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August 2021

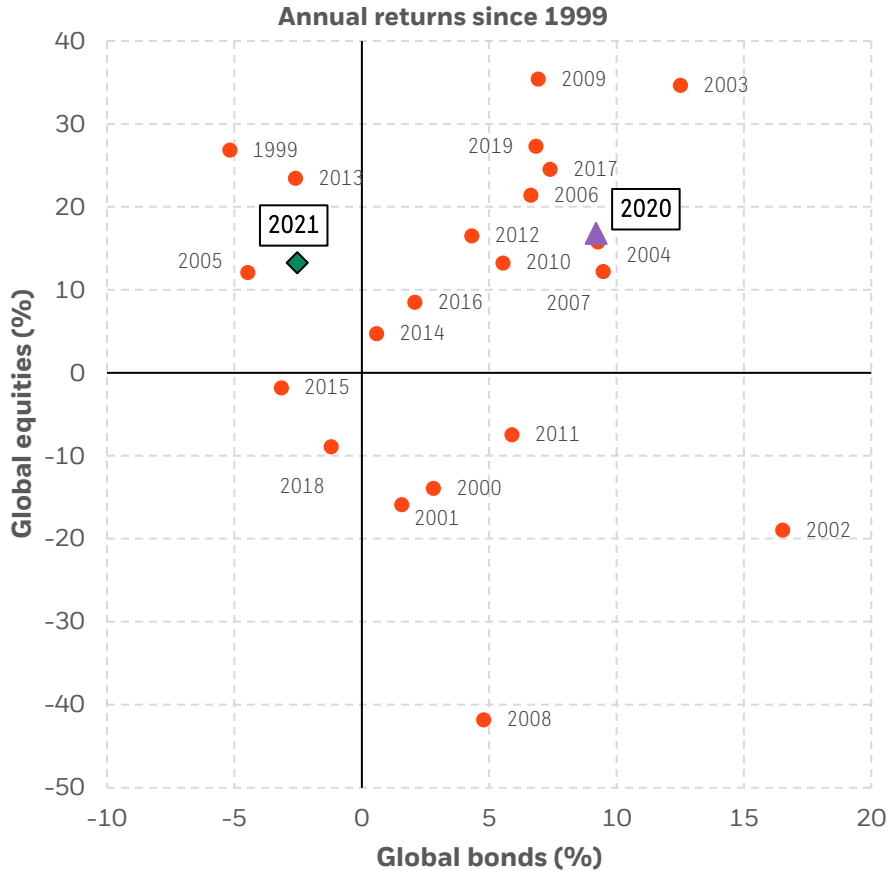
BlackRock[®]

Investment Opportunities in a Post-COVID World

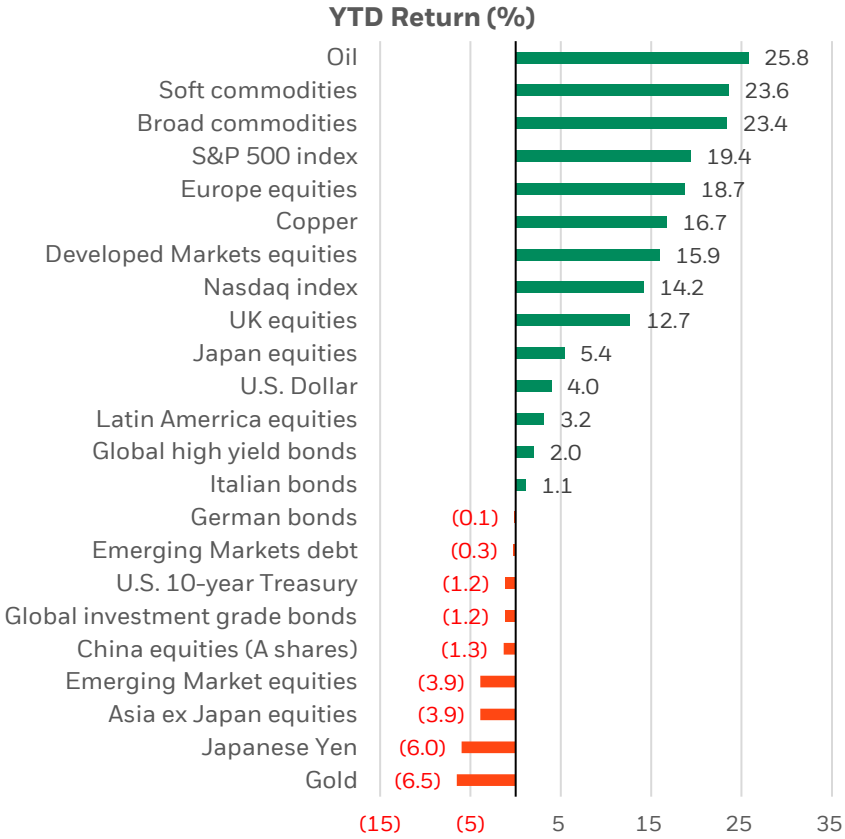
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Setting the stage: asset returns in 2021

2021 is showcasing “risk-on” returns



...with volatility below the surface



Source: Refinitiv Datastream as of 8/20/2021

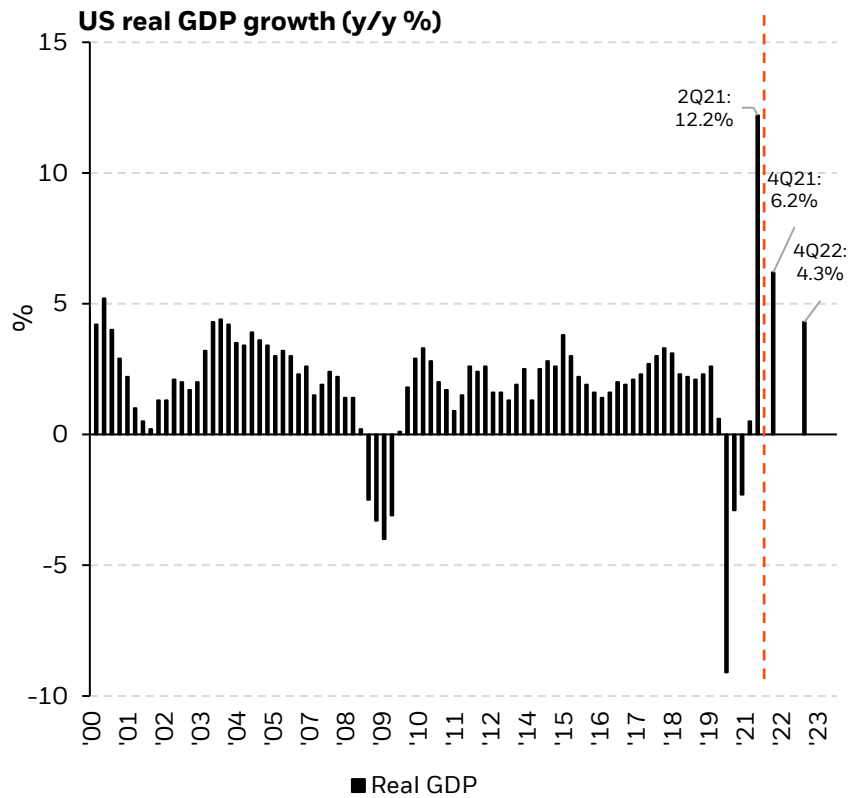
Source: Refinitiv Datastream as of 8/20/2021

Agenda

- The macro backdrop
- A policy conundrum
- Asset Allocation: where to go for returns

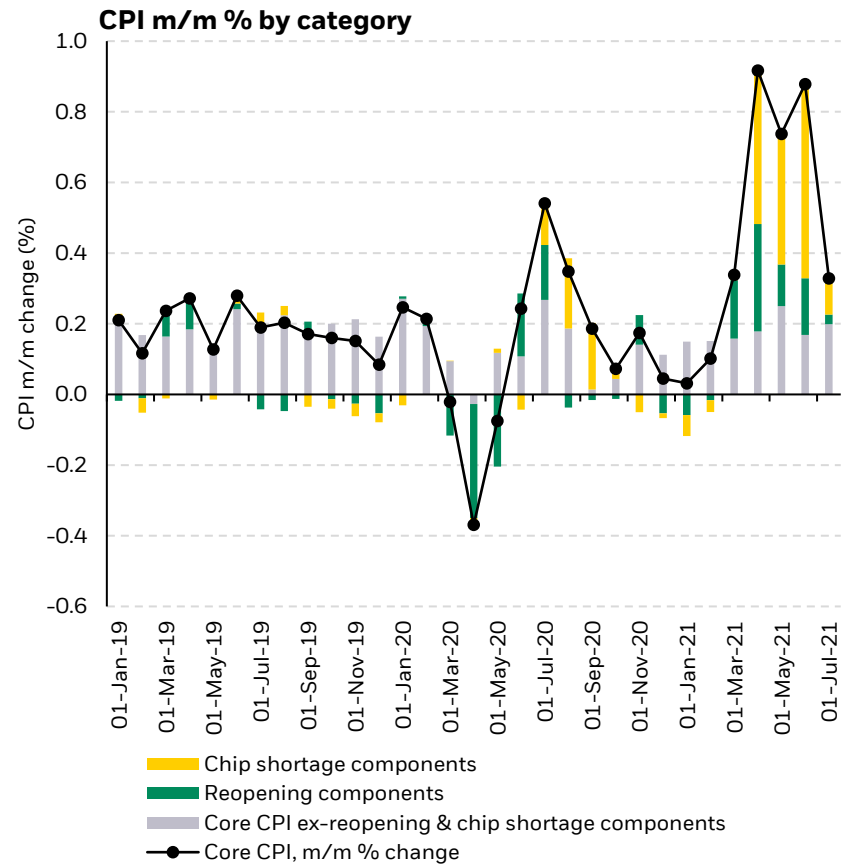
How durable are current growth and inflation trends?

Growth expected to remain above trend



Sources: Bloomberg as of 8/17/2021

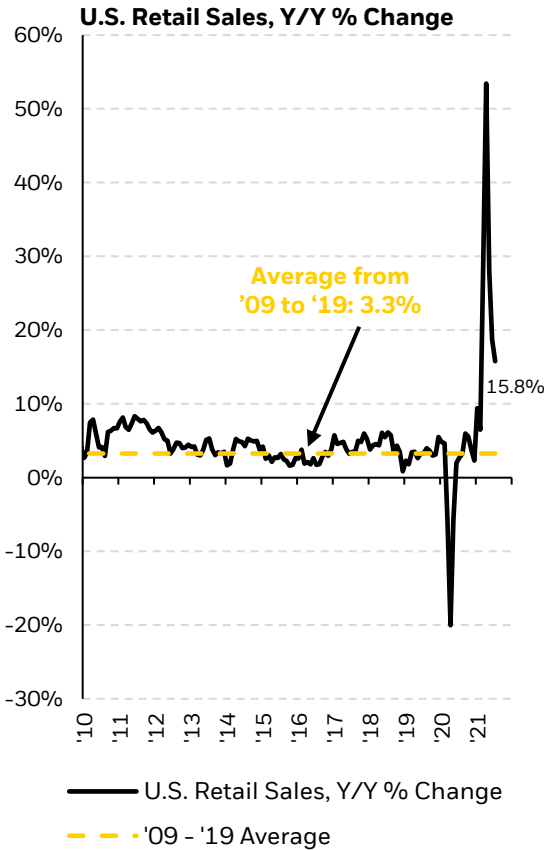
Inflation spike may prove to be transitory



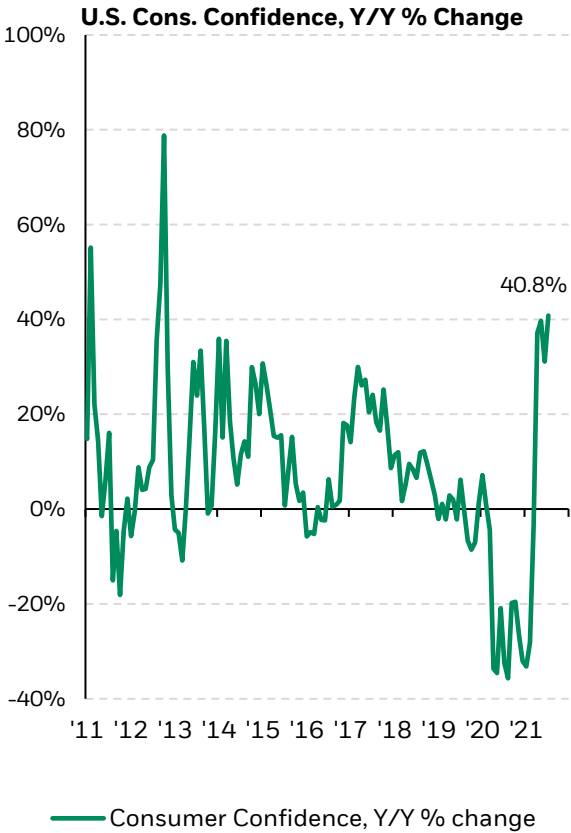
Source: BlackRock, BLS as of August 2021

The US consumer is in good shape (for now)

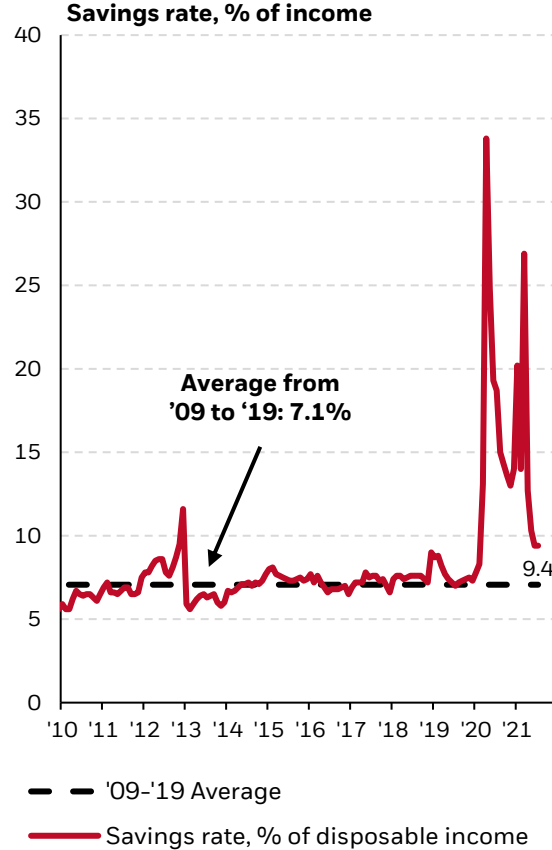
Retail sales moderating after strength



Consumer confidence remains high



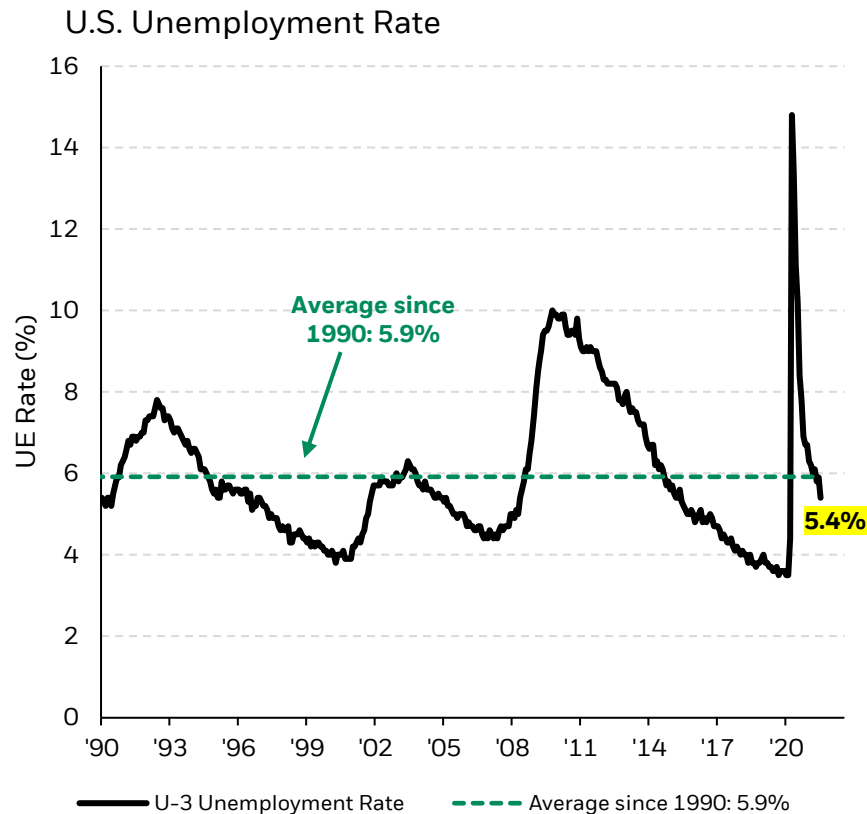
Savings rate off from elevated levels



Source: Bloomberg as of August 2021

Labor market: headwinds facing the recovery

A sharp recovery in the labor market...



Source: Bloomberg, Duke Fuqua / Richmond Fed CFO Survey as of 2Q 2021

... But companies report a shortage of workers

Job Openings and Labor Turnover Survey (JOLTS)

- Job openings / availability are at an all-time high

NFIB Job Openings Hard to Fill

- Nearly 50% of small businesses claim their open positions are hard to fill, marking a series high

Duke Fuqua / Richmond Fed CFO Survey

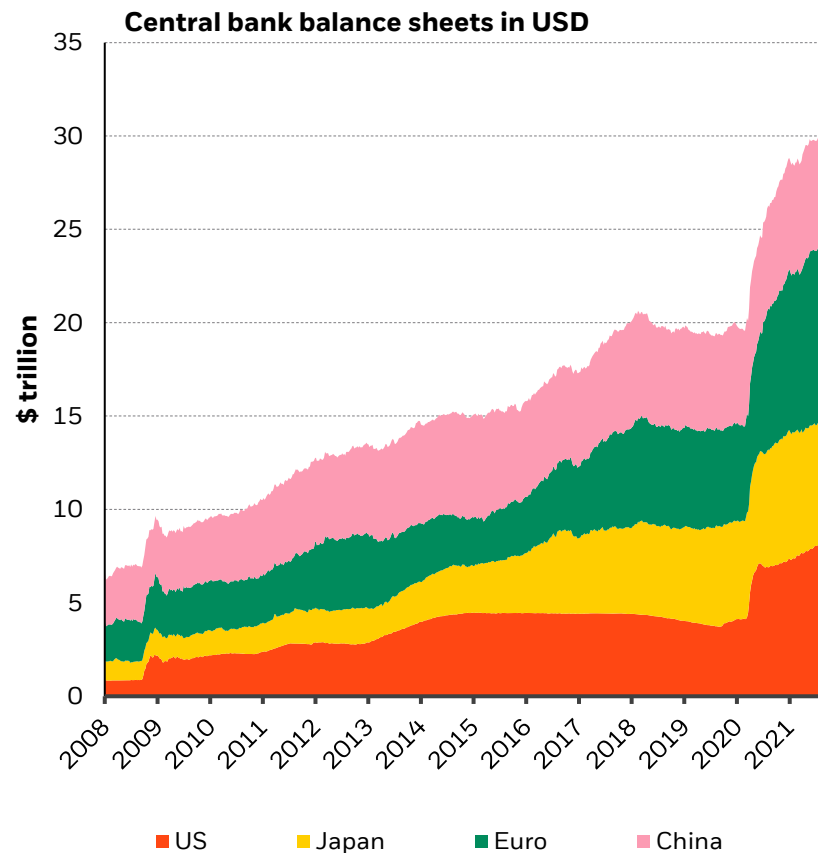
- Over 75% of large firms are experiencing difficulties in filling their open businesses
- The majority (almost 40%) of respondents are uncertain as to when these difficulties will be resolved

Policy

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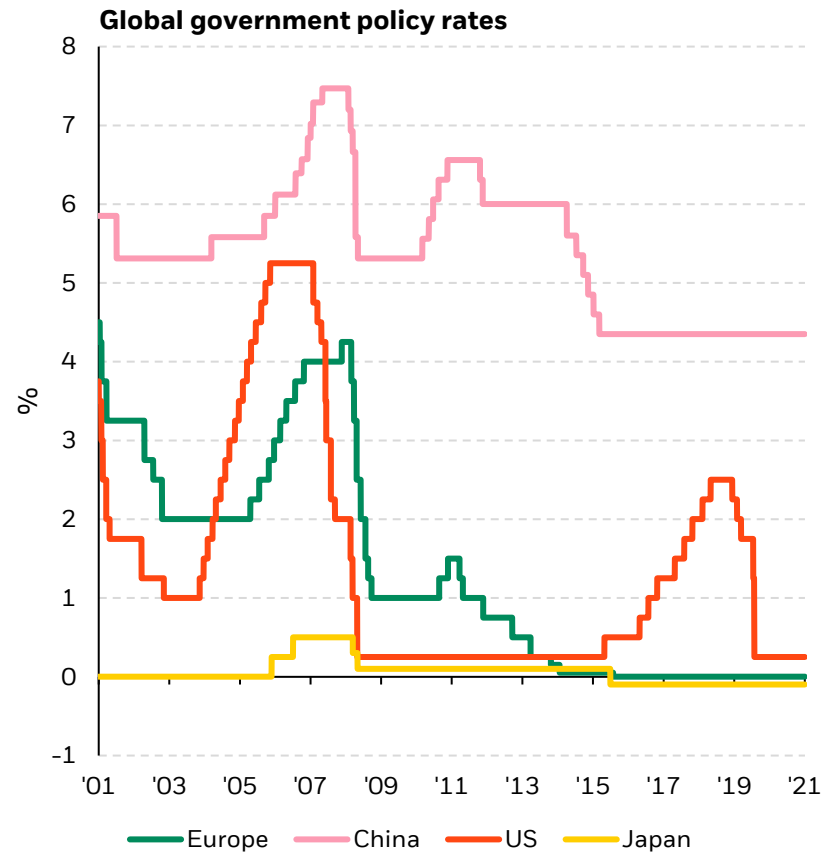
Monetary policy: a flood of liquidity and rock bottom rates

Central banks growing assets from already large base



Sources: Datastream as of 8/17/2021

... and policy rates remain in emergency territory

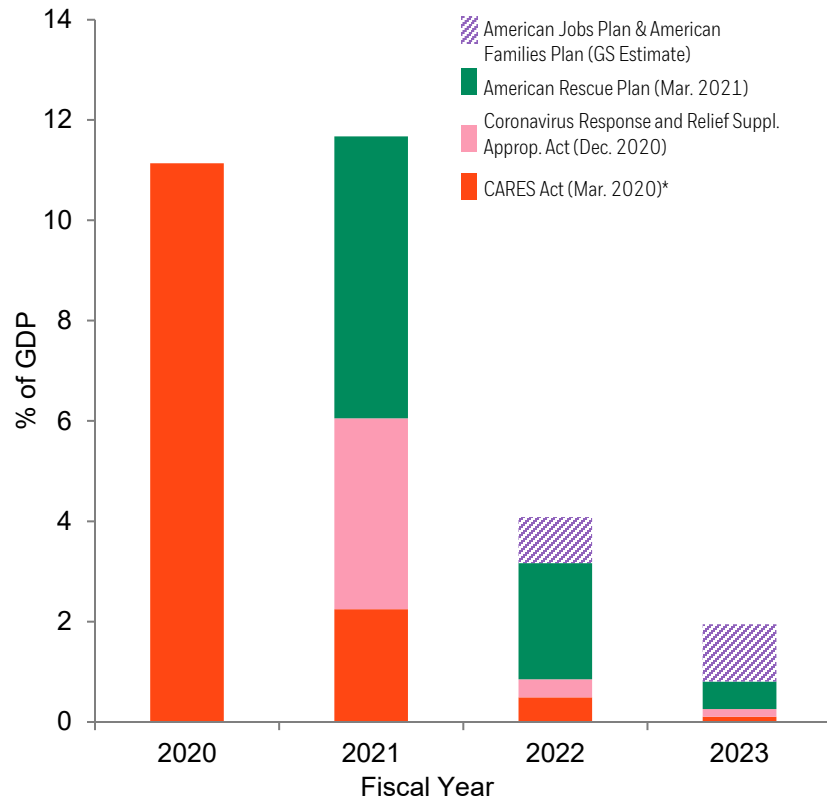


Source: Datastream as of 8/17/2021

Fiscal policy: more spending, more supply

Fiscal spending to continue to support growth

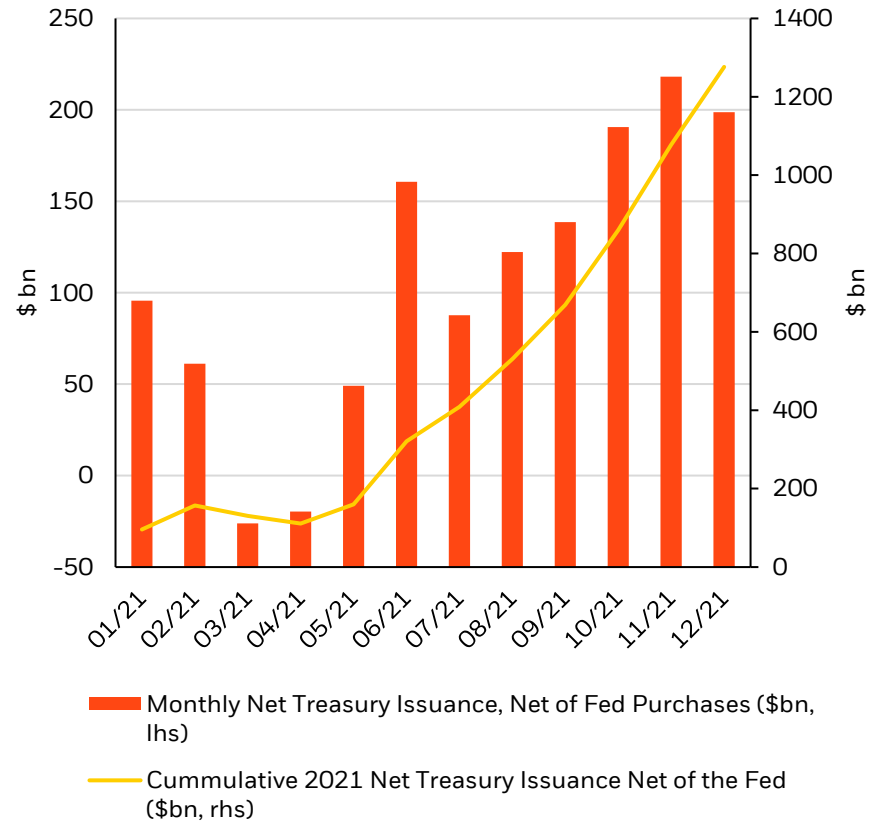
Estimated Deficit Impact of Enacted Coronavirus Relief Legislation



* Includes all four bills passed in March-

Sources: Goldman Sachs as of August 2021

More spending = more net Treasury supply



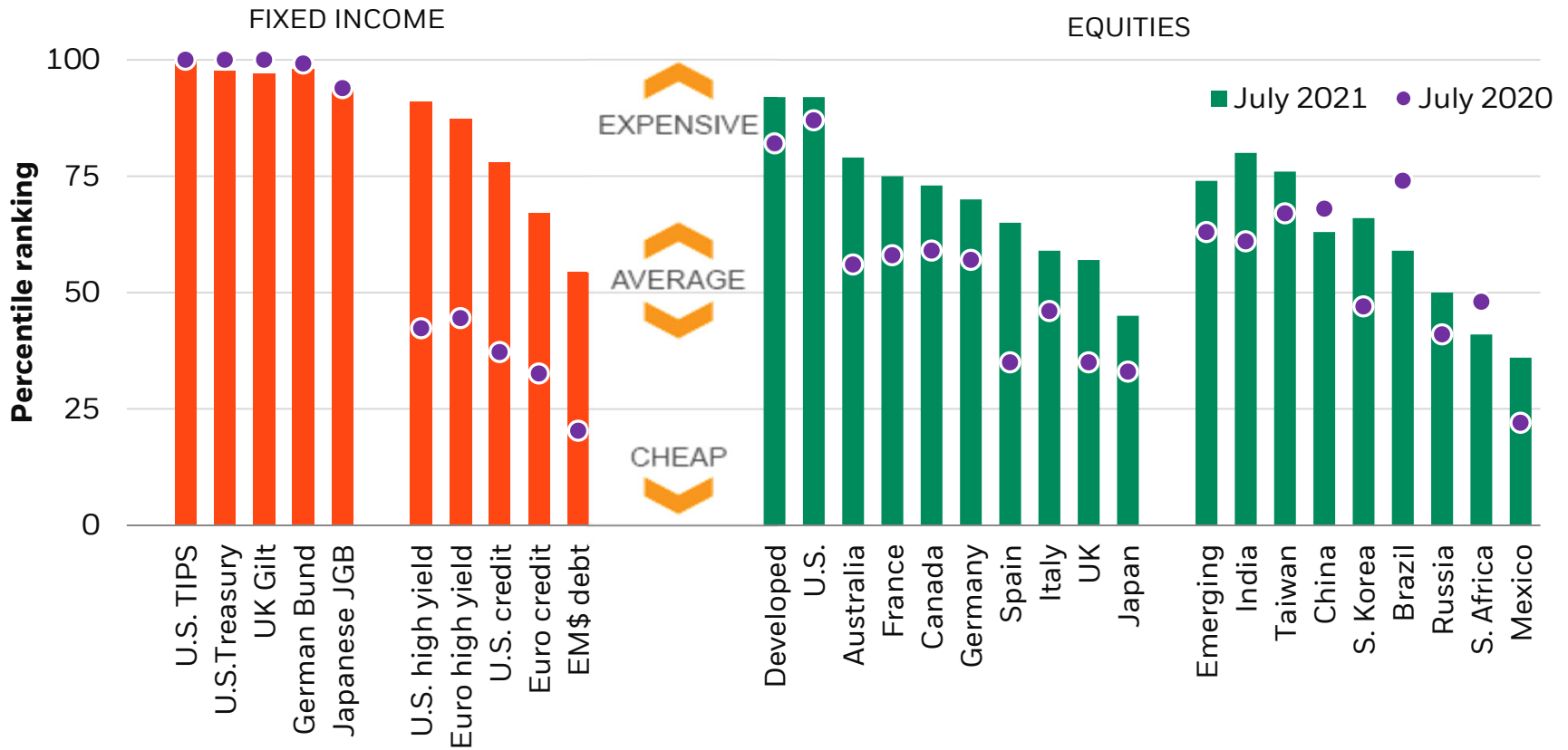
Source: Datastream as of 6/24/2021

Asset Allocation

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The asset allocators' dilemma: nothing looks “cheap”

Valuations are historically high across the board



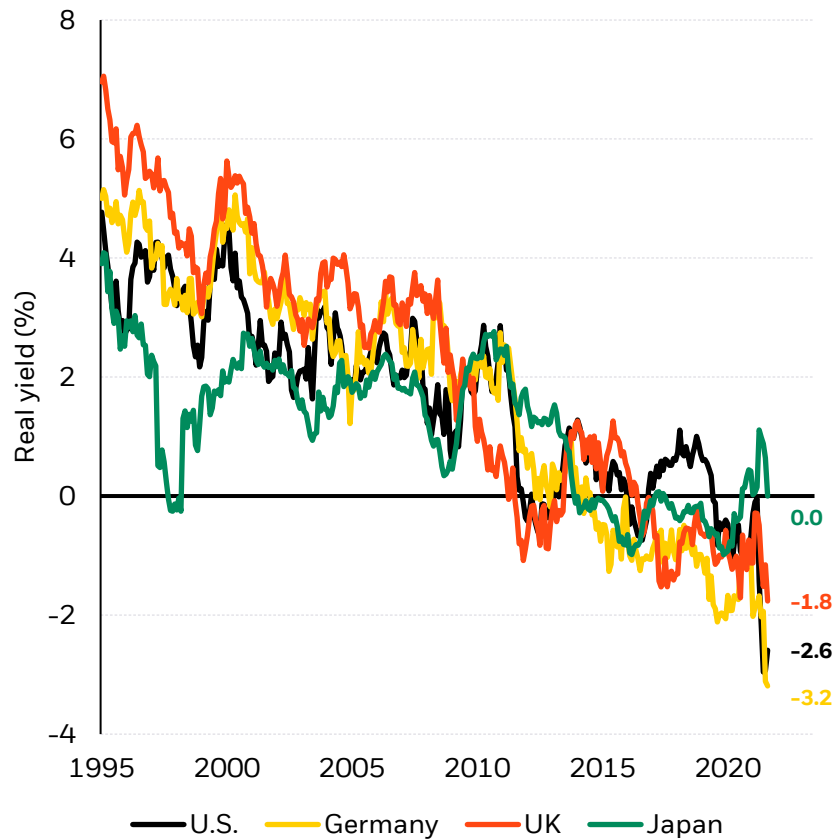
Sources: BlackRock Investment Institute, with data from Refinitiv Datastream, 31 July 2021

Notes: The percentile bars show valuations of assets as of 31 Jul 2021, versus their historical ranges. For example, U.S. equities are currently in the 87th percentile. This means U.S. equities trade at a valuation equal to or greater than 87% of their history. The dots show where valuations were a year ago. Government bonds are 10-year benchmark issues. Credit series are based on Barclays indexes and the spread over government bonds. Treasury Inflation Protected Securities (TIPS) are represented by nominal 10-year US treasuries minus inflation expectations. Equity valuations are based on MSCI indexes and are an average of percentile ranks versus available history of earnings yield, cyclically adjusted earnings yield, trend real earnings, dividend yield, price to book, price to cash flow and forward 12-month earnings yield. Historical ranges vary from 1969 (developed equities) to 2004 (EM\$ Debt). RO-191915

Bonds: investors ignore negative (real) yields

Global real yields remain deeply negative...

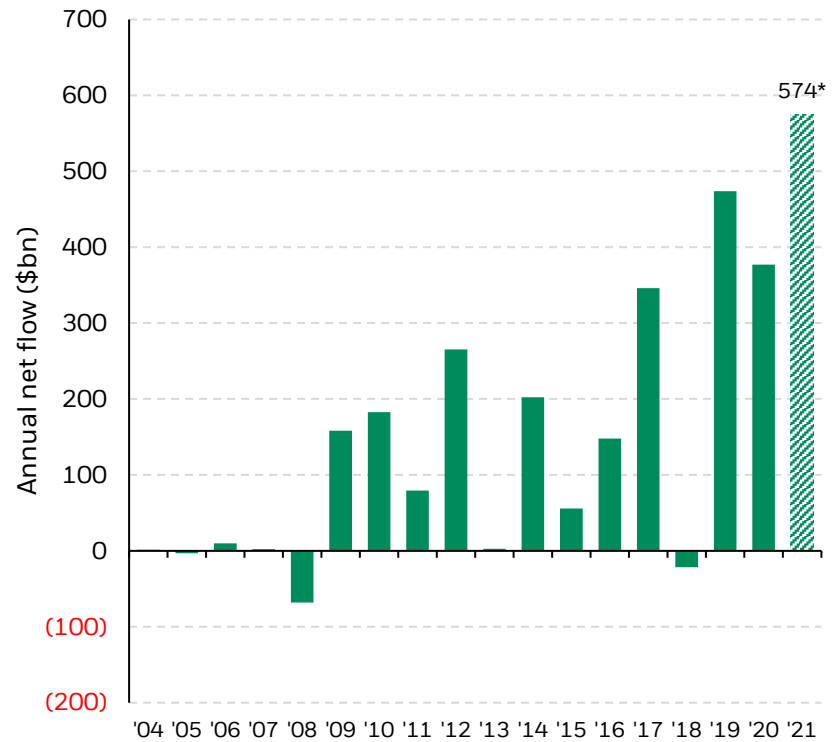
Real 10-year bond yield (core inflation)



Source: Datastream as of 8/15/21

.. And yet investors continue to pile into bond funds

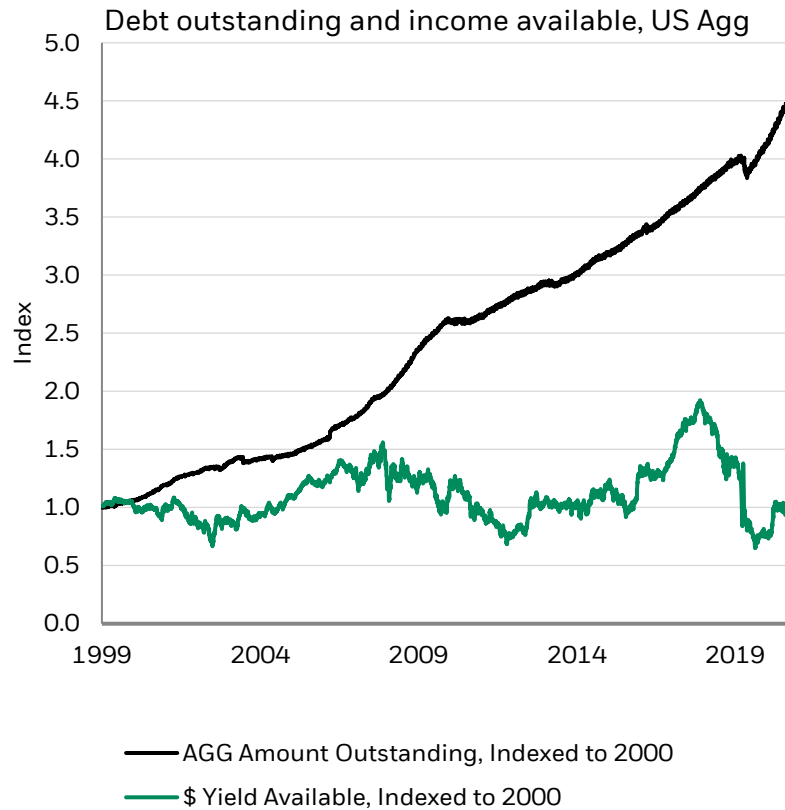
Annual global bond flows



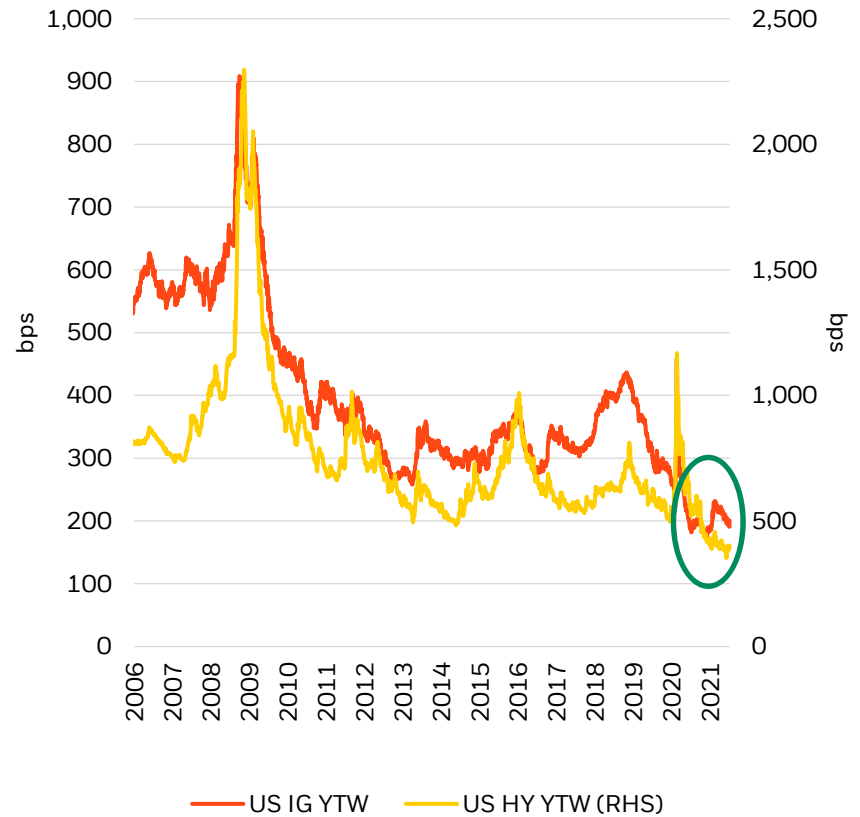
Source: EPFR as of 8/20/21; * annualized

Bonds: historic issuance, historically low income

Historically low income relative to \$ of debt outstanding



Yields in credit are near all-time lows



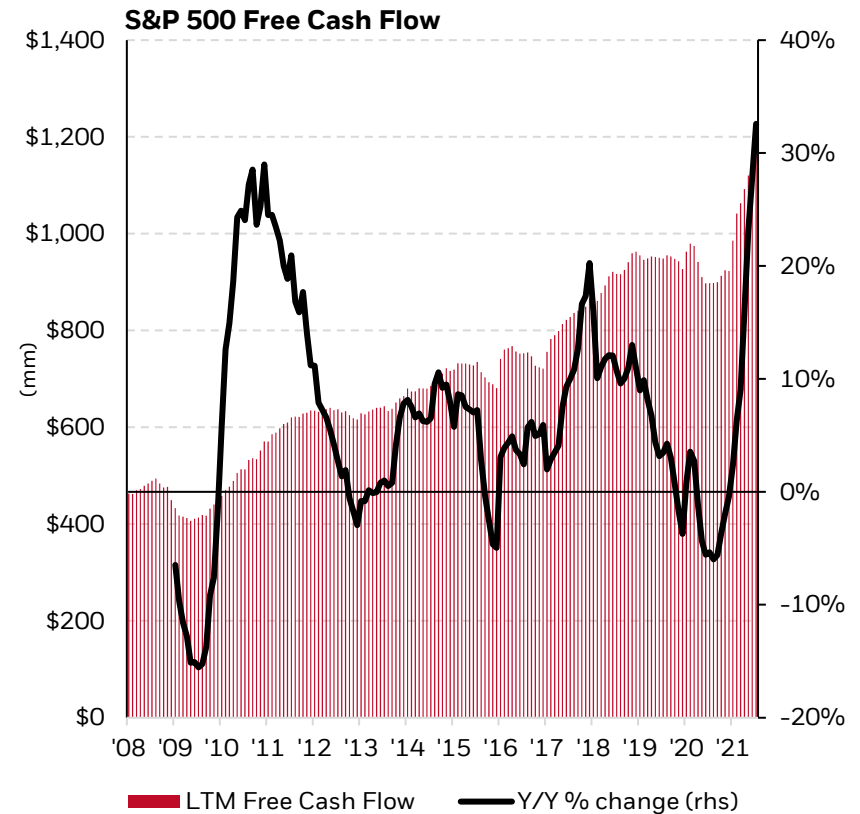
Source: Deloitte CFO Survey, Duke Fuqua / Richmond Fed CFO Survey as of 4Q 2020

Equities: “expensive”, but the only game in town

Valuations appear rich, except against bonds

S&P 500 valuation metric	Current	Historical %-ile
Market cap / GDP	160%	100 %
EV / sales	3.3x	99
EV / EBITDA	14.5x	97
Forward P/E	20.9x	94
Price / book	4.2x	99
Cash flow yield (CFO)	5.0%	100
Cyclically adjusted P/E (CAPE)	37.9x	100
Free cash flow yield	3.2%	82
Yield gap vs. IG	122 bps	53
Yield gap vs. 10-year UST	197 bps	56
Median metric		97 %

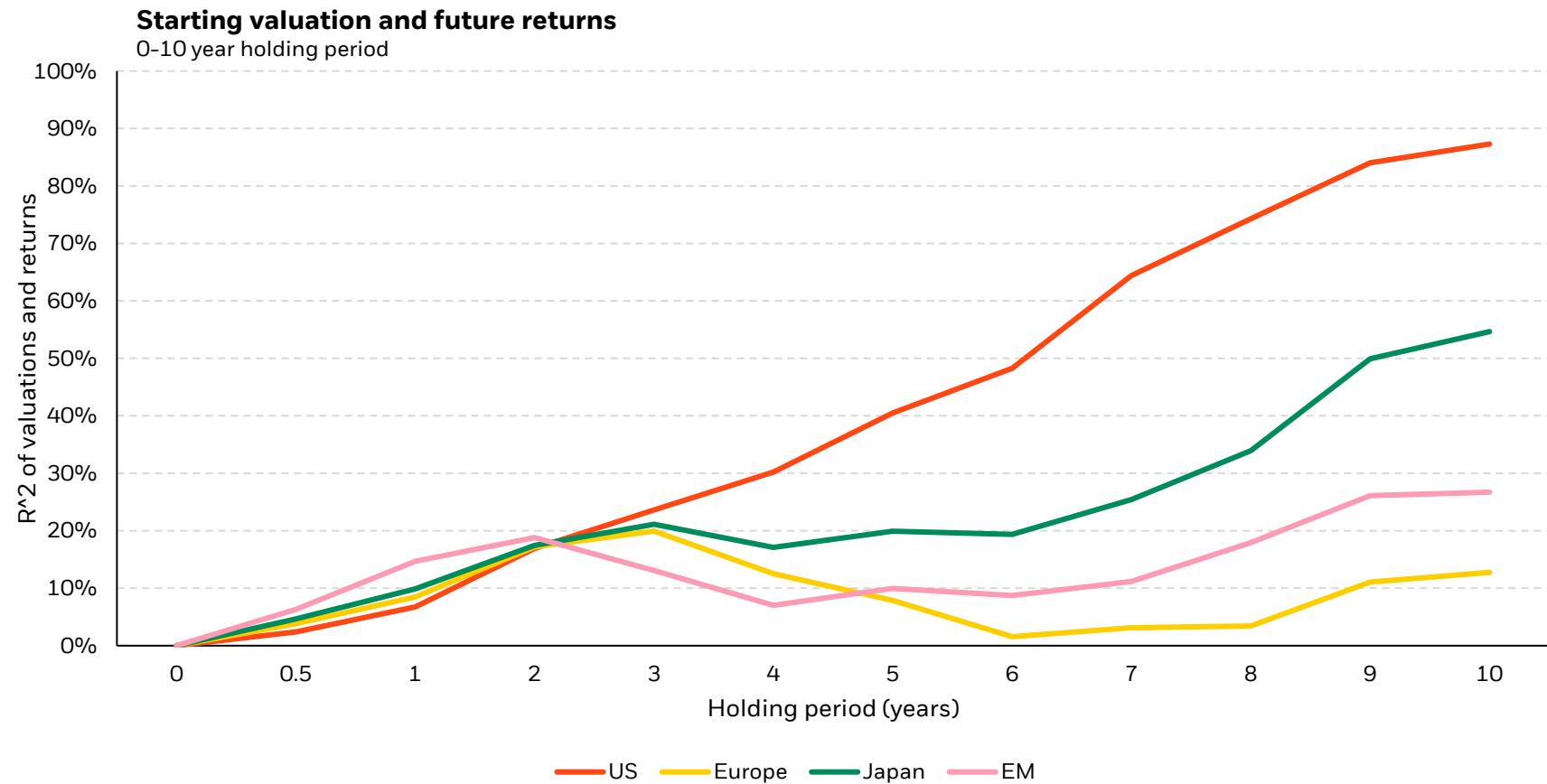
Cash flow commands a premium



Source: Bloomberg, Factset, BlackRock as of 8/23/2021

Equities: valuations are a weak predictor of forward returns

Prepare to hold

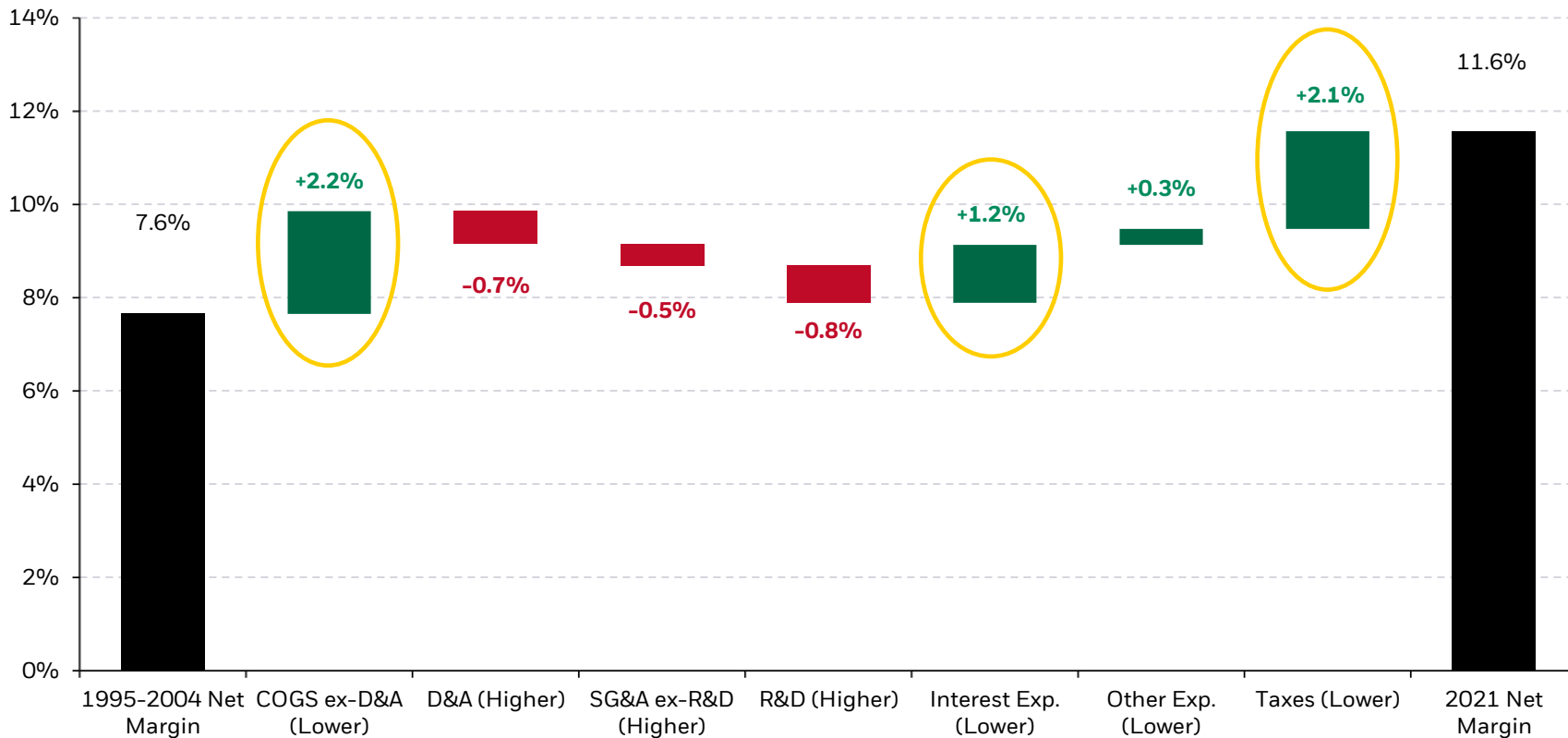


Source: Factset as of June 30, 2021.

Equities: the drivers of healthy corporate margins

Sources of structurally higher margins remain in place despite potential policy shifts

S&P 500 2021 net margin expansion waterfall

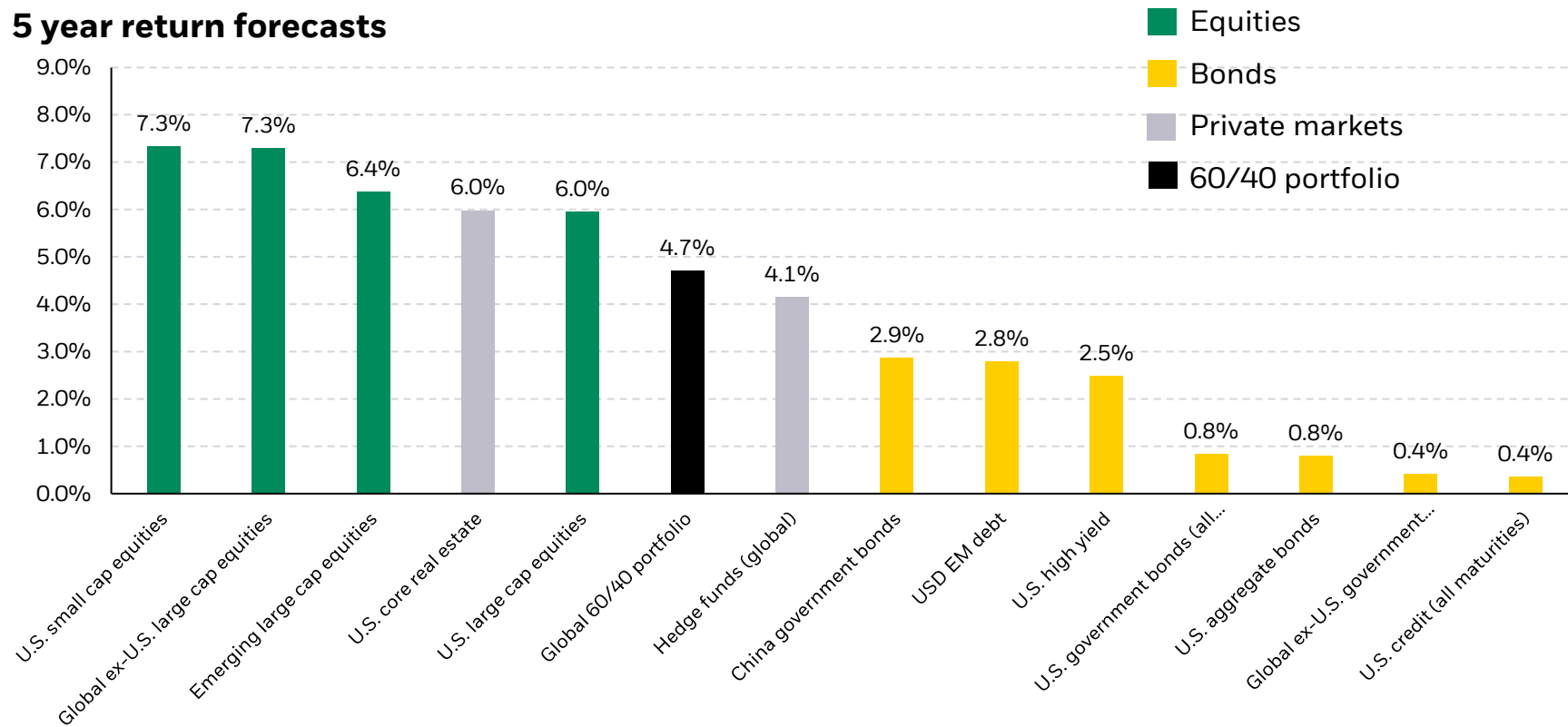


Source: Factset, BofA US Equity & Quant Strategy as of June 2021. Other expense primarily includes: Gain on assets sales, FX, minority interest, equity income.

BlackRock 5 year Capital Market Assumptions

A muted outlook for asset returns

5 year return forecasts



Source: BlackRock Investment Institute, August 2021. Data as of 30 June 2021.

Notes: Return assumptions are total nominal returns. U.S. dollar return expectations for all asset classes are shown in unhedged terms, with the exception of global ex-US Treasuries and hedge funds. Our CMAs generate market, or beta, geometric return expectations. Asset return expectations are gross of fees. For representative indices used, see the *Assumptions at a glance table*. We use BlackRock proxies for selected private markets because of lack of sufficient data. These proxies represent the mix of risk factor exposures that we believe represents the economic sensitivity of the given asset class. There are two sets of bands around our mean return expectation. The darker bands show our estimates of uncertainty in our mean return estimates. The lighter bands are based on the 25th and 75th percentile of expected return outcomes – the interquartile range for more detail read [Portfolio perspectives](#). Indices are unmanaged and used for illustrative purposes only. They are not intended to be indicative of any fund or strategy's performance. It is not possible to invest directly in an index.

Important notes

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.

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