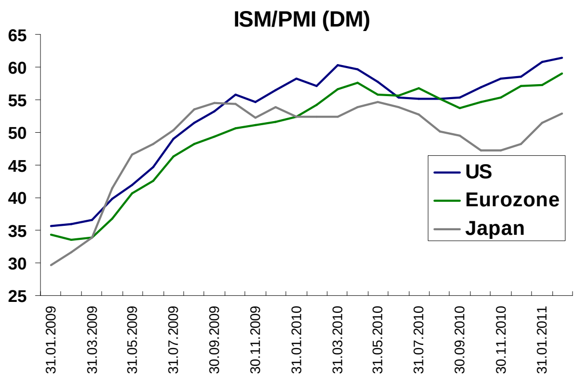
AEGON Asset Management

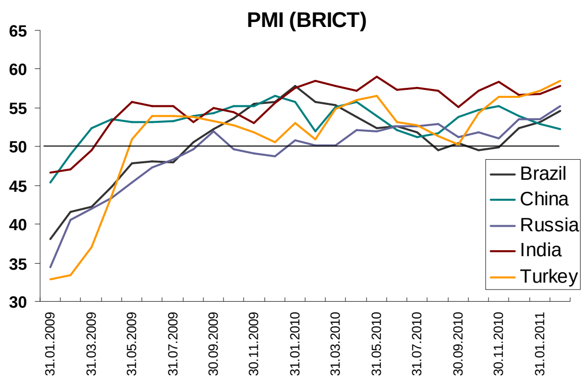
Monthly outlook – March 2011

Réka Omaisz, Judit Hevér: Equity and bond market prospects

Global macroeconomic trends form an almost unchanged picture, with purchasing managers' indices (PMI/ISM) continuing to rise, but with consumer confidence and the American real estate sector weakening somewhat. Political unrest in the Middle East and North Africa has not had an effect on forecasting indicators for the time being, although it may bring forward the start of the cycle of monetary tightening through increasing inflationary expectations.



Source: AEGON Fund Management, Bloomberg



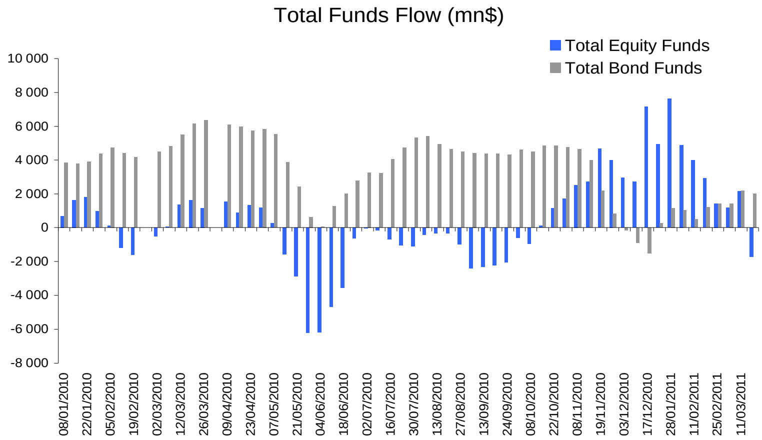
Source: AEGON Fund Management, Bloomberg

Although industrial production in the euro zone periphery has finally gained momentum thanks to higher export orders, anxieties over interest rate increases nevertheless lead us to maintain our negative expectations with regard to Europe.

The lower than expected value of China's purchasing managers' indices points in the direction of a more rapid economic slowdown than anticipated. Although Russia and Brazil are the big winners as regards high prices of raw materials, it is questionable how long the oil price will remain high as a consequence of the supply shock.

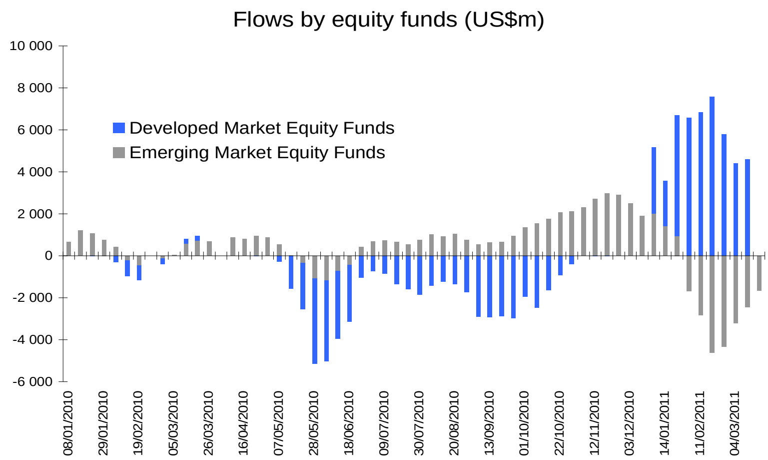
Despite the fact that increasing raw material prices and rising inflation should become apparent in the narrowing of margins, for the time being analysts are not yet pricing this factor in as expectations suggest that expanding demand will be able to compensate for rising input costs. As a consequence of all this, valuation levels continue to evolve very favourably.

A pessimistic mood prevails on equity markets, which is reflected in increasing volatility, the high cash holdings of funds, and the huge outflow of capital from equity funds. This pessimism cannot yet be regarded as extreme, however.



Source: EPFR

While capital inflow into developed equity market funds has fallen to nil, the outflow of capital in the case of developing countries shows unmistakable signs of slowing. The trend seen so far appears to be reversing.

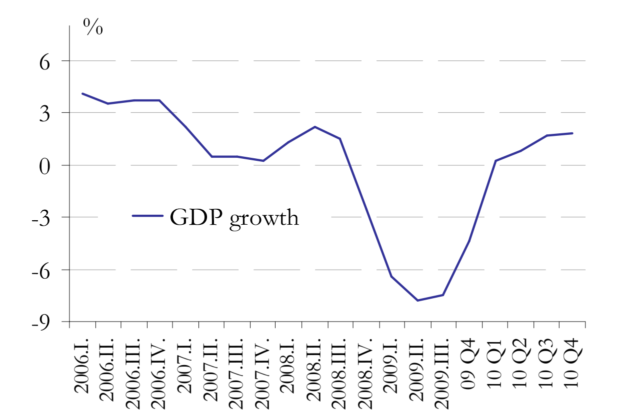
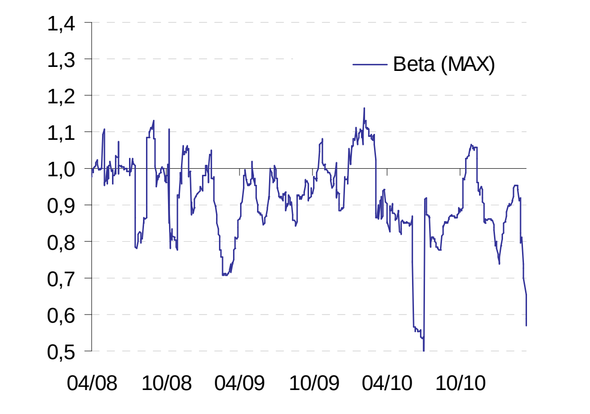


Source: EPFR

The rising trend prevalent since September 2010 may come to an end for a short time. The 200-day moving average levels represent a fairly strong support.

The domestic macroeconomic environment has shown improvement in the past month, which is attributable to the announcement of economic policy measures ensuring the sustainability of public finances and parallel improvement in growth prospects. The reform measures recommended in the Kálmán Széll Plan target the appropriate areas, but uncertainty surrounding the practical implementation of the plan continues to represent a risk factor. Fiscal loosening and the payment of real yields on private pension funds have a positive impact on GDP growth by stimulating domestic demand.

Besides the favourable macroeconomic environment, underweighted domestic players ensure a strong technical buffer for the Hungarian bond market. The successful issue of dollar-denominated government securities at the end of March improves the country's liquidity situation and the international standing of Hungarian bonds. The extraordinary interest shown in the issue may also further strengthen trust in the domestic bond market.

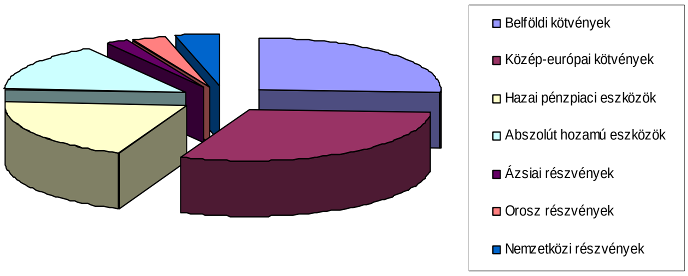
Continuing recovery	Positioning of domestic players
	
Source: KSH	Source: BAMOSZ

Recommended portfolio:

In the current market environment, AEGON Fund Management regards the composition of the portfolio below as ideal as it may provide a steady performance with a medium risk profile:

Assets	Weight
Domestic bonds	26%
Central European bonds	30%
Domestic money market instruments	20%
Assets with an absolute yield	15%
Asian equities	2%
Russian equities	3%
International equities	4%

Source: AEGON Fund Management



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