S&P CAPITAL IQ

Lookout Report
from Global Markets Intelligence

Disappointing S&P 500 Earnings Data Contrast The Improving Macroeconomic Outlook

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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.

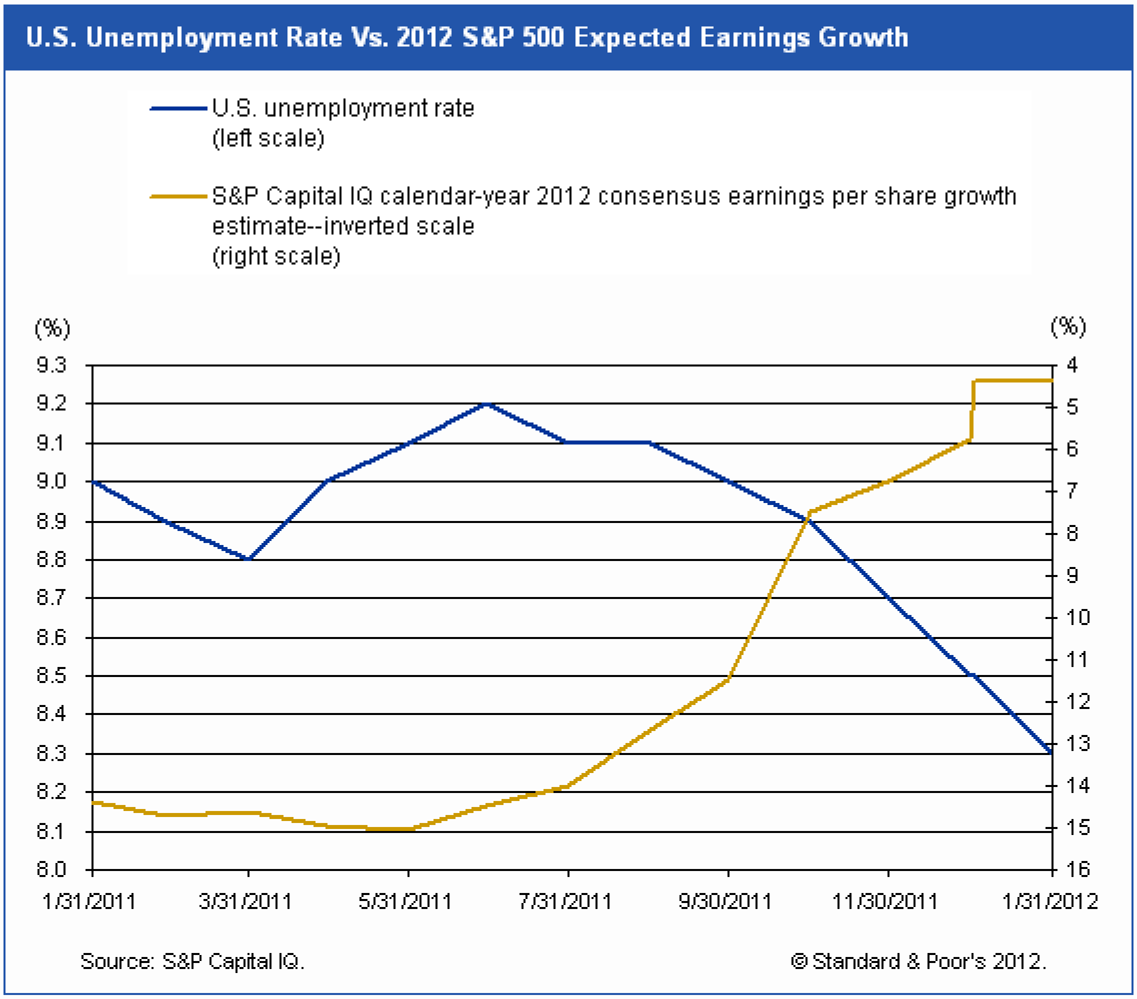
With more than half of S&P 500 corporations having reported fourth-quarter earnings, it appears that the recent run of eight consecutive quarters of double-digit earnings growth will come to an end with the current fourth-quarter earnings season. As of Friday morning, the fourth-quarter earnings growth rate is tracking at 7.53%. This is disappointing news because it establishes a negative undertone for fourth-quarter earnings and emphasizes the harsh reality that analysts do not anticipate a return to double-digit corporate earnings growth until fourth-quarter 2012 earnings are reported a year from now.

This has not always been the case; Analysts had expected double-digit earnings growth for fourth-quarter 2011 as well as every quarter in 2012 and into 2013, according to the S&P Capital IQ consensus as of Aug. 16, 2011. We fully understand how expected future earnings started to decline last year after the start of the second quarter, as many financial market professionals started to worry that the U.S. economy was inevitably slipping toward recession. However, we find it extremely intriguing that consensus earnings expectations have not rebounded even though recession risks have clearly subsided, in our opinion. This might suggest that analysts have a general lack of faith that economic conditions will improve significantly and reduce uncertainty this year.

Likewise, the forward price-to-earnings (P/E) market valuation below 13x assigned to the S&P 500 Index also signals investor caution over the current 2012 outlook. The divergence between an improving economy and declining earnings expectations, illustrated by the comparison between a declining U.S. unemployment rate and declining calendar-year 2012 S&P Capital IQ consensus expectations, is not sustainable, in our opinion (see chart 1).

February 3, 2012

Chart 1



While investors await additional information about U.S. economic prospects for 2012, we thought it would be helpful to highlight the factors that CEOs have most frequently cited when summarizing their disappointing fourth-quarter 2011 earnings, according to Global Markets Intelligence (GMI) Research surveillance.

Frequently Cited Reasons Associated With Subpar Fourth-Quarter Reported Earnings--GMI Research:

- Global macroeconomic concerns
- Changing consumer behavior due to the economic environment
- Weakness in Europe
- Slowing growth in the emerging economies (although there is belief that emerging market growth will continue long-term)
- Declining commodity prices, depending on the industry

Within the context of the recession and sovereign credit-related risks that dominated investor psychology in 2011, these frequently cited topics are neither surprising nor difficult to comprehend. However, we do note that these topics are generally macroeconomic in nature and are not linked to company- or industry-specific difficulties. Recently released Institute for Supply Management Purchasing Managers Index data in the U.S., along with Ifo Institute survey data in Germany and today's U.S. employment report, suggest that underlying economic expansion remains intact, raising the possibility that corporate CEOs and Wall Street analysts are both underestimating the growth potential of the U.S. and global economy in 2012. The three-month average rate of U.S. nonfarm payroll growth has now increased to 201,000 as of January, from just below 140,000 in December, prior to net upward monthly revisions.

While global macroeconomic headwinds will continue to be a major near-term source of investor anxiety, forward S&P 500 expected earnings have room to improve if economic prospects continue to brighten. We reiterate our belief that the rate of job creation in the world's largest economy (the U.S.) will be a major factor to follow in 2012, relative to corporate profit growth and investor preference for risk aversion (see "Lookout Report: Three Key Economic Topics To Follow Closely In 2012: Jobs, Housing, And Sovereign Risk," published Jan. 20, 2012, on the Global Credit Portal).

Inside This Issue:

Macroeconomic Overview

While global macroeconomic headwinds will continue to be a major near-term source of investor anxiety, forward S&P 500 expected earnings have room to improve if economic prospects continue to brighten. We reiterate our belief that the rate of job creation in the world's largest economy (the U.S.) will be a major factor to follow in 2012, relative to corporate profit growth and investor preference for risk aversion.

Economic And Market Outlook: North American And European Earnings

Although fourth-quarter S&P 500 earnings are now tracking at an improved 7.53% growth rate versus the 5.15% rate just two weeks ago, the growth rate still represents a departure from the robust double-digit pace of the past two years. Specifically, the information technology, industrials, and health care sectors have the largest percentage of companies beating estimates, all with 67%. Meanwhile, analysts have continued to cut their forecasts for European corporate earnings, as economic uncertainty persists in the region.

S&P Index Commentary: Putting Seasonal And Other Special Situation Market Theories In Perspective

While performance in January might "set the tone" for the year and represents the traditional month of influx of new capital into the market, there are 11 additional months of the year in which major events occur. On its face, it's irrational to say that a gain in January suggests the S&P 500 Index will finish higher for the year, or vice versa.

Leveraged Commentary And Data: Leveraged Loans Return 2.18% In January Amid Positive Bias

Buoyed by robust technical conditions and improving investor sentiment across the capital markets, the S&P/LSTA Leveraged Loan Index returned 2.18% in January. That's the best monthly performance since October, and, before that, March 2010. The larger names that comprise the S&P/LSTA 100 Index fared even better in January, posting a 2.88% return.

R2P Corporate Bond Monitor

Despite the uncertain recovery, the fixed-income markets seemed to have taken into account the upbeat U.S. economic data in January. From Dec. 30, 2011, to Feb. 2, 2012, risk-reward profiles--as measured by average Risk-to-Price (R2P) scores--improved overall, except for the European information technology, consumer staples, and telecommunication services sectors.

Market Derived Signal Commentary: CDS Spreads Reflect Better-Than-Expected Earnings In The Health Care Sector

Since Dec. 30, 2011, the average spread for the health care sector, based on five-year CDS, tightened 16.7% to 130 basis points (bps), placing it between the 'A-' and 'BBB+' health care credit rating benchmarks. We think investors with CDS protection may find some trading opportunities at this time, given the positive bias reflected in the sector's spreads.

Capital Market Commentary: Facebook's IPO Could Spur M&A Activity, Market Reaction

One of the benefits of being a publicly traded company is the ability to offer common stock as consideration for acquisitions. Therefore, many anticipate that the forthcoming Facebook IPO may translate into a flurry of M&A activity, given the wealth generated from the transaction. Yet, if history is any gauge, the expectations of a buying spree may be premature.

S&P Index Commodity Commentary: Strength In Metals Forge Commodity Gains

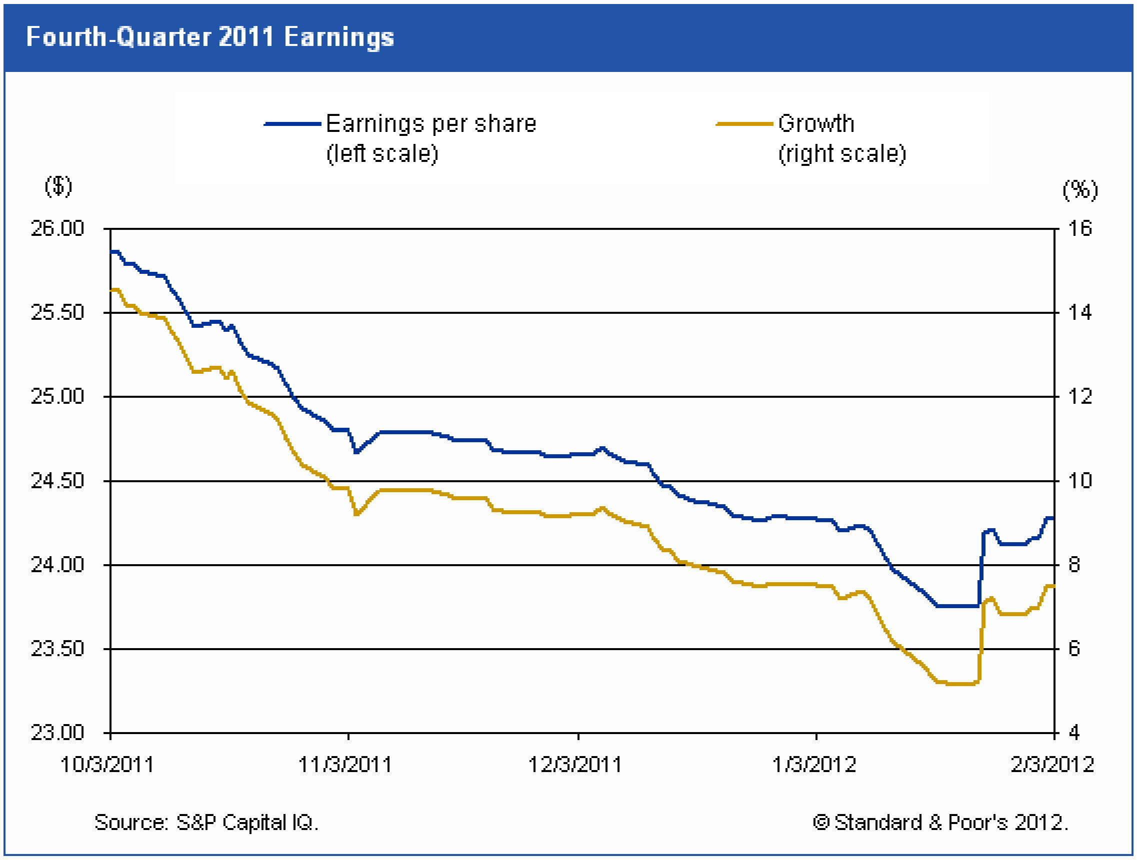
Optimism has characterized the commodity market at this early stage in 2012, as metals have so far led gains. Following weakness in 2011, most market participants hope the recovery in industrial metals prices is sustainable, indicating an increasingly optimistic global economic outlook.

Economic And Market Outlook: North American And European Earnings

North America

Now that the three weeks of peak earnings season have ended and more than half of S&P 500 companies have reported, the S&P Capital IQ blended growth rate stands at 7.53% (see chart 2). Although the rate is much lower than the 14.55% expected at the beginning of the calendar quarter, the rate exceeded more recent expectations, like the 5.15% low expected just last Monday (Jan. 23). Once again, better-than-expected earnings from a majority of companies have propped up the growth rate. Specifically, the information technology, industrials, and health care sectors have the largest percentage of companies beating estimates, all with 67%.

Chart 2



Although the earnings growth rate has increased from its lows, the overall beat rate stands at just 57%, lower than the 10-year average of 65% as well as the average of 68% for the last four quarters (see table 1). If the quarter ends with this number, it will be the lowest since 2001.

Table 1

Overall Beat Rate

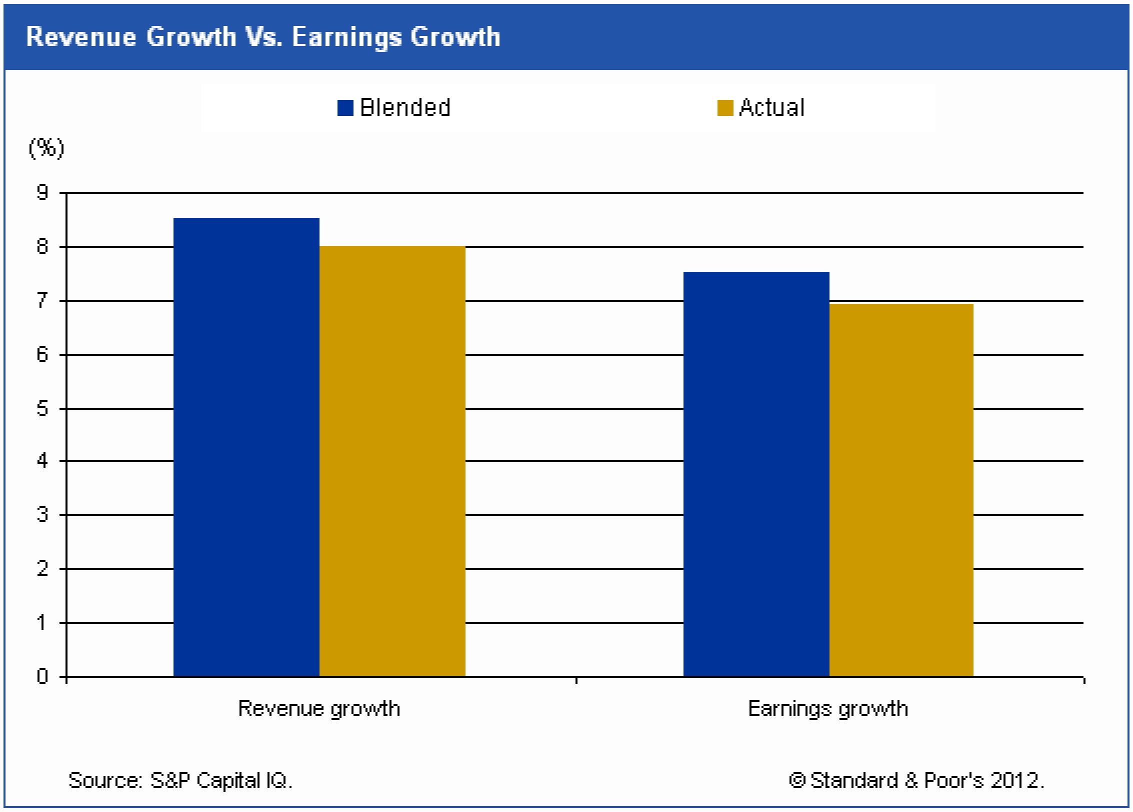
Quarter	Beat (%)	Miss (%)	Match (%)
4Q2010	68	24	8
1Q2011	67	23	10
2Q2011	70	20	10
3Q2011	71	21	8
4Q2011*	57	32	11

Source: S&P Capital IQ.

At the time we published our last Lookout Report on Jan. 20, the energy (14.37%) and industrials (8.0%) sectors were the largest drivers of growth in the S&P 500 Index. Since then, with remarkable results from Apple Inc., the information technology sector has been propelled into the top spot with 15.8% expected growth, mainly led by the computers and peripherals industry, which is currently estimated to grow 54%. The industrials sector still expects the second highest growth rate with 13.0%, led by the machinery (30.0%) and road and rail (26.4%) industries. The telecommunications (negative 20.1%), materials (negative 13.4%), and utilities (negative 2.7%) sectors remain the laggards among the 10 sectors.

Since the middle of December, revenue expectations have been outpacing earnings expectations. Currently, the blended revenue growth estimate is 8.5%, led by the energy (18.58%) and information technology (16.17%) sectors, while earnings are only expected to grow 7.53% (see chart 3). While margin compression explains this difference, it's interesting to note that when we look at just the companies that have reported actuals, the figures are a bit lower. The earnings growth rate for companies that have reported is approximately 6.9%, while the revenue growth rate is 8.0%.

Chart 3

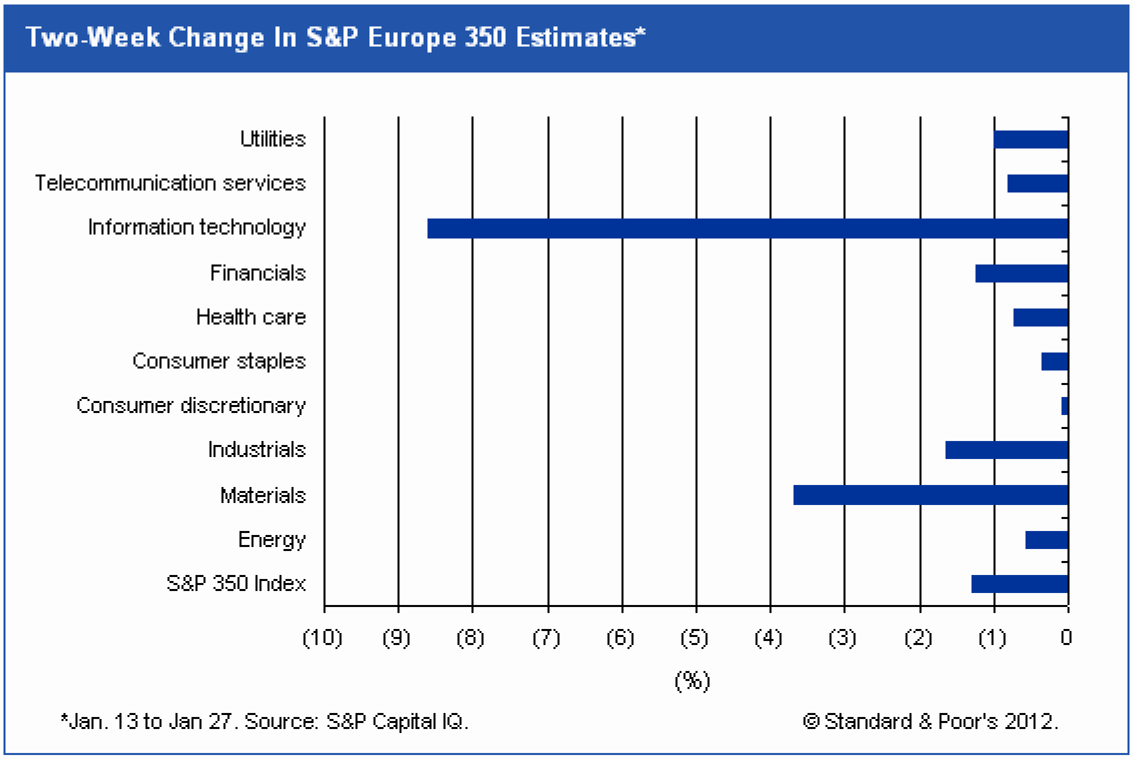


Thus far, 61 companies have reported guidance for first-quarter 2012 in their fourth-quarter press releases. Of those, 42 are negative, 16 are positive, and three are in-line, producing a very high negative-to-positive (N/P) ratio of 2.6, higher than the 1.7 N/P average from the four quarters in 2011. If this N/P ratio sticks, it will surpass the fourth-quarter 2011 ratio as the largest negative guidance since first-quarter 2009.

Europe

As economic uncertainty persists in Europe, analysts have continued to cut their forecasts for corporate earnings. In the two weeks ended Jan. 27, analysts lowered their consensus calendar-year 2012 and 2013 expectations for the S&P Europe 350 Index for all 10 sectors (see chart 4). Analysts cut 2012 expectations by 1.3% to €102.30 from €103.61 (Jan. 13) and 2013 expectations by 0.9% to €112.46 from €113.41. Both estimates are now at their lowest level since the start of third-quarter 2011, according to S&P Capital IQ.

Chart 4



Sector leaders for calendar-year 2012 earnings include the financials (23.02% expected growth) and industrials (13.40% expected growth) sectors. Current earnings laggards for calendar-year 2012 include the information technology (decline of 9.46% expected) and health care (0.51% expected growth) sectors.

Over the two weeks ended Jan. 27, subpar financial results from a number of companies resulted in analysts cutting 2012 and 2013 earnings estimates for the information technology sector by 9% and 4%, respectively, the largest cut of all 10 sectors.

On Jan. 24, STMicroelectronics N.V. said revenue will decline as much as 10% from the previous three months on lower wireless sales. On Jan. 25, Ericsson reported a 73% drop in fourth-quarter net profits to 1.15 billion kronor ($168 million) on lower spending from North American customers. On Jan. 26, Nokia Corp. reported better-than-expected fourth-quarter results, but analysts still lowered their earnings estimates for the company. Nokia, which is struggling to compete in the smartphone market, delivered 19.6 million smartphones units, including the Lumia models that went on sale in November, the Finland-based company said. Apple sold 37 million iPhones in the same period. Despite strong fourth-quarter results for SAP AG, analysts reduced their 2012 and 2013 forecasts for the company. Normalized earnings per share at $1 were 3% higher than the S&P Capital IQ analyst consensus forecast. SAP is "optimistic" that the company can grow revenues by at least 10% a year, even without acquisitions. As global growth slows, analysts trimmed their estimates, and corrected those for SAP as well.

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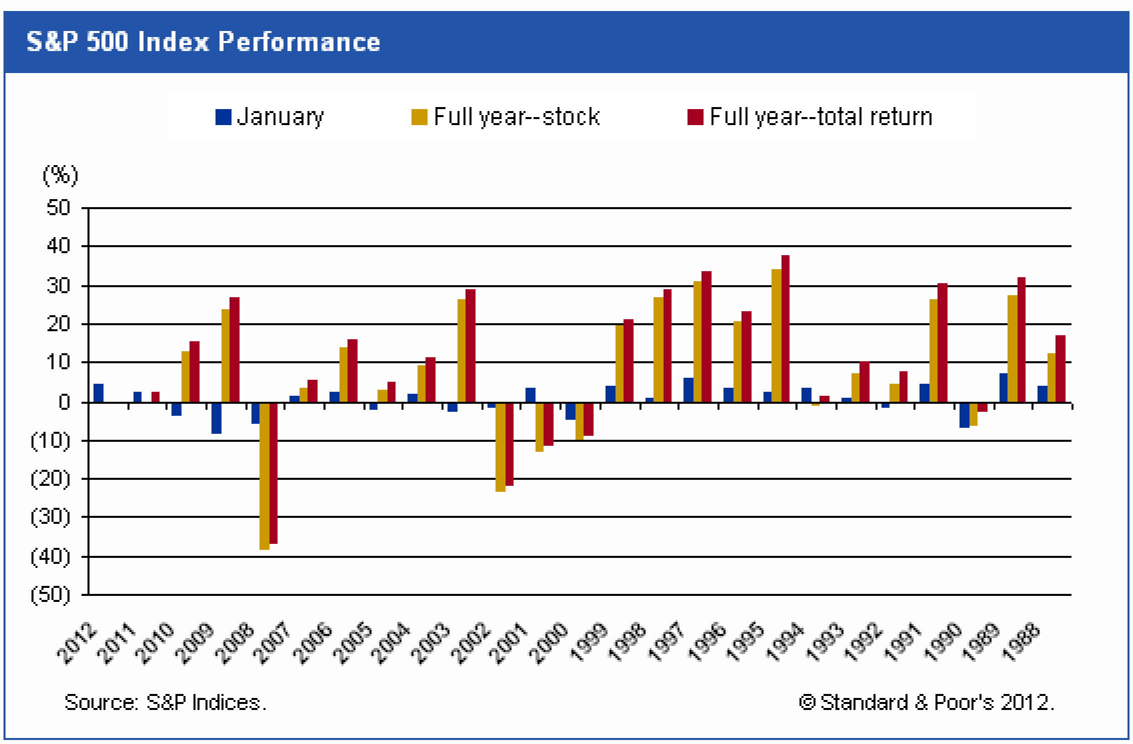
S&P Index Commentary: Putting Seasonal And Other Special Situation Market Theories In Perspective

Although neither the Super Bowl nor January has a logical correlation to the markets, statistics regarding the two frequently find their way into the financial media, and therefore warrant discussion, in our opinion.

According to the Super Bowl predictor theory, the S&P 500 Index will finish the year with a gain if a National Football Conference (NFC) team (or an American Football Conference (AFC) team of NFC origin) wins the big game, but will post a decline if an AFC team wins. Although this sounds dodgy from a logic perspective, the Super Bowl theory has proved correct 35 times, or 77.8% of the time over the past 45 years. On a stock appreciation basis, two years can't be counted, as the S&P 500 Index lost 0.0028% in 2011 but posted a 2.11% gain on a total return basis. Similarly, the index declined 1.54% in 1994 but returned 1.32% when dividends were included, bringing the predictive percentage down to 73.3%--still a nice record (see chart 5).

As for the "January Effect," some believe that "As January goes, so goes the year," which has turned out to be true 72.3% of the time. While performance in January might "set the tone" for the year and represents the traditional month of influx of new capital into the market, there are 11 additional months of the year in which major events occur. On its face, it's irrational to say that a gain in January suggests the S&P 500 Index will finish higher for the year, or vice versa. But that has in fact been the case in 60 of the last 83 years. That percentage rises to 75% in presidential election years. With January up 4.36% and 4.48% including dividends, it will be interesting to see if once again the month serves as a prognosticator.

Chart 5



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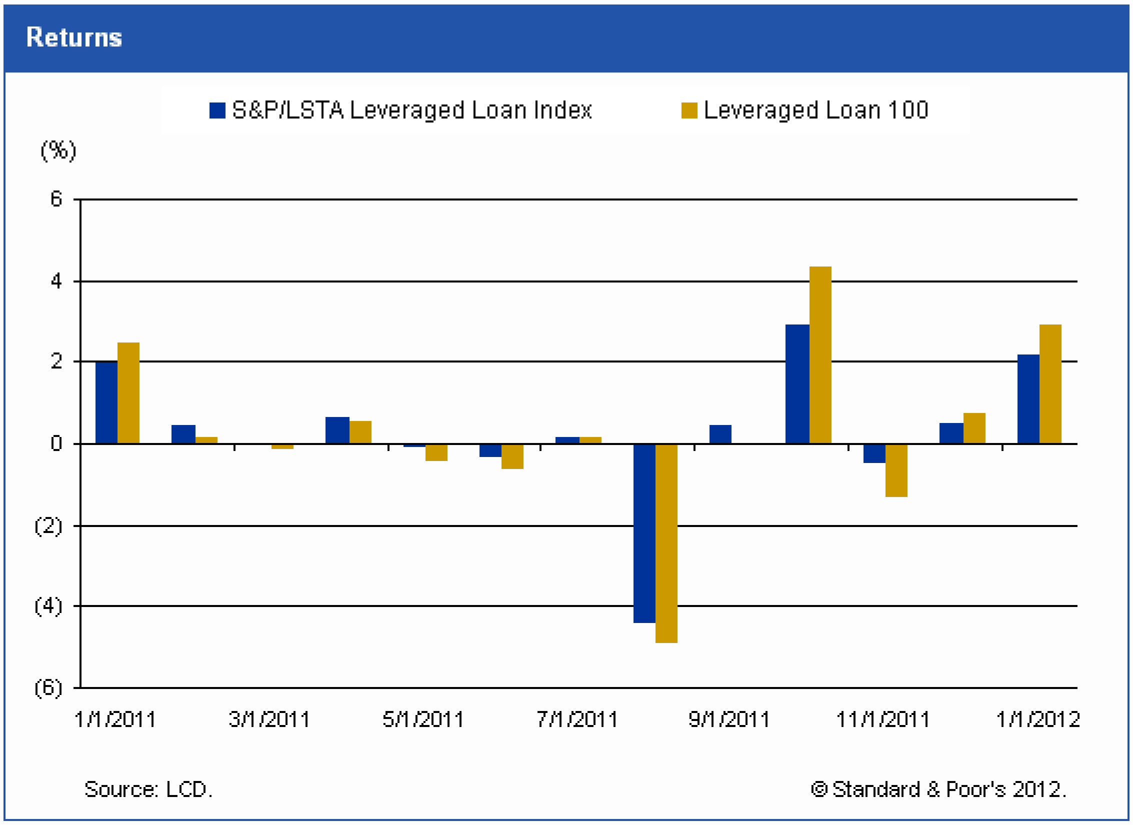
Leveraged Commentary And Data: Leveraged Loans Return 2.18% In January Amid Positive Bias

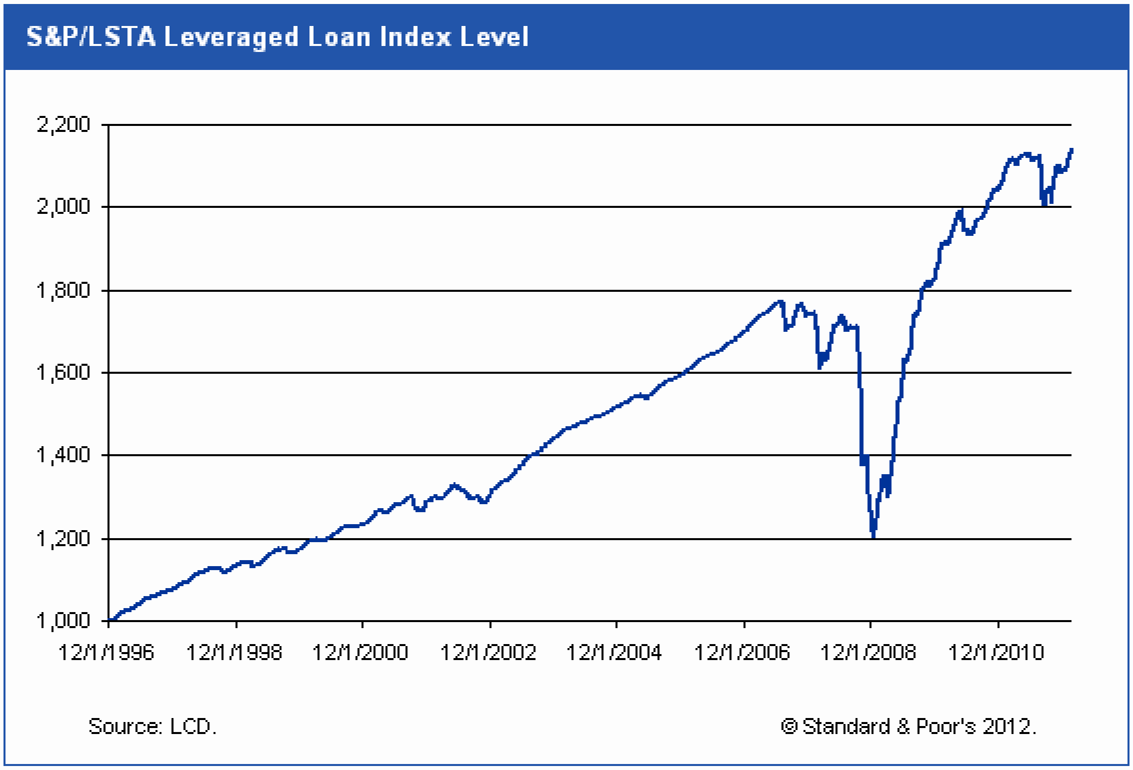
Buoyed by robust technical conditions and improving investor sentiment across the capital markets, the S&P/LSTA Leveraged Loan Index returned 2.18% in January. That's the best monthly performance since October, and, before that, March 2010. The larger names that comprise the S&P/LSTA 100 Index fared even better in January, posting a 2.88% return (see chart 6).

Chart 6



Gains in January pushed the S&P/LSTA Index to 2,142, the highest month-end close ever (the prior high was 2,128, from April 2011; the index was set at 1,000 on its commencement date at year-end 1996). That means a dollar invested in the market on Dec. 31, 1996, would have grown to $2.14 today, including interest accruals. To put that number in context, a dollar invested in the Bank of America Merrill Lynch High-Yield Master Index would now be worth $2.79, while the same investment in the S&P 500 Index would be worth $2.25 (see chart 7).

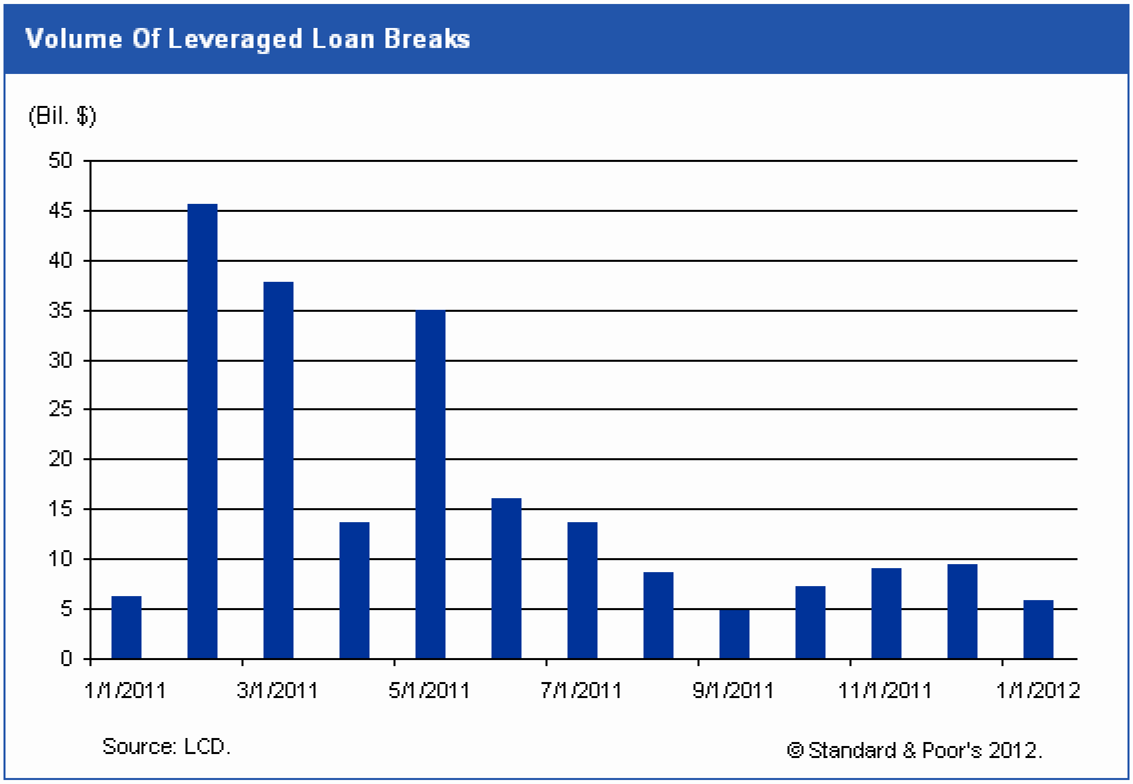
Chart 7



Loans were part of a broader bull wave in January that also carried the S&P 500 Index up 4.53% on the strength of muscular earnings across corporate America, as well as employment and economic data that showed that U.S. GDP continues to expand modestly.

Closer to home, loan prices benefited from a supply/demand equation that remains tilted to sellers. The biggest factor here was the ongoing dearth of new-issue supply. In all, arrangers printed $5.8 billion in new institutional paper in January, the lowest volume total since September and far inside the 2011 monthly average of $17 billion (see chart 8).

Chart 8



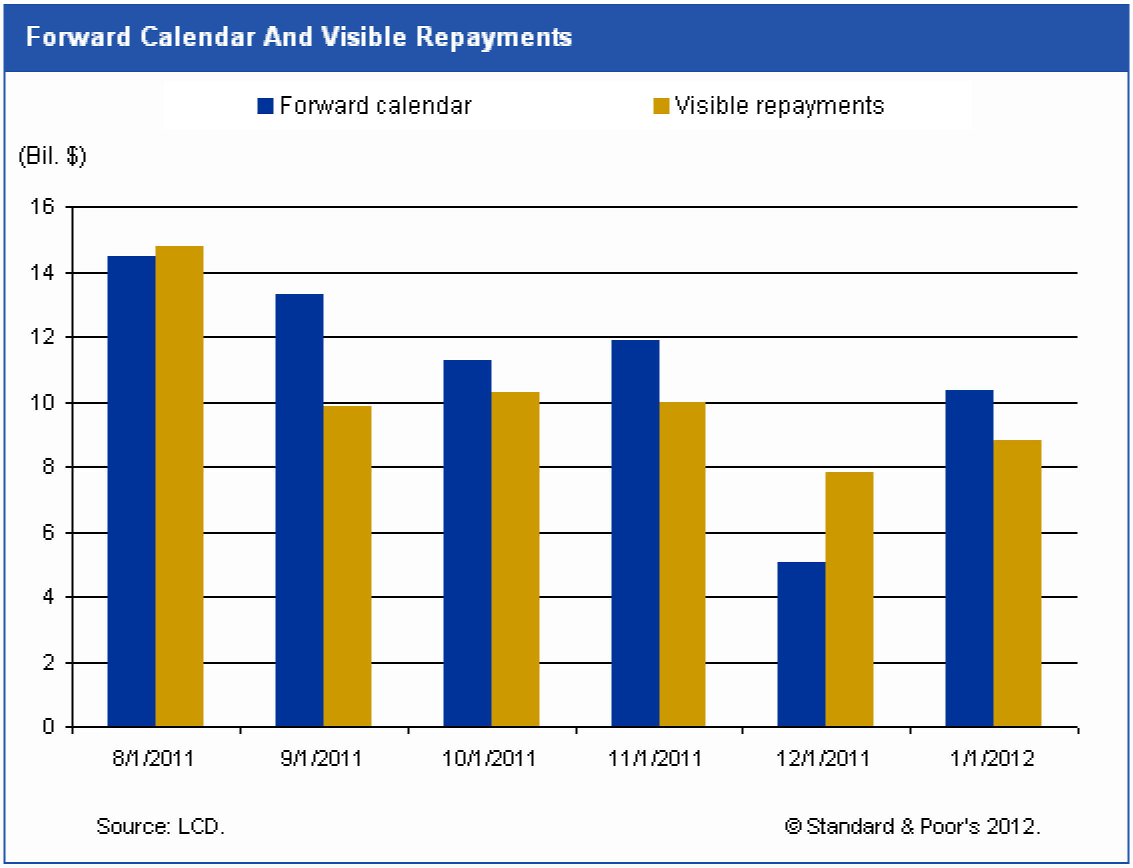
Meager volume in January was largely offset by $4.5 billion of repayments, an amount that doesn't take into account several of the bond-for-loan takeouts that came to market at the end of the month, such as Univision Communications Inc., Realogy Corp., Spanish Broadcasting System Inc., and UPC. Nor does it factor the imminent $1 billion paydown to Nielsen's Class A term loan with proceeds from a pro rata execution.

As for fresh dollars coming into the market, CLO issuance was the largest visible source. In all, three managers printed $1.05 billion new vehicles. At the same time, loan mutual fund flows were marginally negative in January, at $18 million, according to EPFR. However, Lipper FMI, which reports weekly, was trending to a slightly positive reading, with $54 million of inflows over the first four weeks of the month.

Moreover, managers say that they saw a pickup in separate-account money from pension funds and other institutional investors looking for high-yielding alternatives. Sources estimate that these investors put another $1 billion to $1.5 billion to work in January.

Of course, market tone is driven as much by the forward view as current conditions. And here, too, the read is positive. On the supply side of the ledger, a spate of opportunistic deal announcements in late January pushed the forward calendar to $10.3 billion on Jan. 25, from $5.1 billion at year-end (see chart 9). This amount, however, is just slightly more than the $8.8 billion of visible repayments that were on the calendar as of the same date.

Chart 9



While arrangers say that front-end activity--especially from mergers and acquisitions (M&A)--remains limited, there has been a notable pickup in bond takeouts in recent weeks, as noted above. Indeed, LCD News reported in January on no fewer than 10 such deals that will result in about $3 billion of institutional loan repayments.

Arrangers expect this activity to accelerate in the months ahead as issuers, looking to push out 2013 to 2014 maturities, seek to take advantage of white-hot conditions in the high-yield market, where inflows exploded to $6.5 billion in January, according to EPFR.

As for inflows, loan mutual fund managers generally say they saw more meaningful subscriptions during the final days of January, though that trend is nascent at best. While few expect to see inflows return to the $1-billion-a-week level of early 2011, $100 million to $150 million is conceivable if recent patterns persist.

CLO issuance also might push higher. LCM's Jan. 31 execution certainly is a hopeful sign. The manager printed its AAA tranche at a L+148 discounted margin, which is a post-July low, down from a recent range of L+155 to L+170. Managers say upward of a dozen deals are in the works--the most since the market cratered in 2007--and they expect to see another three to five deals worth $1 billion to $1.5 billion inked in February. Add it up, and most players expect the market to continue to favor the bullish in the short term.

With the bulls running, the search for yield intensified, sending lower-priced, lower-rated loans higher. Defaulted loans in particular ripped the cover off the ball, with an 8.42% gain (see table 2).

Table 2

Prices And Yields By Type Of Debt

	Price	Yield (%)
Performing loans	94.03	6.27
BB	99.04	4.62
B	96.08	6.06
CCC	71.13	16.63
CCC (ex TXU)	77.39	15.05
D	50.20	N.A.
S&P/LSTA 100	93.18	5.81

N.A.--Not applicable. Source: LCD.

Looking ahead, value is still concentrated among lower-rated paper (see table 3).

Table 3

Returns By Type Of Debt

	January (%)	2011 (%)
All loans	2.18	1.52
Performing loans	2.19	1.50
BB	1.54	2.74
B	2.78	2.14
CCC	2.56	(6.31)
CCC (ex TXU)	5.48	(2.81)
D	8.42	(8.63)
S&P/LSTA 100	2.88	0.63

Source: LCD.

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R2P Corporate Bond Monitor

Nonfarm payrolls rose 243,000 in January, the biggest gain since last April, according to the U.S. Labor Department. The jobless rate fell to 8.3%, the lowest since February 2009. Both numbers beat economists' expectations, according to a Dow Jones survey.

However, according to U.S Federal Reserve Chairman Ben Bernanke, the U.S. economic recovery remains uncertain, despite indicators, including spending, production, and job market activity, that show some signs of improvement. The recovery is being confronted with a set of domestic and external headwinds, and its pace has been frustratingly slow, particularly from the perspective of the millions of workers who remain unemployed or underemployed. Moreover, the sluggish expansion has left the U.S. vulnerable to shocks. Developments in Europe or elsewhere may unfold unfavorably and could worsen U.S. economic prospects.

Despite the uncertain recovery, the fixed-income markets seemed to have taken into account the upbeat U.S. economic data in January. From Dec. 30, 2011, to Feb. 2, 2012, risk-reward profiles--as measured by average Risk-to-Price (R2P) scores--improved overall, except for the European information technology, consumer staples, and telecommunication services sectors (see tables 4 and 5).

In the U.S., option-adjusted spreads (OAS) tightened by 13 basis points (bps) on average. However, scores improved by 29% as a result of a decrease in the average probability of default (PD) and average bond price volatility of 28% and 13%, respectively.

In Europe, OAS tightened by 11 bps on average. However, scores improved by 3% as a result of a decrease in PD of 3% and an unchanged average bond price volatility.

Table 4

North American Risk-Reward Profiles By Sector--Average R2P Score And Components Changes

	Scores (%)	OAS (bps)	PD (%)	Bond price vol. (%)
Consumer discretionary	35	(26)	(39)	(6)
Consumer staples	11	1	12	(20)
Energy	24	0	(28)	(10)
Financials	14	(36)	(39)	(6)
Health care	26	(18)	(48)	(16)
Industrials	45	(12)	(28)	(14)
Information technology	41	(2)	(46)	(8)
Materials	75	(31)	(57)	(22)
Telecommunication services	13	(12)	(20)	(14)
Utilities	9	(1)	9	(17)

Change as of Feb. 2, 2012, from Dec. 30, 2011. Source: S&P Capital IQ.

Table 5

European Risk-Reward Profiles By Sector--Average R2P Score And Components Changes

	Scores (%)	OAS (bps)	PD (%)	Bond price vol. (%)
Consumer discretionary	5	(8)	(4)	(25)
Consumer staples	(5)	2	24	16
Energy	3	17	(7)	(14)
Financials	2	(32)	(11)	1
Health care	17	30	7	(4)
Industrials	10	(24)	(16)	13
Information technology	(9)	(48)	(26)	(8)
Materials	7	(13)	(25)	9
Telecommunication services	(2)	(30)	(26)	10
Utilities	3	(6)	11	7

Change as of Feb. 2, 2012, from Dec. 30, 2011. Source: S&P Capital IQ.

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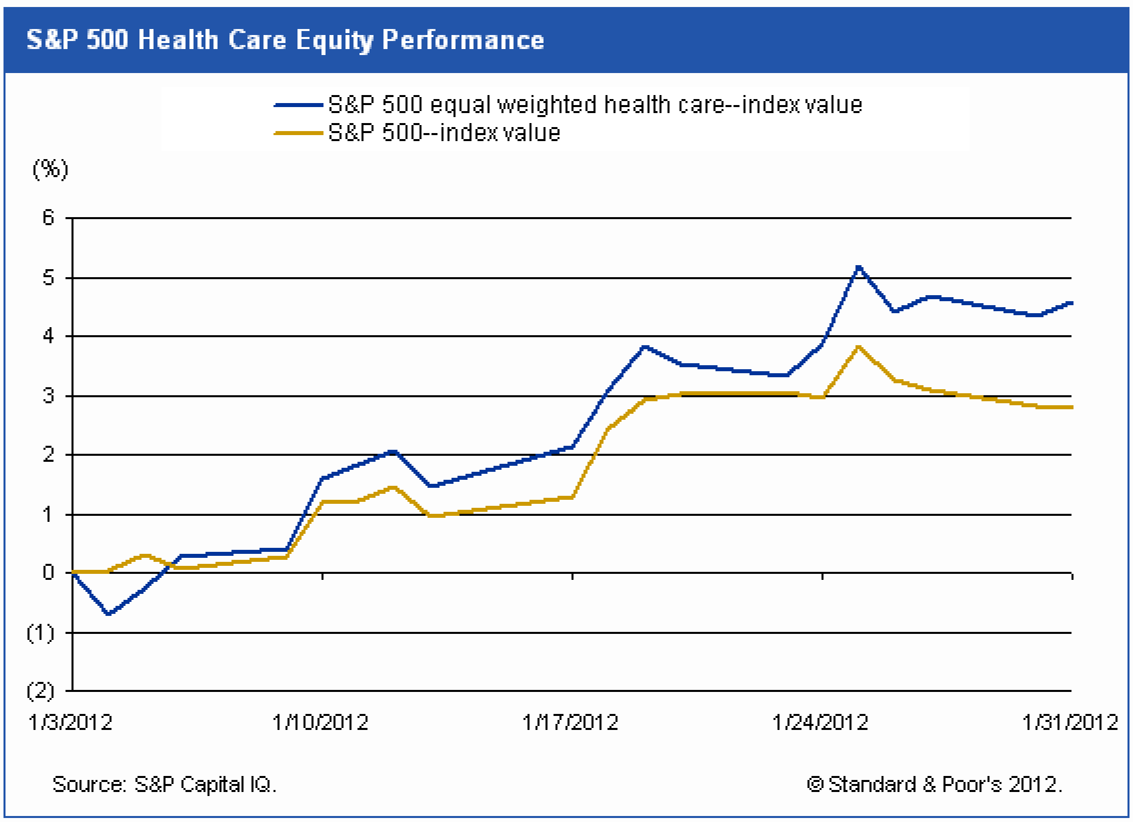
Market Derived Signal Commentary: CDS Spreads Reflect Better-Than-Expected Earnings In The Health Care Sector

Fourth-quarter earnings results among individual companies in the health care sector are surpassing the S&P Capital IQ consensus estimates with more regularity than in any other sector so far this earnings season, beating the forecasts 72% of the time through Feb. 1. Overall, S&P 500 companies are beating the consensus forecast at a rate of 56.8%, the lowest percentage in 10 years.

The expected year-over-year growth rate for the health care sector in the fourth quarter is a moderate 6.41%, but that figure compares favorably to a forecast of 3.94% at the start of 2012. One concern among analysts had been the loss of patent protection on certain blockbuster drugs, but Pfizer Inc., for example, beat the consensus estimate by $0.03 per share as an increase in sales of other drugs helped offset a loss in revenues from its bestselling cholesterol treatment Lipitor. Due to earnings surprises, analysts, as of Feb. 1, now expect health care sector profit growth of 8.67% for 2011, up from 8.07% on Jan. 3, 2012.

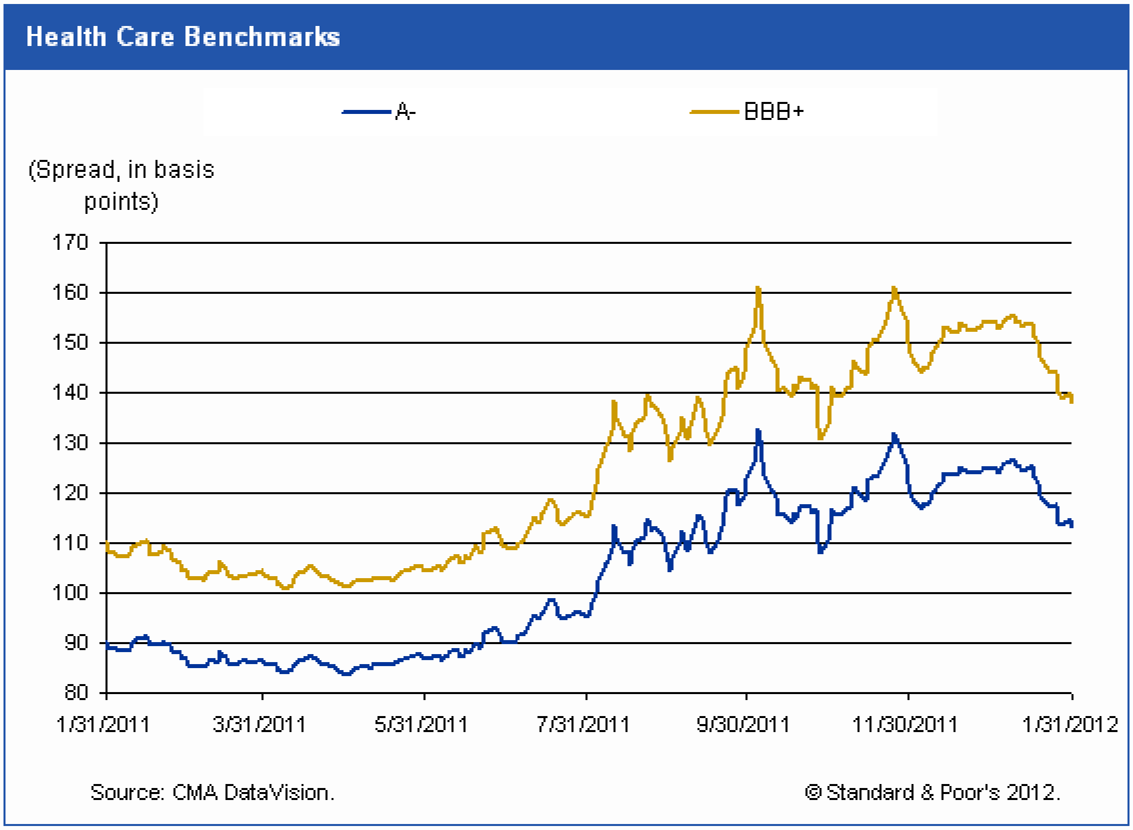
In an earnings season with so few bright spots, the GMI research team found the health care results encouraging. The health care industry is up 4.6% over the past month, outperforming the S&P 500 Index (see chart 10).

Chart 10



The GMI research team was curious to see if the credit market's sentiments matched those of the equity market, so we mined the CMA DataVision database to find trends in credit default swap (CDS) spreads for the sector. Since Dec. 30, 2011, the average spread, based on five-year CDS, tightened 16.7% to 130 basis points (bps), placing it between the 'A-' and 'BBB+' health care credit rating benchmarks (see chart 11).

Chart 11



We think investors with CDS protection may find some trading opportunities at this time, given the positive bias reflected in health care sector spreads.

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Capital Market Commentary: Facebook's IPO Could Spur M&A Activity, Market Reaction

IPO

If Facebook completes its IPO, will some investors begin to speculate about the company being a takeover target? That might seem like a very remote possibility, but of the top 10 U.S. companies in the information technology sector that have issued IPOs, four were acquired. For example, on Dec. 3, 2006, in a transaction valued at $3.91 billion, LSI Corp. entered into a definitive agreement to acquire Agere Systems Inc., which ranks as the second largest U.S. technology IPO (see table 6). Similarly, on April 2, 2006, Alcatel S.A. entered into a definitive agreement in a transaction valued at $13.62 billion to acquire Lucent Technologies Inc., which issued the third largest U.S. technology IPO in 1996, in a merger of equals. On Sept. 15, 2006, a consortium of investors led by The Blackstone Group entered into a definitive merger agreement to acquire Freescale Semiconductor Inc. for $16.5 billion (the company subsequently reemerged as public company Freescale Semiconductor Holdings, in a $748 million IPO in May 2011). In addition, BT Group PLC signed a definitive agreement to acquire Infonet on Nov. 8, 2004 in a $965 million deal. Infonet Services Corp. issued a $1.08 billion IPO in December 1999.

Table 6

Largest U.S. Information Technology IPOs

Effective date	Target/Issuer	Value (mil. $)*
3/18/2008	Visa Inc.	17864
3/27/2001	Agere Systems Inc.	3600
4/2/1996	Lucent Technologies	3025
5/24/2006	Mastercard Inc.	2399.3
2/6/2001	KPMG Consulting (nka: Bearingpoint Inc.)	2024.7
8/18/2004	Google Inc.	1666.4
7/16/2004	Freescale Semiconductor Inc.	1581.1
10/12/2006	SAIC Inc.	1125
12/15/1999	Infonet Services	1076.9
12/15/2011	Zynga Inc.	1000

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

M&A

One of the benefits of being a publicly traded company is the ability to offer common stock as consideration for acquisitions. Therefore, many anticipate that the forthcoming Facebook IPO may translate into a flurry of M&A activity, given the wealth generated from the transaction. Yet, if history is any gauge, the expectations of a buying spree may be premature. The GMI research team reviewed S&P Capital IQ data for M&A activity by some selected internet-related companies in the aftermath of going public. Google Inc., which completed its IPO in August 2004, acquired seven businesses in the 12 months following the offering, according to S&P Capital IQ data (see table 7). In Google's first post-IPO deal, the company acquired Keyhole Corp., which became Google Earth, in a transaction announced on Oct. 27, 2004. Overall we found that initial deal making following the IPOs of some notable internet companies showed a modest pace of transactions. While factors like opportunity, valuations, and market conditions may influence a company's M&A policy, it remains to be seen if Facebook's IPO will propel the company to pursue acquisitions soon thereafter.

Table 7

Selected Internet Companies' M&A Activity Following IPO

Effective date	Target/Issuer	IPO value (mil. $)	Announced M&A acquisitions one-year after IPO	Total value (mil. $)*	Total M&A acquisitions since IPO	Total value (mil. $)*
8/18/2004	Google Inc.	1,666.4	7	N.A.	104	24414.1
11/3/2011	Groupon Inc.	700.0	3	N.A.	3	N.A.
7/19/2007	Orbitz Worldwide Inc.	510.0	0	0	0	0
5/17/2011	LinkedIn Corp.	352.8	2	2.4	2	2.4
3/29/1999	priceline.com Inc.	160.0	0	0	8	620.1
9/23/1998	eBay Inc.	63.0	4	539.5	65	15165.8
5/14/1997	Amazon.com Inc.	54.0	3	N.A.	46	2845.3

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

Debt

Identifier requests for domestic corporate debt offerings reached just 635 orders for January 2012, a drop of almost 23% from the preceding month's count of 823 and a 16% drop from the January 2011 results (see table 8 and chart 12). Likewise, international debt CUSIP demand remains under pressure. For the seventh straight month, the number of identifier requests failed to exceed 100. On the other hand, CUSIPs related to federal agency program offerings almost doubled in requests, as 766 orders were processed last month, compared with 396 in January 2011.

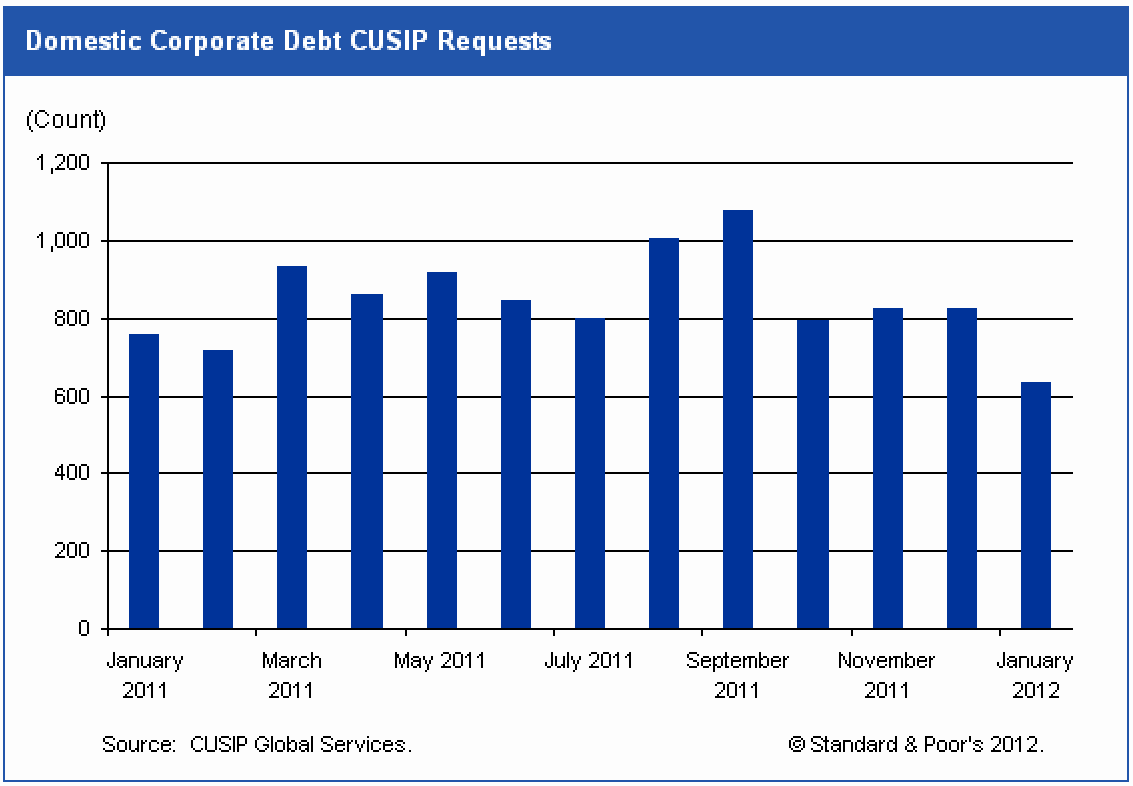
Table 8

Debt Requests

Security	January 2012	January 2011	Change (%)
Domestic corporate debt	635	756	(16.0)
Municipals	938	671	39.8
Federal agency programs	766	396	93.4
International debt	99	168	(41.1)
PPN domestic debt	167	119	40.3

Source: CUSIP Global Services.

Chart 12



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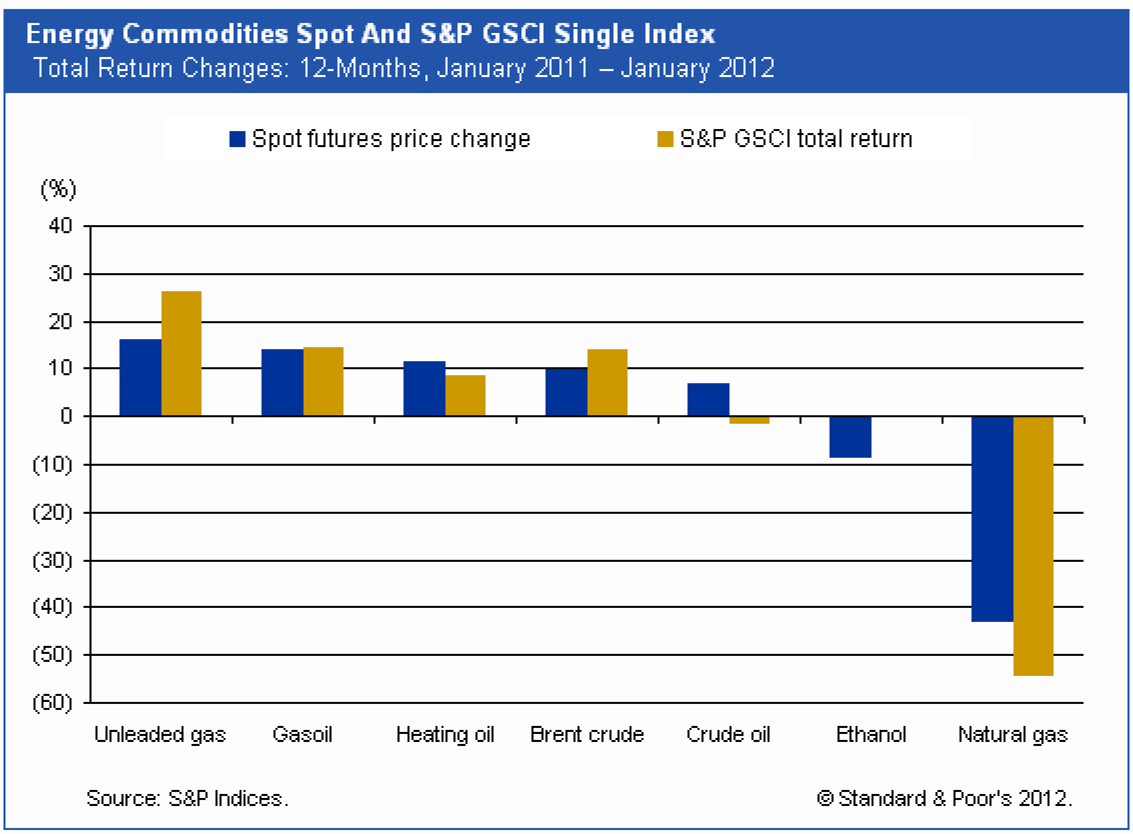
S&P Index Commodity Commentary: Strength In Metals Forge Commodity Gains

The S&P GSCI Index increased 2.23% in January, led by strength in the metals. New Year optimism in the marketplace was exemplified by the 4.48% increase in the S&P 500 Index, with an added boost from U.S. dollar weakness, as measured by the 1.08% decline in the U.S. Dollar Index. The precious metals sector edged out the industrial metals on the last day of the month to end January as the strongest sector performer, as measured by the 11.98% gain in the S&P GSCI Precious Metals Index. The S&P GSCI Industrial Metals Index followed closely, with a 10.13% increase.

Encouraging economic data from China and the U.S., along with the supporting higher tide resulting from the Federal Open Market Committee (FOMC) pledge to keep U.S. interest rates exceptionally low until late 2014, helped to provide bullish underpinnings for non-income producing assets in January, notably the easy to store metals. Food and energy, the two areas with the highest direct association with consumer spending, were tame in January, as measured by the 1.44% increase in the S&P GSCI Energy Index and the 0.03% gain in the S&P GSCI Agriculture Index. Ample global supplies of most grains have generally kept agriculture prices under pressure. Despite a 8.52% increase in the S&P GSCI Unleaded Gas Index related to declining domestic production and increasing exports, overall energy sector price gains were moderate in January, notably as a result of weakness in natural gas, as measured by the 17.32% decline in the S&P GSCI Natural Gas Index, and the 0.55% decline in the S&P GSCI Crude Oil Index.

During the 12 months from January 2011 through January 2012, the spot futures price of natural gas has declined 43.37%, compared with a gain of 15.93% for unleaded gas (see chart 13). Weaker performance for ethanol and natural gas reflect the stagnant North American supply and demand conditions' influence on these energy commodities. Spot unleaded gasoline prices have continued to appreciate rapidly, despite declining demand for gasoline in the U.S. since 2005. Increasing fuel efficiency and conservation are notable factors for declining U.S. gasoline demand, but the most prominent culprit is a high unemployment rate and the slack U.S. economy. Unleaded gas is the single-most significant commodity directly affecting U.S. consumer spending. As the U.S. becomes a prominent exporter, global supply demand forces are increasingly influencing prices, and thus U.S. consumers.

Chart 13



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Provides event-driven, multi-asset class market commentary and analysis; model development, and investment advisory services.

Research

Provides global company and funds research including insight into the performance of the world's leading investment funds.

Leveraged Commentary and Data

Delivers insight into the leveraged loan market through a combination of data, commentary, analysis, and real-time news.

S&P Indices

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