BlackRock Merrill Lynch Investment Managers

Week in View

Market Review

Wall Street enjoyed its best performance in around six months, with market confidence buoyed up by the Federal Reserve (Fed)'s decision on Tuesday to cut interest rates by 50 basis points to 4.75%. The Fed's move came as something of a surprise, since most observers were expecting only a 25 basis points cut. The overall tone of the Fed's accompanying comments was relatively dovish. It stated that it "will act as needed to foster price stability and sustainable economic growth," perhaps signalling that more rate cuts may be forthcoming if credit issues continue to weigh on the US economy. In the immediate aftermath of the cut, stocks surged higher as investors welcomed the news of the apparent shift in Fed policy. Both the S&P500 and the Dow Jones ended the week by 2.8%, while the Nasdaq was up by 2.7%.

Market Movements

Markets	21 Sep 2007	% Change
S&P 500	1525.75	2.80
NASDAQ	2671.22	2.65
TSE 1st Section	1552.07	0.48
FTSE/S&P World Europe	438.81	2.79
FTSE All-Share	3314.93	2.35
DAX	7794.43	3.96
Hang Seng	25843.78	3.80
Citi World Govt Bond Index		
All Mats	495.53	-0.75
Bonds*	**21 Sep 2007**	**14 Sep 2007**
US	4.63	4.46
Japan	1.68	1.55
Germany	4.35	4.16
UK	5.08	4.86
Currencies	**21 Sep 2007**	**14 Sep 2007**
USD/Euro	1.41	1.39
GBP/Euro	0.70	0.69
JPY/USD	115.42	115.07
USD/GBP	2.02	2.01
JPY/GBP	233.20	231.46
Commodities	**21 Sep 2007**	**% Change**
Oil (Brent Crude)	79.18	1.71
Commodity Futures (CRB) Index	442.91	3.35
Gold	733.20	2.59

Japanese shares ended the week modestly higher, with investor sentiment benefiting from increased optimism about the outlook for the US economy in the wake of the Fed's rate cut.

Europe's main markets followed the global trend and rallied sharply over the week. Germany's Dax was up by 4.0%, while France's CAC-40 rose by 2.9%. **In the UK, the FTSE 100 rose by 2.7%.** The week saw a modest rebound from troubled bank Northern Rock following government assurances that it plans to guarantee most deposits, while metals and mining shares rallied sharply as investors interpreted the Fed cut as likely to prove positive for the global demand outlook.

Some Asia-Pacific markets witnessed particularly strong gains. Hong Kong's market was up by 3.8%, while the China Enterprises Index of Hong Kong-listed shares in mainland companies rose by 6.7%. Taiwan's market rose by a more modest 0.8%, while South Korea was up 2.6%.

Emerging markets also rallied sharply. In Latin America, Brazil's Bovespa rose by 5.7% with sentiment benefiting in particular from the rebound in metals prices. Mexico's Bolsa was up by 1.6%. In emerging Europe, the stronger tone to the natural resources sector again exerted much influence, with Russia's oil-heavy RTS index up by 4.3%.

The **US Treasuries market was inevitably dominated by the Fed's surprise 50 basis points easing**, which caused the yield curve to steepen over the week.

Meanwhile, aside from an initial positive knee-jerk reaction to the news, prospects for an immediate easing of the gridlock in the overnight and commercial paper markets continued to look grim. Major European credit indices moved tighter as markets heaved a sigh of relief after the Fed rate cut, reversing the earlier move wider on the UK's Northern Rock problems.

In currency markets, the euro hit a record high against the US dollar as markets contemplated further easing by the Fed. Sterling was unable to mirror the move, dropping below US$2/£ on worried over the systemic risk to the UK banking system. It subsequently recovered modestly on the news of the Bank of England's bailout plans.

Oil prices continued to move higher, with the price of Brent crude nearing US$80 per barrel. **Precious and commodity metals prices also strengthened**, with the price of gold ending the week comfortably above US$730 per troy ounce.

Implications of the Fed's move

Equity markets appear to be base-building, and have been showing some resilience in the face of bearish economic news. The main risk facing equities is whether a profits recession can be avoided, but we continue to believe that corporate fundamentals remain sound. Valuations continue to appear attractive and our long-term outlook remains positive. The shift in Fed policy ultimately should be positive for stocks, but it may be a few months before the bull market resumes in earnest, meaning that investors will need to be patient as they weather the ups and downs of the market. We believe fixed income market volatility will continue, but we view these conditions as offering significant investment opportunities.