

Market Comment

Issued on 9th January 2002

Overview

The first week of the New Year has been marked by considerably more calm among investors than existed during 2001. At the beginning of last year we were facing into a slowdown in the US economy, which ultimately turned out to be sharper and deeper than expected, whereas this year the consensus view is of a rebound in the US economy, probably in the second quarter. At the same time, interest rates and inflation are significantly lower than a year ago. All these factors provide a more positive background for equities, as an improvement in economic growth should in time translate into higher corporate earnings. This view combined with cost cutting has underpinned strong market rallies in the last quarter of 2001, particularly in technology stocks as evidenced by a 40% rise in the NASDAQ Index from its bottom on 21st September. The Eagle Star Top Tech 100 Fund, which is linked to the NASDAQ, has risen by the same amount over that period.

Market Performance

Table 1 below shows the movements in selected markets since the beginning of the new year.

Table 1

Market	Index	% Return 31/12/2001 to 08/01/2002	
		Local Currency	Euro
US	S&P 500	1.1	0.9
US	NASDAQ	5.4	5.2
Europe	FT/S&P Europe Ex. UK	-1.1	-1.1
Ireland	ISEQ	-1.3	-1.3
UK	FTSE 100	0.6	-0.5
Japan	Topix	0.0	-1.0
Hong Kong	Hang Seng	2.8	2.6
Euro Bonds	Merril Lynch Euro over 5 year	1.2	1.2

While there is a strong consensus that the economic outlook is improving, there is some uncertainty on the short term prospects for corporate earnings and whether they will live up to the expectations implicit in current share prices. This has led to some market weakness in the last day or so, particularly in Europe which had such a good run in the last quarter. The tone was more positive on the other side of the Atlantic where technology stocks rose on evidence of rising orders for computers and electronic equipment, leading to a rise of over 5% on the NASDAQ.

Bonds had a good run on the week, recovering from a wave of selling before the end of the year. The fact that this occurred despite prospects of a rise in issuance of new long term government debt points to the underlying value in bond markets.

Market Outlook

- The Federal Reserve performed a dramatic easing of monetary policy during 2001, with interest rates cut to below 2%, a forty-year low. Other central banks also lowered rates, moves which were possible due to subdued inflation pressures globally.
- Cutting interest rates will help to reflate the major economies but they always act with a lag. The recovery, when it comes, could also appear patchy at first, as many sectors still have an overhang of capacity built up during 1999/2000.
- In 2002 investors are keenly watching economic data to ascertain where we are in this global downturn/recovery cycle; currently it is felt that we are at the low point for the global economy and close to lows on interest rates.
- Given the extent of the stimulus we have seen, especially in the US, equity investors remain happy to sit through negative earnings' reports in anticipation of a recovery in corporate profits in the second half of 2002.

Update on 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. The Chart looked at the position of the market 1 month, 3 months and 6 months later. Typically, the US equity market response to each crisis event was to fall initially and then recover.

Ned Davis Inc have updated this chart to include the 3 month period since September 11th and have compared the reaction to that of 34 previous crisis events. **It is available at the end of this document and** a summary is given in Table 2 below. On average, over the 35 events, the Dow Jones Industrial Average (DJIA) Index fell by 6.5%, recovered by 3.7% in the 22 trading days (approximately 1 month) following the end of the reaction period, and recovered by 5.1%

in the 3 month period following the reaction. The events of September 11th caused a sharper downward reaction than the average of previous events, largely because market sentiment was weak to begin with, but the recovery has also been significantly stronger than the average and, 3 months later, has brought the Index above the level it was at prior to September 11th.

Table 2

Event	Reaction Dates	Decline in the DJIA over the Reaction Days	Gain in the DJIA Index in the 22 trading days (1 month) following the Reaction Days	Gain in the DJIA Index in the 63 trading days (3 months) following the Reaction Days
Terrorist Attacks on US Sept. 2001	11th September to 21st September	-14.3%	13.4%	21.2%
Average of 35 Crisis Events		-6.5%	3.7%	5.1%

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NED DAVIS RESEARCH INSTITUTIONAL HOTLINE

FRIDAY, DECEMBER 21, 2001, DJIA = 9985.18

CRISIS EVENTS TABLE -- THREE-MONTH UPDATE

Event	Reaction Dates	%Gain/Loss	DJIA Percentage Gain			
			----Days After Reaction Dates----			
			22	63	126	253
Exchange Closed WWI	07/22/1914 - 12/24/1914	-10.2	10.0	6.6	21.2	80.2
Woodrow Wilson Stroke	09/25/1919 - 09/26/1919	1.3	5.7	-4.5	-16.0	-21.8
Bombing at JP Morgan Office	09/15/1920 - 09/30/1920	-5.5	2.4	-14.9	-9.5	-17.3
Germany invades France	05/09/1940 - 06/22/1940	-17.1	-0.5	8.4	7.0	-5.2
Pearl Harbor	12/06/1941 - 12/10/1941	-6.5	3.8	-2.9	-9.6	5.4
Truman Upset Victory	11/02/1948 - 11/10/1948	-4.9	1.6	3.5	1.9	6.1
Korean War	06/23/1950 - 07/13/1950	-12.0	9.1	15.3	19.2	26.3
Eisenhower Heart Attack	09/23/1955 - 09/26/1955	-6.5	0.0	6.6	11.7	5.7
Suez Canal Crisis	10/30/1956 - 10/31/1956	-1.4	0.3	-0.6	3.4	-9.5
Sputnik	10/03/1957 - 10/22/1957	-9.9	5.5	6.7	7.2	29.2
Cuban Missile Crisis	10/19/1962 - 10/27/1962	1.1	12.1	17.1	24.2	30.4
JFK Assassination	11/21/1963 - 11/22/1963	-2.9	7.2	12.4	15.1	24.0
Martin Luther King Assassinated	04/03/1968 - 04/05/1968	-0.4	5.3	6.4	9.3	10.8
U.S. Bombs Cambodia	04/29/1970 - 05/26/1970	-14.4	9.9	20.3	20.7	43.7
Kent State Shootings	05/01/1970 - 05/14/1970	-6.7	0.4	3.8	13.5	36.7
Arab Oil Embargo	10/16/1973 - 01/25/1973	-18.5	9.3	10.2	7.2	-25.5
Nixon Resigns	08/07/1974 - 08/29/1974	-17.6	-7.9	-5.7	12.5	27.2
Iranian Hostage Crisis	11/02/1979 - 11/07/1979	-2.7	4.7	11.1	2.3	17.0
U.S.S.R. in Afghanistan	12/24/1979 - 01/03/1980	-2.2	6.7	-4.0	6.8	21.0
Hunt Silver Crash	02/13/1980 - 03/27/1980	-15.9	6.7	16.2	25.8	30.6
Falkland Islands War	04/01/1982 - 05/07/1982	4.3	-8.5	-9.8	20.8	41.8
U.S. Invades Grenada	10/24/1983 - 11/07/1983	-2.7	3.9	-2.8	-3.2	2.4
Beirut Bombing	10/21/1983 - 10/23/1983	0.0	2.1	-0.5	-6.9	-2.9
U.S. Bombs Libya	04/14/1986 - 04/21/1986	2.8	-4.3	-4.1	-1.0	25.9
Financial Panic '87	01/02/1987 - 10/19/1987	-34.2	11.5	11.4	15.0	24.2
Invasion of Panama	12/15/1989 - 12/20/1989	-1.9	-2.7	0.3	8.0	-2.2
Iraq invades Kuwait	08/02/1990 - 08/23/1990	-13.3	0.1	2.3	16.3	22.4
Gulf War	01/16/1991 - 01/17/1991	4.6	11.8	14.3	15.0	24.5
Gorbachev Coup	08/16/1991 - 08/19/1991	-2.4	4.4	1.6	11.3	14.9
ERM U.K. Currency Crisis	09/15/1992 - 10/16/1992	-4.6	0.6	3.2	9.2	14.7
World Trade Center Bombing	02/25/1993 - 02/27/1993	-0.3	2.4	5.1	8.5	14.2
Oklahoma City Bombing	04/18/1995 - 04/20/1995	1.2	3.9	9.7	12.9	30.8
Asian Stock Market Crisis	10/07/1997 - 10/27/1997	-12.4	8.8	10.5	25.0	16.9
U.S. Embassy Bombings Africa	08/06/1998 - 08/10/1998	0.0	-11.2	4.7	6.5	25.8
WTC and Pentagon Terrorist Attacks	09/10/2001 - 09/21/2001	-14.3	13.4	21.2	N/A	N/A
	Mean	-6.5	3.7	5.1	9.2	16.8
	Median	-4.6	3.9	5.1	9.2	19.1

The 22, 63, 126 and 253 day rate-of-change is calculated from the last day in the reaction dates column.

The first date in the reaction dates column indicates the start of the market reaction or the trading day prior to the event.

1914 data - In 1916 a new list of 20 stocks for the DJIA was adopted and computed back to the reopening of the exchange on 12/12/1914. NDR analysis for this study adjusted the DJIA index level prior to 12/12/1914 to reflect an accurate and consistent data set. Source: The Dow Jones Averages 1885-1990, Edited by Phyllis S. Pierce. Days = Market Days