GENERAL INVESTMENT CLIMATE

The Economy

During the first quarter of 2011, the world economy had to deal with a number of unexpected challenges. Geopolitical tensions in the Arab world and the heavy earthquake followed by a nuclear disaster in Japan caused severe unrest at the financial markets.

In spite of this, the economic outlook for 2011 remains rather positive.

The IMF expects the world economy to grow by 4.4% this year. The emerging economies remain the driving force behind the economic recovery, with an anticipated growth rate of 6.5%. The developed economies will have to settle for economic growth of around 2.5%.

The economy of the United States seems to be gaining traction. Producer confidence in the services sector (which represents three-fourths of the US economy) is at its highest level of the past five years. The labour market is also showing signs of improvement, with a surprisingly strong job creation during the past two months. The unemployment rate also decreased further, to 8.8%.

Nevertheless, the US economy still faces several fundamental problems. Now the temporary supportive measures of the American government are fading away, it becomes clear that the housing market is still very fragile. Moreover, the budget deficit seems to be running out of control.

After another year of very strong economic growth (roughly 10%), China has meanwhile overtaken Japan as the world's second largest economy.

However, it remains to be seen whether these kinds of growth figures are sustainable in the long run. Fears are mounting that the speculative bubble might burst. The Chinese government wants to prevent this by limiting the access to credit as well as by achieving a more balanced economic growth, which should benefit the whole population. A stronger domestic demand would also be helpful in moving towards more balanced global trade.

The tensions within the Eurozone are still far from over. The economic growth is very unevenly balanced between the member states, with on the one hand the core countries around Germany who are performing strongly, and on the other hand the countries in the periphery, some of which are even facing negative growth again.

The European banks recently had to undergo new, more severe stress tests. Only the results of the Irish banks have already been published. The Irish banks will need to raise another 24 billion euros to strengthen their capital reserves. The total rescue bill for Ireland alone now already amounts to 70 billion euros.

Other countries are also still facing an uphill battle. The rating agencies only made matters worse by further downgrading Greece, Portugal and Spain. Due to the mounting distrust, the interest rates these countries have to pay on their bonds are increasing further, in some cases to (well) above 10%.

It is widely expected that Portugal will have to make use of the European Financial Stability Facility (EFSF) sooner rather than later.

The financial markets fear that a debt restructuring in these countries will become inevitable. To avoid a new banking crisis, on agreement was reached at the EU summit end of March to raise the capacity of the temporary euro rescue fund (EFSF) from 250 billion euros to the full 440 billion euros.

Moreover, an agreement was reached on the extent and substance of the permanent rescue fund that will replace the temporary fund in 2013.

This so-called European Stability Mechanism (ESM) will have an effective lending capacity of 500 billion euros, in order to bail out member states of the Eurozone who face severe problems.
The unrest in the Arab world has caused the oil price to rise strongly towards 120 dollars per barrel, the highest level in two-and-a-half years. Mainly because of rising energy prices, inflation in the Eurozone increased further, to 2.6% in March.

Money markets and exchange rates
President Jean-Claude Trichet hinted early March that, due to the rapidly increasing inflation, the European Central Bank will probably already raise its interest rate in April. Most economists only expected an increase in the third or fourth quarter. Although the interest rate will probably only be raised by 25 basis points, this nevertheless is an important turning point. After nearly two years, a period of extremely low interest rates (1%) will come to an end.
Whereas the ECB used to tune its monetary policy with that of the American Federal Reserve, there now seems to be an uncoupling. The Federal Reserve is sticking to its policy of cheap credit, in order to support economic growth.
Both short and long term interest rates on euro loans are continuing their upward trend, supported by the improved economic outlook.
The higher interest rates in the Eurozone caused the euro to climb above 1.40 dollar.
Against the yen, the euro reached its highest level in ten months.

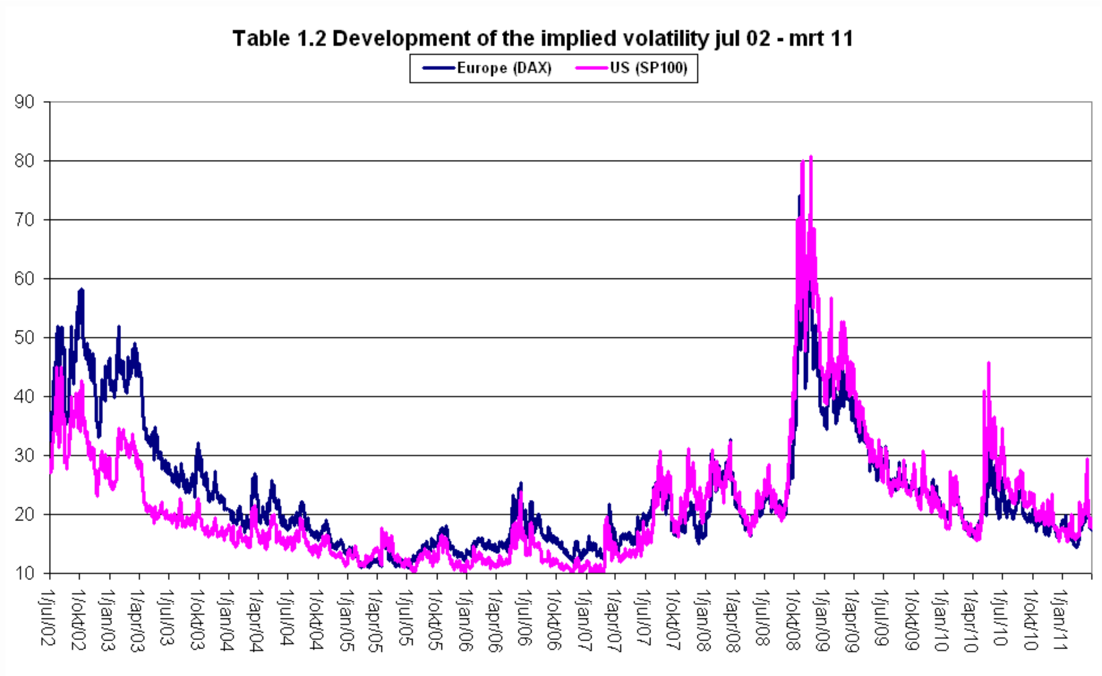
Stock Markets

	31/mrt/11	31/dec/10 - 3 mth	30/sep/10 - 6 mth	30/jun/10 - 9 mth	31/mrt/10 - 12 mth
AEX	365,62	3,12%	9,34%	15,41%	6,22%
BEL20	2662,17	3,24%	2,80%	11,55%	0,52%
DAX	7041,31	1,84%	13,04%	18,03%	14,43%
EU50	2910,91	4,23%	5,93%	13,12%	-0,69%
DJ	12319,70	6,41%	14,20%	26,05%	13,48%
SP500	1325,83	5,42%	16,18%	28,63%	13,37%
Nasdaq	2781,07	4,83%	17,41%	31,85%	15,98%
EUR/USD	1,4158	5,76%	3,85%	15,70%	4,80%
EUR 3 months	1,2390	0,2330	0,3470	0,4720	0,6050
EUR 10 year	3,6420	0,4880	1,1320	0,8340	0,3150

After a strong start of the year, the stock markets came under pressure from mid February onwards, due to the mounting tensions in a lot of Arab countries and the nuclear disaster in Japan.
Some already saw this as the beginning of a correction, but the last couple of weeks the stock markets recovered swiftly again.
On a quarterly basis, the most important indices still recorded nice gains of 3% to 5%.
After the very strong performance in 2010, the DAX is lagging behind somewhat this year. The American stock markets had the strongest performance – albeit in USD.
The Dutch small- and midcap indices performed less well than the AEX over the past quarter; both the ASCX and the AMX recorded a modest gain of 1.5%.
In Germany, the MDAX (+1.8%) performed roughly in line with the DAX, whilst the SDAX finished the quarter with a small loss (-0.5%).

Implied volatility

The stock market volatility temporarily increased sharply towards 30% over the past quarter due to the nuclear disaster in Japan. Towards the end of the quarter the volatility decreased to lower levels again.



Long-term development

The AEX rose to 374 points in February, then witnessed a momentary fallback, to finish the quarter at 366 points. Over the quarter the index gained 3%.

The AEX thus managed to break through the upward trading range of 360 points.

As the index remains well above its 200-day moving average, the short term outlook looks quite promising, despite the imminent interest rate increase by the ECB.