EAGLE STAR

Market Comment

Issued on 7th February 2002

Overview

It has been a turbulent week for equity investors and for the Irish stock market in particular. Elan and AIB, formerly the two largest stocks in the ISEQ index, both recorded major falls in their share prices. Elan experienced sharp falls after an announcement early this week that revenue growth in 2002 will be less than forecast. However, the pharmaceutical company, which had already seen its shares slump because of concerns over financial accounts, posted gains of 11% on Wednesday.

AIB revealed that it is investigating a suspected fraud by a currency dealer at its US banking subsidiary, Allfirst. AIB have stated that there will be a once-off reduction in the banks 2001 earnings of €596 million after tax. The share price initially fell 23% but had recovered somewhat and was down 14% at the time of writing.

The advantages of Eagle Star's prudent risk management in the interest of its pension policyholders become apparent when individual shares suffer a severe drop, as has been the case with Elan and AIB. Eagle Star's Internal Risk Management Guidelines limit its holding of any one stock in any one fund to a maximum of 3% of the total value of the fund. At the close of business on 4th February 2002, approximately 2.9% of Eagle Star's Pension Policyholder Funds was invested in Elan and AIB.

Market Performance

Table 1 below shows the movements in selected markets since last week's comment and from the beginning of the year.

Table 1

Market	Index	% Return 30.01.2002 to 06.02.2002		% Return 01.01.2002 to 06.02.2002	
		Local Currency	Euro	Local Currency	Euro
US	S&P 500	-2.7	-3.0	-5.6	-3.0
US	NASDAQ	-5.3	-5.6	-7.1	-4.5
Europe	FT/S&P Europe Ex. UK	-2.9	-2.9	-6.4	-6.4
Ireland	ISEQ	-9.8	-9.8	-17.4	-17.4
UK	FTSE 100	-0.5	-1.2	-2.9	-3.3
Japan	Topix	-2.4	-3.4	-8.8	-7.9
Hong Kong	Hang Seng	-3.2	-3.5	-8.7	-6.2
Bonds	Merrill Lynch Euro over 5 year	+0.9	+0.9	+1.7	+1.7

Bonds

Bonds markets moved ahead as concerns over equity markets persisted. The Merill Lynch Euro over 5 Year index rose 0.9%. Corporate credit concerns have risen in the light of recent disclosures and this has led to an increase in government bond prices, as investors search for a temporary safe-haven for their funds. The Eagle Star Active Fixed Income Fund rose 1.3% over the week.

Equities

Equity markets have remained weak over the past number of days. Corporate failures and worries over accounting practices continue to cast a cloud over stock markets
world-wide. The collapse of Enron has resulted in more far reaching consequences than originally anticipated. The new buzzword for commentators is "Enronitis" and this is deflecting attention away from the positive economic data that have emerged over the past week. US productivity in the third quarter rose by an annual 3.5%, there was a rise in factory orders and there were encouraging unemployment figures. The long-term prospects for the US economy depend heavily on strong productivity. There were also better than expected purchasing managers surveys from France, Italy and Germany. However, in the short-term equities continue to falter. Financial stocks fell in Europe because of concerns about credit problems and their exposure to companies with bad debts.

Market Outlook

- The Federal Reserve performed a dramatic easing of monetary policy during 2001, with interest rates cut to below 2%, a forty-year low. Other central banks also lowered rates; moves which were possible due to subdued inflation pressures globally.
- Cutting interest rates will help to reflate the major economies. However, the recovery could also appear patchy at first, as many sectors still have an overhang of capacity built up during 1999/2000.
- Currently it is felt that we are at the low point for the global economy and close to lows on interest rates.
- A neutral to underweight stance in equities is warranted at present, given the current uncertainty over the degree of economic recovery and accountancy standards concerns. However, it is likely that equity positions will be increased as the economic and corporate earnings' picture becomes clearer.

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