EAGLE STAR

Market Comment

Issued on 28th February 2002

Overview

There was a more upbeat tone on markets last week as investors were cheered by an improving economic outlook. Recent economic statistics have been pointing to an early end to the recession in the US and this was further confirmed by data this week showing a surge in US sales of existing homes in January. While there was disappointment at subsequent figures showing a drop in consumer confidence, this was outweighed by a positive speech to Congress on Wednesday by the Federal Reserve chairman, Alan Greenspan. He announced that the economy was close to a turning point. Mr. Greenspan stated that he expected US growth to resume this year, although not at a level that would require an early rise in interest rates. He highlighted two key factors in shortening the recession, interest rate cuts and a drop in company inventories, the latter likely to lead to an early rebound in investment spending.

The European economy also showed signs of resilience with a higher than expected rise in the German index of business confidence. This fourth successive monthly rise indicated that economic growth should accelerate before the middle of the year. This positive trend was reinforced by the release of strong Italian business confidence figures on Wednesday.

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 20.02.2002 to 27.02.2002		% Return 31.01.2002 to 27.02.2002	
		Local Currency	Euro	Local Currency	Euro
US	S&P 500	1.1	2.0	-1.8	-2.3
US	NASDAQ	-1.3	-0.5	-9.4	-9.8
Europe	FT/S&P Europe Ex. UK	3.9	3.9	-0.9	-0.9
Ireland	ISEQ	3.4	3.4	-6.4	-6.4
UK	FTSE 100	3.1	3.1	0.3	0.0
Japan	Topix	5.3	5.6	3.6	3.0
Hong Kong	Hang Seng	-0.9	-0.1	-0.7	-1.2
Bonds	Merrill Lynch Euro over 5 year	0.1	0.1	0.0	0.0

Equities

Equity markets responded well to the improved economic outlook, setting aside some of the caution generated in recent weeks by Enron-related accounting issues. In Europe, technology and telecom stocks were in strong demand as traders closed off short positions they had established in the pessimistic mood of earlier weeks. Vodafone was a beneficiary of the turn in sentiment, putting in a rise of 10%. Technology stocks rose on signs that computer memory chip prices are firming. European auto stocks also performed well, helped by raised earnings forecasts by General Motors in the US.

In the US, the technology sector was in a more downbeat mood as some analysts downgraded their earnings forecasts for Cisco and Intel. This caused the NASDAQ Index to register a negative return despite the positive signals on the economy.

In Ireland, AIB continued to recover from the setbacks engendered by the trading losses at Allfirst Bank. Speculation about a possible merger of AIB with Royal Bank of Scotland added to demand for the stock and the share price rose to €13.05 at the market close on the 27th February 2002. At this price, the share is just 57 cents below its level on the 5th February 2002 - just before the announcement of the US losses.

Bonds

Bond markets had a quiet week. The prospect of improving economic growth would normally push prices lower in anticipation of rising interest rates. However, better economic expectations are already built into bond markets and investors are also relaxed about the inflation outlook which should facilitate a stable interest rate regime in the short term. The eurozone bond market moved sideways over 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.
- 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.