BLACKROCK INVESTMENT INSTITUTE

Richard Turnill

Global Chief Investment Strategist

Richard Turnill is BlackRock's Global Chief Investment Strategist. He was previously Chief Investment Strategist for BlackRock's fixed income and active equity businesses, and has also led the Global Equity investment team. Richard started his career at the Bank of England.

Share your feedback at *blackrockinvestments@blackrock.com*

Isabelle Mateos y Lago

Chief Multi-Asset Strategist

BlackRock Investment Institute

Kate Moore

Chief Equity Strategist

BlackRock Investment Institute

Jeff Rosenberg

Chief Fixed Income Strategist

BlackRock Investment Institute

BLACKROCK®

WEEKLY COMMENTARY • SEPT. 11, 2017

Key points

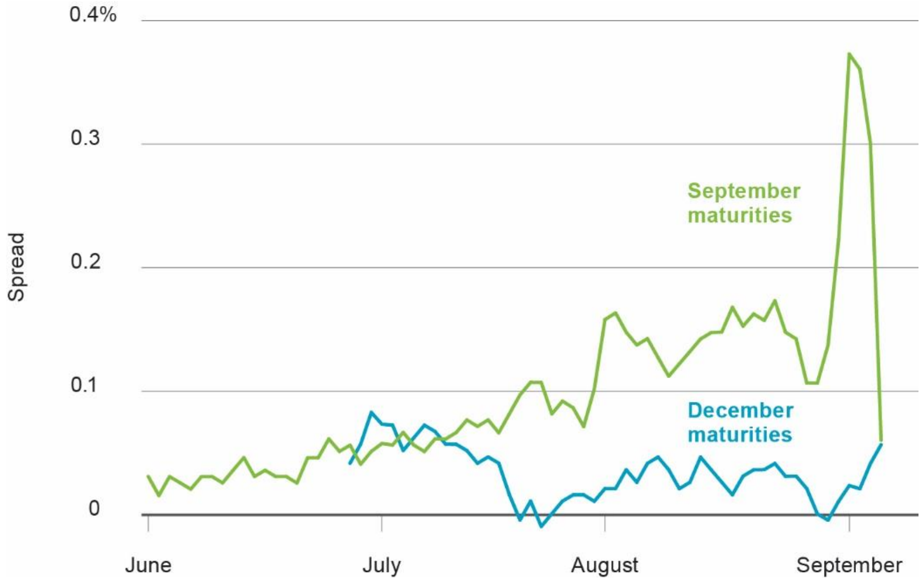
1. Washington averted a debt ceiling crisis – for now – but set the stage for a year-end fiscal cliff. We see more political uncertainty ahead.
2. Treasury yields fell to new lows for the year and the dollar declined further. The European Central Bank (ECB) stuck to its easy policy stance.
3. Differing inflation pictures in the U.S. and eurozone imply greater potential for monetary policy divergence than markets expect.

1 Gauging the fiscal cliff ahead

Washington averted an imminent fiscal crisis, but the result could be a steep fiscal cliff in December or early 2018. We see heightened political uncertainty toward year-end as the U.S. Congress must revisit lifting the federal borrowing limit and funding the government. We could see this delaying and reducing the scope of any tax reform.

Chart of the week

U.S. Treasury bill spread around debt-ceiling deadlines, 2017



Sources: BlackRock Investment Institute, with data from Thomson Reuters, September 2017.
Notes: The lines show the difference in yields between U.S. Treasury bills maturing before and after two deadlines for the U.S. Congress to lift the debt ceiling. The September maturities line in green is calculated by subtracting the yield of T-bills maturing on Sept. 21 from that of T-bills maturing on Oct. 5. The December maturities line in blue is calculated by subtracting the yield of T-bills maturing on Nov. 30 from that of T-bills maturing on Dec. 28.

Last week's deal raises the statutory debt ceiling and funds the government through Dec. 15, taking the risk of a technical default off the table for now. We see short-term U.S. Treasury debt as a key barometer of this risk, as the chart shows. Yields on Treasury bills maturing soon after the original late-September deadline fell as these T-bills were no longer seen as most vulnerable to default, while rates on T-bills maturing after the new December deadline rose.

Crisis averted, for now

It was a natural disaster that spurred politicians into action last week. The debt ceiling and funding plan is packaged with provisions to provide hurricane relief as authorities in Texas and Louisiana assess the devastation and tragic toll caused by Hurricane Harvey. This came just as Florida was bracing for the impact of Hurricane Irma. A government shutdown, the likely outcome of failure to pass a 2018 budget, would have been detrimental at a time when states are looking to the federal government for much-needed assistance.

The upshot is a likely fiscal cliff toward year-end as lawmakers again confront the debt limit and government funding – without the face-saving element of disaster relief. They also face a range of other thorny issues, including addressing residency rights for children who entered the country illegally and the controversial funding of a wall on the border with Mexico. Adding to the political storm: President Donald Trump sided with Democrats last week on the deal, despite Republican calls for a much longer extension of the debt ceiling and budget. This could make the fiscal debate harder the next time around. It could also complicate and delay tax cuts or reform, already a casualty of a busy legislative calendar.

Political risk has quieted for the moment, but we expect higher uncertainty as Dec. 15 approaches. We see T-bills as a useful gauge for potential market anxiety. We favor equity and fixed income segments tied to the sustained global economic expansion, and advocate some allocation to long-dated government bonds as a buffer against equity market sell-offs.

2 Week in review

- U.S. Treasury yields hit their lowest level year-to-date amid further geopolitical tensions. Risk aversion was more exaggerated in bond and currency markets than in equities, which traded flat. The Chinese yuan hit a 16-month high versus the U.S. dollar. U.S. weekly jobless claims rose more than expected, reflecting the effects of Hurricane Harvey.
- The ECB maintained its policy stance, lowered its 2018 and 2019 inflation forecasts, and signaled an upcoming decision on quantitative easing adjustments. The euro strengthened versus the dollar.
- Federal Reserve Vice Chair Stanley Fischer said he is resigning eight months before his term ends, leaving three Fed seats empty into 2018. The Bank of Canada hiked rates for a second time this year. The Canadian dollar rose.

Global snapshot

Weekly and 12-month performance of selected assets

Equities	Week	YTD	12 Months	Div. Yield
U.S. Large Caps	-0.6%	9.9%	12.8%	2.0%
U.S. Small Caps	-1.0%	4.0%	12.8%	1.2%
Non-U.S. World	0.6%	20.2%	16.5%	3.0%
Non-U.S. Developed	0.8%	18.5%	15.8%	3.2%
Japan	0.7%	12.8%	11.3%	2.2%
Emerging	0.0%	28.8%	20.3%	2.5%
Asia ex-Japan	0.0%	31.4%	20.7%	2.4%

Bonds	Week	YTD	12 Months	Yield
U.S. Treasuries	0.6%	3.5%	-0.3%	2.1%
U.S. TIPS	0.9%	3.1%	1.1%	2.0%
U.S. Investment Grade	0.5%	5.6%	2.9%	3.0%
U.S. High Yield	0.1%	6.2%	8.4%	5.6%
U.S. Municipals	0.3%	5.5%	1.3%	2.0%
Non-U.S. Developed	1.7%	12.1%	0.3%	0.7%
EM $ Bonds	0.7%	9.8%	5.0%	5.0%

Commodities	Week	YTD	12 Months	Level
Brent Crude Oil	2.0%	-5.4%	7.6%	$53.78
Gold	1.6%	17.3%	0.6%	$1,347
Copper	-2.1%	20.9%	43.5%	$6,693

Currencies	Week	YTD	12 Months	Level
Euro/USD	1.5%	14.4%	6.9%	1.20
USD/Yen	-2.2%	-7.8%	5.2%	107.84
Pound/USD	1.9%	7.0%	-0.7%	1.32

Source: Bloomberg. As of Sept. 8, 2017. Notes: Weekly data through Friday. Equity and bond performance are measured in total index returns in U.S. dollars. U.S. large caps are represented by the S&P 500 Index; U.S. small caps are represented by the Russell 2000 Index; non-U.S. world equity by the MSCI ACWI ex U.S.; non-U.S. developed equity by the MSCI EAFE Index; Japan, Emerging and Asia ex-Japan by their respective MSCI indexes; U.S. Treasuries by the Bloomberg Barclays U.S. Treasury Index; U.S. TIPS by the U.S. Treasury Inflation Notes Total Return Index; U.S. investment grade by the Bloomberg Barclays U.S. Corporate Index; U.S. high yield by the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index; U.S. municipals by the Bloomberg Barclays Municipal Bond Index; non-U.S. developed bonds by the Bloomberg Barclays Global Aggregate ex USD; and emerging market $ bonds by the JP Morgan EMBI Global Diversified Index. Brent crude oil prices are in U.S. dollars per barrel, gold prices are in U.S. dollar per troy ounce and copper prices are in U.S. dollar per metric ton. The Euro/USD level is represented by U.S. dollar per euro, USD/JPY by yen per U.S. dollar and Pound/USD by U.S. dollar per pound. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an index. Past performance is not indicative of future results.

BII0917U/E-257487-770925

3 Week ahead

Sept. 12	iPhone 8 launch; UK Consumer Price Index (CPI), Producer Price Index (PPI); Organization of the Petroleum Exporting Countries Monthly Oil Market Report
Sept. 13	Germany CPI, Harmonized CPI; International Energy Agency Oil Market Report
Sept. 14	U.S. CPI; China industrial production
Sept. 15	U.S. industrial production, retail sales

Our *BlackRock Inflation GPS* suggests a short-lived U.S. core inflation slowdown, with data back near a 2% annual rate by early 2018. It points to sideways-moving eurozone core inflation, implying markets may be underestimating potential monetary policy divergence.

Asset class views

Views from a U.S. dollar perspective over a three-month horizon

Asset class		View	Comments
Equities	U.S.	—	2017 earnings momentum is strong. Policy progress, particularly related to tax reform, would provide additional support to earnings in 2018. We like value, momentum, financials, technology and dividend growers.
	Europe	▲	We see sustained above-trend economic expansion and a steady earnings outlook supporting cyclicals. We view companies that have more of their cost base overseas as less vulnerable to a strong euro in the short term.
	Japan	▲	Positives are improving global growth, more shareholder-friendly corporate behavior and solid earnings amid a stable yen outlook. We see BoJ policy and domestic investor buying as supportive. Yen strength is a risk.
	EM	▲	Economic reforms, improving corporate fundamentals and reasonable valuations support EM stocks. Sustained above-trend expansion in the developed world are other positives. Risks include sharp changes in currency, trade or other policies.
	Asia ex-Japan	▲	The region's economic backdrop is encouraging. China's economic growth and corporate earnings outlook look solid in the near term. We like India, China and selected Southeast Asian markets.
Fixed income	U.S. government bonds	▼	Sustained economic expansion challenges nominal bonds. We favor TIPS for the long run after valuations cheapened amid weaker inflation readings. We are neutral on agency mortgages due to current valuations and potential future impacts of the Fed's balance sheet run-off.
	U.S. municipals	—	Demand for income and diversification are likely to drive further demand for munis despite tightening valuations. We see seasonally weak supply supporting the sector in coming months and favor intermediate to 20+ year maturities.
	U.S. credit	▲	Stronger growth favors credit over Treasuries. We generally prefer up-in-quality exposures and investment grade bonds due to elevated credit market valuations. Floating rate bank loans appear to offer insulation from rising rates, but we find them pricey.
	European sovereigns	▼	High valuations and the market's focus on improving economic data make us cautious. Waning political risks should cause core eurozone yields to rise and spreads of semi-core and selected peripheral government bonds to narrow.
	European credit	▼	Risks are tilted to the downside amid heady valuations and the possibility of shifting market expectations for central bank support. We are defensive and prefer selected subordinated financial debt.
	EM debt	—	We see sustained global growth benefiting EM debt. The asset class tends to perform well in such an environment — even if the Fed is raising rates. We focus on income as high valuations make further capital gains less likely.
	Asia fixed income	—	We are focused on income, especially in markets with positive fundamentals such as Indonesia and India. We see a stable near-term cyclical outlook for China but have a selective stance overall amid tightening valuations.
Other	Commodities and currencies		We see oil prices supported as supply-and-demand rebalancing gets underway. We are neutral on the dollar in the near term due to market uncertainty over the pace of central bank normalization.

▲ Overweight — Neutral ▼ Underweight

BlackRock Investment Institute

The ***BlackRock Investment Institute (BII)*** provides connectivity between BlackRock's portfolio managers, originates market research and publishes insights. Our goals are to help our fund managers become better investors and to produce thought-provoking content for clients and policymakers.

BLACKROCK VICE CHAIRMAN

Philipp Hildebrand

HEAD OF ECONOMIC AND MARKETS RESEARCH

Jean Boivin

GLOBAL CHIEF INVESTMENT STRATEGIST

Richard Turnill

EXECUTIVE EDITOR

Jack Reerink

This material is prepared by BlackRock and is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of Sept. 11, 2017, and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by BlackRock to be reliable, are not necessarily all inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by BlackRock, its officers, employees or agents. This material may contain 'forward-looking' information that is not purely historical in nature. Such information may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader. This material is intended for information purposes only and does not constitute investment advice or an offer or solicitation to purchase or sell in any securities, BlackRock funds or any investment strategy nor shall any securities be offered or sold to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction.

In the U.S., this material is intended for public distribution. **In the EU** issued by BlackRock Investment Management (UK) Limited (authorised and regulated by the Financial Conduct Authority). Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Registered in England No. 2020394. Tel: 020 7743 3000. For your protection, telephone calls are usually recorded. BlackRock is a trading name of BlackRock Investment Management (UK) Limited. This material is for distribution to Professional Clients (as defined by the FCA Rules) and Qualified Investors and should not be relied upon by any other persons. For qualified investors **in Switzerland**, this material shall be exclusively made available to, and directed at, qualified investors as defined in the Swiss Collective Investment Schemes Act of 23 June 2006, as amended. Issued **in the Netherlands** by the Amsterdam branch office of BlackRock Investment Management (UK) Limited: Amstelplein 1, 1096 HA Amsterdam, Tel: 020 - 549 5200. **In South Africa**, please be advised that BlackRock Investment Management (UK) Limited is an authorised Financial Services provider with the South African Financial Services Board, FSP No. 43288. **In Dubai** this information can be distributed in and from the Dubai International Financial Centre (DIFC) by BlackRock Advisors (UK) Limited — Dubai Branch which is regulated by the Dubai Financial Services Authority ("DFSA") and is only directed at 'Professional Clients' and no other person should rely upon the information contained within it. Neither the DFSA or any other authority or regulator located in the GCC or MENA region has approved this information. This information and associated materials have been provided to you at your express request, and for your exclusive use. This document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution would be unlawful under the securities laws of such. Any distribution, by whatever means, of this document and related material to persons other than those referred to above is strictly prohibited. **In Singapore**, this is issued by BlackRock (Singapore) Limited (Co. registration no. 200010143N). **In Hong Kong**, this material is issued by BlackRock Asset Management North Asia Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong. **In Korea**, this material is for Professional Investors only. **In Japan**, this is issued by BlackRock Japan. Co., Ltd. (Financial Instruments Business Operator: The Kanto Regional Financial Bureau. License No375, Association Memberships: Japan Investment Advisers Association, the Investment Trusts Association, Japan, Japan Securities Dealers Association, Type II Financial Instruments Firms Association.) for Professional Investors only (Professional Investor is defined in Financial Instruments and Exchange Act). **In Taiwan**, independently operated by BlackRock Investment Management (Taiwan) Limited. Address: 28/F, No. 95, Tun Hwa South Road, Section 2, Taipei 106, Taiwan. Tel: (02)23261600. **In Australia**, issued by BlackRock Investment Management (Australia) Limited ABN 13 006 165 975, AFSL 230 523 (BIMAL). This material is not a securities recommendation or an offer or solicitation with respect to the purchase or sale of any securities in any jurisdiction. The material provides general information only and does not take into account your individual objectives, financial situation, needs or circumstances. Before making any investment decision, you should therefore assess whether the material is appropriate for you and obtain financial advice tailored to you having regard to your individual objectives, financial situation, needs and circumstances. BIMAL, its officers, employees and agents believe that the information in this material and the sources on which it is based (which may be sourced from third parties) are correct as at the date of publication. While every care has been taken in the preparation of this material, no warranty of accuracy or reliability is given and no responsibility for the information is accepted by BIMAL, its officers, employees or agents. Any investment is subject to investment risk, including delays on the payment of withdrawal proceeds and the loss of income or the principal invested. While any forecasts, estimates and opinions in this material are made on a reasonable basis, actual future results and operations may differ materially from the forecasts, estimates and opinions set out in this material. No guarantee as to the repayment of capital or the performance of any product or rate of return referred to in this material is made by BIMAL or any entity in the BlackRock group of companies. **For other APAC Countries**, this material is issued for Institutional Investors only (or professional/sophisticated/qualified investors, as such term may apply in local jurisdictions) and does not constitute investment advice or an offer or solicitation to purchase or sell in any securities, BlackRock funds or any investment strategy nor shall any securities be offered or sold to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction. **In Canada**, this material is intended for permitted clients only. **In Latin America and Iberia**, this material is for educational purposes only and does not constitute investment advice nor an offer or solicitation to sell or a solicitation of an offer to buy any shares of any fund (nor shall any such shares be offered or sold to any person) in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities law of that jurisdiction. If any funds are mentioned or inferred to in this material, it is possible that some or all of the funds have not been registered with the securities regulator of Brazil, Chile, Colombia, Mexico, Panama, Peru, Portugal, Spain, Uruguay or any other securities regulator in any Latin American country and thus might not be publicly offered within any such country. The securities regulators of such countries have not confirmed the accuracy of any information contained herein.

The information provided here is neither tax nor legal advice. Investors should speak to their tax professional for specific information regarding their tax situation. Investment involves risk including possible loss of principal. 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 are often heightened for investments in emerging/developing markets or smaller capital markets.

Prepared by BlackRock Investments, LLC, member FINRA.

Not FDIC Insured • May Lose Value • No Bank Guarantee

BLACKROCK®

BII0917U/E-257487-770925