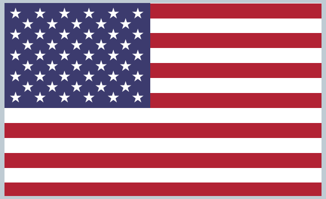
GLOBAL SNAPSHOT - January 2017

Henderson
GLOBAL INVESTORS

Global economy strong but money trends cooling



Highlights:

US

Core inflation stable

Rising energy costs are boosting headline inflation but the Federal Reserve's preferred core measure remains below its 2% target, at 1.6% in November, unchanged from January. A pick-up is needed to warrant the three quarter-point rate hikes in 2017 suggested by Fed forecasts.

China

Profits rebounding

Solid economic growth and a pick-up in producer prices drove a 14.5% rise in industrial profits in the year to November. The profits turnaround has contributed to a recovery in private investment, which rose an annual 4.9% in November after contracting in mid-2016.

Japan

Export-led growth

Industrial output surged 5.5% in the six months to November, boosted by strong exports. Global acceleration and a weaker yen promise further strength but will the Trump administration demand an end to the Bank of Japan's bond yield/currency suppression?

Eurozone

Solid economy

GDP rose by 1.7% in the year to Q3 2016, equal to the increase in the US and above "potential" growth of 1.0% (EU Commission). The unemployment rate fell from 10.6% to 9.8% in the year to October – a larger decline than in the US, Japan and the UK.

UK

Old Lady too loose

The Bank of England has maintained lower rates and pushed on with QE despite much stronger-than-expected economic data and a rise in annual broad money growth to 7.8% — an eight-year high. Excessively loose monetary policy risks sustaining higher inflation due to currency weakness.

Emerging markets

Inflation convergence

Average consumer price inflation across the E7[1] large emerging economies fell significantly during 2016, reflecting earlier economic weakness and currency recoveries. With Group of Seven (G7[1]) inflation rising, the E7/G7 gap dropped to a two-year low.

Trends to watch:

US

Falling money growth

Economic strength in late 2016 was signalled by faster monetary expansion earlier in the year. Money measures have slowed since the summer, suggesting that the economy will lose momentum from spring 2017. Hoped-for fiscal stimulus may not arrive until late 2017/2018.

China

Tighter monetary policy

Strong money growth has revived the economy but has contributed to housing speculation and currency weakness, and is now feeding through to a pick-up in inflation. A rate hike in early 2017 would surprise markets and could relieve downward pressure on the renminbi.

Japan

Kuroda climbdown?

Rising US rates may scupper the Bank of Japan's attempt to taper QE while targeting a zero 10-year yield. Governor Kuroda may use better economic news as a pretext to raise the yield peg in early 2017 but this may intensify market speculation of an eventual abandonment.

Eurozone

Capital account relief?

A current account surplus of over 3% of GDP in 2016 was swamped by a record capital outflow. With money trends signalling respectable economic prospects, and the ECB set to reduce QE, the capital exodus may slow in 2017, lifting the euro — assuming no political shocks.

UK

Stronger wage pressures

The Bank of England expects wages to lag accelerating prices, undercutting consumer spending. This happened in 2011 but the labor market is much tighter now, while minimum wage hikes are pushing up low-end earnings. A wages shock could trigger an early rate rise.

Emerging markets

Indian monetary madness

The Indian authorities cancelled banknotes accounting for 86% of currency in circulation without ensuring a sufficient supply of replacement paper, resulting in a 28% plunge in the M1 money stock. Expect major and lasting economic fall-out unless M1 recovers swiftly.

[1] E7 = Brazil, Russia, India, China, Mexico, Korea, Taiwan. G7= Canada, France, Germany, Italy, Japan, UK, US.

Source: Henderson Global Investors of 12/31/16. These comments reflect the views of Simon Ward, Henderson Chief Economist and should not be construed as investment advice. These views may differ from those of other Henderson fund managers.

Key market data

Equity market returns for Q4 2016 (%)	Local	Sterling	Dollar
US S&P 500	3.3	8.5	3.3
Japan: Topix[1]	14.8	4.7	-0.5
Euro area: Euro Stoxx	7.7	5.9	0.7
UK: FTSE All Share	3.1	3.1	-1.9
MCSI Far East ex Japan (US$)	-	-1.7	-6.5
MSCI Emerging Markets (US$)	-	0.3	-4.6

Source: Thomson Reuters Datastream, Henderson Global Investors, index price returns, as of 12/31/16.
[1]Note: The TOPIX Index Value and the TOPIX Marks are subject to the proprietary rights owned by the Tokyo Stock Exchange, Inc. and the Tokyo Stock Exchange, Inc. owns all rights and know-how relating to the TOPIX such as calculation, publication and use of the TOPIX Index Value and relating to the TOPIX Marks. No Product is in any way sponsored, endorsed or promoted by the Tokyo Stock Exchange.

Consensus GDP growth forecasts (%)	2016	2017	2018
US	1.6	2.2	2.3
Japan	0.9	1.0	0.9
Euro area	1.6	1.4	1.5
UK	2.0	1.2	1.3
Asia ex Japan	5.7	5.8	5.7
BRICs	4.7	5.5	5.5
World	3.1	3.2	3.4

Source: Bloomberg, economic forecasts, as of 1/3/17. GDP = real gross domestic product.
Constituents:
Euro area: EU member states using euro currency (currently 19)
Asia: China, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, Vietnam
BRICs: Brazil, Russia, India, China
World: G10, Eastern Europe & Africa, Asia, Latin America, Middle East

Bonds	31 December 2016 yield	Q4 return %
US 10-year Treasury	2.45	-6.46
Japan 10-year government bonds	0.05	-1.14
Germany 10-year Bund	0.11	-2.81
UK 10-year Gilts	1.24	-4.35
Corporate bonds: (Barclays Global Aggregate Corporate Index $)	-	-3.26
High Yield: (Merrill Lynch Global High Yield $)	-	0.45
Emerging market debt (JPM Global Emerging Markets Debt $)	-	-4.21

Source: Thomson Reuters Datastream, Henderson Global Investors, as of 12/31/16.

	Forecast P/E		Forecast EPS growth	
	2016	2017	2016	2017
World	17.9	15.8	1.8	12.9
Developed	18.6	16.5	0.9	12.8
Emerging markets	13.3	11.8	8.3	13.0
UK	17.4	14.3	-4.7	21.1
US	19.7	17.6	1.5	12.1
Eurozone	16.1	14.3	0.8	12.0
Japan	18.5	16.4	-3.5	12.4

Source: Thomson Reuters Datastream, Henderson Global Investors' calculations, and IBES (Institutional Brokers' Estimates System) estimates for MSCI Indices as of 12/31/16. Forecast EPS (earnings per share), Forecast P/E (price-to-earnings ratio)..

Consensus inflation forecasts (CPI %)	2016	2017	2018
US	1.3	2.3	2.4
Japan	-0.2	0.6	1.0
Euro area	0.2	1.3	1.5
UK	0.6	2.4	2.5
Asia ex Japan	1.9	2.6	2.7
BRICs	3.3	3.1	3.0
World	2.9	3.2	3.2

Source: Bloomberg, economic forecasts, as of 1/3/17. CPI = consumer price index.

Currencies and commodities	31 December 2016	Q4 return %
Yen/$	116.64	-
Yen/£	144.12	-
$/£	1.24	-
Euro/$	0.95	-
Euro/£	1.17	-
S&P GSCI Total Return Index $	-	5.76
Brent oil ($/barrel)	-	15.81
Gold bullion ($/Troy oz)	-	-12.41

Source: Thomson Reuters Datastream, Henderson Global Investors, as of 12/31/16.

Multi-Asset Team: asset allocation dashboard

BONDS

	Outlook	Comments
Global corporate	◆	May benefit in the short term as duration (interest-rate sensitive) assets appear oversold, but the improving growth outlook is a major headwind.
UK gilts	◆	Duration assets look oversold in the short term; however, further improvements in economic data are a key vulnerability over the coming quarter.
Global sovereign	▼	Duration assets look oversold in the short term; however, improving US data may spur faster US rate hikes, and European inflation appears under-priced.
Emerging market debt	▼	Risk aversion in emerging markets post the US election remains elevated; the strong dollar may begin to affect dollar-issuers; higher global interest rates are also an issue.
High yield	◆	Spreads (the yields available over corresponding government bonds) are approaching record narrows, but should benefit from an improving growth outlook and stabilization in commodity markets.

EQUITIES

	Outlook	Comments
UK	◆	Benefits from weaker sterling are largely offset by 'Brexit' uncertainties. Yield, however, remains attractive.
Europe	▲	Dominated by cyclical stocks that will likely benefit from a weaker currency and higher global interest rates.
US	◆	Plenty of growth momentum but an extremely popular trade. Higher US interest rates and an appreciating dollar are tightening financial conditions materially.
Japan	▲	Dominated by cyclical stocks that will likely benefit from a weaker currency and higher global interest rates.
Asia	◆	A strong US dollar and waning Chinese mini-economic cycle remain headwinds. Trump's protectionist trade rhetoric is also a concern.
EM	▼	A strong US dollar and post-US election risk aversion remain key barriers.

CURRENCIES

	Outlook	Comments
£/$	▼	The potential for fluctuations between now and the triggering of Article 50 is high. An inflexible Eurozone (no tailored 'Brexit') is our base case scenario and would be negative for sterling.
£/€	◆	Political risks are likely to weigh on both currencies.
£/¥	◆	The Bank of Japan's yield curve targeting policy (controlling 10-year government bond yields) is likely to reinforce yen weakness; however, political news flow remains a major risk for sterling.

ALTERNATIVES

	Outlook	Comments
Property	◆	Appears expensive and typically underperforms in a rising interest rate environment. However, yield remains higher than many asset classes.
Gold	◆	Has stabilized alongside bonds. Most key macroeconomic drivers remain unfavorable, but gold retains its useful status as a hedge against outside risks.
Oil	◆	Appears expensive: it is at the top of its recent trading range. That said, it is likely to be supported by the recent OPEC[1] deal.

Positive ▲ Neutral ◆ Negative ▼

Source: Henderson Global Investors as of 12/31/16. These comments reflect the views of Henderson's Multi-Asset Team and should not be construed as investment advice. These views may differ from those of other Henderson fund managers.[1] OPEC: Organization for Petroleum Exporting Countries.