Market Comment

Issued on 8th March 2002

Overview

Investment markets moved firmly into positive territory this week as further signals pointing to an economic recovery emerged. A strong improvement in manufacturing, services and GDP figures in the US all helped to reinforce the increasingly optimistic sentiment of recent weeks. Manufacturing activity in the US rose to its highest levels since April 2000. The index from the Institute of Supply Management increased to 54.7 in February. A reading of more than 50 indicates that factory activity is expanding while there was also an expansion in the US services sector. The US economy grew by 1.4% in the fourth quarter of 2001 according to revised GDP figures in which net exports and personal expenditure were increased. Investors had yet another reason to be cheerful with the release of the Federal Reserve Beige Book. The book, which is a summary of economic conditions in the various US regions, was upbeat in its outlook.

In Europe, the European Commission's monthly business climate indicator improved to its strongest reading since September. There were also better than expected employment figures from Germany, suggesting that Europe's largest economy may be over the worst. Overall, there was a welcome upturn this week in sentiment on both sides of the Atlantic.

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 27.02.2002 to 06.03.2002		% Return 31.12.2001 to 06.03.2002	
		Local Currency	Euro	Local Currency	Euro
US	S&P 500	4.8	3.3	1.3	2.9
US	NASDAQ	7.9	6.4	-3.1	-1.5
Europe	FT/S&P Europe Ex. UK	3.7	3.7	2.7	2.7
Ireland	ISEQ	0.7	0.7	-12.5	-12.5
UK	FTSE 100	1.3	0.4	0.5	0.0
Japan	Topix	6.6	7.9	4.0	6.1
Hong Kong	Hang Seng	3.3	1.9	-3.5	-1.9
Bonds	Merrill Lynch Euro over 5 year	-1.1	-1.1	-0.2	-0.2

Equities

Equity markets worldwide recorded gains this week, the S&P 500 and the NASDAQ setting the upward trend rising 4.8% and 7.9% respectively. Financial and pharmaceutical stocks had an excellent week in the US, as concerns regarding accounting practices faded into the background and markets responded to good economic news. These sectors have been favoured by Eagle Star in recent months and all our equity based funds rose over the last week, the Dynamic Pension and Investment Fund rising 2.2%. Our technology based fund the Top Tech 100 rose 5.1%, tracking the strong rise in the NASDAQ. Media and technology stocks led European markets higher, as investors anticipated that a recovery would help to lift these sectors. Airline stocks also moved ahead on the same basis.

The Japanese market rose, the Topix index recording a 6.6% increase as investors moved into the market before the Japanese fiscal year ends in March. However, its dismal macroeconomic picture and shaky financial services industry hamper the likelihood of a sustained rally on the Japanese market. The Irish market moved marginally ahead shaking off some of the gloom instilled by the recent Elan and AIB debacle.

Bonds

Bond markets retreated this week, driven downwards by strong equity markets and increased evidence of an economic recovery. Speculation over possible interest rises later in the year also held bonds back. The Merrill Lynch over 5-year government bond index fell 1.1% in 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 cuts in interest rates have helped to reflate the major economies. However, the recovery could be moderate in nature compared to previous rebounds.
- With companies in general unable to increase prices, partly due to an overhang in capacity, inflationary pressures will likely remain subdued.
- 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.