

ETF Implementation Guide – Fall 2026

Insights from BlackRock

Key market views

01 **We remain convicted in AI equities, while diversifying around AI portfolio concentration.**
Strong Q2 earnings reinforced the long-term AI opportunity, with clear evidence that capex is translating to returns. Dividend and quality exposures can build resilience through alternative uses of cash flows and differentiated sources of return.

02 **We prefer emerging over developed international markets, with our strongest conviction in Asia.**
Taiwan and South Korea remain central to the AI buildout, while opportunities are broadening across China, India and Japan.

03 **In fixed income, we brace for higher volatility and prioritize income as the yield curve steepens.**
Elevated real yields create opportunities, while tight credit spreads and rising competition for capital reinforce our preference for selective credit exposure and active duration management.

04 **We look beyond stocks and bonds for new sources of diversification.**
As AI increasingly touches both equities and fixed income, we favour alternative and market-neutral strategies that can benefit from dispersion and provide return drivers less dependent on market direction.

Key tickers: **XBAI*** **XUS** **XEC** **XFLX**

All figures are presented in U.S. dollars unless otherwise indicated. *Listing soon.

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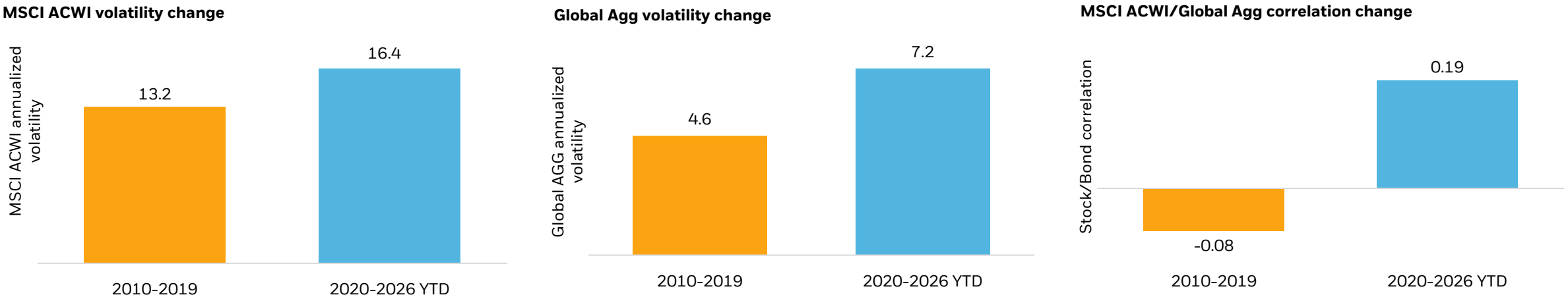
Introduction

Despite persistent uncertainty around trade, geopolitics and inflation, the global economy has remained more resilient than many expected. Growth remains uneven across regions, with early signs of improvement in Canada, though tariffs and trade uncertainty continue to cloud the outlook. The U.S. remains comparatively resilient, where growth has increasingly been driven by business investment rather than consumer strength. A fifth year of above-target inflation has weighed on consumer goods production and consumption, and generated a malaise visible in consumer sentiment data, an uptick in political upsets into the U.S. midterm elections, and even in conservative fund flow data. At the same time, corporate prospects have rarely looked better: second-quarter earnings for the S&P 500 were near the best on record and encouragingly broad-based, with 8 of 11 sectors reporting double-digit earnings growth compared to a year ago.[1]

Artificial Intelligence is unmistakably a driver of growth – and occasionally angst – across the economy. The rapid advancements in technology and equally rapid proliferation have pushed productivity higher and created a generational boom in manufacturing and the infrastructure needed to support it. AI has created winners and losers, but we contend that the theme is not zero-sum. Companies that have plowed money into AI-related capital expenditure over the last three years have begun to see meaningful returns on those investments, validating money already spent and likely motivating further capital allocations. That investment can create competition for capital, likely pushing longer-term interest rates higher and creating new opportunities to generate potential income. As AI has moved from predominately a U.S. equity story to one that touches nearly every part of a portfolio, it has also shifted the relationships between asset classes.

While we remain convicted in the long-term growth prospects of AI investing, we acknowledge that the orientation of the economy and markets along a single axis also potentially creates risk at the whole portfolio level. We see further reason to look beyond traditional asset classes for diversification and increasingly favour strategies that can benefit from dispersion and volatility rather than purely directional bets. *For more about the portfolio implications of potential economic outcomes, read the BlackRock Investment Institute's latest Outlook.* Based on feedback from our readers, we have adopted a streamlined format to address the top questions we have received from advisors about macro, markets and portfolio construction.

Figure 1: Higher volatility and stronger correlations for stocks and bonds call for new sources of portfolio diversification



Source: BlackRock, Morningstar, as of July 31, 2026. Volatility represented by annualized standard deviation using monthly returns. Correlation represented using monthly returns. Global Agg represented by the Bloomberg Global Aggregate Index

1. FactSet as of Aug. 7, 2026. S&P Sectors as represented by GICS Level 1 classification.

Latest in markets

Volatility, central bank policy and geopolitical risks in 2026

1 What's driving volatility in AI stocks?

Downside volatility is not abnormal for tech stocks, but there were some intense bouts this summer.[2] The July 27-29 period saw the third-largest three-day hedge fund reduction of leverage on record, trailing only the 2020 COVID drawdown and 2021 meme-stock mania.[3] In June and July, the PHLX Semiconductor Sector Index (SOX) had a daily return greater than +5% or worse than -5% on 33% of all trading days vs. just 3% of all trading days in the prior 10 years.[4]

Leverage, crowded positioning and profit taking may have amplified stock moves, with flows into leveraged ETFs potentially adding to volatility. Over $8 billion flowed to leveraged ETF products tied to South Korean equities this year through July, particularly ETFs with leveraged exposure to Samsung and SK Hynix, far above the $540 million in total flows these products had seen in the previous five years.[5]

The impact of excess leverage from hedge funds was made apparent on July 30, when it was reported that AI fund Situational Awareness faced acute margin call pressure and sold off most of its liquid assets at a discount, a moment that marked the low point of the sell-off (semiconductors fell 29% during the June 22 to July 29 period).[6]

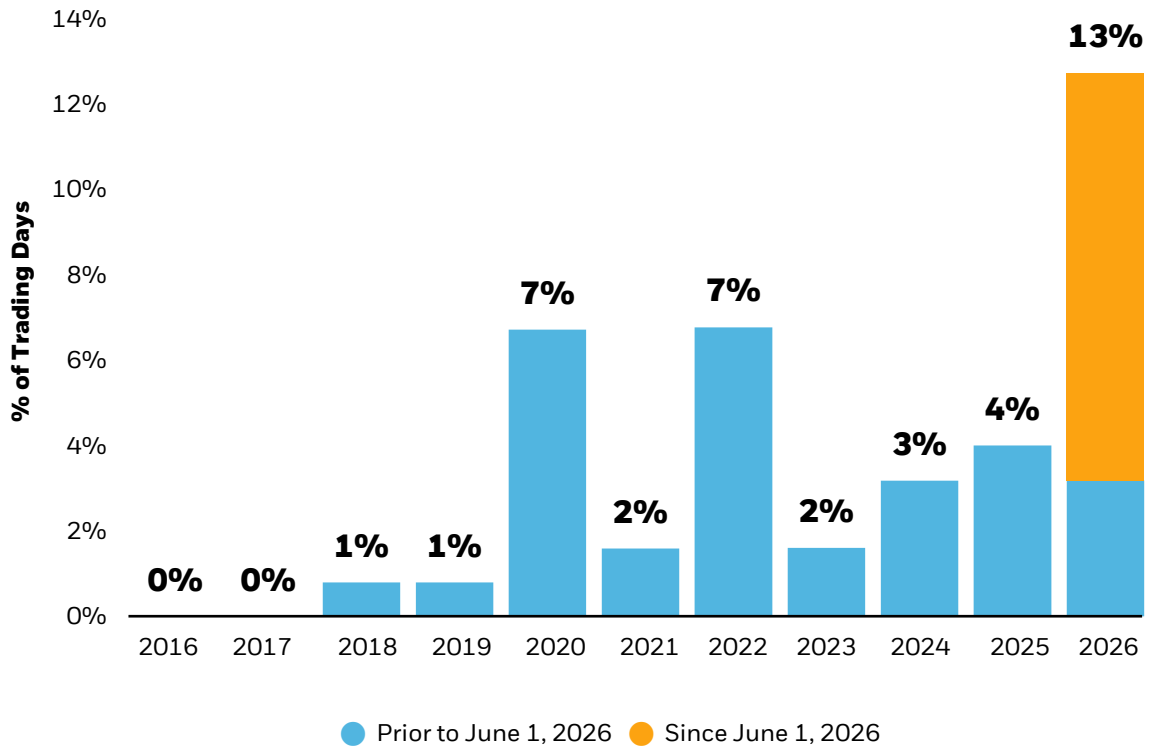
In our view, this summer's sell-off was not based on any deterioration of fundamentals. The earnings landscape for AI and semis stocks continues to improve. S&P 500 semiconductor stocks are now expected to grow earnings +144% YoY in Q2, vs just +126% expected on June 15.[7]

Amid the sell-off in semis and AI stocks, other areas of the market stepped up. An equal-weighted basket of S&P 500 stocks has hit all-time highs.[8] That resilience came from parts of the market that are not associated with AI, like dividend-paying stocks, quality stocks, or (in a new development) software stocks, which reversed sharply after selling off in late 2025 and early 2026.

We believe this AI sell-off was temporary rather than the start of a downward trend, but we also brace for likely elevated volatility as a lasting feature of the AI theme. The excess leverage deployed this summer has decreased, but is not gone. Uncertainty surrounding AI likely remains, but we see the long-term opportunity it could present and continue to refute comparisons between AI and the late 1990's dot-com bubble. The sell-off may provide those with long horizons and high tolerance for risk an attractive entry point and lessons to apply for the next AI drawdown.

Figure 2: 2026's record performance has been accompanied by record volatility for semis

Share of trading days moving more than ±5% — by year



Source: Bloomberg, semiconductors represented by the Philadelphia Stock Exchange Semiconductor Index, as of Aug. 13, 2026. Chart represents percentage of trading days where the index moved more than 5%, both positively and negatively, broken down by year, for the past 10 years.

Tickers to consider XBAI* XQQU XCHP

2 Bloomberg, as of Aug. 13, 2026. The Nasdaq-100 Index is used as a proxy for large-cap, technology-oriented equities given its 62% weight to the Information Technology sector and exposure to many of the largest technology companies. November 2022, when ChatGPT was launched, is used as the starting point for the AI trade. The Nasdaq-100's Summer 2026 drawdown marked its sixth double-digit drawdown since November 2022. **3** Morgan Stanley, as of Aug. 13, 2026. **4** Philadelphia Stock Exchange Semiconductor Index, as of Aug. 13, 2026. **5** Leveraged ETFs listed in the U.S..Bloomberg, as of July 31, 2026. BlackRock does not offer a leveraged ETF product. **6** Philadelphia Stock Exchange Semiconductor Index, as of Aug. 13, 2026. Situational Awareness is a 3rd party hedge fund and has no affiliation with BlackRock, iShares or any of its subsidiaries. **7** BlackRock, as of Aug. 13, 2026. **8** Bloomberg, as of Aug. 13, 2026. S&P 500 equal-weight represented by the S&P 500 Equal Weight Index, which includes the same constituents as the S&P 500 but assigns each company an equal weight at each quarterly rebalance, rather than weighting companies by market capitalization. * Listing soon.

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2 What's next for central bank policy and interest rates?

U.S. Federal Reserve (Fed) Chair Kevin Warsh struck a hawkish tone in his Jackson Hole speech, but we still see room for the Fed to hold rates steady in September rather than hike aggressively into year end. This means higher rates could persist, while resilient growth and rising AI-related corporate bond issuance could pressure longer-term yields, reinforcing our preference for front and intermediate Treasuries.

We believe the U.S. inflation likely peaked in May, gasoline and jet fuel price inflation have declined since, easing some of the energy-related pressure on inflation.[9] The three-month average of supercore (core services ex-housing) inflation has fallen to +0.09% growth month-over-month, vs. the 12-month average of +0.28%.[10] Additionally, we estimate upcoming changes to Personal Consumption Expenditures (PCE) methodology could reduce measured year-over-year inflation by approximately 0.3%.[11] Effective September 30, the changes are intended to better reflect household consumption patterns, including improved measurement of portfolio management and investment advice services, legal services, and software prices.

The U.S. labour market also appears stable, if unimpressive. While job growth has come from a narrow subset of sectors, the unemployment rate has remained contained, with fewer job creations offsetting a shrinking work force. Payroll revisions have also been consistently negative, with three-month average job growth slowing to +20,000.[12]

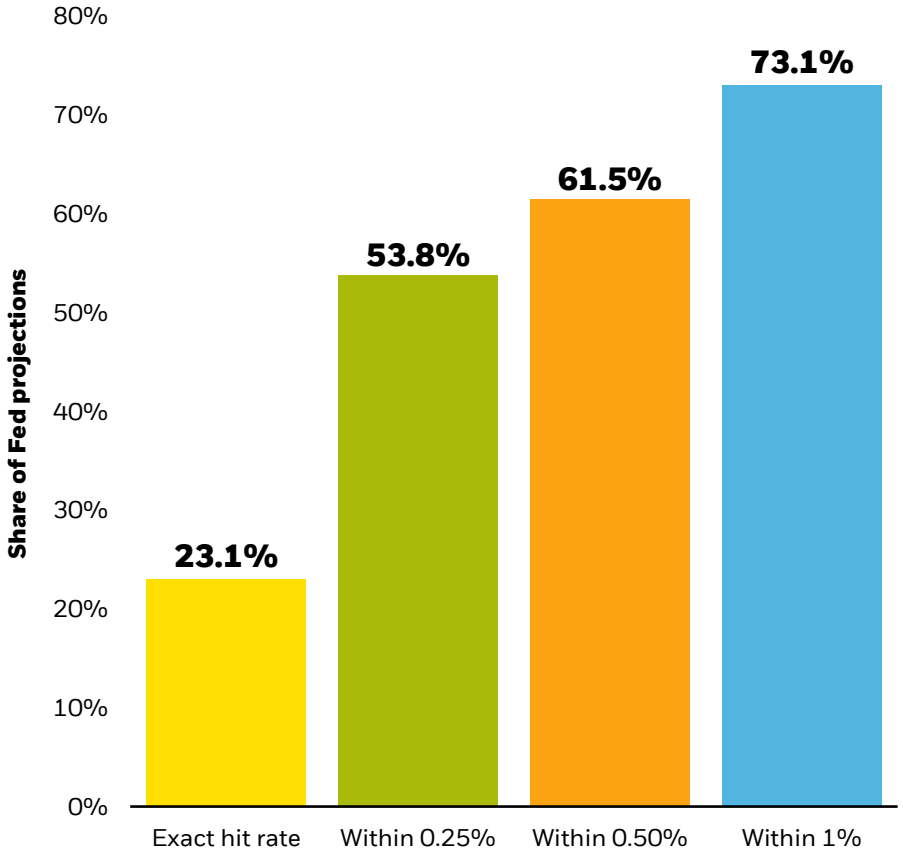
Since becoming Chair in May, Kevin Warsh has begun reshaping how the Fed communicates with markets and approaches policy – yielding fewer details for Fed watchers. He shortened the FOMC statement and largely stepped away from forward guidance, emphasizing markets should "play the ball, not the referee" by responding to economic data rather than Fed projections. Warsh also established task forces to examine the Fed's policy framework, signaling potential changes beyond communication. For rates, we believe this is likely to increase volatility. As investors reassess the outlook after each economic release, markets can reprice the expected path of rates, tightening or loosening financial conditions without a change in the federal funds rate.

For the Bank of Canada (BoC), our base case remains the BoC will keep the overnight rate unchanged this year. The Canadian economy has grown modestly and core CPI measures have been contained around the 2% level, but inflation risks have not fully subsided and trade policy uncertainty remains elevated, keeping the BoC patient on future policy rate adjustments in our view.

For portfolios, we expect yield curves to steepen. Markets continue to price a greater likelihood of rate hikes than we expect, particularly for the Fed, creating room for front and intermediate yields to fall. Meanwhile, rising competition for capital to finance AI investment, elevated Treasury issuance, fiscal uncertainty, and questions around Fed credibility could keep upward pressure on longer-term yields, making curve positioning ever more important.

Tickers to consider XSB XSMB RCOR

Figure 3: Fed projections rarely match realized policy rates, but provide directional insight



Source: Federal Reserve, data from Bloomberg, as of July 31, 2026.

9 Inflation views by BlackRock Global Fixed Income, as of Aug. 13, 2026. **10** Inflation data from the Bureau of Labor Statistics, as of July 11, 2026. Supercore inflation reflected by the Bloomberg BLS Core Services Less Housing MoM Index. **11** Revisions to PCE estimated by BlackRock, as of Aug. 13, 2026. Methodology changes determined by the Bureau of Economic Analysis, https://www.bea.gov/news/blog/2026-08-17/annual-update-gdp-industry-and-state-stats-publicly-available-starting-sept-30, as of Aug. 17, 2026. **12** Bureau of Labor Statistics, as of Aug. 7, 2026, representing July 2026 labour market data.

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3 How can politics and geopolitical risks affect portfolios?

There is likely to be no shortage of headline risk through year-end, from fragile geopolitical developments in the Middle East to discussions over AI data centres and other focal points of U.S. politics as the November midterms near. Historically, midterm years have delivered weaker average returns of 7.5% vs. 12.4% in all years.[13] Yet even as we have seen stronger-than-expected performance in 2026, investors should be aware of the patterns surrounding key events.

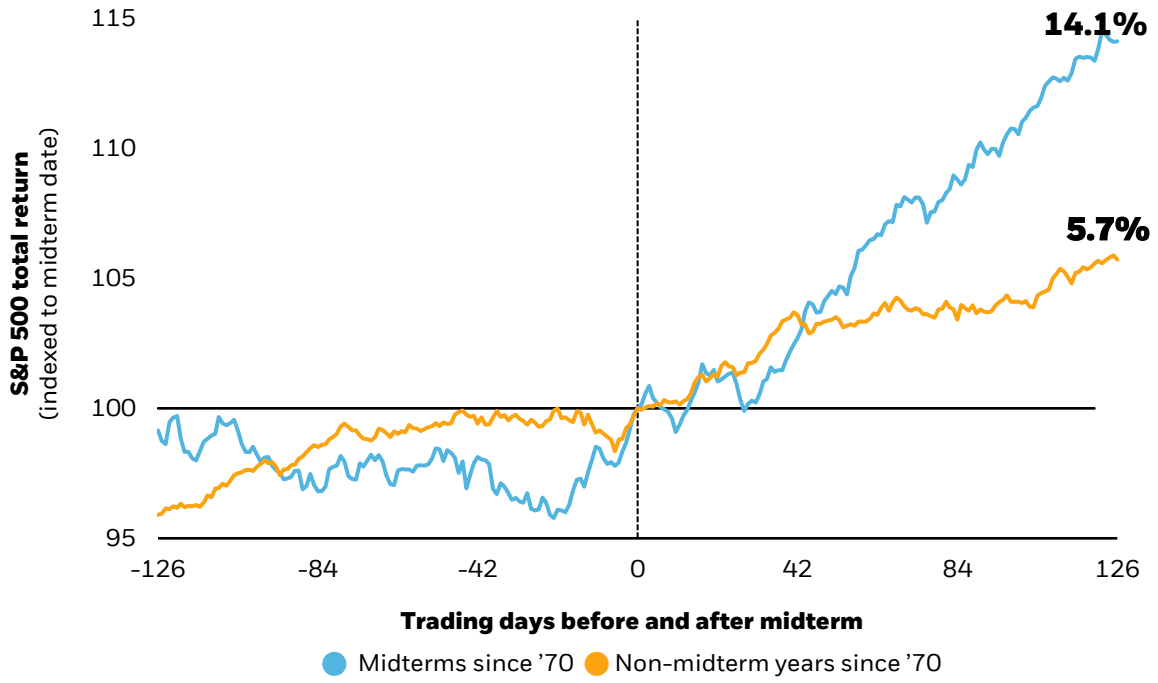
Since 1970, the market has started to rally on average around a month (22 trading days) before a midterm election, as polling data provides clearer indications of results. As event risk passes post-election, equities have historically experienced tailwinds, with an average return of 14.1% in the following six months compared to 5.7% in non-midterm years.[14]

Regardless of the outcome, midterms can help reduce uncertainty, with markets often rallying after the event.

The conflict in the Middle East remains a key risk, with traffic severely curtailed through the Strait of Hormuz, a critical thoroughfare through which about 20% of global oil supplies have historically passed.[15] Shifting expectations around ceasefire negotiations and the strait's reopening have meant sharp energy market swings: Brent crude has traded between $69 to $128 per barrel since the conflict began in March.[16] Shipping remains severely constrained: recent traffic has averaged 6 vessels per day vs. about 140 pre-conflict.[17]

Weaker traffic matters because continued disruption to a main energy corridor leaves oil prices – and inflation and broader markets – sensitive to each development in the conflict. While headlines are likely to remain a source of near-term volatility, the key for investors is to stay disciplined and consider staying invested. It's important to remember that the core driver of markets remains solid fundamentals, even in years dominated by headlines.

Figure 4: Markets have tended to rally after midterms as event risk passes



Source: Bloomberg, data as of Aug. 13, 2026. Based on average S&P total return since 1970 indexed to election dates or hypothetical election dates. Midterm years as follows: 1970, 1974, 1978, 1982, 1986, 1990, 1994, 1998, 2002, 2006, 2010, 2014, 2018, 2022. The "0" on the x-axis represents the Midterm/Presidential election date, which falls on the first Tuesday in November. In non-election years, hypothetical election dates were used. Month approximations based on average of 21 trading days in a month. Y-axis numbers represent total return of approximately 6 months before and after a midterm indexed to midterm date, with the value of the midterm date being 100. **Index performance is for illustrative purposes only. Index performance does not reflect any management fees or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.**

Tickers to consider XQLT

13 Morningstar as of Jan. 31, 2026. Stock market represented by the S&P 500 Index from Jan. 1, 1970 to Jan. 31, 2026 and IA SBBI U.S. large cap stocks index from Jan. 1, 1926 to Jan. 1, 1970. **Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index. 14** Bloomberg, data as of Aug. 13, 2026. Based on average S&P total return since 1970 indexed to election dates or hypothetical election dates. **15** U.S. Energy Information Administration, "In-Brief Analysis." June 14, 2026. **16** Bloomberg as of August 19, 2026. Crude Oil since March 1st represented by the ICE Brent Crude Commodity Index representing the price for 1,000 barrels. Index performance is for illustrative purposes only. Index performance does not reflect any management fees or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results. Bloomberg, with recent traffic as represented by Hormuz commercial cargo vessel crossings (Bloomberg vessel tracking), as of Aug. 13, 2026. U.S. Energy Information Administration, "In-Brief Analysis." June 14, 2026. Bloomberg as of August 19, 2026. Crude Oil since March 1st represented by the ICE Brent Crude Commodity Index representing the price for 1,000 barrels. **Index performance is for illustrative purposes only. Index performance does not reflect any management fees or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results. 17** Bloomberg, with recent traffic as represented by Hormuz commercial cargo vessel crossings (Bloomberg vessel tracking), as of Aug. 13, 2026.

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Equity opportunities

AI leads in the U.S. as strength broadens internationally

4 Where are the opportunities in Canadian equities?

We remain constructive on Canadian equities, where improving fundamentals and a differentiated sector mix can provide investors with a source of return beyond U.S. mega-cap technology.

Canada's market composition is an important part of that story. Financials, materials and energy account for roughly 70% of the S&P/TSX Composite, compared with just 8% in information technology.[18] This creates exposure to a very different set of earnings drivers, including lending, commodities and real assets, and can complement portfolios increasingly influenced by technology and AI.

Financials remain central to the opportunity. The sector represents roughly one-third of the Canadian market, making the outlook for banks and other financial companies particularly important for the broader index. Canadian banks have also entered this period from a position of relative strength, with the Bank of Canada noting that banks have strengthened their capacity to absorb shocks.[19]

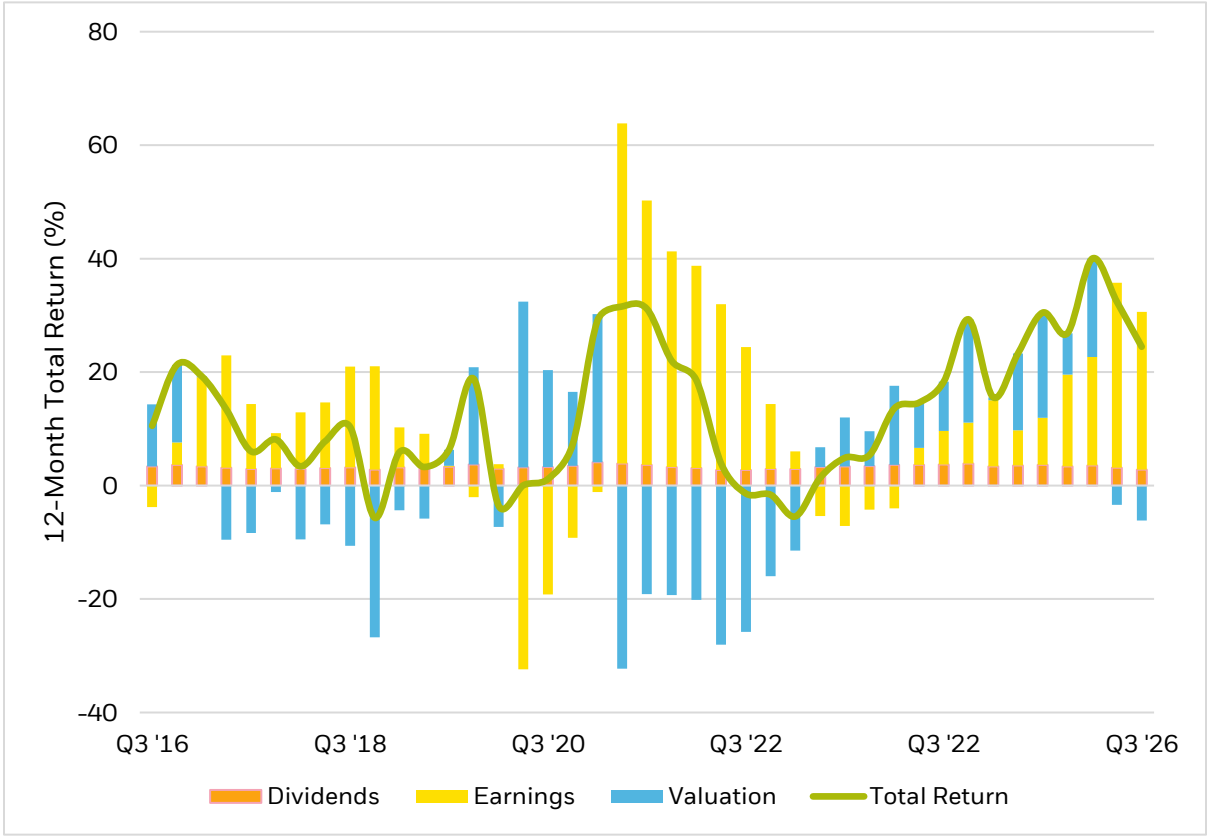
The macro backdrop is beginning to look more supportive as well. After a weak 2026, the Bank of Canada expects GDP growth to accelerate from 0.7% this year to 1.8% in both 2027 and 2028, supported in part by recovering exports and activity in the oil and gas sector.[20] That improving growth backdrop could provide another tailwind for more cyclically sensitive areas of the Canadian equity market.

We also see opportunity in energy and materials, which together represent more than one-third of the Canadian market. These sectors provide exposure to commodity and real-asset drivers that are much less prominent in the U.S. market. At the same time, industrials and select technology companies can offer exposure to longer-term investment themes, including infrastructure, power and the broader AI buildout rather than static holdings.

Risks remain, particularly around Canada's trade relationship with the U.S., commodity volatility and inflation. But with growth expected to improve and a market composition that looks very different from the U.S., we believe Canadian equities can offer a differentiated mix of income, cyclical exposure and portfolio diversification through the rest of 2026.

Tickers to consider XIC XETM

Figure 5: Canada S&P/TSX Composite sources of total return



Source: LSEG Datastream, FTSE and BlackRock Investment Institute, as of Sept. 2, 2026. The bars show the breakdown of the S&P/TSX Composite 12-month return into dividends, earnings growth and valuation (multiple). Earnings growth is based on the 12-month change in 12-month forward I/B/E/S earnings estimates.

18. S&P Dow Jones Indices, as of Aug. 31, 2026. Canadian equities represented by the S&P/TSX Composite Index. Financials, Materials and Energy represent 34.0%, 19.0% and 16.8% of the index, respectively. Information Technology represents 8.0%. Sector classifications based on GICS®. 19. Bank of Canada, Financial Stability Report 2026. 20. Bank of Canada, Monetary Policy Report, as of July 15, 2026. Canadian real GDP growth is projected to increase from 0.7% in 2026 to 1.8% in both 2027 and 2028.

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5 Where are the opportunities in U.S. equities for the rest of 2026?

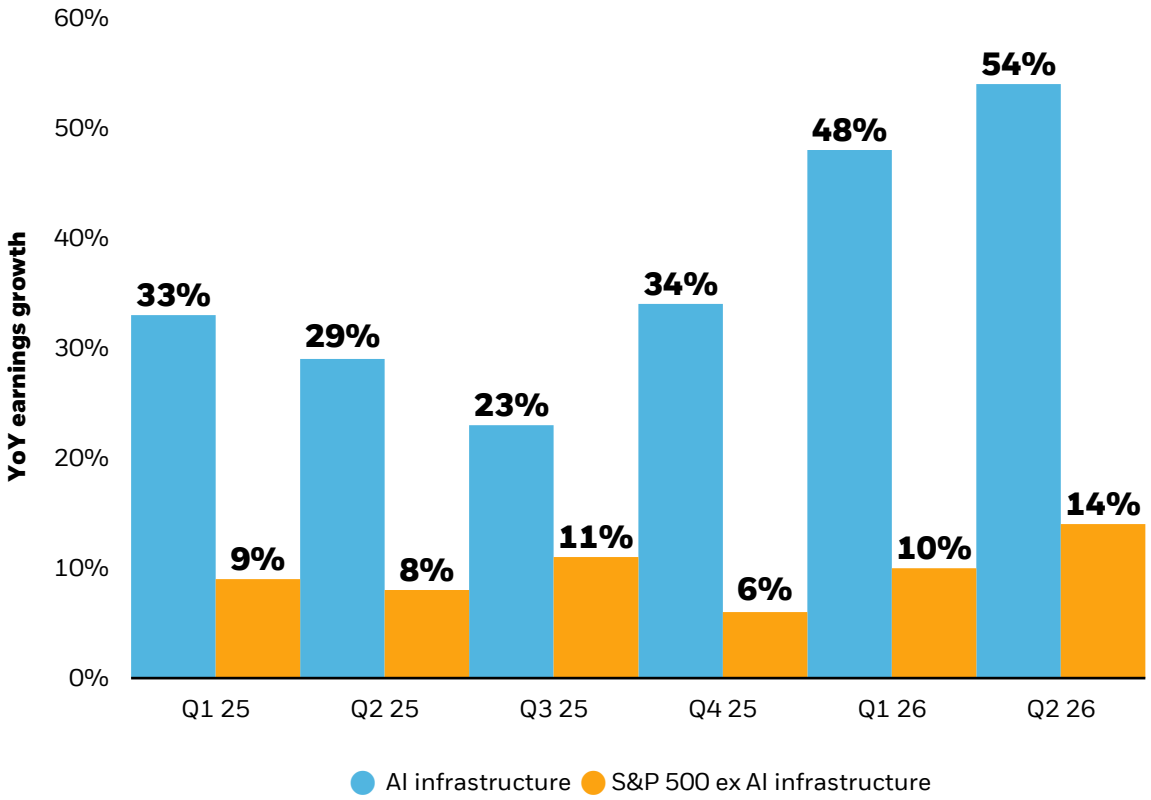
AI remains our highest conviction theme within U.S. equities. Our analysis of corporate earnings showed that the AI opportunity is becoming broader, not more zero-sum. We expect the overall AI economic pie to continue to expand as frontier model providers grow revenue, AI adoption spreads, and an increasing share of compute shifts from training toward inference and real-world usage. But the clearest earnings evidence in Q2 came from compute infrastructure: cloud earnings growth accelerated strongly across the hyperscalers (Google Cloud +82%, Azure +43%, and AWS +37%), as these companies reaped the rewards of previous years' investments.[21] Just as importantly, companies drew a much more explicit link between AI investment and potential future returns.

Further, the infrastructure layer is also less dependent on which AI model ultimately wins. Open- and closed-weight models are proliferating, becoming more capable and being used for a widening range of tasks.[22]

More models and more use cases ultimately mean more inference and more tokens generated – and therefore more demand for the compute, networking, power, and cloud capacity beneath them. That makes the infrastructure layer one of the broadest ways to participate in likely continued growth of the AI ecosystem.

That conviction also guides our factor style view. We opened the year with a more balanced view between Growth and Value, and we now tilt further into Growth. In its June index reconstitution, FTSE Russell moved many of the market's AI and semiconductor momentum leaders more squarely into Growth, making the style a cleaner expression of the AI earnings story.[23] Shifting momentum and style leadership this year underwrites our preference for dynamic allocation strategies rather than static holdings.

Figure 6: AI infrastructure companies have grown earnings at an accelerated rate



Source: FactSet, Goldman Sachs Global Investment Research, as of Aug. 14, 2026. AI infrastructure groupings determined by GSIR. S&P 500 ex AI infrastructure determined by S&P 500 Index earnings growth, ex Energy GICS Level I earnings growth.

Tickers to consider XBAI* XQQU CIF

21 Bloomberg, with cloud growth in reference to Q2 2026 results. As of Aug. 18, 2026. Cloud earnings growth refers to earnings growth of cloud businesses. Hyperscalers are large technology companies that operate cloud computing infrastructure at significant scale, including Amazon, Microsoft and Google. 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. **22** Bloomberg, McKinsey Global Survey on the State of AI, breadth of enterprise AI adoption represented by the number of business functions using AI. As of March 25, 2026. **23** FTSE Russell as of June 26, 2026. * Listing soon.

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6 How can I diversify my U.S. equities amid AI concentration?

AI stocks make up nearly half the market capitalization of U.S. equities, meaning investors are exposed not only to the AI opportunity and the volatility that comes with it, but also to macro risks that could challenge the trade.[24] Higher real rates raise the hurdle rate on future earnings and can increase financing costs across an increasingly capital-intensive AI buildout. For portfolios in today's AI era, diversification might mean new considerations: companies with characteristics and revenue drivers that are independent of the AI theme can lower portfolio risk.

If AI can generate outsized returns (our base case), AI leaders may reinvest aggressively. Lower free cash flow today may not be inherently a concern if that spending is building a potential larger profit pool tomorrow. But that trade-off has come under greater scrutiny in recent months.

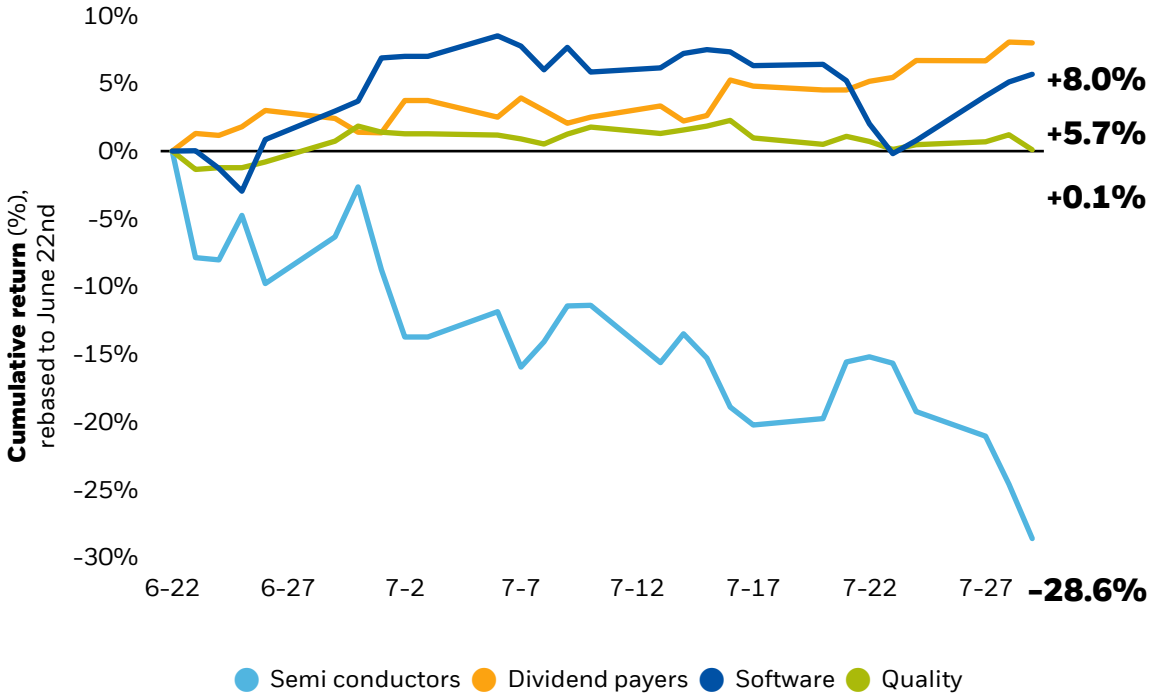
Investors who are less convicted in future returns – or simply looking to diversify from AI concentration - could prioritize near-term cashflows, such as those provided by high-quality dividend exposures. While AI leaders have been reinvesting cash to fund future growth, dividend payers have been returning more cash to shareholders, giving investors the flexibility to redeploy it elsewhere and making them a natural counterweight if returns on AI investment come under pressure.

That ballast was on display in recent months: dividend-paying stocks were up 8% in the July AI sell-off, as shown in Figure 7. Not only have dividend-paying stocks been increasingly negatively correlated with the AI trade, but they also operate in sectors that are less susceptible to AI disruption: Gasoline, tobacco, and beverages are unlikely to be replaced by AI agents.[25] Global health care offers another source of diversification: over the last five years, it has outperformed the broad market in 71% of the weeks semiconductors fell – a hit rate that climbs to 81% over the past year as health care's more defensive demand leaves it less tethered to the AI investment cycle.[26]

Quality offers a complementary approach: quality strategies tilt toward companies with high return on equity, low leverage, and low earnings variability. Strong balance sheets can provide greater resilience if real rates remain high or financing conditions tighten, without abandoning the long-term AI opportunity.

Tickers to consider XDIV RCD XDU XQLT

Figure 7: Ballast amid the semiconductor selloff



Source: Bloomberg, as of Aug. 13, 2026. June 22–July 29, 2026. The four lines represent: Semis (Philadelphia Stock Exchange Semiconductor Index, SOX Index); Dividend-payers (Morningstar Dividend Yield Focus Price Return Index, MDYFT Index); Quality (MSCI USA SECTOR NEUTRAL QUALITY USD Gross Total Return Index, M2USSNQ Index); and Software (S&P North American Expanded Technology Software Index (USD) TR (Custom), SPNASEUT Index). Index names and descriptions are the property of their respective providers (Nasdaq/PHLX, Morningstar, MSCI and S&P Dow Jones Indices). "Semis", "Dividend-payers", "Quality" and "Software" are short-hand labels used in this exhibit for readability only; they are not the official index names and are not endorsed by the index providers. **Index performance is for illustrative purposes only. Index performance does not reflect any management fees or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.**

24 Bloomberg, universe represented by S&P 500, AI stock were identified using an objective holdings-based screen: S&P 500 constituents were classified as 'AI' if, as of Dec. 31, 2025, they were held in at least one of the five largest (by AUM) U.S.-listed AI-themed ETFs, selected based on stated AI-focused investment objectives/strategy. The resulting AI basket includes 46 S&P 500 companies. Non-AI represents the S&P 500 excluding those AI-classified constituents. ETF selection and constituent classification are rules-based and do not reflect BlackRock's view of any company's current or future AI revenue, business exposure, or prospects. **Index performance is for illustrative purposes only. Index performance does not reflect any management fees or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.** Half of value as represented by market cap, as of Aug. 13, 2026. **25** Bloomberg, as of Aug. 13, 2026. Sector exposure represented by Morningstar Dividend Yield Focus Index. **26** BlackRock, Bloomberg. Global healthcare as represented by S&P Global 1200 Health Care (Sector) Capped Index, broad market represented by S&P 500, lookback uses weekly average returns from Jan. 1, 2021 through Aug. 21, 2026. **Index performance is for illustrative purposes only. Index performance does not reflect any management fees or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.**

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7 Where are the opportunities in international markets?

We continue to prefer emerging markets (EM) over developed international markets and view the strongest opportunities in Asia. Overall, international equities have continued to attract investor interest in 2026, despite a marked pickup in volatility. Market participation remains broad, with 86% of country ETFs trading above their 50-day moving averages.[27] At the same time, international and global strategies are on pace for record annual ETF inflows, underscoring continued investor demand for non-U.S. exposure.[28]

In Asia, while concentration and volatility have increased notably, the fundamental backdrop remains supportive. Taiwan and South Korea remain central to the semiconductor and memory supply chains powering AI, contributing to strong expected EM earnings of approximately 20% growth in the next 12 months. [29] While the recent pullback has made valuations more attractive in AI-focused names, higher volatility and sensitivity to leverage warrant more thoughtful portfolio sizing and hedge consideration.

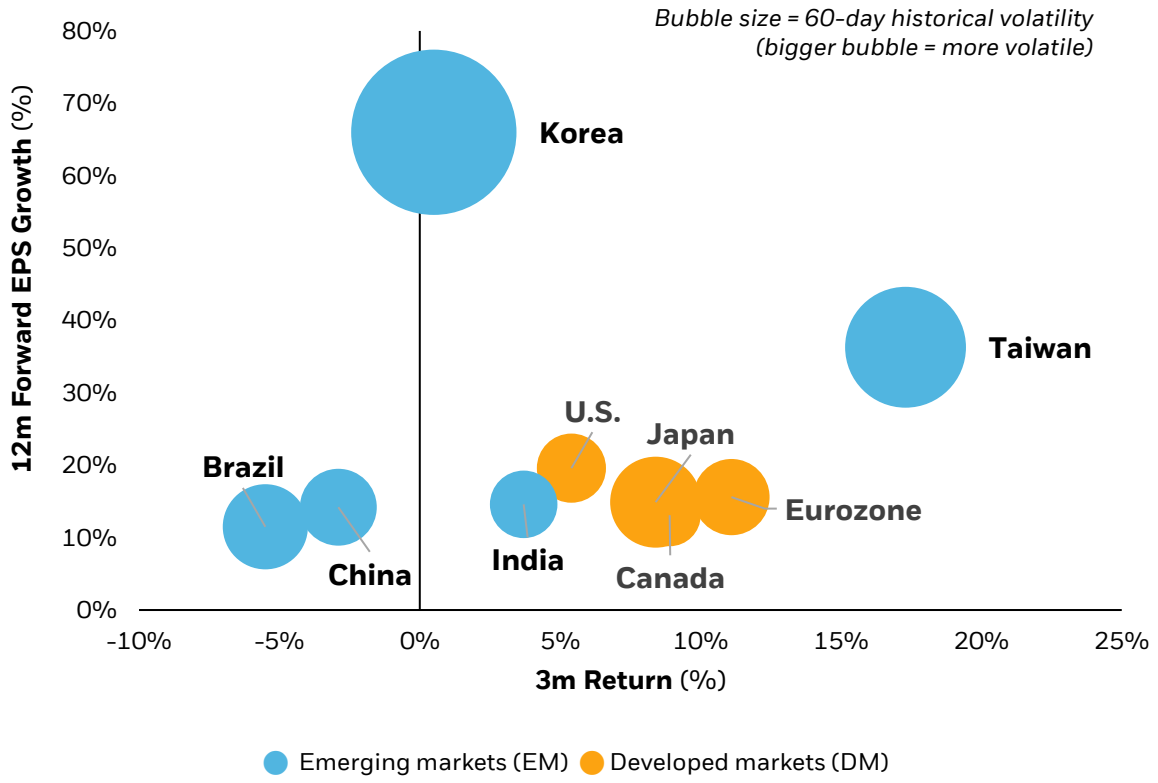
Importantly, the Asia AI opportunity has broadened beyond the traditional semiconductor and memory story:

In China, we favour a selective approach focused on innovation, automation and industrial upgrading, even as property and consumption remain challenged.[30] Advanced manufacturing and technology continue to be bright spots, with integrated-circuit exports rising 89% year-over-year in the first half of 2026 amid strong global AI demand.[31]

- India offers a different source of opportunity and potential diversification from AI-heavy markets, with selective opportunities across its more domestically oriented financial and consumer sectors.
- Japan also stands out as a compelling opportunity. Corporate reforms, improving shareholder returns, and a more durable earnings growth story continue to support the market. Japan also offers meaningful exposure to robotics and the semiconductor supply chain, providing another way to participate in AI beyond the memory and chip manufacturers that dominate North Asia.

Tickers to consider XEC XINT XEF

Figure 8: International earnings strength highlights opportunities beyond recent performance



Source: LSEG, Refinitiv, Bloomberg as of Aug. 16, 2026, based on respective MSCI single country indices. Volatility measured by 60-day annualized historical volatility of daily index returns, measured over the 60 days ending Aug. 16, 2026. 12-month forward EPS is the amount of profit analysts expect a company to earn per share over the next 12 months.

28 Bloomberg, as of Aug. 13, 2026. **29** Markit, based on U.S. listed ETF flows, as of Aug 16, 2026 **30** Bloomberg, as of Aug. 13, 2026. **31** Bloomberg, BlackRock, as of July 31, 2026. **32** State Council Information Office of the People's Republic of China, as of July 20, 2026.

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Fixed income

Higher yields may create opportunities as AI reshapes credit

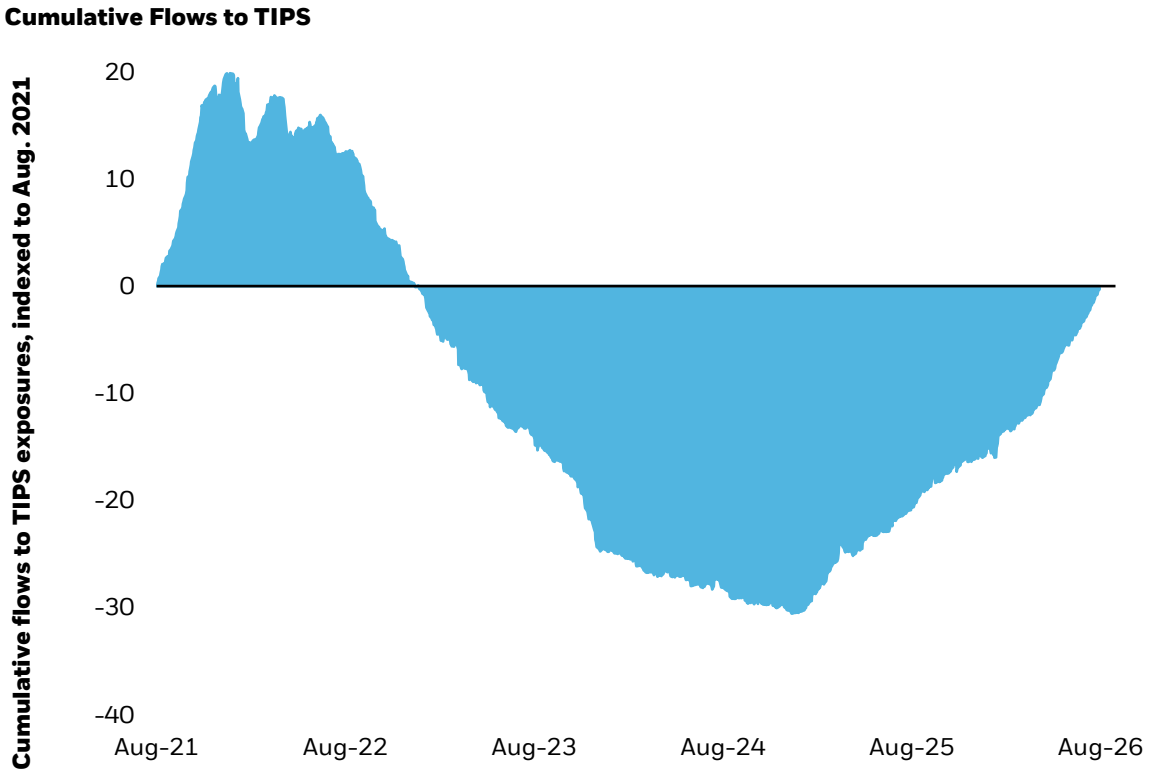
8 What are the opportunities in fixed income?

We believe elevated risk-free rates and real yields provide an attractive starting point for forward returns within fixed income. As spreads remain historically tight for both investment-grade and high-yield corporate bonds, we favour harvesting carry while remaining selective about where credit risk is deployed. This approach favours higher-quality bonds, focusing on investment-grade credit and high-rated speculative grade bonds rather than taking broad credit-market risk.

Income opportunities remain historically compelling and heightened credit dispersion calls for bottom-up security selection and access to harder-to-reach plus sectors. A flexible, actively managed approach can work well in this environment. Securitized and real asset-backed credit can also offer attractive income with resilient cash flows and lower exposure to AI-driven obsolescence as AI expands. Emerging market debt continues to benefit from supportive carry, resilient growth, and improving flows.[33] Furthermore, the technical backdrop for EM has continued to improve, as positioning has become cleaner and net supply dynamics strengthen.

We see potential for further yield curve steepening given the competition for capital from record corporate bond and heavy global sovereign issuance. Furthermore, risk premia could rise as new Federal Reserve Chair Kevin Warsh works to establish credibility.[34] Navigating elevated duration risk will likely require a nimble approach.[35] That's not to say that there are no tactical opportunities further out the curve. With 30-year TIPS yielding about 3% for the first time since the Global Financial Crisis of 2008 and real yield elevated across all maturities, we view TIPS exposures as providing meaningful income opportunity and a potential cushion against growth deterioration.[36] Despite strong inflows since the start of 2025, positioning in inflation-protected bonds remains relatively light and we see potential for further inflows through the end of the year and into next.

Figure 9: Flows into TIPS exposures have picked up, but remain muted over longer horizons[37]



Source: EPFR, as of Aug. 20, 2026. Flows into TIPS exposures as estimated and classified by EPFR. Flows indexed to Aug. 23, 2021 to show cumulative flows over the past five years.

Tickers to consider XSH XFLX XSTH

33 Bloomberg, as of Aug. 20, 2026. **34** Risk premia are the additional returns investors demand for holding assets with greater uncertainty or less predictable outcomes. **35** Duration risk is the potential for a bond's price to fall when interest rates rise, with longer-maturity bonds generally more sensitive to rate changes. **36** Bloomberg, as of Aug. 12, 2026. **Past performance does not guarantee future results. 37** TIPS real yields are the yields on U.S. Treasury securities whose principal adjusts with inflation, representing the return investors can earn above inflation Cumulative 5-year flows to US inflation-protected bond mutual funds and ETFs.

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9 Is the amount of debt financing the AI buildout a concern?

AI has moved beyond an equity story and into core fixed income holdings – an evolution that may put upward pressure on the yield curve and ultimately could make investment-grade credit a less effective portfolio diversifier.

As the data centre buildout consumes ever more internally generated cash, AI adopters have increasingly turned to debt financing, which creates competition for capital.[38] The five hyperscalers (Amazon, Microsoft, Alphabet, Meta and Oracle) issued approximately $200 billion of investment-grade debt in the first half of 2026, almost double the issuance during all of 2025.[39] Technology sector borrowing has accounted for 20% of the total amount of new U.S. investment-grade (IG) debt issued so far this year,[40] and over 30% of new long-duration supply.[41]

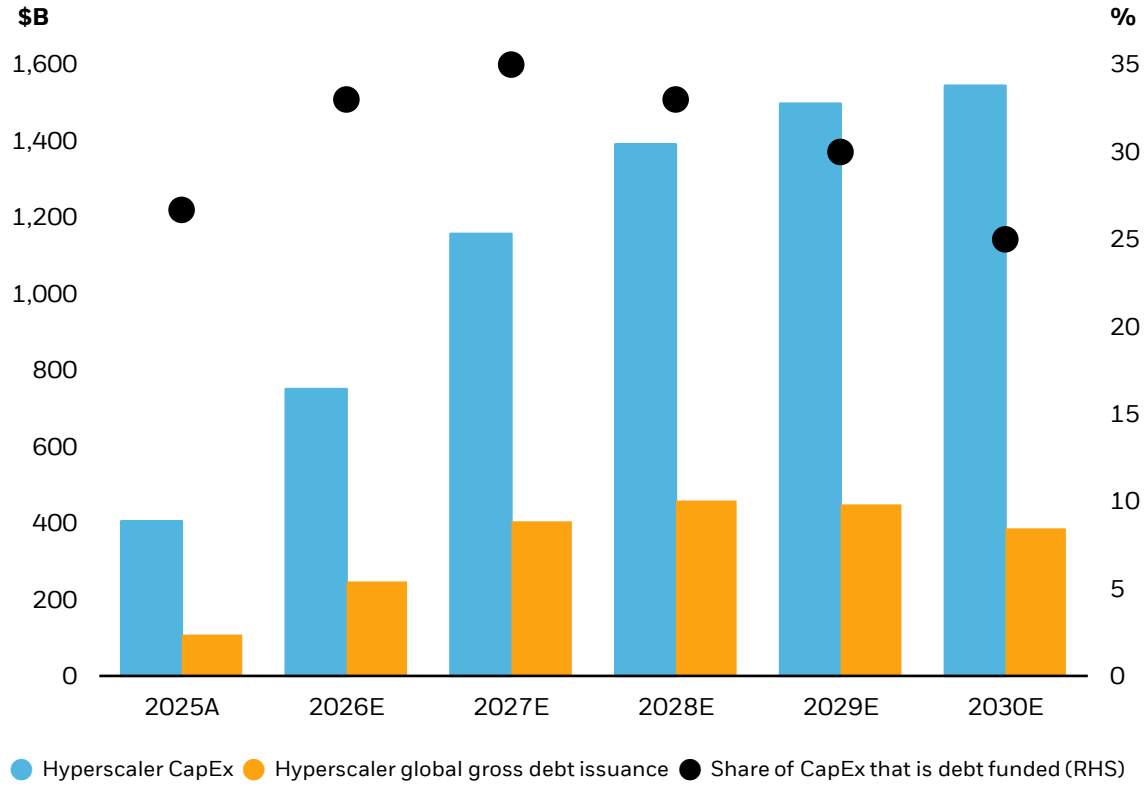
This elevated issuance is changing the IG market's composition. Technology's share within the investment grade universe has risen from 9.3% in January 2025 to 11.6% today.[42]

With over $1 trillion in par outstanding, tech and communications now has a higher weight in the iBoxx USD Liquid Investment Grade Total Return Index than banks.[43] As technology's share of IG indices grows, correlation between IG bonds and technology stocks has also moved higher, reaching ~0.45 in August, up from ~0.05 in November 2025.[44]

Unique sources of return are even more important for a market with narrow drivers. With corporate bonds' rising exposure and correlation to technology, we believe investors could consider including alternate sources of diversification. Liquid alternative strategies such as equity market neutral seek to provide diversification, with the potential to deliver returns with a lower correlation to broad equity markets.[45]

Another alternative to U.S. corporate bonds is via sovereign debt issued by other countries. We see diverging international central bank policies as creating opportunities for active selection within the international government bond markets.

Figure 10: Share of debt-funded hyperscaler capital expenditure may increase through 2027



Source: Goldman Sachs Global Investment Research, Dealogic (ION Analytics). Excludes data center financings issued by special purpose vehicles. As of July 25, 2026. Hyperscalers include Amazon, Alphabet, Meta, Microsoft, and Oracle. YTD2026 gross debt issuance is $194 billion. "A" refers to actual values while "E" refers to estimates. Estimates are not guaranteed and may not come to pass.

Tickers to consider XGGB

38 Bank of America estimates that hyperscaler capex will reach $1.09 trillion in 2027, topping the estimated $995 billion in free cash flow. "IG Credit Strategist," Aug. 7, 2026. **39** Goldman Sachs Research, July 27, 2026. **40** Goldman Sachs Research, July 9, 2026. **41** Goldman Sachs Research, July 2, 2026. Long-duration defined as an original maturity greater than 25 years. **42** JPMorgan, "Credit Market Outlook & Strategy," July 17, 2026. IG Universe measured by the JP Morgan U.S. Liquid Index (JULI), and technology index share as classified by JPM. **43** Bloomberg, as of August 20, 2026. **44** Bloomberg, as of Aug. 12, 2026. Correlation is the 90-day moving correlation between the iShares iBoxx USD Investment Grade Corporate Bond ETF (LQD) and the iShares US Technology ETF (IYW). **Past performance does not guarantee future results. 45** Morningstar as of Aug. 8, 2026. U.S. equities represented by the S&P 500 TR index, Equity Market Neutral by the respective Morningstar category. Returns measured on a weekly basis from Jan. 4, 2026 to Aug. 8, 2026. An equity market neutral strategy seeks to profit from stock selection while minimizing exposure to the overall direction of the stock market.

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Portfolio diversification

Looking beyond stocks and bonds for new sources of return

10 How do I build a diversified portfolio in the age of AI?

Recent market stress reinforced the importance of portfolio diversification, especially when AI exposures have further reduced the diversification benefits from core fixed income. The total risk of an average moderate financial advisor portfolio has increased to 11.3% from 10.8% at the beginning of the year, and a broader increase in market risks has added to potential portfolio volatility.[46]

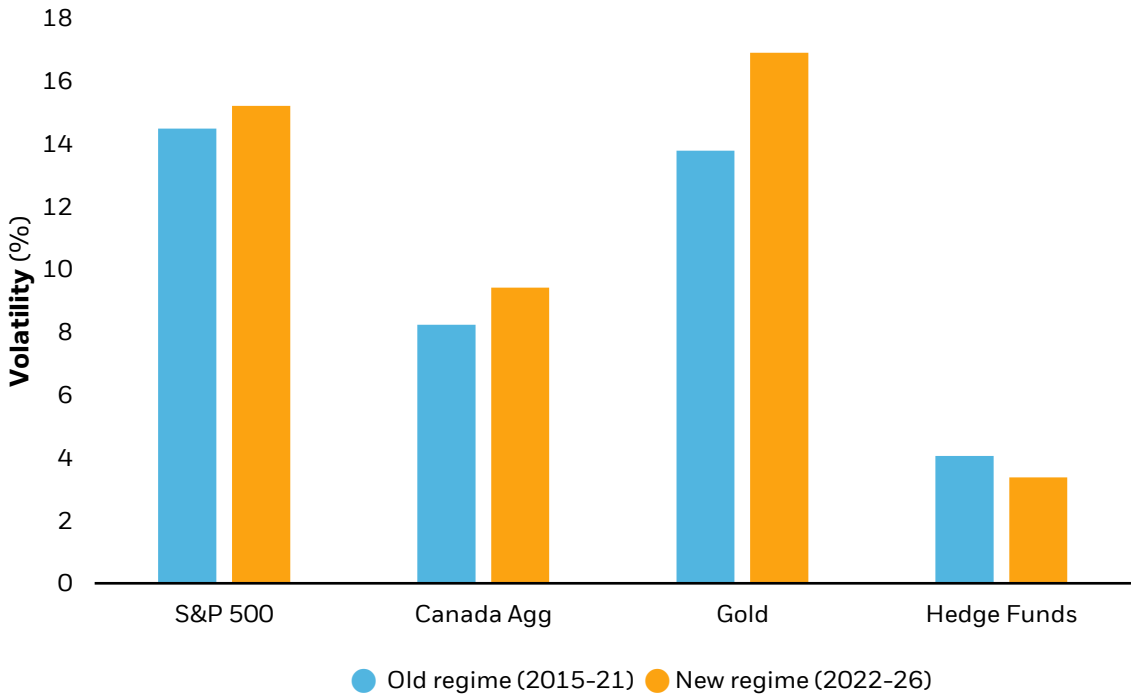
Investors are paying more attention to AI as it encompasses a growing share of traditional asset classes in their portfolios. Within equity sleeves, dividends and quality stocks can prove useful diversifiers, while looking beyond IG credit can limit a bond allocation's correlation to equities. Increasingly, investors are looking beyond stock and bonds to alternatives or commodity strategies that are negatively correlated with equities to play a more meaningful diversification role.

We believe investors should consider hedge-fund style strategies as an additional source of diversification, alongside bonds and alternative asset classes like gold and cryptocurrencies. We remain constructive on gold structurally, with central bank demand providing an important source of support. And bitcoin has exhibited positive recent momentum in flows and performance amid supportive policy comments from the White House and government regulators. Tactically, however, stronger AI-driven productivity could translate into higher real yields, posing a near-term risk to performance for non-yielding assets.

While volatility across traditional equity and fixed income markets has increased in the AI era, average hedge fund strategies have exhibited comparatively lower volatility with more differentiated return drivers as shown in Figure 11. Their ability to manage market exposure dynamically, invest long and short, and pursue relative-value opportunities can provide sources of return that are less dependent on broad market direction.

The opportunity set has become increasingly compelling in 2026, supported by higher equity dispersion and a broadening of market leadership across sectors, countries and factors. Dispersion within the S&P 500 had reached its highest level since 2010 in May before retreating, creating greater scope to identify investment opportunities from winners and losers.[47] Historically, periods of elevated dispersion have also been associated with stronger hedge fund performance.[48]

Figure 11: Liquid alternatives have delivered low volatility across regimes compared to traditional asset classes



Source: BlackRock, Morningstar, HFRI via Morningstar 04/30/2015 to 06/30/2026. Data frequency: monthly. Old Regime: 2015-2021; New Regime: 2022-2026. S&P 500 represented by the S&P 500 Index; Canada. Aggregate Bonds represented by the FTSE Canada Universe Bond Index; Gold represented iShares Gold Bullion ETF (CGL.C); and hedge funds represented by the HFRI Fund Weighted Composite Index. **Past performance does not guarantee future results.**

Tickers to consider RNWH CGL.C CGL

46 BlackRock Investment and Portfolio Solutions, as of Aug 14, 2026. "Advisor models" data is as of June 30, 2026, based on the 1,004 "moderate" risk cohort models collected by BlackRock. Advisor models collected by BlackRock are grouped into five risk cohorts for analysis, based on total equity allocation. Models in the "moderate" risk cohort are defined as any portfolio with an overall equity allocation of between 50-65%. BlackRock's risk model data is supplemented by asset allocation and fund characteristic data from Morningstar. The portfolios analyzed represent a subset of the industry, and not its entirety. As such, there may be certain biases present in the data that reflect the advisors who choose to work with BlackRock to analyze their portfolios. **47** BlackRock, with data from LSEG from October 2006 to June 2026. Annual stock dispersion is calculated by taking the standard deviation of the index 30-day index return minus the 30-day stock return for every stock in the index and taking the standard deviation of the results on a monthly basis for the last 20 years. **48** BlackRock, Morningstar, HFR Database as of June 30, 2026, based on monthly returns of the HFRX Equal Weighted Strategies Index in different percentiles of dispersion in S&P 500.

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11 What do fund flows and investor sentiment show?

In the U.S., we see that fund flows and investor sentiment have shown a diverging story: investors may be cautious and, as a result, have been allocating into bond funds and money markets, even as the stock market signals confidence and investors identify as bullish in our polling.

We believe this disconnect is one of this year's more striking market developments. U.S. stocks continue to climb to new highs, with the S&P 500 up over 10% through July and gains extending across international, emerging market, and small-cap equities.[49]

Yet flows show caution as investors seem to favour bonds and cash (money market funds), indicating a preference for attractive yields and potential preparation for an uncertain economic and political backdrop.

- Even with bond performance largely flat, bond mutual funds and ETFs have attracted about $912 billion in the past 12 months, approaching the all-time record of $959 billion from 2021.[50]
- Intermediate core bonds and ultrashort bonds have seen the strongest inflows, suggesting investors are prioritizing income, stability, and capital preservation over equity upside.[51]

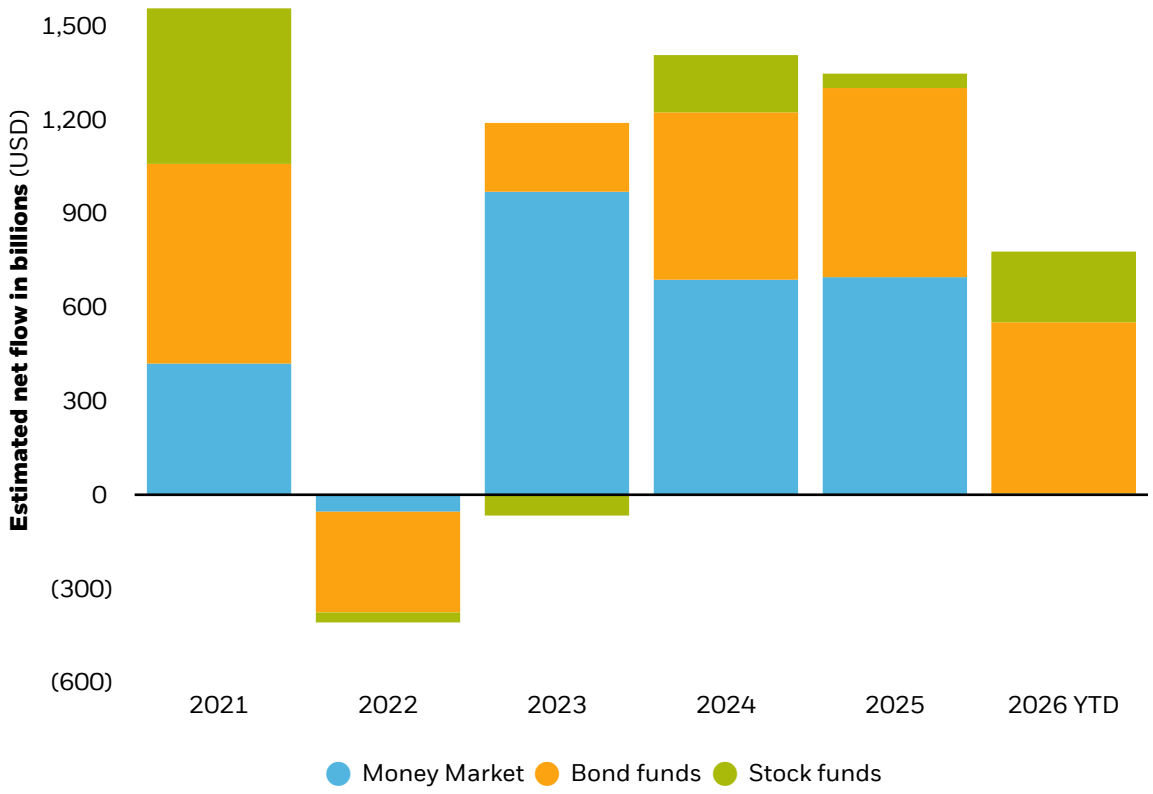
On the other end of the risk spectrum is the rise of levered exposures and narrowly focused semiconductor ETFs, which have seen $21 billion in net flows YTD.[52] Even with recent volatility, investors have indicated a "Buy the Dip" attitude: in weeks following negative semiconductor performance, flows into the top seven semiconductor ETFs increased by 14%.[53]

BlackRock polling also reveals that advisor sentiment has rebounded. Since March lows, sentiment has steadily recovered, with the percentage of respondents expressing bullish sentiment nearly doubling, while the percentage of those expressing a bearish view halved.[54]

Perhaps the paradox between flows and sentiment can be explained by investors' forward intentions. Since mid-May, the top two asset classes advisors have indicated they're looking to add to have been U.S. equities and liquid alternatives, suggesting they are both leaning into risk and getting more deliberate about portfolio diversification.

With earnings remaining strong, market leadership broadening, and investors still favouring defensive allocations, the current environment suggests the equity rally may have more room to run.

Figure 12: Flows have been dominated by money markets and bonds



BlackRock, Morningstar as of July 30, 2026. Estimated Net flows include both U.S. listed Open-End Mutual Funds and ETFs. Stock Funds, Bond Funds, and Money Market Funds as classified by Morningstar. Money Market and Bond Funds include both taxable and non-taxable funds.

49 Bloomberg as of Aug. 12, 2026 as represented by S&P 500 total return year to date.. **50** Morningstar, as of July 31, 2026. Showing flows into Mutual Funds & ETF ex money market ex fund of funds as classified by Morningstar for trailing 12 months from Dec. 2006 to July 2026. Bond performance as represented by YTD U.S. Aggregate Total Return Bond Index. Bucketing as determined by Morningstar. **51** Morningstar, as of July 30, 2026. Intermediate core bonds and ultrashort bonds as classified by Morningstar out of the Mutual Funds & ETF ex money market ex fund of funds universe. **52** BlackRock, Bloomberg, ETF groupings determined by Markit. As of Aug. 11, 2026. **53** Bloomberg as of Aug. 4, 2026. Negative performance as classified by total return of Philadelphia Semiconductor Exchange Index. Top seven semiconductor ETFs as determined by AUM. **54** Polling conducted by BlackRock Investment and Portfolio Solutions, as of Aug. 13, 2026 based on results from the two following surveys: June 9, 2026 with answers reflecting 163 unique respondents and August 13, 2026 with answers reflecting 178 unique respondents.

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ETF implementation ideas – Fall 2026

Broad market equities		
Canada	**XIC**	iShares Core S&P/TSX Capped Composite Index ETF
U.S. large-cap	**XUS**	iShares Core S&P 500 Index ETF
	XSP	iShares Core S&P 500 Index ETF (CAD-Hedged)
	XQQU	iShares NASDAQ 100 Index ETF
	XQQ	iShares NASDAQ 100 Index ETF (CAD-Hedged)
International	**XINT**	iShares Core MSCI All-International Equity Index ETF
	XEF	iShares Core MSCI EAFE IMI Index ETF
	XEC	iShares Core MSCI Emerging Markets IMI Index ETF

Style and thematic equities		
AI related	**XBAI**	iShares A.I. Innovation and Tech ETF ***(Listing soon)***
	CIF	iShares Global Infrastructure Index ETF
	XCHP	iShares Semiconductor Index ETF
	XETM	iShares S&P/TSX Energy Transition Materials Index ETF
Quality & income	**XDIV**	iShares Core MSCI Canadian Quality Dividend Index ETF
	XDU	iShares Core MSCI US Quality Dividend Index ETF
	RCD	RBC Quant Canadian Dividend Leaders ETF
	XQLT	iShares MSCI USA Quality Factor Index ETF

Fixed income		
Core bond	**XSB**	iShares Core Canadian Short Term Bond Index ETF
	XSMB	iShares Core Canadian 1-10 Year Bond Index ETF
	RCOR	RBC Core Bond Pool
Income	**XSH**	iShares Core Canadian Short Term Corporate Bond Index ETF
	XFLX	iShares Flexible Monthly Income ETF (CAD-Hedged)
Inflation-linked	**XSTH**	iShares 0-5 Year TIPS Bond Index ETF (CAD-Hedged)
Sovereign debt	**XGGB**	iShares Global Government Bond Index ETF (CAD-Hedged)

Alternatives		
Market neutral	**RNWH**	RBC QUBE Market Neutral World Equity Fund (CAD Hedged)
Physical gold	**CGL.C**	iShares Gold Bullion ETF
	CGL	iShares Gold Bullion ETF (CAD-Hedged)

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Authors

BlackRock Global Product Solutions

Investment Strategy

Gargi Chaudhuri
Chief Investment and Portfolio Strategist, Americas

Kristy Akullian, CFA
Head of iShares Investment Strategy, Americas

David Jones
Investment Strategist

Jasmine Fan, CFA
Investment Strategist

Samuel McClellan, CFA
Investment Strategist

Mark Peterson
Investment Strategist

Faye Witherall
Investment Strategist

Jon Angel
Investment Strategist

Oliver Hering
Investment Strategist

Annie Khanna
Investment Strategist

John Huebner
Investment Strategist

Canada Fixed Income Strategy

Rachel Siu
Head of Canada Fixed Income Strategy

Ross Pastman
Fixed Income Strategist

Jennifer Li
Fixed Income Strategist

Important notes

All figures are presented in U.S. dollars unless otherwise indicated.

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