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BlackRock

Stock market monitor

Q1 2025 equity market outlook from BlackRock Fundamental Equities

Three themes for 2025. Global stock markets, led by the U.S., approached year-end 2024 at or around record highs, after two years of steady gains. We believe global economic growth, interest rate cuts and healthy earnings should lead to another positive 12 months for equities. As we head into 2025 we see:

Healthy earnings and margins supporting equity markets	**Intra-sector dispersion driven by mega forces and business cycles**	**Attractive valuations globally presenting alpha opportunities**

Helen Jewell

Chief Investment Officer, BlackRock Fundamental Equities, EMEA

"Valuations globally are not stretched. We see potential for plenty of upside for equities in 2025 – and a great environment for stock pickers to generate alpha."

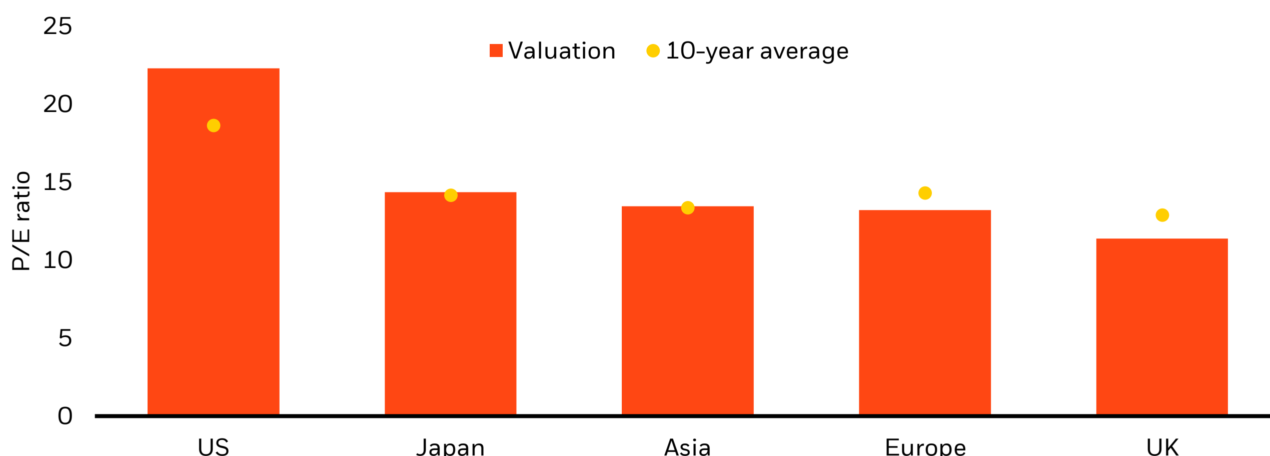
We see a supportive environment for equities as we head into 2025. Inflation is likely to remain under control in most major economies, in our view, allowing central banks to cut interest rates further. At the same time, global economic growth is forecast to be around 3% a year over the next couple of years.[1] This environment could allow a broad set of companies to boost earnings and maintain elevated profit margins.

In our view, earnings growth will continue to be driven by mega forces such as the artificial intelligence (AI) revolution and the transition to a low-carbon economy. Yet we also see these forces powering an uneven rally, with wide dispersion between the winners and losers within sectors.

Lofty valuations in parts of the U.S. market suggest much of the optimism around earnings has been factored in, with the top-10 companies valued at around 35x earnings. Yet companies outside the top 10 are valued at a more reasonable 20x earnings.[2] We see this gap closing as earning momentum broadens. And valuations globally are not stretched. See the chart below. We believe that skilled active managers can continue to find quality companies, with promising long-term earnings prospects, at a price that allows for valuations to grow.

Valuations in many parts of the world look reasonable

12-month forward price-to-earnings (P/E) ratio for global equity markets



Source:, BlackRock Investment Institute, November 25, 2024. The chart shows 12-month forward price-to-earnings ratio for each market, and the 10-year average. Regions based on MSCI indices.

1 IMF, October 2024

2 BlackRock Fundamental Equities, with data from Aladdin, August 2024

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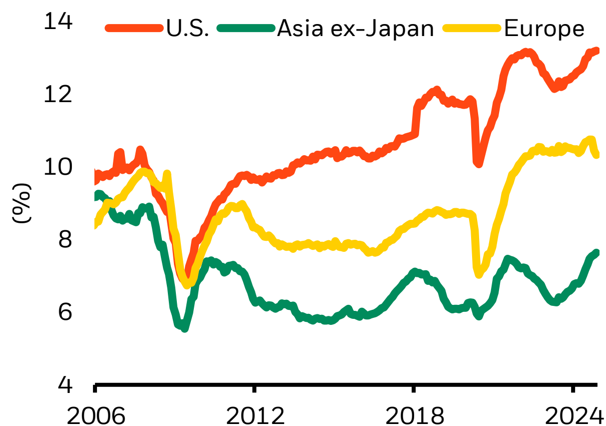
Three themes for 2025

1. Healthy earnings, but not across the market

Public companies are in a good place. Global earnings are forecast to grow 12% in 2025, accelerating from 7% in 2024. The U.S. makes up most of that, with earnings expected to grow around 14%. But European earnings are also looking robust, with analysts seeing 8% growth.[3] Profit margins have also marched steadily higher since they briefly plunged during the pandemic. See the chart.

Profits have risen post COVID
Global 12m forward net profit estimates, 2006-2024



Source: BlackRock Investment Institute, 25 November, 2024

Yet this healthy headline picture masks wide dispersion between and within sectors. Manufacturing in the U.S. and Europe has been contracting for the past two years. This is partly due to a COVID hangover – consumers spent heavily on goods during lockdowns, and now inventories are too high as consumers have switched to spending on services. This is partly why we see weakness in the auto sector remaining, as well as more long-term issues such as the tricky transition to electric vehicles. Housing and related areas have also been weak – yet we see lower rates providing a boost in 2025. And within sectors we see large gaps opening up between what we see as the best companies and the rest.

2. Mega forces drive sector dispersion

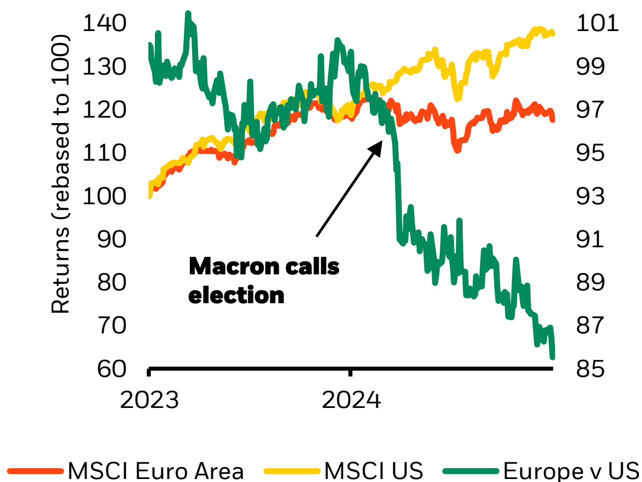
Trillions of dollars are being diverted into the AI race and the energy transition. This public and private spending is driving economic growth and transforming the corporate landscape, leading to wide dispersion within sectors. While residential construction has been weak, as mentioned above, commercial construction has been booming due to data centre demand. It's a similar story for the semiconductor industry, where AI-related demand has powered enormous earnings growth, while semis needed for smartphones, PCs and autos have lagged due to the post-COVID supply glut. For industrials more broadly, those companies that benefit from spending on electrification and decarbonisation have roared ahead, while those exposed to the shorter-term economic cycle have suffered. We expect many of these investment themes to continue throughout 2025 and beyond. Yet valuations for the most obvious beneficiaries of structural change are high, and so we look for the next wave of winners within AI, the energy transition and other mega forces. We also keep an eye on those cheaper stocks that are set to benefit when the manufacturing cycle does eventually pick up.

3. Global bargains?

Another source of value can be stocks that come with a regional discount, and yet have global operations and income streams. European stocks are trading on a 40% discount to U.S. stocks, around double the historical average. This isn't explained by earnings alone. A large part is due to sentiment – investor concerns that both geopolitics and domestic politics could hit the regional economy. See the chart below for one example. European companies earn more than 60% of their revenue outside of Europe, including 26% from North America.[4] And many European companies have world-leading capabilities in key areas like electrification and renewable power, yet they trade at a discount to U.S. peers with similar fundamentals. In our view, another cheap way to gain exposure to the money pouring into AI and decarbonisation is through global commodity companies. Copper and other metals are essential to the energy transition and for data centre construction. We see copper demand greatly outstripping supply over the next decade – and don't believe this is reflected in the valuations of copper producers.

We also see global opportunities in parts of emerging markets that may be poised to benefit from a huge effort to relocate supply chains in the wake of the pandemic supply crunch, and Japanese stocks that are set to receive a boost from corporate reform and a shift in interest rates. We explore these areas further on the next page, in an interview with a global equities portfolio manager at BlackRock Fundamental Equities.

Geopolitical nervousness impacts sentiment
MSCI Euro Area vs. MSCI U.S., past 12 months



The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Source: Fundamental Equities, with data from Bloomberg, Oct. 31, 20024.

3 J.P. Morgan, December 2, 2024
4 Goldman Sachs, Morgan Stanley, BlackRock, July 2023.

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A spotlight on international opportunities

Olivia Treharne manages global equity portfolios at BlackRock Fundamental Equities. Helen Jewell spoke with her about international opportunities and why "U.S. exceptionalism" doesn't have to mean "U.S. only."

Olivia Treharne

Co-Head of the Global Equity team, BlackRock Fundamental Equities

Helen: The U.S. stock market outpaced all others in 2024, and most analysts expect it to outperform again in 2025. Why should we think about international investing?

Olivia: The U.S. is a dynamic economy, and large, innovative companies make up a big proportion of the stock market. We don't expect that to change, and many of our favourite companies are in the U.S. But a "U.S. only" approach means that investors may miss out on some of the long-term earnings growth stories that are unique to other regions. For example, some companies with unique intellectual property include big data companies in the UK where AI can turbocharge the value of that data, or the strong luxury brands that reside in Europe. And some of the best healthcare companies globally, those with incredibly well invested research and development budgets and world-leading products, are based in the UK and Europe. Many of these companies are available at attractive valuations versus U.S. peers, in our view, due to regional discounts and a higher cost of equity. Global investing can provide access to strong secular growth stories on modest valuations.

Helen: You've mentioned the UK and Europe. Are there any other regions where you currently see opportunities?

Olivia: We're excited about some of the emerging markets. These are fast-growing countries where areas like banking have vast potential to expand. So one area we see upside is among those banks that can access this growth, have solid financial performance, and trade at attractive valuations. Mexico is one country that offers these kinds of opportunities – only 49% of adults have a bank account versus 95% in the U.S.[5] And Mexico is also set to benefit from the "near-shoring" of supply chains. U.S. tariffs on Mexican imports are a risk. But labour in Mexico is about one-seventh of the cost of U.S. labour, so we believe Mexico should retain its crucial competitive advantage even if tariffs are put in place.[6]

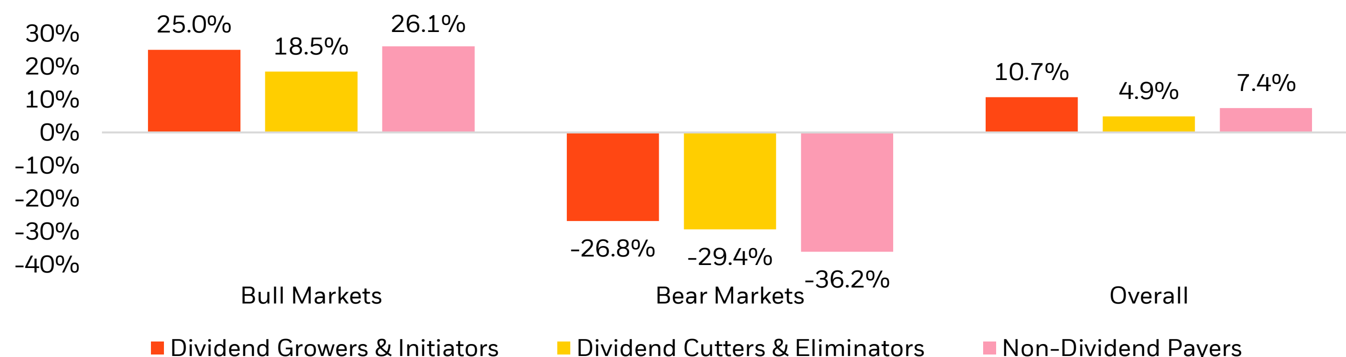
Outside of emerging markets, we are excited about the changes taking place in Japan. We expect Japanese inflation to continue to rise slightly and the Bank of Japan to raise rates further. This new macroeconomic environment could allow Japanese banks to achieve double-digit returns on tangible equity again for the first time in decades.[7] Beyond the banks, corporate reforms in Japan are beginning to have an impact, and some large companies are increasingly keen to sell peripheral businesses to focus on what they do best. This might be an entertainment company that offloads a financial services business, for example. These kinds of moves would benefit shareholders, in our view. And we also see an industrial recovery in Japan, which benefits some of the world-leading Japanese robotics companies in the short term, in addition to the long-term support they get from global automation demand as populations age.

Helen: Finally, are there any common traits that link the companies you look for?

Olivia: We set ourselves the task of finding quality at a reasonable price, and we believe hunting globally gives us a great chance to do that. Quality includes metrics like free cash flow, low leverage, or a growing dividend. The choice to reward investors today – while also focusing on long-term growth – shows smart allocation of capital. Those companies able to do both have historically been a source of resilience in portfolios. (See the chart.) And the dividend yield is higher internationally than it is in the U.S., another reason why we believe it's worth going global when picking stocks.[8]

Dividend payers have weathered diverse market conditions

Average returns from 01/31/03 – 06/30/24



The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Source: BlackRock, June 2024. The investment universe is the MSCI AWCI stocks. Dividend policy constituents are calculated on a rolling 12-month basis and are rebalanced monthly. Dividend Growers & Initiators = companies which either increased or initiated their dividend distribution. Dividend Cutters & Eliminators = companies which either cut or eliminated their dividend distribution. Non-Dividend payers = companies which do not pay a dividend. Bear market = declines greater than -20% or more. Bull market = increases of greater than 20% or more. For the "Overall", "Bull Market" and "Bear Market" periods the aggregate return is defined as an annualized form of the average monthly return for the specified market period, where annualizing takes into account compounding.
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5 MarketWatch, June 2024, Elijah Megginson, "Mexico's unbanked population 'now big enough to count' for fintech companies"
6 North American Production Sharing, Inc., June 2024. 7 Return on tangible equity is common metric of financial performance.
8 FTSE 100 = 3.5%, Stoxx 600 = 3.5%, S&P 500 = 1%. Goldman Sachs, Sept. 2024

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