EAGLE STAR

Market Comment

Issued on 24th April 2002

Overview

Markets are coming to the end of the first quarter reporting season this week. While the majority of results have met or beaten estimates, equity markets on both sides of the Atlantic were dominated by unsettling news from the telecoms sector. Ericsson, the Swedish telecom giant, produced disappointing earnings results and announced job losses on Monday. The announcement weighed heavily on investor sentiment, particularly in light of Nokia's downgrade of sales prospects last week.

There was little in the way of economic data this week to lend comfort to jittery equity investors. A fall in demand for communication and computer parts contributed to a drop of 0.6% in US durable goods orders. The Ifo institute survey of business confidence in Germany also came in at lower then expected. This data will contribute to the growing consensus that both the Federal Reserve in the US and the European Central Bank are unlikely to move on interest rates in the short-term.

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

Table 1

Market	Index	% Return 17.04.2002 to 24.04.2002	
		Local Currency	Euro
US	S&P 500	-2.9	-3.4
US	NASDAQ	-5.4	-5.8
Europe	FT/S&P Europe Ex. UK	-2.6	-2.6
Ireland	ISEQ	1.0	1.0
UK	FTSE 100	-0.9	-0.9
Japan	Topix	0.8	1.2
Hong Kong	Hang Seng	2.8	2.3
Bonds	Merrill Lynch Euro over 5 year	0.4	0.4

Equities

European and US markets moved lower this week lead by the telecom and technology sectors which had a dismal week overall. Lucent Technologies and Worldcom joined Ericsson in announcing disappointing results. Eagle Star has maintained an underweight position in the telecoms and technology sectors in our managed funds for some time now. This strategy ensured that the funds were only marginally affected by events in the TMT sector during the week.
On a more upbeat note, small stocks and defensive sectors such as consumer staples are outperforming. The Pacific region ended the week in positive territory as investors speculated that an economic recovery in the US will lead to a sustained rally on the
Hang Seng index.

Bonds

Bonds had a largely uneventful week but have been spurred on in the last day or so by weaker than expected economic data in the US and Europe. This has caused some nervousness among equity investors and prompted buying on bond markets. Weak economic data is also helping to reduce expectations that interest rates are likely to rise and this is having a positive effect on bond prices both in the US and Europe.

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.