

Market Comment

Issued on 25th November 2002

Overview

Equity markets around the world continued their positive run supported by generally good news on the economic front. Technology stocks were among the best performers, the Nasdaq index reaching its highest level in more than 5 months. The strength in equities led to some weakness in fixed interest markets, which fell back on the week.

European markets moved firmly ahead as comments from Ernst Welteke, a member of the European Central Bank's governing council induced more speculation regarding possible Eurozone interest rate cuts. Mr. Welteke said that inflation was in line with the criteria for price stability but that risks to the growth outlook remained.

In the US, labour market data were better than expected with the weekly claims for jobless benefits declining. There was also good news on the manufacturing front as a survey of manufacturing from the Philadelphia Federal Reserve was better than expected. However, there was a surprisingly large fall in US housing starts in October. It had little effect on investor sentiment, as housing demand remains strong due to low mortgage interest rates. There was a modest rise in US consumer prices fuelled for the most part by rising energy costs.

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

Market	Index	% Return 15/11/2002 to 22/11/2002	
		Local Currency	Euro
US	S&P 500	2.3	3.4
US	NASDAQ	4.1	5.3
Europe	FT/S&P Europe Ex. UK	4.0	4.0
Ireland	ISEQ	0.1	0.1
UK	FTSE 100	2.0	3.1
Japan	Topix	2.3	1.4
Hong Kong	Hang Seng	2.0	3.2
Bonds	Merrill Lynch Euro over 5 year	-0.2	-0.2

Equities

Equity markets across the globe ended the week in positive territory. While there was mixed news on the corporate front investors chose to focus on the positive and markets rallied for most of the week before taking a breather on Friday. Underpinning the rally in the US was a strong rise in revenues in the third quarter from Hewlett Packard. The computer and printer maker beat analysts' expectations and provided a strong boost to the market. Agilent Technologies, a maker of test equipment, also rose as it announced a number of cost costing measures. Disappointing sales reports from both Wal Mart and HomeDepot failed to dampen investor enthusiasm.

In Europe, the big story of the week came from France Telecom, which announced that it is to end its relationship with Mobilcom, the German telecom operator. France Telecom took a stake in Mobilcom two years ago but the downturn in the telecom sector strained relations.

The Japanese market had a rocky start to the week as concerns over the banking sector persisted. However, the market bounced back on Wednesday on the back of strong performances on world markets. There was further weakening of the yen against the dollar helping Japanese exporters, particularly in the auto and electronics sectors.

In Hong Kong, the Hang Seng index rose as investors warmed to the acquisition by HSBC of Household International, the US consumer lender.

Bonds

Bond prices receded this week as equity markets rallied and a number of US economic indicators were better than expected resulting in downward pressure on bond prices. However, European bonds fared better than their counterparts in the US and the UK helped by weakness in the German and French economies and the increased likelihood of an interest rate cut by the ECB at its next meeting on December 5th. The Merrill Lynch Euro over 5-year government bond index fell marginally on the week.

Outlook

- ▶ Forward indicators of economic activity have turned down in the US and Europe in the past quarter; growth momentum is likely to weaken further. The immediate outlook is complicated by the continuation of geo-political tensions.
- ▶ A sustained and robust global growth picture probably needs further policy stimulus, particularly by way of lower European interest rates.
- ▶ While there has been some improvement in underlying US corporate profitability, earnings forecasts still appear to be overly optimistic. Earnings expectations for 2003 may be revised downwards for Continental Europe due to lower growth forecasts.
- ▶ Our overall portfolio stance is overweight bonds, neutral equities. We remain slightly underweight in the US on valuation grounds, marginally underweight Europe, which has failed so far to de-couple from the US and overweight Asian markets and the UK. At the sectoral level, we remain biased towards financials, telecoms and healthcare. Technology stocks have been moved from underweight to neutral while cyclical stocks and consumer staples have been downgraded to underweight.

© Copyright 2002 Eagle Star Life, Eagle Star House, Frascati Road, Blackrock, Co. Dublin.

Eagle Star Life Assurance Company of Ireland Limited is regulated by the Irish Financial Services Regulatory Authority.