

BLACKROCK MERRILL LYNCH INVESTMENT MANAGERS

Week in View

Market Review

Fears of an ongoing slump in equity markets receded somewhat last week as **US share prices rallied** to produce their biggest weekly rise in four years, as measured by the S&P 500 index (up 3.5%). Five successive days of gains were supported by hints on Wednesday that the US Federal Reserve Bank (Fed) was no longer biased towards raising interest rates.

Market Movements

Markets	23 Mar 2007	% Change
S&P 500	1436.11	3.54
NASDAQ	2448.93	3.21
TSE 1 st Section	1741.94	3.87
FTSE/S&P World Europe	430.85	4.40
FTSE All-Share	3296.89	3.42
DAX	6899.06	4.85
Hang Seng	19692.64	3.90
Citi World Govt Bond Index		
All Mats	492.06	-0.34
Bonds*	23 Mar 2007	16 Mar 2007
US	4.61	4.55
Japan	1.61	1.58
Germany	3.99	3.90
UK	4.90	4.78
Currencies	23 Mar 2007	16 Mar 2007
USD/Euro	1.33	1.33
GBP/Euro	0.68	0.69
JPY/USD	117.83	116.77
USD/GBP	1.96	1.94
JPY/GBP	231.30	226.79
Commodities	23 Mar 2007	% Change
Oil (Brent Crude)	63.44	3.95
Commodity Futures (CRB) Index	405.34	1.58
Gold	657.88	0.73

In Japan, robust performance among banking and property stocks helped the **Nikkei 225 score gains of 4.4%** for the week. In economic data, a Bank of Japan decision to keep interest rates unchanged at 0.5% came as no surprise, while other news saw Japan's trade surplus widen in February (relative to 2006), after exports to the US and China rose more than expected. Despite higher oil prices tempering performance at the end of the week, continued M&A activity saw **European bourses among the market leaders**, with the German Dax rising by 4.9% and the French CAC 40 up 4.7%.

It was a similar story in London, as **bid speculation pushed the FTSE 100** measure of blue chip UK companies to a weekly gain of 3.4%, matching the broader FTSE All-Share index. Among stocks attracting takeover talk were Prudential (and Alliance Boots),

Scottish & Southern Energy (and Germany's E.ON), and Barclays (and Citigroup).

Asian stocks rallied to their highest levels since the global sell-off began on 27 February, with mining and energy stocks performing well, alongside exporters. Regionally, **Hong Kong's Hang Seng index rose by 3.9%**, while Korea rose by 1.4% and Australia registered gains of 2.0%.

Emerging markets were among the strongest weekly performers, particularly those of Latin America. Here, Brazil's Boavesta rose by 6.6%, while the Mexican and Argentinean markets both rose in the region of 5.0%. It was a good week for Russian equities too, with the oil-heavy RTS index registering a gain of 5.1%

Fixed income markets ended the week in stark contrast to rising equity markets. US Treasuries fell in response to the Fed's policy statement released in conjunction with the decision to hold interest rates at 5.25%, as investors debated a downgrade to the economic outlook on one hand and ongoing concerns about inflation on the other.

Energy stocks made some of the biggest gains last week, buoyed by both **rising oil prices** and broad strength in equities. Heightened geopolitical tensions combined with a tightening market to send crude oil prices to new highs for 2007. Meanwhile, **gold bullion ended the week slightly higher** at almost US\$658 per ounce.

Comment

Equity markets regain their poise

The week's key development has been the much stronger tone to equity markets. Most markets are up by around 3.0% to 4.0% versus a week ago. The trigger behind the rally appears to have been the statement that accompanied the Fed's mid-week announcement that it was keeping interest rates on hold.

While the Fed retained its view that inflation is its predominant policy concern, markets focused on the drop in the implicit presumption that the next rate move would be a tightening. Markets therefore appeared to conclude that the Fed has moved to a more neutral stance, thereby taking some upside risk to rates off the table.

Our view is that the most likely profile for US rates this year is flat (even if the risk may have shifted somewhat more to the downside in the past few weeks). We believe that sufficiently firm economic growth, together with residual concerns about inflation, will probably ensure that the Fed holds tight for some time to come.

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 26.03.2007, 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.