

Weekly commentary

July 28, 2025

BlackRock

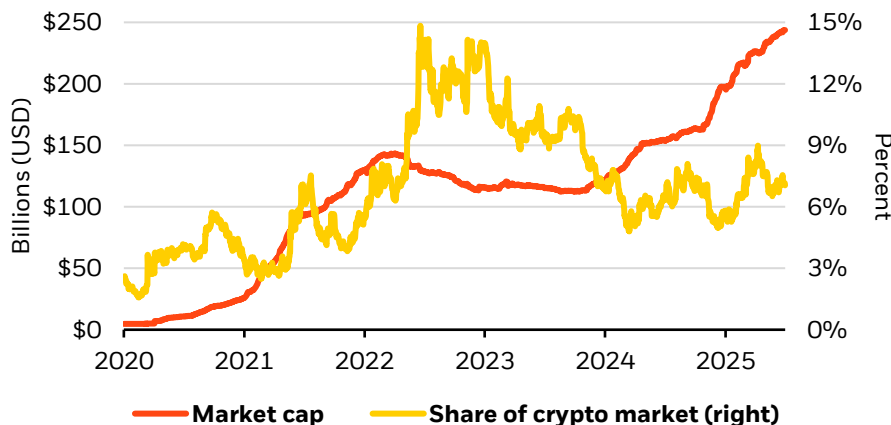
Stablecoins look here to stay

- Recent U.S. law cements the role of stablecoins as a means of digital payment in the future of finance. We still see bitcoin as a potential return diversifier.
- U.S. stocks pushed to all-time highs, partly on signs of big tech companies upping AI investment plans. Japanese stocks also hit record highs.
- We expect the Fed will hold rates steady this week. We watch for U.S. trade deals as the Aug. 1 deadline approaches and for tariff impacts in Q2 GDP data.

New U.S. legislation – notably this month's Genius Act – is cementing the role of stablecoins as a payment method in the future of finance, one of five mega forces we see driving returns. Stablecoins are pegged to major currencies, mainly the U.S. dollar and could solidify its dominance in global markets, though other countries are exploring alternatives. We think rising demand for stablecoins will have little impact on short-term Treasury yields. We still see bitcoin as a distinct return driver.

The rise of stablecoins

Stablecoin market cap vs. and share of crypto market cap, 2020-2025



Source: BlackRock Investment Institute, with data from Coingecko, July 2025. Note: The orange line shows the total market cap of stablecoins in nominal terms, and the yellow line shows their size relative to the entire cryptocurrency market.

This has been a banner year for bitcoin, up 25% this year as the U.S. is in the process of adopting a couple of key laws aimed at bringing digital payments and assets into the mainstream – and making the U.S. the crypto capital of the world. One determines which financial regulator oversees different digital assets. That bill is still working its way through Congress. Another – the Genius Act, signed into law earlier this month – creates a comprehensive payment stablecoin framework. Stablecoins are digital tokens pegged to a fiat currency and backed by reserve assets. They fuse the frictionless transfer of crypto with the perceived stability of fiat currency. Though stablecoins are small relative to the size of the overall crypto universe at a 7% share, their adoption has grown quickly since 2020 to reach about \$250 billion. See the chart.



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We see two implications of the Genius Act on the U.S. dollar and Treasury bills. The act defines stablecoins to function as a payment method, not an investment product; prohibits issuers from paying interest; and limits issuance to federally regulated banks, some registered nonbanks and state-chartered firms. This regulation could reinforce dollar dominance by enabling a tokenized U.S. dollar-based ecosystem for international payments. Users in emerging markets may get easier access to the U.S. dollar over volatile local currencies. Yet in major economies, adoption may be limited by the ban on interest payments, which aims to prevent a low-friction rival that could compete with bank deposits and hurt traditional lending.

The act also spells out what assets stablecoin issuers may hold in reserve: mostly repurchase agreements, money market funds and U.S. Treasury bills with a maturity of 93 days or less. Leading stablecoin issuers Tether and Circle together hold at least \$120 billion in Treasury bills, only about 2% of the Treasury's roughly \$6 trillion bills outstanding. That demand could grow with the stablecoin market and spur new buying of bills – but the impact on yields will likely be limited. First, stablecoin demand for bills is likely to be offset by money shifting from similar assets, so little net new demand. Second, bill issuance is set to keep surging due to the Treasury's preference to boost the funding of persistent deficits with more short-term debt.

The U.S. is not alone in acting. Hong Kong's new regulation aims to attract stablecoin innovation. Europe is exploring a digital euro, though its use would be limited to avoid hurting banks. If other countries permit interest-bearing stablecoins or pursue central bank digital currencies, it could weaken the dollar's role in trade finance, though the U.S. could then permit interest.

This wave of mainstreaming digital assets – through a regulatory framework and U.S. administration support – bodes well for greater adoption, the core investment case we see for bitcoin and helping make it a distinct driver of risk and return in portfolios. Stablecoins are still a relatively small part of the broader crypto universe – and as this evolves it's not clear how stablecoins will compete with other digital assets.

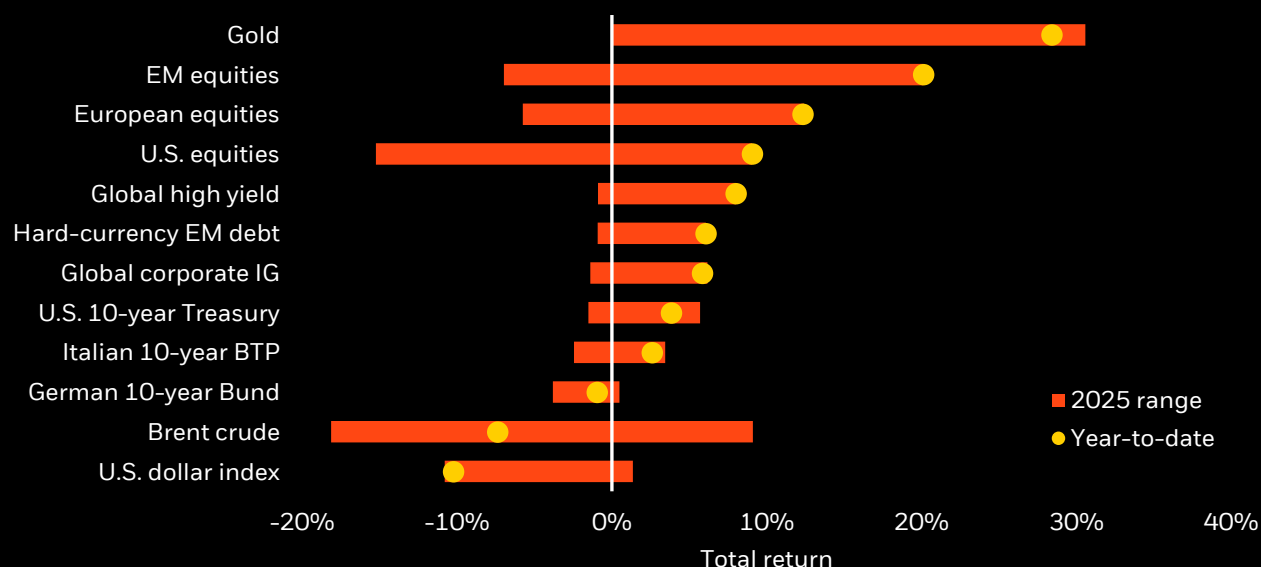
Bottom line: We see stablecoins as a new part of the future of finance – and new U.S. legislation is aiming to put the U.S. at the center of digital asset innovation. We still see bitcoin adoption as a distinct driver of risk and return.

Market backdrop

U.S. stocks pushed to fresh all-time highs, with the S&P 500 now up about 8% for the year. Alphabet's planned increase in capital spending gave another boost to the AI trade. Japanese stocks soared after the U.S. and Japan struck an agreement on trade at tariffs below what the U.S. had been pushing for previously. The Topix index gained 4% on the week. U.S. Treasury yields were mostly steady, with the 10-year yield at 4.40% and now hovering within a range of roughly 4.20% to 4.60%.

Assets in review

Selected asset performance, year-to-date return and range



Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and do not account for fees. It is not possible to invest directly in an index.

Sources: BlackRock Investment Institute, with data from LSEG Datastream as of July 24, 2025. Notes: The two ends of the bars show the lowest and highest returns at any point year to date, and the dots represent current year-to-date returns. Emerging market (EM), high yield and global corporate investment grade (IG) returns are denominated in U.S. dollars, and the rest in local currencies. Indexes or prices used are: spot Brent crude, ICE U.S. Dollar Index (DXY), spot gold, MSCI Emerging Markets Index, MSCI Europe Index, LSEG Datastream 10-year benchmark government bond index (U.S., Germany and Italy), Bloomberg Global High Yield Index, J.P. Morgan EMBI Index, Bloomberg Global Corporate Index and MSCI USA Index.

Week ahead

July 29	U.S. consumer confidence	July 30	Fed policy meeting; U.S. Q2 GDP; euro area Q2 GDP
July 31	U.S. PCE and ECI; Bank of Japan policy meeting	Aug. 1	U.S. payrolls

We see the Federal Reserve holding rates steady as tariff-related inflation pressures begin surfacing in U.S. inflation data. We expect a modest rebound in U.S. Q2 GDP after it shrank in Q1 but watch for tariff impacts on consumption and investment. We are watching for U.S. trade deals as the Aug. 1 deadline approaches. And we look for signs of a Bank of Japan rate hike within the year given last week's U.S.-Japan trade deal, though our base case remains early 2026.

Big calls

Our highest conviction views on six- to 12-month (tactical) and over five-year (strategic) horizons, July 2025

Tactical		Reasons
U.S. equities		Policy uncertainty and supply disruptions are weighing on near-term growth, raising the risk of a contraction. Yet we think U.S. equities will regain global leadership as the AI theme keeps providing near-term earnings support and could drive productivity in the long term.
Using FX to enhance income		FX hedging is now a source of income, especially when hedging euro area bonds back into U.S. dollars. For example, 10-year government bonds in France or Spain offer more income when currency hedged than U.S. investment grade credit, with yields above 5%.
Seeking alpha sources		We identify sources of risk taking to be more deliberate in earning alpha. These include the potential impact of regulatory changes on corporate earnings, spotting crowded positions where markets could snap back and opportunities to provide liquidity during periods of stress.
Strategic		Reasons
Infrastructure equity and private credit		We see opportunities in infrastructure equity due to attractive relative valuations and mega forces. We think private credit will earn lending share as banks retreat – and at attractive returns.
Fixed income granularity		We prefer short-term inflation-linked bonds over nominal developed market (DM) government bonds, as U.S. tariffs could push up inflation. Within DM government bonds, we favor UK gilts over other regions.
Equity granularity		We favor emerging over developed markets yet get selective in both. Emerging markets (EM) at the cross current of mega forces – like India – offer opportunities. In DM, we like Japan as the return of inflation and corporate reforms brighten the outlook.

Note: Views are from a U.S. dollar perspective, July 2025. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any particular funds, strategy or security.

Tracking five mega forces

Mega forces are big, structural changes that affect investing now – and far in the future. As key drivers of the new regime of greater macroeconomic and market volatility, they change the long-term growth and inflation outlook and are poised to create big shifts in profitability across economies and sectors. This creates major opportunities – and risks – for investors. See our [web hub](#) for our research and related content on each mega force.

- 1. Demographic divergence:** The world is split between aging advanced economies and younger emerging markets – with different implications.
- 2. Digital disruption and artificial intelligence (AI):** Technologies are transforming how we live and work.
- 3. Geopolitical fragmentation and economic competition:** Globalization is being rewired as the world splits into competing blocs.
- 4. Future of finance:** A fast-evolving financial architecture is changing how households and companies use cash, borrow, transact and seek returns.
- 5. Transition to a low-carbon economy:** The transition is set to spur a massive capital reallocation as energy systems are rewired.

Granular views

Six- to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, July 2025

We have lengthened our tactical investment horizon back to six to 12 months. The table below reflects this and, importantly, leaves aside the opportunity for alpha, or the potential to generate above-benchmark returns – especially at a time of heightened volatility.

		Underweight	Neutral	Overweight	Previous view	
					●	Previous view
Asset	View	Commentary				
Equities	Developed markets					
	United States				+1	We are overweight. Policy-driven volatility and supply-side constraints are pressuring growth, but we see AI supporting corporate earnings. U.S. valuations are backed by stronger earnings and profitability relative to other developed markets.
	Europe				Neutral	We are neutral. Greater unity and a pro-growth agenda across Europe could boost activity, yet we are watching how the bloc tackles its structural challenges before turning more optimistic. We note opportunities in financials and industries tied to defense and infrastructure spending.
	UK				Neutral	We are neutral. Political stability could improve investor sentiment. Yet an increase in the corporate tax burden could hurt profit margins near term.
	Japan				+1	We are overweight given the return of inflation and shareholder-friendly corporate reforms. We prefer unhedged exposures as the yen has tended to strengthen during bouts of market stress.
	Emerging markets				Neutral	We are neutral. Valuations and domestic policy are supportive. Yet geopolitical tensions and concerns about global growth keep us sidelined for now.
	China				Neutral	We are neutral. Trade policy uncertainty keeps us cautious, and policy stimulus is still limited. We still see structural challenges to China's growth, including an aging population.
	Short U.S. Treasuries				+1	We are overweight. We view short-term Treasuries as akin to cash in our tactical views. We would still lean against the market pricing of multiple Fed rate cuts over the next year.
	Long U.S. Treasuries				-2	We are underweight. Persistent budget deficits and inflation pressures could drive term premium up over the long term, but we see scope for lower yields near term. We prefer intermediate maturities.
	Global inflation-linked bonds				Neutral	We are neutral. We see higher medium-term inflation, but cooling inflation and growth may matter more near term.
Fixed Income	Euro area govt bonds				Neutral	We are neutral. Yields are attractive, and term premium has risen closer to our expectations relative to U.S. Treasuries. We prefer peripheral bonds such as in Italy and Spain.
	UK gilts				Neutral	We are neutral. Gilt yields are off their highs, but the risk of higher U.S. yields having a knock-on impact and reducing the UK's fiscal space has risen. We are monitoring the UK fiscal situation.
	Japanese govt bonds				-1	We are underweight. We see room for yields to rise further on Bank of Japan rate hikes and a higher global term premium.
	China govt bonds				Neutral	We are neutral. Bonds are supported by looser policy. Yet we find yields more attractive in short-term DM paper.
	U.S. agency MBS				+1	We are overweight. We find income in agency MBS compelling and prefer them to U.S. Treasuries for high-quality fixed income exposure.
	Short-term IG credit				+1	We are overweight. Short-term bonds better compensate for interest rate risk.
	Long-term IG credit				-1	We are underweight. Spreads are tight, so we prefer taking risk in equities. We favor Europe over the U.S.
	Global high yield				Neutral	We are neutral. Spreads are tight, but corporate fundamentals are solid. The total income makes it more attractive than IG.
	Asia credit				Neutral	We are neutral. We don't find valuations compelling enough to turn more positive.
	Emerging hard currency				-1	We are underweight. Spreads to U.S. Treasuries are near historical averages. Trade uncertainty has eased, but we find local currency EM debt more attractive.
	Emerging local currency				Neutral	We are neutral. Debt levels for many EMs have improved, and currencies have held up against trade uncertainty. We prefer countries with higher real interest rates.

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