Issued in February 2009

Schroders
Monthly Markets Review

Overview of markets in January 2009

Highlights:

- Global equity markets have struggled since the beginning of the year due to renewed fears over the severity of the worldwide economic slowdown
- Economic data continued to weaken, with unemployment rising and consumer confidence continuing to fall
- Inflation levels continued to decline, although there were some signs in the month that oil and other commodity prices are stabilising
- Corporate bonds continued their tentative recovery, posting positive returns, whereas government bonds struggled due to concerns over increasing supply.

US

US stockmarkets have suffered a very difficult start to 2009. While Barack Obama's inauguration dominated the headlines and caused a feel-good factor, stockmarkets suffered as a result of depressed earnings, rising unemployment and confusion over Obama's stimulus package. The US shed over half a million jobs in December, house prices continued to tumble and consumer confidence hit a new low. The global financial sector was also shaken by fresh concerns about the health of major institutions such as Citigroup and Bank of America, as they continue to suffer substantial losses. Obama announced that he was prepared to set up a 'bad bank' to absorb banks' toxic investments, which saw markets rally slightly.

Eurozone

European equities rallied in the first part of the month, but then quickly lost ground as the deepening recession weighed on investor confidence. Sentiment continued to weaken as early optimism, following the European Central Bank's (ECB) decision to cut interest rates in December, gave way to concerns about weakening economic output and rising unemployment. The weak economic environment was evidenced by the continued decline in retail sales and plummeting consumer confidence. Manufacturing data across Europe remained weak; however, economic data suggested that the contraction in industrial output had stabilised somewhat and was no longer accelerating, as de-stocking by many companies largely depleted excess inventories. Against this background, the ECB has continued to lower borrowing costs, cutting interest rates by 0.5% to 2.0% in January. In addition, Standard & Poor's (S&P) downgraded some countries in the eurozone, including Spain and Ireland. S&P downgraded Spain's long-term sovereign debt due to its deteriorating public finances.

UK

Whilst it can now be taken as read that we are facing a severe UK recession, equity investors continue to grapple with the possibility that the economic stimulus currently being applied may or may not work. This uncertainty about the potential effectiveness of policy has kept stockmarkets volatile in recent weeks, particularly given the market's concerns that the UK banking sector will need to be fully nationalised. Economic data in the UK has continued to weaken. In particular, GDP for the fourth quarter of 2008 declined by 1.5% quarter-on-quarter. This was the largest decline since 1980 and was significantly greater than forecast. In addition, the UK labour market continued to deteriorate with the rate of unemployment accelerating. The Bank of England cut interest rates by 0.5% to 1.5% in January.

Japan

The downward trend of global stockmarkets resumed in January, with the Japanese market down sharply in yen terms. Global profit warnings, layoff announcements and dismal economic data have come thick and fast. Bad news from around the world, combined with awful domestic economic data and a poor start to the earnings season depressed the Japanese market. Industrial production fell in December by -20.6% year-on-year and exports suffered the steepest fall since 1980, declining by 35% year-on-year, as the reverberating impact of the collapse in global demand finally took its toll. The government and central bank have announced a number of stimulus measures, including a job creation scheme and a plan to purchase equity stakes in distressed businesses, but these moves had only a limited effect on investor sentiment.

Asia (ex Japan)

Asian stockmarkets gave up some of the previous month's gains in January, as recessionary fears resurfaced following a raft of dismal economic and company news flow. Asian equity markets traded mostly in tandem with regional peers and took direction from US market performance. The slew of negative news flow continued in January, with disappointing corporate earnings announcements and record job losses overshadowing the mega financial stimulus package unveiled in the US. Furthermore, disappointing economic numbers released dampened sentiment, with major economies such as China and Singapore posting annual year-on-year real GDP growth figures of 6.8% and -3.7% respectively for the fourth quarter of 2008. Hong Kong, India and the Philippines saw the best relative performance in the region during the month, whereas Australia, Taiwan and China were the weakest performers.

Emerging Markets

Emerging equity markets fell sharply over the month. This occurred against a background of weakness in global stockmarkets, due to investor concerns about the prospects for the world's largest economy, the US. Turkey delivered the weakest returns, with this market particularly vulnerable to increased investor risk aversion. In addition, the MSCI China index underperformed by a wide margin. The People's Bank of China continued with its policy of monetary tightening, while data was released showing GDP growth slowing marginally to a still impressive rate of 11.2% year-on-year in the fourth quarter. The energy-dominated Russian market was also among the weakest performers. Data was released showing continuing consumer price inflation in Russia.

Global Bonds

The global economic downturn has become more unified with many countries now in recession. Economic data releases remained weak, with business sentiment and consumer confidence data continuing to fall and unemployment figures rising. In addition, inflation is decelerating at an alarming rate. While the Federal Reserve has no room to lower interest rates (it cut borrowing costs to a range of 0 and 0.25% in December), elsewhere, global interest rates were cut further. Corporate bonds continued their tentative recovery, posting positive returns, with lower rated bonds performing extremely well. Credit outperformed government bonds, which struggled somewhat due to concerns over increasing supply and also speculation around the potential for a US bank recapitalisation plan.

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

	1 month			YTD		
Equities (MSCI)	**EUR**	**USD**	**GBP**	**EUR**	**USD**	**GBP**
World Index	-0.99	-8.73	-8.98	-0.99	-8.73	-8.98
World Value Index	-3.71	-11.23	-11.48	-3.71	-11.23	-11.48
World Growth Index	1.68	-6.27	-6.52	1.68	-6.27	-6.52
World Smaller Companies Index	0.21	-7.63	-7.88	0.21	-7.63	-7.88
US	-0.36	-8.15	-8.40	-0.36	-8.15	-8.40
Eurozone	-6.74	-14.03	-14.26	-6.74	-14.03	-14.26
UK	1.73	-6.22	-6.48	1.73	-6.22	-6.48
Japan	1.11	-6.80	-7.05	1.11	-6.80	-7.05
Emerging Markets	1.52	-6.42	-6.67	1.52	-6.42	-6.67
Asia ex Japan	2.62	-5.40	-5.66	2.62	-5.40	-5.66

	1 month			YTD		
Government bonds (JP Morgan)	**EUR**	**USD**	**GBP**	**EUR**	**USD**	**GBP**
US	5.08	-3.13	-3.39	5.08	-3.13	-3.39
UK	3.65	-4.45	-4.71	3.65	-4.45	-4.71
Japan	8.81	0.30	0.03	8.81	0.30	0.03
Germany	-1.08	-8.81	-9.06	-1.08	-8.81	-9.06

Source: Datastream to 31 January 2009

Important Information: