

## Times of Uncertainty

-- by *Suresh Attal*

The last two weeks have seen both the geo-political setting take an enormous shift and the domestic budget issues come to a head. The war in Iraq is finally upon us and new concerns are sprouting up as a result of this. The president's tax cut proposal has been amended by the senate and now faces major obstacles. All of this comes amidst a moderate rally in the stock markets after the start of the war. Though all of these topics might seem completely disjointed they are intimately intertwined.

The start of the war brought much needed relief to the markets as the uncertainty surrounding the markets was eliminated. But the events of the past weekend have only brought the exuberance of investors back to reality. The task in Iraq does not seem to be as easy as the first few days indicated. The tougher than expected Iraqi resistance has brought the stock market back into check this week as investors became worried over the length of the war.

The effects of the war, however, are more important for the consumers than the investors. The consumers in the early days following the war have been afraid to continue their spending ways. The popular sentiment is that most people believe this war will be quick and swift. However it is this belief that creates the potential for concern. With the slow progress of the troops who have encountered problems with weather and Iraqi resistance, the chance of a swift and quick war may not be possible. The economic growth we enjoyed was driven by the consumers and the fact that our economy has continued to grow has largely been due to consumer spending. If this war breaks the consumers' confidence, then the path to an economic recovery will be a long and arduous one.

Beyond this the President recently went to congress with a request for \$74.7 billion in funding for the



war in Iraq. While this figure should cover the expenses as the war progresses, this has rankled many in Congress. The cost of this war will continue to push the budget into a further deficit. The spiraling budget deficit has become a significant concern to so many that the Senate has taken steps to curtail the President's tax cut proposal. Earlier this week the Senate passed an amended version which reduced the President's proposal to roughly half of the original figure. This vote was crucial because it was passed when three Republicans crossed over and chose to vote with the Democrats on the amended version. The major problem of this amendment concerns its impact on the recovery of the US economy. The President felt that while the tax cuts would cut government revenues in the short term they would increase them in the long run once the economy was stimulated. As the bill stands, chances are that the dividend tax cut portion of the tax cut will not have enough funding to survive. Of course the verdict on the tax cut is far from over as the joint houses will have to meet and come to an agreement over the bill before it goes to the President. Thus, time will only tell what becomes of the President's economic stimulus package.

Although the events of the last couple weeks may seem loosely connected, they truly are intertwined extensively. Furthermore even though the uncertainty about when there will be war has been removed there is still plenty of uncertainty about how long and how exactly the war will transpire. This uncertainty will continue to plague the markets and how it affects the consumers will determine how it affects the economy. Beyond this the long reaching consequences of the war will continue to impose themselves into other areas of our economic sphere. Only time will tell what the true costs of this war will be to our nation.



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### A QUICK GLANCE AT THE NEWS

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#### *General News*

— *Compiled by Mariya Slavin*

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**3/24 Citigroup Inc.** Chief Executive Sanford Weill late Sunday withdrew his nomination as a director to represent public investors on the board of the New York Stock Exchange amid mounting criticism that the move wouldn't serve the interests of small investors. The criticism, mainly from New York Attorney General Eliot Spitzer, complicated the Big Board's decision Friday to nominate Mr. Weill. Mr. Spitzer, after the announcement, called New York Stock Exchange Chairman Dick Grasso and threatened to mount a public campaign to quash the nomination, which he called an "outrage." Mr. Grasso, who initially supported the nomination, said in a statement that Mr. Weill withdrew his name after learning of Mr. Spitzer's comments.

**3/27** Defense Secretary Donald Rumsfeld told Congress that Iraq war costs will exceed President Bush's new \$74.7 billion budget request, and the Pentagon could need more money within months. Most of the total, \$62.6 billion, is intended to pay for military and intelligence operations related to the conflict and larger war against terrorism through the end of the fiscal year. Mr. Rumsfeld said he couldn't promise that the \$62.6 billion now would meet all of the military's needs in the months before. In the case of Homeland Security, it was only Thursday that Secretary Tom Ridge spelled out his spending



plans for the Coast Guard and Transportation Security Administration. About two-thirds of the \$580 million for the Coast Guard would go to pay for costs related to the Iraq war, not the improved U.S. port security many lawmakers have championed. Democrats are sure to press for more.

### ***Earnings Season***

**3/21 Carnival Corp.** beat a Thomson First Call consensus estimate of 18 cents a share. Analysts had been looking for revenue of \$1.034 billion. Cruise revenue for the latest first quarter rose 14% from a year ago due to an increase in capacity of 14.7%, partially offset by a decline in the number of guests purchasing air transportation from the company. Carnival Chairman and Chief Executive said, "Our first quarter 2003 results were impacted by concerns about a war with Iraq, an uncertain worldwide economy and historically high fuel costs." In February, the European Commission approved Carnival's \$5.5 billion takeover of cruise operator P&O Princess Cruises PLC (POC). Assuming the transaction closes in April, Carnival would include P&O Princess' operations in its consolidated operating results beginning with the second quarter.

**3/24 Walgreen Co.** said fiscal second-quarter earnings rose 14%, lifted by strong sales of prescription drugs, over-the-counter health products, cosmetics and convenience foods. The retailer Monday reported net income of \$370.9 million, or 36 cents a share, for the period ended Feb. 28, compared with \$326.6 million, or 32 cents a share, a year earlier. Sales rose 13% to \$8.45 billion from \$7.49 billion. Comparable-store sales, or sales in stores open at least a year, climbed 7.7%. Sales of prescription drugs, which accounted for 59% of total sales, rose 18%. Prescription sales in stores open at least a year rose 13%. Walgreen said it is gaining market share against drugstore, grocery and mass-merchant competition, driven by its store-expansion program. In the first half of fiscal 2003, Walgreen opened 154 new stores, or a net gain of 115 after relocations and closings. Walgreen has targeted Southern California as a key market for expansion. The company now operates more



than 90 stores in the region, and plans to double its presence there in the next five years. As of the end of the quarter, Walgreen operated 3,998 drugstores in 43 states and Puerto Rico, for a net increase of 320, or 8.7%, over the same time a year ago.

**3/27 Gucci Group NV** Thursday posted a small rise in its fiscal fourth-quarter net profit, helping limit a decline in its full-year earnings as the luxury-goods market remained difficult. The world's third-biggest luxury-goods company reported net profit for the three months ending Jan. 31 of •95.4 million (\$101.9 million), up 1.7% from •93.8 million in the same period a year earlier, making the November-January period the only quarter of the year when the company's earnings improved, as the industry continued to suffer a travel and tourism slowdown since September 2001. The company is sticking to its new target of profitability at the Yves Saint Laurent brand in 2005, having earlier this year moved that target back one year. The full-year operating loss at YSL, not including cosmetics and fragrances, narrowed to •64.8 million from •76.2 million the previous year. The company said it spent •165 million to buy back 1.89 million of its own shares between Feb. 1 and Mar. 25 as it lines up stock to cover options schemes for company staff. On March 25, Gucci held 4.29 million shares in treasury, with 98.35 million shares outstanding.

**3/27 Munich Re AG** Thursday reported a jump in full-year profit on gains from selling stakes in other companies, while sector peer Swiss Reinsurance reported a full-year loss and cut its dividend, but dispelled fears it may turn to shareholders to raise new capital. Both companies, the world's two largest reinsurers, recorded huge write-downs to reflect declines in the value of their equity investments. Munich Re, the sector No. 1, posted a 2002 net profit of •1.1 billion (\$1.18 billion), up from •250 million the previous year, lifted by •4.7 billion the company gained from selling stakes in insurer Allianz and several of its subsidiaries. Swiss Re said its net loss narrowed to 91 million Swiss francs (\$65.8 million or •61.5 million) in 2002 from 165 million francs the prior year. It recorded a 3.9-



billion-franc charge to reflect the decline in the value of equity investments. Swiss Re has moved away from equities into fixed income investments, but gains on the latter don't show in the income statement unless they are sold. Swiss Re had warned in February it would record a full-year net loss. Swiss Re said that, because of the loss and its policy of paying dividends out of current earnings, it will cut its dividend to one franc per share from 2.50 francs a share the previous year. Munich Re, however, kept its dividend unchanged at •1.25.

**3/27 ConAgra Foods Inc.** reiterated its fourth-quarter earnings guidance of 40 cents to 43 cents a share and full year projection of \$1.57 to \$1.60 a share. A Thomson First Call survey of seven analysts produced a fourth-quarter earnings estimate of 40 cents a share. A survey of nine analysts produced a 2003 earnings projection of \$1.60 a share. ConAgra said its estimates anticipate annual operating profit growth in its packaged foods and agricultural products segments, with likely annual operating profit declines for the food ingredients and meat processing segments. The company said it isn't aware of any war-related disruption to its business, though the ongoing war in Iraq could add uncertainty to its short-term outlook. The company said the second half of 2003 is shaping up well, though the majority of earnings in the period are expected in the fourth quarter. The projected fourth-quarter strength reflects consumer purchasing trends and the usual seasonal concentration of earnings, as well as improvements in the agricultural products business.