Weekly commentary

August 10, 2026

BlackRock

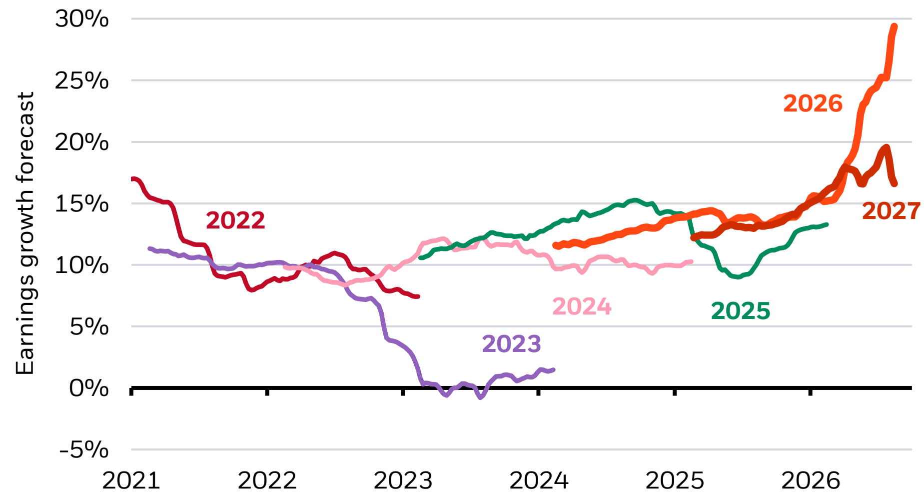
Two market signals, one story

- Strong corporate earnings and rising government bond yields tell the same story: a structurally higher cost of capital calls for a different portfolio approach.
- U.S. Treasury yields fell as weak jobs data eased pressure for an immediate Fed rate rise. But a steeper yield curve suggests long-term inflation risks remain.
- July inflation data will show whether softer hiring and wages are feeding through to prices. We expect some inflation rebound from June's softer reading.

Analysts are raising corporate earnings forecasts even as long-term government bond yields rise. These are not contradictory signals. We think both are consistent with the structural changes reshaping markets. That's why our capital market assumptions (for professional investors only) are built around multiple scenarios with different macro outcomes. That framework underpins our preference for equities and underweight to developed market government bonds.

Breaking the cycle

S&P 500 earnings growth estimate paths, 2021-2027



Source: BlackRock Investment Institute with data from LSEG Datastream, August 7, 2026. Lines show the evolution of calendar year earnings estimates over time for the S&P 500 index.

Rapidly rising earnings forecasts and higher government bond yields might seem hard to reconcile. Both trends can pull markets in opposing directions, as higher long-term rates tend to dampen earnings growth. Yet five years after the last economic downturn, consensus earnings forecasts for 2026 are still being revised higher, not lower. See the chart. We see this as evidence of structural forces at play. In our CMAs, we see strong earnings growth as durable. We expect U.S. corporate earnings to grow by 11.6% a year over the next five years — a pace seen in only about 15% of historical five-year periods. This outcome is not guaranteed and is conditional on AI adoption boosting productivity and profit margins. But the fact that it is plausible underscores why we cannot apply a typical business cycle playbook to long-term portfolios in this environment.

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The same forces supporting corporate earnings are also driving the global bond reset that has lifted government bond yields since 2021. That aligns with our long-held view of a world shaped by supply scarcity, where investors demand more compensation for holding long-term government debt. Rising public borrowing, greater inflation uncertainty and more volatile bond markets have reinforced that trend. Yet we remain strategically underweight developed market government bonds. This is an active call because we think long-term yields have more room to run. Governments, AI hyperscalers and companies across the economy are competing ever more intensely for capital, keeping upward pressure on long-term government bond yields — even in our AI productivity boom scenario. We've argued that this environment calls for a different approach to portfolio construction as long-standing macro anchors investors have come to rely upon, such as stable inflation expectations, become less reliable. The industry's growing focus on a total portfolio approach reflects that shift.

For us, this means focusing more on the underlying drivers of risk and return across the portfolio and less on asset class labels. We remain underweight global investment-grade credit because today's tight spreads offer little compensation for additional duration risk. Instead, we like selected private credit, including direct lending, where resilient cash flows, stronger lender protections and recovery value can provide durable income. Rising dispersion — the widening gap between stronger- and weaker-performing managers and borrowers — also reinforces the importance of manager selection.

We prefer growth exposure through equities and private infrastructure equity over high yield credit. Tighter spreads prompted our new strategic underweight in high yield this quarter and reinforce our view that equities are better positioned if earnings strength persists. We see valuations falling as earnings growth outpaces share price gains, allowing multiples to decline over time. We favor targeted exposures, such as in technology and healthcare, where structural shifts support earnings growth. We also see opportunities in infrastructure equity through investment in power, grids and data centers.

Bottom line: The same structural changes supporting stronger earnings are also pushing bond yields higher. We reflect that through our preference for equities, durable income and limiting duration risk on a strategic horizon of five years or more.

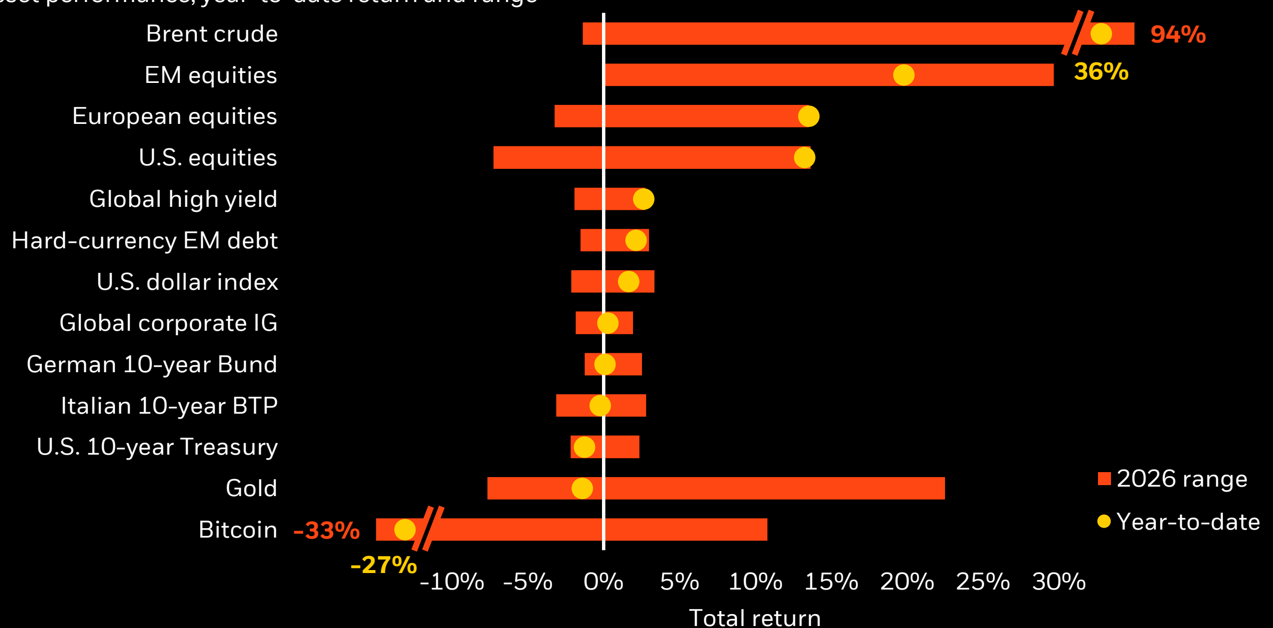
This is our final edition before our summer publishing pause. The Weekly commentary will return on Monday, Aug. 31.

Market backdrop

The S&P 500 and Nasdaq notched their biggest weekly gains in three months on hopes of a Middle East peace deal and solid earnings. U.S. Treasury yields fell after July payrolls unexpectedly declined. The gap between two- and 30-year yields has widened by roughly 20 basis points since the last Fed meeting. That leaves our investment view unchanged: the softer jobs report likely gives the Federal Reserve more flexibility but does not materially alter our longer-term inflation outlook.

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 August 6, 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.

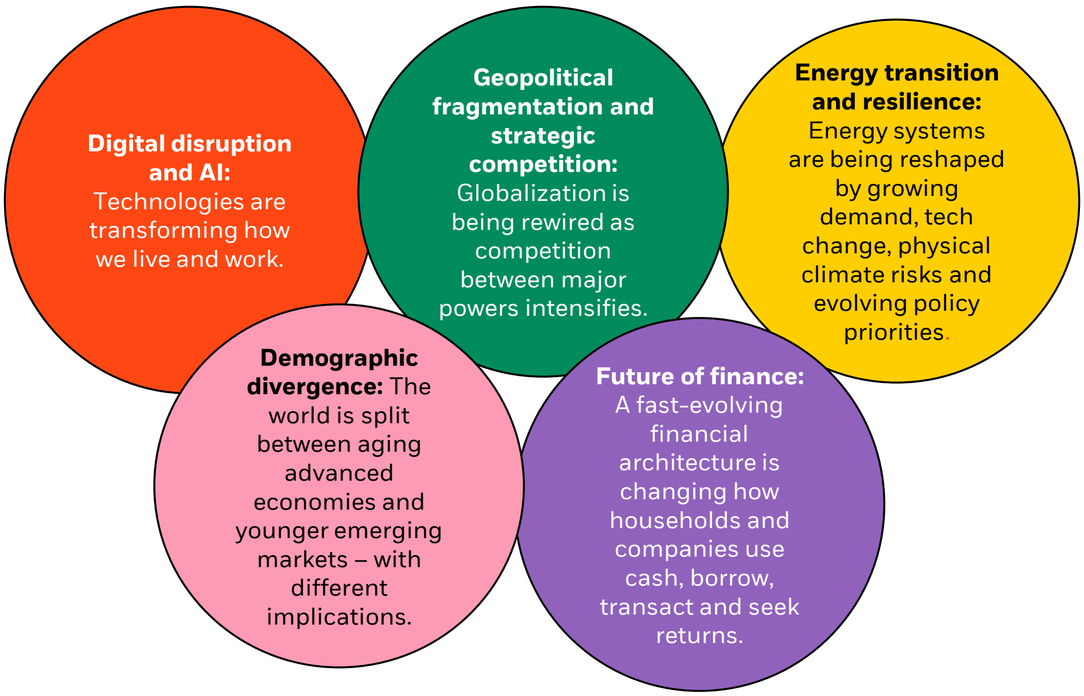
Week ahead

Aug. 10	China total social financing	**Aug. 13**	U.S. PPI; UK preliminary GDP
Aug. 12	U.S. CPI	**Aug. 14**	UK total trade balance, flash employment & flash GDP

July inflation will show whether softer hiring and wage growth are starting to feed through to prices. We think much of June's inflation softness reflected normalization in a handful of categories and is likely to reverse. The key watch is services inflation: sustained moderation there would strengthen the case for policy easing more than a single weak payroll reading.

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.

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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