

Weekly commentary

July 6, 2026

BlackRock

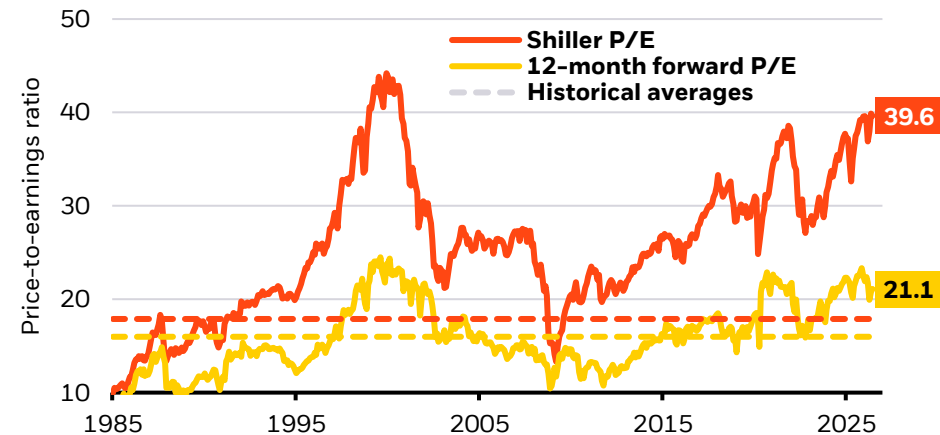
Beyond the AI bubble debate

- The debate over whether AI exuberance is overdone is less about today's valuations than whether future earnings can remain at extraordinary levels.
- The S&P 500 rose 2% last week and capped its strongest quarter in six years as markets increasingly price the possibility of an AI-driven growth breakout.
- We eye minutes from the Fed's June policy meeting for signs that policymakers struck a less hawkish tone than markets inferred from the June dot plot.

Are we in an AI bubble? We think the answer depends on whether AI can turn today's scarcity into tomorrow's abundance. Markets are increasingly pricing that outcome, expecting AI to lift productivity and growth enough to sustain today's extraordinary earnings. Whether those earnings can endure – not where valuations sit relative to history – is key. Still-elevated margins suggest they can. We remain overweight U.S. equities, favoring the scarce inputs every AI system requires.

Parting ways?

Shiller CAPE ratio and S&P 500 forward earnings ratio, 1985–2026



The figure shown relates to past performance. Past performance is not a reliable indicator of current or future results.

Source: BlackRock Investment Institute with data from LSEG Datastream, July 2026. Note: Shiller P/E is based on the ten-year average of inflation-adjusted earnings. The 12-month forward P/E is based on future 12-month earnings estimates. Historical averages: 1900–2026 for Shiller CAPE and 1985–2026 for the S&P 12-month forward P/E.

U.S. equities are enjoying an extraordinary earnings run. S&P 500 earnings are expected to grow 23% year on year in Q2, marking a seventh-consecutive quarter of double-digit growth. The Shiller price-to-earnings (P/E) ratio has climbed to 40, back to levels last seen during the dot-com bubble. Yet the 12-month forward P/E ratio offers a more balanced perspective. At around 21, valuations look less stretched because earnings expectations have risen sharply with share prices. See the chart. Median external forecasts also point to U.S. growth of about 3.5% – roughly 1.7 times its historical trend – reinforcing market expectations that AI could drive a growth breakout. Whether today's valuations prove justified comes down to whether the earnings momentum can be sustained.



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One essential nuance? Concluding AI has become a bubble is itself a significant call: it assumes the technology will not generate a lasting breakout in productivity and growth. Previous technological revolutions did not deliver a lasting breakout in productivity and growth, but AI could prove different by creating new, durable sources of revenue. The evidence so far has been supportive. Incremental margins remain above operating margins across most AI value-chain baskets, suggesting AI-related revenues are still translating into unusually strong profits. That reinforces our view that the investment cycle has further to run and supports our overweight to U.S. equities. While identifying the ultimate AI winners is difficult, we believe many will be found in the U.S. given its leadership in chips, frontier AI models and deep capital markets.

Within that, we prefer expressing the AI theme through scarcity. We do not need to know which AI model or application ultimately wins to know that every AI system depends on chips, memory, power and data center infrastructure. Companies supplying these scarce inputs benefit from sustained capital investment and, in many cases, long order books that provide greater visibility into future earnings. That makes scarcity one way to navigate uncertainty around earnings durability, and our highest-conviction AI investment idea.

The AI opportunity, however, extends well beyond today's bottlenecks. As the buildout shifts toward physical AI, opportunities are emerging in robotics, sensors and industrial automation, making active security selection increasingly important. China has advantages across parts of that value chain, including manufacturing and batteries. Yet manufacturing strength alone does not guarantee attractive equity returns, reinforcing our preference for active investing rather than broad regional calls. We also see opportunities beyond today's mega caps. Select small-cap companies, emerging market infrastructure providers and industrial firms could offer attractive exposure to the scarce inputs powering the next phase of AI.

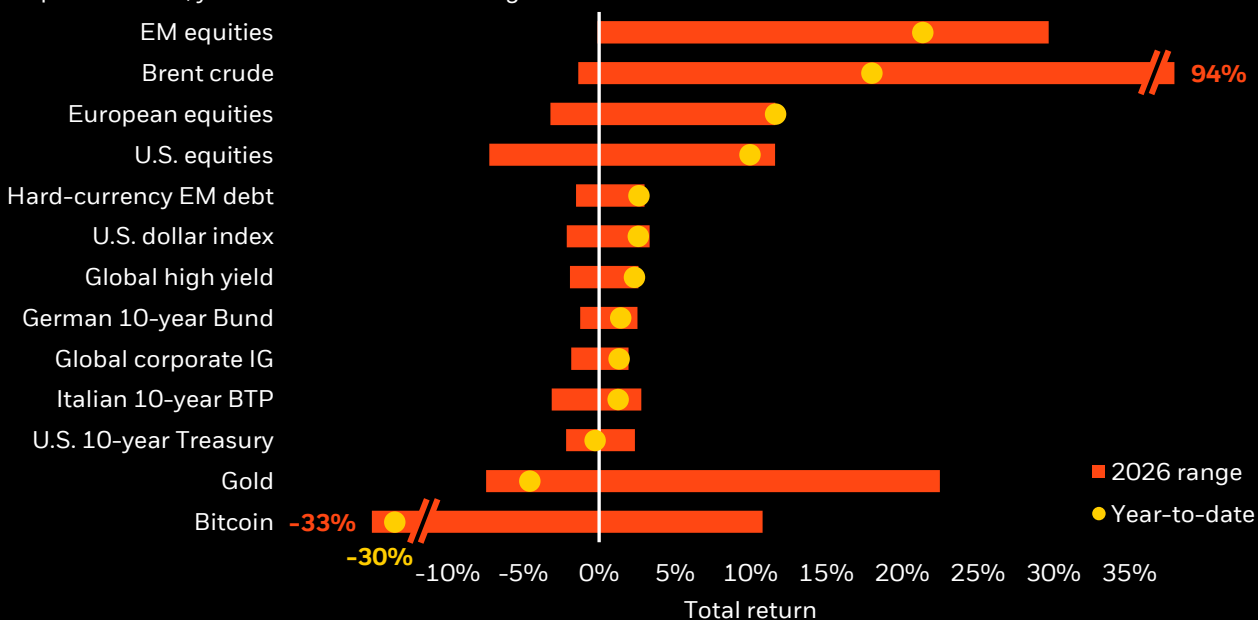
Bottom line: We focus on companies best positioned to deliver a durable earnings breakout, expressing our AI conviction through scarcity while relying on an active approach to identify opportunities. We're overweight U.S. equities on the AI theme.

Market backdrop

The S&P 500 added 2% last week and capped off its strongest quarterly gain in six years. Semiconductors fell sharply – a prime example of the tension between our scarcity and abundance theme. The Japanese yen slid to a 40-year low against the dollar, though we don't see these moves as the prelude to another bout of cross-asset volatility for now. U.S. 10-year Treasury yields climbed 10 basis points to 4.48% on concerns of potential interest rate hikes ahead.

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 July 2, 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.

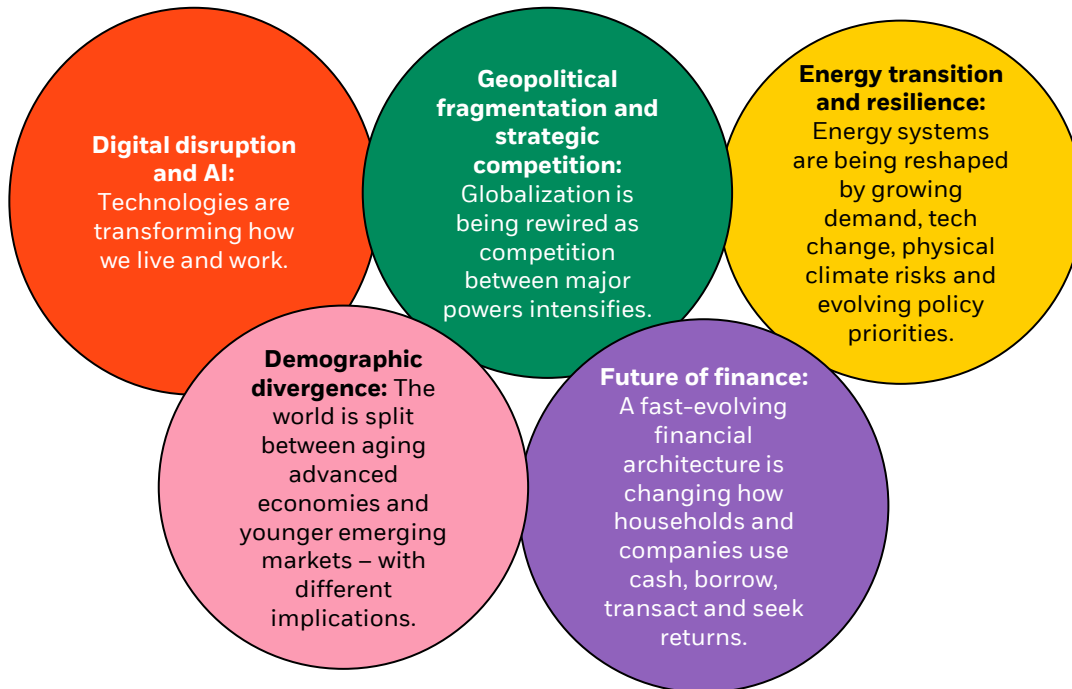
Week ahead

July 6	S&P Global PMI final	July 8	Fed June meeting minutes
July 7	U.S. trade balance	July 9	China PPI and CPI

We eye the minutes from the Federal Reserve's June policy meeting for insight into the debate behind the decision to hold rates steady despite still-sticky inflation and a resilient labor market. What's key is whether the discussion supports our view that markets took the June dot plot's hawkish signals too literally or instead points to a more meaningful shift in the Fed's policy approach.

Intersecting mega forces

Since we launched our mega forces framework it has become clearer how their intersection shapes almost all our investment views and opens up alpha opportunities. They cut across asset class labels, spurring a rethink of portfolio construction. Investors need to be deliberate about the economic or thematic exposures they own, the vehicles they use to implement them and their investment horizons.



From drivers to portfolio expressions

Our highest conviction views, July 2026

Driver	What we think	Portfolio expression
Growth and AI scarcity	The AI buildout is speeding up, making bottlenecks binding.	Overweight U.S. equities; focus on AI bottleneck opportunities: power, chips and data centers.
Duration and diversification	Long bonds carry high rate sensitivity and are less reliable diversifiers.	Prefer short- and medium-term government bonds over long bonds for income.
Credit spreads and liquidity	Selectivity is crucial amid tight spreads and uneven fundamentals.	Credit with clear cash flows, lender protections and recovery value; higher-rated high yield.
Inflation and scarcity	Scarcity, secure supply and power demand carry inflation risks.	Infrastructure, energy bottlenecks, EM local debt and real-asset-linked exposures.
Alpha opportunity	Macro outcomes matter again in the new regime.	Macro hedge funds, venture capital, market-neutral strategies, and selected private credit and non-U.S. alpha.

Asset class implications

Six- to 12-month tactical positioning, July 2026

This shows the implementation of our key investment views from the previous page through an asset class lens.

	Asset	Positioning	Commentary	
Equities	Developed markets			
	United States		We are overweight. Strong corporate earnings, fueled by the AI buildout and a favorable macro backdrop, are outpacing higher interest rate expectations.	
	Europe		We are neutral. We would need to see more business-friendly policy and deeper capital markets for Europe to outperform. We favor financials, infrastructure, and industrials.	
	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. Strong corporate balance sheets and governance reforms remain supportive. We prefer targeted exposures to physical AI and the buildout's bottlenecks.	
	Emerging markets		We are neutral. We see opportunities where the AI buildout drives demand for infrastructure, particularly in Latin America.	
	China		We are neutral. We see opportunities in physical AI. Cheap, open-source AI could drive adoption, but that doesn't necessarily translate into AI-provider profitability.	
	Fixed Income	Short U.S. Treasuries		We are neutral. We prefer short- and medium-term Treasuries, given the attractive risk-adjusted income on offer.
		Long U.S. Treasuries		We are underweight. We see investors wanting more compensation for holding long-term bonds amid persistent inflation and high debt loads. Long-duration bonds also are a less reliable portfolio diversifier in the new regime.
		Global inflation-linked bonds		We are neutral. We see inflation settling above pre-pandemic levels, but markets may not price this in the near term as economic growth could slow.
Euro area govt bonds			We are overweight short- and medium-term bonds. Markets are pricing restrictive policy rates of about 3% for several years. We think that's overdone.	
UK gilts			We are neutral. We expect periods of elevated volatility given political uncertainty, longer-term bonds making up a larger market share, and buyers becoming more price-sensitive.	
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. A shift in investor sentiment toward 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. Spreads are tight due to corporate strength; they could widen if issuance increases or risk appetite shifts.	
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 attractive income. We prefer higher-rated U.S. and European high yield over investment grade and see dispersion of returns increasing.	
Asia credit			We are neutral. Overall yields are attractive and fundamentals are solid, but spreads are tight.	
Emerging hard currency			We are neutral. Fundamentals have improved, but we see a more attractive risk-reward profile in EM local debt.	
Emerging local currency			We are overweight. We like the yield relative to its volatility and improving fundamentals.	

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