

## Market Comment

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### Markets

The US-led military attack on Afghanistan, last weekend, has had no adverse effect on markets. Indeed, so far this month equity markets world-wide have added further to the strong gains of the last week in September when markets bounced from the heavily over-sold positions which immediately followed the tragic events of September 11th.

The gains of recent weeks have left most markets close to the levels they were at immediately before the attacks and well above the lows reached on September 21st.

Table 1 below shows the movements in the major markets from close of business on 21st September - the lowest point after September 11th - to close on 10th October. Figures are also included to cover market performance from close of business on 10th September to close of business on 10th October.

**Table 1**

Market	Index	% Return from close on 21/09/2001 to close on 10/10/2001		% Return from close on 10/09/2001 to close on 10/10/2001	
		Local Currency	Euro	Local Currency	Euro
US	S&P 500	11.9	11.7	-1.1	-2.5
Europe	FT/S&P Europe Ex. UK	17.9	17.9	-1.6	-1.6
Ireland	ISEQ	9.5	9.5	-8.7	-8.7
UK	FTSE 100	16.2	15.8	2.4	0.4
Japan	Topix	3.3	0.0	-2.4	-3.3
Hong Kong	Hang Seng	15.3	15.0	-0.7	-2.1
Euro Bonds	Merrill Lynch Euro over 5 year	1.8	1.8	1.5	1.5

Market confidence has improved for a number of reasons. The US Federal Reserve has cut interest rates twice, by a total of 1%, since September 11th. Additionally there have been announcements of substantial increases in US government spending and further tax cuts. All of these have the potential to boost consumer spending and increase the revenues of the corporate sector. The expectation is that a prolonged recession will be averted and that markets may have already priced in weaker corporate earnings.

Other countries have also cut interest rates leading to a global effort to improve economic conditions. The European Central Bank followed the Federal Reserve lead with a cut of 0.5% in September and there are widespread expectations of a further cut by the end of the month. UK base rates were also cut by 0.50%.

The reductions in interest rates have been facilitated by very weak economic conditions allied with stable to falling inflation and downward pressure on oil prices. The near term economic statistics are likely to get worse rather than better, paving the way for further reductions in interest rates.

Technology stocks have risen faster than most other sectors in recent weeks. This stems from the fact that they had fallen so much over the last 18 months. The NASDAQ Index, which is heavily weighted in technology stocks, is up over 8% in the last 10 days.

Other sectors which had been sold heavily and are now attracting renewed interest are financials, including insurance stocks, oils and telecoms.

### Performance of Eagle Star's Main Funds

Table 2 below shows the percentage gain in Eagle Star's main funds from their low point on 21st September (price of 24th September) following the tragic events of September 11th to close of business on 10th October (price of 11th October).

**Table 2**  
**Gains in Fund Prices: Close on 21st of September (price of 24th) to Close on 10th October 2001 (price of 11th October)**

Net FUNDS	Percentage Gain
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Investment	7.19
Balanced	6.32
Performance	7.97
Dynamic	8.78
<b>Pension &amp; Investment FUNDS</b>	
Balanced Pension & Invest	9.58
Performance Pen & Invest	10.71
Dynamic Pension & Invest	11.48
Active Fixed Income	2.52
5*5	11.48

The percentage gains in fund prices over the last two-and-a-half weeks or so show that all funds have now recovered a lot of the ground lost in the immediate aftermath of September 11th . Some funds still have one or two percentage points to gain to recover to their values on 10th September.

Looking back to September 10th, Table 3 shows the extent to which Eagle Star's main funds are off relative to their value on the 10th September (price of 11th September).

In the immediate aftermath of September 11th markets fell reaching a low point on 21st September 2001. Since then markets have rallied recovering most but not quite all of the lost ground. This is reflected in the change in unit prices of Eagle Star's main funds over the same period.

**Table 3**  
**Movement in Fund Prices: Close on 10th September (price of 11th) to**  
**Close on 10th October 2001 (price of 11th October)**

Net FUNDS	Percentage Movement
Investment	-1.27
Balanced	-0.98
Performance	-1.45
Dynamic	-1.85
<b>Pension &amp; Investment FUNDS</b>	
Balanced Pension & Invest	-1.18
Performance Pen & Invest	-1.65
Dynamic Pension & Invest	-1.98
Active Fixed Income	1.53
5*5	-1.40

## Outlook

The swift round of interest rate cuts by global Central Banks has been positive for markets and more cuts are expected. Together with the rise in US government spending interest rate cuts are likely to continue until growth re-ignites possibly in the first half of 2002. Corporate earnings remain a negative in the near term but equity investors may begin to look through the trough in earnings towards recovery in 2002.

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