

Market Comment

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Crisis Events Update - History Repeats Itself

In previous market comments we referred to data produced by Ned Davis Research on the reaction of the US stock market to various crisis events over the last 100 years or so. The purpose was to put the market decline after the tragic events of September 11th last into perspective. The Ned Davis data analysed 35 different crisis events showing the extent to which the US stock market fell in reaction to the events and the subsequent rates of growth in the market after 3 months, 6 months and 12 months of market trading days. We have just passed the six-month trading anniversary of the US market bottom following the events of September 11th 2001. So it is interesting to re-visit the data.

Table 1 below shows the US equity market reaction (as measured by the Dow Jones Industrial Average (DJIA) Index) immediately after the terrorist attacks on the US, and the gain in the index over subsequent trading periods. The figures are compared with the averages of various movements in the market over the 35 other crisis events since the outbreak of World War One in 1914.

Table 1

Event	Reaction Days	Decline in DJIA over Reaction Days	DJIA Gain 22 trading days (1 month) after Reaction Days	DJIA Gain 63 trading days (3 months) after Reaction Days	DJIA Gain 126 trading days (6 months) after Reaction Days
WTC & Pentagon Terrorist Attacks	10th to 21st September 2001	-14.3%	13.4%	21.2%	27.2%
Average of 35 Events Since 1914		-6.4%	3.9%	5.1%	9.7%

The market recovery since September last is stronger than the average for past events, reflecting the strength of the US economic policy response, which saw interest rates reduced to a 40 year low. The recovery is all the more remarkable since we have had other crisis events in the interim with the war in Afghanistan and the collapse of Enron. The central message from the average of all events is that the market recovers its poise in a relatively short period, that crisis events are not always an occasion to sell, and that the immediate aftermath of a crisis may present good buying opportunities.

Overview of the Week in Markets

Table 2 below shows the movements in the main markets since last week's comment.

Table 2

Market	Index	% Return 27.03.2002 to 02.04.2002	
		Local Currency	Euro
US	S&P 500	-0.7	-1.3
US	NASDAQ	-1.2	-1.9
Europe	FT/S&P Europe Ex. UK	0.3	0.3
Ireland	ISEQ	1.7	1.7
UK	FTSE 100	0.7	0.9
Japan	Topix	-0.8	-2.1
Hong Kong	Hang Seng	-1.0	-1.7
Bonds	Merrill Lynch Euro over 5 year	-0.2	-0.2

Markets were generally quiet over the Easter holiday weekend as optimism on world economic prospects was tempered by some ambiguous economic data in the US and fears of a political crisis in the Middle East.

On the economic front, the majority of data on the US economy has been strong in recent weeks, with expectations that GDP growth for Quarter One 2002 will average out at 5% to 6%. Consumer confidence in March was higher than expected, as were the buying plans of purchasing managers from the NAPM (National Association of Purchasing Managers) Survey. However, factory orders weakened and jobless claims were higher and there were fears that the rise in

GDP, which was largely supported by companies re-building depleted stock levels, may not be sustained. The higher degree of economic uncertainty helped to dampen expectations of an early rise in interest rates and this helped prevent any further decline in bond prices.

Oil prices climbed higher in the week to \$28 per barrel, having been \$21 at the end of February. The rise was fuelled as much by stronger economic prospects as the escalation of the confrontation between Israel and Palestine. Normally, higher oil prices would increase expectations of higher interest rates but, so far, policy makers have taken the view that the main threat from higher oil prices is to economic growth rather than inflation, and bond prices have remained steady.

On the equity markets, the underlying level of economic uncertainty was reflected in weakness among technology and telecommunications stocks, while oil stocks surged ahead on the back of the rise in crude prices. European markets were marginally stronger than the US, responding to firmer economic indicators, with European manufacturing data at last pointing to signs of expansion. The announcement by Royal Dutch/Shell of an agreed bid for Enterprise Oil, the UK's biggest exploration company, gave a strong boost to the European oil sector.

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 in a global effort to counteract recessionary conditions.
- The cuts in interest rates have helped to reflate the major economies. However, the recovery could be moderate in nature compared to previous rebounds.
- With companies in general unable to increase prices, partly due to an overhang in capacity, inflationary pressures will likely remain subdued.
- A slightly overweight stance in equities is warranted at present given the improving news concerning global economic recovery. However, concerns remain regarding the degree and sustainability of the economic upturn, the opaque corporate earnings picture and high valuations in the US technology sector.

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