

## Market Comment

Issued on 15th March 2002

### Overview

This week marked the six-month anniversary of the September 11th terrorist attacks on the US and it is noteworthy that equity markets globally are considerably ahead of the levels they were at immediately prior to the tragic events. Markets fell sharply for a week or so after the attacks, but more than recovered those losses in a subsequent rally that lasted into January this year. The rally ran out of steam somewhat in February, but so far this month a degree of optimism has returned and equity markets have moved ahead again in March.

The source of that optimism is a return to growth in the US economy underpinned by low interest rates, firm consumer spending and an incipient upturn in manufacturing activity. Towards the end of last week, revised US GDP figures confirmed that the economy had grown by an annualised rate of 1.4% in the last quarter of 2001. This week, statistics were released on retail sales for February showing a modest rise of 0.3%, which was below the expected rise of 0.9%, and this caused some degree of caution, leading investors to take some profits from the previous week's advances. While the economic recovery is not in doubt, the speed and strength of the upturn is still a matter of debate and this, allied with some disappointing news on the corporate front, has tempered the generally positive tone of markets.

Table 1 below shows the movements in the main markets since last week's commentary and month to date. Table 2 shows the movements in markets in the 6 months since September 11th.

### Market Performance

Table 1

| Market    | Index                          | % Return 06.03.2002 to 13.03.2002 |      | % Return 28.02.2002 to 13.03.2002 |      |
|-----------|--------------------------------|-----------------------------------|------|-----------------------------------|------|
|           |                                | Local Currency                    | Euro | Local Currency                    | Euro |
| US        | S&P 500                        | -0.8                              | -0.8 | 4.3                               | 3.3  |
| US        | NASDAQ                         | -1.5                              | -1.5 | 7.5                               | 6.5  |
| Europe    | FT/S&P Europe Ex. UK           | -0.4                              | -0.4 | 2.6                               | 2.6  |
| Ireland   | ISEQ                           | 1.7                               | 1.7  | 2.3                               | 2.3  |
| UK        | FTSE 100                       | 0.5                               | 0.5  | 3.4                               | 2.2  |
| Japan     | Topix                          | 0.2                               | 1.4  | 6.1                               | 8.7  |
| Hong Kong | Hang Seng                      | 1.9                               | 1.9  | 7.0                               | 6.0  |
| Bonds     | Merrill Lynch Euro over 5 year | -0.2                              | -0.2 | -1.4                              | -1.4 |

Table 2

| Market    | Index                          | % Return 10.09.2001 to 13.03.2002 |      |
|-----------|--------------------------------|-----------------------------------|------|
|           |                                | Local Currency                    | Euro |
| US        | S&P 500                        | 5.6                               | 8.5  |
| US        | NASDAQ                         | 9.8                               | 12.8 |
| Europe    | FT/S&P Europe Ex. UK           | 7.7                               | 7.7  |
| Ireland   | ISEQ                           | -9.0                              | -9.0 |
| UK        | FTSE 100                       | 4.7                               | 4.2  |
| Japan     | Topix                          | 1.9                               | -2.3 |
| Hong Kong | Hang Seng                      | 8.2                               | 11.2 |
| Bonds     | Merrill Lynch Euro over 5 year | 1.2                               | 1.2  |

### Equities

Equity markets marked time this week as the upbeat tone of the previous week gave way to some profit taking following pessimistic forecasts for the telecoms sector from Nokia and Lucent. Concerns on corporate accounting practices also surfaced again on an announcement by Worldcom that the US Securities and Exchange Commission was investigating its accounting procedures. On the positive side, oil stocks continued their upward trend helped by rises in crude oil prices and a decline in US supplies of fuel. Consumer related sectors such as healthcare and autos also made solid gains.

**Bonds**

Prices of US bonds, in particular, remained under pressure as expectations of economic recovery dominated market sentiment, along with large issuance by corporates, such as General Electric Capital Corporation, and European governments.

**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 in a global effort to counteract recessionary conditions.
- The cuts in interest rates have helped to reflate the major economies. However, the recovery could be moderate in nature compared to previous rebounds.
- With companies in general unable to increase prices, partly due to an overhang in capacity, inflationary pressures will likely remain subdued.
- A neutral stance in equities is warranted at present, given the current uncertainty over the degree of economic recovery and some valuation concerns. However, it is likely that equity positions will be increased as the economic and corporate earnings' pictures become clearer.