

February 2020

BlackRock[®]

Global Outlook – Testing limits

BlackRock
Investment
Institute

Our 2020 investment themes

Growth edges up – We see an inflection point as global economic growth edges higher in 2020 thanks to easy financial conditions, limiting recession risks. The growth mix is shifting as the modest pickup is likely to be led by manufacturing, business spending and interest rate-sensitive sectors such as housing.

Implication: We maintain a moderate pro-risk stance and see the potential for cyclical assets like Japanese and emerging market (EM) equities to outperform tactically.

Policy pause – We see economic fundamentals driving markets in 2020, with less risk from trade tensions and less scope for monetary easing surprises or fiscal stimulus. Major central banks appear intent on maintaining easy policies – and interest rates and bond yields look likely to linger near lows.

Implication: Income streams are crucial in a slow-growth, low-rate world. We like EM and high yield debt.

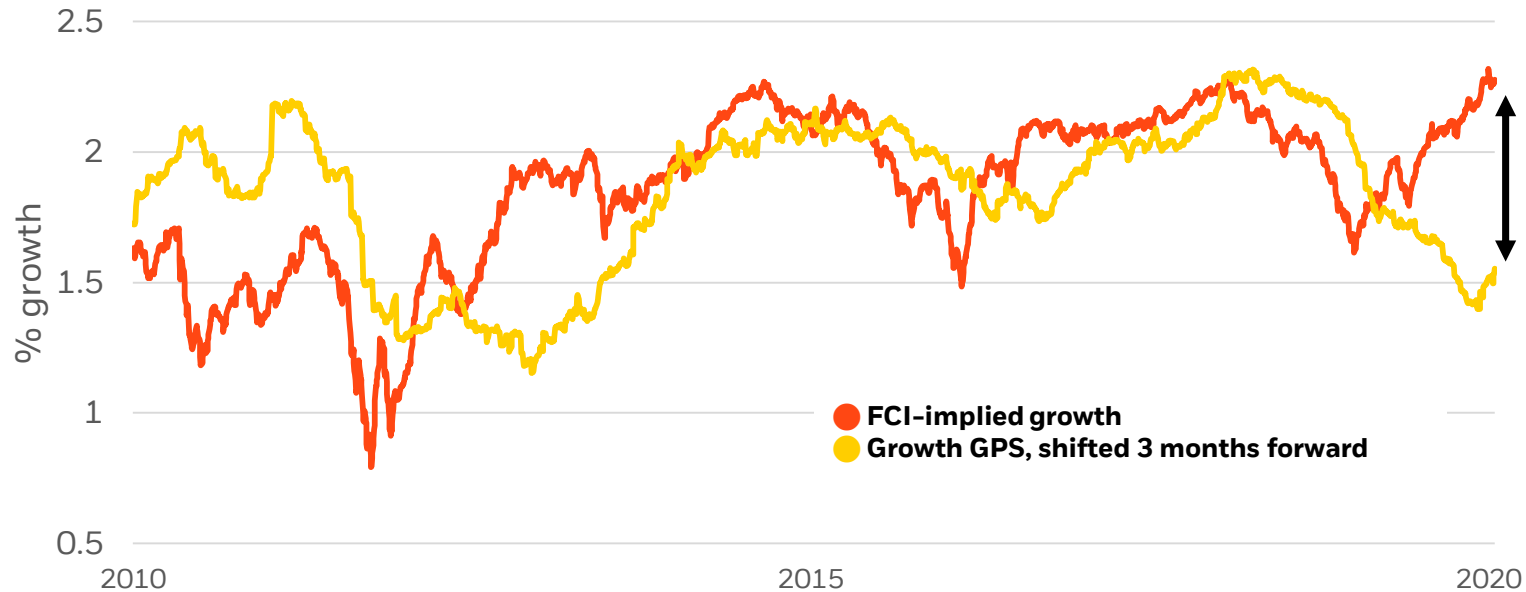
Rethinking resilience – Yields are testing lower limits in many developed markets, making many government bonds less effective portfolio ballast in case of equity market selloffs. A focus on sustainability can also help add resilience to portfolios as markets wake up to environmental, social and governance (ESG) risks.

Implication: We prefer U.S. Treasuries over lower-yielding peers as portfolio ballast and like inflation-protected securities against inflation risks.

Easy financial conditions should translate into growth

We see growth led by a recovery in global manufacturing and interest rate-sensitive sectors. Underappreciated risks around higher inflation temper our overall pro-risk stance.

BlackRock G3 FCI and Growth GPS, 2010–2020

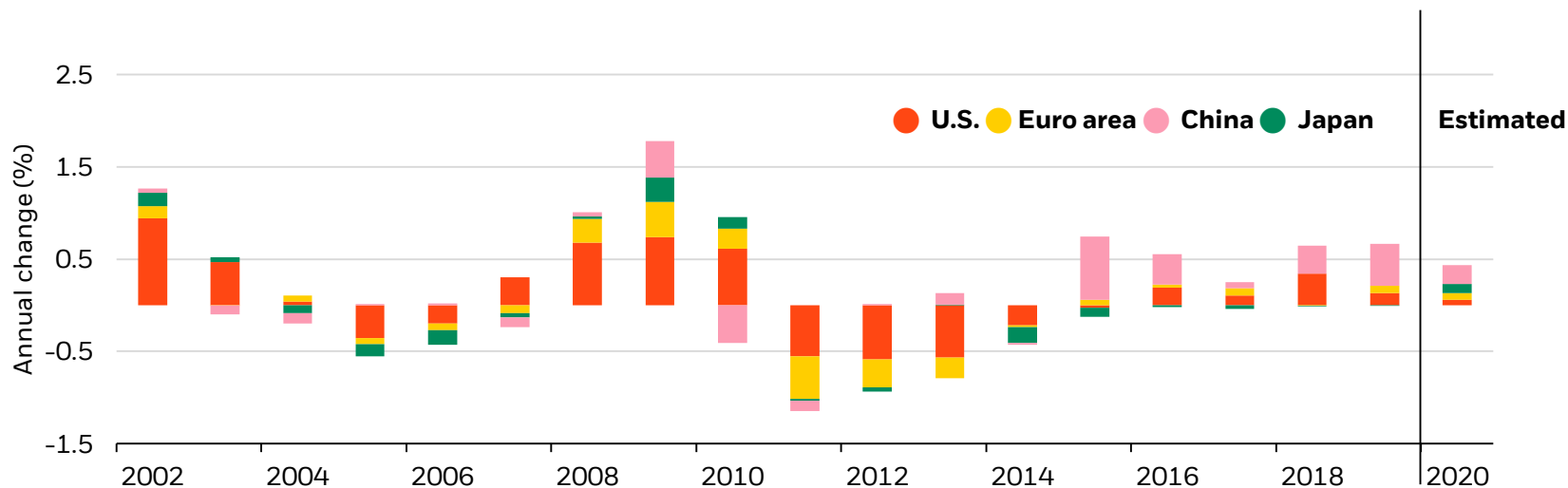


Sources: BlackRock Investment Institute, Consensus Economics and Reuters polls, December 2019. Notes: The Growth GPS shows where consensus GDP forecast may stand in three months' time, shifted forward by three months. The orange line shows the rate of GDP growth implied by our financial conditions indicator (FCI), based on its historical relationship with our Growth GPS, shifted forward by six months. The grey area shows annualized actual growth rates on a quarterly basis; values after Sept 30, 2019 are consensus estimates. The FCI inputs include policy rates, bond yields, corporate bond spreads, equity market valuations and exchange rates. Forward-looking estimates may not come to pass.

A limited outlook for fiscal stimulus

Even modest shifts toward fiscal easing could have an outsized market impact. We see upside risks to fiscal stimulus – and uncertainty over U.S. fiscal policy will be high heading into the election.

Global fiscal impulse from G3 and China, 2002–2020



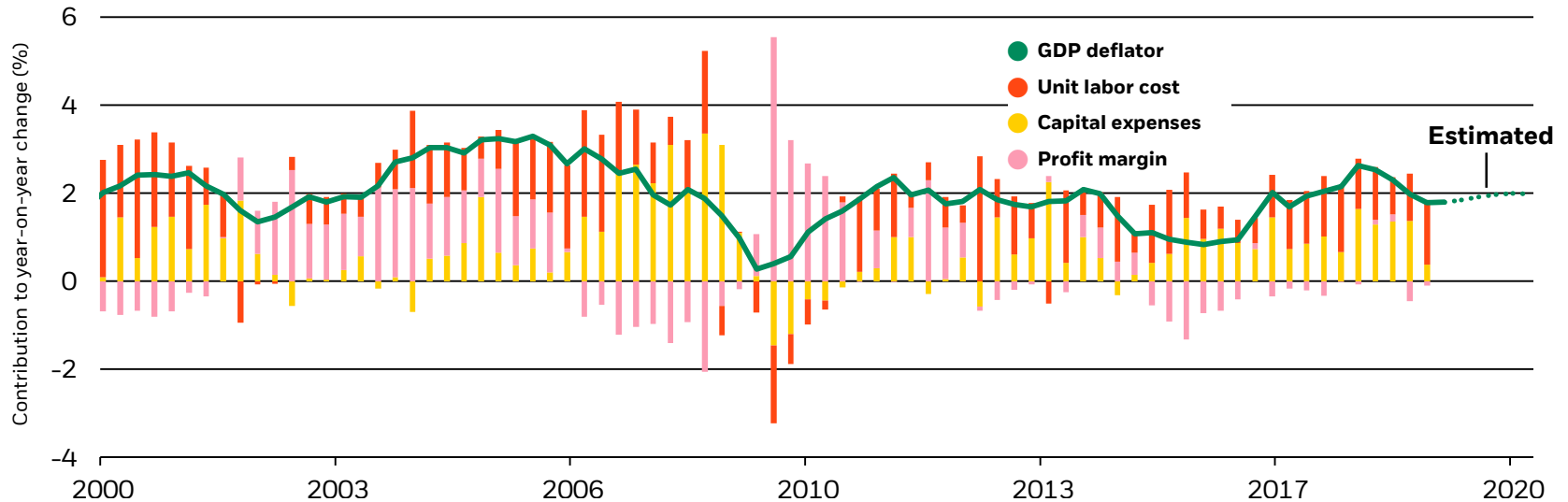
There is no guarantee that any forecasts made will come to pass.

Source: BlackRock Investment Institute, IMF, OECD and the European Commission, with data from Bloomberg, December 2019. The chart shows the annual change in the cyclically adjusted government primary balance weighted by GDP in purchasing power parity terms. The bars show the fiscal impulse from each region relative to the size of the global economy. 2020's estimated path implies mild fiscal stimulus consistent with views from the IMF, OECD and brokers. The impact of monetary easing in China is not included to calculate the fiscal impulse due to its limited influence on growth and the lack of a consistent estimate for the neutral rate.

Eyes on inflation risks

Tight labor markets, rising wages and sluggish productivity growth could stoke inflation. A disruption of global supply chains could lead to inflationary supply shocks.

Changes and components in U.S. GDP deflator, 2000–2020



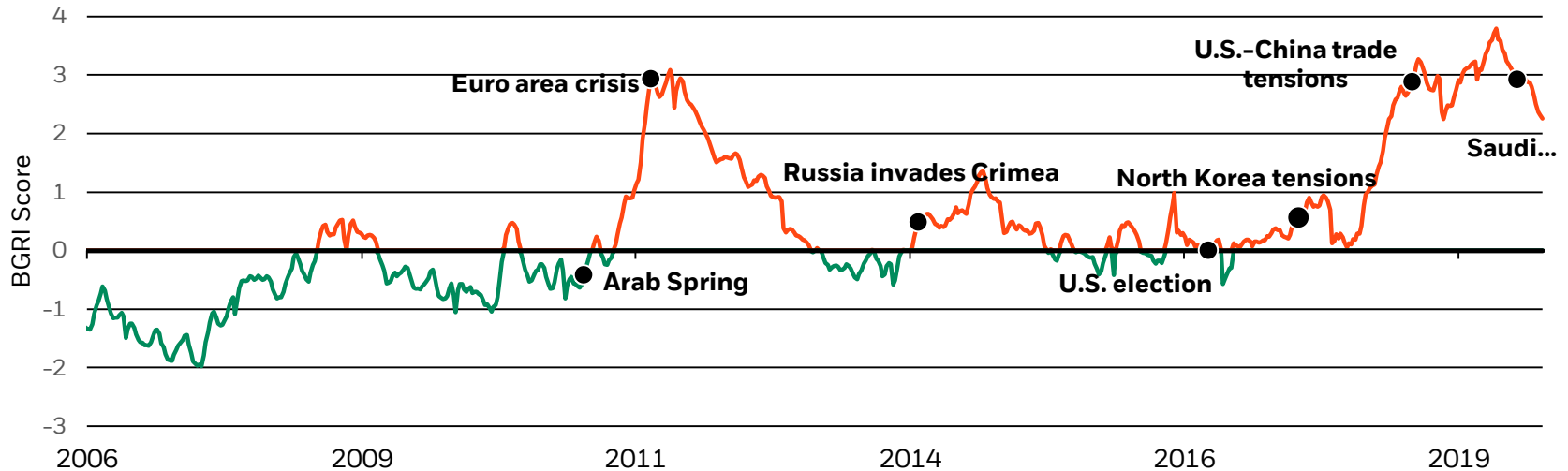
There is no guarantee that any forecasts made will come to pass.

Sources: BlackRock Investment Institute, with data from the U.S. Bureau of Economic Analysis and Refinitiv, December 2019. Notes: The GDP deflator is a gauge of inflation that measures the year-on-year change in prices of all the goods and services produced in an economy. We decompose the deflator into the key drivers involved in creating each U.S. dollar of real gross domestic product (GDP), including labor costs, profit margins and capital expenses. The dotted green line is a BlackRock estimate. Forward-looking estimates may not come to pass.

Market attention to geopolitical risks remains high

We view the latest lull in U.S.-China trade tensions as temporary as it does not address strategic issues. A breakdown of talks could revive protectionist pressures and undermine sentiment.

BlackRock Geopolitical Risk Indicator, 2006–2019



Source: BlackRock Investment Institute, with data from Refinitiv Datastream, December 2019. Notes: See BlackRock's Geopolitical risk dashboard for full details. Source: BlackRock Investment Institute, with data from Refinitiv, November 2019. Notes: We identify specific words related to geopolitical risk in general and to our top-10 risks. We then use text analysis to calculate the frequency of their appearance in the Refinitiv Broker Report and Dow Jones Global Newswire databases as well as on Twitter. We then adjust for whether the language reflects positive or negative sentiment, and assign a score. A zero score represents the average BGRI level over its history from 2003 up to that point in time. A score of one means the BGRI level is one standard deviation above the average. We weigh recent readings more heavily in calculating the average.

Granular tactical views

Tactical views on selected assets vs. broad global asset classes by level of conviction, December 2019

Asset		Change in view		Previous	New
		Underweight	Overweight		
Equities	United States			←	We have downgraded U.S. equities to neutral. Rising uncertainty around the 2020 election and a wide range of policy outcomes may weigh on sentiment and prevent a repeat of outperformance.
	Europe	←		←	We have downgraded European equities to underweight after a stretch of outperformance – and see greater upside in cyclical exposures elsewhere. Markets look to have fully priced in the ECB's easing.
	Japan		→	→	We have upgraded Japanese equities. We see this market among those set to benefit most from a global manufacturing recovery and a lull in U.S.-China trade tensions.
	Emerging markets		→	→	We have upgraded EM equities as beneficiaries from the global recovery. EM central banks outside of China are likely to stay on their easing paths, supporting growth and equity markets.
	Asia ex Japan		→	→	We have upgraded Asia-ex-Japan equities to neutral amid prospects of a growth uptick. A worse-than expected Chinese slowdown or disruptions in global trade pose downside risks.
Fixed Income	U.S. Treasuries			→	We have upgraded U.S. Treasuries, preferring the front end of the curve. This offers shelter from any curve steepening triggered by stronger growth and some insulation against risk asset selloffs.
	Treasury Inflation-Protected Securities		→		We like TIPS due to cheap valuations relative to current inflation levels – and potential for more price rise due to wage pressures, an uptick in activity and longer-term deglobalization.
	German bunds	←		←	We have downgraded German government bonds. Prices already reflect the ECB's easy policy stance. And we see limited scope for monetary easing to take rates to even more negative levels.
	Euro area peripherals	←		←	We have downgraded euro area peripheral government bonds. We see yields and spreads as insufficient to compensate investors for underappreciated political risks in the region.
	Global investment grade	←		←	We have downgraded global investment grade credit. Valuations appear rich, and we see low coupon rates making the sector's income relatively unattractive on a risk-adjusted basis.
	Global high yield		→	→	We have upgraded global high yield, supported by stable monetary policy and the prospect of a growth inflection. Spread widening, especially in lower-rated cohorts, has offered an entry point.
	Emerging market – hard currency		→	→	We still like hard-currency EM debt against a favorable backdrop of dovish EM central banks, an improving growth outlook and a stable U.S. dollar. We prefer the high-yielders.
	Emerging market – local currency		→	→	We have upgraded local-currency EM debt to a high-conviction overweight. Coupons look attractive, and EM currencies could appreciate as major central banks stick to easy policies.
Asia fixed income		→	→	We have upgraded Asia fixed income. Asian central banks have room to ease policy, and currency stability is a positive. Valuations have become richer, and we prefer up-in-quality exposures.	

Note: Views are from a U.S. dollar perspective as of December 2019. 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.

Important information

General disclosure: This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of December 2019 and may change. The information and opinions are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by BlackRock, its officers, employees or agents. This material may contain 'forward looking' information that is not purely historical in nature. Such information may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

In the U.S., this material is intended for public distribution. **In Canada**, this material is intended for permitted clients only. **In the UK and outside the EEA:** Issued by BlackRock Investment Management (UK) Limited, authorised 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. For your protection telephone calls are usually recorded. BlackRock is a trading name of BlackRock Investment Management (UK) Limited. Please refer to the Financial Conduct Authority website for a list of authorised activities conducted by BlackRock in the event where the United Kingdom leaves the European Union without entering into an arrangement with the European Union which permits firms in the United Kingdom to offer and provide financial services into the European Union ("No Deal Brexit Event"), the issuer of this material is: - BlackRock Investment Management (UK) Limited for all outside of the European Economic Area; and - BlackRock (Netherlands) B.V. for in the European Economic Area, however, prior to a No Deal Brexit Event and where a No Deal Brexit Event does not occur, BlackRock Investment Management (UK) Limited will be the issuer. BlackRock (Netherlands) B.V.: Amstelplein 1, 1096 HA, Amsterdam, Tel: 020 – 549 5200, Trade Register No. 17068311. For more information, please see the website: www.blackrock.com. For your protection, telephone calls are usually recorded. BlackRock is a trading name of BlackRock (Netherlands) B.V. **For qualified investors in Switzerland**, this material shall be exclusively made available to, and directed at, qualified investors as defined in the Swiss Collective Investment Schemes Act of 23 June 2006, as amended. **In South Africa**, please be advised that BlackRock Investment Management (UK) Limited is an authorised financial services provider with the South African Financial Services Board, FSP No. 43288. **In DIFC:** This information 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) and is only directed at 'Professional Clients' and no other person should rely upon the information contained within it. Neither the DFSA or any other authority or regulator located in the GCC or MENA region has approved this information. This information and associated materials have been provided for your exclusive use. This document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution would be unlawful under the securities laws of such. Any distribution, by whatever means, of this document and related material to persons other than those referred to above is strictly prohibited. **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 Singapore, this is issued by BlackRock (Singapore) Limited (Co. registration no. 200010143N). **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) and does not constitute investment advice or an offer or solicitation to purchase or sell in any securities, BlackRock funds or any investment strategy nor shall any securities be offered or sold to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction. **In Latin America**, for institutional investors and financial intermediaries only (not for public distribution). This material is for educational purposes only and does not constitute investment advice or an offer or solicitation to sell or a solicitation of an offer to buy any shares of any fund or security. If any funds are mentioned or inferred in this material, such funds may not be registered with the securities regulators of any Latin American country and thus, may not be publicly offered in any such countries. The provision of investment management and investment advisory services is a regulated activity in Mexico thus is subject to strict rules. No securities regulator within Latin America has confirmed the accuracy of any information contained herein.

The information provided here is neither tax nor legal advice. Investors should speak to their tax professional for specific information regarding their tax situation. Investment involves risk including possible loss of principal. International investing involves risks, including risks related to foreign currency, limited liquidity, less government regulation, and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are often heightened for investments in emerging/developing markets or smaller capital markets

© 2019 BlackRock, Inc. All Rights reserved. **BlackRock**, is a registered trademark of BlackRock, Inc., or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.