# Weekly commentary

BlackRock

January 5, 2026

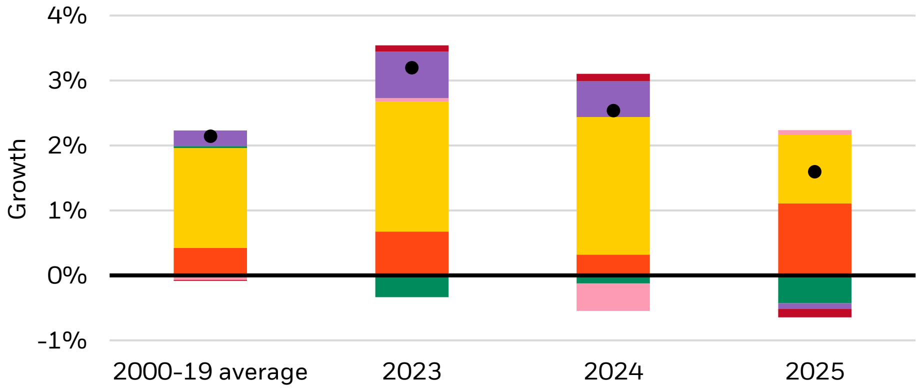
## Three investment lessons for 2026

- We see three lessons after a volatile 2025: immutable laws constrain extremes; mega forces trump the macro; and the financial system is evolving fast.
- U.S. stocks climbed 16.6% for a third straight year of double-digit gains. U.S. 10-year Treasury yields ended the year around 4.15% after data-driven swings.
- The U.S. economic calendar begins to normalize this week. December payrolls will help to clarify the labor market picture after the noisy delayed releases.

2025 marked the third straight year of double-digit stock gains even with elevated policy uncertainty in the first half of the year. We see three key lessons. First: immutable economic laws, such as supply chains can't be rewired quickly, limit policy extremes. Second: mega forces – especially AI, the dominant mega force – trump traditional macro. Third: stablecoins and tokenization of assets show a rapidly evolving financial system. These all require a new investment approach.

### AI boost

Contributions to annual U.S. GDP growth, 2000-2025




Source: BlackRock Investment Institute, U.S. Bureau of Economic Analysis, with data from Haver Analytics, September 2025. Note: The bars show the contribution of various factors to annual U.S. GDP growth. The bar for 2025 shows the contribution through the first half of 2025.

2025 was a unique year for markets. The April 2 tariff announcements sparked the worst one-week selloff in the S&P 500 since the pandemic, yet stocks posted double-digit gains for the third year in a row. U.S. Treasuries also delivered solid returns even as fiscal pressures and sticky inflation caused investors to demand more term premium. Higher term premium hurt the U.S. dollar, raising questions about its reserve currency status. Those questions subsided, as we anticipated, but a weaker U.S. dollar and Federal Reserve policy easing boosted global stocks: the MSCI EM Index rose 30% versus the S&P 500's 16%, in dollar terms. Gold surged over 60% in a risk-on year as a diversification play became a return driver. And the AI buildout drove about half of U.S. growth, with investment's contribution to GDP nearly triple its 2000 to 2019 average. See the chart. Why such resilience?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We think the U.S. economy's resilience partly stems from our first lesson: immutable economic laws – such as supply chains can't be rewired overnight – mean the world can't change quickly. Markets were whipsawed many times this year, but we thought such laws would prevent a maximal stance on tariffs and other policy changes that sparked so much uncertainty in the first half of the year. That played out: U.S. stocks rebounded from April's selloff, with the S&P 500 gaining 16% last year.

Our second lesson – powerful mega forces can trump the macro – helped us look through the noise and kept us pro-risk on the strength of the AI theme, another call that played out. The macro anchors that markets relied on for decades, like stable inflation expectations and fiscal discipline, have weakened. Instead, a few mega forces are driving structural transformation, with AI emerging as the dominant one. Because there is no "neutral" portfolio allocation in this environment, investors should focus on owning their risk deliberately rather than spreading it – a more active approach, in our view. Identifying manager skill will be key for spotting those who can find the winners as AI gains spread across the economy, as well as for other idiosyncratic sources of return like private markets and hedge funds.

We also see the future of finance mega force evolving far more rapidly than expected – our third lesson – as adoption of stablecoins and tokenization increases. The 2025 Genius Act established the first U.S. framework for payment stablecoins – digital tokens pegged to a fiat currency and backed by liquid reserves. The law bars interest payments, but a "marketing rewards" provision permits yield-like incentives. That allows competition with bank deposits or money market funds, potentially impacting how banks provide credit and current global payment systems. If broadly adopted in emerging markets as a local currency alternative, stablecoins pegged to the U.S. dollar could even help cement its reserve currency status and partly offset current negative sentiment and positioning on the dollar. Tokenization, which involves recording asset ownership on digital ledgers, allows for instant settlement and could widen access to illiquid private market asset classes.

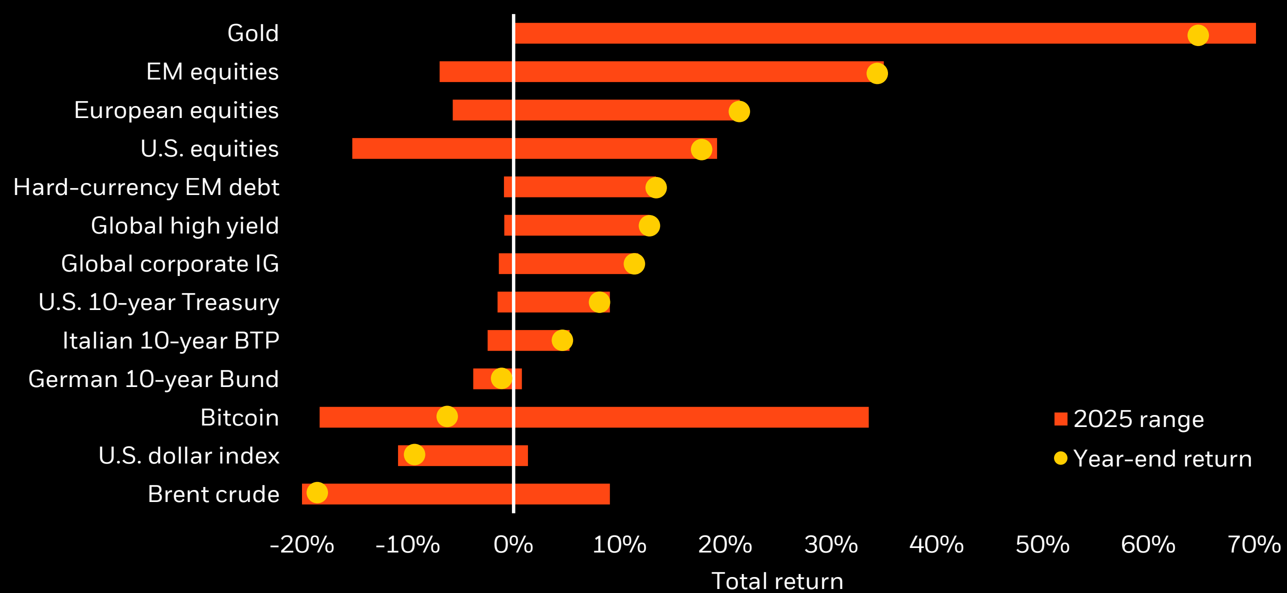
**Bottom line:** 2025 pushed limits on multiple fronts, with constraints biting in some cases (trade policy) and new ground broken on others (AI investment and financial innovation). We track these mega forces into 2026 and stay risk-on for now.

## Market backdrop

The S&P 500 surged 16.6% in 2025. Mega cap tech names remained the key drivers of the AI theme, though concerns over frothy valuations made it a bumpy ride: Nvidia's market cap at one point lost 35% before the firm became the world's first $5 trillion company. Markets expect more Fed policy easing and have slashed their year-end 2026 rate expectations to about 3%, LSEG data show. U.S. 10-year Treasury yields fell 42 basis points during the year to 4.15%.

## Assets in review

Selected asset performance, 2025 year-end return and full-year 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 31, 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

| | | | |
|---|---|---|---|
| **Jan. 5** | U.S. Jan. ISM manufacturing PMI | **Jan. 7** | U.S. Nov. job openings; U.S. trade |
| **Jan. 6** | U.S. Jan. ISM services PMI | **Jan. 9** | U.S. Dec. payrolls |

The U.S. data calendar starts to normalize this week, with the regularly scheduled payrolls data for December coming out at its usual time on Friday. We eye a cleaner read on the labor market and inflation in coming months given the noise of the October-November data. For example, the unemployment rate rose to 4.6% in November – yet some of this was the temporary impact of the government shutdown and could be quickly reversed.

# Big calls

Our highest conviction views on six- to 12-month (tactical) and over five-year (strategic) horizons, January 2026

| **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, January 2026. 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, January 2026

Underweight | Neutral | Overweight | ● Previous view

| | Asset | View | Commentary |
|---|---|---|---|
| Equities | **Developed markets** | | |
| | 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. |
| | **Emerging markets** | Neutral | We are neutral. Economic resilience has improved, yet selectivity is key. We see opportunities across EM linked to AI and the energy transition and see the rewiring of supply chains benefiting countries like Mexico, Brazil and Vietnam. |
| | 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. |
| Fixed Income | 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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