Equity Markets
First Quarter 2009

BLACKROCK

Global Equity Markets Summary

Global equity market volatility continued through the first quarter, with stocks sinking deeply in January and February as economic data continued to worsen and investors grew uncertain about policymakers' next steps in combating the credit crisis. Since early March, however, global equities have rallied strongly, reflecting several factors: technically oversold conditions; aggressive central bank policy actions, including clearer shifts to quantitative easing in the US and UK; reduced concerns over the possibility of bank nationalization in the US; improved sentiment following the announcements in the US of new Federal Reserve and Treasury Department programs; and, a general sense that the global economic recession may be moving past its period of great weakness. While stocks did manage a strong rally in the last month of the quarter, this rally was unable to reverse all the damage inflicted early in the year. For the quarter as a whole, global stocks were still down noticeably.

In the first quarter, the MSCI World Index declined 11.9%. Among developed markets, European stocks in general were the worst performers, with the MSCI Europe Index falling 14.5% and the UK FTSE 100 down 11.5%. US stocks were in the middle of the pack, with the S&P 500 Index down 11.0%. Japanese stocks managed to post a relatively modest negative 8.5%, largely due to the weakness of the yen. The bright spot in the global equity landscape was the performance of emerging markets. As a whole, the MSCI Emerging Markets Index managed to record a positive 1.0% return, with strength particularly evident in China as the CSI 300 was up 38.0% for the quarter, and in Latin America where the MSCI EM Latin America Index was up 4.9% for the quarter.

In the first quarter of 2009, equity markets continued to be dominated by liquidity and credit problems and by the deterioration of the global economy. Preliminary data indicates that the first quarter decline in global GDP was approximately 1.5%, the same as it was in the final quarter of 2008. There were, however, some important changes in the quarter's economic releases, which helped produce a sense that the economic recession may have peaked. Firmer consumer consumption patterns in the US and Europe, some hints of demand stabilization in the UK housing market, and a slight rise in business confidence and industrial orders all suggest the possibility that some areas of the global economy may be starting to recover. On a geographic basis, the evidence for an acceleration is strongest in China and weakest in Japan, where the balance of data is still strongly negative.

However, it is important to emphasize that there are still some clear negative signs in the global economy, and the downside risks for global equities remain high. First, the improvements in some economic series described above are miniscule in comparison to the severe decline of previous months. Second, there was a widespread increase in inventory levels during the end of 2008. Therefore, even if demand stabilizes, output is likely to be more depressed until inventory levels have normalized. Additionally, and perhaps most importantly, the global financial system as a whole remains exceptionally fragile and could be subject to additional shocks, although policymakers around the world have remained committed to aggressively combating credit deflation. We believe the future path for the global equity markets will be highly dependent on the extent to which policymakers are successful in their efforts to restore normalcy to the banking system and to revive the global economy.

Policy Reflation Accelerates: The first quarter of 2009 saw a widespread acceleration of policy reflation efforts worldwide. The Fed's announcement that it would purchase $1 trillion of mortgage-backed and Treasury securities in an effort to boost economic growth will radically expand its balance sheet to over $4 trillion by the end of 2009. At the same time, the Treasury Department announced the launch of its Public-Private Investment Program, which is designed to provide a means by which banks can remove some of the toxic assets from their balance sheets. Outside of the US, the UK has also been active in terms of quantitative easing programs. China has been aggressively implementing fiscal stimulus measures, and both Japan and Korea recently announced multi-billion dollar jobs packages.

Volatility Still High, But Fading: Even as equity markets have started to recover, market volatility levels have remained stubbornly high. The VIX Index* (which peaked at over 70 in the fourth quarter of 2008 amid the massive market selloff) fell to 50 in January and February. During the market rally in March, it has remained above 40, still considered a high level by historical standards.

*A measure of stock market volatility based on the trading of S&P 500 futures on the Chicago Board Options Exchange.

Global Equity Market Index Returns

Periods Ended 31 March 2009
Return (%) in USD

	Month	Qtr
MSCI World Index	7.5	-11.9
MSCI EAFE	6.4	-13.9
MSCI Europe	7.0	-14.5
MSCI Pacific	5.3	-12.7
MSCI EM Index	14.4	1.0
S&P 500 Index	8.8	-11.0
DJ Index Average	7.9	-12.5
NASDAQ Composite	10.9	-3.1
Russell 1000	8.8	-10.5
Russell MidCap	9.2	-9.0
Russell 2500	9.1	-11.4
Russell 2000	8.9	-15.0

Source: Lipper

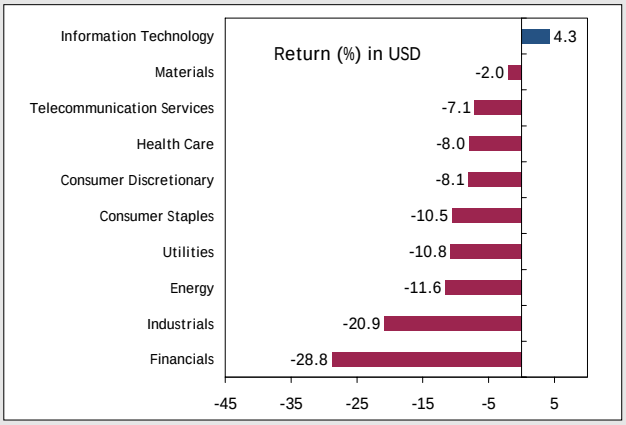
US Markets

For the first quarter, most US indices were down more than 10%, with the Dow Jones Industrial Average losing 12.5%, the S&P 500 Index declining 11.0%, and the Russell 1000 Index down 10.5%. An exception was the Nasdaq Composite, which lost a relatively modest 3.1%, due to strong performance in the technology sector. Similar to the fourth quarter of 2008, smaller cap stocks underperformed over the last three months, with the Russell 2000 dropping 15.0%. There was noticeable dispersion in performance between growth and value styles in the first quarter. The S&P/Citigroup Growth Index lost 6.2%, while the Value Index was down much more significantly, losing 16.1%. Likewise, there were strong differences in sector performance. Technology was the clear winner and the only sector to post positive performance for the quarter. The materials, telecom, healthcare, and consumer discretionary sectors were also relatively resilient. Following the pattern that existed for most of last year, the financials sector had the weakest performance, losing nearly 30% for the quarter, and the industrials sector also underperformed, declining 21% for the quarter.

The equity market environment seemed to change over the course of the first quarter. Last year, markets were dominated by a broadening of the global recession and an escalation in the credit crisis that came to a head with the collapse of Lehman Brothers in September. Through the fourth quarter and into the first quarter, we witnessed a widespread global flight to quality, surging volatility, and some outright panic conditions based on fears of deflation contagion. The end of 2008 and the first three months of 2009 have been marked by aggressive policy responses, interest rate cuts, bailouts, stimulus packages, and quantitative easing. The difference has been that as the first quarter drew to a close, these efforts seem to have taken root, as markets appeared to be in a period of improving performance based on some less ominous economic news and indications that negative investor sentiment has peaked and is starting to reverse.

The question is whether the present rally marks the end of the bear market, or if it merely represents a temporary bounce from oversold conditions. It would be premature to suggest that a new bull market has emerged or that we have seen the end of the see saw patterns that have been in place since last fall. Nevertheless, we do believe there are several important differences between the current rally and the failed rally attempts that previously occurred. From a technical perspective, the current rally has been marked by strong momentum and expanding volume on the upside, and diminishing momentum and volume on the downside. Additionally, more cyclical areas of the market, such as the consumer discretionary and technology sectors, have been outperforming, a trend that occurs when recoveries begin. Finally, market sentiment has also changed over the past month. Earlier in the year, selling was driven in large part by uncertainty surrounding the Obama Administration's bank recapitalization plans and the debate surrounding the potential for bank nationalization. These factors have changed noticeably over the last month following the announcement of the PPIP, which has provided a jolt to investor confidence.

S&P 500 Index Sector Total Returns for 1Q09



Source: FactSet

S&P 500 Index Top and Bottom Contributors for 1Q09

Return (%) in USD	1Q Total Return	Gross 1Q Contribution
Top 5 Contributors		
Apple Inc.	23.2	0.2
Int'l Business Machines Corp.	15.7	0.2
Schering-Plough Corp.	38.8	0.2
Goldman Sachs Group Inc.	26.3	0.2
Morgan Stanley	43.6	0.1
Bottom 5 Contributors		
Bank of America Corp.	-51.4	-0.5
Procter & Gamble Co.	-23.3	-0.6
Wells Fargo & Co.	-50.8	-0.8
Exxon Mobil Corp.	-14.3	-0.8
General Electric Co.	-35.7	-0.8
S&P 500 Total Return	**-11.0**	

Source: FactSet

Russell 2000 Index Top and Bottom Contributors for 1Q09

Return (%) in USD	1Q Total Return	Gross 1Q Contribution
Top 5 Contributors		
Myriad Genetics Inc.	37.2	0.2
CV Therapeutics Inc.	115.9	0.1
Aeropostale Inc.	65.0	0.1
Netflix Inc.	43.6	0.1
Skyworks Solutions Inc.	45.5	0.1
Bottom 5 Contributors		
Comstock Resources Inc.	-36.9	-0.1
Psychiatric Solutions Inc.	-43.5	-0.1
UAL Corp.	-59.3	-0.1
Apollo Investment Corp.	-57.9	-0.1
Woodward Governor Co.	-51.2	-0.1
Russell 2000 Total Return	**-15.0**	

Source: FactSet

Non-US Markets

Unlike most of 2008, when global markets generally moved in tandem, there were significant differences in performance by geographic regions in the first quarter of 2009.

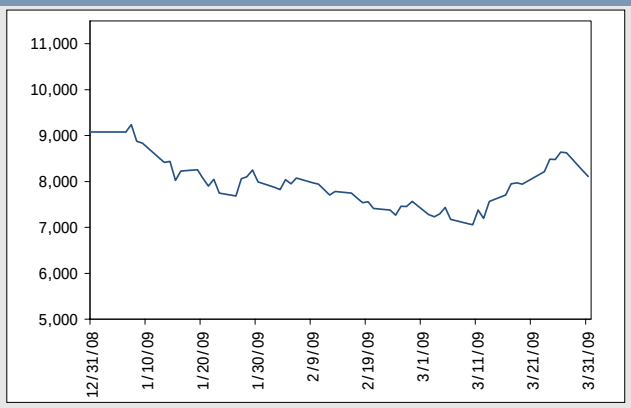
Japanese equities generally outperformed early in the quarter, which was partially driven by the weakness of the yen, but Japan has lagged the rest of the world since the rally began in March. Japan continues to be plagued by significant economic weakness. While exports have been a trouble spot in the Japanese economy for some time, the more alarming development has been the accelerating declines in other parts of the Japanese economy. The recent Tankan survey of business confidence showed that the outlook for both manufacturers and service companies is extremely weak, and managers expressed the view that workforces will need to be reduced further. On the consumer side, both cash earnings and retail sales continue to worsen as well. Despite this negative news, Japanese equities slightly outperformed other developed markets for the quarter as a whole, with the Nikkei 225 returning -8.5%.

Continental European equities underperformed the rest of the global market in the first quarter, with the MSCI Europe Index declining 14.5%. European markets have been hurt by perceived slower responses to the global credit crisis from governments and the European Central Bank, as well as by weaker economic data, particularly retail sales and consumer spending. Markets were also hurt by the relative strength of the euro.

UK markets, in contrast, performed slightly better in the first quarter and were in line with stocks in the US, with the FTSE 100 losing 11.5%. The UK economy remains in trouble, marked by a collapse in export markets, a highly leveraged consumer sector, and a weak banking system. However, the significant rate cuts enacted by the Bank of England, as well as its quantitative easing measures, have helped relative market performance.

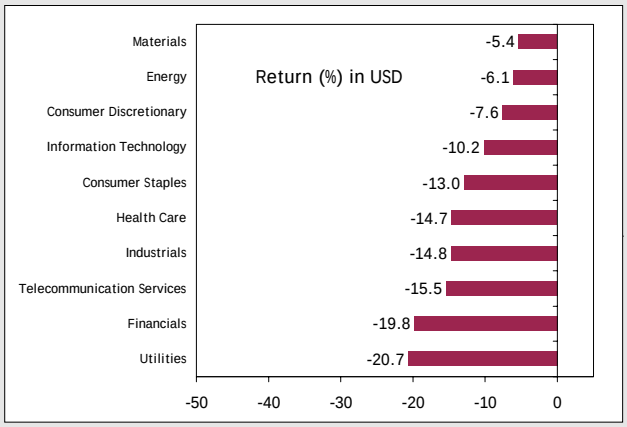
As indicated earlier, the main bright spots among first quarter global equity markets can be found in the emerging markets. China, in particular, experienced remarkably strong performance with a 38.0% increase, as economic data has suggested that the world's largest emerging market may be starting to recover. Latin American markets also showed good relative results. Most countries in the region have been reducing interest rates, which has helped market performance. This region has also benefited from an increase in commodity prices, notably oil, which occurred during the course of the quarter.

Nikkei Index Performance for 1Q09



Source: Bloomberg. Past performance is no guarantee of future results.

MSCI EAFE Index Sector Total Returns for 1Q09



Source: FactSet

MSCI EAFE Index Top and Bottom Contributors for 1Q09

Return (%) in USD	1Q Total Return	Gross 1Q Contribution
Top 5 Contributors		
Rio Tinto PLC	61.1	0.2
Comm Bank of Australia	24.3	0.1
BHP Billiton PLC	9.4	0.1
BHP Billiton Ltd.	6.7	0.1
Credit Suisse Group AG	13.8	0.1
Bottom 5 Contributors		
GlaxoSmithKline PLC	-14.4	-0.2
Nestle S.A.	-13.4	-0.2
E.ON AG	-29.7	-0.3
Novartis AG	-19.9	-0.3
HSBC Holdings PLC	-30.6	-0.5
MSCI EAFE Total Return	**-13.9**	

Source: FactSet