December 2021

BlackRock

2022 Global outlook

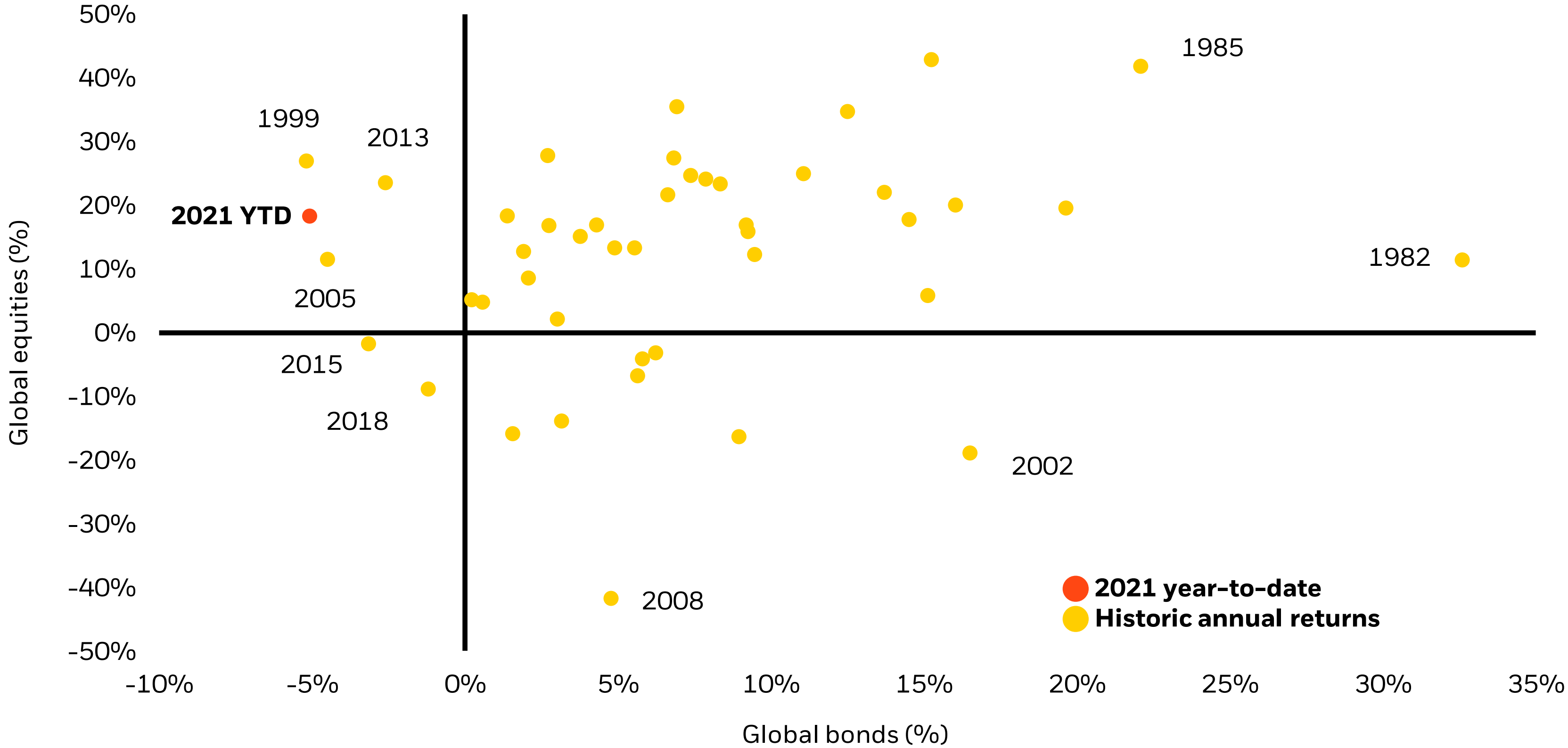
BlackRock Investment Institute

Thriving in a new market regime

A potential new market regime

We see 2022 heralding a new regime by delivering global stock gains and bond losses for a second year – what would be a first since data started in 1977.

Global equities vs global bonds, annual returns, 1977-2021



Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index.

Sources: BlackRock Investment Institute with data from Refinitiv Datastream and Bloomberg, December 2021. Notes: The chart shows annual returns for global equities and bonds in U.S. dollar terms from 1977-2021. Index proxies are the MSCI All-Country World index for equities (MSCI World before 1988) and Bloomberg Global Aggregate index for bonds (U.S. Aggregate before 1991).

2022 investment themes

Living with inflation – We expect inflation to be persistent and settle above pre-Covid levels. Central banks should kick off policy rate hikes but remain more tolerant of price pressures, keeping real interest rates historically low and supportive of risk assets.

Implication: We prefer equities over fixed income and remain overweight inflation-linked bonds.

Cutting through confusion – A unique mix of events – the restart, new virus strains, supply-driven inflation and new central bank frameworks – could cause markets and policymakers to misread inflation. We keep the big picture in mind but acknowledge risks – to the upside and downside - around our core view.

Implication: We trim some risk amid an usually wide range of economic outcomes.

Navigating net zero – Climate change is part of the inflation story. We believe a smooth transition is the least inflationary outcome, yet even this still amounts to a supply shock playing out over decades.

Implication: We favor developed market (DM) equities over emerging markets (EM).

The opinions expressed are as of December 2021 and are subject to change at any time due to changes in market or economic conditions. Strategic implications refer to long-term views, tactical implications refer to asset views on a 6-12 month horizon.

Snapshot of our views – December 2021

Reaffirming our directional views

	Strategic view	Tactical view
Equities	+1	+1
Credit	-1	Neutral
Govt bonds	-1	-1

Equities

- **Strategic horizon**: We stay overweight equities. We see the combination of low real rates, strong growth and reasonable valuations as favourable for the asset class. We prefer developed over emerging markets.
- **Tactical horizon**: We stay overweight amid low real rates and relatively strong growth, yet see a narrower near-term path for further gains.

Credit

- **Strategic horizon**: We maintain our underweight given rich valuations and prefer equities to take risk.
- **Tactical horizon**: We are neutral credit given tight spreads in investment grade as well as high yield.

Govt bonds

- **Strategic horizon**: We keep our underweight given diminished ability to act as portfolio ballasts. We prefer inflation-linked bonds. Rising debt levels may eventually pose risks to the low-rate regime.
- **Tactical horizon**: We remain underweight duration on expectations of gradually climbing yields amid the restart.

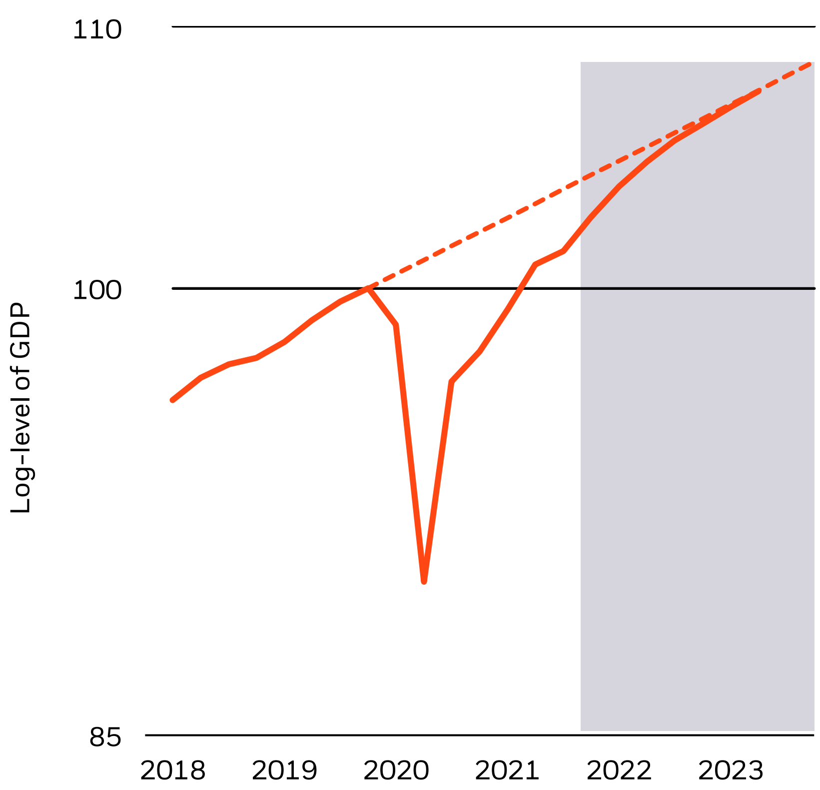
Tactical granular views – highlights

	View	Comment
DM equities	**Overweight**	We are modestly overweight developed market equities. We see the combination of strong growth and low real yields supporting valuations. We prefer to diversify our exposure across major DM markets.
U.S. Treasuries	**Underweight**	We maintain a high conviction in our underweight U.S. Treasuries view. We see the asset class as richly valued and expect yields to gradually rise from current levels.
Euro area bonds	**Underweight**	We are underweight euro area government bonds. We expect the market to start pricing in a relatively strong growth backdrop sending yields higher.
UK Gilts	**Start at neutral**	We introduce UK Gilts at neutral. We see UK policy rates rising before DM peers, yet believe market expectations of the subsequent pace are overdone amid constrained supply.

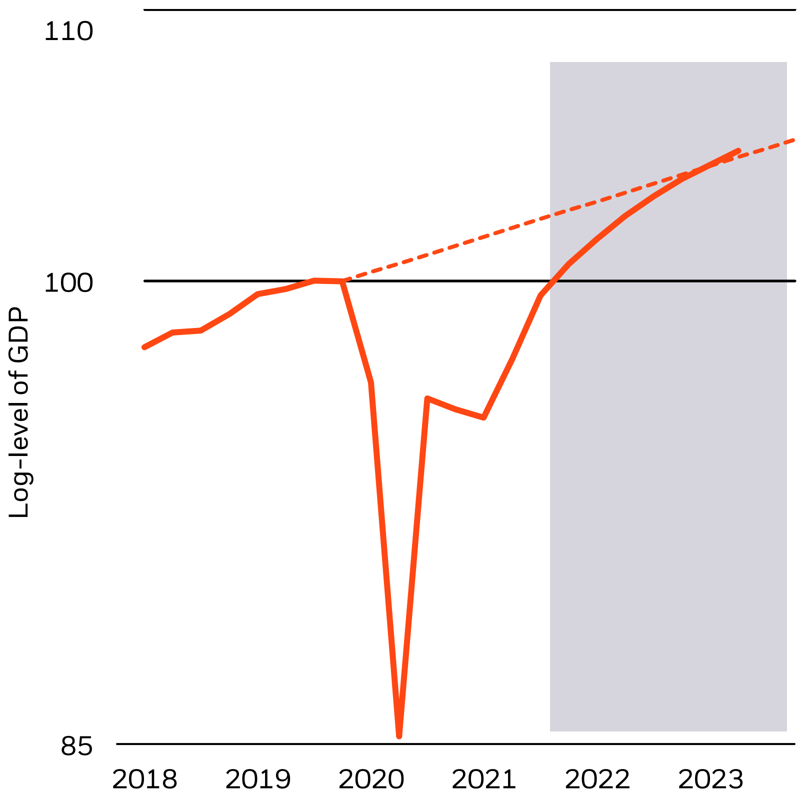
Restart may be delayed – but not derailed

We expect new virus strains to delay, but not derail, the restart thanks to effective vaccine campaigns. Outside of a short-term macro impact, the big picture is unchanged: less growth now is more later.

U.S. GDP and projection, 2018-2023



Euro area GDP and projection, 2018-2023

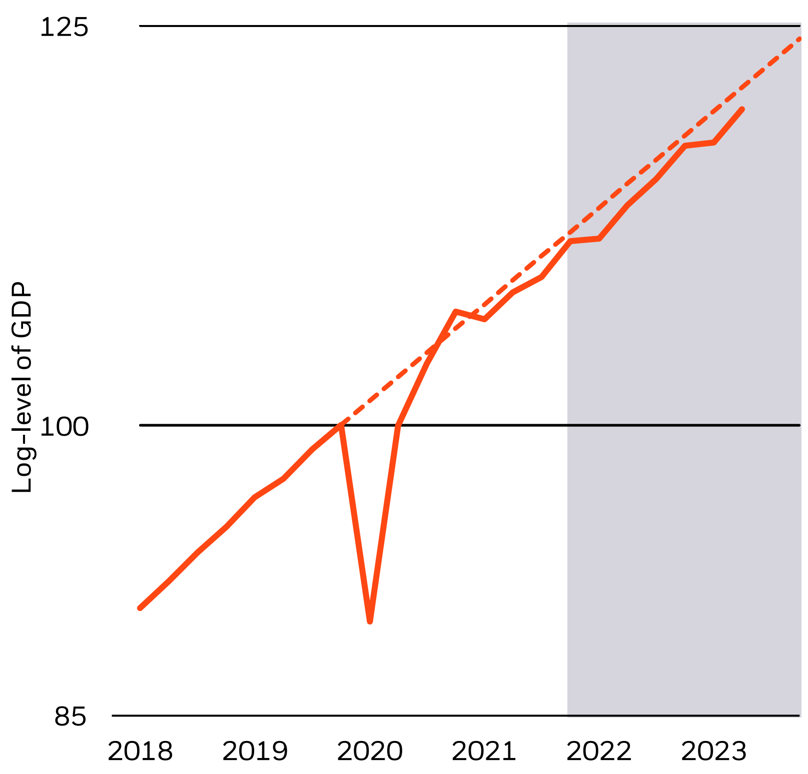


Forward looking estimates may not come to pass. Sources: BlackRock Investment Institute, U.S. Bureau of Economic Analysis, Eurostat, Reuters News with data from Haver Analytics, December 2021. Notes: charts show actual GDP and consensus projections (as of 18 November 2021) for the U.S. and Euro area in orange. The gray shaded area denotes the consensus forecast period. The dashed lines show projections of trend growth starting in Q4 2019 to illustrate what GDP might have been had it grown at pre-Covid trend from 2020 onwards. The trend growth assumptions reflect the likely growth of potential output in the run-up to the Covid-19 shock. The scale is expressed as the log-level of GDP.

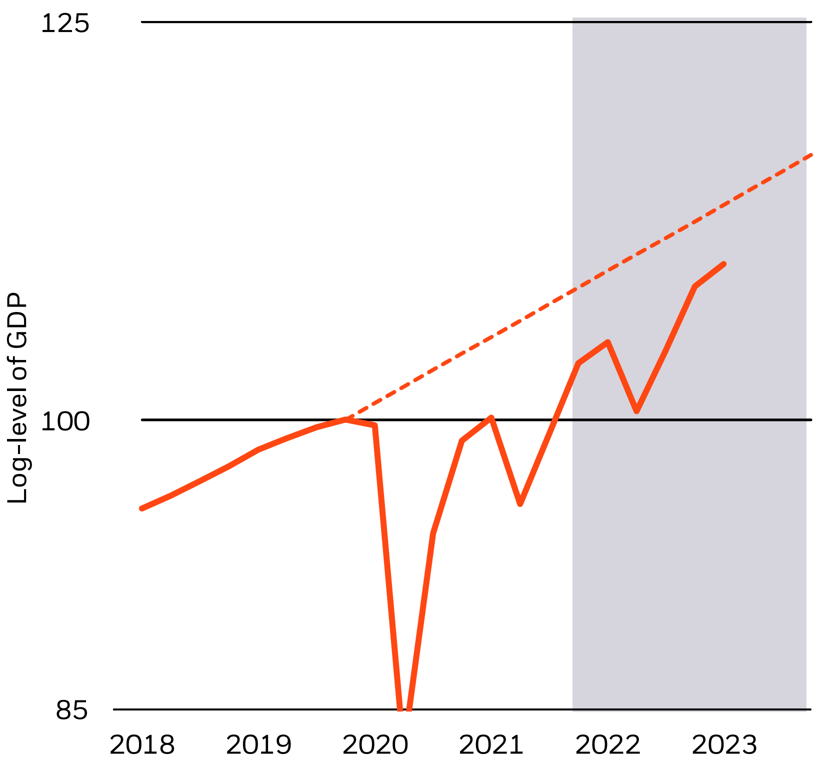
GDP close to trend in China – but far behind in other EMs

Chinese economic activity snapped back sooner than the rest of the world post-pandemic. The rest of emerging markets still have a material shortfall before getting back to pre-Covid trends.

China GDP and projection



EM ex-China GDP and projection

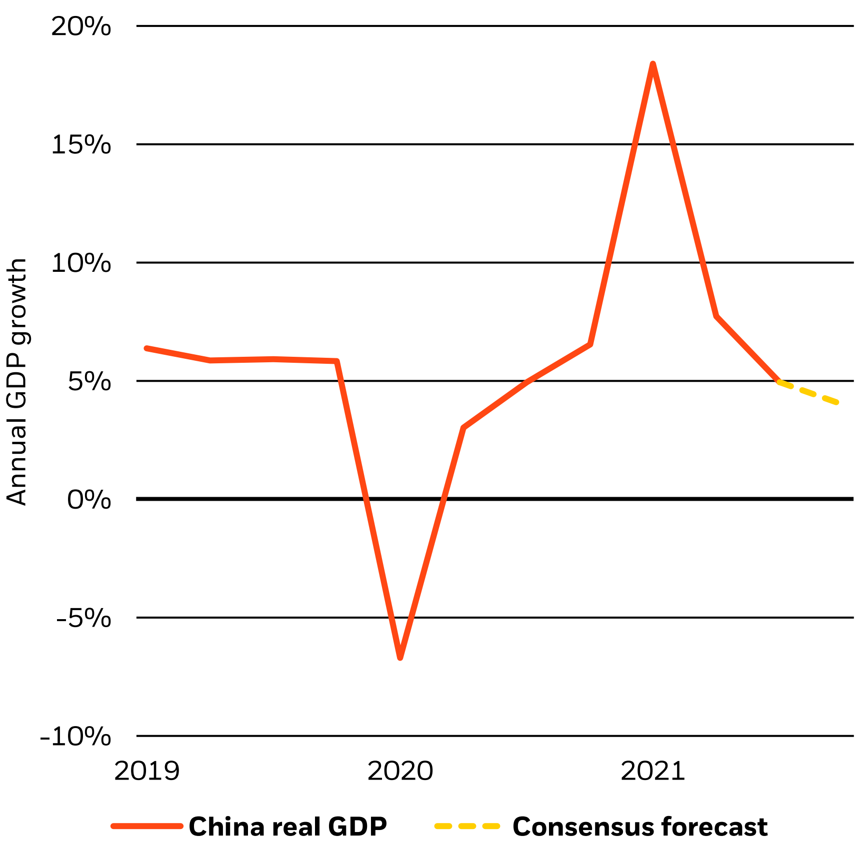


Forward looking estimates may not come to pass. Sources: BlackRock Investment Institute, China National Bureau of Statistics, India Central Statistics Office, Brazil IBGE, Indonesia BPS, Mexico INEGI, South African Reserve Bank, Russia FSSS, Reuters News with data from Haver Analytics, December 2021. Notes: charts show actual GDP and consensus projections (as of 18 November 2021) for China and an aggregate measure of selected emerging market (EM) economies in orange. The EM group comprises India, Indonesia, Russia, Brazil, Mexico, and South Africa, and countries are weighted together using shares of GDP. The gray shaded area denotes the consensus forecast period. The dashed lines show projections of trend growth starting in Q4 2019 to illustrate what GDP might have been had it grown at pre-Covid trend from 2020 onwards. The trend growth assumptions reflect the likely growth of potential output in the run-up to the Covid-19 shock. The scale is expressed as the log-level of GDP.

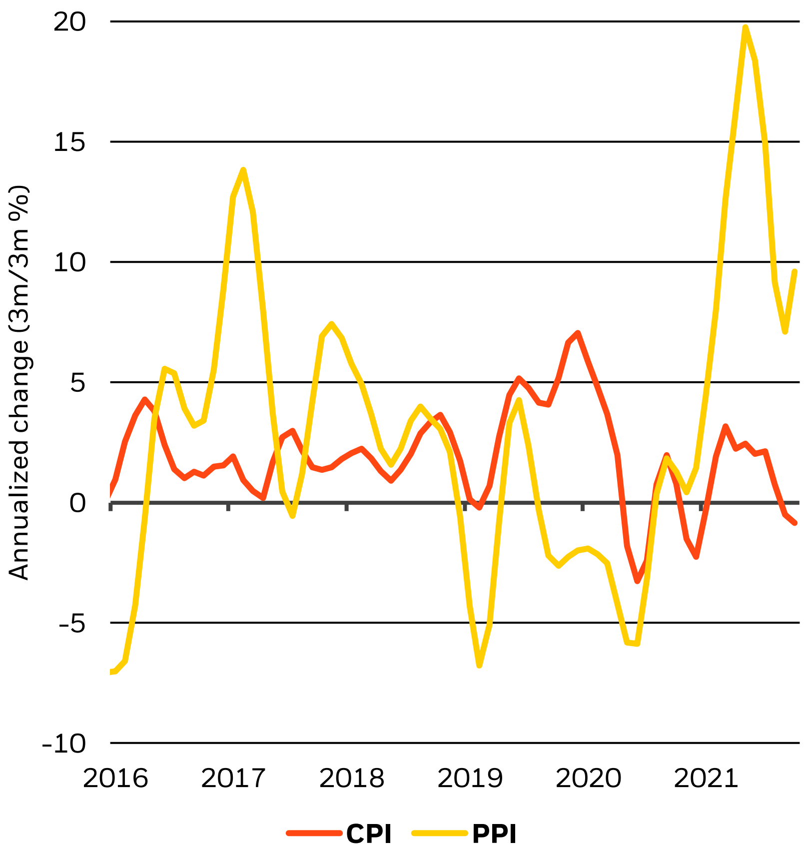
Authorities can no longer ignore extent of China's slowdown

Policymakers have been willing to sacrifice short-term growth for longer-term social objectives. Yet they are not insensitive to a sharp slowdown in near-term growth.

China real GDP vs. estimates, December 2021



China inflation, 2016-2021

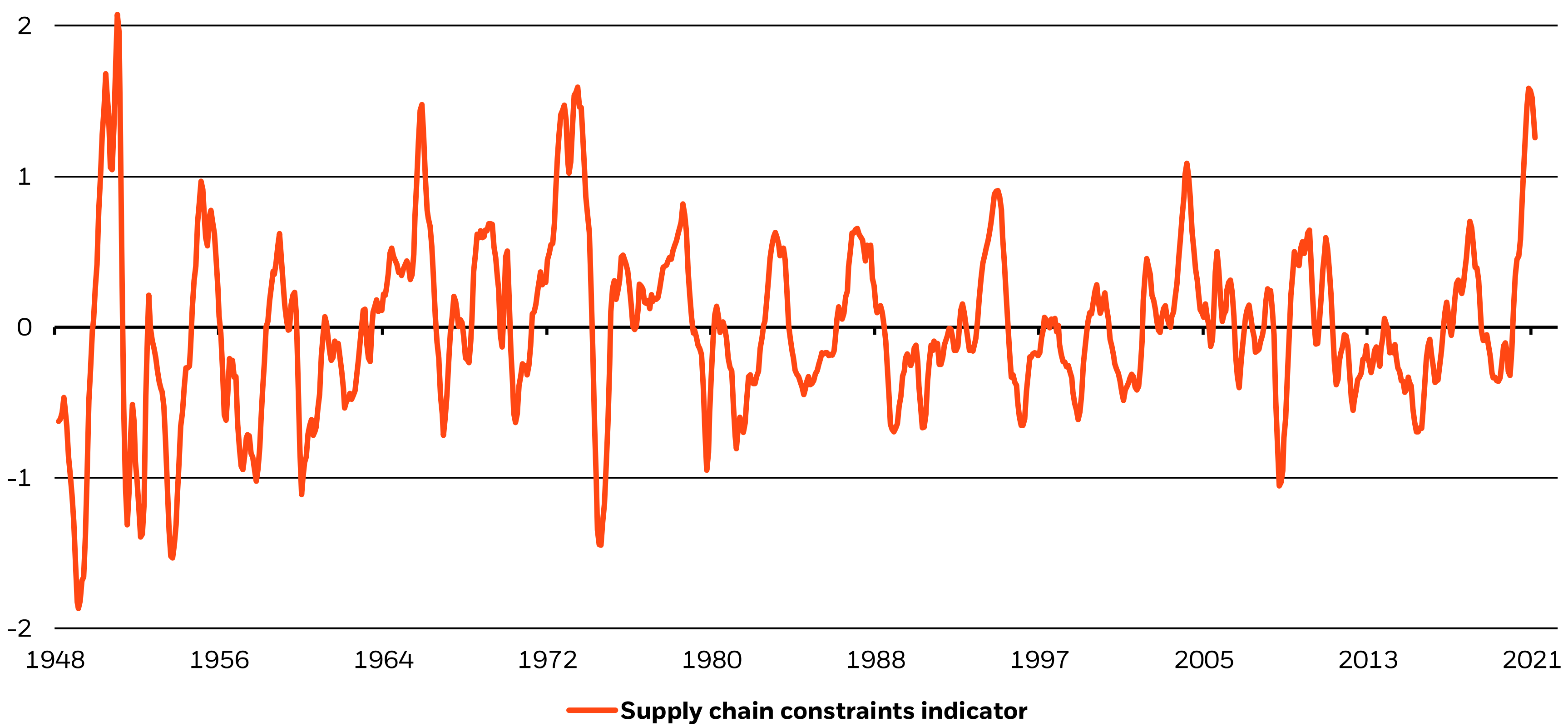


Forward looking estimates may not come to pass. Sources: BlackRock Investment Institute, China's Ministry of Finance with data from Haver Analytics, December 2021. Notes: The left-hand chart shows year-on-year GDP growth (in orange) and the latest consensus forecast (dashed yellow line). The right-hand chart shows consumer and producer price index inflation rates in orange and yellow respectively. Both are expressed as the growth of the 3-month average level of prices over the preceding 3 months, at an annualized rate.

Supply chain disruptions near historical highs

Highly unusual supply shocks are driving inflation higher. We expect such disruptions to gradually dissipate as manufacturing and production capacity comes back online.

U.S. indicator of supply chain constraints, 1948–2021

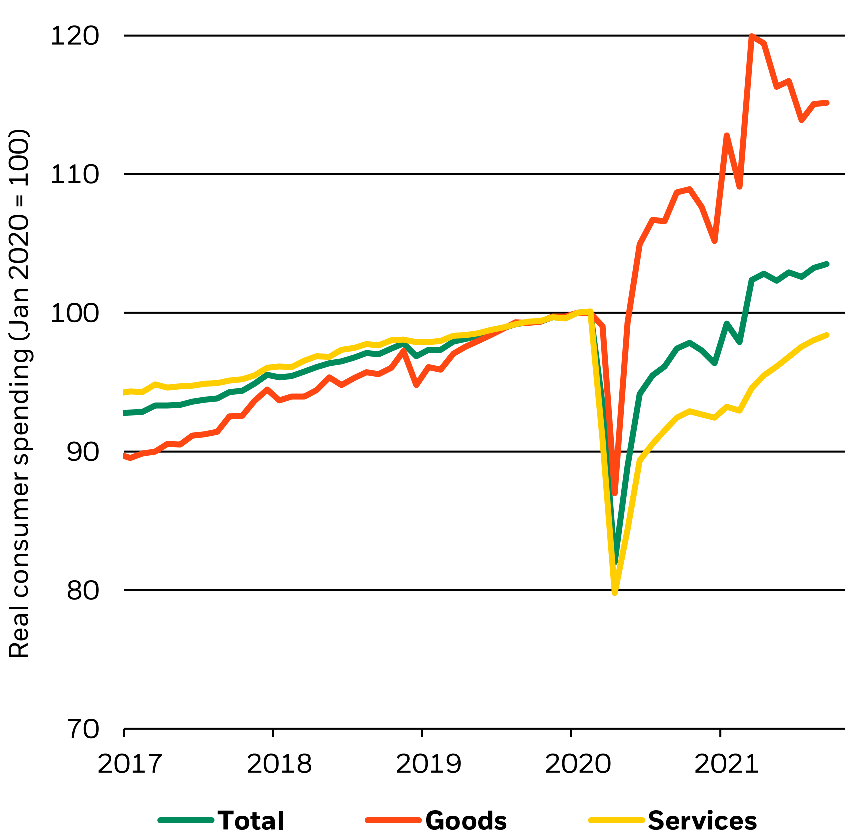


Sources: BlackRock Investment Institute, and Institute for Supply Management, with data from Haver Analytics, December 2021. Note: Index of manufacturing supply chain constraints is based on ISM survey indicators: supplier delivery times, backlog of orders, prices paid and inventories. The orange markers highlight episodes of peak supply chain constraints.

Changing mix of consumer spending driving bottlenecks

The pandemic spurred a jump in goods spending while services sectors have been slower to bounce back. We see a better supply-demand balance ahead.

U.S. spending breakdown and supply chain disruptions, 2017–2021

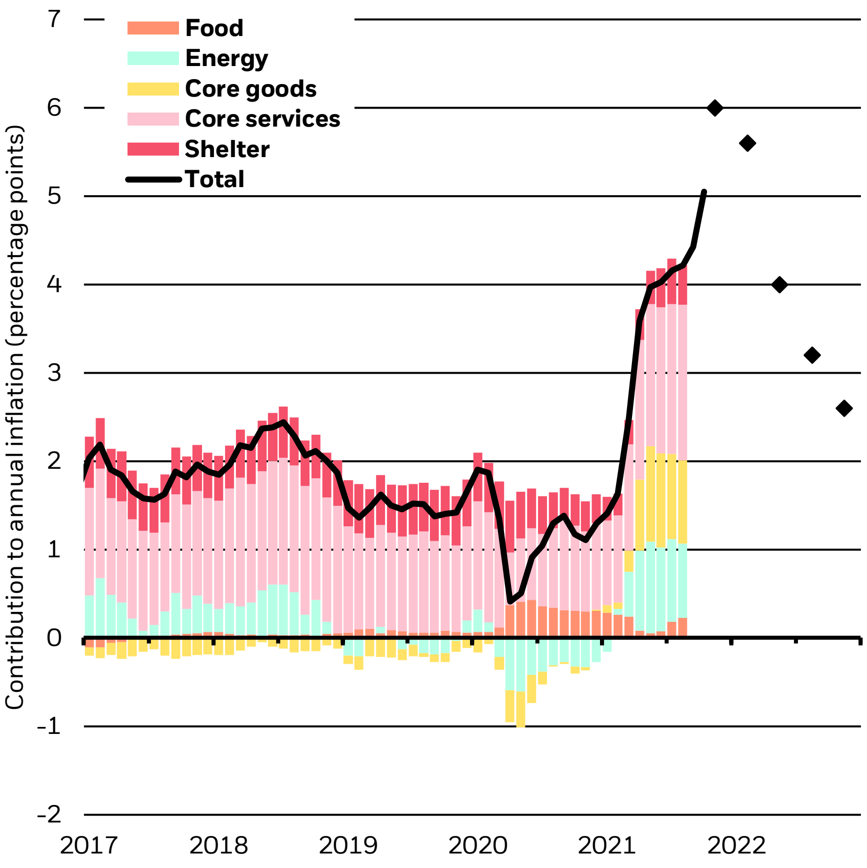


Sources: BlackRock Investment Institute and U.S. Bureau of Economic Analysis and IHS Markit, with data from Haver Analytics, December 2021. The chart on the left shows U.S. consumer spending broken down by goods and services relative to the total, rebased at January 2020. The chart on the right shows the U.S. Purchasing Managers' Institute manufacturing index of supplier deliver times, with a lower number showing firms reporting a larger deterioration in delivery times.

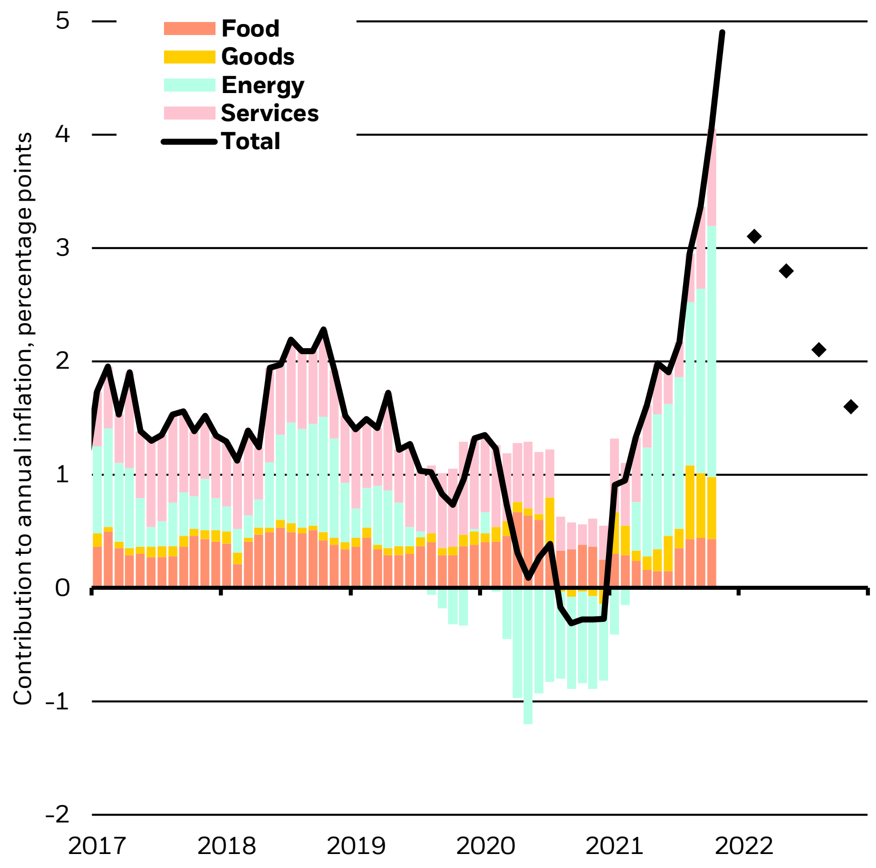
Inflationary pressures have broadened out

Restart pressures and higher energy prices are contributing to an ongoing surge in spot inflation across sectors.

U.S. PCE inflation breakdown, 2017-2021



Euro area HICP breakdown, 2017-2021

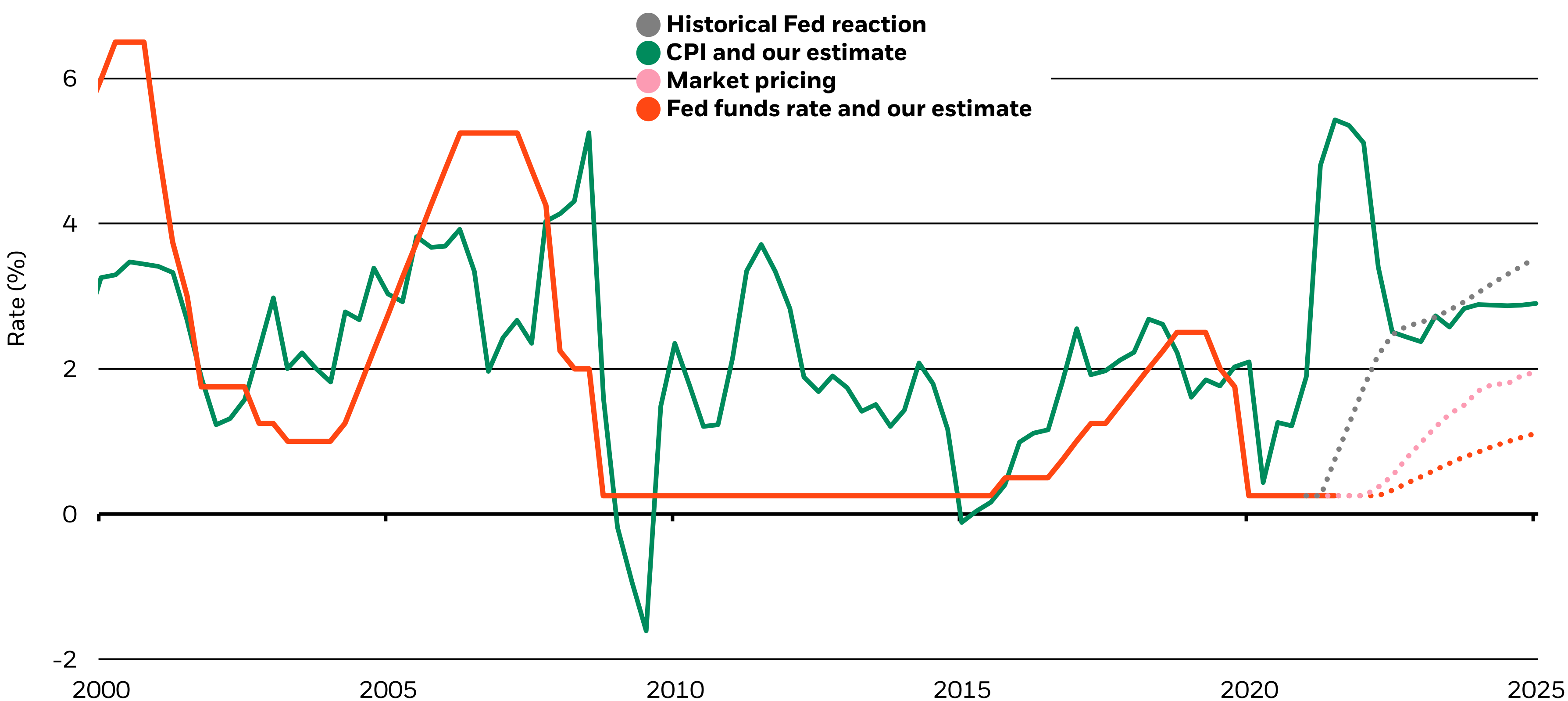


Forward looking estimates may not come to pass. Sources: BlackRock Investment Institute, U.S. Bureau of Economic Analysis, Eurostat, Reuters News with data from Haver Analytics, December 2021. Notes: the charts show the breakdown of U.S. headline PCE inflation and Euro area headline HICP inflation into the percentage point contribution of different components. The markers show consensus projections of headline inflation rates – or the total shown in the charts above. There are no consensus projections for individual component contributions. "Goods" in the euro area refer to industrial non-energy products. There is no Shelter sub-component in the euro area.

Our *new nominal* theme keeps playing out

We expect central banks will be withdrawing some monetary support as the restart does not need stimulus. We see central banks starting to raise rates but remaining more tolerant of inflation.

U.S. CPI inflation, fed funds rate and expectations, 2000–2025

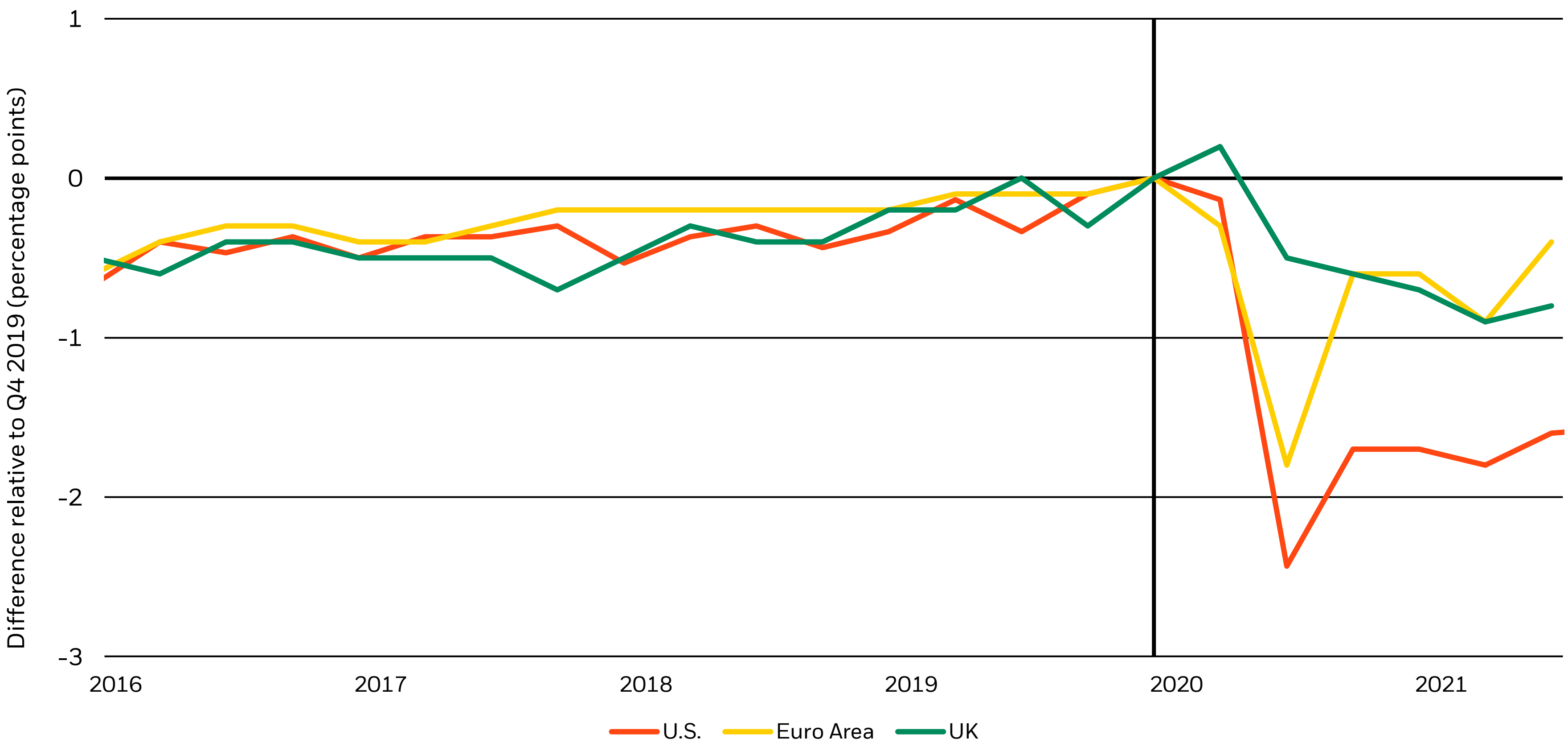


Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute, Federal Reserve Board, U.S. Bureau of Labor Statistics, Bloomberg, with data from Haver Analytics, December 2021. Notes: The chart shows the U.S. nominal federal funds rate (orange line), year on year headline CPI inflation (green) and some projected paths of the nominal federal funds rate. The U.S. CPI shown from 2022-2025 are our estimates embedded in our Capital Market Assumptions. The dotted red line shows our own projection. The gray line shows the path that would have been implied by a simple monetary policy rule linking the choice of policy rate to the rate of inflation and the level of the output gap. The pink line shows the current market-implied path.

Fed yet to achieve employment goals

The Fed has achieved its inflation target, so its interpretation of its employment mandate is now key for the rates outlook. Job protection schemes have helped Europe's labor market bounce back faster.

Labor participation relative to pre-Covid trend, 2016-2021

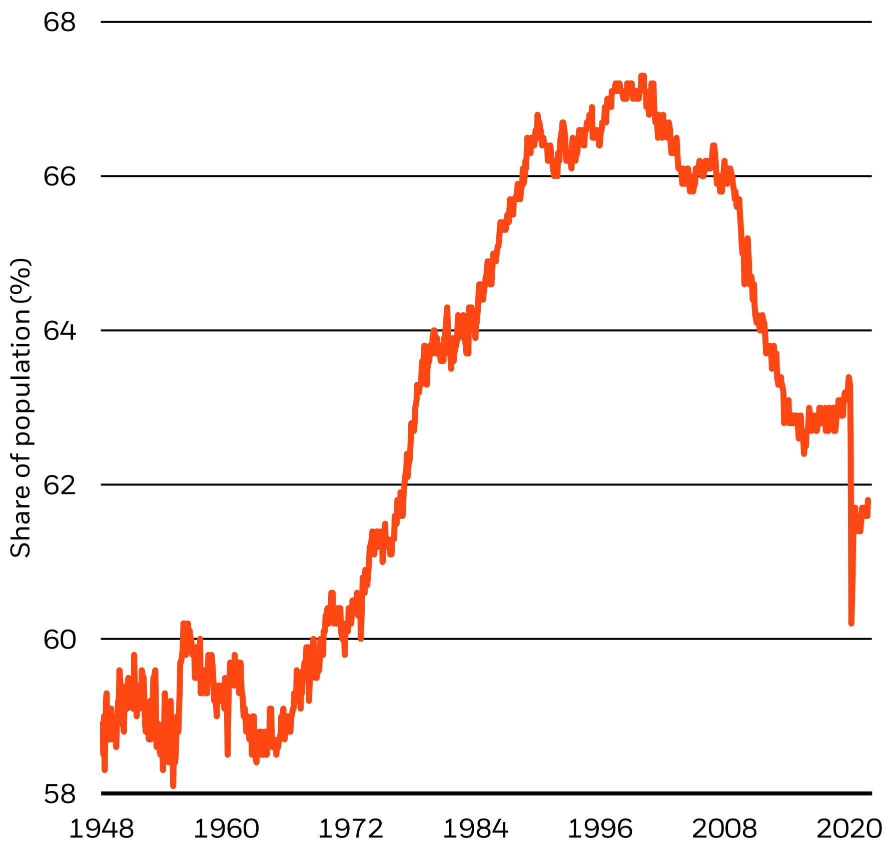


Forward looking estimates may not come to pass. Sources: BlackRock Investment Institute, U.S. Bureau of Labor Statistics and Eurostat, UK ONS, with data from Haver Analytics, December 2021. Note: chart shows the rate of labor force participation, measured as the share of the working-age population who are part of the labor force. In the U.S. and UK the working-age population is defined as those aged 16 and older, and in the Euro area it is those aged 15 and older. The chart is expressed in terms of percentage point deviations from the participation rate in Q4 2019.

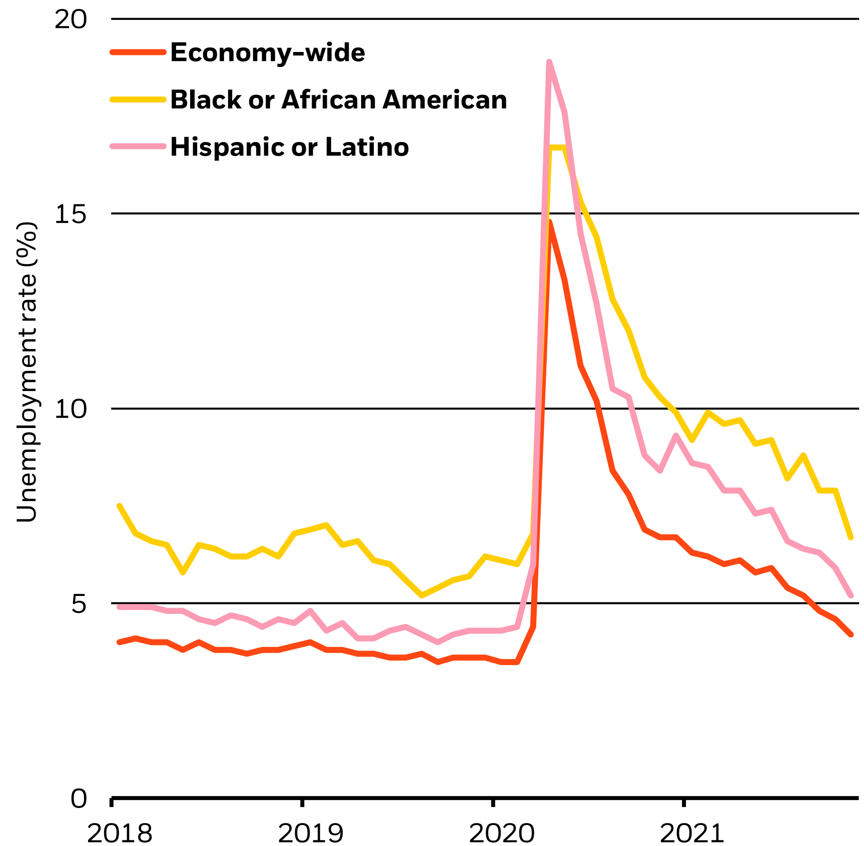
Fed could meet employment test in mid-2022

An uptick participation rate suggests there may still be plenty of spare capacity in the U.S. labor market. A key factor for the Fed is how it interprets "broad and inclusive" job gains.

U.S. labor participation rate, 1948-2021



U.S. unemployment rate, 2018-2021



Forward looking estimates may not come to pass. Sources: BlackRock Investment Institute, U.S. Bureau of Labor Statistics and Eurostat, UK ONS, with data from Haver Analytics, December 2021. Note: the chart on the left shows the rate of labor force participation, measured as the share of the working-age population who are in a job or actively seeking one. The right chart shows the total unemployment rate across the U.S. economy and unemployment rates for the Black/African-American and Hispanic/Latino parts of the population.

Macro landscape

The new regime – and alternatives

Global equities

+

Base case: new nominal

Mildly higher inflation meets with a muted central bank response, keeping real rates historically low. Stocks can thrive, but bonds still suffer as the yield curve modestly steepens.

Safety premium questioned

The perceived safety of government bonds is questioned amid rising debt levels. Investors demand larger compensation for the risk of holding long-term bonds. The yield curve steepens sharply. Yet this is a relative asset shift: equities can still do well.

Productivity boom

Sustained capital investment boosts potential growth, keeping the macro environment disinflationary. The Fed is patient and keeps policy loose, with rates below neutral. The yield curve steepens, real yields stay low, and risk assets do well.

−

Slamming the brakes

Delays to the restart, perhaps due to a new vaccine-resistant virus strain, result in weaker growth but persistently higher inflation. Central banks aggressively push against inflation, initially sparking a surge in yields. Result: recession with high inflation. The yield move hits stocks hard.

Runaway inflation

Inflation expectations become unanchored in the post-Covid confusion. A messy transition to net zero could exacerbate this. 1970s-style stagflation is back. Yields surge across the curve and risk assets sell off.

Stagnation

Growth slumps. Inflation pressures abate because labor market slack holds back wage growth. Central banks are unsuccessful in reviving growth and inflation. The yield curve flattens, and equities take a hit as earnings slump.

Classic risk-off

Asset bubbles form and burst. Trade wars flare up again and hurt global activity. Central banks struggle to respond. Long-term yields fall sharply amid a flight to perceived safety and the term premium turns negative again. Risk assets suffer.

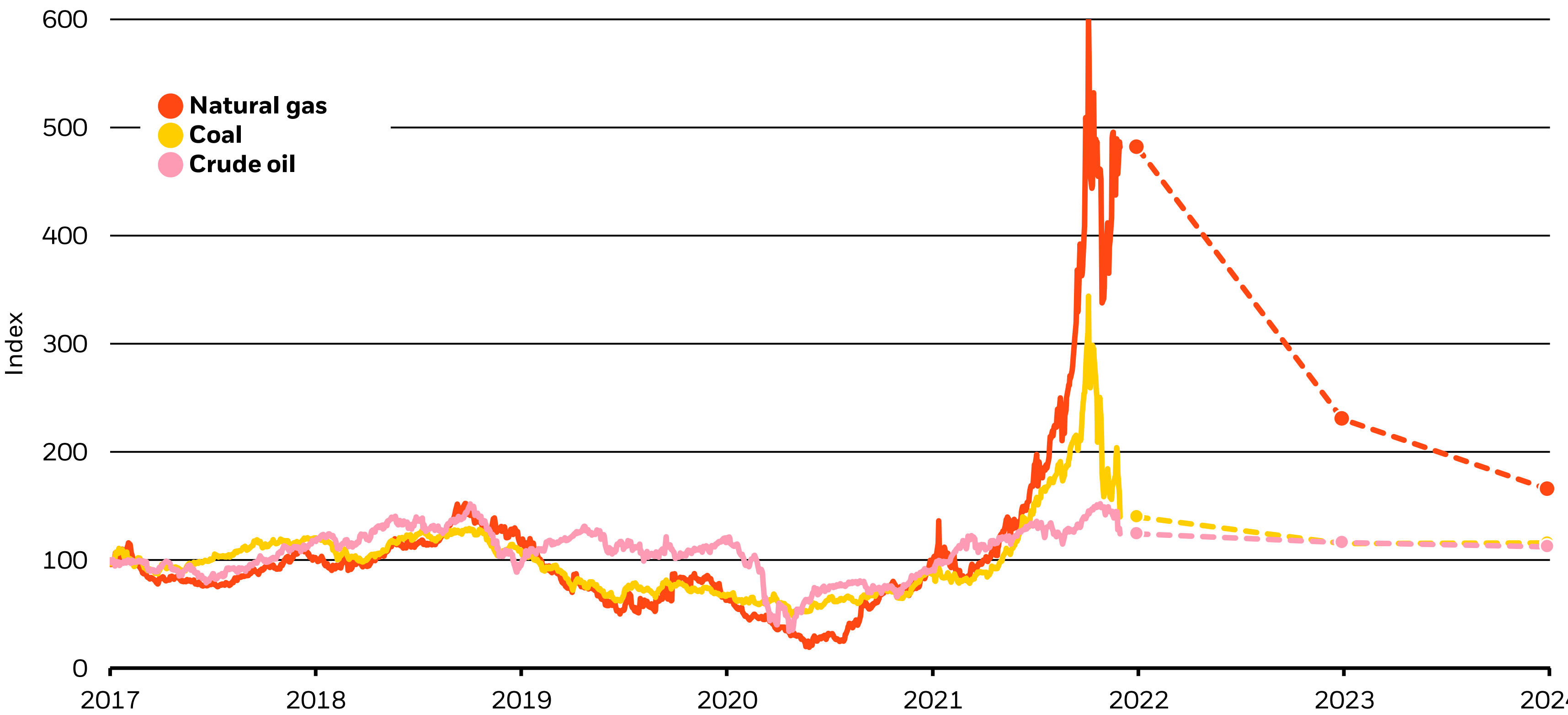
− Global bonds +

Sources: BlackRock Investment Institute, December 2021. Notes: The schematic shows hypothetical macro and policy outcomes. These are our views on the implications for equities and government bonds as of December 2021. For illustrative purposes only. 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 funds, strategy or security in particular.

We see the green transition as a decades-long supply shock

The energy crunch in late 2021 has provided a glimpse of a disorderly transition. A smooth transition is even more important to the path of inflation than monetary policy, in our view.

Futures prices of oil, coal and natural gas, 2017-2024

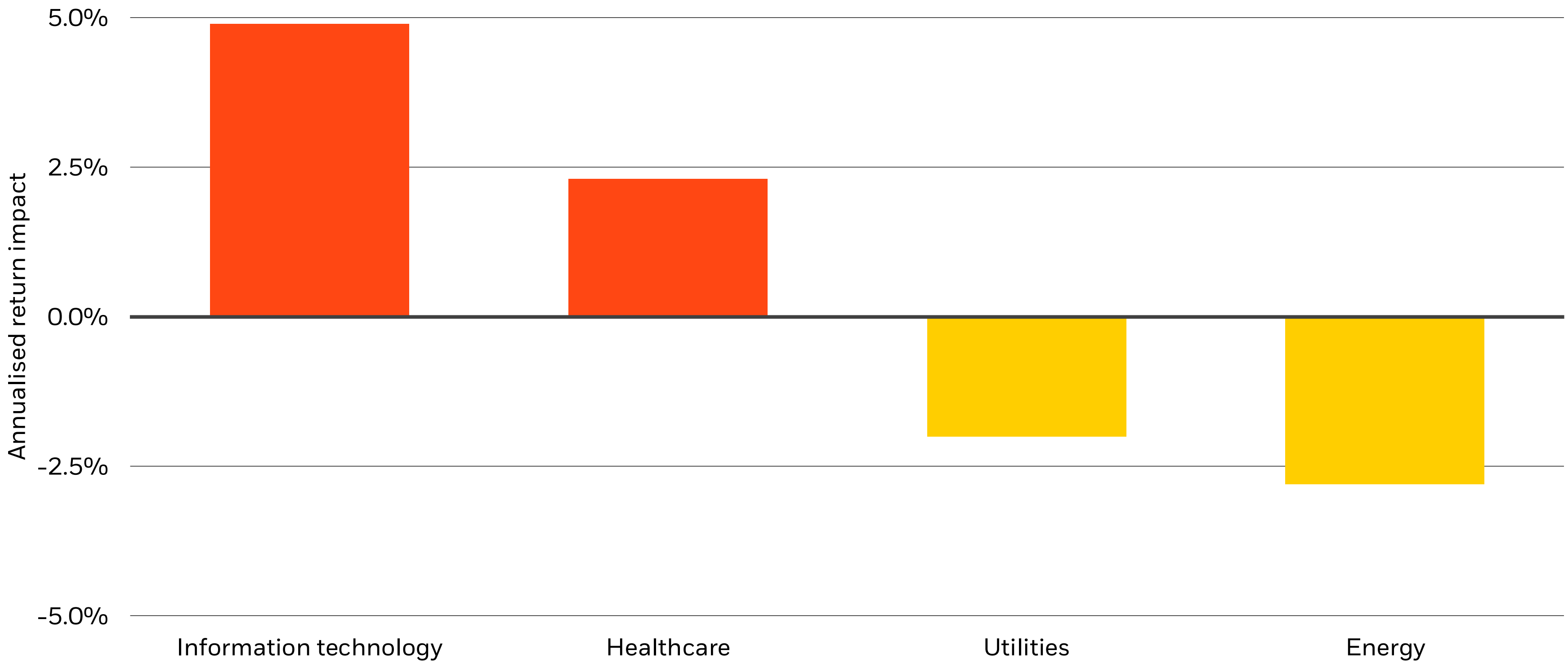


Past performance is not a reliable indicator of current or future results. Sources: BlackRock Investment Institute, with data from Refinitiv, December 2021. Notes: The chart shows natural gas, coal and crude oil prices rebased to 100 at the start of 2017. We use the European Energy Derivatives Exchange natural gas futures, ICE Rotterdam coal futures and Brent crude oil futures to represent natural gas, coal and oil respectively. The dots show futures prices for contracts that expire in December 2022, December 2023 and December 2024.

The transition will have a big relative impact across sectors

We believe avoiding climate-related damages will help drive growth and improve returns for risk assets broadly. We see climate-resilient sectors such as tech and healthcare as potential beneficiaries

Return assumption differentials in green transition vs. no-climate-action

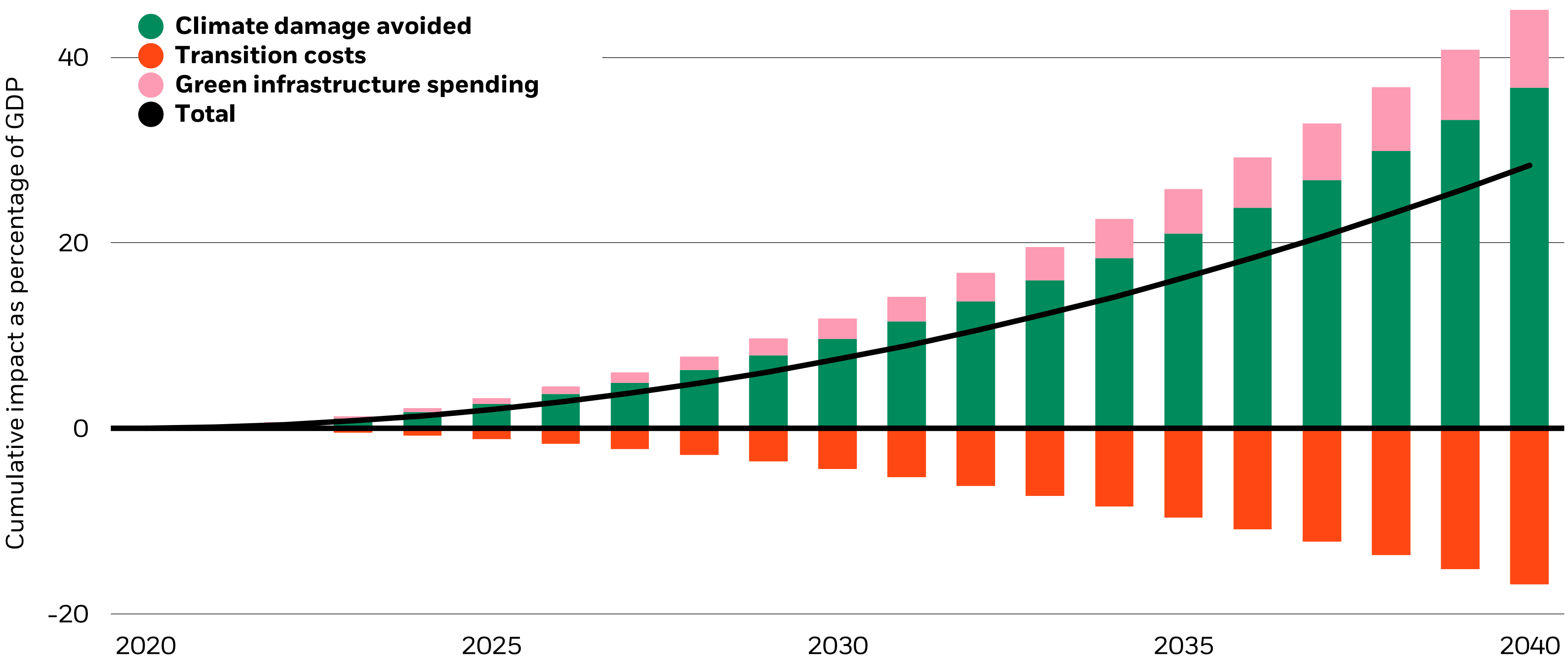


For illustrative purposes only. This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise - or even estimate - of future performance.
Sources: BlackRock Investment Institute, with data from Refinitiv Datastream and Bloomberg, February 2021. Notes: The chart shows the difference in U.S. dollar expected returns over the next five years from February 2021 for four sectors of the MSCI USA Index in our base case of a "green" transition (policies and actions taken to mitigate climate change and damages, and to limit temperature rises to no more than 2 degrees Celsius by 2100) vs. a no-climate-action scenario. The estimated sectoral impact is based on expected differences in economic growth, corporates earnings and asset valuations across the two scenarios. Professional investors can access full details in our *Portfolio perspectives* and CMAs website.

Green transition vs no-climate action are the only scenarios

We believe the baseline is key in gauging the green transition's impact – no climate change is not an option. A net-zero transition implies higher growth and lower inflation than the alternative, in our view.

Estimated cumulative impact as a percentage of GDP for China, 2020-40

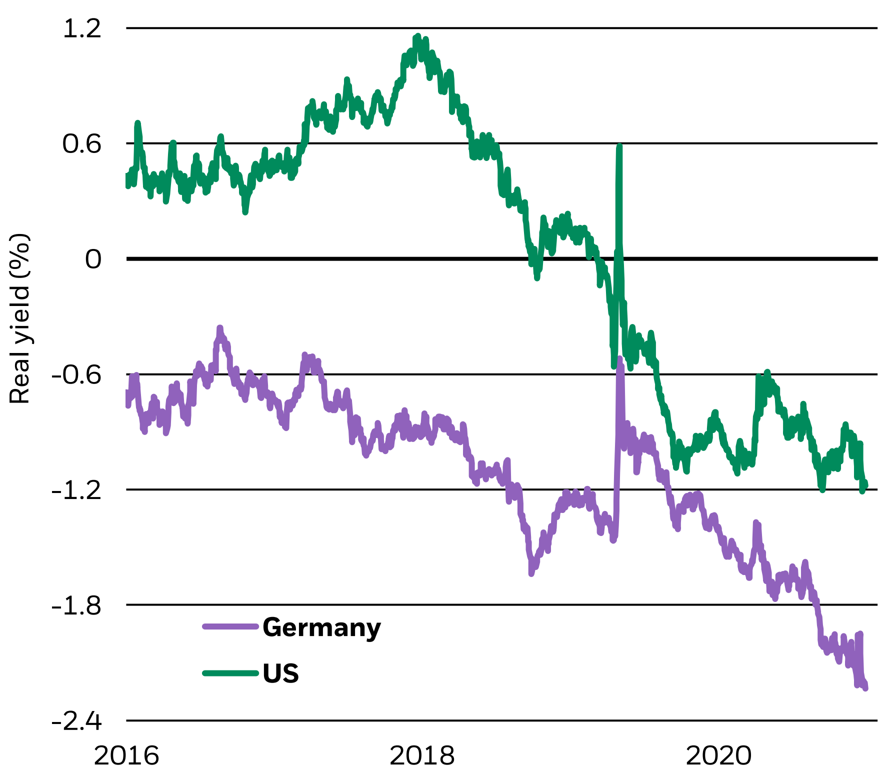


Forward looking estimates may not come to pass. Sources: BlackRock Investment Institute, Banque de France, International Energy Agency, OECD, January 2021. Notes: The chart shows our estimate of the cumulative impact on China's long-term GDP under a green transition relative to a no-climate-action scenario. The analysis is for illustrative purposes only. The bars show the overall estimated impact of three factors – avoidance of climate damages (positive), green infrastructure spending (positive) and costs associated with the transition (negative). The black line shows the estimated net impact. Our estimates of the impact under a climate-aware scenario are based on expected changes in energy consumption including composition, relative carbon and renewables pricing and on potential losses due to global warming. Energy consumption is estimated as a function of GDP and the relative price of energy per the Banque de France's working paper no. 759 titled the Long-term growth impact of climate change and policies. GDP losses from global warming are calibrated on analysis of Impact Assessment Models per W. Nordhaus and A..Moffat (2017). We assume green infrastructure spending programs of 1% of GDP gradually phased out over the next 10 years.

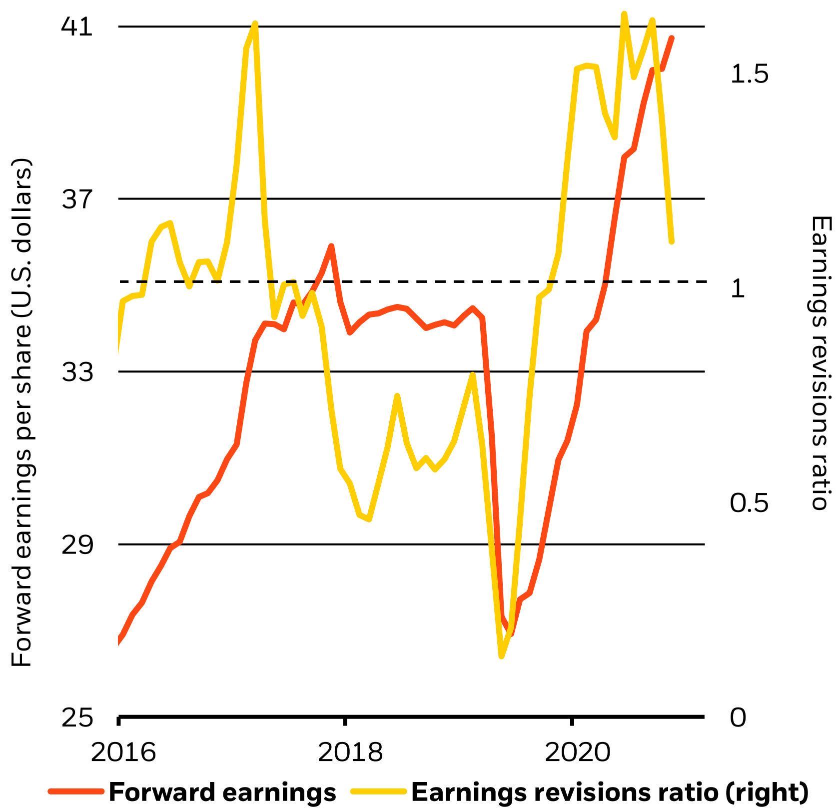
We still like equities yet dial down risk-taking

Low real yields alongside strong earnings are supportive of equity valuations. Yet earnings momentum has peaked, warranting some reduction in risk and seeking out some duration exposure.

U.S. and German 10-year real yields, 2016-2021



Equity earnings and revisions, 2016-2021



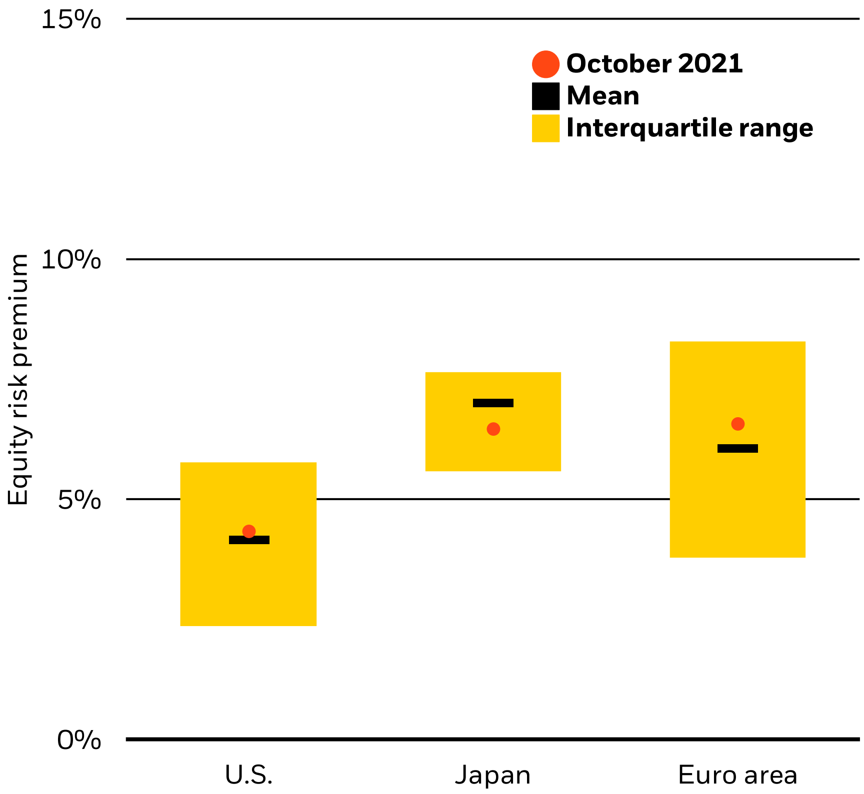
Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index.

Sources: BlackRock Investment Institute, with data from Refinitiv Datastream and Bloomberg, December 2021. Notes: The chart on the left shows the real yield in Germany and the U.S. calculated as the yield spread between the respective 10-year nominal government and the 10-year inflation-protected government bonds in each market. The real yield strips out the expected impact of inflation over the next decade. The chart on the right shows the weighted average forward earnings per share for the MSCI ACWI Index in US dollars per share (orange line) and the ratio of analyst upgrades vs. downgrades, or the earnings revision ratio (yellow line). A ratio above 1 (dotted line) indicates more upgrades vs downgrades.

Diversifying DM equity overweight across regions

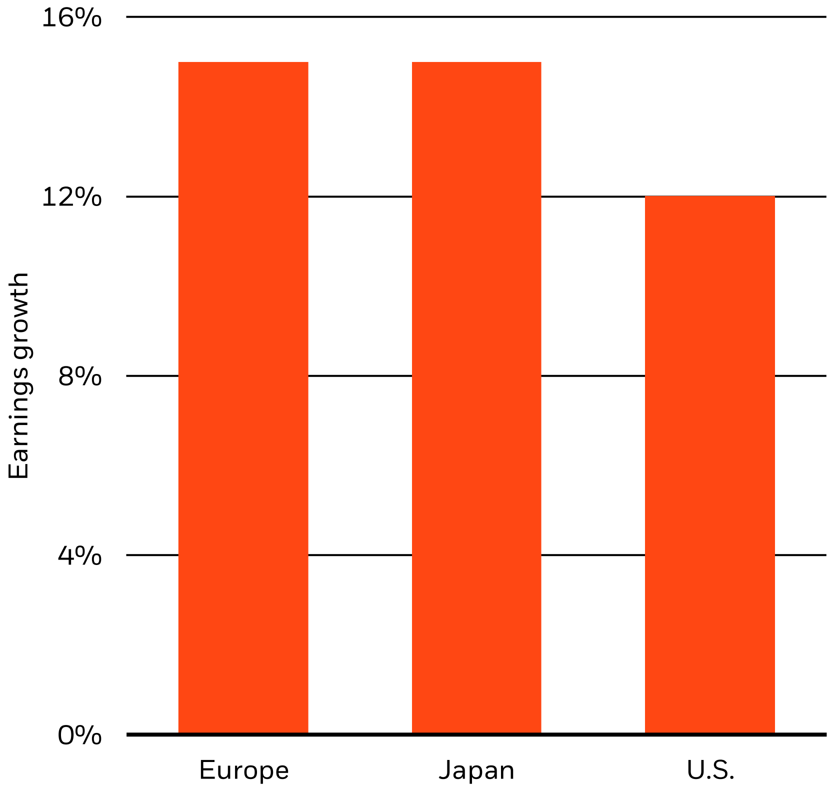
Valuations and forward earnings growth are broadly aligned with history in major DM markets. This tempers our conviction on regional bets even as we stay overweight DM equities.

Equity market valuations, December 2021



Sources: BlackRock Investment Institute, with data from Refinitiv Datastream, December 2021. Note: The chart shows the equity risk premium and historical ranges since 1995 for major DM equity regions based on MSCI indices. We calculate the equity risk premium based on our expectations for nominal interest rates and the implied cost of capital for respective equity markets.

Forward earnings growth, October 2021

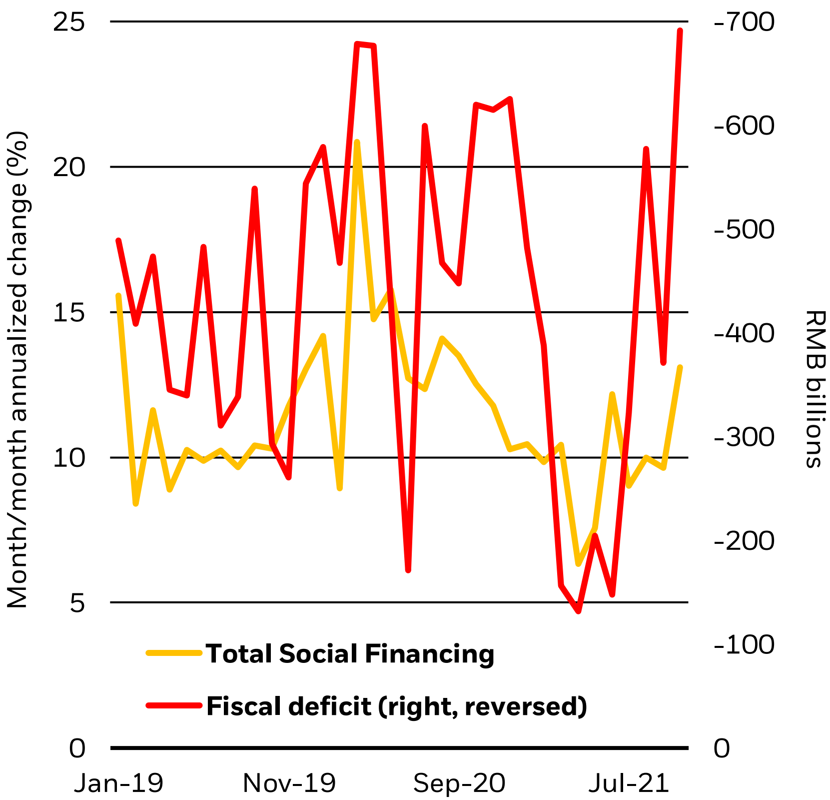


Sources: BlackRock Investment Institute, with data from Refinitiv Datastream, December 2021. Note: The chart show shows forward 12-month earnings growth estimates for the MSCI Europe, MSCI Japan and MSCI USA as of 31 October 2021. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index.

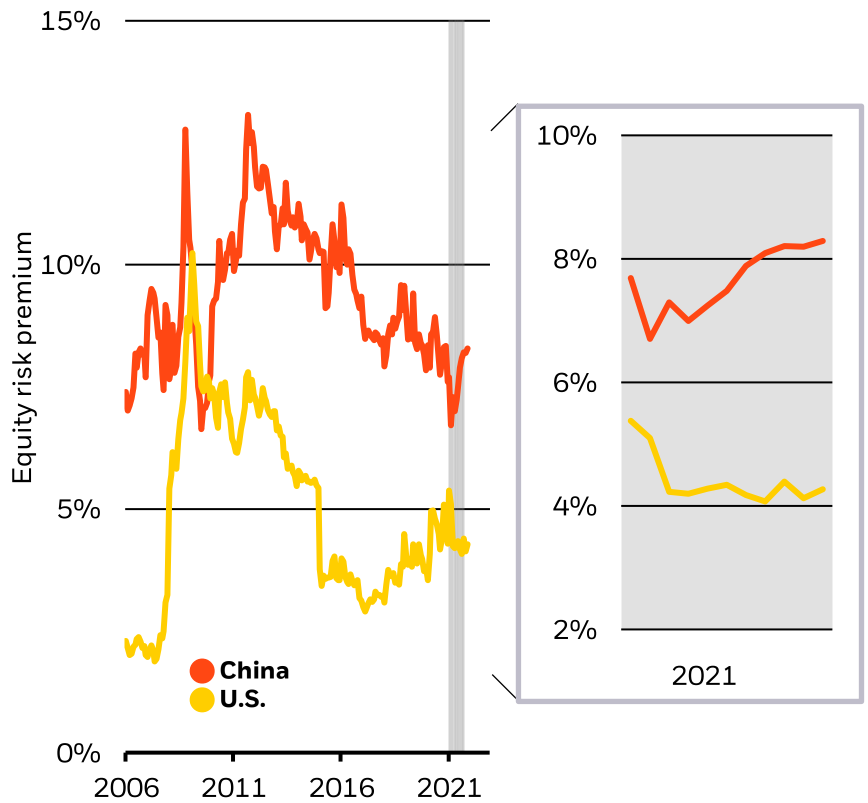
Policy easing could brighten backdrop for China equities

We see gradual policy loosening – both monetary and fiscal – following the tight stance policymakers maintained earlier this year. Valuations suggest markets are already pricing in significant risks.

China broad credit and fiscal deficit, 2019-2021



China vs U.S. equity risk premium, 2006-2021

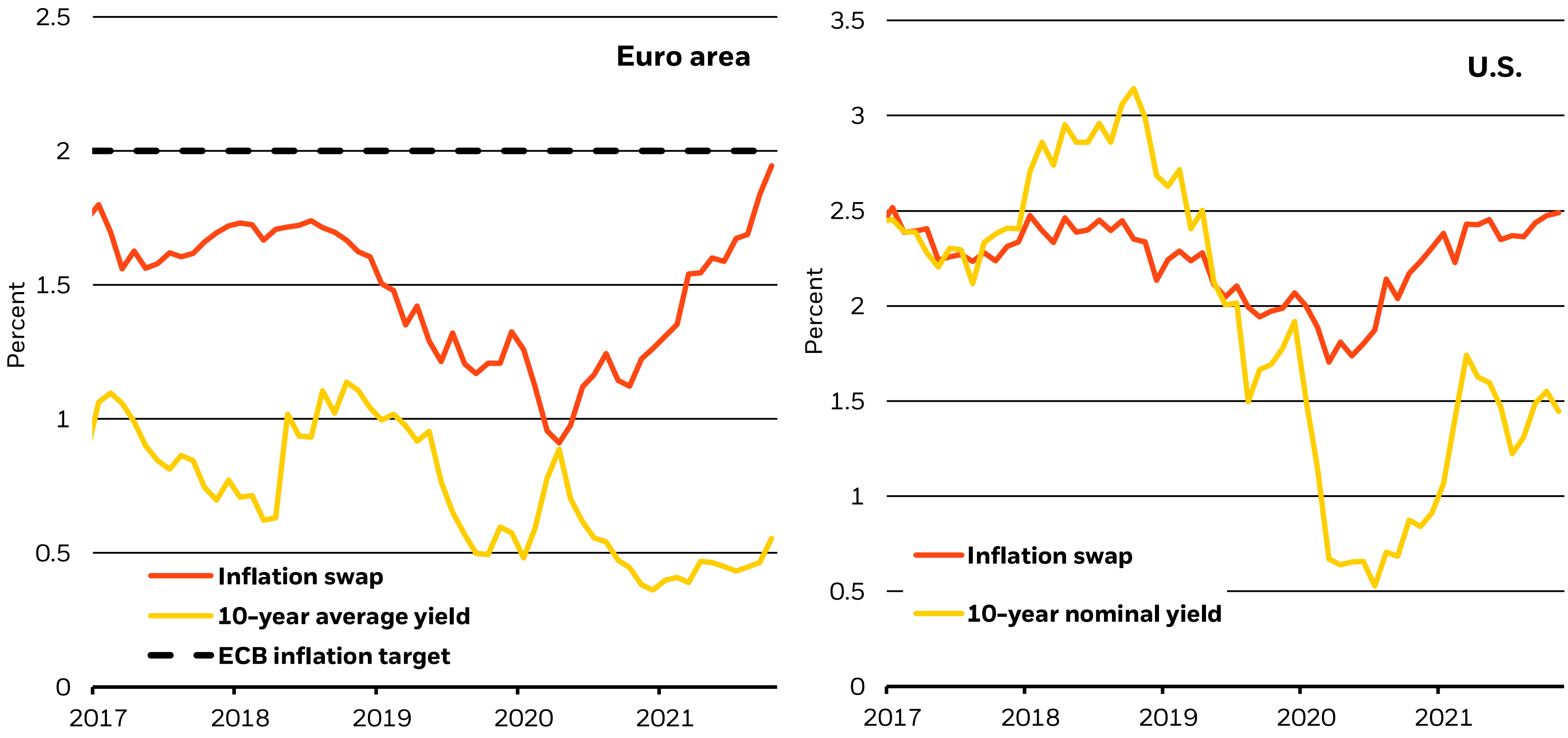


Past performance is no guarantee of future results. Indexes are unmanaged and do not account for fees. It is not possible to invest directly in an index. Sources: BlackRock Investment Institute, with data from Refinitiv, December 2021. Notes: the yellow line on the left chart shows the month-on-month change in seasonally adjusted Total Social Financing – China's broadest measure of aggregate credit and liquidity in the economy – and the monthly fiscal deficit (orange line). The right chart shows our estimate of the equity risk premium for MSCI China and MSCI USA as of 30 November 2021 . We calculate the equity risk premium based on our expectations for nominal interest rates and the implied cost of capital for respective equity markets.

DM nominal yields disconnected from macro backdrop

DM nominal bond yields have stayed relatively low – particularly in the euro area – even as growth and inflation have rebounded. We expect yields to gradually rise keeping us underweight the asset class.

Euro area and U.S. inflation swaps vs. 10-year yields, 2017-2021

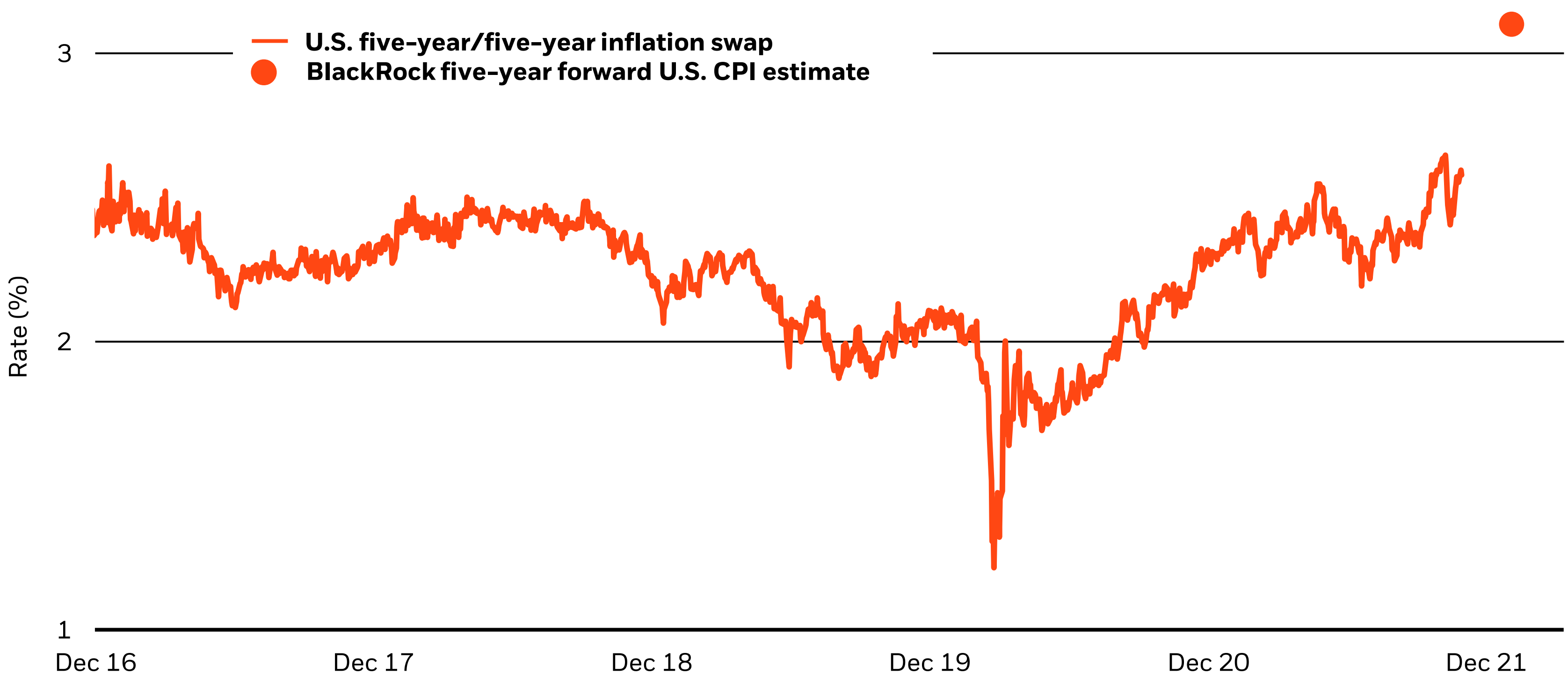


Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index. Sources: BlackRock Investment Institute with data from Bloomberg, December 2021. Notes: The left chart shows pricing of euro area five-year/five-year inflation swaps, the average yield on the Bloomberg Euro Area government bond index and the ECB's target inflation rate. The right chart shows pricing of U.S. five-year/five-year inflation swaps and the yield on the 10-year U.S. Treasury.

Staying overweight U.S. TIPS

We maintain our overweight to U.S. inflation-linked bonds given our expectation of higher medium-term inflation that markets are not yet fully pricing in.

U.S. market pricing of five-year forward inflation vs. our estimate, 2016-2021



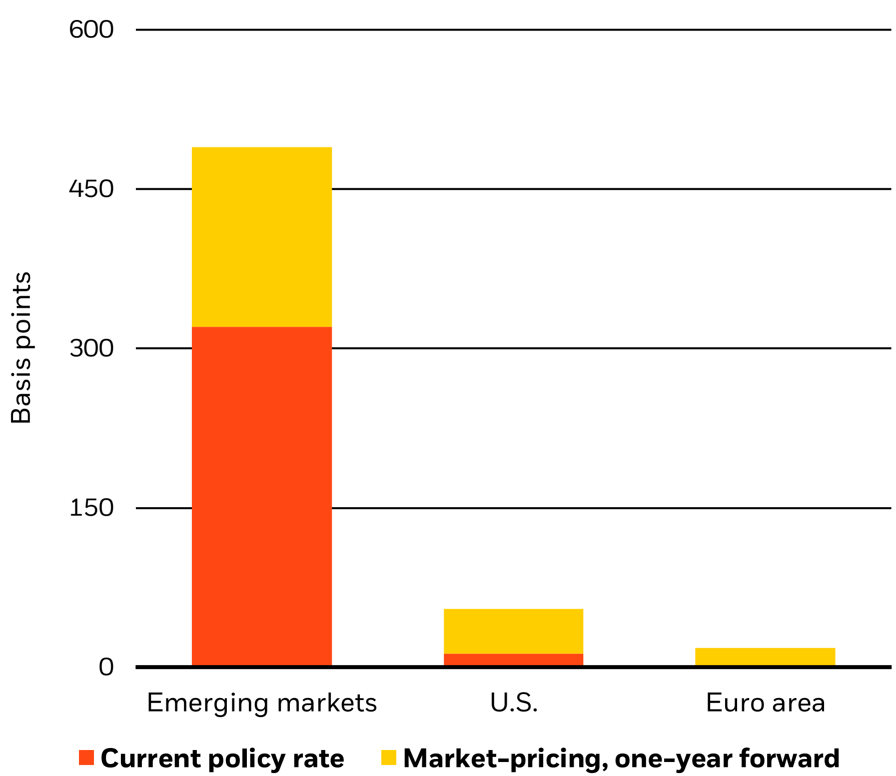
Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index. Forward looking estimates may not come to pass.

Source: BlackRock Investment Institute and Refinitiv Datastream, December 2021. Notes: The chart shows market pricing of where forward expectations of U.S. inflation would be in five years' time based on the 5-year/5-year inflation swap vs our estimate of the average U.S. CPI inflation over 2026-2031.

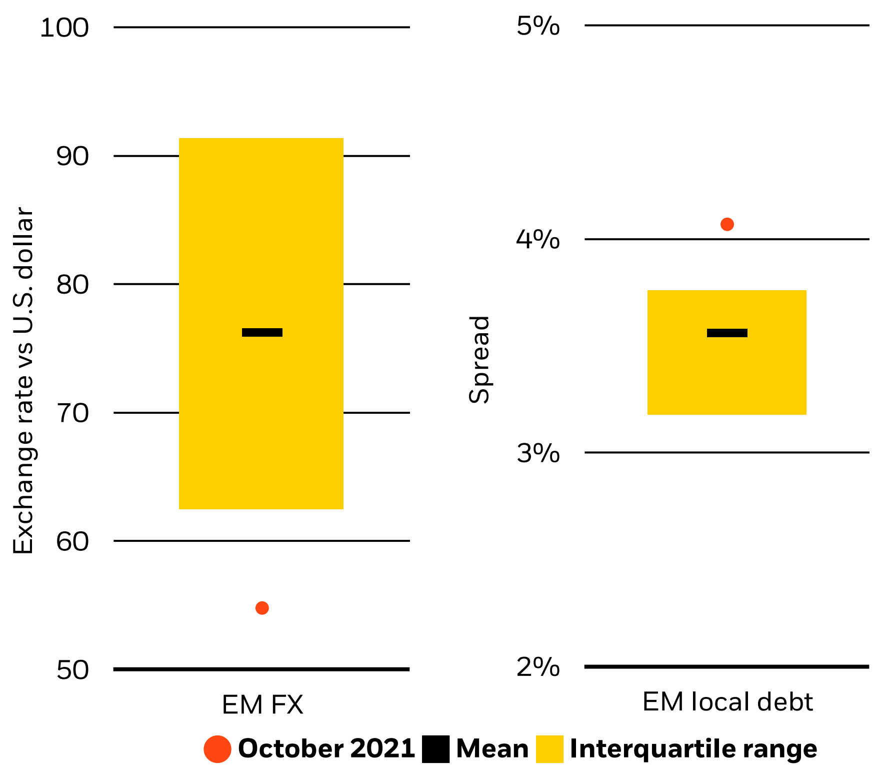
Tactically overweight EM local debt

Many EM central banks have already started raising rates to stave off inflation. We find attractively valued EM local yields and currencies appealing in a world starved for income.

Current vs market-implied policy rates



EM FX and local currency debt spread

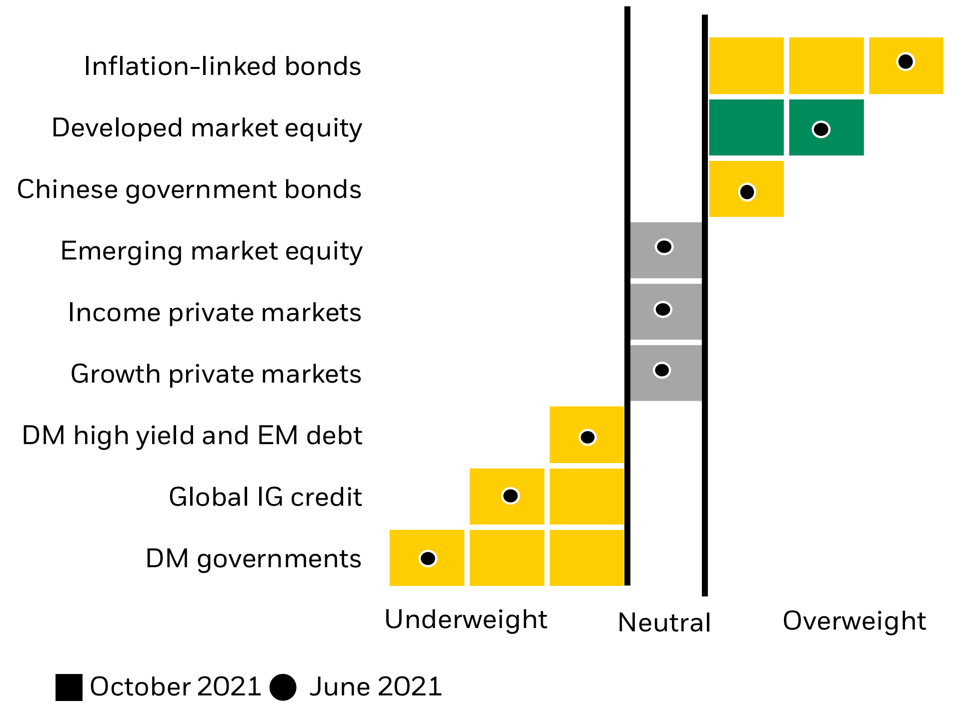


Sources: BlackRock Investment Institute, with data from Refinitiv Datastream and Bloomberg, November 2021. Notes: The left chart shows the current and 1-year forward central bank policy rates. 1-year forward rates based on futures market pricing. Emerging markets policy rates are weighted based on the JP Morgan GBI-EM global Diversified Index. The right chart shows a trade weighted exchange rate of major EM currencies against the U.S. dollar and spreads on EM local debt relative to a 20-year history for each.

The new nominal drives our strategic asset allocation views

We prefer equities over credit and inflation-linked bonds over nominal developed market government bonds. We believe institutional investors remain underinvested in private markets.

Hypothetical U.S. 10-year strategic asset tilts, December 2021

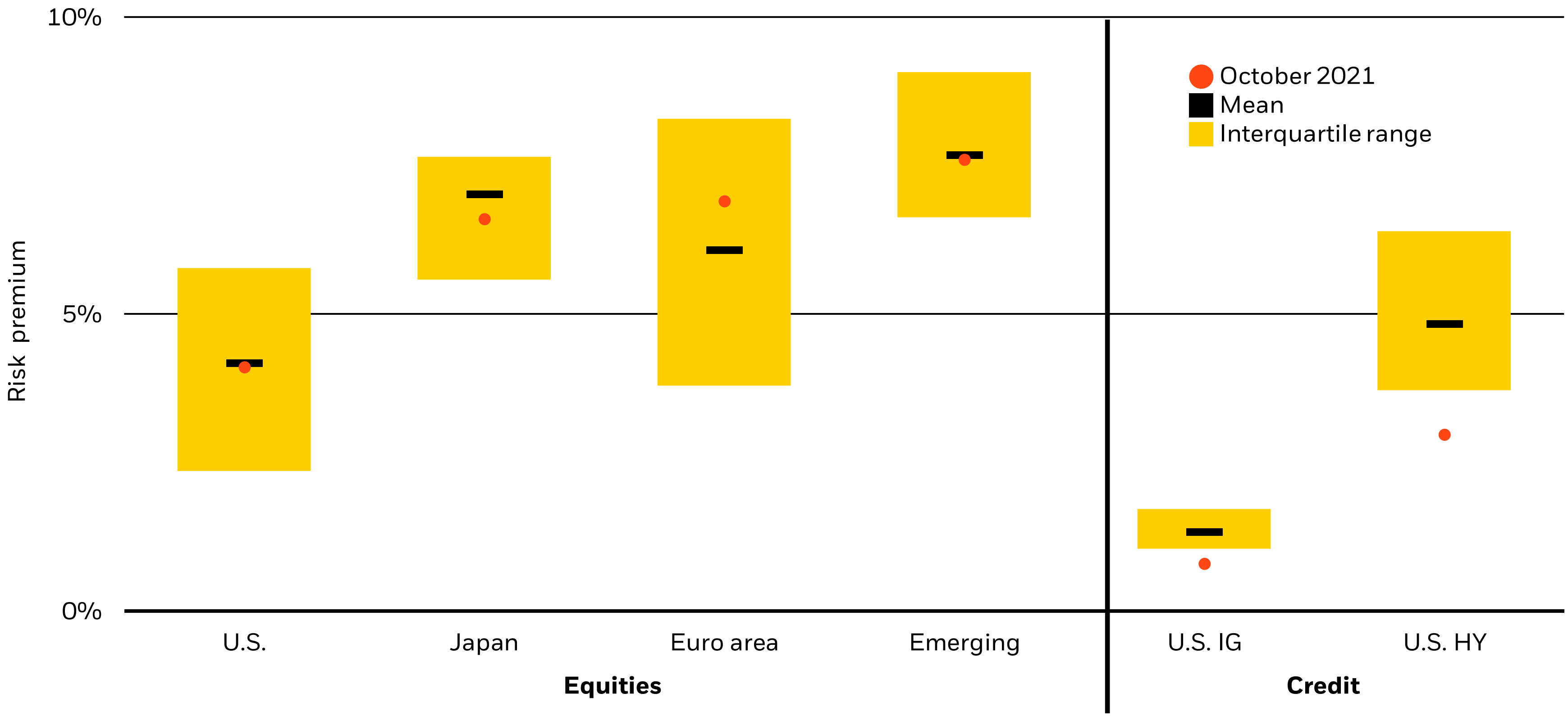


This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise- or even estimate - of future performance.
Source: BlackRock Investment Institute, December 2021. Data as of 30 September 2021. Notes: The left table shows our asset views on a 10-year view from an unconstrained U.S. dollar perspective against a long-term equilibrium allocation. See our capital markets assumptions website for more. The allocation shown is hypothetical and does not represent a real portfolio. It is intended for information purposes only and does not constitute investment advice.

We still prefer equities over credit in strategic allocations

Low real rates – a direct consequence of the new nominal – and slowing but still above trend growth support our strategic equity preference

Equity risk premiums and credit spreads current vs. historical, December 2021

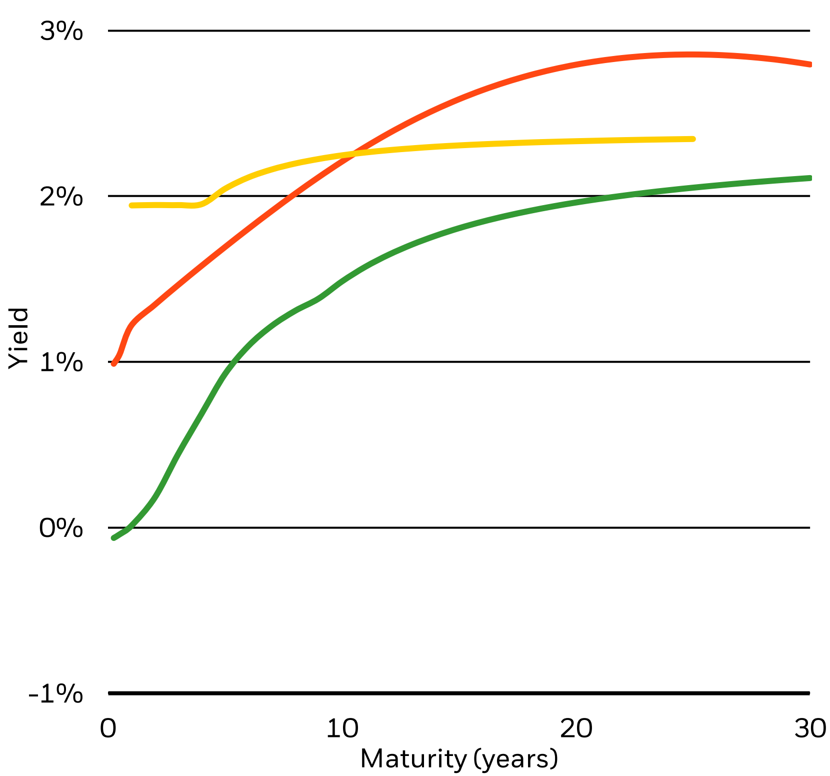


Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest in an index.
Source: BlackRock Investment Institute and Refinitiv Datastream, data as of end-October 2021. The chart shows the equity risk premium and historical ranges since 1995 for major equity regions based on MSCI indices and the credit spreads for the U.S. Investment Grade and High Yield markets based on Bloomberg indices. We calculate the equity risk premium based on our expectations for nominal interest rates and the implied cost of capital for respective equity markets. Credit spreads are calculated by taking the difference between the credit market yields and the corresponding government bond yields.

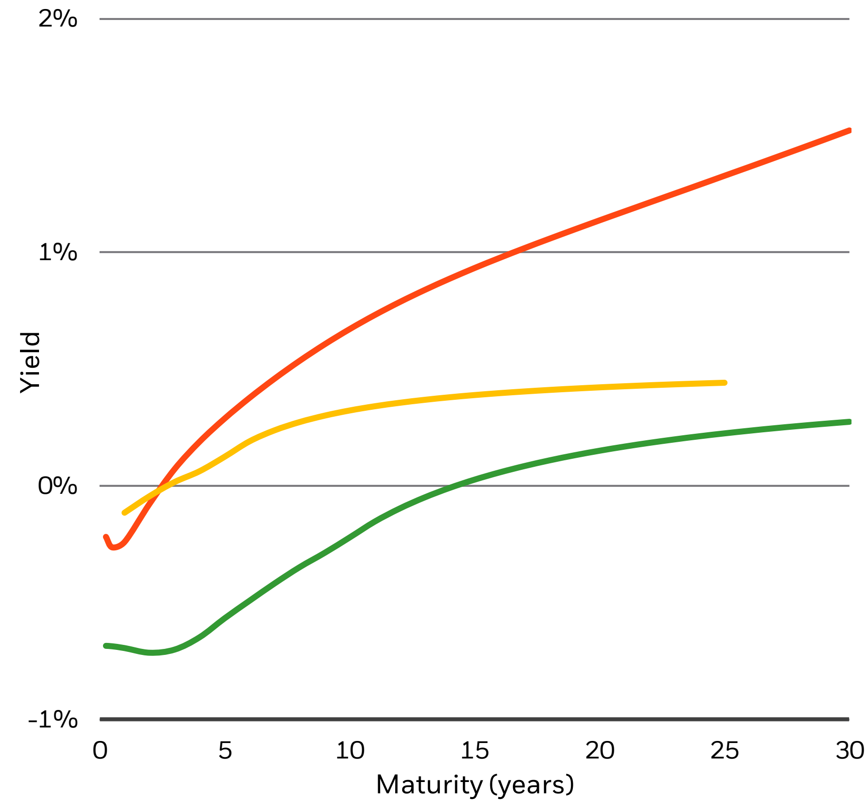
We see more gradual lift-off but steeper curves than market

The new nominal theme leads to a steeper yield curve expectation than market pricing, driving our underweight in developed market nominal government bonds.

U.S. yield curve vs estimates, Dec. 2021



Euro area yield curve vs estimates, Dec. 2021



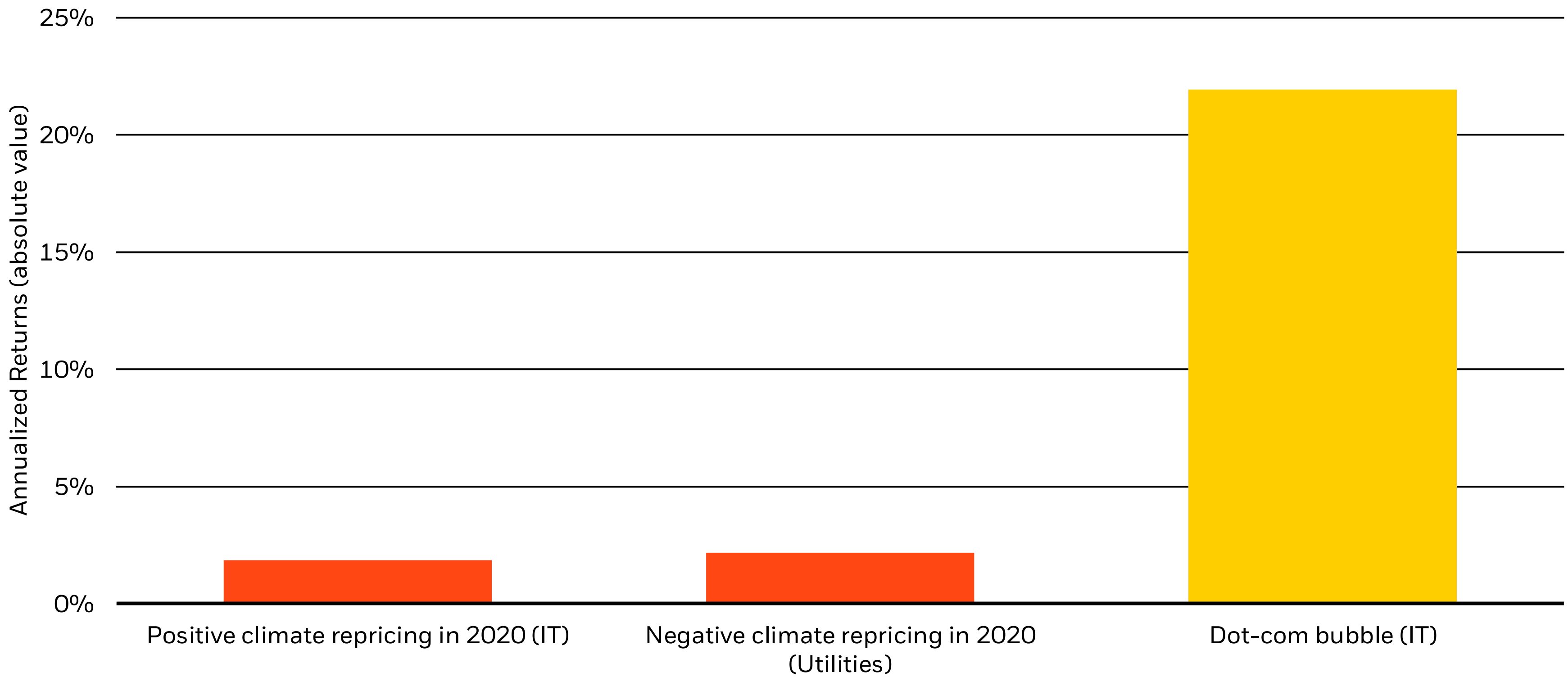
BlackRock estimate, five-year forward **Market-implied curve, five-year forward** **Current spot curve**

Forward looking estimates may not come to pass. Past performance is no guarantee of future results. Source: BlackRock Investment Institute, with data from Refinitiv Datastream, December 2021. Note: the chart shows our estimate of the shape of the U.S. yield curves in five years' time with a market-pricing implied projection and the spot yield curve as of Dec. 6, 2021.

Climate repricing has a long way to go

Climate-driven repricing is already clearly material, yet we believe there is much more to go. We push back against the notion that there is a sustainability "bubble" in asset prices.

Relative repricing impact of change in discount rates, 2020 vs dot-com bubble



Past performance is no guarantee of current or future results. Sources: BlackRock Investment Institute, with data from the Center for Research on Security Prices, December 2021. Notes: To estimate climate-driven repricing, we attribute historic returns to two drivers; cashflow news and discount rate (DR) news. We then identify the DR news associated with climate change using carbon emission intensity (CEI) as a proxy. We isolate the DR component of returns by 1) estimating revisions in future expected returns, based on forecast surprises from a vector-autoregression embedding standard factors such as value, momentum and quality 2) applying the approximate return decomposition of Campbell (1991). Sector returns are MSCI US Sector index- weighted averages of stock-level returns. Attribution to climate scores is given by cross-sectional predictive regressions of DR news on CEI, given by the log of level 1 carbon emissions scaled by firm value. The first two bars represent fitted values for the lowest and highest CEI sectors, respectively. The "Dot-Com Bubble" is the period Jan 1998-June 2001.

Directional views

Strategic (long-term) and tactical (6-12 month) views on broad asset classes, December 2021

Asset	Strategic view	Tactical view	
Equities	+1	+1	We keep our overweight on equities on a strategic horizon. We see the combination of low real rates, strong growth and reasonable valuations as favourable for the asset class. Incorporating climate change in our expected returns brightens the appeal of developed market equities given the large weights of sectors such as tech and healthcare in benchmark indices. Tactically, we are overweight equities amid solid economic fundamentals and historically low real rates.
Credit	-1	Neutral	We stay underweight credit on a strategic basis as valuations are rich, and we prefer to take risk in equities instead. On a tactical horizon, we are neutral credit given low spreads across sectors and prefer EM local markets to high yield.
Govt bonds	-1	-1	We are strategically underweight nominal government bonds given their diminished ability to act as portfolio ballasts with yields near lower bounds. Within the underweight on nominal DM government bonds, we prefer shorter-dated over long-dated maturities. Rising debt levels may eventually pose risks to the low rate regime. We prefer inflation-linked bonds. Tactically, we keep our significant U.S. Treasuries underweight on expectations of rising yields into the Fed's taper and rate kick-off. We prefer inflation-linked bonds for interest rate exposure and as a portfolio diversifier.
Private markets	Neutral		We believe non-traditional return streams, including private credit, have the potential to add value and diversification. Our neutral view is based on a starting allocation that is much larger than what most qualified investors hold. Many institutional investors remain underinvested in private markets as they overestimate liquidity risks, in our view. Private markets are a complex asset class and not suitable for all investors.

Note: Views are from a U.S. dollar perspective as of December 2021. 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.

Tactical granular views: equities

Six to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction

Region	View	Commentary
Developed markets	+1	We are overweight developed market equities. We see still solid growth and low real yields supporting valuations. We prefer to diversify our exposure.
United States	+1	We are overweight U.S. equities on still strong earnings momentum. We do not see gradual policy normalization posing significant headwinds.
Europe	+1	We stay modestly overweight European equities given attractive valuations. We believe the rise in Covid infections may stall but not derail the restart
UK	Neutral	We are neutral UK equities. We see the market as fairly valued and prefer European equities.
Japan	+1	We have a small overweight in Japanese equities. We see a global cyclical rebound boosting earnings growth following underperformance in 2021.
China	+1	We stay moderately positive on Chinese equities as we see a shift to a slightly easier policy. We expect the regulatory clampdown to last but not intensify.
Emerging markets	Neutral	We are neutral EM equities and prefer DM equities, given more challenged restart dynamics and tighter policies in EM.
Asia ex-Japan	Neutral	We are neutral Asia ex-Japan equities. We prefer more targeted exposure to China relative to the broad region.

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

Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index. Note: Views are from a U.S. dollar perspective, December 2021. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast or guarantee of future results. This information should not be relied upon as investment advice regarding any particular fund, strategy or security.

Tactical granular views: fixed income

Six to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction

Asset	View	Commentary
U.S. Treasuries	-2	We are underweight U.S. Treasuries primarily on economic fundamentals and valuations. We see risks tilted toward higher yields into the Fed taper and subsequent lift-off.
Treasury Inflation-Protected Securities	+1	We stay overweight U.S. TIPS as we expect inflation to be persistent and settle at a higher level than pre-Covid. We prefer TIPS for interest rate exposure and diversifiers.
European government bonds	-1	We turn underweight European government bonds. We see yields heading higher. Current market pricing points to no substantive change in monetary policy for several years.
UK Gilts	Neutral	We are neutral UK Gilts. We see UK policy rates rising before DM peers, yet believe market expectations of the subsequent pace are overdone amid constrained supply
China government bonds	+1	We are overweight Chinese government bonds. Potentially easier monetary policy alongside the relative stability of interest rates and potential income brighten their appeal.
Global investment grade	-1	We stay underweight investment grade credit. We see little room for further yield spread compression and remain concerned about interest rate risk.
Global high yield	Neutral	We are neutral high yield. We do not see compression in high yield spreads yet still find the carry attractive. We prefer to take risk in equities.
Emerging market – hard currency	Neutral	We are neutral hard-currency EM debt. We expect it to gain support from the vaccine-led global restart and more predictable U.S. trade policies.
Emerging market – local currency	+1	We are modestly overweight local-currency EM debt on attractive valuations and potential income. Higher yields already reflect EM monetary policy tightening, in our view.
Asia fixed income	+1	We stay overweight Asia fixed income. We find valuations in China compelling relative to risks. Outside China, we like Asian sovereigns and credit for income and carry.

Underweight | Neutral | Overweight | ● Previous view

Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index. Note: Views are from a U.S. dollar perspective, December 2021. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast or guarantee of future results. This information should not be relied upon as investment advice regarding any particular fund, strategy or security.

BlackRock Investment Institute

The BlackRock Investment Institute (BII) leverages the firm's expertise and generates proprietary research to provide insights on the global economy, markets, geopolitics and long-term asset allocation – all to help our clients and portfolio managers navigate financial markets. BII offers strategic and tactical market views, publications and digital tools that are underpinned by proprietary research.

BlackRock Investment Institute

This material is provided for educational purposes only and is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are subject to change. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be and should not be interpreted as recommendations. Reliance upon information in this material is at the sole risk and discretion of the reader. The material was prepared without regard to specific objectives, financial situation or needs of any investor.

This material may contain "forward-looking" information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, and estimates of yields or returns. No representation is made that any performance presented will be achieved by any BlackRock Funds, or that every assumption made in achieving, calculating or presenting either the forward-looking information or any historical performance information herein has been considered or stated in preparing this material. Any changes to assumptions that may have been made in preparing this material could have a material impact on the investment returns that are presented herein. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy.

Issued by BlackRock Investment Management (Australia) Limited ABN 13 006 165 975, AFSL 230 523 (BIMAL) for the exclusive use of the recipient, who warrants by receipt of this material that they are a wholesale client as defined under the Australian Corporations Act 2001 (Cth) and the New Zealand Financial Advisers Act 2008 respectively.

This material provides general information only and does not take into account your individual objectives, financial situation, needs or circumstances. Before making any investment decision, you should therefore assess whether the material is appropriate for you and obtain financial advice tailored to you having regard to your individual objectives, financial situation, needs and circumstances. This material is not a financial product recommendation or an offer or solicitation with respect to the purchase or sale of any financial product in any jurisdiction.

This material is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. BIMAL is a part of the global BlackRock Group which comprises of financial product issuers and investment managers around the world. BIMAL is the issuer of financial products and acts as an investment manager in Australia. BIMAL does not offer financial products to persons in New Zealand who are retail investors (as that term is defined in the Financial Markets Conduct Act 2013 (FMCA)). This material does not constitute or relate to such an offer. To the extent that this material does constitute or relate to such an offer of financial products, the offer is only made to, and capable of acceptance by, persons in New Zealand who are wholesale investors (as that term is defined in the FMCA).

BIMAL, its officers, employees and agents believe that the information in this material and the sources on which it is based (which may be sourced from third parties) are correct as at the date of publication. While every care has been taken in the preparation of this material, no warranty of accuracy or reliability is given and no responsibility for the information is accepted by BIMAL, its officers, employees or agents. Except where contrary to law, BIMAL excludes all liability for this information.

The information provided here is not intended to constitute financial, tax, legal or accounting advice. You should consult your own advisers on such matters.. BlackRock does not guarantee the suitability or potential value of any particular investment. Investment involves risk including possible loss of principal. International investing involves risks, including risks related to foreign currency, limited liquidity, less government regulation, and the possibility of substantial volatility due to adverse political, economic or other developments.These risks are often heightened for investments in emerging/developing markets or smaller capital markets.