Henderson Global Investors

Weekly Market & Economic Update

Risk appetite increases as fears of a Greek tragedy ease

15 March 2010*

For further information please contact:
Henderson Press Office
020 7818 4222
pressoffice@henderson.com

*All data to week ending 12 March 2010 unless otherwise stated

NEWS

- Equity markets continued to rally last week, led by cyclicals and financials, as concerns over sovereign risk eased and confidence over the global economic recovery increased. The VIX volatility index closed the week at a 22-month low of 17.3. The week also saw the first anniversary of the bear market low point on 9 March 2009, with the MSCI World index rising 61.7% since then.

- Markets' confidence grew in the Greek government's austerity plan to shrink the country's non-interest deficit to zero over a three-year period. As this happens, Greek interest spreads should drop back to their pre-crisis average. Over the weekend, there was speculation that Eurozone finance ministers are likely to agree today (Monday) on a mechanism for aiding Greece financially, if it is required.

- The global macro recovery continued to unfold as some measures appeared to be less adversely affected by the harsh winter weather than previously expected. In the Eurozone, industrial production rose 1.7% month-on-month - the largest ever monthly gain, while in the US retail sales surprised on the upside, rising 0.9% in February following a solid January increase. But the markets focused instead on unexpectedly poor consumer confidence figures from the University of Michigan's Index of Consumer Sentiment.

- In China, inflation hit a 16-month high of 2.7% in February leading the markets to expect the central bank to increase the banks' reserve requirement ratio to prevent the Chinese economy from overheating. However, the monthly data may be an anomaly as it covered the Chinese New Year, traditionally a time when spending increases significantly.

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.

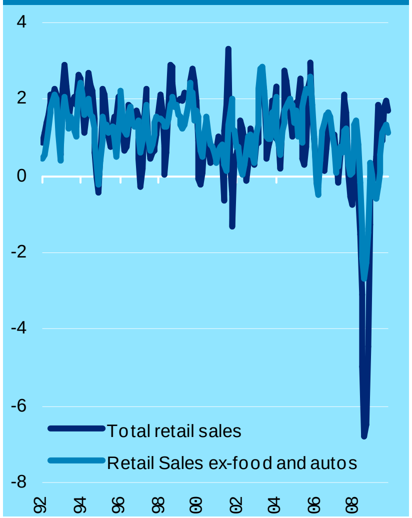
- The dollar could continue to appreciate on the back of solid US data during the first half of 2010, but the path of least resistance for the dollar remains down in the longer term. Despite an attractive valuation, sterling will struggle against most G10 and emerging market currencies until there is 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

- As the reporting season draws to a close, markets will once again focus on macro news flow. In the spotlight this week are likely to be developments associated with US and Japanese monetary policy as announcements are due from the Federal Reserve Bank (Fed) and Federal Open Market Committee on 16 March and from the Bank of Japan's (BoJ) Monetary Policy Committee on 17 March. Markets will be watching for any change of wording from the Fed on future policy tightening, while the BoJ is reportedly considering additional monetary easing measures including expanding the US$110bn fund for bank loans.

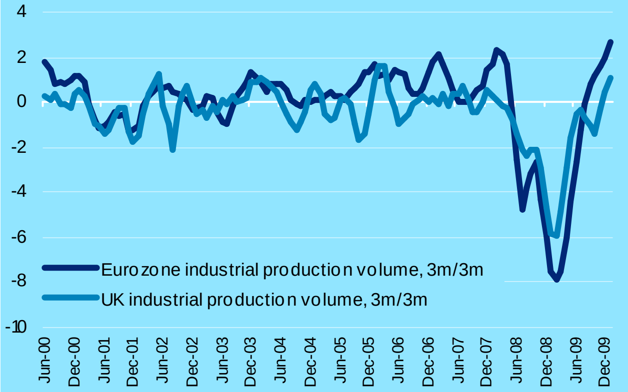
US: household consumption headed for strong Q1



Source: Datastream, Henderson Global Investors, as at 12 March 2010

ECONOMIC DATA

Eurozone churns out solid January industrial production



Source: Datastream, as at 12 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	5 Mar	12 Mar	% cge
FTA Government Stocks	2290	2284	-0.3
FTA Index-Linked	2468	2454	-0.6
JP Morgan Global Govt Bond Index	568	567	-0.3

10-year Bond Yield (%)	5 Mar	12 Mar	Dec 2010*
UK	4.05	4.10	↑↑
US	3.68	3.71	↑↑
Eurozone	3.16	3.17	↑
Japan	1.30	1.34	↑

Other Interest Rates (%)	5 Mar	12 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	5 Mar	12 Mar	Dec 2010**
£/€	0.90	0.91	↑
$/£	1.51	1.52	→
$/€	1.36	1.38	↓
¥/$	90.6	90.7	↑
Oil (Brent crude $/barrel)	80.2	80.1	↑
Gold ($/Troy oz)	1140	1109	↑

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

Source: Datastream, Henderson Global Investors, as at 12 March 2010
* Consensus Economics, as at 8 February 2010
** Henderson Interest Rate Team forecast

MACRO

The global macro recovery continued to unfold last week as some measures appeared to be less adversely affected by the harsh winter weather than previously expected. In Europe, the 1.7% month-on-month increase in Eurozone industrial production was the largest ever monthly gain, comfortably exceeding the 0.7% consensus forecast. In addition, Eurostat reported extensive revisions to the level of industrial production for the past six months, highlighting a steady recovery path. Such sizeable adjustments in hard data are a reminder of the importance of survey signals.

Data was less optimistic in the UK though: manufacturing output in January unexpectedly fell 0.9% month-on-month, below expectations of a 0.2% rise and close to trough levels recorded in mid-2009; however, the poor weather might have had a sizeable impact and PMI survey indicators have suggested continued underlying improvements in the manufacturing sector in recent months. The UK's trade deficit also widened in January with an expected improvement from sterling weakness over the past two years not yet materialising.

Elsewhere, in the US retail sales surprised on the upside, rising 0.9% in February following a solid January increase, as bad weather failed to dampen the enthusiasm of US shoppers. Yet the data had little impact on the markets, which focused instead on unexpectedly poor consumer confidence figures. The University of Michigan's Index of Consumer Sentiment fell to 72.5 in March from 73.6 in February, when consensus had forecast a small increase. However, the retail sales figures suggest that poor consumer confidence does not actually prevent consumers from spending and confidence should improve as the labour market turns. Initial jobless claims fell for the second successive week (by 6,000 to 462,000), although the unemployment rate is unlikely to fall materially this year. The Senate advanced a $15bn jobs bill last week that extended jobless benefits to the end of the year; the bill now moves to the House of Representatives.

In China, inflation hit a 16-month high of 2.7% in February leading the markets to expect the central bank to increase the banks' reserve requirement ratio (and also potentially interest rates), to prevent the Chinese economy from overheating. However, the monthly data may be an anomaly as it covered the Chinese New Year, traditionally a time when spending increases significantly.

BONDS & CURRENCIES

Government bond yields fell (prices rose) over the week and German bonds traded near their lowest level in more than two weeks with the yield on the 10-year bund falling 1 basis point (bp) to 3.17%. As fears eased over Greece's problems, the yield on the 10-year Greek bond fell 10bp to 6.25%, with the premium of the 10-year bond over the 10-year German bund decreasing 7bp to 308bp. In the UK, the ten-year yield fell almost 5bp to 4.10%, while in the US, ten-year treasuries closed the week down 2bp at 3.71%.

In the currency markets, the euro was cheered by lessening fears over Greece's debt and the stronger-than-expected industrial production data; the currency rose 0.7% against sterling and 1% against the dollar. Sterling struggled last week as poor manufacturing and trade data suggested that the country is finding it hard to pull out of recession. However, a flurry of mergers & acquisitions (M&A) activity towards the end of the week provided some support and the currency rose 0.3% against the dollar. In Japan, the yen weakened on the expectation that the BoJ will further ease monetary policy this week.

COMMODITIES

Most commodities had a dull week with gold and oil falling 2% and 0.7% respectively. Sugar endured another tough week, falling 11.9% following reports of an improving outlook for India's production this season.

UK EQUITIES: UK markets moved up marginally over the week with the FTSE All-Share up 0.6% and the FTSE 100 up 0.5% - to close near its highest level since June 2008. M&A activity and financials led the rise, lifted by optimism that the global economic recovery and higher earnings will support the 12-month rally in equities. Many market analysts believe that the valuation case for UK equities remains strong.

In the banking sector, stocks were buoyed by speculation from the US that the government was considering selling its stake in Citicorp. Similar disposal expectations helped Lloyds Bank to rise 8.3%, while Barclays (+3.1%) and Royal Bank of Scotland (+6.5%) also benefitted from the trend. The main exception was HSBC (-3.8%), after Goldman Sachs reduced its view on the company to 'neutral' and removed it from its conviction-buy list saying it was puzzled by its weak performance relative to Standard Chartered.

In M&A news, Intertek (testing) rose 4.8% after rival SGS' largest shareholder was reported to be selling its stake; SGS has for a long time been reported to be interested in bidding for Intertek. There was also takeover talk surrounding property group Connaught (+6.0%) and Aveva (+7.3%), with Siemens and Dassault Systemes linked to the latter.

In the retail sector, it was a good week for Homebase owner Home Retail Group (+7.0%), which was first raised to a 'Buy' by broker UBS and then followed up with good results that were less affected by the poor winter weather than feared. Rival Kingfisher, owner of B&Q stores, also benefitted from the news rising 3.2% in a single day's trading on Thursday. In food retail, Wm Morrison (-3.1%) saw a sharp jump in profits for the year to end January, but the fall in like-for-like sales growth prompted investors to sell. Elsewhere, BSkyB jumped 6.5% on speculation that Rupert Murdoch is planning to take the broadcaster private; analysts noted though that such a deal would be likely to cost News Corp its investment grade rating.

Mid and small caps: in the mid-cap space, inter-dealer broker Tullett Prebon initially moved up as the company confirmed it had received a bid approach, but drifted after it emerged that a private equity group looked the most likely suitor. Tullett shares still closed up 14.4% on the week. Close rival Icap (3.5%) also gained on the news. Fund managers had a good week as recently-floated Gartmore (+9.8%) announced better-than-expected result; the good vibes also lifted Henderson Group (+9.8%) and F&C (+0.8%).

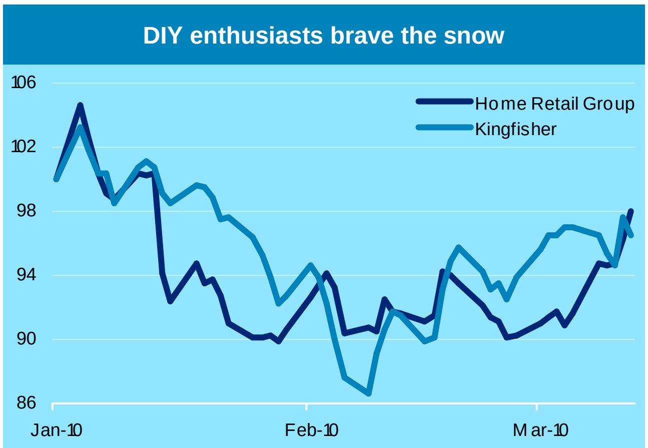
Further M&A activity in small caps led to a 14.1% rise in UK Coal as Hargreaves Services confirmed it was in merger talks with the company. Elsewhere, gold explorer Chaarat (+22.3%) continued its year-long rally after increasing resources from 3.3m to 4m ounces at its 100%-owned Chaarat deposit in the Kyrgyz Republic.

OVERSEAS EQUITIES

European markets: European stocks rose for a second week as concerns eased that Greece will fail to contain the region's biggest budget deficit. European stock markets had struggled during January and February as concerns mounted over budget deficits in Greece, Spain and Portugal.

Volkswagen surged 4.2% after Europe's largest carmaker announced funding plans for the takeover of Porsche SE's car-making unit. VW aims to overtake Toyota as the world's largest car-maker. Publisher Lagardere fell steeply (-7.6%) after issuing poor earnings figures for 2009 and a weak outlook for 2010. Meanwhile, in the tech sector there was speculation that SAP may bid for Temenos, while in pharma, Genmab fell sharply (-22.2%) after it announced that a trial of its cancer drug for head and neck tumours had failed to improve patients' survival rates.

MARKET DATA



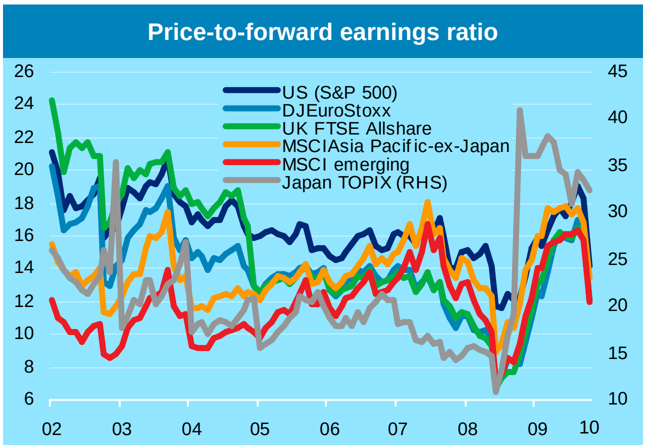
Source: Datastream, Henderson Global Investors, as at 12 March 2010
Rebased to 1 January 2010 = 100

Equities	5 Mar	12 Mar	% cge
UK - FTSE All-Share	2861	2879	0.6
UK - FTSE 100	5600	5626	0.5
UK - FTSE 250	9775	9942	1.7
UK - FTSE Small Cap	2864	2886	0.8
Eurozone - DJ Euro Stoxx	271	273	0.9
US - S&P 500	1139	1150	1.0
US - Nasdaq	2326	2368	1.8
Japan - Topix	911	936	2.8
Hong Kong - Hang Seng	20788	21210	2.0
MSCI Emerging Markets (US$)	975	993	1.8

Source: Datastream, as at 12 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



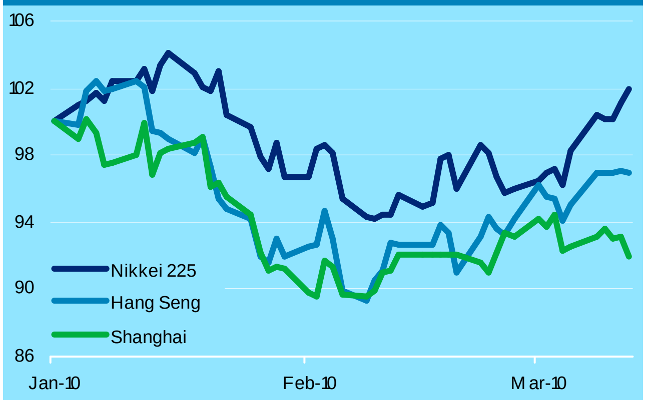
Source: Datastream, Henderson Global Investors, as at 28 February 2010

US markets: the S&P 500 closed up 1% and the Dow Jones up 0.6% on the week as data boosted confidence that the economic recovery is sustainable. This was despite the surprise fall in the University of Michigan Index of Consumer Sentiment. The S&P has now surged 70% since its bear-market low on 9 March 2009. The banking sector was in focus as Citigroup rallied 13.4% on speculation that the US government may sell its stake and after Chief Executive Officer Vikram Pandit said the bank will be consistently profitable. Other banks benefitted from the news, with Goldman Sachs up 4.7%, JP Morgan Chase 0.8% higher and Bank of America up 0.9%.

McDonald's jumped 2.9% as global comparable store sales rose strongly and on the better-than-expected US retail sales data. Elsewhere, in the insurance sector, AIG climbed 21.9% after life assurer MetLife (+8.2%) announced its acquisition of AIG's overseas Alico unit for $15.5bn.

Asian markets: markets in Japan and Hong Kong recorded a third successive week of gains, with the Nikkei 225 closing up 3.7%, buoyed by positive US economic data and speculation that the BoJ would expand its bank loan programme at its March policy meeting this week. Companies with a high percentage of overseas sales benefitted from the news as expectations rose for a further weakening of the yen; these included Shin-Etsu Chemical (+6.4%), Takeda Pharmaceutical (+2.9%) and Nissan Motor (+9.1%).

China underperforms other Asian markets



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In Hong Kong, the Hang Seng was up 2.0% with China Life one of the region's strongest performers, up 6.1% and Swire Pacific up 3.6%.

However, in China, the Shanghai Composite Index closed down 0.6%, as higher-than-expected inflation figures announced during the week fuelled concern that the central bank could act soon to raise bank reserve ratios. The bank sector was particularly weak with Shenzhen Development Bank down 1.5% despite announcing a 719% surge in net profit in 2009.

Week ahead		Consensus
Monday 15 March	**INTERIMS:** Netcall **FINALS:** Atlas Estates, First Quantum Minerals, Kingdom Hotel Investments GDS, Plantic Technologies, Telecom Egypt S.A.E GDS (Regs), TT Electronics **ECONOMICS**: US: Industrial Production (Feb, mom) US Capacity Utilisation (Feb) US NAHB - Home Builders Index (Mar) France: CPI (Feb, mom)	Recent harsh weather will likely have a modest impact Home buyer tax credit likely to expire at the end of April so economic fundamentals will be more important going forward Prices likely rebounded in Feb
Tuesday 16 March	**INTERIMS:** Air Partner, Asian Citrus, Brooks Macdonald, Close Brothers Group **FINALS:** Ablon, Alpha Bank GDR (Reg S) USD, Amphion Innovations, Axis-Shield, Cello Group, Dealogic, Fairpoint Group, G4S, Hellenic Carriers, KBC Advanced Technologies, Kenmore European Industrial Fund, Wellstream Holdings, Win, Work Group **ECONOMICS**: Germany ZEW surveys (Mar) Eurozone: ZEW survey - econ. sentiment (Mar) Eurozone: CPI (Feb, mom) US: Housing Starts (Feb)	Weak recovery underway Encouraging broad based gains in the Sentix survey Prices rising again Recent harsh weather will likely have an impact
Wednesday 17 March	**INTERIMS:** Ultimate Finance Group **FINALS:** Cyprotex, Derwent London, Frutarom GDR (Reg S), Hikma Pharmaceuticals, Mecom Group, MirLand Development Corporation, NEOVIA Financial, Playtech, Sigma Capital, smartFOCUS, TEG Group, Xaar **ECONOMICS**: UK: Bank of England minutes Eurozone: labour costs (Q4, yoy) Japan: BOJ rates decision	Weaker sterling weighed against more QE Chance that BoJ will expand fund supply measures
Thursday 18 March	**INTERIMS:** Renewable Energy Generation **FINALS:** Aegis Group, Biocompatibles International, Collins Stewart, European Goldfields Limited, Greggs, Mount Engineering, National Bank of Greece ADR, Powerflute Oyj, Premier Farnell, ProStrakan, Salamander Energy, SIG **ECONOMICS**: US Initial Jobless Claims (week ending Mar 13) US: CPI (Feb) US: Current Account Balance (4Q)	Steady descent expected Little change expected Further widening expected
Friday 19 March	**FINALS:** Headlam Group	