

Market Comment

Issued on 6th August 2002

Overview

Economic news dominated markets this week as a number of reports put pressure on investor confidence. However, equity markets held onto some of the gains made early in the week and most markets finished the week in positive territory. The NASDAQ index was the exception as poor economic news drove the volatile technology index back.

Positive new home sales data in the US helped markets to bounce world-wide on Monday. The rally was short-lived however, as weak consumer confidence data, lower than expected GDP figures and poor manufacturing figures from the Institute of Supply Management in the US dampened sentiment. Investors are likely to remain cautious until August 14th, when Chief Executive Officers of almost one thousand US companies will personally sign off on their company accounts. This event may go some way in helping to alleviate investor concerns over corporate earnings.

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

Table 1

Market	Index	% Return 26.07.2002 to 02.08.2002	
		Local Currency	Euro
US	S&P 500	1.3	1.5
US	NASDAQ	-1.1	-1.0
Europe	FT/S&P Europe Ex. UK	0.8	0.8
Ireland	ISEQ	3.7	3.7
UK	FTSE 100	1.5	2.1
Japan	Topix	1.4	1.4
Hong Kong	Hang Seng	2.2	2.4
Bonds	Merrill Lynch Euro over 5 year	0.7	0.7

Equities

Qwest Communications, the telecommunications group provided the big story for equity investors last week. It was announced on Monday that it had accounted for more than \$1 billion in revenues incorrectly. The transactions dated back as far as 1999. The company is already under investigation by the Securities and Exchange Commission for its accounting practices and its share price fell some 20% on the news.

The ISEQ index was one of the strongest performing markets last week following a heavy sell off in the previous week. The index rose 3.7% led by financial stocks as investors came back into the oversold market. Ryanair, the low cost airline gained after it reported a record first-quarter profit after tax of €39m, an increase of 68 per cent on the same period a year ago.

Bonds

Fixed interest markets held firm again this week as poor economic data stalled any major progress in equities. Bond prices continue to be supported by the low interest rate environment and the consensus remains among investors that interest rates are unlikely to rise before 2003. In fact a cut in US and European interest rates is now being factored in by many market participants. The Merrill Lynch over 5 Year Government Bond Index rose 0.7% on the week. The Eagle Star Active Fixed Interest Fund is up 5.4%, year to date.

Outlook

- Economic recovery remains the central scenario, supported by generally accommodative monetary policies.
- 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.

