

iShares 2012 Investment Outlook

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iShares Global Investment Strategy 2012 Outlook

2012 scenarios:

Core view: Great Idle - Slow but positive growth – probability 60%

- Developed and emerging markets stabilize to below trend level growth
- Europe goes through a recession with banking sector deleveraging and austerity

Risk view: Global recession – probability 35%

- Risk of a full-blown European banking crisis and Eurozone breakup back in focus
- In the US the fragile consumer risks being hurt by premature fiscal austerity
- Escalation of tensions between Israel and Iran or unrest in Nigeria could see energy prices rise again

Growth accelerates – probability 5%

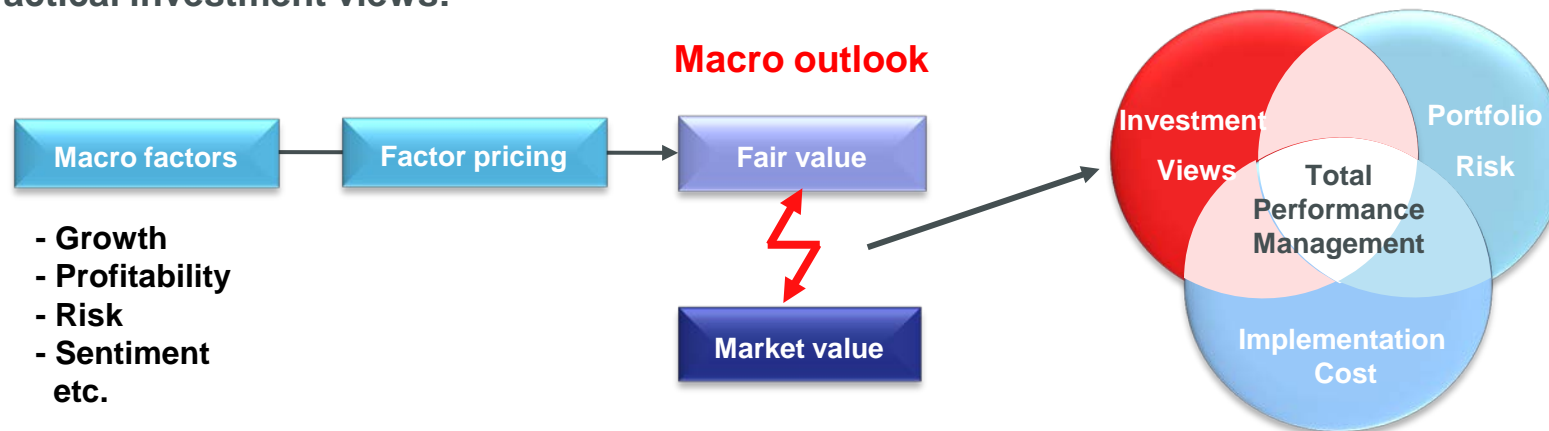
- Emerging markets resume stellar growth, developed world reverts back to trend growth

iShares Investment Process

Investment philosophy:

- Market valuations that materially deviate from levels justified by broad macroeconomic conditions tend to revert

Tactical investment views:



- Also consider political developments, policy, and risk-on-risk-off environment short-term distortive effects

Thematic investment views:

- Longer-term: fundamentals to be reflected in macro factors over a longer horizon, e.g. debt levels on growth
- Behavioral: e.g. risk-insensitive quest for income

Equities: Long-term value but stay defensive

Equities performance currently driven by growth and sovereign debt concerns; with uncertainty over policy and loss of market momentum, expect markets to remain volatile in the near term

Regional / country views:

- DM: Favor CASH countries and Northern Europe

- Canada, Australia, Switzerland, Singapore and Hong Kong: robust growth, few debt and fiscal issues
- Germany, the Netherlands and Norway: good value for decent growth & low risk

- EM as the “New Defensives:” Prefer Asia and LatAm to EMEA

- Favor China, Taiwan and Brazil, Russia for aggressive investors; avoid India, South Korea and Mexico

Sector / style views:

- Stay defensive

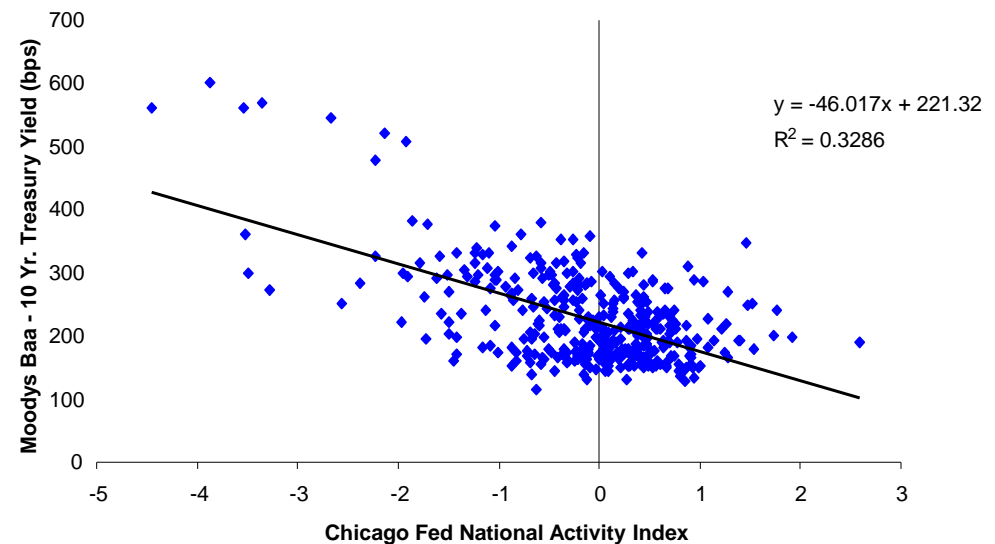
- Quality, mega cap and international high-dividend stocks
- Favor energy; avoid consumer discretionary and financials

Fixed income: Prefer Corporate Bonds to Treasuries

Corporate Credit Spreads
1980 to 2011



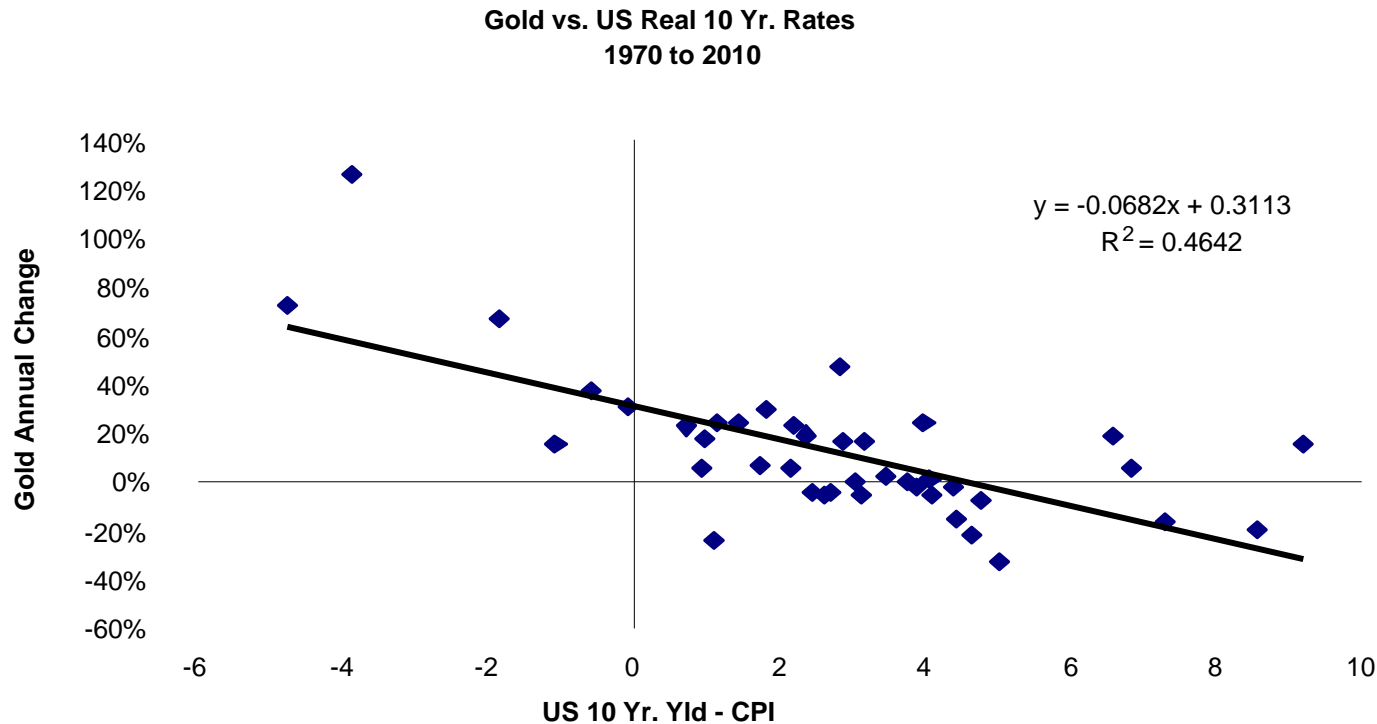
Corporate Spreads vs. Leading Economic Indicator
1980 to 2011



The spread between an index of Baa corporate bonds and the 10-year Treasury is around 320 bps, nearly twice the historical average, and wide also relative to growth expectations.

Source Bloomberg 10/31/2011

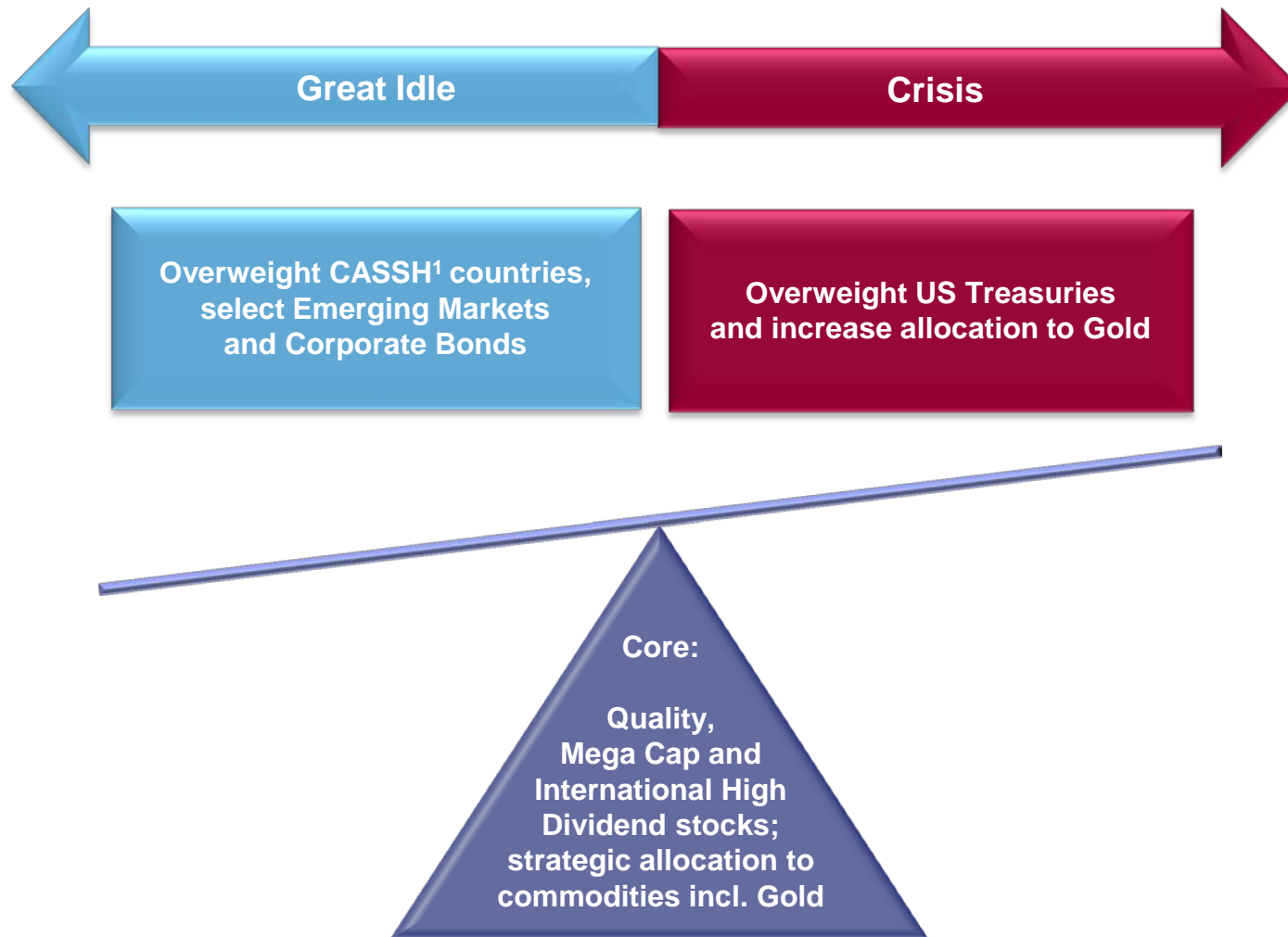
Commodities: Maintain a strategic allocation, incl. Gold



Historically, the level of real rates has been a more important determinant of the performance of commodities in general, and gold in particular, than either the dollar or inflation. Over the last forty years, the level of real rates has explained roughly 45% of the annual variation in gold returns.

Source Bloomberg 8/31/2011

2012 Investment Outlook Summary



1. Note: CASSH includes Canada, Australia, Switzerland, Singapore, Hong Kong

iShares Global Investment Strategy Team Resources

Weekly, bi-weekly and monthly investment views and research:

- Weekly investment strategy call: new or revised country / sector / asset class views
- iShares blog: country / sector / asset class views in more depth; thematic calls
- Investment Directions: monthly country, sector and fixed income views recap
- Bi-weeklies: tactical market research
- Market Perspectives “white papers” together with the iShares Global Investment Research team: strategic thought leadership
- Strategic, tactical and thematic model portfolios, in collaboration with the iShares Global Investment Research team

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Market Analysis | September 2011
iShares Market Perspectives

The Commodity Conundrum: Can Commodities Stay Strong Without Inflation?

Russ Koesterich, Managing Director, iShares Chief Investment Strategist

Executive Summary
The past decade has witnessed a record and sustained rally in most commodity markets. More recently, the rally has led up surprisingly well despite a decelerating economy and the influence of inflation in developed countries. This state of affairs has led many investors questioning whether commodities are in a bubble, making many reluctant to commit new money to the asset class. While many publicly available commodities have been under pressure, and are likely to remain flat or decline further over the course of the global economy, we continue to believe that investors should consider maintaining a strategic weight to commodities as an asset class. Although individual commodity prices can be extremely volatile, over the past 10 years the volatility of broad commodity index has been in line with that of developed equities. Furthermore, across a long-term horizon commodities are diversifying and have historically helped improve the risk return characteristics of portfolios. Finally, while the lack of a dividend income stream makes commodities difficult to value, we find little evidence to support the notion that the entire commodity complex is overvalued or in a bubble. That said, the future trajectory for commodity returns will largely be determined by the macro environment. Over the long term, commodities, and gold in particular, have historically benefited from inflation and a weak dollar. In addition, the returns of some cyclical commodities in industrial markets are influenced by economic growth. However, arguably the greatest determinant of commodity performance is likely to be the level of real interest rates. Historically, commodity prices have benefited the most from low inflation, but have less or negative real rates, which lower the opportunity cost of holding an asset that produces no income. Presently, as long-term interest rates fall, much to the benefit of commodity returns, this is arguably supportive for commodities. To the extent long-term rates remain low or negative – much to the benefit of long-term growth economy – this may be the most important contribution for the asset class in general, and for gold in particular.

This investment research is not intended to provide investment advice, and is not intended to be used as a basis for investment decisions. It is not intended to be used as a basis for investment decisions. It is not intended to be used as a basis for investment decisions.

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ETF	Date of First Call	Overweight	Underweight	Neutral	Relative to Assets	Treatment	Comments	Quantitative Change	Invested Shares
Domestic Index Fund/Target Date									
U.S. Equities	12/10/10	X			Absolute	Long-Term	While there are no shortages of headlines for market, recent headlines look negative. We would be buyers of equities.	Returned 12/11	100.00%
	1/17/2011	X			Relative	Long-Term	Let's really ramp up on the way to global equities, when we see less uncertainty.	Returned 1/15/2011	100.00, 100.00, 100.00
Sector Index Funds									
	12/10/2010	X			Relative	Short-Term	The sector appears overvalued. Given the headlines about the economy, we are making a move to reduce our exposure to the sector. We are looking for a recovery over the next 12 months. As a result, the valuation of most assets will reflect this.	Returned 7/11/2011	
							Many investors are looking to take action in late 2011.		

iShares
Investment Directions
Monthly Market Outlook
August 2011

Market Overview

During July the conflicting global sovereign debt crisis and signs of slowing economic growth weighed on equity markets. By mid-month, European Union (EU) leaders reached an agreement on a second rescue package for Greece. News of the plan, however, wasn't enough to lift markets for long as investors feared the larger debt crisis would spread to most countries. However, the political drama may raise the EU debt ceiling beyond current levels and the United States could default on its debt and that US debt would be downgraded. In addition, the economic growth outlook deteriorated after a number of negative economic data reports. While savings rates in general better than expected, companies released more downward guidance. As a result, investors focused on high yield assets and toward cash, and the broader global equity market finished July down nearly 2%. Investors turned well and gold prices reached record highs.

In more recent weeks, equity markets have turned relatively lower after the record GDP downgrade of US debt and despite Washington reaching a last minute deal to raise the debt ceiling by the deadline. In August, global equities were down about 1% month to date through August 6. We believe the sell-off is a response to two diverging issues: clear evidence of a slowing global economy and a growing recognition that sovereign debt issues in the large developed markets are chronic. In addition, the market was somewhat disappointed that the Federal Reserve Board (the Fed) did not announce an aggressive response to the economic slowdown at its August 6 meeting and is holding the rate for further increases and local stimulus is limited. While we still believe the slow growth recovery will need time to build, the odds of a double-dip have clearly risen. In the event the global economy can avoid any more prolonged slumps, it is likely to redden along. We continue to expect more market volatility in the second half of the year and to favor adjusting a balanced portfolio to equities with allocations to equity sectors that have a lower risk profile and that are less sensitive to the global economy. In light of the current economic environment, our view on which markets are attractive versus which are still a pricing, in addition, on the market is already discussing a lot of the bad news, we believe now is the wrong time to sell. Instead, we advocate adding longer term opportunities selectively. With respect to our outlooks for 2011:

Global Asset Allocations

	US EQUITIES	EMERGING	GLOBAL	FIXED INCOME
Global Equities	+			
Global Fixed Income				+
Global Alternatives				
Global Commodities				
Global Real Estate				
Global Infrastructure				
Global Natural Resources				
Global Energy				
Global Healthcare				
Global Technology				
Global Financials				
Global Consumer				
Global Industrial				
Global Materials				
Global Utilities				
Global Real Estate				
Global Infrastructure				
Global Natural Resources				
Global Energy				
Global Healthcare				
Global Technology				
Global Financials				
Global Consumer				
Global Industrial				
Global Materials				
Global Utilities				

What's Inside:

- Global equities
- Global fixed income
- Global alternatives
- Global commodities
- Global real estate
- Global infrastructure
- Global natural resources
- Global energy
- Global healthcare
- Global technology
- Global financials
- Global consumer
- Global industrial
- Global materials
- Global utilities

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INVESTING

Brazil and Chile | One for Now, One to Watch

BY RUSS KOESTERICH, CFA | AUG 29, 2011 | 1 COMMENT

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Earlier this month, as part of my **changed view of emerging markets**, I initiated an **overweight view of Brazil** and noted that I am paying close attention to Chile. As promised, here are more of my thoughts regarding these two emerging market countries.

Why I Like Brazil

There are a number of reasons why I like Brazil beyond what I mentioned in my earlier post.

This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any security in particular.

In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Securities focusing on a single country or narrowly focused investments may be subject to higher volatility. Bonds and bond funds will decrease in value as interest rates rise.

Past performance does not guarantee future results. **Investing involves risk, including possible loss of principal.**

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