EAGLE STAR

Market Comment

Issued on 20th December 2001

As this is our last Investment Comment before the year end, we would like to take this opportunity to wish you a very happy Christmas and a peaceful and prosperous New Year.

Overview

The last week has seen positive signals that the US economic recession may be slowing and that a recovery could begin in the first half of 2002. Figures on housing starts in October were above expectations and these were followed by a rise of 0.5% in the Conference Board's index of leading economic indicators. This index shows how the economy is likely to behave in the future and the latest figure is its second consecutive monthly rise and its highest since last May. It is becoming clearer that the positive effects of major reductions in US interest rates and higher government spending are beginning to bite and it is hoped that this will improve corporate profits next year. Economic indicators in Europe pointed to a further slowdown in output, but it may manage to avoid a significant downturn, especially if the US recovers early. Industrial output in the eurozone showed a decline of 1.4% in October and the leading German economic research institute, Ifo, predicted that growth in Germany would fall to 0.5% this year, after a 3% growth rate in 2000.

Markets

Table 1 below shows the movements in selected markets since last week's comment.

Table 1

Market	Index	% Return 12/12/2001 to 20/12/2001	
		Local Currency	Euro
US	S&P 500	1.1	-0.1
US	NASDAQ	-1.0	-2.2
Europe	FT/S&P Europe Ex. UK	-2.5	-2.5
Ireland	ISEQ	-2.5	-2.5
UK	FTSE/100	-0.8	-1.2
Japan	Topix	-1.8	-4.4
Hong Kong	Hang Seng	-1.1	-2.3
Bonds	Merrill Lynch euro over 5 years	0.3	0.3

Equity markets were subject to mixed corporate news. In the US, General Electric, the giant capital goods company, made a strong earnings statement which reinforced expectations of economic recovery, and this was backed up by Coca Cola, which predicted earnings growth in the fourth quarter. The technology sector took a knock, however, from an announcement of major job cuts by Motorola, the world's second largest producer of mobile handsets, and by a negative statement from Micron, the number two maker of computer memory chips. European telecom stocks were hit by the Motorola statement, as well as announcements of job cuts by Alcatel, while the European insurance sector declined following a profits warning by AXA. Generally, in the last few weeks, market traders have been inclined to lock in profits from the post September rally before closing their books for the year end and it is difficult for markets to make significant headway under these conditions.

Market Outlook

- The global economy is in the midst of recessionary conditions, exacerbated by the September events in the US. Inflation currently poses 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.
- It takes some time for the positive effects of interest rate cuts to feed through the system 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, investors may begin to look through the trough in earnings towards recovery in 2002.