

Market Comment

Issued on 18th April 2002

Overview

Releases of US economic data last week were not as strong as in previous weeks. On Friday, an announcement of March retail sales growth of 0.2% was below consensus forecasts. Higher energy costs pushed producer prices above expectations and, if sustained, could reduce consumer purchasing power.

This week saw more positive news with the release on Monday of the consumer price index for March, with a rise of 0.3%, below an expected rise of 0.5%. A rise in industrial production of 0.7% was also above an expected rise of 0.5% and capacity utilisation was marginally higher. On Wednesday, the Fed chairman, Alan Greenspan, in his testimony to Congress, was cautious on the strength of economic recovery, stating that "underlying trends in final demand are strengthening, but the dimensions of the pick up are still not clear". The tone of his speech reassured investors that interest rate rises were some way off. At the same time, the reporting season for first quarter corporate earnings got underway with better than expected results from some major companies and equity markets responded well.

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

Table 1

| Market | Index | % Return 10.04.2002 to 17.04.2002 | |
|-----------|--------------------------------|-----------------------------------|------|
| | | Local Currency | Euro |
| US | S&P 500 | -0.4 | -1.3 |
| US | NASDAQ | 2.5 | 1.6 |
| Europe | FT/S&P Europe Ex. UK | 1.6 | 1.6 |
| Ireland | ISEQ | 0.2 | 0.2 |
| UK | FTSE 100 | 0.7 | 0.2 |
| Japan | Topix | 1.1 | 0.1 |
| Hong Kong | Hang Seng | 4.2 | 3.3 |
| Bonds | Merrill Lynch Euro over 5 year | 0.1 | 0.1 |

Equities

Towards the end of last week, uncertainty on the economic front, combined with fears of regulatory investigations into corporate practices, conspired to leave equity investors in a less optimistic mood. Subsequently, however, the mood improved markedly with a good start to the earnings results season. The technology sector got a strong boost from Intel which announced results above expectations and forecast better margins going forward. Motorola improved on the back of results which still recorded losses but were better than analysts' expectations. The European technology sector was boosted by a surprise return to profit at Philips, Europe's biggest consumer electronics group, which also announced that it expected an improvement in its semi-conductor business. A more downbeat note was struck by Nokia which expressed concerns that sales of handsets would not meet expectations.

Bonds

On bond markets, prices of shorter dated securities gained from the prospect that interest rates are unlikely to rise in the near term, while prices of longer dated stock made little progress. This was partly due to a switch of investor interest back towards equities and to some profit taking following last week's rally. There was also some concern in Europe at a rise in the Eurozone inflation rate to 2.5%, above the ECB ceiling of 2%. The UK budget on Wednesday announced substantial increases in spending on the health service, which is likely to require further government borrowing in the future, but it had little immediate impact on the UK gilt market.

Outlook

- Central banks eased policy significantly in 2001 in order to counteract recessionary conditions and reflate the major economies. The most dramatic easing was in the US where rates fell below 2% - a forty year low.
- Economies have begun to recover over the past four months and markets have already anticipated that central banks will take back some of the "insurance" cuts they performed post September 11th.
- Any change in interest rates would not be very substantial, however. There are still some lingering concerns regarding the durability of the recovery and inflation pressures are still fairly contained, notwithstanding the impact of oil price spikes such as we are currently experiencing.
- While equity valuations are still a periodic cause for concern, at present a neutral to slightly overweight equity stance is warranted, given the improvement in the economic environment.

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