

Weekly commentary

April 27, 2026

BlackRock

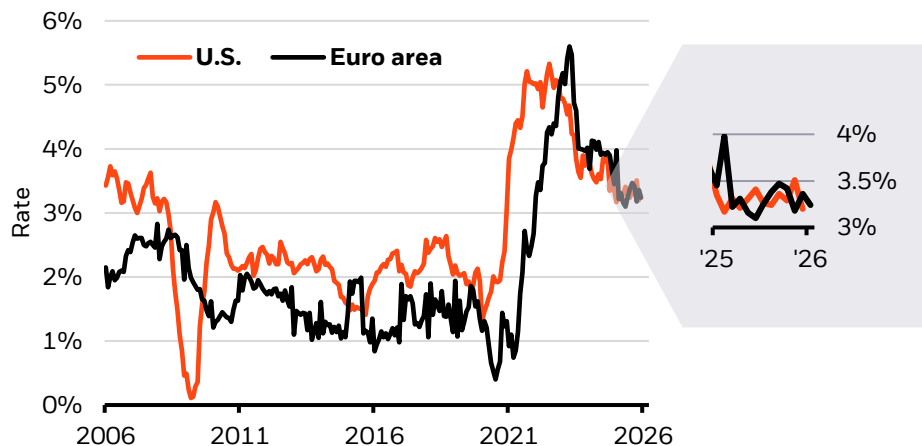
Persistent inflation constrains policy

- Inflation pressures predate the Middle East supply shock, leaving central banks constrained on policy. We prefer equities over government bonds.
- The S&P 500 crawled to a record last week even as oil prices rose on more Middle East disruptions. It shows skepticism over AI's payoff is dissipating.
- We expect the Fed and other key central banks to leave policy rates unchanged this week as they face a tough trade-off between growth and inflation.

Supply disruptions emanating from the Middle East conflict have piled onto inflation pressures that were already bubbling under the surface. This week's central bank run lays bare the bind policymakers face between reining in inflation and supporting growth and jobs. We think higher yields are here to stay – and that long-term government bonds are no longer effective diversifiers against equity declines. We stay overweight U.S. and EM equities on the rapid AI buildout.

Too hot for comfort

Annual core services inflation, 2006-26



Source: BlackRock Investment Institute, U.S. Bureau of Economic Analysis, Eurostat, with data from Haver Analytics, April 2026. Note: The line for the U.S. shows core services excluding shelter PCE inflation. Inset shows inflation dynamics for the latest 12 months.

Markets projected U.S. rate cuts before the Iran war erupted – and ignored signs that inflation's downward trend had already stalled as core services inflation remained stubbornly high. See the chart's inset on the right. The reason: An aging population and immigration curbs make for a tight labor market. Add the AI-led capex boom and tariff-driven goods inflation, and it becomes clear why broader core inflation is running above central bank targets. Markets flipfopped when the Middle East supply disruptions caused price spikes in energy and base chemicals. They are now pricing out U.S. rate cuts this year and expect the European Central Bank to hike instead of staying put. This shift reflects a recognition that inflation is running above pre-pandemic levels – a trend we see persisting for now.



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The big picture is that we are in a world shaped by supply. The Middle East conflict has supercharged existing supply constraints and intensified mega forces – structural changes such as the energy transition, geopolitical fragmentation and AI disruption. Supply disruptions of energy, chemicals and other industrial materials are increasing inflation pressures, albeit with disparate effects across regions. Europe and parts of Asia are feeling the brunt given their dependence on imported energy. The U.S. is more shielded as a net energy exporter. The conflict is reinforcing the resolve of governments around the world to invest in energy security and defense, adding to towering debt loads and putting upward pressure on inflation.

At the same time, an accelerating AI buildout is creating outsized demand for energy, data centers and specialized labor. This is bumping into worsening capacity and political constraints that are increasing costs. Prices of key AI inputs such as semiconductors are rising as capacity struggles to keep pace with demand. We think AI’s productivity gains could quickly offset such “chipflation” and other price pressures – and push down inflation. But this hasn’t happened yet.

Such is the backdrop for the Fed and other major central banks as they meet this week. They face a stark trade-off between trying to bring down inflation or supporting economic growth and jobs. No change in policy rates is expected, and the key is to watch for signs whether policymakers are growing concerned about persistent inflation, even if they look through price pressures caused by Middle East supply disruptions.

We stay risk-on in this environment. We are overweight U.S. and EM equities as major AI firms are now showing they can monetize their tools. We stay underweight long-term government bonds. They struggled to offset equity declines throughout the Iran war. This underscores the “diversification mirage” outlined in the Q2 update to our 2026 Global Outlook: This is a structural feature of the post-pandemic environment as the term premium – the extra compensation investors demand for holding long-term bonds – rises on concerns over high debt loads. We prefer short-dated credit and Treasuries for quality income instead, and EM hard-currency debt as it leans toward commodity exporters benefiting from supply disruptions.

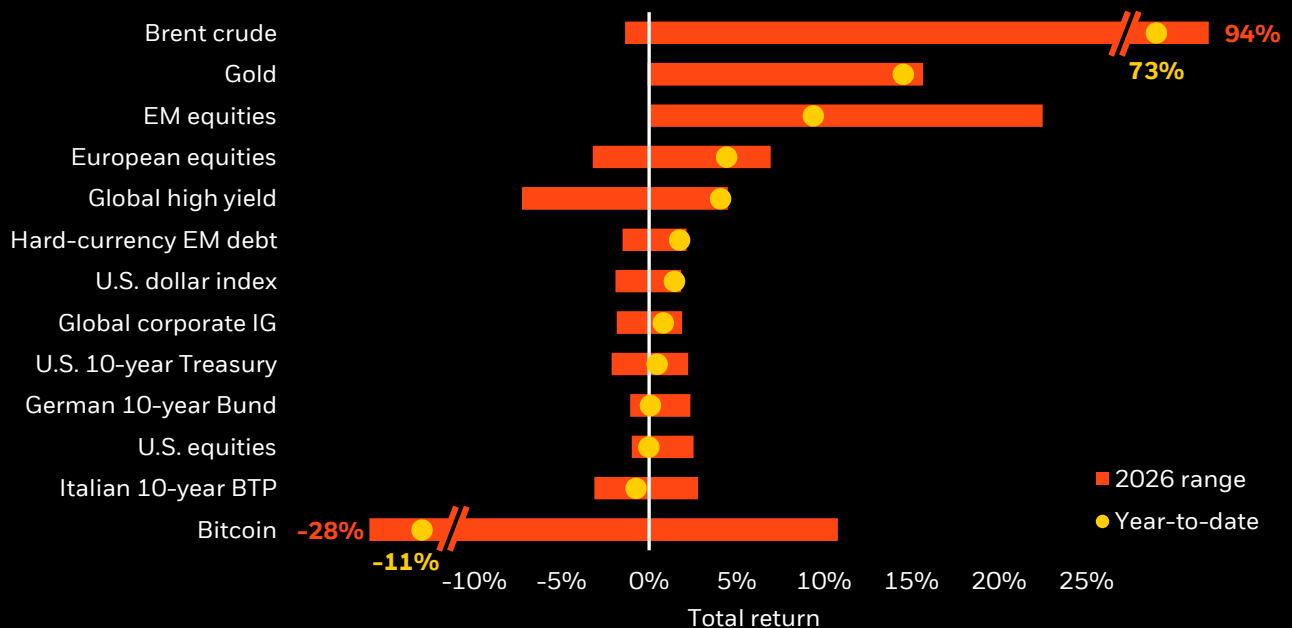
Bottom line: We prefer stocks over bonds as we see inflation pressures keeping interest rates higher for longer. We also eye thematic opportunities across power and infrastructure on AI demand and a scramble for energy security.

Market backdrop

The S&P 500 notched a fresh record even as oil prices rose as shipping traffic in the Strait of Hormuz almost crawled to a halt. This shows the AI mega force is shaping up even stronger than we envisaged in our 2026 Global Outlook. Previous market skepticism over AI – that major players were spending heavily but not making money – is dissipating and turning into belief. AI adoption is rising and revenue growth is accelerating.

Assets in review

Selected asset performance, 2026 year-to-date return and range



Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and do not account for fees. It is not possible to invest directly in an index.

Sources: BlackRock Investment Institute, with data from LSEG Datastream as of April 23, 2026. Notes: The two ends of the bars show the lowest and highest res at any point year to date, and the dots represent current year-to-date res. Emerging market (EM), high yield and global corporate investment grade (IG) res are denominated in U.S. dollars, and the rest in local currencies. Indexes or prices used are: spot Brent crude, ICE U.S. Dollar Index (DXY), spot gold, spot bitcoin, MSCI Emerging Markets Index, MSCI Europe Index, LSEG Datastream 10-year benchmark government bond index (U.S., Germany and Italy), Bloomberg Global High Yield Index, J.P. Morgan EMBI Index, Bloomberg Global Corporate Index and MSCI USA Index.

Week ahead

April 28

Bank of Japan interest rate decision

April 30

U.S. PCE & GDP; ECB, BoE interest rate decision

April 29

Federal Reserve interest rate decision

We focus on a packed week of central bank decisions. We expect the Fed, ECB, BoE and BoJ to hold rates steady – though the latter is more finely balanced. Even if the BoJ stays on hold, we expect policymakers to signal more hikes are on the table this year. We watch the ECB and BoE decisions to see if they will look through energy-driven inflation rather than respond to the risk of it spreading into wider price pressures.

Big calls

Our highest conviction views on six- to 12-month (tactical) and over five-year (strategic) horizons, April 2026

Tactical	Reasons
Favor AI beneficiaries	We favor infrastructure and equipment supporting the AI buildout such as semiconductors, power and data centers. We think they stand to benefit no matter AI's eventual winners or losers. We see the AI boom lifting U.S. corporate earnings, underpinning our U.S. equity overweight.
Selected international exposures	We like hard-currency EM debt on economic resilience, disciplined fiscal and monetary policy and a high ratio of commodities exporters. We're also overweight EM equities, preferring commodity exporters and AI beneficiaries. In Europe, we favor equity sectors like infrastructure.
Evolving diversifiers	We suggest looking for "plan B" portfolio hedges such as thematic opportunities related to the AI built-out and search for energy security. Long-term U.S. Treasuries no longer provide a buffer against equity market declines, and gold also has shown to be an ineffective diversifier.
Strategic	Reasons
Portfolio construction	We favor a scenario-based approach as AI winners and losers emerge. We lean on private markets and hedge funds for idiosyncratic returns and to anchor portfolios in mega forces.
Infrastructure equity and private credit	We find infrastructure equity valuations attractive as geopolitical fragmentation and the AI build-out underpin structural demand. We still like private credit but see an increase in dispersion of returns. This highlights the importance of manager selection.
Beyond market cap benchmarks	We get granular in public markets. We favor DM government bonds outside the U.S. Within equities, we favor EM over DM – and get selective in both. In EM, we like India because it sits at the intersection of mega forces. In DM, we like Japan amid inflation and corporate reforms.

Note: Views are from a U.S. dollar perspective, April 2026. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any particular funds, strategy or security.

Tracking five mega forces

Mega forces are big, structural changes that affect investing now – and far into the future. They change the long-term growth and inflation outlook and are poised to create big shifts in profitability across economies and sectors. This creates major opportunities – and risks – for investors. See our [web hub](#) for our research.

- 1. Demographic divergence:** The world is split between aging advanced economies and younger emerging markets – with different implications.
- 2. Digital disruption and artificial intelligence (AI):** Technologies are transforming how we live and work.
- 3. Geopolitical fragmentation and economic competition:** Globalization is being rewired as the world splits into competing blocs.
- 4. Future of finance:** A fast-evolving financial architecture is changing how households and companies use cash, borrow, transact and seek returns.
- 5. Transition to a low-carbon economy:** The transition is set to spur a massive capital reallocation as energy systems are rewired.

Granular views

Six- to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, April 2026

	Asset	View	Commentary	
Equities	Developed markets			
	United States		We are overweight. Contained damage to global growth from the Mideast conflict and strong earnings expectations – particularly in tech – keep us risk-on.	
	Europe		We are neutral. Europe’s high exposure to the energy shock from the Mideast conflict makes it vulnerable to higher inflation and lower growth.	
	UK		We are neutral. Valuations remain attractive relative to the U.S., but we see few near-term catalysts to trigger a shift.	
	Japan		We are neutral. Japan’s exposure to imported energy may erode strong equity gains powered by healthy corporate balance sheets and governance reforms.	
	Emerging markets			
	China		We are neutral. Trade relations with the U.S. have steadied, but property stress and an aging population still constrain the macro outlook. Relatively resilient activity limits near-term policy urgency. We like sectors like AI, automation and power generation.	
	Fixed Income	Short U.S. Treasuries		We are neutral. Shorter-term bonds are relatively attractive as the market has woken up to persistent inflation and higher rates.
		Long U.S. Treasuries		We are underweight. Yields already faced upward pressure from rising term premia, as investors demand more compensation for the risk of holding long-term debt. The recent energy price shock compounds this by aggravating pre-existing inflationary pressures.
		Global inflation-linked bonds		We are neutral. We think inflation will settle above pre-pandemic levels, but markets may not price this in the near term as growth cools.
Euro area govt bonds			We are neutral short-term European government bonds. The market has repriced the ECB policy path more in line with our view. We think increased German bond issuance to finance its fiscal stimulus package is already largely reflected in the current level of 10-year yields.	
UK gilts			We are neutral. We expect volatility in gilts over the near-term. Gas powers much of the UK’s electricity, but storage is limited – making it especially vulnerable to a resurgence in inflation.	
Japanese govt bonds			We are underweight. Rate hikes, higher global term premium and heavy bond issuance will likely drive yields up further.	
China govt bonds			We are neutral. China bonds offer stability and diversification but developed market yields are higher and investor sentiment shifting towards equities limits upside.	
U.S. agency MBS			We are overweight. Agency MBS offer higher income than Treasuries with similar risk and may offer more diversification amid fiscal and inflationary pressures.	
Short-term IG credit			We are neutral. Corporate strength means spreads are low, but they could widen if issuance increases.	
Long-term IG credit			We are underweight. We prefer short-term bonds less exposed to interest rate risk over long-term bonds.	
Global high yield		We are neutral. High yield offers more attractive carry and shorter duration, but we think dispersion between higher and weaker issuers will increase.		
Asia credit		We are neutral. Overall yields are attractive and fundamentals are solid, but spreads are tight.		
Emerging hard currency		We are overweight. EM hard-currency indexes lean toward Latin American commodity exporters such as Brazil that stand to benefit as Mideast supply plummets.		
Emerging local currency		We are neutral. The U.S. dollar has been strengthening as a safe-haven currency in the wake of the Middle East conflict. This could reverse year-to-date gains driven by a falling USD.		

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