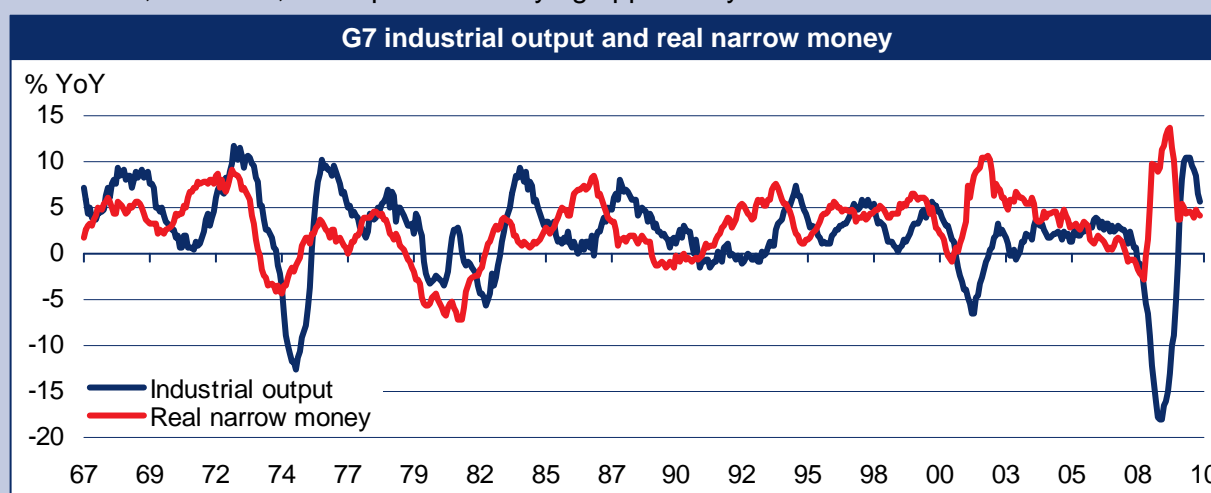


Global Snapshot

December 2010

Money growth signalling ongoing recovery but no 'excess' for markets

- Monetary trends suggest that the global economy will grow at a respectable pace during the first half of 2011. The liquidity backdrop for markets remains unfavourable currently but may improve early in the year.
- The forecasting approach here places weight on the Friedmanite rule that movements in the real (ie, inflation-adjusted) money supply lead the economy by about six months. Consistent with this rule, a slowdown in G7 industrial output growth from an annual 10% in May to about 5% currently was presaged by a fall in real narrow money expansion from 14% in August 2009 to 4% by early 2010, as shown in the chart below.
- Real money growth, however, has stabilised at 4% since early 2010 – above its long-term average and historically consistent with solid output expansion. The five global recessions over the last 50 years were preceded by a contraction in real narrow money.
- The liquidity backdrop for markets depends less on the level of real money growth than whether it is higher or lower than output expansion – a positive differential may imply that there is 'excess' money available to drive up asset prices. Empirical evidence supports this approach: on average, world equities have outperformed cash by a substantial margin when the gap has been positive while underperforming at other times.
- Real money growth fell beneath output expansion in early 2010 and remains lower currently, warranting a cautious stance on equities. The annual output rise, however, should slow further over coming months, partly reflecting base effects, suggesting that the gap will turn positive by early 2011 if real money expansion is stable. Near-term weakness in equity markets, therefore, could present a buying opportunity.



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

Simon Ward, Chief Economist

Simon Ward's latest online updates can be found at www.moneymovesmarkets.com

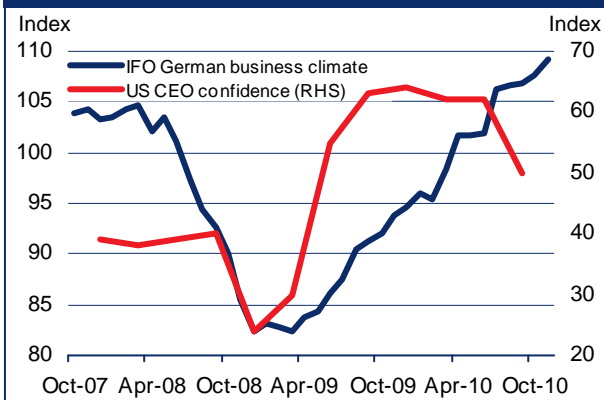
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Record German business confidence contrasts with more cautious US assessment



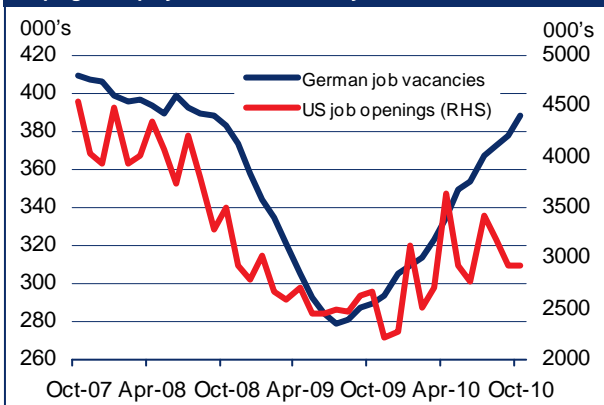
Source: Datastream, Henderson Global Investors, as at 30 November 2010

Consensus GDP growth estimates (%)

	2009	2010*	2011*
US	-2.6	2.7	2.4
Japan	-5.2	3.0	1.2
Eurozone	-4.0	1.6	1.4
UK	-5.0	1.7	2.0
G7	-3.6	2.2	1.8
Asia ex Japan	5.9	8.7	7.4
World	-1.8	3.8	3.1

Source: Consensus Economics, as at 8 November 2010 . * Forecast
GDP – gross domestic product

Confidence spilling over into labour market: more job openings helping unemployment fall in Germany as workers are in demand



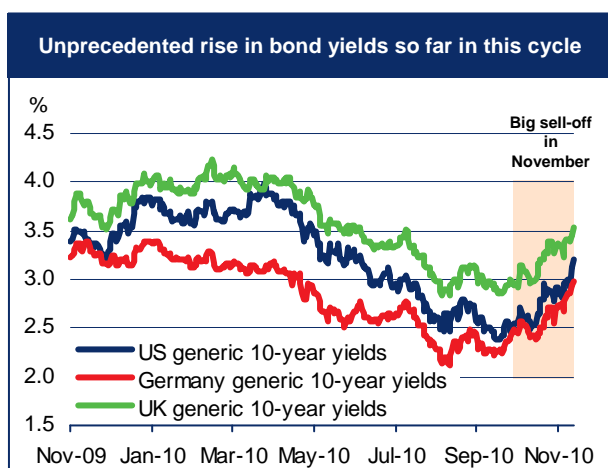
Source: Datastream, Henderson Global Investors, as at 30 October 2010

Consensus inflation (CPI %)

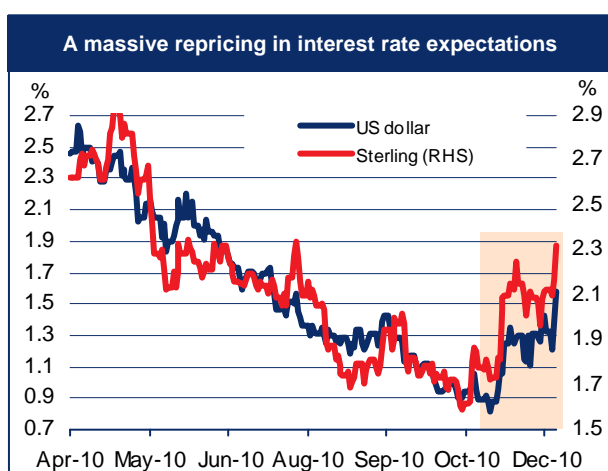
	2009	2010*	2011*
US	-0.3	1.6	1.4
Japan	-1.4	-0.9	-0.3
Eurozone	0.3	1.5	1.6
UK	2.2	3.2	2.7
G7	0.0	1.4	1.4
Asia ex Japan	1.9	3.8	3.6
World	1.3	2.6	2.6

Source: Consensus Economics, as at 8 November 2010 . * Forecast
CPI – consumer price index

- The US embarked on a second round of quantitative easing (QE), pledging to buy US\$600 billion of government bonds with newly created money in an effort to stimulate the economy, particularly a moribund labour market. Buoyant economic data and persistent inflation in the UK, however, stayed the hand of the Bank of England. Since QE announcements tend to coincide with the Inflation Report, fans of QE may have to wait till February at the earliest.
- In Europe, suggestions that private investors should take some pain in bail-outs sparked a reassessment of the financial strength of peripheral European nations. Ireland came under fire and was forced to accept an €85 billion rescue package as ballooning bond yields threatened to deny it the ability to fund itself through ordinary markets. The move was seen largely as buying time. On a positive note, deflation became less of a concern as Eurozone inflation crept up to 1.9% for October while a jump in the Eurozone composite Purchasing Managers Index to 55.4 in November, up from 53.8 a month earlier, indicated strength in both services and manufacturing, albeit driven by Germany and France.
- Indian economic growth of 8.9% annualised in the July-September quarter surpassed analysts' expectations. Japan also reported strong growth over this period (+3.9% annualised) although consumption was boosted by households taking advantage of soon-to-end subsidies. Strong growth in China and rising inflation prompted China to announce it would look into price controls and sharpened its tightening rhetoric.



Source: Bloomberg, Henderson Global Investors, as at 8 December 2010



Source: Bloomberg, Henderson Global Investors, as at 8 December 2010.
Note: Rates plotted are 2-Year interest rate swap rates, 1 year forward.

10-year bond yields (%)	30 November 2010	2010*	2011*
US	2.80	↓	↑↑
Japan	1.19	↓	↑
Eurozone	2.67	↓	↑↑
UK	3.23	↓	↑↑

Currencies	30 November 2010	2010*	2011*
Yen/\$	83.7	↓	→
\$/Euro	1.30	↑	↑
Euro/£	1.20	↑	↑
\$/£	1.56	↑	↑

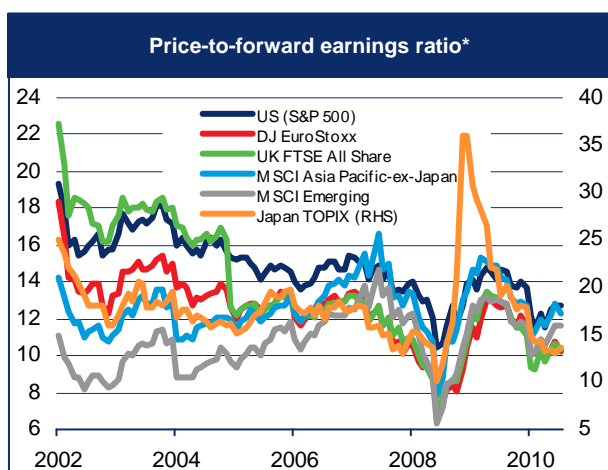
Note: Down arrow indicates a strengthening in the currency in the numerator, and vice versa

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

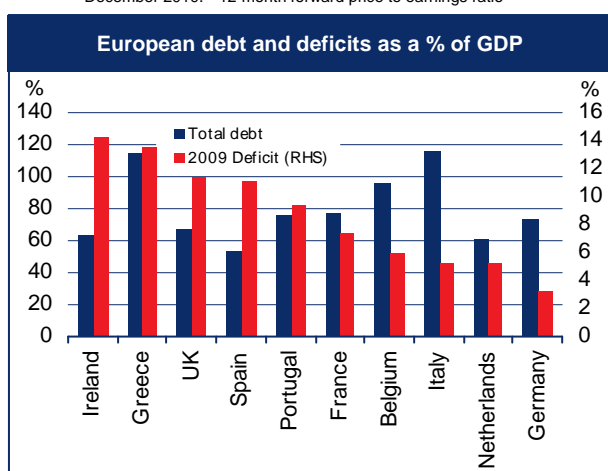
Source: Bloomberg, Datastream, Henderson Global Investors, as at 30 November 2010. * Henderson Interest Rate Team view. EMFX – Emerging Markets Foreign Currency

- Concerns over a possible default by Ireland and its banking system weakened bond markets across the globe in November. In a domino effect, bonds issued by peripheral European countries were badly hit and financials - subordinated bonds in particular - also suffered. The weakness soon spread to the wider market as credit spreads rose for non-financials leading to a poor performance by corporate bonds.
- Talk of burden-sharing by holders of sovereign and bank bonds, fears of an overheating economy in China and tensions in Korea helped reinforce the negative sentiment. The euro fell to a ten-month low against the US dollar and speculation grew about the possible demise of the currency. Possible solutions aired to halt the crisis include an increase to the European Financial Stability Facility (EFSF), more aggressive bond purchases by the central bank and the establishment of E-bonds, a large pool of joint European sovereign bonds to help the euro and reduce borrowing costs.
- Interestingly, in recent times, falling inflation and signals from central banks had pushed back interest rate hike expectations to 2012 or beyond. However, the combination of consistently better-than-expected economic data and the start of year-end balance sheet de-risking eventually triggered a sell-off in interest rate markets in November. To date, the repricing has been one of the most aggressive in this cycle but is likely to reverse as the new year begins, given the expectation of below target inflation and central banks holding rates at low levels through most of 2011.

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



Source: Datastream, Henderson Global Investors, monthly data as at 1 December 2010. * 12-month forward price to earnings ratio



Source: Eurostat, all figures for 2009. Henderson Global Investors, as at 30 November 2010

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

Source: Henderson Global Investors, as at 30 November 2010. * Forecast

Equity market returns for November 2010 (%)	Local	Sterling	Dollar
US	-0.2	2.4	-0.2
Japan	6.2	5.2	2.0
Euro-area	-5.2	-9.0	-11.8
UK	-2.5	-2.5	-5.1
MSCI Far East ex Jap (US\$)		1.8	-0.9
MSCI Emerging Markets US\$		-0.1	-2.7

Source: Bloomberg, Henderson Global Investors, as at 30 November 2010

- Equity performance was mixed during November as markets bounced between encouraging economic data / robust earnings reports and fears of debt defaults and contagion in Europe, the latter of which became the main driver of risk aversion. Within Europe, there was clear differentiation between the performance of core countries (Germany +1%) and the peripheral markets (Spain -14%).
- The forced bail-out of Ireland, effectively amounting to the nationalisation of its banks, led to the underperformance of European financials as investors assessed their exposure to the vulnerable countries. According to the Bank for International Settlements (BIS), European banks have lent \$1.5 trillion to peripheral Eurozone economies (roughly 75% of total borrowing) with Germany, France and the UK having the largest exposures. In the UK, RBS (-16%) and Lloyds (-12%) fell particularly sharply.
- With their sizeable government deficits Spain and Portugal became the next sovereigns under immediate scrutiny - the cost of bailing out Spain was put at around €250 billion by some analysts. Subsequently, there have been calls for the European Union (EU) to introduce firm policy measures to halt the contagion gripping the region. In the meantime, EU banks will face a second, tougher round of stress tests from February next year.

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