2026 Global Outlook

Pushing limits

BlackRock

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Gulf countries are operating in a global economy increasingly shaped by mega forces, notably supply-chain reconfiguration and AI's capital-intensive buildout. These forces are shifting investment priorities beyond hydrocarbons, as capital is directed toward technology, industrial capacity and deeper global financial integration. As growth moves from capital-light to capital-intensive models, the Gulf's scale, capital base and policy ambition support a durable role in an AI-driven global economy.

Ben Powell

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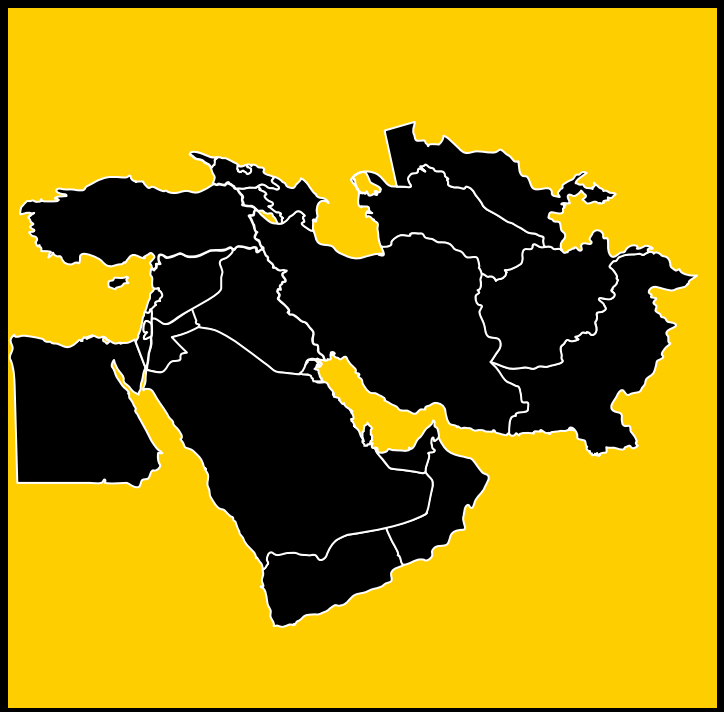

The scale and speed of the Gulf's national transformation programs linked to the AI buildout exemplify the first theme of our 2026 Global Outlook, "Micro is Macro". Believing the region's AI capital spending will pay off requires conviction that AI can meaningfully lift productivity and revenues across the Gulf Cooperation Council (GCC) — a tall order, but a conceivable one.

That conviction is being expressed through infrastructure. Saudi Arabia's state-backed AI champion, Humain, plans to build 6.6 GW of data center capacity by 2034, including 1.9 GW by 2030, positioning the Kingdom as a large-scale AI infrastructure provider. In the UAE, the Stargate project is set to become one of the world's largest AI data center clusters, with planned capacity of 5 GW.

The Gulf can deploy power and grid capacity at scale and speed, placing it at a relative advantage versus other regions. Utility-scale solar electricity costs of roughly $20–30/MWh, based on data from BloombergNEF, IEA and IRENA, are among the lowest globally. Renewable capacity is expected to rise from around 20 GW today to approximately 165 GW by 2030, supporting world-scale data center deployment.

With savings high, debt low and balance sheets robust, financing is not a binding constraint. Yet the scale of capital expenditure, particularly in a softer energy-price environment, is reshaping how investment is funded. As governments scale spending, they are diversifying funding sources — aligning with the *future of finance* mega force and our second theme, *"leveraging up."*

The region is entering a decade of capital expenditure exceeding $3 trillion across data centers, energy and transport infrastructure, based on MEED estimates, increasingly delivered through public-private partnership models that attract domestic and global private capital. Even with some near-term project recalibration, a deep pipeline of private capital deployment is forming.

Financial reforms are reinforcing this shift. In Saudi Arabia, efforts to securitize residential mortgages — around 23% of total loans in 2024, according to S&P Global — alongside easing rules on foreign real-estate ownership, are broadening funding channels.

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Capital markets are deepening: initial public offering pipelines remain among the most active globally, mergers and acquisitions volumes are rising, and sovereign wealth funds are taking a more assertive role in domestic capital formation. In some markets, greater use of debt is part of the reform process rather than a source of fragility. Kuwait's return to global bond markets for the first time since 2017 reflects this shift, with the March 2025 Financing and Liquidity Law expanding funding optionality and supporting reform spending.

For investors, these developments point to steeper external yield curves, higher local rates and expanding opportunities for equity portfolio flows amid hydrocarbon volatility, underpinning our preference for hard-currency emerging market debt.

Our third theme, "Diversification Mirage", reflects how traditional portfolio diversifiers have become less effective, increasing the importance of idiosyncratic sources of return.

In this environment, the Gulf's exposure to multiple intersecting mega forces alongside the region's efforts to reshape domestic economic models may present investors with differentiated opportunities.

Beyond the region's energy complex, sectors such as technology, metals and mining as well as transportation and logistics are positioned to drive sustained growth and deepen diversification, reinforcing the Gulf's role in a more fragmented global economy.

Execution risks remain. Reform progress is uneven, global rate volatility and differences in market depth argue for selectivity and geopolitical risks keep risk premia elevated.

We hope you find this Outlook helpful in achieving your investment objectives. We wish you and your family health and prosperity for 2026 and beyond.

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Introduction

Twice a year, BlackRock's senior portfolio managers and investment executives gather for two days to debate the outlook for the global economy and markets – and its implications for portfolios. The Global Outlook is the culmination of that debate and discussion at our latest Forum and informs our macro framing. What has become clear this year: our mega forces framework, launched a few years ago, is a critical way of understanding these drivers of economic transformation and the investment opportunities they create. This Outlook is centered in reconciling the clashing orders of magnitude on investment and potential revenues in the AI buildout – and how it is intersecting with other mega forces, such as the energy transition and future of finance.

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The global economy and financial markets are being transformed by mega forces, especially AI. Technology is becoming capital-intensive, and the AI buildout could be unprecedented in both speed and scale. With a few mega forces driving markets, it is hard to avoid making a big call on their direction – and as such, there is no neutral stance, not even exposure to broad indexes. We remain pro-risk and see the AI theme still the main driver of U.S. equities. Yet this environment is ripe for active investing – picking winners and losers from among the builders now and later as AI gains start to spread, in our view.

We've long argued we're in a world of structural transformation shaped by a few mega forces, including geopolitical fragmentation, the future of finance and the energy transition. But the most obvious now is AI, with a buildout of a potentially unprecedented speed and scale. This shift to capital-intensive growth from capital-light is profoundly changing the investment environment and pushing limits on multiple fronts – physical, financial and socio-political.

A few big macro drivers implies a few big market drivers. Today's market concentration reflects underlying economic concentration. That means investors can't avoid making big calls, in our view.

AI is the dominant mega force right now, helping propel U.S. stocks to all-time highs this year. In recent months, investors have started to fret about equity valuations and whether an AI bubble is forming. The Shiller price-to-earnings ratio shows U.S. stock valuations are the most expensive since the dot-com and 1929 bubbles. Market bubbles have arisen in all major historical transformations – and that could happen again. But those bubbles also grew for some time and only became obvious after they burst. That's why we seek to reconcile the potential orders of magnitude of investment and revenues. That's our basis for tracking the AI transformation and is what we do in this Outlook.

The capital spending ambitions tied to the AI buildout are so large that the *micro is macro* – our first theme. The overall revenues could justify the spend – yet it's unclear how much will accrue to the tech companies building AI. That's why they are not on autopilot and could adjust plans with greater visibility on revenues and as stark energy constraints bite. The latter could slow the buildout but create other opportunities. We stay pro-risk and overweight U.S. stocks on the AI theme. This is a great time for active investing for those with insights on who will capture the revenues.

The AI builders are *leveraging up*, our second theme. We think that is needed: The spending is front-loaded – and unavoidable to realize the benefits – while revenues are back-loaded. Along with highly indebted governments, this creates a more levered financial system vulnerable to shocks – including bond yield spikes tied to policy tensions between inflation and debt sustainability. We see private credit and infrastructure supporting this financing. We go underweight long-term U.S. Treasuries tactically.

This environment also creates a *diversification mirage*, our third theme. Allocations made under the guise of diversification may now in fact be big active bets. We think portfolios instead require a clear plan B and a readiness to pivot quickly. We prefer idiosyncratic exposures in private markets.

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Clashing orders of magnitude

The AI buildout could be faster and greater than all past technological revolutions. See the chart. External estimates of AI corporate capital spending ambitions range between U.S.$5-8 trillion globally through 2030, most of that in the U.S. The challenge for investors: reconciling the huge capital spending plans with the potential AI revenues. Will their orders of magnitude match?

Based on the highest end of the spending range, the answer depends on whether U.S. growth can break out from its long-term 2% trend. This is a tall order, but AI makes it conceivable for the first time. See next page. Even if spending and revenues reconcile at the macro level, there is still a timing mismatch. The AI buildout requires front-loaded investment: compute, data centers and energy infrastructure. The eventual revenue from that investment comes later. The buildout is just starting and concentrated in the tech sector, for now, but we see productivity and revenue gains spreading across the economy.

The gap in time between capex needs and eventual revenues means AI builders have started using debt to get over a financing "hump." This frontloading of spending is necessary to realize eventual gains. Private sector leverage will add to a heavily indebted public sector, creating financial system vulnerabilities. Bond yield spikes could pose a risk to this financing.

All this creates a very different investment environment with some core features. First, higher leverage will result in greater credit issuance across public and private markets. Second, a broadly higher cost of capital as this big borrowing puts upward pressure on interest rates. Third, before new pools of AI revenues spread across the economy, further concentrated market gains within tech will require big calls. And fourth, more room for alpha and active investing as those revenues spread beyond tech. All this means traditional approaches to portfolio construction need a rethink.

A rapid transformation

Length and capital deepening of notable innovations, 1760-2040

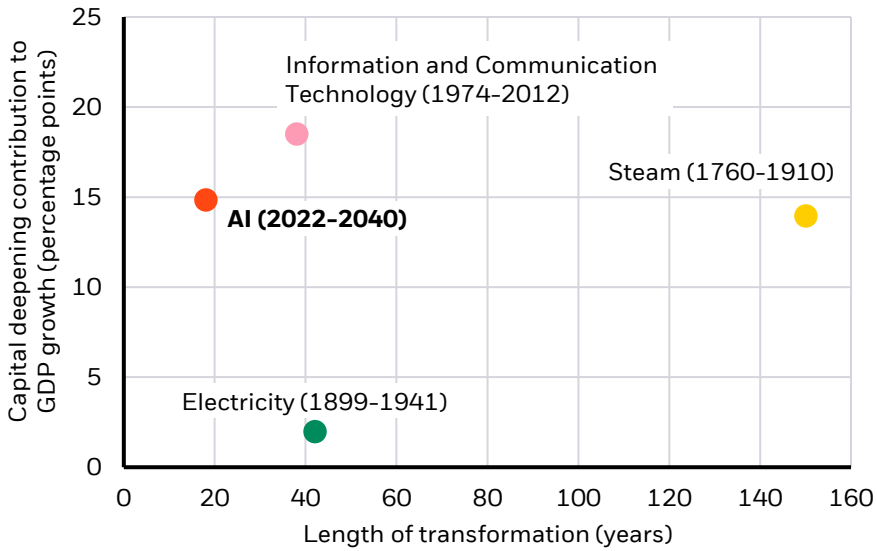

Chart takeaway: *The AI transformation is unfolding fast and is driving record investment — we could reach a level close to the largest buildout in half the time.*

Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute with data from Crafts (2021), December 2025. Notes: The chart shows the average annual contribution of capital spending to GDP growth for previous U.S. technologies (except "steam," for the UK) against the length of time the capital was spent. Estimates for steam, electricity and ICT are taken from Crafts (2021). The spend needed for artificial intelligence (AI) is calculated using realized capital spending between 2022-2024, the upper end of the U.S.$5-8 trillion range of total capital spending intentions spanning the period 2025-2030, and an assumption that capex intensity continues at a similar rate through 2030-2040.

This investment environment has some core features: higher leverage, a higher cost of capital, concentrated gains requiring the need to make big calls, and more opportunities for active views.

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Growth breakout: now conceivable

We see AI capital spending still supporting growth in 2026, with the contribution to U.S. growth from investment totaling three times its historical average this year. This capital-intensive boost is likely to persist into next year, allowing growth to hold up even as the labor market keeps cooling. This "no hiring, no firing" stasis gives the Federal Reserve room to keep trimming policy rates in 2026. Yet inflation could prove sticky above the Fed's 2% target. We see a favorable policy and regulatory backdrop heading into the U.S. midterm elections. Any rebound in business confidence and hiring could reignite inflation, bringing back policy tensions with debt sustainability.

Zooming out, AI will likely keep trumping tariffs and traditional macro drivers as it has in 2025. In a world where U.S. trend growth stays under 2%, absorbing that capex will require big macro adjustments – crowding out other non-AI spending in the economy, and potentially resulting in much higher inflation.

But the big question is whether it's possible for U.S. growth to eventually break out of its long-term trend. The U.S. sits at the global economic frontier. But all major innovations of the last 150 years – including steam, electricity and the digital revolution – were not enough for it to break out of its 2% growth trend. Doing so is a tall order.

Yet it is conceivable for the first time. Why? AI is not only an innovation itself but has the potential to innovate the process of innovation. AI could begin to generate, test and improve new concepts on its own. If that happens, the rate of discovery could accelerate, driving scientific breakthroughs such as in materials, drugs and technology. This self-reinforcing loop of accelerating innovation is key to achieving the breakout.

While conceivable, we don't know if it will happen. We track evidence that can serve as a leading indicator of faster innovation – for example, a surge in the number of new patents each year – before any benefits start to show up in broader activity data.

Never broken out

U.S. GDP per capita and long-term trend, 1870-2024

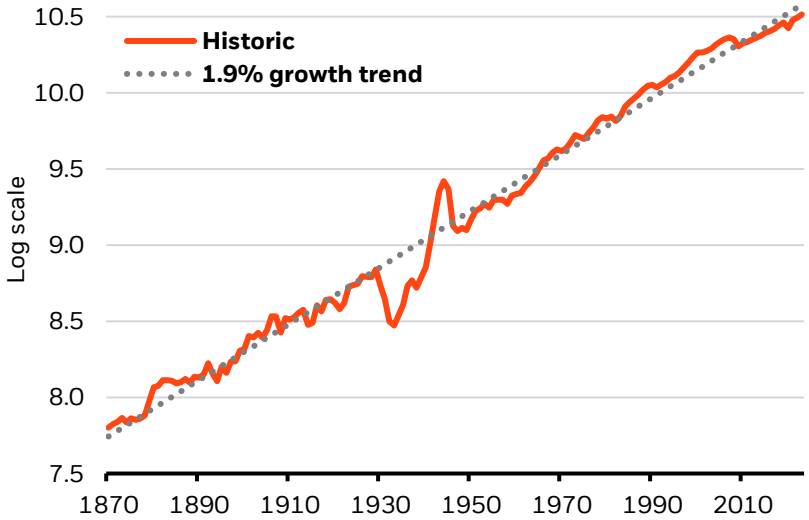

Chart takeaway: *Over the past 150 years, U.S. growth has stayed remarkably close to a 2% trend even with past technological revolutions. We think it's conceivable that accelerating AI-driven innovation could boost growth above that trend.*

Source: BlackRock Investment Institute, Bureau of Economic Analysis and Macrohistory Database, with data from Haver Analytics, December 2025. Note: Historical data compiled by Òscar Jordà, Moritz Schularick, and Alan M. Taylor. 2017. Macrofinancial History and the New Business Cycle Facts. in NBER Macroeconomics Annual 2016, volume 31, edited by Martin Eichenbaum and Jonathan A. Parker. Chicago: University of Chicago Press.

For the U.S. to break out of a 2% growth trend, it will require innovation in how we innovate – and that first requires massive upfront investment.

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Micro is macro

The AI buildout is dominated by a handful of companies whose spending is so large that it has a macro impact. Taking a view on these companies requires assessing whether the macro math adds up.

Take the upper end of the range of AI investment ambitions through 2030 of $8 trillion. See page 4. Broker analysts see total annual hyperscaler revenue increasing by $1.6 trillion. That would fall short of the revenues needed to deliver a reasonable rate of return of 9-12% on that upper-end of AI investment. See the chart. But that's not the full picture: the true potential of AI goes beyond existing business lines. As AI becomes embedded in the economy, we expect it to create entirely new pools of revenue in the tech sector and beyond. Where exactly is highly uncertain. But we can still try to gauge the macro size.

To do that, suppose we break out of a 2% growth world and AI delivers a 1.5% boost to growth through productivity gains. We estimate that this would expand economy-wide revenues by $1.1 trillion per year – more than enough to justify the upper-end of spending.

But even if the numbers might add up at the macro level, there is no guarantee those revenues will flow to the AI builders. If the tech sector grows its share of revenue from 25% now, LSEG data show, to 35%, that's a $400 billion boost. See the right bar. Combining these new revenues with current analyst estimates suggests this could deliver a reasonable return on investment.

We see room for tech revenues to move in that direction as current AI builders eat into parts of the tech ecosystem, like software. AI's ability to automate tasks, such as coding, means it could replace other tech services. Yet revenue gains will increasingly spread across sectors and the economy. Entirely new AI-created revenue streams are likely to develop. How those revenues are shared is likely to evolve – and we don't yet know how. Finding winners will be an active investment story.

We stay overweight U.S. stocks and the AI theme, supported by robust earnings expectations. The capex may pay off overall even if not for individual companies. The next phase may be more about energy and resolving bottlenecks.

Doing the math

Estimates of annual U.S. corporate revenue growth through 2030

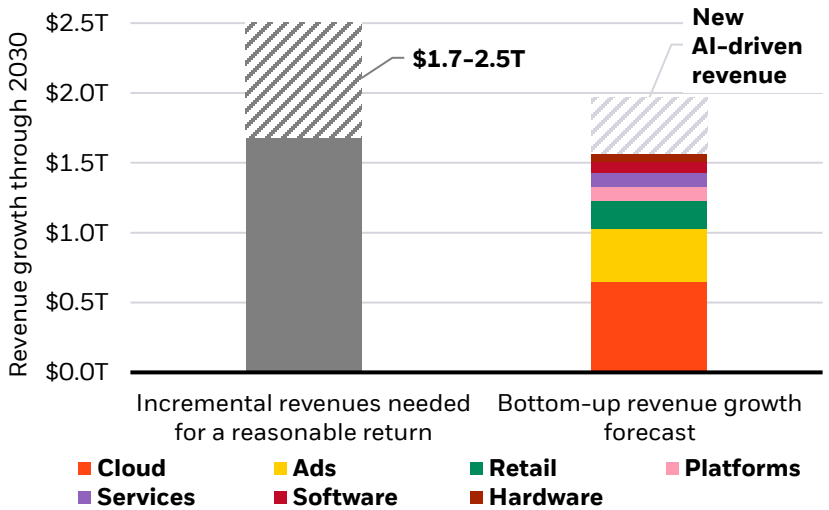

Chart takeaway: *We find that large tech firms will need to grow revenue faster for AI-driven investment to pay off.*

Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute, Bloomberg and others, December 2025. Notes: The left bar shows the necessary incremental revenues to be achieved 2025-2030 to reach a 9-12% lifetime internal rate of return. This is based on data center deployment estimates (gigawatt terms) and capex per gigawatt assumptions reflecting cost inflation, GPU life, phasing and hyperscaler market share. We cross-referenced with other sources including McKinsey & Company, Boston Consulting Group, Lawrence Berkeley National Laboratory, International Energy Agency, U.S. Department of Energy, BloombergNEF, Schneider Electric, Electric Power Research Institute and others. These calculations include retail revenue growth (Amazon) and other non-data center revenues according to Bloomberg consensus estimates. The right bar shows the Bloomberg consensus for the increase in annual revenues over 2025-2030 for U.S. hyperscalers including Microsoft, Meta and Google.

Investment implications

- We stay risk-on and overweight U.S. stocks on the AI theme.
- We believe the AI theme will become an active investment story of identifying new winners as AI revenues spread across the economy.

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Leveraging up

Getting over the AI buildout's financing hump between front-loaded investment and back-loaded revenues needs long-term financing. That means greater leverage is inevitable. This has already started as seen from recent bond sales from large tech firms.

The good news: the starting point for private sector leverage is healthy, particularly listed tech. The largest cloud spenders sport an average debt-to-equity ratio of 0.54 times as of Nov. 26, Bloomberg data show, pointing to room to lever up. New issuance from major tech firms has so far been well received by markets.

The financing needs tied to AI capex far exceed what even the largest firms can meet internally. But this is occurring against a backdrop of already highly leveraged public sector balance sheets. See the chart. Elevated debt and competing fiscal priorities - from Germany's defense push, stretched U.S. and UK budget deficits and Japan's new spending pledges – limit the public sector's role in financing the AI buildout.

That's why we expect companies to keep tapping public and private credit markets, creating opportunities for investors.

Higher borrowing across public and private sectors is likely to keep upward pressure on interest rates. Elevated debt servicing costs are one reason we see term premium – or compensation investors demand to hold long-term bonds – rising and pushing up yields. We turn underweight long-term Treasuries. AI could eventually deliver the productivity gains needed to ease public debt burdens, yet that will take time.

One risk: a structurally higher cost of capital raises the cost of AI-related investment and affects the broader economy. A more leveraged system also creates vulnerabilities to shocks such as bond yield spikes tied to fiscal concerns or policy tensions between managing inflation and debt servicing costs. Indebted governments have less capacity to cushion such shocks. This is where AI financing needs and government debt constraints intersect.

Debt divergence

U.S. government and corporate debt, 1950-2025

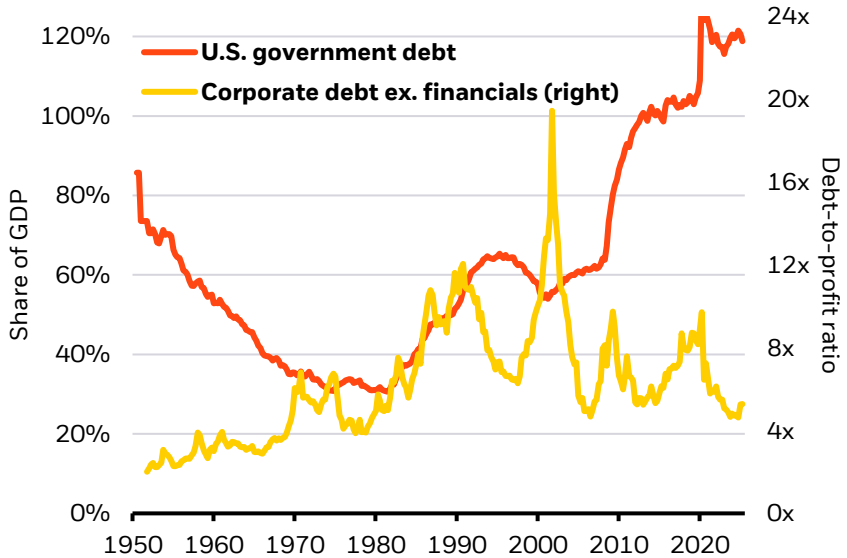

Chart takeaway: *Public and private balance sheets have diverged sharply: government debt has surged to postwar highs while corporate leverage has eased. This is why the corporate sector has room to leverage up to fund the AI buildout.*

Source: BlackRock Investment Institute, Congressional Budget Office, Bureau of Economic Analysis, Federal Reserve Board, with data from Haver Analytics and LSEG Datastream, December 2025. Notes: The chart shows U.S. federal debt as a share of nominal GDP, and debt of U.S. nonfinancial corporations as a share of pre-tax profits.

Investment implications

- We see rising AI exposure in public and private credit markets.
- We go tactically underweight long-term Treasuries as we see investors demanding more term premium.

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Diversification mirage

Portfolio decisions taken under the guise of "diversifying" away from the handful of forces driving markets is now a bigger active call. Our analysis shows that after accounting for common drivers of equity returns, like value and momentum, an ever larger share of U.S. equity returns reflects a single, common driver. See the chart. Markets are more concentrated, with less breadth.

Attempts to diversify away from the U.S. or AI - toward other regions or equal-weighted indexes, for example – amount to larger active calls than before. They have left portfolios less exposed to this year's dominant driver of returns – a driver we have conviction in. The equal-weighted S&P 500 is up just 3% this year versus 11% for the market cap-weighted S&P, LSEG data show. We don't think this can be viewed as indiscriminately spreading out bets for diversification. They should be recognized as big active calls that need to be made with conviction. Moreover, if the AI theme stumbles, the impact will likely dwarf any seeming diversification away from it.

Traditional diversifiers like long-term Treasuries do not offer the portfolio ballast they once did. That's why investors have been hunting for other portfolio hedges – reviving interest in gold this year. We see it more as a tactical play with distinct return drivers and are skeptical of its role as a long-term portfolio hedge.

We think diversification means shifting away from broad asset classes or regional views to more granular, nimbler positioning and themes that work across scenarios. Portfolios need a clear plan B and a readiness to pivot quickly.

We don't see easy passive diversification options in this environment. We think investors should focus less on spreading risk indiscriminately and more on owning it more deliberately – in short, a more active approach. We think high-conviction strategies like private markets and hedge funds pair diversification with strong return potential, in our view. And much of their performance is idiosyncratic, allowing manager skill to show through.

A powerful common driver

Variance in S&P 500 returns explained by a dominant underlying factor

Chart takeaway: *After controlling for equity style factors, the share of daily S&P 500 returns explained by a single factor has jumped since last year – a sign of a concentrated market.*

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 and Kenneth R. French, 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.

Investment implications

- Traditional diversifiers like long-dated bonds offer less potential portfolio ballast.
- This environment calls for seeking truly idiosyncratic return sources, such as private markets and hedge funds, and staying tactical.

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AI buildout faces constraints

The AI buildout in the U.S. faces many constraints: political, financial as we have noted, but especially physical constraints involving compute and energy – with energy the most binding now.

AI data centers could use 15-20% of current U.S. electricity demand by 2030 – a scale sure to test the limits of power grid, fossil and materials industries. See the chart. Some estimates even suggest data centers could use a quarter of current electricity demand. Rising power demand collides with a backlog of projects waiting to connect with the electric grid and generally slow permitting in the West. Capex plans could be walked back if such limits bite, crimping ambition around the AI buildout.

China stands in contrast, building power generation and transmission at pace. That includes on-time and on-budget nuclear reactors plus coal, hydropower and renewables. China's solar and battery manufacturing is driving domestic solar and battery costs down.

We believe that gives China a number of advantages in deploying AI infrastructure: power-intensive data centers need cheap, stable and clean energy. The focus on DeepSeek this year, a seemingly more energy-efficient Chinese AI model, showed that greatly reducing the energy needed for compute could partly ease energy constraints.

We see opportunities emerging where constraints will likely bite the most: power systems, grids, critical minerals and potential beneficiaries from permitting reform. Private capital will be central to bridging the gap between the current supply of energy and future demand as elevated debt limits government spending, in our view.

> **"Companies haven't struggled to get chips — the real constraint is land and energy."**

Alastair Bishop
Portfolio manager, BlackRock Fundamental Equities

Facing constraints

U.S. data center power demand as a share of total, 2024-30

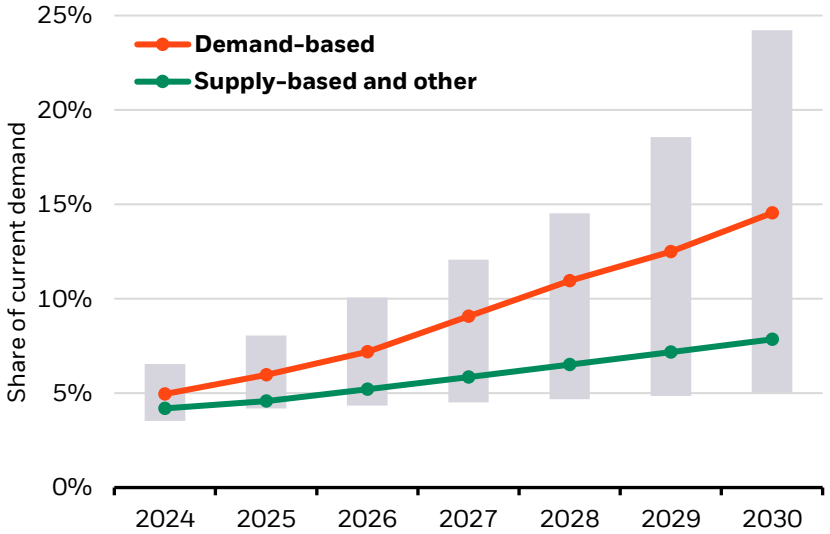

Chart takeaway: *The electricity needs of data centers could make up a quarter of current U.S. electricity demand by 2030 — with demand-based estimates exceeding those factoring in supply constraints. That underscores the scale of the challenge and the uncertainty around how the demand will be met.*

Forward looking estimates may not come to pass. Source: BlackRock Investment Institute, based on sources reviewed by BloombergNEF, December 2025. Note: Grey bars show the total range, while lines denote the median of data center power demand forecasts by method as a share of 2024 U.S. total power demand, including traditional data centers and artificial intelligence (AI) data centers and excluding cryptocurrency and data transmission networks demand.

Investment implications

- Major chokepoints – like power systems and the permitting of land – could constrain the AI buildout.
- We see private capital playing a critical role in financing future energy projects.

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BII0126-5127912-EXP0127-11/20

Fragmentation: AI and defense

We have entered the third distinct world order since World War Two as the U.S. fundamentally resets its economic and geopolitical relationships with the world. Transactional trade, industrial policy and a resetting of alliances to advance a series of U.S. interests mark a decisive break from the post-Cold War order.

The U.S.-China rivalry is the defining feature of geopolitics. Competition spans trade, technology, energy and defense. AI is at the center. Both see AI as the key technology determining future economic and military advantage this century. And both are undertaking major efforts to curb strategic dependencies that can be weaponized.

Elsewhere, an ongoing war of attrition in Ukraine, an uncertain peace in Gaza amid structural regional change and the largest U.S. build-up of forces in the Caribbean in decades show how regional conflicts and crises can layer volatility atop a structurally elevated risk environment.

In Europe, rising U.S. protectionism, weak competitiveness and Russia's invasion of Ukraine have restored urgency in addressing Europe's challenges, with the EU embracing parts of the Draghi report to guide policy. NATO allies agreed to target defense spending of 5% of GDP by 2035. See the chart. And Germany suspended its "debt brake" to raise defense and infrastructure spend. Urgency is driving progress in energy, where elevated power prices and reliance on imports make the bloc vulnerable to geopolitical shocks. Looser fiscal rules are boosting energy investment, and new regulation aims to promote competition and reduce permitting times for clean energy projects.

> **"The U.S. and China AI race will define both economic and military advantage this century."**

Tom Donilon
Vice Chairman, BlackRock

Europe steps up spending

Defense spending, 1960-2027

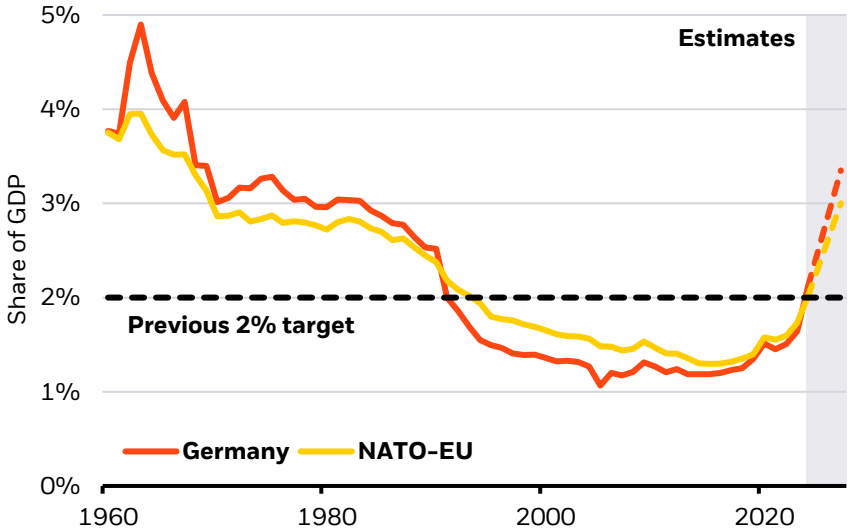

Chart takeaway: *This year's commitment by NATO allies to boost defense spending to 5% as a share of GDP by 2035 follows decades of lagging the previous 2% target. We think it highlights how deepening geopolitical fragmentation is raising urgency.*

Forward looking estimates may not come to pass. Source: BlackRock Investment Institute, NATO, World Bank and European Commission, July 2025. Note: The solid lines show defense spending as a share of GDP for Germany and European NATO countries. The dotted line estimates assume current plans to boost defense spending are realized.

Investment implications

- Hefty defense spending could create medium-term opportunities in European defense tech.
- We see the political focus on energy as a positive driver for European utilities.

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Future of finance evolving quickly

New asset classes, from crypto to private markets, and their broader access has implications for core aspects of the financial system.

Take stablecoins – digital tokens pegged to a fiat currency, typically the U.S. dollar, and backed by reserve assets. They are evolving from a tool native to crypto to a bridge between digital and traditional finance. A rising market value – now over $250 billion as of Nov. 27, per Coingecko – reflects wider use across payments, from crypto trading and settlement to cross-border transfers. See the chart. The 2025 Genius Act established the first U.S. framework for payment stablecoins, placing them under regulatory oversight. The law bars issuers from paying interest but a "marketing-rewards" provision enables yield-like incentives. That allows competition with bank deposits or money market funds, which, if it occurred at scale, could meaningfully affect how banks provide credit to the broader economy. The likely extent of such shifts is highly uncertain.

What is clearer is that stablecoin adoption is widening, including integration into mainstream payment systems. Beyond banking, we see potential for adoption in cross-border payments. Additionally, in EMs, stablecoins could be used domestically as an alternative to local currency, broadening dollar access but challenging monetary control if domestic currency use declines, supporting the dollar.

These developments mark a modest but meaningful step toward a tokenized financial system that is evolving rapidly, where digital dollars coexist with – and reshape – traditional channels of intermediation and policy transmission.

> **"Stablecoins are no longer niche – they're becoming the bridge between traditional finance and digital liquidity. "**

Samara Cohen
Global Head of Market Development, BlackRock

The rise of stablecoins

Stablecoin market cap and share of total crypto market, 2020-25

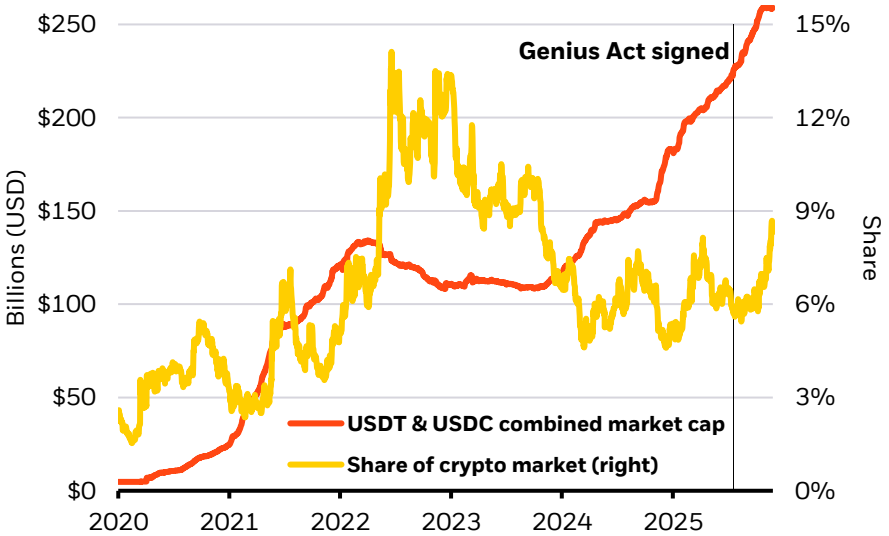

Chart takeaway: *Stablecoins have become a structural part of digital finance — their market cap has surged to record highs even as crypto prices fluctuated, underscoring their growing role as the system's primary source of dollar liquidity and on-chain stability.*

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. The figures shown relate to past performance. Past performance is no guarantee of current or future results. Source: Blackrock Investment Institute, with data from Coingecko as of November 27, 2025. Note: The orange line shows the combined market cap of Tether (USDT) and USD Coin (USDC), and the yellow line shows their combined market cap relative to the entire cryptocurrency market.

Investment implications

- Stablecoin adoption is widening and is increasingly integrated into mainstream payment systems.
- These developments mark a modest but meaningful step toward a tokenized financial system.

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Private credit enters new phase

Private credit has entered a more uneven phase after years of rapid growth. Larger, established lenders remain resilient, while some smaller and newer entrants are under pressure. Competition and abundant capital amid lower buyout and deal activity has compressed spreads and led some lenders to compromise on credit standards.

While pockets of stress are evident, we think they are concentrated, not contagious. See the chart. Covenant defaults among smaller borrowers have risen more than among larger ones — an indication of growing dispersion in private credit. We also expect dispersion by industry, with businesses heavily exposed to the consumer or threatened by AI most at risk.

We see defaults as more pronounced in a challenging economic environment. Losses will rise in tandem as poorly structured deals unwind, in our view — a normal and necessary correction after a long benign cycle.

Reported data may mask stress through restructurings or payments-in-kind, but we think a shakeout will distinguish disciplined lenders from others. That now makes manager selection, due diligence, workout capabilities and track records even more crucial. We think that gives established lenders with strong documentation and proven expertise an edge.

Retail flows into semi-liquid private credit products are likely to be pro-cyclical and may amplify volatility during periods of stress. Wider dispersion creates more alpha opportunities and highlights why investment skill is key.

> **“Expect greater dispersion in private credit, heightening the importance of manager selection.”**

Vikas Keswani
Managing Director at HPS, a part of BlackRock

Dispersion in defaults

Covenant default rates by revenues, 2024-25

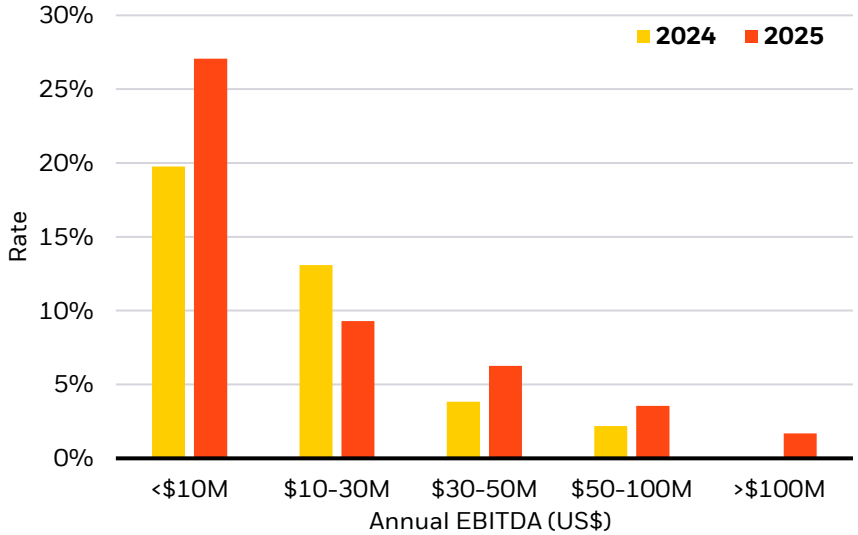

Chart takeaway: *Covenant default rates among smaller borrowers are much higher compared with larger counterparts. We think that illustrates the widening dispersion within private credit – creating potential alpha for skilled investors.*

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Source: BlackRock Investment Institute, Lincoln International, November 2025. Note: The bars show the size-weighted covenant default rates by revenue. The dataset excludes companies with negative debt. The 2024 and 2025 data are for Q2 in both years.

Investment implications

- The gap between established lenders and newer entrants is growing.
- We think manager selection, due diligence and track records are critical for capturing potential alpha.

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Infrastructure: a timely moment

Infrastructure sits at the intersection of structural demand and a timely market opportunity, in our view. We define infrastructure as exposure to essential, long-lived real assets — transport, energy, digital and utility systems — whose cash flows are often regulated or contracted, giving them "defensive" characteristics.

The AI buildout adds another dimension: as we've discussed earlier, we believe there will be clear winners, yet we don't know who will capture the ultimate revenues. In any case, we see infrastructure as indispensable, providing the power, data networks and connectivity that the eventual winners rely on. We think valuations don't reflect the long-term potential. Listed infrastructure trades at a deep discount to public equities - below global financial crisis levels and comparable to the Covid-19 shock. See the chart. This discount partly reflects uncertainty about the outlook for interest rates rather than deteriorating fundamentals, in our view.

For long-term investors able to accept higher illiquidity, we also see attractive opportunities in private infrastructure that gives investors the ability to directly control assets. Private infrastructure also offers exposure to certain types of infrastructure typically harder to find in public markets such as carbon capture and storage or biofuels.

For investors with income or liability-matching goals, we believe both investment grade and sub-investment grade infrastructure debt offer appeal. High yield infrastructure debt offers relatively attractive spreads and investment grade debt can offer insurers capital efficiency. Both can offer partial inflation linkage.

> **"The infrastructure for AI is a permanent trend, and the race now is to secure the land, water, and power to build it."**

Scott Pearl
Managing Director at GIP, a part of BlackRock

A valuation discount

Listed infrastructure vs. MSCI World valuations, 2010-25

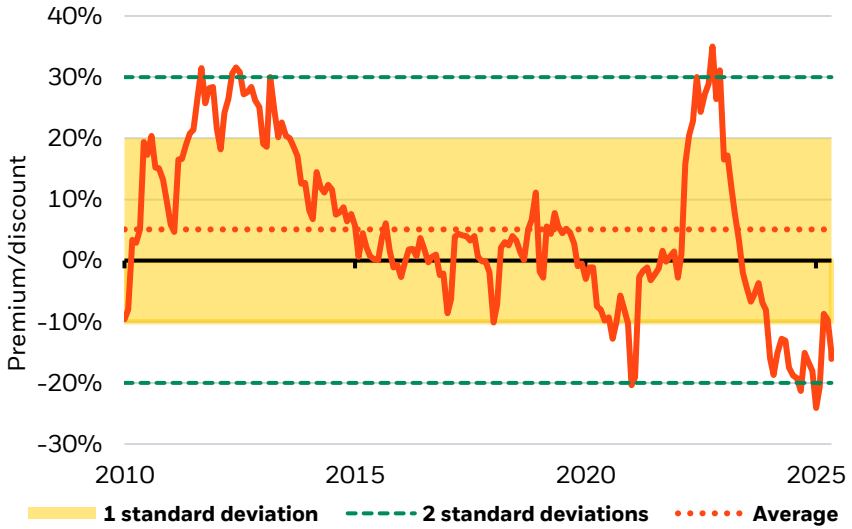

Chart takeaway: *Market pricing does not reflect the opportunity in infrastructure from mega forces driving multi-decade investment needs, creating an attractive entry point.*

The figures shown relate to past performance. Past performance is not a guarantee 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 FTSE, MSCI, December 2025. Notes: The chart shows the relative difference between the EV/EBITDA ratio of the FTSE World Core Infrastructure 50/50 index and MSCI World indices. The orange dotted line shows the average, the shaded yellow area show the range of 1 standard deviation from the average and the green dashed lines show the range of 2 standard deviations from the average.

Investment implications

- Valuations don't fully reflect the infrastructure opportunity – underpinned by mega forces driving multi-decade investment needs.
- We think institutional investors can up infrastructure allocations across public and private markets.

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Room to run for EMs

Emerging markets have had a strong 2025. Local-currency EM bonds led gains as inflation fell, central banks cut rates and EM currencies strengthened against a softer U.S. dollar. In our view, that phase is ending as much of the early policy easing and currency strength is now reflected in returns.

We now see opportunities in hard-currency EM debt and turn overweight. A weaker dollar, lower U.S. rates and prudent fiscal and monetary policy have improved EM credit fundamentals, reflected by a slew of sovereign rating upgrades. Spreads are near decade lows across regions, supported by limited issuance and stronger balance sheets. We favor high-yield EM issuers leading sovereign ratings upgrades this year – see chart. We see these upgrades as a sign of improving credit quality that alongside attractive carry underpins our overweight. We prefer bonds to equities across EM on a tactical horizon on steadier income potential and valuations that better reflect near-term risks.

We stay neutral broad EM equities on a tactical horizon as mega forces drive opportunities and we don't see a clear direction for the U.S. dollar. We favor selective exposure to tech and themes linked to AI and the energy transition across EM and China. The rewiring of supply chains is benefiting countries like Mexico, Brazil and Vietnam, in our view.

In our strategic investment views of five years and beyond, a preference for above-benchmark allocations to Indian equities drives a broader overweight to EM equities. India's young and expanding workforce, rapid digitization and resilience in a fragmented geopolitical landscape bolster its long-term growth prospects, we think.

> **"The average EM is more resilient, better managed and looking more like part of the core."**

Pablo Goldberg
Head of Research and Portfolio Manager, Emerging Market Debt Team, BlackRock

Jump in quality

Rating upgrades to emerging market (EM) sovereign debt, 2010-2025

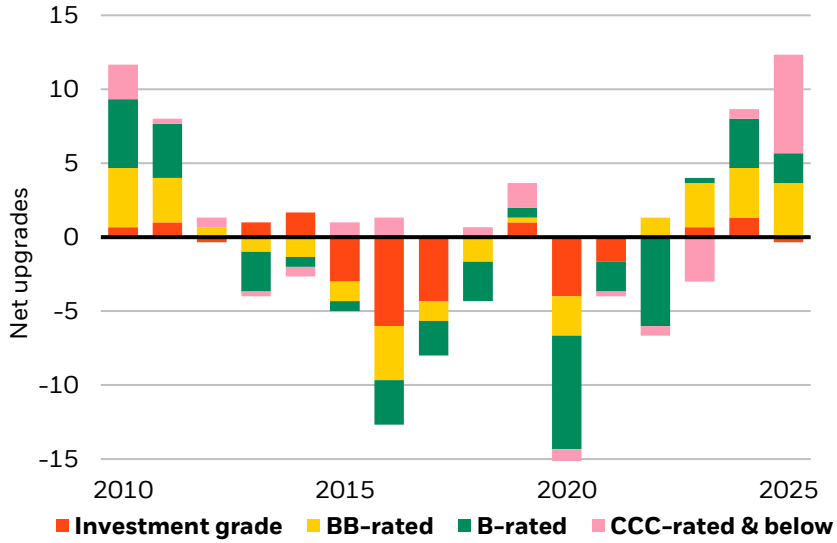

Chart takeaway: *Higher-yielding emerging market bonds are driving most of this year's ratings upgrades. We think it highlights a rising quality in EM bonds – that are already attractive as high-income opportunities, in our view.*

The figures shown relate to past performance. Past performance is not a guarantee of current or future results.
Source: BlackRock Investment Institute, Morgan Stanley Research, Standard & Poor's, Moody's Investors Service and Fitch Ratings, with data from Bloomberg, December 2025. Note: The bars show the net upgrades (number of upgrades minus the number of downgrades) made by S&P, Moody's and Fitch of emerging market sovereign debt across different credit ratings.

Investment implications

- We like EM hard currency debt tactically given attractive income, limited issuance and stronger sovereign balance sheets.
- On a long-term horizon, we favor EM equities at the cross current of mega forces, like India.

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BII0126-5127912-EXP0127-16/20

Going global

We stay overweight U.S. stocks on the broadening AI theme, with risk appetite supported by Fed rate cuts. The AI theme has broadened out this year, benefiting a wider array of markets including China, Taiwan and South Korea. Europe's lagging earnings growth relative to the U.S. keeps us neutral its stocks, but we prefer sectors such as financials and industrials.

Japanese stocks are one of our preferred tactical and strategic exposures. Solid economic growth and shareholder-friendly reforms underpin our overweight. We're underweight Japanese government bonds – and DM long-dated bonds broadly. We prefer EM hard-currency debt on attractive carry, limited issuance and healthy sovereign balance sheets.

We think India offers one of the most compelling opportunities across emerging markets for long-term investors looking to tap into mega forces. We favor above-benchmark allocations to Indian equities within strategic portfolios with investment horizons of five years and beyond. Demographics are India's greatest long-term strength, in our view: a large and expanding working-age population, unlike many major economies, bode well for sustained gains in productivity and consumption, we think. We also see it as a potential beneficiary of heightened geopolitical fragmentation that benefits multi-aligned and connector countries.

Big calls

Our highest conviction views on six- to 12-month (tactical) and over five-year (strategic) horizons, Dec. 2025

Tactical	Reasons
Still favor AI	• We see the AI theme supported by strong earnings, resilient profit margins and healthy balance sheets at large listed tech companies. Continued Fed easing into 2026 and reduced policy uncertainty underpin our overweight to U.S. equities.
Select international exposures	• We like Japanese equities on strong nominal growth and corporate governance reforms. We stay selective in European equities, favoring financials, utilities and healthcare. In fixed income, we prefer EM due to improved economic resilience and disciplined fiscal and monetary policy.
Evolving diversifiers	• We suggest looking for a "plan B" portfolio hedge as long-dated U.S. Treasuries no longer provide portfolio ballast – and to mind potential sentiment shifts. We like gold as a tactical play with idiosyncratic drivers but don't see it as a long-term portfolio hedge.
Strategic	**Reasons**
Portfolio construction	• We favor a scenario-based approach as we learn more about AI winners and losers. We lean on private markets and hedge funds for idiosyncratic return and to anchor portfolios in mega forces.
Infrastructure equity and private credit	• We find infrastructure equity valuations attractive and mega forces underpinning structural demand. We still like private credit but see dispersion ahead – highlighting the importance of manager selection.
Beyond market cap benchmarks	• We get granular in public markets. We favor DM government bonds outside the U.S. Within equities, we favor EM over DM yet get selective in both. In EM, we like India which sits at the intersection of mega forces. In DM, we like Japan as mild inflation and corporate reforms brighten the outlook.

Note: Views are from a U.S. dollar perspective, December 2025. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any particular funds, strategy or security.

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Tactical granular views

Six- to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, December 2025

Underweight | **Neutral** | **Overweight** | ● Previous view

Equities	View	Commentary
United States		We are overweight. Strong corporate earnings, driven in part by the AI theme, are supported by a favorable macro backdrop: continued Federal Reserve easing, broad economic optimism and less policy uncertainty, particularly on the trade front.
Europe		We are neutral. We would need to see more business-friendly policy and deeper capital markets for recent outperformance to continue and to justify a broad overweight. We stay selective, favoring financials, utilities and healthcare.
UK		We are neutral. Valuations remain attractive relative to the U.S., but we see few near-term catalysts to trigger a shift.
Japan		We are overweight. Strong nominal GDP, healthy corporate capex and governance reforms – such as the decline of cross-shareholdings – all support equities.
Emerging markets		We are neutral. Economic resilience has improved, yet selectivity is key. We see opportunities across EM linked to AI and the energy transition and see the rewiring of supply chains benefiting countries like Mexico, Brazil and Vietnam.
China		We are neutral. Trade relations with the U.S. have steadied, but property stress and an aging population still constrain the macro outlook. Relatively resilient activity limits near-term policy urgency. We like sectors like AI, automation and power generation. We still favor China tech within our neutral view.

Fixed income	View	Commentary
Short U.S. Treasuries		We are neutral. We see other assets offering more compelling returns as short-end yields have fallen alongside the U.S. policy rate.
Long U.S. Treasuries		We are underweight. We see high debt servicing costs and price-sensitive domestic buyers pushing up on term premium. Yet we see risks to this view: lower inflation and better tax revenues could push down yields near term.
Global inflation - linked bonds		We are neutral. We think inflation will settle above pre-pandemic levels, but markets may not price this in the near-term as growth cools.
Euro area govt bonds		We are neutral. We agree with market forecasts of ECB policy and think current prices largely reflect increased German bond issuance to finance its fiscal stimulus package. We prefer government bonds outside Germany.
UK gilts		We are neutral. The recent budget aims to shore up market confidence through fiscal consolidation. But deferred borrowing cuts could bring back gilt market volatility.
Japanese govt bonds		We are underweight. Rate hikes, higher global term premium and heavy bond issuance will likely drive yields up further.
China govt bonds		We are neutral. China bonds offer stability and diversification but developed market yields are higher and investor sentiment shifting towards equities limits upside.
U.S. agency MBS		We are overweight. Agency MBS offer higher income than Treasuries with similar risk and may offer more diversification amid fiscal and inflationary pressures.
Short-term IG credit		We are neutral. Corporate strength means spreads are low, but they could widen if issuance increases and investors rotate into U.S. Treasuries as the Fed cuts.
Long-term IG credit		We are underweight. We prefer short-term bonds less exposed to interest rate risk over long-term bonds.
Global high yield		We are neutral. High yield offers more attractive carry in an environment where growth is holding up – but we think dispersion between higher and weaker issuers will increase.
Asia credit		We are neutral. Overall yields are attractive and fundamentals are solid, but spreads are tight.
EM hard currency		We are overweight. A weaker U.S. dollar, lower U.S. rates and effective EM fiscal and monetary policy have improved economic resilience. We prefer high yield bonds.
EM local currency		We are neutral. A weaker U.S. dollar has boosted local currency EM debt, but it's unclear if this weakening will persist.

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