# GENERAL INVESTMENT CLIMATE

## The Economy

After a relatively calm start of the year, the Crimea crisis led to some uncertainty in the financial markets in February. Geopolitical tensions between Russia and the western countries augmented, but after the peaceful annexation of the Crimean peninsula by Russia, fears of an escalation of the crisis ebbed away. With Russia being a vital energy supplier for Europe, the economic risks shouldn't be underestimated though.

The European economy continued its path of slow but steady economic recovery. Consumer confidence continues to improve across the continent.

In Germany, the IFO index declined somewhat in March, after four consecutive monthly increases, but the producer confidence nevertheless remains at a high level.

The introduction of a minimum wage in Germany should improve the purchasing power of the growing class of working poor, which has become a considerable part of the German economy.

The countries in the European periphery are increasingly contributing to the economic recovery. The drastic structural reforms in Spain and Portugal are starting to bear fruit and investors are hoping that the new prime minister of Italy, Matteo Renzi, will implement similar structural reforms in the third largest economy of the Eurozone as well.

Interest rates in Spain and Italy are now back at pre-crisis levels of below 4%.

In France, president Hollande reshuffled his government after the disastrous outcome of the municipal elections for his party and appointed Manuel Valls as new prime minister in an effort to revitalize the lethargic French economy.

The economy of the United States suffered somewhat from the extremely harsh winter conditions at the East Coast. This shouldn't undermine the positive trend though.

Most economic indicators keep moving in the right direction. In March, consumer confidence in the US increased to its highest level in six years, although it has to be mentioned that it's still a lot below the pre-crisis level.

Unemployment in the US remained unchanged at 6.7% in March.

Overall, the growth prospects for the world economy are improving. The IMF expects the world economy to grow 3.6% this year, compared to an increase of 3.0% in 2013.

Another positive aspect is that the economic growth is now becoming more evenly balanced over different regions, instead of being solely carried by the emerging markets and more in particular China.

The economic recovery in the western world more than compensates for the lowered economic expectations for several of the emerging markets, including Russia, Brazil and Turkey, which were hit by currency devaluations, an exodus of foreign capital and higher interest rates.

China is meanwhile continuing its transformation towards a slower but more sustainable economic growth. The feared scenario of a hard landing of the Chinese economy seems to be becoming less unlikely.

With an expected growth of 2.8% this year, the US will keep outperforming Europe, where the economy of the Eurozone is expected to grow by 1.2%.

Despite the geopolitical tensions, the oil price remained relatively stable over the quarter, at a level of between 105 and 110 dollar per barrel.

Inflation in the Eurozone decreased further to 0.5% in March, the lowest level since the end of 2009, leaving ample headroom for further monetary easing.

**Money markets and exchange rates**

After the decrease in November last year, the European Central Bank left its basic interest rate unchanged at 0.25% in the first quarter of 2014. However, president Draghi explicitly stated that the ECB is prepared to do everything within its reach, including unconvential measures such as purchasing government bonds, to counter deflationary risks. As such, the ECB has opened the door for quantitative easing. A long period of extremely low inflation would endanger the fragile recovery of the European economy. Countries where the central bank has used quantitative easing, like the US, the UK and Japan, have seen their economy recovering faster than the Eurozone.

In the US, the new president of the Federal Reserve, Janet Yellen, adjusted the unemployment target, by stating that the main interest rate will not be increased until unemployment is well below 6.5%. This could be the case in about one year's time.

Meanwhile, the tapering continues. In February, the purchasing of government bonds was reduced to 65 billion dollar per month, and from April onwards it will be reduced by 10 billion dollar again, to 55 billion dollar per month.

The euro increased towards the 1.40 barrier in March, but then gave away again, finishing the quarter virtually flat at close to 1.38 dollar. The fact that the euro remains at a relatively high level versus most major currencies isn't very helpful for the recovery of the European economy.

**Stock Markets**

**Table 1.1 - General**

| | 31-mrt-14 | 31-dec-13 - 3 mth | 30-sep-13 - 6 mth | 30-jun-13 - 9 mth | 31-mrt-13 - 12 mth |
|---|---|---|---|---|---|
| AEX | 403,21 | 0,35% | 7,55% | 17,01% | 15,83% |
| BEL20 | 3129,94 | 7,05% | 11,69% | 23,90% | 20,75% |
| DAX | 9555,91 | 0,04% | 11,19% | 20,06% | 22,59% |
| | | | | | |
| EU50 | 3161,60 | 1,69% | 9,28% | 21,48% | 20,49% |
| DJ | 16457,70 | -0,72% | 8,78% | 10,38% | 12,89% |
| SP500 | 1872,34 | 1,30% | 11,35% | 16,56% | 19,32% |
| Nasdaq | 4198,99 | 0,54% | 11,34% | 23,38% | 28,51% |
| | | | | | |
| EUR/USD | 1,3770 | 0,20% | 1,80% | 5,84% | 7,41% |
| | | | | | |
| EUR 3 months | 0,3130 | 0,0260 | 0,0880 | 0,0950 | 0,1020 |
| EUR 10 year | 1,9120 | -0,3220 | -0,2510 | -0,2100 | 0,1420 |

The stock markets had an indecisive start of the year. A weak January, due to fears over the emerging markets, was followed by a stronger February, but in March investors decided to take some profits after the strong performance of most indices over the past quarters.

Overall, most of the major indices on both sides of the Atlantic Ocean ended the first quarter of 2014 virtually unchanged.

The BEL20 was a notable exception, with a nice quarterly gain of 7%, but this was mainly due to the strong performance of some individual stocks, including heavyweight GDF Suez.

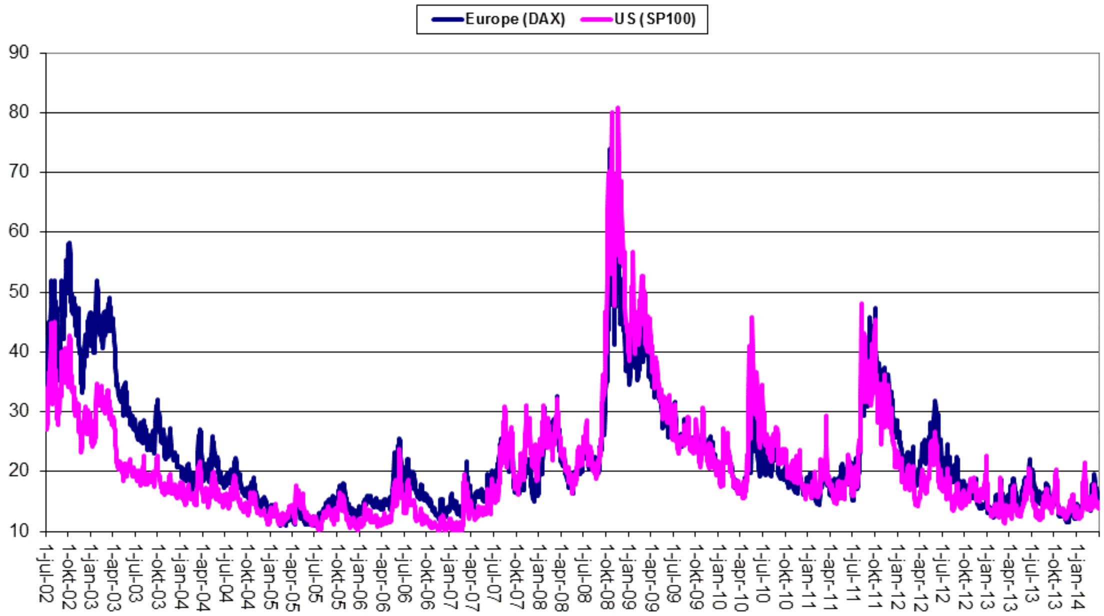
In the Netherlands, the small- and midcap indices both outperformed the AEX index. The AMX gained 6.1% over the first quarter of 2014, the ASCX even managed to gain 11.7%.

In Germany, the MDAX lost 0.7% over the first quarter, whereas the SDAX recorded a gain of 5.6%.

## Implied volatility

There was a slight increase in volatility on both sides of the Atlantic, towards 20%, but overall the stock markets remained relatively calm in the first quarter of 2014, despite the geopolitical tensions due to the Crimea crisis.

Table 1.2 Development of the implied volatility jul 02 - mrt 14




## Long-term development

The AEX had a relatively calm start of the year. The index fell back by about 5% to 383 points, but recovered again towards the end of March, finishing the quarter virtually unchanged at 403 points.

Table 1.3 Long-term development AEX jan 03 - mrt 14