Market update

February 2025

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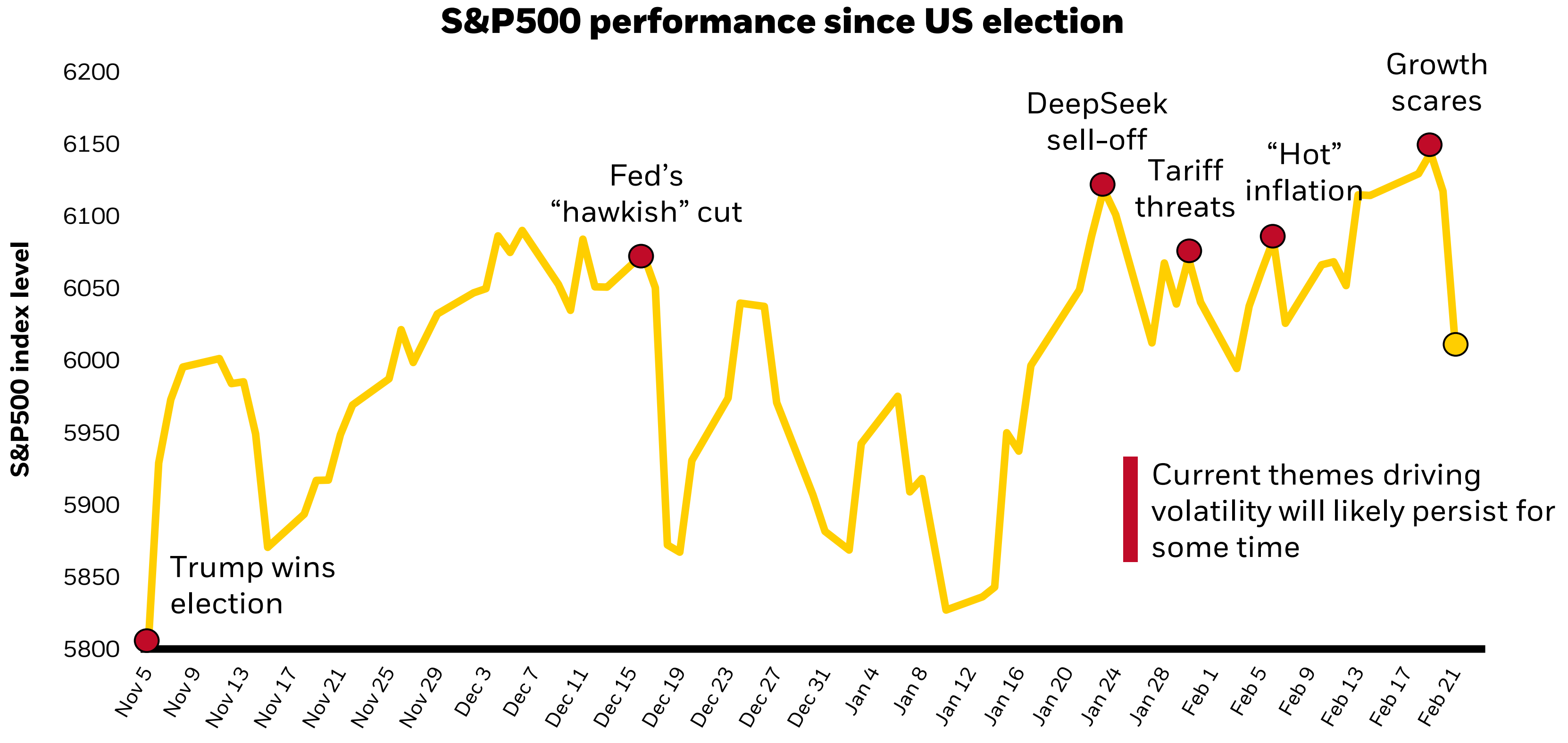
Tempering bullishness as markets catch up

Recalibrate risk-on stance with upside less clear, triggers for turbulence more pronounced

	Equities			Fixed income
Feb **Trade**	**Trim equities overweight from 4% to 3%,** maintaining a clear preference for stocks over bonds while adjusting the complexion of our risk-on stance	**Increase overweight to U.S. over international DM stocks,** favoring large, high-quality U.S. companies with relative earnings strength	**Add to alternative assets like gold – funded from fixed income,** as catalysts for global trade disruption and geopolitical conflict appear ripe	**Shorten duration positioning within U.S. treasuries,** expecting to capture similar term premiums and yields but with less volatility
Nov **Trade**	**Add 3% to stocks to increase overweight to 4%,** seeking to ride a potential post-election "risk-on" relief rally wave into year-end	**Add to U.S. and international DM stocks,** targeting exposure to momentum and growth factor stocks, respectively	**Introduce tactical exposure to gold,** expecting the yellow metal's traditional bullish narratives to continue to resonate with investors	**Increase credit risk for potential upside in bond-heavy portfolios,** swapping longer-duration IG bonds for shorter-duration HY and convertible bonds

Source: BlackRock. Views are subject to change. February trades as of 2/27/2025. November trades as of 11/8/2024. EM denotes Emerging Markets, DM denotes Developed Markets, IG denotes US Investment Grade bonds, and HY denotes US High Yield bonds.

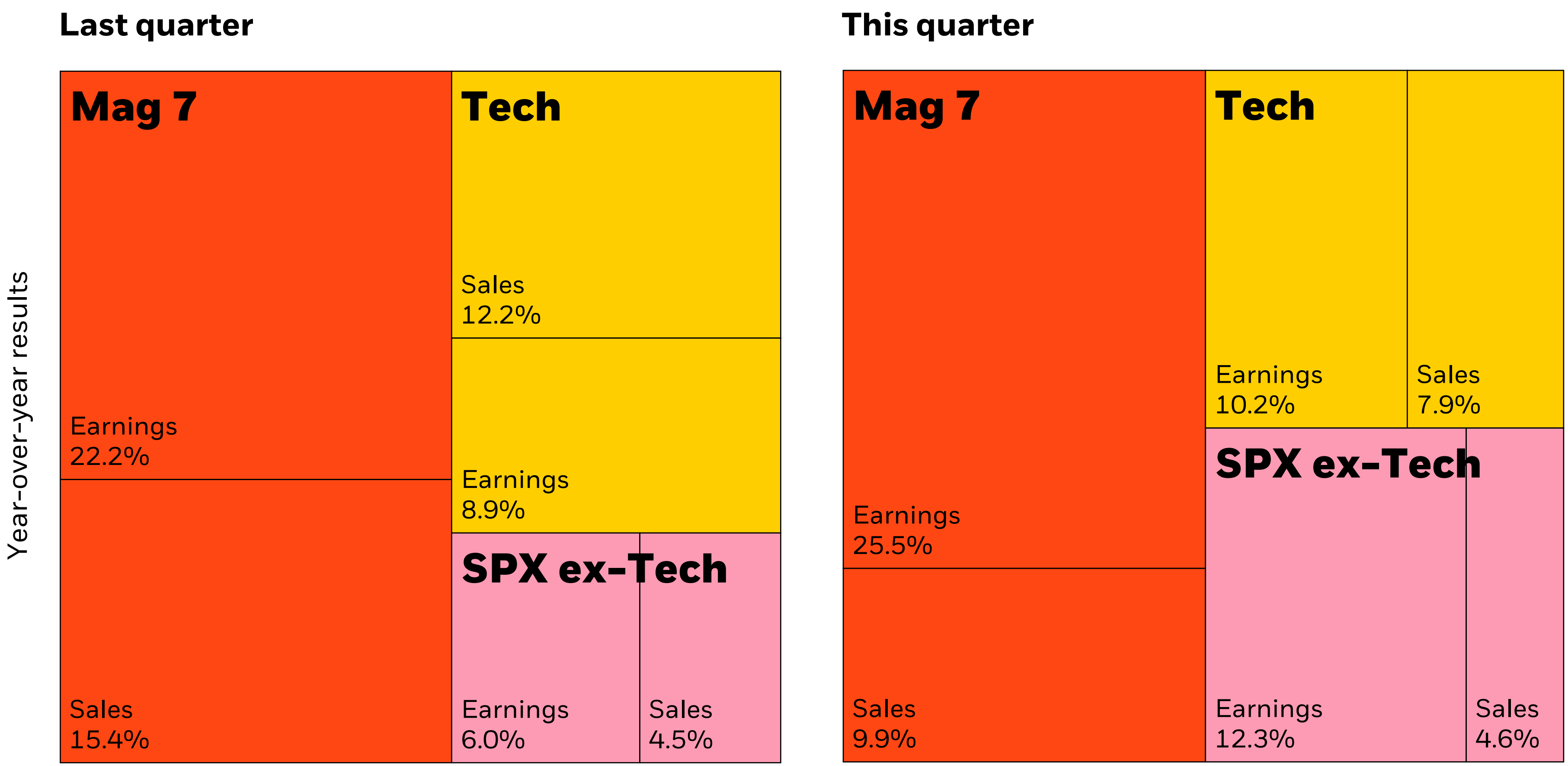
Despite barrage of tape bombs, markets have remained resilient. Can it last?



We expect more day-to-day headline risk, but for now still cautiously err on the side of "buy the dip"

Sources: BlackRock, Bloomberg, as of 2/21/2025. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results..

Stellar Q4 earnings: "broadening" shows life, but Mag 7 still in league of their own



Source: BlackRock, Bloomberg, as of 2/21/2025. "Last quarter" is Q3 2024 year-over-year results. "This quarter" is Q4 2024 year-over-year results. SPX is S&P500, Tech is S&P500 technology, Mag 7 is Amazon, Apple, Google, Meta, Microsoft, Nvidia, Tesla.

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Tough crowd: earnings winners winning less, losers losing more

S&P500 companies' stock performance after earnings beats and misses

"Meh, I've seen better... 🥱"

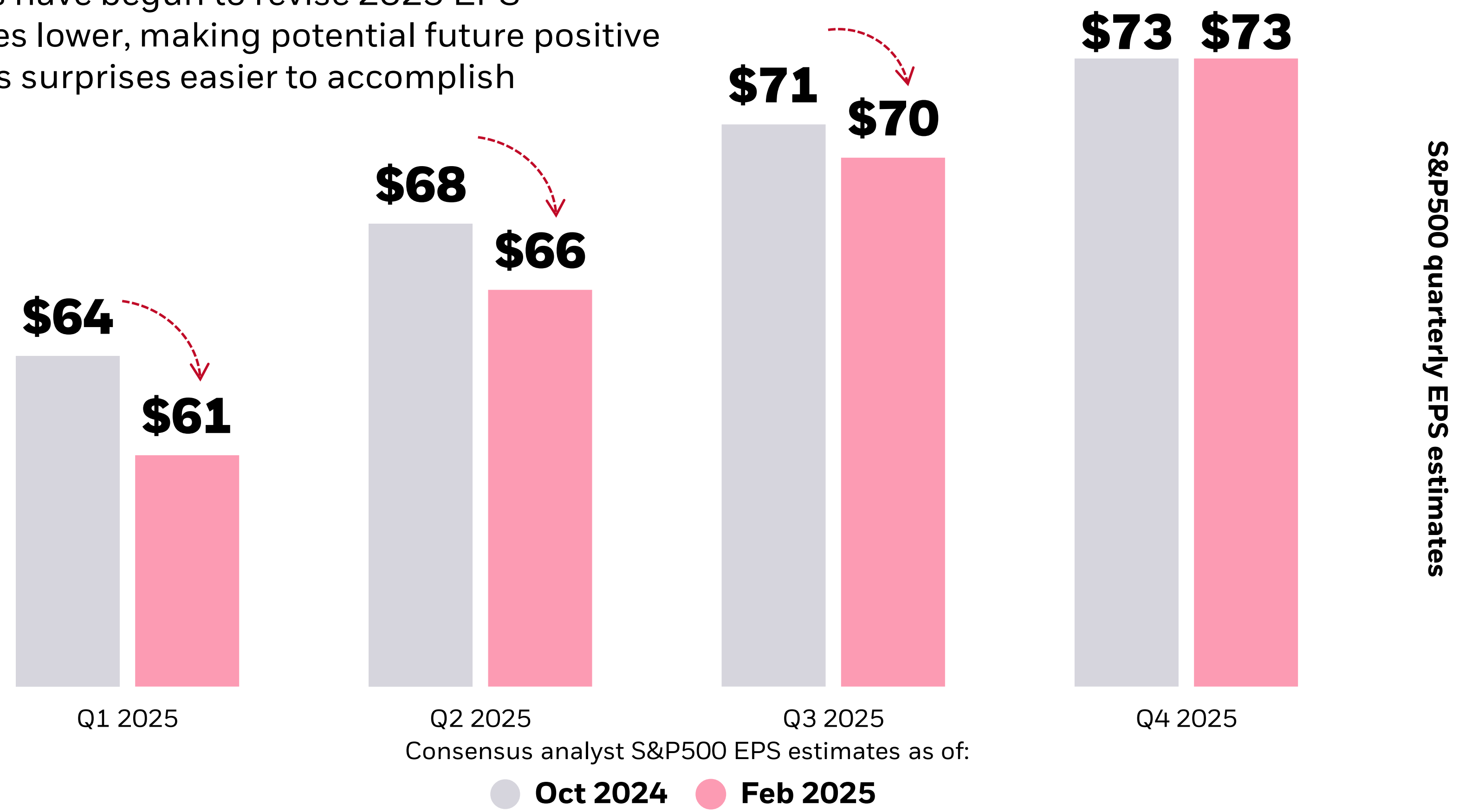
S&P500 Q4 earnings results beat consensus analyst estimates, delivering 12% YoY EPS growth vs expectations of 8%, but **investors yawned at beats** and **punished misses** more harshly

Markets have moved closer to pricing in our previous above-consensus forecasts, shrinking upside

Sources: BlackRock, Bloomberg, as of 2/21/2025. Past performance does not guarantee future results.

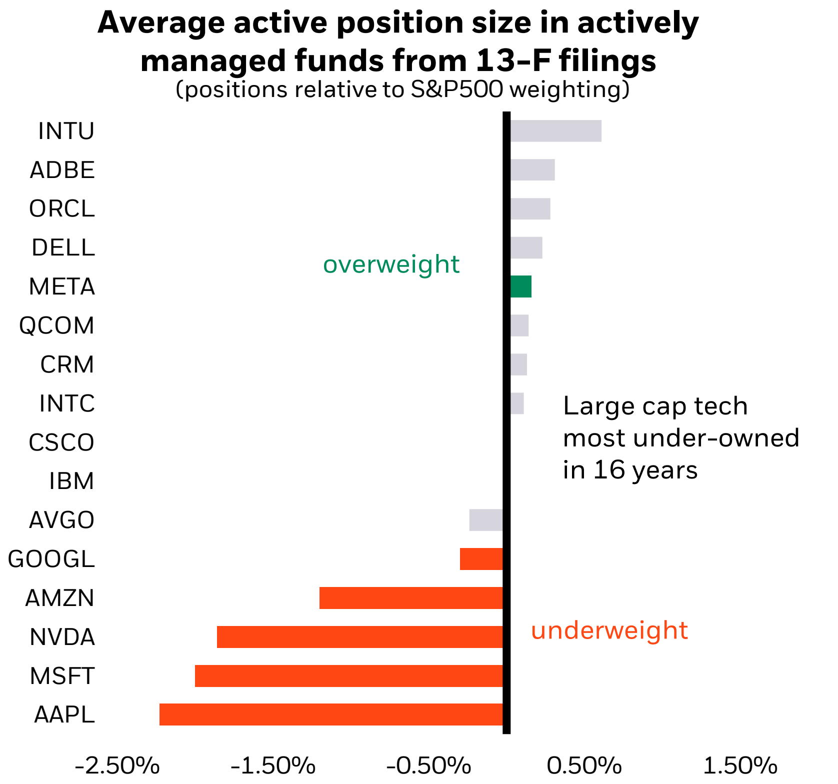
Disappointed analysts reset expectations: lower hurdle for future earnings

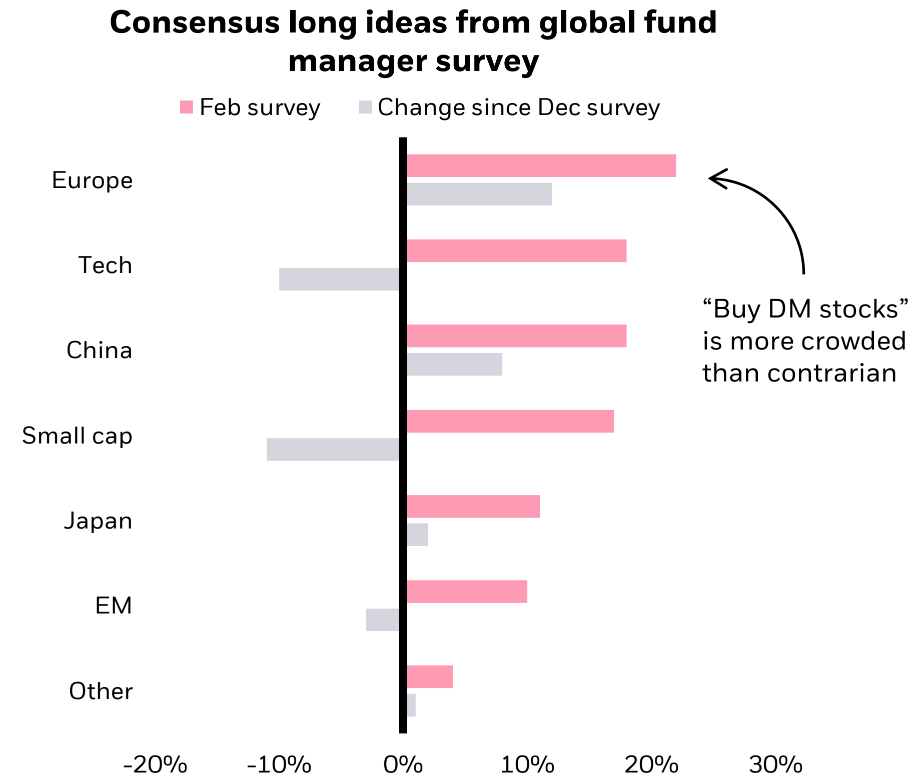
Analysts have begun to revise 2025 EPS estimates lower, making potential future positive earnings surprises easier to accomplish



Source: BlackRock, Bloomberg, as of 2/21/2025. Forward looking estimates may not come to pass

Fashion check: fading the latest hot trend to "sell tech, buy DM"

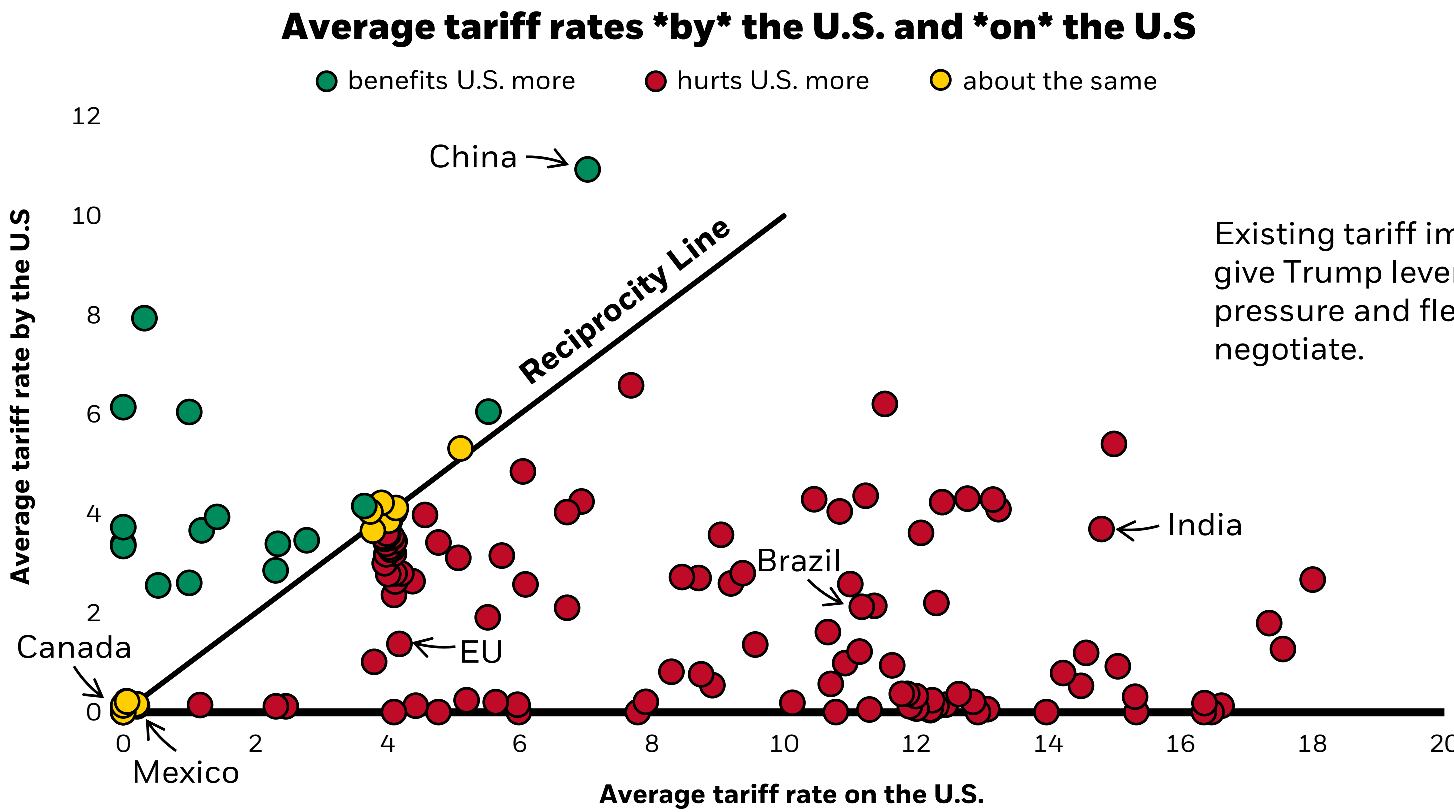




The real contrarian play is sticking with tech and selling DM (and our earnings signals agree)

Source: BlackRock, Bloomberg, Morgan Stanley Research, Bank o America Global Fund Manager Survey, as of 2/21/2025. Actively managed funds positions based on 13-Filings for the period Q1 2009-Q4 2024.

Trump's reciprocal tariffs could be huge... if and to what extent they happen

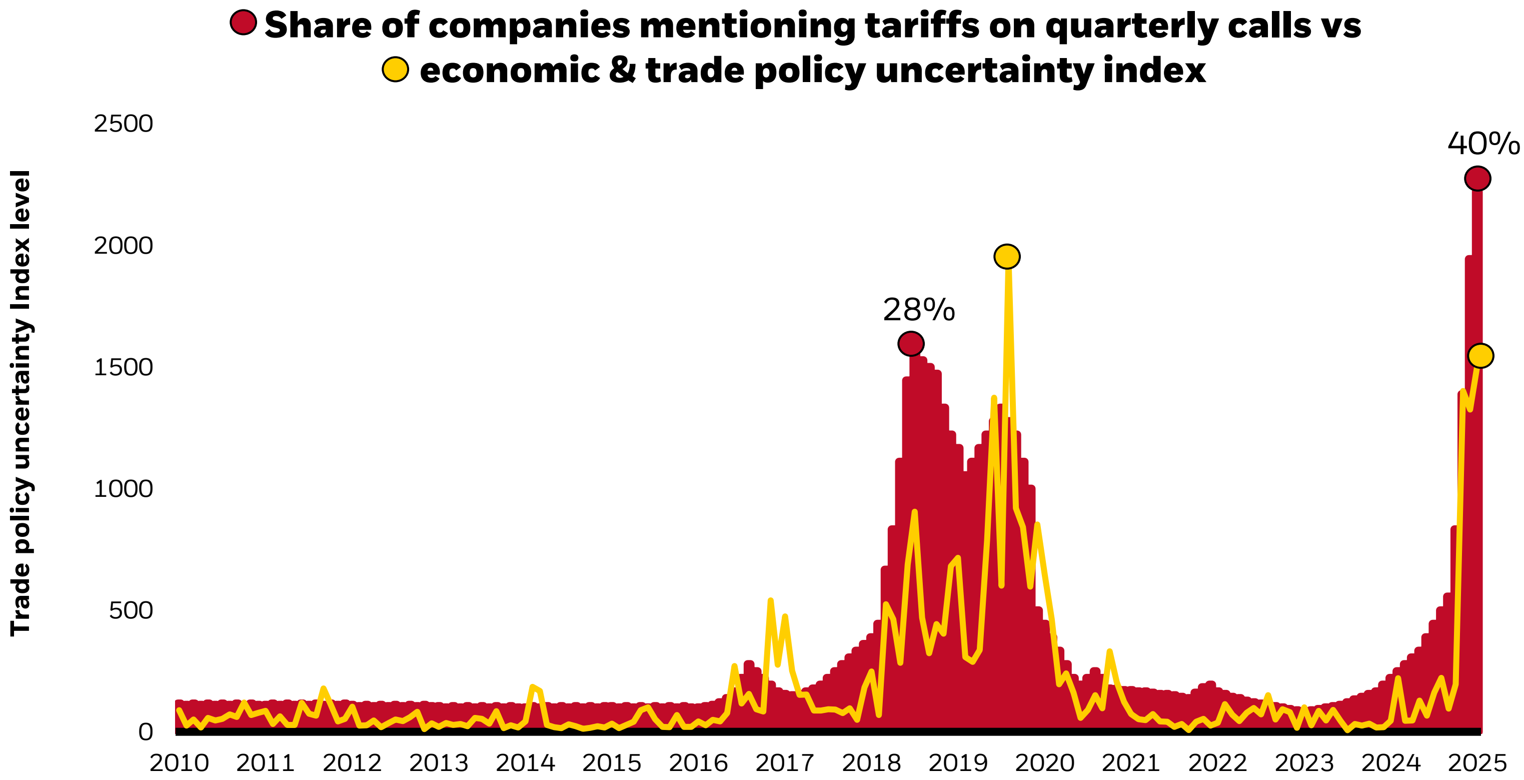


Existing tariff imbalances give Trump leverage to apply pressure and flexibility to negotiate.

Trump's reciprocity doctrine provides investors with a gauge to estimate potential changes

Sources: BlackRock, Wolfe Research, as of 2/13/2025. Tariff data from World Bank WITS as of 2022.

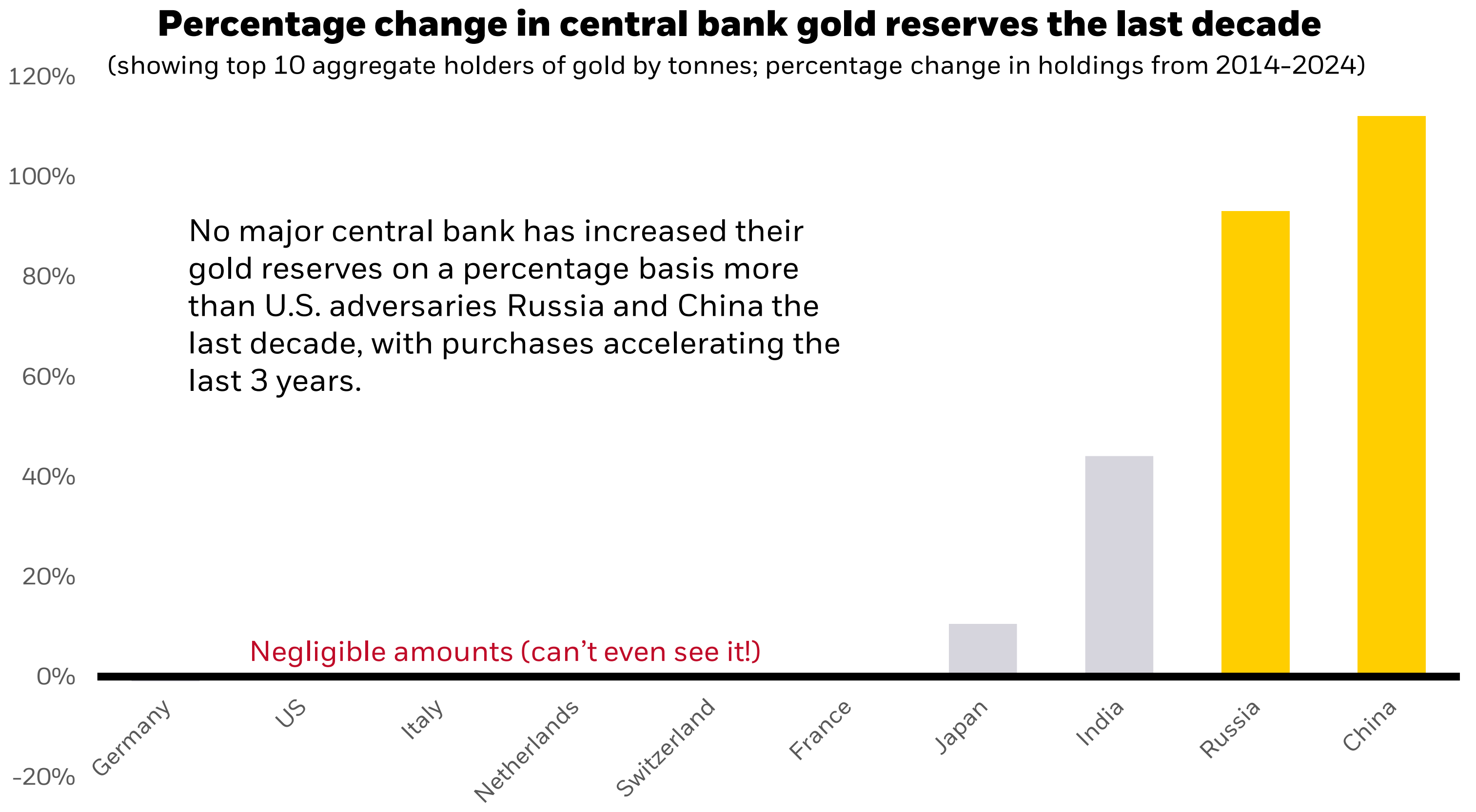
"Tariff" is a boardroom buzzword again, and a top worry cited by investors



As tariff announcements come and go, the pain trade could be surprise resolutions

Sources: BlackRock, Goldman Sachs Global Investment Research, as of 2/17/2025. Data based on quarterly conference calls of Russell 3000 companies. Baker, Bloom & Davis US Categorical Economic Policy Uncertainty Trade Policy Index, as of 1/31/2025.

Who's been accumulating gold?

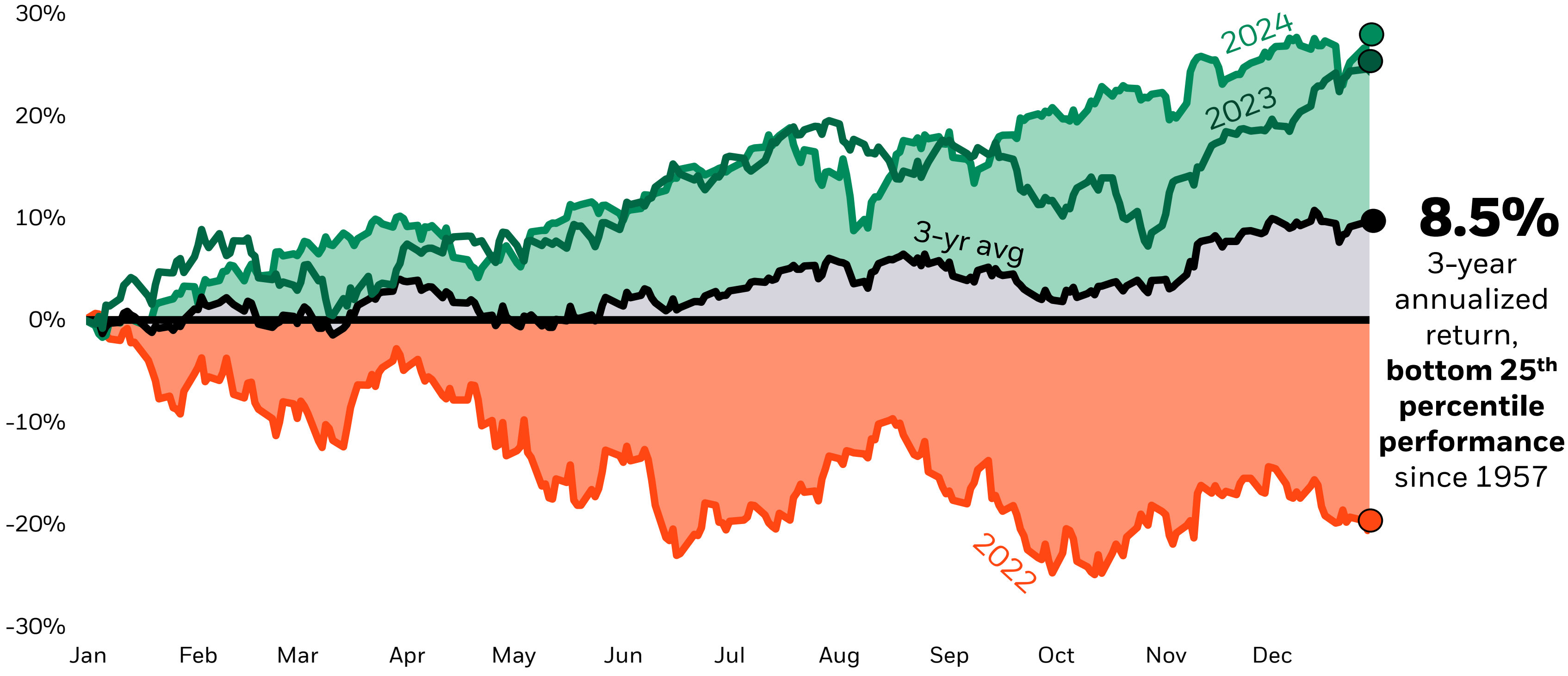


We don't expect this trend to abate anytime soon given an increasingly hostile geopolitical landscape

Sources: BlackRock, World Gold Council's "Gold Demand Trends: Full Year 2024", as of 12/31/2024.

Story of 2 bulls, 1 bear, & a 3-year donkey

S&P500 annual performance (2022-2024) and 3-year average



Stocks are still playing catchup after 2022's bear market, lagging long-run average return of 10%

Sources: BlackRock, Bloomberg, as of 12/31/2024. S&P500 total return index. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Bringing it all together

1

Trim equity overweight to 3%

Our broader macro growth outlook continues to support an overweight equity stance, though we are moderating this position as markets have moved closer to pricing in our above-consensus forecasts. Corporate earnings delivered an impressive encore to 2024's performance, handily surpassing what were already elevated expectations, but our earnings signals based on analyst expectations for 2025 have cooled considerably. This convergence, coupled with the recent frequency of earnings downgrades over upgrades, suggests a potentially bumpier ride ahead and increased vulnerability to disappointments.

2

Increase preference for U.S over int'l DM

We added to international DM stocks in November, and they have outperformed US stocks to start the year (benefitting from improved earnings and a lull in U.S. dollar strength), but we think the relative momentum could stall out in the weeks ahead. Our DM earnings signals have since softened, and in our view the European economy remains meaningfully behind in AI infrastructure buildout and will likely continue to face challenging geopolitical issues in 2025. We prefer large, high-quality U.S. companies with better relative earnings strength.

3

Hedge exposure to geopolitical risks

We expect current themes of market consternation will likely remain triggers of turbulence for some time. "Tariff" has become a boardroom buzzword again, and our analysis suggests tariff increases could impact corporate margins and disrupt spending plans at least moderately. But we'd also note sentiment regarding tariffs (which remain highly uncertain as-is) has become excessively bearish – meaning the pain trade for any surprise could be to the upside. We are reducing bets against Chinese stocks, adding to gold, and maintaining benchmark weight to duration.

Source: BlackRock as of 2/27/2025. Views are subject to change.

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TIPS can provide investors a hedge against inflation, as the inflation adjustment feature helps preserve the purchasing power of the investment. Because of this inflation adjustment feature, inflation protected bonds typically have lower yields than conventional fixed rate bonds and will likely decline in price during periods of deflation, which could result in losses. Government backing applies only to government issued securities, and does not apply to the funds.

Convertible securities are subject to the market and issuer risks that apply to the underlying common stock.

International investing involves risks, including risks related to foreign currency, limited liquidity, less government regulation and the possibility of substantial volatility due to adverse political, economic or other developments. These risks often are heightened for investments in emerging/developing markets and in concentrations of single countries. Funds that concentrate investments in specific industries, sectors, markets or asset classes may underperform or be more volatile than other industries, sectors, markets or asset classes and the general securities market.

A fund's use of derivatives may reduce a fund's returns and/or increase volatility and subject the fund to counterparty risk, which is the risk that the other party in the transaction will not fulfill its contractual obligation. A fund could suffer losses related to its derivative positions because of a possible lack of liquidity in the secondary market and as a result of unanticipated market movements, which losses are potentially unlimited. There can be no assurance that any fund's hedging transactions will be effective.

There can be no assurance that performance will be enhanced or risk will be reduced for funds that seek to provide exposure to certain quantitative investment characteristics ("factors"). Exposure to such investment factors may detract from performance in some market environments, perhaps for extended periods. In such circumstances, a fund may seek to maintain exposure to the targeted investment factors and not adjust to target different factors, which could result in losses.

Investing in digital assets involves significant risks due to their extreme price volatility and the potential for loss, theft, or compromise of private keys. The value of the investment is closely tied to acceptance, industry developments, and governance changes, making them susceptible to market sentiment. A disruption of the internet or a digital asset network would affect the ability to transfer digital assets, and, consequently, would impact their value.

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A fund's environmental, social and governance ("ESG") investment strategy limits the types and number of investment opportunities available to the fund and, as a result, the fund may underperform other funds that do not have an ESG focus. A fund's ESG investment strategy may result in the fund investing in securities or industry sectors that underperform the market as a whole or underperform other funds screened for ESG standards. In addition, companies selected by the index provider may not exhibit positive or favorable ESG characteristics.

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