

# Schroders

## Monthly Market Review

---

### Overview of markets in April 2008

#### Highlights:

- Global stockmarkets recovered some lost ground in April amid some signs that the worst of the credit crisis may now be behind us.
- The Federal Reserve cut US interest rates to 2%, and suggested that it may pause to see if the previous reductions have the desired effect on consumer and corporate activity.
- Oil prices continued to push higher, which is keeping upward pressure on inflation around the world.

#### US

The outlook for the US economy could be reaching an important crossroad. Data in the US was mixed in the month with employment figures and housing conditions disappointing, but core inflation came in on target. On the final day of the month, the Fed cut rates by 25 basis points to 2%, and its accompanying statement suggested that it is probably entering a 'wait and see' phase, whereby it will judge whether or not previous cuts (seven in seven months) have had the desired effect. US stock markets responded positively, with the S&P 500 returning 4.9%. First-quarter earnings results have largely been ahead of consensus, with 69% of the companies in the index that have posted results so far exceeding estimates (compared to 66% at the same time last year). The latest chapter of the credit crunch saw several banks announce plans to raise capital by issuing shares. As the month progressed, the feeling in the market – supported by comments from the Fed – was that the worst of the credit crisis might now be behind us.

#### Eurozone

April was a more upbeat month for European equity markets, with investors focused on the stream of first quarter results. While companies who were even slightly pessimistic were penalised, investors found much to be confident about and markets ended well into positive territory. The oil and gas sector was among the top performers on the back of an oil price that hovered near \$120. Elsewhere, a number of banks were forced to announce plans to raise capital through share issues; however, the wider financial sector performed in line with the broader market, sparking hopes that the worst of the credit crunch might be over.

The global economic outlook continued to look uncertain. News from the US was mixed – employment and housing figures were disappointing, but inflation was on target – while the UK housing market appeared increasingly troubled. The effects of a persistently strong euro and weakening global demand began to seep into the European psyche, with business confidence falling below expectations in a number of countries, including Germany. However, with inflation refusing to budge from record levels, the ECB's hands were tied and it kept interest rates on hold again during the month, despite further cuts in the US and the UK.

#### UK

After an ailing first quarter, UK equities started the second quarter on much better form. Mid and small caps both came back to some degree during April, but it was large caps that led the pack, recording the best monthly performance in five years. Much of this resulted from double-digit gains in the heavyweight oil and mining sectors as bid rumours resurfaced and crude surged to another record high. Most sectors were able to end the month in positive territory, including the banks. Following further writedowns, capital raisings and management changes in the US, investors appeared to take heart that the worst may now be over for banks on that side of the Atlantic at least.



In contrast, there were mixed reactions here as the UK banks took their first tentative steps in the recapitalisation process. RBS, in an extraordinary volte-face, became the first to go down this route, announcing a £12 billion rights issue, while rumours surrounded HBOS as the next potential candidate. This came alongside a £50 billion scheme from the Bank of England to inject liquidity back into the lending markets and a 25 basis point cut in UK interest rates.

## Japan

The Japanese market saw a strong relief rally in April, with the TOPIX finishing up 12.0%, as investors came to believe that the worst was over for global financial markets and that central banks across the world were taking necessary measures to ease the liquidity crisis. There was considerable volatility as the market was buffeted by sentiment, proving highly sensitive to newsflow from the US, particularly on earnings.

Shrugging off deteriorating numbers in the Tankan business confidence survey, the initial rally was driven by investor focus on the strong demand for Lehman Brothers' share offering and a 'kitchen sink' write-down by UBS. The market slipped mid-month as very poor Japanese machinery orders were interpreted as evidence of a serious downturn in the US economy and two large US companies seen as bellweathers for the local market, GE and UPS, came out with weak results. However subsequent corporate earnings numbers from the US proved generally better than expected, boosting the Japanese market once more. The latter part of the period also saw Japanese economic data turn positive, including strong exports and encouraging retail sales growth in March.

## Asia (ex Japan)

Asian equities rebounded in April following the sharp declines in the previous month, marked by a return in risk appetite globally and improved sentiment as fears of the credit crisis spreading further ebbed. Against this backdrop, the MSCI AC Asia ex Japan Index was up 8.14% in US dollar terms, outperforming the MSCI World Index (+5.34% in US dollar terms). However, fears over rising inflation were not far from investors' minds, with many of the smaller markets in the region continuing their run of losses from the previous month.

China, India and Australia were amongst the region's outperformers. In China, the Shanghai composite dipped below 3,000 points in the month but bounced back sharply after the government declared new measures to stabilize the A-share market. On a sector level, the strong recovery was led by the banking sector and supported by the positive performance in the energy sector. In India, the market performed well over the month after rebounding from the sell off in the previous month, supported by the strong performance in the IT sector. In Australia, the market rallied on the back of a good run in the energy and utility sectors.

In contrast, the Philippines, Indonesia and Thailand underperformed the region significantly. In the Philippines, the poor performance amongst financial and telecom stocks pulled the market down while anticipated falls in corporate earnings and increasing inflation on the back of rising food and energy prices dampened market sentiment in Indonesia. In Thailand, the lacklustre showing in the telecom and IT sectors dragged the market lower. Across sectors, the energy sector led the gains as oil prices continued to test new highs while the utilities sector was the key laggard.

## Emerging Markets

Global emerging equity markets rallied in April, following the weak returns delivered in the previous month, against a background of improved investor risk appetite. Colombia and Turkey delivered the strongest returns, with local currency appreciation boosting the performance of both markets in US dollar terms. The Turkish market, which is particularly sensitive to changes in investors' appetite for risk, rebounded strongly from the sharp falls seen in March, while positives in Colombia included the release of data showing strong industrial production growth. China and Brazil also outperformed by a wide margin.

The MSCI China index rallied following the weak returns of the previous month, reflecting factors including sharp gains in the mainland 'A' share market (which benefited from the Chinese

government reducing stamp duty on share trading). Data was also released showing Chinese GDP growth coming in at 10.6% year-on-year in the first quarter. In Brazil, positives included ratings agency Standard & Poor's upgrading Brazil's long-term foreign currency rating to investment grade.

In other developments, the country's central bank raised interest rates by 50 basis points (a larger than expected move) in a bid to bear down on inflation. The rate increase contributed to local currency appreciation, however, boosting US dollar returns from the Brazilian market.

The Philippines and Indonesia were the weakest performing emerging markets in April, continuing their run of underperformance from the previous month. Rising inflation is a concern in both markets, while local currency weakness held back US dollar returns from the Philippines. Mexico and Chile also fell back in US dollar terms, having previously outperformed strongly this year. Local currency depreciation had a large negative impact on returns from the Chilean market, while Mexico underperformed due to a negative reaction to America Movil's Q1 results. However, over the month favourable Mexican economic data was released, including industrial production growth in February coming in at 5.4% year-on-year. The Polish market also underperformed, following the strong returns delivered in March. Over the month, data was released showing a sharp slowdown in industrial production growth in March to 0.9% year-on-year.

### Global Bonds

The 'flight-to-quality' came to an abrupt halt in April amid optimism that financial markets have weathered the worst of the credit crisis. With some writedown-weary banks in the US reporting better earnings than many had expected, and the US Federal Reserve signalling that its series of rate cuts may be coming to an end, investors' risk appetite increased significantly. Corporate bonds rebounded, particularly lower-rated credit. Global high yield posted its best month in five years. Companies moved quickly to sell new bonds, and billions of dollars of new securities were issued in both the US and eurozone. By contrast, global government bond markets gave back much of their gains year-to-date, with yields on bonds in the US, eurozone, UK and Japan backing up, particularly on shorter-dated debt. In the US, the Fed cut rates by 25 basis points to 2%, less than the 50 basis points some had been expecting. In the eurozone, the European Central Bank left rates at 4%, indicating it continues to be concerned about inflationary pressures. Inflation in the region is running at 3.5%, above the bank's target of 2%.

### Overview – Total Returns (%) – to end of April 2008

Equities (MSCI)	1 month			YTD		
	EUR	USD	GBP	EUR	USD	GBP
World Index	7.21	5.34	5.71	-9.93	-4.09	-6.60
World Value Index	6.93	5.06	5.43	-10.41	-4.59	-4.11
World Growth Index	7.47	5.60	5.97	-9.48	-3.60	-3.11
World Smaller Companies Index	5.93	4.09	4.45	-10.12	-4.28	-3.80
US	6.81	4.95	5.32	-10.64	-4.84	-4.35
Eurozone	6.24	4.39	4.76	-10.91	-5.13	-4.65
UK	8.36	6.47	6.85	-10.54	-4.73	-4.24
Japan	9.17	7.27	7.64	-7.08	-10.5	-0.5
Emerging Markets	10.05	8.13	8.51	-9.55	-3.68	-3.19
Asia ex Japan	10.06	8.14	8.52	-13.02	-7.37	-6.90

Government bonds (JP Morgan)	1 month			YTD		
	EUR	USD	GBP	EUR	USD	GBP
US	-0.04	-1.79	-1.44	-3.60	2.66	3.18
Germany	-0.70	-2.43	-2.09	1.95	8.57	9.12
Japan	-4.64	-6.30	-5.97	0.12	6.62	7.16
UK	-0.22	-1.96	-1.62	-6.35	-0.27	0.24

Source: Datastream to 30 April 2008

**Important Information:****For professional investors and advisers only. This document is not suitable for retail clients.**

This document is intended to be for information purposes only and it is not intended as promotional material in any respect. The material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The material is not intended to provide, and should not be relied on for, accounting, legal or tax advice, or investment recommendations. Information herein is believed to be reliable but Schroder Investment Management Ltd (Schroders) does not warrant its completeness or accuracy. No responsibility can be accepted for errors of fact or opinion. This does not exclude or restrict any duty or liability that Schroders has to its customers under the Financial Services and Markets Act 2000 (as amended from time to time) or any other regulatory system. Schroders has expressed its own views and opinions in this document and these may change. Reliance should not be placed on the views and information in the document when taking individual investment and/or strategic decisions. Issued by Schroder Investment Management Ltd, 31 Gresham Street, London EC2V 7QA, which is authorised and regulated by the Financial Services Authority. For your security, communications may be taped or monitored.