GENERAL INVESTMENT CLIMATE

The Economy

Over the past months the economy has entered into calmer waters. The crisis in Cyprus seems to be under control thanks to the drastic measures taken by the EU and there has been no contagion.

Although the crisis in Europe is not over yet, the situation has stabilized and there are hopes of a modest recovery in the second half of the year. However, there still are large differences between northern and southern countries.

In Germany producer confidence increased in May and June, bouncing back after a decline in April. This confirms the positive long term trend. The past weeks there were many other positive signals coming out of Germany: the unemployment rate decreased further to 5.4%, consumer confidence rose to its highest level of the last six years and even retail sales are moving in the right direction.

Supported by the generous wage increases that have been concluded over the past months domestic demand is increasing, allowing Germany to compensate the disappointing export figures at late. Strong demand from the emerging economies for German quality products such as cars and machinery had turned the export into the driving force of the German economy over the past years. However, demand from China (with an economy cooling down) and other member states of the European Union (which as a whole is still in recession mode) declined significantly over recent months.

The contrast between Germany and France is striking. Consumer confidence in France is currently at its lowest level since measurements began and unemployment is at a record high.

The problem countries in Southern Europe are starting to see the first results of the drastic measures that have been implemented, but a recovery of domestic demand is not in sight yet. This is hardly surprising, with sky-high unemployment rates.

In the Eurozone as a whole, unemployment increased to 12.1%, a new record high.

After six consecutive quarters of negative economic growth the Eurozone is in its longest recession ever, although the GDP decline is less harsh than after the eruption of the financial crisis in 2008.

In order to put an end to the downward spiral of budget savings, increasing unemployment and declining consumption, more and more policymakers are convinced that there should be shift from a rigid austerity policy to a more relaxed policy focused on stimulating economic growth.

The American economy meanwhile continues its recovery. The housing market keeps sending out positive signals and the labour market is also moving in the right direction. The American industrial sector benefits from cheap energy thanks to the shale gas boom.

Most economists have raised their growth expectations for the US economy and expect growth accelerating towards 2.5% to 3% in 2014.

The emerging economies are suffering from growth pains. The Chinese economy is slowing down and other growth countries like Brazil and Russia are impacted by the sharp decrease of raw material prices. The gold price had one of its worst quarters ever, declining roughly 25%.

After a sharp decrease in May, the oil price recovered somewhat over the past weeks to a level of around 100 dollar per barrel.

Inflation in the Eurozone increased slightly in June, but at a level of 1.6% it is still at a relatively low level and in line with the inflation target of the ECB.

Money markets and exchange rates

As was widely expected, the ECB lowered its main interest rate with 25 basis points to an all-time low of 0.50% early May. Bearing in mind the weak state of the economy in most member states, the ECB will most likely keep interest rates at this low level for quite a while.
In the United States, Ben Bernanke made it clear that the policy of monetary easing will already come to an end this year if the economic recovery continues. The winding down of the purchasing program of 85 billion dollars of government bonds per month will start later this year and the program will be extinguished by mid 2014. The exit will happen gradually, depending on the economic recovery and especially on the evolution of the labour market.
As inflation in the United States remains very low (around 1%), there is no reason for the Federal Reserve to raise interest rates. As long as the unemployment rate doesn't fall below 6.5%, interest rates will be kept close to zero. Currently the unemployment rate in the US is 7.6%, so an interest rate increase is something for the distant future.
The euro climbed to 1.34 dollar mid June, but then had to give back most of its gains, finishing the quarter at 1.30 dollar, a quarterly gain of 1.5%.
The rapid decline of the Japanese yen has meanwhile come to an end.
Due to the fact that the monetary easing in the United States will most likely be terminated, long term interest rates in the US increased sharply. There was also an increase in Europe, but to a lesser extent.

Stock Markets

Table 1.1 - General

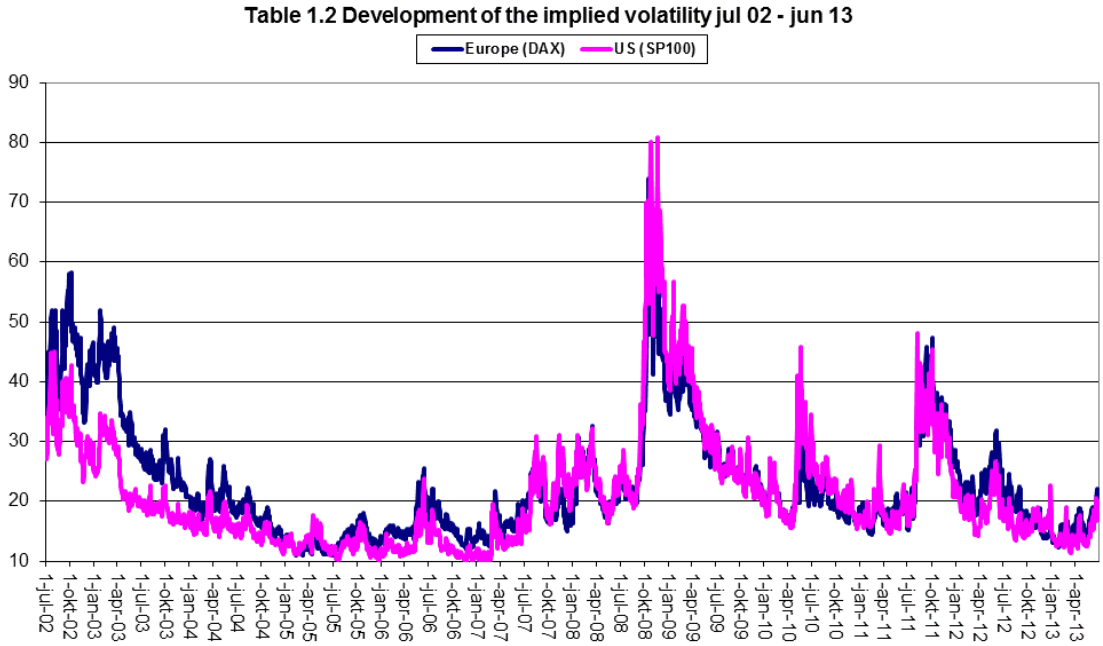
	30/jun/13	31/mrt/13 - 3 mth	31/dec/12 - 6 mth	30/sep/12 - 9 mth	30/jun/12 - 12 mth
AEX	344,59	-1,01%	0,55%	6,62%	12,13%
BEL20	2526,11	-2,55%	2,03%	6,44%	13,40%
DAX	7959,22	2,10%	4,56%	10,30%	24,05%
EU50	2602,59	-0,82%	-1,26%	6,04%	14,92%
DJ	14909,60	2,27%	13,78%	10,96%	15,76%
SP500	1606,28	2,36%	12,63%	11,50%	17,92%
Nasdaq	3403,25	4,15%	12,71%	9,21%	15,95%
EUR/USD	1,3010	1,48%	-1,38%	1,17%	2,72%
EUR 3 months	0,2180	0,0070	0,0310	-0,0020	-0,4350
EUR 10 year	2,1220	0,3520	0,6230	0,4060	0,0190

The nice gains that most stock markets had gradually built up by mid May, were wiped out swiftly after the announcement of Bernanke that the policy of monetary easing in the United States will most likely come to an end earlier than expected.
Most European indices finished the quarter with small losses, with the German DAX as one of the few positive exceptions.
The American stock markets were also able to hold on to a small gain. Since the beginning of the year they have thus recorded nice gains of more than 10%.
Both the Dow Jones and the S&P managed to set new all-time highs in the second quarter.
The Dutch small- en midcap indices performed in line with the AEX, recording small losses.

In Germany the MDAX (+2.9%) performed slightly better than the DAX, and the SDAX (+1.7%) also managed to book a modest quarterly gain.

Implied volatility

Although price fluctuations increased over the past months, volatility remains relatively limited, certainly compared to the high levels seen over the past lustrum.



Long-term development

The AEX climbed to 373 points by the end of May, but like most other indices then had to throttle down, finishing the quarter at 345 points. With a quarterly loss of 1%, the AEX is back at the level of the start of the year.