

## Market Comment

Issued on 16th September 2002

### Overview

The week started on an uncertain note in the run up to the '9/11' anniversary of the terrorist attacks on the US. Official warnings of possible further attacks, combined with speculation of a US military strike on Iraq, fuelled the 'fear factor' which has been a significant influence on investor sentiment in recent months. The anniversary itself passed without incident however and Wall Street staged a small 'relief' rally, which was supported subsequently by some favourable economic news. Retail sales figures released on Friday showed a rise of 0.8% on the previous month, ahead of an expected rise of 0.5%. Car sales remained buoyant in August helped by 0% financing deals by US auto producers. However, even when car sales are excluded, the level of retail sales was up 0.4%, again well ahead of an expected rise of 0.1%.

A negative note was struck by the release of a lower than expected University of Michigan Index of consumer confidence, which registered a decline on the August figure, probably influenced to a large degree by consumer nerves over falling stock markets and geo-political tensions.

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

**Table 1**

Market	Index	% Return 06.09.02 to 13.09.02	
		Local Currency	Euro
US	S&P 500	-0.5	0.7
US	NASDAQ	-0.3	0.9
Europe	FT/S&P Europe Ex. UK	-2.8	-2.8
Ireland	ISEQ	0.4	0.4
UK	FTSE 100	-2.4	-1.7
Japan	Topix	1.6	1.6
Hong Kong	Hang Seng	-0.7	0.5
Bonds	Merrill Lynch Euro over 5 year	0.0	0.0

### Equities

Wall Street was flat on the week as good news on producer prices and retail sales was balanced by faltering consumer confidence and a downbeat statement on Thursday from the Fed chairman, Alan Greenspan. Consumer stocks held up well, as did some technology stocks, although the sector was hit by a warning from Lucent that its fourth quarter earnings would fall short of expectations. The worst performances were in Europe where insurance stocks had further heavy falls. The sector has been suffering from the impact of falling equity markets on insurance company balance sheets and this was compounded by negative news for Allianz concerning US asbestos claims. In Japan, the Topix Index recovered somewhat from its recent downturn, as a weaker yen fuelled a rally in export related stocks, particularly automobiles, which have also gained from the ongoing strength of US car sales.

### Bonds

Eurozone bonds were unchanged on the week while in the US prices moved ahead as investors continued to seek a safe haven in the face of ongoing political uncertainty. While the improvement in US retail sales helped equity market confidence and might have been expected to dent the rally in bonds, the release of other, more negative, indicators such as weaker consumer confidence and higher jobless claims, helped underpin the positive tone in bond markets. The continued absence of inflationary influences allied with low interest rate expectations are also positive for bond prices.

### Outlook

- Economic recovery remains the central scenario, supported by generally accommodative monetary policies. However, risks of a double dip recession have re-emerged.
- Current investor sentiment remains negative, with concerns stemming from relatively high US valuations and geo-political tensions.
- These events have obscured the underlying improvement in US profitability, which has occurred over the past few months. However, we remain underweight in the US on valuation grounds, marginally underweight Europe, which has failed so far to de-couple from the US and overweight Asian markets. At the sectoral level, we remain biased towards basic materials and financials and underweight technology stocks. Healthcare and telecoms have been moved from underweight to neutral on valuation grounds.

- Overall, our stance is overweight bonds, neutral equities. An end to the two and a half year fall in equities will come about when the markets are convinced that the excesses of the 1990's, and especially the TMT bubble, have been fully worked off.

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