

BLACKROCK

Week in View - 6 February 2012

Latest market views from the BlackRock Multi-Asset Client Solutions Group

A series of fortunate events

It has been another very strong week for risk assets: the S&P 500 was up 2%; the FTSE 100 Index rose 3%; most of the major European indices were also up 3-4%; in emerging markets, Brazil rose 4%, and many of the Asian markets were up 1-2%. There was a strong risk-on trend all week, capped on Friday by the excellent figures for new US jobs and falling US unemployment.

What has driven the risk-on period?

We're seeing a series of events that represents a particularly sweet spot for equity investors. On the one hand we have central banks around the world loosening policy, with the US Federal Reserve effectively stating that it is aiming for a nominal growth rate of around 4%, the level at which jobs start to be created. The Fed is promising to keep rates at zero and maintain an accommodative policy stance for at least the next couple of years.

What these developments regarding growth, jobs and rates mean in practical terms is that the bar at which the Fed will decide whether to increase quantitative easing (QE) has been raised from concerns about the economy deflating to concerns about making the economy stronger. As a consequence, the next round of QE in the US is likely to come sooner rather than later.

In Europe, the European Central Bank's (ECB) Long-Term Refinancing Operation (LTRO) that provides funding to banks in trouble is having a material effect on turning around people's perceptions of European financial risk. The ECB is certainly standing behind the banking system now, and another LTRO is on the cards for the end of February, which

basically is quantitative easing, European style. The Bank of England is limbering up for another round of QE given the fairly dismal current economic outlook in the UK. The People's Bank of China is gradually relaxing policy and providing liquidity, while the Reserve Bank of India has cut interest rates by a full percentage point. Basically, a reflationary contribution is being made around the world by governments and central banks.

World economy is moving forward

The employment figures and Purchasing Managers' Indicators that we are seeing at the moment suggest that the world economy is moving forward at a sufficient pace for investors to have some optimism, particularly as growth is being driven by consumption, with a bit of a pick-up in capital expenditure. It means that the first half of the year, barring any serious accidents, may be a bit stronger than many people had previously expected.

So we now have a situation where economies are moving forward a little bit, liquidity is plentiful, and valuations on most equities are still below their long-term averages. Adding to that, the mergers & acquisitions channel seems to be warming up; Roche bid for Alumina and talks have begun between Glencore and Xstrata. Further merger activity in the background suggests that managements are becoming a bit more confident about spending money or using shares to fund acquisitions.

The search for yield

In the backdrop also is the continuing search for yield. There have been strong flows into high-yield funds, continuing interest in dividend-paying equities and a general search to get better returns than zero nominal and -2% real yields from holding money in the bank.

All the problems that we know about – the European debt issue, whether China is slowing

down, the still fairly fragile state of the world banking system and long-cycle deleveraging - are still very much there. Governments are offering negative real interest rates on pretty much every bond in sight in the US, UK and Germany; interest rates are at zero and people need to earn better than zero in the long term to fund liabilities. This is cutting into asset price performance.

Equities are the place to be

It remains our view that equities are the place to be; that emerging market equities are still attractive despite their very strong start to the year, and that developed market equities are generally fairly interesting. There seems to be some traction in reform in Italy, and this is starting to make European equities look a bit more attractive.

We are tending to avoid bonds on the whole, particularly high-quality bonds. Our exposure is particularly focused on the high-yield space where we are picking up 6-7% over similar duration Treasuries or Gilts by investing in companies with very strong balance sheets, and therefore we have a strong conviction that these bonds will be paid at par when they become due.

Global outlook

So to sum up the past week, we have seen more liquidity, a bit more economic optimism, and more confidence starting to creep into investors' behaviour. Sales of Exchange Traded Funds (ETFs) are up, M&A activity has risen, and there has been a sweet spot generally for risk assets.

Highlights for the Week Ahead: 6-10

February

Economic Diary:

Monday: Germany: industrial orders (Dec).

Tuesday: US consumer credit (Dec); Germany, Netherlands: industrial production (Dec); UK: BRC Retail Sales Monitor (Jan).

Wednesday: Japan: current account (Dec).

Thursday: ECB rate announcement; Bank of England rate announcement and Asset Purchase Programme update; Netherlands: CPI (Dec); UK: industrial production, trade balance (Dec).

Friday: US Federal Budget; Germany: CPI (Jan); France, Italy: industrial production (Dec); UK: PPI (Jan); China: trade balance (Jan).

Corporate Diary:

Companies releasing earnings reports this week include GlaxoSmithKline, UBS, Credit Suisse, Arcelor Mittal, BP, Coca Cola, Toyota Motor, BHP Billiton, Cisco, News Corp, Nissan Motor, Sanofi, Statoil, Telenor, BG Group, Diageo, ING, GDF Suez, Rio Tinto, Thomson Reuters and Alcatel-Lucent.

Market Movements*

Equity Markets*	03 Feb 2012	% Change
S&P 500	1344.9	2.17
NASDAQ	2905.66	3.16
TSE 1st Section	760.69	-0.06
FTSE S&P World		
Europe	310.49	3.12
FTSE All-Share	3047.42	2.99
DAX	6766.67	3.91
Hang Seng	20756.98	1.25
Eurostoxx 50	2515.145	3.22
Bonds	03 Feb 2012	% Change
Citi World Govt Bond Index All Maturities	611.8516	0.05
Bond yields **	03 Feb 2012	27 Jan 2012
US	1.949	1.898
Japan	0.95	0.969
Germany	1.892	1.862
UK	2.18	2.066
Currencies	03 Feb 2012	27 Jan 2012
USD/EUR	1.3122	1.3132
GBP/EUR	0.8305	0.83825

JPY/USD	76.735	76.585
USD/GBP	1.58	1.56665
JPY/GBP	121.0043	120.2169
Commodities	03 Feb 2012	% Change
Oil (Brent Crude)	112.51	110.55
Commodity Futures	594.08	595.83

(CRB) Index		
Gold	1759.24	1731.49

*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 16.01.2012, 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.