GENERAL INVESTMENT CLIMATE

The Economy

The year 2014 showed a mixed picture in economic terms. Whereas a lot of emerging countries shifted into a lower gear, continental Europe again failed to deliver a strong economic recovery and Japan returned into recession mode, the United States are staging a remarkable comeback.
In Germany, producer confidence rather unexpectedly increased in November, putting an end to a run of six consecutive monthly declines. In December, this was backed up by another rise of the IFO index, which should indicate that the German economic growth engine is gaining momentum again, after a couple of weaker quarters; a negative growth of 0.1 percent in the second quarter was followed by a slight recovery of 0.1 percent in the third quarter, so a return into recession was only just avoided.
German unemployment reached its lowest level of the past decennium in November, and private consumption is being supported further by wage increases. On the other hand, the German export still suffers from weak demand from its main trade partners in the Eurozone (France and Italy), the growth deceleration in China and now also the economic crisis in Russia.
In the United States the economic growth accelerated to an impressive 5.0 percent in the third quarter, the highest percentage since 2003. Moreover, the growth is broad-based: private consumption, investment, government spending and export all make a strong contribution. In the second quarter there was also a strong economic growth of 4.6 percent. Although these kinds of growth percentages might not be sustainable over a longer period of time, expectations for the full year 2014 have now increased to a growth of about 3 percent for the American economy, after a very weak first quarter due to the severe winter.
Consumer confidence in the US is now at its highest level since 2007, the labour market continues to improve and inflation remains relatively low at 1.4 percent.
Because the US economy keeps performing better and better, it becomes increasingly likely that the zero interest rate policy which is being upheld by the Federal Reserve since 2008 will come to an end in the foreseeable future.
The collapse of the oil price and the strong depreciation of the euro are undoubtedly the most striking facts of the past months.
For the first time since long, the oil price dominated the headlines in the fourth quarter. Over the past months, and especially after the decision of the OPEC end of November not to reduce oil production, the oil price dropped to around 55 dollars per barrel, about half the price level attained over the summer and the lowest level since the economic crisis of 2008-2009. The OPEC members are apparently prepared to sit out low prices during a certain period of time, hereby putting pressure on the expensive production of shale oil in the US (and on the budget of Mr. Putin).
If the low oil price persists over a longer period of time, this should give a boost to the growth of the world economy. Economists estimate the potential impact at 0.5 to 1 percentage point GDP growth.
Other raw materials and the precious metals also had a weak year. Gold and silver prices are both at their lowest level since 2010.
Inflation in the Eurozone remained at a low level of 0.3 percent in November, and thus way below the targeted level of the European Central Bank of close to 2 percent.
Due to the substantial drop of the oil price deflation fears are mounting again.

Money markets and exchange rates

The European Central bank is still contemplating about the best way to tackle the chronically low economic growth and inflation in the Eurozone. No specific measures were taken in the fourth quarter, but it is generally expected that new far-reaching measures will be announced at the upcoming meeting end of January.
In the United States, the purchasing program for government bonds expired end of October, as planned. The Federal Reserve signalled in December that they are prepared to raise interest rates mid 2015 for the first time since 2008, now that the US economy seems to be well on track again.
The euro lost another 4 percent against the American dollar in the final quarter of 2014, finishing the year close to 1.20 dollar, a level which we haven’t seen since the summer of 2012.
On an annual basis the European single currency lost nearly 12 percent against the dollar.

Stock Markets

Table 1.1 - General

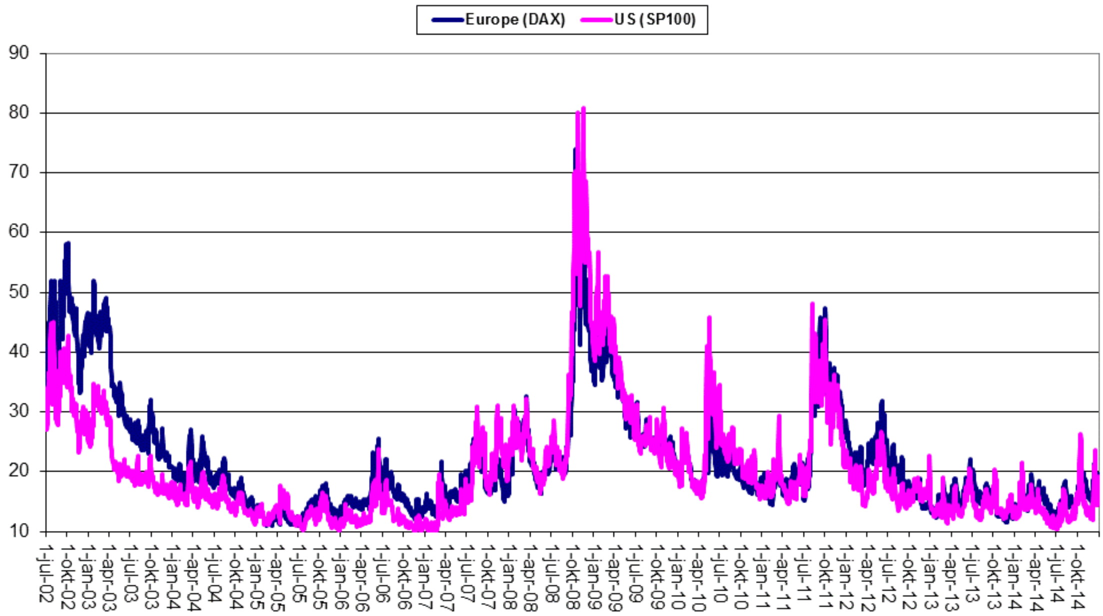
	31-dec-14	30-sep-14 - 3 mth	30-jun-14 - 6 mth	31-mrt-14 - 9 mth	31-dec-13 - 12 mth
AEX	424,47	0,79%	2,74%	5,27%	5,64%
BEL20	3285,26	1,98%	5,05%	4,96%	12,36%
DAX	9805,55	3,50%	-0,28%	2,61%	2,65%
EU50	3146,43	-2,46%	-2,53%	-0,48%	1,20%
DJ	17823,07	4,58%	5,92%	8,30%	7,52%
SP500	2058,90	4,39%	5,03%	9,96%	11,39%
Nasdaq	4736,05	5,40%	7,44%	12,79%	13,40%
EUR/USD	1,2098	-4,22%	-11,64%	-12,14%	-11,97%
EUR 3 months	0,0780	-0,0050	-0,1290	-0,2350	-0,2090
EUR 10 year	0,6850	-0,4020	-0,7940	-1,2270	-1,5490

The stock markets had a volatile final quarter of 2014. A bad start in October was followed by a swift recovery, allowing most indices to close out the quarter in the black.
On an annual basis, 2014 was not a grand cru year for the European stock markets. Most indices had to settle for modest gains of a few percent. The BEL20 was a notable exception, with an annual gain of over 12%.
The American stock markets performed remarkably well again in 2014. The Dow Jones broke through the barrier of 18,000 points in December. With an annual gain of 7.5% the blue chip index nevertheless trailed the Nasdaq and the S&P 500 somewhat, with the latter two both recording double digit gains. For European investors in American stocks, the increase of the dollar comes on top of that.
In the Netherlands, the small- and midcap indices outperformed the main index in the fourth quarter of 2014, with the ASCX gaining 2.7% and the AMX even 6.2%.
On an annual basis, the picture looks a lot different: the ASCX gained over 15%, whereas the AMX had to settle for a modest increase of 1.2%.
In Germany, the SDAX (+4.9%) and the MDAX (+5.9%) both recorded nice gains in the fourth quarter.
On an annual basis the MDAX (+2.2%) performed roughly in line with the DAX, whereas the SDAX (+5.9%) performed somewhat better.

Implied volatility

Volatility at the stock markets increased significantly during the last quarter of 2014, to around 25%, a level which hasn't been seen since 2012. In a broader perspective, the current level of volatility remains reasonable though.

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



Long-term development

The AEX couldn't choose a clear direction in the last quarter of 2014. During the first half of October, the main Dutch index fell back to 376 points, but this was followed by a swift recovery. The AEX ended the quarter virtually unchanged at 424 points.
On an annual basis the AEX gained nearly 6 percent. The upward trend of the past years thus continued in 2014, albeit less pronounced than the previous year.

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