

A low-angle, upward-looking perspective of two modern, multi-story buildings with a warm, orange-brown brick facade. The buildings are flanked by a clear blue sky with a few wispy clouds. The perspective creates a strong sense of height and architectural scale.

Equity Market Outlook

Q3 2025

BlackRock

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Global Head of
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We enter the second half of 2025 with expectations for continued volatility but a longer-run outlook for strength in equities.”

What a difference a few months can make.

Returns for the S&P 500 Index of U.S. stocks came in at 10.5% for the second quarter, an outcome few might have expected after a swift 15% decline that started with major U.S. tariff announcements on April 2. Those losses were virtually erased just a month later, and by quarter-end, the index had rallied 28% from the April low and entered positive territory for the year, up 6%.

World markets felt the tariff reverberations to varying degrees, yet international stocks broadly led the U.S. in the first half, particularly when taking into account the U.S. dollar decline of 11% year-to-date. Europe stood out (up 24% in USD terms through June), as did emerging markets (16%).

All is not said and done as tariff negotiations — and equity volatility — continue. But markets have likely anticipated, realized and digested the greatest pains on this front, as the outer bounds of the negotiation have been set. Other U.S. policy priorities, such as corporate tax reform and deregulation in industries such as tech and financials, could be positive catalysts for U.S. stocks should the Trump administration and investors focus their attention here.

U.S. policy changes have raised important questions about how companies and consumers may adapt to a shifting landscape. Our systematic analysis indicates that the economy has shown resilience, even amid ongoing adjustments.

Rather than reacting to each data point in isolation, investors appear to be increasingly focused on the broader trajectory of macroeconomic and policy developments. Our gauge of investor risk tolerance revealed a rebound beginning in May, eventually returning to levels seen in February. This resurgence in sentiment may reflect growing confidence in the evolving policy environment — potentially laying the groundwork for continued investor enthusiasm.

Europe's market has seen some bifurcation in performance. Continued strength will depend on more sectors and stocks being rewarded on their underlying fundamentals and on structural reform and associated spending materializing across the region.

On balance, we enter the second half of 2025 with expectations for continued volatility but a longer-run outlook for strength in equities. Crosscurrents from geopolitical tensions and incoming economic data are likely to keep equities on edge. And with new U.S. policy and global change afoot, the macro picture is muddier than in recent years. This suggests to us that broad market exposures may be a less predictable driver of returns, making skill in generating unique alpha insights a more important source of portfolio return potential.

In our **Q3 Equity Market Outlook**, senior members of our active equity teams offer their views on key themes they see shaping equity markets.

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Real-time insights for fast-moving markets



Jeff Shen
Co-CIO and Co-Head
of Systematic Equities



Philip Hodges
Co-Lead, Systematic
Equities Macro group

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The ability to swiftly identify changes in the economic regime is critical for staying ahead in today's market — but remains challenging.”

Recent shifts in U.S. policy have sparked questions around how companies and consumers will adapt. While the economy has remained largely resilient, investors are parsing each new data release for greater clarity on the cumulative effects of several complex forces at play.

The ability to swiftly identify changes in the economic regime is critical for staying ahead in today's market — but remains inherently challenging. Traditional indicators like gross domestic product (GDP) growth, employment and inflation often lag the real economy and are subject to frequent revisions. As a result, we believe investors need more timely, granular insights to stay ahead of the curve.

New insight from real-time data

Combining two complementary approaches can help bridge the gap: high-frequency macroeconomic nowcasts and market-based regime indicators. Together, these tools allow for near-real time tracking of the economic cycle.

Our GDP nowcast incorporates high-frequency measures of consumer activity, labor trends, sentiment and survey data to estimate current economic growth ahead of official quarterly releases. To complement this macro impulse, we develop regime indicators using market data.

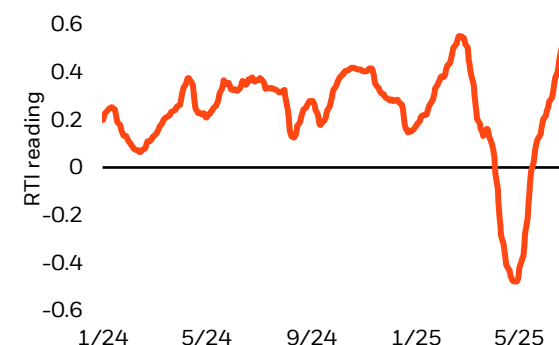
One key measure is investor risk tolerance, which provides insight into how participants are positioning their portfolios — often reflecting their outlook for the economy and markets. Increased exposure to risk assets typically signals confidence

and expectations of expansion, while a more defensive stance can indicate an anticipated slowdown.

Following tariff announcements in early April, investor positioning turned sharply more cautious amid growing concerns about trade policy and its potential economic impact. Sentiment began to stabilize in May, and risk tolerance has since rebounded, approaching the highs last seen in February, as shown below. This round trip in positioning underscores a market narrative that remains broadly constructive, even in the face of persistent uncertainty. Real-time shifts in sentiment like this offer critical signals for adapting portfolio exposures proactively.

Round trip in investor risk tolerance

Risk tolerance indicator, 2024-2025



Source: BlackRock, as of June 30, 2025. For illustrative purposes only and subject to change. Risk tolerance indicator (RTI) is a measure of investor sentiment, with a value of 1 suggesting the highest investor risk appetite and -1 suggesting the highest risk aversion.

Real-time insights for fast-moving markets

From data to alpha with factor rotation

Real-time regime insights are instrumental in informing factor allocation, allowing active investors to rotate exposures among equity style factors — such as quality, momentum, value, growth, size and low volatility — based on macroeconomic regime, sentiment and fundamental signals. While these factors are well-established drivers of long-term equity returns, their relative performance tends to vary across different stages of the cycle. For example, quality companies often outperform during periods of moderating growth as investors seek resilient earnings and strong balance sheets. Momentum, in contrast, typically leads in expansions as rising price trends and positive sentiment prevail.

Beyond macro alignment, we evaluate each factor's fundamentals and sentiment dynamics. For instance, strong earnings revisions or increasing flows into value stocks can support exposure even if traditional indicators suggest caution.

A data-driven pulse on today's cycle

Looking ahead, we continue to favor momentum, which has remained resilient even as uncertainty around the growth outlook has intensified. We've also maintained a constructive view on value, supported by attractive valuations and sentiment signals. Our favorable outlook for quality companies has further strengthened over recent months, reflecting a preference for businesses positioned to offer stability amid continued volatility and uncertainty.

As conditions continue to evolve, so do our views. We believe a data-driven, systematic framework for factor rotation enables more precise and adaptive portfolio management.

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Taking stock after a ‘tariffying’ quarter



Tony DeSpirito
Global CIO, BlackRock
Fundamental Equities

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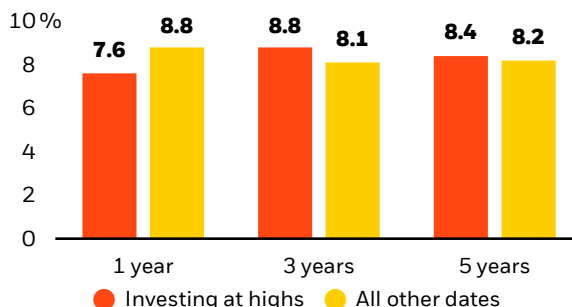
Many of the variables that have been moving markets are sentiment driven rather than an outgrowth of weakening company fundamentals.”

Major U.S. stock indexes, including the S&P 500 and tech-heavy NASDAQ, hit new all-time highs in the second quarter, defying expectations after early-April tariff announcements sent stocks into a deep dive. While policy uncertainties and geopolitical clouds still loom, we are prudently optimistic as the second half begins.

Many of the variables that have been moving markets are sentiment driven rather than an outgrowth of weakening company fundamentals. We acknowledge this can be a difficult landscape to navigate and address key questions on investors’ minds.

No ‘bad time’ to invest

Returns when investing at highs vs. other dates, 1957-2025



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Why buy as markets dance around new highs?

When markets are falling, investors fear “catching the falling knife” (i.e., being harmed by continued drawdown). When markets are up, they fear investing at the peak. Ultimately, there is no “right” time to enter the markets, and attempts at timing entries and exits are generally less fruitful than staying the course, particularly when fundamentals are solid as we believe they are today.

History shows buying at local highs does little to affect subsequent one-, three- and five-year outcomes, as shown in the chart. In fact, “new highs” are a regular feature of the market, with the S&P 500 Index making an average of 18 new highs per year since its inception in 1957.¹

Is more volatility ahead?

We expect continued bouts of volatility in the second half amid uncertainty around U.S. policy, Federal Reserve (Fed) rate decisions and geopolitical tensions. That said, volatility can open attractive buying opportunities in fundamentally sound stocks. Although some companies have pulled earnings guidance amid the ongoing macro uncertainty, management commentary so far is indicating limited tariff-related impact and consensus U.S. earnings expectations for Q2 and all of 2025 are 5% and 9%, respectively, according to data from FactSet.

¹ Source: BlackRock Fundamental Equities with data from Bloomberg from March 1957 to December 2024. This analysis defines “new high” as days when the index closed at a new high trading level.

Taking stock after a ‘tariffying’ quarter

Our analysis finds that volatility in stock prices historically has been more dramatic than volatility in company profits. This tendency for stock prices to react to macro fears with more jitters than company profits speaks to the importance of thoughtful stock selection and building resilience into equity portfolios as a stabilizing force in volatile times. This is especially true when that volatility comes as markets are at all-time highs.

How can I add resilience to my portfolio?

We focus on three key variables to up portfolio resilience: Quality, valuation and diversification.

■ Quality

A history of earnings stability is a hallmark of a quality company, in our view, and a prudent investment approach amid mixed macro signals. Quality companies generally have strong free cash flow, solid balance sheets and the brand strength and pricing power to maintain their market share relative to competitors in the case of an economic slowdown.

A record of dividend payments is another marker of quality. History shows dividends are less volatile than both stock prices and corporate earnings, as company managements are loath to cut a dividend and risk alarming markets. This imposes a fiscal discipline that historically has allowed dividend-paying stocks, and particularly dividend-growth stocks, to fare better in a downturn.

■ Valuation

In equity investing, price is what you pay and value is what you get. We find many fundamentally strong large-cap stocks priced at a discount to their earnings potential today, as the market has bypassed them to reward a handful of AI-leveraged super-earners.

Yet don't disregard the mega-caps strictly on price. Not all growth companies carry equal risk. Most members of the “Magnificent 7,” for example, have demonstrated quality characteristics (e.g., high profitability and free cash flow)

that may earn them their higher price tag. Essentially, they may be good value for their price. This distinguishes them from more speculative high-growth companies that tend to expose investors to the risks of substantial drawdowns.

■ Diversification

The benefits of diversification can be more pronounced amid dramatic market reversals. Sectors and factors that were most battered in the April market swoon led the way on the rebound. Portfolios with a balance of traditionally defensive sectors such as healthcare and growth-oriented areas such as technology could be better positioned to weather sentiment-induced ups and downs than those with more similar risk exposures.

A strong innovation impulse in both of these sectors should accrue to long-term growth prospects, while both also offer elements of stability. Parts of today's tech sector, such as software, could be considered the new “staples” — essential to everyday life in the 21st century. We find that portions of healthcare outside of pharma, such as healthcare services and medical devices, exhibit key quality characteristics. They're stable earners with good growth prospects and attractive valuations.

Volatility: Inevitable, uncomfortable, totally normal

Stock markets can be moved — sometimes significantly — by macro fears and investor reaction to them. Yet company fundamentals and earnings prowess are less erratic and historically have been shown to be the real drivers of long-run investment outcomes.

Volatility, and the new highs that often come with it, need not derail long-term investing aims. A focus on resilience can not only fortify portfolios but provide investors with the wherewithal to weather bumpy markets. The bottom line: Stay invested but do so in a prudent way.

Sally Du, portfolio manager and data lead within BlackRock Fundamental Equities, contributed to this report.

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Equity insights as consumers ‘tighten their belts’



Jeff Shen
Co-CIO and Co-Head
of Systematic Equities



Linus Franngard
Head of Product
Research and
Innovation, BlackRock
Systematic

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Thematic models surface a broad range of stock-level insights, often capturing second-order effects beyond the most obvious exposures.”

As markets have remained intently focused on U.S. policy changes and their potential economic implications, one theme that has gained traction is the shift toward more cost-conscious consumption — what we call “tightening the belt.” With the potential for higher tariffs to contribute to price increases, consumers are becoming more discerning in their spending, placing greater emphasis on value and affordability.

The impact on consumer-facing companies is likely to be uneven. Outcomes will depend on how well each firm is positioned in terms of its value proposition and its ability to absorb or avoid higher input costs. Companies offering essential goods, efficient supply chains or strong brand loyalty may prove more resilient. In contrast, those with greater sensitivity to tariffs or weakening demand could face mounting pressure on margins and earnings growth.

This example illustrates how themes can shape return dynamics, often cutting across conventional groupings such as sectors and regions. As a result, they can serve as a differentiated and often uncorrelated source of return relative to other equity strategies. In this case, shifts in policy and consumer behavior are driving stock-level dispersion, creating opportunities for active investors to identify relative leaders.

Using AI to identify leaders

Themes like “tightening the belt” often begin to take shape well before they are widely recognized

by the broader market. We saw this with the “work from home” trend in 2020, GLP-1 diabetes and weight-loss drugs in 2023, and tariff sensitivity at the start of 2025. Each of these surfaced in the data ahead of broader recognition and adoption, highlighting the importance of real-time data in identifying themes early.

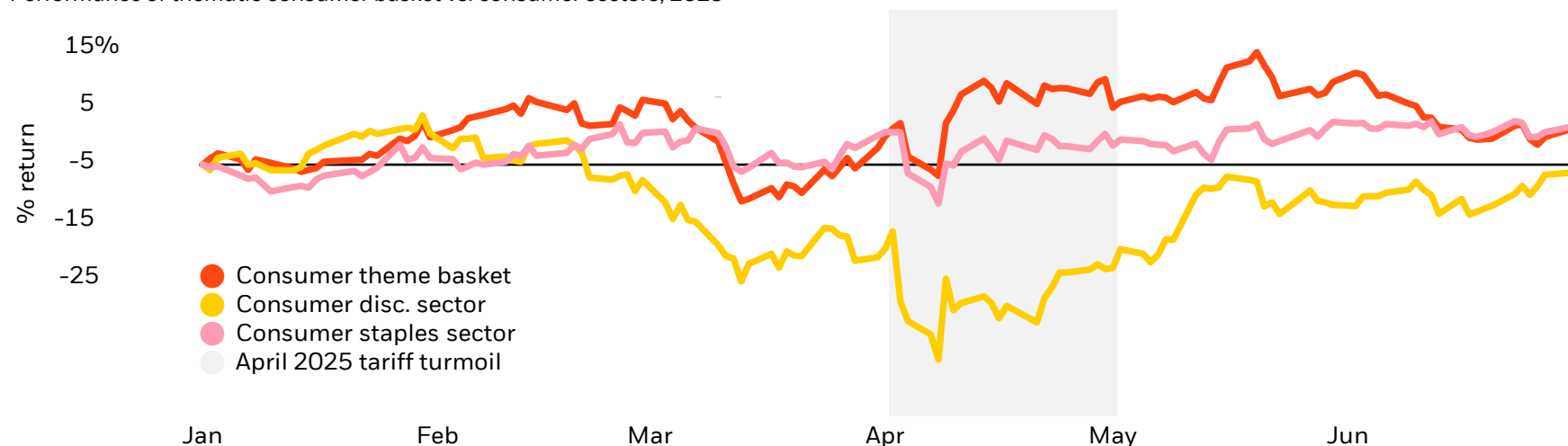
As narratives build, early signals can be detected across news coverage, broker research, earnings calls and a range of other data sources. Pairing these data-driven insights with advanced tools like large language models (LLMs) allows us to map themes to stocks through detailed analysis of company business models. While it may seem intuitive to favor consumer staples in a more cost-conscious environment, our LLM analysis uncovered select opportunities within discretionary names as well.

One example is a discount retailer identified as positively exposed to the theme through LLM-based analysis. The model surfaced commentary from an earnings call highlighting the company’s limited exposure to tariffs, with most sourcing occurring domestically or through vendors that absorb higher import costs. Management also emphasized the retailer’s ability to acquire excess inventory at low cost from overstocked or financially pressured sellers. In addition, the company’s value proposition of offering high-quality goods at discounted prices may be a tailwind as higher-income consumers increasingly prioritize value in their spending.

Equity insights as consumers ‘tighten their belts’

A sharper lens on consumer exposures

Performance of thematic consumer basket vs. consumer sectors, 2025



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Thematic models surface a broad range of stock-level insights, often capturing second-order effects beyond the most obvious exposures. As shown in the chart above, our consumer theme basket — spanning both discretionary and staples stocks — outperformed individual sectors following early April tariff announcements, as uncertainty around economic growth surged. While market focus has continued to evolve in recent months, we see the “tightening the belt” theme as highly relevant going forward, with the potential for greater return dispersion as consumers continue to adjust to ongoing policy shifts.

Dynamic markets require dynamic investing

Changing consumer patterns offer one timely example, but an active thematic approach requires more than identifying a single trend. It involves navigating and rotating across a broad range of evolving market themes. When integrated alongside other active equity strategies, thematic insights can offer a distinct and complementary source of return.

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Sleeping giants: Opportunities in Europe's quality companies



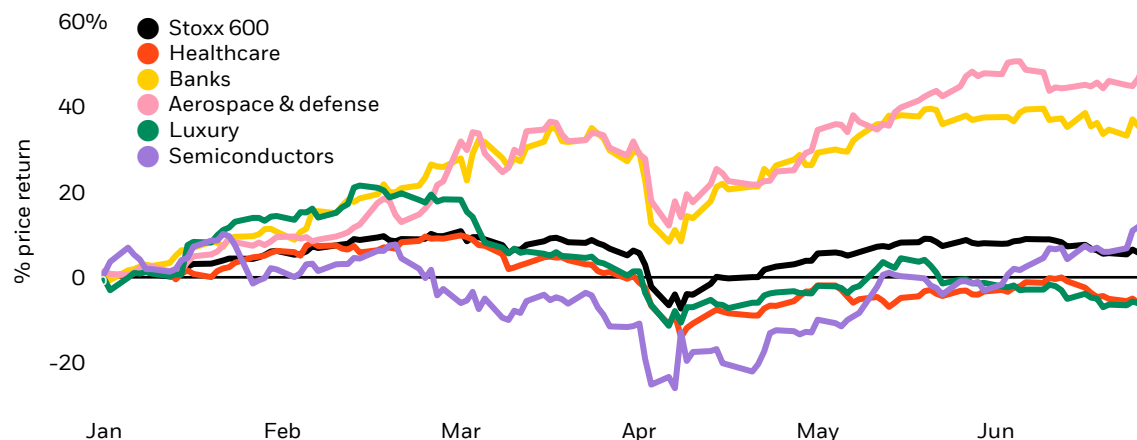
Helen Jewell
EMEA CIO, BlackRock
Fundamental Equities

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We believe quality is key to Europe's performance in the second half and beyond. And we see opportunities to find quality companies across sectors.”

Europe's leaders and laggards year-to-date

Performance of STOXX 600 and select sectors, 2025



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European stocks have been on a roll in 2025. Local currency investors have seen markets steadily rise, while U.S.-dollar-based investors have seen them soar. What happens next?

To answer this question, it's important to look at which parts of the market have led the way so far this year. The answer, as the chart above shows, is banks and aerospace & defense (A&D) — two domestic-facing industries. We believe both can continue to deliver.

Banking on banks

European banks have maintained high levels of profitability even as the European Central Bank (ECB) has cut interest rates, which many feared would damage banks' net interest income. Yet we have believed the banks can be profitable if rates settle at around 2%. This is where rates are now, and the ECB in June suggested it would hold steady. Banks with the ability to return high levels of capital to shareholders via dividends and buybacks are particularly attractive.

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Sleeping giants: Opportunities in Europe's quality companies

Durability in defense

We think the “D” of A&D can keep going, even after recent strong performance. European commitment to spend more on defense — and spend that money locally where possible — should be a powerful source of earnings support. So we still see opportunities in European defense companies. Yet the “A” is just as interesting. There is a shortage of new planes in the aftermath of COVID shutdowns — possibly 2,000 fewer planes have been produced than needed¹ — while passenger volume has exceeded pre-COVID levels.² If a business in the A&D supply chain is the sole supplier of a particular product and has good relations with the large airplane makers, then it's likely to have very strong pricing power, in our view.

A quality comeback?

The luxury, healthcare and semiconductor sectors contain some of Europe's highest quality companies — they are highly profitable, well run and have a global customer base. Luxury and healthcare have lagged, and Europe's performance in the second half of the year may well depend on whether they can catch up. Semi companies were trailing and have now started to bounce back, showing how quickly these quality areas can recover after a period of underperformance as fundamental strength shines through.

We believe some of the luxury stocks are well placed to deliver market-beating earnings growth. We currently prefer some of the high-end brands

that have persistent pricing power. Ferrari, for example, said it would increase prices by 10% on some models to offset the impact of tariffs.³ On the other hand, there are some brands that say they front-loaded price rises during COVID and may struggle to raise again soon.

On healthcare, we are cautious overall. Tariffs could be a potential drag on earnings, and U.S. government policy remains uncertain. Yet the sector is ripe for stock picking. Pharmaceutical companies make up a large part of the benchmark, so it's important to understand which companies face patent cliffs and when. The sector is also underpinned by both demographics — aging populations — and innovation, from new drugs to medical robots.

We remain positive on the semiconductor industry, even as it has faced a range of issues, from geopolitical tensions to company-specific problems. The large tech companies in the U.S. have confirmed their commitment to vast AI capital expenditures, which is a boost for some of Europe's semiconductor companies. Likewise, increased capex among the chip makers underpins the producers of the machines needed to make them. We also like some of the companies that provide software for the semiconductor industry.

We believe quality is key to Europe's performance in the second half and beyond. And we see opportunities for active managers to find quality companies across sectors — whether that's in the domestic areas that have led the market so far this year, or in the more global companies that may soon arise from a brief slumber.

¹ McKinsey, May 2025. ² IATA, January 2025. ³ <https://www.ft.com/content/edffe2a4-0628-4654-a82d-f1709fc9c376>.

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