

## Weekly Investment Commentary

### Stocks Buffeted by Euro Fears and Super Committee Failure

November 28, 2011

#### A Sharp Drop for Stocks

Equity markets sank sharply last week as the European debt crisis worsened and the US super committee failed to come to an agreement. For the week, the Dow Jones Industrial Average fell 4.8% to 11,231, the S&P 500 Index dropped 4.7% to 1,158 and the Nasdaq Composite sank 5.1% to 2,441. Because the political problems in the United States and the crisis in Europe could result in a nearly endless array of outcomes, investors are faced with a high degree of uncertainty. As a result, unless and until more clarity emerges, markets are likely to remain somewhat trendless in the near term.

#### Outlook Uncertain for the European Debt Crisis

While much of the focus on the euro crisis has been on Greece and its risk of defaulting, in recent weeks, that focus has shifted to a general lack of liquidity within the European debt markets as banks struggle to maintain credit ratings. Many large global banks are attempting to sell or reduce their exposures to troubled European sovereign debt, and the selling pressures are triggering a new surge in government bond interest rates. This, in turn, has been forcing more countries into higher debt burdens and bigger deficits.

At this point, it has become clear that the measures taken so far to stem the crisis have not been sufficient. In our view, it will probably require the creation of something like a commonly issued euro bond to contain the debt crisis. Although Germany has so far resisted that possibility, there are growing indications that such a solution may well be forthcoming.

Regardless of what happens in the debt crisis itself, a recession in Europe now seems a foregone conclusion. Should policymakers be able to come to an effective resolution soon, the recession is likely to be shallow, but risks are growing that the recession could be deeper. It is an open question as to how much a European recession would impact the United States and other global markets. The main risk comes in the form of the intertwined nature of the global credit markets since severe European bank deleveraging could negatively impact US credit availability as well.

#### Super Committee Failure Creates a Murky Debt Future

The failure of the super committee to provide a plan to reduce the deficit was certainly disappointing, but it would be a mistake to put too much stock in that specific incident. The deadline imposed by Congress was an arbitrary one and the automatic cuts set to take place as a result of the non-decision will not occur until January 2013. As a result, Congress still has an opportunity to address deficit reduction, but of course the fact that all of this is occurring with the backdrop of the 2012 elections means that uncertainty levels are elevated.



Bob Doll is Chief Equity Strategist for Fundamental Equities at BlackRock®, a premier provider of global investment management, risk management and advisory services. Mr. Doll is also Lead Portfolio Manager of BlackRock's Large Cap Series Funds. Prior to joining the firm, Mr. Doll was President and Chief Investment Officer of Merrill Lynch Investment Managers.

---

*At this point, it has become clear that the measures taken so far to stem the crisis have not been sufficient. In our view, it will probably require the creation of something like a commonly issued euro bond to contain the debt crisis.*

In our view, the more important question is whether or not Congress will be able to extend the payroll tax cuts and unemployment benefits set to expire at the end of this year. Should they be unsuccessful in doing so, it would likely create a significant fiscal headwind in 2012.

## Stocks Likely to Remain Range-Bound

Somewhat lost amid all of the euro debt and US political headlines has been the fact that US economic data has shown a gradual improvement. The November payrolls report is set to be released this Friday and indications are that it will be decent. True, last week it was reported that third-quarter gross domestic product (GDP) growth was revised lower, but the inventory reduction that occurred may help set the stage for a stronger fourth quarter. At this point, fourth-quarter GDP looks to come in at 3% or possibly higher based on improved profits, a better labor market, increased capital expenditures and a low cyclical starting point for inventories.

Economic acceleration should create firmer footing for stocks, but for the time being, we believe markets will remain focused on the short-term headlines. Of all of the factors affecting the markets (US politics, the economic slowdown in China, etc.), the most critical remains the European debt crisis. Stocks are likely to remain range bound (trading between the 1,100 and 1,250 level for the S&P 500) for now, but should policymakers be successful in gaining some traction, markets could see some better results.

*The failure of the super committee to provide a plan to reduce the deficit was certainly disappointing, but it would be a mistake to put too much stock in that specific incident.*

---

For additional information, or to subscribe to weekly updates to this piece, please visit [www.blackrock.com](http://www.blackrock.com).

*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 as of November 28, 2011, and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary 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. Reliance upon information in this material is at the sole discretion of the reader. Investment involves risks. International investing involves additional risks, including risks related to foreign currency, limited liquidity, less government regulation and the possibility of substantial volatility due to adverse political, economic or other developments. The two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.*

**FOR MORE INFORMATION: [www.blackrock.com](http://www.blackrock.com)**

BlackRock is a registered trademark of BlackRock, Inc. All other trademarks are the property of their respective owners.

Prepared by BlackRock Investments, LLC, member FINRA.

©2011 BlackRock, Inc. All Rights Reserved.

**Not FDIC Insured • May Lose Value • No Bank Guarantee**