



U.S. Structured Note Sales Fall as Stocks End Monthly Win Streak

By Matt Robinson on May 03, 2012

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Sales of U.S. structured notes fell in April as the Standard & Poor's 500 Index closed lower for the first month since November.

Banks sold \$2.73 billion of the securities, down from a seven-month high of \$4.48 billion in March, according to data compiled by Bloomberg from prospectuses filed with the Securities and Exchange Commission as of May 1. Issuance this year of \$13.9 billion lags behind last year's \$17.9 billion at this time, Bloomberg data show.

The S&P 500 (SPX) snapped its longest win streak of monthly gains since 2009 on renewed concern over the ability of Europe to contain its debt crisis and weaker economic data from the U.S. An Institute for Supply Management-Chicago Inc. report showed business activity expanded in April at the slowest pace since 2009. The S&P 500, which is the most popular underlying for equity-tied notes, dropped 0.75 percent.

"When the market's down, people aren't as enthusiastic" about buying, said Scott Miller, founder of Blue Bell Private Wealth Management LLC, which sometimes purchases the investments.

Securities linked to equities made up the largest category for the month with banks selling \$1.47 billion of products in 365 offerings, Bloomberg data show. Rate-linked notes were the second-most popular, at \$570.1 million of issuance, followed by \$206 million of reverse convertibles, Bloomberg data show.

Note sales fell while volatility increased. The VIX, as the Chicago Board Options Exchange Volatility Index (VIX) is known, averaged 17.8 for the month, more than the 16.2 in March. The VIX measures the cost of hedging against losses on the S&P 500. As volatility rises, so does the value of the derivatives embedded in many structured notes, allowing issuers to create higher-paying securities.

Biggest Note

On April 11, General Electric Co.'s finance unit sold \$100 million of so-called step-up callable notes, the largest offering in the month, according to Bloomberg data. The 15-year securities yield 3.5 percent for the first five years, then the rate increases twice, reaching 7 percent in 2022 if they're not called, according to a prospectus filed with the SEC.

On April 27, Barclays Plc (BARC) issued \$67.5 million in two-year notes tied to the U.S. dollar and Chinese renminbi, the second-largest sale last month and the biggest currency-linked deal since Sept. 9, Bloomberg data show. Investors receive 1.46 times any gains in the yuan against the greenback, with their principal returned if the exchange rate goes in the other direction, according to a prospectus

filed with the SEC. New York-based JPMorgan Chase & Co. (JPM) distributed the notes for a 1 percent commission.

Structured notes are securities created by banks, which package debt with derivatives to offer customized bets to investors while earning fees and raising money. Derivatives are contracts whose value is derived from stocks, bonds, currencies and commodities.

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