

GENERAL INVESTMENT CLIMATE

The Economy

There are more and more encouraging signs that the world economy is recovering faster than anticipated.

German producer confidence, measured by the Ifo-index, showed a surprisingly sharp increase in March, reaching its highest level since June 2008. The downward trend of German consumer confidence (five consecutive monthly declines) also came to a halt. Driven by strong international demand, order books of the German engineering sector are filling up again. The current weakness of the euro was also very helpful in this respect.

These indicators clearly show that the German economy is back on its growth path, after the unexpected zero-growth during the last quarter of 2009.

Due to the negative impact of the extremely cold winter on the construction industry this might not yet be reflected in the growth figures of the first quarter, but the underlying trend is clearly positive. Companies are stepping up investments and starting to hire people again.

However, unemployment in the Eurozone continued to increase, to 10% in February, thus reaching its highest level since August 2008.

It remains to be seen how sustainable the economic recovery will turn out to be. Notably, the huge budget deficits of most developed countries are hanging over the economy as a sword of Damocles.

The Greek tragedy of the past months revealed the deep disunity within the Eurozone. The northern countries, headed by Germany, keep stressing the importance of strict budgetary discipline. The financial crisis and years of indolent governance have put the public finances of Greece and other southern countries such as Portugal, Spain and Italy (the so-called PIGS countries) in a worrying state. On a relatively short term, Greece has to (re)finance billions of debt, while having to pay a very high risk premium in order to attract investors. With speculators targeting the weakest link, Greek interest rates have sky-rocketed, making the situation untenable. Greece had no other choice than to call in the help of the EU. Although the German chancellor initially refused to come to the rescue, the European leaders eventually reached an agreement. The members of the Eurozone and the IMF will act jointly if Greece, despite the planned rigorous budget cuts, would be unable to fulfill its commitments. However, financial aid should remain the ultimate option.

The underlying reason for the current crisis in Greece is the strong rise of real wages over the past years, which has severely undermined the competitiveness of the Greek economy.

While Greece, at least for the moment, has been able to avoid another rating downgrade thanks to its harsh budgetary savings plan, Portugal threatens to become the next victim, following its recent rating downgrade.

Doom scenarios of a possible split-up of the Eurozone seem a bit precautionary, to say the least. The weaker countries would face huge problems (capital flight, accelerating inflation and interest rates), while Germany, with its strong dependency on export, is one of the main beneficiaries of the currency union.

To avoid an economic decline in the second half of the year, when most governmental support plans expire, hopes mainly rest on the undiminished growth dynamics of the emerging economies. Most of these countries are not hampered by derailed public finances. The Chinese economy will probably be able to continue its impressive growth story, with another 10% growth expected for this year. The shift of economic

power to the east was recently highlighted by the fact that China has overtaken Germany as largest export country worldwide.

Inflation in the Eurozone rose to 1.5% in March, its highest level in 15 months. Herewith, we are slowly returning to normal inflation levels of ca. 2%. The increase is mainly caused by oil prices, which have moved above 80 dollars again, about twice as high as a year ago. This effect is strengthened by the current weakness of the euro against the dollar.

Money markets and exchange rates

Interest rates of the major central banks have remained unchanged for nearly a year now. They are expected to be kept at these extremely low levels until the beginning of 2011 at least, in order not to hamper the economic recovery.

On March 31st, the purchase program of the Federal Reserve for American loans came to an end. This might cause long term American interest rates, which already increased from 3.4% to 3.9% over the past months, to rise further.

Conversely, both short and long term rates on euro loans have declined further, to end the quarter at a new low.

On the exchange markets, the euro fell below 1.33 USD, the lowest level in nine months, before recovering slightly at the end of the quarter. This weakness is mainly due to the Greek distress and the political disagreement between member states - notably France and Germany - on how to resolve this crisis. The fact that the EU had to call upon the IMF certainly doesn't do the credibility of the single European currency any good.

The British pound also weakened against the dollar, falling below the 1.50 dollar barrier for the first time in nine months.

Stock Markets

Table 1.1 - General

	31/mrt/10	31/dec/09 - 3 mth	30/sep/09 - 6 mth	30/jun/09 - 9 mth	31/mrt/09 - 12 mth
AEX	344,22	2,65%	10,56%	35,14%	58,64%
BEL20	2648,46	5,45%	6,55%	30,40%	51,45%
DAX	6153,55	3,29%	8,43%	27,97%	50,65%
EU50	2931,16	-1,14%	2,04%	22,05%	41,52%
DJ	10856,60	4,11%	11,78%	28,53%	42,68%
SP500	1169,43	4,87%	10,63%	27,21%	46,57%
Nasdaq	2397,96	5,68%	12,98%	30,68%	56,87%
EUR/USD	1,3509	-5,70%	-7,71%	-3,73%	1,94%
EUR 3 months	0,6340	-0,0660	-0,1190	-0,4650	-0,8760
EUR 10 year	3,3270	-0,2280	-0,1840	-0,4720	-0,4110

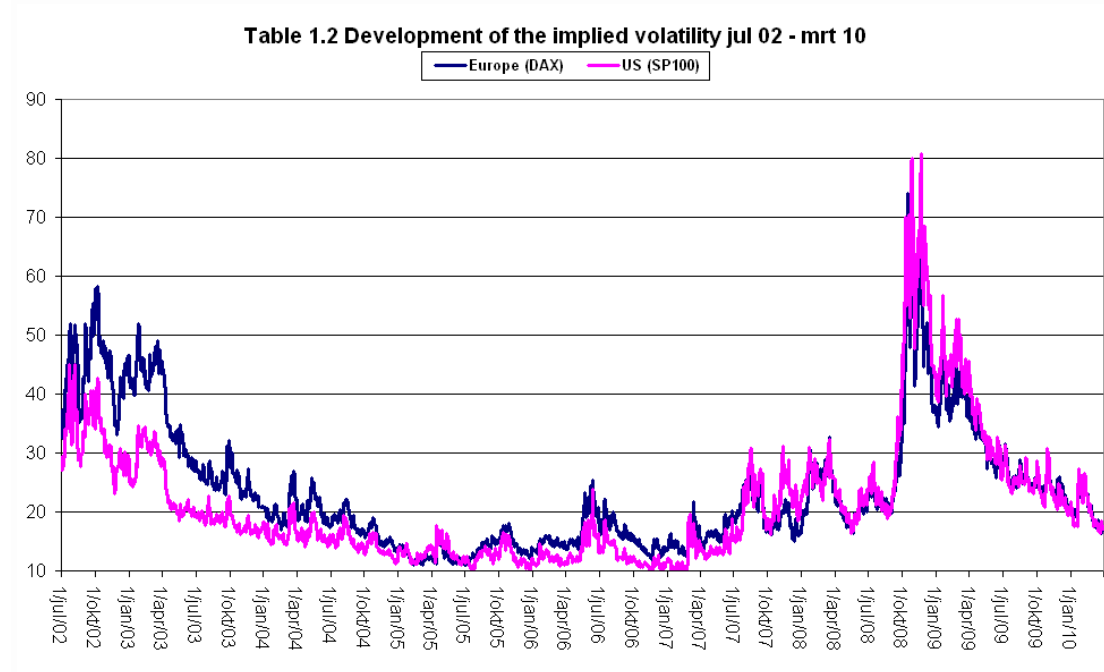
After a poor start of the year, the stock markets returned to their growth path from the beginning of February onwards. Over the quarter, most markets were able to record gains of 3-5%, with the exception of the Euro Stoxx 50, which is still slightly in negative terrain.

However, one should keep in mind that the stock markets were close to their lows a year ago, so the comparison basis is favourable.

The small- and midcap indices performed significantly better than the main indices during the first quarter, with gains of 8.5% (MDAX and ASCX) to 10% (SDAX and AMX).

Implied volatility

Stock market volatility decreased further over the past quarter, falling below 20% and thus reaching pre-crisis levels.



Long-term development

After a short negative intermezzo at the start of the year, the AEX soon continued its upward trend, finishing the quarter at 344 points, a gain of nearly 3%.

On an annual basis, the AEX already increased nearly 60%. However, there is still an upward potential of another 60% before the highs of 2007 come in sight again.

