

# Schroders

## Monthly Markets Review

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### Overview of markets in April 2009

#### Highlights:

- The rally in global equity markets continued in April, led by financials and cyclicals, with emerging and smaller company markets generally experiencing the biggest gains. Fears of a swine flu pandemic panicked markets briefly at the month end, especially in Asia where memories of the 2003 SARS outbreak linger.
- The macroeconomic backdrop remained poor with the global economy in recession, corporate default rates rising and unemployment on the increase – to 8.5% in the US. However, some evidence emerged that the rate of economic contraction had slowed and that the authorities' measures to stabilise the banking system were beginning to have an impact.
- Government bond yields rose in April, under a glut of new issuance and increasing risk appetite. However, in line with equities, credit markets rallied, despite rising default rates, as investors took on more risk and took advantage of yield spreads above government bonds.
- Crucially in April, and in a growing sign that the worst of the financial crisis may be over, there was a significant fall in LIBOR rates, improving the liquidity in the money markets, which have been bunged-up since last year, and indicating an increased willingness by the banks to start lending again.

#### US

The US stockmarket continued to rally in April, recording the biggest monthly advance in the S&P 500 index for nine years. This was partly driven by first-quarter earnings results – two thirds of S&P 500 companies released results that exceeded expectations, with some of the larger financial institutions such as Goldman Sachs, JP Morgan and American Express announcing profits. The rally was also boosted by some better economic news. The Federal Reserve said the 'economic outlook has improved modestly' since March and consumer spending climbed the most it had for two years, according to a Commerce Department report. Also, manufacturing in the US shrank at the slowest rate in seven months. However, it was not all good news, as Chrysler, the third largest car producer in the US, filed for bankruptcy protection after missing a government deadline to come up with a plan to qualify for more aid, and figures for March revealed that the services sector had unexpectedly weakened and unemployment had risen to 8.5%.

#### Eurozone

Despite the weak macroeconomic backdrop, eurozone equities continued their strong run in April as monetary and fiscal stimulus efforts buoyed investors' spirits. The European Central Bank remained committed to further monetary easing (cutting interest rates by another 25 basis points) and continued their enhanced credit support - providing unlimited liquidity to banks. Although the market expected a larger rate cut, signs of stabilisation improved sentiment, with the increased risk appetite benefiting the more cyclical areas of the market at the expense of traditionally defensive sectors. Financials in particular outperformed, rallying on the back of better-than-expected first quarter results.



## UK

UK share prices recovered more of their lost ground in April, as the considerable pessimism about the economic outlook continued to subside. The blue chip FTSE 100 index breached the 4000 level for the first time since February and technically entered bull market territory, by recording a 20% rise from its March low point. However, the strongest performance in April was provided by the mid and small cap indices. Economically sensitive names such as retailers and financials remained amongst the key drivers of the rally, although this was more reflective of depressed valuations rather than an economic turnaround. Indeed, considerable concerns remain about the UK economy, not least because there have been limited signs so far that the policy response is actually working, and the Budget confirmed that public finances are in a dire condition and that growth forecasts need to come down.

## Japan

Strong gains in the first two weeks faltered later in the month, but the TOPIX price index still finished April up 8.3% in yen terms. Cyclical sectors outperformed and exporters benefited from a pause in the yen's strengthening trend, while defensive sectors lagged. Dismal results from the Tankan survey of business confidence in Japan were shrugged off early on and a broadly positive outcome to the G20 summit lent confidence to the market; but the cooling of China's GDP growth to +6.1% year-on-year in Q1 was taken as a bad sign for a recovery in global demand. Hopes grew of a bottom for manufacturing as inventory adjustments wound down, and March industrial production edged up slightly relative to the previous month, the first sequential improvement in six months. Overall, investor sentiment in Japan became notably more upbeat in April, driven by positive surprises in full-year company results and as further details emerged of stimulus measures by the authorities.

## Asia (ex Japan)

April saw the strongest rally of 2008-2009 across Asian markets, as swine flu concerns were outweighed by optimism that the region's economies may be on the mend. In particular, stocks in Taiwan were buoyed by the first direct Chinese investment on the island. Indonesia, Korea and India saw the best relative performance in the region, while the Philippines, China and Australia were the weakest, although all the markets produced solid returns over the month. Across sectors, consumer discretionary and industrials outperformed, while utilities and telecoms lagged. Markets were buoyed at one stage by speculation that GM and Chrysler in the US would go bankrupt, which would benefit the region's carmakers. There was further encouragement from China with news that manufacturing had picked-up and official statements confirming that stimulus measures were having a positive effect.

## Emerging Markets

Emerging markets delivered strong returns in April as the improvement in investor confidence seen in the previous month continued. Positives included the announcement from the G20 summit of an increase in the IMF's resources, a number of upside surprises during the Q1 earnings season and a slightly more optimistic assessment of the global economy from the G7 and IMF (although towards the end of the month news emerged of the outbreak of 'swine flu' in Mexico and its spread to other countries). The MSCI Emerging Markets index outperformed the MSCI World index against the background of increased investor risk appetite. Indonesia, Turkey, Hungary and Poland were among the better performers, while Israel was one of the weakest, as the market continued to lag following its outperformance earlier in the year.

## Global Bonds

Despite a generally poor macroeconomic backdrop, government bond yields rose in April, with the 10-year Treasury benchmark yield ending the month at 3.12%, its highest level since last November, notwithstanding the Fed's quantitative easing programme. It was a similar story in the UK, where the 10-year gilt rose to 3.51%, close to the level it attained on 4 March, the day before the Bank of England started its gilt re-purchase programme. Inflation is virtually non-existent and interest rates are at historic lows with little prospect of being increased for some time, yet government bonds have had to contend with huge amounts of supply to fund deficits and this led to a poorly received US treasury auction in April. Government bonds also sold-off on the back of improving risk appetite, reflected in strong rallies in equity and credit markets, particularly high yield. Despite rising rates of corporate default, credit spreads are very attractive. At the same time, some better economic data, and a significant improvement in interbank lending rates in the money markets, bolstered the rally by corporate bonds.

### Overview – Total Returns (%) – to end of April 2009

	1 month			YTD		
	EUR	USD	GBP	EUR	USD	GBP
<b>Equities (MSCI)</b>						
World Index	11.54	11.32	7.68	3.02	-1.80	-4.71
World Value Index	14.09	13.87	10.15	0.64	-4.06	-6.92
World Growth Index	9.23	9.01	5.45	5.35	0.43	-2.56
World Smaller Companies Index	16.82	16.59	12.78	9.63	4.51	1.40
US	9.82	9.60	6.02	2.91	-1.90	-4.82
Eurozone	16.18	15.95	12.16	0.43	-4.27	-7.11
UK	12.83	12.61	8.93	5.52	0.58	-2.41
Japan	9.84	9.63	6.04	-4.05	-8.54	-11.25
Emerging Markets	16.89	16.66	12.84	23.63	17.85	14.35
Asia ex Japan	17.00	16.77	12.95	23.30	17.54	14.04
	1 month			YTD		
<b>Government bonds (JP Morgan)</b>	EUR	USD	GBP	EUR	USD	GBP
US	-1.75	-1.95	-5.15	1.38	-3.36	-6.23
UK	2.29	2.08	-1.25	5.95	1.00	-2.01
Japan	0.32	0.12	-3.15	-4.27	-8.75	-11.46
Germany	-0.42	-0.62	-3.87	0.12	-4.56	-7.40
<b>Corporate bonds (Merrill Lynch)</b>	2.87	2.67	-0.69	6.16	1.20	-1.81

Source: Datastream to 30 April 2009

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