



Weekly Market Update for September 11-17 2002

Please Note: Current views and analysis are based on market data released between September 2-6 2002.

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RIGGS & CO WEEKLY MARKET BULLETIN Week of September 11-17 2002

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Underweight Equities, Overweight Bonds and Underweight Cash

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Economic Overview

ISM manufacturing and services index below expectations; factory orders increased significantly whilst unemployment surprisingly declined

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Europe:

Economic Overview

German retail sales and factory orders declined whilst unemployment increased; UK manufacturing production rose significantly

Equity & Bond Markets

Equities declined as evidence of deteriorating global economy raised concerns over the impact on corporate profits; yields fell on speculation ECB to lower interest rates

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Economic Overview

Leading indicators remain above growth levels; vehicle exports rose; capital spending remains weak

Equity Market

Stocks fell after recent share slide increased concerns over quality of banks' assets; auto and bank stocks led decline

Oil Prices:

Overview

Oil prices rose as US sought support for war against Iraq; oil supplies remain low

Currencies:

Overview

Neutral on US Dollar versus major currencies

Global Equities:

US and Europe Strategy

Neutral US and Europe; underweight Telecommunications and Utilities, overweight Industrials and Healthcare

Global Equities: Japan, Asia Pacific and
Latin America Strategy

Overweight Asia; overweight Japan and underweight Australia

Underweight Latin America

Global Bond Strategy:

Sterling, Euro average bond maturity at 4 years; US Dollar maturity at 5 years

Conclusion: Current Asset Allocation Strategy: Underweight Equities, Overweight Bonds and Underweight Cash (effective 30/07/02)

Previous Asset Allocation Strategy

Significantly Underweight Equities, Significantly Overweight Bonds and Overweight Cash
(View held from 03/07/02- 29/07/02)

ASSET ALLOCATION STRATEGY

(Week of September 11-17 2002)

Economic Analysis

- US growth has recently shown signs of moderation although this is expected following a strong surge in the first quarter. Although there are signs that consumer spending is slowing it may be too early to conclude that this indicates a “double dip” (another recession) since robust house prices and low interest rates continue to support consumer spending and ease debt service costs.
- Low interest rates are expected to be maintained by most major global central banks. The US Federal Reserve is very concerned that further falls in the equity market may begin to undermine house prices and consumer spending. If this occurs, interest rates are likely to be cut which is expected to provide the necessary conditions to stimulate demand.

Equity Markets

- Recent revelations that major US companies have persistently mis-stated their financial position have led to a serious undermining of investor confidence. However, the US government has taken swift legislative action to restore investor confidence towards corporate accounting whilst expectations for interest rate cuts from the Federal Reserve appear to have put a floor under equity prices.
- Historic earnings are improving and top line sales appear to be bottoming (for example Microsoft reported that second quarter 2002 earnings increased to \$1,525 million from \$65 million a year earlier). The June/July sell off in equity prices appeared to be overdone, making valuations more attractive. Thus, we reduced the underweight position in equities by cutting the cash portion in portfolio allocations at the end of July.

Bond Markets

- Exposures to bonds (all of the highest AAA credit rating) are maintained at overweight to provide diversification should equity prices fall significantly.

ASSET ALLOCATION STRATEGY

(Week of September 11-17 2002)

Key negative risks

- Global terrorist activities cause a deterioration in international trade and spending in the global economy
- Further bankruptcy or accounting shocks undermine sentiment
- “Double Dip” economic scenario plays out, causing earnings to deteriorate
- Hostilities spread to more Middle Eastern countries
- Increase in real long term yields impedes house price growth and equity performance

Key positive surprises

- Japanese economy rebounds due to recovery in consumer and business confidence
- Sudden recovery in earnings expectations, particularly in the services sectors like Technology
- A V-shaped US led economic recovery versus the current consensus of a U-shaped recovery

Summary: Underweight Equities, Overweight Bonds and Underweight Cash

US ECONOMIC & MARKET OVERVIEW

(Week of September 11-17 2002)

Data source: Bloomberg

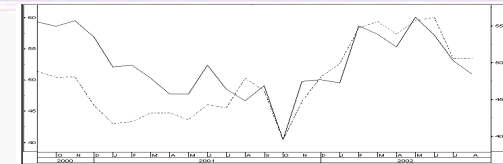
Economy

ISM manufacturing index remained at 50.5 in August versus 51.8 expected. However, the ISM non-manufacturing (services) index declined to 50.9 versus 54.0 expected.

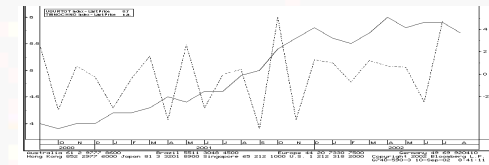
Factory orders rose significantly by 4.7% as expected in July.

Unemployment rate declined to 5.7% in August versus 6.0% expected.

Analysis: Last week's data continues to provide mixed indications of the economy; both the ISM manufacturing and non-manufacturing index were below expectations whilst the unemployment rate surprisingly declined. The surge in factory orders may not be sustainable as the new orders component of the ISM non-manufacturing index contracted below the 50 level for the first time in 9 months. The turnaround in the unemployment rate was encouraging, giving a lift to expectations that the economy may not succumb to a "double-dip".



ISM manu. (dotted) vs. non-manu. (bold) (MoM)

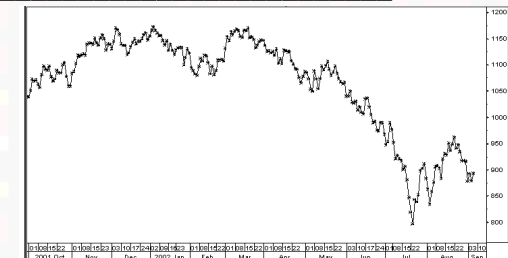


Factory orders (dotted) vs. unemployment rate (bold) (MoM)

Equities

Overall market: The S&P500 declined by 2.42% for the week after both the ISM manufacturing and non-manufacturing indices were below expectations raising concerns that the slowing economy may curb corporate growth. A rally on Friday erased some of the week's losses (initially - 4.03%) after the unemployment figure declined.

Sector analysis: Financials (-3.25%) and Utilities (-4.19%) were the biggest losers this week whilst Consumer Discretionary (-1.0%) outperformed. Citigroup (-7.5%) led losses in the Financials sector after a recommendation to sell the stock was made by an analyst from Prudential. Duke Energy (-6.9%) led the Utilities sector lower as investors continued to take profits on the stock after its recent 32% rally. Lowe Corporation rebounded to limit losses in the Consumer Discretionary sector after the stock was raised to a "buy" by certain analysts.



S&P 500 daily prices (data to 06/09/02)

	USD		GBP		EUR	
	WTD	YTD	WTD	YTD	WTD	YTD
S&P 500	-2.42%	-22.14%	-3.07%	-27.32%	-2.72%	-29.52%

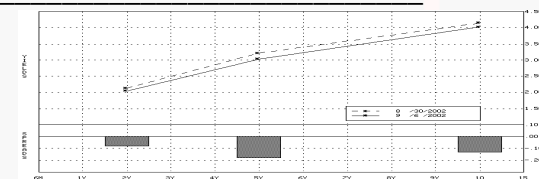
Comparative returns in different currencies

Bonds

US Treasuries: US Treasury 2 year yields declined by 8 basis point to 2.05% whilst 10 year yields declined by 13 basis points to 4.02% last week.

Eurodollar 5-7 year maturity bonds: The Salomon 5-7 year AA- or better Eurodollar index rose by 0.67% for the week and increased by 11.68% year to date in USD terms.

Analysis: Bonds rallied prompted by a sell-off in the equity markets and increased risk aversion following increased speculation that the US may soon declare war on Iraq. 5 year yields fell to 2.91% (the lowest level since 1958) after the ISM reported a significant drop in the services index.



US Treasury yield curve: Comparison between 30/08/02- 06/09/02

	USD		GBP		EUR	
	WTD	YTD	WTD	YTD	WTD	YTD
Eurodollar 5-7	0.67%	11.68%	0.00%	4.24%	0.36%	1.09%

Comparative returns in different currencies

EUROPEAN ECONOMIC & MARKET OVERVIEW

(Week of September 11-17 2002)

Data source: Bloomberg

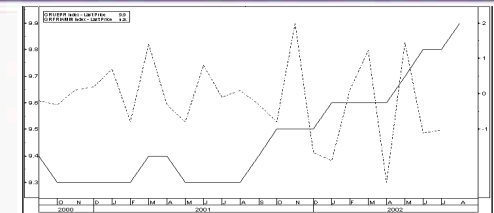
Economy

German retail sales declined by 0.9% in July versus 1.5% expected whilst unemployment increased to 9.9% in August.

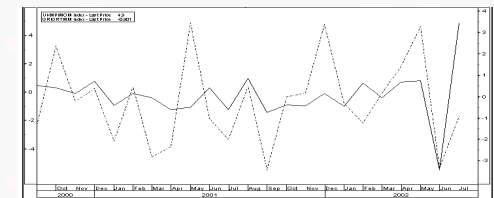
German factory orders declined by 0.9% versus +0.5% expected whilst UK manufacturing production increased significantly by 4.9% in July versus 4.6% expected.

Bank of England (BoE) maintained its interest rates at 4.00%.

Analysis: Last week's data indicate that Germany continues its struggle to recover as higher unemployment dampened consumer spending whilst lower export demand reduced factory orders. In the UK, manufacturing production rebounded significantly after declining by 5.5% in the previous month. The significant increase was from a lower base in June (affected by seasonal holidays). The BoE maintained its benchmark interest rate at 4.00% amid signs of moderating growth in the UK.



German retail sales (dotted) vs unemployment (bold) (MoM)

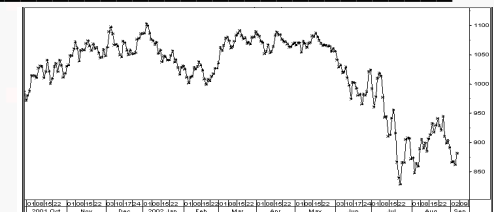


German factory orders (dotted) vs UK manufacturing orders (bold) (MoM)

Equities

Overall market: The MSCI Europe declined by 2.70% after German and US economic reports added to concerns that slower global economic growth may impede a rebound in corporate profits.

Sector analysis: Growth sectors continued to decline with Technology (-3.8%) and Industrials (-4.0%) under-performing significantly whilst Consumers Staples (0.72%) outperformed. ASML (-11.7%) paced the declines in the Technology sector after it said that orders declined and an expected semiconductor recovery has not occurred. Siemens (-11.69%) led the Industrials sector lower on concerns a slower US economy may reduce export demand. L'Oreal (3.06%) led the rebound in Consumer Staples after posting a 30% increase in first half profits that beat analysts' forecasts.



MSCI Europe (Euro) daily prices (data to 06/09/02)

	USD		GBP		EUR	
	WTD	YTD	WTD	YTD	WTD	YTD
MSCI EUR	-2.40%	-18.20%	-3.05%	-23.94%	-2.70%	26.49%

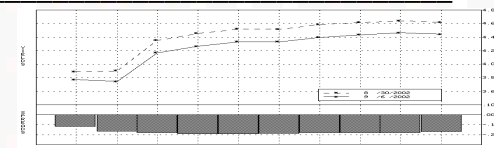
Comparative returns in different currencies

Bonds

Euro and Sterling government bonds: Euro 2 year yields decreased by 26 bp to 3.21%; 10 year yields decreased by 16 bp to 4.41%. Sterling 2 year yields decreased 16 bp to 3.74%; 10 year yields decreased 17 bp to 4.45%.

Euro and Sterling 5-7 year maturity bonds: The Salomon 5-7 year AA- or better Eurobond and Eurosterling indices increased by 1.08% and 1.01% in Euro and Sterling terms respectively.

Analysis: European bonds remained bullish on speculation that the ECB may reduce interest rates soon amid evidence that the economic recovery is faltering. 2 year yields saw the biggest decline since the week of September 11, 2001.



Euro govt yield curve: Comparison 30/08/02-06/09/02

	USD		GBP		EUR	
	WTD	YTD	WTD	YTD	WTD	YTD
Euro euro 5-7	1.39%	17.58%	0.71%	9.75%	1.08%	6.43%
Eurosterling 5-7	1.69%	15.86%	1.01%	8.15%	1.38%	4.88%

Comparative returns in different currencies

JAPANESE ECONOMIC AND MARKET OVERVIEW & OIL PRICE ANALYSIS

(Week of September 11-17 2002)

Data source: Bloomberg

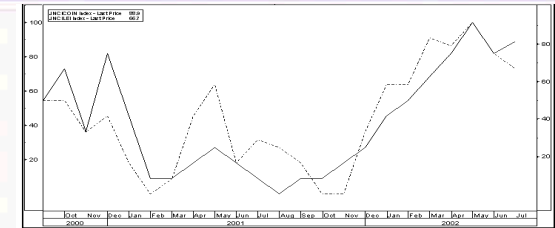
Economy

The leading economic indicators index fell to 66.7% in July as expected whilst the coincident index rose significantly to 88.9%.

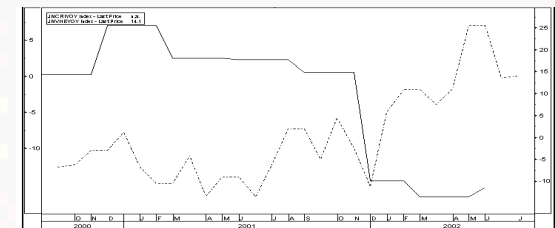
Capital spending fell by 15.5% in the second quarter.

July vehicle exports rose by 14.1% from a year ago.

Analysis: Japan's leading economic indicators index continues to point towards future growth for a seventh straight month, suggesting that the cyclical recovery remains intact. A reading above 50 means that more than half the index's components rose from the previous month and the economy should grow. The risks to this scenario remains a slowdown in export demand particularly from the US and the continuing lack of growth support from capital spending.



Leading econ. index (dotted) vs coincident index (bold) (MoM)

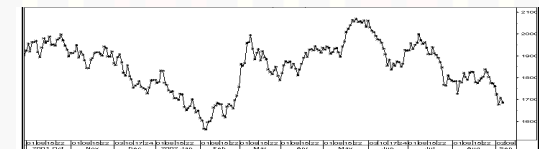


Capital spending (bold) vs vehicle exports (dotted) (MoM)

Equities

Overall market: The MSCI Japan index declined by 5.23% in local terms amid concerns that the recent slide in equity prices may erode banks' assets as they try to write-off bad loans.

Stocks also reacted to the decline in US factory orders which suggests that demand for Japan exports may weaken further. Automakers such as Toyota (-2.0%) and Honda Motors (-4.7%), which rely on the US market to generate 65% of operating profits, led the decline. Banking stock such as Mizuho Holdings (-10.6%) slumped after Tokyo Governor Ishihara suggested that regulators had hidden the extent of Mizuho's credit problems.



MSCI Japan (USD) daily prices (data to 06/09/02)

	USD		GBP		EUR	
	WTD	YTD	WTD	YTD	WTD	YTD
MSCI Japan	-5.00%	-5.7%	-5.64%	-12.32%	-5.29%	-15.27%

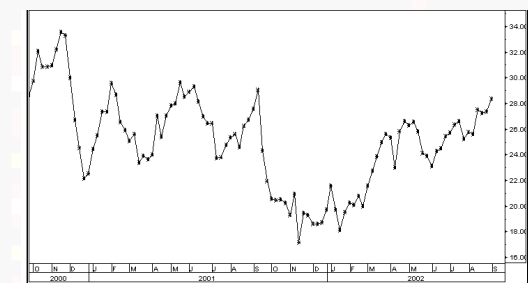
Comparative returns in different currencies

OIL PRICES: Oil prices rose as US seeks support for war against Iraq; oil supplies remain low

Oil prices rose by 3.6% to \$28.36 per barrel as US President George Bush sought support from Russia, China and France in his efforts to oust Iraqi leader Saddam Hussein.

API (American Petroleum Institute) reported that US inventories fell close to an 18 month low, spurring concerns that supplies may be inadequate at a time when the US is preparing for war.

Analysis: Increased speculation of an impending US invasion of Iraq may keep oil prices well supported in the short term. Trading range between \$25-30/bb is expected.



Brent Crude Oil (Weekly)

GLOBAL CURRENCIES OVERVIEW

(Week of September 11-17 2002)

Data source: Bloomberg

CURRENCIES

The Euro rose by 1.15% against the Dollar.

Analysis: The Euro rose against the Dollar as investors reacted negatively to US assets amidst a sell-off in US stocks and recent signs of a slowdown in the US economy. Sentiment towards the Dollar may remain cautious particularly with the risks of an impending war against Iraq, lower US growth expectations and the anniversary of the September 11 terrorist attack. Thus, the Euro is expected to trade towards the higher end of \$0.95-1.00/€ trading range. Last traded at \$0.9835/€ (06/09/02).



USD/EUR daily prices

The Yen strengthened marginally by 0.24% against the Dollar.

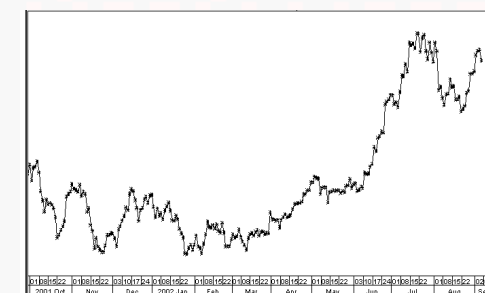
Analysis: The Yen initially rose to a high of ¥ 116.87/\$ against the Dollar before erasing the gains after a sharp fall in the Japanese equity market. The recent drop in Japanese stocks may raise the potential for large scale bankruptcies and systematic financial risk if the Japanese authorities do not take steps to support the equity market. Thus, attention may be refocused on Japan's domestic issues, limiting the Yen's recent gains. Trading range to may remain within the ¥115-120/\$ levels. Last traded at ¥118.39/\$ (06/09/02).



JPY/USD daily prices

Sterling rose marginally by 0.67% against the Dollar.

Analysis: Sterling rose against the Dollar in line with the other major currencies due to a weaker US equity market and economic outlook. Expectations have recently remained more positive towards Sterling on a relative growth basis after UK manufacturing recently showed signs of emerging from a slump. Trading range between \$1.52 –1.57/£ expected. Last traded at \$1.5579/£ (06/09/02).



USD/GBP daily prices

Conclusion: Neutral on US Dollar.

GLOBAL EQUITIES: REGIONAL, US AND EUROPE STRATEGY

(Week of September 11-17 2002)

Global Regions

- Our regional allocation has changed to neutral on North America and Europe to reflect a less negative outlook on the Dollar. Asia and Latin America are maintained at overweight and underweight respectively.

US

- The equity allocation theme is based on earnings visibility. Sectors are overweighted to reflect higher earnings potential in a moderate economic recovery. Within the North American allocation, we have moved Canada to neutral.
- In keeping with the chosen theme, within the S&P500 we have maintained overweight in Industrials and moved Healthcare to overweight. Telecommunications and Utilities are held underweight.

Summary: Sector selection based on earnings visibility.

Europe

- The same earnings visibility theme applies to European sectors.
- European sector allocations are similar to US, except for Consumer Staples (overweight), Materials (underweight) and Telecommunications (neutral versus underweight in the US).

Summary: Selected sectors favoured in Europe consistent with the earnings visibility theme.

GLOBAL EQUITIES: JAPAN, ASIA PACIFIC & LATIN AMERICAN MARKET STRATEGY (Week of September 11-17 2002)

Asia

- Despite the struggling economy, we believe the Japanese market may continue with its cyclical rally; the upturn in economic activity, major underweight position by most international investors and cheap valuations relative to other major global markets are the major reason to remain overweight.
- Australia is set underweight due to its exposure to the basic materials sector.

Summary: Overweight Asia; overweight on Japan and underweight Australia.

Latin America

- Mexico's dependence on the US and worries about government spending and the risk of debt defaults leads us to underweight Latin America.

Summary: Underweight on Latin America

GLOBAL BOND STRATEGY

(Week of September 11-17 2002)

- The pick-up in global economic activity and inflation risks of low interest rates warrant a conservative bond strategy.

Summary: We have maintained average bond maturity for EUR and GBP at 4 years; USD average maturity is targeted at 5 years.