



Contact:

Bobbie Collins
212-810-8155
Bobbie.Collins@blackrock.com

Brian Beades
212-810-5596
Brian.Beades@blackrock.com

Predictions for 2009:

**BLACKROCK'S BOB DOLL PREDICTS EQUITIES WILL ADVANCE
BY DOUBLE DIGITS BUT REMAIN HIGHLY VOLATILE IN '09,
AS RECESSION'S IMPACT LINGERS**

**US Economy Begins to Stabilize in '09's Second Half,
But Recovery is "Muted"**

**Critical to Keep Focus on Quality Companies;
Healthcare, Information Tech, Energy Favored**

**Corporate, High Yield, Muni
Spreads Over Treasuries Will Narrow
As Fear Recedes, Confidence Rebuilds**

New York, January 7, 2009 -- Equities will remain highly volatile but achieve a double digit percentage gain for 2009 overall, with the support of increasingly attractive valuations and massive sideline cash, according to Robert C. Doll, Vice Chairman and Chief Investment Officer of Global Equities at BlackRock, Inc. (NYSE: BLK).

At the same time, Doll said, 2009 will be marked by negative economic growth and significant earnings declines, with the United States remaining in the grip of what will likely be the longest and deepest recession of the post World War II period. In the US, the economy will face its first nominal GDP decline in 50 years, while global growth will fall to its lowest rate in nearly 20 years.

Economy Begins to Stabilize in '09's Second Half

The massive, unprecedented fiscal and monetary stimulus launched in the US and globally will yield the beginnings of economic stabilization in the United States in 2009's second half and in Europe by the start of 2010, Doll believes. "When recovery finally comes, it is likely to be muted, as deleveraging on the part of the consumer and the financial sector will take many years," he said.

In 2009, investors will begin a slow return to "risky" assets versus "safe assets," Doll said.

"Volatility levels are likely to recede from the records set in 2008, but 2009 will continue to be a highly volatile year," he said. "We should see multiple double-digit percentage rallies as well as declines all throughout the year."

"The new year begins with high uncertainty, low expectations and significant problems," Doll said. "Nevertheless, if our analysis proves out, 2009 will be a year when reflation and liquidity begin to beat credit woes and fear."

Doll has been publishing his annual "Ten Predictions" for the year ahead in the financial markets and the economy for over a decade. For 2009, Doll has issued 12 predictions, to better reflect the full spectrum of key economic and financial issues and themes that will shape investment market performance over the coming year.

Earnings Rebound in '10 Preceded by Stock Rally

Doll believes that an equity market bottoming process began on October 10, a process further confirmed by a secondary market low on November 21. "With record fiscal and monetary stimulus, substantially lower oil prices, much cheaper valuations, and lots of cash on the sidelines, it's likely that stocks will rally in 2009," he said. "We believe an earnings rebound is likely in 2010, the signs of which will become evident in 2009. Under this scenario, we believe a year-end S&P target of 1000 to 1050 would be reasonable."

The US will outperform Europe, and emerging markets will outperform developed ones during 2009, Doll said. "Europe has been slower than the US to recognize its economic problems, as shown by its still higher interest rates and a slower clean up process across the banking system," he said.

Corporate Earnings Weakest Since 1930s

Economic growth will be negative for at least 2009's first half, Doll said, and close to zero in the second half of the year.

Doll also believes that corporate earnings, which fell by a double-digit percentage in 2008, will likely fall by double digits again in 2009 - marking the first back-to-back such declines in earnings since the early 1930s.

Declines in asset values across the board and poor real growth all point to very low inflation rates in 2009, with inflation for the full year likely to fall to approximately zero in the developed world and below 5 percent in the developing world, Doll said.

"We believe that aggressive monetary and fiscal stimulus initiatives will eventually prove successful in preventing a widespread decline in prices," he said. "These actions are aimed at averting a banking system collapse, containing economic contraction, sustaining credit flows to quality borrowers, facilitating the restructuring or failure of weak borrowers, and arresting the decline in money velocity."

A rapidly growing federal budget deficit will be a consequence of record federal fiscal stimulus initiatives. "We expect the federal budget deficit will cross the \$1 trillion threshold both through massive spending programs and reduced tax receipts resulting from the recession," Doll said. "The budget deficit will limit the Obama administration's ability to deliver on its promised campaign initiatives - and will eventually lead to massive tax increases."

Healthcare, Information Tech, Energy Favored in '09; Commodity Prices Will Rebound

The tension between debt-induced deflation and policy-induced reflation will sustain high market volatility during 2009, continuing the trend that marked both equity and commodity price trends in 2008, Doll said.

Doll said that investors would be well advised to focus on companies with balance sheet strength, good cash flow characteristics, and some independence from the economic cycle. Doll's favored sectors include healthcare, information technology, and energy, while he maintains a cautious view of financials, utilities and materials.

Most commodities extended multi-year gains into 2008, peaked, and then experienced vicious declines, Doll said. "While the peaks were overdone on the upside, current levels may have overdone it on the downside," he said. "As the global economy begins to stabilize, we expect commodity prices will find a bottom and begin to move higher."

In particular, Doll said, stable prices for oil are in the range of \$60 to \$80 per barrel, compared with the \$40 range reached at year end.

Corporate/Muni Bond Spreads Over Treasuries Will Narrow

As fear levels recede and confidence is slowly rebuilt in '09, the yield spread for corporate, high yield and municipal bonds over Treasuries should begin to narrow from the current very wide levels, Doll said.

"Current spreads are implying catastrophic results in terms of failures and bankruptcies," he said. "While there are undoubtedly more bankruptcies to come, our view is that current spreads have overly discounted the risks, or that liquidity problems are contributing to the wide spreads."

Predictions for 2009

Here are Doll's predictions for 2009 with his full commentary on the key trends.

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

It is likely that the fourth quarter of 2008 will be the sharpest quarterly decline for this recession. However, growth will remain negative for at least the first half of 2009. The second half of the year is likely to be either side of, but not far from, zero growth. Declines in wealth, rising savings rates, tight lending standards, and rising unemployment are among the culprits. Moreover, with inflation levels falling to approximately zero, nominal growth will register a four quarter period of negative growth – with the largest dip probably extending from 4Q08 to 3Q09. This has not occurred since the early 1950s. Digging out of this will require success of the aggressive monetary and fiscal stimulus policies, stabilization of residential real estate and financial markets, and restored consumer, business, and investor confidence.

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

Growth everywhere in the world seemed flat to positive for the majority of 2008 and then fell off a cliff subsequent to the Lehman bankruptcy in September. Earlier notions of a global economic decoupling fell apart as the US consumer slowdown and global credit problems caused growth to slow everywhere. The recession in the US and Europe is serious in that it is related to a credit bust, which will take time to repair. Our view of the emerging markets slowdown/recession is a more ordinary inventory work down. Japan continues in its struggle to grow with low consumption patterns and a declining population. As a result, global growth is likely to fall to its lowest level in nearly 20 years. By mid-year, some recovery should be evident in the emerging world, with stabilization likely in the US in the second half and by the start of 2010 in Europe.

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

The decline in real estate prices, financial asset prices, and commodity prices, and generally poor real growth have all combined to suggest very low inflation rates for 2009. In the developed world, we expect inflation to fall to approximately zero for the full year and fall to below 5% in the developing world. Preventing a widespread decline in prices aggravated by the continued deleveraging process are aggressive monetary and fiscal stimulus initiatives which we expect will eventually prove successful. These actions will be aimed at averting a banking system collapse, containing economic contraction, sustaining credit flows to quality borrowers, facilitating restructuring or failure of weak borrowers and arresting the decline in money velocity. Eventual inflationary risks will be mitigated if the Fed withdraws reserves and raises rates as the velocity of money stabilizes and rises.

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

Treasury rates at all points of the yield curve have gone down to levels unthinkable by most investors not that long ago. This has been driven by the aggressiveness of the Fed's collective anti-deflation toolkit as well as falling real growth and inflation. Our view is these reflationary efforts will eventually prove successful and that there will be enough evidence of success such that by year end, the yield curve will be higher than where it started the year. For this to transpire, fear needs to lessen and confidence needs to rise. One of the risks these efforts face is a declining dollar and/or rising rates, if foreigners become less willing to buy the massive amount of newly-issued US Treasury paper.

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

An earnings collapse began this past fall as the economy began to contract in earnest. Financial earnings totally disappeared. Cyclical areas were hit hard - initially the consumer sectors, more recently the industrial and multinational sectors. The average peak to trough run rate decline in earnings in post-World War II recessions has been slightly higher than 20%. Our belief is that the decline in this episode will be at least double the norm. Parenthetically, the decline in earnings in the Depression was about 70%. The decline this time will be a result of both revenue and margin pressures. As a result, earnings, which fell a double-digit percentage in 2008, will likely fall by a double-digit percentage again in 2009. This would be the first back-to-back double-digit percentage declines in earnings since the early 1930s. Hardest hit sectors in 2009 vs. 2008 from an earnings standpoint will be materials, energy, industrials, and information technology.

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

Similar to our view that the yield curve rises in 2009, our view that spreads narrow is also predicated on the assumption that policy "works". That is to say, as fear levels recede and confidence is slowly rebuilt, risky assets can begin to outperform safe assets once again. If true, this means that corporate, high yields and municipal spreads over Treasuries can begin to narrow from very wide levels. Current spreads are implying catastrophic results in terms of failures and bankruptcies. While we will undoubtedly experience notably elevated levels of bankruptcies, our view is that current spreads have overly discounted the risks and/or these spread markets are suffering from real liquidity problems. Because the yield differentials are so wide and rates of return on Treasuries are so low, we believe this prediction has reasonably high probability of becoming accurate.

7. US stocks record a double-digit percentage gain in 2009.

After a peak to trough decline of more than 50%, stocks discount a fair number of the negatives in the outlook. We also believe that a bottoming process began on October 10 and was further confirmed at a secondary low on November 21. With record fiscal and monetary stimulus, substantially lower oil prices, much cheaper valuations, significant negative sentiment and lots of cash on the sidelines, it is likely that stocks will begin to look "over the valley" sometime in 2009 and experience a noticeable rally. Like many of our predictions, this one is dependent on

reflationary forces eventually winning out over deflationary ones. If we are correct in our assumption that an earnings rebound is likely in 2010 which becomes evident in 2009, a year-end S&P 500 target of 1000-1050 seems possible.

8. US stocks outperform European stocks while emerging markets outperform developed ones.

The US equity market outperformed most non-US bourses in 2008 due to the aggressiveness of monetary and fiscal policy as well as the defensiveness of the US (higher earnings predictability and lower volatility). These factors, along with earlier evidence of an economic bottoming process, should enable US stocks to outperform the European averages again in 2009. Europe has been slower to recognize the problems of economic stress as exhibited by still higher interest rates and a slower banking system clean-up process. Disunity of fiscal policy responses and population declines further argue for US outperformance. Similarly, we believe emerging markets will outperform developed ones. The economic slowdown/recession in emerging markets appears to be a more traditional inventory cycle rather than like the more structured downturn in the developed world. We also believe that the renewal of evidence in the long-term story for the emerging markets – namely, a growing consumer and middle class, rising productivity levels, and generally faster economic growth – should aid the recovery story for those geographies.

9. Energy, healthcare and information technology outperform utilities, financials and materials.

In general, we urge investors to hold quality stocks in their portfolios – companies with balance sheet strength, good cash flow characteristics, and some economic independence. Having said that, on rallies and eventually, lower quality companies will selectively outperform. Therefore, selective additions in periods of weakness are appropriate. From a sector standpoint, we prefer healthcare for defensiveness, information technology for some stability and some cyclical, and energy for cyclical and cheapness. We continue our cautious view on financials due to the structural and credit uncertainties, utilities due to their expensive valuations, and materials due to their severe earnings challenges.

10. Stock market volatility remains elevated as periodic double-digit percentage rallies and declines occur.

Volatility exploded in 2008 due to heightened uncertainty and fear. Simultaneously, correlations across asset categories and geographies rose significantly, in many cases approaching unity. Our expectation is that the uncertainties related to the struggle between debt-induced deflation and policy-induced reflation will result in continued volatility. While volatility levels are likely to recede from the records set in 2008, it is likely that 2009 will go into history books as a high volatility year. One manifestation of this is likely to be multiple double-digit percentage rallies and declines during the year.

11. Oil and other commodities bottom and move higher by year-end as emerging market economies begin to recover.

Among the areas recording the highest volatility in 2008 was commodities. Most commodities extended multi-year gains into 2008, peaked, and then experienced vicious declines. While the peaks were overdone on the upside, current levels may have overdone it on the downside. As visibility increases that the global economy will eventually stabilize, we expect commodity prices to find a bottom and begin to move higher. Oil holds a particular fascination for us, having peaked at nearly \$150 per barrel at mid-year only to fall to below \$40 toward year end. Our guess is that equilibrium prices are somewhere in the \$60-80 price range. Getting back to these levels will depend in part on having visibility on the end of the slowdown in growth in the emerging markets.

12. The US federal budget deficit soars past \$1 trillion as the government continues to grow.

While necessary for stopping the deflation threat and re-stimulating growth, the consequence of massive fiscal stimulus packages is a rapidly growing federal budget deficit. We expect the federal budget deficit will cross the \$1 trillion threshold both through massive spending

programs and through reduced tax receipts as a result of the recession. In addition, state and local government budget shortfalls will become acute while facing increasing demands for spending. These jurisdictions do not have the flexibility the federal government does to run unending deficits. Ancillary consequences of the federal budget deficit will be limits to the Obama administration's ability to satisfy all the campaign initiatives promised as well as eventual massive tax increases. Risks to this exploding deficit include higher interest rates, a lower dollar, and eventual inflation.

The Scorecard for 2008

Doll also provided a recap of his "10 Predictions" for 2008, along with a "score" for each prediction and an assessment of the actual outcomes.

"2008 turned out to be a year investors would like to forget, but instead will vividly remember," Doll said. "It was obviously a difficult year for investors, and we -- along with almost all other observers -- were surprised by the degree to which the economy and the markets soured. Nevertheless, in a difficult environment for any sort of predictions, our beginning-of-year forecasts held up reasonably well."

1. World growth dips below trend for the first time since 2002.

Score = Correct

In the United States, the NBER officially called a recession on December 1 and growth continued to decelerate quickly into year-end. Outside of the United States, many developed markets reported negative gross domestic product growth in the second and third quarters and, on the whole, world growth has slowed sharply. Emerging markets have also slowed, but are still outpacing the developed world on an absolute basis.

2. The United States narrowly escapes an economic recession, but experiences a profits recession.

Score = Half-Correct

Credit issues spilled over into the broader economy to a degree that we did not expect, with labor markets, consumer spending, the corporate sector and exports all suffering as the year drew to a close. On the corporate earnings front, there is no question that profits collapsed in the financial sector (and, to a lesser extent, the consumer discretionary sector). Recently, other industries have also started to come under pressure and, as a whole, an earnings recession has developed.

3. The fed funds rate falls to 3.5% or lower as Treasury bond yields rise.

Score = Half-Correct

The first part of this prediction turned out to be a massive understatement as the Federal Reserve engaged in a massive rate-cutting campaign that ultimately brought the fed funds target rate to effectively 0%. Meanwhile, Treasury yields fell sharply as a result of the flight-to-quality theme that persisted throughout the year and are now lower than they were when the year began.

4. The dollar rises against the euro, but falls against developing market currencies.

Score = Half-Correct

As with every other area of the financial markets, currencies traded in a wild fashion in 2008. The dollar weakened sharply early in the year when the Fed was cutting interest rates aggressively, but then strengthened late in the year as non-US currencies (and economies) weakened. In December, however, the dollar once again plummeted when the Fed announced its most recent interest rate cut. By the end of the year, however, the US dollar had appreciated versus nearly every other currency, with the notable exception of the Japanese yen. Regarding our specific prediction, the dollar did advance versus the euro, but also appreciated versus developing market currencies, giving us a "half correct" score.

5. Stocks achieve a new all-time high in 2008 as price/earnings ratios improve.
Score = Incorrect
We are clearly on the wrong side of this call, since stocks started off the year on a down note and then crashed in the fall. For the year as a whole, US stocks posted their worst performance since the 1930s. Looking ahead, should reflationary policy take hold, we do believe that investors should witness better performance in 2009.
6. Large cap and growth outperform small cap and value.
Score = Half-Correct
Throughout 2008, we advocated for investors to focus on higher-quality investments given the slowing global economies and weakening earnings. In most environments, such a stance would point to stronger relative performance for larger-cap stocks and growth styles. In 2008, however, small caps indices outperformed large cap indices, due largely to the fact that several large financial companies experienced a wholesale collapse. Importantly, however, the median large cap stock did outperform the median small cap stock. From a style perspective, growth did wind up outperforming value in 2008, with the S&P/Citigroup Growth Index losing 34.9% compared to the S&P/Citigroup Value Index dropping 39.2%.
7. Developing economies and equity markets outperform developed ones yet again.
Score = Half Correct
Emerging markets have not been immune to the effects of the global slowdown, but their economic growth levels have continued to outpace developed markets. From an equity market perspective, emerging markets generally outperformed in the first half of the year, but many emerging markets were hit hard by the general downtrend in global stock prices and by the downturn in commodity prices over the second half of the year. For the year as a whole, emerging equity markets underperformed, but we expect 2009 will witness better relative performance for these markets.
8. Despite rising above \$100 per barrel, oil prices end the year lower than where they started.
Score = Correct
In mid-year, when oil was trading near the \$150 range, it would have seemed impossible that prices would fall back below the \$95 dollar level where they began the year. As the global economic recession accelerated late in the year, however, oil prices experienced a free fall as demand slackened and as speculators abandoned the market. By the end of the year, oil was trading around the \$40 level.
9. Information technology, healthcare and energy outperform utilities, financials and consumer discretionary.
Score = Correct
All sectors of the market were down sharply in 2008, but the financials sector has clearly been hurt the most by the ongoing credit crisis and was down over 50%. Energy stocks had a rough ending to the year, but healthcare was among the market leaders. All told, a basket of stocks in the IT, healthcare and energy sectors would have outperformed a basket of utilities, financials and consumer discretionary names.
10. Democrats capture the White House and increase their lead in the Senate, House and governors' mansions for the first time since 1992.
Score = Correct
As it turned out, the collapsing US economy appears to have been the deciding factor that swung the White House to President-elect Obama and that increased the Democratic majorities in the House and Senate (additionally, the Democrats took over the governorship in Missouri).

Final 2008 Scorecard:

Correct:	4
Half-Correct:	5
Incorrect:	1
Total:	6.5/10

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:

- **Focus on quality, but watch for low-quality rallies:** We have been saying for some time that, in the current environment, the most compelling values can be found in higher-quality companies that have relatively strong balance sheets, healthy levels of free cash flow and adequate financing. We would point out, however, that over the past few months, we have seen several market rallies, and in each case, lower-quality investments outperformed. To us, this suggests that while our overall bias toward higher quality makes sense at present, investors should be prepared for lower-quality investments to perform well—particularly in times when they become oversold.
- **Overweight US stocks:** Non-US markets were hard hit in 2008, largely due to the same quality theme, as well as to the aggressiveness of US monetary and fiscal policy. Going forward, we expect that US stocks will continue to outperform other developed markets. Emerging markets have experienced some of the worst performance lately, but we believe the long-term fundamental case for this area of the market remains intact.
- **Focus on better-positioned sectors:** Despite the pullback in oil prices, we continue to believe that the energy sector remains attractive, as do the technology and healthcare areas of the market. Regarding the financials sector, we continue to have a cautious outlook and continue to recommend underweight positions.
- **Keep your focus:** It seems like simple advice, but in the face of ongoing market volatility, we would encourage investors to remain focused on the long term, ride out any potential storms, look for buying opportunities and, above all, rely on the basic tenets of staying fully invested and well diversified.

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