

Market Comment

Issued on 9th May 2002

Overview

Equity markets were somewhat subdued this week ahead of the US Federal Reserve meeting on Tuesday to decide on interest rates. As anticipated, the committee left interest rates unchanged in line with their European counterparts last Friday. The decision not to cut was warranted, as the Federal Reserve believes that the economic outlook still remains uncertain. Economic data indicates that inflation is not an immediate threat. Hence, low interest rates continue to be a feasible option against this benign inflation background. Encouraging news emerged from the US Labour department as they reported a rise in labour productivity. There was also an improvement in factory orders and employment figures.

Markets bounced yesterday as Cisco Systems, the worlds largest computer networking provider, announced excellent results. European, Asian and US stocks rallied on the news helping to negate some of April's equity losses.

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

Table 1

Market	Index	% Return 01.05.2002 to 09.05.2002	
		Local Currency	Euro
US	S&P 500	0.2	0.4
US	NASDAQ	1.1	1.3
Europe	FT/S&P Europe Ex. UK	-0.5	-0.5
Ireland	ISEQ	1.3	1.3
UK	FTSE 100	1.6	1.2
Japan	Topix	-0.5	-1.3
Hong Kong	Hang Seng	2.4	2.5
Bonds	Merrill Lynch Euro over 5 year	0.2	0.2

Equities

The big story of the week on equity markets was from Cisco Systems. The internet services provider surprised markets yesterday with its quarterly earnings report. The company has made a return to profitability and its shares jumped over 24% as a result. The results provided some much needed respite to the technology sector and The Nasdaq index, which has been struggling badly over the last number of weeks.

Financials also had a good day yesterday with both Citigroup and JP Morgan posting gains. Oils ended their positive run as Iraq stated that it would end its embargo on oil exports. This will help to allay fears of rising oil prices - a source of aggravation for inflation figures.

The Hong Kong index stood out again this week as the top performer. A rotation of funds from other Asian markets into Hong Kong and a marked improvement in economic fundamentals, such as exports and the housing market , pushed the market 2.4% higher this week.

Bonds

There was some evidence of profit taking in the bond market this week on the back of positive returns in April. The Eagle star Active Fixed Income Fund continued to do well, posting a 1.5% return overall in April, 0.5% above the average. The Merrill Lynch Euro over 5 year index rose 0.2% over the last week encouraged by the European Central Bank's decision to keep interest rates on hold.

Outlook

- Central banks eased policy significantly in 2001 in order to counteract recessionary conditions and reflate the major economies. The most dramatic easing was in the US where rates fell below 2% - a forty year low.
- Economies have begun to recover over the past four months and markets have already anticipated that central banks will take back some of the "insurance" cuts they performed post September 11th.
- Any change in interest rates would not be very substantial, however. There are still some lingering concerns regarding the durability of the recovery and inflation pressures are still fairly contained, notwithstanding the impact of oil price spikes such as we are currently experiencing.

- While equity valuations are still a periodic cause for concern, at present a neutral to slightly overweight equity stance is warranted, given the improvement in the economic environment.

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