Weekly Market & Economic Update

4 May 2010*

'Collapse or salvation'? It's crunch time for Greece

NEWS

- *NEWSFLASH* – At the time of going to print, European Union (EU) members together with the International Monetary Fund (IMF) have agreed a €110bn three-year bail-out package for Greece. In return, the country must implement major austerity cuts, which in Finance minister George Papaconstantinou's words will see Greece's "collapse or salvation".
- Long-standing fears over possible contagion from the Greek debt crisis overshadowed markets all last week; last Tuesday saw the downgrading of Greek sovereign debt to 'junk' by S&P, the first time a euro member has lost investment grade status since the founding of the currency in 1999. Within 24 hours, Portugal and Spain had followed suit, with Portugal downgraded to A-, and Spain downgraded one notch to AA+.
- Global stock markets largely declined over the five-day period to Friday, as a series of positive first quarter earnings surprises from firms including Ford and Unilever were overshadowed by the escalating sovereign debt crisis.

VIEWS

- Improving economic growth, rising inflation, normalising interest rates, and heavy issuance will likely send government bond yields higher (prices lower) in 2010.
- Despite the market turbulence over the past week, we remain bullish on equities as a result of sustained positive earnings growth through the first quarter for corporates and upside surprises across macroeconomic indicators.
- We believe sterling will continue to struggle against most G10 and emerging market currencies until there is more clarity on the UK's fiscal position – a report released by the Institute of Fiscal Studies this week highlighted the gaping hole between the proposed budget cuts of the UK's three major political parties, and what is needed to repair the nation's public finances.

THIS WEEK

- The focus within the UK will doubtless be on the upcoming election on Thursday 6 May. As polls suggest that a hung parliament or weak Conservative majority is most likely, markets will likely remain jittery until the final outcome; the result has important implications for sterling and any deficit reduction plans.
- This Friday, the UK Monetary Policy Committee (MPC) will commence its monthly meeting, with interest rates expected to remain unchanged, despite a recent series of consumer price index (CPI) upside surprises.

Greek contagion fears hit risk assets

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

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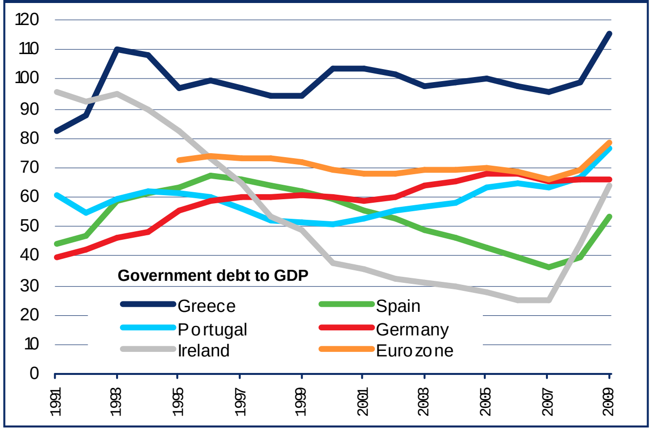
Next issue: Monday 10 May

*All data to week ending 30 April 2010 unless otherwise stated

Henderson GLOBAL INVESTORS

ECONOMIC DATA

Eurozone government debt: Greece is an outlier



Source: Datastream and Bloomberg, as at 30 April 2010

GDP Growth %	2009	2010*	2011*
US	-2.4	3.1	3.0
Japan	-5.1	1.9	1.6
Eurozone	-4.0	1.1	1.5
UK	-5.0	1.4	2.3
G7	-3.5	2.0	2.2
Asia ex Japan	5.4	7.9	7.4
World	-2.1	3.2	3.3

Inflation %	2009	2010*	2011*
US	-0.3	2.2	1.9
Japan	-1.4	-1.1	-0.3
Eurozone	0.3	1.1	1.4
UK	2.2	2.6	1.7
G7	0.0	1.4	1.4
Asia ex Japan	1.8	3.8	3.8
World	1.4	2.7	2.7

Bond Indices	23 Apr	30 Apr	% cge
FTA Government Stocks	2298	2329	1.3
FTA Index-Linked	2505	2540	1.4
JP Morgan Global Govt Bond Index	551	555	0.8
10-year Bond Yield (%)	**23 Apr**	**30 Apr**	**Dec 2010***
UK	4.04	3.86	↑↑
US	3.81	3.66	↑↑
Eurozone	3.06	2.97	↑↑
Japan	1.31	1.28	↑
Other Interest Rates (%)	**23 Apr**	**30 Apr**	**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	**23 Apr**	**30 Apr**	**Dec 2010****
£/€	0.87	0.87	↑
$/£	1.54	1.53	→
$/€	1.34	1.33	↓
¥/$	94.3	94.0	↑
Oil (Brent crude $/barrel)	86.4	86.3	↑
Gold ($/Troy oz)	1156	1180	↑

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

Source: Datastream, Henderson Global Investors, as at 30 April 2010
* Consensus Economics, as at 8 March 2010
** Henderson Interest Rate Team forecast

MACRO

Last week's story was all about Greece and peripheral Europe's growing fiscal crisis. Investors lost patience with European officials' inability to reach an agreement on a fiscal aid package for Greece for much of the week. Global equities dropped as much as 3.0% whilst emerging market external bonds, corporate credit, and an assortment of commodities all joined the indiscriminate selling. On the flip side, core government bonds benefited from the resultant 'flight-to-quality' bid.

In a post credit-crisis world, politicians are acutely sensitive to financial market volatility and were quick to announce a series of press conferences with the aim of calming markets. Despite the lack of a final agreement on Greece by Friday's close, equities managed to stabilise as details of a potential deal began to leak out. By Friday, speculation was as follows:

The EU/IMF partnership is to extend a one to three-year €100/120bn loan package to Greece – an amount sufficiently large enough to pacify markets. In return, the Greeks would put forward a €24bn austerity package, estimated to cut the budget deficit by 10 to 11% over the next three years. Some of the austerity measures floated were: a sizeable value added tax (VAT) increase, non-significant public sector wage cuts, and a significant hike in the public sector's minimum retirement age.

In light of Sunday's update on the deal's terms, now that European parties are much closer to sealing an agreement, this should soothe markets in the near term. However, the extent of the pain inflicted on Greece's domestic economy has opened up the risk of serious social unrest, which could once more unnerve investors further down the road.

BONDS & CURRENCIES

The downgrades of Greece, Portugal, and Spain last week sent their government bond prices spiraling downwards as a 'flight to quality' bid ensued and investors looked across the Atlantic and to stronger Eurozone countries for debt perceived as more stable for investment. This pushed German 10-year bund yields below 3% (prices rose significantly) at one point, their lowest level in more than a year, while the yield spread of 10-year Greek bonds over their bund equivalent reached a 13-year high of over 800 basis points (bp). That said, the situation calmed towards the end of the week, and Greek 2-year paper was left yielding 12.7%.

Within the UK, gilt yields ended the week lower, as polls suggested that David Cameron had 'won' the final televised leaders debate, making a Conservative government and 'emergency budget' a more likely outcome for the election this Thursday. Yields on 10-year gilts fell to 3.86%.

The euro suffered another tumultuous week, hitting a one-year low against the dollar of $1.3112 before rebounding as confidence grew over a successful bailout for Greece.

COMMODITIES

Gold surged upwards, hitting a new calendar year high of US$1182 per ounce at one stage, as investors sought a refuge from the sovereign debt crisis. Other precious metals also benefitted, with silver making gains over the week and reaching a 3-month high of $18.79 per ounce.

Elsewhere within commodities, corn prices advanced towards the end of the week, reaching a one-month high on Thursday, as China, traditionally a net exporter of the grain, placed an order to buy corn on the international market following adverse weather conditions.

UK EQUITIES: UK equity markets were hit by both good and bad news, as the Greek debt crisis weighed on markets and, following the subsequent downgrades of Portugal and Spain, investors speculated whether the UK 'would be next'. Worries on the macro side were, however, partially offset by a series of positive first quarter earnings results from British multi-nationals. By the end of the five-day period, markets had partially rebounded, with the FTSE 100 finishing down 3.0% and the FTSE 250 suffering marginally less, finishing 2.2% lower.

The oil industry experienced a mixed week, as the fates of Shell and BP stood in sharp contrast to one another. Royal Dutch Shell reported higher-than-expected Q1 profits at US$5.28bn, as a result of a cost-cutting exercise and the rising oil price, while BP continued to suffer as a result of a huge oil spill off America's southern coastline, which is proving more costly than originally anticipated (Royal Dutch Shell B +3.0%, BP -10.0%). Since the rig's explosion on 21 April, approximately $23bn has been wiped off BP's market capitalisation, a figure that many stock analysts now feel is an over-reaction. Nevertheless, the cost of stopping the current leak of c.5,000 barrels per day and the subsequent clean up will be historically significant.

The banking sector enjoyed another week of strong results, as Lloyds Banking Group was the first of the UK's bailed out banks to return to profit in Q1 (Lloyds Banking Group -3.4%). Barclays suffered from its own success, however, as Q1 profits released on Friday, up 47% to £1.8bn, failed to meet market expectations and Barclays shares fell 6.6% over the week.

Mid and small caps: the fund management industry was in the news, as Gartmore gained following the announcement on Wednesday that Guillaume Rambourg, the fund manager suspended for breaking internal trading rules, has returned to work (Gartmore Group +7.6%). Elsewhere in asset management, F&C announced plans to acquire Thames River Capital for £54m via a mix of cash, debt, and share issuance.

In other merger and acquisition news, Chloride Group, the UK's largest supplier of secure power systems, rejected a hostile takeover bid from US firm Emerson Electric for $1.1bn, causing the share price to surge 44.5% over the week.

OVERSEAS EQUITIES

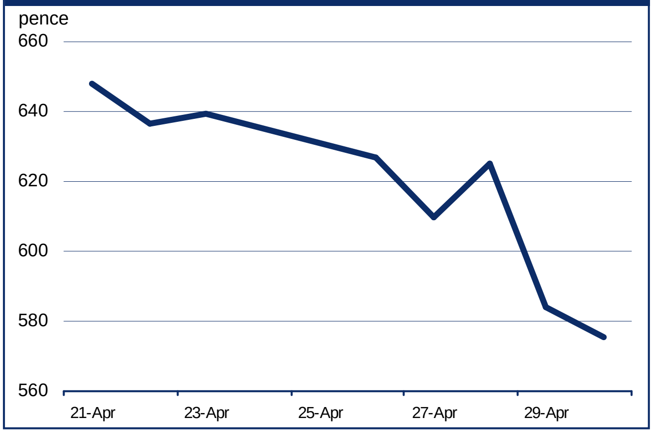
European markets: given their obvious proximity to the Eurozone debt crisis, European markets were the worst hit this week, with the Dow Jones Euro Stoxx index closing down 3.1%, and the FTSE Eurofirst 300 down 2.7%. Markets did, however, calm towards week-end as reports emerged of Greece agreeing to a €24bn austerity package. Greek banks continued to suffer, with foreign lenders as well as individuals withdrawing funds in a situation similar to that of Northern Rock in the UK.

Spanish unemployment figures released this week presented a worrying picture, with almost one in five Spanish workers now unemployed, at a figure of 4.61 million. This unwelcome news came on top of an already detrimental week for Spain following its ratings downgrade by S&P.

Amongst negative macroeconomic data there was some positive news flow from European companies. Unilever, the Anglo-Dutch consumer products firm, saw net profits rise to €973mn as a result of cost slashing and increased marketing compared to its rivals (Unilever -0.2%). Particularly strong growth came from its emerging markets business, with Latin American sales growth reaching double figures at 10%.

MARKET DATA

BP on a slippery slope



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

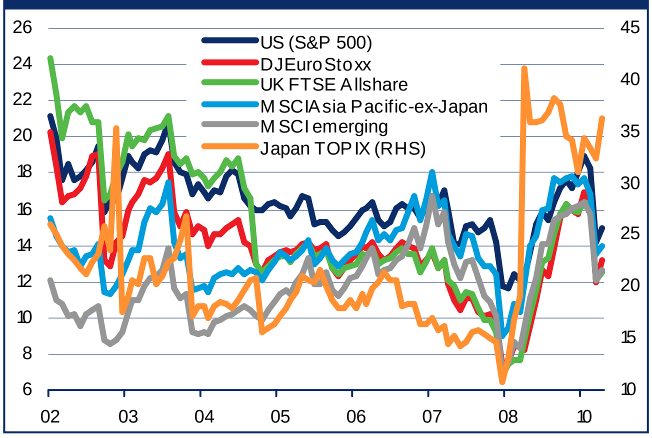
Equities	23 Apr	30 Apr	% cge
UK - FTSE All-Share	2946	2863	-2.8
UK - FTSE 100	5724	5553	-3.0
UK - FTSE 250	10602	10,366	-2.2
UK - FTSE Small Cap	2965	2961	-0.1
Eurozone - DJ Euro Stoxx	278	269	-3.1
US - S&P 500	1217	1187	-2.5
US - Nasdaq	2530	2461	-2.7
Japan - Topix	978	987	0.9
Hong Kong - Hang Seng	21244	21109	-0.6
MSCI Emerging Markets (US$)	1024	1020	-0.4

Source: Datastream, as at 30 April 2010

Consensus EPS Growth %	2010* (yoy)	2011* (yoy)	2012* (yoy)
US	30.5	20.2	13.7
Japan	N/A	96.9	23.3
Eurozone	24.9	24.1	14.0
UK	45.0	23.7	12.9
Asia ex Japan	26.2	16.0	10.7
MSCI Emerging Markets US$	30.8	18.2	14.4

Source: Datastream, Henderson Global Investors, as at 31 March 2010
* Consensus forecast

Price-to-forward earnings ratio



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

US markets: While US markets followed a similar pattern to Europe and the UK, they remained more distanced from the Greek debt crisis and, following the announcement that the Federal Open Market Committee planned to keep interest rates low for an ‘extended period’, they became relatively calmer and rebounded slightly (S&P 500 -2.5%).

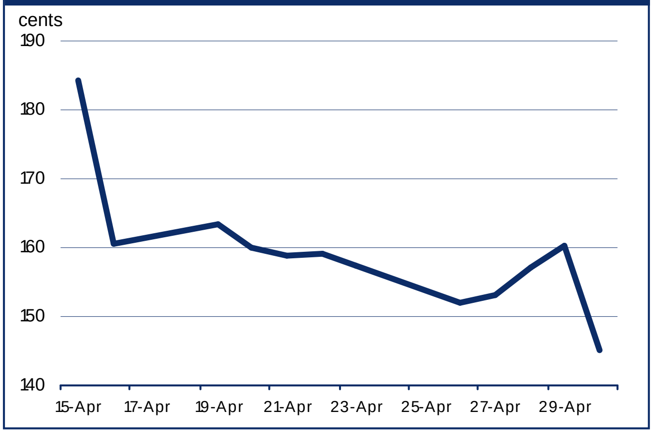
The ongoing investigation of Goldman Sachs by the Securities Exchange Commission continued to dominate the headlines. After facing a Senate sub-committee panel on Tuesday in order to determine whether it deliberately misled derivatives investors, the details of the fraud charge against Goldman Sachs remain relatively murky, and shares fell dramatically on Friday amid speculation of criminal charges; the firm finished 7.8% lower for the week.

US macroeconomic data released last week presented a picture of a sustained economic recovery. The first estimate of US Q1 GDP proved roughly in-line with economist expectations, rising at a healthy annualised rate of 3.2%. This was buoyed by strong consumer demand, which rose 3.6% over the quarter, the strongest quarter-on-quarter gain since before the credit crisis began.

Optimistic macroeconomic data was coupled with strong Q1 earnings from companies including Motorola, which made a largely unexpected profit due to demand for some of its more expensive mobile phones, such as the Droid handset (Motorola -0.3%). Within the natural resources sector, Exxon Mobil reported a 38% rise in first-quarter profits compared to the same period last year, a rise which was supported by the rebounding oil price (Exxon Mobil -2.1%).

Asian markets: Asian equities suffered a similar fate to the European and UK markets but were hit less severely, finishing the week mostly lower, but not to the same scale; the Hang Seng index finished marginally down at -0.6%.

Goldman Sachs hit by fraud charge



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

L’Occitane, the luxury cosmetics group, became the first French company to undergo an initial public offering on the Hong Kong stock exchange, raising HK$5.5bn. L’Occitane follows Russal, the aluminium producer, which became the first Russian company to undergo a float. So far this year, 16 companies have been listed on the Hong Kong main exchange, representing its increasing prominence as a global market place.

Elsewhere in Pan-Asia, Japanese stocks suffered their biggest slump in 12 weeks, before rebounding slightly (Topix +0.9%). Against the backdrop of falling indices, there were some positive signs emerging from macroeconomic data as Japanese retail sales grew at their fastest rate in 13 years. Despite the gains, however, deflation lingered on and consumer confidence remained low.

Week ahead		Consensus
Tuesday 4 May	**INTERIMS:** Aberdeen Asset Management **ECONOMICS:** German retail sales (Mar, mom) UK PMI manufacturing (Apr) US factory orders (Mar, mom)	 -0.1%; decline expected following strong Feb revision 57.5; strength continues 0.0%
Wednesday 5 May	**INTERIMS:** Sage Group **Q1:** CSR, Lancashire Holdings, Millennium & Copthorne Hotels, Wolfson Microelectronics **ECONOMICS:** Eurozone retail sales (Mar, mom) US ISM non-manufacturing (Apr)	 0.0%; rebound possible, but Q1 still negative 56.0; recovery broadening into services sector
Thursday 6 May	**INTERIMS:** Allied Healthcare International, Minorplanet Systems **FINALS:** Vedanta Resources **Q1:** Endeavour International Corp, RSA Insurance Group, Smith & Nephew, **ECONOMICS:** German factory orders (Mar, mom, yoy) ECB rates decision **UK GENERAL ELECTION**	 1.4%; 21.3%; still recovering from collapse last year No change – rates held at 1.0% First hung parliament since 1974 still a possibility
Friday 7 May	**FINALS:** Carpathian, Tanfield Group **Q1:** Anglogold Ashanti, Cryptologic Ld, Smurfit Kappa Group **ECONOMICS:** US non-farm payrolls and unemployment rate (Apr) German industrial production (Mar, mom)	 176K; 9.7%; unemployment holds steady