

Schroders

Monthly Markets Review

Overview of markets in November 2008

Highlights:

- The global economic downturn showed little evidence of respite, and data released around the world showed that a number of economies were already in recession
- Global central banks reduced interest rates in response to the weakening economic outlook. In addition, the Federal Reserve announced measures aimed at easing the burden of the financial crisis by trying to bolster bank lending
- Inflation continued to fall – commodity prices declined sharply, including oil, which fell below \$50 a barrel before bouncing back to close the month ahead of the \$50 mark
- Economic concerns led government bonds continued to rally

US

Markets fell after a stream of weak economic data was announced in November. New home sales, consumer spending and orders for durable goods all fell. The continuing global financial crisis led to investors selling off stocks across the board. There was a rebound towards the end of November following the Federal Reserve's announcement of two packages specifically aimed at helping consumers, with \$800 billion being pledged to bolster markets for loans to homebuyers, students, small businesses and other borrowers. The government bail-out of Citigroup also saw markets rise. Finally, another factor in the late November rally in markets was the announcement of Barack Obama's nominations of key financial officials as they were seen to be more conservative than anticipated. Financial stocks in particular were beneficiaries of all of these announcements.

Eurozone

As commodity prices headed south and economies across Europe contracted during November, the rapid pace of the economic downturn prompted a raft of European countries to announce various fiscal stimulus packages. Failures in the global banking system began to spread into the real economy, with the impact being felt across industries. European equities continued to face an uphill battle as markets remained volatile during November. Financial stocks took a beating and commodities continued to lose momentum, with the oil price spiralling below \$50 a barrel before bouncing back to close the month ahead of the \$50 mark. A fall in eurozone business confidence subdued sentiment and economic indicators revealed that eurozone annual inflation had fallen from 3.2% to 2.1% in October, representing the largest monthly fall since the euro began.

UK

November saw a continuation of the volatility in equity markets, with a further raft of extraordinary developments. The market began the month on an upward trend in anticipation of a decisive US election result and further cuts to interest rates across Europe. The rally ended somewhat swiftly, however, as it became clear that central banks were having to shift from fighting inflation to potentially fighting deflation. The Bank of England made one of the most dramatic moves in this sense, with a 150 basis point cut in interest rates and a clear signal that there was more to come.



Markets then spent most of the month moving lower on further news of a weakening global economy, although lower oil prices and a series of fiscal stimulus packages helped to buoy the mood. As a result, the FTSE All-Share ended the month in negative territory overall.

Japan

Markets around the world continued to slide, although the pace of declines slowed from October. After another month of high volatility, the Japanese market delivered a negative return in November. An initial rally was driven by an election bounce in the US market and a temporary depreciation in the yen. However, economic concerns soon resurfaced and the currency strengthened again, adding to exporters' woes. Concerns over company earnings intensified when Toyota Motor slashed its full-year forecast. Downgrades have been seen across all sectors with the exception of utilities, which benefit from commodity price falls lowering their input costs. Exports and industrial production both fell heavily in October by more than expected and the ESRI consumer sentiment index also hit a new low. However, the market ended the month on an uptrend after a rescue package was agreed for Citigroup and a number of countries announced further stimulus measures, somewhat easing recession fears.

Asia (ex Japan)

Asian stockmarkets delivered negative returns in November as the financial crisis continued to loom large over the world economy. However, the pace of the declines was considerably muted compared to the previous month as global central banks stepped in to cut interest rates while governments talked about loosening fiscal policy. Over the month, the MSCI AC Asia Pacific ex Japan Index slightly outperformed the MSCI World Index. China, the Philippines and Hong Kong saw the best relative performance in the region. In China, stocks were lifted by a USD 586 billion stimulus package and an interest rate cut by the PBoC, with the utilities & materials sectors contributing positively to market performance. In the Philippines, the market was helped by the performance of its telecommunications & industrials sectors, while the market benefited from the telecommunications and utilities sectors in Hong Kong. Over the month, Korea, Indonesia and Taiwan were the weakest performers in the region. The Korean won and Indonesian rupiah lost more than 10% against the USD in November, depressing returns. Key detractors to market performance in Korea included the consumer discretionary & IT sectors, while the energy & financials sectors dragged down market performance in Indonesia. In Taiwan, where key detractors to market performance include the IT & consumer discretionary sectors, the government's stimulus package worth USD 14.5 billion and 25 bps in interest rate cuts failed to lift investor confidence.

Emerging Markets

Emerging equity markets delivered a negative return in November against a background of ongoing volatility in global stockmarkets. Concerns about the prospects for the global economy continued to weigh on investor sentiment, with oil prices maintaining their downward trend. On the positive side, central banks in several developed and emerging markets reduced interest rates in response to the weakening economic outlook, while the US government's bailout of banking giant Citigroup also cheered investors. The energy-dominated Russian market was among the weakest performing emerging markets against a background of lower oil prices, while the country's central bank raised interest rates during the month. Korea was also one of the weakest performers, with local currency depreciation having a large negative impact on performance in US dollar terms. Over the month, the Korean central bank reduced interest rates and the government announced a fiscal stimulus package equivalent to around 1.5% of GDP. Peru and China were among the best performers. The Peruvian economy continues to perform strongly, with data released over the month showing GDP growing by 9.9% year-on-year in September. The MSCI China index benefited from an unexpectedly large reduction in interest rates (108 basis points) by the People's Bank of China. In other developments, the Chinese authorities announced a significant fiscal package to stimulate infrastructure and housing investment.

Global Bonds

The global economic downturn has shown little evidence of respite. The number of US jobless claims surged to the highest level since 1992 and the price of previously owned homes fell by the largest monthly amount in 40 years. In addition, US Q3 GDP fell by 0.3%, and data released around the world showed that a number of economies were already in recession – Q3 Eurozone GDP shrank by 0.2%, the second consecutive quarter of negative growth. Global inflationary pressures continued to recede, reinforcing the likelihood of more global interest rate cuts, which should be supportive for government bonds. Against this backdrop, government bonds continued to rally, whereas corporate bond prices fell.

Overview – Total Returns (%) – to end of November 2008

	1 month			YTD		
	EUR	USD	GBP	EUR	USD	GBP
Equities (MSCI)						
World Index	-6.47	-6.40	-1.45	-33.43	-42.22	-25.04
World Value Index	-5.28	-5.22	-0.20	-32.67	-41.56	-24.19
World Growth Index	-7.66	-7.60	-2.70	-34.27	-42.95	-25.99
World Smaller Companies Index	-8.53	-8.47	-3.62	-36.57	-44.95	-28.59
US	-7.44	-7.38	-2.47	-28.50	-37.94	-19.49
Eurozone	-6.53	-6.47	-1.51	-44.47	-51.81	-37.48
UK	-6.50	-6.43	-1.47	-38.70	-46.80	-30.98
Japan	-1.32	-1.25	3.99	-24.47	-34.44	-14.96
Emerging Markets	-7.58	-7.52	-2.62	-49.97	-56.58	-43.67
Asia ex Japan	-5.99	-5.92	-0.94	-49.91	-56.53	-43.61
	1 month			YTD		
Government bonds (JP Morgan)	EUR	USD	GBP	EUR	USD	GBP
US	5.56	5.63	11.23	27.12	10.33	43.13
UK	-0.74	-0.67	4.59	-4.31	-16.95	7.74
Japan	3.53	3.61	9.09	37.77	19.58	55.12
Germany	3.95	4.02	9.54	10.40	-4.18	24.31

Source: Datastream to 30 November 2008

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