Market Comment

Issued on 27th March 2002

Overview

Investors engaged in some profit taking this week, consolidating the recent gains on equity markets in the run up to the Easter bank holiday. This led to a more subdued tone across world markets and there was a notable absence of any major movements. Speculation over the earnings picture in the US continues to prevent the occurrence of a sustained rally on equity markets. However, further positive economic data emerged this week to reinforce evidence that the recovery is under way.

The highest consumer confidence figures from the US since August 2001 were released yesterday. The index rose from 95 in February to 110.2 for March and this indicates that the US consumer is becoming progressively more optimistic about the economy. The German Ifo index, which indicates how business people feel about the German economy, was also strong. A rise in new home sales again in February, following an excellent January, suggests that the US property market remains in a very stable condition.

Overall most markets moved in a tight range and Table 1 below shows the movements in the main markets since last week's comment and in the month to date.

Market Performance

Table 1

Market	Index	% Return 20.03.2002 to 27.03.2002		% Return 28.02.2002 to 27.03.2002	
		Local Currency	Euro	Local Currency	Euro
US	S&P 500	-0.6	0.7	3.4	2.8
US	NASDAQ	-0.3	1.0	5.5	4.9
Europe	FT/S&P Europe Ex. UK	0.0	0.0	3.9	3.9
Ireland	ISEQ	0.6	0.6	4.1	4.1
UK	FTSE 100	-1.0	0.1	2.2	2.3
Japan	Topix	-1.9	-1.3	6.3	6.7
Hong Kong	Hang Seng	-0.4	0.8	4.8	4.2
Bonds	Merrill Lynch Euro over 5 year	0.0	0.0	-1.4	-1.4

Equities

European equity markets were flat on the week, held back in part by Spanish companies affected by developments in Argentina. The peso tumbled 18% last Friday and Argentines scrambled to buy dollars as a result. Cultural affinities between Spain and Argentina mean that many Spanish companies are heavily exposed to Argentina and as a result stocks such as Telefonica, the telecoms company, and SCH, a large Spanish bank, fell. European markets continue to hold up well on the month to date. Attractive stock valuations will allow for growth opportunities in Europe going forward.

US markets struggled this week; however, strong performances from energy and financial sectors prevented any major declines. Energy stocks rose as new data showed that crude oil supplies have fallen, due to increasing world demand in response to improved economic conditions. The threat of a US offensive on Iraq is also supporting oil prices.

Bonds

Bond markets steadied this week as investors speculated over the possible timing of future interest rate increases. There is little pressure on governments to increase rates from an inflation viewpoint and bond markets are responding to this and to the fact that the economic recovery may not be overzealous. The Merrill Lynch Euro over 5-year index remained unchanged 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 in a global effort to counteract recessionary conditions.

- 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 slightly overweight stance in equities is warranted at present given the improving news concerning global economic recovery. However, concerns remain regarding the degree and sustainability of the economic upturn, the opaque corporate earnings picture and high valuations in the US technology sector.