EAGLE STAR

Market Comment

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Overview

Equity markets staged a rebound last week as the war in Iraq began and some of the uncertainty of recent months was removed. Stock markets moved higher as investors pinned their hopes on a swift and decisive victory for the coalition forces.

Oil prices fell sharply over the week, driven lower by optimism that the war will end without any major interruptions to oil supplies. Prices fell by over 25% to $24 a barrel. OPEC exporters have pledged to fill any gap in supply caused by the conflict in the Gulf. The International Energy Agency has stated that, as of yet, it sees no reason to release emergency stocks.

The US dollar continued to gain ground last week, prompted by lower oil prices and the upturn in equity markets. In the UK, the unstable political environment caused sterling to weaken further against the US dollar and the Euro.

In the US, the Federal Reserve met on Tuesday and decided to leave interest rates unchanged at 1.25%, citing geopolitical difficulties. Market participants had expected this decision. There was a steep decline in housing starts in the US during February. The data released showed a drop of 11%, the largest monthly fall since January 1994. The figure indicates that difficulties in the underlying economic environment persist and that a quick resolution to the hostilities may not herald the end of investor concerns.

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

Table 1

Market	Index	% Return 14/03/2003 to 21/03/2003	
		Local Currency	Euro
US	S&P 500	7.5	9.7
US	NASDAQ	6.1	8.3
Europe	FT/S&P Europe Ex. UK	7.7	7.7
Ireland	ISEQ	4.8	4.8
UK	FTSE 100	7.2	8.1
Japan	Topix	2.7	2.0
Hong Kong	Hang Seng	2.5	4.6
Bonds	Merrill Lynch Euro over 5 year	-1.8	-1.8

Equities

There were strong gains on equity markets last week as the US led forces moved into Iraq. Investor sentiment improved on the expectation of a brief conflict. Investors are focused on the war and stocks are likely to move in either direction as news from Iraq emerges over coming days.

In the US, Procter & Gamble, the household products company, unveiled a $7 billion bid for Wella, the German hair products group. It is to acquire 78% of the voting shares in the company, at a premium of 20%. The company also raised it profits outlook for the sixth consecutive quarter. Nike, the sportswear producer, released its 3rd quarter results for its 2003 fiscal year. The results were better than expected, with sales beating forecasts in every region and product category.

In Europe, Bayer, the German pharmaceutical giant, saw its stock price rise on the back of a favorable legal ruling in the US. The shares rose nearly 40% from depressed levels on Tuesday when a Texas jury rejected a compensation claim for the use of Baycol, Bayer's cholesterol treatment which has been withdrawn from the market.

The UK market recorded an impressive gain of 7.2% on the week. The FTSE 100 has risen 17.5% since the March 12th closing low of 3,287.

Bonds

Bonds fell back last week as equities rallied on expectations of a quick resolution to the war in Iraq. Investors moved out of fixed interest and other safe havens. Gold declined, crude oil prices dropped and the US dollar recovered against the Euro. Eurozone government bonds outperformed their US counterparts on comments from the European Central Bank that it is ready to ease monetary policy if necessary.

Outlook

- Forward indicators for the major economies suggest that growth will remain relatively subdued, particularly in the first half of 2003.
- Developments in Iraq will dominate news in the short-term. Further violent moves in either direction are quite possible over coming days.
- It remains the case that a sustained rise in equities will need a more robust economic and earnings environment. The markets may now be discounting a quick resolution to the Iraq situation and an ensuing lift to industrial and consumer confidence that translates into higher economic activity.
- Central Banks will be monitoring these developments to evaluate any likely change in the underlying weak economic fundamentals.
- Our current overall portfolio stance is overweight bonds and slightly 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 and the UK on valuation grounds. The funds are underweight in Europe due to deteriorating economic fundamentals.