

U.S. Unemployment Data And Decelerating Declines In Earnings Expectations Spread Holiday Cheer

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The Lookout Report is a compendium of current data and perspectives from across S&P Capital IQ and S&P Indices covering corporate earnings, market and credit risks, capital markets activity, index investing, and proprietary data and analytics. Published bi-weekly by the Global Markets Intelligence research group, the Lookout Report offers a detailed cross-market and cross-asset view of investment conditions, risks, and opportunities.

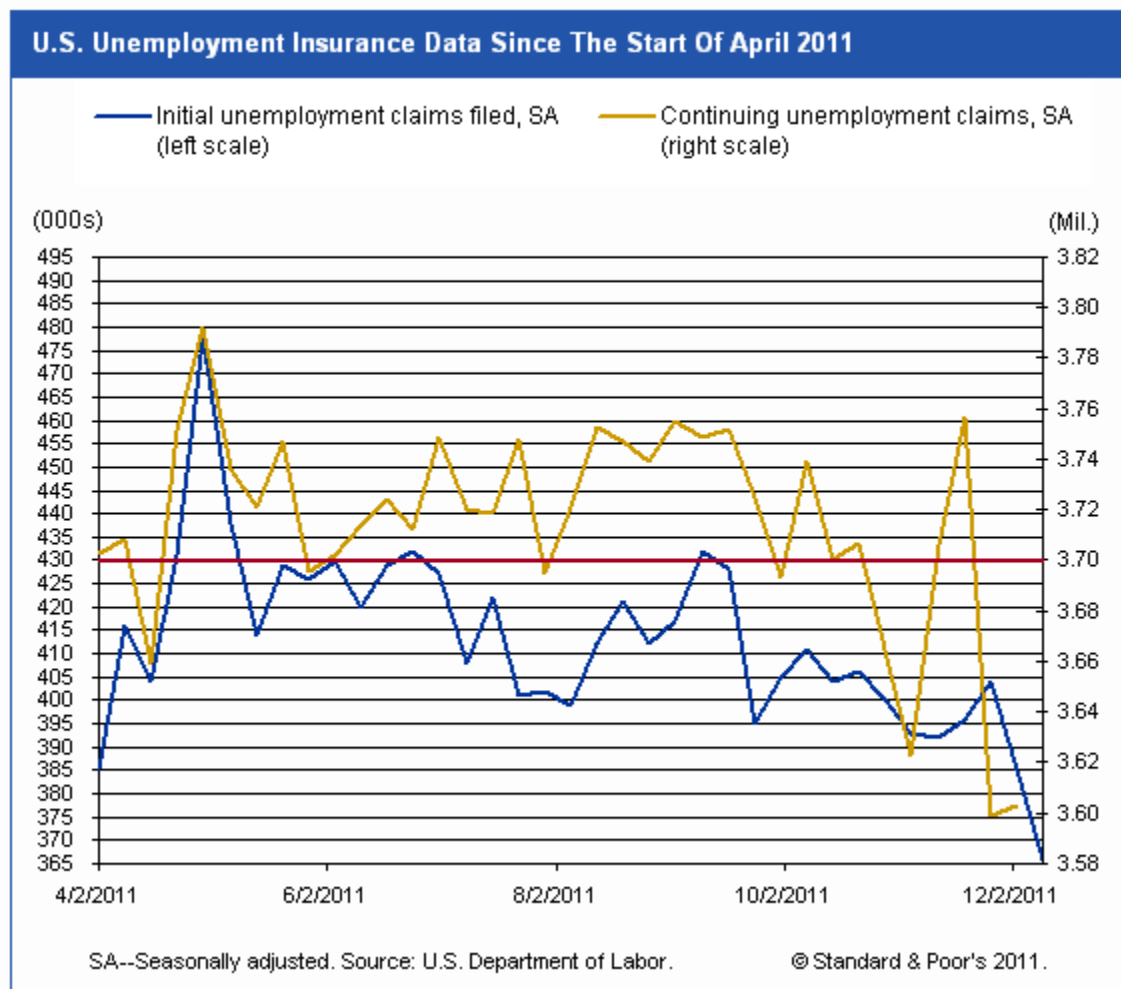
Two key economic factors that we have tracked and commented on in earlier editions of the Lookout Report have improved in recent weeks. U.S. unemployment insurance data have improved dramatically in recent weeks within the context we presented in September for interpreting this data (see "Lookout Report: The Precariously Positioned U.S. Economy Warrants Heightened Scrutiny Of Jobless Claims," published Sept. 23, 2011, on RatingsDirect).

In addition, the pace of analysts' downward revisions to S&P Capital IQ consensus 2012 earnings for S&P 500 corporations has decelerated since the end of October (see "Lookout Report: Third-Quarter Results May Look Great, But Declining Future Earnings Expectations Are Disconcerting," published Nov. 4, 2011).

Initial jobless claims have declined sharply in the past two weeks, and now stand at 366,000, the lowest level since May 2008. Continuing claims have dropped to 3.6 million, the lowest level recorded since September 2008 (see chart 1). Jobless claims and continuing claims had been holding close to the mid-points of their respective minimum and maximum levels established in April (430,000 and 3.7 million, respectively), a month that we continue to believe was heavily influenced by severe economic disruptions partially attributable to the earthquake, tsunami, and nuclear reactor meltdowns in Japan.

Global supply-chain disruptions from Japan, combined with sovereign debt and financial system stress in Europe, quickly blossomed into speculation of a U.S. and global recession. However, unemployment insurance data as well as the recent steep decline in the unemployment rate to 8.6% now suggest U.S. labor market conditions are rapidly improving and are at their healthiest levels since the financial crisis in late 2008 and early 2009.

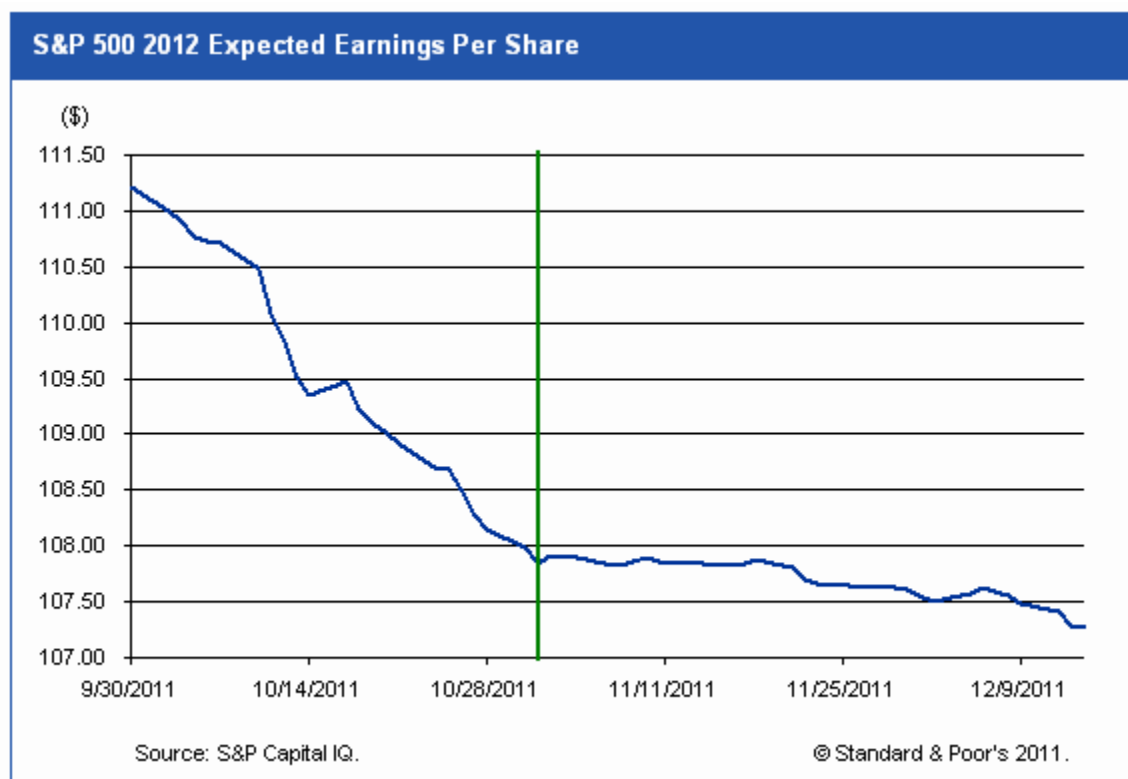
Chart 1



While Wall Street analysts continue to lower forward-looking corporate earnings expectations, the pace of decline has slowed considerably since October. In the one-month period from Sept. 30 to Oct. 31, forecasts for S&P 500 2012 earnings per share declined by \$3.23 to \$107.98 (2.9%) from \$111.21, according to the S&P Capital IQ consensus. More recently, in the seven weeks since the end of October, expected earnings for 2012 have only declined by an additional 70 cents to \$107.28 (0.6%) as of Dec. 14, representing a significant improvement in the pace of decline (see chart 2).

The deceleration in downward revisions to expected earnings supports the notion of a "soft landing" for 2012 calendar-year earnings within the range of \$105 to \$110 per share that we presented in our early November edition of the Lookout Report. Should the pace continue to decelerate, the mutually supportive trends of improving U.S. labor market conditions, combined with relative stability in consensus 2012 S&P 500 expected earnings, could very well present investors with an economic and market scenario for the coming year that is considerably more bullish than what investors currently foresee, in our opinion.

Chart 2



The next edition of the Lookout Report will be published on Jan. 6, 2012. On behalf of all of the S&P Capital IQ and S&P Indices contributors to the report, the entire Global Markets Intelligence research and editorial team wish our readers a peaceful and restful holiday season and a prosperous New Year.

Inside This Issue:

Macroeconomic Overview

Recent trends of improving U.S. labor market conditions and relative stability in consensus 2012 S&P 500 expected earnings, should they continue, could very well present investors with an economic and market scenario for the coming year that is considerably more bullish than what investors currently foresee, in our opinion.

Economic And Market Outlook: Earnings In North America And Europe

Despite some negative economic factors, the S&P 500 Index is expected to report respectable earnings growth of 8.30% in 2012, suggesting analysts are still anticipating slow-to-moderate growth in the U.S. in the year ahead. Meanwhile, amid continued uncertainty regarding the European debt crisis, analysts lowered their S&P 350 consensus 2012 earnings forecast by 0.9% to €105.51 as of Dec. 9, compared with €106.38 on Nov. 25.

S&P Index Commentary: A Review Of S&P 500 Index Dividend Aristocrats

S&P Indices added 10 issues to the S&P 500 Dividend Aristocrats list, which consists of companies that have increased their actual dividend payments for at least 25 years in a row. Three of the 10--Franklin Resources Inc., HCP Inc., and T. Rowe Price Group--are financials firms.

Leveraged Commentary And Data: Leveraged Loan Volume Jumps In 2011; Outlook For 2012 Is Hazy

2011 was a fairly average year for the leveraged loan market. Volume through Dec. 12 totaled \$371 billion, including \$232 billion of institutional loans. Including a few deals expected over the sleepy final weeks of the year, 2011 volume will likely total about \$380 billion, with \$240 billion in institutional loans.

R2P Corporate Bond Monitor

After the Federal Reserve's report Tuesday, risk-reward profiles on the fixed-income market--as measured by average Risk-to-Price (R2P) scores--have stabilized across the board in December, from Nov. 30 to Dec. 13. Scores deteriorated by 1% overall in the U.S., while scores on European bonds remained unchanged.

Market Derived Signal Commentary: Are Technology Companies' CDS Spreads In For Improvement?

Technology companies have been making news over the past week, as the two largest U.S. semiconductor manufacturers issued fourth-quarter warnings, while a third company forecast a better-than-expected end to 2011. The credit market's reaction to this spate of news was muted. Over the past week, credit default swap (CDS) spreads for the information technology sector widened 5.6% to an average of 356 basis points (bps), according to CMA DataVision.

Capital Market Commentary: Historical IPO Trends Suggest The Equity Market Could Slow At The End Of The Year

While many bankers and issuers may be eagerly anticipating year-end initial public offerings (IPOs), historical trends suggest the response by the overall equity market may be less enthusiastic. During the most active days for IPO pricings on major U.S. exchanges this year, equity prices--as measured by the S&P 500 Index--tended to retreat, according to S&P Capital IQ data.

S&P Index Commodity Commentary: Hangover Time

Commodity prices have declined sharply in December under the substantial weight of equity market weakness and U.S. dollar strength. The near mirror image decline of December 2011 compared with the December 2010 rally is an ominous indication for economic prospects early in 2012.

Economic And Market Outlook Earnings In North America And Europe

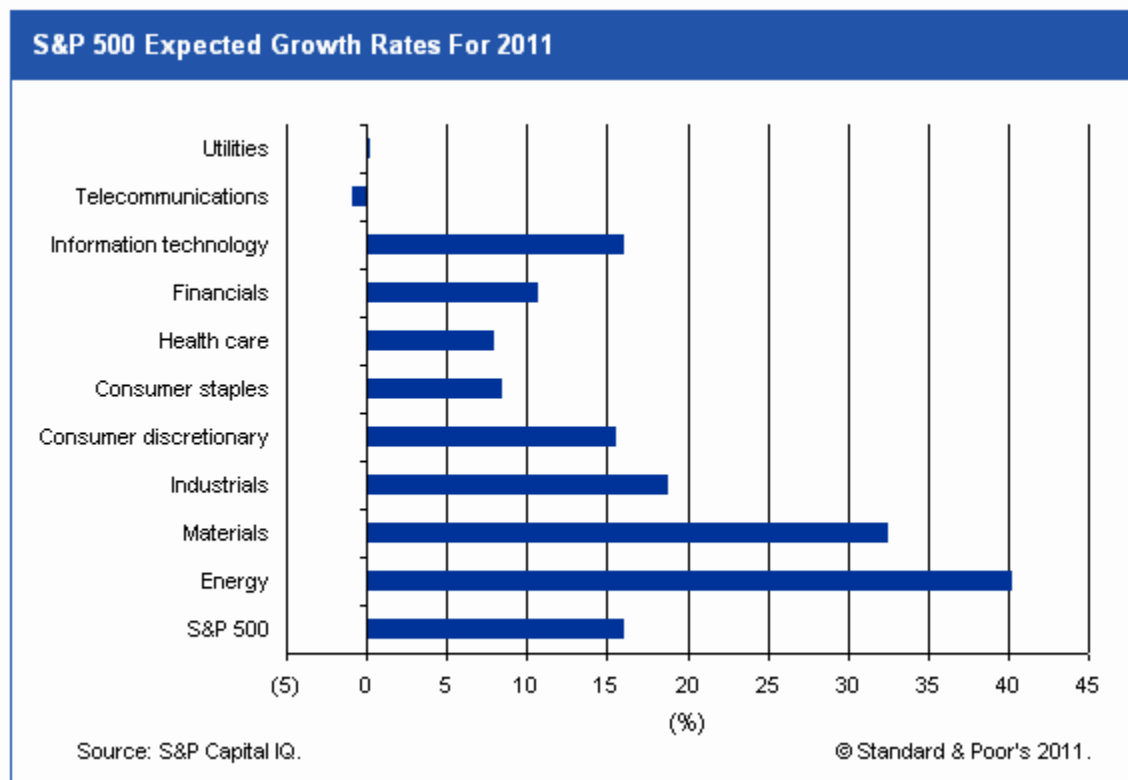
North America

As the end of the year rapidly approaches, investors are wondering what S&P 500 earnings will reveal about 2011. The U.S. faced several difficult macroeconomic conditions in 2011 stemming from the sovereign debt crisis in Europe, high unemployment, and low GDP growth. Despite all of these factors, analysts polled by S&P Capital IQ expect S&P 500 companies to post strong year-over-year growth of 16.06%, which, with the exception of 2010's 40.29% growth rate (inflated due to very easy comparisons to 2009), is the highest figure since 2005 (21.87%). This estimate has fallen by a mere 0.61% since the beginning of the calendar quarter on Oct. 3. In contrast, 2012 growth is expected to be cut in half to 8.30%. Since Oct. 3, this growth rate estimate has dropped by more than 3% from 11.53%.

The energy (40.28%) and materials (32.57%) sectors, benefiting from strong commodity prices, are expected to report the most significant growth, followed by industrials (18.81%) (see chart 3). Telecommunications (-0.90%) is the only sector expected to report declines. In the energy sector, high energy prices bolstered growth in 2011. For example, West Texas Intermediate crude averaged \$95 a barrel from Jan. 1 to December, compared with \$79 per barrel in 2010. In the materials sector, metal prices boosted results for metals and mining companies. Domestic hot rolled coil steel prices have

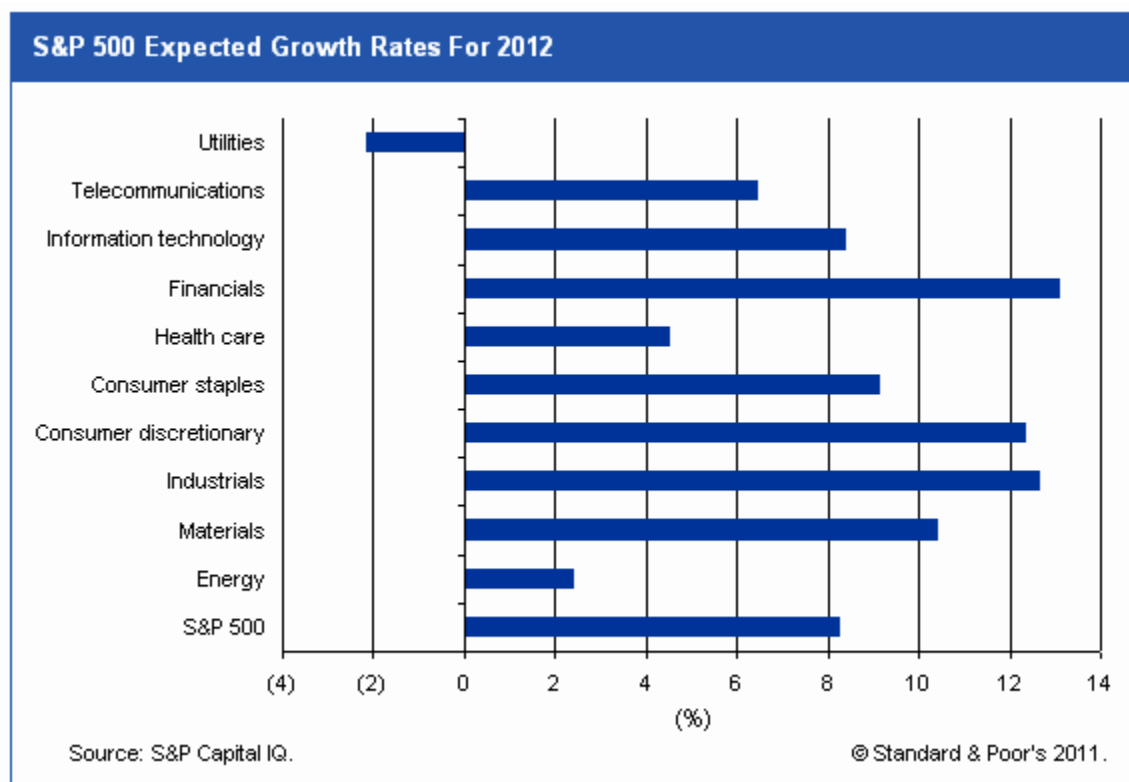
averaged \$723 in 2011, compared with \$612 in 2010, benefiting companies such as Newmont Mining Corp. The sole aluminum company in the index, Alcoa Inc., benefited from average aluminum spot prices that were 14% higher in 2011 compared with 2010 (\$2.417 versus \$2.121), prompting the company to forecast a growth rate of 12% for 2011. Industrials posted double-digit earnings growth in the first three quarters of 2011, and analysts expect a 7.79% increase in profits in the fourth quarter. Despite a decline in the ISM Manufacturing Index during the second half of the year, backlogs were solid at industrials firms such as Caterpillar Inc., General Electric Co., and Boeing Co., as new orders outstripped shipments.

Chart 3



The S&P 500 Index is also expected to report respectable gains of 8.30% in 2012, suggesting analysts are still anticipating slow-to-moderate growth in the U.S. in the year ahead (see chart 4). The S&P Capital IQ consensus expects nine of 10 sectors to report year-over-year growth in 2012, with strength from the financials (13.14%), industrials (12.67%), and consumer discretionary (12.35%) sectors. In 2011, the financials sector reported double-digit gains in the first and second quarter, and 4.54% growth in the third quarter. Analysts expect earnings to rise 14.21% in the fourth quarter, which would lift profits 10.72% for 2011. In fact, five of the top 20 companies with the highest year-over-year growth in the third quarter belonged to the financials sector. Based on this performance, analysts expect to see another strong performance in 2012. The consumer discretionary sector was a top performer in 2011 and is expected to post growth of 15.54% for the year, based on impressive same-store sales, retail sales, and consumer confidence readings. January is usually a strong month for consumer discretionary companies, as holiday sales continue to bring in shoppers and customers trade in gift cards for merchandise (revenue isn't counted until the card is used). The utilities sector is the only sector expected to report a decline, of 2.17%, in 2012.

Chart 4



Come January, all eyes will be on the earnings results of S&P 500 companies, with fourth-quarter and calendar-year 2011 results providing analysts with an outlook for 2012. Although the U.S. economy looks more optimistic, the sovereign debt crisis in Europe continues to weigh on both economies, maintaining volatility in the equity markets. A clearer picture of the resolution of the crisis is needed to ensure continued strength in corporate earnings.

Europe

Over the two-week period ended Dec. 9, analysts lowered their consensus calendar-year 2011 expectations for the S&P Europe 350 Index by 0.2% to €95.48, the lowest level since the start of the third quarter, from €95.71 on Nov. 25, according to S&P Capital IQ. Consensus expectations for S&P Europe 350 Index calendar-year 2012 earnings declined by 0.9% to €105.51 as of Dec. 9, compared with €106.38 on Nov. 25.

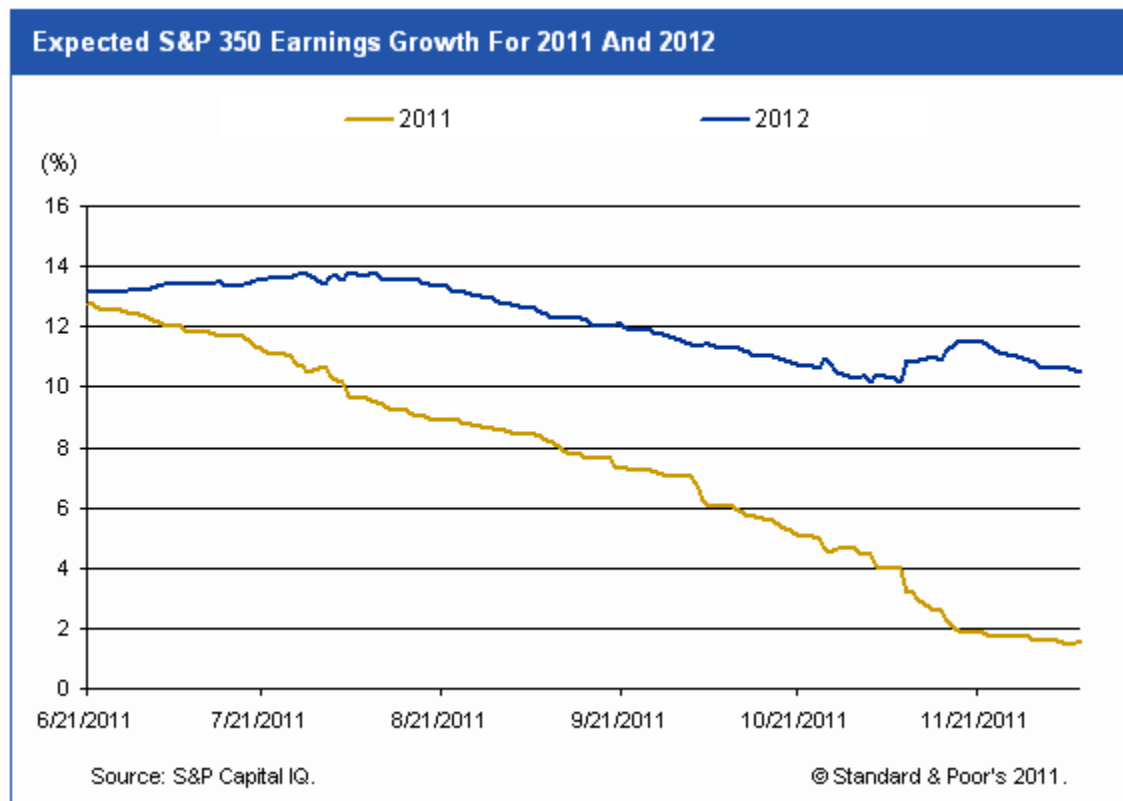
With less than one month before the end of 2011, we looked at analysts' growth expectations for European corporates this year and compared them with growth expectations for 2012. With recession in Europe already priced into the equity markets, we think investors are anxious to see how businesses that typically spur economic growth will cope with tougher credit terms and high raw materials prices. Despite the fact that analysts continue to lower their 2012 earnings forecasts for S&P Europe 350 corporations, they still expect growth of 10.69%. In contrast, expected growth for 2011 is a mere 1.38% (see chart 5).

Through Dec. 9, earnings estimates for the entire S&P Europe 350 Index in 2011 and 2012 have fallen significantly by 9% and by 11%, respectively, since June 21, when we started tracking analyst earnings expectations. Revisions have been uneven--sectors currently expected to report the strongest growth in 2012 earnings include the financials (29.17%), industrials (14.27%), and utilities (11.10%) sectors. Despite the gloomy 2012 economic outlook for Europe, analysts

continue to expect these three sectors to return to double-digit growth after either contracting (financials, -19.47%; utilities, -18.27%), or growing by single digits (industrials, 4.51%).

At the same time, analysts have considerably cut 2012 estimates for the traditionally cyclical materials, energy, and consumer discretionary sectors, with growth currently pegged in the low single digits. Analysts forecast that 2011 growth leaders, namely the materials (20.10%) and energy (19.32%) sectors, which have been benefiting from rising raw materials demand primarily from the emerging markets, will moderate to 4.58% and 4.20% growth, respectively.

Chart 5



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S&P Index Commentary: A Review Of S&P 500 Index Dividend Aristocrats

S&P Indices added 10 issues to the S&P 500 Dividend Aristocrats list, which consists of companies that have increased their actual dividend payments for at least 25 years in a row. Three of the 10--Franklin Resources Inc., HCP Inc., and T. Rowe Price Group--are financials firms (see table 1).

Table 1

Additions And Deletions		
Additions		
Ticker	Company	Sector
T	AT&T Corp.	Telecommunication services

Table 1

Additions And Deletions (cont.)		
CL	Colgate-Palmolive Co.	Consumer staples
BEN	Franklin Resources Inc.	Financials
GPC	Genuine Parts Co. Inc.	Consumer discretionary
HCP	HCP Inc.	Financials
ITW	Illinois Tool Works Inc.	Industrials
MDT	Medtronic Inc.	Health care
NUE	Nucor Corp.	Materials
SYT	Sysco Corp.	Consumer staples
TROW	T.Rowe Price Group	Financials
Deletion		
CTL	CenturyLink Inc.	Telecommunication services

Effective after the close of business on Dec. 16, 2011. Source: S&P Indices.

While the financials sector as a whole has suffered greatly from the housing decline and recent recession (it fell from 30% of all S&P 500 dividends in 2007 to 12% currently), there are issues with impressive dividend records. Forty financial issues have increased their dividend rate at least 10 years in a row, averaging a 4.11% yield, with 24 of them having a minimum dividend coverage rate (12-month earnings divided by the current dividend rate) of at least 1.5x.

While the financials sector remains the most volatile, investors should not discount the entire group. Instead, we recommend exploring potential dividend issues, evaluating the higher degree of risk, along with the return. In general, dividends are having a great year. Actual cash payments rose 16.2%, and we expect at least one indicated dividend rate to reach an all-time high set in June 2008. In addition, please note the following:

- Year-to-date dividend payers in the S&P 500 have returned 1.72%, compared with the loss of 4.63% for non-payers.
- The actual dividend payment year to date is up 16.2%.
- The indicated dividend rate (based on the current rate) is up 18.0%, but still off the June 2008 high by 3.9%.
- From 1995, the S&P 500 Index indicated dividend yield has averaged 43% of the U.S. 10-year Treasury note; the current rate is 116%.
- 238 issues have a current yield higher than the 10-year Treasury note.
- S&P 500 investors are estimated to have saved \$179 billion in tax payments from 2003 through 2012, due to the reduced qualified dividend tax.

The link below includes the S&P 1500 starting file, which many investors have requested in particular:

<http://www.standardandpoors.com/indices/articles/en/us/?articleType=XLS&assetID=1245195180760>

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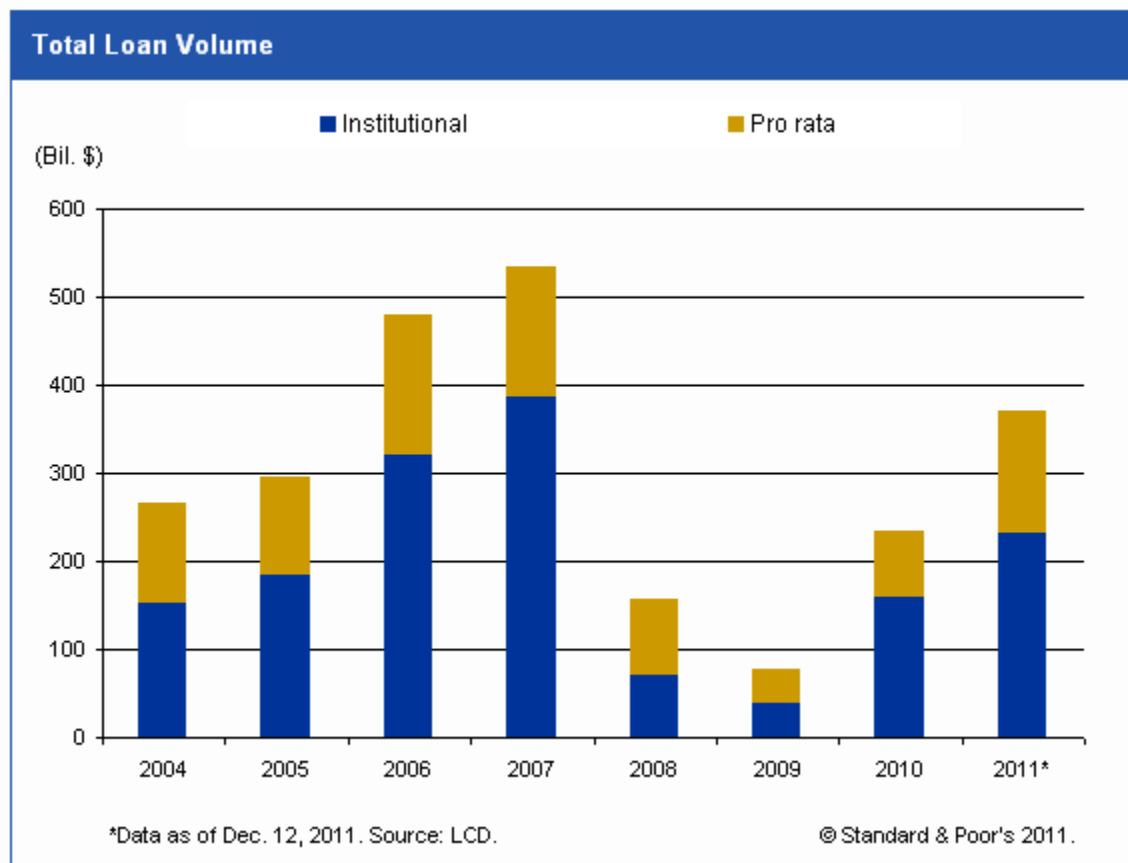
Leveraged Commentary And Data: Leveraged Loan Volume Jumps In 2011; Outlook For 2012 Is Hazy

With 2011 winding down, market players are focused on what the new year might hold for the loan market. Before discussing the outlook for 2012, let's review the past year.

Viewing it antiseptically, 2011 was a fairly average year for the leveraged loan market. Volume through Dec. 12 totaled

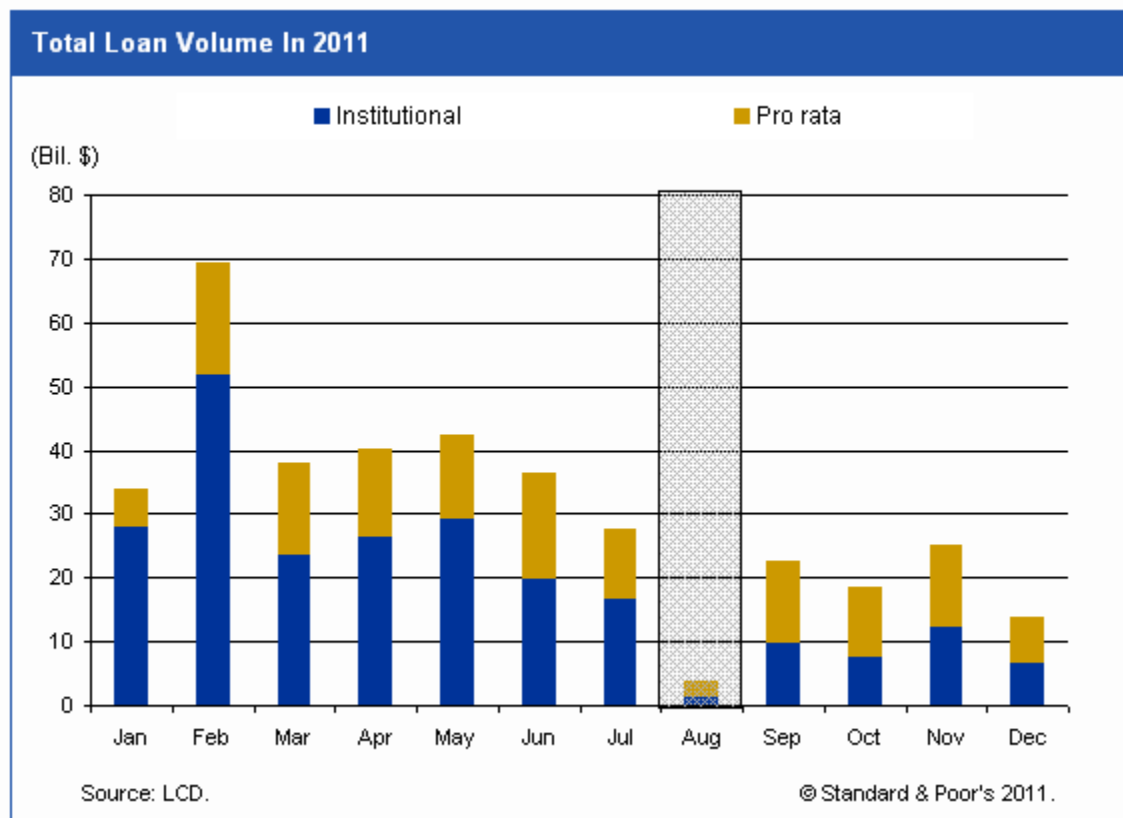
\$371 billion, including \$232 billion of institutional loans (see chart 6). Including a few deals expected over the sleepy final weeks of the year, 2011 volume will likely total about \$380 billion, with \$240 billion in institutional loans. Those figures are up 63% and 51%, respectively, from 2010, and are the highest since the record tally of \$535 billion and \$387 billion in 2007.

Chart 6



Of course, for those with day-to-day experience in the market, 2011 was a year separated into three classic acts: a boom that ran from January to roughly July, a bust that caused the market to crater in August and early September, and a modest recovery over most of the last three and a half months of the year (see chart 7).

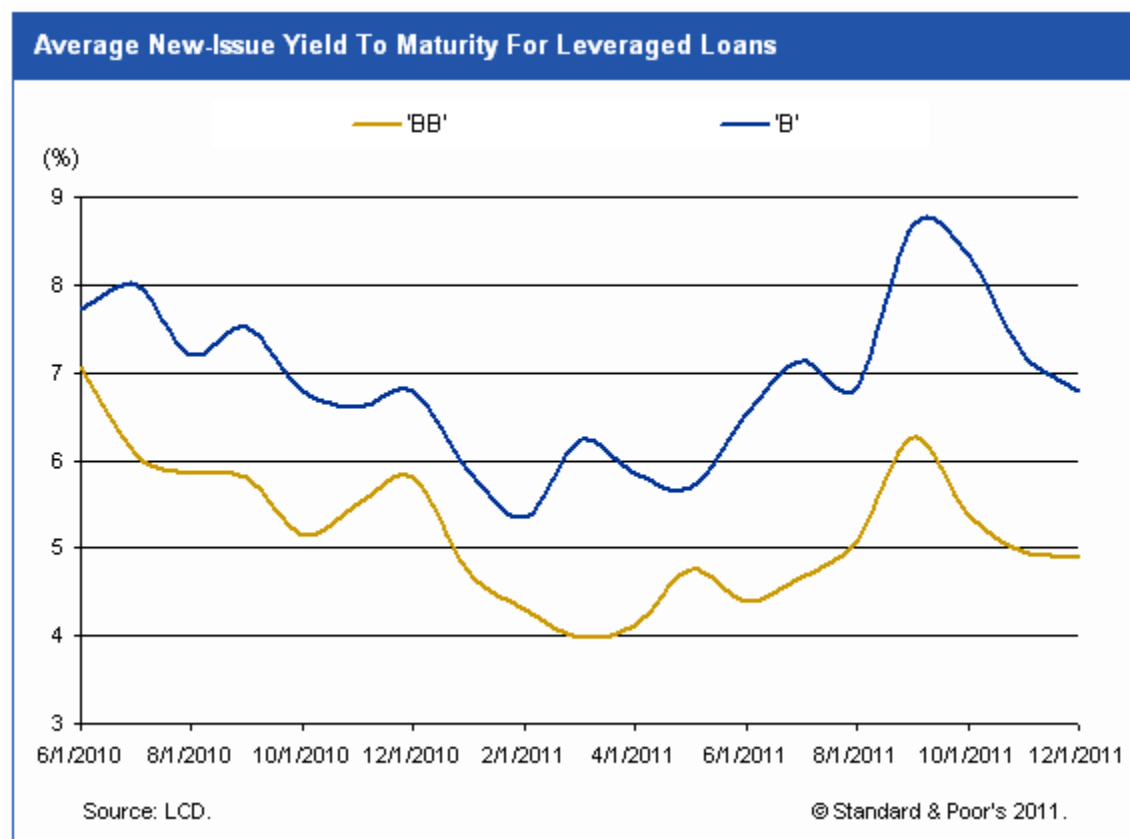
Chart 7



The boom period of 2011 was paced by retail demand that pushed loan returns higher and forced clearing yields down. Between January and July, loan mutual funds took in \$26 billion of net new cash, according to Lipper FMI. Not only was that the biggest seven-month inflow ever, but it beat the prior high of \$10.6 billion, from May to December 2010, by a multiple of 2.5x (the previous high was \$7.7 billion, from April to November 2004).

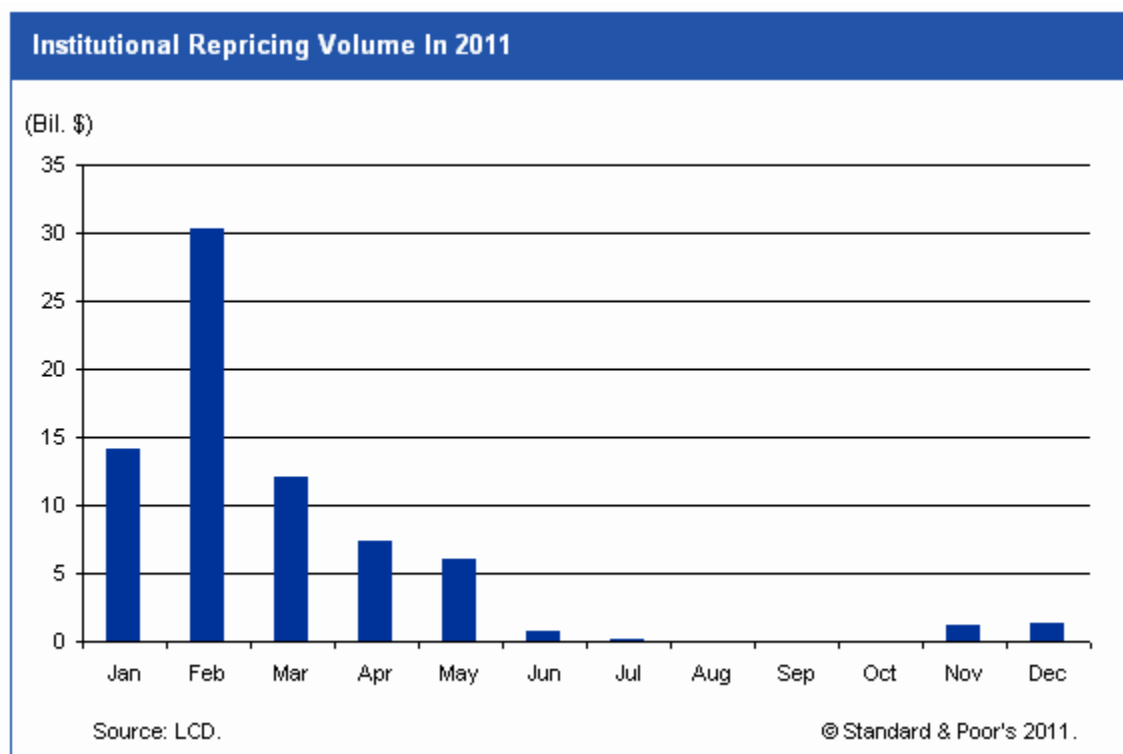
All of this cash helped prop up loan prices. In fact, the S&P/LSTA Index posted an average monthly gain of 0.39% during that period. Meanwhile, retail flows were like jet fuel, and average new-issue clearing yields plunged (see chart 8).

Chart 8



Of course, this trend inevitably ignited repricing activity. During the first seven months of 2011, spread-cutting exercises averaged \$10.1 billion (or 14%) of outstandings--the most since May 2007 (see chart 9).

Chart 9

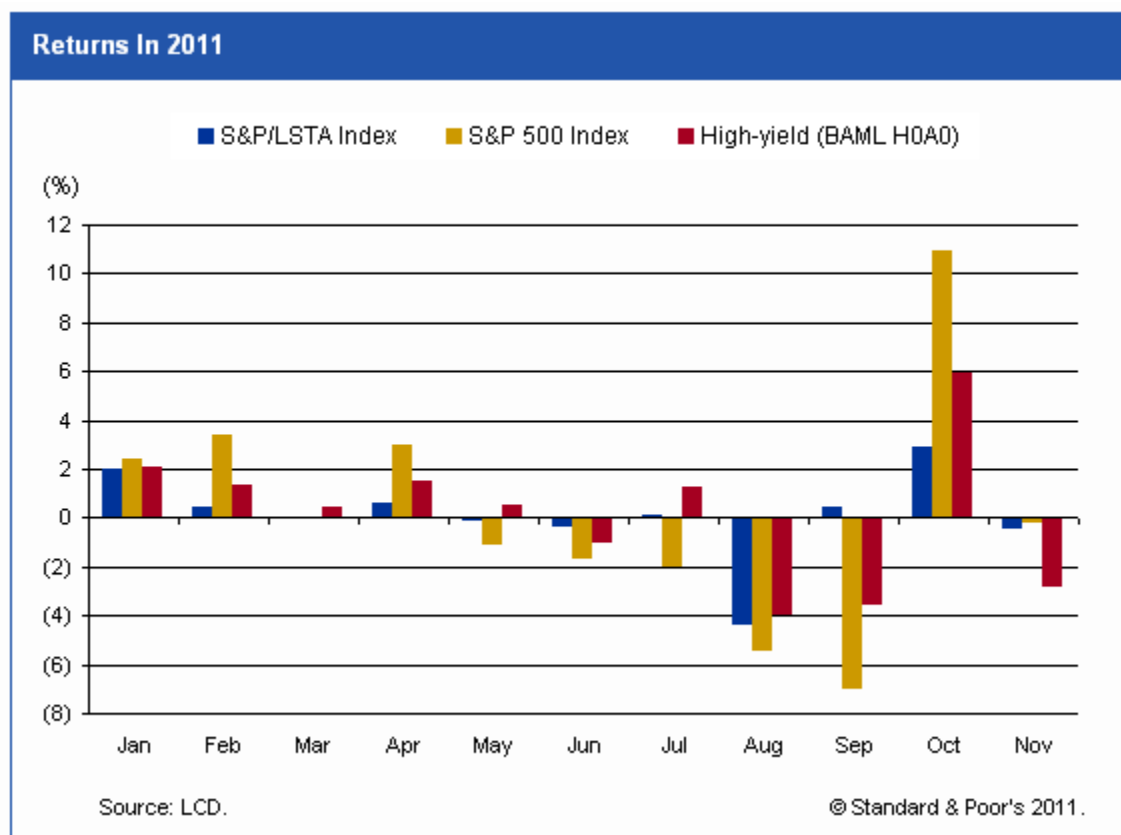


Then the series of disruptive events in August sent the market reeling. Retail investors withdrew a record \$5.5 billion from loan mutual funds. The ensuing selling pressure sent the S&P/LSTA Index down 4.4%, in the worst monthly drubbing since December 2008. Likewise, clearing yields jumped to 7.6%, on average.

The damage was deeper for the loan market, relatively speaking, than for other asset classes. Bank of America Merrill Lynch's high-yield master index, for instance, was hit for a slightly more modest 4.01% loss, while the S&P 500 Index--which traditionally far outperforms loans in bull markets and lags badly in bear markets--fell an uncharacteristically modest 5.43%.

Of course, after Standard & Poor's Ratings Services lowered its credit rating on the U.S., the Fed announced it would keep short-term rates low in the next few years, which hurt loan value as a rate hedge and sent dollars fleeing. In September, however, the worm turned. The S&P/LSTA Index bounced back 0.43%, while equities and high-yield continued to trade off, by 7.03% and 3.59%, respectively (see chart 10). By October, with third-quarter U.S. economic growth of 2% proving the pessimists were too bearish--or at least too early--and the European Union (EU) aggressively talking about solutions, the markets rallied. The S&P/LSTA Index posted a 2.89% monthly return--its best since 2009--while the S&P 500 Index soared 10.9%, the largest increase in 20 years.

Chart 10



The primary market, meanwhile, caught a tailwind, bolstered by better sentiment in the secondary and a paucity of new-issue paper. During the final three months of 2011, new institutional loan volume averaged \$8.7 billion. Because that was not enough to keep pace with repayments, the universe of institutional loans outstanding contracted by \$900 million (or 0.17%) to \$514.4 billion on Dec. 2, from \$515.3 billion at the end of September.

Looking ahead to January, the market will face little supply-side pressure. After all, the forward calendar of merger and acquisition (M&A)-related loans contracted to an eight-month low of \$8.9 billion on Dec. 7. That is inside the pipeline of visible repayments of \$10.6 billion (adjusting for Fidelity National's new loan and including \$1.25 billion of estimated year-end amortization payments).

Arrangers say they are screening new deals more actively than they have at any time since July. But most dealers remain reticent to underwrite deals without strong protections, and therefore the calendar remains light. If conditions remain strong, players expect to see more opportunistic deals--dividends and refinancings for strong issuers in January, followed by LBOs with short underwriting windows.

Already, the market has seen several such deals hit the tape in early December, including repricings from Fidelity National and Six Flags, and dividends from Arizona Chemical and Kronos.

2012 outlook

When asked about what 2012 holds for market volume and activity, the most common answer from participants is that "it all depends on Europe." Indeed, the fluid nature of Europe's sovereign debt and banking situation makes forecasting

2012's loan activity even less assured than usual. What's more, putting Europe to the side is impossible, because liquidity and market sentiment will be heavily influenced by the outcome there.

For this reason, many participants fall back on the idea that volume will revert to the mean. Looking at the most recent credit cycle, which runs roughly from 2004 through 2011, this suggests \$302 billion of total volume, including \$193 billion of institutional loans. That compares to the \$370 billion total, with \$232 billion in institutional, year to date. Excluding repricings, however, volume so far this year totals \$286 billion, with \$163 billion in institutional.

In trying to divine a 2012 forecast, it's essential to consider the standard deviation around the historical average of \$155 billion total/\$118 billion institutional. Within this wide band, we can describe optimistic, neutral, and pessimistic views of how 2012's loan activity may play out:

- Bull case (+0.5 standard deviation: \$379 billion total/\$252 billion institutional). In a bullish scenario, Europe reaches a solution that the market embraces, lifting the spirits of consumers and the financial markets. Investors, therefore, put the risk trade back on, driving money into loan mutual funds and revving up the CLO market. In response, loans rally, allowing issuers to execute dividends and dispatch most of the remaining 2013 to 2014 maturity wall. In addition, M&A-related loan volume rises.
- Base case (at the mean: \$302 billion total/\$193 billion institutional). In an average scenario, Europe limps along, producing periods of euphoria and periods of despair. Likewise, the U.S. economy is sluggish but continues to grow at the consensus estimate of 1.7%. That leaves the loan market operating in a bond-like way during the latter part of 2011, with the window for new deals opening when sentiment is positive, and narrowing to a sliver when it is not. In this scenario, issuers are able to push out pressing maturities through a combination of amend to extend, takeouts, and repayments; dividends are in the mix but only during the strongest periods of inflows, as are M&A-driven deals.
- Bear case (-0.5 standard deviation: \$224 billion total/\$134 billion institutional). In a bearish scenario, Europe melts down, causing the U.S. economy to stall (or worse), and keeps investors on the sidelines. Refinancing is afforded to only the strongest borrowers, dividends are minimal, and M&A-related loan volume continues to click along at the recent meager pace of \$10 billion a month (including \$6 billion of institutional loans).

Other 2012 forecasts

- CLO volume: The range of forecasts for 2012 is wide. On the low end is David Preston of Wells Fargo, who forecasts \$12 billion, while Justin Pauley of RBS weighs in with a \$12 billion to \$14 billion projection. Those figures are in line with this year's running total of \$12.4 billion. Rishad Ahluwalia of JPMorgan's CDO Research team takes a more bullish view, with a \$15 billion to \$20 billion forecast, as does Vishwanath Tirupattur of Morgan Stanley, who puts the likely figure at \$15 billion to \$25 billion for new issuance in 2012. Most participants hope the final tally reaches the high end of the forecast band, but fear that the lower numbers from RBS and Wells are more likely unless a resolution in Europe sends AAA liability spreads hurtling down toward L+100, allowing arbitrage to expand.
- Default rates: As reported, market players expect the default rate to bounce from its current near-record low of 0.23%, to end 2012 at 1.9% (again, barring a calamity in Europe).

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R2P Corporate Bond Monitor

With consumer demand driving about 70% of U.S. economic activity, market participants will want to continue following U.S. retail sales as a barometer of consumer-driven demand. U.S. retail sales set another all-time record of \$399.35 billion in November, but the monthly increase of 0.2% was less than most economists expected and the softest monthly increase since June, when the economy was heading into its "soft patch." Despite this figure, Federal Reserve officials announced no new programs Tuesday to accelerate economic growth, while referring to the housing sector as "depressed," and describing unemployment as "elevated." However, the Fed does expect the U.S. jobless rate to decline slowly.

Tuesday's report from the Fed also pointed out global growth is slowing, perhaps a reference to Europe's debt crisis that has troubled financial markets and worried investors.

In this context, on the fixed-income market, risk-reward profiles--as measured by average Risk-to-Price (R2P) scores--have stabilized across the board in December, from Nov. 30 to Dec. 13 (see tables 2 and 3).

In the U.S., the average probability of default (PD) decrease of 2% was not enough to offset the option-adjusted spread (OAS) tightening by 7 basis points (bps) and bond price volatility increasing by 4%. This led to an average score deterioration of 1%. Scores in the telecommunication services sector have changed the most, with a 19% decline.

In Europe, the average scores remained unchanged but with different movements among the sectors. Scores in the consumer discretionary and energy sectors deteriorated the most, with a 27% and 11% decrease, respectively. Meanwhile, scores in the information technology, consumer staples, and utilities sectors increased the most, by 13%, 9%, and 8%, respectively.

Table 2

North American Risk-Reward Profiles By Sector--Average R2P Score And Components Changes				
	Scores (%)	OAS (bps)	PD (%)	Bond price vol. (%)
Consumer discretionary	5	(19)	(16)	2
Consumer staples	2	0	(8)	9
Energy	(5)	(18)	8	4
Financials	(1)	(14)	(31)	10
Health care	(1)	(3)	23	(8)
Industrials	1	(2)	11	3
Information technology	3	(5)	(27)	4
Materials	5	(6)	(12)	4
Telecommunication services	(19)	3	31	5
Utilities	(4)	(10)	0	2

Change as of Dec. 13, 2011, from Nov. 30, 2011.

Table 3

European Risk-Reward Profiles By Sector--Average R2P Score And Components Changes (%)				
	Scores (%)	OAS (bps)	PD (%)	Bond price vol. (%)
Consumer discretionary	(27)	17	15	17
Consumer staples	9	(3)	29	(11)
Energy	(11)	(9)	6	(2)
Financials	3	(10)	(22)	5
Health care	2	29	(20)	16
Industrials	(2)	(1)	5	5

Table 3

European Risk-Reward Profiles By Sector--Average R2P Score And Components Changes (%) (cont.)				
Information technology	13	(16)	(36)	5
Materials	4	(6)	61	(6)
Telecommunication services	1	(7)	(14)	(1)
Utilities	8	(7)	7	(3)

Change as of Dec. 13, 2011, from Nov. 30, 2011.

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Market Derived Signal Commentary: Are Technology Companies' CDS Spreads In For Improvement?

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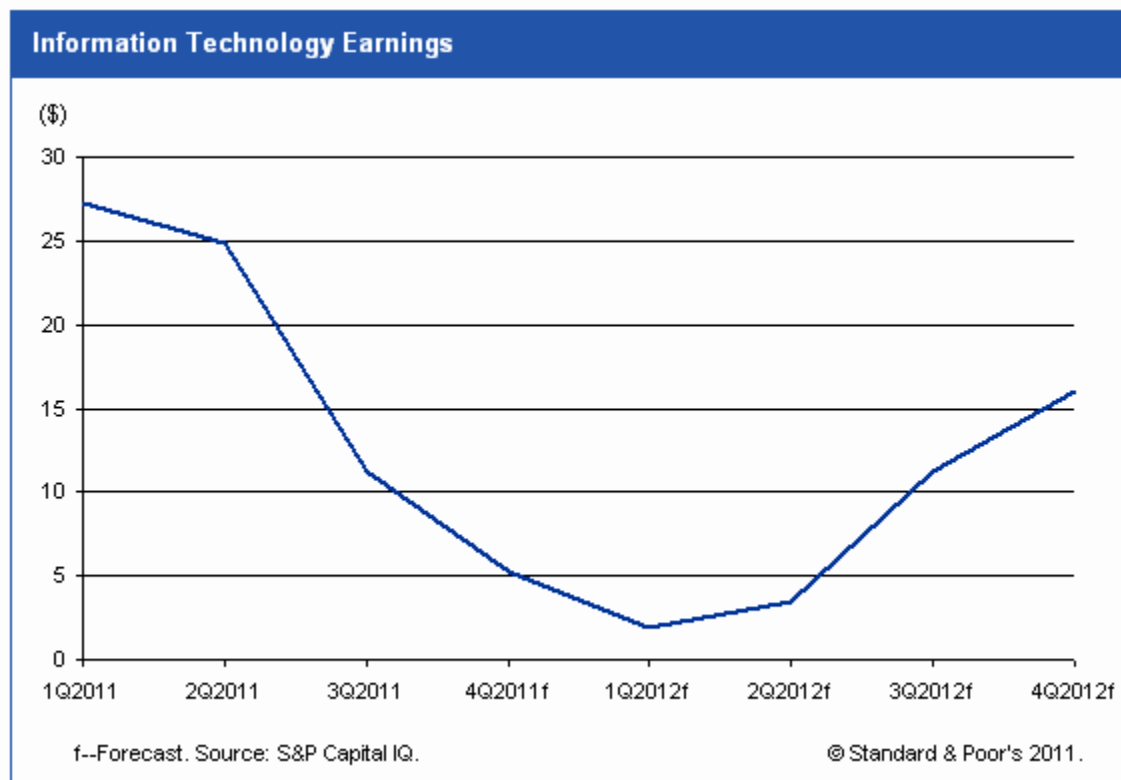
Broadcom Corp. said Wednesday that due to "solid shipments and tight operational management" the company expects to report revenue of \$1.8 billion; in October, the chipmaker forecast revenues of \$1.7 billion to \$1.8 billion. Analysts polled by S&P Capital IQ expect revenue of \$1.793 billion, on average.

Earlier, Intel Corp. lowered its revenue forecast to \$13.7 billion from \$14.8 billion, citing hard disk supply shortages that are likely to extend into 2012, while Texas Instruments Inc. (TI), citing declining demand across a range of markets, customers, and products, said it expects to report lower-than-expected profits and revenues for the fourth quarter. TI now sees revenues of \$3.19 billion to \$3.33 billion, down from \$3.26 billion to \$3.54 billion, and GAAP earnings per share of \$0.21 to \$0.25, compared with \$0.28 to \$0.36 in October and \$0.55 to \$0.65 in September.

The fact that companies lowered forecasts over the past week was not much of a surprise. In third-quarter earnings press releases, tech companies overall were neutral about their prospects (see "Market Intellect: A View From The Top: S&P 500 Third-Quarter 2011 Earnings Report," published Nov. 21, 2011). Some CEOs said the global economy was reducing demand for their products and indicated they expected the trend to continue. "Our revenue for the third quarter was higher than we expected though, overall, the quarter was below the seasonal average," TI said. "We expect the same in the fourth quarter as economic uncertainty continues to weigh on demand in almost every major market segment in which we operate."

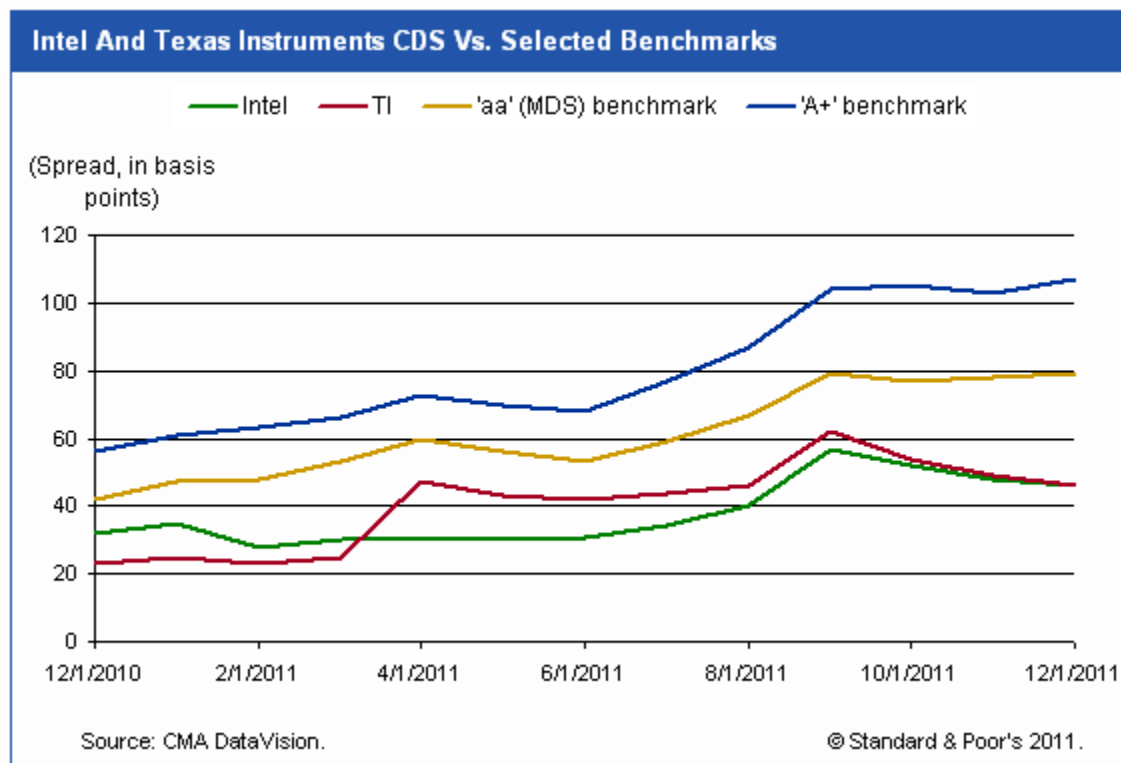
In addition to ongoing weakness in the global economy, the earthquake and resulting tsunami in Japan led to supply-chain shortages for the sector. Tech earnings are expected to bottom in the first quarter of 2012, according to analyst forecasts aggregated by the S&P Capital IQ consensus (see chart 11).

Chart 11



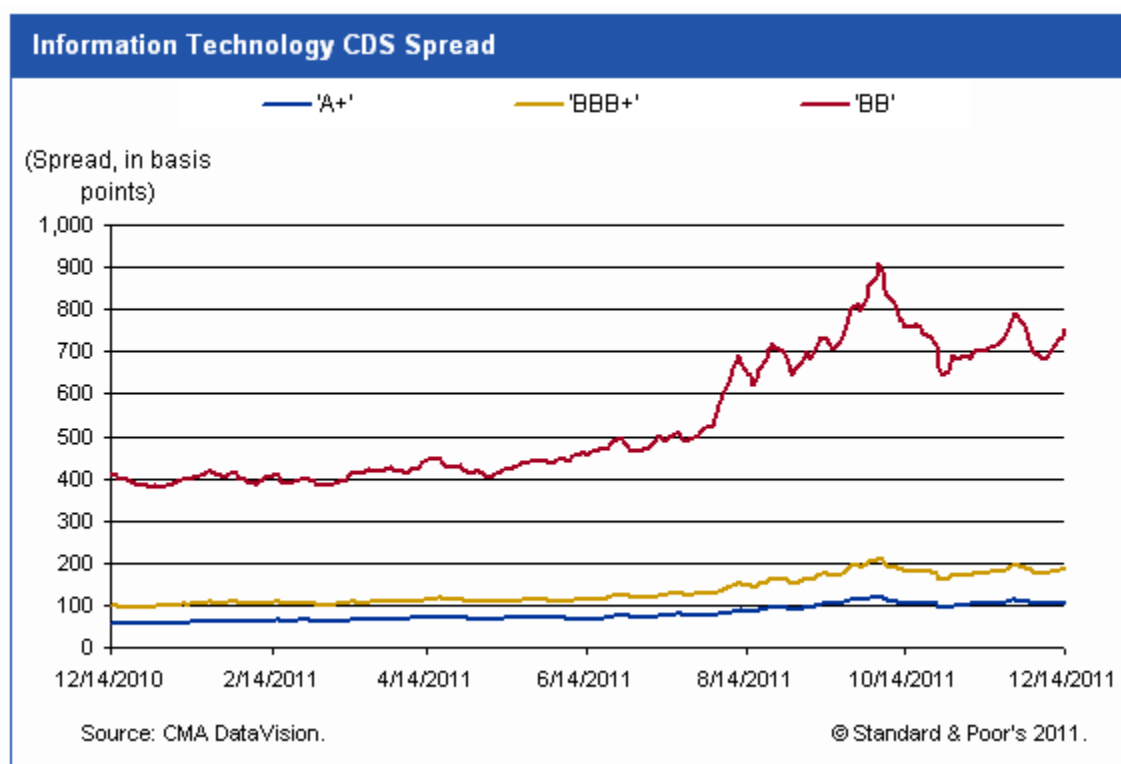
The credit market's reaction to this spate of news was muted. Over the past week, credit default swap (CDS) spreads for the information technology sector widened 5.6% to an average of 356 basis points (bps), according to CMA DataVision. The spread for Intel widened 2% to 46 bps; TI's spread widened 2% to 46 bps (see chart 12). Standard & Poor's Ratings Services has a corporate credit rating of 'A+' with a stable outlook on both companies, but the Market Derived Signal rating for each company is 'aa', two notches higher than the credit rating.

Chart 12



Over the past year, tech spreads have widened by 31%, in step with declining earnings expectations (see chart 13).

Chart 13



We note, however, that CDS spreads have contracted from the highs of the year set in late September and early October. The Global Markets Intelligence (GMI) research team thinks this may indicate that economic and supply concerns are already reflected in the spreads. Although the spreads may remain elevated, we think that the market's subdued reaction to the TI and Intel news suggests that significant widening in the sector's CDS isn't imminent. Fourth-quarter results released in January and early February are likely to sway opinion, so we will keep an eye on CDS trends among information technology companies.

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Capital Market Commentary: Historical IPO Trends Suggest The Equity Market Could Slow At The End Of The Year

IPOs

While many bankers and issuers may be eagerly anticipating year-end initial public offerings (IPOs), historical trends suggest the response by the overall equity market may be less enthusiastic. During the most active days for IPO pricings on major U.S. exchanges this year, equity prices--as measured by the S&P 500 Index--tended to retreat, according to S&P Capital IQ data (see table 4). This evidence might support the claim that a high number of offerings occur near market highs, or might simply represent a random occurrence. However, historical trends suggest that there may little to celebrate regarding equity markets in the near term.

Table 4

Active IPO Closing Date And S&P 500 Performance			
Close date	IPOs (count)	--S&P 500 performance (%)--	
		Day change	One-week change
5/25/2011	6	4.19	(5.92)
5/4/2011	5	(9.30)	(5.24)
5/11/2011	4	(15.08)	(1.40)
7/26/2011	4	(5.49)	(77.89)
1/26/2011	4	5.45	7.40
11/10/2011	3	10.60	(23.57)
11/17/2011	3	(20.78)	(57.46)
5/10/2011	3	10.87	(28.18)
4/14/2011	3	0.11	22.86
4/13/2011	3	(0.05)	16.25

Source: S&P Capital IQ.

M&A

On Dec. 11, Martin Marietta Materials Inc. announced an offer to acquire Vulcan Materials Co. in a transaction valued at \$7.56 billion, including assumed liabilities. The deal has helped push December U.S. M&A volume to \$22 billion. Despite being the largest U.S. announced deal in nearly three weeks and the third largest transaction this quarter, deal making in December appears to be slowing, currently at its slowest pace since 2008, when firms announced \$14.9 billion in U.S. M&A deals between Dec. 1, 2010, and Dec. 14, 2010. Furthermore, the 405 deals announced so far this month represent the slowest pace for December at this point in the month since 2008 (303 deals). In addition, less than \$173 billion in announced U.S. M&A deals have transpired so far in the fourth-quarter 2011 (see table 5). As the year ends, it appears that the present quarter will represent the low water mark for U.S. M&A activity in 2011.

Table 5

U.S. Announced M&A		
	Dollar volume (Bil. \$)	Deals (count)
1Q2010	167.1	3,146
2Q2010	206.7	3,213
3Q2010	201.6	3,239
4Q2010	222.8	3,782
1Q2011	290.8	3,537
2Q2011	269.2	3,781
3Q2011	254.4	3,613
4Q2011*	172.7	2,503

*Data as of Dec. 14, 2011. Source: S&P Capital IQ.

Debt

Demand for corporate debt identifiers slipped last week, possibly marking a winding down phase of some capital market activity at the end of the year. On the other hand, municipal debt CUSIP requests rose in the past reporting period, though identifier demand is off by more than 18% from the prior-year period (see table 6). Weekly requests for security identifiers for upcoming international debt issues inched higher in the recent period, helping to keep year-to-date volume ahead of the prior-year period volume. Finally, despite a drop in CUSIP orders for private placement notes in the recent weekly reporting period, demand is up by over 15% for the year.

Table 6

CUSIPs--Processed And Billed					
	--(Count)--				
	Week ending Dec. 9	Week ending Dec. 2	2011 year to date	2010 year to date	Year-over-year change (%)
Domestic corporate debt	177	559	10,196	N/A	N/A
Municipals	453	350	12,713	15,585	(18.40)
International debt	29	23	1,401	1,355	3.40
Domestic debt--private placement notes	28	39	1,823	1,576	15.70

N/A--Not applicable. Source: CUSIP Global Services.

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S&P Index Commodity Commentary: Hangover Time

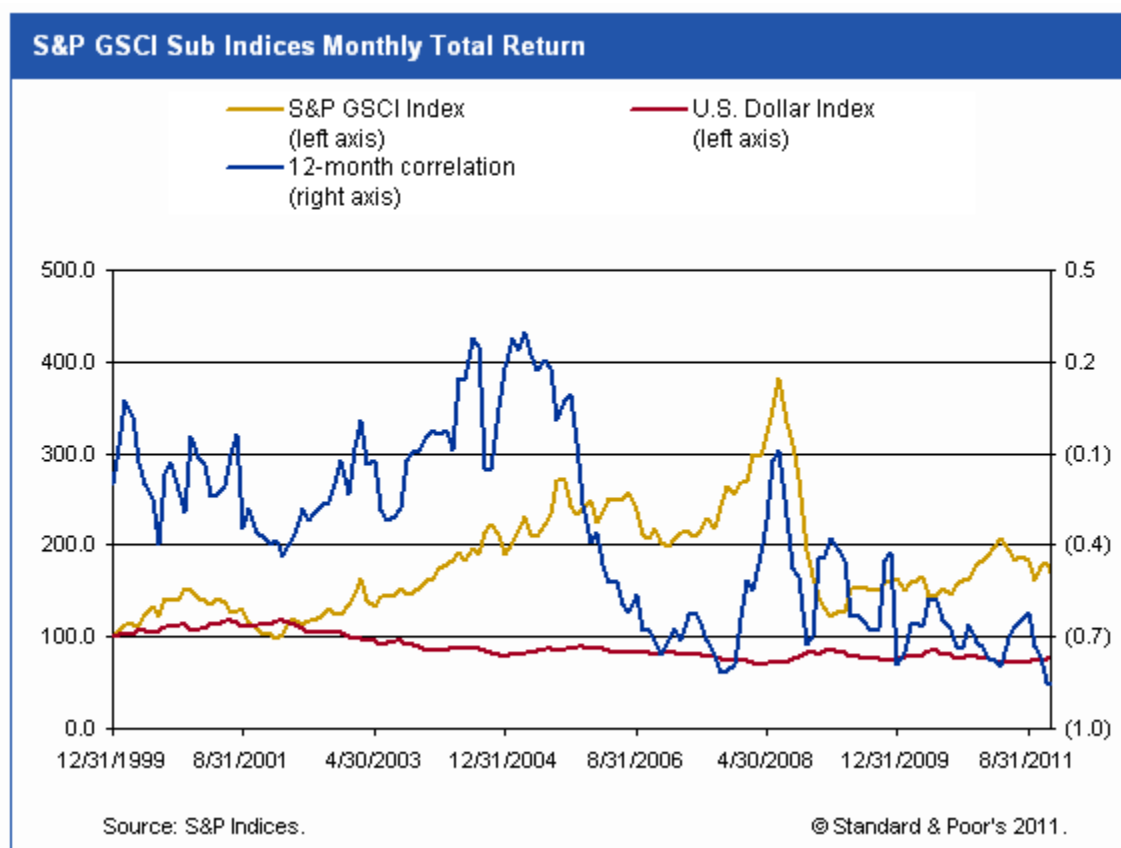
A year ago in December, the S&P GSCI Index increased 9.40% to end the 2010 year with a gain of 9.03%. December 2011 is shaping up to be the mirror opposite of 2010. As of Dec. 14, the S&P GSCI recorded a month-to-date decline of 5.60%, resulting in a year-to-date loss of 4.70%. At the end of 2010, the market place was flush with QE2, and the outlook was optimistic. The end of 2011 is turning out to be something of a hangover from 2010 as the commodity markets have reentered a risk-off period under the considerable weight of global equity market weakness and U.S. dollar strength. This aversion to risk has spared no sectors in December. The S&P GSCI Industrial Metals Index, the largest percentage loser in 2011, has declined 25.27% year to date on the back of a 7.65% decline in December. Dollar strength and profit taking have also taken its toll on the S&P GSCI Precious Metals Index, which fell 9.67% month to date and is now up only 8.32% for the year. We think that spiking energy prices earlier in the year and the subsequent impact on consumer spending, along with the disparate strength in precious metals relative to weakness in the industrial metals, have

ominous implications for economic prospects early in 2012.

Increasing correlations

There are few more powerful forces in the market than when the S&P 500 Index declines rapidly. The tendency is for most asset class correlations to gravitate toward one as all markets respond in risk-off mode. High volatility has been a constant factor in 2011, as have increasing correlations, notably the inverse correlation between the change in the value of the U.S. dollar and the S&P GSCI. Chart 14 shows the 12-month correlation between the S&P GSCI and the U.S. Dollar Index, which recently reached a new high inverse level. Some analysts have noted that the extremely low interest rate policies of the developed countries are exacerbating volatility and correlation factors. It appears that the unintended consequences of printing money may be causing more damage than good.

Chart 14



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