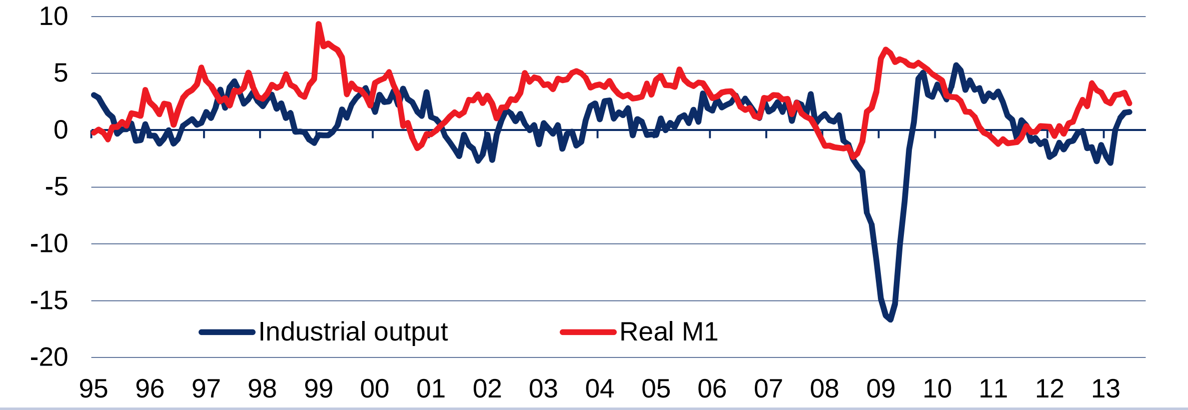
Global Snapshot

August 2013

Eurozone economic recovery follows monetary revival

- The Eurozone has pulled out of recession earlier than expected by the consensus in early 2013. Gross domestic product (GDP) rose by 0.3% in the second quarter – the first gain since the third quarter of 2011. Industry has led the recovery: output grew by 0.2% in the first quarter with a follow-up increase of 1.2% last quarter.
- The incipient revival has confounded Keynesians and "creditists", who claimed that no end to recession was possible because of fiscal "austerity" and bank lending weakness. "Monetarists", however, have been vindicated – the recovery was signalled by a rise in the real (i.e. inflation-adjusted) money supply during the second half of 2012.
- The "best" measure for forecasting purposes is the narrow money supply, M1, comprising physical cash and instant-access deposits. Consumers and firms typically increase holdings of such money before boosting spending, explaining why the measure leads activity, usually by about six months. European Central Bank (ECB) policy easing during 2012 stabilised and then revived consumer and business confidence; the recovery in real M1 confirmed an associated improvement in economic prospects.
- Pessimists point out that the second-quarter GDP rise was entirely attributable to "core" countries – output continued to sink in Italy and Spain. This fits with country M1 data showing relative strength in the core in late 2012. The periphery, however, has caught up in 2013. Peripheral countries, therefore, should exit recession in the second half.
- While a recovery is now acknowledged, economists differ on its strength and sustainability. Real M1 expansion remains solid by historical standards but slipped back in June – see chart. A further decline would warrant concern that growth momentum will fade in early 2014, allowing for the typical six-month lead. Near-term economic news, however, should remain upbeat.

Euroland industrial output and real M1 (% 6M)



Source: Thomson Reuters Datastream, Henderson Global Investors. Industrial output = total production excluding construction. Real M1 = money supply M1 divided by consumer prices. Monthly data from 15 January 1995 to 15 June 2013.

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Henderson GLOBAL INVESTORS

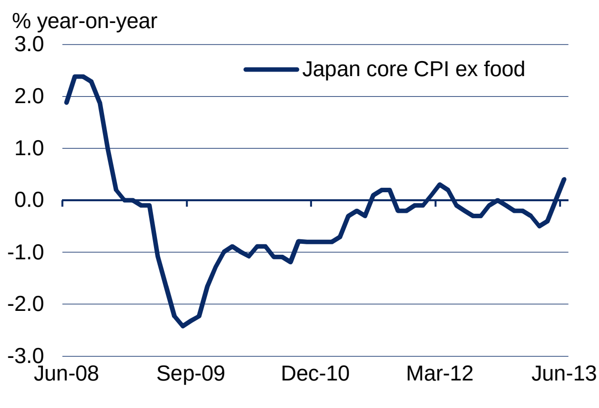
Eurozone manufacturing sector grows again

Source: Bloomberg, Markit eurozone manufacturing purchasing managers' index (PMI). Monthly data from July 2008 to July 2013. A reading above 50 indicates expansion, below 50 signals contraction.

Consensus GDP growth estimates (%)	2012	2013*	2014*
US	2.2	1.8	2.7
Japan	1.9	1.9	1.5
Eurozone	-0.5	-0.6	0.8
UK	0.2	1.0	1.7
G7	0.9	0.8	1.7
Asia ex Japan	6.1	6.1	6.4
World	2.4	2.4	3.1

Source: Consensus Economics, Henderson as at 8 July 2013.
* Forecast GDP – gross domestic product.

Japanese consumer prices post fastest rise in five years



Source: Thomson Reuters Datastream, Statistics Bureau, Ministry of Internal Affairs and Communications, Japan. Monthly data from June 2008 to June 2013.

Consensus inflation (CPI %)	2012	2013*	2014*
US	2.1	1.5	1.9
Japan	0.0	0.0	2.1
Eurozone	2.5	1.5	1.5
UK	2.8	2.7	2.5
G7	2.1	1.4	1.8
Asia ex Japan	3.8	3.6	3.8
World	3.0	2.6	3.0

Source: Consensus Economics, Henderson as at 8 July 2013.
* Forecast CPI – consumer price index.

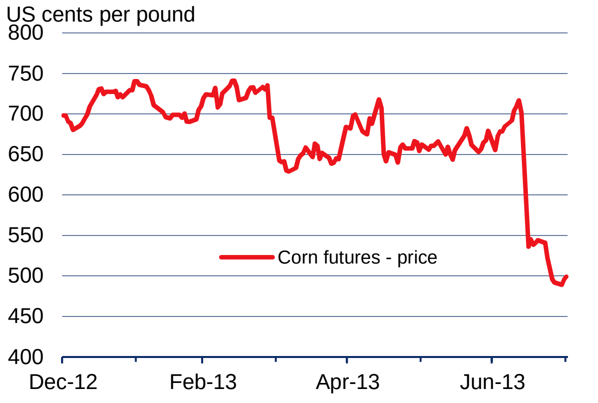
- During the month, the release of strong US non-farm jobs for June, with 195,000 jobs created, led analysts to speculate that the Federal Reserve may begin to raise interest rates as early as 2014. However, these fears were later soothed by comments that monetary policy would be kept loose until the economy is firmly on an upward trajectory. Other US June data releases included weaker retail sales growth of 0.4% and higher inflation of 1.8%, driven by a jump in gas prices. Meanwhile, home sales unexpectedly dropped by 1.2%, but durable goods orders outpaced the 1.3% forecast, rising 4.2%.

- Concerns over the euro area re-emerged. Both Portugal and Greece encountered issues with austerity programmes that were conditional to secure these countries' additional bailouts. Despite this, economic data in the region improved. Signalling a return to growth in manufacturing, July's Markit eurozone manufacturing purchasing managers' index (PMI) rose from 48.8 in June to 50.3. This is the first time in two years that the index has moved above the 50 mark, indicating sector expansion. In order to reassure investors of their support, the European Central Bank announced that interest rates will remain low for "an extended period of time". In the UK, improving economic indicators included a fall in unemployment to 2.5 million in the three months to May and stronger retail sales. The UK Chancellor declared "the UK is on the mend" following second quarter gross domestic product growth of 0.6%, which was double that of the previous quarter.

- In Asia, concerns for a weakening Chinese economy continued as June inflation rose to 2.7% year-on-year (yoy), the highest level in four months, while exports suffered a surprise fall of 3.1% yoy. Adding to the bearishness, economic growth slowed to 7.5% in the second quarter due to falling exports and faltering investment. Conversely, Japan fared better. The government upgraded its economic outlook for the third straight month while June consumer prices rose by 0.4% yoy, the biggest increase in five years.

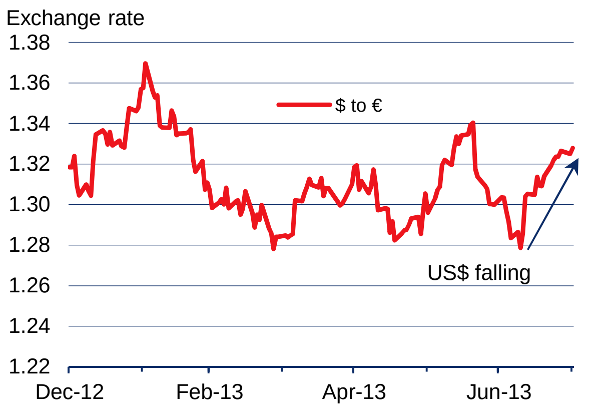
Bond and currency

Corn prices plummet as favourable weather raises market expectations around yield and supply



Source: Thomson Reuters Datastream, Corn #2 Yellow, Chicago Board of Trade, USA 1st positional futures, US cents per pound, daily data, 31 December 2012 to 31 July 2013.

Lowered expectations of tapering drives the US dollar down against the euro



Source: Thomson Reuters Datastream, US dollars to euros, WMR, daily data, 31 December 2012 to 31 July 2013.

10-year bond yields (%)	31 July 2013	2013*	2014*
US	2.60	↑	↑
Japan	0.79	↑	↑
Germany	1.67	↑	↑
UK	2.51	↑	↑

Currencies	31 July 2013	2013*	2014*
Yen/$	98.03	↑	↑
$/Euro	1.33	↓	↓
Euro/£	1.15	→	→
$/£	1.52	↓	↓

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

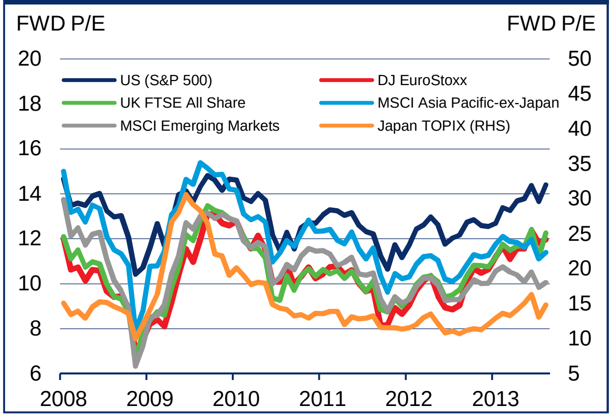
Emerging markets and commodities	2013*	2014*
G4/EMFX	↓	↓
Emerging market interest rates	↑	↑
Oil	→	↑
Base metals	→	↑
Gold	→	↑

Source: Thomson Reuters Datastream, Henderson Global Investors, as at 31 July 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.

- All risk assets rallied back after June's downdraft; high yield corporate bonds recouped all of June's losses; investment grade bonds recovered just over half, whilst gilts rallied back about one third of June's sell-off. Credit (corporate bonds) generally had a very strong month. The driving force was the more dovish guidance in communications from the US Federal Reserve (Fed) regarding the market's overreaction to the original tapering (reduction in quantitative easing) message earlier in the period. European and British central banks both initiated 'forward guidance' communication strategies (messaging on the path of future interest rates) in response to the Fed-induced volatility spike. It is notable that sovereign bonds and indeed risk assets are highly sensitive to the flow of strong economic data; more so than the so-called forward guidance. The most recent communication by the Fed described growth as modest but also highlighted that inflation was running below their longer run objectives. Too low an inflation figure was a concern for many in the market but it has taken the Fed a month to explicitly recognise it. The other significant news was the mixed economic data from Europe and China – the European economies seem to be stabilising just when the outlook from China is deteriorating.
- Commodities reversed some of their poor performance over the previous months with gold and oil rising 7.8% and 8.2% respectively. However, corn prices fell by nearly 27% as the favourable weather during development season raised market expectations around crop yield and supply. In the foreign exchange markets, the euro appreciated against the US dollar over the month as tapering expectations were lowered following Fed chairman Ben Bernanke's semi-annual testimony.

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

Price-to-forward earnings ratio*

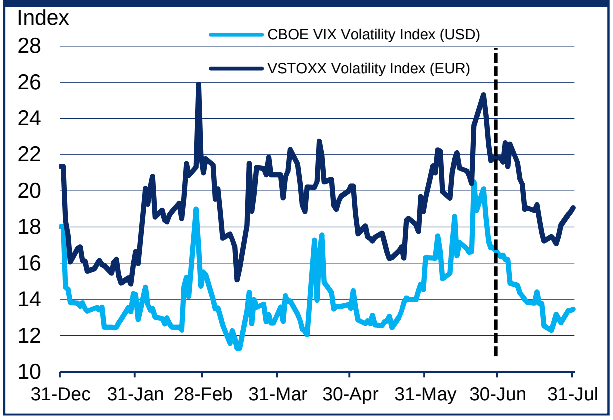


Source: Thomson Reuters Datastream, Henderson Global Investors, monthly data as at 1 August 2013. *12-month price-to-forward earnings ratio.

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 July 2013. * Forecast.

Equity market volatility subsides in July



Source: Thomson Reuters Datastream, CBOE Volatility Index and VSTOXX Volatility Index, in US dollars and euro respectively, 31 December 2012 to 31 July 2013

Equity market returns for July 2013 (%)	Local	Sterling	Dollar
US: S&P 500	4.9	5.0	4.9
Japan: Topix	-0.2	1.1	1.1
Euro-area: Euro Stoxx	6.2	8.6	8.6
UK: FTSE All-Share	6.7	6.7	6.6
MSCI Far East ex Japan (US$)		2.0	1.9
MSCI Emerging Markets US$		0.8	0.8

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

- After a dismal June, global equities advanced during July and market volatility subsided, as investors grew more comfortable that the Fed's exit strategy from quantitative easing (QE) would be paced appropriately. A reasonable start to the second quarter earnings season – approximately three quarters of S&P 500 companies beat earnings per share forecasts – also helped support risk appetite. In developed markets, Europe and the UK led the charge, spurred by positive economic data surprises in the regions. Spain's IBEX 35 (8.6%) and Italy's MIB (8.2%) were among the top performing indices, with the FTSE All-Share not far behind (6.7%; all local returns). It was only a marginally positive month for emerging market (EM) equities, however, as Chinese bank liquidity remained tight and fears over slowing Chinese growth persisted. Japanese equities were weaker as investors took some profits after a resilient June performance; the Upper House election win for Prime Minister Abe was no real surprise.

- In terms of style, value stocks outperformed growth in European markets, benefiting from a reduction in market volatility and largely encouraging macroeconomic data. At the sector level, cyclical areas such as financial, consumer discretionary and industrial stocks were the top performers globally, while some of the more defensive areas, including telecoms, consumer staples and utilities, lagged the overall market. Small-cap stocks outperformed in developed markets, while investors retreated into large caps in EM.