

JANUARY 7, 2013

WEEKLY INVESTMENT COMMENTARY

Early 2013 Looks to Feature Slow Growth and Ongoing Fiscal Drama

Stock Jump on Fiscal Cliff News, but Much Uncertainty Remains

Stock markets started 2013 off with a bang, as investors expressed relief over the down-to-the-wire agreement on the fiscal cliff that came on January 1. For the week, the Dow Jones Industrial Average jumped 3.8% to 13,435, the S&P 500 Index rose 4.6% to 1,466 and the Nasdaq Composite advanced 4.8% to 3,101.

Although the deal reached last week was good news for the markets, Washington's fiscal soap opera is far from over. We would point to three key events to watch during the first quarter, all of which could have some impact on the economy and financial markets. First, at some point in February the United States will reach its borrowing capacity. Technically, the United States hit the \$16.4 trillion debt ceiling on December 31, but the Treasury department will be able to stretch out the nation's cash for another six to eight weeks. At some point in late February, however, either the debt ceiling will have to be raised or spending will have to be dramatically cut. Outright default on the country's debt is not a real risk, but the fight over the debt ceiling and spending cuts will most likely go down to the last minute and cause no small amount of uncertainty (as happened with the fiscal cliff debate).

In addition to the debt ceiling, the country is also faced with the March 1 deadline for the scheduled \$108 billion in spending cuts (the "sequester" that was delayed as part of the fiscal cliff deal). If Congress and President Obama are unable to come to a spending agreement before that date, the cuts will be triggered and will act as a significant fiscal drag on the US economy. Finally, Congress also needs to pass another appropriations bill before March 27 when some current funding provisions expire. If this is not done, Washington will be unable to fund large parts of the government, which would create additional economic problems.

The bottom line for all of this is that investors will be facing at least another few months in which budget and spending negotiations will have the potential to disrupt financial markets. While we ultimately expect that the debt ceiling will be raised and that we will see a messy compromise on spending, such agreements will not come easily. As such, we expect that market volatility will remain elevated for the next few months as investors continue to focus on the US fiscal drama.

BLACKROCK®



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.

We expect that market volatility will remain elevated for the next few months as investors continue to focus on the US fiscal drama.

SO WHAT DO I DO
WITH MY MONEY?

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

Look for a Slow Start to US Economic Growth in 2013

Outside of the fiscal cliff news, last week also featured the release of December's employment report. The data showed that 155,000 new jobs were created last month, which was right in line with expectations and also consistent with the two-year average. The unemployment rate was unchanged at 7.8%. The report also included some good news in terms of showing a modest increase in both hourly wages and the number of hours worked.

The good news is that the US economy continues to grow fast enough to produce around 150,000 new jobs each month. The bad news is that this rate is not high enough to cause a meaningful reduction in unemployment (much of the recent drop in unemployment can be attributed to people dropping out of the workforce). On balance, we would say that the economy remains mired in a sluggish growth environment. For 2013 as a whole, we would expect the economy to grow around 2%, but the year is likely to get off to a slow start due to the imposition of new taxes and a likely delay in tax refunds.

Emerging Markets: Faster Growth and Compelling Investment Opportunities

Outside of the United States, we are seeing signs of better economic performance—particularly in emerging markets such as China. The most recent data out of China shows that that country is recovering from its economic slump, with manufacturing levels accelerating.

From an investment perspective, we would point out that despite the recent rally in emerging markets, emerging markets continue to look inexpensive on a relative basis. Our analysis suggests that emerging markets are trading at between a 20% and 25% discount to developed markets. China, in particular, looks quite inexpensive. Given this backdrop, we would advise investors to overweight emerging markets and Chinese equities in their portfolios for the coming year.

We would advise investors to overweight emerging markets and Chinese equities in their portfolios for the coming year.

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 January 7, 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 and unregistered 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

AC6468-0113

BLACKROCK®
iShares® **BLACKROCK**
SOLUTIONS®