GENERAL INVESTMENT CLIMATE

The Economy

The past months the financial markets remained very calm despite the clang of arms in the Ukraine and Iraq.
The Eurozone seems well on track towards a broader based economic recovery, not only relying on its strong German engine anymore, but also benefiting from a growing contribution of the southern member states. The strong decrease of the interest rate gap between the core member states and the periphery is clear evidence of the regained confidence of the financial markets in the former problem children. After a successful bond auction, Portugal made it clear that it doesn't need the final instalment of its bailout package from the European Union and the IMF. Both Spain and Italy were able to lend money at historically low interest rates, and even Greece was able to do a first bond emission since four years with surprising ease.
In Germany, producer confidence decreased stronger than expected in June, with the IFO index reaching its lowest level since December 2013. According to most economists, this is just a temporary slowdown of business dynamics, partly due to external factors such as the crisis in the Ukraine. We shouldn't be worried about the structural resurgence of the German economy.
The unemployment rate remained stable in Germany and the Eurozone as a whole, at levels of respectively 6.7% and 11.7%.
The European elections in May were marked by the success of the eurosceptical parties in many countries; the extreme right Front National even became the largest party in France. Despite losing some votes, the Christian Democrats remain the largest political fraction in the European Parliament. Consequently, their candidate Jean-Claude Juncker was formally proposed as the new president of the European Commission, despite strong opposition from the UK. All this is not really helpful in restoring belief in an energetic and united European policy.
The economy of the United Kingdom is performing remarkably well, with an economic growth of about 3%, strongly declining unemployment rates and an inflation which is under control.
In the United States, the Federal Reserve lowered its growth expectations for this year quite strongly. They now expect the US economy to grow 2.1 to 2.3%, compared to the former expectation of 2.8 to 3.0%. This adjustment is completely due to the very poor first quarter, which saw the US economy shrink by 2.9%, impacted by an extreme severe winter. For the remaining three quarters of 2014, the newest projection of the Federal Reserve implies a strong growth rate of 3.4% on an annual basis.
Meanwhile, the housing market in the US continues its recovery, as witnessed by the strong rise of both existing and new home sales.
In Asia, the feared economic slowdown of China hasn't really materialized so far, whereas the Japanese economy is performing surprisingly well at late.
Inflation in the Eurozone is still at the very low level of 0.5%. Already for nine months running, inflation is below one percent. The attempts by the European Central Bank to realize its inflation target of lower than, but close to 2% via an extremely loose monetary policy so far didn't bear fruit. The strong euro isn't really helpful in this respect.
Due to the unrest in Iraq, the oil price increased to round 115 dollar mid June, its highest level since September 2013.

Money markets and exchange rates

The European Central Bank lowered its main interest rate by 10 basis points in June, to a new historic low of 0.15%. Even more striking was the decision to lower the deposit rate from 0% to -0.1%. It is the first time ever that one of the main central banks introduces a negative deposit rate; this means that banks will have to pay for parking their cash reserves at the ECB. The measure aims at reviving credit supply to private households and companies. Moreover, president Draghi assured the financial markets that interest rates will remain low until at least end 2016.

The further loosening of monetary policy should help to stimulate economic growth and to prevent the Eurozone from falling into a much feared deflationary scenario. Besides, lower interest rates have the side-effect of making investments in euros less attractive, which should help making the euro cheaper. The strong euro is one of the reasons for the weak economic growth.

In the US, the Federal Reserve is gradually turning off the money tap. The purchasing of government bonds was further reduced to 35 billion dollars per month. At the current speed of tapering, the purchasing program is set to end in October. The main question now is when the main interest rate in the US will be raised. Most economists don't expect this to happen before the second half of 2015.

The euro weakened slightly over the past quarter, to a level of just below 1.37 dollar.

Stock Markets

	30-jun-14	31-mrt-14 - 3 mth	31-dec-13 - 6 mth	30-sep-13 - 9 mth	30-jun-13 - 12 mth
AEX	413,15	2,47%	2,83%	10,20%	19,90%
BEL20	3127,21	-0,09%	6,96%	11,60%	23,80%
DAX	9833,07	2,90%	2,94%	14,41%	23,54%
EU50	3228,24	2,11%	3,84%	11,58%	24,04%
DJ	16826,60	2,24%	1,51%	11,22%	12,86%
SP500	1960,23	4,69%	6,05%	16,57%	22,04%
Nasdaq	4408,18	4,98%	5,54%	16,88%	29,53%
EUR/USD	1,3692	-0,57%	-0,37%	1,22%	5,24%
EUR 3 months	0,2070	-0,1060	-0,0800	-0,0180	-0,0110
EUR 10 year	1,4790	-0,4330	-0,7550	-0,6840	-0,6430

After a hesitant start of the year, the stock markets found the way up again during the second quarter, albeit at a modest pace. Most indices had to settle for gains of around 2% on a quarterly basis. The German DAX broke through the 10,000 points barrier for the first time ever at the beginning of June, but had to give away some of the gains towards the end of the quarter.

The BEL20 ended the second quarter with a small loss, but this came on the back of a clear outperformance in the first quarter.

In the United States, the S&P500 and the Nasdaq performed better than the Dow Jones, with gains of close to 5%.

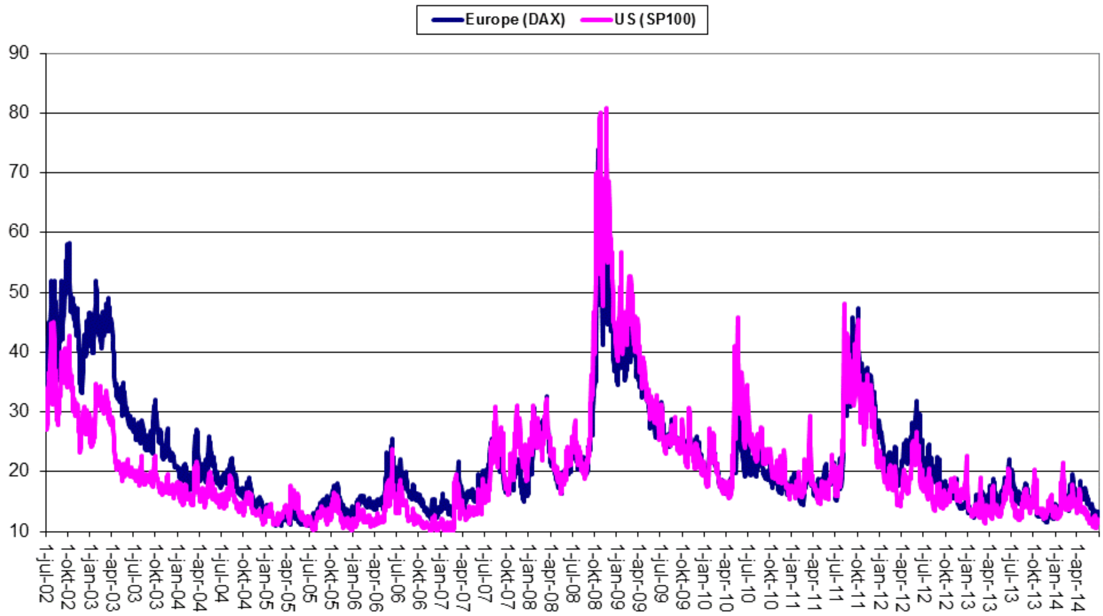
In the Netherlands, the small- and midcap indices performed very differently. With a gain of 3.0%, the ASCX performed slightly better than the AEX, whereas the AMX suffered a quarterly loss of 4.4%.

In Germany, the SDAX and the MDAX performed roughly in line with the DAX, with gains of 3.0% and 2.2% respectively.

Implied volatility

Volatility at the stock markets on both sides of the Atlantic declined to the very low level of around 10% during the second quarter,

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



Long-term development

After a rather indecisive start of the year, the AEX was able to take up its positive trend – which started about two years ago – again during the second quarter. The main Dutch index finished the quarter at 413 points, a quarterly gain of 2.5%.

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