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# S&P-Linked Note Sales Reach Record Even as Total Issuance Falls

By Matt Robinson - Jul 19, 2012

Sales of structured notes tied to the Standard & Poor's 500 Index have surged 48 percent to a record this year even as overall issuance dropped.

Banks have sold $5.77 billion of the securities tied to the benchmark, up from $3.89 billion from a year earlier, according to data compiled by Bloomberg. Almost 60 percent of all notes issued this month through July 13 are tied to the gauge, the highest level since at least January 2010, Bloomberg data show.

Lower interest rates have made for less compelling features on notes that promise a return of principal, so more investors are buying securities that don't make such guarantees, such as certain products tied to equities, said Deryk Rhodes, vice president of structured products trading at Incapital LLC in Boca Raton, Florida. Notes linked to interest rates, which generally return principal, have plunged 36 percent this year, while overall sales slumped 18 percent to $21.5 billion.

"In this rate environment, more people are turning to non- principal protected structures," Rhodes said in a telephone interview.

The five-year swap rate, a benchmark for borrowing costs, has averaged 1.1 percent this year, down from 2.2 percent over the same period in 2011, Bloomberg data show. When rates decline, the zero-coupon bonds used to create structured notes become more expensive. That makes it hard to offer attractive terms on principal-protected notes.

## Well-Known Index

Linking a security to the S&P 500 makes sense because "you're tying it to something investors already understand," said John Tessar, senior vice president and head of structured products at JVB Financial Group LLC. "Half the battle of selling a structured product is done if you use a very well- known index."

The S&P 500 Index, a market capitalization-weighted measure of 500 companies, climbed 12 percent in the first quarter and has fallen 2.5 percent since then, Bloomberg data show.

Structured notes tied to the S&P 500 tend to be simpler than others, with less complex formulas and payout scenarios, making them easier to fit into investment holdings, said Scott Miller Jr., a managing partner at Blue Bell Wealth Management LLC. The securities also have good protection against market losses right now, he said.

“The buffers are really in the sweet spot in terms of pricing,” Miller said.

Bank of America Corp. (BAC) sold $1.11 billion of notes tied to the gauge this year, the most of any issuer, followed by Goldman Sachs Group Inc. at $986.2 million, Bloomberg data show.

## Biggest Deal

The Charlotte, North Carolina-based bank issued $118.5 million of 14-month notes on May 24, the largest offering tied to the index this year, Bloomberg data show. The securities yield three times any gains capped at 21 percent, with investors at risk of losing their principal, according to a prospectus filed with the U.S. Securities and Exchange Commission. Bank of America distributed the notes for a 2 percent fee.

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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