Schroders
Economics and Strategy Viewpoint

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Global: Quarterly forecast update (page 2)

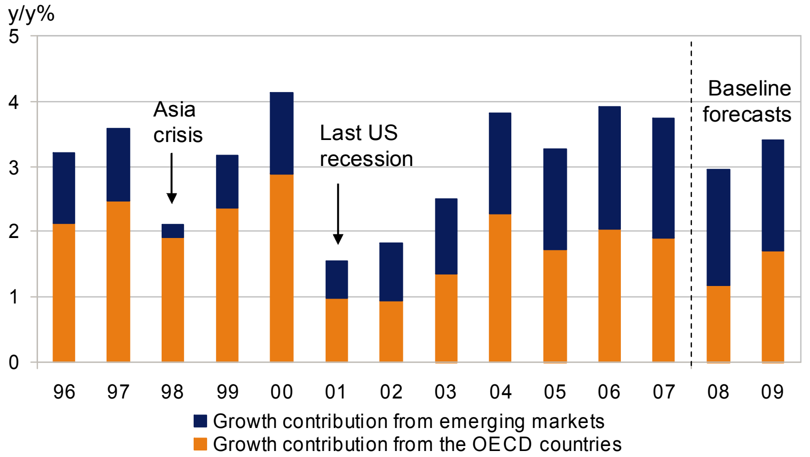
- **Led by the US, global growth is forecast to slow in 2008. However, ongoing strength in the Emerging markets limits the degree of weakness compared to previous periods when the US has been in recession.**
- **However, the broader strength of global activity has added to inflationary pressures via a significant rise in commodity prices.**
- **Central banks are expected to continue to follow the Fed and ease on the basis that a credit crunch inspired slump is more likely than a sustained rise in inflation.**
- **The impact of rate cuts is being limited by the problems in the financial sector and the authorities will have to look beyond monetary policy if they are to restore confidence and liquidity to deliver a sustainable recovery.**

European and UK: Reversal of fortune (page 9)

- **The UK economy continues to show signs of economic slowdown with further weakness likely to emerge in the months ahead.**
- **A reversal of easy credit and plunging house prices will lead to a retrenchment in consumer spending, one of the engines of growth in recent years.**
- **The Monetary Policy Committee's (MPC) room for manoeuvre is complicated by inflation worries. We expect the Bank of England (BoE) will still cut base rates, but believe the pace of easing will be gradual in recognition of the near term increase in CPI.**
- **The Eurozone does not suffer major macro-economic imbalances, and this should support a return to close to trend growth in 2009. To that end, monetary conditions need to loosen somewhat.**

Forecast summary (page 14)

Chart of the month: World GDP growth: increasing role of EM



Source: IMF, Consensus Economics, Schroders

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Global

Global activity forecasts are cut, led by lower growth in the OECD

Where to next? Back to the 1970's, or Japan of the 1990's

The macro backdrop has deteriorated further since our last quarterly review in December with global growth forecasts being cut, while inflation projections have been raised. Global growth is now forecast at 2.9% (down 0.3% since the last Cyclical Market Forum (CMF)) and inflation at 3.6% (up 0.6%, see table 1). The reduction in global growth is concentrated in the OECD, led by a cut in the US forecast to 1.5% (previously 2.1%) with the world's largest economy now expected to be in recession in the first half of 2008.

But growth in the emerging economies remains robust

By contrast, growth forecasts for the Emerging Market (EM) economies have actually risen a little, largely reflecting their momentum at the end of last year and the added income effect from recent increases in commodity prices. While we expect growth in the EM to slow in 2009 as the authorities seek to cool their economies, the de-coupling theme remains intact.

Table 1: Forecasts for 2008: changes since last quarterly review

	2007q4	Latest	Difference
Real GDP			
OECD	2.0	1.6	-0.4
Emerging*	6.8	6.9	0.1
World	3.2	2.9	-0.3
Inflation CPI			
OECD	2.3	2.8	0.5
Emerging*	5.0	6.0	1.0
World	3.0	3.6	0.6
Interest rates	**Dec-08**	**Dec-08**	
US	3.75	2.00	-1.75
UK	5.00	4.25	-0.75
Eurozone	3.50	3.50	0.0
Japan	1	0.50	-0.5

Note: Global forecasts have been adjusted for new weights

Source: Schroders

The "slowdown": EM to account for half global growth in 2008

Rise of emerging economies means global downturn should not be as severe as the last time the US experienced a recession

Although we face a slowdown, in global terms it is modest by past standards. OECD activity is forecast to be the weakest since 2001, the last time the US was in recession. However, at just under 3% global growth is only slightly below its 10 year average (see chart, front page). This, of course, reflects the rise of the Emerging Markets which are set to account for more than half of global GDP growth in 2008. Global activity will be expanding at around twice the pace it achieved during the last US recession. From this perspective, assets exposed to global activity such as commodities, cyclicals and EM equities may be better supported than would normally be anticipated during a US recession.

Consequences of de-coupling: higher inflation

Commodity price boom adds to inflation

One consequence of de-coupling has been the increase in inflation forecasts driven by increases in the cost of energy and food. The levelling out of commodity prices expected at the last review (as based on futures prices) has not occurred despite the weaker growth outlook in the OECD. This could reflect the greater commodity intensity of the EM, the weakness of the US dollar or the major inflow of investor funds to the asset class.

The long term case for commodities seems robust as the growth in demand from the EM combined with constraints on supply point to higher prices. However, in the near term, there must be a risk from a shutdown in Chinese industrial production ahead of the Beijing Olympics. Estimates suggest that this could take as much as 12% off output in the two months ahead of the games. Recent figures indicate that production has been accelerated in order to build inventory ahead of the shutdown, if so then the recent spike in commodity prices could be reversed.

We continue to use forward futures prices for our baseline forecast and consequently predict a mild depreciation in energy costs over the forecast period. This has a benign impact on CPI inflation rates in the latter part of 2008 and into 2009, although from a higher base.

Another factor behind higher inflation projections has been a deterioration in the outlook for core inflation in the US and overheating in the EM. Core inflation prints in the US have been running around 50 basis points higher than we expected three months ago, reflecting some leakage from higher energy costs into more general inflation.

Fed chairman Ben Bernanke noted this development in his recent testimony to Congress, but this has not prevented him from signalling a further easing in monetary policy. We now forecast a rapid fall in the Fed funds rate to 2% with the risk that rates go even lower. The profile for UK interest rates has also been reduced, although that for the Eurozone remains unchanged (table 1 on previous page).

Return of the stag?

The risk of stagflation…

The forecast changes described above indicate that we have moved in a stagflationary direction for the OECD: weaker growth and higher inflation. For the EM, the baseline looks more like overheating. The baseline maintains the view that inflation will yield to the slowdown in activity. This is a critical assumption which will not be resolved quickly and uncertainty about inflation is likely to persist. Consequently, we have retained the stagflation scenario where lower growth and higher inflation coexist through 2008 and into next year.

Regardless of short term commodity price movements, we are looking for evidence of greater slack emerging in product and labour markets to encourage us that inflationary pressures will be contained. Unemployment in the US is increasing as anticipated and surveys suggest this trend will continue in coming months. Companies need to respond to the slowdown in growth and productivity by shedding labour if they are to defend their profit margins.

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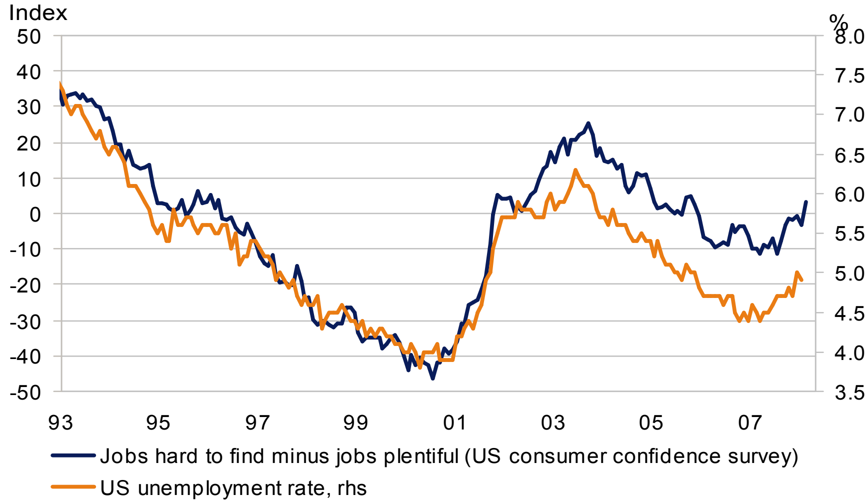
The balance of respondents in the Conference Board's consumer confidence survey now believe jobs are "hard to get", a good indication that unemployment is going higher (see chart 2). Consequently we are sticking with our view that core inflation will moderate, leaving the Fed with a free hand to tackle the weakness of activity.

Chart 2: Survey signals higher unemployment



Source: Thomson Datastream

…or credit crunch

The risk of the US turning into Japan

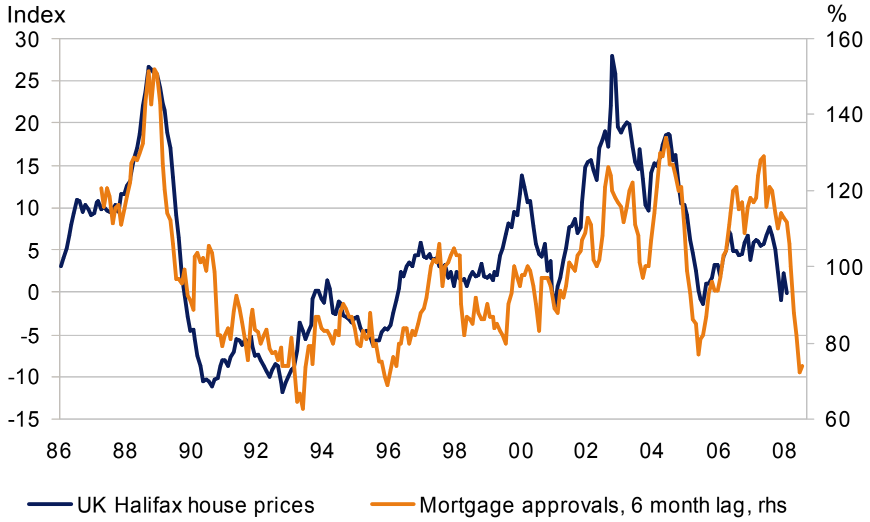
Broken banks block monetary policy channels

The other major uncertainty is on activity. The transmission mechanism from monetary policy to the real economy is impaired in this cycle as a result of the increase in risk aversion in the banking and financial markets. Interest rate cuts in the US and UK are not being passed on as lenders widen margins and reduce the amount they are willing to lend against an asset. This can be seen in surveys by the Federal Reserve, the ECB and Bank of England which show that banks are tightening their lending criteria.

The problem now is that tighter credit is beginning to impact asset prices - a development which is likely to lead to another round of tightening via decreases in Loan to Value ratios as lenders try to protect themselves. There is a certain self- fulfilling element to this as judging from the fall in mortgage applications in the UK, house prices will decline in real terms this year (see chart 3 on next page). This is a worrying development as it creates the scope for a downward spiral of lower asset prices and ever tighter lending conditions.

UK house prices to fall further

Chart 3: UK house prices and mortgage approvals



Source: Thomson Datastream

Against this backdrop, we have also retained the credit crunch scenario where the world economy effectively falls into a liquidity trap. Extending the forecast out to 2009 makes this look very much like the Ice Age scenario where growth eventually disappears and deflation becomes widespread.

Our reason for not expecting such an outcome is based on the rapid response of the authorities in the US easing both monetary and fiscal policy aggressively and the decision by the banks to move swiftly to write-off their bad debts. These factors were absent in the Japanese economy in the 1990s with the BoJ only easing grudgingly (real rates remained positive throughout the period) and the banks showing great reluctance to write-off non-performing loans.

What are we looking for?

Given the lags involved it will be difficult to be sure that the US economy has escaped the liquidity trap until much later in the year. A modest recovery is expected in the second half of 2008 as US housing stabilises, oil prices slip back and cuts in tax and interest rates support spending. Evidence of this is unlikely to be available until the summer, given the lags on data releases and we would look for a levelling out in housing starts and sales, a firming in the ISM (Institute of Supply Management) indices and stronger retail spending. Lagging indicators such as house prices and unemployment are likely to continue to deteriorate.

Monetary policy will help to the extent that it eases cash flow, but we would not expect a pick-up in personal or corporate borrowing. For this to occur and for a stabilisation in activity to develop into a sustainable recovery we will need to see signs that credit conditions are easing. Evidence that liquidity is returning to credit markets and that banks are easing their lending conditions will be critical. Areas to monitor will be the level of commercial paper and debt issuance and IPO's which remain in the doldrums (see table 2 on next page).

Table 2: Capital markets remain shut to riskier borrowers

	2008: Jan.1 to Feb.27 (USD Million)	Number of Issues	2007: Jan.1 to Feb.27 (USD Million)	Number of Issues	% Change
US Corporate Investment Grade Debt Issuance	133,860.3	128	148,656.4	289	-10.0%
US High Yield Corporate Debt Issuance	1,770.4	7	27,651.3	63	-93.6%
US IPO's	1,130.0	9	6319.6	28	-82.1%

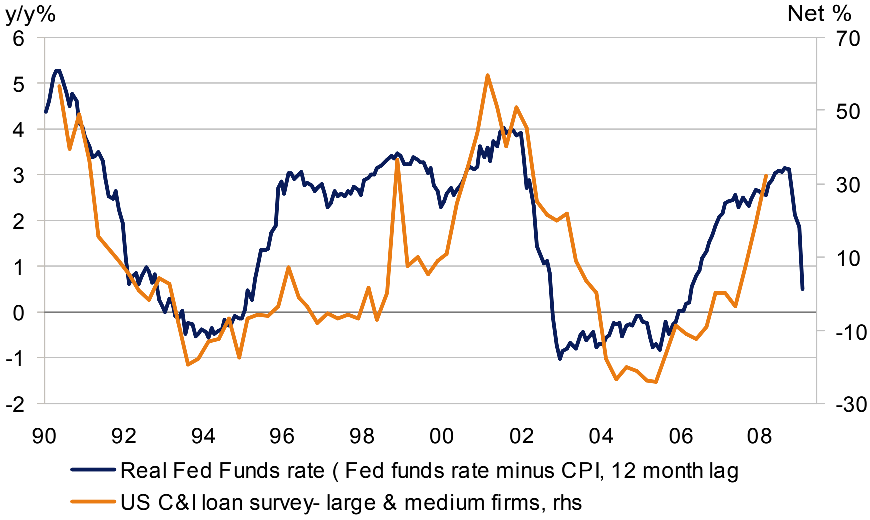
Source: Thomson Financial

Long lags from rate cuts to economy, even in a normal cycle

In terms of timing, the lag between a change in real interest rates to lending conditions and the economy varies, but is typically around a year. That would suggest we will not see any improvement until the second half of 2008 (see chart 4).

It is likely that in this cycle the lag is longer as the financial sector takes time to regain its appetite for risk. Past experience from a number of countries shows that recoveries from financial crisis are weaker than average as it takes time for the banks to resume their normal role in the intermediation of capital.

Chart 4: Fed action takes time to alter lending conditions



Source: Thomson Datastream

On the basis that banks borrow short and lend long, the return of risk appetite in the banking sector will be facilitated by a steep upward sloping yield curve. This should be seen as an aim of monetary policy and suggests we are in for an extended period of low short rates in the US.

At this stage, we would put a 65% probability on the baseline, a 20% risk on the credit crunch and 15% on stagflation.

Asset allocation implications

Neither of the two scenarios is particularly attractive for risk assets. In the credit crunch, government bonds are the obvious winner as interest rates trend toward zero. The longer the duration the better. High quality assets with little correlation to the business cycle are preferred and this would include infrastructure and within equities utilities, staples and healthcare.

There should be opportunities for hedge funds, but little funding available for private equity. On the currency front, prefer Swiss franc and JPY to the USD. Be short equities, credit, property and commodities.

For stagflation, drop the conventional government bonds and buy index-linked. Higher inflation suggests some pricing power so some companies will benefit, but this should be seen in the context of weaker growth. Since there is little relief on interest rates, as central banks have to re-focus on their inflation objectives, overall this would be poor for equities, credit and property. Alongside index-linked we would buy gold and more generally commodities might be seen as a hedge against inflation, if they are not too impacted by the weakness of real activity.

For the baseline, the promise of a modest recovery should support equity markets and risk assets in general, although we would need to see evidence that the US economy was stabilising (as described above) and the Fed was getting ahead of the curve before calling the turn. The question will then be whether investors are willing, or able, to peer through the cloud which has enveloped the banking sector to the recovery. At this stage, the view is particularly dark given the uncertainties created by the de-leveraging process and it would seem to be too early to plunge back into risk assets. This view is reinforced by the quant analysis in the next section.

Quant model continues to signal caution

Our quant framework where we assess the macro cycle alongside valuations and interest rates has proved to be a valuable tool in recent months, having signalled an underweight stance on equities last autumn. The model continues to give a cautious signal: we remain in the slowdown phase of the cycle where in the past, equities have underperformed cash and experienced their greatest volatility[1].

On our analysis, this started last October and US equities have now underperformed cash by 10% - an outcome worse than that experienced on average during the slowdown phase (see chart 5 on next page)

[1] For more details see the Global Market Perspective 2008q1

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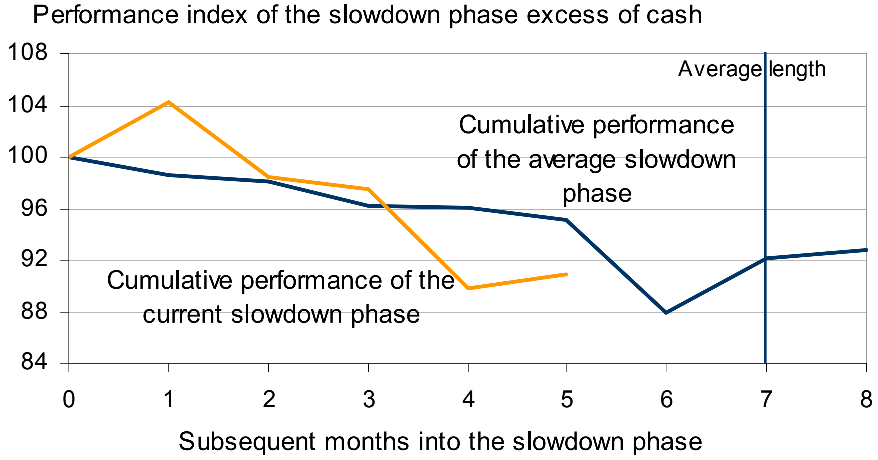
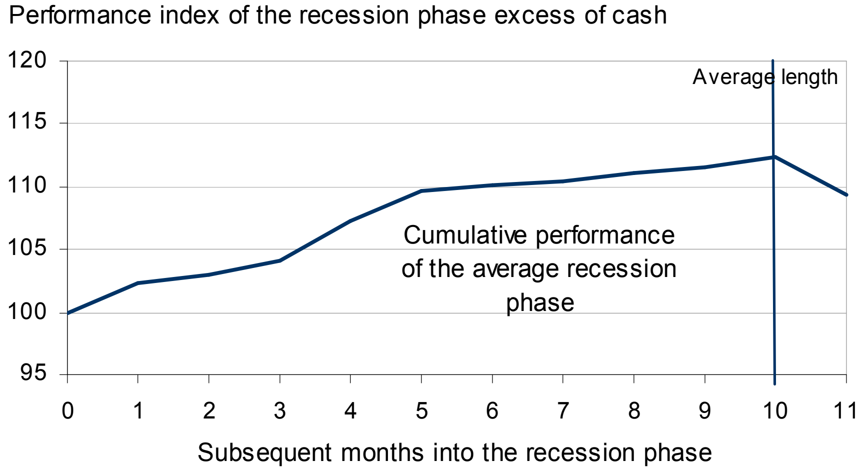
Chart 5: Cumulative return on S&P over cash: current vs. average slowdown phase



Source: Schroders
Analysis based on the economic cycle since 1950-2008. There have been 12 slowdown phases during this period.

The good news is that on our current projections we may be nearing the end of the slowdown phase. Further increases in economic slack should mean that in coming months the model will signal a move into the next phase of the cycle, which we term as recession. While this may sound worse then the slowdown, in terms of economic performance it has been one of the best for equity markets in the past. For example, average excess equity returns have been nearly 10% in recession compared with -8.8% in slowdowns.

Chart 6: Cumulative return on S&P over cash: average performance in recession phase



Source: Schroders
Analysis based on the economic cycle since 1950-2008. There have been 13 recession phases during this period.

Eurozone & UK

Reversal of fortune

The UK economy continues to show signs of economic slowdown with further weakness likely to emerge in the months ahead, as the credit crunch and the lagging effects of last year's interest rate increases take hold.

Up until now, the UK economy has been driven by a heady mix of strong credit growth, falling savings, narrow credit spreads, easy credit availability, loose fiscal policy, loose lending standards and rising asset prices. As a consequence, and not surprisingly, consumer spending and business investment were the main factors behind the strong performance of the UK economy in recent years.

Now, as we move into 2008, we're likely to experience the flipside: a general deterioration in credit quality, falling asset prices, rising fiscal deficit, wide current account, falling pound, high inflation and, as the economy grinds down, rising unemployment.

Inevitably, the consumer and business investment are likely to bear the brunt of the slowdown. Both are likely to reverse the strong 2007 gains with consumption expected to fall back from 3% plus growth to something closer to 1% with only a modest pick up in 2009 on the back of lower interest rates.

Credit Crisis will be felt for a while longer – Consumer retrenches

While large cash injections over the past 4 months have led to a fall in money market rates this is unlikely to mean the end of the credit crisis. Credit spreads and tighter lending standards will exert a lasting drag on the economy in 2008, and possibly 2009.

In the recent boom years, we experienced low policy rates (2002-06) and a greater supply of bank credit (via greater use of securitisation to expand bank loans faster than bank capital). Further, the economy was also witness to rapid growth of the non-bank financial sector such as banks' special investment vehicles, wholesale mortgage lenders, private equity and hedge funds - all debt financed by bank loans and capital issues.

Until recently, this fuelled a bubble of easy credit availability, low credit spreads, high credit growth and rising asset prices.

Now that the bubble has burst and the rise in credit supply is reversing, Banks are now aiming to curb balance sheet growth, and capital issuance has plunged especially by non-bank financial firms. The result has been tighter lending standards, wider spreads for the riskier borrowers and falling asset prices.

While other developed countries experienced similar trends, the UK is more vulnerable to a squeeze in credit because the financial sector is highly deregulated, this allowed for the rapid growth of the non-bank financial sector and securitised finance. It also produces a close link from asset prices to consumer spending.

From virtuous to vicious, the cycle turns

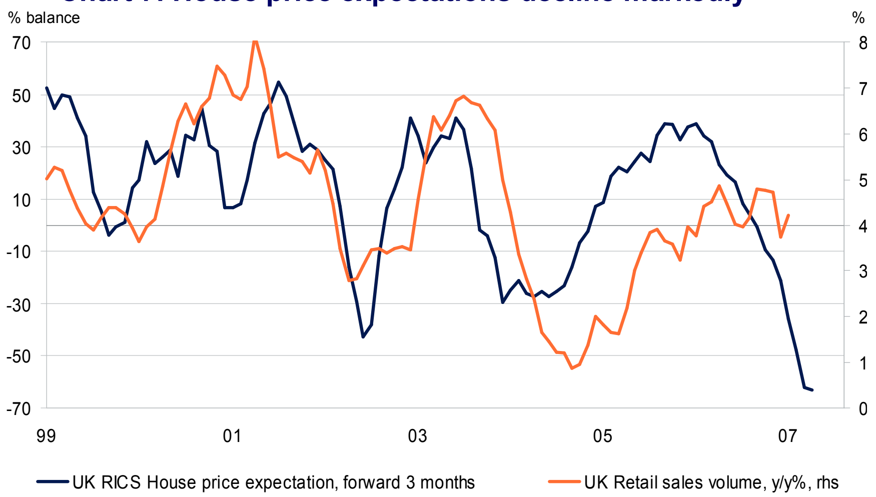
In the coming months we expect asset quality to deteriorate further as the economy slows and property prices continue to weaken leading to further caution among lenders while regulators could also enforce tighter constraints on bank liquidity and capital levels, with less scope to expand assets via off-balance sheet vehicles.

The UK's vulnerability to the credit crisis is exacerbated by stretched house values, low savings rates, and balance sheet strains — especially households, but also companies. The household savings rate in Q1-Q3 2007 was the lowest since the1960s. In recent quarters, both the household and corporate debt service ratios have been the highest since the early 1990s.

Further, housing activity is collapsing. The recent RICS (Royal Institute of Chartered Surveyors) showed a further build up in housing stocks, and continued decline in new buyer enquiries and a sharp drop in expected house prices. The correlation between house prices and consumer spending is higher in the UK than in any other major country, reflecting both housing's role as a guide to factors that affect spending – such as income expectations, credit availability, debt service- as well as scope to use housing wealth to finance consumption.

Chart 7 shows the potential for consumers to retrench in coming months. We expect house prices to fall to about 10% y/y by the end of this year and this would result in the first drop since 1995; but there are clear risks of bigger falls.

Chart 7: House price expectations decline markedly



Source: Thomson Datastream

We also project a slowdown in business investment from an average of 5% over the past 4 years to 3.5% for the year as a whole. Risks of abrupt corporate retrenchment appear less likely given that the rate of return on capital among non-financial companies is the highest in over 40 years. However, although we expect business investment to remain fairly resilient, confidence has been falling recently and profit forecasts are being downgraded and likely to fall further as the economy slows. In our projections, we also see net trade contributing positively to GDP in 2008 and 2009 having subtracted from growth over the past 10 years.

However, the contribution will be modest as imports fall and exports are boosted by a lower Pound.

Table 3: UK GDP Forecast and Contributions to growth y/y%

	2007 (estimated)	2008 (forecast)	2009 (forecast)
Real GDP Y/Y	**3.1%**	**1.7%**	**2.1%**
Domestic Demand	3.7	1.5	1.7
Consumption	3.1	1.1	1.4
Investment	6.70	4.0	3.5
Inventories (Effect on GDP)	+0.2	-0.4	+0.1
Net trade (effect on GDP)	-0.6	+0.2	+0.5

Source: Schroders

Lingering inflation worries pose dilemma for MPC

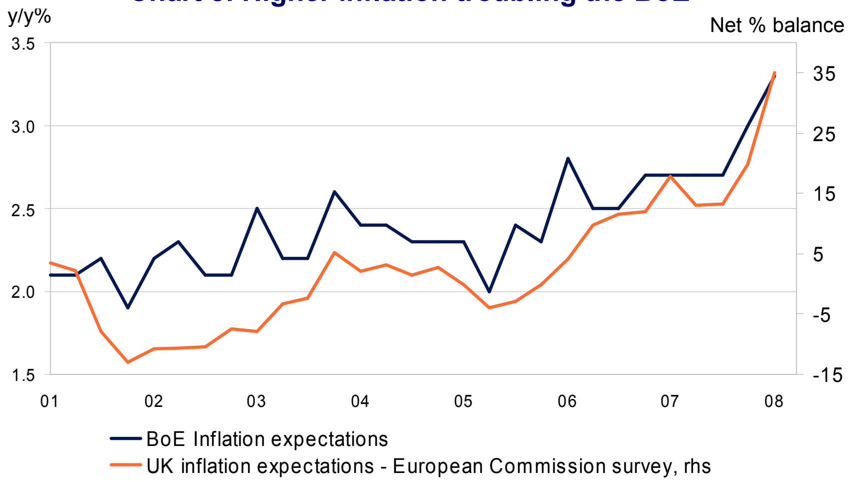
In terms of monetary policy, the Monetary Policy Committee's (MPC's) room for manoeuvre is complicated by inflation worries, not just in higher food and energy prices but rising inflation expectations (chart 8) and any potential spill over this may have into higher wages.

Our projection for 2008 is for growth to fall to 1.7% as a whole, reaching a low of 1.1% on a year on year basis by Q4 of this year.

We expect the BoE will still cut base rates, by a further 100bp in 2008 to 4.25%, but expect that the pace of easing will be gradual in recognition of the near term increase in CPI.

This forecast is justified given that we believe the aim of monetary policy at this point in the cycle is to limit the extent of the slowdown rather than trying to prevent the slowdown from taking place; the last thing the BoE would want to do at this point is to cut aggressively and add to inflation. In the near term, CPI is expected to reach 3% - according to our inflation forecast this is achieved by the middle of this year, at which point the BoE Governor will have to explain to the UK Chancellor why inflation has overshot the target. Inflation then slows thereafter and meets the 2% target on an annual basis by year end.

Chart 8: Higher inflation troubling the BoE



Source: Thomson Datastream, BoE, European Commission

We expect that as the economy slows down, core inflation will follow. Core CPI has already fallen from a peak of 2% last year to 1.2% now and we expect labour market looseness and falling capacity use to reduce underlying inflation further.

Into 2009, we expect that as interest rate cuts feed through, the consumer will likely recover somewhat but only modestly, somewhere in the 1.0% to 1.5% range; also, cuts in residential investment are assumed to affect growth largely in 2008 and less negatively in 2009. Overall, we expect that the economy will recover in 2009 but believe it will remain below trend at 2.1%, providing enough slack in the economy to keep inflation below 2%.

For the Euro zone, we also expect that growth will continue to slowdown and while this may not be dramatic it nevertheless reinforces the expectation for an eventual easing in monetary policy. For the time being the ECB is preoccupied with inflation (which the ECB expects to be temporary) and risks of second round effects.

Resilient exports keep Eurozone ticking along – Investment slows

Our forecast for Eurozone growth in 2008 has been trimmed slightly to 1.7% from a previous 1.8% with a modest pick up to 1.9% in 2009. We assume in our projections that growth eases because of a slowdown in exports and weakness in business investment; the two main drivers of growth in the current economic cycle. We expect that exports will slow as global growth moderates and as past Euro appreciation bites (chart 9 on next page). Importantly though, we continue to assume that exports to emerging markets will remain resilient (new Euro economies and Asia) (chart 10 on next page). Overall, we assume in our forecast that export growth falls from 6% in 2007 to something closer to 4% in 2008 before picking up to close to 5% as the global economy recovers in 2009. In term of business investment, the factors affecting Eurozone are similar to those facing UK businesses, namely a tightening of lending, wider credit spreads and a general slowdown in economic growth.

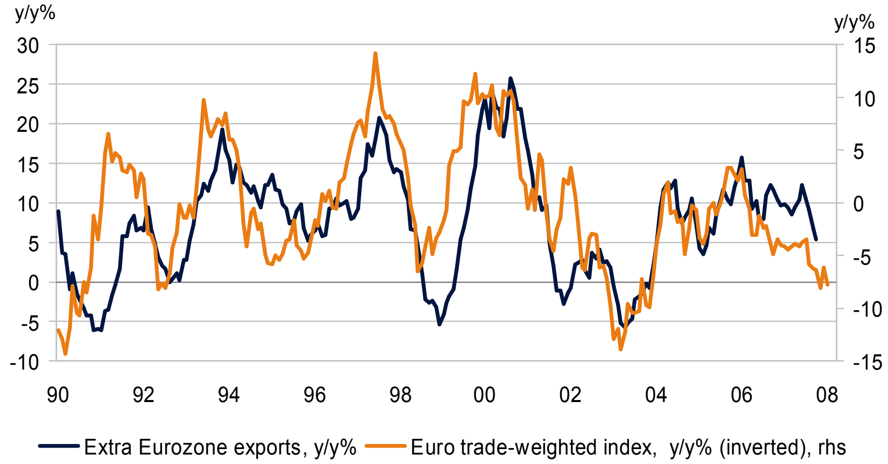
Looking at the major economies within the Eurozone, we expect the export moderation to limit the German expansion with the growth slowdown largest in Spain — until now the persistent growth outperformer — as residential construction plummets and higher variable-mortgage rates limit household spending power. Italian growth slows but manages to stay above 1% this year, as exports underperform and consumption moderates. The same factors justify slower French GDP growth.

Table 4: Eurozone GDP Forecasts

	2007(actual)	2008 (forecast)	2009 (forecast)
Eurozone	**2.6%**	**1.7%**	**1.9%**
Germany	2.6	1.6	1.9
France	1.9	1.6	1.6
Italy	1.5	0.8	1.4
Spain	3.8	2.1	2.2

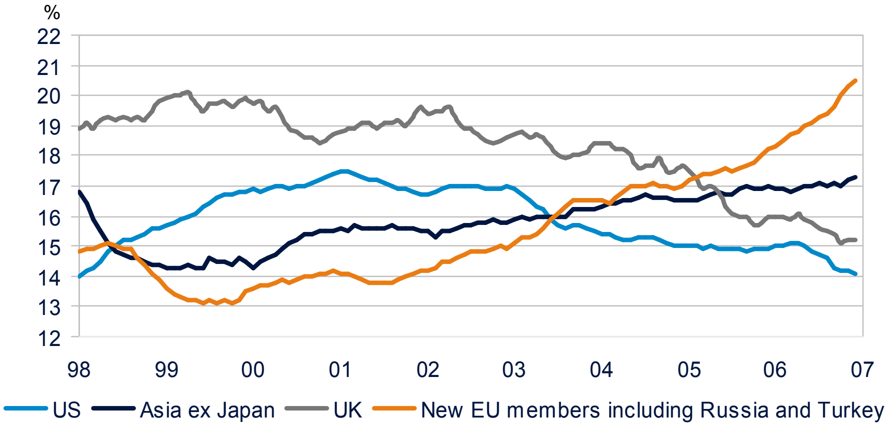
Source: Schroders

Chart 9: Euro appreciation (rate of change over a year ago basis) will slow Extra-Eurozone exports



Source: Thomson Datastream

Chart 10: Extra-Eurozone exports – Exports share as a % of total exports



Source: Thomson Datastream

We expect that the below trend growth rates of 2008 and 2009 result in a further moderation in core inflation while commodities keep the overall rate of inflation high in the first half of this year. The inflation forecast assumes that commodities prices then ease somewhat over the course of the year in line with futures commodities contracts with favourable base effects also helping to reduce annual inflation significantly from the second half of 2008. Inflation ends 2008 at 1.7%, falling from a current rate of 3.2%. Further, worsening labour market conditions, particularly in Spain and Italy, reduced capacity use and the strength of the Euro (on a trade weighted basis) will all contribute to core inflation falling further in 2009.

In sum, we believe that the Eurozone does not suffer major macro-economic imbalances, and this should support a return to close to trend growth in 2009. However, a return to trend growth will probably require somewhat easier monetary conditions than at present. The rapid tightening of bank lending standards suggests that, at 4%, rates may be too high to support trend-like domestic demand growth.

Forecast Summary

I. Forecast summary

Real GDP

y/y%	Wt (%)	2007	2008	Consensus	2009	Consensus
US	31.4	2.2	1.5	1.6	2.8	2.6
UK	5.7	3.1	1.7	1.7	2.1	2.0
Eurozone	25.3	3.0	1.7	1.6	1.9	1.9
Japan	10.4	2.1	1.5	1.4	1.8	1.9
Australia	1.8	4.1	3.2	3.5	3.5	3.3
OECD	74.6	2.6	1.6	1.6	2.3	2.2
China	6.3	11.4	10.8	10.3	9.5	9.7
Emerging*	25.4	7.1	6.9	6.6	6.6	6.3
World	100.0	3.7	2.9	2.9	3.4	3.3

Inflation CPI

y/y%	Wt (%)	2007	2008	Consensus	2009	Consensus
US	31.4	2.9	3.9	2.9	1.9	2.0
UK	5.7	2.3	2.3	2.4	1.9	2.0
Eurozone	25.3	2.1	2.4	2.5	1.8	2.0
Japan	10.4	0.1	0.3	0.5	0.6	0.5
Australia	1.8	2.3	3.0	3.3	2.5	2.7
OECD	74.6	2.2	2.8	2.4	1.7	1.9
China	6.3	4.6	5.0	4.5	4.5	3.5
Emerging*	25.4	4.9	6.0	5.7	4.9	4.9
World	100.0	2.9	3.6	3.2	2.5	2.4

Interest rates

%	Wt (%)	Dec-07	Dec-08	Market	Dec-09	Market
US	31.4	4.25	2.00	2.55	3.50	3.40
UK	5.7	5.50	4.25	4.81	4.25	4.89
Eurozone	25.3	4.00	3.50	3.69	3.75	3.71
Japan	10.4	0.50	0.50	0.70	1.00	0.95
OECD	72.8	3.73	2.48	2.86	3.29	3.27

Market from forward futures strip as at 26/02/2008

Key variables

FX	*Current*	Dec-07	Dec-08	y/y%	Dec-09	y/y%
USD/ GBP	*1.99*	2.01	1.94	-3.7	1.85	-4.6
USD/ EUR	*1.49*	1.46	1.55	6.5	1.50	-3.2
JPY/ USD	*107.3*	112.48	105.00	-6.6	100.0	-4.8
GBP/ EUR	*0.75*	0.72	0.80	10.6	0.81	1.5
Brent crude	*98.8*	88.8	96.5	8.7	94.4	-2.2
US output gap %GDP	*0.4*	0.1	-1.2		-1.0	
Unemploy. %	*4.4*	4.8	5.6		5.8	

Source: Schroders, Datastream, IMF (historic), Consensus Economics (February)

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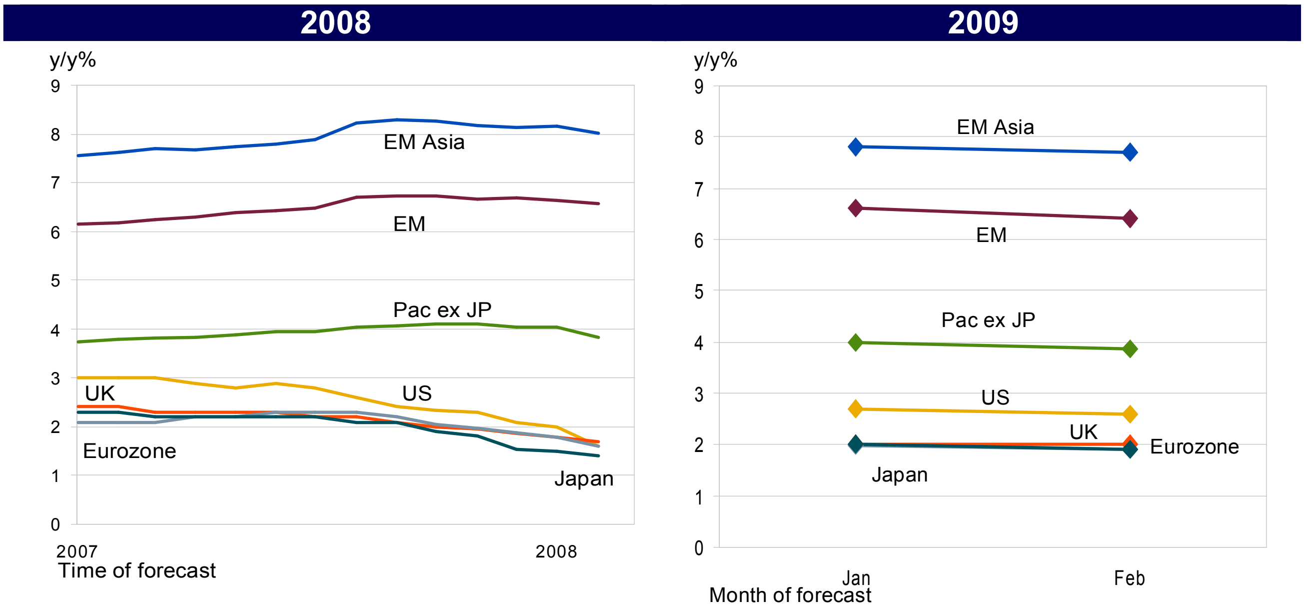
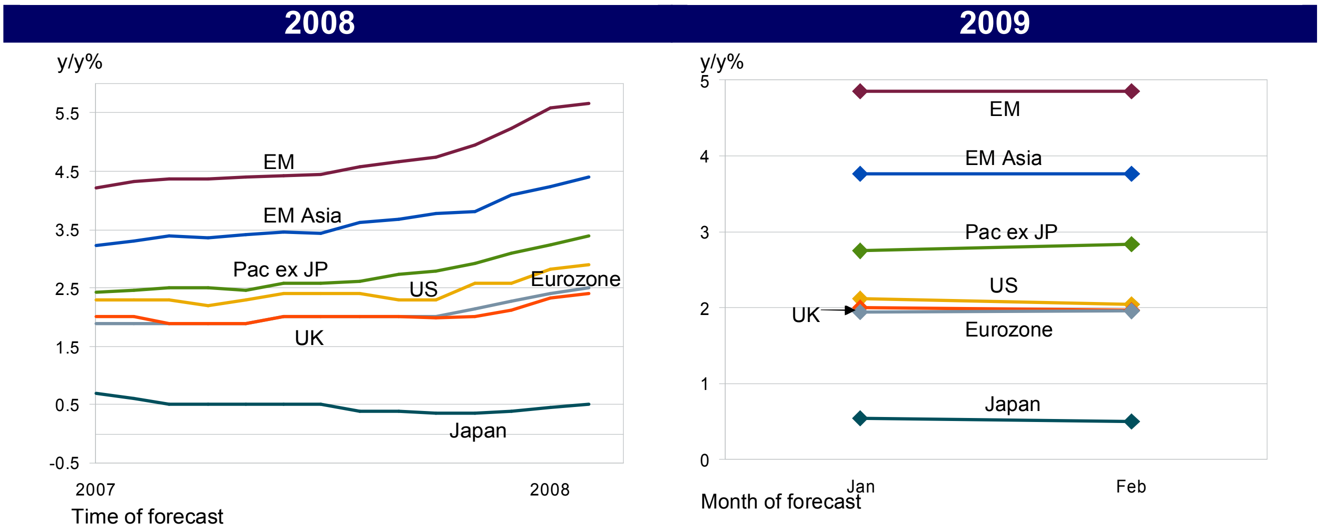
II. Updated forecast charts

Chart 1: GDP forecasts



Source: Consensus Economics (Feb.), 2006 GDP weights, Schroders
Pacific ex. Japan: Australia, Hong Kong, New Zealand, Singapore
Emerging Asia: China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand
Emerging markets: China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand, Argentina, Brazil, Colombia, Chile, Mexico, Peru, Venezuela, South Africa, Czech Republic, Hungary, Poland, Romania, Russia, Slovakia, Turkey, Ukraine, Bulgaria, Croatia, Estonia, Latvia, Lithuania, Slovenia

Chart 2: Inflation forecasts



Source: Consensus Economics (Feb.), 2006 GDP weights, Schroders
Pacific ex. Japan: Australia, Hong Kong, New Zealand, Singapore
Emerging Asia: China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand
Emerging markets: China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand, Argentina, Brazil, Colombia, Chile, Mexico, Peru, Venezuela, South Africa, Czech Republic, Hungary, Poland, Romania, Russia, Slovakia, Turkey, Ukraine, Bulgaria, Croatia, Estonia, Latvia, Lithuania, Slovenia

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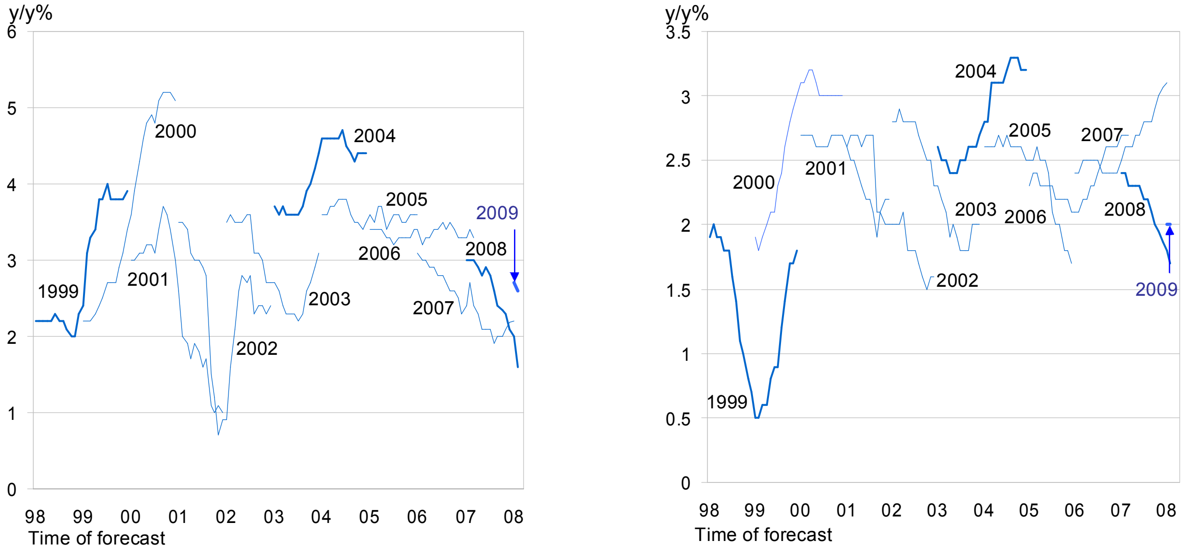
Chart 3: US and UK GDP forecasts

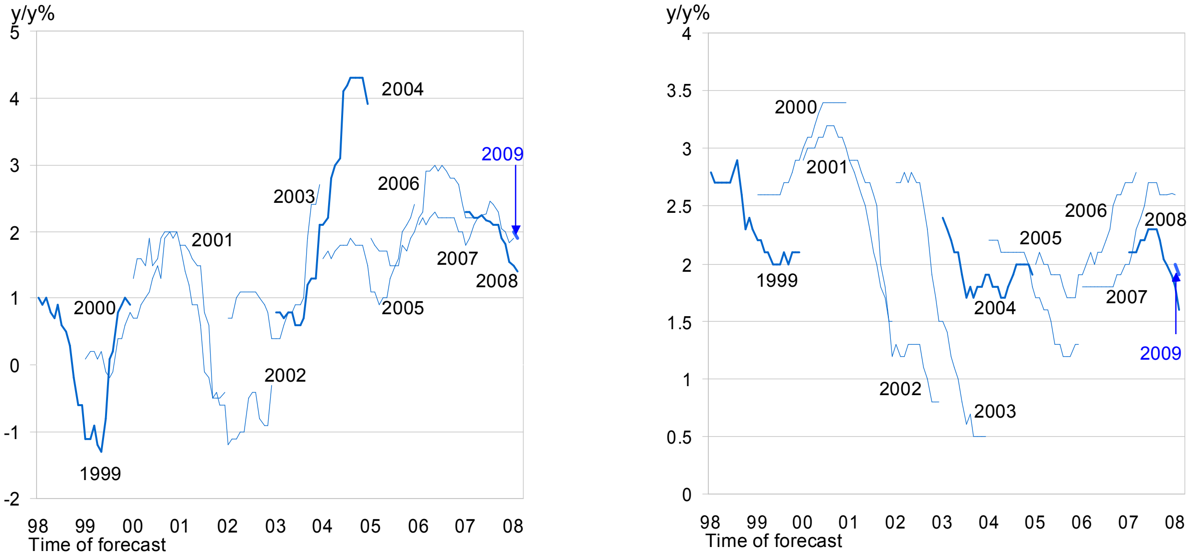
US | **UK**



Source: Consensus Economics (Feb.), Schroders

Chart 4: Japan and Eurozone GDP forecasts

Japan | **Eurozone**



Source: Consensus Economics (Feb.), Schroders

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