BLACKROCK
MERRILL LYNCH
INVESTMENT MANAGERS

Week in View

Market Review

Private equity and general M&A activity continued to buoy up investor confidence and **US markets (apart from the Nasdaq) posted further gains** despite some disappointing earnings and economic data releases. The technology-dominated Nasdaq was hit by weakness among semiconductor names and fell back by 0.1%. But the S&P rose by 1.1% to near a fresh peak, while the Dow Jones was up by 1.7% and once again closed at a new record high. The autos sector was a key outperformer following the news that Daimler had sold Chrysler to private equity firm Cerberus after the firm had raised the biggest financing package yet for a private equity deal.

Market Movements

Markets	18 May 2007	% Change
S&P 500	1522.75	1.12
NASDAQ	2558.45	-0.15
TSE 1st Section	1695.69	-1.59
FTSE/S&P World Europe	454.39	1.30
FTSE All-Share	3449.69	1.17
DAX	7607.54	1.71
Hang Seng	20904.84	2.13
Citi World Govt Bond Index All Mats	489.14	-0.33
Bonds*	**18 May 2007**	**11 May 2007**
US	4.80	4.67
Japan	1.64	1.65
Germany	4.30	4.20
UK	5.16	5.08
Currencies	**18 May 2007**	**11 May 2007**
USD/Euro	1.35	1.35
GBP/Euro	0.68	0.68
JPY/USD	121.21	120.11
USD/GBP	1.97	1.98
JPY/GBP	239.30	238.10
Commodities	**18 May 2007**	**% Change**
Oil (Brent Crude)	69.30	5.66
Commodity Futures (CRB) Index	404.14	-0.39
Gold	662.05	-1.53

Japanese stock markets again lagged most of their global counterparts. The Topix was down by 1.6% over the week, while the Nikkei 225 fell by 0.9%. The Bank of Japan decided to keep interest rates unchanged after data showed the world's second largest economy grew less than expected in the first quarter due to a slowdown in capital spending.

European markets made further strides, with Germany's Dax up by 1.7% and France's CAC-40 rising by 0.8%. GDP in the 13-country euro-zone grew by 0.6% during the first quarter. The growth rate marks a slowdown from the 0.9% rise in the last three months of 2006, but was still higher than expected given the imposition of higher VAT rates in Germany (the region's largest economy).

UK markets also moved higher. The FTSE 100 was up 1.1% over the week to near a multi-year high. The energy sector continued to benefit from a stronger oil price, while markets overall continued to be underpinned by M&A speculation.

Asian markets were mixed, with many markets making gains ahead of China's surprise decision on Friday to tighten monetary policy in a bid to cool domestic share prices (which have doubled in little more than six months). Hong Kong's Hang Seng rose by 2.1% over the week, though Korea's market was up by a more modest 0.5% and Taiwan's market was flat.

Latin American markets enjoyed strong performance. Mexico's Bolsa was up by 2.1% and Brazil's Bovespa by 2.3%. Overall sentiment got a boost from the news that Standard & Poor's had upgraded Brazil's long-term foreign sovereign credit rating by one notch to BB+, just one notch below an investment grade rating. Meanwhile, **eastern European markets benefited from a stronger oil price**: Russia's RTS index rose by 0.8%.

In bond markets, US Treasuries traded with a somewhat weaker tone, and **bond yields climbed for most of the week.** Eurozone bond yields also ended the week higher as markets digested better-than-expected GDP growth. JGB yields also climbed, led by the US Treasury market.

The **US dollar was largely unchanged against the euro**, though it weakened mid-week on positive data from the euro-zone, before subsequently recovering. The yen suffered from weaker investor sentiment, falling back against both the dollar and the euro.

Oil prices continued to strengthen amid fears about US petrol supplies this summer after some US refiners announced that they would temporarily shut certain of their refineries due to operational problems or maintenance work.

Metals remained under pressure, with copper at a five-week low in Asia following last week's inventory data that showed copper stockpiles had reached a two-year high.

Comment

China's surprise move

The People's Bank of China surprised markets on Friday by announcing three monetary tightening policies. The moves appear to be designed to try to cap further rises in the Chinese domestic A-Share market, rather than to prick the 'bubble' outright. In our view, the policies are designed to suck up excess liquidity – and not to significantly cool the economy overall.