GENERAL INVESTMENT CLIMATE

The Economy

The financial crisis, which started about a year ago, reached some new climaxes during the month of September. On September the 7th, the American government nationalised Fannie Mae and Freddie Mac, two government supported mortgage finance firms. However, the government was apparently not prepared to save the 150 year old investment bank Lehman Brothers that had to file for Chapter 11 on September 14th, thus creating the biggest bankruptcy in U.S. history. Following this event, the interbank money market abruptly reached a near complete standstill. The trust between banks completely disappeared, and they refused to place money between them. This caused big problems for those banks that rely strongly on money market financing.
When AIG, one of the largest insurance companies in the world, shortly afterwards ran into troubled waters due to a number of downward rating changes, the government immediately took action by massively injecting capital in this company, effectively nationalising it.
Other victims include Merrill Lynch (taken over by Bank of America), Washington Mutual (partially taken over by JPMorgan Chase) and Wachovia (taken over by Wells Fargo). In addition to this the American government is working on a $700 billion rescue plan to buy the so-called toxic assets.

The economic news from the US isn't very positive either. The housing market keeps deteriorating at a high tempo; sales volumes of both new and existing houses kept on falling, as did housing prices. The economic growth expectations for the second quarter were corrected downwards. Negative GDP growth figure is expected for the second half of the year. The orders for durable goods fell 4.5% in August, possibly due to a decline in credit supply by the banks. Consumer spending in real terms still shows a modest growth, but net available consumer income fell 1.7%. Second quarter tax reimbursements did not bring relief, but were largely absorbed by higher energy and food prices.

In the UK Bradford & Bingley was nationalized and Lloyds TSB had to save its competitor HBOS. On the continent it was mainly Fortis that was put under pressure; after its share price was falling sharply during several days, serious fear arose about a run on the bank. The Belgian, Dutch and Luxemburg governments intervened by injecting capital in Fortis' banking subsidiaries. The next day, the same happened to Dexia. The central banks try to guarantee liquidity by pumping large amounts of money in the system. Nevertheless, restoring confidence between the banks will be a slow process.

In Europe the macro-economic figures also show more and more signs of weakness. Notably, the sentiment-driven indicators are in negative territory. The Ifo-index, which measures the expectations of German entrepreneurs, fell sharply in both August and July. The expectations index has now reached a level comparable with the level after 9/11. The climate amongst the Dutch entrepreneurs also capsized during the month of September. Producer confidence dropped from 4.9 to -0.5 in September, the biggest fall since the start of the survey in 1984. Although the employment is still rising, and a historic low unemployment, the German consumer spends less.

The general rise of commodity and energy prices came to an end during the past quarter. Oil prices, which had soared mainly through speculation, fell back from $140 to levels around $100 per barrel.

Money markets and exchange rates

European and American central banks kept their basic interest rates unchanged during the third quarter, at 4.25% and 2% respectively. The central banks preferred to pump money in the financial system in a different way. However, one does expect the ECB to cut interest rates again during the next months, as inflation pressure seems to fade away.

Short-term interbank interest rates (in so far as the published LIBOR rates are still reliable) rose sharply during the second half of September. The spread with the official ECB interest rates has reached an exceptionally high level. On September the 30th, the 3-month interbank rates were 5.28% in euro and 3.99% in dollar respectively. Due to the immense demand for government paper, the return on 3-month T-Bills even turned negative briefly, which illustrates the turmoil at the money markets.

After a downward trend of many years, the US$ stabilized at a trading range of 1.55-1.60 during the second quarter. At the beginning of august, the downward trend was broken, and the dollar started to climb against the euro, finishing the third quarter at 1.4092.

Stock Markets

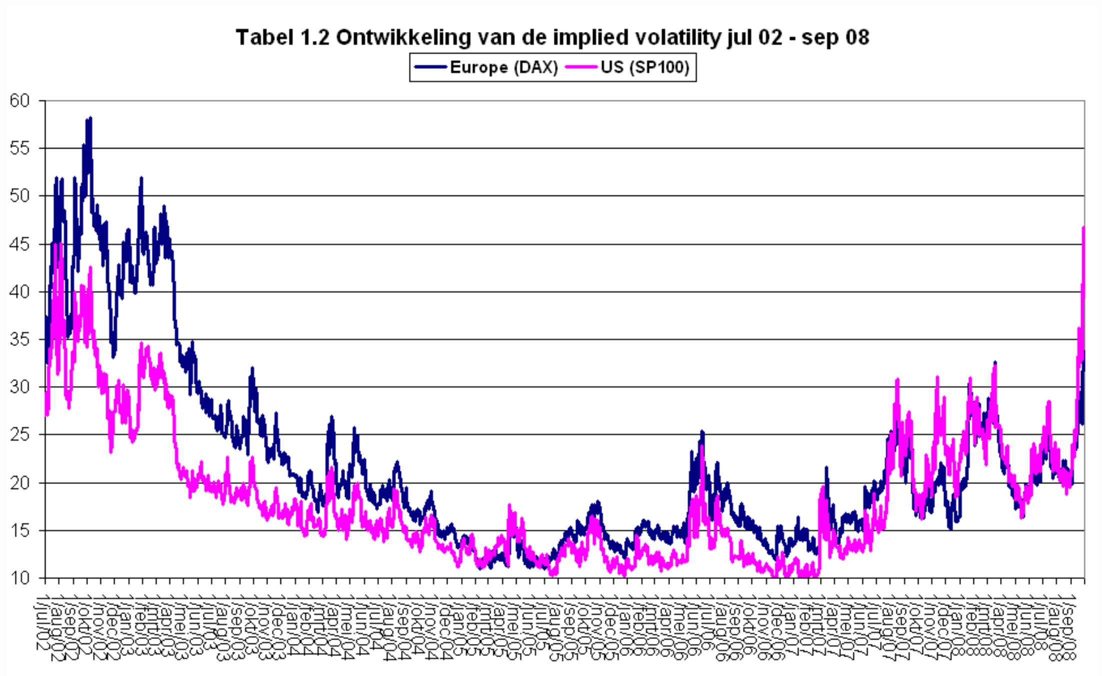
Table 1.1 - General

	30/sep/08	30/jun/08 - 3 mth	31/mrt/08 - 6 mth	31/dec/07 - 9 mth	30/sep/07 - 12 mth
AEX	331,45	-22,18%	-25,08%	-35,74%	-38,73%
BEL20	2672,2	-14,26%	-26,97%	-34,19%	-37,20%
DAX	5831,02	-9,15%	-10,77%	-27,72%	-25,83%
EU50	3038,2	-9,38%	-16,26%	-30,95%	-30,66%
DJ	10850,70	-4,40%	-11,52%	-18,20%	-21,91%
SP500	1166,36	-8,88%	-11,82%	-20,57%	-23,61%
Nasdaq	2091,88	-8,77%	-8,21%	-21,13%	-22,57%
EUR/USD	1,4093	-10,55%	-10,74%	-3,41%	-1,22%
EUR 3 months	5,2770	0,3300	0,5500	0,5930	0,4850
EUR 10 year	4,3450	-0,4660	0,2220	-0,0620	-0,0740

The stock markets on both sides of the ocean had a particularly bad third quarter of 2008. Europe was hit hardest, despite the fact that the problems originated in the US. The AEX, including financial stocks like Aegon, ING and Fortis, was one of the worst performing indices in Europe, falling 22% during the third quarter. The BEL20 fell 14%. The DAX and the Eurostoxx were down a relatively modest 9%.
Performances of small- and midcap indices differ quite strongly. In Belgium and the Netherlands small caps performed slightly better than the main index. The AMX and ASCX both fell more than 16%, the BelMid 13.6%. In Germany, the MDAX and the SDAX performed particularly badly, -23% and -20% respectively.

Implied volatility

During the month of September, the volatility of the stock markets reached extremely high levels again, comparable to the levels seen in the correction of 2002.
The European volatility index VDAX ended the quarter at 33.7%, the American VIX at 39.4%. Financial stocks even reached volatility levels of more than 150% mid September. Clearly, the uncertainty in the financial markets is huge.



Long-term development

The downward trend of the AEX is even accelerating at late. Since the peak of July 2007, the index has lost 41% of its value. As profit expectations fell to a lesser extent than share prices, most shares have currently low valuations.