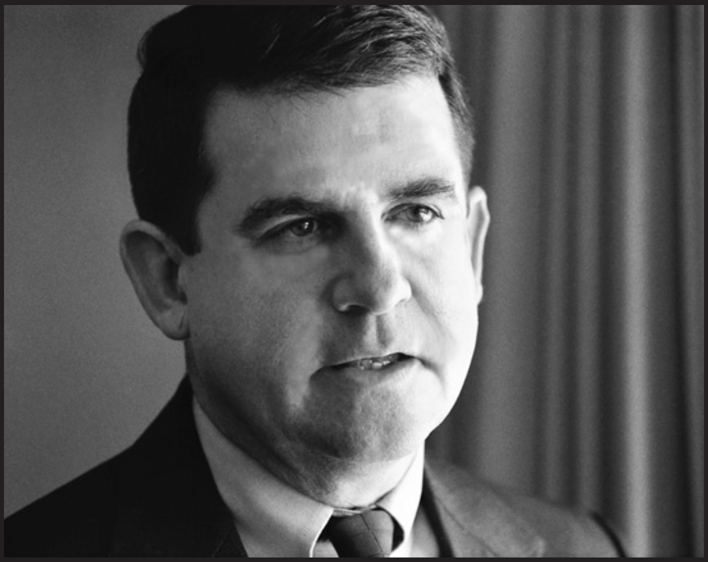
BlackRock

What's Ahead in 2010

An Investment Perspective

Year-End Summary and Market Outlook

Bob Doll, BlackRock Vice Chairman and
Global Chief Investment Officer, Fundamental Equities



Bob Doll is Vice Chairman and Global Chief Investment Officer of Fundamental Equities at BlackRock®, a premier provider of global investment management, risk management and advisory services. Mr. Doll also is a member of the BlackRock Executive Committee and lead portfolio manager of BlackRock's Large Cap Series Funds. Prior to joining BlackRock, Mr. Doll was President and Chief Investment Officer of Merrill Lynch Investment Managers. BlackRock has $3.19 trillion in assets under management as of September 30, 2009.*

Sources: BlackRock; Bank Credit Analyst. The opinions presented are those of Bob Doll, BlackRock Vice Chairman and Global CIO of Fundamental Equities, as of January 1, 2010, and may change as subsequent conditions vary. Individual portfolio managers for BlackRock may have opinions and/or make investment decisions that, in certain respects, may not be consistent with the information contained in this report. 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 information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. Past performance does not guarantee 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.

* Data is based on a pro forma estimate of assets under management from BlackRock, Inc. and Barclays Global Investors, and is subject to change.

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We enter the new year in the wake of the "Great Recession." Economic activity has clearly picked up since the middle of last year, yet serious structural problems remain. Chief among these are ongoing consumer deleveraging, a banking system facing deteriorating loan quality, an increasing yet uncertain regulatory environment, still-troubled credit markets and a real estate market that may still be healing for several years.

Overall, we expect that positive cyclical forces will prevail over the structural problems. The road ahead for stocks, however, will continue to present some difficulties. From this point, the market will be driven primarily by gains in corporate earnings and real advances in the economy — not by global policy action, liquidity issues or relief that the world has avoided a depression.

In sum, we expect 2010 to be a year of continued modest cyclical recovery countered by the structural problems that continue to face most of the developed world. The equity market rally that began in March 2009 will continue in 2010, but the market's rise will be less steep than in 2009 and prone to interruptions along the way. Nevertheless, we believe that investment opportunities can be found in the current environment, and maintain that stocks should continue to outperform bonds and cash.

A Look Back at 2009

- Throughout last year, we described this backdrop as a tug of war between the forces of debt-induced deflation and those of policy-induced reflation. Deleveraging and other deflationary forces have not left the scene, but consistent and aggressive policy action was able to ignite the reflationary process.
- The year ended with sharp gains in still-volatile equity markets, a sense that the economic recovery is here to stay, but lingering uncertainty and a general sense of investor unease.
- In our view, inflation levels will likely remain under control, at least through 2010. The high unemployment rate is preventing upward pressure on wages and we are not seeing any significant upward price pressures.

Deflation vs. Reflation

Following a very difficult 2008, which saw a global financial and economic meltdown that was nearly unprecedented, stocks entered 2009 by continuing their sharp declines in the United States from January through early March. The environment at the time was characterized by fears that the global financial system was on the brink of collapse and that the world was in the process of entering another Great Depression. Investors were also highly uncertain as to the intentions of governments and global policymakers. A seemingly endless litany of new programs and new initiatives had many convinced that the US government would soon embark on an outright nationalization of the entire banking system.

As those fears began dissipating, stocks moved sharply higher as investors witnessed the power of the most massive global monetary and fiscal stimuli imaginable begin to reflate economic activity. Throughout last year, we described this backdrop as a tug of war between the forces of debt-induced deflation and those of policy-induced reflation. Deleveraging and other deflationary forces have not left the scene, but consistent and aggressive policy action was able to ignite the reflationary process.

2009 was a year that produced negative real economic growth in the entire developed world and noticeable earnings declines. Despite that backdrop, however, "risk" assets managed to outperform "safe" assets as sidelined cash, which was producing near-zero returns, began to move back into the markets.

The year ended with sharp gains in still-volatile equity markets, a sense that the economic recovery is here to stay, but lingering uncertainty and a general sense of investor unease.

The Federal Reserve and Inflation

After cutting the Federal Funds rate to a record low of between 0% and 0.25% in December 2008, the Fed took no additional interest rate action for all of 2009 and gave few hints that it would be altering this course any time soon.

The Fed's actions clearly have benefited the economic recovery and have provided much-needed liquidity to the financial markets, but the easy interest rate environment has also sparked some concern about the prospects for inflation. In our view, however, inflation levels will likely remain under control, at least through 2010. The high unemployment rate is preventing upward pressure on wages and we are not seeing any significant upward price pressures.

At the same time, we still lack a normally functioning financial system — making it unlikely that we will see the kind of high-powered money transmission that can fuel inflation.

Given this backdrop, we believe discussions over when the Fed will begin hiking interest rates are still a bit premature. We do expect the Fed to begin to signal a reversal in its policy stance at some point this year, but at this point, our best guess is that the Fed will not begin hiking interest rates until at least the middle of this year.

2009 by the Numbers

As indicated earlier, 2009 was, in many ways, a tale of two markets. Perhaps the only constant theme during the year was that markets remained highly volatile. After losing between 30% and 40% in 2008, stocks sank further still in early 2009, with the S&P 500 Index reaching a low of 666 on March 9. From that point, however, equity markets rebounded sharply and appreciated by over 65% by the time the year drew to a close.

For the year as a whole, the Dow Jones Industrial Average gained 22.7% to close at 10,428; the S&P 500 rose 26.5% to 1,115; and the Nasdaq Composite advanced 43.9% (helped in large part by the exceptional performance of the technology sector) to 2,269. Small-cap stocks experienced similarly strong gains for the year, with the Russell 2000 Index climbing 27.2%.

Outside of the United States, the news was generally even better. Those markets that were hit the hardest during the downturn posted the strongest gains on the way back up. This was particularly true in the emerging markets space, with the MSCI Emerging Markets Index up 78.5% for the year, with standout performance coming from Brazil, Russia, India and China (the so-called "BRIC" countries). Among developed markets, European stocks generally outpaced their US counterparts, while Japan lagged slightly, with the Nikkei 225 up 19.0%.

As occurred in the equity markets, credit-related areas of the fixed income markets staged a strong rebound in 2009 as investors returned to the mortgage, investment-grade corporate and high yield areas of the market, all of which posted especially strong gains. Treasury markets, however, suffered as the "flight to safety" that so dominated 2008 shifted course. For 2009 as a whole, the yield on the benchmark 10-year US Treasury note climbed from 2.25% to 3.85%. In this environment, the Barclays Capital US Aggregate Bond Index gained a relatively modest 5.9% for the year. Finally, cash investments, as represented by the 3-month Treasury bill, returned 0.2% for all of 2009.

▶ We do expect the Fed to begin to signal a reversal in its policy stance at some point this year, but at this point, our best guess is that the Fed will not begin hiking interest rates until at least the middle of this year.

▶ 2009 was, in many ways, a tale of two markets. Perhaps the only constant theme during the year was that markets remained highly volatile.

▶ Those markets that were hit the hardest during the downturn posted the strongest gains on the way back up.

The 2009 Scorecard

Overall Scoring:	
✓ Correct:	11
⊖ Half Correct:	1
✗ Incorrect:	0
Total:	11.5/12

In all, a look back at the predictions we made last year shows that the economic and market backdrop played out surprisingly close to the way we expected. The US and global economies struggled through a deep recession, but were able to begin the recovery process around mid-year, which helped equity markets post impressive gains. Yield spreads narrowed in fixed income, commodity prices recovered and emerging markets significantly outperformed. In fact, the only call we got wrong was our belief that US stocks would outperform European equities.

✓ 1. **The US economy faces its first nominal GDP decline in 50 years.**

Although it hasn't been officially declared, it seems clear that the "Great Recession" has ended, but the rebound in the second half of the year will not have been enough to have prevented nominal (non-inflation-adjusted) growth to be negative for all of 2009. When the final data comes in, we expect that 2009 US GDP will have declined by somewhere between 2% and 3%.

✓ 2. **Global growth falls below 2% for the first time since 1991.**

The global economy bottomed earlier in the year, and overall growth levels were actually a bit weaker than we expected. It is possible that 2009 global growth might wind up being less than zero.

✓ 3. **Inflation falls close to zero in many developed countries, but widespread deflation is avoided.**

Thanks in large part to the innovative and far-reaching programs enacted by policymakers around the world, inflation levels were around the zero line in 2009, with price indices falling by around 0.5% in the United States and by 1.0% in Japan. Inflation in Europe was around positive 0.5%.

✓ 4. **The US Treasury curve ends 2009 higher and steeper than where it began.**

Treasury yields advanced noticeably earlier in the year as the economy began showing signs of improvement and have since leveled off somewhat. The yield curve clearly steepened during 2009, and while rates did not change at the extreme front end of the curve, Treasury yields in general are higher than where they were one year ago.

✓ 5. **Earnings fall by a double-digit percentage again in 2009, the first back-to-back annual drop since the 1930s.**

As with the economy, the earnings picture has improved somewhat since the beginning of the year, but remains weak by historical standards. For the second consecutive year, corporate earnings will have declined by double-digits—the 2009 decline should be somewhere around the 17% or 18% range.

✓ 6. **High yield, municipal and investment-grade corporate bond spreads narrow in 2009.**

One of the headline market stories of 2009 was the extent to which high yield spreads narrowed as that asset class posted impressively strong returns. We have seen similar patterns in the municipal and investment-grade corporate markets as economic data have improved.

✓	7. US stocks record a double-digit percentage gain in 2009.	This was a prediction that seemed like an impossibility back in March, when the S&P 500 dropped to a low of 666. The impressive rebound since then, however, pushed US stocks to gains of slightly over 20% for the year as a whole.
–	8. US stocks outperform European stocks while emerging markets outperform developed markets.	We certainly got the emerging markets half of this prediction correct as those regions have seen some of the most impressive market gains for the year. We were wrong, however, in calling for US stocks to outperform their European counterparts. In any case, however, we are sticking with our view that US stocks should lead the way among developed markets in 2010.
✓	9. Energy, healthcare and information technology outperform utilities, financials and materials.	Although returns in the healthcare and energy sector have been relatively modest, technology stocks have dramatically outperformed in 2009. As for our less favored sectors, financials and materials bounced back a bit later in the year, but utilities still lagged. As a whole, a basket of the first sectors would have outperformed a basket of the second sectors in 2009, as calculated on either a price- or market-weighted basis.
✓	10. Stock market volatility remains elevated as periodic double-digit percentage rallies and declines occur.	Although market volatility has diminished since the height of the credit crisis in late 2008 and early 2009, the year was marked by heavy volatility, most notably in terms of the sharp decline at the beginning of the year and the strong run-up in prices that followed.
✓	11. Oil and other commodities bottom and move higher by year-end as emerging market economies begin to recover.	As the global economy began improving in the middle of the year, commodity prices jumped sharply in late spring and into the summer. Oil prices have since leveled off, but other commodities (such as gold) continued to post gains. As a whole, commodity prices are certainly higher than where they were one year ago.
✓	12. The US federal budget deficit soars past $1 trillion as the government continues to grow.	Given the sharp increase in federal spending that has occurred this year, the federal deficit is now approaching the $1.5 trillion mark.

Looking Ahead to 2010

- On balance, we expect that US economic growth will continue to be muted. The economic recovery does seem to be for real, but we expect that growth will come in at a pace below that associated with a typical recovery.
- Gains are likely to be less robust than they were last year, and we foresee a slow grind upward rather than a continued powerful advance with further dispersion between market sectors and individual stocks.
- In this sort of environment, security selection will be more important than ever.

Our overall economic and market view for 2010 is positioned somewhere between the most bullish observers — who are calling for a strong rebound — and the most bearish — who are predicting that the nascent pickup in growth will fizzle and that the United States is headed for the type of stagnation that plagued Japan in the 1990s.

In our view, we expect that ongoing deleveraging and the credit overhang make it unlikely a rapid expansion could occur, but at the same time, continued aggressive support from policymakers should prevent a "lost decade." On balance, we expect US economic growth will continue to be muted. The economic recovery does seem to be for real, but we expect that growth will come in at a pace below that associated with a typical recovery.

From an equity markets perspective, it is clear that stocks were extremely undervalued during the heart of the credit crisis, and today they are generally fairly priced. Certain sectors of the market, such as healthcare, are probably still undervalued as a whole. The same is true when looking at individual securities — in every industry, we are finding both overvalued and undervalued companies.

One of the key trends that drove market performance during the run up in 2009 was the influx of cash off of the sidelines, and we think this trend still has some life in it, since cash investments are still essentially producing a 0% return. This influx of cash, combined with reasonable valuations and the outlook for improving corporate earnings, should provide important support for the equity markets over the immediate future. Gains are likely to be less robust than they were last year, and we foresee a slow grind upward rather than a continued powerful advance with further dispersion between market sectors and individual stocks. In this sort of environment, security selection will be more important than ever.

Our Predictions for 2010

In an economic environment likely to be characterized by a modest cyclical recovery combined with ongoing structural problems, we expect equity markets to remain volatile, but to see continued gains. With this backdrop, we venture forward with our 10 predictions for 2010.

1. The US economy grows above 3% in 2010 and outpaces the G-7.

We believe positive cyclical stimulus forces will prevail over lingering structural problems, permitting the US economy to grow at above a 3% real rate. Such a level would be above the long-term trend, but far below the normal cyclical recovery pace. The only G-7 country likely to challenge the United States in terms of real growth in 2010 is Canada. The main contributors to growth should include improving inventory levels, exports and business capital spending. On the negative side, we expect budgetary problems among state and local governments to continue. Also on the positive side is the steep yield curve, punctuated by very low short-term rates. We expect consumers to spend modestly more, even as debt paydowns continue.

2. Job growth turns positive in the United States early in 2010, but the unemployment rate remains stubbornly high.

Unemployment and employment statistics are traditional lagging indicators and this cycle will likely prove to be no exception. Monthly non-farm payroll surveys and weekly initial unemployment claims suggest to us that unemployment will peak and job growth will turn positive early in 2010. Unemployment levels are likely to remain high by historical standards, however, and it may be several years before we see unemployment below 8% in the United States.

3. Earnings rise significantly despite mediocre economic growth.

Corporate America was quick to cut costs, including payrolls, in the downturn that started in the second half of 2008. Additionally, remaining workers became increasingly productive as indicated by the strong productivity growth that occurred even during the depths of the recession. Our view is that these cost-cutting measures and productivity increases should lead to significant improvements in corporate earnings in 2010. Inventory restocking and the weaker US dollar should also aid corporate profits.

4. Inflation remains a non-issue in the developed world.

Inflation vigilance always makes sense, but our view is that inflation worries are premature, especially in the developed world. The high amount of excess capacity of labor and manufacturing, reduced velocity of money growth and the fact that inflation typically falls for some time after a recovery begins all suggest to us that inflation levels will remain muted in 2010. It continues to make sense to monitor inflation trends, however, as it is often said that a falling inflation rate is the financial markets' best friend and a rising inflation rate their worst enemy.

5. Interest rates rise at all points on the Treasury curve, including fed funds.

Throughout 2009, Treasury rates remained at essentially zero at the short end of the curve and less than 4% at the 10-year maturity, and we believe there are a host of reasons why they should rise in the coming year. Real rates are historically low and gold prices, which are a pretty good leading indicator of interest rates, have moved higher. The likelihood of Fed "normalization" as the economy continues to recover, along with a heavy Treasury supply, is likely to put modest upward pressure on rates along the curve. A necessary condition for this prediction to pan out is respectable economic growth (Prediction 1) and a resumption of modest job growth (Prediction 2).

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6. US stocks outperform cash and Treasuries, and most developed markets.

We expect the equity market recovery that began in March 2009 to continue in 2010, but at a lesser rate of ascent and perhaps with additional interruptions along the way. While valuations are not extended, we believe the equity market is transitioning from the P/E improvement phase of a cyclical bull market to the earnings-driven phase. The latter is usually less robust and bumpier than the former, as the age of the bull market begins to slow it down. Ongoing liquidity provided by monetary authorities, the resumption of significant earnings improvement, the impact of non-US growth, the improvement in business investment and commodity prices and the anticipation of some retail flows into equities should all help markets to move higher. Downside risks include rapid interest rate increases and/or dollar declines, populism rhetoric translating into legislation or the always-present threat of some sort of geo-political event. Upside risks include credit and lending normalizing sooner than expected or significant upside profitability surprises.

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7. Emerging markets outperform as emerging economies grow significantly faster than developed regions.

Emerging market economies should grow significantly faster than developed economies again in 2010. After growing at nearly a 2% real rate (while the developed world contracted by about 3% in 2009), we expect real growth in the emerging world to exceed 5% in 2010, while the developed world grows between 2% and 3%. The strongest growth should come from Asia ex-Japan led by China and India yet again. Stronger economic growth leading to robust earnings growth along with higher profitability and few balance sheet constraints should translate into stronger equity market performance for emerging markets as well.

8. Healthcare, information technology and telecommunications outperform financials, utilities and materials.

In general, we urge investors to maintain a focus on quality in their portfolios — meaning overweighting companies with balance sheet strength, good free cash flow characteristics and some economic independence. We believe this course is prudent given the massive outperformance of low quality during the middle quarters of 2009, the low valuations of high quality relative to low quality and the expectation of a sub-par economic recovery. From a sector standpoint, we prefer healthcare for continued valuation recovery once the healthcare reform debate has ended, information technology for growth and multinational exposure, and telecommunications for defense, strong yields and free cash flow. We are cautious on financials (given continued balance sheet issues), utilities (due to overextended valuations) and materials (where we believe expectations are too high).

9. Strong free cash flow and slow growth lead to an increase in M&A activity.

Mergers and acquisitions activity picked up modestly in the second half of 2009, but remained below the pace of earlier periods. Frustration with slow growth will likely lead to corporations desiring to pursue M&A activity in an attempt to bolster growth. Generally strong balance sheets, excess cash and strong and growing free cash flow are all supportive of this view. This activity will likely take a variety of forms and should occur across a wide spectrum of industries and sectors.

10. Republicans make noticeable gains in the House and Senate, but Democrats remain firmly in control of Congress.

Election predictions are always fraught with uncertainty, given how the world of politics can change so quickly. Our view is that the "math" realities will make it extremely difficult for the Republicans to do anything other than make a dent (although perhaps a significant one) on the Democrats' lead in Congress. Congressional approval ratings (for both parties) remain very low, President Obama's approval rating is hovering around 50% and mid-term elections have generally not been kind to first-term presidents. Accordingly, our prediction is that Republicans gain less than half of what they need to assert control over either body of Congress. The legislative agenda is, as usual, quite full, but the political realities of an election year likely mean that little of significance gets passed.

What's an Investor to Do?

The start of a new year is always a good time to review your investment goals and asset allocation with your financial professional, and to make portfolio changes where necessary. With that in mind, following are some ideas investors may wish to consider:

Look for quality in all styles and caps: As indicated in our predictions, we would recommend a continued focus on higher quality investments. The economic backdrop remains uncertain and a focus on companies with strong levels of free cash flow and solid earnings prospects makes sense to us. While we do not have strong convictions about style or capitalization overweights, we have a very modest preference for larger cap stocks and growth styles.

Focus on better-positioned sectors: Information technology was the clear standout performer in 2009, and we expect the IT sector to have another good year in 2010. Similarly, we like the healthcare and telecommunications sectors for the reasons cited above. Regarding financials, we expect to see ongoing writedowns as credit issues remain and would suggest a continued underweight of that sector.

Think about geography: Among developed markets, we expect the economic backdrop to be the most supportive for equity markets in the United States. Additionally, we continue to have a preference for emerging markets.

Remember that gains will be harder to come by: In many ways the "easy money" in this bull market has already been made. The year ahead will likely see ongoing volatility and heightened dispersion between the winners and the losers. In this sort of environment, selectivity will be critical.

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AC2887-1/2010
DOLL-OUTLOOK-0110

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