# Weekly commentary

BlackRock

March 23, 2026

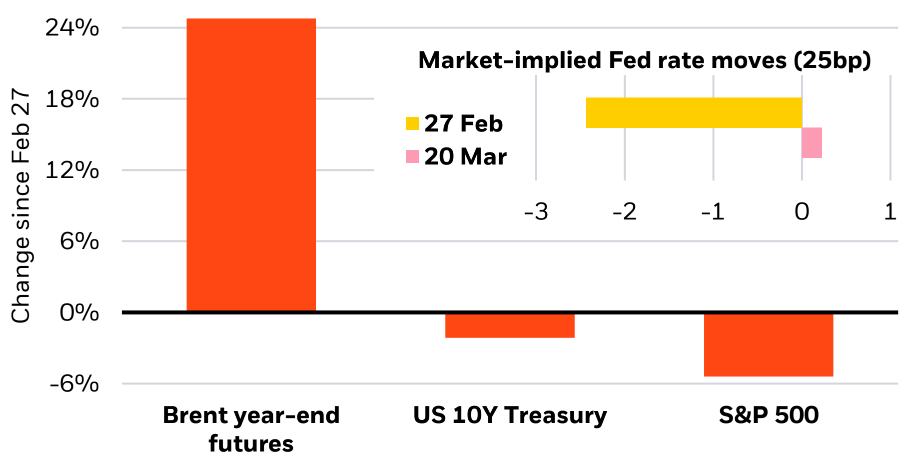
## Dialing down risk amid supply shock

- The escalating Mideast conflict has now caused energy markets to price in a prolonged disruption. We cut risk and turn neutral U.S. stocks.
- The Fed and other central banks held rates steady last week. The energy shock has further weakened the case for the Fed's easing rates this year.
- Global flash PMIs this week will offer the first read on how the conflict is hitting activity, as higher energy costs and uncertainty start to weigh on demand.

The escalating Middle East conflict has triggered energy markets to now price in a prolonged disruption. That means higher costs, weaker growth, elevated bond yields and more persistent inflation — on top of pressures already bubbling under the surface. Risk assets don't reflect the macro damage that energy pricing implies, in our view. We dial down tactical risk and downgrade U.S. stocks as a result – but stand ready to adjust if political pressures put an end to the conflict.

### A market disconnect

Market performance since Mideast conflict and 2026 Fed rate expectations




Source: BlackRock Investment Institute with data from Bloomberg, March 20, 2026. Notes: Performance of selected assets since the Mideast conflict started. Inset shows market-implied number of 25 basis point U.S. policy rate changes by end-2026; negative values denote cuts and positive values denote hikes.

The Middle East war has escalated, with attacks on energy infrastructure and a possible prolonged closure of the Strait of Hormuz global shipping channel. This has triggered a sharp repricing in energy markets that imply disruptions could last into next year. Year-end oil futures (the left bar in the chart) have rocketed upward – as have longer-dated contracts. The broad supply chain shock has jolted markets out of complacency about inflation pressures. Market expectations have flipped from the Fed cutting rates three times this year to veering toward a hike (see insert). Long-term government bonds have sold off, showing they are no longer the place to hide when conflicts trigger supply shocks and stoke inflation. The outlier? The S&P 500 is just 7% below record highs. We see a disconnect: A macro shock and hawkish reversal in policy expectations are not consistent with current stock prices.

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Political pressures from higher energy prices could shorten the conflict, but there's no tangible evidence yet of this happening. This means we have no basis to think market expectations for energy prices are too high. They currently imply a hit to global growth of roughly three-quarters of a percentage point, we estimate, alongside higher inflation. And things could get worse still. Markets have been jolted out of their complacent view of benign inflation as a result. Expectations for U.S. rate cuts have dissipated and swung toward multiple hikes in the euro zone and UK. Central banks held rates steady last week, but their maneuvering room has shrunk. Earlier this year, we thought a weaker jobs market might give the Fed cover for cuts. That window is closing fast. The Fed itself last week signaled the case for future rate cuts was materially weaker.

The energy shock is broader than a typical oil spike. Gas markets have been disrupted, and the near-closure of the Strait of Hormuz is feeding through to a wide range of production inputs. This amplifies the hit to growth, with Europe and Asia hit hard because of their exposure to imported energy, and ups inflation pressure. This is not an about-face for inflation, but an additional driver of the inflation outlook. That's why we think higher yields are here to stay, even when the conflict ends. We are in a supercharged version of *a world shaped by supply*, where disruptions drive inflation and growth. Central banks are faced with a stark trade-off between preserving growth or reining in inflation.

All this leads us to trim risk on a tactical horizon. We turn neutral across equity markets for now because overall risk asset pricing is not consistent with the shock implied by energy markets. In fixed income, we stay underweight long-term Treasuries. We see yields rising as investors demand more compensation for holding long-term bonds amid high debt burdens. And the conflict has reinforced they are no longer a reliable buffer for geopolitical shocks or equity sell-offs. We favor less rate-sensitive short- and medium-term U.S. Treasuries instead. We upgrade short-duration European government bonds as a cash buffer, given the rapid repricing of rate hikes. We stand ready to adjust these calls. The conflict could de-escalate as economic and political pressures mount – even as the bar for this looks higher than in the conflict's early days.

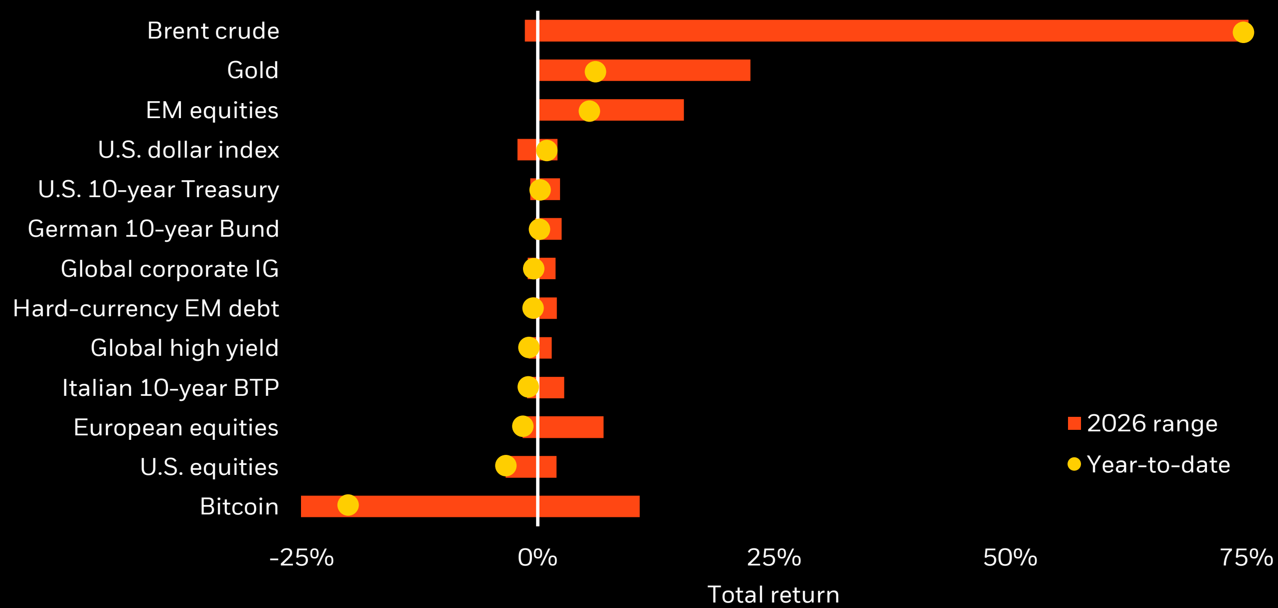
**Bottom line:** We are dialing down tactical risk for now as an escalating Middle East conflict has caused energy markets to price a prolonged supply-driven shock that lifts inflation. We stand ready to reverse course quickly if the conflict de-escalates.

# Market backdrop

Markets now expect the Middle East conflict to drag on. Brent crude oil rose 5% on the week, hitting $119 a barrel at one point. The Fed, the ECB and BOE held rates steady, and expectations for 2026 cuts evaporated in the U.S. and turned to multiple hikes in the UK and Europe. Yields surged to 3.89% and 4.39% on two- and 10-year U.S. Treasuries, respectively. The S&P 500 fell 2%, bringing losses since the conflict started to 6%.

# 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 20, 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

**March 23** Euro area consumer confidence; Japan CPI, flash PMI

**March 24** Global flash PMIs

**March 27** University of Michigan consumer sentiment

We watch global flash PMIs for the first read on how the Middle East conflict is affecting activity. We expect PMIs to deteriorate as higher energy costs and uncertainty weigh on demand. It's still too soon for the full inflationary impact of higher oil prices to show up in Japan CPI and PPI, we think.

## Big calls

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

| Tactical | Reasons |
|---|---|
| Favor AI beneficiaries | Markets are increasingly focused on identifying companies exposed to AI disruption. We favor physical infrastructure and equipment supporting the AI buildout – such as semiconductors, power and data center assets – that we think we stand to benefit no matter the winners or losers. |
| Selected international exposures | We like hard-currency EM debt due to improved economic resilience, disciplined fiscal and monetary policy and a high ratio of commodities exporters. In Europe, we are overweight short-term European government bonds on valuation and favor equity sectors such as infrastructure. |
| 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 into 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

**Underweight** | **Neutral** | **Overweight** | ● Previous view

| | Asset | View | Commentary |
|---|---|---|---|
| Equities | **Developed markets** | | |
| | United States | Neutral | We turn neutral. Higher interest rate expectations could weigh on the market – and small caps in particular. We keep our overweight to companies that benefit from the AI mega force. |
| | Europe | Neutral | We are neutral. Europe's high exposure to the energy shock from the Mideast conflict makes it vulnerable to higher inflation and lower growth. |
| | 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 | Neutral | We turn neutral. Japan's exposure to imported energy may erode strong equity gains powered by healthy corporate balance sheets and governance reforms. |
| | **Emerging markets** | Neutral | We are neutral. Economic resilience has improved, thanks to effective EM fiscal and monetary policy, yet selectivity is key. We favor energy exporters over importers and AI beneficiaries. |
| | 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. |
| Fixed Income | Short U.S. Treasuries | Neutral | We are neutral. Shorter-term bonds are relatively attractive as the market has woken up to persistent inflation and higher rates. |
| | Long U.S. Treasuries | -1 | We are underweight. Yields already faced upward pressure from rising term premia, as investors demand more compensation for the risk of holding long-term debt. The recent energy price shock compounds this by aggravating pre-existing inflationary pressures. |
| | Global inflation-linked bonds | Neutral | We are neutral. The supply shock from the Middle East conflict adds to inflationary pressures but also could drag on growth. |
| | Euro area govt bonds | +1 | We turn overweight short-term European government bonds to add a cash buffer, given the rapid repricing of expectations of ECB rate hikes. |
| | UK gilts | Neutral | We are neutral. We expect volatility in gilts over the near-term. Gas powers much of the UK's electricity, but storage is limited – making it especially vulnerable to a resurgence in inflation. |
| | 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. |
| | 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 and shorter duration, 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. EM hard-currency indexes lean toward Latin American commodity exporters such as Brazil that stand to benefit as Mideast supply plummets. |
| | Emerging local currency | Neutral | We are neutral. The U.S. dollar has been strengthening as a safe-haven currency in the wake of the Middle East conflict. This could reverse year-to-date gains driven by a falling USD. |

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