Investment Commentary

BLACKROCK

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Global equity markets started the new year with an upward rally. In the first trading week of 2010, the Dow Jones Industrial Average gained 1.8% to close at 10,618, the S&P 500 Index climbed 2.7% to 1,145 and the Nasdaq Composite rose 2.1% to 2,317. Much of the gains came on Monday, and breadth for the week as a whole was impressive, with the New York Stock Exchange heavily weighted to the positive on the advance/decline line and the new high/new low list ending with a ratio of over 100 to 1.

The headline economic news last week was the December employment report, which showed a loss of 85,000 jobs for the last month of 2009. While this number was weaker than expected, a look at the longer-term trend shows that job losses are moderating. In the fourth quarter of last year, the average monthly losses amounted to 69,000 jobs, compared to 200,000 in the third quarter and more than 400,000 in the second. The implication is that as the economy continues to improve, we should be seeing gains in payrolls at some point during the first quarter of this year.

Regarding the broader economy, from the data that is now available (including inventories, spending and employment), it looks like real gross domestic product growth for the fourth quarter of 2009 should be up at least 4%. Looking ahead, we expect that growth figures will be volatile (as is often the case during a recovery), but that positive growth should be sustained at a below-normal recovery level. Consumers still have a prolonged period of deleveraging to work through since household debt remains high. This backdrop, combined with high levels of unemployment, will continue to exert downward pressure on consumer spending. That said, we are not expecting spending levels to decline, but merely to grow more slowly.

In terms of stocks, we expect the cyclical bull market that began last March to continue. The economic and earnings backdrop will likely remain uneven, but should provide enough of a solid base for stocks to make modest gains in 2010. The economy does appear to be transitioning into a self-reinforcing recovery phase, inflation pressures remain absent and monetary policy still remains easy—all of which should be conducive to continued outperformance of risk assets. It does seem likely that interest rates will climb over the course of the year, and while rising rates generally make for a less-friendly equity market backdrop, we are not overly concerned about this prospect since rising rates will likely reflect better economic growth rather than inflation concerns.

We would not be at all surprised to see some sort of corrective action or a period of consolidation at any point, particularly given the strong advance in stocks over the past nine months. However, given our generally constructive outlook, we would view any such corrections and consolidations as buying opportunities. While the "easy money" may already have been made in this cycle, it is not too late for investors to make gains.

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* 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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