

GENERAL INVESTMENT CLIMATE

The Economy

Over the summer months, the financial markets gained confidence in an economic recovery.

In the European Union there officially came an end to the recession which had lasted for one and a half years. With an economic growth of 0.3% in the second quarter, the recovery remains fragile though. In the second half of the year the revival is expected to continue.

The ECB expects the economy of the Eurozone to shrink by 0.4% this year, due to the weak first quarter. Next year we should return to an economic growth of ca. 1%, which is admittedly still a modest level.

The policy pointed towards financial stability and structural reforms is finally starting to bear fruit, not only in the core countries of the European Union, also in the problem countries of the periphery.

In Germany, producer confidence rose for the fifth consecutive month in September. The outlook for the German economy remains positive. The export benefits from the recovery in other parts of Europe and in the United States as well as from the soft landing of the Chinese economy. The wage increases of the past months and the record low unemployment level also have a positive impact on the German economy. The sharp decrease of German industrial production in July seems to have been a negative one-off.

With Chancellor Merkel convincingly winning the German general elections, no big change of policy is expected, although it remains to be seen with which coalition partner she will start her third term in office. If there would be, as widely expected, a grand coalition with the Social Democrats, the policy could be directed more towards fair wages, good jobs, higher spending and thus also higher taxes.

In the United States there were some contradictory signals over the past quarter. The housing market continues its recovery, but consumer confidence declined somewhat in September and the job creation was less strong than expected over the past couple of months, leaving unemployment at the relatively high level of 7.3%.

The Federal Reserve adjusted its growth expectations slightly downwards. This year it expects the US economy to grow by 2.0% to 2.3%; in 2014 growth would accelerate to around 3%.

Because the Democrats and the Republicans were unable to reach an agreement on the budget and are still in discussion about an increase of the debt ceiling, the non-essential government services in the US are shut down since October 1. About 800,000 civil servants were sent on unpaid leave for an indefinite period of time. The Republicans are obstructive because they want the far-reaching healthcare reform plan of President Obama (Obamacare) to be suspended or at least adapted.

The question is how long this stalemate will last. The last government shutdown, in 1995, lasted 28 days. One can only hope that common sense will prevail and that the economic impact remains limited.

In China, most economic indicators are pointing in the right direction again. Industrial production and retail sales increased significantly in August. The much feared hard landing of the Chinese economy seems to be off the table. The worrywarts who since years are predicting an implosion of the Chinese growth story seem to be proved wrong once again.

The oil price increased to 115 dollars per barrel end of August, its highest level since February, due to fears of a military intervention in Syria. As these fears ebbed away in September, the oil price fell back below 110 dollars.

Inflation in the Eurozone declined to 1.1% in September, the lowest level since early 2010. Therefore there is room for further monetary easing.

Money markets and exchange rates

As expected, the ECB left its main interest rate at 0.5% in the third quarter.

However, the ECB did announce that there is room for further interest rate cuts or a new LTRO (supplying long term credits to banks at very low interest rates) to support the fragile economic recovery in the European Union.

In the US, the Federal Reserve mid September unexpectedly decided not to start tapering yet and thus to continue with its purchasing program of 85 billion dollars of government bonds per month, the reason being that the US economy seems to grow slower than expected earlier in the year. Moreover, interest rates in the US had already risen strongly after the announcement in May of the upcoming tapering, and this threatened to thwart the economic recovery. The long term interest rates in the US, which had increased from 2% in May to nearly 3%, fell back towards 2.5% after the decision not to start tapering yet.

In Europe, long term interest rates remained rather stable in the third quarter.

Partly due to the decision of the Federal Reserve not to switch off the money tap, the euro climbed to 1.35 dollar, its highest level in eight months.

Stock Markets

Table 1.1 - General

	30/sep/13	30/jun/13 - 3 mth	31/mrt/13 - 6 mth	31/dec/12 - 9 mth	30/sep/12 - 12 mth
AEX	374,92	8,80%	7,70%	9,40%	16,01%
BEL20	2802,27	10,93%	8,10%	13,19%	18,07%
DAX	8594,40	7,98%	10,25%	12,90%	19,10%
EU50	2893,15	11,16%	10,26%	9,76%	17,88%
DJ	15129,70	1,48%	3,78%	15,46%	12,60%
SP500	1681,55	4,69%	7,16%	17,91%	16,72%
Nasdaq	3771,48	10,82%	15,42%	24,90%	21,03%
EUR/USD	1,3527	3,97%	5,51%	2,54%	5,19%
EUR 3 months	0,2250	0,0070	0,0140	0,0380	0,0050
EUR 10 year	2,1630	0,0410	0,3930	0,6640	0,4470

The European stock markets had a very strong third quarter, with quarterly gains of about 10% on average.

Even during the month of September, historically the weakest month for stock markets, stock prices continued to move upwards.

Of the American stock markets, only the Nasdaq was able to follow the European pace. The S&P 500 and especially the Dow Jones had to settle for more modest gains, but after a strong first half of the year, both indices are still close to their all-time highs.

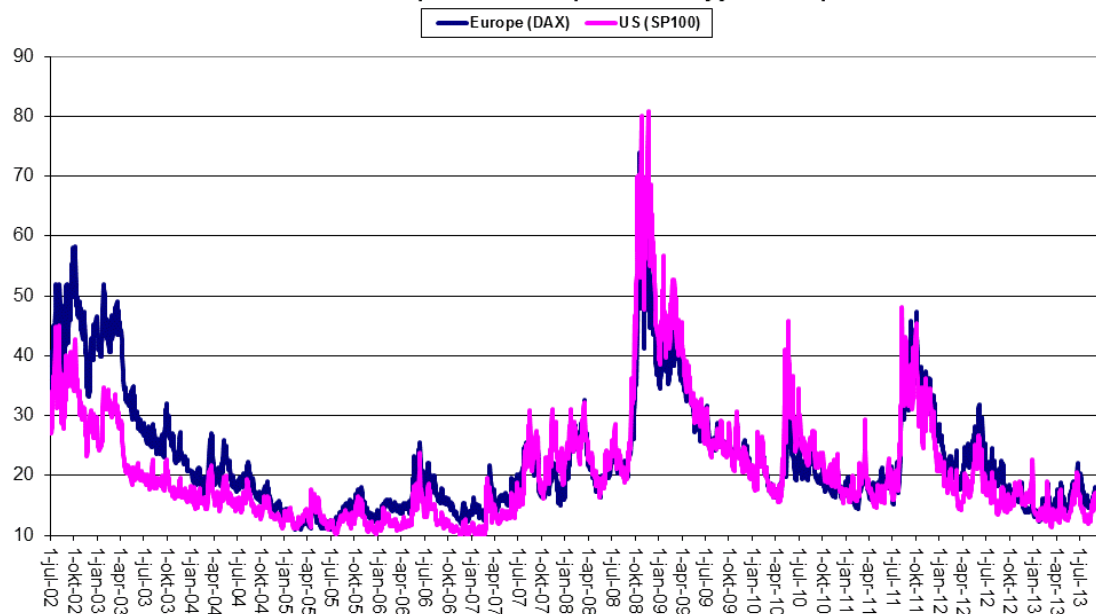
With gains of 9.0% for the AMX and 9.7% for the ASCX, the Dutch small- and midcap indices performed in line with the main index.

In Germany, both the MDAX (+9.7%) and the SDAX (+10.3%) were able to outperform the DAX in the third quarter.

Implied volatility

Volatility decreased again in the third quarter to the low level of between 10% and 20%. The financial markets were relatively calm on both sides of the Atlantic Ocean.

Table 1.2 Development of the implied volatility jul 02 - sep 13



Long-term development

The AEX put in a nice performance over the past months. The Dutch main index climbed to 385 points mid September, its highest level since the fall of Lehman Brothers in 2008. Afterwards the AEX gave away some ground, to finish the quarter at 375 points, still a quarterly gain of nearly 9%.

Table 1.3 Long-term development AEX jan 03 - sep 13

