

# Weekly commentary

November 24, 2025

**BlackRock**

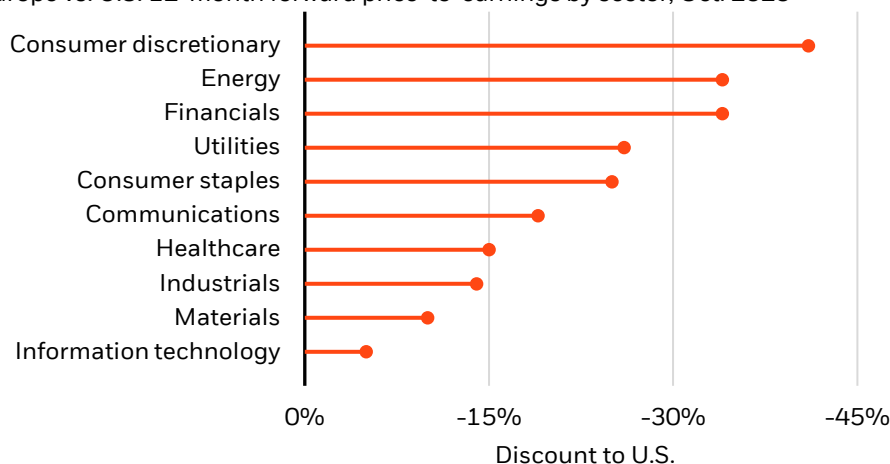
## Keys to an EU investment renaissance

- European equities had a flash of outperformance over the U.S. this year and we see bright spots, but the region needs structural reforms to outshine the U.S.
- The S&P 500 dropped 2% on the week on a pullback in U.S. tech stocks and is down 5% from all-time highs. U.S. 10-year bond yields fell near 4.00%.
- Delayed U.S. economic data is slowly emerging. Both October and November jobs data will come Dec. 16. – although the November data will be noisy.

European equities outperformed the U.S. earlier this year but have since retraced those gains, even though October surveys of business activity reached the highest level since May 2023. What's needed to ignite an investment renaissance? We think more business-friendly policies and deeper capital markets are required for a broad overweight to European stocks. We like financials, utilities and healthcare, and eye defense, industrials and AI-related opportunities longer term.

## Deep discounts

Europe vs. U.S. 12-month forward price-to-earnings by sector, Oct. 2025



Past performance is not a reliable indicator of current or future results. It is not possible to invest in an index. Indexes are unmanaged and index performance does not account for fees. Source: BlackRock Investment Institute, Aladdin, with data from Bloomberg, November 2025. Note: The chart compares the 12-month forward price-earnings ratio – a valuation metric – of the MSCI Europe & MSCI USA GICS sector indexes.

European equities have long lagged U.S. stocks since the global financial crisis, with structural challenges including an aging population dragging on their relative performance after topping the U.S. in the 2000s. A burst of European share gains early this year – Q1 was the strongest against the U.S. since 2015, MSCI data show – raised hopes Europe's fortunes could soon change. Euro area economic activity has also proved resilient: composite PMI in October hit a 2-1/2 year high. Yet this bout of outperformance proved short-lived. Europe's long underperformance means valuations of European stocks also lag: every regional sector trades at a discount to its U.S. equivalent. See the chart. What would it take for Europe to take a sustained lead? Reforms addressing long-held challenges, creating a more business-friendly environment and deepening its capital markets, in our view.



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More business-friendly policies could boost the corporate sector's return on capital. Market fragmentation limits the ability of European companies to scale across the continent – a 2019 European Commission study estimated that trade frictions shave about 10% off potential GDP – as does the region's interventionist regulatory approach. Removing internal barriers and loosening regulations could improve returns. Such reforms take time, but we see signs of progress: 11% of the reforms recommended in former European Central Bank President Mario Draghi's 2024 report have been fully implemented, an EPIC report shows. Another potential boost? A more flexible fiscal framework. 2024 reforms allow governments to extend fiscal adjustment plans if tied to structural reforms, so fiscal policy can act as a stimulus, not a brake. Some countries with room to borrow more – such as Germany's launch of a €500 billion infrastructure fund earlier this year – are also stepping up.

We also think Europe must deepen its capital markets to help lower the cost of capital. Progress can also be made on the Savings and Investment Union, which aims to make Europe a more attractive destination to invest and channel more European household savings into productive investments. European households keep about a third of financial assets in cash and deposits, twice that of the U.S., per Eurostat and Federal Reserve data. The key is turning savers into investors to help develop capital markets, in our view. That could create a positive feedback loop – greater wealth could spur stronger consumer spending and thus boost growth. Stronger growth could help reduce Europe's valuation discount versus the U.S.

We focus on selective opportunities in Europe. Our preference for financials, utilities and industrials has played out this year; these are Europe's best-performing sectors this year. Yet more attractive valuations lead us to switch from industrials to the healthcare sector, which benefits from strong cash flows and AI adoption. Longer-term, we still see stepped-up NATO spending commitments supporting defense and industrials. On AI, the U.S. leads on AI buildout, but Europe could take a lead on AI adoption, driving efficiency gains in sectors like manufacturing that comprise a larger share of its economy.

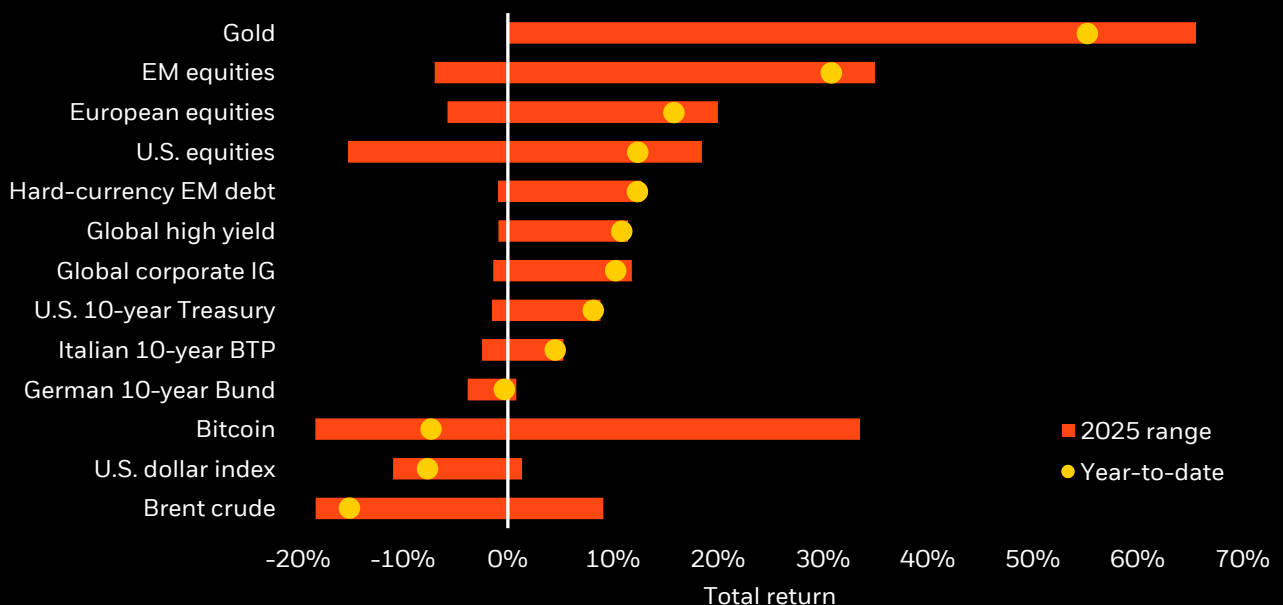
**Bottom line:** We are neutral European stocks but see many selective opportunities. We don't think Europe needs total success on every front to turn a page, just a dedication to pushing forward reforms and not just in crisis moments.

## Market backdrop

The S&P 500 fell 2% last week on renewed concerns about the AI theme and valuations, even after Nvidia's earnings beat expectations. We don't think rising AI-related debt issuance is a concern. The delayed U.S. jobs report for September, while beating expectations, supports our view that the labor market is cooling and can allow the Federal Reserve to trim policy rates more. U.S. 10-year Treasury yields dipped but stayed in a rough range between 4.00-4.20% in recent months.

## Assets in review

Selected asset performance, year-to-date return and range



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Sources: BlackRock Investment Institute, with data from LSEG Datastream as of November 20, 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, 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.

## Week ahead

<b>Nov. 24</b>	Germany Ifo business confidence	<b>Nov. 28</b>	Chicago PMI; Euro area country CPIs
<b>Nov. 26</b>	U.S. weekly jobless claims		

Delayed U.S. economic data is starting to trickle out – but next week will still be quiet around the U.S. Thanksgiving holiday. The Bureau of Labor Statistics said it would release both the October and November jobs report on Dec. 16 – after the next Fed meeting. The October report will only feature the establishment survey used for payrolls data. The November jobs report will be noisy due to government layoffs from earlier this year that were deferred.

## Big calls

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

Tactical		Reasons
U.S. equities		A softening labor market gives the Fed space to cut, helping ease political tensions from higher interest rates. We think rate cuts amid a notable slowing of activity without recession should support U.S. stocks and the AI theme.
Using FX to enhance income		FX hedging is now a source of income, especially when hedging euro area bonds back into U.S. dollars. For example, 10-year government bonds in France or Spain offer more income when currency hedged than U.S. investment grade credit, with yields above 5%.
Seeking alpha sources		We identify sources of risk taking to be more deliberate in earning alpha. These include the potential impact of regulatory changes on corporate earnings, spotting crowded positions where markets could snap back and opportunities to provide liquidity during periods of stress.
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 are overweight short-term inflation-linked bonds as U.S. tariffs could push up inflation. Within nominal bonds, we favor developed market (DM) government bonds outside the U.S. over global investment grade credit, given tight spreads.
Equity granularity		We favor emerging over developed markets yet get selective in both. Emerging markets (EM) at the cross current of mega forces – like India – 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, November 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, November 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-driven volatility and supply-side constraints are pressuring growth, but we see AI supporting corporate earnings. U.S. valuations are backed by stronger earnings and profitability relative to other developed markets.
	Europe				Neutral	We are neutral. Greater unity and a pro-growth agenda across Europe could boost activity, yet we are watching how the bloc tackles its structural challenges before turning more optimistic. We note opportunities in financials and industries tied to defense and infrastructure spending.
	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 exposures as the yen has tended to strengthen during bouts of market stress.
	Emerging markets				Neutral	We are neutral. Valuations and domestic policy are supportive. Yet geopolitical tensions and concerns about global growth keep us sidelined for now.
	China				Neutral	We are neutral. Trade policy uncertainty keeps us cautious, and policy stimulus is still limited. We still see structural challenges to China's growth, including an aging population.
	Short U.S. Treasuries				Neutral	We are neutral. We view short-term Treasuries as akin to cash in our tactical views and we remove this overweight to turn neutral long-term Treasuries.
	Long U.S. Treasuries				Neutral	We are neutral. Yields could fall further as a softening labor market gives the Fed space to cut without its independence being called into question – even if the pressures pushing up yields persist.
	Global inflation-linked bonds				Neutral	We are neutral. We see higher medium-term inflation, but cooling inflation and growth may matter more near term.
Fixed Income	Euro area govt bonds				Neutral	We are neutral. Yields are attractive, and term premium has risen closer to our expectations relative to U.S. Treasuries. Peripheral bond yields have converged closer to core yields.
	UK gilts				Neutral	We are neutral. Gilt yields are off their highs, but we expect more market attention on long-term yields through the government's November budget, given the difficulty it has had implementing spending cuts.
	Japanese govt bonds				-1	We are underweight. We see room for yields to rise further on Bank of Japan rate hikes and a higher global term premium.
	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				+1	We are overweight. We find income in agency MBS compelling and prefer them to U.S. Treasuries for high-quality fixed income exposure.
	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. We favor Europe over the U.S.
	Global high yield				Neutral	We are neutral. Spreads are tight, but corporate fundamentals are solid. The total income makes it more attractive than IG.
	Asia credit				Neutral	We are neutral. We don't find valuations compelling enough to turn more positive.
	Emerging hard currency				-1	We are underweight. Spreads to U.S. Treasuries are near historical averages. Trade uncertainty has eased, but we find local currency EM debt more attractive.
	Emerging local currency				Neutral	We are neutral. Debt levels for many EMs have improved, and currencies have held up against trade uncertainty. We prefer countries with higher real interest rates.

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