Schroders
Monthly Markets Review

Overview of Markets in November 2007

Highlights

- Global equity markets suffered considerable losses in November, as concerns about the fallout from the credit squeeze and rising commodity prices took their toll on investor sentiment
- On a regional level, emerging Asian equities were hit particularly hard while Japan fared the best in US dollar terms, buffered by the appreciating yen
- November was another strong month for global government bond markets, as investors moved to price in the likelihood of a recession in the US amid ongoing concerns about the impact of the credit crunch
- In contrast, credit had one of its worst-ever months. Spreads on both US and eurozone investment grade and high yield bonds widened dramatically

US

The US stockmarket suffered another bout of volatility in November on the back of a spate of bad news emanating from the credit markets. Many large US banks announced writedowns amounting to tens of billions of US dollars due to their sub-prime exposure. Meanwhile, investors' concerned that the US economy may enter a recession looked to invest in 'recession-proof' stocks, such as those in the consumer staples, healthcare and utilities sectors. Treasury bills had their best month for 12 years as investors looked to government debt as a relative safe haven from the tightening credit conditions being imposed by banks. Indications coming from the Fed that there will be a further interest rate cut in December resulted in a rally in financial stocks towards the end of the month.

Eurozone

After a relatively upbeat October, November saw a return to the rocky conditions that plagued equity markets over much of the summer. As clouds threatened to gather over the European economy, investors opted to spend most of the month on the sidelines. Despite a last-minute rally, Europe's stockmarkets ended the month well into negative territory. The euro reached new highs versus the US dollar in November, while a second month of elevated European inflation confounded the experts. That, coupled with a renewed focus on shaky credit markets and heightened recessionary fears, had investors seeking relative safe havens. Against this backdrop electronics, pharmaceuticals and food producers were the best performers in European markets, while autos and general retailers underperformed.

UK

After a strong October, the UK equity market underwent a reversal in November. Share prices dropped off sharply in the first few days as disappointment about the size of the cut in US interest rates combined with news of further significant writedowns (and high profile resignations) at some of the major US banks. This resulted in the banks leading the market down in the UK as well, as investors began to worry about the gravity of the situation over here. The sombre mood then persisted for much of the month as the interbank lending rate jumped back up, oil hit a record high, the dollar hit a record low and, most importantly, the market moved to price-in a significant slowdown in the US and the UK. This marked a major shift in sentiment (aside from any continuing concerns about the credit crunch) as fears rose that the turmoil was passing through to the economy and the consumer. A rally in the last days of the month (helped by news that a Fed rate cut in December is increasingly likely) was able to take the FTSE All-Share back into positive territory year-to-date, but investors remained decidedly downbeat overall.

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Japan

A continuation of the long-standing concerns that have dogged Japan's equity market, and indeed equity markets globally, continued through November. Once again, concerns over the strengthening yen, US sub-prime and slowing US growth served to undermine the market, which became the first of the major stock markets to officially enter a bear-market phase, having fallen by more than 20% from a 15-year high at the end of February this year. The general malaise in the market largely reflected domestic economic newsflow, with hawkish remarks coming from the Bank of Japan, which officially guided to lower economic growth and abandoned its assessment for an increase in CPI, the inference being that rates were less likely to rise in the near term. There were, however, moments of optimism throughout the month. Third quarter economic growth beat forecasts due to an unexpected increase in consumer spending. Industrial production rose to a record high in October, underlining the economy's reliance on exports and serving to highlight the significance of the strength of Japan's currency to the future fortunes of the economy and stockmarket. Given this, it was inevitable that periods of yen strength would be closely associated with market weakness. The currency appreciated steadily over the course of the month, at one stage falling below Y108/$ to what was a two-year high. In this environment, it was the exporters that struggled, and understandably so given October's Tankan survey, which suggested that major manufacturers expected the yen to trade at an average rate of Y114/$ over the next six months.

The month also saw the culmination of the interim reporting season, which broadly met expectations. In aggregate, announcements saw first half sales rise 8.3% and net profit increase 7.4%. Within these numbers, however, there was significant dispersion, with financial sectors as a group showing the biggest declines, due mainly to weakness in the banking and 'other financial' sectors. At the other end of the spectrum, other non-manufacturing sectors and marine transportation showed the biggest gains in profits.

Asia (ex Japan) Markets

Asian markets lagged this month, as concerns about the fallout from credit crunch and high oil prices started to bite. Indonesia was the only market in the region to finish the month in positive terrain, supported by the strong performance in the utility and energy sectors. India and Malaysia were also amongst the region's outperformers in November. In India, the market continued to be propped up by robust capital inflows and the strong performance in the industrial sector while the good showing in the industrial and telecom sectors contributed to the market's outperformance in Malaysia. In contrast, China, Taiwan and Korea were the region's key laggards. In China, the delay of the 'through-train' programme allowing individuals to invest directly in Hong Kong equities resulted in a sharp pull back of Chinese equities during the month. Growing expectations that Beijing will step up its tightening efforts, after it hiked the reserve requirement ratio for the ninth time this year to 13.5%, to cool overheating, also weighed on sentiment. Across the Strait, concerns about flagging global demand took their toll on the technology sector in Taiwan, contributing to the market's underperformance. Korean equities were dragged lower by the weak showing in the industrial sector. In the region as whole, utilities were the outperformers over the month, while the materials and industrial sectors were the main laggards.

Emerging Markets

Global emerging markets delivered a negative return in November following the strong performance of recent months. This occurred against a background of weakness in global equity markets, with investors concerned about the impact of continuing problems in global credit markets, while commodity prices were volatile. The Egyptian and Colombian markets were among the best performers, making solid progress in absolute terms. The Colombian market outperformed despite the country's central bank raising interest rates. The energy-dominated Russian market also performed relatively well. It made good progress in US dollar terms, despite oil prices moving lower in what was a volatile month ahead of the Duma elections in early December (although the results of the elections brought greater political clarity). In Asia, Indonesia and India were among the best performers.

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Peru and China were the weakest performers over the month. The Chinese market fell sharply following its impressive run in recent months. The People's Bank of China continued to tighten monetary policy, while the domestic economy is maintaining a strong rate of growth, with industrial production growth for October coming in at 17.9% year-on-year (although this was lower than market expectations). Weaker copper and gold prices impacted returns from the commodity-driven Peruvian market. Data was also released showing a 0.31% month-on-month increase in Peruvian consumer prices in October, which was above consensus forecasts. Taiwan and Korea were among the weakest markets in Asia.

Global Bond Markets

November was another strong month for global government bond markets as investors moved to price in the likelihood of a recession in the US amid ongoing concerns about the extent of the ramifications of the credit crunch. The US market in particular had a good month, registering the best return for 12 years. Yields dropped on bonds of all maturities, but particularly on short-dated securities. The yield on the two-year dropped almost a whole percentage point to below 3%, the first time it had fallen to that level since the end of 2004. Japanese and UK bond markets also rallied. The eurozone market was more mixed, with short-dated bonds rising while long-dated bonds fell. Speculation increased that the world's central banks, led by the Federal Reserve, will cut interest rates in coming months, as economic data and corporate news continues to point to a downturn. In contrast, credit had one of its worst-ever months. Spreads on both US and eurozone investment grade and high yield bonds widened dramatically. Many companies pulled bond sales as the volatility in the market put off buyers. While corporate default rates remain at historic lows, the main rating agencies, Moody's and Standard & Poor's, expect the default rate to pick up in the coming months.

Overview - Total Returns (%) – to end of November 2007

	1 Month			YTD		
Equities (MSCI)	**Local**	**USD**	**EUR**	**Local**	**USD**	**EUR**
World Index	-4.24	-4.04	-5.42	6.03	10.97	-0.31
World Value Index	-5.19	-4.97	-6.33	1.32	6.01	-4.76
World Growth Index	-3.36	-3.18	-4.56	10.77	15.95	4.17
World Smaller Companies Index	-7.66	-7.55	-8.88	-2.39	2.97	-7.50
US	-4.22	-4.22	-5.59	6.64	6.64	-4.20
Eurozone	-3.33	-1.92	-3.33	9.03	21.37	9.04
UK	-4.40	-5.38	-6.73	6.03	11.39	0.07
Japan	-5.54	-1.83	-3.24	-7.09	-0.20	-10.34
Asia ex Japan	-7.85	-8.54	-9.85	38.15	41.07	26.73
Emerging Markets	-6.15	-7.08	-8.41	32.72	39.28	25.13

	1 Month			YTD		
Government bonds (JPMorgan)	**Local**	**USD**	**EUR**	**Local**	**USD**	**EUR**
US	3.24	3.24	1.76	9.15	9.15	-1.94
Germany	0.81	2.28	0.81	2.42	14.01	2.42
Japan	0.71	4.67	3.17	2.47	10.07	-1.12
UK	1.86	0.82	-0.62	3.75	9.00	-2.08

Source: Datastream to 30 November 2007

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For professional investors and advisors only. **This document is not suitable for private customers.**