

# BLACKROCK MERRILL LYNCH

INVESTMENT MANAGERS

## Week in View

### Market Review

Financial markets experienced a sharp rise in volatility last week, with **global equities selling aggressively** after the Chinese stockmarket fell 9.0% amid concerns over the health of the US economy and the sub-prime mortgage market.

Wall Street suffered its biggest one-day fall since markets re-opened after the 11 September 2001 terrorist attacks, with the **S&P 500 closing the week down 4.4%** and the **Dow Jones Industrial Average falling 4.2%**. The tech-heavy NASDAQ was harder hit, declining 5.8% over five sessions.

### Market Movements

Markets	02 Mar 2007	% Change
S&P 500	1387.17	-4.41
NASDAQ	2368.00	-5.85
TSE 1 <sup>st</sup> Section	1721.59	-5.14
FTSE/S&P World Europe	413.19	-4.97
FTSE All-Share	3172.31	-4.49
DAX	6603.32	-5.57
Hang Seng	19442.00	-6.13
Citi World Govt Bond Index		
All Mats	492.68	0.59
Bonds*	02 Mar 2007	23 Feb 2007
US	4.52	4.68
Japan	1.67	1.67
Germany	3.95	4.03
UK	4.78	4.89
Currencies	02 Mar 2007	23 Feb 2007
USD/Euro	1.32	1.32
GBP/Euro	0.68	0.67
JPY/USD	117.03	121.08
USD/GBP	1.94	1.96
JPY/GBP	227.53	237.65
Commodities	02 Mar 2007	% Change
Oil (Brent Crude)	61.90	3.15
Commodity Futures (CRB) Index	404.60	-2.01
Gold	650.17	-5.22

In Japan, stocks were hit by continued global concerns and by strengthening of the yen as the **Nikkei 225 Average ended the week down 5.3%**. The export-focused electrical machinery sector was a notable faller, with stocks hit by recent dollar weakness versus the Japanese currency.

Despite the M&A speculation surrounding the utility sector helping investors end the week on a slightly positive note, UK equities joined their global counterparts in registering heavy losses, with the FTSE 100 heading back towards 6,000 points for the first time since October 2006. The **index of larger UK shares ended 4.5% lower**, matching the broader FTSE All-share.

European bourses endured their worst week for four years, with the **German Dax index down 5.6%** and the **French CAC 40 declining by 5.1%**. Despite economic confidence continuing to improve across the region, macroeconomics took to the sidelines as any year-to-date gains were wiped out.

Some of Asia's stockmarkets staged cautious recoveries at the end of the week, as investors sifted through the wreckage to search for stocks that were left underpriced. Regional markets still ended heavily in the red, however, with **Hong Kong down 6.1%**, **Korea down 3.8%** and **Taiwan falling 1.8%**.

A flight to safety drove gains for high-quality assets, with **government bonds sharply higher over the week**. A combination of factors appeared to have knocked investor sentiment, with a global stockmarket correction triggered by sub-prime mortgage concerns in the US and sharp falls in Chinese equities.

The spike in volatility led to a large-scale unwinding of carry trade positions, and both the **Japanese yen and Swiss franc strengthened**. The euro was also slightly stronger, on expectations of further rate hikes.

Having shown much resilience in the face of the global market correction last week, falling less than 3.0% from their 2007 highs, **Brent crude oil prices remained above US\$60** per barrel. However, concerns about dwindling stockpiles have started to fade somewhat, evidenced by price falls on Friday. Meanwhile, **gold bullion fell by more than 5.0%** over the week as wider financial market fears spilled into metals prices too.

### Comment

#### Sharp rise in risk aversion

Financial markets are witnessing a dramatic rise in risk aversion. Investors' risk appetite has diminished on the back of increased uncertainty about the health of the US economy and the potential impact from continued weakness in the mortgage market. The trigger, but not the cause, for the sell-off in equity markets was the sharp drop in China's main stock index at the end of February. After the Shanghai index surged 130% last year, aggressive profit-taking was caused by fears that the Chinese government might act to cool the overheated local equity market. We expect financial markets to remain very sensitive to US economic data over the next few weeks. Despite the more mixed data recently, we believe that the weakness in sub-prime lending does not have a materially negative impact on the broader US economy. Thus, the environment for equity markets remains supportive from a medium-term perspective and we would expect volatility to subside with time.

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 05.03.2007, 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.