GENERAL INVESTMENT CLIMATE

The Economy

During the second quarter of 2010, the optimism that had gradually spread over the economy since spring 2009 faded away swiftly. While the emerging economies mostly manage to stay out of the line of fire, macro-economists are raising concerns over the sustainability of the economic recovery of a lot of Western economies.

In the Eurozone confidence is undermined by the measures required to get the public finances of notably the southern member states back on track. In April, credit ratings of Greece, Portugal and Spain were downgraded. At the beginning of May, the members states of the European Union agreed to set up a European mechanism for financial stability able to raise up to 750 billion euros in order to support necessitous member states of the Eurozone. Nevertheless it remains to be seen whether the European Union will be able to handle future crisis situations in a decisive and coherent manner, as long as the monetary pillar is not accompanied by a fully-fledged economic pillar. Notably Anglo-Saxon observers cast serious doubts.

Meanwhile, growth expectations for the Eurozone were adjusted downwards to a scanty 1%. Needless to say that such growth figures will hardly suffice to drive unemployment figures back down again.

However, there were also some positive facts to hold on to; German consumer confidence remained stable in June and producer confidence, measured by the IFO index, even increased unexpectedly.

It is certainly worth noting that, within Europe, Germany seems to have dealt best with the crisis and is ideally placed to show the strongest growth over the next years. This is mainly due to the incisive reforms Germany carried out over the past years, resulting in a resilient and flexible labour market and a highly competitive economy, also thanks to maintaining a rigid wage policy. Besides, the open and export oriented German economy should benefit from the current weakness of the euro.

In the United States, consumer confidence rose in June to its highest level since January 2008. The PMI index of American purchase managers dropped back a bit, but remains at a rather high level.

The American housing market still doesn’t show any signs of a sustained recovery. New-home sales plummeted to a record low in May, following the expiration of the homebuyer tax credit. However, it does appear that housing prices have stopped their downward trend.

The US economy is now expected to grow 3% this year. There are reasons to remain cautious though; the American economy is still relying on government support, unemployment remains very high (9.7%) and the construction industry has yet to show lasting signs of a durable recovery.

Over the past years, the emerging economies have gradually evolved into the driving force of the global economy. Following years of strong growth, the Chinese economy seems to become somewhat overheated. Concerns are being raised over the quality of bank credits and the possibility of a property bubble. The government finally saw the need to intervene via the interest rate and exchange rate policy. Herewith, the unbalanced trade relations between China and the Western world should gradually be rectified. It appears as if these measures come right on time.

Illustrative for the anxiousness and uncertainty amongst investors, is the fact that the gold price reached record highs in June.

Meanwhile inflation in the Eurozone keeps fluctuating around 1.5 percent. In the wake of the weaker economic outlook, the oil price fell back towards $70 per barrel.

Money markets and exchange rates

As widely expected, the major central banks left their interest rates unchanged.
Amidst the euro crisis, the ECB decided to purchase treasury bonds of euro countries in order to counteract the ongoing speculation. Because the ECB is statutory not allowed to buy treasury bonds directly (no-bail out clause), this is done in an indirect manner, e.g. buying them from banks or companies on the secondary market.
Besides, the ECB again assigned exceptional credit facilities to commercial banks.
On the interbank markets, the interest rate spread narrowed. While the short term rate recovered slightly, the long term rate for euro loans fell back sharply, reaching a historically low level of 2.8% by the end of the quarter.
On the exchange markets, the euro weakness continued, losing nearly 10% against the dollar over the past quarter. The euro even fell below the 1.20 dollar mark. By the end of the quarter, the euro started to recover, despite the well-known problems of the Eurozone (high public debts, weak economic growth and a lethargic economic policy). Some economists even expected the euro to reach parity with the dollar by the end of the year.
China announced mid June that it will finally loosen the strict yuan-dollar peg. However, the long awaited appreciation of the yuan will only be allowed gradually.

Stock Markets

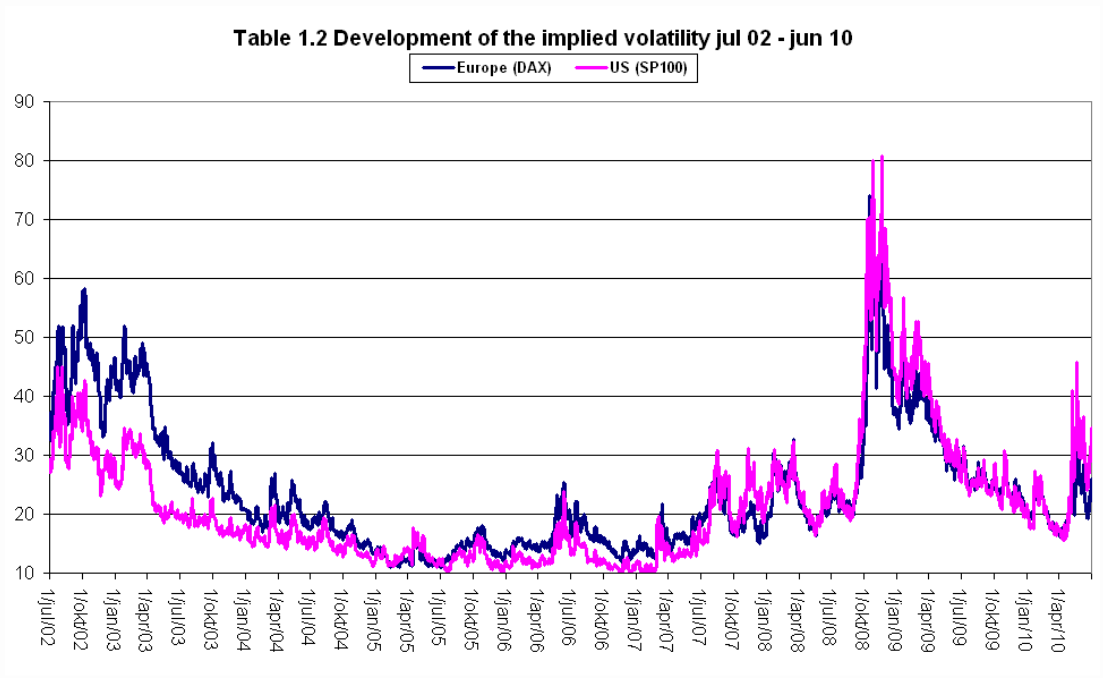
Table 1.1 - General

	30/jun/10	31/mrt/10 - 3 mth	31/dec/09 - 6 mth	30/sep/09 - 9 mth	30/jun/09 - 12 mth
AEX	316,81	-7,96%	-5,52%	1,75%	24,38%
BEL20	2386,53	-9,89%	-4,98%	-3,99%	17,51%
DAX	5965,52	-3,06%	0,14%	5,12%	24,06%
EU50	2573,32	-12,21%	-13,21%	-10,42%	7,15%
DJ	9774,02	-9,97%	-6,27%	0,64%	15,71%
SP500	1030,71	-11,86%	-7,57%	-2,49%	12,12%
Nasdaq	2109,24	-12,04%	-7,05%	-0,62%	14,94%
EUR/USD	1,2237	-9,42%	-14,58%	-16,40%	-12,80%
EUR 3 months	0,7670	0,1330	0,0670	0,0140	-0,3320
EUR 10 year	2,8080	-0,5190	-0,7470	-0,7030	-0,9910

The main stock markets chose the way downwards at the beginning of May, before stabilizing somewhat in June. Most markets faced losses of around 10% over the quarter. Only the DAX was able to hold ground relatively well, mainly thanks to the export oriented German economy.
Herewith, the nice gains that had been built up over the first quarter were rapidly wiped out and even turned into losses of 5-7% since the beginning of the year, with the DAX as positive and the EuroStoxx50 as negative outlier.
After the exceptionally strong recovery of the stock markets since spring 2009, this correction should be considered as a normal and healthy evolution.
The German small- and midcap indices outperformed the DAX over the past quarter; the MDAX fell 1.7%, the SDAX even managed to squeeze out a small gain of 0.2%.
On the contrary, both the AMX and the ASCX performed even worse than the AEX, each losing about 10%.

Implied volatility

Over the pasted months, increasing uncertainty caused the return of turbulences at the financial markets. Volatility rose above 40%, which still is way below the peaks reached in full crisis though.



Long-term development

The upward trend that started about a year ago came to an end, with the AEX falling below its 200-day moving average. Om May 25th the AEX reached its low point of the year at 305 points, before recovering slightly afterwards.