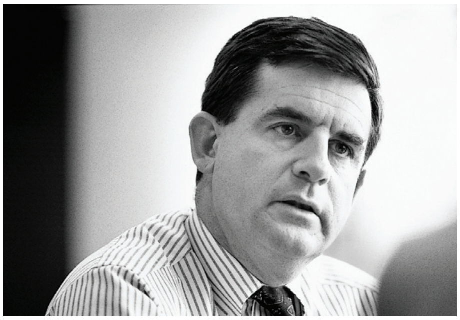
BlackRock®

Weekly Investment Commentary

Equities Continue Their March Despite Rising Risks

May 2, 2011



Bob Doll is Chief Equity Strategist for Fundamental Equities at BlackRock®, a premier provider of global investment management, risk management and advisory services. Mr. Doll is also Lead Portfolio Manager of BlackRock's Large Cap Series Funds. Prior to joining the firm, Mr. Doll was President and Chief Investment Officer of Merrill Lynch Investment Managers.

Last week featured a rash of economic and earnings news as well as Federal Reserve Chairman Ben Bernanke's historic press conference. All told, investors interpreted last week's events positively, which helped stocks climb higher yet again. For the week, the Dow Jones Industrial Average climbed 2.4% to 12,811, the S&P 500 Index advanced 2.0% to 1,364 and the Nasdaq Composite climbed 1.9% to 2,874. With last week's gains, several stock indices (including the small cap Russell 2000 and the Dow Jones Transportation Average) reached new all-time highs, while the S&P 500 Index reached its highest level since before the credit crisis erupted in the summer of 2008.

At the Federal Reserve's policy meeting and subsequent press conference last week, central bankers announced no significant changes in their policy approach. The Fed remains on track to complete its QE2 program of Treasury purchases at the end of June, and Chairman Bernanke made it clear in his comments that the Fed will keep rates low for an extended period. In our view, the Fed's ultra-easy monetary policy has been a major contributor to rising corporate profits, to the broader economic recovery and to declining deflationary pressures. It has also helped bring about a significant decline in the value of the US dollar, which has been beneficial to exports, but has also contributed to the relative rise in the price of oil and other commodities. The question of what will happen when QE2 ends is causing some nervousness among investors, with some forecasting an interruption in the economic recovery and the start of a corrective period in stocks. We doubt that we will see any sort of significant jolt since markets have already priced in the end of QE2, but the ending of the Treasury purchase program does bear close watching.

In addition to the Fed's comments, last week also saw the release of the preliminary first-quarter US gross domestic product report. The data showed that US GDP rose at only an annualized 1.8% rate. This number was lower than expectations, but we would argue that the fundamentals within the report were stronger than the headlines suggest. The overall low rate can be attributed in part to poor weather across much of the United States as well as to a significant drop in federal government outlays, conditions that should be temporary. Some bright spots in the report included decent consumption growth as well as significant strength from the corporate sector, which saw capital expenditures rise by 11.6%, well ahead of expectations. Outside of the GDP report, the monthly Case Shiller Home Price Index for February was released last week, showing a disappointing drop of 0.2%. The Index is now 3% below where it was one year ago, but is still hovering above the low it reached in May 2009. The weak housing market remains an area of concern, but overall, our view is that underlying US GDP growth should be somewhere around 3% for all of 2011.

Corporate earnings season is now well under way, with around two-thirds of companies having reported results. As has been the case since the end of 2009, the majority of companies have beaten expectations, with 80% reporting better-than-expected earnings results and 70% beating on revenue expectations. While the magnitude of positive surprises has not surprisingly diminished as year-over-year comparisons have grown more difficult, the fact that so many companies have continued to report positive surprises shows that corporate earnings remain an important source of strength for the economy and for the stock market.

Outside of the significant one-day drop we saw in stock prices a couple of weeks ago in the aftermath of the S&P negative credit watch announcement, equity markets have been performing quite strongly in recent weeks. In retrospect, the fact that the credit announcement was little more than a blip in terms of stock gains can probably be attributed to the fact that while the timing was surprising, the actual announcement was not. The US fiscal situation has been deteriorating for some time and as we have been saying for the past couple of weeks, perhaps the S&P decision will act as a catalyst to prompt some necessary action by lawmakers.

In any case, our view towards the markets continues to be cautiously optimistic. The combination of strong corporate earnings, moderate economic growth, easy monetary policy and attractive valuations (especially compared to other asset classes) should mean that stocks continue to exhibit strength in the years ahead. The list of potential risks does continue to grow (including high energy prices, changing inflationary expectations and US fiscal problems) and stocks have come quite far quite fast, suggesting that some sort of near-term consolidation may be coming.

For additional information, or to subscribe to weekly updates to this piece, please visit www.blackrock.com.

Sources: BlackRock; Bank Credit Analyst. This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of May 2, 2011, and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. Past performance is no guarantee of future results. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader. Investment involves risks. International investing involves additional risks, including risks related to foreign currency, limited liquidity, less government regulation and the possibility of substantial volatility due to adverse political, economic or other developments. The two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

FOR MORE INFORMATION: www.blackrock.com

Prepared by BlackRock Investments, LLC, member FINRA.

AC5390-0511

BLACKROCK®