Weekly commentary

BlackRock

January 12, 2026

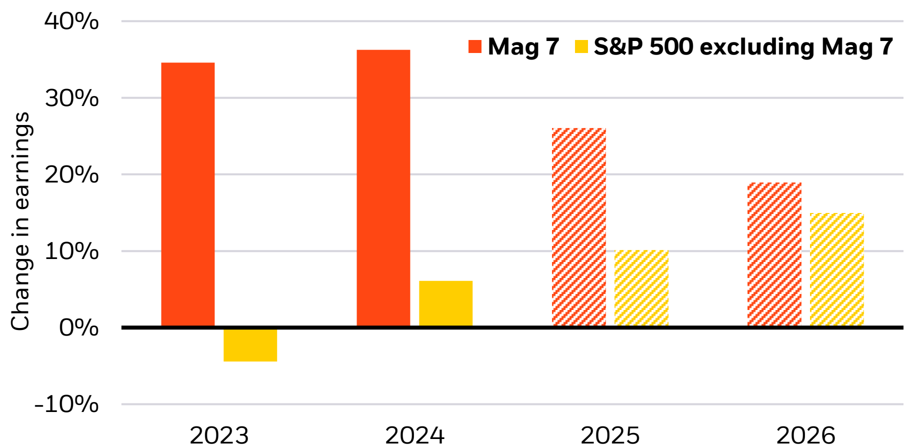
U.S. earnings: broadening strength

- U.S. corporate earnings strength is broadening. Earnings resilience and mega forces like AI keep us overweight U.S. stocks.
- The S&P 500 kicked off the new year on a positive note to reach a record high. U.S. Treasury yields were steady, while gold pushed back near all-time highs.
- The December U.S. CPI will provide a clean read of the inflation picture after the government shutdown disruptions.

Solid U.S. economic growth and Federal Reserve rate cuts have boosted corporate earnings and profit margins, lifting U.S. stocks and underpinning our overweight. We think this will keep playing out in Q4 earnings results starting this week. We see three themes: a further narrowing of the earnings gap between the “magnificent seven” stocks and other sectors; mega forces supporting cyclical sectors; and AI-led productivity gains potentially offsetting typical earnings downgrades.

Catching up

Change in earnings for the “magnificent seven” and the rest of S&P 500, 2023-26



Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute with data from Bloomberg, January 2026. Note: The bars show calendar year change in earnings for the “magnificent seven”stocks (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla) and the rest of S&P 500 companies. Shaded bars show analyst forecasts.

The U.S. corporate earnings season is key after the S&P 500 posted a third straight year of double-digit returns in 2025, while international markets from Spain to South Korea also delivered strong results. The AI buildout and easing tariff concerns kept economic growth resilient, helping U.S. earnings beat expectations in the third quarter, as we expected. We think earnings can keep delivering, partly as the U.S. stocks driving earnings growth broaden out. The gap between the magnificent seven mega cap stocks like Nvidia and the rest of the S&P 500 is narrowing as the other 493 see earnings improve – the first theme we’re watching. See the chart. Yet the magnificent seven are still delivering strong earnings growth – and have consistently beat expectations in recent years, according to Bloomberg data, so that gap may not narrow as much as the consensus implies.

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We still prefer tech broadly as earnings growth looks healthy and poised to broaden, both within the U.S. and globally. S&P earnings and profit margins have also proved more resilient to tariffs than many investors expected. Consensus expectations for the magnificent seven have been revised upward to show 20% earnings growth in the fourth- quarter versus a year ago and then holding up at 19% in 2026, according to Bloomberg data. That compares with 6% for the other S&P 493 in the fourth-quarter and 15% in 2026. Such earnings strength is why U.S. tech stocks depended less on investors pricing in higher valuations for gains last year relative to Europe and other regions. From the U.S. “reciprocal tariff” lows in April, the MSCI USA slightly outperformed the MSCI index of global stocks excluding the U.S. in 2025 and outperformed the same index in local currency terms by six percentage points, according to LSEG data.

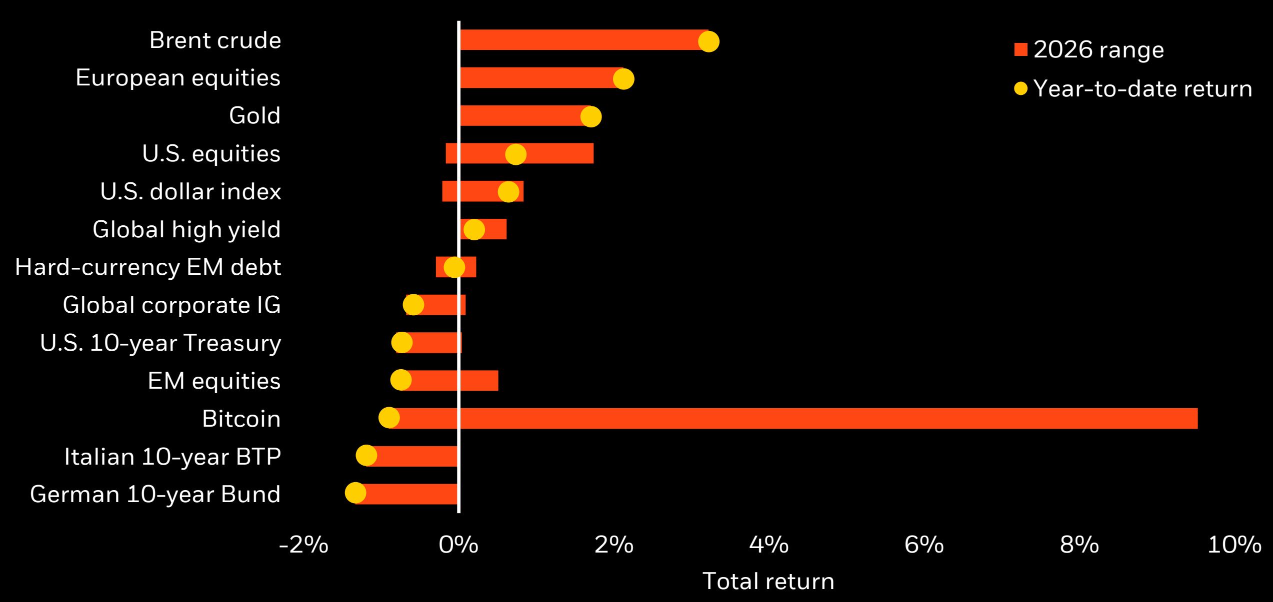
Second, mega forces and lower Fed policy rates are helping boost cyclical sectors linked to stronger growth, like industrials and materials. This reinforces how we are not in a typical business cycle and mega forces are trumping the traditional macro in driving returns – one of our 2026 Global Outlook themes. Sectors including industrials and materials sit at the intersection of these mega forces: the construction and energy required in the AI data center buildout; the power grid upgrades and infrastructure investment in the energy transition; and increased defense spending tied to geopolitical fragmentation.

Our third theme: Potential productivity gains from AI could break the usual pattern of earnings estimates typically starting high and being revised down as the year progresses. We like financials in both the U.S. and Europe, with the U.S. benefitting from stronger dealmaking activity and lighter regulation. We find that financials is one of the sectors talking the most about AI productivity benefits in earnings calls. The healthcare sector is a laggard that we think is ripe for potential productivity improvements and innovation, with 80% of U.S. healthcare companies guiding earnings expectations higher, FactSet data show. We’re closely watching earnings for evidence of AI-related productivity gains and new profit pools forming.

Bottom line: We stay overweight U.S. equities and pro-risk on the AI theme. We eye opportunities in sectors beyond tech like healthcare that benefit from AI innovation and see mega forces supporting some key cyclical sectors like industrials.

Market backdrop

The S&P 500 advanced nearly 2% to a fresh record high in the first full trading week of 2026 while European stocks outperformed. The U.S. December jobs report reinforced our view of a “no hiring, no firing” stasis in the labor market. Yet renewed wage gains could point to sticky inflation that will curb how soon the Fed might cut rates again. U.S. 10-year Treasury yields stayed in a tight range around 4.15%. Gold jumped more than 4% back to near record highs.



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 January 8, 2026. 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. 12–19	China total social financing	**Jan. 14**	U.S. PPI
Jan. 13	U.S. CPI; China trade	**Jan. 15**	UK November GDP; U.S. Philly Fed manufacturing; U.S. trade

Attention turns to the U.S. CPI after recent U.S. data proved noisy, owing to disruptions from the government shutdown. November U.S. CPI reflected partially collected data, and no data was collected for October – making this week's December CPI report and the following releases clearer signals for assessing inflation. Early-year CPI has been strong in recent years, so inflation could surprise to the upside and curb expectations for Fed rate cuts.

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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