EAGLE STAR

Market Comment

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Overview

The last week in the markets saw further confirmation that the US economy is in recession with the unemployment rate rising to 5.7%, its highest level since 1995. While indicators of consumer confidence were giving more positive signals on the economy, the trend in unemployment and a very subdued inflation level encouraged the US Federal Reserve to make a further interest rate cut on Tuesday, its 11th so far this year. The 0.25% reduction brings the rate at which the US Federal Reserve lends to the banking system to 1.75%, down from 6.5% at the beginning of the year. Since September 11th, rates have been cut by a total of 1.75%, which should boost consumer spending power. In Europe, interest rates were left unchanged by the ECB at its meeting last Thursday, but subsequent news of a drop in the French inflation rate to 1.3% in November increased hopes that the ECB would cut rates early in the New Year.

Markets

Table 1 below shows the movements in selected markets since last week's comment.

Table 1

Market	Index	% Return 04/12/2001 to 11/12/2001	
		Local Currency	Euro
US	S&P 500	-0.7	-0.8
US	NASDAQ	2.0	1.9
Europe	FT/S&P Europe Ex. UK	1.0	1.0
Ireland	ISEQ	1.4	1.4
UK	FTSE/100	-1.0	0.1
Japan	Topix	-1.3	-3.0
Hong Kong	Hang Seng	2.3	2.2
Bonds	Merrill Lynch euro over 5 years	-1.7	-1.7

European equities made further advances on the week, supported by strength in technology and telecommunication stocks, which also helped the NASDAQ Index gain a further 2%. The broader S&P 500 Index in the US, and the FTSE 100 in the UK, found it harder to make ground, due to weakness in energy and pharmaceutical stocks. The latter were hit by a downbeat earnings forecast from Merck, the giant US pharmaceutical company, while energy stocks suffered from the downward trend in oil prices and the fall out from the collapse in Enron, the US energy trader.

The telecommunications sector got a strong boost from Nokia, which advanced 6% in the week on announcing that stronger than expected sales of mobile handsets would push fourth quarter earnings above earlier forecasts. Nokia is held in Eagle Star's Balanced, Dynamic and Performance Managed funds.

Further good news in the technology sector was provided by Oracle, the world's third largest software producer, whose chief executive, Larry Ellison, announced that business had stabilised and firms are beginning to make software purchases again after almost a year of cutting back spending on computer related products. Oracle is the fifth biggest stock in the NASDAQ 100 Index, which is available to investors through Eagle Star's Top Tech 100 Fund.

Market Outlook

- The global economy is in the midst of recessionary conditions, exacerbated by the September events in the US. Inflation currently poses no concerns for policy makers.
- Interest rates have been slashed in the US to forty-year lows. Other central banks have reduced rates significantly. Further cuts will follow.
- It takes some time for the positive effects of interest rate cuts to feed through the system but we should be through the worst of the economic numbers in the coming months. From there, the cumulative economic stimulus should begin to show positive effects.
- Corporate earnings remain a negative in the near term. However, investors may begin to look through the trough in earnings towards recovery in 2002.