

# Weekly Market & Economic

Update

## Executive Summary

24 May 2010\*

## Investors ditch risky assets; the euro is centre-stage once again

### NEWS

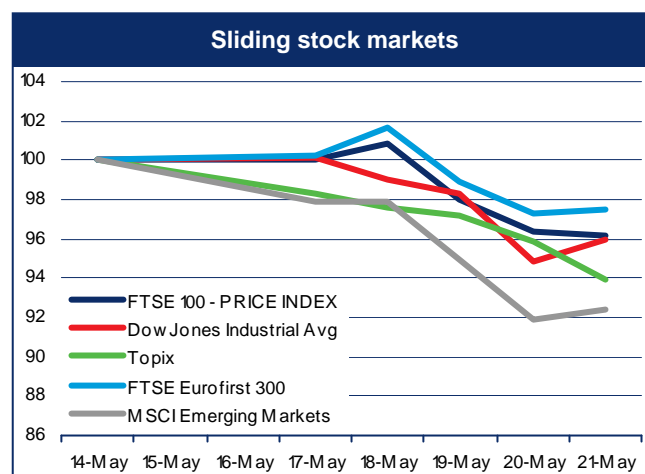
- Last week investor nerves were tested by the lack of policy unity within the Eurozone as fears mounted that significant fiscal consolidation in the common currency zone could derail the fragile global recovery.
- Investors paired down and /or hedged their long risk exposure, sending risk assets sharply lower and core government bonds higher.

### VIEWS

- 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. Economic data continues to support a global economic recovery, and the fundamentals remain in place for equities to continue to move up. However, if worries over fiscal instability in Europe were to continue, the ongoing risk sell-off could threaten economic growth going forward.
- 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 speedy resolution to the former is needed to settle the markets' nerves.
- The euro remains slightly expensive but would require fresh negative news to fall further as investors are already heavily short.

### THIS WEEK

- The financial reform bill passed by the Senate last week must now be reconciled with a similar bill by the House of Representatives this week.
- Among economic data out in the US this week consumer confidence for May is expected to show an increase to 59.0 from 57.9 and Q1 GDP to rise from 3.2% to 3.4%.
- In the UK, annual GDP out on Tuesday is expected to show a slightly less negative number at -0.2% up from the previous -0.3%.



Source: Bloomberg, Henderson Global Investors, as at 21 May 2010

For further information please contact:

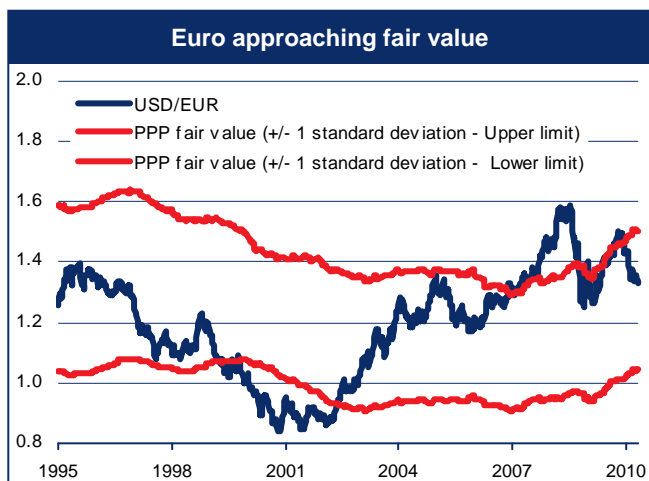
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\*All data to week ending 21 May 2010 unless otherwise stated

## ECONOMIC DATA



Source: Bloomberg, Henderson Global Investors, 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	14 May	21 May	% cge
FTA Government Stocks	2353	2395	1.8
FTA Index-Linked	2533	2555	0.9
JP Morgan Global Govt Bond Index	578	590	2.5

10-year Bond Yield (%)	14 May	21 May	Dec 2010*
UK	3.69	3.49	↑↑
US	3.45	3.23	↑↑
Eurozone	2.81	2.61	↑↑
Japan	1.30	1.23	↑

Other	14 May	21 May	June 2010**
<b>Interest Rates (%)</b>			
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	14 May	21 May	Dec 2010**
£/€	0.85	0.87	↑
\$/£	1.46	1.44	↓
\$/€	1.24	1.26	↑
¥/\$	92.0	89.9	↓
Oil (Brent crude \$/barrel)	77.3	70.3	↓
Gold (\$/Troy oz)	1222	1182	↓

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

Source: Datastream, Henderson Global Investors, as at 21 May 2010  
 \* Consensus Economics, as at 30 April 2010  
 \*\* Henderson Interest Rate Team forecast

## MACRO

Persistent investor concerns about European sovereign risk flared up on Tuesday as the German regulator, BaFin, unilaterally announced a temporary ban on naked short sales of Euro area government debt, related credit default swaps and financial securities. The decision spooked the markets and intensified worries over the unity in the region on how to tackle the crisis. Comments by the German Chancellor that Europe is facing its greatest crisis in decades and could see a collapse in the euro, further undermined confidence.

The current lack of cooperation between the Eurozone officials has subdued the impact of the recently announced generous bailout package of guarantees by the EU and the IMF which includes purchases of government bonds by the ECB. At €750bn, the emergency funding package is much more generous than any since the crisis of 2008 and should help restore calm to the markets. We expect more cooperation, and a more unified voice for Europe to appear soon, helping the economic recovery to push ahead.

In the UK, the governor of Bank of England had to write his first letter to the new Chancellor, George Osborne, to explain why inflation is more than a percentage point above target as April Consumer Price Index came out at 3.7%.

Across the Atlantic, markets were further concerned with the outcome of the Senate's work on the wide ranging financial reform bill which was finalised on Thursday night. The bill must now be reconciled with a similar bill by the House of Representatives this week.

Markets also reacted negatively to the surprise rise in the weekly jobless figures which came out at the highest level since April, despite the 4-week average remaining in line with trend. It seems that markets have lost tolerance for any negative data.

## BONDS & CURRENCIES

It was all about the 'euro' this week. The battered currency continued its decline from last week pushed by the newsflow out of the region - at one stage falling to a 4-year low against the US dollar (\$1.2142) and a 9-year low against Yen, which had found favour as a safe haven currency. But the currency managed to find support towards the end of the week on rumours of ECB intervention and hedge fund purchases who were taking advantage of the extreme short euro positioning in the markets. It ended the week 1.7% higher against the dollar and 2.2% against the pound.

Commodity-linked currencies also had a terrible week with the Australian dollar being the worst hit on global de-leveraging as it slid 6.6% against the US dollar and 9.3% against Yen.

US and German government 10-year bond yields slid (prices rose) dramatically to 3.2% and 2.6% respectively. Trading in peripheral European government bonds ground to a halt on fears of liquidity in the market.

## COMMODITIES

Sovereign debt fears in Europe, fresh economic concerns in the US and credit tightening in China weighed on commodity prices which fell heavily this week, only stabilising on Friday. The Reuters/Jefferies CRB Index of 19 raw materials hit its lowest level since October last year. Oil fell 10%, copper declined 2% and even gold was down 3.0%. Interestingly, the Baltic Dry Index of dry bulk shipping surged to a 5-month high this week on China's continued strong demand.

**UK EQUITIES:** in a chaotic week for equities across the globe as investors shed risky assets, UK equities went into decline - the FTSE 100 Index lost 3.8% over the week having slipped below 5000 briefly on Friday.

In mostly volatile trading, the week began with mining stocks leading the charge lower as copper prices fell 6% on the back of a stronger US dollar and intensified concerns over global growth. By mid-week mining stocks were at 3-month lows as news of the ban from Germany unsettled the markets further. Increased worries over the possible break up of the euro hit the banking and insurance sector hurting names that were thought to have exposure to peripheral European sovereign debt. However, by the end of the week mining stocks managed to claw back from their lows and banks took comfort from the rally amongst their US counterparts to rebound.

Names in the news this week included **Man Group**, the hedge fund manager whose shares declined 8.9% on Monday on concerns that at \$1.6bn it was overpaying for the purchase of its rival GLG Partners. **BP Group** managed to gain 1% on announcing that it was siphoning off nearly 5000 barrels of oil per day from its leaking well in the Gulf of Mexico, but the stock was hit badly on Friday as US politicians accused it of underestimating the oil leak, falling 4.2% despite a denial from the company.

**GlaxoSmithKline** was the only blue-chip company in London to rise after Germany's ban stifled risk appetite on Wednesday with investors choosing the safety of the name, helped further by a favourable note from the broker MF Global on its top selling brand Advair.

**Mid and small caps:** among mid-cap names, **Yell** was the worst performer of the week as the indebted directories group which publishes Yellow Pages announced the departure of its chief executive and chief financial officer. The shares lost 25% over the week to 35.30p despite announcing a return to black with a pretax profit of £70.3m.

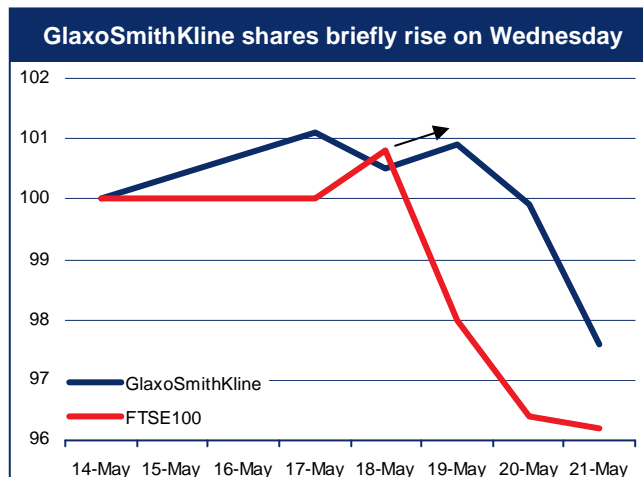
The worst performer in small caps was **BATM Advanced Communications** losing 34.5% over the week after the network equipment maker reported a fall in revenue for Q1. **Rockhopper** was in the news several days this week with its shares bouncing up and down on news of its oil find, ending 6.5% up on last week. On the positive side, **Blinkx**, the video search engine, rose 48% upon reporting full year results well ahead of expectations.

## OVERSEAS EQUITIES

**European markets:** stocks took a battering in all but one day of the week when sovereign debt risks in the region briefly calmed as Greece received €14.5bn from the European Union to help repay its debt on Tuesday - the banking sector helped lead the market higher on the day.

However, the FTSE Eurofirst 300 ended the week down 4.4% having declined the most the day after the German regulator, BaFin, temporarily banned naked short selling of a number of German financial securities in a bid to stop what it believed to be speculation by the markets. Fears that other countries in the region might follow suit, continuing gloom over the Eurozone debt, comments by the German Chancellor that Europe is facing its greatest crisis in decades which could see a collapse in the euro as well as disappointing economic news out of US dented sentiment heavily. The worst hit sectors were banks and mining, although banks managed to recoup some of the losses in a late rally on Friday.

## MARKET DATA



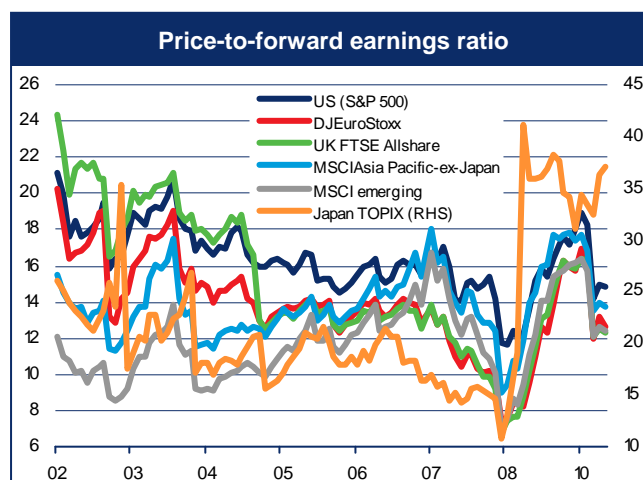
Source: Datastream, Henderson Global Investors, as at 21 May 2010

Equities	14 May	21 May	% cge
UK - FTSE All-Share	2722	2611	-4.1
UK - FTSE 100	5263	5063	-3.8
UK - FTSE 250	10023	9447	-5.7
UK - FTSE Small Cap	2872	2731	-4.9
Eurozone - DJ Euro Stoxx	253	246	-3.0
US - S&P 500	1136	1088	-4.2
US - Nasdaq	2347	2229	-5.0
Japan - Topix	936	880	-6.1
Hong Kong - Hang Seng	20145	19546	-3.0
MSCI Emerging Markets (US\$)	960	887	-7.6

Source: Datastream, as at 21 May 2010

Consensus EPS Growth %	2010* (yoy)	2011* (yoy)	2012* (yoy)
US	34.7	18.2	13.7
Japan	N/A	102.8	22.4
Eurozone	26.2	23.4	14.2
UK	45.2	23.0	12.3
Asia ex Japan	29.2	15.8	11.9
MSCI Emerging Markets US\$	33.3	18.7	14.6

Source: Datastream, Henderson Global Investors, as at 30 April 2010  
\* Consensus forecast

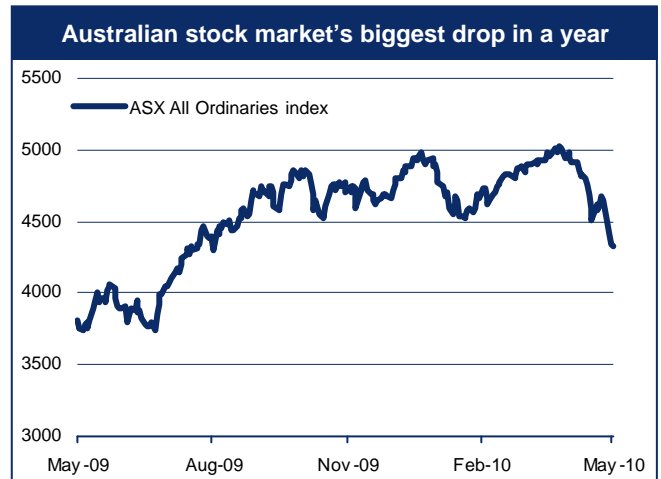


Source: Datastream, Henderson Global Investors, as at 30 April 2010

**US markets:** the major US indices fell sharply this week as worries over bank reform, continuing Eurozone debt jitters, gloomy economic data and sliding commodity prices sent indices plummeting. The Dow Jones index briefly fell below the important psychological level of 10,000 before recovering - ending the week down 4%. The S&P 500 was down 4.2% while the Nasdaq lost 5%.

Stocks suffered three days of heavy declines following the German decision to ban naked short selling. Financials were the hardest hit sector. Industrials also suffered as fears that the Eurozone credit woes will cut into economic growth hurt stocks with heavy exposure to Europe - **Caterpillar** lost 2.8%, while **Boeing** fell 2.2%. A rally by financials on Friday put a brake on the slide in US stock prices, as the US Senate finished its work on the regulatory reform bill. **JP Morgan Chase** was the best performer gaining 5.9% on the day.

**Asian markets:** a crushing week for Asian equities too in line with the rest of the global markets as concerns grew that European efforts to curb government debt will curtail growth. Indices slid across the region – the Nikkei 225 Average recorded new 3-month lows and closed 4.2% down having fallen below 10,000 for the first time since February. In China, the Shanghai Composite index lost 4.2% overall. Stocks were further affected by fears of government steps to cool the property market.



Source: Datastream, Henderson Global Investors, as at 21 May 2010

Japanese exporters fared badly on news from Europe and particularly as the yen gained against the euro. Hong Kong stocks also extended losses with European-heavy issues such as **HSBC** losing 2.6%. Sydney stocks experienced their biggest daily and weekly drops for a year, shedding 3.1% on Tuesday and 6.8% over the week.

Week ahead		Consensus	
<b>Monday 24 May</b>	<b>INTERIMS:</b> Invista European Real Estate Trust, Phytopharm <b>Q1 2010:</b> <b>FINALS:</b> Chloride Group, Cranswick, First Derivatives, Invensys, Proton Power Systems		
<b>Tuesday 25 May</b>	<b>INTERIMS:</b> Education Development International, Greencore Group, Renew Holdings, Romag Holdings, Victrex <b>FINALS:</b> BSS Group, C&C Group, Clyde Process Solutions, De La Rue, Entertainment One (DI), Homeserve, HSBC Infrastructure Company Ltd., KCOM Group, Marks & Spencer Group, Pennon Group, Telecom Plus <b>Q1 2010:</b> <b>ECONOMICS:</b> Consumer confidence May (US) GDP YoY (UK) Exports Q1 (UK)	59.0 (previous 57.9) -0.2% (previous -0.3%) 0.0% (previous 3.8%)	
<b>Wednesday 26 May</b>	<b>INTERIMS:</b> Brewin Dolphin, Chrysalis Group, Innovation Group, Local Shopping REIT, MedicX Fund Ltd., Shaftesbury, Zytronic <b>FINALS:</b> Aveva Group, Burberry Group, Cable & Wireless Worldwide, GB Group, Hogg Robinson, Telford Homes, Water Hall Group <b>Q1 2010:</b> <b>ECONOMICS:</b> Durable Goods Orders Apr (US) New Homes Sales (US)	1.5% (previous -1.3%) 421K (previous 411K)	
<b>Thursday 27 May</b>	<b>INTERIMS:</b> Daily Mail and General Trust <b>FINALS:</b> Cable & Wireless Communications, JJB Sports, London & Stamford Property, Man Group, PayPoint, QinetiQ Group, Scapa Group, Tate & Lyle <b>Q1 2010:</b> <b>ECONOMICS:</b> OECD June Economic Outlook (EC) GDP QoQ annualised Q1 (US)	3.4% (previous 3.2%)	
<b>Friday 28 May</b>	<b>INTERIMS:</b> Standard Life European Private Equity Trust <b>FINALS:</b> Electrocomponents, Severn Trent <b>ECONOMICS:</b> Chicago Purchasing Manager May F PMI Retail (UK)	61.8 (previous 63.8)	

Markets returns source Datastream price index for equities, total return for bonds, local market terms. This document has been produced based on Henderson Global Investors' research and analysis and represents our house view. The information is made available to clients only incidentally. Unless otherwise indicated, the source for all data is Henderson Global Investors. Any reference to individual companies is purely for the purpose of illustration and should not be construed as a recommendation to buy or sell or advice in relation to investment, legal or tax matters. Please remember that past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Tax assumptions may change if the law changes, and the value of tax relief will depend upon individual circumstances.

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