

Global Snapshot

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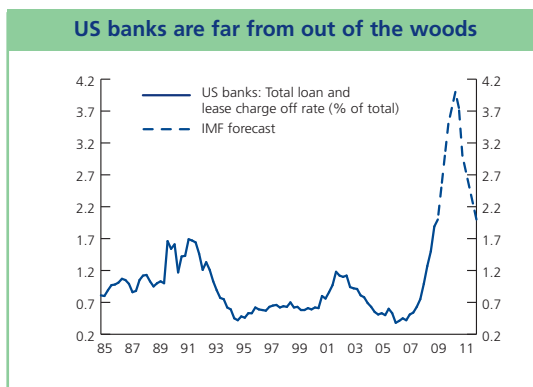
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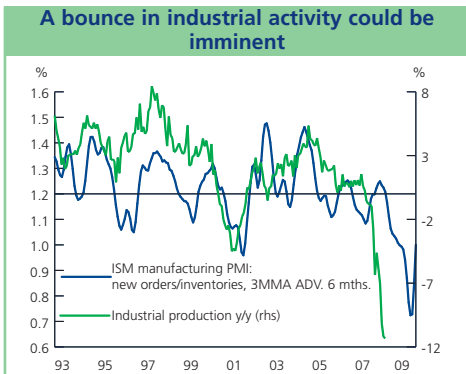
- Risk assets, including global equities and commodities, continued to rally strongly in April. The persistence of positive economic data surprises combined with a growing belief that banks are sufficiently well capitalised drove the rally higher.
- The improvement in economic sentiment combined with mounting concerns about ballooning government debt levels sent government bond yields higher on the month.
- Emerging market external debt and currencies also moved higher on the back of the general improvement in sentiment towards risk assets.
- The rally in risk assets should continue as real economic data surprises begin to come through as a result of the ongoing inventory building cycle. The durability of the rally hinges on an eventual recovery in final demand and the position of banks' balance sheets as the recession progresses.



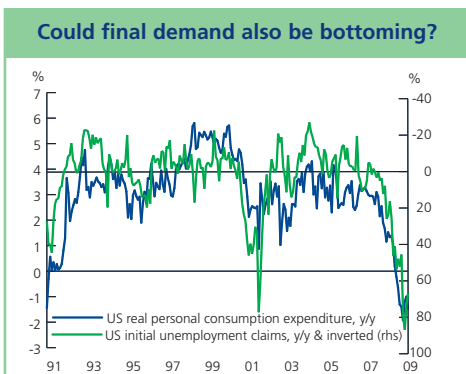
Source: Datastream, IMF, as at end March 2009



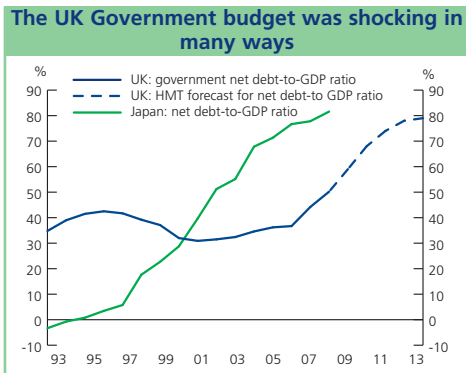
Economic Outlook



Source: Datastream, as at end April 2009



Source: Bloomberg, as at end April 2009



Source: Datastream, HM Treasury, as at end of April 2009

- Global surveys of manufacturing activity continued to surge higher in April. Most of the survey components strengthened, but new orders led the way.
- The pickup in new orders appears to be in response to the significant destocking that took place into the end of 2008. With inventories at very low levels, companies appear compelled to replenish them in order to meet latent levels of economic demand.
- This restocking is likely to trigger at least a temporary recovery in industrial production.
- Trends in global final demand will dictate whether the aforementioned restocking cycle is temporary or sustainable.
- If companies restock, and final demand has not accelerated beyond its underlying rate, then industrial production could fall anew.
- Trends in employment are the key drivers of final demand. To that end, the rate of growth in newly unemployed individuals in the US has slowed recently. If this trend continues, it should lead to a pickup in final demand.
- The UK Treasury released its budget for the 2009/10 fiscal year in which it pencilled in a severe deterioration in the country's fiscal position over the next five years.
- Through falling tax revenue, rising costs due to bank bailouts, unemployment insurance payouts and fiscal stimulus measures, the deficit is expected to balloon to 12.4% of gross domestic product (GDP).
- The subsequent large sequential deficits are expected to push government net debt to as high as 80% of GDP.

Economic Outlook

GDP growth (%)	2008	2009*	2010*
US	1.1	-2.6	1.9
Japan	-0.7	-2.9	0.8
Euro-area	0.7	-2.4	0.5
UK	0.7	-2.7	0.5
G7	0.6	-2.6	0.9
Asia ex Japan	6.4	3.0	6.3
World	2.2	-1.1	1.7

Source: Datastream and Henderson Global Investors

* Henderson forecast

- The global economy is in recession.
- Lower oil and food prices and cuts in interest rates could be counteracted by the drag from rising unemployment during most of 2009. Growth may struggle to reach trend rates until mid 2010. Subsequent to the ongoing recession, estimated global trend growth is likely to be marked lower.
- A corporate restocking cycle is likely to occur in the near future, but its potential duration is highly uncertain.

Inflation (%)	2008	2009*	2010*
US (core)	2.3	0.0	1.0
Japan	1.4	-1.7	-0.5
Euro-area	3.3	0.0	1.7
UK (CPI)	3.6	-0.2	1.5
G7 (headline)	3.1	-0.3	1.8
Asia ex Japan	6.5	2.0	2.7
World	4.7	1.1	2.4

Source: Datastream and Henderson Global Investors

* Henderson forecast

- Weaker economic growth is likely to lead to a fall in global core inflation.
- Headline prices are expected to deflate for most of 2009.
- Though market and survey measures of inflation expectations have improved in recent weeks the threat of sustained deflation could remain a risk as long as consumer confidence remains depressed.

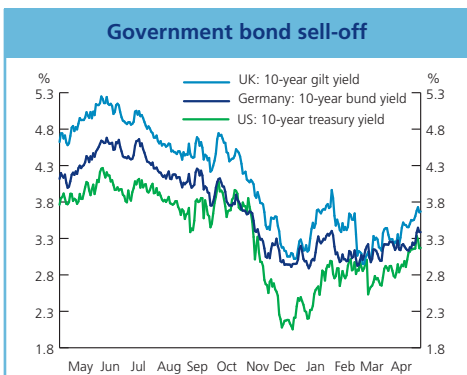
Interest rates (%)	30 Apr 2009	Dec 2009*
US	0 – 0.25	0 – 0.25
Japan	0.1	0.1
Euro-area	1.25	1.0
UK	0.5	0.5

Source: Datastream and Henderson Global Investors

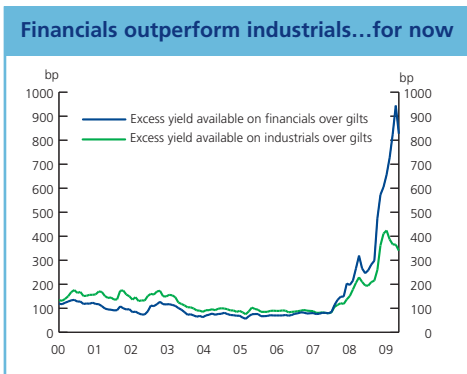
* Henderson forecast

- The European economic outlook has deteriorated sufficiently to justify further interest rate cuts by the European Central Bank.
- Quantitative easing is now the Bank of England's and Federal Reserve's (Fed) main policy tool. The Bank of Japan has also reached the lower bound for its policy rate and has commenced quantitative easing for the second time this decade.

Bond and Currency Outlook



Source: Bloomberg, as at end April 2009



Source: Bloomberg, as at end April 2009



Source: Bloomberg, as at end April 2009

*Australian, Canadian and New Zealand dollars

- An improvement in economic sentiment combined with mounting concerns about ballooning government debt levels sent government bond yields higher during April.
- US treasuries underperformed other core markets as the yield on the 10-year benchmark bond surged 50 basis points (bp) higher following the Fed's decision not to expand the amount of Treasury purchases in its quantitative easing program.
- 10-year yields in the UK and Germany finished 34bp and 18bp higher, respectively.
- Financial spreads tightened aggressively during April following a period of underperformance due to investor nervousness over the potential treatment of subordinated financial bond holders.
- This outperformance was triggered by banks returning to profitability (and offering subordinated debt holders to swap into senior debt), and a general improvement in the financial economy.
- However, by some estimates, banks remain short of capital which means financials could come under renewed pressure as loan loss provisions mount.
- Following a sharp depreciation into the end of 2008, trade-weighted commodity currencies appear to have bottomed and are now 10% higher than the lows reached in March.
- Though not as pronounced, this rally has been consistent with the pickup in other risk assets, including commodities and emerging market currencies.
- Positive surprises in economic data have been the main driver of this rally as a corporate restocking cycle appears to have begun. The rally could continue as industrial production receives a boost from the inventory build.

Bond and Currency Outlook

10 year bond yields (%)	30 Apr 2009	Dec 2009*
US	3.13	3.50
Japan	1.41	1.50
Euro-area	3.19	3.50
UK	3.51	3.75

Source: Datastream and Henderson Global Investors

* Henderson forecast

- Though it's possible that government bonds could rally from their current levels, most of the gains from structural long duration positions have been had.
- Government bonds are not good value on a medium-term perspective, but the prospects of continued quantitative easing, a disappointment in economic data and a setback in risk assets, could keep them well bid in the near term.

Currencies	30 Apr 2009	Dec 2009*
Yen/\$	98	108
\$/Euro	1.33	1.15
£/Euro	0.89	0.77
\$/£	1.48	1.50

Source: Datastream and Henderson Global Investors

* Henderson forecast

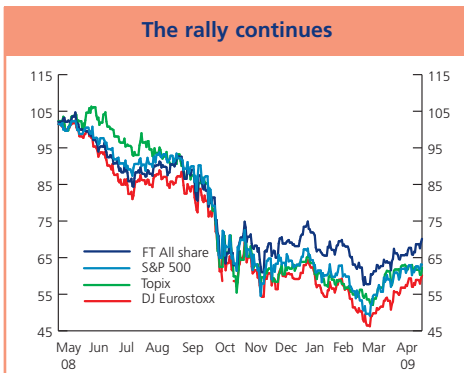
- The US dollar is likely to continue to suffer as risk assets rally. A sharp dollar sell-off is unlikely given its reserve currency status and its role as a reference for currency pegs – especially that of China.
- Commodity and emerging market currencies and sterling should continue to benefit from positive risk sentiment.

Bond returns to Dec 2009 (%)	Local*	UK £*	US \$*
US	-1	-2	-1
Japan	0	-10	15
Euro-area	0	-14	-10
UK	0	0	-25

* Henderson forecast

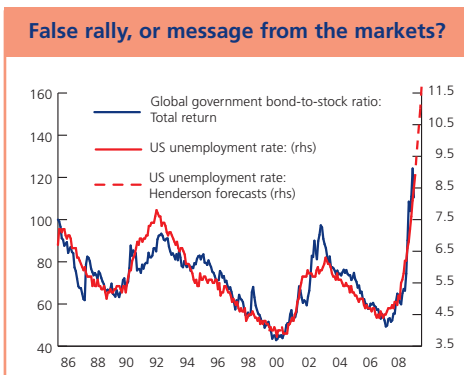
- Though government bond returns may be good in the short-run, yields are likely to move sideways in a volatile fashion over the medium term.
- If economic data continues to surprise on the upside and risk sentiment remains positive then credit spreads should continue to compress.

Equity Outlook



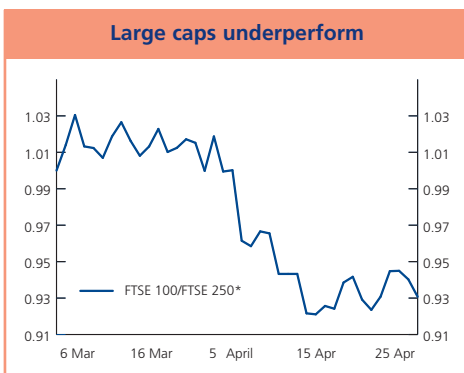
Source: Datastream, as at end April 2009

- Global equities continued to rally throughout April, buoyed by positive economic data surprises, despite the emergence of a global pandemic and impending bank stress test results.
- All major indices rose between 5-15% over the month as DJ Eurostoxx led the charge (+15%). Emerging markets equities outperformed developed markets.
- The continuation of positive data surprises will be a clear gauge as to the substance of the current rally and, therefore, its sustainability.



Source: Datastream, as at end April 2009

- Turns in relative asset price performance usually coincide with turns in key cyclical indicators such as unemployment, shown here.
- The recent outperformance of global stocks relative to government bonds (on a total return basis) appears to be signalling a turn in the economic cycle. But is the signal wrong?
- Our US unemployment model points to a sharp rise in unemployment into September which should present a stiff headwind to final demand. Thus, the restocking cycle is likely to incur some setbacks that could lead to an equity market correction along the way.



Source: Bloomberg, rebased to 1 March 2009

- Global large caps have underperformed global small caps by 6.7% since the market's low point in mid March.
- The outperformance has been the result of managers favouring the more cyclical small-cap sector over defensive large caps.
- The trend was enhanced in the UK due to the large amount of rights issues in 2009. In order to participate in the offerings, long-only managers have had to sell some of their holdings. Large-cap stocks tend to be more liquid than small caps and thus are easier to trade which has made them the first choice for investors looking to free up liquidity.

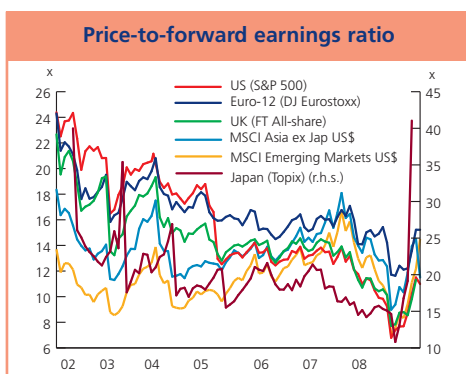
Equity Outlook

Consensus EPS** growth (%)	2009*	2010*	2011*
US	-12.1	26.7	24.4
Japan	-104.6	N/A	84.3
Euro-area	-15.5	20.6	14.1
UK	-31.0	17.4	20.5
Asia ex Japan	-11.6	22.7	18.8
MSCI Emerging Markets			
US\$	-12.4	25.0	27.5

Source Datastream, as at end April 2009

* Year-on-year

** Earnings per share



Source Datastream, as at end April 2009

Equity market returns for Apr 2009 (%)	Local	Sterling	Dollar
US	9.4	5.9	9.4
Japan	8.3	5.2	8.7
Euro-12	15.0	11.1	14.8
UK	9.5	9.5	13.1
MSCI Far East ex Jap (US\$)		12.5	16.2
MSCI Emerging Markets (US\$)		12.6	16.3

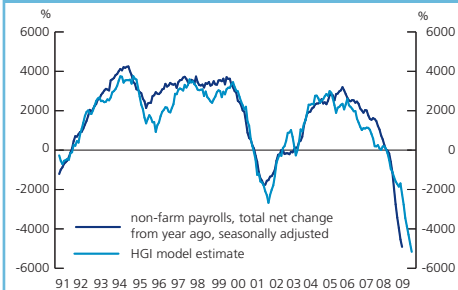
Source: Bloomberg

- The global recession will likely lead to a significant earnings contraction in 2009.
- We believe a recovery in earnings growth is unlikely to begin until 2010 and will probably be modest, in line with expectations for output growth.
- Due to Japanese earnings estimate volatility, a valid growth rate for 2010 cannot be calculated.
- As downward earnings revisions have begun to outpace falls in equity markets, equities no longer appear cheap relative to earnings estimates.
- However, equities do appear good value on most long-term cyclically-adjusted measures

- We believe the equity market rally will continue on the back of positive surprises in industrial production data.
- The rally could come to an end once the temporary restocking cycle has ended.
- Toward the end of 2009, assuming the outlook for final demand is brighter, equities could be staging a sustainable recovery.

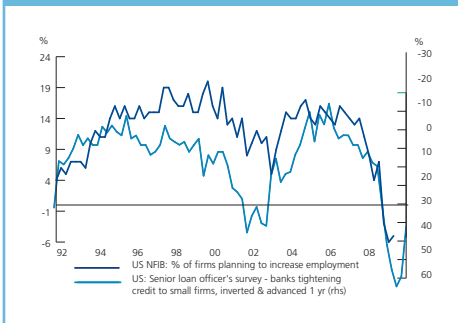
Key Issues

Employment holds the key



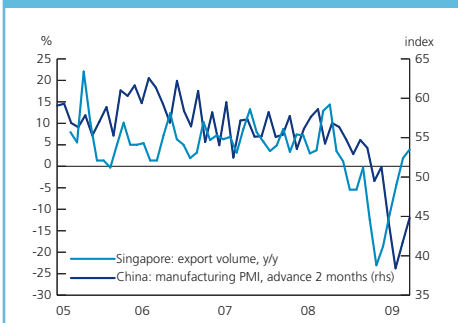
Source: HGI, Datastream, as at end April 2009

Credit matters when working capital is constrained



Source: Datastream, as at end April 2009

China is leading an Asian recovery



Source: Datastream, as at end April 2009

- The key question which remains is whether the inventory cycle described above continues after corporate stocks have been replenished.
- The answer to this lies in the level of final demand. If final demand is improving beyond its current depressed levels when companies have rebuilt inventories, then the cycle could turn into a more virtuous one of rising demand and employment.
- An improvement in final demand is contingent upon a stabilisation in the labour market. Notwithstanding the recent more positive developments, especially in the United States, our model suggests that an improvement in the labour market is some way off.
- Labour markets are unlikely to improve until companies feel more comfortable about their future prospects. A rise in final demand is the quickest way to improve corporate expectations.
- However, in the absence of robust demand, at a time when working capital remains constrained, access to reasonably priced credit becomes important in the corporate decision making process – specifically with regard to cost structure.
- To that end, a continued improvement in credit conditions remains an important driver in labour market dynamics.
- Chinese officials' efforts to reflate the economy seem to be working; business surveys are moving higher, imports of raw materials are surging and credit and money supply growth is booming.
- The positive effects appear to be spilling over into neighbouring countries as their export volumes and exporter confidence have also increased.
- An economic recovery in Asia should be positive for risk assets going forward.

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