Henderson Global Investors

Weekly Market & Economic Update

Concerns over recovery prevail and risk appetite wanes

1 February 2010*

NEWS

- Global equity markets retreated to one-month lows as concerns over sovereign risk and the strength of the global recovery dominated investor sentiment.

- The Federal Reserve is keeping its key interest rate unchanged at 0.25%.

- The Bank of England Governor Mervyn King and his deputy Paul Tucker said the banks need to improve capital and liquidity and said there is a case for limiting the size of the banks. The International Monetary Fund (IMF) has warned that banks will have to raise billions in order to bolster their balance sheets and avoid a second banking crisis.

- UK's GDP data released on Tuesday showed that growth in the services sector - around 70% of UK output - was just 0.1%. Output in the production industries similarly increased just 0.1%, below the consensus forecast for 0.4% growth, suggesting any monetary tightening remains a long way off.

VIEWS

- The markets' reaction to the change in Chinese fiscal policy shows how sensitive and nervous they are about exit strategies while the global economy remains fragile. However, China retains an elevated target for lending during 2010, so while policymakers are keen to pre-empt potential inflationary pressures, they are likely to wait to see lenders' response to this initial policy change before making further adjustments.

- The persistence of low readings in small business optimism is a concern as this sector has created many new jobs over the past 15 years. However, the ADP employment report that analyses payrolls across sectors reveals that small businesses have slowed their labour shedding in line with the broader economy, so hopefully the improving unemployment picture will remain intact.

- The slightly disappointing data from the US and muted inflation data is unlikely to change the Federal Reserve's focus on the labour market and further signs of economic recovery before deciding when to implement an exit strategy.

THIS WEEK

- Barack Obama presents his fiscal budget for 2011 on Monday . He is set to propose a three-year freeze on some domestic spending programmes.

- The European Commission will announce budget cutting plans for the Greek government on Wednesday.

- Economic data releases this week focus on production and employment data; in the US, nonfarm payrolls data for January is released on Friday, with an increase generally expected. There are also a number of central bank interest rate meetings, including the Bank of England, with only the Reserve Bank of Australia likely to raise policy rates.

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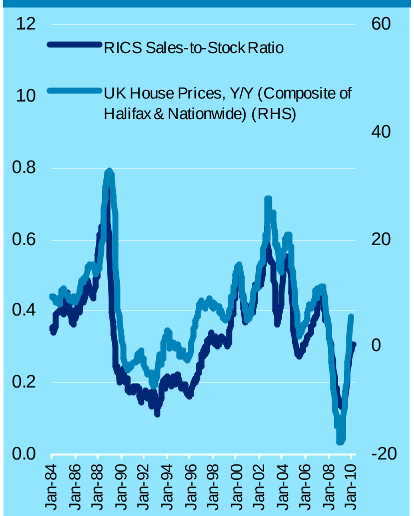
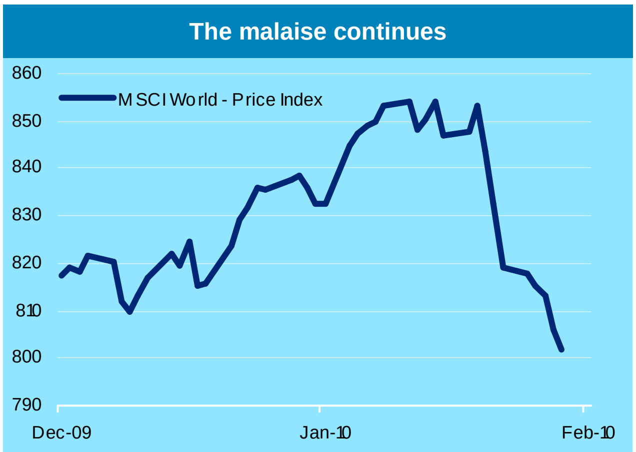
*All data to week ending 29 January 2010 unless otherwise stated

UK housing market powers ahead



Source: Datastream, as at 29 January 2010

ECONOMIC DATA



Source: Datastream, Henderson Global Investors, as at 29 January 2010

GDP Growth %	2008	2009*	2010*
US	0.4	-2.5	2.7
Japan	-0.7	-5.3	1.5
Eurozone	0.5	-3.9	1.3
UK	0.6	-4.5	1.4
G7	0.3	-3.5	1.9
Asia ex Japan	6.6	5.2	7.7
World	2.0	-2.2	2.9

Inflation %	2008	2009*	2010*
US	3.8	-0.4	2.1
Japan	1.4	-1.3	-1.0
Eurozone	3.3	0.3	1.2
UK	3.6	2.1	2.3
G7	3.3	-0.1	1.4
Asia ex Japan	6.6	1.8	2.5
World	4.9	1.4	2.4
Bond Indices	**22 Jan**	**29 Jan**	**% cge**
FTA Government Stocks	2301	2304	0.1
FTA Index-Linked	2495	2484	-0.4
JP Morgan Global Govt Bond Index	539	538	-0.1
10-year Bond Yield (%)	**22 Jan**	**29 Jan**	**Dec 2010***
UK	4.01	4.00	↑↑
US	3.61	3.59	↑↑
Eurozone	3.21	3.19	↑
Japan	1.32	1.31	↑

Other Interest Rates (%)	22 Jan	29 Jan	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	**22 Jan**	**29 Jan**	**Dec 2010****
£/€	0.88	0.87	↑
$/£	1.61	1.60	↑
$/€	1.41	1.39	↑
¥/$	90.1	90.7	↑
Oil (Brent crude $/barrel)	73.1	71.8	↑
Gold ($/Troy oz)	1092	1078	↑

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

Source: Datastream, Henderson Global Investors, as at 29 January 2010
* Consensus forecast, as at 31 December 2009
** Henderson Interest Rate Team forecast

MACRO

The malaise in global risk assets continued last week despite better-than-expected economic and corporate earnings data as the US fourth quarter reporting season kicked off. Continuing jitters surrounding the potential for a financial regulatory overshoot, a draconian tightening of monetary policy by the Chinese and peripheral eurozone countries' budgetary concerns drove most risk assets lower on the week.

With 120 companies in the S&P 500 having reported, 80% of them beat earnings estimates and 76% beat revenue estimates. Top line revenue grew for the first time since the third quarter of 2008 and the improvement in both top and bottom line earnings growth is expected to continue. Given positive earnings dynamics and the boost that significant operating leverage within the corporate sector should continue to add to earnings, equities should recover and move higher from current levels.

The US economy recovered more smartly than expected in Q4 2009, 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.

The recovery in the UK housing market also continued as the Nationwide house price index showed prices increased 1.2% in January (8.6% year-on-year) which was the ninth successive monthly gain. However, the Royal Institute of Chartered Surveyors' survey of UK housing shows that new buyer enquiries have been falling for six months, though this is due more to the nature of the index rather than a new underlying trend in demand. Stocks of houses for sale remain stable but low, as do mortgage rates, which should ensure a continued gradual recovery in UK house prices.

BONDS & CURRENCIES

Sovereign risk fears increased dramatically as worries grew over Greece's fiscal position. The spread of the Greek 10-year government bond yield over the 10-year German bund widened to over 400 basis points at one point last week, its highest level since Greece adopted the euro in 2001. This negatively affected the euro which fell to a six-month low against the dollar ($1.39). The dollar advanced against all currencies after the news that the US economy grew at a faster-than-anticipated rate.

Corporate bond sales in Europe slumped by almost half this week amid investor concern that ballooning budget deficits for Greece and other nations in the region will stifle economic growth. However, there were signs of life in the securitisation market – virtually closed since the crisis began in 2007 – as Lloyds Banking Group announced that it had successfully sold £2.1bn of mortgage-backed bonds denominated in euro, sterling and dollars. Investor demand for the deal was surprisingly strong.

COMMODITIES

Base metals lost their shine last week as investors became more risk averse: copper fell below $7,000 a tonne and aluminium, zinc, lead and tin all retreated. Gold fell 0.5%, capping a second straight monthly decline, as a stronger dollar curbed the metal's appeal as an alternative investment. Crude oil threatened to fall below key support levels at $74 a barrel. Elsewhere, sugar had a strong week as the raw sugar price rose 4.6% in response to an extremely tight global supply situtation.

UK EQUITIES: the FTSE 100 fell for a third successive week (-2.2%) despite a late rebound on Friday following the positive US growth data. Miners and banks had a poor week despite rallying on Friday when the mining sector was helped by a positive sector review from Goldman Sachs, which raised target prices. Over the week, Rio Tinto fell 5.9%, Xstrata fell 8.3% and BHP Billiton fell 3.5%. In the banking sector, Barclays ended the week flat after a strong rally on Friday of over 2%. Barclay's fell nearly 13% the previous week amid fears Obama banking proposals would hit it more than most.

Elsewhere, it was a mixed week; Whitbread was a top blue chip gainer, adding 3.3% as brokers issued positive comments on the leisure group following its recent investor day. ICAP led the FTSE 100 fallers (down 6.6%) as investors considered the potential impact on the interdealer broker of President Obama's plans to impose curbs on proprietary trading by banks, while support services group Connaught dropped 12.8% after the company announced the resignation of its Chief Executive Mark Davies.

Mid and small caps: UK Coal fell 10.2% after it cut estimates of full-year coal production to c.7 million tonnes as geological and technical problems in its underground mines hindered production in the second half of last year. Gold Oil rose 6.0% upon news the exploration company was making good progress on securing additional funding. Ahead of results this week, Arm Holdings rose 2.6% on expectations it will join the FTSE 100 when Cadbury is deleted from the index on 8 February.

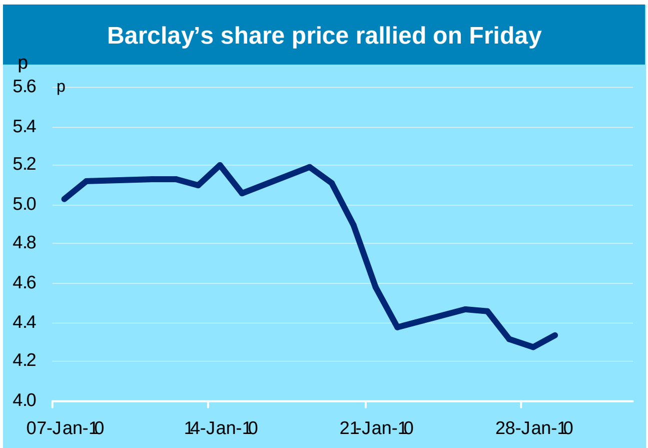
OVERSEAS EQUITIES

European markets: European bourses welcomed the US GDP figures, but were unable to turn around a poor week. The Dow Jones Eurostoxx fell 1.7% and the FTSEurofirst fell 2.4%.

Banks got a boost from easing fears that Greece would default on its debt; Alpha Bank SA rose 1.4%. Comments from the Greek prime minister that the government is speeding up the implementation of tax reforms were welcomed by the markets as a sign that Greece recognised the severity of the problem.

Other positive news in the consumer market included a surge in Nokia shares (+10.0%) after the Finnish handset maker revealed it was regaining lost ground in the growing market for smartphone devices, and BMW rallied 1.1% after the world's largest maker of luxury vehicles also said it is confident that it will post a pre-tax profit for 2009, boosted by sales in the US, China, and Germany.

MARKET DATA



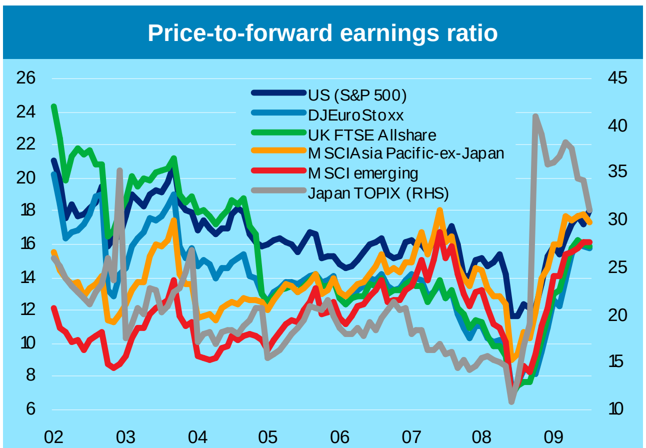
Source: Datastream, as at 29 January 2010

Equities	22 Jan	29 Jan	% cge
UK - FTSE All-Share	2714	2660	-2.0
UK - FTSE 100	5303	5189	-2.2
UK - FTSE 250	9325	9237	-0.9
UK - FTSE Small Cap	2819	2807	-0.4
Eurozone - DJ Euro Stoxx	267	262	-1.7
US - S&P 500	1092	1074	-1.6
US - Nasdaq	2205	2147	-2.6
Japan - Topix	941	901	-4.2
Hong Kong - Hang Seng	20726	20122	-2.9
MSCI Emerging Markets (US$)	964	934	-3.1

Source: Datastream, as at 29 January 2010

Consensus EPS Growth %	2010* (yoy)	2011* (yoy)	2012* (yoy)
US	1.8	29.4	21.8
Japan	N/a	91.1	26.0
Eurozone	-26.6	32.2	23.2
UK	-32.9	28.9	24.9
Asia ex Japan	3.3	22.1	17.6
MSCI Emerging Markets US$	2.4	27.9	20.2

Source: Datastream, Henderson Global Investors, as at 31 December 2009
* Consensus forecast

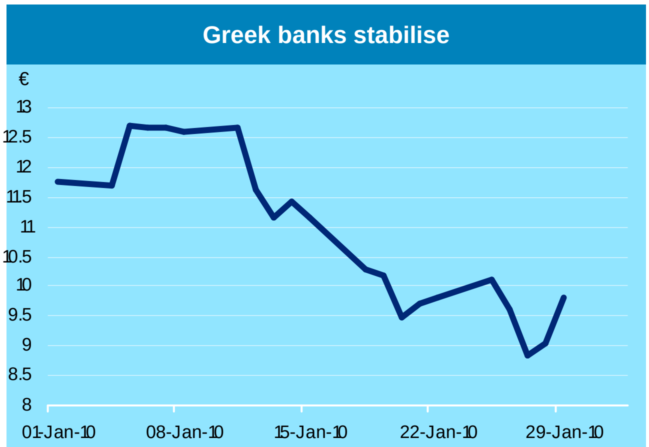


Source: Datastream, Henderson Global Investors, as at 31 December 2009

US markets: technology stocks erased any gains made by the positive news that the US economy expanded at a faster-than-expected rate in Q4 2009, pulling the S&P 500 down to a 3-month low (-1.6% over the week). Other US indices also decreased (Dow -1.1% and the Nasdaq -2.6%). Uncertainty about the fiscal stability of Greece and mixed earnings reports further dampened the market.

Honeywell (-3.1%) set a first-quarter profit target that fell short of analysts' expectations, and Microsoft fell 2.7% after initial gains made by a surge in sales and profit upon release of its Windows 7 software, as the CEO stated the company has yet to see a recovery in spending on enterprise software. Similarly SanDisk Corp, the biggest maker of flash-memory cards, slid 10.5% after its sales forecast trailed some estimates. Apple shares jumped 50% early in the week on the news it was to release its iPad tablet computer, but lost 2.9% over the week as poor results from other tech companies dragged the sector lower.

Asian markets: Asian stocks declined this week, the FTSE Asia-Pacific Index posting its biggest weekly drop since March 2009 (down 4.2%) as investors are worried about the impact of monetary tightening in China on a fragile global economy, and the prospects for global growth. The Shanghai Composite fell over the week, taking its loss for January to 9% in January.



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Elpida Memory Inc, Japan's biggest computer-memory maker, dived 9%, the biggest drop in five months, after reporting profits that missed analyst forecasts. Similarly, Advantest Corp., the world's biggest maker of memory-chip testers, plummeted 10.2%, the largest decline in a year, after forecasting a wider full-year loss than analysts estimated.

Meanwhile in India, as the Reserve Bank of India looks set to begin unwinding its looser monetary policy stance, analysts are increasingly turning bearish, saying rising inflation could invite more tightening measures in the months ahead. On Friday, Credit Suisse analysts downgraded the Indian market to underweight from overweight, saying the market was not pricing in the tightening risk the way China is.

Week ahead		Consensus
Monday 1 February	**INTERIMS:** Energy XXI (Bermuda) (Reg S), Ryanair Holdings **FINALS:** Argo Real Estate Opportunities Fund Ltd., SThree **ECONOMICS**: Australia: central bank interest rate decision US: ISM Manufacturing (Jan) Eurozone: PMI manufacturing (Jan, F)	Increase expected Widening gap between orders and inventories suggests production increases and therefore a rise in the index Risks to the upside
Tuesday 2 February	**INTERIMS :** ARM Holdings, BP, Maxima Holdings, Murgitroyd Group, NWF Group **ECONOMICS**: US: Total vehicle sales Germany Retail sales (Dec, mom and yoy sa)	Attractive discounts, easing credit conditions and a rising fleet sales share provide a floor for January sales Yoy figure likely to outperform Eurozone
Wednesday 3 February	**INTERIMS** Quadnetics Group **FINALS:** Autonomy Corporation **TRADING ANNOUNCEMENTS**: Carpetright, Eurasian Natural Resources, Standard Life, Workspace Group **ECONOMICS:** US: ISM Non-Manufacturing composite (Jan) Eurozone: Retail sales (Dec, mom and yoy) UK: PMI services (Jan)	Recovery in services sector likely to remain under pressure Recovering on an annual basis Healthy; stronger than official data
Thursday 4 February	**INTERIMS:** Alumasc Group **FINALS:** Coca-Cola Hellenic Bottling Company SA, Royal Dutch Shell 'A', Royal Dutch Shell 'B', Unilever **ECONOMICS:** Eurozone: ECB Interest Rate decision Uk: BoE interest rate decision Germany: Factory Orders (Dec, mom and yoy) US: Initial jobless claims (30-Jan)	No change No change Bordering on double-digits for the annual rate
Friday 5 February	**INTERIMS:** Avanti Communications **FINALS:** BG Group **ECONOMICS:** Germany industrial production (Dec, mom, yoy) US: Change in nonfarm payrolls (Jan) US: Unemployment rate (Jan)	Small upswing despite cold snap in December January's increase is led by temporary census hiring Unchanged at 10%