

Schroders

Monthly Markets Review

Overview of markets in April 2010

Highlights:

- The MSCI World index delivered a broadly flat return in US dollars over the month. The improvement in investor sentiment, seen in March, continued into the early weeks of April. However, markets gave back some ground in the latter part of the month as concerns over fiscal difficulties in the eurozone resurfaced, with rating agency Standard & Poor's (S&P) downgrading the sovereign credit ratings of Greece, Portugal and Spain. Fears that the contagion would spread throughout Europe weighed heavily on equities.
- Markets also sold off following news that Goldman Sachs was the first major Wall Street firm to be accused by the Securities and Exchange Commission (SEC) of fraud connected to the collapse of the subprime mortgage market.
- Global economic data generally improved. US consumer spending increased at the fastest pace for three years in the first quarter of 2010. In the eurozone, strong industrial production growth partly offset weak retail activity and a construction sector plagued by bad weather in the first few months of 2010.

US

US equities rose over April as investors grew increasingly convinced of a recovery following better-than-expected macro data. The economy recorded a healthy 3.2% growth rate in the first quarter, the ISM manufacturing indicator rose to its highest level for this cycle while payrolls turned positive. Generally solid corporate results, particularly from financials, also lent support to equity markets. However, the gains were tempered by two significant events. The first related to news that the US financial regulator, the SEC, was charging Goldman Sachs with fraud, leading to renewed concerns about tougher regulations for the sector. The second surrounded concerns over Greece's public finances and uncertainty over the rescue package continued throughout the month. The country also saw its credit rating cut to 'junk' status, which re-ignited fears about contagion.

Eurozone

Ongoing speculation about Greece's ability to tackle its budget deficit weighed on share prices in the second half of April. Chaos ensued after ratings agency S&P downgraded Greek government bonds to 'junk' status, while also downgrading Portugal and Spain, in quick succession, during the last week of the month. Share prices tumbled following the rating cuts as markets grew increasingly concerned about Greece's ability to manage its debt. The move by S&P also raised fears that Spain and Portugal could be heading for a similar fate as their governments came under increasing pressure to rein in their fiscal deficits. Financials were among the worst hit as debt exposure and pending US financial reforms drove share prices down. Macroeconomic data in the eurozone continued to improve. The German IFO Business Climate Index came in higher than the market expected, rising to a two-year high in April. In addition, German unemployment fell. The European Central Bank left policy rates on hold at 1% – as the market expected – since the economic recovery remains fragile.



UK

April was another volatile month for equities as one of the best corporate earnings seasons on record (relative to expectations) was overshadowed by fears about government deficits and the risks these pose to the economic rebound. Performance within the UK market was mixed against this backdrop, with consumer services, industrials and technology the only industries to register gains over the month. In terms of economic news, GDP growth for the first quarter of 2010 was disappointing, rising just 0.2% quarter-on-quarter. This was less-than-expected and slower than the pace of expansion in the previous quarter. Much of the slower growth can be attributed to January's adverse weather and VAT hike – however, this cannot detract from the UK's distinctly lacklustre emergence from recession. Unemployment and manufacturing data was better than expected, whereas retail sales disappointed. The housing market continued to show mixed signals.

Japan

In Japan, the crisis surrounding Greece's public finances coupled with the Goldman Sachs trial weighed on sentiment despite encouraging economic releases. The latest round of business surveys and activity data painted a benign picture of the corporate sector and indicated that the export-driven economic recovery is broadening out. There were signs that business investment is picking up moderately. Consumer confidence improved for the third straight month in March and consumer spending continues to surprise to the upside despite tapering impacts from policy stimulus measures, reflecting the modest improvement in labour conditions. Oil & coal was the best performing sector, helped by the rising oil price. The real estate sector was boosted by generally strong earnings figures and strong Tokyo condo sales. At the other end of the spectrum, iron & steel was the worst performing sector, amid worries that steel producers may not be able to pass on to customers the sharp hikes in iron ore prices due to the recent move to spot pricing. Small cap stocks tended to outperform large caps thanks to signs of externally-led growth spilling over into the rest of the economy, including the small business sector, which is more tied to domestic consumption.

Asia (ex Japan)

Asian stocks continued to gain ground during April amid increasingly volatile trading. The month started off on a strong note amid rising optimism about a global recovery. The latest comments from the US Federal Reserve to keep interest rates on hold also lent further support to equities. News that the Chinese economy grew 11.9% year-on-year (yoy) in the first quarter added to the buoyant mood. However, fears about monetary tightening were never far from investors' minds, with the Chinese authorities introducing a raft of measures to curb the property market towards the end of the month. Further afield, the crisis surrounding Greece's ability to tackle its fiscal budget coupled with fraud allegations against Goldman Sachs, also dragged on risk appetite. Against this backdrop, consumer discretionary and technology stocks led the rally while financials and healthcare names put in the weakest showing.

Emerging Markets

Emerging Markets delivered a positive return, despite the weakening of risk appetite in the latter part of the month, and outperformed developed markets. Egypt was the best performing emerging market over the period, boosted by very strong returns from local index heavyweight Orascom Telecom. The Turkish and Indonesian markets also outperformed, as they continued to rebound from weakness earlier in the year. In Turkey, data was released showing industrial production growing by 18.1% yoy, which was ahead of consensus expectations while, in Indonesia, export data for February showed yoy growth of 57.1%. Korea also outpaced the MSCI Emerging Markets index with Samsung Electronics, the largest stock in the Korean market, performing well. Data was released showing Korean GDP growing by 7.8% yoy in Q1. Israel was the weakest performing emerging market, with the underperformance of local index heavyweight Teva (pharmaceuticals)

company) having a negative impact. Thailand underperformed as domestic political unrest escalated. The Brazilian market also lagged. The underperformance of commodity-related stocks weighed on the market, while the Brazilian central bank raised interest rates by 75 basis points, which was above consensus expectations.

Global Bonds

Sovereign debt concerns in Europe resurfaced during April. Greece continued to be the focus of the market's attention (as the authorities tried to reach agreement on an EU/IMF bail-out plan), but fears about contagion risk quickly escalated as Greece, Portugal and Spain all had their sovereign status downgraded. In addition, the fact that Goldman Sachs was charged with fraud by the SEC, renewing concerns over tough new regulations for the sector, weighed on sentiment. Nevertheless, despite increasing levels of risk aversion, global investment grade credit outperformed government bonds and cash as very cheap opportunities continued to lure investors back into the market. Positive market sentiment was also fuelled by improving macroeconomic news. It appeared that final demand was accelerating even as stimulus supports waned, with consumer confidence and spending solid, and signs of a turn in business spending. Investors grew more convinced that the US economy was recovering following better-than-expected data and generally solid corporate results, particularly from financials.

Overview – Total Returns (%) – to end of April 2010

| | 1 month | | | YTD | | |
|--|---------|-------|-------|-------|-------|-------|
| | EUR | USD | GBP | EUR | USD | GBP |
| Equities (MSCI) | | | | | | |
| World Index | 1.84 | 0.07 | -0.83 | 11.60 | 3.43 | 9.12 |
| World Value Index | 1.65 | -0.12 | -1.01 | 11.54 | 3.36 | 9.05 |
| World Growth Index | 2.03 | 0.26 | -0.65 | 11.67 | 3.49 | 9.18 |
| World Smaller Companies Index | 5.73 | 3.89 | 2.95 | 20.67 | 11.83 | 17.98 |
| US | 3.40 | 1.60 | 0.69 | 15.58 | 7.12 | 13.01 |
| Eurozone | -2.35 | -4.05 | -4.91 | -1.41 | -8.63 | -3.60 |
| UK | 0.63 | -1.12 | -2.01 | 6.06 | -1.71 | 3.70 |
| Japan | 1.62 | -0.15 | -1.05 | 16.63 | 8.08 | 14.03 |
| Emerging Markets | 3.03 | 1.23 | 0.32 | 11.92 | 3.72 | 9.42 |
| Asia ex Japan | 3.88 | 2.07 | 1.16 | 11.60 | 3.43 | 9.12 |
| | | | | | | |
| | 1 month | | | YTD | | |
| Government bonds (JP Morgan) | EUR | USD | GBP | EUR | USD | GBP |
| US | 2.89 | 1.10 | 0.19 | 10.34 | 2.26 | 7.88 |
| UK | 3.41 | 1.61 | 0.70 | 4.17 | -3.47 | 1.85 |
| Japan | 2.04 | 0.26 | -0.64 | 7.64 | -0.25 | 5.24 |
| Germany | 1.15 | -0.61 | -1.50 | 4.02 | -3.60 | 1.71 |
| Corporate bonds (Merrill Lynch) | 3.56 | 1.76 | 0.84 | 12.82 | 4.55 | 10.30 |

Source: Datastream to 30 April 2010

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