

GENERAL INVESTMENT CLIMATE

The Economy

The Greek debt crisis completely dominated the economic news over the past months. The financial markets were very relieved when the Greek parliament approved the draconic austerity measures that were required by the European Union and the IMF. Herewith the path has been cleared for an urgently needed new tranche of the rescue package.

The doom scenario of a Greek default with possible contagion of other peripheral countries of the Eurozone (such as Portugal, Ireland and even Spain or Italy) and a new banking crisis was only just avoided, at least for the time being.

On top of the 110 billion euro that had already been assigned to Greece previously, the European Union and the IMF will bail out Greece with bilateral loans totalling up to €120 billion over the next three years. The support will be granted in several tranches and only upon fulfilment of strict conditions.

It remains to be seen whether this is only a way of delaying the inevitable. Nobody seems to know how Greece will be able to break the vicious circle of rising debts, higher taxes, lower economic growth and increasing unemployment. The usual remedy, a currency devaluation in order to restore the competitiveness of the Greek economy, is no option as long as Greece belongs to the Eurozone. Abandoning the Eurozone doesn't seem to be a very appealing solution either.

Sooner or later a debt restructuring will probably be necessary, how painful this might prove to be.

Whereas most Western economies are recovering rather hesitatingly, Germany keeps on performing very strongly. Consumer confidence increased again and producer confidence, despite falling back slightly, still remains at a high level too.

The renowned IFO institute recently raised its growth outlook for Germany to 3.3% this year and 2.3% in 2012. Although this is a slowdown compared to the 3.6% growth of 2010, when the economy bounced back after the unprecedented contraction of 2009, the recovery nevertheless seems to continue. This will further reduce the unemployment rate.

In the United States there are less encouraging signs about the recovery of the economy. The labour market keeps sputtering and in June consumer confidence unexpectedly fell to its lowest level in seven months.

The budgetary measures necessary to close the huge budgetary deficit are not going to be very helpful either.

Nevertheless, the economic growth outlook for the American economy still looks better than that of the Eurozone. This theoretically should translate into a stronger dollar, which currently looks heavily undervalued.

The Japanese economy seems to be recovering quite swiftly from the nuclear disaster of March; the economy is bouncing back very strongly at the moment.

Inflation in the Eurozone increased further, to 2.7% in June. The sharply risen prices of oil and other raw materials are, with the usual time lag, creeping through into the prices of end products.

The oil price has fallen back somewhat, to around 110 dollars a barrel. The very exceptional measure of the western countries (grouped together in the IEA) to tap their strategic oil reserves, as a reaction to the crisis in North Africa and the Middle East, caused oil prices to ease off.

The other raw material markets seem to be cooling down somewhat as well.

Money markets and exchange rates

As widely expected the European Central bank raised its interest rate with 25 basis points to 1.25% in April, effectively ending a two year period of record low interest rates. President Jean-Claude Trichet hinted early June that there will most likely be another modest increase of 25 basis points in July.

The cheap credit facilities for the financial sector were prolonged though.

Mario Draghi from Italy was officially appointed as the new president of the European Central Bank by the European countries end of June. He will succeed Jean-Claude Trichet as of November 1st, 2011.

The American Federal reserve has announced that there will be no new round of quantitative easing (QE3).

QE2 came to an end on June 30th. Under this program the Federal Reserve bought 600 billion dollars of US treasury bonds since November 2010. Although this helped to fight off the threat of deflation which was prevailing at the time, this policy wasn't effective in stimulating the real economy.

Whereas short term interest rates continued their upward trend, long term interest rates fell back somewhat, due to mounting concerns over the economic outlook.

Despite the Greek drama the euro continued its upward trend, moving above 1.45 dollar.

Stock Markets

Table 1.1 - General

	30/jun/11	31/mrt/11 - 3 mth	31/dec/10 - 6 mth	30/sep/10 - 9 mth	30/jun/10 - 12 mth
AEX	339,65	-7,10%	-4,21%	1,57%	7,21%
BEL20	2572,58	-3,37%	-0,23%	-0,66%	7,80%
DAX	7376,24	4,76%	6,68%	18,42%	23,65%
EU50	2848,53	-2,14%	1,99%	3,66%	10,69%
DJ	12414,30	0,77%	7,23%	15,08%	27,01%
SP500	1320,64	-0,39%	5,01%	15,72%	28,13%
Nasdaq	2773,52	-0,27%	4,55%	17,09%	31,49%
EUR/USD	1,4502	2,43%	8,33%	6,37%	18,51%
EUR 3 months	1,5470	0,3080	0,5410	0,6550	0,7800
EUR 10 year	3,3430	-0,2990	0,1890	0,8330	0,5350

Most stock markets had a rather poor quarter, due to the severe problems in Greece and the raising concerns about the economic outlook in general.

The last trading days we saw a strong recovery, as it became clear that there would (at least temporary) be a solution for Greece. Therefore the quarterly losses are all in all not that large. However, it remains to be seen whether this is only a temporary recovery.

The American stock markets were able to limit the damage, also due to the weak dollar, which supports the competitiveness of exporting companies.

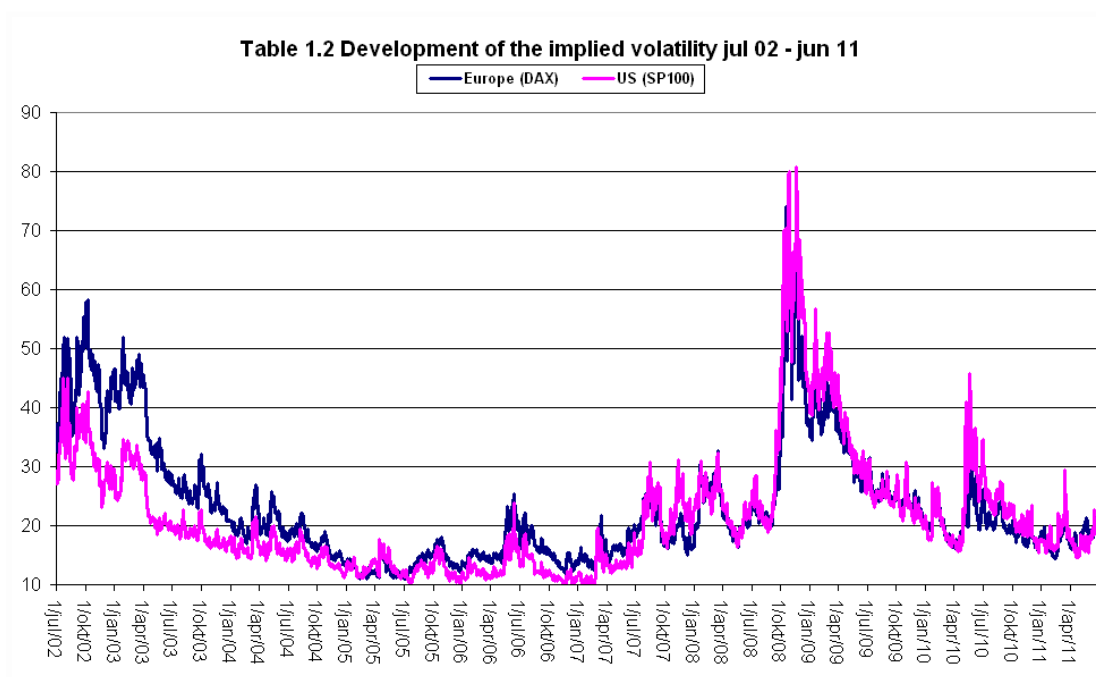
With a quarterly gain of nearly 5%, the DAX was the clear outperformer of the large indices. The MDAX (+6.0%) and the SDAX (+5.3%) actually performed even slightly better than their large brother.

The AEX on the other hand suffered a lot from profit warnings from a number of large companies.

Whereas the Dutch midcap index AMX also lost 6.3% over the past quarter, the ASCX only had to retreat 1.0%.

Implied volatility

Stock market volatility remained rather low over the past quarter, at a level of around 20%.



Long-term development

Due to weak trading sentiment in general and profit warnings from several large companies, the AEX fell to a low of 328 points.

The index thus fell below its 200-day moving average.

Over the last trading days the index recovered somewhat, to finish the quarter at 340 points. The quarterly loss still amounts to 7% though.

