GENERAL INVESTMENT CLIMATE

The Economy

Over the past quarter confidence at the financial markets gradually recovered. Whereas in July there were still a lot of concerns about the Spanish banking sector and the financing needs of the Spanish regions as well as about the sluggish reforms in Greece, the tide turned as the ECB finally started to see the necessity of a large scale intervention plan to tackle the crisis.
President Mario Draghi announced end of July that the ECB will do everything possible within the limits of its mandate to guarantee the continued existence of the euro.
At the beginning of September, the ECB gave its go-ahead for an unlimited bond purchase program for member states in difficulties, albeit for bonds with a maturity range of up to 3 years. To prevent a weakening of the position of existing bond owners, the ECB was prepared to give up its favoured creditor status.
With this so-called Outright Monetary Transaction (OMT) program, Draghi hopes to discourage speculation against the Eurozone and improve the efficiency of the monetary policy of the ECB, which is hampered by the widely diverging interest rates within the Eurozone.
The ECB will only come into action if the involved country first agrees with a restructuring program, which will be developed together with the ESM and possibly also the IMF.
In September, the German High Court gave the green light for the permanent rescue fund ESM, which will now finally become operational as of October 8th.
Meanwhile the problems in the Southern member states of the Eurozone are not resolved. Greece is negotiating with the troika (ECB, EU and IMF) about the next slice of rescue help of 31 billion euros. Possibly Greece will receive more time to achieve the strict budgetary targets, in order to give the economy some breathing space.
A Spanish breakthrough is still not in sight either. The Spanish government is still reluctant to file an official request for aid from the rescue funds, to prevent the agony of being put under guardianship of the IMF. It remains very doubtful whether Spain will be able to carry out the necessary savings on its own.
On a positive note, the restructuring of the Spanish banking sector would only require 60 billion euros, a lot less than previously feared.
Producer confidence in Germany weakened further in September. The IFO index declined for the fifth consecutive month, to its lowest level since March 2010. According to several economists, the German economy could even witness negative growth in the third quarter, after already slowing down in the second quarter. The German export engine is starting to sputter, due to the economic slowdown in large parts of Europe but also in growth countries like China and Brazil.
This is obviously not good news for the Eurozone, where five of the seventeen member states are currently already in a recession.
The growth expectations for the Eurozone were adjusted downwards. The ECB now anticipates the economy to shrink 0.4% this year. In 2013, a modest growth of 0.5% would be feasible.
In the United States there are more and more signs that the housing market is finally climbing out of the abyss. In July, housing prices in the twenty largest American cities reached their highest level in nearly two years.
Meanwhile, the American labour market keeps sending out contradictory signals.

The oil price increased strongly over the past quarter, towards the 120 dollar per barrel level. As a consequence, inflation in the Eurozone rather unexpectedly increased slightly again in September, to 2.7% (preliminary figure).

Money markets and exchange rates

As broadly expected, the ECB lowered its main interest rate with 25 basis points in July, to a record low of 0.75%. This decision was inspired by the sustained negative economic outlook for the Eurozone.

At least as important was the decision of the ECB to lower the deposit rate with 25 basis points to zero percent. By no longer offering banks a reward for simply parking their deposits at the ECB, the latter wants to get the money market going again and stimulate the banks to take up their role as credit supplier.

In the US, the Federal Reserve decided mid September to launch a third round of quantitative easing (QE3), by purchasing mortgage backed securities at a pace of 40 billion dollars per month. Without extra monetary support, the US economy would not be strong enough to come to a sustainable recovery of the labour market, according to Bernanke.

Compared to QE1 and QE2, which together represented a total purchasing volume of 2,300 billion dollars of American bonds, QE3 seems rather modest.

However, the Federal Reserve is prepared to go beyond this, should the US economy weaken further. In any case, interest rates will be kept exceptionally low until 2015.

The euro declined towards 1.20 dollar in July, before starting a strong recovery. The 1.30 dollar barrier was even momentarily breached, before finishing the quarter close to 1.29 dollar.

Stock Markets

Table 1.1 - General

	30/sep/12	30/jun/12 - 3 mth	31/mrt/12 - 6 mth	31/dec/11 - 9 mth	30/sep/11 - 12 mth
AEX	323,18	5,16%	-0,10%	3,43%	15,35%
BEL20	2373,33	6,54%	2,12%	13,92%	11,36%
DAX	7216,15	12,47%	3,88%	22,34%	31,15%
EU50	2454,26	8,37%	-0,93%	5,94%	12,60%
DJ	13437,10	4,32%	1,70%	9,98%	23,12%
SP500	1440,67	5,76%	2,29%	14,56%	27,33%
Nasdaq	3116,23	6,17%	0,80%	19,62%	29,01%
EUR/USD	1,2859	1,52%	-3,63%	-0,77%	-3,95%
EUR 3 months	0,2200	-0,4330	-0,5570	-1,1360	-1,3340
EUR 10 year	1,7160	-0,3870	-0,6130	-0,4720	-0,5690

The past quarter we saw a strong recovery of the stock markets, inspired by the ECB, who finally decided to unveil its bazooka and herewith was able to temper the unrest at the financial markets. Most important stock markets recorded quarterly gains of 5% to 10%. The DAX even gained over 12%. This year the German star index already increased by 22%, herewith even outperforming the American indices, which are close to their five year highs.

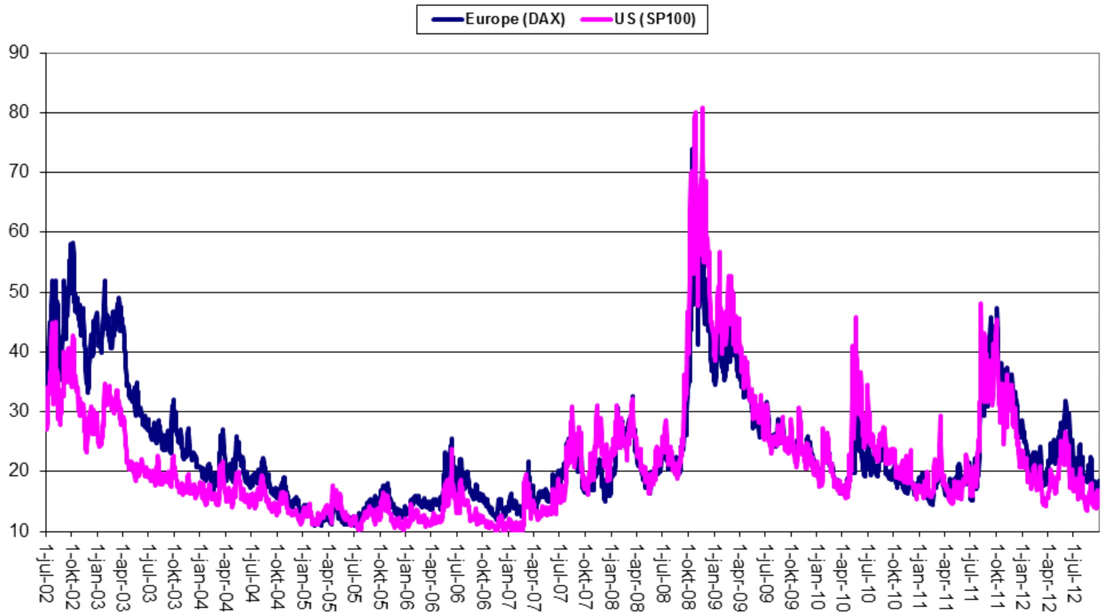
The Dutch small and mid cap indices underperformed the main index again. Whereas the AMX was still able to gain 2.8%, the ASCX lost 0.3% on a quarterly basis.

In Germany, the MDAX (+6%) and the SDAX (+4%) also significantly underperformed the DAX.

Implied volatility

Stock markets were remarkably calm on both sides of the ocean, with a rather low volatility of less than 20%.

Table 1.2 Development of the implied volatility jul 02 - sep 12



Long-term development

The AEX climbed to 337 points mid September, before giving away half of its gains again and finishing the quarter at 323 points, which represents a quarterly gain of 5%. The AEX remains one of the weakest performing European stock markets this year.

Table 1.3 Long-term development AEX jan 02 - sep 12