

# **Report of the Investment Manager**

## **GENERAL INVESTMENT CLIMATE**

### **The Economy**

During the last two years, the American economy has been better than the European economy. This year, however, the roles have reversed: all the good news comes from Europe while the US economy appears to weaken more and more. Just as in the first quarter, the Eurozone keeps on improving. The order intake in the industrial sector is now 10% higher than it was in 2006.

Within Europe, Germany has become the star performer. The first sings of improvement came from the industry, but during the second quarter, we see that the German consumer is finally starting to spend more. From January to March, there was a minor slump (though smaller than expected) due to the VAT increase, but retail expenditures have strongly increased again in April. The German labour market continues to be robust as well, with unemployment at 9.1%, the lowest level in twelve years. The sentiment-driven ZEW (survey of 300 investors and analysts) and IFO (survey of 2000 firms) reports indicate that the expectations on the near future have become slightly less positive.

In the American economical newsflow, the housing market took a prominent role again. Both the NAHB homebuilders-index and number of new house starts are still declining and the number of homes for sale is at a record level. Furthermore, the precarious situation on the mortgage market has not improved, which caused problems for some hedge funds. In an attempt to rescue one of its troubled hedge funds that had invested in low quality mortgages, Bear Stearns had provide an additional \$3.2 billion of capital.

In the industry, on the other hand, most indicators suggest that the American companies are overcoming the mid term dip. In June, the ISM (purchasing managers) index rose to its highest level in 15 months. Furthermore, the labour market situation remains encouraging.

The situation in Japan is difficult to assess. Consumer confidence is high and employment is growing, but this does has not yet translated into an increase in consumer spending or in inflation.

In China, there were some brisk, but short-lived, correction on the overheated stock markets, but from an economical point of view, the country is stilling booming.

The concern about oil prices is rising again. After a decline to around \$50 per barrel during the first quarter, the price of crude oil has risen again to a record level of \$71 per barrel at the end of the second quarter.

### **Money markets and exchange rates**

In the US, the Federal Reserve Bank kept its reference rate unchanged at 5.25%. Only a few months ago, markets were taking into account several rate decreases in the second half of 2007. Today, however, the expected number of number of rate cuts is at zero again. The Fed continues to express its concern about inflation and is therefore unlikely to cut its interest rates.

The European Central Bank increased its benchmark rate with 25 basis points to 4% in June. During the press conference, ECB president Trichet suggest that further rate increases are on the way. The market is expecting another 25 basis point hik in September and already takes into account the possibility of a second increase to 4.50% in December.

The continually increasing long-term interest rates were an important theme in the market during the past months. The European ten-year interest rate increased from 4.15% at the end of the first quarter to 4.63% at the end of June. The American long-term interest rate increased from 4.96% to 5.26% during the same period. The spread between the euro and USD rates has thereby decreased by 19 points.

### Stock Markets

The correction on the stock markets in February and March had already been forgotten at the end of the first quarter and during the second quarter, markets continued their growing trend, although with a somewhat higher volatility. The AEX ended the quarter 38 points higher at 548.21. The AMX madcap index came in far behind with and increase of only 1%.

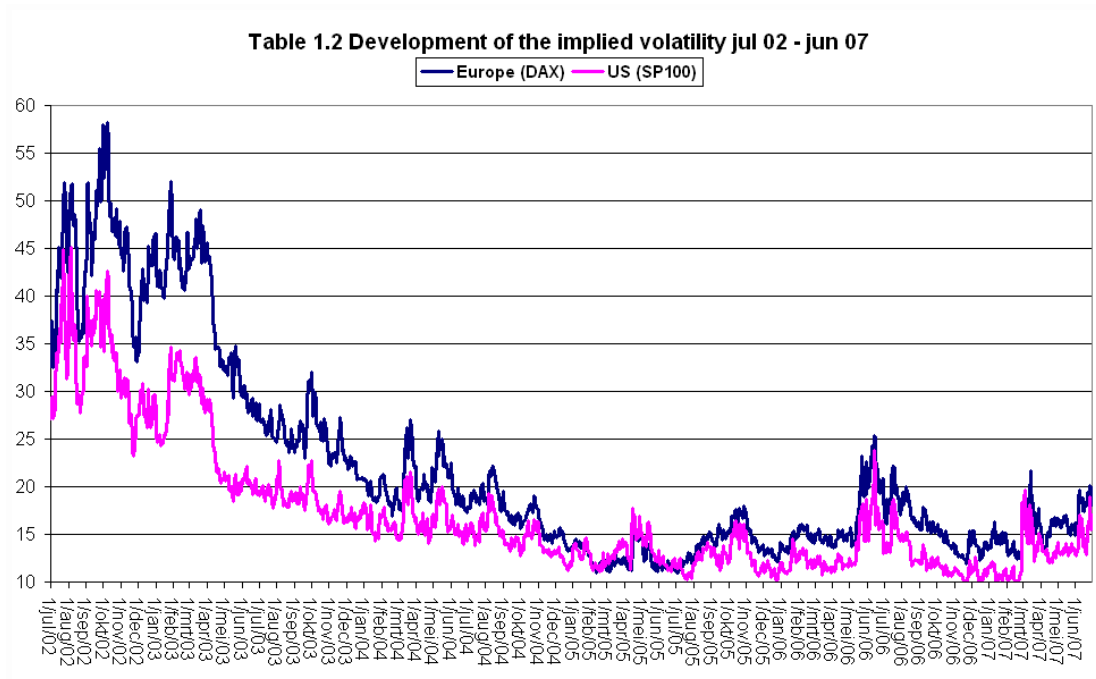
**Table 1.1 - General**

	30/jun/07	31/mrt/07 - 3 mth	29/dec/06 - 6 mth	30/sep/06 - 9 mth	30/jun/06 - 12 mth
AEX	548,21	7,39%	10,67%	13,36%	24,52%
BEL20	4639,4	3,75%	5,72%	13,97%	25,28%
DAX	8007,32	15,76%	21,38%	33,36%	40,89%
EU50	4489,77	7,38%	8,98%	15,14%	23,04%
DJ	13408,60	8,53%	7,59%	14,81%	20,25%
SP500	1503,35	5,81%	6,00%	12,54%	18,36%
Nasdaq	2603,23	7,50%	7,78%	15,27%	19,85%
EUR/USD	1,3542	1,41%	2,60%	6,85%	5,88%
EUR 3 maanden	4,1750	0,2510	0,4500	0,7580	1,1190
EUR 10 jaar	4,6070	0,5200	0,6340	0,8800	0,5590

The DAX has been the best performer of the European indices, soaring 15.76% during the second quarter. This, however, was mainly caused by heavy-weights Siemens and E.On which increased by 33% and 22% respectively. The German madcap index MDAX performed in line with other European exchanges (+8%).

### Implied volatility

Ever since the correction in February/March, the markets have been responding nervously to news. As a consequence, the volatility has increased again to around 20%. The European volatility index (VDAX) stays above its American counterpart (VIX). The high volatility on the Chinese stock markets has also caused some nervousness on the European and American markets.



### Long-term development

De upwards long-term trend (200-day moving average) of the AEX has persisted during the second quarter. From a valuation viewpoint, little has changed since the first quarter. Even though some sectors are relatively expensive, there are no signs yet of a general overvaluation of the market because company profits have increased in the same order of magnitude.

