EAGLE STAR

Market Comment

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Overview

The global economic outlook brightened further this week as new statistical releases indicated stronger growth in the US and Europe, with little sign of inflationary pressures. However, new corporate scandals and ongoing earnings concerns combined with warnings of potential terrorist attacks and fears of war between India and Pakistan kept equity investors on the sidelines.

Further improvement in the US economy was confirmed on Tuesday with a sharp rise in the Institute of Supply Management's manufacturing index, from 53.9 in April to 58.7 in May. There was an encouraging strong rise in the new orders component of the index. This was followed on Wednesday by news that the US services sector had grown in May at its fastest pace since August 2000. Commerce Department statistics also confirmed a rise in construction spending in April. The consensus view is now that the US economy will grow by 2.5 to 3.5 per cent annualised in the quarter to the end of June.

Recovery in the Eurozone economy also gathered pace. The Reuters-NTC Research purchasing managers index for May recorded its highest level in 15 months, while figures released on Eurozone growth showed a rise of 0.2%, aided by higher exports and strong growth in Spain, Ireland and Greece. The largest economy, Germany, remains sluggish. There were some concerns following a higher than expected rise in producer prices, but any impact on inflation is likely to be outweighed by the beneficial impact of the strengthening euro which rose to 94 cents against the US dollar.

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

Table 1

Market	Index	% Return 29.05.2002 to 05.06.2002	
		Local Currency	Euro
US	S&P 500	-1.7	-2.1
US	NASDAQ	-1.8	-2.2
Europe	FT/S&P Europe Ex. UK	-4.4	-4.4
Ireland	ISEQ	-0.7	-0.7
UK	FTSE 100	-1.9	-2.6
Japan	Topix	-0.8	-1.5
Hong Kong	Hang Seng	-0.3	-0.7
Bonds	Merrill Lynch Euro over 5 year	0.2	0.2

Equities

Wall Street bounced back somewhat on Wednesday as the good economic news began to take hold and an upbeat profit prediction from Oracle lifted confidence in the technology sector. Europe was hit by heavy markdowns in telecom stocks, as was the UK when it finally reopened after the two day Jubilee bank holiday. However, Nokia, the telecom group bounced back, leading to hopes that the Finnish company has passed the worst.
There was some profit taking in evidence in the Japanese market this week, on the back of strong performances in the last number of months.

Bonds

Bond prices remained steady as investors were reluctant to switch from safe haven assets into the uncertain waters of equity markets. Eurozone bonds also gained from a strengthening euro which was expected to keep inflation low and encourage the ECB to hold off any early rise in interest rates.

Outlook

- An ongoing improvement in global economies remains the central scenario, although there are some doubts about the durability of the US consumer, given high personal debt levels.
- While the current monetary background is supportive of growth, investors have begun to focus on how quickly US rates will increase from the artificially low levels of post September. Additionally, the ECB has signalled that it may raise interest rates.
- In any event, rates increases globally are likely to be modest given the continued benign outlook for inflation. Many companies continue to report a lack of pricing power.
- Overall, the environment supports a mildly positive stance on equities, as markets await the earnings recovery. Geographically we prefer markets in Asia and Europe while we remain biased towards cyclical and financial stocks and underweight technology stocks.