

# BLACKROCK

Week in View - 30 January 2012

## Latest market views from the BlackRock Multi-Asset Client Solutions Group

### Market Background

Following another positive week for risk assets, we will put recent moves into context and ask to what extent the good outcomes in January have set the scene for the rest of the year. Since the start of the year US equities have risen around 5%, European stocks are slightly higher having climbed almost 7%, and we have seen some pretty strong returns in many emerging markets. India has led the way with a gain of 20%, retracing some of the market's underperformance last year. At the same time there have been reasonable gains in commodity prices; copper is up around 10% and gold slightly higher, but the gains have not been universal, with oil and wheat lagging the rally.

Peripheral bond yields in Europe have declined since the start of the year. Ten-year yields in Italy and Spain are now below 6% and 5% respectively. Risk-on behaviour has been evident in currency markets. A wide range of emerging market currencies have strengthened significantly in recent weeks and the euro has moved off its lows, particularly against the dollar, witnessed towards the end of last year.

However, it has not been a full risk-on environment in at least one important respect. Breaking the general pattern of recent years, widespread gains were made in a number of risk assets, but high quality sovereign bond yields (Germany, UK, US) did very little, falling back slightly to the bottom end of their recent ranges.

### What has driven the risk-on period?

Turning We are not in a world where we are deluged by avalanches of good news, but overall bad news has not been as bad as feared

last autumn. As risk premia are still quite high and positioning remains quite conservative, it doesn't take much good news for risk assets to move higher.

#### 1) Improving global economic backdrop

Stronger performance of the US economy has become increasingly evident in recent months and growth looks set to be in a range of 2-3% this year. This is a moderate rate at this stage in the cycle, but it is clearly some way off recession.

Recession risks in Europe are clearly much higher, with what appears to have been a recession starting last year. However, recent economic numbers from Europe have been less bad than feared and there are signs that the European economy may be stabilising, with better data from Germany in particular. We would emphasise this is at very early stages and we can identify a number of negative factors for Europe. Nonetheless, the reality is the European economy, contrary to expectations, has not been falling to pieces over the past few weeks.

Finally, although emerging economies in general are still slowing, they are not slowing as sharply as many had feared, with upside surprises from many economic data releases.

There were widespread concerns of a co-ordinated global recession last summer, but the global economy now seems to be on a moderate growth path, which while far from spectacular is also in aggregate far from recession.

#### 2) Policy background

The second support for risk assets has been the policy background as central banks have become increasingly active. In December, the European Central Bank (ECB) acted to boost liquidity in the European banking system,

which has reduced some of the financial tail risks in the region. Last week the US moved to a more transparent means of communicating policy changes, signalled they expect short-term interest rates to rise in mid-2014 rather than mid-2013 and strongly hinted that there would be further quantitative easing if necessary. In the UK we are likely to see a modest amount of quantitative easing in the first half of the year and in many emerging economies the shift from quite tight to looser monetary policy is clearly underway. Over the past few weeks we have seen reserve ratio cuts in India and China; rate cuts in Indonesia, Taiwan and Thailand; Brazilian rates falling and the central bank suggesting it would like to get short term rates below 10%. This is an important feature as tightening in monetary conditions in emerging economies was one of the reasons the global economy slowed last year. This is clearly reversing and we think there is still some more to go.

## Outlook

It is unlikely the rest of the year is going to see such strong gains as over the past few weeks. We expect loose monetary policy to remain a feature, particularly as headline inflation rates fall, but is important to put that in the context of the significant fiscal tightening underway globally and the challenges posed by undercapitalised banking systems.

The US is likely to grow moderately this year and at some stage we are likely to see a turn in emerging economies from growth slowdown to some acceleration. There still appear to be material growth risks in Europe and the region could still disappoint to the downside despite recent numbers, pointing to some form of stabilisation.

There are still no signs of irrational exuberance in markets. Despite the rally, risk premia still appear relatively high and positioning relatively conservative. Given the nature of recent moves, the better than expected growth environment is now better discounted by

markets and a period of range trading at least in the short term seems probable.

## Highlights for the Week Ahead: 30 Jan-3

### February

#### Economic Diary:

Monday: US personal income, EC business and consumer confidence.

Tuesday: US consumer confidence, Germany unemployment, Taiwan GDP, UK Gfk consumer confidence, Japan PMI manufacturing.

Wednesday: US ISM manufacturing, Euro area PMI manufacturing, China PMI manufacturing, India PMI manufacturing, Indonesia CPI, Korea CPI, Thailand CPI, Singapore PMI, Peru CPI, UK PMI manufacturing.

Thursday: UK PMI construction.

Friday: US employment, US ISM non manufacturing, Euro area PMI services and composite, UK PMI services, Japan PMI services/composite.

#### Corporate Diary:

Companies releasing earnings reports this week include: UK online supermarket, Ocado; auto, Hondo Motor; financials, Banco Santander, Deutsche Bank, BBVA and Nomura Holdings; satellite broadcasting company, British Sky Broadcasting and UK telecoms group, BT group; pharmaceuticals, Pfizer and AstraZeneca; luxury goods firm, LVMH; consumer giant, Unilver; energy company, Royal Dutch Shell.

#### Market Movements\*

Equity Markets*	27 Jan 2012	% Change
S&P 500	1316.33	0.07
NASDAQ	2816.55	1.07
TSE 1st Section	761.13	0.75
FTSE S&P World		
Europe	301.11	0.27
FTSE All-Share	2958.86	0.14
DAX	6511.98	1.68
Hang Seng	20501.67	1.95

Eurostoxx 50	2436.618	0.40
<b>Bonds</b>	<b>27 Jan 2012</b>	<b>% Change</b>
Citi World Govt Bond Index All Maturities	611.8516	0.54
<b>Bond yields **</b>	<b>27 Jan 2012</b>	<b>20 Jan 2012</b>
US	1.898	2.028
Japan	0.969	0.984
Germany	1.862	1.908
UK	2.065	2.111
<b>Currencies</b>	<b>27 Jan 2012</b>	<b>20 Jan 2012</b>
USD/EUR	1.3132	1.29195
GBP/EUR	0.83825	0.8321

JPY/USD	76.735	77.12
USD/GBP	1.56665	1.5527
JPY/GBP	120.2169	119.7443
<b>Commodities</b>	<b>27 Jan 2012</b>	<b>% Change</b>
Oil (Brent Crude)	110.55	1.87
Commodity Futures (CRB) Index	595.83	2.97
Gold	1731.49	4.45

\*Equity, currency and bond markets measured over seven days, from previous Friday's close to Friday's close. All index returns in local currency terms. All equity index returns are price only. \*\*Bonds: 10-year yield. This material is for distribution to professional clients and should not be relied upon by other persons. Past performance is not a guide to future performance. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Levels and bases of taxation may change from time to time. Issued by BlackRock Investment Management (UK) Limited (authorised and regulated by the Financial Services Authority). Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Registered in England No. 2020394. Tel: 020 7743 3000. For your protection, telephone calls are usually recorded. BlackRock is a trading name of BlackRock Investment Management (UK) Limited. Issued in Switzerland by the representative office, BlackRock Investment Management (UK) Limited (London), Zurich Branch, Claridenstrasse 25, Postfach 2118 CH-8022 Zürich. Issued in Singapore by BlackRock (Singapore) Limited. For further information, the prospectus, simplified prospectuses, annual report and semi-annual report can be obtained free of charge in hardcopy form from the Austrian paying agent: Raiffeisen Zentralbank Österreich AG, A-1030 Vienna, Am Stadtpark 9. Issued in Hong Kong by BlackRock (Hong Kong) Limited. This material has not been approved by the Hong Kong Securities and Futures Commission for public circulation and can only be provided to "professional investors" (as defined in the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong) in Hong Kong. Issued in Singapore by BlackRock (Singapore) Limited. The Fund is only available to "institutional investors" (as defined in section 4A of the Securities and Futures Act, Chapter 289 of Singapore) in Singapore. The Fund has not been and will not be registered with the Securities and Futures Bureau of the Financial Supervisory Commission in Taiwan and any offering of the Fund in the territory of Taiwan or to Taiwanese investors must be subject to the selling restrictions under applicable law and regulation. This material may only be distributed to Professional Intermediaries. The views expressed herein are as of 16.01.2012, and do not constitute investment or any other advice; the views are subject to change and do not necessarily reflect the views of BlackRock as a whole or any part thereof.