EAGLE STAR

Market Comment

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Overview

Markets continued to advance for most of the last week and, while coming under pressure in recent days from poor economic news, have generally held the strong gains registered so far this month and since late September.

The US emerged from its Thanksgiving holiday weekend with an official declaration on Monday that the economy was in recession. While this news was not in itself surprising, it focussed attention on the depth of the downturn and heightened uncertainty about how quickly recovery would begin. This was followed by the release of lower than expected US consumer confidence figures by the Conference Board, a New York based research organisation. While the Conference Board report also had a number of positive indicators - home sales improved on the previous months, as did consumer expectations - equity markets were vulnerable to some bad news following the strong run up in prices of previous weeks. However, a clearer picture of the health of the US economy is likely to emerge with statistics due to be released in the coming week and these may restore market confidence.

Markets

Table 1 below shows the movements in selected markets since last week's commentary and in the month to date.

Table 1

Market	Index	% Return 19.11.01 to 27.11.01		% Return 31.10.01 to 27.11.01	
		Local Currency	Euro	Local Currency	Euro
US	S&P 500	-0.1	-0.2	8.5	11.0
US	NASDAQ	0.1	0.0	14.5	17.2
Europe	FT/S&P Europe Ex. UK	-2.4	-2.4	6.8	6.8
Ireland	ISEQ	3.2	3.2	4.9	4.9
UK	FTSE/100	-1.4	-1.3	4.5	3.8
Japan	Topix	1.4	0.6	1.9	2.8
Hong Kong	Hang Seng	-0.9	-0.9	11.8	14.4
Bonds	Merrill Lynch euro over 5 years	-1.1	-1.1	-2.0	-2.0

Equities

The US market marked time on the week, as earlier gains gave way to some marginal profit taking following the Conference Board data. Price falls were stronger in Europe largely due to a re-structuring of the MSCI (Morgan Stanley Capital International) Index, which is moving more towards a 'free-float'. Parts of shareholdings in many quoted European companies, particularly in Germany, are tightly held and are not available for trading each day. The MSCI Index is now adjusting the weights of stocks that make up the index to reflect the amount of holdings that trade freely ('free float'). The re-structuring is therefore favouring the US and certain other markets over Europe. In Europe also, technology stocks came under pressure following an announcement by Nokia on Tuesday that global sales of mobile handsets would be lower than previously forecast. The technology sector had risen very strongly in the last number of weeks, as reflected in the 14.5% advance in the NASDAQ so far this month, so it is not surprising that investors sought to take some profits.

Bonds

Bond prices fell as investors continued to focus on the likelihood that interest rates would bottom out and economic recovery begin over the next six months. However, the weaker than expected economic news both in the US and in Germany has begun to raise expectations of further ECB interest rate cuts in the near term. The inflation and oil price background remains positive for bonds.

*5*5 Fund Performing Well*

The 5*5 Fund provides an opportunity to invest in a global portfolio of 25 equities spread across five different sectors. It has performed particularly well in the recent equity market rally as reflected in Table 2 below.

Table 2

5*5 Fund: Percentage Growth over Various Time Periods	
Month to Date (01/11/01 to 27/11/01):	11.7%

Close on 10 September to 27 September 2001:	10.6%
21 September (turning point post September 11) to 27/11/01:	25.0%

While putting in a particularly strong performance so far this month, it is noteworthy that the fund has risen over 10% since just before the events of September 11th and is up 25% since the US stock market bottomed out on September 21st.

Recently, the fund's weighting in technology stocks and financials, as well as consumer cyclicals has been increased as these sectors will benefit most from an economic recovery. An example of the latter is Staples, one of the leading office supply retail chains in the US. The prospects for participants in this industry are improving with reductions in excess capacity. Staples is well positioned to capitalise on an upturn in economic growth.

In the consumer sector, we also hold Carnival Corp, the world's largest cruise ship group. The cruise industry is set to benefit from an economic rebound as well as improved demographics and the broadening appeal of cruise holidays. The recent merger of P&O Cruises with Royal Caribbean should be good for industry discipline. This will benefit companies like Carnival Corp which has been growing its market share and has a strong balance sheet.

Outlook

- The global economy is in the midst of recessionary conditions, partly caused by the events of September 11th in the US. Inflation currently poses no concerns for policy makers.
- Interest rates have been slashed in the US to forty-year lows. Other central banks have reduced rates significantly. Further cuts will follow.
- It takes some time for the positive effects of interest rate cuts to feed through the system but we should be through the worst of the economic numbers in the coming months. From there, the cumulative economic stimulus should begin to show positive effects.
- Corporate earnings remain a negative in the near term. However, equity investors may begin to look through the trough in earnings towards recovery in 2002.