



U.S. Wealth Market Outlook

Q3 2020

BlackRock[®]

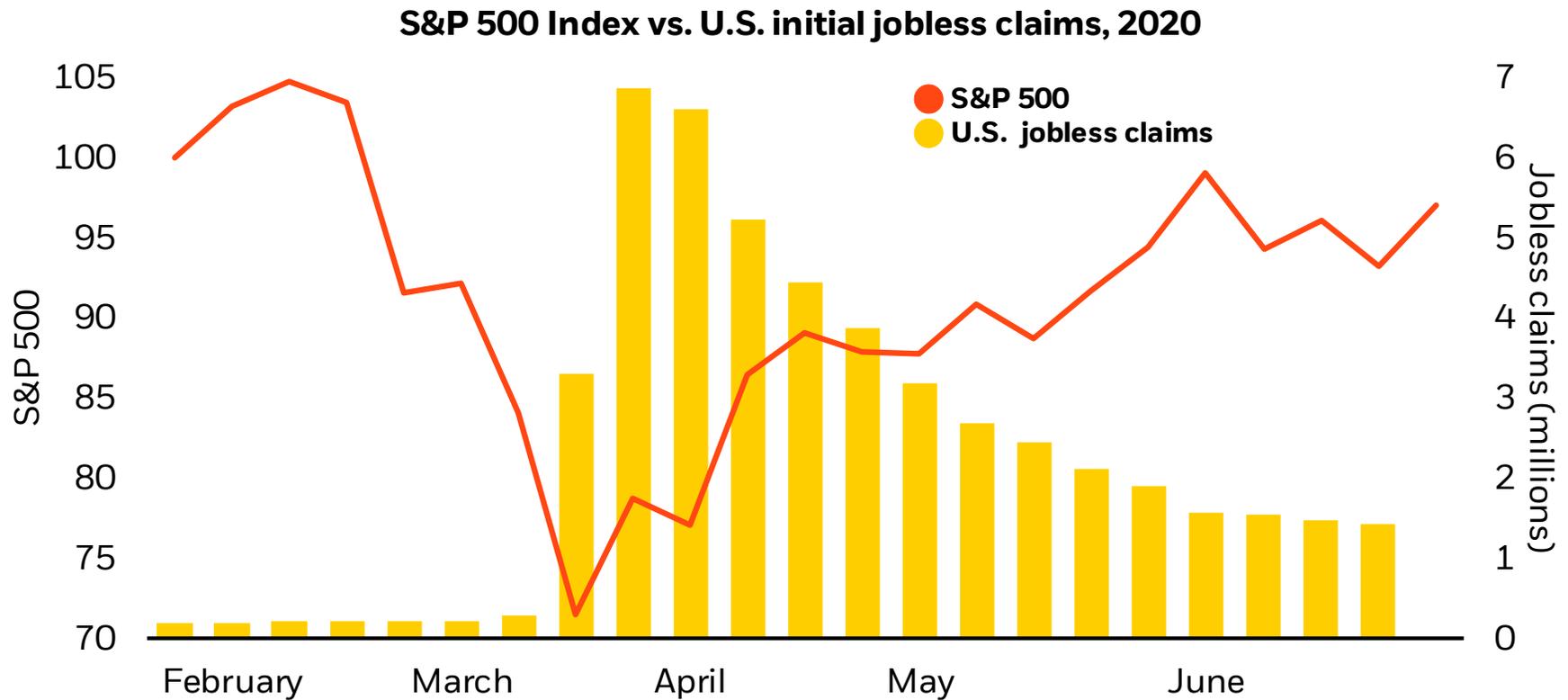
The bottom line

We see the coronavirus shock as akin to a large-scale natural disaster that severely disrupts activity in the near term, but eventually results in an economic recovery.

Economies are slowly restarting, but at different paces. The longer it takes for activity to restart, the more cracks might appear in the financial system.

As things stand ...

The last few months have shown that the economy and markets are not necessarily the same thing.



Source: BlackRock Investment Institute, with data from Refinitiv Datastream, July 2020. Notes: The yellow bars show initial claims for U.S. unemployment insurance. The S&P 500 is indexed to 100 at Jan. 31. Past performance is no guarantee of future results. Indexes are unmanaged and are not subject to fees. It is not possible to invest directly in an index.

U.S. Wealth Market Outlook

Our views for Q3 2020

What we're closely watching:

1

Public health

2

**U.S.-China
tensions**

3

The election

4

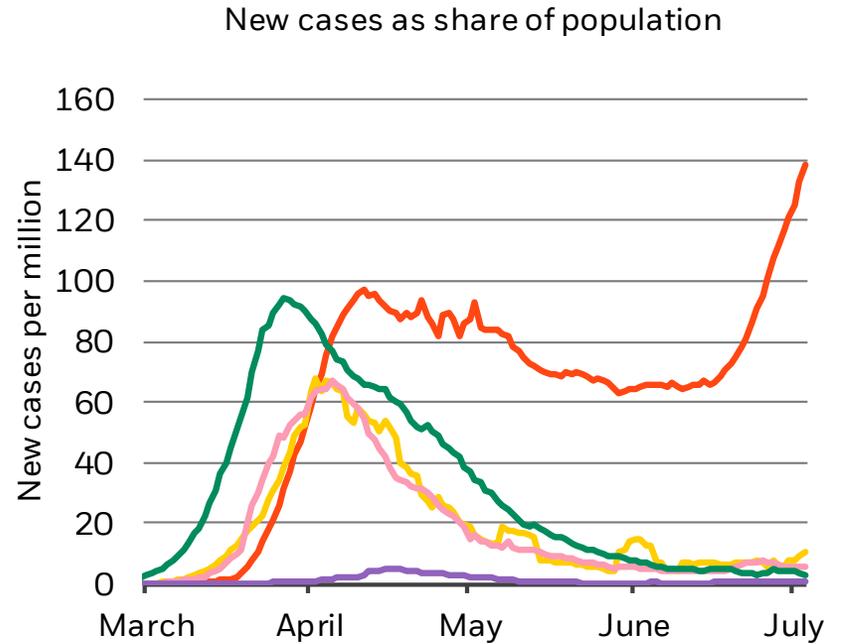
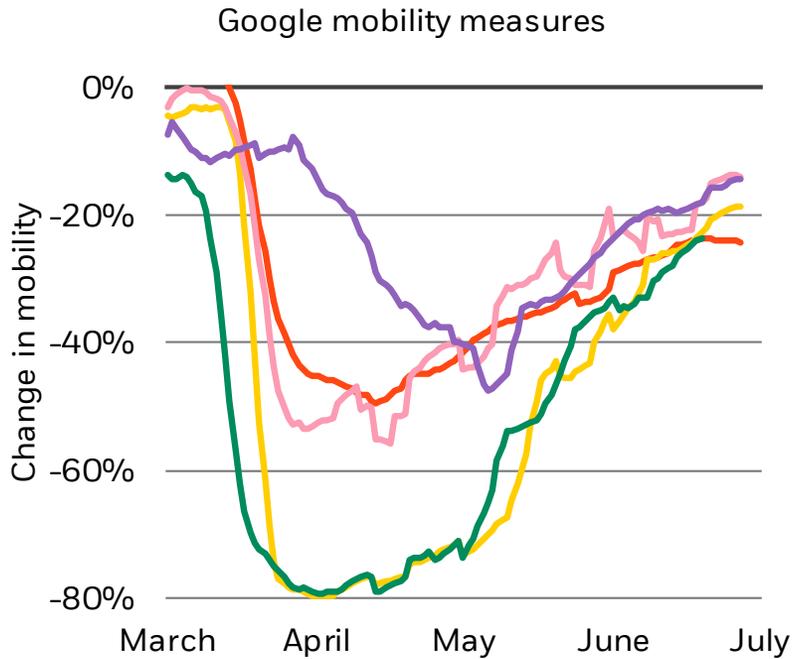
Policy response

1

Public health

Measures of mobility are more closely tied to economic activity than the government rules.

Mobility metrics and trajectory of the virus spread, 2020



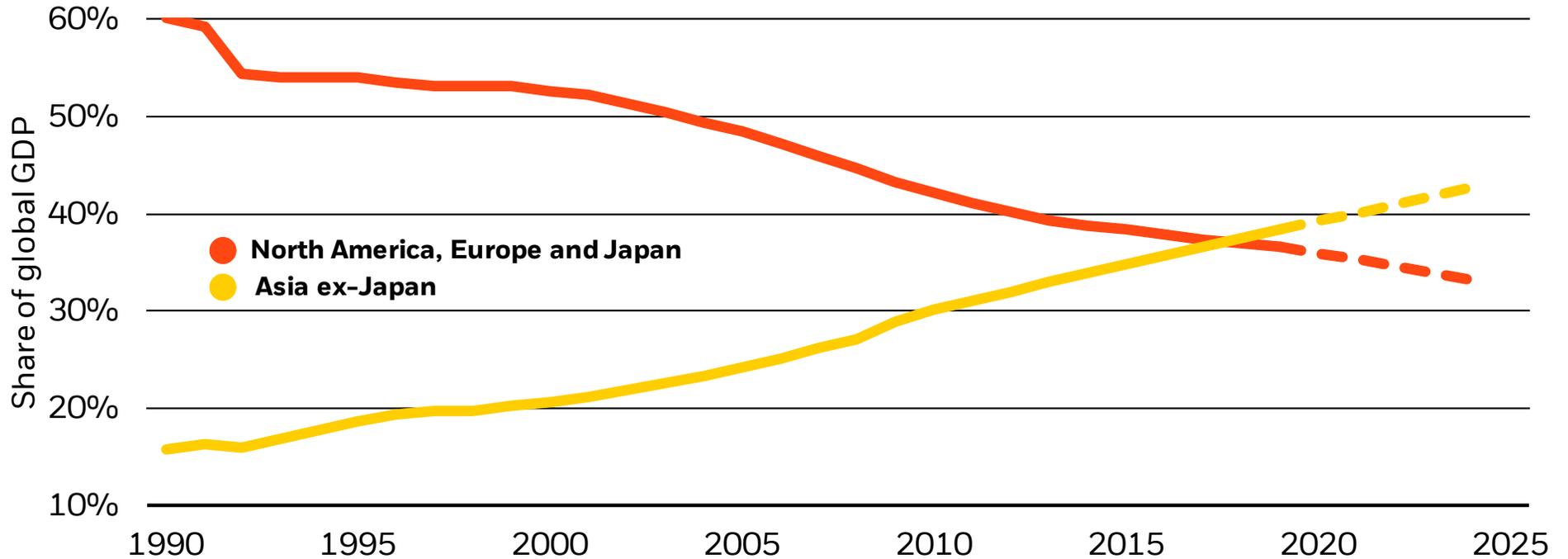
Sources: BlackRock Investment Institute, with data from the University of Oxford's Covid-19 government response tracker and Google. Data as of 3 July 2020. Notes: The chart on the left maps [Google mobility data](#) based on the average of the retail and recreation, workplace and transit categories. The chart on the right tracks the 7-day rolling average of new confirmed cases as a share of population.

2

U.S.-China tensions

The world looks increasingly fragmented, with the U.S. and China at opposite poles.

Regional share of global GDP, 1990-2024



Sources: BlackRock Investment Institute, with data from IMF, Refinitiv, July 2020. Notes: The lines show each region's combined share of global GDP on a purchasing power parity (PPP) basis. The dotted lines show the forecast period based on IMF projections to 2024.

3

The election

Historically divergent policy platforms are causing uncertainty as we approach November.

Scenario 2 may present the most risk of a policy stalemate

Scenario 1
A Democratic sweep

President: Dem.
Senate: Dem.
House: Dem.

Scenario 2
Biden elected, no change in Congress

President: Dem.
Senate: Rep.
House: Dem.

Scenario 3
Trump re-elected, no change in Congress

President: Rep.
Senate: Rep.
House: Dem.

*Scenarios are only three of several possible outcomes. There is no guarantee that any of these outcomes will come to pass.

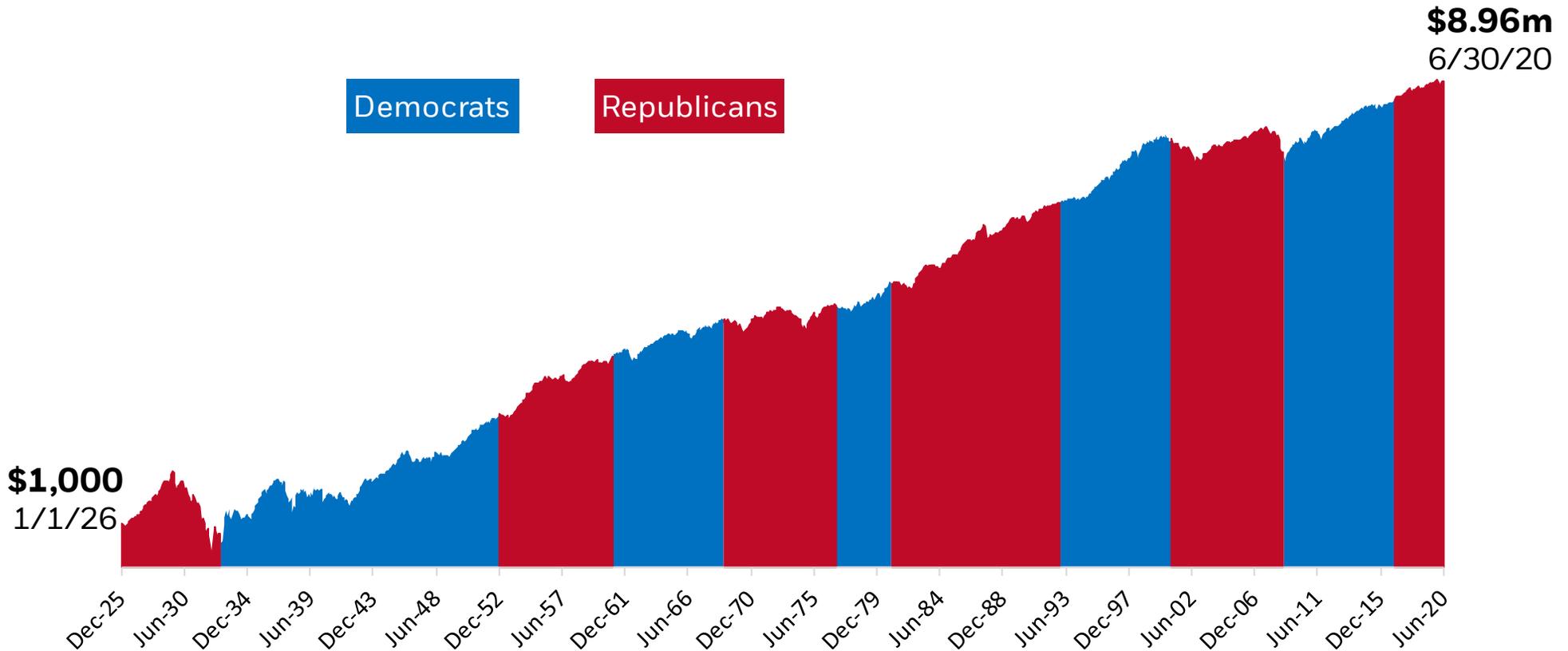
MARKET THEMES

3

The election

Stocks have continued higher regardless of presidential party

Excerpt from
Student of the Market:
Election Special



Morningstar as of 6/30/20. Stock market represented by the S&P 500 Index from 1/1/70 to 6/30/20 and IA SBBI U.S. large cap stocks index from 1/1/26 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

MARKET THEMES

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The election

Investors build up cash in election years (especially this year)

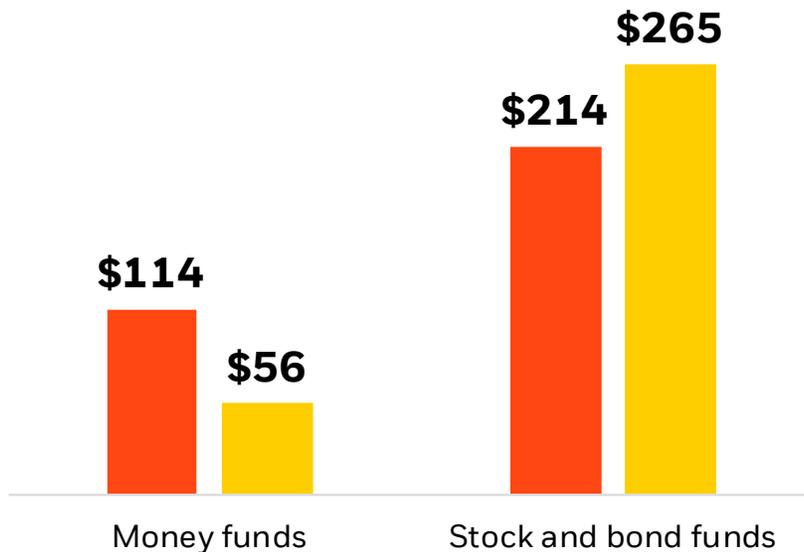
Excerpt from
Student of the Market:
Election Special



Fund flows and presidential election years

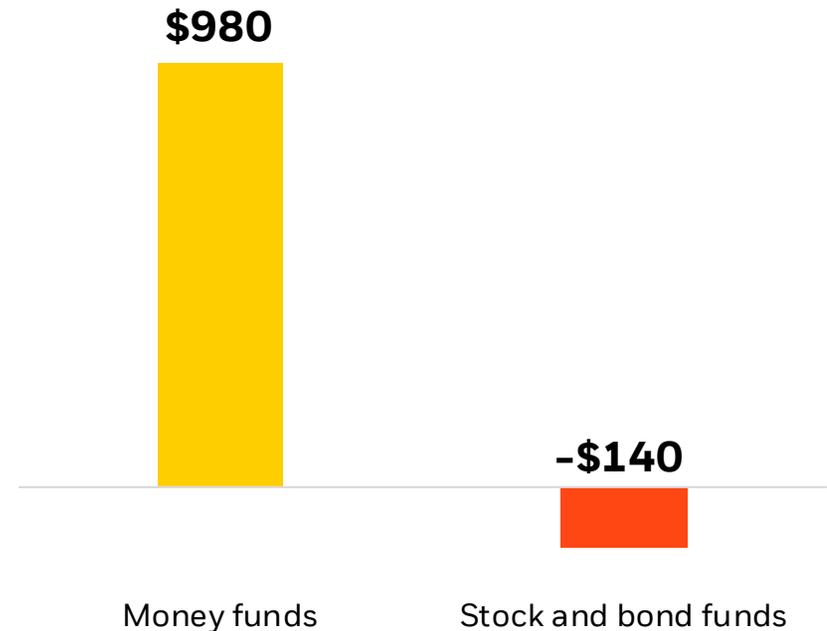
In billions USD, 2/1/93 – 6/30/20

- Presidential election years
- Non-Pres election years



2020 flows

In billions USD, 1/1/20-6/30/20



Morningstar as of 6/30/20. Money funds, stock funds, and bonds funds are represented by their respective U.S. fund categories as defined by Morningstar. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

MARKET THEMES

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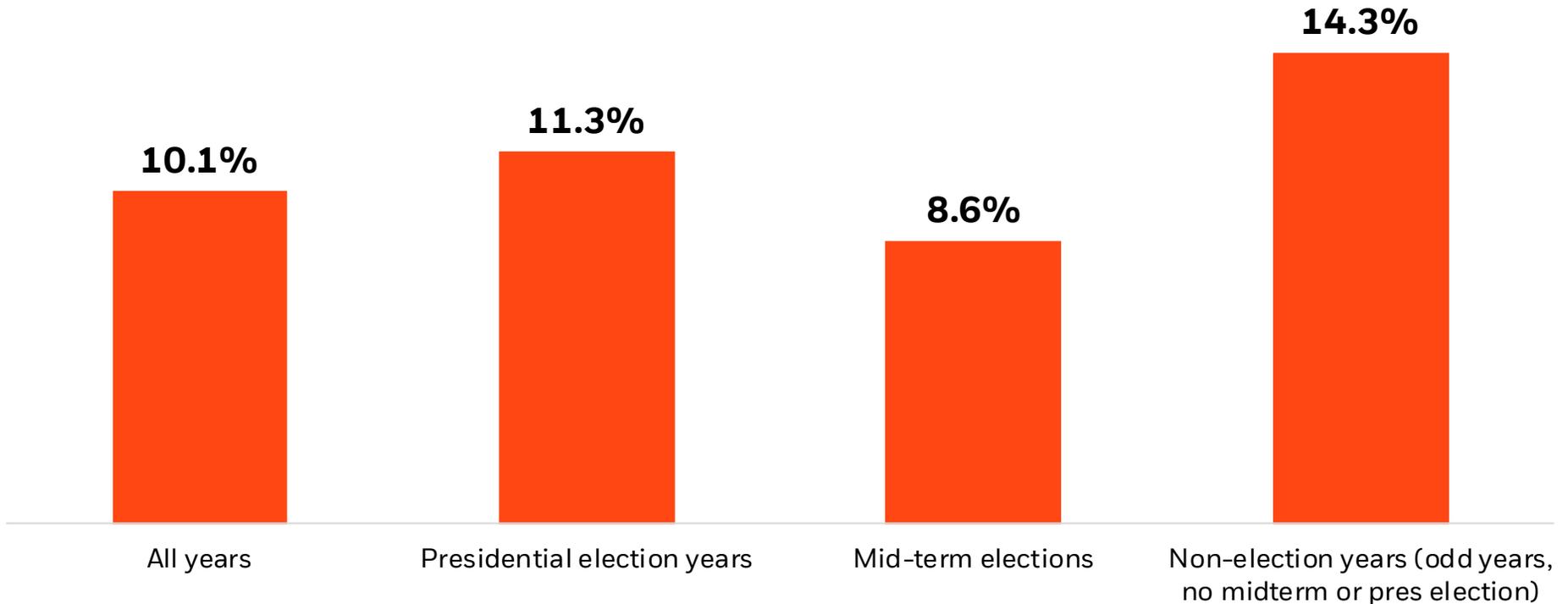
The election

Stocks have performed slightly better in election years

Excerpt from
Student of the Market:
Election Special



U.S. stock performance
Average annual return, 1/1/26–12/31/19



Morningstar as of 6/30/20. Stock market represented by the S&P 500 Index from 1/1/70 to 12/31/19 and IA SBBI U.S. large cap stocks index from 1/1/26 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

MARKET THEMES

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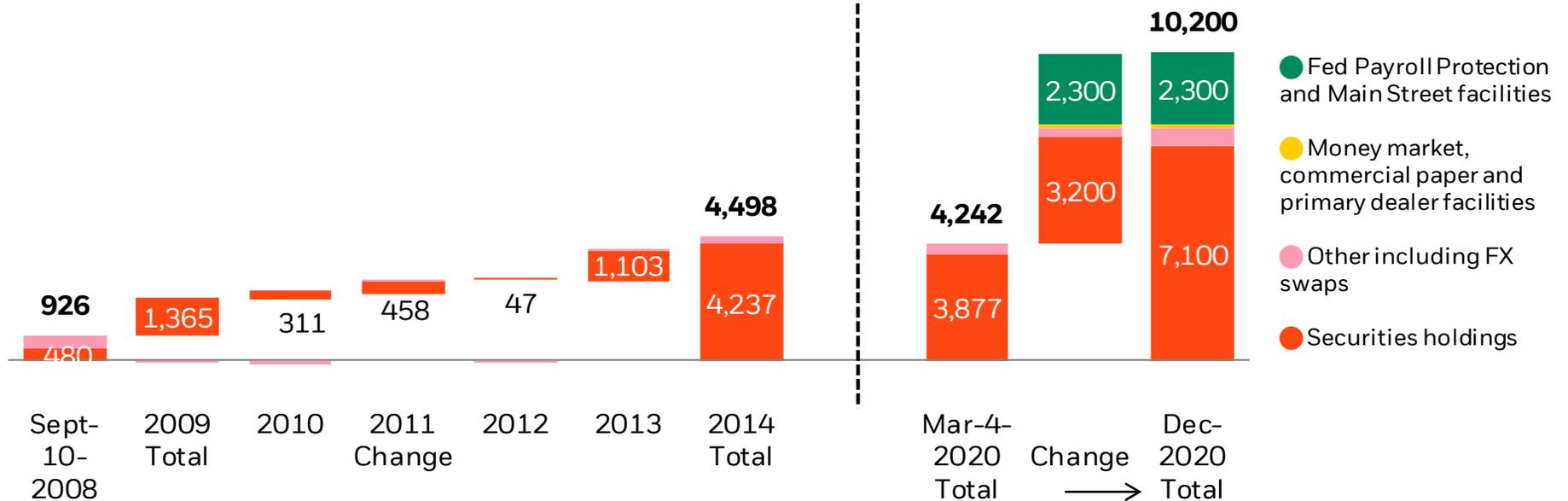
The policy response

Central banks – especially the Fed – have deployed their full range of tools. The actions will dwarf those taken during and after the GFC.

Contributors to Federal Reserve balance sheet changes in billions USD, 2008–2014 and 2020

Global financial crisis and aftermath

Coronavirus crisis



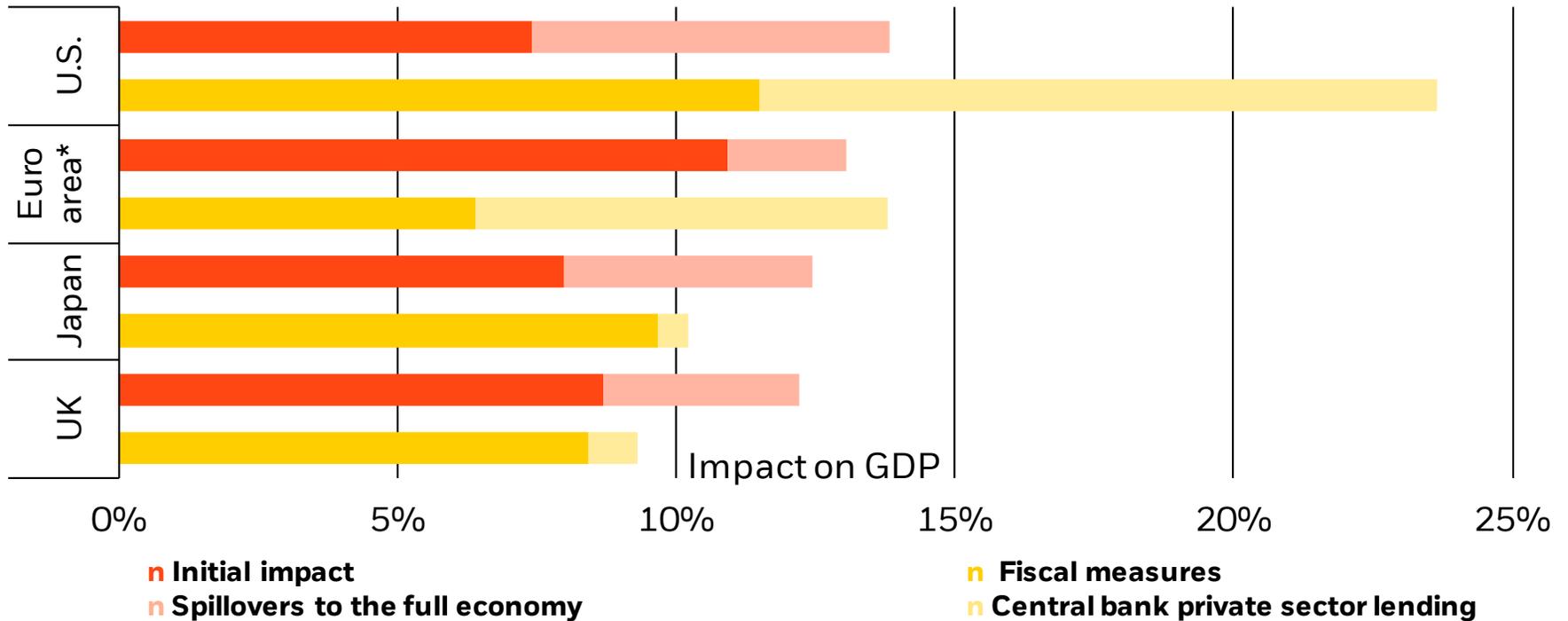
Source: BlackRock Investment Institute and Federal Reserve, with data from Haver Analytics, July 2020. Notes: The chart shows what the Fed's balance sheet could look like by the end of 2020 with the new facilities launched in the past two months compared with March 4 – just before it began its interventions. The balance sheet at the end of 2020 is based on estimates made by BlackRock's Global Fixed Income economics team. We assume that the Fed may have to increase its planned support for its Payroll Protection Program loan facility, and potentially expand its support for states and municipalities, together by several hundred billion dollars compared with the initial announcements. By comparison, the Federal Reserve pledged as much as \$2.3 trillion in loans to support the economy in its April 9 announcement. (See here: <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200409a.htm>). Estimates of the expected increase and December 2020 totals are rounded. The funding facilities in the green area are funded with credit loss protection provided by the U.S. Treasury and lending by the Federal Reserve. These programs also include the Term Asset-Backed Securities Loan Program and Municipal Liquidity Facility. Forward looking estimates may not come to pass.

4

The policy response

Large-scale fiscal stimulus is being rolled out

Estimated virus hit to GDP vs. offsetting policy measures, 2020



* The euro area is represented by averages of Germany, France, Italy and Spain. Sources: BlackRock Investment Institute, with data from the Federal Reserve, ECB, BOJ, BOE and Haver Analytics, July 2020. Notes: The chart shows the magnitude of the negative shock (red) and the associated positive policy response (yellow) as percentages of GDP. We use estimated 2020 targets for the U.S. and euro area central bank purchases and lending programs. The euro area includes the ECB's Targeted Longer-Term Refinancing Operations, and the UK includes central bank support for the Term Funding Scheme.



U.S. Wealth Market Outlook

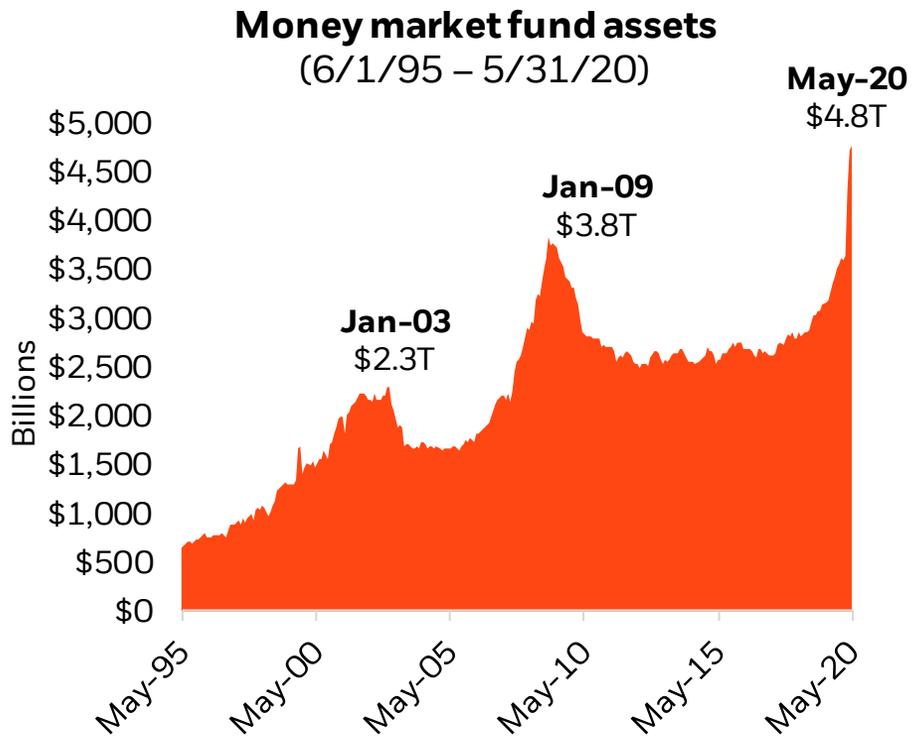
Our views for Q3 2020

The path forward: taking a long-term view

IMPLICATIONS

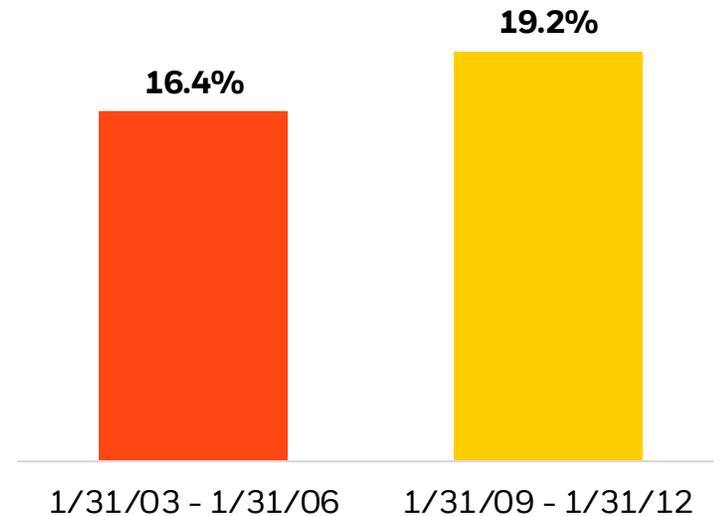
A flight to “safety” can cost you

Assets in money market funds reached an all-time high, at perhaps the wrong time.



3-year U.S. stock performance following a peak in money market fund assets

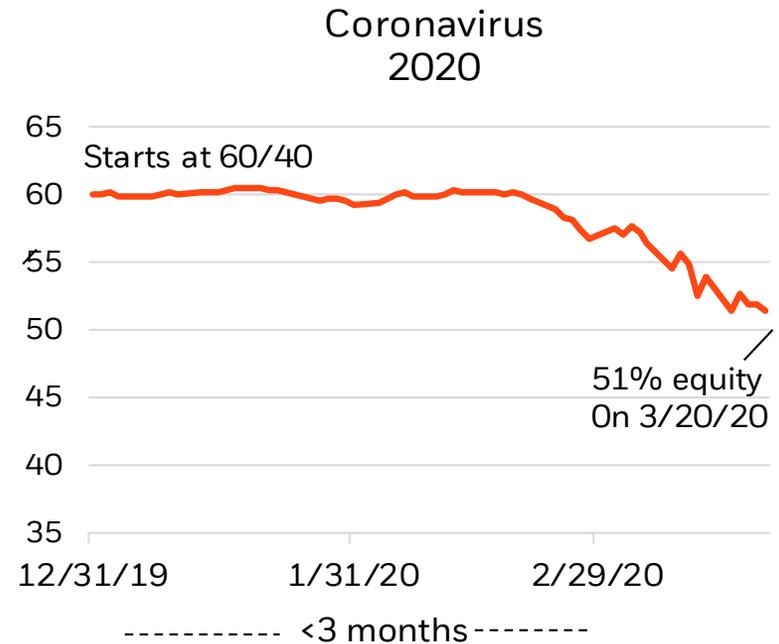
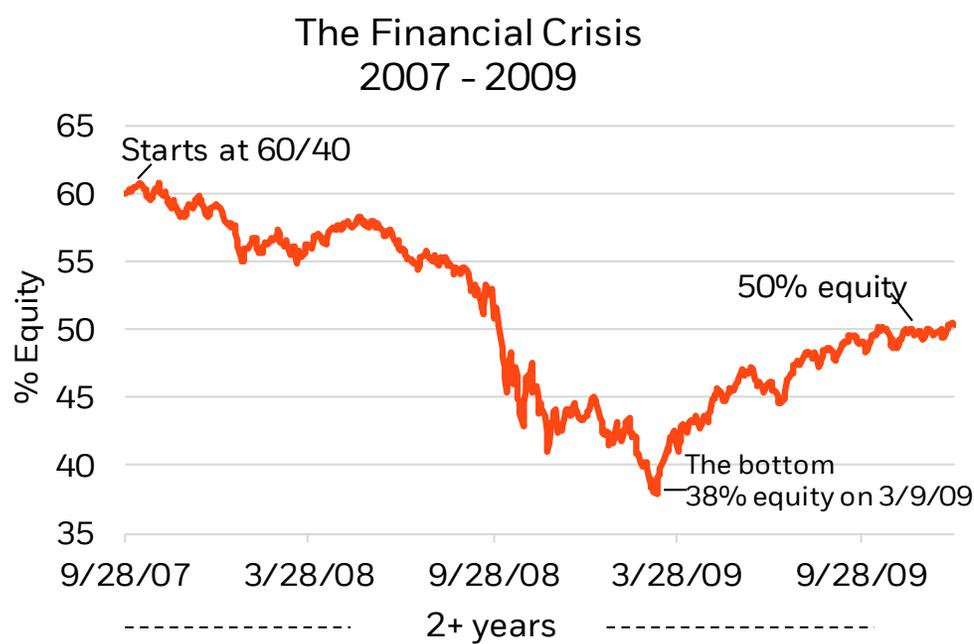
Average annual performance



Morningstar as of 5/31/20. U.S. stocks represented by the S&P 500 Index, an unmanaged index that is generally considered representative of the U.S. stock market. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

IMPLICATIONS

Rebalancing may help to keep your goals on track

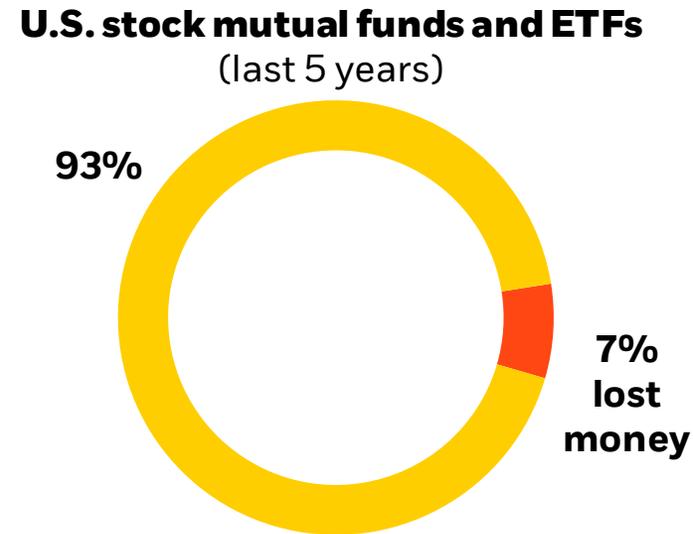
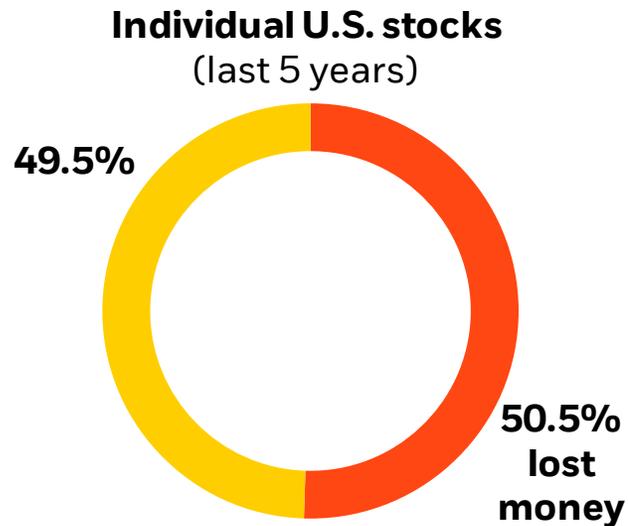


Source: MPI Stylus as of 3/20/20. The 60/40 portfolio modeled here is a blend of 60% MSCI ACWI, 40% BBG Barclays US Agg Bond from 10/1/2007-12/29/2009 for the Financial Crisis and from 12/31/2019-3/20/2020 for Coronavirus.

IMPLICATIONS

Chase individual stocks at your own risk

The U.S. stock index is up 10.7% over the last 5 years. Many individual stocks have fared worse.



	# positive	# negative	% lost money
U.S. stocks	1793	1828	50.5%
U.S. stock mutual funds	1638	134	7.6%
U.S. stock ETFs	236	10	4%

Source: Morningstar as of 6/30/20. Mutual Funds and ETFs are the Morningstar U.S. Equity Category, oldest share class only. US Individual Stocks are the Morningstar US Stock Universe, all securities on the NYSE and NASDAQ. Analysis does not include obsolete mutual funds, ETFs or stocks as defined by Morningstar. Performance is historical and does not guarantee or indicate future results.

IMPLICATIONS

Diversification can win even if doesn't feel good

Years	S&P 500	Diversified Portfolio*	
2000*-2002	(39.0%)	(17.7%)	  "I lost money"
2003-2007	82.9%	73.8%	  "I didn't make as much"
2008	(37.0%)	(24.0%)	  "I lost money"
2009-2019	351.0%	191.7%	  "I didn't make as much"
2020**	(19.6%)	(13.1%)	  "I lost money"
Total Return	154.8%	175.6%	  "Diversification wins even when it feels like its losing"
Gr \$100K	\$254,794	\$275,556	

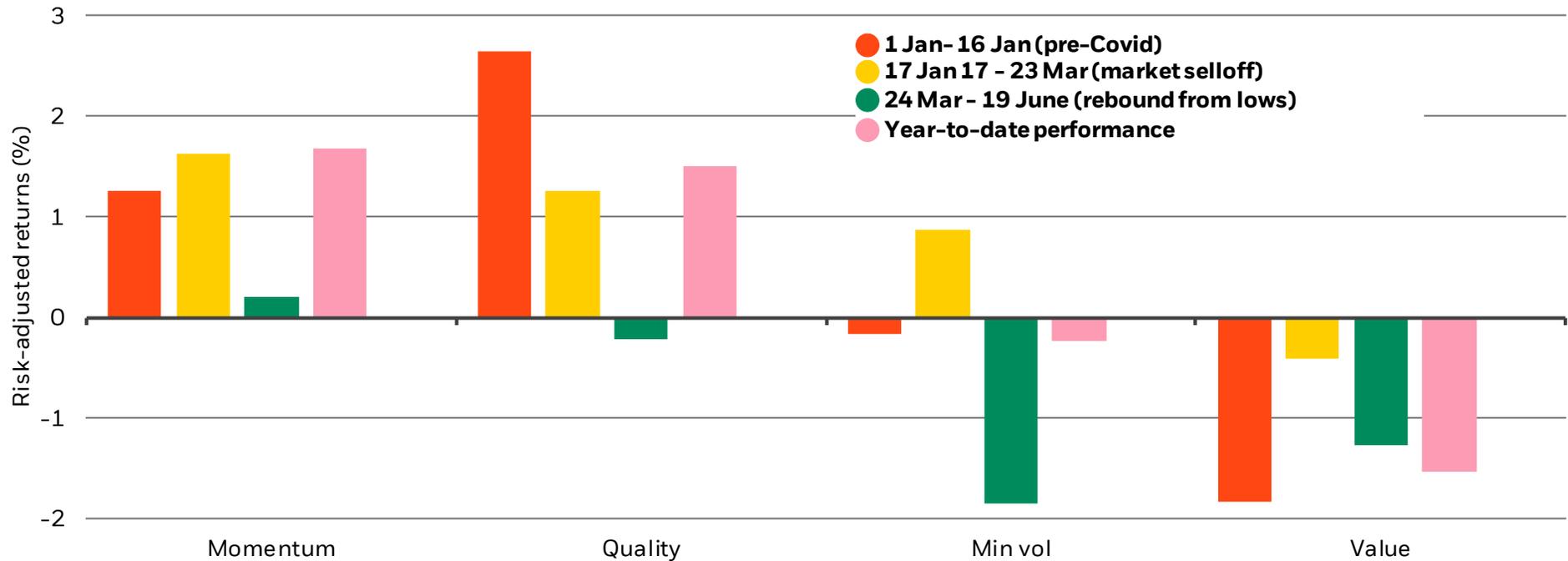
Source: Morningstar as of 3/31/20. *Performance is from 3/31/2000 to 12/31/2002. Past performance does not guarantee or indicate future results. **Performance is YTD as of 3/31/20. Diversified Portfolio is represented by 40% S&P 500 Index, 15% MSCI EAFE Index, 5% Russell 2000 Index, 30% Bloomberg Barclays US Aggregate Bond Index, and 10% Bloomberg Barclays US Corporate High Yield Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

IMPLICATIONS

Quality counts

Quality companies with healthy cash flow may be more likely to survive the downturn.

Risk-adjusted returns for style factors, 2019-2020



Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. You cannot invest directly in an index.

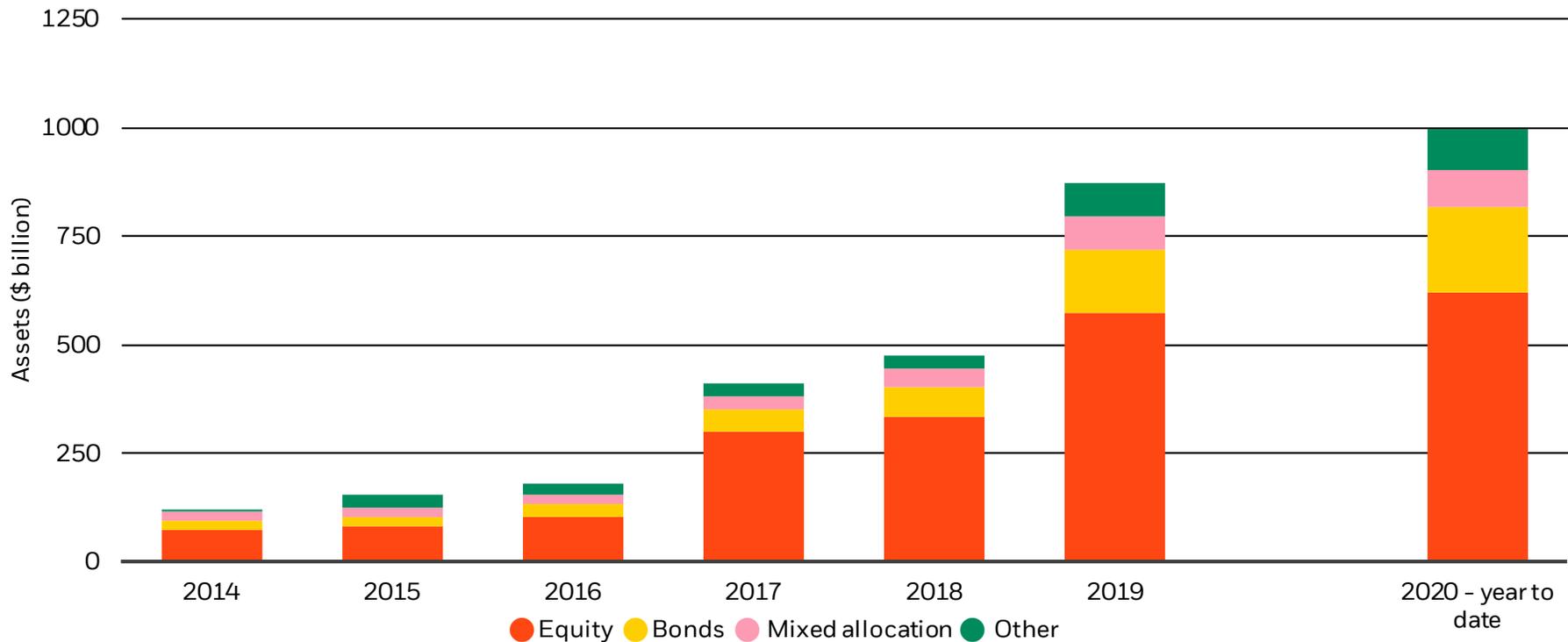
Sources: BlackRock Investment Institute, with data from Refinitiv Datastream, July 2020. Notes: The bars show risk-adjusted returns of MSCI World Momentum, Quality, Minimum volatility and Value indexes from 1 Jan 2020 to 19 June 2020. This is split as: 1 Jan to 16 January (Pre-Covid), 17 Jan to 23 March (Covid-19 Market selloff), 24 Mar to 19 June (rebound from the lows). We use the MSCI World Index as the benchmark in this analysis. The risk-adjusted returns are calculated by subtracting a factor index's return for a given period from the total return of the benchmark, then dividing that result by the tracking error, or the standard deviation of the difference between individual index and benchmark returns.

IMPLICATIONS

A turning point for sustainable

We see funds flowing into sustainable assets for decades, rewarding sustainable investing strategies. The Covid shock has supercharged the sustainability wave.

Assets under management at ESG-mandated funds, 2014-2020 YTD

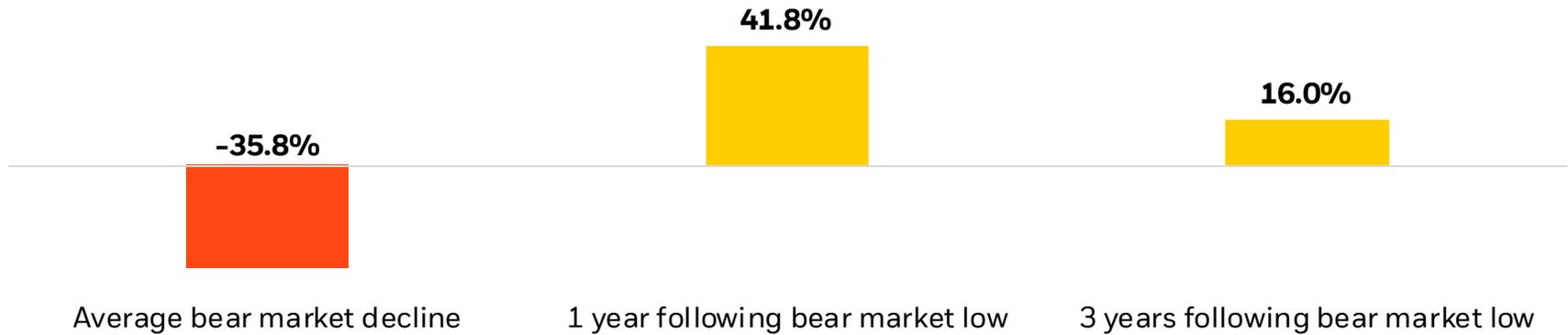


Sources: BlackRock Investment Institute with data from EPFR, July 2020. Notes: The chart shows the global total assets under management in ESG mandated funds. The "Other" category includes money-market and alternatives funds. Data for 2020 through May 31, 2020.

LEAN ON HISTORY

Anatomy of bear markets

Since 1950, markets have bounced back after bear market downturns.



Average bear market decline

1 year following bear market low

3 years following bear market low

A breakdown of bear markets since 1950

	8/2/56	12/11/61	2/9/66	11/27/68	1/11/73	11/28/80	8/25/87	3/23/00	10/9/07	2/19/20	Avg
Bull market peak	195.7%	85.0%	79.8%	48.1%	71%	125.6%	228%	582.1%	101.5%	400.5%	
Bear market low	-21.6%	-28.0%	-22.2%	-36.1%	-48.2%	-27.1%	-33.5%	-49.1%	-56.8%	(ongoing) -33.9%	-35.8%
# of trading days	306	135	167	369	436	430	71	637	355	23 (ongoing)	297
1 yr after	31.0%	32.7%	32.9%	43.7%	38.0%	58.3%	21.4%	29.5%	68.6%	?	41.8%
3 yr after	11.0%	16.7%	8.3%	15.9%	15.8%	22.4%	13.4%	14.4%	26.5%	?	16.0%

Morningstar as of 4/30/20 Stock market represented by S&P 500 stocks PR Index. Principal return only, dividends not included. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

Important notes

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