



2011 Investment Outlook

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2010 Recap

Cyclical Stimulus Beats Out Structural Problems

- S&P 500 +13% (price only)
 - January 1 – April high (S&P 500 +9%)
 - Strong 4Q09 and 1Q10 earnings
 - Job gains commenced
 - Continuation of 2009 asset recovery story
 - April high – August low (S&P 500 -14%)
 - Greek sovereign debt crisis
 - Job growth stalls
 - Double-dip fears
 - “Flash crash”
 - Financial reform bill
 - August low to December 31 (S&P 500 +20%)
 - Job growth resumes
 - Bernanke Jackson Hole speech
 - Capital markets friendly election
 - Bush tax cuts extended+

2011 Investment Theme

MUDDLE THROUGH / GRIND HIGHER PLUS

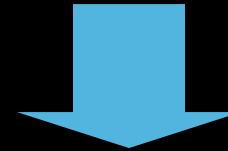
2010

**Muddle Through/Grind Higher
(with risks to the downside)**

2011

**Muddle Through/Grind Higher Plus
(with risks to the upside)**

- Confidence levels improving
- Growth outlook accelerating
- Deflationary credit risks shrinking



- Still easy, but eventual normalization of monetary policy
- Corporate sector performs better than government sector
- Equities switch places with bonds as the preferred asset class

1 US growth accelerates as US real GDP reaches a new all-time high.

US GDP – quantity and quality rising

Real GDP (%)		
	2010E	2011E
Final Sales	2.0	4.0
Government Spending	(0.1)	(0.5)
Net Exports	(0.6)	(0.1)
Inventories	<u>1.5</u>	<u>0.0</u>
Total Real GDP	<u><u>2.8</u></u>	<u><u>3.4</u></u>

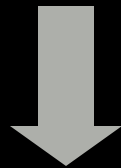
Source: BlackRock estimates

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The US economy creates 2-3 million jobs in 2011 as unemployment falls to 9%.

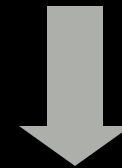
Labor Fundamentals

- Declining initial jobless claims
- Increased temporary employment
- Longer work weeks
- High profitability



More Jobs

- Uncertainty
- Health care costs
- Fears of double dip



Fewer Jobs

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US stocks experience a third year of double-digit percentage returns for the first time in over a decade as earnings reach a new all-time high.

S&P 500 trajectory

	2011E	2012G
S&P 500 Earnings	\$95	\$100-\$105
Target P/E	14-15x	13-14x

Possible S&P 500 Target	1,350+
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Risk is likely to the upside for P/Es

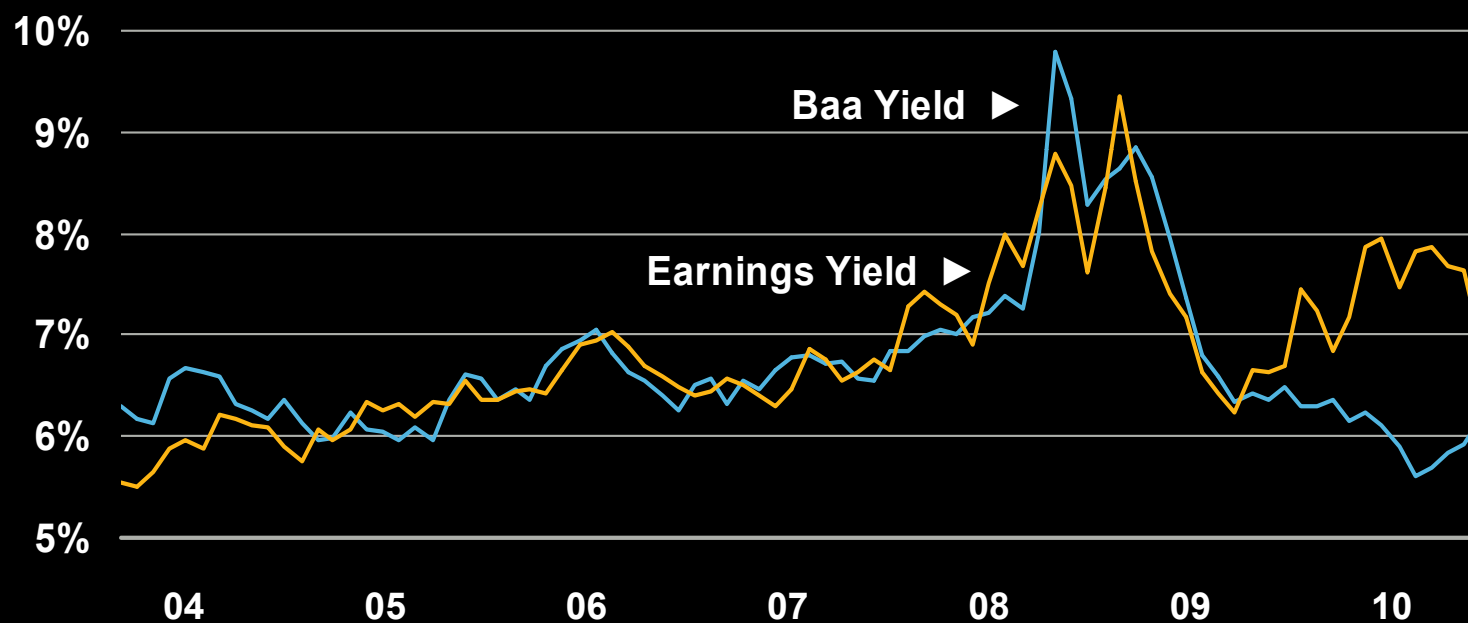
Key Signposts

- 1) Confidence — business and consumer
- 2) Credit problem recovery manageable
- 3) Politics remain reasonably capital markets friendly

Estimates provided are for illustrative purposes only and may not come to pass.

4 Stocks outperform bonds and cash.

S&P Earnings Yield vs. Baa Corporate Bond Yield



Past performance is no guarantee of future results.

Source: Moody's, Standard & Poor's, Thomson Financial, FactSet and UBS

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The US stock market outperforms the MSCI World Index.

Economic Growth Expectations – Real GDP		
	2010	2011E
World	4.6 %	4.5 %
US	2.8	3.5
Eurozone	1.7	1.5
Germany	3.5	2.2
UK	1.8	2.0
Japan	4.0	1.5
BRIC	7.5	6.5
China	10.1	9.0
Brazil	7.5	4.5
India	8.8	8.8
Russia	4.0	4.0

Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an index.
Source: Bloomberg, BlackRock

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The US, Germany and Brazil outperform Japan, Spain and China.

US

- Improving quantity and quality of growth
- Confidence levels increasing
- Job growth to accelerate

Germany

- Strong manufacturing and exports
- Historic fiscal and budget discipline
- Leader in research and development

Brazil

- Job creation, consumer confidence, credit availability
- Growing middle class consuming
- Low levels of debt and leverage

Japan

- Persistency of slow growth
- Consumer spending weak
- Debt and deficits

Spain

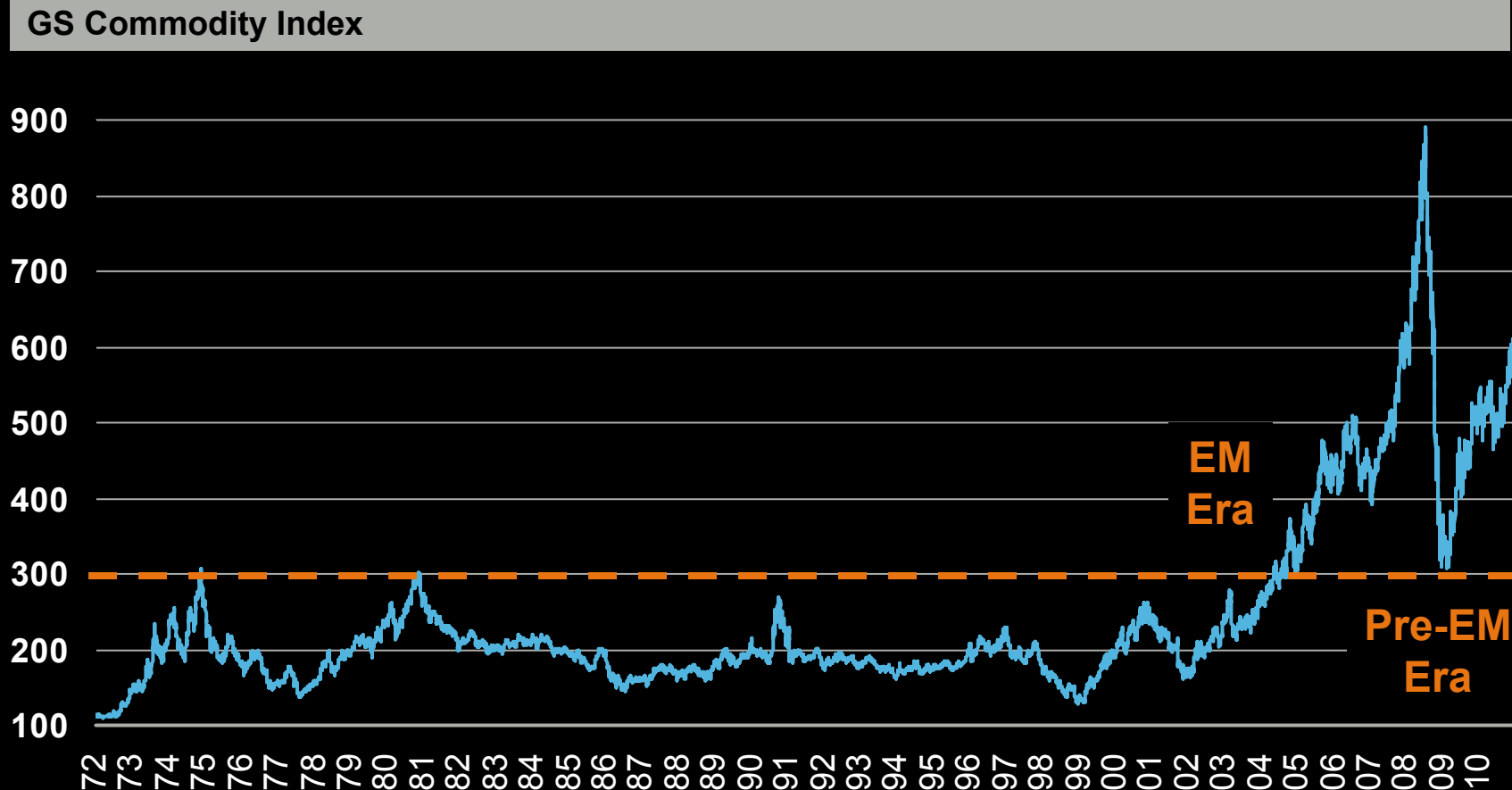
- Slow growth due to austerity/unemployment
- Banking system woes
- Lack of competitive labor market

China

- Tighter monetary policy to tame inflation
- Strong, but decelerating, economic growth
- Wage cost increases and currency appreciation

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Commodities and emerging market currencies outperform a basket of the dollar, euro and yen.



Source: ISI

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Strong balance sheets and free cash flow lead to significant increases in dividends, share buybacks, M&A and business reinvestment.

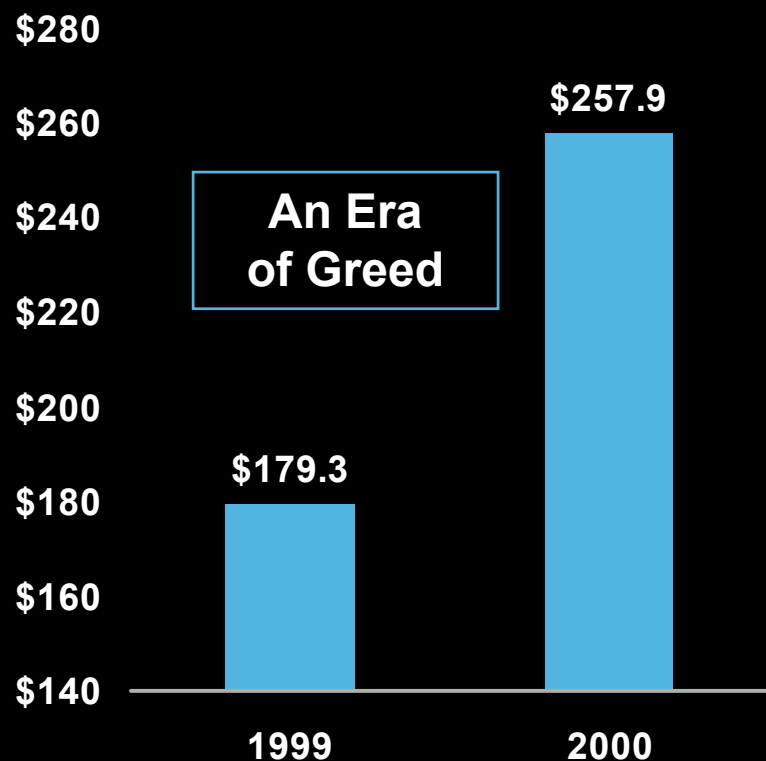
Capital Usage (\$Billions)							
	2009	2010E		2011E		2012E	
Dividends	239	243	+1.7%	270	+11.1%	299	+10.7%
Buybacks	128	275	+114.8%	343	+24.7%	395	+15.2%
M&A	160	208	+30.0%	239	+14.9%	263	+10.0%
R&D	169	178	+5.3%	195	+9.6%	219	+12.3%
CapEx	446	472	+5.8%	527	+11.7%	606	+15.0%
	1141	1375	+20.5%	1574	+14.5%	1782	+13.2%

Source: Goldman Sachs

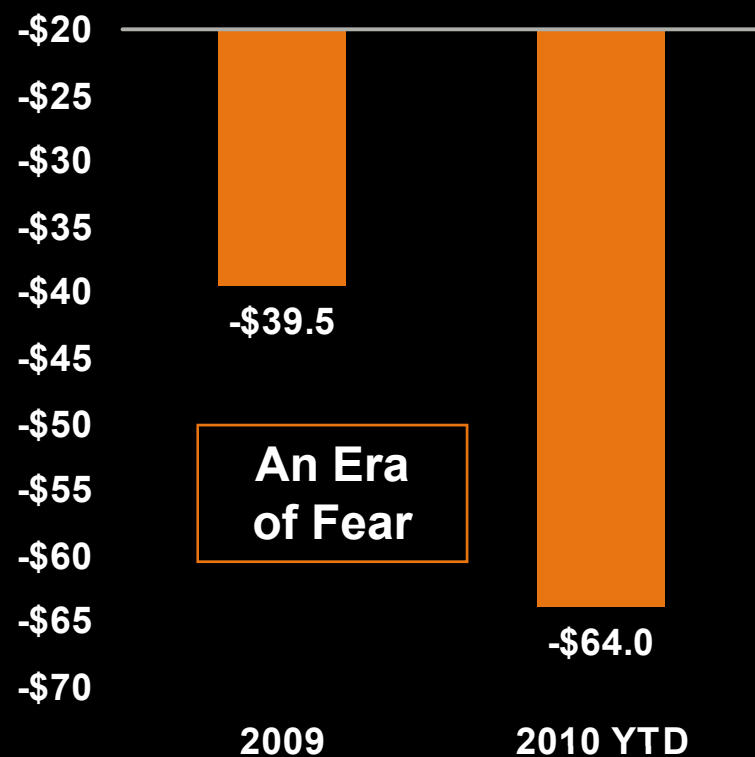
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Investor flows move from bond funds to equity funds.

US Domestic Net Equity Flows (\$B)



US Domestic Net Equity Flows (\$B)

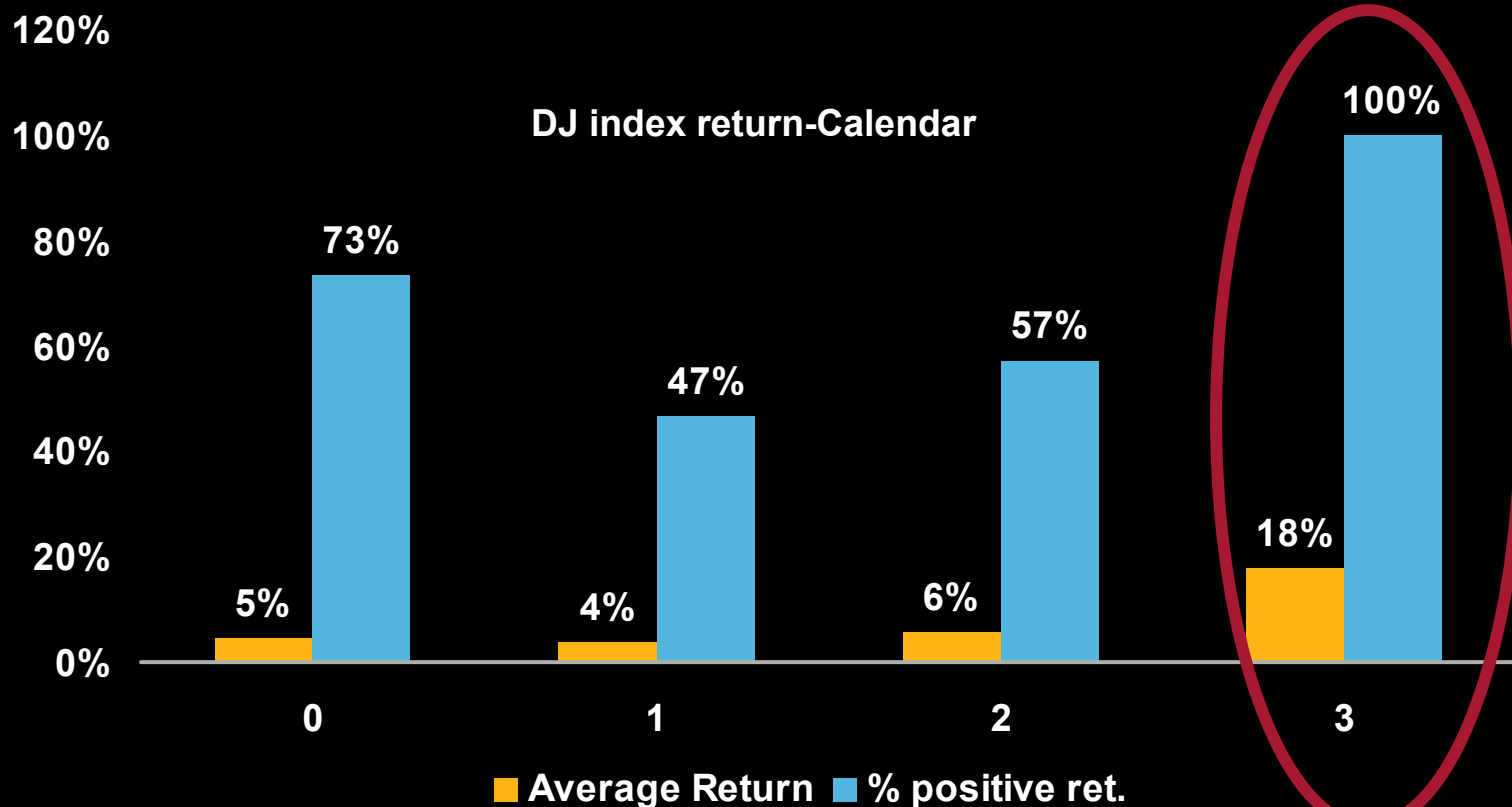


Source: Strategas Research Partners

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The 2012 Presidential campaign sees a plethora of Republican candidates, while President Obama continues to move to the center.

Third year of US Presidential election cycle



Data since 1952. Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only.
It is not possible to invest directly in an index.
Source: Thomson Reuters, Credit Suisse research

Potential upside and downside risks

WHAT CAN GO RIGHT?

1. Job growth improves
2. Business and consumer confidence improves (and valuation improves)
3. Real GDP surprises to the upside
4. Earnings exceed expectations (again)
5. Investors shift from bonds to stocks
6. Washington DC begins to address debt / budget fix

WHAT CAN GO WRONG?

1. Credit problems resurface (e.g., US housing, sovereigns, state / local)
2. Commodity price increases cause margin pressure
3. Inflation fears / reality strikes
4. Interest rates rise more than expected
5. Asset bubbles cause EM authorities to tighten
6. Currency and capital flow concerns lead to protectionist trade wars

Large Cap Series Portfolio Positioning

Preferred Sectors

Cyclical – Energy

Defense/Growth – Health Care

Special Situation - Telecommunications

Least Favored Sectors

Financials

Consumer Staples

Common Factor Exposure

Cyclicality (global and domestic)

Beta and volatility

Small size

Additional Themes

Excess free cash flow

Consumer credit recovery continues

Rising returns to shareholders

Portfolio wins under “Muddle Through, Grind Higher Plus” scenario; wins bigger under unlikely, but possibly, stronger recovery.

Portfolio loses if credit crisis reemerges.

Important notes

Stock values fluctuate in price so the value of your investment can go down depending on market conditions. Investing in derivatives entails specific risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility.

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