

Global Snapshot

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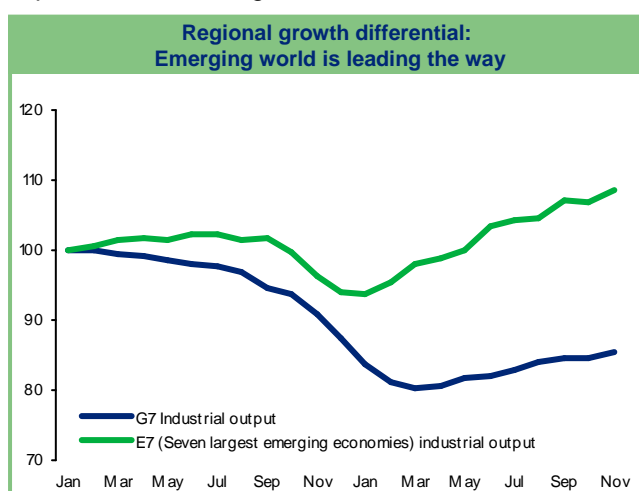
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- Global equities staged a massive rebound during 2009 ending the year up 30%, and 73% higher since their nadir in March. A 'one way' equity market is unlikely to materialise in 2010 making country, sector, and individual stock selection all the more crucial this year.
- Global government bond yields rose sharply (bonds sold off) throughout 2009. The interest income was not enough to offset the decline in capital value as government bonds produced marginally negative returns on the year. 2010 is unlikely to be a good year for developed market government bonds as yields are set to rise further on the back of economic recovery, a return of headline inflation and under the weight of heavy issuance. Credit spreads, particularly high yield, should continue to compress in 2010.
- Industrial commodity markets staged a solid rebound in 2009 and should continue to benefit from tight supply conditions and rising demand in 2010. The outlook for precious metals appears more mixed. Notwithstanding potential weather events, supply/demand dynamics point to marginally higher agriculture prices for 2010.
- Policymakers face a tremendous challenge in trying to foster sustainable growth against the need for more fiscal austerity. Monetary policy will likely do the 'heavy lifting' in the short run, but financial markets will force politicians' hands on fiscal consolidation. Differential economic growth rates across regions and economies will play an important role in asset performance during 2010.

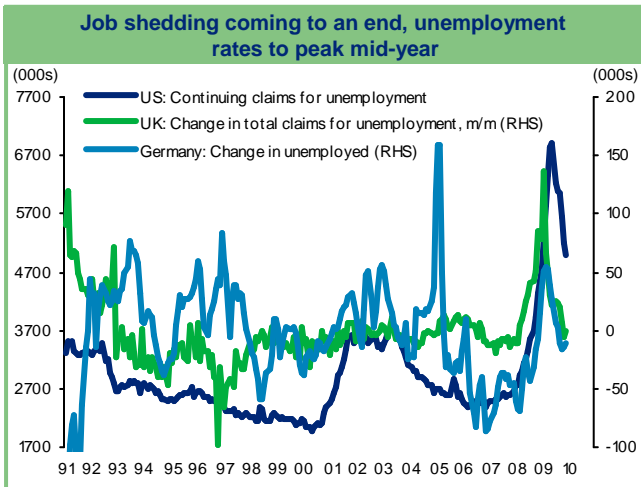


Source: Bloomberg, Henderson Global Investors, as at 31 December 2009
Rebased to 100 on 1 January 2008

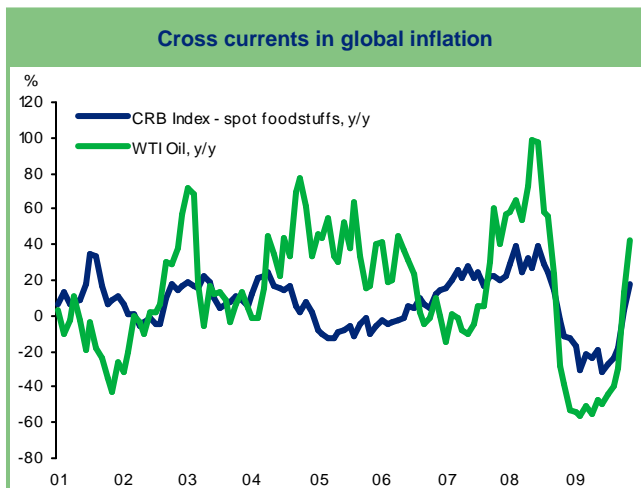
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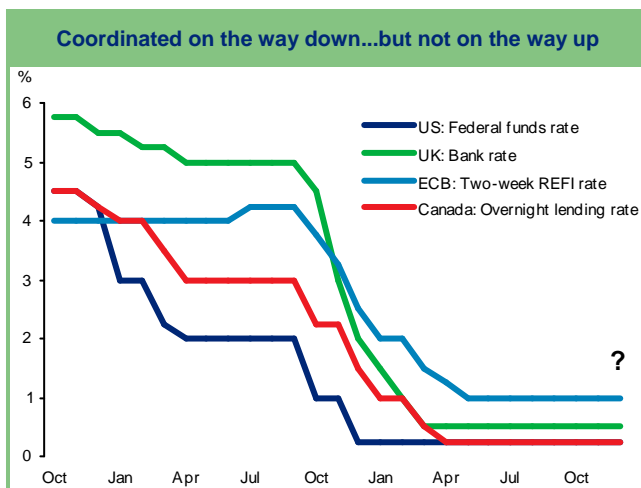
Economic outlook



Source: DataStream, Henderson Global Investors, as at 31 December 2009



Source: Bloomberg, Henderson Global Investors, as at 31 December 2009



Source: Bloomberg, Henderson Global Investors, as at 31 December 2009

- The contraction in global employment appears to be nearing an end as most leading indicators for hiring/labour demand have bottomed decisively.
- Within the G7, US companies were the most aggressive in shedding labour having pushed the unemployment rate to a near post-war record. We expect the unemployment rate to peak by mid year.
- Unemployment in the UK did not rise as much as the decline in output had suggested due to the significant improvement in corporate financial balances. However, the unemployment rate could remain elevated as fiscal retrenchment begins in 2010.
- Emerging market unemployment rates appear to have mostly peaked.
- The rise in the oil price since early 2009 has begun to feed through to headline inflation rates globally, but food has not.
- Food and oil inflation are expected to continue to exert upward pressure on headline inflation rates – especially in emerging economies – for most of 2010, but the rate of pass-through remains uncertain.
- However, most other goods and services prices (core) are expected to remain under downward pressure due to the remaining large output gap. The UK's inflation rate will remain volatile due to currency fluctuation and effects from a rise in VAT.
- 2010 will see the majority of central banks begin to normalise monetary policy. However, questions remain as to the timing of initial moves by individual banks.
- In general, emerging markets and commodity producers are expected to lead the charge, with Israel and Australia already having begun to lift rates.
- Amongst the larger economies, the ECB's focus on inflation should see it move first, probably around mid-year. With fiscal consolidation in the pipeline, the BoE is unlikely to lift rates until late in the year whilst the Fed may not lift rates at all in 2010.

Economic outlook

Consensus GDP growth estimates (%)	2008	2009	2010
US	0.4	-2.5	2.7
Japan	-0.7	-5.3	1.5
Eurozone	0.5	-3.9	1.3
UK	0.6	-4.5	1.4
G7	0.3	-3.5	1.9
Asia ex Japan	6.6	5.2	7.7
World	2.0	-2.2	2.9

Source: Consensus economics, as at 7 December 2009

- Low interest rates, government spending, falling core inflation and a stabilising labour market should allow growth to continue to improve until mid-2010.
- The growth outlook for the second half of 2010 remains somewhat less certain as spending from government fiscal measures is set to wane.
- A continued labour market improvement should subsequently become the primary driver for growth.

Consensus inflation (CPI %)	2008	2009	2010
US	3.8	-0.4	2.1
Japan	1.4	-1.3	-1.0
Eurozone	3.3	0.3	1.2
UK	3.6	2.1	2.3
G7	3.3	-0.1	1.4
Asia ex Japan	6.6	1.8	2.5
World	4.9	1.4	2.4

Source: Consensus economics, as at 7 December 2009

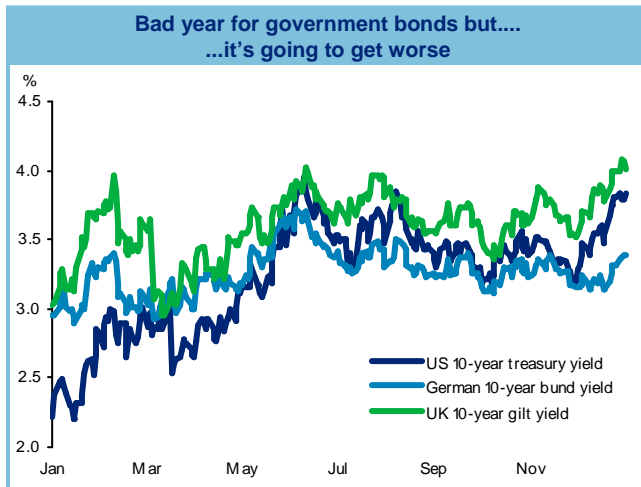
- Headline inflation appears to have found a bottom on stronger energy and food prices.
- Weak economic growth and the resultant excess slack are likely to push global core inflation toward zero.
- Taken together, headline inflation will rise but remain below target for most of 2010.

Interest rates (%)	31 Dec 2009	Jun 2010*
US	0–0.25	0–0.25
Japan	0.1	0.1
Euro-area	1.0	1.0
UK	0.5	0.5

Source: Datastream, Henderson Global Investors, as at 31 December 2009
* Henderson Interest Rate Team forecast

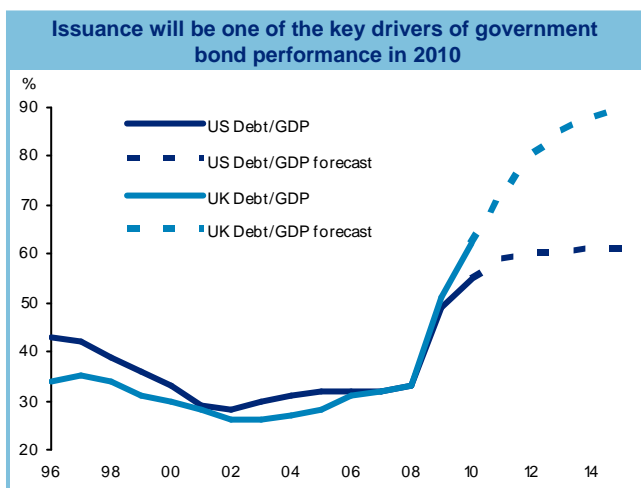
- It appears as if developed market target interest rates will remain on hold until at least the middle of 2010, but in some cases longer.
- Quantitative easing which has been the Bank of England's, Bank of Japan's and Federal Reserve's main policy tool appears to be nearing an end.
- Emerging and commodity producing countries' central banks will lead the interest rate normalisation process.

Bond and currency outlook



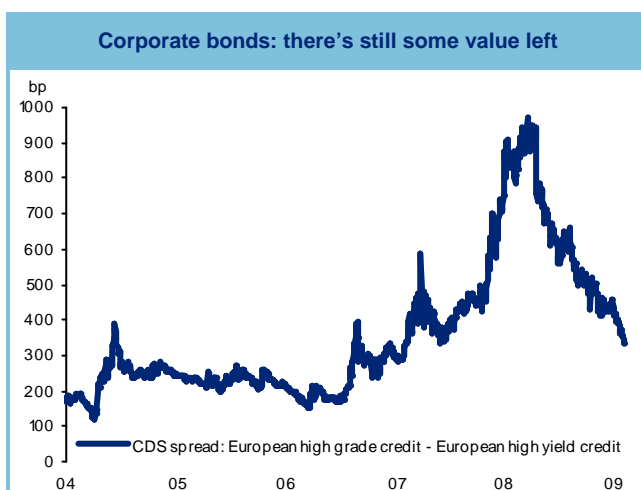
Source: Bloomberg, Henderson Global Investors, as at 31 December 2009

- A combination of factors conspired to send government bonds lower during 2009, beginning with a fall in risk aversion early in the year followed by a bottoming out and recovery in global economic growth and finally concerns about heavy issuance.
- Being the high-beta market meant that US treasuries bore the brunt of the selling as yields ended the year 163 basis points (bp) higher. The best performing market of the majors was Japan, which ended just 13bp higher on the year. UK gilts were hit hard into the end of the year on the back of fiscal concerns (+100bp), whilst German bunds held in relatively better (+44bp).



Source: Barclays Capital, Henderson Global Investors, as at 31 December 2009

- We expect government bonds to perform poorly on an absolute basis in 2010 as global growth continues to improve, inflation picks up, central banks begin to normalise interest rates and governments continue their torrid pace of bond issuance.
- Issuance and monetary policy dynamics will be the key factors driving relative government bond returns this year.
- We expect UK gilts and US treasuries to be the worst performing markets amongst the majors with German bunds outperforming relatively in 2010. Dollar bloc government bonds (Australia, Canada, New Zealand) should outperform on the back of better issuance dynamics and so should emerging market local government bonds as bond investors expand their hunt for higher yield.



Source: Bloomberg, Henderson Global Investors, as at 31 December 2009

- Within credit, the story in 2009 was about broad-based spread compression whereas 2010 will be more about sector and individual stock selection within credit space.
- Whilst credit spreads should continue to gradually tighten producing positive excess returns in 2010 (as long as interest rates don't increase sharply and risk aversion doesn't rise sustainably, neither of which are in our base case), we expect high yield names to outperform investment grade.
- Across sectors, industrials and consumer staples appears attractive due to prudent cost control and a light new issuance calendar.

Bond and currency outlook

10-year bond yields (%)	31 Dec 2009	2010*	2011*
US	3.84	↑↑	↑
Japan	1.28	↑	↑
Eurozone	3.38	↑	↑
UK	4.11	↑↑	↑

Source: Datastream, Henderson Global Investors, as at 31 December 2009
* Henderson Interest Rate Team view

- A recovery in government bonds is likely in the very near term.
- Improving economic growth, rising inflation, normalising interest rates and heavy issuance will send government bond yields higher in 2010.

Currencies	31 Dec 2009	2010*	2011*
Yen/\$	93	↑	→
\$/Euro	1.43	→	→
Euro/£	1.13	→	↑
\$/£	1.61	→	↑

Source: Datastream, Henderson Global Investors, as at 31 December 2009
* Henderson Interest Rate Team view

- 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.

Emerging markets and commodities	2010*	2011*
G4/EMFX	↑	↑↑
Emerging market interest rates	↑	↑↑
Oil	↑	↑↑
Base metals	↑	↑↑
Precious metals	↑	↓↓
Agriculture	→	↑↑

Source: Datastream, Henderson Global Investors, as at 31 December 2009
* Henderson Interest Rate Team view

- Strong productivity growth, higher relative interest rates, positive demographics and in, some cases, an abundance of natural resources should ensure emerging market currency appreciation against the major, non-commodity producing developed markets.
- Gold has benefited from abundant liquidity conditions that should persist at least until mid-2010. Beyond then, the outlook is less certain.
- Oil and base metals should continue to benefit from an improving economy and tight supply conditions.

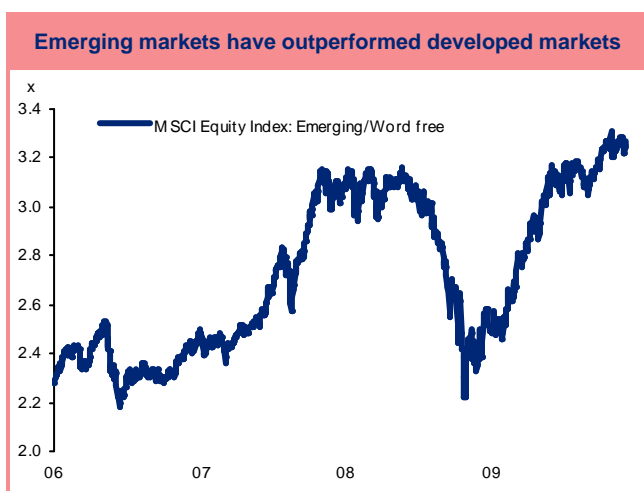
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↑	Upward trend
→	Little change
↓	Downward trend
↓↓	Strong downward trend

Equity outlook



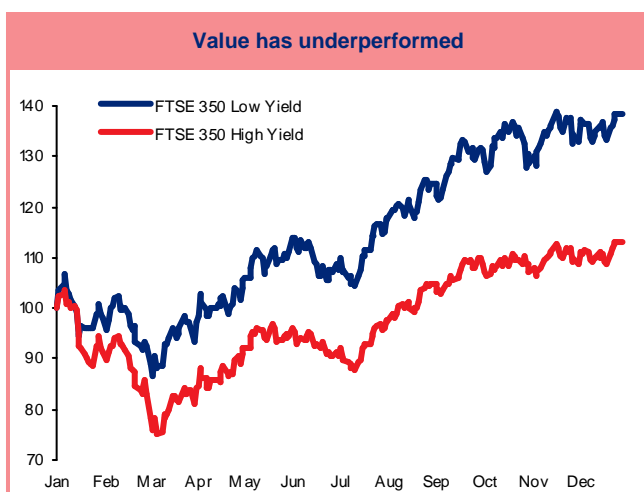
Source: Datastream, Henderson Global Investors, as at 31 December 2009
Rebased to 100 at 1 January 2009

- Equity markets staged a remarkable recovery in 2009 that few thought possible at the start of the year. Global stocks rose as risk aversion subsided, economic data improved, valuations looked compelling and company earnings rebounded.
- Most developed markets posted gains in excess of 25% with the only laggard being Japan, whose export-driven economy has suffered significantly as a result of the yen being strong



Source: Datastream, Henderson Global Investors, as at 31 December 2009

- Consistent upgrading of Chinese growth forecasts combined with strong oil and commodity price have driven emerging markets higher.
- In addition, Asian consumers have high savings rates and relatively low levels of debt, which has helped them to weather the credit crisis and provides significant potential for increased domestic consumption. Further signs of a shift towards domestic consumption within emerging economies, and away from a reliance on exports, will only be taken positively by market participants.
- However, given the strong performance witnessed in emerging markets, valuations in some countries are now looking stretched relative to the developed world and a number of risks to the outlook remain. Investors need to distinguish between markets where valuations look reasonable versus those where bubbles may be forming due to the government action in 2009.



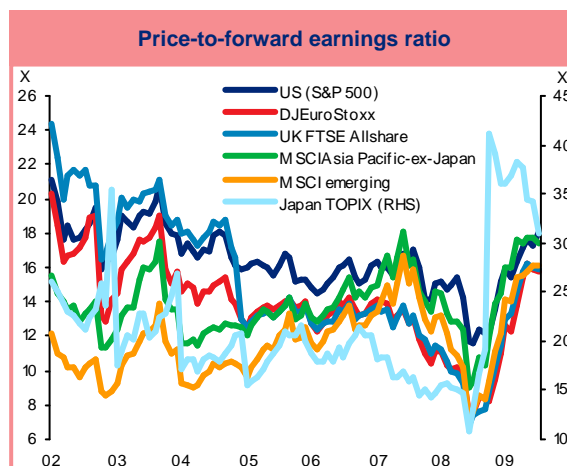
Source: DataStream, Henderson Global Investors, as at 31 December 2009

- In the UK, the market rally has been led by mid/small cap, highly leveraged, cyclical stocks whilst larger, stable growth companies have significantly lagged the broader market.
- Investors with a dividend/income bias have also significantly underperformed as higher yielding stocks significantly underperformed lower yielding stocks.
- Given the uncertainty surrounding the level of economic growth over the next year, it is anticipated that 2010 will see market leadership within the UK broaden out with some of the more defensive areas of the market starting to outperform. The market does not look particularly expensive, trading on a forward P/E of 12x, and a number of high quality, well managed businesses are currently trading on very attractive valuations.

Equity outlook

Equity market levels	2010*	2011*	2012*
US	→	↑	↑↑
Japan	↑	↑	↑
Euro-area	→	↑	↑↑
UK	↑	↑	↑↑
Asia ex Japan	↑↑	↑	↑
MSCI Emerging Markets US\$	↑↑	↑	↑

Source: Henderson Global Investors, as at 31 December 2009
 * Henderson Interest Rate Team view



Source: Datastream, Henderson Global Investors, as at 31 December 2009

Consensus EPS growth forecast	2010	2011	2012
US	1.8	29.4	21.8
Japan	N/a	91.1	26.0
Euro-area	-26.6	32.2	23.2
UK	-32.9	28.9	24.9
Asia ex Japan	3.3	22.1	17.6
MSCI Emerging Markets US\$	2.4	27.9	20.2

Source: Datastream, Henderson Global Investors, as at 31 December 2009

Equity market returns for Dec 2009 (%)	Local	Sterling	Dollar
US	1.8	3.5	1.8
Japan	8.1	2.1	0.4
Euro-12	5.5	2.6	0.7
UK	4.2	4.2	2.5
MSCI Far East ex Jap (US\$)		6.1	4.4
MSCI Emerging Markets US\$		5.5	3.8

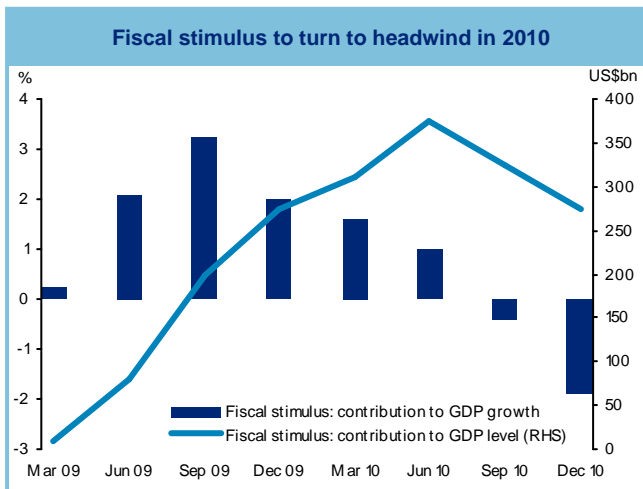
Source: Bloomberg, Henderson Global Investors, as at 31 December 2009

- Q3 earnings look to have grown about 10% year-on-year; however, revenues fell 11% during the same period.
- Due to Japanese earnings estimate volatility, a valid growth rate for 2009 cannot be calculated.
- Equity multiple expansion appears to be slowing. Despite a significant rally, equities still appear good value on most measures.
- However, if signs emerge that forward earnings estimates may not be achieved, then multiples may once again compress. To that end, the prospect of falling core inflation is worrying.

- 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 data.

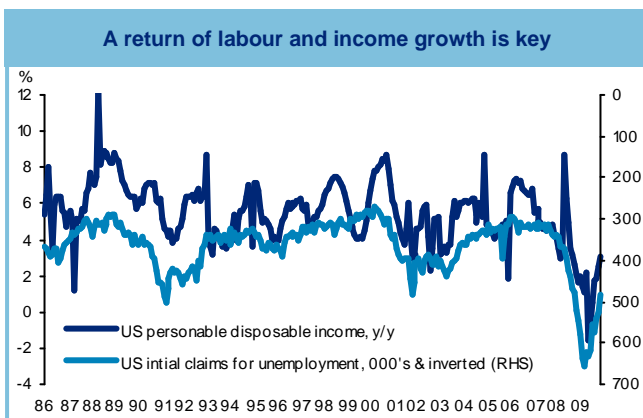
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Key issues



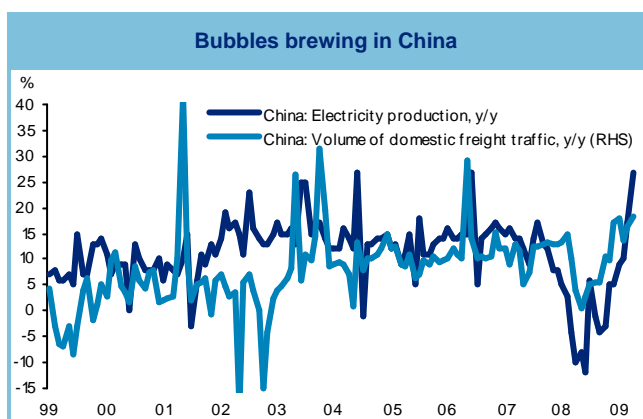
Source: Goldman Sachs, Henderson Global Investors, as at 31 December 2009

- 2010 will see the beginnings of a removal of the extraordinary fiscal measures which were put in place globally to avoid a slide into depression in 2008/09.
- Authorities must strike a fine balance between fostering the ongoing economic recovery and correcting the dire state of government finances, particularly in the US and UK. Without the injection of some fiscal austerity in 2010, the UK is likely to have its credit rating downgraded. Further downgrades are likely for a number of smaller developed and emerging countries in 2010, all of which could inject volatility into asset markets.
- Low interest rates are likely to act as the release valve, supporting growth when fiscal stimulus is removed, but rising food and energy prices will test monetary policy makers resolve.



Source: Datastream, Henderson Global investors, as at 31 December 2009

- The most important issue facing global markets in 2010 is whether labour and income growth return to some near-trend level in 2010 in the developed world.
- As fiscal and monetary stimulus wanes, self sustaining growth and asset price appreciation will have to be based on positive labour and income growth.
- Signs that household deleveraging is nearing an end, strong non-financial corporate balance sheets, a sustained pickup in economic activity and corporate confidence and a continuing improvement in leading labour market indicators are all signs that lead us to believe that a virtuous cycle of employment, income and consumption growth will establish itself in 2010.



Source: Datastream, Henderson Global investors, as at 31 December 2009

- As mentioned in the economics outlook, inflation, and interest rate hikes, are likely to materialise sooner and be more vigorous within the emerging world than the developed.
- Of particular interest is the prospect of policy tightening in China due to its influence on global demand and asset prices.
- Historically, three conditions have needed to be in place for the Chinese authorities to tighten policy:
 1. infrastructure bottlenecks, particularly in transportation and electricity production
 2. asset price bubbles
 3. a resurgence in inflation.
- With the former two already under way, and the third beginning to turn, Chinese policy tightening could be something that injects volatility into global asset prices in 2010.

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