EAGLE STAR

Market Comment

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Overview

The US Thanksgiving holiday on Thursday resulted in a quiet week in which the major markets consolidated earlier gains and rounded off a very positive month for equities.

Economic data was mixed. Figures on US GDP growth in the third quarter were revised upwards to 4% helped by a sharp rise in car sales, higher government spending and business equipment investment. However, these areas have since slowed down and there is concern that fourth quarter growth will be substantially lower. A lower than expected rise in the corporate profit component of the GDP figure was also a worry. These fears were compounded by the release of the Conference Board's consumer confidence index for November, which was less than anticipated. On Thursday, however, new economic releases signalled a recovery in the manufacturing sector with a surprise 2.8% rise in durable goods orders in October, well ahead of expectations of a 1.5% increase, while the Chicago purchasing managers' Index jumped to 54.3 from 45.9 the previous month.

In Europe, there was a decline in the Ifo Institute's German business climate index to 87.3 from 87.7, but a larger drop had been anticipated and there was some hope that the slowdown may be easing off. Inflation in the Eurozone has fallen recently and there are expectations that the ECB will cut interest rates by at least 0.25% at its meeting this Thursday.

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

Table 1			
Market	**Index**	**% Return 22/11/2002 to 29/11/2002**	
		Local Currency	**Euro**
US	S&P 500	0.6	1.0
US	NASDAQ	0.7	1.0
Europe	FT/S&P Europe Ex. UK	0.8	0.8
Ireland	ISEQ	2.6	2.6
UK	FTSE 100	-0.1	-1.3
Japan	Topix	3.9	4.5
Hong Kong	Hang Seng	0.1	0.4
Bonds	Merrill Lynch Euro over 5 year	0.4	0.4

Equities

Equity markets had a positive week, spurred by greater optimism in the corporate sector and hopes that the recent interest rate cut in the US will restore economic buoyancy. Tech stocks made further gains on positive analyst comments and optimistic statements from some companies. In the drugs sector, Eli Lilly jumped on winning approval from the FDA for a new drug to treat attention deficit hyperactivity disorder.

In Europe, basic materials outperformed the market this week. Investor concerns regarding the size of potential asbestos related claims have overshadowed the sector in recent months. However, companies such as CRH rose on news that litigation may not be, as damaging as previously feared.

The Japanese market had a good week as banking stocks rose in anticipation of government reforms to deal with the bad loan problems. Exporting stocks also performed well in anticipation of a stronger US economy.

Bonds

Eurozone bond prices were little changed over the week with the 5-year index recording a 0.4% gain. Comments from several ECB members, highlighting the risks to growth and subdued inflationary pressures encouraged hopes of an imminent rate cut, thus supporting Eurozone bond prices.

Outlook

- Forward indicators for the major economies suggest that growth will remain relatively subdued over the next few months.

- With growth below trend in all the major economies, interest rates are likely to stay low in the US and UK and to fall further in the Eurozone.
- Geo-political tensions have eased somewhat following the recent UN resolution on Iraq allowing oil prices to fall by 14%.
- For further sustained rises in equities we need to see a more robust economic and earnings environment.
- Our overall portfolio remains neutral equities with a slight geographical bias towards Asian markets. Portfolios have become less defensive with overweight positions in financials, telecoms and healthcare. We have a preference for bonds over cash given the low level of short term interest rates.