BLACKROCK®

Weekly Investment Commentary

Policymakers Hold the Key to Confidence

August 27, 2012

Risk-On Interrupted

It's been a while, but risk assets experienced a bit of a setback last week. The Dow Jones Industrial Average fell 0.9% to 13,158, the S&P 500 Index slid 0.5% to 1,411 and the Nasdaq Composite lost 0.2% to close the week at 3,070.

As August draws toward a close, US equities have hit four-year highs, corporate bond yields touched multi-year lows and many risk assets can look back on a pretty good summer. But despite plenty of investment and central bank activity, we continue to see a shortage of economic and financial market confidence.

All Eyes on Policymakers

Policymakers around the world, perhaps with the exception of Japan, are trying to stimulate economic growth and appear willing to sacrifice rising asset prices in order to get the job done.

In the United States, we continue to foresee gross domestic product (GDP) growth in the area of 2% for the remainder of this year and next. We would stress that the risks are to the downside, particularly if there is a disorderly breakup of the eurozone and/or Congress fails to reach an agreement to avoid the so-called fiscal cliff at the end of this year. If either of these events were to occur, the US could be pushed back into a recession.

Macro and market dynamics in the industrialized world have become increasingly dependent on the actions of policymakers. We've seen government outlays, deficits and debts that are high by post-war standards and expansion in central bank balance sheets that is unprecedented. Share prices have rallied on the belief that policymakers are going to fix our ailments yet again. Examples include the anticipation of QE3 in the United States and efforts by the European Central Bank (ECB) to "do whatever it takes." In response, the S&P 500 and other averages are up double-digit percentages since their June low.

This past week, minutes from the August 1 Federal Open Market Committee (FOMC) meeting confirmed the FOMC is willing to ease the burdens on the economic data. The minutes did not shed much light on what form of easing might take place, but the tone was that QE3 remains firmly on the table for the September FOMC meeting. Incoming

Bob Doll is a Senior Advisor to BlackRock®, a premier provider of global investment management, risk management and advisory services. Mr. Doll also formerly served as Chief Equity Strategist for Fundamental Equities and Lead Portfolio Manager of BlackRock's Large Cap Series Funds. Prior to joining the firm, Mr. Doll was President and Chief Investment Officer of Merrill Lynch Investment Managers.

Despite plenty of investment and central bank activity, we continue to see a shortage of economic and financial market confidence.

data will probably determine whether the Fed actually acts or simply extends its forward-looking language. We do not expect Fed Chairman Ben Bernanke to send any strong signal about action in his Jackson Hole speech later this week.

The Fiscal Cliff Hanger Continues

Clearly, the US fiscal cliff remains a primary source of concern and uncertainty, with no action likely until the lame duck session. The case for Congress acting post-election but before the end of the year rests largely on the need to fix the Alternative Minimum Tax (AMT). Because the AMT provision expired at the end of 2011, it can only be made retroactive in 2012. Without action, $90 billion in additional tax payments will hit an estimated 30 million Americans. This is one impetus that may spark some lame duck action. Other motivating factors include the debt ceiling, which needs to be lifted and, of course, the fact that the economy would suffer if the cliff is experienced.

Overall, policymakers across the globe have become increasingly determined to curtail deflationary risks and encourage a sustained economic recovery. This recently helped alleviate investor anxiety, fueling the risk-on phase. Euro officials were the latest to step up the reflationary efforts, with ECB President Mario Draghi aggressively pushing forward his proposal for purchasing sovereign debt. German Chancellor Angela Merkel has publicly endorsed the ECB proposal, despite disapproval from the German Bundesbanke.

As for China, the third of the big three, policymakers have continued to ease, but only gradually since they are looking to encourage a soft economic landing rather than trigger a sharp reacceleration in credit growth.

Equity Outlook Still Optimistic

Equities have moved in a fairly narrow range in recent weeks, giving back some of their gains from earlier in the summer. Escaping this range to the upside will require positive economic news and some clarity around policymaker action. Conversely, policymaker inaction could stoke deflationary fears and cause stocks to slip. Despite the many uncertainties, we are biased toward the former of these two scenarios and, as such, maintain a somewhat positive equity market outlook.

Equities have moved in a fairly narrow range in recent weeks, giving back some of their gains from earlier in the summer. Escaping this range to the upside will require positive economic news and some clarity around policymaker action.

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 August 27, 2012, 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.

FOR MORE INFORMATION: www.blackrock.com

Prepared by BlackRock Investments, LLC, member FINRA.

AC6308-0812 / USR-0716

BLACKROCK®

iShares® BLACKROCK SOLUTIONS®