EAGLE STAR

Market Comment

Issued on 8th November 2001

Overview

The month of November has started positively on financial markets. Investors are essentially looking beyond the immediate bad news and anticipating that the US policies of lower interest rates, tax cuts and higher government spending should result in a pick-up in economic activity by the second half of 2002. Sentiment has also been buoyed, particularly in Europe, by the subdued level of inflation and earnings reports from a number of companies in line with or better than recent guidance.

The highlight of recent days was a further 0.5% interest rate cut by the Federal Reserve, its tenth cut this year, which brought the rate at which the Federal Reserve lends to the banking system to 2%, its lowest level in 40 years. It is widely expected that this will be followed by early cuts in UK and European rates.

On the economic front in the US, the National Association of Purchasing Managers (NAPM) Index, which indicates the purchasing intentions of manufacturing industry, came in at 40%, meaning that less than half of managers expect to increase orders this month. Historically, a figure below 44% on this index indicates recessionary conditions. Combined with statistics showing a reduction in employment it is clear that the US economy is weak.

Markets

Table 1 below shows the movements in selected markets from 31st October to market close on 6th November and also the extent to which markets have advanced since the US and European markets reached a turning point on 21st September. At this stage, the major world markets have moved above the levels they were at immediately before the tragic events of September 11th.

Table 1

Market	Index	% Return 31/10/01 to 06/11/01		% Return 21/09/01 to 06/11/01	
		Local Currency	Euro	Local Currency	Euro
US	S&P 500	5.9	6.2	15.9	17.6
Europe	FT/S&P Europe Ex. UK	2.9	2.9	22.7	22.7
Ireland	ISEQ	1.2	1.2	13.7	13.7
UK	FTSE 100	3.5	3.5	17.6	19.7
Japan	Topix	0.4	2.0	6.6	4.1
Hong Kong	Hang Seng	2.8	3.4	15.9	17.6
Euro Bonds	Merril Lynch Euro over 5 year	0.6	0.6	5.5	5.5

Performance of Eagle Star's Main Funds

The positive market performance so far in November has been reflected in the Eagle Star fund performance - see Table 2 below.

Table 2
Movement in Fund Prices: Close on 31st October (price of 1st November) to Close on 5th November (price of 6th November)

Fund	Percentage Change
NET FUNDS	
Investments	1.68%
Balanced	1.49%
Performance	1.76%
Dynamic	1.97%
PENSION AND INVESTMENT FUNDS	
Balanced Pension & Invest.	2.15%
Performance Pen & Invest	2.33%

Dynamic Pension & Invest.	2.46%
Active Fixed Income	0.95%
5*5	3.27%

Although markets are still in negative territory year-to-date, the rally in fund performance from the lows on 21st September means that the funds are showing positive gains since the events of September 11th (see Table 3).

Table 3
Movement in Fund Prices: Close on 10th September (price of 11th September) to Close on 5th November (price of 6th November)

Fund	Percentage Return from 21st September to 5th November	Percentage Return from 10th September to 5th November
NET FUNDS		
Investments	10.20%	1.50%
Balanced	9.09%	1.61%
Performance	10.73%	1.07%
Dynamic	11.68%	0.76%
PENSION AND INVESTMENT FUNDS		
Balanced Pension & Invest.	13.50%	2.35%
Performance Pen & Invest	14.68%	1.88%
Dynamic Pension & Invest.	15.42%	1.49%
Active Fixed Income	7.44%	6.41%
5*5	15.63%	2.27%

Equities

Equity markets have made significant advances in the last week; the main strength lying in technology stocks and other growth related sectors. In the US, the technology heavy NASDAQ Index was up over 8%, with semi-conductor stocks such as Intel leading the advance. Other sectors, which performed well, were financials and retailers, while defensive sectors such as utilities, basic materials and healthcare, which are less affected by cyclical movements in the economy, underperformed. Oils were weak as earnings prospects were hit by the weak economic outlook in the short term and continued downward pressure on oil prices.

Movements in European markets mirrored those in the US with technology stocks and financials performing best while defensives and oils were weak. In the financial sector, insurers made strong ground as the fallout from the September 11th attacks is expected to be ultimately beneficial for the largest insurers as premiums will rise and their future exposure to catastrophic events has been limited to some degree by the readiness of governments to underwrite certain risks.

The highlight of the week in the Irish market was the announcement of excellent second quarter results by Ryanair which, as a low-cost airline with strong cash levels, stands to gain from the present difficulties of the broader air transport market. The share price rose 17% on the week.

Bonds

After a strong advance in the previous week on the prospects of reduced supply of bonds with long dated maturities, bond markets moved further ahead this week as economic data remained weak and inflation figures were very encouraging. In Europe, the over 5 year euro government bond index rose 0.6% as investors responded well to a comment by the head of the European Central Bank, Wim Duisenberg, that eurozone inflation is likely to fall below the ECB target level of 2% next year. This stood in contrast to previously hawkish comments by Mr.Duisenberg and increased expectations that Euro interest rates would be lowered this week. UK rates are also expected to fall in response to signs of some weakening of the domestic UK economy which up to now has been resilient.

Outlook

The global economic growth outlook has deteriorated following the tragic events in the US on September 11th. However, a swift round of interest rate cuts by global central banks is positive and more cuts are expected.

Inflation remains subdued and permits further interest rate cuts on top of the significant measures already seen. This should result in a pick-up in economic activity in the second half of 2002.

Corporate earnings remain a negative in the near term. However, equity markets are attractively valued relative to bonds, especially in Europe, and investors may begin to look through the trough in earnings towards recovery in 2002.