

Market Comment

Issued on 5th December 2001

Overview

The dominant influences on markets over the last week have been the direction of key economic indicators, the impact of the collapse of Enron, the US energy trading company, and, in the last day or so, signs of an improving trend in semi-conductor prices.

Economic indicators confirmed the US is still in recession but there were some positive signals that a revival may not be too far away. Commerce Department statistics released at the end of last week made significant downward revisions to previous figures on GDP growth, and showed that output shrank by over 1% in the third quarter. Statistics released this week have given more positive signals. The NAPM (National Association of Purchasing Managers) survey showed a rise in activity, albeit at recession levels, but above expectations. There was also a surge in personal spending in the US in October, encouraged by large price discounts.

In Europe, manufacturing and service sector surveys were indicating some improvement, while employment data were weak. The inflation trend was favourable.

Markets

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

Table 1

Market	Index	% Return 27/11/200 to 04/12/2001	
		Local Currency	Euro
US	S&P 500	-0.4	-1.3
US	NASDAQ	1.4	0.6
Europe	FT/S&P Europe Ex. UK	-0.2	-0.2
Ireland	ISEQ	0.4	0.4
UK	FTSE/100	-1.0	-1.0
Japan	Topix	-4.7	-5.6
Hong Kong	Hang Seng	1.5	0.6
Bonds	Merrill Lynch euro over 5 years	1.9	1.9

Equities

Equities struggled to make further ground towards the end of last week as they awaited clearer signs of an early economic upturn. They subsequently took a knock from the announcement that Enron had filed for bankruptcy, with financial stocks coming under particular pressure, but sentiment improved markedly on news that Enron had secured emergency financing from its key lenders, JP Morgan Chase and Citigroup.

On Tuesday, technology stocks rallied strongly on a firming of prices in the microchip sector and an announcement by the Semiconductor Industry Association that world-wide sales of semiconductors rose 2.5% in October. Intel rose sharply on the news and in Europe, Philips (which is held in the 5*5 fund) was in strong demand, recording a gain of 8% on the week. The Top Tech 100 fund rose 0.66% on the week, very much in line with the euro return on the NASDAQ index shown in table 1 above.

Bonds

Bond prices moved ahead, responding to positive comments from the Federal Reserve and the ECB about future interest rate cuts. It was also perceived that the selling pressure of the previous weeks had been overdone given that the major economies were in recession. The improvement in bonds was reflected in the performance of the Active Fixed Income fund which rose 2.14% on the week.

Market Outlook

- The global economy is in the midst of recessionary conditions, exacerbated by the September events in the US. Inflation currently poses no concerns for policy makers.
- Interest rates have been slashed in the US to forty-year lows. Other central banks have reduced rates significantly. Further cuts will follow.
- It takes some time for the positive effects of interest rate cuts to feed through the system but we should be through the worst of the economic numbers in the coming months. From there, the cumulative economic stimulus should begin to show positive effects.
- Corporate earnings remain a negative in the near term. However, investors may begin to look through the trough in earnings towards recovery in 2002.

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