S&P CAPITAL IQ

Lookout Report
from Global Markets Intelligence

The Fiscal Cliff Will Command The Market's Attention For The Foreseeable Future

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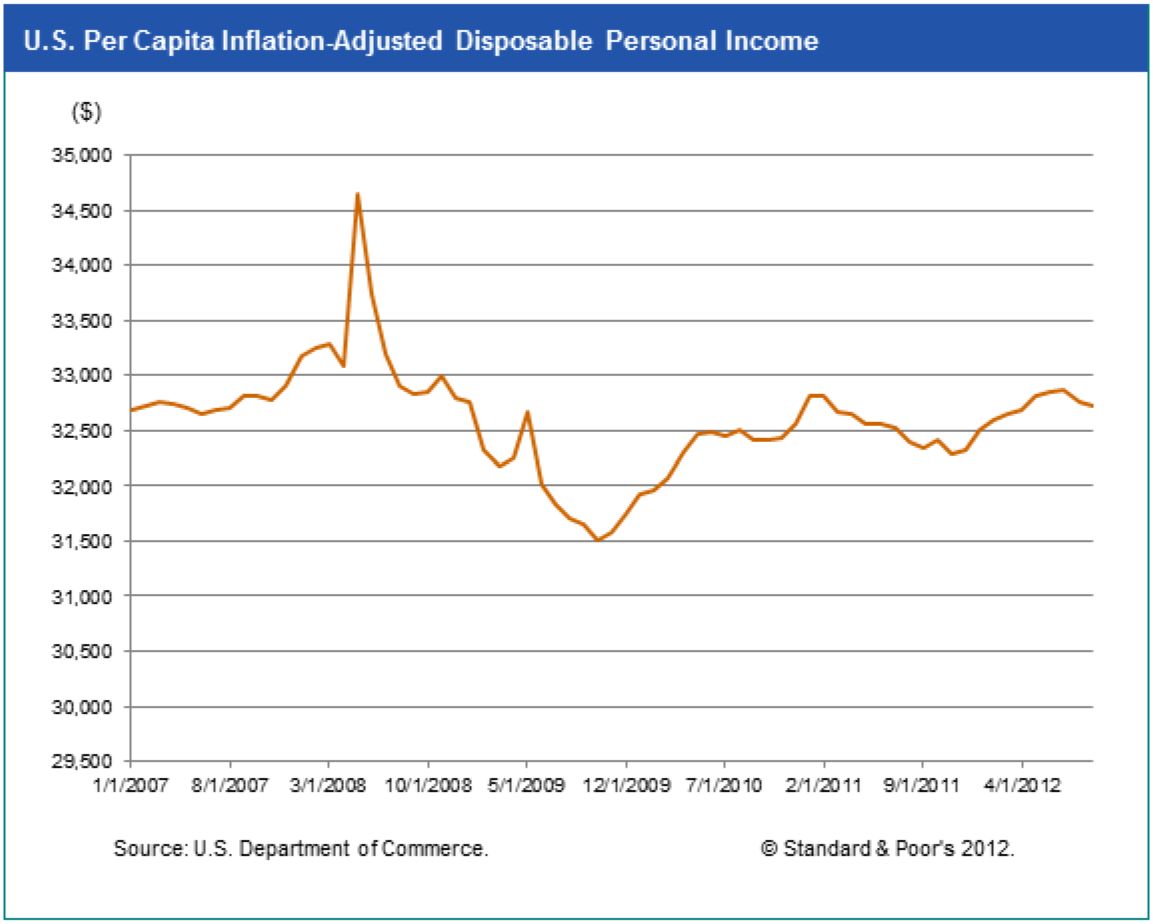
The Lookout Report is a compendium of current data and perspectives from across S&P Capital IQ and S&P Indices covering corporate earnings, market and credit risks, capital markets activity, index investing, and proprietary data and analytics. Published bi-weekly by the Global Markets Intelligence research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

The near-term U.S. economic outlook has become less clear after Hurricane Sandy. This would normally be problematic for financial market participants, but the truth is that negotiations in Washington D.C. to resolve the fiscal cliff are most likely to command the attention of investors for the balance of 2012 and potentially the first quarter of 2013. Based on our own back-of-the-envelope calculations as well as analyses published by others, the cumulative effect of mandated federal spending cuts and expiring tax cuts--representing the fiscal cliff--will shrink total U.S. 2013 GDP by as little as 0.5% or by as much as 3% or more. Either way, under current circumstances where the economy is only growing by about 1% to 2%, we could very well end up in recession next year if we collectively fall of the cliff.

Global Markets Intelligence (GMI) Research believes that Congress and the White House have little to gain and much to lose when it comes to public trust, particularly as it relates to confidence in the economy and markets, if a budget deal is not reached. This suggests some form of compromise will be forthcoming, although it is unclear whether it will be by year-end or the end of the first quarter of 2013 following just a temporary postponement. Either outcome would seem to be acceptable so long as some sort of deal is reached that places the U.S. on a perceived path to fiscal solvency without derailing the U.S. economy from its modest growth trajectory. However, the markets should be prepared to suffer some pain in the form of market volatility or a sharp selloff in the event of inaction that delays resolving the fiscal cliff beyond the first quarter.

Congress and the White House are hopefully acutely aware of the fact that U.S. disposable income has shown essentially zero growth since the start of 2007 (see chart 1). We believe this is one of the main factors responsible for producing what has so far been a lackluster post-recession recovery. Considering the overall fragile nature of the economy, the markets will be watching for a balanced compromise. Investors are clearly concerned that any legislation that goes too far in terms of tax hikes or federal spending cuts could easily tip the U.S. economy into recession. Income, dividend, VAT, and capital gain tax revenue increase considerations aside, scheduled sequestration of $109 billion per year (according to the OMB) alone equates to 0.7% of current dollar U.S. GDP of $15.6 trillion as of recently revised third-quarter 2012 data. Efforts to estimate the economic cost of either going over the cliff, or of a well-intended compromise that ultimately restrains fiscal policy too much, are nearly impossible to predict accurately due to the unknown value of the multiplier effect of fiscal tightening measures or the ultimate duration of a prospective recession.

Chart 1



We believe that the market envisions a nonpartisan compromise that restores most of the expiring conditions representing the existing tax code with the exception of an increase in the rate pertaining to incomes higher than $500,000, limitations on the total level of a variety of line-item tax deductions, in addition to meaningful long-term entitlement reform. If policymakers get the compromise formula just right, they will not only enact a budget solution that places the U.S. on a sound fiscal footing without damaging the economy, but will perhaps more importantly remove the fog of uncertainty that has restrained economic activity at least since the start of the second quarter of this year. This could very likely be the key to the successful resolution of the fiscal cliff predicament from the perspective of investors.

Returning back to the near- to medium-term outlook for the economy and financial markets, we are now left attempting to decipher the implications of economic data in the immediate months following the Hurricane Sandy super-storm. Slightly weaker-than-expected data should be tolerated for a while in the aftermath of unprecedented severe weather in the northeast, while better-than-expected data should comfort investors as long as the conventional wisdom perceives that progress is being made toward resolving the fiscal cliff. Elevated uncertainty argues for a continuation of asset inflation (bubble-pricing) in the bond market while equity investors will likely maintain their preference for dividend income producing strategies. As an investment advisor, our dividend income and growth strategy has seen better than 15% growth in fund inflows over the past six months alone, representing the most appealing option among the funds on which we advise.

The big picture outlook for 2013 is now heavily dependent on multiple factors including the details of any prospective fiscal compromise in Washington, the extent that the agreement successfully dissolves the fog of uncertainty that has impeded business planning and decision making, and the feedback received from the economy once we get beyond the hurricane and fiscal cliff affected time period. The central challenge will be obtaining a clear reading of post-fiscal-cliff fundamentals produced by the new equilibrium balance between fiscal tightening and the positive influences derived from policy clarity and reduced uncertainty, and finally the extent that the Federal Reserve and QE3 are able to build on early but overdue signs of recovery in the U.S. housing market.

Inside This Issue:

Macroeconomic Overview

The near-term U.S. economic outlook has become less clear after Hurricane Sandy. This would normally be problematic for financial market participants, but the truth is that negotiations in Washington D.C. to resolve the fiscal cliff are most likely to command the attention of investors for the balance of 2012 and potentially the first quarter of 2013.

Economic And Market Outlook: North American And European Earnings

With only seven companies left to report, the 2012 third-quarter earnings season is just about complete. To the surprise of analysts who had assigned a very low growth rate of negative 1.4% to the S&P 500 Index at the beginning of the season on Oct. 8, growth ended up 2.38%, but investors have very quickly turned their focus to the fourth quarter.

International Update: Untested Political Leadership Could Decide Fate Of Shanghai Equity Market Performance In 2013

Politics aside, China should continue to rank among the strongest performers economically in the years ahead, but the moderating tempo of the country's real GDP expansion may persist for much, if not all, of 2013. Official attempts to engineer a shift from investment- to consumption-led growth through a steady relaxation of credit by the People's Bank of China (PBoC) have not yet met with much success.

S&P Index Commentary: Special, Q5 Dividend Payments Are Heating Up

With Costco Wholesale Corp.'s announcement of a special dividend payment and Wal-Mart Stores Inc.'s decision to pay a quarterly dividend in December instead of January, we expect these types of actions to accelerate, barring an accord over the U.S. fiscal cliff before the end of 2012. Specials and so-called fifth-quarter (Q5) payments are designed to take advantage of the tax benefits that may be slashed in 2013.

Leveraged Commentary And Data: EBITDA Growth Slows In The Third Quarter As The Global Economy Softens

Year-over-year EBITDA growth among S&P/LSTA Leveraged Loan Index issuers that file publicly slowed to 9% in the third quarter, from 12% in the second quarter, according to data from S&P Capital IQ. The latest reading is the lowest since the first quarter of 2010.

R2P Corporate Bond Monitor

With some upbeat economic news, risk-reward profiles--as measured by average Risk-to-Price (R2P) scores--improved overall in Europe and North America in the second half of the month from Nov. 16 to Nov. 28. Scores improved in all but the North American materials sector. The overall score improvement was due to decreasing market and credit risks in the two regions, more than offsetting a yield decrease.

Market Commentary: Searching For Return

In an effort to maintain higher yields, investors have been moving away from traditional investments toward alternative investment vehicles. Low interest rates are having an effect on savings and equity/fixed-income portfolios. The S&P Preferred Stock Index has returned 11.24% year to date and 0.56% quarter to date.

Capital Market Commentary: IPOs, M&A, CUSIP Requests, And Corporate Actions

The combination of a shortened holiday week along with the continuing impact of Hurricane Sandy on the operations of some members of the financial industry resulted in a drop in the number of requested CUSIPs among selected debt securities. According to data provided by CUSIP Global Services, identifier requests for the six debt-related securities highlighted below saw a 51% drop in the period ended Nov. 23 from the week-earlier period.

S&P Index Commodity Commentary: Corn-N-Crude: North America Focus In 2012

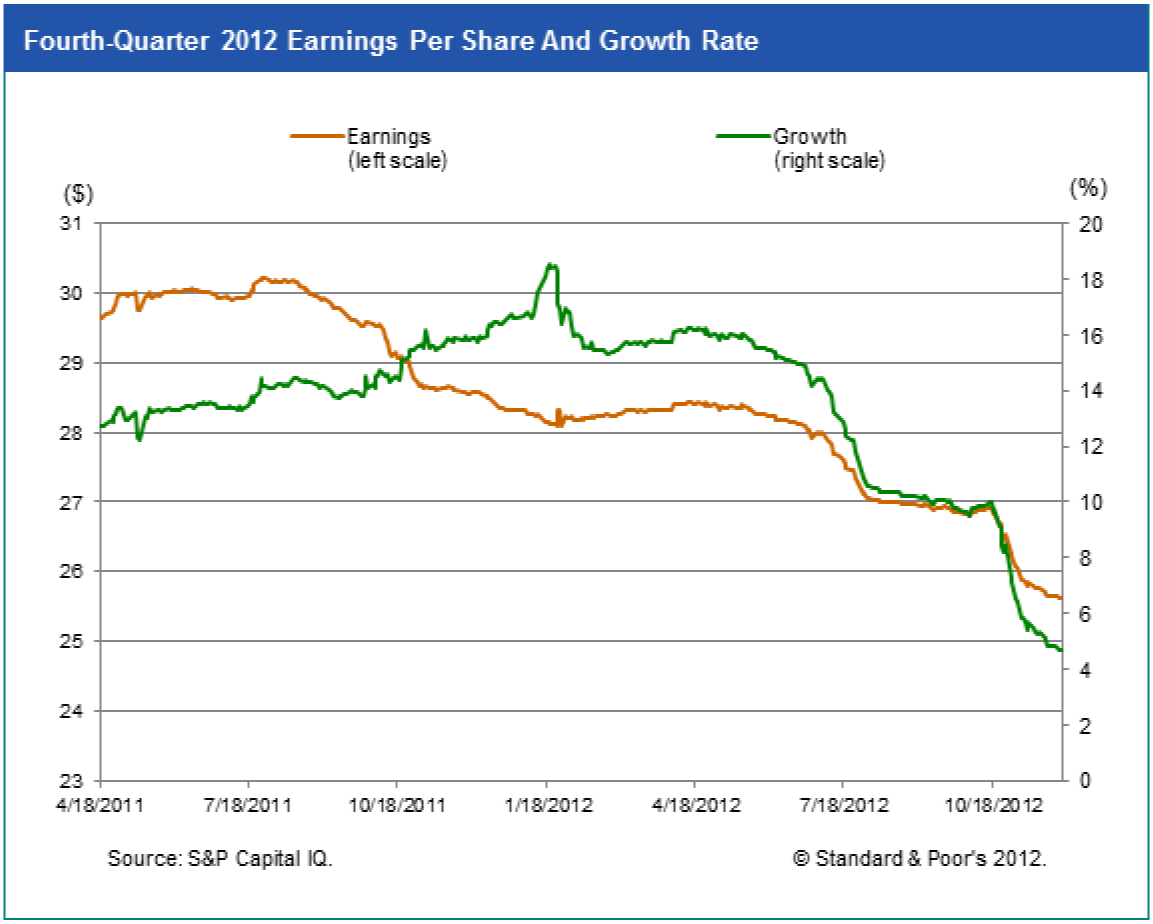
The S&P GSCI has moved back into positive territory in November, led by strength in industrial metals and livestock. Economic optimism for 2013 appears to be supporting the industrial metals, while rapidly increasing North American energy production is pressuring energy prices. Year-to-date, WTI crude oil has been the main dud, while the grains have been the studs, currently led by corn.

Economic And Market Outlook: North American And European Earnings

North America

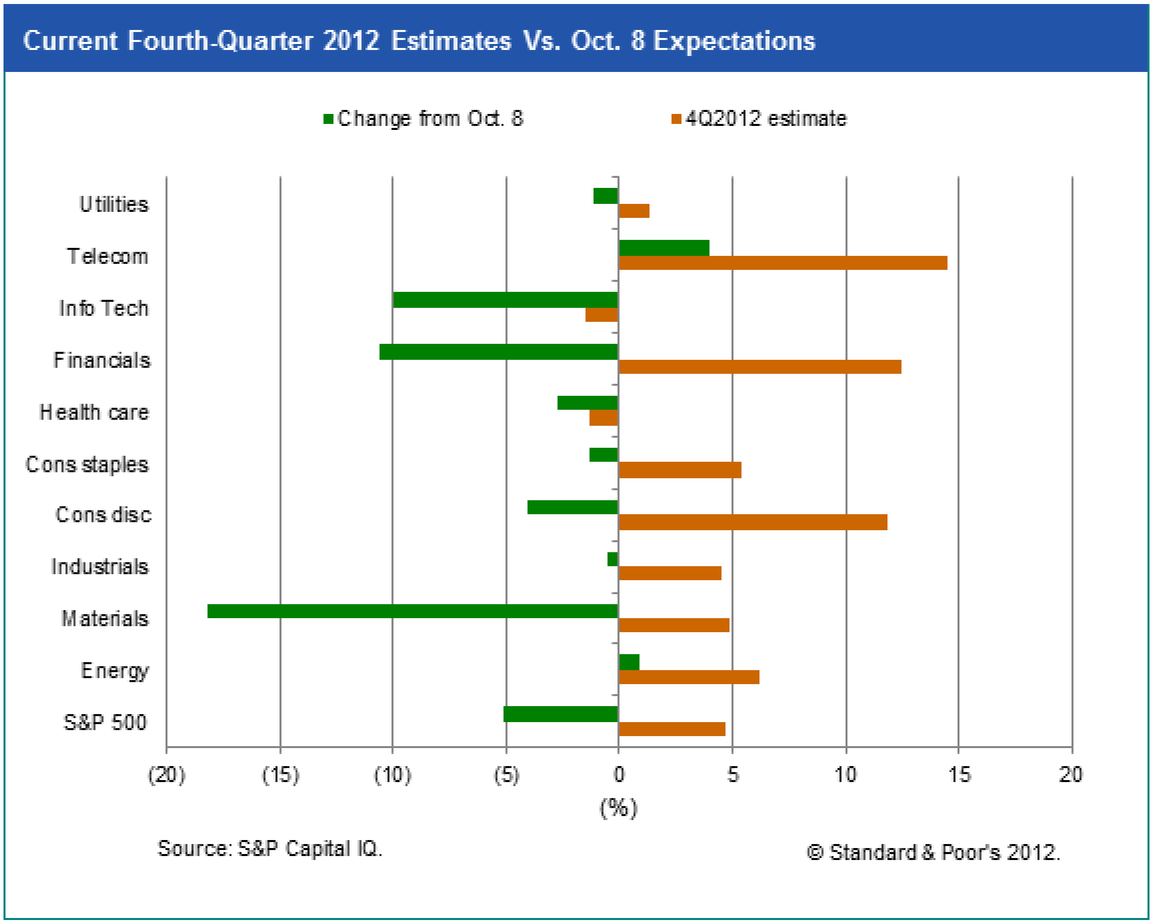
With only seven companies left to report, the 2012 third-quarter earnings season is just about complete. To the surprise of analysts who had assigned a very low growth rate of negative 1.4% to the S&P 500 Index at the beginning of the season on Oct. 8, growth ended up 2.38%, but investors have very quickly turned their focus to the fourth quarter (see chart 2). In October, high-double-digit expectations for the fourth quarter seemed unattainable in contrast to a third quarter that was expected to be negative on a year-over-year basis. Since then, growth expectations have been halved, expected to come in at 4.7%, from 9.8% on Oct. 8. This is the lowest the fourth-quarter 2012 growth estimate has been since GMI began collecting data in April 2011.

Chart 2



Forward-looking guidance from S&P 500 companies has partially led to deteriorating estimates. Eight of 10 sectors have had estimates slashed since Oct. 8 (with the exception of energy, up 1.13%, and telecommunications, up 4.02%). The sector taking the biggest hit thus far is materials (see chart 3). Growth there is now pegged to come in at 4.9%, down from a whopping 23%, originally expected to be the leader of fourth-quarter growth. It is no surprise that estimates for this sector have suffered, specifically those within the metals and mining industry, the materials industry with the weakest earnings growth in the third quarter (down 50.2%). Companies within the materials sector have also provided the second largest amount (19%) of negative guidance for the fourth-quarter 2012.

Chart 3



Next on the list is the financial sector, with estimates dropping 10.61% since Oct. 8. This sector was also supposed to be a leader of fourth-quarter growth, with 23%, but while only 4% of financial companies provided negative guidance for the fourth quarter, many of the big banks proposed cost-cutting programs in 2012 that suggested the road to a full recovery is still a lengthy one. One of the most noteworthy announcements came from Bank of America Corp., the second largest U.S. bank, which plans on cutting 16,000 positions by year-end in order to speed up its company-wide cost-cutting initiative (to reduce 30,000 employee positions) proposed earlier in the year. With the banks estimated to have 10% to 15% fewer employees by the end of 2012 than in 2011, many fear the industry will permanently shrink.

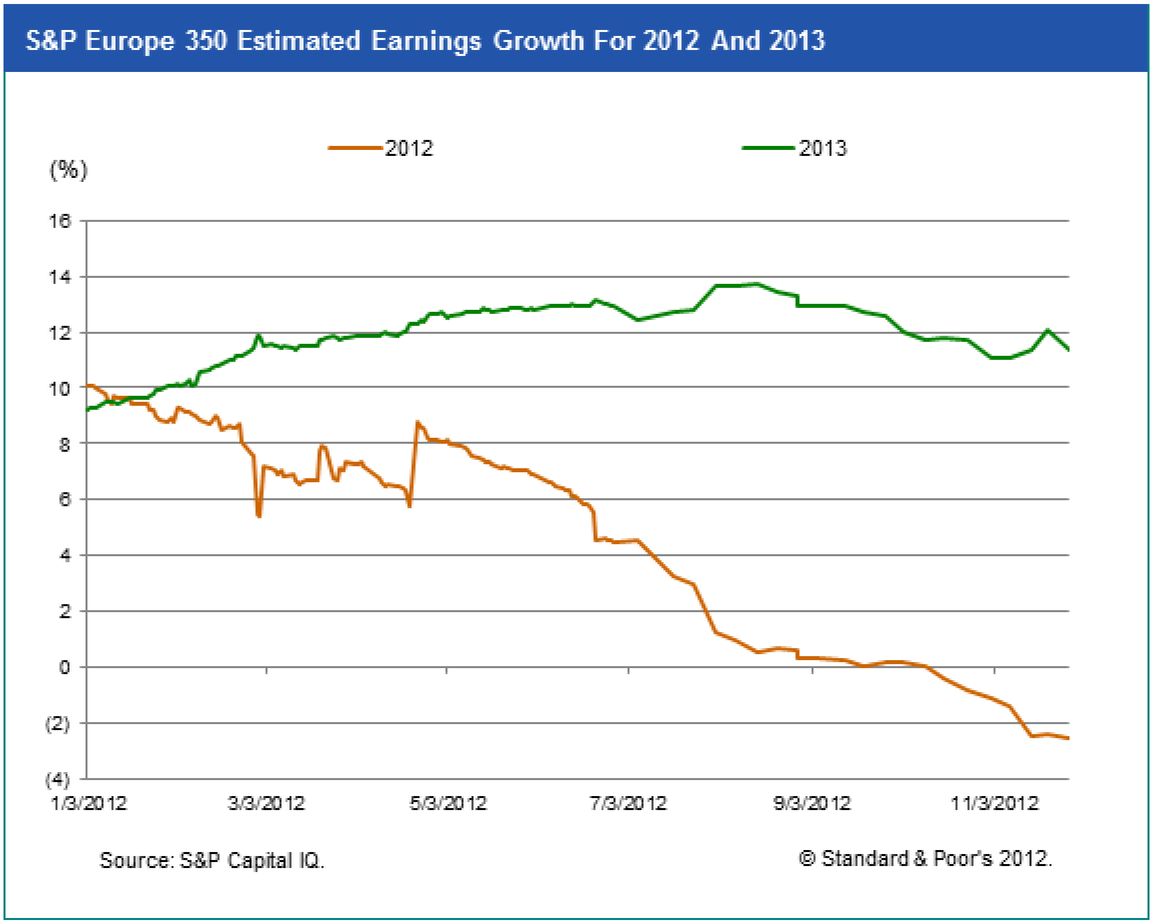
Revenue expectations for the fourth quarter have also been ratcheted down, although they are still pegged to come in stronger than they did in the third quarter. Currently, the fourth quarter revenue growth estimate stands at 3.7%, down 0.3% since Oct. 8. While 63% of companies managed to beat third-quarter earnings estimates, only 38% exceeded revenue estimates, a historical low. If revenues remain low, the only way companies can turn profits is to keep cutting costs, which is unsustainable. It is clear there are some revenue concerns in corporate America, and companies will have to focus on growing their top line if they expect sustained profit growth in the fourth quarter of 2012 and beyond.

Europe

As we near the end of 2012, estimates for yearly growth for both the S&P 500 and S&P 350 remain consistent in that they both continue to decline. However, the situation for European earnings has become increasingly dire, with growth now expected to come in at negative 2.53%, the lowest estimate since we began tracking this data at the beginning of the year (see chart 4). This is of particular concern because the companies in the S&P Europe 350 Index are up against a low base from 2011. Last year's earnings growth was negative 1.89%.

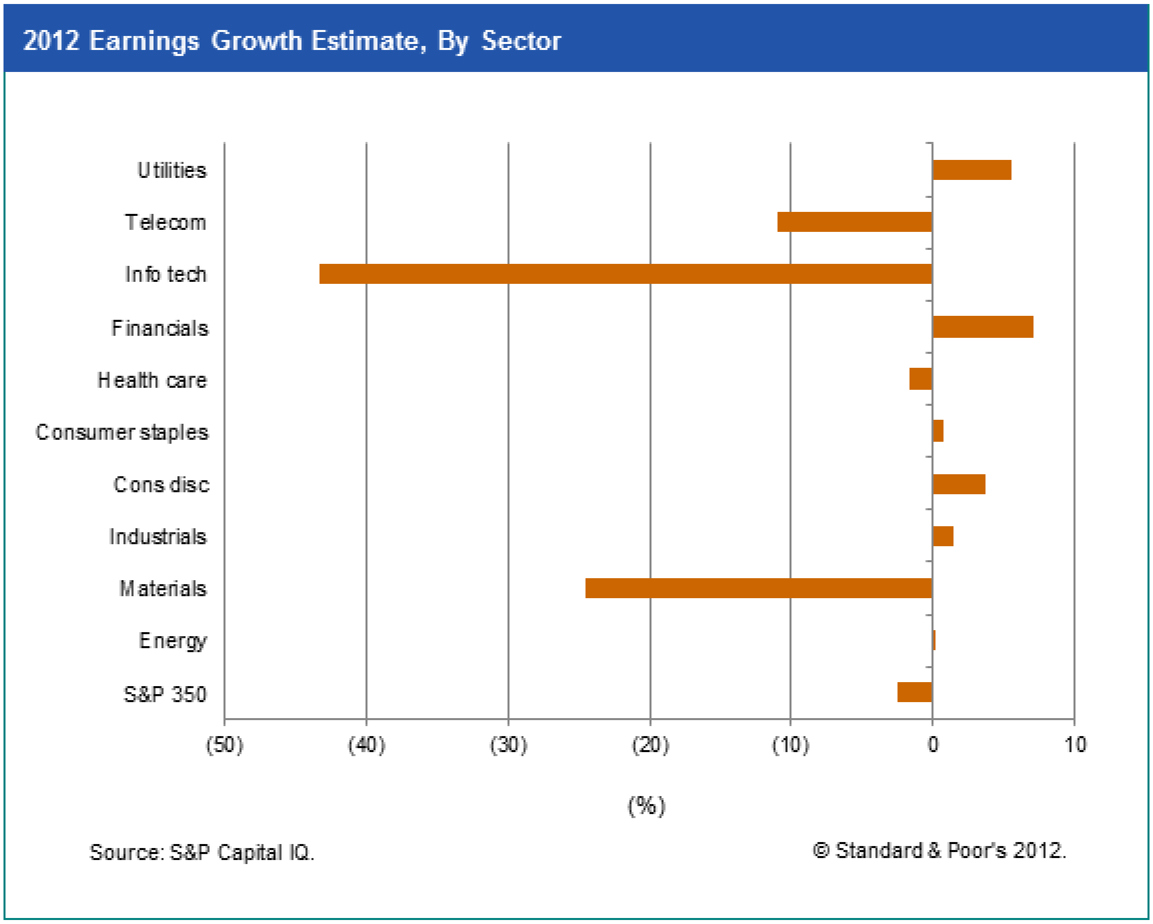
Like in the U.S., the third-quarter earnings season for the Europe 350 is also winding down (only 187 Europe 350 companies reported third-quarter earnings), and worse-than-expected numbers have hurt the overall yearly growth rate. On a positive note, estimates for the energy sector have popped up into positive territory, bringing the total number of companies expecting positive growth for 2012 to six, an increase from only five last week.

Chart 4



This past week, analysts made the most significant cuts to the financials sector, with growth estimates 0.9 percentage points lower since the last edition of this report (see "Lookout Report: Hurricane Sandy Clouds The Fundamental U.S. Outlook," published Nov. 9, 2012, on RatingsDirect). This brings the estimate for financials down to 7.1%, the lowest level since we began collecting 2012 figures, but still making it the leader of growth for the year (see chart 5). Of particular concern for the sector are the amount of workforce reductions announced by some of the region's largest banks, with the likes of HSBC Bank PLC (Europe's largest bank), UBS AG, Deutsche Bank, and Credit Suisse all announcing massive layoffs this year. All of these banks, with the exception of Deutsche, missed on both third-quarter earnings and revenue estimates. One of the worst offenders was HSBC, which posted third-quarter earnings per share of €0.15, only missing expectations by €0.02, but down 32% on a year-over-year basis. Revenues of €11.2 billion also missed estimates, down 27% from the third quarter of 2011. Credit Suisse saw third-quarter profits of €0.47 per share, missing estimates by €0.06, but higher than the year-ago figure. Revenues were slightly weaker than expected at €4.85 billion, missing estimates by €4 million. And while UBS beat non-GAAP estimates, GAAP earnings per share came in at negative €0.48, missing expectations by €0.80. Revenues of €5.3 billion missed by €26 million.

Chart 5



Estimated growth for 2013 still remains high at 11.4%, although that figure has steadily been decreasing in recent months. Analysts expect all sectors to report growth next year, with the exception of the telecommunication services (negative 0.74%) and utilities (negative 3.5%) sectors. The information technology (45.7%) and financials (26.6%) sectors are projected to lead growth next year.

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International Update: Untested Political Leadership Could Decide Fate Of Shanghai Equity Market Performance In 2013

The Chinese Communist Party (CCP) may have seemed resolute in choosing a new leadership team at the 18th party congress earlier this month. However, the proceedings were anything but smooth. The intrigue surrounding the selection process revealed internecine power struggles that had not surfaced at recent party conclaves, promising an intense rivalry for control of the political and economic policy agendas in the coming years. At stake is the pace of political reform, if any, as well as the performances of the macroeconomy and shares markets, both of which are unlikely to recover much ground in the coming year.

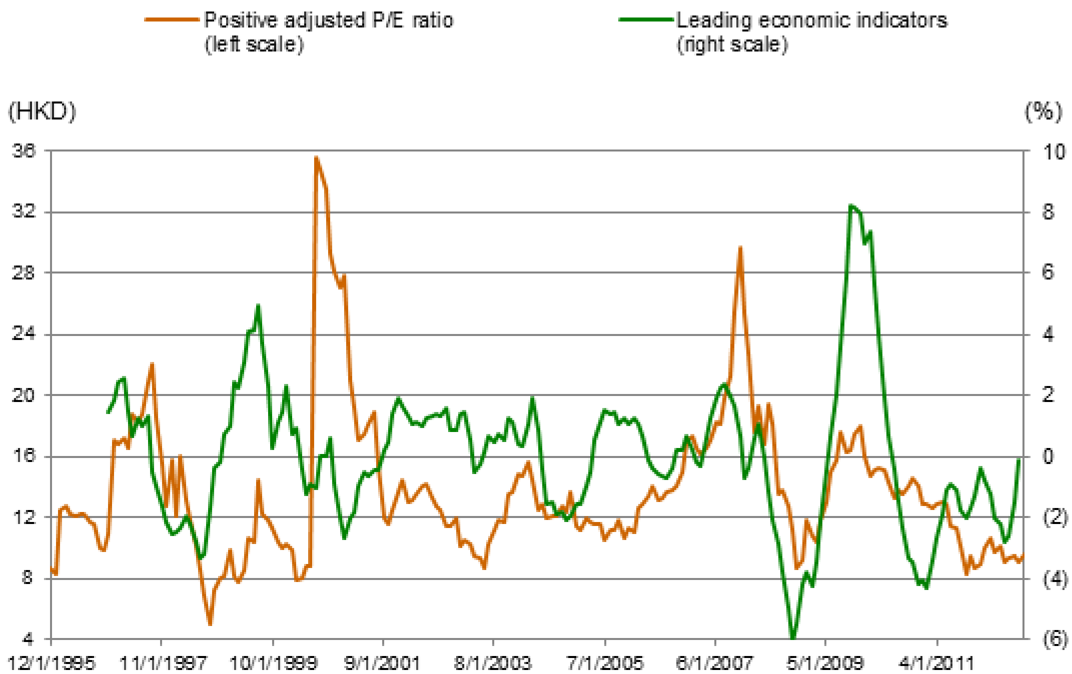
The dismissal, ostracism and arrest of Bo Xilai, Chongqing's maverick party secretary, exposed long-festering factional strife within the CCP for the first time in 23 years. Not since the Tiananmen Square massacre had the party exhibited such widespread splintering at the highest echelons of the CCP in which its leaders just barely avoided a rupturing of the consensus that has defined the party's political succession process for the past two decades. The adverse implications of internal party strife for foreign investment obfuscate an already obscure regulatory and policy atmosphere in the planet's third richest and most populous nation.

Politics aside, China should continue to rank among the strongest performers economically in the years ahead, but the moderating tempo of the country's real GDP expansion may persist for much, if not all, of 2013. Official attempts to engineer a shift from investment- to consumption-led growth through a steady relaxation of credit by the People's Bank of China (PBoC) have not yet met with much success despite pledges by the monetary authorities to provide additional stimulus in light of decelerating inflationary pressures at the retail level, owing to abating real economic activity. Weak foreign demand, combined with a forecast modest uptick in domestic consumption and still opaque investment climate, make for uninviting Chinese economic prospects next year.

Notwithstanding patchy evidence of a nascent rebound in output according to October's purchasing managers' index report, the Shanghai stock exchange has lost a little over 8% of its value in dollar terms so far this year, compared with better year-to-date performances in the U.S. and global equity markets. Even on a relative valuation basis, Chinese shares--denominated in the Hong Kong dollar--remain unenticing to either domestic or overseas investors. Shanghai's double-digit 2012 (10.1x) and high, single-figure 2013 (9.3x) forward price-to-earnings multiples render Chinese companies comparatively less expensive than peers in Asia's emerging markets, except for South Korea. Moreover, China appears cheap vis-à-vis its all-time 35.5x high and historical 13.9x average (see chart 6).

Chart 6

Adjusted, Positive Shanghai Stock Exchange P/E Ratio (HKD) And Chinese Leading Economic Indicators



P/E--Price-to-earnings. Source: Bloomberg.

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Nevertheless, both domestic and foreign investors should refrain from buying into the ongoing sell-off, which we believe has not yet run its course pending the promulgation of clear policy objectives by the new regime. Anticipations of escalating political gridlock in Beijing and weakening economic momentum spreading nationwide indisputably spell more depreciation for Chinese shares, regardless of attractive relative market valuations and generous credit conditions domestically.

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S&P Index Commentary: Special, Q5 Dividend Payments Are Heating Up

With Costco Wholesale Corp.'s announcement of a special dividend payment and Wal-Mart Stores Inc.'s decision to pay a quarterly dividend in December instead of January, we expect these types of actions to accelerate, barring an accord over the U.S. fiscal cliff before the end of 2012. Specials and so-called fifth-quarter (Q5) payments (first-quarter payouts made in the fourth quarter) are designed to take advantage of the tax benefits that may be slashed in 2013 (see table 1).

There is little cost to companies, as they are not making any money on the cash over the time period, and the cash-flow change will have a very minor impact on their year-end ratios. To the individual investor, however, the tax savings could be significant (remember, this is one-time savings). If the U.S. falls off the cliff in January, investors would be able to keep only 56.1% instead of 85% now. In January 2012, U.S. domestic common-listed issues paid out more than $20 billion in qualified payments, so the stakes are high.

Special dividends have been a hot topic for almost two years, as cash levels remained at record levels and investors sought returns; however, there have not been many actual specials announced and some were situational. The difference now is urgency as the end of 2012 approaches. We expect a rise in special dividends, and although we don't see a massive increase, we do expect the numbers to be much larger than in recent history.

While the priority of all boards is shareholder return, closely held companies may be more aware of the potential pain (and tax). And second, specials need to be reviewed on a company-by-company basis, with the current status of the company's market position and the short- and long-term impact on the business.

Table 1

Standard & Poor's Monthly Dividend Action Report

Extra

	2012	2011	2010	2009	2008	2007	2006	2005	2004
Jan	31	24	37	27	44	50	30	27	25
Feb	28	25	30	30	50	30	43	36	30
Mar	51	30	28	21	22	31	30	29	26
Apr	33	19	27	20	24	22	26	23	22
May	34	31	26	20	37	31	34	25	29
Jun	39	18	15	19	31	39	29	17	22
Jul	19	15	16	15	21	26	27	27	33
Aug	28	24	31	8	20	19	32	27	29
Sep	28	25	33	17	37	37	29	24	22
Oct	54	35	53	31	37	39	33	37	30
Nov	216	72	97	59	46	71	88	76	81
Dec		142	184	146	153	233	221	196	172

Source: S&P Dow Jones Indices.

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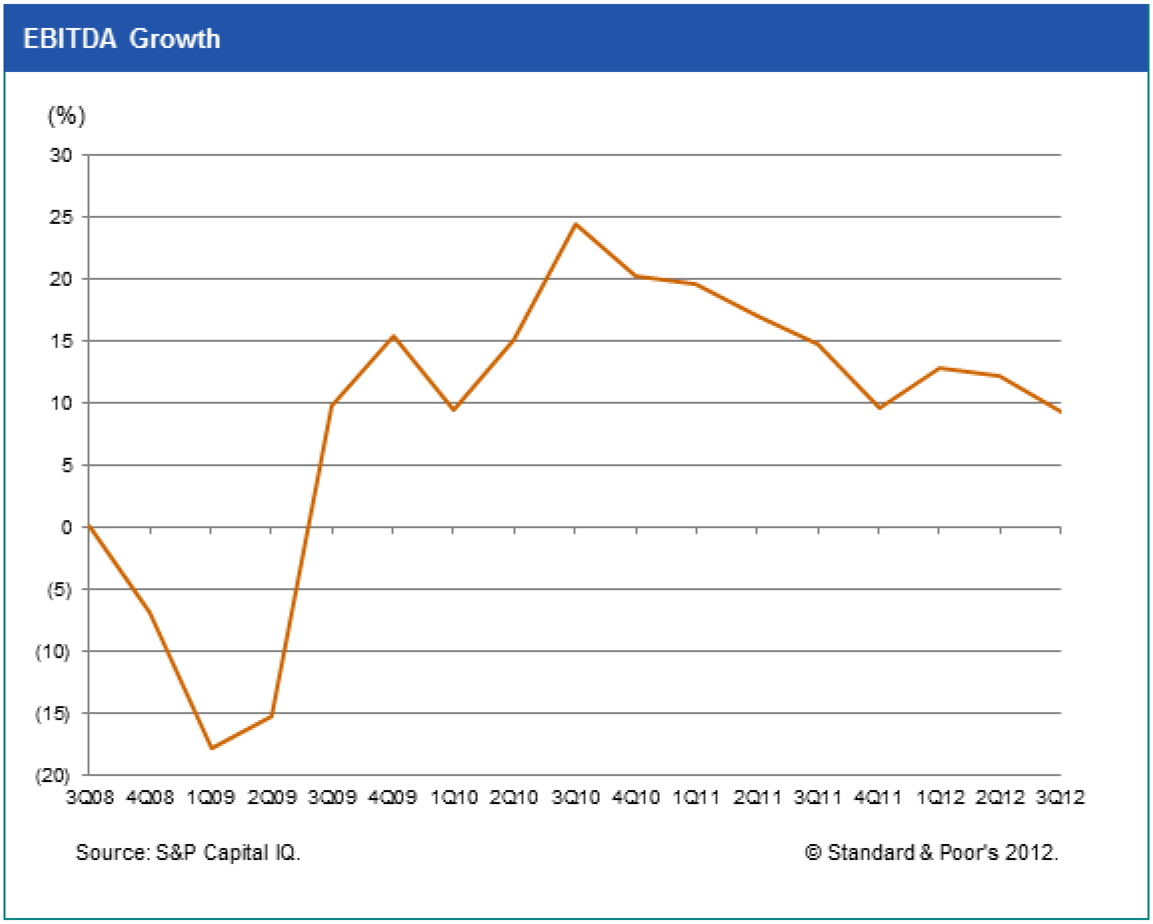
Leveraged Commentary And Data: EBITDA Growth Slows In The Third Quarter As The Global Economy Softens

Year-over-year EBITDA growth among S&P/LSTA Leveraged Loan Index issuers that file publicly slowed to 9% in the third quarter, from 12% in the second quarter, according to data from S&P Capital IQ. The latest reading is the lowest since the first quarter of 2010 (see chart 7).

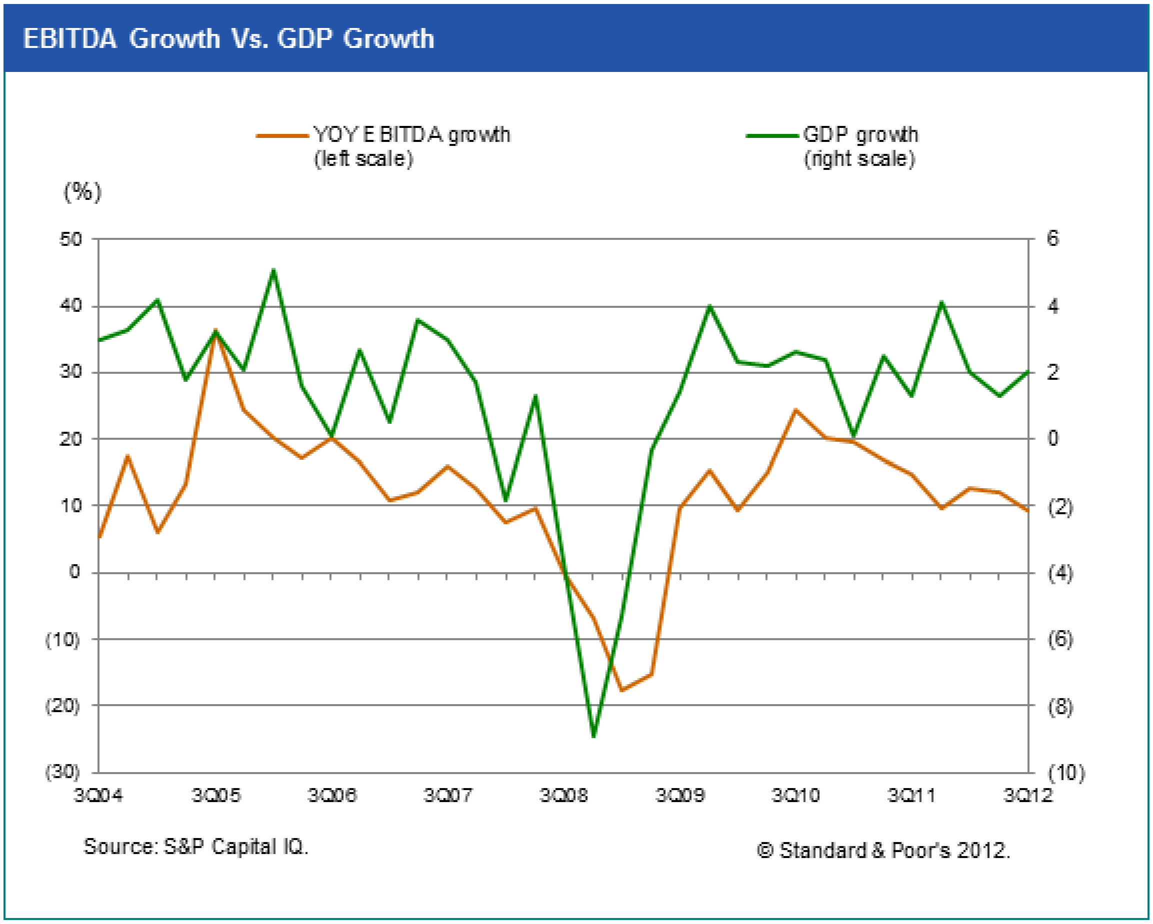
Chart 7



Managers say they are seeing a similar pattern in their portfolios. In fact, LCD's sample overstates the increase because the public sample skews to large, better-performing issuers and issuers are making adjustments that cast the results in their best light.

Looking past this noise, managers' ballpark estimate for third-quarter EBITDA expansion is in the mid-single digits, down from the low-double digits last year. Cash flow, they observe, has come under pressure for three reasons. First, clearly, is softer U.S. economic activity (see chart 8).

Chart 8



The second factor weighing on EBITDA is ongoing economic stagnation in the eurozone, where GDP contracted by a slight 0.1% in the third quarter, according to OECD.StatExtracts, after shrinking 0.2% in the second quarter. Certainly, this trend is a minus for the many leveraged loan issuers that either operate in, or export to, Europe.

Finally, and anecdotally, managers say that the heroic cost-cutting that most businesses undertook during the recession and in the years since has largely run its course, leaving Corporate America with far less fat to trim in order to bolster cash-flow margins.

Drilling down, managers say they saw softness in cyclical businesses in the third quarter. Chemicals, they say, were particularly hard hit. As well, they report that health care issuers posted soft numbers.

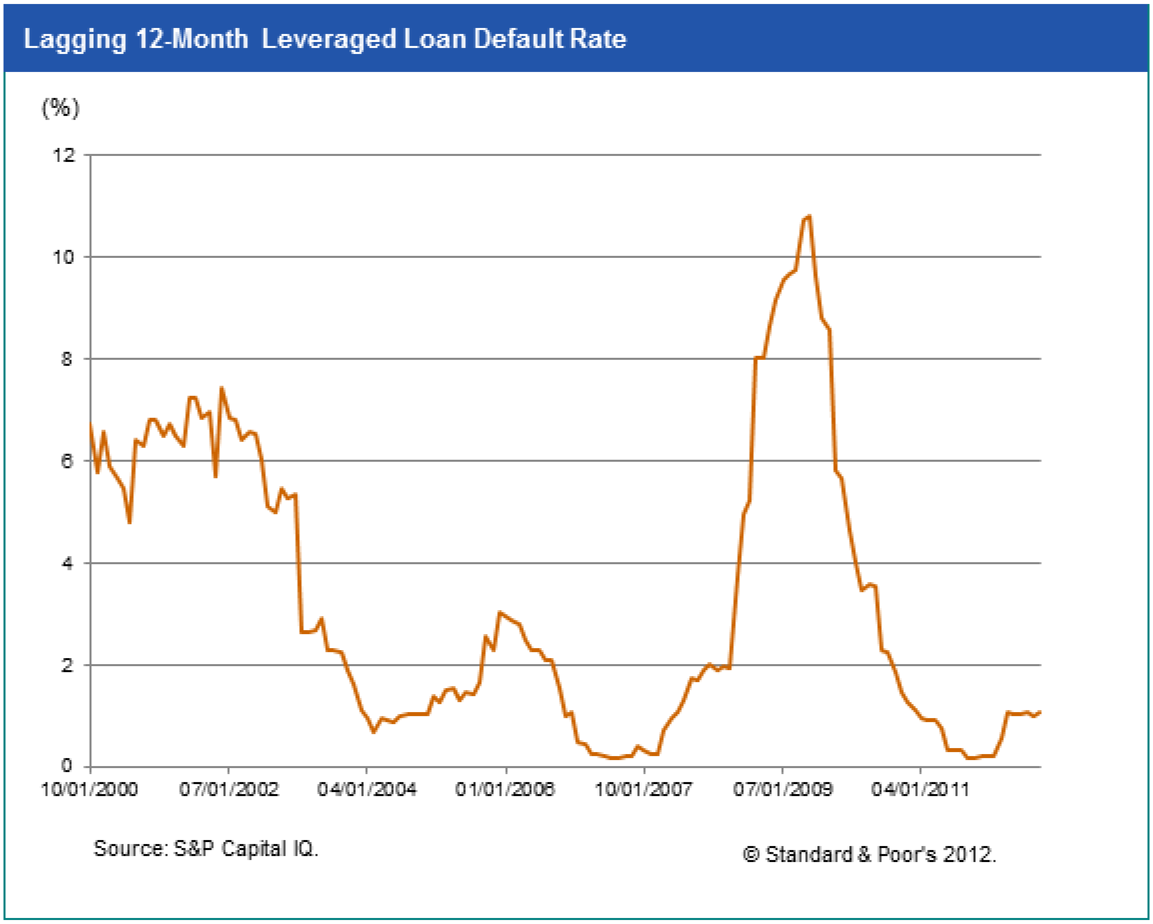
Looking ahead, managers expect EBITDA to grow modestly in the fourth quarter and into 2013, assuming the U.S. economy continues to plod along, as most experts expect.

Beth Ann Bovino, deputy chief economist for Standard & Poor's Ratings Services, has become a bit more bullish lately as a result of a better tone in the housing sector. In a Nov. 14 note, Bovino raised her 2013 GDP growth forecast to 2.3% from 1.8%. Still, that is just a slight improvement over the 2011 estimated rate of 2.2% and inside the long-term average of 3.4%.

This lackluster forecast helps explain why Wall Street analysts estimate that earnings among S&P 500 companies will increase 4.6% in the fourth quarter and 10.2% in 2013, according to S&P Capital IQ's Bob Keiser.

If the economy avoids a double dip, and earnings growth continues even marginally, managers expect default rates to remain in check for the next 12 to 24 months (see chart 9).

Chart 9



The reason, they say, is twofold. One, the once-mighty cliff of loan maturities now stands at just $6 billion through 2013 and an additional $50 billion through 2014. Second, managers say that the Federal Reserve's open-ended commitment to low interest rates and loose monetary policy virtually guarantees that the window to extend maturities will remain open for all but the most distressed issuers.

Of course, the list of potential complications here is well known. It includes a political breakdown in the U.S., more pain in Europe, a hard landing in China, and further escalation of Middle East strife. For these reasons, Bovino puts the odds of a recession at 15% to 20%, an outcome that would undoubtedly pinch corporate cash flow, hinder liquidity, and push default rates higher.

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R2P Corporate Bond Monitor

The number of Americans filing new claims for unemployment benefits dropped for a second straight week last week, unwinding some of the storm-related surge, which has muddled the labor market picture. According to the Labor Department, initial claims for state unemployment benefits dropped 23,000 on Nov. 29 to a seasonally adjusted 393,000.

In addition, the U.S. economy grew faster than initially thought in the third quarter.

In Europe, Germany's closely followed IFO Institute business climate index indicated better-than-expected economic activity in November, posting the first uptick in the business barometer since the start of the second quarter of this year. The index rose to 101.4 from 100.0 in October, clearly exceeding expectations for yet another consecutive decline to the vicinity of 99.5, according to consensus economist expectations. The surprise uptick provides some hope that the European economy may be attempting to stabilize as we close out 2012.

With some upbeat economic news, risk-reward profiles--as measured by average Risk-to-Price (R2P) scores--improved overall in Europe and North America in the second half of the month from Nov. 16 to Nov. 28 (see tables 2 and 3). Scores improved in all but the North American materials sector. The overall score improvement was due to decreasing market and credit risks in the two regions, more than offsetting yield decrease.

In North America, scores overall improved by 10% as a result of a decrease in the average probability of default (PD) and in the 20-day historical bond price volatility of 2% and 6%, respectively, more than offsetting one basis point tightening in the average option-adjusted spread (OAS).

In Europe, scores increased by 7% as a result of a decrease in the average PD and in the bond price volatility of 5% and 11%, respectively, more than offsetting the tightening in the average OAS of 4 bps.

Table 2

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

	Scores (%)	OAS (bps)	PD (%)	Bond price vol. (%)
Consumer discretionary	10	(3)	(11)	(2)
Consumer staples	5	(1)	6	2
Energy	10	(2)	(16)	(7)
Financials	3	(1)	27	(10)
Health care	8	(3)	12	(5)
Industrials	16	(4)	(18)	(9)
Information technology	11	(3)	7	(14)
Materials	11	5	(10)	2
Telecommunication services	10	(2)	(11)	(7)
Utilities	12	0	(10)	(12)

Change as of Nov. 28, 2012, from Nov. 16, 2012.

Table 3

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

	Scores (%)	OAS (bps)	PD (%)	Bond price vol. (%)
Consumer discretionary	11	(0)	(27)	(7)
Consumer staples	5	1	(5)	(6)
Energy	13	(5)	(28)	(10)
Financials	6	(3)	43	(29)
Health care	8	0	(5)	(13)
Industrials	8	(1)	(24)	(16)
Information technology	6	(20)	8	7
Materials	(4)	(3)	(13)	(6)
Telecommunication services	9	(6)	6	(14)

Table 3

European Risk-Reward Profiles By Sector--Average R2P Score And Components Changes (cont.)				
Utilities	10	1	(1)	(13)

Change as of Nov. 28, 2012, from Nov. 16, 2012.

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Market Commentary: Searching For Return

In an effort to maintain higher yields, investors have been moving away from traditional investments toward alternative investment vehicles. Low interest rates are having an effect on savings and equity/fixed-income portfolios (see chart 10).

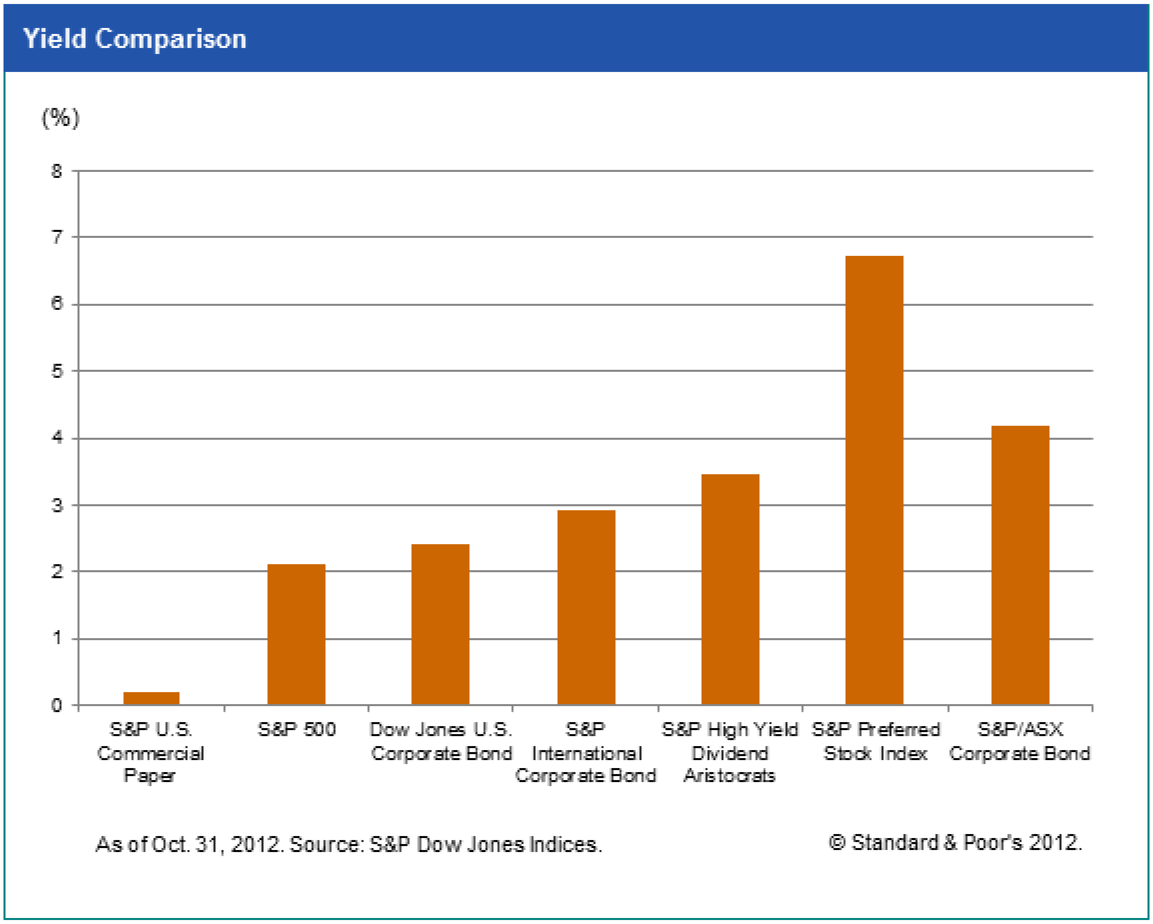
The S&P Preferred Stock Index has returned 11.24% year to date and 0.56% quarter to date. Performance for the early half of November saw preferred stocks sell off by 2.08% as fiscal cliff concerns took hold. The threat of higher taxes and their constraining effect on dividends turned the outlook of this product negative. Adding to fiscal cliff fears was the additional threat of increased government regulation toward financial institutions that traditionally have been the largest issuers of preferred securities. Since Nov. 15, preferred stock has recovered 1.5% of return as investors come to grips with the ever-changing outlook of these policy issues.

The S&P U.S. Preferred Stock Index is designed to serve the investment community's need for an investable benchmark representing the U.S. preferred stock market. Preferred stocks are a class of capital stock that pays dividends at a specified rate and has a preference over common stock in the payment of dividends and the liquidation of assets.

The investible product to the benchmark is the PFF ETF by iShares. This fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the S&P U.S. Preferred Stock Index.

There are risks to this investment vehicle as with any investment. Preferred issuers can default on their obligation. Some preferred stocks come with a call or mandatory conversion feature, which in a low rate environment would likely be enacted.

Chart 10



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Capital Market Commentary: IPO, M&A, CUSIP Requests, And Corporate Actions

Given that IPOs often freeze out investors seeking shares at the offer price, are there any clues as to what have been the leading performers among this year's crop of U.S. IPOs following their first trade day? In our review of S&P Capital IQ data, we found that seven of the 10 leading issues raised less than $100 million (see table 4). In addition, we found that the information technology sector was among the frequent sectors listed. For this year's IPOs, the post-trade day leaders possessed a combination of these variables.

Table 4

Leading U.S. IPOs 2012--Performance After First Trade Day

Effective date	Target/issuer	Value (mil. $)	First day price after offer ($)	Day close price ($)	Change (%)
3/7/2012	Nationstar Mortgage Holdings Inc.	233.3	14.20	29.36	106.76
4/30/2012	Supernus Pharmaceuticals Inc.	50.0	5.37	10.96	104.10
2/10/2012	HomeStreet Inc.	83.4	12.00	23.11	92.58
1/24/2012	Guidewire Software Inc.	115.1	17.12	31.28	82.71
7/23/2012	Chuy's Holdings Inc.	75.8	15.06	24.64	63.61
7/25/2012	Northern Tier Energy LP	227.5	14.16	22.51	58.97
2/1/2012	Greenway Medical Technologies Inc.	66.7	13.00	18.98	46.00

Table 4

Leading U.S. IPOs 2012--Performance After First Trade Day (cont.)					
10/9/2012	Ambarella Corp.	36.0	6.06	8.73	44.06
2/7/2012	EPAM Systems Inc.	72.0	14.00	20.11	43.64
5/9/2012	WageWorks Inc.	58.5	12.60	17.98	42.70

Source: S&P Capital IQ.

M&A

Following Thanksgiving, more than $37 billion in announced U.S. merger and acquisition (M&A) deals have taken place, according to S&P Capital IQ data (see table 5). That figure represents 5% of the aggregate amount of $743.7 billion in U.S. M&A activity year to date. Furthermore, with the fourth quarter two-thirds of the way over, it appears merger activity is headed for its third consecutive quarterly increase. Specifically, with $179.3 billion in U.S. M&A activity since October, fourth-quarter 2012 is poised to show an advance from the third-quarter deal total of $209.9 billion and $206 billion in second-quarter 2012, according to S&P Capital IQ data. Whether a flurry of deals by year-end represents a function of sellers wanting to take advantage of current tax rates or buyers putting money to work, U.S. M&A for the post-Thanksgiving period through year-end is on track to top the $66 billion in deals that took place during the post-Thanksgiving to year-end 2011 period.

Table 5

Leading Post-Thanksgiving U.S. M&A Deals

Announced date	Target/issuer	Buyers/investors	Value (mil. $)
11/26/2012	Archstone-Smith Trust	Equity Residential; Avalonbay Communities Inc.	22,441.52
11/27/2012	Ralcorp Holdings Inc.	ConAgra Foods Inc.	7,045.19
11/26/2012	McGraw-Hill Education Inc.	Apollo Global Management LLC	2,747.00
11/26/2012	USI Holdings Corp.	Onex Corp.	2,300.00
11/26/2012	Alon USA Delaware, Alon USA GP II, LLC and Alon Refining LLC	Alon USA Partners LP	943.50
11/28/2012	Healthpoint Ltd.	Smith & Nephew plc	792.00
11/28/2012	Knight Capital Group	Getco LLC	539.00
11/26/2012	Thomas Medical Products Inc.	Merit Medical Systems Inc.	167.00
11/26/2012	Cimarron Energy Inc.	Curtiss-Wright Corp.	135.10
11/26/2012	Florida Gaming Centers Inc.	Silvermark LLC	130.00

Source: S&P Capital IQ.

Debt

The combination of a shortened holiday week along with the continuing impact of Hurricane Sandy on the operations of some members of the financial industry resulted in a drop in the number of requested CUSIPs among selected debt securities. According to data provided by CUSIP Global Services, identifier requests for the six debt-related securities highlighted below saw a 51% drop in the period ended Nov. 23 from the week-earlier period. Nonetheless, many debt offerings are experiencing double-digit percentage increases in 2012 compared with the year-ago period (see table 6). To that end, given the positive relationship between CUSIP requests and security issuance, in general, we anticipate an increase in underwriting activity in the near term.

Table 6

Selected Debt Securities CUSIP Requests

	Week ended 11/23	Week ended 11/16	2012ytd	2011ytd	YOY change (%)
Domestic Corp Debt	58	133	9,271	9,460	(2.00)
Municipals	181	367	14,982	11,910	25.79
ST Muni Note	10	18	1,381	1,541	(10.38)
LT Muni Note	5	8	528	359	47.08
Int'l Debt	21	45	1,585	1,349	17.49
PPN Domestic Debt	33	64	2,003	1,756	14.07
Total	308	635	29,750	26,375	12.80

Corporate Actions

With lack of a resolution at this time over matters relating to the so-called fiscal cliff as well as recognition that mandated higher levies will occur in 2013 for many recipients of corporate dividend payouts, many U.S. companies have made special dividend announcements. According to a current review of S&P Capital IQ data, during the month of November, 108 such announcements took place among U.S. companies trading on major U.S. exchanges, excluding public funds and public investment firms. That represents nearly half of the 222 special dividend announcements that have occurred this year. Two sectors account for nearly half of November's special dividend announcements, as 30 were from financials and 21 from consumer discretionary firms. Additionally, of the special dividends announcements that have been declared in November, more than 90% have occurred following the Nov. 6 U.S. presidential election.

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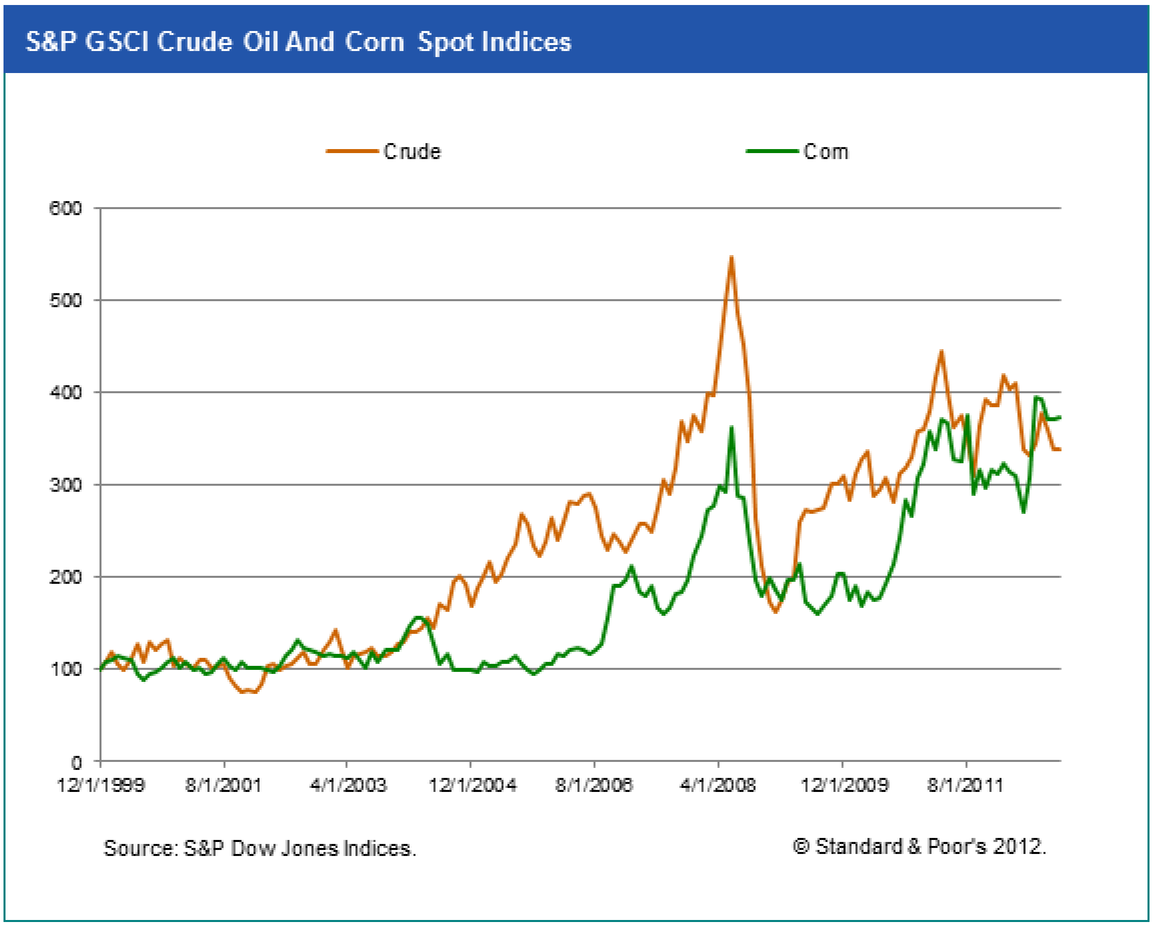
S&P Index Commodity Commentary: Corn-N-Crude: North America Focus In 2012

Commodities have moved back into positive territory in November, led by the industrial metals and livestock. The S&P GSCI Industrial Metals index gained 4.86% month to date, as of Nov. 29, making it the best performing major sector index on the month. Economic optimism and the anticipation of increasing global demand in 2013, notably from China, has supported the industrial metals this month, helping to boost the S&P GSCI 1.37% month to date. The 2.01% month-to-date increase in the S&P GSCI Livestock index represents the second best performing major sector in November due to diminishing drought related supplies and increasing global demand. Rapidly increasing North American energy production has helped energy prices to remain relatively tame in November and year to date, as measured by the S&P GSCI Energy index month-to-date increase of 1.52%, which has lessened the year-to-date decline to 2.42%. Conversely, the S&P GSCI Non-Energy index posted a year-to-date gain of 7.75%. On a single commodity basis, the S&P GSCI Corn index has been one of the largest contributors to S&P GSCI total returns in 2012, with a gain of 29.32%, while the S&P GSCI Crude Oil index decline of 14.60% has been the largest drag.

The S&P GSCI ended Nov. 29 with a year-to-date decline of 0.62% and a spot decline of 0.69%. Commodities, as measured by the S&P GSCI, are truly global but North America has received much of focus in 2012. The paradigm shift in North American energy production is pressuring energy prices while the U.S. grain belt centered drought in 2012 has supported agriculture prices. According to the Energy Department, "U.S. production of crude and other liquid hydrocarbons, which includes biofuels, will average 11.4 million barrels per day next year. That would be a record for the U.S. and just below Saudi Arabia's output of 11.6 million barrels."

Due to the production of biofuels, most analysts opine that grains and energy should be becoming more and more interlinked as accentuated by ethanol production, which currently consumes about 40% of the U.S. corn crop compared with a fractional amount in 2000. Year to date, the spot price of corn has increased 17.36%, compared with a decline of 10.89% for WTI crude oil. Over the past five years, the spot price of corn has increased about 90% compared with a decline of about 3% for WTI crude oil. Chart 11 below depicts the spot changes of corn and crude oil since the end of 1999. The global economic significance of the two commodities can be roughly determined by their world production derived weights in the S&P GSCI: 28.4% for WTI crude oil vs. 5.5% for corn, on Nov. 29. Five years ago, the weights were 39.5% and 2.7%, respectively. If the price of crude doubles overnight, it would have a much more significant impact on global GDP than if the price of corn doubles but the relative level of significance of corn, has been gaining on crude.

Chart 11



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