BLACKROCK
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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 1st 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.