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Weekly commentary

BlackRock

November 2, 2026

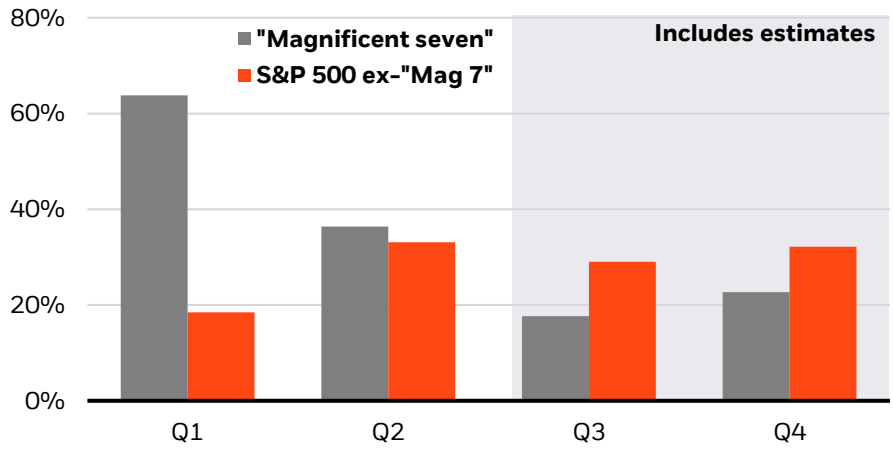
AI's rising bill of expectations

- Investor scrutiny of AI is intensifying this earnings season. How results hold up will be key to our broader medium-term conviction in the AI transformation.
- The Nasdaq posted its worst month since March 2025 as AI scrutiny intensified. We see multiple plausible outcomes for growth, profitability and returns.
- We are watching October U.S. jobs data amid signs of a tight labor market in recent months. Any further wage pressure could drive core services inflation.

Four years of booming AI investment have sent earnings expectations soaring. Investors now want evidence that spending can deliver returns, especially as rising capital expenditures squeeze free cash flow, pushing it into negative territory for some firms. We recently downgraded U.S. equities to neutral to lock in profits, but our core conviction in the AI transformation remains intact. That supports our EM equity overweight through exposure to bottlenecks in the AI buildout.

Beyond the magnificent few

Year-over-year earnings growth for S&P 500 companies, 2026



Past performance is not a reliable indicator of future results. Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute, with data from Bloomberg, October 2026. Note: The bars show year-over-year earnings per share growth for the "magnificent seven" stocks (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla) and the rest of S&P 500. Figures for Q3 and Q4 include estimates.

We will learn much more about the AI theme this earnings season, especially how impactful the technology will ultimately be. But the backdrop for mega-cap tech stocks is starkly different from just four months ago. After narrowing considerably earlier this year, the earnings growth gap has now flipped for the first time since 2022, with the S&P 493 outpacing the "magnificent seven" at roughly 29% versus 18%. See the chart. The bar remains high. Consensus expects S&P 500 earnings to grow about 30% – marking a third consecutive quarter of growth above 20% – according to LSEG data. Meanwhile, scrutiny of the AI theme has grown. That shifting backdrop contributed to our decision to downgrade U.S. equities to neutral last month. Our conviction in AI fundamentals, however, remains intact.



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Last week's earnings highlighted a growing tension between strong demand for AI-linked goods and services and the rising cost of meeting it. Hyperscaler capital spending has surged to about $649 billion over the past year, from about $357 billion in the prior-year period, according to data from Bloomberg, leaving little cash surplus after capex. And while hyperscalers' operating margins have edged up to 27.1% from 26.9% in the previous four quarters, incremental margins have fallen to 27.9% from 40.4% over that same period. In other words, each additional dollar of revenue is generating less additional profit, raising questions about whether returns can keep pace with soaring investment. Still, our analysis finds that companies with higher AI adoption outside the S&P 500 technology and communication sectors are on track for 3% higher earnings growth this quarter than lower adopters, based on evidence of AI use in regulatory filings. Cloud revenue growth at Microsoft and Alphabet also points to sustained momentum in AI demand. But whether that demand will be enough to justify the scale of investment is still an open question, one we plan to debate at our 2027 internal Outlook Forum this week.

As the AI buildout becomes increasingly debt-financed, leverage and differences in funding capacity are coming into sharper focus. Credit markets are becoming an important signpost of how much additional AI investment can be financed and at what cost. The Treasury rally alongside the tech sell-off this week also fits our view that the ebb and flow of AI investment expectations will drive competition for capital and bond yields around structurally higher levels.

Within equities, we're selective with our AI exposures. We favor companies and listed infrastructure poised to benefit from the critical bottlenecks in the AI buildout, a key reason for our move back to overweight EM equities in September. We see that opportunity playing out in Asia. Recent results from chipmakers point to tight supply and strong AI demand. But staying nimble is crucial, as our EM positioning shows: we upgraded at the start of the year, took profits midyear and returned to overweight in September. Brazil's post-election selloff bears watching, but it does not change our EM overweight.

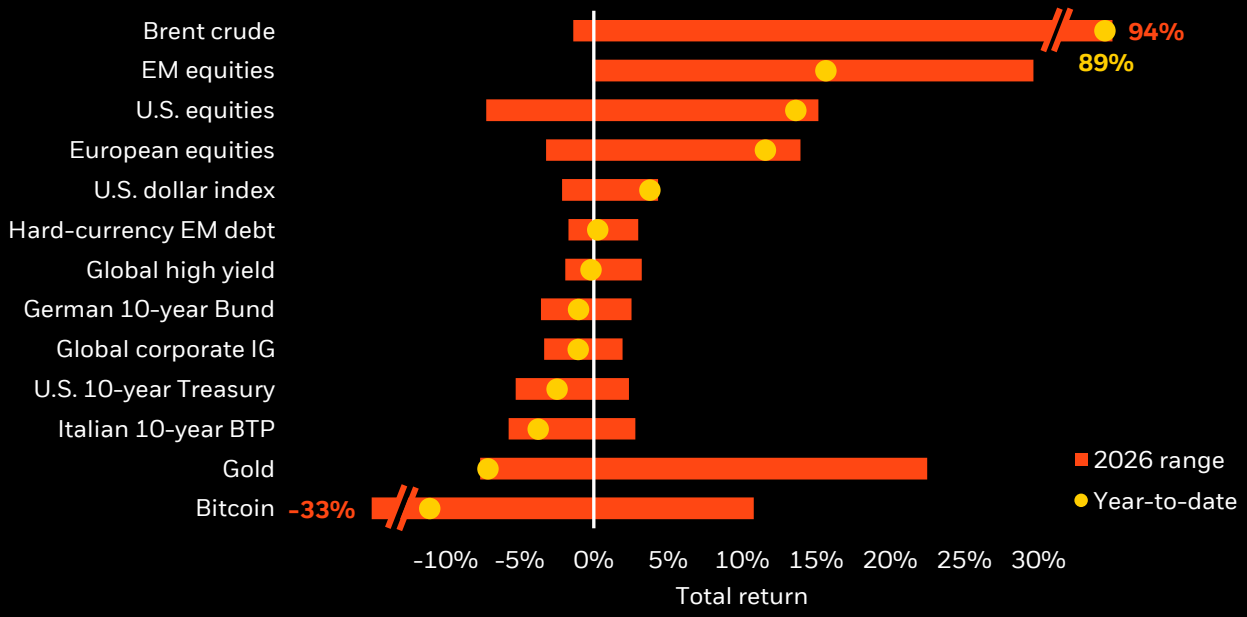
Bottom line: AI faces a tougher near-term test as investor scrutiny intensifies. But our conviction in AI fundamentals remains intact, keeping us selective on where we take AI exposure while favoring opportunities tied to scarcity in the buildout.

Market backdrop

The Nasdaq Composite capped its worst month since March 2025 as concerns over returns on massive AI spending intensified. The key question now is the economic value of the AI buildout: what returns it generates and who captures them. We see a range of possible outcomes for growth, profitability and returns on this investment. U.S. Treasuries extended their rally last week, with 10-year yields falling nearly 6 basis points to 4.93% after the Fed kept rates unchanged, as expected.

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 October 29, 2026. Notes: The two ends of the bars show the lowest and highest returns at any point year to date, and the dots represent current year-to-date returns. Emerging market (EM), high yield and global corporate investment grade (IG) returns 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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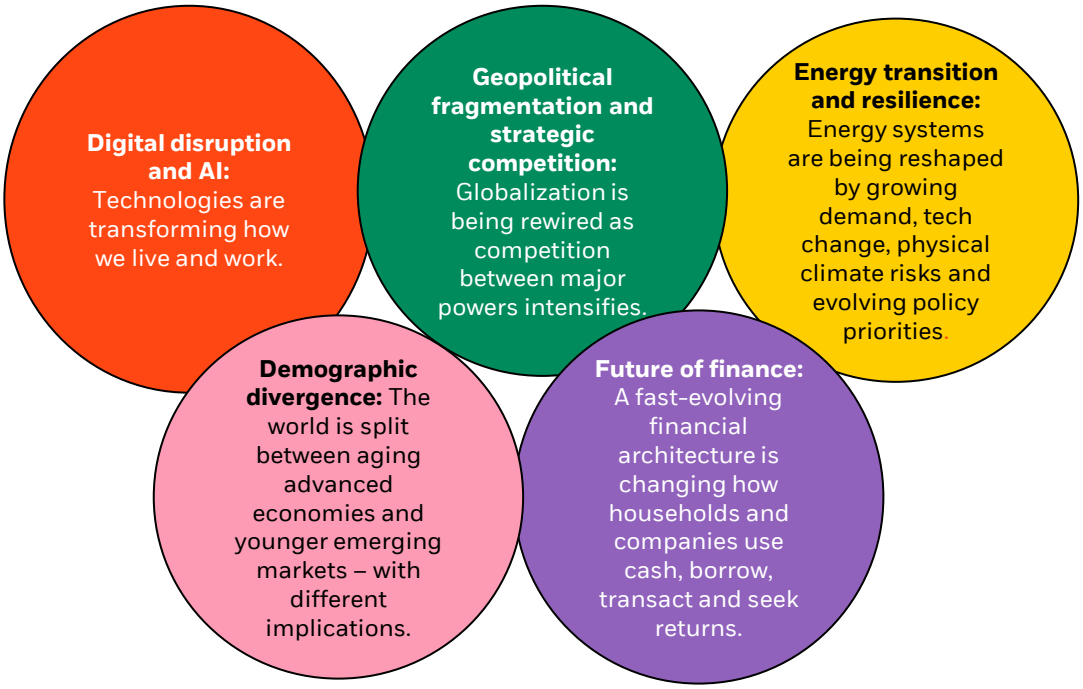
Week ahead

Nov. 2	Global manufacturing PMI final	**Nov. 5**	Bank of England interest rate decision
Nov. 4	U.S. international trade balance	**Nov. 6**	U.S. Oct. jobs report; Umich consumer sentiment

We focus on October nonfarm payrolls for signs of a tightening labor market and what that could mean for inflation. We'd expect stronger wage pressures than in recent jobs reports, potentially adding to core services inflation, making the October jobs data key to assessing our view of price pressures.

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, November 2026

Driver	What we think	Portfolio expression
Growth and AI scarcity	AI fundamentals are strong, but we eye near-term volatility.	Neutral U.S. equities and overweight EM equities; favor AI- and tech-related opportunities.
Duration and diversification	Higher starting yields improve prospective returns and income.	Overweight short-term U.S. Treasuries for solid income and a cushion against higher rates; neutral long-term Treasuries.
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, November 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.

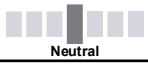
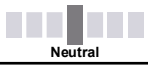
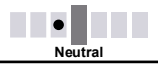
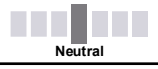
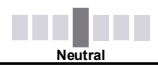
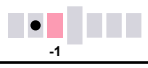
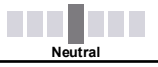
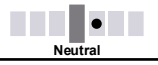
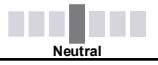
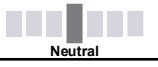
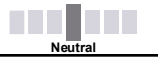
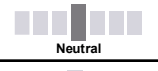
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Asset class implications

Six- to 12-month tactical positioning, November 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		We are neutral. Strong AI fundamentals remain supportive, but policy uncertainty could fuel near-term volatility. We continue to favor AI and tech.
	Europe		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		We are neutral. Valuations remain attractive relative to the U.S., but we see few near-term catalysts to trigger a shift.
	Japan		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		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		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		We are overweight. Much of the repricing we anticipated has occurred, and expectations for further Fed hikes look excessive. We favor the front end for attractive income and a greater breakeven buffer.
	Long U.S. Treasuries		We are neutral. Higher yields offer attractive income and a bigger cushion against further rate increases. We still see room for yields to rise as competition for capital intensifies.
	Global inflation-linked bonds		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		We are neutral on 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		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		We are underweight. The substantial repricing in yields has improved the risk-reward, but further rate hikes and heavy issuance could push yields higher.
	China govt bonds		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		We are neutral and lean into the stable income MBS provide despite tight spreads.
	Short-term IG credit		We are neutral. Spreads are tight due to corporate strength, but attractive overall yields help offset the risk of increased issuance.
	Long-term IG credit		We are underweight. We prefer short-term bonds less exposed to interest rate risk over long-term bonds. But attractive overall yields help offset the risk of increased issuance.
	Global high yield		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		We are neutral. Overall yields are attractive and fundamentals are solid, but spreads are tight.
	Emerging hard currency		We are neutral. Fundamentals have improved, but we see a more attractive risk-reward profile in EM local debt.
	Emerging local currency		We are overweight. We like the yield relative to its volatility and improving fundamentals.

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