BLACKROCK®

Weekly Investment Commentary

Stocks Look Poised for Continued Gains

August 13, 2012

Stocks Rising Despite Risks

Although investor attention seems focused on a number of well-known downside risks (including the European debt crisis, hesitant US economic growth and the pending US fiscal cliff), stocks have continued to climb higher and last week notched their fifth consecutive week of gains. For the week, the Dow Jones Industrial Average climbed 2.0% to 13,207, the S&P 500 Index advanced 1.7% to 1,405 and the Nasdaq Composite rose 1.1% to 2,958. With these gains, US stocks are now up comfortably into double-digit territory for the year, with lower risk, higher quality, large caps and growth styles leading the way.

Modestly Improving US Economic Data

For the past several months, we have described the US economy as being in the midst of a soft patch, and while that characterization remains accurate, it does appear as if economic growth has improved slightly. The surprisingly strong July payrolls data we saw two weeks ago was joined last week by another decline in weekly unemployment claims as well as by an increase in June exports and a drop in June inventories. The housing market has also been the source of some positive news lately. The long-term supply/demand imbalance has seen some signs of improvement, which has helped cause a rise in construction and has helped to create a floor for home prices. Housing data is improving, but the recovery in this sector of the economy will almost certainly be slow due to challenging credit conditions and the overhang of depressed properties.

While the United States is hardly in the midst of an economic boom, the recent trend of modestly better data should help assuage fears that a renewed recession may be around the corner. By any measure, growth levels remain modest, implying that the Federal Reserve may still elect to take some action in terms of launching additional quantitative easing measures. Whether or not the central bank does so at its September policy meeting remains an open question. Should we see a pullback in jobs growth in August, or should long-term inflation expectations come down, the data could tip the Fed toward taking more action.

Focusing on Policy & Politics

Questions about policy, of course, extend far beyond the United States. One of the main factors behind the improved stock performance we have seen in recent weeks has been European Central Bank President Mario Draghi's promises of open-ended

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.

For the past several months, we have described the US economy as being in the midst of a soft patch, and while that characterization remains accurate, it does appear as if economic growth has improved slightly.

support for the euro. Attention is now turning to the question of whether or not eurozone policymakers and politicians will be able to follow through on President Draghi's commitments to stabilize the bond markets and help lift depressed economic sentiment. Should they fail to do so, we would likely see renewed levels of market turmoil and potentially a deeper recession in the peripheral eurozone economies.

Returning to the United States, there are also a number of political questions that will have an impact on financial markets. The recent agreement reached by Congress to pass a six-month continuing budget resolution will at least prevent the threat of a government shutdown occurring before the November elections, but there has still been no visible progress in terms of resolving the upcoming fiscal cliff. Like most observers, we are not expecting to see any action on this front until after the elections and we believe that mounting uncertainty will be a negative for the economy and for investor confidence.

We expect that the November elections will focus primarily on economic and budget issues. The fact that Mitt Romney chose Wisconsin Congressman Paul Ryan (who chairs the House Budget Committee and who has long focused on fiscal issues) as his running mate reinforces this view. Predicting what exactly will happen on the fiscal front given all of the uncertainty is difficult, but it is clear that pressure is mounting to address the nation's long-term fiscal imbalances. In addition to the elections backdrop, the debt ceiling will again need to be raised soon, the threat of ratings agency downgrades is ever-present and, of course, there are a number of scheduled tax increases and spending cuts lurking on the horizon. We do expect to see some tax and entitlement reform occurring after the election, but the process will almost certainly be volatile.

Equity Gains Likely to Continue

Thanks largely to hopes over additional policy action, stocks managed to survive a relatively weak second-quarter earnings season. There is some question as to whether or not the recent earnings softness will prevent stocks from making additional gains, but we have confidence in the longevity of the business cycle. Looking ahead, our view is that the positives of easy monetary policy around the world, modest growth and a still-high equity risk premium should outweigh the negatives. Volatility is likely to remain high and equities may be poised for some sort of correction given their multi-week climb, but we expect stocks to continue to grind higher in the months ahead.

Volatility is likely to remain high and equities may be poised for some sort of correction given their multi-week climb, but we expect stocks to continue to grind higher in the months ahead.

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 13, 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.

AC6272-0812

BLACKROCK®

iShares® BLACKROCK SOLUTIONS®