

# Weekly commentary

August 9, 2021

**BlackRock**

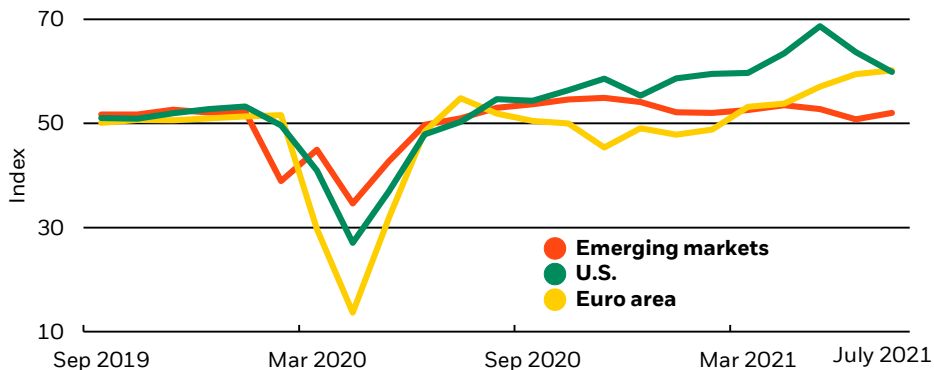
## A restart relay

- The U.S. is passing the baton in leading the economic restart to other developed markets (DM); but we see fresh challenges in many emerging markets (EM).
- Better-than-expected U.S. jobs data drove U.S. 10-year bond yields to the highest level in two weeks. U.S. stocks hit record highs.
- China’s lending data will likely be in focus after Beijing has recently signaled a near-term dovish shift in monetary and fiscal policy as growth slows down.

The restart of economic activity is real and broadening. This supports our pro-risk stance and our underweight in government bonds as we believe their low yields don’t reflect the restart’s momentum. We see the U.S. passing the baton to Europe and other DMs in leading the restart, whereas the delta variant may challenge some EMs lagging in vaccinations. This supports our tactical overweight in European equities and our recent downgrade of EM equities and debt to neutral.

## Passing the baton

Purchasing managers’ index in the U.S., euro area and EM, 2019-2021



Sources: BlackRock Investment Institute, with data from Haver Analytics, August 2021. Notes: The chart shows the monthly Markit composite purchasing managers’ index (PMI) for the U.S., euro area and emerging markets. Emerging markets include Brazil, China, Czech Republic, Egypt, India, Indonesia, Kenya, Lebanon, Malaysia, Mexico, Nigeria, Philippines, Poland, Russia, Saudi Arabia, South Africa, Thailand, Turkey, United Arab Emirates and Vietnam, as defined by IHS Markit.

Global economies will be going through two distinct phases. Right now, the restart of economic activity causes a spurt in growth. Eventually, we see this settling into an expansion around trend growth. Beyond that point we see an unusually wide range of potential outcomes. The U.S. is still in the first phase. Growth likely peaked in the second quarter, but last week’s strong jobs report showed the restart is still in full swing. Growth momentum in the euro area appears to be catching up now, as indicated by purchasing managers’ index (PMI) data on the chart. In contrast, the EM PMI this year has trended lower toward 50 – a reading below which suggests stagnation – reflecting challenges in many EMs where renewed outbreaks threaten lockdowns and more dire public health outcomes. China’s potential slowdown, exacerbated by renewed outbreaks, may also spill over to EMs, in our view. Over the long term, we see a greater risk of permanent damages in some EMs due to slow vaccinations and more limited policy space.



**Jean Boivin**  
Head – BlackRock Investment Institute



**Elga Bartsch**  
Head of Macro Research – BlackRock Investment Institute



**Wei Li**  
Global Chief Investment Strategist – BlackRock Investment Institute



**Nicholas Fawcett**  
Member of the Economic and Markets Research Team – BlackRock Investment Institute

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

**BlackRock Investment Institute**

China is the only major economy that has surpassed the pre-Covid projections of its growth trend. Consensus expectations see the U.S. returning to trend in the fourth quarter of 2021, and point to a return to pre-Covid trend by the end of 2022 for Europe – with growth rates similar to those over the last decade. Even though the pace toward a complete restart differs, we see some common drivers across DMs, such as pent-up consumer demand, especially in the hardest-hit services sectors.

The uneven pace of the restart is reflected in regional corporate earnings. Nearly 90% of S&P 500 companies have reported second-quarter results by August 6, and 87% of them had beat forecasts on both profit and sales – the highest since 2011. Yet stocks that have beaten expectations have on average not been rewarded, while those that undershot have been punished. We see this as consistent with the restart dynamics: very strong earnings – but just for the duration of the restart. About 90% of MSCI Europe companies have reported earnings, with just over half of them beating estimates. The earnings revision ratio – the share of earnings estimate upgrades vs. downgrades – has been rising in Europe and catching up with that in the U.S. This supports our overweight on European equities and neutral position in U.S. equities on a tactical basis.

The unprecedented restart has also led to unusual supply and demand dynamics – and volatility in growth and inflation data. This has manifested in recent market behavior, notably rising stocks *and* falling bond yields in the U.S. Record-high stocks may have priced in much of the powerful restart, and we believe the current yield levels are too low given the strength of the restart. The mixed market signals highlight a key question among investors: What lies beyond the restart? We see an unusually wide range of potential outcomes – and believe it’s all the more important to have an anchor. We stick to our *new nominal* investment theme: Major central banks are slower to respond to rising inflation than in the past, keeping nominal bond yields lower and real rates negative – a positive for risk assets.

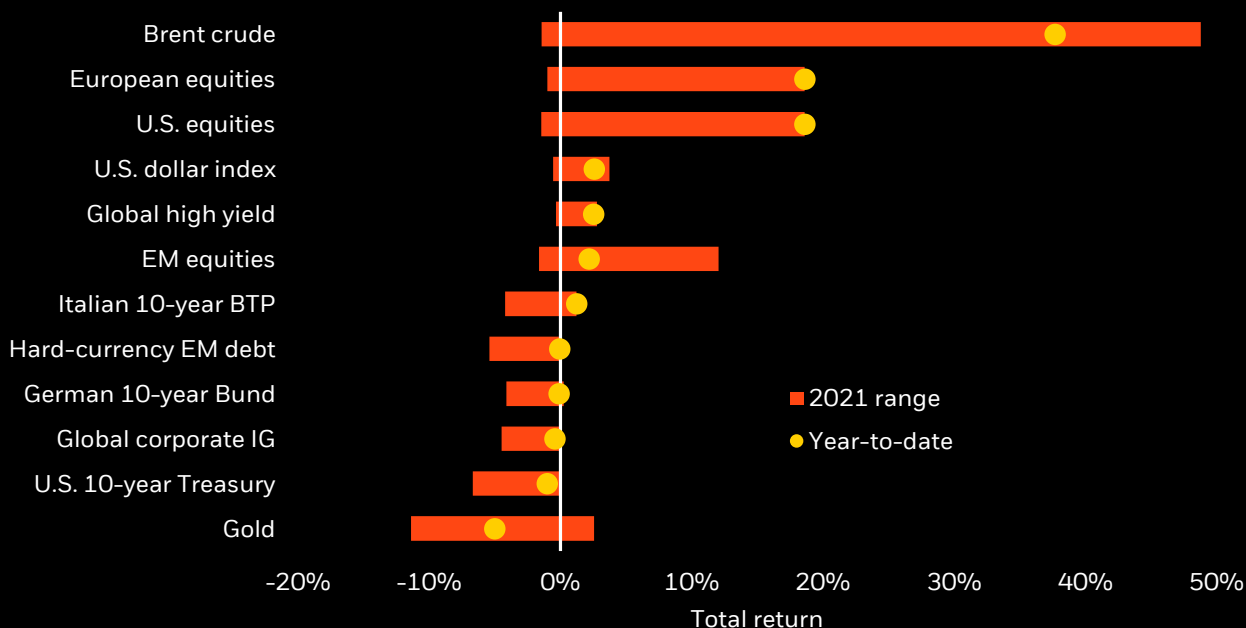
The bottom line: The leadership of global restart looks set to pass on from the U.S. to Europe and other DMs, and we see a risk that the restart could stall in some EMs due to worsening virus dynamics and more limited policy room. This supports our tactical overweight on European equities and recent downgrade of EM assets to neutral. We also believe current government bond yield levels do not reflect the powerful momentum of the economic restart, and this supports our underweight in government bonds.

## Market backdrop

U.S. stocks hit record highs, and U.S. 10-year government bond yields climbed to the highest level in two weeks after better-than-expected nonfarm payrolls data. Treasury yields have been driven by a mix of factors, and the rise in yields and real yields after the strong jobs data reinforces our tactical underweight. Even if real yields rise, they remain well in negative territory, supporting equities and our pro-risk tactical stance. Among the nearly 90% of S&P 500 companies that had reported second-quarter earnings by August 6, 87% of them have exceeded expectations on both profits and revenues.

## Assets in review

Selected asset performance, 2021 year-to-date 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 Refinitiv Datastream as of August 5, 2021. Notes: The two ends of the bars show the lowest and highest returns at any point this 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, in descending order: spot Brent crude, MSCI Europe Index, ICE U.S. Dollar Index (DXY), MSCI USA Index, Bank of America Merrill Lynch Global High Yield Index, MSCI Emerging Markets Index, Refinitiv Datastream Italy 10-year benchmark government bond index, J.P. Morgan EMBI Index, Refinitiv Datastream Germany 10-year benchmark government bond index, Bank of America Merrill Lynch Global Broad Corporate Index, Refinitiv Datastream U.S. 10-year benchmark government bond index and spot gold.

## Macro insights

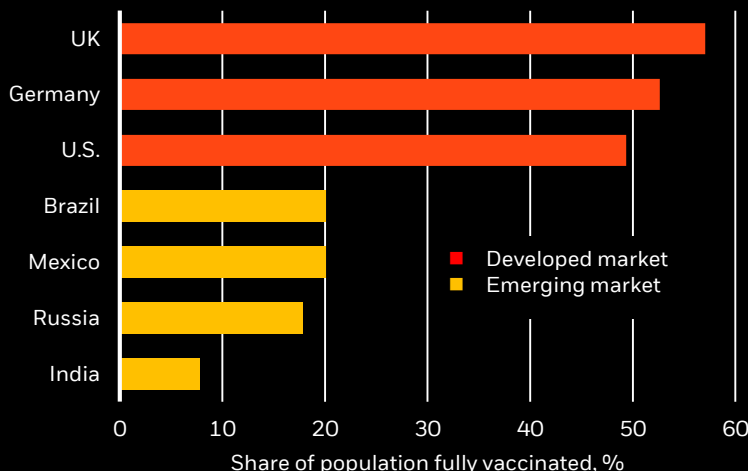
EMs are significantly lagging behind DMs in the vaccination rollout – as vaccine supply remains a challenge for many of them. See the chart. While the pace of vaccination is picking up, the slower rollout may hold back the restart in EMs, even without virus dynamics further worsening, in our view.

We also see more limited policy space in EMs. Many EM central banks eased significantly through 2020, but some have already started tightening amid a sustained rise in inflation, such as in Brazil, Mexico and Russia. Constraints in fiscal spending may weigh on growth, in our view. Any Fed policy changes could trigger further tightening in financing conditions, though we think a repeat of the 2013 taper tantrum is unlikely.

We see a risk of permanent damages in EMs from the pandemic. This underpins our recent downgrade of EM equities and local-currency bonds to neutral over a tactical horizon. See our [macro insights](#) hub.

## Vaccination lags in emerging markets

Share of population fully vaccinated



Sources: BlackRock Investment Institute, Our World in Data, data as of August 5, 2021. Notes: The bars show the share of the total population that has received all doses prescribed by the vaccination protocol.

## Investment themes

### 1 The new nominal

- The powerful economic restart is broadening, with Europe and other major economies catching up with the U.S. We expect a higher inflation regime in the medium term – with a more muted monetary response than in the past.
- *The new nominal* has largely unfolded in 2021: the rise in long-term yields has been mainly driven by higher market pricing of inflation, with real yields remaining pinned well in negative territory.
- We expect the Fed to start normalizing policy rates in 2023, a much slower pace than market pricing for lift-off in 2022 indicates. The market’s lack of confidence in the Fed’s commitment to its new framework poses a risk of tighter financial conditions in the near term. We would anticipate this uncertainty to dissipate over time – assuming the central bank regains control of its narrative – paving the way for us to lean even more tactically pro-risk.
- The ECB tweaked its forward guidance after having recently set its inflation target at 2% in the medium term but rejecting an average inflation targeting framework. The central bank said it would keep policy rates on hold until it had seen “inflation reaching 2% well ahead of the end of the projection horizon and durably for the rest of the projection horizon.” We see this likely to be followed by an increase in the ECB’s asset purchases later this year.
- **Tactical implication:** We go overweight European equities and inflation-linked bonds. We cut U.S. equities to neutral.
- **Strategic implication:** We remain underweight DM government bonds and prefer equities over credit.

### 2 China stands out

- China is already a distinct pole of global growth. We believe it is time to also treat it as an investment destination separate from EM and DM.
- Chinese authorities have started loosening policies as growth slows, yet we believe they will maintain the broadly hawkish policy stance over the medium term to stay focused on the quality of the growth.
- We believe the clampdown on some private industries could go on for years, but its intensity would likely fluctuate. We have yet to see the peak of the regulatory campaign, but could see its pace and intensity to moderate amid slower growth.
- We believe investors should be mindful of ongoing geopolitical tensions, which was underscored by the uncertainty around China’s clampdown on certain industries.
- **Tactical implication:** We break out China from EM with a neutral stance on equities and an overweight to debt.
- **Strategic implication:** Our neutral allocation to Chinese assets is multiples larger than typical benchmark weights.

### 3 Journey to net zero

- There is no roadmap for getting to net zero, and we believe markets underappreciate the profound changes coming. The path is unlikely to be a smooth one – and we see this creating opportunities across investment horizons.
- Certain commodities, such as copper and lithium, will likely see increased demand from the drive to net zero. Yet we think it’s important to distinguish between near-term price drivers of prices of some commodities – notably the economic restart – and the long-term transition that will matter to prices.
- Climate risk is investment risk, and we also see it as a historic investment opportunity. Our long-run return assumptions now reflect the impact of climate change and use sectors as the relevant unit of investment analysis.
- **Tactical implication:** We are overweight the tech sector as we believe it is better positioned for the green transition.
- **Strategic implication:** We like DM equities and the tech sector as a way to play the climate transition.

# Week ahead

**Aug 9** China inflation

**Aug 11** U.S. consumer price index




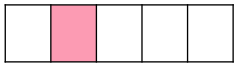
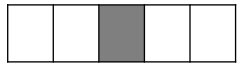
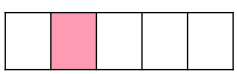
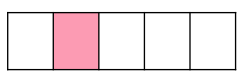
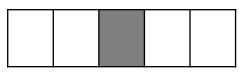

**Aug 10-17** China total social financing and new yuan loans

**Aug 13** University of Michigan Surveys of Consumers

Investors will try to gauge the fiscal pulse from China’s lending data. Chinese authorities have signaled a near-term dovish shift as growth momentum slows, yet over the longer term we expect them to maintain a hawkish stance, key to their focus on the quality of growth. The University of Michigan consumer sentiment survey could shed light on the state of the restart amid rising concerns over the spread of the delta variant.

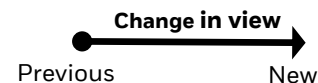
## Directional views

Strategic (long-term) and tactical (6-12 month) views on broad asset classes, August 2021

Asset	Strategic view	Tactical view	Change in view 
			Previous <span style="margin-left: 100px;">New</span>
<b>Equities</b>	 <p style="text-align: center;">+1</p>	 <p style="text-align: center;">+1</p> <p>We keep our overweight equities on a strategic horizon. We see a better outlook for earnings amid moderate valuations. Incorporating climate change in our expected returns brightens the appeal of developed market equities given the large weights of sectors such as tech and healthcare in benchmark indices. Tactically, we stay overweight equities as we expect the restart to re-accelerate and interest rates to stay low. We tilt toward cyclical and maintain a quality bias.</p>	
<b>Credit</b>	 <p style="text-align: center;">-1</p>	 <p style="text-align: center;">Neutral</p> <p>We stay underweight credit on a strategic basis as valuations are rich and we prefer to take risk in equities. On a tactical horizon, we are neutral credit following the tightening in spreads in investment grade and high yield.</p>	
<b>Govt bonds</b>	 <p style="text-align: center;">-1</p>	 <p style="text-align: center;">-1</p> <p>We are strategically underweight nominal government bonds given their diminished ability to act as portfolio ballast with yields near lower bounds. Rising debt levels may eventually pose risks to the low-rate regime. This is part of why we underweight government debt strategically. We prefer inflation-linked bonds – particularly in the U.S. relative to the euro area on valuations. We add to our underweight on U.S. Treasuries on expectations of gradually rising yields.</p>	
<b>Cash</b>		 <p style="text-align: center;">Neutral</p> <p>We are moderately pro-risk and keep some cash to potentially further add to risk assets on any market turbulence.</p>	
<b>Private markets</b>	 <p style="text-align: center;">Neutral</p>	<p>We believe non-traditional return streams, including private credit, have the potential to add value and diversification. Our neutral view is based on a starting allocation that is much larger than what most qualified investors hold. Many institutional investors remain underinvested in private markets as they overestimate liquidity risks, in our view. Private markets are a complex asset class and not suitable for all investors.</p>	

Notes: Views are from a U.S. dollar perspective, August 2021. 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.

# Granular views



Six to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, August 2021

Asset	Underweight	Overweight		
Equities			United States We are neutral U.S. equities. We see U.S. growth momentum peaking and expect other regions to be attractive ways to play the next leg of the restart as it broadens to other regions, notably Europe and Japan.	
			U.S. small caps We stay overweight U.S. small-caps. We see potential in this segment of the U.S. equity market to benefit from the cyclical rebound in domestic activity brought about an accelerated vaccination rollout.	
			Europe We are overweight European equities on the back of the broadening restart. We see a sizeable pickup in activity helped by accelerating vaccinations. Valuations remain attractive relative to history and investor inflows into the region are only just starting to pick up.	
			UK We are neutral UK equities following their strong performance. We see the market as fairly valued and prefer European equities.	
			Japan We are neutral Japanese equities. We see a global cyclical rebound helping boost earnings growth in the second-half of the year. The country's virus dynamics are also improving.	
			China While overweight on a strategic basis, we see near-term risks. Growth is slowing at the same time as policy stance is tight – and may not respond in a timely way as authorities focus on the quality of growth. The anti-monopoly clampdown is ongoing.	
			Emerging markets We are neutral EM equities. We see more uncertainty on the U.S. dollar outlook due to a risk premium from Fed communication. Many EMs have started tightening policy, showing less policy support and a greater risk of scarring.	
			Asia ex-Japan We are neutral Asia ex-Japan equities. The anti-monopoly clampdown in the heavyweight Chinese tech sector and broader geopolitical risks dampen the outlook, in our view.	
			U.S. Treasuries We are underweight U.S. Treasuries, primarily on valuations. We see the balance of risks tilting toward gradually higher yields as markets continue to price in the economic restart, especially given the pullback in yields in recent months.	
				Treasury Inflation-Protected Securities We are overweight U.S. TIPS. We believe the recent pullback in the asset class presents an attractive opportunity, particularly on a relative basis against European inflation breakevens as the outlook for euro area inflation remains sluggish.
Fixed Income			German bunds We are neutral on bunds. Although the ECB may begin tapering this year given inflation dynamics, we see little room for a substantive change in policy in the near term.	
			Euro area peripherals We are neutral euro area peripheral government bonds despite recent outperformance given stability in ECB policy, low volatility in peripherals and better value elsewhere.	
				China government bonds We initiate a view on Chinese government bonds with an overweight. We see the relatively stability of interest rates and the carry on offer as brightening their appeal.
				Global investment grade We remain underweight investment grade credit. We see little room for further yield spread compression and favor more cyclical exposures such as Asian fixed income.
				Global high yield We are neutral high yield credit after the asset class' strong performance. Spreads are now below where we see high yield as attractively valued. We prefer to take risk in equities.
				Emerging market – hard currency We are neutral hard-currency EM debt. We expect it to gain support from the vaccine-led global restart and more predictable U.S. trade policies.
				Emerging market – local currency We are neutral local-currency EM debt. and see more uncertainty on the U.S. dollar outlook due to a risk premium from Fed communication. Many EMs have started tightening policy, showing less policy support and a greater risk of scarring, in our view.
			Asia fixed income We are overweight Asia fixed income. Outside of China, we like Asia sovereigns and credit for their yield and income given the region's fundamental outlook.	

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 the global economy, markets, geopolitics and long-term asset allocation – all to help our clients and portfolio managers navigate financial markets. BII offers strategic and tactical market views, publications and digital tools that are underpinned by proprietary research.

**General disclosure:** This material is intended for information purposes only, and does not constitute investment advice, a recommendation or an offer or solicitation to purchase or sell any securities to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction. The opinions expressed are as of August 9, 2021 and are subject to change without notice. Reliance upon information in this material is at the sole discretion of the reader. Investing involves risks.

In the **U.S. and Canada**, this material is intended for public distribution. **In EMEA** Until 31 December 2020, issued by BlackRock Investment Management (UK) Limited, authorized and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: + 44 (0)20 7743 3000. Registered in England and Wales No. 2020394, has issued this document for access by Professional Clients only and no other person should rely upon the information contained within it. For your protection telephone calls are usually recorded. Please refer to the Financial Conduct Authority website for a list of authorized activities conducted by BlackRock. From 1 January 2021, in the event the United Kingdom and the European Union do not enter into an arrangement which permits United Kingdom firms to offer and provide financial services into the European Union, the issuer of this material is:(i) BlackRock Investment Management (UK) Limited for all outside of the European Union; and(ii) BlackRock (Netherlands) B.V. for in the European Union, BlackRock (Netherlands) B.V. is authorized and regulated by the Netherlands Authority for the Financial Markets. Registered office Amstelplein 1, 1096 HA, Amsterdam, Tel: 020 – 549 5200, Tel: 31-20-549-5200. Trade Register No. 17068311 For your protection telephone calls are usually recorded. **In Switzerland**, for qualified investors in Switzerland: This document is marketing material. Until 31 December 2021, this document shall be exclusively made available to, and directed at, qualified investors as defined in the Swiss Collective Investment Schemes Act of 23 June 2006 ("CISA"), as amended. From 1 January 2022, this document shall be exclusively made available to, and directed at, qualified investors as defined in Article 10 (3) of the CISA of 23 June 2006, as amended, at the exclusion of qualified investors with an opting-out pursuant to Art. 5 (1) of the Swiss Federal Act on Financial Services ("FinSA"). For information on art. 8 / 9 Financial Services Act (FinSA) and on your client segmentation under art. 4 FinSA, please see the following website: [www.blackrock.com/finsa](http://www.blackrock.com/finsa). **For investors in Israel:** BlackRock Investment Management (UK) Limited is not licensed under Israel's Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 5755-1995 (the "Advice Law"), nor does it carry insurance thereunder. **In South Africa**, please be advised that BlackRock Investment Management (UK) Limited is an authorized financial services provider with the South African Financial Services Board, FSP No. 43288. **In the DIFC** this material can be distributed in and from the Dubai International Financial Centre (DIFC) by BlackRock Advisors (UK) Limited – Dubai Branch which is regulated by the Dubai Financial Services Authority (DFSA). This material is only directed at 'Professional Clients' and no other person should rely upon the information contained within it. BlackRock Advisors (UK) Limited – Dubai Branch is a DIFC Foreign Recognised Company registered with the DIFC Registrar of Companies (DIFC Registered Number 546), with its office at Unit 06/07, Level 1, Al Fattan Currency House, DIFC, PO Box 506661, Dubai, UAE, and is regulated by the DFSA to engage in the regulated activities of 'Advising on Financial Products' and 'Arranging Deals in Investments' in or from the DIFC, both of which are limited to units in a collective investment fund (DFSA Reference Number F000738). **In the Kingdom of Saudi Arabia**, issued in the Kingdom of Saudi Arabia (KSA) by BlackRock Saudi Arabia (BSA), authorized and regulated by the Capital Market Authority (CMA), License No. 18-192-30. Registered under the laws of KSA. Registered office: 29th floor, Olaya Towers – Tower B, 3074 Prince Mohammed bin Abdulaziz St., Olaya District, Riyadh 12213 – 8022, KSA, Tel: +966 11 838 3600. The information contained within is intended strictly for Sophisticated Investors as defined in the CMA Implementing Regulations. Neither the CMA or any other authority or regulator located in KSA has approved this information. The information contained within, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Any distribution, by whatever means, of the information within and related material to persons other than those referred to above is strictly prohibited. **In the United Arab Emirates** this material is only intended for -natural Qualified Investor as defined by the Securities and Commodities Authority (SCA) Chairman Decision No. 3/R.M. of 2017 concerning Promoting and Introducing Regulations. Neither the DFSA or any other authority or regulator located in the GCC or MENA region has approved this information. **In the State of Kuwait**, those who meet the description of a Professional Client as defined under the Kuwait Capital Markets Law and its Executive Bylaws. **In the Sultanate of Oman**, to sophisticated institutions who have experience in investing in local and international securities, are financially solvent and have knowledge of the risks associated with investing in securities. **In Qatar**, for distribution with pre-selected institutional investors or high net worth investors. **In the Kingdom of Bahrain**, to Central Bank of Bahrain (CBB) Category 1 or Category 2 licensed investment firms, CBB licensed banks or those who would meet the description of an Expert Investor or Accredited Investors as defined in the CBB Rulebook. The information contained in this document, does not constitute and should not be construed as an offer of, invitation, inducement or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. **In Singapore**, this is issued by BlackRock (Singapore) Limited (Co. registration no. 200010143N). This advertisement or publication has not been reviewed by the Monetary Authority of Singapore. **In Hong Kong**, this material is issued by BlackRock Asset Management North Asia Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong. **In South Korea**, this material is for distribution to the Qualified Professional Investors (as defined in the Financial Investment Services and Capital Market Act and its sub-regulations). **In Taiwan**, independently operated by BlackRock Investment Management (Taiwan) Limited. Address: 28F., No. 100, Songren Rd., Xinyi Dist., Taipei City 110, Taiwan. Tel: (02)23261600. **In Japan**, this is issued by BlackRock Japan, Co., Ltd. (Financial Instruments Business Operator: The Kanto Regional Financial Bureau. License No375, Association Memberships: Japan Investment Advisers Association, the Investment Trusts Association, Japan, Japan Securities Dealers Association, Type II Financial Instruments Firms Association.) For Professional Investors only (Professional Investor is defined in Financial Instruments and Exchange Act). **In Australia**, issued by BlackRock Investment Management (Australia) Limited ABN 13 006 165 975 AFSL 230 523 (BIMAL). The material provides general information only and does not take into account your individual objectives, financial situation, needs or circumstances. **In China**, this material may not be distributed to individuals resident in the People's Republic of China ("PRC", for such purposes, excluding Hong Kong, Macau and Taiwan) or entities registered in the PRC unless such parties have received all the required PRC government approvals to participate in any investment or receive any investment advisory or investment management services. **For Other APAC Countries**, this material is issued for Institutional Investors only (or professional/sophisticated /qualified investors, as such term may apply in local jurisdictions). **In Latin America**, for institutional investors and financial intermediaries only (not for public distribution). No securities regulator within Latin America has confirmed the accuracy of any information contained herein. The provision of investment management and investment advisory services is a regulated activity in Mexico thus is subject to strict rules. For more information on the Investment Advisory Services offered by BlackRock Mexico please refer to the Investment Services Guide available at [www.blackrock.com/mx](http://www.blackrock.com/mx)

©2021 BlackRock, Inc. All Rights Reserved. BLACKROCK is a trademark of BlackRock, Inc., or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.

**BlackRock**

Not FDIC Insured • May Lose Value • No Bank Guarantee