Market Review

Global Equity Strategy

JANUARY 2010

Overview

Developed Markets (DM) Overview*

Developed equity markets finished 2009 with a continued show of strength. The US showed economic strength, through increases in home sales, retail sales and manufacturing sentiment, coupled with declines in unemployment. The Federal Reserve announced that it planned to wind down most emergency lending by February 2010. The United Kingdom saw increases in its services index, as well as an appreciation in home prices and strong retail sales, pointing toward economic expansion. Strong Asian consumer demand in November fueled Japan's tenth consecutive month of a trade surplus, with exports falling at their slowest pace in 14 months. France's national statistic office INSEE published its six-month economic forecast, which predicted that economic recovery would not gain momentum in the first half of 2010. Additionally, while consumerism is necessary to bolster the economy, consumer sentiment is expected to decline on fears of persistent unemployment. Even as the German economy struggles to pick up speed, the unemployment rate declined to 7.60% in November. Despite Swiss PMI indications of economic expansion, the Swiss National Bank stated that it would continue to provide liquidity to the economy while maintaining its expansionary monetary policy as the economic situation, though improving, remains fragile.

USD rallied in the final month of 2009, returning gains versus EUR, JPY and GBP, and declining relative to CAD. Overall, USD appreciated 4.05% against the basket of EAFE currencies, but closed the year down 5.36%.

Emerging Markets (EM) Overview*

Emerging market equities finished in positive territory for the month, bolstering year-to-date gains. Chinese equities appreciated only mildly in December, driven by concern the government will curb new lending to prevent asset bubbles. However, China's growth is expected to climb to 8.80% in 2010. Korean exports, buoyed by strong demand from other emerging economies, surged 33.70% year-over-year (YoY), and the Bank of Korea revised its GDP growth forecast for 2010 to 4.60% from an earlier forecast of 3.60%. Brazilian equities showed modest increases in the month as industrial production, wholesale inflation and retail sales figures all beat market expectations. Taiwan's exports climbed in November as demand for electronics from China, Hong Kong and the US improved, prompting a hiring surge that brought the unemployment rate to a six-month low of 5.86%. Russian equities ended the year in the black as fourth-quarter GDP was estimated to have grown 1.90%, while industrial output expanded in the month. The Russian government has continued to ease monetary policy reducing the benchmark lending rate another 25 basis points (bps) in December for a total reduction of over 400 bps for the year.

USD appreciated 0.22% versus the basket of EM currencies in the month, even as the Brazilian real gained 0.20% versus USD. The price of crude oil appreciated in December, gaining 2.70% for the month, and closing with a spot price of US$79.36.

** All returns are Net Dividend, US$.*

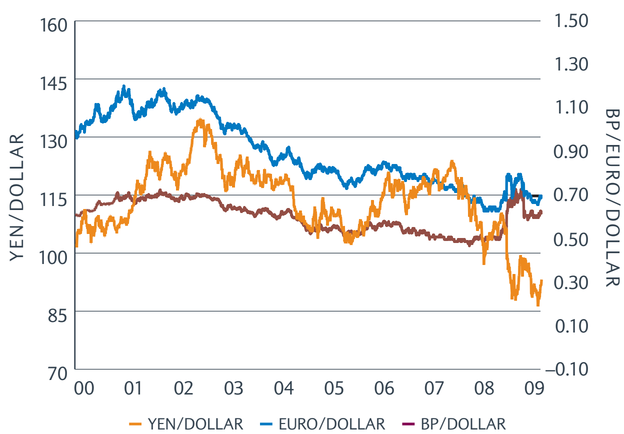
Returns by Region

	DECEMBER RETURN (%)	YTD RETURN (%)
MSCI AC World	2.07%	34.63%
MSCI AC World ex USA	2.11%	41.45%
MSCI EAFE	1.44%	31.78%
MSCI Europe ex UK	0.98%	32.57%
MSCI United Kingdom	2.63%	43.30%
MSCI Japan	0.77%	6.25%
MSCI Pacific Free ex JP	2.22%	72.81%
MSCI Canada	3.10%	56.18%
MSCI USA	2.01%	26.25%
MSCI EM (Emerging Markets)	3.95%	78.51%
MSCI EM Asia	4.56%	73.64%
MSCI EM Latin America	2.01%	103.77%
MSCI EM EMEA	4.61%	67.67%

Index returns are for illustrative purposes only and do not represent actual iShares Fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Sources: MSCI, FactSet. As of 12/31/09.

Performance of U.S. Dollar by Year



Source: MSCI, FactSet, BlackRock As of 12/31/09.

Currency Overview

Euro/Dollar: The euro depreciated 4.44% against USD in the month as the US economic recovery began to take a more solid hold. The Governing Council of the ECB maintained interest rates at 1% in the month as the inflationary pressures over the medium term appear to remain low.

Pound/Dollar: The pound depreciated 1.60% against USD in December. The BOE voted to hold interest rates constant at 0.50% at its December meeting, and noted it would also hold its quantitative easing program unchanged in an effort to further support economic recovery.

Yen/Dollar: The yen depreciated 7.47% versus USD in the month. In an effort to combat a previously dangerous appreciation of the currency, the Bank of Japan held an off-schedule meeting at the beginning of the month to announce a return to quantitative easing intended to bring about a weakening of the currency, which appears to have been successful in the short term.

Canadian Dollar/US Dollar: The Canadian dollar appreciated 0.56% versus USD in the month. Despite increasing positive fundamentals in the US, a stronger Canadian economy continues to bolster CAD versus USD. CAD closed the month at C$1.048/USD.

Developed Markets Country Highlights

	DECEMBER RETURN (%)	YTD RETURN (%)
MSCI United States Index℠	2.01%	26.25%
MSCI United Kingdom Index℠	2.63%	43.30%
MSCI Japan Index℠	0.77%	6.25%
MSCI France Index℠	2.36%	31.83%
MSCI Germany Index℠	1.21%	25.15%
MSCI Switzerland Index℠	1.64%	25.31 %

Source: MSCI, FactSet, BlackRock. As of 12/31/09.

United States: The US market ended the year posting small gains in December buoyed by strong retail sales and strong growth from the manufacturing sector. The Federal Reserve stated that it plans to wind down most emergency lending by February 2010 but did not deviate from its stated intention to hold rates low for an extended period. The US unemployment rate dipped to 10% from the previous month's 10.20%. Retail sales jumped 1.30% in November after rising 1.40% in October. The YoY increase was even more dramatic as November retail sales jumped 1.90% compared to the same month in 2008. The manufacturing index rose to 55.9 in December from 53.6 in November. With a reading above 50 signaling expansion and below 50 signaling contraction, this was very positive news and the highest reading since April 2006. Existing home sales leapt 7.40% to 6.54 million in November, posting their largest gain since February 2007.

United Kingdom: UK house prices rose for the sixth month in a row, according to Halifax, but the lender predicts that housing prices will be flat in 2010. The Chartered Institute of Purchasing and Supply services index stood at 56.8 in December, supporting hopes that the UK economy has emerged from recession. Strong December retail sales further bolstered the argument. However, consumer confidence dropped in December according to the Nationwide Building Society. Only 34% of the survey sample expects the economy to be better in six months, compared to 41% in November. The CPI surged in November to 1.90% and is expected to reach 3% in 2010, but much of this is driven by higher energy costs and a reversal of the temporary cut to the standard value added tax rate. The Bank of England remains unconcerned about this figure as spare economic capacity persists and wage growth is subdued.

Japan: Japanese equities experienced positive returns locally in the month, but a plunging yen hurt non-local returns. In response to concerns that price deflation and a rising yen could push the country back into recession, the Bank of Japan unveiled a new lending program that could inject JPY10 trillion (US$108 billion) into the economy, while leaving rates unchanged at 0.10%. Additionally, the government introduced a JPY7.2 trillion (US$78 billion) stimulus package. The month's economic reports revealed that capital spending by manufacturers declined 40.70% YoY in the third quarter, and third-quarter GDP growth was revised downward from 4.80% to 1.30%. While the Tankan Survey showed an improvement in corporate confidence in the month, the outlook remains negative. On a positive note, strong Asian demand in November fueled Japan's tenth consecutive month of a trade surplus, with exports falling at their slowest pace in 14 months (-6.20% YoY). Additionally, factory output grew in November for the ninth consecutive month, up 2.60%.

France: In mid-December, France's national statistic office, INSEE, published its six-month economic forecast. Based on the report, economic recovery is not expected to gain momentum in the first half of 2010 as companies hold back on investment and unemployment continues to trend upward. GDP is projected to expand 0.40% in the fourth quarter of 2009, and 0.40% and 0.30% in the first and second quarters of 2010, respectively. While exports are expected to grow, unemployment is expected to rise to a 10-year high of 10.20% by the end of June 2010. Consumer demand will be the main support for the economy, though it will probably slow from the current quarter as government incentives fade. French consumer spending fell in November as concerns over unemployment and increased inflation outweighed the impact of government incentives to buy new cars. November's inflation reading indicated a 0.50% YoY increase, the first increase in seven months, due to higher food and energy prices.

Germany: Germany's Federal Labor Agency announced that the unemployment rate dropped 0.10% from October to November, bringing the overall unemployment rate to 7.60%. The agency believes the effects of the recession on employment have been much less dramatic than had been feared. Germany has been able to avoid mass layoffs partly through government-subsidized reduced-hours programs that help companies reduce costs without cutting personnel. Market researchers also reported that consumer sentiment declined for the third month in a row as rising energy prices and fear of future job losses led many consumers to save their money. Other analysts also attributed recent political news for the dampened expectations for the new year. It is hoped that new tax cuts in the Growth Acceleration Law will have positive effects on private income, but consumers do not trust it yet.

Switzerland: According to Zurich-based KOF Research Institute, the economic situation in Switzerland is improving, but will be losing momentum. The Swiss leading indicators increased for the eighth month in December to 1.68 from 1.62. The seasonally adjusted Swiss unemployment rate in November remained at its highest level since 1998 at 4.10%. The SVME Purchasing Managers Index (PMI) missed expectations as it dropped to 54.6 from 56.9 in the month. However, for the fifth month this indicator remained above the 50 mark that separates expansion from contraction. In its monetary policy assessment in December, the Swiss National Bank (SNB) stated that it would continue to provide liquidity to the economy and prevent excessive appreciation of the Swiss franc against the euro. The SNB left its target range for its benchmark interest rate unchanged at 0-0.75%, with a target around 0.25%. The SNB is maintaining its expansionary monetary policy as the economic situation is improving but remains fragile.

Emerging Markets Country Highlights

	DECEMBER RETURN (%)	YTD RETURN (%)
MSCI China Index℠	0.46%	62.29%
MSCI Korea Index℠	8.33%	71.35%
MSCI Brazil Index℠	1.58%	128.06%
MSCI Taiwan Index℠	8.53%	79.21%
MSCI Russia Index℠	3.28%	104.22%

Source: MSCI, FactSet, BlackRock. As of 12/31/09.

China: Chinese equities appreciated mildly in December, driven by concern the government will curb new lending to prevent asset bubbles. Despite the moderate gains this month, China had a stellar year as the CNY4 trillion (US$586 billion) stimulus package and record lending drove the world's third-largest economy to an economic recovery. China's manufacturing index advanced at the greatest pace in 20 months in December, reinforcing the country's recovery. The Purchasing Managers' Index increased to a seasonally adjusted 56.6 in the month, compared to 55.2 in November. According to a forecast made last month by the United Nations, China's growth is expected to climb to 8.80% in 2010, which is four times greater than the United States, as the world economy grows 2.40%. Companies raised CNY185.6 billion (US$27 billion) this year in the IPO market, representing a 79% increase from the prior year as investors took advantage of the economic recovery.

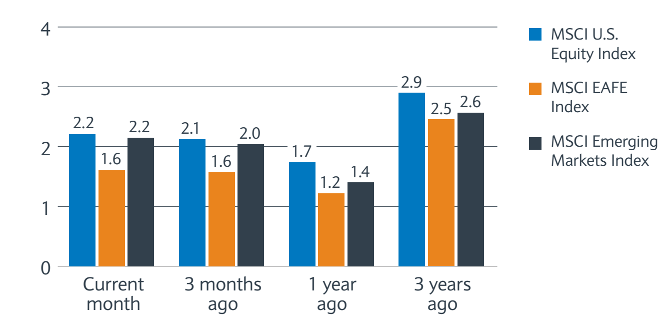
Korea: Korean equities climbed notably higher in December as macroeconomic data provided evidence that a strong economic recovery is taking shape. Exports, buoyed by strong demand from other emerging economies, were up 33.70% YoY after an 18.80% YoY gain in the previous month. Industrial output also jumped 17.80% YoY, up from just 0.20% YoY in the previous month. With the rise in demand for Korean goods, the Bank of Korea revised its GDP growth forecast for 2010 to 4.60% from an earlier forecast of 3.60%. Despite higher forecast of expected growth, policymakers continue to leave interest rates unchanged at 2% in fear of a fragile economy. President Lee Myung-bak pledged to the nation in a New Year's Day address that the government would resuscitate the economy.

Brazil: Macroeconomic activity was positive throughout December, confirming Brazil's economic recovery in 2009. Industrial production readings beat market expectations, rising 2.20% month-over-month versus a consensus of 2%, but retracting 3.20% YoY. Wholesale inflation contracted 1.72% YoY below the market expected contraction of 1.62%, while retail inflation met the market consensus. Retail sales registered above expectations at 8.40% YoY, while market consensus stood at 6.40% YoY. The unemployment rate declined slightly to 7.40%. The central bank acted in line with the guidance provided on the previous meeting minutes, maintaining the benchmark interest rate at 8.75%. Vehicle production and sales grew 50% and 42%, respectively, compared with 2008. During the month, the Brazilian real appreciated 0.20% versus USD following a very positive surprise on trade balance.

Taiwan: Taiwan ended the month and year as a top EM performer. Exports climbed 19.40% in November to US$20.02 billion, up from US$16.78 billion in the same period of last year, as demand for electronics from China, Hong Kong and the US improved. The sluggish economy showed signs of recovery, prompting employers to start hiring and bringing unemployment rate to a six-month low of 5.86%. The central bank left its benchmark rate at a record low at 1.25%, boosting domestic consumption by 2.20% in the third quarter, the first increase since the recession began. Industrial production rose 31.46% YoY in November. Consumer prices fell for the tenth month last month, with prices declining 1.59% YoY. GDP declined 1.29% in the third quarter after a revised second-quarter contraction of 6.85%. The government plans to spend NT$616.8 billion on public works next year, more than the NT$574.1 billion allocated in 2009.

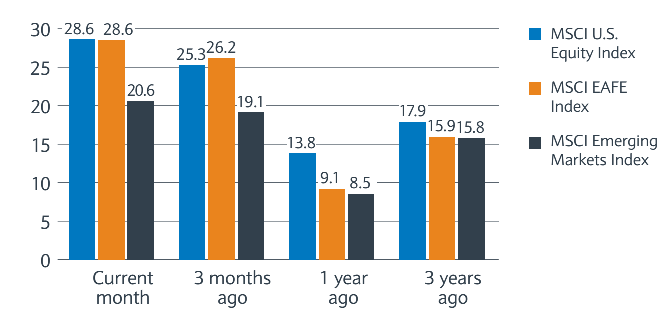
Valuations and Market Returns

Price/Book



Source: MSCI. As of 12/31/09.

Price/Earnings



Sources: MSCI, FactSet, BlackRock. As of 12/31/09.

Returns by MSCI Global Sectors*

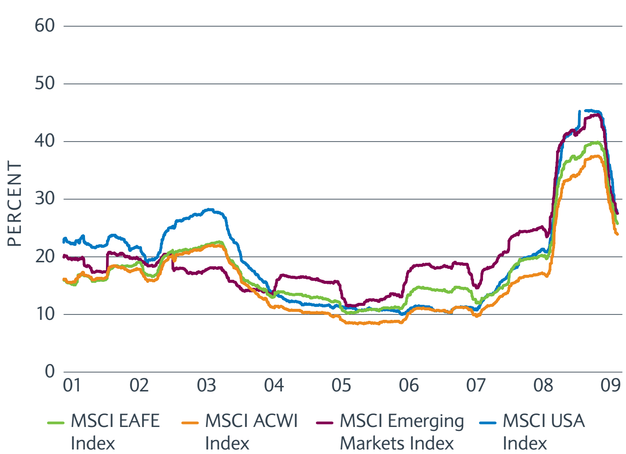
	DECEMBER RETURN (%)	YTD RETURN (%)
Energy	1.21%	26.23%
Materials	2.73%	61.52%
Industrials	1.86%	26.71%
Consumer Discretionary	3.91%	39.62%
Consumer Staples	0.98%	21.67%
Health Care	2.08%	18.89%
Financials	–1.10%	31.08%
Information Technology	5.65%	52.36%
Telecommunications Services	1.01%	13.67%
Utilities	2.82%	6.22%

Sources: MSCI, FactSet. As of 12/31/09.
**MSCI World*

Russia: Russian equities ended the year in the black, despite underperforming the regional European emerging markets benchmark for the month. Russia's economy was one of the hardest hit in 2009 as manufacturing contracted 8.50% and industrial production slumped 11.50% during the year. Recently, some signs of recovery have been seen with fourth-quarter GDP estimated to have grown 1.90%, while industrial output expanded in November. The government has continued to ease monetary policy, reducing the benchmark lending rate another 25 bps in December for a total reduction of over 400 bps for the year. A rebound in oil prices helped Russia become one of the best-performing markets in 2009, with equity prices more than doubling during the year, after suffering a decline of more than 70% in 2008.

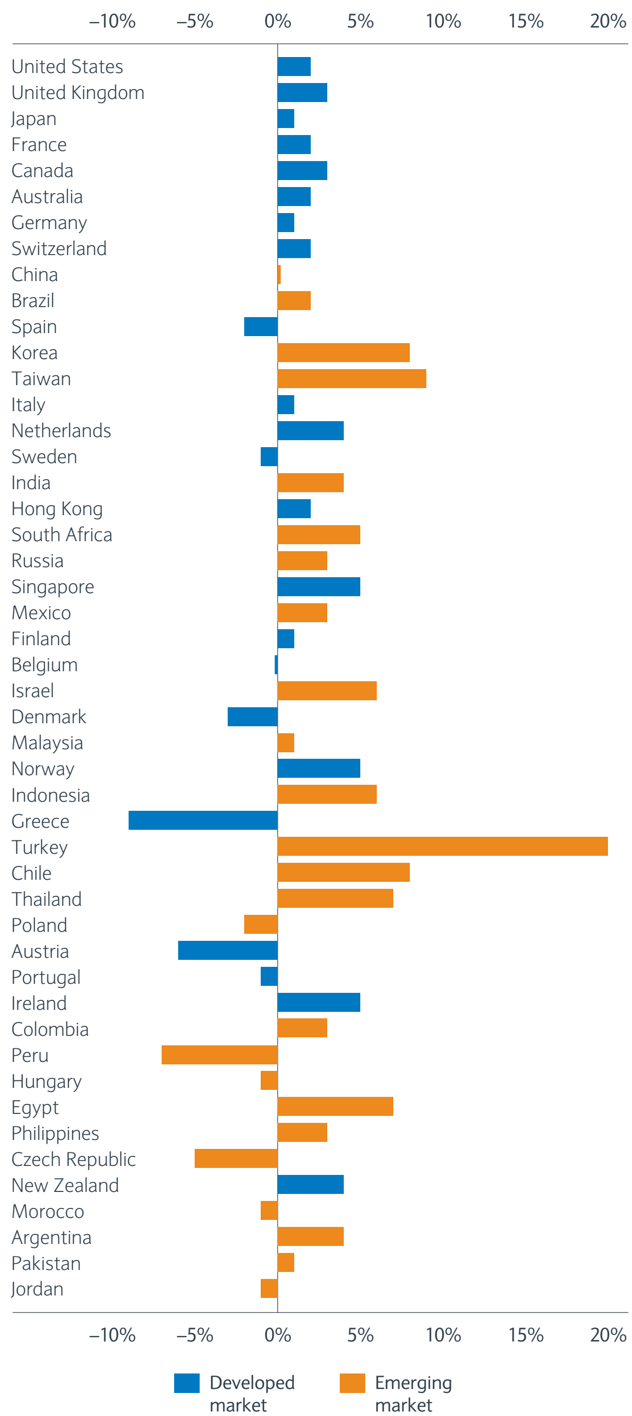
Canada: The Canadian market closed 2009 with a strong December amid Prime Minister Stephen Harper's diplomatic visit to Asia and further signs of an economic recovery. Prime Minister Harper visited China and South Korea in an attempt to expand Canada's economic horizons in the fast-growing markets of Asia and to provide the natural resources that Asia needs to fuel its continued economic growth. Key developments from the trip include a lift of China's ban on Canadian pork, the announcement that China will open a consulate in Montreal, and the announcement that Canada will host a G-20 Summit on June 26 and 27, 2010, in Toronto. The Conference Board of Canada reported that its consumer confidence index rose 3.70% in December, following two straight months of declines, and brought hope for the Christmas shopping season. The Bank of Montreal released economic projections for 2010, including a GDP growth estimate of 2.50% and a mid-year end to the Bank of Canada's low interest rates.

Volatility by Year



Source: MSCI. As of 12/31/09.

MSCI Country Indexes December 2009 Returns
(sorted by size, top to bottom)



Source: MSCI. As of 12/31/09.

Carefully consider the iShares Funds' investment objectives, risk factors and charges and expenses before investing. This and other information can be found in the Funds' prospectuses, which may be obtained by calling 1-800-iShares (1-800-474-2737) or by visiting www.iShares.com. Read the prospectuses carefully before investing.

Investing involves risk, including possible loss of principal.

In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Securities focusing on a single country may be subject to higher volatility.

For actual iShares Fund performance, please visit www.iShares.com or request a prospectus by calling 1-800-iShares.

The iShares Funds ("Funds") are distributed by SEI Investments Distribution Co. ("SEI"). BlackRock Fund Advisors ("BFA") serves as the investment advisor to the Funds. BFA is a subsidiary of BlackRock Institutional Trust Company, N.A., neither of which is affiliated with SEI.

The MSCI ACWI (All Country World Index) IndexSM is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. As of February 2009 the MSCI ACWI consisted of the following 48 developed and emerging market country indexes: Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Jordan, Korea, Malaysia, Mexico, Morocco, Netherlands, New Zealand, Norway, Pakistan, Peru, Philippines, Poland, Portugal, Russia, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, the United Kingdom and the United States.

The MSCI ACWI (All Country World Index) ex USA Index℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets, excluding the USA. As of February 2009 the MSCI ACWI ex USA consisted of the following 47 developed and emerging market country indexes: Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Jordan, Korea, Malaysia, Mexico, Morocco, Netherlands, New Zealand, Norway, Pakistan, Peru, Philippines, Poland, Portugal, Russia, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, and the United Kingdom.

The MSCI EAFE® Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the USA & Canada. As of February 2009, the MSCI EAFE Index consisted of the following 21 developed market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

The MSCI Europe ex UK Index℠ is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe, excluding the United Kingdom. As of February 2009, the MSCI Europe ex UK Index consisted of the following 15 developed market country indexes: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland.

The MSCI Germany Index℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in Germany.

The MSCI Israel Index℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in Israel.

The MSCI Korea Index℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in Korea.

The MSCI Portugal Index℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in Portugal.

The MSCI Colombia Index℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in Colombia.

The MSCI Switzerland Index℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in Switzerland.

The MSCI France Index℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in France.

The MSCI UK Index℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in the United Kingdom.

The MSCI Japan Index℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in Japan.

The MSCI Pacific Free ex Japan Index℠ is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in the Pacific region, excluding Japan. As of February 2009, the

MSCI Pacific Index consisted of the following four developed market countries: Australia, Hong Kong, New Zealand, and Singapore.

The MSCI Canada Index℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in Canada.

The MSCI US Index℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in the US.

The MSCI South Africa Index℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in South Africa.

The MSCI Taiwan Index℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in Taiwan.

The MSCI China Index℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in China.

The MSCI Emerging Markets Index℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of February 2009 the MSCI Emerging Markets Index consisted of the following 25 emerging market country indexes: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey.

MSCI EM (Emerging Markets) Asia Index℠ is a free float-adjusted market capitalization index that is designed to measure emerging market equity performance in Asia. As of February 2009 the MSCI EM Asia Index consisted of the following nine emerging market country indexes: China, India, Indonesia, Korea, Malaysia, Pakistan, Philippines, Taiwan and Thailand.

The MSCI EM (Emerging Markets) Latin America Index℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in Latin America. As of February 2009 the MSCI EM Latin America Index consisted of the following six emerging market country indexes: Argentina, Brazil, Chile, Colombia, Mexico and Peru.

The MSCI EM (Emerging Markets) Europe, Middle East and Africa Index℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in the emerging market countries of Europe, the Middle East & Africa. As of February 2009, the MSCI EM EMEA Index consisted of the following 10 emerging market country indexes: Czech Republic, Hungary, Poland, Russia, Turkey, Israel, Jordan, Egypt, Morocco and South Africa.

iShares®