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Weekly commentary

BlackRock

November 23, 2026

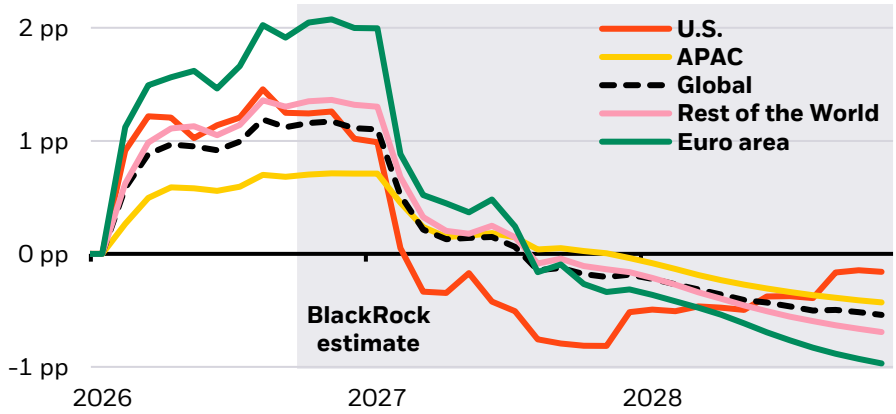
Inflation: beyond the Mideast energy shock

- We see headline inflation cooling in 2027, even as markets price in more Fed hikes than we expect. We favor short- and medium-term U.S. Treasuries.
- Solid earnings from Nvidia and Anthropic's record IPO failed to lift AI sentiment last week. The Nasdaq slid 10% while the S&P 500 fell into correction territory.
- We are watching October PCE data to assess whether services inflation remains a key sticking point – and if the figures keep further Fed tightening in play.

Markets are largely pricing in a December Federal Reserve rate hike, in line with our view, plus as many as two more next year. We think the latter is overdone. We expect headline U.S. inflation to cool next year while economic growth moderates as oil prices, the effects of tariffs and AI-related price pressures ease. That gives the Fed room to tighten less than markets expect. We favor short- and medium-term U.S. Treasuries for solid income and greater protection against rate swings.

The energy aftershock

Energy price impact on annual headline inflation by region, 2026–2028



Forward-looking estimates may not come to pass.. Source: BlackRock Investment Institute with data from Bloomberg, LSEG Datastream, S&P Global Commodity Insights, U.S. Energy Information Administration and the World Bank, November 2026. Note: The chart shows the estimated impact of energy prices on year-on-year headline inflation, in percentage points, relative to a counterfactual in which energy prices stay at pre-conflict levels. Estimates are based on current energy futures curves. Shaded area indicates forecasts.

We think the energy shock's impact on U.S. inflation has peaked. Brent crude oil, gasoline and diesel prices have all fallen sharply this month, which should help ease headline inflation and core inflation through lower prices for transportation services. We estimate the shock added 1.5 percentage points to headline U.S. inflation at its September peak. That contribution should reverse, from boosting inflation this year to lowering it by 0.8 percentage points by year-end 2027. See the chart. While price pressures from tariffs and the AI buildout should ease next year, that relief will be uneven. In Europe, earlier increases in natural gas prices are still feeding through to consumers, prolonging inflationary pressures relative to the U.S. In the U.S., a tight labor market is stoking wage growth, keeping core services inflation elevated even as energy price pressures abate.



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The economy is currently strong, while the labor market remains tight and core inflation is elevated. Against that backdrop, we expect core inflation to remain closer to 3% than the Fed's 2% target. That supports further Fed tightening and suggests the neutral interest rate may be higher than previously assumed – consistent with the new regime we've long described. Yet we think markets have recently extrapolated today's economic strength and inflation pressures too far and priced in more Fed rate hikes than will be needed. Falling energy prices reduce the risk of lasting effects on core inflation, while tighter financial conditions and uncertainty around the AI buildout could temper demand and hiring in 2027 and, with it, core inflation.

We expect U.S. growth to moderate next year, even as the economy remains resilient. Growth is on track to reach 2% to 2.5% this year. Solid hiring and wage growth of around 4% – above the 2%–2.5% pace we see as consistent with the Fed's target – point to strength beyond AI. With the breakeven pace of job creation now much lower, even modest hiring keeps the labor market tight. We see growth moderating but staying above 2% next year, as AI spending grows at a slower pace and the boost from President Donald Trump's tax cuts fades. The U.S. remains better placed than Europe to withstand the energy shock because it is a net energy exporter with more limited exposure to fluctuations in natural gas prices. That outlook underpins our expectation for a more measured Fed rate path. Market pricing suggests as many as three quarter-point hikes over the next 12 months. We think a quarter-point hike in December is likely and we currently expect one more hike in the first half of 2027. We also expect the European Central Bank to raise rates next month, but the outlook beyond December depends on whether energy-driven price pressures keep feeding through to underlying inflation.

With two- and 10-year U.S. Treasury yields hitting multidecade highs this year, much of the structural rise in rates we have long anticipated is now reflected in bond yields. That underscores our preference for short- and medium-term Treasuries, which offer attractive income opportunities and more protection against higher rates. We recently strengthened our strategic overweight on inflation-linked bonds to hedge against supply-driven inflation risks.

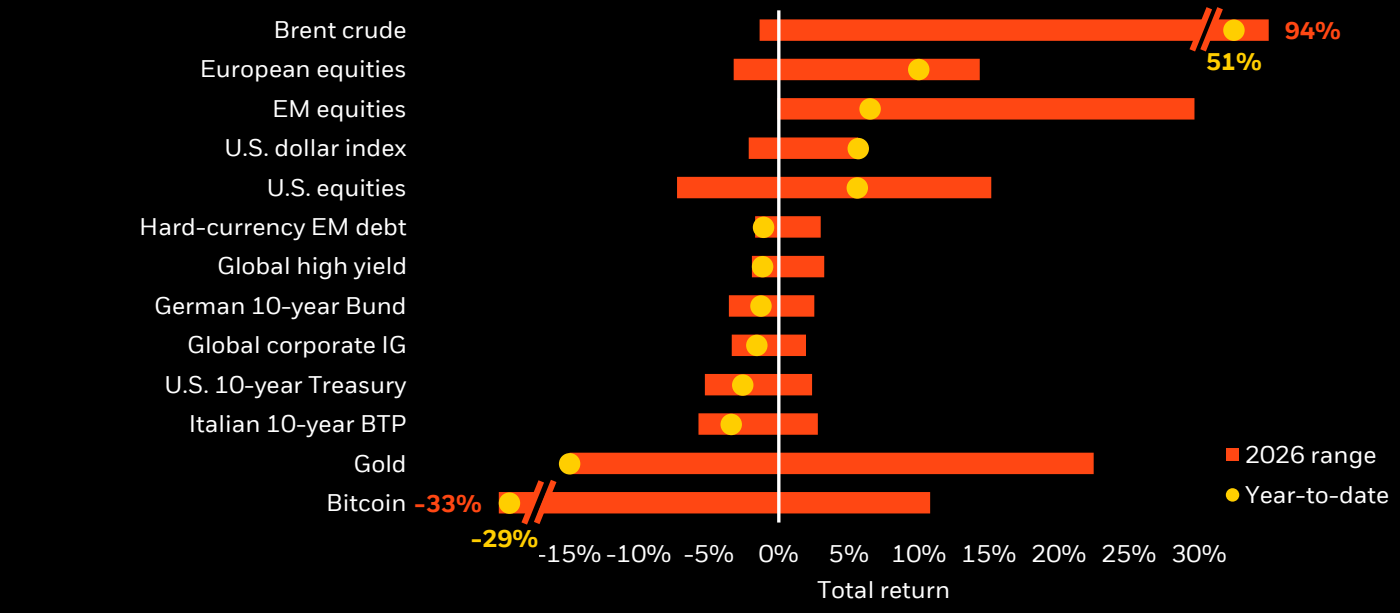
Bottom line: We expect U.S. growth to hold steady and headline inflation to cool next year, even as core services price pressures remain elevated. We favor short- and medium-term U.S. Treasuries for solid income.

Market backdrop

Anthropic's record-setting initial public offering and solid Nvidia earnings failed to lift broader AI sentiment last week. The S&P 500 fell into correction territory while the Nasdaq – already in correction – fell another 10%. The sell-off suggests concerns around company-specific CEO succession and circular financing deals persist. U.S. 10-year Treasury yields fell to 4.94%, roughly 40 basis points below October's 24-year high. Two-year yields declined to 4.64%.

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 Nov. 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.

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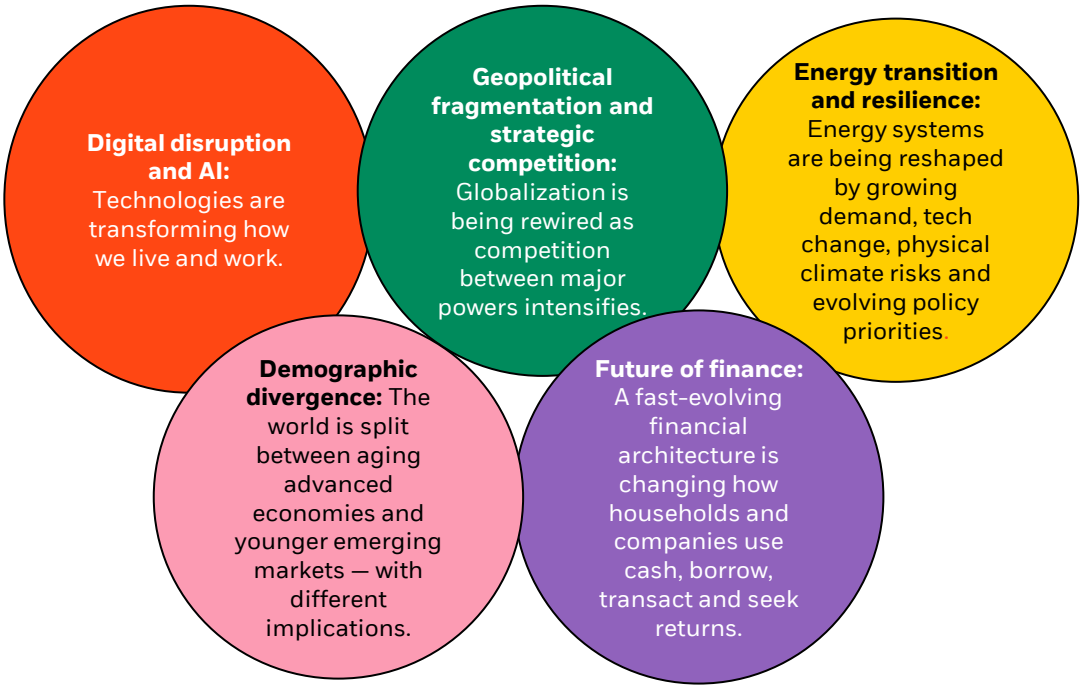
Week ahead

Nov. 23	Global S&P flash PMI	**Nov. 25**	U.S. GDP; U.S. PCE
Nov. 24	Japan flash PMI; U.S. consumer confidence	**Nov. 27**	Japan CPI (Tokyo)

We're watching U.S. PCE data – the Fed's preferred inflation gauge – for signs that persistent services inflation is keeping further Fed tightening in play. U.S. consumer confidence and the second estimate of GDP growth will offer a check on the resilience of the broader economy beyond the AI boom, while global flash PMIs will provide further insight into growth momentum.

Intersecting mega forces

Since we launched our mega forces framework, it has become clearer how their intersection shapes almost all our investment views and opens up alpha opportunities. They cut across asset class labels, spurring a rethink of portfolio construction. Investors need to be deliberate about the economic or thematic exposures they own, the vehicles they use to implement them and their investment horizons.



From drivers to portfolio expressions

Our highest-conviction views, November 2026

Driver	What we think	Portfolio expression
Growth and AI scarcity	AI fundamentals are strong, but we eye near-term volatility.	Neutral U.S. equities and overweight EM equities; favor AI- and tech-related opportunities.
Duration and diversification	Higher starting yields improve prospective returns and income.	Overweight short-term U.S. Treasuries for solid income and a cushion against higher rates; neutral long-term Treasuries.
Credit spreads and liquidity	Selectivity is crucial amid tight spreads and uneven fundamentals.	Credit with clear cash flows, lender protections and recovery value; higher-rated high yield.
Inflation and scarcity	Scarcity, secure supply and power demand carry inflation risks.	Infrastructure, energy bottlenecks, EM local debt and real-asset-linked exposures.
Alpha opportunity	Macro outcomes matter again in the new regime.	Macro hedge funds, venture capital, market-neutral strategies, and selected private credit and non-U.S. alpha.

Note: Views are from a U.S. dollar perspective, November 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.

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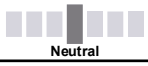
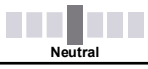
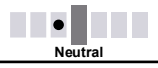
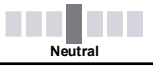
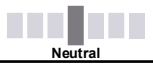
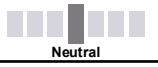
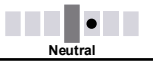
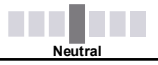
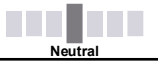
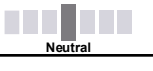
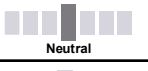
Asset class implications

Six- to 12-month tactical positioning, November 2026

This shows the implementation of our key investment views from the previous page through an asset class lens.

Underweight | **Neutral** | **Overweight** ● Previous positioning

	Asset	Positioning	Commentary
Equities	**Developed markets**		
	United States		We are neutral. Strong AI fundamentals remain supportive, but policy uncertainty could fuel near-term volatility. We continue to favor AI and tech.
	Europe		We are neutral. We would need to see more business-friendly policy and deeper capital markets for Europe to outperform. We favor financials, infrastructure and industrials.
	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 neutral. Strong corporate balance sheets and governance reforms remain supportive. We prefer targeted exposures to physical AI and the buildout's bottlenecks.
	Emerging markets		We are overweight. Strong earnings and cheaper valuations create opportunities. We particularly like different expressions of the AI scarcity theme across Asia and Latin America.
	China		We are neutral. We see opportunities in physical AI. Cheap, open-source AI could drive adoption, but that doesn't necessarily translate into AI-provider profitability.
Fixed Income	Short U.S. Treasuries		We are overweight. Much of the repricing we anticipated has occurred, and expectations for further Fed hikes look excessive. We favor the front end for attractive income and a greater breakeven buffer.
	Long U.S. Treasuries		We are neutral. Higher yields offer attractive income and a bigger cushion against further rate increases. We still see room for yields to rise as competition for capital intensifies.
	Global inflation-linked bonds		We are neutral. We see inflation settling above prepandemic levels, but markets may not price this in the near term as economic growth could slow.
	Euro area govt bonds		We are neutral on short- and medium-term bonds. Current ECB rate pricing looks fairly valued given the balance of risks. Higher energy prices could push rates higher. We prefer to deploy risk elsewhere.
	UK gilts		We are neutral. We expect periods of elevated volatility given political uncertainty, longer-term bonds' growing market share and buyers' increasing price sensitivity.
	Japanese govt bonds		We are underweight. The substantial repricing in yields has improved the risk-reward, but further rate hikes and heavy issuance could push yields higher.
	China govt bonds		We are neutral. Chinese bonds offer stability and diversification, but developed-market yields are higher. A shift in investor sentiment toward equities limits upside.
	U.S. agency MBS		We are neutral and lean into the stable income MBS provide despite tight spreads.
	Short-term IG credit		We are neutral. Spreads are tight due to corporate strength, but attractive overall yields help offset the risk of increased issuance.
	Long-term IG credit		We are underweight. We prefer short-term bonds less exposed to interest rate risk over long-term bonds. But attractive overall yields help offset the risk of increased issuance.
	Global high yield		We are neutral. High yield offers attractive income. We prefer higher-rated U.S. and European high yield over investment grade and see dispersion of returns increasing.
	Asia credit		We are neutral. Overall yields are attractive and fundamentals are solid, but spreads are tight.
	Emerging hard currency		We are neutral. Fundamentals have improved, but we see a more attractive risk-reward profile in EM local debt.
	Emerging local currency		We are overweight. We like the yield relative to its volatility and improving fundamentals.

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