EAGLE STAR

Market Comment

Issued on 8th December 2003

Overview

Currency movements dominated investment markets last week as the US dollar dropped to a record low of $ 1.2169 against the euro. The dollar has fallen 15 per cent since the beginning of the year due to concerns about the funding of the US current account deficit. The deficit is now more than 5 percent of US gross domestic product. The fall in the dollar has also caused gold prices to rise above the key $400 an ounce level. Gold reached its highest level in almost eight years during the week.

There was slightly disappointing employment data from the US. The non-farm payrolls report, an essential indicator of the health of the jobs market in the US showed that 57,000 new jobs were created in November. The market had expected a reading of 150,000 new jobs. The unemployment rate, however, fell further from 6.0% to 5.9%. The Institute of Supply Management survey on non-manufacturing activity was also slightly lower than forecast. However, there was good news from the ISM survey on manufacturing activity, which reached its highest level for 20 years.

The European Central Bank and the Bank of England both left interest rates unchanged last week. Investors had expected rates to stay on hold. The Federal Reserve Bank of Australia announced a rate rise of 0.25%. This is the second rate increase in the last two months prompted by rising house prices in Australia.

Movements in the main markets since last week's comment

Market	Index	% Return 28/11/2003 to 05/12/2003	
		Local Currency	Euro
US	S&P 500	0.3	-1.0
US	NASDAQ	-1.1	-2.5
Europe	FT/S&P Europe Ex. UK	1.3	1.3
Ireland	ISEQ	0.9	0.9
UK	FTSE 100	0.6	-0.4
Japan	Topix	2.0	2.3
Hong Kong	Hang Seng	0.0	-1.3
Australia	S&P/ASX 200	1.4	1.6
Bonds	Merrill Lynch Euro over 5 year	0.8	0.8

Equities

There was profit taking in evidence on equity markets last week following sharp rises on Monday. The US market was held back by unsatisfactory economic data and continued dollar weakness. There was downbeat news from Intel, the world's largest semiconductor maker. It released a mid quarter update which disappointed the market as it gave no sales forecast for next year. However, Merck, the pharmaceutical giant, announced that it expected earnings to rise between 5% and 9% in 2004. The Nasdaq index fell back as investors took profits. The index has rallied significantly since March.

On European markets, banking and construction stocks outperformed while retail and consumer staples stocks declined. Strong performances from Anglo Irish Bank and CRH supported the Irish market over the week.

The Japanese market rallied on Monday following a period of significant under-performance due to the strength of the yen. The Hang Seng took its cue from the US market and was flat on the week.

Bonds

Bond markets ended the week in positive territory. The decision by the European Central Bank to keep rates on hold had been largely discounted by eurozone bond investors. However, the continued rise in the euro helped shorter dated eurozone bonds. A slightly weaker employment report in the US also boosted prices. The Merrill Lynch >5 year index of Eurozone bonds rose 0.8%.

Outlook

- Forward indicators point to strong or strengthening economic growth in all major markets.
- As confidence in the global economy has improved, investors have begun to anticipate the turn (upwards) in the US and Eurozone interest rate cycle. The ECB and the Federal Reserve have indicated no rush towards higher rates however. The statement to be issued after tomorrow's Fed meeting will be closely watched in order to detect any change in official assessment of the economy and the path of interest rates.
- This environment is one in which bond markets should remain on the backfoot, despite the relatively supportive inflationary background currently being experienced.
- The economic picture remains a more positive one for equity markets, although valuations are once more an issue in certain markets and sectors. Historically equity markets have continued to be supported even in the initial stages of tighter monetary policy.
- Our current overall portfolio stance remains overweight equities and underweight bonds versus the manager average. The funds continue to be underweight 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 also overweight Europe on valuation grounds. The funds continue to have a sectoral bias toward

cyclical stocks although some defensive sectors such as pharmaceuticals have been moved from underweight to neutral.