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BlackRock

# Weekly commentary

October 19, 2026

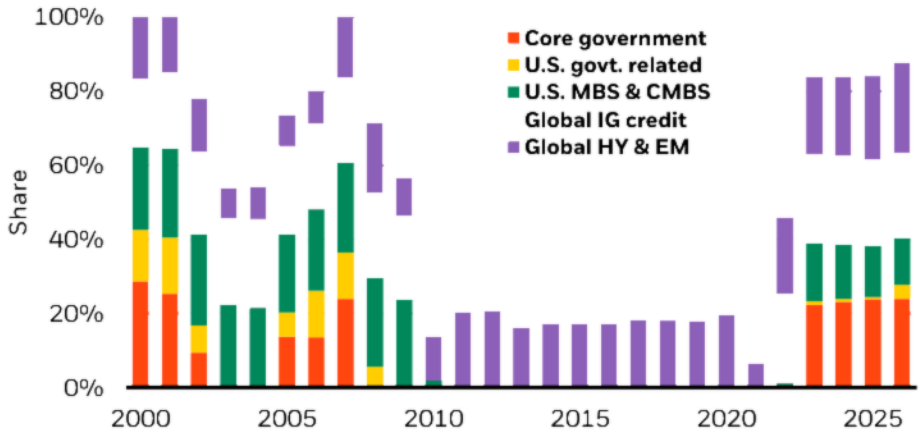
## French bonds: a lesson in selectivity

- France's government bond sell-off shows why the drivers of higher yields matter. We favor select opportunities across sovereign bonds and credit.
- Tech stocks were under pressure last week over scrutiny on the record pace of the AI buildout. We still favor AI within our neutral stance on U.S. equities.
- Jittery euro-area bond markets will be watching Moody's decision on France's credit rating closely. We also eye UK CPI data for a read on global inflation.

Higher bond yields are creating new investment opportunities, as reflected in our move to upgrade U.S. Treasuries last week. Yet the sharp sell-off in French government bonds is a reminder that intensifying competition for capital is putting borrowers under greater scrutiny, making it increasingly important to understand what is driving yields higher and whether investors are adequately compensated for the risks. Selectivity is key in this environment. We favor select opportunities across sovereign bonds and credit.

### Yielding results

Fixed income assets yielding over 4%, 2000–26




Sources: BlackRock Investment Institute, with data from LSEG Datastream, as of September 30, 2026. Note: The bars show market capitalization weights of assets with an average annual yield over 4% in a select universe that represents about 70% of the Bloomberg Multiverse Bond Index, based on annual average yields through 2025 and the latest quarter-end yields for 2026. Euro Core is based on French and German government bonds indexes. Euro periphery is based on an average of government debt indexes for Italy, Spain and Ireland. Emerging markets combine external and local currency debt.

The French bond sell-off illustrates how competition for capital is reshaping fixed income markets amid a global rate reset. Rising government borrowing and AI-related investment are pushing up financing costs, exposing borrowers with deteriorating fundamentals to greater scrutiny. At the same time, higher yields bring more opportunities: more than 80% of global bonds now yield above 4%, versus 6.3% five years ago. See the chart. France shows why selectivity matters across fixed income though. Its 10-year yield has jumped about 100 basis points since early August to nearly 5%, reflecting the broader rate reset. Yet the widening spread over German Bunds shows investors are also demanding additional compensation for France's fiscal and political risks. This underscores why investors need to distinguish between the forces driving yields higher.



**Wei Li**
Global Chief Investment Strategist – BlackRock



**James Turner**
Head of fixed income for EMEA – BlackRock



**Ann-Katrin Petersen**
Chief Investment Strategist for Germany, Austria, Switzerland and Eastern Europe – BlackRock Investment Institute



**Beata Harasim**
Senior Investment Strategist – BlackRock Investment Institute

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Spillover risks from France warrant close attention. But today's starting point is materially different from that of the 2011-12 euro zone debt crisis. France's government debt has surged from roughly 89% of GDP in 2011 to around 119% today, while the euro area's aggregate debt ratio is now back at its 2011 level of around 89%. The region is also better equipped to weather financial stress, with stronger banks and more powerful European Central Bank tools, though intervention isn't guaranteed. Further volatility and spillovers remain possible. But indiscriminate selling could create opportunities in markets such as Spain, where fundamentals may not justify higher yields. For now, we stay neutral on euro-area government bonds and prefer opportunities elsewhere.

We see opportunities where higher sovereign bond yields better compensate investors for risk without signaling weaker fundamentals. We upgraded U.S. Treasuries as higher starting yields provide a bigger cushion against further rate increases. We also see scope for markets to unwind excessive Fed tightening expectations. Japan offers a similar example of shifting value. Long-term government bond yields have climbed above 3% and the term premium has normalized, improving the risk-reward balance as much of the yield adjustment we anticipated has now occurred. That prompted us to trim our underweight, even as we expect further upward pressure on yields as monetary policy normalizes. We favor emerging market local-currency debt, particularly in Latin America, where improving fundamentals and finances support attractive yields. Across fixed income, we see a rise in term premium, particularly if driven by fiscal concerns, as a key risk that could push yields higher.

The same selectivity extends to corporate bonds. We favor a reverse barbell approach, seeking attractive income in higher-rated high-yield bonds while avoiding risks at either end of the credit spectrum. Heavy AI-related issuance is putting pressure on investment-grade bonds, while the weakest borrowers face greater refinancing challenges as rates stay elevated. Higher yields mean investors no longer need to reach as far down the credit spectrum for income.

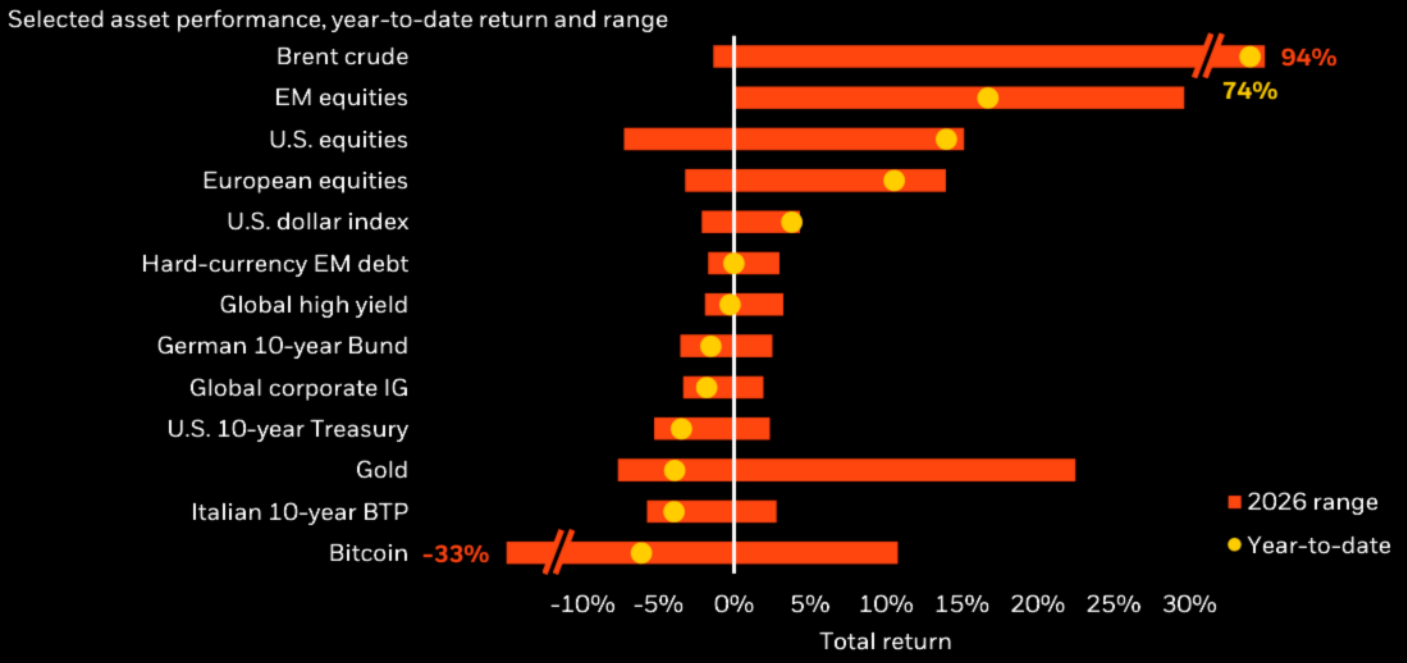
**Bottom line:** France's government bond selloff comes amid intensifying competition for capital that's prompting investors to take a closer look at the source of higher yields. We favor select sovereign bonds and credit.

# Market backdrop

Concerns over surging AI-driven capital spending weighed on tech stocks last week. The S&P fell 2% while the Nasdaq slumped nearly 5%. U.S. 10-year Treasury yields briefly touched 5.34% after a hot September CPI print before retreating during the tech sell-off, though they remained up on the week. These moves reflect two key questions hanging over markets: the outlook for interest rates and the pace of the AI buildout. We still favor AI within our neutral stance on U.S. equities.

## 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 October 15, 2026. Notes: The two ends of the bars show the lowest and highest returns at any point year to date, and the dots represent current year-to-date returns. Emerging market (EM), high yield and global corporate investment grade (IG) returns 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.

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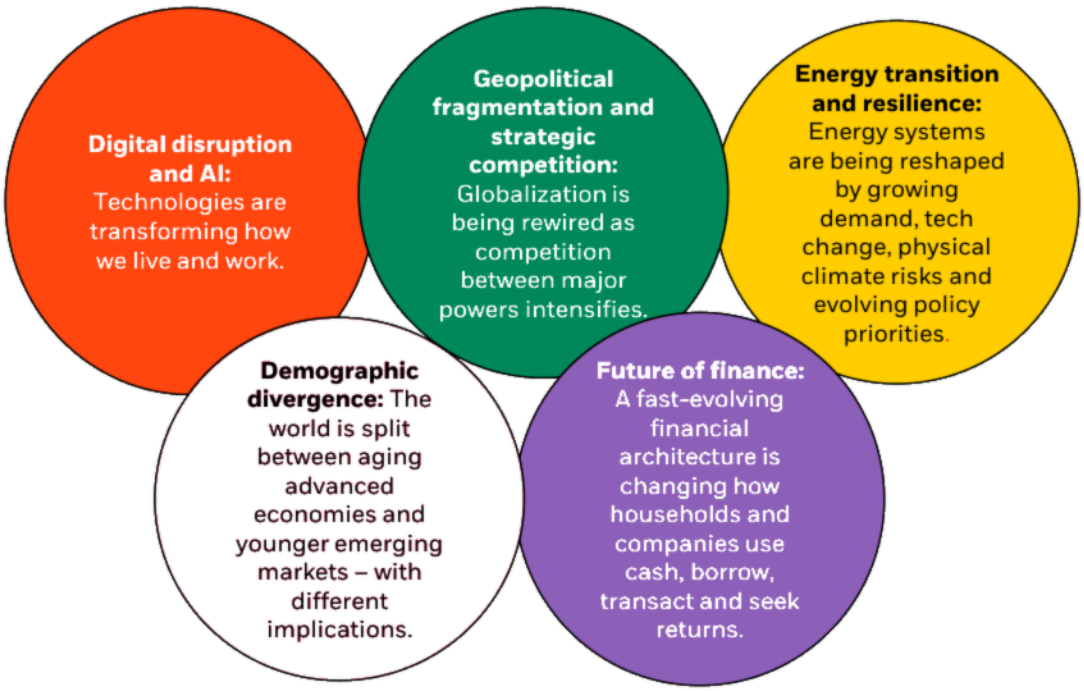
# Week ahead

| | | | |
|---|---|---|---|
| **Oct. 20** | UK unemployment | **Oct. 22** | Euro-area flash consumer confidence |
| **Oct. 21** | UK CPI & PPI; Japan trade balance | **Oct. 23** | Global flash PMI; Japan CPI; Moody's France sovereign credit rating decision |

We look toward a fresh reading on UK price pressures after the latest U.S. inflation report suggested price pressures remain broad-based rather than driven solely by energy costs. UK data may reveal whether those pressures are broadening beyond the U.S. We are also closely watching Moody's scheduled review of France's credit rating as investors assess the country's fiscal challenges and whether they have broader implications for the euro area.

## Intersecting mega forces

Since we launched our mega forces framework, it has become clearer how their intersection shapes almost all our investment views and opens up alpha opportunities. They cut across asset class labels, spurring a rethink of portfolio construction. Investors need to be deliberate about the economic or thematic exposures they own, the vehicles they use to implement them and their investment horizons.




## From drivers to portfolio expressions

Our highest conviction views, October 2026

| Driver | What we think | Portfolio expression |
|---|---|---|
| **Growth and AI scarcity** | AI fundamentals are strong, but we eye near-term volatility. | Neutral U.S. equities and overweight EM equities; favor AI- and tech-related opportunities. |
| **Duration and diversification** | Higher starting yields improve prospective returns and income. | Overweight short-term U.S. Treasuries for solid income and a cushion against higher rates; neutral long-term Treasuries. |
| **Credit spreads and liquidity** | Selectivity is crucial amid tight spreads and uneven fundamentals. | Credit with clear cash flows, lender protections and recovery value; higher-rated high yield. |
| **Inflation and scarcity** | Scarcity, secure supply and power demand carry inflation risks. | Infrastructure, energy bottlenecks, EM local debt and real-asset-linked exposures. |
| **Alpha opportunity** | Macro outcomes matter again in the new regime. | Macro hedge funds, venture capital, market-neutral strategies, and selected private credit and non-U.S. alpha. |

Note: Views are from a U.S. dollar perspective, October 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.

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# Asset class implications

Six- to 12-month tactical positioning, October 2026

This shows the implementation of our key investment views from the previous page through an asset class lens.

**Underweight** | **Neutral** | **Overweight** ● Previous positioning

| | Asset | Positioning | Commentary |
|---|---|---|---|
| **Equities** | **Developed markets** | | |
| | United States | Neutral ● | We are neutral. Strong AI fundamentals remain supportive, but policy uncertainty could fuel near-term volatility. We continue to favor AI and tech. |
| | Europe | Neutral | We are neutral. We would need to see more business-friendly policy and deeper capital markets for Europe to outperform. We favor financials, infrastructure and industrials. |
| | 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. Strong corporate balance sheets and governance reforms remain supportive. We prefer targeted exposures to physical AI and the buildout's bottlenecks. |
| | Emerging markets | +1 | We are overweight. Strong earnings and cheaper valuations create opportunities. We particularly like different expressions of the AI scarcity theme across Asia and Latin America. |
| | China | Neutral | We are neutral. We see opportunities in physical AI. Cheap, open-source AI could drive adoption, but that doesn't necessarily translate into AI-provider profitability. |
| **Fixed Income** | Short U.S. Treasuries | ● +1 | We are overweight. Much of the repricing we anticipated has occurred, and expectations for further Fed hikes look excessive. We favor the front end for attractive income and a greater breakeven buffer. |
| | Long U.S. Treasuries | ● Neutral | We are neutral. Higher yields offer attractive income and a bigger cushion against further rate increases. We still see room for yields to rise as competition for capital intensifies. |
| | Global inflation-linked bonds | Neutral | We are neutral. We see inflation settling above pre-pandemic levels, but markets may not price this in the near term as economic growth could slow. |
| | Euro area govt bonds | Neutral | We are neutral on short- and medium-term bonds. Current ECB rate pricing looks fairly valued given the balance of risks. Higher energy prices could push rates higher. We prefer to deploy risk elsewhere. |
| | UK gilts | Neutral | We are neutral. We expect periods of elevated volatility given political uncertainty, longer-term bonds making up a larger market share, and buyers becoming more price-sensitive. |
| | Japanese govt bonds | ● -1 | We are underweight. The substantial repricing in yields has improved the risk-reward, but further rate hikes and heavy issuance could push yields higher. |
| | China govt bonds | Neutral | We are neutral. China bonds offer stability and diversification but developed market yields are higher. A shift in investor sentiment toward equities limits upside. |
| | U.S. agency MBS | Neutral ● | We are neutral and lean into the stable income MBS provide despite tight spreads. |
| | Short-term IG credit | Neutral | We are neutral. Spreads are tight due to corporate strength, but attractive overall yields help offset the risk of increased issuance. |
| | Long-term IG credit | -1 | We are underweight. We prefer short-term bonds less exposed to interest rate risk over long-term bonds. But attractive overall yields help offset the risk of increased issuance. |
| | Global high yield | Neutral | We are neutral. High yield offers attractive income. We prefer higher-rated U.S. and European high yield over investment grade and see dispersion of returns increasing. |
| | Asia credit | Neutral | We are neutral. Overall yields are attractive and fundamentals are solid, but spreads are tight. |
| | Emerging hard currency | Neutral | We are neutral. Fundamentals have improved, but we see a more attractive risk-reward profile in EM local debt. |
| | Emerging local currency | +1 | We are overweight. We like the yield relative to its volatility and improving fundamentals. |

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