Global Snapshot

June 2013

UK economy picking up on schedule

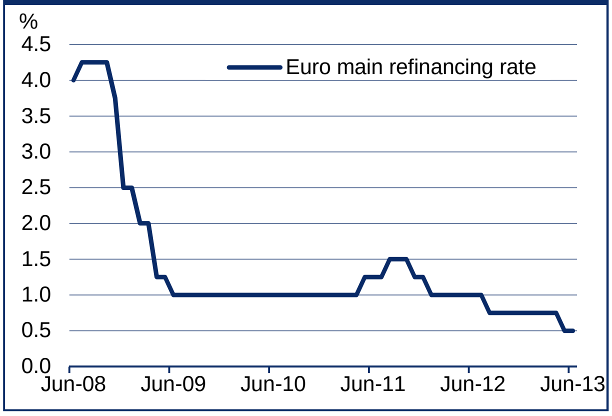
- Henderson's above-consensus forecast that UK GDP will grow by 2% in 2013 is supported by upbeat May purchasing managers' surveys covering services, manufacturing and construction.
- A weighted average of new business indices for the three sectors is now at a similar level to mid-2009, ahead of a 2.4% rise in GDP in the year to the third quarter of 2010 (2.6% excluding oil and gas extraction).
- The current economic pick-up was predicted by faster real money supply expansion during 2012, with narrow money M1, in particular, surging since last summer. M1 – comprising instant-access deposits and physical cash – is a measure of the demand for money for use in economic transactions yet is ignored by the Bank of England and private-sector economists.
- The forecast of 2% annual average growth rests on:
    1. Likely upward revisions to earlier GDP data that will increase positive "carry-over" to the remainder of 2013. First-quarter GDP is currently estimated to have been only 0.4% higher than the 2012 average but this may rise to 0.8% as the Office for National Statistics incorporates additional information*.
    2. Indications of a bumper rise in GDP in the second quarter. The March level of GDP was 0.3% above the first-quarter average and the second quarter should receive a significant boost from a recovery in construction output from weather-driven weakness. With the purchasing managers' indices (PMIs) signalling further gains in services and manufacturing output, GDP could rise by 0.8-0.9% on the quarter.
    3. Probable continued solid growth during the second half, based on current expansionary monetary conditions. The previous two assumptions imply that GDP growth of 2.5% annualised between the second and fourth quarters would be sufficient to produce 2% growth for the year.
- Survey confirmation of the upbeat economic outlook signalled by monetary trends ought to cause the three MPC doves to back down on their call for further easing, assuming that this recommendation is based on data analysis rather than neo-Keynesian dogma. Mark Carney's February assessment that policy was already sufficiently loose for the economy to achieve "escape velocity" has proved correct, suggesting that he will enter office with a neutral bias.

*This assumes that quarterly GDP changes since the start of 2012 are raised by 0.18 percentage points from their initially-reported values, consistent with the average upward revision over 2009-2011.

Simon Ward, Chief Economist

Henderson GLOBAL INVESTORS

ECB lowers main interest rate to record low

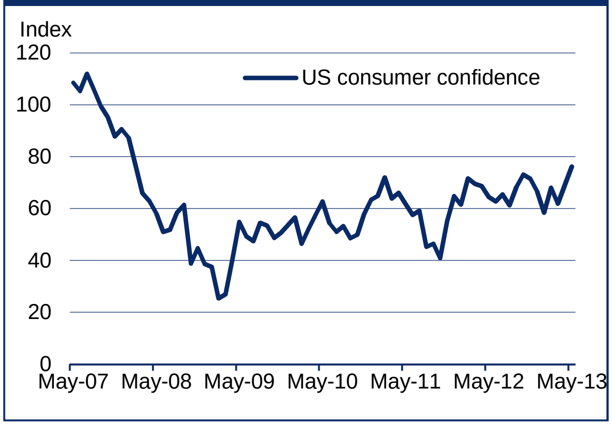


Source: Thomson Reuters Datastream, European Central Bank, Euro main refinancing rate (middle rate). Monthly date from June 2008 to June 2013.

Consensus GDP growth estimates (%)	2012	2013*	2014*
US	2.2	1.9	2.7
Japan	2.0	1.4	1.5
Eurozone	-0.5	-0.5	0.9
UK	0.3	0.8	1.6
G7	1.0	0.8	1.8
Asia ex Japan	6.0	6.4	6.6
World	2.4	2.5	3.2

Source: Consensus Economics, Henderson as at 13 May 2013.
* Forecast GDP – gross domestic product.

US consumer confidence hits a 5-year high



Source: Thomson Reuters Datastream, US Conference Board. Monthly data from May 2007 to May 2013.

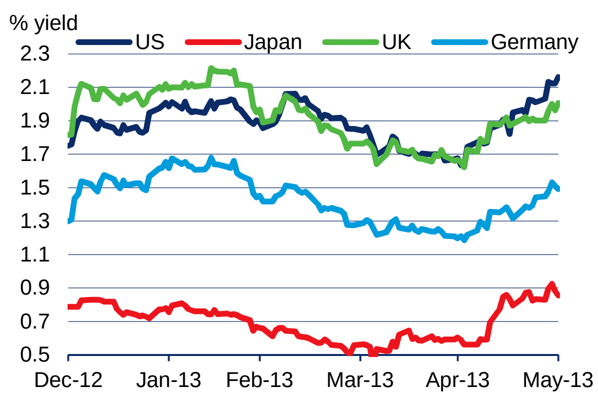
Consensus inflation (CPI %)	2012	2013*	2014*
US	2.1	1.6	2.0
Japan	0.0	0.0	1.9
Eurozone	2.5	1.6	1.6
UK	2.8	2.9	2.5
G7	2.1	1.5	1.9
Asia ex Japan	3.8	3.8	4.0
World	3.0	2.7	3.0

Source: Consensus Economics, Henderson as at 13 May 2013.
* Forecast CPI – consumer price index.

- May saw the European Central Bank (ECB) lower its main interest rate by 25 basis points (bp) to a record low of 0.5%, with ECB President Mario Draghi promising the central bank stood "ready to act if needed". Italian government bond yields fell below 4% for the first time since late 2010 after Prime Minister Enrico Letta's 'grand coalition' won its first confidence vote. The euro area economy contracted by 0.2% quarter-on-quarter (q-o-q) in the first quarter. Germany disappointed with anaemic gross domestic product (GDP) growth of only 0.1% q-o-q while France slipped into recession, shrinking by 0.2%. The Organisation for Economic Co-operation & Development (OECD) cut its global growth forecasts for 2013 from 3.4% to 3.1%, whilst forecasting a steeper contraction in the eurozone of -0.6% versus -0.1%.
- In the US 175,000 non-farm jobs were created in May, above analysts' forecasts, but the unemployment rate ticked up to 7.6%. At its latest meeting the US Federal Reserve (Fed) stated that it would "increase or reduce" the pace of its government bond purchases depending on the outlook for the job market and inflation. The economy recorded better-than-expected retail sales figures – up 0.1% in April against predictions of a 0.3% fall; improving consumer confidence – a five-year high in May's release; and slowing inflation – which fell to a two-year low in April. A slightly sub-forecast reading of first quarter GDP growth (2.4% versus 2.5% earlier estimate) slightly dampened sentiment.
- In Asia, preliminary government data showed that Japan's first quarter real GDP increased 0.9%. Also lifting market sentiment was news that Japanese consumer confidence improved for the fourth month in a row. The official China manufacturing PMI rose slightly to 50.8 in May (50.6 April). The International Monetary Fund (IMF) cut its forecast for China's growth rate in 2013 to 7.75% (previously 8%) mainly due to a weak world economy and exports.

Bond and currency

Government bond yields spike up in May



Source: Thomson Reuters Datastream. Benchmark 10-year government bond yields. Daily data from 31 December 2012 to 31 May 2013.

USD/JPY breaches 100 mark

Source: Thomson Reuters Datastream. JPY to USD WM/Reuters closing spot rates, weekly data 28 June 2009 to 28 May 2013.

10-year bond yields (%)	31 May 2013	2013*	2014*
US	1.68	↑	↑
Japan	0.60	↑	↑
Germany	1.20	↑	↑
UK	1.67	↑	↑

Currencies	31 May 2013	2013*	2014*
Yen/$	97.42	↑	↑
$/Euro	1.32	↓	↓
Euro/£	1.18	→	→
$/£	1.55	↓	↓

Note: Up arrow indicates a higher currency rate (currency in the numerator depreciates) and vice versa.

Emerging markets and commodities	2013*	2014*
G4/EMFX	↓	↓
Emerging market interest rates	↑	↑
Oil	→	↑
Base metals	→	↑
Gold	→	↑

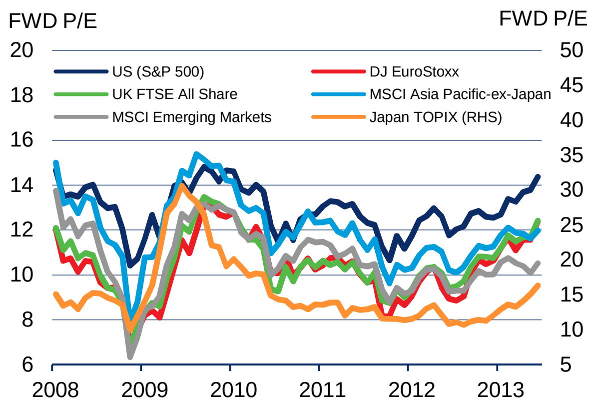
Source: Thomson Reuters Datastream, Henderson Global Investors, as at 31 May 2013. *Henderson Global Investors' view. EMFX – Emerging Markets Foreign Currency. G4/EMFX – ratio. Up arrow indicates a strengthening in the EM currencies and vice versa.

- May was a poor month for global bond markets. Investors questioned the longevity of central bank stimulus measures, following US Fed Chairman Bernanke's comments that the central bank may decide to scale back the pace of its bond purchases. There are concerns that central banks may withdraw liquidity before growth is strong enough to continue without additional support.
- These concerns drove a rise in government bond yields (prices fell) over the month. Rising yields could bring a normalisation in economic growth, but on the other hand if they rise too quickly they can undermine the efforts of quantitative easing to provide cheaper long-term financing while economic growth remains weak. US 10-year Treasury yields rose from around 1.68% to 2.16%, reaching new highs for 2013. Dramatic rises were also seen in Japanese 10-year government bond yields, which started the month at around 0.59% and ended around 0.86% as uncertainty about the Bank of Japan (BoJ)'s aggressive monetary stimulus policies unnerved investors. Optimists who believe interest rates will rise have been selling bonds, but pessimists argue that borrowing costs are still rising as higher prices are yet to materialise. As for corporate bonds, they performed resiliently in May as investor demand showed little sign of waning.
- In the currency markets, EUR and USD gained while JPY weakened sharply; the yen broke through the psychological ¥100 barrier versus the dollar for the first time in four years. EUR strengthened against GBP despite strong USD gains and the ECB rate cut. GBP depreciated against USD despite better UK inflation forecasts and economic data. Finally, USD/JPY pushed through 100 for the first time in years.

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

Equity

Price-to-forward earnings ratio*

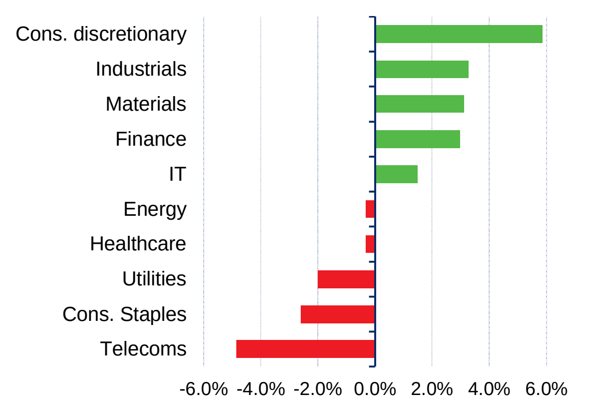


Source: Thomson Reuters Datastream, Henderson Global Investors, monthly data as at 1 June 2013. *12-month price-to-forward earnings ratio.

Equity market levels	2013*	2014*	2015*
US	↑	↑	→
Japan	↑	↑	→
Euro-area	↑	↑	→
UK	↑	↑	→
Asia ex Japan	→	↑	↑
MSCI Emerging Markets US$	→	↑	↑

Source: Henderson Global Investors, as at 31 May 2013. * Forecast.

Cyclicals outperform defensives in Europe



Source: Bloomberg, Henderson Global Investors, MSCI Europe ex-UK index, sector returns, percentage change between 30 April and 31 May 2013

Equity market returns for May 2013 (%)	Local	Sterling	Dollar
US: S&P 500	2.1	4.8	2.1
Japan: Topix	-2.5	-3.4	-5.5
Euro-area: Euro Stoxx	2.5	3.4	1.1
UK: FTSE All-Share	2.5	2.5	-0.2
MSCI Far East ex Japan (US$)		1.1	-1.5
MSCI Emerging Markets US$		-0.4	-2.9

Source: Thomson Reuters Datastream, Henderson Global Investors, index price returns, as at 31 May 2013.

- Global equities posted another positive month in May (MSCI World Index +2.8%) helped by continuing central bank liquidity stimulus and policy action in Japan raising recovery hopes. However, it was not a smooth ride all the way; strong returns in the early weeks tailed off towards the end of the month on an interpretation of Fed language, which raised fears of an earlier-than-expected tapering of US stimulus. The sharp sell-off that then ensued in the bond markets permeated into equities as global stock markets fell with high dividend-yielding, bond-like equities being especially badly hit.
- Overall, while most regional markets still managed to deliver positive returns in May, Japan proved an exception. After nine months of a relentless rally, Japanese equities corrected as investors took profits due to concerns about the recent extreme volatility in the country's bond market, and what this would ultimately mean for the perceived success of the recent BoJ policy action. Asia-Pacific ex-Japan also underperformed.
- US stocks were more resilient with market indices hitting record highs during the month helped by better economic data. Meanwhile, in Europe, the Stoxx 600 and FTSE All-Share indices clocked up their 12th consecutive month of gains. European stocks were helped by positive data surprises and earlier central bank action; cyclical sectors such as consumer discretionary and industrials outperformed as investors began to rotate out of defensive sectors such as utilities and telecoms.