

## Market Comment

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### Overview

Equity markets had a difficult week as weakness in the dollar, higher oil prices and some ambiguous US economic data shook investor confidence and triggered some profit-taking before the end of the quarter.

A meeting of the G7 leading industrial nations last weekend called for more flexibility in exchange rates, which was interpreted by the markets as a desire for the dollar to weaken and led to sales of dollar denominated assets. The dollar fell on Tuesday to a 2-month low of \$1.15 against the euro and a 33-month low of Y111.7 against the Yen.

Later in the week, on reflection, many commentators were emphasising the benefits of a lower dollar for the US and global economy, but then OPEC, the Organisation of Petroleum Exporting Countries, announced a cut in its production targets. This sent oil prices up more than \$1 per barrel and equity markets lower.

Economic indicators did little to lift the downbeat mood. In the US, an upward revision of Q2 GDP growth to 3.3%, was countered by a drop in the University of Michigan index of consumer sentiment. The Index, which is regarded as an accurate monitor of consumer confidence, fell to 87.7 in September from 88.2 in August, whereas it had been expected to rise marginally to 88.5. A fall in durable goods orders for August was also a negative, although there was some encouraging news in jobless figures with initial and continuing claims lower than in the previous week.

Movements in the main markets since last week's comment			
Market	Index	% Return 19/09/2003 to 26/09/2003	
		Local Currency	Euro
US	S&P 500	-3.8	-4.7
US	NASDAQ	-6.0	-6.9
Europe	FT/S&P Europe Ex. UK	-4.6	-4.6
Ireland	ISEQ	-2.5	-2.5
UK	FTSE 100	-2.4	-2.0
Japan	Topix	-4.6	-3.8
Hong Kong	Hang Seng	2.9	2.6
Australia	S&P/ASX 200	-1.5	-2.1
Bonds	Merrill Lynch Euro over 5 year	0.9	0.9

### Equities

In the absence of significant corporate news, and with markets awaiting pre-announcements on Q3 earnings next week, the movements in currencies and oil prices were the main influence on equity markets during the week.

US stocks were hit by the weaker dollar as investors shifted out of dollar assets, although export-oriented stocks made some gains. Tokyo suffered from the rise in the yen as foreign investors sold off exporting stocks, such as Sony and Canon, which fell 7% and 11% on the week. European export stocks also felt the dollar effect and sectors such as car-makers and pharmaceuticals were marked lower.

Higher oil prices gave a boost to energy stocks, but were a negative for growth sectors such as technology, and consequently the NASDAQ Index was one of the worst performers on the week.

The Hong Kong Index was an exception to the negative trend, recording a rise of 2.9%, largely on expectations that a weaker US dollar and possible future strengthening of the Chinese currency could allow lower Hong Kong interest rates.

### Bonds

Eurozone bond prices rose in response to a strengthening in the euro against the dollar and firmer US bonds. Nervousness among equity investors also helped bond prices, although the upward movement in oil prices countered the positive trend somewhat.

### Outlook

- Economic activity has strengthened in the US and investors have begun to anticipate a synchronised global recovery; inflation pressures remain low.
- Central banks have stated that interest rates are likely to stay low for a considerable period of time.
- Equity markets have risen sharply since mid-March; increased growth optimism could extend this rally further although valuations are a constraint in certain sectors and markets. Additionally, investors still have some concerns about the sustainability of growth improvements
- Bond markets have reversed some of their "growth-optimism" losses; central banks have re-stated their commitment to keeping interest rates low and recent inflation data has been bond friendly

- Ultimately, however, a successful reflationary effort by global policymakers would mean a negative environment for bond markets and a more positive one for equities.
- Our current overall portfolio stance is broadly neutral bonds and marginally overweight equities versus the manager average. The funds are underweight in the UK equity market due to its defensive characteristics and overweight Asia and Latin America due to more attractive valuations and better economic growth potential.

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