

## Market Comment

Issued on 21st February 2002

### Overview

Equity markets fell this week as financial accounting concerns overshadowed the release of positive economic data. Statistics released on Tuesday showed that housing starts in the US were particularly strong in January, rising 6.3%. Business inventories have dropped and this means that production increases may soon be necessary to meet demand. Stronger economic fundamentals such as these continue to indicate an underlying improvement in the US economy.

However, in the short-term investors are cautious, as analysts continue to assess the impact of corporate accounting issues. Fortunately, there is a growing sense that these concerns are overly pessimistic and that they will become less of an issue in the near future.

### Market Performance

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

**Table 1**

Market	Index	% Return 14.02.2002 to 20.02.2002		% Return 31.01.2002 to 20.02.2002	
		Local Currency	Euro	Local Currency	Euro
US	S&P 500	-1.7	-1.4	-2.9	-4.1
US	NASDAQ	-3.7	-3.4	-8.2	-9.4
Europe	FT/S&P Europe Ex. UK	-4.1	-4.1	-4.7	-4.7
Ireland	ISEQ	-1.8	-1.8	-9.4	-9.4
UK	FTSE 100	-3.5	-3.4	-2.7	-3.0
Japan	Topix	-2.8	-3.5	-1.5	-2.5
Hong Kong	Hang Seng	-0.8	-0.5	0.2	-1.1
Bonds	Merrill Lynch Euro over 5 year	0.1	0.1	-0.1	-0.1

### Equities

Equity markets fell across the board and Europe had a poor week in particular. Profit warnings caused sentiment to sour and financial and telecom stocks were badly hit. France Telecom and Mobilcom both suffered losses over concerns about spending on 3G licences.

The US S&P 500 index was down 1.7% as investors' concerns over accounting practices in the wake of the collapse of Enron extended to both IBM and Cisco Systems. On a more upbeat note, positive outlooks from Texas Instruments and Lucent Technologies on Wednesday helped to instil some degree of confidence going forward.

In Ireland, the release of AIB's results for the year did not produce any new surprises and the stock fell just two cent. The stock price has held up extremely well since the bank first released details of the Allfirst story.

### Bonds

Bonds markets rose marginally over the past seven days, the Merrill Lynch Euro over 5 year government bond index rising 0.1%. Bonds continue to attract buyers, supported by a backdrop of low inflation and stock market weakness. The Eagle Star Active Fixed Income fund has risen about 1.5% since the beginning of the year and has outperformed competing funds in the Irish market over one and three year time periods to 31st January 2002 (Source: Mercer Pension Pooled Fund Survey).

### 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.
- Cutting interest rates will help 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.
- A neutral to underweight stance in equities is warranted at present, given the current uncertainty over the degree of economic recovery and accountancy standards concerns. However, it is likely that equity positions will be increased as the economic and corporate earnings' picture becomes clearer.

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