EAGLE STAR

Market Comment

Issued on 20th November 2001

Overview

The last week in the markets has been marked by a more upbeat mood on economic prospects which has been good for equities and somewhat less positive for bonds. At the beginning of last week some temporary nerves were caused by an American Airlines plane crash in the New York suburb of Queens on fears of the start of another wave of terrorist attacks. These concerns quickly dissipated as the crash was deemed to be accidental. As the military campaign against the Taliban regime in Afghanistan appeared to move to a successful conclusion the political backdrop improved markedly.

On the economic front, the swift moves in the previous week by the European Central Bank and the UK monetary authority to follow the Federal Reserve's interest rate cut of 0.5% increased optimism that there would be a return to positive economic growth in the first half of 2002. This view was supported by the release of stronger than expected retail sales figures in the US. A further drop in the oil price from $21 to $18 per barrel also helped confirm the view of an early economic recovery.

Markets

Table 1 below shows the movements in selected markets in the last week

Table 1

Market	Index	% Return 12/11/2001 to 19/11/2001	
		Local Currency	Euro
US	S&P 500	2.9	4.4
Europe	FT/S&P Europe Ex. UK	6.9	6.9
Ireland	ISEQ	3.3	3.3
UK	FTSE 100	3.7	3.7
Japan	Topix	4.3	3.3
Hong Kong	Hang Seng	7.3	8.8
Bonds	Merrill Lynch euro over 5 years	-1.7	-1.7

Rally in Tech Stocks

Equity markets made significant advances, the main strength lying in TMT (technology, media and telecom) stocks which are in growth related sectors i.e. those in which earnings are most likely to rise rapidly with an economic recovery.

In the US, the technology heavy NASDAQ Index was up over 5%, outperforming the broader S&P 500 Index which rose 2.9%. The strongest growth was in telecom equipment manufacturers and software stocks. Microsoft hit the news headlines with its launch of the XBox, its first step into the games console market which so far has been dominated by Sony Playstation and Nintendo, the latter having also launched its new GameCube console the previous week. The XBox will be on sale in Ireland in the Spring. Dell also came under the spotlight, releasing third quarter results above many analysts' expectations.

Eagle Star's TopTech 100 fund which tracks the NASDAQ 100 index is benefiting from the recent rally. Table 2 below shows the performance of the fund since launch and since the low of 21st September following the terrorist attacks in New York.

Performance to 20th November

From	% Return
16th August 2001 (Launch Date)	4.1 %
21st September 2001	43.6%

Despite the market turbulence since TopTech 100 was launched, the fund has delivered a positive return since launch, with an extremely strong return delivered in the period from 21st September.

The timing of the launch of TopTech 100 has been very opportune as Eagle Star launched it when most of the heat had been taken out of the technology sector, following its total collapse from its peak in March 2000.

Bonds

After a strong advance in the previous week on favourable inflation figures and lower short term interest rates, bond prices lost some ground in the last week, mainly due to profit taking and a shift towards a more positive medium term economic outlook.

Outlook

- The global economy is in the midst of recessionary conditions, partly caused by the events of September in the US. Price pressures currently pose no concerns for policy makers.
- Interest rates have been slashed in the US to forty-year lows. Other central banks have reduced rates significantly. Further cuts will follow.
- Policy acts with a lag but we should be through the worst of the economic numbers in the coming months. From there, the cumulative economic stimulus should begin to show positive effects.
- Corporate earnings remain a negative in the near term. However, equity markets are attractively valued relative to bonds, especially in Europe, and investors may begin to look through the trough in earnings towards recovery in 2002.