EAGLE STAR

Market Comment

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Overview

There was profit taking in evidence on markets this week as investors locked in gains made during last week's rally. This led to a general weakness on most markets while national security concerns in the US contributed to investor nerves. Brooklyn Bridge was closed for a time yesterday as officials warned of possible terrorist attacks on the Statue of Liberty. Investors have turned to bonds as a temporary safe haven until fears of terrorist threats subside.

Meanwhile, there was mixed news on the economic data front. The University of Michigan's consumer confidence index rose to its highest level since December 2000. This implies that the US consumer is still confident about the economic recovery despite some weakness in the labour market. The index of leading economic indicators came in at lower then expected this month leading to a consensus among investors that interest rates are likely to remain unchanged until September.

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

Table 1

Market	Index	% Return 16.05.2002 to 23.05.2002	
		Local Currency	Euro
US	S&P 500	-1.1	-2.7
US	NASDAQ	-3.3	-4.8
Europe	FT/S&P Europe Ex. UK	-2.6	-2.6
Ireland	ISEQ	-0.5	-0.5
UK	FTSE 100	-1.8	-3.3
Japan	Topix	2.2	3.9
Hong Kong	Hang Seng	-0.3	-1.9
Bonds	Merrill Lynch Euro over 5 year	0.7	0.7

Equities

Equity markets receded this week following a strong run in previous days. The NASDAQ index, which had recorded its largest weekly improvement since April 2001, fell back as investors engaged in profit taking. Concerns over terrorist threats heightened as Dick Cheney, the US vice-president warned of increased activity in the al-Qaeda network.

This news caused jitters in most markets, Japan being the notable exception. The Japanese market benefited from another upgrade in the government's monthly assessment of the economy. This is the third consecutive month that an upgrade has occurred leading to speculation that the Japanese economy may be passed the worse. There was strong trading as a result and the Topix index rose 2.2% on the week.

Bonds

Bond markets moved marginally higher this week as cautious investors moved away from equities. There was also good news on eurozone inflation. Data released showed that it has fallen to 2.2% from 2.5% in March. This is positive for bonds because the European Central Bank has been concerned about rising prices. Exercising the option of raising interest rates in an effort to contain inflation may no longer be a pressing consideration.

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.