

BLACKROCK

Week in View -21 June 2010

It is important to acknowledge the rally in risk assets over the last week, and also the fact that this has been building over the past fortnight or so. The week under review saw equity markets up around 3%-5% on average, with bond yields ending higher too, particularly in the US and Germany. We have also seen something of a rally in some Southern European bond markets with, for example, the yield on 10-year Spanish bonds falling from 4.9% to 4.5%.

We have also seen quite a material rally in commodities - the oil price, for example, is now closer to pushing US\$80 a barrel, having been down closer to US\$70 only a few weeks back, and finally a bit of a reversal of some of the currency themes that have been in evidence in recent weeks, the most striking one being the rally in the euro against the dollar.

So we've seen a clear reversal of some of the more negative themes which permeated markets in May in particular. What has driven this? To some extent just a relief rally, although there have been some sporadic pieces of good news, in particular the Spanish bond auction went well last week.

Some of this looks to be technical in nature, but I think by virtue of the fact that, over the past few days, there just hasn't been an unending supply of bad news on what's happening in Southern Europe has underlain the relief rally that we have seen.

Market Movements*

Markets	18 Jun 2010	% Change
S&P 500	1117.51	2.37
NASDAQ	2309.80	2.95
TSE 1st Section	884.64	2.10
FTSE S&P World Europe	308.49	2.52
FTSE All-Share	2711.62	1.83
DAX	6216.98	2.80
Hang Seng	20286.71	2.08
Citi World Govt Bond Index All Mats	572.82	-0.25
Bonds**	18 Jun 2010	11 Jun 2010
US	3.22	3.23
Japan	1.22	1.23
Germany	2.71	2.58
UK	3.48	3.41
Currencies	18 Jun 2010	11 Jun 2010
USD/Euro	1.24	1.21
GBP/Euro	0.84	0.83
JPY/USD	90.83	91.67
USD/GBP	1.48	1.46
JPY/GBP	134.43	133.40
Commodities	18 Jun 2010	% Change
Oil (Brent Crude)	77.26	5.40
Commodity Futures (CRB) Index	473.78	2.60
Gold	1259.15	2.69

Turning to the first prevalent theme of the week, Chinese currency reform clearly gave a boost to Asian markets over the weekend and to European markets subsequently. The Chinese have said that they will move to a system of enhanced exchange rate flexibility, and are doing this because they perceive there to be an economic recovery underway and they are more content to live with a high level of currency strength.

They have also expressed a view that they will be more interested in managing against a basket of currencies, but they have also suggested that they are not anticipating a very substantial move on the back of liberalisation.

When you think that in the period from 2005 to 2008, when the renminbi was allowed to appreciate against the dollar, the annual average appreciation was around 5%-7%. This policy stopped in mid-2008, when the extent of the crisis at the time became clear, but the futures curve at the moment and the forward curve is discounting an annual increase in the renminbi, against the dollar, of around 3% over the coming year.

We do not expect fireworks in the Chinese currency on the back of this, but we do think it lays a base for longer-term appreciation. Politics clearly has something to do with why this is being done now. There is a G20 meeting coming up shortly, and more generally China feels that it can live with a slightly stronger exchange rate to help stem some of the insipient rising inflation pressures that appear to be coming through at this point in time.

The other theme of the week saw increasing evidence that the global economy is shifting down a gear. We have seen, in recent months, evidence that the very robust growth in China and India, for example, appears to be rolling over to levels which remain high. We have also seen the first signs that the US economy, which has been growing at around 4% since last autumn, may too be beginning to cool, via softer numbers coming through on housing, jobless claims and in some of the survey data.

So, is the global economy slowing? Yes, it is. Is this catastrophic? We believe not, because the second year of a recovery is always likely to be slower than the first, and our feeling is that we are moving off exceptionally high rates of growth to rates of growth, but we do not regard this as being the precursor to second leg to the recession, or even a very sharp slowdown into 2011.

It is worth noting also that not all of the news has been bad. Indeed, in continental Europe and some of the Northern European countries, like Germany, which are in a position to benefit from euro weakness, we have seen better numbers coming through over the past two-to-three months. So we need to keep the idea of a global slowdown in perspective.

Finally, in our market outlook, we still think things are reasonably finely balanced. Challenges to the market are likely to include a slowdown in the global economy and, at this point in time, there's no great transparency in terms of when that slowdown ends.

Secondly, we know the sovereign debt issue and measures to address it are going to be with us, not just over the next few weeks and months, but also for the next few years. This remains a drag on markets, and we also know that in some emerging market economies we are probably going to see additional tightening in monetary policy. However, it seems to us that the earnings background is still pretty robust, particularly if the level of growth holds up, and even if it is at a slower level than the past year.

Valuations, we believe, in risky assets, are not as compelling as they were 12 months ago, but they already incorporate the idea

that the world is a challenged place, and are much more of a tailwind than a headwind at the moment.

We believe that the global policy stance is likely to remain highly stimulative outside of Southern Europe - still not much sign of fiscal tightening - and in terms of monetary policy we would expect short-term interest rates in the major economies to remain on hold as we go into next year, encouraging investors to want to take risk elsewhere.

So, while we can see arguments on both sides, we do still believe in the idea that this a grinding bull market with high volatility. We have just had a correction, we are probably going to get a couple more this year, but we think there is sufficient good news not yet priced in for the underlying trend still to move higher.

*Equity, currency and bond markets measured over seven days, from previous Friday's close to Friday's close. All index returns in local currency terms. All equity index returns are price only. **Bonds: 10-year yield. This material is for distribution to professional intermediary clients only and should not be relied upon by any other persons. Past performance is not a guide to future performance. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Levels and bases of taxation may change from time to time. Issued by BlackRock Investment Management (UK) Limited (authorised and regulated by the Financial Services Authority). Registered office: 33 King William Street, London, EC4R 9AS. Registered in England No. 2020394. Tel: 020 7743 3000. For your protection, telephone calls are usually recorded. BlackRock is a trading name of BlackRock Investment Management (UK) Limited. Issued in Switzerland by the representative office, BlackRock Investment Management (UK) Limited (London), Zurich Branch, Claridenstrasse 25, Postfach 2118 CH-8022 Zürich from where the Company's Prospectus, Simplified Prospectus, Articles of Association, Annual Report and Interim Report are available free of charge. Paying Agent in Switzerland is JPMorgan Chase Bank, National Association, Columbus, Zurich Branch Switzerland, Dreikönigstrasse 21, CH-8002 Zurich. In Singapore, this information is issued by BlackRock Investment Management (Singapore) Limited. The offer which is the subject of this information memorandum is not allowed to be made to the retail public. This information memorandum is not a prospectus as defined in the Securities and Futures Act. Accordingly statutory liability under that Act in relation to the content of prospectuses would not apply. You should consider carefully whether the investment is suitable for you. The views expressed herein are as of 21.06.10, and do not constitute investment or any other advice; the views are subject to change and do not necessarily reflect the views of BlackRock as a whole or any part thereof.