GENERAL INVESTMENT CLIMATE

The Economy

January marked the start of a very turbulent first quarter of 2016. The year started off pessimistic due to the slower growth in China, falling oil prices and geopolitical instability. China's switch to more durable economic development came with a few hiccups and required fewer raw materials, which resulted in plummeting prices. On top of that, the drop in raw material prices was perceived by many investors as an indicator of global economic weakness. Uneasiness took hold of the market.
Furthermore, it was obvious this situation would take its toll on several companies, which meant credit losses were imminent. This is in turn affected the banking industry, which was already suffering because of the more stringent solvency regulation and the low interest rates. All these factors combined resulted in the banking sector's worst year start since 2009.
Later on raw material prices recovered, especially the oil price. After dropping to levels around $27 per barrel in January, prices finished at approximately $37 by the end of March.

Markets continued to be central bank focused in the absence of economic data challenging consensus. On the 10th of March the markets were positively surprised as the ECB over-delivered by lowering its benchmark refinancing rate by 5bps to a fresh record low of 0.0%. On top of that Draghi cs. increased the asset purchase program by €20 billion to €80 billion a month. Additionally, the deposit facility rate was cut by 10bps to -0.4%, the lending facility was lowered by 5bps to 0.25% and a new series of long-term loans to banks was announced. However, after announcing these measures, ECB president Mario Draghi disappointed investors by informing the markets there were no further measures needed given the current circumstances.
Meanwhile unemployment in the Eurozone declined for the third month in a row from 10.5% to 10.3%, reaching the lowest level since August 2011 and GDP growth remained stable at 1.6%. Consumer prices in the Euro Area edged down 0.1% year-on-year in March, following a 0.2% drop in the previous month. As energy prices continued to fall the ECB inflation target of 2% got further out of reach.
Germany, the industrial heart of Europe, lost some momentum by the end of the first quarter. Even though the year started strong with 2.3% growth in industrial production month over month, this shifted into 0.5% negative growth in March. However, this was still better than the market expected.

The downward revisions to the Fed's interest rate projections at the March FOMC meeting, despite little change in the economic projections, prompted plenty of speculation that its "reaction function" had shifted. The Federal Reserve based its decision on concerns about the impact of the weak global economic growth. Although initially four interest rate increases were expected for 2016, consensus now sticks with only two.

In March, the unemployment rate in the United States rose unexpectedly to 5%, from 4.9% in the previous month and compared with expectations that it would hold steady. However it is still well below the 5.82% all time average.

The economic growth declined further in the fourth quarter of 2015, falling back to a 2.0% year-on-year increase, compared to 2.1% year-on-year in the third quarter. Meanwhile, GDP growth in China dropped further down from 1.6% to 1.4% in the last quarter. Furthermore, their Japanese neighbors caused a stir by adopting negative interest rates for the first time in history, desperate to revive growth in their faltering economy.

Currency and money markets

The pound sterling dropped to a seven-year low as the Brexit campaign got fueled by Boris Johnson's support. Although it is unclear if a Brexit would affect the Euro, it steadily keeps on appreciating versus the US dollar. The Euro versus USD quote increased from around 1.08 to circa 1.14 over the course of the first quarter.

Stock markets

Table 1.1 - General

	31-mrt-16	31-dec-15 - 3 mth	30-sep-15 - 6 mth	30-jun-15 - 9 mth	31-mrt-15 - 12 mth
AEX	440,11	-0,39%	4,50%	-6,87%	-10,07%
BEL20	3373,04	-8,84%	0,85%	-5,64%	-9,47%
DAX	9965,51	-7,24%	3,16%	-8,95%	-16,72%
EU50	3004,93	-8,04%	-3,09%	-12,25%	-18,73%
DJ	17685,09	1,49%	8,60%	0,37%	-0,51%
SP500	2059,74	0,77%	7,28%	-0,16%	-0,39%
Nasdaq	4869,85	-2,75%	5,40%	-2,35%	-0,63%
EUR/USD	1,1380	4,83%	1,82%	2,09%	6,05%
Euribor 3 months	-0,2440	-0,1130	-0,2040	-0,2300	-0,2630
NL govt 10 year	0,3580	-0,4350	-0,4230	-0,6770	0,0140

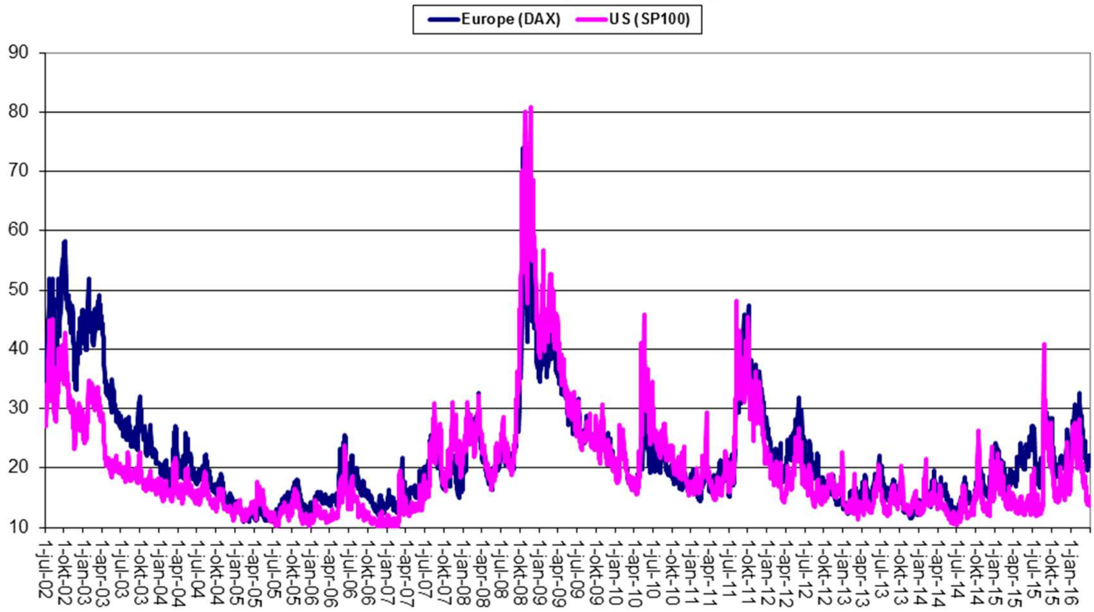
Overall, Europe experienced a very weak first quarter, which was reflected in the EuroStoxx50 losing 8.04%. At first sight the Dutch stock market was more or less unaffected by the European downturn and managed to remain stable. After a closer look the outperformance of the AEX could be explained by the extremely good performance of three internationally active companies (ArcelorMittal, Altice and Gemalto) that have hardly any activity in the Netherlands and performed well for some very specific reasons. The German and especially the Belgian stock markets performed considerably worse and in line with the European indices with the DAX dropping by 7.24% and the BEL20 by 8.84%.

Even though the American indexes are the top performers in the list, prospects didn't look that great at the start of the quarter. When Wall Street opened on January 4 the Dow plunged 276 points. By the end of the week the blue-chip stock gauge was down nearly 1,100 points, or 6.2%, its worst start to a year ever. Then within 12 weeks the American stock market staged a striking comeback, partly thanks to the interest rate promises of the Fed's chairwoman Janet Yellen. As trading ended for the first quarter, the damage had been repaired and the stock market was back in the black for 2016, just 3% below all-time highs.

Implied Volatility

Volatility in the European stock markets was notably higher than in the United States due to the more turbulent start of the year. Volatility in Europe amounted up to 32% as the declining market spurred on investor fear. Nevertheless by the end of the quarter everything started to settle down and volatility returned to around 21%. Long term volatility levels however remained at high levels.

Table 1.2 Development of the implied volatility jul 02 - mrt 16



The long term

During the first quarter the AEX started off very poorly with a sharp decline but later came back strong. The index even managed to rise above the long term moving average for the first time since May 2015. However this moving average continued to decline.

Table 1.3 Long-term development AEX jan 03 - mrt 16