BlackRock

A strong restart

Q2 2021 Outlook Implementation Guide

MKTGM0421E/S-1597207-1/20

The team

ETF and Index Investment Strategy

Brett Pybus

Karim Chedid

Natasha Sarkaria

Qassim Saeed

Nicole Chong

Jonathan Parker (editor)

Faerlie Wilson (editor)

Wealth Product Group

Keith Saldanha

Rees Hales

James Mills

Valentina Besozzi

Kai Aschick

Ana Valimamode

Emanuela Masucci

Jordon Caine

Contributors

iShares Index Insights

iShares Fixed Income Product Strategy

iShares Equity Product Strategy

iShares Factor ETFs

iShares Sustainable Indexing

BlackRock Portfolio Analysis and Solutions (BPAS)

Model Portfolio Solutions

Active Equity Product Strategists

Active Fixed Income Product Strategists

Active Multi-Asset Product Strategists

Cash Product Strategy

blackrock.com

MKTGM0421E/S-1597207-2/20

Introduction

Spring forward.

It has been a year since the Covid-19 pandemic took hold of global markets and society, exacting a horrific human and economic toll that continues to this day – yet at last, there are signs that the worst of the crisis may be behind us in much of the world. Over Q1 2021, we broadened our tactical pro-risk stance in light of major developments, including the vaccine rollout and up to US$2.8T of additional US fiscal spending. We see the path out of the Covid-19 shock as a 'restart' – not a typical business cycle 'recovery' – due to the distinct nature of the shock, broad-based pent-up demand and different inflation dynamics this time around – and we believe the restart will likely be stronger than markets expect.

As we step from a strong Q1 into spring – and, perhaps, a still-more optimistic quarter – this guide looks at how investors can position for Q2 2021, with an outcome-orientated approach to the key investment themes laid out in the BlackRock Investment Institute's 2021 Global Outlook.

1 **The new nominal**
As central banks lean against any sharp yield rises, a more muted response of government bond yields to stronger growth and higher inflation gives us conviction that the new nominal regime will last for some time – and leaves us tactically pro-risk.

2 **Globalisation rewired**
A bipolar US-China world order is at the centre of the rewiring of globalisation. We believe investors need exposures to both poles of global growth – especially with China leading other major economies in the global restart from the Covid shock.

3 **Turbocharged transformations**
The pandemic has sped up structural trends that are benefiting sectors such as technology – and we believe these trends are not fully priced in. Amid a broader societal shift towards sustainability, we favour sustainable assets.

Any opinions and/or forecasts represent an assessment of the market environment at a specific time and are not intended to be a forecast of future events or a guarantee of future results. There is no guarantee that any forecasts made will come to pass.

Theme 1

The new nominal

As central banks lean against any sharp yield rises, a more muted response of government bond yields to stronger growth and higher inflation gives us conviction that the new nominal regime will last for some time – and leaves us tactically pro-risk.

Our new nominal theme – which flags a more muted response in nominal government bond yields to rising inflation than in the past – has played out since last year. We see stronger growth and negative real yields ahead as the vaccine-led restart accelerates and central banks limit the rise of nominal yields – even as inflation expectations climb.

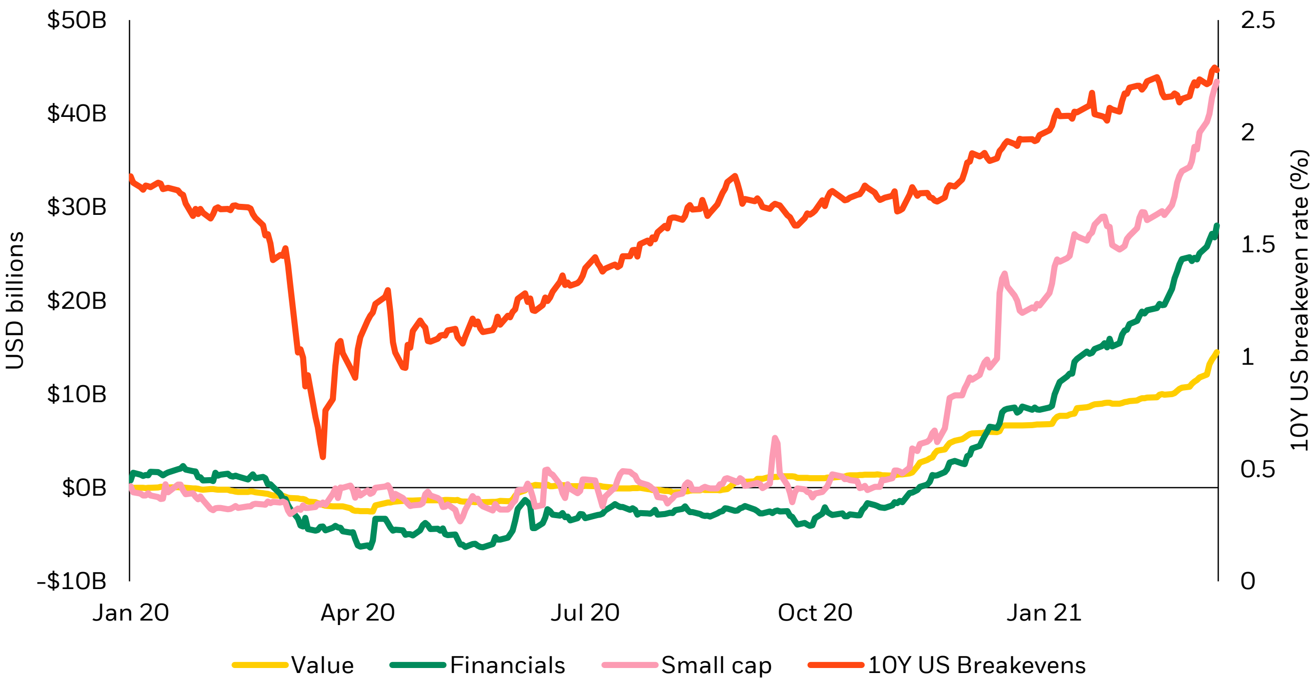
Inflation will have different implications to the past. The policy revolution as a response to the Covid shock implies that real yields will be less responsive to rising inflation risk than in past episodes. This suggests risk assets will perform better than in past inflationary periods.

Recent events have strengthened our new nominal thesis: nominal bond yields are less sensitive to higher inflation expectations compared with the past even amid the prospect of almost $3T in additional US fiscal support. This supports our pro-risk stance over a tactical horizon. Whether the low-rate regime lasts will depend not only on monetary policy but also on the perceived safety of government bonds. Markets may eventually demand a higher premium for government bonds, even if central banks are more tolerant of higher inflation. This, and reduced ballast properties with yields near lower bounds, is why we strategically and tactically underweight the asset class.

The bottom line: we prefer to take risk in equities over credit amid low rates and tight spreads – especially cyclically-tilted equities, which look well-positioned to benefit from the global restart – and prefer higher strategic allocations to inflation-linked bonds.

Cyclical equity buying inflated by inflation

Cumulative global flows into value, financials and small cap ETPs vs. 10Y US breakevens, January 2020-March 2021



Source: BlackRock, Markit and Bloomberg, data as at 12 March 2021. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product**.

Figures are in US dollars, unless stated otherwise.

A cyclical tilt in equities

Cyclically-geared equities may be well-positioned to capture the upside from an accelerating activity restart. We still see room to run for cyclical exposures, and favour cyclicals as part of a barbell approach to equities. Analysts from BlackRock's Fundamental Equities team are seeing strong earnings momentum from businesses benefitting from higher economic growth, with real economy cyclicals expected to drive earnings growth through 2022. A pickup in inflation expectations is also supportive, and may be a tailwind for those cyclically-geared companies able to pass higher input costs on to their customers. After lagging in 2020, financials have seen gains in Q1. The sector looks attractive against a backdrop of steeper yield curves, and is further bolstered by the potential for dividend resumptions – a scenario we see playing out as the year progresses.

Investors have taken note: the $22.1B added to financials ETPs globally so far this year is more than double the sector's total inflows for all of 2020. Investors have also been adding a cyclical tilt to portfolios through the value factor, with $16.9B added to value ETPs since November, including a record $7.5B in March alone – a monthly inflow record for any factor.[1] Value strategies have historically benefited during periods of higher nominal economic growth, such as the one we may be entering. Fiscal stimulus, dovish monetary policy, and a robust underlying economy provide fundamental support for value equities, and valuations remain attractive, in our view, despite recent strong sentiment towards the factor.

See Theme 3 for the other end of the barbell: quality tilted equities.

US equities

We remain overweight US equities, as we see the country's economic restart well supported by a faster-than-expected vaccine rollout and the $1.9T stimulus package. There is also potential for further infrastructure investment to add to fiscal momentum in the medium term. With US growth bouncing back, we are overweight the US size factor: small caps are highly tilted to domestic growth and well-positioned to capture the fiscal pickup, while valuations also remain attractive. Strategically, we like the US for the sector composition of its stock market. Compared to DM peers, it has a higher share of quality companies in sectors backed by long-term structural growth trends supercharged by the pandemic, like technology and healthcare – feeding into our barbell approach to equities.

1 Source: BlackRock and Markit, as at 30 March 2021. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**

Figures are in US dollars, unless stated otherwise.

MKTGM0421E/S-1597207-5/20

UK equities

We are overweight UK equities, with the UK leading developed market economies in its vaccine rollout per capita. Removal of the Brexit risk premium that pressured UK risk assets may also be a tailwind for the UK, which has been structurally under-owned since the Brexit vote in 2016. The internationally-focused FTSE 100 also provides an attractive means of access to the global restart. UK mid and small caps could offer a higher tilt to domestic growth and could benefit from a faster domestic restart.

A large proportion of UK companies have recently reported 2020 earnings figures that are ahead of expectations, adding to the attractiveness of the market today. However, it is worth noting that much of the UK market is made up of industries that are still facing long-term structural challenges, such as the transition towards a net zero economy – an economy with net-zero carbon emissions. Selectivity to avoid these challenged areas of the market may make alpha-seeking funds particularly attractive to some UK investors.

European equities

We are neutral eurozone equities, having closed our underweight as the economic restart gains momentum. While short-term uncertainties remain – the EU's vaccine rollout has stuttered, with rising case counts translating into fresh restrictions on activity in some countries – looking ahead, we believe that the broader restart could help narrow the performance gap vs. global assets, as the EU is the most globally geared developed economy. An accommodative European Central Bank (ECB) is also supportive. European equities continue to enjoy fundamental support, beating expectations across the board in the most recent earnings season; cyclical sectors are a particular area of strength. Investor interest in Europe has already picked up considerably in 2021: inflows into European equity ETPs have reached $5.3B YTD – 74% of 2020's total levels – with a tilt towards cyclical exposures.[2]

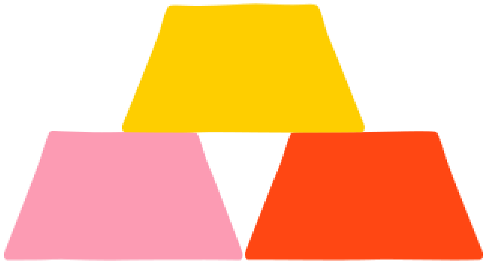
2 Source: BlackRock and Markit, as at 30 March 2021. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**
Figures are in US dollars, unless stated otherwise.

MKTGM0421E/S-1597207-6/20

Broad commodities

Commodities – especially cyclical commodities – have been in focus for investors this year, given their potential to benefit from a stronger activity restart while providing a hedge against the expected inflation pickup. Q1 has been a record quarter for global inflows into broad commodity funds ($5.9B), although commodity flows overall remain negative so far this year.[3] We see commodities such as oil as well-positioned tactically, benefiting from the lifting of activity restrictions and further support from US shale and OPEC+ production cuts.

We also view the accelerating shift to a more sustainable economy and green fiscal infrastructure spending as a source of structural demand for some commodities. While infrastructure investments overall are commodity-intensive and could thus support demand for the broader commodity complex, its sustainable tilt could foster structural demand for commodities such as copper, nickel, and silver, which are critical to sustainable technologies.



Income

With yields lower for longer, we continue to like high yield (HY) credit for income. Spreads have tightened significantly following March 2020's historic widening; while we've trimmed our overweight, we still favour global HY over investment grade (IG). The quality of the HY universe has improved off the back of downgrades from IG, while US HY default rates are forecast to drop to 3.5% this year from 5.2% in 2020.[4] Tactically, HY could be a reflation trade beneficiary: as nominal yields continue to back up, investors may prefer the shorter duration exposures of HY vs. IG. US HY also stands out for its tilt to energy, which may benefit from the recent rise in commodity sentiment.

In equities, income-seeking investors may consider quality dividends, which focus on companies that display strong income generation potential while screening for financial health metrics and sustainable dividend payments. Multi-asset funds may offer an opportunity to source income in a low yield world, crossing traditional boundaries to build robust portfolios. Investors may be able to achieve their income objectives with more precision by selecting a mix of underlying assets for their desired level of risk.

3 Source: BlackRock and Markit, as at 30 March 2021. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.** Figures are in US dollars, unless stated otherwise.

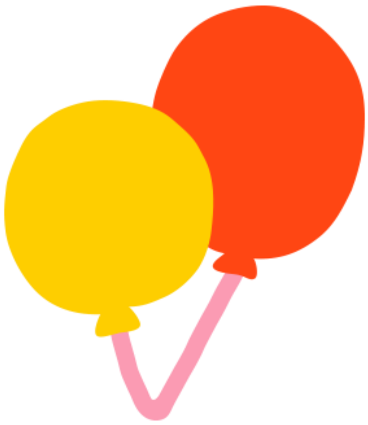
4 Source: Fitch Ratings, as at 20 January 2021.

Flows are building further momentum this year after a strong 2020, with $288.2B added to global ETPs – including a record $132.2B in February alone[5] –and $132B into global alpha funds YTD.[6] We're seeing more and more clients engage with us on whole-portfolio construction, looking to blend index and alpha – whether in allocations to specific asset classes like China bonds, or through specific portfolio strategies, combining ETPs and private market exposures to diversify their drivers of return.

IVAN PASCUAL, Head of EMEA iShares & Wealth client business

Inflation protection

Inflation expectations have risen sharply in 2021, with the US 10Y breakeven rate up to 2.35%.[7] We expect inflation to run higher than expected in the medium term, due to rising production costs, a rewiring of global supply chains, and unprecedented fiscal and monetary support for the economic restart. We also expect central banks to be more tolerant of inflation overshoots this time around. Recent market moves such as the rise in yields and inflation expectations align with our new nominal theme. We remain overweight inflation-linked bonds, tactically and on a strategic horizon, to hedge against inflationary pressures in the medium term. Inflation-linkers could also add to diversification benefits in portfolios, especially as the lower-for-even-longer rate environment diminishes the portfolio ballast traditionally offered by nominal government bonds.



Unconstrained fixed income

Unconstrained funds can be designed to maintain the look and feel of a core fixed income allocation while providing exposure to a more diversified set of return drivers. In an environment of low yields, stronger growth, and higher inflation, sourcing investment opportunities beyond traditional factors can add meaningful returns to portfolios. Unconstrained funds can be constructed to have less reliance on duration than traditional products and they can adjust allocations to more growth-sensitive assets that may benefit from a reflationary environment.

5 Source: BlackRock and Markit, as at 30 March 2021. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**

6 Source: EPFR, as at 25 March 2021

7 Source: Bloomberg, data as at 6 April 2021.

Figures are in US dollars, unless stated otherwise.

Theme 2

Globalisation rewired

A bipolar US-China world order is at the centre of the rewiring of globalisation. We believe investors need exposures to both poles of global growth – especially with China leading other major economies in the global restart from the Covid shock.

The pandemic has accelerated the rewiring of globalisation – with a bipolar US-China world order at its centre. We believe it's key for investors to have exposures to both engines of global growth, and Chinese assets warrant greater than index weight allocations in strategic portfolios. China is still under-represented in global indices, accounting for less than 10% of the MSCI ACWI Index (including offshore shares) and Bloomberg Barclays Global Aggregate Bond Index (Global Agg). The relatively low correlation of Chinese assets with global peers may offer attractive diversification benefits.

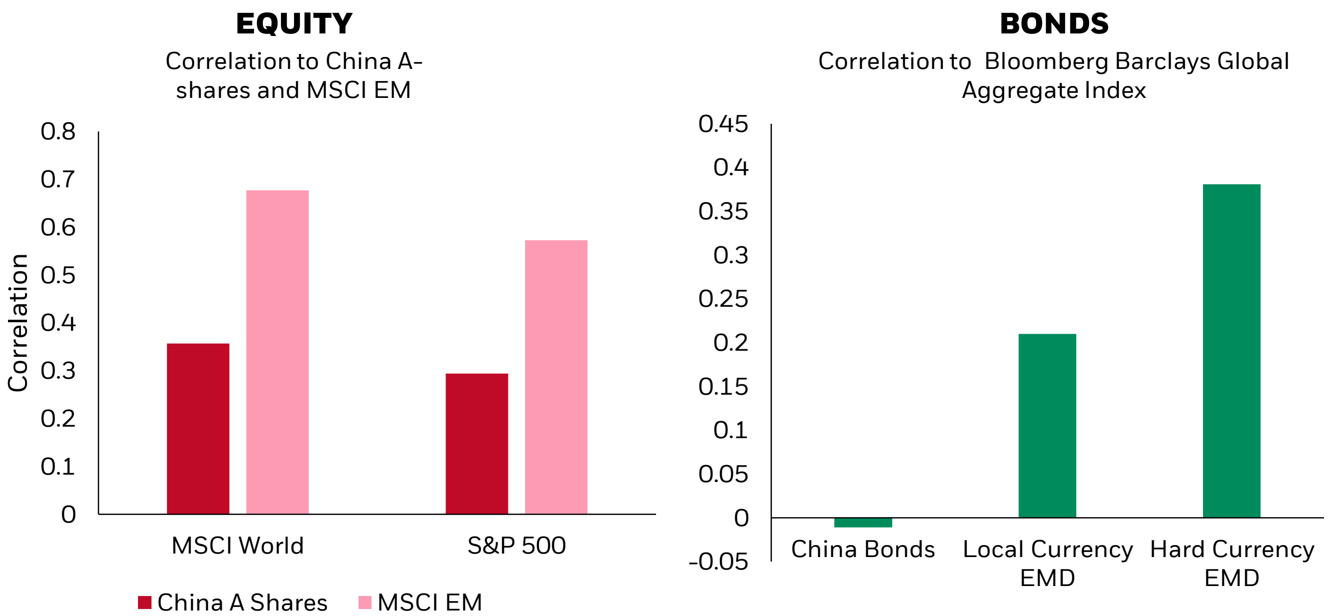
Recent better-than-expected Chinese data suggest markets may be underestimating the resilience of China's economy. We've been encouraged by the blend of old and new economy growth in China's restart; with a focus on improving the quality of growth, policymakers have shown a willingness to keep liquidity under control and allow occasional spikes in short-term rates – effectively moving in the opposite direction to the rest of the world. This hawkish policy bias has spooked markets, but we believe it may have been largely reflected in pricing.

Heightened geopolitical tensions are also set to continue, with the Biden administration engaging in strategic competition with China, particularly on technology. Areas of potential cooperation include climate and health, although within the context of a relationship defined by intense rivalry. The accelerated restart bodes well for Chinese assets – even if 2021 is unlikely to be a repeat of a banner 2020.

The bottom line: strategically, we see assets exposed to Chinese growth as core holdings that are distinct from emerging market exposures, as potential sources of return and diversification in portfolios. We favour China and EM ex-China exposures as building blocks for a more tailored approach to EM equities.

Going their own way

Correlation to global equities and bonds of Chinese vs. broader EM assets, January 2020-March 2021



Source: Bloomberg and BlackRock, data as at 15 March 2021.

MKTGM0421E/S-1597207-9/20

China: equities & bonds

China has led the global activity restart, helping to stoke a strong recovery in manufacturing and trade – after rebounding quickly from the pandemic shock, China is on track for GDP growth as high as 8-9% this year. We are starting to see signs of data peaking, which is to be expected after the resurgence in activity. The early March meeting of China's National People's Congress raised the prospect of policy tightening – even if the policy tone was slightly more dovish than expected. We are encouraged by the above 6% growth target for 2021 – we see this as a floor, rather than a ceiling – and maintain our preference for Chinese assets as the engine of global growth continues to shift eastwards.

Volatility has picked up in Chinese assets, in response to past policy tightening on liquidity. We still favour above-benchmark strategic allocations to China, and see the recent weakness in Chinese markets offering an attractive entry point, as valuations have recently come down. We continue to favour onshore A-shares in China equity, given their more direct exposure to the Chinese consumer -- although it is worth noting that offshore H-shares have benefited from the value rotation across global equity markets. Strategically, the continued decoupling of the US and Chinese economies strengthens the case for holding China as a standalone allocation in portfolios.

In a lower-for-even-longer rate environment, Chinese government bonds (CGBs) continue to offer potential diversification benefits: CGBs are less correlated to DM bonds than broad EMD, with a 0.1 correlation to Global Agg since the start of 2020. CGBs may also be a source of income, yielding 3.1% in a world where negatively-yielding bonds now total $17T.[8] Investors have continued to allocate to China: as of March, YTD flows into EMEA-listed China bond ETPs hit $2.8B – nearly half the $6.3B added in a record 2020.[9] The ongoing tailwind of index inclusion should boost flows as CGBs are added to more global indices. FTSE has confirmed that China bonds will be included in their flagship WGBI index from later this year, with projected monthly associated inflows of c.$2B over the 36-month phase-in period.[10]

Analysis by our BlackRock Portfolio Analysis and Solutions team shows that China remains significantly under-owned in EMEA client portfolios. We believe that even benchmark allocation may be insufficient for a country of China's size and global economic role. Building a standalone China allocation is possible through both alpha and index exposures. Investors may be able to apply their desired weight to Chinese assets and manage risk by building out a China view and an EM ex-China view. EM ex-China exposure allows for China as a standalone allocation and provides an implementable solution to overweight China vs. EM benchmark weights, in line with our view.

8 Source: Bloomberg and BlackRock, data as at 15 March 2021.
9 Source: BlackRock and Markit, as at 30 March 2021. **Past flows into EMEA-listed ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.** Figures are in US dollars, unless stated otherwise.
10 Morgan Stanley, 30 March 2021.

EM debt

We remain neutral hard and local currency emerging market debt (EMD). While recent USD strength and yield moves in the US have weighed on local EMD, we see catch up potential, given that the asset class has lagged the broad risk recovery. A benign USD and easier global monetary policy should underpin EM and create opportunities. On the hard currency side, we see more predictable US trade policies as a stabilising factor, with the tailwind of a vaccine-led global restart. Flows into EMD remain positive YTD, but well below levels seen in Q4 2020. So far in 2021 – stripping out China bonds – global flows into EMD ETPs have favoured local currency ($0.4B), while money has gone out of hard currency (-$1.5B), reversing the trend we saw in 2020.[11]

EM equities

The global policy revolution spurred on by the pandemic has helped to support emerging markets, and we see this continuing in the months ahead. EM equity ETPs remain popular with investors, with seven straight months of inflows in the longest streak since July 2018-April 2019; $25.2B has been added in 2021 YTD, following a flat 2020.[12] We remain overweight EM equities, which, like EMD, could benefit from more predictable US trade policy and a stable-to-weaker USD.

Moreover, emerging markets, especially in Asia, have led the activity restart and returned to positive growth territory faster than their DM peers. As the vaccine rollout progresses, experience dealing with past pandemics means that healthcare infrastructure in Asia is better prepared for mass inoculation, which could support a faster recovery. Asian emerging markets could also benefit from their tilt to technology as investors look for structural winners from the pandemic.

Separating the signals from the noise on EM

Emerging markets are not a monolith: EM single region equities differ significantly in performance, characteristics, and exposures. The **BlackRock EM Rotation Model** leverages a systematic, signal driven approach that aims to outperform the MSCI EM IMI Index. The approach uses nine regional iShares EM ETFs to implement the model's signals and respective allocations. The model is free float and does not have any static weight parameters linked to the MSCI EM IMI Index. The EM Rotation Strategy seeks to outperform the broad EM market by providing diversified exposure across the most attractive regions in today's environment. It takes into account a set of signals including momentum, fundamentals, and FX translation drivers.

As of the end of Q1 2021, the model's largest allocation is to China – although we reduced our China position during the last rebalance, based on the model's valuations signals and an expected reversal in price momentum trends recently observed for the Chinese market. *Speak to your sales representative for full portfolio holdings, regional weights, and monthly rebalance updates, and more information on our model portfolio solutions.*

11, 12 Source: BlackRock and Markit, as at 30 March 2021. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**
Figures are in US dollars, unless stated otherwise.

MKTGM0421E/S-1597207-11/20

Theme 3

Turbocharged transformations

The pandemic has sped up structural trends that are benefiting sectors such as technology – and we believe these trends are not fully priced in. Amid a broader societal shift towards sustainability, we favour sustainable assets.

The pandemic has turbocharged transformations that were already under way – from sustainability to inequality. Yet markets have not fully priced in the durability of these trends, we believe, even with the glimpse into the future offered by the pandemic. History suggests financial markets are imperfect at pricing in long-term trends, even when these shifts – such as demographic changes – are expected long in advance.

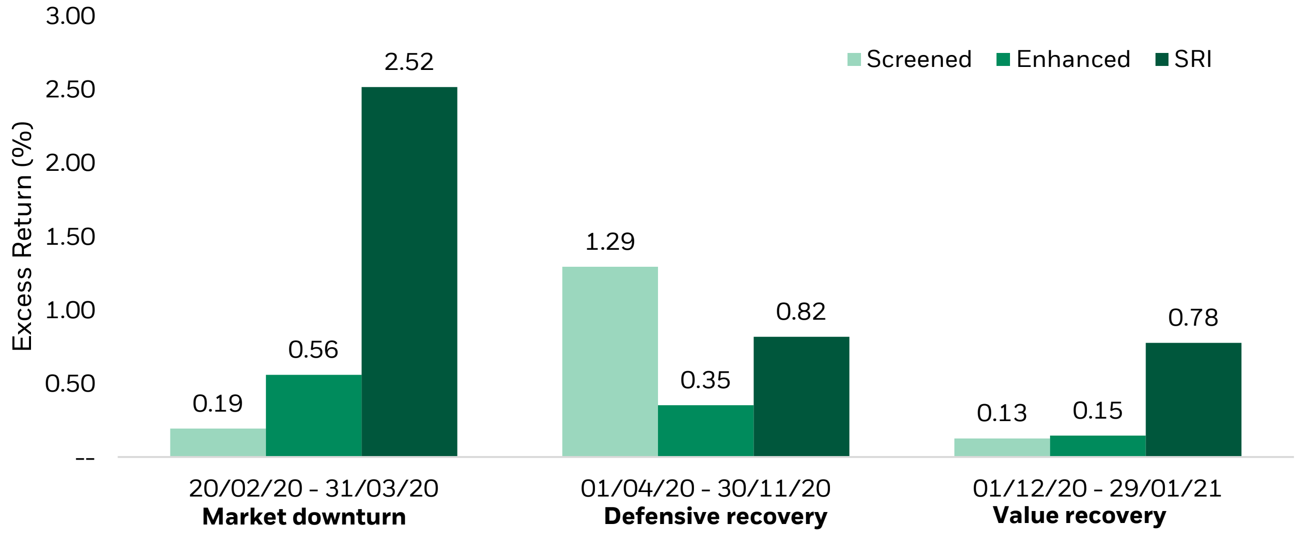
We favour technology and healthcare on a tactical horizon, as they offer quality characteristics and are likely beneficiaries of structural growth trends. A risk to our view: the pandemic has afforded greater visibility into future trends, yet our visibility is still imperfect; some trends could reverse or change over time.

Another key trend is the tectonic shift toward sustainable investing. Climate change is real and cannot be ignored by investors. Climate risk is investment risk, and we see it is as a historic investment opportunity. Our capital market assumptions (CMAs) – a core input to building portfolios – for the first time, explicitly reflect the impact of climate change on the investment landscape. We believe avoiding climate-related damages will help drive growth and improve returns for risk assets.

The bottom line: we prefer sustainable assets, amid a growing societal preference for sustainability, and exposures like technology, which offer quality characteristics and are likely beneficiaries of structural growth trends.

Sustainable exposures outshone their parents through varied market scenarios

Excess returns (%) of MSCI World ESG exposures vs. the parent benchmark in three market scenarios



Total returns (%)	2016	2017	2018	2019	2020	YTD 2021
MSCI World ESG Screened	6.15	22.48	-8.60	28.15	17.56	4.61
MSCI World ESG Enhanced	6.80	22.19	-8.95	28.36	17.59	4.77
MSCI World SRI Select RFF	6.23	23.06	-6.83	30.26	20.70	3.16

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. Indices are unmanaged and one cannot invest directly in an index. Source: BlackRock, FactSet and Bloomberg, as at 22 March 2021.

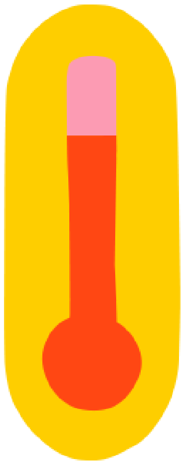
MKTGM0421E/S-1597207-12/20

"Europe remains the driving force behind the seismic shift to sustainable, with EMEA-listed inflows accounting for over two-thirds of global sustainable ETP flows so far this year. BlackRock is committed to investing in progress, and we see sustainable investing as a means to deliver the best outcomes for our clients. In 2020, we completed our goal of having 100% of our active and advisory portfolios ESG-integrated. Today, we're leading the way in implementing Europe's Sustainable Finance Disclosure Regulation (SFDR) – which we see as a key catalyst for sustainable investing in the region and increased transparency for investors."

MEAGHAN MULDOON, GLOBAL HEAD OF SUSTAINABLE INTEGRATION

Sustainability

As a key structural trend accelerated by the pandemic, sustainability remains front and centre for investors. Regulation has increased, as seen in the recent passing of the European Commission's Sustainable Finance Action Plan, while corporate interests have become ever more alert: over a quarter of S&P 500 companies referenced ESG on earnings calls for Q4 2020 – far and away the highest figure from any call over the past decade.[13] The march to sustainable shows no sign of flagging, with flows on a sharply steeper trajectory vs. 2020: YTD global ETP flows are already at $43.2B, more than half of last year's total ($81.9B), with EMEA-listed flows making up 70% (vs. c.60% in 2020).[14] Ultimately, we believe climate risk equates to investment risk, which is why our new sustainable capital market assumptions take climate change into account as an important often underappreciated return driver when calculating return assumptions.



Index Insights: sustained outperformance from sustainable indices

Investors are increasingly putting sustainability at the core of their portfolios – and for good reason. On top of the strategic case for sustainable investing, we've seen sustainable indices prove their worth through upside and downside market scenarios over the past year. To illustrate, we've analysed performance through three periods: the market downturn (February-March 2020), the defensive recovery (April-November 2020), and the value recovery (December 2020-January 2021). Our analysis shows that **select ESG indices have outperformed in every category**, notably the MSCI World ESG range. This includes during value-led markets – despite ESG's inherent underweight to value as a factor. *Please refer to the chart and 5Y annualised performance figures on the previous page.*

What is the key driver of this outperformance? MSCI research suggests that over the long term, companies with strong ESG metrics show higher dividend reinvestment and superior earnings growth, correlating with an overlap that is often acknowledged between sustainable indices and the quality factor.[15] Once the effects of factors, sectors, countries, and currencies are accounted for, our Index Insights analysis shows that there remains a significant portion of excess return driving index performance. This residual return, or 'ESG effect' has been a key driver of returns for best-in-class SRI as well as Screened and Enhanced indices across market scenarios since January 2020.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy. Source: BlackRock, FactSet, Bloomberg, as at 22 March 2021.

13 Source: FactSet, data as at 5 March 2021.
14 Source: BlackRock and Markit, as at 30 March 2021. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.** Figures are in US dollars, unless stated otherwise.
15 Source: *The Driver of ESG Returns*, MSCI, February 2021.

A quality tilt in equities

Alongside allocations to cyclical exposures (as outlined in theme 1), we remain overweight quality. We advocate building portfolio resilience through quality sectors such as technology and healthcare, which are also positioned to benefit from structural trends supercharged by the pandemic. This barbell approach has come through in global sector ETP flows for Q1: top allocations include technology ($22.4B), alongside cyclicals such as financials ($22.1B), and energy ($14.0B).[16]

Fundamentals also look attractive: the tech and healthcare sectors led US equities in earnings and revenue growth last year, and stood out in generating high free cash flow yields and return on equity. These latter metrics are indications of quality, which could provide ballast for bumps along the road of the economic restart. While valuations in the tech sector may appear high, we don't see them as stretched, given the sector's strong fundamentals – in contrast to the tech bubbles of the 2000s. See Theme 1 for more on the other end of the barbell: cyclically-tilted equities.

Real assets

Investors seeking to access long-term capital growth through the illiquidity premium may want to consider private market strategies. Private market assets have seen an unprecedented increase in demand as investors with long time horizons are looking to benefit from the structural under-ownership.

In particular, infrastructure looks well-positioned heading into Q2. Accommodative central banks and rising public deficits are creating an environment for higher inflation over the medium term, as we have emphasised. Exposure to infrastructure may offer a hedge against expected and unexpected inflation. Cyclically-tilted infrastructure indices are also uniquely placed for a cyclical-led growth restart. Infrastructure spending has been – and will likely continue to be – a key theme in pandemic-related government relief packages, with a clear sustainable tilt.

16 Source: BlackRock and Markit, as at 30 March 2021. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**
Figures are in US dollars, unless stated otherwise.

MKTGM0421E/S-1597207-14/20

Other alternatives

Investors are also increasingly considering alternative investments as part of their portfolio construction process, as the diversification potential of fixed income is becoming less predictable and public market equity returns are set to be lower than during the initial market recovery seen over the past year. Alternative investments tap into non-traditional sources of return and investors can select strategies that meet their specific requirements.

Liquid alternative strategies are typically focused on either increasing portfolio diversification by accessing uncorrelated and differentiated sources of return, or on pursuing high octane growth strategies. Liquid alternatives are available in mutual fund wrappers and may be an easy way to improve a portfolio's risk-return profile.

Portfolio solutions for building resilience

Our BlackRock Portfolio Analysis and Solutions (**BPAS**) team can help boost a portfolio's resilience profile, drawing upon expertise that leverages BlackRock's Capital Market Assumptions and our Aladdin platform to understand portfolio risk drivers, as well as index, factor, and alpha seeking strategies. For those looking for off-the-shelf portfolio solutions to a range of investor challenges, our Model Portfolio Solutions team (**MPS**) may be able to help.

Cash & short duration solutions

Holding some cash makes sense, in our view, as a buffer against volatility driving both stocks and bonds lower, and as a way to quickly access opportunities that may arise. Investors may consider putting cash to work through money market and short-duration bond funds. Money market funds (MMFs) offer a diversified solution for cash investors with a focus on liquidity and safety, investing in highly-rated money market and short-dated fixed income securities. All of BlackRock's money market fund offerings integrate ESG parameters, and our Liquid Environmentally Aware Funds ('LEAF') include specific exclusion screens that help to reduce exposure to issuers that score poorly on environmental factors.

Investors willing to take on slightly higher risk levels from their cash allocation in pursuit of higher yields might consider short duration bonds.

Diversification may not fully protect you from market risk.

MKTGM0421E/S-1597207-15/20

Risk Warnings

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

Regulatory Information

This material is for distribution to Professional Clients (as defined by the Financial Conduct Authority or MiFID Rules) only and should not be relied upon by any other persons.

Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: + 44 (0)20 7743 3000. Registered in England and Wales No. 02020394. For your protection telephone calls are usually recorded. Please refer to the Financial Conduct Authority website for a list of authorised activities conducted by BlackRock.

Until 31 December 2020, issued by BlackRock Advisors (UK) Limited, authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: +44 (0)20 7743 3000. Registered in England and Wales No. 00796793. For your protection, telephone calls are usually recorded. Please refer to the Financial Conduct Authority website for a list of authorised activities conducted by BlackRock.

From 1 January 2021, in the event the United Kingdom and the European Union do not enter into an arrangement which permits United Kingdom firms to offer and provide financial services into the European Economic Area, the issuer of this material is:

(i) BlackRock Advisors (UK) Limited for all outside of the European Economic Area; and

(ii) BlackRock (Netherlands) B.V. for in the European Economic Area,

BlackRock (Netherlands) B.V. is authorised and regulated by the Netherlands Authority for the Financial Markets. Registered office Amstelplein 1, 1096 HA, Amsterdam, Tel: 020 – 549 5200, Tel: 31-20-549-5200. Trade Register No. 17068311 For your protection telephone calls are usually recorded.

For investors in Israel
BlackRock Investment Management (UK) Limited is not licenced under Israel's Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 5755-1995 (the "Advice Law"), nor does it carry insurance thereunder.

For investors in Switzerland
This document is marketing material.

This document shall be exclusively made available to, and directed at, qualified investors as defined in the Swiss Collective Investment Schemes Act of 23 June 2006, as amended.

For investors in the Dubai International Financial Centre
The information contained in this document is intended strictly for Professional Clients as defined under the Dubai Financial Services Authority ("DFSA") Conduct of Business (COB) Rules.

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock.

The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public.

The information contained in this document, may contain statements that are not purely historical in nature but are "forward-looking statements". These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

Blackrock Advisors (UK) Limited - Dubai Branch is a DIFC Foreign Recognised Company registered with the DIFC Registrar of Companies (DIFC Registered Number 546), with its office at Unit 06/07, Level 1, Al Fattan Currency House, DIFC, PO Box 506661, Dubai, UAE, and is regulated by the DFSA to engage in the regulated activities of 'Advising on Financial Products' and 'Arranging Deals in Investments' in or from the DIFC, both of which are limited to units in a collective investment fund (DFSA Reference Number F000738).

For investors in the ADGM
Abu Dhabi Global Market (ADGM)

The information contained in this document is intended strictly for Authorised Persons.

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock.

The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public.

The information contained in this document, may contain statements that are not purely historical in nature but are “forward-looking statements”. These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

For investors in Bahrain
The information contained in this document is intended strictly for sophisticated institutions.

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock.

The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public.

The information contained in this document, may contain statements that are not purely historical in nature but are “forward-looking statements”. These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

For investors in Kuwait
The information contained in this document is intended strictly for sophisticated institutions that are ‘Professional Clients’ as defined under the Kuwait Capital Markets Law and its Executive Bylaws.

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock.

The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public.

The information contained in this document, may contain statements that are not purely historical in nature but are “forward-looking statements”. These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant. documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

For investors in Oman
The information contained in this document is intended strictly for sophisticated institutions.

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock.

The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public.

The information contained in this document, may contain statements that are not purely historical in nature but are “forward-looking statements”. These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

For investors in Qatar
The information contained in this document is intended strictly for sophisticated institutions.

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of [the issuer].

The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public.

The information contained in this document, may contain statements that are not purely historical in nature but are “forward-looking statements”. These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

For investors in Saudi Arabia
The information contained in this document is intended strictly for sophisticated institutions.

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock.

The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public.

The information contained in this document, may contain statements that are not purely historical in nature but are "forward-looking statements". These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

For investors in the UAE
The information contained in this document is intended strictly for non-natural Qualified Investors as defined in the UAE Securities and Commodities Authority's Board Decision No. 3/R.M of 2017 concerning Promoting and Introducing Regulations.

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock.

The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public.

The information contained in this document, may contain statements that are not purely historical in nature but are "forward-looking statements". These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

For investors in South Africa
Please be advised that BlackRock Investment Management (UK) Limited is an authorised Financial Services provider with the South African Financial Services Board, FSP No. 43288.

For investors in South Africa and Mauritius
The information contained in this document is intended strictly for Sophisticated Investors.

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock.

The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public. The information contained in this document, may contain statements that are not purely historical in nature but are "forward looking statements". These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

For investors in Botswana, Namibia, Kenya and Zimbabwe
The information contained in this document is intended strictly for Central Banks and Sovereign Investors.

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock.

The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public. The information contained in this document, may contain statements that are not purely historical in nature but are "forward looking statements". These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

For investors in Nigeria
The information contained in this document is intended strictly for Qualified Institutional Investors as defined under rules and regulations of the Nigerian Securities and Exchange Commission 2013 (as amended).

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock.

The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public. The information contained in this document, may contain statements that are not purely historical in nature but are "forward looking statements". These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

Any research in this document has been procured and may have been acted on by BlackRock for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy.

This document is for information purposes only and does not constitute an offer or invitation to anyone to invest in any BlackRock funds and has not been prepared in connection with any such offer.

Want to know more?

Belgium
+32 (0) 2 402 4900

France
+33 156 43 2900

Hungary
+31 (0) 20 549 5200

Italy
+39 0291 5971

Luxembourg
+352 34 2010 4201

Netherlands
+31 (0) 20 549 5200

South Africa
+27 (0) 21 403 6300

Saudi Arabia
+966 11 8383600

United Arab Emirates
+971 4450 0700

blackrock.com

BlackRock.

MKTGM0421E/S-1597207-20/20