GENERAL INVESTMENT CLIMATE

The Economy

The past quarter was once again marked by the debt crisis in the Eurozone. The risks of this crisis running out of control and, related to this, the discussions about the existence of the euro, have increased considerably. Fears of a significant drop of the economic growth and even a recession are mounting.

The European leaders try to regain confidence from the markets by tackling the budget deficits and making better appointments between European countries. The Americans try to avoid a recession by stimulating economic growth, as illustrated by the new government stimulus package of 447 billion dollar.

By the end of September, it finally seemed to become clear to all parties that an extensive rescue program for the euro will be needed to calm down the financial markets. The IMF, the central banks and the European governments are believed to jointly announce such a rescue plan soon. The plan would be threefold: solve and isolate the Greek debt problems, in order to prevent contagion of other euro members; strengthen the European banking sector; and stimulate economic growth.

It is becoming ever more obvious that Greece cannot carry its huge indebtedness on its own. Breaking the vicious downward spiral will be a huge challenge. A controlled Greek default, with a haircut of say 50% is by many observers regarded as one of the possible scenarios.

The question is how the Greek drama can be settled without putting the vulnerable European banks – with their large exposure towards Greek and other treasury bonds – and thus the entire financial system in danger.

The approval of the second Greek rescue plan by the German parliament was an important step towards strengthening the European rescue fund EFSF.

Mounting concerns over the debt crisis obviously didn’t boost producer and consumer confidence. The IFO-index, which measures German producer confidence, decreased from 108.7 in August to 107.5 in September. Although this decline was less sharp than expected, the IFO index is now at its lowest level since June 2010. The two preceding months already saw a decline. Economists normally consider three consecutive drops of the IFO index as a trend change of the economic cycle.

Economic growth expectations are being adjusted downwards. The ECB for instance only expects the economy of the Eurozone to grow by 1.6% this year; in 2012 the growth would decrease further to 1.3%.

The IMF previously already cut back its growth expectations for just about the whole world. The world economy is now only expected to grow by 4% this and next year. The industrialized countries will be hit most, but the emerging economies will not be able to escape unharmed either.

Contrary to these negative signals, unemployment in the Eurozone remained stable at 10% in August. The US economy recorded a higher than anticipated growth of 1.3% in the second quarter, compared to a mere 0.4% in the second quarter.

Consumer confidence also recovered somewhat in the US in September.

Inflation in the Eurozone unexpectedly accelerated to 3% in September, compared to 2.5% in August. This makes it more difficult for the ECB to cut interest rates in order to stimulate the economy. Early September the ECB had said that they anticipated an inflation of 2.6% this year and 1.7% in 2012.

Despite increased recession fears, oil prices all in all remained relatively stable, at a level of around 100 dollars a barrel, which still is a lot higher than last year.

Other raw materials, such as industrial and precious metals, did come down a bit already.

Money markets and exchange rates

The European Central Bank raised its interest rate with another 25 basis points to 1.50% at the beginning of July. As the economic outlook deteriorated considerably since then, this might turn out to be somewhat premature.
To halt the steep increase of interest rates in the weaker euro countries, the ECB decided to start buying Italian and Spanish treasury bonds.
The rising dissension within the ECB was painfully illustrated again by the unexpected departure of chief economist Jürgen Stark, who allegedly disagreed with the lax monetary policy. Their historic aversion for inflation keeps haunting the Germans.
To lower long term interest rates in the US further – they are already at a historic low – the Federal Reserve decided to replace 400 billion dollars short term treasury bonds by treasury bonds with a longer maturity. The Federal Reserve can use the 1,500 billion dollars treasury bonds they purchased earlier.
The euro fell below the 1.35 dollar mark for the first time in seven months.
Against the Japanese yen the euro is at its lowest level in ten years.
The Swiss national bank caused some commotion by setting a ceiling for the Swiss franc, which is no longer allowed to fall below 1.20 CHF per euro. Swiss companies are suffering from the strong appreciation of the Swiss franc, which is seen as a safe haven in these turbulent times.

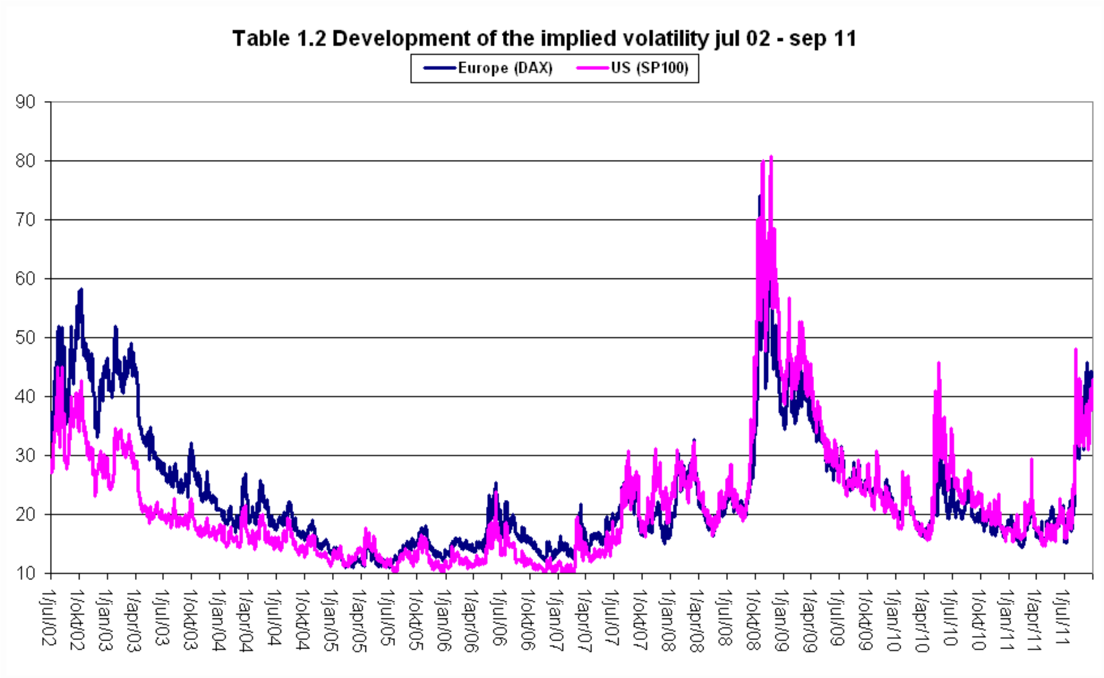
Stock Markets

	30/sep/11	30/jun/11 - 3 mth	31/mrt/11 - 6 mth	31/dec/10 - 9 mth	30/sep/10 - 12 mth
AEX	280,18	-17,51%	-23,37%	-20,98%	-16,21%
BEL20	2131,28	-17,15%	-19,94%	-17,35%	-17,70%
DAX	5502,02	-25,41%	-21,86%	-20,42%	-11,67%
EU50	2179,66	-23,48%	-25,12%	-21,95%	-20,68%
DJ	10913,40	-12,09%	-11,42%	-5,74%	1,16%
SP500	1131,42	-14,33%	-14,66%	-10,04%	-0,86%
Nasdaq	2415,40	-12,91%	-13,15%	-8,95%	1,97%
EUR/USD	1,3388	-7,68%	-5,44%	0,01%	-1,80%
EUR 3 months	1,5540	0,0070	0,3150	0,5480	0,6620
EUR 10 year	2,2850	-1,0580	-1,3570	-0,8690	-0,2250

Most stock markets have had the worst quarter of the last couple of years.
The American stock markets were able to limit the damage somewhat, possibly because American investors left Europe and sought shelter in their home markets.
European stock markets were hit most, due to the fact that a fundamental solution for the debt crisis is not in sight yet. The threat of a Greek default keeps the financial markets at bay.
The export driven DAX topped the bill with a quarterly loss of over 25%, closely followed by the Eurostoxx50, wherein especially the bank sector dropped.
The Dutch small- and mid cap indices performed even worse than the AEX. The ASCX lost nearly 20%, the AMX over 23%.
In Germany, the MDAX (-24%) and the SDAX (-20%) performed slightly better than the main index.

Implied volatility

Stock market volatility surged above the 40% level over the past months. This is still some way of the highs achieved during the crisis of 2008 and 2009, but it remains an exceptionally high level.



Long-term development

The AEX was hit hard during the summer months. The index reached its lowest level since July 2009, at 256 points.

The last week of September saw some kind of recovery towards 280 points, resulting in a quarterly loss of 17.5%.