EAGLE STAR

Market Comment

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Overview

US economic numbers and corporate news triggered some profit taking on equity markets last week, bringing the recent strong rally to a halt. The more downbeat mood was perhaps not so surprising in a week which was marked by the second anniversary of September 11th, renewed threats of terrorist attacks on the US from Osama bin Laden and a possible new case of SARS in Singapore. Bond markets gained from the moderate decline in equity prices and reversed some of their losses of previous weeks.

On Thursday, US jobless data disappointed investors with new jobless claims rising to 422,000 from 413,000 the previous week, whereas a fall to 400,000 had been expected. Continuing claims were also higher than expected. On Friday, retail sales figures were slightly disappointing, as was the University of Michigan index of consumer confidence, which dropped to 88.2, from 89.3 last month.

On the corporate front, Nokia subdued the recently buoyant technology sector with a trading update which announced that revenues were under pressure despite rising sales of handsets. Oracle also reported disappointing quarterly results. However, the underlying positive tone on equity markets was evidenced by a recovery in prices on Wall Street on Friday.

On currency markets, the dollar gave up some of its recent gains against the euro, affected by the weaker tone of US economic numbers and a dip in oil prices.

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

Table 1

Market	Index	% Return 05/09/2003 to 12/09/2003	
		Local Currency	Euro
US	S&P 500	-0.3	-2.3
US	NASDAQ	-0.2	-2.2
Europe	FT/S&P Europe Ex. UK	-2.2	-2.2
Ireland	ISEQ	-1.4	-1.4
UK	FTSE 100	-0.5	-1.4
Japan	Topix	1.6	-0.7
Hong Kong	Hang Seng	-2.6	-4.5
Australia	S&P/ASX 200	-0.7	-0.3
Bonds	Merrill Lynch Euro over 5 year	1.2	1.2

Equities

The best performance on the week was recorded in Japan, with the Topix gaining 1.6% as investors remained optimistic on the prospects for an improving economy. Other Asian markets took a hit from the renewed SARS scare and lost some ground.

In Europe, the FTSE 100 Index hit a high for the year early in the week, but succumbed to profit-taking thereafter. Outperformers in the UK included defensive stocks such as banks and utilities. Continental Europe was influenced by takeover speculation with the French food company, Danone, hitting a high for the year on rumours that it could be a takeover target for Coca Cola or Pepsico.

Bonds

Bond prices were helped by weaker economic data, lower oil prices and some profit taking on equities. The murder of the Swedish foreign minister, Anna Lindh, had little impact as the market generally anticipated the 'no' majority result of the weekend referendum on Sweden's entry to the euro.

Outlook

- Economic activity has strengthened in the US and sentiment has improved greatly regarding the rest of the globe; inflation pressures remain low.
- Investors are already discounting a swifter pace of US economic activity in H2 of 2003

and into 2004. Eurozone growth is weak but markets now expect a better outlook, as a delayed reaction to improving global growth prospects.

- Central banks have stated that interest rates are likely to stay low for a considerable period of time.
- Given current valuations in equities and the sharp rally in markets since March, a continuous rise in equities will need a sustained, robust, economic and earnings environment.
- Recent sharp increases in bond yields, especially in the US, reflect greater optimism about future growth prospects. From here yields are vulnerable - in both directions - to changes in perceptions regarding growth and short rates. Ultimately, however, a successful reflationary effort by global policymakers would mean a negative environment for bond markets, and a more positive one for equities.
- Our current overall portfolio stance is underweight bonds and overweight equities versus the manager average. The funds are underweight in the UK equity market due to its defensive characteristics and overweight Asia and Latin America due to more attractive valuations and better economic growth potential. The funds are overweight European equities and underweight US equities on a tactical basis.