Contents

Economics & Strategy

Global Snapshot

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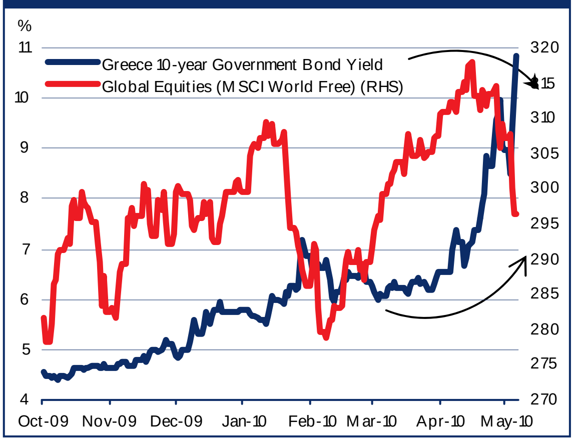
May 2010

- What began as a localised Greek budget crisis a few months ago, quickly spiralled into a fully fledged global contagion with indiscriminate selling of all risk assets in the second half of April.

- Core developed government bonds benefited from the flight to quality whilst emerging market and peripheral European government bonds sold off sharply. The trade-weighted US dollar rallied whilst the euro fell sharply due to the region's central role in the budgetary crisis. Commodity producing and emerging market currencies were also hit hard as investors discounted a potential hit to global growth.

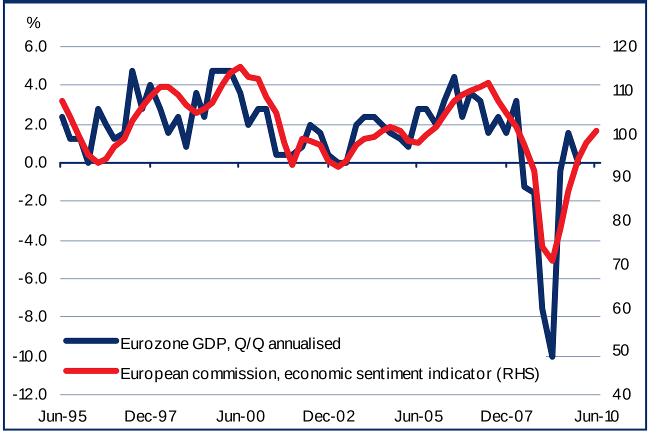
- Global growth appears to have begun to shift from a government stimulus and inventory-led rebound to something more sustainable, though the European fiscal-led 'crisis in confidence' could disrupt this if it were to persist. Financial markets are likely to continue to force politicians' hands on fiscal consolidation until more concrete steps are taken. The prevailing environment presents a high level of uncertainty for risk assets in the weeks, and certainly, the months ahead.

Contagion hits asset markets



Source: Bloomberg, Henderson Global Investors, as at 30 April 2010

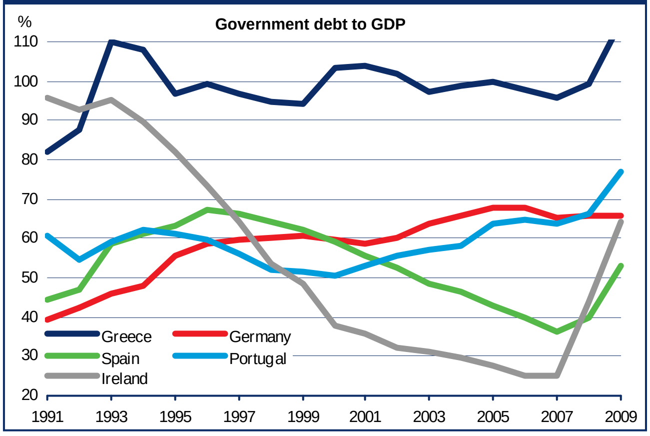
Eurozone economic sentiment improving, despite crisis



Source: Bloomberg, latest data available as at 30 April 2010

- Following a period of slightly more subdued outturn, leading economic indicators in the Eurozone have shown renewed strength in recent months.
- The Composite Purchasing Manager's Index, IFO expectations and, EC economic sentiment, all picked up in March and April after having moved sideways on the back of poor weather conditions at the beginning of the year.
- These recent outturns point to a further improvement in Eurozone economic growth going forward. However, the ongoing peripheral European budgetary crisis runs the risk of derailing the economic recovery if it were to persist and become a full-blown systemic crisis.

Europe's debt woes



Source: Bloomberg, Henderson Global Investors, as at FY 2009

- What began months ago as a fiscal crisis, localised to the relatively small Eurozone economies of Ireland and Greece, has now spread to include Portugal, Spain and Italy.
- Whilst investors continue to focus on the immediate policy response, or lack thereof, questions over the Eurozone fiscal sustainability remain.
- With the Eurozone's debt-to-GDP ratio (on a GDP-weighted basis) already above 80% and rising, negative demographic trends in train and, borrowing costs set to rise, Eurozone governments must engage in credible fiscal consolidation or face an extended period of economic and social malaise.

Chinese growth remains robust

Source: Datastream, Henderson Global Investors, as at 15 April 2010

- A recent wave of concern over the sustainability of China's growth boom has emerged as a number of data releases came in slightly weaker than expected – among them the Purchasing Manager's Index and export growth.
- There's no debating that growth will eventually slow as the Chinese authorities reign in lending which has been growing at break-neck pace. The key questions are when and, by how much?
- Based on traditional lags between the lending data, leading indicators and the real economy, the next three quarters are more likely to see an acceleration in economic growth than a slowdown.

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Economic outlook

Consensus GDP growth estimates (%)	2009	2010	2011
US	-2.4	3.2	3.1
Japan	-5.2	2.2	1.6
Eurozone	-4.0	1.2	1.5
UK	-4.9	1.3	2.3
G7	-3.5	2.1	2.2
Asia ex Japan	5.5	8.0	7.5
World	-2.1	3.2	3.3

Source: Consensus economics, as at 12 April 2010

- An improving labour market, low inflation and corporate restocking is likely to result in better-than-expected growth during the second quarter.
- Economic growth looks likely to ease in the second half of 2010 as the government sector becomes a headwind and monetary policy begins to tighten later in the year.
- A continued labour market improvement should subsequently become the driver for more sustainable growth.

Consensus inflation (CPI %)	2009	2010	2011
US	-0.3	2.1	1.9
Japan	-1.4	-1.1	-0.2
Eurozone	0.3	1.2	1.4
UK	2.2	2.7	1.7
G7	0.0	1.4	1.4
Asia ex Japan	1.9	4.0	3.8
World	1.4	2.7	2.7

Source: Consensus economics, as at 12 April 2010

- Headline inflation appears to have bottomed out on stronger energy and food prices.
- Persistent ‘excess slack’ is likely to restrain global core inflation until at least the fourth quarter.
- Taken together, we believe headline inflation will rise but remain below target for most of 2010.

Interest rates (%)	30 April 2010	Jun 2010*
US	0.25	0.25
Japan	0.1	0.1
Euro-area	1.0	1.0
UK	0.5	0.5

Source: Datastream, Henderson Global Investors, as at 30 April 2010
* Henderson Interest Rate Team forecast

- Developed market interest rates are likely to begin rising by the fourth quarter, though rate hikes could be delayed by the ongoing European fiscal crisis and related market volatility.
- The US Federal Reserve (the Fed) will likely employ other tools – including reserve management, reverse repos and paying interest on excess reserves – to tighten monetary policy this year and in 2011. In our view, the Federal Funds target interest rate may not be increased until the end of 2011, possibly longer.
- Some emerging market central banks have fallen behind the economic cycle and thereby risk stoking inflation in their respective economies.

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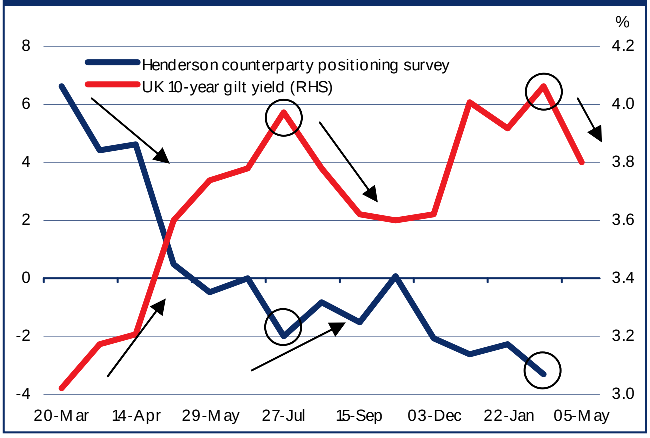
A volatile month for government bonds

Source: Bloomberg, Henderson Global Investors, as at 30 April 2010

- Government bonds had a volatile month. US Treasuries (-18bp) and German Bunds (- 7bp) benefited from a flight-to-quality whilst emerging market and peripheral Eurozone government bonds fell sharply to end the month.
- The trade-weighted US dollar continued to perform well whilst the euro fell further on the back of the Eurozone's fiscal woes.

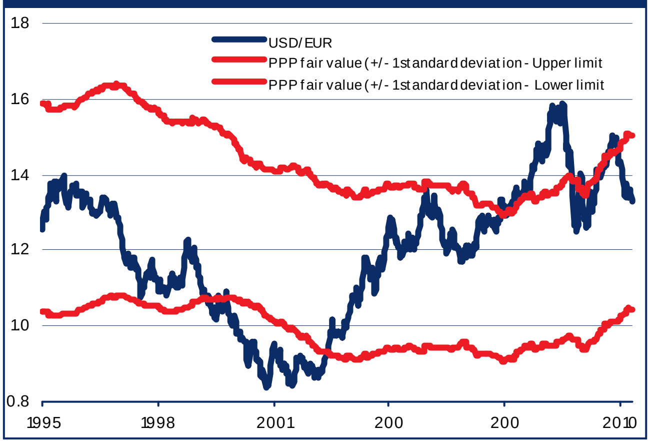
Investors were unprepared for the Greek contagion



Source: Datastream, Henderson Global Investors, as at 5 May 2010

- It has been a popular trade to sell (be short) UK government gilts on the prospect of a hung parliament and/or delays in cutting the UK's large budget deficit.
- As a result, investor positioning had left the gilt market open to a potentially sharp rally on any marginal news.
- As such, events within the Eurozone and polls showing the potential for a strong mandate in UK government to tackle the budget deficit sent gilts rallying rather sharply (-15 bp) during the last week of the month.
- However, events remain fluid following an election result which did not deliver the mandate for a single party to govern within the UK, but given the difficulty of coalition politics inherent in the Westminster parliamentary system, the risk is for gilts to weaken on further political instability.

Euro approaching fair value



Source: Bloomberg, Henderson Global Investors, as at 30 April 2010

- Purchasing power parity (PPP) models of currency fair values rarely provide good investment signals as currency pairs can remain over or undervalued for considerable periods of time.
- Mispriced currency pairs, along with many other assets, often correct in a generalised and disorderly unwinding of imbalances.
- At such junctures, PPP models do become instructive as to the direction and potential magnitude of these adjustments.
- The euro is in the midst of such a disorderly decline and is currently approaching the middle of it's fair value range. The euro could conceivably fall to par with the US dollar and still be within its fair value range.

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10-year bond yields (%)	30 April 2010	2010*	2011*
US	3.86	↑↑	↑
Japan	1.28	↑	↑
Eurozone	2.97	↑↑	↑
UK	3.86	↑↑	↑

Source: Datastream, Henderson Global Investors, as at 30 April 2010
* Henderson Interest Rate Team view

- Improving economic growth, rising inflation, normalising interest rates and heavy issuance will likely send government bond yields higher in 2010.
- Discrepancies in government bond performance will persist. Strong-balance sheet countries' bonds, already in the midst of a hiking cycle (Australia, Canada, Norway), will outperform weak-balance sheet countries' bonds (EU, UK, US) whose central banks will only be preparing/beginning to hike interest rates in the second half of the year.

Currencies	30 April 2010	2010*	2011*
Yen/$	94.0	↑	→
$/Euro	1.33	↓	→
Euro/£	1.15	↑	↑
$/£	1.53	→	↑

Source: Datastream, Henderson Global Investors, as at 30 April 2010
* Henderson Interest Rate Team view

- The US dollar could continue to appreciate on the back of global risk aversion during the next few weeks, but the path of least resistance for the dollar remains down in the longer term.
- Sterling is likely to struggle against most G10 currencies until a new government puts forward a credible fiscal consolidation plan. To that end, if a stable parliamentary coalition emerges, sterling could rally rather sharply in short order, but fiscal consolidation will be required for any rally to be sustained.

Emerging markets and commodities	2010*	2011*
G4/EMFX	↑	↑↑
Emerging market interest rates	↑	↑↑
Oil	↑	↑↑
Base metals	↑	↑↑
Precious metals	↑	↓↓
Agriculture	→	↑↑

Source: Datastream, Henderson Global Investors, as at 30 April 2010
* Henderson Interest Rate Team view

- Strong productivity growth, higher relative interest rates, positive demographics and, in some cases, an abundance of natural resources should ensure emerging market currency appreciation against the major, non-commodity producing developed markets.
- Gold has benefited from the spike in global risk aversion and flight to safety. However, as global liquidity is removed in the second half of 2010, gold will likely suffer.
- Oil and base metals should continue to benefit from an improving economy and tight supply conditions.

↑↑	Strong upward trend
↑	Upward trend
→	Little change
↓	Downward trend
↓↓	Strong downward trend

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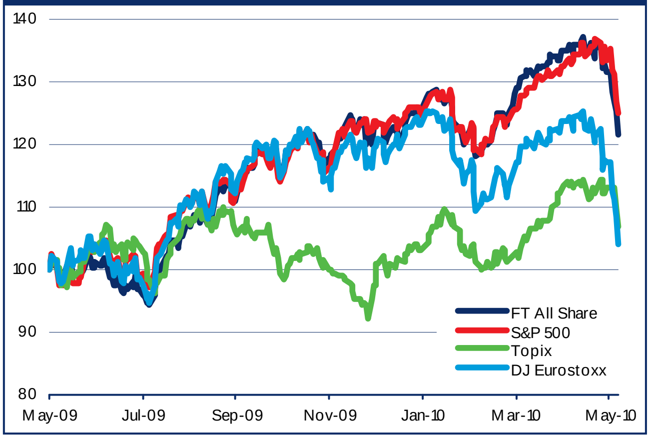
Equity markets began to slide late in April



Source: Datastream, Henderson Global Investors, as at 07 May 2010

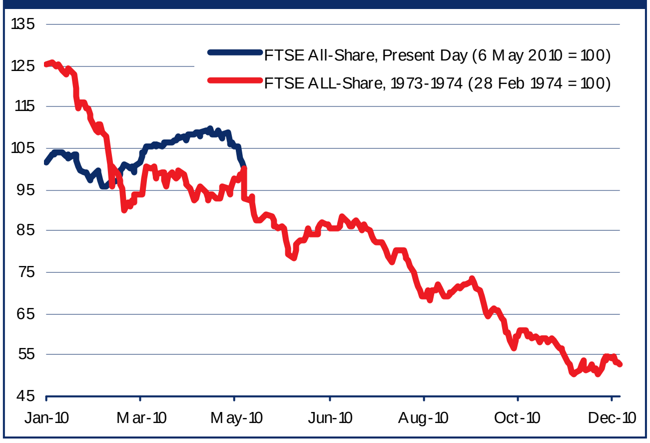
- Global stock markets were flat to negative in April, with the MSCI World posting a feeble 0.3% gain on Chinese tightening measures, the investigation of Goldman Sachs for fraud, and the unfolding 'Greek tragedy', which ushered in a Eurozone and IMF bailout for the indebted country – on the condition that tough austerity measures would be implemented.
- Europe, unsurprisingly, was the weakest performer as sovereign debt 'contagion' fears spread, with the UK (-1.4%) also unsettled on fears that the upcoming general election would deliver a hung parliament. The US, however, displayed some signs of resilience as investors chose to focus on a strong earnings season (+1.6%).

Low implied volatility suggested potential market correction

Source: Datastream, Henderson Global Investors, as at 7 May 2010

- The strength of economic data, earnings reports and assurances from the Federal Reserve that low interest rates were likely to persist for longer, saw investors fairly sanguine in early April.
- This upbeat outlook was confirmed by implied volatility measures edging lower. As this data is derived from the options market, this lower volatility could be viewed as a lack of demand for options and perhaps a lack of protection in place if the equity market falls.
- Technical measures of the equity market also indicated that many indices were overbought. In combination with lower volatility, this left them vulnerable to potentially negative data such as Chinese tightening policy, Goldman Sachs' litigation and fears of potential contagion from a sovereign debt crisis in the periphery of Europe – all of which occurred in mid April.

Hung Parliament: Negative market reaction?



Source: Datastream, Henderson Global Investors, as at 7 May 2010

- The UK has been anticipating the election on 6th May since it was announced a few weeks ago. Investors are keen to know the result because of the large deficits the country is now facing and how the new government will tackle them.
- The last time the UK experienced a hung parliament was following the 1974 election. Similar to today, the FTSE All-Share was weak and fell by over 45% in the seven months subsequent to the 1974 result, but today's macro-economic environment is very different to the early 1970s. However, equities did fall by a further 20% following the Labour victory in the second election in October 1974.

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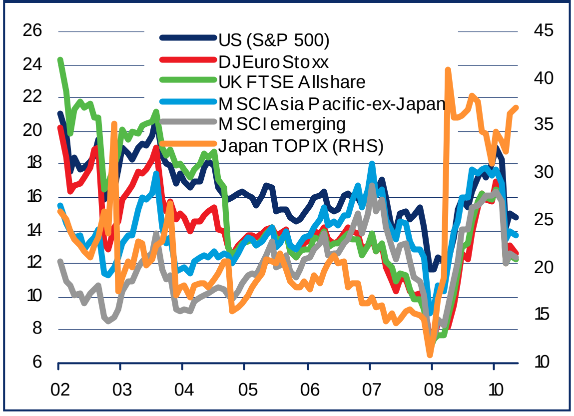
Equity market levels	2010*	2011*	2012*
US	↑	↑	↑↑
Japan	↑	↑	↑
Euro-area	↑	↑	↑↑
UK	↑	↑	↑↑
Asia ex Japan	↑↑	↑	↑
MSCI Emerging Markets US$	↑↑	↑	↑

Source: Henderson Global Investors, as at 30 April 2010
* Henderson Interest Rate Team view

Price-to-forward earnings ratio



Source: Datastream, Henderson Global Investors, as at 30 April 2010

Consensus EPS growth forecast	2010	2011	2012
US	34.7	18.2	13.7
Japan	N/A	102.8	22.4
Euro-area	26.2	23.4	14.2
UK	45.2	23.0	12.3
Asia ex Japan	29.2	15.8	11.9
MSCI Emerging Markets US$	33.3	18.7	14.6

Source: Datastream, Henderson Global Investors, as at 30 April 2010

- With 90% of S&P 500 companies having reported at the time of writing, 77% of companies had beaten their earnings estimates in the first quarter.
- Due to Japanese earnings estimate volatility, a valid growth rate for 2010 cannot be calculated.
- Equities appear good value relative to forward earnings and inexpensive on a cyclically-adjusted (Graham-Dodd) price-earnings basis.
- With resource utilisation rates beginning to bottom out and inventories at a low level, the prospect for further multiple expansion has improved.

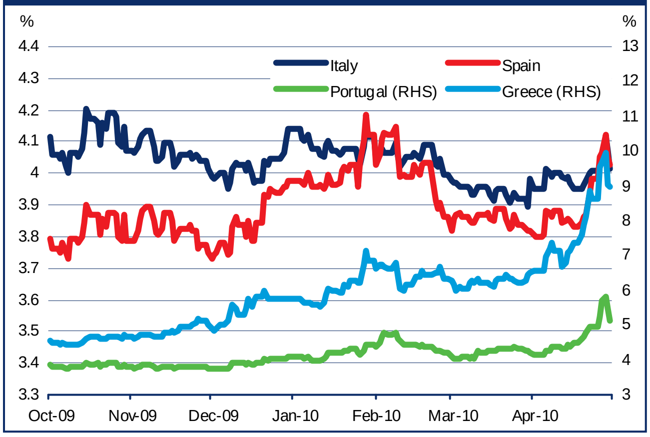
Equity market returns for April 2010 (%)	Local	Sterling	Dollar
US	1.5	0.9	1.5
Japan	0.8	-0.2	0.4
Euro-12	-2.8	-4.9	-4.3
UK	-1.6	-1.6	-1.0
MSCI Far East ex Jap (US$)		1.3	1.9
MSCI Emerging Markets US$		0.4	1.0

Source: Bloomberg, Henderson Global Investors, as at 30 April 2010

- The equity market had become technically overbought prior to the most recent correction, but the speed and magnitude of the selloff still caught many investors off-guard.
- We believe the rally will continue during the first half of 2010 on positive earnings growth and continued positive surprises in both industrial production and household consumption data.
- The outlook beyond the second quarter remains highly uncertain in our view, with fiscal and monetary policy tightening expected to weigh on equities.

↑↑	Strong upward trend
↑	Upward trend
→	Little change
↓	Downward trend
↓↓	Strong downward trend

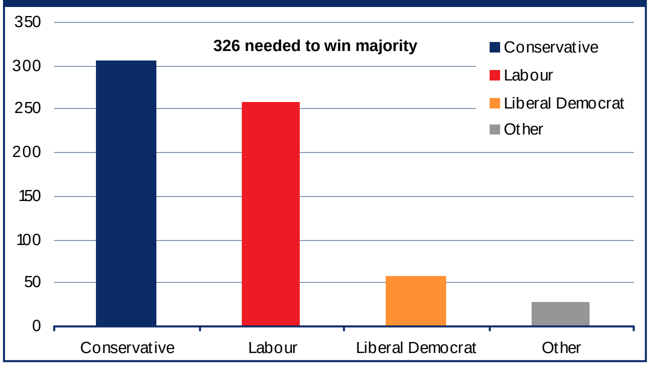
The European Union steps in



Source: Bloomberg, Henderson Global Investors, as at 30 April 2010

- As we were in the process putting together this months' Global Snapshot, European policymakers announced their response to the spiralling Eurozone deficit crisis.
- The response amounted to €750 billion in loans, guarantees and other funds – on top of the €110bn already allocated to Greece – and a decision by the European Central Bank to engage in sterilized purchases of Eurozone government bonds to promote the orderly functioning of those bond markets which have broken down due to investors concerns over default risk.
- The initial market reaction was very positive with risk assets, including in this case peripheral Eurozone government bonds, rallying across the board and core government bond markets selling off sharply. The package appears sufficiently large to allow risk assets to refocus on prevailing economic data and thereby continue to grind higher as per the baseline scenarios laid out in this document.

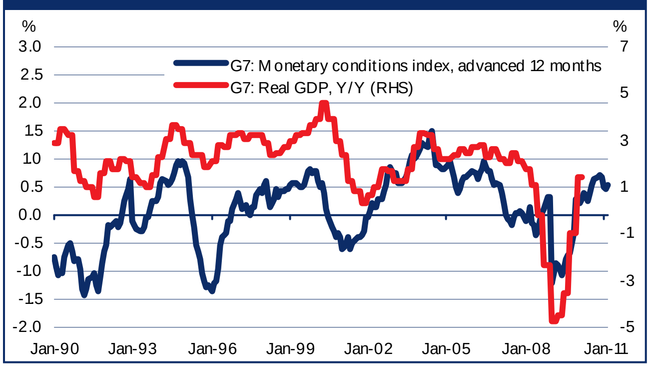
UK: hung parliament



Source: Henderson Global Investors, as at 10 May 2010

- Last months' general election in the UK resulted in a ' hung parliament' whereby no one party won an absolute majority and thus, the ability to form a government.
- The outcome granted the Liberal Democratic (LibDem) party actual parliamentary power for the first time in their history, as their support for either of the Conservative or Labour parties could allow each to form a government respectively.
- Events remain fluid and talks are ongoing between the LibDems and the Conservatives and, the LibDems and Labour.
- UK asset prices – particularly gilts and sterling – will remain volatile as marginal news on the progress of negotiations continues to emerge.

The liquidity withdrawal is coming ….



Source: Henderson Global investors, as at 30 April 2010

- A number of central banks began hiking interest rates in April and a handful of others signalled that conditions are quickly becoming less appropriate for the current state of loose monetary policy.
- The level of interest rates and amount of liquidity in the system are paramount to both the outlook for growth and asset prices going forward.
- The majority of global central banks are expected to either be hiking, or preparing to hike, interest rates by the fourth quarter of this year.
- As a result, the prospects of deteriorating global liquidity and resultant asset price volatility is likely to continue to rise going forward.