GENERAL INVESTMENT CLIMATE

The Economy

During the second quarter of 2009, the first green shots of economic recovery became visible, also outside China.
The confidence indicators in Germany and the US seem to suggest that the worst of the crisis is now behind us. The ZEW-index (German investors confidence) reached its highest level since 3 years in June, and the authoritative IFO-index (producer confidence) also recovered somewhat over the past months. The American consumer confidence rose to its highest level since September 2008 in May, but unexpectedly fell back somewhat in June.
The return of financial stability and the rapidly declining inflation were probably the main reasons for the boost of confidence.
The stress test of the US banks were less bad than feared, in total “only” $75 billion capital will have to be raised.
The IMF has recently adjusted its growth expectations for the world economy in 2010 slightly upwards, from 1.9% to 2.4%. For 2009, the IMF still expects a 1.3% contraction of the world economy. The OECD also became more optimistic about the economy, for the first time since two years. The institution expects a modest economic growth for its members in 2010 (e.g. US 0.9%) instead of zero growth.
On the other hand, the World Bank recently lowered its expectations for the world economy, predicting a very slow recovery.

The unemployment figures (a lagging indicator) are still deteriorating. In the US, about one million jobs disappeared during the past quarter. The number of unemployed rose to ca. 14.5 billion, 9.5% of the working population. Nevertheless, the job decrease was less severe than in the first quarter, which, alongside positive figures about the industrial production, sales of existing houses and rebounding consumer confidence, would indicate the recession is drawing to its end, according to some economists.
Ben Bernanke, chairman of the Federal Reserve, also expects the US economy to return to growth in the second half of this year. According to the Bureau of Economic Research, however, it is still premature to state that the worst of the crisis is already behind us. Unemployment will keep increasing this year anyhow, begin 2010 the cape of 10% will most probably be rounded. The Federal Reserve doesn’t expect a return to a “normal’ level of unemployment, i.e. about 5% of the working population, before 2013.
Another point of concern is the state of the public finances in the US and a large number of European countries, which have deteriorated severely due to the extremely expensive governmental rescue actions and relaunch plans. The creditworthiness of these countries is coming under pressure. Ireland already saw its S&P-rating drop from AAA to AA, and a further decline to the level of Greece (A^-) cannot be excluded. Larger countries like the US, the UK and France also risk losing their top rating (AAA), with all negative consequences involved.
Oil prices rose above $70 in June, already twice the bottom level attained end of last year. Nevertheless, oil is still only half as expensive as it was in June 2008, when oil prices reached record heights. Accordingly, energy prices still put strong downward pressure on inflation (calculated on an annual base), which currently is around zero in the Eurozone. In June, inflation even turned negative for the first time ever in the Eurozone, at -0.1%.

Money markets and exchange rates

While most other central banks were already out of ammunition, the ECB lowered its basic interest rate with 25 basis points to 1% in May. Since October 2008 the interest rate has been cut back from 4.25% to 1%, in seven steps. Although this is a record low level for the Eurozone, some analysts expected a stronger cutback, in order to exorcise the deflation ghost. However, ECB chairman Trichet, at least suggested that a further cutback cannot be excluded. The ECB also commentated on its plans to buy up bonds for €60 billion, in an effort to lower long term interest rates. Although Trichet emphasised that this should be seen more as “credit easing” instead of “quantitative easing” - with the focus lying more on supporting balance sheets than on directly stimulating money supply (which could inflame inflation) – this nevertheless represents a significant change in the ECB’s policy.

On the interbank markets, the European 3-month interbank rate declined further, to the exceptionally low level of 1.099%. The improved economic outlook caused the long-term rates in the US and Europe to rise above 4%, before falling back somewhat again in Europe.

On the exchange markets, the dollar weakened against the euro, rising above the 1.40 dollar level for the first time since January 1st, after initially having strengthened somewhat in April.

The British pound continued its recovery of the first quarter, rising to 1.18 euro. The Japanese yen remained largely unchanged.

Stock Markets

Table 1.1 - General

	30/jun/09	31/mrt/09 - 3 mth	31/dec/08 - 6 mth	30/sep/08 - 9 mth	30/jun/08 - 12 mth
AEX	254,71	17,39%	3,57%	-23,15%	-40,20%
BEL20	2030,98	16,14%	6,41%	-24,00%	-35,90%
DAX	4808,64	17,72%	-0,03%	-17,53%	-25,08%
EU50	2401,69	15,96%	-1,88%	-20,95%	-28,37%
DJ	8447,00	11,01%	-3,75%	-22,15%	-25,58%
SP500	919,32	15,22%	1,78%	-21,18%	-28,18%
Nasdaq	1835,04	20,05%	16,36%	-12,28%	-19,97%
EUR/USD	1,4033	5,89%	0,43%	-0,43%	-10,93%
EUR 3 months	1,0990	-0,4110	-1,7930	-4,1780	-3,8480
EUR 10 year	3,7990	0,0610	0,2530	-0,5460	-1,0120

Driven by rising raw materials prices (such as the base metals) and recovering financial values, stock markets were able to continue the recovery that already started the second half of March.

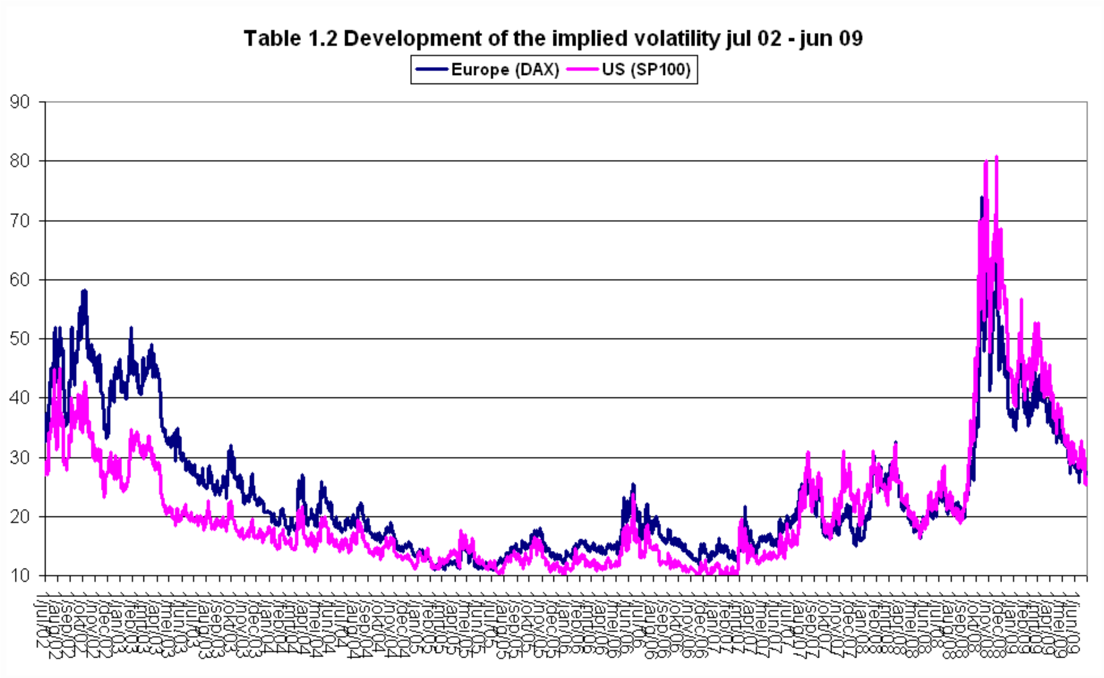
Most indices gained 15-20% on a quarterly basis. The S&P500 even recorded its strongest quarter in over ten years. Only the Dow Jones lagged behind, with a rise of 11%, but this is related to the poor representative composition of this index.

The small- and midcap indices performed even better, with quarterly gains from 22% (SDAX) over 28% (ASCX) up to 30% for the MDAX and the AMX.

After this very strong spring surge, investors started taking some profits from the second half of June onwards.

Implied volatility

During the second quarter of 2009, volatility gradually decreased, falling under the 30% level. Herewith, the period of extreme volatility seems to have come to an end.



Long-term development

The AEX was able stop the downward trend in the second quarter of 2009. At the beginning of June, the index nearly reached its year high of 271.91 punts, 35% above the depths of March, 9th. Thereafter there was some profit-taking.