

# 2025 Global Outlook

Building the transformation

**BlackRock**

BlackRock  
**Investment**  
Institute

**We have argued for some time that economies are undergoing secular transformations driven by mega forces like artificial intelligence (AI), geopolitical fragmentation and demographics. Canada must navigate both challenges and opportunities created by these transformations as it emerges from a soft economic backdrop. We stay pro-risk and see Canadian stocks as well-positioned for 2025, but still prefer U.S. stocks over those in Canada and other regions. Conversely, we see a more favorable outlook for Canadian versus U.S. government bonds.**

Canadian growth continues to lag the U.S. After stagnating in late 2023, headline GDP growth has recovered in 2024 but should stay muted over the next year as growth in the working-age population slows, we think. The unemployment rate sits at 6.5%, more than 1.5 percentage points above the lows of 2022. The rise in the unemployment rate is partly due to elevated immigration, which has boosted the supply of workers – but a hiring slowdown has also contributed.

Against this soft economic backdrop, inflation has kept easing, falling back into the Bank of Canada’s (BOC’s) target range of 1-3%. These developments have allowed the BOC to cut policy rates by 125 basis points since June, among the fastest pace across major developed market economies this year.

Yet the BOC will ultimately not be able to cut policy rates back down to the ~2% level seen just before the pandemic, in our view. We see the interplay of different mega forces – big, structural shifts that we see reshaping economies and markets – driving production constraints that look to keep inflation structurally higher in this new environment.

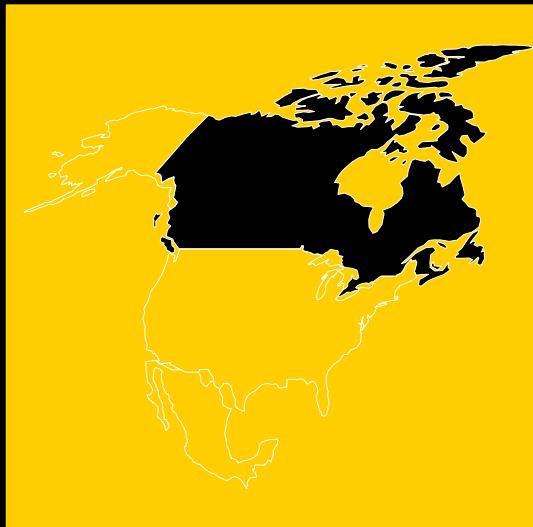
Demographic change – one such mega force we track – will keep playing a major role in Canada’s economic trajectory, we think. Against the backdrop of an aging population and post-pandemic labor shortages, Canada has experienced one of the highest per-capita immigration rates in the OECD in recent years.

The resulting pressure on housing and public services from higher immigration has led the federal government to announce changes to its immigration plan – including reducing the number of new permanent residents over the next three years. Lower immigration targets are a key reason why Canada’s population growth is expected to flatten out in the coming years, versus growth of around 3% annually in 2023 and 2024.

While the government’s plan is designed in part to address concerns around housing affordability, it also reinforces our view that demographics will constrain labor supply over the medium term, putting upward pressure on wage growth and overall inflation.



**Michel Dilmanian**  
**Portfolio Strategist**  
**BlackRock Investment Institute**



Geopolitical fragmentation, another mega force, is also in focus as elevated global tensions accelerate the rewiring of supply chains and the formation of competing regional blocs. More protectionist U.S. policy under a second Donald Trump administration is likely to reinforce these trends, in our view. This would have ramifications for Canada, where exports to the U.S. – its largest trading partner – account for about 20% of GDP, Statistics Canada data shows.

The threat of new tariffs on U.S. imports from Canada (and possible retaliation) can weigh on corporate sentiment, even given uncertainty surrounding their implementation. It is also likely to lead markets to keep demanding a risk premium for holding the Canadian dollar, especially ahead of the July 2026 deadline for reviewing the USMCA.

**Investment implications:**

We remain risk-on in our global positioning. Our pro-risk stance is concentrated in the U.S., where resilient growth, a broadening AI theme and potential tax cuts and regulatory easing keep us positive. We keep our U.S. equity overweight, maintaining our relative preference for U.S. over European stocks. Yet we stay nimble as we eye potential risks ahead, such as surging bond yields or escalating trade tensions.

Despite Canada's soft economic backdrop, we think Canadian stocks are well positioned for 2025 as growth continues to recover and monetary policy becomes less restrictive. We see the industrials and energy sectors – both overrepresented in the Canadian market – as potential beneficiaries of the global AI buildout and reshoring efforts in many developed market countries. Yet we favor U.S. over Canadian stocks due to Canada's lower exposure to the AI theme and the risk of rising trade tensions causing sentiment to worsen.

We are less positive on fixed income globally – particularly government bonds in the U.S., where we see persistent upward pressure on inflation from structural forces preventing the Federal Reserve from cutting rates much past 4%. Combined with persistent budget deficits and greater bond market volatility, we also see investors demanding more compensation for the risk of holding long-term government bonds – a factor behind our underweight to long-dated U.S. Treasuries.

While we expect many of the same structural forces to exert upward pressure on inflation in Canada, a softer growth outlook and a stable fiscal trajectory lead us to prefer Canadian government bonds over U.S. Treasuries.

## Introduction

Twice a year, BlackRock's senior portfolio managers and investment executives gather for two days to debate the outlook for economies and markets – and its implications for portfolios. The Global Outlook is the culmination of that debate and discussion.

That debate informs our macro framing: we have more conviction we are in a very unusual environment. This is not a typical business cycle – the world is undergoing an economic transformation driven by mega forces. Through this lens, we assess the investment opportunities and risks unfolding today – and craft the themes of this outlook.

Our three themes are centered on three interconnecting ideas. First, that capital markets, including private markets, are pivotal in building the transformation we see ahead. Second, that investing itself needs a rethink in this unusual environment of transformation. And as the AI theme broadens out and supports U.S. corporate strength, we keep a pro-risk stance.

## Authors



**Jean Boivin**  
Head – BlackRock  
Investment Institute



**Wei Li**  
Global Chief  
Investment Strategist –  
BlackRock Investment  
Institute



**Rick Rieder**  
Head of  
Fundamental Fixed  
Income –  
BlackRock



**Ed Fishwick**  
Head of Risk and  
Quantitative Analysis  
– BlackRock



**Vivek Paul**  
Global Head of Portfolio  
Research –  
BlackRock Investment  
Institute



**Raffaele Savi**  
Global Head of  
Systematic –  
BlackRock

## Executive sponsors



**Rob Kapito**  
President –  
BlackRock



**Philipp Hildebrand**  
Vice Chairman –  
BlackRock



**Rich Kushel**  
Head – BlackRock  
Portfolio  
Management Group

## Contents

Introduction	4
Summary	5
<b>Investment environment</b>	<b>6-8</b>
Learning about the trend	6
Checks and (im)balances	7
What 2024 says about 2025	8
<b>Evolving our scenarios</b>	<b>9</b>
<b>Themes</b>	<b>10-12</b>
Financing the future	10
Rethinking investing	11
Staying pro-risk	12
<b>Focus</b>	<b>13-16</b>
Tracking AI's evolution	13
Infrastructure for the long term	14
Intensifying fragmentation	15
New diversifiers needed	16
Big calls	17
Granular views	18

**We have argued since 2020 that we are not in a business cycle. Historical trends are being permanently broken in real time as mega forces, like the rise of artificial intelligence (AI), transform economies. The ongoing outsized response of long-term assets to short-term news shows how unusual this environment is. We stay risk-on as we look for transformation beneficiaries – and go further overweight U.S. stocks as the AI theme broadens out. We have more conviction inflation and interest rates will stay above pre-pandemic levels.**

Mega forces are reshaping economies and their long-term trajectories – it's no longer about short-term fluctuations in activity leading to expansion or recession. 2024 has reinforced our view that we are not in a business cycle: AI has been a major market driver, inflation fell without a growth slowdown and typical recession signals failed. Volatility surged and narratives flipfopped as markets kept viewing new data through a business cycle lens, not one of transformation.

As we head into 2025, some countries have new leaders with a mandate for political and economic change. That could see policymakers pursuing measures that add to volatility rather than stability. Financial markets may work to rein in any policy extremes, such as with fiscal policy. Yet we think there will be fewer checks when stocks are running up, creating the potential for risk appetite to turn frothy.

This fundamentally different landscape upends the nature of investing, in our view. We think investors can find opportunities by tapping into the waves of transformation we see ahead in the real economy, with AI and the low-carbon transition requiring investment potentially on par with the Industrial Revolution. That's why our first theme is *financing the future*. We see capital markets playing a vital role as these mega forces drive a broad infrastructure buildout.

We think investors should focus more on themes and less on broad asset classes as mega forces reshape whole economies. In other words, the unit of analysis for thinking about returns is changing – and that calls for *rethinking investing*, our second theme. One key conclusion: with no stable long-term trend and an ever-evolving outlook, investors may want to reconsider what a neutral asset allocation is and put more weight on tactical views since investors cannot rely on eventual convergence back to historical trends. Being more dynamic with portfolios and getting granular with views are both essential, in our view.

Where does that leave us? We are *staying pro-risk*, our third theme. We see the U.S. still standing out versus other developed markets thanks to stronger growth and its ability to better capitalize on mega forces. We up our overweight to U.S. equities and see the AI theme broadening out. We don't think pricey U.S. equity valuations alone will trigger a near-term reassessment. But we are ready to adjust if markets become overexuberant. We are underweight long-term U.S. Treasuries on both a tactical and strategic horizon – and we see risks to our upbeat view from any spike in long-term bond yields. We see private markets as an important way to allocate to mega forces and have turned more positive on infrastructure equity on a strategic horizon.

# Learning about the trend

For decades, economies followed stable, long-term trends. Investors could focus almost entirely on navigating any temporary deviations around those trends. Growth would eventually converge back toward its trend. That has been a foundational tenet of portfolio construction.

We think the environment is very different now. Economies are undergoing a transformation that could keep shifting the long-term trend, making a wide range of very different outcomes possible. See the chart. What's driving economic growth may look very different.

Why? Mega forces could fundamentally reshape economies. Take AI: it may do more than improve efficiency in specific tasks and could eventually accelerate the process of generating new ideas and discoveries – with far-reaching implications for growth and the composition of the economy. Such a transformation could surpass the [Industrial Revolution](#) in its breadth and impact.

Similarly, deepening geopolitical fragmentation is upending established trade flows and supply chains. New trading blocs and protectionist policies could reconfigure how economies operate, potentially reducing trade efficiency.

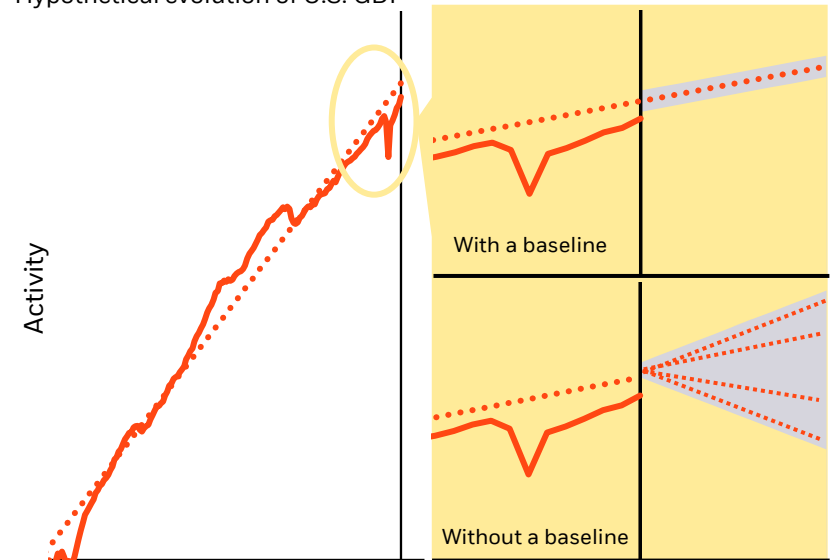
The energy transition – intertwined with mega forces like AI and geopolitical fragmentation – is also spurring major innovation and investment. And the digitization of finance is transforming how households and businesses manage cash, borrow, transact and invest.

Aging populations constrain labor supply. Barring any AI-driven productivity gains, that could limit how much economies can produce and grow. A rise in immigration has blunted this impact in some countries, but likely only temporarily – notably in the U.S.

All this is why we think incoming data aren't about a business cycle but show how the trend is changing. Surprises can show permanent trend changes – and entirely new economic trajectories. See the chart.

## An ever-changing trend

Hypothetical evolution of U.S. GDP



**Chart takeaway:** *Mega forces are reshaping the global economy – and leading to a wide array of potential outcomes. This is a break from the pre-pandemic era when we saw only small deviations around a steady central trend.*

**For illustrative purposes only.** Source: BlackRock Investment Institute, December 2024. Note: The charts show an illustration of how economic output could evolve – the chart on the left and top right assume there is one single central trend for growth and the chart on the bottom right assumes that there is not one single central trend for growth, but many different trends possible.

**Economies are being transformed by mega forces such as the rise of AI, geopolitical fragmentation and aging societies. We see long-term economic trends being reshaped by them now.**

# Checks and (im)balances

2024 was a major election year and a punishing one for incumbents. Voters expressed frustration, most notably about the higher cost of living after the pandemic but also issues like immigration and border security. Several countries have now seen either a change in government or the erosion of ruling party support. The desire for political and economic change could remain a driving force in 2025.

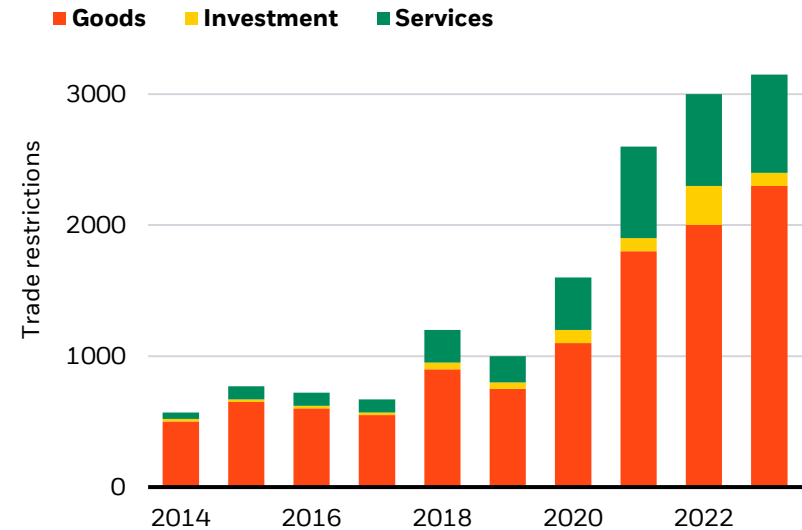
Many leaders across developed economies are constrained – by inflation, low political support and, outside the U.S., lack of growth. We expect a sharp focus on national economic and security priorities, potentially at the expense of others. We could also see greater short-termism as more frequent transfers of power compel governments to move quickly to implement agendas. In other words, policymaking could itself become a source of disruption – in an already more fragile world and amid heightened strategic competition between the U.S. and China.

The U.S. is a case in point. President-elect Donald Trump promised voters big policy change. Republican control of both Congress and the presidency means he has greater ability to implement much of his agenda. Markets view some of his proposed policy as a positive near term – like tax cuts, deregulation and support for traditional energy. Others less so, including curbs in immigration and a wide range of tariffs that – if implemented – could reinforce geopolitical fragmentation and add to inflation. See the chart.

Less government emphasis on macro stabilizing policies – like fiscal frameworks and inflation targets – would lead to more instances of financial markets to enforcing discipline. For example, rising bond yields could temper loose fiscal policy. And risk asset selloffs could force about-turns on policies seen as damaging growth. Yet we think this could tip risk assets toward run-ups. For example, hopes of financial deregulation are stirring animal spirits. This is good news for now – but risks market froth later.

## Broadening protectionism

Trade restrictions, 2014-2023



**Chart takeaway:** Trade restrictions around the globe have shot up in recent years as post-World War Two globalization gives way to rising protectionism.

Source: BlackRock Investment Institute, IMF, [globaltradealert.org](https://globaltradealert.org) (or with the data from [globaltradealert.org](https://globaltradealert.org)), December 2024. Notes: The chart shows the number of unilateral non-liberalizing trade interventions (as classified by [globaltradealert.org](https://globaltradealert.org)) taken by countries around the world.

**We see macro policy becoming a potential source of disruption. That could lead to more instance of markets enforcing discipline.**

# What 2024 says about 2025

It only takes a lookback at 2024 to see why trying to overlay a typical business cycle on incoming U.S. data can be misleading when structural forces are at play.

If this were a typical cycle, U.S. growth should have slowed as tighter financial conditions brought down inflation. We haven't seen that. Inflation has eased, but growth has not. In fact, financial conditions have loosened since late 2022 – well before the Fed started cutting policy rates – as U.S. equities surged.

So why did inflation cool? In our view, other bigger forces did the work: the post-pandemic normalization of the goods and labor markets, and an unexpected rise in immigration. The immigration boost to the labor force also explained the brief rise in the U.S. unemployment rate. It was not the typical indicator of faltering growth as markets originally interpreted it.

We think this is a helpful lesson to take into 2025 as markets remain prone to making the same mistake.

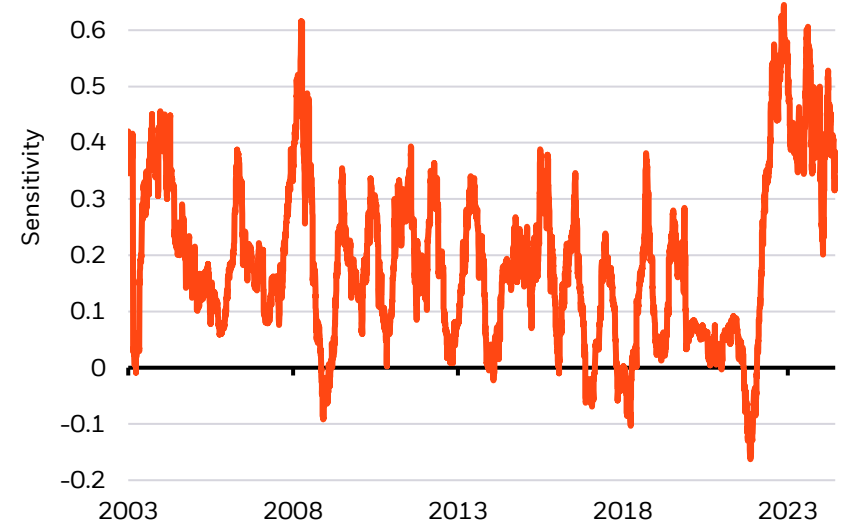
Markets have also been more sensitive to data surprises than in the past, with even long-term assets having outsized reactions. See the chart. That reinforces volatility.

So, what does this imply for 2025? We see persistent U.S. inflation pressures, from rising geopolitical fragmentation plus big spending on the AI buildout and the low-carbon transition. We also think an aging workforce could start to bite as immigration slows, likely keeping wage growth too high for inflation to fall back to the Fed's 2% target.

We don't think the Fed is embarking on a typical cutting cycle. We think it will cut further in 2025, and growth will cool a little, but with inflation still above target the Fed won't have room to cut much past 4%, leaving rates well above pre-pandemic levels. Even with persistent budget deficits, sticky inflation and greater bond market volatility, investors are not demanding much compensation yet for the risk of holding long-term government bonds. We think that will change and see long-term U.S. Treasury yields rising.

## Sensitive to surprises

Sensitivity of U.S. 10-year yield to economic surprises, 2003-2024



**Chart takeaway:** *We have seen heightened market sensitivity to economic data surprises. We think this reflects investors viewing new information through a typical business cycle lens, rather than in the context of a transformation reshaping the economy.*

**Past performance is no guarantee of future results.** Source: BlackRock Investment Institute, with data from LSEG Datastream, December 2024. Notes: The line shows how sensitive the U.S. 10-year Treasury yield is to economic surprises, using regression analysis to estimate the relationship between U.S. 10-year Treasury yields and the Citi Economics Surprise Index over a rolling six-month window. This is only an estimate of the relationship between the 10-year Treasury yield and economic surprises.

**This is not a business cycle, but a series of structural shifts, in our view. Interpreting incoming data in this light will again be key in 2025.**

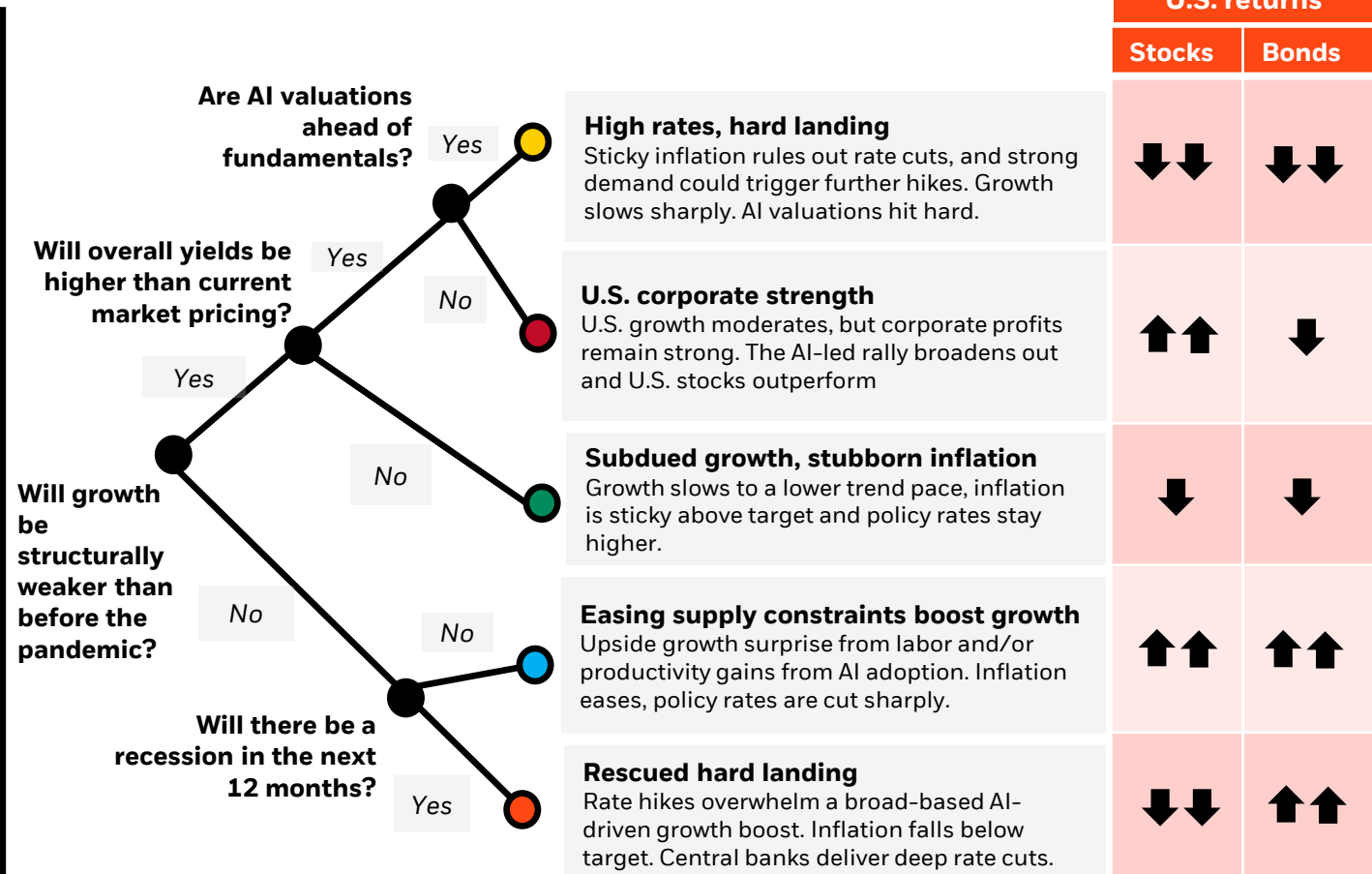


# Evolving our near-term scenarios

In the second half of 2024, we have seen sharp volatility as markets shifted quickly to price in different scenarios. Stocks hit all-time highs led by mega cap tech as investors embraced a view similar to our *concentrated AI* scenario laid out in our [Midyear Outlook](#). That then gave way to a *rescued hard landing* scenario where deep Fed rate cuts were priced in. This confirmed that a typical business cycle lens is not the way to view incoming information. We leaned against the pricing of sharp Fed rate cuts as if it were responding to downturns as in the past, and the market now sees policy rates staying higher for longer in this environment. We think this reflects how investors are grappling with learning about the trend.

We worked with portfolio managers across BlackRock to evolve our scenarios for 2025 given what we have learned. The new scenarios are *U.S. corporate strength* and *easing supply constraints*. See our scenario map. This recognizes that U.S. corporate strength goes beyond the AI theme.

We think that *U.S. corporate strength* is the most likely scenario to play out over the next six-to-12 months as [earnings growth broadens](#), even if the economy slows slightly. This highlights the resilience of corporate earnings even if interest rates stay higher.



The opinions expressed are subject to change at any time due to changes in market or economic conditions. 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. Sources: BlackRock Investment Institute, December 2024. Notes: Our five scenarios here can be represented as nodes on different pathways. The arrows indicate our expectation for U.S. equity and Treasury returns in each scenario, as two examples. Two arrows represents that a larger relative move is expected in this scenario than a single arrow. We only show U.S. equities and Treasuries but have run this analysis across several asset classes. For illustrative purposes only.

# Financing the future

We've laid out how today's investment environment is one of major transformation – and one that puts greater onus on markets to enforce discipline. This makes capital markets core to the building of this transformation.

Sizable capital will be needed as the transformation unfolds, and that investment is happening now. Major tech companies are starting to rival the U.S. government on research and development spending. But it's not just about the rise of AI and its buildout via data centers. Meeting growing energy demand (think solar farms, power grids, oil and gas) will generate investment of US\$3.5 trillion per year this decade, according to the BlackRock Investment Institute Transition Scenario. And governments are limited in how much they can support such investment and infrastructure upgrades.

We see capital markets deepening – including in emerging markets – to help channel money seeking new opportunities and sources of return.

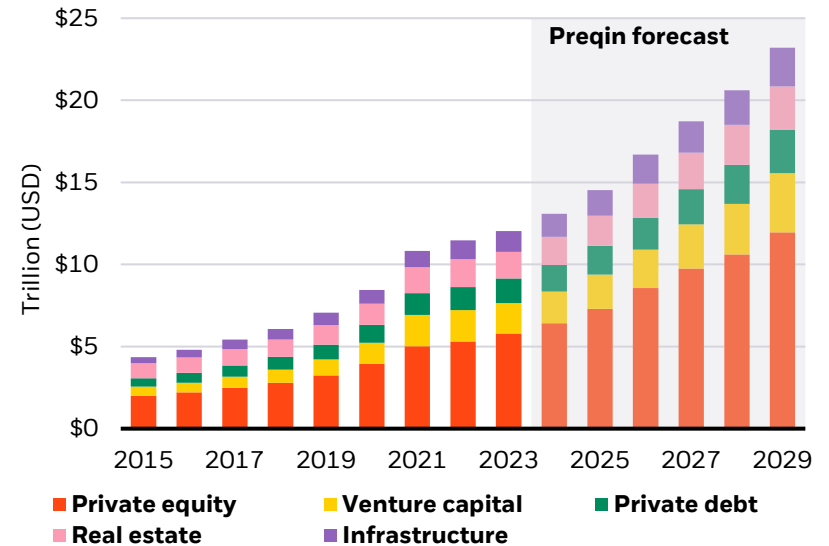
Public markets have benefitted so far, hosting companies that have already benefitted from the transformation by capturing new revenue pools, notably in AI.

We also see private markets playing a pivotal role, allowing portfolios to gain unique exposure to the transformation as public markets can only fund some of it. For example, private markets can offer exposure to early-stage growth companies driving AI adoption and to vital infrastructure projects. We think the future of finance – a mega force on its own – will be shaped by non-bank lenders increasingly funding such large-scale projects. This highlights why private market assets under management are expected to roughly double by 2029 from 2023 levels, Preqin data show. See the chart.

We think this shows how finance itself is changing and innovating rapidly as activities that were previously bundled together in single institutions, like banks, are unbundled.

## On the rise

Private market assets under management, 2015-2029



**Chart takeaway:** Private assets have become a growing share of financial markets. We see private markets playing a critical role in the transformation ahead – sticking to public markets doesn't fully capture this broadening opportunity set, in our view.

Forward looking estimates may not come to pass. Source: BlackRock Investment Institute, Preqin, December 2024. Notes: The chart shows the total assets under management in private market funds with forecasts from 2024 onwards in Preqin's "Future of Alternatives 2029" report.

## Investment implications

- Sizable capital will be needed as the transformation unfolds, and that investment is happening now.
- We think private markets will play a vital role in financing the waves of transformation.

# Rethinking investing

Transformation raises questions about how to build portfolios. An ever-changing outlook calls for an ever-evolving portfolio. It calls into question many long-held investing principles, including the idea of a neutral “benchmark” portfolio like the traditional 60/40 portfolio mix of stocks and bonds.

We think investors should broaden out where they invest. That may include private markets, notably private credit and infrastructure, as outlined on the previous page. And we think investors should rely less on broad asset classes and seek out thematic opportunities shaped by the structural shifts transforming economies and sectors, like the rise of AI. See page 13.

This makes getting granular with views key, such as investing at company rather than regional level in places like Europe. That’s especially true as the transformation could change the economy’s makeup, reconfiguring entire industries.

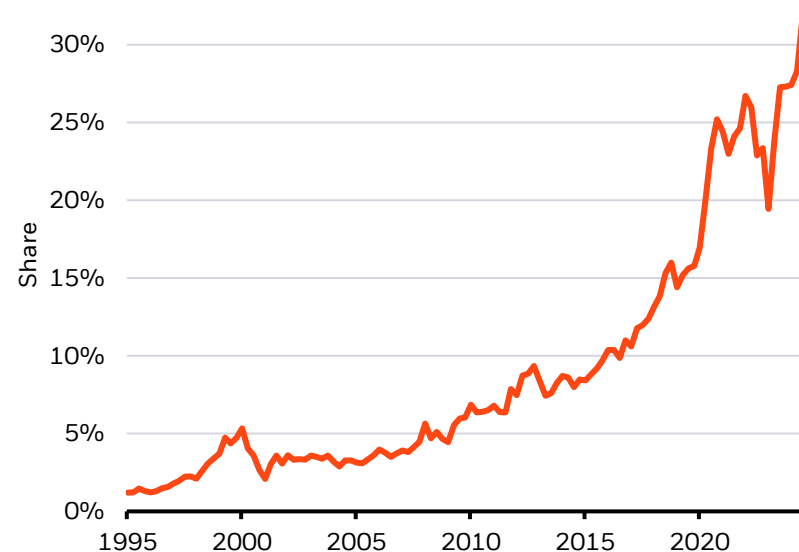
Financial markets themselves are also being reshaped as some sectors grow rapidly and others fade, changing the composition of benchmark indexes. The S&P 500 looks very different from just five years ago, with far more concentration. See the chart.

Another change to traditional portfolio construction? We think more weight should be put on tactical views now. In the past, when returns fluctuated around a stable long-term trend, it made sense to put a high share of a portfolio’s risk budget into long-term allocations to smooth out those fluctuations. Now, no single portfolio will likely work across all scenarios over time. The upshot: Investors will need to take a dynamic approach. We think active strategies and investment expertise can provide an advantage in this environment.

More broadly, today’s financial plumbing may need a redesign to enable all this. Some is already happening, with new innovative tools becoming more widely available.

## Ever-bigger share

“Magnificent 7” market cap as a share of the S&P 500, 1995-2024



**Chart takeaway:** *The “magnificent 7” of mostly mega cap tech shares now dominate the S&P 500, making up almost a third of the index’s market capitalization. This shows how quickly economies and markets can be transformed in this environment.*

**Past performance is not a reliable indicator of future results. It is not possible to invest in an index. Indexes are unmanaged and performance does not account for fees.** Source: BlackRock Investment Institute, with data from LSEG Datastream, December 2024. Notes: The chart shows the combined market capitalization (cap) of the ‘magnificent 7’ stocks (Amazon, Apple, Google, Meta, Microsoft, Nvidia and Tesla) as a share of the S&P 500’s total market cap. The chart sums up the market cap of each stock as they went public, capturing Amazon from 1997 onwards, Nvidia from 1999, Google from 2004, Tesla from 2010 and Meta from 2012.

## Investment implications

- We think investors should focus more on themes and less on broad asset classes.
- Greater volatility points to a need to be more dynamic with portfolio allocations.

# Staying pro-risk

Where does all this leave us? We stay pro-risk, starting with our confidence in U.S. corporate strength and outperformance. U.S. equities have persistently outpaced their global peers. See the chart. We think that could continue. Why? The U.S. benefits more from mega forces, driving corporate earnings. That is supported by a favorable growth outlook plus potential tax cuts and regulatory easing.

Some U.S. equity valuation measures – whether price-to-earnings ratios or equity risk premiums – look rich relative to history. But they may not tell the full story. The equity market's changing sectoral composition reflects the transformation taking hold. So, comparing today's index to that of the past is like comparing apples to oranges. Plus, valuations tend to matter more for returns over a long-term horizon than in the near term.

We think the AI mega force will benefit U.S. stocks more and that's why we stay overweight, particularly relative to international peers such as European stocks.

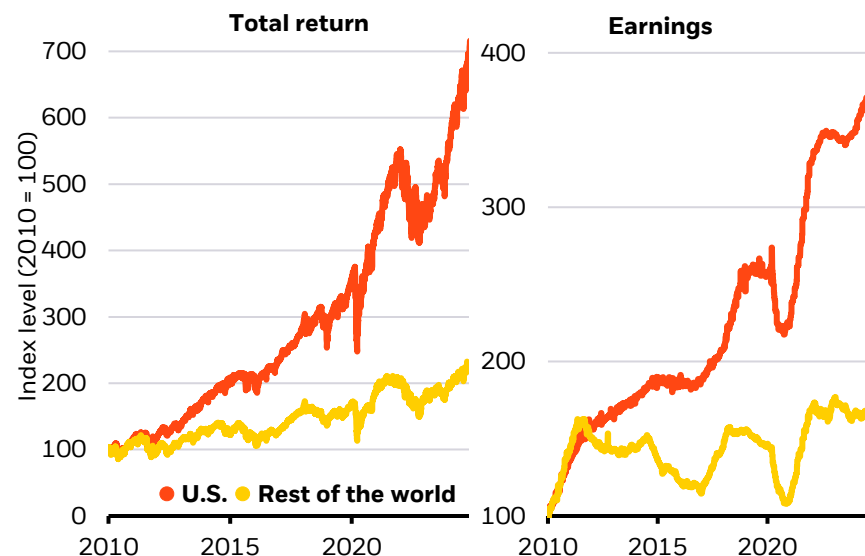
U.S. outperformance does not extend to Treasuries, in our view. Potentially growing U.S. budget deficits add to ongoing fiscal pressures, so we favor government bonds in other developed markets. We also prefer corporate bonds over long-term Treasuries as they offer quality income given relatively healthy corporate balance sheets.

Globally, Japan stands out for its corporate reforms and the return of mild inflation, driving corporate pricing power and earnings growth. Structural challenges keep us underweight European equities. Yet we find opportunities at the sector or company level. Longer term, we see some emerging markets like India well positioned to capitalize on mega forces and navigate U.S.-China competition. In China, fiscal policy is turning supportive, yet the threat of tariffs keeps us cautious.

The upshot: We are risk-on for now but stay nimble. Key signposts for changing our view include any surge in long-term bond yields or an escalation in trade protectionism.

## Hardening divergence

U.S. equity performance vs. the rest of the world, 2010-2024



**Chart takeaway:** U.S. equities have outperformed the rest of the world, fueled by robust corporate earnings. We see divergences across markets widening as mega forces reshape economies and sectors – creating opportunities.

Past performance is not a reliable indicator of future results. It is not possible to invest directly in an index. Indexes are unmanaged and performance does not account for fees. Source: BlackRock Investment Institute, with data from LSEG Datastream. The charts show the indexed performance of U.S. equities compared to the rest of the world. Index proxies used: MSCI USA, MSCI ACWI ex. USA.

## Investment implications

- We have more conviction in U.S. equities outperforming their international peers.
- We recognize valuations are rich in U.S. equities but don't see them as a near-term market driver.

# Tracking AI's evolution

AI's great promise is driving a wave of innovation and investment. Its rapid evolution presents significant opportunities, but the trajectory to eventual transformation is uncertain. Our three-phase framework – buildout, adoption, and transformation – helps us track this evolution and adapt portfolios along the way.

We are still in AI's buildout phase – a pillar of a broader infrastructure boom. This phase involves massive investment in data centers, chips and power systems – in an effort to meet the needs of AI models that have been growing exponentially in size and complexity. See the chart. We estimate spending on this infrastructure could top \$700 billion by 2030, equivalent to 2% of U.S. GDP. Investment on this scale creates a vital role for capital markets – and an opportunity for investors, in our view. Yet such growth brings challenges, such as strain on energy grids. Efficiency gains may later offset some of the initial spike in energy demand.

Questions around AI overinvestment are valid. Yet we think this should be assessed in aggregate, given AI's potential to unlock new revenue streams across the whole economy. Mega cap tech does not look overextended for now. And market concentration does not, in our view, imply market fragility if it is driven by transformation. As AI adoption broadens, app developers may drive the next wave of growth. Future winners may emerge in unexpected areas: productivity gains in one sector may drive value creation elsewhere. Signposts to watch include emerging revenue streams and cross-sector impacts.

We believe private markets could provide a way to capture future winners before they go public.

“

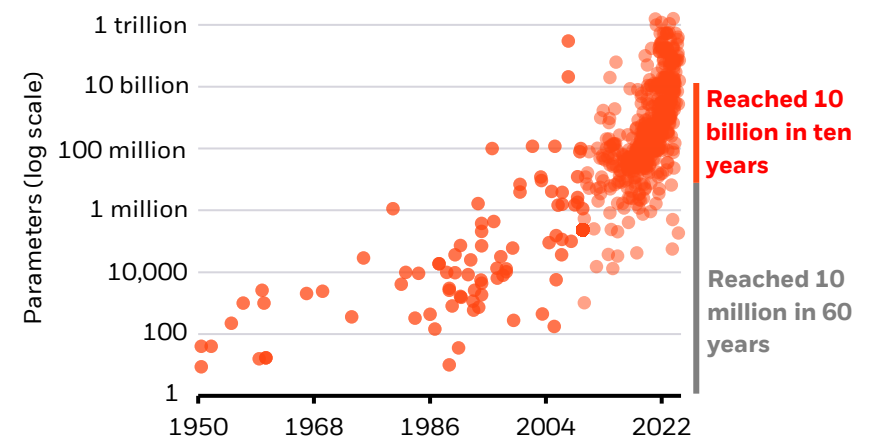
**AI has the potential to become a bigger revenue pool than search and cloud.”**



**Raffaele Savi**  
Global Head of Systematic – BlackRock

## Exponential growth

Parameters in notable AI systems, 1950-2024



**Chart takeaway:** AI models have seen exponential growth – from 10 parameters in the 1950s to 1 trillion today – driving leaps in capability. Yet further scaling comes with challenges.

Source: BlackRock Investment Institute, with data from Epoch as processed by Our World in data, October 2024. Note: The chart shows the increase in parameters in notable AI systems. Parameters can be thought of as dials that are tweaked as the model learns settings to understand patterns in historical data. Each dot represents an AI system covered in the Epoch database. Data retrieved from <https://ourworldindata.org/grapher/exponential-growth-of-parameters-in-notable-ai-systems> and is based on Epoch AI, 'Parameter, Compute and Data Trends in Machine Learning'. Published online at epochai.org at <https://epochai.org/data/epochdb/visualization>

## Investment implications

- The AI theme has broadened out from our original concentrated AI scenario.
- We see private markets as key – not just in funding infrastructure but also in capturing potential future AI winners.

# Infrastructure for the long term

Infrastructure is at the intersection of mega forces – like AI. The AI buildout is creating a huge and immediate need for data centers. Demand for new-build green infrastructure is skyrocketing as countries and tech companies race to reduce emissions. Aging populations in developed markets, rising urbanization in emerging markets and rewiring global supply chains are also shaping infrastructure needs.

Private markets can be a way to get exposure to this growing demand – though they are complex and not suitable for all investors. They can help bridge the gap between the massive funding needs and what governments can afford alone given high public debt levels. With banks reining in lending, we think companies are likely to turn to the capital markets, private lending and other non-traditional sources of credit. The divergence in how private markets have reacted to higher interest rates has shaped our investment views on a strategic horizon of five years and longer.

Within equity-like growth private markets, private equity and real estate valuations have peaked after decades of falling financing costs. See the chart. That's why we have a relative preference for infrastructure equity – such as stakes in airports and data centers – as we see fewer signs of lofty valuations.

Infrastructure investments, whose cash flows are often tied to inflation, can help cushion portfolios against the higher inflation we expect over the medium term. They can also be less sensitive to higher interest rates.

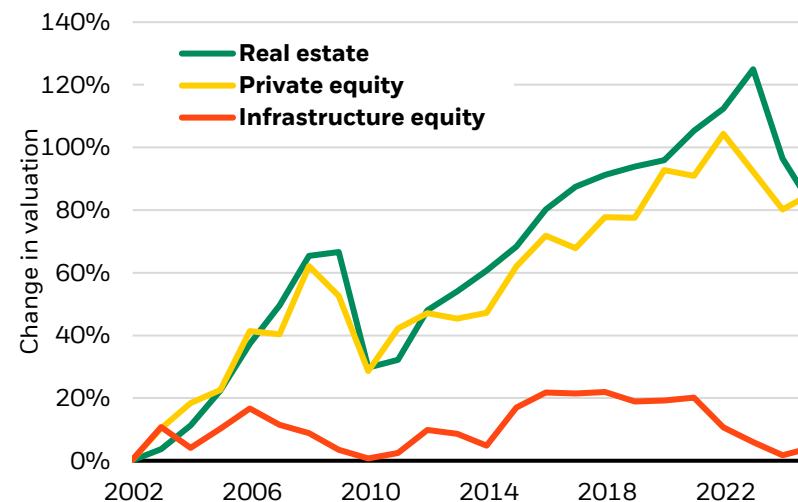
“**Infrastructure provides long-term cash flows that could benefit as inflation proves persistent.**”



**Raj Rao**  
Founding Partner,  
President & Chief  
Operating Officer,  
Global Infrastructure  
Partners, a part of  
BlackRock

## Infrastructure stands out

Change in private market valuations, 2001-2024



**Chart takeaway:** *Within equity-like growth private markets, private equity and real estate valuations have peaked after decades of falling financing costs. We see fewer signs of lofty valuations in infrastructure equity.*

**Past performance is not a reliable indicator of current or future results.** Source: BlackRock Investment Institute, December 2024, with data from NCREIF, EDHEC and LCD. Note: The chart shows the cumulative change in the standard measure of valuations across infrastructure equity, private equity and real estate. Infrastructure equity and private equity valuations are represented as enterprise value/EBITDA, and real estate valuation is represented as market value/net operating income.

## Investment implications

- We favor infrastructure equity on a strategic horizon of five years and longer as a potential beneficiary of mega forces.
- Private markets can help bridge the gap between needed infrastructure and what governments and banks can finance alone.

# Intensifying fragmentation

Elevated global tensions are accelerating the rewiring of supply chains – see the chart – and the formation of competing geopolitical and economic blocs. A second Trump administration is likely to reinforce those trends. We see that playing out in tech, energy and financial markets.

U.S.-China competition is set to intensify in 2025 as tariffs and policies focused on decoupling strategic sectors – especially advanced technologies like semiconductors – accelerate. Any competitive edge in the race to build out AI will also be determined by the speed of building infrastructure like electricity grids and data centers.

Energy has become a key front. China's cheap low-carbon technology, especially electric vehicles, solar and batteries, is putting pressure on companies in other major economies, spurring a protectionist response. European automakers are feeling the pressure as Brussels tries to coordinate a response.

These dynamics will increase competition for resources. Emerging markets (EM) are key suppliers of commodities required for the low-carbon transition, such as copper, and growing markets for exports. That highlights their potential influence, with many key EMs multi-aligned among competing trading blocs.

The rewiring of globalization is also playing out in reserve currencies. As the world divides into competing blocs, and the U.S. and Western governments lean on sanctions and other restrictions for their policy response, some countries are shifting their reserves out of U.S. dollars into gold and other assets while increasingly conducting trade finance in non-dollar currencies.

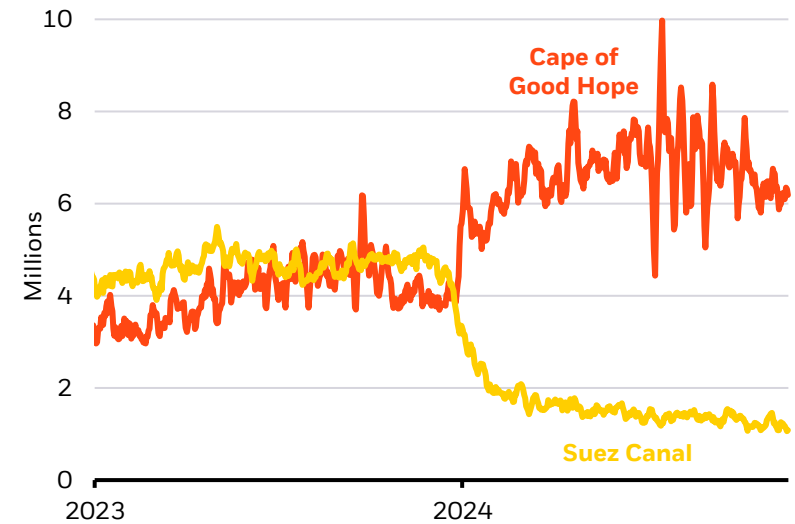
**“Geopolitical risk is structurally elevated, and a series of shocks hang over the global economy.”**



**Tom Donilon**  
Chairman –  
BlackRock Investment  
Institute

## Rerouting trade

Daily trade transit volume in metric tons, 2023-2024



**Chart takeaway:** Rising geopolitical conflict in the Middle East is rerouting trade shipments away from the Suez Canal – just one example of how today's heightened geopolitical risk is reshaping economic activity.

Source: BlackRock Investment Institute, IMF, with data from UN Global Platform and PortWatch, December 2024. Note: The chart shows the seven-day moving average of the daily transit trade volume in metric tons through two global shipping chokepoints – the Suez Canal and the Cape of Good Hope.

## Investment implications

- We think a second Trump administration could reinforce geopolitical fragmentation and economic competition.
- Energy and low-carbon technology is now a key front in this competition and is shaking up companies globally.

# New diversifiers needed

The erratic correlation between stock and bond returns has defined the new regime – and government bonds have become a less reliable cushion against equity selloffs as a result. We see the potential for other diversifiers, old like gold and new like bitcoin, to step in. This is not about replacing long-term bonds to find diversification but instead seeking new and distinct sources of risk and return.

Bitcoin's potential as a new diversifier stems from its unique value drivers: the potential to appreciate over time when its predetermined supply is met with growing demand – and demand is based on investor belief in bitcoin's potential to become more widely adopted as a payment technology. Case in point: The run-up to record highs after the U.S. election reflects investors upping the chance of greater adoption given President-elect Trump's past support for bitcoin and other cryptocurrencies. Those distinct drivers should make it less correlated with stocks and other risk assets in the long term.

The correlation between bitcoin and equity returns has typically been low in the short history we have – even with the occasional spike. See the chart. Bitcoin's risk and return profile would change if it does achieve broad adoption. At that point, it may be more suited as a tactical hedge against specific risks, like gold is.

Gold has surged as investors seek to bolster portfolios against higher inflation, and some central banks seek alternatives to major reserve currencies. We think it is key to monitor how the performance of these alternatives changes relative to traditional asset classes – and be nimble in using them.

“

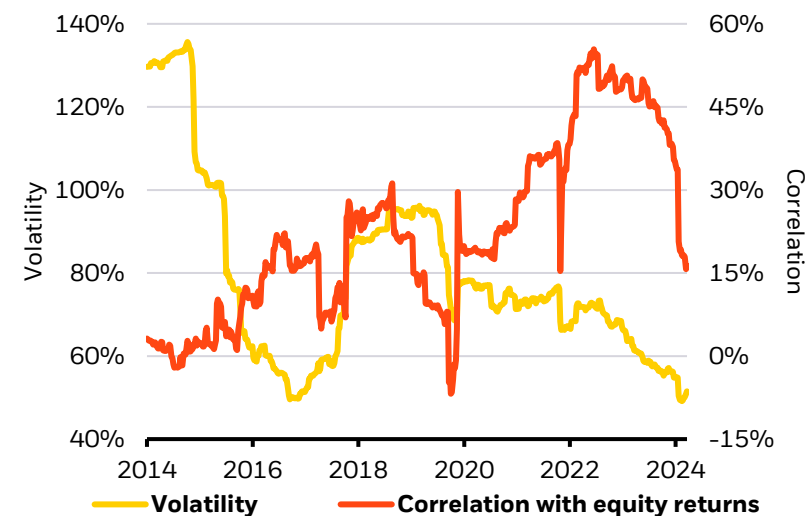
**Bitcoin's role as a store of value and payments system make it a potential diversifier.”**



**Samara Cohen**  
Chief Investment  
Officer of ETFs and  
Index Investments –  
BlackRock

## Volatile and uncorrelated

Bitcoin volatility and correlation with global equities, 2014-2024



**Chart takeaway:** *Bitcoin's correlation to global equities remains limited, even with the occasional spike. Given its unique value drivers, we see no intrinsic reason why bitcoin should be correlated with major risk assets over the long term.*

Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index. Indexes are unmanaged and performance does not account for fees. Source: BlackRock Investment Institute with data from Bloomberg, December 2024. Notes: For volatility, we show the two-year rolling volatility of weekly returns. The correlation is also a two-year rolling window of bitcoin returns against the Bloomberg Developed Markets Large and Mid Cap Index of global equities.

## Investment implications

- We see the potential for assets like bitcoin to provide distinct sources of risk and return.
- With traditional diversifiers like bonds no longer working as before, investors have more reasons to be dynamic with portfolios.



# Staying dynamic

Our scenarios framework helps ground our views on a tactical horizon. We have done so in 2024 as our concentrated AI scenario evolved to our U.S. corporate strength scenario. Yet we could change our stance quickly if a different scenario were to look more likely.

We have seen U.S. equity returns broaden out in 2024 as the AI theme has created opportunities across sectors, such as utilities, and we increase our overweight. We stay overweight Japanese stocks on both a tactical and strategic horizon given ongoing corporate reforms, and the return of mild inflation driving wage growth, corporate pricing power and earnings. In emerging markets, we favor countries at the crosscurrent of mega forces – like India and Saudi Arabia. On a strategic horizon, we like sectors including tech and healthcare.

We also still like quality income in short-term credit on a tactical horizon and short-term government bonds. We like long-term government bonds in the UK, where we think the Bank of England will cut rates more than the market is pricing given a soft economy.

In private markets, we stick to our long-term preference for infrastructure equity due to attractive relative valuations and mega forces. For income, we prefer direct lending given more attractive yields in private credit.

## Big calls

Our highest conviction views on tactical (6-12 month) and strategic (long-term) horizons, December 2024

Tactical		Reasons	
U.S. equities		<ul style="list-style-type: none"> <li>We see the AI buildout and adoption creating opportunities across sectors. We tap into beneficiaries outside the tech sector. Robust economic growth, broad earnings growth and a quality tilt underpin our conviction and overweight in U.S. stocks versus other regions. We see valuations for big tech backed by strong earnings, and less lofty valuations for other sectors.</li> </ul>	
Japanese equities		<ul style="list-style-type: none"> <li>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.</li> </ul>	
Selective in fixed income		<ul style="list-style-type: none"> <li>Persistent deficits and sticky inflation in the U.S. make us more positive on fixed income elsewhere, notably Europe. We are underweight long-term U.S. Treasuries and like UK gilts instead. We also prefer European credit – both investment grade and high yield – over the U.S. on cheaper valuations.</li> </ul>	
Strategic		Reasons	
Infrastructure equity and private credit		<ul style="list-style-type: none"> <li>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.</li> </ul>	
Fixed income granularity		<ul style="list-style-type: none"> <li>We prefer short- and medium-term investment grade credit, which offers similar yields with less interest rate risk than long-dated credit. We also like short-term government bonds in the U.S. and euro area and UK gilts overall.</li> </ul>	
Equity granularity		<ul style="list-style-type: none"> <li>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.</li> </ul>	

Note: Views are from a U.S. dollar perspective, December 2024. 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

Six- to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, December 2024

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. We don’t think this environment is conducive to static exposures to broad asset classes but creates more space for alpha.

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

Equities	View	Commentary
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 underweight. Valuations are fair. A growth pickup and European Central Bank rate cuts support a modest earnings recovery. Yet political uncertainty could keep investors cautious.
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.
Emerging markets		We are neutral. The growth and earnings outlook is mixed. We see valuations for India and Taiwan looking high.
China		We are modestly overweight. China’s fiscal stimulus is not yet enough to address the drags on economic growth, but we think stocks are at attractive valuations to DM shares. We stand ready to pivot. We are cautious long term given China’s structural challenges.

**Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index. The statements on alpha do not consider fees.** Note: Views are from a U.S. dollar perspective. 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.

Fixed income	View	Commentary
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 neutral. Market pricing reflects policy rates in line with our expectations and 10-year yields are off their highs. Political uncertainty remains a risk to fiscal sustainability.
UK gilts		We are overweight. Gilt yields offer attractive income, and we think the Bank of England will cut rates more than the market is pricing given a soft economy.
Japanese govt bonds		We are underweight. Stock returns look more attractive to us. We see some of the least attractive returns in JGBs.
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.
EM 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.
EM local currency		We are neutral. Yields have fallen closer to U.S. Treasury yields, and EM central banks look to be turning more cautious after cutting policy rates sharply.

**General disclosure:** This material is intended for information purposes only, and does not constitute investment advice, a recommendation or an offer or solicitation to purchase or sell any securities to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction. The opinions expressed are as of December 2024 and are subject to change without notice. Reliance upon information in this material is at the sole discretion of the reader. Investing involves risks. This information is not intended to be complete or exhaustive and no representations or warranties, either express or implied, are made regarding the accuracy or completeness of the information contained herein. This material may contain estimates and forward-looking statements, which may include forecasts and do not represent a guarantee of future performance.

In the **U.S. and Canada**, this material is intended for public distribution. **In EMEA**, in the UK and Non-European Economic Area (EEA) countries: this is Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: + 44 (0)20 7743 3000. Registered in England and Wales No. 02020394. For your protection telephone calls are usually recorded. Please refer to the Financial Conduct Authority website for a list of authorised activities conducted by BlackRock. **In the European Economic Area (EEA)**: this is Issued by BlackRock (Netherlands) B.V. is authorised and regulated by the Netherlands Authority for the Financial Markets. Registered office Amstelplein 1, 1096 HA, Amsterdam, Tel: 020 – 549 5200, Tel: 31-20-549-5200. Trade Register No. 17068311 For your protection telephone calls are usually recorded. **In Italy**, for information on investor rights and how to raise complaints please go to <https://www.blackrock.com/corporate/compliance/investor-right> available in Italian. **In Switzerland**, for qualified investors in Switzerland: This document is marketing material. Until 31 December 2021, this document shall be exclusively made available to, and directed at, qualified investors as defined in the Swiss Collective Investment Schemes Act of 23 June 2006 ("CISA"), as amended. From 1 January 2022, this document shall be exclusively made available to, and directed at, qualified investors as defined in Article 10 (3) of the CISA of 23 June 2006, as amended, at the exclusion of qualified investors with an opting-out pursuant to Art. 5 (1) of the Swiss Federal Act on Financial Services ("FinSA"). For information on art. 8 / 9 Financial Services Act (FinSA) and on your client segmentation under art. 4 FinSA, please see the following website: [www.blackrock.com/finsa](http://www.blackrock.com/finsa). **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 South Africa**, please be advised that BlackRock Investment Management (UK) Limited is an authorized financial services provider with the South African Financial Services Board, FSP No. 43288. **In the DIFC** this material 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). This material is only directed at 'Professional Clients' and no other person should rely upon the information contained within it. Blackrock Advisors (UK) Limited - Dubai Branch is a DIFC Foreign Recognised Company registered with the DIFC Registrar of Companies (DIFC Registered Number 546), with its office at Unit 06/07, Level 1, Al Fattan Currency House, DIFC, PO Box 506661, Dubai, UAE, and is regulated by the DFSA to engage in the regulated activities of 'Advising on Financial Products' and 'Arranging Deals in Investments' in or from the DIFC, both of which are limited to units in a collective investment fund (DFSA Reference Number F000738). **In the Kingdom of Saudi Arabia**, issued in the Kingdom of Saudi Arabia (KSA) by BlackRock Saudi Arabia (BSA), authorised and regulated by the Capital Market Authority (CMA), License No. 18-192-30. Registered under the laws of KSA. Registered office: 7976 Salim Ibn Abi Bakr Shaikan St, 2223 West Umm Al Hamam District Riyadh, 12329 Riyadh, Kingdom of Saudi Arabia, Tel: +966 11 838 3600. CR No, 1010479419. The information contained within is intended strictly for Sophisticated Investors as defined in the CMA Implementing Regulations. Neither the CMA or any other authority or regulator located in KSA has approved this information. **In the United Arab Emirates** this material is only intended for -natural Qualified Investor as defined by the Securities and Commodities Authority (SCA) Chairman Decision No. 3/R.M. of 2017 concerning Promoting and Introducing Regulations. Neither the DFSA or any other authority or regulator located in the GCC or MENA region has approved this information. **In the State of Kuwait**, those who meet the description of a Professional Client as defined under the Kuwait Capital Markets Law and its Executive Bylaws. **In the Sultanate of Oman**, to sophisticated institutions who have experience in investing in local and international securities, are financially solvent and have knowledge of the risks associated with investing in securities. **In Qatar**, for distribution with pre-selected institutional investors or high net worth investors. **In the Kingdom of Bahrain**, to Central Bank of Bahrain (CBB) Category 1 or Category 2 licensed investment firms, CBB licensed banks or those who would meet the description of an Expert Investor or Accredited Investors as defined in the CBB Rulebook. The information contained in this document, does not constitute and should not be construed as an offer of, invitation, inducement or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. **In Singapore**, this is issued by BlackRock (Singapore) Limited (Co. registration no. 200010143N). This advertisement or publication has not been reviewed by the Monetary Authority of Singapore. **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 Institutional Investors only. All strategies or products BLK Japan offer through the discretionary investment contracts or through investment trust funds do not guarantee the principal amount invested. The risks and costs of each strategy or product we offer cannot be indicated here because the financial instruments in which they are invested vary each strategy or product. **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 New Zealand**, 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 New Zealand Financial Advisers Act 2008. Refer to BIMAL's Financial Services Guide on its website for more information. BIMAL is not licensed by a New Zealand regulator to provide 'Financial Advice Service' 'Investment manager under an FMC offer' or 'Keeping, investing, administering, or managing money, securities, or investment portfolios on behalf of other persons'. BIMAL's registration on the New Zealand register of financial service providers does not mean that BIMAL is subject to active regulation or oversight by a New Zealand regulator. **In China**, this material may not be distributed to individuals resident in the People's Republic of China ("PRC", for such purposes, not applicable to 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). **In Latin America**, no securities regulator within Latin America has confirmed the accuracy of any information contained herein. The provision of investment management and investment advisory services is a regulated activity in Mexico thus is subject to strict rules. For more information on the Investment Advisory Services offered by BlackRock Mexico please refer to the Investment Services Guide available at [www.blackrock.com/mx](http://www.blackrock.com/mx).

# BlackRock Investment Institute

The BlackRock Investment Institute (BII) leverages the firm's expertise and generates proprietary research to provide insights on macroeconomics, sustainable investing, geopolitics and portfolio construction to help Blackrock's portfolio managers and clients navigate financial markets. BII offers strategic and tactical market views, publications and digital tools that are underpinned by proprietary research.