WEEKLY INVESTMENT COMMENTARY

BLACKROCK®

Dividend-Payers Should Prosper in a Slow-Growth Environment

Markets Pause and Take a Breather

Following five consecutive weeks of gains, equity markets took a break last week and had a relatively quiet week of trading, with stocks ending slightly up. For the week, the Dow Jones Industrial Average was down fractionally, ending the week at 13,992. The S&P 500 Index and Nasdaq Composite fared somewhat better and rose 0.3% to 1,517 and 0.5% to 3,193, respectively. In fixed income markets, yields dropped slightly, with the yield on the 10-year Treasury falling from 2.02% to 1.95%.

Look for Retail Sales to Disappoint

For the coming week, one of the most important economic reports will be January's retail sales figures, which are set to be released on Wednesday. This report should be particularly revealing since it will provide the first real evidence of how consumers are holding up in the face of the higher payroll taxes that took effect at the beginning of the year. At this point, consensus expectations are for sales to climb by 0.1%, a significant fall from December's 0.5% pace. Because the payroll tax increase has had a significant effect on personal income levels, there is some risk that the drop in retail sales could be even worse.

It is true that consumer confidence levels have advanced over the past several weeks, but we would attribute that to the impact of the strong stock market we saw in January and we are not convinced that the upturn in confidence will be translated into stronger sales. Indeed, the sales data we have seen so far has been trending down. For example, Redbook Research's index of weekly sales has been showing a negative trend since early January. While the drop in sales has been modest, it has been consistent week after week. If this trend is confirmed by Wednesday's release of the January data, it would strongly suggest that consumers are feeling the pinch of higher taxes and could also indicate that stocks may be vulnerable to weaker sales levels.

Spending Cuts May Contribute to an Economic Drag

On a related note, an additional factor that looks to have a measurable impact on the near-term economic outlook is the federal budget sequester, the series of automatic government spending cuts that total roughly \$85 billion. These cuts were originally set to take effect at the beginning of the year, but were delayed to March 1 as part of the last-minute fiscal cliff deal. At the time, the hope and expectation was that Congress and the President would be able to come to an agreement to avoid the full impact of the sequester, but despite the two-month



Russ Koesterich, Managing Director, is BlackRock's Global Chief Investment Strategist, as well as Global Chief Investment Strategist for BlackRock's iShares business. Mr. Koesterich was previously Global Head of Investment Strategy for active equities and a senior portfolio manager in the US Market Neutral Group. Prior to joining the firm in 2005, he was Chief North American Strategist for State Street Bank.

As we get closer to the March 1 sequester deadline, we do expect to see higher levels of financial market volatility as investor attention returns to the country's fiscal drama.

SO WHAT DO I DO WITH MY MONEY?

It's the question on everyone's mind. And fortunately, there are answers. Visit blackrock.com/newworld for more information.

delay, the lack of progress in negotiations suggests there is a growing likelihood that the cuts will actually occur next month.

Should the scheduled cuts take effect, we do not think they will represent a "game changer" for the US economy, but they will act as a drag and will raise the risk that growth in 2013 will disappoint. As we get closer to the March 1 sequester deadline, we do expect to see higher levels of financial market volatility as investor attention returns to the country's fiscal drama.

Global Dividend-Paying Stocks Poised to Outperform

We do expect the US economy to expand in 2013, but growth is likely to be slow, particularly in the first half of the year. Given the near-term risks that are affecting the economy and the financial markets, we would re-emphasize an investment theme we have been discussing for some time: a focus on dividend-paying stocks. Dividend-paying stocks can do well in most environments, but they have historically done particularly well on a relative basis during times of sluggish economic growth.

In particular, we would suggest an emphasis on international dividend-paying stocks. This area of the market looks especially attractive on a valuation basis and also offers investors significant income-generating opportunities. With bond yields at or near historic lows, many areas of the global dividend-paying equity market are offering dividend yields that match or exceed those available through fixed income markets. While we do not believe that investors should focus on dividend yields in isolation when looking for investment opportunities (the ability to grow dividends and corporate fundamentals are critically important), they do illustrate the opportunities in the space, whether investors are focused on income or total return.

With bond yields at or near historic lows, many areas of the global dividend-paying equity market are offering dividend yields that match or exceed those available through fixed income markets.

Visit www.blackrock.com

For additional information, or to subscribe to weekly updates to this piece.

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 February 11, 2013 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

©2013 BlackRock, Inc. All Rights Reserved. **BLACKROCK, BLACKROCK SOLUTIONS, iSHARES** and **SO WHAT DO I DO WITH MY MONEY** are registered and unregistered trademarks of BlackRock, Inc. or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.

Prepared by BlackRock Investments, LLC, member FINRA.

Not FDIC Insured • May Lose Value • No Bank Guarantee

