

Schroders

Monthly Markets Review

Overview of markets in February 2009

Highlights:

- Global equity markets were weak in February against a background of ongoing investor concerns about the prospects for the global economy
- Economic data was dire, with GDP, industrial production, employment, exports and corporate earnings all falling
- Governments worldwide announced further extensive (and expensive) measures to stabilise the financial system and mitigate the economic downturn
- Corporate bonds generally produced negative returns, as investors fled to the relative safe haven of government bonds.

US

US stockmarkets experienced another difficult month in February. Towards the end of the month, stocks fell to their lowest levels since 1997 as news of a government plan to take an increased stake in Citigroup, after the beleaguered bank announced a further \$10bn of losses, was not received well by the market. In terms of economic data, US figures on employment and consumer spending were worse than expected. Furthermore, fourth quarter GDP growth was revised downwards more than expected. The US authorities announced extensive (and expensive) measures to mitigate the recession and stabilise the financial system, including a \$787bn fiscal package aimed at creating, or saving, 3.5 million jobs.

Eurozone

Eurozone equities continued to lose ground. Despite a spate of better-than-expected corporate earnings announcements, the mood remained sombre. Shares fell as the deteriorating economic outlook for central and eastern Europe continued to dampen sentiment. Business and consumer confidence levels slipped further, despite the €200bn economic recovery plan adopted by the EU late last year. Amid the deepening recession, EU governments discussed further measures to tackle the crisis, and began to address the fragility of financial systems in central and eastern Europe. In addition, weak economic data from the US continued to weigh on equity markets.

UK

UK equity markets have remained weak and persistently volatile over the past few weeks, driven by the large volume of rights issues, further clarity on the UK authorities' stimulus plans and the first significant details on the much-heralded 'asset protection scheme' (APS). The banking sector has remained the main draw for investors' attention over the past few weeks as further details have emerged on the UK government's plan to revive the sector and the wider UK economy. Economic data released in February continued to weaken, with the labour market showing no signs of improvement. On a more positive note, GDP for the fourth quarter was unrevised at -1.5%, which was slightly better than the market expected. Against this background, the Bank of England cut interest rates by 50 basis points to 1.0% in February.



Japan

Japanese equities struggled in February and underperformed the world index. Japanese economic data was full of negative surprises, including weak January exports, down 45.7% year-on-year (yoy), and industrial production, down 30.8% yoy. The slumping external sector combined with weakening domestic spending to bring Q4 GDP down 12.7% yoy, the sharpest drop since the 1974 oil crisis. In addition, the fourth quarter earnings season saw losses from many high-profile firms, most notably auto and electronics manufacturers. With the corporate sector looking weak, pressure built on the (heavily indebted) Japanese government to launch another stimulus package. The Bank of Japan announced it would spend up to ¥1 trillion to purchase shares held by commercial banks, in order provide additional liquidity and stabilise the financial system.

Asia (ex Japan)

Negative news flow stemming from the ensuing financial crisis continued to dominate headlines around the world in February, with Asian markets falling, but fairing better than most of their global peers. There were some positive highlights over the month, including China's strengthening purchasing managers index and strong credit growth. Domestic A-shares rose 6.6% in February, while the Baltic Dry Index saw an 84% jump over the month on expectations of an increase in Chinese demand. Across the region, Taiwan, the Philippines and Malaysia saw the best relative returns while Korea, Singapore and India were the weakest performers.

Emerging Markets

Emerging equity markets delivered a negative overall return over the month, although they generally held up better than developed markets. In terms of emerging countries, Korea struggled due to share price falls in the banking sector, while local currency weakness had a large negative impact on performance in US dollar terms. In other developments, the country's central bank reduced interest rates by 50 basis points. Elsewhere, the Mexican market underperformed against a background of poor economic news including the release of data showing GDP contracting by 1.6% yoy in the fourth quarter. In other developments, the country's central bank reduced interest rates by 25 basis points and extended its foreign exchange swap line agreement with the US Federal Reserve.

Global Bonds

The global economy continues to deteriorate, with GDP numbers, in particular, displaying weakness. For example, in the fourth quarter of 2008, the US economy shrunk more than expected, and eurozone GDP contracted a larger-than-expected 1.5%. Central banks worldwide continued to lower interest rates, and the likelihood of more extreme policy measures, such as quantitative easing, to provide stimulus to the global economy, increased. Corporate bonds generally produced negative returns, as investors fled to the relative safe haven of government bonds. While corporate bond yields continue to tempt investors, worsening economic data exerted downward pressure on future company earnings expectations. It is worth noting that Japanese government bonds endured a very difficult month. The Japanese economy deteriorated at a worryingly fast pace in February, and even Japanese government bonds are not currently perceived as a safe haven for investors.

Overview – Total Returns (%) – to end of February 2009

	1 month			YTD		
	EUR	USD	GBP	EUR	USD	GBP
Equities (MSCI)						
World Index	-9.36	-10.17	-9.14	-10.26	-18.01	-17.30
World Value Index	-11.46	-12.24	-11.24	-14.74	-22.10	-21.42
World Growth Index	-7.41	-8.24	-7.18	-5.86	-13.99	-13.24
World Smaller Companies Index	-9.59	-10.40	-9.37	-9.41	-17.23	-16.51
US	-9.44	-10.25	-9.22	-9.77	-17.56	-16.84
Eurozone	-10.88	-11.67	-10.66	-16.89	-24.06	-23.40
UK	-7.35	-8.17	-7.12	-5.74	-13.88	-13.13
Japan	-11.59	-12.38	-11.37	-10.62	-18.34	-17.62
Emerging Markets	-4.78	-5.62	-4.54	-3.33	-11.68	-10.91
Asia ex Japan	-5.67	-6.51	-5.43	-3.20	-11.55	-10.79
	1 month			YTD		
	EUR	USD	GBP	EUR	USD	GBP
Government bonds (JP Morgan)						
US	0.34	-0.56	0.58	5.44	-3.67	-2.83
UK	1.20	0.30	1.45	4.89	-4.17	-3.33
Japan	-7.16	-7.98	-6.93	1.02	-7.70	-6.90
Germany	1.14	0.24	1.39	0.04	-8.60	-7.80
Corporate bonds (Merrill Lynch)	-0.67	-1.56	-0.43	8.11	-1.23	-0.37

Source: Datastream to 28 February 2009

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