

# BLACKROCK INVESTMENT INSTITUTE



## Richard Turnill

Global Chief Investment Strategist

Richard Turnill is BlackRock's Global Chief Investment Strategist. He was previously Chief Investment Strategist for BlackRock's fixed income and active equity businesses, and has also led the Global Equity investment team. Richard started his career at the Bank of England.

Share your feedback at [BlackRockInvestmentInstitute@blackrock.com](mailto:BlackRockInvestmentInstitute@blackrock.com)



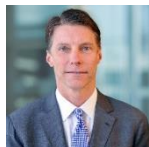
## Isabelle Mateos y Lago

Chief Multi-Asset Strategist  
BlackRock Investment Institute



## Kate Moore

Chief Equity Strategist  
BlackRock Investment Institute



## Scott Thiel

Chief Fixed Income Strategist  
BlackRock Investment Institute

## WEEKLY COMMENTARY • APRIL 1, 2019

### Key points

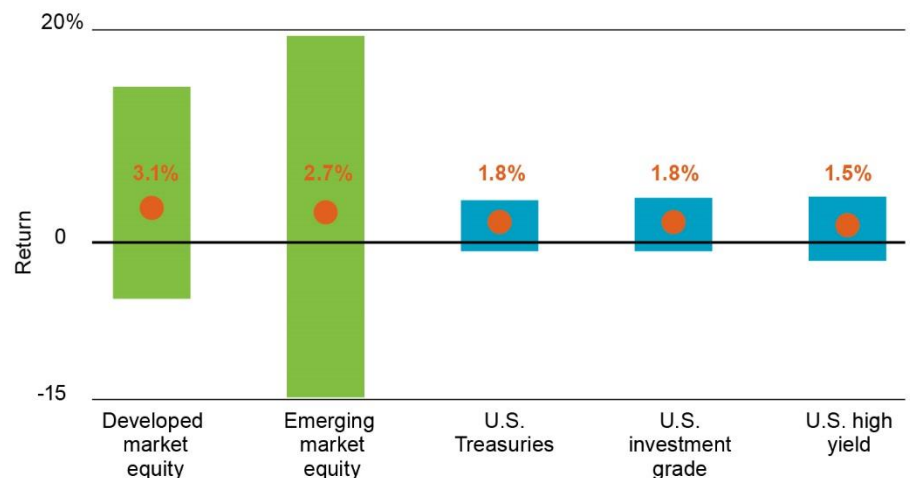
- 1 The path for risk assets to grind higher has narrowed, in our view. We are moderately risk-on but see opportunity to take profits and rebalance.
- 2 Economic data painted a mixed picture of global growth trends. The 10-year U.S. government bond yield fell to a 15-month low.
- 3 Markets expect this week's U.S. jobs report to show nonfarm payrolls growth rebounded in March from a nearly 18-month low in February.

## 1 Our outlook for the second quarter

Where are risk assets headed after a strong first quarter? We see a repeat as unlikely and a narrower path for a grind higher. The global economy must remain strong enough to quell recession fears but weak enough to keep policymakers on hold, we believe. We are moderately pro-risk, with a penchant to rebalance toward quality.

### Chart of the week

Performance of selected assets during U.S. late-cycle quarters, 1988-2019



The figures shown relate to past performance and are not a reliable indicator of current or future results. It is not possible to invest directly in an index. Sources: BlackRock Investment Institute, with data from Thomson Reuters, March 2019. Notes: We looked at asset returns in each quarter since 1988 that fell during a late-cycle period. We identify such periods via a "cluster analysis" that groups together time periods where economic series behaved in similar ways. Variables considered include measures of economic slack, wage and price inflation, the monetary policy stance and the growth of private sector leverage. The dots show mean returns over the time period. The bars show the 10th to 90th percentile range. Indexes used are the MSCI World and Emerging Markets indexes, and the Bloomberg Barclays U.S. Government, U.S. Corporate and U.S. High Yield indexes. Index returns do not reflect any management fees, transaction costs or expenses.

A key theme from [our latest investment outlook](#): *growth slowdown*. We see further decelerations in both economic and earnings growth ahead, with [pressure on historically high corporate profit margins](#). Yet we are also increasingly confident that the global economy can remain in late-cycle throughout 2019. How do markets typically fare during late-cycle periods? Global equities produced quarterly returns above the full-cycle historical average, edging out fixed income, according to our analysis. Yet there was wide dispersion and pronounced downside around these averages, particularly in emerging market equities. Within fixed income, U.S. Treasuries modestly outperformed riskier credit sectors. See the chart above.

## A new theme and a Chinese rebound

We introduce a new investment theme this quarter: *patient policymakers*. It reflects the Federal Reserve's dovish pivot — and a similar emphasis on patience among other developed market central banks. China has moved to easier credit and fiscal policies, but with greater caution than in the 2015-2016 downturn. The supportive stance of global policymakers should underpin both equities and bonds. Yet the strength of the year-to-date rally across markets looks fragile and hard to replicate, and we believe market expectations of U.S. monetary policy are now overly dovish. This is where our third theme, *balancing risk and reward*, takes on new importance. Signs of a more pronounced growth slowdown or new trade disputes have the potential to stoke uncertainty. A rapid rise in asset valuations and plunge in volatility point to creeping market complacency, but fund flows and market positioning are far from euphoric. These crosscurrents lead us to favor a selective approach to risk-taking in the second quarter. We see quality assets, including U.S. Treasuries, as an important source of portfolio resilience.

China plays a pivotal role in our views on the global economy, markets and geopolitics. We are increasingly confident that Chinese growth is likely to reaccelerate from the second quarter onward, thanks to easing fiscal and monetary policies. Improving Chinese activity should benefit global growth, especially in Asia and Europe, and could also boost global capex. We see potential for a U.S.-China trade deal to address the bilateral trade gap and market access, but caution that [U.S.-China tensions](#), particularly over tech dominance, are likely here to stay. A potential flare-up between the U.S. and Europe over U.S. auto tariffs also merits concern.

Bottom line: We remain modestly overweight stocks versus bonds, but favor trimming exposures that have notched particularly strong returns so far this year. Our preferred regions remain the U.S. and emerging markets. We favor quality equities in sectors that can sustain earnings growth even in a slowing economic environment, such as selected health care and tech firms. In bonds, we focus on income, including emerging market debt, but also see an important role for U.S. Treasuries as portfolio shock absorbers.

## 2 Week in review

- Global economic data painted a mixed picture. Consumer confidence in both the U.S. and Germany fell, but Germany's Ifo business climate index exceeded expectations. U.S. consumer spending in January was softer than expected while core inflation eased. The 10-year U.S. government bond yield fell to a 15-month low.
- Some emerging market currencies experienced turbulence. The Turkish lira's wild swings extended into a second week ahead of local elections. The Brazilian real dropped to a five-month low against the U.S. dollar on concerns that President Jair Bolsonaro's signature pension reform might be stalling. The Argentine peso hit a record low against the dollar on growth worries.
- The UK Parliament rejected Prime Minister Theresa May's Brexit deal for a third time. We see growing likelihood of further delays to the Brexit process. The U.S. and China resumed trade talks, though few details emerged.

### Global snapshot

Weekly and 12-month performance of selected assets

Equities	Week	YTD	12 Months	Div. Yield
<b>U.S. Large Caps</b>	1.2%	13.7%	9.5%	2.0%
<b>U.S. Small Caps</b>	2.3%	14.6%	2.1%	1.6%
<b>Non-U.S. World</b>	0.0%	10.4%	-3.6%	3.2%
<b>Non-U.S. Developed</b>	0.0%	10.1%	-3.1%	3.4%
<b>Japan</b>	-1.4%	6.8%	-6.8%	2.4%
<b>Emerging</b>	-0.1%	10.0%	-6.9%	2.7%
<b>Asia ex-Japan</b>	-0.1%	11.4%	-4.8%	2.5%

Commodities	Week	YTD	12 Months	Level
<b>Brent Crude Oil</b>	2.0%	27.1%	-2.7%	\$68.39
<b>Gold</b>	-1.6%	0.7%	-2.5%	\$,292
<b>Copper</b>	2.7%	8.7%	-3.5%	\$6,483

Bonds	Week	YTD	12 Months	Yield
<b>U.S. Treasuries</b>	0.4%	2.1%	4.2%	2.4%
<b>U.S. TIPS</b>	0.1%	3.2%	2.7%	2.6%
<b>U.S. Investment Grade</b>	0.5%	5.1%	4.9%	3.6%
<b>U.S. High Yield</b>	0.3%	7.3%	5.9%	6.4%
<b>U.S. Municipals</b>	0.4%	2.9%	5.4%	2.3%
<b>Non-U.S. Developed</b>	-0.5%	1.5%	-4.1%	0.7%
<b>EM \$ Bonds</b>	0.3%	7.0%	4.2%	6.0%

Currencies	Week	YTD	12 Months	Level
<b>Euro/USD</b>	-0.8%	-2.2%	-8.8%	1.12
<b>USD/Yen</b>	0.8%	1.2%	4.2%	110.86
<b>Pound/USD</b>	-1.4%	2.1%	-7.0%	1.30

**Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index.** Source: Thomson Reuters. As of March 29, 2019. Notes: Weekly data through Friday. Equity and bond performance are measured in total index returns in U.S. dollars. U.S. large caps are represented by the S&P 500 Index; U.S. small caps are represented by the Russell 2000 Index; Non-U.S. world equity by the MSCI ACWI ex U.S.; non-U.S. developed equity by the MSCI EAFE Index; Japan, Emerging and Asia ex-Japan by their respective MSCI Indexes; U.S. Treasuries by the Bloomberg Barclays U.S. Treasury Index; U.S. TIPS by the U.S. Treasury Inflation Notes Total Return Index; U.S. investment grade by the Bloomberg Barclays U.S. Corporate Index; U.S. high yield by the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index; U.S. municipals by the Bloomberg Barclays Municipal Bond Index; non-U.S. developed bonds by the Bloomberg Barclays Global Aggregate ex USD; and emerging market \$ bonds by the JP Morgan EMBI Global Diversified Index. Brent crude oil prices are in U.S. dollars per barrel, gold prices are in U.S. dollar per troy ounce and copper prices are in U.S. dollar per metric ton. The Euro/USD level is represented by U.S. dollar per euro, USD/JPY by yen per U.S. dollar and Pound/USD by U.S. dollar per pound.

# 3 Week ahead

**April 1**

U.S. retail sales; global manufacturing Purchasing Managers' Index (PMI)

**April 4**

German industrial orders

**April 3**

Chinese Vice Premier Liu He visits the U.S. for trade talks; U.S. non-manufacturing PMI

**April 5**

U.S. jobs

This week's U.S. employment data will offer clues about the health of the labor market – and the overall economy. Markets are keen to learn if February's weak nonfarm payrolls growth – the slowest since September 2017 – was a one-off or the start of a downtrend. Consensus estimates point to a rebound in the March data. This would confirm ongoing strength in the labor market and potentially ease growth worries caused by a recent raft of mixed global economic data.

## Asset class views

Views from a U.S. dollar perspective over a three-month horizon

	Asset class	View	Comments
Equities	U.S.	▲	A slowing but still growing economy underlies our positive view. We prefer quality companies with strong balance sheets in a late-cycle environment. Health care and technology are among our favored sectors.
	Europe	▼	Weak economic momentum and political risks are challenges to earnings growth. A value bias makes Europe less attractive without a clear catalyst for value outperformance. We prefer higher-quality, globally oriented firms.
	Japan	—	Cheap valuations are supportive, along with shareholder-friendly corporate behavior, central bank stock buying and political stability. Earnings uncertainty is a key risk.
	EM	▲	Economic reforms and policy stimulus support EM stocks. Improved consumption and economic activity from Chinese stimulus could help offset any trade-related weakness. We see the greatest opportunities in EM Asia.
	Asia ex-Japan	▲	The economic backdrop is encouraging, with near-term resilience in China and solid corporate earnings. We like selected Southeast Asian markets but recognize a worse-than-expected Chinese slowdown or disruptions in global trade would pose risks to the entire region.
Fixed income	U.S. government bonds	—	We are cautious on U.S. Treasury valuations after the recent rally, but still see them as portfolio diversifiers given their negative correlation with equities. We expect a gradual steepening of the yield curve, driven by still-solid U.S. growth, a Fed willing to tolerate inflation overshoots — and a potential shift in the Fed's balance sheet toward shorter-term maturities. This supports two- to five-year maturities and inflation-protected securities.
	U.S. municipals	▲	We see coupon-like returns amid a benign interest rate backdrop and favorable supply-demand dynamics. New issuance is lagging the total amount of debt that is called, refunded or matures. The tax overhaul has made munis' tax-exempt status more attractive in many U.S. states, driving inflows.
	U.S. credit	—	A still-growing economy, reduced macro volatility and a decline in issuance support credit markets. Conservative corporate behavior – including lower mergers and acquisitions volume and a focus on balance sheet strength – also help. We favor BBBs and prefer bonds over loans in high yield.
	European sovereigns	▼	Low yields, European political risks, and the potential for a market reassessment of easy ECB policy or pessimistic euro area growth expectations all make us wary on European sovereigns, particularly peripherals. Yet any further deterioration in U.S.-European trade tensions could push yields lower.
	European credit	▼	"Low for longer" ECB policy should reduce market volatility and support credit as a source of income. European bank balance sheets have improved after years of repair, underpinning fundamentals. Yet valuations are rich after a dramatic rally. We prefer high yield credits, supported by muted issuance and strong inflows.
	EM debt	—	Prospects for a Chinese growth turnaround and a pause in U.S. dollar strength support both local- and hard-currency markets. Valuations are attractive despite the recent rally, with limited issuance adding to positives. Risks include worsening U.S.-China relations and slower global growth.
	Asia fixed income	—	A focus on quality is prudent in credit. We favor investment grade in India, China and parts of the Middle East, and high yield in Indonesia. We are cautious on Chinese government debt despite its inclusion in global indexes from April. We see rising funding needs outstripping foreign inflows.
	Other	Commodities and currencies	*

▲ Overweight — Neutral ▼ Underweight

\*Given the breadth of this category, we do not offer a consolidated view. 0419U-799696-3/4

## BlackRock Investment Institute

The [BlackRock Investment Institute](#) (BII) provides connectivity between BlackRock's portfolio managers; originates economic, markets and portfolio construction research; and publishes investment insights. Our goals are to help our portfolio managers become even better investors and to produce thought-provoking investment content for clients and policymakers.

**General Disclosure:** *This material 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 as of April 1, 2019, and may change. The information and opinions are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by BlackRock, its officers, employees or agents. This material may contain 'forward looking' information that is not purely historical in nature. Such information may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.*

**In the U.S.**, this material is intended for public distribution. **In Canada**, this material is intended for permitted clients only. **In the UK and outside the EEA:** This material is for distribution to professional clients (as defined by the Financial Conduct Authority or MiFID Rules) and qualified investors only and should not be relied upon by any other persons. Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: 020 7743 3000. Registered in England No. 2020394. BlackRock is a trading name of BlackRock Investment Management (UK) Limited. **In the EEA**, it is issued by BlackRock (Netherlands) BV: Amstelplein 1, 1096 HA, Amsterdam, Tel: 020 – 549 5200, Trade Register No. 17068311. BlackRock is a trading name of BlackRock (Netherlands) B.V. **For qualified investors in Switzerland**, this material shall be exclusively made available to, and directed at, qualified investors as defined in the Swiss Collective Investment Schemes Act of 23 June 2006, as amended. **In South Africa**, please be advised that BlackRock Investment Management (UK) Limited is an authorised financial services provider with the South African Financial Services Board, FSP No. 43288. **In DIFC:** This information can be distributed in and from the Dubai International Financial Centre (DIFC) by BlackRock Advisors (UK) Limited — Dubai Branch which is regulated by the Dubai Financial Services Authority (DFSA) and is only directed at 'Professional Clients' and no other person should rely upon the information contained within it. Neither the DFSA or any other authority or regulator located in the GCC or MENA region has approved this information. This information and associated materials have been provided for your exclusive use. This document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution would be unlawful under the securities laws of such. Any distribution, by whatever means, of this document and related material to persons other than those referred to above is strictly prohibited. **For investors in Israel:** BlackRock Investment Management (UK) Limited is not licensed under Israel's Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 5755-1995 (the "Advice Law"), nor does it carry insurance thereunder. **In Singapore**, this is issued by BlackRock (Singapore) Limited (Co. registration no. 200010143N). **In Hong Kong**, this material is issued by BlackRock Asset Management North Asia Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong. **In South Korea**, this material is for distribution to the Qualified Professional Investors (as defined in the Financial Investment Services and Capital Market Act and its sub-regulations). **In Taiwan**, Independently operated by BlackRock Investment Management (Taiwan) Limited. Address: 28F., No. 100, Songren Rd., Xinyi Dist., Taipei City 110, Taiwan. Tel: (02)23261600. **In Japan**, this is issued by BlackRock Japan. Co., Ltd. (Financial Instruments Business Operator: The Kanto Regional Financial Bureau. License No375, Association Memberships: Japan Investment Advisers Association, the Investment Trusts Association, Japan, Japan Securities Dealers Association, Type II Financial Instruments Firms Association.) For Professional Investors only (Professional Investor is defined in Financial Instruments and Exchange Act). **In Australia**, issued by BlackRock Investment Management (Australia) Limited ABN 13 006 165 975 AFSL 230 523 (BIMAL). The material provides general information only and does not take into account your individual objectives, financial situation, needs or circumstances. **In China**, this material may not be distributed to individuals resident in the People's Republic of China ("PRC", for such purposes, excluding Hong Kong, Macau and Taiwan) or entities registered in the PRC unless such parties have received all the required PRC government approvals to participate in any investment or receive any investment advisory or investment management services. **For Other APAC Countries**, this material is issued for Institutional Investors only (or professional/sophisticated /qualified investors, as such term may apply in local jurisdictions) and does not constitute investment advice or an offer or solicitation to purchase or sell in any securities, BlackRock funds or any investment strategy nor shall any securities be offered or sold to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction. **In Latin America**, for institutional investors and financial intermediaries only (not for public distribution). This material is for educational purposes only and does not constitute investment advice or an offer or solicitation to sell or a solicitation of an offer to buy any shares of any fund or security. If any funds are mentioned or inferred in this material, such funds may not be registered with the securities regulators of any Latin American country and thus, may not be publicly offered in any such countries. The provision of investment management and investment advisory services is a regulated activity in Mexico thus is subject to strict rules. No securities regulator within Latin America has confirmed the accuracy of any information contained herein.

The information provided here is neither tax nor legal advice. Investors should speak to their tax professional for specific information regarding their tax situation. 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.

© 2019 BlackRock, Inc. All Rights Reserved. BLACKROCK is a registered trademark of BlackRock, Inc. or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.

Not FDIC Insured • May Lose Value • No Bank Guarantee

**BLACKROCK**<sup>®</sup>