

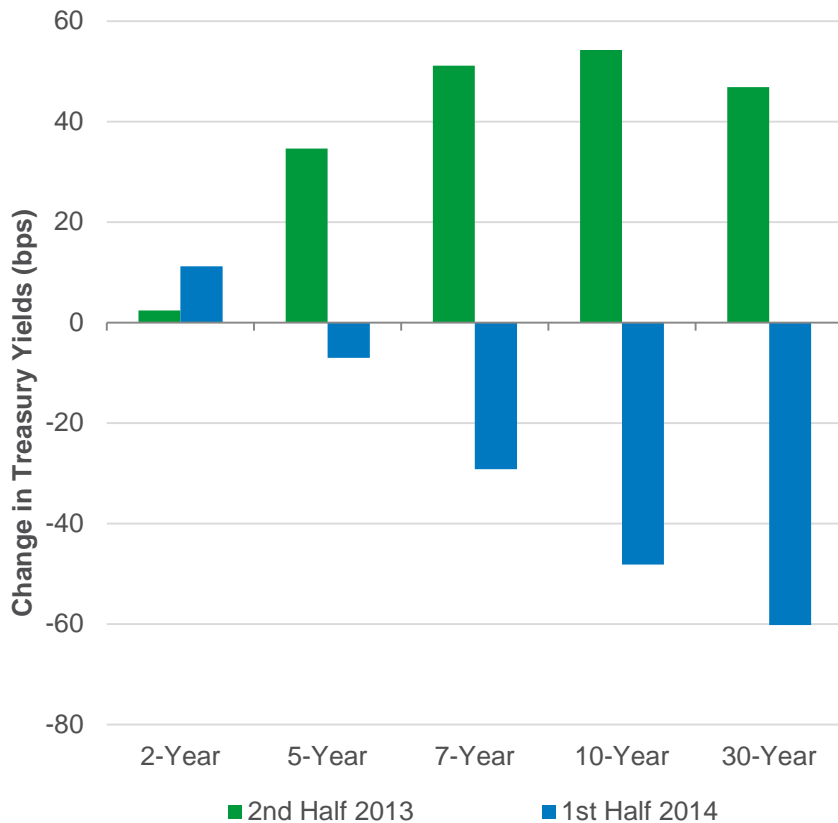
Rate Outlook 'Low for Long?'

**Russ Koesterich
Chief Investment Strategist
BlackRock**

Interest Rates: Unexpected Drop in First Half, But Should Grind Higher by Year's End

In one of the year's biggest surprises, interest rates fell rather than rose

Change in Treasury Yields



Source: Bloomberg 06/30/14.

Steepening Yield Curve in 2013...Flattening in 2014

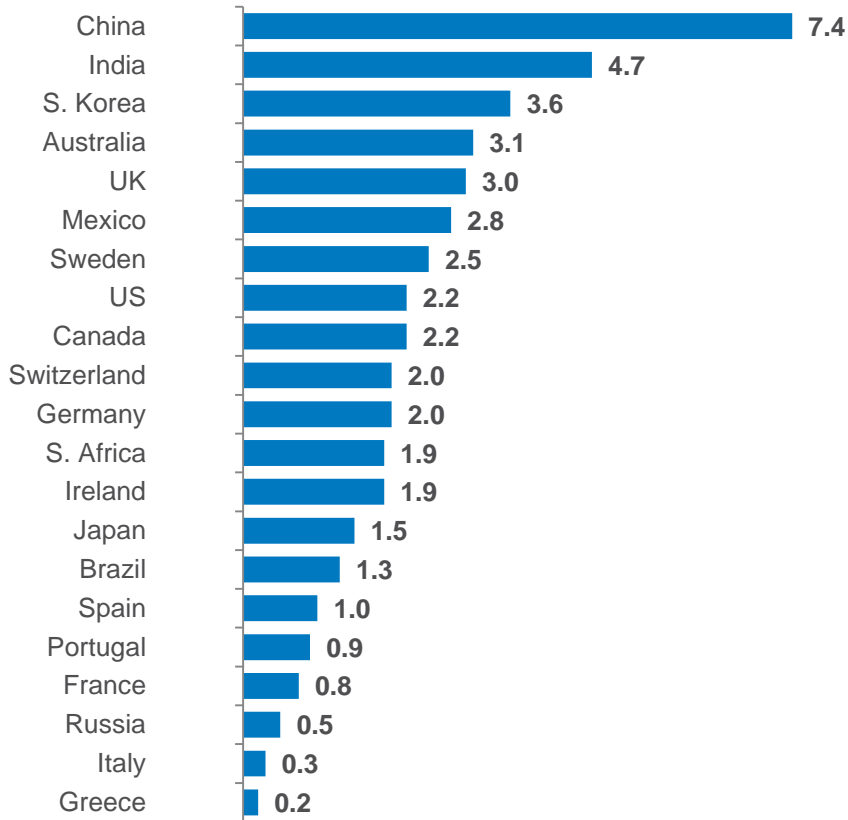


Source: Bloomberg 06/30/14.

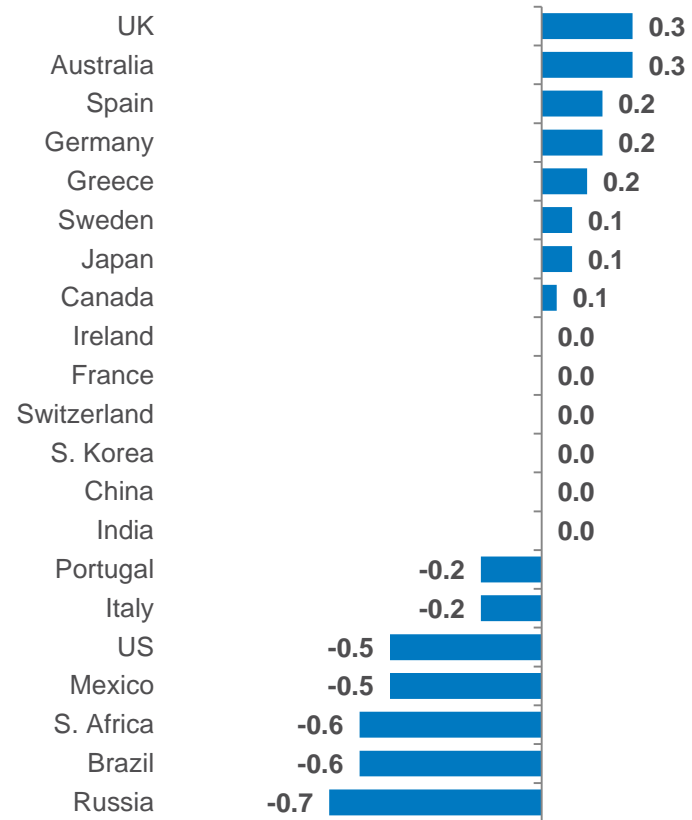
The Economy: Back on Track, But Still Slower Than Normal

In 2014, the global economy appears to be (mostly) moving in the right direction

2014 GDP Growth Forecast (%)



3M Forecast Change (% Points)



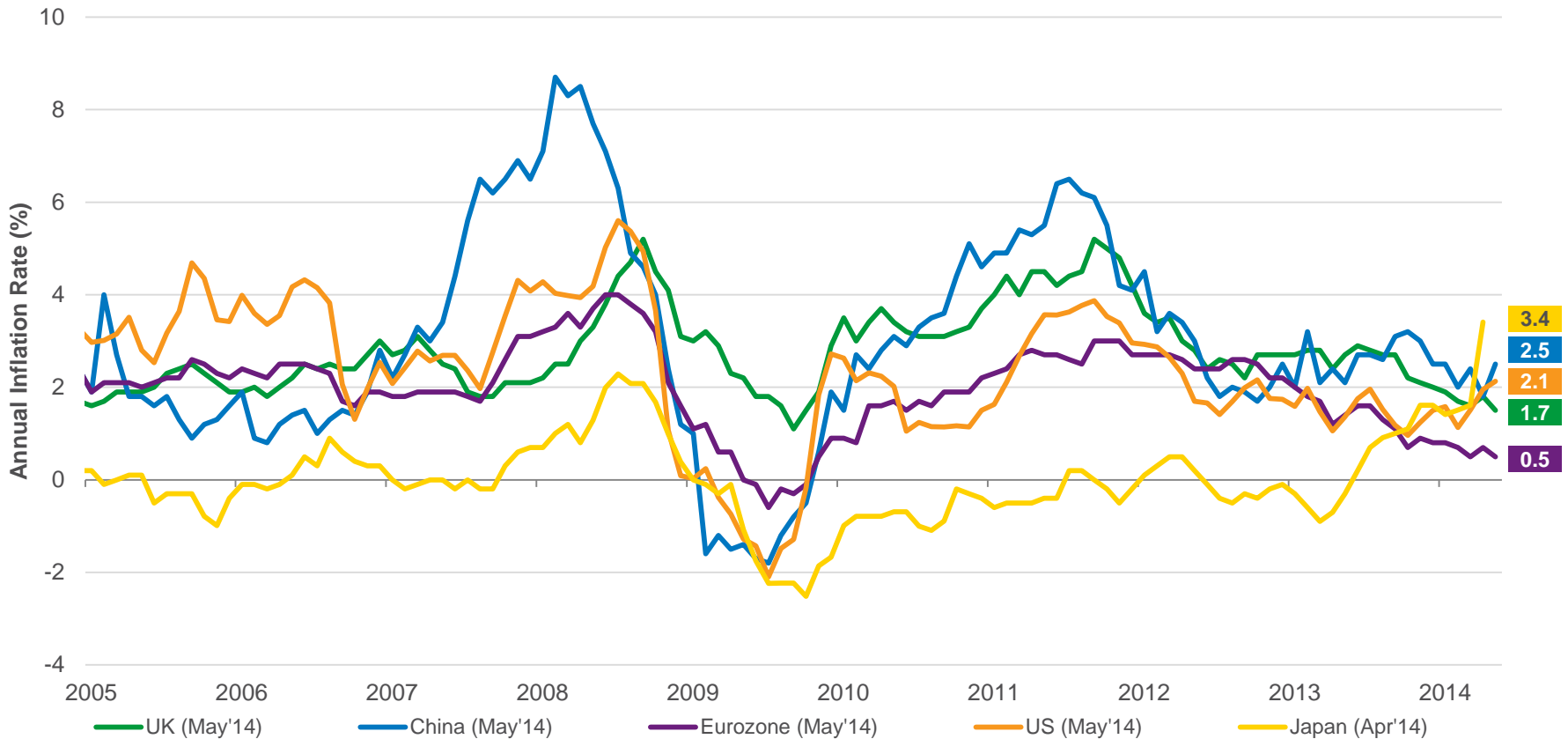
Source: Bloomberg 6/30/2014

Source: Bloomberg, 6/30/2014

Inflation: Stable to Low

Inflation looks poised to inch up in the US, while deflation remains a risk in Europe

Global Inflation Rates - CPI

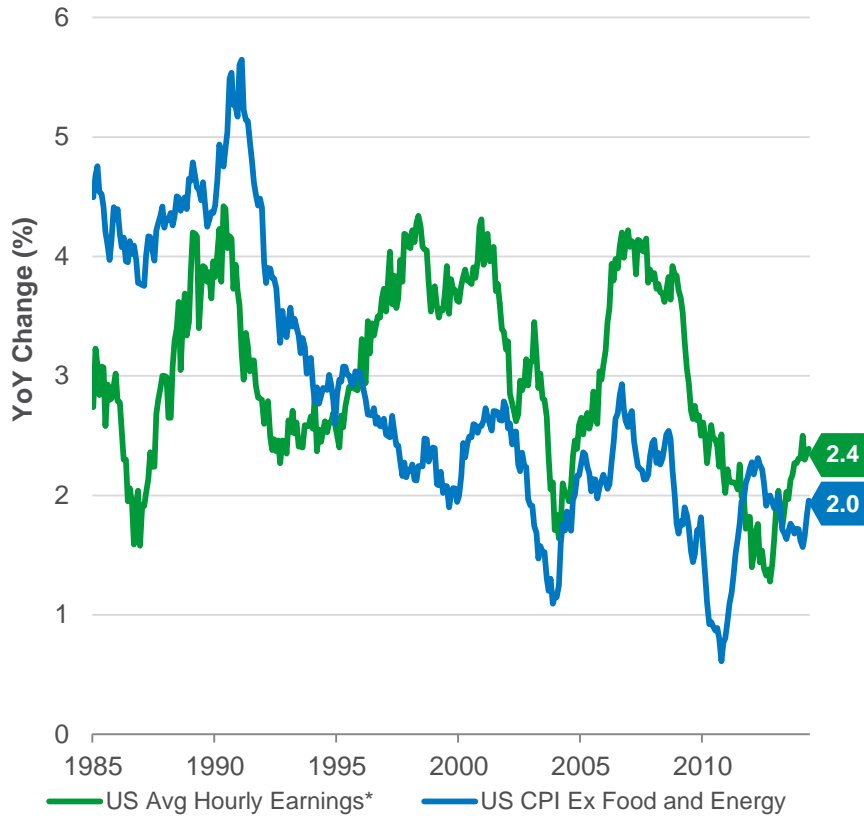


Source: Thomson Reuters Datastream, BlackRock Investment Institute, 5/15/2014

Jobs Picture: Brighter, But Wage Growth a LackLuster

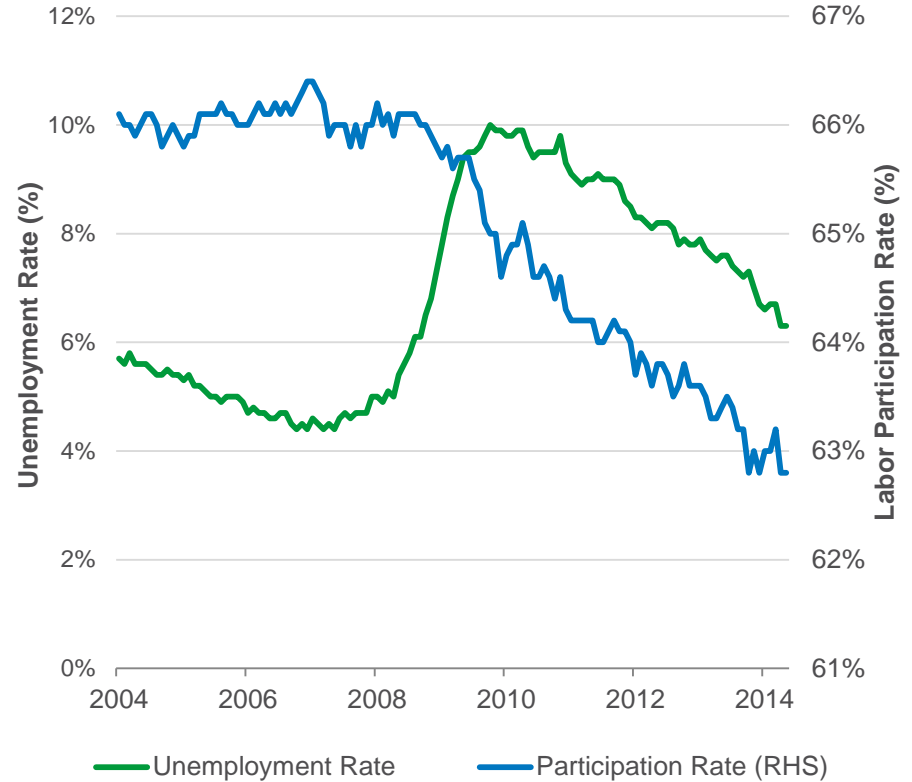
If income growth remains weak, household spending is likely to remain soft

US Wage Growth



Source: Thomson Reuters Datastream, BlackRock Investment Institute, 5/15/14.
* Total Private Non-Farm

Unemployment Rate



Source: Thomson Reuters Datastream, BLS, BlackRock Investment Institute, 5/15/14.

Fixed Income is Expensive, but may stay that way

Stocks are no longer cheap, but opportunities exist. Selectivity is key.

Valuation of Assets vs. 1-Year Ago



Source: BlackRock Investment Institute (BII) and Thomson Reuters as of 6/30/14. Valuation percentiles are based on an aggregation of standard valuation measures versus their long-term history. Government Bonds are 10-year benchmark issues. Equity valuations are average percentile ranks versus available history of earnings yield, cyclically adjusted earnings yield, trend real earnings, dividend yield, price to book, price to cash flow and forward 12-month earnings yield

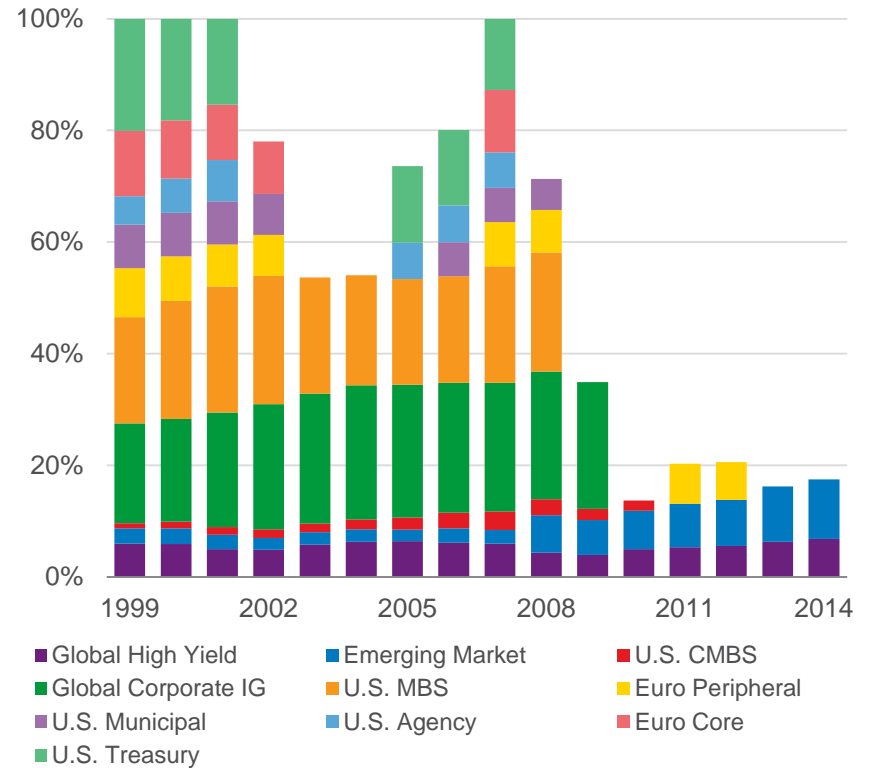
Choose Your Bonds Wisely

It is important to think about the role of fixed income in your portfolio

Year to Date Performance



Yielding Little Fixed Income Asset Yielding Over 4% (1999-2014)



Source: Thomson Reuters Datastream, BlackRock Investment Institute, 6/15/14. YTD Total Return (%) shown for Barclays Capital Indices

Sources: BlackRock Investment Institute, Barclays and Thomson Reuters, 06/14. The bars show market capitalization weights of assets with an average annual yield over 4% in a select universe that represents about 70% of the Barclays Multiverse Bond Index. Euro core is based on French and German government debt indexes. Euro peripheral is an average of government debt indexes for Italy, Spain and Ireland. Emerging markets combine external and local currency debt.

Questions

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