BLACKROCK®

MAY 2015

Investment Directions

A RACE THROUGH HIGH AND LOW

Market Outlook

An Emerging-Market Breakaway

In a still languid global growth environment, hopes for greater government monetary and fiscal stimulus are having an outsized effect on financial markets. Following expansive quantitative easing programs in Europe and Japan, market speculation of a parallel Chinese offering underway sent the country's stocks rallying and finally got emerging-market (EM) stocks out of a two-year funk. We think the EM rally has some legs.

European Bond Yields in Bunch Sprint

Global bond yields, on the other hand, mostly traded in a tight range until German bunds sold off in late April, at least in part due to data suggesting a firming in euro-area consumer prices. The rise in yields was most dramatic in Europe, but we think large central bank purchases should keep European yields at low levels for the next several quarters.

Another Tough Climb for the First Quarter

In the United States, first-quarter gross domestic product (GDP) growth was downcast along with most other key economic indicators, increasing the chances of the Federal Reserve (Fed) holding off its interest rate hikes until later in the year. While we prefer to see the Fed depart from its zero interest rate policy sooner rather than later, we don't expect a hike before September and believe a single increase for the year is a likely scenario. The U.S. growth outlook has dimmed, but the recent slowdown is probably a temporary setback. We see the economy reaccelerating in the second half.

Momentum Trades: No Safety in Numbers

It does not take much market volatility for momentum trades to unravel—demonstrated by the recent tumble in biotechnology stocks and bond proxies—which we have been warning about for some time now. As we get closer to a Fed rate increase, volatility could pick up. We continue to prefer a portfolio that overweights international stocks and underweights bonds.

WHAT'S NEW:

- Will the U.S. Economy Rebound as Expected in the Second Quarter? – Pg. 7

SO WHAT DO I DO WITH MY MONEY?®

▲ OVERWEIGHT	▼ UNDERWEIGHT
Stocks	Bonds
Japanese & European Equities	U.S. Equities
Cyclical Sectors	Defensive Sectors
Munis & High Yield Bonds	Treasuries

ADDITIONALLY, CONSIDER

Currency hedged exposure, given continued strength in the U.S. dollar could erode returns in foreign markets (such as Europe) for dollar-based investors.

Turning Insight Into Action

The U.S. economy has slowed, though we think a rebound is in the cards despite still modest wage gains and the headwind from a stronger dollar. Selectivity is important in the U.S. market, where value can vary by sector and individual company.

Consider blending opportunities for core market exposure with high-conviction active solutions that focus on finding value in the market.

CONSIDER

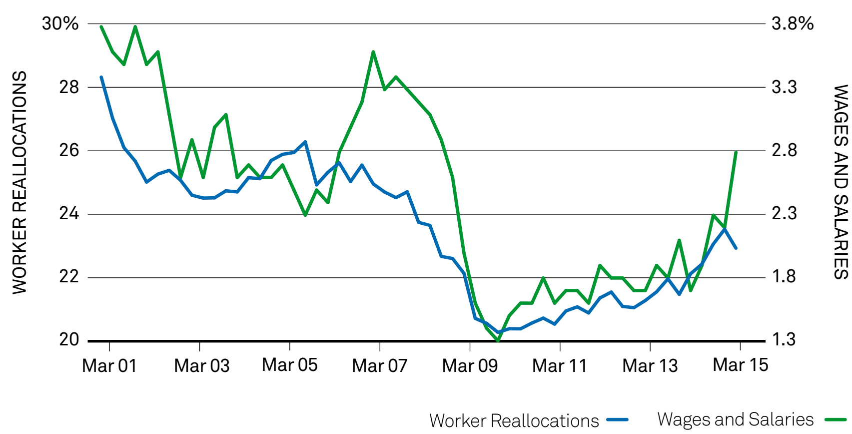
iShares Core S&P 500 ETF (IVV), iShares Core S&P Total U.S. Stock Market ETF (ITOT), Basic Value Fund (MABAX)

United States

We are still underweight U.S. stocks. Before giving up most of April's gain in a late-month sell-off, U.S. stock markets rose to record levels on the prospect of a delayed Fed interest rate increase. Higher merger and acquisition (M&A) and initial public offering (IPO) activities played a supporting role, as did first-quarter corporate earnings beating lowered expectations. However, looking at underlying fundamentals, economic readings (GDP, trade, productivity, retail and manufacturing) overwhelmingly pointed to a material slowdown that led many to downgrade their U.S. growth outlook. That said, we remain confident in the ongoing U.S. economic recovery, encouraged by robust job creation as well as early signals of wage growth and higher worker reallocations (a metric on market flexibility based on hires and separations) (see the chart below). We think that will eventually translate into stronger consumption down the road. We still expect a strong year for the U.S. economy and believe that growth should rebound in the second quarter, but it may struggle to hit the 3% growth rate that investors had expected at the beginning of the year (see Hot Topic on Pg. 7). With U.S. stocks relatively expensive, we tend to look overseas for more attractive equity opportunities. We favor cyclical sectors over momentum strategies and (expensive) defensive stocks in the United States.

HIGHER WAGES AND A MORE DYNAMIC JOB MARKET ARE NIGH?

Although the April rise in average hourly earnings disappointed, wages and salaries from the Employment Cost Index report and the worker reallocation rate that draws from the Job Openings and Labor Turnover Survey suggest an uptrend.



Sources: U.S. Bureau of Labor Statistics, BlackRock, as of 5/12/15.

International Developed Markets

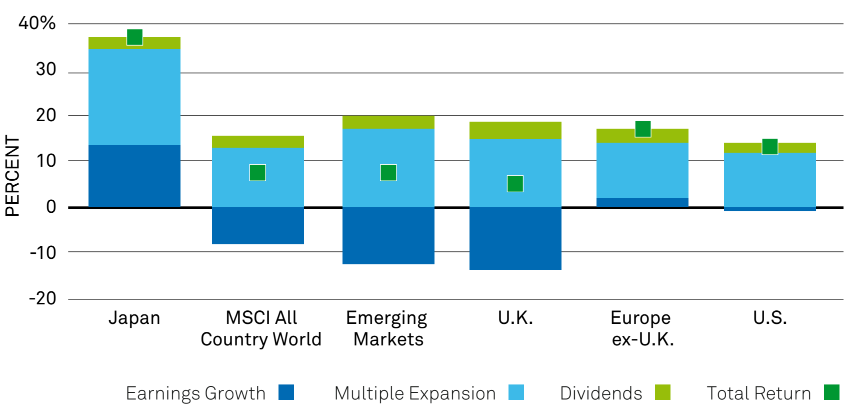
We remain overweight the eurozone. This year's trend in European asset prices reversed direction in April: Bond yields spiked, the euro strengthened and stocks gave back some of their impressive gains earlier in 2015. Although upside surprises to economic releases and earnings results are less widespread, data point to a broadening expansion in Europe. As a result, the specter of deflation that prevailed during much of 2014 gave way to seemingly firming inflation expectations largely due to a stabilization in oil prices. This pushed European government bond yields and the euro higher. While Greece's bailout negotiations have been tense, uncertain and heading into the eleventh hour, European and Greek leaders have begun to exhibit signs of some modest flexibility. Against this backdrop of ultra-loose monetary policy, better economic data, improved earnings and decent valuations, we think eurozone stocks offer additional upside potential. That said, there is some risk of renewed euro weakness as the Fed normalizes monetary policy. We therefore prefer currency hedged exposure to eurozone equities.

We continue to overweight Japan. Although the economy is running at a lackluster pace, Japanese companies are growing earnings faster than anywhere else in the world (see the chart below). This bodes well for Japanese equities, as dividends and return on equity rise. Valuations are still cheap despite the strong outperformance so far this year. Furthermore, the Bank of Japan seems ready to boost its quantitative easing measures if the economy were to miss the bank's inflation goals. Such a move would likely weaken the yen, though looser monetary policy would be a boon to Japanese equities.

We remain neutral on the United Kingdom. A clear mandate from the U.K. election precluded the near-term uncertainty of forming a coalition government, but the results created a set of longer-term political challenges (strong support for the Scottish National Party and a possible 2017 referendum on the United Kingdom's European Union membership). We also note that the high dividend yield and low price-to-book ratio for U.K. stocks are largely the result of the market's outsized exposure to the energy sector. Both could come under pressure should the recent increase in crude oil prices turn out to be short-lived.

JAPANESE COMPANIES DELIVER EARNINGS

At a time when earnings growth is scarce, Japanese companies have delivered strong profitability, multiple expansion and rising return on equity in the last 12 months.



Sources: Thomson Reuters Datastream, BlackRock Investment Institute, as of 5/11/15.

Turning Insight Into Action

Europe seems to offer value, and Japan appears relatively inexpensive in the world today. That said, renewed strength in the greenback could erode returns in international markets for U.S. dollar-based investors, boosting the allure of currency hedged exposure.

Consider using an active manager with strong stock selection expertise or be selective with index-based exposures.

CONSIDER

Global Long/Short Equity Fund (BDMIX), Global Dividend Fund (BIBDX), Global Allocation Fund (MALOX), iShares MSCI Japan ETF (EWJ), iShares Currency Hedged MSCI Japan ETF (HEWJ), iShares MSCI EMU ETF (EZU), iShares Currency Hedged MSCI EMU ETF (HEZU)

Turning Insight Into Action

It may be time to consider getting back to a benchmark exposure in emerging markets, but investors should remain selective.

Consider accessing specific countries or regions, or use an active manager with expertise to identify potential opportunities.

CONSIDER

iShares MSCI China ETF (MCHI), iShares MSCI Emerging Markets Asia ETF (EEMA), iShares MSCI Emerging Markets Minimum Volatility ETF (EEMV), Emerging Market Allocation Fund (BEEIX)

Emerging Markets

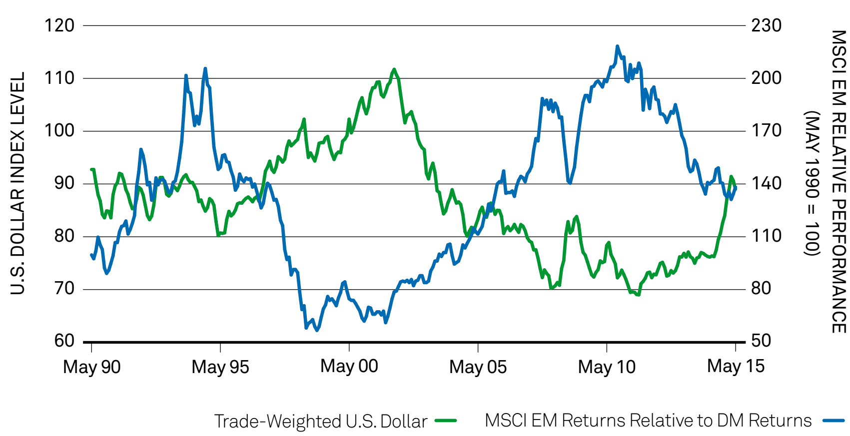
We hold a benchmark weight to emerging markets (EM) and a preference for emerging Asia. Since the Fed's mid-March meeting pushed out the lift-off date for the Fed Funds rate and stalled the U.S. dollar's steady ascent (see the chart below), EM equities have broadly outperformed developed-market (DM) stocks. Whereas returns across countries varied widely in the past few years, this most recent run-up in emerging markets has been more broad-based. India's multiyear rally has taken a breather, but China, Brazil, Russia and many other countries have pushed higher thus far in the second quarter. If the Fed moves later in the year and at a gentler pace, we think emerging markets have room to advance given still deep discounts and ample policy maneuvering room, especially in Asia.

We continue to overweight China but focus our attention on Hong Kong-listed H-shares. China cut interest rates for the third time since last November and remains committed to pushing ahead financial market liberalization (i.e., full interest-rate liberalization and slowly opening the capital account). This should ultimately support financial assets. However, politically sensitive reforms, such as privatization of state-owned enterprises (SOEs), are proving more difficult. This creates risks, since SOE reform is a critical ingredient to boosting economic efficiency, and delays will only further weigh on the economy. We believe the current stock rally still has legs, though the H-share market offers better value because of lower valuations than mainland-listed shares.

We maintain an overweight to Poland within emerging Europe. We expect Poland's economy to be a net beneficiary of the European Central Bank's (ECB's) efforts to resuscitate economic activity in the eurozone and especially Germany. As eurozone equities shot up this year, Poland's advance was more modest. And relative to the broader emerging markets, Polish equity valuations look attractive with a more compelling dividend yield and stronger earnings. The military stand-off between Ukraine and Russia poses a risk given Poland's eastward economic ties, yet we see limited potential geopolitical fallout.

DOLLAR DIP GIVES EM STOCKS A LIFT

Typically when the dollar appreciates, EM stocks would underperform their developed-market peers. EM stocks were given a brief respite last month as the dollar weakened.



Sources: MSCI, Thomson Reuters Datastream, BlackRock Investment Institute, as of 5/11/15.

Global Sectors

We continue to hold an overweight to financials and information technology. We expect strong growth in financials sector dividends, as global banks work to restore payouts in the aftermath of the credit crisis. What is more, loan growth is likely to pick up alongside strength in underwriting and deal volumes amid higher expected interest rates and improved economic activity. Despite regulatory risks, we prefer large global financials companies. They are less affected by net interest margin compression (low rates make it harder for interest income to beat interest expenses on investments).

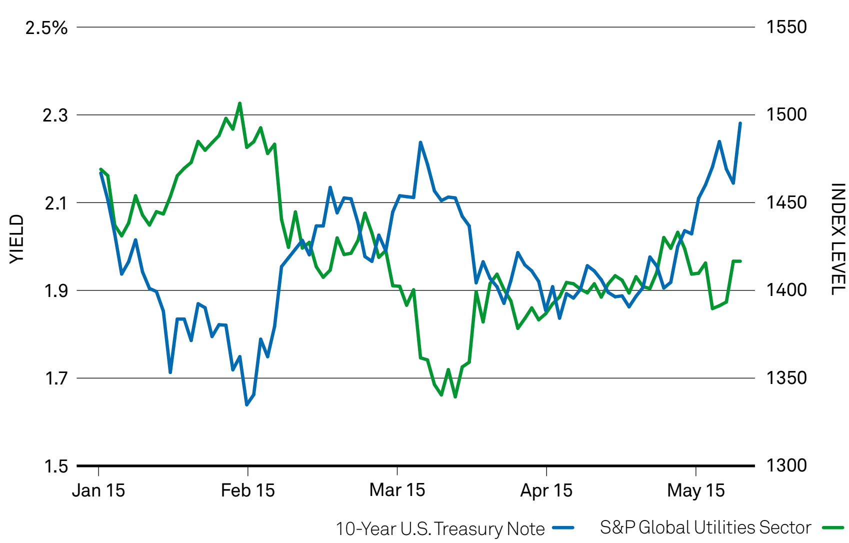
The technology sector provides some of the fastest rates of dividend-per-share growth among global sectors, but its low sensitivity to dividend payouts suggests performance could hold up better than bond proxies when interest rate hikes begin. Both the technology and financials sectors have moved roughly in line with the overall market this year despite decent first-quarter earnings results, suggesting still attractive valuations.

We remain neutral toward the energy sector and favor large integrated oil companies. The energy sector has risen significantly since the mid-March low in crude oil prices. While we currently do not favor investments in physical crude oil given recent high volatility, global integrated oil companies stand out for their high dividend yields, favorable valuations and lower sensitivity to oil price swings.

We continue to underweight consumer staples and U.S. utilities. These bond market proxies have lagged global equities so far this year, especially U.S. utilities, given the broad rise in interest rates since the end of January (see the chart below). Miniscule growth in dividends alongside higher government bond yields has drained enthusiasm for these relatively expensive sectors. Consumer staples are the second most expensive sector behind energy based on 12-month forward earnings and are trading at a premium to their 10-year historical average.

MOMENTUM VANISHES IN U.S. UTILITIES

Utilities have lost ground during the surge in bond yields since the end of January.



Sources: Bloomberg, S&P, BlackRock Investment Institute, as of 5/11/15.

Turning Insight Into Action

Favor cyclical sectors over defensive and dividend-oriented sectors. Consumer staples and U.S. utilities look particularly expensive.

Look into potential technology and financial opportunities using specific sector exposure and consider a long/short approach to help differentiate sources of risk and return.

CONSIDER

iShares Global Financials ETF (IXG), iShares Global Tech ETF (IXN), iShares U.S. Technology ETF (IYW), Global Long/Short Equity Fund (BDMIX)

Turning Insight Into Action

With interest rates likely to rise in the United States in 2015, fixed income investors will likely face challenges yet again this year.

Manage Interest Rate Duration

Consider a flexible strategy with the ability to actively manage duration.

CONSIDER

Strategic Income Opportunities Fund (BSIIX), Strategic Municipal Opportunities Fund (MAMTX), Global Long/Short Credit Fund (BGCIX)

Manage Interest Rate Risk

Reduce interest rate risk through time by using a diversified bond ladder and matching term maturity to specific investing needs.

CONSIDER

iBonds® ETFs

Seek Income

Cast a wider net for income while carefully balancing the trade-offs between yield and risk.

CONSIDER

Multi-Asset Income Fund (BIICX), High Yield Bond Fund (BHYIX), iShares iBoxx $ High Yield Corporate Bond ETF (HYG), iShares iBoxx $ Investment Grade Corporate Bond ETF (LQD)

Build a Diversified Core

Consider using core bonds for diversification benefits and potential protection from unforeseen shocks to equity markets.

CONSIDER

Total Return Fund (MAHQX), iShares Core U.S. Aggregate Bond ETF (AGG), iShares Core Total USD Bond Market ETF (IUSB)

Fixed Income

We remain underweight Treasuries and Treasury Inflation-Protected Securities (TIPS). Sovereign yields in the safe-haven countries of the United States and Germany have risen sharply, particularly in the long end of the curve (see the chart below). Some possible factors include: strong supply, the unwinding of heavy long positions, firming oil prices and speculation of early ECB bond tapering due to ebbing deflationary pressure. We believe that there is a limit to how much rates could rise in the near term, and expect elevated volatility to persist as the market repositions. Real rates have also pressured TIPS, potentially creating an entry point for those who believe that U.S. inflationary pressure is about to grow amid nascent signs of increasing wage pressure.

We maintain an overweight in high yield. The high yield sector has taken the impact of surging global sovereign yields in stride. Subpar U.S. economic data (and expectations of a pushed-back Fed lift-off date) as well as a stabilizing energy sector drove the majority of April's gain. Selling pressure in commodity-related assets diminished.

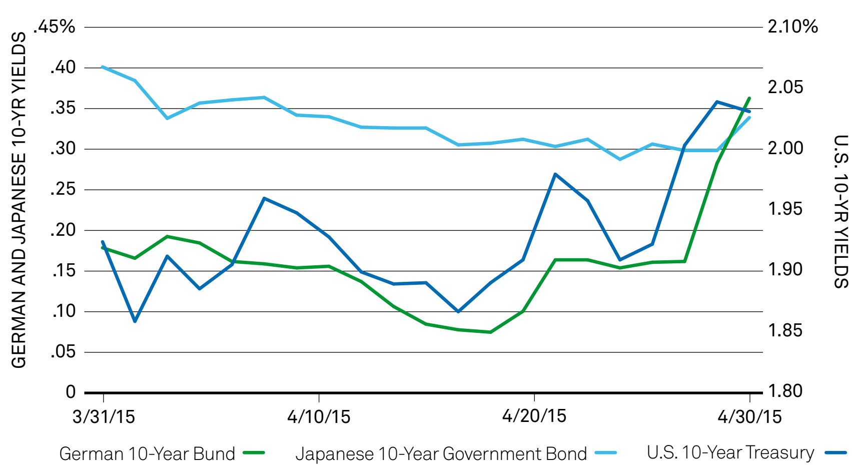
We favor an overweight in municipals. Our call for higher volatility appears to be bearing out, and a pickup in issuance also pressured the asset class. Further upside from spread tightening could be limited, yet we believe that municipals (particularly high yield) are attractive from a yield perspective.

We retain an underweight in non-U.S. developed markets and are neutral in EM debt. Our tactical call on U.S. dollar-denominated EM debt bore fruit: The asset class has registered one of the best year-to-date performance records across the fixed income universe. The dollar's near-term stabilization has eased fears over EM sovereigns' U.S. dollar issuance and their ability to service that debt.

We hold a neutral weight in mortgage-backed securities (MBS) given a relatively attractive yield profile. However, we think increases in yield levels will ultimately be limited, while we are mindful of duration extension concerns given surging rates.

GLOBAL SOVEREIGN YIELDS SPRINT

While there is a limit to how high rates could go in the near term, a host of economic, market and speculative factors culminated in a sharp rise in global yields.



Source: Bloomberg, as of 4/30/15.

Hot Topic: Will the U.S. Economy Rebound as Expected in the Second Quarter?

The U.S. recovery didn't live up to expectations last quarter. First-quarter U.S. GDP growth came in close to flat, whereas economists had been looking for a 1% gain.

Many market watchers view this first-quarter slowdown as a temporary setback in what they still expect to be a strong year. They foresee economic growth bouncing back in the second quarter, as the effects of a harsh winter and a West Coast port strike fade. Indeed, economists' estimates for second-quarter GDP growth have actually risen recently, to more than 3% today from 2.8% in January (Source: Bloomberg).

Our view: The U.S. economy is likely to regain some of its lost swagger by year's end, but there are signs suggesting that the second-quarter bounce may not be as strong as expected.

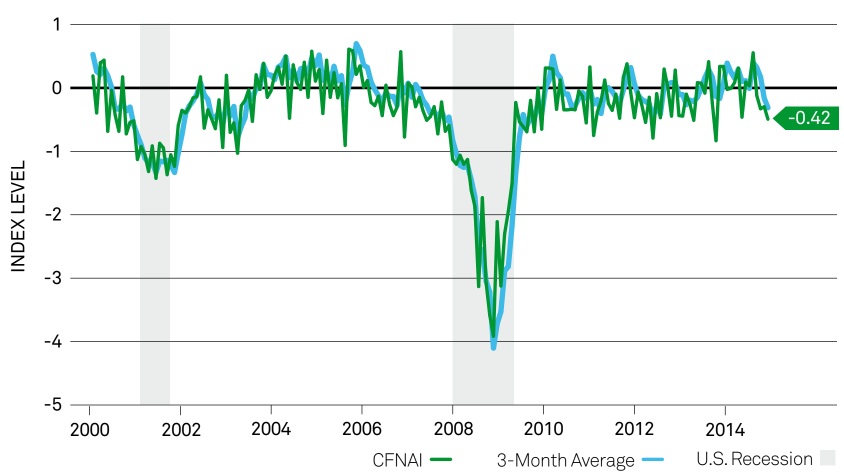
The Chicago Fed National Activity Index (CFNAI) has one of the best track records for forecasting the rate of economic activity one quarter ahead (see the chart below). The March CFNAI reading suggested that second-quarter U.S. GDP growth should be around 2%. This isn't awful and is in line with the post-crisis norm, but we are a long way from 3% growth.

In addition, economic statistics this year have been missing expectations by the largest margin since 2009. The April Institute for Supply Management manufacturing survey failed to bounce as expected, and the strong dollar is hurting U.S. companies dependent on exports.

A weaker-than-expected second quarter would have several implications for investors. We would likely only see a single Fed rate hike in 2015. Second, softer U.S. growth could cause at least a temporary stall in the dollar rally, giving U.S. exporters some breathing room. Third, softer second-quarter growth calls into question whether earnings estimates remain too high.

Q2 COULD DISAPPOINT

Second-quarter growth will probably track along the post-crisis average, and a strong rebound from the first quarter is unlikely, the Chicago Fed National Activity Index (CFNAI) indicates.



Sources: Thomson Reuters Datastream, BlackRock Investment Institute, as of 4/22/15.

DRILLING DOWN: EQUITY AND FIXED INCOME OUTLOOKS

Global Region	Valuations	Growth	Profitability	Risk/ Sentiment	Momentum	Our View: underweight	◀	neutral	▶	overweight
DEVELOPED MARKETS						○	○	●	○	○
North America										
United States	−			+	+	○	●	○	○	○
Canada			−	+		○	○	●	○	○
Europe										
Eurozone		−	−			○	○	○	●	○
Switzerland	−			+		○	●	○	○	○
United Kingdom				+		○	○	●	○	○
Asia Pacific										
Japan	+	−			+	○	○	○	○	●
Australia			−			○	○	●	○	○
EMERGING MARKETS						○	○	●	○	○
Asia Pacific										
China	+	+	+		+	○	○	○	●	○
India	−	+	+		+	○	○	●	○	○
South Korea	+	+				○	○	●	○	○
Latin America										
Brazil	+	−		−	−	○	○	●	○	○
Mexico	−	+			−	○	○	●	○	○
Emerging EMEA										
Russia	+	−	−	−	−	○	○	●	○	○
South Africa	−	−	+	−		●	○	○	○	○

Global Sector & Style	Valuations	Growth	Profitability	Risk/ Sentiment	Momentum	Our View: underweight	◀	neutral	▶	overweight
CYCLICAL SECTORS										
Consumer Discretionary					+	○	○	●	○	○
Energy	+	−	−	−	−	○	○	●	○	○
Financials	+	−				○	○	○	●	○
Industrials				+		○	○	●	○	○
Information Technology	−	+	+	+	+	○	○	○	●	○
Materials			−	−	−	○	○	●	○	○
DEFENSIVE SECTORS										
Consumer Staples	−		+			●	○	○	○	○
Healthcare	−	+	+	+	+	○	○	●	○	○
Telecommunications		−		−		○	○	●	○	○
Utilities			−			○	○	●	○	○
STYLES										
U.S. Small/Mid Caps	+		−	−		○	○	●	○	○
U.S. Mega/Large Caps		−	+			○	○	●	○	○

Fixed Income Sector	Valuations	Economics	Risk/ Sentiment	Momentum	Our View: underweight	◀	neutral	▶	overweight
Emerging Markets		−			○	○	●	○	○
U.S. High Yield Credit	+	+	−	−	○	○	○	●	○
U.S. Investment Grade Credit	−	+			○	○	●	○	○
U.S. Mortgage-Backed Securities		+			○	○	●	○	○
U.S. Municipals				+	○	○	○	●	○
Non-U.S. Developed Markets	−	−			○	●	○	○	○
U.S. TIPS	−	−		+	○	●	○	○	○
U.S. Treasuries	−	−		+	○	●	○	○	○

	Supply & Demand	Opportunity Holding Cost	Safe Haven Demand	Inflation Hedge Demand	Momentum	Our View: underweight	◀	neutral	▶	overweight
Gold*		−	−	−	−	●	○	○	○	○

– unattractive   ▭ neutral   + attractive   ● underweight outlook   ● slightly underweight outlook   ● current neutral outlook   ● slightly overweight outlook   ● overweight outlook

Underweight: Potentially decrease allocation   **Neutral:** Consider benchmark allocation   **Overweight:** Potentially increase allocation

* See the appendix for an explanation of the methodology for our gold views and other outlooks. Note that the time frame for these views is generally three to 12 months. Please note that the views expressed above in the factor table are for time frames of at least three months. 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, investment advice or a recommendation regarding the iShares Funds or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future holdings or portfolio of any BlackRock client.

Appendix

The analysis behind our equity views:

Our country and sector views are based on an analysis of the extent to which macroeconomic factors have been priced in at the country and sector level. We are overweight (underweight) countries and sectors where market valuations are low (high) relative to the underlying fundamentals, with the expectation that the economic factors will be fully incorporated into prices in the future. To determine our country views, we look at these macroeconomic factors:

Valuations: If a country has a low price-to-book ratio (P/B) relative to both its own trading history and to other emerging or developed countries, we assign it a "+"; if high, a "-."

Growth prospects: We assign a "+" to countries that are growing faster (as measured by leading indicators and earnings growth prospects) than their past trends and a "-" to countries growing slower.

Corporate sector profitability: A country with a relatively profitable corporate sector (as measured by ROA) is assigned a "+" and we give a "-" to countries growing more slowly.

Risk/Sentiment: A country that is perceived as relatively safe (according to historical volatilities and credit default swap (CDS) spreads) is assigned a "+"; a risky country is assigned a "-."

Momentum: An asset with a relatively good return performance within the previous year is assigned a "+"; an asset with relatively poor returns is assigned a "-."

The factors are not equally important in driving returns at a given point in time. As a result, when it comes to formulating our final views, the various factor readings are not additive. For example, a "+" value factor may overshadow negative readings in other factors, leading us to still like the country.

We use a similar methodology for coming up with our sector and style views, focusing on valuations (P/B and P/E), profitability (ROA), risk / sentiment (historical volatilities and sector spreads) and momentum. In addition, we consider the global growth outlook for cyclical and defensive sectors.

In addition, our view on gold is similarly based on the macroeconomic factors that historically impact gold returns. These include the opportunity cost of holding gold (real interest rates); supply and demand; inflation (gold as a real asset tends to act as an inflation hedge); safe haven demand (during periods of high financial stress, demand for gold tends to increase) and momentum.

The analysis behind our fixed income views:

In general, when formulating our fixed income views, we put more weight on the Valuations bucket than on either the Economics or Risk/Sentiment buckets.

Valuations: We focus on discounted risk-adjusted cash flows relative to market prices. When a sector exhibits market prices well above what our model sees as fair, we assign the sector a "-"; we assign a "+" when the opposite is true.

Economics: In general, when the overall economic environment (as measured by basic economic and/or aggregate balance-sheet fundamentals) is particularly favorable for a given fixed income sector, we assign a "+"; we assign a "-" when the opposite is true.

Risk/Sentiment: When a sector has exhibited strong positive returns/risk appetite (as measured by trailing returns) over the previous several months, we score it a "+"; we assign a "-" when the opposite is true.

Momentum: An asset with a relatively good return performance within the previous year is assigned a "+"; an asset with relatively poor returns is assigned a "-."

RISK APPETITE DIAL

Risk Appetite Index

Investor appetite for risk remained in negative territory despite a slight uptick from our last *Investment Directions* update. The MSCI World Index, which tracks developed-market equity returns, rose 2.7% in April. However, the Chicago Fed National Activity Index fell from -0.18 to -0.42, reflecting a softer U.S. growth outlook. Also, the spread between Moody's Baa- and Aaa-rated corporate bonds widened from 90 to 96 basis points.

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* AUM as of 3/31/15.

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