Weekly commentary

BlackRock

January 20, 2026

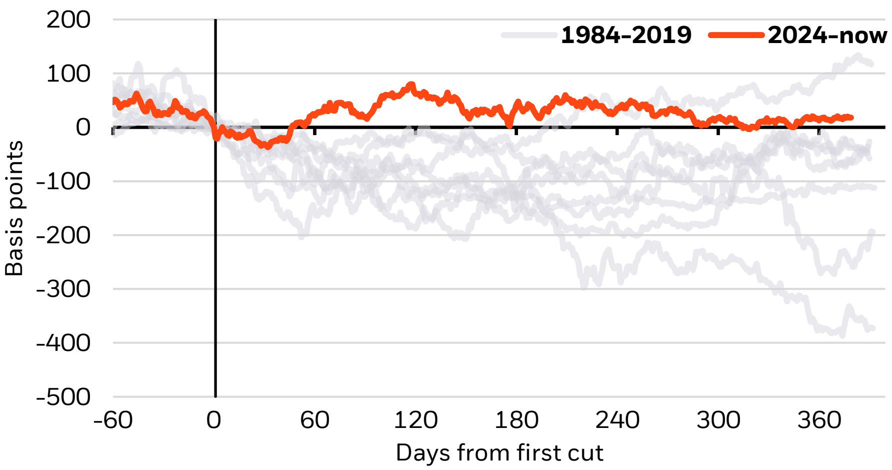
Immutable laws keeping us risk-on

- Fresh worries about Federal Reserve independence highlight how immutable economic laws can limit policy extremes. We stay underweight U.S. bonds.
- The S&P 500 was little changed as the fourth-quarter earnings season kicked off. U.S. Treasury yields remained in a tight range of 4.10%-4.20%.
- We look to global flash PMIs for a reading on worldwide activity in a quiet data week. We also keenly watch the snap election in Japan.

Our pro-risk stance is shaped by mega forces and the AI theme driving markets and the macro – and that is playing out in early 2026. We still see a softer U.S. labor market and lower inflation allowing the Federal Reserve to keep cutting rates - though renewed worries over Fed independence could challenge our view. We stay underweight long-term U.S. bonds on both tactical and strategic horizons. But immutable economic laws tied to debt servicing costs can limit policy extremes.

Stuck in place

Change in U.S. 10-year yields from the start of Fed rate cut cycles since 1984



The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results
Source: BlackRock Investment Institute, with data from LSEG Datastream, January 2026. Note: The lines show the difference in 10-year U.S. Treasury yields before and after the Federal Reserve's first interest rate cut in cutting cycles.

Mega forces like AI driving markets and the macro while the Fed still has cover to keep cutting interest rates are keeping us pro-risk. We think today's macro environment still supports our view that lower inflation and a softer labor market allow it to do so. Renewed concerns over Fed independence after the investigation of Fed Chair Jerome Powell may challenge that view. Yet we see immutable economic laws, such as the need to finance U.S. debt, serving as a guardrail. U.S. 10-year Treasury yields haven't dropped as they have historically when the Fed cuts rates – and are still higher since rate cuts started. See the chart. That reflects investors demanding more compensation for the risk of holding long-term U.S. bonds, or term premium, due to worries over fiscal sustainability and debt servicing costs even before the latest Fed independence concerns.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Sticky inflation may limit how much the Fed can cut rates this year beyond what markets forecast. The December data confirmed that the U.S. labor market is still in the "no hiring, no firing" stasis we've previously described and doesn't look at risk of a sudden deterioration. Yet wage gains and core services inflation point to risks that inflation stays above the Fed's 2% target. We see the potential for renewed policy tensions between inflation and debt sustainability that could spark investors demanding more term premium. But we think immutable economic laws are still at play and could curb policy changes: that any rapid rise in long-term yields would quickly impact debt sustainability.

Developments like policy uncertainty or fiscal concerns mainly transmit through the cost of capital channel by lifting risk premia, in our view. We see that transmitting clearly today in U.S. Treasuries: concerns over the U.S. fiscal outlook and worries over Fed independence that began last year have pushed the term premium higher over the past 18 months. The same mechanism shows up in equities via the equity risk premium – our preferred valuation metric that accounts for the interest rate environment. The return on capital channel – profitability and a firm's ability to return cash – can also drive relative performance but typically only after more durable shifts. What matters for our positioning is whether a development has a meaningful, lasting impact on these channels and markets broadly. We would lean against moves where we don't see a sustained impact, such as short-term market reactions to geopolitical events that ultimately prove contained.

This all reinforces why this environment calls for a nimble approach and plan B for portfolios based on scenarios when many potential outcomes are possible. We stay pro-risk as we think the AI theme has more room to run – even as geopolitical fragmentation and potential diminishing trust in institutions could lead to a reevaluation of global risk premia.

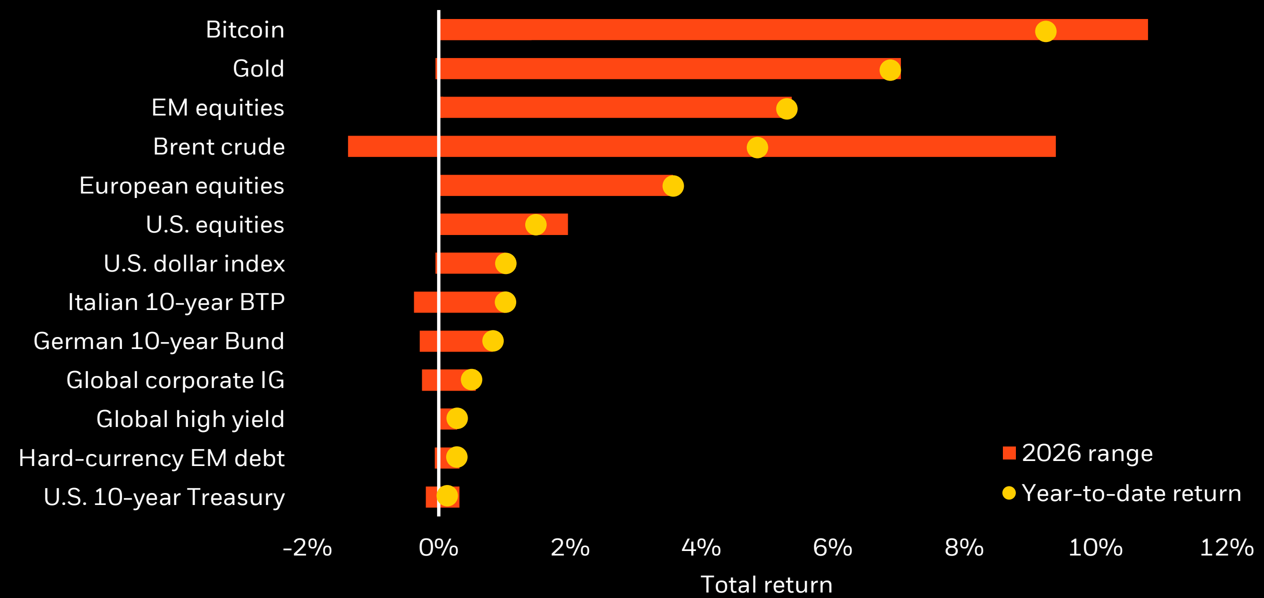
Bottom line: Fed independence worries reinforce our underweight to long-term Treasuries. We stay pro risk on mega forces like AI and a macro backdrop that should allow the Fed to keep cutting rates – and prefer equities over government bonds.

Market backdrop

The S&P 500 was little changed overall at the start of fourth-quarter earnings season, with tech stocks lagging to start the year. Even with all the headlines of potential U.S. policy changes, markets have been relatively muted. U.S. Treasury yields have been in a range of 4.10-4.20% since the start of December. Yet Japanese ultra-long bond yields have kept hitting all-time highs on expectations for looser fiscal policy as the prime minister is expected to call a new election.

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 January 15, 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. 19	Euro area inflation; China GDP	**Jan. 22**	U.S. PCE
Jan. 21	UK CPI	**Jan. 23**	Global flash PMIs; Japan CPI; Bank of Japan policy decision

On a quieter data week, we are looking at what global flash PMIs say about global activity. Otherwise, the focus is on Japan where the expected snap election may pave the way for the ruling Liberal Democratic Party to pursue looser fiscal policy and add more pressure to global long-term bond yields. We are also looking to see if at-target euro area inflation keeps the European central bank on hold.

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**		
Equities	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.
Equities	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.
Equities	UK	Neutral	We are neutral. Valuations remain attractive relative to the U.S., but we see few near-term catalysts to trigger a shift.
Equities	Japan	+1	We are overweight. Strong nominal GDP, healthy corporate capex and governance reforms – such as the decline of cross-shareholdings – all support equities.
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.
Equities	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.
Fixed Income	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.
Fixed Income	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.
Fixed Income	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.
Fixed Income	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.
Fixed Income	Japanese govt bonds	-2	We are underweight. Rate hikes, higher global term premium and heavy bond issuance will likely drive yields up further.
Fixed Income	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.
Fixed Income	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.
Fixed Income	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.
Fixed Income	Long-term IG credit	-1	We are underweight. We prefer short-term bonds less exposed to interest rate risk over long-term bonds.
Fixed Income	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.
Fixed Income	Asia credit	Neutral	We are neutral. Overall yields are attractive and fundamentals are solid, but spreads are tight.
Fixed Income	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.
Fixed Income	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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