GENERAL INVESTMENT CLIMATE

The Economy

The economic downturn continued during the first quarter of 2009. In the industrialized countries nearly all economic indicators are negative. Since the beginning of the recession in December 2007, more than 5 million jobs disappeared in the US, of which ca. 2 million during the first quarter of 2009 alone. Hence, the unemployment rate has reached its highest level in 25 years, at 8.5%.
Institutions like the OECD, the IMF and the World Bank have adjusted their economic growth expectations downwards several times. The IMF and the World Bank now both expect a decline of the global economy in 2009 (of 0.5-1% and 1.7% respectively); for the first time since World War II, the global economy would show negative growth. In 2010 the world economy should grow again, with about 2%. The OECD expects a negative growth of 4.3% for its members (the industrialised countries) in 2009. Japan should be hit most severely (-6.6%), but the Eurozone (-4.1%) and the US (-4%) are also expected to suffer strongly. In 2010 growth would still be slightly negative (-0.1%). Only some emerging countries - China in the first place - are able to prevent the global economy from collapsing altogether.
A positive signal, however, is that the confidence indicators have stopped their free fall and are bottoming out, albeit at very low levels. All hope of a recovery now rests upon China, where there are some early signs of improvement.
The prerequisite for a sustainable economic recovery is the return of financial stability. Here for the Geithner plan (named after the US Treasury secretary) could turn out to be a good starting point. Through a capital leverage of 1,000 billion dollar, the American Treasury hopes to convince the private sector to buy a part of the junk bonds from the banks; as such, the latter wouldn’t have to book new write-offs, and a large part of the risk would disappear from their balance sheets. The financial markets responded positively to the Geithner plan.
At the G20 meeting in London of April the 2nd , the government leaders from the world’s 20 biggest economies (including the EU) reached an “historic” agreement to get the economy back on track. The most important results include a trebling of the money for the IMF, to a total of 750 billion dollar lending facilities, plus an additional 250 billion dollar special drawing rights. The international financial institutions will be reformed, to give the emerging countries more decision power. The countries of the G20 will also make 250 billion dollar available for rectifying international trade activity. The financial sector will be monitored more closely and stricter financial legislation will be implemented. Accounting standards will be reassessed, there will be more stringent rules for rating agencies and efforts to tackle tax havens will be intensified. The G20 also aims at sustainable economic recovery. Altogether, these measures should create a framework for a global economic recovery, and announce a new era of international cooperation, the start of a new multi-polar world order.
Additionally, the G20 countries are already implementing relaunch measures worth many billions of dollars. Notably, the (adapted) relaunch plan of Obama worth 787 billion dollar, consists of ca. 300 billion dollar tax reductions, 200 billion dollar infrastructure investments, and billions of dollars for education, the medical sector and social measures. The other side of the coin is obviously that the US budget deficit will increase dramatically this year, to an estimated 1,800 billion dollar (13% of GDP).

Oil prices moved within a wide trading range of $40-60 per barrel during the past months. As oil prices were more than twice as high a year ago, inflation dropped below 2% in the Eurozone; in March an historic low of 0.6% was reached.

Money markets and exchange rates

To combat the economic crisis, central banks opened the money spigots even further. After two cuts of 50 basis points each in January and March, the ECB lowered its basic interest rate with 25 basis points at April the 2nd, to 1.25%, the lowest level ever for the Eurozone. However, the market had anticipated a more drastic cutback. The ECB didn't announce any additional, unconventional measures to tackle the economic crisis either, such as quantitative easing, in simple terms an indirect method of printing money, through open market operations such as the purchasing of bonds. The Federal Reserve and The Bank of England earlier did decide to take such drastic measures, also because they had already worn out their interest rate weapon. In the US, the interest rate is already at 0-0.25% since December; in the UK, the interest rate stands at 0.50% since the beginning of March, after three consecutive cuts of 50 basis points each in 2009.
On the interbank markets, the 3-month interbank rates fell sharply to 1.51%, in the wake of the interest rate cuts of the central banks. The long-term rates recovered somewhat, making the interest rate curve more steep again.
The exchange markets initially saw a strong recovery of the dollar, to 1.25 the euro, before falling back to 1.32. The British pound was able to recover somewhat from its collapse near the end of 2008 and is now back at around 1.10 euro.

Stock Markets

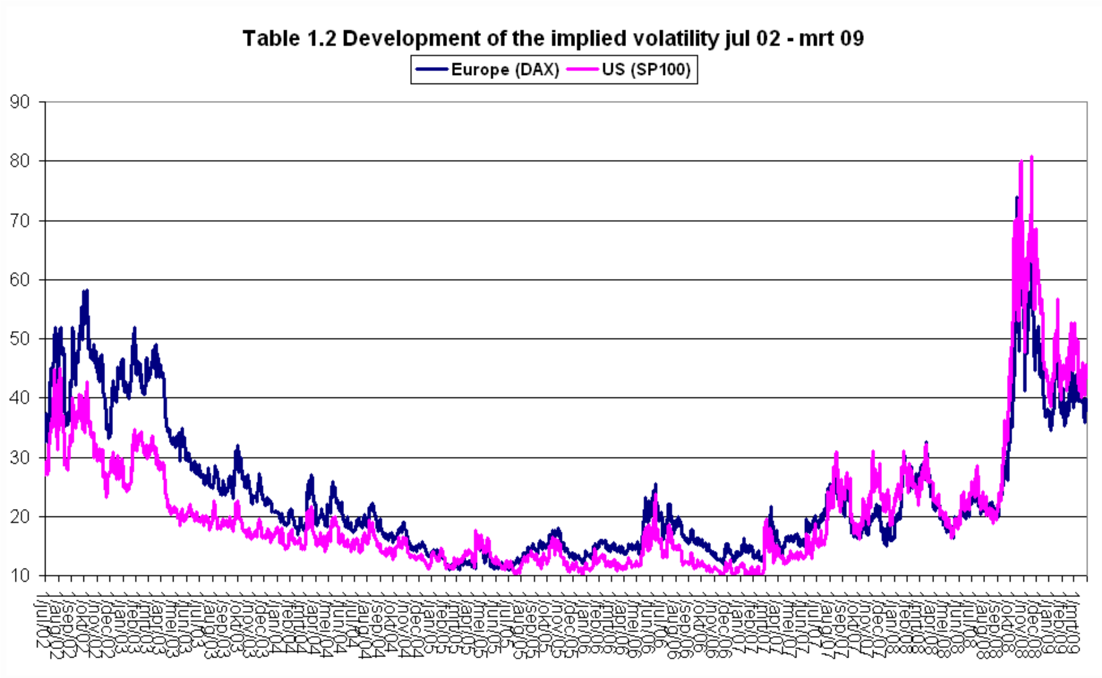
Table 1.1 - General

	31/mrt/09	31/dec/08 - 3 mth	30/sep/08 - 6 mth	30/jun/08 - 9 mth	31/mrt/08 - 12 mth
AEX	216,98	-11,78%	-34,54%	-49,06%	-50,96%
BEL20	1748,74	-8,38%	-34,56%	-44,80%	-52,98%
DAX	4084,76	-15,08%	-29,95%	-36,36%	-37,49%
EU50	2071,13	-15,38%	-31,83%	-38,23%	-42,91%
DJ	7608,92	-13,30%	-29,88%	-32,96%	-37,95%
SP500	797,87	-11,67%	-31,59%	-37,67%	-39,68%
Nasdaq	1528,59	-3,07%	-26,93%	-33,34%	-32,93%
EUR/USD	1,3252	-5,16%	-5,97%	-15,89%	-16,06%
EUR 3 months	1,5100	-1,3820	-3,7670	-3,4370	-3,2170
EUR 10 year	3,7380	0,1920	-0,6070	-1,0730	-0,3850

Despite several hopeful signals in December, the stock markets continued their downfall. On average, they dropped another 10-15% during the first quarter, with the Nasdaq (-3%) and the BEL20 (-8%) performing slightly better. Initially, the losses were even a lot higher, but after reaching a low point at the beginning of March, the stock markets recovered strongly. For the US markets, March was even the best month of the past years; the S&P rose 8.5%, and is now already 22% above its lowest point of the year. While the MDAX (-21%) and the SDAX (-15%) also dropped strongly, the AMX (-6%) and the ASCX (-3%) were able to limit the damage somewhat.

Implied volatility

During the first quarter of 2009, stock market volatility stabilized at a still very high level of around 40%. However, the exceptional heights of October and November were not reached again.



Long-term development

The downward trend continued during the first quarter of 2009. Not only did the AEX breakthrough the low point of March 2003, the 200-point barrier also had to give away, albeit only temporarily; March the 9th the AEX finished at 199.25 (intraday 194.99), its lowest level since July 1995.Since the top of 2007 (near 550 points) the AEX lost more than 60%. The index recovered somewhat at the end of the month.