EAGLE STAR

Market Comment

Issued on 19th January 2004

Overview

The corporate earnings reporting season for the fourth quarter of 2003 got under way last week. The overall earnings picture so far is positive and most equity markets responded favourably although Asian equity markets were subject to a bout of profit taking.

Economic data released last week also supported equities. In the US, the University of Michigan consumer confidence survey was much stronger than expected while a regular Fed survey of the various regional economies was also quite positive. There was also better news on US employment, with initial jobless claims coming in lower than expected. Slightly disappointing retail sales data and industrial production did little to undermine sentiment.

Currency movements continue to dominate markets with the US dollar recovering somewhat against the euro following rumblings in Europe regarding the strength of the euro. ECB President Trichet voiced his concerns about currency fluctuations and cautioned against the dangers of "brutal currency moves". Other eurozone policy makers and business leaders also expressed concern and the euro fell back to $1.24 by the end of the week. However, the Fed Chairman, Alan Greenspan, demonstrated little concern about the weakening of the dollar over the last 12 months.

Movements in the main markets since last week's comment

Market	Index	% Return 09/01/2004 to 16/01/2004	
		Local Currency	Euro
US	S&P 500	1.6	5.5
US	NASDAQ	2.6	6.5
Europe	FT/S&P Europe Ex. UK	2.3	2.3
Ireland	ISEQ	3.7	3.7
UK	FTSE 100	0.5	1.4
Japan	Topix	-0.6	2.8
Hong Kong	Hang Seng	-1.6	2.1
Australia	S&P/ASX 200	-0.4	1.5
Bonds	Merrill Lynch Euro over 5 year	0.0	0.0

Equities

Investors focussed on stock specific data last week with the release of corporate earnings reports. In the US, IBM released positive results with earnings per share of $1.56 against expectations of $1.49. The company outlook was also optimistic. Juniper Networks, the telecoms network equipment maker, also released positive results. General Electric, the giant conglomerate, pleasantly surprised the market when it announced a 19% rise in orders across all segments of its business. Intel, the worlds biggest maker of memory chips and an important player in the results season released results that were in line with expectations but provided a disappointing outlook. Mergers and acquisitions activity continued to pick up with JP Morgan Chase merging with Bank One in a $58 billion dollars stock deal.

European markets rose on the back of upbeat pre-announcements and speculation of merger activity in the banking sector. However, the big story of the week was from the Swiss recruitment services company, Adecco, which fell 34% following an announcement that its 2003 financial results would be delayed due to accounting errors at its US operations.

The UK and Australia continue to underperform due to the defensive nature of their markets. Asian markets suffered from some profit taking - with the Chinese "H" share market falling heavily on news of BP's sale of its 2% holding in Petrochina.

Bonds

Bonds made little progress as upbeat economic data and positive corporate earnings reports led to rising equity markets. However, new data from the US showed that inflation remains benign leading to expectations that the authorities will continue to keep interest rates low in the medium term. Eurozone bonds ended flat as comments from the ECB President helped the US dollar to recover leading to downward pressure on bonds denominated in euros.

Outlook

- The global economy, led by the US, continues to display strong momentum.
- As confidence in the global economy has improved, investors have begun to anticipate the turn (upwards) in the US and Eurozone interest rate cycle, although the strength of the euro may keep the ECB on hold for longer. The Fed is using low inflation as justification for maintaining US interest rates at their current ultra-low levels.
- This environment is one in which bonds will remain less favoured than equities, 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 stance is overweight equities and neutral bonds versus the manager average. The funds continue to be overweight Asia and Latin America due to more attractive valuations and better economic growth potential and underweight in the UK equity market due to its defensive

characteristics. The funds are also overweight Europe on valuation grounds. The funds continue to have a sectoral bias toward cyclical stocks although some defensive sectors have been increased with pharmaceuticals being moved from underweight to neutral.