EAGLE STAR

Market Comment

Issued on 23rd December 2002

As this is our last Investment Comment before the year end, we would like to take this opportunity to wish you a very happy Christmas and a peaceful and prosperous New Year.

Overview

Geopolitical tensions dominated markets last week as the possibility of a US military attack on Iraq weighed on investor sentiment. Equity markets moved marginally over the week with the US slightly outperforming. Trading was light in general in the run up to the holiday season and the end of the year.

Economic news last week was largely uneventful. The German Ifo survey of business sentiment dropped from 87.3 to 87.1 while in the US, the consumer price index moved up a marginal 0.1% in November. US housing starts rose in November as low mortgage rates continue to support demand.

Markets picked up on Friday on a mildly encouraging speech from Mr. Alan Greenspan, chairman of the US Federal Reserve. He remarked that consumer spending has been resilient and that growth could accelerate next year with little risk of inflation. However, he also referred to increased political tensions and weakness in capital investment.

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

Table 1

Market	Index	% Return 13/12/2002 to 20/12/2002	
		Local Currency	Euro
US	S&P 500	0.7	-0.1
US	NASDAQ	0.1	-0.7
Europe	FT/S&P Europe Ex. UK	-0.3	-0.3
Ireland	ISEQ	-0.2	-0.2
UK	FTSE 100	0.3	0.5
Japan	Topix	-1.6	-2.0
Hong Kong	Hang Seng	-1.0	-1.8
Bonds	Merrill Lynch Euro over 5 year	0.2	0.2

Equities

In Europe, French banks were under the spotlight as Credit Agricole launched a €16.4 billion friendly bid for Credit Lyonnais. The move has led to speculation over further consolidation in the French banking system. In the US, there was disappointing corporate results from many consumer companies including Walmart and Target. McDonalds fell sharply on news that it would post its first ever quarterly loss.

Bonds

Bonds rose this week, supported by low inflation and rising tensions over Iraq. The possibility of war continues to hang over equity markets, dampening investor appetite for risk. Weakness in the holiday shopping season is also helping bonds to hold their ground. The Eagle Star Active Fixed Income Fund is up 11.4% year to date.

Outlook

- Forward indicators for the major economies suggest that growth will remain relatively subdued into the New Year.
- With growth below trend in all the major economies, interest rates are likely to stay low in the US and the UK, and could fall further in the Eurozone.
- For further sustained rises in equities we need to see a more robust economic and earnings environment.
- Our overall portfolio remains neutral equities with a slight geographical bias towards Asian markets. Portfolios have become less defensive with overweight positions in

financials, telecoms and healthcare. We have a preference for bonds over cash, given the low level of short term interest rates.