

Schroders

Monthly Markets Review

Overview of markets in March 2009

Highlights:

- Global equity markets rebounded in March as investors reacted positively to better-than-expected economic data and a range of US measures aimed at restoring liquidity to the financial system and easing pressures on homeowners
- Economic data surprised to the upside, in particular an unexpected surge in US housing starts
- Global governments announced further extensive measures to stabilise the financial system, including the US government's 'Public-Private Investment Program', which was welcomed by investors
- Government bonds outperformed corporate bonds, which endured an extremely volatile month.

US

US stockmarkets, along with global equity markets, rallied in March as the US government's 'Public-Private Investment Program' was welcomed by investors. The US Treasury Secretary, Tim Geithner, unveiled details of the plan to clean up banks' balance sheets by buying up to \$1 trillion of so-called 'toxic assets'. US stockmarkets were on course for the best month for some time until further weakness in the carmakers halted this rally late in the month. There was also further nervousness surrounding the banking sector towards the end of March, as Geithner stated that some US banks would require 'large amounts' of assistance. In addition, there were fears that signs of discord from leaders of countries attending the G20 in London in early April could hamper attempts at global economic recovery.

Eurozone

Eurozone equity markets declined in the first week of March, extending earlier losses, before staging a welcome comeback to finish the month in positive territory. Markets rallied, buoyed by a sense of renewed optimism following positive newsflow from a number of major US banks. The European Central Bank (ECB) cut interest rates by a further 50 basis points to 1.5% in an effort to ease the financial crisis, but the Eurozone economy continued to falter and economic data remained disappointing, with export-orientated economies such as Germany feeling the pinch in the wake of weakening demand. However, fiscal stimulus plans world-wide proved a refreshing tonic for investors, and served to reinvigorate equity markets. The ECB continued its 'enhanced credit support', providing unlimited liquidity to banks.

UK

Sentiment towards equities plunged even lower in the first week of March, with some apparent forced selling by life funds, the relative fragility of the financial sector, and a record rights issue from HSBC, causing the UK market to drop below its November lows. Things soon took a turn for the



better, however, on hopes that the trough of this downturn may be in sight. There was some marginally more positive news regarding the banks and the Chinese and US economies, and a temporary lull in cash calls, helping to drive a strong recovery rally ever since. In terms of UK economic news, the February Consumer Price Index was better than expected. The Bank of England (BoE) cut interest rates a further 50 basis points to 0.5%, and also announced details of quantitative easing, whereby it will buy £75 billion worth of gilts, corporate bonds and commercial paper.

Japan

Like many global markets, Japanese equities declined for the first week or so of March before staging a sharp rally, to close up on the month in sterling terms. The mood in the Japanese market was generally buoyant, with the feeling that the very worst declines were over. Despite ongoing awful economic data, such as the largest ever recorded fall in exports, down -49.4% year-on-year in February, investors tended to focus on any positives they could find, including forecasts of a trough in industrial production declines and the improvement of the Cabinet Office assessment of the economy to 'the pace of deterioration has moderated'. Action by the government and the Bank of Japan to support the economy was positively received; this month the buy-back programme for government bonds was expanded and plans for a third stimulus package were announced.

Asia (ex Japan)

After a poor start to the month, Asian equities staged a strong rebound in March following months of falls. Taking their cue from the US, the initial leg down was driven by negative newsflow including unemployment hitting the highest for 25 years in February while renewed concerns about the fate of US automakers and banks added to the gloom. However, the mood turned decidedly buoyant after a number of major banks announced that they had been profitable in the first two months of the year, raising hopes that worst of the financial crisis had passed and the global economy bottoming. Investors were further cheered after the Federal Reserve pledged to pump an additional \$1 trillion into the faltering US economy. Against that, Asian equities made one of their biggest gains in a decade, led by Korea which was boosted by the strong showing in index giant Samsung Electronics and a rally in its beaten down banking sector. At the other end of the scale, Malaysia was the key laggard, posting marginal positive returns in US dollar terms.

Emerging Markets

Emerging market equities delivered strong returns against a background of rising global share values, with higher commodity prices a key positive for several emerging countries. The commodity-driven Peruvian market was the best performer, gaining from the rally in copper prices, while the central bank cut interest rates. In addition, Korea outperformed, boosted by the strong performance of index heavyweight Samsung Electronics and a rally in the banking sector, while local currency appreciation had a large positive impact on sterling returns. The energy-dominated Russian market was also among the best performing emerging markets, boosted by an increase in the oil price. Malaysia and Israel were among the weakest performers. Relatively weak returns from pharmaceuticals stock Teva (by far the largest stock in the local index) weighed on the Israeli market.

Global Bonds

The global economy remains weak, although some data including US housing, economic activity and inflation releases, surprised to the upside during the month. Elsewhere, economic data remained largely disappointing. For example, the eurozone economy continued to struggle

throughout March – Germany reported a pick up in the rate of increase in unemployment. Against this background, central banks, including the European Central Bank and Bank of England lowered interest rates further. In addition, policymakers employed more extreme measures in an attempt to tackle the crisis. For example, both the US Fed and the Bank of England announced that they are adopting quantitative easing, with the Fed stating that it intends to purchase around \$1.25 trillion of assets. Government bonds generated positive returns over the month. Corporate bonds finished the month in negative territory, in what was an extremely volatile month for credit markets worldwide.

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

Equities (MSCI)	1 month			YTD		
	EUR	USD	GBP	EUR	USD	GBP
World Index	2.93	7.60	7.00	-7.64	-11.78	-11.51
World Value Index	3.46	8.16	7.55	-11.79	-15.75	-15.49
World Growth Index	2.46	7.11	6.51	-3.54	-7.87	-7.59
World Smaller Companies Index	3.60	8.30	7.70	-6.15	-10.36	-10.09
US	3.85	8.57	7.96	-6.29	-10.50	-10.22
Eurozone	4.01	8.73	8.12	-13.56	-17.44	-17.18
UK	-0.78	3.72	3.14	-6.48	-10.68	-10.40
Japan	-2.27	2.17	1.60	-12.65	-16.57	-16.31
Emerging Markets	9.42	14.39	13.75	5.77	1.02	1.33
Asia ex Japan	8.87	13.81	13.17	5.39	0.66	0.97

Government bonds (JP Morgan)	1 month			YTD		
	EUR	USD	GBP	EUR	USD	GBP
US	-2.13	2.31	1.74	3.19	-1.44	-1.14
UK	-1.25	3.23	2.66	3.58	-1.07	-0.76
Japan	-5.54	-1.26	-1.81	-4.58	-8.86	-8.58
Germany	0.51	5.07	4.48	0.55	-3.96	-3.67
Corporate bonds (Merrill Lynch)	-4.54	-0.21	-0.76	3.20	-1.43	-1.13

Source: Datastream to 31 March 2009

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