Weekly commentary

BlackRock

September 28, 2026

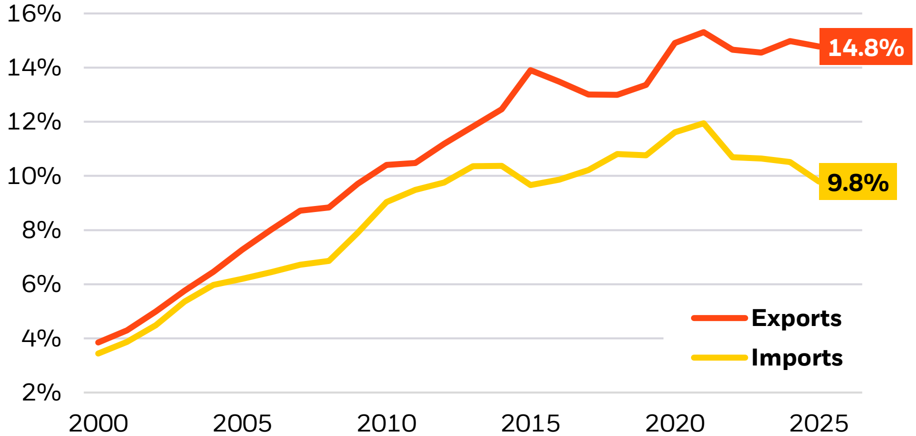
China: up the value chain

- China is increasingly competing on quality – not just scale – in advanced manufacturing. We see uneven effects for companies and investors globally.
- Global government bond yields soared to multi-decade highs last week. Market expectations for further Fed tightening may be overstated, in our view.
- We look to September U.S. payrolls and PCE for signs that slower labor supply is keeping wage pressures – and ultimately inflation – elevated.

AI was a key topic when President Donald Trump met Chinese President Xi Jinping last week, underscoring China's move up the manufacturing value chain into advanced technologies. In our latest China research, we argue cheaper Chinese technology can lower costs for users while pressuring competitors' margins and market share. But trade and technology tensions can cloud profits and market access. We stay neutral Chinese equities but see opportunities in physical AI.

Leaning outward

China's share of global merchandise trade, 2000–25



Source: IMF Direction of Trade Statistics (DOTS) via LSEG Datastream, September 2026. Notes: Lines show China's exports to and imports from the world as a share of total global exports and imports, respectively. Exports are measured free on board (FOB); imports are measured cost, insurance and freight (CIF).

China's climb up the manufacturing value chain is reshaping industries and global profit pools. China's 2001 entry into the World Trade Organization unleashed what some academics called the "China shock": cheap, labor-intensive exports soared, but so did imports as China became embedded in global supply chains. Made in China 2.0 looks different. State support has helped China rapidly gain market share in cutting edge industries like EVs, advanced machinery and AI, backed increasingly by its own supply chains. This means while China's share of global exports has stayed steady, what it sells has moved decidedly upmarket. At the same time, its import share has fallen from its 2021 peak as domestic demand trails production. See the chart. The result is greater competition for producers globally, even as lower-cost Chinese technology benefits end users.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Outside China, the key question is whether companies use Chinese technology or compete against it. Cheaper Chinese industrial robots and machinery can boost productivity and ease labor shortages for their customers. For rival producers, the economics are less appealing. European machinery makers illustrate the squeeze. China has moved from a major buyer of advanced machinery to a formidable competitor at home and abroad. In 2025, it overtook Germany as the world's largest machine-tool exporter for the first time.

AI creates a similar divide. Cheaper Chinese models could accelerate AI adoption while commoditizing the model market. That could shift value toward the physical infrastructure needed to support greater AI use - computing power, data centers and electricity - reinforcing the scarcity investment theme from our Midyear Global Outlook. Physical AI could amplify demand for power electronics and batteries while broadening demand for components like motors and actuators – areas where China already has a manufacturing and supply-chain advantage. But technology sovereignty cuts both ways: export controls and efforts to reduce reliance on Chinese technology could limit market access. That makes geopolitics a key risk to where the opportunity ultimately lies.

Inside China, industrial policy has helped build scale and competitiveness, but growth alone does not guarantee shareholder returns. Long-standing challenges – including weak domestic consumption, a soft property market and an aging population – remain, while intense competition can squeeze margins even in industries where China has gained global market shares. The divergence is stark: profits at Chinese electronic-device makers rose 110% year over year in the first seven months of 2026, supported by global AI demand, while auto profits fell 20.4%, according to data from the National Bureau of Statistics of China. Likewise, AI hardware suppliers have expanded margins, while solar manufacturers have seen theirs collapse. Markets echo that divide: the MSCI China index has lost 11% in U.S. dollar terms this year through Sept. 21, while the MSCI China Information Technology index has gained 7%.

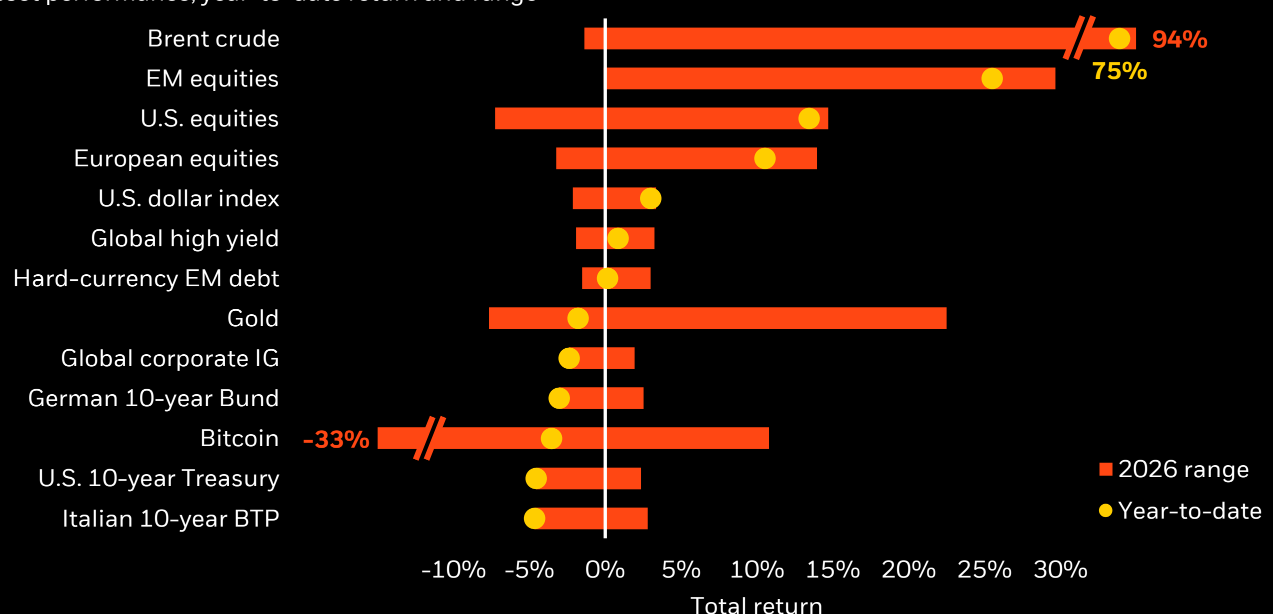
Bottom line: This divide reinforces our selective approach: we stay neutral Chinese equities while favoring areas where growth is translating into stronger margins and returns – particularly in AI hardware and select advanced manufacturing.

Market backdrop

The global bond selloff accelerated last week, pushing long-dated U.S. Treasury yields to their highest levels in over 20 years. The 30-year yield reached 5.53%, a level last seen in 2004, while the 10-year rose to a 19-year high of 5.22% on expectations for further rate hikes. We think markets may be getting ahead of themselves. A hike that strengthens Fed credibility, against a backdrop of stronger growth, is in our view on net good news for risk assets.

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 24, 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.

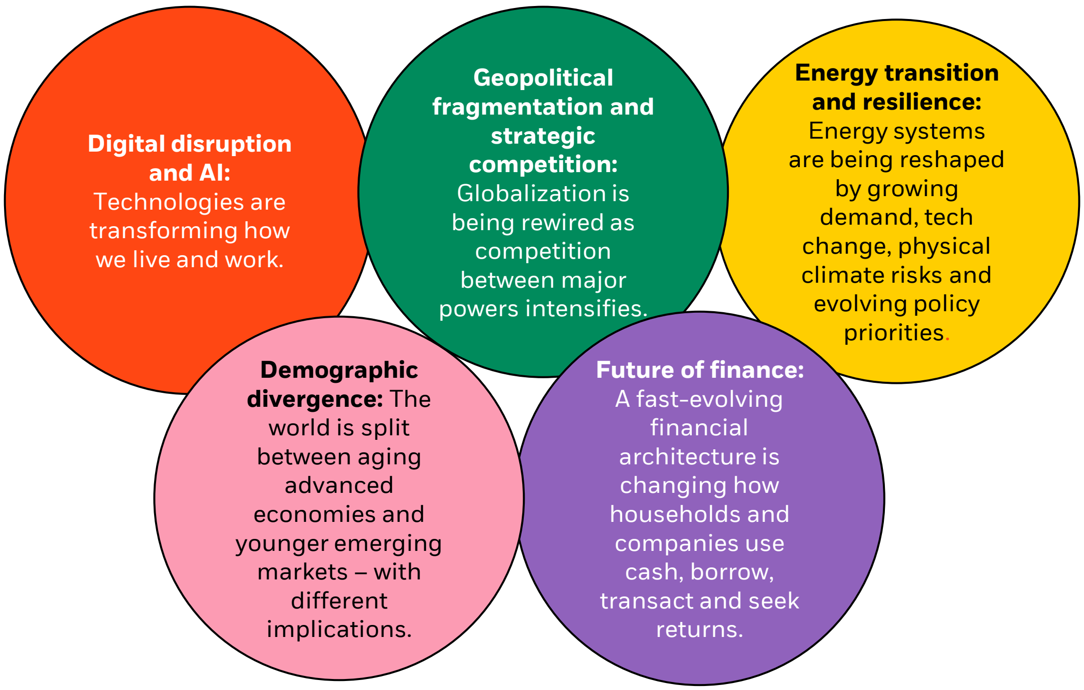
Week ahead

Sept. 29	U.S. job openings; U.S. & EU consumer confidence final	**Oct. 1**	Global PMI final; EU unemployment
Sept. 30	U.S. PCE; UK GDP; China manufacturing PMI	**Oct. 2**	U.S. nonfarm payrolls; Japan unemployment, EU flash HICP

U.S. payrolls and inflation are in focus. Slower labor supply growth means softer job gains need not signal a weaker economy, in our view. We expect hiring around levels consistent with full employment – enough to keep wage pressures elevated and risk keeping inflation sticky. September PCE will show whether that pressure is feeding through, with core inflation still running above 3%.

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, September 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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