

PORTFOLIO INSIGHTS



3 things we're watching entering 2025

January 2025

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2024 was a year that brought the world together for the summer Olympics in Paris, yet dispersion across countries rose throughout the year, particularly as the market priced in the policy shifts anticipated under a Trump presidency in the US. As we shift our focus to the market opportunities in early 2025, we also reflect on three macro developments that drove markets over the past year.



Tom Becker
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[BlackRock Tactical Opportunities Fund](#)

Some 2024 highlights

- **Still no US landing** – The Federal Reserve's late 2023 dovish pivot foamed the runway, but US consumers, businesses, and inflation had [no interest in landing the plane](#).
- **Loose financial conditions** – The Fed [slowed the pace of QT](#) in the spring and delivered a jumbo first cut in the fall and the S&P 500 responded with a 30% return on approximately 10% risk over the year.¹
- **Inflation-weary voters** – In a year of [global elections](#), results across countries pointed to widespread dissatisfaction with incumbents.²

Looking ahead

As we look to 2025, we expect the prevailing market regime of elevated country dispersion and macro volatility to persist. Diversification in traditional multi-asset portfolios remains challenging as directional stocks and bonds face headwinds, but we see an improving opportunity set in long-short country exposures. Three key insights driving portfolio positioning are:

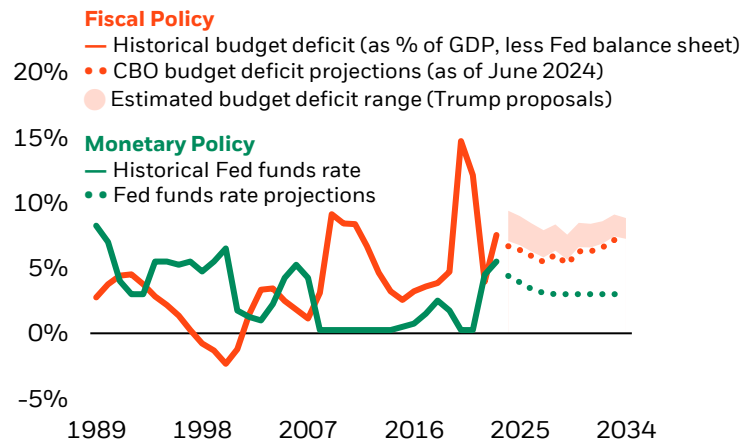
1. Fiscal-monetary tensions

There is a growing disconnect between the profligacy of the US fiscal policy outlook and the easing stance of US monetary policy. The new Treasury secretary, Scott Bessent, will need to issue historically large amounts of debt to fund the extension of the 2017

Tax Cuts and Jobs Act (TCJA); Trump's proposed set of fiscal policies will challenge the long-term sustainability of US debt. Simultaneously the Federal Reserve will need to incorporate expansionary fiscal policies and inflationary tariffs into its monetary policy stance; a stance that already appears increasingly less likely to bring inflation back to its 2% target.³

In light of the tension of maintaining expansionary fiscal and monetary policy at this economic juncture, we have reduced directional long equity exposures and added to short 30-year Treasury positions in the [BlackRock Tactical Opportunities Fund](#).

Further loosening of both fiscal and monetary policy in the US may challenge the 2% CPI target



Source: BlackRock, Bloomberg, Federal Reserve Summary of Economic Projections as of December 2024, Congressional Budget Office (CBO).

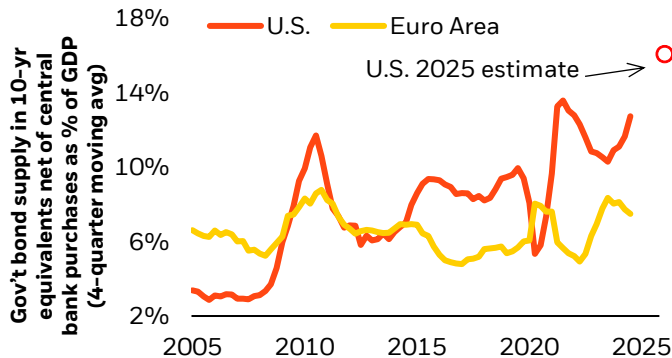
¹ Source: BlackRock with data from Bloomberg. Return is total return from January 1, 2024 – December 31, 2024. Risk is represented by annualized standard deviation based on monthly returns over the same calendar year period. ² Incumbent parties lost in the US, UK, and South Korea and suffered surprising setbacks in South Africa, Japan, India, and France. Concerns about the economy were a common thread in the wake of three years of high inflation. Source: Pew Research, [Economic ratings across 34 countries are more negative than positive](#). ³ We discussed the [entanglement of fiscal and monetary policy](#) in a 2023 insight piece, where we highlighted the challenging tradeoffs in an era of challenging debt sustainability.

2. Transatlantic divergence

There is a growing [divergence](#) in growth and inflation data between the US and Europe that is likely to be exacerbated by government policy changes in 2025. The US economy has remained exceptional with resilient growth, sticky inflation, and rising domestic investment. In contrast, Europe has struggled with weak productivity growth, hesitant consumers, and a lack of domestic investment. We see forthcoming tariffs from the Trump Administration as likely to exacerbate this economic divide, particularly given the rising political instability in Germany and France.

We are positioned short US Treasury bonds and long European government bonds as issuance and inflation risks remain underpriced in US debt markets. This position contributed strongly to performance in the second half of 2024 and we think it has further room to run.

Transatlantic divergence in fiscal policy is wide – and getting wider



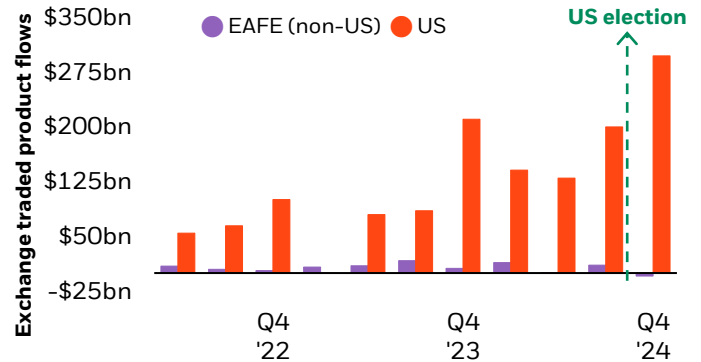
Source: BlackRock with data from US Treasury, Federal Reserve, CBO, the EU, the ESM, the ECB, and the finance ministries of Germany, France, and Italy. As of September 2024.

3. Exuberant US equities

While the US growth outlook remains strong, lots of positive sentiment is already in the price for US equities. Current market pricing will make it challenging for US Q4 2024 earnings to exceed lofty expectations when they are released starting in mid-January, particularly with uncertain policy priorities under the new administration. Flows data indicate that investors have been aggressively adding to US exposures relative to non-US markets, particularly in Q4. The high level of uncertainty over the earnings impact of Trump policy proposals as well as the relatively consensus positioning overweight US stocks have led us to position in a contrarian manner.

In the aftermath of the US election, we have been steadily selling down US equities both directionally and in the global cross-section. We enter 2025 short the S&P-500 versus a diversified set of non-US equity markets.

Equity flows crowded into US equities and out of non-US markets in late 2024



Source: BlackRock and Markit, as of December 17, 2024.

Final thoughts

Many recent conversations with clients have touched on the challenge of finding [diversification](#) in today's market landscape. Correlations across asset classes have risen and portfolio outcomes have become historically reliant on US asset returns. As global, multi-asset investors, we position long and short across a universe of 25+ countries' stock and government bond markets to deliver diversifying returns. Within the [BlackRock Tactical Opportunities Fund](#), we don't root for any one asset class or region, and our active, tactical approach allows us to capitalize on dislocations between macro and market pricing to generate alpha. Good luck in 2025!

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Liquidity Risk

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