



Are we there yet?



MARKETS SUMMIT

Tuesday 16 February 2010

Theme 3

Global equity markets



MARKETS SUMMIT

Tuesday 16 February 2010

Global equity markets

Martin Conlon

Head of Australian Equities, Schroders, Australia

Simon Flood

CIO, Lion Global Investors, Singapore

Hamish Douglass

Chairman, Magellan Financial Group, Australia

Kurt Umbarger

Portfolio Specialist, T. Rowe Price, USA

Andrew Clifford

Deputy CIO, Platinum Asset Management, Australia



MARKETS SUMMIT

Tuesday 16 February 2010

Global equity markets

Hamish Douglass

Chairman, Magellan Financial Group



MARKETS SUMMIT

Tuesday 16 February 2010

Global Outlook

Presentation to PortfolioConstruction Markets Summit 2010

Hamish Douglass

Chief Executive Officer and Portfolio Manager



MAGELLAN
ASSET MANAGEMENT LIMITED

Key points

- The Speed of the US Recovery
- “Square Root” recovery thesis remains
- The Elephant in the Room: Real Interest Rates

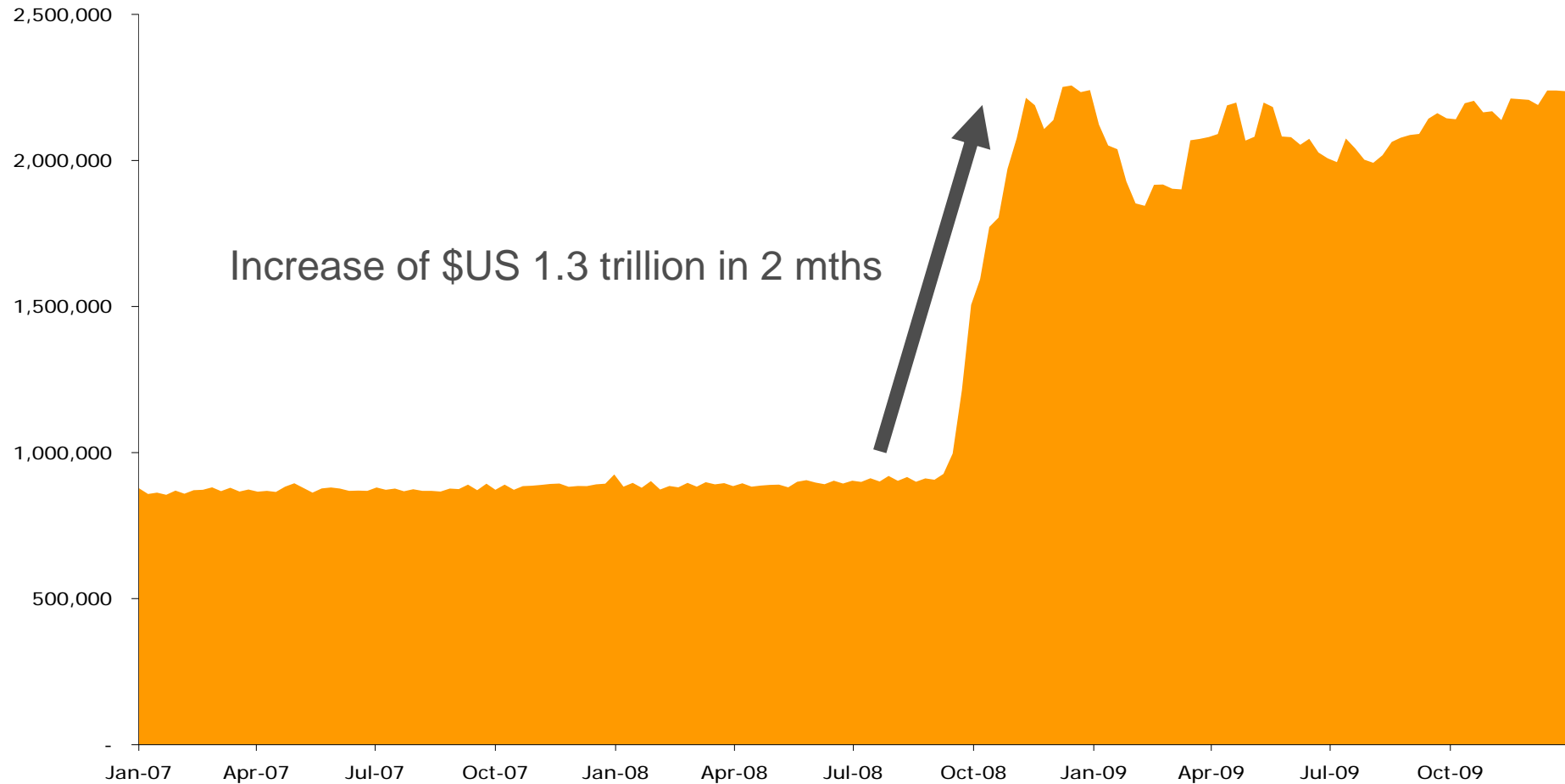
Units in the Magellan Global Fund are issued by Magellan Asset Management Limited (ABN 31 120 593 946, AFS Licence No 304 301). This material has been provided for general information purposes and must not be construed as investment advice. This material has been prepared without taking into account the investment objectives, financial situation or particular needs of any particular person. Investors should consider obtaining professional investment advice tailored to their specific circumstances prior to making any investment decisions and should read the relevant Product Disclosure Statement (PDS) available at www.magellangroup.com.au or by calling 02 8114 1888.



MAGELLAN
ASSET MANAGEMENT LIMITED

Whilst the Fed has been buying assets and printing money...

US Federal Reserve, Total Assets

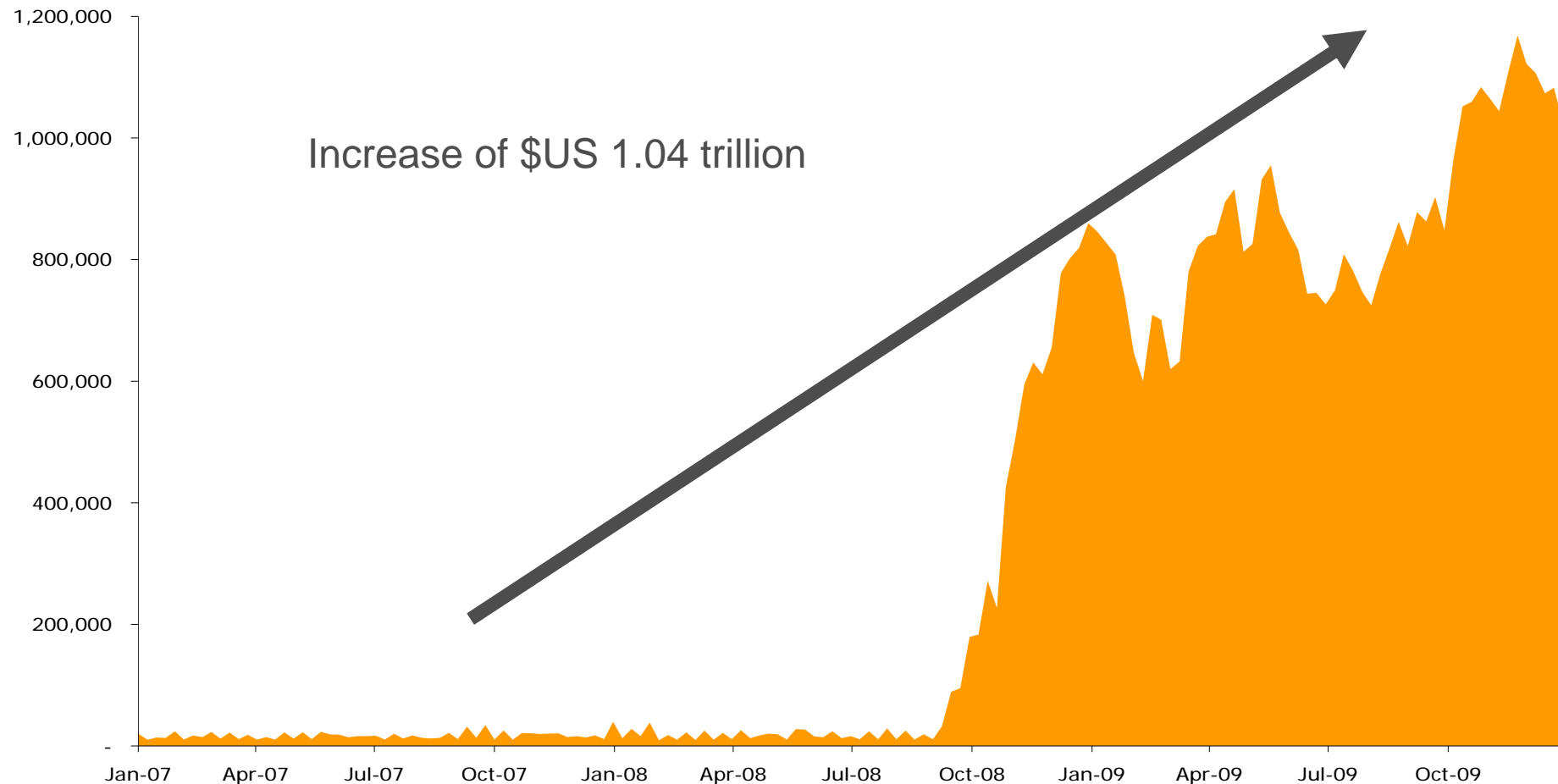


Source: US Federal Reserve Board. Data is in millions of US Dollars.



MAGELLAN
ASSET MANAGEMENT LIMITED

... a large component has been re-deposited
US Federal Reserve, Deposits held by depository institutions



Source: US Federal Reserve Board. Data is in millions of US Dollars.



MAGELLAN
ASSET MANAGEMENT LIMITED

Reasons why we are unlikely to have a "V" shaped recovery

1. The consumer will deleverage by saving more and spending less over the next 10 years
2. Exit strategies for Central banks will dampen economic growth as any exit strategy will push up interest rates
3. The cost of paying back the fiscal stimulus will dampen growth via increased taxes, lower expenditure and higher interest rates
4. Chinese growth is not the panacea for the rest of the world's woes (Chinese GDP only 7.5% of combined GDP of US, Japan and Europe)
5. The elephant in the room...



The Elephant in the Room

Real Interest Rates



MAGELLAN
ASSET MANAGEMENT LIMITED

Massive government borrowing needs...

Forecast Annual Budget Deficits

	Total, Billions of USD		Percentage Of GDP	
	2010	2011	2010	2011
United States	1,550	1,270	10.6%	8.3%
Europe	995	987	5.4%	5.9%
United Kingdom	207	215	9.3%	9.4%
Japan	312	368	8.2%	9.4%
2 YEAR TOTAL	5,904			

Source: Eurostat, National Sources, Bloomberg.
Forecast balances converted into US Dollars using spot exchange rates on 12 February 2010

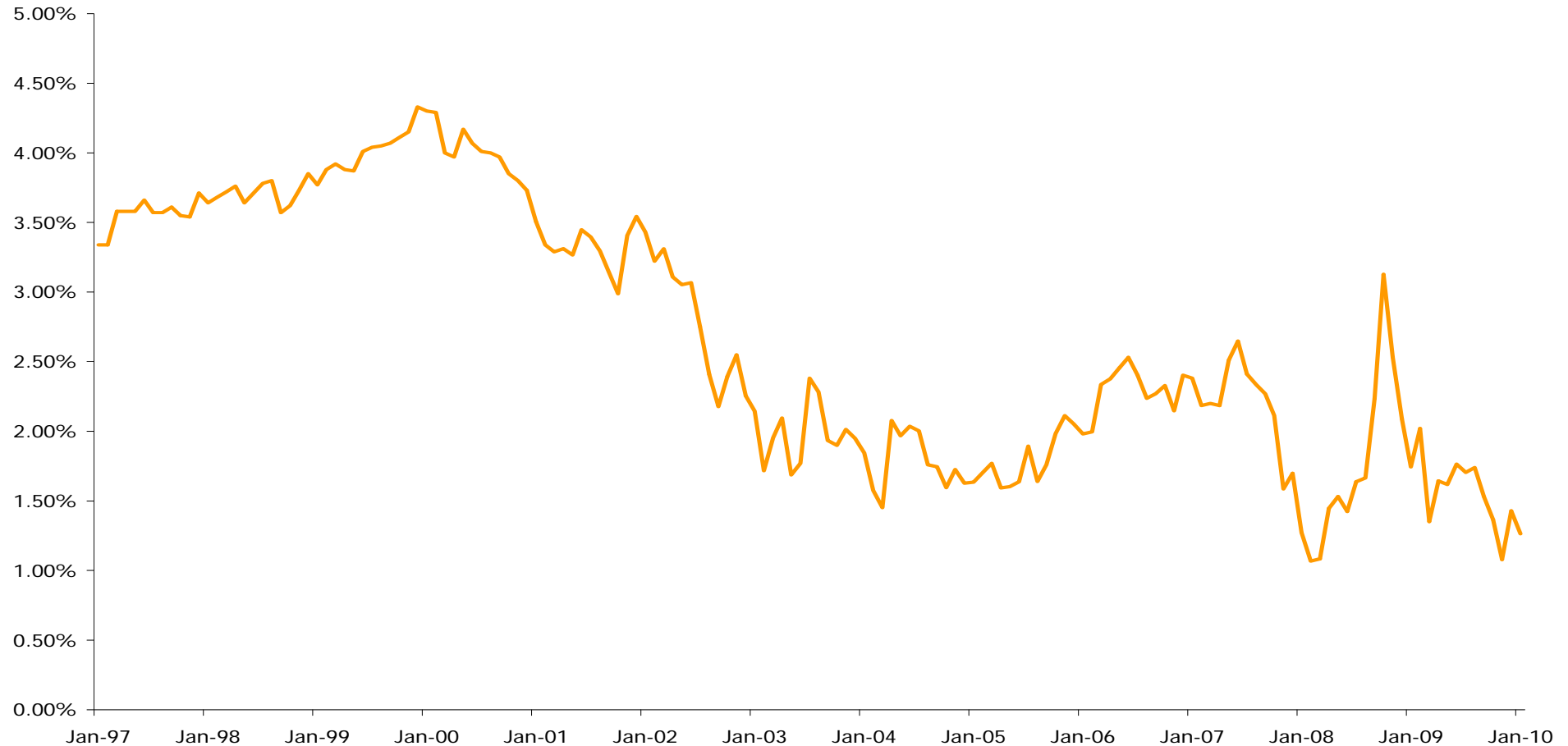
... financed by a limited savings pool

Forecast Current Account Surplus Positions

	Total, Billions of USD	
	2010	2011
China	451	508
Germany	120	140
Japan	106	129
Total, other surplus countries	696	790
2 YEAR TOTAL	2,939	

Source: International Monetary Fund, World Economic Outlook, October 2009

US 10 Year Real Government Bond Yields



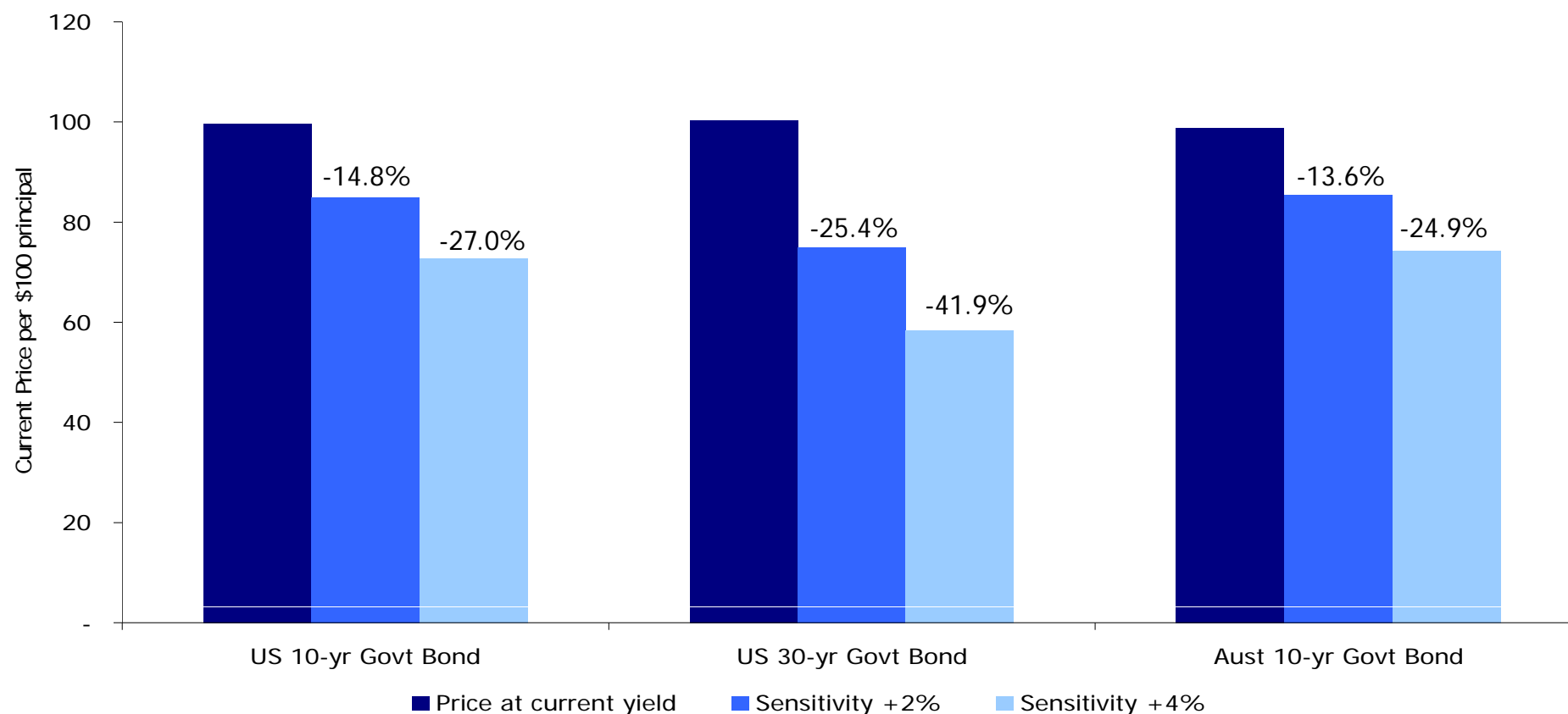
Source: Bloomberg



MAGELLAN
ASSET MANAGEMENT LIMITED

Increasing Real Bond Yields – Impact on Asset Prices

Government Bond Yields, Sensitivity to Changes in Real Yields



Source: Bloomberg, Magellan Asset Management.
Yields as at 15 February 2010



Are we there yet?



MARKETS SUMMIT

Tuesday 16 February 2010