

**BLACKROCK**

## Global Strategic Framework

November 2011





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All data source BlackRock November 2011 unless otherwise stated

## Stance Summary

	Negative	Neutral	Positive
<b>Equities</b>	•		
<i>North America</i>		•	
<i>Europe</i>		•	
<i>Japan</i>		•	
<i>UK</i>		•	
<i>Asia ex-Japan</i>		•	
<i>Latin America</i>		•	
<i>Emerging Europe</i>			•
<i>Materials</i>			•
<i>Energy</i>			•
<i>Healthcare</i>			•
<i>Technology</i>			•
<i>Financials</i>	•		
<i>Industrials</i>		•	
<i>Cons. Discr.</i>		•	
<i>Cons. Stap.</i>		•	
<i>Telecoms</i>		•	
<i>Utilities</i>	•		
<b>Bonds</b>		•	
<b>Government bonds</b>		•	
<i>US</i>		•	
<i>Euro</i>	•		
<i>UK</i>		•	
<i>Japan</i>		•	
<b>IG Credit</b>			•
<b>High Yield</b>			•
<b>EM Debt Local Currency</b>		•	
<b>Cash</b>			•
<i>US\$</i>			•
<i>Euro</i>	•		
<i>Yen</i>		•	
<i>Sterling</i>	•		
<i>Australian\$</i>	•		
<i>Canadian\$</i>			•
<i>Swiss franc</i>		•	

Table reflects views of the Global BMACS Investment Strategy Group as of 15 November 2011

## Section One – Review of Markets

- October was a very strong month for most risk assets. Equity markets generally outperformed fixed income, particularly government bonds, although high yield and convertibles made robust returns. The eurozone sovereign debt crisis continued to take centre stage in October, intensifying throughout the month until a summit meeting was held on 27 October between the leaders of the 17 eurozone member states. The subsequent announcements covered several main topics: enhancing the European Financial Stability Facility (EFSF), agreement on burden sharing and support for Greece, recapitalisation of European banks, further austerity pledges from Spain and Italy and broad changes to the governance of the eurozone. Economic data releases continued to suggest a slowdown in the eurozone and the UK, but GDP growth numbers for the US, Japan and China were positively received.

### Equity Markets

- World equities returned 8.6% in local currency terms in October. In a reversal of events in September, emerging markets slightly outperformed developed markets overall. Stock market volatility declined in October, with the VIX falling to an average of 29.3 for October, compared to 41.3 in September and 35.9 in August.
- The S&P 500 Composite Index performed extremely well in October, returning 10.8% in USD terms. Year to date the index is now down by 0.4%, while over 12 months it has returned 5.9%. The NASDAQ composite performed slightly better than the S&P 500 in October, returning 11.1% over the month, while the Russell 2000 index of small cap stocks made even stronger gains, increasing by 15.0%. In economic data releases, the first estimate of third quarter GDP growth was 2.5% annualised and employment data exceeded consensus expectations.
- The eurozone also recovered some of the losses it had made in previous months, returning 8.4% in EUR terms. It had been the worst performing region in the third quarter, with a 23.1% decline and, therefore, year to date it is still down by 15.2% (all in EUR terms). Over 12 months the eurozone has made a loss of 15.1%. By country, the German DAX increased significantly, returning 11.6% in October and outperforming the French CAC40, which rose by 8.7% in EUR terms. The initial market reaction to the agreement struck by the leaders of the eurozone member states at the 27 October summit meeting was a sharp rally in all risk markets. However, European stocks (and banks in particular) fell sharply at the start of November (outside the review period) after Greek Prime Minister George Papandreou's surprise announcement that he would put the latest bailout deal to a referendum – a decision that was later scrapped. Purchasing managers' index (PMI) survey data for the eurozone was weak in October, with significant declines in the new orders and output components.
- Outside the eurozone, the UK FTSE 100 returned 8.1% in October, in GBP terms. The index is down 6.0% year to date and by 2.3% over 12 months. Meanwhile, the FTSE All-Share returned 7.8% in October. UK economic data releases were generally weak. In particular, PMI data came in below consensus expectations in October. The manufacturing index declined to 47.4, taking it below the important 50-level which is generally viewed as signalling contraction. The services PMI also declined to 51.3 in October. In the Confederation of British Industry's survey of manufacturing firms, the overall business confidence index fell sharply in October to -30, the weakest level since April 2009. An increasing number of companies also reported that shortages of credit or finance are acting as a significant constraint on investment.
- In Japan, the Nikkei 225 Stock Average underperformed most other major developed stock markets in October, after outperforming in September. The index returned 3.3% over the month, in JPY terms, and is now down 12.1% year to date and by 2.3% over 12 months. The Topix increased by a comparatively modest 1.7% in October, also in JPY terms.

## Section One – Review of Markets

- Across the Pacific, the Australian stock market returned 7.2% in October and is down 9.4% year to date, in AUD terms. The Reserve Bank of Australia (RBA) held the cash rate steady at 4.75% in October. (However, on 1 November, just outside the review period, the RBA Board reduced the cash rate by 25 basis points to 4.5%). In local currency terms, the Pacific ex-Japan region increased by 7.9% in October. By country, Taiwan returned 4.9%, while Hong Kong and Korea increased by 12.3% and 8.3% respectively, all in local currency terms. The MSCI China was one of the best performing indices in October, with an increase of 14.9%, while China A-shares rose by 4.6%. Year to date the MSCI China index has declined by 15.2% and over 12 months it is down by 17.6% (in local currency terms).
- Emerging market stock markets returned 8.9% in October but are down 11.3% year to date, in local currency terms. Performance within emerging markets in October varied considerably by country and region. Emerging Europe returned 8.7% in October in local currency terms, and Russia was one of the best performing stock markets with a 12.9% return in RUB terms. However, Turkey was the worst performer in October, declining by 7.5%. In local currency terms, Latin America increased by 8.9%, with Brazil and Mexico returning 9.0% and 8.4% respectively, while Argentina made a relatively modest return of 1.8%.

### Equity Sectors

- Every major sector in the US made positive returns in October. Materials and energy were the best performing sectors, returning 18.3% and 17.2% respectively over the month. However, year to date the materials sector is down 9.2%, while energy has increased by 1.5%. Financials and industrials also made strong gains in October, with returns for both of 14.1%, and the discretionary sector increased by 12.2%. In contrast, the telecoms sector returned a comparatively small 1.9%. Utilities increased by 3.5% in October but this is the best performing sector year to date, with a return of 11.2%.
- All major equity sectors recorded gains in Europe in October. The best performing sectors were autos (16.0%), oil and gas (15.4%) and basic resources (14.7%). But insurance, technology, chemicals and personal household goods all returned in excess of 12.0%. Not surprisingly, the worst performing sector in Europe was banks, which returned 1.4%, followed by a 3.8% increase in healthcare.
- In Japan, equity market performance in October varied considerably by sector and several major sectors recorded losses. Telecoms was the best performing sector, returning 6.5% in October, while energy and IT returned 6.1% and 5.6% respectively. In contrast, the utilities sector declined by 8.9% in October and is now down 44.4% year to date. Healthcare and consumer staples also made losses over the month, of 6.7% and 1.7% respectively.
- The financial sector returned 11.5% globally in October, after declining by the same amount in September. Within the sector, the banking industry also made some gains in October, notwithstanding an intensification of the sovereign debt crisis in peripheral Europe and inadequate system-wide levels of capital, despite some capital raising, which remained key themes. Eurozone banks returned 5.7% in EUR terms in October, while UK and US banks returned 10.1% and 9.5% respectively, in local currency terms. In contrast, Japanese banks declined by 2.9% in JPY terms.

## Section One – Review of Markets

### Fixed Income

- After a volatile month for fixed income markets, many government bond returns were negative for October, significantly underperforming major equity markets. Corporate bonds, high yield and convertibles outperformed sovereign bonds. Investors were encouraged by indications that European politicians might be progressing with partial solutions to the sovereign debt crisis and positive US economic data calmed fears of imminent recession. The yields of most 'safe haven' sovereign bonds increased, while European periphery spreads widened (as did France) despite ECB buying.
- The return on the US ten-year Treasury was negative in October at -2.0%, with the yield increasing to end the month at 2.17. Year to date ten-year treasuries have returned 13.2%. US credit returned 0.8% in October and 11.2% year to date. US high yield outperformed in October, returning 5.4%, taking the year to date performance into positive territory at 5.0%. US broker-dealer, MF Global Holdings, filed for Chapter 11 bankruptcy at the end of October after several ratings agencies downgraded the company to 'junk' status due to its significant exposure to peripheral eurozone debt. The Federal Open Market Committee (FOMC) kept interest rates unchanged in October.
- The rally in German bunds came to a halt in October, with the yield on the ten year rising above 2%. Ten-year German government bonds returned -1.2% over the month but have returned 10.7% year to date. Ten-year French government bonds returned -3.9% in October, reducing year to date returns to 5.7%. Eurozone periphery spreads continued to widen in October, despite ECB purchases. Economic data releases generally pointed to slowing economic growth across the region while fears of contagion spreading beyond Greece to other periphery economies increased. The European Central Bank (ECB) kept the main refi rate at 1.5% in October (but reduced it by 25 basis points in November to 1.25%). In a positive sign for the unsecured bond market, which was virtually shut in August and September, Banco Bilbao Vizcaya Argentaria (BBVA), Spain's second-largest lender, issued in October the first unsecured bond by a peripheral eurozone bank since June.
- In the UK gilts market, the ten-year returned 0.1% in October and has returned 13.6% year to date, outperforming bunds and treasuries. However, gilts cheapened across the curve towards the end of the month as risk assets rallied after the EU summit. In a unanimous decision, the Bank of England maintained Bank Rate at 0.5% in October but increased its asset purchase programme (quantitative easing) by £75bn to £275bn, despite CPI inflation rising to 5.2% y/y in September. Bank Rate has now remained at the historically low level of 0.5% since March 2009. The Debt Management Office issued £4.5bn of a new 2062 inflation-linked bond towards the end of the month.
- Ten-year Japanese government bonds (JGBs) returned -0.1% in October, despite rallying strongly in the first week. Ten-year JGBs have significantly underperformed the other major sovereign bonds year to date, returning 2.4% (compared to 13.2% for the US ten-year and 10.9% for the German ten-year). The Bank of Japan intervened further in foreign exchange markets in October, selling an estimated 7 trillion yen in an attempt to weaken the currency.
- Credit markets outperformed government bonds in all major markets in October. US and European credit returned 0.8% and 1.7% respectively. Convertibles significantly outperformed, with a 7.0% increase in global convertibles returns. US high yield corporate bonds also outperformed sovereigns, returning 5.4% in October. For emerging market debt, the return on the Emerging Market Bond Index (EMBI) was a negative -0.2% in October, although the index has returned 8.5% year to date.

## Section One – Review of Markets

### Commodities

- Commodity prices generally made strong gains in October. Energy performed best over the month, returning 12.2%, taking the year to date performance into positive territory with an increase of 3.7%. In comparison, agriculture increased by 4.2% in October but is still down by 12.7% year to date. Precious metals and industrial metals both rose over the month, by 7.4% and 8.9% respectively. However, year to date they have performed very differently - while precious metals have returned 19.4%, industrial metals have declined by 16.9%. The CRB commodity index rose by 7.3% in October.
- The price of oil increased over the month. West Texas Crude Oil (WTI) rose by 17.7% in October and the price of Brent crude also increased, by 7.9%. The value of natural gas rose by 7.3% in October. Meanwhile, the price of gasoline increased by 1.6%, but year to date the commodity price is 20.0% higher. In contrast, coal underperformed in October with a decline of 3.7%, while year to date the price of coal is 5.1% lower.
- Precious metals have returned 19.4% year to date and in October the sector increased by 7.4%. The prices of gold and silver rose by 6.6% and 11.9% respectively over the month, while year to date gold has outperformed silver, rising by 21.6% compared to an increase of 13.2% for silver. The price of platinum increased by 6.3% in October. Among industrial metals, which increased by 8.9% in October, copper was the best performer. The price of copper rose by 14.0%, while nickel and aluminium increased by 11.3% and 3.5% respectively over the month.
- Elsewhere in commodities, agriculture increased by 4.2% in October. The prices of corn and wheat rose by 9.2% and 3.1% respectively over the month. Year to date, wheat is down 20.9%, compared to an increase of 2.9% in corn.

### Currencies

- The US dollar generally weakened in October and was the worst performer among the major currencies. In October the US dollar depreciated by 2.6% on a trade weighted basis. Despite the ongoing sovereign debt crisis within the eurozone, the euro increased by 3.8% against the dollar and by 1.6% on a trade weighted basis in October. The value of sterling also rose against the US dollar, with a 3.6% rise in cable, while it appreciated by 0.6% on a trade weighted basis.
- The Bank of Japan intervened further in the currency market in October in an attempt to weaken the value of the yen. The yen depreciated by 3.0% on a trade weighted basis and by 1.2% against the US dollar. The Australian dollar appreciated by 9.2% against the US dollar in October, while the New Zealand dollar rose by 6.2% against the greenback.

## Section Two – Review of Global Economics

### Inflation

- In the eurozone, inflation has remained persistently above the ECB's target of "close to, but below" 2%, despite signs of slowing economic growth across the region, with economies operating below full capacity and with little pressure from wage demands. Eurozone HICP inflation increased in September to a three-year high of 3.0%, where it remained in October, according to the flash estimate. The ECB kept interest rates on hold in October, although they did introduce some additional measures in an attempt to provide further liquidity. However, the ECB reduced the main refi rate by 25bp on 4 November to 1.25%, in a move that took many market commentators by surprise. The interest rate on the ECB's deposit facility was also cut by 25 basis points to 0.5%, while the rate on the marginal lending facility was reduced by the same amount, from 2.25% to 2.0%. That was the first Governing Council meeting presided over by Mario Draghi, former governor of the Italian central bank, who replaced Jean-Claude Trichet as President at the start of November.
- In the UK, inflation has remained stubbornly above the Bank of England's 2% target for a prolonged period of time. CPI inflation increased to 5.2% y/y in September, before falling back slightly to 5.0% in October. The decline in the headline inflation rate was largely due to a drop in food price inflation. The BoE kept Bank Rate on hold in October at 0.5%, in a unanimous decision. However, it increased the asset purchase programme (quantitative easing) by £75bn to £275bn. Bank Rate has remained at the historically low level of 0.5% since March 2009. On 16 November, the Bank of England revised down its forecast for inflation in its quarterly Inflation Report. The BoE now expects CPI inflation to decline sharply in 2012 and to fall below target over the next couple of years. This is based on slack in the labour market and on reduced contributions to inflation from VAT, energy and import prices. The increase in the VAT rate to 20% is estimated to have added about 1% to inflation this year.
- In the United States, CPI inflation rose by 0.3% m/m in September or 3.9% y/y, while it declined by 0.1% m/m in October or ran at 3.4% y/y (October data was released in November). The PCE price index increased by 0.2% in September, down from 0.3% in August, while core PCE inflation was flat. Inflation expectations in the Michigan data were slightly lower in October, with the median year ahead inflation expectation registering 3.2%, down from 3.3% in September. The median five-year-ahead inflation expectation also declined to 2.7% in October, down from 2.9% in September.
- In Japan, CPI inflation was flat (0.0% y/y) in September, while the core rate (excluding fresh food) rose by 0.2% y/y. For Tokyo, CPI inflation declined by 0.5% in October, after falling by 0.3% in September. The Bank of Japan eased monetary policy in October, increasing its Asset Purchase Programme (quantitative easing) by JPY 5 trillion in October to JPY 55 trillion. However, the maximum maturity of the JGBs that the BoJ can purchase under the scheme remains two years.
- In Australia, the Reserve Bank of Australia (RBA) Board cut the cash rate by 25bp to 4.5% on 1 November.

## Section Two – Review of Global Economics

### Economic Data

- Economic data releases in October continued to suggest, overall, that a slower growth trajectory is in place. However, US real GDP growth for the third quarter registered a robust 2.5% annualised, according to the advance estimate, after growing by 1.3% in the second quarter. Among the components, government spending was flat, while final sales grew by 3.6% and consumption increased by 2.4% (up from 0.7% in Q2). In addition, industrial production grew by 0.7% m/m in October after a 0.1% contraction in September. Real GDP growth was subsequently revised down to 2.0% q/q on 22 November, largely due to a downward revision in the inventories component.
- The US manufacturing PMI declined to 50.8 in October, from 51.6 in September, according to the Institute for Supply Management (ISM). A figure above 50 generally indicates economic expansion. Among the components, production declined to 50.1 from 51.2 and export orders dropped to 50.0 from 53.5, however, new orders increased from 49.6 to 52.4. The ISM's non-manufacturing index fell slightly, to 52.9 in October, down from 53.0 in September. While the business activity, new orders and prices components all declined by over three points, employment increased from 48.7 to 53.3. After a modest increase in September to 46.4, the Conference Board consumer confidence index fell sharply in October to 39.8. Within the index, the present situation component fell to 26.3 (from 33.3 in September), while the expectations component declined to 48.7 (from 55.1 in September). The durable goods report for September weakened, with a decline in new orders of 0.8% m/m (after declining by 0.1% in August). Among the other components, shipments contracted by 0.7% m/m while inventories grew by 0.1% m/m.
- In the US labour market, the employment report for October showed some improvements, with a reduction in the unemployment rate to 9.0% (from 9.1%). Average weekly hours remained stable at 34.3. In the housing market, the Case-Shiller 20-city house price index fell by 3.8% in August y/y, or was flat m/m seasonally adjusted. The University of Michigan index for consumer sentiment improved in October, rising to 60.9 from 59.4 in September, with improvements in both the current conditions and expectations components.
- The eurozone macroeconomic backdrop continued to deteriorate in October, with economic data releases that suggest a significant moderation in economic growth across the region. In the PMI data releases, the manufacturing and services indices both fell further below the important 50-level in October. A figure below 50 is generally viewed as signalling contraction. The final manufacturing PMI registered 47.1, down from 48.5 in September, while the flash services PMI fell to 47.2 in October, down from 48.8. The composite index recorded 47.2 in October, down from 49.1. According to the accompanying report by Markit: "The latest manufacturing PMI further emphasises the marked reversal of fortunes for a sector that was the leading light of the economic recovery. Output, new orders and new export orders all suffered their fastest declines since mid-2009, against a backdrop of weak domestic market conditions, the ongoing debt crisis and a darkening outlook for the global economy."
- The results of the European Commission (EC)'s survey for October reinforced the message of weakening growth. Eurozone economic sentiment declined slightly in October, to 94.8, after a sharp drop of 3.4 points the previous month. Consumer confidence also continued its descent in October, to -19.9, down from -19.1 in September. In Germany, the IFO survey remained on a downward trajectory in October, with the headline reading falling to 106.4, from 107.5 in September. The expectations component is significantly weaker than the current conditions component.
- The eurozone unemployment rate deteriorated in September to 10.2%. Spain continued to have the highest unemployment rate, at 22.6%, followed by Greece (at 17.6% in July), while the lowest remained Austria, at 3.9%.

## Section Two – Review of Global Economics

Eurozone youth unemployment (under 25 years old) increased to 21.2% in September, from 20.4% in August. The youth unemployment rate in Spain and Greece reached a worrying 48.0% and 43.5% respectively in September.

- In the UK, the preliminary estimate for third-quarter economic growth was above consensus expectations, at 0.5% q/q, and up from the 0.1% q/q rate of real GDP growth in the second quarter. However, the Office for National Statistics noted in its accompanying statement that the Q3 data was boosted by the weak second quarter (which had been negatively impacted by special events such as the additional bank holiday for the royal wedding). Over the last year as a whole, the economy has grown by 0.5%. Other economic data releases have, overall, been weak. In particular, PMI data came in below consensus expectations in October. The manufacturing index declined to 47.4, from 50.8 in September, and the services PMI also declined, to 51.3 in October from 52.9 in September. In the Confederation of British Industry's survey of manufacturing firms, the overall business confidence index fell sharply in October to -30, the weakest level since April 2009. An increasing number of companies also reported that shortages of credit or finance are acting as a significant constraint on investment.
- Recent UK labour market data releases have also deteriorated. In the labour force survey, the unemployment rate increased to 8.3% in the three months to September, up from 8.1%. With 2.62 million unemployed people, this is the highest level since 1994. Perhaps not surprisingly, the GfK consumer confidence index declined in October to -32, from -30 in September. Among the more positive data releases, the public sector net borrowing requirement, or fiscal deficit, was better than consensus expectations at £14.1bn for September excluding financial interventions. The public sector current budget deficit, excluding financial interventions, also outperformed, at £11.bn. In the housing market, the Nationwide house price index grew 0.4% m/m in October, after an increase of 0.1% in September. The Rightmove house price index showed an even larger increase in October of 2.8% m/m. Meanwhile, in the RICS housing market survey, the price balance declined by 0.4 to -23.2 in September, signifying that more surveyors reported price declines than increases. However, the balance of sales increased.
- The BoE released its quarterly Inflation Report on 16 November, in which it revised down its forecasts for both growth and inflation. A downbeat tone was set from the first line: "The prospects for the UK economy have worsened." High levels of uncertainty surrounding the potential paths for both growth and inflation were also emphasised throughout the report. The Monetary Policy Committee (MPC) believe that real GDP growth will be virtually flat over the next few quarters, while inflation will fall below target over the next two to three years. The eurozone sovereign debt crisis is believed to pose the biggest risk to UK economic recovery.
- On growth, the report notes that the outlook is unusually uncertain, reflecting the UK economy's exposure to the eurozone. It also states that the outlook for growth over the next year has deteriorated significantly since the last Inflation Report was published in August. The BoE expects growth to be weak in the near term. The slowdown in global demand, heightened concerns about the solvency of several eurozone governments, increased strains in funding markets and declines in household and business confidence are all cited as contributors to weak UK growth, while fiscal consolidation and the squeeze on households' real incomes are also expected to weigh on UK growth. However, the BoE expects that the economic recovery is "likely to gather pace over the second and third years of the forecast."
- The Bank of Japan (BoJ) eased monetary policy in October, increasing its Asset Purchase Programme (quantitative easing) by JPY 5 trillion to JPY 55 trillion. The maximum maturity of the JGBs that the BoJ can purchase under the scheme remains two years. The BoJ also lowered its forecast for economic growth, largely reflecting the slowdown in global economic activity. However, it believes that demand relating to reconstruction will support the economy in financial year 2012 with a growth rate above 2%. Meanwhile, in economic data releases, the manufacturing PMI increased to 50.6, from 49.3 in September. The services PMI also rose significantly in October, rising to 52.3 from 46.4 in September. In contrast, industrial production fell by 4.0% in

## Section Two – Review of Global Economics

September, after rising by 0.6% in August. According to the labour force survey measure, the unemployment rate declined in September to 4.1%. However, the size of the workforce fell by almost a million people between February and September as the number of workers retiring exceeded new entrants into the labour market.

- In Chinese economic data, the NBS manufacturing PMI fell slightly, to 50.4 in October, the lowest reading level since February 2009 and down from 51.2 in September. Meanwhile, the Markit manufacturing PMI increased to 51.0 in October, up from 49.9 in September. This index suggested improvements in both the new orders and exports components. In Hong Kong, retail sales volumes were worse than consensus expectations for September, with a 1.6% decline m/m or an increase of 15.2% y/y. In Taiwan, economic growth slowed in the third quarter, with real GDP growth registering 3.4% y/y (down from 5.0% for the second quarter).

## Section Three – Views and Outlook

- The global economy has slowed in recent months from the robust growth rate that we witnessed around the turn of the year. In addition, the sovereign debt crisis in the eurozone is negatively impacting markets and investor sentiment beyond Europe, and numerous downgrades of sovereign debt over the past few months by the ratings agencies have conspired to increase investor uncertainty. However, although economic data releases from the eurozone suggest a recession in that region and UK economic growth is bordering on stagnant, third-quarter GDP data releases for the US, Japan and China were positive. And while the rate of Chinese economic growth may be decelerating, the absolute growth rate remains robust. The exceptionally low level of real interest rates in many developed economies suggests that monetary conditions still remain very supportive. Furthermore, some of the emerging markets are now commencing or starting to contemplate looser monetary policy. Therefore, although it is going to feel like a growth-challenged world for the rest of this year and probably for much of 2012, a global recession is not our central case, even if Europe continues to struggle.

### Economics

- **We expect headline inflation rates in many developed economies to stabilise and trend modestly lower in 2012.** Unemployment rates are generally high and unlikely to fall quickly, there is little or no sign of accelerating wage growth and in many cases longer-term inflation expectations in financial markets are close to central bank targets. In addition, inflation in many countries over the past year has been at least partly commodity related, and therefore we would expect to see headline inflation rates begin to fall in the next few months as the impact of this input declines, both in developed economies and a number of key emerging economies. We continue to envisage an extended period of exceptionally low short-term rates in the developed economies.
- **For the US economy, many of the recent data releases have surprised to the upside.** The initial estimate of third-quarter US GDP growth was broadly in line with consensus expectations, at a 2.5% q/q annualised rate, although this was subsequently revised down to 2.0%. Meanwhile, the unemployment rate declined to 9.0% in October, from 9.1%. That said, an elevated level of unemployment still remains a key obstacle for a stronger recovery in activity. Furthermore, significant uncertainty remains about potential fiscal policy tightening measures over the next year.
- **It now seems unlikely that anything at this stage will be big enough to stave off at least a shallow recession in Europe.** GDP data releases for European countries for the third quarter were generally weak, with the exception of German GDP (which registered 0.5% q/q). The eurozone as a whole grew by 0.2% q/q, in line with forecasts. Significantly, the outlook painted by forward-looking indicators from across the region, the likely implementation of fiscal austerity measures and the lack of a clear resolution to the eurozone sovereign debt crisis suggest that the economy will slip into recession.
- Recent developments in the UK economy appear to be concerning, with data suggesting that persistently high inflation and unemployment is resulting in retrenchment by the UK consumer. **We continue to take a negative view on sterling.**
- Regarding Japan, real GDP grew by a robust 6.0% q/q in the third quarter as the economy recovered from the earthquake and tsunami in March. However, although the reconstruction effort will continue to support growth over the coming months, there will also be headwinds from the slowdown in global economic activity and any further strengthening of the yen.

## Section Three – Views and Outlook

- Chinese authorities have taken a series of actions which, while small in terms of the amount of money involved, have had a material impact on sentiment. It is clear that the Chinese economy is decelerating and will continue to do so, but also that the authorities are not going to allow volatility to rise in their financial system.
- In emerging markets there has been a focus on tackling inflation over recent months, with several EM economies raising interest rates and enacting other monetary tightening measures, including China, Brazil and India. As many developed nations lag behind in the tightening road this may lay the foundations for EM outperformance.  
**We recommend a positive view on short duration local currency debt.**

## Section Three – Views and Outlook

### Equities

- While growth rates and forecasts will be a central focus for investors as we move into 2012, the ongoing eurozone sovereign debt crisis continues to have a significant impact on market sentiment and volatility. A significant slump in global growth would lead to a reduction in tax revenues and acceleration in the fiscal crises across the globe. In a world where sovereign debt is no longer regarded as risk free, this would make it very difficult to value assets effectively. Meanwhile, in a world of pretty feeble macro momentum, it is not clear that markets are going to make a lot of progress in the near future. However, it does seem to be the case that a fair amount of bad news is already priced in and there is some valuation support for global risk assets. Therefore, the trading range which has prevailed over the past few months will likely persist for a while longer.
- **We have a broadly cautious stance on equities but believe that the themes of income yield and emerging market growth remain attractive.** We believe that recent rallies in equity markets were driven primarily by eurozone sentiment, short covering and speculation rather than by any real improvement in fundamentals. We note that valuations are currently at attractive levels, even allowing for the still moderate chances of a developed economies recession, and that recent price action and anecdotal comments suggest a degree of capitulation. Despite this, we do not feel that there is currently support for a sustained improvement in macro data and note that, whilst we may see further easing from monetary policymakers, we appear to be running out of policy levers.
- **In light of the slow growth environment globally, we maintain our interest in high dividend equities.** Both the ending of QE2 in the US and the recent shifts in commodity prices are broadly positive for inflation and growth prospects, though there is some uncertainty in the near term.
- **We remain neutral overall in US equities.** For US assets, dollar-based liquidity thus far remains ample. Equity investors may need to focus on the potential for tighter profit margins but slowing economic growth momentum, coupled with higher input and financing costs, could mean a more challenging quarter for equities. However, equity valuations remain neutral to slightly cheap and earnings expectations are plausible. In selecting equities, high dividend yields and free cash flows would be our measures of choice for this quarter and beyond.
- **We remain broadly neutral on Japanese equities** but are becoming incrementally more positive. This view is based on current attractive book valuations and trending return on capital, as well as the anticipation of a weakening yen, based on the government's need for extremely loose monetary policy to meet the demands of reconstruction.
- **We retain a slight bias towards emerging market stock markets.** We note that inflationary pressures in emerging markets continue to abate and feel that, in the short term, this disinflationary trend should continue. Specifically, the dip in oil prices and the excess liquidity in the US remove some of the inflationary pressures that have been plaguing the emerging markets and threatening to negatively impact growth in the developing world. This may mean that the pace of monetary policy tightening could slow or even cease in some cases, throughout the second half of the year, removing one of the key headwinds to EM equity performance. Valuations currently favour emerging over developed markets, adding further support to the case for emerging markets. This relatively constructive view on emerging markets is consistent with our central case that the recent slowdown in the pace of Chinese growth will not become a hard landing.

## Section Three – Views and Outlook

- However, emerging markets are far from uniform and we are being tactical within our country selections. **We are positive on emerging Europe**, with preferences towards the Turkish economy and towards Russia (as a view on the energy price).
- **We remain negative on financials given the ongoing turmoil within the sector.** European banks in particular are struggling to recapitalise and many of their balance sheets are substantially exposed to potentially distressed sovereign debt. Meanwhile, in light of the continued lacklustre outlook for global growth, we remain neutral on consumer discretionary, consumer staples and telecoms sectors.
- Technology seems to be performing as a low beta sector and **we remain positive on technology companies globally**, which are benefiting from secular demand, and where we perceive valuations to be attractive given our strong expectations for earnings growth. Within the healthcare sector we see medical device manufacturers and biotechnology companies performing well. In contrast, we retain a negative view on banking shares in all regions, due to the combination of uncertainty over regulatory changes, capital requirements and the potential for reduced profitability in the near term due to expectations of higher interest rates in many regions. We remain neutral on industrials, but have a slight preference for US industrials while underweighting European industrials.

## Section Three – Views and Outlook

### Bonds

- **We retain a neutral view on fixed income at the broad allocation level.** While the asset class as a whole appears fully valued, there remain opportunities in both investment grade and high yield credit. Government bonds (with the exception of largely the eurozone periphery) appear expensive, particularly given elevated inflation rates. Within the asset class, **we are most constructive on high yield and US investment grade credit.**
- We remain in a situation where bond yields are exceptionally low in both nominal and real terms and it is difficult to consider government bonds a worthy investment unless you believe in strong deflation risk. To believe in this, you also have to believe in a very deep recession. At the moment, most of the core industrial output and consumer numbers, although not very good, are not in deeper recessionary mode. The eurozone sovereign debt crisis is believed to pose the biggest risk to UK economic recovery.
- By suggesting that short-term interest rates would be held near zero through mid-2013, the Fed demonstrated its still-considerable power over the shape of the yield curve by pulling down two-year interest rates even further. **We remain neutral on US government bonds.**
- Political news flow on the eurozone crisis remains the major determinant of short-term asset price direction and continues to impact valuations in peripheral countries. Furthermore, stress in European fixed income markets has spread beyond the peripheral nations to core nations such as France. For Japan, we expect the demands of reconstruction will lead to further government borrowing and loose monetary policy, limiting the upside prospects for both Japanese government bonds and the yen. **As a result, our stance remains negative on eurozone government bonds and broadly neutral on the UK and Japan.**
- Within corporate bonds, **we are positive on both high yield credit and investment grade credit.** Default activity has been minimal and, we expect, is likely to remain low. In addition, the Fed's (lack of) action will push fixed income investors into longer maturities, high-quality credit and eventually, high-yield bonds. We do also note, however, that corporations are well financed and pose limited credit risk.

## Section Three – Views and Outlook

### Currencies

- **We are still broadly positive on the US dollar versus the euro and sterling** given the weakness of the UK economy and the ongoing sovereign debt crisis within the eurozone. We believe that recent euro support is disappearing and see the US dollar as a beneficiary of any flight to quality.
- **We retain our neutral view of the Japanese yen.** While the BoJ shows that it is happy to intervene in currency markets in an attempt to counter the strength of the yen, the country continues to recover from the March earthquake and tsunami.
- Economic data from China seems to support our view of a gentler slowdown. Although **we remain negative on the Australian Dollar**, we are now less negative than we have been in previous weeks.
- We retain our **positive view on the Canadian dollar**, which may strengthen on the back of Canada's superior economic growth.

### Commodities

- We maintain our **overall positive view on commodities**, as they continue to be supported by underlying supply and demand fundamentals. Not surprisingly, given sovereign stresses, gold has seen significant gains recently. We also note that recently released Chinese GDP figures are most consistent with a soft landing than anything more severe. **We remain positive on precious metals and gold in particular.** However, given current valuations of mining equities, gold-mining stocks may be a better way to gain exposure than physical bullion.
- Coal miners are attractive for the same reason. **We are positive on materials** and see European miners as more cheaply priced than global counterparts.
- **We are neutral overall in agriculture** but believe that fundamental supply constraints in agricultural commodities will be supportive in the short term.

## Section Four – Special Features

### A “Four-Point Plan” for the Eurozone

- Recent economic data releases, including a collapse in business surveys, suggest that the eurozone may have now slid into recession. Meanwhile, the chaos in financial markets stemming from a lack of resolution to the eurozone sovereign debt crisis continues, with contagion spreading from the stress on peripheral European bond spreads to ‘core’ government bonds such as France. Furthermore, liquidity is drying up across European capital markets as the crisis rumbles on.
- The ECB’s own estimate of monetary conditions suggests that they are loose. However, frozen interbank markets and the decision by banks trading well below book value to recapitalise by asset sales, rather than capital issuance, more than offset the apparent largesse of the ECB. Effective liquidity in circulation is very tight and resolving this liquidity trap is crucial to fiscal rectitude, as slow or declining economies will struggle to reduce their deficits if revenues are down and automatic stabilisers cut in.
- The recent ECB lending survey showed a significant tightening in credit standards for both corporates and households. At the same time as banks are tightening credit standards, corporates and households are also demanding less credit. In turn, reduced corporate demand for bank credit will have a negative impact on GDP growth. Add to this the increased commitment by governments to implement austerity measures and, overall, the tight monetary policy and fiscal policy mix in Europe risks exacerbating the current slowdown in activity.
- If the political will exists, European policymakers do have the ability to resolve the crisis. Here we lay out a suggested four-point plan that could help to turn the situation around:

#### 1. Restructure Greece, Portugal and Ireland

- The long-term debt of these three countries needs to be restructured to sustainable levels, based on realistic assumptions for both growth and government balances. We estimate that the Greek haircut would need to be at least 75% to bring hope of debt sustainability, while Irish haircuts need to be around 70% to take debt down to 60% of GDP. Portugal, however, may require a haircut of around 85% as the IMF, ECB and other official creditors subordinate private creditors.

#### 2. Agree on the Role of the European Financial Stability Facility (EFSF)

- Eurozone policymakers need to agree on and clarify the role of the EFSF, if any, in supporting sovereigns. At the summit on 27 October, two options were announced for the EFSF to increase its “firepower”. The terms and conditions are to be finalised, on the basis of work carried out by the Eurogroup working group, the EFSF and the European Commission (EC). The first option concerns credit enhancement of sovereign primary issuance, while the second option is as a generator of new funding sources.

#### 3. Further Bond Purchases by the ECB

- It is not surprising that currently all eyes are on the ECB, which is essentially the only European institution that has the ability to act with decisively and effectively in a very short amount of time. The ECB needs to assess its commitment to the Securities Markets Programme (SMP). Becoming a lender of last resort is not in the spirit of the Maastricht Treaty, which includes a no bailout clause, but the ECB does need to undertake a much greater amount of bond purchases to ensure financial stability across the eurozone.

#### 4. Fiscal Austerity Measures that are Sensitive to Growth

- With economic activity already depressed, there is a danger that some of the structural reforms being implemented by the peripheral states could put additional downward pressure on growth. There are also limits

## Section Four – Special Features

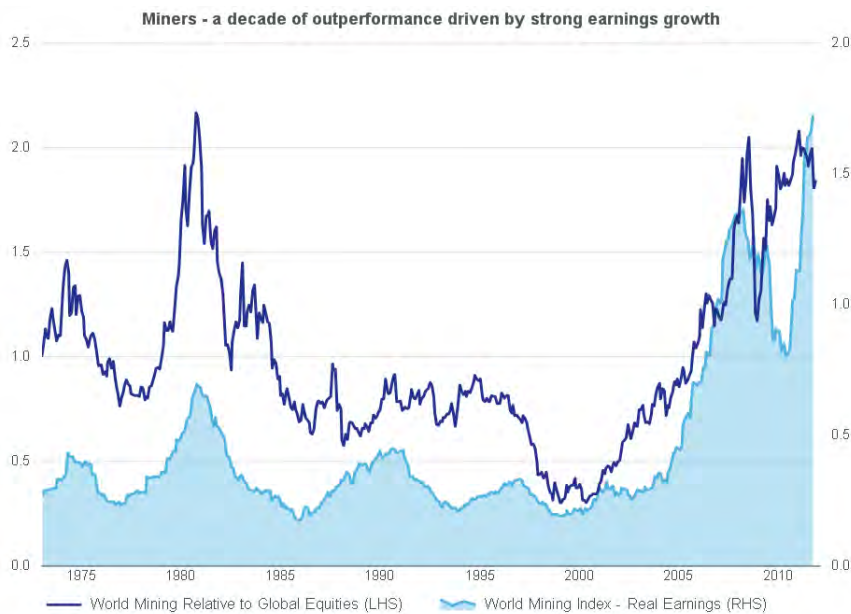
to the abilities of democratic nations to implement austerity measures, as seen in the political unrest and change in governments in Greece and Italy and creating additional instability within the region.

- While heavily indebted governments seek to implement fiscal austerity measures, effective debt restructuring would mitigate the amount of austerity required and allow a greater emphasis on growth-enhancing structural reforms.
- With 17 member states within the eurozone, the development of the sovereign debt crisis has shown that the political decision making process can be slow and fragmented, particularly given the speed at which markets can move. If anything, this lack of speed and unity from policymakers has served to intensify the crisis. The only European body that can truly act rapidly is the ECB. However, while the leaders of the eurozone will no longer be able to prevent a recession within the region, they still have the ability to stem the current tide of deteriorating financial and economic conditions and put in place policies that can start to resolve the crisis.

## Section Four – Special Features

### Spotlight on Mining

- The strong performance enjoyed by mining companies in the last ten years has been driven by earnings growth buoyancy on the back of steadily climbing commodities prices. This commodity price appreciation has stemmed from favourable demand dynamics, primarily in the form of growing emerging market demand; BRIC countries have most notably been engaged in long-term infrastructure projects.

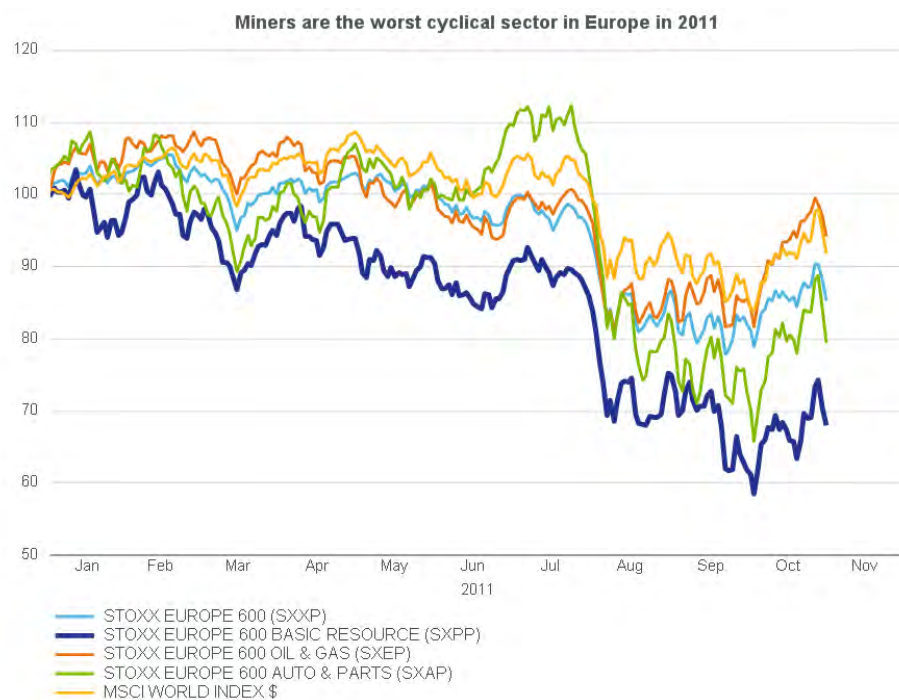


- Miners' earnings have palpably benefited from the effects of urbanisation in China and other emerging markets. One example of this steam-gathering trend is the growing Chinese demand for iron ore, as indicated in the chart below.



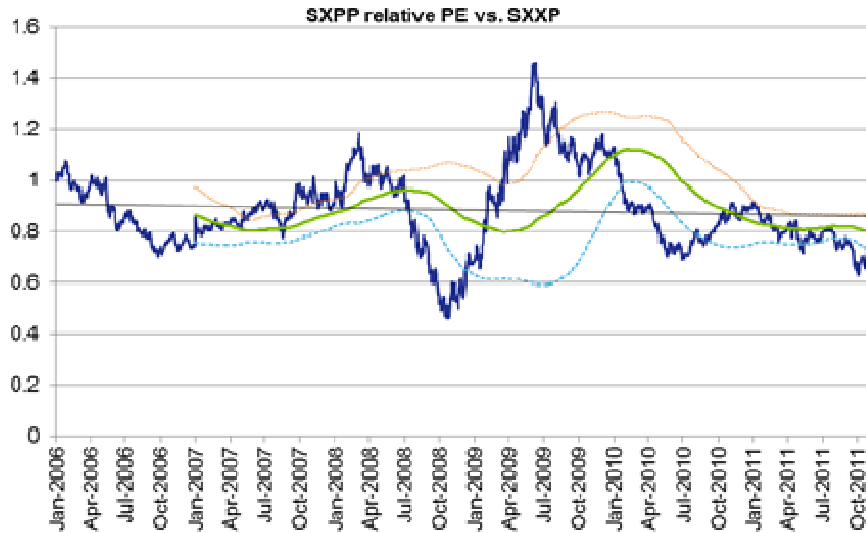
## Section Four – Special Features

- 2011, however, has proved less positive for the miners; in fact, the mining sector has plummeted, taking its place as the worst-performing cyclical sector in Europe.

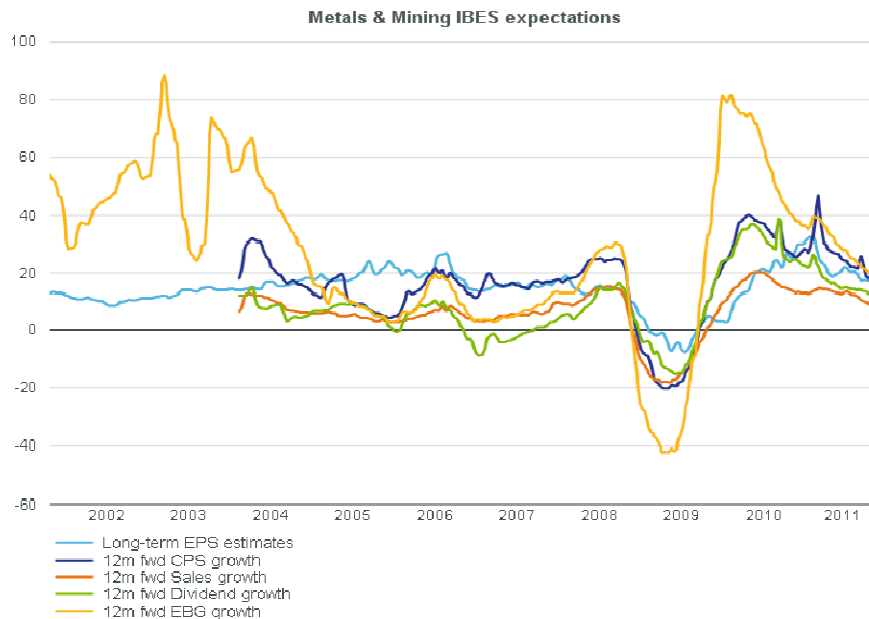


- Several factors have driven this underperformance. First, because the sector tends to be perceived as higher risk, mining companies have suffered as markets took reduced their risk appetite as a result of the extended sovereign concerns in Europe. Second, aggregate demand - and, by extension, demand for industrial metals - has retraced from previously elevated levels as global economies have broadly entered a mid-cycle slow down phase. Third, China, the key driver of marginal demand for industrial metals has, until recently, been in a tacit tightening cycle, spurring increased pessimism surrounding the economic outlook. Fourth, cost inputs have also elevated, reducing miners' profitability and increasing concerns about one-off mining taxes, especially for companies looking for greenfield expansion into emerging jurisdictions, have also punished the sector. Finally, despite being amongst the most profitable sectors in Europe on a CFROI basis, "sub-optimal" capital management has caused investors to shy away from miners.

## Section Four – Special Features



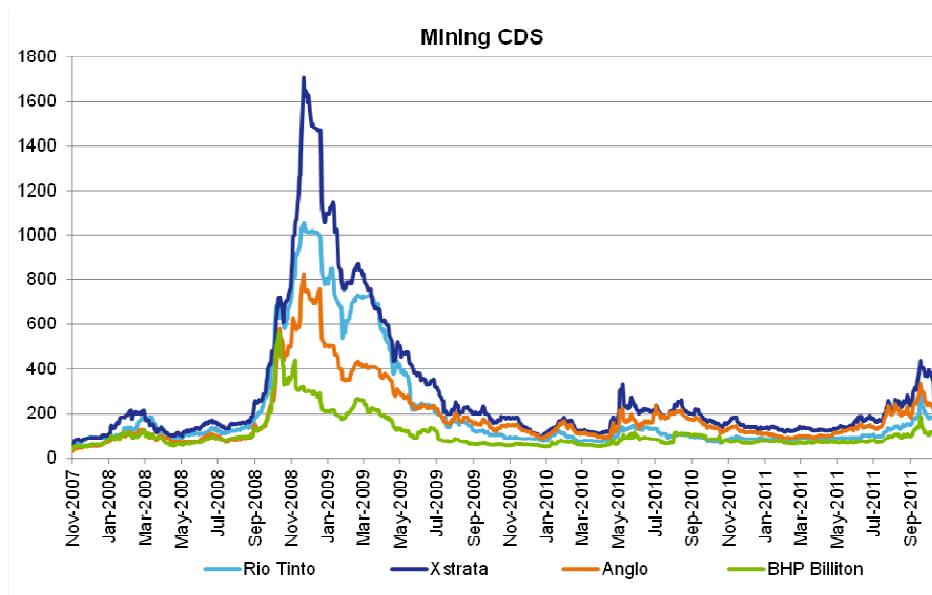
- Current valuations reflect these fears and the market has de-rated the sector in recent years. This de-rating been caused by increased uncertainty surrounding the sustainability of currently elevated commodity prices, and thus sustainability of miners' earnings, in addition to a shift to spot market pricing, which has created lower earnings visibility. Question markets surrounding efficient capital deployment have also contributed to downgraded earnings expectations.



- In short, it seems that today's investors fear a repeat of 2008. This scenario, however, seems unlikely for three central reasons. Although the data is reasonably opaque, underlying commodity markets are much tighter than

## Section Four – Special Features

they were in 2008, with limited inventory in the system – especially in China. Unlike 2008, the companies have reduced their debt levels considerably, are reshaping their capital structures, and are well supported by legacy assets offering sustainable cash flows, even taking into account the recent commodity price declines. The sector is significantly less leveraged and the debt markets are open. Finally, although global PMIs are deteriorating around the world, this is occurring at different rates. Crucially, the US and China are in expansionary territory.



- Besides these factors, M&A trends are potentially supportive, as companies look to deploy the cash on their balance sheets. Cost pressures – in the form of oil, steel and currencies – are abating.

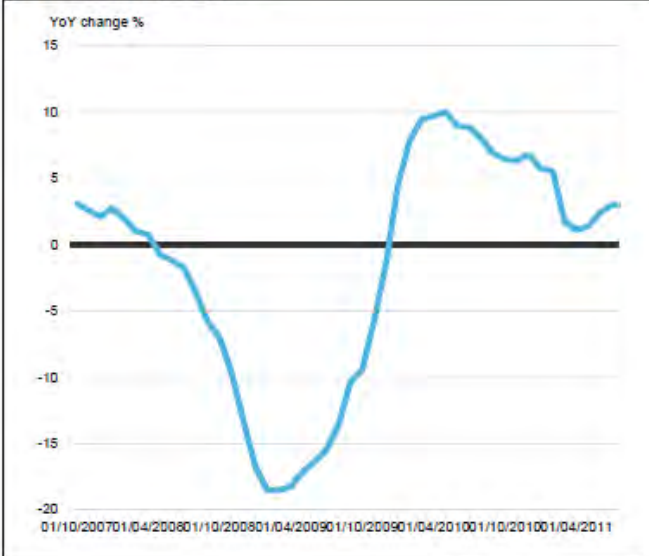
### Investment Conclusions

- In the short term we are positive on the sector. This is not 2008; balance sheets are in a far better place, and miners look attractively valued at the bottom of a new “range”. There are likely to be near term catalysts including a rebound in PMIs, growth-supportive Chinese policy measures and more investor-friendly cash deployment. In the longer term, however, there are clearly some headwinds for the sector and at the moment it is unclear how these will play out.

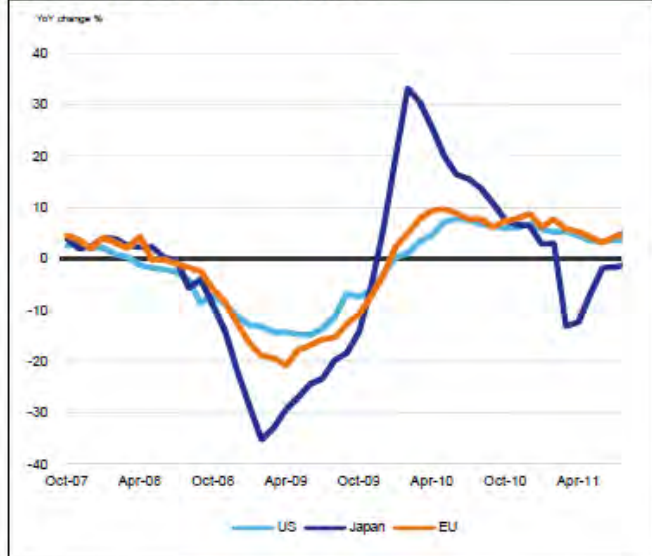
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# Global Overview: Economics

## G5 Industrial Production



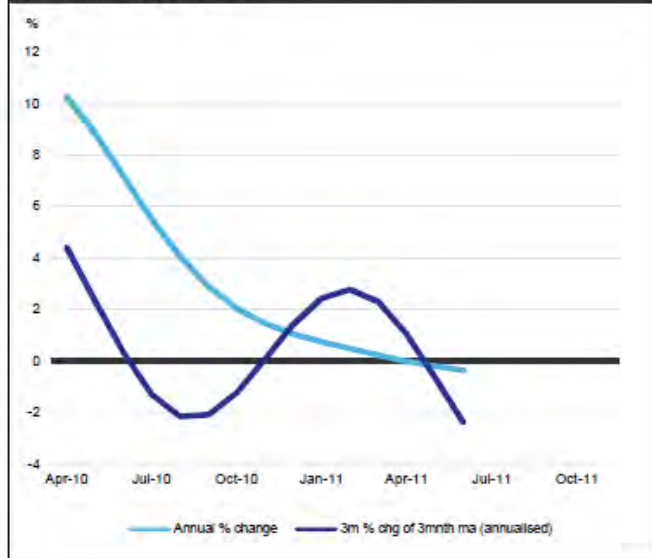
## Industrial Production Across Regions



## Business Confidence Across Regions



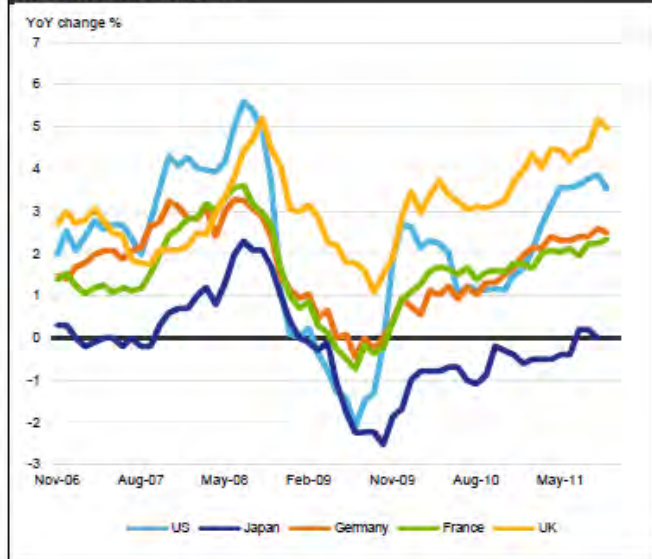
## OECD Leading Indicator



## G5 Inflation



## Inflation across regions



Source: Thomson Datastream, BlackRock

# Global Overview: Economics

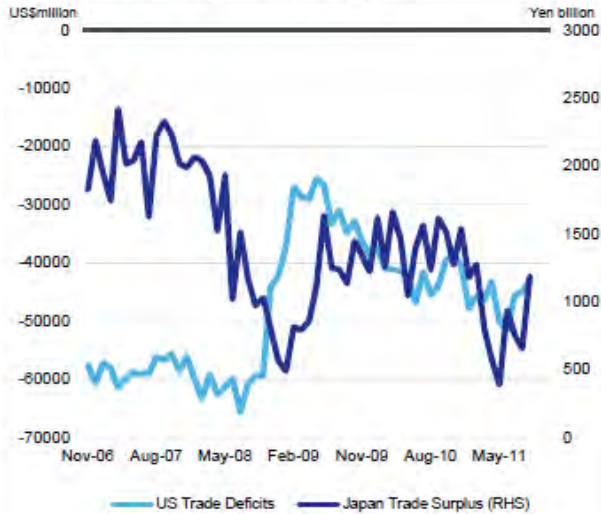
### Yield Curves



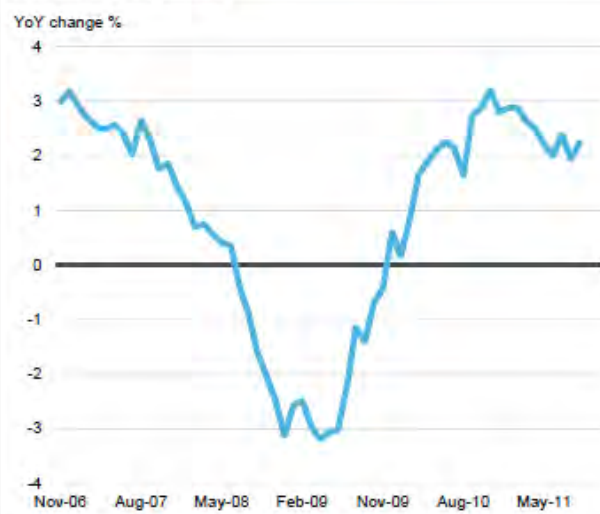
### Real Interest Rates



### US Trade Deficits vs. Japan Trade Surplus



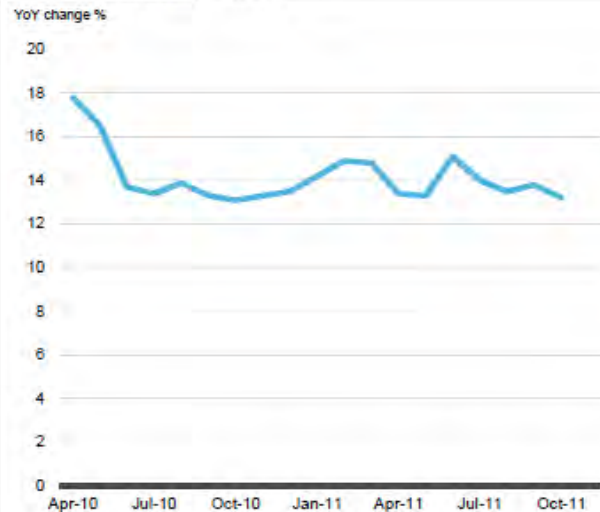
### US Consumer Spending



### China Inflation

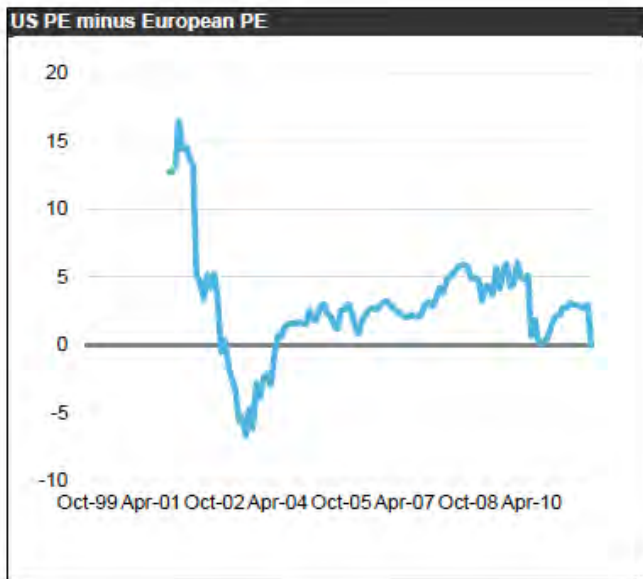
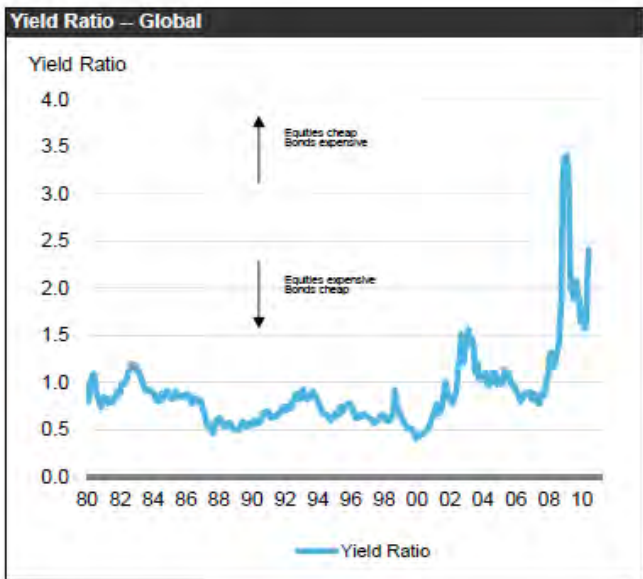
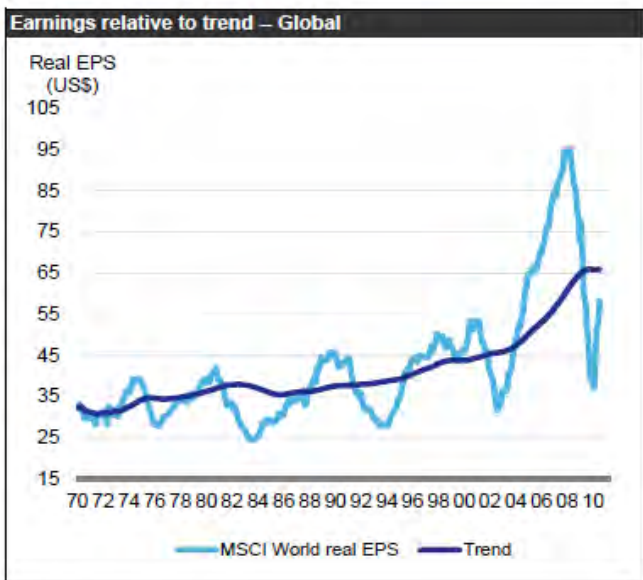
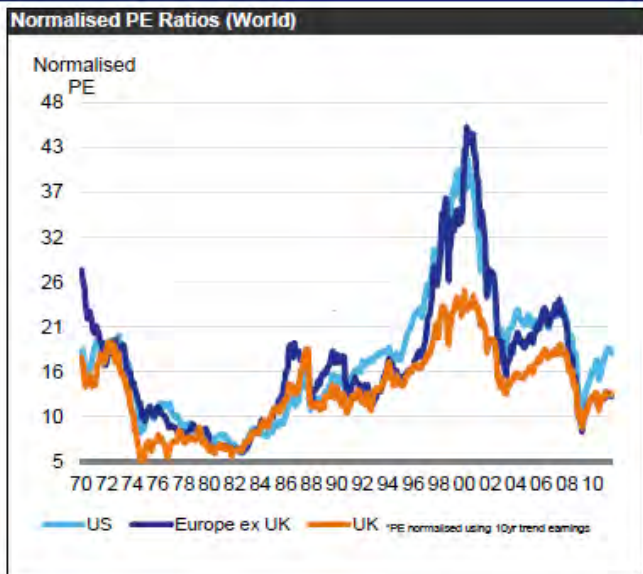
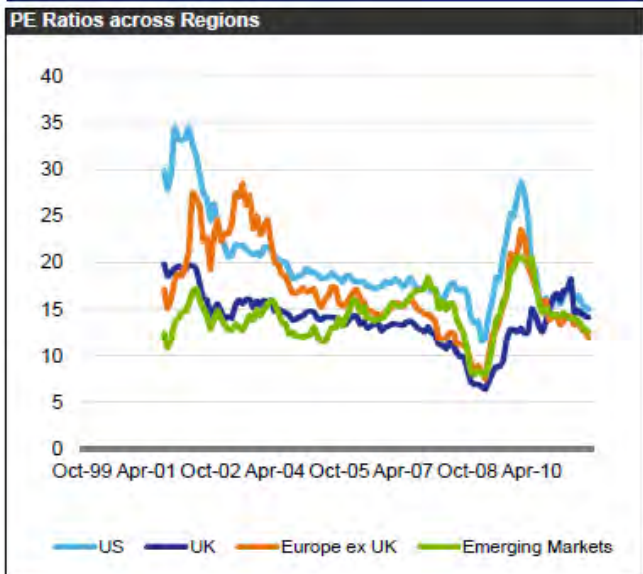


### China - Industrial Production



Source: Thomson Datastream, BlackRock

# Global Overview: Equities

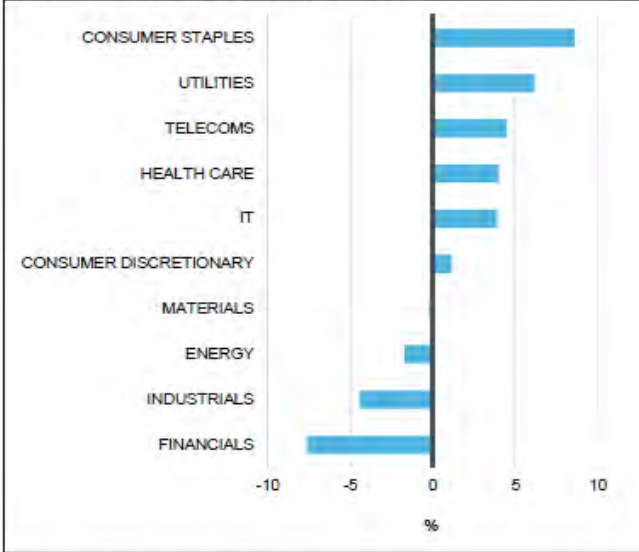


Note: All charts use MSCI equity indices

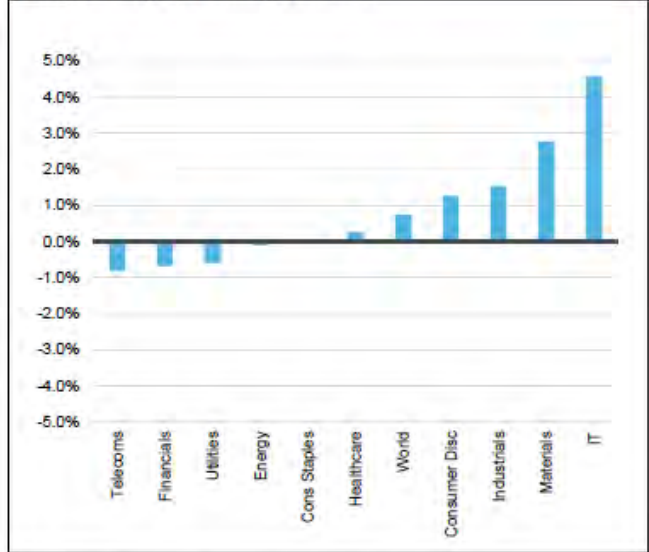
Source: Thomson Datastream, MSCI, BlackRock

# Global Overview: Equities

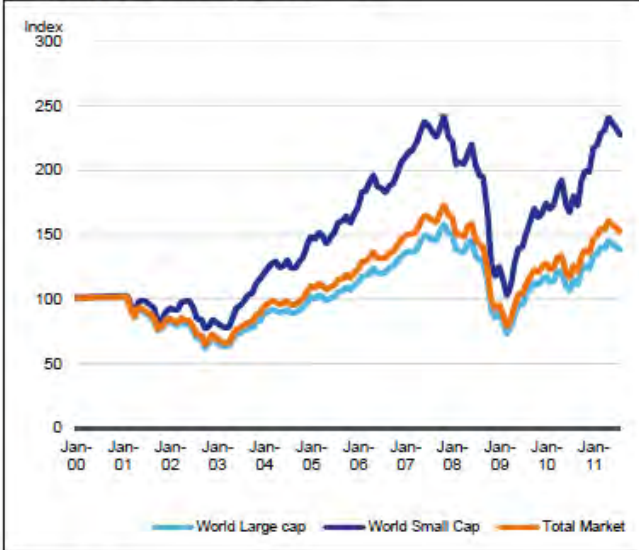
3-month Performance -- Sectors relative to world



1 month change in Earnings Forecast



Large Cap vs. Small Cap Performance



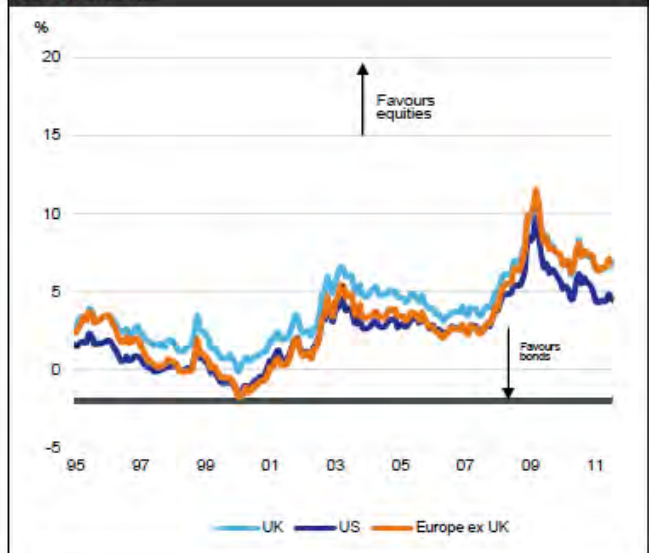
Emerging Markets PE vs. Developed world PE



Growth vs. Value



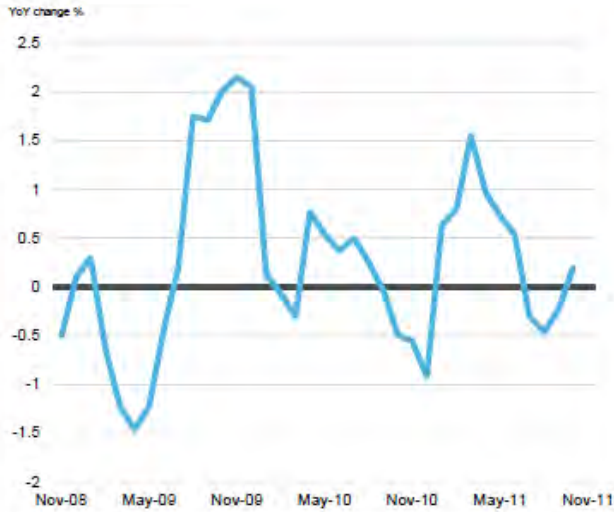
Risk Premium



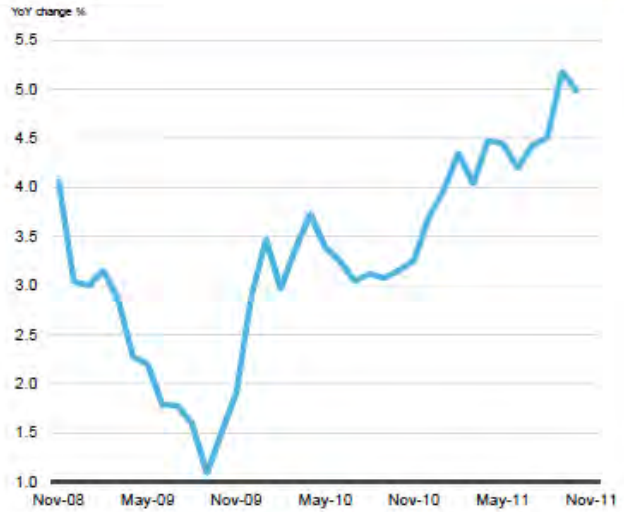
Note: All charts use MSCI equity indices

Source: Thomson Datastream, MSCI, BlackRock

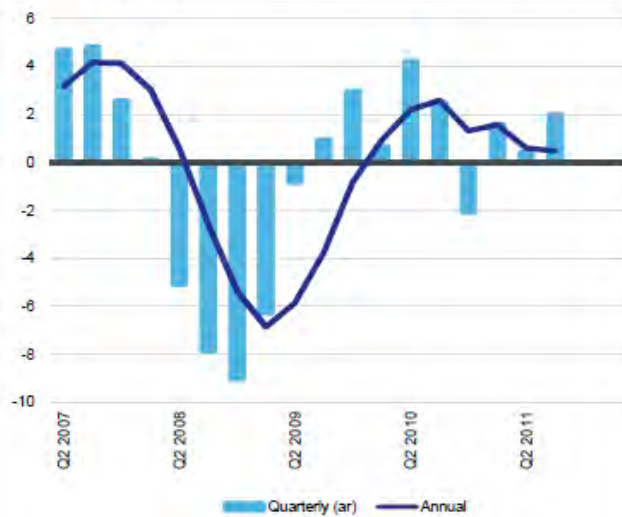
Retail sales



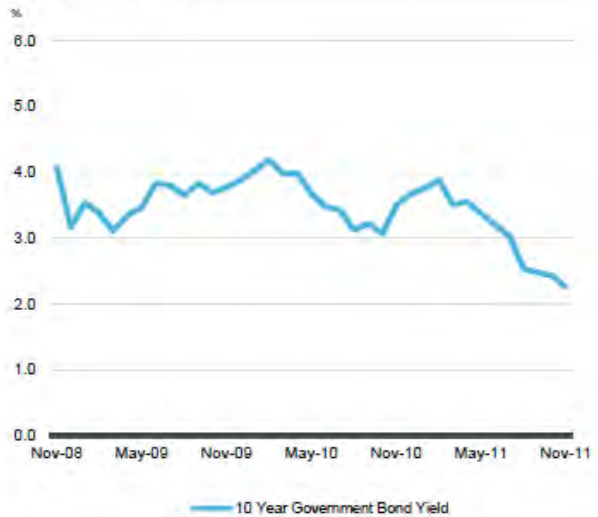
Inflation



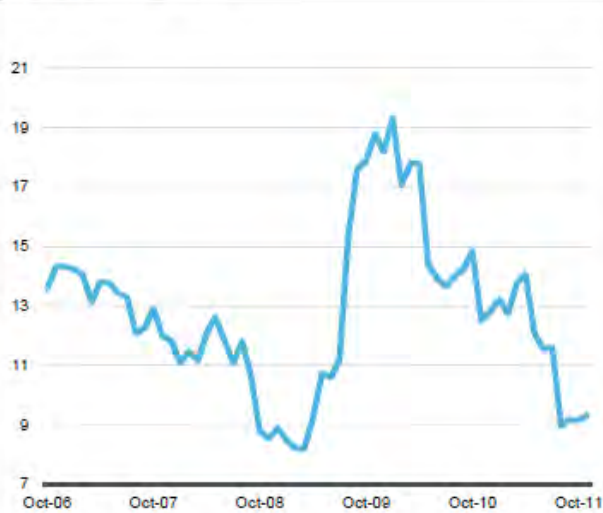
Economic Growth



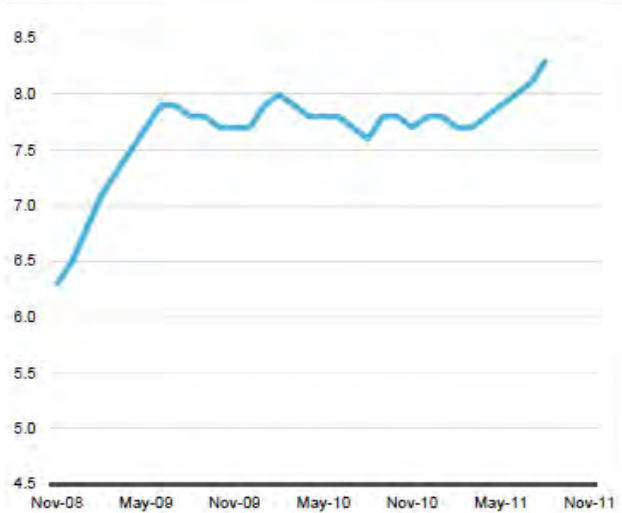
10 Year Bond Yield



FTSE All-Share PE ratio

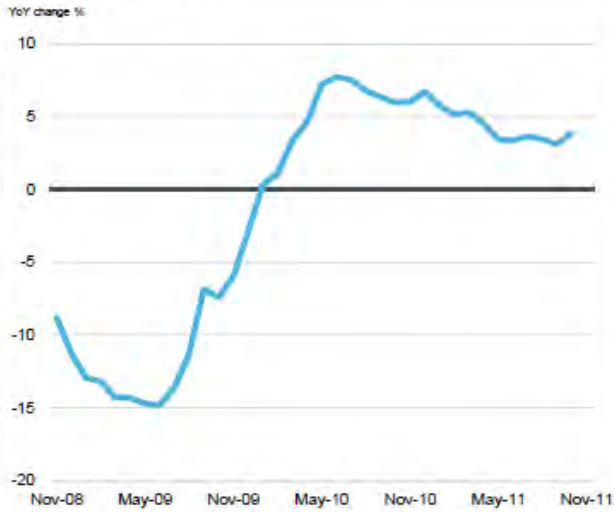


Unemployment



Source: Thomson Datastream, BlackRock

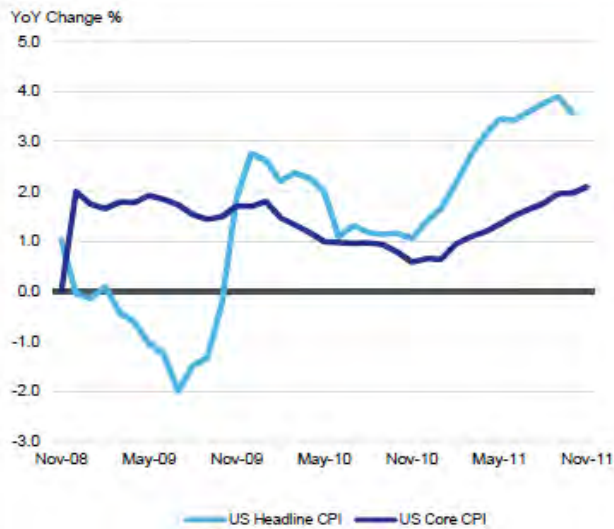
**US Industrial Production**



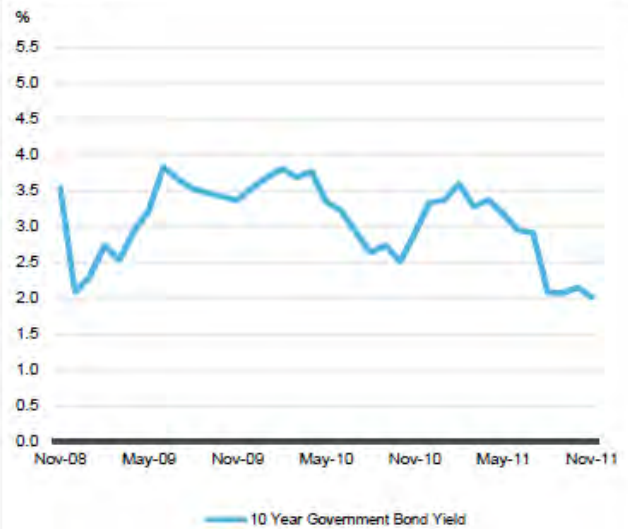
**Business Confidence**



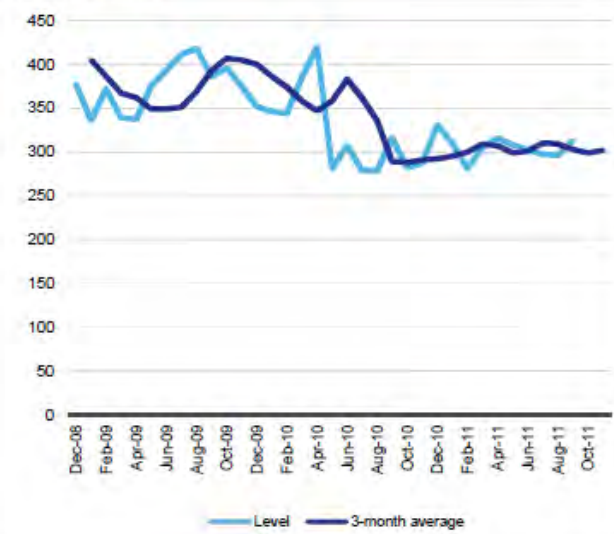
**US Inflation**



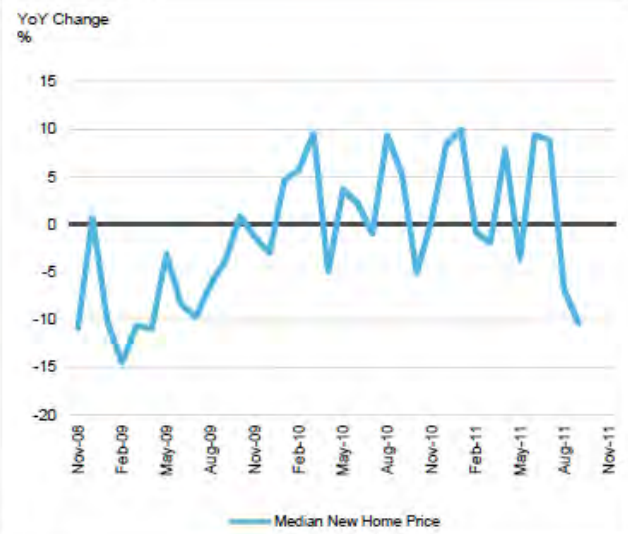
**Bond Yield**



**New home sales**



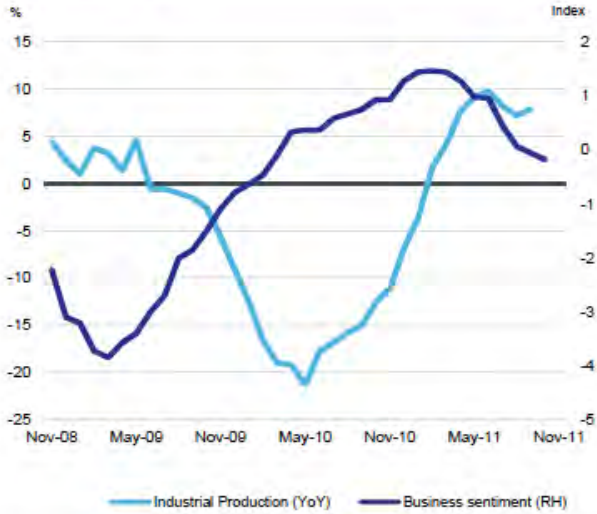
**US house prices**



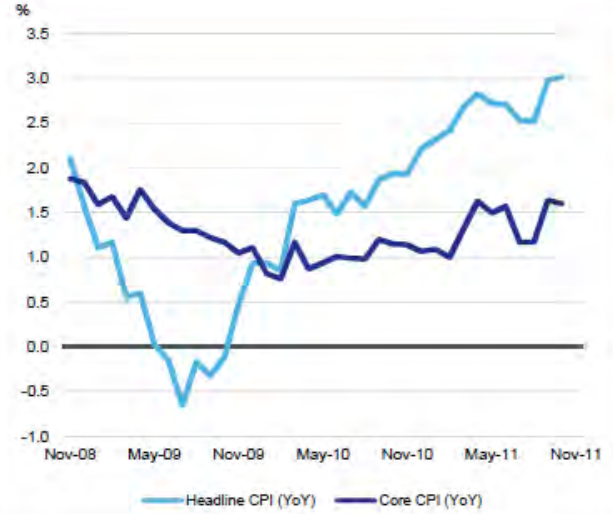
Source: Thomson Datastream, BlackRock

# Europe

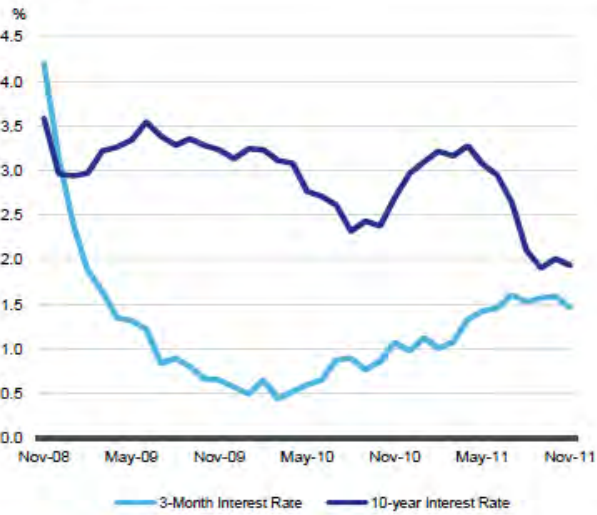
## Economic Activity



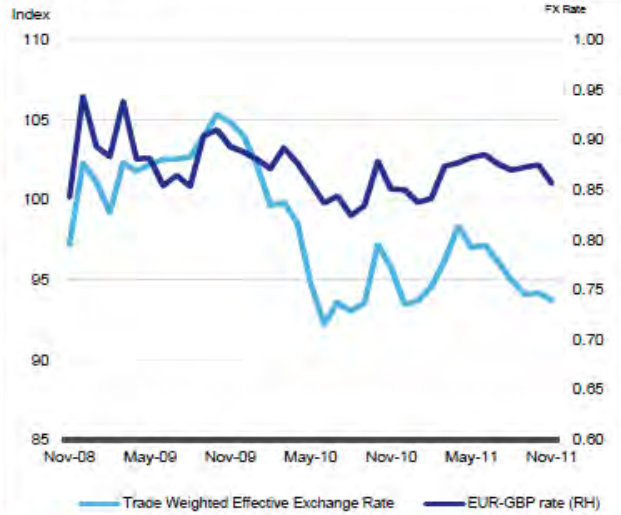
## Inflation



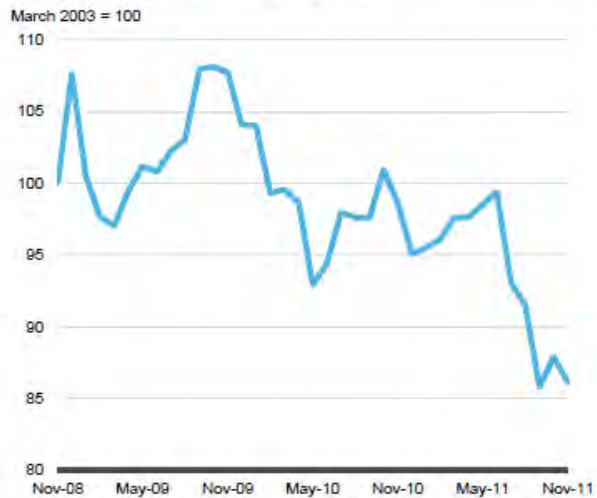
## Interest rates



## Exchange rates



## Europe: performance against MSCI World (\$)



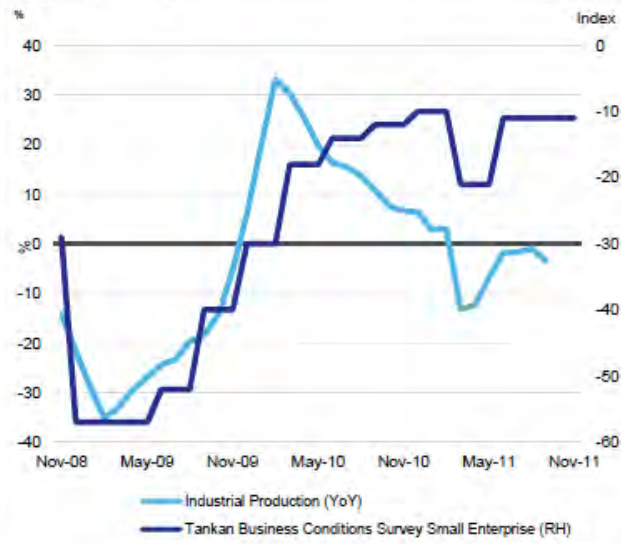
## Equity Relative Valuations



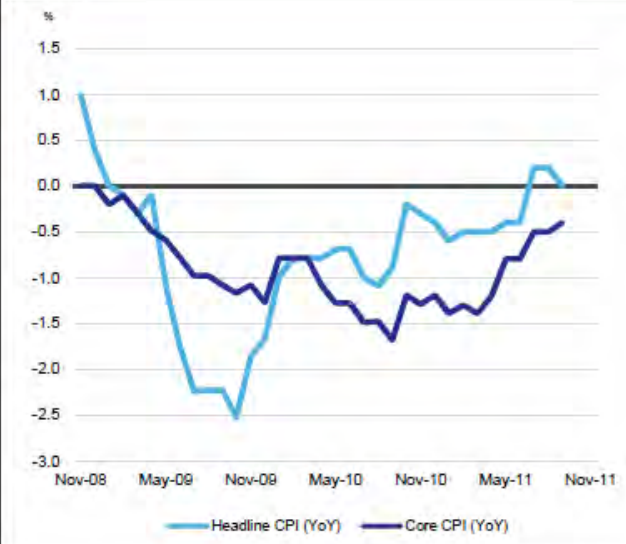
Source: Thomson Datastream, BlackRock

# Japan

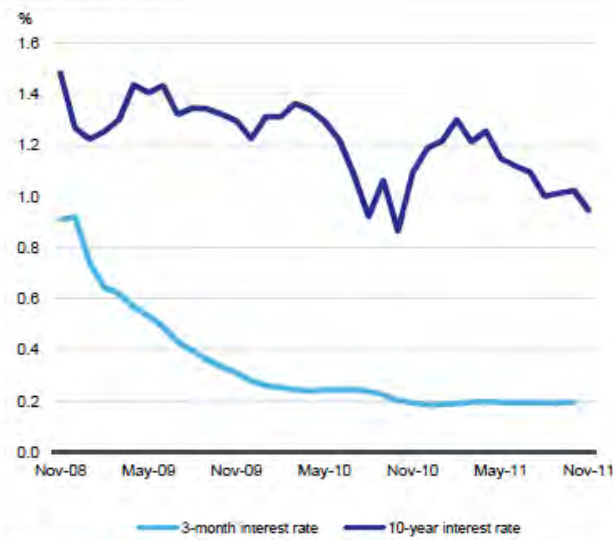
## Economic Activity



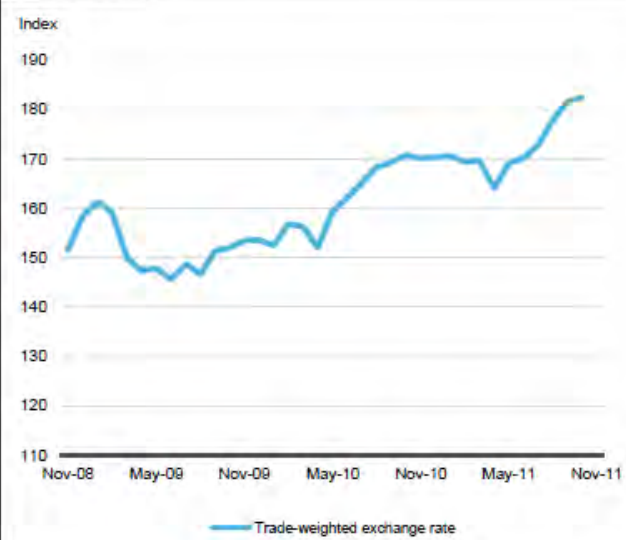
## Inflation



## Interest rates



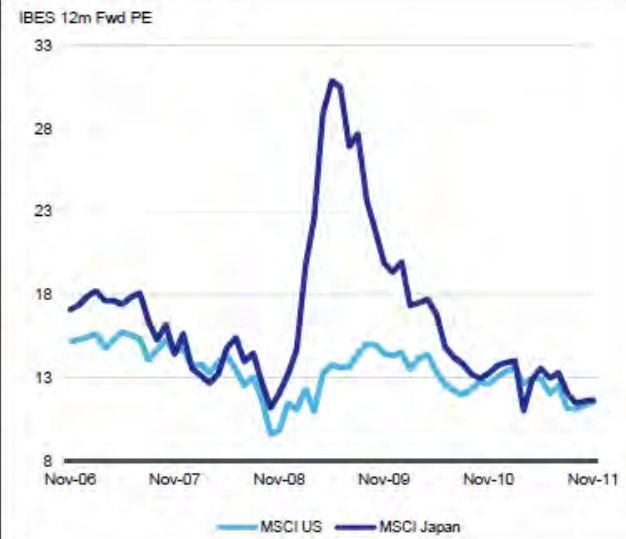
## Exchange Rates



## Relative Equity Performance



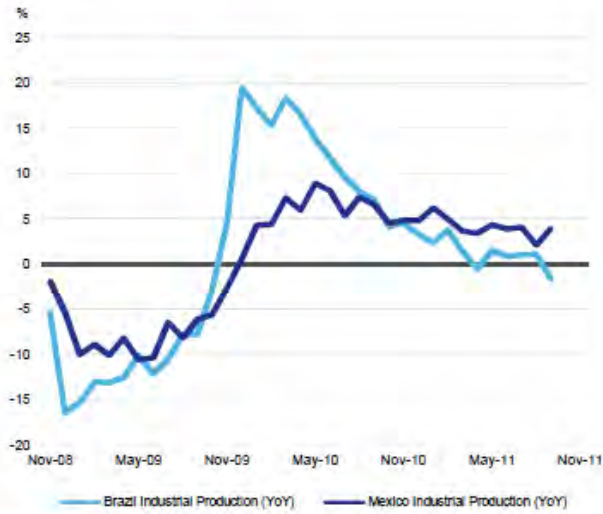
## Relative Equity Valuation



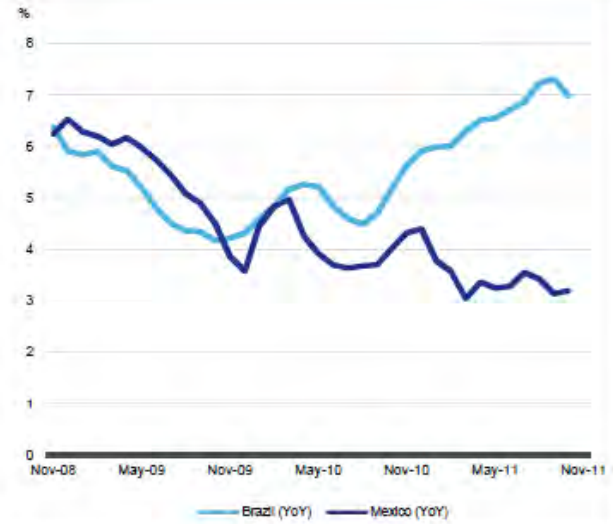
Source: Thomson Datastream, BlackRock

# Latin America

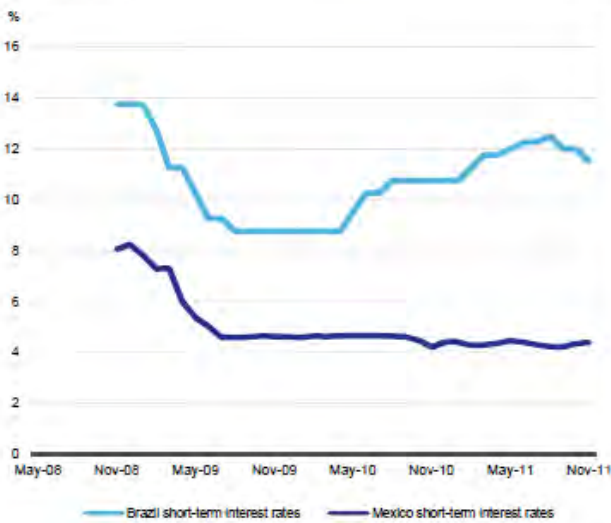
## Economic Activity



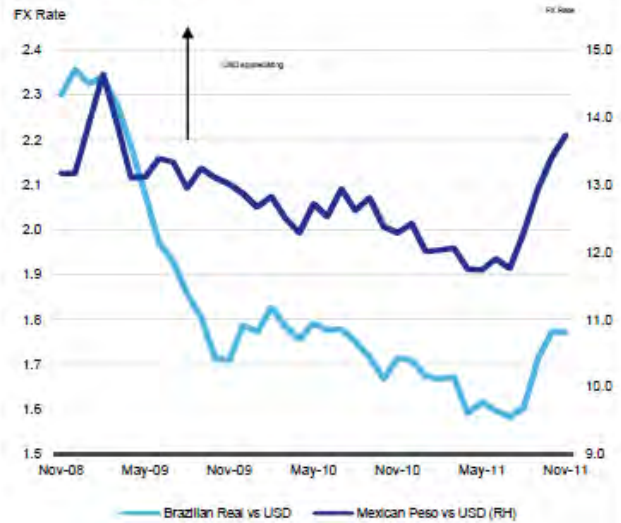
## Inflation



## Interest Rates



## Exchange Rates



## Equity Performance



## Equity Relative Valuations



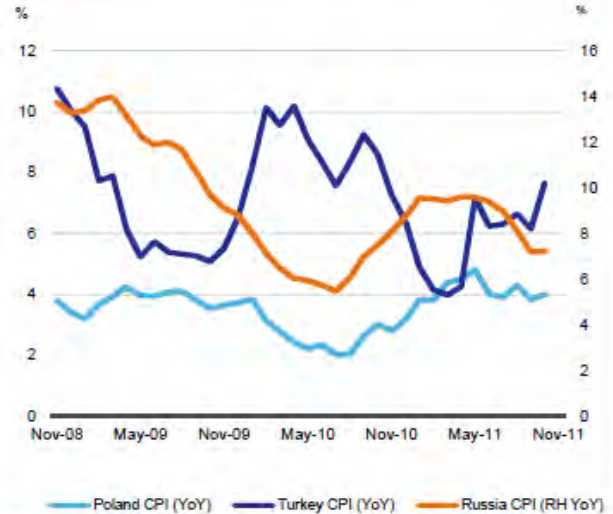
Source: Thomson Datastream, BlackRock

# Emerging Europe

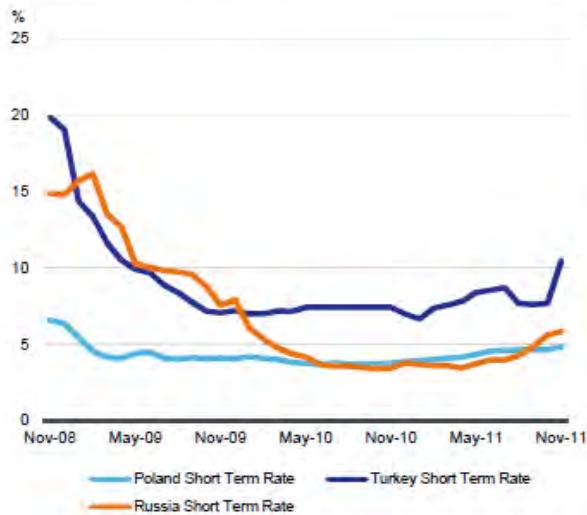
## Economic Activity



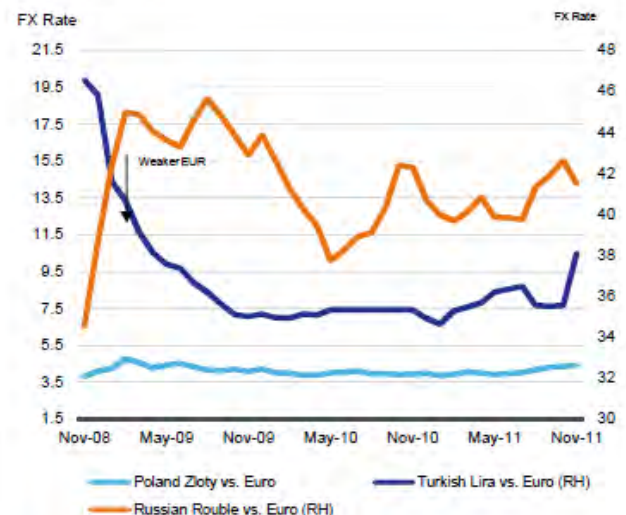
## Inflation



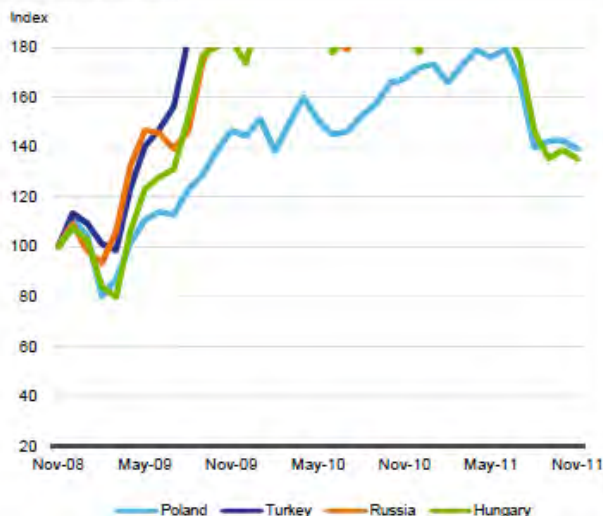
## Interest Rates



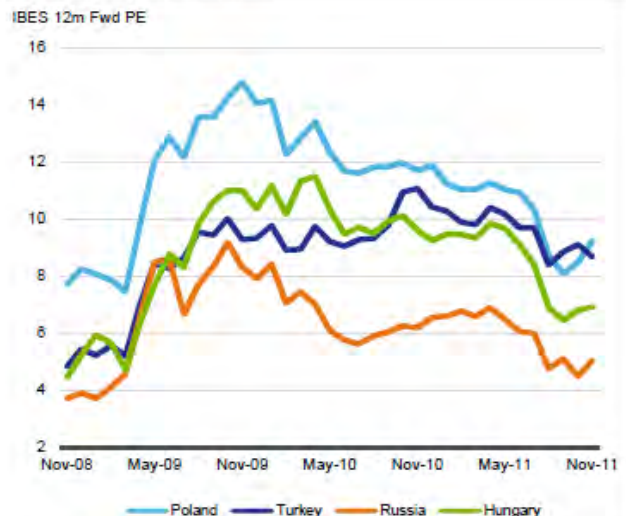
## Exchange Rates



## Equity Performance



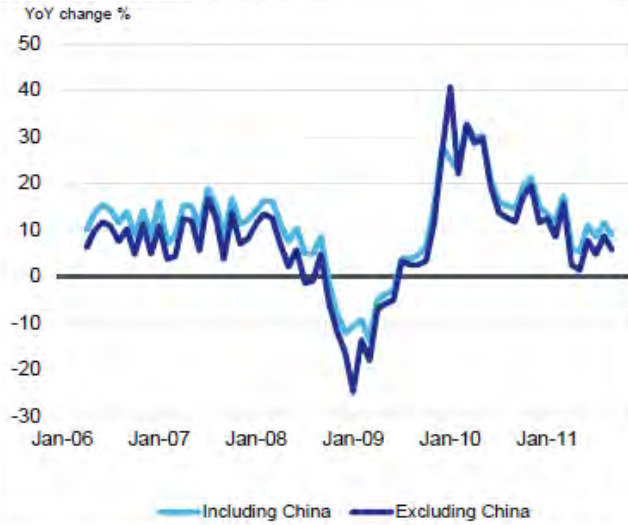
## Equity Relative Valuation



Source: Thomson Datastream, BlackRock

# Asia Pacific

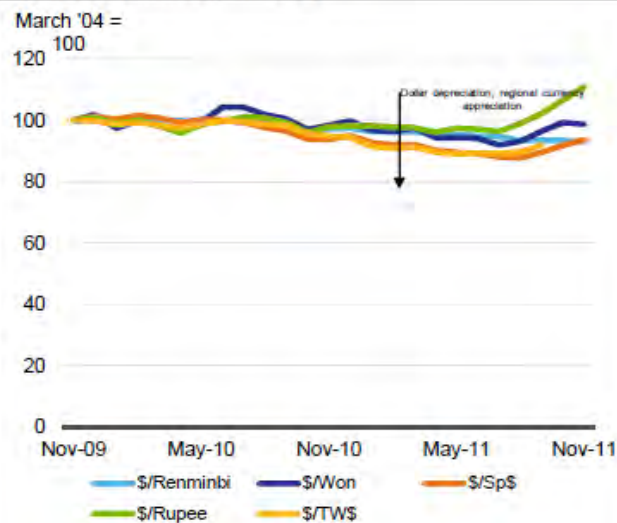
## Regional industrial production



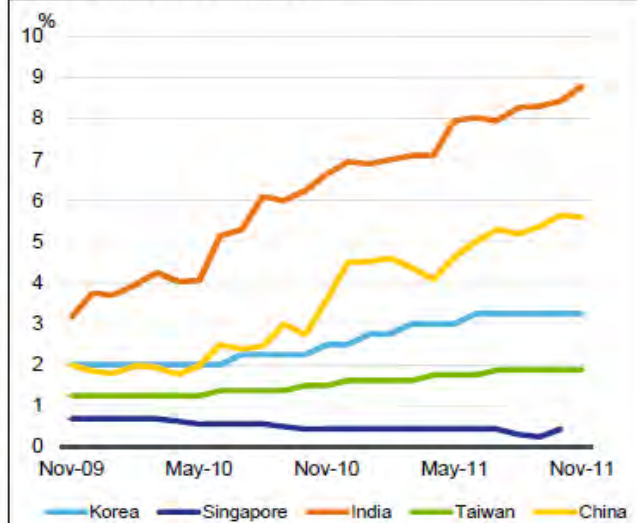
## Regional Inflation



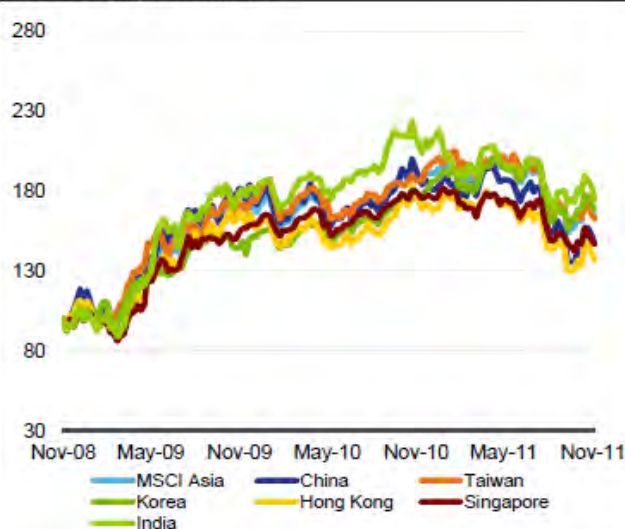
## Regional Currencies against the \$



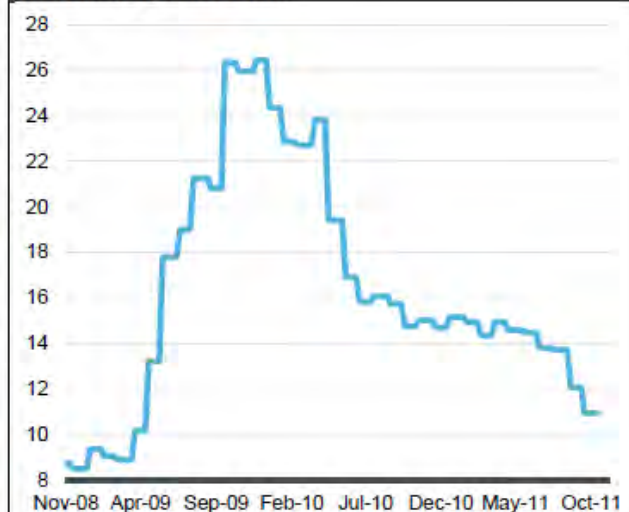
## Regional short-term interest rates



## Regional Equity Performance



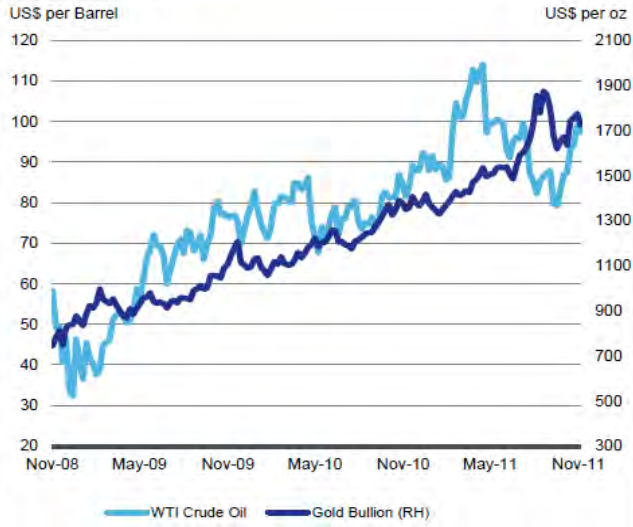
## MSCI Emerging Asia PE ratio



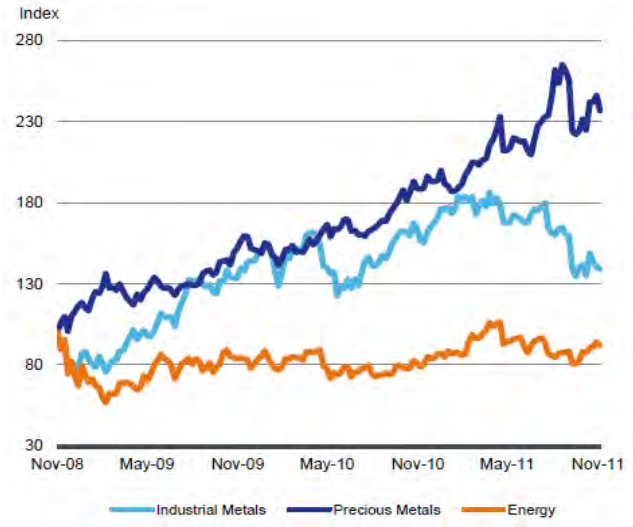
Source: Thomson Datastream, BlackRock

# Commodities

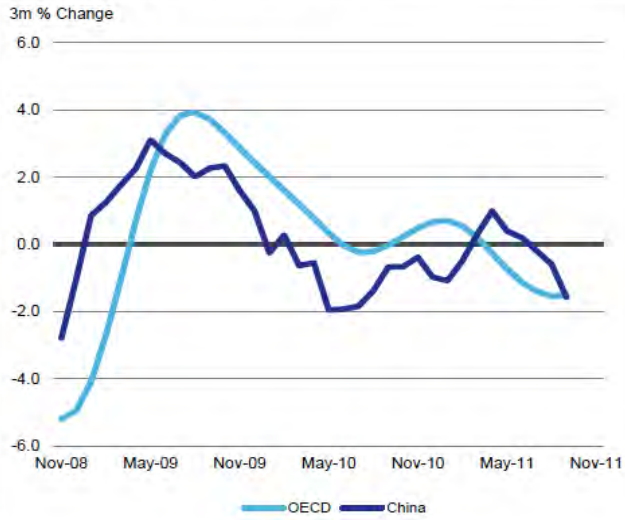
Major commodity prices



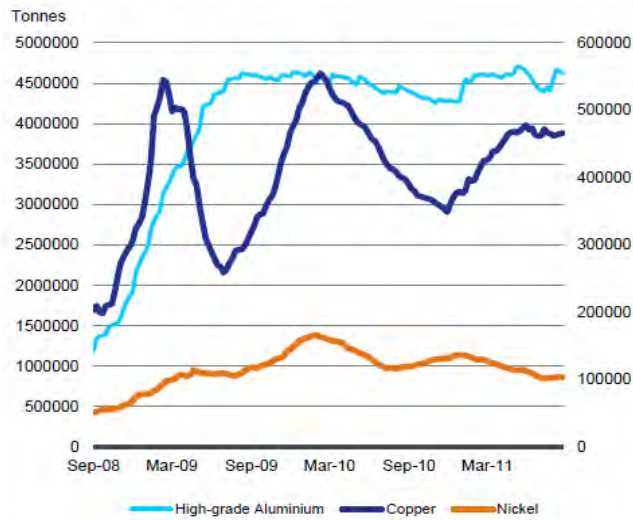
GSCI Major indices



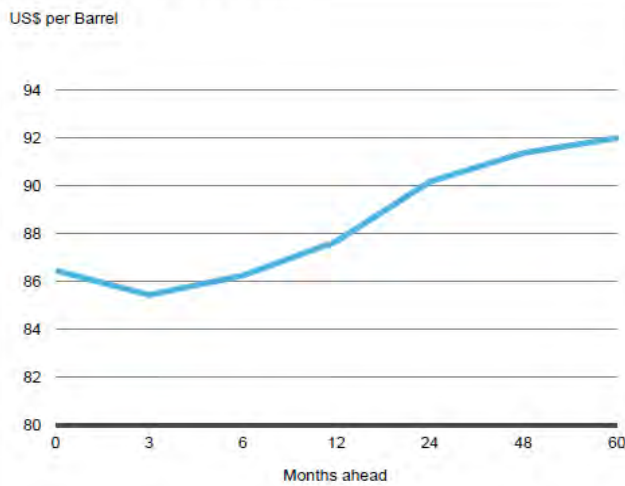
Demand: Leading Economic Indicators



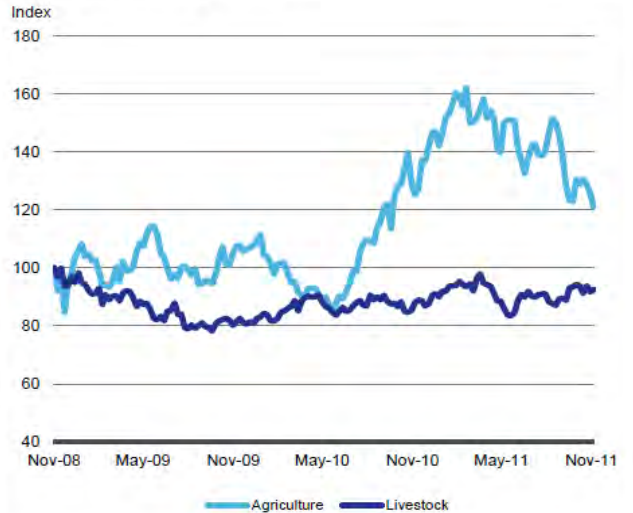
LME Metal Inventories



Crude Oil Futures Term Structure



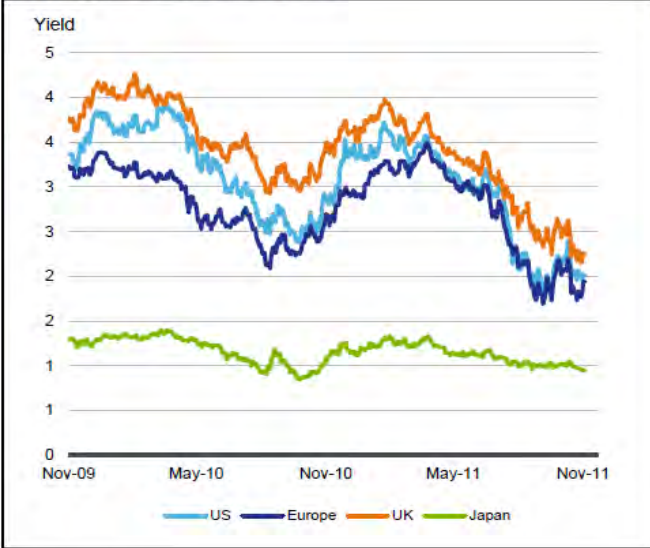
GSCI Soft Commodity Indices



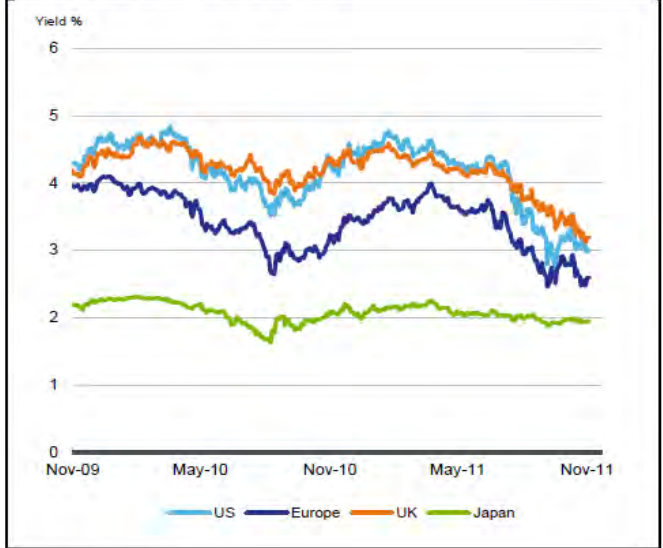
Source: Thomson Datastream, BlackRock

# Bonds

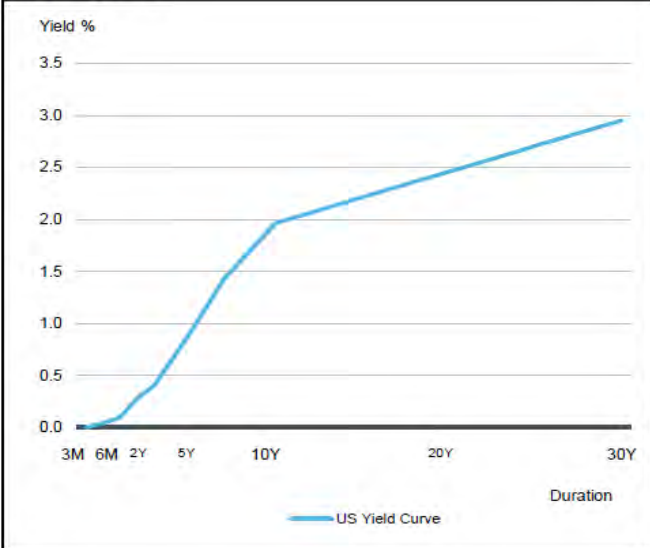
### 10 Year Government Bond Yields



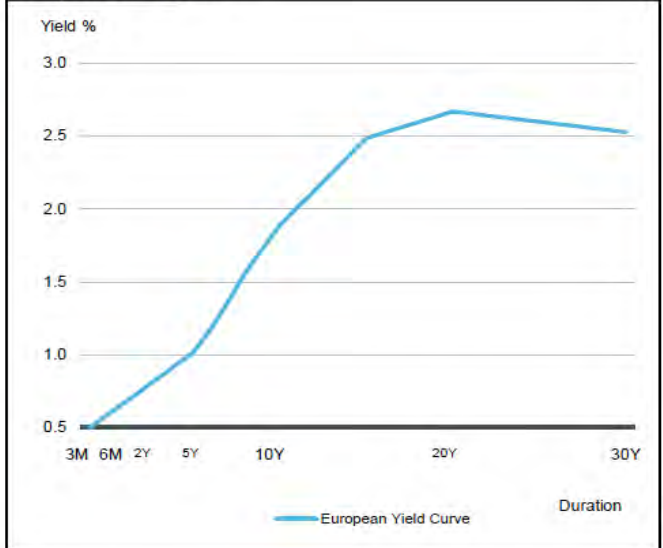
### 30 Year Government Bond Yields



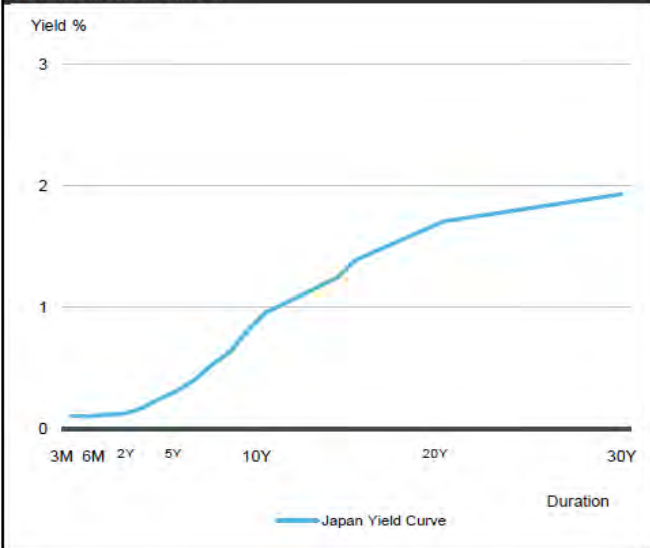
### US Yield Curve



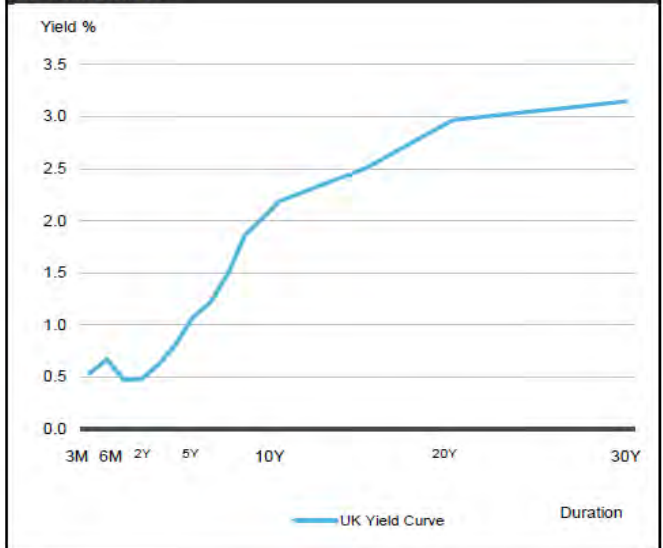
### European Yield Curve



### Japanese Yield Curve



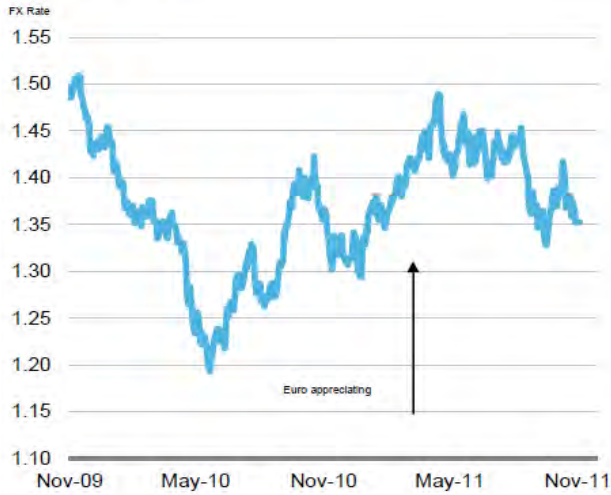
### UK Yield Curve



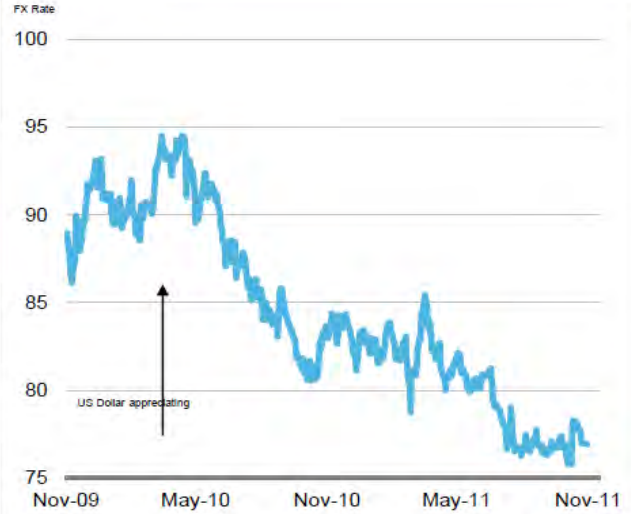
Source: Thomson Datastream, BlackRock

# Currencies

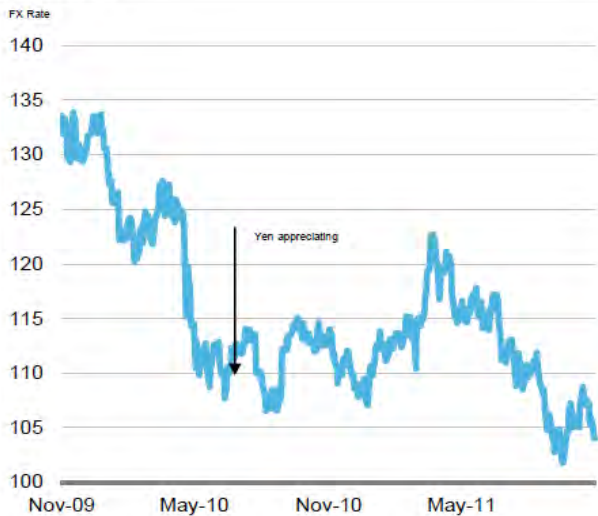
**US Dollar vs. Euro**



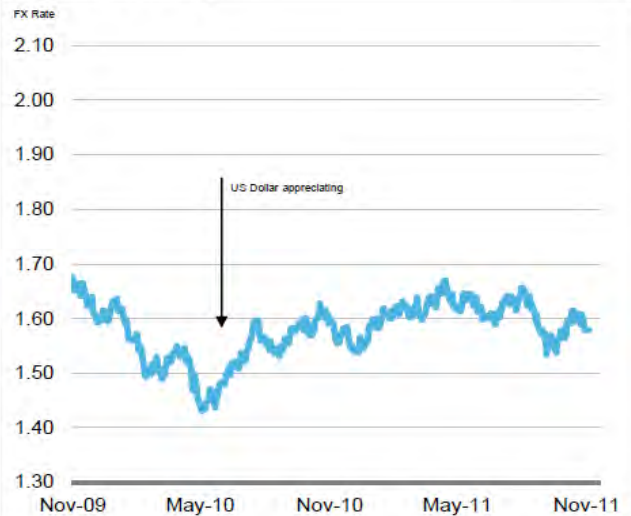
**Yen vs US Dollar**



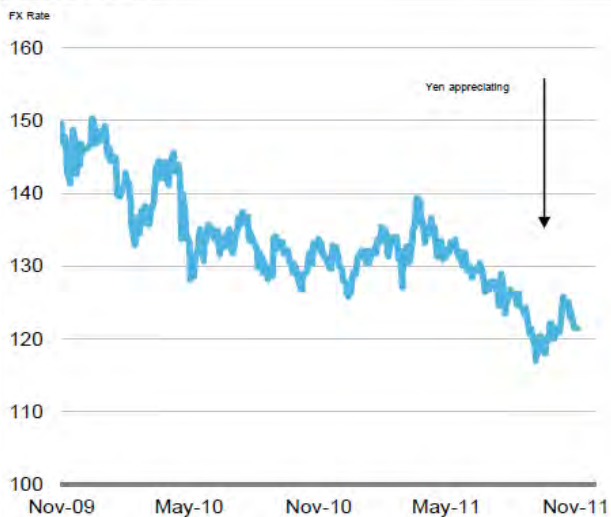
**Yen vs. Euro**



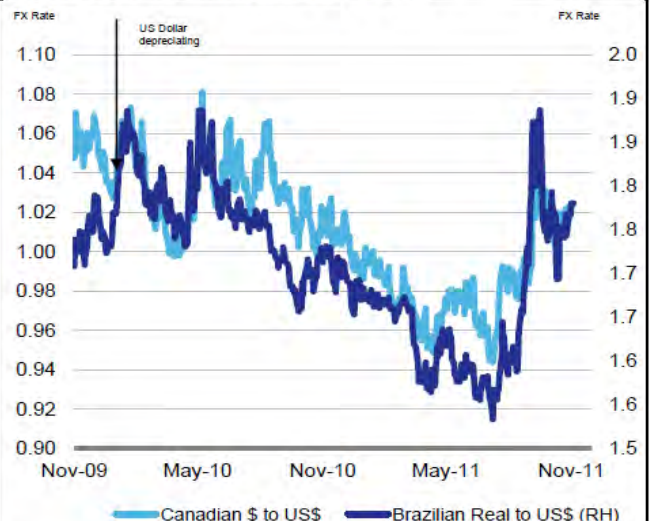
**US Dollar vs Sterling**



**Yen vs. Sterling**



**Canadian Dollar/Brazilian Real vs. US Dollar**



Source: Thomson Datastream, BlackRock

Statistical Appendix

## Market Performance to 23 November 2011

CATEGORY	-1M			-3M			-12M		
	Local	Dollar	Euro	Local	Dollar	Euro	Local	Dollar	Euro
<b>EQUITIES</b>									
World	-4.2	-5.4	-2.5	2.9	0.3	6.9	-6.7	-5.9	-5.1
North America	-3.6	-3.9	-1.0	5.4	4.9	11.8	0.3	0.2	1.0
S&P 500	-3.8	-3.8	-1.0	6.3	6.3	13.3	1.2	1.2	2.1
Nasdaq <sup>1</sup>	-4.4	-4.4	-1.6	7.5	7.5	14.6	-0.4	-0.4	0.4
Canada	-1.1	-3.9	-1.0	-1.6	-6.3	-0.1	-6.4	-8.1	-7.3
Japan	-3.5	-4.7	-1.9	-2.4	-2.8	3.6	-16.1	-9.1	-8.4
Jasdaq	-3.6	-4.8	0.0	-4.7	-4.8	2.3	-4.7	3.4	4.7
Europe - MSCI	-6.4	-8.9	-6.2	0.9	-6.0	0.1	-14.1	-14.0	-13.3
UK	-4.8	-6.0	-3.8	2.2	-2.7	3.7	-5.5	-7.3	-6.5
Europe ex UK	-7.3	-10.2	-7.5	-0.2	-8.2	-2.1	-18.4	-17.7	-17.0
Asia Pacific	0.3	-3.9	-0.5	-0.2	-6.3	1.4	-10.8	-14.5	-10.2
Emerging Markets	0.2	-1.1	1.9	1.8	-5.3	0.9	-11.8	-16.0	-15.3
Asia	0.2	-0.4	2.5	0.0	-4.5	1.7	-13.4	-15.8	-14.9
Latin America	1.4	-0.7	2.2	7.5	-4.5	1.8	-11.6	-17.3	-16.6
Europe	-2.7	-4.0	-1.2	-2.4	-9.2	-3.2	-11.7	-16.9	-16.2
Large Cap		-5.2	-2.4		0.4	7.0		-6.0	-5.2
Small Cap		-4.3	-1.4		-0.3	6.3		-5.9	-5.1
Growth		-4.4	-1.6		0.5	7.1		-5.1	-4.3
Value		-5.7	-2.8		0.1	6.7		-6.9	-6.1
<b>BONDS</b>									
US	1.6	1.6	4.6	1.6	1.6	8.3	7.6	7.6	8.6
Germany	1.6	-1.4	1.6	2.3	-4.0	2.3	7.3	6.4	7.3
UK	3.3	1.3	4.4	5.3	0.2	6.8	14.7	12.6	13.5
UK Index Linked <sup>1</sup>	6.4	4.4	7.5	5.1	0.0	6.6	19.1	16.9	17.9
Japan	0.4	-0.8	2.2	0.7	0.3	6.9	2.6	11.2	12.1
Investment Grade		-1.1	1.8		-2.8	3.6		3.3	4.2
High Yield		-0.8	2.1		-1.4	5.0		1.0	1.9
Emerging Market		0.9	3.9		-0.3	6.2		4.8	5.7
<b>CURRENCIES</b>									
Euro/\$	-2.9			-6.2			-0.8		
Euro/£	-1.7			-2.1			0.3		
\$/¥en	1.2			0.4			-7.7		

Notes: <sup>1</sup> Price Index

### Indices

#### Equities

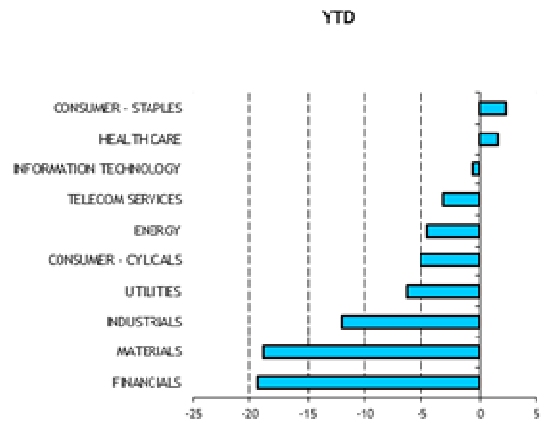
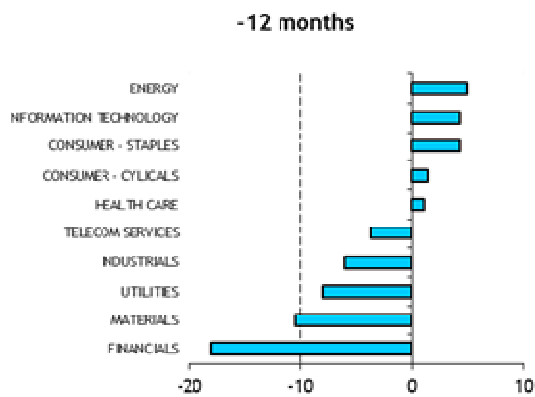
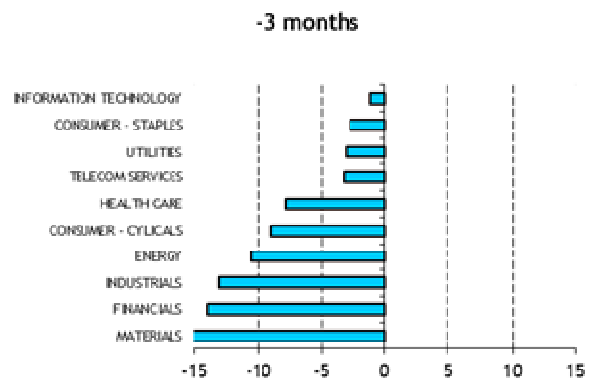
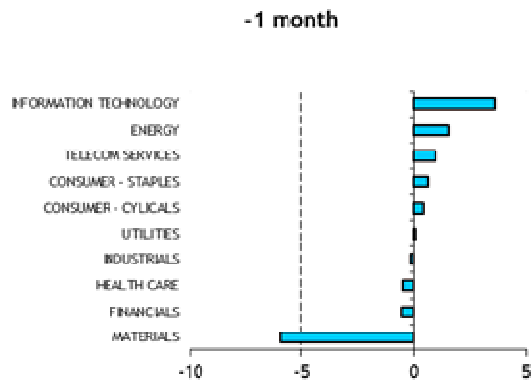
World - MSCI World  
 North America - MSCI North America  
 Canada - Toronto 300  
 UK - FTSE AllShare  
 Europe Ex. UK - MSCI Europe Ex. UK  
 Japan - Topix  
 Asia Pacific - MSCI Asia Ex. Japan  
 Emerging Markets - MSCI Emerging Mkts  
 Large/Small cap - S&P Citigroup World  
 Growth/Value - S&P Citigroup World

#### Bonds

US - JPM US Govt. Bond Index  
 Germany - JPM Germ. Govt. Bond Index  
 Gilt - Fta Govt. All Stock  
 UK Index Linked - Fta Brit. Govt. Index Linked  
 Japan - JPM Japan Govt. Bond Index  
 Investment Grade - Salomon Global Broad Index  
 High Yield - Merrill Lynch Global Index  
 Emerging market - JP Morgan EMBI

Source: Thomson Datastream

# Global Sector % Relative Performance, US\$



## Valuation Framework as at 23 November 2011

Market	PE			Price/ Norm EPS		Dividend yield, %		Price/Cashflow		Price/Book value		Equity Risk Premium (3)		IBES EPS Growth, %			IBES Revisions - Est changes, % (4)		IBES Revisions - Upgrade rate, % (5)	
	2010	2011	2012	Current	Avg (2)	Curr	Avg (2)	Curr	Avg (2)	Curr	Avg (2)	Curr	Avg (2)	2009	2010	+5 yr	2010	2011	2010	2011
<b>World</b>	<b>13.3</b>	<b>12.0</b>	<b>10.8</b>	<b>14.1</b>	<b>21.3</b>	<b>3.0</b>	<b>0.0</b>	<b>7.6</b>	<b>0.0</b>	<b>1.6</b>	<b>0.0</b>	<b>6.6</b>	<b>2.3</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>-5</b>	<b>-21</b>	<b>-3.6</b>	<b>-5.9</b>
<b>US</b>	14.9	12.8	11.6	16.2	19.9	2.2	0.0	8.9	0.0	2.0	0.0	6.1	3.1	16	10	12	13	-8	-0.9	-4.3
<b>Japan</b>	13.6	10.8	9.5	23.6	50.8	2.2	0.0	5.1	0.0	0.9	0.0	3.1	-0.6	26	14	12	-27	-26	-9.4	-8.2
<b>Europe</b>	10.5	10.2	9.3	19.7	18.3	4.3	0.0	6.5	0.0	1.3	0.0	5.0	2.8	3	10	10	-19	-31	-5.6	-8.0
<b>Europe ex UK</b>	10.0	10.4	9.4	11.7	20.0	4.7	0.0	5.9	0.0	1.2	0.0	8.4	3.4	-3	11	8	-21	-33	-7.2	-9.6
<b>Germany</b>	9.2	9.8	8.9	17.4	20.8	4.8	0.0	5.5	0.0	1.1	0.0	5.0	2.8	-6	10	8	-20	-39	-9.2	-11.5
<b>France</b>	8.9	8.8	8.3	10.4	22.6	5.3	0.0	5.3	0.0	1.0	0.0	8.8	3.8	1	6	7	-43	-52	-6.5	-10.5
<b>UK</b>	11.4	9.9	9.2	12.6	15.5	3.7	0.0	7.8	0.0	1.6	0.0	7.8	4.1	15	8	12	-8	-22	-2.5	-5.0
<b>Australia</b>	12.4	11.4	10.4	15.3	17.0	4.9	0.0	10.8	0.0	1.8	0.0	5.8	3.4	10	8	11	-36	-29	-4.5	-4.1
<b>Asia ex Japan</b>	12.6	11.8	10.6	18.0	16.2	2.7	0.0	7.7	0.0	1.7	0.0	5.4	4.0	7	11	13	-31	-41	-5.4	-6.9
<b>Latin America</b>	11.7	11.2	9.9	21.5	15.4	3.0	0.0	7.5	0.0	1.7	0.0	4.7	5.8	5	14	12	-23	-25	-5.2	-3.1
<b>Emerging Europe</b>	6.8	5.4	5.7	15.0	20.5	2.8	0.0	4.4	0.0	1.0	0.0	6.5	3.1	24	-4	<i>n.a</i>	-23	-24	3.8	-4.7

Note:

(1) Source IBES. (2) All averages are 1984- where available. (3) Equity Risk Premium is versus US real interest rates. (4) "Est changes" is number up-down/forecast changes. (5) "Upgrade rate" is change to earnings level in past 3 months.

## Summary of current sector valuations as at 28 October 2011

	Price to book value		Price to cash earnings		Price to earnings		Dividend Yield %	
	Current	Trend	Current	Trend	Current	Trend	Current	Trend
<b>Energy</b>	1.9	2.7	7.9	8.8	15.5	17.5	2.4	2.6
<b>Materials</b>	2.0	2.1	8.9	8.6	15.2	21.0	1.9	2.3
<b>Industrials</b>	2.0	2.6	8.7	10.7	14.9	22.3	2.4	1.9
Capital Goods	2.1	2.6	9.1	11.6	14.4	22.6	2.5	2.0
Commercial Services & Supplies	2.6	3.5	9.7	12.4	18.4	24.4	2.4	1.7
Transportation	1.8	2.1	7.1	7.8	15.9	21.7	2.2	1.7
<b>Consumer Discretionary</b>	2.0	2.3	8.2	10.3	16.3	26.5	1.8	1.5
Automobiles & Components	1.3	1.7	5.0	5.6	10.9	14.8	1.3	1.9
Consumer Durables & Apparel	1.9	1.9	10.2	11.3	26.4	28.5	1.4	1.4
Hotels Restaurants & Leisure	3.5	2.9	13.4	12.9	21.0	21.9	2.1	1.9
Media	2.0	2.5	8.0	16.9	16.5	61.1	2.4	1.5
Retailing	3.0	3.4	11.9	14.4	18.6	24.1	1.7	1.3
<b>Consumer Staples</b>	2.8	4.0	11.2	13.5	16.2	20.7	3.1	2.3
Food & Drug Retailing	1.9	3.3	8.4	11.8	14.6	21.4	2.9	1.8
Food Beverage & Tobacco	3.2	4.0	12.2	13.3	16.7	19.3	3.1	2.6
Household & Personal Products	3.4	5.9	12.9	17.1	17.0	25.3	3.0	1.9
<b>Health Care</b>	2.6	4.9	11.2	18.1	16.0	23.8	2.7	1.8
Health Care Equipment & Services	2.6	3.1	11.3	15.2	15.6	22.8	1.2	0.8
Pharmaceuticals & Biotechnology	2.6	5.5	11.1	18.5	16.1	23.9	3.3	2.1
<b>Financials</b>	1.0	1.9	10.2	19.1	11.7	6.8	3.3	2.7
Banks	0.9	1.9	--	0.0	10.5	18.1	4.0	3.2
Diversified Financials	0.9	2.1	8.9	11.3	11.5	16.5	1.7	2.2
Insurance	1.0	2.0	--	7.9	11.2	20.6	3.6	2.0
Real Estate	1.4	1.4	13.0	16.2	19.6	22.7	3.5	3.5
<b>Information Technology</b>	2.8	4.4	10.4	18.3	15.2	21.3	1.2	0.7
Software & Services	4.0	7.5	13.2	26.4	17.4	36.5	1.1	0.5
Technology Hardware & Equipment	2.2	3.8	9.0	16.7	14.5	22.3	0.9	0.7
<b>Telecommunications Services</b>	1.6	2.5	4.6	7.4	11.8	31.7	5.6	3.2
Diversified Telecommunications	2.4	4.4	8.3	20.1	12.2	36.9	2.3	0.9
Wireless Telecommunications	1.7	2.7	4.2	6.7	10.7	-41.4	6.7	3.6
<b>Utilities</b>	1.2	1.9	5.4	6.7	14.7	16.2	4.8	3.8
<b>Total Market</b>	1.8	2.5	8.6	11.0	14.2	21.2	2.6	2.1

Price to book, price to cash earnings, price to earnings and dividend yield figures are top-down sector aggregates; the trends are 20 year historic means. For Food & Drug Retailing, Food, Beverage & Tobacco, Household & Personal Products, Health Care Equipment & Services, Pharmaceuticals and Biotechnology, Diversified Telecoms and Wireless Telecoms, all top-down trends are 6 year historic means. This is due to the non-existence of these sector classifications under old MSCI aggregation. In these cases only the history available under current classifications has been used. For Financials and Diversified Financials, the price to cash earnings trends are 6 year historic means, as the old MSCI aggregation did not generate figures for these multiples. Bottom-up valuations Implied growth figures are annual percentage growth rates derived from bottom-up, company-specific calculations; the trends are 12-year historic means.

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#### Abbreviations:

MSCI – Morgan Stanley Capital International  
S&P GSCI – Standard & Poor's / Goldman Sachs Commodities Index