Weekly Market & Economic Update

Risk appetite returns as FTSE 100 hits 18-month high

8 March 2010*

NEWS

- The FTSE 100 hit an 18-month high last week, reaching levels not seen since the collapse of Lehman Brothers in September 2008. The blue chip index was buoyed by a stronger banking and mining sector, a weaker pound and better-than-expected US jobs data.
- Strong data and easing sovereign concerns sent risk assets surging higher across the board. The US dollar struggled to move higher amongst better risk sentiment, whilst the euro appears to have bottomed following more visible signs of support for Greece from the eurozone. The chances of a brief but sharp relief rally in the euro have risen as traders' short positioning has reached extreme levels (chart).
- Mergers and acquisition (M&A) activity ramped up this week with numerous deals being announced or speculated on. Data from Thomson Reuters suggested that the week was on track to become one of the best in over a year.
- The pound fell to its weakest level in over 10 months against the dollar as the likelihood of a hung parliament continued to spook investors.

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.
- We believe the equity market rally will continue during the first half of 2010 on the back of positive earnings growth and continued positive surprises in both industrial production and household consumption. The outlook beyond the second quarter remains highly uncertain and is reliant on continued positive data surprises and resultant positive earnings revisions.

THIS WEEK

- Industrial production data is the focus this week and is expected to show a continued recovery worldwide. In the US, retail sales are due on Friday and are expected to show modest spending growth.

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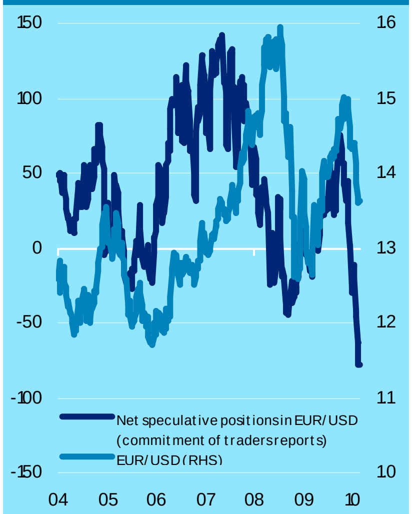
*All data to week ending 5 March 2010 unless otherwise stated

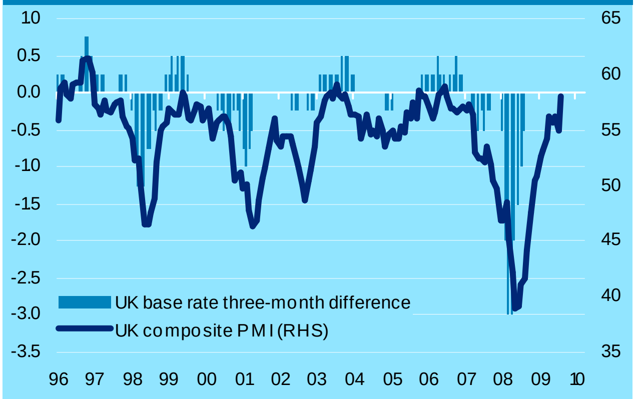
Short positioning in euro is extreme



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

ECONOMIC DATA

UK PMI firmly signalling rate hikes



Source: Bloomberg, Datastream, as at 28 February 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	26 Feb	5 Mar	% cge
FTA Government Stocks	2295	2290	-0.2
FTA Index-Linked	2468	2468	0.0
JP Morgan Global Govt Bond Index	568	568	0.0
10-year Bond Yield (%)	**26 Feb**	**5 Mar**	**Dec 2010***
UK	4.03	4.05	↑↑
US	3.61	3.68	↑↑
Eurozone	3.10	3.16	↑
Japan	1.30	1.30	↑

Other Interest Rates (%)	26 Feb	5 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	**26 Feb**	**5 Mar**	**Dec 2010****
£/€	0.90	0.90	↑
$/£	1.52	1.51	→
$/€	1.37	1.36	↓
¥/$	88.9	90.6	↑
Oil (Brent crude $/barrel)	76.9	80.2	↑
Gold ($/Troy oz)	1106	1140	↑

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

Source: Datastream, Henderson Global Investors, as at 5 March 2010
* Consensus economics, as at 8 February 2010
** Henderson Interest Rate Team forecast

MACRO

Strong data and easing sovereign concerns sent risk assets surging higher last week across the board. The US dollar struggled to move higher amongst better risk sentiment, whilst the euro appears to have bottomed following more visible signs of support for Greece from the eurozone. The chances of a brief but sharp relief rally in the euro have risen as traders' short positioning has reached extreme levels.

Purchasing Manager's Indices kicked off the week's data with US and UK composite PMIs having surged to fresh cyclical highs in February. Both composites are now at levels which prompted central bank interest rate hikes during previous cycles (adjacent chart). The eurozone's PMI failed to increase following its first decline in 10 months in February, but better data later in the week in the form of a strong German factory orders print for January reassured investors that the eurozone continues to recover – albeit at a slower rate than the US. The composite PMI has UK growth accelerating ahead of the eurozone's as well in future months.

The week ended with solid February US employment data. Looking past the expected weather-related weakness, the data showed a fifth consecutive increase in the key leading temporary help services sector, whilst the household data – which asks only if the individual is employed rather than if they made it to work and is thus unlikely to have been biased by poor weather in the US – showed a monthly increase of 308,000 workers. Our model is predicting a return to positive job growth in March, notwithstanding any positive, but temporary, effects of the US census.

Greece's government has announced fresh fiscal austerity measures in recent weeks that have been greeted positively by investors. Greek government bonds (10-year) rallied 29 basis points (bp) last week as the Greek government was able to successfully issue a new 10-year bond, whilst supportive French comments at the weekend also helped.

BONDS & CURRENCIES

The previous week's gains in government bonds were relinquished, as signs that the global recovery was strengthening and easing fears over Greece's problems, saw investors seek riskier assets. A fresh round of austerity measures by the Greek government laid the foundation for a successful issue of €5bn in 10-year government bonds. As a result, the spread between Greek and German government bond yields narrowed by more than 30bp.

Sterling had a bad week tumbling to a 10-month low against the dollar as concerns of a hung parliament and the UK's record fiscal deficit grew. As the prospect of a hung parliament increases, investors fear that an incoming government would lack any authority to make the tough decisions needed to rectify the UK's poor finances. The pound recovered some of its losses after a stronger-than-expected survey of the service sector, but it still fell 1.3% against the dollar and 1.1% against the euro.

COMMODITIES

Commodities rallied over the week with US crude oil briefly passing $82 a barrel and gold gaining 1.3%. Events in Chile saw the price of copper finish the week 4.3% higher as fears escalated over the supply of the metal. However, most companies had begun to restart their operations in the area. There was also a landmark deal for coking coal as a quarterly contract between BHP Billiton and a Japanese company broke from the traditional annual contracts agreed. The deal saw a 55% rise in the price of the commodity.

UK EQUITIES: better-than-expected US jobs figures and a weaker pound pushed the FTSE 100 to an 18-month high as it powered through the 5,600 mark for the first time since mid 2008. Banks and miners were at the forefront of the rise.

Banking stocks were strong over the week despite HSBC (-1.2%) missing analyst estimates for 2009 profits on Monday. Standard Chartered (+12.7%) and Schroders (+16.7%) both led the sector higher, with the former posting results in line with expectations and emphasising its strong start to 2010. The emerging markets-focused bank also stated plans to raise as much as $750m by selling shares in India. Both RBS (+6.2%) and Lloyds Banking Group (+2.9%) also rose over the week.

Miners were buoyed by stronger metal prices and a bullish review by Nomura on the sector. Kazakhmys (+15.3%) and Antofagasta (+12.4%) both saw their share prices shoot up following upgrades from BarCap, with the former moving to overweight. Xstrata (+15.2%) also rose as its largest shareholder Glencore exercised an option to buy back the Prodeco coal mine in Colombia, easing fears that Xstrata would pay an inflated price for it.

Prudential (-13.7%) was in the spotlight as it agreed to buy AIG's Asian life insurance unit for $35.5bn in what is the biggest acquisition announced globally this year. The insurer plans to raise money for the deal through a $20bn rights issue and a bonds sale. The announcement saw the share price plummet at the beginning of the week as some commentators remarked that it could become a takeover target; however, it rallied to retrace some of the losses as investors warmed to the deal. It was still the worst performing stock in the blue chip index though. The announcement saw a revival in European M&A activity as data from Thomson Reuters showed global volumes hitting $62.2bn, the ninth busiest week in a year. This is an encouraging sign for M&A bankers with the week on track to become one of the best in over a year.

Mid and small caps: Gladstone (+12.5%), the health club membership software developer, is under offer following Constellation Software's increased stake in the firm. The Toronto-listed company attempted to gain control over Gladstone in late 2008 having a bid turned down. However, its recent acquisition of another 13.6% of the company means it is now obliged to bid the same price for the remaining shares it does not own. Western Coal Corporation (+13.0%) finished the week strongly as news emerged that BHP Billiton had agreed a 55% increase in the contract price for coking coal with a major Japanese firm, exceeding what some analysts had forecast.

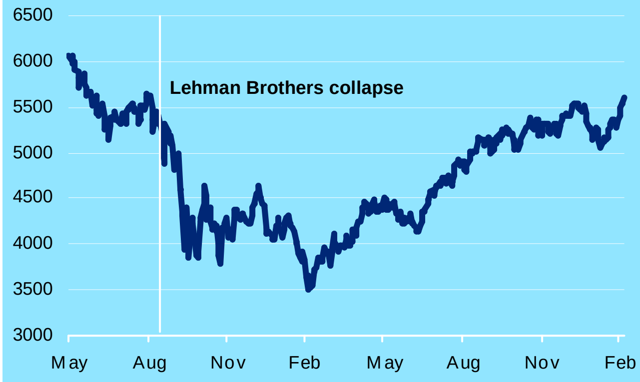
OVERSEAS EQUITIES

European markets: the FTSE Eurofirst 300 closed the week up 2.4% as European stocks posted their biggest weekly gain since July. Greece dominated the news as investors speculated whether the EU would bail out the debt-stricken country. Earlier in the week, Greece announced fresh cuts in an effort to reduce the region's biggest budget deficit, with tobacco, alcohol, and sales taxes all rising. ECB President Jean-Claude Trichet encouraged Greece to avoid seeking help from the IMF as news emerged that German state-owned banks could buy up Greek bonds. National Bank of Greece rose 12.8%, helping the national benchmark to its biggest rise since October.

Allied Irish Bank (+43.8%), Ireland's second largest bank by market value, announced that it will raise funds through selling assets or finding a strategic investor before seeking shareholder or government support. This caused the share price to rise by over 40%. Elsewhere, German ministers agreed to cut solar subsidies by less than initially proposed, causing renewable-energy shares to rise. Solarworld (+4.5%) and Q Cells (+5.0%) both benefited.

MARKET DATA

FTSE 100 hits 18-month high



Source: Datastream, Henderson Global Investors, as at 5 March 2010

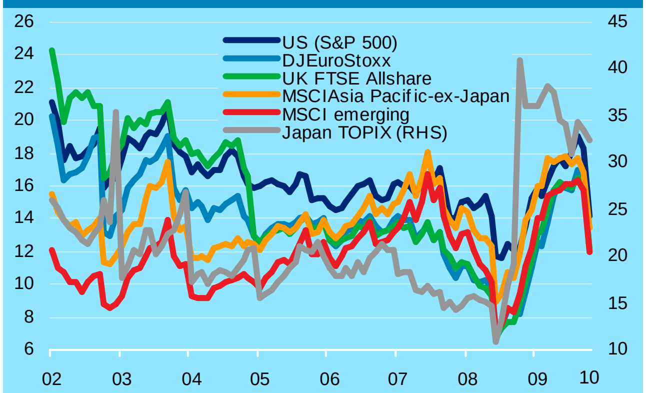
Equities	26 Feb	5 Mar	% cge
UK - FTSE All-Share	2737	2861	4.5
UK - FTSE 100	5355	5600	4.6
UK - FTSE 250	9344	9775	4.6
UK - FTSE Small Cap	2791	2864	2.6
Eurozone - DJ Euro Stoxx	257	271	5.5
US - S&P 500	1104	1139	3.1
US - Nasdaq	2238	2326	3.9
Japan - Topix	894	911	1.9
Hong Kong - Hang Seng	20609	20788	0.9
MSCI Emerging Markets (US$)	935	975	4.2

Source: Datastream, as at 26 February 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



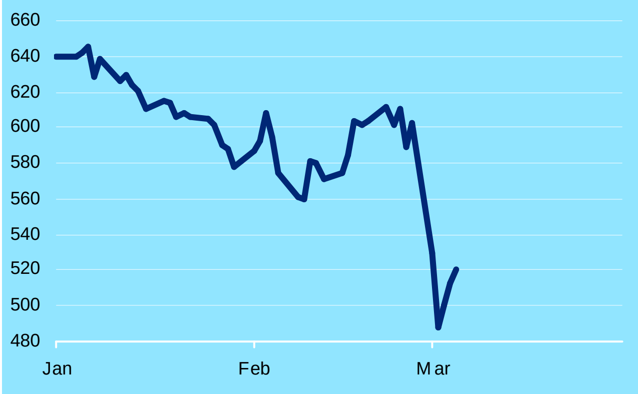
Source: Datastream, Henderson Global Investors, as at 28 February 2010

US markets: better-than-expected US non-farm payroll data on Friday saw the S&P 500 (+3.1%) post its largest weekly gain since 1 February. It was helped earlier in the week by improving US services sector figures as the ISM's non-manufacturing index rose to 53.0, its highest level since October 2007.

Increased M&A activity also assisted the index. AIG (+13.4%) benefited from its agreed deal with Prudential with the money enabling the firm to repay US tax payers faster than expected. Speculation was also rife that the American giant was nearing a deal for Alico, its non-US insurance division, to MetLife. Other activity saw Pfizer (-0.4%) rumoured to have made a bid in excess of $4bn for Germany's Ratiopharm. Elsewhere, Apple's (+7.0%) share price reached an all-time high on Friday as news that its iPad tablet would go on sale in the US as soon as 3 April, and Disney (+6.3%) climbed following an upgrade from Bank of America Merrill Lynch.

Asian markets: Asian markets finished the week strongly with the Nikkei 225 closing up 2.4%, its best week of the year. The Shanghai Composite Index (-0.7%) managed to retrace some of the losses made earlier in the week, but not enough to finish in the black. Friday's address by Premier Wen Jiabao to the National Congress highlighted the risks in the banking sector and reinforced worries that some institutions may default on loans made last year. Wen also pledged to crack down on property speculators as the property bubble continued to inflate.

Prudential agrees record deal for AIA



Source: Datastream, Henderson Global Investors, as at 5 March 2010

The premier is now faced with the task of trying to rebalance the economy towards consumption following the huge stimulus programme in 2009. China Construction Bank (-0.2%) suffered as fears grew that a tightening in lending would affect bank earnings.

Toyota (+1.2%) continued to feel the heat as a US congressional panel found evidence that the Japanese car maker withheld company records and settled personal injury cases to avoid revealing key engineering data. In spite of this, the company still managed to post positive gains over the week with its US sales dropping less than forecast.

Week ahead		Consensus
Monday 8 March	**FINALS:** AFI Development GDR (Reg S), Bovis Homes Group, Chaucer Holdings, Intertek Group, Management Consulting Group, Petrofac Ltd, Renewable Energy Holdings, Tarsus Group, Tullett Prebon **ECONOMICS**: Germany: Industrial production (Jan, mom, sa) UK: RICS house price balance (Feb)	Harsh winter hits construction, manufacturing rebounds Likely to show a fall in line with Nationwide and Halifax indices
Tuesday 9 March	**INTERIMS:** Interior Services, St Ives **FINALS:** Advanced Medical Solutions, Aer Lingus Group, Antofagasta, BrainJuicer Group, Endeavour International Corp, Gartmore Group , Globus Maritime, Inmarsat, International Power, John Menzies, Johnson Service Group, Liberty International, Lookers, Mears Group, OAO Severstal GDR (Reg S), Plethora Solutions Holdings, ROK, STM Group, Weir Group	
Wednesday 10 March	**INTERIMS:** Regenersis **FINALS:** Ark Therapeutics, Brady, Chime Communications, Costain Group, Glanbia, Interserve, Oxford Biomedica, ReneSola, SQS Software Quality Systems, StatPro Group, Standard Life, Terrace Hill, Yule Catto **ECONOMICS**: France: Industrial production (Jan, mom) UK: Industrial production (Jan, mom) UK: Manufacturing production (Jan, mom) China: Exports (Feb, yoy) Japan: GDP(Q4, saar) US: Wholesale inventories (Jan)	Rebound expected In line with growth in manufacturing Survey data suggests strengthening Revisions to capex and inventory investment Little change following moderate increases in food and energy prices
Thursday 11 March	**INTERIMS:** Origin Enterprises **FINALS:**Arbuthnot Banking Group, Charlemagne Capital, Cineworld Group, Clarkson, Computacenter, Dignity, Dolphin Capital Investors, Flying Brands, Johnston Press, Morrison (Wm) Supermarkets, Old Mutual Omega Insurance Holdings,Tikit **ECONOMICS**: Switzerland: SNB rate decision China: Retail sales (Jan-Feb, yoy)	Unchanged at 0.25% Consumption momentum remains robust
Friday 12 March	**INTERIMS:** JD Wetherspoon **FINALS:** Aga Rangemaster Group, Independent Media Distribution, Mercator Gold **ECONOMICS**: Eurozone Industrial production (Jan, mom, sa) US: Retail sales less autos (Feb) US: U. of Michigan confidence (Mar P) US: Business inventories (Jan)	Recovery in manufacturing Inventory-to-sales ratio expected to remain flat