EAGLE STAR

Market Comment

Issued on 2nd October 2001

Overview

The last week saw a welcome bounce in equity markets following the falls in the days following September 11th. The major equity markets rose on average 10%, a significant recovery from the losses of the previous week, as investors began to look beyond the immediate aftermath of the US tragedy and focus on the potential of US economic policy makers to engineer a return to growth.

On this front there were strong positive signals - tax rebates which would give consumers more spending money and increases in government spending to help the industries worst hit by the disaster, notably the airlines.

Some of the leading indicators of economic activity also came in with better than expected figures. On Friday, the University of Michigan Confidence Index, which is a guideline to consumer confidence, reported a lower level than the previous month, but above expectations. On the same day, the Chicago Purchasing Manager Index, which reflects business confidence levels, was significantly higher than the previous month's figures again ahead of expectations.

Additionally, oil prices have been very well behaved, with the price of Brent crude falling from $29 per barrel on 11 September to $23 at 28 September. The reduction in activity among the airlines has been a significant contributory factor, aviation fuel accounting for up to 10% of oil demand.

Markets

Bond prices rose on the week, particularly on stocks with longer maturities, which respond most to changes in the medium term economic outlook. The Merrill Lynch Over-10-year Euro bond index rose 2.1%, while the over-5-year index was up 1%. Earlier in the month, prices at the long end of the bond markets were hit by concerns that the increases in US government spending and tax cuts could lead to further Government bond issuance. These fears however, have been superseded by the positive impact of lower oil prices on the inflation outlook.

Equity prices were up across all markets, the strongest gains occurring in Europe which, over the four days when Wall Street was closed, had borne the brunt of the immediate aftershock of the terrorist attacks. The best performing sectors were those which were hit hardest the previous week, such as insurance. Telecom stocks also rose, partly from an oversold position and also in response to a rise in demand as users switched to telephone contact in preference to airline travel. Technology stocks continued to underperform on earnings' fears, as did oil stocks affected by the immediate fall in demand leading to a lower oil price.

Table 1 below shows the recovery that occurred in global equity markets last week.

Market	Index	Local Currency (% Return)	Irish Pound (% Return)
US	S&P 500	7.8	7.8
Europe	FT/S&P Europe Ex. UK	13.6	13.6
Ireland	ISEQ	7.6	7.6
UK	FTSE 100	10.6	12.0
Japan	Topix	2.5	0.4
Hong Kong	Hang Seng	11.4	11.4
Euro Bonds	Merril Lynch Euro over 5 year	1.0	1.0

Table 2 below shows the percentage gain in the prices of Eagle Star's main unit-linked funds which rose on the back of the gains in equity and bond markets. The gains on the week were sizeable making up a significant amount of the falls in the days immediately following September 11th.

When equity markets, fall like they did in the immediate aftermath of September 11th, the prices of Eagle Star's Balanced, Performance and Dynamic funds don't fall by the same percentage because of their diversification across bond and equity markets. Similarly when equity markets rise, the prices of these funds don't rise by the same percentage as the equity markets.

Table 2
Gains in Fund Prices: Close on 21st (price of 24th) to
Close on 28th September 2001 (price of 1st October)

Net FUNDS	Percentage Gain
Investment	5.09

Balanced	4.47
Performance	5.66
Dynamic	6.37
Pension & Investment FUNDS	
Balanced Pension & Invest	6.81
Performance Pen & Invest	7.78
Dynamic Pension & Invest	8.37
Active Fixed Income	1.47
5*5	7.94

Outlook

Market sentiment remains fragile in the light of the immediate effect of lower corporate earnings and the prospect of some corporate closures. The markets are now awaiting clear indications that the moves on government spending and interest rates cuts are having the desired positive effects on global economic growth. This should be forthcoming over the coming months.

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Yesterday's 0.5% cut (from 3.0% to 2.5%) in US interest rates was also a positive signal and the US market responded well with the S&P 500 closing up 1.23% on the day. Ignoring emergency cuts in interest rates, US interest rates are now at the lowest level since 1962.

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