

Market Comment

Issued on 1st December 2003

Overview

Equity markets moved forward last week on the back of strong economic data from both the US and Europe. On Tuesday, third quarter growth in US gross domestic product was revised upward to an 8.2% annualised gain, the highest figure in twenty years. US durable goods orders also increased in October and weekly unemployment data was lower than expected. US consumers continue to do their bit for the American economy; two upbeat consumer confidence reports reflecting consumer optimism as the Christmas shopping season gets under way. There was also positive data from Europe with a better than expected reading from the IFO survey of business optimism in Germany.

Currency issues were also under the spotlight last week. The euro leapt to its highest level since its launch in January 1999, rising above \$1.20 on Friday. Numerous factors are contributing to the decline in the US dollar, the major concern being the large current account deficit. However, increased concerns over terrorist activities directed at the US and potential trade wars with China are also contributing to the downward pressure on the dollar.

In Europe, the de facto suspension of the European Union's Stability and Growth Pact had little overall impact on investor sentiment.

Movements in the main markets since last week's comment			
Market	Index	% Return 21/11/2003 to 28/11/2003	
		Local Currency	Euro
US	S&P 500	2.2	1.6
US	NASDAQ	3.5	2.9
Europe	FT/S&P Europe Ex. UK	1.9	1.9
Ireland	ISEQ	2.1	2.1
UK	FTSE 100	0.6	0.9
Japan	Topix	2.6	1.4
Hong Kong	Hang Seng	4.0	3.3
Australia	S&P/ASX 200	0.6	0.0
Bonds	Merrill Lynch Euro over 5 year	-1.0	-1.0

Equities

Equity markets rose last week with most gains arising on Monday ahead of the Thanksgiving holiday in the US. The S&P 500 Index added 1.6% on Monday and 2.2% overall on the week while the Nasdaq recorded a 2.8% increase on Monday with a 3.5% overall on the week. Strong economic data also helped underpin the market. Citigroup announced on Tuesday that it would buy the consumer finance arm of Washington Mutual. Wyeth, the pharmaceutical company announced that it won a lawsuit related to its diet drug. Shares in the stock were 3.9% higher by the end of the week as a result.

Speculation about merger activity between some of Germany's largest banks persisted although there has been no concrete evidence as yet. Bank stocks in general saw strong support during the week.

Asian markets put in a strong performance, in particular the Hang Seng index, in response to positive economic data from the US and stronger than expected Hong Kong GDP data on Friday. Australian and UK markets under-performed due to their defensive characteristics

Bonds

Bond markets fell back last week, on the back of stronger signals on the US and Eurozone economies. Eurozone bonds came off having drawn support last week from terrorist concerns. The Merrill Lynch >5 year index of Eurozone bonds declined 1.0%.

Outlook

- Forward indicators point to strong or strengthening economic growth in all major markets.
- As confidence in the global economy has improved, investors have begun to anticipate the turn (upwards) in the US and Eurozone interest rate cycle.
- This environment is one in which bond markets will remain on the backfoot, despite the relatively supportive inflationary background currently being experienced.
- The economic picture remains a more positive one for equity markets, although valuations are once more an issue in certain markets and sectors. Historically equity markets have continued to be supported even in the initial stages of tighter monetary policy.
- Our current overall portfolio stance remains overweight equities and underweight bonds versus the manager average. The funds continue to be underweight 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. The funds continue to have a sectoral bias toward cyclical stocks although some defensive sectors such as pharmaceuticals have been moved from underweight to neutral.

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