EAGLE STAR

Market Comment

Issued on 22nd September 2003

Overview

Equity markets resumed their upward trend after some profit-taking in the previous week. Trading sentiment became more upbeat as confidence in the global economic recovery was reinforced by some positive data from the US and Europe.

On Tuesday, the Federal Reserve announced, as anticipated, that it was leaving interest rates on hold. The Fed stated that it was committed to low interest rates for a considerable period of time. Official inflation figures recorded a marginal rise on the previous month, which was below expectations and confirmed a lack of pricing power among producers.

The expectation that the low interest rate regime would endure for some time boosted the level of optimism in markets, as did a better than expected rise in the Empire Index of manufacturing activity in New York. Later in the week, initial jobless claims dropped to 399,000 from an upwardly revised 428,000 the previous week. A level below 400,000 is seen as positive for the economy and this gave a further lift to sentiment. There were some negative undertones in the Philadelphia Fed. Manufacturing index which fell to 14.6 from 22.1 in August. However, the new orders element of the index rose to a 45-month high.

In Europe, signs of an improvement in German business sentiment were evident in the ZEW Index for September which was well ahead of the previous month and beat analysts' expectations.

Movements in the main markets since last week's comment

Market	Index	% Return 12/09/2003 to 19/09/2003	
		Local Currency	Euro
US	S&P 500	1.7	1.3
US	NASDAQ	2.7	2.3
Europe	FT/S&P Europe Ex. UK	1.4	1.4
Ireland	ISEQ	2.5	2.5
UK	FTSE 100	0.5	1.9
Japan	Topix	2.6	5.3
Hong Kong	Hang Seng	0.8	0.3
Australia	S&P/ASX 200	0.8	1.7
Bonds	Merrill Lynch Euro over 5 year	0.1	0.1

Equities

The technology sector was one of the main beneficiaries of the rise in economic sentiment and the NASDAQ Index jumped 2.7% on the week. The sector was also helped by an upbeat forecast and broker upgrade for Philips Electronics, which rose 6.5%. A 2.6% rise in Japan's Topix Index was largely driven by financial and technology stocks, as some global funds increased their exposure to Japan.

European equities were helped by strength in cyclical sectors with defensive stocks underperforming. Outperforming stocks included Cap gemini, the French IT services company, SAP, the German software company, and Renault.

In Ireland, Bank of Ireland had a good week, rising 5.6% in advance of a trading statement this week, while CRH rose 4% on better US economic news.

Bonds

Eurozone bond prices were unchanged on the week as the more positive trend of economic data was counter-balanced by the Fed's holding stance on interest rates and a distinct lack of inflation pressures.

Outlook

- Economic activity has strengthened in the US and investors have begun to anticipate a synchronised global recovery; inflation pressures remain low.
- Central banks have stated that interest rates are likely to stay low for a considerable period of time.
- Equity markets have risen sharply since mid-March; increased growth optimism can extend this rally further although valuations are a constraint in certain sectors and markets.
- Sharp rises in bond yields reflect greater optimism about future growth prospects. While this persists, bond yields should remain vulnerable to the upside; notwithstanding the support offered by low inflation.
- 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.