EAGLE STAR

Market Comment

Issued on 11th April 2002

Overview

The week was marked by continued uncertainty over the strength and speed of the recovery in corporate earnings and equity markets had difficulty moving ahead, even though new economic releases confirmed the view that the global economy has turned. On Friday, figures published on US non-farm employment were higher than expected, although there was a significant downward revision to the previous month's figure. At the same time, figures on unemployment showed a further rise and this helped dampen expectations of an early rise in interest rates. The longer interest rates remain low, the better the prospects of a strong economic recovery, which would help corporate earnings, so this news should be good for equity markets. It would also benefit bonds, which sold off aggressively in recent weeks on expectations of imminent increases in short term interest rates. The economic indicators for Europe were also moving in a positive direction, with German unemployment falling for the first time since December 2000.

Table 1 below shows the movements in the main markets since last week's comment.

Table 1

Market	Index	% Return 02.04.2002 to 10.04.2002	
		Local Currency	Euro
US	S&P 500	-0.5	-0.8
US	NASDAQ	-2.1	-2.3
Europe	FT/S&P Europe Ex. UK	-1.8	-1.8
Ireland	ISEQ	-3.2	-3.2
UK	FTSE 100	-0.4	-0.6
Japan	Topix	0.9	2.8
Hong Kong	Hang Seng	-2.2	-2.4
Bonds	Merrill Lynch Euro over 5 year	0.6	0.6

Equities

The main influences on equity market movements over the week were on the corporate earnings' side. The technology sector was hit on Tuesday by a shock earnings' warning from IBM, the world's largest computer maker, which announced that customer buying decisions continued to slow in the first quarter and that revenues would come in below analysts' estimates. The news drove the sector lower as it had been anticipated that IT spending activity would be an early beneficiary of an economic revival. There is no doubt that accounting transparency had some input in the IBM case, as indeed it will have as other companies pre-announce their earnings. The telecoms sector also took a further downturn on fears of over-capacity and evidence of a slowdown in growth in new subscribers.

Financials had a good week, with insurers gaining ground on the view that valuations are at bargain levels after the collapse in prices following September 11th. The European banking sector gained from prospects of an eventual rise in interest rates as large deposit takers are expected to widen their spreads with any upturn in rates.

Eagle Star's 5 Star 5 Fund has a significant exposure to large European retail banks, having held Unicredito Italiano for some time and recently switching to Intesa d'Espana, which we believe has greater upside potential going forward. Eagle Star portfolios are also underweight IBM and the technology and telecom sectors generally, so we would be somewhat insulated from recent difficulties in those sectors.

Bonds

Bond markets were firmer on the week, helped by a fall off in expectations that the Fed would increase interest rates at its next meeting in May. The rise in crude oil prices had no adverse impact, as central bankers have taken the view that interest rate rises would not be an appropriate response to an oil price hike, the greater threat being to economic growth than to inflation. The conflict in the Middle East also helped push investors towards safer havens such as government bonds.

Outlook

- Central banks eased policy significantly in 2001 in order to counteract recessionary conditions and reflate the major economies. The most dramatic easing was in the US where rates fell below 2% - a forty year low.
- Economies have begun to recover over the past four months and markets have already anticipated that central banks will take back some of the

"insurance" cuts they performed post September 11th.

- Any change in interest rates would not be very substantial, however. There are still some lingering concerns regarding the durability of the recovery and inflation pressures are still fairly contained, notwithstanding the impact of oil price spikes such as we are currently experiencing.
- While equity valuations are still a periodic cause for concern, at present a neutral to slightly overweight equity stance is warranted, given the improvement in the economic environment.