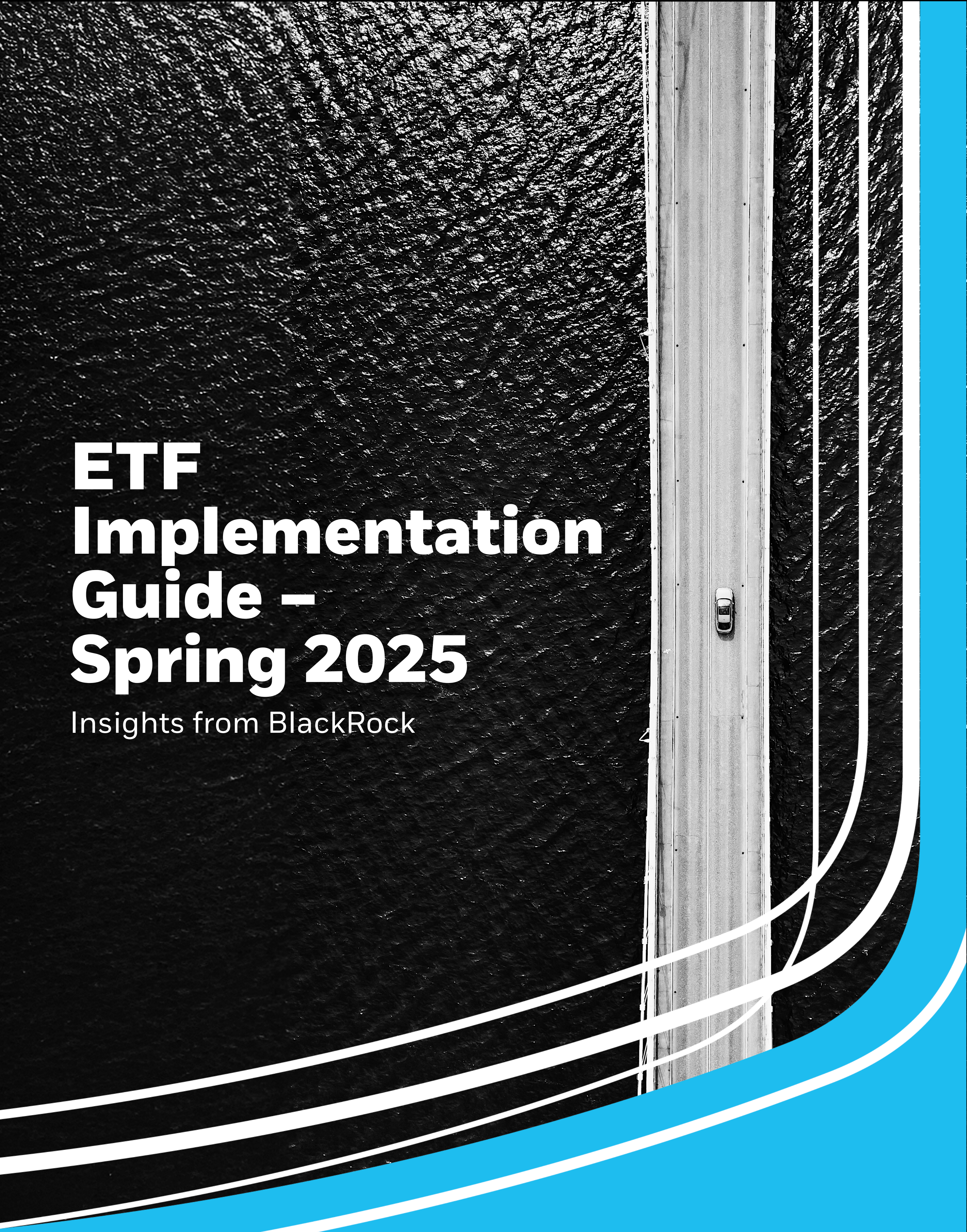


ETF Implementation Guide – Spring 2025

Insights from BlackRock

Investment Directions

Spring 2025

Key takeaways

- We expect volatility to remain elevated as slower growth and shifting trade policy generate complex macro signals. With the U.S. Federal Reserve (Fed) constrained by a tight labour market and the potential for tariff-induced inflation, rate cuts may be limited. We prefer low volatility strategies and defensive equities for the near term.
- Amid macro crosscurrents, there remain attractive opportunities with long-term potential. AI remains a durable theme supported by structural capex and falling compute costs, while Latin America may stand to benefit from shifting global supply chains.
- Diversification today requires looking beyond duration. Investors should consider layering in inflation-linked bonds, gold, infrastructure, and short dated bonds to seek to reduce correlation risk and enhance resiliency across asset classes.

Equity

For Canadian and U.S. allocation, we believe investors may be well served to modestly add to defensive exposures and look for attractive entry points to enduring themes. Abroad, international equities can offer the twin benefits of lower valuations and increased diversification.

Fixed income

In core fixed income, we favour exposure through the front-end and belly of the curve: maturities in the 3- to 7-year range. Higher inflation expectations support inflation protection, especially at the front end of the curve.

Diversification

The erosion of the negative equity-bond correlation reinforces the importance of alternative sources for portfolio diversification. Diversify a portfolio with gold, infrastructure, and cash alternatives.

Our top tickers:

XFLX	iShares Flexible Monthly Income ETF (CAD-Hedged)	XSH	iShares Core Canadian Short Term Corporate Bond Index ETF	XDIV	iShares Core MSCI Canadian Quality Dividend Index ETF
XMU	iShares MSCI Min Vol USA Index ETF	XSTH	iShares 0-5 Year TIPS Bond Index ETF (CAD-Hedged)	CGL.C	iShares Gold Bullion ETF

References to specific investments are for illustrative purposes only and are not intended and should not be interpreted as recommendations to purchase or sell such investments.

> **“Higher volatility alongside unreliable stock/bond correlation demands that investors think critically about diversification.”**
>
> **Gargi Pal Chaudhuri**
> Chief Investment and Portfolio Strategist, BlackRock

We expect slower growth and higher inflation for the remainder of 2025

Uncertainty in U.S. trade policy – even after the temporary reprieve from reciprocal tariffs granted to most countries – has increased the risk of a material slowdown in growth beyond the moderation we expected at the start of the year. Tariffs are likely to weigh on growth and boost near-term inflation, the extent of which will be determined by their size and stability. As BlackRock Investment Institute (BII) has laid out, while persistent uncertainty can cause economic damage, we are seeing hard economic rules binding U.S. trade policy changes. The U.S. administration's responsiveness to market moves and a recent de-escalation in rhetoric should bolster sentiment, but we believe a resolution will be needed to curb volatility. Looking further ahead in the U.S., proposed tax cut extensions and a deregulatory agenda could prove stimulative to growth but are likely to further increase the budget deficit.

Given current data, we see the Fed on hold at least through the June meeting and likely beyond. Policy cross currents complicate the outlook. While trade policy risks curbing growth, immigration policy has the potential to reduce labour supply. In our view, the resulting wage pressure from a tighter labour market, combined with price pressure from ongoing tariffs could combine to delay or deter the cuts to the policy rate that slower growth would otherwise imply.[5]The Fed may be able to reduce rates in the second half of the year - so long as longer-term inflation expectations remain contained. However, with possible tension between the two sides of their dual mandate, it may be that only a sharp slowdown would prompt the Fed to act.

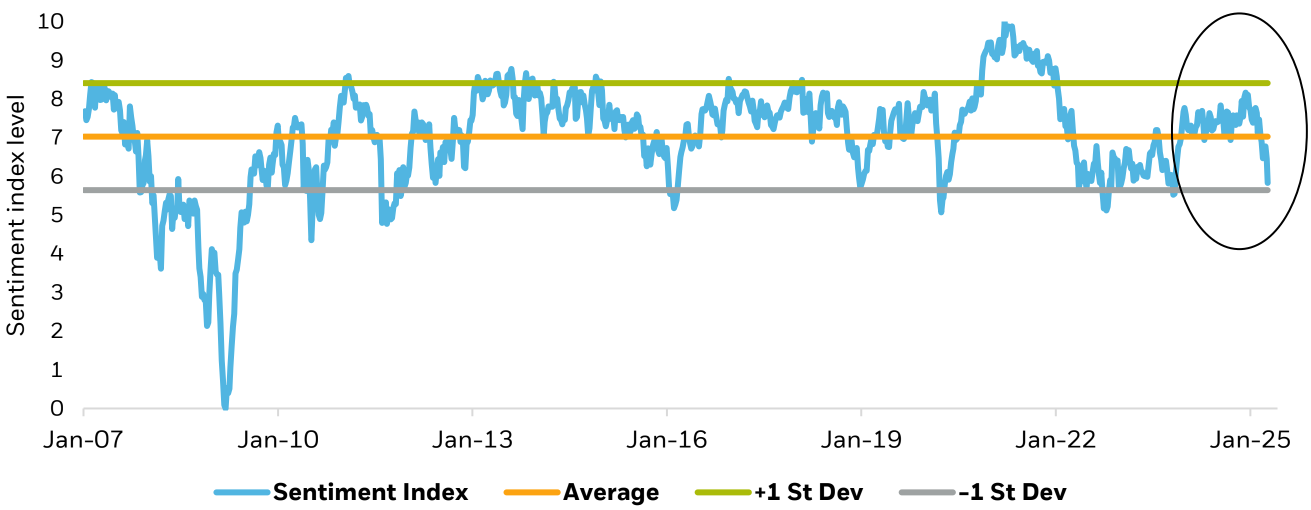
So far, economic data has proven resilient and broadly consistent with our year-ahead outlook. Durable goods, retail sales, factory orders, nonfarm payrolls all have continued to exhibit the same strong-but-gradually-moderating trend as they have over the past year.[1] Corporate earnings growth likewise entered Q2 from a position of strength. So far, the Q1 earnings season is on track to beat consensus earnings expectations, though forward earnings forecasts have consistently been revised lower since tariffs were announced.[2]

Still, a whiff of recession has crept into 'soft data'. Even before the global tariffs rollout, consumer sentiment readings from the University of Michigan survey and the Conference Board both showed consumer sentiment hitting multi-year lows.[3] The NFIB and AAII sentiment readings showed a similar decline in confidence for small business owners and investors, respectively.[3] Our own proprietary sentiment indicator - based on cash holdings, flows, leverage, credit spreads and breadth - was also steadily declining before diving in the week of the tariff announcements.[4] Further instability of policy measures may continue to chip away at sentiment.

We've seen a similar trend materialize in Canadian economic data. Sentiment data has largely reversed from Q4, with softer prints across consumer and business optimism, while activity data has weakened as trade uncertainty weighs.[5] The Fed may be able to reduce rates in the second half of the year - so long as longer-term inflation expectations remain contained. While March inflation came in well below consensus expectations, the BoC has emphasized their data-dependent stance amid a backdrop of heightened trade and policy volatility. Elsewhere, Canada's newly-elected may potentially deliver increased fiscal support (with comments around new spending centred on home building incentives, infrastructure, defence, and more) that may help offset trade-induced growth headwinds.

Overall, we see merit in defending against ongoing equity volatility while finding attractive entry points for enduring themes. We prioritize diversification in a structurally higher volatility environment in which

Figure 1: Sentiment declined before the global tariff announcement and plummeted after
Sentiment index



BlackRock. Sentiment index equally weighted standardized scores of cash holdings, ETF flows, hedge fund leverage, high yield credit spreads, and equity market breadth. As of April 14, 2025.

Canadian Equities

We expect greater uncertainty ahead for Canada as equity market performance remains largely tethered to changes in U.S. trade announcements.

Amid the ongoing protectionist shift in the U.S., Canada was a notable omission from the long list of countries that received U.S. reciprocal tariffs at the start of the month, and the USMCA-compliant exemptions were not revoked.

Still, the Bank of Canada (BoC) recently decided to hold rates steady in their April meeting, with the rationale underscoring our outlook: the BoC cited a 'highly uncertain environment,' especially as tariff policies develop alongside a softening macro backdrop. Economic data shows a slight pullback in strength, with a decline in employment in March (while survey data points to a potential slowdown in hiring), retail sales softening after 2024's year-end surge, and inflation remaining sticky.[6]

Broadly, we expect risk assets to continue to trade on headlines in the near-term and remain data-dependent to gauge the impact of trade developments on economic growth.

Win defensively and seek opportunities

XMV	**iShares MSCI Min Vol Canada Index ETF**
XDIV	**iShares Core MSCI Canadian Quality Dividend Index ETF**

U.S. Equities

Our pre-tariff estimates point towards S&P 500 earnings growth of 8-10% for the full-year 2025, alongside a broadening out of earnings expectations away from the top of the index.[7]

However, we acknowledge that many earnings forecasts have yet to reflect the reality of a world newly defined by shifting trade policies. Our expectation for slower gross domestic product (GDP) growth could also translate to slower earnings growth, potentially exacerbated by price pressures on household real income. This could put further pressure on revenue expectations and corporate margins if businesses struggle to pass on costs in a slowing growth environment.

The near-term equity outlook remains unclear. Top-down analysis is complicated by high macro uncertainty, while bottom-up estimates are hampered by companies withdrawing forward guidance. Instead of specific price targets, we consider a range of earnings growth estimates against the backdrop of historically supported multiples. The wide range of earnings per share (EPS) forecasts makes an exact approximation of the current forward price to earnings ratio (P/E) difficult, though we feel that the current multiple is likely modestly above the long-term average. Above average index multiples, combined with slower growth expectations warrant a precise approach to equity allocations. However, we caution against extrapolating too much from valuations, as we find they are often a poor predictor of near-term returns. Rather than focus on a specific valuation, we feel investors should consider dynamic, systematic strategies that seek to respond quickly to changes in earnings expectations.

Given the uncertainty and volatility of this backdrop **we believe investors may be well served to modestly add to defensive exposures and look for attractive entry points** to enduring themes.

Figure 2: Earnings estimates and multiples remain near 10-year averages
S&P 500 12-month forward multiples and EPS

		Bearish Earnings Growth	Typical Earnings Growth			Bullish Earnings Growth
		260	270	280	290	300
Bear Market Multiple	13	3380				
	14	3640	3780			
	15	3900	4050	4200		
	16	4160	4320	4480	4640	
Typical Market Multiple	17	4420	4590	4760	4930	5100
	18	4680	4860	5040	5220	5400
	19	4940	5130	5320	5510	5700
	20	5200	5400	5600	5800	6000
	21	5460	5670	5880	6090	6300
Bull Market Multiple	22		5940	6160	6380	6600
	23			6440	6670	6900
	24	We are here...			6960	7200

Source: See Figure 2 sourcing in the appendix.

Playing defence: Winning more by losing less

The policy driven sell-off in April saw volatility spike dramatically. Although equities have partially recovered on subsequent policy changes, we don't see volatility dissipating in a headline driven market. Regardless of the near-term direction of U.S. equities, structurally higher equity volatility has tended to make for lower risk-adjusted returns. For this reason, we believe investors – particularly those with shorter time horizons or lower risk tolerances – may be best suited looking to the low volatility factor to help filter out market turmoil. Because the factor offers an asymmetric up/down capture – participating to a greater degree on the upside than on the downside - it has historically, and over time, been able to deliver performance similar to the broad market with lower overall risk.[8] In previous periods of low growth and higher inflation, the Low Vol factor was able to meaningfully outperform other equity factors as well as the broad market.

“We have been increasing our weighting in software and applications for months, as that is where the value of the ecosystem is starting to be captured. Relatively speaking, many companies in the sector are cheap. Earnings growth will remain solid, unless we go into recession.”

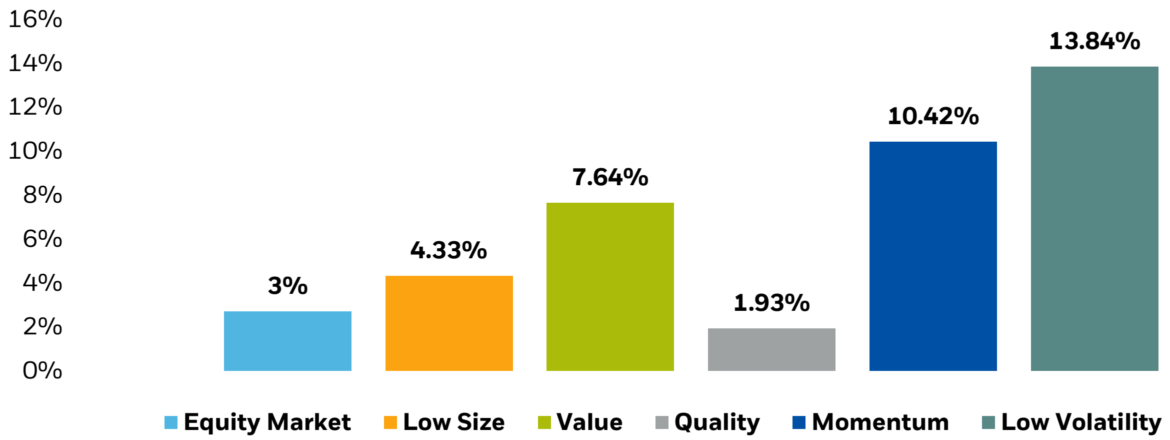
Tony Kim
Managing Director in Fundamental Equity, BlackRock

Win defensively and seek opportunities

XMU*	**iShares MSCI Min Vol USA Index ETF**
XQLT	**iShares MSCI USA Quality Factor Index ETF**
XUSC*	**iShares S&P 500 3% Capped Index ETF**
XQQU*	**iShares NASDAQ 100 Index ETF**

*CAD-Hedged units are also available: XMS, XSPC, XQQ

Figure 3: The Low Vol factor outperformed during the stagflationary period of the 70s-80s
Factor performance

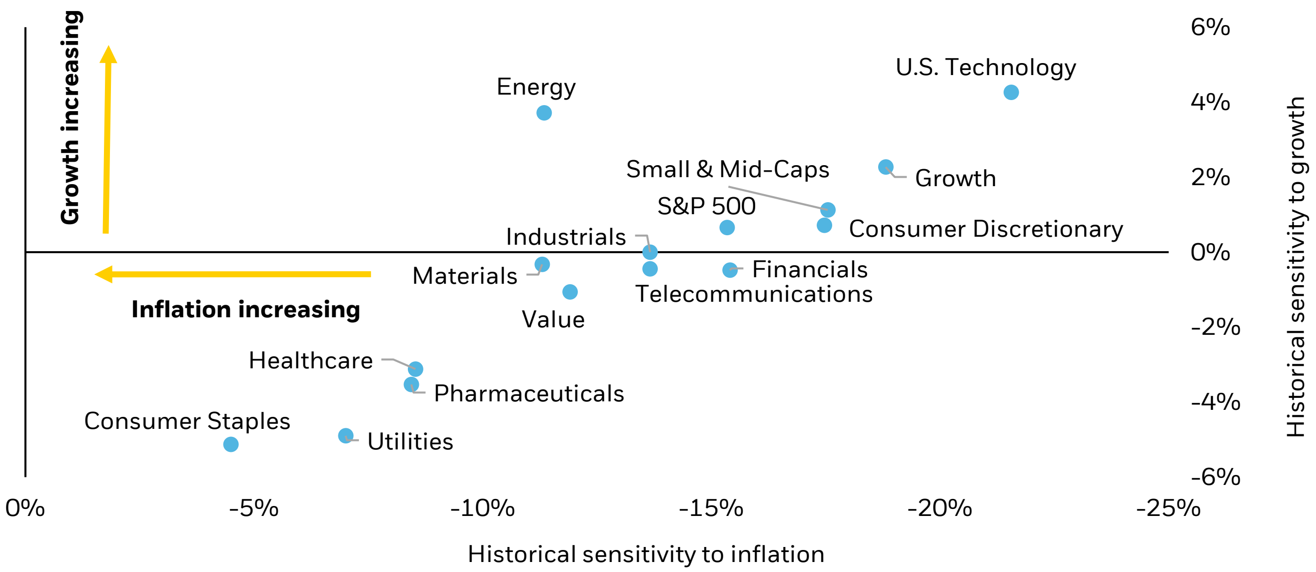


Source: Fama and French data libraries, the equity market is a value-weighted portfolio of all U.S. stocks from NYSE, AMEX, and NASDAQ used to calculate the market excess return over the risk-free rate. Size represented by SMB, Value by HML, Quality by RMW and Momentum by MOM in the Fama and French data set. Low Volatility represented by BAB in the AQR data set. SMB represents small minus big companies. HML represents high book-to-market minus low book-to-market companies, RMW represents robust operating profitability minus weak operating profitability companies. MOM represents high price momentum companies minus low price momentum companies. As of March 31, 2025. **Performance does not reflect any management fees, transaction costs or expenses. Past performance does not guarantee future results.**

Alongside the low volatility factor, we evaluate historical correlations across both economic growth and inflation to find defensive industries that may help position equity portfolios from these shocks. We find that utilities and consumer staples have provided the least sensitivity to changes in both variables, while energy and technology were more exposed.[9]

We extend this analysis beyond historical correlations by overlaying current valuations. While consumer staples have historically served as a defensive exposure, we find that the sector is currently trading at 21x earnings, above the broad market and its historical average, a more demanding setup that may represent already crowded positioning.[10] Healthcare, another traditionally defensive sector, similarly trades at a premium to history.[10] However, drilling beyond the sectoral level, we find defensive opportunities in Healthcare Providers, which trade at 13x forward earnings estimates, below the industry's long-term average of 14x.[11] Utilities also have screened relatively well and represent a sector overweight in many minimum volatility factor strategies.[12]

Figure 4: Historical sensitivity to growth and inflation
Sector sensitivity to growth and inflation



Source: BlackRock, Morningstar. Historical correlations based on daily correlations over the last 1-year period ending March 31, 2025. Inflation proxied by CPI, growth proxied by S&P 500 forward growth. Sector groupings determined by MSCI GICS Levels 1 groupings, Russell Smal & Mid-Cap, and Russell 1000 Value & Growth indexes. As of March 31, 2025. **Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs, or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.**

Playing offense: What to do about AI?

The administration's evolving trade policy continues to inject volatility into markets.

While tariff uncertainty may persist, we see selective opportunities for investors positioned to navigate near-term risk. Highly profitable companies with strong balance sheets and stable earnings are well positioned to weather near-term volatility. Most importantly, we believe the long-term secular growth proposition of the AI theme, responsible for driving equity market leadership in 2023 and 2024, remains intact.

AI equities were hit hard during recent selloffs, largely due to their reliance on a globally integrated chip and hardware supply chain. The U.S. administration is focused on maintaining its AI lead, and will take a range of steps, including export controls and additional trade measures in an effort to protect and extend that lead.

Meanwhile, physical-economy sectors remain vulnerable. U.S. companies in Textiles, Apparel & Luxury Goods, for instance, source 87% of their cost of goods sold from abroad—nearly half from China alone.[13] In a trade-fragmented world, these firms may face significant input cost risk, which could compress margins. At the same time, falling AI compute costs are creating a margin tailwind for software companies, as we think that lower infrastructure expenses translate to higher profitability.

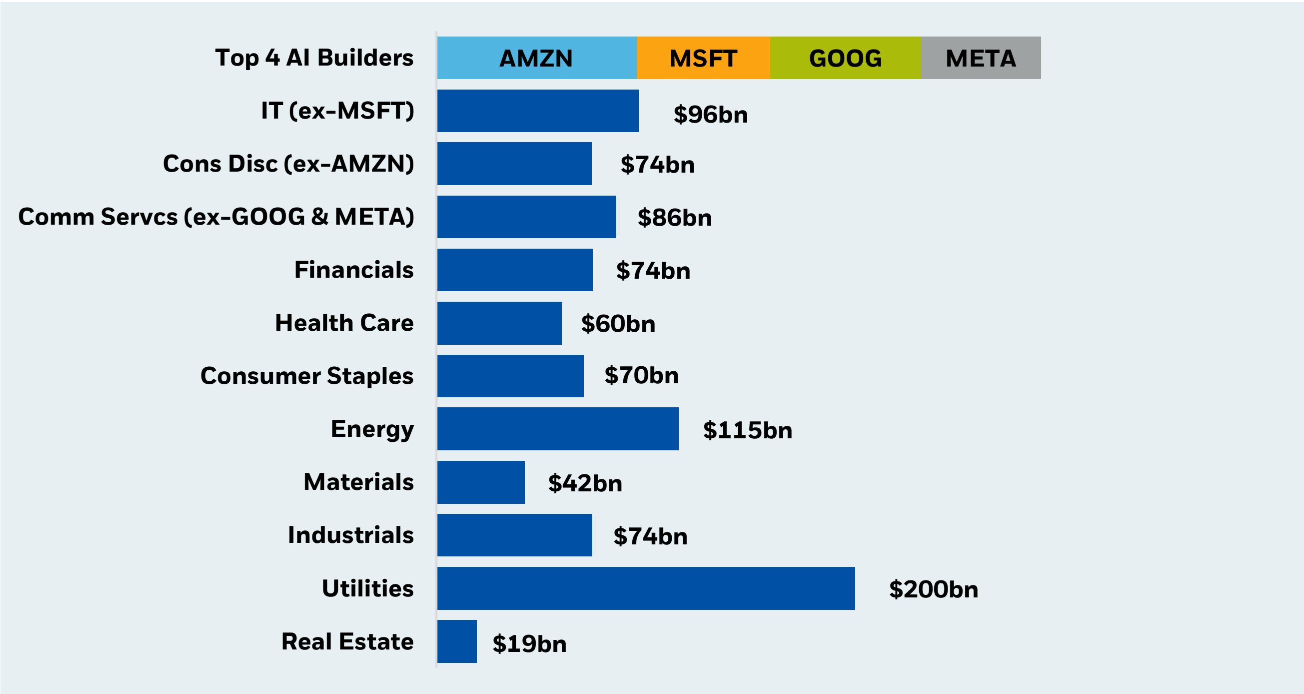
In our view, software's structural AI advantage, combined with its resilience to potential tariffs, makes it one of the more compelling areas of the equity market.

Will AI capex slow?

A small handful of mega-cap companies have fueled the early stages of the AI buildout through the construction of large-scale AI datacentres. The primary beneficiaries of the buildout are the designers and manufacturers of AI chips & hardware.

This year, the top four U.S. spenders (Amazon, Microsoft, Google, and Meta) have plans to deploy over $315 billion of capex, most of which is slated for expanding AI infrastructure.[14] Investors should closely monitor any shifts in those plans: commentary from any of these mega-cap companies may solidify (or question) the dominance of AI equities. We believe this wave of capex is likely to continue, supported by structural demand for AI compute even amid trade tensions or macroeconomic uncertainty. Still, a slowdown or plateau in spending would present a near-term risk to parts of the AI trade.

Figure 5: Top four capex spenders vs. the rest of the S&P 500
Top company capex spend vs. GICS sectors



Source: Refinitiv, mean analyst estimate. Sector groupings determined by MSCI GICS Level 1 groupings. Specific companies or issuers are mentioned for educational purposes only and should not be deemed as a recommendation to buy or sell any securities. Any companies mentioned do not necessarily represent current or future holdings of any BlackRock products. For actual fund holdings, please visit the respective fund product pages. As of April 7, 2025.

International Equities

As U.S. equities declined amid Q1's growth scare, international equities sharply outperformed, with the largest relative performance difference between European and U.S. indexes in two decades.[15]

International investments benefited from both strong local returns and a declining dollar, amplifying the returns realized by a U.S. investor.

While we still believe in the U.S.'s centrality in global capital markets and its track record of creating strong, innovative companies, developed markets ex-U.S. have shown a renewed focus on their own growth trajectories. From Europe's push towards meaningful infrastructure and defence spending or Japan's focus on creating shareholder value, the geopolitical fragmentation of today is accelerating this trend. BII stays positive on developed market (DM) stocks yet see more near-term volatility.

We believe increased uncertainty in the U.S. will continue to drive regional asset allocation decisions for foreign investors. The first months of 2025 brought some evidence that foreign investors had begun to repatriate investments away from the U.S. and back to home equity markets, a trend that could be a further tailwind to international performance should it continue. [16]

For many investors, looking beyond Canada and U.S. exposures can offer the twin benefits of lower valuations and increased diversification.

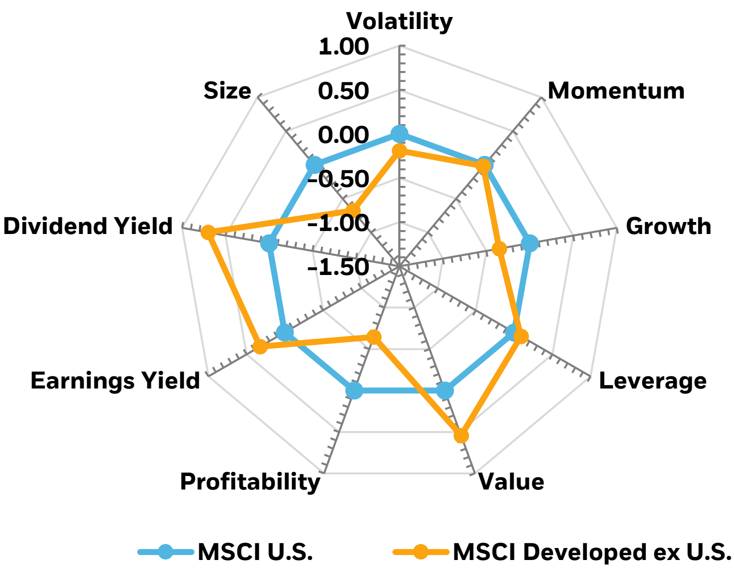
Finding value (and income) in developed markets

The U.S. has long benefited from its tilt to growth, one reason why it often supports higher valuations.

Developed markets outside of the U.S. often offer higher exposure to the value factor – with higher dividend and earnings yield than their U.S. counterparts.[17]

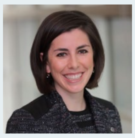
By incorporating international equities into a diversified portfolio, investors may benefit from structural geopolitical trends while also balancing out the inherent growth bias within their U.S. equity allocations.

Figure 6: International equities offer a different factor profile than their U.S. counterparts
Style factor exposure, standardized



Source: BlackRock. Style factor chart using equity risk model. The numbers represent standardized scores on how many standard deviations away an exposure is from the estimation universe. As of April 14, 2025.

> **"U.S. tariffs will accelerate the rewiring of globalization. Multi-aligned countries, like many in Latin America, stand poised to benefit relative to others from greater export competitiveness, trade diversification and increased investment flows."**



Catherine Kress
Head of Geopolitical Research & Strategy , BlackRock

Spotlight: The strategic importance of Latin America

We believe Latin America may continue to grow its role as a strategically important trade partner as both the U.S. and China jockey for influence in the region. Latin American countries are critical producers and exporters of raw materials and agricultural products, ranging from copper and lithium to soybeans and beef.

The strategic importance of the region is underscored by both the U.S. and China's investment presence. Although the U.S. still dominates in terms of bilateral trade, China is now the region's second-largest trading partner, having grown bilateral trade to over $500 billion in recent years.[18] As both the U.S. and China continue to push for influence in the region – particularly through strategic investments – we believe that Latin America may stand to benefit.

Further, valuations across LatAm equity markets are trading at substantial discounts relative to historical averages:

Figure 7: LatAm equities trade at relative discounts to historical averages
MSCI country index valuations

Country	Price to earnings (P/E)	Price to book (P/B)	P/E 5Y Average	Prem/Disc to 5Y
Brazil	7.5	1.6	8.6	-13%
Mexico	10.8	1.8	12.7	-15%
Chile	10.5	1.3	11.0	-4%

Source: BlackRock, Refinitiv. P/E and P/B country data from MSCI country indexes: MSCI Brazil, MSCI Mexico, and MSCI Chile. As of April 14, 2025.

Minimizing volatility in emerging markets

We maintain a neutral outlook on emerging markets broadly – we watch for tailwinds from under-owned positioning and potential stimulus but acknowledge uncertainty will be the dominant catalyst of price action ahead. We believe China will continue to face the highest risk of trade volatility as a deliberate decoupling strategy currently remains central to the administration's stated goals. Further, Q1 equity outperformance masked potential cracks in China's macro backdrop, even before the administration's tariff announcements. Growth in high-frequency indicators softened in late March, including steel demand and freight volume of departing ships at major ports, while consumer confidence remained at still-depressed levels.[19]

Rapidly changing policy and the continuation of the trade war are likely to weigh on China's growth: we estimate U.S. tariffs covering 70% of Chinese exports adding up to an estimated 2% drag on GDP. The trade war shows few signs of abating in the near-term as details remain unclear and uncertainty continues to metastasize. We therefore lean into emerging market minimum volatility strategies, which have seen a sizably lower downside capture relative to the broad index over the last 10 years.[20]

Going abroad

XEU	**iShares MSCI Europe IMI Index ETF**
XEF	**iShares Core MSCI EAFE IMI Index ETF**
XMI	**iShares MSCI Min Vol EAFE Index ETF**
XMM	**iShares MSCI Min Vol Emerging Markets Index ETF**

Fixed Income

Rate volatility remains a key focus for financial markets.

Canadian yields fell across the curve over the first quarter, amidst elevated trade uncertainty and the potential negative growth implications. The Bank of Canada indicated that given extreme uncertainty around the outlook, it may need to act more cautiously, putting less weight on forward looking forecasts, and more weight on realized data. **With inflation remaining the Bank's main focus, the rate path forward in our view will remain dependent on the scope and size of potential U.S. tariffs. Investors could benefit from an active, flexible approach in income yield solutions.**

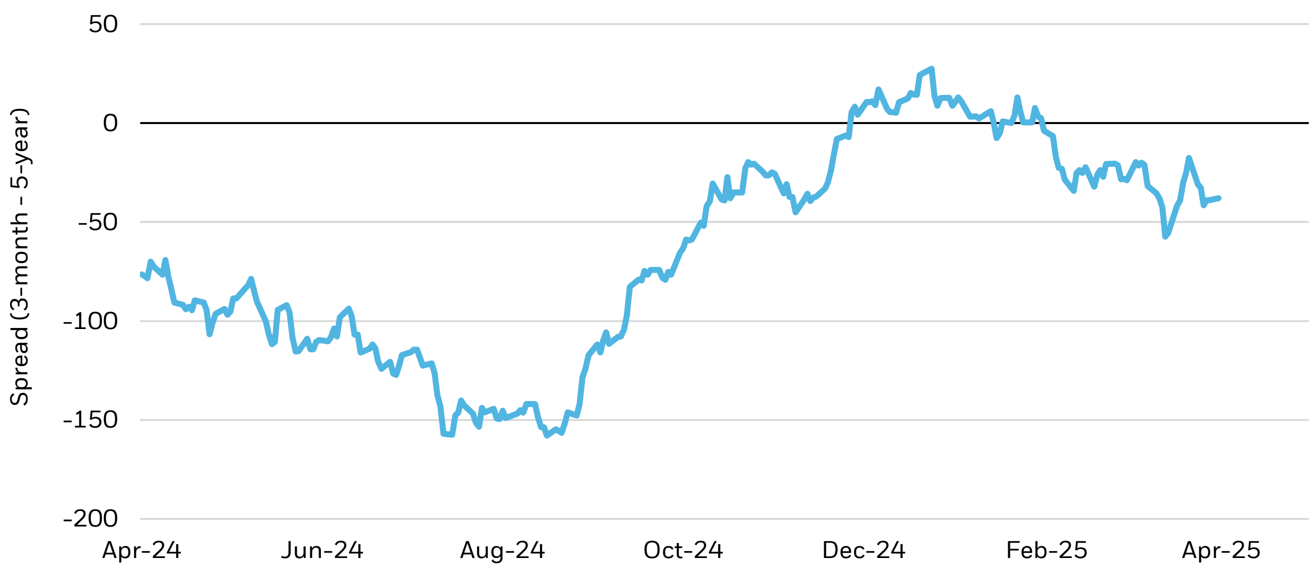
In the U.S., rates on the long-end of the yield curve have risen steadily since the April 2nd tariff announcement, with 30-year nominal rates climbing 27 basis points and real 30-year rates popping 36 basis points.[21] The dramatic move in the long-end of the curve has seen 10-year term premium push up to 10-year highs. Some of the move may be attributable to positioning and other temporary factors - the notable plunge in prime brokerage leverage data and the sharp move towards even more deeply negative swap spreads are consistent with the unwind of levered curve bets by hedge funds and other speculative actors. However, there are reasons to believe that long rates may continue to be volatile or even move higher, including a continued deterioration in the fiscal outlook. For this reason, we continue to favour exposure through the front-end and belly of the curve: maturities in the 3- to 7-year range.

Short-duration bonds remain a compelling tactical allocation While the unwind of leveraged curve trades has sparked a sell-off on the long-end and a steepening of the yield curve in the U.S., the front-end of the curve (0 to 5 years) has stayed elevated and relatively flat. We believe that income and carry look attractive on the front end of the Treasury curve as well as in select corporate credits and plus sectors. Elevated interest rate volatility often leads to pricing dislocations in the short end of the curve, which we believe can be opportunistically exploited through active management.

Seeking income

XSB	**iShares Core Canadian Short Term Bond Index ETF**	**XSH**	**iShares Core Canadian Short Term Corporate Bond Index ETF**	**RCDB**	**RBC Canadian Discount Bond ETF**
XIGS	**iShares 1-5 Year U.S. IG Corporate Bond Index ETF (CAD-Hedged)**	**XFLX**	**iShares Flexible Monthly Income ETF (CAD-Hedged)**	**XSTH**	**iShares 0-5 Year TIPS Bond Index ETF (CAD-Hedged)**

Figure 8: The yield curve is struggling to steepen in the front-end
Spread between U.S. 3-month and 5-Year U.S. Treasuries



Source: Bloomberg. Spread between U.S. 3-month and 5-Year U.S. Treasury indexes shown. From April 22nd 2024 to April 21st 2025. **Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.**

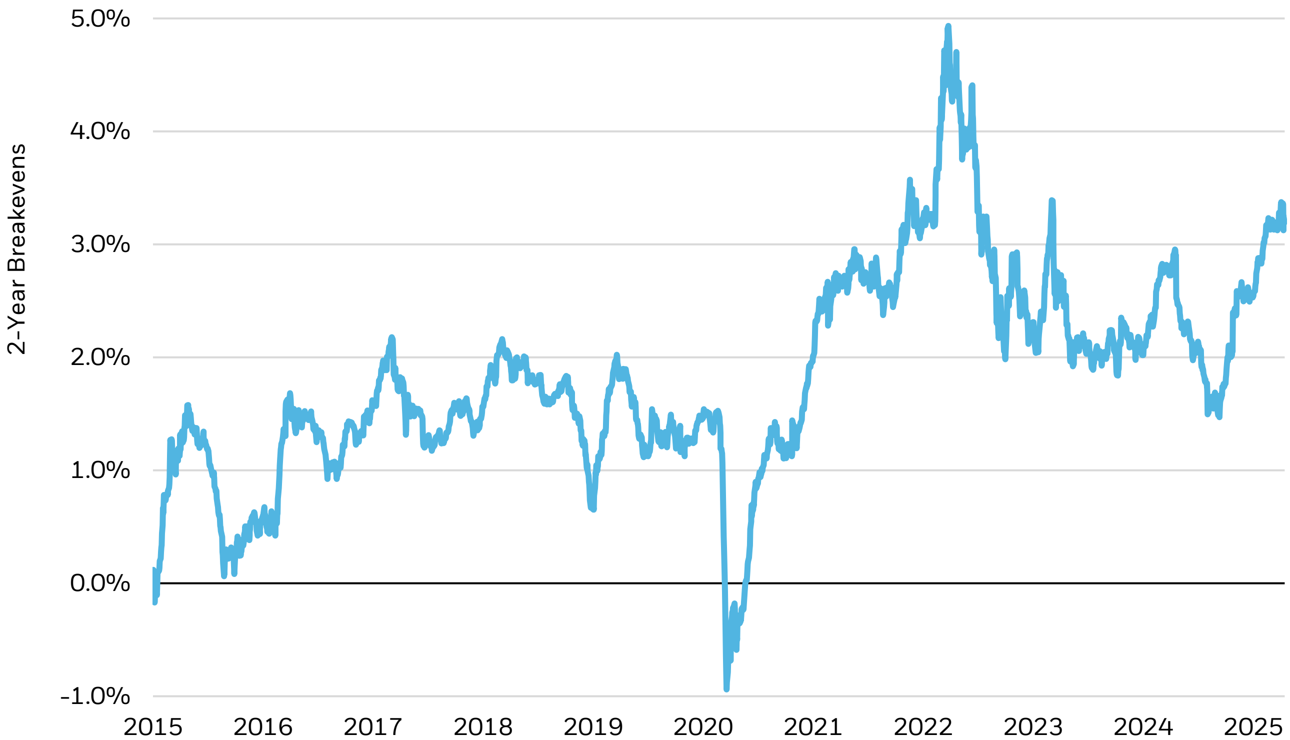
We believe duration may be unreliable as a traditional ballast in the case of a growth shock. Firstly, it is our view that the FOMC won't speedily cut rates with inflation above trend and tariffs shocking prices higher. Secondly, we believe that rising term premia and funding market dynamics will continue to fuel rate volatility in longer-duration assets. Finally, the fiscal uncertainty introduced by tax cuts may call the long-term creditworthiness of the US into further question.

Protecting against inflation erosion

Global supply chains can evolve over time but cannot be rewired at speed without major disruption. Tariffs not only raise costs but can cut access to key inputs and potentially halt production. With the wholesale change to U.S. trade policy, inflation expectations have drifted higher. Currently, 2-year inflation breakevens (breakevens are market-implied inflation compensation over a particular period, in this case 2 years) are at some of the highest levels since the post-pandemic inflationary shock.[22] Although we expect real yields to stay high, we think recent repricing higher in real rates have been overdone, and we favor inflation protection, particularly in the front-end of the curve.

> **We continue to prioritize income in corporate credit and given the solid starting point of fundamentals, we are comfortable moving down in quality, *selectively*."**
>
> **Amanda Lynam, CPA**
> Head of Macro Credit Research, BlackRock

Figure 9: Inflation expectations have moved higher given risk of tariffs
2-year breakevens



Source: Bloomberg. The U.S. Treasury 2-Year Breakeven Index, which reflects the market's inflation expectations over the next two years by measuring the yield difference between 2 year Treasuries and 2 year TIPS, as of April 14, 2025.

Diversification in volatile regimes

In our 2025 Year Ahead Investment Directions we discussed how risk factors such as broad tariff implementations, curbed immigration policy, and mounting deficit concerns could impede the trajectory of solid economic growth in the U.S.

The levels of extreme uncertainty that have battered the market since have demonstrated the importance of portfolio diversification amid unpredictable market swings. Crucially, we believe investors can benefit from a more deliberate diversification strategy, where traditional asset classes may not meet the moment.

Diversify a portfolio with gold and infrastructure:

In an environment of continued macro uncertainty, we believe gold could function as a viable alternative in investor portfolios. Our analysis shows that a small addition of gold in a portfolio could boost its Sharpe ratio for 1- year, 3- year, 5- year and 10- year time periods.[23]

Gold may also be used as a hedge against monetary debasement and fiat currency risks. Historically, government debt levels have shown a positive correlation with the price of gold.[24] Rising deficit levels across many developed economies, particularly in the U.S., have raised concerns about currency stability, making safe-haven assets like gold more attractive.

In addition, global central banks, which own nearly 20% of all physical gold ever mined, have significant influence on gold demand.[25] Rising geopolitical uncertainty has prompted these institutions to bolster reserves, with Asian countries being particularly strong net buyers.[26] We expect this trend to continue given the potential for them to diversify away from the U.S. dollar given more aggressive trade policies.

Besides gold, public and private infrastructure can also potentially bring portfolios diversification benefits. Over the past 17 years, public infrastructure has offered investors stable returns and a low correlation to other traditional asset classes, with added liquidity benefits compared to private infrastructure.[27] In addition, long-term mega forces such as AI datacentre and sustainable transitions speak to the attractiveness of infrastructure as a strategic allocation for investors.

Diversify a portfolio with cash alternatives:

Cash can be another alternative asset class to consider in a highly volatile environment. Cash-like alternatives, such as short-term bonds, have typically been less sensitive to changes in interest rates and equity market uncertainty – consider, short-term bonds, on average, have had a lower correlation to stocks. [28]

Cash-like strategies diversify portfolios away from near-term ups and downs by seeking to preserve capital. By parking cash in a lower risk asset, investors can later deploy it in places that may be attractive when market conditions support.

"Today, the need couldn't be greater for a better diversifier than traditional fixed income, as stagflation and global uncertainty pose an unprecedented challenge to the role of the dollar and U.S. Treasuries as portfolio diversifiers."

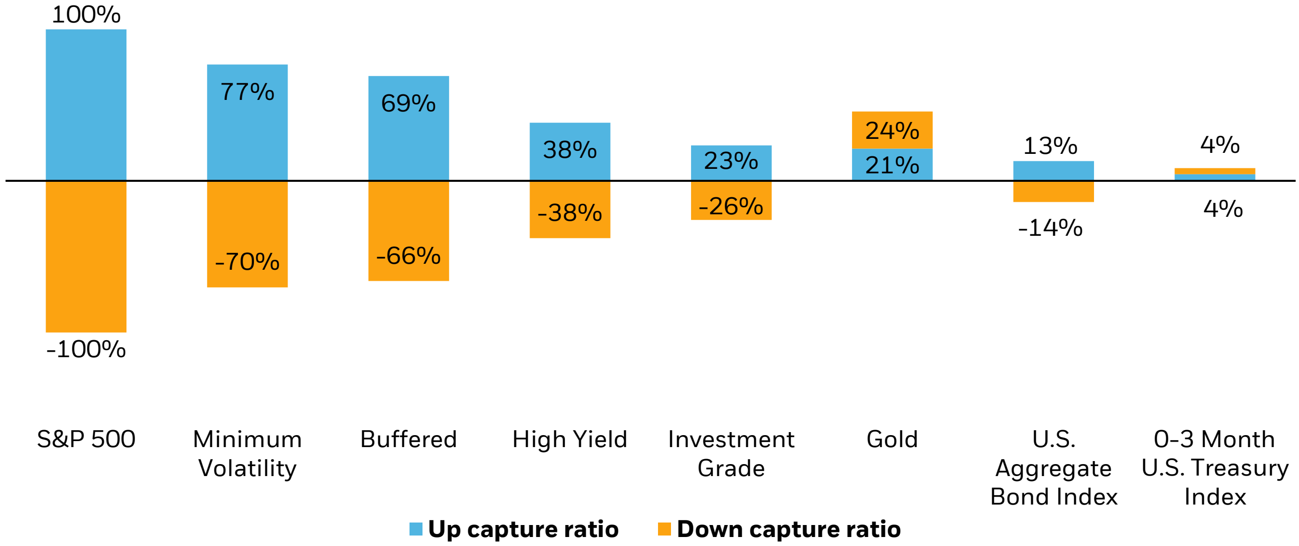
Jeffery Rosenberg, CFA
Managing Director in
Systematic Fixed Income,
BlackRock

Diversify portfolios

CGL.C	**iShares Gold Bullion ETF**
RGPM	**RBC Global Precious Metals Fund**
CIF	**iShares Global Infrastructure Index ETF**
RUST	**RBC Canadian Ultra Short Term Bond ETF**
XFR	**iShares Floating Rate Index ETF**

Diversification in volatile regimes

Figure 10: Cash like exposures help bring down overall portfolio beta to the S&P 500[29]
Up capture and down capture of specific exposures



Source: Morningstar. Stocks as represented by S&P 500 Index; Min Vol as represented by MSCI USA Minimum Volatility Index; Buffered as represented by CBOE S&P 500 95-110 Collar Index; HY as represented by ICE BofA U.S. HY Index; IG as represented by ICE BofA U.S. Corporate Index; Gold as represented by LBMA Gold Price Index; Bonds as represented by Bloomberg US Aggregate Bond Index; From April 1, 2015 to March 31, 2025. The up/down capture ratio, which refers to beta capture, shows how much a strategy tends to rise when the market goes up and how much it tends to fall when the market goes down. **Past performance does not guarantee or indicate future results. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an index.**

Authors

BlackRock Global Product Solutions – Investment Strategy

Kristy Akullian, CFA – Head of iShares Investment Strategy
David Jones
Jasmine Fan
Samuel McClellan
Nick Morales
Jon Angel
Faye Witherall
Annie Khanna

Gargi Chaudhuri – Chief Investment and Portfolio Strategist, Americas

Canada Fixed Income Strategy

Rachel Siu – Head of Canada Fixed Income Strategy
Ross Pastman

Partners

Bart Sikora – Head of GPS Portfolio Consulting, Americas
Maxine Vidal, Portfolio Consulting
Mason Hook, Portfolio Consulting
Aaron Task – Content Specialist

Appendix

Sources & Notes

Macro

1 Bloomberg. As of April 14, 2025.

2 BlackRock, Refinitiv. Based on 1-month change in S&P 500 earnings revisions. As of April 14, 2025.

3 Bloomberg. As of April 14, 2025.

4 BlackRock. Sentiment index is the equally weighted standardized scores of cash holdings, ETF flows, hedge fund leverage, high yield credit spreads, and equity market breadth. As of April 14, 2025.

5 Bloomberg, BlackRock. Sentiment data as represented by CFIB Business Barometer, Index of Consumer Confidence, activity data as represented by PMI Surveys (S&P Global Canada Business Activity Index), as of 4/10/25.

Canadian and U.S. equities

6 Bloomberg, BlackRock, STCA Statistics Canada. Survey data as represented by Survey of Employment, Payrolls and Hours (SEPH), inflation as represented by CPI, as of 4/10/25.

7 BlackRock. Earnings model includes standardized scores of ISM PMIs, high yield spreads, and U.S. Treasury curve differentials to proxy forward earnings growth. As of April 14, 2025.

8 BlackRock. Based on fund and index returns of the S&P 500 from November 1, 2011, through December 31, 2024. Past performance does not guarantee future results.

Figure 2 Source: BlackRock, Refinitiv. EPS range based on IBES 12-month forward EPS growth estimates for the S&P 500, with +/-1 standard deviation band defining the "Typical Earnings Growth" range based on 10-year earnings growth history. "Bearish" and "bullish" earnings growth estimates defined by less than (greater than) -1 standard deviation (+1sd). "Typical Market Multiple" range based on +/-1 standard deviation of 10-year market multiples. "Bear market" and "bull market" multiple defined by less than (greater than) -1 standard deviation (+1sd). As of April 14, 2025.

9 BlackRock, Morningstar. Historical correlations based on daily correlations over the last 1-year period ending March 31, 2025. Inflation proxied by CPI; growth proxied by S&P 500 forward growth. As of March 31, 2025. Past performance does not guarantee future results.

10 BlackRock, Refinitiv. As of April 14, 2025.

11 BlackRock, Refinitiv. As of April 14, 2025.

12 BlackRock, Refinitiv. As of April 14, 2025.

13 Bloomberg. COGS as determined by Bloomberg Intelligence, leveraged by Bloomberg Supply Chain and Facilities dataset. As of March 5, 2025.

14 Refinitiv. Mean analyst estimate. Sector groupings determined by MSCI GICS Level 1 groupings. Specific companies and issuers are mentioned for educational purposes only and should not be deemed as a recommendation to buy or sell any securities. Any companies mentioned do not necessarily represent current or future holdings of any BlackRock products. For actual fund holdings, please visit the respective fund product pages. As of April 7, 2025.

International equities

15 BlackRock. Reference indices include the STOXX 50 and the S&P 500. As of April 14, 2025.

16 BlackRock. Based off of ETF flow data across global products. As of April 14, 2025.

17 BlackRock. Style factor chart using equity risk model. The numbers represent standardized scores on how many standard deviations away an exposure is from the estimation universe. As of April 14, 2025.

18 Bloomberg. As of April 14, 2025.

19 Bloomberg. As of April 14, 2025.

20 BlackRock, Morningstar. Emerging market as represented by MSCI Emerging Markets Index, Emerging market minimum volatility as represented by MSCI EM Minimum Volatility Index, with date in reference between March 31, 2015, through March 31, 2025. Index performance is for illustrative purposes only**. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.**

Fixed income

21 A basis point (bps) is one hundredth of one percent or 0.01%. For instance, 10bps equates to 0.1%.

22 Bloomberg. U.S. Treasury 2-Year Breakeven Index. As of April 25, 2025.

Appendix

Sources & Notes

Diversification in volatile regimes

23 Morningstar Direct calculations, as of March 31, 2025. All performance and risk metrics are annualized for the periods and does not include the impact of fees. Sharpe Ratio measures the portfolio return minus the risk-free return represented by the Merrill Lynch 3-month Treasury Bill Index divided by the standard deviation of portfolio returns. Sharpe ratio is a measure of the indexes return per unit of risk. It is calculated by subtracting the risk-free rate from the indexes total return and dividing the result by the indexes standard deviation. A higher Sharpe ratio implies greater efficiency. Index performance is for illustrative purposes only. **Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results. Index performance does not represent actual Fund performance. For actual fund performance, please visit www.ishares.com or www.blackrock.com.**
24 Bloomberg. Correlation analysis based on total US Government Debt levels and gold prices from 2000 to 2025. As of April 14, 2025.
25 Bloomberg. As of March 31, 2025.
26 Bloomberg. Based on central bank gold reserve data from World Gold Council. As of April 14, 2025.
27 Preqin. Comparing correlation between S&P 500 with the Preqin Infrastructure Index. Data from December 31, 2007, through December 31, 2024. For more information on index methodology, please visit: https://docs.preqin.com/pro/Preqin-Index-Methodology.pdf.
28 Morningstar, Bloomberg. Short-term bonds as represented by ICE BofA US 3-Month Treasury Bill Index, stocks as represented by S&P 500 Index. Correlation based on the last 10 years (3/31/2015 – 3/31/2025). As of March 31, 2025.
29 Beta is a measure of the tendency of securities to move with the market as a whole. A beta of 1 indicates that the security's price will move with the market. A beta less than 1 indicates the security tends to be less volatile than the market, while a beta greater than 1 indicates the security is more volatile than the market.

AIBM0525C/S-4538184