EAGLE STAR

Market Comment

Issued on 29th July 2002

Overview

It was another turbulent week for investors, as world stock markets remained volatile. There was evidence of capitulation early on as selling occurred across all sectors. This moderated somewhat as the week progressed and while the US ended the week on a positive note, other indices around the world posted sharp falls.

Negative sentiment regarding corporate scandals continues to dominate market sentiment. Chief Executive Officers of one thousand US companies have until August 14th to personally sign off on their company accounts. It is highly probable that further revelations will occur prior to that date and investors will remain jittery as a result. The S&P 500 Index in the US reflected this nervous mood. It demonstrated some dramatic moves, falling sharply on Monday while rallying strongly later in the week.

Employment data from the US showed that initial jobless claims reached their lowest level in 17 months in July. Consumer confidence data showed a fall to 88.1 this month. This figure was not as low as expected given the amount of negative corporate news that has emerged in the last number of weeks. However, data on US durable goods was weak and Germany's Ifo index of business sentiment fell in July.

Last week saw the euro hit a high of $1.018 against the US dollar. However, profit taking and dollar strengthening led the euro back below parity and on Friday it stood at $0.988.

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

Table 1

Market	Index	% Return 19.07.2002 to 26.07.2002	
		Local Currency	Euro
US	S&P 500	0.6	3.2
US	NASDAQ	-4.3	-1.9
Europe	FT/S&P Europe Ex. UK	-5.0	-5.0
Ireland	ISEQ	-6.2	-6.2
UK	FTSE 100	-2.0	-0.3
Japan	Topix	-4.7	-4.8
Hong Kong	Hang Seng	-5.4	-2.9
Bonds	Merrill Lynch Euro over 5 year	0.8	0.8

Equities

European equity markets had a dismal week, set off on Monday by a profit warning from Aegon, the Dutch life assurer. The company cut its 2002 profit forecast by one third. In the US, Citigroup and JP Morgan fell heavily when it was revealed that they had provided Enron, the bankrupt Texas energy giant, with specially structured financing deals.

The ISEQ index fell a hefty 6.2% on the week, falling through the 4000 level on Wednesday for the first time in four years. The market bounced back on Thursday led by financial stocks, as investors came back into the market believing that the fall had been overdone.

Bonds

Bonds took direction from equity markets again this week. Investors unconvinced about the likelihood of a sustained rally in stock markets in the short-term stayed loyal to treasuries and fixed interest markets held firm. Eurozone bonds have been following the fortunes of the euro in recent weeks and the strengthening currency has caused some upward momentum in bond prices. The Merrill Lynch over 5 Year Government Bond Index rose 0.8% on the week. The Eagle Star Active Fixed Interest Fund is up 5.5%, year to date.

Outlook

- Economic recovery remains the central scenario, supported by generally accommodative monetary policies.
- Recent indicators suggest that the Fed may delay any rate rises until 2003 while the ECB may hold back also, given the recent strength in the euro.
- Current investor sentiment remains negative, with concerns stemming from relatively high US valuations and a series of investigations into US corporate accounting this year.

- These events have obscured the underlying improvement in US profitability, which has occurred over the past few months. However, we remain underweight in the US on valuation grounds, underweight Europe, which has failed so far to de-couple from the US and overweight Asian markets. At the sectoral level, we remain biased towards basic materials and financials and underweight technology stocks. Healthcare and telecoms have been moved from underweight to neutral on valuation grounds.
- Overall, our stance remains overweight bonds, underweight equities although a bear market rally in equities is not unlikely given the technically oversold level of many share prices. An end to the two and a half year fall in equities will come about when the markets are convinced that the excesses of the 1990's, and especially the TMT bubble, have been expunged.