded in the AI supply chain

- Taiwan and South Korea are among the largest AI supply chain exposures, with both markets heavily tied to semiconductors and hardware.[1]
- Korea equities delivered 91% net income growth and 203% EPS growth YoY, supported by the AI cycle.[2]

Japan equity opportunity remains intact despite technical sell-off

- Weakness driven by positioning unwind (crowded trades, short covering); not fundamentals.
- Strong domestic backdrop: wage growth at ~33-year high and tight labor supports demand/earnings
- Foreign investors still underweight; flow data show net buying by foreigners and room for inflows.

Global defense and geopolitics driving non-US opportunities

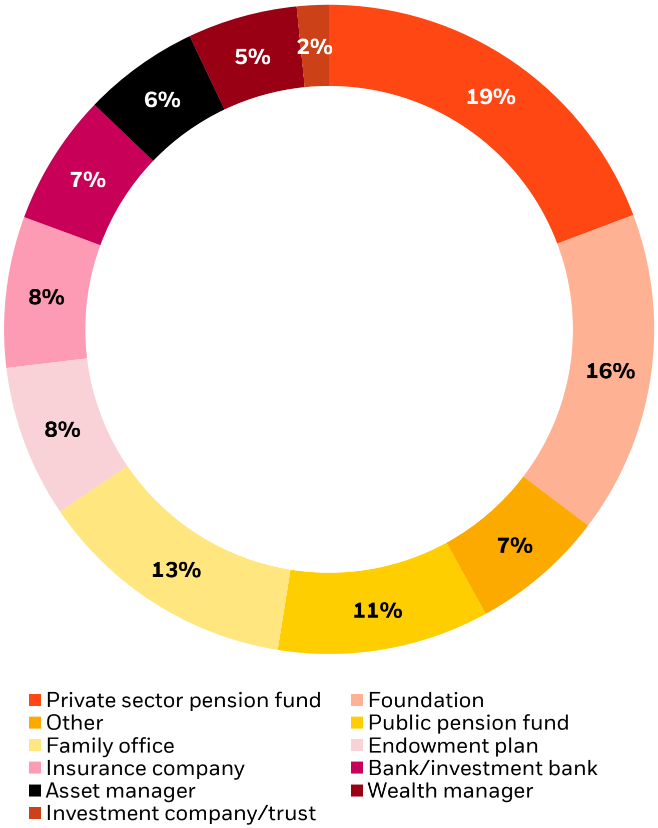
- Global defense spending hit a record $2.7tn in 2024 and is increasing.[3]
- Rising global defense spending is opening opportunities beyond traditional contractors.

(Left) Source: Refinitiv as of 6/30/26. Korea represented by MSCI Korea, Taiwan represented by MSCI Taiwan, Emerging Markets represented by MSCI Emerging Markets, U.S. represented by MSCI U.S., and World ex U.S. represented by MSCI World ex U.S. Index performance is for illustrative purposes only. **Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results**. (Right) Source Bloomberg. Average forward total return of each index following days when the Geopolitical Risk Index fell ≥50 points vs the prior day, measured over 1–6 weeks of trading days. Sample: 143 such drop-days (2021–2026). As of 6/29/2026. [1]BlackRock Investment Institute, *2026 Midyear Global Outlook: Scarcity vs. Abundance*. Data as of June 2026. [2]LSEG Datastream, Bloomberg. Korea represented by MSCI Korea. Data as of June 30, 2026.

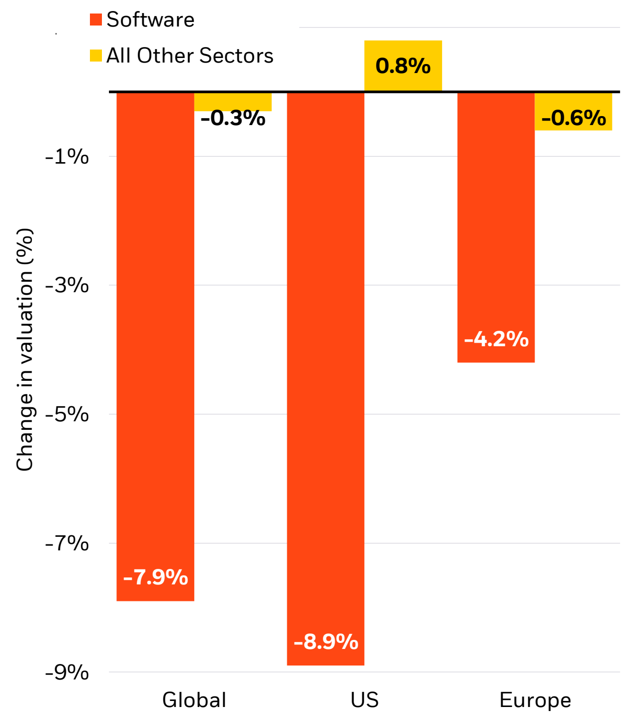
Private markets

Private equity may be bottoming, and private credit – despite headlines – still shows promise

Institutions remain the dominant owners of private debt



Private software valuations declined meaningfully in Q1, but fared better than the -24% for public software[4]



Pricing is stable, but dispersion is emerging

- Spreads remain near the tight end of their historical range.
- Most 2025/YTD 2026 U.S. direct lending LBO deals priced in the 450–499 bps range.[1]
- Larger-borrower spreads are showing more dispersion than lower/core middle market deals.

Stress is rising, but not yet systemic

- TTM unrealized losses rose to 1.22%, while realized losses fell to 58 bps.
- About 57% of 1Q26 unrealized losses were tied to software borrowers.
- Software loans were marked at a 3% discount to cost, with wide dispersion across BDCs.[2]

Higher-for-longer still supports floating-rate credit

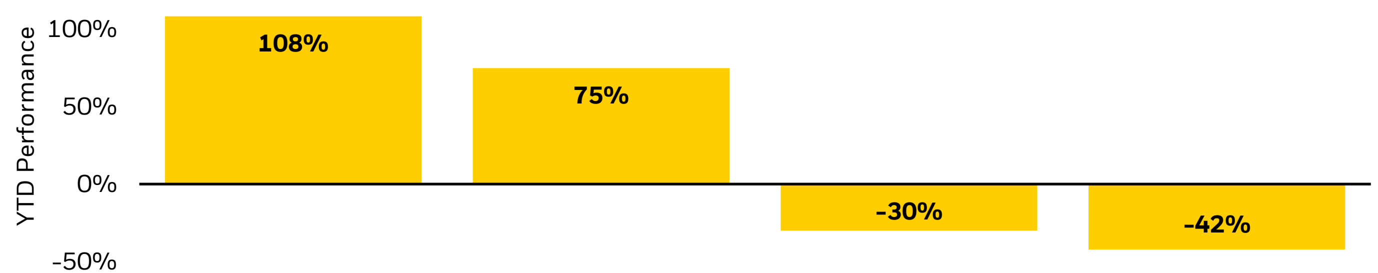
- In USD private credit, base rates have become a larger part of total yield.
- The interest-rate/floor component averaged 44% of total yields from Jan. 2023 to May 2026, up from 13% at the start of the series.[3]
- U.S. private credit remains better supported than Europe by higher base rates and more resilient growth.

(LHS) Source: Preqin, Goldman Sachs, As of February 2026 (RHS) Source: Bain and Company, MSCI Private Capital Solutions. Q1 Global performance and US performance calculated in US dollars, Europe in euros; changes in marks are capital weighted. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. **Index performance returns do not reflect any management fees, or expenses. Indices are unmanaged and one cannot invest directly in an index.** We exclude unrealized gains and losses in this chart. Long-term unrealized gains (losses) are approximately zero, as they either convert to net realized losses upon a credit default, or are reversed when principal is fully repaid. [1,2] Pitchbook LCD, BlackRock. "Credit Currents", June 11, 2026.[3] BlackRock. "Credit Currents", June 26, 2026. [4] S&P North American Expanded Technology Software Index Price Return from December 31, 2025 to March 31, 2026

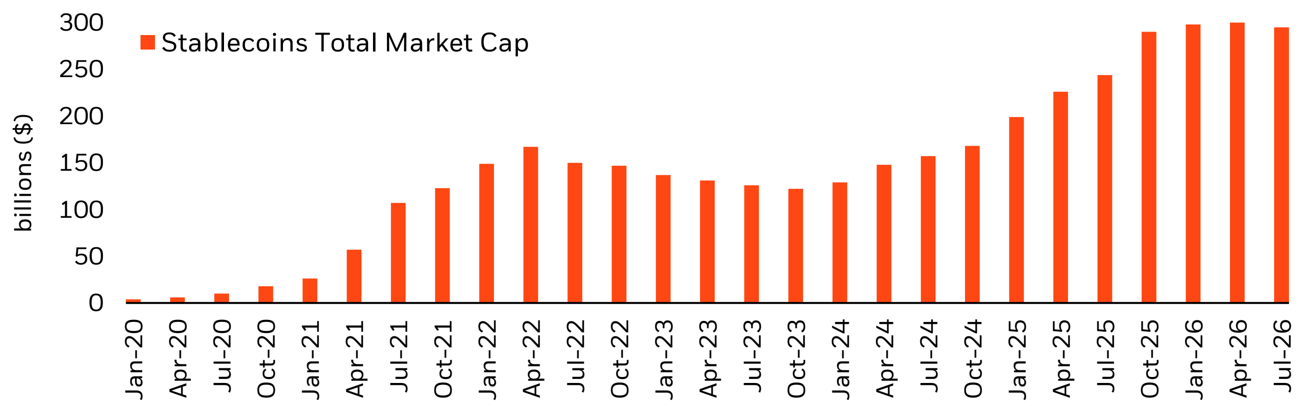
Digital assets and commodities

Energy currently looks expensive and better owned as part of diversified commodity mix

AI, Memory Chips and Semiconductors have surged YTD while investor interest in cryptocurrencies and blockchain technology has cooled



Stablecoins have seen considerable growth over a longer time frame



Bitcoin and broader cryptocurrencies sold off on rising rates and a widening performance gap against equities

- Higher Fed rate hike expectations dampen demand for non-yielding assets like bitcoin and gold
- Divergence against equities is widening year-to-date, Bitcoin is down -30% and has severely lagged gains in equities (SPX +10%, Nasdaq +16%)[1]

Structural drivers: supply constraints, state intervention, and capital rotation into real assets

- Commodities more subject to national security concerns; China dominates refining across key supply chains[2]
- High debt (>GDP) → inflation/financial repression → capital shifting from fiat → gold/real assets
- Tight supply + rising demand (AI/HALO, energy transition) → structurally tighter commodity markets

After a record rally, gold and silver experienced record volatility, underscoring opportunity and risk for investors

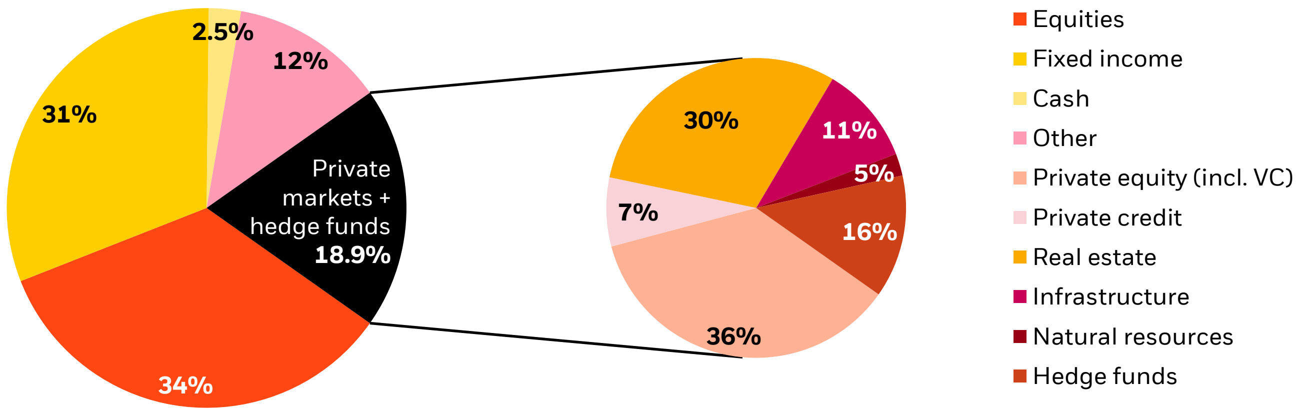
- Energy equities +25% YTD; no longer a "cheap" hedge vs prolonged geopolitical stress[3]
- The de-risking in gold after Iran conflict began was compounded by relatively crowded positioning before the conflict

(Top) Source: Bloomberg and BlackRock calculations. Price performance year to date of MSCI Korea Index, Philadelphia Stock Exchange Semiconductor Index, bitcoin spot price and Ethereum spot price as of July 7, 2026. (Bottom) Source: RWA, as of July 1, 2026.

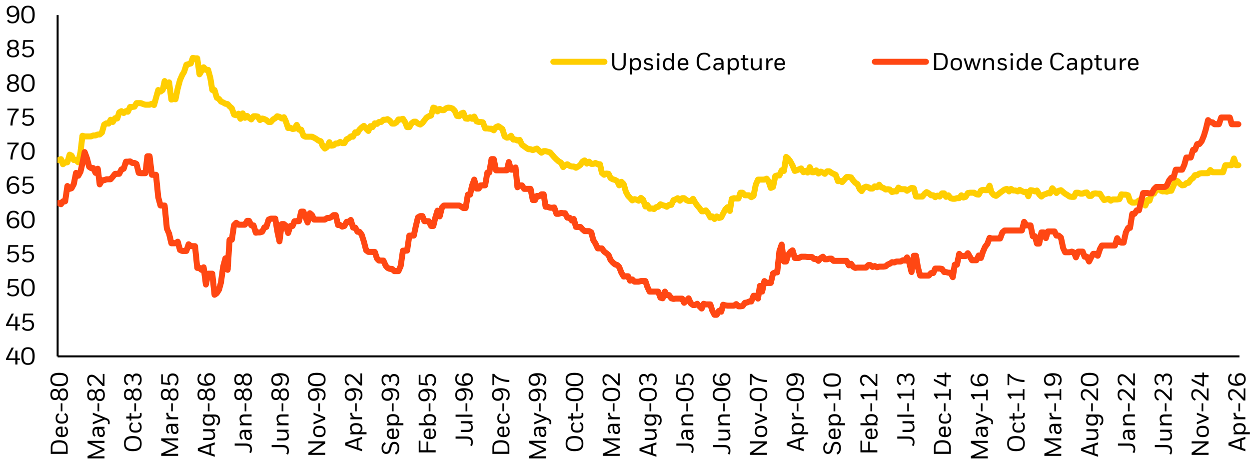
Portfolio construction

Managing the trade-off between liquidity and portfolio efficiency

Illiquid assets now almost 20% of institutional allocations



First time ever a 60/40 portfolio delivered more downside than upside capture



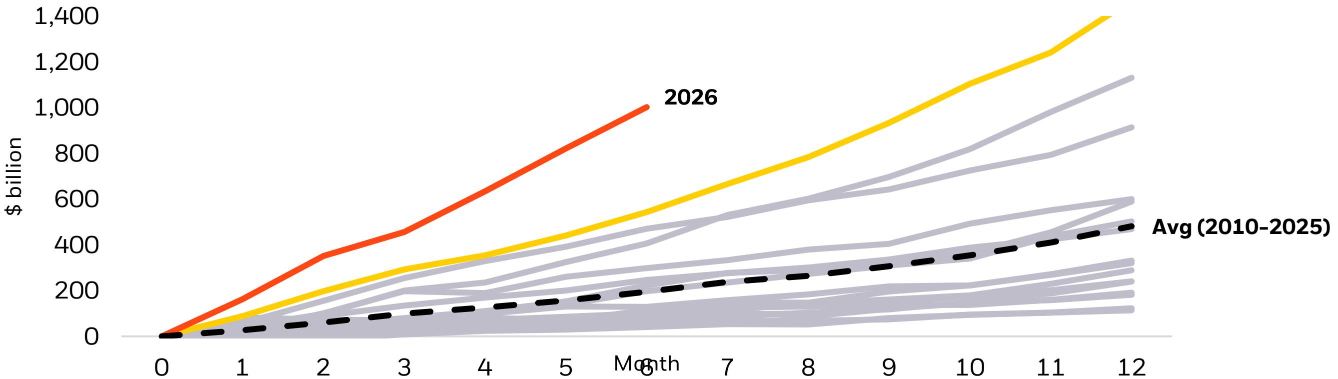
- **Private markets have long been defined by opacity.** Infrequent valuations, and complex operational mechanics have limited access and liquidity despite steadily rising allocations.
- **Institutional investors now allocate close to 20% of portfolios to illiquid assets,** as they are better positioned than retail to address long lock-ups, irregular cash flows, and manual processes.
- **A weaker exit environment has stalled capital recycling and constrained fundraising.**
- **Digitizing ownership to unlock liquidity.** Converting private assets into blockchain-based tokens can improve recordkeeping, accelerate settlement, and enable more active secondary trading in traditionally illiquid markets.[1]
- **Tokenization expands access and flexibility**: By enabling fractional ownership and broader (including non-institutional) participation, tokenization can widen the investor base and reduce frictions that have historically limited private market access.[2]
- **Cash / stablecoin drag is a constraint.** Holding liquidity (including stablecoin-like or cash equivalents that don't generate meaningful yield) can materially drag portfolio returns over time.[3]

(Top) Source: Preqin, S&P CapIQ, MSCI, Bloomberg LSEG. Data as of February 2026. (Bottom) Source: Preqin, MSCI, Bloomberg, Federal Reserve. Data as of February 2026. Note: 50/30/20 allocates 50% to public equities, 30% to fixed income, 20% to private markets.
[1, 2, 3] Citi, "Tokenization 2030." June 2026

Institutional flows, sentiment, and positioning

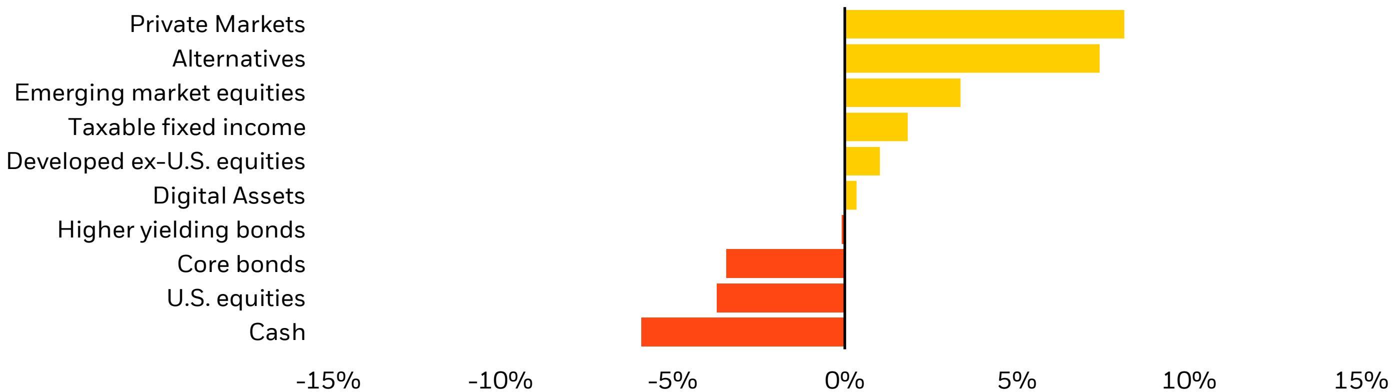
H1 flows reinforced demand for U.S. equities, sector ETFs, and fixed income, while investors continued to position selectively.

H1 2026 ETF inflows surpassed the full year total of most prior years



In our latest survey, institutional clients showed a pronounced preference for Private Markets and Alternatives, while Cash and U.S. equities are areas of reduction

Net planned changes by institutional clients



ETF flows have been exceptionally strong YTD

- ETF industry inflows reached $1.0tn in H1 2026, 86% above the first half of 2025 and the strongest first half on record.
- Equity ETFs gathered $680bn in H1, more than doubling inflows from the first half of 2025.
- U.S. exposures captured 68% of YTD equity flows, with the monthly share rising into the mid-80% range by June.

Fixed income demand remained resilient

- Fixed income ETFs gathered $292bn in H1, up nearly 65% YoY.
- Intermediate-duration bond ETFs attracted $60bn YTD, exceeding combined inflows to both short- and long-duration exposures.

Sector ETFs gained momentum

- Sector ETFs captured 11% of equity ETF inflows, their highest share since 2021, as investors shifted toward more targeted portfolio implementation.
- Technology, Energy, and Industrials led sector demand, reflecting continued confidence in AI-driven growth and cyclical investment themes.

(Top) Source: BlackRock, Bloomberg. ETF groupings determined by Bloomberg. As of 6/29/2026. Grey lines represent cumulative flows (US$ billions) from 2010–2025. Past performance does not guarantee future results. (Bottom) BlackRock polling based on June 10th 2026 webinar with 464 institutional respondents. All flow data from Bloomberg as of June 29, 2026, with classifications by Markit.

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The spring edition of Investment Directions debuts a fresh look—shorter, more visual, and Q&A-driven, designed for easy on-the-go consumption.

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Appendix

Slide 9 bottom chart sourcing (cont.) – Min Tracking Error represented by a portfolio of 50% S&P 500, 43.4% U.S. Aggregate Bond Index, 4.6% LBMA Gold Price Index, 1% LMBA Silver Price Index, 1% Bloomberg Bitcoin Index. **Same Risk** portfolio consisted of 50% S&P 500 Index, 38% U.S. Aggregate Bond Index, 10% LMBA Gold Price Index, 1% LMBA Silver Price Index, 3.5% Bloomberg Bitcoin Index. **60/40** portfolio consisted of 60% S&P 500 Index, 40% U.S. Aggregate Bond Index. **Max Sharpe** portfolio consisted of 50% S&P 500 Index, 20% U.S. Aggregate Bond Index, 10% LBMA Gold Price Index, 10% LMBA Silver Price Index, 10% Bloomberg Bitcoin Index.

Important notes

Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an index.

Cliffwater Direct Lending Index (CDLI) is an index that assists investors to better understand private credit as an asset class. The CDLI seeks to measure the unlevered, gross of fees performance of U.S. middle market corporate loans, as represented by the underlying assets of Business Development Companies ("BDCs"), including both exchange-traded and unlisted BDCs, subject to certain eligibility criteria. The CDLI is a asset-weighted index that is calculated on quarterly basis using financial statements and other information contained in the U.S. Securities and Exchange Commission ("SEC") fillings of all eligible BDCs. Eligibility is set as all assets held by BDCs that (1) are regulated by the SEC as a BDC under the Investment Company Act of 1940; (2) have a substantial majority (approximately 75%) of reported assets represented by direct loans made to corporate borrowers, as categorized by each BDC and subject to Cliffwater's discretion, and (3) file SEC form 10-Q (or 10-K, as applicable) within 75 (or 90) calendar days following the current Valuation Date. If a BDC meets the eligibility criteria, but has not filed its report on Form 10-K or 10-Q with the SEC at a time the index is reconstituted, asset information from its report will be included in the index at the time of the next reconstitution. This information is derived from sources that are considered reliable, but BlackRock does not guarantee the veracity, currency, completeness, or accuracy of this information.

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