

BLACKROCK MERRILL LYNCH

INVESTMENT MANAGERS

Week in View

Market Review

The Dow Jones and S&P 500 indices of **US stocks lagged this week** as investors fretted over a small but unexpected rise in inflation, higher oil prices and troubles for mortgage lenders. However, a rally in chipmakers saw the tech-heavy Nasdaq index 0.8% higher, despite a court decision in which Microsoft was hit by a US\$1.5bn patent infringement award.

Market Movements

Markets	23 Feb 2007	% Change
S&P 500	1451.19	-0.30
NASDAQ	2515.10	0.75
TSE 1 st Section	1814.96	2.28
FTSE/S&P World Europe	434.79	-0.11
FTSE All-Share	3321.39	-0.15
DAX	6992.58	0.51
Hang Seng	20711.65	0.70
Citi World Govt Bond Index		
All Mats	489.79	0.11
Bonds*	23 Feb 2007	16 Feb 2007
US	4.68	4.69
Japan	1.67	1.70
Germany	4.03	4.04
UK	4.89	4.87
Currencies	23 Feb 2007	16 Feb 2007
USD/Euro	1.32	1.31
GBP/Euro	0.67	0.67
JPY/USD	121.08	119.31
USD/GBP	1.96	1.95
JPY/GBP	237.65	232.63
Commodities	23 Feb 2007	% Change
Oil (Brent Crude)	60.01	5.47
Commodity Futures (CRB) Index	412.90	2.61
Gold	685.97	3.20

After a rate increase on Wednesday, the **Nikkei 225 stock index flew close to seven-year highs** as markets bet that Japan's Central Bank would not raise the cost of borrowing again until much later this year. The "relief rally" marked the removal of uncertainty over monetary policy that had caused many investors to move remain on the sidelines. The Nikkei rose 1.7% over the week, breaking through the 18,000-point barrier.

The **UK stockmarket struggled** to overcome weakness in the US and some poorly received earnings data, but tempered losses by focusing on **gains within the resources sector**. Mining companies, such as Xstrata, clawed back lost ground on higher metal prices, while the oil majors benefited from surging crude oil prices.

While higher oil prices helped European oil stocks, the contrasting effect saw air issues, such as Air France, falling on higher fuel cost concerns. Ultimately, bourses were fairly mixed, with the **German Dax rising 0.5% and the French CAC 40 flat** for the week.

Broadly speaking, **Asian stockmarkets have rallied for six weeks in a row**, and in 24 of the last 27 weeks. This week's beneficiaries included Australia, Hong Kong, Korea, Malaysia, Singapore and the Philippines, while the fallers included India, China and Indonesia.

There was a range-bound feel to the US Treasury market last week, while over the pond, there was little by way of economic data to excite the eurozone market either, although both regions saw **bond yields end marginally lower**. Japanese bonds also ended the week on a firmer footing, after the Bank of Japan (BoJ) lifted the shroud of uncertainty in doubling interest rates to 0.5%.

The major currencies had a fairly quiet week, with most Asian countries on holiday for Chinese New Year. However, despite the BoJ finally raising interest rates to a decade high of 0.50%, the move was shrugged off by the market on conclusions that the rate is still relatively low. **The yen ended sharply down** for the week, falling by around 2.0% against the US dollar.

Crude oil prices rose last week, hitting 2007 highs on concerns over a decline in weekly inventories, as data showed a surprise three-million-barrel rise in gasoline stocks. Jitters about Iran's defiance regarding its nuclear ambitions also fuelled gains. Meanwhile, among precious metals, **gold and silver hit seven- and nine-month highs** respectively.

Comment

M&A still in the limelight

M&A activity remains very much in the limelight, with two large private equity firms, KKR and Texas Pacific making a record leveraged buyout bid of US\$44bn to acquire TXU in the US, while Dow Chemical is also rumoured to be receiving a potential bid.

We expect the strong M&A activity to continue through 2007. Key drivers will be further industry consolidation, companies' low levels of debt and the availability of financing.

Private equity interest is likely to gather yet more pace as the vast amounts raised in 2006 need to be invested.

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