GLOBAL SNAPSHOT

July 2015

Global economic/liquidity backdrop benign, supporting equities

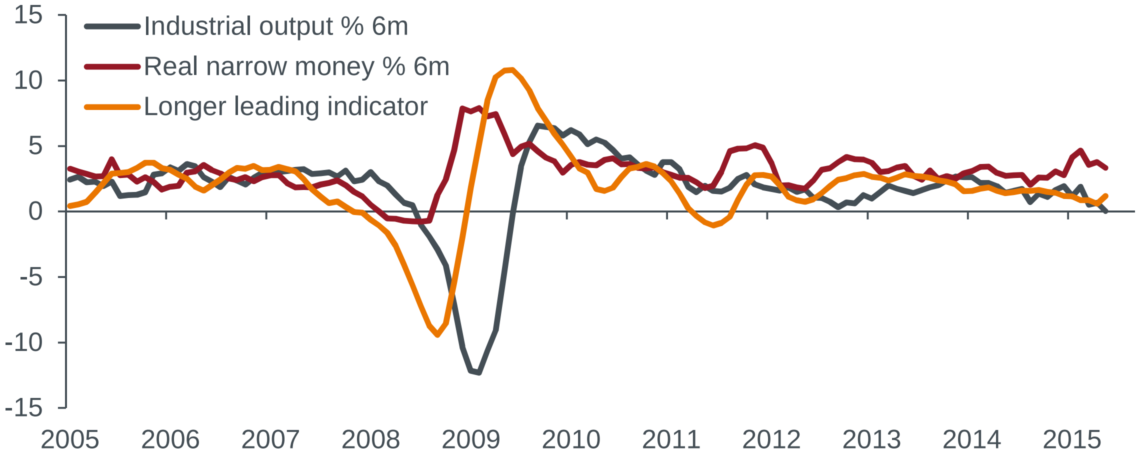
- A Henderson research note published in February suggested that global economic growth would pull back into mid-2015 before strengthening in the second half of the year. The pull-back has been sharper than expected: six-month growth of industrial output in the G7 developed economies and seven large emerging economies (the "'E7") fell to zero in May – see chart.

- The real or inflation-adjusted money stock leads the economy, typically by about nine months. The recent economic slowdown was signalled by a decline in six-month growth of G7 plus E7 real narrow money in the third quarter of 2014. Real money growth, however, rebounded in late 2014/early 2015, suggesting stronger economic performance during the second half.

- Other leading indicators have improved: a composite G7 plus E7 measure derived from the OECD's country leading indicator indices recovered significantly in May. The lower oil price, meanwhile, may start to have a positive economic impact during the second half. Another previous note examined changes in global economic growth after five previous large oil price falls: there was no clear pattern after six months but growth was consistently higher a year later.

- An important gauge of liquidity availability for markets is the gap between the growth rates of real money and industrial output. An investment strategy of buying world equities after this gap turns positive but moving to cash when it falls sharply or becomes negative would have outperformed buy and hold by 2.7% per annum over the last 45 years. Real money growth has moderated since February but a simultaneous economic slowdown has maintained a substantial "excess liquidity" cushion.

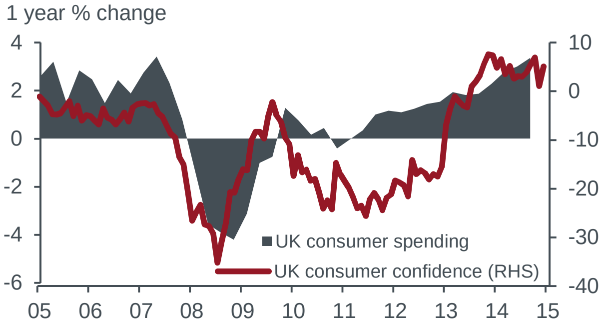
G7 + E7 output, real money & leading indicator



Source: Thomson Reuters Datastream, Henderson Global Investors. Data as at 10 July 2015.

Simon Ward, Chief Economist

UK consumers are feeling upbeat

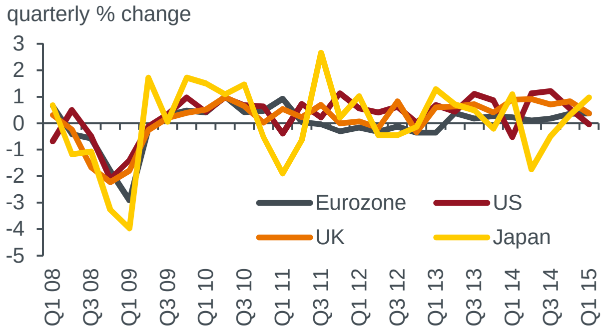


Source: Thomson Reuters Datastream, European Commission Consumer Survey, UK Consumer Confidence Indicator, monthly data to June 2015. Consumer spending 1 year % change, quarterly data to Q1 2015.

Consensus GDP growth estimates (%)	2015	2016	2017
US	2.3	2.8	2.7
Japan	1.0	1.4	0.7
Euro area	1.5	1.7	1.5
UK	2.5	2.4	2.4
Asia	6.0	6.2	6.1
BRICs	4.9	5.7	5.7
World	3.1	3.6	3.4

Source: Bloomberg, economic forecasts, as at 14 July 2015. Forecast GDP = real gross domestic product.

GDP lift for eurozone and Japan



Source: Thomson Reuters Datastream, Eurostat, US Bureau of Economic Analysis, Japan Cabinet Office, Office for National Statistics, UK. Expenditure approach, gross domestic product, total at market prices. Quarterly data to Q1 2015.

Consensus inflation estimates (CPI %)	2015	2016	2017
US	0.3	2.2	2.2
Japan	0.9	1.2	2.0
Euro area	0.2	1.3	1.5
UK	0.3	1.6	1.9
Asia	1.7	2.7	2.9
BRICs	3.6	3.4	3.5
World	3.1	3.4	3.6

Source: Bloomberg, economic forecasts, as at 14 July 2015. Forecast CPI = consumer price index.

- Noise from the Greek debt debacle drowned out some better economic news in the eurozone, as first quarter GDP rose 0.4% from the previous quarter. The weaker euro has yet to boost exports, however, as export growth slowed to 0.6%. Markit's eurozone composite purchasing managers' index (PMI) rose to 54.2 in June – its highest level in four years (>50 indicates growth, <50 contraction). UK first quarter GDP growth was revised up to 0.4%, but this compares to 0.8% in the previous quarter. There was good news in the UK labour market as between February and April wages rose by an annualised 2.7% and unemployment fell by 43,000 on the month. Both retail sales and consumer confidence received a post-election boost in June.
- In the US, a healthy 223,000 jobs were added in June, the unemployment rate fell from 5.5% in May to 5.3%, and the University of Michigan consumer sentiment index moved higher. However, industrial production unexpectedly fell 0.2% in May as manufacturing and mining activity weakened.
- China's benchmark interest rate was cut by 25 basis points and the reserve requirement ratio was lowered in a bid to reassure investors after the Shanghai Composite Index posted sharp declines. The June HSBC/Markit Manufacturing PMI rose to 49.4 − still weak but suggesting a modest revival in Chinese industrial production growth; June's official services PMI was more positive, rising to 53.8 from 53.2 in May. Japan's first quarter GDP growth was revised up sharply from 0.6% to 1%, although more recent data signals a loss of momentum.

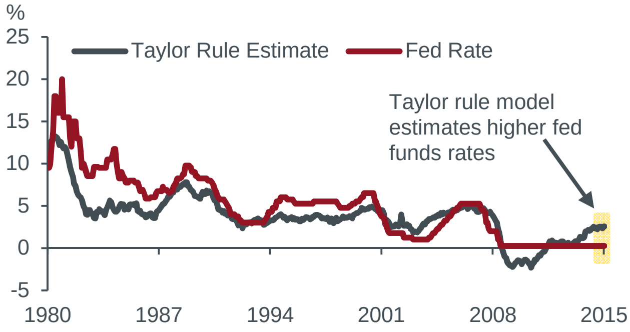
Constituents:

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 and currency

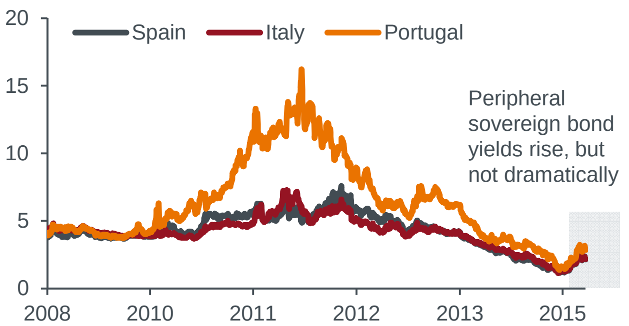
Global Snapshot July 2015

Eyes on the Fed



Source: Bloomberg, Henderson Global Investors, as at 13 July 2015.

Greece impact: so far, more a ripple than a wave



Source: Thomson Reuters Datastream, Henderson Global Investors, redemption yields on 10-year benchmark bonds of Spain, Italy and Portugal, daily data, as at 10 July 2015.

10-year bond yields (%)	30 June 2015	2015*	2016*
US	2.33	↑	↑
Japan	0.44	↑	↑
Germany	0.77	↑	↑
UK	2.03	↑	↑
Currencies	**30 June 2015**	**2015***	**2016***
Yen/$	122.50	→	→
$/Euro	1.11	↓	↓
Euro/£	1.41	→	→
$/£	1.57	↓	↓

Note: Up arrow indicates a higher currency rate (currency in the numerator depreciates, except for $/Euro, which is quoted as the number of dollars per euro, hence a lower number denotes dollar strength) and vice versa.

Emerging markets and commodities	2015*	2016*
G4/EMFX	↓	→
Oil	→	→
Base metals	→	→
Gold	→	→

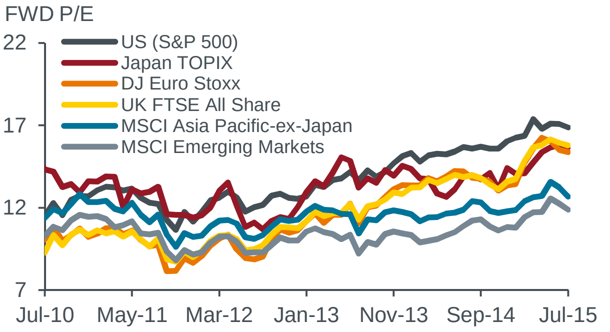
Source: Thomson Reuters Datastream, Henderson Global Investors, as at 30 June 2015. EMFX – Emerging Markets Foreign Currency. G4/EMFX ratio: up arrow indicates a strengthening in the EM currencies and vice versa. *Henderson Global Investors' view. For arrow definitions please see below.

- June was a poor month for bond markets with all broad sectors delivering negative returns. In a challenging month for most asset classes, government bonds declined as yields drifted higher on better economic data from the US, UK and core Europe. In the US, improvements in the economy increased expectations that the Federal Reserve (Fed) may hike interest rates in the autumn.
- Higher government bond yields dragged on investment grade corporate bond performance, leading to negative total returns. This was further exacerbated by news flow from Greece contributing to wider credit spreads. Increased corporate bond supply, due to increasing levels of merger and acquisition activity and US companies issuing in euro markets to take advantage of lower costs of borrowing, further added to a bad month for corporate bonds.
- US Treasuries and German bunds were down between 1% and 2%, even with the sharp rally following the last weekend of the month when the Greek government called a referendum on the bailout package. Italian and Spanish 10-year government bonds ended down around 2.5% on the month. The weakness filtered through to corporate bond (credit) markets with both euro and US dollar denominated investment grade credit down approximately 2% on a total return basis. High yield total returns were slightly better given their lower sensitivity to interest rate changes.
- Volatility continued to rise in bond markets with the MOVE index rising 12% in the month, though remarkably currency volatility was subdued (CVIX index up just 4%) as the euro was generally stable despite the Greek crisis.

↑↑ Strong upward trend, ↑ Upward trend, → Little change, ↓ Downward trend, ↓↓ Strong downward trend

Equities

12-month price-to-forward earnings ratio (P/E)

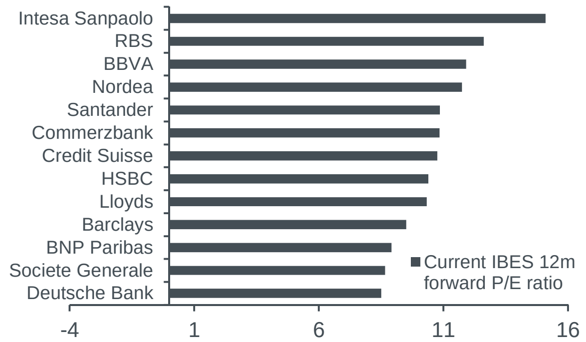


Source: Thomson Reuters Datastream, Henderson Global Investors, monthly data from 1 July 2010 to 1 July 2015.

	P/E*		EPS growth*	
	2015	2016	2015	2016
Japan	16.1	14.8	18.1	9.1
UK	16.4	14.7	-10.7	12.2
Eurozone	16.3	14.5	13.3	12.5
US	18.5	16.4	1.1	12.8
GEM	12.6	11.2	5.1	12.3
Developed	17.6	15.8	1.9	12.0
Global	16.9	15.1	2.3	12.1

Source: Thomson Reuters Datastream, Henderson Global Investors' calculations, and IBES estimates for MSCI Indices as at 30 June 2015. GEM: global emerging markets, EPS: earnings per share. *Forecast.

European banks' valuations well above 2011 lows



Source: Thomson Reuters Datastream, Henderson Global Investors, IBES 12m forward P/E ratios, as at 7 July 2015.

Equity market returns for June 2015 (%)	Local	Sterling	Dollar
US: S&P 500	-2.1	-5.0	-2.1
Japan: Topix	-2.6	-3.9	-1.3
Euro-area: Euro Stoxx	-4.1	-5.4	-2.8
UK: FTSE All-Share	-6.0	-6.0	-3.1
MSCI Far East ex Japan (US$)		-7.6	-4.8
MSCI Emerging Markets (US$)		-6.1	-3.2

Source: Thomson Reuters Datastream, Henderson Global Investors, index price returns, as at 30 June 2015.

- Fuelled by an escalation of the Greek debt crisis, volatility returned to global stock markets. Most developed market equities ended the month down, the MSCI World Total Return Index falling 0.3% in dollar terms. Emerging market equities were dented by the sell-off in Chinese shares.
- While negotiations between Greece and its creditors seemed to be drifting towards a resolution earlier in the month, talks broke down culminating in a Greek referendum being called on the troika's bailout proposals. Indiscriminate selling hit all European sectors, although it was interesting to note that financials were not the worst performers. Many have reduced their exposure to Greek debt since the European debt crisis began, and bank valuations are well above their 2011 lows. UK equities were not immune to news flow from Europe, suffering their worst month in three years.
- In the US, the S&P 500 Index fell 2.1% in dollar terms. Weak consumer data and softer-than-expected inflation figures weighed on sentiment and prompted a weakening of the dollar towards month end.
- China's year-long rally came to an abrupt halt as equities sold off at the end of the market's most volatile month since 2008. The People's Bank of China responded to a continuation of disappointing key indicators with a loosening of monetary policy and regulatory measures. In Japan, the Topix posted mild losses following several consecutive months of gains, although smaller companies bucked the trend.