

# Weekly commentary

December 15, 2025

BlackRock

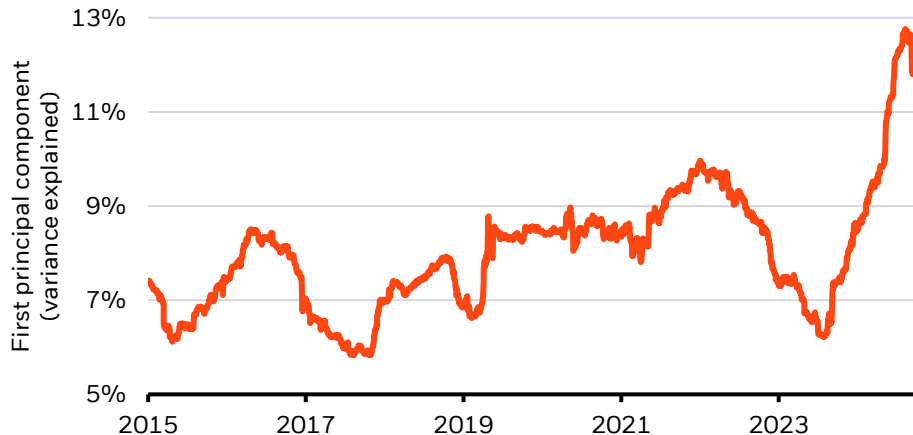
## Diversification mirage in plain sight

- We see the diversification mirage – one of our 2026 Outlook themes – playing out in real time with a sharp spike in global bond yields.
- The Nasdaq lost 2% as AI-linked capital spending concerns hurt tech stocks. U.S. 10-year yields hit a three-month high amid a global bond selloff.
- We see the potential for a Bank of Japan rate hike and Bank of England rate cut. Delayed U.S. inflation and jobs data are likely to be noisy.

We see the diversification mirage theme in our 2026 Outlook playing out in real time: rising developed market bond yields underscore our view that traditional diversifiers like long-term Treasuries offer diminished portfolio ballast. The importance of the AI theme illustrates why a “neutral” portfolio allocation doesn’t exist when only a handful of mega forces are driving returns. We think this environment calls for being dynamic and seeking unique return sources.

### A powerful common driver

Variance in S&P 500 returns explained by a dominant underlying factor



Source: BlackRock Investment Institute, with data from Bloomberg and Kenneth R. French, December 2025. Note: The line shows the variance of daily S&P 500 stock returns explained by a common driver after accounting for equity style actors like value, and momentum. This was calculated using first principal component of principal component analysis over a rolling 252-day window. The first principal tries to capture a common driver of stock returns.

For a few years, we have laid out how the economic transformation of mega forces challenged traditional methods of portfolio diversification. In this environment, efforts to diversify away from the U.S. or the AI mega force amount to larger active calls than before. Our analysis shows that after accounting for factors that typically explain equity returns, a growing share of U.S. stock returns are tied to a single, common driver. See the chart. We think investors should focus less on spreading risk indiscriminately and more on owning it deliberately – in short, a more active approach. We also think portfolios need a clear plan B and readiness to pivot quickly. Another illustration of the diversification mirage? Spiking developed market bond yields in recent weeks. This underscores our view that traditional diversifiers like long-term bonds do not offer the portfolio ballast they once did.



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The surge in long-term bond yields is partly due to heightened market concerns about loose fiscal policy and deteriorating fiscal outlooks. Japanese 30-year bond yields hit record-highs earlier this month and are up more than 100 basis points this year. The latest move up was triggered by a Japanese government fiscal spending package, as well as the Bank of Japan signaling a potential rate hike this week. Central banks in Australia and Canada have also shifted their tone on rates – either flagging an end to cuts or the potential for a hike.

We think the U.S. disconnect with other central banks is a risk heading into next year. The U.S. has stronger growth and inflation but is taking a more dovish stance, while these economies face weaker data with more hawkish central banks. We already see the Fed erring on the side of being too easy even with the divisions among Fed policymakers. Long-term Treasury yields can rise further if investors demand more premium for the risk of holding them, so we prefer short-term Treasuries in this environment. Any rebound in hiring or a rise in business confidence could reignite inflation pressures and bring back policy tensions with debt sustainability. This puts a spotlight on this week's U.S. data, especially when the release of economic data starts to normalize in January. We think the delayed October payrolls data this week could show a contraction, reflecting deferred government layoffs. These figures could also be noisy due to the difficulties of collecting data during the government shutdown as Fed Chair Jerome Powell noted last week.

We are in a more challenging environment for diversification, favoring a dynamic approach. We think this environment calls for seeking truly idiosyncratic return sources – such as in private markets and hedge funds – as a distinct allocation for earning alpha in portfolios.

**Bottom line:** We see the diversification mirage theme from our full-year outlook unfolding now. This environment calls for a dynamic approach with a plan B. We stay pro-risk on the AI theme and prefer unique exposures for portfolio ballast.

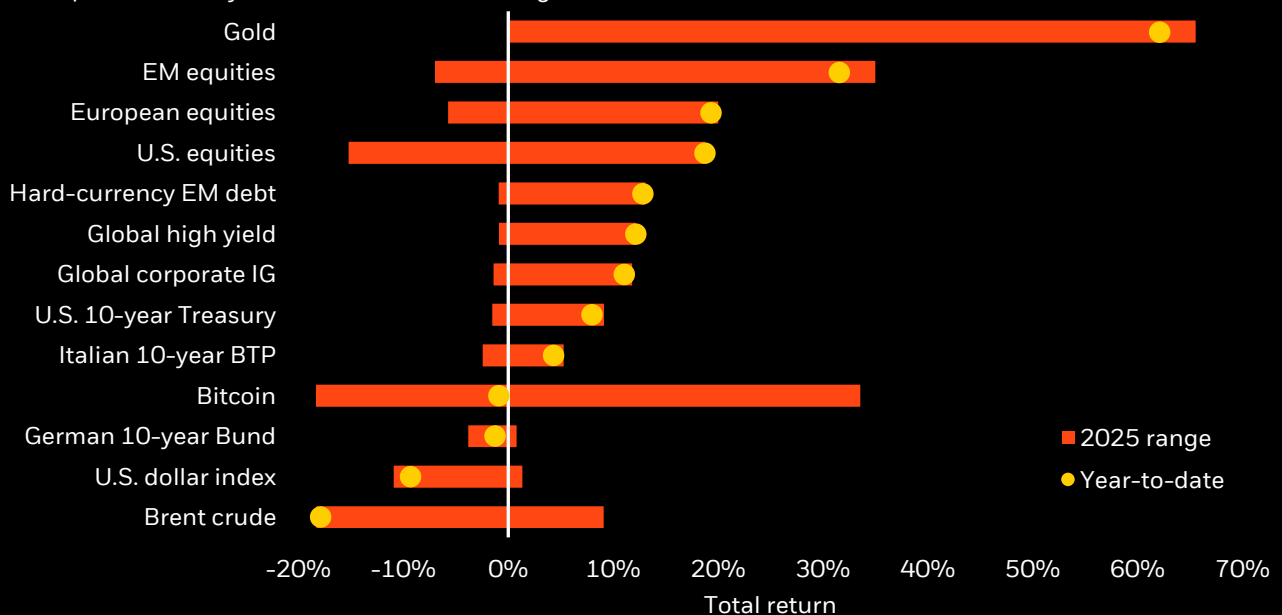
This is our final edition for 2025. Happy holidays to all, and the *Weekly commentary* will return on Monday, Jan. 5.

## Market backdrop

Tech stocks slid on a sharp drop in AI names Broadcom and Oracle over larger capital spending plans and thinner profit margins. The Nasdaq shed about 2% on the week, while the S&P 500 lost nearly 1% but was not far from all-time highs. The Fed penciled in another cut in 2026, reinforcing our view that it will err on the side of keeping policy too easy next year. U.S. 10-year Treasury yields rose to three-month highs near 4.20%, while long-term yields surged elsewhere.

## 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 December 11, 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>Dec. 16</b>	Global flash PMIs; U.S. Oct. and Nov. payrolls	<b>Dec. 18</b>	U.S. Nov. CPI; European Central Bank and Bank of England policy decisions
<b>Dec. 17</b>	UK Nov. CPI	<b>Dec. 19</b>	Japan Nov. CPI; Bank of Japan policy decision

2025 winds down with a busy week of central bank meetings. We see the potential for a Bank of Japan rate hike; expect the Bank of England to cut; and think the European Central Bank will hold rates steady, even as it turns more hawkish. We look to global inflation data to shed light on central banks' positioning going into 2026 and eye U.S. payrolls to see if the softer labor market that has allowed the Fed to cut persisted during the data blackout.

## Big calls

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

Tactical		Reasons
Still favor AI		We see the AI theme supported by strong earnings, resilient profit margins and healthy balance sheets at large listed tech companies. Continued Fed easing into 2026 and reduced policy uncertainty underpin our overweight to U.S. equities.
Select international exposures		We like Japanese equities on strong nominal growth and corporate governance reforms. We stay selective in European equities, favoring financials, utilities and healthcare. In fixed income, we prefer EM due to improved economic resilience and disciplined fiscal and monetary policy.
Evolving diversifiers		We suggest looking for a "plan B" portfolio hedge as long-dated U.S. Treasuries no longer provide portfolio ballast – and to mind potential sentiment shifts. We like gold as a tactical play with idiosyncratic drivers but don't see it as a long-term portfolio hedge.
Strategic		Reasons
Portfolio construction		We favor a scenario-based approach as AI winners and losers emerge. We lean on private markets and hedge funds for idiosyncratic return and to anchor portfolios in mega forces.
Infrastructure equity and private credit		We find infrastructure equity valuations attractive and mega forces underpinning structural demand. We still like private credit but see dispersion ahead – highlighting the importance of manager selection.
Beyond market cap benchmarks		We get granular in public markets. We favor DM government bonds outside the U.S. Within equities, we favor EM over DM yet get selective in both. In EM, we like India which sits at the intersection of mega forces. In DM, we like Japan as mild inflation and corporate reforms brighten the outlook.

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

- 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, December 2025

Underweight Neutral Overweight Previous view

Asset	View	Commentary
<b>Developed markets</b>		
United States	+1	We are overweight. Strong corporate earnings, driven in part by the AI theme, are supported by a favorable macro backdrop: continued Federal Reserve easing, broad economic optimism and less policy uncertainty, particularly on the trade front.
Europe	Neutral	We are neutral. We would need to see more business-friendly policy and deeper capital markets for recent outperformance to continue and to justify a broad overweight. We stay selective, favoring financials, utilities and healthcare.
UK	Neutral	We are neutral. Valuations remain attractive relative to the U.S., but we see few near-term catalysts to trigger a shift.
Japan	+1	We are overweight. Strong nominal GDP, healthy corporate capex and governance reforms – such as the decline of cross-shareholdings – all support equities.
<b>Emerging markets</b>		
China	Neutral	We are neutral. Trade relations with the U.S. have steadied, but property stress and an aging population still constrain the macro outlook. Relatively resilient activity limits near-term policy urgency. We like sectors like AI, automation and power generation. We still favor China tech within our neutral view.
<b>Fixed Income</b>		
Short U.S. Treasuries	Neutral	We are neutral. We see other assets offering more compelling returns as short-end yields have fallen alongside the U.S. policy rate.
Long U.S. Treasuries	-1	We are underweight. We see high debt servicing costs and price-sensitive domestic buyers pushing up on term premium. Yet we see risks to this view: lower inflation and better tax revenues could push down yields near term.
Global inflation-linked bonds	Neutral	We are neutral. We think inflation will settle above pre-pandemic levels, but markets may not price this in the near-term as growth cools.
Euro area govt bonds	Neutral	We are neutral. We agree with market forecasts of ECB policy and think current prices largely reflect increased German bond issuance to finance its fiscal stimulus package. We prefer government bonds outside Germany.
UK gilts	Neutral	We are neutral. The recent budget aims to shore up market confidence through fiscal consolidation. But deferred borrowing cuts could bring back gilt market volatility.
Japanese govt bonds	-2	We are underweight. Rate hikes, higher global term premium and heavy bond issuance will likely drive yields up further.
China govt bonds	Neutral	We are neutral. China bonds offer stability and diversification but developed market yields are higher and investor sentiment shifting towards equities limits upside.
U.S. agency MBS	+1	We are overweight. Agency MBS offer higher income than Treasuries with similar risk and may offer more diversification amid fiscal and inflationary pressures.
Short-term IG credit	Neutral	We are neutral. Corporate strength means spreads are low, but they could widen if issuance increases and investors rotate into U.S. Treasuries as the Fed cuts.
Long-term IG credit	-1	We are underweight. We prefer short-term bonds less exposed to interest rate risk over long-term bonds.
Global high yield	Neutral	We are neutral. High yield offers more attractive carry in an environment where growth is holding up – but we think dispersion between higher and weaker issuers will increase.
Asia credit	Neutral	We are neutral. Overall yields are attractive and fundamentals are solid, but spreads are tight.
Emerging hard currency	+1	We are overweight. A weaker U.S. dollar, lower U.S. rates and effective EM fiscal and monetary policy have improved economic resilience. We prefer high yield bonds.
Emerging local currency	Neutral	We are neutral. A weaker U.S. dollar has boosted local currency EM debt, but it's unclear if this weakening will persist.

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