GENERAL INVESTMENT CLIMATE

The Economy

During the past quarter the European authorities put a lot of effort into finding a solution for the Greek debt crisis, allowing this issue, which has been dominating the news for months, to move to the background – at least for the time being. This helped restoring confidence in the financial markets.

After tough negotiations the finance ministers of the Eurozone reached an agreement in February on a new rescue plan of 130 billion euros and a debt reduction of 107 billion euros for Greece. The deal became possible because over 75% of the private creditors (the required threshold) agreed with the “voluntary” participation in the debt restructuring.

A short-term bankruptcy of Greece and a financial system crisis have been avoided. However, it remains highly doubtful whether Greece will be able to break the vicious downward spiral of draconic austerity measures and a shrinking economy. The country will also have to proof whether they will be able to bring down the debt level to a supportable level (about 120% of GDP) by 2020.

In any case the debt restructuring brought the necessary time to deal with the consequences of an eventual Greek bankruptcy. Moreover, it has been made clear to speculators that there definitely is a strong political will to rescue the euro.

By the end of March the seventeen member states of the Eurozone agreed on the necessary strengthening of the European rescue funds. The temporary rescue fund EFSF and the permanent ESM fund (which still has to become operational) will be temporary combined to increase the firepower. Altogether the Eurozone will mobilize a firewall of 800 billion euros. Due to the rigid stance of Germany the symbolic amount of one trillion euros, which many had hoped for, wasn’t reached. However, the IMF could still come up with extra money after the capacity increase by the Europeans. The attention can now move on to the stimulation of the economic growth.

Due to the budget cuts at most governments, the European economy is going through a tough period. A number of countries is in recession. Except for the problem countries in Southern Europe, the recession is expected to be quite mild. Due to the difficulties in those countries, unemployment in the Eurozone increased to 10.8% in February, the highest level since 1997. However there are large contrasts between member states, with German unemployment reaching a twenty-year low of 5.7%, compared to 23.6% in Spain. This is also illustrated by the fact that producer confidence in Germany increased for the fifth consecutive month in March.

Whereas Europe will probably have to settle for a zero growth this year, the economy of the United States is expected to grow about 2.5% in 2012. Most signals from the other side of the ocean point towards an unexpectedly swift recovery of the American economy, driven by declining unemployment and increasing confidence of consumers and producers. However the American housing market is still by no means out of the doldrums.

The emerging economies, which still depend for a large part on export, are beginning to feel the economic slowdown in most industrialized countries. The growth expectations for China are now tempered to 7.5%, which has the advantage of diminishing the risks of an overheated economy.

Despite the economic slowdown, inflation in the EU remains at the high level of 2.7%. This is of course largely due to the rising oil price. It has reached the level of 125 dollars per barrel as a result of tensions in the Middle East (notably Iran). In euro terms the oil price is now already at a record level, which could become a serious threat to the economic recovery.

Money markets and exchange rates

End of February, the ECB organized a second - and as it seems last - round of long term refinancing (LTRO) in order to strengthen the financial system and stimulate the authorisation of credit. Just like the first operation at the end of December the second operation was a big success, with 800 banks taking up 530 billion euros. The banks readily made use of the opportunity to get cheap credit (1% interest rate) for the exceptionally long period of three years. This capital injection was very helpful in bringing down the long term interest rates in problem countries like Italy and Spain.
Whereas his loose monetary policy earned the new president Mario Draghi a lot of applause from the financial markets, there is growing internal resistance towards his policy within the ECB, notably from the Germans.
The interest rate of the ECB remained unchanged at 1%. Meanwhile the Federal Reserve announced the intention to keep short-term interest rates near zero until at least late 2014. They are already at a record low level since three years. On top of that, the possibility of a new round of quantitative easing (QE3) was not completely ruled out.
The euro was able to recover somewhat over the past months, ending the quarter at 1.33 dollar.

Stock Markets

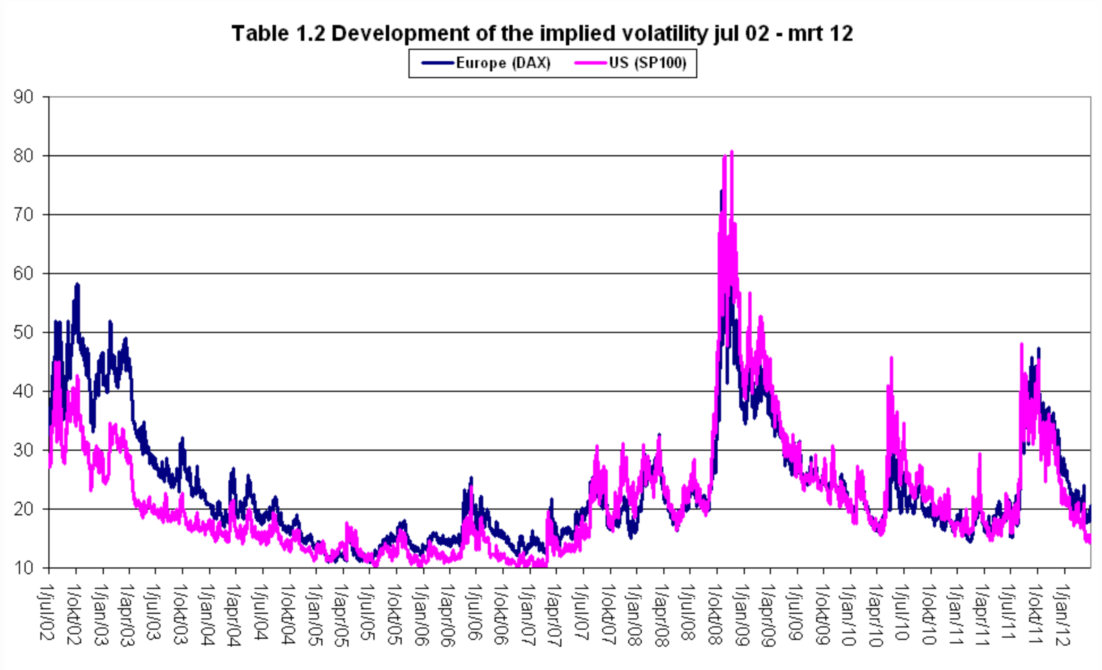
	31/mrt/12	31/dec/11 - 3 mth	30/sep/11 - 6 mth	30/jun/11 - 9 mth	31/mrt/11 - 12 mth
AEX	323,51	3,53%	15,47%	-4,75%	-11,52%
BEL20	2324,05	11,55%	9,04%	-9,66%	-12,70%
DAX	6946,83	17,78%	26,26%	-5,82%	-1,34%
EU50	2477,28	6,94%	13,65%	-13,03%	-14,90%
DJ	13212,00	8,14%	21,06%	6,43%	7,24%
SP500	1408,47	12,00%	24,49%	6,65%	6,23%
Nasdaq	3091,57	18,67%	27,99%	11,47%	11,16%
EUR/USD	1,3344	2,97%	-0,33%	-7,99%	-5,75%
EUR 3 months	0,7770	-0,5790	-0,7770	-0,7700	-0,4620
EUR 10 year	2,3290	0,1410	0,0440	-1,0140	-1,3130

The stock markets got off to a very good start of the year. The two huge capital injections of the ECB and the solution for the Greek debt crisis triggered renewed optimism which brushed aside fears of a worldwide recession. Furthermore, most companies published results that were better than expected (or at least not as bad).
Within Europe, the German stock market once again performed very well, with quarterly gains of nearly 18%.
The American stock markets continue their good run. The Nasdaq is at its highest level since the technology bubble of the year 2000. The Dow Jones broke through the 13,000 level for the first time since 2008.
The Dutch small and mid cap indices performed a lot better than the main index, with gains of 16% for the AMX and 11% for the ASCX. In Germany the MDAX (+20%) and the SDAX (+17%) performed roughly in line with the DAX.
Despite this strong quarter, European stocks are still valued very cheaply compared to

historical levels. On average they are valued at only one time their book value, whereas American stocks for instance are valued at twice their book value.

Implied volatility

The volatility of the stock markets ebbed away further over the past months, below 20%. This is a clear reflection of the regained confidence at the financial markets.



Long-term development

The AEX notably underperformed most European stock markets, with a modest quarterly gain of 3.5%. The Dutch economy is already in a recession since last year and is expected to show a negative growth in 2012. Partly due to the strong decline of housing prices, consumer confidence in the Netherlands is at an unusual low level.