

# BLACKROCK

Week in View - 14 May 2012

## Latest market views from the BlackRock Multi-Asset Client Solutions Group (BMACS)

### Market movements

The risk-off period which emerged towards the end of March continued rather more vigorously last week. It remains a rather patchy risk-off period and most of the moves we have seen have stayed within previous ranges, unwinding recent gains rather than experiencing very dramatic shifts. For example, US equities were broadly unchanged last week, but are still materially up year to date and only around 4% off the previous peak. European equities have been more of a mixed bag. In local currency terms, German equities have outperformed US equities this year, but Spanish stocks have declined by almost 20% in euro terms. Over the past few days we have seen more pronounced weakness in many emerging market indices, particularly in Asia, where many indices have fallen 3-5%. Emerging market currencies have also exhibited material weakness; the Brazilian real is the most notable example.

Commodities in general have also come under pressure. The sharp fall in the oil price has given back nearly all the gains previously made this year on the back of concerns about escalating tension between Israel and Iran. Recent declines in both oil and gold prices may also in part reflect the general strength of the US dollar – itself a manifestation of the risk-off phase.

Unsurprisingly, high quality sovereign bond yields have edged lower over the week, but they have not fallen sharply. Interestingly, investment grade credit and high yield bond spreads have not widened materially, illustrating that the risk-off phase is not universal.

## What's driving the risk off phase?

### 1. Stresses in Europe

In the past week or so political stresses have re-emerged in Europe on the election results in France and Greece and renewed concerns over Spanish banks. Of these three developments, the French result is the least concerning, largely because it was widely anticipated. We are sceptical that there will be a material change in the French approach to European fiscal consolidation. While there may be greater emphasis on a growth compact, support for this was beginning to materialise anyway. The broader stresses, particularly in Spain, are more serious and unlikely to disappear quickly. We would note, however, that while the situation in Europe appears worryingly similar to a year ago, there is now more of a policy structure in place to limit stresses. For example the Long Term Refinancing Operations of the European Central Bank and the financial firewall in the shape of the European Financial Stability Facility and the European Stability Mechanism.

Even if this policy structure falls some way short of ending the crisis, there are some policy actions which could be taken to stabilise the current situation.

### 2. Weaker global economic activity

We do not believe recent numbers amount to a dramatic change in the overall trend of recovery in the global economy, but nevertheless there has been a somewhat weaker tone to recent data. There is a global feel to this, even if Europe remains by some distance the one area which is really struggling. The theme of a slowdown in China returned to the fore this week as weak data for April offset the better numbers last month. While we do not expect a hard landing in China, there is little reason to believe the deceleration which first emerged last year is being reversed at the moment. More generally, we do not expect the global slowdown to become deeply entrenched,

but in the short term this slower phase could yet persist.

### 3. Diminished central bank activity

Central bank activity has reduced since the flurry of policy action earlier this year and in late 2011. For example, QE3 in the US has come to appear less likely, the Bank of England and European Central Bank seem content for the moment to keep policy on hold. These three central banks are not due to have formal meetings now for several weeks and therefore we would expect little policy action in the near future.

The pace of easing in the emerging economies still remains very slow, but the cut in the reserve requirements in China this weekend suggests the trend remains intact. With inflation still falling in a number of the larger emerging economies, there is still scope for easing to continue into the second half of the year, albeit at a fairly modest pace.

We tend to view this risk asset correction as going against the underlying trend in asset prices over the coming months and we expect to see a moderate risk-on period at some stage. The lukewarm global economic recovery remains intact, corporate earnings continue to come through, central banks continue to ease policy and valuations generally remain supportive. However, the catalyst for a better environment to emerge is for the moment in abeyance and the tails risks associated with the European background remain higher than we would like. It is therefore feasible that this rather messy period in financial markets does extend into the summer.

### Highlights for the Week Ahead: 14- 18 May

#### Economic Diary:

Monday: France current account, Italy CPI, eurozone industrial production

Tuesday: Japan consumer confidence, France CPI, UK trade balance, eurozone GDP, Germany ZEW survey, US CPI, US retail

sales, Germany trade balance, Singapore GDP, Netherlands GDP, eurozone ZEW survey, Poland budget

Wednesday: Italy GDP, Austria CPI, Italy trade balance, US industrial production, US housing starts, South Africa retail sales

Thursday: Brazil retail sales, US initial claims

Friday: Canada CPI, Brazil economic activity index, Chile GDP

### Corporate Diary:

Companies announcing earnings releases this week include: internet group discount provider, Groupon; platinum producer, Lonmin, miner, Vedanta Resources and diversified industrial group, ThyssenKrupp; Japanese banks, Mitsubishi UFJ, Sumitomo Mitsui Financial Group and Mizuho; UK insurer, Allianz; retailer, Saks; aerospace and defence company, EADS; manufacturer of agricultural equipment, Deere & Company; clothing retailers, Abercrombie and Fitch and Gap; UK pub and restaurant operators, Mitchells and Butlers; low cost retailers, Dollar Tree Stores and Walmart; and international investment firm, 3i.

### Market Movements\*

Equity Markets*	11 May 2012	% Change
S&P 500	1353.39	-1.15
NASDAQ	2933.82	-0.76
TSE 1st Section	758.38	-4.35
FTSE S&P World		
Europe	291.59	-0.78
FTSE All-Share	2897.79	-1.37
DAX	6579.93	0.28
Hang Seng	19964.63	-5.32
Eurostoxx 50	2254.54	0.28
Bonds	11 May 2012	% Change
Citi World Govt Bond Index All Maturities	619.50	0.24
Bond yields **	11 May 2012	4 May 2012
US	1.81	1.88

Japan	0.85	0.89
Germany	1.43	1.51
UK	1.88	1.91
<b>Currencies</b>	<b>11 May 2012</b>	<b>4 May 2012</b>
USD/EUR	1.29	1.31
GBP/EUR	0.80	0.81
JPY/USD	79.88	79.88
USD/GBP	1.61	1.616
JPY/GBP	128.58	129.07
<b>Commodities</b>	<b>11 May 2012</b>	<b>% Change</b>

Oil (Brent Crude)	112.57	0.81
Commodity Futures (CRB) Index	530.89	-2.12
Gold	1589.15	-2.99

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 clients and should not be relied upon by 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: 12 Throgmorton Avenue, London, EC2N 2DL. 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. Issued in Singapore by BlackRock (Singapore) Limited. For further information, the prospectus, simplified prospectuses, annual report and semi-annual report can be obtained free of charge in hardcopy form from the Austrian paying agent: Raiffeisen Zentralbank Österreich AG, A-1030 Vienna, Am Stadtpark 9. Issued in Hong Kong by BlackRock (Hong Kong) Limited. This material has not been approved by the Hong Kong Securities and Futures Commission for public circulation and can only be provided to "professional investors" (as defined in the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong) in Hong Kong. Issued in Singapore by BlackRock (Singapore) Limited. The Fund is only available to "institutional investors" (as defined in section 4A of the Securities and Futures Act, Chapter 289 of Singapore) in Singapore. The Fund has not been and will not be registered with the Securities and Futures Bureau of the Financial Supervisory Commission in Taiwan and any offering of the Fund in the territory of Taiwan or to Taiwanese investors must be subject to the selling restrictions under applicable law and regulation. This material may only be distributed to Professional Intermediaries. The views expressed herein are as of 26.03.11, 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.