Weekly commentary

BlackRock

July 13, 2026

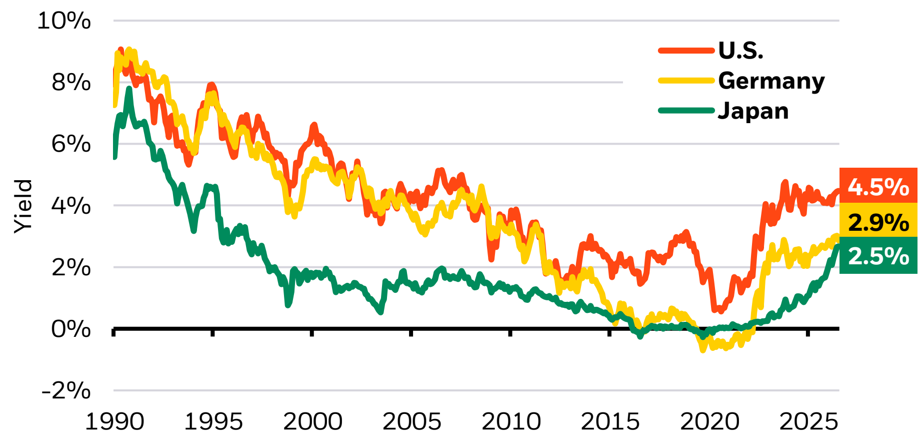
Japan bonds tell global repricing story

- Global yields have reset higher. Japan confirms the shift. Better income opportunities have returned, but not all income is equal.
- U.S. stocks rose for a second straight week despite renewed Middle East tensions. We see investors looking through near-term geopolitical shocks.
- U.S. inflation data this week could reinforce the recent repricing of Fed policy expectations if price pressures remain firm.

The major repricing of Fed policy expectations over the past six months has reverberated well beyond U.S. markets. Japan illustrates this latest development, with 10-year government bond yields hitting 30-year highs even as the yen has weakened to its lowest level since 1986. Higher interest rates are a defining feature of the new regime outlined in our Midyear Outlook, creating a stronger environment for durable income. Yet selectivity remains key.

Closing the gap

Ten-year government bond yields, 1990-2026



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.

Government bond yields have reset higher across the U.S., Europe and Japan since 2020-21. See the chart. The recent repricing of U.S. policy expectations has provided a fresh catalyst. Higher Treasury yields and a stronger dollar have put renewed pressure on the yen, making the Bank of Japan's gradual normalization more challenging and pushing Japanese government bond yields higher. Japan's domestic backdrop – including rising inflation expectations and concerns over fiscal expansion – have amplified that move. Long-dated forward rates implied by JGBs are now around 5%, versus roughly 6% in the U.S., 5.3% in France, 5.5% in Australia and 6.5% in the U.K. If even Japan – long an outlier because of decades of deflation and ultra-loose monetary policy - is now trading broadly in line with its developed-market peers, we think that reinforces our view that the global rates reset is real and significant.

Wei Li
Global Chief Investment Strategist – BlackRock Investment Institute

Beata Harasim
Senior Investment Strategist – BlackRock Investment Institute

Valerie Chan
Investment Strategist – BlackRock Investment Institute

Serena Jiang
Economist — BlackRock Investment Institute

Visit BlackRock Investment Institute for insights on the global economy, markets and geopolitics.

BlackRock **Investment** Institute

Higher yields have created a stronger environment for generating durable income. Investors no longer need to rely on broad bond indices or extend far out the yield curve to earn attractive income. Yet not all income is equal. The key question is whether investors are being adequately compensated for the risks they assume. Japan illustrates why. The BoJ's gradual approach to tightening has helped keep the global repricing in rates relatively orderly, but increasingly crowded short-yen positioning warrants close monitoring. The yen remains an important funding currency for global carry trades. While higher JGB yields have made the yen a less attractive funding currency than in the past – reducing the risk of a repeat of the 2024 carry squeeze - any abrupt shift in BoJ policy could trigger an unwind in those trades and ripple across global markets.

Higher yields have also changed the role of long-duration government bonds in portfolios. Greater uncertainty about inflation, higher government borrowing and rising term premia mean they no longer provide the same reliable ballast during risk-off episodes. At the same time, investors have far more options for generating income than they did just a few years ago. Our analysis shows that over 80% of major global fixed income assets now yield above 4%, up from just 6% five years ago. The Global Aggregate currently yields 3.8% with 5.1% volatility, compared with an equally weighted income basket yielding 5.5% with 4.3% volatility, reinforcing the case for a more selective approach.

We therefore favor focusing on areas where we think investors are best compensated for risk. Within government debt, we favor the front end and belly of the U.S. and European yield curves, as well as selected local-currency emerging market debt, where rates have repriced materially and fundamentals have improved. Beyond government debt, we favor selected investment grade credit, higher-quality high yield and direct lending. In Japan, however, we continue to prefer equities over government bonds. We continue to see a more constructive backdrop for Japanese equities as the economy emerges from decades of deflation and the BoJ gradually normalizes policy.

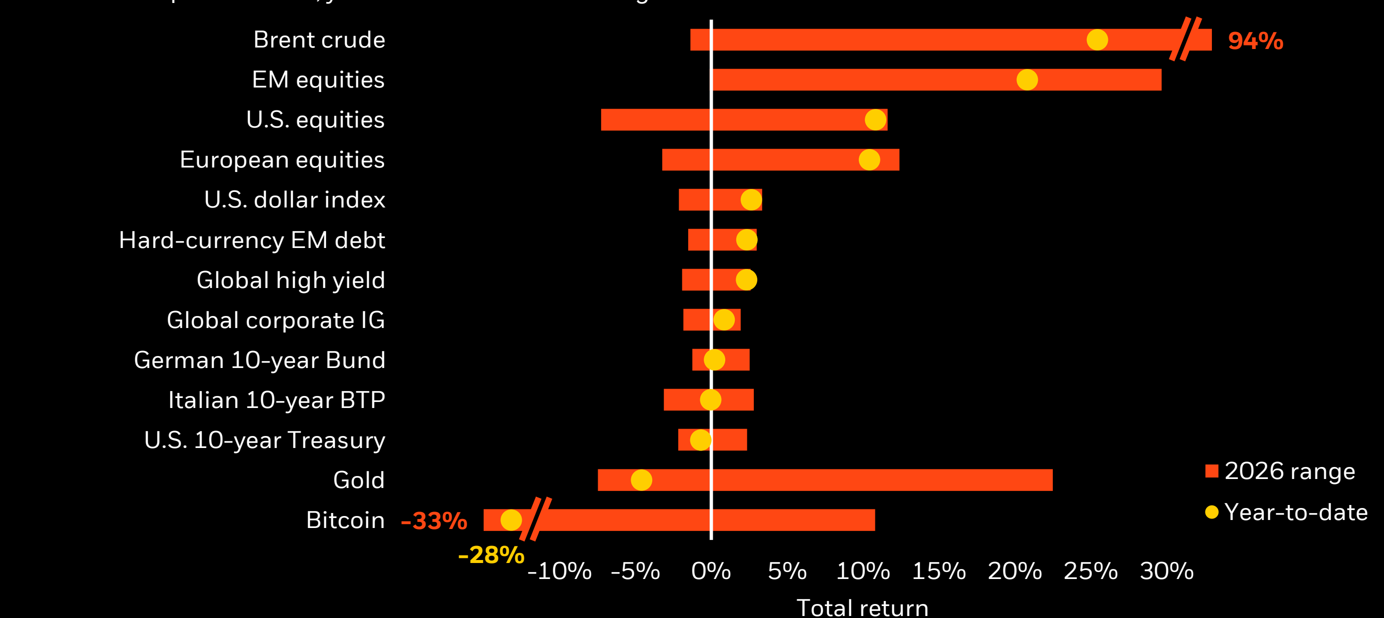
Bottom line: Higher yields have made durable income an opportunity again, but investors should focus on areas where they are best compensated for the risks they take.

Market backdrop

The S&P 500 ended the week higher, leaving the index up 11% for the year and less than 1% off its record high, even as sharp swings in semiconductor stocks and renewed tensions between the U.S. and Iran kept investors focused on geopolitical risks. The Nasdaq advanced 1.7%. Brent crude is back above $76 a barrel, while the U.S. 10-year Treasury yield rose around 8 basis points to 4.55%. We think markets are continuing to look through near-term geopolitical shocks while remaining focused on the broader repricing in rates and resilient corporate fundamentals.

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 9, 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.

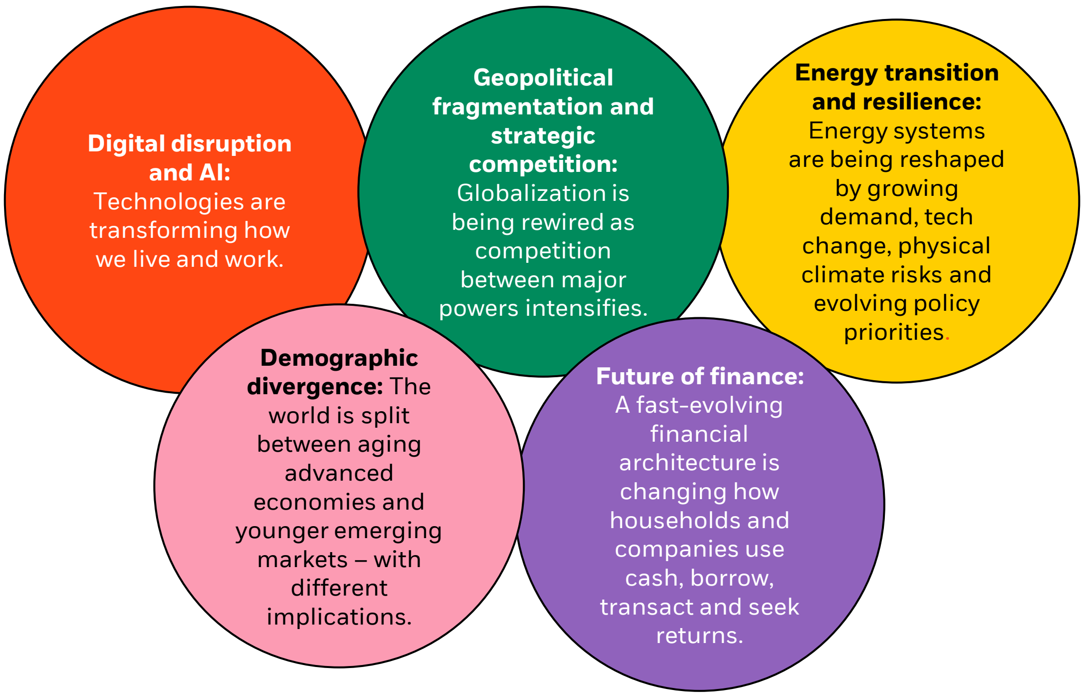
Week ahead

July 14	U.S. CPI; China exports & imports	**July 16**	U.S. Philly Fed business index; UK GDP
July 15	U.S. PPI; China GDP & unemployment	**July 17**	UMich sentiment prelim; EU HICP

This week we watch U.S. inflation data for signs that earlier increases in energy and producer costs are passing through to core prices. Recent CPI details showed limited spillover, but underlying inflation remains too firm to be confident in a return to 2%, keeping the Fed on hold. Markets are still pricing one quarter-point hike by the end of 2026.

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.

Note: Views are from a U.S. dollar perspective, July 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.

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.

Underweight **Neutral** **Overweight** ● Previous positioning

	Asset	Positioning	Commentary
Equities	**Developed markets**		
Equities	United States	+1	We are overweight. Strong corporate earnings, fueled by the AI buildout and a favorable macro backdrop, are outpacing higher interest rate expectations.
Equities	Europe	Neutral	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.
Equities	UK	Neutral	We are neutral. Valuations remain attractive relative to the U.S., but we see few near-term catalysts to trigger a shift.
Equities	Japan	Neutral	We are neutral. Strong corporate balance sheets and governance reforms remain supportive. We prefer targeted exposures to physical AI and the buildout's bottlenecks.
Equities	**Emerging markets**	Neutral	We are neutral. We see opportunities where the AI buildout drives demand for infrastructure, particularly in Latin America.
Equities	China	Neutral	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	Neutral	We are neutral. We prefer short- and medium-term Treasuries, given the attractive risk-adjusted income on offer.
Fixed Income	Long U.S. Treasuries	-1	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.
Fixed Income	Global inflation-linked bonds	Neutral	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.
Fixed Income	Euro area govt bonds	+1	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.
Fixed Income	UK gilts	Neutral	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.
Fixed Income	Japanese govt bonds	-2	We are underweight. Rate hikes, higher global term premium and heavy bond issuance will likely drive yields up further.
Fixed Income	China govt bonds	Neutral	We are neutral. China bonds offer stability and diversification but developed market yields are higher. A shift in investor sentiment toward equities limits upside.
Fixed Income	U.S. agency MBS	+1	We are overweight. Agency MBS offer higher income than Treasuries with similar risk and may offer more diversification amid fiscal and inflationary pressures.
Fixed Income	Short-term IG credit	Neutral	We are neutral. Spreads are tight due to corporate strength; they could widen if issuance increases or risk appetite shifts.
Fixed Income	Long-term IG credit	-1	We are underweight. We prefer short-term bonds less exposed to interest rate risk over long-term bonds.
Fixed Income	Global high yield	Neutral	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.
Fixed Income	Asia credit	Neutral	We are neutral. Overall yields are attractive and fundamentals are solid, but spreads are tight.
Fixed Income	Emerging hard currency	Neutral	We are neutral. Fundamentals have improved, but we see a more attractive risk-reward profile in EM local debt.
Fixed Income	Emerging local currency	+1	We are overweight. We like the yield relative to its volatility and improving fundamentals.

Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index. Note: Views are from a U.S. dollar perspective. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast or guarantee of future results. This information should not be relied upon as investment advice regarding any particular fund, strategy or security.

BlackRock Investment Institute

The BlackRock Investment Institute (BII) leverages the firm's expertise and generates proprietary research to provide insights on macroeconomics, sustainable investing, geopolitics and portfolio construction to help BlackRock's portfolio managers and clients navigate financial markets. BII offers strategic and tactical market views, publications and digital tools that are underpinned by proprietary research.

BlackRock.

Not FDIC Insured • May Lose Value • No Bank Guarantee