

BLACKROCK MERRILL LYNCH

INVESTMENT MANAGERS

Week in View

Market Review

US markets had another volatile week, with investor confidence under pressure from mixed corporate results and forecasts, stronger oil prices and higher bond yields.

Against a background of stronger-than-expected economic data, investors seem to be scaling back expectations that the the Federal Reserve (Fed) will cut interest rates in the first half of 2007.

This, in turn, is raising concerns about the prospects for a 'soft landing' for the US economy. While investors expect the Fed to keep rates on hold this Wednesday, the Fed's accompanying statement on the outlook for growth and inflationary pressures will be closely scrutinised.

Market Movements

Markets	26 Jan 2007	% Change
S&P 500	1422.18	-0.58
NASDAQ	2435.49	-0.65
TSE 1 st Section	1728.02	0.81
FTSE/S&P World Europe	422.71	-0.39
FTSE All-Share	3223.26	-0.18
DAX	6690.34	-0.84
Hang Seng	20281.13	-0.23
Citi World Govt Bond Index		
All Mats	487.05	0.18
Bonds*	26 Jan 2007	19 Jan 2007
US	4.88	4.78
Japan	1.68	1.66
Germany	4.08	4.05
UK	4.98	4.90
Currencies	26 Jan 2007	19 Jan 2007
USD/Euro	1.29	1.29
GBP/Euro	0.66	0.66
JPY/USD	121.51	121.36
USD/GBP	1.96	1.97
JPY/GBP	238.09	239.59
Commodities	26 Jan 2007	% Change
Oil (Brent Crude)	55.32	5.67
Commodity Futures (CRB) Index	391.17	0.95
Gold	646.57	2.34

Japanese markets moved higher over the week, with export-oriented stocks benefiting from a stronger US dollar versus the yen.

UK stockmarkets ended the week slightly lower, with the FTSE 100 dragged down by 0.1% as the mining sector experienced further volatility.

Eurozone bourses also fell back, with Germany's Dax down 0.8% and France's CAC 40 down 0.1% lower.

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 29.01.2007, 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.

Investor confidence appeared to be undermined by uncertainty over the outlook for the US economy. Regional business confidence has been running particularly high, but the January data - released on Wednesday - is expected to show a slight pullback following the increase in Germany's value added tax.

Several Asian equity markets were generally weaker on the back of poor results from some information technology stocks. The Hang Seng was down by 0.2%, while Taiwan's stockmarket fell by 0.2%.

Government bond yields in the US came under pressure over the interest rate outlook. US Treasury yields rose to hit a five-month high amid a relatively weaker mood following the generally positive economic data of recent weeks.

Treasuries sold off in anticipation of better-than-expected durable goods orders and new home sales data on Friday. In the event, the figures beat expectations, with the new homes numbers, in particular, significantly up over the previous month. The Treasury market is now pricing in expectations that the Fed will keep rates on hold until mid-year.

The US dollar remained fairly range-bound throughout the week, while the yen continued its weaker trend.

President's Bush's energy policy was leaked ahead of the State of the Union address, and this saw a rise in oil and energy prices.

Gold prices firmed over the week on the back of uncertainties about the inflation outlook.

Comment

State of the Union address encourages energy bulls
The energy and new energy sectors have received a boost following President Bush's State of the Union address last Tuesday. The address included proposals for the US to use 35bn gallons of renewable and alternative fuels by 2017. This requirement is part of the President's "Twenty in Ten" initiative, which aims to cut US gasoline use by 20% over the next 10 years. The proposals also include an increase in fuel economy requirements for cars, which will yield an additional 5% savings in gasoline consumption. President Bush also announced that the US Strategic Petroleum Reserve would be increased from 600m barrels today to 1.5bn barrels by 2027. This will add a meaningful 100,000 barrels per day to US oil demand.