

## Market Comment

Issued on 7th April 2003

### Overview

In a week of gloomy economic news, the steady progress of US troops towards the Iraqi capital, Baghdad, lifted the mood on equity markets and helped them move back into positive territory having been sold heavily the previous week when resistance by Iraqi forces was pointing to a long drawn out campaign. As long as the war continues, the progress, or lack of it, of the US-led coalition is likely to dominate market sentiment and prolong the level of volatility in prices.

The advance in prices was somewhat muted, however, in the face of downbeat economic releases across the globe. Indicators on manufacturing activity in the US, Eurozone, and UK economies all showed significant declines from the previous month, while in Japan, the Tankan survey of manufacturing sentiment also dipped lower. It was difficult to find any good news in the statistics released on the US economy. On top of the decline in the manufacturing sector, the release of the Institute of Supply Managers' activity index for the services sector also showed a sharp contraction from 53.9 to 47.9, whereas it had been expected to dip to 52. Initial jobless claims also jumped by 40,000, well above expectations. The only positive trends on the week were a 6% drop in oil prices to just under \$25 per barrel as the coalition moved closer to Baghdad and production resumed in Nigeria, and an unexpected rise in March US car sales to 16.2 million from 15.4 million in February.

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

Market	Index	% Return 28/03/2003 to 04/04/2003	
		Local Currency	Euro
US	S&P 500	1.8	2.5
US	NASDAQ	1.0	1.7
Europe	FT/S&P Europe Ex. UK	3.5	3.5
Ireland	ISEQ	0.8	0.8
UK	FTSE 100	2.9	2.7
Japan	Topix	-2.7	-2.1
Hong Kong	Hang Seng	-0.5	0.2
Bonds	Merrill Lynch Euro over 5 year	-0.1	-0.1

### Equities

The war dominated equity market sentiment in the US and Europe, with prices falling on Monday as the coalition faced some setbacks, marking a downbeat end to a depressing first quarter for global equity markets. However, sentiment lifted from mid-week as a steady advance of US troops towards Baghdad raised hopes that the war would be over quickly. Europe was the main beneficiary of the advance in prices, largely because it had been sold so heavily in previous months. Insurers rebounded as bargain hunters sought out stocks at historically low levels. European car makers also performed well, helped by the rise in US vehicle sales.

The Japanese market countered the positive trend with a loss of 2.7%, hit by continued concerns about the health of Japanese banks, although exporting stocks such as Canon and the pharmaceutical group, Takeda, performed well. Elsewhere in Asia, the spread of the mystery pneumonia virus, SARS, had a negative impact with tourism-related stocks particularly badly hit.

### Bonds

Bond prices moved sideways on the week as the shift of sentiment back towards equities was balanced by poor economic news and a receding inflationary threat as oil prices fell back. The latter was a factor in the decision of the ECB at its monthly meeting on Thursday to leave interest rates unchanged, although the continued bad economic news is expected to precipitate a further interest rate cut in the near future.

### Outlook

- ▶ Forward indicators for the major economies suggest that growth will remain relatively subdued for the rest of 2003.
- ▶ Developments in Iraq will dominate news in the short-term. Further violent moves in either direction are quite possible over coming days.

- ▶ Central Banks will be monitoring these developments to evaluate any likely change in the underlying weak economic fundamentals.
- ▶ It remains the case that a sustained rise in equities will need a more robust economic and earnings environment. The markets may be overly optimistic that a quick resolution to the Iraq situation will significantly boost consumer confidence.
- ▶ Our current overall portfolio stance is overweight bonds and slightly underweight equities versus the manager average. On a geographic basis, the funds continue to have a preference for the Pacific region on a valuation basis and as a low cost producer and the UK on valuation grounds. The funds are underweight in Europe due to deteriorating economic fundamentals.

© Copyright 2003 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.