Market Comment

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Overview

The emergence of mixed economic data dominated equity markets this week. There was muted reaction to the news that the US economy grew at a seasonally adjusted annual rate of 5.8% in the first quarter of 2002. This is the fastest growth rate for two years; however, concerns over the strength of the economic recovery have prevented markets from moving forward in the short-term. The Institute of Supply management's index on manufacturing activity in the US came in at lower than expected. Consumer confidence figures waned also, while personal spending and income rose last month. These mixed signals from the macroeconomic environment in the last week have been the cause of some temporary investor uncertainty. However, investor sentiment on the long-term prospects for the US economy remains predominantly positive.

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

Table 1

Market	Index	% Return 24.04.2002 to 01.05.2002	
		Local Currency	Euro
US	S&P 500	-0.6	-2.2
US	NASDAQ	-2.1	-3.7
Europe	FT/S&P Europe Ex. UK	-1.2	-1.2
Ireland	ISEQ	-0.2	-0.2
UK	FTSE 100	-1.8	-2.4
Japan	Topix	-1.1	-0.9
Hong Kong	Hang Seng	0.9	-0.7
Bonds	Merrill Lynch Euro over 5 year	0.3	0.3

Equities

Technology and telecom sectors continued to drag on equity markets this week. The US S&P 500 and European indices ending the week lower as a result. However, oil stocks performed well as crude oil prices rose due to continuing turbulence in the Middle East and rising demand from the US. Eagle Star has focussed on defensive stocks over the last month and has benefited from this strategy.

The Hang Seng index in China held up somewhat better than the other major indices. Retail sales, exports and the housing market are all improving in Hong Kong. The index is also likely to benefit substantially from a pickup in the US.

There was some profit taking on the Japanese market this week and the Topix fell 1.1%. The strengthening yen also caused concern particularly for Japanese car makers abroad as the stronger currency will affect their profits when repatriated.

Bonds

Bonds continue to make ground on the back of weaker economic data. While the first rises in interest rates began in Canada and New Zealand this week, expectations regarding interest rate hikes continue to favour bonds. The consensus being that The Federal Reserve and the ECB will not increase rates until the end of the summer. This is in an effort to continue to stimulate economies and maintain high levels of money supply. While inflation has picked up somewhat, it still remains quite benign and this is positive for bonds also.

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.