

## Investing In A High-Risk Economic And Market Environment

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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.

For about a year, the Global Markets Intelligence (GMI) research team has summarized current circumstances as "investing in a high-risk economic and market environment." We initially focused on the subpar post-recession economic recovery and the fact that longstanding annual federal deficits had weakened the U.S. fiscal position to the point where our GDP-to-debt ratio is approaching the 1 to 1 level. The deteriorating U.S. fiscal position puts even greater pressure on the Federal Reserve to achieve its dual mandate of maximizing employment while restraining inflation in order to grow our way out of, or at least improve, our debtor status. The subpar recovery compounds the contemporary risk environment because a weaker-than-normal economy is much more vulnerable to exogenous shocks. A year ago, investors started to worry that the U.S. economy was about to succumb to the combined effects of the disasters in Japan, global financial system stress emanating out of Europe, and political bickering in Washington D.C. regarding the U.S. federal debt ceiling (a byproduct of our collective debtor status).

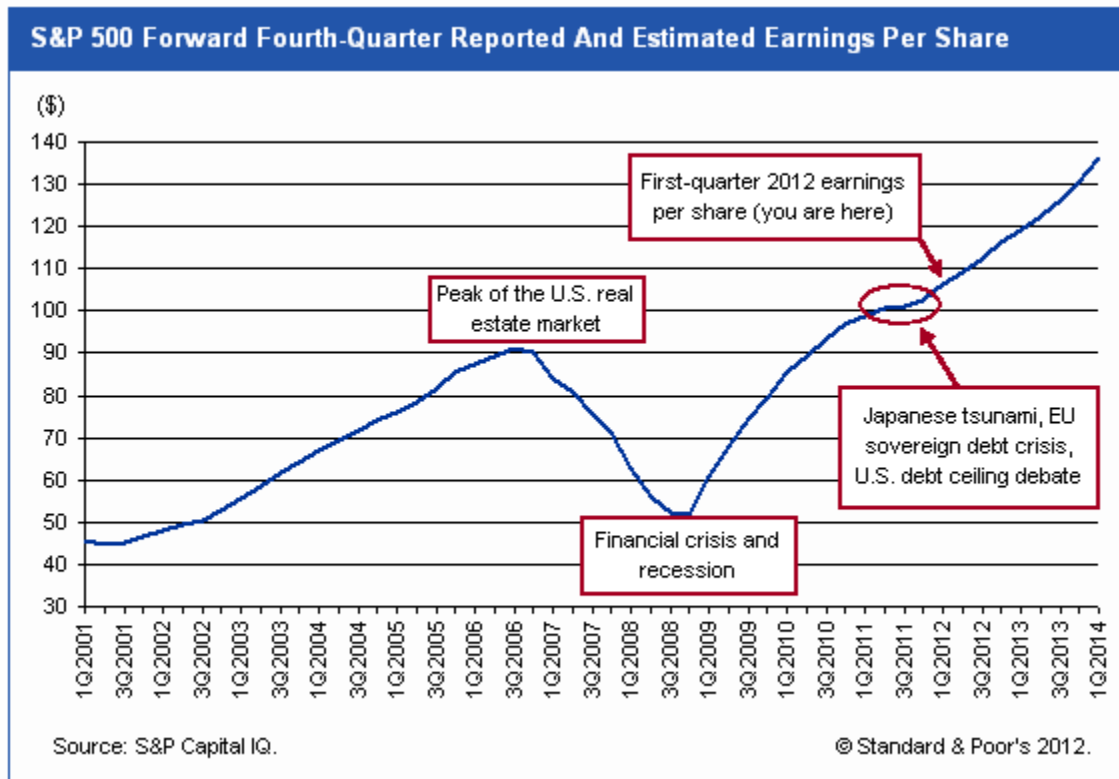
As we have been prone to say in recent months, the wall-of-worry facing investors has rarely, if ever, been steeper in modern times. Additional macroeconomic concerns contributing to higher economic and investment risk now include:

- The prospect of a "hard landing" in China,
- European austerity,
- The expiration of the Bush personal and investment income tax cuts,
- High gasoline prices,
- The fate of Obama-Care in the Supreme Court, and
- Political uncertainty heading into the U.S. and even the French presidential elections.

Companies in the S&P 500 Index are not only successfully navigating through the aforementioned headwinds, but continue to make significant profits by delivering sustained quarterly earnings growth. Investors, however, have little regard for how companies have performed in the past and are almost entirely concerned with how they will fare in the future. On this front, there are reasons to be optimistic. According to the S&P Capital IQ consensus, 12-month forward earnings are currently in the process of pulling out of the soft patch that occurred over the first three quarters of 2011, which we believe was due largely to the combined macroeconomic headwinds from Japan, Europe, and the U.S. (see chart 1). In the absence of a

new set of headwinds that are capable of reducing monthly U.S. nonfarm payroll growth to less than 100,000 (as occurred last spring and summer), GMI Research believes that S&P 500 companies should be able to earn the \$106 per share that Wall Street analysts currently anticipate for calendar-year 2012.

**Chart 1**



Investors are appropriately inclined to run for cover at the first signs of trouble in a high-risk economy. GMI Research suspects that the combined and related consequences of Dodd-Frank financial regulation and the stagnant U.S. housing market are subtracting at least 1% from potential U.S. GDP, and it might even be closer to 2%. As long as these particular headwinds continue to exist, we will likely remain in what we have been describing to clients as a "high-risk economic and market environment." Having said this, impressive first-quarter S&P 500 earnings growth of 6.7% relative to 1% growth expectations at the start of earnings season leaves the stock market well positioned to make the next ascent on the wall-of-worry, presuming the Federal Reserve continues to thread the needle by engineering modest but sustainable low inflation economic growth. Risks may indeed be high, but so are potential rewards.

## Inside This Issue:

### Macroeconomic Overview

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## **Economic And Market Outlook: North American And European Earnings**

On Thursday, 23 of the 64 S&P 500 companies reporting first-quarter earnings missed estimates, bringing the overall beat rate down to 70%. Despite the falling beat rate, the surprise ratio continues to be high at 7.5%, versus a five-year historical figure of 2.8%. Meanwhile, analysts began to once again cut 2012 earnings expectations for S&P Europe 350 corporations amid mixed economic data emerging from the eurozone.

## **S&P Index Commentary: IT Becomes A Force Among Dividend-Paying Issues**

Apple's \$9.9 billion dividend initiation pushed the information technology (IT) sector into second place for top sector payers. But it was one of many issues in a continuing trend for IT payers (International Business Machines Corp. increased its dividend 13% on April 24). Currently, 54.9% of the IT sector companies pay a dividend, representing 78.1% of their market value.

## **Leveraged Commentary And Data: Technical Snapshot: The Loan Market Cools In April As Supply Jumps**

After running hot in February and March, the primary loan market has flagged in April in the face of a surging new-issue calendar, including a modest increase in the all-important M&A segment. At the same time, visible repayments have waned, meaning accounts will keep more of the paper they book in the weeks ahead.

## **R2P Corporate Bond Monitor**

In the fixed-income market, risk-reward profiles--as measured by average Risk-to-Price (R2P) scores--improved in all but the North American industrials (1% decrease) and the health care sector (remained unchanged) during the week ended April 20, 2012.

## **Market Derived Signal Commentary: Japan's CDS Does Not Appear To Reflect China Risk**

For now, investors appear to see relatively low credit risk in Japan, reflected by the fact that the spread is trading tight of Standard & Poor's credit rating. However, we caution that further deterioration in China's GDP growth estimate could lead to an abrupt change in the trajectory of the spread. We will follow news out of China to see if events in that country begin to raise the risk premium associated with Japan.

## **Capital Market Commentary: Strong IPO Activity Versus Underwriter Compensation**

Despite strong overall IPO activity, recent underwriting activity in terms of proceeds raised appears less robust. Specifically, year-to date proceeds raised from all IPOs priced on U.S. exchanges is more than 53% lower than in the year-ago period, partially because no IPOs priced in the U.S. have raised \$1 billion or more so far this year.

## **S&P Index Commodity Commentary: Non-Energy Commodities Give Up 2012 Gains**

The S&P GSCI Index continued to exhibit caution in April, led lower by the non-energy commodities. Early spring weather in the Northern Hemisphere may be supporting consumer spending but is also accelerating and extending agriculture cycles, adding downward pressure on prices.

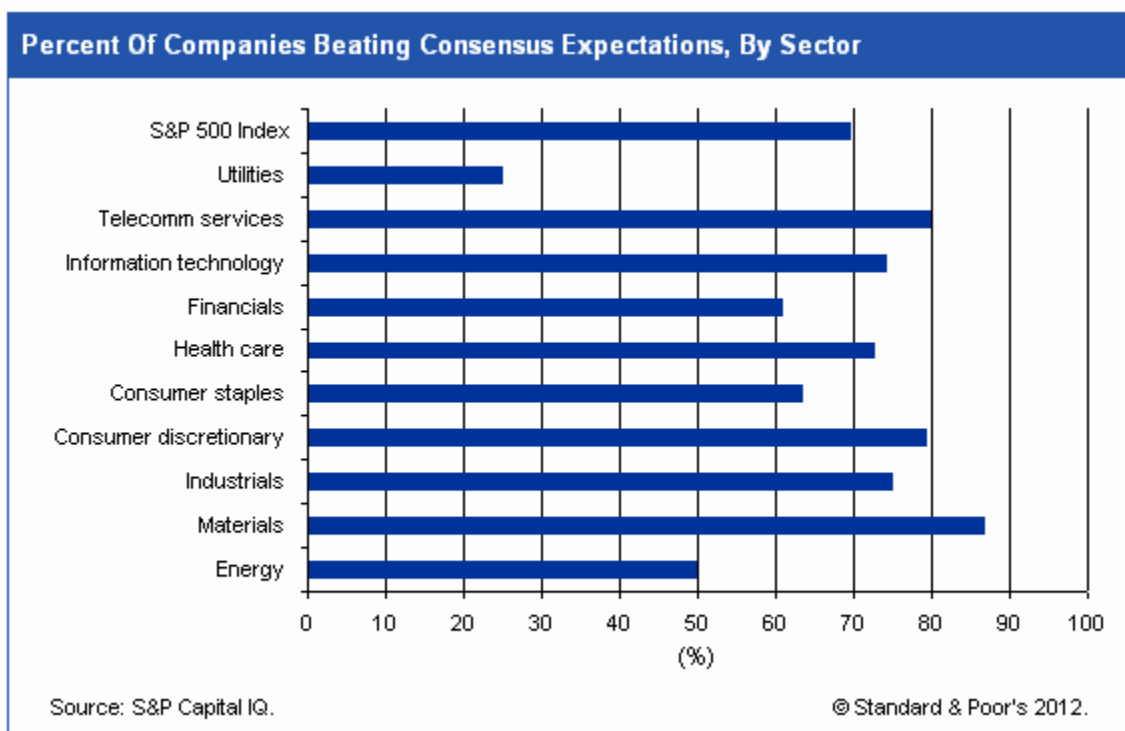
## **Economic And Market Outlook: North American And European Earnings**

### **North America**

With over half of S&P 500 companies reporting earnings results for the first quarter of 2012, we're beginning to get a

rough picture of how the season might shape up. For the last couple of weeks, investors have been pleasantly surprised by a significant number of companies beating estimates, hovering around 80% on many days. That trend broke on Thursday, when 23 of the 64 reporting companies missed estimates, bringing the overall beat rate down to 70% (see chart 2). This is still higher than the 10-year historical average of 62%, but certainly not the blow-out many had become used to seeing over the past week. Despite the falling beat rate, the surprise ratio continues to be high at 7.5%, versus a five-year historical figure of 2.8%. United Parcel Service Inc. (UPS) and ExxonMobil Corp. were two notable misses on Thursday. UPS missed revenue and profit expectations, posting earnings per share of \$1.00 and revenues of \$13.1 billion. The consensus estimated earnings of \$1.02 and revenues of \$13.3 billion. Exxon Mobil also missed on both sales and earnings, posting earnings per share of \$2.00, \$0.09 lower than expectations, and revenues of \$124.0 billion compared with the forecast of \$125.2 billion.

**Chart 2**

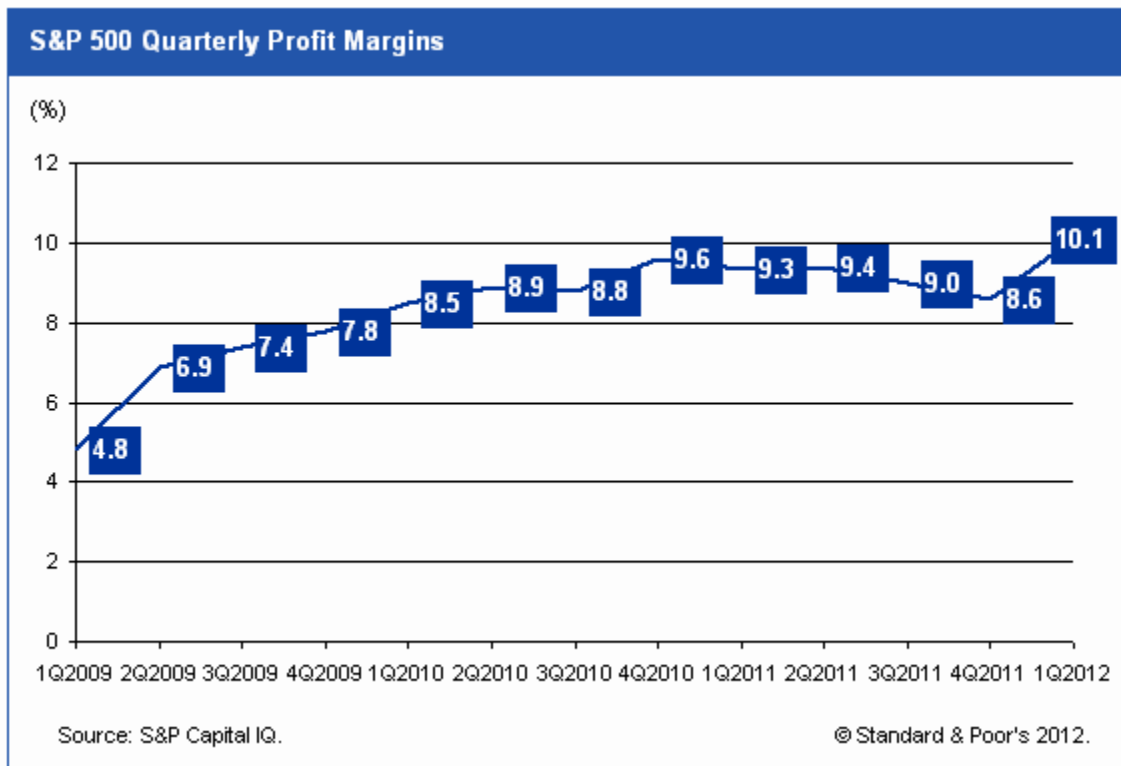


Growth is still holding strong at 6.7%, more than 2% higher than expectations of 4.5% at the beginning of the year. It's no surprise that the biggest contributor to growth was Apple Inc., which boosted growth from 4.91% to 6.05% on Tuesday with its report. Excluding Apple, the 6.7% growth rate would fall to 4.5%. The growth rate for the information technology sector, which has the second highest expected growth rate of all 10 sectors, falls to 8.1% excluding Apple, from 13.05%.

Before the first-quarter reporting season officially took off, there was much concern about margin compression. In fact, the consensus estimated a profit margin of 8.5% for the S&P 500 Index, a nearly 20-basis point drop from the fourth quarter of 2011. The fourth-quarter margin had contracted by 30 basis points (bps) from the third quarter of 2011. This trend of narrowing profit margins was expected to continue in the first quarter, especially with an increase in the cost of goods. The consensus also expected a revenue slump. However, when evaluating the 300 companies that have reported results so far, profit margins have improved to 10.1%, a significant jump from the fourth quarter (see chart 3). The blended profit margin, on the other hand, (includes actuals for those companies that have reported and estimates for those

that have not reported) is one percentage point lower, at 9%.

**Chart 3**



Another surprise this quarter has been the amount of companies providing negative guidance for the second quarter. As companies began to beat estimates by large margins in the initial weeks of earnings season, the expectation was that those companies would issue fairly bullish guidance for the second quarter. However, this seems not to be the case. Of the 58 companies that have provided guidance, 34 are negative, 14 are positive, and 10 are in-line, producing a negative-to-positive ratio of 2.43. This is higher than the historical average of 2. Guidance is calculated by comparing the company-issued earnings per share to the consensus estimate. Anything that falls below consensus is considered negative guidance. This could point to continued uncertainty in the market place, which we've seen plenty mention of, but may also be an attempt by companies to manage investor expectations, in hopes of beating estimates next quarter. Next week marks the last week of peak earnings, with 119 companies scheduled to report.

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## Europe

Against a backdrop of mixed economic data emerging from the eurozone, analysts began to once again cut earnings expectations for S&P Europe 350 corporations. Over the two weeks ended April 20, analysts trimmed their 2012 calendar-year earnings expectations by 0.6% and by 0.2% for 2013, according to data aggregated by S&P Capital IQ.

Since the start of 2012, analysts have raised profit forecasts for this year and 2013 for just one sector--consumer discretionary. Higher earnings forecasts for a number of the European automobile companies, including BMW, Daimler AG and Renault S.A., which have reported an increase in sales and profits from the emerging markets, contributed significantly to the sector's improved earnings outlook (see charts 4 and 5).

On April 20, the Ifo business climate index, based on a survey of 7,000 executives, rose to 109.9 from 109.8 in March, exceeding economists' expectations. Over the weekend, the International Monetary Fund (IMF) received more than \$430 billion in pledges, \$30 billion more than the agency's target, to help mitigate sovereign debt problems in Europe and elsewhere. At the same time, eurozone services and manufacturing output, measured by a composite index based on a survey of purchasing managers in both industries, dropped to 47.4, a five-month low, from 49.1 in March, according to an initial estimate from London-based Markit Economics.

Since the start of the year, the S&P Europe 350 Index has given back some of its gains and is now up 3% compared with appreciation of 7% two weeks ago, reflecting ongoing and new eurozone concerns.

The S&P Capital IQ consensus forecasts European earnings growth of 5.76% for 2012 and 12.26% for 2013. However, of the 13 S&P Europe 350 companies that reported first-quarter results through April 20, only four beat the consensus versus nine that missed.

As of April 20, sector leaders for calendar-year 2012 earnings include the financials (19.95% expected growth) and industrials (9.18% expected growth) sectors. Earnings laggards for calendar-year 2012 include the information technology (decline of 26.71% expected) and materials (decline of 2.29% expected) sectors.

**Chart 4**

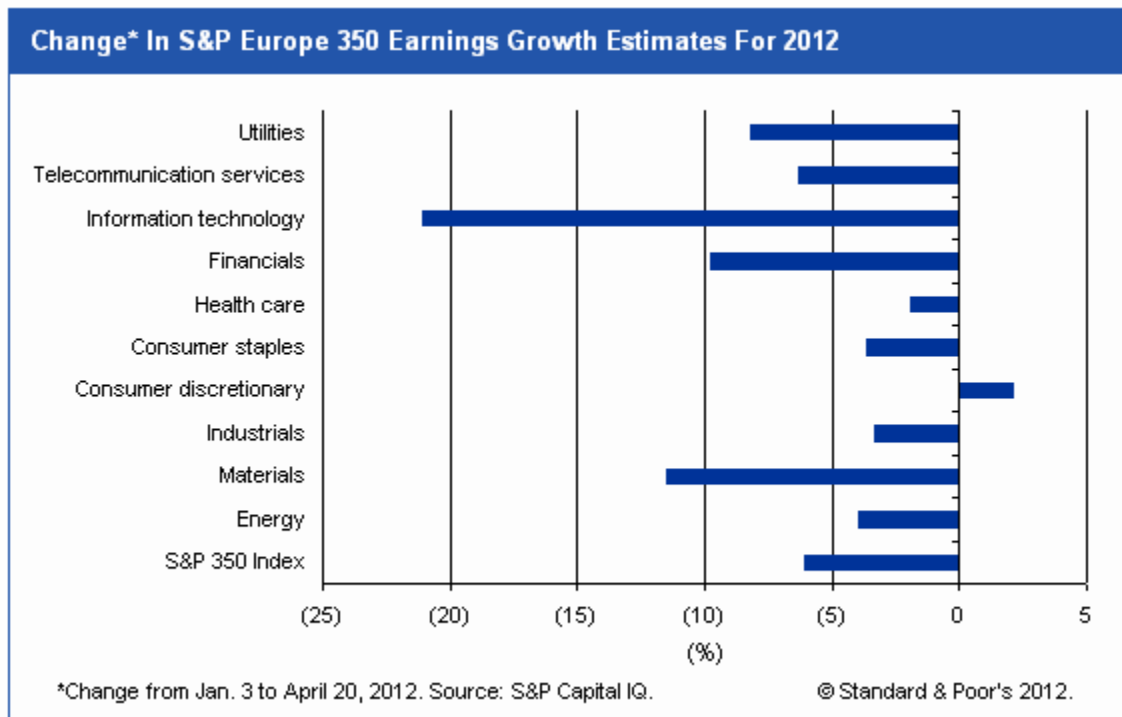
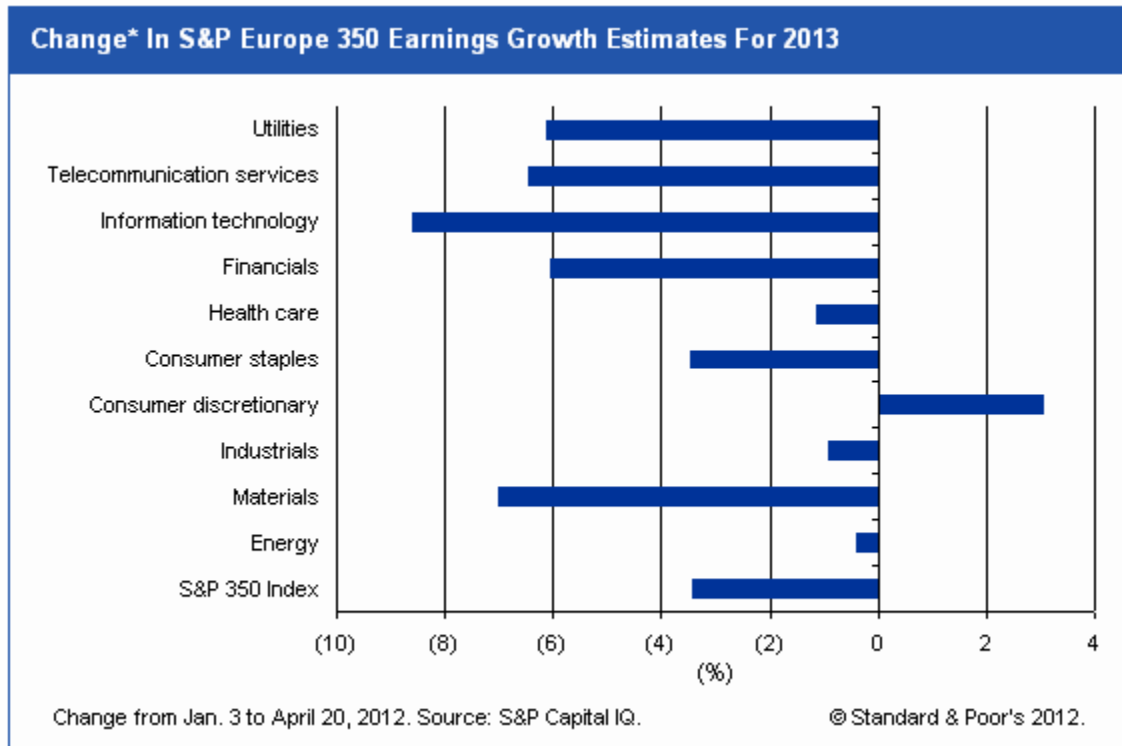


Chart 5



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## S&P Index Commentary: IT Becomes A Force Among Dividend-Paying Issues

Apple's \$9.9 billion dividend initiation pushed the information technology (IT) sector into second place for top sector payers. But it was one of many issues in a continuing trend for IT payers (International Business Machines Corp. increased its dividend 13% on April 24). Currently, 54.9% of the IT sector companies pay a dividend, representing 78.1% of their market value (see table 1). So, what would it take to make the sector number 1? It wouldn't take much. If Google Inc. began to pay the same rate as Apple, IT would beat out consumer staples as the top sector to pay dividends. It's remarkable to us that the IT sector could become the largest dividend payer. But now that it could happen, investors need to recognize IT as a major dividend payer. The sector's issues may have a higher beta dividend than issues in other sectors, but it is a payer, and its dividends need to be incorporated into the total return risk-reward formula.

From January 1926 through March 2012, the annualized total return for the S&P 500 Index was 9.88% per year versus 9.86% in December 2011. The dividend component consists of 41.85% of the return versus 42.08% for December 2011. The annualized return consists of both capital appreciation and dividends reinvested (see table 1).

Table 1

S&P 500 Sector Dividend Data, Based On Indicated Dividend Rate									
(%)	12/2004	12/2005	12/2006	12/2007	12/2008	12/2009	2010	2011	Current
Consumer discretionary	6.21	6.72	6.54	6.67	6.44	7.10	7.88	8.18	7.99
Consumer staples	12.32	12.47	11.33	11.62	13.26	17.29	16.88	15.63	14.62
Energy	7.91	7.87	8.32	8.40	9.87	12.09	11.60	10.82	10.59
Financials	29.11	28.66	29.50	29.12	20.48	9.04	9.06	11.88	12.76

**Table 1**

S&P 500 Sector Dividend Data, Based On Indicated Dividend Rate (cont.)									
Health care	11.09	11.13	11.15	10.81	12.20	13.17	12.95	12.79	11.96
Industrials	11.79	11.98	12.01	11.97	13.86	11.88	12.42	12.15	11.32
Information technology	5.14	5.45	5.56	5.95	6.97	9.07	9.31	10.29	13.60
Materials	3.55	3.37	3.32	3.40	3.40	3.26	3.55	3.63	3.69
Telecommunication services	6.63	6.06	6.05	6.62	7.17	8.99	8.56	7.61	6.79
Utilities	6.24	6.29	6.22	5.44	6.34	8.11	7.78	7.00	6.67
S&P 500 Index	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

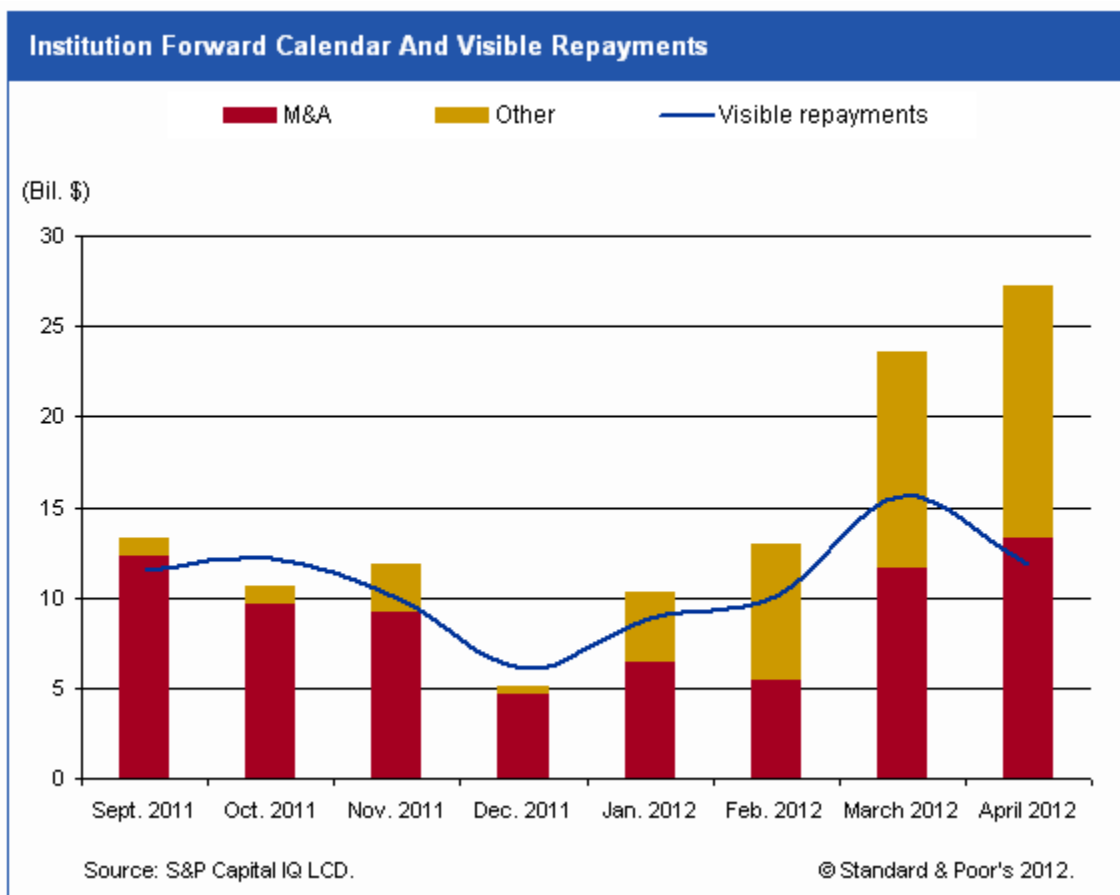
Source: S&P Indices.

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### Leveraged Commentary And Data: Technical Snapshot: The Loan Market Cools In April As Supply Jumps

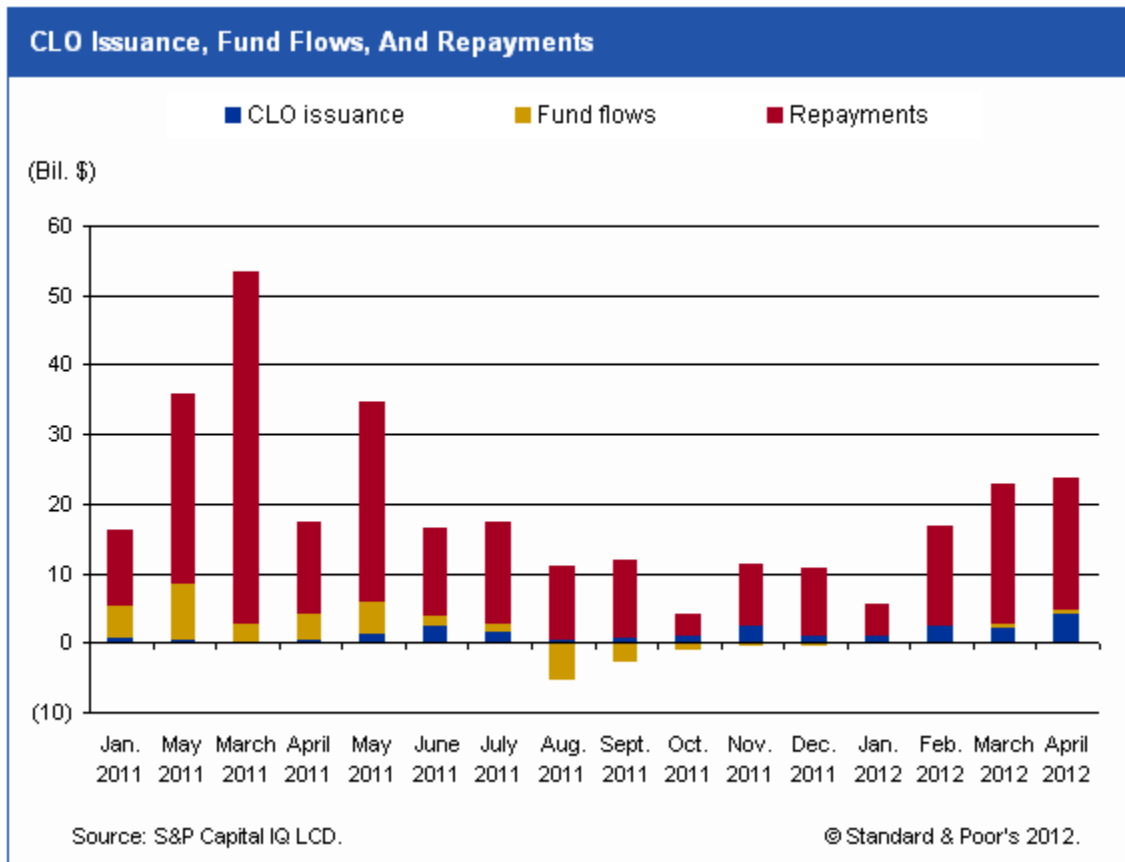
After running hot in February and March, the primary loan market has flagged in April in the face of a surging new-issue calendar, including a modest increase in the all-important merger and acquisition (M&A) segment. At the same time, visible repayments have waned, meaning accounts will keep more of the paper they book in the weeks ahead (see chart 6).

**Chart 6**



The gap between prospective volume and repayments stood at \$15.5 billion on April 18. On the other side of the technical ledger, the combined amount of loan-fund inflows, CLO prints, and repayments has been largely stable over the first few weeks of the month, at \$23.8 billion (see chart 7).

**Chart 7**

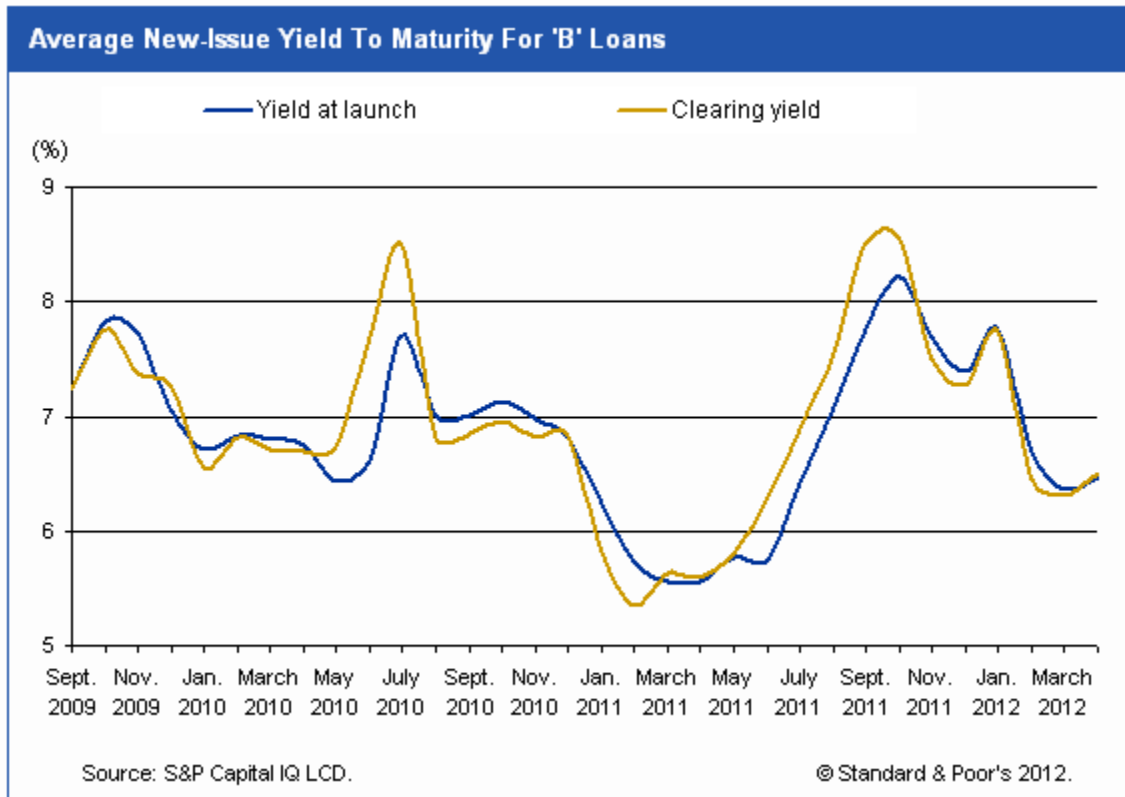


These data illustrate why managers expect volume in the weeks ahead to soak up much of the excess liquidity that has built up on the buy-side in the first quarter, when inflows exceeded net supply by \$11.5 billion.

Thus, while secondary prices have been rangebound in April, accounts are taking a more guarded approach to new issues. Flex activity provides a tale of the tape here. During the first three weeks of April, arrangers flexed 11 institutional loans, while reverse-flexing eight. From April 8 to April 21, the ratio is even more lopsided, at 5 to 2. That is a complete turnaround from the first quarter, when price cuts outnumbered increases by a ratio of 9 to 2.

These flexes have pushed clearing yields for single-B loans up 20 bps over the past two weeks (April 9 to April 23) from the March lows (see chart 8).

Chart 8



Up the grade, there are too few recent comps to form a meaningful sample. Broadly speaking, however, arrangers say the roughly 3.75% to 4.25% four-B clearing band of February and March has given way to 4% to 4.5% levels (though there are exceptions; see table 2, which includes loans for 'BB' borrowers issued over the past 30 days).

Table 2

Selected Metrics					
Name	Rating	Break date	Primary pricing (spread/floor/OID)	Clearing yield (%)	Secondary market price
Rovi Corp.	BB-/Ba2	March 28	L+300/1%/99.5	4.15	99.625/100.125
Charter Communications	BB-/Ba3	April 4	L+300/1%/99.5	4.15	99.5/99.875
Bass Pro Shops	BB-/Ba3	April 4	L+400/1.25%/99.25	5.64	100.25/100.75
Spirit AeroSystems	BB-/Ba3	April 12	L+300/0.75%/99.5	3.89	100.125/100.375

Source: S&P Capital IQ LCD.

Aside from the notably wide print from Bass Pro Shops, the three other deals are trading within a point of their issue prices, which also suggests accounts are unwilling to reach for thinly priced paper.

Looking ahead, participants think inflows have hit something of a stability point--which will last until it doesn't--at \$500 million to \$1 billion of loan mutual fund inflows and about \$2 billion of regular-way CLO issuance. (Of course, this figure might understate the case, as April issuance already stands at \$4.2 billion, including \$1.1 billion of middle-market deals.)

The wild cards, then, will be new-issue volume and repayments. For the moment, with takeout activity down and the calendar at multi-month highs, investors may well be able to hold their recent discipline, keeping clearing yields wide of

the February and March lows, though still significantly inside the highs of the second half.

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## R2P Corporate Bond Monitor

Companies now plan to take on more workers as demand and profit margins improve amid optimism about U.S. economic growth, according to the National Association for Business Economics (NABE) April survey, released on Monday in Washington. About 78% of businesses, the most in a year, now expect the U.S. economy to expand more than 2% in 2012, according to the report. The share is up from 65% in January. Panelists in the survey are not significantly concerned about the potential effect of higher oil prices or the European crisis on businesses, and 60% of the businesses said their sales were rising, compared with 41% in January. In addition, about 83% of manufacturers surveyed said sales were increasing, indicating the industry is still powering the economy, and 39% of the 55 companies surveyed from March 20 to April 10 projected job gains in the next six months. Profit margins are also improving for 40% of companies, the most in a year.

The IMF and the World Bank said that policy adjustments and improved economic activity have reduced the threat of a sharp global slowdown. After providing rescue programs for Greece, Portugal, and Ireland, the IMF received \$430 billion to continue to manage the debt crisis. The additional funds could help to quell fears of a potential Spanish default.

In the fixed-income market, risk-reward profiles--as measured by average Risk-to-Price (R2P) scores--improved in all but the North American industrials (1% decrease) and the health care sector (remained unchanged) during the week ended April 20, 2012 (see tables 3 and 4).

In North America, scores increased by 5% as a result of a decrease in the average 20-day historical bond price volatility of 5%, more than offsetting the increase in the probability of default (PD) of 7% and the tightening in the average option-adjusted spread (OAS) of one basis point.

In Europe, the PD and bond price volatility decreased by 21% and 12%, respectively, and the OAS widened by 2 bps on average. As a result, scores improved by 14%.

**Table 3**

North American Risk-Reward Profiles By Sector--Average R2P Score And Components Changes				
	Scores (%)	OAS (bps)	PD (%)	Bond price vol. (%)
Consumer discretionary	1	(3)	(7)	(4)
Consumer staples	4	2	17	(4)
Energy	4	(3)	(5)	(3)
Financials	5	0	0	(6)
Health care	0	4	54	(6)
Industrials	(1)	5	(3)	(4)
Information technology	2	(7)	(1)	(2)
Materials	6	(1)	(7)	(8)
Telecommunication services	20	(4)	26	(5)
Utilities	8	(1)	(4)	(5)

Change as of April 20, 2012, from April 13, 2012.

**Table 4**

<b>European Risk-Reward Profiles By Sector--Average R2P Score And Components Changes</b>				
	<b>Scores (%)</b>	<b>OAS (bps)</b>	<b>PD (%)</b>	<b>Bond price vol. (%)</b>
Consumer discretionary	16	4	(37)	(14)
Consumer staples	13	2	(45)	(13)
Energy	16	1	(7)	(7)
Financials	4	1	(13)	(9)
Health care	9	2	(1)	(11)
Industrials	10	2	(32)	(24)
Information technology	24	0	2	(3)
Materials	5	0	(8)	(8)
Telecommunication services	17	2	(19)	(18)
Utilities	21	1	(52)	(13)

Change as of April 20, 2012, from April 13, 2012.

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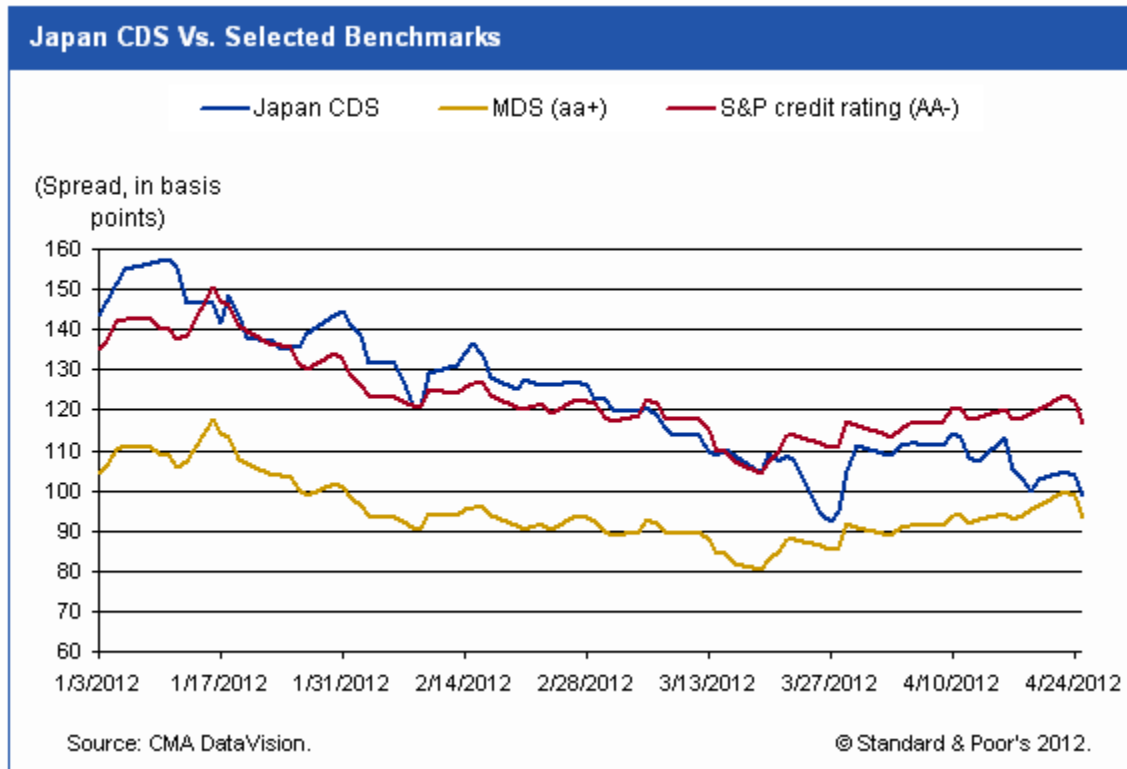
## **Market Derived Signal Commentary: Japan's CDS Does Not Appear To Reflect China Risk**

With the words "hard landing" and "China" being bandied about together with some regularity since the start of 2012, the GMI research team wondered how these concerns have affected the risk profile of Japan, given that China is the country's largest export market. GDP growth for China slowed to 8.1% in the first quarter after an expansion of 8.9% in fourth-quarter 2011. On Tuesday, an initial reading of China's purchasing managers' index for April indicated a contraction for the sixth consecutive month in the world's second largest economy. Although the gauge of manufacturing activity rose to 49.1 in April from 48.3 in March, the latest reading remains inconsistent with levels normally associated with an expanding economy.

In January, the Bank of Japan revised its expectation for 2012 GDP growth to 2% from 2.9% in July 2011 and 2.2% in October 2011. In March, Japan's total exports rose 5.9% from the year-ago period, boosted by sales to the U.S., but refined copper exports to China fell 5%, according to Reuters. In addition, Japanese imports rose 10.5% in March, sending the trade balance into a deficit from a surplus in February. Japan, which is nearing at least a temporary shutdown of its nuclear power industry in the wake of damage to nuclear power plants in March 2011, has been forced to import more oil and natural gas to make up for the loss of nuclear energy. This import growth could ultimately lead to deterioration in Japan's significant savings. Nuclear power once generated a third of Japan's electricity, according to the New York Times.

Since the beginning of the year, the five-year credit default swap (CDS) spread on Japan tightened 31% to 99 bps from 143 bps on Jan. 3, 2012, and by 36% from an all-time high of 154 bps on Jan. 11, 2012 (see chart 9). The CDS is also trading tight of Standard & Poor's Ratings Services' credit rating of 'AA-' and in line with the Market Derived Signal of 'aa+'.

Chart 9



For now, investors appear to see relatively low credit risk in Japan, reflected by the fact that the spread is trading tight of Standard & Poor's credit rating. However, we caution that further deterioration in China's GDP growth estimate could lead to an abrupt change in the trajectory of the spread. We will follow news out of China to see if events in that country begin to raise the risk premium associated with Japan.

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## Capital Market Commentary: Strong IPO Activity Versus Underwriter Compensation

### IPOs

IPO activity seems to be on the rise, as equity prices of several recent IPOs have risen sharply after their debuts. For example, Splunk Inc. gained 108.7% in its first day following its pricing on April 18. So far this year, the total number of IPOs (including closed-end investment funds and REITs) is exceeding the total from this time last year by just a single issue.

Despite strong overall IPO activity, recent underwriting activity in terms of proceeds raised appears less robust. Specifically, year-to-date proceeds raised from all IPOs priced on U.S. exchanges is more than 53% lower than in the year-ago period, partially because no IPOs priced in the U.S. have raised \$1 billion or more so far this year (see table 5). In contrast, four IPOs priced in the U.S. by this time last year had raised more than \$1 billion each, led by HCA Holdings Inc.'s \$3.79 billion deal priced on March 9, 2011, and Kinder Morgan Inc.'s \$2.86 billion IPO completed on Feb. 10 of last year. Furthermore, the four IPOs had a collective transaction value of more than \$9.5 billion, which almost matched the total IPO underwriting volume of \$9.7 billion so far in 2012, according to S&P Capital IQ data.

Besides the lackluster values, underwriter compensation from IPOs is dramatically lower in 2012, as only eight IPOs in the U.S. managed to post underwriter compensation of \$20 million or more, led by \$33 million from Allison Transmission Holdings Inc.'s \$600.3 million IPO. By this time last year, 12 IPOs had underwriter compensation of more than \$20 million, led by \$137.2 million in fees from HCA Holdings's \$3.79 billion issue.

**Table 5**

<b>IPOs Priced On Major U.S. Exchanges*</b>				
	<b>IPOs</b>	<b>(Mil. \$)</b>	<b>Average size (mil. \$)</b>	<b>Underwriter compensation (mil. \$)</b>
1/1/2011 to 4/25/2011	57	20,779.77	364.6	981.1
1/1/2012 to 4/25/2012	58	9,702.17	167.2	583.2

\*Including closed-end funds and REITs; foreign companies pricing in U.S. Source: S&P Capital IQ.

## M&A

With the year nearly one-third complete, only three of the 10 S&P 500 sectors are posting increases in U.S. M&A activity. U.S. M&A volume in 2012 is 25% lower than at this time last year (see table 6). Dollar volume has only increased for the industrials (up 21%), health care (27%), and consumer staples (1,300%) sectors compared with the same period last year. Consumer staples M&A this year is dominated by two transactions--Coty Inc.'s unsolicited \$13.3 billion bid for Avon Products Inc.--which has so far been rejected--and Kellogg Co.'s \$2.7 billion acquisition of The Wm. W. Wmble Co. from Procter & Gamble Co. Those transactions account for more than 85% of consumer staples sector M&A dollar volume so far this year.

**Table 6**

<b>U.S. Announced M&amp;A</b>				
<b>(Bil. \$)</b>	<b>1/1/11 to 4/25/11</b>	<b>1/1/12 to 4/25/12</b>	<b>Year-over-year change (%)</b>	
Health care	39.3	49.9	27.0	
Financials	65.2	37.4	(42.6)	
Energy	41.9	30.6	(27.0)	
Consumer staples	1.3	18.7	1,338.5	
Consumer discretionary	20.6	17.9	(13.1)	
Information technology	34.0	16.9	(50.3)	
Industrials	13.8	16.7	21.0	
Materials	22.7	9.4	(58.6)	
Utilities	36.5	5.1	(86.0)	
Telecommunications	3.8	3.0	(21.1)	
Others	0.9	4.5	400.0	
Total	280.0	210.1	(25.0)	

Source: S&P Capital IQ.

## Fixed Income

Public financing underwriting activity should increase as municipal debt security identifier orders continued to advance this month. Municipal debt CUSIP requests grew by 3.3% for the week ending April 20, according to CUSIP Global Services (see table 7). In addition, the recent weekly count of 435 municipal CUSIP requests represents the highest weekly count for 2012 and the fourth consecutive weekly increase in municipal debt identifier orders.

On the other hand, corporate debt CUSIP requests appear poised to decline in April as monthly volume to date stands at 741. That figure suggests that it would take a significant increase in corporate debt CUSIP identifier orders for the balance

of April to exceed the March total of 2,361 CUSIP requests.

**Table 7**

<b>Selected Fixed-Income CUSIP Requests</b>					
<b>Security</b>	<b>Week ended 4/20/12</b>	<b>Week ended 4/13/12</b>	<b>2012ytd</b>	<b>2011ytd</b>	<b>Year-over-year change (%)</b>
Domestic corporate debt	90	154	3,162	3,155	0.22
Municipals	435	421	5,115	3,212	59.25
International debt	32	33	494	655	(24.58)
PPN domestic debt	62	38	668	593	12.65
International debt - MTN	12	16	89	101	(11.88)
<b>Total</b>	<b>631</b>	<b>662</b>	<b>9,528</b>	<b>7,716</b>	<b>23.48</b>

Source: CUSIP Global Services.

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## **S&P Index Commodity Commentary: Non-Energy Commodities Give Up 2012 Gains**

The S&P GSCI Non-Energy Index ended April 25 with a year-to-date decline of 0.74% on the back of a 3.13% loss in April. Livestock was already the worst-performing S&P GSCI sector in 2012 before a case of mad cow disease in the U.S. added additional pressure, but the agriculture sector has been the biggest drag on index returns so far in April. The S&P GSCI Agriculture Index has declined 3.83% on the month, resulting in a 1.98% year-to-date decline. Due to world production weighting, the agriculture sector currently makes up about 14% of the base S&P GSCI Index, compared with about 4% for the livestock sector. Within the agriculture sector, wheat has been the biggest drag, as measured by the 7.59% year-to-date decline in the S&P GSCI All Wheat Index.

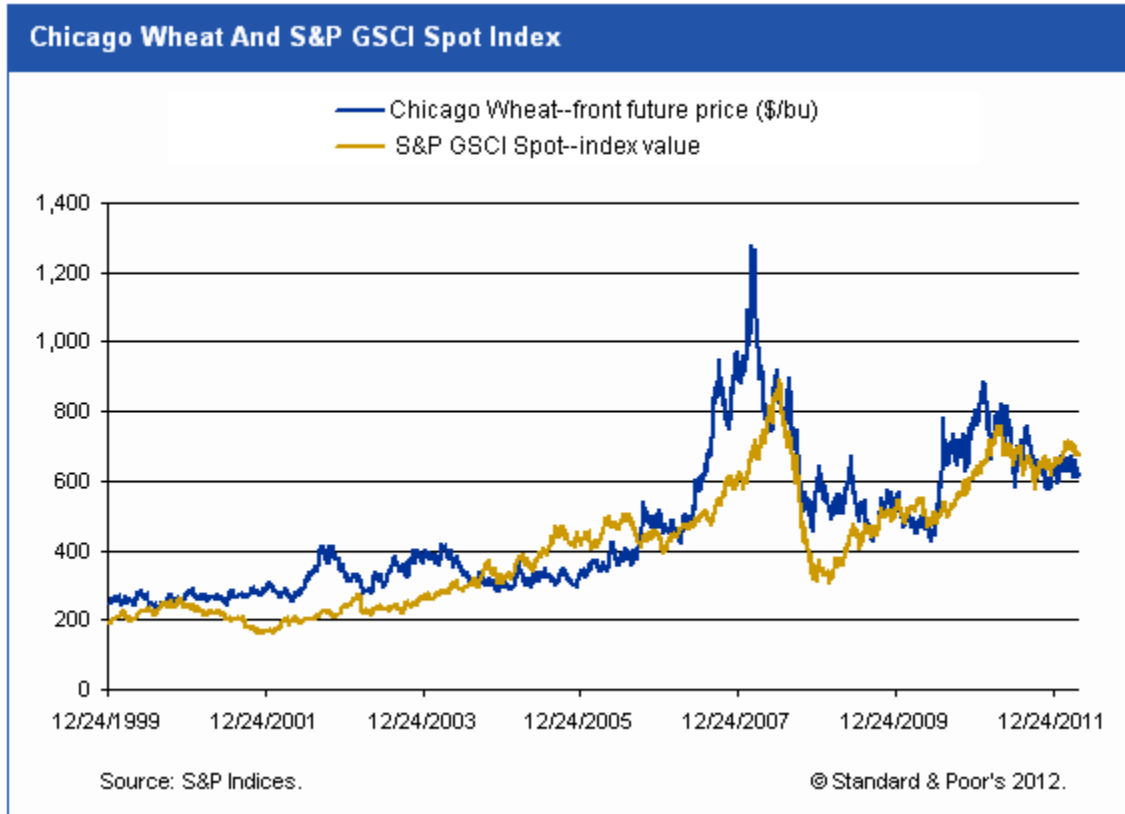
### **Early Spring, Plenty Of Wheat**

The early spring in the Northern Hemisphere and ample existing stocks of wheat have continued to lower prices. With the abundant winter wheat harvest expected in North America this spring, the S&P GSCI Kansas Wheat Index ended April 25 as one of the worst-performing year-to-date single commodity indices in the S&P GSCI, with a decline of 12.63%. Wheat has the second highest weight among the agriculture commodities in the S&P GSCI Index (behind corn), but is represented by two futures contracts: Chicago wheat and Kansas wheat. Chicago wheat is the most widely traded global benchmark and accordingly has the greater index weight of the two. Higher protein content hard red winter wheat is deliverable into Kansas wheat futures and has suffered more in 2012, notably due to favorable spring weather. The U.S. is the world's largest grain exporter, and the favorable early spring weather has also allowed farmers to plant more corn earlier in the season. Farmers are delighted at the prospect of an ample and early potential harvest of the spring wheat crop, which can be double-cropped with soybeans.

### **Higher Prices Equals Lower Prices**

Traders often like to say one of the best cures for higher prices is higher prices. The past few years of wheat price history demonstrates how the supply and demand cycles of some agriculture commodities can be rebalanced in a single annual cycle. The spike in wheat prices in early 2008 near \$13/bu has deflated by more than 50% (see chart 10). Similarly, in late 2002, wheat prices peaked just above \$4/bu and did not sustain above that level until late 2006. The front Chicago wheat futures low price since then has been near \$4/bu.

Chart 10



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