Investment Commentary

BLACKROCK

JANUARY 22, 2008

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 for 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 more than $1.3 trillion in assets under management as of December 31, 2007.

Last week was another very difficult one for stocks as equity prices declined noticeably for the fourth week in a row. The Dow Jones Industrial Average dropped 4.0% to close the week at 12,099, the S&P 500® Index declined 5.4% to 1,325 and the Nasdaq® Composite fell 4.1% to 2,340. With these declines, markets are already down close to 10% for the year and 15% from their peaks reached in October. More troublesome to us is the fact that markets have broken through the lows they reached last August (12,500 for the Dow and 1,370 for the S&P 500), which means some further technical damage has been done. In fixed income markets, yields fell again last week, with the yield on the 10-year Treasury dropping from 3.81% to 3.65% (bond yields move in the opposite direction of prices).

The good news is that it seems policymakers are working diligently to respond to escalating economic concerns. From the monetary policy front, the Federal Reserve unexpectedly cut the fed funds target rate on January 22 by 75 basis points (from 4.25% to 3.50%) in advance of its policy meeting slated for next week. This marks the first time since 1982 that the Fed cut rates by this amount in a single instance. In making the cut, the Fed cited the "weakening of the economic outlook and increasing downside risks to growth" and indicated that "appreciable downside risks to growth remain," an indication that the central bank is prepared to make additional rate cuts if needed. This action by the Fed does underscore Chairman Ben Bernanke's earlier comments that the Fed would act "decisively" as needed to help ensure ongoing economic growth. In our opinion, this action was sorely needed, and time will tell whether this will be enough to calm investor nerves.

From a fiscal policy perspective, President Bush last Friday provided some potential ideas for stimulus measures aimed at stemming the tide of economic weakness. His plans included an income tax rebate for individuals and tax breaks for businesses, and he indicated that total stimuli should be about 1% of U.S. gross domestic product, which would translate to about $150 billion. Although it will no doubt be difficult for the president and Congress to come to an agreement about stimulus measures given the politically charged backdrop of an election year, the fact that such plans are being proposed does provide some hope that relief may be forthcoming.

At present, the consensus opinion appears to be that the housing implosion and the fallout from the structured finance debacle have pushed the United States into a recession. Whether or not the United States is technically in a recession, the key questions are: how protracted will U.S. economic weakness be, and to what extent have financial markets already discounted economic weakness. From our perspective, we do not side with those who believe a deep and prolonged U.S. recession is underway. While the economy clearly has its vulnerabilities, we believe the real danger is that consumer and business cautiousness coalesces into a self-reinforcing downturn. On the positive front, a weak U.S. dollar, robust non-financial corporate health, low real interest rates and a Fed set to be more aggressive argues against a deep recession. The increasingly prominent talk of fiscal stimulus underscores the notion that policymakers are intent on fighting weakness as well. On the

international front, we are encouraged by signs that the European Central Bank is finally shifting its tone, and we expect that it may begin cutting interest rates before midyear.

From an investment perspective, major damage has been done to the equity markets, and over the past few weeks, technical factors (such as price momentum) and investor psychology have been driving the markets more than fundamentals have been. We believe stock prices will need to go through a bottoming-out process before the next significant upswing can occur, and we think we may be close to some sort of low point from a technical perspective, given the oversold nature of the markets. To provide some recent historical perspective, equity markets have declined 15% over the past 100 days, an event that has occurred eight times previously since 1970. Following those eight declines, markets were up in the one- and three-month periods that followed seven out of eight times, with average gains of 5% and 8% for the one- and three-month periods.

It appears to us that equity markets have already discounted a mild recession, meaning that unless the United States falls into a significant slump, the downside for stocks compared to bonds appears limited. As is often the case when news is relentlessly negative, it is difficult to judge what might turn sentiment around, but we do believe that a variety of technical measures indicate that stocks are oversold and that bonds are overbought. While it may be too soon to call for an immediate upturn for equity markets given the deteriorating economic outlook, we do not believe the seemingly open-ended downturn will persist for too much longer. We have a somewhat cautious near-term outlook toward stocks and other higher-risk assets, and will look to become more upbeat as the Fed and other policymakers continue to be aggressive in terms of providing support.

FOR MORE INFORMATION
www.blackrock.com

BLACKROCK