Weekly commentary

BlackRock

July 20, 2026

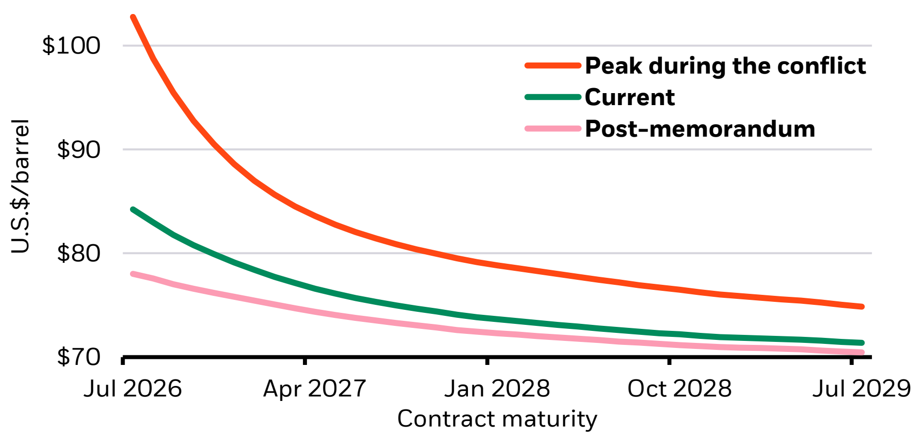
Staying risk-on in a more fragile world

- Renewed tensions in the Middle East have made the macro backdrop more fragile — but not enough to move us away from our pro-risk stance.
- Tech and semiconductor stocks sold off sharply last week. We see these moves as overstated: cheaper AI changes the winners, not the investment case.
- Resilient growth and moderating inflation remain our base case. This week's UK inflation and PMI data will put that view to the test.

We highlighted geopolitical risks and critical chokepoints as forces shaping markets in our 2026 Midyear Global Outlook. The latest Middle East escalation has brought those risks back to the fore. Yet markets have reacted less sharply, even as the global economy has fewer buffers against a prolonged energy shock. For now, we don't push back against that assessment. We stay risk-on, but with a higher bar: earnings need to keep growing and outpace the rising cost of capital.

A more muted response

Brent crude oil futures curves through the U.S.-Iran conflict



Source: BlackRock Investment Institute with data from LSEG Datastream, July 17, 2026. Note: Lines show the Brent crude oil futures curve at selected points since the onset of the U.S.-Iran conflict. The "Peak during the conflict" curve corresponds to 18 May, when the average price of the first 12 monthly Brent futures contracts was at its highest during the conflict. The "Post-memorandum" curve corresponds to 8 July, following President Trump's declaration that the U.S.-Iran Memorandum of Understanding was "over."

The Middle East conflict has escalated again after a short-lived U.S.-Iran diplomatic pause and tentative ceasefire collapsed. Yet the oil market is telling a more measured story. While Brent crude prices have risen by 13% since the latest flare-up, the futures curve suggests investors expect a temporary disruption — not a prolonged supply shock. See the chart. The relatively modest move further along the curve also reflects confidence that global oil supply can absorb the disruption — a view we don't challenge today. High starting oil inventories, demand adjustment, supportive fiscal policy and ongoing AI-led investment have helped contain the shock without materially changing the global macroeconomic outlook so far. We estimate the conflict will shave around 0.4% off global GDP in 2026, with roughly 0.3 percentage points already reflected in market pricing.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For now, we see little evidence that the latest escalation will weaken economic growth enough to change our pro-risk stance. The AI investment boom — an important driver of growth — and our preference for AI infrastructure remain intact despite recent volatility. Today's global economy is also far less oil-intensive than previous energy shocks, making it more resilient to higher energy prices. Inflation is a different story. We estimate the conflict will add around 0.8 percentage points to global headline inflation — though the impact is unlikely to be uniform. Europe and parts of Asia remain more exposed given their reliance on energy imports. For example, roughly 65% of South Korea's oil imports and one-third of China's LNG imports move through the Strait of Hormuz. The U.S. is relatively more insulated, supported by greater energy independence and exposure to the AI investment cycle.

Even so, a more resilient economy does not eliminate downside risks. Oil inventories have already been drawn down by about 0.5 billion barrels this year, leaving roughly 0.5 billion barrels readily available to absorb further disruption. Those buffers could shrink further if tensions spread beyond the Strait of Hormuz to other key export routes like the Bab el-Mandeb Strait. Yet we believe immutable economic laws can limit the most extreme outcomes. As we outlined in March, the knock-on effects of a prolonged energy supply disruption create economic and political pressures for de-escalation — leaving incentives for all sides to find an off-ramp, in our view.

Another reason we remain pro-risk? Earnings growth still comfortably outpaces the rising cost of capital. Markets are pricing a higher path for U.S. policy rates, while long-term government bond yields reflect concern over persistent inflation. Yet higher rates do not automatically translate into weaker equity markets. Companies with pricing power can pass higher costs through to customers, supporting revenues and earnings. That's helped keep expectations high. Consensus now expects S&P 500 earnings to grow 25% in 2026, up from 18% just three months ago. We prefer U.S. equities over long-term government bonds—so long as earnings growth remains exceptionally strong while offsetting higher interest rates.

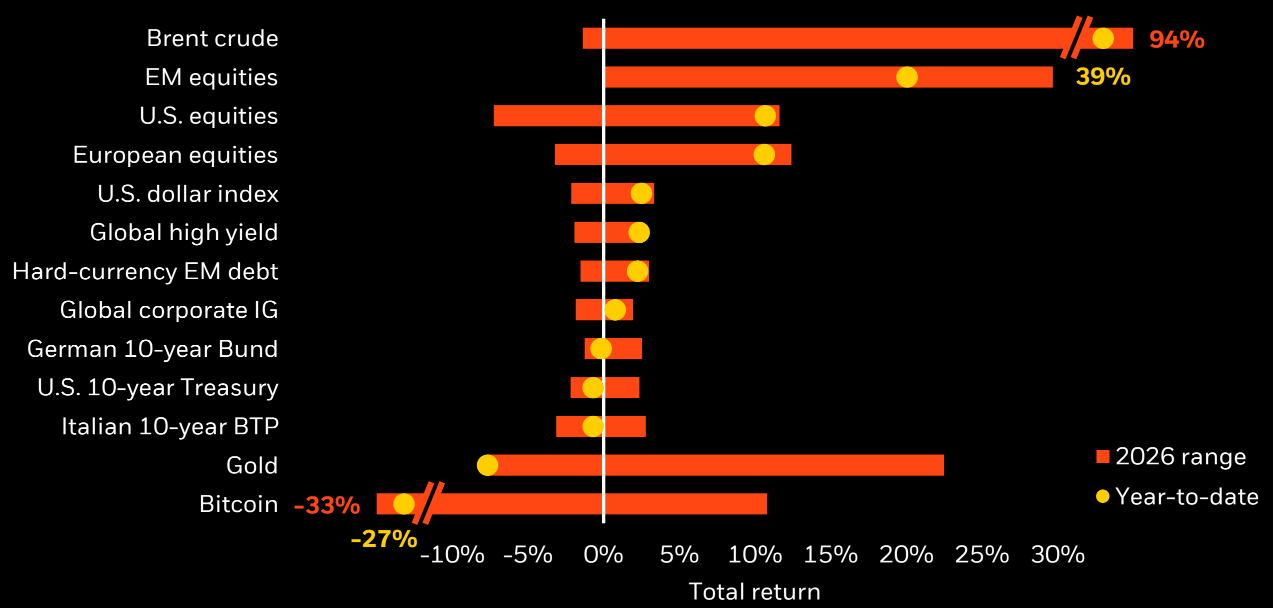
Bottom line: While uncertainty has increased, we do not believe recent market moves warrant abandoning our overweight stance on U.S. equities and we remain risk-on. We remain nimble and prepared to adjust as the facts and markets evolve.

Market backdrop

A sharp selloff in semiconductor stocks weighed on the broader market, sending the S&P 500 and Nasdaq 2% and 3% lower last week. The Philadelphia Semiconductor Index fell 11% and briefly entered a bear market on concerns that lower-cost large language models from China could challenge frontier models. We think the market reaction overlooks the other side of the story: cheaper AI could broaden adoption and reinforce demand for AI infrastructure.

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 16, 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.

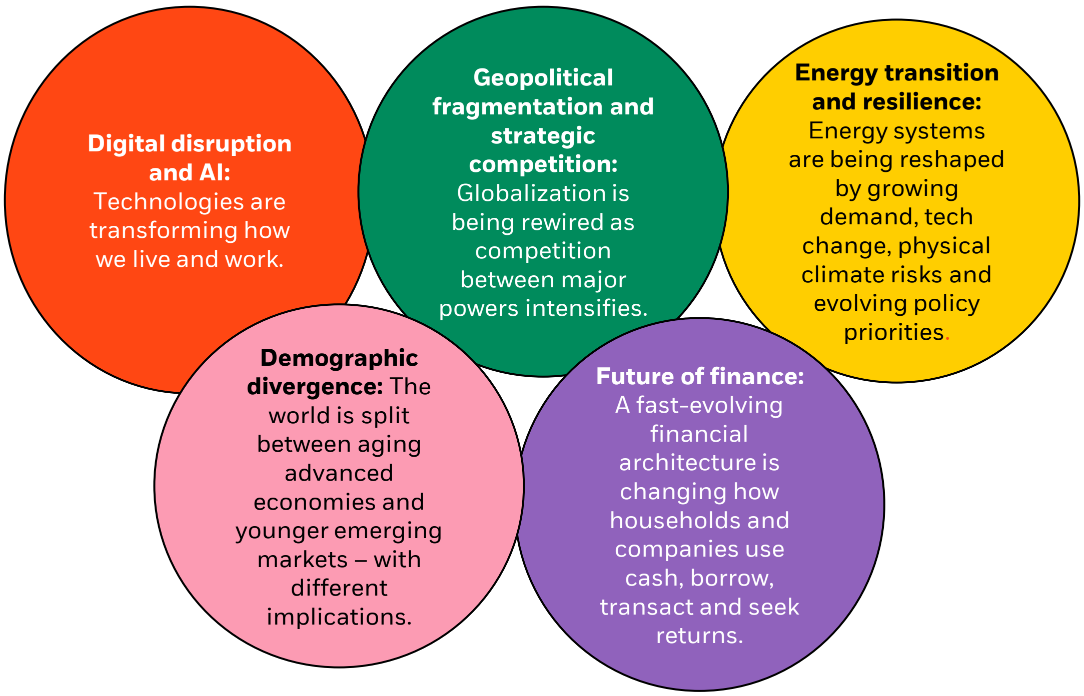
Week ahead

July 21	UK unemployment & HMRC payrolls change	**July 23**	Euro area refinancing/deposit rates
July 22	UK PPI & CPI; Japan trade balance	**July 24**	S&P Global flash PMI; Japan CPI

This week's macro calendar will test our view that the global economy is settling into a more balanced growth-inflation mix. The data will show whether resilient activity continues to coexist with gradually moderating inflation, helping determine how much room central banks have to ease policy ahead of next week's Fed decision.

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**		
	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.
	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.
	UK	Neutral	We are neutral. Valuations remain attractive relative to the U.S., but we see few near-term catalysts to trigger a shift.
	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.
	Emerging markets	Neutral	We are neutral. We see opportunities where the AI buildout drives demand for infrastructure, particularly in Latin America.
	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.
	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.
	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.
	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.
	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.
	Japanese govt bonds	-2	We are underweight. Rate hikes, higher global term premium and heavy bond issuance will likely drive yields up further.
	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.
	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.
	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.
	Long-term IG credit	-1	We are underweight. We prefer short-term bonds less exposed to interest rate risk over long-term bonds.
	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.
	Asia credit	Neutral	We are neutral. Overall yields are attractive and fundamentals are solid, but spreads are tight.
	Emerging hard currency	Neutral	We are neutral. Fundamentals have improved, but we see a more attractive risk-reward profile in EM local debt.
	Emerging local currency	+1	We are overweight. We like the yield relative to its volatility and improving fundamentals.

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