

Global Snapshot

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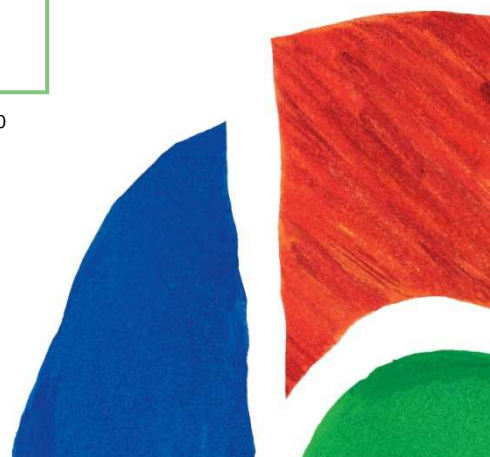
8 Key issues

- Following a strong start to the year, risk assets were hit hard by a rising tide of regulatory backlash against the financial sector, the fiscal crisis in Greece, and the beginning of monetary policy normalisation by the Chinese authorities.
- Global government bonds had a strong month, benefiting mostly from a flight to quality amongst rising global risk aversion. The US dollar and Japanese yen also benefited in this environment, whilst fears of a broader eurozone government budget problem sent the euro lower.
- Policymakers face a tremendous challenge in trying to foster sustainable growth against the need for more fiscal austerity. Monetary policy will likely do the 'heavy lifting' in the short run, but financial markets will force politicians' hands on fiscal consolidation. In this environment, the outlook for global assets has become more uncertain.

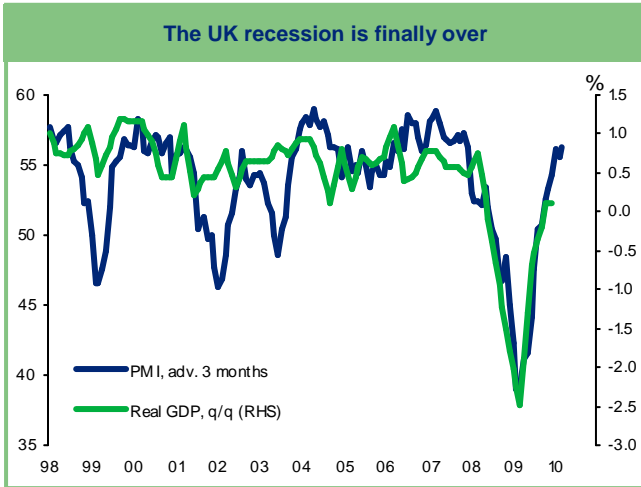


Source: Bloomberg, Henderson Global Investors, as at 31 January 2010

Adrian Pankiw
Strategist

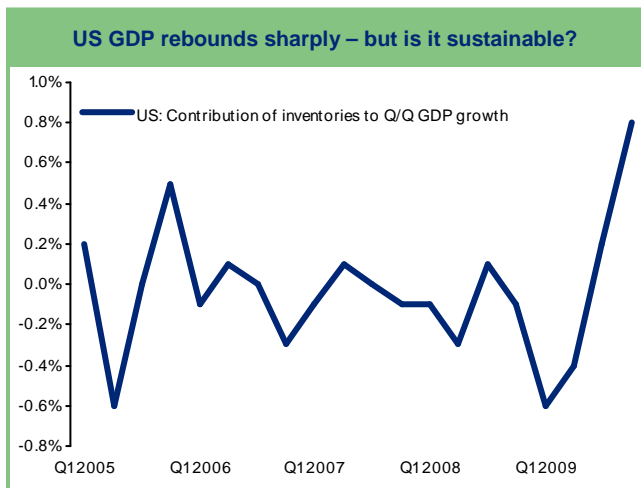


Economic outlook



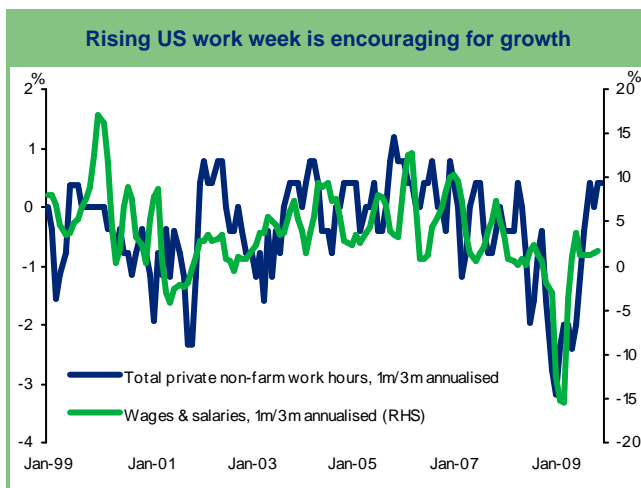
Source: Bloomberg, Datastream, as at 31 January 2010

- The UK's longest recession since the second world war finally ended in the fourth quarter of 2009 with a meagre 0.1% rise in output (GDP).
- The outturn was substantially weaker than had been expected as the business services and finance sector remained a drag on growth. The government and distribution, hotels and catering sectors were the sources of most of the growth, whilst construction had a negligible negative contribution.
- The GDP data is likely to be revised slightly higher, possibly to 0.3%, given the relatively stronger growth profile suggested by leading indicators.



Source: Bloomberg, Henderson Global Investors, as at 31 January 2010

- The US economy recovered more smartly than expected in the fourth quarter, having posted a 1.4% (5.7% annualised) gain on the previous quarter.
- However, questions remain as to the sustainability of such a recovery given that 60% of fourth quarter 'growth' came from a sharp slowdown in corporate destocking.
- Supporting the thesis that the ongoing recovery – the pace of which is likely to downshift slightly in the second half of 2010 – is becoming more sustainable, was the news that wages and salaries growth picked up for the third straight quarter to 2.2% annualised.



Source: Bloomberg, Henderson Global Investors, as at 31 January 2010

- The positive income achieved in the fourth quarter is being driven by a number of factors, including a falling rate of newly unemployed (our payrolls model points to a return to job growth during the first quarter of 2010) and a rising work week.
- It is important for this trend to continue if US economic growth is to become more self sustaining once government stimulus begins to wane around mid-2010.

Economic outlook

Consensus GDP growth estimates (%)	2009	2010	2011
US	-2.5	2.9	3.1
Japan	-5.4	1.3	1.5
Eurozone	-3.9	1.3	1.6
UK	-4.7	1.5	2.2
G7	-3.6	2.0	2.2
Asia ex Japan	5.2	7.8	7.4
World	-2.2	3.0	N/A

Source: Consensus economics, as at 11 January 2010

- Low interest rates, government spending, falling inflation and a stabilising labour market should allow growth to continue to improve until mid-2010.
- The growth outlook for the second half of 2010 remains somewhat less certain as the spending from government fiscal measures is set to wane.
- A continued labour market improvement should subsequently become the primary driver for growth.

Consensus inflation (CPI %)	2009	2010	2011
US	-0.3	2.2	1.9
Japan	-1.3	-1.0	-0.3
Eurozone	0.3	1.2	1.5
UK	2.1	2.4	1.7
G7	0.0	1.4	1.5
Asia ex Japan	1.8	3.6	3.7
World	1.4	2.6	N/A

Source: Consensus economics, as at 11 January 2010

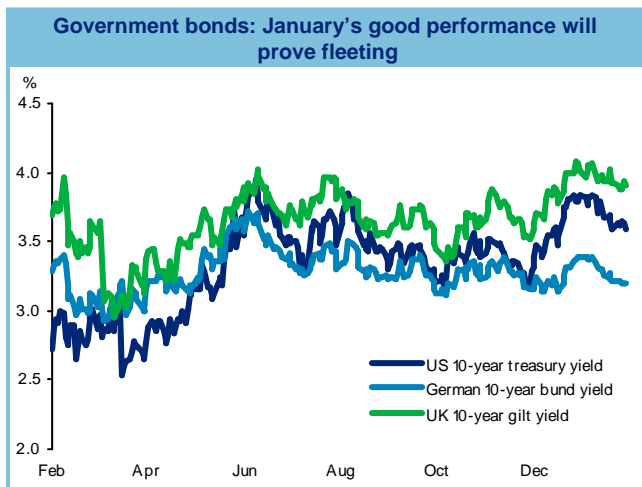
- Headline inflation appears to have bottomed out on stronger energy and food prices.
- Weak economic growth and the resultant excess slack are likely to push global core inflation below 1%.
- Taken together, headline inflation will rise, but remain below target for most of 2010.

Interest rates (%)	31 Jan 2010	Jun 2010*
US	0–0.25	0–0.25
Japan	0.1	0.1
Euro-area	1.0	1.0
UK	0.5	0.5

Source: Datastream, Henderson Global Investors, as at 31 January 2010
* Henderson Interest Rate Team forecast

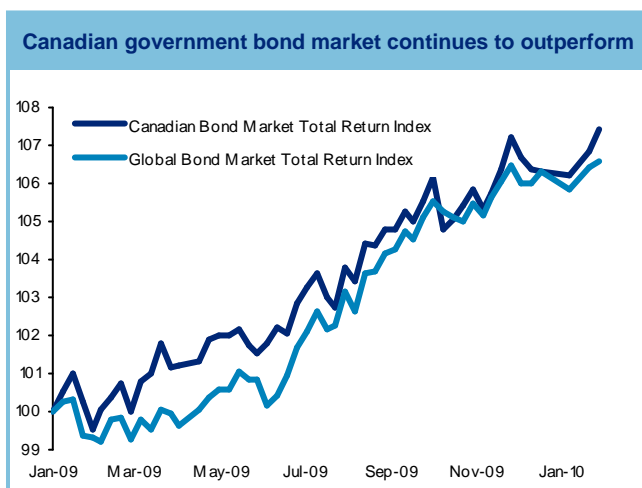
- It appears as if developed market target interest rates will remain on hold until at least the middle of 2010, but probably longer.
- Quantitative easing, which has been the Bank of England's, Bank of Japan's and Federal Reserve's (Fed) main policy tool, appears to be nearing an end.
- Emerging and commodity producing countries' central banks will lead the interest rate normalisation process.

Bond and currency outlook



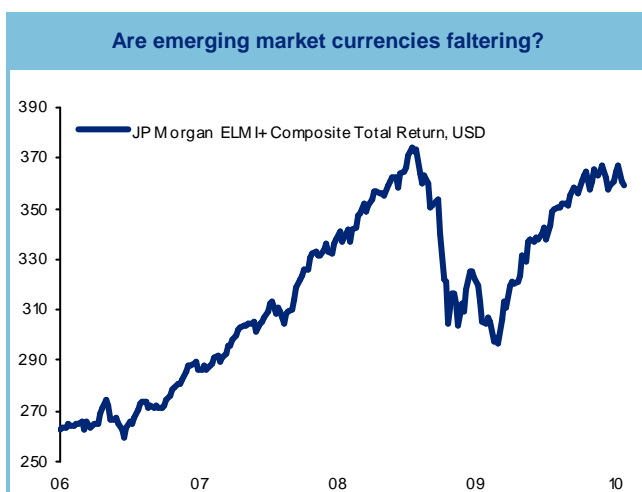
Source: Bloomberg, Henderson Global Investors, as at 31 January 2010

- Global government bonds had a strong month benefiting mostly from a flight to quality amongst rising global risk aversion. The US dollar and Japanese yen also benefited in this environment, whilst fears of a broader eurozone government budget problem sent the euro lower.
- US and German government bonds were the best performers (-20bp) followed by the UK (-9bp), which lagged due to ongoing issuance concerns. Japanese government bonds were the worst performers (+3bp) of the large markets on the back of downgrade concerns following negative comments from ratings agencies.



Source: Barclays Capital, Henderson Global Investors, as at 31 January 2010
Rebased Jan 2009 = 100

- Canadian government bonds outperformed the index in most of 2009 and have got off to a strong start this year.
- Global, particularly emerging market, central bank reserve diversification into the Canadian dollar and the Canadian governments' relatively better fiscal position, are the two primary reasons for the outperformance.
- As reserve diversification has only just begun, and the government's budget position will continue to fare better than its counterparts, Canadian government bonds should outperform during 2010. However, a period of underperformance is likely into mid-year as the Bank of Canada prepares markets for a rate hiking cycle that's likely to begin early in the third quarter.



Source: Bloomberg, Henderson Global Investors, as at 31 January 2010

- Following a strong run during most of 2009, emerging market currencies have moved sideways since November.
- The lacklustre performance has raised questions whether the asset class is overvalued and due for a lengthy consolidation.
- However, we believe that strong productivity growth, higher relative interest rates, positive demographics and in, some cases, an abundance of natural resources should ensure continued emerging market currency appreciation against the major, non-commodity producing developed markets.

Bond and currency outlook

10-year bond yields (%)	31 Jan 2010	2010*	2011*
US	3.58	↑↑	↑
Japan	1.32	↑	↑
Eurozone	3.20	↑	↑
UK	3.91	↑↑	↑

Source: Datastream, Henderson Global Investors, as at 31 January 2010
* Henderson Interest Rate Team view

- Government bonds are likely to weaken in the near term on the back of a decline in risk aversion.
- Improving economic growth, rising inflation, normalising interest rates and heavy issuance will send government bond yields higher in 2010.

Currencies	31 Jan 2010	2010*	2011*
Yen/\$	90	↑	→
\$/Euro	1.39	↓	→
Euro/£	1.15	↑	↑
\$/£	1.60	→	↑

Source: Datastream, Henderson Global Investors, as at 31 January 2010
* Henderson Interest Rate Team view

- The dollar could continue to appreciate on the back of solid US data during the first half of 2010, but the path of least resistance for the dollar remains down in the longer term.
- Despite an attractive valuation, sterling will struggle against most G10 and emerging market currencies until there is more clarity on the UK government's fiscal position.

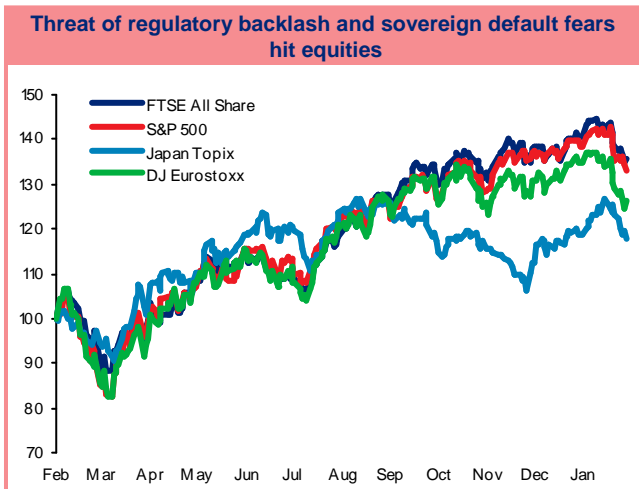
Emerging markets and commodities	2010*	2011*
G4/EMFX	↑	↑↑
Emerging market interest rates	↑	↑↑
Oil	↑	↑↑
Base metals	↑	↑↑
Precious metals	↑	↓↓
Agriculture	→	↑↑

Source: Datastream, Henderson Global Investors, as at 31 January 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 abundant liquidity conditions that should persist at least until mid-2010. Beyond then, the outlook is less certain.
- Oil and base metals should continue to benefit from an improving economy and tight supply conditions.

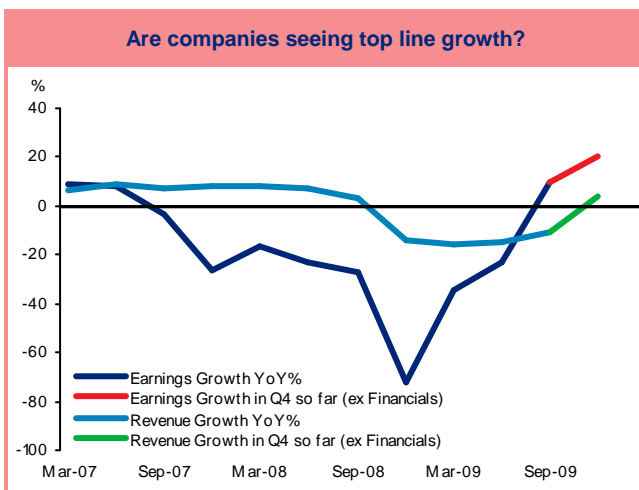
↑↑	Strong upward trend
↑	Upward trend
→	Little change
↓	Downward trend
↓↓	Strong downward trend

Equity outlook



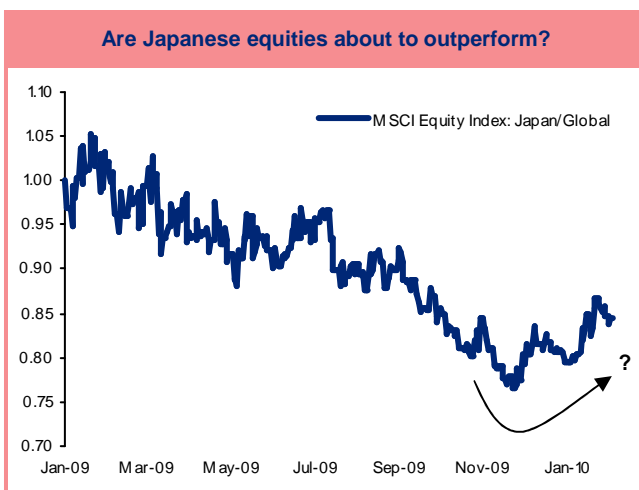
Source: Datastream, Henderson Global Investors, as at 31 January 2010
 Rebased to 100 at 1 February 2009

- Following a strong start to the year, equities were hit hard by a rising tide of regulatory backlash against the financial sector, the fiscal crisis in Greece and the beginning of monetary policy normalisation by the Chinese authorities.
- Global equities (MSCI World Free Index) finished the month more than 4% lower led by a 6% decline in eurozone stocks. Emerging markets didn't fare much better with a 5.7% decline, whilst Japanese and US equities outperformed with 3% and 3.7% declines, respectively.



Source: BBH, Henderson Global Investors, as at 31 January 2010

- Annual earnings growth already turned positive in the US in the third quarter. Despite the downturn in the economy, companies maintained their profitability through extensive cost cutting throughout 2009, predominantly through labour.
- However, with activity data picking up demand has risen, so now investors want to see evidence of revenue growth too.
- With over a third of S&P 500 (220) companies having reported their fourth quarter results, the evidence seems encouraging. Around three quarters have surprised on revenue growth and the aggregate stands higher than a year ago. If this trend continues then the US corporate sector would record its first positive annual revenue growth since Q3 2008.



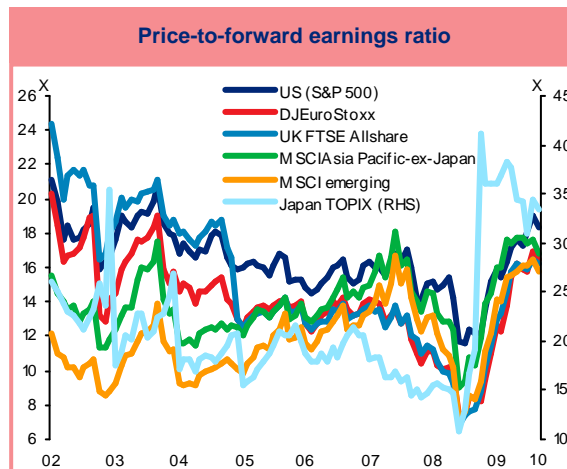
Source: Datastream, Henderson Global Investors, as at 31 January 2010

- The Japanese equity market failed to participate in the global equity market rally last year. It was the only major developed market to record a single digit local return.
- The strength of the yen and investor uncertainty following the election, which saw the ruling party of 50 years lose power, combined with disappointing economic performance, all contributed to the poor performance.
- However, relative performance may be turning as the government has now stated that it is unwilling to tolerate deflation; this could signal increasing government stimulus to promote growth just at a time when other economies around the world are withdrawing fiscal and monetary stimuli. Furthermore, the authorities have started to voice concern over the strength of the yen (a weaker currency would be positive for the important export sector).

Equity outlook

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

Source: Henderson Global Investors, as at 31 January 2010
 * Henderson Interest Rate Team view



Source: Datastream, Henderson Global Investors, as at 31 January 2010

Consensus EPS growth forecast	2009	2010	2011
US	3.2	29.6	20.8
Japan	N/A	88.1	25.5
Euro-area	-27.5	33.7	23.1
UK	-33.3	31.2	24.7
Asia ex Japan	4.1	24.2	16.8
MSCI Emerging Markets US\$	3.4	29.6	19.7

Source: Datastream, Henderson Global Investors, as at 31 January 2010

Equity market returns for January 2010 (%)	Local	Sterling	Dollar
US	-3.7	-2.6	-3.7
Japan	-0.7	3.5	2.3
Euro-12	-4.7	-6.8	-7.7
UK	-3.6	-3.6	-4.7
MSCI Far East ex Jap (US\$)		-5.1	-6.2
MSCI Emerging Markets US\$		-4.6	-5.6

Source: Bloomberg, Henderson Global Investors, as at 31 January 2010

- With over a third of S&P 500 companies having reported at the time of writing, 75% of companies had beaten their earnings and revenue estimates.
- Due to Japanese earnings estimate volatility, a valid growth rate for 2010 cannot be calculated.
- Multiple expansion appears to be slowing as equities appear fair value on most measures. Equities appear cheap on a cyclically-adjusted (Graham-Dodd) price-earnings basis.
- If signs emerge that forward earnings estimates may not be achieved, then multiples may once again compress. To that end, the prospect of falling core inflation is worrying.

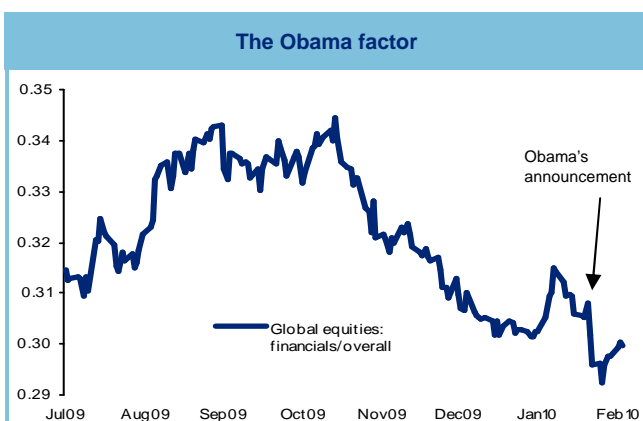
- We believe the equity market rally will continue during the first half of 2010 on the back of positive earnings growth and continued positive surprises in both industrial production and household consumption data.
- The outlook beyond the second quarter remains highly uncertain and is reliant on continued positive data surprises and resultant positive earnings revisions.

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

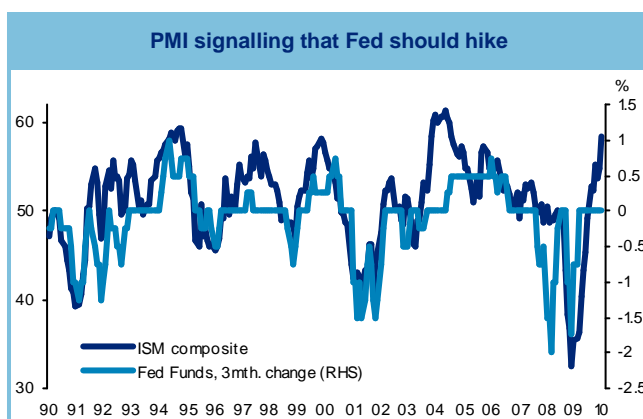
Key issues



Source: Goldman Sachs, Henderson Global Investors, as at 31 January 2010



Source: Bloomberg, MSCI as at 31 January 2010



Source: Datastream, Henderson Global investors, as at 31 January 2010

- Global markets shuttered as the People's Bank of China began tightening monetary policy in January with a 50bp hike in the reserve requirement ratio.
- The beginning of the tightening cycle has been expected for a number of months as the necessary conditions for tightening, including asset price bubbles, bottlenecks in transportation and energy and rising inflation, have all recently re-emerged.
- However, the medium-term growth outlook is unlikely to be affected by the tightening as: it is unlikely to be draconian in nature, significant funds which have been lent out have been put into bank deposits and have yet to be put to use, and banks already hold around 17-18% in excess reserves indicating that they have a cushion to continue lending.
- The risk of regulatory backlash against the financial sector remains high in the aftermath of the worst financial-led recession since the great depression.
- The vague plan to reregulate US banks put forward by US President Barack Obama last month brought the chance of a regulatory overshoot closer to reality and dually helped send global equities sharply lower on the month.
- However, it's unlikely that the US congress would pass draconian bank regulatory legislation, especially given the Democrats' recent loss of their absolute Senate majority.
- A check of our core central bank indicators as at the end of January shows that activity has reached a sufficient level in the US for the Fed to begin tightening monetary policy.
- Whilst the Fed is likely to continue to signal a gradual move toward the beginning of a normalisation of monetary policy throughout 2010, the significant level of excess slack in the economy and the role that government stimulus has played in the ongoing growth rebound, mean that rate hikes are unlikely to materialise until the end of the year, if not 2011.
- The BoE and ECB indicators are not signalling a need for monetary tightening yet and they are likely to begin raising interest rates at the end of Q3 and in Q4, respectively.

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