

Vivek Paul

Head of Portfolio Research and UK Chief Investment Strategist

BlackRock Investment Institute

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BlackRock

Mega forces

BlackRock
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Institute

Our latest investment themes

Managing macro risk

What matters in the new regime: Structurally higher interest rates and tougher financial conditions. Markets are still adjusting to this environment – and that’s why context is key in managing macro risk.

Steering portfolio outcomes

We think investors need to grab the investment wheel and take a more dynamic approach to their portfolios with both indexing and alpha-seeking strategies while staying selective.

Harnessing mega forces

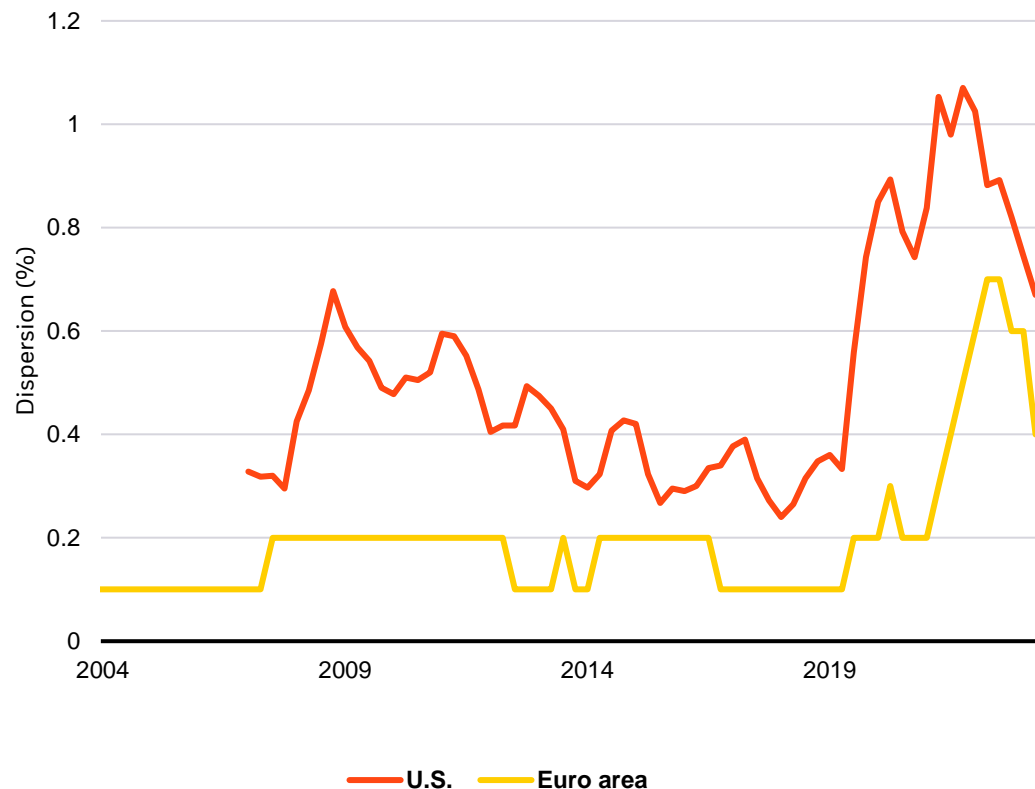
Mega forces are another way to steer portfolios – and think about portfolio building blocks that transcend traditional asset classes, in our view.

The opinions expressed are as of May 2024 and are subject to change at any time due to changes in market or economic conditions.

A new regime with greater macro and market uncertainty

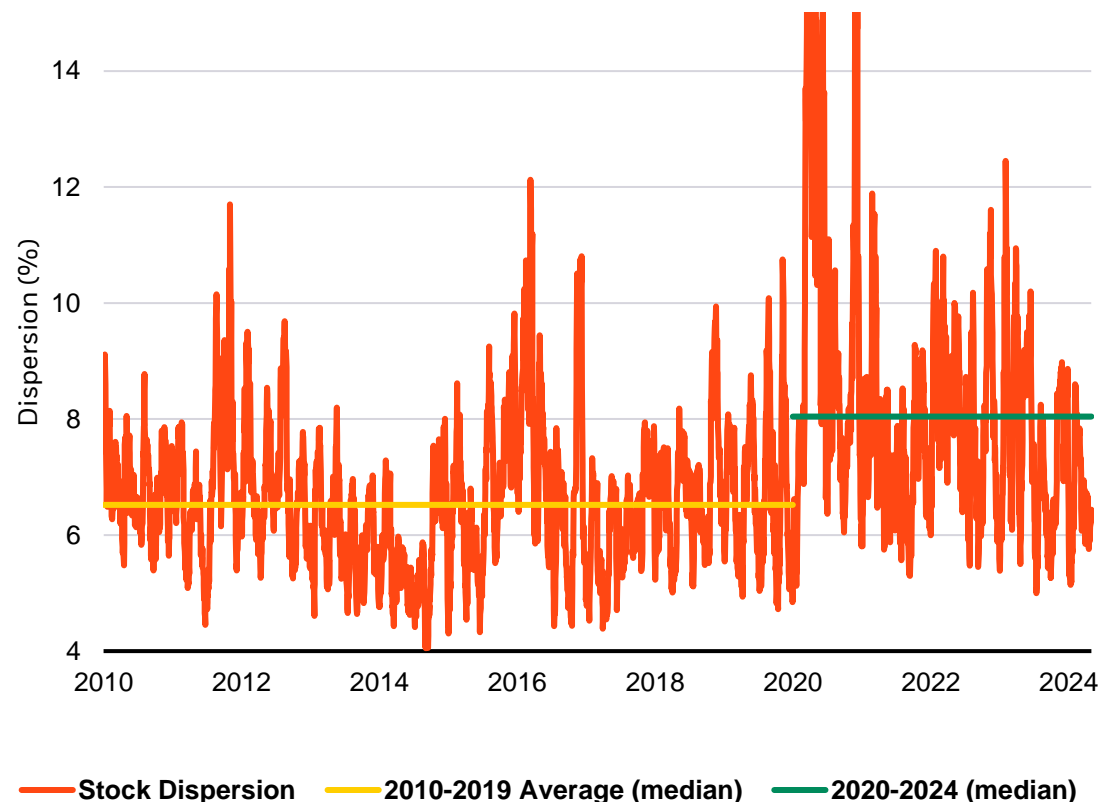
There's less conviction about the path ahead – the range of estimates on key macro data like inflation has grown wider. The range of U.S. stock returns has grown markedly wider.

Dispersion of inflation forecasts, 2004-2024



Source: BlackRock Investment Institute, European Central Bank, Philadelphia Federal Reserve, with data from Haver Analytics, February 2024. Notes: The chart shows the dispersion in near term inflation forecasts in the U.S. and euro area from central bank surveys of professional forecasters.

Dispersion of S&P 500 performance, 2010-2024

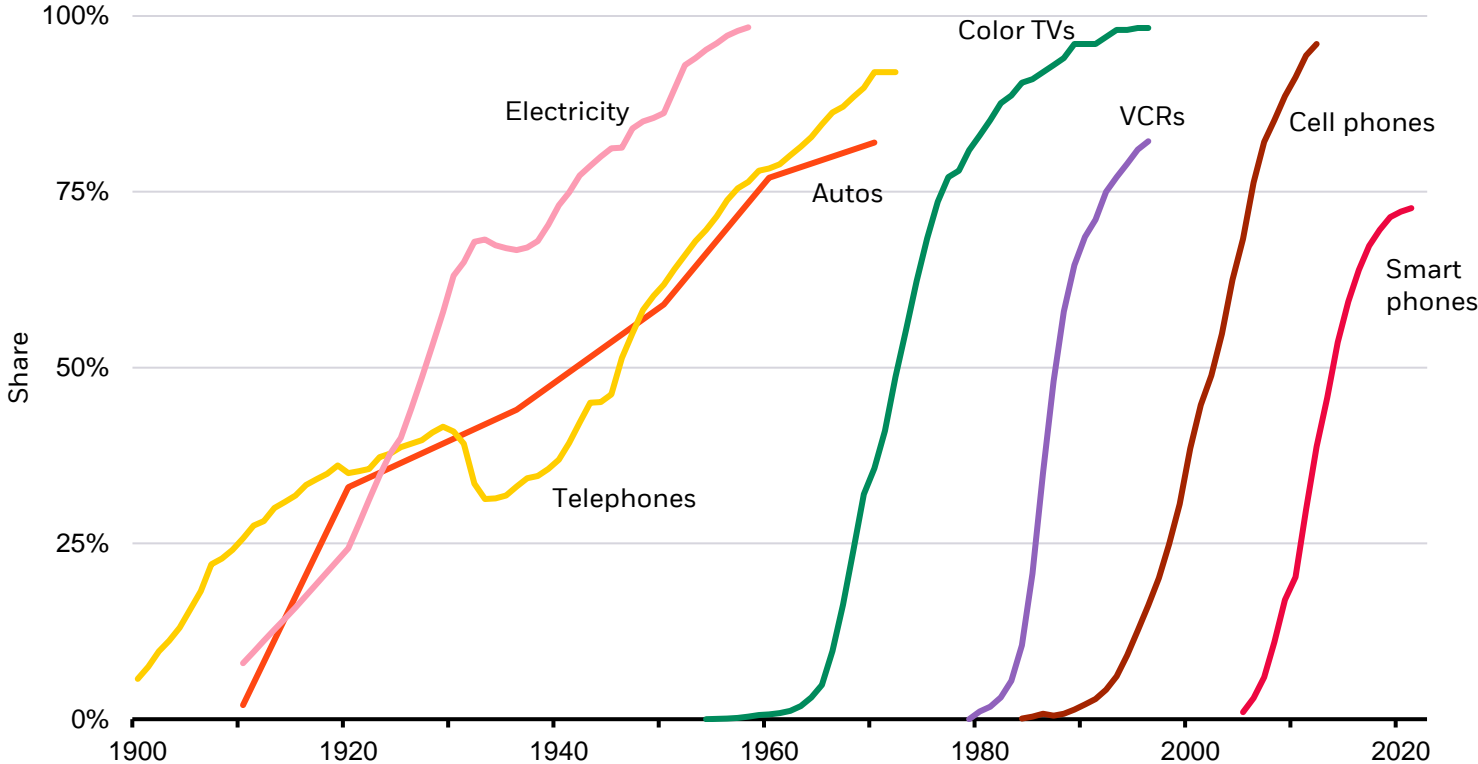


Past performance is not a reliable indicator of current or future results, and index returns do not account for fees. It is not possible to invest directly in an index. Source: BlackRock Investment Institute, with data from LSEG Datastream, May 2024. Notes: The chart shows the daily dispersion in S&P 500 monthly stock returns (dark orange line) and the median level of dispersion from January 2010 after the global financial crisis through 2019 (yellow line), and from 2020 to May 2024 (green line).

Rapid transitions could matter for markets

Transitions can be shaped by the rapid adoption of technology. Markets can underappreciate the speed of transitions, creating investment opportunities. But exuberance over the potential can also create temporary price spikes

U.S. technology adoption rates, 1901-2021



Source: BlackRock Investment Institute, with data from Federal Communications Commission, U.S. Census Bureau, World Bank and Statista, 2021. Note: Adoption rates are based on household ownership except for cell phone and smart phones which are ownership per capita.

Mega forces are shaping the macro regime

We see structural mega forces affecting the strategic macro outlook in different ways.

<p>Low-carbon transition</p> <p>Driving up energy costs over the next decade and creating large capital reallocations.</p>	<p>Demographic divergence</p> <p>Shrinking workforces in DMs mean tight labor markets will likely keep wage growth and inflation elevated.</p>	<p>Geopolitical fragmentation</p> <p>Rewiring of global supply chains is set to drive up production costs.</p>	<p>Digital disruption & AI</p> <p>AI may help offset supply constraints thanks to potential productivity gains over the next decades.</p>	<p>Future of finance</p> <p>Higher interest rates are accelerating changes in the role of banks and credit providers.</p>
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Macro parameter	Low-carbon transition		Mega force			
	Physical climate damage	Transition impact	Demographic divergence	Geopolitical fragmentation & economic competition	Digital disruption & AI	
	Growth	↓	↑	↓	↓	↑
Inflation	↑		↑	↑	↓	
Real rates	↑		—	↑	—	
Nominal rates	↑		—	↑	↓	

For illustrative purposes only. Forward looking estimates may not come to pass. Source: BlackRock Investment Institute, November 2023. Notes: The table shows our qualitative, directional estimate of the mega force’s impact on the respective macro parameter over the duration of a strategic horizon of 10 years and beyond. We split the impact of the low-carbon transition into two factors – the damage from physical climate damage and the effects from transitioning to a lower-carbon world. 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 funds, strategy or security in particular.

Effects on inflation and growth damages

Higher energy costs may add to inflationary pressures, but a shift to cheaper renewables may offset these over time. The BII Transition Scenario finds climate damages could amount to more than 5% of GDP by 2050.

Inflation pressure = higher policy rates

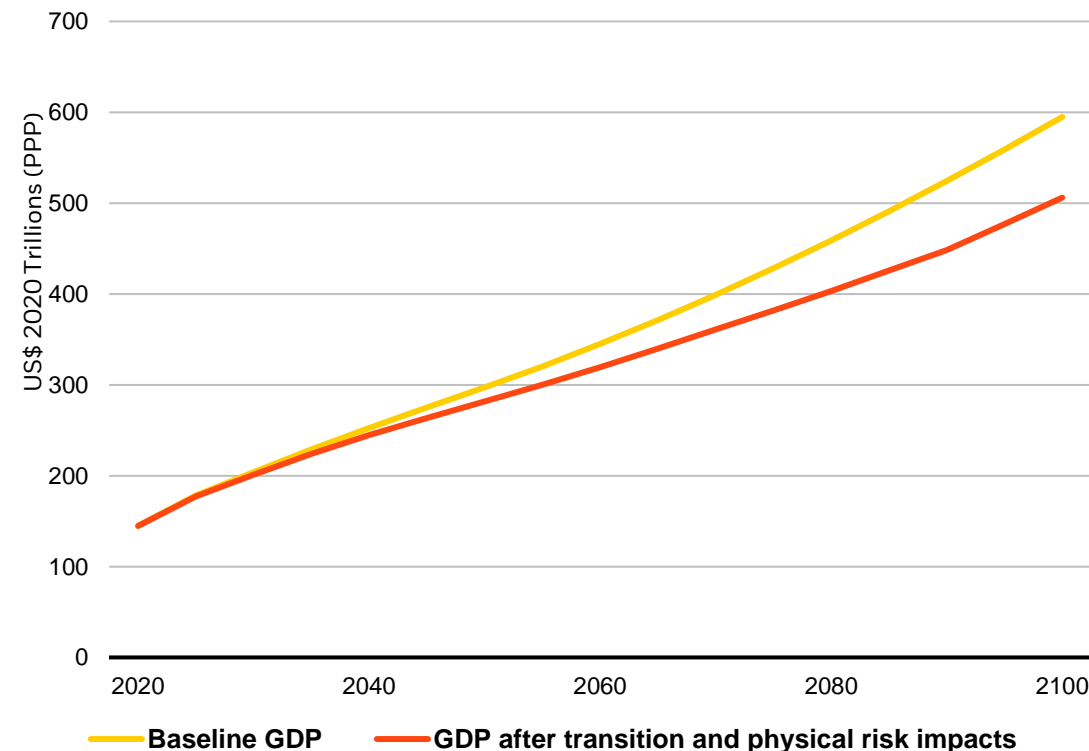
Inflation, output and policy estimated impact, 2020-2030



Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute (BII), with data from Haver Analytics, July 2023. The chart shows BII's estimates of the impact of the low-carbon transition on inflation and output in DM and EM between 2020-2030 under two illustrative BII scenarios: with and without a monetary policy response (rising interest rates) to higher inflation.

Climate damages set to shrink GDP

GDP before and after climate damages, 2020-2100

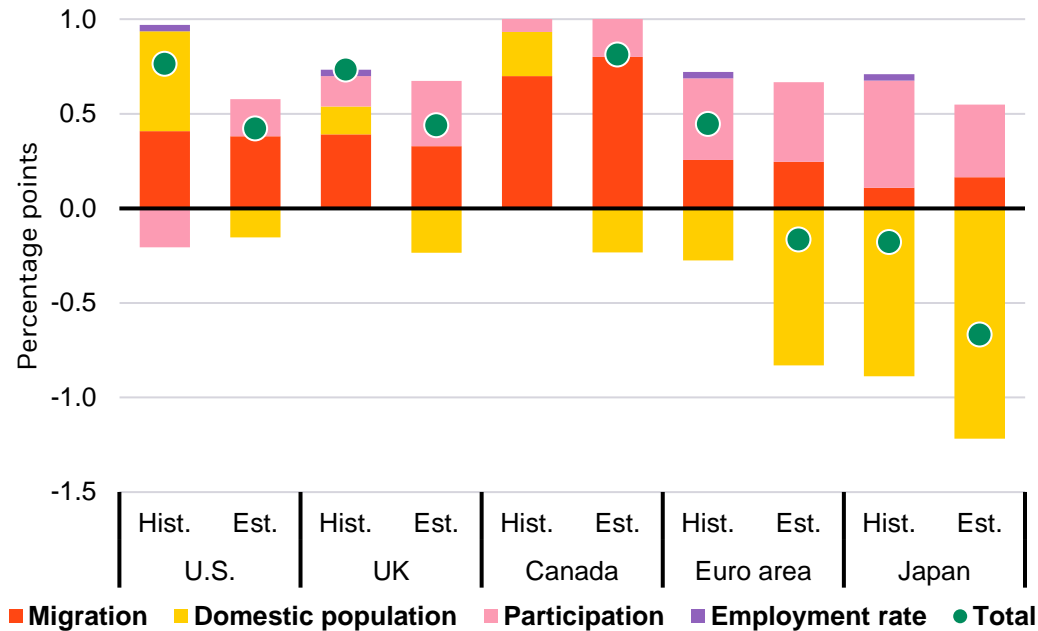


Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute, Aladdin Sustainability Analytics, July 2023. Notes: The chart shows evolution of global GDP with the climate damages the BIITS expects (orange), compared with a counterfactual of no damages (yellow). The gap between the red and yellow lines represents the climate damages we expect. GDP is calculated on a purchasing power parity basis in 2020 U.S. dollars. The baseline GDP value is based on World Bank data, the growth rate on OECD estimates.

We're in a structurally different world now

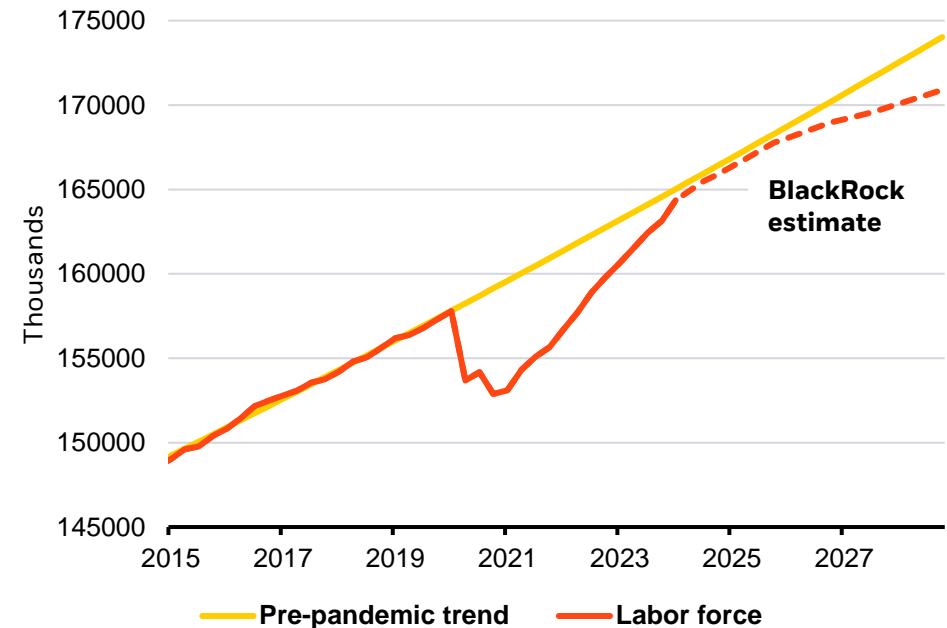
As the U.S. economy unwinds pandemic-era shocks, the impact of an aging population on growth is becoming clearer – even if the near-term boost from immigration has helped ease the worker shortage for now.

Labor force growth, last 20 years vs. next 20 years



Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute, OECD, United Nations, with data from Haver, March 2024. Notes: The green dots show the average annual contribution to growth in the employed labor force from migration, domestic population growth, working-age participation and the employment rate over the last 20 years and projected over the next 20 years. In projections, we assume that pre-pandemic (2017-2019) trends in migration flows continue, female working-age participation rates keep increasing at their 2015-2019 trend, and the effective retirement age reaches the currently legislated retirement age. The latter two combine to form the projection for the contribution from participation. Euro area data are the weighted average of Italy, Germany and France. These estimates are subject to uncertainty and based on assumptions about future developments that may not come to pass.

U.S. labor force, 2015-2027

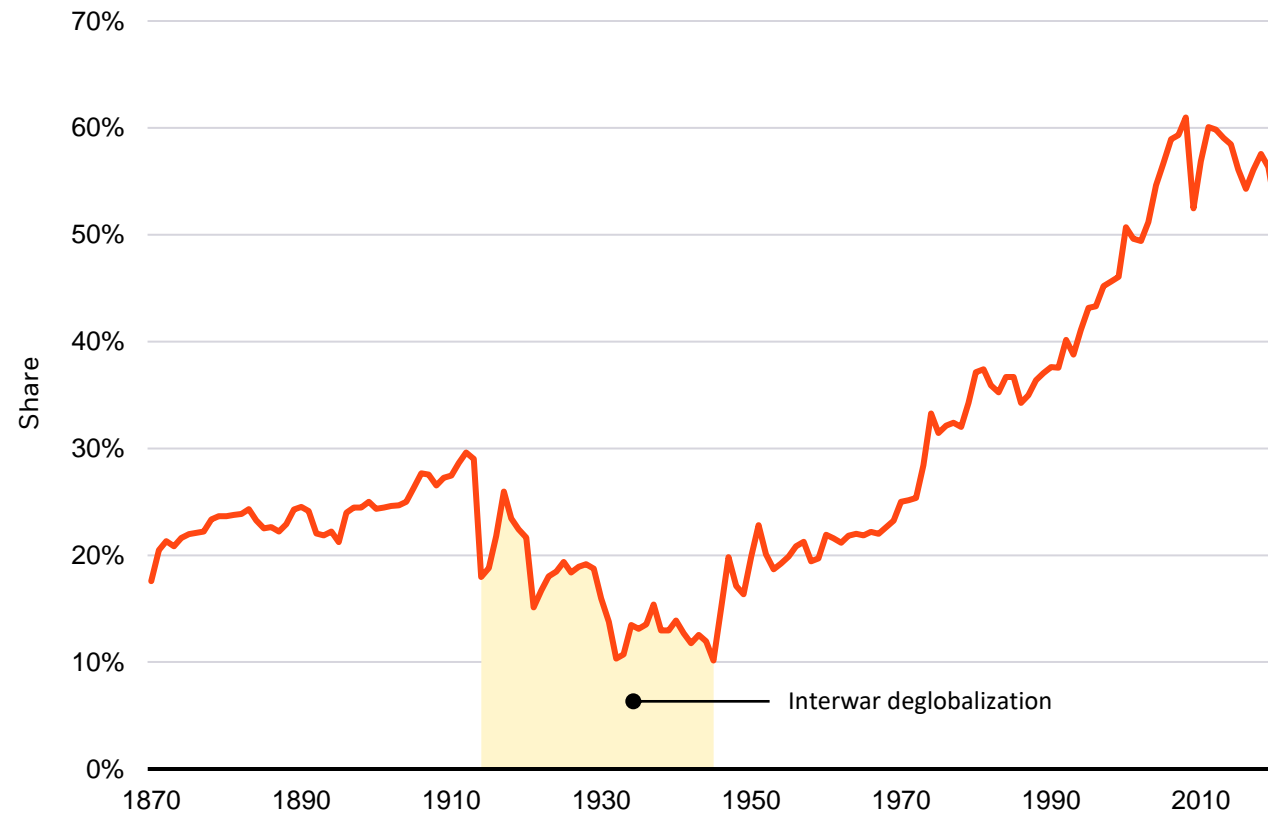


Forward looking estimates may not come to pass. Source: BlackRock Investment Institute, U.S. Bureau of Labor Statistics, U.S. Congressional Budget Office (CBO), with data from Haver Analytics, April 2024. Notes: The labor force estimate is constructed by combining the nonfarm payroll employment level from the Establishment survey with the participation rate estimates from the household survey. The estimate also uses the CBO's January 2024 population projections that assume a significant boost from higher immigration. These estimates are subject to uncertainty and based on assumptions about future developments that may not come to pass.

Geopolitical fragmentation could stoke more macro volatility

Trade activity between countries surged as globalization unfolded. But that surge has plateaued since the global financial crisis, in a fragmentating world.

World trade as a share of GDP, 1970-2021

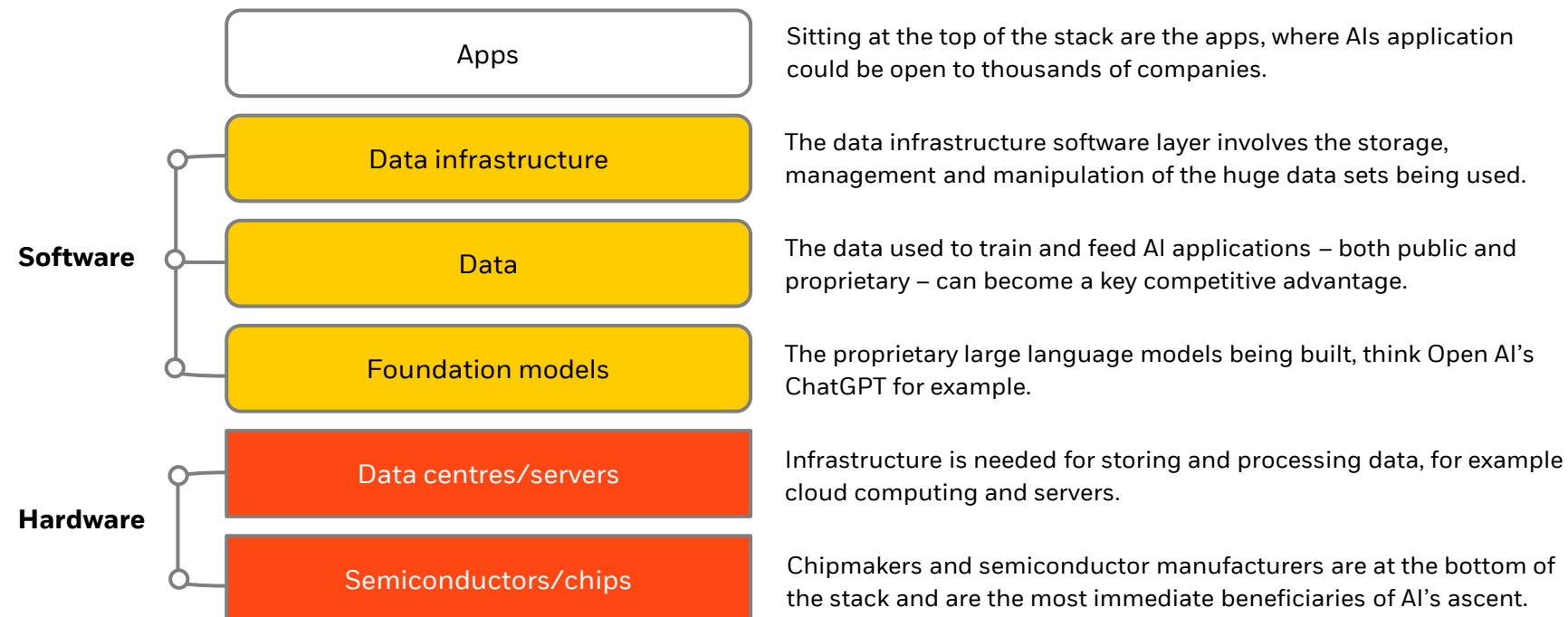


Source: BlackRock Investment Institute, Klasing and Milionis (2014), Penn World tables, World Bank. June 2023. Notes: The chart shows the sum of world exports plus imports, divided by world GDP. The yellow shaded area highlights the period between the first and second world wars when trade integration fell materially.

AI's impact may go beyond the creators of the tech itself

We see AI-centered investment broadening opportunities beyond the immediate beneficiaries that have excited markets this year. We think market focus will shift towards large-scale data owners and AI users across industries.

BlackRock view of the technology needed to develop AI applications, October 2023

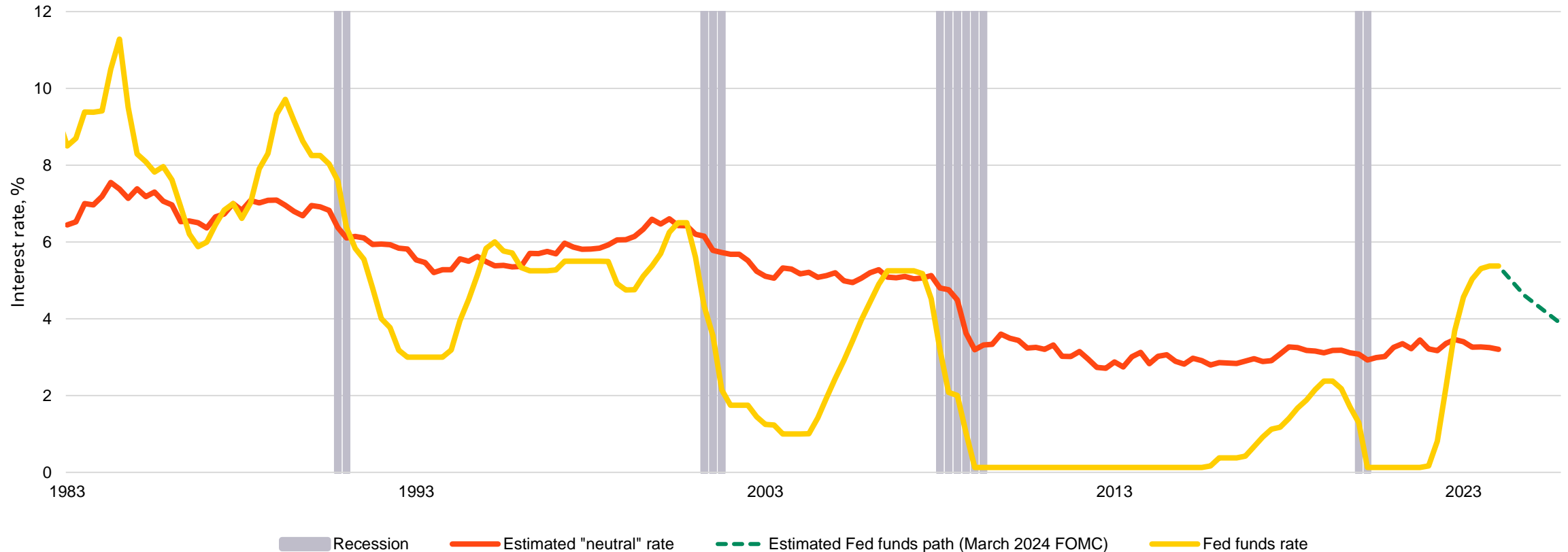


Source: BlackRock Investment Institute, October 2023. Note: The schematic shows the technologies we think will be needed – across hardware and software – to develop AI applications. Each layer builds on the one preceding as technologies get “stacked” on top of one another enabling further innovation. The schematic is for illustrative purposes only and intended as a guide based on what we know today. As the AI ecosystem evolves some categories may be replaced by newer ones.

Central banks forced into an era of tight policy

Persistent supply constraints stoking inflationary pressures are compelling major central banks to hold policy tight, creating greater macro and market volatility. That backdrop offers investment opportunities different from the past.

U.S. Fed policy rate and projections vs. neutral rate estimate, 1983-2025

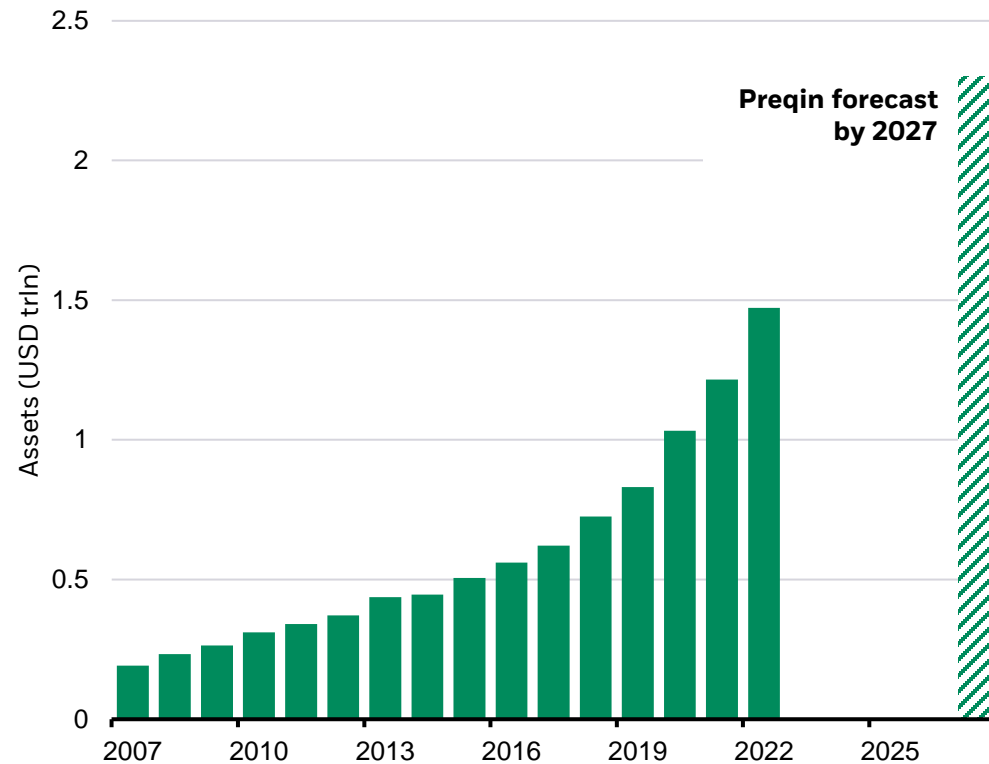


Forward looking estimates may not come to pass. Source: BlackRock Investment Institute, New York Fed, U.S. Bureau of Labor Statistics, with data from Haver Analytics, May 2024. Notes: The chart shows the fed funds rate, an estimate of the fed funds rate path and an estimate of the nominal "neutral" rate. The nominal neutral rate is a hypothetical estimate of the central bank interest rate that will neither stimulate or depress economic growth. The neutral rate estimate is from the Holston Laubach Williams (2017) estimate of (real) neutral rate plus an estimate of expected inflation from the model by D'Amico, Kim and Wei (2018).

We see significant potential for growth in private credit

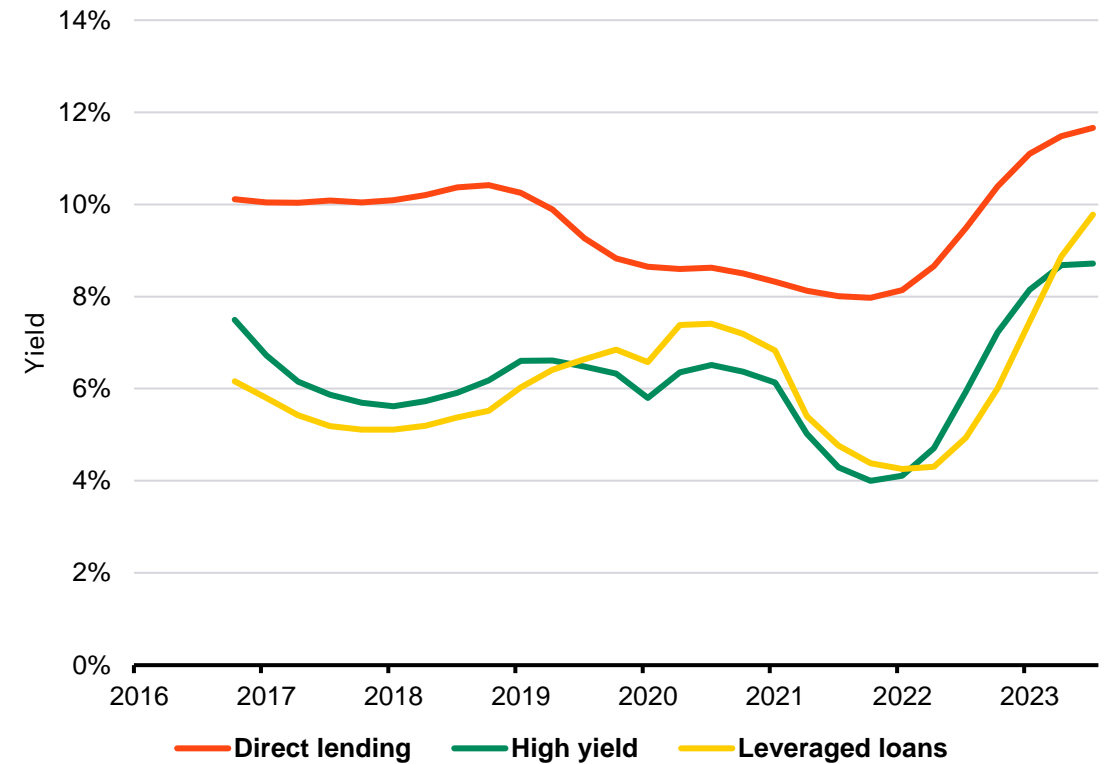
We see structurally higher demand for private credit potentially appealing to more potential borrowers, in our view, mostly thanks to increased pricing power from issuers.

Global private debt assets under management



Forward looking estimates may not come to pass. Source: BlackRock Investment Institute, October 2023, with data from Preqin. Notes: The chart shows the assets under management (AUM) in USD trillions of the global private debt market. The 2027 estimate is a forecast from Preqin.

Private debt yields, 2016-2023

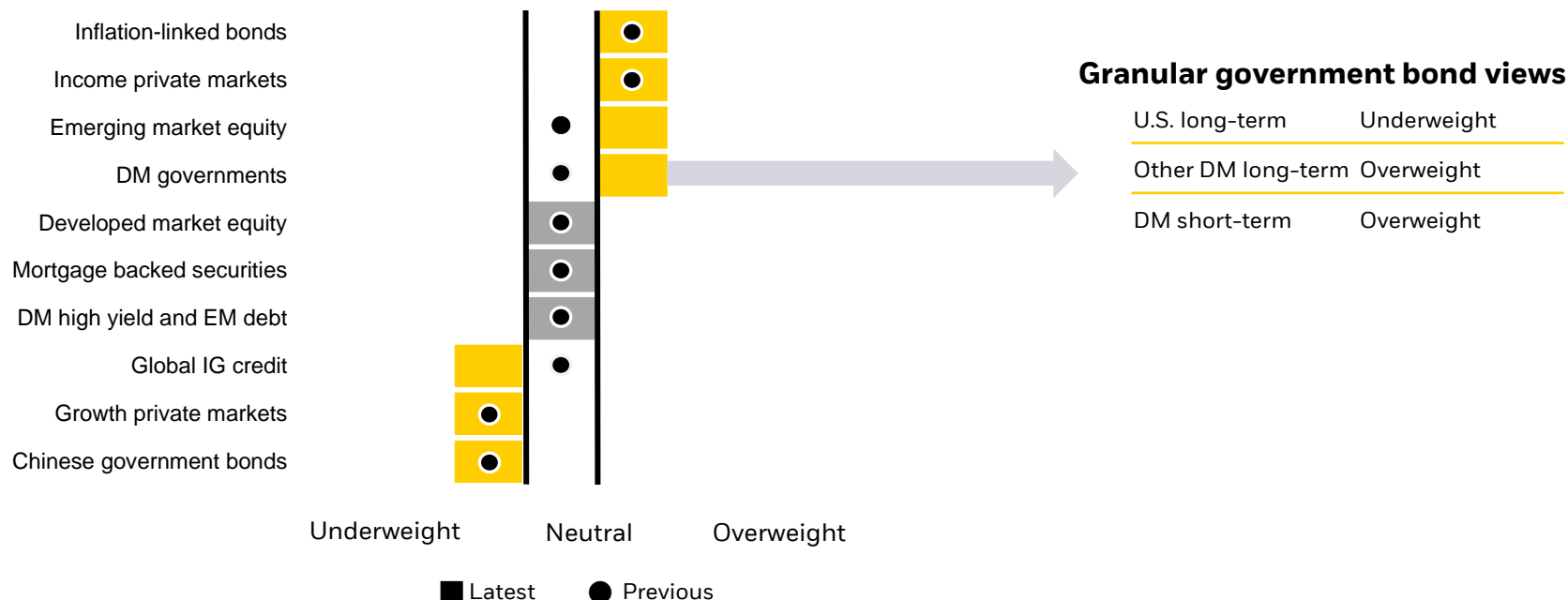


Past performance is not a reliable indicator of current or future results. Index returns do not account for fees. It is not possible to invest directly in an index. Source: BlackRock Investment Institute, with data from Pitchbook LCD. Data as of the latest available – 30 June 2023. Notes: The chart shows the rolling four-quarter average of various private debt asset yields. Index proxies used are: Lincoln Senior Debt; based on Valuation Data from 2017 – 2022), S&P/LSTA Leveraged Loan Index and Bloomberg US Corporate High Yield Index

Our latest strategic views

We stay overweight inflation-linked bonds, as inflation's persistence becomes clearer. Shifting valuations tilt us away from investment grade (IG) credit towards some selective opportunities within developed market (DM) bonds.

Hypothetical U.S. dollar 10-year strategic views vs equilibrium, May 2024



This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise - or even estimate - of future performance. Source: BlackRock Investment Institute. Data as of 28 March 2024. Notes: The chart shows our asset views on a 10-year view from an unconstrained U.S. dollar perspective against a long-term equilibrium allocation. Global government bonds and EM equity allocations comprise respective China assets. Income private markets comprise infrastructure debt, direct lending, real estate mezzanine debt and U.S. core real estate. Growth private markets comprise global private equity buyouts and infrastructure equity. The allocation shown is hypothetical and does not represent a real portfolio. It is intended for information purposes only and does not constitute investment advice. Index proxies: Bloomberg US Government Inflation-Linked Bond Index for inflation-linked bonds, MSCI EM for emerging market equity, a combination of Bloomberg Treasury 1-10 Year Index, Bloomberg US Long Treasury Index, Bloomberg Euro Treasury 1-15 Year index, Bloomberg Euro Aggregate Treasury 15 Year+ Index, Bloomberg Sterling Aggregate: Gilts 1-10 Year Index, Bloomberg Sterling Aggregate: Gilts 10+ Year Index and Bloomberg Asia Pacific Japan Treasury Index for DM government bonds. The "Other DM" breakout includes the UK and Japanese government bond indexes. MSCI World US\$ for developed market equity. Bloomberg US MBS Index for mortgage-backed securities. A combination of the Bloomberg US High Yield, Bloomberg Euro High Yield and JP Morgan EMBI Global Diversified indexes for DM high yield and EM debt. A combination of Bloomberg US Credit, Bloomberg Euro Corporate Credit, Bloomberg UK Corporate Credit indexes for Global IG credit, Bloomberg China Treasury + Policy Bank Total Return Index for Chinese government bonds. We use BlackRock proxies for growth and income private market assets due to lack of sufficient data. These proxies represent the mix of risk factor exposures that we believe represents the economic sensitivity of the given asset class. The hypothetical portfolio may differ from those in other jurisdictions, is intended for information purposes only and does not constitute investment advice.

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