

Positioning beyond uncertainty

Global Product Solutions: Investment & Portfolio Solutions | September 2026

- **Geopolitical uncertainty persists**, but dispersion is creating opportunities across public and private markets.
- We focus on **managing AI concentration**, **allocating to income with intent**, and **building portfolio resilience** across asset classes.
- We identify where we see the strongest opportunities across these themes today, with **actionable investment ideas and strategies for GCC investors**.

Theme 01

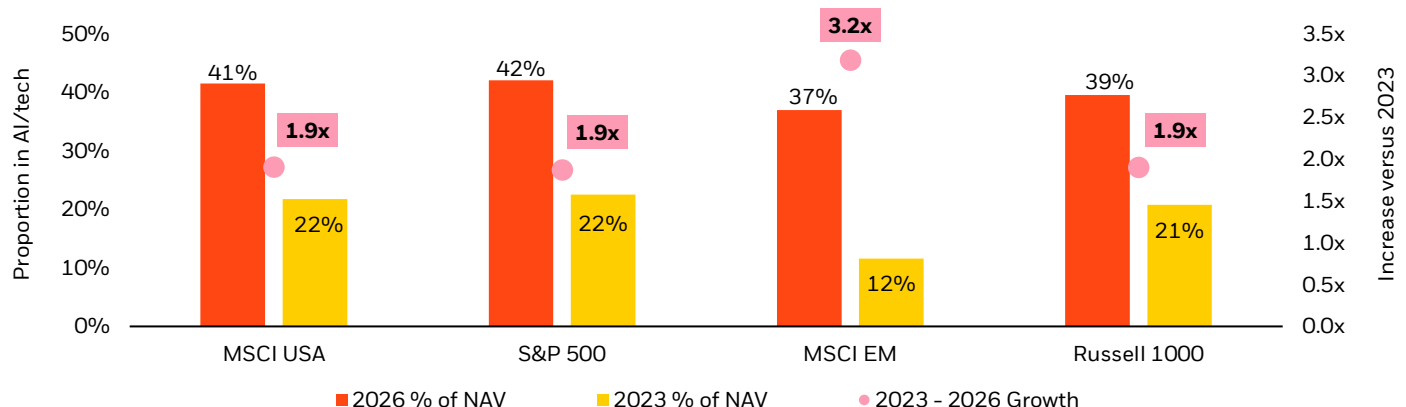
Managing AI concentration

The geopolitical backdrop remains uncertain heading into the rest of 2026, but markets have continued to focus on both AI and earnings. AI concentration across equity and fixed income indices has thus become a key focus for investors. We maintain conviction in the core of the AI theme as a return opportunity, particularly amid improved valuations. Yet rotating leadership across semiconductors and software calls for more intentional, deliberate allocation, in our view: at its peak, the US tech sector saw c.71% dispersion between the best and worst-performing level two subsectors.¹

In this environment, we see opportunity in **active AI strategies** that can navigate the evolving ecosystem more selectively as leadership shifts, or **precise index exposure** like global semiconductors, where continued strong earnings delivery means valuations do not yet look stretched. For investors seeking a relatively cheaper AI opportunity and geographic diversification, we look to **China tech**, which is trading at 14.3x blended forward price/earnings.²

Chart 1: AI concentration is growing across indices

Percentage of portfolio in AI/tech names by weight, 2023 versus 2026



Source: BlackRock Aladdin, as of 31 July 2026. Indices are unmanaged and one cannot invest directly in an index.

Power remains a critical constraint on the AI buildout as rising electricity demand converges with energy-security and supply-chain pressures. We see opportunities across the **AI ecosystem**, including **energy exposures like nuclear** to meet higher power demand and **mining** to provide the critical materials required for the buildout.

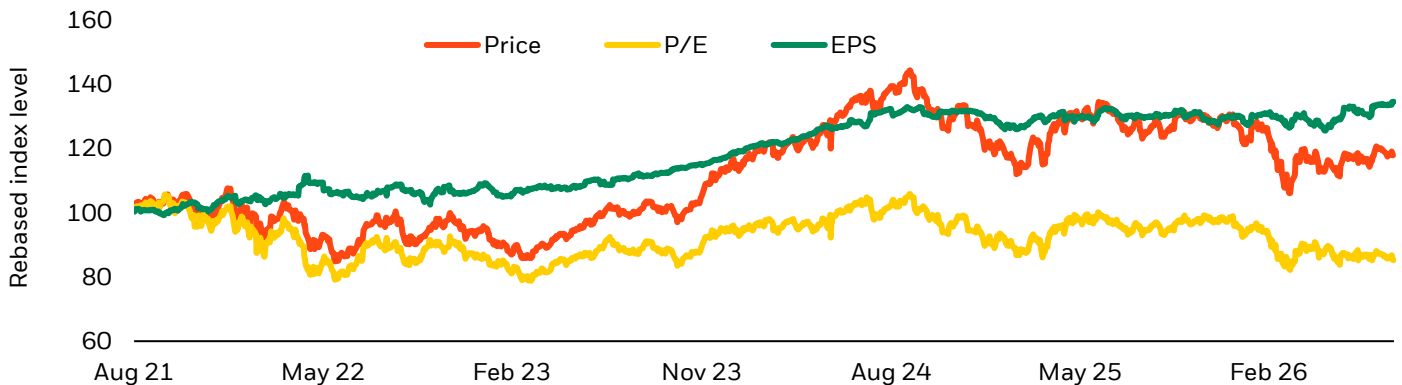
Global **healthcare**, which has been a laggard YTD, can act as an AI drawdown diversifier according to our analysis,³ while maintaining exposure to potential upside from long-term adoption. While US policy uncertainty could add to near-term volatility, particularly in subsectors like pharma, it's unlikely to overwhelm the sector's longer-term innovation and structural growth story, in our view.

For GCC investors, we see an opportunity to add to global equity allocations, while importantly maintaining an active overlay. Global equity dispersion extends beyond the tech sector (highlighted on p. 1), creating opportunities to enhance core allocations through conventional and Islamic **systematic strategies** focused on idiosyncratic sources of return less correlated with broad market beta, or high-conviction, unconstrained approaches focused on superior earnings power.

Managing AI concentration also means looking beyond recent winners. We see scope to deliberate adding **anti-momentum exposures** across active and index strategies, including areas such as India and healthcare that have been over-punished for a lack of direct AI exposure in 2026, despite improving fundamentals – see chart 2.

Chart 2: Indian equities are trading at their cheapest level since 2023

MSCI India price action, 12m forward earnings, and 12m forward price/earnings



Source: BlackRock and Bloomberg, as of 26 August 2026. The figures shown relate to past performance. **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.**

Theme 02

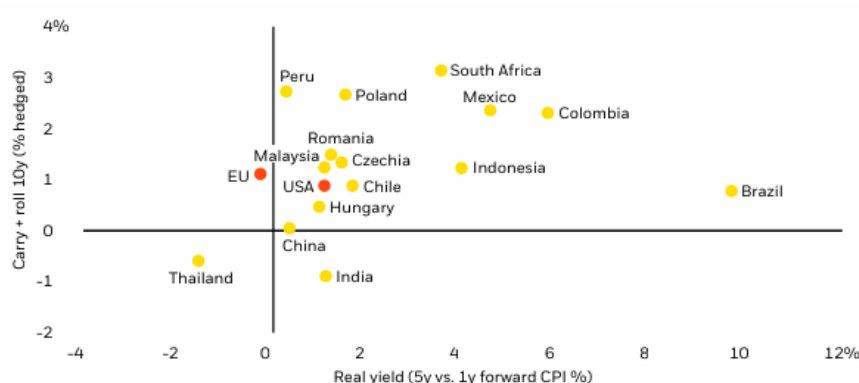
Income with intent

More than 80% of the global fixed income universe now yields above 4%, compared with less than 20% on average between 2010 and 2021.⁴ Income has therefore returned as a meaningful standalone source of bond returns. But as competition for capital intensifies, we see scope for further yield-curve steepening. The question is not whether to own fixed income, but where to harvest that income most efficiently – both within and beyond traditional fixed income markets. Attractive starting yields alongside an uncertain rates path favour flexibility across credit sectors and active duration management. **Flexible income strategies** can complement core fixed income by enhancing yield while managing duration,⁵ while exposures such as **CLOs** can help maintain income with limited duration exposure.

Emerging market debt (EMD) offers attractive income alongside differentiated return drivers. Despite geopolitical uncertainty, fundamentals have remained resilient, while at-trend global growth has supported risk-appetite for EMD this year. Short-duration EMD offers c.6% YTM,⁶ with returns driven primarily by EM credit premia and country-specific dynamics, providing diversification from the factors driving developed-market credit and rates.

Chart 3: Certain EM local markets offer attractive real yields

Real yields, carry and roll for EU, US and EM government bonds, September 2026



Equity income can complement bonds by combining current income with participation in earnings growth and long-term capital appreciation. With investors seeing greater growth potential in global equities but less natural income and diversification, systematic equity income strategies may help balance yield, upside participation and risk control within multi-asset portfolios.⁷

Source: BlackRock, June 2026.

Theme 03

Building resilience

Building resilience requires diversifying the drivers of portfolio outcomes, not simply holdings or asset classes. Shifting correlations complicate risk management, while competition for capital and steeper yield curves challenge the role of long-duration government bonds as a reliable portfolio offset. We also see merit in building liquidity buffers with cash or cash-like exposures.

A diversified approach, combining complementary systematic capabilities, can also be additive to portfolios. As investors seek to diversify the drivers of portfolio outcomes – including tapping into potential return opportunities from relative moves within markets – and bring down market beta, systematic-led liquid alternatives have a role to play, we believe. Diverging policy rates, inflation and fiscal trajectories are driving sustained cross-country dispersion, creating a rich opportunity set for market-neutral macro strategies

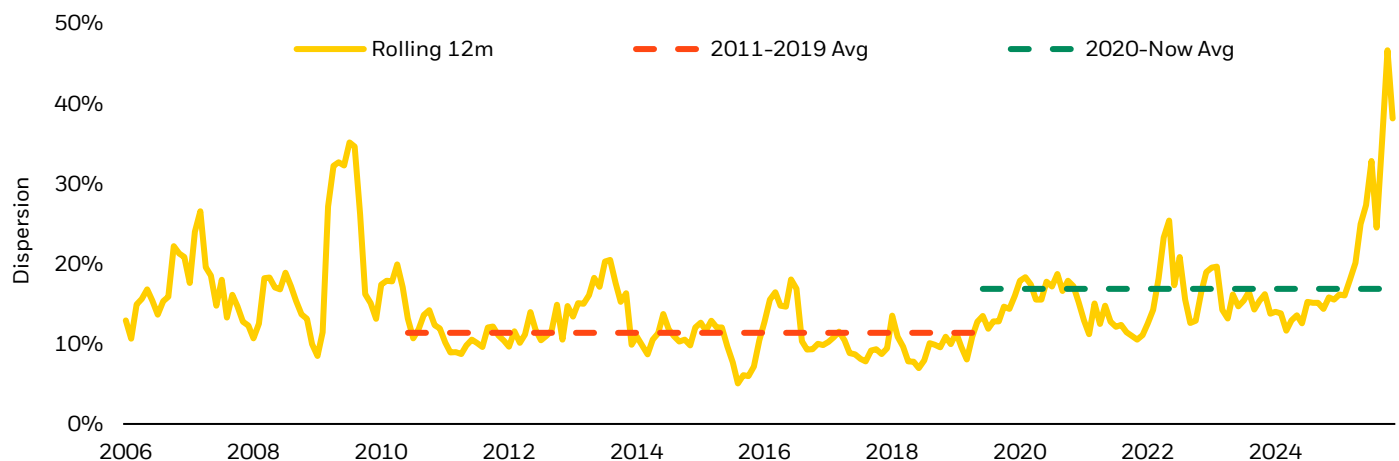
focused on relative value where fundamentals and market pricing diverge. This could prove supportive for strategies aimed at capturing market dislocations through discretionary macro insights and systematic signals across asset classes and regions.

An environment of high dispersion may also support diversified absolute return strategies that combine complementary systematic capabilities to try to generate returns that are uncorrelated to the broad market and to market-neutral macro strategies.

Demand for **private markets** continues to rise as unreliable stock-bond correlations challenge the traditional 60/40 portfolio. Implementation also matters. Listed private market exposures may not capture the idiosyncratic return drivers of unlisted assets, which can be important sources of alpha.

Chart 4: A spike in cross-country dispersion has revived the macro opportunity set

Dispersion of country-level equity returns, 2006–2026



Source: BlackRock with data from Bloomberg, Morningstar as of 31 March 2026. Equity dispersion based on root mean squared error of rolling 12-month returns for 27 individual country equity markets within MSCI ACWI. Those countries include Australia, Brazil, Canada, Chile, China, France, Germany, Hong Kong, Indonesia, India, Italy, Japan, South Korea, Mexico, Malaysia, Netherlands, Poland, South Africa, Singapore, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Kingdom, and United States. Policy rate dispersion represented by spread of cash rates across G10 countries. G10 countries include Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom, and United States. **The figures shown relate to past performance. 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.**

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Notes

1 Source: BlackRock and Bloomberg, 25 August 2026.

2, 4 Source: BlackRock and Bloomberg, 26 August 2026.

3 **There is no guarantee that stress testing will eliminate the risk of investing in this fund or strategy nor that the Profit & Loss movements depicted in the stress testing will replicate in the future. The figures shown relate to past performance. 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 Investment and Portfolio Solutions EMEA, BlackRock Aladdin, as of August 2026. This information demonstrates, in part, the firm's Risk/Return analysis. This material is provided for informational purposes only and is not intended to be investment advice or a recommendation to take any particular investment action.

5, 6 Source: BlackRock, as of 7 August 2026.

7 Source: BlackRock, September 2026.

Five year annualised performance

	2021	2022	2023	2024	2025	2026 YTD
MSCI World Index	21.82%	-18.14%	23.79%	18.67%	21.09%	13.57%
MSCI All-Country World Index (ACWI)	18.54%	-18.36%	22.20%	17.49%	22.34%	14.78%
S&P 500 Index	28.71%	-18.11%	26.29%	25.02%	17.88%	13.65%
MSCI Europe Index	25.13%	-9.49%	15.83%	8.59%	19.39%	12.19%
MSCI Japan Index	1.71%	-16.65%	20.32%	8.31%	24.60%	22.23%
MSCI EM Index	-2.54%	-20.09%	9.83%	7.50%	33.57%	24.61%
MSCI India Index	26.23%	-7.95%	20.81%	11.21%	2.62%	-8.94%
S&P 500 Information Technology Index	34.17%	-28.41%	57.41%	36.33%	23.82%	23.72%
S&P 500 Semiconductors & Semiconductor Equipment (Industry Group) Index	49.95%	-36.21%	99.08%	76.04%	46.19%	38.52%
S&P 500 Application Software Sub-Industry Index	19.75%	-37.19%	67.08%	10.18%	7.20%	-15.77%
Bloomberg Global Aggregate Index	-4.71%	-16.25%	5.72%	-1.69%	8.17%	-0.13%
Bloomberg Euro Aggregate Treasury Index	-3.46%	-18.46%	7.13%	1.88%	0.56%	-1.16%
Bloomberg Intermediate Treasury Index	-1.72%	-7.77%	4.28%	2.42%	6.51%	-0.03%
HFRI Global Macro Index	15.9%	16.1%	-3.7%	12.5%	-5.6%	6.8%**
HFRI Equity Hedge Index	20.2%	-4.2%	7.6%	19.3%	3.1%	6.9%**
HFRI Multi Strategy Index	16.8%	6.4%	1.5%	14.1%	-3.1%	1.4%**
HFRI Event Driven Index	21.0%	1.4%	6.7%	17.1%	-2.2%	4.9%**
HFRI Relative Value Index	15.8%	5.8%	3.3%	15.9%	-5.2%	3.6%**
Average European Portfolio	13.8%	-11.9%	11.5%	13.2%	6.0%	3.5%**
Gold spot price	-3.64%	-0.28%	13.10%	27.22%	64.58%	1.71%
Bloomberg Enhanced Roll Yield USD Index	32.89%	17.11%	-2.60%	5.69%	16.52%	36.70%
GLIO VettaFi Global Listed Infrastructure Index	16.93%	-5.96%	2.61%	8.99%	17.14%	11.30%
Bloomberg Global EQ:FI 60:40 Index	10.78%	-17.02%	16.67%	10.55%	16.10%	8.15%

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Appendix

CMA Disclosures and Methodology:

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Equity: We put estimates of the equity risk premium (ERP) at the heart of our approach to setting return expectations. We calculate the equity risk premium using an implied cost of capital approach (Li et al, 2013). We use a discounted cashflow model and take today's market price and expectations of future dividends and growth and interest rates to arrive at an implied equity risk premium. Changes in equity valuations are driven by both expected cash flows – earnings and dividends – and the ERP. Forming expected returns by looking solely at valuations – typically the price-to-earnings ratio – can miss the full picture, in our view. Our work finds that linking expectations for future interest rates and the ERP can be more telling for expected returns rather than attempting to find a fair value for the price-to-earnings ratio alone. This allows us to incorporate our views of the structural drivers of interest rates into expected equity returns –as well as other asset class returns. We also use bottom-up analyst earnings forecasts and the relationship between margins and the economic cycle to formulate our earnings expectations (using an augmented discounted cash flow model). We find corporate profit margins not only converge to long-term averages but do so at a faster pace when an economy reaches full capacity. We assume in future the ERP will mean-revert to levels observed in the post-1995 period. Our projections for risk-free rate, or "long-run short rate", are described in the Interest rates methodology section.

Interest rates: We derive our expected returns for government bonds by mapping out the yield curve at multiple time horizons in the future. This is based on estimating the short rate, and model implied term premia. Estimates of short rates are based on market data in the near-term and on macroeconomic informed data in the long-term. More specifically, in the long-term, we assume investor views about long-run inflation and real growth, coupled with changing preferences as to savings and risk aversion, will determine expectations for short rates (the "long run short rate"). Model implied term premia are computed from a model based in the affine term structure class of models (Adrian, Crump and Moench, 2013) describing the yield curve using the first five principal components of yield. The model implied term premia from the affine term structure model are further calibrated to market implied term premia, with the relative weights dependent on the relevant time horizon.

Appendix

Credit: Our model for credit asset (excess) returns is anchored on two key elements: our estimate of credit spreads at a given horizon and our estimates of loss due to defaults and downgrades over the horizon. The first component is projected in a consistent manner with our view of real GDP growth, as implied by BlackRock's factor-augmented vector autoregressive macroeconomic model (Bernanke, Boivin and Elias, 2004) and the link between credit spreads and equity volatility. Our approach attempts to avoid overfitting, yet retains the ability to explain a high proportion of the variance in credit spreads and passing cross-validation tests against more complex approaches. The second component is estimated based on our outlook for spreads, the duration of the asset and an assumed credit rating transition matrix which captures rating migrations and defaults across multiple credit cycles. We currently base our transition matrix on Moody's long-run transition data. We aim to further develop our model by directly modelling transitions based on macroeconomic conditions in order to better capture cycle dynamics and the respective variation in losses due to credit events. In addition to making our estimates of credit spreads consistent with our macroeconomic views, the our new credit (excess) return model allows the flexibility of calibrating our expected returns to various credit rating compositions which may prevail over the entire time horizon.

Private markets: The private market return models can be grouped into two categories – equity and debt. The equity models – relevant for core real estate and private equity buyouts – are based on an accounting statement framework. We estimate earnings growth and future valuations, which are used in conjunction with observable private and public market data (current valuations, financing cost, leverage, etc.) to model the evolution of the capital structure over time and infer equity returns. Estimated earnings growth and future valuations are linked to components of our public market return expectations for equity, rates, and credit spreads. Crucially, they also consider the unique dynamics of each asset class, such as the changing occupancy rates for real estate. Returns for private market debt – infrastructure debt and direct lending – are estimated using a 'build up' approach. The total return is a build-up of underlying public market factors (interest rates) and private-market specific return drivers such as credit spreads, losses due to default and downgrades, leverage and borrowing costs. Unlike most public debt markets, direct lending is modelled as a 'buy and hold' investment, in line with how investors access the asset classes. The published returns are gross of fees and we net out representative client fees, accounting for management fees, carried interest, and hurdle rates, when creating and optimizing portfolios

Stochastic engine: We use Monte Carlo simulation to create random distributions informed by historical return distributions and centred on our expected returns. The engine simulates thousands of return pathways for each asset, representing the range of possible outcomes over a five-to 30-year time horizon. We leverage BlackRock's risk models to ensure we respect co-dependencies between asset returns. The range of scenarios incorporate our work on incorporating uncertainty in return expectations.

The Black-Litterman model (1990) – a well-known model for portfolio allocation – combines long- and medium-term views in a single-period setting. Our model uses a Kalman filter – an algorithm that extracts insights about potential future paths by bringing together a number of uncertain inputs – to extend this approach into a multi-period setting. This allows us to capture the variation of expected returns over time under various scenarios – from economy-related to market sentiment driven. A large part of these variations is not predictable. Constructing portfolios that are robust to, or can exploit, these variations is a major challenge for investors. The ability to calibrate the engine with asset class views with uncertainty at arbitrary time horizons, and to evolve this uncertainty stochastically, drives the dispersion of return outcomes. Highlighting the uncertainty that investors face when building portfolios helps ensure ostensibly precise return expectations do not lead investors to concentrated portfolios.

Simulated return paths support a broader range of applications, such as asset-liability modelling. Stochastically generated return scenarios enable investors to move with ease beyond mean-variance and optimise portfolios against their individual needs. Investors can place more emphasis on the tails of the distribution or focus on the path of returns rather than just the total return. They can incorporate flows in or out of the portfolio over the course of the investor's time horizon or place more emphasis on scenarios that are challenging for the investor's business beyond their portfolio. Investors with complex asset-liability matching requirements, such as insurers, typically rely on stochastic simulations of returns to assess and construct portfolios.

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