Henderson Global Investors

Weekly Market & Economic Update

Global markets retreat despite earlier session records

29 March 2010*

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*All data to week ending 26 March 2010 unless otherwise stated

The Weekly Market & Economic Update is taking an Easter break.

The next issue will be on Monday 19 April.

NEWS

- The House of Representatives passed Barack Obama's ten-year, $940bn healthcare reform bill to ensure healthcare for the majority of Americans.
- Global equities last week failed to break to new cyclical highs for the fifth consecutive week; this was despite the persistence of generally positive economic dataflow and an official announcement that a joint Eurozone and International Monetary Fund (IMF) financing package for Greece is available, were it to need one.
- Alistair Darling unveiled the Budget, which targeted high earners through tax rises this coming week and from next April if they are buying a property over £1m.
- The Royal Bank of Scotland and Lloyds Banking Group will agree to lend up to £94bn to customers this year in a new deal with the government to help businesses and individuals to survive the recession.

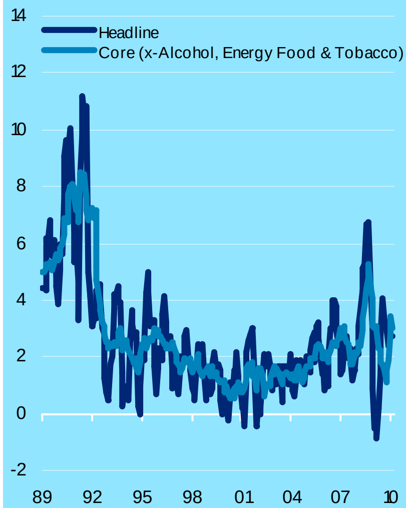
VIEWS

- Government bonds are likely to weaken in the near term as quantitative easing comes to an end. Improving economic growth, rising inflation, normalising interest rates, and heavy issuance will send government bond yields higher in 2010.
- 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.
- While the global economy – and developed nations in particular - are vulnerable to a broadbased tightening of monetary and fiscal policy, those economies that suffered less in the recession, such as India and China, are able to take steps to tighten policy as we saw last week. There has been much rhetoric in recent weeks over China holding its currency at artificially low levels, yet it would seem to be a sensible strategy to use currency appreciation as a primary tool to tighten policy.

THIS WEEK

- The main focus this week will be the US employment report on Friday; nonfarm payrolls are expected to advance and a marginal fall in the unemployment rate. Additionally, a number of manufacturing PMI surveys will be reported and are expected to confirm a continued expansion in global industrial activity.

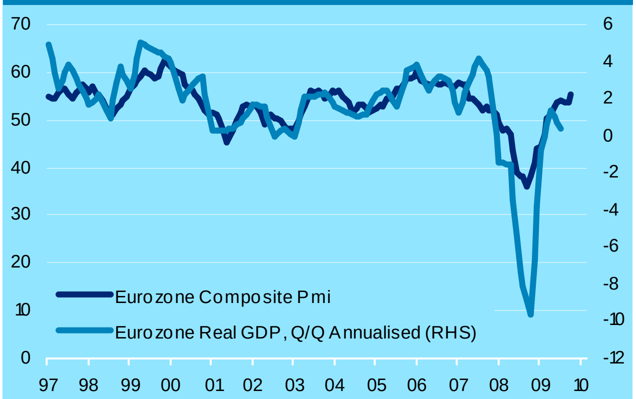
UK inflation is peaking....again



Source: Datastream, Henderson Global Investors, as at 26 March 2010

ECONOMIC DATA

Eurozone PMI hits new cyclical high



Source: Datastream, as at 26 March 2010

GDP Growth %	2009	2010*	2011*
US	-2.4	3.1	3.0
Japan	-5.3	1.5	1.5
Eurozone	-3.9	1.3	1.5
UK	-4.8	1.4	2.2
G7	-3.5	2.1	2.2
Asia ex Japan	5.4	7.9	7.4
World	-2.2	3.1	3.3

Inflation %	2009	2010*	2011*
US	-0.3	2.3	2.0
Japan	-1.4	-1.0	-0.3
Eurozone	0.3	1.2	1.5
UK	2.2	2.6	1.7
G7	0.0	1.5	1.5
Asia ex Japan	1.8	3.8	3.8
World	1.4	2.7	2.7

Bond Indices	19 Mar	26 Mar	% cge
FTA Government Stocks	2302	2295	-0.3
FTA Index-Linked	2497	2504	0.3
JP Morgan Global Govt Bond Index	571	568	-0.5

10-year Bond Yield (%)	19 Mar	26 Mar	Dec 2010*
UK	3.95	4.03	↑↑
US	3.69	3.85	↑↑
Eurozone	3.11	3.15	↑
Japan	1.36	1.37	↑

Other Interest Rates (%)	19 Mar	26 Mar	June 2010**
UK	0.50	0.50	0.50
US	0.25	0.25	0.25
Eurozone	1.00	1.00	1.00
Japan	0.10	0.10	0.10

Currencies & Commodities	19 Mar	26 Mar	Dec 2010**
£/€	0.90	0.90	↑
$/£	1.50	1.49	→
$/€	1.35	1.34	↓
¥/$	90.5	92.6	↑
Oil (Brent crude $/barrel)	78.8	78.5	↑
Gold ($/Troy oz)	1103	1104	↑

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

Source: Datastream, Henderson Global Investors, as at 26 March 2010
* Consensus Economics, as at 8 February 2010
** Henderson Interest Rate Team forecast

MACRO

Global equities last week failed to break to new cyclical highs for the fifth consecutive week; this was despite the persistence of generally positive economic dataflow and an official announcement that a joint Eurozone and IMF financing package for Greece is available, were it to need one. Government bonds had a poor week led by a rout in US treasuries (10-year benchmark +17 basis points - bp) as investors shunned two treasury auctions.

The UK Treasury presented its budget for the upcoming fiscal year, which proved to be somewhat of a non-event for UK asset markets, despite slightly lower borrowing targets than previously forecast. Notwithstanding the lack of concrete deficit reduction measures contained in the budget, investors and ratings agencies alike have opted to reserve judgement on the UK's fiscal situation until after the general election, expected to be held on 6 May. Patience will be in short supply after that date as market participants expect the quick announcement of a credible deficit reduction plan by the new government.

Economic data released last week showed the recovery remained intact through February and March. UK retail sales rebounded smartly in February to 2.1% (3.5% y-o-y) versus a 3% decline the previous month, whilst National Statistics data showed that inflation fell more than expected in February to 3.0% from 3.5% the previous month. UK consumption data is expected to continue to improve in line with the ongoing recovery in the labour market, whilst inflation is expected to continue to ease on the back of still-large spare capacity and favourable base effects.

In Europe the preliminary prints of the purchasing manager's indices (PMI) for March showed the eurozone economy having picked up after several months of moving sideways. The composite PMI rose to 55.5 in March from 53.7 the previous month, consistent with 2% (annualised) GDP growth. Further signs of positive growth came from the US as core durable goods orders (the preferred measure of underlying industrial demand that excludes the volatile transportation sector) came in at a better-than-expected +0.9% m-o-m in February, despite poor weather in most of the country during the month.

BONDS & CURRENCIES

The yield on the US 10-year treasury bond was driven to its highest level for nine months as fears grew about the US government's debt level, after a succession of debt auctions was poorly received. The US swap rate also fell below the 10-year treasury yield for the first time. However, Greek government bond prices rose as a rescue package (bilateral loans from eurozone member states and financial assistance from the IMF) for Greece was agreed upon by eurozone leaders. Greek five-year credit default swaps fell 40bp to 290bp during the week and the yield on 10-year Greek government bonds fell to a low of 6.18% on Friday, from a high of 6.67% earlier in the week.

The euro rose broadly at the end of the week as news came in on the agreement over Greece's rescue package. The dollar also rallied as investors used it as a safe haven against turbulence elsewhere; it rose 2.2% to a three-month high against the yen and gained strength against the pound. The pound saw volatility as investors dealt with healthy retail sales data, dampened inflation and a Budget that failed to ease fiscal and political worries.

COMMODITIES

Crude oil lost early gains; Nymex May West Texas Intermediate fell 53 cents, down by 0.8% to $80 per barrel. Copper prices rose, whilst gold stayed around $1,100 per ounce until the end of the week when it rose to $1,105.90 as news regarding the rescue package for Greece strengthened the euro. Gas prices in the US saw a six-month low as concerns grew over supply and weak demand as seasonal temperatures rose.

UK EQUITIES: the FTSE 100 hit a 21-month high on Thursday to 5,727.65, the index was up 0.9% over the week. Rising commodity prices, US market strength and well received company news all contributed. Cairn Energy (+13.0%) was the most popular blue chip company as the oil group raised forecasts for peak production from its Indian assets by over a third to 240,00 barrels per day. Cairn was up 8.0% in a single day's trading on Tuesday and by Friday soared higher as Citigroup bumped up its price target from 420p to 475p. The UK government also announced a £4bn armoured vehicle contract to US defence giant General Dynamics, putting hundreds of jobs at BAE Systems in jeopardy. BAE (–1.3%) warned that the tank factory in Newcastle may have to close if the British Army decided not to place the deal with them to build new light tanks.

Elsewhere, travel group Thomas Cook (+7.6%) was strong as investors sought stock following a bullish update. It announced upbeat trading and a significant recovery in consumer demand for leisure holidays. Retailers were also in focus as a 2.1% jump in retail sales was revealed in February, the largest increase since May 2008. Next (+5.8%) unveiled a big increase of pre-tax profit; £505.3m in 2009 from £428.8m in 2008. Markets eased back at the end of the week as corporate news waned and broker commentary drove much of the action. Hi-tech weapons group Qinetiq was lower by 4.8% after being downgraded to a sell by UBS, as the broker believed expectations were too high.

Mid and small caps: the FTSE 250 index had another good week, closing up 2.0%, continuing a trend whereby domestically-focussed stocks have outrun internationally focussed blue chip companies this year.

Elsewhere in small caps, Sterling Energy, the oil prospector, gained 14.5% after speculation concerning a drilling update. Personal debt reduction specialist Cleardebt saw revenue grow 57% in H2 2009 to £2.3m, and profit before tax improved by £0.30m to £0.43m. Targeted online advertising company Phorm climbed 18.3% following significant orders from advertisers in Brazil for its Open Internet Exchange and Web Discovery Products, despite the controversial internet monitoring service.

OVERSEAS EQUITIES

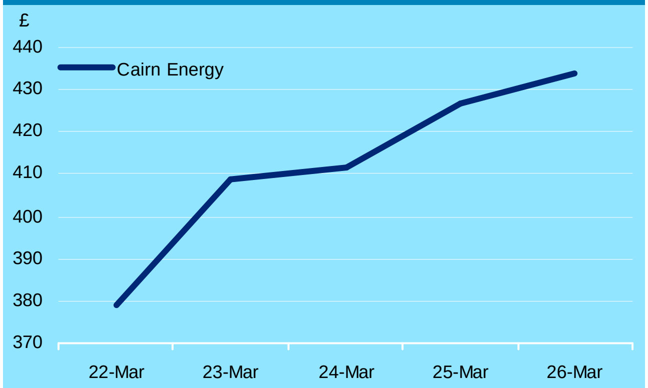
European markets: the FTSE Eurofirst 300 was up 1.1% over the week as Greek stocks outperformed as the rescue package was agreed on by the eurozone leaders. However, markets sold off towards the end of the week, with energy and pharmaceutical sectors particularly weak, the former pulled down by lower oil prices and the latter by plans in Germany to cut patented drug prices.

Aside from these events, most of the week was relatively quiet for the eurozone with a large part of the activity taking place on the foreign exchanges, as rating agency Fitch downgraded Portugal's debt rating to AA-, with a negative outlook. This put pressure on the euro and also overshadowed earlier news that German business confidence rose to 98.1 in March, up from 95.2 in February and its highest level in almost two years.

Greek lenders rebounded on news of the loan package from eurozone partners and the IMF: National Bank of Greece (+6.9%), EFG Eurobank (+11.5%) and Alpha Bank (+12.7%) all rose.

MARKET DATA

Cairn Energy raises forecasts for its Indian oil fields



Source: Datastream, Henderson Global Investors, as at 26 March 2010

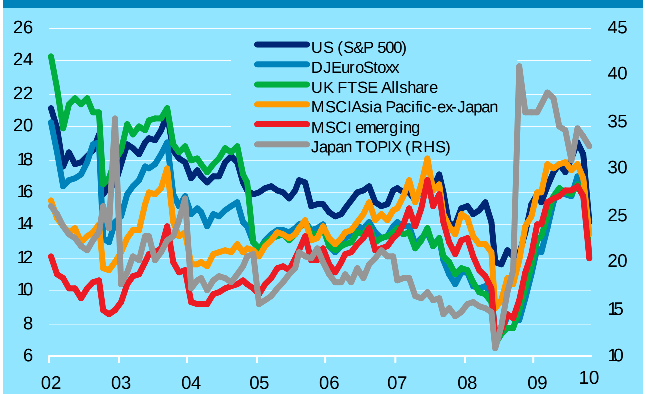
Equities	19 Mar	26 Mar	% cge
UK - FTSE All-Share	2892	2923	1.1
UK - FTSE 100	5650	5703	0.9
UK - FTSE 250	10020	10224	2.0
UK - FTSE Small Cap	2877	2905	1.0
Eurozone - DJ Euro Stoxx	274	278	1.7
US - S&P 500	1160	1167	0.6
US - Nasdaq	2374	2395	0.9
Japan - Topix	949	967	1.9
Hong Kong - Hang Seng	21371	21053	-1.5
MSCI Emerging Markets (US$)	998	993	-0.5

Source: Datastream, as at 26 March 2010

Consensus EPS Growth %	2010* (yoy)	2011* (yoy)	2012* (yoy)
US	29.9	20.1	13.3
Japan	N/A	88.6	23.9
Eurozone	29.0	23.4	13.7
UK	30.9	24.0	13.2
Asia ex Japan	27.3	16.0	9.1
MSCI Emerging Markets US$	31.3	19.1	13.1

Source: Datastream, Henderson Global Investors, as at 28 February 2010
* Consensus forecast

Price-to-forward earnings ratio



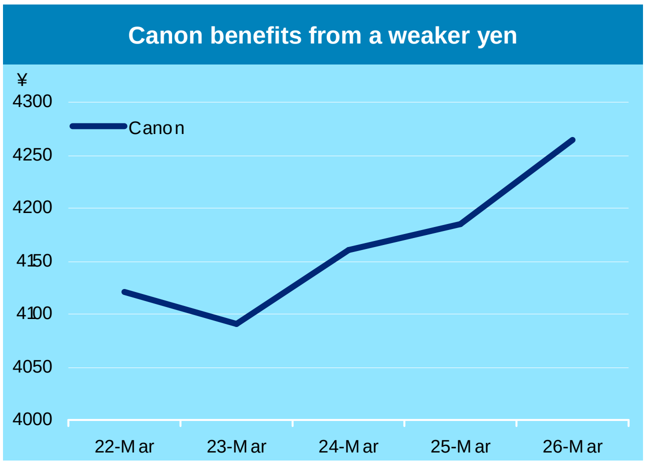
Source: Datastream, Henderson Global Investors, as at 28 February 2010

US markets: the S&P 500 finished the week up 0.6% after a significant volatility. Investors cautiously awaited rescue package developments for Greece and responded to mixed economic reports and news that President Obama's healthcare reforms had finally been signed into law.

US stocks saw gains and the Dow Jones traded to an 18-month high at the beginning of the week; healthcare stocks were on the rise after the healthcare reform bill was approved by the House of Representatives. Tenet Healthcare was among the gainers (+1.0%). The Dow continued to soar as home sales came in better than expected, but retreated again midweek as Portugal's credit rating was cut and then again on Thursday as investors considered Federal Reserve Chairman, Ben Bernanke's announcement that interest rates are likely to remain low for the time being.

Financials were the biggest gainers over the week with Citigroup up 10.5% and Bank of America up 6.4%. Elsewhere, Urban Outfitters, the retailer, rose 6.7% after an upgrade by JP Morgan analysts from “neutral” to “overweight”.

Asian markets: Asian markets had a mixed week, with some countries unsettled by the likelihood of the region’s central banks introducing policies to tackle inflation and concerns over solutions for Greece’s debt. However, in Japan, the Nikkei 225 Average closed the week on an 18-month high (+1.6%) as companies dependent on overseas demand were boosted by a weaker yen.



Source: Datastream, Henderson Global Investors, as at 26 March 2010

Nintendo, the world’s biggest maker of video games, soared 16.1% and Kyocera Corp, an electronic components maker that derives over half of its sales outside Japan rose 4.3%. Electronics group Canon also benefited from a weaker yen, rising 3.5% over the week.

Meanwhile, in Hong Kong, the Hang Seng fell 1.5% and China’s Shanghai Composite Index dropped 0.3%. PetroChina fell 0.7% in Hong Kong after agreeing to acquire Arrow Energy. Separately, the company’s full-year earnings missed analysts’ estimates.

Week ahead		Consensus
Monday 29 March	**INTERIMS:** BowLeven **FINALS:** Afren, Archial Group, Dana Petroleum, Depa Limited GDR (Reg S), Lamprell, PowerFilm (Reg S) **ECONOMICS:** US: Personal Income, Personal Spending Eurozone: Business climate indicator (Mar) Eurozone: Economic confidence (Mar) Japan: Industrial production (Feb, sa, mom)	Both expected to move up PMIs and business surveys point to another gain Continues to improve Upward trend likely to continue
Tuesday 30 March	**INTERIMS:** Nanoco Group **FINALS:** Aer Lingus Group, Asterand, Bloomsbury Publishing, IFG Group, JKX Oil & Gas, JSC VTB Bank GDR (Reg S), Kazakhmys, McInerney Holdings, Proximagen Neuroscience, Public Power GDR (Reg S), Robotic Technology, Rugby Estates Investment Trust, Symphony Environmental Technologies, Toumaz Holdings Limited **ECONOMICS**: UK: GDP (Q4, qoq final) US: Consumer Confidence	No revision expected
Wednesday 31 March	**INTERIMS:** Davenham, James Halstead **FINALS:** Chesnara, CSS Stellar, Eastern Platinum, Evraz Group GDR (Reg S), Hilton Food, Lincat Group, Motivcom, OJSC Cherkizovo GDR (Reg S), Phoenix Group Holdings, Pinewood-Shepperton, Surgical Innovations, Valiant Petroleum, Zhaikmunai GDR (Reg S) **ECONOMICS**: Eurozone: Unemployment Rate Eurozone: CPI (Mar, yoy, E) US: Factory orders (Feb) US: Chicago PMI	Small increase likely Minor rebound Non-durable goods likely to be flat Solid recovery underlined
Thursday 1 April	**FINALS:** Dillistone, Prezzo **ECONOMICS:** UK: PMI Manufacturing US: ISM Manufacturing Eurozone: PMI Manufacturing (Mar, final) China: PMI (Mar)	Remaining at 15-year highs Consistent with a solid recovery in industrial activity. Preliminary report was an upward surprise Likely rebound from Feb low
Friday 2 April	**ECONOMICS:** US: Non-Farm Payrolls US: Unemployment Rate	Upward rise due to employment of census workers Slight decline