

Special Equity Update from Bob Doll

30 September 2008

BLACKROCK

Yesterday, in a move that surprised most observers, the U.S. House of Representatives failed to pass the Troubled Asset Relief Program (TARP) that was sponsored by the Bush Administration and supported by the Congressional Republican and Democratic leadership. Most market participants had expected the plan to pass yesterday and, following its defeat, stocks plummeted quickly. The plan was voted down by a small margin, and at this point it appears likely that the parties will come back to the floor for another try to pass the bill later this week. There is some possibility that further negotiations and compromises (such as the inclusion of tax cuts for small businesses or additional restrictions on how the funds would be allocated to the Treasury) could swing additional Republican votes from the “nay” to the “yea” column. But, of course, there is no guarantee that the plan will pass given that many Americans are skeptical of its merits and since the bill is wrapped up into a contentious election season.

Like many others, we believed the plan was set to pass and expected that it would help reduce the pressure on credit markets to a significant degree and eliminate some of the downside risk to equity markets. On the other hand, however, we recognized that the upside was limited, since the plan did not address the fundamental issues of the capital inadequacy and the solvency in the financial system. Whether or not the TARP plan passes, we believe the odds of central bank easing have risen. Hopefully, this would occur in some sort of globally coordinated fashion. At this point, we are closely watching the European Central Bank to see if it will reverse course following the interest rate hike it enacted in July.

From a broader economic perspective, for most of this year, one of the big surprises had been the resilience of the U.S. economy and corporate earnings in the face of escalating credit problems. Over the past several weeks, however, the extreme market turmoil, the freezing of bank activity, and the shutdown of mortgage credit have acted as a frontal assault on the U.S. economy, which had already been fairly weak. In our opinion, recent events are likely to tip the United States into a mild recession. Additionally, we believe that, at present, expectations for corporate earnings may be too high and that these expectations will need to come down to avoid earnings disappointments.

The broad sell-off in equity markets that we saw two weeks ago and again yesterday are, in our opinion, signs of capitulation on the part of many investors. Risk tolerance has moved to extremely low levels and we have seen a large degree of high-volume selling. Over the short-term, these tend to be signals that the market is due for a rally. Volatility measures also point to the possibility of some sort of short-term climb in equity prices. Yesterday, the VIX Index (a measure of stock market volatility) rose into the upper 40s, a place it has only been four other times in its history — during the Asian financial crisis of the late 1990s, the Long-Term Capital Management fallout, the 9/11 terrorist attacks, and the WorldCom bankruptcy filing. Following those previous VIX spikes, the S&P 500® Index climbed an average of 7% one week later, 11% one month later, and 15% three months later. This is admittedly an unscientific sample of only four events, but, combined with the other factors we mentioned, we do believe it signals a high probability of a market rally.

About BlackRock

BlackRock is a premier provider of global investment management, risk management, and advisory services. As of 30 June 2008, the firm manages US\$1.43 trillion across equity, fixed income, real estate, liquidity, and alternative strategies. Clients include corporate, public, and union pension plans, insurance companies, mutual funds, endowments, foundations, charities, corporations, official institutions, and individuals worldwide.

Through BlackRock Solutions®, the firm offers risk management and advisory services that combine capital markets expertise with proprietary-developed systems and technology. BlackRock Solutions provides risk management and enterprise investment services for US\$7 trillion in assets.

BlackRock serves clients in North and South America, Europe, Asia, Australia, Africa, and the Middle East. Headquartered in New York, the firm maintains offices in 19 countries around the world.

Bob Doll is a Vice Chairman and a member of the BlackRock Board of Directors. He is also the Global Chief Investment Officer of Equities, a member of the BlackRock Executive Committee, and head of the US Large Cap Series equity team. Prior to joining BlackRock, Mr. Doll was President and Chief Investment Officer of Merrill Lynch Investment Managers.

Over the longer-term, whether such a rally would have durability would depend on several factors. In particular, we are keeping a close watch on credit spreads, which have widened as investors have become more risk averse. If credit spreads begin to narrow, however, we will begin to look for a bottom in equity markets. In addition to normalization in credit spreads, we would need to see a concerted global monetary policy move that indicates central bankers around the world are willing to step in to help stabilize the system. Finally, we believe markets will require ongoing capital raising and continued consolidation in the financial sector. We expect volatility to remain at elevated levels, but at some point before too long, we should see a noticeable rally.

Sources: *BlackRock, Bank Credit Analyst.*

This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are those of Bob Doll, BlackRock Vice Chairman and Global Chief Investment Officer of Equities as of September 30, 2008 and may change as subsequent conditions vary. 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 is no guarantee of future results. There is no guarantee that any forecasts made will come to pass. Any investments named within this material may not necessarily be held in any accounts managed by BlackRock. Reliance upon information in this material is at the sole discretion of the reader.

This material is being distributed/issued by BlackRock Financial Management, Inc. ("BFM"), which is registered as an International Advisor with the Ontario Securities Commission. In addition, BFM is a United States domiciled entity and is exempted under Australian CO 03/1100 from the requirement to hold an Australian Financial Services License and is regulated by the Securities and Exchange Commission under US laws which differ from Australian laws. BFM believes that the information in this document is correct at the time of compilation, but no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by BFM, its officers, employees or agents. This document contains general information only and is not intended to represent general or specific investment advice. The information does not take into account your financial circumstances. An assessment should be made as to whether the information is appropriate for you having regard to your objectives, financial situation and needs.

©2008 BlackRock, Inc. All Rights Reserved. BLACKROCK is a registered trademark of BlackRock, Inc.

BLACKROCK

FOR INSTITUTIONAL USE ONLY