

BlackRock Investment Directions

Asset Allocation Overview

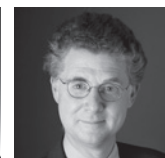
The global economy continues to improve, though more gradually, and uncertainties have arisen. Expanding unrest in the Middle East and North Africa, rising oil and commodity prices, and the Japanese earthquake crisis have increased downside risks to the economy and to risk assets. While we acknowledge volatility will be elevated in the short term, we still believe that equities have longer-term upside and that opportunities exist in some fixed income credit spread sectors.

Investment Themes

- ▶ **Closely manage equity risk:** While economic indicators and corporate earnings continue to improve, global inflationary pressures and crises in the Middle East and Japan have lowered near-term growth expectations and expanded risks to the downside.
- ▶ **Be even more selective in fixed income:** While the best performers of 2010 have continued to lead the charge in 2011, investors should manage volatility risk created by global crises and the scheduled June end to the Federal Reserve's QE2 bond buying program.
- ▶ **Negative muni headlines continue, but opportunity remains:** We hold a neutral view for the municipal market as credit concerns drive negative stories, but we continue to believe that opportunities can be uncovered through careful credit analysis and selectivity.























































Bob Doll
Chief Equity Strategist
for Fundamental Equities



Peter Fisher
Global Head of Fixed Income

Asset Allocation Views

		Key  = previous quarter  = current quarter						
	Current Outlook	Strength of Preference						
		Strong	◀	Neutral	▶	Strong		
Asset Allocation	Though equities should outperform long term, volatility will rise in short term	Bonds						Stocks
Equities								
Region	US stocks show more upside potential	US						Int'l
	Neutral view until better visibility	Developed						Emerging
Market Cap	Amid volatility, bias shifts toward large caps	Small						Large
Style	Broadly neutral	Value						Growth
Fixed Income								
Duration	Remain neutral given volatility	Short						Long
Quality	Shift to better quality given volatility	High						Low
Regional	Headwinds increasing across markets	US						Int'l
Commodities & Currencies								
Commodities	Shift to neutral given volatility and slowdown in economic expectations	Underweight						Overweight
Currencies	US dollar not benefiting from slight softening of economic outlook	US						Foreign

“Markets loathe uncertainty, and when uncertainty increases, it is generally met with corrections and higher levels of volatility, which we have seen over the past several weeks.”

“Nevertheless, over the longer term, our assessment is that none of these risks have yet derailed, or will derail, the global economic recovery or the longer-term bull market in equities.”

Equity Market Outlook

From the point of Federal Reserve Chairman Ben Bernanke’s Jackson Hole speech last August until roughly midway through the first quarter of 2011, economic expectations accelerated sharply, which helped produce a remarkable increase in equity prices of between 25% and 30%. Those trends ended in the face of the political uprisings throughout the Middle East and North Africa, the potential for nuclear catastrophe in Japan and the previously existing concerns over emerging markets. Markets loathe uncertainty, and when uncertainty increases, it is generally met with corrections and higher levels of volatility, which we have seen over the past several weeks.

At present, markets are in the midst of a tug of war. Downside uncertainties are at odds with fairly good economic and markets news – solid corporate profits, improving labor market conditions, reasonably upbeat leading indicators and ongoing high levels of merger-and-acquisition activity, share buybacks, dividend increases and other equity-friendly actions.

For the time being, we are adopting a more cautious outlook, believing that stocks will remain in a sideways trading pattern for some time before upside momentum will resume. During the height of the fears of nuclear catastrophe following the earthquake, the S&P 500 Index hit a low of around 1,250. It feels to us like that point will represent a low from which markets will climb higher, but we would caution that this low may be tested. Nevertheless, over the longer term, our assessment is that none of these risks have yet derailed, or will derail, the global economic recovery or the longer-term bull market in equities.

Equity Views

- We continue to advocate for a mix of both high-quality and cyclical companies with strong cash flows. In particular, we maintain a favorable outlook toward US stocks compared to other developed markets, and would particularly emphasize multinational companies that can access revenue streams from around the world.
- From a sector perspective, we prefer healthcare, telecommunications and energy. We are growing more cautious on materials and industrials given near-term economic growth risks, and we still list the financials sector as our least favorite.

Equity Sector Outlook

		Key ○ = previous quarter ● = current quarter				
	Current Outlook	Strength of Preference				
		Underweight	◀	Neutral	▶	Overweight
Healthcare	Good free cash flow growth; best defensive sector	○	○	○	●	○
Telecom Services	Good cash flows and high dividends; restructuring potential	○	○	○	●	●
Energy	Long-term global economic growth; higher oil prices	○	○	○	●	○
Consumer Discretionary	Mixed trends; mixed valuation	○	○	●	○	○
Materials	Outlook mixed as global growth expectations stop climbing	○	○	●	○	○
Industrials	Weaker prospects given near-term growth risks	○	○	●	●	○
Consumer Staples	Neutral fundamentals with mixed valuations	○	○	●	○	○
Information Technology	Inventory overhang contributes to continued mixed outlook	○	○	●	○	○
Utilities	Mixed fundamental outlook; reasonably priced	○	○	●	○	○
Financials	Slowly improving balance sheets; regulatory overhang; not expensive	○	●	○	○	○

Taxable Fixed Income Market Outlook

The labor market is improving and the US may be about to transition to genuine rather than stimulus-driven growth. Unemployment has notched down, with private payrolls adding meaningful numbers of jobs and manufacturing improving notably. However, housing continues to be quite depressed and underlying commodity inflation indicators are surging. As such, we do not believe the Fed will raise rates for the foreseeable future.

Within this dynamic, the economy is again at an inflection point, searching for clarity about whether growth will be self-sustaining after the scheduled June 30 conclusion of the Fed's QE2 bond purchase program. The next few months will be critical in determining if companies will continue to borrow and invest in their businesses, and whether commodity inflation will be manageable for corporations and consumers.

With the outperformers of 2011 thus far looking much like the outperformers of 2010, we are sensitive that valuations are becoming less attractive and advise investors to reduce risk in areas where upside is limited. At the same time, investors should consider their portfolios in light of the de facto tightening that will take place with the scheduled end of QE2. Given this driver, we believe volatility will be higher in the year's second half than now, and that yields will drift higher, but also that our favored credit spread sectors of high yield and securitized assets will continue to offer select opportunities.

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Taxable Fixed Income Views

- ▶ While data continues to point to moderate growth with improving employment, we expect higher volatility from global crosscurrents and the end of monetary policy stimulus.
- ▶ In this higher volatility environment, we favor select credit spread sectors based on positive supply/demand dynamics, but are ever more focused on risk management.

Taxable Fixed Income Sector Outlook

		Key ○ = previous quarter ● = current quarter				
	Current Outlook	Strength of Preference				
		Underweight	◀	Neutral	▶	Overweight
High Yield	Supportive supply/demand dynamics and fundamentals	○	○	○	●	○
Securitized Assets	Constrained supply leads to strong technical backdrop	○	○	○	●	○
Inflation Protected	Inflation-protected securities becoming increasingly attractive	○	○	○	●	○
Agency Mortgages	Selected opportunities exist based on supply/demand dynamics	○	○	●	○	○
Non-US Dollar	Broadly neutral given global policy and inflationary tensions	○	○	●	○	○
Emerging Markets	Emerging market inflation and policy are temporarily slowing the sector's performance; remain neutral	○	○	●	○	○
Corporates	Valuations increasing in investment-grade corporates	○	○	●	○	○
Treasury/Agency	We are underweight Treasuries and neutral on agency securities as better relative value can be found in spread sectors	○	●	○	○	○

Municipal Market Outlook

While the fiscal challenges to state and local governments will continue, we believe the headlines considerably overstate the risk of municipal bond defaults. Tensions have escalated nationwide as newly elected governors press for reforms to collective bargaining agreements and healthcare and pension plans. New issue supply remains very low, thus giving a positive tone to the current market.

Though credit concerns are heightened as governments attempt to balance their budgets, the market appears to be recognizing that municipal defaults are less of a concern, and municipal issues recently outperformed their US Treasury counterparts. We continue to believe that opportunities exist in munis, but careful credit analysis and selectivity are key given the lingering uncertainties.

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Municipal Market Views

- ▶ We continue to see opportunities in state tax-backed and essential service bonds, particularly the Southwest, Plains and Southeast regions. We also like dedicated-tax bonds, housing bonds backed by state agencies, hospitals and established toll roads.
- ▶ We have a less favorable view toward tobacco, land-secured and senior living bonds, as well as bond insurers, student loans and local tax-backed issues.

Municipal Market Positioning

		Key ○ = previous quarter ● = current quarter					
		Strength of Preference					
		Strong	◀	Neutral	▶	Strong	
Duration	Shift to shorter duration	Short	○	●	○	○	Long
Yield Curve	Favor intermediate maturities	Short	○	○	●	○	Long

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