

# BLACKROCK MERRILL LYNCH INVESTMENT MANAGERS

## Week in View

### Market Review

Global equities encountered a difficult week, with **Wall Street experiencing its worst weekly performance since September 2002**, as measured by the S&P 500, which ended down almost 5%. News that credit market concerns had heightened proved catalyst for the declines, as stocks sold-off despite positive confirmation that the US economy had expanded at a 3.4% annual rate and that core inflation has moderated.

### Market Movements

Markets	27 Jul 2007	% Change
S&P 500	1458.95	-4.90
NASDAQ	2562.24	-4.66
TSE 1 <sup>st</sup> Section	1699.71	-4.30
FTSE/S&P World Europe	428.33	-5.06
FTSE All-Share	3210.69	-5.78
DAX	7451.68	-5.37
Hang Seng	22570.41	-3.10
Citi World Govt Bond Index		
All Mats	491.00	0.69
Bonds*	27 Jul 2007	20 Jul 2007
US	4.78	4.96
Japan	1.79	1.88
Germany	4.32	4.44
UK	5.19	5.30
Currencies	27 Jul 2007	20 Jul 2007
USD/Euro	1.37	1.38
GBP/Euro	0.67	0.67
JPY/USD	118.75	121.23
USD/GBP	2.03	2.06
JPY/GBP	241.14	249.15
Commodities	27 Jul 2007	% Change
Oil (Brent Crude)	76.70	-2.89
Commodity Futures (CRB) Index	417.34	-1.45
Gold	662.70	-2.93

The global downward trend saw **Japan's benchmark Nikkei average falling 2.4%, to its lowest level in three months**, with domestic markets also dogged by domestic political uncertainty ahead of Sunday's elections (the Liberal Democratic party-led coalition lost its majority in the upper house in a result that now threatens to create legislative deadlock and problems for the government's economic reform plans).

In London, **the FTSE 100 index of larger stocks saw year-to-date gains completely wiped out**, falling by 5.6% over a week that included its worst one-day percentage-point fall in more than four years on Thursday. Smaller stocks fared even worse, resulting in losses of 5.8% for the FTSE All-Share, as credit markets threatened the sustainability of the leverage buy-out boom.

Fears that the credit crunch could cause M&A activity to dry up saw **stocks in Europe suffer their biggest weekly fall since March**, as volatility spread throughout the European bourses. In the event, both the German Dax and the French CAC-40 indices fell by more than 5.0%

Following strong growth that has helped many Asian markets to record highs in 2007, vulnerability to the US downturn, linked to the region's reliance on America as an export market, saw **heavy losses for countries such as Taiwan and Korea**, with leading indices falling by more than 4% over the week.

The credit crunch theme, along with mixed US data and a more-worrying economic outlook, saw a **continuation of last week's bond-positive market moves**. Credit spreads continued to widen over the week, with the environment remaining unsupportive for corporate bonds.

Both the **euro and sterling reached new highs versus the US dollar** during the week, although the greenback staged an impressive rally to rebound against both currencies. **The real winner of the week was the yen**, with gains aided by an unwinding of carry trades by hedge funds.

**Gold bullion fell to US\$662 per ounce** as the precious metal failed to benefit from its safe haven status in spite of rising risk aversion in financial markets. Meanwhile, with the oil price in the mid-US\$70s per barrel, the IMF warned that "the risk of an oil price spike remains a concern".

### Comment: Correction or end to the bull market?

We regard last week's equity market falls as a correction in an ongoing equity bull market and not the start of an equity bear market: the macroeconomic background remains fairly benign. The global economy is pretty robust and, indeed, seems to have accelerated during the second quarter; we see no reason to expect a major growth slowdown outside the US as the global economic decoupling theme appears broadly intact; corporate sectors do not have significant external financing needs, reflecting high levels of liquidity & profits; private equity activity (which has been a key beneficiary of leveraged loans) could now moderate, but we don't think this is the end of M&A activity for this cycle; credit and equity as asset classes are not, in general, closely correlated. We have seen periods in which the two asset classes can and do move in different directions; finally, equity valuations are still not extended (particularly after last week's pullback). We might be concerned about slowing profits growth if this slowdown were not already largely priced in. The equity bull market is undoubtedly maturing and we therefore expect more modest gains, as well as significantly more volatility, from here.

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 30.07.2007, 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.