iShares 2024 Autumn Directions

iShares by BlackRock

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KEY TAKEAWAYS

Steering Portfolio Outcomes

We think investors need to "grab the wheel" and take a more dynamic approach to their portfolios, through select opportunities in US and Japanese equities, and quality exposures.

Managing Macro Risk

Sticky inflation and structurally higher interest rates are here to stay. A focus on income and short-duration bonds in particular could help to manage potential sluggish growth and uncertainty.

Harnessing Mega Forces

We think key long-term trends like AI and demographic change – accessed through technology and healthcare thematics- will continue to drive the lion's share of growth opportunities.

"We head into the second quarter of the year with more confidence that we are close to or at peak interest rate hiking cycles both here in Australia, and in the US. But the outlook for rate cuts is still uncertain, with inflation data continuing to vary and impact sentiment. Against this backdrop, we believe there's a need for investors to be selective with equity allocations, boost portfolio resilience with income products, and tap into thematics that will transcend day-to-day market events.

Tamara Haban-Beer Stats

iShares specialist Australasia

Opinions are subject to change, they are not a guarantee of future results. This information should not be relied upon as research, investment advice or a recommendation.

INTRODUCTION

Markets have begun the year with a surge of optimism, as cooling global inflation and the continuing strength of the US economy added weight to predictions that central banks would "land the plane" and avoid a hit to growth from interest rate hikes. We see further room to run for that optimism in Q2 with rate cuts now on the horizon, but we stay selective in the new regime of greater macro volatility. We don't believe this environment is conducive to static exposures across broad asset classes, as there's a need to be alert to risks like upside inflation surprises and the potential for sudden growth slowdowns.

Over the following pages, we explore the key investment themes laid out in the BlackRock Investment Institute's (BII) Global Outlook, and how these can be implemented through our Australian ETF range, In this environment, we're *managing macro risk* to build resilient portfolios with quality at the core. We're *steering portfolio outcomes* to capture the opportunities on offer through a more dynamic approach to investing. We think one way to achieve this is by *harnessing mega forces*, the big structural drivers that affect investing now and far in the future.

Inflation is cooling in Australia and the US

Chart 1: Monthly CPI indicator, Australia, annual movement

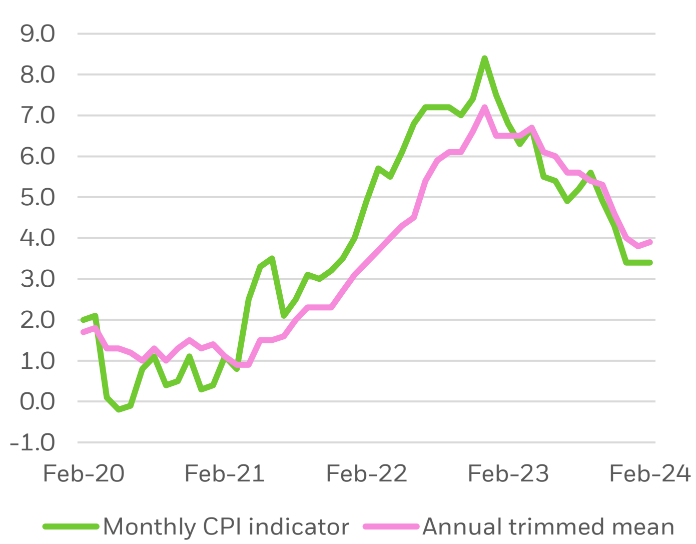

Chart 2: US core inflation, 2017-2021

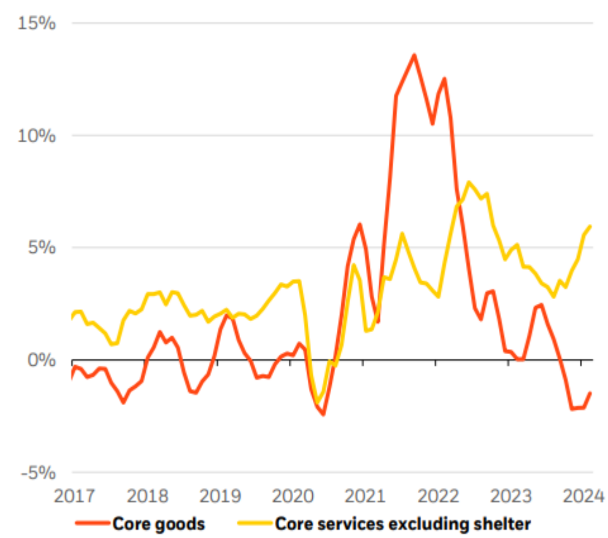

Chart 1 Source: Australian Bureau of Statistics, as at 27 March 2024. Chart 2 Source: BlackRock Investment Institute, US Bureau of Labor Statistics, with data from Haver Analytics, March 2024. Note: Chart 2 shows core goods and services inflation measured by the change over six months at an annualized rate. Core goods inflation covers all goods excluding energy and food costs; core services inflation covers all services excluding energy and shelter costs.

Some of our key implementation ideas for the quarter ahead:

1. Keeping **quality exposures** at the core of portfolios. Earnings tend to be the key driver for equity markets over the long term, supporting our preference for quality across regions.
2. Selectively adding risk to seize opportunities on offer in **US and Japanese stocks**, and **emerging market debt**. The turnaround for Japan has been well documented, and we expect US market concentration to broaden out this year.
3. For fixed income, we prefer **short-term bonds** due to more uncertain and volatile inflation, heightened bond market volatility and weaker investor demand.
4. Harnessing megaforces including digital and AI and demographic divergence, through **global technology and healthcare thematics**. These long-term strategic bets will embed alpha into portfolios, in our view.

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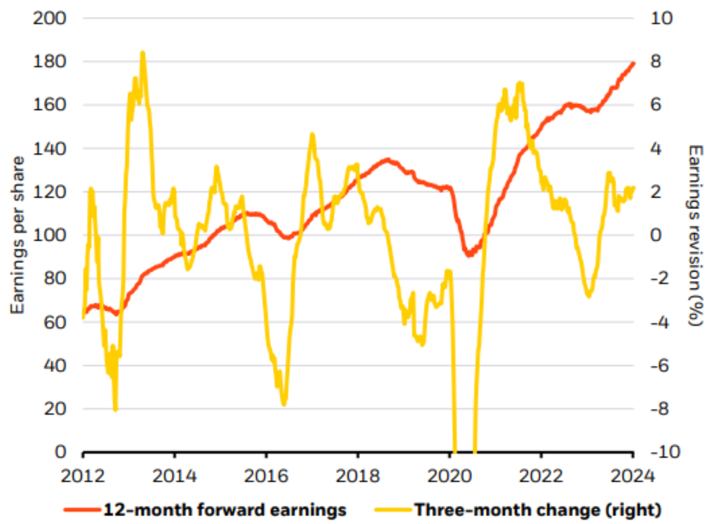
Financial markets are adjusting to the new regime of greater volatility, heightened uncertainty and divergence in market performance as the era of ultra-low interest rates fades away. We think these conditions call for a more dynamic portfolio approach that acts on insight and expertise more frequently - set-and-forget portfolios may not deliver the same returns as in the past.

We're looking to boost returns through selective allocations in both developed and emerging markets, as well as credit. We believe the Japanese share market rally has further room to run with support from a number of macro factors. In the US, the 'mega-cap 7' rally is beginning to broaden out, although we keep an eye to risks from continually sticky inflation. With rate cuts on the horizon for later this year, we also see a compelling case for outperformance in emerging market debt.

Macro tailwinds continue to lift Japanese equities

Topix earnings and estimates revisions, 2012-2024



Index returns do not account for fees. It is not possible to invest directly in an index. Forward looking estimates may not come to pass. Source: BlackRock Investment Institute with data from Haver Analytics, March 2024. Notes: The chart shows the 12-month forward earnings estimates for the TOPIX index and the three-month change in those earnings estimates.

Japan: The world's third largest economy has been supported by shareholder-friendly reforms and a supportive policy stance by the Bank of Japan, which is taking a moderate approach to rate hikes. We believe these conditions will continue to drive corporate earnings growth.

EM Bonds: We see a clear investment case for EM debt driven by some of the BII's key long-term 'megaforces' – geopolitical fragmentation, demographic divergence and the low carbon transition.

US equities: We've moved to a broad overweight on US equities based on data indicating that the economy as a whole is strong, not just tech stocks – which have contributed to 41% of S&P 500 earnings YTD [1], versus 56% in 2023. However, we keep a close eye on the current higher-for-longer inflation picture and whether this may present headwinds in future.

Quality global equities: Quality stocks tend to benefit during volatile economic times, and this has been supported by soaring global quality ETP inflows of US$5.8 billion YTD [2].

Related funds

IHEB	**iShares J.P. Morgan USD Emerging Markets Bond (AUD Hedged) ETF**
IJP	**iShares MSCI Japan ETF**
IVV	**iShares S&P 500 ETF**
IQLT	**iShares MSCI World ex Australia Quality ETF**

[1] Source: Bloomberg as of 15 March 2024. [2] Source: BlackRock, Markit as of 15 March 2024.

THEME TWO: MANAGING MACRO RISK

Growth across major economies has been slower than before the pandemic, and interest rates much higher. At the same time, there's a great deal of uncertainty around the future path of monetary policy in particular, with rate cuts in the US now likely to be shallower than expected earlier this year, and any cuts in Australia pushed back to the end of 2024.

Against this backdrop, we seek to manage macro risk and uncertainty by building in an income cushion through short-duration bonds, boosting resilience through sovereign bond allocations, keeping an eye to currency risks through hedging, and diversifying into less correlated assets such as gold.

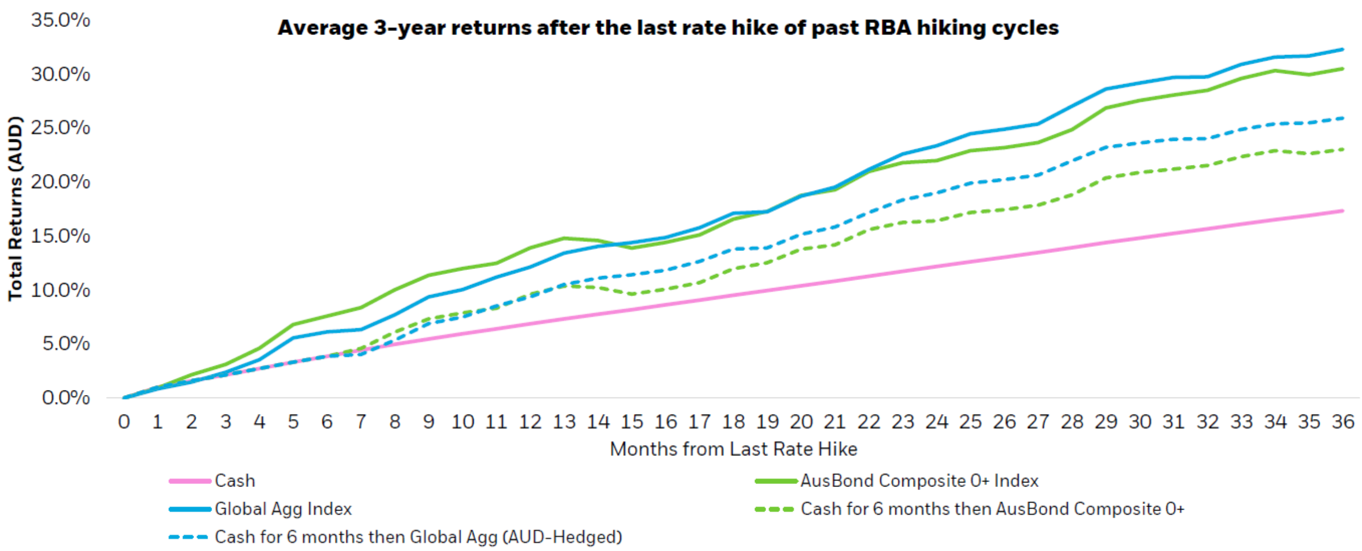
Hedged exposures: With the Australian dollar trading below its long-run US dollar exchange rate, we're seeing more investors look to increase hedging in their international allocations. While the fundamental drivers of the exchange rate – interest rate differentials, commodity prices and risk sentiment – remain volatile, we think there's an opportunity to consider adding hedged exposures.

Short-duration bonds: We prefer short-term bonds due to more uncertain and volatile inflation, heightened bond market volatility and weakened investor demand.

Gold: Geopolitical fragmentation and an end to monetary tightening mean that we're likely to see a persistent bid for gold. The new record highs hit by the precious metal so far in 2024 suggest that central bank gold buying will continue apace this year.

Sovereign bonds: With central banks set to start cutting rates later in 2024, we expect slower growth and falling inflation to drive bond yields lower as the year progresses. This could represent an opportunity to lock in higher yields ahead of the next stage of the economic cycle.

The period after a rate hike cycle is a key time to lock in yields



Source: BlackRock, Bloomberg as of 29 February 2024. Reference to AusBond Bank Bill Index, AusBond Composite 0+ Year Index, Bloomberg Global Aggregate Index. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future performance. Index returns are for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses. You cannot invest directly in an index.

Related funds

IHQL	iShares MSCI World ex Australia Quality (AUD Hedged) ETF
IHWL	iShares Core MSCI World ex Australia ESG (AUD Hedged) ETF
GLDN	iShares Physical Gold ETF
IHVV	iShares S&P 500 (AUD Hedged) ETF
IUSG	iShares U.S. Treasury Bond (AUD Hedged) ETF
IYLD	iShares Yield Plus ETF

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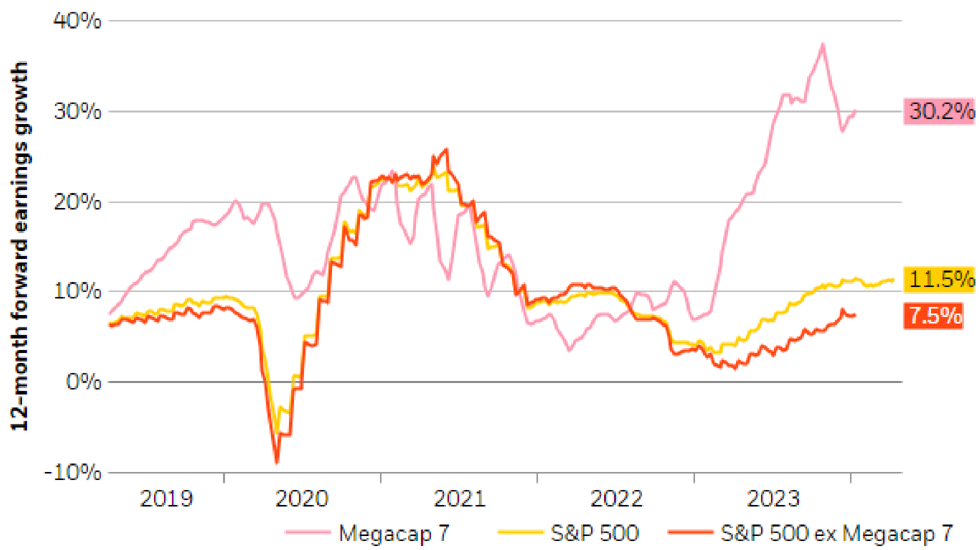
THEME THREE: HARNESSING MEGA FORCES

We think mega forces are another way to steer portfolios –and think about portfolio building blocks that transcend traditional asset classes. They stand out as drivers of corporate profits on their own, in our view, and so can offer opportunities that may be uncorrelated to macro cycles.

Take disruption and artificial intelligence (AI) – we think the tech-led rally this year reflects how quickly markets can embrace a fundamental long-term shift in outlook. While the rally has started to broaden out, tech has continued to drive equity markets, leading the S&P 500 to hit consecutive record highs.

The relentless rise of the Mega-cap 7

12-month forward earnings growth estimates



Source: LSEG Datastream, chart by BlackRock Investment Institute, Apr 09, 2024.
Notes: Mega cap 7 includes Apple, Microsoft, Google, Amazon, Meta and Tesla.

Digital Disruption and AI: We maintain our overweight view on this megaforce. Despite the global technology sector's steep valuations, with P/E ratios having climbed almost 50% [1] in the past year, we think accelerating adoption of AI is likely to support further strong earnings momentum.

Demographic Divergence: Both developed and emerging market economies are grappling with ageing populations alongside evolving urbanization and migration dynamics. While this will weigh on economic growth overall, it also presents opportunities. We look to sectors catering to ageing populations such as biotechnology and broader healthcare, and those benefiting from urbanization and increased migration, such as global listed infrastructure – which has seen more than $250 million in flows from Australian iShares investors YTD [2].

Geopolitical Fragmentation and Competition: More than half the global population are holding elections in 2024, with the US poll of particular interest for its impact on economic competition. Selectivity is key to the first leg of the election trade – we lean towards sectors such as financials that are likely to benefit.

Related funds

IOO	**iShares Global 100 ETF**	**ITEK**	**iShares Future Technology Innovators ETF**
GLIN	**iShares FTSE Core Global Infrastructure (AUD Hedged) ETF**	**IXJ**	**iShares Global Healthcare ETF**
IWLD	**iShares Core MSCI World ex Australia ESG ETF**		

[1] Source: Bloomberg as of 6 March 2024. [2] Source: BlackRock as of 31 March 2024.

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