

Global Perspectives – n°42

We have gone through a very interesting 1H of 2007, as the global investment scene has changed markedly from 6 or 12 months ago.

In a nutshell:

Because of higher interest rates all over the world, the relative attractiveness of the different asset classes (cash, bonds, equities) has become more balanced.

In other words:

Two years ago, we saw a lot of value in equities and little or no value in cash or bonds, today, because of higher real rates there is again value to be found in the fixed-income area and, because of higher prices and valuations a bit less value in equities.

1. The economy and corporate profits

Notwithstanding the dire state of US housing, the world economy (incl the US) continues to grow and corporate profits with it.

You will recognize the "Globalization at Work" theme, on which our investment strategy has been based for the last 3 to 4 years.

2. Inflation and Interest Rates

Interest rates have been going up by 50 to 75 bpts, especially in 2Q, following a 180° change in the perception that

1. the US economy is more resilient than expected and that the FED is not going to cut rates.
2. European economic growth is actually accelerating and not slowing down, which means the ECB is still not finished raising rates,
3. China is not slowing down yet, and is even possibly overheating.

In fact, surprisingly perhaps and contrary to widespread reports in the media, inflation expectations have not gone up significantly yet !!!
Nominal rates have gone up because real rates have gone up, and currently stand at an attractive 2,5% to 3% level. We see value here !!

3. Investor sentiment and required returns

We don't think investors have reached a level of "irrational exuberance" during this 1H. There continues to be widespread scepticism (that's actually good news) with regards to economic growth, the sustainability of corporate profitability and stability of inflation.

4. Asset Valuations and expected returns

In attachment you will find the different tables and graphs related to the available and expected returns of asset classes which form the basis of the "Asset Allocation" process at the end of June 2007.

Please have a look and show them to our existing and potential investors for the sake of clarity.

Again, we think there is value in Cash, Bonds and Equities, but we recommend selectivity !!!

Year-to-date (YTD) ALL our funds and portfolios have performed tremendously both in absolute and in relative terms (vs. our benchmarks and vs. the average of our peers), and we are very very proud of that !!!

Fixed Income Funds	2007 YTD 31 st of May	Morningstar Peer Groups Average YTD	YTD Outperformance
Bonds at Work	2,71%	-0,58%	3,29%
Inflation at Work	1,29%	-1,55%	2,84%
Equity Funds			
Growth Equities at Work	9,27%	7,15%	2,12%
American Equities at Work (in Usd !)	8,99%	8,44%	0,55%
European Equities at Work	13,47%	9,52%	3,95%
Asian Equities at Work	5,99%	5,93%	0,06%
Contrarian Equities at Work	11,92%	7,15%	4,77%
Contrarian Euro Equities at Work	16,60%	9,52%	7,08%
Asset Allocation Funds			
Global Markets	6,68%	3,59%	3,09%
Global Opportunities	10,28%	3,59%	6,69%

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Don't hesitate to call upon us if you want more information on the above issues. We wish you happy and pleasant summer months and are looking forward to see you back soon.

Responsible editor: Ivan Nyssen, CEO, CapitalatWork Group - June 2007

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