APRIL 7, 2014

WEEKLY INVESTMENT COMMENTARY

BLACKROCK®

Investors Continue to Gravitate Toward Value

Stocks Reach Record Highs Before Fading

Stocks rose in the first part of the week in response to some solid economic data, hitting new records on Thursday and early Friday morning. Prices fell sharply later on Friday, however, with some high-profile biotechnology and social media companies leading the downward charge. This market action helps confirm the trend we talked about last week: We are starting to witness a shift in leadership from growth styles to value.

For the week, the Dow Jones Industrial Average and the S&P 500 Index were able to hold onto gains (rising 0.6% to 16,412 and 0.4% to 1,865, respectively), but the tech-heavy Nasdaq Composite lost ground, falling 0.7% to 4,127. In fixed income markets, the yield on the 10-year Treasury was flat for the week, opening and closing at 2.72%.

Jobs Growth Accelerates

Stocks fell on Friday, despite the fact that the week's most important piece of economic data, the March jobs report, was released that morning and was generally better than expected. The numbers showed that the U.S. economy created 192,000 new jobs last month. The January and February jobs creation figures also were revised higher. The report lends some credence to the view that at least some of the weakness we saw in recent months can be attributed to the weather, suggesting that economic growth in the second quarter should be stronger.

The one downside to the jobs data was that, once again, wage growth remained depressed. Hourly earnings were flat in March, and on a year-over-year basis were up only 2.1%. As we have discussed on several occasions, the problem is not that jobs aren't being created. The issue lies in the fact that jobs are not being created at a fast enough pace to push wages higher in a meaningful way. And without higher wages, consumer spending is unlikely to pick up.

Value Styles Are Looking Increasingly Attractive

Friday's selloff in stocks was not related to the employment report (stocks actually traded higher right after the data was released), but was a result of the trend we discussed last week—investors are moving out of many areas of the market that performed well last year. In particular, the Internet, social media and biotechnology industries are experiencing some notable weakness.

Russ Koesterich, Managing Director, is BlackRock's Global Chief Investment Strategist, as well as Global Chief Investment Strategist for BlackRock's iShares business. Mr. Koesterich was previously Global Head of Investment Strategy for active equities and a senior portfolio manager in the U.S. Market Neutral Group. Prior to joining the firm in 2005, he was Chief North American Strategist for State Street Bank.

At least some of the weakness we saw in recent months can be attributed to the weather, suggesting that economic growth in the second quarter should be stronger.

In many ways, it is not surprising that sentiment is shifting away from some of the growth segments of the market. Valuations for these industries are starting to appear stretched (particularly for biotech and social media companies), and investors are starting to seek better opportunities elsewhere—specifically in some of the more value-oriented areas.

This shift actually seems appropriate to us, as there are more attractively priced segments of the market that warrant investor attention. In particular, we would emphasize U.S. mega-cap companies, especially in the energy sector and non-Internet technology industries. We also believe many international markets offer better value than can be found in U.S. stocks. Among developed markets, we continue to like European and Japanese stocks.

Finally, we would point out that the investor penchant for value seems to have taken them to one of last year's most notable losers—emerging markets. Last week marked the first time in five months that flows into emerging markets funds were positive. This move is not necessarily unexpected, since we have been saying for some time that emerging markets offer compelling long-term value.

The investor penchant for value seems to have taken them to one of last year's most notable losers—emerging markets.

Visit www.blackrock.com

For additional information or to subscribe to weekly updates to this piece.

1082A-AC-0414 / USR-3739

BLACKROCK®

iShares® BLACKROCK SOLUTIONS®