Weekly commentary

BlackRock

September 14, 2026

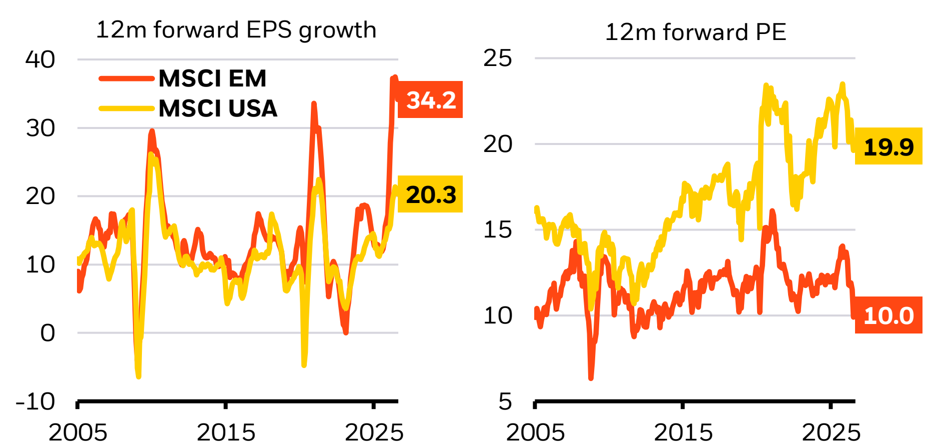
EM equities: back to overweight

- We stay pro-risk despite higher rates. Strong fundamentals and AI scarcity support our U.S. equity overweight and return to an overweight in EM equities.
- Oil topped $100 and long-term yields remain near multi-decade highs, yet stocks are near records. We think higher rates and strong equities can coexist.
- The Fed, BoE and BoJ take center stage this week. Their rate decisions will keep global yields and currencies in focus as policy paths diverge.

Higher global rates are raising the hurdle for returns, but they have not knocked us off our pro-risk stance. Higher rates and strong equities need not be contradictory – what drives yields matters. When higher yields reflect stronger investment and growth, the resulting earnings strength can help offset a higher cost of capital. That explains why we maintain our U.S. equity and AI overweights. Our return to an overweight in EM equities offers another way to invest in the AI scarcity theme.

Exceptional growth without demanding valuations

12-month forward EPS growth and P/E, 2016–26



Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute, with data from LSEG Datastream, September 2026. Note: The chart shows 12-month forward consensus earnings-per-share growth and price-to-earnings ratios for the MSCI EM and MSCI U.S. indices.

The bar for taking risk is rising as rates reset higher, making the durability of earnings more important. We think AI-related investment can support growth and profits even as the same investment boom absorbs capital, power and other scarce resources. EM equities now offer another place where earnings can clear that higher hurdle. The fundamental case has strengthened: earnings growth is exceptional even as valuations remain well below those in the U.S. See the chart. The tactical backdrop has improved too. We closed our previous overweight in EM equities in our Midyear Outlook in June as leverage concerns built, particularly in Korea. Korean equities subsequently experienced losses, and summer deleveraging has since eased those leverage concerns, supporting our return to overweight.

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The numbers reinforce the case for returning to EM equities. Consensus expects headline earnings per share for the MSCI Emerging Markets Index to grow over 34% over the next 12 months versus about 20% for the MSCI USA Index. Yet EM equities trade at only 10 times forward earnings versus nearly 20 times for their U.S. counterparts. That is a 50% discount, with the EM multiple in the bottom 10% of its 20-year history. A weaker U.S. dollar could add support by easing financial conditions, supporting local currencies and encouraging foreign capital inflows. But our view does not depend on it. We see dollar weakness and stronger inflows as additional support rather than the foundation of our EM call.

The headline EM rally masks very different sources of returns, but AI scarcity is one thread connecting them. South Korea and Taiwan sit at the heart of semiconductor, memory and hardware supply chains. Latin America, including Brazil, offers exposure to the resources and physical infrastructure needed for the AI buildout. These are different expressions of the AI scarcity theme that is an important part of our U.S. equity overweight. That overlap is deliberate and concentrates some of our equity exposure to the AI buildout. Over time, cheaper models and greater commoditization could shift where AI profits accrue. We therefore prefer to stay selective and dynamic rather than assume today's winners will remain tomorrow's.

We remain pro-risk, but see little room for complacency. We maintain our U.S. equity and AI overweights, return to an overweight in EM equities and downgrade short-term European government bonds to neutral. Two risks could challenge that stance. First, markets have absorbed the Middle East shock well, but Strait of Hormuz traffic remains severely constrained and scarcity has shifted downstream into refined products. Renewed energy pressure could keep inflation elevated just as the Fed faces a difficult policy choice. A hold despite persistent inflation and a tight labor market could test its credibility, with the term premium acting as a release valve as investors demand more compensation to hold long-term bonds. That could push long-end yields higher and raise the hurdle for equity returns. We stand ready to adjust as conditions change.

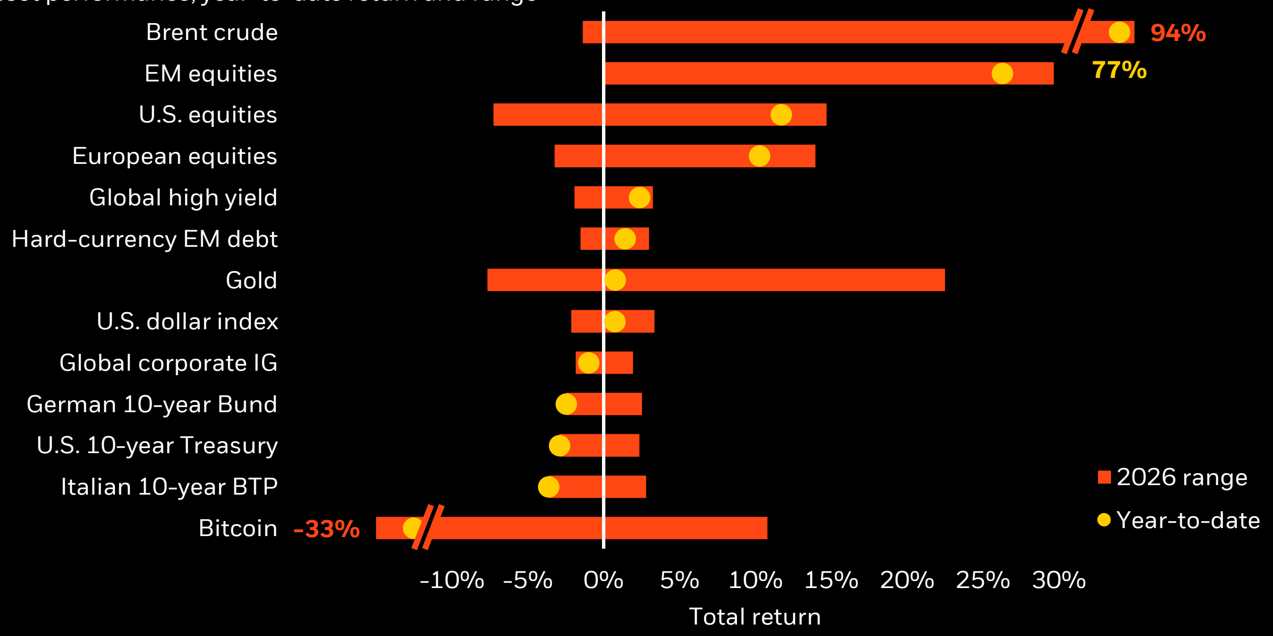
Bottom line: Strong fundamentals keep us pro-risk despite higher rates. Exceptional earnings growth, attractive valuations and a cleaner tactical backdrop support our U.S. and AI overweights and a return to an overweight in EM equities. But this is not an unqualified bullish call. A lot can still go wrong, and we stand ready to shift from risk-on if the signposts change.

Market backdrop

Markets are balancing mounting macro pressures against strong corporate fundamentals. Brent crude topped $100 a barrel for the first time since July after the U.S. and Iran traded fresh attacks, while new U.S. inflation data prompted markets to ramp up Fed rate hike expectations. Long-term government bond yields remain near multi-decade highs. Yet stocks remain close to record highs. We think strong earnings help explain that resilience: U.S. earnings expectations have continued to rise, giving equities a cushion against higher rates and energy prices and reinforcing our overweight in U.S. stocks.

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 September 10, 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

Sep. 15 UK unemployment; China unemployment

Sep. 16 U.S. Fed rate decision; UK CPI; Japan trade balance

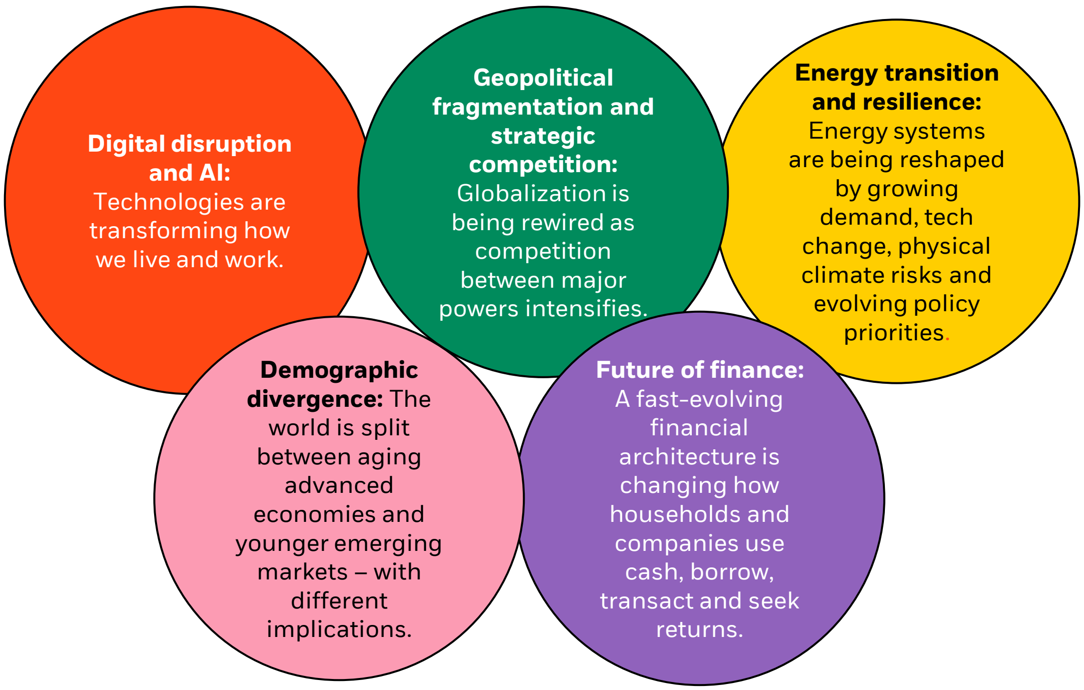
Sep. 17 UK BoE rate decision; U.S. Philly Fed business index, EU HICP final

Sep. 18 BoJ rate decision and Japan core CPI

Central banks take center stage this week, with the Federal Reserve, Bank of England and Bank of Japan all setting rates. Strong jobs and sticky inflation have sharply raised the market odds of a Fed hike, though we don't see one as a foregone conclusion. The BoE is expected to hold and the BoJ may need to normalize faster. We expect the decisions to keep global yields and currencies in focus.

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, September 2026

Driver	What we think	Portfolio expression
Growth and AI scarcity	The AI buildout is speeding up, making bottlenecks binding.	Overweight U.S. and EM 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, September 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	+1	We are overweight. Strong earnings and cheaper valuations create opportunities. We particularly like different expressions of the AI scarcity theme across Asia and 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	Neutral	We are neutral short- and medium-term bonds. Current ECB rate pricing looks fairly valued given the balance of risks. Higher energy prices could push rates higher. We prefer to deploy risk elsewhere.
	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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