STANDARD & POOR'S

Morning Briefing

Strategies and Investment Ideas from S&P Equity Research

April 1, 2009

OVERNIGHT UPDATES

Key measures as of 6:00 am ET:

U.S. markets indicated lower; London, Paris, Frankfurt lower; Tokyo rose 2.99%; Hong Kong fell 0.42%; Shanghai rose 1.47%.

BONDS: 10-year notes yield at 2.6810%, 30-year bonds yield at 3.5433%.

FOREIGN EXCHANGE: Euro at $1.3231, Sterling at $1.4383, Dollar at 99.09 yen.

PRECIOUS METALS: Gold at $919.77.

ENERGY: WTI crude at $48.35, London Brent crude at $47.93.

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RECOMMENDED TRADER ACTION: HOLD representative ETF for the S&P 500 (SPY)
The S&P 500 neural model (daily: open to close) neutral about today's close.

MARKET FOCUS (UPDATES AS OF 7:00 A.M. ET)

Futures Down; Auto Bankruptcy Talk Accelerates, G-20 to Meet

- U.S. stock index futures are falling. S&P 500 index futures at 7:00 a.m. suggested a 1% drop at the opening bell today.
- World leaders are meeting in London today to discuss the global economic recession and ongoing turmoil in the financial markets.
- Speculation is growing that beleaguered U.S. carmakers will file for bankruptcy, according to unconfirmed *Bloomberg* reports. Shares of General Motors (GM 2 **) are weaker in premarket trading after yesterday's 28.2% drop.
- The February Construction Spending report is likely to garner attention 10:00 a.m. S&P Economics and a median consensus expect the measure to fall 2.0%.
- Also at 10:00 a.m., March's ISM manufacturing survey index is scheduled for release. S&P Economics expects the reading to come in at 35.5 down from February's 35.9 reading. The consensus anticipates a 36.0 level.

Financials (Marketweight)

S&P Select Financials Sector SPDR (XLF), Rydex S&P Equal Weight Financial ETF (RYF), iShares S&P Global Financials Sector Index Fund (IXG)

- Shares of large TARP-recipient banks are lower in premarket trading. Citigroup (C 3 ***) fell [illegible]% as of 6:17 a.m. and Bank of America (BAC 7 ***) shed 2.5%. JP Morgan Chase (JPM 27 ***) lost 1% in afterhours trading yesterday after rising 7% during the regular trading session, while Wells Fargo (WFC 14 ***) gave back 1.5% in afterhours trading after gaining 6.5% in Tuesday's session.

--Isabelle Sender, S&P Editorial

On the Move Overseas (UPDATES THROUGH 6:30 A.M. ET)

- The S&P Europe 350 is marginally lower, with caution prevailing as a new month, quarter, and fiscal year kick off.
- Declines in pharmaceutical and energy stocks are weighing on the index.
- A key U.S. brokerage house put out a note on the telecoms sector and respective upgrades/downgrades are moving stocks in the sector.
- In London, President Obama and Prime Minister Brown held a press conference this morning in advance of the G20 summit, indicating that they are both singing from the same hymn sheet when it comes to tackling the financial crisis.

-- Pawan Girglani, S&P Editorial

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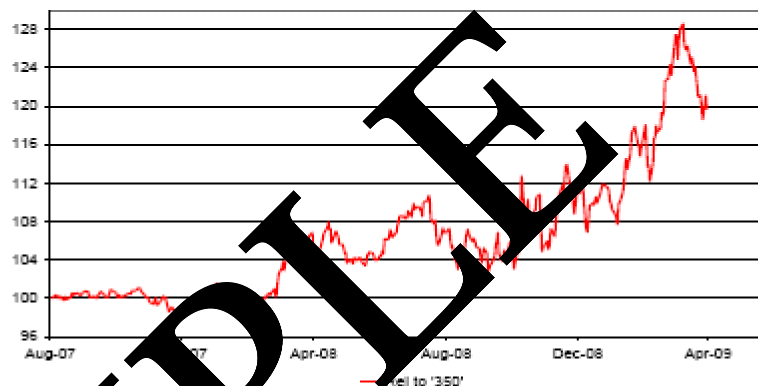
S&P European Growth Portfolio

- The portfolio lagged our benchmark, the S&P Europe 350, by 3.8% in March, taking the current year-to-date relative performance down to 9.7%. The expected rally resulted in our long carve outperforming the market but being left in the slipstream of some sharp reversals in our short portfolio. Readers should note that past performance is not indicative of future results.

- We have started to see some 'green shoots' of catalysts: hopeful signs for consumer spending in the US and UK; hugely activist policies by the world's leading central banks ranging from quantitative easing to restarting the securitization channels; greater clarity on a bank rescue plan from the US Treasury; some stabilization in widely-tracked leading economic indicators; and improved international co-operation ahead of the G20 meeting.

Portfolio Relative Performance Since Inception



Source: Th... Datastream; ... S&P Europe 350 TR.

- Despite the strong advance in our benchmark since mid-month, we remain cautious. We believe that an inflexion point has been reached and that equities are priced at appropriate value on our top-down analysis. The main disagreement now is over the quality of growth, where we remain more bearish than consensus.

- We continue to consider earnings to be in a prolonged sub-trend growth environment. We have however narrowed our underweight Financials position. The portfolio will be rebalanced on Friday, May 1.

- The S&P European Growth Portfolio is a model portfolio representing the strongest recommendations of S&P's European Equity Research team. It combines bottom-up analysis from over 30 analysts with the top-down assessment of the S&P Investment Policy Committee (IPC).

-- Robert Quinn, S&P European Equity Strategist

S&P EQUITY RESEARCH (OVERNIGHT UPDATES THROUGH 7:00A.M. ET)

No Overnight, Premarket Opinion Changes

Still Recommend Selling GM Shares on Likely Dilutive Effect of Restructuring Plan

03/31/2009- 2:38pm

- S&P MAINTAINS SELL OPINION ON SHARES OF GENERAL MOTORS (GM 2.33 **): After succeeding Rick Wagoner, who resigned yesterday at the request of the Obama administration, GM CEO Fredrick Henderson comments that a GM bankruptcy is "more probable" than ever, but that he hopes it can reach concessionary deals with the UAW and bondholders within the Obama team's 60-day deadline, and restructure the company out of court. We continue to see any GM turnaround plan including the significant dilution of existing shareholders' positions, as other stakeholders are likely to accept equity in exchange for obligations due to them.

-- E. Levy-Kolb, S&P Equity Research

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S&P 'TRENDSCOPE'

Global Remittances Set To Slow

Originally published: 03/31/2009 2:57pm

Negative potential implications: Stocks: MoneyGram International (MGI 1 *) (Small-Cap, Blend), Western Union (WU 13 ***) (Large-Cap, Blend); ETFs: iShares MSCI Emerging Markets Index (EEM), SPDR S&P Emerging Lain America (GML), SPDR S&P Emerging Europe (GUR), SPDR S&P Emerging Middle East & Africa (GAF).**

- A recent report from the World Bank forecasts that remittances (migrant workers' earnings sent to families back home) will fall from $305 billion in 2008 to $290 billion in 2009, due largely to the global economic recession. This decline could be profoundly negative for many smaller emerging markets, particularly in emerging Europe and Latin America, regions that depend on remittances to improve living standards.
- The World Bank anticipates that the global economy will contract 1.7% this year, compared with growth of 1.9% in 2008, marking the first decline in the global economy since World War II. Similarly, the World Bank sees a 6% contraction in the volume of global trade, the largest decline in 80 years.
- "What started in 2007 as a financial crisis quickly spiraled into an economic crisis," said World Bank President Robert Zoellick in a speech in London on March 31. "Today, it is an unemployment crisis. We forecast economic growth in developing countries to slow sharply this year, to 2.1%. We expect actual declines in Central and Eastern Europe, Central Asia, and Latin America and the Caribbean."
- Remittances total more than the foreign aid many developing countries receive each year, making it vitally important to economic growth and development. Official development aid is only around $100 billion globally. Although forecast to slow, even with a drop of between 5% and 8%, remittances also will still outstrip private capital flows to developing markets in 2009, according to the World Bank, which foresees a about a 50% drop in private capital flows this year.
- The top five countries receiving remittances in 2008 were India (at $45 billion), China ($34 billion), Mexico ($26 billion), Philippines ($18 billion), and Poland ($11 billion).
- In addition, the World Bank sees particular weakness in remittances from more advanced emerging markets to less developed ones. Specifically, remittances from Russia, South Africa, Malaysia, and India are highly vulnerable to the ongoing financial crisis.

- The World Bank expects remittances to emerging Europe to decline 10.1% in its base case forecast, with Latin America and Sub-Saharan Africa experiencing a 4.4% decline and Asia a 4.2% decline. Remittances are likely to rebound in 2010 and 2011, however, and rise 2.9% and 6.3%, respectively.
- In the United States, which is a major source of remittances, there are a couple of factors at work that will determine remittance flows to emerging markets in 2009. First, immigration policy became more restrictive following the passage of the economic stimulus bill earlier this year, which may limit the number of high-skilled immigrants coming into the United States. Nevertheless, it may lead to those migrant workers already here remaining in the United States for longer periods of time.
- Second, employment among migrant workers remained relatively resilient in late 2008. Migrant workers employed in the manufacturing and construction industries declined, but employment in wholesale and retail trade held up, while the number employed in the restaurant and hotel industries actually increased.
- S&P Equity Analyst Zaineb Bokhari notes slowing construction trends are having the biggest impact on remittance flows, particularly to Latin America. Reduced construction activity in those countries that rely heavily on immigrant laborers, such as the UAE, are also contributing to the global decline in remittances.
- The decline in remittances is also impacting Western Union (WU 13 ***) , which is a major player in the remittance market. The company noted in its fourth-quarter earnings release, "Western Union anticipates that the global money transfer market will grow slower in 2009 compared to 2008. The revenue outlook reflects Western Union consumer to consumer transaction growth in the mid- to high-single digits and for principal per transaction to decline. Price decreases are expected to be consistent with 2008 at approximately 1% of consolidated revenue."
- Bokhari wrote in a WU research report, "We expect revenues to fall 7% to $4.9 billion in 2009. Western Union's domestic consumer-to-consumer money transfer business remains challenged by the weak macro-economy; the slowdown is spreading quickly to global markets, hindering growth. While a portion of WU's transactions are non-discretionary, the worsening economy has resulted in a decline in the amount of principal sent per transaction, hurting transaction fee growth."

-- Justin Menza, S&P Editorial

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S&P'S FOCUS STOCK

Top Pick in Our Independent E&P Coverage Universe

Originally published: March 30, 2009

- This week's Focus Stock of the Week is EOG Resources (EOG 59 *****), which carries Standard & Poor's highest investment recommendation of 5-STARS, or Strong Buy. EOG is one of the largest independent exploration & production (E&P) companies in the U.S., with a focus on onshore natural gas production and a growing base of crude oil producing properties.
- We believe EOG's long-term growth profile is favorable, as recent capital spending has focused on organic production growth. In 2008, the company added exposure to high-growth onshore production and we view as positive its leading and growing acreage positions in the Barnett, Marcellus, Haynesville, and Bakken Shales, as well as in Canadian shale plays.
- After growing its production by 16% in 2008, and with a three-year production compound annual growth rate (CAGR) of 12%, we expect EOG to scale-back volumes until oil and gas

prices begin to rebound. However, despite an estimated 48% decline in natural gas prices, we forecast 2009 production growth of 3%, mainly on higher crude oil and natural gas liquid production from a ramp in volumes at the Bakken Shale in North Dakota, partly offset by a 1%-2% decline in U.S. natural gas production. Based on higher oil and gas price estimates for 2010, we expect a resumption of double-digit production growth next year.

- We believe EOG's balance sheet and low debt levels should help the company navigate a difficult 2009 operating environment. In 2009, based on impressive results at two preliminary wells, we expect EOG's 14-well development program at the Haynesville Shale to be a catalyst for the shares. Also, while many of its E&P peers recorded significant reserve write-downs and property impairments in 2008 due to the precipitous drop in oil and gas prices, EOG was one of few that did not incur these non-cash charges and reserve revisions. Based on our view of the company's low-cost production profile, low-risk production growth visibility, attractive acreage, and growing reserves, EOG is our top pick in our independent E&P coverage universe.
- The company expects the deterioration in demand in 2009 to exceed the decline in supply from reduced drilling activity. However, in 2010, EOG projects natural gas prices to recover as supply cuts and industrial demand recovers. It looks for oil prices to be weak in the first half of the year and strengthen in the second half, mainly on OPEC production cuts.
- The company expects to average 45 rigs this year, down [illegible]% from 7[illegible] rigs last year. The company spent a record $4.9 billion (excluding acquisitions) on exploration and development in 2008, up from $3.88 billion in 2007. In [illegible], it expects spending of $3.1 billion, down 37% on lower prices. However, we believe much of the spending over the last two years has provided for production and reserve growth visibility.
- Furthermore, EOG has hedged about 43[illegible] of forecasted 2009 natural gas production at $9.73 per Mcf, well above current prices. We think its financial and operating strengths relative to its peers are critical competitive advantages, especially during the current downturn. Management has stated that a key strategy is to maintain a strong balance sheet with a consistently below-average debt-to-total capitalization ratio (17% at year end) versus peers.

VALUATION

- In our view, EOG is undervalued compared to large-cap E&P peers in our coverage universe. EOG shares were recently trading at modestly lower price-to-earnings (P/E) and price-to-cash flow (P/CF) multiples than their peer averages, based on our estimates. On an enterprise value to EBITDA basis, EOG trades at a ratio of 7X our 2009 EBITDA forecast, above [illegible] given its low debt levels. EOG's debt ratios are among the lowest in the group, with a 17% long-term-debt-to-total capitalization, versus peer averages above 30%. Its 2008 return on capital employed of 26% is the highest in the group.
- The shares recently traded at about 23X our 2009 EPS estimate of $2.62, compared to an average P/E of 27X for the large-cap peer group; and about 12X our 2010 EPS estimate of $5.04, compared to an average of 19X for peers. On a P/CF basis, EOG is trading at 5.3X and 4.9X our cash flow forecasts for 2009 and 2010, respectively, slightly below peer averages.
- Furthermore, we believe EOG is trading at a 32% discount to our proved-reserve NAV per share estimate of $88, versus a peer discount of about 10%. Our 12-month target price of $82 is based on a blend of our proved-reserve NAV per share estimate of $88, our discounted cash flow analysis ($81; weighted average cost of capital of 9.35%, terminal growth of 3%) and relative metrics, including a target enterprise value to 2009 EBITDA of 9X.

-- Michael Kay, S&P Equity Research

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S&P INDEX SERVICES

Changes to Small-, Mid- and Large-Cap Indices After Today's Close

The following press release was distributed by S&P Index Services, which operates independently from S&P Equity Research.

Originally published: March 25, 2009

- PRESS RELEASE: Standard & Poor's will make the following changes to the S&P 500, S&P MidCap 400 and S&P SmallCap 600 indices after the close of trading on Wednesday, April 1:
- S&P MidCap 400 constituent Denbury Resources Inc. (NYSE:DNR) will replace Rohm and Haas Co. (NYSE:ROH) in the S&P 500, and Corporate Office Properties Trust (NYSE:OFC) will replace Denbury Resources in the S&P MidCap 400. S&P 100 & 500 constituent The Dow Chemical Corp. (NYSE:DOW) is acquiring Rohm and Haas in a transaction expected to be completed on or about that date.
- S&P SmallCap 600 constituent Cleco Corp. (NYSE:CNL) will replace Belo Corp. (NYSE:BLC) in the S&P MidCap 400, and Pinnacle Financial Partners Inc. (NASD:PNFP) will replace Cleco in the S&P SmallCap 600. As of today's close of trading Belo had a market capitalization of $81 million, ranking it 400th in the index.

-- S&P Index Services

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Glossary

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S&P Quality Rankings (also known as **S&P Earnings & Dividend Rankings**)- Growth and stability of earnings and dividends are deemed key elements in establishing S&P's earnings and dividend rankings for common stocks, which are designed to capsulize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+	Highest	B-	Lower
A	High	C	Lowest
A-	Above Average	D	In Reorganization
B+	Average	NR	Not Ranked
B	Below Average		

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Abbreviations Used in S&P Equity Research Reports

CAGR- Compound Annual Growth Rate
CAPEX- Capital Expenditures
CY- Calendar Year
DCF- Discounted Cash Flow
EBIT- Earnings Before Interest and Taxes
EBITDA- Earnings Before Interest, Taxes, Depreciation and Amortization
EPS- Earnings Per Share
EV- Enterprise Value
FCF- Free Cash Flow
FFO- Funds From Operations
FY- Fiscal Year
P/E- Price/Earnings
PEG Ratio- P/E-to-Growth Ratio
PV- Present Value
R&D- Research & Development
ROE- Return on Equity
ROI- Return on Investment
ROIC- Return on Invested Capital
ROA- Return on Assets
SG&A- Selling, General & Administrative Expenses
WACC- Weighted Average Cost of Capital

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As of December 31, 2008, research analysts at Standard & Poor's Equity Research Services Europe recommended 30.4% of issuers with buy recommendations, 45.3% with hold recommendations and 24.3% with sell recommendations.

In Asia
As of December 31, 2008, research analysts at Standard & Poor's Equity Research Services Asia recommended 33.9% of issuers with buy recommendations, 54.4% with hold recommendations and 11.7% with sell recommendations.

Globally
As of December 31, 2008, research analysts at Standard & Poor's Equity Research Services globally recommended 28.1% of issuers with buy recommendations, 58.3% with hold recommendations and 13.6% with sell recommendations.

5-STARS (Strong Buy): Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.
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1-STARS (Strong Sell): Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks: In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are generally the S&P Europe 350 Index and the S&P Asia 50 Index.

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