

# A rosy view

# BlackRock®

## Q1 2024

## Global macroeconomic outlook

Amidst deliberate monetary policies and emerging signs of economic resilience, the global financial landscape what we believe is a rosy view of cautious optimism and a collective journey toward stability and growth.

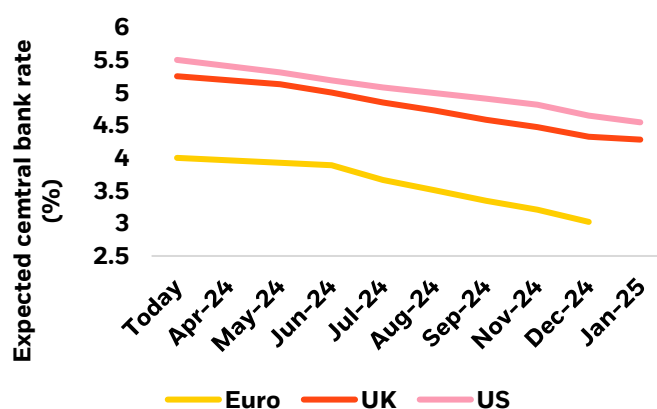
In the current global macroeconomic landscape, the economic trajectories of the United States, Euro Area, and United Kingdom show a synchronized shift towards cautious optimism and resilience amidst challenges.

Despite high interest rates aimed at tempering economic activity in the United States, the economy remains resilient, reflecting a global trend where central banks, including the Federal Reserve, are carefully navigating between growth and inflation control. Similarly, the Euro Area has emerged from the brink of recession, buoyed by slight improvements in real incomes and credit availability.

The European Central Bank (ECB) is maintaining stable interest rates while signaling potential easing in the near future. This cautious optimism is also evident in the United Kingdom where, despite consecutive quarters of contraction, there are signs of a nascent recovery driven by modest growth in the services sector, amidst controlled inflation and a stable job market.

These regional economic snapshots underscore a global economic environment marked by deliberate monetary policies aimed at achieving a delicate balance between fostering growth and mitigating inflation, reflecting a shared trajectory towards gradual recovery and stability across major economies.

**Chart 1: Global central bank expectations (28<sup>th</sup> March)**



The global economic outlook appears to be mixed but cautiously optimistic. The United States economy is showing robustness despite high-interest rates, indicating a measured approach towards adjusting monetary policy. The Eurozone is emerging from the threat of recession and is on a path to modest recovery, supported by steady interest rates and easing inflation. The UK is facing the possibility of a short-lived recession, but it is still managing to maintain manageable inflation rates and a stable job market, suggesting resilience amidst challenges. These insights suggest that there is cautious optimism, with central banks playing a pivotal role in guiding their economies towards sustained growth and stability.

### Strategic monetary measures

Deliberate monetary policies are steering major economies towards balance

### Emerging Resilience

Signs of resilience and recovery are emerging across the United States, Euro Area, and United Kingdom

### Towards Stability and Growth

A collective journey towards economic stability and growth is underway

Source: BlackRock's opinion using Bloomberg data as of 28 March 2024. The opinions expressed are as of 28 March 2024 and are subject to change at any time due to changes in market or economic conditions. For illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

## Dollar Market Overview

**The focus has shifted in the US market as the Fed has reached terminal rates and investors await a potential easing.**

Information contained in the Federal Open Market Committee's (FOMC or the Committee) Summary of Economic Projections released at the March meeting reflected a potential paring back of policy restraint this year despite a more sanguine outlook for economic growth and employment and a modest uptick in projected core inflation.

Based on this information, we expect the FOMC will eventually move to adjust the federal funds rate lower in a gradual fashion should core inflation continue to moderate.

Net T-bill issuance should abate following heavy supply over the past few quarters, while expectations around the timing and extent of any rate cuts by the Fed will, in our view, influence the level of utilization of the New York Federal Reserve's overnight repurchase agreement program (RRP).

The FOMC maintained the range for the federal funds target rate at 5.25% to 5.50% during the first quarter as it continued in our view to cautiously assess the effects of its policy firming to date.

In a statement<sup>1</sup> released in conjunction with the March meeting, the Committee noted that inflation "remains elevated" while acknowledging that it has "eased over the past year." The statement also recognized the "solid pace" of economic growth.

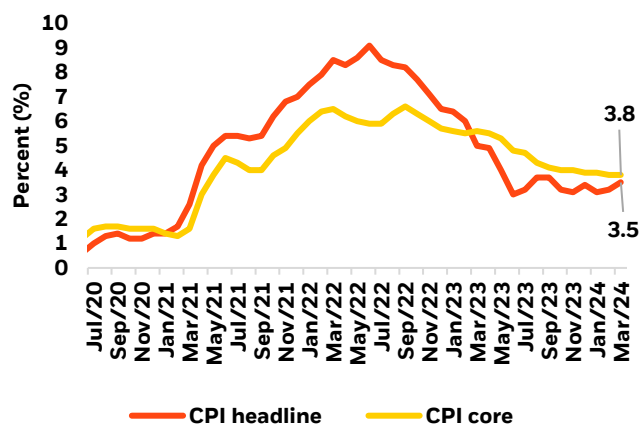
The March meeting statement also highlighted that the FOMC views "risks to achieving its employment and inflation goals" as becoming more balanced.

Further, the statement in March acknowledged that the FOMC "does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward" its 2% target.

The median federal funds rate forecast contained in the Summary of Economic Projections (SEP)<sup>2</sup> released in conjunction with the FOMC meeting for 2024 was unchanged from the December 2023 projection of 4.60% and continues to imply, in our estimation, three cuts of 0.25% in the range for the target rate for this year.

Sources **1, 2, 3**: US Federal Reserve as of 20 March 2024. BlackRock's opinion using Bloomberg data as of 28 March 2024. The opinions expressed are as of 28 March 2024 and are subject to change at any time due to changes in market or economic conditions. For illustrative purposes only. There is no guarantee that any forecasts made will come to pass. Where \$ is used, this refers to USD.

Chart 2: Inflation rate



The updated SEP for 2024 reflected a higher economic growth projection, a modestly higher core inflation projection and a slightly lower unemployment rate forecast, relative to the December projections. Core inflation is still not projected to fall to the FOMC's 2% objective until 2026.

The FOMC noted at the March meeting that it will continue reducing its holdings of Treasury securities, agency debt and agency mortgage-backed securities as delineated in its Plans for Reducing the Size of the Federal Reserve's Balance Sheet released in conjunction with the May 4, 2022, FOMC meeting.<sup>3</sup> Fed Chair Jerome Powell also noted at the post-meeting press conference that balance sheet runoff could begin "fairly soon."

## Probability of rate hike implied in the OIS curve

Meeting date	Implied rate change priced in bps	Implied rate in %
May-24	-0.017	5.31
Jun-24	-0.142	5.185
<b>Jul-24</b>	<b>-0.247</b>	<b>5.08</b>
Sep-24	-0.418	4.908
Nov-24	-0.512	4.815
Dec-24	-0.677	4.65
Jan-25	-0.783	4.543

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# Strategy for the Institutional Cash Series (ICS)

## BlackRock ICS US Treasury Fund

Short-Term Public Debt Constant NAV (CNAV) Fund

During Q1, the investment strategy of the fund involved increasing the WAM to 45 days and the Weighted Average Life (WAL) to 69 days in January. This was achieved by maintaining a balance between repurchase agreements and treasury securities. By March, the WAM remained at 45 days, while the WAL slightly decreased to 63 days. The fund slightly preferred treasury securities at 55% and decreased repurchase agreements to 43%. This adaptable approach was in response to the macroeconomic environment and monetary policy expectations. The fund aimed to maintain a consistent balance between short-term and long-term investments throughout the quarter.

## BlackRock ICS US Dollar Liquidity Fund/ BlackRock ICS US Dollar Liquid Environmentally Aware Fund (LEAF)

Short-Term Low Volatility NAV (LVNAV) Fund/ Short-Term Variable NAV (ST VNAV) Fund

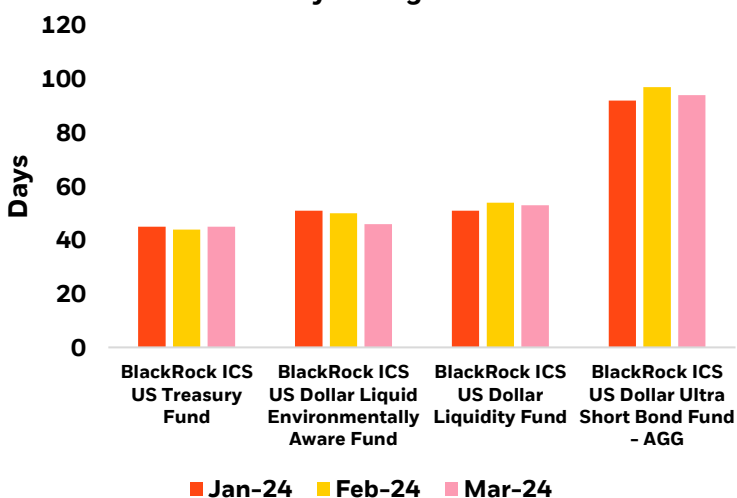
We adopted a cautious investment strategy, with a primary focus on maintaining high levels of liquidity. They aim to keep the fund's weighted average maturity close to 45-50 days. The fund is currently prioritizing fixed rate investments due to the peak in US interest rate policy, although they are also considering shorter-dated floating rates for potential carry and protection in the current volatile market environment. Regarding credit, since spreads are still tight, the manager is biased towards higher quality investments, including sovereign and agency securities, that seem attractive in terms of relative value and liquidity.

## BlackRock ICS US Dollar Ultra Short Bond Fund

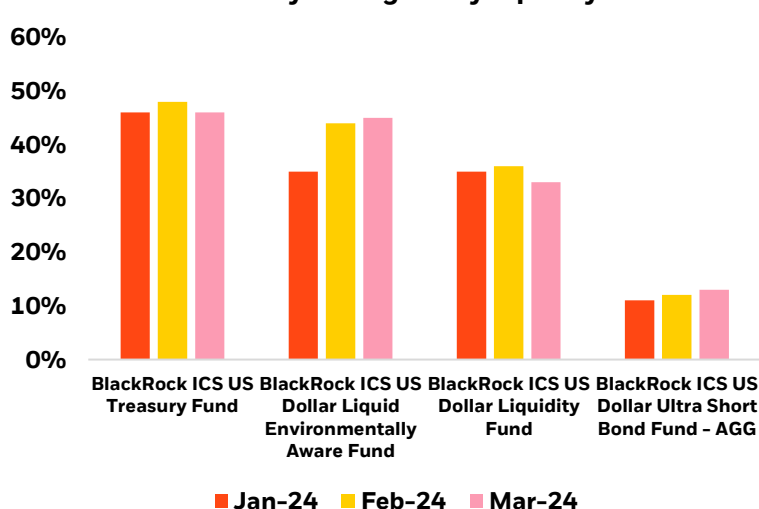
Standard Variable NAV (VNAV) Fund

The fund's duration was maintained close to 0.25 year while keeping appropriate levels of liquidity to accommodate flows in this uncertain market environment. We remain committed to seeking out opportunities in fixed-rate investments. This includes short-dated tier two assets that provide yield, as well as longer-term higher-quality securities, in anticipation of the peak in US interest rate policy. Additionally, the strategy is considering certain floating-rate investments that provide extra yield and offer protection should policy uncertainties persist.

Monthly average WAM



Monthly average daily liquidity



Source: BlackRock as of 28 March 2024.

A Money Market Fund (MMF) is not a guaranteed investment vehicle. An investment in MMFs is different from an investment in deposits, the principal invested in an MMF is capable of fluctuation and the risk of loss of the principal is to be borne by the investor. The MMF does not rely on external support for guaranteeing the liquidity of the MMF or stabilising the Net Asset Value (NAV) per share.

**Investors should refer to the prospectus or offering documentation for the fund's full list of risks.**

## Risks

**Capital at risk:** The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

### Specific Fund Risks

#### BlackRock ICS US Dollar Ultra Short Bond Fund

**Accumulating share class risk:** On any day where the net return (i.e., return less costs and expenses) of the Fund is negative an Accumulating Share Class of the Fund will see a decrease in the NAV per Share.

#### ESG Fund Screening Risk

The Fund seeks to exclude companies engaging in certain activities inconsistent with ESG criteria. Investors should therefore make a personal ethical assessment of the Fund's ESG screening prior to investing in the Fund. Such ESG screening may adversely affect the value of the Fund's investments compared to a fund without such screening.

**Credit Risk:** The issuer of a financial asset held within the Fund may not pay income or repay capital to the Fund when due.

**Counterparty Risk:** The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

**Money Market Funds:** Money Market Funds do not generally experience extreme price variations. Changes in interest rates will impact the Fund. Levels of credit risk are affected by longer weighted average maturity and weighted average life of the Fund.

#### Applicable to BlackRock ICS US Treasury Fund

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**Concentration Risk:** Investment risk is concentrated in specific sectors, countries, currencies or companies or because the Fund has only a small number of investments. This means the Fund is more sensitive to any localized economic, market, political or regulatory events. Concentrated investment exposure by the Fund could magnify the other risks to which the Fund is exposed.

#### Short Term Money Market Funds:

Short Term Money Market Funds do not generally experience extreme price variations. Changes in interest rates will impact the Fund.

## Risks

### BlackRock ICS US Dollar LEAF

**Accumulating share class risk:** On any day where the net return (i.e., return less costs and expenses) of the Fund is negative an Accumulating Share Class of the fund will see a decrease in the NAV per Share.

**Credit Risk:** The issuer of a financial asset held within the Fund may not pay income or repay capital to the Fund when due.

**Counterparty Risk:** The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

**Short Term Money Market Funds:** Short Term Money Market Funds do not generally experience extreme price variations. Changes in interest rates will impact the Fund.

### Applicable to BlackRock ICS US Dollar Liquidity Fund

**Accumulating share class risk:** On any day where the net return (i.e., return less costs and expenses) of the Fund is negative an Accumulating Share Class of the fund will see a decrease in the NAV per Share.

### ESG Fund Screening Risk

The Fund seeks to exclude companies engaging in certain activities inconsistent with ESG criteria. Investors should therefore make a personal ethical assessment of the Fund's ESG screening prior to investing in the Fund. Such ESG screening may adversely affect the value of the Fund's investments compared to a fund without such screening.

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