

Weekly commentary

May 11, 2026

BlackRock

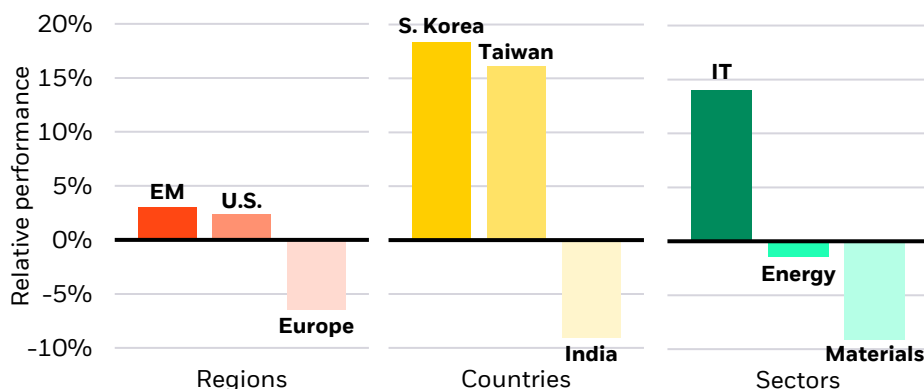
Record U.S. stocks: disconnect or not?

- We see no disconnect between record U.S. equities and high oil and yields: Markets are pricing both AI-driven growth and the Middle East supply shock.
- U.S. equities hit record highs last week, while oil and yields stayed elevated – reinforcing our view that markets are differentiating the shock’s impact.
- U.S. inflation data this week will test still-firm price pressures, with implications for yields as markets assess the risk of further rate increases.

U.S. stocks hit record highs even as the effective closure of the Strait of Hormuz disrupts global supply chains. A common narrative is that markets are disconnected as equities and credit hold firm while oil, commodities and yields rise. We see no inconsistency. The AI buildout is offsetting the shock’s drag on growth, while energy markets still appear to be pricing eventual reopening of the Strait. That leaves inflation and higher yields as the key risk to our pro-risk stance.

Mideast shock creates dispersion

Equities performance relative to MSCI World since Mideast conflict



Source: BlackRock Investment Institute with data from LSEG Datastream, May 2026. Bars show the relative performance vs. the MSCI World since Feb. 27, just before the start of the Middle East conflict. Positive values indicate outperformance.

Emerging market and U.S. equities are leading global markets since the start of the Middle East conflict on strong AI-linked earnings. See the chart’s left set of bars. Countries exposed to the shock have lagged, while those tied to the AI boom, such as South Korea and Taiwan, have outperformed (middle set of bars). Sector trends tell a similar story, with AI-linked industries driving gains and inflation-exposed areas such as materials underperforming (right set of bars). Policy expectations have been moving in the same direction. Markets are now pricing in about three rate hikes in Europe as inflation pressures build, whereas no change is expected in the U.S. And U.S. credit spreads are below pre-conflict levels, underscoring markets are not pricing in much economic damage. Conclusion: These patterns suggest that markets are pricing in earnings strength and the supply shock’s fallout to date.



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The resilience in U.S. equities reflects the scale and breadth of the AI buildout. Expected S&P 500 earnings growth for the first quarter has climbed to about 28%, roughly double early-April levels, while MSCI EM tech earnings growth expectations have surged to around 160%. This strength is being reinforced by an emerging AI-driven cybersecurity arms race, sustaining demand for compute, cloud infrastructure and advanced models. The numbers are staggering. The “magnificent seven” are tracking a 57% jump in quarterly earnings (with Nvidia yet to report), three times higher than Bloomberg estimates just last month. Capital spending is now estimated to reach as much as \$725 billion this year, up some 10% from before earnings.

The AI buildout has so far outweighed the typical effect of a macro shock: a drag on growth and earnings that hurts equities. That leaves interest rates as the key mechanism through which the shock could challenge risk assets. Higher energy and input costs are adding to already sticky inflation, with a more pronounced impact in Europe because of its greater exposure. At the same time, the AI buildout is increasing demand for capital – not only for technology infrastructure, but also for energy security and broader infrastructure rebuilding amid geopolitical fragmentation. Capital that previously flowed to the U.S. is increasingly being diverted to these needs, raising competition for funding and adding to upward pressure on long-term yields. Equity markets are balancing growth against rates: Strong enough earnings growth can offset higher yields, as seen in the AI-driven surge since the launch of ChatGPT. The risk: If disruptions persist, the combined effect of higher inflation and rising capital demand could push yields high enough to weigh on valuations.

We stay pro-risk for now, overweighting U.S. and EM equities as beneficiaries of the AI buildout and commodity exports. We prefer equities over bonds and remain underweight long-term U.S. Treasuries, instead favoring short- and medium-term bonds for income. This stance is dependent on eventual normalization in the Strait of Hormuz even as there are still no signs of a reopening. A prolonged closure would likely shift the balance. It would lift inflation and rates enough to start weighing on valuations and tighten financial conditions, ultimately challenging both risk assets and the pace of the AI buildout

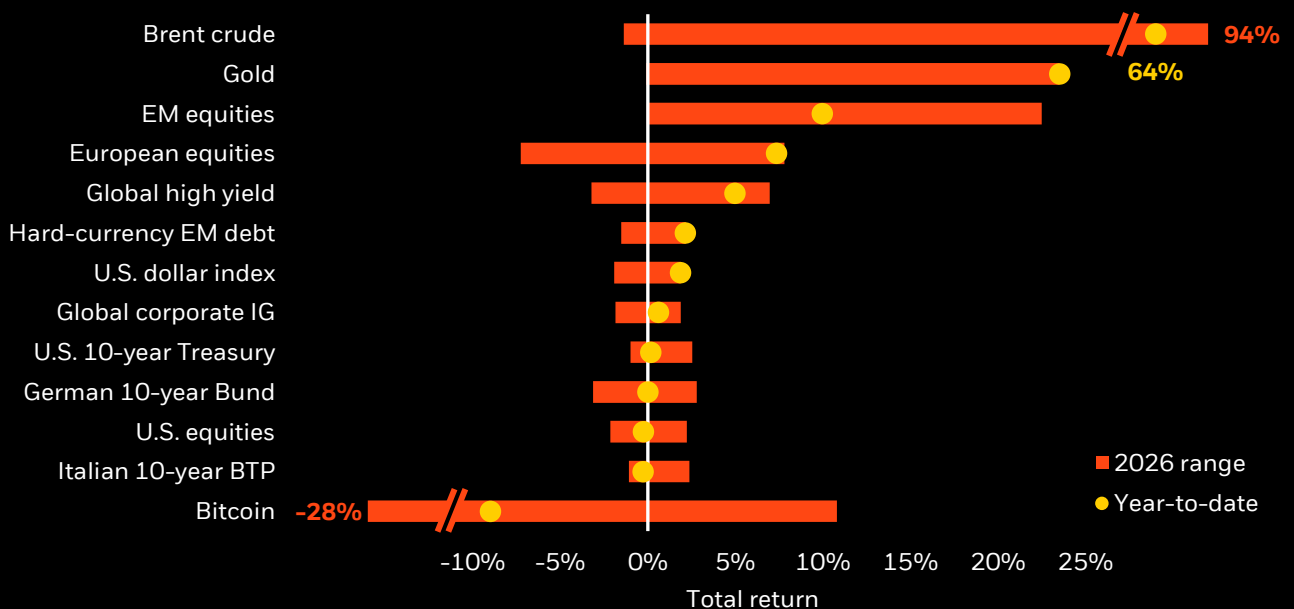
Bottom line: We see no disconnect between record U.S. equities prices and elevated oil, commodities and yields. Markets are pricing both AI-driven growth and the impact of the Middle East supply shock. We stay pro-risk as a result.

Market backdrop

U.S. equities pushed to record highs last week, led by tech as strong earnings and intermittent hopes of de-escalation in the Middle East supported risk appetite. The broader market picture was more uneven. Europe lagged and more energy-sensitive sectors came under pressure as higher input costs began to bite, while oil prices and bond yields remained elevated. This divergence highlights how markets are absorbing the shock: Equity performance is supported by resilient growth and AI-driven earnings, even as commodities and rates reflect the risk of a more prolonged disruption to global supply chains.

Assets in review

Selected asset performance, 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 May 7, 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 11

China CPI and PPI

May 13

U.S. PPI; Euro area flash GDP and employment

May 12

U.S. CPI

May 14

UK GDP

This week we watch for inflation data. U.S. price pressures through CPI are expected to stay firm, with signs that core inflation may rise further. PPI will show whether higher costs for goods and energy are still passing through. In China, consumer prices are expected to stay weak, while factory prices are rising, showing better pricing in industry but still weak demand at home. Together, the data will show how strong inflation pressures remain.

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, May 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

Underweight **Neutral** **Overweight** ● Previous view

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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