

GENERAL INVESTMENT CLIMATE

The Economy

Over the past months, the confidence in the Eurozone was tested to the limit again. Together with disappointing economic figures from the United States and China, this caused a return of turbulent times at the financial markets.

Whereas a worst case scenario (the “Grexit”) was avoided – at least for the time being – by the pro-European outcome of the Greek elections, Italy and especially Spain came back into the line of fire of speculators. Interest rates of both countries reached dangerous heights again. Spain’s credit rating was downgraded once more after the nationalization of Bankia (a savings bank) and an increasing outflow of capital.

To support their struggling banking sector, the proud Spaniards had to call Europe for the rescue, and as a result they were assigned a credit line of 100 billion euros.

The political change of power in France brought a new dynamic and a change of the balance of power in the Eurozone. Together with Italy and Spain the socialist president François Hollande decided to abandon the one-sided austerity policy of Merkel – who is becoming more and more isolated – and to direct the focus towards economic growth, in order to break the vicious downward economic spiral. An agreement has already been reached to spend one percent of the European GDP (ca. 120 billion euros) to stimulate economic growth.

At the European summit of end June, the member states of the Eurozone agreed to grant the permanent rescue fund ESM (which is due to replace the temporary EFSF at the beginning of July) the permission to give direct support to struggling European banks, without having to go via the national government first. This is a fundamental step towards the decoupling of the banking crisis and the public finance. Moreover, the ESM will have to give up its favoured creditor status, so that private investors will not be disadvantaged in case of eventual problems.

In exchange for these admissions, Merkel was guaranteed that a strong European supervisor will be installed to keep a very close eye on the European financial institutions.

The step towards real eurobonds (communizing the national debts) still is a bridge too far for Merkel, but by introducing so-called project bonds for large infrastructure projects at least there seems to be a window of opportunity now.

It remains to be seen if a sustainable solution for the euro crisis has been reached, but it appears that an important step towards more economic and political integration has been set.

Whereas there were a lot of positive signals from the United States during the first quarter, it now seems that the American economy is recovering less fast than anticipated. The labour market is losing momentum again. Job growth is slowing down and unemployment is stuck above 8% since February 2009. Producer and consumer confidence are also weakening again, and the Federal Reserve has adjusted its growth expectations downwards. There were some positive signs from the American housing market though.

The Chinese economy is cooling down somewhat, which probably isn’t a bad thing. Double digit growth figures are hardly sustainable in the long run.

Germany doesn’t seem to be immune for the developments in the rest of the world after all. Producer confidence (as measured by the IFO index) declined unexpectedly sharply in June, to its lowest level in two years. Moreover, German unemployment rose for the fourth consecutive month.

Due to the weaker economic outlook, the oil price fell back sharply over the past quarter, below the psychological barrier of 100 dollars per barrel. Herewith the oil price reached its lowest level since one-and-a-half years. Consequently, inflationary pressure in Europe is fading away.

Money markets and exchange rates

The interest rate of the ECB remained unchanged at 1%. Many observers expect the ECB to lower its interest rate early July, in order to give the economy some more breathing space. Due to the declining inflation, the ECB at least has more room to manoeuvre.

Meanwhile, the ECB has stopped buying government bonds of weak member states such as Spain and Italy.

In the United States, the last monetary stimulation program ended in June.

The Federal Reserve renounced from an extra monetary injection. At least for the time being there will be no third round of quantitative easing (QE3).

China lowered its interest rate for the first time since 2008.

The euro declined strongly to 1.24 dollar by the end of May, before recovering somewhat towards 1.27 dollar, which represents a quarterly loss of 5%.

Stock Markets

	30/jun/12	31/mrt/12 - 3 mth	31/dec/11 - 6 mth	30/sep/11 - 9 mth	30/jun/11 - 12 mth
AEX	307,31	-5,01%	-1,65%	9,68%	-9,52%
BEL20	2227,63	-4,15%	6,92%	4,52%	-13,41%
DAX	6416,28	-7,64%	8,78%	16,62%	-13,01%
EU50	2264,72	-8,58%	-2,24%	3,90%	-20,50%
DJ	12880,10	-2,51%	5,42%	18,02%	3,75%
SP500	1362,16	-3,29%	8,31%	20,39%	3,14%
Nasdaq	2935,05	-5,06%	12,66%	21,51%	5,82%
EUR/USD	1,2666	-5,08%	-2,26%	-5,39%	-12,66%
EUR 3 months	0,6530	-0,1240	-0,7030	-0,9010	-0,8940
EUR 10 year	2,1030	-0,2260	-0,0850	-0,1820	-1,2400

The euphoria of the first quarter was followed by a sobering second trimester, due to fears for an escalation of the European debt crisis and a number of disappointing economic figures from the three major economic regions (Europe, the United States and China).

Thanks to a very strong last trading day following the surprisingly positive outcome of the European summit, most stock markets were able to limit their losses to about 5%.

The DAX and the Eurostoxx50 were the worst performers, with quarterly losses of respectively 8% and 9%.

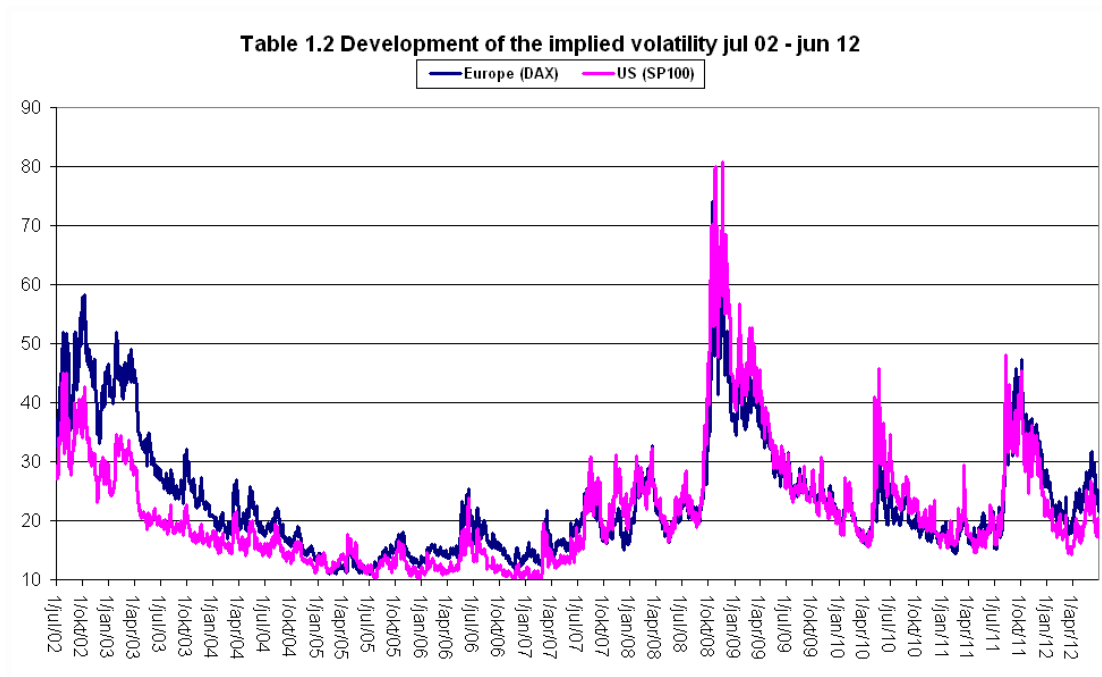
Looking at the performance since the start of the year, most stock markets are still sitting on a nice profit.

The Dutch small and mid cap indices performed a lot worse better than the main index, with losses of 7% for the AMX and 11% for the ASCX.

In Germany, the SDAX (-8%) performed roughly in line with the DAX, whereas the MDAX only lost 3% over the second quarter.

Implied volatility

Volatility of the stock markets went up to 30% for a short while, before declining to a more normal level of around 20%. All in all, the stock markets remain remarkably calm, despite the huge uncertainty surrounding the economy.



Long-term development

The AEX fell to 283 points at the beginning of June, but managed to finish the quarter at 307 points. With a quarterly loss of 5%, the index is back in the red again for the year. The main Dutch index keeps moving around its 200-day average without finding a clear direction.

