BLACKROCK MERRILL LYNCH INVESTMENT MANAGERS

Week in View

Market Review

US markets struggled to gain ground. Markets moved upwards until midweek, with the S&P 500 hitting a six-year high and the Dow Jones crossing a fresh peak. However, confidence waned as the week progressed. Investors worried about the outlook for the housing market following bad debt warnings from sub-prime mortgage lenders.

Market Movements

Markets	9 Feb 2007	% Change
S&P 500	1438.06	-0.71
NASDAQ	2459.82	-0.65
TSE 1st Section	1745.09	0.15
FTSE/S&P World Europe	433.16	0.75
FTSE All-Share	3308.69	1.21
DAX	6911.11	0.37
Hang Seng	20677.66	0.55
Citi World Govt Bond Index All Mats	488.10	0.10
Bonds*	**9 Feb 2007**	**2 Feb 2007**
US	4.78	4.83
Japan	1.69	1.72
Germany	4.08	4.05
UK	4.96	5.00
Currencies	**9 Feb 2007**	**2 Feb 2007**
USD/Euro	1.30	1.30
GBP/Euro	0.67	0.66
JPY/USD	121.70	121.14
USD/GBP	1.95	1.97
JPY/GBP	237.12	238.44
Commodities	**9 Feb 2007**	**% Change**
Oil (Brent Crude)	57.20	0.79
Commodity Futures (CRB) Index	398.30	1.22
Gold	663.55	3.10

Japanese markets made modest gains over the week despite mixed earnings forecasts from some high-profile names. Towards the end of the week, export-oriented stocks got a boost from a modestly weaker yen.

UK stockmarkets moved higher, with sentiment underpinned by further M&A activity (particularly bids from private equity firms) along with the news that the Bank of England had voted to keep interest rates on hold. The FTSE 100 was up 1.1% over the week.

European markets also notched up gains. Germany's Dax was up 0.4% while France's CAC 40 rose by 0.3%. The Europe Central Bank (ECB) opted to keep interest rates on hold in February, but its accompanying statement (which stressed the need for 'strong vigilance') was widely interpreted as signalling that rates will be raised in March.

Many Asian markets moved higher. Hong Kong's market was up by 3.3%, with sentiment benefiting from much better-than-expected retail sales figures. South Korea's market rose by 1.0% and Taiwan's by 1.1%.

There was little significant economic data due this week, and so the Treasury market was left to dwell on the somewhat weaker non-farm payrolls report posted last Friday. As a result, **bond yields declined into this week**. The rally was halted midweek ahead of an auction of three-year notes on Tuesday, amid some fears that foreign demand for Treasuries might be weaker. However, the take-up was strong, rekindling the rally. Another auction of 10-year Treasuries scheduled later in the week was also approached with caution by the market. However, demand remained strong, prompting a further fall in bond yields.

The main theme of foreign currency markets remained the debate as to whether the G7 would focus on the weakness of the Japanese yen. In the event, markets seemed to conclude that the yen would not prove a particular focus and the **yen ended the week down versus the US dollar**.

Oil prices moved well above US$50 per barrel on the back of cold weather in the US and growing evidence that the market is tightening as a result of OPEC production cuts.

Gold continued to trade well, rallying by around US$20 per troy ounce this week to six-month highs, with reports of good asset allocation towards gold since the beginning of the year. Demand for gold appears to be benefiting from stronger oil prices as investors hedge against possible inflationary threats as a result of higher energy costs.

Comment

US housing market takes centre stage

Attention again focused on the US housing market over the week. We believe that the fall in residential investment still has some way to run, although the pace of decline is expected to fade during 2007. However, we do not expect a weak housing sector to deliver substantial weakness elsewhere in the economy. This is partly because firm real income growth is likely to continue to support personal consumption, which has yet to slow despite the drag from weak housing (we expect some moderation to emerge, not a marked slowdown). In addition, we continue to expect a firm stimulus from corporate sector spending in the US and globally, reflecting companies' high levels of profitability and strong financial positions.