

# BLACKROCK MERRILL LYNCH

INVESTMENT MANAGERS

## Week in View

### Market Review

US stocks continued to rise, with the S&P 500, the Dow Jones and the Nasdaq all breaching multi-year highs despite concerns that investor confidence could be undermined by steep falls in Chinese equity markets. Indeed, investor risk appetite appeared to strengthen over the week, with confidence buoyed up by data releases pointing to an upturn in economic growth, together with generally positive earnings news and further merger and acquisition (M&A) activity.

### Market Movements

Markets	1 Jun 2007	% Change
S&P 500	1536.34	1.36
NASDAQ	2613.92	2.22
TSE 1 <sup>st</sup> Section	1767.88	3.05
FTSE/S&P World Europe	460.62	1.81
FTSE All-Share	3466.52	1.55
DAX	7987.85	3.21
Hang Seng	20602.87	0.40
Citi World Govt Bond Index		
All Mats	486.03	-0.31
Bonds*	1 Jun 2007	25 May 2007
US	4.95	4.86
Japan	1.77	1.72
Germany	4.45	4.37
UK	5.29	5.23
Currencies	1 Jun 2007	25 May 2007
USD/Euro	1.34	1.35
GBP/Euro	0.68	0.68
JPY/USD	122.04	121.64
USD/GBP	1.98	1.98
JPY/GBP	241.51	241.44
Commodities	25 May 2007	% Change
Oil (Brent Crude)	68.77	-2.45
Commodity Futures (CRB) Index	411.74	1.57
Gold	668.35	1.99

Japanese stocks also continued to rally, with investor confidence bolstered by signs of a reacceleration in US growth together with a slightly weaker yen versus the US dollar.

European markets notched up solid gains, with sentiment benefiting from more M&A speculation and also from share buyback announcements. Germany's DAX was up by 3.2% over the week, while France's CAC-40 rose by 1.4%. UK markets also rose, with the FTSE 100 up by 1.6% over the week

Asian markets were dominated by the sharp sell-off in Chinese equities on Wednesday in the wake of the government's decision to raise turnover taxes. Contagion

overall seemed relatively limited. Markets saw some volatility, but most ended the week in positive territory, with South Korea's market rising by 4.4% to hit a record high while Taiwan's market rose by 1.1%.

Emerging markets overall seemed to shrug off concerns that China's falls could threaten investor risk appetite. Latin American markets were particularly upbeat: stock markets in both Brazil and Mexico hit record highs over the week. In emerging Europe, Russia's market bucked its recent weakening trend. The RTS index was up by 1.9% over the week.

In bond markets, US Treasuries traded a narrow range throughout most of the week, with investors showing little appetite for bonds in an environment in which many investors are scaling back their expectations for Federal Reserve (Fed) interest rate cuts. Treasuries set the tone for other global markets, with both Eurozone bonds and JGBs weakening.

The US dollar was little changed against the euro or the yen over the week, with dollar sentiment benefiting from growing expectations that rate cuts may not be imminent.

Oil prices eased over the week with the news that US inventories showed record levels of petroleum imports. Commodity metals were broadly higher as was gold bullion.

### Comment

#### Markets withstand another China shock

As we have noted, global equity markets appear to have largely shrugged off the sharp sell-off in China's domestic A-share market midweek when the authorities took further action to cool the surging market. This was in sharp contrast to developments in February, when a similar drop in Chinese stocks triggered sell-offs across many global markets. This time around, global investor risk appetite appears more robust, with investors proving less susceptible to outbreaks of nerves. In part, this may be attributable to the reacceleration in global economic growth in recent weeks, together with signs that worries about the fall-out from the US sub-prime housing market may be receding.

At the same time, the latest move on the part of the Chinese authorities appears to confirm that they are striving to strike a balance between curbing further stock market inflation, while also maintaining strong economic growth. They are therefore implementing measures specifically targeted at the stock market and not wielding blunter instruments (like higher interest rates) that might have wider ramifications for the Chinese and hence the global economy.

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 04.06.2007, 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.