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# Equity Market Outlook

Q4 2025

**BlackRock**

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# Foreword



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**Artificial intelligence (AI) has been a source of stock market excitement** since ChatGPT burst onto the popular scene in November 2022 and revealed the previously inconceivable capabilities of generative AI.

Fast forward to Q4 2025 and not only is AI driving market returns, but massive investment in it is boosting U.S. economic activity. Some estimates suggest it is already overtaking the U.S. consumer as the primary driver of growth, with no signs of slowing as spending intentions among the largest U.S. tech firms have been continuously revised upward. Analysis from the Fundamental Equities Global Technology team estimates US\$5 trillion in spending on the AI buildout between 2025 and 2030.

It is no surprise then that colleagues across our global equity platforms are leaning into the opportunity and stress-testing for risks. To be sure, each of this quarter's commentaries carries a familiar refrain, from how AI is upending traditional expectations for factors such as momentum, quality and value, to revealing underappreciated AI opportunities in clean energy and in places like Spain and parts of Asia.

The AI opportunity is not static, in our view, but continuously evolving alongside the technology itself, making this an extraordinary time to be an alpha seeker.

The impact is felt in our own shops. BlackRock Systematic has been leveraging AI and machine learning for nearly two decades. Large language models (LLMs) represent a step-change in AI research, underpinned by model advancements and tremendous growth in both compute power and the volume of data available for training. Rather than analyzing individual words, today's LLMs examine the relationships between them to reveal deeper insights. LLMs also play a key role in identifying and navigating the universe of market-relevant themes.

BlackRock Fundamental Equities has engineered and deployed Asimov, an AI platform that analyzes research notes, company filings and internal emails as a complement to human analysts. This serves as a powerful input to help inform portfolio decision-making. It's a human-AI partnership that allows more information to be absorbed faster in seeking an alpha-relevant insight advantage.

All told, we enter the last quarter of the year with an outlook for the AI engine to continue fueling markets, but with a potential broadening of the opportunity set within and beyond AI, as some other parts of the market are being overlooked. This is an environment we believe is best navigated with an active approach. Senior members of our alpha equity teams offer their views in our **Q4 Equity Market Outlook**.

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# Momentum's new look: Navigating market change



**Jeff Shen, PhD**

Co-CIO and  
Co-Head of  
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**Philip Hodges**

Co-Lead, BlackRock  
Systematic Macro

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**The churn playing out in markets underscores the importance of a dynamic approach to active management.**

The climb in equities since the April “Liberation Day” sell-off has rewarded investors willing to look past waves of macro and tariff uncertainty. The economy has proven resilient enough to support hopes for a “Goldilocks” scenario: soft enough for Federal Reserve (Fed) interest rate cuts, yet firm enough to avoid recession.

While policy easing and the AI revolution have pushed markets to fresh highs recently, the headline rally masks a more nuanced story under the surface. Since the April 8 lows, the S&P 500 Index has seen a maximum drawdown of about 5%, yet the average stock in the index has fallen as much as 15%.<sup>1</sup> That’s a reflection of the churn playing out in markets, underscoring the importance of a dynamic approach to active management.

Equity style factors such as momentum, quality, value, growth, size and low volatility provide a useful lens for interpreting these undercurrents. These factors are durable drivers of long-term equity returns, yet their performance is inherently cyclical and tied to changes in macro and market regimes. Recognizing these patterns offers insight into evolving market leadership and the potential to generate alpha by rotating factor exposures within portfolios.

## Decoding momentum's staying power

The momentum factor's headline performance has mirrored the strength of equity markets, sustaining an extended run alongside themes such as the surge of AI innovation and adoption. Among the style factors, momentum is often the most adaptive, evolving to capture prevailing performance trends. That adaptability, however, can leave investors uneasy, as long stretches of outperformance often raise concerns about crowding and stretched valuations.

Momentum's measures that focus on medium to longer time horizons have allowed the factor to weather shifting market narratives and refresh its underlying leadership, helping to contain these risks. While still closely tied to the AI theme, its correlation with growth has moderated relative to recent years. This reflects a broader evolution in the factor's composition. Two years ago, momentum was heavily concentrated in AI enablers. It then diversified into financials as falling front-end rates and a steeper yield curve improved prospects for banks and lenders. Today, momentum has expanded to capture a broader phase of the AI trade, including adopters across industries. This greater breadth underpins the case for momentum's continued strength as we look ahead.

**The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and once cannot invest directly in an index.

<sup>1</sup> Charles Schwab, Bloomberg, as of Oct. 10, 2025.



# Momentum's new look: Navigating market change

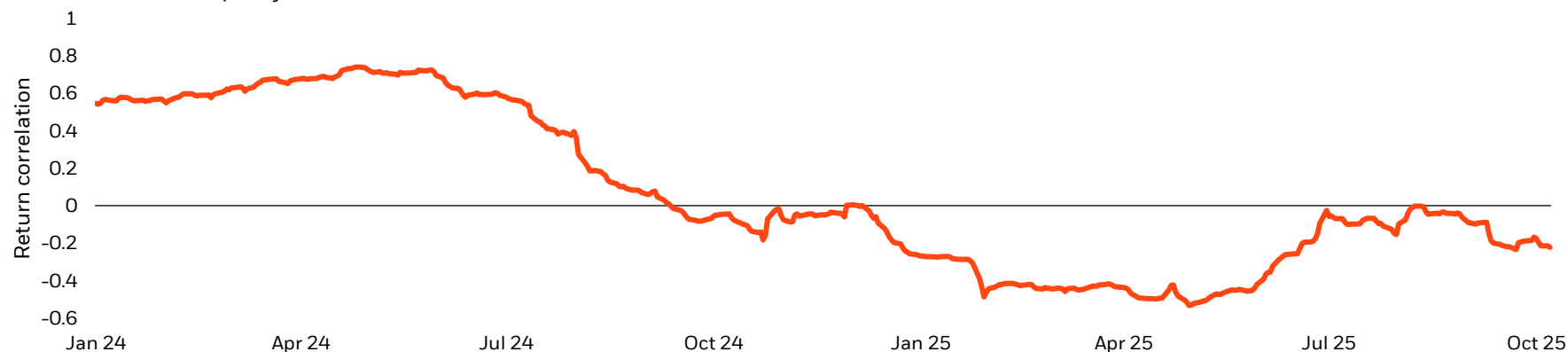
## Forecasting market shifts with data

In recent years, positioning has largely favored a combination of momentum and quality, capturing powerful secular themes while maintaining a defensive anchor amid macro uncertainty. Earlier this year, however, systematic models signaled a shift, with the outlook for quality coming under pressure. Machine learning insights identified cracks in quality's defensive profile, including the global supply chain exposure of many companies, which left them more vulnerable to tariff risks.

In the months that followed, momentum and quality began to diverge as quality's weaker performance led to lower representation within the momentum factor (see chart), a trend that has persisted amid tailwinds supporting less profitable companies. This has coincided with an improving outlook for value, driven by compelling valuations and differentiated exposure relative to momentum and growth, making it a natural complement to other high-conviction factors.

### Quality diverges from momentum

Return correlations, quality vs. momentum, 2024–2025 to date



Sources: BlackRock, Bloomberg, as of October 2025. Chart shows the correlation of the quality factor relative to momentum from Jan. 1, 2024, to Oct. 7, 2025.

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## Dynamic markets call for dynamic strategies

In the current environment, many of the traditional characteristics investors associate with equity factors have been disrupted. Momentum has shown resilience through swings in policy, macro and market dynamics, with healthy turnover that, in our view, helps limit the potential for sharp reversals. Quality, while often relied upon for durability, has struggled to keep pace during the recent melt-up and speculative rally. Value, though not typically viewed as defensive, may provide persistent strength if the economy continues to avoid recession. Overall, the opportunity set across factors appears more balanced today than a year ago, when exposures were concentrated in overlapping preferences for mega caps, growth and momentum.

These shifts reinforce that markets today are anything but static. Leadership is constantly rotating beneath the surface, and we believe harnessing that cyclicity through dynamic, data-driven strategies is key to capturing alpha.

# A time for *rational* exuberance in U.S. equities



**Tony DeSpirito**

Global CIO,  
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**Carrie King**

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**We are responsibly selective, believing the rationality inherent in fundamental investing can allow it to profit from moments of heightened irrationality.**

Is “irrational exuberance” gripping the U.S. stock market, sending stock prices to levels inconsistent with their underlying fundamentals? The short answer: Perhaps in spots. But we believe this environment sets up a favorable backdrop for stock selection.

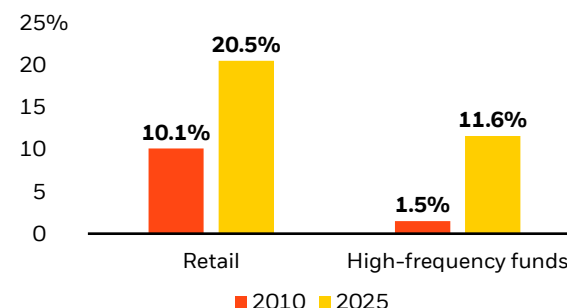
We do see some signs of irrationality, or speculative behavior, today. Our review of factor returns year-to-date shows momentum stocks in the lead, a classic sign of performance chasing. And while unprofitable companies have outperformed the broader market, low-volatility and dividend-paying baskets have lagged.<sup>2</sup> We’ve also seen a pick-up in “meme stock” investing among retail investors guided by social media trends.

As shown in the chart at right, retail and higher-frequency traders represent a much larger share of total stock trading volume relative to 15 years ago, increasing their influence on broad market movements as well as on individual stock volatility and pricing.

While some fret over a trading environment increasingly dominated by non-fundamental investors, we see this as an opportunity for skilled stock pickers to generate additional alpha. We would say today is a time for “rational exuberance” — a moment to lean into the virtues of bottom-up

## Rising irrationality?

Change in share of trading volume, 2010-2025



Source: BlackRock Fundamental Equities, with data from Bloomberg as of Sept. 18, 2025. Chart shows the percent change in each group’s share of trading volume in U.S. stocks in Q1 2025 vs. Q1 2010, based on market maker 605 reports and estimates from Bloomberg Intelligence. High-frequency funds include quant funds that hold positions over minutes or less. Retail includes self-directed individual investors trading through both direct-to-consumer platforms and traditional brokerages.

stock analysis and selection to avoid the pitfalls of psychological contagion and crowded positioning that typically arise amid pockets of irrational exuberance.

Ultimately, market mispricings can be an active investor’s best friend.

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<sup>2</sup> BlackRock Fundamental Equities analysis based on data from Bloomberg as of Sept. 17, 2025.

# A time for *rational* exuberance in U.S. equities

## Three sectors primed for stock picking

Against this backdrop, we highlight three sectors we believe are particularly well suited for alpha generation by fundamental-based stock pickers:

### 1. Technology

With AI development still in relatively early stages and advancing quickly, we see the technology sector well positioned for continued growth beyond the current leaders. This is where thoughtful fundamental analysis can offer an edge.

Part of riding the big wave is looking for underappreciated potential within this market-moving mega force. Because AI is an innovation unlike any before, with implications throughout the economy, backward-looking algorithms are unlikely to provide a reliable guide to the next leg of AI earners. But fundamental analysts can look across the AI stack to identify potential sources of alpha as the technology and its use cases evolve. Two areas to consider:

- **Data.** No matter the industry, proprietary data sets a company apart. Enterprises with their own datasets have a fundamental differentiator that may represent a source of upside. Knock-on beneficiaries include companies helping to store all of this valuable data.
- **Software.** For some legacy products, AI will replace their existing software. For others, it will enhance and make their applications more valuable. Foresight, in the form of individual company analysis, is required to dissect the field.

### 2. Healthcare

Despite underperformance in recent years, we believe healthcare is well underpinned by structural tailwinds from aging populations and a growing need for medical care, as well as an innovation impulse. This is not a homogenous sector and selectivity will define outcomes. Large-cap U.S.

pharmaceuticals, which make up the largest portion of the sector in most indexes, have been an area of caution due to a wall of looming patent expirations and the underappreciated business challenges this creates. Meanwhile, healthcare providers and services have been an interesting area for stock selection. For example, we've watched one stock in the HMO space appreciate 68% year-to-date while a competitor's stock price fell 32%.<sup>3</sup> Portfolios that owned the former and not the latter have realized a dual benefit.

Gaps between the best and worst performers historically have been very wide in tech and healthcare. We believe this dispersion could increase further as these sectors undergo important fundamental change.

### 3. Financials

An easing regulatory environment for the financials sector is a pronounced shift relative to the regime in place since the 2008 Global Financial Crisis (GFC). This forms a new structural backdrop for stock selection. In addition to the tailwind of deregulation, a relatively healthy economy means limited credit issues. Deregulation is good for all, in our view, but even better for financials that have lagged so far. Companies with lower return on equity (ROE) should do disproportionately well relative to post-GFC outperformers that have less room to increase ROE and expand their earnings and market multiple.

**Final thoughts:** We believe fundamental research focused on deep company analysis lends discipline and “rationality” to equity investing, virtues particularly relevant amid a pick-up in speculative behaviors. Our experience tells us that companies’ ability to grow earnings and prove their economic vitality across time guide stock valuations — and determine the long-term outcomes for well-informed and faithful owners (vs. traders) of company shares.

*Sally Du, portfolio manager and data lead within BlackRock Fundamental Equities, contributed to this report.*

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<sup>3</sup> BlackRock Fundamental Equities with data from Bloomberg as of Sept. 30, 2025. Figures cited are price change.

# The hunt for hidden alpha



**Helen Jewell**

EMEA CIO,  
BlackRock  
Fundamental  
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**Equity market performance year-to-date reveals two surprising winners, both with links to the vast AI spending.**

Much of the market narrative in 2025 has been focused on the U.S. — especially the tech sector — and for good reason. After the tariff-induced dip in April, U.S. stocks roared back and overtook European equities in local currency terms.<sup>4</sup> And within the U.S., the focus has been on AI beneficiaries as large U.S. tech companies announced intentions to spend nearly half a trillion dollars on AI capex this year.

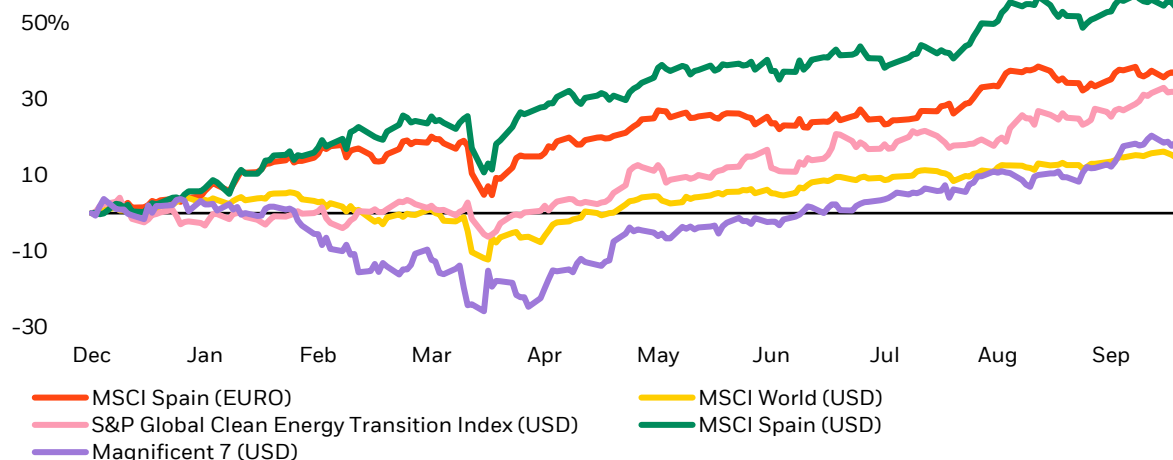
Yet this spending has implications for equity investors well beyond the tech sector, and indeed beyond the U.S.

We see hidden opportunities for those willing to look more broadly in the hunt for market-beating returns. Equity market performance year-to-date (ytd) reveals two surprising winners of 2025. These seemingly unrelated parts of the market have much in common: links to the vast AI spending.

The first is clean energy, which at Sept. 30 had returned twice as much as the MSCI World Index ytd. The second is Spain, which was up 39% in local currency terms, and 57% in U.S. dollar terms versus 20% for the “Magnificent 7.” See the chart.

## Underappreciated AI beneficiaries

Price return of selected markets, 2025



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<sup>4</sup> Bloomberg, Sept. 29, 2025.



# The hunt for hidden alpha

## Power demand and ‘energy pragmatism’

The sustainable-energy surge this year came as investors began to realize that a jump in global power demand — driven largely by AI but also by things like air conditioning — could lead to pragmatic global government energy policy. The International Energy Agency estimates global electricity demand will grow at about 4% a year between 2025 and 2027, after many years when growth was flat. Data centers could consume 4.4% of global electricity by 2035, according to Bloomberg, more than every country in the world except the U.S., China and India. We believe governments will support renewable as well as traditional sources of energy to meet this demand.

Yet clean energy companies are still trading at a substantial discount to historical levels,<sup>5</sup> so we see plenty of investment opportunities in this area as the “power demand” theme gains traction. It is, however, important to be selective. There may be further volatility down the line, and a selective approach can build resilience into portfolios. It also means we can lean into some of the parts of the sustainable energy universe where we see enduring earnings growth — areas such as grid infrastructure, AI capex beneficiaries, and the electrification of transport.

## Why the Spanish sun can keep shining

The performance of Spanish stocks has come against a backdrop of improved economic growth and company earnings, which are forecast to grow nearly 10% this year.<sup>6</sup> Spain’s performance has been underpinned

by the country’s banking sector. At a European level, banks have been the top-performing area of the market for the past two years, and we believe they may be the standouts again in 2026. They have outperformed the Nasdaq by 280% over the past five years and still trade on low valuations of nine times forward earnings. AI could improve margins at many banks as the latest technology reduces operational costs, and as consumer deposits and, therefore, revenues are likely to remain sticky.

Another driver of Spanish earnings growth has been investment in the electricity grid to support Spain’s emergence as a European data-center hub. We see the need to bolster the grid following Spain’s April energy blackout as a further source of earnings support in this area. We like utilities and clean energy companies that can help deliver the extra power and reliability that Spain needs, especially those that also have a large U.S. presence and can benefit from Big Tech’s thirst for new sources of power for their data centers. We also see opportunities in listed real estate companies that own and operate data centers.

Spanish stocks remain at a wider-than-average discount to the rest of Europe and are yet to surpass their 2007 peak<sup>7</sup> — so we still see plenty of upside for stock pickers who are willing to investigate these unexpected leaders.

U.S. tech gets most of the headlines. But we’ve chosen these two areas of the market to show that returns have broadened out across sectors and geographies, providing plenty of opportunities for skilled stock pickers to source great companies at still attractive valuations.

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<sup>5</sup> Bloomberg, Sept. 30, 2025.

<sup>6, 7</sup> Barclays, Sept. 24, 2025.

# Asia's current role in making history



**Belinda Boa**

CIO of Emerging  
Markets, BlackRock  
Fundamental Equities

“

**This year's rally in AI-related stocks might normally mean limited upside possibilities. We do not believe that is the case.**

A transformational wave is upon us, with powerful mega forces reshaping economies and financial markets across the globe. The significance of this will be clearer in five years when hindsight makes it easier to connect the dots. Investors, however, may not need to wait to capitalize on the opportunities emerging from disruptive forces in digital technologies and AI, the energy transition, and geopolitical fragmentation that is rewiring supply chains.

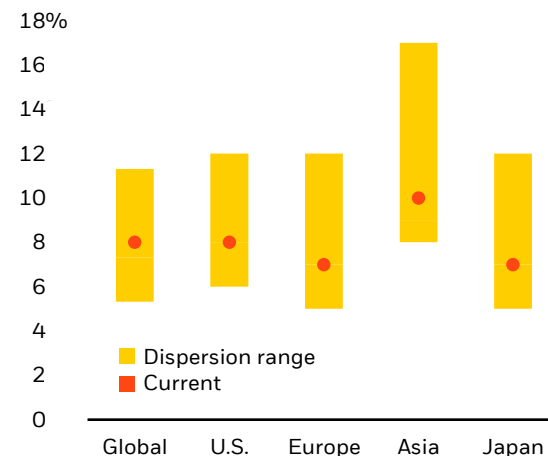
We believe the Asia-Pacific region is well placed to contribute to this history-making transformation, reap benefits from it, and offer tangible opportunities for local and global equity investors.

## Low correlation and high investment potential

The performance correlations between the MSCI AC Asia Index and its single country constituents are as low as they have been in the past decade, indicating significant dispersion of returns among Asian stock markets.<sup>8</sup> We also find ample cross-sectional volatility, or dispersion of returns between individual stocks, in Asia relative to other regions. The chart at right shows dispersion over the past year (yellow bars) and currently (orange dots). We believe both mean opportunity for skilled stock selection to generate return above the broad market.

## Ample divergence

Cross-sectional volatility by region, 2024-2025



Source: BlackRock, as of Sept. 19, 2025. Chart shows the variability of stock returns in selected regions as represented by the following indexes: Global, MSCI World Large Cap Index; U.S., S&P 500 Index; Europe, MSCI Europe ex-U.K. Index; Asia, MSCI AC Asia ex Japan; Japan, MSCI Japan Index. Indexes are unmanaged and one cannot invest directly in an index. The dispersion range is from Sept. 3, 2024, to Sept. 19, 2025, and current is as of Sept. 19, 2025.

This divergence sets the stage for three interrelated thematic opportunities we see playing out as we analyze companies from the bottom up. These are outlined on the next page.

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<sup>8</sup> BlackRock Risk & Quantitative Analysis, September 2025.

# Asia's current role in making history

## 1. AI and robotics

Asia offers absolute and relative benefits in this space. First, it has global leaders in components (Taiwan), dRAM (Korea), internet applications and robotics (Mainland China), and leading-edge technologies to address demographic challenges (Japan). Second, technology adoption rates from consumers and enterprises are high in Asia. The sheer volume of users and applications in the region enables systems to get better faster, which supports productivity passthroughs and, thus, earnings. And third, supply chains are generally in good shape, with large, specialized and well-trained workforces, and increasingly, a vertically integrated model that underpins efficiency and cost controls.

This year's rally in technology, applications and other AI-related stocks might normally mean limited upside possibilities. We do not believe that is the case as corporate earnings prospects for many companies remain robust.

## 2. Metals and mining

After decades of underinvestment on concerns over the environmental impact, mining is experiencing a resurgence. The transition to green energy requires materials, such as copper, that are essential for transformers, solar panels, wind turbines and energy storage units, to name just a few uses.

Global copper demand may grow 50% from 2023 to 2040, according to International Energy Agency (IEA) estimates. Separately, the rise in gold spot prices (up 48% this year)<sup>9</sup> has been driven by central bank interest in diversifying their reserves and investors' desire for safe-haven assets. This heightened demand could mean opportunity for well-established miners.

These trends can benefit countries in Asia and other key suppliers in emerging economies that are well positioned with integrated, cost-effective supply chains.

## 3. Advanced manufacturing

The demand for modernized infrastructure, products and components is likely to rise as nations get wealthier and disruptive technologies continue to evolve. Asian companies are highly entrenched in these transformative forces, including the following three.

- **Data centers.** The buildout of data centers touches many industries, from companies building the physical infrastructure and electricity capacity to those involved in storage, data processing and the exchange of digital value.
- **Transportation systems.** Tomorrow's cars appear set to follow today's blueprint — battery dependent, electrically powered and digitally controlled. Global demand for passenger and freight transport could nearly triple between 2020 and 2050, according to the International Transport Forum (ITF). Similarly, public transport needs are poised to surge, fueled by economic growth, migration to urban centers and upgrades of existing networks and equipment.
- **Innovation across industries.** A digitalized economy requires capital, know-how and, above all, research and innovation. The 2024 Global Innovation Index counts five Asian countries (China, India, Vietnam, the Philippines and Indonesia) among the top six fastest-climbing middle income economies in its index since 2013. And Singapore and South Korea occupy the number four and six ranks, respectively, among all countries.

The opportunities are not without risks, emphasizing the importance of careful country and company selection in seeking to capitalize on these trends. Fundamental equity investors are perennial students of the market. They know space and time can distort reality and, as such, apply a long-term lens and deep company analysis to parse the opportunities presented by the transformational wave now upon us.

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<sup>9</sup> Bloomberg, Oct. 1, 2025.

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