Investment Commentary

BLACKROCK

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While stocks had rallied more than 20% from their most recent low on November 21, the momentum stalled last week as equity markets declined. The Dow Jones Industrial Average fell 4.8% to 8,599, the S&P 500 Index declined 4.5% to 890 and the Nasdaq Composite fell 3.7% to 1,571. The highlight — or, more appropriately, the lowlight — last week was Friday's jobs report, which showed that 524,000 jobs were lost in December, marking the 12th straight month of job losses. For all of 2008, 2.5 million jobs disappeared and the unemployment rate now stands at 7.2%. As if we needed reminding, this latest data confirms that economic conditions are likely to remain challenging in 2009.

With the economy still deeply troubled and credit markets impaired, policymakers around the world have indicated that they are biased toward open-ended stimulus, and financial markets have already discounted a bleak outcome. That combination, in our opinion, leaves some room for upside once prospects turn less negative. Policy stimulus will persist until evidence emerges that credit market conditions have improved. On that front, we are beginning to see some progress. For example, investment-grade bond spreads over Treasuries have recently narrowed, as have spreads in some areas of the high-yield and municipal markets. Additionally, bank lending rates have continued to decline.

As a broader measure, we can also look to oil prices. After falling to a low in the mid $30 a barrel range in December, oil prices recently climbed back above $40 a barrel. While rising oil prices are generally regarded as a negative for stocks, we would argue that in the current environment, higher oil prices could be a sign of possible economic recovery. While the recent upturn is no doubt at least somewhat associated with tensions in the Middle East, oil prices do bear close watching as a gauge of overall economic health. On the same front, a renewed upturn in gold prices would present evidence of improving global economic health.

We are encouraged by the fact that stock prices have been able to hold above their November lows in the face of ongoing negative economic data and continued problems in the banking and hedge fund sectors. In all likelihood, the market will continue to churn in a volatile fashion, awaiting evidence that either policy is working or that the deflationary current is too strong to allow the economy to stabilize. We believe the former scenario will eventually emerge and that stocks will hold above their November lows; however, we would not be surprised to see some testing along the way. Equity markets are attractively valued, but the economic risks are also high, with the US and other global markets apparently in their deepest recession of the post-WWII period. Good value failed to stop the selling pressure in the latter part of 2008, but on balance, we expect the next few quarters will witness a transition toward a better investing environment, albeit one that is marked by continued high levels of volatility.

Bob Doll is a Vice Chairman and Director of BlackRock®, a premier provider of global investment management, risk management and advisory services. Mr. Doll also is the Global Chief Investment Officer of Equities, a member of the BlackRock Executive Committee and holds a seat on the BlackRock Board of Directors. Additionally, he is 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 $1.26 trillion in assets under management as of September 30, 2008.

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