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The Outlook

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What's Inside

Looking Ahead

The Outlook will not be published on April 15. The next issue will be published on April 22 and contain all of our usual features plus the latest in current and long-term trends. For STARS updates, please visit our website.

Coal Industry Faces Challenges

Vaughan Scully
S&P Editorial

S&P sees risks for the group in 2009, given macroeconomic concerns and industry trends.

Less than a year ago, oil markets pushed coal prices to a previously unimaginable $143 per short ton. The current outlook for the industry, however, couldn't be more different.

Gone are the visions of massive coal mine expansions driven by huge revenue growth in a world desperate for more energy. Instead, coal prices and consumption are declining under pressure from the global recession, and may not fully recover for several years.

As a result, Standard & Poor's views shares of U.S. coal producers — such as Peabody Energy, James River Coal, and Foundation Coal — as unattractive.

The drop in U.S. economic activity is hitting coal consumption — normally more resilient in the face of economic adversity than petroleum fuels — particularly hard this year. Benchmark coal prices plunged by 51% since mid-2008, sending shares of coal producers down precipitously. In 2009, S&P believes that several important factors will exert pressure on the industry's profitability. These include lower production, historically high inventories at electric utilities — the

(Continued on page 9)

NEGATIVE POTENTIAL IMPLICATIONS

COMPANY / TICKER	‡STARS	‡QUALITY RANKING	*RISK	STYLE	CURRENT PRICE	**12-MONTH TARGET PRICE	†P/E RATIO	YIELD (%)
Alpha Natural Resources / ANR	3	NR	High	Blend	18	19	6.1	Nil
Arch Coal / ACI	3	B	Medium	Blend	14	15	6.4	2.6
Consol Energy / CNX	3	NR	High	Blend	26	28	7.0	1.5
Foundation Coal / FCL	2	NR	Medium	Growth	15	15	6.7	1.3
International Coal / ICO	3	NR	High	Blend	2	2	16.7	Nil
James River Coal / JRCC	2	NR	High	Blend	13	12	4.6	Nil
Massey Energy / MEE	3	B-	High	Foreign	10	14	3.7	2.4
Peabody Energy / BTU	2	NR	Medium	Blend	26	24	8.6	0.9

*Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. **Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report. ‡See definitions on page 2. †Based on S&P estimated fiscal 2009 earnings. NR-Not ranked. Source: S&P Equity Research.

Intelligencer

Headlines, Highlights, and What's on Our Minds

GREEN BUFFETT: In a recent letter to stockholders, Warren Buffett announced plans to show China's first mass-produced plug-in hybrid car, made by BYD (BYDDF 2 NR), at Berkshire Hathaway's (BRK.A 87,600 ★★★) May 2 annual meeting of stockholders. Berkshire owns a 10% stake in BYD, a Chinese company focused on rechargeable batteries and auto parts. Its F3DM model, with a 60-mile range on an electric charge and a size comparable to a Toyota (TM 68 ★★) Corolla, went on sale in China last December. BYD's E6 model is reported to have a range of around 250 miles just on its battery and can be fully charged in nine hours from a regular electric outlet. BYD plans to enter the U.S. market with its hybrids to compete with other planned plug-in models such as General Motors' (GM 2 ★★) Chevrolet Volt, expected to launch in late 2010 with an estimated range of 40 miles on electric. / Arthur Epstein

U.S.A, U.S.A.: In a Deutsche Bank survey of about 1,000 hedge fund investors, the United States was predicted to be the best performing region this year, and Eastern and Central Europe and Russia were predicted to be the worst. These investors said they were holding $294 billion of cash, but expect to reduce this over the next six months to $212 billion if the markets remain stable. One-half of respondents said they plan to invest in hedge funds with average assets under management of $800 million to $4 billion this year. Investors overwhelmingly predicted global macro to be the best performing strategy this year, which could have positive implications for exchange-traded funds such as iShares S&P 500 Index (IVV) and CurrencyShares Euro Trust (FXE). / Arthur Epstein

SOCIAL INSECURITY: Almost half of Americans (48%) would choose not to contribute to Social Security even if it meant they would not receive these benefits upon retirement, according to a survey by Sun Life Financial. A desire to stop participating in the Social Security system is widespread among all age groups. Workers in their 30s are most likely to favor not paying into the Social Security system, with 59% responding they would rather not pay the taxes and not receive benefits. A small majority (51%) of workers 40 to 49 prefer not to participate. Of workers 50 to 59, 44% prefer not to contribute, nor would 39% of workers 50 and older. Even 33% of workers age 60 and over — the group closest to traditional retirement age — said they would opt out. / Beth Piskora ■

MARKET MEASURES

INDEX	CLOSE WED. 4/1/2009	% CHG. YEAR TO DATE	% CHG. PAST 52 WKS.	‡OPERATING —EARNINGS— E2008	E2009	†P/E RATIO	INDICATED ANNUAL DIVIDEND	% YIELD
S&P 500 Composite	811.08	-10.2	-39.5	49.51	61.95	13.09	24.19	2.98
S&P MidCap 400	494.45	-8.1	-37.3	30.03	35.95	13.75	10.83	2.19
S&P SmallCap 600	225.90	-15.9	-39.3	10.22	13.45	16.80	4.19	1.85
S&P SuperComposite 1500	183.90	-10.3	-39.3	11.12	13.89	13.24	5.30	2.88
Dow Jones Industrials	7761.60	-11.6	-37.5	462.49	436.92	17.76	275.49	3.55
Nasdaq Composite	1551.60	-1.6	-33.2	...	...	...	...	...
S&P Global 1200	913.63	-11.2	-43.5	...	...	...	...	...
BBB Indus. Bond Yield (10-yr.)	9.11	-0.02 ◊	2.15 ◊			...	...	...

Data through April 1. E-Estimated. †Based on estimated 2009 earnings. ‡Before special factors. ◊Actual change in yield (not percentage change).

For even more market intelligence, visit www.outlook.standardandpoors.com.

Standard & Poor's The Outlook

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S&P EVALUATION SYMBOLS

STARS Rankings*

Our evaluation of the 12-month potential of stocks is indicated by 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.

★★★★ **Buy**—Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★ **Hold**—Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★ **Sell**—Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

★ **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.

NR Not ranked.

*The fund and ETF STARS rankings come from S&P's mutual fund reports.

Quality Rankings (QR)

Our appraisals of the growth and stability of earnings and dividends over the past 10 years for STARS and other companies are indicated by Quality Rankings:

A+	Highest	**B+**	Average	**C**	Lowest
A	High	**B**	Below Avg.	**D**	In reorganization
A-	Above Avg.	**B-**	Lower	**NR**	Not Ranked

Quality Rankings are not intended to predict stock price movements.

The Observatory

Selected actions for March 27 through April 3.

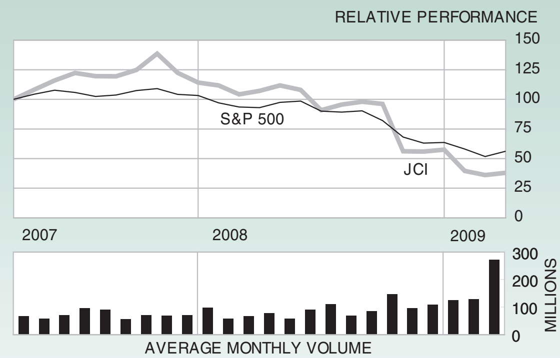
One to Watch

Johnson Controls JCI 13

To ★★★★ From ★★★

The company's recent debt and equity offering, although expensive in our view, along with the Treasury's first funding program to support auto suppliers, should help Johnson Controls motor through any temporary disruption caused by a failure of any auto or auto parts manufacturer. We cut our fiscal 2009 (ending September) earnings estimate by $0.48 to $0.28 a share. However, Johnson Controls' announcement of a restructuring on March 27 should accelerate an earnings growth recovery, so we initiated our 2010 earnings estimate at $1.01. Blending our P/E and discounted cash flow analyses, we reduced our target price by $3 to $15. ■

JOHNSON CONTROLS (JCI)



RISING STARS

Allergan AGN 48

To ★★★★ From ★★★

According to an unconfirmed report from *Dow Jones*, among others, GlaxoSmithKline (GSK 31 ★★★) may be interested in acquiring Allergan. We think GlaxoSmithKline is looking for companies to acquire, and its working relationship with Allergan makes the company a prospective candidate. We believe GlaxoSmithKline could be seeking to expand into eye care and could find the potential of Botox to treat headaches, if approved by the FDA, appealing. We don't think Allergan would be interested in anything but a compelling deal, but we see the potential limiting its downside risk. On our P/E-to-growth ratio and takeover premium, we raised our target price by $12 to $55.

Ashland AGN 12

To ★★★★ From ★★★

We expect Ashland's earnings to start to benefit from the Hercules acquisition, a recent restructuring, manufacturing economies of scale, and lower raw material costs. We think end-markets will begin to show signs of improvement in the September quarter from an uptick in economic activity, as global economic stimulus spending begins to take effect. However, we do see further non-cash charges from the Hercules acquisition for fiscal 2009 (ending September). We raised our fiscal 2009 earnings estimate by $0.05 to $1.55 a share and 2010's by $0.40 to $2.60. We upped our target price by $4 to $15 on our revised discounted cash flow analysis.

FALLING STARS

JA Solar JASO 4

To ★ From ★★★

Our downgrade is based largely on valuation, following a sharp jump in the price of the company's American Depositary Shares (ADS). According to an unconfirmed report from *Reuters*, Japan may introduce a new stimulus package that could include solar provisions. Although we believe that potential Japanese solar investments could provide the industry with long-term opportunities, we believe that a sharp increase in Japanese demand for 2009 to 2010 is already largely expected, and should not materially impact JA Solar's earnings results. We maintained our 2009 earnings-per-ADS estimate of $0.08 and our 12-month target price of $3. ■

S&P 500 TOTAL RETURN (%) ENDED MARCH 31, 2009

ANNUAL 5-YEAR	AVERAGE 10-YEAR	YEAR-TO-DATE	LAST 12 MONTHS	LAST MONTH
-4.76	-3.00	-11.01	-38.09	8.76

Monthly total return statistics for all S&P indices are available at www.standardandpoors.com.

For a rolling eight-day list of STARS changes, additions, and deletions by S&P Equity Research, please visit our website.

S&P Observatory provides a selection of analytical actions and commentary — upgrades, downgrades, initiations — from S&P Equity Research. Stocks featured in S&P Observatory are selected by *The Outlook* according to factors including, but not limited to, newsworthiness, capitalization, and inclusion in a portfolio published by *The Outlook*. Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report.

All of the views expressed in this research report accurately reflect the research analysts' personal views regarding any and all of the subject securities or issuers. No part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Justin Menza
S&P Editorial

Taking Control

The U.S. Treasury seeks new regulatory powers. Who will it hurt and who will it help?

The U.S. Treasury on March 26 outlined a plan to expand its ability to deal with non-bank financial institutions that pose a systemic risk to the U.S. financial system and that currently fall outside the resolution authority of the Federal Deposit Insurance Corp. (FDIC).

"This crisis has made clear that certain large, interconnected firms and markets need to be under a more consistent, and more conservative regulatory regime," Treasury Secretary Timothy Geithner said in prepared testimony before the House Financial Services Committee. "These standards cannot simply address the soundness of individual institutions, but must also ensure the stability of the system itself."

The proposed legislation primarily attempts to expand the options the federal government has in dealing with "large, interconnected non-bank financial firms in distress" to avert any potential risks to the financial system. Such institutions would include those financial firms that are not currently subject to the FDIC's resolution authority, including financial holding companies that control broker-dealers, insurance companies, and futures commission merchants.

"While the FDIC already has the power to immediately shut down and sell a bank whose capital falls below regulatory minimums, what is clearly needed now is a more proactive, forward-looking regulatory system of flagging and monitoring those banks that have reduced their lending standards in an effort to gain market share and grow profits," says Erik Oja, an S&P equity analyst.

"Though most of the banks that threw lending standards out the window are no longer around, or no longer making such low credit quality loans, this problem could come back to haunt us in the future. Therefore, we need better regulation of lending standards, and more balance with respect to existing laws, such as the Community Reinvestment Act, which were designed to make credit more freely available."

POSITIVE POTENTIAL IMPLICATIONS

COMPANY / TICKER	‡STARS	‡QUALITY RANKING	*RISK	STYLE	CURRENT PRICE	**12-MONTH TARGET PRICE	†P/E RATIO	YIELD (%)
Bank of America / BAC	3	B+	High	Blend	7	6	70.0	0.6
Citigroup / C	3	B+	High	Blend	2.5	2.5	NM	Nil
JPMorgan Chase / JPM	3	B	Medium	Value	28	25	14.4	0.7
Wells Fargo / WFC	3	A-	Medium	Blend	14	18	11.5	1.4

*Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. **Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report. ‡See definitions on page 2. †Based on S&P estimated fiscal 2009 earnings. NM-Not meaningful. Source: S&P Equity Research.

Instead of forcing a distressed financial firm into bankruptcy or simply injecting taxpayer money into the firm, the proposed legislation would allow the government to put the firm into receivership or conservatorship. It would also enable the government to sell assets or liabilities, renegotiate contracts, and address the derivatives portfolio. The head of the FDIC and the Treasury secretary, along with input from the Fed and the institution's regulator, would make the determination as to whether the institution would enter into receivership or conservatorship.

Under a conservatorship, the government would strive to restore the institution's solvency so that it can continue to operate, while under a receivership, the government would liquidate the firm. In both cases, the goal would be to minimize the impact on the broader financial system and economy.

The government also would be able to use a wide range of financial measures to stabilize the distressed firm. These measures include making loans, purchasing the institution's obligations or assets, assuming or guaranteeing its liabilities, and purchasing an equity interest in the institution.

Funding for these measures would come either from a mandatory appropriation to the FDIC out of the general fund of the Treasury and/or through assessments on the financial institutions covered by the new legislation. Repayment of government funds would come through the redemption of any loans made to the institution and from the ultimate sale of any equity stake the government takes in the distressed firm.

In addition, the government wants to require that firms build up capital when the economy is good to increase the protection against losses during downturns. The Treasury secretary also proposed examining accounting rules to see whether firms can be required to build up loan loss reserve levels in anticipation of losses in downturns.

Some of the Treasury's other legislative proposals include forcing hedge

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March Monthly Market Attributes

Howard Silverblatt
Senior Index Analyst

If you're simply a cockeyed optimist, or just want to wash that bear right out of your hair, March was the month for you.

It was finally safe to open your statement, grin at the monthly return, and quickly put the paper aside. March went in like a bear and out like a bull, producing the best 13 trading day returns (23.11%) since 1938, according to S&P Index Services, which operates independently of S&P Equity Research.

The end of the month saw profit taking, followed by what some would say was a defining moment in history: the firing of Rick Wagoner from General Motors (GM 2 ★★) and terms being set for a new U.S. auto industry — in or out of bankruptcy. (Does anybody else recall Reagan and the air controllers, Kennedy and steel?)

Overall, spring was in the air, with hope that 676 (for the S&P 500) was a price of the past. Despite the March news, the reality is the quarter posted the sixth consecutive quarterly loss. Not since the fourth quarter of 1968 through the second quarter of 1970 had there been six quarterly losses in a row. The most recent six-quarter loss produced a 47.7% decline, the prior one saw a drop of 30.0%, which was followed by a 62.3% gain until the end of 1972. We, however, need an 84.2% gain to just breakeven for the decade and a 96.2% gain to get back to our highs — does anyone want to write a put?

March did bring some surprises. For example, can you guess the best-performing member of the S&P 500? Shockingly, it was American International Group (AIG 1 ★★★), up 138%, from $0.42 to $1.00. Second was Citigroup (C 2.5 ★★★), up 68%, and third was MBIA (MBI 5 ★★★), up 67%.

S&P 500 dividends managed to set an annual record. For the first quarter they reduced payments by $42.0 billion, which was more than the current annual record holder of $40.6 billion set in 2008. The fourth-quarter 2008 dividend reduction of $15.9 billion resulted in a 16% reduction in actual payments made in the first quarter of 2009, which doesn't bode well for second-

(Continued on page 8)

Taking Control (Continued from page 4)

funds, and other private pools of capital such as private equity funds, with a certain level of assets under management to register with the Securities and Exchange Commission. Also, the government proposes to regulate credit default swaps and other over-the-counter derivatives and wants to strengthen the regulation of money market funds.

"Increased regulation, outside of traditional banks, would be a positive for the banking sector," says Stuart Plesser, an S&P equity analyst. "It would help level the playing field for banks that are currently more highly regulated than some of their competitors."

S&P investment bank equity analyst Matthew Albrecht notes that the rule should have a limited impact on the investment banks, a group which no longer includes Lehman Brothers, which declared bankruptcy, Bear Stearns and Merrill Lynch, which were sold to banking institutions, and Morgan Stanley (MS 24 ★★★) and Goldman Sachs (GS 10 ★★★), which became bank holding companies.

"Had a resolution system like this been in place previously, the outcome for some of these firms may have been much different," Albrecht says. "Many of the other regulations being suggested by the Treasury Secretary will likely have a greater impact on the investment banks, and while some may level the playing field, others are likely to limit future profitability."

Also, the breakdown of AIG (AIG 1 ★★★) not only ignited a move to overhaul broad based financial services regulation, it renewed the decade-long debate over state versus federal based insurance regulation. While the life insurance industry is generally in favor of a federal regulatory mechanism, the regulatory view among property-casualty insurers is mixed.

S&P expects measures aimed at offering insurance companies an option to adopt a federal charter (similar to the system that exists in the banking industry) to be introduced in the House in coming weeks.

Cathy Seifert, an S&P equity analyst, says the focus of the regulatory reforms in respect to insurers should be "increasing the effectiveness of regulation."

Seifert points out that while AIG is accused of exploiting a hole in the current regulatory framework via its financial products unit, AIG also lent out securities from its regulated insurance subsidiaries despite governmental oversight. ■

Vaughan Scully
S&P Editorial

Strong Farm Economy Boosts Equipment Profits

The agriculture industry enjoyed its strongest year on record in 2008.

U.S. farmers remain in their best financial shape in years following a historic 2008.

While a decline in major crop prices means that last year's performance probably won't be surpassed in 2009, this year's crop receipts are expected to be the second highest on record, farm income should rise above its 10-year average, and farm debt is likely to ring in at its lowest-ever recorded level, according to U.S. Department of Agriculture (USDA) forecasts.

The health of the farm economy should benefit companies selling agricultural equipment and services, Standard & Poor's believes, as farmers take advantage of historically attractive crop prices and strong demand for corn from ethanol producers. Seed and agriculture technology companies stand to benefit, as do manufacturers of farm equipment.

"It's a bright spot in the economy," said Standard & Poor's equity analyst Adrian Compton, who covers farm equipment makers. "We attribute the high level of expected farm income to strong crop receipts, reflecting higher crop prices, increased international demand, and support from government payments."

Much of the reason for the farm economy's health is ethanol producers' demand for corn. These producers bought 25% of the U.S. corn crop in 2008. This surging demand drove corn prices to a record high of $7.61 a bushel in July 2008, pushing wheat and soybean prices higher as well. Since then, the prices of corn, wheat, and soybeans fell by 40% to 50%. However, crop prices are still high enough for farmers to generate a healthy profit. For 2009, the USDA predicts soybean plantings will reach a record high, corn acreage should hold steady, and wheat acreage should decline.

POSITIVE POTENTIAL IMPLICATIONS

COMPANY / TICKER	‡STARS	‡QUALITY RANKING	*RISK	STYLE	CURRENT PRICE	**12-MONTH TARGET PRICE	†P/E RATIO	YIELD (%)
AGCO / AG	4	B-	Medium	Blend	21	30	6.5	Nil
CNH Global / CNH	3	NR	Medium	Foreign	11	17	3.2	Nil
Deere / DE	4	A-	Medium	Blend	34	42	10.3	3.3
DuPont / DD	2	B	Medium	Value	23	20	10.2	7.1
Monsanto / MON	3	B+	Medium	Blend	82	84	17.8	1.3

*Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. **Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report. ‡See definitions on page 2. †Based on S&P estimated fiscal 2009 earnings. Source: S&P Equity Research.

"It is expected that 2009 will be another good year for the farm economy," the USDA's Economic Research Service said in its 2009 *Farm Sector Income Forecast*, "bolstered by strong demand for feed crops, oilseeds, and food grains."

Strong crop prices continue to encourage farmers to boost output, benefiting companies that include St. Louis-based Monsanto, which sells seeds, biotechnology traits that assist farmers in controlling insects and weeds, and herbicides. Monsanto was able to introduce genetically modified traits into row crops faster than its competitors to gain a larger share of the corn seed market from its main rival, market leader DuPont.

Monsanto is so confident of the demand for its products that it announced in February 2009 it expects to report better earnings growth than it forecast in October 2008. It now sees gross profit rising 20% in fiscal 2009 (ending August), with second- and third-quarter earnings per share growth of 10% to 12%. Monsanto says its research and development program will drive an 18% compound annual growth rate at the company's Seed and Genomics unit (55% of sales in fiscal 2008) through 2012. Monsanto plans to introduce an updated variety of soybeans in 2009 that it claims will give farmers 7% to 10% higher yields, and it is already working on improvements that could add another 7% to that. In March 2009, the company applied for regulatory approval in the United States and Canada for a new strain of drought-resistant corn, part of a larger group of similar products it plans on selling in the coming years.

Agricultural equipment vendors also stand to benefit from strong demand for corn and soybeans. Three companies, John Deere, CNH, and AGCO, dominate the farm equipment market, with a combined 55% share. "In our view, long-term energy demand will drive increased corn consumption and, ultimately, cash receipts for farmers, giving them more money to spend on agricultural machinery," says Compton.

Of the three companies, Compton sees AGCO and Deere benefiting the most because of their greater overall focus on the agriculture equipment industry. CNH, on the other hand, derives a significant part of its sales from the construction industry, which has a weak outlook. ■

Justin Menza
S&P Editorial

Frontier Markets

China provides support to Africa.

The global economic and financial crisis constrained private investment in many emerging markets at the end of last year and to date in 2009. China, however, remains committed to investing in Africa, among other emerging and frontier markets, which may alleviate some of the strain the global economic crisis is having on the continent.

In mid-March, China announced plans to put another $2 billion into its China-Africa Development Fund, which poured about $400 million into the region since its launch in 2006. Chinese officials expect to allocate most of the fund's initial $1 billion by the end of 2009. The fund said in a statement that the increased capital "will boost economic development in Africa by encouraging Chinese enterprises" to make additional investments.

For Africa, this investment comes at a time when many Western investors are pulling out of the region to contend with their own economic and financial crises. In January, the Institute for International Finance estimated private capital flows to emerging markets from advanced economies were only about $466 billion in 2008, down sharply from the peak of $929 billion in 2007. This downward trend is likely to continue through the global recession.

The World Bank noted that poorer countries are likely to face a financing shortfall of between $270 billion and $700 billion this year because of the decline in foreign investment. African countries are particularly vulnerable to this, since the economic crisis already is dampening demand for their commodity exports.

The International Monetary Fund (IMF) also cut its 2009 gross domestic product (GDP) growth forecast for sub-Saharan Africa to 3.3% from an earlier 6.7%. The steep drop in commodity prices from their July 2008 peak, along with the aforementioned weak demand for these exports, is the main impediment to growth within Africa.

The global economic slowdown also affects remittance flows to Africa. The World Bank estimates that remittances to developing countries could fall between 5.0% and 8.0% this year, hurting many households across the continent. For a number of developing countries, remittances are greater than the foreign aid they receive and go a long way toward improving living standards.

"Even though the crisis has been slow in reaching Africa's shores, we all know that it is coming — and its impact will be severe. This 'third wave' of the crisis, which is hitting low-income countries, will depress economic growth, put budgets under strain, and weaken external accounts. And the threat is not only economic: there is a real risk that millions will be thrown back into poverty," said IMF Managing Director Dominique Strauss-Kahn in prepared remarks at a conference in Africa last month.

However, China is currently searching for bargains across the continent. The China-Africa Development Fund is currently examining a host of investments, including agricultural ventures in Ethiopia, Malawi, and Mozambique; industrial projects in Egypt, Nigeria, and Mauritius; and a power station in Ghana.

China's assistant foreign minister Zhai Jun said in January, "So long as China and Africa continue to support each other and make joint efforts, the Sino-African cooperation will certainly be able to overcome the impacts of the global financial crisis and keep the momentum of sound development."

Trade between Africa and China surged in recent years, hitting an all-time high of $106.8 billion last year from just $10 billion in 2000. This highlights China's growing importance for African development, and Africa's importance as a major commodities market supporting Chinese economic growth.

Year to date through March 27, the MSCI Emerging and Frontier Markets Africa index fell 7.3% in U.S. dollar terms and underperformed the broader MSCI Emerging and Frontier Markets index, which climbed 3.3%. The index includes seven countries: Egypt, Kenya, Mauritius, Morocco, Nigeria, South Africa, and Tunisia. The MSCI Frontier Markets Africa index, which includes only Kenya, Nigeria, Mauritius, and Tunisia, shed 30.8% over the same period, and the iShares MSCI South Africa index (EZA) (the region's largest equity market) fell 4.6%. ■

TRACKING AFRICA

FUND / TICKER	*TOTAL RETURN 1-YEAR	EXPENSE RATIO	TELEPHONE NUMBER (800)
iShares MSCI South Africa (EZA)	-33.8	0.60	800-474-2737
SPDR S&P Emerging Middle East & Africa (GAF)	-34.6	0.60	866-787-2257

Source: Standard & Poor's Mutual Fund Reports. *Total returns are through March 30, 2009; include reinvested dividends and capital gains, all annualized; calculations do not reflect the effect of sales charges.

Beth Piskora
S&P Editorial

Dividend-Paying Tech Stocks

Standard & Poor's Equity Strategy upgraded the tech sector to overweight on March 24.

The upgrade, according to Alec Young, S&P equity strategist, was predicated on the sector's above-average balance sheet strength and its potential to continue to outpace the overall economy as businesses aim to improve employee efficiency in the midst of a recession.

"In addition, sustainable and potentially rising dividend yields as well as an improving technical outlook are other positive differentiators, in our view," he says.

Indeed, in the midst of ongoing dividend cuts throughout the S&P 500, tech bellwether Oracle (ORCL 19 ★★★★) decided to start paying dividends last month. The yield is 1.1%

"We have noticed a more appreciable yield from a number of technology stocks in recent months," says Scott Kessler, an S&P equity analyst. "Surely this is a reflection of share price declines to some extent, but it also is indicative of a number of companies providing notable and we think relatively secure payouts."

For this week's screen, we looked for tech stocks with a yield higher than that of the S&P 500 (2.98%), as well as a ranking of at least three STARS. Nineteen stocks made the cut, and are listed in the table. A number of these companies are semiconductor-related and tend to be very cyclical, Kessler notes. ■

STOCK SCREEN

COMPANY / TICKER	‡STARS	‡QUALITY RANKING	*RISK	STYLE	CURRENT PRICE	**12-MONTH TARGET PRICE	†P/E RATIO	YIELD (%)
Analog Devices / ADI	3	B	Medium	Growth	19	22	51.4	4.2
AU Optronics / AUO	3	NR	High	Foreign	9	7.5	NM	6.7
Automatic Data Processing / ADP	3	A+	Medium	Growth	35	40	14.7	3.8
Canon / CAJ	3	NR	Medium	Foreign	30	27	37.5	3.4
Cognex / CGNX	3	B	High	Blend	13	14	NM	4.6
Ericsson Telephone / ERIC	3	NR	High	Foreign	9	8.5	18.0	3.9
Intel / INTC	4	B+	Medium	Growth	15	17	37.5	3.7
Intersil / ISIL	3	B-	High	Value	12	10	NM	4.0
Linear Technology / LLTC	3	A	Medium	Growth	22	23	17.3	4.0
Maxim Integrated / MXIM	3	B+	Medium	Growth	14	13	43.8	5.7
Microchip Technology / MCHP	4	B+	Medium	Growth	22	24	20.0	6.1
Molex / MOLX	3	B+	Medium	Growth	14	16	17.5	4.4
National Semiconductor / NSM	3	B-	High	Growth	11	12	15.1	2.9
Nokia / NOK	3	NR	Medium	Foreign	12	13	13.3	3.7
Paychex / PAYX	3	A+	Medium	Growth	26	25	17.3	4.8
Seagate Technology / STX	3	NR	High	Foreign	6	4.5	NM	6.5
Siliconware Precision / SPIL	3	NR	High	Foreign	6	5.5	54.5	8.8
STMicroelectronics / STM	3	NR	Medium	Foreign	5	6	NM	6.2
Taiwan Semiconductor / TSM	4	NR	High	Foreign	9	9	32.1	6.6

*Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. **Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report. ‡See definitions on page 2. †Based on S&P estimated fiscal 2009 earnings. NM-Not meaningful. Source: S&P Equity Research.

March Monthly Market Attributes *(Continued from page 5)*

quarter payments.

We expect the third quarter to be worse than the second quarter, but the main question is the fourth quarter. Currently we believe we have seen the majority of damage in dividends, with many companies (especially ones with a history of increases) deciding that they can ride out the recession. Come August/September, however, when they start to re-do budgets, sales, and ordering, we think they will cut dividends if they don't see a better 2010. So the fourth quarter has the potential for another round of decreases and suspensions, in our view.

On the gloomier side, if they do not see a better 2010, then there will most likely be another round of layoffs, closing, charges,... lions, and tigers, and bears, oh my.

All ten sectors recorded gains for the month — an event not seen since May 2007, when the index closed at 1530.62 (a mere 91.8% higher than current levels).

March's rebound resulted in the third-best March in S&P 500 history, and it came after the second-worst February, which was after the worst January. It was the best month since the 8.64% gain in October of 2002. ■

Coal Industry Faces Challenges *(Continued from cover)*

largest customer for coal — and lower natural gas prices, encouraging both utilities and other customers to switch fuels.

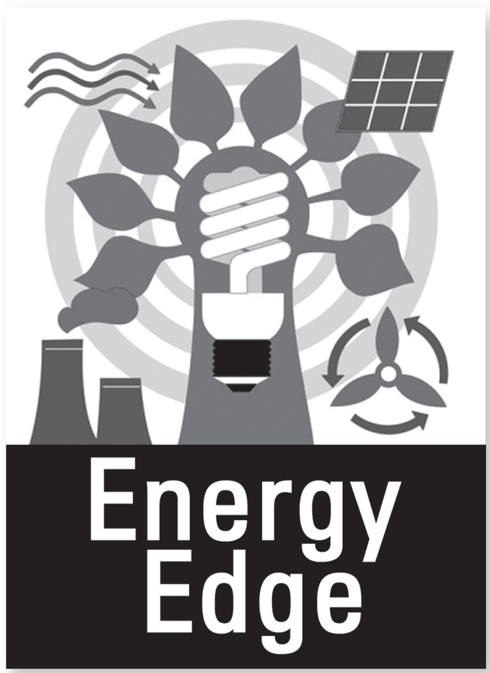
While several companies already announced production cutbacks, overall coal output has not declined as much as predicted. Data from the Energy Department's Energy Information Administration (EIA) show that coal production in January and February was about 3% below the same months in 2008, and 1% below the same period in 2007, "implying further downside later through the year," says Mathew Christy, CFA, an S&P equity analyst.

In addition, the Environmental Protection Agency announced it will begin reviewing previously issued permits for mountaintop mines and may block them altogether if these mines are found to cause permanent environmental damage.

"Investors may be underestimating the potential decline in the thermal coal markets," says Christy. Christy recently cut his recommendations on two coal producers, Peabody Energy and James River, to sell from hold, and he has a sell recommendation on Foundation Coal. Christy has hold recommendations on International Coal, Alpha Natural Resources, Massey Energy, Consol Energy, and Arch Coal.

The EIA expects U.S. coal output to decline by 4.9% in 2009 to the lowest level since 2004. U.S. consumption is forecast to fall 2.6% and exports to drop nearly 12%. The EIA also estimates that the average, delivered price of coal should drop 1% compared with 2008 and stay flat in 2010.

The EIA expects electric utilities' coal consumption to fall 1.7% in 2009 and rebound by 0.4% in 2010. However, utilities are sitting on historically large coal stores — the EIA's most recent report showed electric utilities began the 2008 to 2009 winter with coal stockpiles 8% above the same period a year earlier and at their highest level for November since 1987.



Adding to the pressure, natural gas prices are now at a level where the fuel can be considered an economic alternative to coal for industrial users and power generators. Natural gas fell below $4 per million British thermal units in March for the first time since November 2002. James River Coal, in a March presentation to investors, said EIA data shows switching from coal to gas began in November 2008.

Also worrisome, Christy says, are provisions found in some coal supply contracts that allow for price renegotiation if contract prices differ greatly from the current, or "spot" market price, or allows outright deferral of contracted tons to later periods.

"Generally speaking, coal contracts can be written with price clauses that allow for the revaluation of contract prices depending on movements in the spot or some other future contract along with other unspecified clauses," Christy says. "As coal prices have declined greatly since mid-2008, contracts signed in this period may be subject to pricing risk."

In its comments regarding the outlook for 2009, Massey Energy mentioned contract price "adjustments…related to prior commitments that the company no longer expects to be fulfilled," as a reason for lowering its revenue and production estimates for both 2009 and 2010. In addition, Peabody Energy stated during its fourth-quarter conference call with investors that customers deferred shipments on approximately one million tons of contracted coal in the period.

Lastly, coal producers in the central Appalachian states of West Virginia and Kentucky may suffer from the EPA's concerns about the environmental impact of two permits for mountaintop coal mines. The agency said it would review more than a hundred others that were routinely approved during the Bush administration. The EPA wants to ensure that dumping of mine waste into stream beds does not cause permanent environmental damage. Coal producers in the region, including Massey, James River, Alpha Natural, International Coal, and Consol, could be hurt in the process. ■

Small/Mid-Cap Growth Portfolio

12/31/2008— 3/27/2009
Base Currency: US Dollar

The Small/Mid-Cap Growth Portfolio underperformed its benchmark year-to-date in 2009, losing 7.4% vs. a 7.3% loss in the S&P MidCap 400 through March 27. The data we have provided shows which stocks and sectors contributed to, or detracted from, the portfolio's performance through March 27. For information on individual stocks in the portfolio, please visit *www.outlook.standardandpoors.com* for Standard & Poor's reports on the companies. ■

TOP CONTRIBUTORS BY HOLDING

COMPANY NAME	AVERAGE WEIGHT	RETURN	CONTRIBUTION
Family Dollar Stores	10.14	29.56	2.72
SBA Communications	6.84	46.45	2.54
Hot Topic	0.81	20.00	1.12
NICE-Systems	8.22	10.50	1.07
PetSmart	5.79	16.71	0.85

TOP DETRACTORS BY HOLDING

COMPANY NAME	AVERAGE WEIGHT	RETURN	CONTRIBUTION
Delta Air Lines	8.09	-47.29	-5.66
Titanium Metals*	2.29	-24.18	-2.49
Swift Energy**	1.78	-63.71	-1.72
Covance	5.61	-19.79	-1.22
Itron	5.07	-14.76	-1.11

*Replaced on January 20. **Replaced on March 16.

TOP CONTRIBUTORS BY SECTOR

SECTOR	AVERAGE WEIGHT	RETURN	CONTRIBUTION
Consumer Discretionary	16.75	27.41	4.69
Telecom Services	6.84	46.45	2.54
Information Technology	21.20	-2.50	-0.22

TOP DETRACTORS BY SECTOR

SECTOR	AVERAGE WEIGHT	RETURN	CONTRIBUTION
Industrials	14.24	-34.24	-6.42
Health Care	15.70	-18.83	-3.12
Materials	10.97	-14.29	-2.93

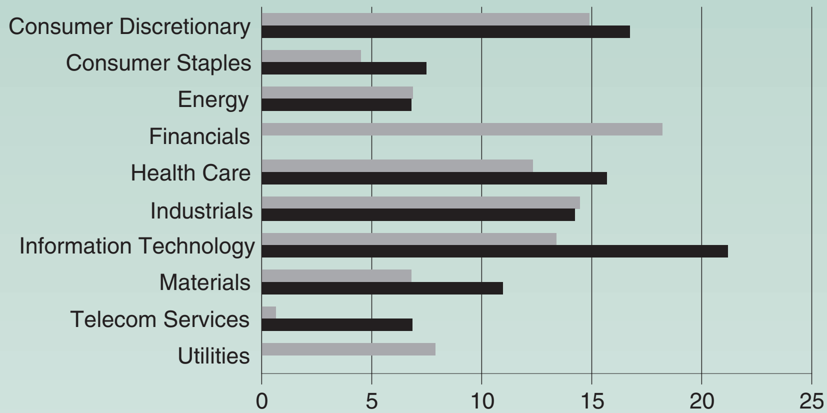
SMALL/MID-CAP GROWTH PORTFOLIO

COMPANY / TICKER	‡STARS	‡QUALITY RANKING	*RISK	STYLE	CURRENT PRICE	**12-MONTH TARGET PRICE	†P/E RATIO	YIELD (%)
Amdocs / DOX	4	B	Medium	Foreign	19	23	10.0	Nil
Astec Industries / ASTE	5	B-	Medium	Blend	26	29	10.2	Nil
BJ's Wholesale / BJ	4	B	Medium	Blend	32	34	13.8	Nil
Covance / CVD	4	B+	Medium	Growth	35	48	11.4	Nil
Delta Air Lines / DAL	4	NR	High	Foreign	6	7	4.8	Nil
Family Dollar Stores / FDO	5	A+	Medium	Blend	33	35	17.2	1.6
FMC / FMC	4	B-	Medium	Value	45	57	9.5	1.1
GulfMark Offshore / GLF	5	B	Medium	Growth	25	34	4.1	Nil
Hot Topic / HOTT	5	B	High	Growth	11	14	25.6	Nil
Icon / ICLR	5	NR	Medium	Foreign	16	27	10.7	Nil
Itron / ITRI	5	B-	Medium	Growth	47	58	13.2	Nil
NICE-Systems / NICE	4	NR	High	Foreign	25	29	14.3	Nil
Owens & Minor / OMI	4	A	Medium	Blend	33	44	12.5	2.8
PetSmart / PETM	4	B	Medium	Growth	21	22	14.0	0.6
SBA Communications / SBAC	4	C	High	Blend	24	27	N.M.	Nil

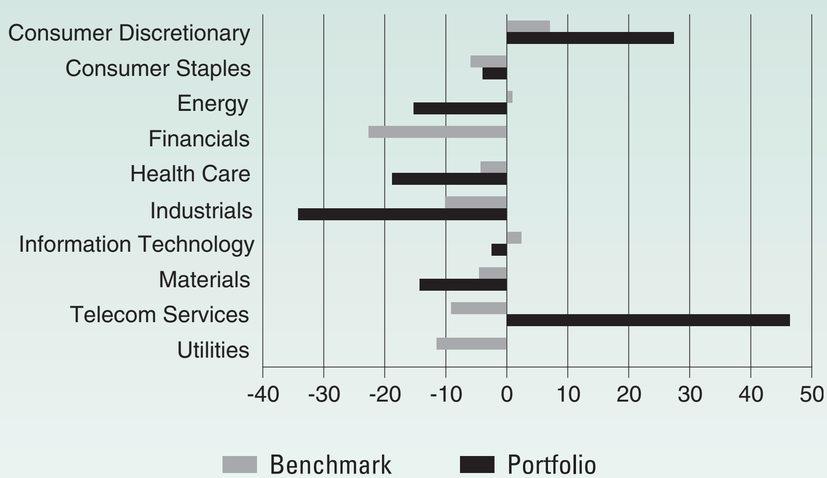
*Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. **Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report. †Price/earnings ratios are based on Standard & Poor's estimated fiscal 2009 per-share earnings. ‡See definitions on page 2. Past performance is not a valid indicator of future results. Source: S&P Equity Research.

Small/Mid-Cap Growth Portfolio vs. S&P Mid-Cap 400

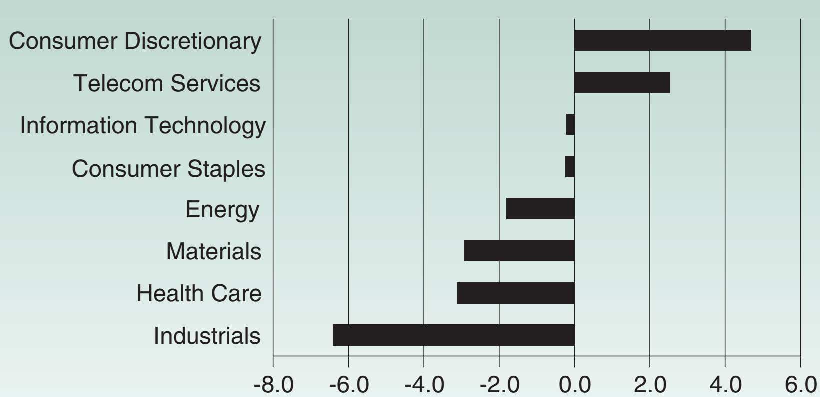
SECTOR ALLOCATION (%)



SECTOR RETURNS (%)



CONTRIBUTION BY SECTOR (%)



Source: S&P Equity Research.

LARGEST HOLDINGS

COMPANY NAME	AVERAGE WEIGHT	RETURN
Family Dollar Stores	10.14	29.56
FMC	8.68	-3.61
NICE-Systems	8.22	10.50
Delta Air Lines	8.09	-47.29
Amdocs	7.91	-1.26

BEST PERFORMERS

COMPANY NAME	AVERAGE WEIGHT	RETURN
SBA Communications	6.84	46.45
Family Dollar Stores	10.14	29.56
Hot Topic	0.81	20.00
PetSmart	5.79	16.71
NICE-Systems	8.22	10.50

WORST PERFORMERS

COMPANY NAME	AVERAGE WEIGHT	RETURN
Swift Energy**	1.78	-63.71
Delta Air Lines	8.09	-47.29
Titanium Metals*	2.29	-24.18
Covance	5.61	-19.79
Icon	4.81	-17.37

*Replaced on January 20. **Replaced on March 16.

For more information

on individual stocks in the portfolio,

visit our website

www.outlook.standardandpoors.com.

Top Ten Portfolio

S&P launched this focused list on December 31, 2001.

A dynamic, actively managed portfolio, the Standard & Poor's Top Ten Portfolio comprises stocks that S&P Equity Research believes to be well positioned for solid capital appreciation over the next 12 months.

Stocks must have a five-STARS ranking to enter the portfolio. If the ranking drops below four STARS, the stock will be removed. In addition, any stock in the portfolio may be replaced with a five-STARS stock at any time. All of the stocks are currently ranked five STARS.

The goal of the Top Ten Portfolio is to outperform the S&P 500 index on a capital appreciation basis. S&P's Senior Portfolio Group, a subcommittee of our Investment Policy Committee, selects the stocks. The intention of the portfolio is to be fairly balanced among economic sectors.

The portfolio currently has nine large-cap stocks and one mid-cap issue. It has three components from health care, three from consumer discretionary, two from consumer staples, and one each from information technology and telecommunication services. International Business Machines replaced Delta Air Lines (DAL 6 ★★★★) on March 4.

An analysis of the portfolio's performance over the past five years shows that it generally posts higher returns than the S&P 500 while taking on less risk.

This year through March 27, the portfolio shed 9.6% vs. a 9.7% decline in the benchmark.

The best performer in the portfolio through March 27 was Family Dollar Stores (+29.0%).

The worst performer in the portfolio through March 27 was Express Scripts (-20.2%).

Changes to the Top Ten Portfolio are available to individual subscribers through *The Outlook's* website — *www.outlook.standardandpoors.com*. Readers should note that past performance is no guarantee of future results. ■

TOP TEN PORTFOLIO

COMPANY / TICKER	‡QUALITY RANKING	*RISK	STYLE	†P/E RATIO	CURRENT PRICE	**12-MONTH TARGET PRICE	FUNDAMENTAL SNAPSHOT
Advance Auto Parts / AAP	NR	Medium	Growth	14.6	42	45	We expect increases in the average transaction in 2009
American Tower / AMT	B	High	Blend	45.1	32	43	Market leader in wireless tower industry
● Coca-Cola / KO	A	Low	Growth	13.8	45	52	Growth potential from Energy Brands acquisition
Express Scripts / ESRX	B+	Medium	Growth	12.8	47	77	Strong cash flow provides financial flexibility
● Family Dollar Stores / FDO	A+	Medium	Blend	17.2	33	35	Expected to benefit from consumers trading down
Genzyme / GENZ	B-	Medium	Growth	13.9	57	82	Solid product growth and pipeline, and strong financials
● General Mills / GIS	A-	Low	Blend	13.2	51	65	We look for sales to rise 11% in fiscal 2009
● Int'l Business Machines / IBM	A	Medium	Growth	10.6	98	120	Should benefit from revenue growth in emerging markets
● McDonald's / MCD	A-	Medium	Growth	14.5	55	66	$2.00 per share annual cash dividend is an attraction
Teva Pharmaceutical / TEVA	NR	Medium	Foreign	13.6	45	56	Largest generic drug portfolio among peers

● Master List issue. *Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. **Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report. †Based on S&P estimated fiscal 2009 earnings. ‡See definitions on page 2. Source: S&P Equity Research.