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# Equity Market Outlook

Q3 2026

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# Foreword



**Carrie King**

Global CIO, BlackRock  
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**Raffaele Savi**

Global Head of  
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Equities displayed resilience in the first half of the year, intermittently faded but ultimately pushing past geopolitical uncertainty and periodic questions around the pace and trajectory of AI-related investment.

It's not unreasonable to approach the second half of 2026 with healthy doses of optimism and vigilance.

AI remains an important mega force even as the investment opportunity set becomes more nuanced (see page 4). Investor focus is shifting from AI adoption to AI monetization, particularly as unprecedented capital spending continues to rise. While that spending is drawing on the free cash flow of the major U.S. hyperscalers, it is also highlighting the relative attractiveness of some other areas of the market (page 6).

We remain constructive on the long-term AI opportunity and continue to identify potential beneficiaries across what we see as a multi-year investment cycle. At the same time, we recognize the importance of diversification. We see value in broadening our focus to other areas of the global markets and note potentially underappreciated

opportunities in places such as energy, materials and infrastructure (pages 7-9).

Globally, emerging markets are among the strongest-performing regions year to date. Their contribution to the global AI buildout is a key part of the story (pages 10-11), helping to power earnings growth, particularly in Asia, a trend we expect to persist.

Overall, we begin the second half of 2026 with a constructive outlook for equities. Earnings trends have been strong across sectors and geographies, reinforcing the case for exploring a larger cross-section of investment themes.

And yet, geopolitical uncertainty and elevated investor expectations are likely to contribute to bouts of market volatility. While challenging, volatility may also create opportunities. And we continue to see scope for ample opportunity — in both the AI theme and in areas well beyond it across global equity markets.

Against this backdrop, senior members of our alpha-seeking equity platform share their perspectives in our **Q3 Equity Market Outlook**.

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# Finding alpha in fragmented equity markets



**Jeff Shen, PhD**

Co-CIO and  
Co-Head of  
Systematic  
Active Equities

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**In a world shaped by a narrow set of themes, it's important to understand how they ripple through connected companies, industries and markets.**

Strong corporate earnings and enthusiasm surrounding AI have provided a supportive foundation for risk sentiment, allowing equity markets to power higher in recent months.

The ability of markets to repeatedly look through uncertainty has itself become an enduring feature of recent years. Geopolitical shocks and a more challenging macroeconomic backdrop marked by inflation and higher-for-longer interest rates have contributed to bouts of volatility and wider dispersion in returns across sectors and individual companies.

At the same time, AI itself has emerged as a powerful source of differentiation, driving uneven outcomes both across and within industries as markets distinguish between companies positioned to benefit from the AI transformation and those less equipped to capture its value. The result has been increasingly winner-take-all dynamics across technology, infrastructure and the broader investment chain, with a narrow group of dominant companies playing an outsized role in driving headline market performance.

## **Top-level market dynamics**

This has manifested in the persistence, and in some cases acceleration, of the return patterns that have been shaping markets. One of the clearest examples has been the exceptional strength of traditional price momentum,

which has experienced its strongest start to a year in two decades despite periods of elevated volatility, as markets have continued to reinforce thematic exposures tied to the AI investment cycle. This included a sustained preference for the physical infrastructure layer of AI over more asset-light technology businesses facing disruption concerns.

By contrast, fundamental momentum indicators linked to improving profitability, accounting trends and earnings revisions have struggled to gain traction outside of brief periods of geopolitical and macro uncertainty. Continued AI optimism, combined with strong corporate profits and resilient economic growth, has contributed to markets underappreciating opportunities to differentiate based on company-specific fundamental progress in recent months. These dynamics are reflected in the charts on the next page, illustrating the divergence.

## **Upstream information in pursuit of downstream alpha**

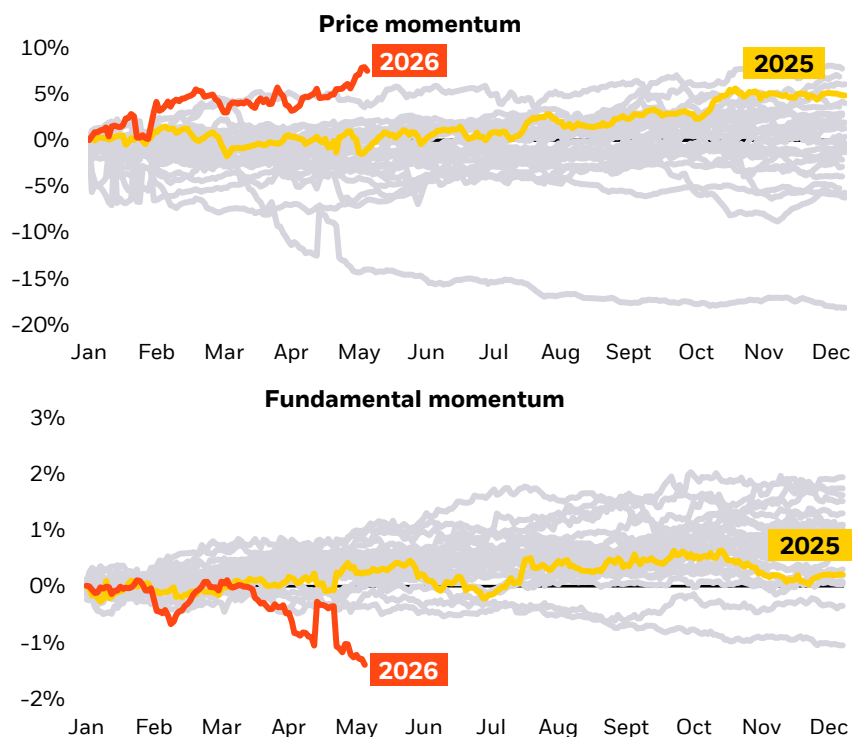
For investors, the challenge lies beyond simply identifying prevailing market and factor trends. It is anticipating where the next source of opportunity may emerge beneath them. Today's alpha can quickly become tomorrow's beta as return drivers crowd and competitive advantages erode in fast-moving markets.

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# Finding alpha in fragmented equity markets

## The strongest and weakest starts in two decades

Performance of price momentum and fundamental momentum, 1998–2026



**The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Charts show cumulative annual returns of each factor for calendar years 1998 through 2026 ytd. Factors are represented by BlackRock Systematic factor portfolios constructed from signals associated with price momentum and fundamental momentum. Fundamental momentum incorporates signals related to profitability, accounting trends and earnings revisions. Source: BlackRock Systematic, May 2026.

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Our systematic process draws on more than 1,200 investment signals integrating alternative data sources to move further upstream in the information cycle. The goal: Identify opportunities and inflection points before they are broadly recognized and reflected in market pricing.

In this environment, some of the most differentiated insights have come from signals designed to identify linkages, anticipating the propagation of market forces across companies, industries and markets. At its core, one company's revenue is often another company's cost. But the connections between companies extend far beyond direct commercial relationships, encompassing complex customer and supplier networks, competitive dynamics and indirect, second-order effects.

This has become more relevant as the scale of the AI buildout has grown and leadership has extended beyond first-order beneficiaries. Some of the strongest opportunities have emerged through more discrete expressions within the infrastructure, power and industrial layers supporting that investment. Company outcomes have depended less on broad sector or geographic exposures and more on the specific role each company plays within the investment cycle.

Understanding those relationships and interdependencies helps identify where leadership trends may find their next expression and where market expectations have yet to adjust. Similarly, these types of transfer-learning insights can emerge through cross-market information flows. As private-market equity issuance tied to AI has accelerated, these announcements have provided insight into how developments in private markets may translate into the outlook for related public-market industries.

Ultimately, while markets may be increasingly shaped by a narrow set of dominant themes, their effects are rarely distributed evenly. Understanding how they ripple through connected companies and markets remains critical to separating broad narratives from company-specific opportunities.

# Following the cash flows to unique equity opportunities



**Carrie King**

Global CIO, BlackRock  
Fundamental Equities

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**AI momentum is undeniable, but even the most powerful mega forces are subject to hiccups. Diversification still matters.**

Equity investors have been living in a one-way world. Sizzling growth and investor crowding into AI-related stocks has rendered many other areas of the market “out cold.”

We are AI optimists and see the mega force continuing to underpin markets. Yet even structurally anchored investment themes face inevitable stumbles along their growth trajectory. And the sharp rise in valuations of many AI winners could leave them particularly vulnerable to profit taking on any cooling in investor conviction.

After nearly four years of blistering gains, we believe it is reasonable to explore some of the frostier corners of the stock market for investments with risk/reward characteristics that could hedge AI exposures.

## **The appeal of free cash flow**

Our search for equity diversifiers has us looking at free cash flow (FCF) as an important signal of business strength. FCF is the cash a company has remaining after operating expenses and capital expenditures. It essentially represents the financial flexibility that enables all forms of value creation, from M&A to paying dividends.

The current FCF yield on the S&P 500 Index, at 2.65%, is the lowest in 25 years,<sup>1</sup> suggesting investors are paying a high price for the FCF they’re receiving. The mega-cap companies that are spending big on the AI buildout are seeing their FCF draw down toward zero, with some now issuing debt to fund AI-related capex.

This is not a flaw, but a strategy. Growth companies such as these can be expected to produce much higher cash flows in the future from the investments they are making today. In fact, aggregate S&P 500 FCF margins, which measure how well companies convert revenue into cash flow, are still near 15-year highs.<sup>2</sup>

Ultimately, the calculus is one of valuation and profitability, and it leads us to some other interesting and potentially overlooked portions of the equity market. Among them:

### **1. Energy**

The current energy cycle could be elongated given massive demand for power from the AI data center buildout and a reshaping of the global supply chain amid recent geopolitical events in Venezuela and the Middle East. In our view, the end of the Iran conflict is unlikely to quickly return energy supply to pre-war levels.

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# Following the cash flows to unique equity opportunities

Infrastructure damage, inventory depletion, slow reservoir ramp-up and shipping delays are likely to create a longer-term supply shock, resulting in structurally tighter supply and higher prices. In a market in transition, global oil majors may use elevated FCF to pay down debt rather than increase drilling. Applying their financial flexibility in this way has a dual benefit: Paying down debt accrues directly to equity holders, and keeping supply in check as demand surges should support energy stock prices.

And yet global energy stocks' current FCF yield of 8% sits well above tech and the long-term average of both, as shown below. This attractive valuation, combined with potentially higher-for-longer oil prices, suggests to us that the investment case for the sector may be more durable than the market expects.

## Where are the free cash flows?

Energy vs. tech FCF yields, current and 20-year average

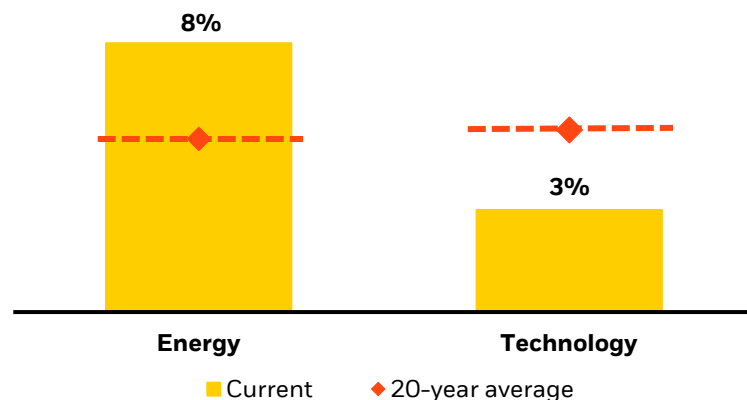


Chart shows the forward 12-month FCF yield of the energy and technology sectors in the MSCI World Index as of May 28 (current) relative to the average over the past 20 years. Indexes are shown for illustrative purposes only. It is not possible to invest directly in an index. Source: BlackRock Fundamental Equities with data from FactSet, May 28, 2026.

**Past performance is not a reliable indicator of current or future results.** Any opinions or forecasts represent an assessment of the market environment at a specific time and are not a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation. **3** Current premium of 4% to the broader market compares to a historical average premium of 1% over the last 20 years, based on data from FactSet as of May 25, 2026. **4** Valuation premium/discount is price-to-earnings relative to the S&P 500 Index, based on data from FactSet as of May 28, 2026.

## 2. Materials

We see similarities in the materials cycle. These physical assets also are central to AI infrastructure development. This, alongside years of underinvestment in sourcing critical resources, sets up what could be a long-duration and well-heeled cycle. Metals and mining stocks currently show FCF yields over 7%, well above their historical premium to the market.<sup>3</sup> Reshoring and a global desire to keep essential resources close to home is also setting up a highly competitive landscape for an acutely short supply of materials.

## 3. Healthcare

Healthcare has been a persistent underperformer in recent years, as sectors prized for stability have taken a back seat to momentum. Yet we see historically high FCF margins today, particularly in pharmaceuticals and healthcare equipment.

The latter has been plagued by headwinds in the form of tariffs and rising input costs. Yet the subsector's competitive FCF yield (at 5%) and low correlation to AI could make it a potential diversifier, in our view. Valuations in the health equipment space are compelling, currently sitting at a 16% discount to the market compared to a 20% premium over the past 10 years.<sup>4</sup>

AI momentum is undeniable, but even the most powerful mega forces are subject to bouts of volatility and drawdowns. We are continuing our pursuit of the next wave of potential AI leaders. At the same time, as many areas of the market have gone underexplored for several years, we believe this may be an opportune moment to consider offsetting exposures that are underappreciated by the broader market while offering FCF that signals the potential to provide enduring shareholder value.

# Energy, infrastructure and extending the AI investing lens



**Helen Jewell**  
International CIO,  
BlackRock  
Fundamental Equities

“

**Energy and related infrastructure are essential to AI proliferation, making for attractive adjacent — but distinctive — investment opportunities.**

AI dominates the market narrative and has entered everyday lives. Hundreds of billions of dollars are being spent on AI hardware and infrastructure as technology companies seek an edge. All of this leads to the question: Should investors be “all-in” on AI?

It’s a tempting position. Big U.S. tech companies have indicated they will spend nearly US\$800 billion on AI in 2026.<sup>5</sup> And our tech analysts estimate the cumulative figure could be US\$10 trillion by 2030.<sup>6</sup> We certainly believe in the AI theme and favor a selective approach to finding companies that may lead the way and those that could benefit from colossal AI investment.

Yet we believe it’s possible to capture some of the AI upside with potentially less of the volatility that comes with high valuations and market concentration. How? One way is to increase exposure to the infrastructure and power investment that is needed to facilitate the AI boom and the broader shift toward electrification that AI has accelerated — a trend turbocharged by government focus on energy independence.

## **AI infrastructure and energy evolution**

We believe large parts of the listed infrastructure universe are set to benefit from the surge in electricity demand driven by AI as well as a shift

toward electric vehicles, greater use of heat pumps and the rapid growth in cooling systems. Projected growth in global electricity demand is equivalent to adding more than Japan’s annual electricity consumption every year, according to the International Energy Agency (IEA).<sup>7</sup> In Europe, the share of electricity in energy consumption is set to double by 2050 to 45%, spurring power investment of up to EUR2 trillion over the next decade.<sup>8</sup>

The IEA further finds that, as of May 2026:

- Around US\$2.2 trillion is expected to be spent on renewables, nuclear energy, grids, storage, low-emissions fuels, efficiency and electrification in 2026.
- Investment in natural gas supply is set to reach US\$330 billion, the highest level in 10 years.
- Global spending on electricity networks is expected to hit US\$550 billion, up nearly 20% year-on-year.

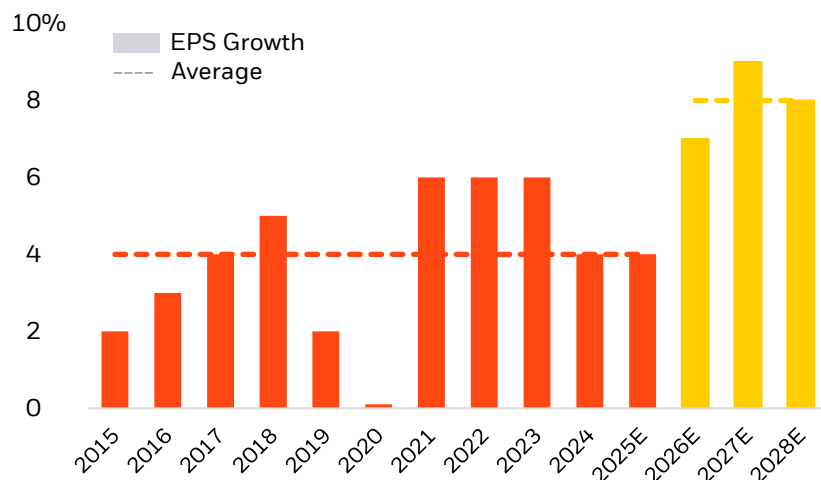
Much of this investment is undertaken by utilities. The strongest utilities are spending on new sources of power to meet rising demand, and this leads to larger long-term revenues at prices set by national regulators — and, ultimately, the potential for much faster earnings growth than in the past. See chart on the next page.

Any opinions or forecasts represent an assessment of the market environment at a specific time and are not a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation. **5** Source: BlackRock Fundamental Equities, official company statements, May 2026. **6** BlackRock Fundamental Equities Global Technology team, June 2026. **7** <https://www.iea.org/reports/electricity-2025/executive-summary>. **8** Goldman Sachs, April 2026.

# Energy, infrastructure and extending the AI investing lens

## Powering a boost in earnings growth

Earnings growth of U.S. and EU utilities, 2015-2028



Bars show historical (orange) versus forward (yellow) earnings-per-share growth for listed utilities across the EU and the U.S. and the averages for each (dotted lines). Forward estimates are based on consensus forecasts from Bloomberg/IBES. Sources: U.S. Energy Information Administration and Bloomberg, Jan. 23, 2026.

The direct beneficiaries of this investment include renewable power companies; companies that facilitate the upgrades of aging grids, such as the providers of parts including turbines, cables and transformers; and companies that specialize in energy efficiency and energy storage. And while investment in renewables is growing, gas will remain a critical source of energy, in our view, so we see opportunities in companies that both produce and transport gas.

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## Growth + resilience?

While showing potential to accelerate earnings growth (as illustrated in the chart), utilities also retain their defensive characteristics — which is attractive during periods of market uncertainty. Utilities provide essential services, such as the electricity and gas that are needed regardless of the economic environment; their prices are often guaranteed by regulators and linked to inflation; and contracts are generally long term — in some cases decades-long contracts with big U.S. tech companies. This earnings stability allows utilities to pay a steady dividend, so exposure to these names has the potential to deliver a higher yield than the broader equity markets.

We also see value in the beneficiaries of energy demand mentioned above. Listed infrastructure is at a discount to global equities, having historically traded at a premium, while clean energy stocks and energy efficiency names are also on lower valuations than the broader market.<sup>9</sup> One of the biggest constraints on AI development is energy and the infrastructure needed to deliver it — and we believe these bottlenecks provide opportunities.

## European banks: AI, inflation and unification

Financials may provide another source of growth and diversification in portfolios, in our view, and we see three reasons to be optimistic on European banks. First, the banks have shown they can deliver strong earnings even as rates have fallen from 2024 highs. And demand placed on energy and goods by AI, along with current supply constraints, has nudged inflation higher again in developed markets, which could limit how far rates can potentially fall in the medium term. Indeed, the European Central Bank raised rates in June. Second, we believe banks may be among the biggest beneficiaries of AI adoption, as they embrace the latest technology to replace often old-fashioned systems. And third, we believe a more unified European banking and capital markets system could benefit the banks, and recent consolidation in the sector shows encouraging progress in this area.

# How AI is powering equities in Asia



**Egon Vavrek**

Head of EM and  
Asia Core, BlackRock  
Fundamental Equities

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**We see a bright outlook for emerging market stocks, particularly in Asia, where many large companies benefit from the trillions in global AI spending.**

Emerging market (EM) equities have outshone many other regions over recent quarters. Earnings forecasts for 2026 suggest this trend could continue — with companies in parts of Asia especially benefiting from the vast amounts of money being spent on AI development.

EM equities are up around 55% over the past year,<sup>10</sup> with earnings a key driver. EM earnings grew roughly 8% in 2025 and are forecast to grow over 35% this year — more than any other region, as shown below.

Much of this strength comes from the northern part of Asia, with earnings in Taiwan forecast to grow 34% in 2026, and South Korean earnings 220%.<sup>11</sup>

In the case of South Korea, some of the earnings drivers are particular to the country. The government is pushing a program of corporate reform — similar to that seen in Japan — with the aim of increasing shareholder value.

## EMs leading global earnings strength

12-month earnings and sales growth estimates by region

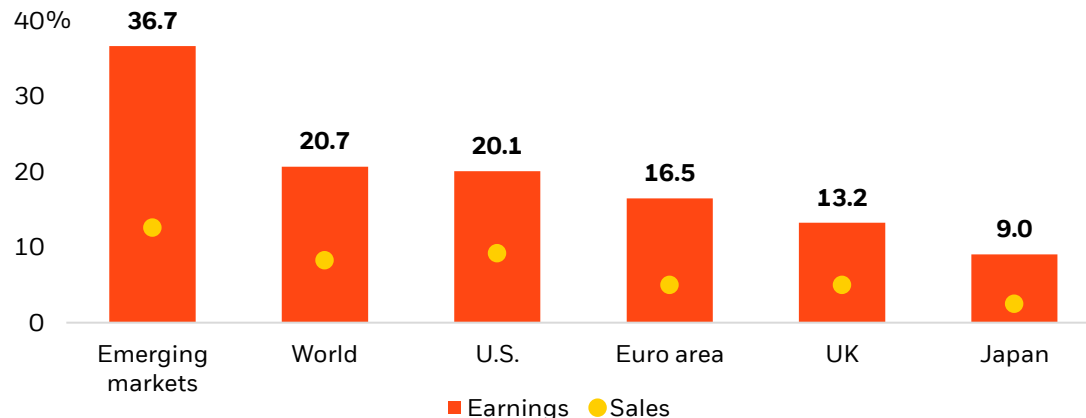


Chart shows aggregate analyst 12-month forward estimates for earnings growth (orange bars) and sales (yellow dots) in each region. Source: BlackRock Investment Institute with data from LSEG Datastream and MSCI, June 4, 2026.

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# How AI is powering equities in Asia

And many South Korean companies — such as the shipbuilders — have benefited from increased geopolitical fragmentation and the desire of some western countries to reduce reliance on China.

Yet the main Asian earnings driver can be summed up in two letters: AI. Much of the enormous AI investment from the big U.S. tech companies — we estimate up to US\$10 trillion by 2030<sup>12</sup> — is flowing to the large Asian makers of the semiconductors essential for AI expansion, as well as the supply chains that have developed around these giants.

## How Asia is building and powering AI

Advanced AI processes require vast amounts of memory — for data storage and access — and vast amounts of power. Shortages of both are leading to long-term earnings growth for the companies that operate in these areas.

### Memory demand

Memory shortages are expected to persist for at least two years, with demand around 20%–30% above supply, according to our analysis. Semiconductor demand is driven by AI training needs and the increasingly complex workloads of AI agents. And it is difficult to quickly expand supply due to the many years it takes to build the new fabrication plants and clean rooms needed to manufacture semiconductors.

Asia is home to some of the world's leading memory providers, and the top companies are seeking to move up the value chain from simply supplying standardized semiconductors to designing memory to customer specifications. One risk to watch: Over-supply could be a problem in 2027–2028 if demand wanes just as new production facilities come online.

### Power demand

AI data center power demand is forecast to quadruple globally over the next decade.<sup>13</sup> This is a large reason why the International Energy Agency expects global electricity demand to increase by around 4% every year over the next few years, equivalent to adding the electricity consumption of Japan every year.

The investment implication? Power delivery and cooling infrastructure are emerging as the next major AI bottlenecks. Several Asian companies are key to the expansion of global power infrastructure, benefiting from surging U.S. gas turbine demand, increasing use of nuclear power and associated need for nuclear reactor components, and demand for extra high-voltage transformers, essential parts of the power systems that can transfer large amounts of energy to data centers from far-away production sources. Battery technology in China is also providing leading energy storage solutions.

Cooling is another critical input for energy-intensive data centers, and greater chip power means an increasing shift from air to liquid cooling. Asia is home to leading-edge companies that are adopting next-gen cooling systems that enable greater computing power in the same space.

**The bottom line:** We favor businesses that can grow steadily over time, withstanding short-term wobbles, and believe global AI spending has put several Asian companies firmly in this category.

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