

Implementation guide 2024

Putting money to work:
Driving towards opportunities

BlackRock



THIS MATERIAL IS NOT INTENDED TO BE RELIED UPON AS A FORECAST, RESEARCH OR INVESTMENT ADVICE, AND IS NOT A RECOMMENDATION, OFFER OR SOLICITATION TO BUY OR SELL ANY FINANCIAL INSTRUMENT OR PRODUCT OR TO ADOPT ANY INVESTMENT STRATEGY.

Contents

03	Introduction <u>Time for investment skills to shine</u>	07	Theme 2 <u>Managing macro risk</u>
04	Theme 1 <u>Steering Portfolio Outcomes</u>	11	Theme 3 <u>Harnessing mega forces</u>

The team

EI Investment Strategy and Product Solutions

Thomas Taw
Narayanan Somasundaram
Andy Ng
Claire Cheng
Neil Broadbent
Jonghyeok Baek
Giri Rajendran

Global Product Group

Aarti Angara
Steven Wells
Yolande Escher
Elaine Fan
Ilka Hsin

Fixed Income Product Strategy

Hui Sien Koay
Wee Lynn Low
Hillary Juan
Darryl Yee

Time for investment skills to shine.

The new regime of greater macro volatility has resulted in greater uncertainty and dispersion of returns.

We believe a more active approach to managing investment portfolios – leveraging both index and alpha-seeking strategies – may carry greater rewards as a result. Without macro lifting tides, selectivity – and skill – matter more than ever.

We think it's time to put those skills to work and deploy cash on the sidelines. Investors are holding cash at very high levels, and we think it is time to add risk to seize the opportunities the new regime has on offer.

Over the following pages, we explore the key investment themes laid out in the BlackRock Investment Institute's [Global Outlook](#), with implementation ideas. In this environment, we're *steering portfolio outcomes* to put money to work and capture the opportunities on offer through a more granular approach to investing. We're *managing macro risk* to cut through the confusion and getting more dynamic with index and alpha-seeking strategies. We think one way to achieve this is by *harnessing mega forces*, the big structural drivers at play in the new regime.

Our investment themes for 2024

1.

Steering portfolio outcomes

Dispersion of returns and volatility create space for investment skill to shine. This involves being dynamic with allocations while achieving selectivity through index and alpha strategies and putting money to work.

2.

Managing macro risk

Growth across major economies has been slower than before the pandemic – and interest rates much higher. We believe markets will likely adjust to this reality. We also look to size cash sleeves for the environment, with current levels far too high, in our view.

3.

Harnessing mega forces

Markets are typically slow at pricing these big structural forces, making for abundant investment opportunities. We see mega forces driving returns now and, in the future. They serve as important portfolio building blocks on their own.

Any opinions and/or forecasts represent an assessment of the market environment at a specific time and are not intended to be a forecast of future events or a guarantee of future results. There is no guarantee that any forecasts made will come to pass.

All figures are in US dollars, unless stated otherwise.

2024 APAC Outlook Implementation Guide

FOR PROFESSIONAL, ACCREDITED, INSTITUTIONAL AND WHOLESALE INVESTORS USE ONLY – NOT FOR PUBLIC DISTRIBUTION (PLEASE READ IMPORTANT DISCLOSURES)

Steering portfolio outcomes

We think investors need to take a more dynamic approach to their portfolios. Dispersion of returns and volatility create space for investment skills and it's time to put money to work.

Financial markets have begun to reprice to a higher policy rates regime, yet not all asset valuations have adjusted. Structurally higher rates imply shifting return profiles across assets, in turn, advocating for an actively selective approach to portfolio positioning. It is no longer the case that static exposures to broad asset classes can deliver the uplift on cash that they used to. We see alpha, or above-benchmark returns, playing a bigger role – and believe a more dynamic portfolio approach is warranted when cash offers attractive returns. This has three elements.

First, deep insights into shifting underlying drivers of market moves are needed and the ability to act on them in a timely manner. As a hypothetical exercise, assume a US equity investor was able to pick the best performing sectors. Acting on this more frequently would have paid off much more since 2020 than in the three years prior. The upshot? Good insight, acted upon in a timely manner, has been better rewarded since 2020.¹ Second, we believe investors can thrive in the new regime by getting granular with portfolio allocations. For example, returns on short-term Treasuries have outpaced those on long-term bonds since mid-July 2023, according to data compiled by LSEG², as

investors started to demand compensation for taking long-term interest rate risk.

Third, dispersion of returns has been greater in the new regime. This means security selection and appropriately sizing equity allocations is likely to be more impactful.

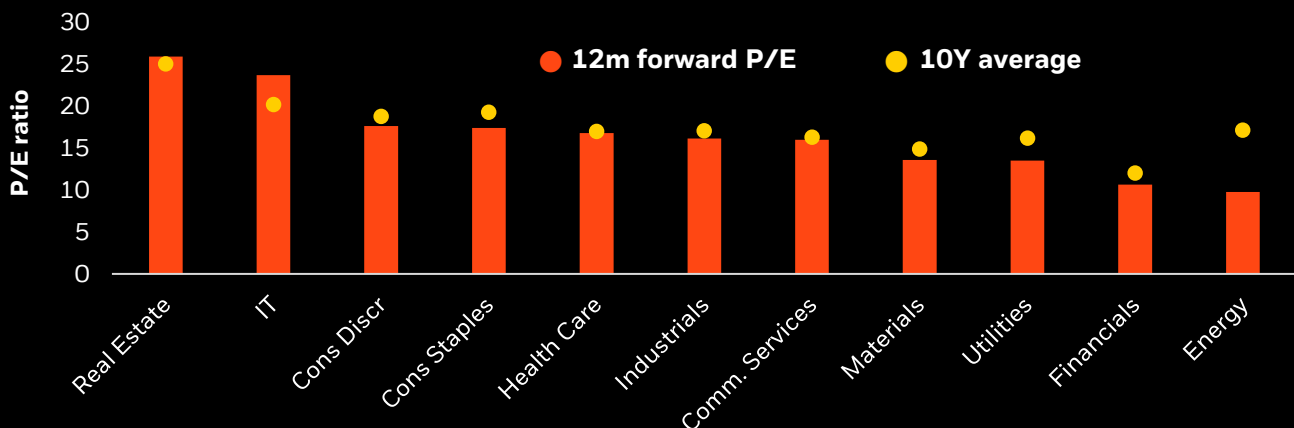
Each of these is valuable in isolation, yet all three are occurring at once. The good news? We see a wide selection of tools and strategies to help outperform simple, static portfolios. Investors can blend indices to build core allocations, implement alpha ideas and hedge risk. And seeking opportunities amid spikes in volatility may help bolster portfolio returns – especially given the greater uncertainty of the new regime.

We think seeking such investment expertise and skill could give portfolios an edge.

The bottom line: We're taking a more deliberate approach to portfolio construction by putting cash to work in exposures with attractive valuations, and areas including income, emerging market ex China equities, EM debt and Japan equities. We take a building block approach to broad equities, dialling exposure to precision segments up or down in line with our views.

Go Granular

Global sector price-to-earnings (P/E) ratios and 10Y averages



Source: LSEG Datastream and MSCI, as of 24 November 2023

1. Source: BlackRock Investment Institute, MSCI with data from Bloomberg, 29, November 2023. **Past performance is not a reliable indicator of future performance.**

2. Source: BlackRock Investment Institute, LSEG/Refinitiv Datastream, 29 November 2023.

2024 APAC Outlook Implementation Guide

FOR PROFESSIONAL, ACCREDITED, INSTITUTIONAL AND WHOLESALE INVESTORS USE ONLY – NOT FOR PUBLIC DISTRIBUTION (PLEASE READ IMPORTANT DISCLOSURES)

Building block approach for equities

We suggest a building block approach for portfolios to navigate the new regime of greater macro volatility and dispersion. Investors can exercise flexibility within broad equity exposures via style-flexible strategies, equal-weighted indices, or EM ex-China exposures, which allows one to stay invested in emerging markets, while dialling up or down China allocations separately.

2023 has been characterised by the narrow leadership of the Magnificent Seven. There are signs of market breadth improving and that could open opportunities in certain equity sectors where valuations remain attractive, fundamentals are supportive and there is potential for income.

Financials is one such. Having said that, headwinds will remain next year, and investors could choose to hedge by allocating to Min Vol or buffer strategies that aim to limit an investor's downside.

We also look to equity income. We like the defensive nature of dividend investing as a tool to build portfolio resilience and enhance diversification.

Quality income strategies focusing on companies able to generate sustainable and growing free cash flow may also be well-positioned to navigate times of market stress. They offer income as well as the potential for downside support and inflation protection. In the event of a favorable turn in macro-economic factors, they will also offer capital appreciation. Flows into dividend ETPs this year has reached \$5B.³

While EM equity ETPs have gathered \$92.6B⁴ globally YTD – putting 2023 on track to be the second-highest inflow year on record – momentum from foreign investors at the end of Q3 and into Q4 has slowed considerably, with net outflows from US (-\$4B) and EMEA-listed (-\$1.2B) exposures starting from August and September, respectively.⁵

We stay neutral on EM equity exposures, but with clients looking to other emerging markets this year given China's slowing growth and challenges in the real estate sector, India has been in focus. The relative strength of Indian equity returns (absolute and risk-adjusted) compared to that of global peers, lower correlations to developed markets, and expected GDP growth of at least 6%⁶ over the next five years warrant increasing exposure to India.

We take this exposure through equities, although bond inclusion in 2024 will be an important milestone in improving international investor access. Current valuations are not cheap, but are partly justified by competitive earnings growth, in our view. We've seen this reflected in ETP flows this year, with a record \$7.3B⁷ added to Indian equity.

All figures are in US dollars, unless stated otherwise.

3,4,5,7 Source: BlackRock and Markit, as of 16 November 2023. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**

6 Source: Bloomberg, mean estimate of economists as of 29 November 2023. Forecasts may not come to pass

2024 APAC Outlook Implementation Guide

5

FOR PROFESSIONAL, ACCREDITED, INSTITUTIONAL AND WHOLESALE INVESTORS USE ONLY – NOT FOR PUBLIC DISTRIBUTION (PLEASE READ IMPORTANT DISCLOSURES)

Japanese equities

We increase our overweight to Japanese equities, with a clear relative preference for the exposure within DM equities overall. Resurgent inflation and wage growth are translating into better pricing power for Japanese companies, while the Tokyo Stock Exchange's revamped governance norms are encouraging shareholder-friendly corporate behaviour.

Add in the yield curve control (YCC) changes from the Bank of Japan (BoJ) – which could help spark institutional investment shifting out of bonds towards equities – alongside the domestic reforms to encourage savers to enter the equity market, and domestic momentum is clear.

International investors have agreed in 2023: a combined \$9.0B⁸ has been added YTD to EMEA- and US- Listed Japanese equity ETPs, on track to be the highest inflow year since 2015.⁹ The relatively stronger growth backdrop versus DM peers is an additional factor underpinning our preference for Japan, while productivity improvements are a welcome development over the past decade or so.

We also see growth less challenged in Japan versus other developed markets (DM): Japan's real GDP is expected to grow by 1.3% in 2023 and 1.1% in 2024, ahead of expectations for the US and Europe.¹⁰ This is largely due to the Bank of Japan's (BoJ) relatively easy monetary approach.

While we expect the BoJ to tighten policy as inflation comes through, we still see it remaining more accommodative than other DM central banks that are in restrictive rate territory.

Emerging market debt

We retain our conviction on EM hard currency debt as an income play. Heading into 2024, the c.8%¹¹ yield on offer remains attractive, and carry opportunities persist alongside the relative divergence of the EM macro backdrop.

Among EM economies the tilt is towards easing financial conditions, with some central banks already having started to cut rates.

Growth concerns are not as pronounced as the slowing data we have seen in DM, with EM growth holding up relatively solidly in 2023. \$EMD is longer duration (>7yr) and its spreads have historically performed well once the Fed approaches the end of a hiking cycle.

Our view of a more benign dollar in 2024 has risks, namely a worse-than-expected slowdown in the US, but this is not our base case. In ETP flows, EMD remains under-owned: YTD, the asset class has gathered \$2.9B, which is still well below the -\$7.9B of outflows seen in 2022.¹²

“Rate volatility drove investors into quality and cash like products in 2023. With money market funds holding a record ~\$8 trillion and bond yields looking like they may have peaked, the appeal of holding cash is waning heading into 2024. We see opportunities in both bonds, which can provide more of a buffer to growth shocks, and equities. However, investors will need to take a balanced and multi-asset approach to combat growth and geopolitical risks.



Thomas Taw
Head of APAC iShares Investment Strategy

All figures are in US dollars, unless stated otherwise.

Any opinions, forecasts represent 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, investment advice or a recommendation.

8, 9, 12 Source: BlackRock and Markit, as of 14 November 2023. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**

11 Source: Bloomberg, as of 15 November 2023.

Managing macro risk

Growth across major economies has been slower than before the pandemic – and interest rates much higher. We believe markets will likely adjust to this new reality and we seek out mispricing as they do.

Central bankers face a difficult ongoing trade-off in fighting sticky price pressures against a challenging economic outlook. This backdrop makes the macro-outlook inherently more uncertain, a feature of the new regime, in our view. Macro exposures are as likely to be punished as rewarded, implying that an improvement in the macro environment is not needed to deploy capital. Instead, investors should seek to neutralise macro exposures or – if they have high conviction – be very deliberate about which exposures they take on. Greater volatility and dispersion of returns in this regime increase the reward for deliberate, well-timed allocations. We see more scope to outperform the market now than in the less-volatile period marked by historically low rates. For example, analyst estimates of future equity earnings are more dispersed than before the pandemic, according to LSEG data. Yet there is a need to be alert to macro risks, and we see two areas that warrant particular care.

First, markets are slowly adjusting to structurally higher inflation and policy rates, but it is an uneven process. For example, yields on 10Y US Treasuries surged to 16-year highs around 5% in 2023¹². But overall aggregate equity earnings yields have yet to adjust higher in most DMs. This makes us cautious

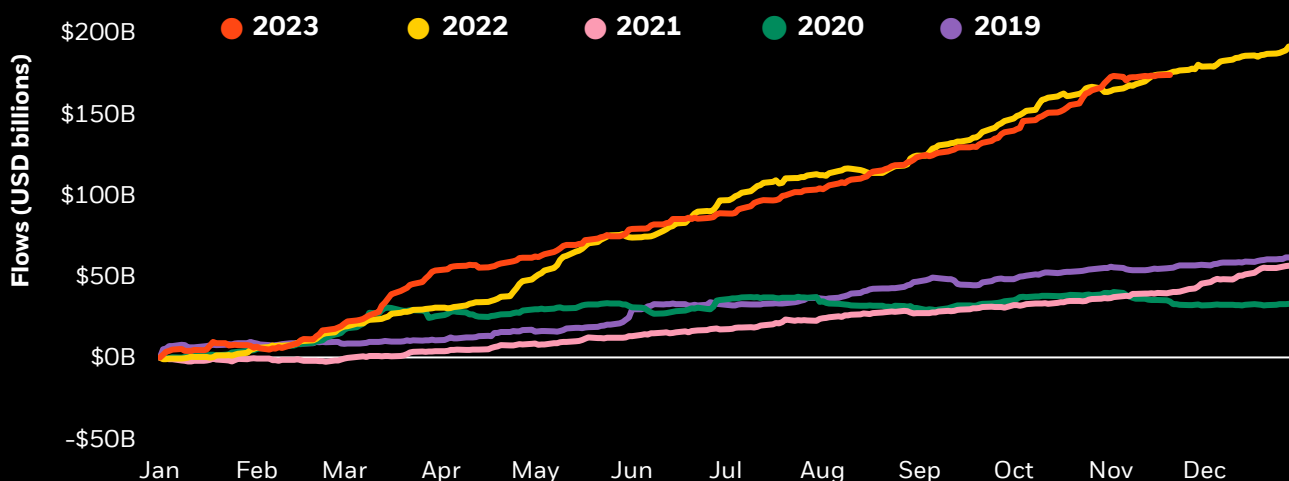
about broad, unprecise exposures with scope for further repricing ahead.

Second, structurally lower growth and higher rates pose a challenge for ballooning US government debt. If borrowing costs stay near 5% over the medium-term, as we expect, the government could be spending more on interest payments than on Medicare in a few years. This further increases the long-run risk of higher inflation as central banks become less aggressive on inflation. We also see it leading to a rise in term premium, or the compensation investors demand for the risk of holding long-term bonds. This, plus our expectation of more yield volatility, keeps us tactically neutral and strategically underweight long-term US Treasuries.

The bottom line: we're managing macro risk through a whole-portfolio approach. In a higher rate environment, we continue to look to quality equities and bonds for income, with a preference for the front end and belly in USTs, while we dip back into duration. We see target/fixed-maturity products to lock in yields at record highs and seek portfolio diversification – and opportunity – in private markets.

Investors turn back to bonds for income in a higher interest rate environment

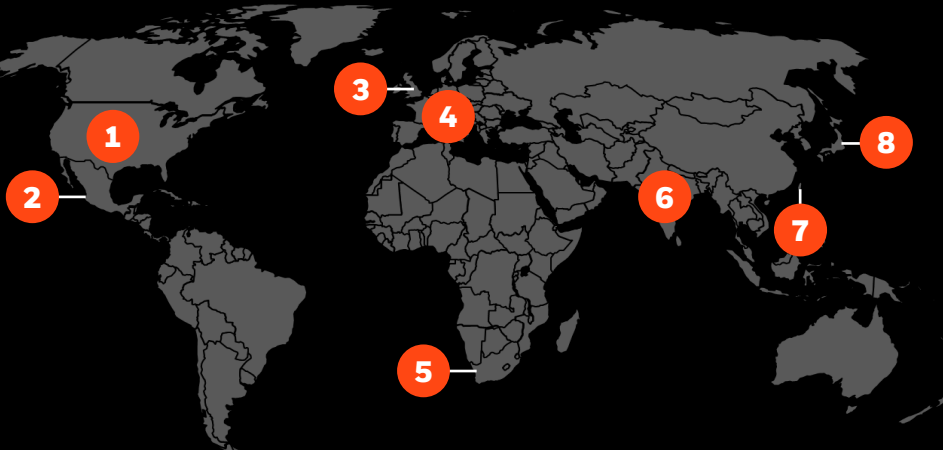
Cumulative inflows into global rates ETPs, 2020 – 2023 YTD



Source: BlackRock and Markit, as of 22 November 2023. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product. See appendix for 5Y data.**

12: Source: Bloomberg as of November 27, 2023
2024 APAC Outlook Implementation Guide

More people set to vote than any other year in history



- 1** **The US** looks set for a 2020 redux, with President Joe Biden likely to once again face off against former President Donald Trump. US voters tend to focus on the economy: through this lens, the contest remains too close to call, and changes in the inflation or employment picture or moves by the Fed could have an outsized impact. All of the House of Representatives and a third of the Senate will also be up for grabs, with potential for a divided government whoever wins the White House. We see limited impact on the critical tech or healthcare sectors, but expect more volatility across US markets as the race – and rhetoric – heats up.
- 2** **Mexico's** election in June 2024 will have a layer of political uncertainty as sitting President Andres Lopez Obrador is constitutionally barred from running again. The governing Morena coalition's proposed candidate Claudia Sheinbaum – an ex-Mexico City Mayor – is set to face-off against former senator Xochitl Galvez, meaning that that Mexico will likely have a female president by the end of the year.
- 3** **The UK** general election is due to take place by January 2025 at latest. With the incumbent Conservative Party – led by PM Rishi Sunak – behind in the polls, there is room for voter-friendly policies to be announced closer to the election, given the focus on the cost-of-living crisis, but for now Chancellor Jeremy Hunt is keeping a tight grip on the purse strings. Against a challenged macro backdrop, we continue to prefer more internationally-focused large cap UK equities, and like UK gilts for income with a more realistic rate path priced in by markets.
- 4** **European parliamentary elections** take place in June 2024, with almost 450m EU citizens heading to the polls. 2024 will see an increase in the number of MEPs to 720 to improve representativeness. At present, the European People's Party remains the largest bloc, and latest polls still have them slightly ahead of the Socialists and Democrats Party.
- 5** **South Africa's** 2024 general election comes against a backdrop of political corruption, crime, and economic discontent – raising the prospect that the ruling ANC could lose its majority for the first time since the start of multiracial democracy in 1994. We think President Cyril Ramaphosa will likely hold on – even if at the helm of a coalition government.
- 6** **India's** 2024 general election will take place in April and May to elect the members of the Lok Sabha (lower house of parliament). We expect political focus in the run up to turn towards shoring up domestic support, especially among the incumbent BJP-led National Democratic Alliance. At present, PM Narendra Modi still has a cushion of support, but rising cost pressures and concerns over the economy could prove a political sticking point. India's Model Code of Conduct restricts big policy shifts that could affect voters ahead of the election, but some voter-friendly policies are already starting to come through.
- 7** **Taiwan's** presidential election in January could mark an inflection point in relations between the island territory and mainland China, against a backdrop of heightened tensions. The two main opposition parties have agreed on a joint ticket, presenting a serious challenge to the ruling DPP's candidate, William Lai, who has already seen his lead slump in the polls. An opposition victory could pave the way for a reset with Beijing, but we also see scope for cross-Strait relations to improve under Lai, after hitting a nadir in recent years. We don't see military action on the cards in Taiwan in 2024, but markets will be alert to any signs of cross-Strait ties warming – or cooling.
- 8** **Japan's** Prime Minister Kishida Fumio will face a leadership election in September – with competing factions within the ruling LDP gunning for his job, he may look to call snap general elections ahead of time to shore up his mandate. 2024 will see leadership contests in Japan, the US, and South Korea: a change in direction from one or more sides could impact recent progress towards trilateral cooperation.

Seeking quality

We continue to see merit in holding quality equities despite their strong showing in 2023 – not only did the sector stand out vs. others but it led the way in ETP flows, with a record \$31.5B of inflows, more than 2x the previous record set in 2022.¹³

An uncertain macro backdrop, with financial conditions remaining tight into Q1 at the very least, leads us to maintain our preference for quality equities, which may be well-positioned to weather macro uncertainty. Profitability is key in our approach to adding risk – given the overlap of quality equities with sustained profitability, this further reinforces the case for the exposure, in our view.

In addition, global quality is not expensive – our analysis puts valuations for world quality in line with its long-term average.¹⁴

Target/Fixed maturity products

For investors who have had to look elsewhere for income over the past decade, the great yield reset has transformed the strategic opportunity in fixed income. A blend of index and alpha-seeking exposures can offer investors transparency and the opportunity to be nimble in their fixed income allocation.

Target maturity solutions are made for these times, we think, enabling investors to make rapid tactical asset allocation changes, improve operational efficiency and enhance the liquidity of fixed income portfolios.

These are an innovative suite of fixed income funds that hold a diversified portfolio of bonds with similar maturity dates. Each bond will distribute a final pay-out in their stated maturity year. Like individual bonds, these exposures have a target maturity date – the point at which the principal is repaid.

However, they offer additional benefits in terms of diversification and smaller minimum denominations. Bonds are often denominated in \$100k tranches – so it can be challenging to maintain diversification in smaller trades. Target/Fixed-maturity products provide exposure to hundreds of bonds across various sectors and countries.

They also uniquely allow investors to target a point along the yield curve and hold that position until maturity, receiving regular income along the way. In addition to our iBonds ETF range, BlackRock is looking to expand its fixed-maturity bond range in the mutual fund space. Global investment grade corporate, high yield and emerging markets debt exposures will be activated throughout 2024 as opportunities emerge to lock attractive yields.

Flexible Fixed Income solutions

Unconstrained fixed income is particularly well suited to times of market uncertainty, seeking consistent returns across market cycles with low correlation to traditional assets. They take a more flexible approach to portfolio composition, while maintaining the look and feel of a core fixed income allocation and help clients manage their exposures regardless of the environment. Return drivers can be adjusted dynamically to capture investment opportunities as they arise – whilst also looking to limit drawdowns.

The funds typically aim to achieve a cash plus type return which means return expectations rise and fall alongside the prevailing level of interest rates. Our range extends across credit, aggregate and EMD exposures – we are calling out our EMD capabilities in this space, which this year has proved to be a clear differentiator within the market. In the current environment, we like flexible, dynamic strategies designed to limit drawdowns and capture a large part of the beta upside with lower annualised volatility than the benchmark index.

All figures are in US dollars, unless stated otherwise.

13 Source: BlackRock and Markit, as of 27 September 2023. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product. See appendix for 5Y data.**

14 Source: BlackRock, as of 20 November 2023.

2024 APAC Outlook Implementation Guide

9

FOR PROFESSIONAL, ACCREDITED, INSTITUTIONAL AND WHOLESALE INVESTORS USE ONLY – NOT FOR PUBLIC DISTRIBUTION (PLEASE READ IMPORTANT DISCLOSURES)

Sovereigns

Against a higher-for-longer rates backdrop, the repricing of DM yields has been significant in 2023. With income on offer now at multi-decade highs, risk-reward has become increasingly attractive, in our view, given elevated yield cushions – we remain overweight front-end US Treasuries (USTs) as a result. Still, a key risk on our mind is financial conditions – where Fed Chair Powell has noted he'd like to see tightening to be “persistent”. Substantially lower bond yields in the near-term would go against the Fed's wishes – incentivising the Federal Open Market Committee (FOMC) to sound more hawkish.

We see core inflation hitting the Fed's 2% target in the second half of 2024. But it's key to note the conditions that have made that possible: on average, growth has been much lower since the pandemic and rates are much higher. More evidence of moderating growth calls for a reconsideration of DM duration within portfolios. In the US, we've turned tactically neutral long USTs as policy rates near their peak – rising term premium will likely be the next driver of higher yields – 10Y yields could reach 5% or higher on a longer-term horizon, we think.

Multi-asset solutions

Macro uncertainty over the last 12 months has meant that investors have had to work harder to diversify their portfolios for all-weather situations. Yet markets are interconnected, and new information can impact more than one asset class – especially with mega forces at play. Fluctuations in economic activity and investor sentiment may not have an equal impact across various segments that can comprise an asset class. So, portfolio resilience is key. Multi-asset strategies can help investors achieve precision within investment outcomes, while managing both upside and downside risk and navigating a wide set of opportunities.

Alternatives

Higher interest rates have challenged the role of traditional liquid alternatives in portfolios, as investors are replacing their allocations in favour of fixed income. However, in our view higher-octane liquid alternatives in particular complement fixed income allocations as these are well-positioned to provide investors with strong risk-adjusted returns in the current market environment. Macro-trading strategies, which have the ability to invest across regions and asset classes, focus on playing broader themes such as inflation and interest rate volatility have a strong outlook amidst continuous volatility. Moreover, the outlook remains strong for strategies that can tap into niche market segments, given their ability to provide not only durable alpha, but also an idiosyncratic return profile.

Looking beyond liquid alternatives, investors are increasingly including private markets as a core building block of their strategic asset allocation given the unique investment opportunities available to investors in the private space. We see this strategic shift prevailing despite current market and fundraising headwinds and see opportunities in private equity for individual investors looking to build out their allocations.

“2024 is first and foremost an income story. The increase in bond yields over the past 3 years has increased the convexity of returns; high income levels increases potential returns and buffers against the downside. A likely turn in Fed policy in 2024 means that cash is likely to underperform bonds even if rates stay higher for longer. Volatility is here to stay calling for an active approach that is flexible in duration management, adopts a multi-sector approach and optimizes for the best risk-adjusted income.



Corwin Huang

Asia Head of Fundamental Fixed Income Product Strategy

There is no guarantee that any forecasts made will come to pass.

Any opinions, forecasts represent 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, investment advice or a recommendation.

2024 APAC Outlook Implementation Guide

10

FOR PROFESSIONAL, ACCREDITED, INSTITUTIONAL AND WHOLESALE INVESTORS USE ONLY – NOT FOR PUBLIC DISTRIBUTION (PLEASE READ IMPORTANT DISCLOSURES)

Harnessing mega forces

Markets are typically slow at pricing these big structural forces, making for abundant investment opportunities. We see mega forces driving returns now and, in the future, and they serve as important portfolio building blocks on their own.

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.

These forces are already reshaping markets. Take digital disruption and artificial intelligence (AI). We think the tech-led rally this year reflects how quickly markets can embrace such fundamental shifts in the outlook. We think there is scope for further upside – and incorporating this mega force into our return expectations can push up our overall stance on US equities to a neutral even if the macro backdrop remains highly uncertain. That’s just one example of why we think harnessing mega forces will enable investors to outperform simple, static allocations across public and private markets. The far-reaching consequences of our five mega forces are giving rise to new investment opportunities as markets can be slow at pricing in the impact of these long-term forces. For example, capital pressures on banks are opening a path for private credit and non-banks to fill the lending void. While private credit can be an illiquid asset class not

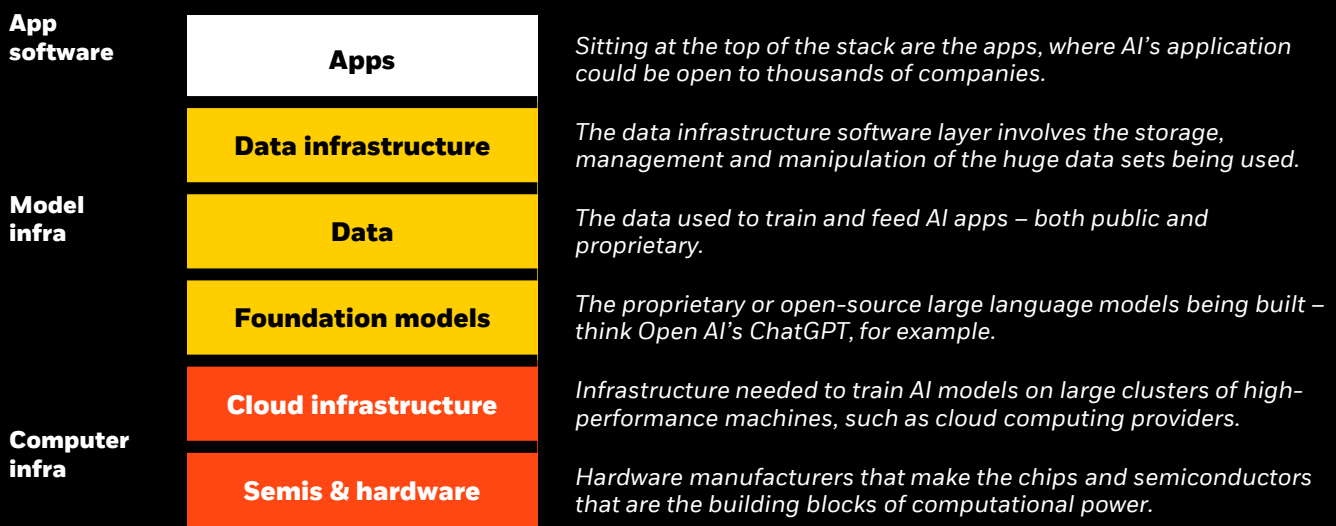
suitable for all investors and a selective approach is needed to navigate structurally higher rates, strong borrower demand should keep potential yields higher. Ageing populations in major economies are poised to limit how much countries can produce and grow– depending on how they adapt, such as with technology and medical breakthroughs, further widening the investment opportunity set, in our view.

Finally, we see climate resilience emerging as a new investment theme. As climate damages mount, we are seeing increased demand for solutions that help economies prepare for, adapt to and withstand climate hazards, and rebuild after damages. See our transition implementation guide for more on positioning for the low-carbon transition.

The bottom line: we’re steering portfolios by harnessing mega forces like digital disruption and AI – where we see the strongest opportunity set today at the foundation of the AI tech stack, in semiconductors. We focus on rewiring supply chains in a fragmenting world, amid elevated geopolitical risk and a busy electoral calendar in 2024 and focus on selective EM exposures.

The future AI technology stack

Assessing investment implications of generative AI likely to persist beyond the initial hype cycle requires us to view the technology through a platform lens – organised in a tech ‘stack’.



Source: BlackRock Investment Institute, November 2023. Subject to change. For illustration purposes only.

Digital disruption and AI

We see the digital disruption and artificial intelligence (AI) mega force driving transformation across industries, impacting investing now and in the future. We see further room to run for the AI trade. The 44.6%¹⁵ YTD surge in the broad tech sector has been grounded in solid fundamentals, with estimates indicating a potential \$7T contribution by AI to the global economy by 2030.¹⁶ As more and more companies integrate AI into their business models, it can be challenging to separate potential winners from the laggards. The technology 'stack' – layers of tech built on top of each other that enable further innovation – may offer a roadmap. At the base lie building blocks of computing such as semiconductors. On top are the potentially powerful applications that allow companies to harness AI. We think the full AI ecosystem will benefit over time, but the strongest opportunity set now is at the stack's foundation, given the sizeable investments required. For example, the share of overall data server spending dedicated to AI servers is expected to grow from 20% to 45% by 2028.¹⁷ We favour global semiconductors as a foundational AI play: chips are key enablers of AI, and we see demand supported on a strategic horizon, as major economies provide incentives to boost domestic production.

As the AI revolution evolves beyond LLMs, we expect investor focus to shift up the stack. We see further opportunity to build exposure to AI-related themes – key tech innovations driving connectivity, security and physical automation and interplaying with AI. We look to investment opportunities in areas such as autonomous driving, where AI has the potential to boost performance, safety and battery efficiency, as well as the metaverse, which sits at the intersection of virtual reality and AI.

Transition

The low-carbon transition is a series of profound shifts playing out over decades, reshaping production and consumption and spurring vast capital investment. We expect adoption of low carbon energy sources to reach tipping points across regions and sectors when their relative costs fall below those of incumbent sources. We also see climate resilience emerging as a key investment theme. These strategic tailwinds keep us constructive on renewable energy and the commodities that power them, despite supply chain disruptions and higher interest rates.

Commodities broadly have shown strong resilience not just against transition but also against geopolitical fragmentation and artificial intelligence. We also think markets have not yet fully priced in supply constraints for global materials and this could present an attractive entry point for investing in materials like copper, lithium, nickel or rare earth metals – essential components for new and emerging technologies, from smart phones to solar panels.

A World Bank analysis shows, there is a need to increase mineral mining by 5x current production rates to cover the expected demand by 2050.¹⁸



“ A confluence of global megatrends is prompting structural shifts in many industries and changing the drivers of corporate earnings. Technological breakthrough (AI development) and climate action (energy transition) are among megatrends we identify that possibly provides structural opportunities on top of cyclical growth to investors.

Ben Bei

Lead Product Strategist of Sector & Thematics, Fundamental Equity

All figures are in US dollars, unless stated otherwise.

Any opinions, forecasts represent 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, investment advice or a recommendation.

15 Source: Bloomberg as of 27 November 2023

16 Source: Goldman Sachs, April 2023.

17 Source: BlackRock, as of 31 May 2023

18 Source: McKinsey & Company, as of 17 November 2023

2024 APAC Outlook Implementation Guide

A fragmenting world

The global order established over decades by rapid globalisation has evolved in a world marked by elevated geopolitical risk, spurred by successive shocks and rising global tensions – including, at the end of 2023, strategic competition between the United States and China, and ongoing conflicts in Ukraine and the Middle East. We see major powers across regions favouring national security and growing independence over economic efficiency, accelerating the rewiring of global supply chains through reshoring, nearshoring and the formation of economic and political blocs.

With more people set to vote in 2024 than any year in history (see p. 8), elections could be a key factor in the extent and speed at which deglobalisation proceeds. As such, we maintain our conviction on the industrials sector. The reshoring and nearshoring trend should support investments in industrials and infrastructure, including higher domestic spends.

We see this environment as supportive of agribusiness, with rising food inflation and climate events structurally shifting approaches to farming – giving rise to more efficient tech to tackle supply chain disruptions, as reflected in investment in research and development.¹⁸ We also see opportunities in energy and gold. Gold remains under-owned, with 71% of US advisers reporting <1% exposure to the precious metal.¹⁹

¹⁹ Source: BofA US Equity & Quant Strategy, as of November 2023

APPENDIX

Annual flows into global ETPs by exposure type, 2018 – 2023 to date

	2018	2019	2020	2021	2022	2023 YTD
Quality factor	\$5.2B	\$11.2B	\$6.8B	\$7.7B	\$14.0B	\$32.8B
Eurozone rates	\$7.8B	\$1.3B	\$4.8B	\$2.6B	\$6.7B	\$12.3B
Global rates	\$75B	\$61.7B	\$33.2B	\$56.3B	\$191B	\$174.3B
US rates	\$65.3B	\$56.6B	\$24.4B	\$48.5B	\$177B	\$151.4B
Investment grade	\$16.2B	\$60.5B	\$64.2B	\$30.4B	\$46.2B	\$35B
High yield	-\$10.5B	\$27.6B	\$24.3B	\$10.1B	-\$7.9B	\$3.1B
Energy sector	\$0.1B	-\$4.1B	\$25.1B	\$25.7B	\$1.9B	-\$7B
Technology sector	\$13.3B	\$13.2B	\$58.3B	\$57.8B	\$26.0B	\$43.8B
EM equity	\$65.9B	\$41.1B	\$15.4B	\$91.7B	\$112.7B	\$95.1B
EM debt	\$11.0B	\$23.8B	\$14.4B	\$17.9B	-\$8.2B	\$5.5B
Indian equity	-\$0.7B	\$1.1B	\$0.1B	\$0.8B	-\$0.9B	\$7.6B
Japanese equity	\$68.1B	\$30.5B	\$64.5B	\$31.0B	\$1.5B	\$16.6B

Source: BlackRock and Markit, as of 27 November 2023. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**

BlackRock’s Long-Term Capital Market Assumption Disclosures: This information is not intended as a recommendation to invest in any particular asset class or strategy or product or as a promise of future performance. Note that these asset class assumptions are passive, and do not consider the impact of active management. All estimates in this document are in US dollar terms unless noted otherwise. Given the complex risk-reward trade-offs involved, we advise clients to rely on their own judgment as well as quantitative optimisation approaches in setting strategic allocations to all the asset classes and strategies. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. Assumptions, opinions and estimates are provided for illustrative purposes only. They should not be relied upon as recommendations to buy or sell securities. Forecasts of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. If the reader chooses to rely on the information, it is at its own risk. This material has been prepared for information purposes only and is not intended to provide, and should not be relied on for, accounting, legal, or tax advice. The outputs of the assumptions are provided for illustration purposes only and are subject to significant limitations. “Expected” return estimates are subject to uncertainty and error. Expected returns for each asset class can be conditional on economic scenarios; in the event a particular scenario comes to pass, actual returns could be significantly higher or lower than forecasted. Because of the inherent limitations of all models, potential investors should not rely exclusively on the model when making an investment decision. The model cannot account for the impact that economic, market, and other factors may have on the implementation and ongoing management of an actual investment portfolio. Unlike actual portfolio outcomes, the model outcomes do not reflect actual trading, liquidity constraints, fees, expenses, taxes and other factors that could impact future returns.

Index Disclosures: Index returns are for illustrative purposes only and do not represent any actual fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

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. This material may contain estimates and forward-looking statements, which may include forecasts and do not represent a guarantee of future performance. This information is not intended to be complete or exhaustive. No representations or warranties, either express or implied, are made regarding the accuracy or completeness of the information contained herein. The opinions expressed are as of July 2023 and are subject to change without notice. Reliance upon information in this material is at the sole discretion of the reader. Investing involves risks.

IMPORTANT INFORMATION

This material is prepared by BlackRock for informational or educational purposes only and is intended solely for Professional and Institutional investors. This material is provided to the recipient upon the understanding that information provided herein is strictly confidential and is intended solely for the exclusive use of its recipient and in no manner, whatsoever, constitutes an offer or solicitation to purchase or sell in any securities or iShares Funds, nor shall any securities or units be offered or sold to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction.

There are risks associated with investing, including loss of principal. Past performance is not indicative of future performance and is no guide to future returns. The value of investments involving exposure to foreign currencies can be affected by exchange rate movements. Investment in emerging market countries may involve heightened risks such as increased volatility and lower trading volume, and may be subject to a greater risk of loss than investments in a developed country. The use of synthetic instruments such as derivatives may create exposure to market counterparty risk. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. This material contains general information only and is not intended to represent general or specific investment advice. The information does not take into account your financial circumstances. An assessment should be made as to whether the information is appropriate for you having regard to your objectives, financial situation and needs. You are reminded to refer to the relevant prospectus for specific risk considerations which are available from BlackRock or the iShares websites.

This material may contain “forward-looking” information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of yields or returns. This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

The opinions expressed are as of the day of distribution and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy. No part of this material may be reproduced, stored in retrieval system or transmitted in any form or by any means, electronic, mechanical, recording or distributed without the prior written consent of BlackRock.

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. This material is for distribution to “Professional Investors” (as defined in the Securities and Futures Ordinance (Cap.571 of the laws of Hong Kong) and any rules made under that ordinance) and should not be relied upon by any other persons or redistributed to retail clients in Hong Kong.

In Singapore, this is issued by BlackRock (Singapore) Limited (Co. registration no. 200010143N) for use only with institutional and accredited investors as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.

In South Korea, this information is issued by BlackRock Investment (Korea) Limited. 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) and for information or educational purposes only, and does not constitute investment advice or an offer or solicitation to purchase or sells in any securities or any investment strategies.

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 Australia & 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 Australian Corporations Act 2001 (Cth) and the New Zealand Financial Advisers Act 2008 respectively.

This material provides general information only and does not take into account your individual objectives, financial situation, needs or circumstances. Before making any investment decision, you should therefore assess whether the material is appropriate for you and obtain financial advice tailored to you having regard to your individual objectives, financial situation, needs and circumstances. Refer to BIMAL’s Financial Services Guide on its website for more information. This material is not a financial product recommendation or an offer or solicitation with respect to the purchase or sale of any financial product in any jurisdiction.

This material is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. BIMAL is a part of the global BlackRock Group which comprises of financial product issuers and investment managers around the world. BIMAL is the issuer of financial products and acts as an investment manager in Australia. BIMAL does not offer financial products to persons in New Zealand who are retail investors (as that term is defined in the Financial Markets Conduct Act 2013 (FMCA)). This material does not constitute or relate to such an offer. To the extent that this material does constitute or relate to such an offer of financial products, the offer is only made to, and capable of acceptance by, persons in New Zealand who are wholesale investors (as that term is defined in the FMCA).

BIMAL, its officers, employees and agents believe that the information in this material and the sources on which it is based (which may be sourced from third parties) are correct as at the date of publication. While every care has been taken in the preparation of this material, no warranty of accuracy or reliability is given and no responsibility for the information is accepted by BIMAL, its officers, employees or agents. Except where contrary to law, BIMAL excludes all liability for this information.

No part of this material may be reproduced or distributed in any manner without the prior written permission of BIMAL.

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 Southeast Asia: This document is issued by BlackRock and is intended for the exclusive use of any recipient who warrants, by receipt of this material, that such recipient is an institutional investors or professional/sophisticated/qualified/accredited/expert investor as such term may apply under the relevant legislations in Southeast Asia (for such purposes, includes only Malaysia, the Philippines, Thailand, Brunei and Indonesia). BlackRock does not hold any regulatory licenses or registrations in Southeast Asia countries listed above, and is therefore not licensed to conduct any regulated business activity under the relevant laws and regulations as they apply to any entity intending to carry on business in Southeast Asia, nor does BlackRock purport to carry on, any regulated activity in any country in Southeast Asia. BlackRock funds, and/or services shall not be offered or sold to any person in any jurisdiction in which such an offer, solicitation, purchase, or sale would be deemed unlawful under the securities laws or any other relevant laws of such jurisdiction(s).

This material is provided to the recipient on a strictly confidential basis and is intended for informational or educational purposes only. Nothing in this document, directly or indirectly, represents to you that BlackRock will provide, or is providing BlackRock products or services to the recipient, or is making available, inviting, or offering for subscription or purchase, or invitation to subscribe for or purchase, or sale, of any BlackRock fund, or interests therein. This material neither constitutes an offer to enter into an investment agreement with the recipient of this document, nor is it an invitation to respond to it by making an offer to enter into an investment agreement.

The distribution of the information contained herein may be restricted by law and any person who accesses it is required to comply with any such restrictions. By reading this information you confirm that you are aware of the laws in your own jurisdiction regarding the provision and sale of funds and related financial services or products, and you warrant and represent that you will not pass on or utilize the information contained herein in a manner that could constitute a breach of such laws by BlackRock, its affiliates or any other person.

For Other Countries in APAC: This material is provided for your informational purposes only and must not be distributed to any other persons or redistributed. This material is issued for Institutional Investors only (or professional/sophisticated/qualified investors as such term may apply in local jurisdictions) and does not constitute investment advice or an offer or solicitation to purchase or sell in any securities, BlackRock funds or any investment strategy nor shall any securities be offered or sold to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdictions.

The information provided here is not intended to constitute financial, tax, legal or accounting advice. You should consult your own advisers on such matters.

THIS MATERIAL IS HIGHLY CONFIDENTIAL AND IS NOT TO BE REPRODUCED OR DISTRIBUTED TO PERSONS OTHER THAN THE RECIPIENT.

©2023 BlackRock, Inc. or its affiliates. All Rights Reserved. iShares® and BlackRock® are registered trademarks of BlackRock, Inc. or its affiliates in the United States and elsewhere. All other trademarks, servicemarks or registered trademarks are the property of their respective owners.