GENERAL INVESTMENT CLIMATE

The Economy

The unrest in the financial sector persisted during the first quarter of 2008. The crisis of confidence between the banks peaked in March and eventually led to the near-bankruptcy of the 85 year old American investment bank Bear Stearns. There was no good news to report from the American house market. On the contrary: home sales keep on falling and the decline of house prices has even accelerated. Furthermore, the end is not yet in sight: the amount of home owners that are in default on their mortgage payments has again increased sharply.
The industrial sector in the US, which had still been performing quite well in 2007, is now also facing headwinds from disappointing profit developments and two consecutive months of declining orders and industrial production. From the labour market, the news flow was negative as well: for the first time in recent years, employment declined. The depressed climate has also influenced consumer confidence: since 1974 the American consumer has not been as pessimistic as today.
Analyst consensus is that the US will be in recession during the first half of 2008 (two quarters of negative growth), but that the economy will already start to recover in the second half of the year, driven by the fiscal and monetary policies designed to stimulate the economy.
Despite all the disquieting messages from the US and the financial markets, macro-economic figures in Europe continue to surprise positively. Germany has been particularly positive with the Ifo business climate indicator rising unexpectedly three months in a row. On the consumer side, there was positive news from Europe's two largest markets: France and Germany. French consumptions expenditures increased during the first months of the year and German consumer confidence rose as well. Furthermore, unemployment keeps on dropping in Germany. A possible tightening of credit in Europe because of the worldwide credit crisis would only have a limited influence on the German economy since the corporate sector still has a net financial surplus and the household sector is repaying more than it borrowing. The two countries that are most at risk for a spill over of the credit crisis into the real economy are Spain and the UK due to their dependence on the real estate market and their indebtedness.
In Japan, an increasing number of indicators are pointing towards a weakening of the economy. China, on the other hand, continues on its steep growth curve, with an inflation rate of 9% as a consequence.
The oil price again broke a new record by exceeding $110 per barrel. Towards the end of the quarter commodity prices weakened again and oil declined to around $100 per barrel.

Money markets and exchange rates

In the first quarter of 2008, the Federal Reserve Bank was exceptionally active: the Fed's benchmark lending rate was cut by 2 full percentage points. The first cut was on January 22nd when the Fed held an emergency meeting on the increasing tensions in the financial system. At this meeting, the benchmark rate was reduced from 4.25% to 3.50% and at the regular Fed meeting one week later, the rate was reduced by another 50 basis points to 3%.
When investment bank Bear Stearns ran into liquidity problems in the middle of March, the Fed again intervened, this time in cooperation with the European, Canadian, British and Swiss central banks. The *lender of last resort* role of the central bank was extended

by opening up the refinancing window not only to retail banks, but also to investment banks. Furthermore, the central bank will now accept mortgage backed securities as collateral. The benchmark rate was again cut by 75 basis points to 2.25%. Markets are still expecting a further decline in rates in the following months. Not only the central bank, but also the American government has been adamant to prove that it is willing to do everything to limit the economic downturn. During this election year, the American congress approved in record time the *Economic Stimulus Act*. This program offers $60 billion in fiscal incentives for the corporate sector and a “gift” of $103 billion to the consumer. In May and June, every American taxpayer will be mailed a cheque for $300 to $600 per family member. It is yet to be seen if this money will actually stimulate consumption.

The European Central Bank has not changed its benchmark rates since June of 2007. Even though market are still pricing an imminent rate cut, the ECB’s rhetoric is clearly focussed on talking down these expectations. Considering the ECB’s focus on inflation, a rate cut appears unlikely. The inflation level in the Euro zone was 3.5% in March, far above the target of 2%. In Belgium, inflation even amounted to 4.4 in March, the highest level since 1986.

The reduced Fed refinancing rate has brought about a brisk decrease of the American short term interest rates. The 3-months USD libor dropped from 3.05% to 2.63% during the first quarter. The European 3-months rate even increased a little from 4.69% to 4.73%. As a result, the interest rate differential between Europe and the US is now more than 2%. On the capital market, the European 10-year rate is now above the dollar rate for the first time since 2004. This will further exacerbate the pressure on the US dollar. The symbolic 1.5000 barrier for the euro-dollar exchange rate appeared to hold at the end of last year and until mid February. But during the second half of the quarter, this level was broken and the USD declined to 1.5788 at the end of March.

Since early 2006, the dollar has already lost 16% of its value compared to the euro. European companies that are mainly active in export markets, see their competitive position deteriorating as a consequence.

Stock Markets

For the third consecutive quarter, stock markets decline. With the exception of the BEL20 (-9.88%), all European markets lost over 10% of their value during the first three months of 2008.

Table 1.1 - General

	31/mrt/08	31/dec/07 - 3 mth	30/sep/07 - 6 mth	30/jun/07 - 9 mth	31/mrt/07 - 12 mth
AEX	442,43	-14,22%	-18,22%	-19,30%	-13,33%
BEL20	3719,52	-9,88%	-14,01%	-19,83%	-16,82%
DAX	6534,97	-18,99%	-16,87%	-18,39%	-5,52%
EU50	3628,06	-17,54%	-17,20%	-19,19%	-13,23%
DJ	12262,90	-7,55%	-11,75%	-8,54%	-0,74%
SP500	1322,7	-9,92%	-13,36%	-12,02%	-6,91%
Nasdaq	2279,1	-14,07%	-15,64%	-12,45%	-5,89%
EUR/USD	1,5788	8,21%	10,66%	16,59%	18,23%
EUR 3 maanden	4,7270	0,0430	-0,0650	0,5520	0,8030
EUR 10 jaar	4,1230	-0,2840	-0,2960	-0,4840	0,0360

The AEX declined by 14.22% and the DAX by almost 19%. Small- and midcaps were hit very hard during the second half of 2007, but dropped less than the blue chip indices during the first quarter of 2008. The AMX and ASCX decreased by 4.7% and 9.4% respectively. In Germany, the MDAX and the SDAX decreased by 10.9% and 13.5%. The US markets decreased less than the European markets with declines of 7.55% for the Dow Jones Industrial and 9.92% for the S&P500.

Implied volatility

In the first quarter of 2008, the volatility of the stock markets increased, both in Europe and the US. At the time of the near-bankruptcy of Bear Stearns, there was even a peak to 32.5%, a level that has not been seen in the last 5 years.

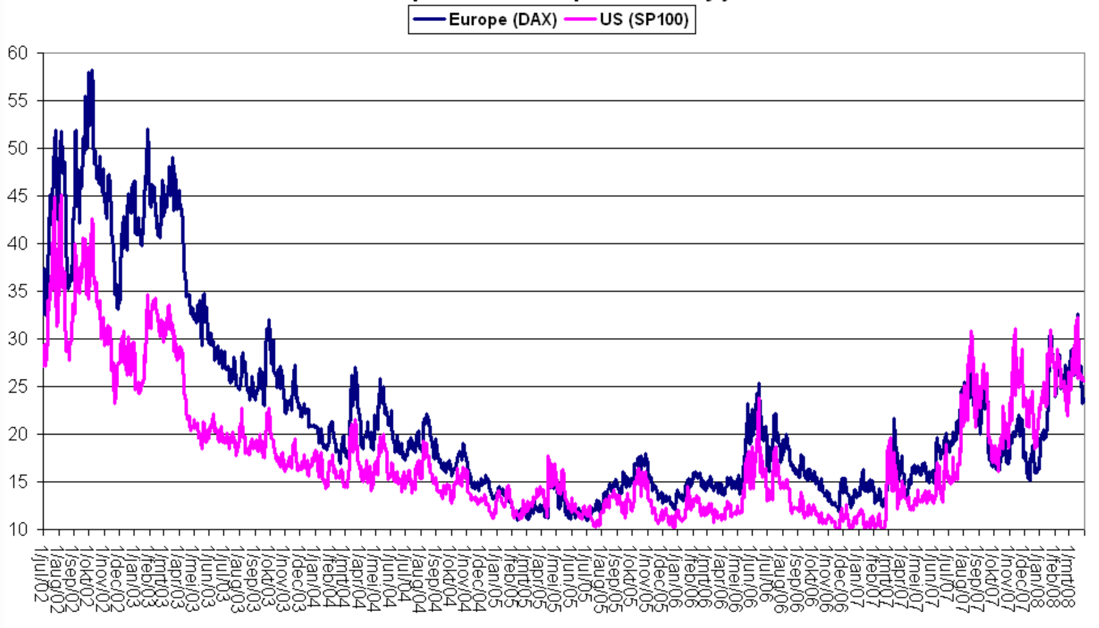

Table 1.2 Development of the implied volatility jul 02 - mrt 08

Long-term development

During the first quarter of 2008, the correction of the stock market continued. The long-term trend line for the AEX (the 200-day moving average) has become decreasing for the first time since 2002. Because of the reduced prices and the unchanged or even improved profit expectations, a number of companies have become very attractively valued.

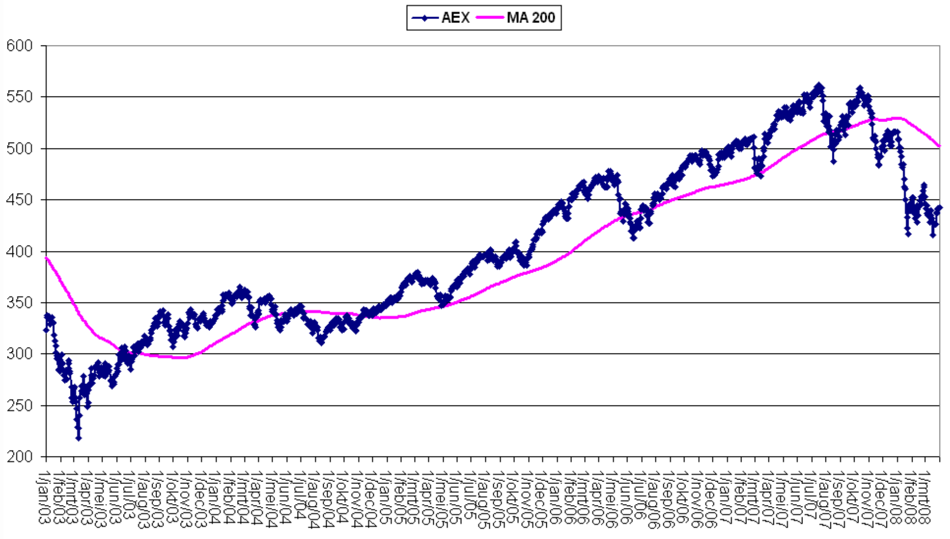

Table 1.3 Long-term development AEX jan 02 - mrt 08