EAGLE STAR

Market Comment

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Overview

Equity markets continued their upward trend last week with many markets grinding up to their best levels in over a year. The capture of former Iraqi president Saddam Hussein caused some brief excitement on markets on Monday. Positive economic data supported equities for the remainder of the week. There was encouraging data on employment from the US as weekly unemployment claims dropped. The Conference Board's survey of leading economic indicators also suggested that the economic recovery remains on track. In addition, in the US, industrial production made its biggest monthly gain for four years in November.

On currency markets, the US dollar fell to new lows against numerous currencies last week. Reports that the current account deficit in the US remained near record levels in the third quarter drove the dollar lower. It finished the week at about $1.24 against the Euro. The dollar has lost about 18 percent of its value against the Euro this year. On commodity markets, gold remained at seven-year highs, buoyed by dollar weakness.

Movements in the main markets since last week's comment

Market	Index	% Return 12/12/2003 to 19/12/2003	
		Local Currency	Euro
US	S&P 500	1.4	0.6
US	NASDAQ	0.1	-0.7
Europe	FT/S&P Europe Ex. UK	0.6	0.6
Ireland	ISEQ	1.7	1.7
UK	FTSE 100	1.5	1.8
Japan	Topix	1.0	0.1
Hong Kong	Hang Seng	-1.8	-2.6
Australia	S&P/ASX 200	0.6	-1.0
Bonds	Merrill Lynch Euro over 5 year	0.3	0.3

Equities

In the US, a number of banks released positive results including Goldman Sachs, Morgan Stanley and Lehman Brothers. Retailers were also in the news with Wal- Mart declining over 3 percent after it warned that December sales may be at the low end of estimates.

In Europe, concerns grew over the liquidity crisis at Italian food producer Parmalat. Shares in Parmalat were suspended on the Milan stock exchange after Bank of America said that a document stating that Parmalat had €3.95billion in cash and securities was not valid. Investors are now worried that the company could default on its corporate bonds.

The Hong Kong market fell back when Bank of China Hong Kong stock dropped over 10% following a large share placing by its parent group.

Bonds

Bond markets ended the week in positive territory underpinned by a surprise fall in consumer prices in the US. Consumer prices fell 0.2 per cent last month and the underlying inflation rate was at a 38 year low. Low inflation allows the Federal Reserve to uphold their pledge to keep interest rates low for a "considerable period of time".

Outlook

- Forward indicators point to strong or strengthening economic growth in all major markets.
- As confidence in the global economy has improved, investors have begun to anticipate the turn (upwards) in the US and Eurozone interest rate cycle. The ECB and the Federal Reserve have indicated no rush towards higher rates however.
- This environment is one in which bond markets should remain on the backfoot, despite the relatively supportive inflationary background currently being experienced.
- The economic picture remains a more positive one for equity markets, although valuations are once more an issue in certain markets and sectors. Historically equity markets have continued to be supported even in the initial stages of tighter monetary policy.
- Our current overall portfolio stance remains overweight equities and underweight bonds versus the manager average. The funds continue to be underweight 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 are also overweight Europe on valuation grounds. The funds continue to have a sectoral bias toward cyclical stocks although some defensive sectors such as pharmaceuticals have been moved from underweight to neutral.