

BLACKROCK MERRILL LYNCH

INVESTMENT MANAGERS

Week in View

Market Review

US markets nudged cautiously higher over the week, with the S&P up 0.6% and the Dow Jones rising by 0.4%. Concerns over the US economy's loss of momentum appeared somewhat alleviated by the release of much stronger-than-expected jobs data. Further merger and acquisition (M&A) speculation helped to underpin investor confidence. The Q1 20007 earnings season is now under way, with a host of industrial names due to report next week.

Market Movements

Markets	13 Apr 2007	% Change
S&P 500	1452.85	0.63
NASDAQ	2491.94	0.83
TSE 1 st Section	1705.50	-0.67
FTSE/S&P World Europe	440.80	0.92
FTSE All-Share	3360.44	0.86
DAX	7212.07	1.58
Hang Seng	20340.97	0.65
Citi World Govt Bond Index		
All Mats	488.44	-0.36
Bonds*	13 Apr 2007	6 Apr 2007
US	4.76	4.75
Japan	1.66	1.67
Germany	4.24	4.09
UK	5.10	4.99
Currencies	13 Apr 2007	6 Apr 2007
USD/Euro	1.35	1.34
GBP/Euro	0.68	0.68
JPY/USD	119.30	118.55
USD/GBP	1.98	1.97
JPY/GBP	236.55	233.76
Commodities	06 Apr 2007	% Change
Oil (Brent Crude)	68.84	0.53
Commodity Futures (CRB) Index	409.66	0.00
Gold	684.30	1.30

Japanese markets had a lacklustre week, with the Nikkei 225 and Topix both down by around 0.7% amid continuing concerns about the global growth outlook.

By contrast, European markets continued to make gains, nearing six-year peaks. The Dax rose by 1.6% over the week, while the CAC-40 was up 0.8%. Markets remained bolstered by ongoing M&A speculation, with attention focusing in particular on a possible merger between ABN AMRO and Barclays.

UK markets also enjoyed solid gains. The FTSE 100 was up by 1.0% over the week, rising to hit a six-year high on Friday. Market confidence strengthened on the back of continued M&A activity, together with solid performance from the heavyweight drugs and oil sectors.

Asia-Pacific stocks had another strong week, with China, South Korea and Indonesia all trading near record highs.

Markets in emerging Europe also notched up good gains, with those markets with a heavy bias towards energy stocks (most notably, Russia) benefiting from the stronger oil price. Russia's RTS index was up by 2.8% over the week.

Latin American shares also continued to perform well, with sentiment boosted by solid commodity prices. Brazil's Bovespa was up 2.7% and Mexico's Bolsa rose by 1.3%.

Over the past two weeks, US Treasury yields have risen markedly. The short end of the yield curve had been pricing in a distinct easing in interest rates by the Federal Reserve (Fed) later in the year, in response to ongoing concerns that the slow housing market would eventually feed into the broader economy. However, employment data again surprised on the upside, forcing investors to scale back their rate cut expectations. Meanwhile, improving equity market performance and positive US employment undermined Eurozone bonds, while Japanese government bonds struggled to find any direction.

The US dollar continued to weaken on the back of concerns about US growth prospects, together with expectations that interest rate differentials are likely to favour the euro and the yen.

Oil prices neared US\$70 per barrel by the end of the week following comments from the International Energy Agency (IEA) warning that given the steep fall in inventories (particularly in US gasoline stocks) over the last two quarters that OPEC has clearly tightened production too much.

Comment

Profits slowdowns do not imply bear markets...

It is difficult to argue for a continuation of the very bullish profits background which has prevailed in recent years. This suggests that both investors and companies will have to adjust to a more difficult earnings environment from here. However, it is important not to throw the baby out with the bathwater: a change in the earnings background need not trigger a move to a much more defensive investment stance. Earnings alone do not drive equity market performance; earnings can continue to grow even when the level of profitability is high. The level of profitability can remain at elevated levels for some years, with mean reversion to the long-term average occurring only slowly. Sharp declines in earnings typically occur only in recessions and not in periods of moderate economic growth. Moreover, an earnings slowdown is widely expected.

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