Global Views

FOURTH QUARTER 2008

BLACKROCK

Global Views represents the collective economic and investment opinions of some of BlackRock's senior investors, including **Bob Doll**, Vice Chairman and Global Chief Investment Officer of Equities; **Scott Amero**, Vice Chairman and Global Chief Investment Officer of Fixed Income; **Peter Fisher**, Co-Head of the Fixed Income Portfolio Management Group; **Ewen Cameron Watt**, Lead Portfolio Manager for the Multi-Asset Portfolio Strategies Group; **Richard Urwin**, Head of the Asset Allocation and Economics Research Team; and **Scott Thiel**, Co-Head of Global Fixed Income. These views do not necessarily reflect the investment decisions made within specific BlackRock portfolios.

Allocation views

Amid all of the current turmoil, our best advice is for investors to focus on broad diversification among asset classes. In these circumstances, we recommend that investors remain cautious and focus on capital preservation for the time being, even at the cost of missing some near-term gains in higher risk assets. This is particularly true for those investors with a shorter time horizon. Within that context, however, we do see value in areas of the equity and fixed income markets. In both cases, we believe a focus on higher-quality investments is appropriate.

For equities, the best value in this very uncertain period can be found in higher-quality companies that have relatively strong balance sheets, strong levels of free cash flow and that have adequate financing. In general, this would lead to an overweighting in large caps and growth stocks.

From a geographic perspective, non-US markets have recently been hit harder than US stocks, largely due to the same quality theme, as well as to the aggressiveness of US monetary and fiscal policy. Going forward, we expect US stocks will continue to outperform other developed markets.

Within fixed income, the ongoing credit crisis has resulted in the extreme widening of credit spreads. To us, this suggests that there is value to be found in some higher-yielding securities and we believe that some of the best opportunities available to investors across any asset class can be found in the credit markets.

While US Treasuries appear to us to be overvalued at current yields, we are finding tremendous opportunity in the agency mortgage market, specifically in Ginnie Mae securities.

From a currency perspective, the main theme that has emerged in recent months has been a resumption of US dollar strength as non-US economies have weakened. Looking ahead, we believe that the dollar will continue to appreciate, particularly against the euro.

The recent downturn in commodities may yet progress further as the global economy continues to weaken. However we believe supply/demand fundamentals continue to point to a relatively strong long-term case for this asset class.

Equity markets

Equity markets around the world endured an extremely difficult third quarter and the broad sell-off that marked the end of that quarter has, so far, accelerated sharply in the first couple of weeks of the fourth quarter. From a geographic perspective, the United States and the United Kingdom have continued to behave as relatively defensive markets, while the euro region has performed slightly less well. The environment for Japan and most emerging markets has become worse as global economic growth slows and as commodity prices decline. Emerging markets in particular have underperformed developed markets significantly recently.

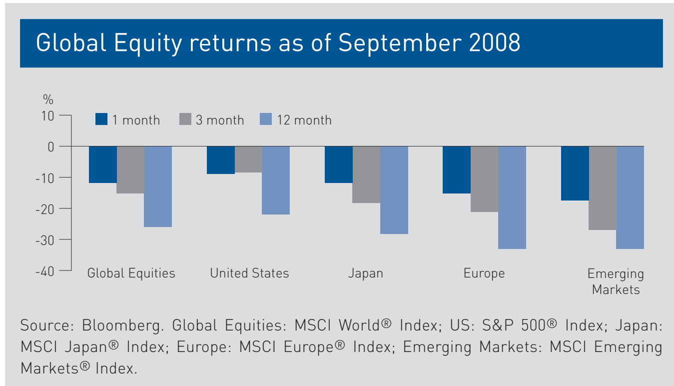
From a global sector perspective, the more cyclical economically sensitive sectors have been particularly hard hit. Specifically, materials and information technology have experienced noticeable underperformance. More defensive sectors, such as healthcare and consumer staples, have outperformed.

Amid the latest market turmoil, volatility levels increased sharply. Toward the end of the third quarter, the VIX Index (a measure of stock market volatility) rose to 50, an exceptionally high level by historic standards. Subsequently, as the sell-off intensified, the VIX rose even higher, breaking all previous records as it spiked above 70.

Looking ahead, we are cautiously optimistic that the recent actions taken by policymakers around the world will help bring some relief to the credit markets, but we believe that this will take some time. In the current environment, we favor higher-quality investments, large caps and growth stocks. From a geographic perspective, we expect US stocks will continue to outperform other developed markets. The secular, long-term case for emerging markets remains strong, but we believe this area will continue to struggle until there are clearer signs that the growth slowdown is either bottoming out or becoming more clearly priced in.

From a sector perspective, despite the pullback in oil prices, we continue to believe that the energy sector remains attractive, as

do the technology and healthcare areas of the market. Regarding the financials sector, we continue to recommend an underweight, but less so than earlier. The rise in the US dollar has taken some wind out of the sails of US multinationals, but we still find that area of the market attractive as well.

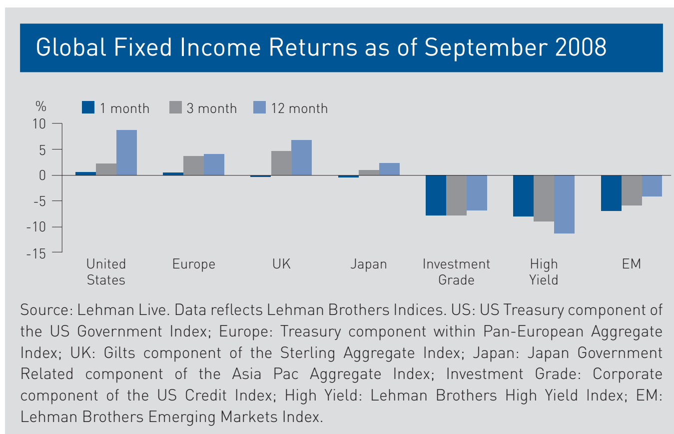


Source: Bloomberg. Global Equities: MSCI World® Index; US: S&P 500® Index; Japan: MSCI Japan® Index; Europe: MSCI Europe® Index; Emerging Markets: MSCI Emerging Markets® Index.

Bond markets

The main theme in fixed income markets over the last several months has been an ongoing flight to quality. Government bond yields have been falling, yield curves generally have been steepening and there has been a noticeable widening in credit spreads. Investment-grade credit spreads in particular have widened to extreme levels compared to their historic averages. In this environment, higher-quality areas of the market have continued to outperform.

Regarding areas of opportunity, US Treasuries appear to us to be overvalued at current yields. A specific area of the market that we do like is the agency mortgage market. Yields on Ginnie Mae securities, in particular, have been pushed higher in recent weeks, and we believe this sector represents some of the best value available for investors. On a more selective basis, we also see value in corporate bonds (including some higher-quality financial institutions) in non-agency mortgages and in high-yield bonds at selected companies.

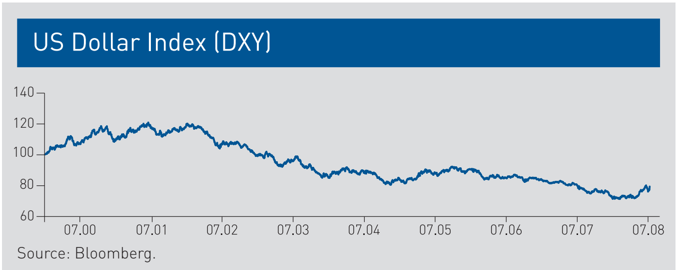


Source: Lehman Live. Data reflects Lehman Brothers Indices. US: US Treasury component of the US Government Index; Europe: Treasury component within Pan-European Aggregate Index; UK: Gilts component of the Sterling Aggregate Index; Japan: Japan Government Related component of the Asia Pac Aggregate Index; Investment Grade: Corporate component of the US Credit Index; High Yield: Lehman Brothers High Yield Index; EM: Lehman Brothers Emerging Markets Index.

Currency markets

Over the past several months, renewed strength in the US dollar has become the key trend in currency markets. Appreciation has been most evident against the euro, sterling and the Australian and New Zealand dollars. By the end of the third quarter, the US dollar had appreciated by around 10% from its summer trough, but still remains quite low by historical standards.

Looking ahead, we believe that the US dollar is likely to continue to appreciate versus the euro and sterling but to remain relatively even versus the Japanese yen.

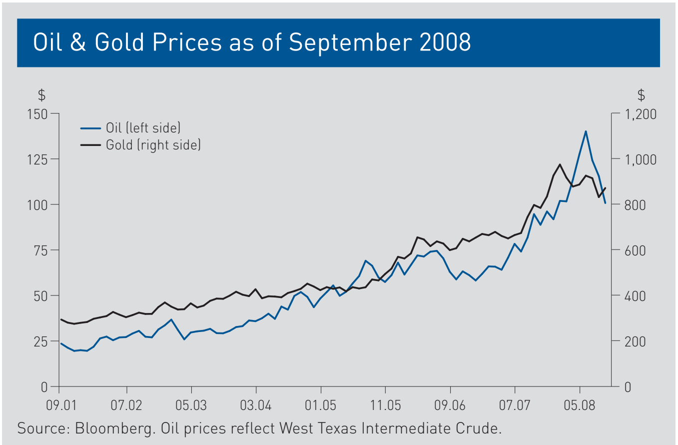


Source: Bloomberg.

Commodity markets

Commodity prices have come under severe pressure in recent months, reflecting concerns over global economic growth and the renewed strength in the US dollar. After reaching levels of nearly $150 per barrel, oil prices retreated sharply and are presently below $90 per barrel. Although the price setback appears to have substantial near-term momentum behind it, we believe that oil prices will remain relatively high by historic standards given the limitations of additional supply sources.

Gold, in contrast, has been relatively resilient and has benefited from the collapse of risk appetite. Fundamentally, the demand for gold has remained firm, and we expect many investors will continue to view the precious metal as a safe haven amid uncertainty. We continue to have a more cautious outlook regarding industrial metals, which are highly sensitive to global economic conditions.



Source: Bloomberg. Oil prices reflect West Texas Intermediate Crude.

Economic trends

- The global economy has slowed sharply in recent months and the pace of the slowdown has intensified over the past few weeks. Through the first part of this year, weakness had been evident primarily in the United States, but that trend has since vanished as the slowdown has become more global in nature.
- By our reckoning, there have been four main reasons for the loss in momentum: the impact of the tightening in monetary policy across a number of countries from 2004 (which has yet to be clearly reversed); the virtual doubling in oil prices in 2007, which carried through to the first half of this year; the collapse in the US housing market and weak property markets throughout Europe; and finally, the fallout from the difficulties in the global financial system evident since last summer.
- Gross domestic product (GDP) growth was negative in Japan and the euro area in the second quarter, while growth in the United Kingdom decelerated to zero. Moreover, this weakness appears to have been driven largely by weaker domestic demand rather than by contagion from slower US growth. The third quarter in the major economies appears to have been even worse. At this point, it appears likely that all major developed economies will report negative GDP growth.
- In general, emerging market growth has held up better so far this year. Nevertheless, there has been a clear moderation in Chinese and Indian economic growth, and also in many of the smaller emerging economies. The primary exception has been Brazil, where economic growth has, so far, continued to accelerate.
- The growth slowdown has alleviated, but not yet eliminated, the inflation concerns that arose earlier in the year. Headline inflation rates in the vast majority of developed economies still remain higher than central bank tolerance levels.
- Nevertheless, the inflation scare precipitated by the rise in commodity prices earlier in the year has begun to unwind, and central banks are clearly more focused on the risks to economic growth than they are on inflation. Looking ahead, we believe that inflationary pressures should continue to recede. Headline rates should come down as economic weakness persists, particularly in developed economies and to a lesser extent in emerging economies.

All financial investments involve an element of risk. Therefore, the value of your investment and the income from it will vary and your initial investment amount cannot be guaranteed. Past performance is not a guide to future performance and should not be the sole factor of consideration when selecting a product.

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