GENERAL INVESTMENT CLIMATE

The Economy

The financial markets continued to regain confidence during the first months of 2015. Despite the fact that several new conflicts arose on the political front, the positives outweighed the negatives on the economic front.

With the far-left Syriza party winning the Greek general elections end of January, the Greek debt crisis dominated the headlines once again during the first quarter of 2015. Fears of an exit of Greece from the Eurozone (the so-called Grexit) reached new highs, but the anti-austerity government of the new prime minister Tsipras, who at first went on collision course with the troika of creditors (EU, ECB and IMF), was eventually prepared to compromise on several populist pre-election promises.

In the longer term a partial debt relief seems inevitable though if Greece is to find a way out of the crisis.

The outlook for the European economy has improved over the past months. The credit supply and confidence strengthened further, backed by the steep fall of the euro and the oil price.

In the beginning of March, the European Central Bank raised its growth expectations for the economy of the Eurozone. For this year, the expectations were raised from 1.0 percent to 1.5 percent, which would be nearly a doubling versus the 0.8 percent economic growth realized in 2014. In 2016 and 2017 the economic growth of the Eurozone is expected to accelerate to 1.9 percent and 2.1 percent respectively. Inflation should remain close to zero this year, but in 2016 the ECB expects inflation to evolve towards a more normal level of 1.5 percent.

Germany remains the growth engine of the European economy. After a couple of weaker quarters, the German economy is clearly gaining momentum again. Producer confidence continued to rise in March, for the fifth consecutive month. The industry benefits from cheaper oil, and the important export sector materially improved its competitive position thanks to the weaker euro.

German unemployment decreased further to 6.4 percent in March, the lowest level since the start of measurements more than twenty years ago. The number of unemployed dropped below 2.8 million. Together with the comprehensive wage increases which the unions managed to enforce over the past months, the notoriously prudent German consumers are finally starting to increase their spending; retail sales increased by a strong 2.8 percent in February.

In the United States, the economy continues on its road to recovery. It seems that the American economy is finally ready to stand on its own feet again, without the need of extreme monetary support. The American job market keeps improving and after years of wage restraints, wages are starting to rise again, which obviously supports private consumption. Moreover, corporate investments are increasing on a broad basis, albeit with the notable exception of the important energy sector.

Oil prices dropped below the 50 dollar barrier in January, the lowest level since 2009, before recovering to a level of 55-60 dollar per barrel. Most experts expect the supply-demand situation to stabilise in the second half of the year, which should result in a further recovery of the oil price towards a level of 70-80 dollar.

Inflation in the Eurozone remained in negative territory in February, for the third consecutive month; consumer prices decreased by 0.3 percent on an annual basis, which is nevertheless an improvement compared to January, when inflation hit a low of -0.6 percent.

Money markets and exchange rates

As widely anticipated, the European Central Bank announced a large-scale purchasing program for government bonds end of January. The total magnitude of this quantitative easing program is potentially 1,140 million euros, a lot more than expected. Starting in March, the ECB will purchase 60 billion euros of government bonds per month, until at least September 2016. If inflation hasn't returned to a level of close to 2 percent on a permanent basis by then, the program can be prolonged.

The Federal Reserve meanwhile announced that an increase of interest rates cannot be excluded any longer now that the American economy continues to improve. This means in practice that the road is cleared for a first interest rate increase as of the middle of the year.

The diverging monetary policy in Europe and the United States has a clear impact on the exchange markets. The euro continued its nose dive versus the American dollar over the first quarter of 2015. By mid-March the European single currency dropped below the 1.05 dollar mark for the first time in twelve years, finishing the quarter at 1.07 dollar, a quarterly loss of more than 11 percent.

Another notable movement on the exchange markets was the strong appreciation of the Swiss franc. When the Swiss National Bank mid-January unexpectedly decided to scrap the exchange rate ceiling of CHF 1.20 per euro because it became impossible to sustain, the Swiss franc promptly gained over 20 percent in value and was thus briefly worth more than a euro, before stabilising at a level of around CHF 1.05 per euro.

Stock Markets

Table 1.1 - General

	31-mrt-15	31-dec-14 - 3 mth	30-sep-14 - 6 mth	30-jun-14 - 9 mth	31-mrt-14 - 12 mth
AEX	489,41	15,30%	16,21%	18,46%	21,38%
BEL20	3725,82	13,41%	15,66%	19,14%	19,04%
DAX	11966,17	22,03%	26,30%	21,69%	25,22%
EU50	3697,38	17,51%	14,61%	14,53%	16,95%
DJ	17776,12	-0,26%	4,30%	5,64%	8,01%
SP500	2067,89	0,44%	4,85%	5,49%	10,44%
Nasdaq	4900,89	3,48%	9,07%	11,18%	16,72%
EUR/USD	1,0731	-11,30%	-15,04%	-21,63%	-22,07%
EUR 3 months	0,0190	-0,0590	-0,0640	-0,1880	-0,2940
EUR 10 year	0,3440	-0,3410	-0,7430	-1,1350	-1,5680

The first quarter of 2015 was marked by a notable discrepancy in performance of the stock markets on both sides of the Atlantic Ocean. Whereas most European stock markets recorded their best quarter since 1998, with double digit gains of up to 22% for the German DAX, the American stock markets moved sideways. The American companies are feeling the impact of the strong appreciation of the dollar and the important energy sector is hit by the sharp drop of oil prices. Moreover, it seems that the American equity investors have found the way to the European markets again.

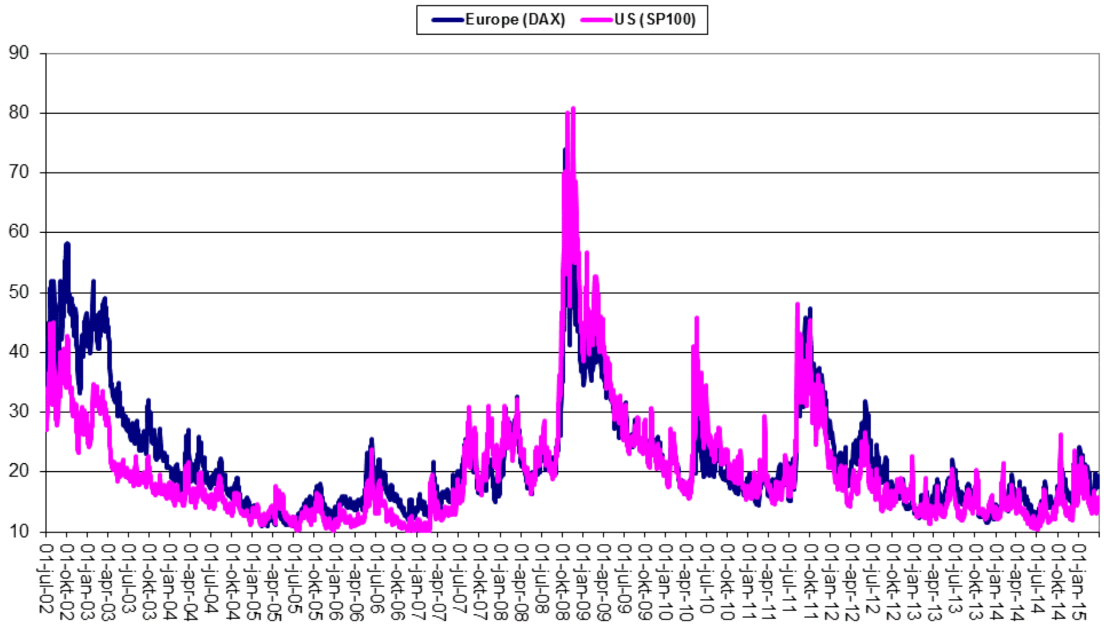
In the Netherlands, the small- and midcap indices were able to outperform the main index. The AMX increased by over 17%, and the – admittedly not very representative – ASCX was even able to record a quarterly gain of nearly 32%.

In Germany, the MDAX (+22%) performed completely in line with the DAX, whereas the SDAX also booked a very nice gain of 17% over the first quarter of 2015.

Implied volatility

After volatility at the stock markets increased to 25% by the end of 2014, it ebbed away over the first months of the new year, especially in the United States, where the stock markets had a very quiet first quarter.

Table 1.2 Development of the implied volatility jul 02 - mrt 15



Long-term development

With a gain of over 15%, the AEX had its strongest opening quarter since 1998. The main Dutch index shortly flirted with the barrier of 500 points, to finish the quarter at 489 points. Herewith, the index was able to break out of the pattern of a steady but slow upward movement of the past couple of years.
The peak of a good 550 points of July 2008 is thus coming into sight again, but we are still well below the all-time-high of 672 points dating from June 2000.

Table 1.3 Long-term development AEX jan 03 - mrt 15