Lookout Report
from Global Markets Intelligence

China's Economy And Markets Are Driving Global Investor Psychology And Risk Tolerance

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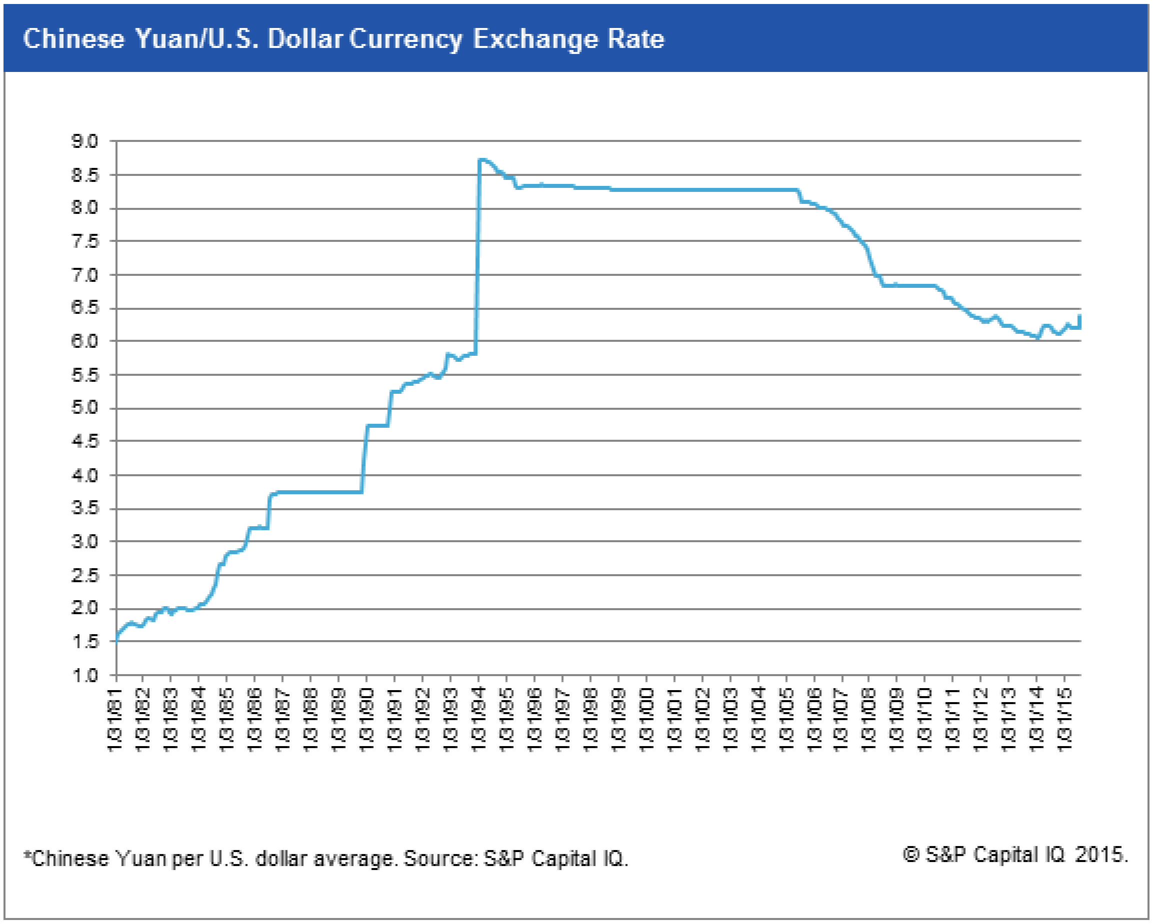
Recent disappointing news out of China has disrupted financial markets across the globe. It started late in the day on Aug. 10 (22:00 EDT) when China announced it was devaluing its managed foreign exchange currency rate to 6.2298 from 6.1162 yuan to the dollar (see chart 1). This was followed two days later by disappointing economic reports that Chinese retail sales and industrial production growth were weaker than expected in July. The cumulative effect of these two developments shook investor confidence in global equity and credit markets, taking the S&P 500 Index intraday to the lower end of the 2015 trading range at approximately 2,050. Market weakness, however, turned out to be short-lived with the S&P 500 actually ending the day marginally higher (+1.97) at 2,086.05. The magnitude and speed of the day's volatile intraday price action left many investors reeling and wondering what the heck just happened?

The Lookout Report is a compendium of current data and perspectives from across S&P Capital IQ and S&P Dow Jones Indices covering corporate earnings, market and credit risks, capital markets activity, index investing, and proprietary data and analytics. Published biweekly 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.

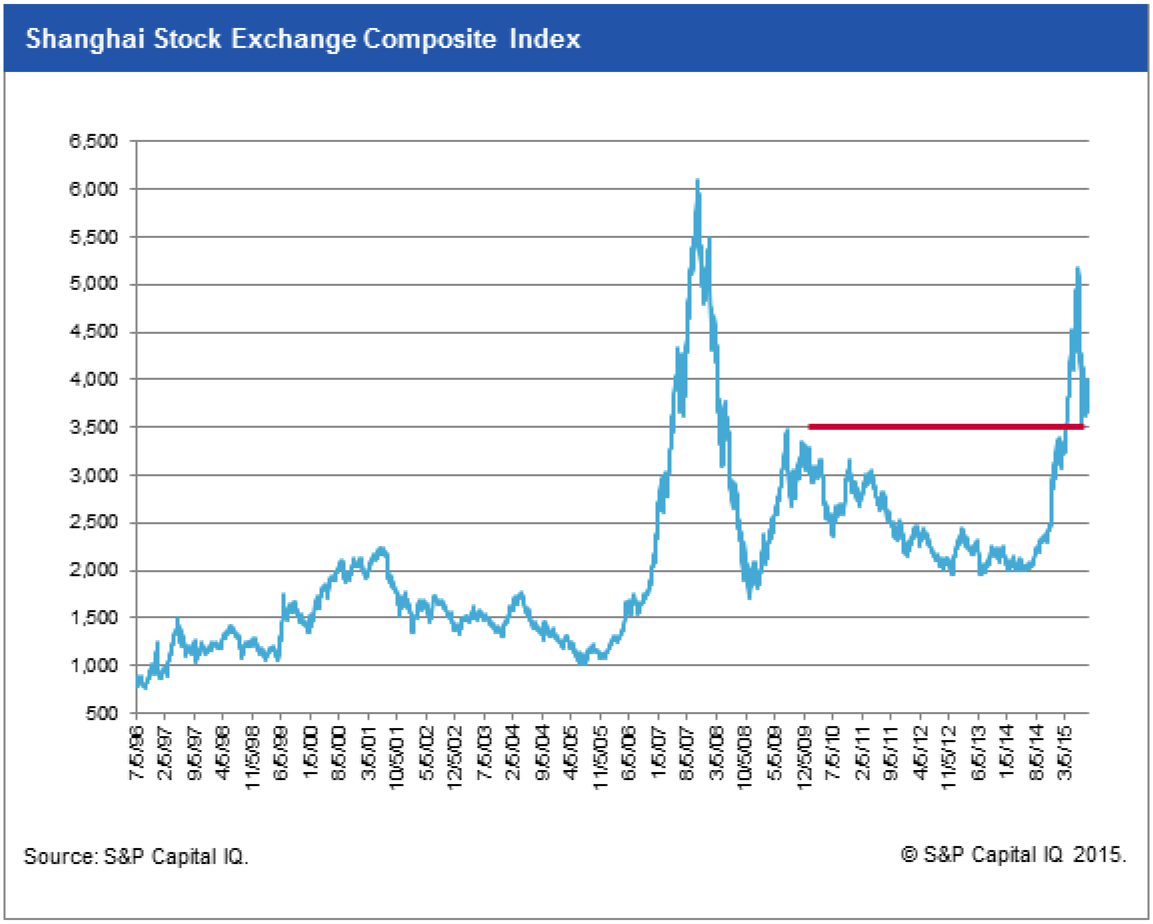
August 21, 2015

Chart 1



Investors have become accustomed to dealing with concerns about China's economy and financial markets. Once anxiety regarding the Greek fiscal crisis and the stability of the eurozone subsided in late July, attention immediately seemed to turn to China. The Shanghai Stock Exchange Composite Index, which appreciated 154% between July 2014 and June 2015 to 5,166, subsequently fell to 3,664 on Aug. 20, surrendering most of this year's gain relative to the Dec. 31, 2014, close of 3,235 (see chart 2). Disappointing July economic data elevated investor concern regarding China and brought new selling pressure into the stock market despite official government efforts to the contrary. China's industrial production rose 6% in July (6.6% was expected according to economists' forecasts), and retail sales rose 10.5% versus expectations for a 10.6% gain.

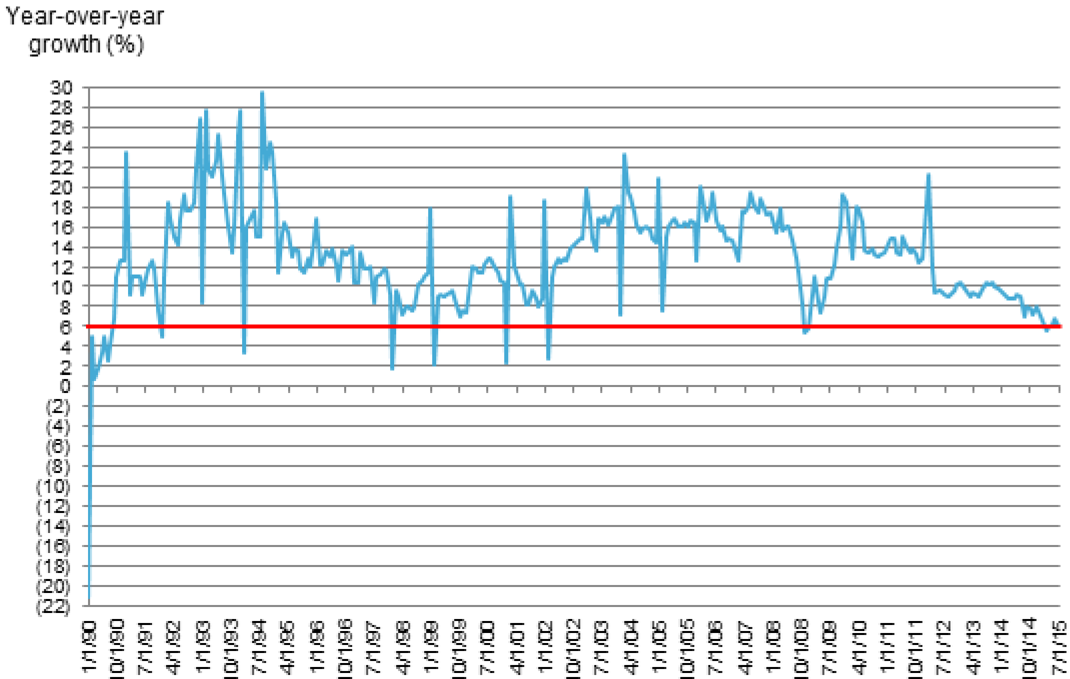
Chart 2



More importantly, judging by these two data series, China's economic activity now appears to have declined to the lower end of the range witnessed in the past 10-plus years (see charts 3 and 4). Investors are now correct to be concerned about the future of China's economy despite the government's time-earned reputation of carefully managing GDP growth. These concerns are particularly disconcerting considering government efforts to transition activity away from a manufacturing-based economy and toward a service and consumption-based model, which appears to be losing traction judging by the trend in retail sales. China GDP and consumption growth trends are highly relevant to U.S. corporate profitability not only because China represents the world's second-largest economy but also because nearly half of S&P 500 Index member revenues now originate from non-domestic sources. China's woes are also important company-specific concerns for any corporation with global reach, such as the mobile phone manufacturers, looking toward Asia to improve global scale and productivity.

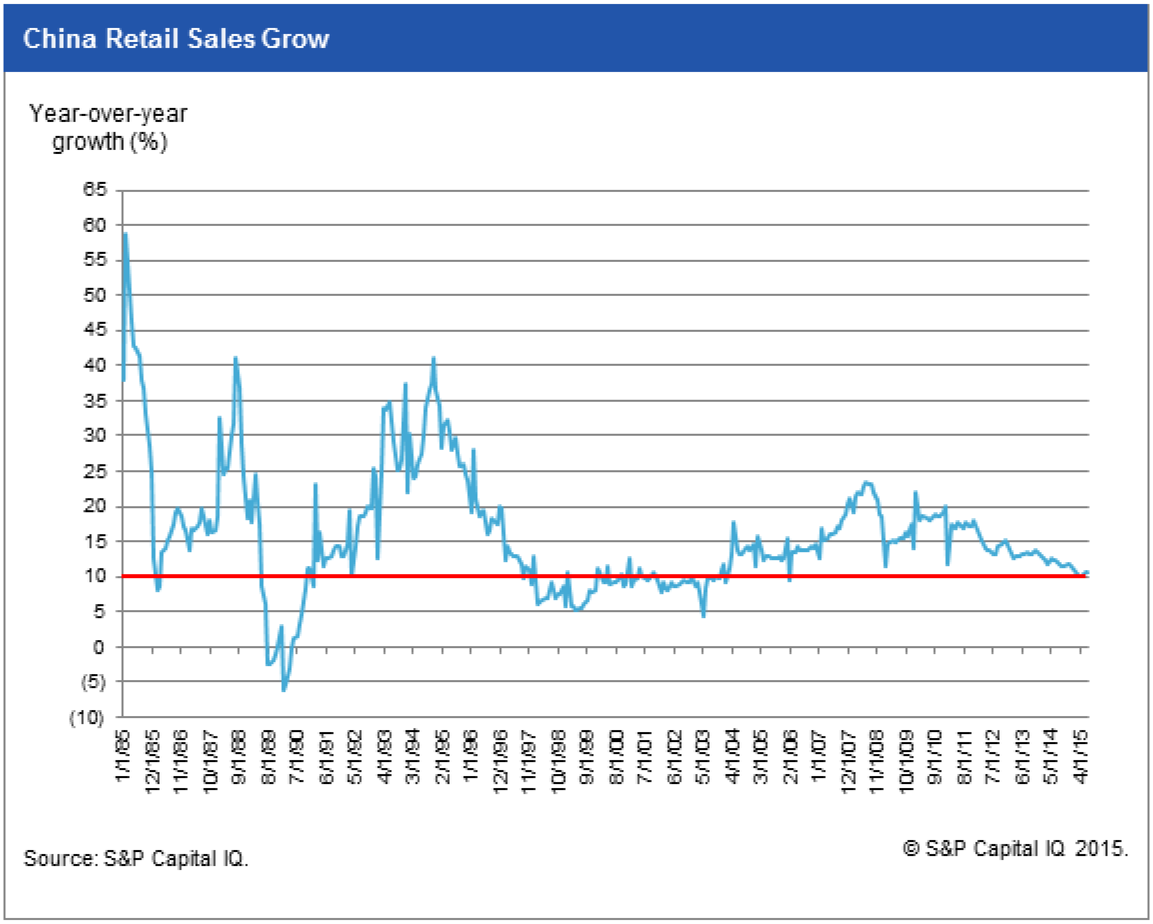
Chart 3

China Industrial Production Year-Over-Year Growth



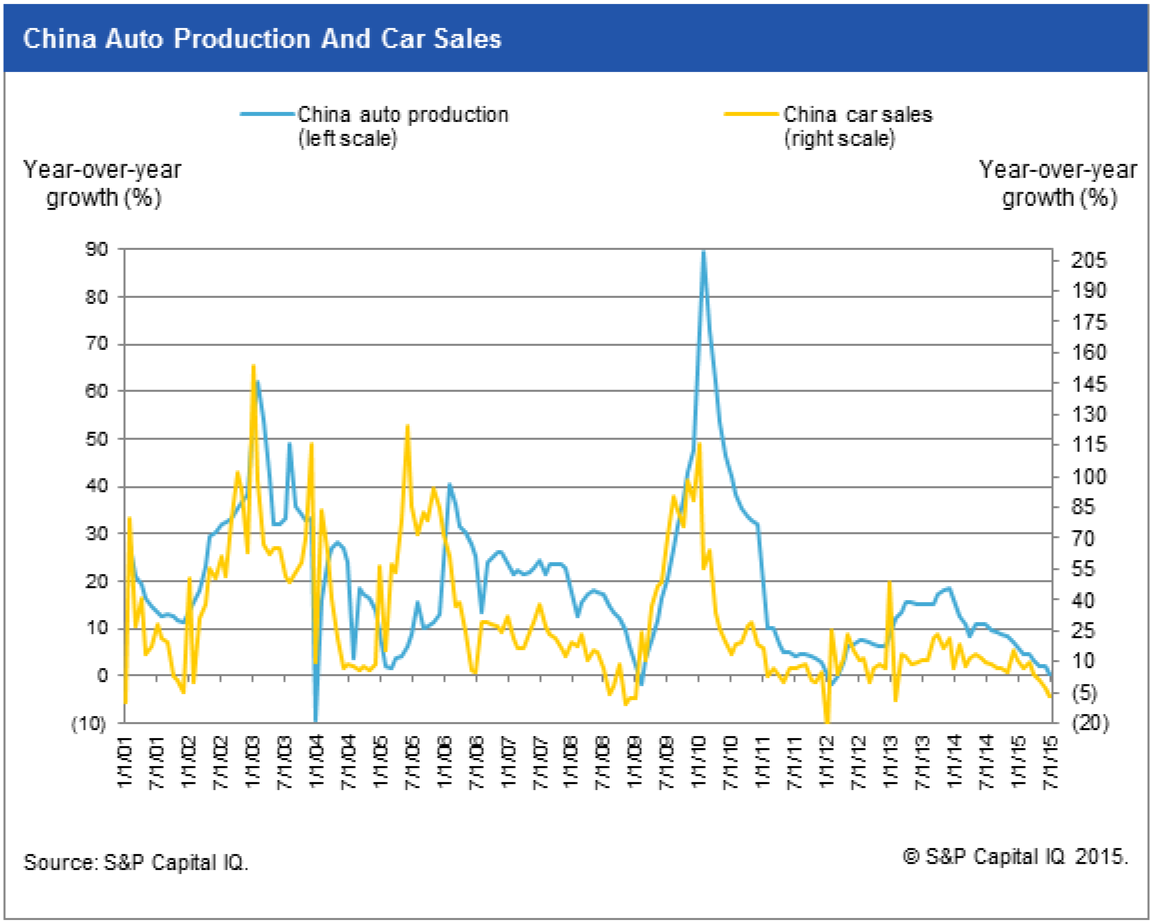
Source: S&P Capital IQ.

Chart 4



Chinese auto production and car sales data provide additional insights into the current state of the Chinese economy. They also highlight what might be at stake for any company, for instance an automaker, looking to increase production and sales via exports to Asia. China's car sales have dropped into negative territory on a year-over-year growth basis in June and July. Likewise, Chinese auto production was essentially flat in July versus a year ago (+0.2%). When analyzing non-seasonally adjusted China economic data, we need to look past recurring higher and lower spikes that occur mainly in January and February due to year-to-year mismatches in the timing of the week-long Chinese New Year holiday when many forms of economic activity grind to a halt. These seasonal misalignments aside, China's economic activity has been decelerating since late 2013. Investors with either direct or indirect exposures to China will want to keep a close eye on China car sales data in the coming months for signs of either a rebound in consumer demand and sales or a further deterioration in underlying conditions (see chart 5).

Chart 5



Global Markets Intelligence (GMI) Research notes that although China's retail sales growth of 10.5% appears quite respectable at face value, judging by the degree of weakness in auto sales and production, the risks for the broader economy at the moment appear to be to the downside. Stock market bulls will want to see a readily apparent rebound in auto and retail sales over the balance of 2015 to alleviate fears that China may be disrupting global economic activity and multinational corporate profitability. Alternatively, a further slowing of China's economy could cause various domino effects and bring additional downside pressure to the following:

- Commodity prices,
- Global central bank efforts to reflate the global economy,
- Energy, industrials, and materials sector corporate earnings, and
- Speculative-grade bond market yield spreads.

Current financial market narrative and price action, for the moment, appear to be controlled by developments in Asia. We are following this situation closely to see if China's economy will rebound strongly from the low end of recently observed activity or if China's economy continues to slowly slip toward recession despite government efforts, which now include currency depreciation, to the contrary.

Inside This Issue:

Macroeconomic Overview: China's Economy And Markets Are Driving Global Investor Psychology And Risk Tolerance

Recent disappointing news out of China has disrupted financial markets across the globe. It started late in the day on Aug. 10 when China announced it was devaluing its managed foreign exchange currency rate to 6.2298 from 6.1162 yuan to the dollar. This was followed two days later by economic reports that July Chinese retail sales and industrial production growth were weaker than expected. The cumulative effect of these developments shook investor confidence in global markets, taking the S&P 500 Index intraday to the lower end of the 2015 trading range at approximately 2,050. Market weakness, however, turned out to be short-lived. This left many investors reeling and wondering what the heck just happened?

Economic And Market Outlook: Retail Rides A Rollercoaster Into The Second-Quarter Earnings Finale

Second-quarter earnings season has just about wrapped up with 95% of the S&P 500 reporting results and 68% of them beating on the bottom line and 48% beating top-line expectations as of Aug. 21. With the current standings, quarterly EPS is projected to be $29.75, representing a 0.04% increase in growth year-over-year compared with -4.4% expected at the start of earnings season on July 13. Excluding the 55.8% decline from the energy sector, S&P 500 growth is projected to be 7.7%. The S&P Euro 350 has slid just more than 4% during August as global macroeconomic issues weigh on the eurozone's stock performance. Recent data showed that economic growth increased 0.3% in the March-June period, an expansion that the European Central Bank's stimulative stance supported.

S&P Dow Jones Index Commentary: Buybacks Continue To Provide Earnings Growth Tailwind

S&P 500 companies continue to repurchase more shares than they issue, giving their lack of earnings per share (EPS) growth a much-needed tailwind, according to initial second-quarter earnings reports. We have based these comparisons on the current reports over the same issues regardless of their historical index membership. With 88% of the companies in the index having reported second-quarter buybacks, aggregate buybacks are 5.8% below the first quarter of 2015 and 18.7% above the second quarter of 2014. The takeaway, however, is that share count reduction continues as companies buy back more shares than they issue.

Leveraged Commentary And Data: Amid A Wave Of Corporate M&A, Loan Repayments Via Acquisitions Spike

Corporate M&A activity this year has been a drag on leveraged loan supply in more ways than one. Certainly, competition from strategic buyers--in concert with regulatory constraints and muscular equity prices--has, by all accounts, held back leveraged buyout (LBO) loan activity, which receded to $50.2 billion in the year-to-July from $59.5 billion during the year-earlier period. As well, it has put a notable dent in S&P/LSTA Index outstandings. Through the end of July, $21 billion of index loans were fully repaid in connection with the acquisition of a leveraged loan issuer (this statistic only reflects loans issued by borrowers that subsequently exited the index).

R2P Corporate Bond Monitor

In North American, the optimism of recent data releases continued with even a buoyed manufacturing sector despite growing concern about global growth prospects. Industrial production rose following a 0.3% growth in June that ended five months of negative or flat growth. The tide appeared to change in the eurozone once again as recent data indicated economic weakness in most measures. The eurozone's second-quarter growth slowed in the first quarter as stagnation from France, Italy, and the Netherlands offset Germany's improvement. Despite the European Central Bank's quantitative easing stimulus, the meager growth was driven by lower global demand with slower growth and continued uncertainty in China.

Capital Market Commentary: IPOs, M&A, And Debt

September marks the one-year anniversary of Alibaba Group Holding Ltd.'s $21.8 billion IPO--the largest in history. Following the Chinese e-commerce firm's transaction, just 11 IPOs coming from companies based in the Asia-Pacific region have been priced on major U.S. stock exchanges, down from 18 IPOs in the year preceding Alibaba's IPO. The deal value of announced M&A activity involving U.S.-based targets this year is now approaching $1.45 trillion, which is closing in on 2014's full-year result of $1.52 trillion. Yet several sectors have already topped the prior year's total results. For example, health care deal value now stands at about $352 billion, surpassing last year's total of $269.2 billion.

Economic And Market Outlook: Retail Rides A Rollercoaster Into The Second-Quarter Earnings Finale

North America

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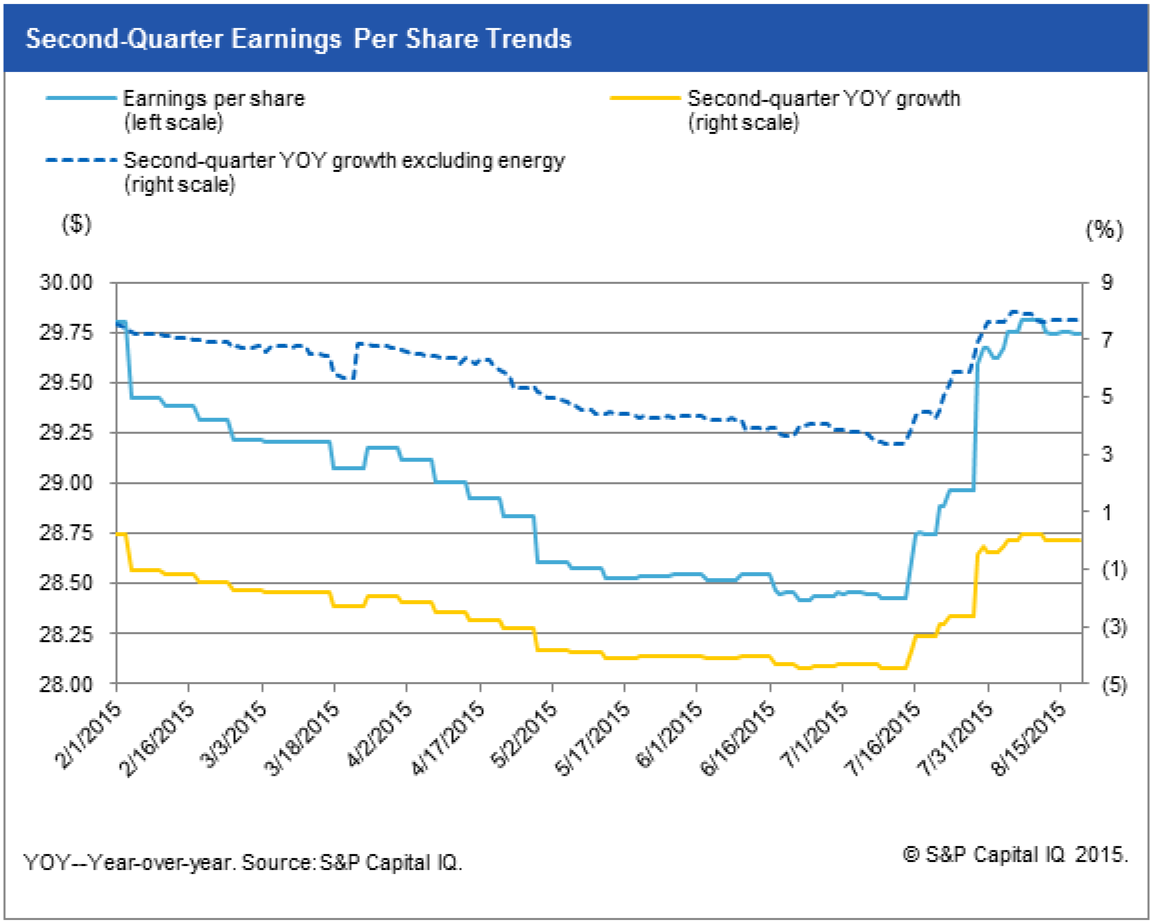
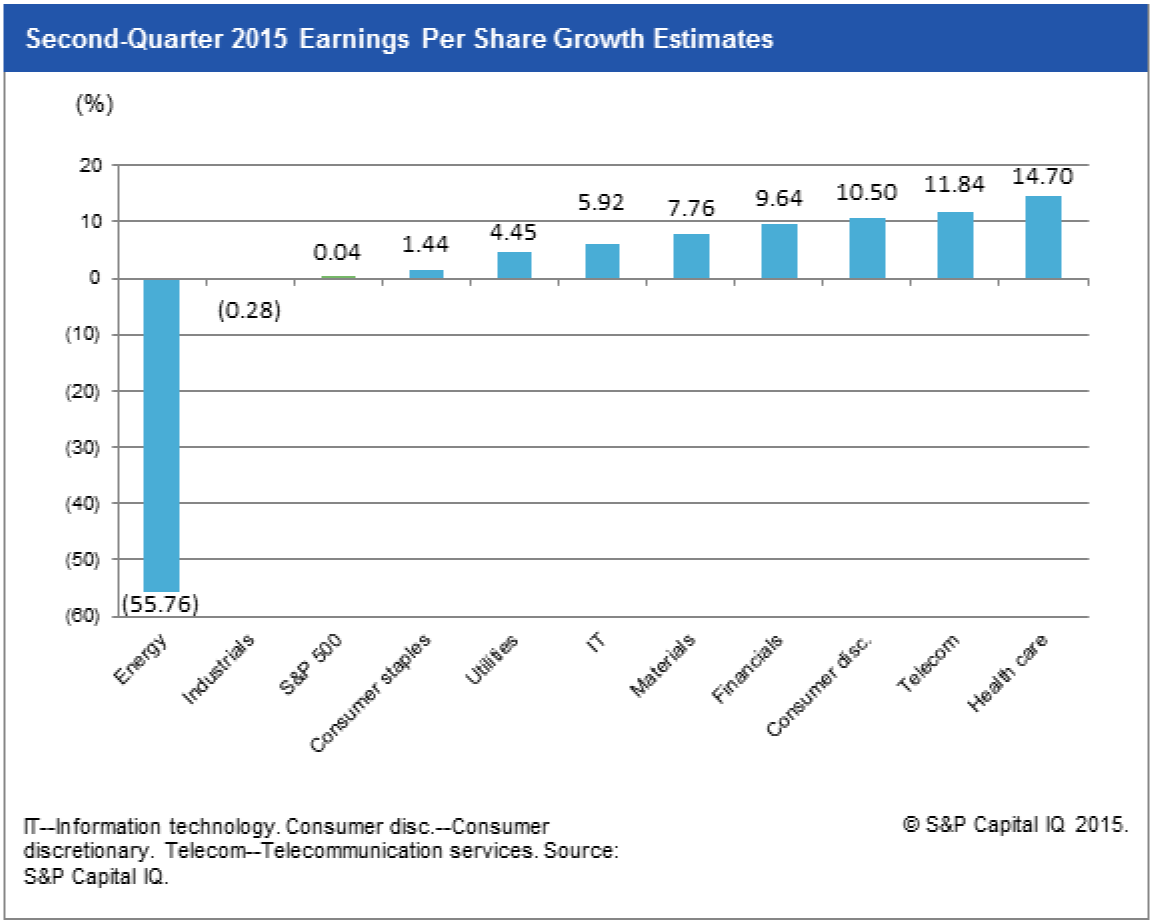
Chart 6



The health care, telecommunication services, and consumer discretionary sectors lead growth with double-digit rates of 14.7%, 11.8%, and 10.5%, respectively. Consumer discretionary finally returned to the top three after a number of retailers reported results, as retail typically brings in the rear of earnings season. The retailers are mimicking what we saw when technology sector earnings were released in the middle of the season: quite the roller coaster (for more information, see "Lookout Report: Can Dodd-Frank Alone Be Blamed For Thin Corporate Bond Market Liquidity Conditions?" published July 24, 2015).

Chart 7



Coach Inc., Ralph Lauren Corp., and Michael Kors Holdings kicked off retail announcements with a positive tone the week of Aug. 3. Despite the low bar these retailers had because of strategic turnaround efforts, the earnings outperformance provided the encouragement investors were looking for given the 19% increase the S&P 500 Retail Index had year-to-date through July 31. The earnings party didn't last long though. Department store retailers Macy's Inc. and Kohl's Corp. not only missed quarterly expectations but also lowered their guidance outlooks.

Macy's CEO Terry Lundgren discussed in an interview with CNBC on Aug. 12 that although consumer spending in general improved in the second quarter, "the consumer didn't shop in our categories to the degree that we thought the consumer would." This isn't surprising as it echoes the weakness in department stores sales seen over the past few months in the U.S. Census Bureau monthly retail sales report. Same-store sales, the most telling of retail financial metrics, misfired for both Macy's and Kohl's in the second quarter. However, Nordstrom Inc., Dillard's Inc., and Target Corp. were among the big-box retailers that did impress with apparel sales showing strength. This can be attributed to the higher-end nature of these retailers versus Macy's and Kohl's, but it also likely speaks to the unique and new product offerings at these stores, which often entices consumers to spend in the apparel category.

The Census Bureau monthly retail sales numbers have exhibited strength in home-related products. Not only did Target note that this was an area of strength (in addition to apparel), heavyweights Home Depot Inc., Lowe's Cos. Inc., and The TJX Cos. Inc. were solid testaments to consumers' penchant to invest in sprucing up their homes. Home Depot and Lowe's both saw same-store sales improve as the quarter progressed and weather improved across the country.

Furthermore, they reported that sales of higher-ticket items grew much more rapidly. Sales of items priced greater than $900 grew 6.3% at Home Depot (versus the 4.2% total company same-store sales) and those priced higher than $500 increased 9.3% at Lowe's (versus the 4.3% total company same store sales).

During the same week that these home-focused retailers reported, the largest retailer, Wal-mart Stores Inc., announced disappointing results. Second-quarter EPS of $1.08 missed the $1.12 street estimate and was at the low end of guidance that management provided ($1.06-$1.18). Increased investments in employees and the customer experience hurt bottom-line results but helped same-store sales increase for the fourth quarter in a row. Lower-than-expected pharmacy reimbursements, accelerating pressure on shrink--the loss of product before point of sale--and foreign exchange, also negatively affected the quarter. Further, these headwinds caused a significant reduction in the full-year guidance to $4.40-$4.70 (from $4.70-$5.05 previously). Walmart's increased investments for long-term improvements have led to heightened pressure on its earnings results in the short-term and have driven its stock price lower.

The retail index is up 21% year-to-date through Aug. 19. Nearly all components of the index have reported with Dollar General Corp. and Dollar Tree Inc. being the largest companies left to report results. Of the retail index, 68% have beat earnings results, in-line with the beat rate for the S&P 500 Index. As discussed above, results for the group have been mixed. Retailers that cater to high-end customers, serve favored end markets (including automotive, housing, and online), and/or offer compelling merchandise are the ones performing better than those focused on the middle-income consumer. We look forward to the dollar store reports for insight into the health of the low-income consumer, especially as these consumers benefit more from lower gasoline prices.

Europe

The S&P Euro 350 has slid just more than 4% during August as global macroeconomic issues weigh on the eurozone's stock performance. Recent data showed that economic growth increased 0.3% in the March-June period, an expansion that the European Central Bank's stimulative stance supported. This was slightly below the 0.4% expectation though.

Earnings growth for the Euro 350 remains solid with an 11.6% growth expectation in 2015 (versus 11.4% a month ago) and 9.5% in 2016 (versus 11.5% a month ago).

Eight of 10 sectors are expected to report growth this year with seven of eight projecting double-digit figures. Technology (27.3%), consumer discretionary (25.3%), financials (23.8%), telecommunications (17.9%), and industrials (16.9%) lead with robust growth rates. Health care, utilities, and consumer staples round out the index with growth of 11.9%, 11.1%, and 9.1%, respectively. Energy (-31.6%) and materials (-5.0%) are the only sectors with projected declines.

Table 1

CY 2015 And 2016 EPS And Growth Rate

	--CY 2015--		--CY 2016--	
	EPS (€)	**Growth (%)**	**EPS (€)**	**Growth (%)**
Consumer discretionary	128.25	25.3	144.49	12.7
Consumer staples	158.15	9.1	170.70	7.9
Energy	82.59	(31.6)	97.70	18.3
Financials	75.54	23.8	80.26	6.2
Health care	126.00	11.9	137.46	9.1
Industrials	108.06	16.9	117.82	9.0
Information technology	62.15	27.3	72.95	17.4
Materials	132.58	(5.0)	154.30	16.4

Table 1

CY 2015 And 2016 EPS And Growth Rate (cont.)				
Telecommunication services	75.85	17.9	81.77	7.8
Utilities	95.24	11.1	95.80	0.6
S&P 350	98.52	11.6	107.86	9.5

CY--Calendar year. EPS--Earnings per share. Source: S&P Capital IQ.

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S&P Dow Jones Index Commentary: Buybacks Continue To Provide Earnings Growth Tailwind

S&P 500 companies continue to repurchase more shares than they issue, giving their lack of earnings per share (EPS) growth a much-needed tailwind, according to initial second-quarter earnings reports. We have based these comparisons on the current reports over the same issues regardless of their historical index membership.

With 88% of the companies in the index having reported second-quarter buybacks, aggregate buybacks are 5.8% below the first quarter of 2015 and 18.7% above the second quarter of 2014. The takeaway, however, is that share count reduction continues as companies buy back more shares than they issue.

Sector counts vary greatly, but the highlights are:

- Consumer staples buybacks are off 40.1% from the first quarter of 2015 (and 31.6% from the second quarter of 2014).
- Consumer discretionary is up 23.4% from the first quarter of 2015 (and up 15.0% from the second quarter of 2014).
- Energy is down 24.5% from the first quarter of 2015 (and down 40.5% from the second quarter of 2014).
- Information technology, which continues to spend the most on buybacks, is up 8.8% from the first quarter of 2015 (and up 12% from the second quarter of 2014).

Capital expenditures (CAPEX) are off 3.6% year-over-year for the second quarter. (But excluding the energy sector's 28.5% decline, CAPEX gained 9.4%.)

Meanwhile, dividends in the second quarter of 2015 set its fifth consecutive quarter of dividend payment records, at $94.7 billion for the quarter, and early indications about the third quarter suggest it, too, will be another record-breaking quarter (see table 2).

Table 2

S&P 500 Aggregate Dividends

	2010 (mil. $)	2011 (mil. $)	2012 (mil. $)	2013 (mil. $)	2014 (mil. $)	2015 (mil. $)
First quarter	48,938	56,051	64,150	71,040	82,120	93,555
Second quarter	50,395	59,105	67,345	76,749	86,996	94,684
Third quarter	51,265	59,025	70,135	79,269	89,026	
Fourth quarter	54,748	66,198	79,900	84,760	93,072	
Year	205,347	240,379	281,531	311,818	351,213	

Source: S&P Dow Jones Indices.

Table 3

Issues With Diluted Share Counts

Second-quarter 2015

Issues	No.	% of issues
Second-quarter 2015 with lower shares than second-quarter 2014		65.02
4% lower shares	99	21.24
Second-quarter 2015 with higher shares than second-quarter 2014	154	33.05
4% higher shares	41	8.80

First-quarter 2015

Issues	No.	% of issues
First-quarter 2015 with lower shares than first-quarter 2014	334	66.93
4% lower shares	105	21.04
First-quarter 2015 with higher shares than first-quarter 2014	161	32.26
4% higher shares	38	7.62

Fourth-quarter 2014

Issues	No.	% of issues
First-quarter 2015 with lower shares than first-quarter 2014	337	67.81
4% lower shares	106	21.33
First-quarter 2015 with higher shares than first-quarter 2014	154	30.99
4% higher shares	30	6.04

Source: S&P Dow Jones Indices.

Table 4

Companies With Notable Capital Expenditures

Company	Quarter change (mil. $)	Quarter change (%)	Change to Q2 2015 from Q2 2014 (mil. $)	Change to Q2 2015 from Q2 2014 (%)	Q2 2015 (mil. $)	Q1 2015 (mil. $)	Q4 2014 (mil. $)	Q3 2014 (mil. $)	Q2 2014 (mil. $)
Chevron Corp.	41	0.54	(1,288)	(14.42)	7,643	7,602	9,668	8,264	8,931
ExxonMobil Corp.	265	3.87	(1,433)	(16.78)	7,109	6,844	8,884	8,198	8,542
ConocoPhillips	(925)	(27.76)	(1,839)	(43.31)	2,407	3,332	4,356	4,588	4,246
Anadarko Petroleum Corp.	(413)	(21.10)	(1,055)	(40.59)	1,544	1,957	2,219	2,189	2,599
Devon Energy Corp.	(676)	(31.87)	(6,537)	(81.90)	1,445	2,121	(4,280)	1,703	7,982
Occidental Petroleum Corp.	(254)	(15.11)	(1,006)	(41.35)	1,427	1,681	2,667	2,678	2,433
EOG Resources Inc.	(278)	(17.97)	(957)	(43.02)	1,268	1,546	2,007	2,113	2,225
Phillips 66	119	10.92	648	115.51	1,209	1,090	1,126	1,514	561
Hess Corp.	(51)	(4.12)	(8)	(0.67)	1,186	1,237	1,564	1,362	1,194
Chesapeake Energy Corp.	(457)	(30.63)	(416)	(28.67)	1,035	1,492	1,735	1,911	1,451

Q--Quarter. Source: S&P Dow Jones Indices.

Table 5

Second-Quarter 2015 Cash Levels

Largest Q2 2015 decreases in cash

Company	Sector	Current cash and equivalent (% of market value)	Current cash and equivalent (% of long-term debt)	Change (mil. $)	Q2 2015 (mil. $)	Q1 2015 (mil. $)	Q4 2014 (mil. $)	Q3 2014 (mil. $)	Q2 2014 (mil. $)
Zimmer Biomet Holdings Inc.	Health care	10.51	16.03	(7,398)	1,884	9,282	1,696	1,747	1,698
Gilead Sciences Inc.	Health care	5.00	63.28	(5,903)	8,611	14,514	10,128	6,316	8,799
Merck & Co. Inc.	Health care	6.82	47.15	(4,230)	11,371	15,601	15,719	14,347	13,395
Perrigo Co. PLC	Health care	2.78	18.26	(2,654)	798	3,452	3,616	913	805
Altria Group Inc.	Consumer staples	1.02	8.69	(2,551)	1,123	3,674	3,321	2,241	1,193
Bristol-Myers Squibb Co.	Health care	5.21	82.78	(2,131)	5,476	7,607	7,435	7,221	7,175
Raytheon Co.	Industrials	7.36	46.78	(1,646)	2,494	4,140	4,719	4,114	4,176
Monsanto Co.	Materials	2.28	13.11	(1,615)	1,101	2,716	3,152	2,289	1,817
Procter & Gamble Co.	Consumer staples	5.66	63.35	(1,548)	11,612	13,160	12,251	10,846	10,686
The Priceline Group Inc.	Consumer discretionary	4.81	59.04	(1,447)	3,188	4,636	4,291	6,237	7,165

Largest Q2 2015 increases in cash

Company	Sector	Current cash and equivalent (% of market value)	Current cash and equivalent (% of long-term debt)	Change (mil. $)	Q2 2015 (mil. $)	Q1 2015 (mil. $)	Q4 2014 (mil. $)	Q3 2014 (mil. $)	Q2 2014 (mil. $)
AT&T Inc.	Telecommunication services	10.01	19.47	16,512	20,956	4,444	10,595	2,458	11,305
Oracle Corp.	Information technology	31.82	136.06	10,591	54,368	43,777	44,733	51,616	38,827
Cisco Systems Inc.	Information technology	40.81	281.57	5,997	60,416	54,419	53,022	52,107	52,074
Qualcomm Inc.	Information technology	20.89	215.18	5,776	21,331	15,555	17,788	17,565	18,153
Baxter International Inc.	Health care	29.94	55.36	4,150	6,680	2,530	2,926	2,078	1,866
General Electric Co.	Industrials	6.51	5.39	3,599	17,022	13,423	15,916	10,576	10,235
Google Inc.	Information technology	14.40	3043.82	3,099	67,725	64,626	62,633	60,058	58,315
Amgen Inc.	Health care	23.57	97.69	2,875	29,993	27,118	27,026	28,075	26,188
Reynolds American Inc.	Consumer staples	7.15	24.84	2,745	4,360	1,615	966	1,289	1,313
Apache Corp.	Energy	16.61	30.49	2,721	2,950	229	769	510	524

Table 5

Second-Quarter 2015 Cash Levels (cont.)

Highest Q2 cash levels

Company	Sector	Current cash and equivalent (% of market value)	Current cash and equivalent (% of long-term debt)	Change (mil. $)	Q2 2015 (mil. $)	Q1 2015 (mil. $)	Q4 2014 (mil. $)	Q3 2014 (mil. $)	Q2 2014 (mil. $)
Microsoft Corp.	Information technology	25.66	346.85	1,089	96,451	95,362	89,569	88,721	85,168
Google Inc.	Information technology	14.40	3043.82	3,099	67,725	64,626	62,633	60,058	58,315
Cisco Systems Inc.	Information technology	40.81	281.57	5,997	60,416	54,419	53,022	52,107	52,074
Oracle Corp.	Information technology	31.82	136.06	10,591	54,368	43,777	44,733	51,616	38,827
Apple Inc.	Information technology	5.27	73.52	1,438	34,863	33,425	32,664	25,158	37,926
Johnson & Johnson	Health care	12.41	241.06	2,635	33,954	31,319	33,089	33,005	31,624
Pfizer Inc.	Health care	13.90	111.68	2,563	30,272	27,709	36,156	33,473	34,127
Amgen Inc.	Health care	23.57	97.69	2,875	29,993	27,118	27,026	28,075	26,188
General Motors Co.	Consumer discretionary	45.22	260.48	642	22,727	22,085	25,176	26,130	28,399
Anthem Inc.	Health care	55.10	139.11	(812)	21,518	22,331	21,546	21,870	22,025

Q--Quarter. Source: S&P Dow Jones Indices.

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Leveraged Commentary And Data: Amid A Wave Of Corporate M&A, Loan Repayments Via Acquisitions Spike

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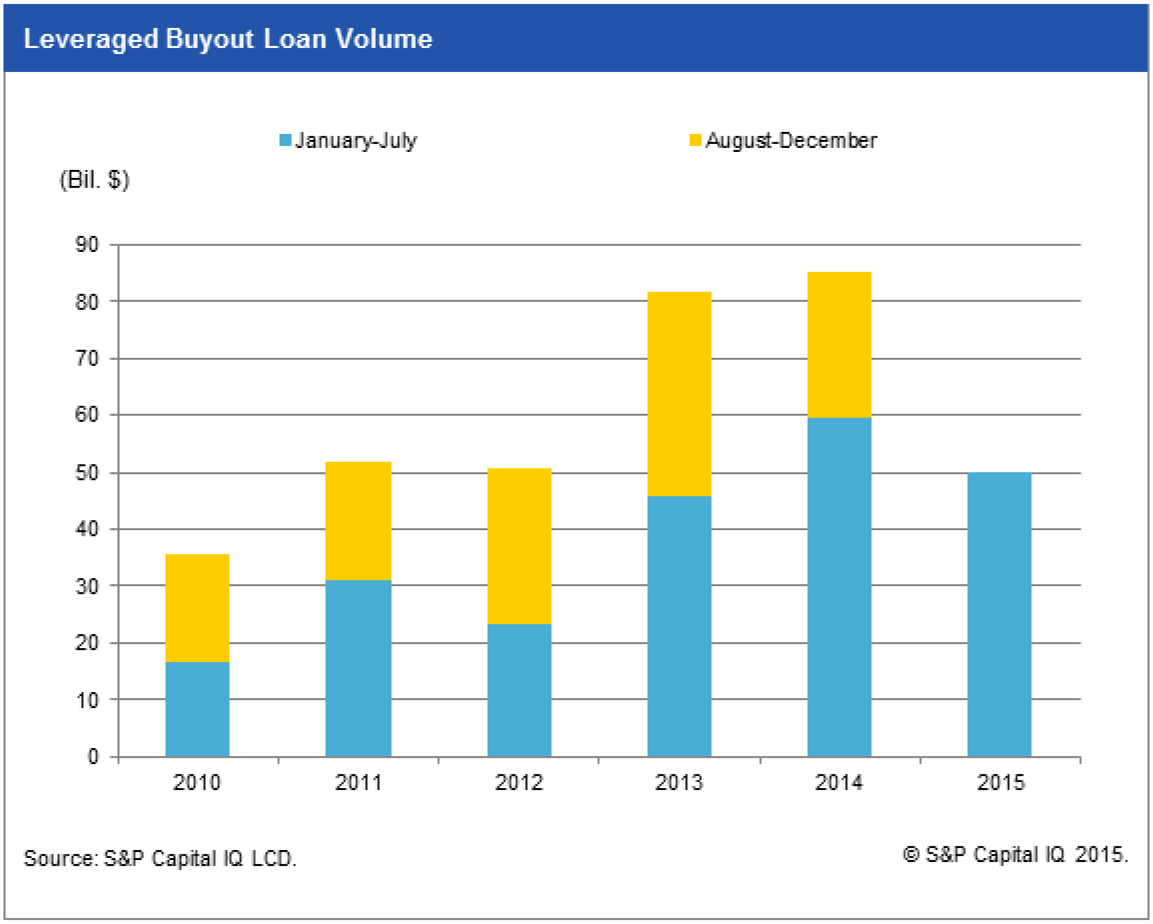
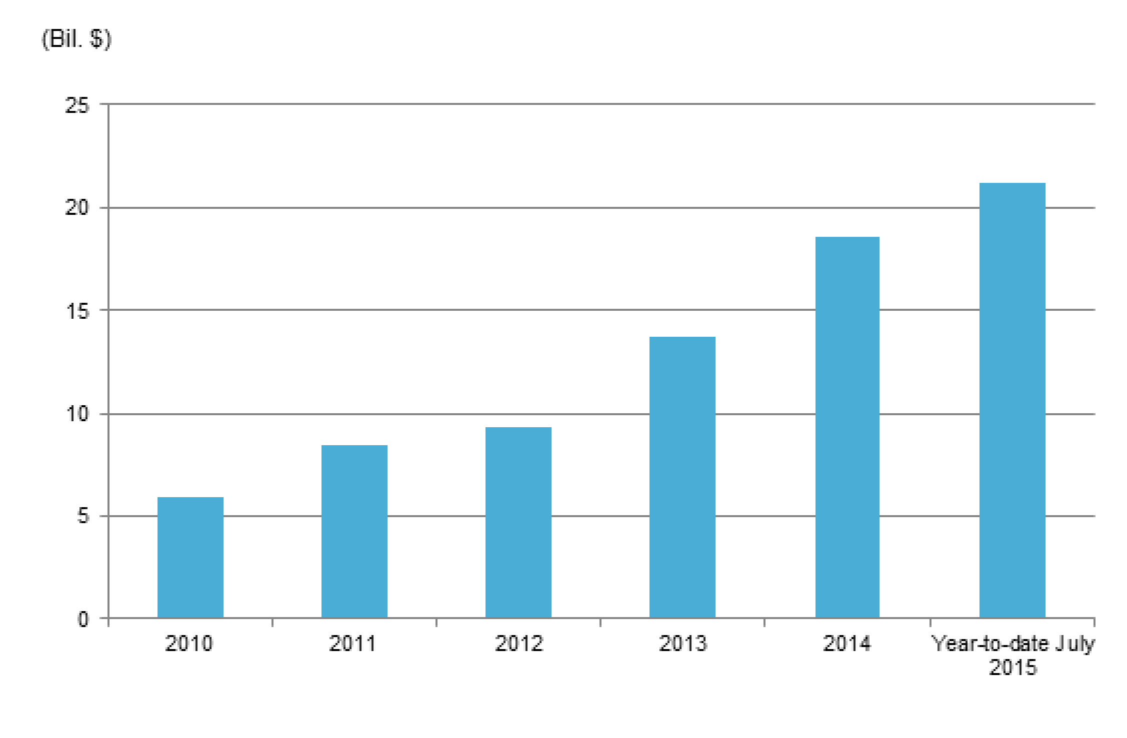
Chart 8



As well, it has put a notable dent in S&P/LSTA Index outstandings. Through the end of July, $21 billion of index loans were fully repaid in connection with the acquisition of a leveraged loan issuer (this statistic only reflects loans issued by borrowers that subsequently exited the index). That's up from $18.6 billion in all of 2014 and is the most since Leveraged Commentary and Data began tracking the source of repayments in 2010.

Chart 9

Full Repayments From Acquisitions



Source: S&P Capital IQ LCD.

Furthermore, several more issuers are poised to exit the loan market as a result of an M&A deal, the largest of which is SunGard Data Systems Inc. ($2.3 billion), which is set to be acquired by BBB/Baa3 Fidelity National Information Services Inc.

Looking ahead, the themes that have raised the level of institutional loan repayments via corporate M&A remain in effect, participants say. Private equity firms are, for the most part, better buyers of properties than sellers, players say, in light of high purchase price multiples and the internal rate of return-reducing impact of leveraged loan guidelines. Strategic buyers, meanwhile, are more motivated buyers. For one thing, the corporate U.S. is cash-rich. For another, many firms see acquisitions as a way to grow revenue and boost income in the face of today's modest economic growth and record profit margins.

Negative bias

The parade of issuers exiting the institutional loan market via M&A is headed by such large 'BB' names as H.J. Heinz Co. and Biomet Inc.

Table 6

Top 10 Merger And Acquisition Repayments

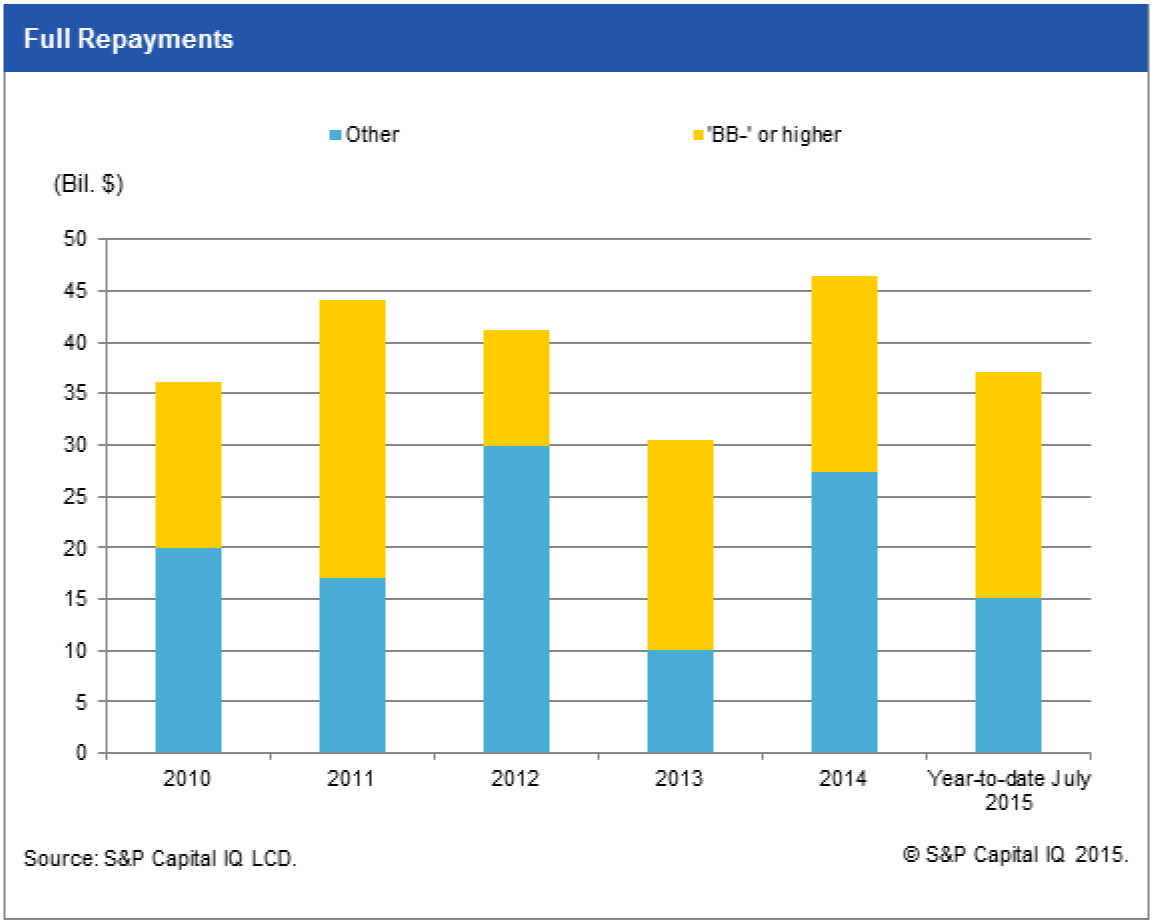
Issuer	Industry	Corporate rating	Loan rating	Repayment (mil. $)	Notes
H.J. Heinz Co.	Food products	BB-	BB+	6,421.25	Merged with Kraft Foods Group Inc.
Biomet Inc.	Health care	B+	BB-	2,772.18	Acquired by Zimmer Holdings Inc.
Arysta Life Science	Chemical/plastics	B	B	1,795.99	Acquired by Platform Specialty Products Corp.
Big Heart Pet Brands	Food products	B	B+	1,713.48	Acuired by The J.M. Smucker Co.
Salix Pharmaceuticals Ltd.	Drugs	B	BB-	1,140.00	Acquired by Valeant Pharmaceuticals International Inc.
Ikaria Acquisition	Drugs	B-	B-	1,105.55	Acquired by Mallinckrodt International
Veyance Technologies Inc.	Automotive	B	B	1,030.31	Acquired by Continental AG
United Surgical Partners International Inc.	Health care	B	B	960.16	Merged with Tenet Healthcare Corp.
Gentiva Health Services Inc.	Health care	B	BB-	663.30	Acquired by Kindred Healthcare Inc.
Hudson's Bay Co.	Retailers	B+	BB	650.00	Acquisition of Galeria Holding

Year-do-date July 2015. Source: S&P Capital IQ LCD.

Another growing source of 'BB'-weighted index loan repayments this year is pro rata take-outs. Through July, issuers repaid $5.8 billion of index loans with proceeds of pro rata facilities, of which 73% were rated 'BB-' or higher by Standard & Poor's Ratings Services. That's up from $1.2 billion last year and marks the highest total since we started tracking the data in 2010.

With these trends in mind, it's understandable that of the $37 billion of wholesale repayments in the year-to-July, $21.9 billion, or 59%, were rated 'BB-' or higher by Standard & Poor's Ratings. By comparison, 43% of index loans outstanding at the end of July were so grandly rated.

Chart 10



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Follow Steve on Twitter for an early look at LCD analysis and for market commentaries.

R2P Corporate Bond Monitor

In North American, the optimism of recent data releases continued with even a buoyed manufacturing sector despite growing concern about global growth prospects. Industrial production rose 0.6% in July, following a 0.3% growth in June that ended five months of negative or flat growth. July's data was supported by a surge in motor vehicle production stemming from domestic demand as the foreign market stayed sluggish. Factory orders also improved, rising 1.8% for June following a 1% contraction in May. The positive outlook spread to small businesses--which exhibiting improved sentiment according to the NFIB Small Business Optimism Index--as capital spending plans increased and job vacancies became harder to fill. Indeed, the employment situation remained robust as non-farm payrolls increased by 215,000 in July and wage inflation continued to increase. These data appear to favor a Federal Reserve rate rise in 2015 as the domestic economy continues to heat up. However, we still don't know how policymakers will approach the disparity between the robust domestic and stagnant global economic climates.

The tide appeared to change in the eurozone once again as recent data indicated economic weakness in most measures. The eurozone's second-quarter growth slowed to 0.3% from 0.4% in the first quarter as stagnation from France, Italy, and the Netherlands offset Germany's improvement. Despite the European Central Bank's quantitative easing stimulus, the meager growth was driven by lower global demand with slower growth and continued uncertainty in China. Inflation data also disappointed, remaining at 0.2% in the 12 months that ended in July, though the headline figure masked a 0.6% fall in prices month-over-month from June because of lower food and fuel costs. Industrial production also fell, 0.4% month-over-month in June following -0.2% in May due to an output drop from the currency bloc's largest members: Germany, France, and Italy. The fall occurred despite the euro continuing to weaken against the dollar, corroborating a distinct lack of domestic and global demand.

Risk-reward profiles, as measured by average Risk-to-Price scores, improved in Europe and stayed fairly stable in North America in the month ended Aug. 14, 2015.

In North America, spread levels widened overall, most notably in the energy sector, following the latest earnings reports. Credit risk (as measured by the probability of default) increased almost across the board and offset the wider spreads and minimal improvement in market risk (as measured by bond price volatility).

Europe's overall risk-reward profile improved in the month as a result of stable credit risks and improving market risks, more than offsetting tightening spreads.

For more of our market views and sector credit opinions, please see our monthly Fixed Income Strategy, "Greece Cuts A Deal As The Eurozone Recovery Remains Fragmented," published July 29, 2015.

Table 7

North American Risk-Reward Profiles By Sector*

	Scores (%)	OAS (bps)	PD (%)	BP Vol. (%)
Consumer discretionary	(11)	7	0.007	(0.049)
Consumer staples	10	(7)	0.069	(0.132)
Energy	(11)	36	0.399	0.075
Financials	8	1	0.001	(0.066)
Health care	6	0	0.005	(0.112)
Industrials	4	11	0.448	(0.080)
Information technology	3	(4)	0.001	(0.059)
Materials	(12)	19	1.079	0.149
Telecommunications services	(12)	6	(0.011)	(0.017)
Utilities	21	4	0.048	(0.106)
Average	1	7	0.205	(0.040)

*One-month average Risk-to-Price score and components changes to Aug. 14, 2015. OAS--Option-adjusted spreads. bps--Basis points. PD--Probability of default. BP Vol.--Bond-price volatility. Source: S&P Capital IQ.

Table 8

Europe Risk-Reward Profiles By Sector*

	Scores (%)	OAS (bps)	PD (%)	BP Vol. (%)
Consumer discretionary	7	(2)	0.032	(0.051)
Consumer staples	5	(15)	0.001	(0.126)
Energy	24	(54)	(0.184)	(0.198)
Financials	7	(7)	0.000	(0.075)
Health care	19	(2)	(0.004)	(0.067)
Industrials	10	(11)	(0.014)	(0.079)

Table 8

Europe Risk-Reward Profiles By Sector* (cont.)				
Information technology	10	0	(0.005)	(0.196)
Materials	(2)	11	0.043	(0.004)
Telecommunication services	13	(9)	(0.011)	(0.073)
Utilites	(1)	(13)	0.005	(0.122)
Average	9	(10)	(0.014)	(0.099)

*One-month average Risk-to-Price score and components changes to Aug. 14, 2015. OAS--Option-adjusted spreads. bps--Basis points. PD--Probability of default. BP Vol.--Bond-price volatility. Source: S&P Capital IQ.

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Capital Market Commentary: IPOs, M&A, And Debt

IPOs

September marks the one-year anniversary of Alibaba Group Holding Ltd.'s $21.8 billion IPO--the largest in history. Following the Chinese e-commerce firm's transaction, just 11 IPOs coming from companies based in the Asia-Pacific region have been priced on major U.S. stock exchanges, down from 18 IPOs in the year preceding Alibaba's IPO. And although Alibaba's stock performance has managed to keep a 10%-plus gain since its debut, despite investor disappointment after the company released its latest earnings results, most of the recently priced Asia-Pacific-based IPOs priced in the U.S. have seen their share price turn south. In fact, besides Tantech Holdings Ltd., which has climbed more than 430% from its debut, the average performance among these IPOs has been a 14% loss.

Table 9

Asia-Pacific-Based IPOs Trading In The U.S. Since September 2014

Effective date	Issuer	Total transaction value (mil. $)	Price per share ($)	Latest day-close price ($)	Change (%)
9/17/2014	Alibaba Group Holding Ltd.	21,767.20	68.00	75.19	10.60
9/30/2014	DT Asia Investments Ltd.	60.00	10.00	9.95	(0.50)
10/8/2014	MOL Global Inc.	168.80	12.50	1.14	(90.90)
11/10/2014	Sky Solar Holdings Ltd.	44.20	8.00	7.86	(1.80)
11/13/2014	eHi Car Services Ltd.	120.00	12.00	10.68	(11.00)
12/10/2014	Momo Inc.	276.00	13.50	16.36	21.20
3/18/2015	Tantech Holdings Ltd.	12.80	4.00	25.36	534.00
3/31/2015	JM WOWO	40.00	10.00	5.92	(40.80)
4/30/2015	Arowana Inc.	72.00	10.00	9.85	(1.50)
5/20/2015	Baozun Inc.	110.00	10.00	7.74	(22.60)
6/9/2015	Hailiang Education Group Inc.	20.00	7.00	9.01	28.70
6/25/2015	Yulong Eco-Materials Ltd.	14.10	6.25	4.97	(20.50)

Source: S&P Capital IQ.

M&A

The deal value of announced M&A activity involving U.S.-based targets this year is now approaching $1.45 trillion, which is closing in on 2014's full-year result of $1.52 trillion. Yet several sectors have already topped the prior year's total results. For example, health care deal value now stands at about $352 billion, surpassing last year's total of $269.2 billion. Additionally, information technology, now at nearly $166 billion, is ahead of the $154 billion in 2014. Also, industrials, which saw Berkshire Hathaway Inc. enter into a definitive agreement to acquire Precision Castparts Corp. for $32.3 billion in cash on Aug. 8, 2015, has more than doubled the full-year 2014 deal value of $61 billion. Furthermore, financials is just $3.3 billion away from matching 2014 M&A results. With only $69 billion to go, 2015 total U.S. M&A activity could easily surpass 2014 by Labor Day.

Table 10

Announced U.S. Merger And Acquisitions By Sector

Sector	2014 (bil. $)	2015 YTD (bil. $)
Health care	269.2	351.9
Financials	277.9	276.6
Information technology	153.9	165.7
Industrials	61.1	128.6
Materials	71.0	43.5
Consumer discretionary	228.3	142.5
Energy	257.7	188.3
Consumer staples	101.3	83.7
Utilities	63.1	18.6
Telecommunication services	14.7	25.6
Undisclosed	18.8	23.1
Total	1,517.0	1,448.1

YTD--Year-to-date. Source: S&P Capital IQ.

Debt

The summer doldrums have seemingly taken hold of CUSIP request activity for upcoming new debt offerings based on recent Committee on Uniform Security Identification Procedures (CUSIP) Global Services information. For the week ended Aug. 14, 452 security identifiers were sought for the six debt-related classes below. That represents a 53% drop from the preceding weekly results of 953 requests. CUSIP orders for upcoming domestic corporate debt issues saw the biggest drop among the asset classes profiled as the number of identifiers sought dropped by more than 400. Still, despite the recent results, CUSIP demand remains positive for 2015 chiefly due to a 32% rise in identifier requests for forthcoming municipal finance offerings.

Table 11

Selected Debt CUSIP Requests

Asset	Week of Aug. 14	Week of Aug. 7	2015	2014	Change (%)
Domestic corporate debt	71	476	6,508	6,482	0.40
Municipal bonds	256	283	10,080	7,611	32.44
Short-term municipal notes	19	76	865	902	(4.10)
Long-term municipal notes	3	20	259	425	(39.06)
International debt	47	54	1,954	1,747	11.85
PPN domestic debt	56	44	1,310	1,412	(7.22)
Total	452	953	20,976	18,579	12.90

CUSIP--Committee on Uniform Security Identification Procedures. YTD--Year-to-date. PPN--Private placement number. Source: CUSIP Global Services. Source: S&P Capital IQ.

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