EAGLE STAR

Market Comment

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Markets

In the last week, equity markets have held and, in some cases, added to the gains of the previous week, leaving them above or close to the levels they were at prior to September 11th. This has happened despite a rather choppy period in terms of investor confidence as the threat of bio-terrorism gripped the US, the third quarter company earnings reporting season got off to a mixed start and the US Federal Reserve chairman, Alan Greenspan, made a cautious address to Congress on the short term economic outlook.

Table 1 below shows the movements in the major market indices in the last few trading days (Close on 10th October to Close on 17th October) and over the period since the tragic events in the US (Close on 10th September to Close on 17th October).

Table 1

Market	Index	% Return 10/10/2001 to 17/10/2001		% Return 10/09/2001 to 17/10/2001	
		Local Currency	Euro	Local Currency	Euro
US	S&P 500	-0.4	0.6	-1.4	-1.9
Europe	FT/S&P Europe Ex. UK	2.1	2.1	0.5	0.5
Ireland	ISEQ	5.0	5.0	-4.2	-4.2
UK	FTSE 100	1.0	1.7	3.4	2.1
Japan	Topix	5.5	5.8	3.0	2.3
Hong Kong	Hang Seng	-0.4	0.6	-1.0	-1.5
Euro Bonds	Merril Lynch Euro over 5 year	0.6	0.6	2.1	2.1

In the last few days anthrax contamination scares have become more widespread, heightening fears that another terrorist onslaught on the US is underway and consequently undermining consumer and business confidence. However, Mr. Greenspan in his address to Congress was more reassuring, insisting that there was no reason why the crisis of September 11 should impact on the long-term growth prospects of the US economy. He acknowledged that uncertainty as to when a firm upturn would take root would prevail in the short term.

On the corporate side, some of the largest US companies reported third quarter earnings in line with or above expectations. Financial stocks like Citigroup and JP MorganChase were well up to expectations. Technology stocks like IBM (the world's largest computer company) and Intel (the world's largest manufacturer of computer chips) turned in good numbers. Other technology companies had more disappointing results, notably Texas Instruments, which makes mobile handsets, and SAP, the German software company. Nonetheless, technology stocks have been the best performers across world markets so far this month. This is reflected in a rise of just under 10% in the NASDAQ Index since the beginning of October.

The recovery in technology stocks has helped the Japanese market, which is up 5.5% in recent days. The gain is largely due to a sharp rise in electronics companies like Fujitsu and Sony. The domestic economy in Japan is still very weak.

European markets have also performed well, reflecting more attractive valuation levels than in the US. The Irish market has yet to recover all of its post 11 September losses, but had a good week based on strong performances by the financials and solid gains by Ryanair, which benefited from the view that low cost airlines can best withstand the short term threats to the sector.

Bond markets continued to make solid gains, helped by a preference for safe haven investments amid uncertainty over the financial implications of the anthrax scares. The Euro bond market also gained from a downbeat statement on economic prospects from the German finance minister.

Performance of Eagle Star's Main Funds

Table 2 below shows the percentage gain in Eagle Star's main funds from their low point on 21st September (price of 24th September) following the tragic events of September 11th to close of business on 17th October (price of 18th October).

Table 2
Gains in Fund Prices: Close on 21st of September (price of 24th) to Close on 17th October 2001 (price of 18th October)

Net FUNDS	Percentage Gain
Investment	8.86
Balanced	7.80
Performance	9.71
Dynamic	10.72
Pension & Investment FUNDS	
Balanced Pension & Invest	11.67
Performance Pen & Invest	12.98
Dynamic Pension & Invest	13.97
Active Fixed Income	3.27
5*5	13.06

In the immediate aftermath of September 11th markets fell reaching a low point on 21st September 2001. Since then markets have rallied recovering in most cases all of the lost ground.

This is reflected in the change in unit prices of Eagle Star's main funds over the period from 10th September to 17th October. Looking back to September 10th, Table 3 shows that virtually all of Eagle Star's main funds are now above their value on the 10th September (price of 11th September).

Table 3
Movement in Fund Prices: Close on 10th September (price of 11th) to Close on 17th October 2001 (price of 18th October)

Net FUNDS	Percentage Movement
Investment	0.27
Balanced	0.40
Performance	0.14
Dynamic	-0.10
Pension & Investment FUNDS	
Balanced Pension & Invest	0.70
Performance Pen & Invest	0.37
Dynamic Pension & Invest	0.21
Active Fixed Income	2.28
5*5	No Change

Outlook

The swift round of interest rate cuts by global Central Banks has been positive for markets and more cuts are expected. Together with the rise in US government spending interest rate cuts are likely to continue until growth re-ignites possibly in the first half of 2002. Corporate earnings remain negative in the near term but equity investors may begin to look through the trough in earnings towards recovery in 2002.