BLACKROCK
MERRILL LYNCH
INVESTMENT MANAGERS

Week in View

Market Review

Equity markets dived lower last week, as mounting concerns over credit losses were exacerbated by inflation fears and a softer US dollar. Uncertainty about the levels of banks' exposure to the ongoing sub-prime problems saw financial stocks bear the brunt of declines; Wachovia and Barclays the latest to come under the spotlight. In the US, **the S&P 500 ended down 3.7%**, while the Dow Jones declined by 4.1%. Having avoided the worst of earlier credit-related losses, technology stocks suffered from fears of a slowdown in capital spending, resulting in heavy losses for the Nasdaq index.

Market Movements

Markets	9 Nov 2007	% Change
S&P 500	1453.70	-3.71
NASDAQ	2627.94	-6.49
TSE 1st Section	1494.35	-6.61
FTSE/S&P World Europe	429.13	-3.07
FTSE All-Share	3237.32	-3.70
DAX	7812.40	-0.47
Hang Seng	28783.41	-5.53
Citi World Govt Bond Index All Mats	504.87	0.43
Bonds*	**9 Nov 2007**	**2 Nov 2007**
US	4.22	4.29
Japan	1.54	1.59
Germany	4.08	4.17
UK	4.73	4.86
Currencies	**9 Nov 2007**	**2 Nov 2007**
USD/Euro	1.47	1.45
GBP/Euro	0.70	0.70
JPY/USD	110.67	114.76
USD/GBP	2.09	2.08
JPY/GBP	231.81	238.92
Commodities	**9 Nov 2007**	**% Change**
Oil (Brent Crude)	93.21	1.37
Commodity Futures (CRB) Index	456.36	0.28
Gold	831.60	4.38

The **hard-hit Japanese stockmarket** saw its leading Nikkei 225 index close the week close to 2007 lows, a level previously reached in the middle of August. Share prices fell for six days in a row for the first time since 2006.

There were **few hiding places across the stockmarkets of Europe and the UK**, with indices registering significant loses for the week. In related news, both UK and eurozone interest rates were kept on hold by the Bank of England and the European Central Bank respectively.

Having benefited from the prospect of relaxed Chinese investment legislation, **the Hang Seng index reacted adversely** on Monday to news that the Government may delay allowing mainland investors to buy Hong Kong stocks. The index fell 5% - its biggest ever one-day fall, while the week's decline reached 5.5%.

In emerging Europe, **Russia bucked the global trend once again**, ending the week 1.5% higher, as its energy-dominated market benefited from a stronger oil price.

Government bonds were the main beneficiaries of the week's financial market turmoil; yields on US Treasuries falling to two-year lows in some maturities.

The **US dollar fell to a new record low against the euro**, and multi-year lows against most other leading currencies, amid mounting expectations of further US interest rate cuts, despite Fed chairman Ben Bernanke reiterating his concerns about mounting inflationary pressures.

The inflation concerns mentioned above were heightened by **strength in commodity prices**. Crude oil prices continue to hover around record highs, well in excess of US$90, despite some easing towards the end of the week, while gold bullion again struck 28-year peaks, as it surged towards US$850 per ounce.

Volatility returns but reasons for hope

Ongoing credit-market concerns have ensured the upward trend in equity markets has been firmly reversed, with last week's downturn particularly violent. Underlying worries for corporate earnings in an environment of slowing economic growth, and the increased pressure on financial companies are the major catalysts for recent losses, and looking specifically at the financials sector, it is clear that the transparency of earnings exposure to the sub-prime market that was wished for is now bringing further negative newslfow. The result has been underperformance and the widespread decline of constituent stocks.

The financials sector accounts for around one third of equity market earnings and around one quarter of market capitalisation. As such, it is easy to be concerned that we will see contagion to the wider global economy. However, on the positive side: the valuations of some financials are now very interesting; equity valuations overall are not stretched, and subsequent to last week are even less stretched than before; weak earnings growth won't be so bad given the advance expectations of such; and it remains far from clear that the slowing of economic growth will result in a recession in the US or anywhere else in the world, particularly given the high starting point. Going forward, as positive and negative forces tussle, we expect volatility to continue against a theme that sees an underlying upward trend for equity markets.