

Market Comment

Issued on 23rd January 2002

Overview

This week has been dominated by the release of corporate earnings reports by major companies around the world. While the consensus remains that an economic recovery is on the way in 2002, earnings reports this week have been mixed and most equity markets moved within a tight range. However, most companies are more upbeat going forward and this optimism is underpinned by the release of positive economic data. Consumer confidence, retail sales and unemployment figures in the U.S. have all been better than expected. Low oil prices and subdued inflation continue to promote consumer spending while the absence of further terrorist attacks has contributed to increased consumer confidence.

Market Performance

Table 1 below shows the movements in selected markets since last week's comment and from the beginning of the year.

Table 1

Market	Index	% Return 16.01.2002 to 23.01.2002		% Return 01/01/2002 to 23.01.2002	
		Local Currency	Euro	Local Currency	Euro
US	S&P 500	0.1	0.3	-1.7	-0.7
US	NASDAQ	-1.1	-0.9	-1.4	-0.4
Europe	FT/S&P Europe Ex. UK	1.5	1.5	-2.9	-2.9
Ireland	ISEQ	-1.9	-1.9	-3.4	-3.4
UK	FTSE 100	1.0	0.5	-0.7	-1.6
Japan	Topix	-1.3	-2.8	-5.5	-6.5
Hong Kong	Hang Seng	-1.8	-1.6	-5.6	-4.6
Bonds	Merrill Lynch Euro over 5 year	-0.4	-0.4	1.5	1.5

Bonds

Bond markets moved lower this week, the Merrill Lynch over 5 year bond index recorded a 0.4% decline. In his economic outlook last week, bond investors had felt that Alan Greenspan had hinted at a final interest rate cut. However, with the release of positive economic data over the past number of days, investors are now anticipating that the Federal Reserve in the United States will leave interest rates unchanged at 1.75%. This view is supported by a somewhat more upbeat statement from Alan Greenspan today as he addressed the US Senate Budget Committee. This would indicate that the Federal Reserve believes the worst of the downturn has passed. Bonds have been in positive territory this year to date and the Eagle Star Active Fixed Income Fund has returned 1.9% since the 1st January 2002.

Equities

The corporate earnings season got into full swing during the past week. The direction of equity markets on a day to day basis was largely determined by reports from major corporations. Citigroup, the US financial services group and General Electric rose 2% and 2.7% respectively after posting positive results. There were better than expected results from Bank of America, Lucent, the telecoms equipment maker, and Amazon, the online retailer. Technology companies, such as IBM and Microsoft did not do so well and the Nasdaq index fell 1.1% in the week. Some market analysts believe that technology stocks may have already accounted for improved economic conditions in their prices and this is preventing a strong move forward in the sector. However, Nokia released good results today and this should bring renewed optimism to investors in the coming week. The big news of the week came from Tyco International, the US manufacturing conglomerate. It announced that it is splitting into four publicly traded companies. There has been mixed reaction to the move on the markets; the share rose initially but subsequently fell on concerns about company's financial accounts. Siemens and SAP both released positive results and the US, European and UK indices all rose on the week.

Market Outlook

- The Federal Reserve performed a dramatic easing of monetary policy during 2001, with interest rates cut to below 2%, a forty-year low. Other central banks also lowered rates; moves which were possible due to subdued inflation pressures globally.
- The interest rates are helping to reflate the major economies. However, the recovery could also appear patchy at first, as many sectors still have an overhang of capacity built up during 1999/2000.

- Currently it is felt that we are at the low point for the global economy and close to lows on interest rates.
- Given the extent of the stimulus we have seen, especially in the US, equity investors should sit through negative earnings' reports in anticipation of a recovery in corporate profits in the second half of 2002.
- A neutral stance in equities is warranted at present; but it is likely that equity positions will be increased as the economic picture becomes clearer.

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