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Weekly commentary

BlackRock

August 3, 2026

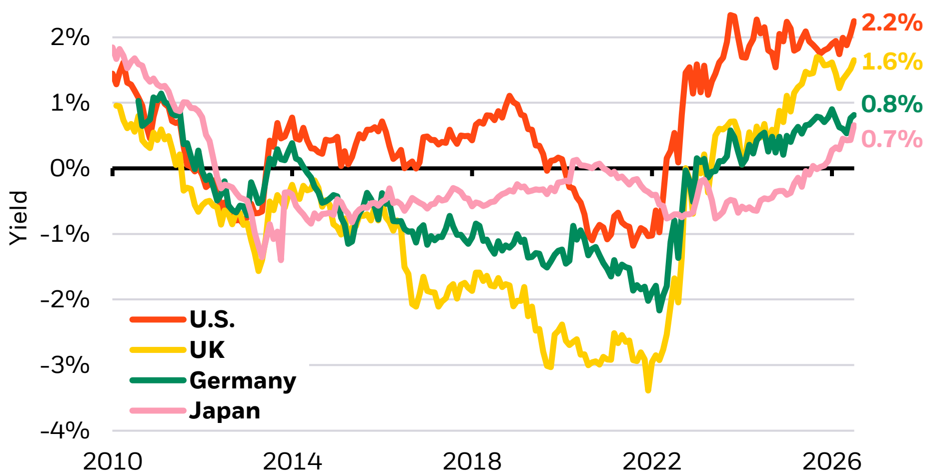
A quiet August? Not for investors.

- AI, oil and government bond yields are all sending the same message: scarcity is shaping markets and keeping borrowing costs higher.
- The sell-off in long-dated U.S. Treasuries pushed the 30-year yield to a 19-year high of 5.28% as markets reassessed the Fed's reaction function.
- U.S. nonfarm payrolls take the spotlight this week, offering clues on whether labor market conditions are consistent with our high-for-longer rate view.

Investors hoping August will bring a summer lull may be disappointed. Oil prices are swinging with every twist in the Middle East conflict, while AI earnings and spending plans are driving sharp moves in stocks. Alongside the repricing in government bond yields, these developments underscore our long-held view of a world shaped by supply scarcity keeping inflation and borrowing costs higher. For investors, the role of government bonds has shifted: less ballast, more income.

The real deal

10-year real government bond yields across major developed markets, 2010–2026



Source: BlackRock Investment Institute, with data from LSEG Datastream, July 2026. Notes: Chart shows 10-year inflation-adjusted government bond yields for the U.S., U.K., Germany and Japan.

The steepening of the two-year/30-year Treasury yield curve after last week's Federal Reserve meeting reflects growing inflation worries and uncertainty over how the Fed will respond. We see this not as new but as a continuation of the broader macro regime we have described for several years. The fastest AI investment buildout in history is unfolding in a world shaped by supply scarcity, where energy constraints, tight labor markets and geopolitical fragmentation are shifting the focus from efficiency to resilience. Meanwhile, governments and hyperscalers are drawing on the same pool of savings, intensifying competition for capital. These forces are pushing investors to demand higher returns to lend for longer, lifting real yields across developed markets. See the chart. That broader repricing underpins today's investment backdrop.

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The global repricing of long-term bond yields has come a long way. The U.S. 10-year Treasury yield has risen from less than 1% six years ago to nearly 5% today. German 10-year yields recently reached a 15-year high and Japanese 10-year yields have approached 3% for the first time since the mid-1990s.

The structural forces behind higher bond yields have been building for several years but intensified this year. What was already the fastest AI investment boom in history has accelerated further, with consensus forecasts for hyperscaler capital spending in 2026 revised about 30% higher over the past six months to $720 billion. Greater sovereign borrowing and persistent fiscal deficits, alongside a shift in Middle Eastern investment toward domestic priorities, have reduced capital available for overseas investment and further intensified competition for capital. Scarcity-driven inflation—amplified by the Middle East energy and commodity shock—has driven a sharp repricing of Fed expectations from easing to tightening, prompting a global rise in bond yields. More recently, new uncertainty around the Fed's reaction function under new Chair Kevin Warsh has pushed the term premium higher.

Higher yields have changed both the role of government bonds in portfolios and the opportunity set for investors. Bonds have become a less effective portfolio ballast. The correlation between daily U.S. equity and 10-year Treasury returns averaged 7% over the last five years, compared to -43% in the decade prior to the pandemic. Still, higher yields have created attractive income opportunities, reinforcing our durable income theme. More than 80% of the global bond universe now yields above 4%, versus around 20% in the decade pre-pandemic. Rather than reaching further out the curve, we favor building durable income through short- and medium-term Treasuries, local-currency emerging market debt, short-maturity euro area bonds, agency mortgage-backed securities and selected public and private credit with resilient cash flows. Higher borrowing costs also raise the bar for equities. But companies able to grow earnings faster than borrowing costs increase can still outperform. However, we expect greater dispersion across companies, strengthening the case for active investing.

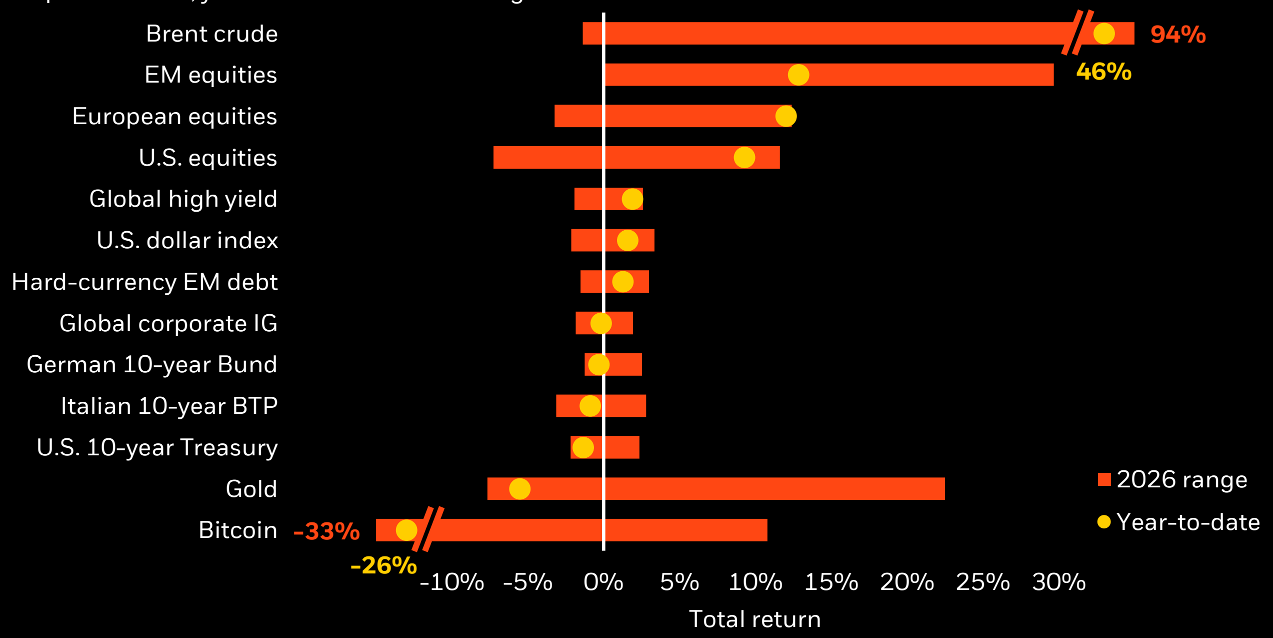
Bottom line: AI investment, prolonged supply shocks and heavy government borrowing are accelerating the repricing of long-term rates. Government bonds provide less ballast but more income, expanding the opportunity for durable income.

Market backdrop

Bond markets were in focus last week. Investors sold long-dated Treasuries after the Federal Reserve held rates steady, pushing the 30-year yield to a 19-year high of 5.28% as markets reassessed the Fed's reaction function. At the same time, the two-year yield fell to 4.29%, steepening the two-year/30-year Treasury curve. Technology stocks also swung sharply, with the Nasdaq up 1.6% for the week as investors weighed hyperscaler earnings against another wave of AI investment.

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 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.

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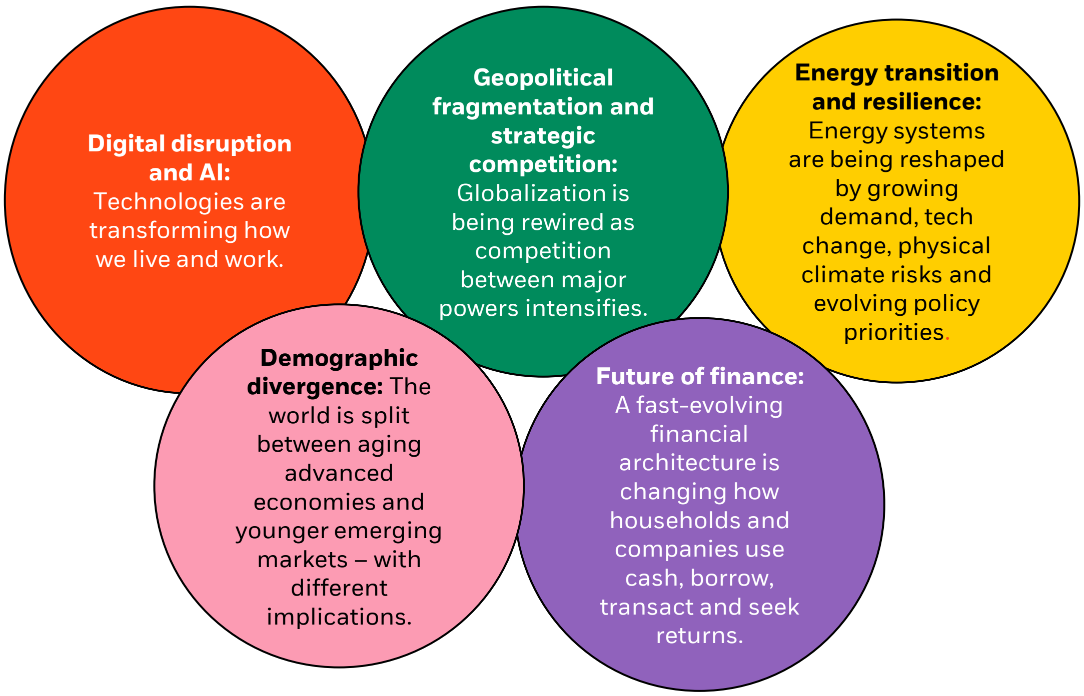
Week ahead

Aug. 3	U.S. ISM manufacturing and EU manufacturing PMI	**Aug. 6**	U.S. initial jobless claims and Q2 productivity; China trade balance
Aug. 4	U.S. job openings	**Aug. 7**	U.S. payrolls

U.S. nonfarm payrolls will be in focus after last week's Fed meeting. With less forward guidance from the Fed, the report will provide fresh insights into labor market conditions, wage growth and the outlook for inflation—and whether they remain consistent with our high-for-longer rate view.

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, August 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, August 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.

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Asset class implications

Six- to 12-month tactical positioning, August 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.

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