

BLACKROCK MERRILL LYNCH

INVESTMENT MANAGERS

Week in View

Market Review

Wall Street experienced a mixed week, before a strong rebound on Friday saw the major equity indices record overall gains to narrowly maintain its positive run of weekly performance that began at the end of March. Rising oil prices, weak retail-sales figures and disappointing economic news resulted in the sharpest one-day sell-off in two months on Thursday, before Friday's rebound restored some order; **the Dow Jones ended the week up 0.5%**, while the S&P 500 was flat.

Market Movements

Markets	11 May 2007	% Change
S&P 500	1505.85	0.02
NASDAQ	2562.22	-0.39
TSE 1 st Section	1723.09	1.11
FTSE/S&P World Europe	448.58	-0.72
FTSE All-Share	3409.93	-0.70
DAX	7479.34	-0.50
Hang Seng	20468.21	-1.79
Citi World Govt Bond Index		
All Mats	490.74	-0.02
Bonds*	11 May 2007	4 May 2007
US	4.67	4.64
Japan	1.65	1.65
Germany	4.20	4.21
UK	5.08	5.11
Currencies	11 May 2007	4 May 2007
USD/Euro	1.35	1.36
GBP/Euro	0.68	0.68
JPY/USD	120.11	119.91
USD/GBP	1.98	2.00
JPY/GBP	238.10	239.31
Commodities	11 May 2007	% Change
Oil (Brent Crude)	65.59	1.00
Commodity Futures (CRB) Index	405.71	-0.07
Gold	672.35	-2.59

A poor Thursday on Wall Street resulted in a disappointing end to the week in Japan, as stocks took their lead from triple-digit losses in the US. However, strong gains for Japanese shares earlier, on Monday, (as share prices caught up with foreign market movements while Japan was closed for Golden Week) saw indices among the market leaders.

European bourses ended the week lower, but the strong final session in the US and continued M&A speculation in the banking sector (specifically Italy's Capitalia) ensured that losses were tempered towards the end of the week. By close of play on Friday, the German DAX had lost 0.5%, while the French CAC 40 was down 0.3%.

UK interest rates reached their highest level in six years after the **Bank of England raised the cost of borrowing** by 0.25%, to 5.5%, on Thursday, as anticipated. The accompanying narrative confirmed that output growth and business investment had remained firm and that the medium-term inflation outlook remained "...tilted to the upside".

Asian equities fell modestly last week, despite robust performance taking the Chinese and Korean markets to new record highs. Offsetting the strong performance, Hong Kong's Hang Seng fell 1.8%, while Thailand, Singapore and Indonesia also ended lower.

Latin American markets were mixed over the week, with Brazil and Mexico slightly higher, and Argentina 1.6% lower. In Emerging Europe, **Russia's RTS index ended down 4.4%**.

The US Treasury market was in friendly mood early in the week, with bond yields falling despite a short supply of data. A widening of the US trade balance, to over US\$60bn, and the potential negative impact on GDP prompted something of a rally towards the end of the week, and resulted in **lower bond yields**.

Global economic data had little impact on the currency markets, with few surprises and any interest-rate decisions already well priced into the market. Overall during the week, **the US dollar was stronger against the euro and sterling**, while the yen gained versus the dollar.

Following concerns over supply disruptions in Nigeria, **oil prices were supported** by fears that petroleum inventories in the developed world would suffer unless OPEC raised output levels. US petrol prices also saw gains as the year headed towards the US summer "driving season", when demand is at its highest. Meanwhile, **gold bullion prices ended the week lower**, as the dollar rose against most currencies.

Comment

Outlook for profits growth

Following the exceptional profits recovery of recent years, it was inevitable that some moderation from high growth rates would develop, largely because profit margins could not expand further. With this scenario now underway, the consensus for profits growth is conservative, with the market braced for a slowdown, however an imminent hard landing for profits remains improbable. We believe that slower profits growth will be reflected in lower, but still positive, returns from equities and higher equity market volatility, but we do not see it as the cause of sustained equity market weakness.

Equity, currency and bond markets measured from previous Friday's close to Friday's close. All index returns in local currency terms. All equity index returns are price only. *Bonds: 10-year yield. This material is for distribution to market counterparties, intermediate customers and distributors only and should not be relied upon by any other persons. Past performance is not a guide to future performance. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Levels and bases of taxation may change from time to time. Issued by BlackRock Investment Management (UK) Limited (authorised and regulated by the Financial Services Authority). Registered office: 33 King William Street, London, EC4R 9AS. Registered in England No. 2020394. Tel: 020 7743 3000. For your protection, telephone calls are usually recorded. BlackRock is a trading name of BlackRock Investment Management (UK) Limited. Issued in Switzerland by the representative office, Merrill Lynch Investment Managers Limited (London) (to be renamed BlackRock Investment Management (UK) Limited (London)), Zurich Branch, Dreikönigstrasse 31a, 8002 Zurich. Paying Agent in Switzerland is HSBC Private Bank (Suisse) S.A., Paradeplatz 5, CH-8022 Zurich, Switzerland. Issued in Hong Kong by BlackRock (Hong Kong) Limited. In Singapore, this information is issued by BlackRock (Singapore) Limited. The Merrill Lynch name and logo are trade marks of, and used under license from, Merrill Lynch & Co., Inc. The views expressed herein are as of 14.05.2007, and do not constitute investment or any other advice; the views are subject to change and do not necessarily reflect the views of BlackRock as a whole or any part thereof.