

# Weekly commentary

March 17, 2025

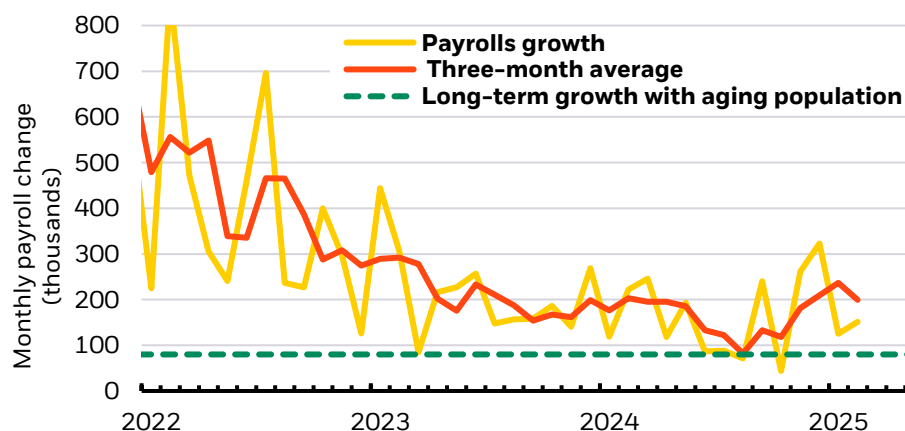
## Policy uncertainty a risk to U.S. growth

- Markets are doubting U.S. growth and equity strength. Yet economic conditions don't signal a downturn. Resilient earnings keep us overweight U.S. stocks.
- Global stocks trimmed their losses last week. The S&P 500 was down 1% after briefly entering a technical correction as recession fears gripped markets.
- We expect the Federal Reserve to hold rates steady at this week's policy meeting. Markets have been pricing in deeper rate cuts due to fears about U.S. growth.

U.S. stocks slid as markets doubted the strength of U.S. growth and tech. We see a double disconnect. Economic conditions don't point to recession, yet prolonged policy uncertainty may hurt growth. And the tech sector still has the strongest expected 2025 growth. We stay overweight U.S. stocks as policy uncertainty should ease over a six- to 12-month horizon. We don't see long-term bonds as reliable portfolio diversifiers, even if growth suffers, given persistent deficits and inflation.

## Economic strength,

U.S. payroll growth, actual and estimated, 2022-2025



Forward looking estimates may not come to pass. Source: BlackRock Investment Institute, Bureau of Labor Statistics, with data from Haver Analytics, March 2025. Note: The chart shows U.S. payroll growth on a three-month average, overall payrolls growth and the estimate of where payrolls growth be when accounting for slowing population growth and usual migration flows.

The S&P 500 has slid 8% from its February high and 4% this year as investors worry U.S. policy changes will bite growth that has been key to U.S. outperformance. Yet fundamental, quantitative economic data doesn't indicate a downturn is near. Job gains have slowed since 2022 but remain above the long-term level we expect given an aging workforce. See the chart. U.S. corporate earnings expectations and high-frequency indicators of consumer health like weekly credit card spending are also solid, JPMorgan data show. Yet near-term risks to growth loom: Uncertainty could hit consumer spending, investment and trade. The longer policy uncertainty lasts, the more growth could suffer – but even that's not certain. U.S. policy is spurring government spending elsewhere, reinforcing our view that developed market policy rates and bond yields will stay well above pre-pandemic levels.



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Markets have also questioned U.S. equity strength, especially for the tech sector. U.S. recession fears reignited the selloff in tech stocks. The Nasdaq has fallen 11% from its all-time high hit in February – the biggest retreat since the 2022 equity selloff. Yet we stay overweight U.S. stocks on a six- to 12-month tactical horizon. Earnings expectations are healthy, with 12% growth forecast for the S&P 500 this year versus 14% last September, LSEG Datastream data show. Tech corporate margins, earnings and revenues forecasts are holding up and the sector still has the fastest expected growth this year. Free cash flow for the sector is also at 30% of total sales, the highest share since 1990 – a sign of current strength.

Recent volatility has been exacerbated by policy uncertainty and investors moving out of crowded positions. For example, last week saw a rapid move away from popular trades, like the tech-heavy momentum equity style factor that had some of its sharpest declines since the pandemic. Both could drive more volatility in the near term. But, over time, deleveraging will have run its course and uncertainty will likely ease as we get more policy implementation details, such as the White House’s full tariff plan due in April. Then, some of the risk premium investors now want for extreme uncertainty could be priced out again.

Long-term U.S. Treasuries have briefly buffered against the stock retreat. But their portfolio diversification role has weakened since the pandemic. We think yields can climb as investors demand more compensation, or term premium, for the risk of holding long-term bonds. Recent inflation data has been noisy, but core CPI is still above what’s consistent with the Federal Reserve’s 2% target. That limits how far the Fed will be able to cut. A likely rising U.S. fiscal deficit – even with revenue from tariffs and potential spending cuts – could also lead to higher term premium. In the past, investors saw long-term bonds as low risk even with heavy government debt loads because they believed low inflation and low interest rates were here to stay. But that fragile equilibrium has been disrupted. Germany’s plans to boost fiscal spending reinforce higher-for-longer rates – and bond yields – globally, we believe. We think gold could be a better diversifier than Treasuries in this environment.

Bottom line: We think the biggest risk to U.S. growth is prolonged policy uncertainty. U.S. stocks could face more near-term pressure, but we stay overweight on our tactical horizon. We stay underweight long-term Treasuries as we see yields rising.

## Market backdrop

Global equity markets trimmed their losses last week after the S&P 500 briefly entered technical correction territory Thursday, falling 10% from the February record peak. The S&P 500 rebounded on Friday to end the week down 1%, but it has slid 4% for the year near six-month lows as concerns about U.S. tariffs and a U.S. recession gripped markets. Ten-year U.S. Treasury yields were largely steady last week near 4.30% even with the equity selloff and lower-than-expected CPI inflation data.

## 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 March 13, 2025. 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, MSCI Emerging Markets Index, MSCI Europe Index, LSEG Datastream 10-year benchmark government bond index (U.S., Germany and Italy), Bank of America Merrill Lynch Global High Yield Index, J.P. Morgan EMBI Index, Bank of America Merrill Lynch Global Broad Corporate Index and MSCI USA Index.

## Week ahead

**March 19**

Fed policy meeting

**March 21**

Japan CPI

**March 20**

Bank of England (BOE) policy meeting

All eyes are on the Federal Reserve policy meeting this week. We, like markets, don't expect the Fed to cut at this week's meeting. Yet markets have priced in about two to three 25 basis point rate cuts this year, versus expectations for just one earlier this year. We think this reflects U.S. recession fears even though economic conditions don't point to a downturn. Even if prolonged uncertainty hurts growth, we still see persistent inflation limiting how much the Fed can cut.

## Big calls

Our highest conviction views on tactical (6-12 month) and strategic (long-term) horizons, March 2025

Tactical	Reasons
U.S. equities	Policy uncertainty may weigh on growth and stocks in the near term. Yet we remain overweight as we see the AI buildout and adoption creating opportunities across sectors and driving equity strength over our tactical horizon. We tap into beneficiaries outside the tech sector. We see valuations for big tech backed by strong earnings, and less lofty valuations for other sectors.
Japanese equities	A brighter outlook for Japan's economy and corporate reforms are driving improved earnings and shareholder returns. Yet the potential drag on earnings from a stronger yen is a risk.
Selective in fixed income	Persistent deficits and sticky inflation in the U.S. make us underweight long-term U.S. Treasuries. We also prefer European credit – both investment grade and high yield – over the U.S. on more attractive spreads.
Strategic	Reasons
Infrastructure equity and private credit	We see opportunities in infrastructure equity due to attractive relative valuations and mega forces. We think private credit will earn lending share as banks retreat – and at attractive returns.
Fixed income granularity	We prefer DM government bonds over investment grade credit given tight spreads. Within DM government bonds, we favor short- and medium-term maturities in the U.S., and UK gilts across maturities.
Equity granularity	We favor emerging over developed markets yet get selective in both. EMs at the cross current of mega forces – like India and Saudi Arabia – offer opportunities. In DM, we like Japan as the return of inflation and corporate reforms brighten the outlook.

Note: Views are from a U.S. dollar perspective, March 2025. 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. As key drivers of the new regime of greater macroeconomic and market volatility, 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 and related content on each mega force.

- 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 2025

Our approach is to first determine asset allocations based on our macro outlook – and what’s in the price. **The table below reflects this and, importantly, leaves aside the opportunity for alpha, or the potential to generate above-benchmark returns.** The new regime is not conducive to static exposures to broad asset classes, in our view, but is creating more space for alpha.

	Underweight	Neutral	Overweight	● Previous view		
Asset	View				Commentary	
<b>Equities</b>	<b>Developed markets</b>					
	United States				●	We are overweight as the AI theme and earnings growth broaden. Valuations for AI beneficiaries are supported by tech companies delivering on earnings. Resilient growth and Fed rate cuts support sentiment. Risks include any long-term yield surges or escalating trade protectionism.
	Europe				●	We are neutral, preferring the U.S. and Japan. We see room for more European Central Bank rate cuts, supporting an earnings recovery. Rising defense spending, as well as potential fiscal loosening and de-escalation in the Ukraine war are other positives.
	UK				●	We are neutral. Political stability could improve investor sentiment. Yet an increase in the corporate tax burden could hurt profit margins near term.
	Japan				●	We are overweight. A brighter outlook for Japan’s economy and corporate reforms are driving improved earnings and shareholder returns. Yet a stronger yen dragging on earnings is a risk.
<b>Fixed Income</b>	<b>Emerging markets</b>					
	China				●	We are modestly overweight. We think AI and tech excitement could keep driving returns, potentially reducing the odds of much-anticipated government stimulus. We stand ready to pivot. We remain cautious given structural challenges to China’s growth and tariff risks.
	Short U.S. Treasuries				●	We are neutral. Markets are pricing in fewer Federal Reserve rate cuts and their policy rate expectations are now roughly in line with our views.
	Long U.S. Treasuries				●	We are underweight. Persistent budget deficits and geopolitical fragmentation could drive term premium up over the near term. We prefer intermediate maturities less vulnerable to investors demanding more term premium.
	Global inflation-linked bonds				●	We are neutral. We see higher medium-term inflation, but cooling inflation and growth may matter more near term.
	Euro area govt bonds				●	We are underweight. We see room for yields to climb more as Europe moves to ramp up defense and infrastructure spending. The European Central Bank is also nearing the end of rate cuts.
	UK gilts				●	We are neutral. Gilt yields are off their highs, but the risk of higher U.S. yields having a knock-on impact and reducing the UK’s fiscal space has risen. We are monitoring the UK fiscal situation.
	Japanese govt bonds				●	We are underweight. Yields have surged, yet stock returns still look more attractive to us.
	China govt bonds				●	We are neutral. Bonds are supported by looser policy. Yet we find yields more attractive in short-term DM paper.
	U.S. agency MBS				●	We are neutral. We see agency MBS as a high-quality exposure in a diversified bond allocation and prefer it to IG.
	Short-term IG credit				●	We are overweight. Short-term bonds better compensate for interest rate risk.
	Long-term IG credit				●	We are underweight. Spreads are tight, so we prefer taking risk in equities from a whole portfolio perspective. We prefer Europe over the U.S.
	Global high yield				●	We are neutral. Spreads are tight, but the total income makes it more attractive than IG. We prefer Europe.
	Asia credit				●	We are neutral. We don’t find valuations compelling enough to turn more positive.
	Emerging hard currency				●	We are neutral. The asset class has performed well due to its quality, attractive yields and EM central bank rate cuts. We think those rate cuts may soon be paused.
Emerging local currency				●	We are underweight. We see emerging market currencies as especially sensitive to trade uncertainty and global risk sentiment.	

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