

# Weekly commentary

February 23, 2026

**BlackRock**

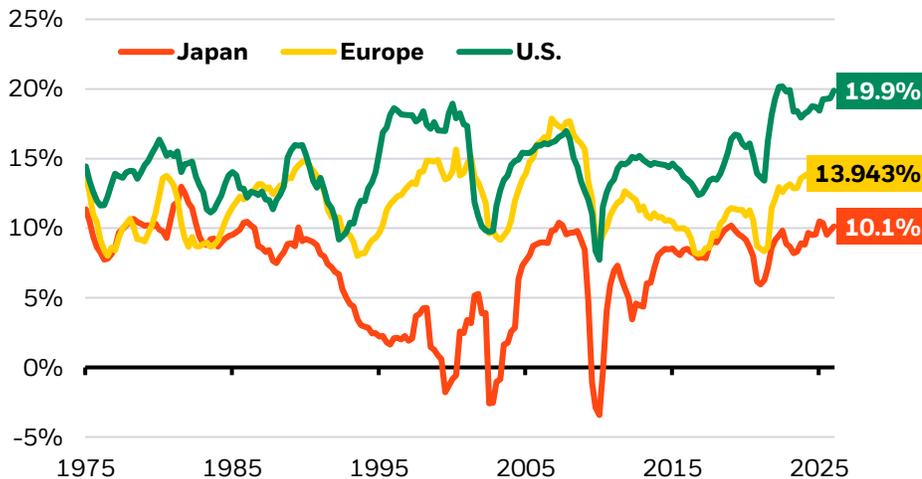
## New return drivers in Japan, Europe

- Other mega forces are driving returns beyond AI. This keeps us overweight Japanese stocks, while we favor pharmaceuticals and financials in Europe.
- The U.S. Supreme Court struck down the use of emergency powers to impose tariffs. The administration is already taking other measures to reimpose them.
- Final euro area inflation data is in focus this week after the ECB held rates steady. We see policy rates on hold through 2026 if inflation slips below 2%.

Markets are laser-focused on the AI buildout, but opportunities shaped by other mega forces abound. Case in point: Japan and Europe are ramping up fiscal spending to boost self-sufficiency amid geopolitical fragmentation. Fiscal expansion is just one reason to gain exposure to this evolving trend. In Japan, sustained corporate reforms underpin our overweight to equities. In Europe, we focus on equity sectors, favoring infrastructure, pharma and financials.

### Japan's regime shift

Return on equity, 1975-2026



Source: BlackRock Investment Institute with data from LSEG Datastream, February 2026. Implied aggregate return on equity derived from index valuation ratios based on MSCI country equity indices.

International developed market stocks are outperforming this year, after walloping U.S. counterparts last year. Is it too late to jump in? We don't think so. Japan's return on equity (ROE) has steadily moved higher, narrowing the gap with the U.S. and Europe. See the chart. This is not just a sugar rush from fiscal expansion. It's very much a slow-burn, structural force: A focus on capital discipline and shareholder returns is lifting underlying profitability. Japanese companies are now focused on maximizing profits, rather than minimizing debt. And a steady decline in corporate cross-shareholdings is making Japan more attractive for foreign investors. In Europe, we think overall ROEs will need to improve via productivity gains - rather than being juiced by one-off cyclical boosts. We're focused on sectoral opportunities in the region as a result.



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Japan's corporate improvements are taking shape against a benign macro backdrop of strong nominal growth plus fiscal spending. Wages are rising, and the end of deflation has allowed companies to raise prices without losing demand. We see the historic election win for Prime Minister's Sanae Takaichi's Liberal Democratic Party offering continuity and predictability on this front. The LDP's majority supports increased fiscal spending on the economy and national security. That fiscal trajectory sits within the geopolitical fragmentation mega force: it's pushing economies toward capacity building, as nations try to become more self-sufficient. This broadening shift was on display at the recent Munich Security Conference.

In Europe, we like sectors that benefit from this increased spending on defense, infrastructure and energy, as we outlined in "What's needed for Europe's investment renaissance." We see sectoral dispersion driving performance. Pharma is a prime example: the segment has solid earnings, low valuations relative to history and growth prospects thanks to AI innovation and a rapidly greying population. Financials are another top pick. Europeans are big savers and policymakers are making it easier for households to invest - a shift also underway in Japan via the Nippon Individual Savings Account (NISA) program - and for companies to raise capital through initiatives such as the EU's Savings and Investment Union (SIU). We see undervalued European financials poised to channel these savings into productive investment.

The key risk: fiscal expansion does not come for free in bond markets. Investors are scrutinizing debt sustainability and demanding more compensation to hold long-duration paper as governments raise strategic spending. That shows up as higher term premia and upward pressure on long-end yields, most visibly in Japan but increasingly relevant elsewhere. Beyond this, higher issuance and stickier inflation can keep long rates elevated. That is why we stay underweight government bonds, particularly at the long end, relative to equities.

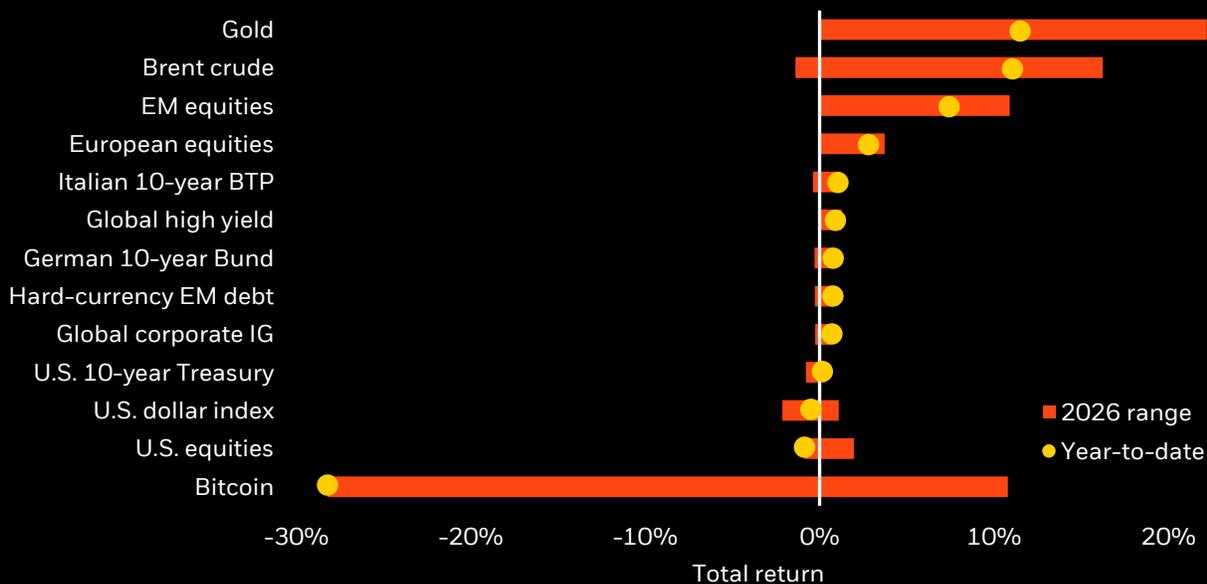
**Bottom line:** Fiscal expansion tied to geopolitical fragmentation is creating return drivers outside of AI. We prefer Japanese equities over government bonds on a combo of corporate reforms and fiscal support. In Europe, we see sector dispersion driving outcomes. We focus on stimulus beneficiaries such as infrastructure, as well as pharma and financials.

## Market backdrop

The Supreme Court ruled against the Trump administration's use of emergency powers to impose tariffs, as expected. The decision doesn't change the administration's focus on trade as central to its economic and strategic policy, in our view. The White House quickly moved to use other measures to reimpose tariffs. The S&P 500 added 1% last week. Brent crude oil climbed about 6% to above \$70 per barrel on the U.S. military buildup in the Middle East amid tensions with Iran.

## Assets in review

Selected asset performance, 2026 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 February 19, 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

**Feb. 24** U.S. consumer confidence

**Feb. 27** U.S. PPI

**Feb. 25** Final euro area inflation

We're watching whether U.S. consumer confidence signals any change in the demand backdrop. We also look to final euro area inflation for evidence price pressures are easing after the European Central Bank held rates steady earlier this month. We expect steady growth and inflation that could drift below 2%. This should keep the ECB on hold in 2026 – a sensible choice given upward pressure on inflation from supply constraints and loosening fiscal policy.

## Big calls

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

	Asset	View	Commentary	
Equities	<b>Developed markets</b>			
	United States		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		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		We are neutral. Valuations remain attractive relative to the U.S., but we see few near-term catalysts to trigger a shift.	
	Japan		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		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		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		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		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			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			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			We are underweight. Rate hikes, higher global term premium and heavy bond issuance will likely drive yields up further.	
China govt bonds			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			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			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			We are underweight. We prefer short-term bonds less exposed to interest rate risk over long-term bonds.	
Global high yield		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		We are neutral. Overall yields are attractive and fundamentals are solid, but spreads are tight.		
Emerging hard currency		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		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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