

GENERAL INVESTMENT CLIMATE

The Economy

During the third quarter of 2015, mounting concerns over the economic developments in the emerging economies caused a lot of instability in the financial markets.

After an agreement was reached in July on a new bailout for Greece in exchange for far-reaching restructuring measures, the Greek debt crisis faded into the background over the past months.

The focus turned to the slowdown of economic growth in China and the economic crisis in other so-called growth countries like Brazil and Russia. Due to the steep decline of the oil price and of other raw material prices, these countries have entered a downward spiral.

In China the economy is of course still growing at a reasonable pace, but less fast than anticipated. However, this seems a healthy evolution, as the growth rates of the past decennium are not sustainable in the long run. A normalisation of the growth rate was inevitable.

In August, the National Bank of China unexpectedly decided to devalue the Chinese currency against the American dollar, in order to stimulate exports, which had declined strongly in July. The financial markets reacted very negatively to this measure, which effectively puts an end to the coupling of the yuan to the American dollar. China no longer seems to be willing to stay on the sidelines in the currency war between the growth countries.

Meanwhile, the German economy remains in good shape, with producer and consumer confidence both at a high level, although the latter did weaken somewhat in September. The question is now whether the Volkswagen scandal (“dieselgate”) that erupted towards the end of September will undermine the quality label “Made in Germany” and thus negatively impact the German export machine.

The unemployment level in the Eurozone stabilised at 11.0 percent.

In the United States, the economy grew 3.7 percent in the second quarter, a marked improvement versus the modest 0.6 percent (reviewed) growth that was recorded during the first quarter of 2015. The growth is well-balanced, with all components of the economy – private consumption, corporate investments, net-exports and the government – delivering a positive contribution.

However, several less positive signals emerged out of the United States over the past weeks. After six years of sustained growth, the American economy seems to be showing some signs of fatigue. In September much less jobs were created than expected, and wages also increased less than anticipated. The unemployment rate stabilized at the level of 5.1 percent, the lowest level in seven years, but this was mainly due to the declining working population, as the participation level fell to 62 percent, the lowest level since 1977.

In the third quarter, oil prices fell to the lowest level since the crisis of 2009. Oil prices remain under pressure due to the high American oil inventories and the increased oil production by the OPEC, which wants to increase its market share to compensate the loss of income from lower selling prices.

Inflation in the Eurozone rather unexpectedly turned negative again in September, to a level of -0.1 percent. This is mainly a result of the lower energy prices. The objective of the European Central Bank, which targets an inflation of close to but less than 2 percent, is thus not immediately within reach.

Money markets and exchange rates

The return of negative inflation puts further pressure on the European Central Bank to come up with extra stimulation measures. The ECB could decide to increase the purchasing volume or to extend the duration of the current large-scale purchasing program. Since the start of the quantitative easing program in March 2015, the ECB purchases 60 billion euros of government bonds per month, and this until at least September 2016.

At its long-awaited September meeting, the Federal Reserve decided not to increase the interest rate yet. Although the American economy continues its recovery and unemployment remains at a very low level, the rather weak export figures and the negative developments abroad (read China) have made the Federal Reserve more cautious. The Federal Reserve also lowered its growth expectations for the American economy.

The weak September jobs report has made it more likely that the Federal Reserve will delay the interest rate increase until 2016.

The euro stabilized at a level of around 1.12 dollar over the past months.

The most remarkable event in the currency markets was the devaluation of the Chinese yuan against the American dollar.

Stock Markets

Table 1.1 - General

	30-sep-15	30-jun-15 - 3 mth	31-mrt-15 - 6 mth	31-dec-14 - 9 mth	30-sep-14 - 12 mth
AEX	421,14	-10,88%	-13,95%	-0,78%	0,00%
BEL20	3344,50	-6,44%	-10,23%	1,80%	3,82%
DAX	9660,44	-11,74%	-19,27%	-1,48%	1,96%
EU50	3100,67	-9,45%	-16,14%	-1,45%	-3,88%
DJ	16284,70	-7,58%	-8,39%	-8,63%	-4,45%
SP500	1920,03	-6,94%	-7,15%	-6,74%	-2,65%
Nasdaq	4620,17	-7,35%	-5,73%	-2,45%	2,82%
EUR/USD	1,1177	0,27%	4,16%	-7,61%	-11,51%
EUR 3 months	-0,0400	-0,0240	-0,0590	-0,1180	-0,1230
EUR 10 year	0,7810	-0,2540	0,4370	0,0960	-0,3060

The stock markets suffered one of the worst quarters of the past years, mainly due to the sputtering Chinese growth engine.

Most important European indices recorded losses of about 10 percent. Herewith, we are back at the level of the beginning of the year, and the exceptionally strong start of the year has already become a distant memory.

Towards the end of the third quarter, the Volkswagen emissions scandal caused havoc in the German stock market, where the economically very important automotive industry (including suppliers) has a heavy weighting in the indices.

The American stock markets lost around 7 percent in the third quarter and are clearly in the red year-to-date, although for European investors this is compensated by the strong dollar.

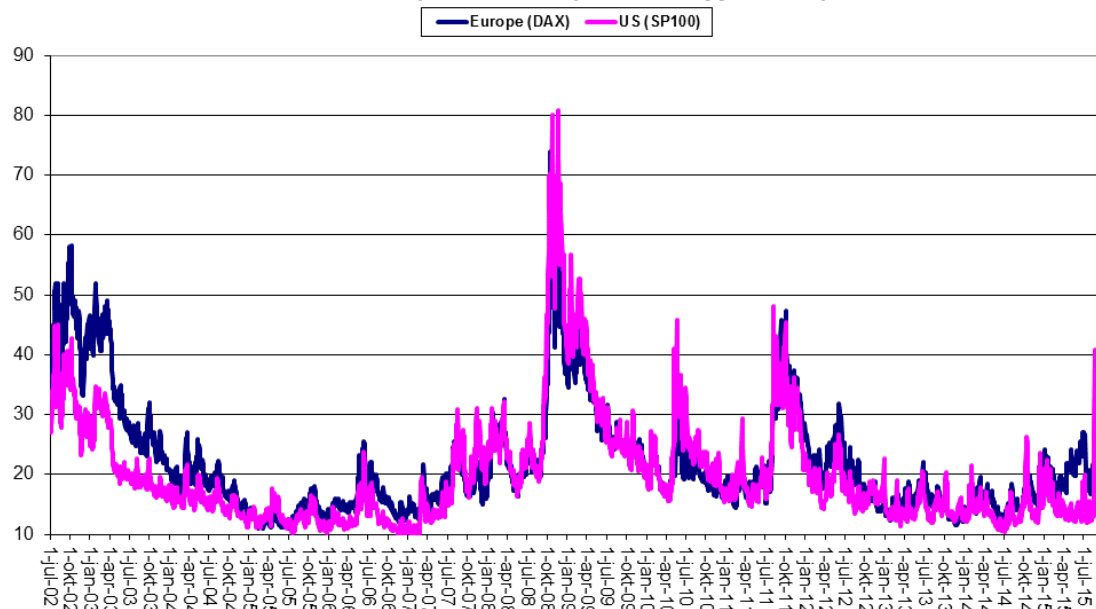
The Dutch small- and midcap indices also had a very poor quarter. The AMX lost over 12% , the ASCX nearly 6%.

In Germany, the MDAX and the SDAX were able to limit the damage, with losses of respectively 2% and 3% in the third quarter.

Implied volatility

Due to the raising economic and political uncertainty, volatility in the financial markets increased further on both sides of the Atlantic in the third quarter, with peaks of over 40% in August.

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



Long-term development

After an already relatively weak second quarter, the AEX went from bad to worse in the third quarter. The main Dutch index lost nearly 11 percent, finishing the quarter at 421 points, which is exactly the same level as one year ago. Herewith, the AEX suffered its worst quarter since 2011.

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

