

Market Comment

Issued on 24th October 2001

Markets

Despite ongoing economic uncertainty and heightened fears of biological terrorism as more cases of anthrax infection were identified, the tone of investor sentiment has remained positive in the last week. Investors were looking beyond immediate events to economic recovery and an improvement in corporate profits in 2002. The optimistic tone was supported by oil prices dropping to their lowest level in two years and by a number of third-quarter corporate earnings announcements, which met or exceeded expectations. The fall in oil prices reduces the possibility of a pick up in inflation.

Table 1 below shows the movements in the selected markets in recent days (market close on 17th October to close on 23rd October) and in the period since the terrorist attacks on the World Trade Centre (close on 10th September to close on 23rd October).

Table 1

Market	Index	% Return 17/10/01 to 23/10/01		% Return 10/09/01 to 23/10/01	
		Local Currency	Euro	Local Currency	Euro
US	S&P 500	0.7	2.2	-0.7	0.3
Europe	FT/S&P Europe Ex. UK	1.5	1.5	2.0	2.0
Ireland	ISEQ	0.3	0.3	-3.9	-3.9
UK	FTSE 100	-0.2	-0.4	3.2	1.8
Japan	Topix	0.8	0.9	3.8	3.2
Hong Kong	Hang Seng	-0.4	1.1	-1.4	-0.4
Euro Bonds	Merril Lynch Euro over 5 year	0.4	0.4	2.5	2.5

The major markets are very close to or above the levels they were at prior to September 11th.

Equities

Equity markets had a good week, the main strength lying in technology and telecom stocks, which have been out-performing other sectors since the end of September.

The US technology-heavy NASDAQ Index was up 3.5% from 17th to 23rd October, compared to a rise of 0.7% in the broader based S&P 500 Index. In the last week, third-quarter-earnings announcements from Microsoft lent strong support to the sector. Sales of its Windows 2000 software were up 20% year-on-year, resulting in earnings per share ahead of expectations. The share price is up 8% on the week and is supported by the forthcoming launch of the new Windows XP operating system. Other technology companies, such as Sun Microsystems also had better than expected results, while Intel advanced on results, which were well received in the previous week.

European markets put in a strong performance despite the apparent reluctance of the European Central Bank to implement another cut in interest rates and a pessimistic survey of German business confidence. Europe was supported by more attractive valuations particularly in TMT stocks which rallied strongly.

Bonds

Bond prices continued to improve as yields fell to their lows of the year. The European over-5-year bond index rose 0.4% in the week. Sentiment was buoyed by falling oil prices, with the price of West Texas crude now down to \$21.5 per barrel, which is almost exactly where it was two years ago. Oil prices are a key input to European inflation levels and the recent move is expected to increase pressure on the ECB to cut interest rates soon.

Outlook

The swift round of interest rate cuts by global Central Banks has been positive for markets and more cuts are expected. Inflation remains subdued and permits the US policy of lower interest rates and higher government spending to continue until growth re-ignites in 2002. Corporate earnings remain a negative in the

near term but equity markets are historically cheap on valuations relative to bonds.

Review of US Equity Market Reaction to the Tragic Events of September 11th

In the Eagle Star Market Comment of September 12th, the day after the tragic events in the US, we reviewed how markets reacted to crisis events over the last 60 years. We examined US equity market reaction to 28 crisis events by looking at a chart compiled by Ned Davis Research. Typically, the US equity market response to each crisis event was to fall initially and then recover. On average, over the 28 events, the Dow Jones Industrial Average (DJIA) fell by 7.1% and recovered by 3.8% in the 22 trading days (approximately 1 month) following the end of the reaction period.

Table 2 below reviews the US equity market (as measured by the Dow Jones Industrial Average (DJIA) index) reaction following the tragic events of 11th September 2001 in the US.

Table 2

Event	Reaction Days	Decline in the DJIA Index Over the Reaction Days	Percentage Gain in the DJIA Index in the 22 Trading Days (one month) Following the Reaction Days
Terrorist Attacks in US	11th September to 21st September	-14.3%	13.4%

After the tragic events of September 11th, the DJIA index fell 14.3% reaching a low point of 8,236 on 21st September. In the 22 trading days since 21st September (approximately 1 month), the DJIA index has risen by 13.4%. This is despite uncertainty due to the Anthrax scares around the globe and the military strikes on Afghanistan.

So far, the US equity market reaction has been similar to that which was outlined in the Market Comment of 12th September.