

# Weekly commentary

March 9, 2026



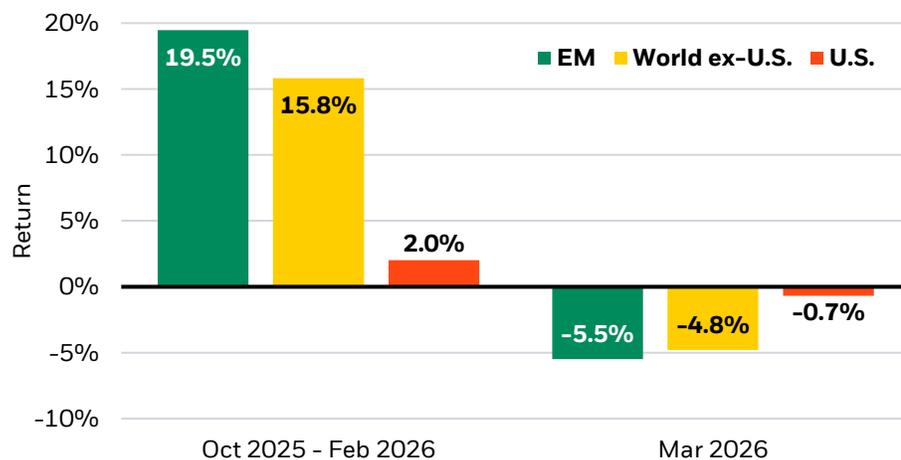
## Gauging the Mideast supply shock

- The Middle East conflict is causing a supply chain shock. Energy prices have spiked, and we don't see a basis to disagree given what we know now.
- U.S. stocks ended the week lower, outperforming sharp equity declines elsewhere. U.S. 10-year Treasury yields climbed, defying their role as a haven.
- U.S. inflation data this week could test whether energy-driven price pressures broaden, shaping the Fed's policy flexibility amid rising inflation risk.

The Middle East conflict is causing an energy-led supply chain shock, with very different effects around the world. Market pricing suggests weeks of disruptions, not days or months. The episode adds to inflation risk in a world shaped by supply factors. That's why long-term Treasury yields have edged up, defying their role as a haven. There's a risk of a stagflationary shock but it's not a given, as market pricing indicates. We stay underweight long-term Treasuries and favor U.S. stocks.

### A shock with disparate outcomes

U.S. equity performance vs the rest of the world, 2025-26



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, March 2026. Note: Price indices used as follows: MSCI Emerging Markets, MSCI All Country World Excluding United States and MSCI USA.

The conflict is upending recent trends and well-established relationships in global markets. International equities had walloped U.S. stocks until the U.S.-Israeli strikes on Iran, driven largely by AI-related disruption fears in industries the U.S. is exposed to. See the bars on the left side of the chart. That leadership has reversed abruptly: equity markets in regions most dependent on energy imports have sagged sharply whereas the MSCI U.S. has been steady (right set of bars). Prices of liquified natural gas (LNG) showed similar trends, rocketing upward in regions that rely heavily on imports such as Europe and staying mostly put in the U.S. Long-term U.S. Treasury yields jumped even as stocks pulled back, showing their supposed diversification properties can be a mirage. The yield increase aligns with our view that we are at risk of an inflationary supply shock, rather than a demand-driven growth slowdown.



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How big will the shock be? It comes down to supply chain disruptions, in particular for energy. Months of disruptions could push up inflation and materially hurt growth. Oil futures pricing indicates disruptions could last for weeks, not months. This is reasonable because economic and political pressures will likely provide strong incentives to contain the conflict. And disruptions could ease in the meantime if U.S. naval escorts and shipping insurance prove effective in preventing a prolonged closure of the world’s energy aorta – the Strait of Hormuz. The net result of all this: a short-term supply squeeze with disparate regional effects.

The conflict is a disruption at the heart of LNG infrastructure, very different from the Europe-centric, pipeline-driven energy crunch in 2022. Back then, LNG prices tightened through competitive bidding and stockpiling. Today, the strain on energy starts at export terminals and shipping posts. We see Europe and parts of Asia as most vulnerable given their reliance on imported LNG for power and industrial production. These markets have underperformed the more shielded U.S. as a result, and we see no reason to push back on that. The performance divergence reflects an asymmetrical energy market structure: oil can be rerouted globally, but LNG infrastructure, shipping and pricing are very regional.

The episode fits a pattern of geopolitical shocks creating supply constraints in a fragmenting world. Structurally sticky inflation remains the risk if the disruption endures. This makes growth-inflation trade-offs more acute than in the pre-fragmentation era – and reinforces our long-held view of *a world shaped by supply*. Markets are reflecting this in rising bond yields and upward pressure on term premia, or the extra compensation investors demand to hold long-term bonds. Even absent a prolonged closure of the Strait of Hormuz, we could see the shock upend the “low inflation, lower interest rates” narrative that has powered markets until recently. This reinforces our view that inflation could surprise to the upside.

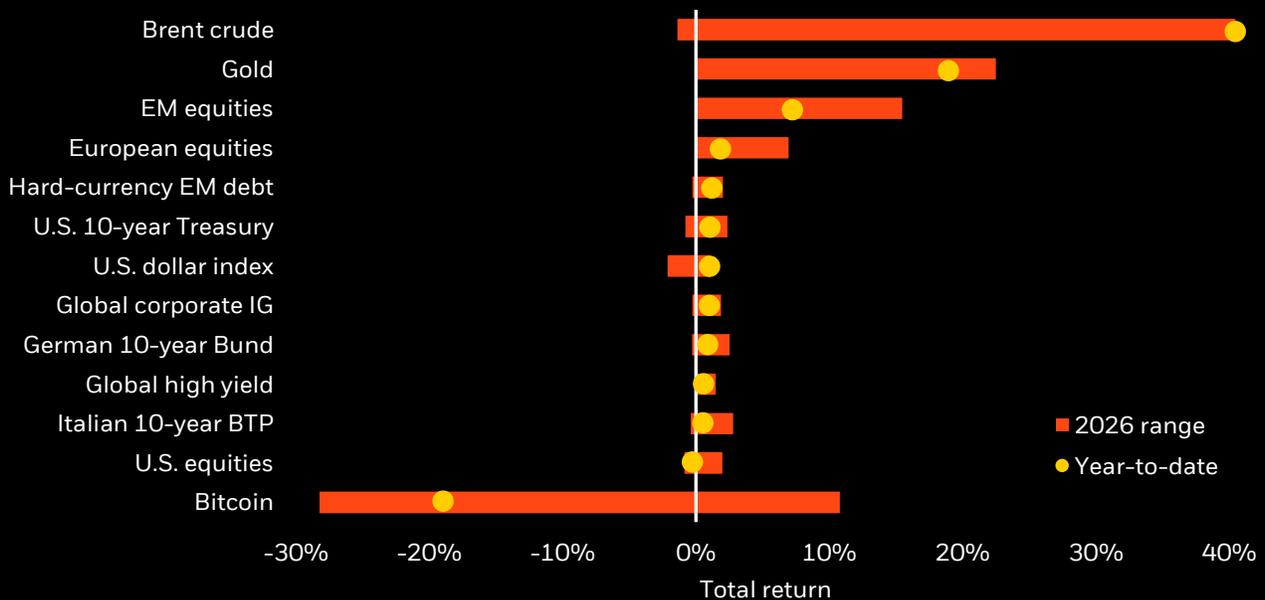
**Bottom line:** The situation is fluid, and the risks are real. For now, we believe the shock is likely to be short-lived. We see disruptions measured in weeks, rather than in months or days. We stay underweight long-term U.S. Treasuries and favor U.S. and Japanese stocks. In Europe, we like the financial, pharma and infrastructure sectors.

## Market backdrop

The Middle East conflict had disparate market effects last week, with energy-importing markets hit hardest. European natural gas spiked nearly 70% in stark contrast to the 8% gain in U.S. gas prices. The S&P 500 fell 2%, holding up better than international peers: Europe’s Stoxx 600 shed 6%, alongside Japan’s Topix. South Korea’s Kospi fell 11%. Yields on the U.S. 10-year Treasury climbed to 4.11% on inflation fears, defying its role as a haven in geopolitical conflicts.

## 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 March 6, 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

<b>March 8</b>	Japan trade balance; China CPI, PPI	<b>March 12</b>	U.S. trade balance
<b>March 11</b>	U.S. CPI	<b>March 13</b>	U.S. PCE; University of Michigan consumer sentiment survey; UK GDP

We focus this week on U.S. inflation data, with CPI and PCE likely to reinforce the persistence of underlying price pressures on sticky services inflation and solid wage growth. In China, CPI and PPI data are expected to remain subdued, underscoring weak domestic demand and lingering deflationary pressures.

## Big calls

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