

Weekly commentary

January 26, 2026

BlackRock

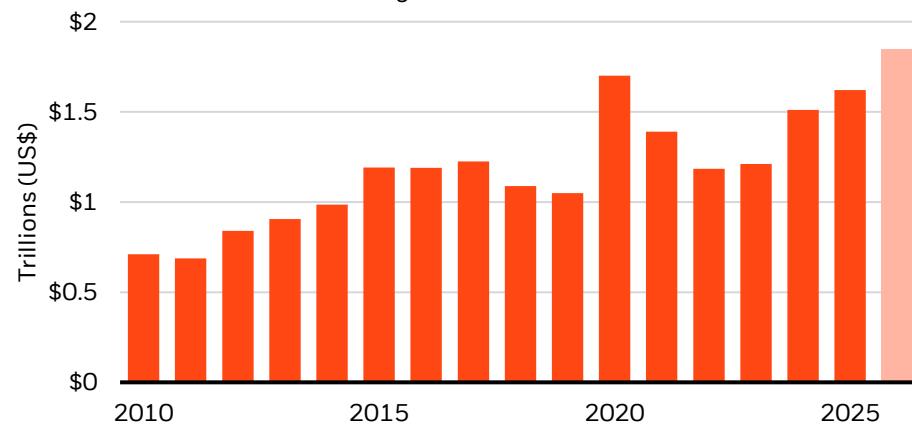
Immutable laws in action again

- This week saw immutable laws limiting how far U.S. trade policy can go. Our *leveraging up* theme is also playing out with near-record bond issuance.
- U.S. stocks were flat in a volatile week marked by renewed geopolitical tensions. U.S. 10-year yields hit a four-month high. Gold soared 8% to new record highs.
- We expect the Fed to leave interest rates unchanged this week. Mixed signals from recent jobs and inflation data justify a “wait-and-see” stance, in our view.

Developed market (DM) government bond yields jumped last week on fresh U.S. tariff threats. Japan’s bond selloff attracted headlines as yields hit record highs. But as the U.S. backed off from new tariffs on Europe, DM yields fell back: immutable economic laws – like the dependence on foreign financing of U.S. debt – came into play like last April. Our *leveraging up* theme plays out too, with record U.S. investment grade debt issuance for the first full week of January, per LSEG.

More corporate bonds coming

Gross issuance of U.S. investment grade bonds, 2011–2026



Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute, with data from BlackRock Capital Markets and Credit Flow Research. Note: Gross bond issuance is the total amount of new corporate bonds sold in the primary market, before accounting for redemptions.

Bond markets have started 2026 in a bumpy fashion. DM government bond yields jumped, particularly in Japan, with historic spikes in 30- and 40-year yields. We see the jump as primarily a global story driven by renewed U.S. tariff threats to Europe. The quick walk-back of those threats underscored how geopolitics – and U.S. trade policy – is colliding with immutable economic laws that constrain policy swings. Another feature of this fixed income environment: an expected surge in U.S. corporate bond sales, partly tied to the AI buildout, with BlackRock’s global markets team seeing U.S. investment grade bond issuance hitting a record \$1.85 trillion this year. See the chart. This shows the *leveraging up* theme from our [2026 Outlook](#) at play: greater leverage can create vulnerabilities that expose the financial system to shocks like government bond yield spikes.



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We think last week's bond market volatility is ultimately a global story driven by U.S. tariff threats, with the impact amplified in the more-volatile Japanese government bond (JGB) market by technical factors: new fiscal worries after a snap election was called and a weak auction of long-term bonds. Yet U.S. trade policy again ran into an immutable economic law: the U.S.'s need for sizeable foreign investment to finance its debt in a world shaped by greater bond supply and higher-for-longer interest rates. Any spike in long-term bond yields can heighten debt sustainability concerns, repeatedly leading to a moderation of policy extremes over the past year. In this environment, bonds no longer provide the same level of portfolio ballast, keeping us tactically underweight long-term JGBs since 2023, and long-term U.S. Treasuries since December 2025.

Also playing out in bond markets this year: our *leveraging up* theme. The risk of surging bond yields comes against a U.S. corporate sector leveraging up to fund the AI buildout. Unlike the public sector, U.S. corporates have room for more leverage. Public and private balance sheets have diverged sharply since the 2000s, with government debt surging to post-World War II highs while corporate leverage eases, U.S. government and LSEG data show. And unlike the run-up to the dot-com bubble, the mostly mega cap tech companies powering the AI buildout are issuing from a position of strength, we think. But more leverage throughout the financial system makes it more vulnerable to shocks, such as bond yield spikes tied to fiscal concerns like those that we saw in Japan last week and policy tensions between managing inflation and debt servicing costs.

This shapes our fixed income views. Greater investment grade (IG) bond issuance this year is one reason we prefer high yield bonds over IG, and within IG short-term over long-term credit. We like mortgage-backed securities offering similar risk but higher income versus U.S. Treasuries. We also like emerging market debt (EMD) that we see benefiting from EM countries delivering improved fiscal and monetary policy, as well as a weaker U.S. dollar. In private credit, we favor direct lending, especially established and large borrowers who can better underwrite deals, in our view.

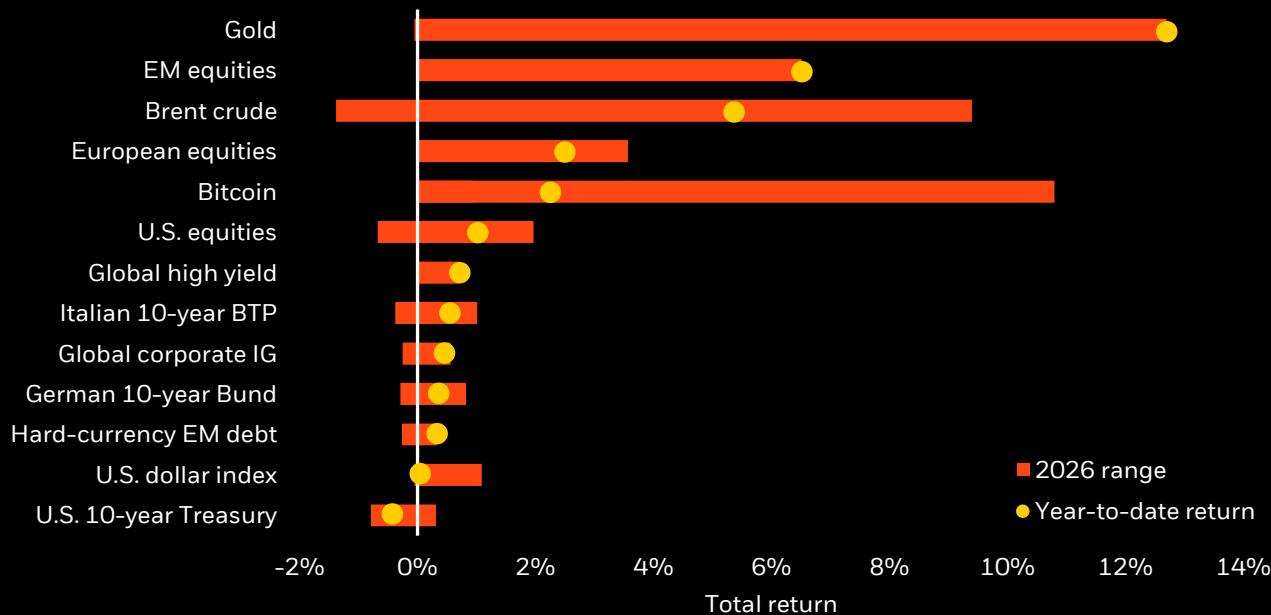
Bottom line: Immutable laws again limited policy extremes after a brief jump in bond yields. We are underweight long-term DM government bonds. We favor mortgage-backed securities, emerging market bonds and stay selective in credit.

Market backdrop

The S&P 500 slipped slightly in a volatile week but is still up about 1% this month. U.S. President Donald Trump threatened tariffs on European countries over Greenland before calling them off and saying an agreement had been struck. South Korean stocks rose 3% and have climbed 18% this year. U.S. 10-year Treasury yields jumped to a four-month high near 4.30%. Gold was the winner over geopolitical uncertainty, soaring 8% on the week to a fresh record.

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 22, 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. 27	U.S. consumer confidence	Jan. 29	U.S. trade balance; Japan unemployment
Jan. 28	U.S. Federal Reserve policy decision	Jan. 30	Euro area flash GDP, unemployment; U.S. PPI

The Fed's rate decision is this week's main event. We think the Fed will leave interest rates unchanged given mixed signals from recent jobs and inflation data. U.S. trade data for November will show if October's trade deficit, a near two-decade low, will persist, potentially lifting expectations for 2025 GDP growth. Japan unemployment data will shed light on its tight labor market. We see room for more Bank of Japan hikes as it normalizes monetary policy.

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

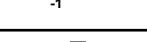
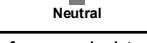
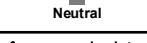
Six- to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, January 2026

Underweight

Neutral

Overweight

● Previous view

	Asset	View	Commentary
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.
	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			
Fixed Income	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.
	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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