EAGLE STAR

Market Comment

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Overview

It was another week of unease on investment markets as the Iraqi situation continued to unfold and mixed economic data pointed to an uncertain outlook. The United Nations weapons inspectors' report was delivered on Monday and proved to be inconclusive for the most part. There was little respite for investors on Tuesday as President Bush indicated the Unites States' willingness to go to war with Iraq, alone if necessary, in his State of the Union address. Friday brought a summit between President Bush and the British Prime Minister, Tony Blair. The result of the meeting was that unless Saddam Hussein proves to UN weapons inspectors that he has disarmed, war is inevitable. The uncertainty surrounding the Iraq issue continues to weigh on investor sentiment and equity markets are unlikely to make significant ground while these geo-political tensions remain unresolved.

There was a great deal of economic news for investors to digest last week. The Conference Board in the US released consumer confidence figures that were slightly better then expected. However, the University of Michigan released disappointing consumer confidence figures later in the week. The US Federal Reserve left interest rates unchanged on Wednesday as expected; however, the door to further easing is by no means closed. The US Commerce Department released figures showing that GDP growth rose by just 0.7% in the fourth quarter. This modest rise compares to a 4% gain in the third quarter. There was a welcome boost from the Chicago Purchasing Managers' index of manufacturing activity when it came in at 56 for January, up from 51.7 in December and well above expectations.

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

Table 1

Market	Index	% Return 24/01/2003 to 31/01/2003	
		Local Currency	Euro
US	S&P 500	-0.7	0.3
US	NASDAQ	-1.6	-0.6
Europe	FT/S&P Europe Ex. UK	-0.6	-0.6
Ireland	ISEQ	0.1	0.1
UK	FTSE 100	-1.0	0.6
Japan	Topix	-4.7	-5.5
Hong Kong	Hang Seng	-2.1	-1.2
Bonds	Merrill Lynch Euro over 5 year	-0.3	-0.3

Equities

The ISEQ index ended the week in positive territory on the back of good news from the Athlone based pharmaceutical company, Elan. The share price jumped 24% when the group announced that it now has enough cash to meet its near-term liabilities, including the 2003 bond holders (LYONs). The company has now raised €1.5 billion after selling its US primary care business and other assets to other US speciality pharmaceutical companies. Elan saw its share price collapse early last year when questions arose over its accounting practices. These disposals formed part of a recovery plan and the funds have been raised ahead of schedule.

AOL Time Warner was under the spotlight in the US this week. The group declared a $100 billion full year loss, the biggest in US corporate history. The vice-chairman, Ted Turner, resigned from the board. Procter & Gamble and Merck had better news when they released results that beat market expectations.

In Europe, France Telecom announced that its full year earnings were likely to exceed expectations. The Japanese market suffered from yen strength and continued turbulence in the banking sector.

Bonds

Bond markets ended the week marginally lower as the sharp falls of recent weeks on equity markets abated somewhat. Germany issued ¿6 billion, 30-year bonds on Wednesday leading to slight declines in European bonds. However, in the medium term, fixed interest investments continue to receive support from low interest rates and investor nervousness over Iraq. The Merrill Lynch over 5-year bond index lost 0.3% on the week. The Active Fixed Income Fund is up 1.6 % year to date.

Outlook

- Forward indicators for the major economies suggest that growth will remain relatively subdued, particularly in the first half of 2003.
- Renewed geo-political tensions have seen oil prices rise by 35% since the low of last November. If sustained at these levels, economic growth forecasts could be reduced further.
- With growth below trend in all the major economies, interest rates are likely to stay low in the US and could fall further in the Eurozone and possibly even the UK.
- The US dollar will remain under scrutiny in 2003 with further downward pressure likely.
- For sustained rises in equities we need to see a more robust economic and earnings environment.
- However, shifting war fears will continue to have an impact on the economic and market outlook in the short term.
- Our current overall portfolio stance is overweight bonds and neutral equities versus the manager average. On a geographic basis, the funds continue to have a preference for the Pacific region on a valuation basis and as a low cost producer. The weightings in the UK and Europe have been moved to neutral from underweight following recent heavy falls.