

Investment Commentary

MAY 17, 2010

Stocks continued to face high levels of volatility last week as a strong rebound in prices early on gave way to renewed weakness by week's end. Overall, markets did manage to post gains, with the Dow Jones Industrial Average rising 2.3% to 10,620, the S&P 500 Index advancing 2.2% to 1,136 and the Nasdaq Composite gaining 3.6% to end the week at 2,347. Following these gains, stocks moved back into positive territory for the year.

Global financial markets continue to be driven largely by the sovereign debt issues facing Greece and other European countries. Policymakers in Europe announced a massive support program for the troubled countries last weekend, and in doing so, they continued and expanded the themes of low interest rates and massive liquidity injections that have been driving the markets since late 2008. At the same time, the events in Europe also serve as a reminder that the world appears to be entering a period marked by higher taxes and increased regulation. In the United States, we expect Congress will act at some point to perpetuate the Bush-era tax cuts for those making under \$200,000, but will increase tax rates on higher-income earnings and on capital gains and dividends.

From an equity market perspective, the initial relief over the creation of the rescue plan (which drove markets sharply higher on Monday) eventually gave way to skepticism as investors continued to question European governments' ability to repay their debt. More broadly, investors have grown increasingly concerned about the potential for contagion, fearing the credit issues could affect other markets. At this point, it is difficult to say whether the rescue program will result in a recovery in confidence levels, but the scope and size of the plans are encouraging. The plans do not address the underlying fundamental issues facing Greece and other countries, which will still have some difficult decisions to make in terms of managing their balance sheets. In the short term, however, the immediate liquidity risks should be contained. On balance, it appears investors are awaiting more details and markets still need to be convinced that the plans enacted by the European Central Bank and other policymakers will work.

Looking ahead, there appear to be three possible directions that the European debt crisis could take. The first, and most pessimistic, would be something similar to what happened in late 2008, when the global financial system entered a free fall after the collapse of Lehman Brothers. We think such a scenario is unlikely, as there are several important differences between the credit crisis of 2008 and the events of today. Namely, credit risks involving governments are significantly more transparent than those surrounding subprime loans and collateralized debt obligations were a couple of years ago; the broader global economy is firmly in recovery mode; inflation levels are low; the banking system as a whole is in better shape; and global policymakers are highly attuned to the downside risks. The second scenario would be a longer-term continuation of a volatile trading range as the competing crosswinds

BLACKROCK



Bob Doll is Vice Chairman and Chief Equity Strategist for Fundamental Equities at BlackRock®, a premier provider of global investment management, risk management and advisory services. Mr. Doll also is a member of the BlackRock Leadership Committee and lead portfolio manager of BlackRock's Large Cap Series Funds. Prior to joining BlackRock, Mr. Doll was President and Chief Investment Officer of Merrill Lynch Investment Managers. BlackRock has \$3.36 trillion in assets under management as of March 31, 2010.

of economic growth and increased liquidity battle against deteriorating credit conditions and widespread uncertainty. This has been the case for the past several weeks, and we do expect this backdrop will continue. The third scenario would be a victory by the bullish forces that could result in a renewed rally for risk assets. We do expect to see this result at some point — such was the case after the January/February downturn. The fundamental uncertainty surrounding credit issues, however, could make the current trading range persist for longer.

One of the spillover effects of the European sovereign debt crisis has been the appreciation of the US dollar versus the euro. The rising dollar has been a source of concern for some investors, since a stronger dollar could have negative implications for US corporate profits. While the trade-weighted value of the dollar is still below its average level of the past several years, the weaker euro could present a risk for US stocks, as could weaker levels of European economic growth.

Another question prompted by the current crisis is what impact all of this will have on the Federal Reserve's decisions regarding US interest rates. We had expected that, with the resumption of jobs growth, the Fed would soon signal that it was nearing a change in its forecast, paving the way for an increase in interest rates by the end of the year. That forecast is now looking more uncertain, implying that the Fed is likely to keep rates on hold for a bit longer. An extended period of excess global liquidity should provide a tailwind for stocks, commodities and other risk assets.

As indicated earlier, the outlook for equity markets remains uncertain, but we do expect the bull market rally to resume at some point. On a relative basis, US markets have benefited from the uncertainty, as investors have continued to view the United States as a higher-quality haven for their assets. We expect that this trend will continue, which makes US stocks more attractive than those of other developed markets.

For additional information, or to subscribe to weekly updates to this piece, please visit www.blackrock.com.

Sources: BlackRock; Bank Credit Analyst. This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of May 17, 2010, and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. Past performance is no guarantee of future results. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader. Investment involves risks. International investing involves additional risks, including risks related to foreign currency, limited liquidity, less government regulation and the possibility of substantial volatility due to adverse political, economic or other developments. The two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

BlackRock is a registered trademark of BlackRock, Inc. All other trademarks are the property of their respective owners.

FOR MORE INFORMATION
www.blackrock.com

Prepared by BlackRock Investments, LLC, member FINRA.

©2010 BlackRock, Inc. All Rights Reserved.

AC3056-5/2010

BLACKROCK