BLACKROCK
MERRILL LYNCH
INVESTMENT MANAGERS

Week in View

Market Review

US equities made a positive start to the third quarter of 2007, as share prices gained on confirmation that the domestic economy is picking up momentum; better economic prospects were highlighted by, among other things, data showing that 132,000 new jobs were created last month. The tech-heavy Nasdaq index led weekly performance, with a gain of 2.4% (up more than 10% so far in 2007), while the broader S&P 500 rose 1.8%.

Market Movements

Markets	**06 Jul 2007**	**% Change**
S&P 500	1530.44	1.80
NASDAQ	2666.51	2.43
TSE 1st Section	1779.67	0.27
FTSE/S&P World Europe	457.53	1.06
FTSE All-Share	3454.13	1.47
DAX	8048.32	0.51
Hang Seng	22531.74	3.49
Citi World Govt Bond Index All Mats	482.41	-0.45
Bonds*	**06 Jul 2007**	**29 Jun 2007**
US	5.19	5.03
Japan	1.93	1.87
Germany	4.67	4.57
UK	5.54	5.46
Currencies	**06 Jul 2007**	**29 Jun 2007**
USD/Euro	1.36	1.35
GBP/Euro	0.68	0.67
JPY/USD	123.20	123.50
USD/GBP	2.01	2.01
JPY/GBP	248.00	247.77
Commodities	**06 Jul 2007**	**% Change**
Oil (Brent Crude)	77.44	6.56
Commodity Futures (CRB) Index	416.07	1.39
Gold	652.70	0.35

Japan's stockmarket made modest gains over the week, though it again lagged many of its global ocounterparts. Meanwhile, recent mixed economic data suggests that the Bank of Japan (BoJ) will not be in any hurry to raise interest rates.

Relative to recent weeks, a quiet period for M&A activity saw **European equities supported by strong performance in the automotive sector**s; newsflow from Peugeot and Fiat attributable to gains here. Oil companies also rallied as crude oil pushed higher. Germany's Dax ended 0.5% higher, while the French CAC-40 gained by 0.8%.

Gains from resources stocks helped the **FTSE 100 end the week on a positive note** (up 1.2%), with notable performance coming from the heavyweight oil sector.

Meanwhile, the Bank of England raised its main rate for the fifth time in a year, to 5.75% on Thursday. While the tightening was expected, observers are now anticipating a base rate of 6.0% before the end of 2007.

Many emerging markets enjoyed strong performance, with investor confidence benefiting from signs of a stronger US economy. In Latin America, Brazil's Bovespa gained 3.8%, while Mexico's Bolsa was up by 4.0%. In emerging Europe, Russia's RTS index rose by 4.1%.

Many **Asian markets made particularly strong gains**, with some (including Thailand's market) hitting multi-year highs, while others (most notably, India's stock market) breached their all-time peaks.

US Treasury yields came under pressure over the week as a result of generally positive economic data releases. Eurozone government bonds tracked Treasuries and yields backed up. Japanese government bonds (JGBs) also sold off over the week.

The **US dollar weakened against all major currencies**, though the euro gave up much of its gains towards the end of the week amid increased speculation that the European Central Bank (ECB) might keep rates on hold for the remainder of the year. In the UK, sterling firmed on the back of expectations that further rate hikes are in prospect.

Energy stocks continued to performed well as crude oil prices hit 11-month highs. Commodity prices also rose, with the price of copper up amid supply concerns as a result of strike action at a Canadian mine.

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Comment

Will the acceleration in global growth continue?

A key theme in the past quarter has been the acceleration in global economic growth. Following a weak first quarter, economic activity has been robust in the past few months. This upturn has had two key consequences: the increase in real interest rates which has brought about the rise in nominal bond yields and a more favourable earnings background which has allowed equity markets to progress despite higher bond yields. Should we expect more of the same in the current quarter? We believe not. In our view, the global growth acceleration is likely to level off over the next few months. Since government bond yields are now in general close to fair value, neither the cyclical nor the valuation backdrop for bonds is likely to be as much of a headwind in coming months. However, there is likely to be less of a tailwind underlying corporate earnings, although we believe that profits expectations in general remain fairly cautious.