

Market Comment

Issued on 26th June 2002

EAGLE STAR HAS NO WORLDCOM SHARES

Stock markets fell some 3% this morning due to the announcement at the close of business last night of accounting irregularities totalling \$3.8bn at Worldcom, which is one of the world's largest telecoms companies. Expenses were improperly booked as capital expenditure which resulted in Worldcom reporting a profit of \$1.4bn for 2001 and \$130m for Q1 2002 instead of a net loss. Obviously this will have implications for some banks and the corporate bond market.

We have no exposure to Worldcom and are underweight in US equities and the €/£ which is now trading at 99 cents. The European government bond market where we are overweight has now seen yields (interest rates) fall to February levels resulting in capital appreciation on our bond portfolio. The US interest rate futures market is now pointing to a cut in US short-term interest rates by year-end, instead of an increase and this is helpful for both bonds and equities.

Finally we continue to have an underweight position in telecommunications and technology stocks and as markets are close to September lows we will continue to monitor our bond/equity position with a view to taking some profits on bonds and buying equities where and when we perceive value.

As the Fed Meeting is currently taking place in Washington we may get a separate comment from Alan Greenspan (Fed chairman) on the financial markets around 7.15 p.m. (Irish time) this evening.

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