Equity Markets
Third Quarter 2008

BLACKROCK

Global Equity Markets Summary

The third quarter of 2008 will be remembered as one of the most tumultuous periods in financial history. Bank collapses, corporate bailouts and government intervention have dominated headlines around the world, and widespread instability has led to heightened volatility in equity markets across all geographies, sectors and styles.

What started as a debt and liquidity crisis turned into one of solvency as financial institutions began to experience difficulty raising sufficient capital to cover existing liabilities. In September, the worldwide crisis of confidence deepened. In rapid succession, we witnessed the US government takeover of FNMA and FHLMC, the bankruptcy of Lehman Brothers, the sale of Merrill Lynch to Bank of America, the US government bailout of AIG, the reorganization of Goldman Sachs and Morgan Stanley as bank holding companies, the money market Reserve Primary Fund "breaking the buck", the proposal of a $700 billion US government distressed asset purchase program, the collapse of Washington Mutual, and the contested purchase of Wachovia (by Citigroup initially and subsequently by Wells Fargo).

Throughout Europe, investors have witnessed the nationalization of a number of banks, including banking and insurance provider Fortis. In the UK, government intervention in the third quarter included the nationalization of troubled mortgage bank Bradford & Bingley; the emergency merger of HBOS, Britain's largest mortgage lender, with Lloyds TSB; and an increase in the level of deposit guarantees. Throughout Iceland, Ireland and continental Europe, governments have been actively intervening through deposit guarantees and huge injections of capital into struggling financial institutions.

As it became apparent that this piecemeal approach to solving the escalating crisis was not stabilizing the system, policymakers and governments around the world took more extreme measures. Massive amounts of liquidity were injected into the financial system, new lending facilities were created by central banks, a globally coordinated rate cut was enacted, and in the US, a new $700 billion financial services rescue plan, the Troubled Asset Relief Program, or TARP, was passed.

Against this background, global equity markets experienced a slight downturn through July and a modest recovery in August before plummeting sharply in September, and then worsened in early October. The MSCI World Index lost 15.3% for the quarter. From a geographic perspective, the U.S. and the U.K. have continued to behave as relatively defensive markets, while the euro region underperformed the U.S. and U.K. The environment for Japan and most emerging markets has deteriorated as global economic growth slows and as commodity prices decline. Emerging markets in particular have significantly underperformed developed markets recently.

From a global sector perspective, the cyclical sectors that are more economically sensitive have been hit especially hard. Materials and information technology in particular have experienced noticeable underperformance. More defensive sectors, such as healthcare and consumer staples, have outperformed, but still have experienced significant losses. Financial stocks have also remained under pressure.

Volatility Reaches Record Highs: Amid the latest market turmoil, volatility levels increased sharply. Toward the end of the third quarter, the VIX Index (a measure of stock market volatility based on the trading of S&P 500 futures on the CBOE) rose to 50, an exceptionally high level by historic standards. That level had previously been reached only in similar environments of extreme risk aversion, such as the 1998 Russian currency crisis and in the aftermath of the September 11 attacks. Subsequently, as the sell-off intensified in early October, the VIX rose even higher, breaking all previous records as it spiked above 70.

Globally Coordinated Central Bank Action: On 8 October, the Federal Reserve, the European Central Bank and the central banks of England, Canada, Sweden and Switzerland all enacted a coordinated 50 basis point interest rate cut, which brought the US fed funds target rate down to 1.5%. Separately, central banks in China, Hong Kong, and Australia also recently cut rates. These coordinated cuts clearly signal that the world's central banks are all focused on what has become a global financial crisis and that the central banks will act as necessary to combat the global freeze in credit markets.

Global Equity Market Index Returns

Periods Ended 30 September 2008
Return (%) in USD

	Month	QTR	YTD
S&P 500	-8.9	-8.4	-19.3
DJ Ind Avg.	-5.8	-3.7	-16.6
NASDAQ Comp.	-11.7	-8.8	-21.1
Russell 1000	-9.5	-9.4	-19.5
Russell MidCap	-12.2	-12.9	-19.5
Russell 2500	-9.9	-6.7	-14.3
Russell 2000	-8.0	-1.1	-10.4
MSCI EAFE	-14.4	-20.5	-28.9
MSCI Europe	-15.0	-20.7	-30.2
MSCI Pacific	-13.0	-20.0	-26.0

Source: Lipper LANA

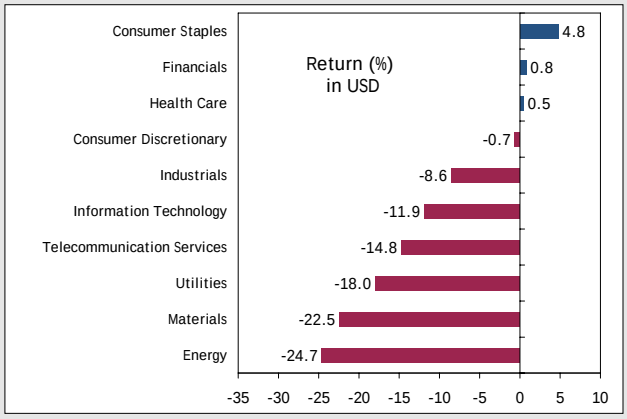
US Markets

The global credit crisis has its roots in the collapse of the US residential housing sector, and therefore, the United States has taken significant action to unlock the credit markets and to restore liquidity to the banking system. Investor attention has been focused particularly on the newly enacted TARP and the recent actions of global central banks. While exact details of how the TARP will work are still being determined, the US Treasury expects that the government's purchase of some bad debt held by banks will prompt other buyers to re-enter this market, creating additional demand. It is hoped that the government will eventually be able to re-sell these assets back into the open market at a profit. In addition, as part of the program, the US government recently announced that it will purchase equity stakes in the banking system, following the lead of the UK government. This move by the US government is a dramatic development that we believe may eventually help unlock the credit markets.

Recent actions taken by the Fed and other central banks may have just as significant an impact as the TARP in terms of unfreezing credit markets. First, the Fed greatly expanded its Term Auction Facility, which allows the Fed to issue short-term loans at a rate below the discount rate. Second, TARP legislation included a provision that allows the Fed, for the first time in history, to pay interest on its reserve balances, helping the Fed to expand its balance sheet and stabilize overnight interest rates. Third, the Fed announced that it would begin lending money directly to nonfinancial corporations by purchasing commercial paper issued by them through its new CPFF program. Last, the Fed, in conjunction with the European Central Bank, the Bank of England, and the Swiss National Bank, announced that it will begin providing unlimited dollar funding under its swap facilities. Together, the actions taken by the Fed effectively doubled the size of its balance sheet, granting it increased flexibility to encourage lending across financial markets. It is too early to tell, however, when or whether these actions will have the desired effects.

From a performance standpoint, US equities experienced continued high levels of volatility as they trended downward through the third quarter. From a capitalization standpoint, small caps have continued to outperform their larger-cap counterparts, whose performance can be attributed to some extent to several collapses of mega-cap companies. Regarding styles, growth stocks underperformed value stocks in the third quarter and are now trailing on a year-to-date basis. From a sector perspective, there were some noticeable aberrations from the pattern that dominated in the first half of the year. US financial stocks were one of the few sectors to enjoy positive performance in the third quarter as they benefited from some of the "mini rallies" that occurred throughout the period, while energy stocks experienced a particularly difficult quarter amid the downturn in commodities prices. On a year-to-date basis, however, energy is still among the market leaders while financials trail.

S&P 500 Index Sector Total Returns for 3Q08



Source: FactSet

S&P 500 Index Top and Bottom Contributors for 3Q08

Return (%) in USD	3Q Total Return	Gross 3Q Contribution
Top 5 Contributors		
Bank of America Corp.	49.5	0.5
Wells Fargo & Co.	59.8	0.4
JPMorgan Chase & Co.	37.6	0.4
Procter & Gamble Co.	15.3	0.2
Citigroup Inc.	24.5	0.2
Bottom 5 Contributors		
AT&T Inc.	-16.1	-0.3
Schlumberger Ltd.	-27.1	-0.3
Apple Inc.	-32.1	-0.4
ExxonMobil Corp.	-11.4	-0.4
American Int'l Group Inc.	-87.3	-0.5
S&P 500 Total Return	**-8.4**	

Source: FactSet

Russell 2000 Index Top and Bottom Contributors for 3Q08

Return (%) in USD	3Q Total Return	Gross 3Q Contribution
Top 5 Contributors		
Longs Drug Stores Corp.	80.0	0.1
Foundry Networks Inc.	54.1	0.1
Myriad Genetics Inc.	42.5	0.1
Ralcorp Holdings Inc.	36.3	0.1
Colonial BancGroup Inc.	80.3	0.1
Bottom 5 Contributors		
James River Coal Co.	-62.5	-0.1
Bill Barrett Corp.	-46.0	-0.1
GrafTech International Ltd.	-43.7	-0.1
Comstock Resources Inc.	-40.7	-0.1
EXCO Resources Inc.	-55.8	-0.2
Russell 2000 Total Return	**-1.1**	

Source: FactSet

Non-US Markets

Global equity markets were hit harder than those in the US, with most developed markets experiencing losses approaching 20% and emerging markets registering even lower returns. From an economic perspective, growth around the world has weakened considerably in recent months as the effects of the financial crisis have spread. Gross domestic product growth was negative in Japan and the eurozone in the second quarter, while growth in the U.K decelerated to zero. Moreover, this sluggishness appears to have been driven largely by weaker domestic demand rather than by contagion from slower US growth.

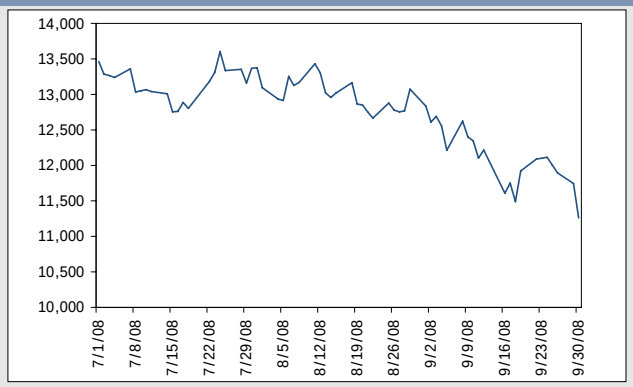
Growth levels in the major economies in the third quarter appear to have been worse than they were in the second. At this point, it appears that all major developed economies will likely report negative third quarter GDP growth; for Japan and the euro region, such negative growth would imply a recession. In general, emerging market growth has held up better than developed markets. Nevertheless, there has been a clear moderation in Chinese and Indian economic growth, and also in many smaller emerging economies. The primary exception has been Brazil, where economic growth continued to accelerate into the middle of the year.

In the currency markets, the key theme that emerged during the third quarter was the rehabilitation of the US dollar. Appreciation has been most evident against the euro, British pound, and the Australian and New Zealand dollars. The yen has remained more resilient relative to the US dollar and has also appreciated versus other currencies. The strengthening of the US dollar reflects investors' dwindling appetite for risk and a view that the global growth slowdown that originated in the U.S. will affect the global economy to a greater extent than initially anticipated.

Looking at specific regions more closely, Japanese stocks declined 17% and were hurt by the strong yen, which provided headwinds for exporters. In Europe, markets were significantly affected by the ongoing credit crisis, with German stocks falling 9.2%, French stocks declining 9.1%, and UK stocks losing 12.9%. Financial stocks were particularly weak in Europe, as government-led bailouts of Fortis and Dexia dragged the sector lower.

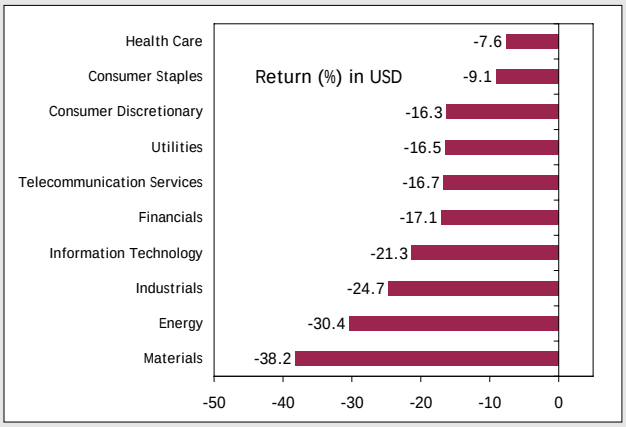
In emerging markets, Russia, which was down 47%, was a notable laggard as it was affected both by the turmoil in South Ossetia and the decline in oil prices. Latin American markets also experienced sharp sell-offs in the face of lower commodities prices.

Nikkei Index Performance for 3Q08



Source: Bloomberg

MSCI EAFE Index Sector Total Returns for 3Q08



Source: FactSet

MSCI EAFE Index Top and Bottom Contributors for 3Q08

Return (%) in USD	3Q Total Return	Gross 3Q Contribution
Top 5 Contributors		
Volkswagen AG	35.2	0.1
HSBC Holdings PLC	5.2	0.1
AXA S.A.	8.2	0.0
Zurich Financial Services AG	6.3	0.0
SUEZ (France)	4.2	0.0
Bottom 5 Contributors		
Anglo American PLC	-52.5	-0.4
Total S.A.	-30.0	-0.4
Rio Tinto PLC	-47.9	-0.4
BHP Billiton Ltd.	-41.0	-0.5
BP PLC	-27.8	-0.5
MSCI EAFE Total Return	**-20.5**	

Source: FactSet