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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.

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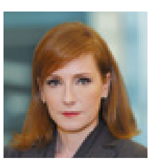

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Key points

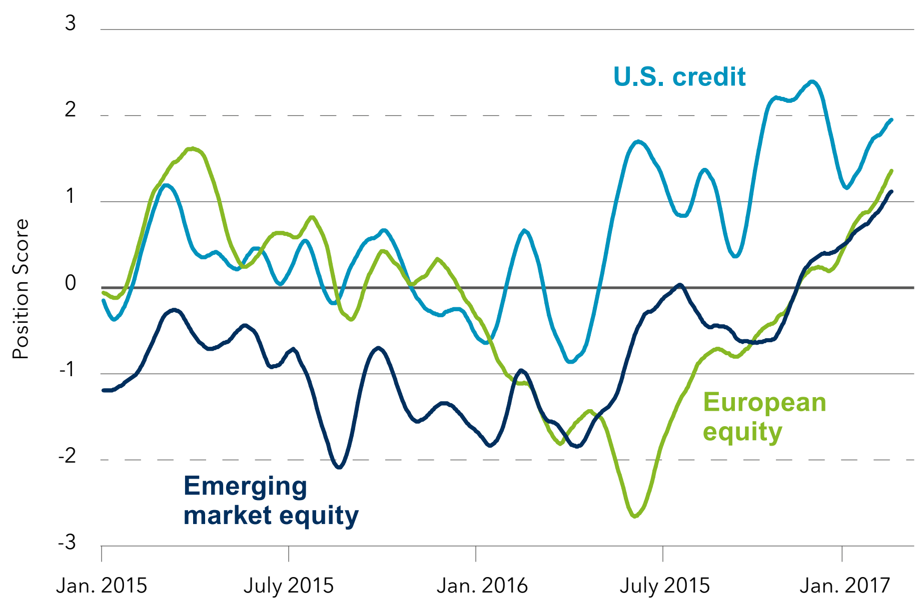
1. Emerging market (EM) and European equities are becoming consensus trades, but we believe they still have room to run.
2. Equity markets traded modestly higher last week. Momentum and low volatility factors outperformed as bond yields declined.
3. We expect the tone of this week's European Central Bank (ECB) meeting to be dovish, after recent weak eurozone inflation data.

1 When contrarian becomes consensus

Many investors have flocked to EM and European equities this year, as money has broadly flowed back into risk assets. Our analysis suggests these equity trades are becoming consensus, but we believe they still have room to run.

Chart of the week

Positioning across asset classes, 2015-2017



Sources: BlackRock Investment Institute, Bloomberg, CFTC, EPFR, State Street, June 2017.
Notes: The data are based on one-month averages of scores combining portfolio flows, fund manager positions as reported by State Street and price momentum. Higher positive (above 2) or lower negative (below -2) scores suggest a more concentrated market. The scores are based on analysis by BlackRock's Risk and Quantitative Analysis team.

EM and European stocks look more popular than last year, based on an analysis of flows, price momentum and positioning by Blackrock's Risk and Quantitative Analysis team. Yet these asset classes do not appear excessively crowded (a score above two). In contrast, positioning in U.S. credit looks more stretched.

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A preference for equities over credit

We view crowding as a sign of heightened risk rather than a signal to sell. There have been significant flows into exchange-traded products and mutual funds across asset classes this year, as perceived economic and political risks have declined and many investors have put cash to work in response. Nearly $170 billion has flowed into global bond funds year-to-date, and $140 billion into global equity funds, EPFR Global data show. At the same time, money market funds have experienced notable outflows.

EM and European stocks are no longer the contrarian trades that they were for much of 2016, but we believe there's still a strong case for exposure to international stocks. Our "risk ratio" gauge of risk appetite is at levels consistent with moderate risk taking, but nowhere near the "irrational exuberance" seen in the late-1990s or mid-2000s. Strong inflows year-to-date have only replaced a quarter of the outflows from EM stocks between the 2013 "taper tantrum" selloff and mid-2016, and only 17% of the flows out of European equities last year.

Global reflation, a strong earnings recovery and attractive equity risk premiums also should support international stocks. Against this backdrop, we prefer taking risk in equities over credit, where positioning is more crowded and valuations less attractive, though we do see opportunities in high-quality U.S. credit.

2 Week in review

- Momentum and low volatility style factors outperformed as bond yields declined. Value underperformed on further energy share weakness. U.S. bank shares fell on concerns about Q2 trading volumes.
- The yuan jumped on a crunch in offshore liquidity as China's central bank launched a new daily fix to help limit volatility. Japanese stocks rallied on firmer economic data.
- Federal Reserve Governor Jerome Powell signaled the Fed plans to raise interest rates this month and begin reducing its balance sheet this year. Headline U.S. jobs growth last month was weaker than expected.

Global snapshot

Weekly and 12-month performance of selected assets

Equities	Week	YTD	12 Months	Div. Yield
U.S. Large Caps	1.0%	8.9%	15.9%	2.0%
U.S. Small Caps	1.7%	4.1%	21.8%	1.3%
Non-U.S. World	1.2%	15.2%	20.4%	3.0%
Non-U.S. Developed	1.7%	15.6%	19.1%	3.2%
Japan	3.5%	12.0%	20.3%	2.1%
Emerging	-0.1%	18.4%	28.4%	2.6%
Asia ex-Japan	0.6%	22.1%	29.1%	2.4%

Bonds	Week	YTD	12 Months	Yield
U.S. Treasuries	0.5%	2.3%	0.1%	2.2%
U.S. TIPS	0.6%	2.0%	2.5%	2.1%
U.S. Investment Grade	0.7%	3.8%	4.4%	3.1%
U.S. High Yield	0.3%	5.0%	13.9%	5.4%
U.S. Municipals	0.4%	4.1%	1.5%	2.1%
Non-U.S. Developed	0.6%	6.3%	-0.8%	0.7%
EM $ Bonds	0.4%	6.7%	9.7%	5.2%

Commodities	Week	YTD	12 Months	Level
Brent Crude Oil	-4.2%	-12.1%	-0.2%	$49.95
Gold	1.0%	11.5%	5.6%	$1,279
Copper	0.1%	2.3%	23.2%	$5,665

Currencies	Week	YTD	12 Months	Level
Euro/USD	0.9%	7.2%	1.1%	1.13
USD/Yen	-0.8%	-5.6%	1.4%	110.40
Pound/USD	0.7%	4.4%	-10.6%	1.29

Source: Bloomberg. As of June 2, 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.

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3 Week ahead

June 5-6	U.S. ISM Non-Manufacturing Index; Germany & eurozone Markit Services PMIs
June 7	China foreign exchange reserves
June 8	ECB meeting announcement; UK general election
June 8-9	China trade balance, Consumer Price Index, Producer Price Index

The ECB could remove guidance on being ready to cut rates further and say the risks to the outlook are more balanced. Signs that eurozone inflation is slowing and remains below the ECB's 2% target will likely prompt the central bank to reinforce a dovish stance.

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. Prospects of tax reform and deregulation are also supportive, but the timing and implementation are uncertain. We like value, financials, technology, selected health care and dividend growers.
	Europe	▲	We see global reflation and an improving earnings outlook supporting cyclicals and exporters, particularly industrials and multinationals with EM exposures. We see the level of support for populism in European elections partly shaping investor sentiment.
	Japan	▲	Positives are improving global growth, more shareholder-friendly corporate behavior and earnings upgrades amid a stable yen outlook. We see BoJ policy and domestic investor buying as supportive. Risks are yen strength and rising wages.
	EM	▲	Economic reforms, improving corporate fundamentals and reasonable valuations support EM stocks. Reflation and growth in the developed world are other positives. Risks include sharp changes in currency, trade or other policies.
	Asia ex-Japan	▲	Financial sector reform and rising current account surpluses are 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	▼	Reflation challenges nominal bonds. We favor TIPS for the long run after valuations cheapened amid falling oil prices and weaker inflation readings. We are neutral on agency mortgages due to recent outperformance and potential changes to the Fed's reinvestment policy.
	U.S. municipals	–	Higher rates post election and muted issuance have restored value, and investor interest has perked up amid positive performance and market expectations that tax reform may be delayed or watered down. We are neutral on duration and favor 7- to 10-year bonds.
	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	▼	Markets' focus on improving economic data and high valuations 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 broadening of growth beyond the U.S. benefiting EMs and limiting risks from dollar appreciation. This makes local currency debt more attractive to us. We see selected opportunities, but high valuations keep us neutral overall.
	Asia fixed income	–	We like markets with positive fundamentals and reform momentum, such as India. The upside is limited as spreads have compressed. A positive cyclical outlook for China is supportive, but U.S. trade protectionism is a risk.
Other	Commodities and currencies	–	We see oil prices as range-bound until the reduction in global inventories is confirmed. We see gradual U.S. dollar strength in the medium term due to interest rate differentials with many other advanced economies.

▲ Overweight – Neutral ▼ Underweight

BlackRock Investment Institute

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