GENERAL INVESTMENT CLIMATE

The Economy

After a rather calm start of the year 2013 with optimism gaining the upper hand at the financial markets, the Mediterranean countries soon spoiled the party. First the Italian elections and the resulting uncertainty about the political future of the country caused unrest. Coalition building appears to be very difficult and a political stalemate is the last thing Italy needs.

The past weeks the place in the spot lights was taken over by Cyprus. The island state with its oversized banking sector was brought to the brink of bankruptcy, also due to its close economic ties with Greece and its high exposure to Greek bonds. Cyprus needs about 10 billion euro financial support. As such this is not an insurmountable amount, but the troika of European Union, ECB and IMF only want to come to the rescue under stringent conditions. Cyprus has to deliver a multi-billion contribution itself, implement structural reforms and put an end to the money laundry practices of mainly Russian criminals.

The plans to have the private sector and savers contribute to the rescue plan caused a lot of unrest, particularly as it seemed that even the European deposit guarantee of 100,000 euro would be breached. Fortunately the decision-makers realized in time that this would be a very dangerous precedent which would undermine confidence in the banking system throughout Europe, so small savers will get off scot-free. However, large savers will lose a large part of their money. The two largest banks of Cyprus will be cleaned up and merged. By imposing capital controls, temporary closing the banks and limiting the withdrawal amount, the much feared bank run has been avoided.

After Greece, Ireland and Portugal, Cyprus is already the fourth country to receive a full bail-out.

In the meantime the economic growth forecasts for the Eurozone were adjusted downwards again. It looks like the Eurozone will stay in recession for another year, after already seeing its economy decrease by 0.6% last year.

More and more economists are in favour of loosening the austerity policy of the European Commission, which seems to be strangling a lot of economies. Several countries including France would receive more time to reach the 3% budget deficit standard. Due to the continued downturn in a lot of countries, unemployment in the Eurozone is expected to peak above 12% this year. The economy would only start growing again in 2014, albeit at a modest pace of 1-1.5%.

German producer confidence unexpectedly declined slightly in March, putting an end to a string of four consecutive (monthly) increases. Following the strong increase in February, the IFO index nevertheless remains at a relatively high level.

Germany will presumably continue to play its role as locomotive of Europe in 2013 as well. The shrinkage of the German economy in the last quarter of 2012 seems to be a mishap.

In the United States, a number of spending cuts automatically came into force as of March 1st (the so-called fiscal cliff bis) as Democrats and Republicans were once again unable to reach an agreement on the budget.

Due to the revival of the American economy not much fuss was made about this though. Unemployment in the US fell to the lowest level since 2008.

Meanwhile the recovery of the housing market in the US continues to gain traction. In January, US home prices showed their strongest increase since 2006. An average house in the largest US cities now costs 8% more than one year ago.

Inflation in the Eurozone decreased further to 1.7% in March, its lowest level since August 2010, creating headroom for further monetary easing.

Money markets and exchange rates

The ECB kept its main interest rate unchanged at 0.75%. As the economic outlook for the Eurozone has become worse again, the probability of an interest rate cut has increased. However, it remains to be seen whether this would have a material impact on the real economy.

In the United States it now seems to become likely that the purchasing program of the Federal Reserve will already be stopped this year, if the labour market continues to recover and inflation remains under control. This would put an end to four years of monetary easing, which played an important role in the soft landing of the US economy.

The euro weakened to 1.28 dollar, its lowest level since November 2012, due to the Cypriot distress.

The Japanese yen declined strongly against both the dollar and the euro after the announcement of the Bank of Japan to speed up the printing press. Some economists fear that the aggressive policy of monetary easing introduced by the new Japanese prime minister could be the start of a new currency war.

Stock Markets

Table 1.1 - General

	31/mrt/13	31/dec/12 - 3 mth	30/sep/12 - 6 mth	30/jun/12 - 9 mth	31/mrt/12 - 12 mth
AEX	348,10	1,57%	7,71%	13,27%	7,60%
BEL20	2592,19	4,70%	9,22%	16,37%	11,54%
DAX	7795,31	2,40%	8,03%	21,49%	12,21%
EU50	2624,02	-0,45%	6,92%	15,87%	5,92%
DJ	14578,50	11,25%	8,49%	13,19%	10,34%
SP500	1569,19	10,03%	8,92%	15,20%	11,41%
Nasdaq	3267,52	8,21%	4,85%	11,33%	5,69%
EUR/USD	1,2820	-2,82%	-0,30%	1,22%	-3,93%
EUR 3 months	0,2110	0,0240	-0,0090	-0,4420	-0,5660
EUR 10 year	1,7700	0,2710	0,0540	-0,3330	-0,5590

After a very strong start of the year, with gains of around 5% in January, the European stock markets had to throttle down due to the Italian elections and the problems in Cyprus.

Most important European indices were nevertheless able to finish the quarter with a modest gain, with the exception of the Eurostoxx 50, which recorded a small loss.

The American stock markets had an exceptionally strong quarter, with gains of around 10%. The Dow Jones and the broader S&P 500 even managed to finish the quarter at their highest level ever. The technology index Nasdaq still has a long way to go to reach its all-time high of above 5,000 points that is dating back to the year 2000.

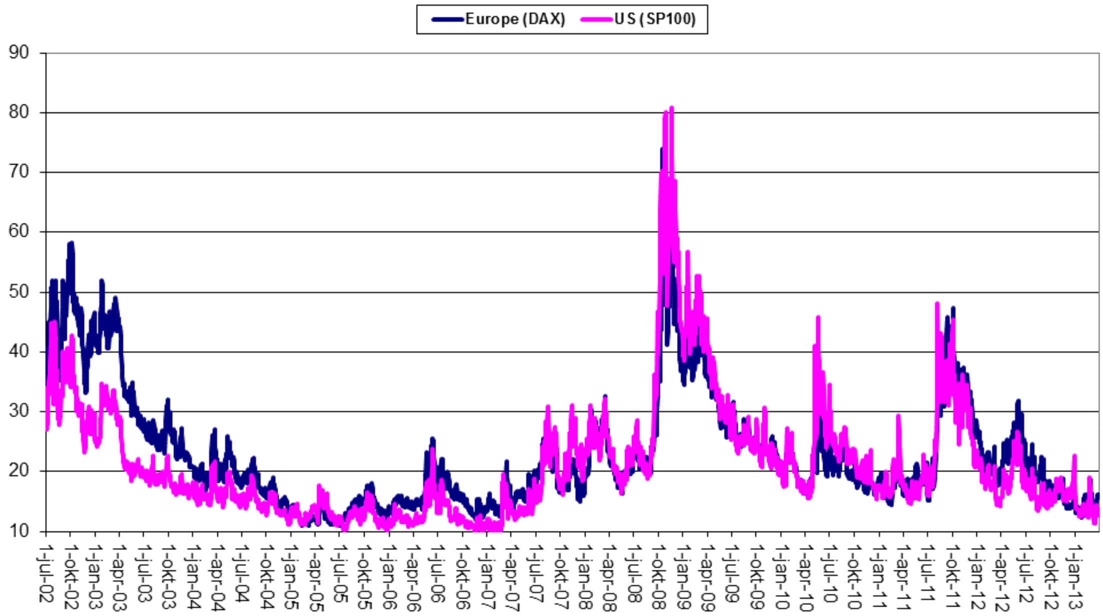
The Dutch small- and midcap indices had a diverse first quarter. Whereas the AMX had to suffer a loss of 1%, the ASCX performed markedly better, with a quarterly gain of nearly 8%.

In Germany, both the MDAX (+12%) and the SDAX (+9%) performed a lot better than the DAX.

Implied volatility

The stock markets on both sides of the Atlantic remained remarkably calm over the past months. Volatility declined to levels of around 15%.

Table 1.2 Development of the implied volatility jul 02 - mrt 13



Long-term development

The AEX had a hesitant first quarter of the year. After a rather strong start with an increase to 358 points, the index fell back to 335 points by the end of February, before recovering again in March and finishing the quarter at 348 points. The AEX thus recorded a modest quarterly gain of 1.6%.

Table 1.3 Long-term development AEX jan 03 - mrt 13