Market Review

Global Equity Strategy

MARCH 2010

Overview

Developed Markets (DM) Overview*

Developed equity markets registered mixed performance in February, with North American and non-euro European countries performing the best. The threat of default in euro member countries such as Portugal and Greece continued to weigh on the euro region. US equities pushed higher in the month despite signs of slowing economic growth, declining home sales and persistently high unemployment. UK inflation surged to 3.5% in January, well beyond the Bank of England's (BOE) target of 2.0%. Japanese equities declined in February, as improving economic data was muted by persistent deflation and a strong yen. French consumer prices rose 1.2% year-over-year (YoY) on surging energy prices and increases in food and household expenses. German equities declined on continued concerns that the country may be called upon to assist the bailout of Greece. Switzerland continued its ascension out of recession as both the fourth quarter GDP and the Swiss Purchasing Manager's Index (PMI) beat consensus estimates.

USD appreciated versus EUR and GBP in the month, and declined relative to CAD and JPY. Overall, USD appreciated 1.23% against the basket of EAFE currencies in the month.

Emerging Markets (EM) Overview*

Emerging market equities continued their broad decline with marked weakness in EM European countries, but strength in Latin America. Chinese equities experienced moderate gains in February, driven by the banks' continued expansion of credit, a strengthening yuan and a recovering export sector. Korean equities posted their second consecutive month of negative performance on concerns that the global slowdown and increasing over-supply in inventories would adversely affect the country's export sector. Economic announcements in Brazil throughout the month indicated that the economy might be stabilizing and settling on a more moderate pace of growth. Taiwan emerged from recession as fourth quarter GDP grew 9.2% YoY, and export orders increased at their highest rate in 30 years. The Russian equity market was rather volatile during the month; news about the debt troubles of Greece and political troubles in Turkey weighed on the many companies that are heavily dependent on debt financing with publicly listed equity.

USD depreciated 0.52% versus the basket of EM currencies in the month and depreciated 3.33% versus the Brazilian real. The price of crude oil appreciated in February, gaining 9.29% for the month, to close with a spot price of US$79.66.

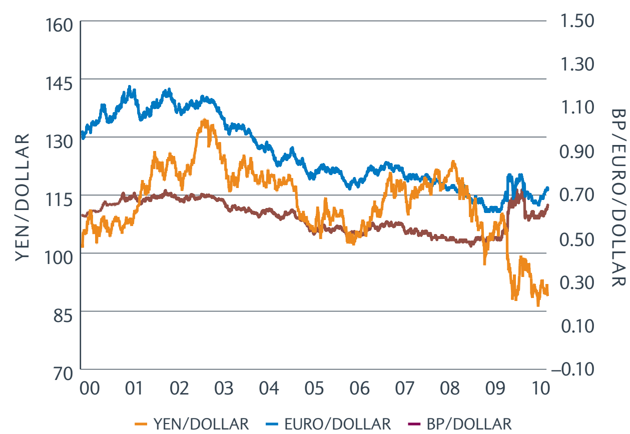
Returns by Region

	FEBRUARY RETURN (%)	YTD RETURN (%)
MSCI AC World	1.27%	–3.10%
MSCI AC World ex USA	0.00%	–4.89%
MSCI EAFE	–0.69%	–5.06%
MSCI Europe ex UK	–2.25%	–8.53%
MSCI United Kingdom	–1.46%	–6.20%
MSCI Japan	1.12%	3.04%
MSCI Pacific Free ex JP	3.12%	–3.88%
MSCI Canada	5.75%	–2.09%
MSCI USA	3.02%	–0.63%
MSCI EM (Emerging Markets)	0.35%	–5.24%
MSCI EM Asia	0.03%	–5.94%
MSCI EM Latin America	4.19%	–5.06%
MSCI EM EMEA	–2.93%	–3.56%

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 2/26/10.

Performance of U.S. Dollar by Year



Source: MSCI, FactSet, BlackRock As of 2/26/10.

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

Currency Overview

Euro/Dollar: The euro depreciated 1.82% against USD during the month on continued concerns over sovereign credit risk and trepidation around the impact of Greece and Portugal on the eurozone. Additionally, USD received a relative boost versus the euro following the US Fed's increase in the Discount Rate mid-month. While this interest rate is lower-profile than the commonly referenced Fed Funds Rate, the increase was seen as a signal towards future Fed policy tightening. The Governing Council of the European Central Bank again held interest rates constant at 1.0% in the month.

Pound/Dollar: The pound depreciated 4.99% against USD in February, as a spike in inflation in the month was seen as temporary, implying the BOE's Monetary Policy Committee would maintain an accommodative stance for the foreseeable future. Weak economic activity in the month led the BOE to hold interest rates constant at 0.5%.

Yen/Dollar: The yen appreciated 2.01% versus USD in the month. Despite strength in the currency, economic activity and industrial production remained strong. As consumer prices continued to decline (albeit at a moderating pace), the Bank of Japan (BOJ) held its Overnight Rate constant at 0.1% in its meeting on February 17 and 18.

Canadian Dollar/US Dollar: The Canadian dollar appreciated 0.81% versus USD in the month, as valuations appeared to swing back towards the fundamental strength of the Canadian economy. As the US and Canadian central banks begin to set the stage for future monetary policy tightening, their actions are expected to affect the relative currency movements as interest rates re-claim center-stage in currency valuation.

Developed Markets Country Highlights

	FEBRUARY RETURN (%)	YTD RETURN (%)
MSCI United States Index℠	3.02%	–0.63%
MSCI United Kingdom Index℠	–1.46%	–6.20%
MSCI Japan Index℠	1.12%	3.04%
MSCI France Index℠	–2.30%	–9.52%
MSCI Germany Index℠	–2.22%	–10.72%
MSCI Switzerland Index℠	1.88%	-1.52%

Source: MSCI, FactSet, BlackRock. As of 2/26/10.

United States: The US market bounced back in February after a rough start in January on mixed economic signals. Manufacturing activity expanded in February for the seventh straight month, but at a slower pace, as the manufacturing index slipped to 56.5 from 58.4 in January. In general, a reading above 50 indicates manufacturing growth and anything below 50 signals contraction. The national unemployment rate for the first month of 2010 fell to 9.7%, down from 10% in December, even though payrolls fell by 20,000 in January. This decline was largely due to an increased number of Americans terminating their job search and removing themselves from the official calculations. Sales of previously owned homes declined 7.2% in January to a seven-month low, indicating that the lack of job growth is undermining government incentives to bolster the housing market. The new home buyer's tax credit is showing few signs of providing the same lift that it did late last year, when purchases increased in November to the highest level since 2007. In news that signaled potential future tightening of the closely watched Fed Funds rate, the US Federal Reserve unexpectedly raised the Discount Rate by 25 basis points (bps) to 0.75% in the month.

United Kingdom: Consumer prices rose 3.5% in January, forcing BOE Governor Mervyn King to write a letter to Alistair Darling, Chancellor of the Exchequer, explaining the reason for the breach of the bank's 2% inflation target. Inflation accelerated in January as prices of alcohol, tobacco, recreation and bills at restaurants and hotels were pushed higher by Darling's reversal of a 2.5% cut in the value-added tax last month. In addition, the pound sterling took a battering in February as markets pondered the possibility of a hung parliament following May's election. A minority-led government may result in an administration unable to impose fiscal discipline to the UK's ongoing debt crisis. A continued weak pound sterling would raise the cost of imports, including energy, which would further compound inflation. However, a weak labor market and ongoing slack in the economy may contain further inflation as jobless claims rose in January to 1.64 million.

Japan: Japanese equities declined in February, as improving economic data was muted by persistent deflation and a strong yen. Fourth quarter GDP grew at a better-than-expected annual rate of 4.6%. January export orders increased 40.9% YoY to JPY 4.9 trillion (US$54.4 billion) as Asian demand, which now accounts for 55% of Japan's exports, showed strength. Industrial production rose 2.5% month-over-month (MoM) in January to register its eleventh consecutive monthly gain, while retail sales logged their first gain in 16 months. Although unemployment fell and consumer confidence rose, declining wages may dampen consumer spending once stimulus-related incentives expire. Deflation persisted for the eleventh consecutive month in January, as prices fell 1.3% YoY. In its continued effort to fight deflation, the BOJ left its Overnight Rate at 0.1% in the month. Toyota made consistent headlines in February having recalled 8.5 million vehicles in a saga that has impaired the firm's revenues and reputation.

France: French equities declined in February on mixed economic data and dampened expectations for the eurozone. French GDP increased 0.6% in the fourth quarter of 2009, exceeding economists' expectations of a 0.5% increase. The GDP expansion marks acceleration in growth over the previous two quarters. However, the gain was mainly due to the country's auto purchase incentive programs, which expired in January. The economy shrank 2.2% for the full year, which was in-line with the 2.25% decline predicted by the French government. Inflation remains a threat, as increases in CPI continued in February. Consumer prices rose 1.2% YoY which was the biggest gain since December 2008. This trend of increases began in November 2009. Energy prices rose 6% from the previous year with the cost of oil products jumping 12.4%. Fresh food prices also climbed, gaining 0.8%, while rent and household services increased 2.5%.

Germany: The eurozone continues to be affected by economic difficulties in Greece, as German equities joined their European counterparts with declines in the month. Chancellor Angela Merkel warned that the euro is currently facing its most serious crisis since its launch a decade ago. Her comment came as European Union (EU) officials visited Athens, reportedly to draft a bailout for Greece. On the domestic front, German unemployment rose slightly in February to 8.7%, up 0.2% YoY. After months of threats of strikes across Germany, public workers have reached an agreement with the government over a long-standing wage dispute. The terms, which were announced at the end of February, resolved the debate on salary increases, retirement options and employment guarantees. This new collective bargaining agreement will affect about 2 million public workers.

Switzerland: Several strong reports indicate that the Swiss economy continued to recover from its recession. Fourth quarter GDP beat consensus estimates, by registering 0.70% growth quarter-over-quarter. The KOF index that aims to predict the economy's direction several months ahead remained robust at 1.87 versus 1.81 in January. However, the KOF's reading marked a decelerating rate of increase after nine consecutive positive months, suggesting that economic recovery may be losing momentum. In the manufacturing sector, the SVME PMI encouragingly increased to its highest level since March 2008. PMI beat expectations as it reached 57.4 compared to 56 in January. Reviving exports and stabilizing private consumption added to signs that the economic situation is improving, despite the relatively high unemployment rate. According to the KOF Bulletin, the Swiss National Bank will continue to monitor the Swiss franc appreciation relative to the euro and is prepared to step in to stabilize the currency if necessary.

Emerging Markets Country Highlights

	FEBRUARY RETURN (%)	YTD RETURN (%)
MSCI China Index[SM]	2.19%	–6.63%
MSCI Korea Index[SM]	–0.67%	–5.10%
MSCI Brazil Index[SM]	4.54%	–6.90%
MSCI Taiwan Index[SM]	–3.67%	–9.91%
MSCI Russia Index[SM]	-5.24%	-2.98%

Source: MSCI, FactSet, BlackRock. As of 2/26/10.

China: Chinese equities experienced moderate gains in February, driven by the banks' continued expansion of credit, a strengthening yuan, and a recovering export sector. Bank lending swelled to CNY1.39 billion (US$203 million) in January and property prices jumped to a 21-month high as banks continue to extend credit in anticipation of the government tightening monetary policy. Lending in January exceeded the prior three months' amount combined. Additionally, export orders increased in both December and January for the first time in 13 months. The Chinese yuan jumped to an 11-month high on speculation that the government will allow more flexibility in the yuan exchange rate. Following a three-year, 21% appreciation in the currency in July 2008, policy makers decided to institute a managed float, holding the yuan's value to about CNY6.83/USD. The currency has maintained this float since that time. Later in the month, Chinese stocks dropped in reaction to the Federal Reserve's unexpected move to raise the discount rate by 25 bps to 0.75%. This move by the Fed came nearly a week after China's central bank increased the lender's reserve requirement for the second time in a month.

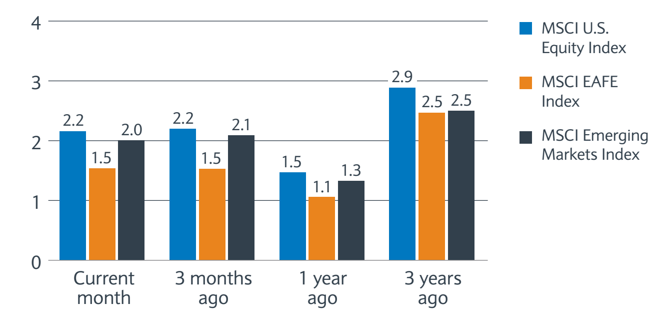
Korea: Korean equities posted their second consecutive month of negative performance in February, driven by risk aversion on renewed fears of a global slowdown. Technology led the markets lower as heavily weighted names such as Samsung, Hynix and LG incurred mid single-digit declines during the month. Despite thinning competition and stronger prices in the fiercely competitive DRAM market, investors continued to show concerns of oversupply in Korea's technology sector. In fact, all five of Korea's top industries -- semiconductors, automobiles, steel, petrochemicals, and ships -- continue to face an oversupply crisis and the situation may be worsening due to rising production from stimulus investment in other countries, namely China. Korean exports will need to rebound from the 14% YoY 2009 decline to return to supply/demand equilibrium. Additionally, recent gains in the KRW will need to moderate to make Korean exports more attractive to international investors.

Brazil: Brazilian equities ended the month with moderate gains as activity announcements throughout February showed the economy might be stabilizing and settling on a more moderate pace of growth. Among the positive readings, industrial production figures came in above expectations rising 18.9% YoY. Vehicle sales and production decreased by 27% and 3%, respectively. Both consumer and wholesale inflation readings showed higher readings than forecasted, leading the Central Bank to release a more hawkish statement in the month. On the employment front, even with 181,000 new jobs created, unemployment increased by 40 bps to 7.2%. Retail sales showed a 9.1% growth YoY (–0.4% MoM versus 1.1% MoM in January) while expectations were around 10.4%. Consumer Confidence readings showed a 5% contraction to 111. During the month, the Brazilian Real appreciated 3.45% to BRL/USD 1.81 followed by a positive surprise on the trade balance.

Taiwan: The Taiwanese government said it was officially out of its worst recession after GDP in the fourth quarter grew 9.2% YoY. Industrial output increased 69.7% YoY in January, after rising a revised 47.8% in December. Exports climbed the most in more than 30 years in January with orders increasing 71.8% to US$30.4 billion from a year earlier. The increase was fueled by holiday spending in China, focusing on demand for the island's computers, mobile phones and television screens. Taiwan's exports to China, its largest importer, reached a 17-month high

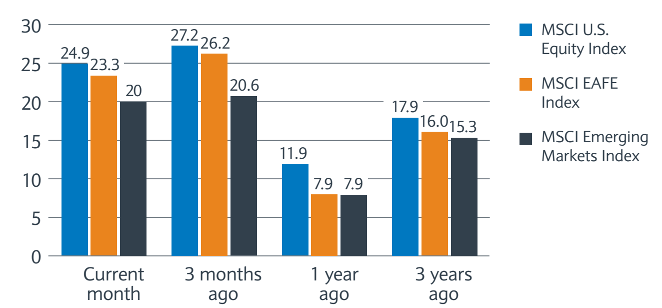
Valuations and Market Returns

Price/Book



Source: MSCI. As of 2/26/10.

Price/Earnings



Sources: MSCI, FactSet. As of 2/26/10.

Returns by MSCI Global Sectors*

	FEBRUARY RETURN (%)	YTD RETURN (%)
Energy	0.34%	–5.14%
Materials	2.55%	–6.35%
Industrials	2.34%	0.63%
Consumer Discretionary	1.72%	–1.10%
Consumer Staples	1.80%	0.23%
Health Care	0.11%	–0.66%
Financials	1.54%	–3.12%
Information Technology	3.12%	–3.35%
Telecommunications Services	–0.91%	–7.52%
Utilities	–1.32%	–6.23%

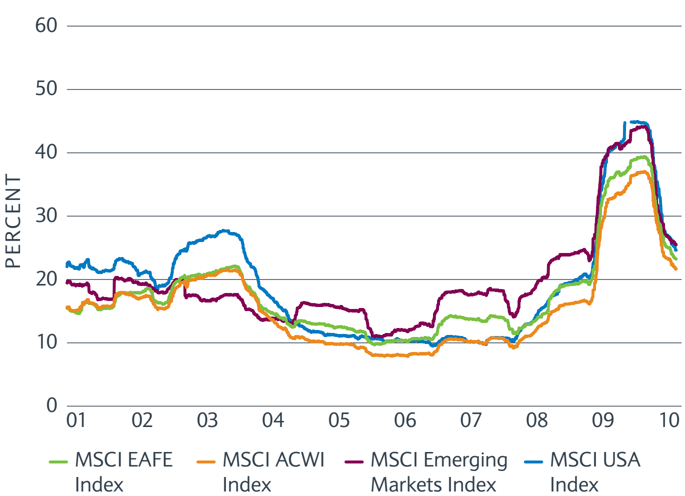
Sources: MSCI, FactSet. As of 2/26/10.
**MSCI World*

of US$9.54 billion in January. The island's January tax revenue jumped 56.5% from a year earlier to NT$116 billion (US$3.6 billion), as the economic recovery boosted income. Taiwanese lawmakers approved the government's revenue target of about NT$1.552 trillion for 2010 and spending target of about NT$1.715 trillion, for an annual deficit of NT$162.7 billion (US$5.07 billion). Taiwan and China will hold the second round of trade pact talks in March.

Russia: Russia was the second-poorest-performing market in February outperforming only Turkey in the emerging markets on a local-currency basis. The equity market was rather volatile during the month as concerning news about the debt troubles of Greece and political troubles in Turkey weighed on the region. Corporations in Russia have high amounts of debt, with US$85 billion to US$100 billion in bonds that must roll over, equivalent to over 8% of GDP. However, with high government-controlled currency reserves and low public debt, investors have been accepting of the leverage. The potential crisis in Greece however, brought a bit of contagion to Russia stoking some fear that companies could have trouble financing their obligations. After the EU stepped in to support Greece, the market breathed a sigh of relief and rallied. Russia's central bank cut the refinancing rate another 25 bps to continue to bolster the economy.

Canada: The Canadian market rebounded in February, driven largely by better-than-expected earnings from banks in the Canadian financial sector. Shares of Canadian financial securities ended up higher for the month as several of the largest Canadian banks reported higher trading revenues and investment banking fees that surpassed most analyst estimates. The materials sector was also a key contributor for the month as shares of Canadian gold miners rallied throughout the month, with gold surpassing US$1,117.9/oz in February. Gold bullion returned 3.4% for the month as investors sought out the metal amid global economic uncertainty and signs from the US Federal Reserve that US interest rates would remain low in the near term.

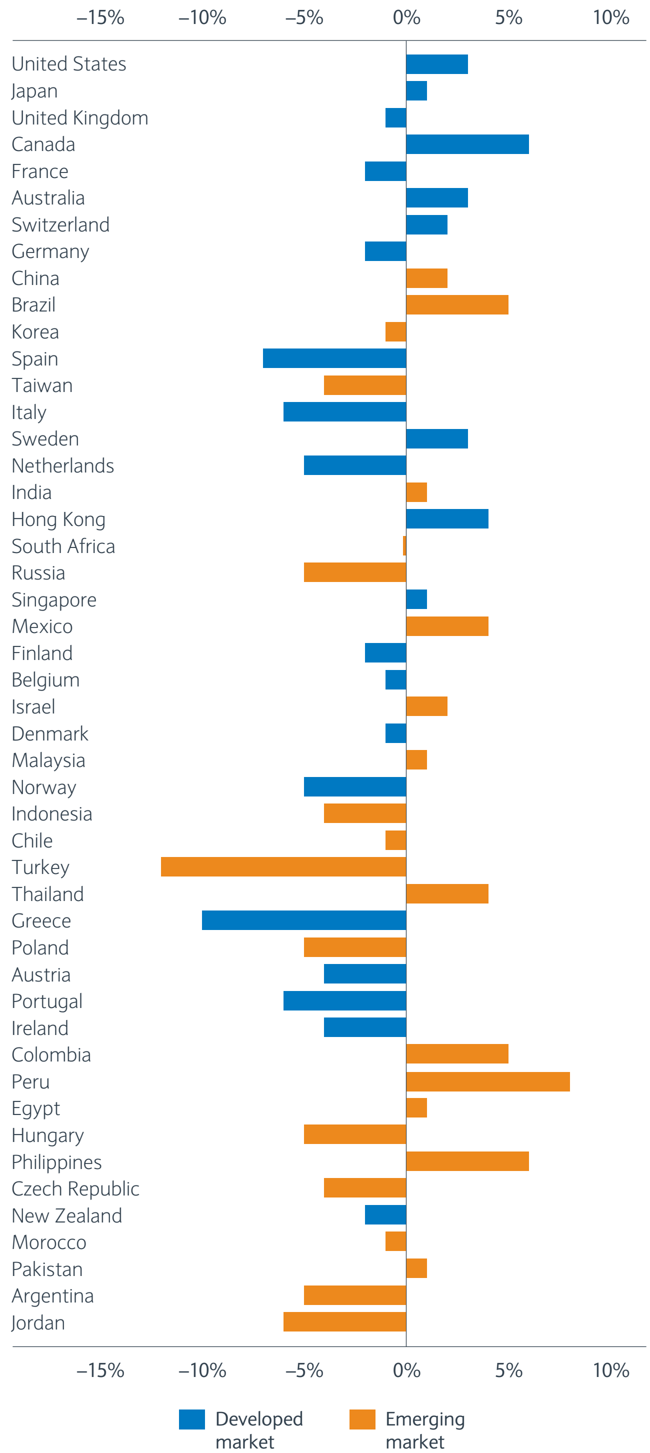
Volatility by Year



Source: MSCI. As of 2/26/10.

MSCI Country Indexes February 2010 Returns

(sorted by size, top to bottom)



Source: MSCI. As of 2/26/10.

The MSCI ACWI (All Country World Index) Index℠ 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 2010 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 2010 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 2010, 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 2010, 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 2010, 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 2010 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 2010 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 2010 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 2010, 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.

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