BlackRock Merrill Lynch Investment Managers

Week in View

Market Review

After experiencing something of a rollercoaster ride over the last two weeks, initial market rallies gave way to steep declines on Thursday and Friday. Investor confidence seemed to take a sharp turn for the worse, prompted by numerous rumours of hedge fund closures and heightened concerns that the impact of US sub-prime issues could spill over into the rest of the global economy. Developments took a new twist when banks began to hike the rates they charge on overnight lending to other banks, raising concerns about the overall health of the banking system. Some of these fears seemed to be allayed when central banks around the world moved to increase temporary injections of funds into the financial system. **US markets** seemed to be regaining some poise by Friday's close and **ended the week in positive territory, with the S&P 500 up by 1.5% and the Dow Jones rising by 0.4%**.

Market Movements

Markets	10 Aug 2007	% Change
S&P 500	1453.64	1.44
NASDAQ	2544.89	1.34
TSE 1st Section	1633.93	-2.31
FTSE/S&P World Europe	417.36	-2.43
FTSE All-Share	3129.62	-2.92
DAX	7343.26	-1.24
Hang Seng	21792.71	-3.31
Citi World Govt Bond Index All Mats	491.92	-0.02
Bonds*	**10 Aug 2007**	**3 Aug 2007**
US	4.78	4.70
Japan	1.72	1.78
Germany	4.35	4.32
UK	5.22	5.18
Currencies	**10 Aug 2007**	**3 Aug 2007**
USD/Euro	1.37	1.38
GBP/Euro	0.68	0.67
JPY/USD	117.79	118.37
USD/GBP	2.02	2.04
JPY/GBP	237.89	241.34
Commodities	**10 Aug 2007**	**% Change**
Oil (Brent Crude)	69.60	-7.64
Commodity Futures (CRB) Index	415.83	-1.73
Gold	674.10	0.69

Japanese markets followed the global trend, with stocks moving higher up to Thursday but then falling back sharply amid worries about the health of the banking system. Like their counterparts in continental Europe and the UK, Japanese markets experienced their worst one-day falls in many years. The Nikkei 225 ended the week down by 1.3%, while the broader Topix fell by 2.3%.

European banking stocks were rocked by concerns over the sector's sub-prime exposure after BNP Paribas (France's largest bank) suspended the calculation of three of its hedge funds, citing problems in the US sub-prime market. **Germany's DAX was down by 1.2% over the week, while France's CAC-40 fell by 2.7%.**

In the UK, the FTSE 100 was down by 3% over the week, again as a result of fears about the fall-out from sub-prime loans.

Asian markets also experienced a volatile week: South Korea's market was down by 2.6%, Taiwan fell by 1.4% and Hong Kong by 3.3%.

In emerging markets, **Latin America ended the week modestly lower**, with Brazil down by 0.4% and Mexico by 0.8%. In emerging Europe, **Russia was down by 3.7%** while Poland's market was one of the world's worst performers, falling by 5.3%.

Bond markets, unsurprisingly, benefited from the flight to quality investments, with **US Treasuries rallying over the week**.

Oil prices fell sharply during the week as investors grew increasingly concerned about the US demand outlook. **Industrial metals prices moved lowe**r, though **gold prices rose** as the US dollar weakened.

Comment: More volatility in prospect…

Last week's equity turmoil appears to have been triggered by concerns about the health of the banking system. The argument runs that major banks, faced with mortgage-related losses, are engaged in a process of significantly tightening the availability of credit to their clients and to each other. Much of the current uncertainty centres on trying to identify the scale of holdings and losses in credit investments, especially for financial companies, and news is likely to trickle rather than flood out.

Key points to watch will be statements from the major banks and financial companies, together with the resumption of normal trading in the credit markets to allow institutions to price up their holdings in more exotic instruments. We believe that the major banks will remain in business and that the fall-out to the wider economy will be a braking motion, rather than causing the engine to cut out. At present, trying to time a market bottom looks like a hazardous exercise. Even in the best of all worlds, we should expect continued volatility in coming weeks. Nevertheless, we would stress that, in our view, much of the fundamental economic backdrop has not changed. The global economy remains pretty robust and we do not believe that what has been happening in credit markets will derail prevailing macro trends.