Weekly commentary

BlackRock

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Three lessons from a tumultuous 2026

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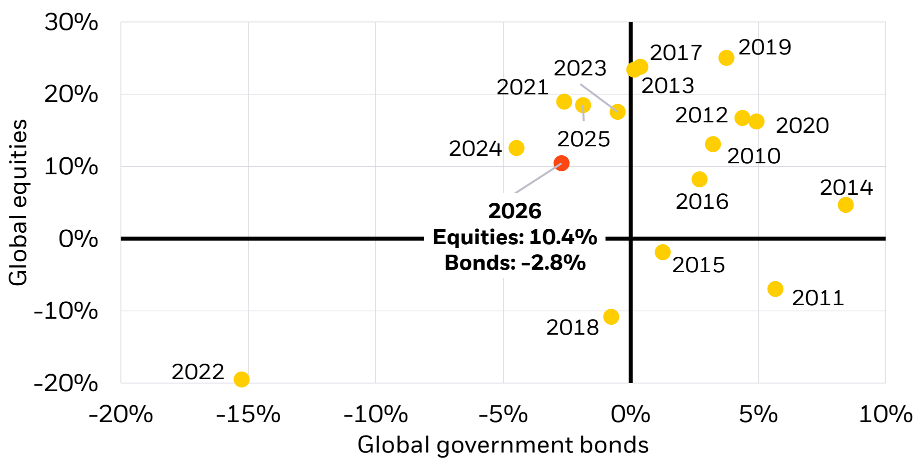
- Three things we've learned so far: higher rates are here to stay; the AI theme demands greater selectivity; and geopolitical risks remain unresolved.
- Tech stocks surged after Nvidia's latest quarterly results, reinforcing our conviction in the AI theme despite higher long-term yields.
- The U.S. August jobs report is in focus this week. We think softer job gains may reflect slower labor-force growth rather than weaker demand.

The new economic regime we've long described has been on full display in 2026. As the summer ends, we focus on three lessons to take into the rest of the year. First, we think the global reset in interest rates has further to run. Second, look beyond the AI model race for more opportunities as capital gets more expensive. Third, markets have weathered geopolitical shocks so far – but investors should not mistake resilience for the absence of risks.

The bond trade-off

Returns in excess of cash, 2010–26



Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and one cannot invest directly in an index. Source: BlackRock Investment Institute with data from LSEG Datastream, August 2026. Note: Returns for MSCI ACWI and FTSE World Government Bond Index, in U.S. dollars, less FTSE 3-Month Treasury Bill Index returns. 2026 dot represents excess returns year-to-date.

Global equities have returned about 10% more than three-month U.S. Treasury bills so far in 2026, while global government bonds have returned about 3% less. See the chart. The split is not unprecedented. But it has become more common since the global interest rate reset began in 2021. That reset has changed the trade-off for bond investors. Rising yields have pushed down prices of existing government bonds and turned excess returns negative, especially at the long end of the curve. On a relative basis, short-term government debt now offers more meaningful compensation for taking less duration risk. Sticky inflation, heavy government borrowing and growing private investment needs give little reason for pressure on yields to fade. That sets up our first lesson: higher yields are here to stay for a reason.

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The global bond reset has been broad: U.S. 30-year yields have hit a 19-year high above 5%, German 10-year yields a 15-year high near 3.25%, and Japanese 10-year yields are nearing 3% for the first time since the mid-1990s, LSEG data show. We see scope for further rises, underscoring our strategic preference for short- to medium-term government bonds. The Middle East conflict has lifted energy costs and added to inflation pressures, while the AI buildout and widening government deficits have intensified competition for capital. Uncertainty over the Federal Reserve's response to inflation has also lifted the term premium. Higher yields have reshaped the income opportunity in bond markets: our analysis of LSEG data shows more than 80% of the global bond universe now yields above 4%. Yet long-term government bonds are less reliable as portfolio ballast. That makes selectivity key: higher yields do not always compensate investors for the risks they take.

This takes us to our second takeaway: stay selective within AI and track where value is accruing. Dispersion is growing, with companies tied to scarce AI bottlenecks – including power, chips and data center infrastructure – outperforming those further downstream. Meanwhile, hyperscalers are running down cash and relying more on debt. U.S. hyperscaler investment-grade bond issuance has topped $100 billion this year, more than twice the 2025 total. Higher rates, growing financing needs and large AI IPOs could further test investor appetite, while cheaper, open-source models are challenging the economics of frontier model makers. We look beyond the AI model race to the scarce resources underpinning the buildout.

Our third lesson: markets have been exceptionally resilient amid geopolitical shocks – but that's no reason for complacency. Geopolitical fragmentation compounds scarcity and supports our higher-for-longer view, though easing geopolitical tensions could relieve some pressure on yields. The Strait of Hormuz has yet to fully reopen, constraining a critical route for global energy supplies, while U.S.-Canada trade tensions have flared again. Countries and companies are striving for resilience by shifting suppliers, production and trade. But adaptation can delay or shift where risks show up, creating new winners and losers.

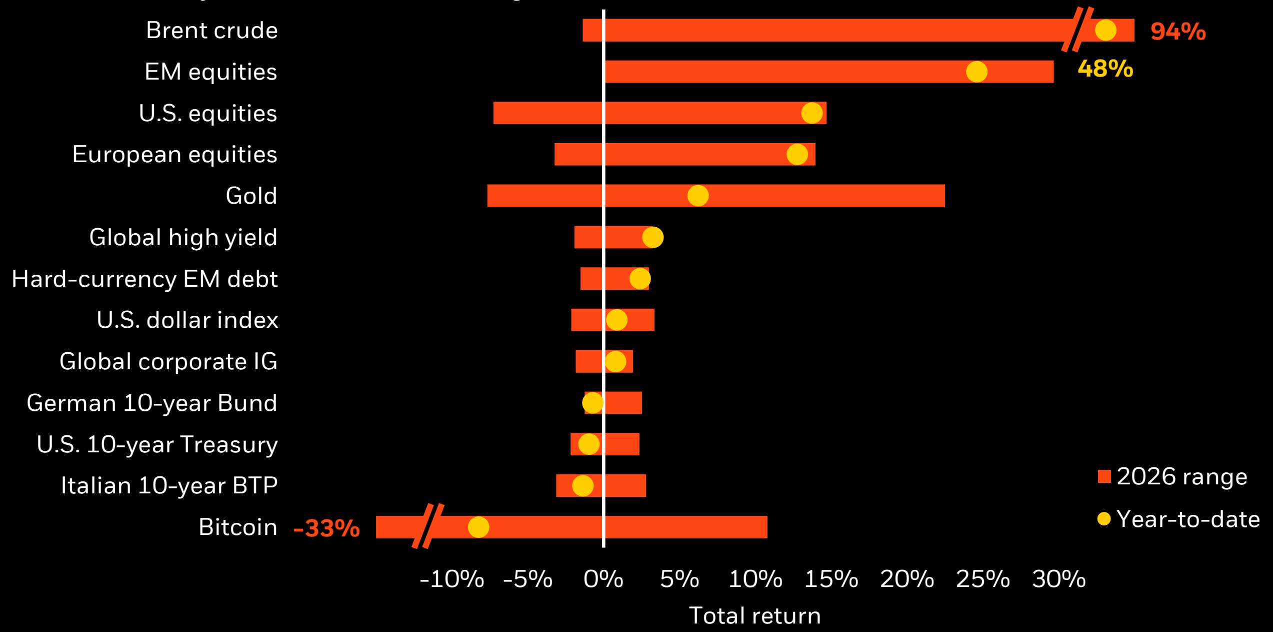
Bottom line: Higher rates, the AI buildout and geopolitical fragmentation are reinforcing the new economic regime. We stay pro-risk with an overweight to U.S. equities, while favoring durable income and companies positioned around scarcity.

Market backdrop

The Nasdaq gained 1% and was roughly 3% below its all-time high after Nvidia's latest blowout quarter. U.S. Treasury yields reversed earlier declines after Fed Chair Kevin Warsh reiterated the Fed's commitment to fighting inflation. The 10-year stood at 4.73% and the 30-year at 5.21%, near its 19-year high of 5.30%. AI-driven equity gains amid higher yields reinforce one of our key calls: higher rates need not derail the AI equity case if investment keeps generating durable returns.

Assets in review

Selected asset performance, year-to-date return and range



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Sources: BlackRock Investment Institute, with data from LSEG Datastream as of August 27, 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.

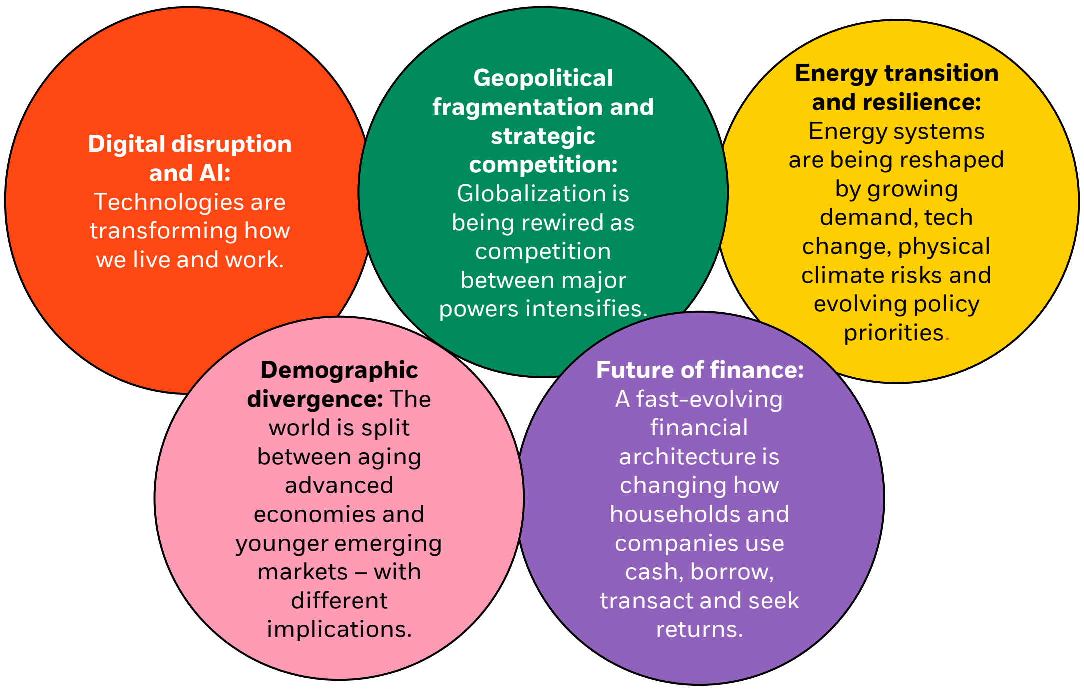
Week ahead

Aug. 31	China PMI	**Sept. 3**	U.S. international trade balance
Sept. 1	U.S. job openings; EU HICP flash & unemployment	**Sept. 4**	U.S. August payrolls; U.S. unemployment

U.S. payrolls could shed more light on how supply constraints are shaping the labor market. Slower labor-force growth means softer job gains may not signal materially weaker demand, especially as AI-related investment supports activity. That combination could keep wage and inflation pressures persistent.

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**		
	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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