

## Market Comment

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### Overview

Equity markets fell back last week despite strong corporate earnings results and positive comments from many companies. The catalyst behind the fall was a meeting of the US Federal Reserve on Wednesday. Although, the committee left key interest rates unchanged, the wording of the announcement that accompanies the monthly statement on interest rates was altered. Investors interpreted the change as indicating that the Federal Reserve could be planning a rise in rates sooner than had been anticipated. Asian markets fell back due to the bird flu crisis while the Irish market underperformed following the surprise announcement of a profit warning from Ryanair.

On the economic front, US economic data came in below expectations. Investors had expected annualised GDP growth figures of 5% while the actual figure came in at 4%. However, investors were not overly concerned, as the general economic trend remains upbeat. There were mixed signals from the housing market in the US, with December existing home sales rising by almost 7% underpinned by low mortgage interest rates and improved consumer confidence. However, data on new home sales showed a fall in December.

Movements in the main markets since last week's comment			
Market	Index	% Return 23/01/2004 to 30/01/2004	
		Local Currency	Euro
US	S&P 500	-0.9	0.3
US	NASDAQ	-2.7	-1.5
Europe	FT/S&P Europe Ex. UK	-1.4	-1.4
Ireland	ISEQ	-3.7	-3.7
UK	FTSE 100	-1.6	-0.3
Japan	Topix	-2.7	-1.3
Hong Kong	Hang Seng	-3.4	-2.3
Australia	S&P/ASX 200	-1.9	-2.3
Bonds	Merrill Lynch Euro over 5 year	-1.1	-1.1

### Equities

US markets started the week well with the technology stocks reaching heights not seen in two years. However, equities fell back later in the week after the Federal Reserve changed their statement on interest rates. (see overview).

European pharmaceuticals were in the spotlight last week as Sanofi-Synthelabo launched a hostile take-over bid for Aventis Pharmaceuticals. Aventis rejected the bid and the stock ended the week up almost 10% while Sanofi-Synthelabo fell nearly 6%. On Friday, unconfirmed reports emerged that Novartis, the Swiss pharmaceutical giant, may also bid for the company.

The Irish market fell sharply when Ryanair signalled its first fall in profits since its flotation. The shares fell 30% as Michael O'Leary revealed that intense competition was likely to result in a 10% fall in net profits in the current tax year.

Asian markets had a difficult week as bird flu spread to ten countries. However, unlike the SARS virus of last year, it is so far believed that bird flu is unlikely to spread rapidly through the human population. On currency markets, the continuing strength of the yen against the US dollar has prompted further intervention by Japanese authorities to support the currency over the past nine months. Japan spent a record \$67 billion on currency intervention in January in an effort to protect Japanese exporters.

### Bonds

US bond prices fell last week after the US Federal Reserve unexpectedly changed the wording of its policy statement. The committee kept rates at 1% and said it would be "patient" in removing its accommodative monetary policy. It removed the phrase "considerable period" in reference to holding rates constant, leading investors to anticipate a rise in rates sooner than previously expected. Eurozone bonds also fell on news of the statement. Eurozone bonds have outperformed recently due to the belief that the stronger euro could hurt Europe's recovery prospects. However, the dollar bounced following the Federal Reserve announcement on Wednesday and Eurozone bond prices declined.

### 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 underweight 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, for example, the underweight in pharmaceuticals being reduced.

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