

Weekly commentary

June 29, 2026

BlackRock

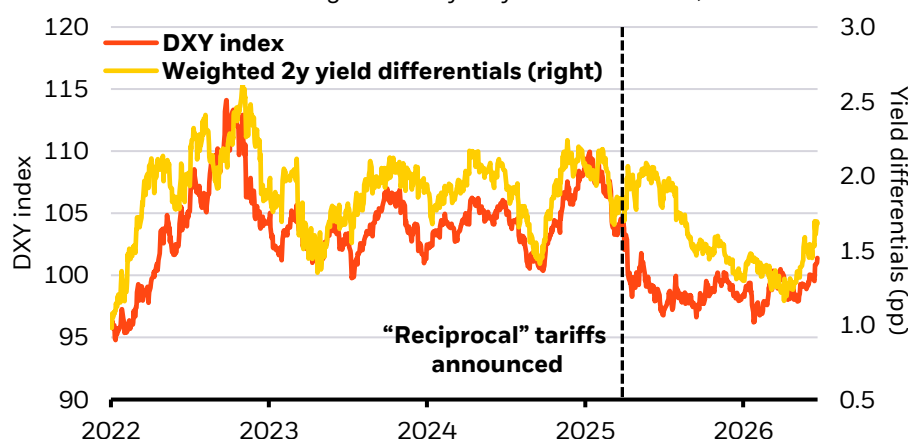
Dollar strength shifts case for EM

- The U.S. dollar's safe-haven status remains intact, yet a stronger dollar no longer automatically translates into broad emerging market weakness.
- Red-hot chip and memory stocks led a global equity retreat. We don't see this as reflecting the ongoing revenue boost from the AI buildout.
- U.S. payrolls this week will be a key market test after the Federal Reserve's hawkish tilt reinforced expectations for a rate hike later this year.

We pushed back against calls for the U.S. dollar's demise last year, arguing its safe-haven role remained intact. Recent market moves have supported that view. The U.S. dollar index is at a one-year high after the Federal Reserve stoked expectations for a rate hike this month. The question is no longer whether the dollar can hold its ground, but what dollar strength means for risk assets, particularly emerging markets (EM). We see selectivity as key in EM.

Dollar's rate boost

U.S. dollar index vs. trade-weighted two-year yield differentials, 2023-2026



Source: BlackRock Investment Institute, with data from LSEG Datastream, June 2026. Notes: The orange line shows the U.S. Dollar Index (DXY). The yellow line shows the trade-weighted average U.S. two-year yield differential versus Germany, Japan, the UK, Canada, Sweden and Switzerland (right axis), using DXY currency weights. Yield differentials are shown in percentage points.

Two factors have driven the dollar's recent rebound. First, markets have increased expectations for a U.S. interest rate hike this year, widening interest rate differentials in the dollar's favor. Second, stable perceived risk around U.S. assets, together with strong U.S. equity performance and portfolio flows, has supported demand for the dollar. See the chart. After falling sharply following President Donald Trump's tariff announcements in April 2025, the U.S. dollar index has recovered more than half of that decline, challenging the narrative that it had entered a new era of sustained dollar weakness. Much of the rally has come as markets reassessed the outlook for Federal Reserve policy. Yet we think some of the hawkish repricing in rate expectations may be overdone. Our analysis suggests current dollar levels are broadly in line with underlying fundamentals, making a sustained appreciation cycle less likely.



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The Federal Reserve remains central to the dollar's near-term outlook. Markets viewed Chair Warsh's first meeting as a hawkish surprise, even after months of repricing toward a higher-for-longer policy path. Yet we think the meeting was less about signaling a more restrictive course than preserving optionality as policymakers reassess the outlook. That means current rate projections should be viewed as a snapshot rather than a commitment. That supports a stable dollar backdrop.

A stable dollar does not preclude opportunities in emerging markets. Instead, it leaves greater scope for country-specific fundamentals to differentiate returns. EM assets have performed well even without the dollar weakness that has typically accompanied periods of EM outperformance. The dollar still matters, particularly for economies with large external financing needs, but domestic factors and structural opportunities are becoming increasingly important.

Selectivity, rather than broad EM exposure, is key for investors. Structural investment themes that we have been highlighting — including artificial intelligence, infrastructure investment, energy security and rewiring supply chains — are creating opportunities that extend well beyond the U.S. At the same time, differences in energy dependence, commodity exposure and policy credibility mean some economies are better positioned than others to benefit. The improving earnings outlook reinforces that view. Consensus now expects headline earnings per share for the MSCI Emerging Markets Index to grow by more than 50% this year versus 2025, compared with expectations for an increase of 18% at the start of the year. Within our EM equity overweight, we see opportunities in Latin America, where AI-fueled demand for critical minerals like copper and lithium should benefit the region's commodity and energy exporters. Fixed income also offers selective opportunities. Many central banks have completed their tightening cycles, yet local rates remain elevated in several markets, creating attractive income potential across parts of the EM debt market. In our view, a stable dollar backdrop reinforces the case for active country and sector selection over broad currency calls.

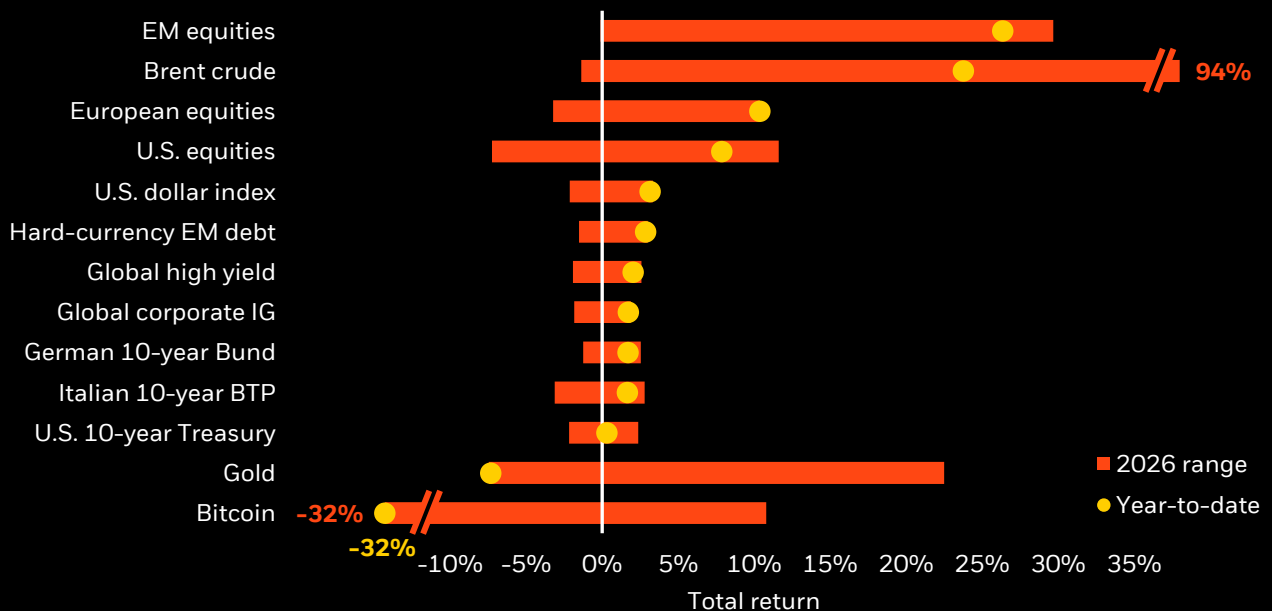
Bottom line: The dollar's safe-haven role remains intact, but EM performance increasingly depends on local fundamentals and selectivity rather than the direction of the dollar alone.

Market backdrop

Chip stocks and memory makers led a global selloff in tech shares last week. The Philadelphia semiconductor index slid 8% on the week but is still up nearly 90% this year. The Nasdaq Composite shed 5%, while the S&P 500 lost 2%. We think AI-linked companies lifting guidance on revenue and profit margins show the AI buildout is rolling on. Oil hit pre-Middle East conflict lows, with Brent crude falling to \$72 as Strait of Hormuz flows picked up. U.S. 10-year yields fell to 4.37%.

Assets in review

Selected asset performance, year-to-date return and range



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

Sources: BlackRock Investment Institute, with data from LSEG Datastream as of June 25, 2026. Notes: The two ends of the bars show the lowest and highest res at any point year to date, and the dots represent current year-to-date res. Emerging market (EM), high yield and global corporate investment grade (IG) res are denominated in U.S. dollars, and the rest in local currencies. Indexes or prices used are: spot Brent crude, ICE U.S. Dollar Index (DXY), spot gold, spot bitcoin, MSCI Emerging Markets Index, MSCI Europe Index, LSEG Datastream 10-year benchmark government bond index (U.S., Germany and Italy), Bloomberg Global High Yield Index, J.P. Morgan EMBI Index, Bloomberg Global Corporate Index and MSCI USA Index.

Week ahead

June 30	U.S. job openings; UK GDP; China manufacturing PMI	July 2	U.S. payrolls; EU unemployment
July 1	Euro area flash inflation	July 3	UK service PMI

The June payrolls report will be this week's key market event in a shortened U.S. trading week ahead of the July 4 holiday. Following a hawkish market reaction to the Federal Reserve's last meeting, investors will watch the report closely for clues about the economy's underlying strength and whether conditions could still support an interest rate hike this year.

Big calls

Our highest conviction views on six- to 12-month (tactical) and over five-year (strategic) horizons, June 2026

Tactical	Reasons
Favor AI beneficiaries	We favor infrastructure and equipment supporting the AI buildout such as semiconductors, power and data centers. We think they stand to benefit no matter AI's eventual winners or losers. We see the AI boom lifting U.S. corporate earnings, underpinning our U.S. equity overweight.
Selected international exposures	We like hard-currency EM debt on economic resilience, disciplined fiscal and monetary policy and a high ratio of commodities exporters. We're also overweight EM equities, preferring commodity exporters and AI beneficiaries. In Europe, we favor equity sectors like infrastructure.
Evolving diversifiers	We suggest looking for "plan B" portfolio hedges such as thematic opportunities related to the AI buildout and search for energy security. Long-term U.S. Treasuries no longer provide a buffer against equity market declines, and gold also has shown to be an ineffective diversifier.
Strategic	Reasons
Portfolio construction	We favor a scenario-based approach as AI winners and losers emerge. We lean on private markets and hedge funds for idiosyncratic returns and to anchor portfolios in mega forces.
Infrastructure equity and private credit	We find infrastructure equity valuations attractive as geopolitical fragmentation and the AI buildout underpin structural demand. We still like private credit but see an increase in dispersion of returns. This highlights the importance of manager selection.
Beyond market cap benchmarks	We get granular in public markets. We are underweight DM government bonds as inflationary pressure mounts. Within equities, we lean into both EM and DM equity – and are selective in both. We like stocks across both regions that are supported by the accelerating AI buildout.

Note: Views are from a U.S. dollar perspective, June 2026. 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 particular funds, strategy or security.

Tracking five mega forces

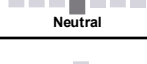
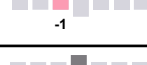
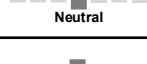
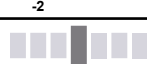
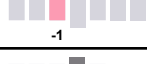
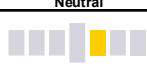
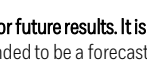
Mega forces are big, structural changes that affect investing now – and far into the future. They change the long-term growth and inflation outlook and are poised to create big shifts in profitability across economies and sectors. This creates major opportunities – and risks – for investors. See our [web hub](#) for our research.

- 1. Demographic divergence:** The world is split between aging advanced economies and younger emerging markets – with different implications.
- 2. Digital disruption and artificial intelligence (AI):** Technologies are transforming how we live and work.
- 3. Geopolitical fragmentation and economic competition:** Globalization is being rewired as the world splits into competing blocs.
- 4. Future of finance:** A fast-evolving financial architecture is changing how households and companies use cash, borrow, transact and seek returns.
- 5. Transition to a low-carbon economy:** The transition is set to spur a massive capital reallocation as energy systems are rewired.

Granular views

Six- to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, June 2026

Underweight **Neutral** **Overweight** ● Previous view

Asset	View	Commentary
Equities		
Developed markets		
United States	 +1	We are overweight. Contained damage to global growth from the Mideast conflict and strong earnings expectations – particularly in tech – keep us risk-on.
Europe	 Neutral	We are neutral. Europe's high exposure to the energy shock from the Mideast conflict makes it vulnerable to higher inflation and lower growth.
UK	 Neutral	We are neutral. Valuations remain attractive relative to the U.S., but we see few near-term catalysts to trigger a shift.
Japan	 Neutral	We are neutral. Japan's exposure to imported energy may erode strong equity gains powered by healthy corporate balance sheets and governance reforms.
Emerging markets	 +1	We are overweight yet stay selective. We favor Asian countries that manufacture critical AI components and Latin American energy and commodity exporters.
China	 Neutral	We are neutral. Trade relations with the U.S. have steadied, but property stress and an aging population still constrain the macro outlook. Relatively resilient activity limits near-term policy urgency. We like sectors like AI, automation and power generation.
Fixed Income		
Short U.S. Treasuries	 Neutral	We are neutral. Shorter-term bonds are relatively attractive as the market has woken up to persistent inflation and higher rates.
Long U.S. Treasuries	 -1	We are underweight. Yields already faced upward pressure from rising term premia, as investors demand more compensation for the risk of holding long-term debt. The recent energy price shock compounds this by aggravating pre-existing inflationary pressures.
Global inflation-linked bonds	 Neutral	We are neutral. We think inflation will settle above pre-pandemic levels, but markets may not price this in the near term as growth cools.
Euro area govt bonds	 Neutral	We are neutral short-term European government bonds. The market has repriced the ECB policy path more in line with our view. We think increased German bond issuance to finance its fiscal stimulus package is already largely reflected in the current level of 10-year yields.
UK gilts	 Neutral	We are neutral. We expect volatility in gilts over the near-term. Gas powers much of the UK's electricity, but storage is limited – making it especially vulnerable to a resurgence in inflation.
Japanese govt bonds	 -2	We are underweight. Rate hikes, higher global term premium and heavy bond issuance will likely drive yields up further.
China govt bonds	 Neutral	We are neutral. China bonds offer stability and diversification but developed market yields are higher and investor sentiment shifting towards equities limits upside.
U.S. agency MBS	 +1	We are overweight. Agency MBS offer higher income than Treasuries with similar risk and may offer more diversification amid fiscal and inflationary pressures.
Short-term IG credit	 Neutral	We are neutral. Corporate strength means spreads are low, but they could widen if issuance increases.
Long-term IG credit	 -1	We are underweight. We prefer short-term bonds less exposed to interest rate risk over long-term bonds.
Global high yield	 Neutral	We are neutral. High yield offers more attractive carry and shorter duration, but we think dispersion between higher and weaker issuers will increase.
Asia credit	 Neutral	We are neutral. Overall yields are attractive and fundamentals are solid, but spreads are tight.
Emerging hard currency	 +1	We are overweight. EM hard-currency indexes lean toward Latin American commodity exporters such as Brazil that stand to benefit as Mideast supply plummets.
Emerging local currency	 Neutral	We are neutral. The U.S. dollar has been strengthening as a safe-haven currency in the wake of the Middle East conflict. This could reverse year-to-date gains driven by a falling USD.

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