EAGLE STAR

Market Comment

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Overview

Weak economic data, the seemingly imminent war in Iraq and poor corporate news all contributed to the negative returns on equity markets last week.

The threat of war intensified as US president, George W. Bush, made clear that the US is ready to act without UN backing and he will call for a vote in the Security Council in the coming weeks. Statements from Hans Blix, the chief UN weapons inspector added fuel to the fire. He stated that Iraq had not handed over enough documentary evidence regarding weapons destruction and that further inspections are likely to take months.

Stock markets were not helped by disappointing economic news from both the US and Europe. The Institute of Supply Management released its index of manufacturing activity on Monday. It showed a bigger than expected fall to 50.5 in February. A figure below 50 indicates a contraction in manufacturing activity. Similarly, in the UK, figures released showed a fall in manufacturing activity to its lowest level in over a year. There were weak car sales figures in the US and France. Investor concern over future consumer spending was underpinned with the announcement that the US economy shed the largest numbers of employees since the September 11th attacks.

In Europe, the ECB cuts interest rates by just 0.25%. Many investors had been hoping for a 0.50% cut. However, comments from Wim Duisenburg, the governor of the ECB indicated that further easing would occur. In Switzerland, short-term rates were cut to 0.25%. The Bank of England left rates unchanged.

The euro rose above $1.10 against the dollar during last week. The dollar fell on comments by US Treasury Secretary, John Snow when he indicated a lack of concern about the dollar's recent slide leading to speculation regarding the US strong dollar policy. The Treasury later went to great efforts to indicate that there was no change in policy.

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

Table 1

Market	Index	% Return 28/02/2003 to 07/03/2003	
		Local Currency	Euro
US	S&P 500	-1.5	-3.3
US	NASDAQ	-2.4	-4.2
Europe	FT/S&P Europe Ex. UK	-6.2	-6.2
Ireland	ISEQ	0.7	0.7
UK	FTSE 100	-4.5	-4.6
Japan	Topix	-2.8	-3.2
Hong Kong	Hang Seng	-2.4	-4.2
Bonds	Merrill Lynch Euro over 5 year	0.9	0.9

Equities

It was a particularly bad week for European equities as the markets tumbled under the shadow of war in Iraq and the continued deterioration of economic conditions. The auto sector suffered falls on news that French new car sales fell 7.9% in February, following on a 9% decline in January. Aegon, the Dutch insurer, saw its stock fall over 30%, following disappointing full year results and a larger than expected reduction in its dividend. Vivendi Universal, the French media group, reported the biggest corporate loss in French history of €23.3 billion. In the UK, GlaxoSmithKline, fell after it lost a court case to protect the patent on its biggest selling drug, Paxil, an antidepressant.

In the US, at its mid-quarter update, Intel gave revenue guidance, which was below the street consensus due to weakness in its communications business.

The Irish market held up relatively well as Bank of Ireland continued its share buyback programme. Construction company, CRH, also provided support when it announced good earnings results which were above expectations.

Bonds

Eurozone bonds moved ahead this week supported by the 0.25% cut in interest rates by the ECB and indications of further easing in the future. Conditions remain favourable for eurozone bond investors based on the weakness in the German and French economies and the prospect of war. The US bond market also improved following the news of weaker US employment date and further indications from Washington that a war in Iraq is inevitable.

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 should fall further in the Eurozone.
- 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. But in the near term, the Iraq crisis continues to impact negatively on market sentiment.
- Our current overall portfolio stance is overweight bonds and underweight 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 funds are underweight in Europe due to deteriorating economic fundamentals.