

## GENERAL INVESTMENT CLIMATE

### **The Economy**

The escalation of the Greek debt crisis led to increased uncertainty in the financial markets during the second quarter of 2015.

Despite repeated efforts, the Greek government was unable to reach an agreement with the troika of international creditors (EC, ECB and IMF) over a prolongation of the financial support program. Negotiations broke down abruptly when Prime Minister Tsipras suddenly announced to organize a referendum on the European austerity measures, which, according to him, are unbearable for the Greek economy.

To avoid capital flight on an even larger scale, Greek banks were closed temporary and severe limitations on cash withdrawals were imposed.

By missing the deadline for repaying a 1.6 billion euro debt to the International Monetary Fund, Greece de facto is technically bankrupt since July, 1. Herewith, Greece became the first developed country to default on a credit of the IMF.

For the time being it is unclear how the Greek tragedy will continue.

The Greek Prime Minister seems to be willing to accept the ultimate proposal of the troika after all, if several small adaptations are made. Due to the inconsistent and undiplomatic communication of the Greek protagonists the gap between both parties has become deep. Notably the German government wants to keep a firm stance on Greece and is not prepared to do many concessions. Negotiations on a new support program and a possible debt relief will probably only presume after the planned Greek referendum.

The possibility of a Greek exit of the Eurozone has thus increased considerably over the past weeks, even though that is a scenario which neither side favours. The fact that the euro was nevertheless able to recover somewhat versus the dollar shows that the risks of a possible Greek exit and contagion to other problem countries are deemed rather low.

Meanwhile, the European economy continues its recovery. The German growth motor keeps firing on all cylinders, thanks to increased consumer spending and a strong export, backed by the depreciation of the euro. There are also more and more encouraging signs from other large economies, including France, Italy and Spain.

The American economy performed less well than expected in the first quarter, with GDP growth of merely 0.2 percent. However, this was to a large extent due to two specific events: the extremely harsh winter conditions in the northeast and a strike at the ports of the west coast.

American exports suffer from the appreciation of the dollar versus its most important trade partners, which is impacting the competitiveness of US companies. In the longer term, the resulting lower profitability should also start to weigh on the investments by these companies. A lot of economists therefore expect a slowdown of the American economy in the mid to long term.

Oil prices stabilised over the past months, at a level of around 60-65 dollars per barrel. Even though the free fall of the black gold has been brought to a halt, prices are still more than 40 percent below the level of one year ago.

Inflation in the Eurozone increased to 0.3 percent in May, effectively ending a period of several months of negative inflation. Not only is this an indication that the economy of the Eurozone is recovering, it is also an encouraging sign for the European Central Bank, which is trying to push inflation towards its targeted level of close to but less than 2 percent.

## Money markets and exchange rates

The European Central Bank continued with its large scale purchasing of government bonds at a rate of 60 billion euros per month during the second quarter.

Moreover, the ECB confirmed that, despite the fact that inflation is starting to increase again, there are certainly no plans for an early exit of the quantitative easing program. Thanks to the monetary easing, long term interest rates in the core member states of the Eurozone in first instance fell to record lows of just above zero percent, before bouncing back strongly due to the Greek tragedy.

Because of the strong slowdown of the American economy in the first quarter it will now probably take somewhat longer than anticipated before the Federal Reserve will increase interest rates. However, the strong labour market figures of the past months and the increasing inflation in the US are indications that this is only a temporary dip. Most analysts expect the interest rate increase to still take place this year, possibly already in September.

During the second quarter, the euro was able to halt its downward trend that started last summer. On a quarterly basis the euro gained nearly 4 percent, finishing the quarter at 1.11 dollar. This is still nearly 20 percent below the level of one year ago.

## Stock Markets

Table 1.1 - General

	30-jun-15	31-mrt-15	31-dec-14	30-sep-14	30-jun-14
		- 3 mth	- 6 mth	- 9 mth	- 12 mth
AEX	472,58	-3,44%	11,33%	12,21%	14,38%
BEL20	3574,70	-4,06%	8,81%	10,97%	14,31%
DAX	10944,97	-8,53%	11,62%	15,52%	11,31%
EU50	3424,30	-7,39%	8,83%	6,15%	6,07%
DJ	17619,51	-0,88%	-1,14%	3,38%	4,71%
SP500	2063,11	-0,23%	0,20%	4,60%	5,25%
Nasdaq	4986,87	1,75%	5,30%	10,98%	13,13%
EUR/USD	1,1147	3,88%	-7,86%	-11,75%	-18,59%
EUR 3 months	-0,0160	-0,0350	-0,0940	-0,0990	-0,2230
EUR 10 year	1,0350	0,6910	0,3500	-0,0520	-0,4440

After the exceptionally strong start of the year, the European stock markets had to throttle down significantly in the second quarter. Because of the ever changing plot of the Greek tragedy there was a lot of volatility, but on balance the most important indices incurred losses ranging from 3% to over 8%.

Nevertheless, this still leaves a nice gain of around 10% after the first half of the year. The German DAX index, which had gained most in the first quarter, was now the biggest loser.

The American stock markets continued to move sideways during the second quarter.

The Nasdaq broke the 5,000 points mark for the first time since the dotcom bubble in March 2000, but had to give way some of the gains again towards the end of the quarter.

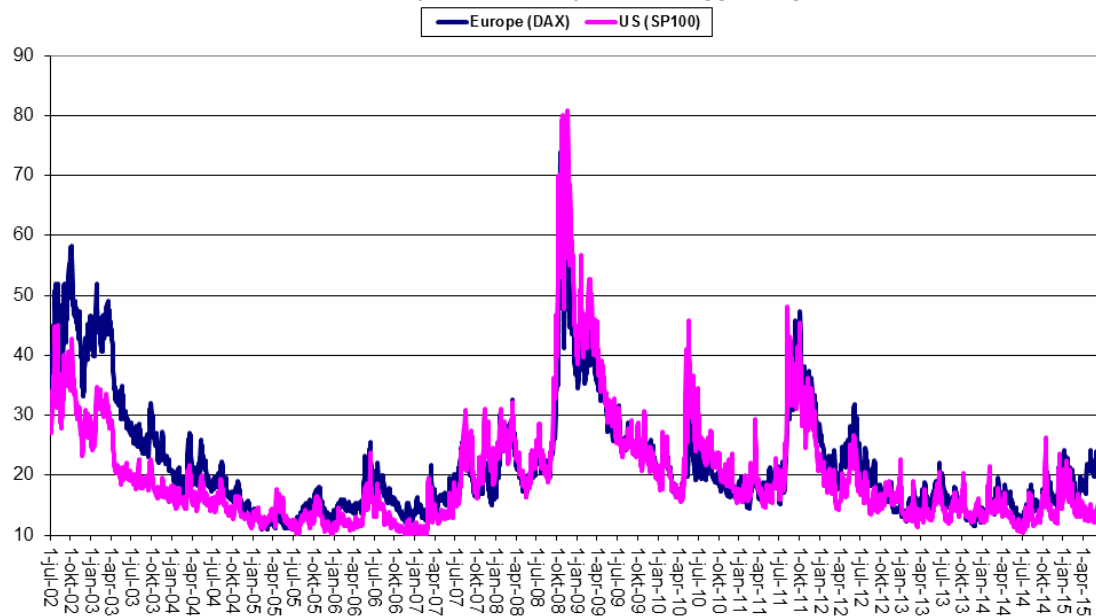
In the Netherlands, the small- and midcap indices performed roughly in line with the main index. The AMX lost 5%, the ASCX nearly 3%.

In Germany, the MDAX lost 5% in the second quarter, but the SDAX was able to record a gain of 2%.

### Implied volatility

In Europe, volatility increased to well above 25%, the highest level since mid 2012. In the United States, there was only a slight increase of volatility. Herewith, for the first time since over a decade, volatility didn't move synchronously on both sides of the Atlantic Ocean.

Table 1.2 Development of the implied volatility jul 02 - jun 15



### Long-term development

The AEX was unable to continue its strong performance of the start of the year. The main Dutch index rose to 509 points at the end of April, but was then also infected by the Greek crisis and ultimately recorded a loss of over 3%, finishing the quarter at 472 points. However, the positive long term trend that started in 2012 still remains intact.

Table 1.3 Long-term development AEX jan 03 - jun 15

