

Three Henderson fund managers give their views on the latest announcements from the financials sector, and the implications for markets and investors

Equities view,

“The weekend will be recognised in the history of financial markets for the coincidence of events of massive scale and the impact this will have on the investment banking industry in particular. The lack of US Federal Reserve fiscal support – and subsequent failure of Lehman Brothers – is a necessary acid test for the resilience of the capitalist model, and the rapid reduction of capacity that is being seen in the investment banking business should ultimately be positive for the re-structuring and long-term profitability of the industry.

AIG, one of the world's largest insurance companies, is in a distress situation. How the market reacts to their future announcements will be critical for the direction of markets in the short-term. Looking more long-term, the critical issue is the massive build-up of funding required by financial institutions, the cost of this funding and the knock-on effects this will have on the wider economy. The Henderson Horizon Financials Fund has no exposure to Lehman and has been significantly reducing market exposure over the past month, on the expectation of turbulence as the issues with the Fannie Mae and Freddie Mac, Lehman, and AIG come to a head and as funding and margin pressures come to the fore through the year-end. Challenging times remain ahead.”

Martin Kinsler manages the Henderson Horizon Global Financials Fund

Fixed income view

“Events in the financial sector are reaching a crescendo of historic proportions. Last Sunday witnessed the nationalisation of Fannie Mae and Freddie Mac, whilst this Sunday we have been greeted with news of Lehman Brothers bankruptcy.

Had Merrill Lynch not been sold to Bank of America overnight we could well have seen another failure in quick succession.

Despite resolution having been achieved on the fate of these two companies more financial concerns hang over the market. The most pressing now is that of the insurer AIG, which is reportedly seeking \$40bn from the US Federal Reserve. The fate of AIG will be the key driver of both credit and equity markets in the near-term with the potential to further destabilise markets.”

Jenna Barnard co-manages the Henderson Strategic Bond and Preference and Bond Funds

Multi-Manager view

“Lehman Brothers fails, Merrill Lynch is taken over, AIG seeks \$40bn cash lifeline. Headlines such as these bear testimony to the continued seriousness of the credit crunch. After the bailing out of Bear Stearns, Fannie Mae and Freddie Mac, it was widely felt that the US would not let a major financial institution fail. Events show this confidence was misplaced.

Sentiment remains poor for equities and for financials in particular. Government bonds continue to look attractive, especially in light of economic data that points to slowing retail sales, increasing unemployment and growing concerns about the outlook for global growth.

Market fears about growth are reasonable. So far financials have borne the brunt of the earnings downgrades, while companies exposed to international growth dynamics have often escaped unscathed. Unfortunately, in the global environment in which we operate, it remains the case that banks remain at the heart of all business, irrespective of industry and geography. In terms of negative newsflow for companies outside of the financials, we may just be at the beginning.

Our defensive Multi-Manager portfolio stance remains in place. Equity exposure continues to be limited, with fixed interest increasing as a result, especially into government bonds. Cash levels remain high and our tactical derivative overlay, which has been a strong source of added value and is of critical importance during times of market stress, remains in place.”

Bill McQuaker manages the Henderson Multi-Manager fund range

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