

Market Comment

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Overview

Equity markets stalled last week due to profit taking as the earnings reporting season ended and economic data reports were uneventful. Weekly labour market data confirmed the consensus view that the jobs market is improving. The University of Michigan consumer confidence index rose to 93.5 in November from 89.6 in October.

In Europe, the European Central Bank's monthly bulletin reiterated that it believes interest rates are currently at an appropriate level. Investors are keeping a watchful eye on central banks to try to anticipate possible interest rate rises. Low inflation levels have allowed central banks to keep interest rates at historically low levels for a prolonged period. However, as economic conditions continue to improve, a tightening cycle is likely to begin. The UK and Australia have already raised interest rates.

On currency markets, the dollar weakened against the euro and the yen. Tensions in Iraq and continued concerns over the US trade deficit both helped to move the currency lower.

Movements in the main markets since last week's comment			
Market	Index	% Return 07/11/2003 to 14/11/2003	
		Local Currency	Euro
US	S&P 500	-0.3	-2.2
US	NASDAQ	-2.1	-4.0
Europe	FT/S&P Europe Ex. UK	0.3	0.3
Ireland	ISEQ	-0.2	-0.2
UK	FTSE 100	0.5	-0.7
Japan	Topix	-3.7	-4.8
Hong Kong	Hang Seng	-0.1	-1.9
Australia	S&P/ASX 200	-1.4	-2.1
Bonds	Merrill Lynch Euro over 5 year	1.1	1.1

Equities

Equity markets pulled back last week hit by a bout of profit taking following a strong upturn since March. However, European markets managed to end the week marginally ahead led by an upturn in pharmaceutical stocks which have lagged the markets considerably in the past few months.

In the US, the giant retailer, Wal-Mart, announced record sales for the third quarter but its guidance for the future was subdued. Technology shares were also under the spotlight. Dell Computer reported in line earnings and released a positive outlook, predicting rising sales in the next quarter. Applied Materials, the semiconductor equipment maker, reported a 21% rise in new orders.

The Japanese market was the worst performing market over the week. The renewed weakness of the US dollar against the Yen is negative for Japanese exporters. The market was not helped by terrorist threats towards the country following calls from the US for Japan to provide military support to the US in Iraq.

Bonds

Bond prices rose last week as equity markets experienced some profit taking. Investors in the US chose to ignore an unexpected increase in producer prices and a reminder from the Philadelphia Fed president that monetary policy could not remain loose forever. However, comments later in the week from William Poole, the St. Louis Fed president, that current monetary policy could extend beyond next March, if inflation remained low, supported bonds. European bonds were helped by comments from the ECB indicating that they are satisfied with current interest rate levels for the moment.

Outlook

- Economic activity has strengthened in the US and investors have begun to anticipate a synchronised global recovery; inflation pressures remain low.
- Equity markets have risen sharply since mid-March; increased growth optimism could extend this rally further although valuations are a constraint in certain sectors and markets.
- Interest rates have been kept low for some time, but markets have already priced for both the Federal Reserve and ECB beginning to increase rates next year.
- Ultimately, a successful reflationary effort by global policymakers would mean a negative environment for bond markets and a more positive one for equities.
- Our current overall portfolio stance is overweight equities and underweight bonds versus the manager average. The funds remain underweight in the UK equity market due to its defensive characteristics and overweight Asia and Latin America due to more attractive valuations and better economic growth potential. The funds have a sectoral bias toward cyclical stocks.

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