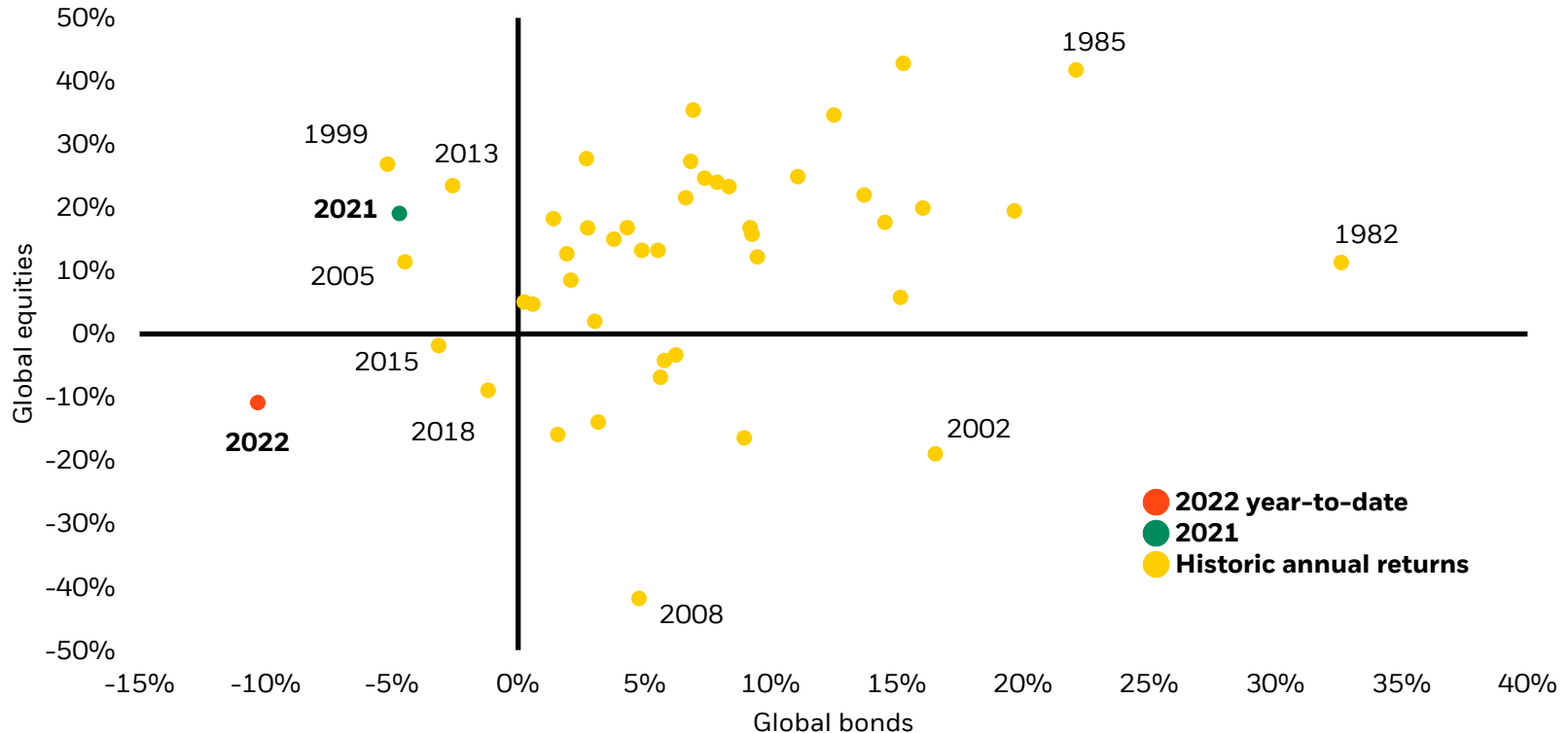


A historically challenging market regime

Both stocks and bonds are down year-to-date as policy confusion and Russia's invasion roil markets. We still see stocks up and bonds down for a second straight year – a first since data started in 1977.

Global equities vs. global bonds, annual returns, 1977-2022



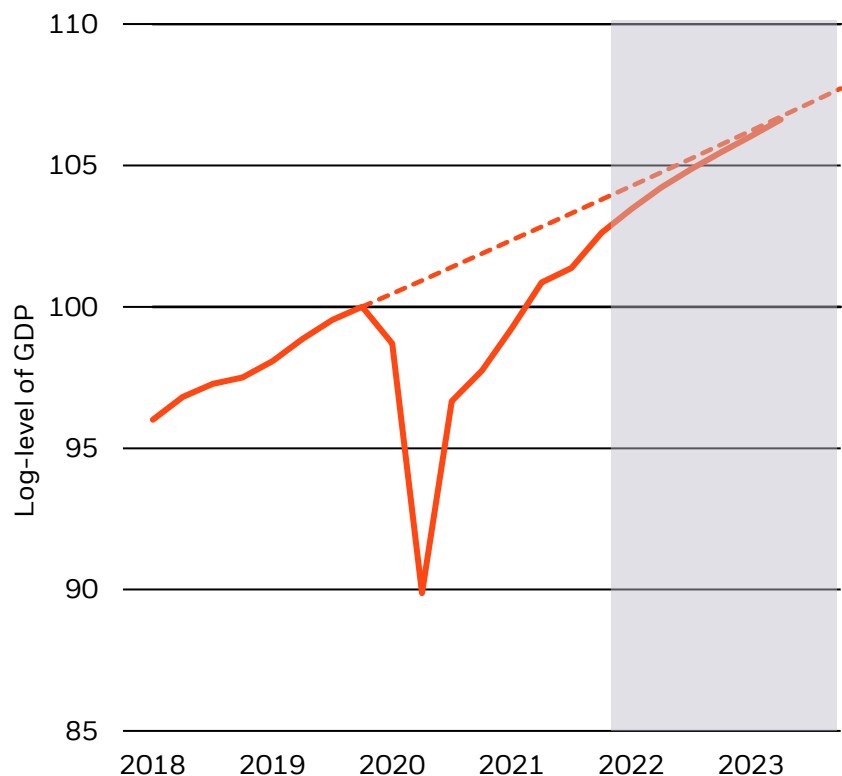
Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index.

Sources: BlackRock Investment Institute with data from Refinitiv Datastream and Bloomberg, April 2022. Notes: The chart shows annual returns for global equities and bonds in U.S. dollar terms from 1977-2021. Index proxies are the MSCI All-Country World index for equities (MSCI World before 1988) and Bloomberg Global Aggregate index for bonds (U.S. Aggregate before 1991).

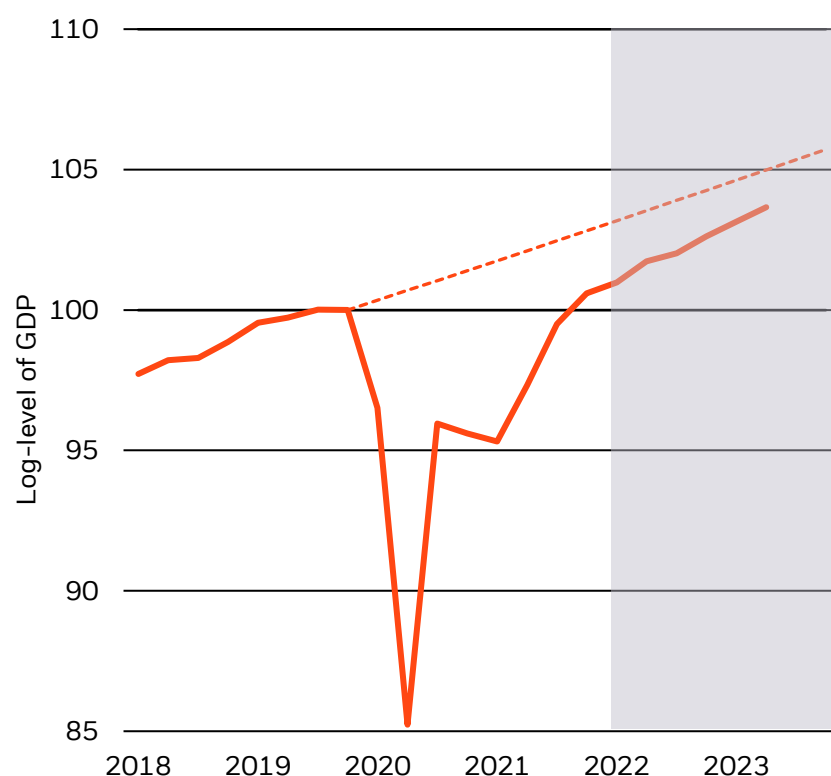
Restart dynamics still fundamental driver of growth

The strong restart momentum going into the Ukraine crisis should help cushion the stagflationary impact of supply shocks – particularly in energy prices.

U.S. GDP and projection, 2018-2023



Euro area GDP and projection, 2018-2023

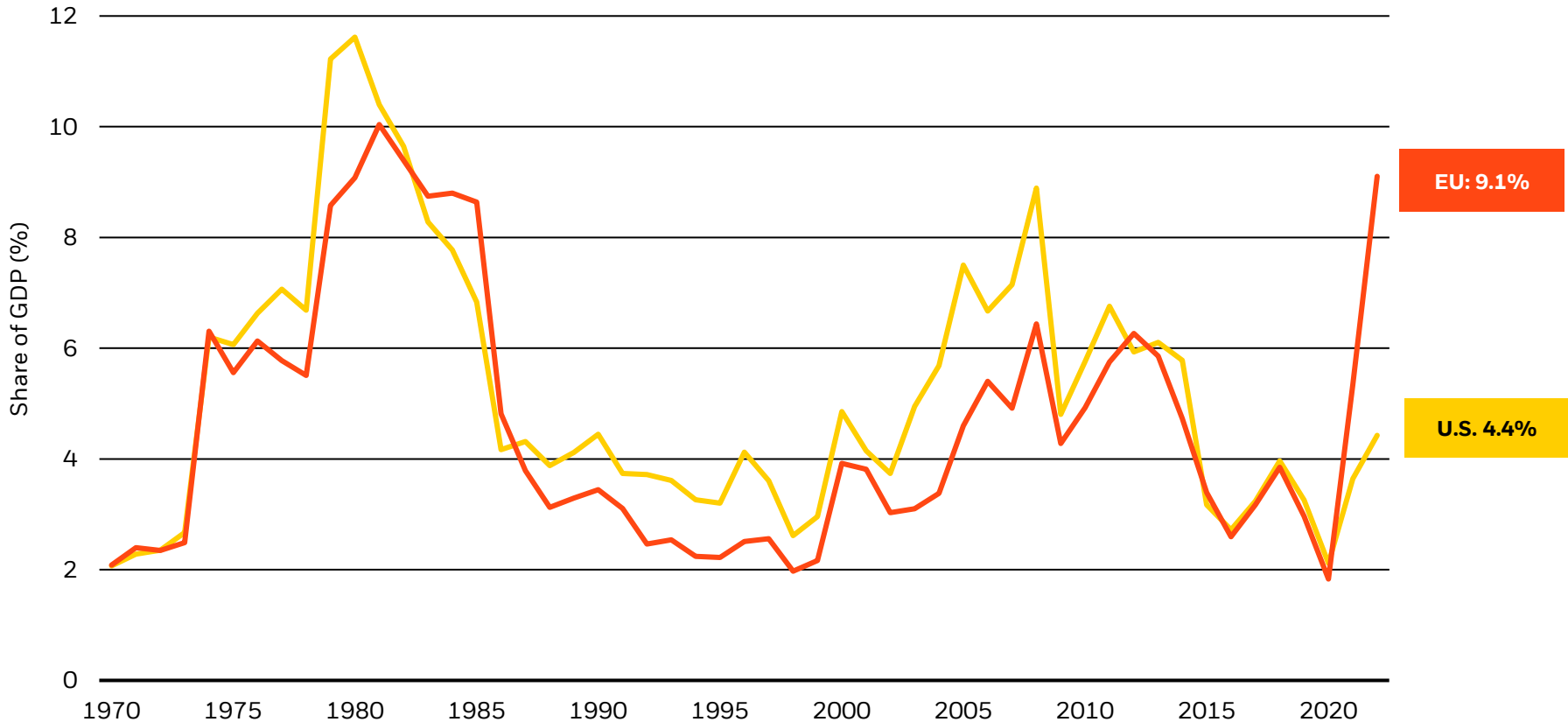


Forward looking estimates may not come to pass. Sources: BlackRock Investment Institute, U.S. Bureau of Economic Analysis, Eurostat, Bloomberg with data from Haver Analytics, March 2022. Notes: charts show actual GDP and consensus projections (as of 23 March 2022) for the U.S. and Euro area in orange. The gray shaded area denotes the consensus forecast period. The dashed lines show projections of trend growth starting in Q4 2019 to illustrate what GDP might have been had it grown at pre-Covid trend from 2020 onwards. The trend growth assumptions reflect the likely growth of potential output in the run-up to the Covid-19 shock. The scale is expressed as the log-level of GDP.

Energy shock a much bigger deal for Europe

The hit to euro area growth, with its heavy reliance on Russian gas, could be large on top of higher inflation. The current energy burden in Europe is more than twice that of the U.S., risking stagflation.

Energy burden as share of GDP, 1970-2022

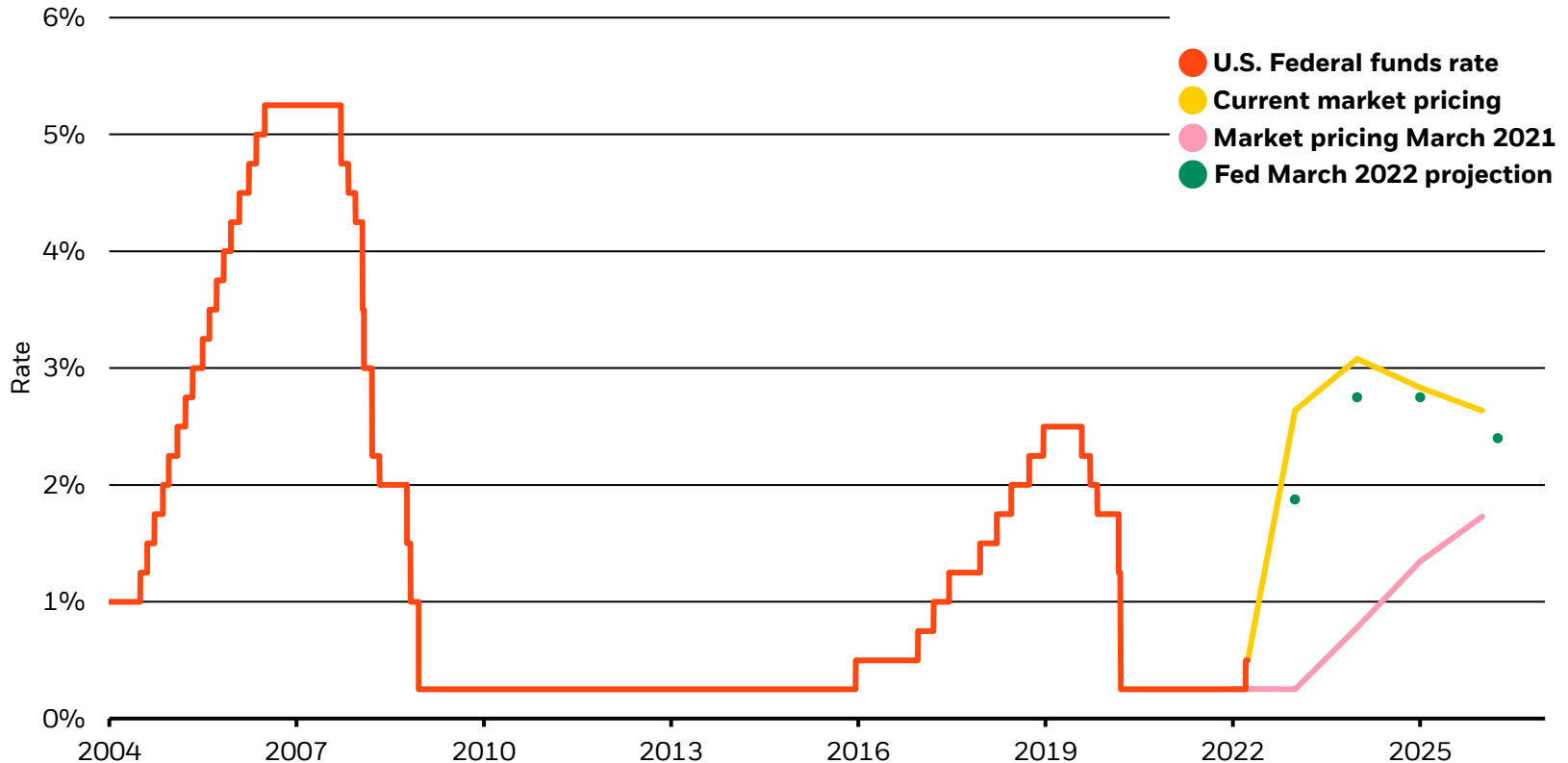


Sources: BlackRock Investment Institute and BP Statistical Review of World Energy 2021, with data from Haver Analytics, March 2022. Notes: chart shows the cost of oil, gas and coal consumption in the European Union and U.S. as a share of GDP. We use regional energy prices and divide by GDP in U.S. dollars. Data for 2022 are based on IMF's latest GDP forecasts and the year-to-date average of daily commodities prices

Markets starting to price in a more aggressive Fed

The Fed struck a surprisingly hawkish tone in kicking off its hiking cycle. We see a higher risk of the Fed slamming the brakes on the economy as it may have talked itself into a corner.

U.S. policy rate pricing current vs. year ago, 2004-2025



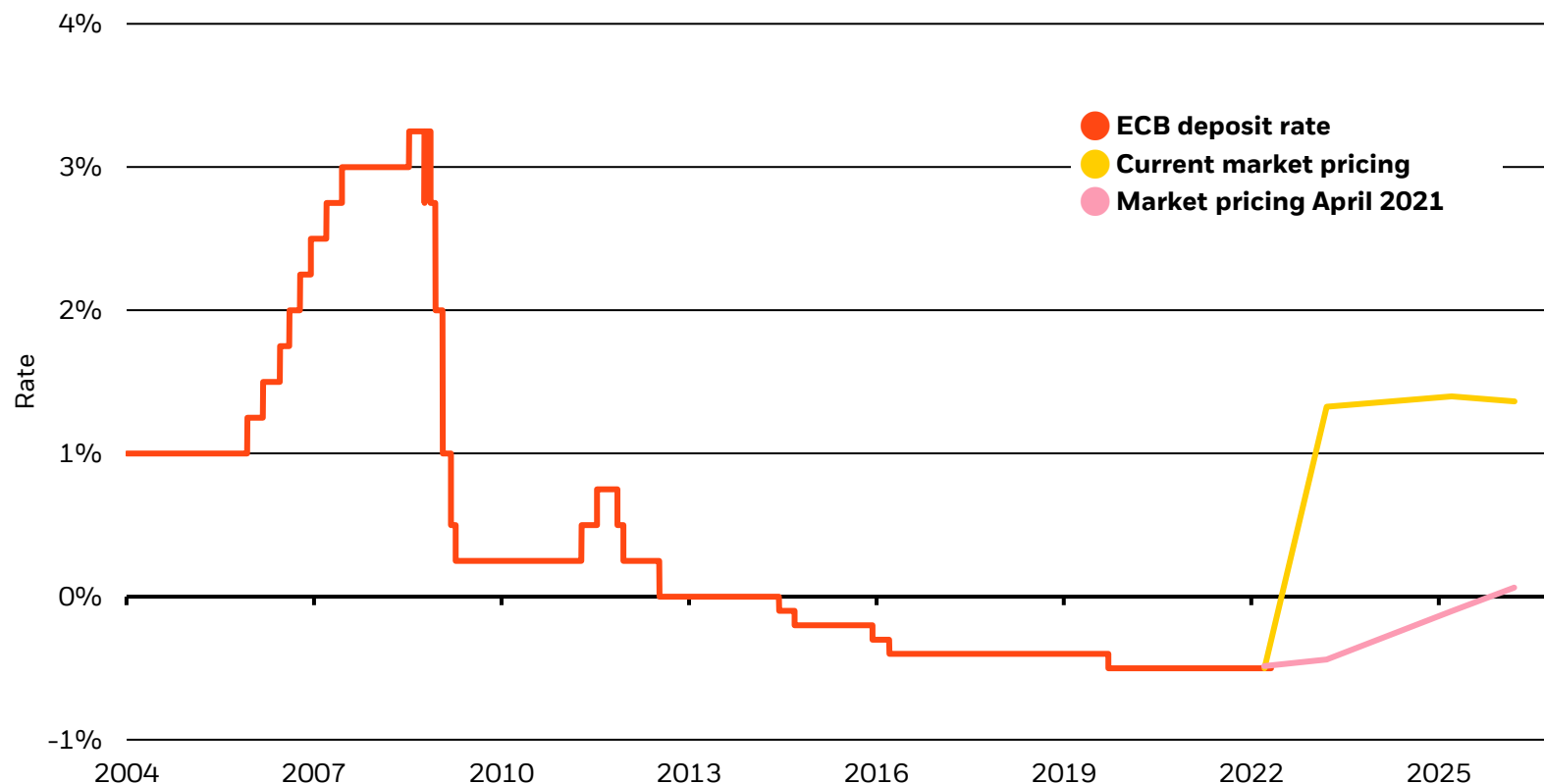
Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index.

Sources: BlackRock Investment Institute, with data from Haver Analytics and Refinitiv Datastream, April 2022. Notes: The left chart shows historical fed funds rate, current and year-ago market pricing in forward overnight index swaps and the Fed's March 2022 projection based on the median dot of policymaker projections for the end of each year. The final green dot represents the Fed's long-term policy rate expectation.

Growth shock to shape ECB policy normalization

Growth shock to the euro area implies the ECB has less to do to get to neutral policy. The ECB has emphasized flexibility on kicking off hikes, and we think market pricing this year is too aggressive.

Euro area policy rate pricing current vs. year ago, 2004–2025



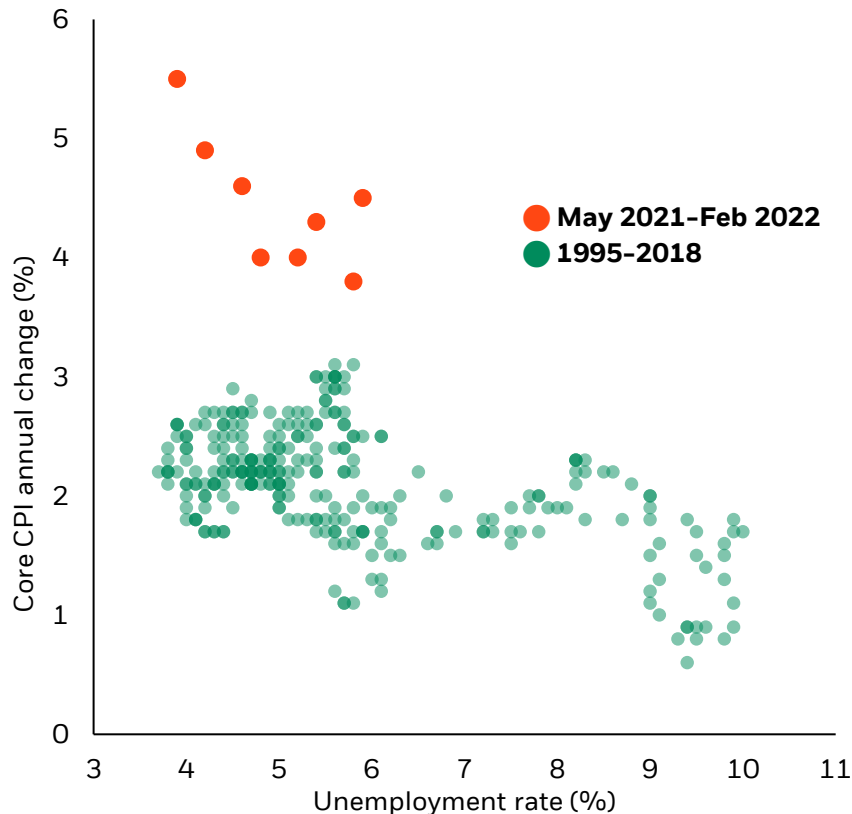
Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index.

Sources: BlackRock Investment Institute, with data from Haver Analytics and Refinitiv Datastream, April 2022. Notes: The chart shows the European Central Bank's current deposit rate against the latest market pricing vs. a year ago.

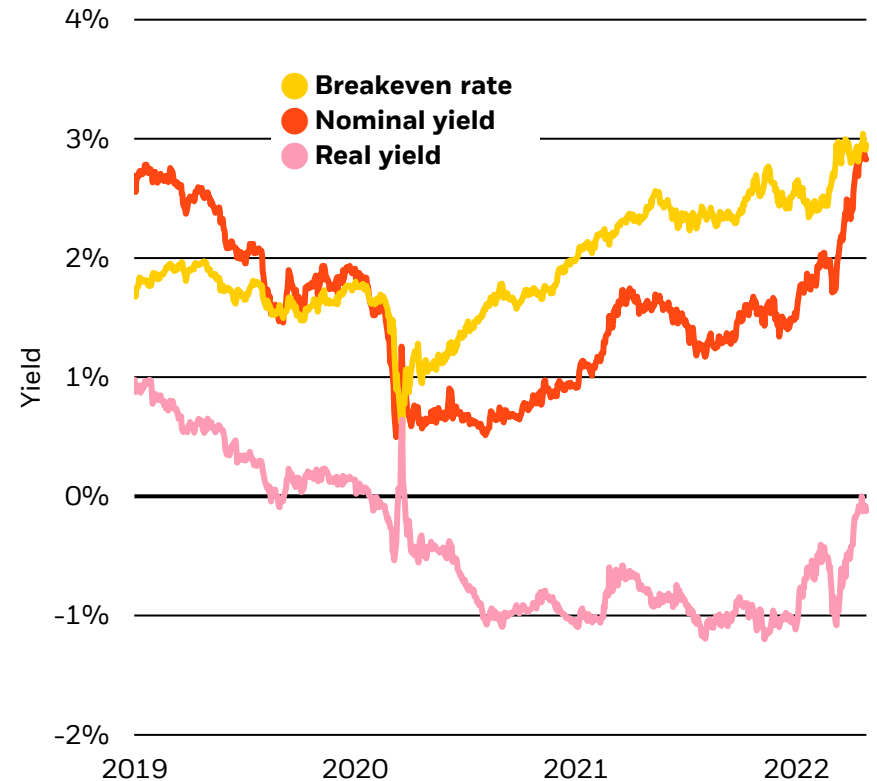
We see central banks living with inflation

Raising policy rates to restrictive levels to curb inflation would destroy demand and boost unemployment. We believe central banks will ultimately live with inflation, keeping real yields low.

U.S. unemployment and inflation, 1995-2021



U.S. Treasury 10-year yield breakdown, 2019-22



Forward looking estimates may not come to pass. Sources: BlackRock Investment Institute, U.S. Bureau of Economic Analysis, Eurostat, Reuters News with data from Haver Analytics, April 2022. Notes: the left chart shows the U.S. unemployment rate (horizontal axis) compared with the U.S. annual core inflation rate (measured by the year on year percentage change) for different periods (vertical axis). The green dots show the period January 1995 December 2018, and the orange dots show May 2021 present. All data are at monthly frequency. The right chart shows the U.S. 10 year Treasury yield broken down as nominal yield, inflation breakeven and real yield.



Global equities

Living with inflation

Higher inflation meets with a muted central bank response, keeping real rates historically low. Stocks can thrive, but bonds still suffer as the yield curve modestly steepens.

Safety premium questioned

The perceived safety of government bonds is questioned amid rising debt levels. Investors demand larger compensation for the risk of holding long-term bonds. The yield curve steepens sharply. Yet this is a relative asset shift: equities can still do well.

Slamming the brakes

Higher energy and commodity prices slow growth, particularly in Europe. Central banks revert to old policy responses to higher, supply-driven inflation. This hits activity, slows growth further and sparks a surge in long-term yields. Result: recession with high inflation. The yield move hits stocks hard.

Runaway inflation

Inflation expectations become unanchored amid the energy shock and geopolitical tensions. A messy transition to net zero could exacerbate this. 1970s-style stagflation is back. Yields surge across the curve and risk assets sell off.

Productivity boom

Sustained capital investment boosts potential growth, keeping the macro environment disinflationary. The Fed is patient and keeps policy loose, with rates below neutral. The yield curve steepens, real yields stay low, and risk assets do well.

Stagnation

Growth slumps. Inflation pressures abate as central banks cannot revive growth and inflation. The yield curve flattens, and equities fall.

Classic risk-off

Asset bubbles form and burst. Long-term yields fall sharply amid a flight to perceived safety and the term premium turns negative again. Risk assets suffer.

Global bonds



Sources: BlackRock Investment Institute, March 2022. Notes: The schematic shows hypothetical macro and policy outcomes. These are our views on the implications for equities and government bonds as of March 2022. For illustrative purposes only. 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 funds, strategy or security in particular.