

Weekly commentary

May 4, 2026

BlackRock

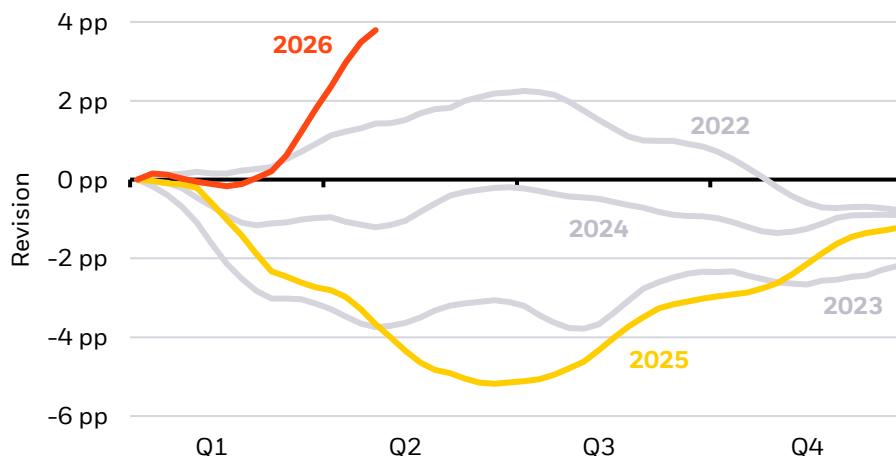
Earnings strength keeps us risk-on

- Strong U.S. corporate earnings momentum reinforces our pro-risk stance. We're overweight U.S. and EM equities, mainly on the AI theme.
- The S&P 500 last week capped its best month since 2020, powered by mega cap tech, while central banks signaled greater caution on inflation.
- We see the U.S. jobs report this week confirming a resilient but gradually cooling labor market, with moderate payroll growth and layoffs holding steady.

U.S. stocks are hitting records amid ongoing Middle East supply disruptions. A key reason behind their outperformance? Strong corporate earnings that are being revised higher yet. Mega cap tech remains the dominant driver, while broad earnings growth looks healthy in a still resilient U.S. economy. And AI is now delivering tangible revenues, allaying worries over outsized capital spending. We're overweight U.S. and EM stocks on the accelerating AI buildout as a result.

Upward earnings momentum

S&P 500 earnings growth revisions in percentage points, 2022–2026



Source: BlackRock Investment Institute with data from LSEG Datastream, April 2026. Notes: Lines show consensus estimates for year-on-year S&P 500 earnings growth for each fiscal year.

U.S. earnings are on a roll. A trend of upward revisions to S&P 500 earnings growth in 2025 has spilled over to 2026 – an atypical path given that analysts usually revise their expectations down as the year progresses. See the chart. What's behind the momentum? Earnings growth is still led by the “magnificent seven” megacap tech stocks: They make up about a third of the S&P 500's market capitalization and account for 55% and 37% of total expected earnings growth this quarter and year, respectively. The broader earnings backdrop looks healthy as well. Materials and energy have seen earnings upgrades as the Mideast conflict has pushed prices higher. It's not just about future earnings: Some 83% of S&P 500 companies have beaten profit estimates by an average of 11% this quarter, with two-thirds having reporting. The average company has increased earnings by 8% in the past year.



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U.S. earnings momentum is gathering steam as mega forces – big structural changes such as geopolitical fragmentation and AI – are increasingly driving investment outcomes. These often manifest unevenly, and that’s reflected in stock returns. Take geopolitical fragmentation: Europe and parts of Asia are vulnerable to Middle East supply disruptions, stoking inflation and weighing on growth. The U.S., by contrast, is more shielded as a net energy exporter, while EM energy and commodity exporters in Latin America are benefiting. This is partly why the U.S. has been leading equity market gains to record levels since the war’s start, with the S&P 500 up 5% vs 5% and 4% declines in European and Japanese stocks, respectively.

Another key reason for U.S. equity fortitude: The AI mega force is strengthening. To be sure, it’s no longer the tide that lifts all boats. Markets are focused on how AI will change business models and are searching for signs that record spending on data centers, chips and human capital is starting to pay off. This is driving differentiation in stock returns. Last week’s Big Tech earnings showed companies are raising their already lofty capex plans, with the market rewarding those controlling key pieces of the underlying technology that are also proving they can convert spending into profits. The capex bonanza highlights surging demand for AI infrastructure, benefiting semiconductors and hardware in Taiwan and South Korea.

All this underpins our preference for U.S. and EM equities. Active investors can also eye opportunities beyond the key players in the AI buildout. Examples are early AI adopters seeing efficiency gains in financials and selected healthcare such as imaging, diagnostics and documentation. Other potential beneficiaries of a market broadening include value and high dividend stocks, where wide discounts and attractive income could spur a valuations rebound. We favor thematic opportunities amid a fragmenting world in search of energy security: infrastructure and defense in Europe and beyond.

Our views are dependent on the reopening of the key shipping channel of the Strait of Hormuz. If that doesn’t happen, even U.S. equities won’t be insulated, in our view. Similarly, the U.S. economy is likely to suffer if the latest spike in oil prices lasts.

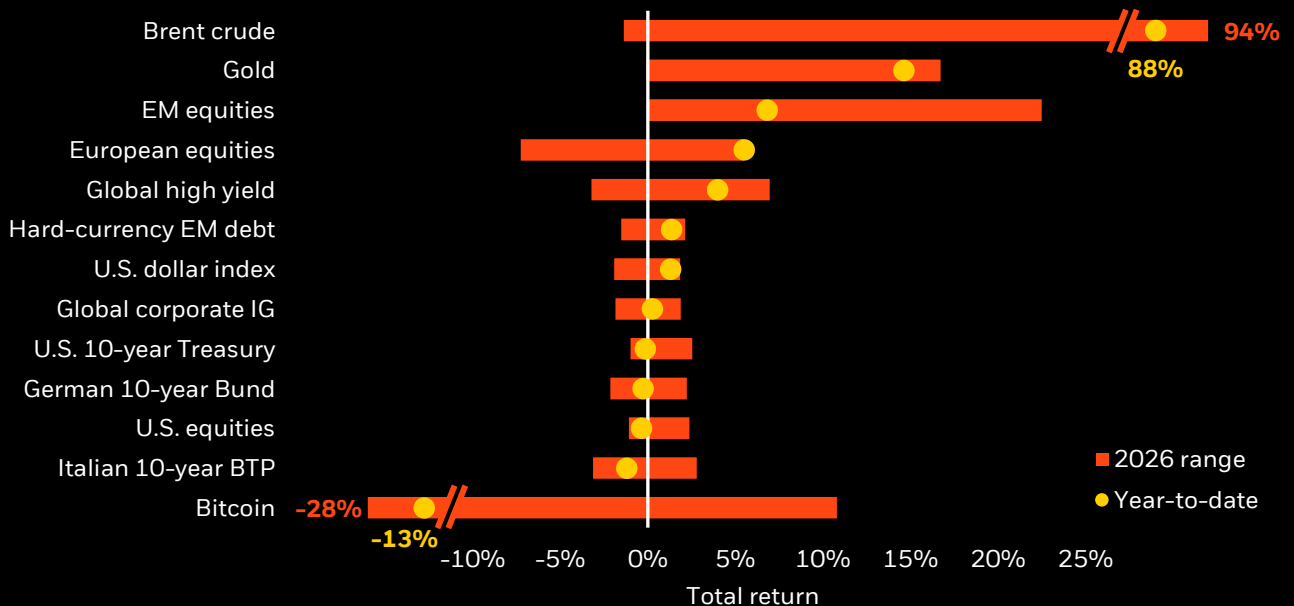
Bottom line: The AI theme and broadening earnings strength underpin our pro-risk stance. We’re overweight U.S. and EM equities on the accelerating AI buildout. We eye thematic opportunities across infrastructure, defense and energy.

Market backdrop

The S&P 500 notched a 10% gain for April, its best month since November 2020, driven by strong earnings momentum. The Fed and European Central Bank (ECB) left interest rates unchanged, as expected. The case for further Fed rate cuts has weakened, with policymakers showing less conviction and signaling greater caution on inflation. The labor market is not seen as a key inflation driver, increasing the risk of upside surprises as persistent wage growth could push core services inflation higher. The ECB, for its part, signaled rate hikes ahead.

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 30, 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

May 4

euro area manufacturing final PMI

May 7

U.S. jobs report; China trade balance; University of Michigan consumer sentiment survey

May 5

U.S. trade balance; ISM manufacturing PMI; JOLTS

We focus on U.S. labor data this week, with the U.S. jobs report and labor demand data key to confirming the resilient yet slow-moving labor market we've observed. We expect moderate job growth and stable layoffs. We also watch ISM manufacturing and euro area PMIs for signs of subdued industrial activity, and eye China's trade data for any further weakness.

Big calls

Our highest conviction views on six- to 12-month (tactical) and over five-year (strategic) horizons, May 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, May 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 overweight yet stay selective. We favor Asian countries that manufacture critical AI components and Latin American energy and commodity exporters. | |
| | 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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