

## Market Comment

Issued on 27th June 2002

Regular visitors to the Market Comment page will know that we generally review the markets from a Wednesday to a Wednesday. However, a number of you have suggested that you would like to see a Monday to Friday review and we have decided to take this suggestion on board. In order to facilitate this transition, the Market Comment for the week beginning 1st July 2002 will be posted to the site on Monday 8th July 2002. Therefore, Market Comment will not be updated during the week beginning 1st July 2002.

### Overview

It was another poor week for equities as already shaky markets were hit at the end of the period by the breaking of another big news story involving accounting standards at a major US company, WorldCom. On the other hand, government bonds enjoyed another strong seven days based on their safe haven status amid worries about high yield corporate bonds and equities.

Economic news was mixed this week. News that the US current account deficit had widened again caused the dollar to fall further on foreign exchange markets, adding to the woes of overseas investors holding US assets. The dollar closed the week at 98.5c to the €, a fall of 3c on the week. Commentators are openly talking of parity being reached, and possibly breached, between the two currencies in coming days. An interesting by-product of this for European investors is that the strongly rising value of the euro against the dollar has had the effect of easing inflationary fears in Europe, as European exports become less competitive and imports cheaper. This has helped to contribute to the belief that interest rates will not be rising as soon as people had originally thought. Earlier this week the IFO survey of economic activity in Germany showed a small fall-off, but perhaps more worrying was the reduction in US consumer confidence recorded on the same day. Given the vital role of the consumer in the overall US economy (approx. 2/3 of GDP), further slippage in this figure would be taken very seriously by the Federal Reserve. However, new home sales soared 8.1% in May to a record 1.028 million unit annual rate. Sales are up 16.3% from a year ago.

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

**Table 1**

Market	Index	% Return 19.06.2002 to 26.06.2002	
		Local Currency	Euro
US	S&P 500	-4.6	-7.5
US	NASDAQ	-4.5	-7.4
Europe	FT/S&P Europe Ex. UK	-5.3	-5.3
Ireland	ISEQ	-4.6	-4.6
UK	FTSE 100	-2.6	-3.3
Japan	Topix	-2.8	-2.4
Hong Kong	Hang Seng	-3.0	-5.9
Bonds	Merrill Lynch Euro over 5 year	0.7	0.7

### Equities

Equity markets suffered further sharp declines this week as poor economic data, as outlined above, combined with further corporate bad-news stories from the likes of Apple Computers in the US and Alcatel in France led markets lower. At the end of the week under review, the WorldCom story threw most markets into further decline. At one stage on Wednesday, the NASDAQ hit levels last seen three and a half years ago. However, after initial sharp losses, the US indices actually recovered their poise to finish more or less unchanged on the day, though well down on the week. At the time of writing on Thursday, world indices are up on the day.

### Bonds

Bond markets enjoyed another strong week, if not quite as spectacular as the previous seven days. The Merrill Lynch Euro over 5 Year Index rose 0.7% on the week, and is now up 3.65% on the year to date. The US Federal Reserve met this week and left US rates unchanged, as predicted. Economists interpreted the tone of the post-meeting statement to mean that no increases were likely in the immediate future either. Europe is likely to follow suit and leave rates unchanged next week. Allied to the continuing travails of the world's equity markets and evidence of a weaker than expected economic recovery, bonds have remained in demand in recent weeks.

### Outlook

- Economic recovery remains the central scenario, supported by generally accommodative monetary policies.
- Recent indicators suggest that the Fed may delay any rate hikes a bit longer while the ECB may do likewise, given the recent strength in the euro.
- Current investor sentiment remains volatile, with concerns stemming from high US valuations with a series of investigations into US corporate

accounting this year.

- These events have obscured the underlying improvement in US profitability which has occurred over the past few months. We remain biased towards cyclical and financial stocks and underweight telecom & technology stocks in our portfolio.

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