Weekly commentary

April 28, 2025

BlackRock

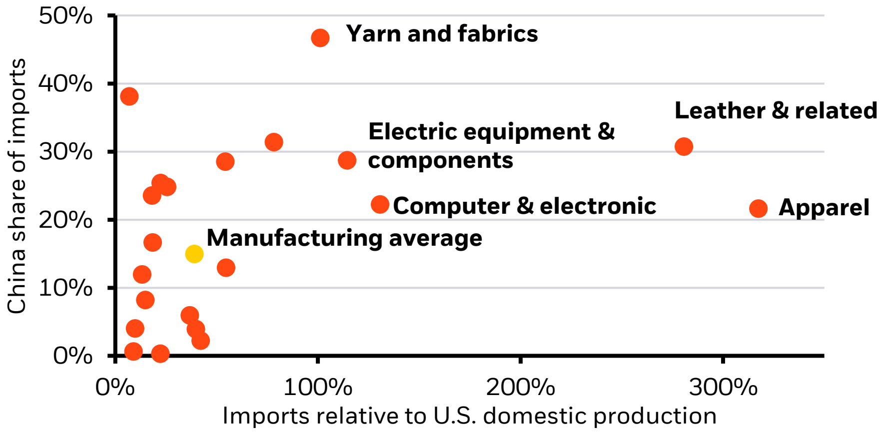
Hard economic rules can bind quickly

- We've said economic rules could bind U.S. policy changes. Last week's trade policy updates show how quickly these rules can bind when facing disruption.
- U.S. stocks rebounded last week and are now down less than 3% since the April 2 tariff news. U.S. 10-year yields fell but are still up sharply from their April lows.
- This week, we eye April U.S. jobs data for early signs of how recent U.S. tariff announcements are affecting business confidence and hiring decisions.

We laid out two economic rules binding on attempts at abrupt U.S. policy changes: financing debt and supply chains. Supply chains can't be rewired quickly without major disruption. Signs last week of the U.S. softening its trade stance on China show the second starting to bind as negotiations take shape. That's why we see U.S. policy settling down on our tactical six- to 12-month horizon. We stay positive on developed market (DM) stocks yet see more near-term volatility.

Deeply intertwined

China share of U.S. imports and their share of U.S. production, 2024



Source: BlackRock Investment Institute, U.S. Census Bureau, April 2025. Note: The chart shows the value of China's imports relative to U.S. production (horizontal axis) vs. the share of China in total imports for that sector (vertical axis). Highlighted sectors are those with either outlying value or share of trade, or both. The dot for "Manufacturing" is the average of all U.S. manufacturing sectors.

U.S. stocks rose 14% from their April lows last week as the U.S. showed signs it may soften its trade stance on China – more evidence economic rules can limit what's possible in trade negotiations, we think. We track these rules instead of trying to predict policy shifts. Decoupling from China, bringing production to the U.S., and supply chain diversification are U.S. strategic priorities. Yet global supply chains can't be rewired quickly without major disruption – an economic rule. China is a key supplier of critical minerals, semiconductors, industrial parts and auto parts, U.S. Census data show. How intertwined are the economies? U.S. imports of computer and electronics are bigger than total U.S. production of these items. See the chart. Tariffs could up costs, cut access to key inputs and halt production. A cooling U.S. stance would point to growing awareness of the risks tied to a supply shock.


Jean Boivin
Head – BlackRock Investment Institute


Wei Li
Global Chief Investment Strategist – BlackRock Investment Institute


Glenn Purves
Global Head of Macro – BlackRock Investment Institute


Michel Dilmanian
Portfolio Strategist – BlackRock Investment Institute

Visit BlackRock Investment Institute for insights on the global economy, markets and geopolitics.

BlackRock **Investment** Institute

Big questions remain about the damage tariffs could cause, even if the binding effect of economic rules means it will take time to uproot current trade relationships. We see more cause for concern on the supply side, as disruptions could lower productivity and the growth trajectory – like the pandemic shock. Long-term capital spending could also be hurt by uncertainty as happened after the 2016 Brexit vote. To gauge how long the damage could last, we're monitoring indicators like capital spending plans, consumer confidence, high-frequency data on port traffic and early reads on trade flows.

We look for signs of pressure on companies in earnings reports: think mentions of changes in supply chains, the ability to pass costs to consumers and consumer demand. For the "magnificent seven" of mostly big tech companies, we're eyeing any changes in their plans for artificial intelligence (AI) capital spending given more efficient AI models and exposure to the trade war. In consumer goods, we are tracking guidance on any impacts from weakening consumer sentiment and potentially higher prices. Analysts have cut forecasts for 2025 S&P 500 earnings growth to about 9% from 14% in January, LSEG data show. Prolonged uncertainty could spur further cuts. The consumer discretionary and industrials sectors have suffered sharp declines for 2025 forecasts given their reliance on foreign revenues and global supply chains.

How to invest amid policy uncertainty? We think this calls for more dynamic portfolios. Economic rules help gauge where trade negotiations could settle, so we see uncertainty easing over six to 12 months. We stay positive on DM stocks but expect ongoing, near-term volatility. Our expectation for clarity and support from mega forces is why we favor some alterative assets on a strategic horizon of five years and longer. Policy uncertainty has caused dealmaking to slow as investors struggle to value assets near term. We see dealmaking resuming as clarity returns. Yet private markets are complex and aren't suitable for all investors. We also like publicly listed real estate and infrastructure as they've diversified portfolios, outperforming U.S. large cap stocks since their February peak, Bloomberg data show. Plus, they stand to benefit from a host of mega forces.

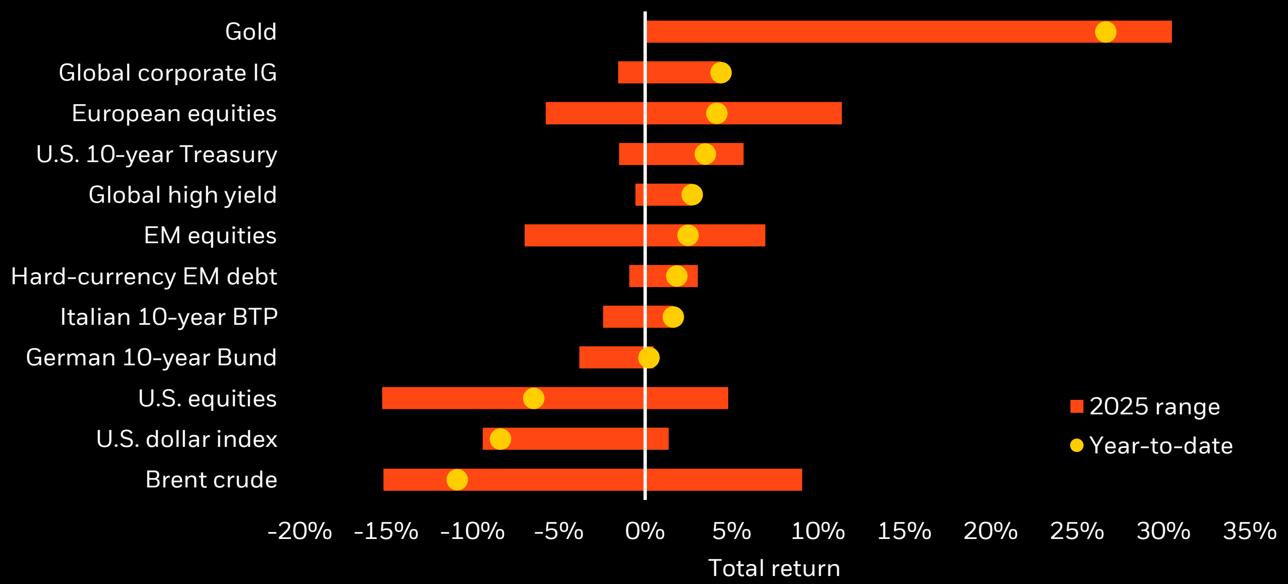
Bottom line: Economic rules can put bounds on the maximal stance in trade negotiations. We stay positive on DM stocks but expect ongoing, near-term volatility. We also favor publicly listed alternative assets as portfolio diversifiers.

Market backdrop

U.S. stocks jumped more than 4% last week and are now up 14% from a 14-month low hit earlier in the month, driven by tech. Yet uncertainty over tariffs has prompted more companies to withdraw or soften earnings guidance. Europe's Stoxx 600 rose nearly 3% last week and is up roughly 10% from its April low. U.S. 10-year yields fell to near 4.25% but are still up about 40 basis points from their April low. The U.S. dollar inched up from three-year lows against major currencies.

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 April 24, 2025. 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, MSCI Emerging Markets Index, MSCI Europe Index, LSEG Datastream 10-year benchmark government bond index (U.S., Germany and Italy), Bank of America Merrill Lynch Global High Yield Index, J.P. Morgan EMBI Index, Bank of America Merrill Lynch Global Broad Corporate Index and MSCI USA Index.

Week ahead

April 30	U.S. PCE	**May 2**	Euro area flash inflation data; U.S. payrolls
May 1	Bank of Japan policy decision		

We are closely monitoring the U.S. payrolls report out this week. The report could show early signs of changes in business confidence and hiring decisions even as the U.S. has paused tariffs announced on April 2 for most countries for 90 days. Recently strong jobs data had shown still elevated wage pressures. The pace of job gains was also not consistent with core inflation falling back near the Federal Reserve's 2% target – even before factoring in the inflationary impact of tariffs.

Big calls

Our highest conviction views on six- to 12-month (tactical) and over five-year (strategic) horizons, April 2025

Tactical	Reasons
U.S. equities	Policy uncertainty may weigh on growth and stocks in the near term. Yet we think U.S. equities can regain their global leadership. We think the underlying economy and corporate earnings are still solid and supported by mega forces such as AI.
Japanese equities	We are overweight. Ongoing shareholder-friendly corporate reforms remain a positive. We prefer unhedged exposures given the yen's potential strength during bouts of market stress.
Selective in fixed income	Persistent deficits and sticky inflation in the U.S. make us underweight long-term U.S. Treasuries. We also prefer European credit – both investment grade and high yield – over the U.S. on more attractive spreads.
Strategic	**Reasons**
Infrastructure equity and private credit	We see opportunities in infrastructure equity due to attractive relative valuations and mega forces. We think private credit will earn lending share as banks retreat – and at attractive returns.
Fixed income granularity	We prefer DM government bonds over investment grade credit given tight spreads. Within DM government bonds, we favor short- and medium-term maturities in the U.S., and UK gilts acrossan maturities.
Equity granularity	We favor emerging over developed markets yet get selective in both. EMs at the cross current of mega forces – like India and Saudi Arabia – offer opportunities. In DM, we like Japan as the return of inflation and corporate reforms brighten the outlook.

Note: Views are from a U.S. dollar perspective, April 2025. 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.

Tracking five mega forces

Mega forces are big, structural changes that affect investing now – and far in the future. As key drivers of the new regime of greater macroeconomic and market volatility, they change the long-term growth and inflation outlook and are poised to create big shifts in profitability across economies and sectors. This creates major opportunities – and risks – for investors. See our web hub for our research and related content on each mega force.

1. **Demographic divergence:** The world is split between aging advanced economies and younger emerging markets – with different implications.
2. **Digital disruption and artificial intelligence (AI):** Technologies are transforming how we live and work.
3. **Geopolitical fragmentation and economic competition:** Globalization is being rewired as the world splits into competing blocs.
4. **Future of finance:** A fast-evolving financial architecture is changing how households and companies use cash, borrow, transact and seek returns.
5. **Transition to a low-carbon economy:** The transition is set to spur a massive capital reallocation as energy systems are rewired.

Granular views

Six- to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, April 2025

We have lengthened our tactical investment horizon back to six to 12 months. The table below reflects this and, importantly, leaves aside the opportunity for alpha, or the potential to generate above-benchmark returns – especially at a time of heightened volatility.

Underweight | **Neutral** | **Overweight** | ● Previous view

	Asset	View	Commentary
Equities	**Developed markets**		
	United States	+1	We are overweight. Policy uncertainty may weigh on growth and stocks in the near term. Yet we think the underlying economy and corporate earnings are still solid and supported by mega forces such as AI.
	Europe	Neutral	We are neutral. We see room for more European Central Bank rate cuts, supporting an earnings recovery. Rising defense spending, as well as potential fiscal loosening and de-escalation in the Ukraine war are other positives.
	UK	Neutral	We are neutral. Political stability could improve investor sentiment. Yet an increase in the corporate tax burden could hurt profit margins near term.
	Japan	+1	We are overweight given the return of inflation and shareholder-friendly corporate reforms. We prefer unhedged exposure as the yen has tended to strengthen during bouts of market stress.
	Emerging markets	Neutral	We are neutral. U.S. tariffs and trade tensions are likely to drag on growth in China and emerging markets more broadly, even with potential policy support.
	China	Neutral	We are neutral. The uncertainty of trade barriers makes us more cautious, with potential policy stimulus only partly offsetting the drag. We still see structural challenges to China's growth.
Fixed Income	Short U.S. Treasuries	+1	We are overweight. We view short-term Treasuries as akin to cash in our tactical views – but we would still lean against the market pricing of multiple Fed rate cuts this year.
	Long U.S. Treasuries	-2	We are underweight. Persistent budget deficits and geopolitical fragmentation could drive term premium up over the near term. We prefer intermediate maturities less vulnerable to investors demanding more term premium.
	Global inflation-linked bonds	Neutral	We are neutral. We see higher medium-term inflation, but cooling inflation and growth may matter more near term.
	Euro area govt bonds	-1	We are underweight. We see room for yields to climb more as Europe moves to ramp up defense and infrastructure spending. The European Central Bank is also nearing the end of rate cuts.
	UK gilts	Neutral	We are neutral. Gilt yields are off their highs, but the risk of higher U.S. yields having a knock-on impact and reducing the UK's fiscal space has risen. We are monitoring the UK fiscal situation.
	Japanese govt bonds	-1	We are underweight. Yields have surged, yet stock returns still look more attractive to us.
	China govt bonds	Neutral	We are neutral. Bonds are supported by looser policy. Yet we find yields more attractive in short-term DM paper.
	U.S. agency MBS	Neutral	We are neutral. We see agency MBS as a high-quality exposure in a diversified bond allocation and prefer it to IG.
	Short-term IG credit	+1	We are overweight. Short-term bonds better compensate for interest rate risk.
	Long-term IG credit	-1	We are underweight. Spreads are tight, so we prefer taking risk in equities from a whole portfolio perspective. We prefer Europe over the U.S.
	Global high yield	Neutral	We are neutral. Spreads are tight, but the total income makes it more attractive than IG. We prefer Europe.
	Asia credit	Neutral	We are neutral. We don't find valuations compelling enough to turn more positive.
	Emerging hard currency	Neutral	We are neutral. The asset class has performed well due to its quality, attractive yields and EM central bank rate cuts. We think those rate cuts may soon be paused.
	Emerging local currency	-1	We are underweight. We see emerging market currencies as especially sensitive to trade uncertainty and global risk sentiment.

Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index. Note: Views are from a U.S. dollar perspective. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast or guarantee of future results. This information should not be relied upon as investment advice regarding any particular fund, strategy or security.

BlackRock Investment Institute

The BlackRock Investment Institute (BII) leverages the firm's expertise and generates proprietary research to provide insights on macroeconomics, sustainable investing, geopolitics and portfolio construction to help BlackRock's portfolio managers and clients navigate financial markets. BII offers strategic and tactical market views, publications and digital tools that are underpinned by proprietary research.

Not FDIC Insured • May Lose Value • No Bank Guarantee