

WEEKLY INVESTMENT COMMENTARY

BLACKROCK®

Investment Ideas for a Two-Speed Economy

Stocks Edge Higher During a Quiet Week

Equity markets continued to rise in the early part of last week, again hitting new highs, before declining slightly on renewed uncertainty regarding the timing and scope of the U.S. Federal Reserve's plans to taper its asset purchase program. By the end of the week, markets were able to hold onto modest gains, with the Dow Jones Industrial Average climbing 0.3% to 15,615 and the S&P 500® Index rising 0.1% to 1,761. In contrast, the Nasdaq Composite fell 0.5% to 3,922. In fixed income markets, Treasury yields rose slightly (as prices correspondingly fell) from 2.51% to 2.62%.

Entering a Two-Speed Economy

Recently, we've been talking quite a bit about the slow-growth nature of the U.S. and global economies. A closer look at the data reveals an emerging divergence between different areas of the economy. Specifically, the U.S. economy appears to be growing at two speeds—manufacturing is expanding, while the labor market and household spending remains subdued.

Last week's data helps illustrate this trend. On the positive side, all the manufacturing data (including the ISM National Survey and the regional surveys) came in much stronger than expected, with new orders data looking particularly solid. On the negative side, jobs growth (and by extension consumption) remained weak. We're still awaiting the October jobs report, but last week's ADP employment survey showed only 130,000 new jobs created for last month, which was well below expectations. Anemic jobs growth continues to hamper confidence levels and is negatively affecting retail sales.

This phenomenon is not isolated to the United States. In China, growth rebounded nicely in the second quarter, but continues to be led by investment and infrastructure spending rather than consumer spending. We're seeing some similar trends in Europe. In Spain, for example, the economy is growing modestly, but is being led by exports while unemployment remains close to record levels.

Ultimately, this divergence is not sustainable and needs to be solved. Either the global and U.S. economic recoveries will broaden and we'll begin seeing improvements in the pace of jobs growth and consumer spending, or the rebound in manufacturing will level out as inventory levels start to climb too high. In our view, we continue to believe we will see a very modest improvement in the pace of economic growth in 2014.



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 US Market Neutral Group. Prior to joining the firm in 2005, he was Chief North American Strategist for State Street Bank.

In our view, we continue to believe we will see a very modest improvement in the pace of economic growth in 2014.

**SO WHAT DO I DO
WITH MY MONEY?®**

It's the question on everyone's mind. And fortunately, there are answers. Visit blackrock.com for more information.

Treasuries Continue to Appear Unattractive

At current levels, we simply do not believe that Treasuries look attractive and expect yields to remain range-bound at least for the short-term. There has been some downward pressure on yields thanks to some disappointing economic data. However, with manufacturing data still strong and with a Fed that appears determined to slow the pace of its asset purchases by early 2014, there is a limit to how low bond yields are likely to go. At the same time, we expect any rise in rates to be measured.

Cyclical Stocks Look Appealing

Within equities, we believe that the rebound in manufacturing supports overweight positions in cyclical stocks. In general, cyclical companies are cheaper than defensive ones and they also stand to benefit more from any improvements to the global economy. It's worth pointing out that even during the relatively weak growth of the last three months, U.S. cyclical companies have gained approximately 4.5%, roughly double the pace of more defensive sectors. In particular, we would emphasize the global information technology and energy sectors, as well as U.S. manufacturers (such as chemical companies) that benefit from lower energy costs.

We believe that the rebound in manufacturing supports overweight positions in cyclical stocks.

Visit www.blackrock.com

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

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 November 4, 2013, 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

©2013 BlackRock, Inc. All Rights Reserved. BLACKROCK, BLACKROCK SOLUTIONS, iSHARES and SO WHAT DO I DO WITH MY MONEY are registered trademarks of BlackRock, Inc. or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.

Prepared by BlackRock Investments, LLC, member FINRA.

Not FDIC Insured • May Lose Value • No Bank Guarantee

AC6685-1113 / USR-3038

