S&P CAPITAL IQ

Lookout Report
from Global Markets Intelligence

The U.S. Economy Can Handle $4 Per Gallon Of Gasoline

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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.

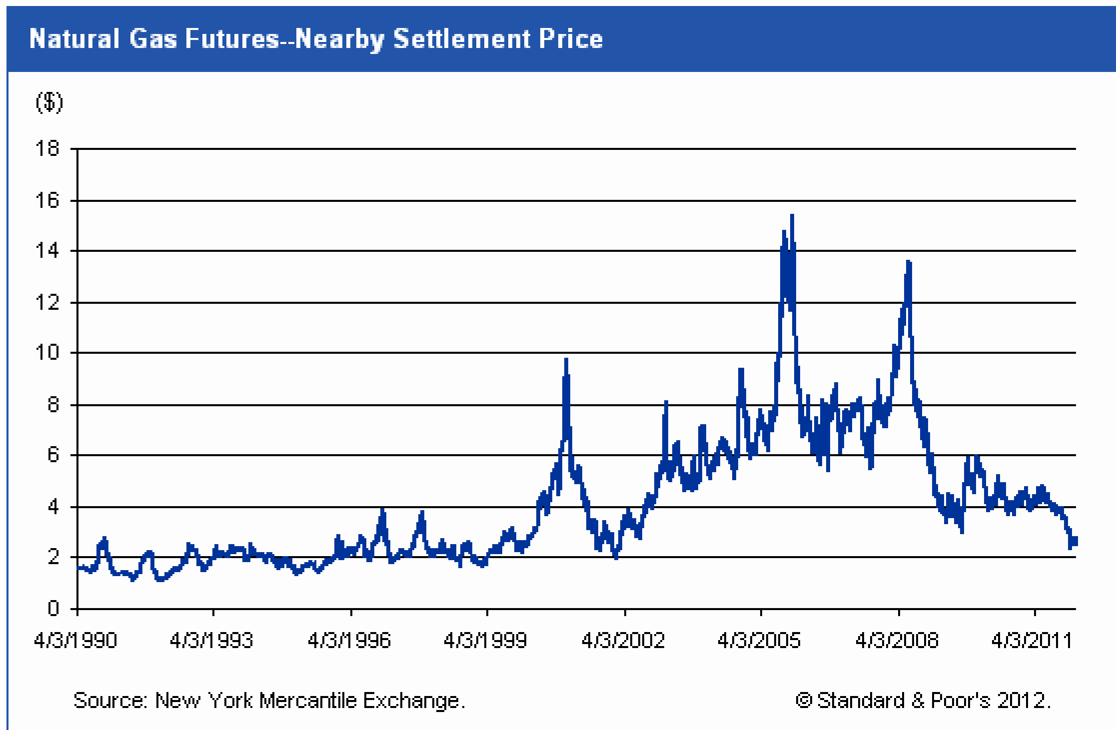
With crude oil trading well above $100 per barrel, many market commentators are now worried that the U.S. economy is once again at risk of recession. A general rule-of-thumb frequently cited in the media is that every 10% increase in the price of crude oil reduces U.S. GDP growth by 0.25%. This hypothesis, if true, suggests rising energy prices represent a significant risk to growth, especially because of the historically sluggish pace of the current economic recovery.

Global Markets Intelligence (GMI) Research acknowledges that rising household energy expenses will, at some point, become problematic for the U.S. economy, which is primarily driven by the consumption of goods and services. We are, however, slightly wary of the general notion that GDP growth would decline by 1% if crude oil jumps to $140 per barrel in 2012 from roughly $99 per barrel at year-end 2011.

U.S. GDP growth generally remained between 2% and 4% during the prior recovery cycle (2002 to 2006), a period in which crude oil prices increased by 208% to $61.05 at the end of 2006 from $19.84 at the end of 2001. Not surprisingly, many other factors promoted economic growth during the prior cycle, including job creation and the housing boom, which helped offset any drags on domestic economic activity associated with rising crude oil prices.

Furthermore, while crude oil prices are currently heading higher, natural gas prices are at the lowest levels recorded in at least a decade (see chart 1). While consumers are definitely paying more at the pump, many consumers are benefiting from the lowest winter heating bills in years due to the combination of natural gas prices and the exceptionally mild winter in the northeastern U.S.

Chart 1



U.S. retail sales set a new all-time monthly record of $401.4 billion in January, of which $44.9 billion (11.2%) was spent at the pump. Gasoline service station retail spending previously only accounted for 6.5% to 8% of total retail sales between 1992 and 2004, before global geopolitical instability and rising energy demand from emerging economies presumably pushed crude oil as high as $150 per barrel in July 2008 from just $33 at the start of 2004. Furthermore, consumer gasoline purchases currently account for less than 5% of total personal consumption expenditures. Based on this analysis, we find it difficult to believe that anything short of a major price spike in a category of retail spending that accounts for less than 5% of total personal consumption can represent a significant threat to the overall economy.

Should oil and gasoline prices continue to rise, we think it is entirely plausible that additional incremental consumer spending on gasoline--and household energy related expenditures in general--will first come at the expense of various forms of discretionary consumer spending. Consumers will be forced to divert money from non-energy related categories of retail spending, many of which include goods produced outside the U.S., to accommodate additional dollars spent at the pump before we reach the point where rising gasoline prices place the broad U.S. economy at risk of recession.

The average price paid in the U.S. for a gallon of gasoline hit $3.72 this week, up from $3.38 in January, according to the Energy Information Administration (EIA). Despite this sharp increase in prices, consumers are not yet showing any noticeable signs of vulnerability when it comes to discretionary spending. As of January, consumer spending on clothing and accessories was up 5.3% versus a year ago, spending increased 4.3% at sporting goods, hobby, book, and music retailers, and the food and drinking establishment business increased by 8.2% year over year.

For the moment, it appears to us that other factors such as the declining U.S. unemployment rate are offsetting potential risks to GDP growth associated with rising crude oil and retail gasoline prices. We are inclined to conclude that $4.00 per gallon of gasoline will not derail the U.S. economy, but acknowledge that $5.00 per gallon presents an entirely different set of risks, especially as we approach the summer peak driving vacation months.

More than any other single factor, the U.S. economy now requires sustained disposable income growth, coming from some combination of wage growth and tax policy, if the recovery is to remain on track and avoid recession, in our opinion. GMI Research will continue to follow the U.S. employment situation in conjunction with monitoring discretionary consumer spending for signs of stress should retail gasoline prices eclipse $4.00 per gallon.

Inside This Issue:

Economic And Market Outlook: North American Earnings

Overall, analysts in North America expect the S&P 500 Index to report very low growth of 0.82% in the first quarter of 2012, with a forecast of 3.26% growth for the consumer discretionary sector and 2.38% for the consumer staples sector.

S&P Index Commentary: The Apple Of My Eye (And Of Our Portfolios)

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Leveraged Commentary And Data: Leveraged Loans Return 0.77% In February

Bolstered by strong technical conditions and positive investor sentiment across the capital markets--which helped drive the S&P 500 Index to its highest month-end level since May 2008--the S&P/LSTA Leveraged Loan Index returned 0.77% in February after jumping 2.18% in January.

Market Derived Signal Commentary: The U.S. Maintains Its Status As The Least Risky Sovereign

As the eurozone continues to struggle with its debt crisis, default risk, though moderating, remains built in to credit default swap (CDS) spreads for many of those sovereigns. But the risk premium in the five-year CDS for the U.S. has declined to levels not seen since mid-2010, which we think reflects the credit market's confidence in the U.S. economy.

Capital Market Commentary: IPO Performance Rises In February

IPO activity increased in February as 17 offerings, excluding REITs and closed-end funds, were priced, raising $1.46 billion. Given the abundance of IPOs in the month, those recently priced issues found themselves among the performance leaders so far this year. Private equity-backed industrial machinery company Proto Labs Inc. now ranks as the top gainer among the early crop of 2012 IPOs, according to S&P Capital IQ.

S&P Index Commodity Commentary: Petroleum Takes Control

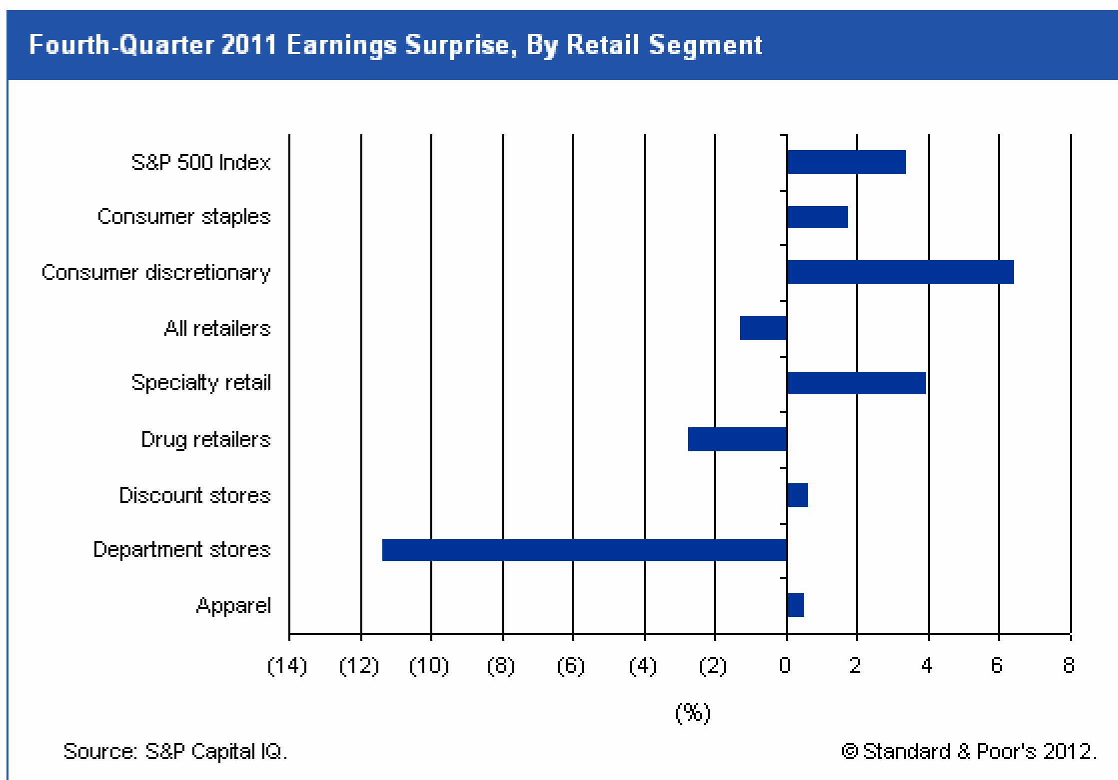
Commodity market performance and spiking petroleum prices in February have sparked uncertainty about early 2012 optimism as potential economic implications remain unclear. Industrial metals remained the best performing sector at the end of February, but petroleum prices have rallied, reintroducing geopolitical risk into the marketplace.

Economic And Market Outlook: North American Earnings

The past two weeks of the fourth-quarter earnings season has seen a flurry of reports from S&P 500 retailers, with 13 of those 30 companies in the consumer discretionary and consumer staples sectors reporting results. In all, 25 retailers have announced results, and 56% of them beat the S&P Capital IQ consensus estimate, compared with a 59% beat rate for the S&P 500 Index.

Retailers are divided into five categories: department stores, discount stores, apparel stores, drug retailers, and specialty retailers. The specialty stores (made up of 11 companies) have the largest positive surprise (3.94%) of any category, lower than the consumer discretionary sector (6.4%) but higher than the consumer staples sector (1.75%) and the S&P 500 Index (3.38%; see chart 2). We did not expect this to be the case, as West Texas Intermediate crude for January delivery averaged $100 a barrel, which typically leads consumers to the one-stop shopping discounters and away from the specialty stores, department stores, and apparel stores. The discounters did have the second highest surprise factor of 0.61%, but that group was followed by the apparel stores, with 0.5%. Department stores (negative 11.38%) and the drug retailers (negative 2.72%) fared the worst.

Chart 2



The world's first and second largest home improvement retailers--Home Depot Inc. and Lowe's Cos. Inc., respectively--were largely responsible for growth in the specialty store segment, reporting surprise factors of 16.74% and 24.12%. Both companies credited favorable weather for their better-than-expected results, despite the fact that homebuilders Lennar Corp. and PulteGroup Inc. missed expectations by 8.96% and 44.67%, respectively. Housing indicators have given off mixed signals, with existing home sales rising 4.3% in January due to steep price reductions, and new home sales declining 0.9% in January. Lowe's expects fiscal 2012 (ending Feb. 1, 2013) diluted earnings per share of $1.75 to $1.85, while Home Depot forecast earnings per share of $2.72 before share repurchases and $2.79 after share repurchases.

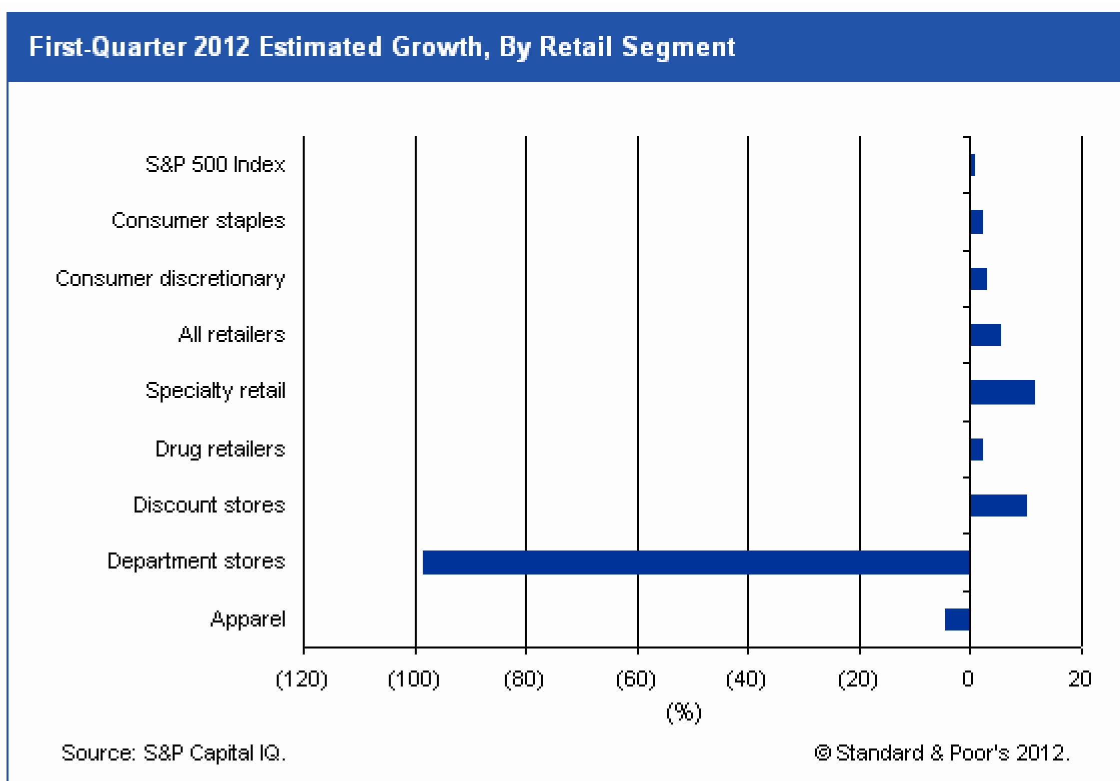
On the opposite end of the spectrum, the loss reported for department stores was largely due to results from Sears Holdings Corp. (negative surprise of 31.06%) and J.C. Penney Co. Inc. (negative surprise of 77.67%). Excluding these two retailers, the surprise factor increases to 1.83% for the industry. This was the fourth consecutive quarter for Sears to miss earnings expectations. To address the company's poor performance, CEO Lou D'Ambrosio said "We are taking

immediate actions to address our fourth quarter performance including cost and inventory reductions." It was the first time in six quarters for J.C. Penney to miss estimates, resulting primarily from large restructuring and management transition charges, as new CEO Ron Johnson attempts to implement his "blueprint for becoming America's favorite store."

While retailers reported an unimpressive fourth-quarter surprise of negative 1.30%, profits increased by 4.1% from the year-ago quarter. Excluding J.C. Penney, the surprise factor would have been 0.75%. So far in the fourth quarter, 12 retailers have issued guidance for the first quarter of 2012--five negative, five positive, and two in line with analyst expectations, resulting in a very low negative-to-positive (N/P) ratio of 1.0, compared with an N/P ratio of 1.9 for the S&P 500 Index.

Overall, analysts expect the S&P 500 Index to report very low growth of 0.82% in the first quarter of 2012, with a growth forecast of 3.26% for the consumer discretionary sector and 2.38% for the consumer staples sector (see chart 3). The consensus estimates growth of 5.53% for the retailers on strength from the specialty stores (11.86%) and the discounters (10.34%). With five of the 10 sectors of the S&P 500 Index expecting negative growth next quarter, the retailers could push the consumer discretionary and consumer staples sectors to the top spots.

Chart 3



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S&P Index Commentary: The Apple Of My Eye (And Of Our Portfolios)

How much influence can a single stock have on the market, and by extension, investor psychology? For example, while the S&P 500 information technology sector has gained 11.99% since the prior all-time high watermark in October 2007 for the S&P 500 Index, it actually would have lost 3.25% excluding just one company: Apple Inc. The performance of the

S&P 500 Index, which lost 12.33% over the same period, would have declined 14.88% excluding Apple. Year to date, the information technology sector has returned an additional 27.5%, and the S&P 500 Index is up an additional 9.5% as a result of Apple's rise to $535 from $168 on Oct. 9, 2007 (adding more than $300 billion in market value). Table 1 shows Apple's effect on both the information technology sector and the S&P 500 Index over varying periods.

Table 1

S&P 500 Index Performance

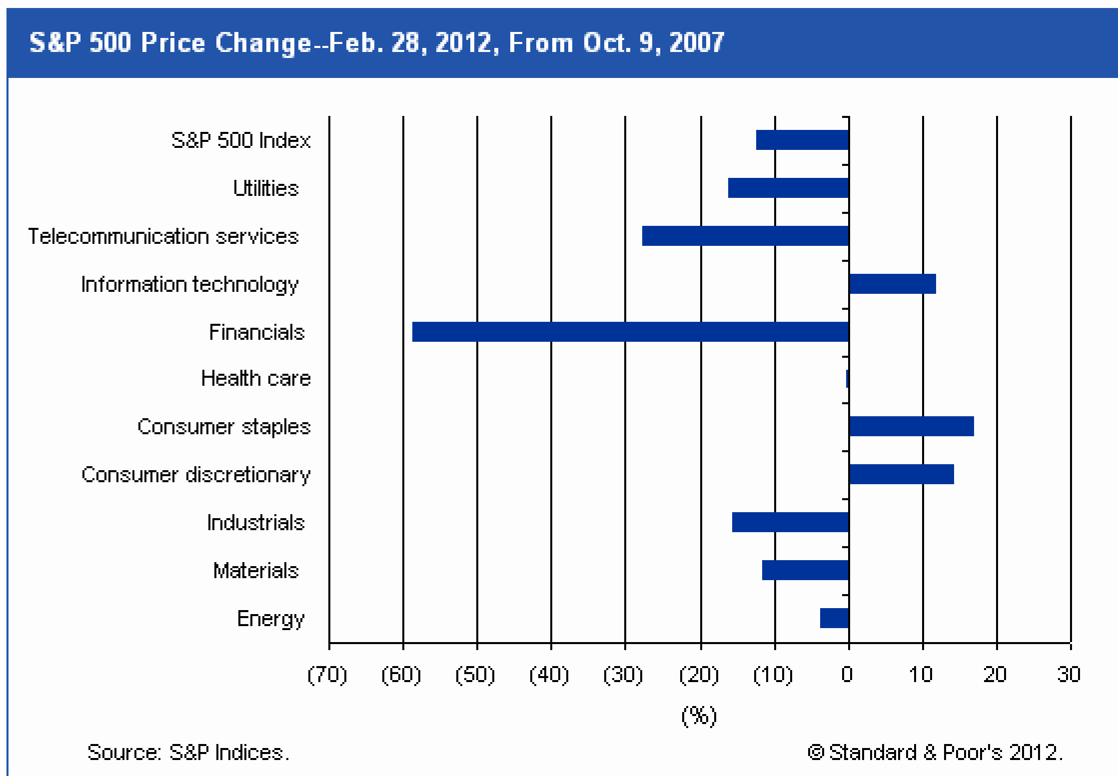
(%)	S&P 500 Index	Excluding Apple	Information technology	Excluding Apple
Year to date	9.11	8.32	15.92	12.49
1 year	5.06	3.65	12.39	5.12
3/9/2009	102.83	97.25	138.03	106.39
10/9/2007	(12.33)	(14.88)	11.99	(3.25)

Source: S&P Indices.

The dramatic increase in Apple's share price has generated interest in the latest of a long and fairly infrequent string of S&P 500 market capitalization leadership changes. Apple is the 11th issue to hold market capitalization leadership since 1926. Apple now joins the ranks of prior market leading companies, including AT&T Inc., Cisco Systems Inc., E.I. duPont deNemours & Co., ExxonMobil Corp., General Electric Co., General Motors Co., International Business Machines Corp., Microsoft Corp., Philip Morris Cos., and Wal-Mart Stores Inc.

The peak S&P 500 Index close of 1565.15 occurred on Oct. 9, 2007. As of Tuesday's close of 1,372.18, the index remains 12.33% below the record high, though some sectors are outperforming others (see chart 4).

Chart 4



Individual stocks can at times have a very large influence on the broader market and investor psychology. S&P Indices, for

instance, announced that Yahoo! Inc. would become a member of the S&P 500 Index on Dec. 7, 1999. Yahoo shares appreciated more than 50% to $340 following the announcement, adding almost $30 billion in market value, which incidentally did not influence the S&P 500 Index since the stock was added after the shares had reached $340. While the issue did climb to $432.68 by the end of 1999, adding $25 billion in market value to the S&P 500 Index, this increase paled in comparison to the index's inflated value of $12.3 trillion.

Historically, the largest impact on the S&P 500 Index was IBM's appreciation of 134% (excluding dividends) from September 1981 to September 1983, adding $44 billion in value to the $1 trillion index. Apple's contribution to the S&P 500 Index from the October 2009 low accounted for 5.0% of the return, making Apple the largest issue, but representing only 4.0% of the index, much lower than IBM's record of 6.3%.

These situations are not common, but they do occur. In the early 1980s, both IBM and AT&T (pre-breakup) each represented more than 5% of the index's capitalization. Given the economic dominance of the U.S. at the time, their combined 11% economic effect would have been substantially higher than an equivalent 11% representation today.

AT&T dominates the nine-member telecommunications sector, with 54% of the weight and ExxonMobil, the second largest issue in the world behind Apple, represents 28% of its sector (see table 2).

Table 2

Top Sector Issues In The S&P 500 Index

Company	Sector	Percent of index (%)	Percent of sector (%)
McDonald's Corp.	Consumer discretionary	0.82	7.59
Wal-Mart Stores Inc.	Consumer staples	0.83	7.73
ExxonMobil Corp.	Energy	3.36	27.68
Berkshire Hathaway Inc.	Financials	1.12	7.91
Johnson & Johnson	Health care	1.43	12.62
General Electric Co.	Industrials	1.63	15.11
Apple Inc.	Information technology	4.01	19.84
DuPont (E.I.) De Nemours & Co.	Materials	0.38	10.60
AT&T Inc.	Telecommunication services	1.46	53.78
Southern Co.	Utilities	0.31	9.00

Source: S&P Indices.

Apple also made a significant contribution to earnings in the fourth quarter; it tops a list of the companies with the greatest impact to earnings in the latest reporting period (see table 3).

Table 3

S&P 500 Fourth-Quarter Operating Income

Company	Operating earnings per share contribution (%)	Market representation (%)	Efficiency ratio
Apple Inc.	6.07	3.79	1.60
ExxonMobil Corp.	4.38	3.33	1.32
Microsoft Corp.	2.74	1.90	1.44
International Business Machines Corp.	2.61	1.85	1.41
Chevron Corp.	2.40	1.72	1.40
Wells Fargo & Co.	1.85	1.33	1.39
General Electric Co.	1.81	1.65	1.10
JPMorgan Chase & Co.	1.60	1.19	1.34

Table 3

S&P 500 Fourth-Quarter Operating Income (cont.)			
Intel Corp.	1.56	1.13	1.38
Johnson & Johnson	1.43	1.44	0.99

Source: S&P Indices.

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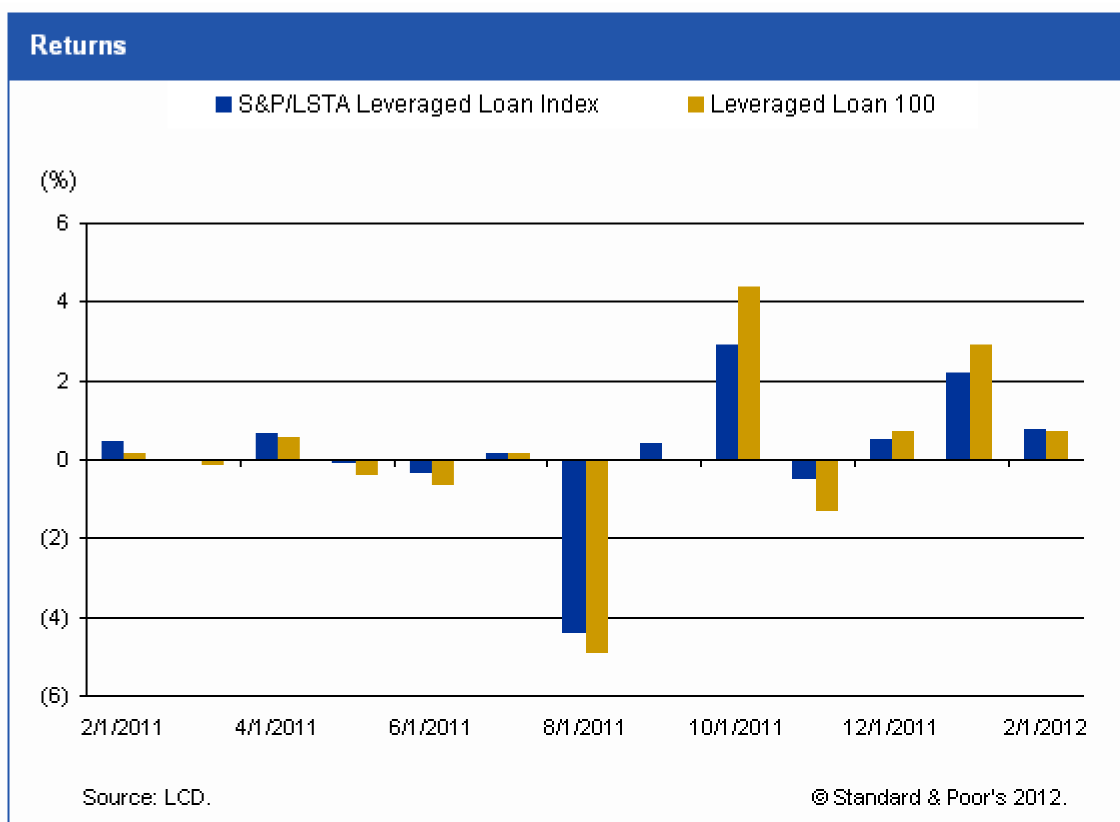
Leveraged Commentary And Data: Leveraged Loans Return 0.77% In February

Bolstered by strong technical conditions and positive investor sentiment across the capital markets--which helped drive the S&P 500 Index to its highest month-end level since May 2008--the S&P/LSTA Leveraged Loan Index returned 0.77% in February after jumping 2.18% in January (see chart 5).

Among the large-cap issues that comprise the S&P/LSTA Leveraged Loan 100 Index, the gain in February was slightly lower, at 0.73%, but that followed an increase in January of 2.88%.

Chart 5



February's gain lifts S&P/LSTA Index returns in 2012 to 2.97% overall and 3.63% for the Loan 100, versus 2.44% and 2.63%, respectively, during the comparable period in 2011. The S&P/LSTA Index reached an all-time high of 2,158 on Feb. 29, from 2,096 at year-end, and the Loan 100 did likewise, rising to 1,641, from 1,583 (see charts 6 and 7).

Chart 6

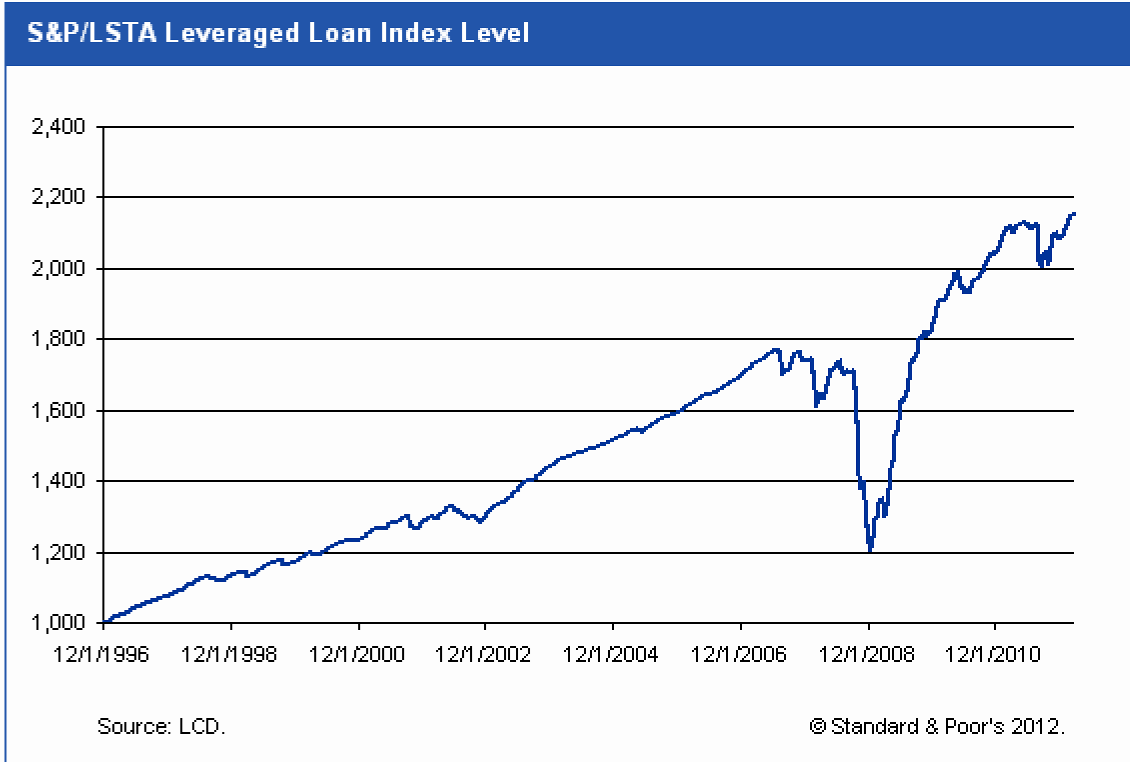
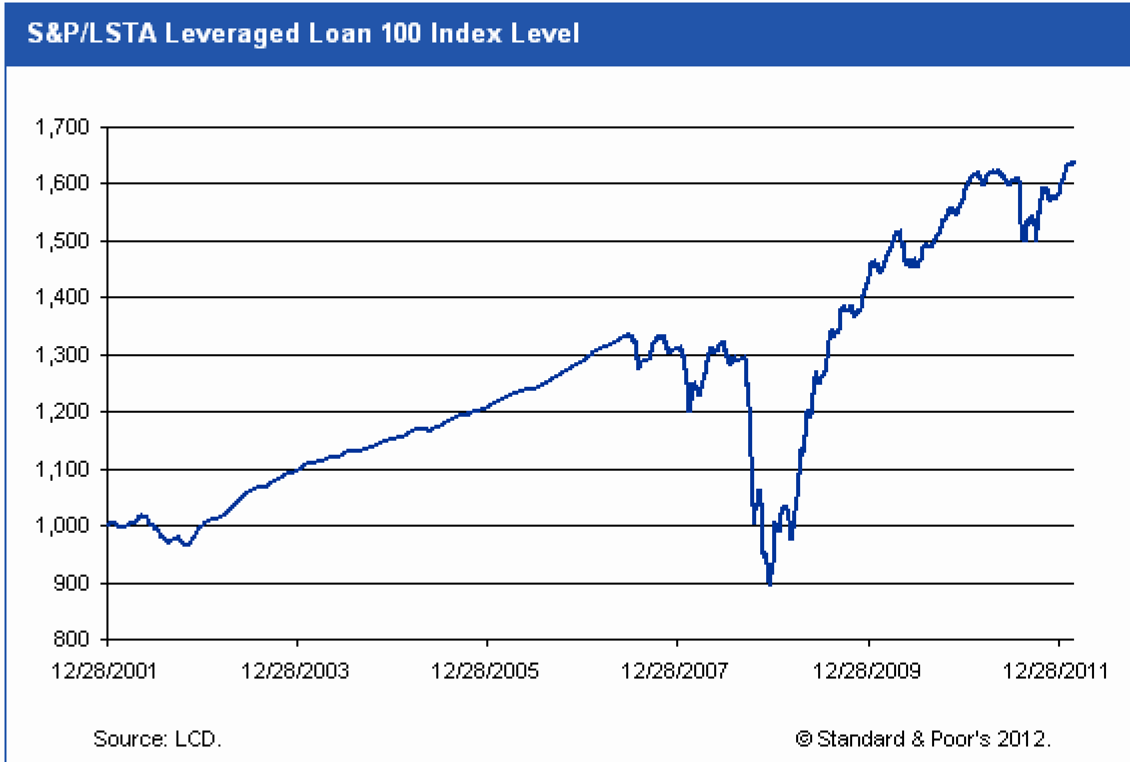
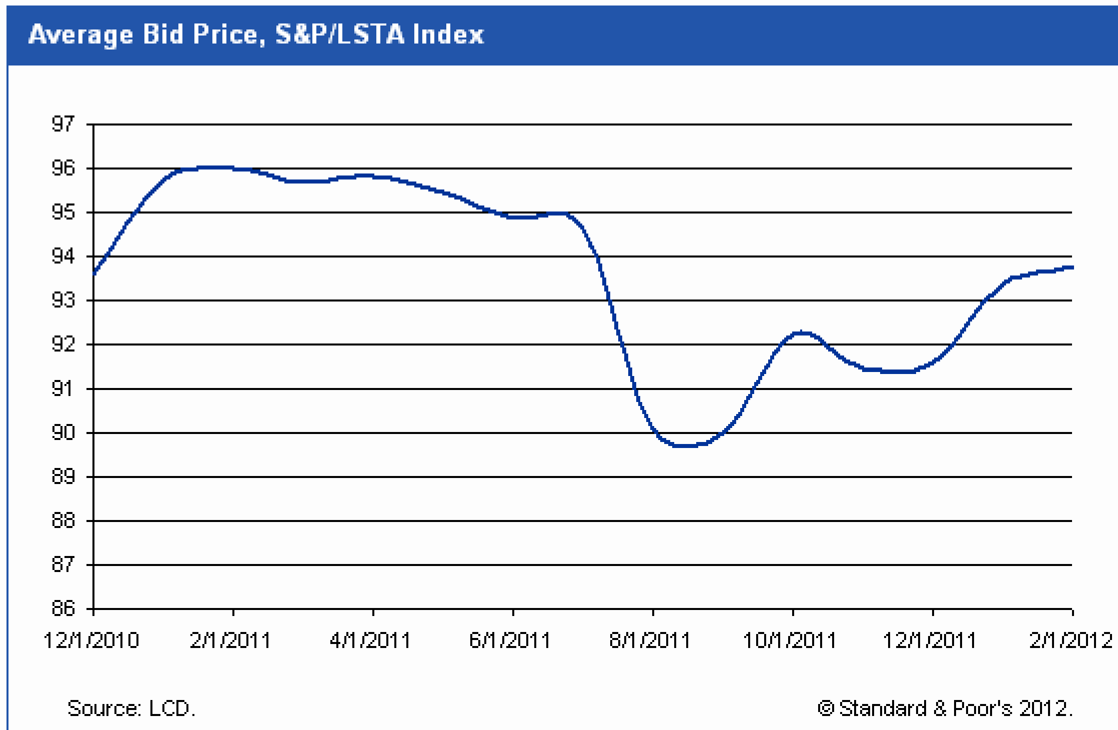


Chart 7



As these data imply, the average price of S&P/LSTA Index loans ended February at a seven-month high of 93.79, from 93.38 a month earlier and 91.61 at year-end (see chart 8).

Chart 8



By ratings, the story is mixed and somewhat complex. In general, accounts have bid up lower-rated, lower-priced deals with one glaring exception: 'CCC' loans. Here's why:

The index's largest loan, TXU ('CCC'), fell to 60.80 on Feb. 29, from 69.66 at year-end, according to Markit Loans. As the NYTimes DealBook blog explains, plunging natural gas prices have hurt the utility company's profitability, raising the prospect of a bankruptcy filing at some point. Thanks largely to TXU's decline, 'CCC' loans lagged the market, with a 2% loss in February that reduced the category's year-to-date return to just 0.51%. Defaulted loans, by contrast, have been the standout performers thus far in 2012 (see table 4).

Up the grade, 'B' loans have outperformed, largely as a result of stellar performances by high-beta names. Several of these flow loans have traded higher on partial paydowns and amend-to-extend executions, including Caesars, First Data, and Sabre. Also, participants say, the increase in the formation of new CLOs during the first two months of 2012--to a recent high of $3.4 billion--has favored these names, which are attractive to new vehicles as a way to fill portfolios and build overcollateralization. Finally, 'BB' loans, which came into the year at an already elevated average price of 97.88, have lagged the overall market.

Table 4

Returns By Type Of Debt

	--Total return (%)--		--Market-value return (%)--	
	February 2012	2012	February 2012	2012
All loans	0.77	2.97	0.38	2.14
Performing loans	0.79	2.99	0.38	2.14

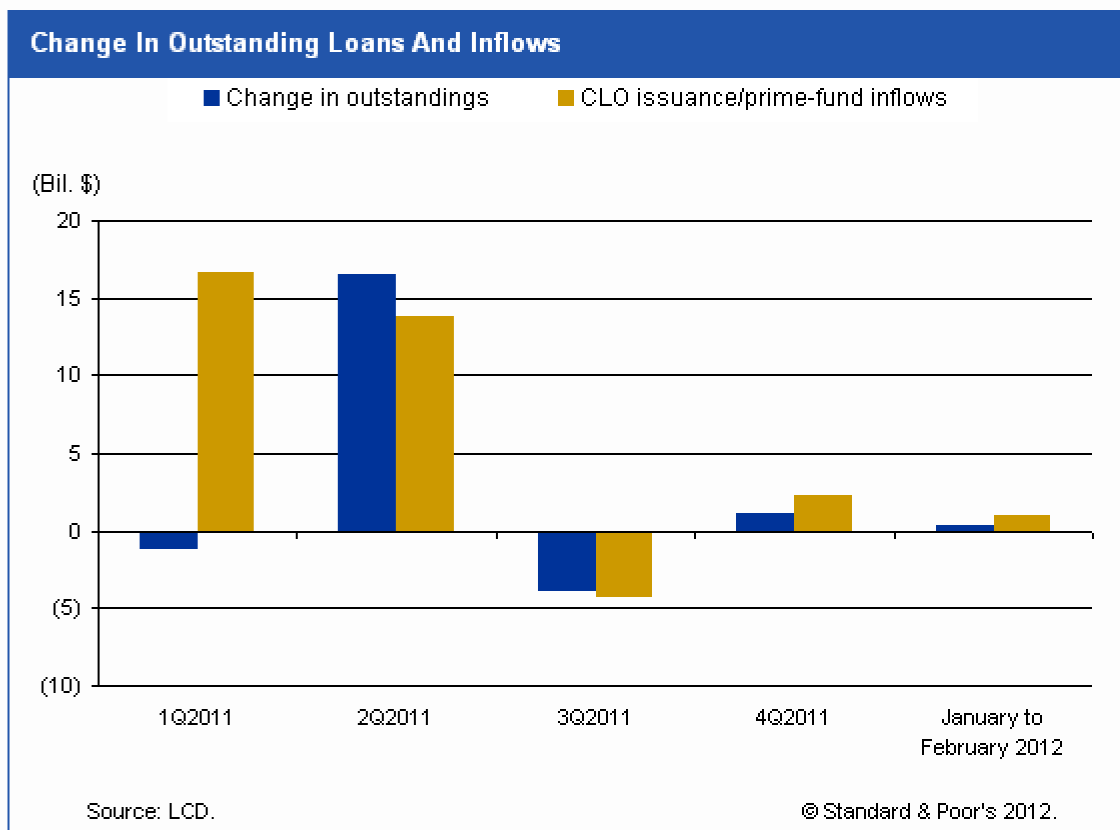
Table 4

Returns By Type Of Debt (cont.)				
BB	0.63	2.18	0.27	1.43
B	1.28	4.09	0.87	3.22
CCC	(2.00)	0.51	(2.54)	(0.62)
D	1.71	10.28	1.71	10.28
S&P/LSTA 100	0.73	3.63	0.38	2.88

Source: LCD.

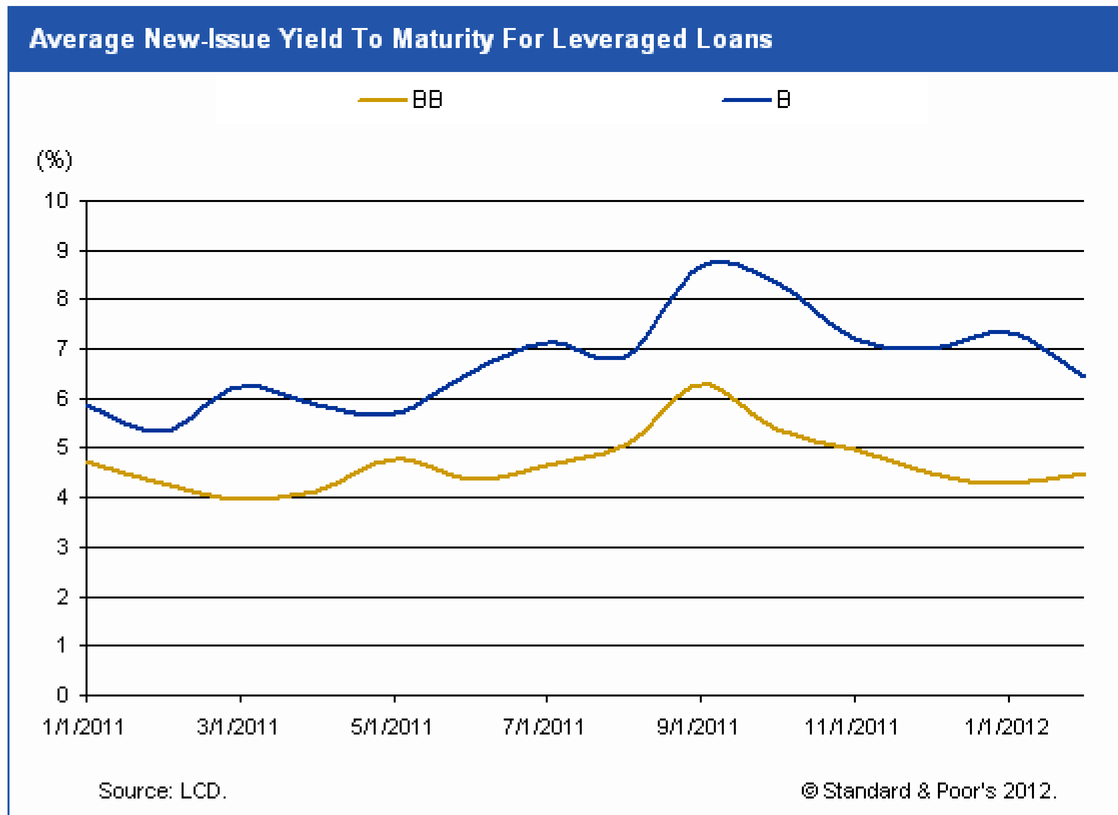
The loan rally of early 2012 is a matter of simple economics. With deal flow still lackluster, demand has simply outrun supply, though the imbalance is far less profound than it was during the first quarter of last year, when retail investors were pouring $4.18 billion into loan mutual funds, on average, according to Lipper FMI (see chart 9).

Chart 9



As reported, surplus demand is having the same effect on the new-issue market as it is in the secondary, with new-issue clearing yields tightening and opportunistic transaction volume on the rise (see chart 10).

Chart 10



Looking ahead, participants expect the market's positive bias to continue, assuming of course that no exogenous shocks roil the markets. For one thing, the calendar of merger and acquisition (M&A)-related loans continues to languish at $5.5 billion. Indeed, the few significant announcements this week from the sponsor community, El Paso E&P and Cheniere Energy likely will yield no institutional loans.

On the other side of the coin, retail flows have been effectively flat so far this year, but there has been an encouraging pickup in CLO issuance, with $3.4 billion of new deals printing in the year to date, the biggest two-month total since July 2011. In addition, managers report an encouraging increase in institutional allocations to the asset class, though the numbers involved are nebulous and, by all accounts, not yet needle-moving. More importantly, issuers are availing themselves of the white-hot high-yield market--and, for 'BB' issuers, the pro rata market--to ramp up takeout activity. In February alone, for example, issuers repaid $3.4 billion of institutional loans, the most since May 2011, and it follows a six-month dry spell. Add to that $5.8 billion of pro rata takeouts, and takeout activity during the first two months of 2012 reached a 15-month high of $9.2 billion.

Still, today's technical equation is less tilted toward issuers than it was a year ago. Therefore, few participants expect the secondary to catch fire--or the new-issue market to approach the frothy heights of early 2011--unless retail inflows return to the bountiful levels of the first half of 2011.

Loans Versus Other Asset Classes

As is usually the case when the bulls are charging, loans underperformed the three other risk asset classes we track in this report monthly, while beating 10-year Treasuries, which fell as yields climbed. The same is true in the year to date (see

table 5).

Table 5

Returns

	February (%)	2012 (%)
S&P/LSTA Index	0.77	2.97
BAML HY Master (H0A0)	2.28	5.25
10-year Treasury (GA10)	(1.08)	(0.28)
S&P 500, including dividends (SPX)	4.32	9.05
BAML I-Grade Corp (C0A0)	0.85	3.05

Sources: LCD, S&P Indices, BAML, and Bloomberg.

On a risk-adjusted-return basis, not much changed in February. On a cumulative basis since the commencement of the S&P/LSTA Index in January 1997, the Sharpe ratio of loans lags the three fixed-income categories we track, leading only equities (see table 6).

Table 6

January 1997 To February 2012

	Annualized returns (%)	Standard deviation of monthy returns (%)	Sharpe ratio
S&P/LSTA Index	5.40	1.92	0.38
BAML HIGH YIELD (H0A0)	7.69	2.88	0.48
10-year Treas (GA10)	6.79	2.21	0.51
S&P 500 (SPX)	7.27	4.79	0.27
BAML HIGRADE CORP (C0A0)	6.92	1.62	0.72

Sources: LCD, Bloomberg, and Bank of America Merrill Lynch.

The story here, of course, is the steady and significant decline in rates over the past 14 years, from 6.43% at year-end 1996 to 1.99% on Feb. 29, according to the Federal Reserve and Bloomberg.com.

Big Movers

As mentioned above, the list of big contributors to overall Index returns was dominated in February by large, high-beta names, several of which made partial paydowns and/or executed extensions, including Clear Channel, Caesars, First Data, and Sabre (see table 7). On the minus side of the ledger, TXU was February's biggest loser by a wide measure. Among the other names on the negative side of the leaderboard, there is no clear theme.

Table 7

Big Movers

Up	S&P loan rating	February Index return contribution (%)
Clear Channel	CCC+	0.05
Harrah's Entertainment	B	0.05
First Data	B+	0.04
Thomsons Learning	B+	0.03
Sabre	B	0.03
Tribune Company	D	0.02
Chrysler Group	BB	0.02
Education Media & Publishing	NR	0.02
Brand Aquisition	B	0.01

Table 7

Big Movers (cont.)		
Golden Living (Drumm)	B+	0.01
Down		
TXU Corp	CCC	(0.23)
Springleaf Financial	CCC+	(0.01)
Hawker Beechcraft	CCC	(0.01)
Univision Communications	B+	(0.01)
ATI Acquisition	CC	(0.00)
Ineos Holdings	B	(0.00)
American Rock Salt	B+	(0.00)
Wilton Paper Crafts	D	(0.00)
IAP Worldwide	CCC+	(0.00)
Ginn Clubs	D	(0.00)

Source: LCD.

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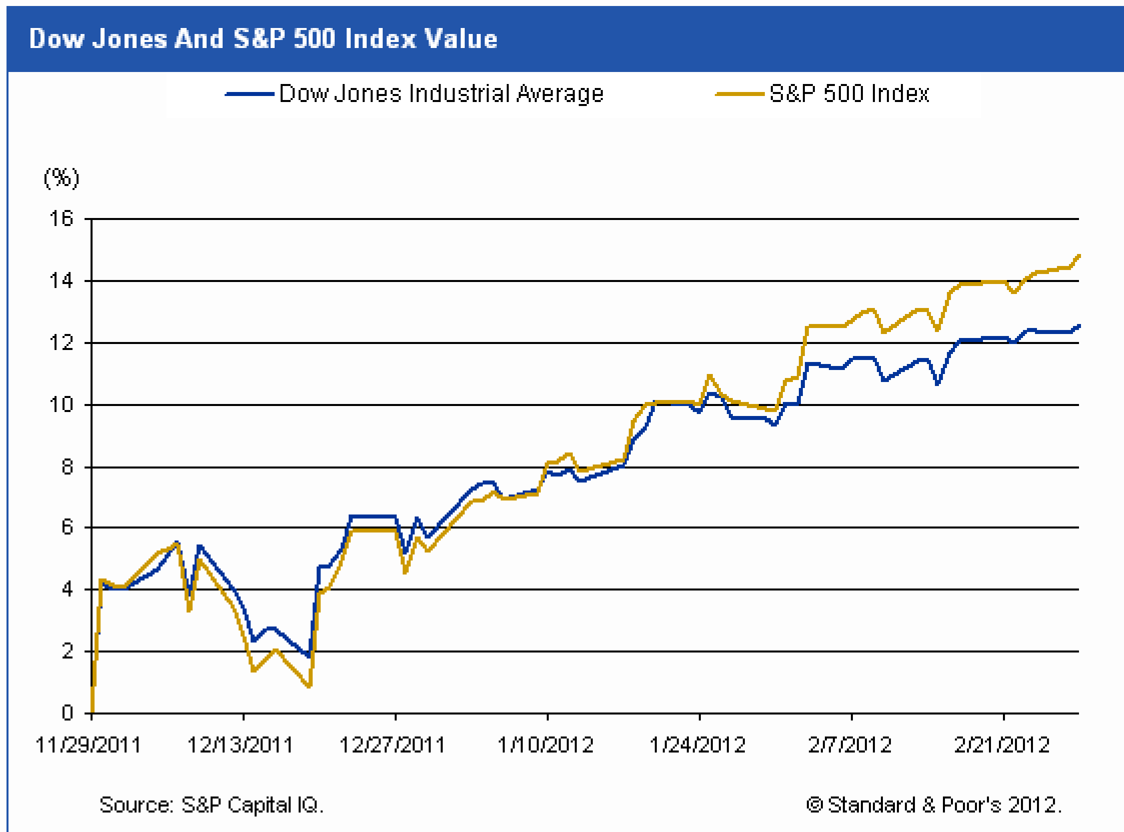
Market Derived Signal Commentary: The U.S. Maintains Its Status As The Least Risky Sovereign

As the eurozone continues to struggle with its debt crisis, default risk, though moderating, remains built in to credit default swap (CDS) spreads for many of those sovereigns. But the risk premium in the five-year CDS for the U.S. has declined to levels not seen since mid-2010, which we think reflects the credit market's confidence in the U.S. economy.

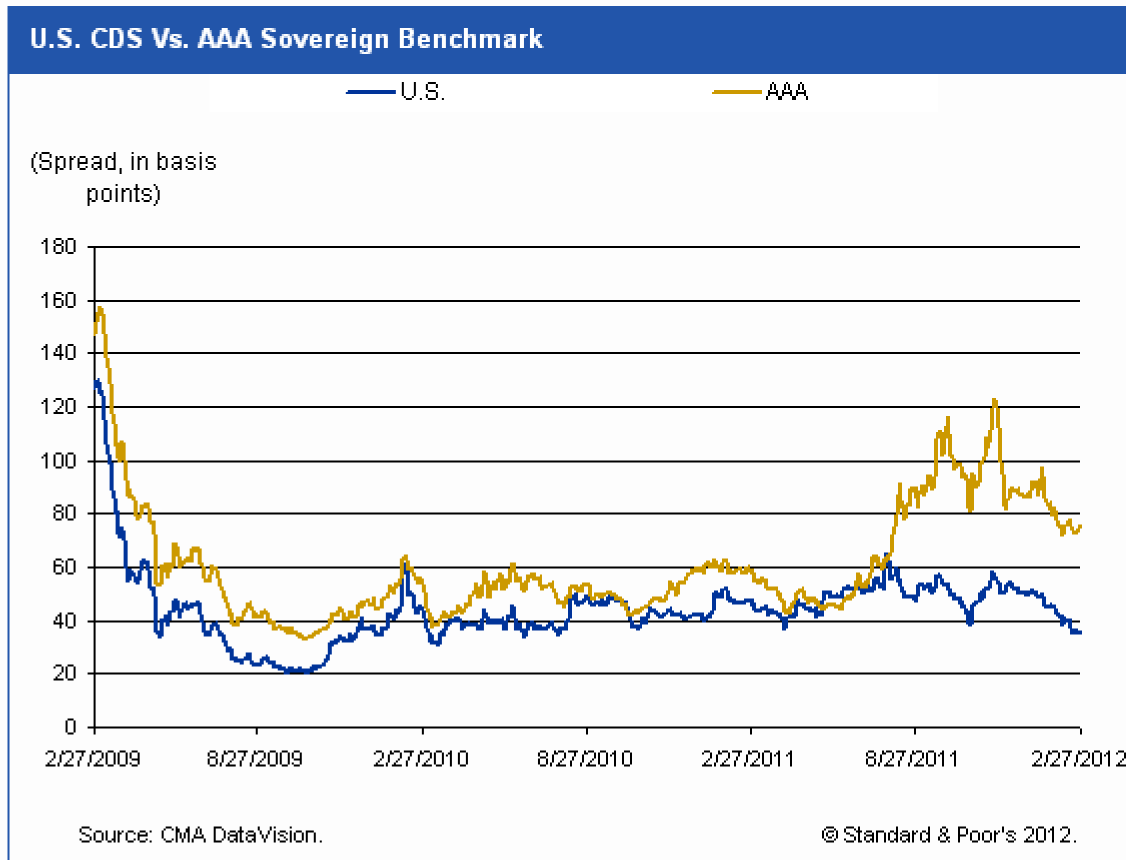
There are reasons for optimism. On Wednesday, the U.S. Commerce Department revised its estimate for fourth-quarter GDP expansion to 3%, the best rate of growth since the second quarter of 2010, from 2.8% on better-than-expected consumer and business spending. In the third quarter, the economy grew 1.8%. A declining unemployment rate and an increase in housing starts in January, among other factors, are adding to bullish sentiment, and the S&P 500 Index and the Dow Jones Industrial Average have rallied as a result (see chart 11).

Chart 11



At 36 basis points (bps), the cost to purchase protection against a U.S. default is the cheapest among all sovereigns. Not only is the spread trading tight of Standard & Poor's Ratings Services' credit rating (AA+/Negative) benchmark (93 bps) and the Market Derived Signal benchmark of 'aa' (115 bps), it is 40 bps tight of the 'AAA' sovereign benchmark (see chart 12).

Chart 12



So where do we see the CDS trading from here? We expect the spread to continue to trade tight of its sovereign counterparts in the near term. Of course, there are caveats to this forecast. As we discussed in the introduction to this week's report, crude oil prices above $100 per barrel, and concomitant increases in the price of a gallon of gasoline (the spot price is up 17% year to date) have yet to dent consumer spending. But in a nation where consumers depend upon their cars for transport, there is a level at which U.S. consumers' discretionary spending habits will change sharply, raising the prospect of recession. Whether that level is $4.15, $4.50, or $5.00 per gallon remains to be seen, but the U.S. CDS would see subsequent pressure.

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Capital Market Commentary: IPO Performance Rises In February

IPOs

IPO activity increased in February as 17 offerings, excluding REITs and closed-end funds, were priced, raising $1.46 billion. Given the abundance of IPOs in the month, those recently priced issues found themselves among the performance leaders so far this year. Private equity-backed industrial machinery company Proto Labs Inc. now ranks as the top gainer among the early crop of 2012 IPOs, according to S&P Capital IQ data (see table 8).

However, the number of companies that filed to go public tapered off last month. Specifically, 12 U.S. companies, including Facebook Inc., stated their intent to go public, down from 17 companies in January, according to S&P Capital

IQ. Whether this is a trend or a blip in the data, we'll continue to monitor these developments.

Table 8

IPO Performance In U.S. In 2012

Effective date	Target/issuer	Value (mil. $, historical rate)*	Price per share ($)	Latest price ($)	Change (%)
2/23/2012	Proto Labs Inc.	68.8	16	30.75	92.19
1/24/2012	Guidewire Software Inc.	115.1	13	22.62	74.00
2/1/2012	Greenway Medical Technologies Inc.	66.7	10	14.80	48.00
2/23/2012	Bazaarvoice Inc.	113.8	12	16.60	38.33
2/16/2012	Brightcove Inc.	55.0	11	14.90	35.45
2/9/2012	GSE Holdings Inc.	63.0	9	12.15	35.00
2/7/2012	Caesars Entertainment Corp.	16.3	9	11.32	25.78
2/2/2012	Cempra Inc.	50.4	6	7.50	25.00
2/10/2012	HomeStreet Inc.	83.4	44	53.00	20.45
2/7/2012	EPAM Systems Inc.	72.0	12	14.13	17.75
2/7/2012	Roundy's Parent Co. Inc.	163.1	8.5	10.00	17.65
1/26/2012	Verastem Inc.	55.0	10	11.60	16.00
2/8/2012	FX Alliance Inc.	62.4	12	13.53	12.75
2/21/2012	Ceres Inc.	65.0	13	13.96	7.38
2/24/2012	ROI Acquisition Corp.	75.0	10	10.03	0.30
1/31/2012	U.S. Silica Holdings, Inc.	200.0	17	16.92	(0.47)
2/1/2012	MRC Energy Co.	160.0	12	11.86	(1.17)
2/9/2012	Synacor Inc.	34.1	5	4.88	(2.40)
2/28/2012	Home Loan Servicing Solutions Ltd.	186.7	14	13.56	(3.14)
1/18/2012	Renewable Energy Group, Inc.	72.0	10	9.57	(4.30)
2/1/2012	AVG Technologies N.V.	128.0	16	13.15	(17.81)
	Average				20.80

*Total transaction value. Source: S&P Capital IQ.

M&A

After a three-month slide in the volume of announced U.S. M&A volume since November, dollar volume in February reached $48 billion, exceeding the $46.2 billion total from January. The continuing strong presence of foreign buyers purchasing U.S. businesses was a catalyst to the increase in activity. Of last month's M&A dollar volume, $12.1 billion, or about 27%, was from foreign acquirers, compared with 25% in January (see tables 9 and 10). Additionally, February's volume of foreign buyers in the U.S. was the highest since last November, when $12.4 billion in transactions involved U.S. businesses and assets acquired by non-U.S. buyers, according to S&P Capital IQ. The U.S. economy grew faster in fourth-quarter 2011, and foreign buyers may be increasingly eager to seek assets in the U.S.

Table 9

Announced U.S. M&A

	--Total--		--Domestic buyers--		--Foreign buyers--	
	Bil. $	Deals	Bil. $	Deals	Bil. $	Deals
8/11/2012	94.8	1,257	86.6	1,059	8.2	198
9/11/2012	61.9	1,268	55.7	1,056	6.2	212
10/11/2012	89.9	1,185	82.1	998	7.8	187
11/11/2012	64.3	1,140	51.9	924	12.4	216

Table 9

Announced U.S. M&A (cont.)

12/11/2012	47.5	1,377	37.3	1,116	10.2	261
1/12/2012	46.1	1,129	34.4	961	11.7	168
2/12/2012	48.1	858	36.0	717	12.1	141

Source: S&P Capital IQ.

Table 10

Leading Announced U.S. M&A Transactions In 2012

Announced date	Target/issuer	Value (mil. $)*	Buyers/investors	Acquirer parent company location
2/24/2012	EP Energy Corp.	8,187.00	Apollo Global Management LLC; Access Industries Inc.; Riverstone Holdings LLC	U.S.
1/24/2012	Illumina Inc.	6,497.50	Roche Diagnostics GmbH	Switzerland
1/26/2012	Solutia Inc.	4,758.80	Eastman Chemical Co.	U.S.
1/29/2012	Thomas & Betts Corp.	4,318.10	ABB Low Voltage Products & Systems	Switzerland
2/16/2012	CVR Energy Inc.	3,479.80	Icahn Enterprises Holdings L.P.	U.S.
2/17/2012	TransUnion Corp.	3,304.60	Advent International Corporation; Goldman Sachs Group, Merchant Banking Division	U.S.
1/23/2012	Cordillera Energy Partners III LLC	2,857.20	Apache Corp.	U.S.
2/15/2012	The Wimble Co.	2,695.00	Kellogg Co.	U.S.
2/29/2012	Boston Biomedical Inc.	2,630.00	Dainippon Sumitomo Pharma Co. Ltd.	Japan
1/7/2012	Inhibitex Inc.	2,579.00	Bristol-Myers Squibb Co.	U.S.
1/3/2012	Devon Energy Corp., Five U.S. Shale Oil and Gas Fields	2,500.00	Sinopec International Petroleum Exploration & Production Corp.	China

*Total transaction value. Source: S&P Capital IQ.

Fixed Income

Requests for security identifiers among a variety of fixed-income securities had generally positive activity in the past reporting week. Aggregate volume among domestic corporate debt, municipals, international debt, and private place note domestic debt climbed by 14% to 486 from 424 in the prior week, according to CUSIP Global Services (see table 11). Despite this recent uptick, an investigation of year-over-year activity in some asset classes reveals some sluggishness in identifier requests, which may indicate potential softening in capital markets activity. While municipal debt CUSIP orders have climbed 43% this year, domestic corporate debt identifier requests have decreased by 11% from the year-ago period.

Table 11

CUSIPs Processed And Billed

	2/17/2012	2/10/2012	Year-to-date 2012	Year-to-date 2011	Year-over-year change (%)
Domestic corporate debt	92	99	1,230	1,375	(11)
Municipals	344	279	1,756	1,231	43
International Debt	27	26	171	252	(32)
PPN domestic debt	23	20	233	218	7
Selected debt totals	486	424	3,390	3,076	10

Source: CUSIP Global Services.

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S&P Index Commodity Commentary: Petroleum Takes Control

The S&P GSCI Index gained 6.06% in February, led by strength in petroleum (see chart 13). Increasing political tension, notably with Iran, along with increasing global economic optimism, higher equity prices, and a weakening U.S. dollar provided solid underpinnings for commodity prices. Year to date, the S&P GSCI Index ended the month with a gain of 8.43%, just behind the S&P 500 Index year-to-date total return of 9%. Due to its high world production weighted significance, petroleum has had the greatest positive effect on S&P GSCI Index total returns in 2012, as measured by the year-to-date gain of 10.54% in the S&P GSCI Petroleum Index, on the back of a sharp 8.34% increase in February. To the chagrin of most consumers, unleaded gas has been the second best performing S&P GSCI commodity in 2012, just behind silver, as measured by the 16.72% year-to-date increase in the S&P GSCI Unleaded Gas Index. On a 12-month basis, the S&P GSCI Unleaded Gas Index has been the best performing S&P GSCI commodity, with a gain of 23.8%.

Optimism And Low Rates Support The Metals

Optimism regarding the global economy, supported by extremely low base interest rates, has helped the metals to be the best performing commodity group in 2012. However, comments from Ben Bernanke on the last day of February contributed to some end-of-the-month deflation in metal prices. Led by strength in aluminum and copper, the 11.39% year-to-date increase in the S&P GSCI Industrial Metals Index edged out the precious metals index to claim the title as the best performing year-to-date sector index.

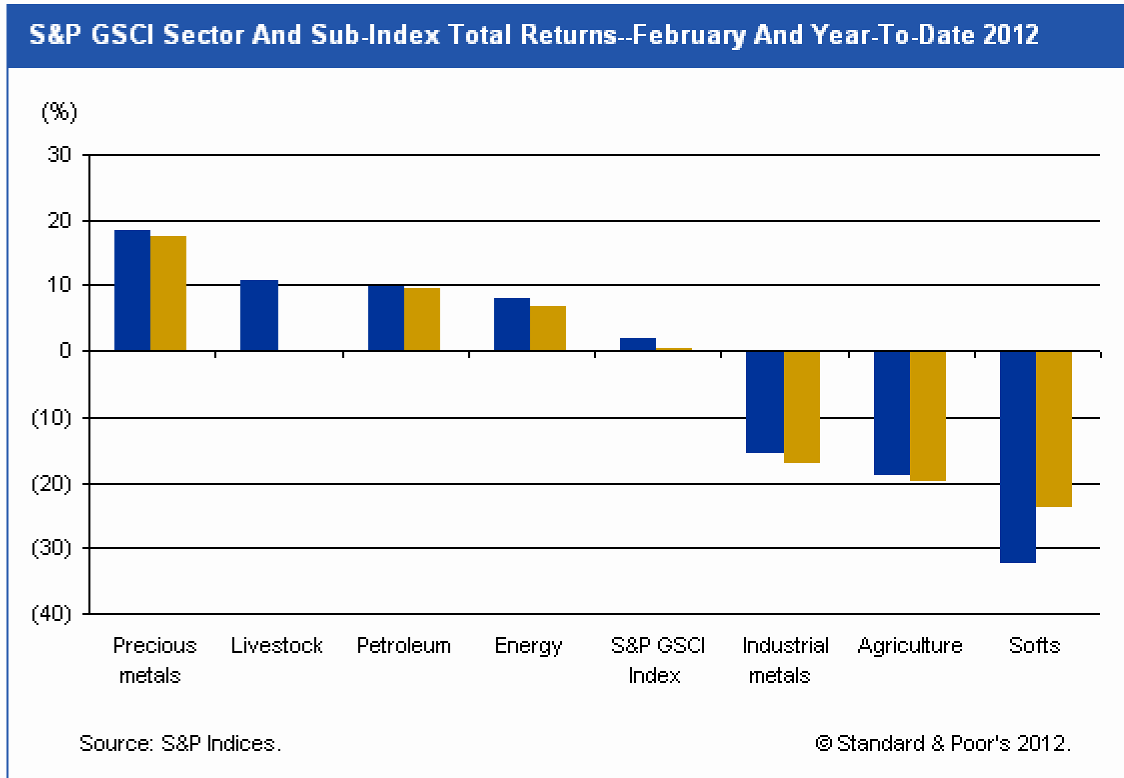
Ags Lag

Agriculture prices have remained relatively tame so far in 2012, as measured by the 2.36% year-to-date increase in the S&P GSCI Agriculture Index, mostly on the back of a 2.34% gain in February. The key driver of agriculture gains in February was the sharp increase in soybean prices--a 9.35% monthly increase in the S&P GSCI Soybean Index. The visit by the Chinese Vice President to the U.S. heartland and subsequent commitment to purchase a substantial amount of U.S. grain in addition to worsening drought conditions in South America supported the agriculture price recovery in February.

Index Relative Performance

Petroleum strength, coinciding with futures curve movement toward backwardation (when further out futures trade at lower prices) in February resulted in lesser monthly gains in most of the modified roll indices, as represented by the 5.85% monthly increase in the S&P GSCI 3-Month Forward Index, compared with the 6.06% increase in the base S&P GSCI Index.

Chart 13



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